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European Economic Forecast

Summer 2021

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European Economic Forecast

Summer 2021 (Interim)

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REOPENING FUELS RECOVERY

The improving health situation and ensuing continued easing of virus containment measures are putting the EU economies back in motion. The near-term outlook for the European economy looks brighter than expected in spring. The contraction of GDP in the first quarter of the year turned out to be marginal, and milder than suggested by Eurostat's Preliminary Flash Estimate, which was incorporated into the Spring Forecast. Falling numbers of new infections and hospitalisations, thanks to an effective containment strategy and progress in vaccination, have led EU Member States to reopen their economies, to the benefit of service sector businesses, in particular. Upbeat survey results among consumers and businesses, as well as data tracking mobility, suggest that a rebound in consumption is already underway and set to strengthen in the coming months. There is also evidence of a beginning revival in tourism activity, which should also benefit from the new EU Digital COVID Certificate. Together, these factors are expected to outweigh the temporary production input shortages and rising costs hitting parts of the manufacturing sector.

Overall, GDP is now forecast to grow by 4.8% in 2021 and 4.5% in 2022 in both the EU and the euro area. The volume of output is projected to return to its pre-crisis level (2019-Q4) in the last quarter of 2021, which is one quarter earlier than expected in the Spring Forecast for the euro area. However, economic activity in the fourth quarter of 2022 would remain about 1% shy of the level that was expected before the pandemic, based on an extrapolation of the Winter 2020 Interim Forecast. The speed of the recovery will vary significantly across the Member States. Some are expected to see economic output return to their pre-pandemic levels by the third quarter of 2021, but others would take longer.

The forecast for inflation this year and next has also been revised upwards, though retaining a hump-shaped profile. Rising energy and commodity prices, production bottlenecks due to the shortage of some input components and raw materials and capacity constraints vis-à-vis booming demand both at home and abroad are expected to put upward pressure on consumer prices this year. In 2022, pressures are assumed to moderate gradually as supply constraints resolve, order backlogs clear, and demand growth moderates. Accordingly, inflation in the EU is now forecast to average 2.2% this year and 1.6% in 2022 (+0.3 and +0.1 pps., respectively, compared to the Spring Forecast). In the euro area, inflation is forecast to average 1.9% in 2021 (+ 0.2 pps.) and 1.4% in 2022 (+0.1 pps.).

Uncertainty and risks surrounding the growth outlook are high but remain overall balanced. The threat posed by the spread and emergence of variants of concern underscores the importance of a further rapid increase in full vaccination. Economic risks relate in particular to the response of households and firms to changes in restrictions and the impact of emergency policy support withdrawal.

Inflation may turn out higher than forecast if supply constraints are more persistent and price pressures are passed on to consumer prices more strongly.

Table 1:

Overview - the Summer 2021 interim forecast

	Real GDP growth						Inflation					
	Summer 2021 interim forecast			Spring 2021 forecast			Summer 2021 interim forecast			Spring 2021 forecast		
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Euro area	-6.5	4.8	4.5	-6.6	4.3	4.4	0.3	1.9	1.4	0.3	1.7	1.3
EU	-6.0	4.8	4.5	-6.1	4.2	4.4	0.7	2.2	1.6	0.7	1.9	1.5

1. EURO AREA AND EU OUTLOOK

1.1. INTRODUCTION

The improving health situation and the ensuing continued easing of virus containment measures are allowing a gradual return to the freedom we knew before the pandemic and putting our economies back in motion.

The Summer Interim Forecast reassesses the economic growth and inflation outlook for the EU and its Member States in light of the most recent developments, in particular taking the following elements into account:

- Economic activity was not as weak as expected at the start of the year, with first-quarter data showing only a marginal decline in activity in the EU. This suggests that firms and households were able to adapt to the constraints of the pandemic environment. Buoyant global economic activity and trade, and the effectiveness of policy support measures provided further impetus.
- The swift reopening underway in the EU Member States is bringing back spending opportunities earlier than previously expected. The steep increase in mobility observed since April and upbeat survey results portend a strong rebound in private consumption. In addition, high-frequency data suggest that intra-EU tourism has already embarked on a revival and is set to continue recovering in the third quarter. The EU Digital COVID Certificate, which came into force on 1 July, should facilitate cross-border travel within the EU.
- At the same time, production input shortages and rising costs are estimated to weigh on certain manufacturing sectors more than previously expected, though the impact is assumed to be only transitory.
- The recent rise in consumer inflation and further indications of price pressures at different segments of the production chain warrant a reassessment of the inflation outlook. The interplay of rising energy and commodity prices, production bottlenecks and booming demand, both at home and abroad, puts upward pressures on consumer prices. The question for

the forecast is the extent to which these upward pressures can be expected to subside or to become entrenched and to translate into second-round effects.

- The assessment of the expected growth impulse from the Recovery and Resilience Facility remains unchanged from the previous forecast. The integration in the forecast of the national Recovery and Resilience Plans received in recent months broadly confirms the assessment in the spring forecast, which was based on simplified technical assumptions in cases where the details of the Plans were not sufficiently known at the time.⁽¹⁾ The total economic impact generated by the Recovery and Resilience Facility over the forecast horizon is expected to be sizeable, mainly through higher public and private investment.

In most Member States, these developments are expected to push economic growth above the expectations in the spring for this year. The EU economy is projected to rebound strongly in the second quarter and accelerate in the third before easing in the last quarter. Inflation is projected to increase throughout this year, driven by transitory factors. Next year, economic activity is projected to continue growing swiftly, albeit at a somewhat slower pace than this year. At the same time, inflation should moderate as inflationary pressures are expected to gradually wane.

1.2. EVOLUTION OF THE PANDEMIC AND INTERVENTIONS TO STEM IT

Europe is emerging from another wave of the pandemic...

The number of reported new COVID-19 infections in the EU has been falling steadily since the beginning of April, with the 14-day incidence dropping to values last seen in August 2020. The estimated median effective reproduction rate⁽²⁾ fell to around 0.6 in the EU at the cut-off date of this forecast, a value last observed at the end of

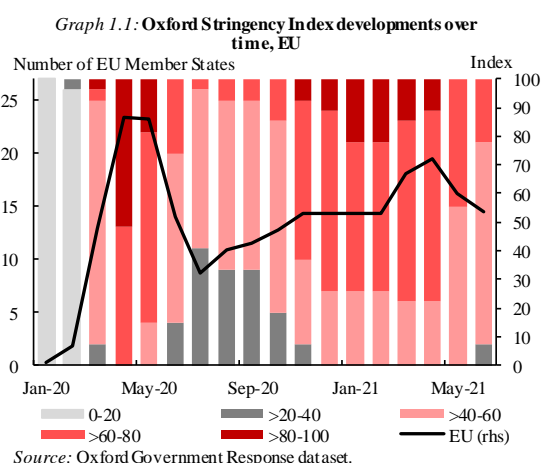
⁽¹⁾ See European Commission (2021), 'European Economic Forecast: Spring 2021', Institutional Paper 149

⁽²⁾ The effective reproductive number (R) is the average number of secondary cases per infectious case in a population made up of both susceptible and non-susceptible hosts.

April 2020.⁽³⁾ Virtually all Member States have seen a fall in new infections, but the emergence of the Delta variant is raising concerns. By the cut-off date of this forecast (28 June), Portugal had experienced a steep increase in new infections, dominated by the spread of the Delta variant. Although at relatively low levels compared to the records seen between October 2020 and February 2021, the number of confirmed new infections in the country nearly tripled since mid-May.

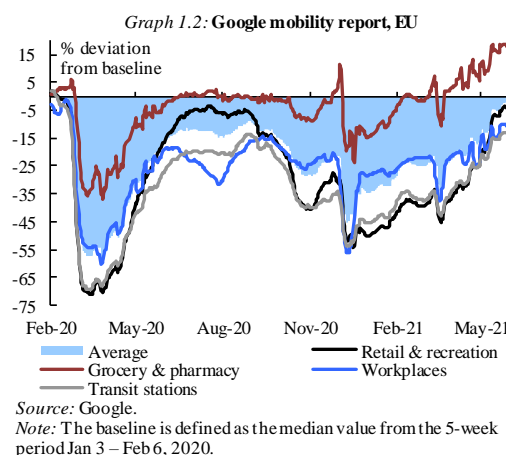
Meanwhile, vaccination campaigns continue to progress at a fast pace across the EU. By the cut-off date of this forecast, over 60% of the adult population in the EU had received at least one vaccine dose. This share doubled since the cut-off date of the Spring Forecast (30 April). However, the share of the total population that has been fully vaccinated – at around 33% – was still below the US (46%) and the UK (48%).

Reflecting the improved epidemiological situation, Member States embarked on a stepwise relaxation of containment measures over the second quarter, at a somewhat faster pace than assumed in the Spring Forecast. The average stringency of government-mandated restrictions in the EU is now at its lowest since September 2020 (Graph 1.1). As in the Spring Forecast, restrictions are expected to be eased further in the second half of the year and to remain marginal towards the end of 2021 and in 2022.



In turn, the relaxation of restrictions has already led to a sharp increase in mobility in the EU, paving the way for a rebound in economic activity. As many Member States have allowed the reopening, at least in part, of contact-intensive

sectors⁽⁴⁾, mobility picked up strongly in locations predominantly hosting retail and recreation activities (Graph 1.2).



...while the picture outside the EU is varied.

The epidemiological situation around the world remains highly heterogeneous. On the one hand, renewed COVID-19 outbreaks in Emerging Asia and the still critical situation in Latin America, where the pace of vaccination remains slow, continue to cause death and damage to the economy. On the other hand, persistent declines in reported new infections backed by swiftly progressing vaccination campaigns are leading to the relaxation of containment measures and reviving activity in advanced economies. However, a rising number of new infections despite high vaccination rates in the UK serves as a reminder that the pandemic will continue to pose a global health risk until it is brought under control globally.

⁽⁴⁾ The contact-intensive sectors include wholesale and retail, transport, accommodation, food services; arts, entertainment, recreation.

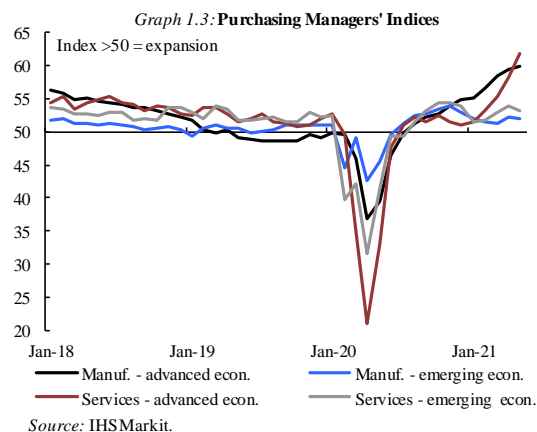
⁽³⁾ Own estimates based on data from the ECDC.

1.3. THE GLOBAL ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK

Global economic activity continues improving at an uneven pace across regions

The global outlook remains broadly unchanged since the Spring Forecast, though with some different country developments. After subdued growth in the first quarter (0.8% q-o-q), global economic activity gained traction in April and May. The global composite PMI of May signals a rapidly improving situation in advanced economies, particularly in services. Consumer confidence also brightened. Confirming the heterogeneous pace of the recovery across the globe, PMIs for emerging economies show a less marked improvement but remain in expansionary territory (Graph 1.3).

Overall, global real GDP (excluding the EU) is projected to grow by 5.9% and 4.2% in 2021 and 2022, respectively.



Global goods trade growth is set to slow down

The volume of the global trade in goods reached pre-pandemic levels in the last quarter of 2020, mostly due to a surge in demand for consumer

goods. Trade in goods continued to grow strongly in the first quarter of 2021, but the pace of growth is expected to slow over the forecast period as consumer demand shifts away from tradeable goods to less trade-intensive domestic services. In addition, recent surges in shipping costs and an increase in supply delivery times hamper global supply chains. While shipping costs are likely to remain high in the near term, they are expected to ease over the second half of 2021 as growth in goods trade slows and shipping capacity adjusts. In contrast to the trade in goods, trade in services has not yet reached its pre-pandemic level and is expected to recover at a slower pace, as the tourism and travel sectors continue to be affected by pandemic-related restrictions.

Overall, growth in the global imports of goods and services (excluding EU) is forecast to reach 9% in 2021, before easing to 5.7% in 2022.

Supply and demand factors drive commodity prices higher...

The broad-based increase in commodity prices in recent months has seen oil prices rise above pre-pandemic levels, while base metal and food prices have reached multi-year highs (Graph 1.4). Oil prices are assumed to reach an average of USD 68.7 per barrel in 2021 (54% higher than in 2020), amid declining stocks, continued production cuts by OPEC+ and an expected increase in oil demand in the second half of 2021. They are assumed to stabilise at USD 68.3 per barrel in 2022.

Metal prices have recently soared due to booming global demand, intensified by hoarding. The accelerating energy transition has also contributed to growing demand for some metals such as copper, while supply has been curbed by lockdowns and strikes in Latin America. The expected moderation of demand for industrial goods and expanding supply capacity for some metals should temper price growth in 2022. Food prices are nearing their 2011 price peak, reflecting

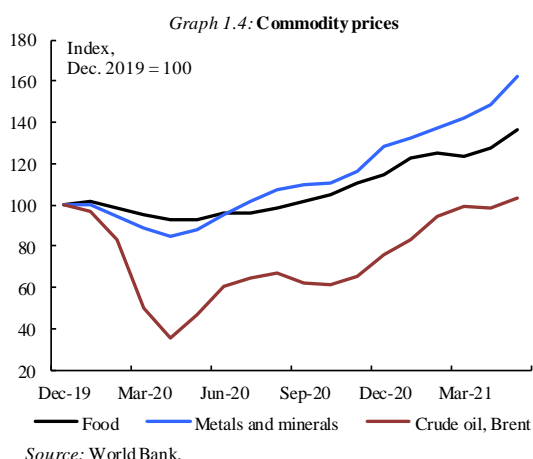
Table 1.1:

International environment

(Annual percentage change)

				Summer 2021 interim forecast			Spring 2021 forecast		
	2017	2018	2019	2020	2021	2022	2020	2021	2022
Real GDP growth									
World (excl.EU)	3.9	3.9	2.9	-2.9	5.9	4.2	-2.9	5.9	4.2
Trade volumes									
World (excl.EU) exports of goods and services	5.1	3.6	0.0	-8.4	8.1	5.4	-8.4	8.1	5.4
World (excl.EU) imports of goods and services	5.8	4.3	-0.7	-9.3	9.0	5.7	-9.3	9.0	5.7

high demand for feed grains from China, rising input costs due to higher energy prices, increased demand for biofuels, and some export bans. Looking ahead, food prices are expected to decline in 2022, assuming the absence of widespread droughts and a rising supply of arable land.



... pushing consumer prices up.

Consumer inflation has accelerated in advanced economies, in some cases (e.g. US, Canada) to above pre-pandemic rates. Rising commodity prices and production input shortages lifted prices for some manufacturing goods. In addition, the rapid reopening of economies amid constrained supply is pushing up the prices of some services (e.g. personal services). The current spike in inflation in the US and other main advanced economies is, however, expected to be transitory, given the underlying scale of labour market slack, the stability of long-term inflation expectations, and the assumed path of energy prices.

Inflation has also picked up in emerging market economies, driven by rising food and energy prices (e.g. Russia, Mexico, Brazil, India) and a depreciating currency (e.g. Turkey), leading to some monetary policy tightening (e.g. Russia, Brazil). In China, consumer price growth has remained contained, with declining domestic food prices and a persistently low pass-through between producer and consumer prices. Inflation in emerging market economies is expected to remain elevated in 2021 and the first half of 2022, amid high commodity prices and accelerating core inflation as restrictions are assumed to ease in the second half of 2021. In 2022, inflation in this region should moderate as commodity prices stabilise.

1.4. FINANCIAL MARKETS

Global financing conditions eased further since May as the growth outlook improved and monetary policy in advanced economies remained very accommodative. In the US, 10-year yields edged down and US stock markets advanced further, driven by the accelerating recovery. Lower US yields provided support to bond and equity markets in emerging market economies, most of which also saw their currencies appreciate moderately. Foreign capital inflows into emerging economies (mainly debt) continued to recover.

In the EU, financial market sentiment remained positive, backed by the expected economic recovery, strong company earnings reports, and the very accommodative monetary policy stance. After increasing until mid-May, driven by expectations of rising inflation, sovereign yields in the EU fell back. Sovereign bond spreads have remained fairly stable since early May and even narrowed moderately in southern euro area Member States as investors continued to search for yield. Negative real sovereign bond yields imply very easy financing conditions for sovereigns, companies and households alike.

The ECB's monetary policy stance is expected to remain accommodative over the forecast horizon, with the objective of supporting the economic recovery while safeguarding medium-term price stability. At its latest meeting in June, the ECB Governing Council confirmed its resolve to continue purchasing assets over the third quarter under the Pandemic Emergency Purchase Programme (PEPP) at a significantly higher pace than during the first months of the year. The PEPP is set to run until at least March 2022, while maturing securities bought under the programme will be reinvested until at least the end of 2023. Meanwhile, the Asset Purchase Programme continues to be conducted at a monthly pace of EUR 20 bn. and the ECB will continue providing long-term funding to banks under its TLTRO III until the end of 2021.

The euro has remained broadly stable in nominal effective terms over the last two months. Benefitting from an improving economic outlook, the euro has appreciated against the US dollar, the Japanese yen and the Turkish lira. This appreciation has been broadly compensated by the euro's depreciation against the currencies of major

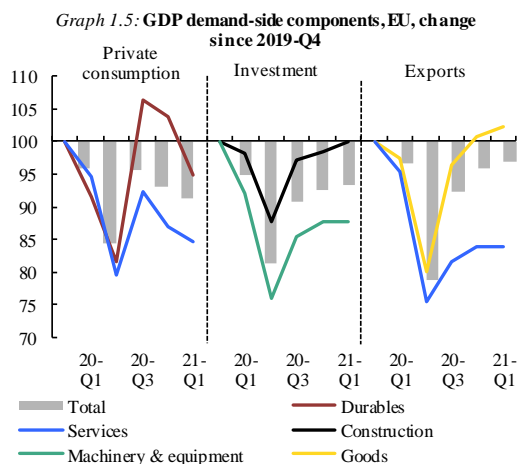
emerging countries, including Brazil, China and Russia, and also against the Pound sterling.

1.5. RECENT ECONOMIC DEVELOPMENTS IN THE EU

A marginal contraction in real GDP in the first quarter...

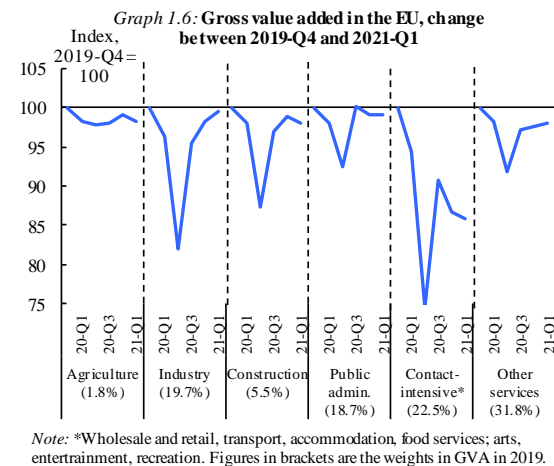
The latest data from Eurostat show that EU GDP contracted by 0.1% in the first quarter of this year. This is a much milder contraction than the -0.4% preliminary flash estimate that was incorporated in the Spring Forecast. Data revisions for quarterly growth in 2020 also imply a slightly higher statistical carry-over effect into 2021, at 2.2% instead of the previously estimated 2.1%. Fewer than half of Member States – 11 – reported an outright contraction in GDP.

The fall in private consumption, by 1.9% q-o-q, dragged growth down in the first quarter, whereas investment proved resilient (+0.8%). The contribution of inventories to growth was also significant for the second quarter in a row (0.6 pps.), which together with strong rises in exports (1.1%) helps explain the observed surge in imports (1.1%). As a result, the contribution of net exports to growth was neutral.



The decline in private consumption reflects a drop in the purchase of both durable goods and services, and a slight increase in spending on non-durable goods. By contrast, the expansion of investment, for the third quarter in a row, took place on the back of a positive impulse from construction. On the external side, the strong performance of exports was fuelled by goods exports while exports of services remained unchanged (see Graph 1.5).

The tightening of health-related restrictions in the first quarter hit contact-intensive sectors hard once again (see Graph 1.6). Value added in those sectors fell by 1.0% q-o-q, while it rose by 1.4% in industry. Compared to the fourth quarter of 2019, the former was 15% lower, whereas the latter almost fully returned to pre-crisis levels.



...followed by improving developments...

Economic activity has been recovering in recent months, picking up the pace throughout the second quarter. In April, EU industrial output recorded its 11th month of expansion in the past 12 months. A more forceful increase in industrial output was held back by a drop in the production of motor vehicles (-4.1% m-o-m), which remained more than 15% below the levels observed in January 2020. Supply chain disruptions, particularly due to semiconductor shortages, are weighing more heavily on the automotive sector than on other industrial sectors.

Production in construction fell in April (-1.6% m-o-m), erasing about half of the strong gain recorded in March and bringing it back to about the same level as in the first quarter as a whole.

The volume of retail sales in the EU slightly exceeded the first-quarter average in April, despite a decline from the previous month driven mainly by the tightening of restrictions on retail activities in Germany and France. As non-essential retail activities reopened in these countries and across the EU, and following the observed swift recovery in mobility and sentiment, this fall in sales is expected to be a temporary slip.

...on the back of growing optimism among businesses and consumers...

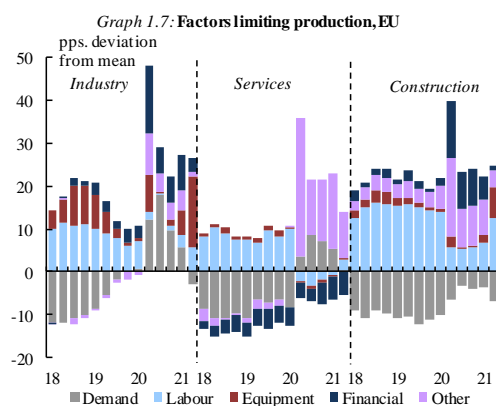
Survey data further support the view that economic activity in the EU shifted up a gear in the second quarter. With confidence improving in all surveyed sectors, the Economic Sentiment Indicator (at 113.9 in the EU in May) rose to its highest level since February 2018. Confidence in services rose the most for the third month in a row, moving above its long-run average, benefiting from recovering business activity, both past and expected. Confidence in industry posted two consecutive all-time-highs in April and May, amid declining stock adequacy and a rise in order book volumes to their highest since mid-2018.

Similarly, the euro area flash Composite PMI (at 59.2 points in June) pointed to the strongest growth in economic activity in 15 years. The flash Services PMI Activity Index (at 58 points) signalled the strongest rise in activity since July 2007, while the flash Manufacturing PMI remained at the record high 63.1 posted in May. Also in June, the Commission's flash estimate of consumer confidence saw a further improvement, increasing to its highest reading since October 2018.

...exposing some supply-side limits...

In April, an increasing share of European firms reported constraints to their production. These pertained mostly to shortages of material and/or equipment, as well as labour, although to a lesser extent. Reported delays in input delivery due to disruptions in supply chains suggest some speed limits to the growth momentum in certain sectors (Graph 1.7). As an example, in May, the soft patch in German motor vehicle production extended, with the output remaining about 22% below its level two years earlier ⁽⁵⁾. At the same time, orders in April were more than 11% above their pre-pandemic level.

Surveys also show that supply capacity is increasingly struggling to meet demand. According to the flash Composite PMI in June, businesses saw a record rise in backlogs of work and depletion of warehouse inventories. The Commission's survey results show record-high expectations for production in industry in April and for demand in services in May.



...while labour market slack remains substantial.

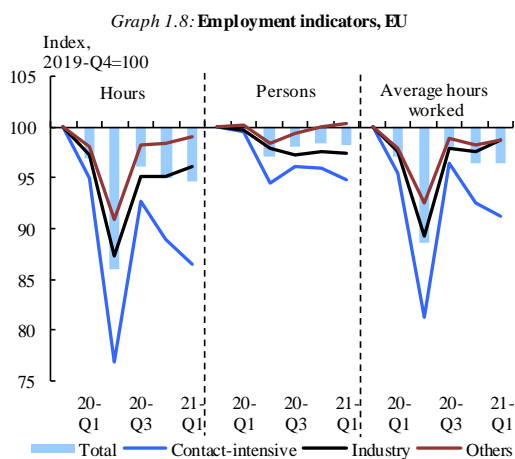
The fall in economic activity in the first quarter of this year was accompanied by a small drop in employment. In the EU, the number of employed persons declined by 0.2% q-o-q, reversing about half of the previous quarter's net job creation. Total hours worked fell by the same amount, leaving average hours worked unchanged (see Graph 1.8). In the euro area, the decline in headcount employment and total hours worked was slightly more pronounced, at -0.3% and -0.8%, respectively. The number of unemployed slightly decreased in both the EU and the euro area in the first months of this year. The unemployment rate in the EU was 7.3% in April (8% in the euro area). At the same time, the job vacancy rate has steadily increased from its trough in 2020-Q2 to 1.9% in the first quarter of this year, still below the 2.1% seen in 2019-Q4.

Overall, the number of employed persons in the EU in the first quarter of this year was about 4 million (or about 1.7%) shy of its level in the fourth quarter of 2019. A large number of people exited the labour market, as the number of unemployed persons in April exceeded its average in 2019-Q4 by some 1.3 million. In addition, total hours worked and average hours worked per person remain well below their pre-crisis levels. In particular, hours worked per employed person in contact-intensive sectors, which also bore the brunt of job destruction (about 4 out of 5 employment losses come from these sectors), remained nearly 10% below its pre-pandemic level (Graph 1.8). A

⁽⁵⁾ According to the German Association of the Automotive Industry (VDA).

large number of workers continued to rely on policy support. ⁽⁶⁾

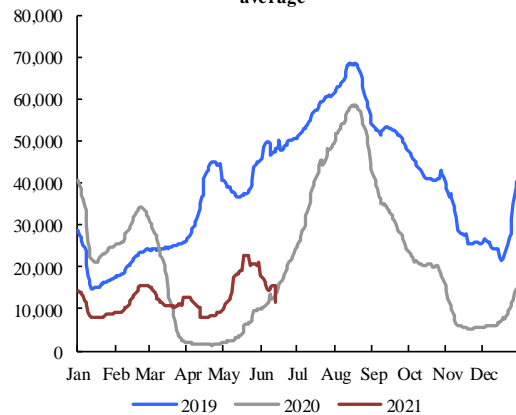
More recently, soft indicators show broad-based improvements in labour market conditions. The Commission's Employment Expectations Indicator improved for the fourth month in a row in May, moving further above its long-term average. While this result was driven by more optimistic employment plans in all surveyed business sectors, i.e. industry, retail trade, construction and services, it was the latter that reported the greatest increases in each of the past three months. The flash eurozone PMI employment index for June showed firms' net hiring positive for a fifth successive month. Finally, while remaining above the levels reported before the pandemic hit, consumers' unemployment expectations over the next 12 months also receded further, according to the Commission's consumer survey.



Some revival in tourism activity

In March 2021, the number of nights spent at tourist accommodation establishments in the EU was 79% below the level recorded in the same month of 2019. However, indications from customer reviews for AirBnB holiday listings show some improvement in tourism activity in recent months (Graph 1.9). Between end-April and early-June this year, the number of such reviews recovered some ground (see Box 1.2).

Graph 1.9: Airbnb daily reviews in the EU, 14-day average



Inflationary pressures have increased

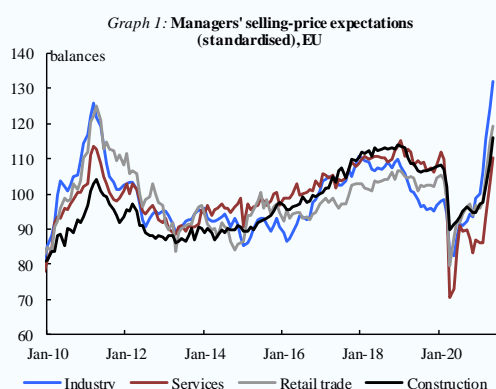
Increasing commodity prices and supply bottlenecks pushed industrial producer price inflation to 7.6% y-o-y in both the EU and the euro area in April (from 2.1% on average in the first quarter). Inflationary pressures are mounting at different segments of the production chain as supply hits capacity constraints (Graph 1.7), amid a general increase in prices across the energy, metals and agricultural commodities. In addition, the expectations of increasing selling prices reported by business managers in the Commission's business surveys in recent months signal rising price pressures at various segments of the supply chain (see Box 1.1).

Headline inflation in the EU increased further in the second quarter of this year. Inflation rates, however, differed substantially across Member States in May, ranging from -1.2% y-o-y in Greece to 5.3% y-o-y in Hungary in May. In the euro area, the annual inflation rate rose to 2% in May, the highest rate since late 2018, from 1.6% in April. Energy inflation (13.1%) was the main driver of headline inflation, while underlying inflationary pressures appear limited thus far. Core inflation (all items excluding unprocessed food and energy prices) stood at 0.9% in May, down from an average of 1.2% in the first quarter of this year, mainly due to moderation in processed food inflation. Services inflation edged up slightly to 1.1% in May, still below the first-quarter average, while non-energy industrial goods inflation posted a moderate rate of 0.7% in May.

⁽⁶⁾ For example, in Spain, some 4.2% of all workers was on short-time work schemes in the first quarter of 2021, some 0.3 pps. up from the preceding quarter.

Box 1.1: Selling price expectations of business managers on the rise

Since the beginning of the year, rapidly rising consumer inflation and emerging bottlenecks at different stages of the production chain amid increasing commodity prices have raised the question whether price pressures may eventually feed more strongly into consumer prices. The analysis in this Box takes a close look at the results from the European Commission's monthly business surveys on managers' selling price expectations to provide additional information about potential price pressure going forward. ⁽¹⁾



Managers' selling price expectations for the three months following the date of the survey have been on an upward trend across all surveyed sectors (see Graph 1). In industry, this trend was already visible in the final quarter of last year but steepened in the last three months until May, when selling-price expectations reached an all-time high. This increase suggests that the steep rise in industrial producer prices ⁽²⁾ visible since the beginning of the year will continue. Marked increases in selling price expectations were reported in all six largest EU Member States. Selling price expectations in construction and retail trade also rose markedly, largely driven by a strong increase in Germany, and are now well above their respective pre-crisis levels. In services, selling price expectations started to rise steeply in March, but have so far remained slightly below their pre-crisis level. The increase

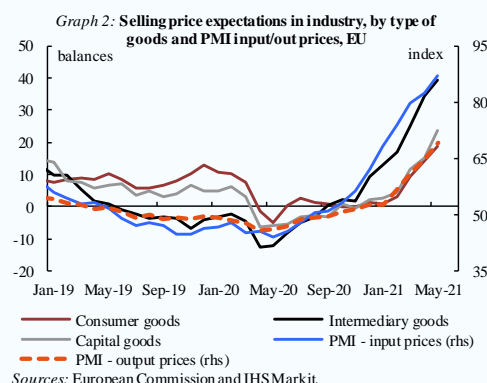
- ⁽¹⁾ The question on selling price expectations asked in all business sectors (i.e. industry, services, retail trade and construction) reads: "How do you expect your selling prices to change over the next 3 months? They will increase, remain unchanged or decrease".
- ⁽²⁾ The last available data for PPI in manufacturing in the EU as measured by Eurostat points to a year-on-year growth rate of 4.6% in April 2021.

was broad-based across the six largest EU Member States.

The results from the Commission surveys are in line with IHS Markit's PMI results for EU output prices ⁽³⁾ for manufacturing and services, and euro-area input prices for construction. ⁽⁴⁾ Early survey data releases confirm that the increase in selling price expectations has continued in June. ⁽⁵⁾

A strong increase for industrial intermediate goods

Increases in selling price expectations in industry are broad-based across subsectors, but are particularly strong for intermediate goods, and especially in the manufacture of wood, paper, rubber and plastic products, and basic metals. ⁽⁶⁾ This is consistent with the reading of PMI's industrial input price indicator, and points to price pressures at the early stages of the production chain, potentially feeding into different sectors of activity, including construction (see Graph 2).



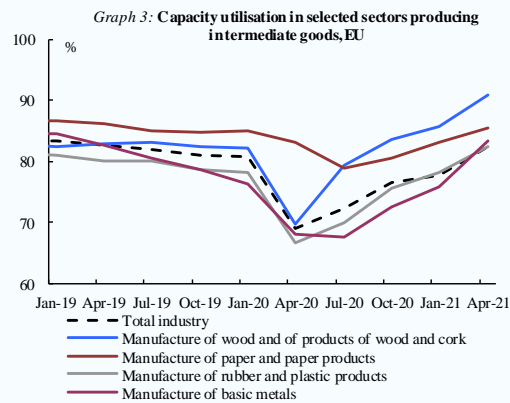
Managers' reported intention to charge higher prices may be related to cost factors (i.e. the recent

- ⁽³⁾ PMI questions inquire about current prices compared to the previous month.
- ⁽⁴⁾ For construction, the PMI price index is available only for input prices in the euro area.
- ⁽⁵⁾ According to the June Flash release, PMI input and output prices for the euro area increased further in manufacturing and services. Country-specific data from the Commission's business survey programme, released before the cut-off date of this forecast, also indicate further strong increases in selling price expectations in industry, retail trade, construction and, to a lesser extent, services.
- ⁽⁶⁾ Corresponding to the sectors 16, 17, 22 and 24 of the NACE Rev. 2 classification of activities.

(Continued on the next page)

Box (continued)

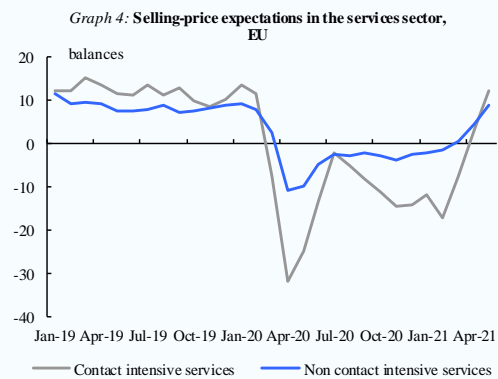
surge in shipping costs and the increase in commodity prices – see Section 1.3), or the result of the observed bottlenecks in upstream segments of global supply chains (e.g. shortage of semiconductors and cars globally, construction materials in the US, electricity shortages in China) or still, more broadly, stronger demand. In the Commission's business surveys, managers increasingly point to the shortage of material/equipment as the main factor limiting production (see Graph 1.7 in Section 1.5). A number of other indications from the industry surveys are suggestive of price pressure due to high demand. In April, managers' production expectations reached an all-time high and reported capacity utilisation rates were back to pre-crisis levels, or even well above that level in sub-sectors such as the manufacture of basic metals, rubber and plastic products and, in particular, wood (Graph 3). Moreover, the percentage of managers assessing their current order books as more than sufficient (above normal) has been increasing even in subsectors that are currently reporting lower than pre-crisis capacity utilisation levels. This suggests that demand pressure will remain strong in the coming months. Finally, managers' assessment of their stock of finished products has reached an all-time low in May 2021, suggesting a role for both demand and supply factors in shaping price developments.



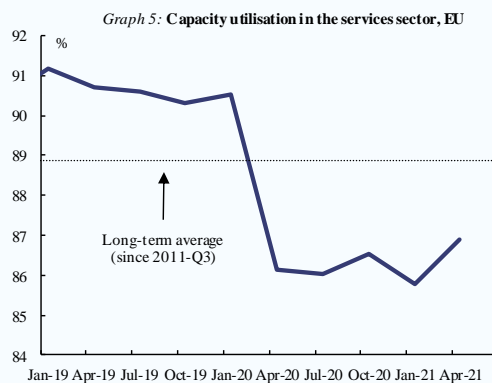
Developments in the services sector

The striking increase in selling price expectations in services registered over the last three months was driven by contact-intensive services such as accommodation, restaurants, and travel-related services, which started re-opening recently (Graph 4). Managers in these particularly affected activities had revised their selling price expectations sharply downward in the two lockdown periods of spring 2020 and last

autumn/winter. As the restrictions started being lifted, their selling price expectations have been on the rise, as had been the case in spring/summer 2020 after the first lockdown. Overall, they are now broadly at pre-crisis levels in both contact and non-contact intensive services activities.



As regards factors limiting business activity, services managers do not currently signal shortage of space or equipment (see Graph 1.7 in Section 1.5). Despite the uptick in labour as a limiting factor in April, the percentage of managers reporting labour shortages is still well below the pre-crisis level. Similarly, while capacity utilisation⁽⁷⁾ in the services sector started to recover at the beginning of the year, it is still well below both its pre-crisis level and long-term average (see Graph 5).



⁽⁷⁾ Capacity utilisation in the services sector is inquired by asking managers whether the volume of activity could be increased with present resources and, if so, by how much. The measure of capacity utilisation is then calculated as $CU = \frac{1}{1 + \text{percentage of increase}}$

(Continued on the next page)

Box (continued)

However, demand expectations have been increasing since March, bringing the indicator above its pre-crisis level. Currently a clear majority of managers expect an increase in demand for the coming months, which could indicate further pressure on prices going forward.

Developments in the retail trade and construction sectors

Selling price expectations in construction and retail trade have significantly increased since April, driven by a surge in Germany. In construction, the increase appears to be a result of raw material shortages, especially in Germany. Unlike in other sectors, managers in the construction sector do not expect a large increase in demand and report past demand as still below its pre-crisis level.

By contrast, in retail trade, increasing selling price expectations appear to be mainly due to returning demand. As COVID-restrictions are being lifted, retailers assess their past business activity as back on track and expect further improvement in the coming months.

Overall, according to the Commission's business surveys, upside pressure on prices appears to be a response to shortage of material/equipment and broad demand pressures, as highlighted by increasing capacity utilisation and orders and low levels of stocks. However, in the services sector, survey results suggest that price pressure remained overall contained in May. Still, with demand returning forcefully to certain contact-intensive services after a protracted standstill, shortage of labour may temporarily push up prices in contact-intensive activities further.

1.6. THE OUTLOOK

1.6.1. Economic growth outlook

The European economy is expected to have moved onto its recovery path in the second quarter of this year at a stronger pace than projected in the Spring Forecast. Economic activity in the EU is forecast to grow by 1.3% in the second quarter, before accelerating to 2.7% in the third, on the back of continued easing of containment measures and strong resumption of social activities (see Box 1.2). The growth momentum is forecast to ease but to remain solid in the fourth quarter (1.2% q-o-q), also on the back of tailwinds from external demand. Compared to the spring projections, the stronger rebound that is now expected in the second quarter anticipates some of the bounce-back that was projected in the third.

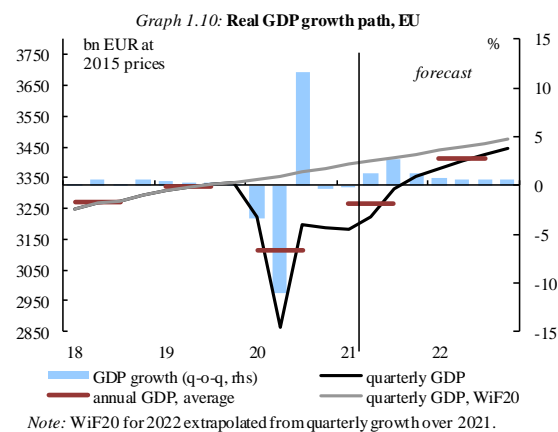
Growth is expected to be led by a sustained rise in consumer spending, as a broad spectrum of spending opportunities become available again and household purchasing power is supported by resilient disposable incomes, and the large stock of savings accumulated during the lockdown periods. As uncertainty fades, employment is expected to move in tandem with economic activity, initially mainly through recovering average hours worked.

As idle capacity in manufacturing continues to shrink rapidly and profitability recovers amid reviving demand, investment is expected to continue performing strongly. While risk aversion and a weaker financial position of some firms may hold back its momentum, corporates are set to significantly benefit from an expected strong impulse provided by projects implemented in the context of the Recovery and Resilience Facility with increasing intensity over the forecast horizon.

As highlighted in Section 1.3, the ongoing upswing among the EU's major trading partners offers further traction to European export growth, particularly for goods. Production constraints in some sectors, however, are expected to hold back its momentum in the very short-run. Given remaining impediments to cross-border movement for tourists originating from outside the EU, exports of services are still projected to lag behind.

All in all, the EU and euro area economies are forecast to grow by 4.8% in 2021. The rebound benefits from the substantial carry-over effect from the previous year, the strong pick up in private consumption, as well as the impact of the Recovery and Resilience Facility from the second half of the year. In 2022, real GDP is projected to grow by 4.5% in both areas, again helped by a significant carry-over.

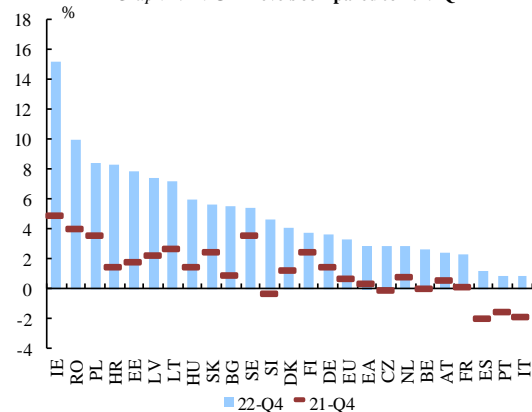
GDP is projected to return to its pre-crisis level in the last quarter of 2021 (see Graph 1.10) in both the EU and the euro area. For the euro area, this is one quarter earlier than expected in the Spring Forecast. By the end of the forecast horizon, real GDP in the EU is expected to be about 1% shy of the level expected before the pandemic hit, based on an extrapolation of the trend in the Winter 2020 Interim Forecast. The gap to the pre-pandemic growth path thus remains wide.



All Member States are expected to see the gap to their pre-crisis output levels close by the end of 2022, but the pace of the recovery is expected to remain highly uneven (see Graph 1.11).⁽⁷⁾ Among the largest Member States, Poland is expected to have returned to pre-crisis levels of output in 2021-Q2, Germany and the Netherlands in 2021-Q3, while Spain and Italy will do so one year after, in 2022-Q3.

⁽⁷⁾ The wide dispersion is the result of country-specific economic structures, the degree of openness, the strength and design of economic policy responses, and other institutional features. See Battistini, N., and Stoevsky, G. (2021). 'The impact of containment measures across sectors and countries during the COVID-19 pandemic'. ECB *Economic Bulletin* 2, March; and Furceri, D., Ganslmeier, M., Ostry, J.D., and Yang, N. (2021). 'Initial Output Losses from the Covid-19 Pandemic: Robust Determinants'. IMF *Working Paper* 21/18, January.

Graph 1.11: GDP levels compared to 2019-Q4



1.6.2. Inflation outlook

A humped-shaped inflation outlook

The forecast for inflation has been revised up compared to the spring forecast, though retaining a hump-shaped profile. Inflation is now projected to rise above 2% towards the end of 2021 before moderating next year.

In 2021, a confluence of factors is set to push inflation well above last year's rates. Price pressures on the demand and supply sides add to strong base effects and other technical factors. Besides rising commodity prices, a host of supply-side constraints hamper the timely satisfaction of surging demand. These include capacity constraints, the shortage of some input components and materials, longer delivery times and higher transport costs. Headline inflation is thus forecast to increase to 1.9% in the euro area and 2.2% in the EU in 2021.

In 2022, headline inflation is projected to moderate gradually and average 1.4% over the year in the euro area (1.6% in the EU), as demand and supply converge and order backlogs are cleared.

Box 1.2: An update on the tourism sector in the EU: insights from early 2021 data

After the slump in tourism activity in 2020 and early 2021, the strong progress in the fight against the pandemic provides for cautious optimism going forward. This Box describes recent and expected developments in tourism, with the analysis relying mostly on Eurostat data on nights spent at tourist accommodation establishments. Where such data for 2020 and the first five months of 2021 are missing, the analysis uses indications from customer reviews for AirBnB holiday listings.⁽¹⁾ The language of the reviews is used as a proxy to differentiate between resident and non-resident tourists. Available air traffic information is also taken into account in the analysis.

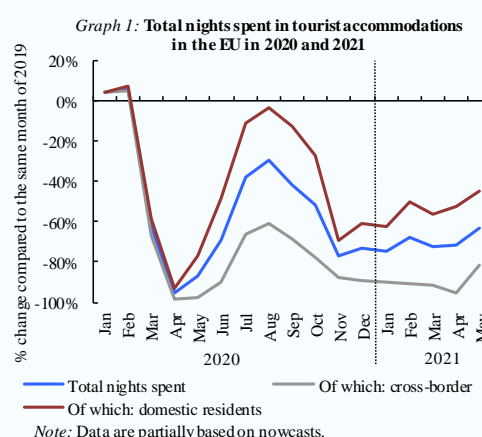
The tourism slump extended into 2021, with some signs of recovery starting in May.

Following the sharp decline in nights spent in tourist accommodations in March and April 2020, tourism activity recorded a short-lived recovery last summer (see Graph 1). By August, nights spent by domestic tourists had increased strongly towards 2019 levels, while cross-border tourism picked up more mildly. The resurgence of the pandemic in autumn and winter then set the stage for a renewed slump in tourism activity, in particular for inbound tourism.

For the EU as a whole, total nights spent in tourist accommodations in 2020 amounted to 50% of its 2019 level, with resident tourists at 67% and non-residents at 30% (see Table 1)⁽²⁾. Countries largely relying on air travel were most hit: tourism activity in Cyprus was 22% of 2019 levels for instance; conversely, the number of tourist nights spent in the Netherlands reached 70%.

In early 2021, tourism remained in the doldrums. Most countries recorded a weak performance in the

first quarter compared to 2019-Q1, as illustrated in Table 1. This performance was also worse than in 2020 as a whole. In April and May, domestic tourism continued to recover slowly from its autumn slump, later joined by cross-border tourism, which picked up during the long weekends of May (see Graph 1). Going forward, tourism activity would have to rebound strongly for results in 2021 as a whole to exceed 2020 levels.



City tourism remains the hardest-hit segment.

City tourism normally accounts for about 60% of customer reviews across the EU. Its decline contributed the most to the overall decline in tourism activity (see Graph 2).⁽³⁾ After being down by about 80% in 2020, city tourism remained just as low in the first five months of 2021, as compared to the same months in 2019. In contrast, *coastal* and *rural tourism* performed better, and on average contributed less to the decline. Coastal regions in Denmark, Germany, France, the Netherlands, and Poland in particular saw activity in the third quarter of 2020 close to, or even exceeding, normal levels.⁽⁴⁾ The decline in coastal tourism in most Mediterranean Member States was less pronounced than in their major cities. In

⁽¹⁾ A real-time dataset of 45 million customer reviews for 2.3 million AirBnB listings in the EU is used to nowcast the number of nights spent in tourist accommodation establishments, following the methodology presented in European Commission (DG ECFIN). (2020). 'Tourism in pandemic times: an analysis using real-time big data'. European Economic Forecast – Autumn 2020. Special Topic 3.3.

⁽²⁾ It should be noted that for the purpose of this box UK tourists are estimated in the same way as those from EU countries, in view of their comparable importance and distance to destination countries.

⁽³⁾ AirBnB customer reviews further allow for more granular insights by statistical region (NUTS 3). Note that granular high-frequency data on tourism by type of destination is not available, but can be proxied by data on short-term rental customer reviews.

⁽⁴⁾ The overall decline in reviews for coastal regions in these Member States is mostly due to an underperformance in off season week-ends during Q2 and Q4.

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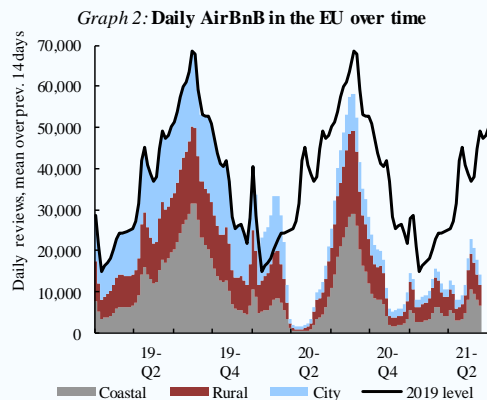
Table 1:

Tourism activity overview - nights spent in tourism accommodations, in % of 2019 (i.e. in % of 2019Q1 for 2021Q1)

	Total nights spent		Domestic tourists		Foreign tourists		Foreign air tourists from EU27+UK			Total nights spent		Domestic tourists		Foreign tourists		Foreign air tourists from EU27+UK	
	2020	21Q1	2020	21Q1	2020	21Q1	2020	21Q1		2020	21Q1	2020	21Q1	2020	21Q1	2020	21Q1
Cyprus	22	18	115	54	17	12	20	13	Luxembourg	53	60	83	131	48	47	43	51
Greece	28	22	52	25	23	16	27	19	Estonia	53	51	88	97	32	18	31	26
Malta	30	19	115	119	25	12	25	14	Slovakia	55	17	64	23	37	7	17	5
Spain	31	18	49	31	20	12	23	13	Lithuania	55	30	79	41	27	16	30	14
Ireland	36	17	37	16	35	18	31	33	Czechia	55	12	80	20	27	3	23	4
Portugal	39	26	65	48	26	16	30	18	Poland	55	19	60	20	35	15	33	30
Hungary	44	13	62	19	24	7	26	7	Slovenia	58	9	133	12	29	6	36	5
Croatia	45	35	76	59	42	23	29	38	Germany	60	19	66	20	36	14	28	13
Bulgaria	45	42	76	49	28	32	40	34	Finland	62	44	75	62	32	11	23	11
Romania	46	49	53	57	15	14	22	18	Austria	62	6	77	20	56	2	29	4
Italy	47	19	64	30	30	6	27	7	Sweden	62	44	74	50	29	26	26	27
Belgium	48	26	65	45	31	10	32	12	France	62	41	76	54	31	10	35	11
EU-27	50	24	67	35	30	10	27	13	Denmark	68	41	86	55	37	15	27	14
Latvia	52	33	84	71	39	15	32	26	Netherlands	70	45	90	70	41	11	32	12

Note: Number of nights spent reported via Eurostat, augmented by nowcasts based on AirBnB-reviews.

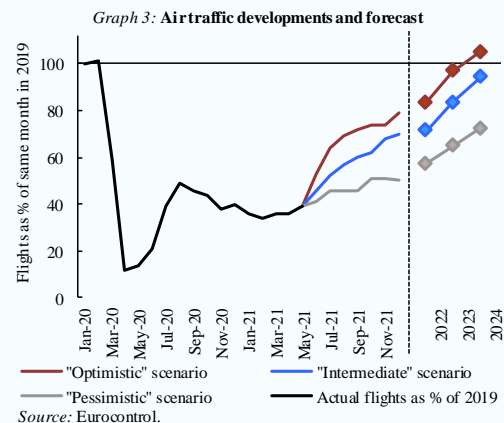
addition, several tourism-intensive rural regions saw activity comparable to that in coastal regions, most notably in France.



Air traffic forecasts suggest a timid summer.

In parallel to tourism dynamics, European air traffic recovered somewhat in the summer of 2020 (Graph 3).⁽⁵⁾ However, the increase was mild and temporary, with the number of flights in August reaching only around 50% of 2019 levels, and declining thereafter. In 2021, air traffic started rising again, albeit mildly, and was at less than 40% of 2019 levels in May. What is more, the average number of passengers per plane also

declined, to around 60% of normal seat occupation levels by late 2020. In May 2021, seat occupation had not recovered significantly. Looking ahead, passenger traffic over the short term is likely to develop in line with the number of flights.



Eurocontrol has recently provided projections for the number of flights in Europe in three scenarios, labelled here as *pessimistic*, *intermediate* and *optimistic* (Graph 3).⁽⁶⁾ Only in the *optimistic scenario* does the number of flights reach pre-pandemic levels by 2024. This is also the only scenario expecting a substantial improvement during the summer of 2021, among others thanks to

⁽⁵⁾ Figures here refer to air traffic for the EU27, as reported by Eurocontrol. Note that Eurocontrol scenarios for 2022-2024 likewise refer to the EU27, while monthly forecasts for the remainder of 2021 are based on Eurocontrol aggregate projections for the 44 Member States of the European Civil Aviation Conference.

⁽⁶⁾ For annual country-specific forecasts see, Eurocontrol (2021). 'Forecast Update 2021-2024'. European Flight Movements and Service Units: Three Scenarios for Recovery from COVID-19, May 2021; For the Europe-wide monthly 2021 scenarios, see Eurocontrol's latest air traffic scenario, June 2021.

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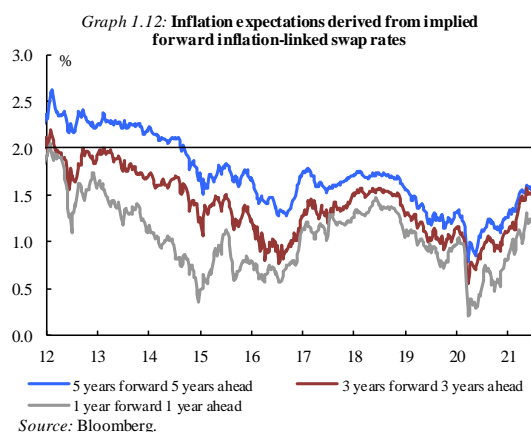
pent-up demand. The other two projection scenarios imply a slower recovery. ⁽⁷⁾

These projections are consistent with only a gradual return to pre-pandemic tourism activity levels, especially in countries that rely strongly on airbound tourism. In the intermediate scenario, these countries will likely see cross-border tourism this summer only slightly higher than last year. In 2021 as a whole, tourism figures are also likely to improve somewhat, but should remain much closer to 2020 levels than to pre-pandemic normality. Over the forecast horizon, the recovery is expected to be particularly sluggish for extra-EU inbound tourism.

⁽⁷⁾ Assessing forward-looking indicators remains complex. Pre-booking figures, for example, are not likely to behave as in the past, and are thus less useful to gauge tourism activity going forward. The assessment here focuses on Eurocontrol projections because these have proven to be a reliable proxy during recent months.

Surging demand should allow for a slightly higher pass-through of rising production costs to consumer prices in some sectors. However, a negative output gap and large labour market slack are likely to constrain second-round effects.

Moreover, market-based inflation expectations in the medium- to long-term remain anchored markedly below 2%, despite an uptick since the beginning of the year. At the cut-off date of this forecast, inflation-linked swap rates at the one-year forward one-year-ahead horizon stood at 1.2% (see Graph 1.12). On the three-year forward three-year-ahead and five-year forward five-year-ahead horizons, the indicator implies average inflation of 1.5% and 1.6%, respectively.



1.7. RISKS TO THE OUTLOOK

Uncertainty and risks surrounding the growth outlook are high, but remain overall balanced. While pandemic-related risks are mainly posed by the spread and emergence of virus variants of concern, economic risks relate in particular to the response of households and firms to changes in restrictions, as well as the impact of emergency policy support withdrawal.

Inflation may turn out higher than forecast, if supply constraints are more persistent and price pressures are passed on to consumer prices more strongly.

The race between injections and infections continues

There is still considerable uncertainty about how the pandemic will evolve. The spread and emergence of variants of concern continue to pose a serious health risk, as the experience in the UK shows. There, the number of new cases from the Delta (B.1.617.2) variant and hospitalisation have been increasing since mid-May despite around two thirds of the total UK population having received at least one dose of vaccine. Available information suggests that the Delta variant is more transmissible than the Alpha variant, which still

prevails in the EU. Furthermore, there is also evidence that the Delta variant significantly erodes the protection built up by only one dose of vaccine, regardless of the vaccine type. With one third of the EU population having received two vaccine doses and restrictions being lifted, the Delta variant is set to become the dominant variant in Europe during the summer, according to the European Centre for Disease and Prevention and Control.⁽⁸⁾ This underscores the importance of a further rapid increase in full vaccination. Progressing vaccination rollout would further weaken the link between the spread of the virus on the one hand, and hospitalisations and fatalities on the other, averting the need for a tightening of containment measures. However, the pace of vaccination rollout may start hitting acceptance constraints. Finally, the severity of the pandemic in some regions outside the EU and the very uneven progress of vaccination campaigns across the globe will continue to present a health risk for some time.

Important upside and downside economic risks persist ...

The adverse impact of remaining restrictions on economic activity, which has diminished over time, can turn out even milder than expected in this forecast. The unwinding of the large stock of household savings accumulated during the lockdown periods could play out more or less favourably to economic activity than assumed.

By contrast, lasting damage resulting from the increased corporate distress could feed into financial market distress. A surge in insolvencies would also dent the production fabric⁽⁹⁾, curtailing investment and employment, with repercussions for income inequality and social cohesion. With the economic recovery still in its early stages,

a premature withdrawal risks generating policy cliff effects. In addition, a more uneven strength of the recovery across Member States could weaken the efficiency of policy coordination and lead to fragmentation that would hamper the proper functioning of the internal market, curtailing the benefits of a single market.

The pace of recovery in several advanced economies (e.g. US, Canada) could be faster than previously anticipated, with positive implications for Europe. At the same time, abrupt adjustment triggered by further data surprises could have negative spill-over effects on the global economy and, in particular, on vulnerable emerging markets, even though markets have largely looked through the recent inflation surprises in the US, and longer-term inflation expectations remain anchored.

....while upside risks to inflation are building up.

Inflation may turn out higher than expected if supply side bottlenecks prove more persistent. Also, increasing production costs could be passed through to consumer prices more strongly than assumed in this forecast on the back of surging demand, and may trigger second-round effects both in Europe and elsewhere. Furthermore, with corporate financial distress having increased, firms' capacity to absorb cost-push shocks may be limited.

⁽⁸⁾ ECDC (2021), 'Implications for the EU/EEA on the spread of the SARS-CoV-2 Delta (B.1.617.2) variant of concern' Threat Assessment Brief, 23 June 2021.

⁽⁹⁾ Eurostat data for the first quarter of 2021 shows that the number of declared corporate bankruptcies increased, especially in accommodation and food service activities, but remained lower than on average in 2019. Still, empirical analysis suggests that the risk of insolvency has increased substantially. See Archanskaia E., Coutinho L., Nikolov P., Simons W. (2021), "Corporate distress in the aftermath of COVID-19, a quantification" – ECFIN Discussion Paper

2. PROSPECTS BY MEMBER STATES

EURO AREA

2.1. BELGIUM

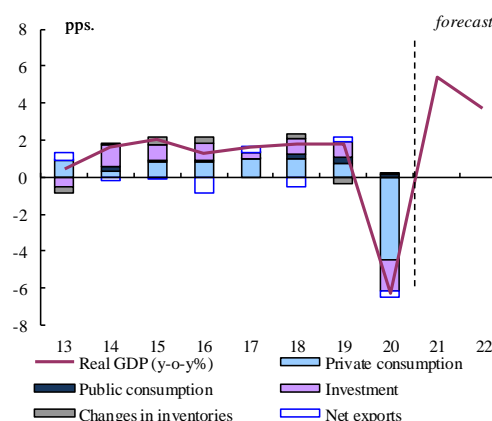
Real GDP growth bounced back to 1% q-o-q in the first quarter of this year after public health restrictions introduced in autumn 2020 were partially eased. At the end of March, the Belgian government reintroduced measures for a few weeks, in order to fight a third wave of Covid-19 infections. However their impact on the economy is expected to have been limited. During the second quarter, the accelerating pace of the vaccination campaign and an improvement in the public health situation allowed a gradual relaxation of restrictions affecting close-contact service businesses. As more Belgian residents are vaccinated over the coming months, a further easing of restrictions is expected.

Continued improvement in business and consumer sentiment, including in hard-hit services and retail trade sectors, suggests that economic activity has moved onto a solid recovery path and will continue expanding in the coming months, with the consumption of services rebounding strongly. This is supporting an increase in employment, which should further underpin the rebound in consumption during the second and third quarters. Private and public investment staged a strong recovery between the third quarter of 2020 and the first quarter of 2021 and the implementation of the Recovery and Resilience Plan is expected to strengthen it further over the forecast horizon.

Consequently, real GDP growth is forecast to rise to 1.2% q-o-q in the second quarter and 1.9% q-o-q in the third. On an annual basis, real GDP growth is projected to reach 5.4% in 2021 and 3.7% in 2022.

HICP inflation is projected to increase to 2.1% in 2021 due to rising oil prices and price pressures related to the rebound in consumption. However, these pressures are expected to be temporary and to ease in 2022. Consequently, HICP inflation is expected to decline to 1.7% in 2022, mainly driven by oil prices and more in line with core inflation.

Graph 2.1: Belgium - Real GDP growth and contributions

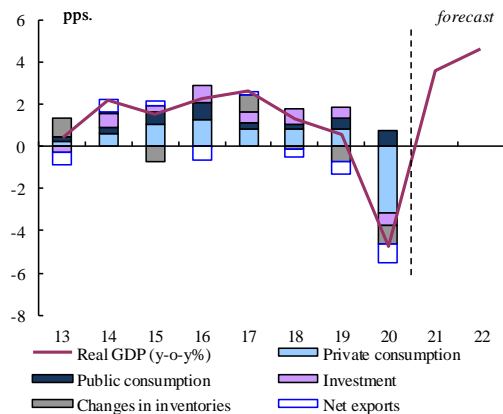


2.2. GERMANY

After declining by 1.8% q-o-q in the first quarter of this year and in line with the gradual relaxation of containment measures, real GDP is expected to bounce back by 1.7% in the second quarter and by 3.6% in the third. On an annual basis, real GDP is expected to increase by 3.6% in 2021 and 4.6% in 2022. This is somewhat higher than projected in spring, largely due to the faster improvement in the health situation and more favourable trends in business confidence.

Since the spring forecast, the accelerating pace in the administration of vaccines and declining infection rates have prompted a gradual relaxation of the restrictions throughout May and June, although with significant regional variation. Business sentiment in hard-hit service sectors has been improving since March. Despite some supply bottlenecks, strong order inflows should fuel an expansion in manufacturing and construction over the coming months. All in all, after a mild rebound in the second quarter, growth is expected to strengthen significantly in the third. Increasing household incomes, benefitting from continued policy support, and the unwinding of accumulated savings are expected to fuel a vigorous recovery in private consumption. Private and public investment are expected to strengthen on the back of a favourable outlook for domestic and external demand and the implementation of the Recovery and Resilience Plans across the EU, which should benefit Germany both directly and indirectly.

Graph 2.2: Germany - Real GDP growth and contributions



Rising energy prices, spurred by the phasing-in of carbon pricing, explain part of the rise in HICP inflation since January. Increasing inflation observed for services and non-energy industrial goods also signal strong demand and rising supply costs. The reversal of the VAT rebate implemented in the second half of last year is set to trigger a temporary jump in inflation in the third and fourth quarters of 2021. However, continued slack in the labour market, reflected in the depressed level of hours worked, should keep a lid on temporary price pressures. After picking up to 2.8% in 2021, inflation is expected to decline to 1.6% in 2022.

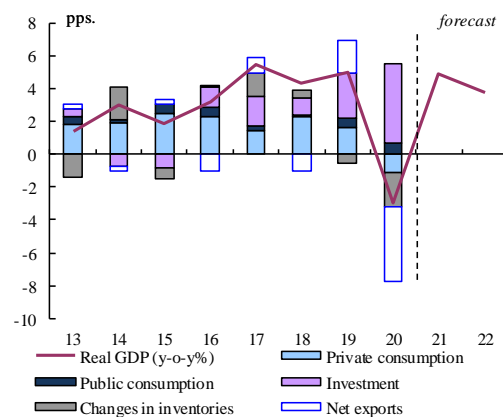
2.3. ESTONIA

Estonia's economy grew strongly in the first months of 2021, despite a tightening of restrictions at the end of 2020, placing the country among the fastest growing economies in the EU. Growth in the first quarter reached 4.8% q-o-q, mainly driven by strong government spending and exports. Employment has not yet recovered, with restrictions continuing to affect in particular employment-intensive sectors such as catering and tourism.

Continued improvement in business and consumer sentiment up to May, including in the hard hit services sector, suggests that the economic activity will expand considerably in the coming months. The accelerating pace of vaccination and improvement in the health situation have also prompted a significant relaxation of the restrictions since mid-June, contributing positively to the outlook for the second half of the year. On an annual basis, real GDP growth is expected to increase to 4.9% in 2021 on the back of recovering consumption and exports.

Looking ahead, favourable prospects for domestic and external demand, as well as the implementation of the Recovery and Resilience Plan are set to strengthen investment. Private consumption is forecast to remain a main driver of growth due to expected spending of accumulated household savings and recent changes to the second pillar of the pension system, which allows savers to withdraw their pension assets at any point in time. Overall, real GDP growth is forecast to reach 3.8% in 2022.

Graph 2.3: Estonia - Real GDP growth and contributions



Following a drop in consumer prices by 0.6% in 2020, notably due to a fall in global fuel prices, inflation started to pick up again in January. Rising energy prices were accompanied by increasing prices for services. However, continued slack in the labour market should limit price pressures. After picking up to 2.2% in 2021, inflation is expected to increase further in 2022 to 2.4%.

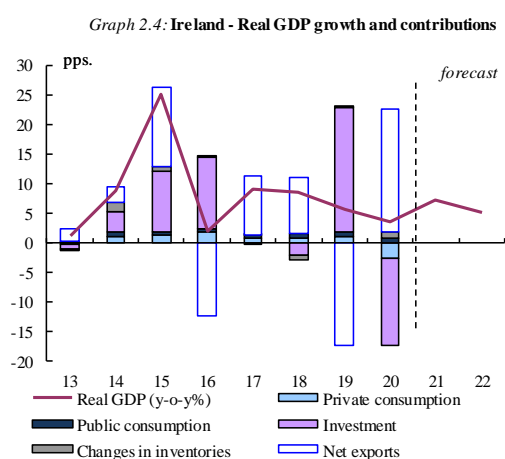
2.4. IRELAND

Real GDP in Ireland grew by 7.8% (q-o-q) in the first quarter of 2021, driven by strong export volumes from multinational companies. The performance of the domestic economy, however, was much weaker due to strict containment measures, with private consumption declining by 5%. Construction contracted by nearly a fifth from the fourth quarter of 2020, weighing on total investment. The fall in consumption and investment was accompanied by lower imports.

On the back of the strong first quarter reading, Ireland's real GDP growth projections has been revised up to 7.2% in 2021. Progress in vaccination in the second quarter resulted in a gradual relaxation of the restrictions in contact-

intensive sectors, paving the way for an expected pick-up in domestic demand. Early indicators, such as retail sales, industrial production and construction volumes, jumped in April. Most confidence indicators also improved in May, with particular optimism in services, both concerning the current situation and demand expectations. Domestic sectors are expected to perform even better in the second half of the year. More moderate, though still strong GDP growth of 5.1% is expected in 2022, on the back of the partial unwinding of the very large household savings accumulated during the long and very strict lockdowns and the continuously improving external environment.

The official unemployment rate was 7.8% in May (Eurostat recently revised upward these series), while the COVID-adjusted unemployment rate (i.e. including people receiving Ireland's Pandemic Unemployment Payment) stood at 21.9%. The labour market recovery is expected to gather momentum once labour-intensive services sectors fully reopen, a trend already well visible in the observable weeks of June. The government has extended income support schemes until the end of the year, though their take-up is likely to be smaller than during the height of pandemic.



HICP inflation increased substantially in April and May, mainly as a result of higher oil prices. Service price inflation also rose, particularly in May, as the services sector opened up gradually amid some remaining constraints and demand pressures. Inflation of unprocessed food and industrial goods was negative, though for the latter much less than in previous years because of increased supply bottlenecks, trade frictions and freight costs. HICP inflation is projected to rise to 1.5% in 2021 before declining to 1.2% in 2022.

Ireland's economic outlook is subject to downside risks related to potential changes in the international taxation environment and the impact on trade of developments in the implementation of the Protocol on Ireland/Northern Ireland. On the upside, the performance of multinational corporations could again exceed expectations.

2.5. GREECE

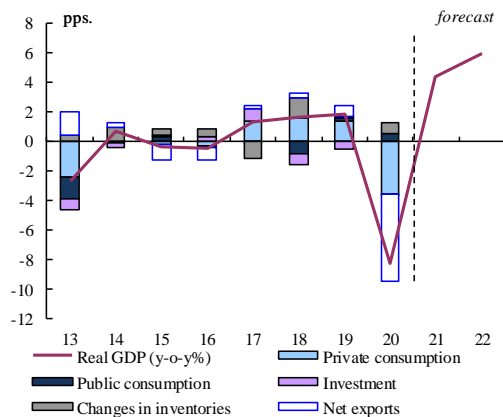
Greece recorded real GDP growth of 4.4% q-o-q (seasonally adjusted) in the first quarter of 2021 despite the intensification of social distancing measures introduced in January. Growth was driven mainly by net exports, thanks to a strong recovery in services exports, and a significant contribution from inventories. On the other hand, private consumption shrank by 1.3% quarter-on-quarter. A planned increase in real-estate taxes in 2022 provided impetus to the construction sector.

Social distancing measures began to relax in early May and an increase in most leading confidence indicators followed. Industry surveys during the same period pointed to a resurgence in foreign demand for goods. The recovery in services exports depends heavily on the outlook for tourism, which is forecast to remain below 2019 levels over the forecast horizon. The optimistic employment plans in most business sectors are expected to lead to a marginal decrease in the unemployment rate in 2021.

Against the backdrop of the gradual lifting of restrictions across the country, the emergency policy measures are expected to cushion cliff-effects in business liquidity, incomes and jobs, and play a crucial role in restarting and supporting economic activity. The fiscal measures taken earlier in the year, coupled with the boost from the country's Recovery and Resilience Plan, are expected to strengthen domestic demand, which is set to be the main driver of growth in both 2021 and 2022. Overall, real GDP is forecast to grow by 4.3% in 2021 and increase by 6.0% in 2022.

Global inflationary pressures have led to higher input prices, but the limited pass-through to consumer prices, coupled with the disinflationary pressures in the service sector, are expected to contain any upward pressure on consumer prices. Headline inflation is forecast at -0.4% in 2021 and 0.5% in 2022.

Graph 2.5: Greece - Real GDP growth and contributions



This forecast remains subject to a high level of uncertainty, particularly in relation to the tourism sector following the easing of restrictions due to COVID-19. Additional risks stem from the speed of recovery of the private sector after the phasing out of the support measures, which will need to be carefully timed to avoid a surge of new bankruptcies and limit any ramifications on the labour market. On the upside, the savings accumulated during the pandemic could boost spending going forward.

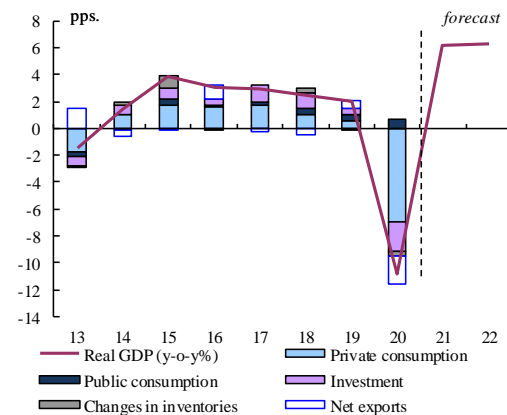
2.6. SPAIN

Real GDP in Spain declined by 0.4% in the first quarter of this year under the impact of virus containment measures and meteorological disruptions (storm “Filomena”). Following the improvement in the health situation, the fast progress in the vaccination campaign and the gradual lifting of containment measures, real GDP is expected to bounce back by 2.0% in the second quarter and 3.1% in the third quarter. On an annual basis, real GDP is expected to expand by 6.2% in 2021 and 6.3% in 2022.

More upbeat recent data mean that GDP growth in the second and third quarters is now expected to be faster than forecast in the spring. In the labour market, the pace of job creation and the exit of workers from short-time work schemes in hard-hit service sectors has accelerated significantly since the end of the state of emergency on 9 May. Other indicators continue to improve steadily, including business and consumer sentiment. This suggests a solidification of the recovery in the second quarter that is expected to continue afterwards. Private consumption and investment are expected to rebound strongly in 2021 and 2022 after declining

sharply in 2020. Private consumption is projected to benefit from positive developments in the labour market and the gradual normalisation of household saving behaviour. Meanwhile, the implementation of the Recovery and Resilience Plan is expected to strengthen private and public investment and provide a further impulse to the economic recovery, particularly in 2022.

Graph 2.6: Spain - Real GDP growth and contributions



Headline inflation is forecast to average over 2% year-on-year until the beginning of 2022, due to rising energy prices, the prevalence of strong base effects and the uptick in services prices on the back of pent-up demand. However, the remaining slack in the labour market should prevent the persistence of temporary price pressures, on both the supply and demand side. After rising to 2.1% in 2021, annual inflation (HICP) is expected to decline to 1.4% in 2022.

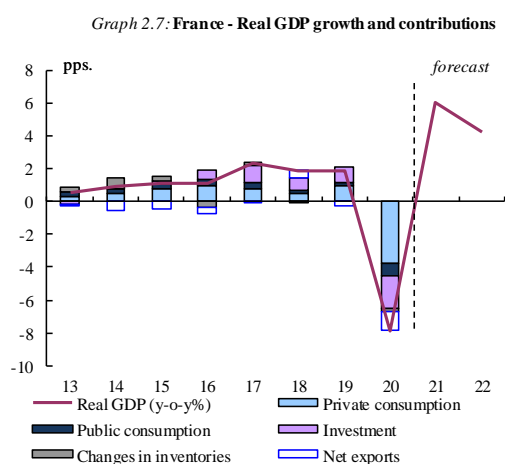
2.7. FRANCE

Following a decline of 1.5% q-o-q in the last quarter of 2020 and 0.1% q-o-q in the first quarter of this year, economic activity is set to expand by 0.7% in the second and by 3.1% in the third quarter of 2021. The latest available indicators paint a brighter picture of France’s economic outlook in the months ahead, which should more than offset the downward revision in the first quarter and the reduced carry-over from last year. Overall, annual real GDP is expected to increase by 6.0% in 2021 and by 4.2% in 2022.

The impact of restrictions affecting close contact services, introduced in April, has been more limited than expected in the spring. In addition, the accelerating pace of vaccinations and the improvement in the health situation have led to

restrictions being eased sooner than expected. Consequently, consumer and business sentiment have improved, suggesting that economic activity, including in the sectors most severely hit by the pandemic, has moved onto a solid recovery path. These positive developments are expected to continue in the coming months. In particular, the consumption of services is set to rebound strongly, also supported by the better-than-expected situation on the labour market where employment increased in the first quarter. The labour market is expected to continue to benefit from support measures, as the government has indicated that their gradual withdrawal will be closely linked with recovery.

As it is implemented, France's Recovery and Resilience Plan should strengthen private and public investment, which have already recovered strongly in the past months. Net exports are set to support growth in the coming quarters on the back of a recovery in international tourism and regained market shares in crucial sectors such as aeronautics. France's net exports are also expected to benefit from the implementation of Recovery and Resilience Plans in neighbouring countries. Against this positive background, some sectors, such as the automotive industry, are set to face supply bottlenecks. But given the predominance of services in the economy, this temporary phenomenon should not prevent overall activity from rebounding quickly.

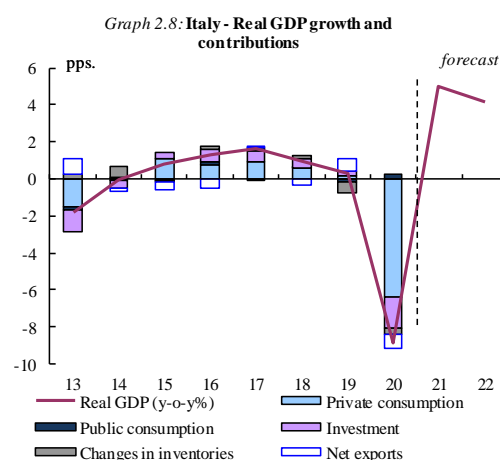


Annual HICP inflation is expected to reach 1.6% in 2021, mainly due to the rise in energy prices, oil prices in particular. Service sector prices also rose at the end of the first quarter. However, price pressures are expected to remain temporary due to the prevalence of slack in the labour market. With limited wage increases, core inflation is set to

remain subdued at 1.1%. In 2022, inflation is forecast to decline to 1.2%, mainly because of the decline in energy prices and the pause on tobacco tax increases.

2.8. ITALY

Economic activity proved more resilient than expected and increased slightly in the first quarter of this year, despite stringent containment measures. Performance data from the manufacturing sector and business and consumer surveys suggest that real GDP growth gained further momentum in the second quarter and should strengthen markedly in the second half of the year. On an annual basis, real GDP growth is expected to reach 5.0% in 2021 and 4.2% in 2022. The forecast for 2021 is significantly higher than in spring. This is due to the sizeable upward revision to GDP in the first quarter and the stronger-than-expected response of economic activity to the easing of mobility and business restrictions.



The improving health situation that allowed most restrictions to ease significantly by June lays the groundwork for a solid and sustained expansion over the forecast period. Public and private investment, supported by firms' decreasing uncertainty about their demand outlook and the implementation of the Recovery and Resilience Plan, is set to remain the leading growth driver. Private consumption is expected to rebound sizeably, helped by improving labour market prospects and the gradual unwinding of accumulated savings. A dynamic external environment should benefit goods exports but the return of tourist revenues is likely to be more gradual.

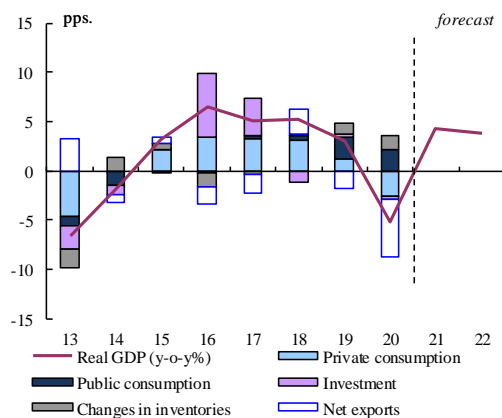
HICP inflation turned positive at the beginning of the year and increasing oil prices are set to raise consumer prices by 1.4% in 2021, before inflation falls back to 1.2% in 2022. Firms' weaker pricing power and the still substantial degree of slack in the labour market should limit the potential for second-round effects and prevent temporary price pressures from becoming entrenched.

2.9. CYPRUS

Despite the lockdown measures at the beginning of the year, real GDP increased in the first quarter of 2021 (+2% compared to the last quarter of 2020). The rebound in activity, which started in the second half of 2020, has been driven by domestic demand, underpinned by fiscal stimulus, and exports of services other than tourism.

On an annual basis, real GDP growth is expected to increase by 4.3% in 2021. This is higher than projected in spring due to the better than-expected performance in the first quarter and the considerable improvement in economic sentiment in June. The accelerating pace of vaccination and the improved epidemiological situation in Cyprus, as well as in the rest of the EU, have prompted a significant relaxation of domestic and travel restrictions since mid-May, laying the ground for sustained growth in the coming months. Nevertheless, the tourism sector is still expected to recover only gradually, as uncertainty remains and international travel, particularly from the UK – an important market for Cyprus – has yet to fully recover. The slight increase in employment in the first quarter of 2021, year-on-year, is also set to support the rebound in private consumption.

Graph 2.9: Cyprus - Real GDP growth and contributions



In 2022, real GDP is forecast to grow by 3.8% in view of favourable prospects for domestic and external demand and the implementation of the Recovery and Resilience Plan, which is set to strengthen private and public investment.

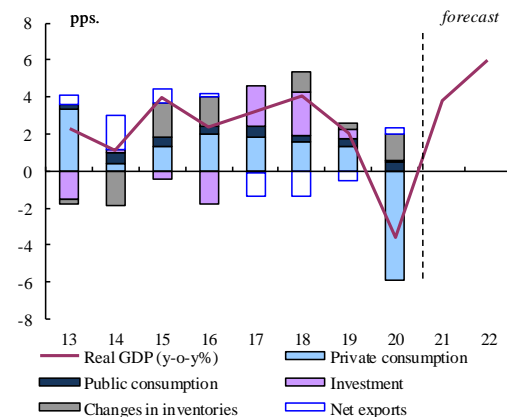
Headline inflation turned positive in the first five months of 2021 after falling by 1.1% in 2020. Inflation is forecast to increase to 1.4% in 2021 and to 1.3% in 2022, underpinned by higher prices for energy, non-energy industrial goods, and services.

2.10. LATVIA

Latvia's economy contracted by 1.8% in the first quarter of 2021 due to the tightening of COVID-19 containment measures from late 2020. Still, the outcome was somewhat better than expected in the spring as a sharp slump in the first two months of the year was followed by economic activity rebounding formidably in March on the back of strong export growth. However, economic activity in employment-intensive sectors remained subdued due to ongoing containment measures. The employment rate continued to decline throughout the first five months of the year.

GDP growth is set to rebound in the second quarter as data from April suggest double digit growth in exports and industrial production. An even bigger boost to growth is set to come in the third quarter when containment measures are expected to be significantly relaxed and many contact-intensive services are set to reopen. All in all, GDP is forecast to grow by 3.8% in 2021.

Graph 2.10: Latvia - Real GDP growth and contributions



In 2022, GDP growth is set to accelerate to 6.0% thanks to further growth in household

consumption, exports and a boost to investments coming from the start of the implementation of the Recovery and Resilience Plan.

Inflation is forecast to accelerate significantly in 2021 on the back of recovering energy prices. Annual HICP inflation is forecast to climb from a near standstill in 2020 to 1.9% in 2021. In 2022, prices are set to increase by 2.1% driven by the buoyant domestic demand.

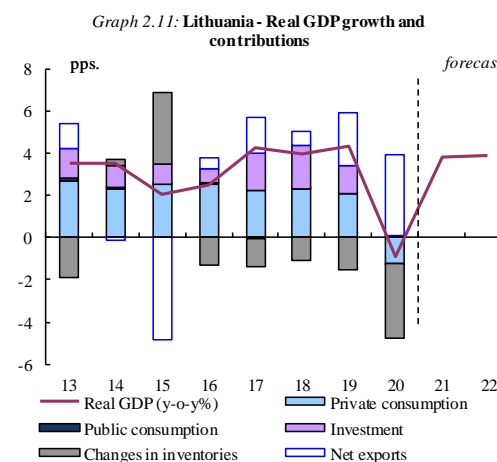
2.11. LITHUANIA

After a relatively mild contraction of 0.9% in 2020, Lithuania's economy performed strongly in the first quarter of 2021. Real GDP grew by 2.0% quarter-on-quarter, driven by private consumption and goods exports. At the same time, the seasonally adjusted unemployment rate dropped by 2.2 pps. between December 2020 and April 2021, after increasing during the previous year. The most recent economic sentiment indicators point to further expansion in the second quarter, particularly concerning demand expectations in the service sector. This is linked to a notable relaxation of measures to contain the pandemic and the increase in the vaccination rate.

Accumulated savings by households, continued wage growth and falling unemployment are set to support a rebound in private consumption. At the same time, the path of public investment, which to a great extent is driven by EU funds, is forecast to reach its peak in 2021. The Recovery and Resilience Facility is planned to fund additional public investment starting this year as well. Goods exports are expected to remain high thanks to strong external demand. However, imports are forecast to rise as well, reducing the contribution of net exports to growth. Overall, a strong recovery in domestic demand should be the main driver of economic expansion over the forecast horizon and real GDP in Lithuania is forecast to grow by 3.8% in 2021 and 3.9% in 2022.

After two months of subdued developments at the beginning of 2021, HICP inflation picked up considerably in the period from March to May. This was attributable to a low base effect for prices of liquid fuels, more expensive industrial goods, and continued increases in service prices. These factors will remain important drivers over the forecast horizon. Therefore, the inflation rate is

expected to increase from 1.1% in 2020 to 2.3% in 2021, and then moderate to 2% in 2022.



2.12. LUXEMBOURG

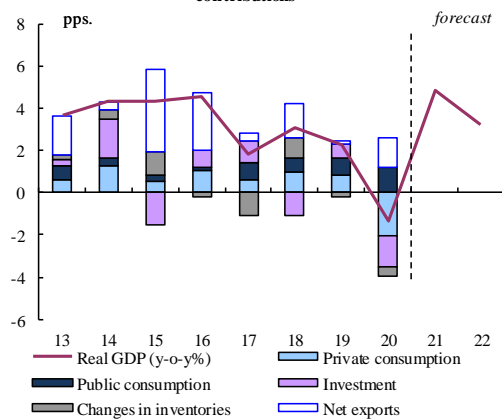
After an estimated q-o-q growth rate of 1.4% in the first quarter of this year, real GDP growth is expected to bounce back to 4.8% on an annual basis in 2021, before moderating to 3.3% in 2022. Luxembourg's economy performed relatively well in 2020, thanks to information and communication exports and the financial services sector. As a result, real GDP had already reached its pre-crisis level in the fourth quarter of 2020. In recent weeks, the accelerating pace of the vaccination campaign and the improvement in the health situation have prompted a gradual relaxation of restrictions affecting contact-intensive services. This trend is assumed to continue in the coming months, along with a broader reopening of the economy.

Sentiment indicators also suggest a positive outlook for Luxembourg's economy. Business sentiment has improved, also outside the financial services sector. Consumer sentiment, meanwhile, showed a strong recovery in spring, particularly concerning expectations about consumers' future financial situation. This is in line with an observed increase in employment, mirrored by a drop in unemployment this year, which should also support the rebound in consumption.

Improvements in the economic outlook for Luxembourg's commercial partners bode well for export growth. Furthermore, the upward movement in stock market indexes in the first half of the year is casting a positive light on financial markets, which should support the financial sector.

HICP inflation is projected to rise to 2.5% in 2021 due to oil price increases, the introduction of a carbon tax, the rebound in consumption, and base effects linked to the introduction of free public transportation in 2020. However, this pressure on prices is expected to be temporary and to ease in 2022. Consequently, HICP inflation is expected to decline to 1.7% in 2022, more in line with core inflation.

Graph 2.12: Luxembourg - Real GDP growth and contributions



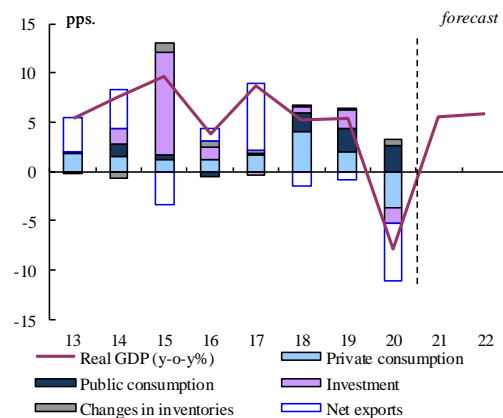
2.13. MALTA

Malta's economy grew at a solid quarter-on-quarter rate of 1.9% in the first quarter of this year, driven mainly by service exports. After a considerable decline (-7.8%) in 2020, real GDP is forecast to rebound to 5.6% in 2021. This is more than the 4.6% projected in the spring. The better growth outlook is driven by the strong performance in the first quarter, which has a strong carry-over effect, and the positive picture painted by recent confidence indicators. It also adjusts the recovery path for the downward revision to 2020 GDP growth. The forecast for 2022 is similarly strong, at 5.8%, which means that Malta's economy is expected to reach pre-pandemic levels of activity around mid-2022.

The high pace of vaccinations in Malta and the improvement in the public health situation allowed for a significant relaxation of restriction measures in the second quarter. Continued strong improvement in business and consumer sentiment up until May, including in the hard-hit food and accommodation services sectors, suggest that economic activity is on a path to a solid recovery. A strong uptake of government-paid consumption vouchers is also supporting a rebound in consumption. Going forward, growth is expected

to remain strong on the back of a gradual recovery in the tourism sector, favourable prospects for external demand for other services, and a recovery in private and public investment, supported also by the implementation of the Recovery and Resilience Plan. A limited downside risk is related to possible consequences of the decision of the Financial Action Task Force (an inter-governmental body against money laundering) to add Malta to the list of jurisdictions under increased monitoring.

Graph 2.13: Malta - Real GDP growth and contributions



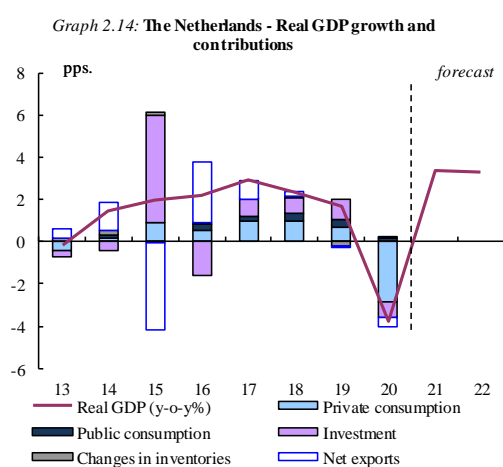
HICP inflation has increased moderately since January, but the increase in energy and imported goods prices and a recovery in the tourism and hospitality sectors are set to increase price pressures in 2021. After picking up to 1.1% in 2021, inflation (HICP) is expected to reach 1.6% in 2022.

2.14. THE NETHERLANDS

The Dutch economy contracted by 0.8% q-o-q in the first quarter of this year as private consumption decreased strongly, constrained by COVID-19 containment measures. Since then, the health situation has improved and vaccination rates increased, allowing for the gradual reopening of non-essential shops, restaurants and the recreation sector. As a result, the economy is expected to rebound swiftly in the second and third quarter, by 2.3% q-o-q and 1.8% q-o-q, respectively. Overall, real GDP is expected to grow by 3.3% both in 2021 and 2022.

The ongoing implementation of the national vaccination strategy combined with the better health situation and the expected continued easing of containment measures over the summer have led to strong improvements in consumer and

business sentiment, including in the services sector. As a result, the economy is projected to move onto a solid recovery path driven mainly by the rebound of private consumption. Investment is forecast to continue supporting economic growth on the back of a vibrant housing market and strong manufacturing sector, where previously postponed investment plans are being resumed. Resilient labour market dynamics and the recently announced extension of the government emergency support package for businesses (until September 2021) are set to further support the recovery in domestic demand.



Consumer price inflation is forecast to increase to 1.8% and 1.5% in 2021 and 2022, respectively. Annual HICP inflation rose to 2% in May driven by rising energy prices. Inflationary pressures are set to remain elevated in the second half of the year as the expected deceleration in energy prices inflation is roughly offset by increasing services price inflation, reflecting the combination of pent-up demand and constrained capacity due to some remaining restrictions. In 2022, consumer price pressures are forecast to ease due to moderate wage growth and an assumed decline in energy prices.

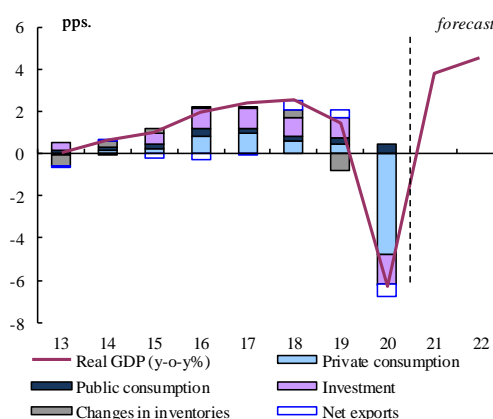
2.15. AUSTRIA

After a decline of 1.1% q-o-q of GDP in the first quarter of the year, real GDP growth is projected to bounce back to 3.5% in the second quarter and 3.6% in the third. On an annual basis, after a contraction of GDP by 6.3% in 2020, real GDP growth is expected to increase to 3.8% in 2021 and 4.5% in 2022. This is slightly higher than projected in the Spring Forecast as it takes into account the good progress of the vaccination campaign and

favourable impulses from world trade. It also reflects the performance of sentiment indicators in May, which returned to or surpassed pre-pandemic levels in many sectors.

The improvement in the health situation has prompted a further relaxation of restrictions since mid-May. As a result, the Austrian tourism industry is setting high hopes for the summer, especially given the lost winter season. However, as some travel restrictions still apply and pose certain difficulties especially for tourists from more distant destinations, the share of domestic tourism is expected to be higher in 2021 than on average in pre-pandemic years. Pent-up demand is expected to support private consumption while external demand for goods and business services, driven by favourable world trade developments, is set to benefit Austria's export industry. Going forward, further expanding domestic and external demand as well as the implementation of the Recovery and Resilience Plan should support the economic recovery and GDP growth.

Graph 2.15: Austria - Real GDP growth and contributions



Rising oil prices on the back of expanding global economic activity partly explain the noticeable increase in inflation since the beginning of the year. Price pressures in the service sector that prevailed also during the lockdown phases are set to continue when restrictions are further lifted. After reaching 1.4% in 2020, HICP inflation is expected to peak at 2.1% in 2021 before gradually decreasing to 1.9% in 2022.

2.16. PORTUGAL

Portugal's economy is on track for a sound recovery beginning in the second quarter of 2021, along with the gradual relaxation of pandemic

restrictions. This can already be seen in the sharp increase in the Commission's Economic Sentiment Indicator and hard data for retail sales, industrial production and service sector turnover. The pace of recovery has been dampened by the partial reimposition of temporary restrictions in June, which was triggered by a resurgence in infections. Nevertheless, GDP is projected to rise by 3.3% in the second quarter after a drop of 3.2% during the strict lockdown in the previous quarter. A further increase in growth is expected in the third quarter when foreign tourism in Portugal is set to rise, helped by the vaccination campaign in Europe and the rollout of the EU digital COVID certificate.

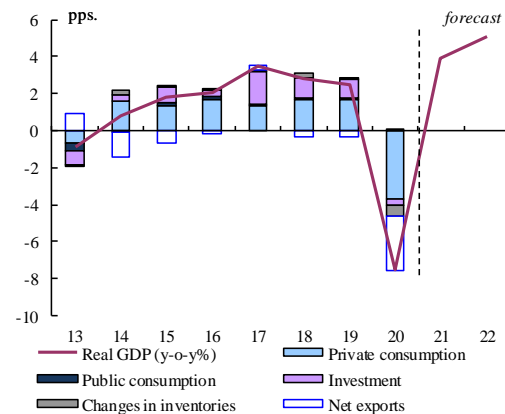
In full-year terms, domestic demand is expected to contribute the most to GDP growth in both 2021 and 2022. This reflects pent-up demand from domestic consumers as well as support to both corporate and public investment from the country's Recovery and Resilience Plan. Regarding the external sector, exports of services remain constrained by the international travel industry, which is not expected to fully recover by the end of the forecast period. However, the outlook for goods exports has improved since the previous forecast. Despite mobility restrictions, Portugal's goods exports increased substantially in the first quarter of this year, surpassing their pre-pandemic levels. Export growth continued in April alongside a further improvement in export order books in May.

Overall, GDP is forecast to increase by 3.9% in 2021 and 5.1% in 2022. The economy is thus expected to reach its pre-pandemic level by mid-2022. Risks remain tilted to the downside due to the country's large exposure to foreign tourism. At the same time, this is now largely offset by upside risks in the manufacturing sector, which could benefit further from global demand tailwinds.

Inflation picked up from 0.2% (y-o-y) in the first quarter of 2021 to 0.5% in May on the back of a surge in energy prices, which also had repercussions on transport services and some industrial goods. However, prices of accommodation and restaurants declined substantially in April and May relative to a year earlier, thus keeping the overall inflation rate well below the EU average. Prices of services are expected to gradually increase over the forecast horizon while the upward impact of energy and commodity prices is projected to subside in

parallel. Overall, inflation is forecast to increase to 0.8% in 2021 and 1.1% in 2022.

Graph 2.16: Portugal- Real GDP growth and contributions



2.17. SLOVENIA

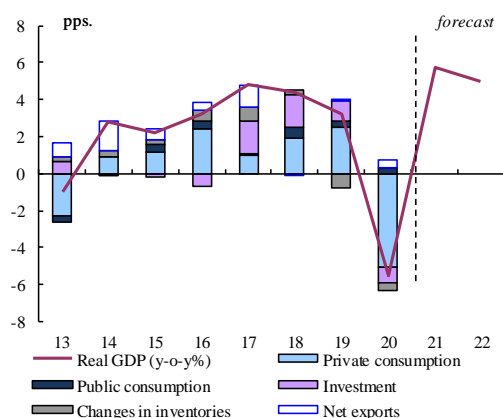
Slovenia's economy began its recovery this year when GDP expanded by 1.4% in the first quarter. The recovery is supported by strong growth in private consumption, investment and exports, particularly goods exports with volumes already exceeding pre-crisis level. Overall, the impact of the crisis continues to be cushioned by extensive government measures to support employment and limit insolvencies.

With the removal of restrictions and confidence indicators improving, both in Slovenia and in the trading partner economies, growth is forecast to remain positive in the second quarter and to accelerate in the third quarter. Growth is set to be driven by the same factors as in the first quarter – consumption, investment and foreign demand. Service exports are also projected to improve in the second half of the year with the gradual opening of the tourism sector. On an annual basis, real GDP growth is forecast at 5.7% in 2021 and 5.0% in 2022. This is higher than projected in spring and mainly reflects the better-than-expected first quarter results. Going forward, the implementation of the Recovery and Resilience Plan is also expected to strengthen private and public investment.

The negative inflation observed in 2020 continued over the first two months of 2021. Since then, however, inflation has picked up, rising to 2.2% on a yearly basis in April-May. Inflation is projected

to remain high also in the second half of the year and reach 1.4% on average in 2021 and 1.7% in 2022.

Graph 2.17: Slovenia- Real GDP growth and contributions



2.18. SLOVAKIA

After declining by 2% q-o-q in the first quarter of this year due to persisting pandemic-related restrictions, real GDP in Slovakia is expected to bounce back by 2.0% in the second quarter, and by 3.3% in the third quarter. On an annual basis, real economic activity is forecast to grow by 4.9% in 2021, which is slightly higher than projected in the spring, reflecting a sharper-than-expected rebound of short-term indicators. The Slovak economy is projected to reach its pre-pandemic output level in the third quarter of 2021 and to continue growing at a robust annual rate of 5.3% in 2022.

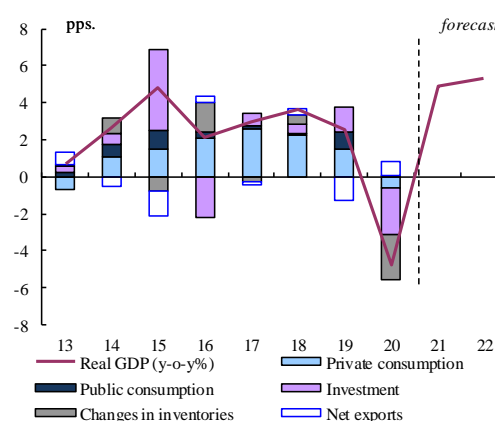
The improving health situation allowed a significant easing of containment measures in the second quarter, which should facilitate a sharp rebound in domestic spending. The latter is also assumed to benefit from a partial drawdown of excess savings accumulated during the pandemic. Continued improvements in sentiment, including in the hard hit services, retail and construction sectors, suggest that domestic demand moved onto a solid recovery path in the second quarter and should keep expanding in the coming months.

While currently hampering manufacturing exports, supply-chain disruptions due to ongoing semiconductor shortages are assumed to have only a temporary effect on Slovakia's automotive industry, which should benefit from robust growth in external demand. Going forward, the implementation of the Recovery and Resilience

Plan is set to strengthen private and public investment, further contributing to the recovery.

Rising oil prices and supply-side bottlenecks explain part of the HICP increase recorded since January, but higher inflation for services also signals strengthening demand pressures. However, continued slack in the labour market should prevent temporary price pressures from becoming more persistent. After picking up in the second half of the year, annual HICP inflation is expected to be 2.1% in 2021. Despite a projected deceleration of quarterly dynamics from early 2022 onwards, annual HICP inflation is forecast to stay around 2.2% in 2022.

Graph 2.18: Slovakia- Real GDP growth and contributions

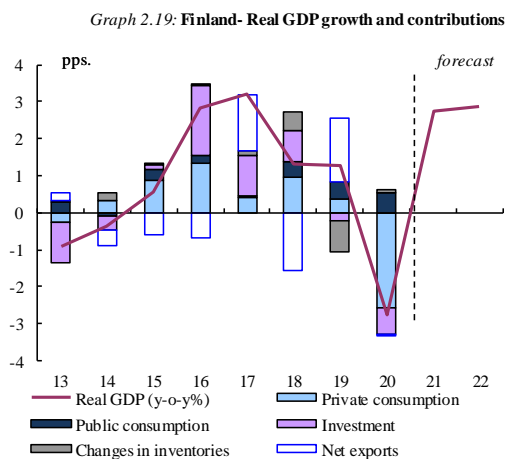


2.19. FINLAND

Real GDP declined by 0.1% q-o-q in the first quarter of this year, as pandemic-related restrictions led to a temporary slowdown in private consumption and exports. Growth is expected to turn positive in the second quarter and accelerate further in the third. On an annual basis, real GDP growth is forecast to increase by 2.7% in 2021, which is the same as in the Spring Forecast.

Since the spring, the continued improvement in the health situation has accelerated the relaxation of remaining restrictions. Improvements in business and consumer sentiment indicate that a more robust recovery is clearly on the way. Favourable prospects for domestic and external demand are set to strengthen private consumption and investment, while also supporting exports. The strong results expected in the second half of 2021 are forecast to continue in 2022 when the GDP growth rate is forecast to reach 2.9% on the back of strong demand and carryover effects.

HICP inflation in the second quarter is expected at 2.1% mainly as a result of the strong rise in energy prices but also because of increasing prices for services. This temporary boost is likely to fade but steadily rising demand is expected to keep inflation higher than in recent years. Inflation is projected to increase to 1.5% in 2021 and 1.6% in 2022.



NON-EURO AREA

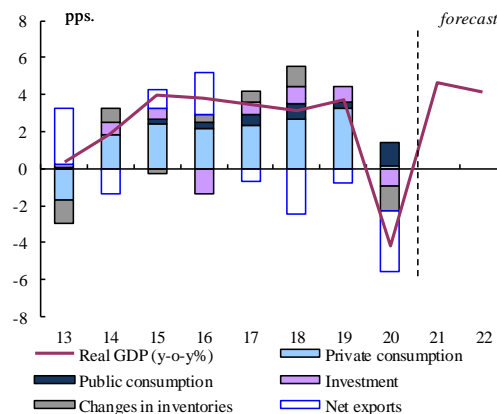
2.20. BULGARIA

Despite continued pandemic-related restrictions to economic activity, real GDP grew by 2.5% quarter-on-quarter in the first quarter of 2021, driven by exports and private consumption. Consumer confidence reached pre-crisis levels in April and May, suggesting further improvements in domestic consumer demand this year. In 2022, household consumption is projected to continue to expand, in line with the improving situation of the labour market. Exports of goods and services are forecast to follow the favourable developments in external demand and the lifting of containment measures. The start of the implementation of the Recovery and Resilience Plan is set to support aggregate investment in 2022.

Overall, real GDP growth is expected to reach 4.6% in 2021 and 4.1% in 2022. Compared to the Spring Forecast, the annual real GDP growth rate is 1.1 pp. higher in 2021 and 0.6 pps. lower in 2022. The upward revision in 2021 reflects mainly the strong recovery in the first quarter of this year, while strong base effects explain the downward revision in 2022. The risks to the forecast are

broadly balanced. On the upside, consumer demand may prove stronger than projected. On the downside, given the relatively slow rate of COVID-19 vaccination in the country, subsequent lockdown periods may be needed.

Graph 2.20: Bulgaria- Real GDP growth and contributions



Inflation is set to accelerate to 1.9% in 2021 on the back of higher assumed energy prices and some second-round effects from increased fuel prices. Non-energy industrial goods and processed food are also forecast to sustain stronger price dynamics. In 2022, HICP inflation is expected to reach 2.5%, supported by aggregate demand.

2.21. CZECHIA

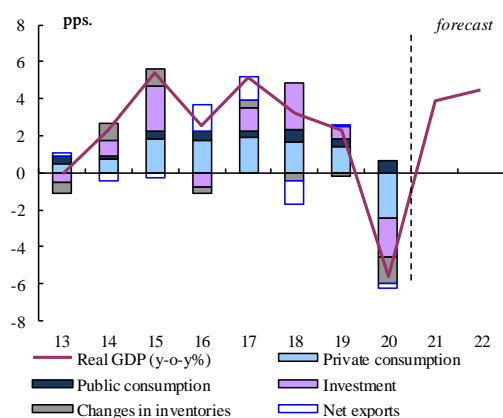
The strong second wave of the pandemic and related containment measures brought further disruptions to the economy in the first months of this year, leading to a 0.3% quarter-on-quarter GDP decline in the first quarter of 2021. Household consumption slightly declined and together with decreasing government consumption became the most important negative factors behind the decrease in economic activity. On the contrary, investment expenditure provided a positive surprise, growing by 1.6% quarter-on-quarter. Foreign demand developments remained favourable, however, the overall contribution of net exports was lower compared to the previous quarter mainly due to increased imports.

Czechia's economy has been recovering since the second half of April. Positive developments in the public health situation and rising foreign demand are reflected in the sentiment indicators for both households and firms. Private consumption is expected to remain the main driver of Czechia's economic recovery over the forecast horizon,

reflecting the stable situation on the labour market, pent-up demand and the drawing down of accumulated excess savings. At the same time, supply chain disruptions due to the ongoing shortage of semi-conductors are weighing on Czechia's automotive sector production and exports. However, these disruptions are expected to be only temporary.

The country's Recovery and Resilience Plan is also set to strengthen private and public investment and thereby boost the economic recovery. In 2022, GDP growth will also be supported by the new EU funding cycle. Overall, GDP is forecast to increase by 3.9% in 2021 and by 4.5% in 2022. Towards the end of the forecast horizon, economic growth in Czechia is expected to reach its potential level.

Graph 2.21: Czechia- Real GDP growth and contributions



2.22. DENMARK

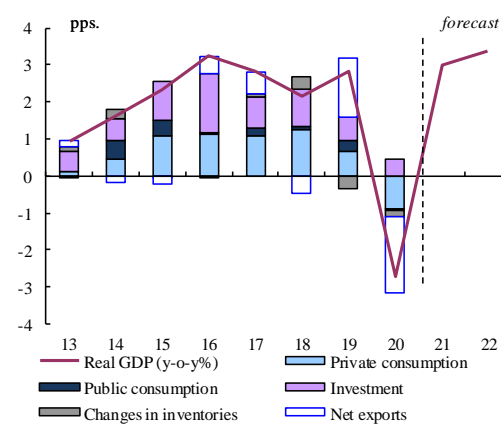
The second wave of COVID-19 infections from late autumn onwards led to a widespread tightening of restrictions during the first quarter of 2021. Private consumption suffered a sharp contraction, which dragged down economic activity and led to a 1.3% q-on-q decline in real GDP in the first quarter. Exports, by contrast, increased by a robust 6.0% q-o-q over the same period, driven by a recovery in demand for machinery and transport equipment goods in Denmark's main export markets. The sharp decrease in new COVID-19 infections and the successful rollout of vaccinations allowed the widespread easing or abolishment of many restrictions in the second quarter of this year, enabling a marked pickup in economic activity and household consumption. Industrial production remained strong in the first quarter of this year,

while the services sector is forecast to gain strength thanks to the gradual reopening.

Denmark's recovery is projected to be broad-based, with important contributions from domestic demand and external trade. Household consumption is set to be further bolstered by cash transfers to households in spring 2021. This transfer is related to the release of households' 2021 frozen holiday savings and is equivalent to two weeks of household income or 1% of GDP. Construction investment, particularly for residential properties, is expected to remain robust driven by rising housing prices in both 2021 and 2022. In addition, equipment investment is also set to recover slowly, providing additional impetus to gross fixed capital formation over the forecast horizon. On the back of robust goods exports, net trade is expected to further lift economic growth. Overall, real GDP is forecast to expand by 3.0% in 2021.

Growth is expected to remain buoyant in 2022, driven by private consumption, healthy investment, and strong growth in Denmark's main export markets. Thus, a stronger domestic economy, growing external demand and a positive carry-over effect are expected to boost real GDP growth to 3.4% in 2022.

Graph 2.22: Denmark- Real GDP growth and contributions



Consumer price inflation (HICP) remained moderate in 2020 at 0.3%. Since then the surge in certain raw material prices and bottlenecks in certain intermediary products have led to inflationary pressures. The continued recovery in economic activity and higher energy prices are forecast to lead to an increase in consumer price inflation in the second half of 2021. HICP inflation is set to rise to an average of 1.5% in 2021. Stagnating energy prices in 2022 are expected to

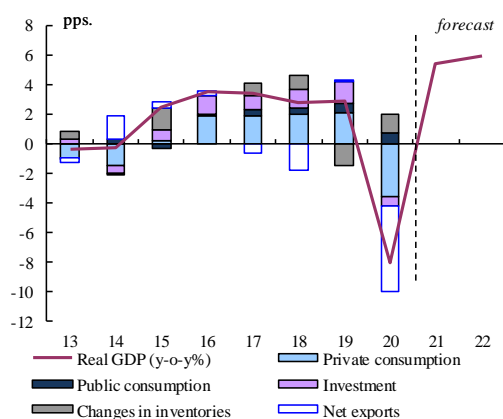
contribute to a moderation of HICP inflation to 1.3% next year.

2.23. CROATIA

Croatia's GDP picked up robustly in the first quarter of this year (5.8% q-o-q), continuing the strong performance from the second half of 2020. On an annual basis, real GDP is forecast to grow by 5.4% in 2021 and 5.9% in 2022. This is a slightly faster recovery than anticipated in the spring, largely due to the strong outturn in the first quarter and the positive high frequency indicators concerning consumption, construction, industry and tourism prospects.

Since the spring, the COVID-19 restrictions have been further relaxed in line with the improvements in the health situation, which are partly due to the pick-up in vaccination rates. Consumer sentiment and other high-frequency indicators continued to improve through May, suggesting the resumption of strong economic performance in the second half of the year. Preliminary data show that job creation is on the rise in the hospitality and IT sectors as well as construction, which is in line with the strong performance of investment data. Investment growth is set to accelerate over the course of the forecast horizon, supported by the Recovery and Resilience Plan. The tourist season is projected to remain well below 2019 levels, but substantially stronger than last year. As a result, exports of services should show strong growth. Goods exports are also expected to perform well, driven by strong demand in key trading partners.

Graph 2.23: Croatia- Real GDP growth and contributions



After remaining stagnant in 2020, prices started to rise again in 2021, in large part driven by increasing energy prices. While annual HICP

inflation reached 2.4% in May, core inflation remained rather muted at 0.4%. Going forward, inflationary pressures are expected to come from services and processed food. Overall, the HICP is projected to increase by 1.5% this year and 1.3% in 2022.

2.24. HUNGARY

Hungary's economy continued its recovery from the economic shock of the pandemic at the beginning of the year. Real GDP rose by 2% q-o-q in the first quarter of 2021. Recent economic indicators suggest that the recovery may have paused in the second quarter, partly due to persisting supply chain disruptions affecting the automotive industry. The recovery is forecast to resume in the second half of the year as the pandemic recedes and the economy reopens. The expected rebound is signalled by the recent improvement in business and consumer confidence. Growth is set to be driven by the gradual recovery of consumer demand for services, high investment activity supported by EU funds and accommodative fiscal policies. Exports should also make a significant contribution thanks to the supportive external environment and the expected revival of intra-EU tourism.

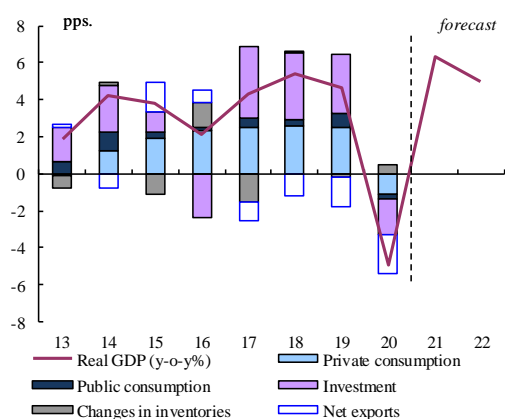
Annual GDP growth is forecast at 6.3% in 2021, followed by 5.0% in 2022. This is a more front-loaded profile for the economic recovery than what was projected in the spring. The revision reflects data for the first quarter which indicate a milder impact of health-related restrictions on economic activity. Upside risks to the forecast stem from the potential introduction of further stimulus measures, notably a proposed personal income tax refund for families with children ahead of the 2022 elections.

The signals from the labour market are more mixed. In the first quarter of 2021, seasonally adjusted employment remained 1.1% below its pre-pandemic level (in the last quarter of 2019), and vacancy statistics do not yet suggest a strong recovery of aggregate labour demand. Monthly data also point to a slight deceleration of private sector wage growth in the first quarter of 2021. At the same time, firms' perceptions of labour shortages have increased recently and wage growth has held up better in the sectors where such shortages were reported. This could reflect mismatches in terms of the location of employment opportunities and prospective

workers, as well as mismatches in the types of jobs available and the skills of the labour force. As a consequence, wage growth may remain elevated despite the more gradual recovery of employment.

The HICP rose by 5.3% in May 2021 driven by higher fuel prices and recent excise duty increases. The pass-through of the forint's past depreciation and the repricing of various services after the reopening of the economy may continue to add to inflation in the coming months. The re-emergence of labour market bottlenecks could also fuel inflation in 2022. Overall, inflation is forecast at 4.4% in 2021 and 3.3% in 2022.

Graph 2.24: Hungary - Real GDP growth and contributions



2.25. POLAND

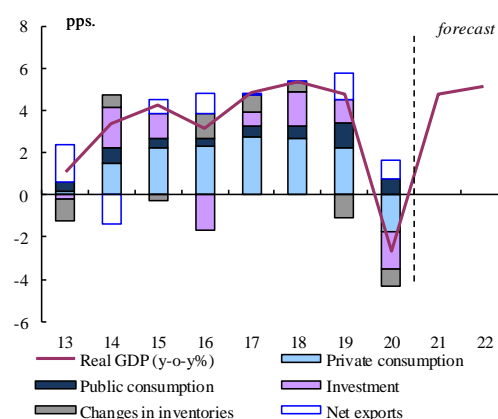
After a mild contraction of economic activity at the end of 2020, Poland started 2021 on a strong economic footing. Real GDP grew by 1.1% q-o-q in the first quarter of 2021, supported by the recovery of Poland's main trading partners and increased confidence of businesses and households. Private investment was the main driver of the rebound, as a sudden hike in equipment investment in the manufacturing sector lifted investment activity by more than 18% q-o-q. Meanwhile, private consumption benefitted from increased spending opportunities and a stable labour market.

The recovery is expected to gather pace in the second and third quarters as restrictions on economic activity are gradually lifted. Private consumption is set to be supported by rising consumer confidence and the spending of households' accumulated savings, which are set to give a boost to consumption growth over the forecast horizon. Private investment is also

expected to remain dynamic on the back of improved business sentiment, the investments in the context of the Recovery and Resilience Facility, and low borrowing costs, which are also likely to support the recovery in the construction sector. Regarding foreign trade, both exports and imports are expected to recover strongly in 2021 and 2022. However, following a sharp fall in 2020, imports are set to grow faster than exports, thus leading to a negative contribution of net trade to GDP growth in 2021 and, to lesser extent, in 2022. Overall, real GDP growth is expected to reach 4.8% in 2021 and 5.2% in 2022.

HICP inflation has risen noticeably in the first half of 2021, driven by increased energy prices, supply chain disruptions and increased input costs for businesses, which have been passed down to consumers, both for industrial goods and services. Further inflationary pressures are expected to emerge in the coming months as pent-up demand unfolds and investments in the context of the Recovery and Resilience Facility provide an additional boost to the economy. As a result, HICP inflation is expected to reach 4% in 2021 and to remain elevated at 3.1% in 2022.

Graph 2.25: Poland - Real GDP growth and contributions



2.26. ROMANIA

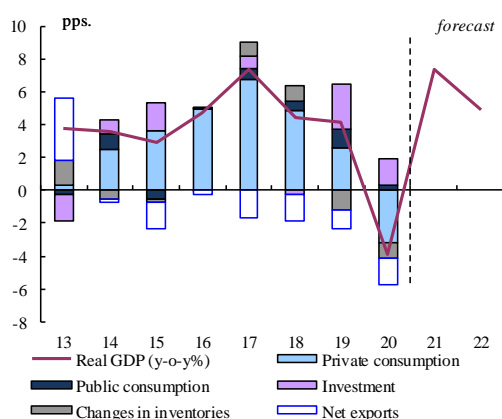
Romania's economy performed strongly in the first quarter of this year. Real GDP increased by 2.8% quarter-on-quarter, supported mainly by private consumption and investment. Net exports, by contrast were significantly negative, reflecting weak external demand and supply chain disruptions. On an annual basis, real GDP is forecast to grow by 7.4% in 2021 and by 4.9% in 2022. This is higher than projected in the spring

thanks to the stronger-than-expected performance of the economy in the first quarter of this year.

Business and consumer sentiment has remained strong so far. Private consumption is expected to remain very robust, supported by the lifting of restrictions, particularly for sectors severely affected by the pandemic such as arts, entertainment, restaurants and hotels, as well as by the relatively strong growth of wages in the first months of the year. Investment is set to remain strong over the forecast horizon, supported by both the private and public sectors. The continued increase in order books suggests that industrial activity will expand in the coming months. Exports are set to improve in line with the ongoing recovery in Romania's main trading partners but the contribution of net exports to growth is expected to remain negative over the forecast horizon. Growth is projected to continue into 2022, albeit at a somewhat slower pace.

The sharp increase in energy prices (the combined effect of the liberalisation of the domestic retail electricity market and the increase in international oil prices) as well as the recovery in aggregate demand, are set to increase inflationary pressures in 2021. Annual HICP inflation increased from 1.8% in December 2020 to around 2.7% in April 2021 and is forecast to average 3.2% over the entire year, before somewhat declining to 2.9% in 2022, as the impact of energy price increases starts to fade and the recovery in demand cools down.

Graph 2.26: Romania - Real GDP growth and contributions



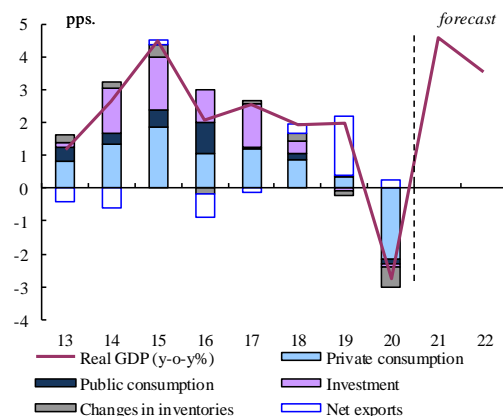
2.27. SWEDEN

In the first quarter of 2021 Sweden's economy grew by 0.8% quarter-on-quarter, mainly driven by strong private consumption and exports. Continued

fiscal support measures helped dampen the impact of the COVID-19 crisis, improving labour market conditions further. Monthly data and short-term indicators suggest weaker growth momentum at the beginning of the second quarter. This partly reflects supply chain disruptions as well as a pause in the recovery of private consumption, possibly due to the measured removal of remaining restrictions.

As the pandemic is assumed to recede further over the summer and as some key fiscal support measures have been extended until the autumn, real GDP growth is projected to peak in the third quarter of 2021. A strong competitive starting position for Swedish firms, low borrowing costs, solid employment gains and a buoyant housing market are expected to boost investment, exports and household consumption also in 2022, albeit at a slower pace. Overall, real GDP growth is set to reach 4.6% in 2021 and ease to 3.6% on average in 2022.

Graph 2.27: Sweden- Real GDP growth and contributions



HICP inflation is expected to peak in the second quarter of 2021 on the back of increasing energy prices, some near-term increases for freight costs and commodity prices as well as supply and distribution bottlenecks. COVID-19-induced changes in the consumption basket have led to revisions to HICP weights. Together with crisis-related price factors and some disruption to typical seasonal patterns, these are expected to continue to influence measured inflation in the near-term. Thus, as base effects fade, the lagged impact of the krona's earlier appreciation, coupled with the relatively moderate multi-annual wage agreements (which extend into 2023), are set to contribute to weak underlying price pressures in 2022. Overall, HICP inflation is expected to average 2.1% in 2021 and decrease to 1.2% in 2022.

STATISTICAL ANNEX

Table 1: Gross domestic product, volume (percentage change on preceding year, 2002-2022)

28.06.2021

	5-year averages							Summer 2021 forecast		Spring 2021 forecast	
	2002-06	2007-11	2012-16	2017	2018	2019	2020	2021	2022	2021	2022
Belgium	2.2	1.3	1.2	1.6	1.8	1.8	-6.3	5.4	3.7	4.5	3.7
Germany	1.0	1.2	1.4	2.6	1.3	0.6	-4.8	3.6	4.6	3.4	4.1
Estonia	8.1	-0.7	2.5	5.5	4.4	5.0	-2.9	4.9	3.8	2.8	5.0
Ireland	5.3	-0.4	7.1	9.1	8.5	5.6	3.4	7.2	5.1	4.6	5.0
Greece	4.2	-3.5	-2.0	1.3	1.6	1.9	-8.2	4.3	6.0	4.1	6.0
Spain	3.3	0.0	0.7	3.0	2.4	2.0	-10.8	6.2	6.3	5.9	6.8
France	1.8	0.8	0.8	2.3	1.9	1.8	-7.9	6.0	4.2	5.7	4.2
Italy	0.9	-0.5	-0.6	1.7	0.9	0.3	-8.9	5.0	4.2	4.2	4.4
Cyprus	4.2	1.8	-0.5	5.2	5.2	3.1	-5.1	4.3	3.8	3.1	3.8
Latvia	9.3	-1.5	2.8	3.3	4.0	2.0	-3.6	3.8	6.0	3.5	6.0
Lithuania	7.8	0.9	3.1	4.3	3.9	4.3	-0.9	3.8	3.9	2.9	3.9
Luxembourg	3.5	1.9	3.3	1.8	3.1	2.3	-1.3	4.8	3.3	4.5	3.3
Malta	2.5	2.7	6.1	8.6	5.2	5.5	-7.8	5.6	5.8	4.6	6.1
Netherlands	1.6	1.0	0.9	2.9	2.4	1.7	-3.7	3.3	3.3	2.3	3.6
Austria	2.2	1.2	0.9	2.4	2.6	1.4	-6.3	3.8	4.5	3.4	4.3
Portugal	0.8	-0.1	-0.1	3.5	2.8	2.5	-7.6	3.9	5.1	3.9	5.1
Slovenia	4.1	0.9	0.9	4.8	4.4	3.2	-5.5	5.7	5.0	4.9	5.1
Slovakia	6.1	3.8	2.4	3.0	3.7	2.5	-4.8	4.9	5.3	4.8	5.2
Finland	2.9	0.6	0.1	3.2	1.3	1.3	-2.8	2.7	2.9	2.7	2.8
Euro area	1.7	0.5	0.8	2.6	1.9	1.4	-6.5	4.8	4.5	4.3	4.4
Bulgaria	6.3	2.4	2.1	3.5	3.1	3.7	-4.2	4.6	4.1	3.5	4.7
Czechia	4.6	1.5	1.8	5.2	3.2	2.3	-5.6	3.9	4.5	3.4	4.4
Denmark	1.9	-0.3	1.7	2.8	2.2	2.8	-2.7	3.0	3.4	2.9	3.5
Croatia	5.0	-0.5	0.5	3.4	2.8	2.9	-8.0	5.4	5.9	5.0	6.1
Hungary	4.4	-0.5	2.1	4.3	5.4	4.6	-5.0	6.3	5.0	5.0	5.5
Poland	4.0	4.5	2.6	4.8	5.4	4.7	-2.7	4.8	5.2	4.0	5.4
Romania	6.2	1.6	3.4	7.3	4.5	4.1	-3.9	7.4	4.9	5.1	4.9
Sweden	3.3	1.5	1.9	2.6	2.0	2.0	-2.8	4.6	3.6	4.4	3.3
EU	2.0	0.7	1.0	2.8	2.1	1.6	-6.0	4.8	4.5	4.2	4.4

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter)

28.06.2021

	2020/1	2020/2	2020/3	2020/4	2021/1	2021/2	2021/3	2021/4	2022/1	2022/2	2022/3	2022/4
Belgium	-3.3	-11.9	11.8	-0.1	1.0	1.2	1.9	0.9	0.8	0.7	0.6	0.5
Germany	-2.0	-9.7	8.7	0.5	-1.8	1.7	3.6	1.4	0.8	0.5	0.4	0.4
Estonia	-1.6	-5.1	2.7	2.8	4.8	-4.7	1.8	1.5	1.5	1.5	1.5	1.3
Ireland	-4.5	-1.8	11.5	-4.4	7.8	-2.7	0.1	0.1	1.8	2.5	2.6	2.6
Greece	-0.5	-12.9	3.8	3.4	4.4	:	:	:	:	:	:	:
Spain	-5.4	-17.8	17.1	0.0	-0.4	2.0	3.1	2.7	1.0	0.8	0.8	0.7
France	-5.9	-13.2	18.5	-1.5	-0.1	0.7	3.1	1.2	0.8	0.6	0.4	0.3
Italy	-5.7	-12.9	15.9	-1.8	0.1	0.8	2.9	1.0	0.8	0.8	0.6	0.6
Cyprus	-0.8	-13.0	9.5	1.1	2.0	:	:	:	:	:	:	:
Latvia	-2.3	-7.0	6.9	1.1	-1.7	1.0	3.8	1.0	1.2	1.3	1.3	1.2
Lithuania	-0.3	-6.2	6.1	-0.3	2.0	0.6	0.3	0.9	1.1	1.1	1.1	1.1
Luxembourg	-1.6	-7.1	9.2	1.9	1.4	:	:	:	:	:	:	:
Malta	-3.9	-14.0	7.4	4.0	1.9	:	:	:	:	:	:	:
Netherlands	-1.6	-8.4	7.5	0.0	-0.8	2.3	1.8	0.7	0.6	0.6	0.5	0.5
Austria	-2.6	-10.6	11.6	-3.1	-1.1	3.5	3.6	0.7	0.6	0.5	0.4	0.3
Portugal	-4.0	-14.0	13.4	0.2	-3.2	3.3	3.6	1.1	0.7	0.6	0.6	0.5
Slovenia	-5.6	-9.9	12.6	-0.6	1.4	0.5	1.4	1.2	1.2	1.2	1.2	1.3
Slovakia	-4.6	-7.5	9.9	0.8	-2.0	2.0	3.3	1.5	0.9	0.7	0.7	0.9
Finland	-0.4	-4.7	3.2	0.4	-0.1	1.1	1.9	1.2	0.3	0.3	0.3	0.3
Euro area	-3.8	-11.5	12.6	-0.6	-0.3	1.3	2.9	1.3	0.8	0.6	0.6	0.5
Bulgaria	0.4	-10.1	4.3	2.2	2.5	0.3	1.5	0.4	1.2	1.1	1.2	1.2
Czechia	-3.1	-8.7	6.9	0.6	-0.3	1.6	2.3	1.3	0.9	0.8	0.6	0.6
Denmark	-1.4	-6.6	6.2	0.8	-1.3	2.5	0.6	0.9	0.7	0.7	0.7	0.7
Croatia	-0.6	-15.1	5.9	4.1	5.8	0.4	1.2	1.3	0.6	1.1	2.5	2.4
Hungary	-0.4	-14.5	9.7	2.8	2.0	0.5	1.6	1.4	1.3	1.1	1.0	0.9
Poland	-0.2	-8.9	7.5	-0.5	1.1	1.8	2.2	1.2	1.2	1.1	1.0	1.2
Romania	0.7	-11.8	5.5	4.6	2.8	0.9	1.2	1.0	1.1	1.2	1.5	1.8
Sweden	-0.9	-7.8	7.4	0.0	0.8	0.9	2.2	1.4	0.5	0.5	0.5	0.5
EU	-3.4	-11.1	11.7	-0.4	-0.1	1.3	2.7	1.2	0.8	0.7	0.6	0.6

Table 3: Harmonised index of consumer prices (percentage change on preceding year, 2002-2022) 28.06.2021

	5-year averages							Summer 2021 forecast		Spring 2021 forecast	
	2002-06	2007-11	2012-16	2017	2018	2019	2020	2021	2022	2021	2022
Belgium	2.0	2.4	1.3	2.2	2.3	1.2	0.4	2.1	1.7	1.8	1.5
Germany	1.6	1.8	1.1	1.7	1.9	1.4	0.4	2.8	1.6	2.4	1.4
Estonia	3.3	5.0	1.7	3.7	3.4	2.3	-0.6	2.2	2.4	1.6	2.2
Ireland	3.2	0.8	0.5	0.3	0.7	0.9	-0.5	1.5	1.2	0.9	1.3
Greece	3.4	3.3	-0.5	1.1	0.8	0.5	-1.3	-0.4	0.5	-0.2	0.6
Spain	3.3	2.4	0.6	2.0	1.7	0.8	-0.3	2.1	1.4	1.4	1.1
France	2.0	1.8	0.8	1.2	2.1	1.3	0.5	1.6	1.2	1.4	1.1
Italy	2.4	2.2	1.0	1.3	1.2	0.6	-0.1	1.4	1.2	1.3	1.1
Cyprus	2.6	2.5	0.1	0.7	0.8	0.5	-1.1	1.4	1.3	1.7	1.1
Latvia	4.9	6.2	0.7	2.9	2.6	2.7	0.1	2.0	2.1	1.7	2.0
Lithuania	1.4	5.2	0.9	3.7	2.5	2.2	1.1	2.3	2.0	1.9	1.9
Luxembourg	2.9	2.6	1.1	2.1	2.0	1.6	0.0	2.5	1.7	2.1	1.6
Malta	2.5	2.3	1.4	1.3	1.7	1.5	0.8	1.1	1.6	1.2	1.5
Netherlands	2.1	1.6	1.2	1.3	1.6	2.7	1.1	1.8	1.5	1.6	1.4
Austria	1.7	2.2	1.6	2.2	2.1	1.5	1.4	2.1	1.9	1.8	1.6
Portugal	2.9	1.8	0.8	1.6	1.2	0.3	-0.1	0.8	1.1	0.9	1.1
Slovenia	4.3	2.8	0.8	1.6	1.9	1.7	-0.3	1.4	1.7	0.8	1.7
Slovakia	5.3	2.3	0.8	1.4	2.5	2.8	2.0	2.1	2.2	1.5	1.9
Finland	1.1	2.4	1.4	0.8	1.2	1.1	0.4	1.5	1.6	1.2	1.2
Euro area	2.2	2.0	0.9	1.5	1.8	1.2	0.3	1.9	1.4	1.7	1.3
Bulgaria	5.5	5.6	-0.3	1.2	2.6	2.5	1.2	1.9	2.5	1.6	2.0
Czechia	1.5	2.6	1.2	2.4	2.0	2.6	3.3	2.7	2.3	2.4	2.2
Denmark	1.8	2.2	0.7	1.1	0.7	0.7	0.3	1.5	1.3	1.3	1.3
Croatia	2.7	2.8	1.0	1.3	1.6	0.8	0.0	1.5	1.3	1.3	1.3
Hungary	4.8	5.3	1.6	2.4	2.9	3.4	3.4	4.4	3.3	4.0	3.2
Poland	1.9	3.5	0.7	1.6	1.2	2.1	3.7	4.2	3.1	3.5	2.9
Romania	12.9	6.1	1.3	1.1	4.1	3.9	2.3	3.2	2.9	2.9	2.7
Sweden	1.5	2.0	0.7	1.9	2.0	1.7	0.7	2.1	1.2	1.8	1.1
EU	2.4	2.3	0.9	1.6	1.8	1.4	0.7	2.2	1.6	1.9	1.5

Table 4: Harmonised index of consumer prices (percentage change on preceding year) 28.06.2021

	2020/1	2020/2	2020/3	2020/4	2021/1	2021/2	2021/3	2021/4	2022/1	2022/2	2022/3	2022/4
Belgium	1.0	0.0	0.4	0.3	0.8	2.3	2.4	2.8	2.3	1.7	1.4	1.3
Germany	1.6	0.7	-0.2	-0.6	1.7	2.1	3.3	3.8	1.9	1.5	1.4	1.4
Estonia	1.5	-1.4	-1.3	-1.3	0.6	2.7	2.7	3.0	2.3	2.1	2.5	2.5
Ireland	0.8	-0.6	-0.9	-1.1	-0.1	1.8	2.3	2.1	1.8	1.1	0.8	0.8
Greece	0.6	-1.2	-2.2	-2.2	-2.1	-0.7	0.5	0.8	0.7	0.4	0.5	0.6
Spain	0.7	-0.6	-0.6	-0.8	0.5	2.4	2.7	2.8	2.0	1.2	1.1	1.2
France	1.3	0.3	0.4	0.1	1.0	1.7	2.0	1.7	1.3	1.2	1.2	1.2
Italy	0.2	-0.2	-0.2	-0.4	0.7	1.1	1.7	1.8	1.6	1.2	1.0	1.0
Cyprus	0.6	-1.6	-2.3	-1.1	-0.5	1.8	2.0	2.1	1.6	1.2	1.2	1.2
Latvia	1.9	-0.7	-0.3	-0.6	-0.1	2.3	2.5	3.2	2.4	2.0	2.0	2.0
Lithuania	2.5	0.6	0.9	0.3	0.7	2.9	2.5	2.9	2.1	2.0	2.0	2.0
Luxembourg	1.6	-0.9	-0.1	-0.5	1.0	3.5	2.7	3.0	2.0	1.5	1.6	1.6
Malta	1.2	1.0	0.6	0.3	0.1	0.5	1.3	2.5	1.7	1.6	1.6	1.6
Netherlands	1.3	1.2	1.0	0.9	1.8	1.8	1.8	1.8	1.7	1.2	1.4	1.5
Austria	2.0	1.1	1.4	1.1	1.5	2.5	2.4	2.2	2.0	1.8	1.8	1.8
Portugal	0.5	-0.2	-0.4	-0.4	0.2	0.2	1.2	1.3	1.2	1.1	1.1	1.1
Slovenia	1.6	-1.2	-0.6	-0.9	-0.6	2.1	2.1	2.0	1.7	1.7	1.6	1.7
Slovakia	2.9	2.0	1.5	1.6	1.0	2.0	2.6	2.8	2.8	2.1	2.0	1.9
Finland	1.1	-0.1	0.4	0.2	1.1	2.1	1.6	1.3	1.6	1.6	1.6	1.6
Euro area	1.1	0.2	0.0	-0.3	1.1	1.8	2.4	2.5	1.7	1.3	1.3	1.3
Bulgaria	3.0	1.1	0.6	0.3	0.2	2.2	2.2	3.0	2.8	2.5	2.3	2.3
Czechia	3.7	3.3	3.5	2.7	2.2	2.9	2.7	3.1	2.8	2.4	2.1	2.1
Denmark	0.6	0.0	0.4	0.4	0.6	1.6	1.8	1.8	1.5	1.2	1.3	1.3
Croatia	1.2	-0.4	-0.5	-0.2	0.7	2.1	1.6	1.6	1.3	1.3	1.3	1.3
Hungary	4.4	2.5	3.8	2.9	3.3	5.2	4.2	4.8	4.0	3.2	2.9	2.9
Poland	3.9	3.4	3.7	3.6	3.9	4.6	3.9	4.1	3.4	2.8	3.1	3.1
Romania	3.1	2.1	2.4	1.8	2.3	3.3	3.6	3.3	3.0	2.9	2.7	2.8
Sweden	1.2	0.3	0.8	0.4	1.9	2.4	2.0	2.1	1.8	1.3	1.0	0.9
EU	1.5	0.6	0.5	0.2	1.4	2.0	2.4	2.6	1.8	1.5	1.4	1.4

Box 1: Some technical elements behind the forecast

The Summer 2021 Interim Forecast provides an update of the Spring 2021 Forecast of 12 May 2021, focusing on GDP and inflation developments in all EU Member States.

The cut-off date for taking new information into account in this forecast was 28 June 2021.

ESA 2010

The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of Accounting (ESA 2010). Due to differences in revision schedules of annual and quarterly national accounts, annual and quarterly figures may not be fully consistent for some Member States. 2021 and 2022 are forecast years.

Working-day adjustment

The number of working days may differ from one year to another. The Commission's annual GDP forecasts are not adjusted for the number of working days, but quarterly forecasts are.

The working-day effect in the EU and the euro area is estimated to be limited in 2021 and 2022, implying that adjusted and unadjusted annual growth rates differ only marginally (by up to ± 0.1 pps.).

External assumptions

This forecast is based on a set of external assumptions, reflecting market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 10 and 23 June) were used for exchange

and interest rates, and for oil prices.

The technical assumption regarding exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to an implied average USD/EUR rate of 1.20 in 2021 and 2022. The average JPY/EUR is 131.15 in 2021 and 132.37 in 2022.

Interest rate assumptions are market-based. Short-term interest rates for the euro area are derived from futures contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States are calculated using implicit forward swap rates, corrected for the current spread between the interest rate and swap rate. In cases where no market instrument is available, the fixed spread vis-à-vis the euro area interest rate is taken for both short- and long-term rates. As a result, short-term interest rates are assumed to be -0.5% in both 2021 and 2022 in the euro area. Long-term euro area interest rates are assumed to average -0.3% in 2021 and -0.1% in 2022.

Commodity price assumptions are also based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 68.7 USD/bbl in 2021 and 68.3 USD/bbl in 2022. This would correspond to an oil price of 57.1 EUR/bbl in 2021 and 56.8 in 2022.

Trade policies

The forecast only takes into account the measures that have been implemented until the cut-off date. Compared to the spring forecast, the main change to the baseline scenario was the EU-US agreement on 15 June 2021 to suspend the application of all

Table 1:

Technical assumptions

	Summer 2021 interim forecast			Spring 2021 forecast	
	2020	2021	2022	2021	2022
3-month EURIBOR (percentage per annum)	-0.4	-0.5	-0.5	-0.5	-0.5
10-year government bond yields (percentage per annum) (a)	-0.5	-0.3	-0.1	-0.3	-0.1
USD/EUR exchange rate	1.14	1.20	1.20	1.20	1.20
JPY/EUR exchange rate	121.81	131.15	132.37	129.70	130.31
GBP/EUR exchange rate	0.89	0.86	0.86	0.87	0.87
EUR nominal effective exchange rate (annual percentage change) (b)	3.9	1.9	-0.2	2.3	0.1
Oil price (USD per barrel)	43.4	68.7	68.3	63.9	61.6
Oil price (EUR per barrel)	38.0	57.1	56.8	53.1	51.2

(a) 10-year government bond yields for the euro area equal the German government bond yields.

(b) 42 industrial countries EU TR CH NR UK US CA JP AU MX NZ KO CN HK RU BR.

(Continued on the next page)

Box (continued)

retaliatory tariffs on EU and US exports imposed in the Airbus and Boeing disputes for a period of 5 years.

Geographical zones

Euro area: EA19 (BE, DE, EE, IE, EL, ES, FR, IT, CY, LV, LT, LU, MT, NL, AT, PT, SI, SK and FI).

European Union: EU (EA19, BG, CZ, DK, HR, HU, PL, RO, and SE).

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