



# *ECFIN's Winter 2021 Interim Forecast*

**AIECE Meeting**  
11 February 2021

**Oliver DIECKMANN**  
European Commission, DG ECFIN  
Economic Situation, Forecasts, Business and Consumer Surveys

*Economic and  
Financial Affairs*

Disclaimer: The views expressed in this presentation  
are those of the author and do not necessarily  
reflect those of the European Commission.

## *The Winter 2021 Interim Forecast*

# Key messages

## *„A challenging winter, but light at the end of the tunnel”*

1. Near-term developments remain challenging due to ongoing necessary restrictions
2. Vaccinations to support return to growth from the spring, faster recovery thereafter
3. Member States set to recover at an uneven pace
4. Uncertainty and risks to the outlook remain high
5. Potentially significant GDP boost from Next Generation EU not yet factored in



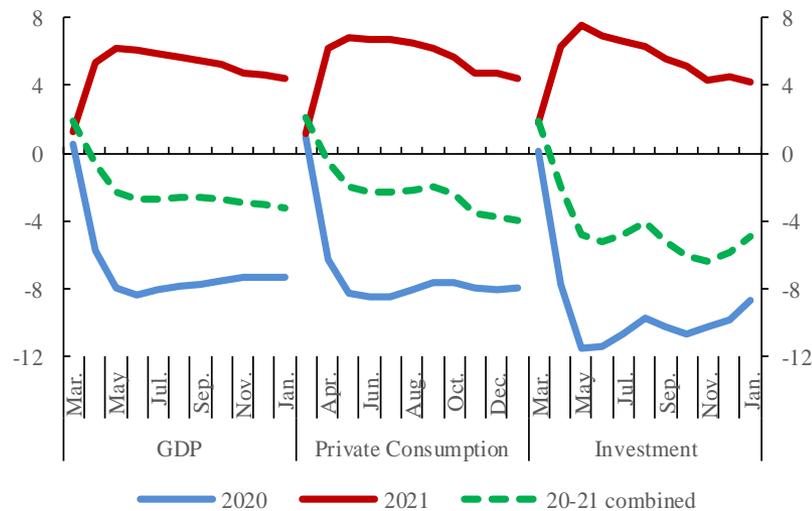
Source: Commissioner Gentiloni's slides at the press conference in Brussels, 11 February 2021.

ECFIN's Winter 2021 Interim Forecast +

# Recent economic developments

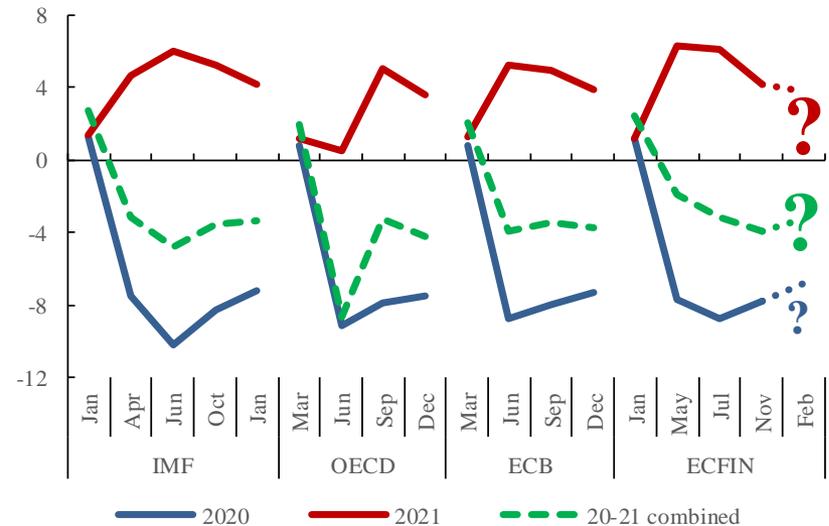
**2020** was an exceptional year for forecasters...

Graph: Evolution of Consensus forecasts for 2020 and 2021, GDP and components, EA (%)



...and **2021** will keep their focus on the rebound.

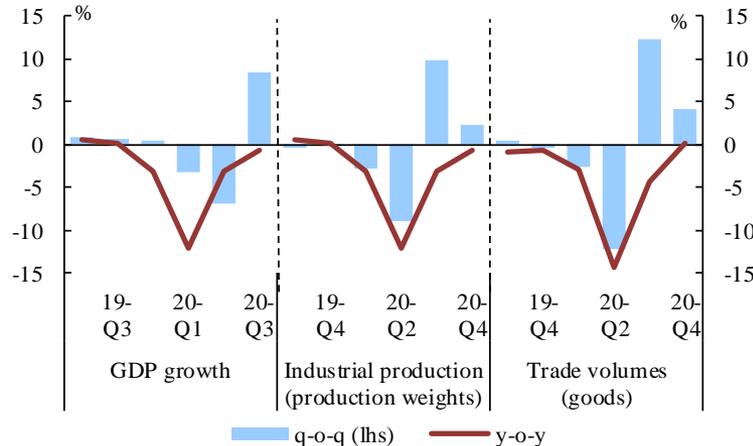
Graph: GDP forecasts for 2020 and 2021 by international institutions, EA (%)



# Recent economic developments

## Strong rebound of key global indicators and...

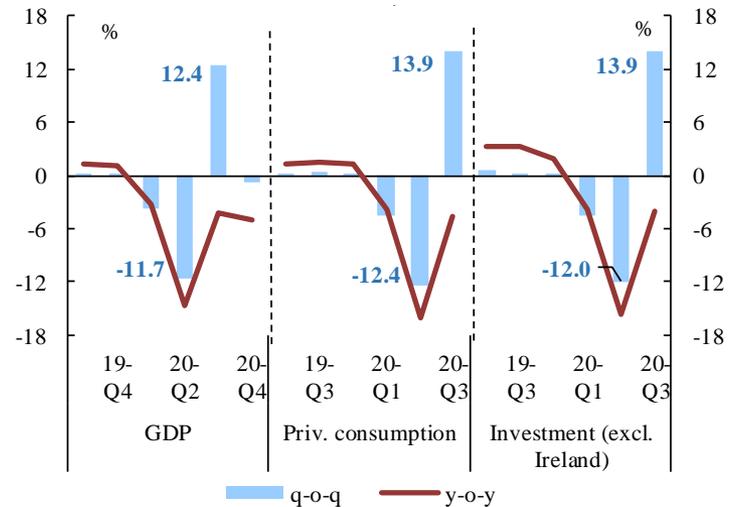
Graph: Indicators of global economic activity, output, industrial production, trade



Sources: OECD, IMF and national sources for GDP growth; CPB for industrial production and trade volumes; own calculations. Nov.-Dec. average for 2020-Q4

## ...an interrupted rebound in Europe in 20-Q4

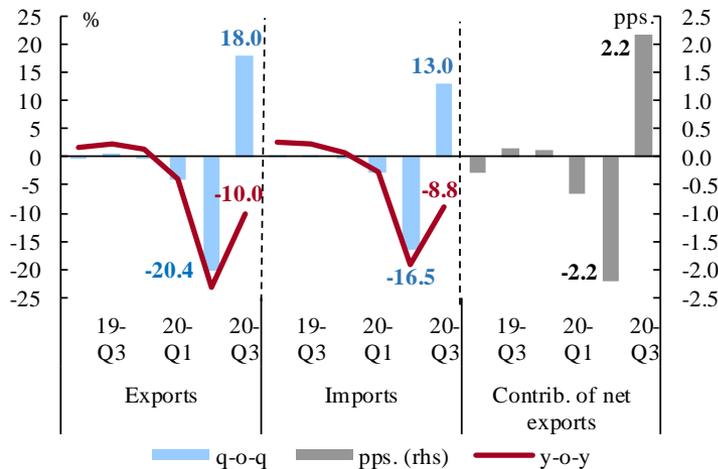
Graph: GDP, private consumption and gross fixed capital formation, euro area



# Recent economic developments

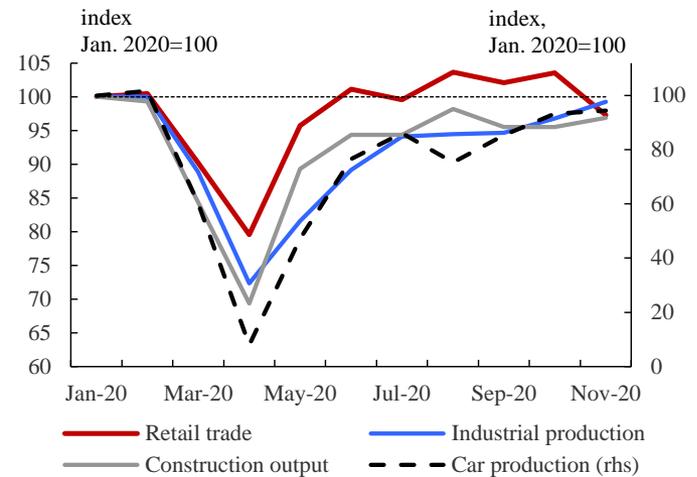
...where **foreign trade** expanded strongly...

Graph: Exports, imports and contribution to GDP growth (euro area excluding Ireland)



...but **sectoral differences** remained substantial.

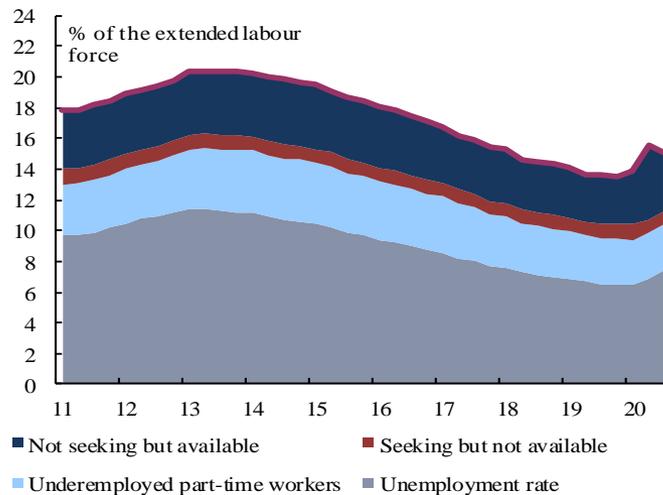
Graph: Sectoral developments in 2020, monthly indicators, euro area



# Recent economic developments

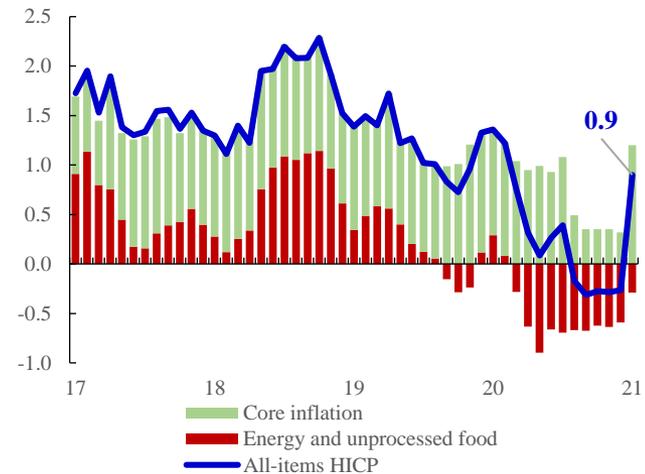
## Unemployment increased slightly in the summer

Graph: Total labour market slack, EU (data available up to 2020-Q3)



## HICP inflation fell to low levels in late 2020

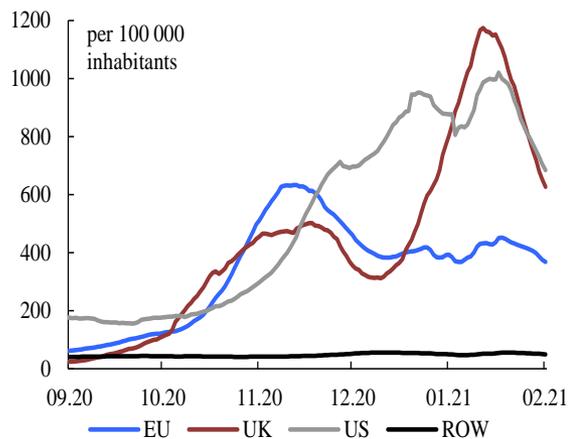
Graph: HICP inflation and breakdown, euro area



# The pandemic situation

## Global COVID-19 infections remain at high levels...

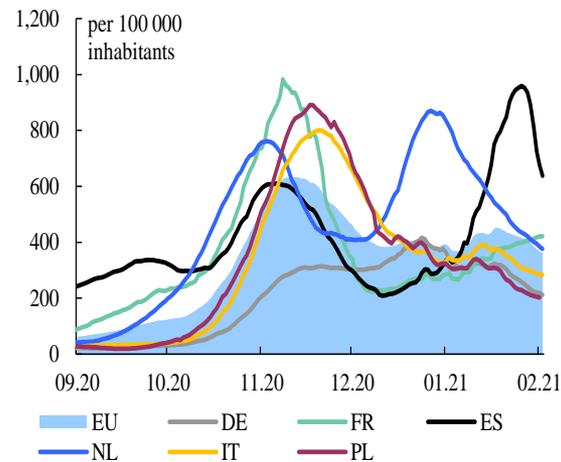
Graph: 14-day incidence, EU, UK, US and rest of the world



Source: WHO.

## ...with the EU in the grip of the pandemic and...

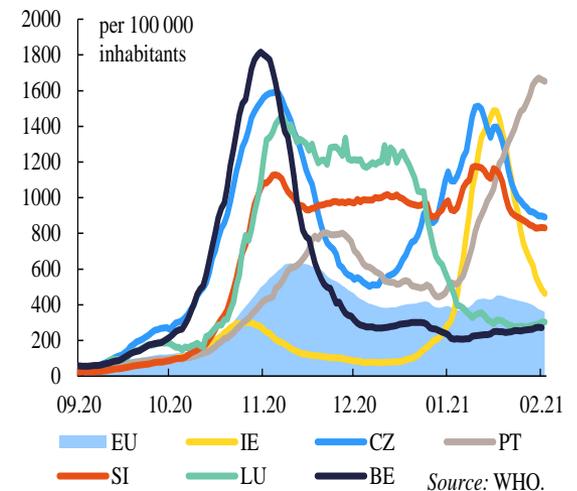
Graph: 14-day incidence, EU and largest Member States



Source: WHO.

## ...some Member States hit harder than others.

Graph: 14-day incidence, selected Member States

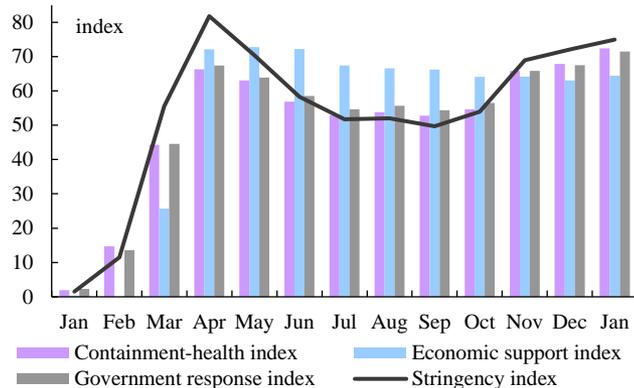


Source: WHO.

# Containment measures and stringency

The **stringency** of containment measures has recently increased...

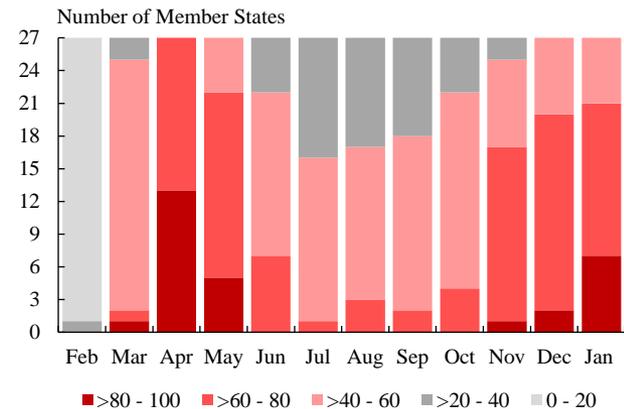
Graph: Oxford Government Response trackers, EU, Jan.'20-Jan.'21



Note: EU aggregates based on 2019 real GDP weights; monthly averages.  
Source: Oxford Government Response dataset (2 February 2021).

...and **more countries** are in the "60+ group" than in any month since May.

Graph: Oxford Stringency Index over time, EU Member States (monthly averages)

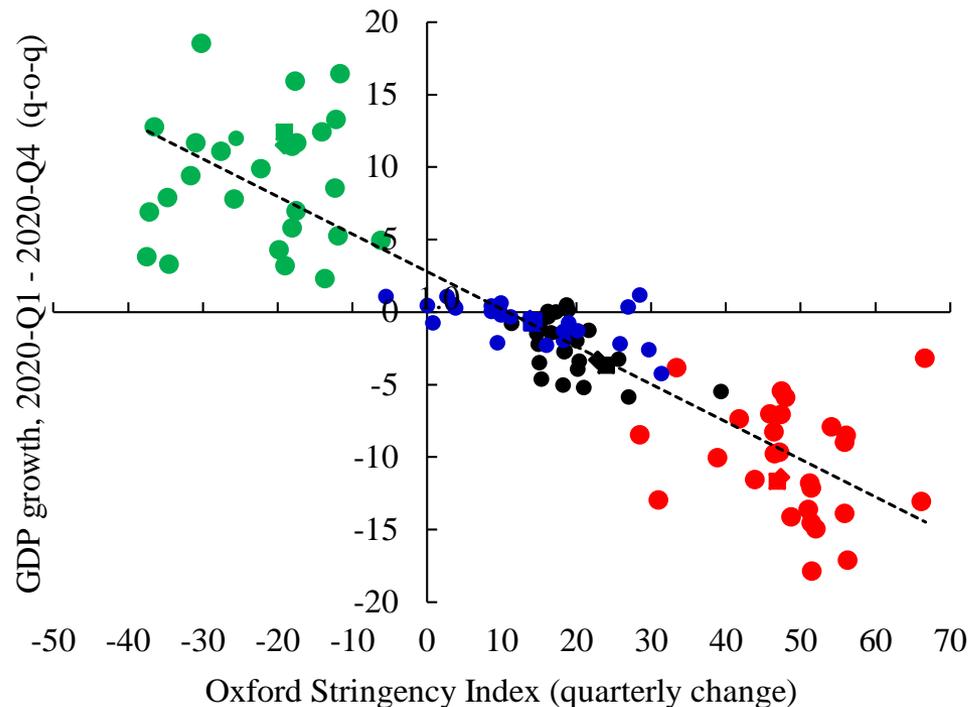


Note: EU Member States.  
Source: Oxford Government Response dataset (2 February 2021).

# Stringency and GDP growth (1/2)

## Evidence of linkages between containment measures and economic activity in 2020

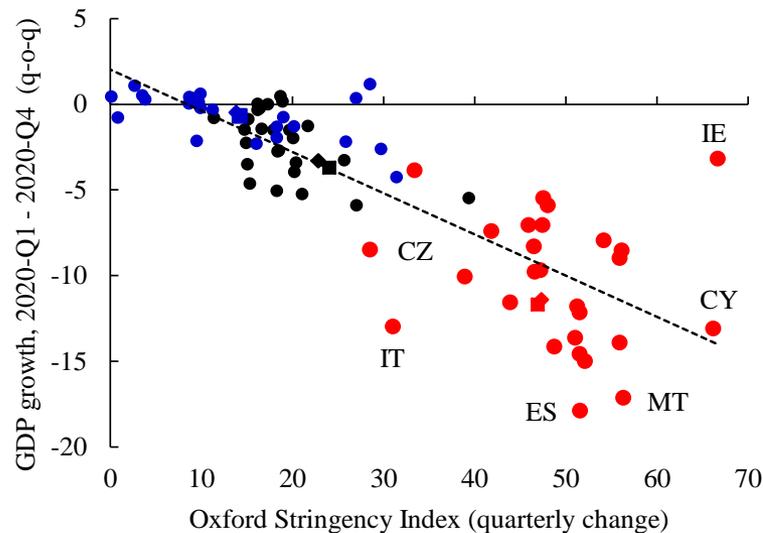
Graph: Changes in stringency levels and GDP (q-o-q), EU, EA, MS  
(preliminary flash estimates, forecasts where not available)



# Stringency and GDP growth (2/2)

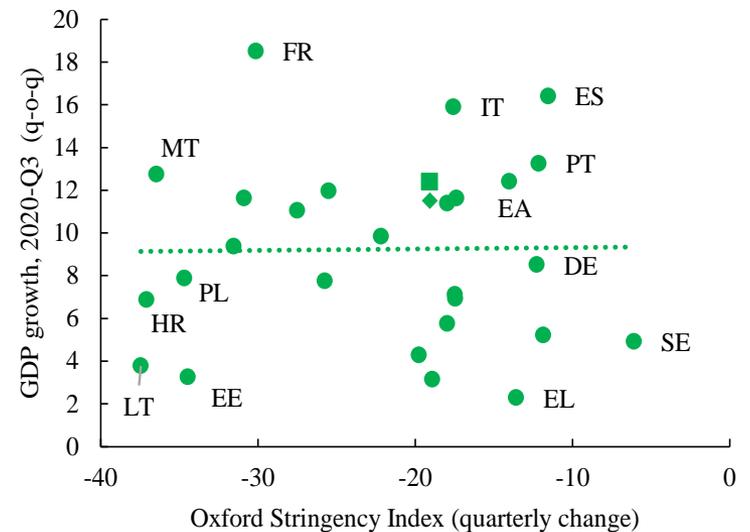
**“Tightening”** experiences suggest close linkage...

Graph: Stringency and GDP (q-o-q),  
black: 20-Q1, red: 20-Q2, blue: 20-Q4



...but **“easing”** experiences are less clear-cut.

Graph: Stringency and GDP (q-o-q), Member States, green: 20-Q3



# Pandemic assumptions and risks

Forecast	Assumption (partly)	Risks
Winter 2020 (Feb.)	<b>”the outbreak peaks in the first quarter”</b>	“The economic impact on other countries [than China] could also be larger and more lasting”
Spring 2020 (May)	<b>„the major economic impact of COVID-19 will be observed in the second quarter of this year”</b>	“The pandemic could become more severe and last much longer.”
Summer 2020 (July)	<b>“the pandemic has peaked in Europe and that there will not be a major second wave”</b>	“already implemented or announced relaxations of containment measures could prove premature and spark another outbreak (‘second wave’) before any treatment or vaccine is available.”
Autumn 2020 (Nov.)	<b>“after their significant tightening in the fourth quarter of 2020, the stringency of the measures will start gradually easing in 2021.”</b>	“The pandemic could become more severe and last much longer than assumed in this forecast.”
<b>Winter 2021</b> (cut-off date: Feb. 2)	<i>“containment measures remain strict in the first quarter of 2021 before easing marginally towards the end of the second quarter and then more markedly in the second half of the year ... with only isolated and highly targeted sectoral measures still present in 2022.”</i>	<i>“a flaring up of contagions as a result of new and reportedly more contagious variants of the coronavirus, or a slow rollout of vaccinations, could delay the lifting of virus containment measures”</i>

# Other important assumptions and elements

## The **NGEU/RRF** is expected to have a positive impact.

The incorporation of the RRF remains in line with the usual no-policy change assumption.

The projections for a few countries (e.g. FR, CZ, PT, SI) include measures expected to be financed under RRF in 2021 (see document).

NGEU and its centrepiece RRF are set to have a sizeable positive impact on the EU economies over the forecast horizon.

As in the autumn forecast, future spending related to the Recovery and Resilience Facility is **not included** in this forecast and **constitutes an upside risk**.

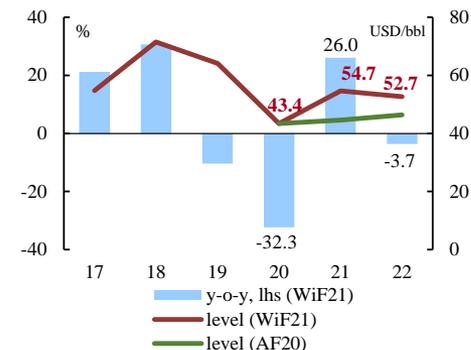
The **USD-EUR rate** is assumed at **1.21** in 21-22 (1.18 in autumn)

## The **EU-UK agreement** removes a downside risk from autumn.

The **Trade and Cooperation Agreement** includes a **Free Trade Agreement**. It cannot match the level of economic integration that is enjoyed by a Member State, but reduces the negative impact compared to the 'WTO assumption' in the autumn (see Box 1.2 in the Winter 2021 Interim Forecast).  
[see NIESR presentation at today's mtg.]

## The **oil price** assumption has been revised up for 2021.

Graph: Oil price (in USD/bbl)

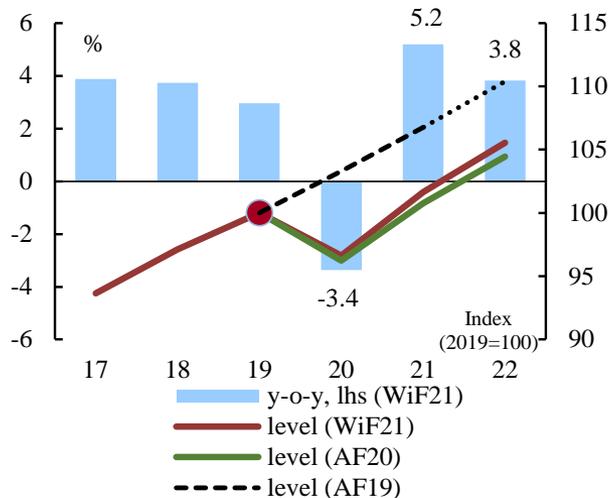


ECFIN's Winter 2021 Interim Forecast +

# Outlook: external environment

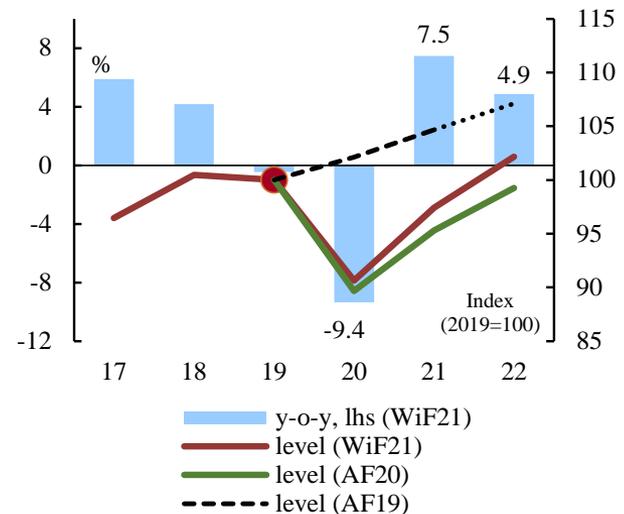
## Slight upward revision to global growth forecast...

Graph: Non-EU GDP (WiF21)



## ...and to world trade projections (from AF20)

Graph: Non-EU import growth (WiF21)

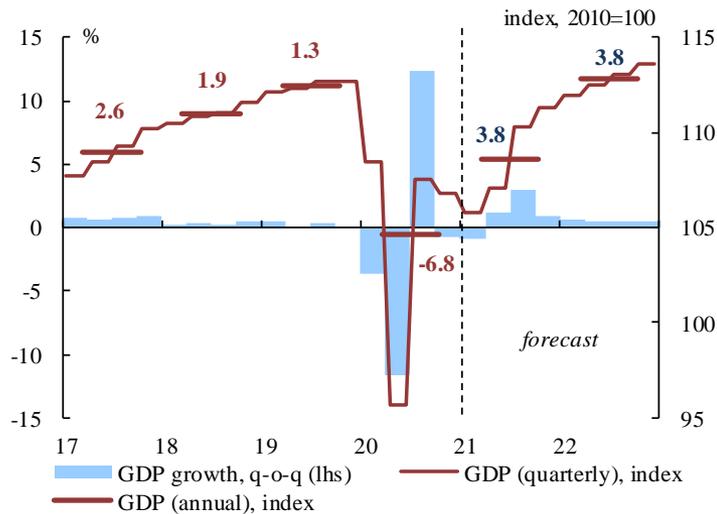


ECFIN's Winter 2021 Interim Forecast +

# Outlook: EU and euro area

**GDP growth set to resume in the second quarter,...**

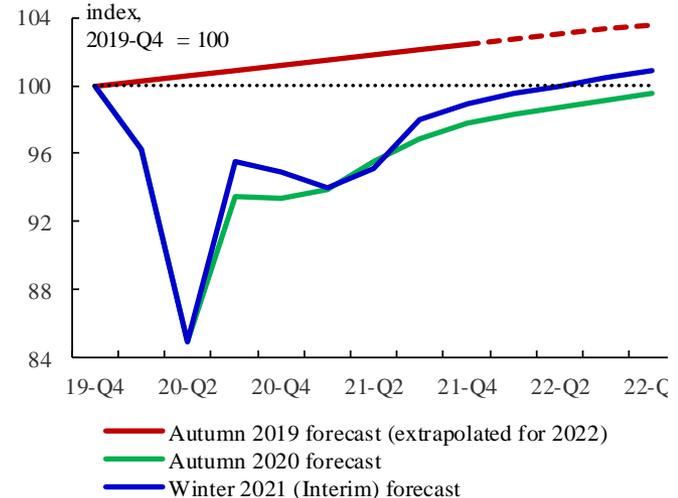
Graph: GDP, euro area



Note: Figures next to lines are annual GDP growth rates (% , lhs)

**...lifting GDP to 2019-Q4 level in 2022-Q2 (EA and EU).**

Graph: Non-EU GDP (WiF21)



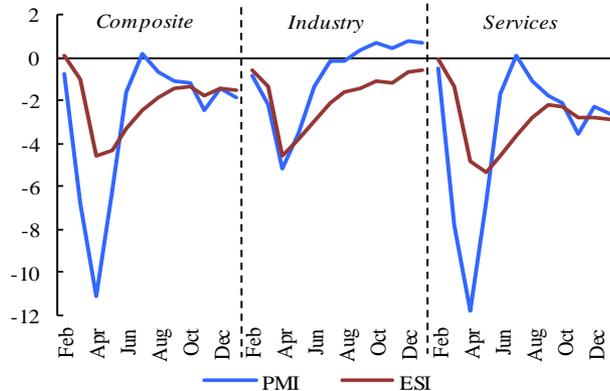
Real GDP growth (%)	Winter 2021			Autumn 2020		
	2020	2021	2022	2020	2021	2022
<b>Euro area</b>	-6.8	3.8	3.8	-7.8	4.2	3.0
<b>EU</b>	-6.3	3.7	3.9	-7.4	4.1	3.0

ECFIN's Winter 2021 Interim Forecast +

# Outlook: EU and euro area

## Surveys point to depressed activity in early 2021

Graph: Economic Sentiment Indicator and PMIs, euro area

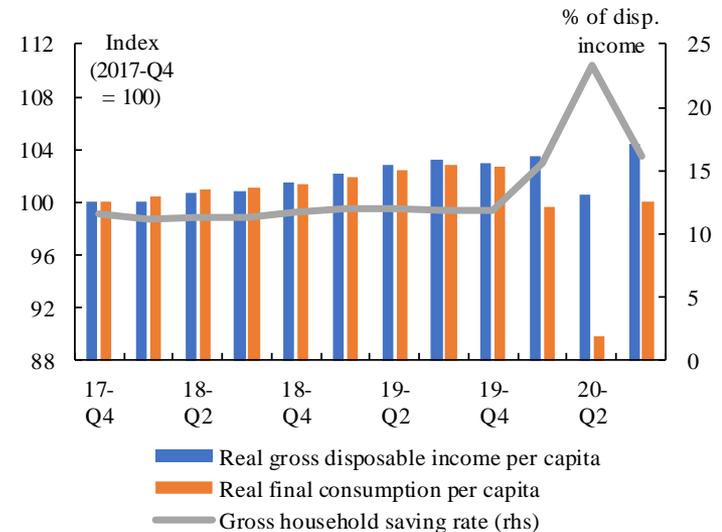


Note: Standardised data based on 2000-'07 sample, last observation January 2021.

Source: IHS Markit, European Commission.

## Past savings should support private consumption in 2021

Graph: Disposable incomes and consumption per capita, and household saving rate

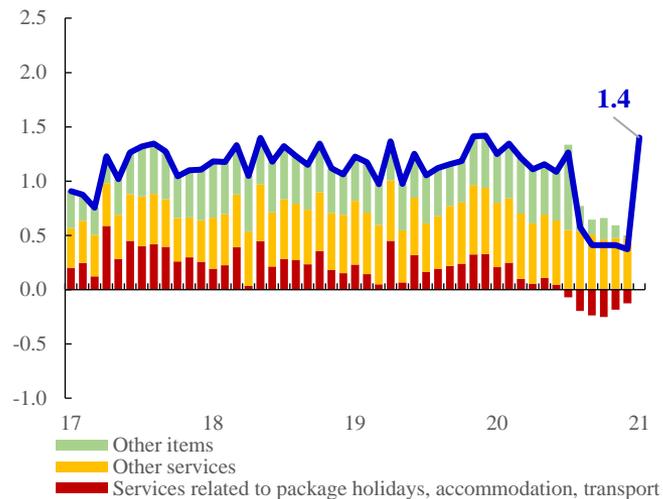


ECFIN's Winter 2021 Interim Forecast +

# Inflation outlook

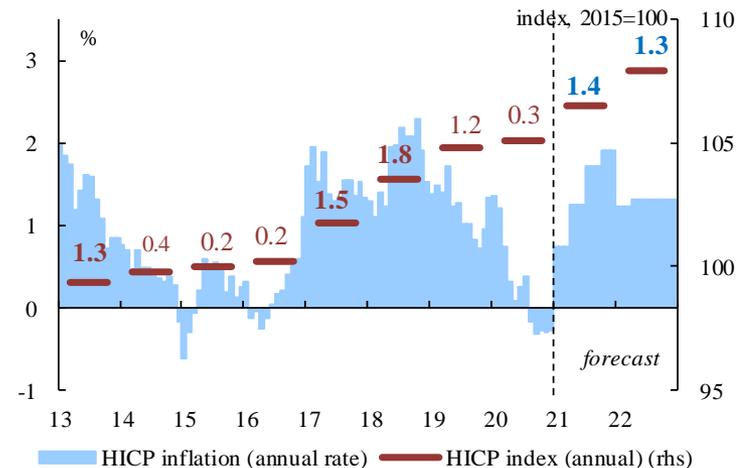
**A time-varying role for oil, taxes and the pandemic...**

Graph: Core inflation breakdown, euro area



**...with an uptick in HICP inflation in 2021-22.**

Graph: HICP inflation, euro area (%)



Note: Figures next to horizontal bars are annual inflation rates.

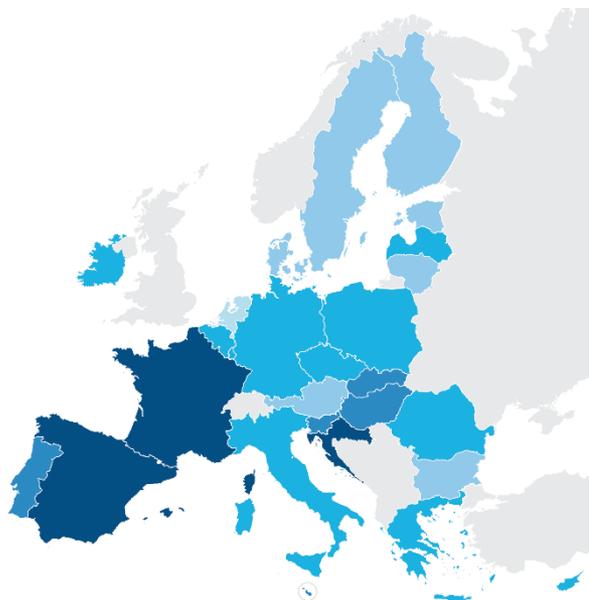
For an update on the tourism sector, see [Box 1.1](#) in the Winter 2021 Interim Forecast.

ECFIN's Winter 2021 Interim Forecast +

# All Member States set to rebound...

In **2021**, **GDP growth** is forecast to vary between **1.8% (NL)** and **5.6% (ES)**...

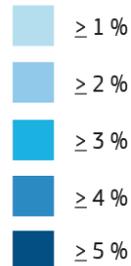
*Graph: Growth map, 2021*



...and in **2022**, **GDP growth** is set to vary between **2.0% (FI)** and **5.4% (SK, MT)**

*Graph: Growth map, 2022*

Annual real  
GDP growth in %

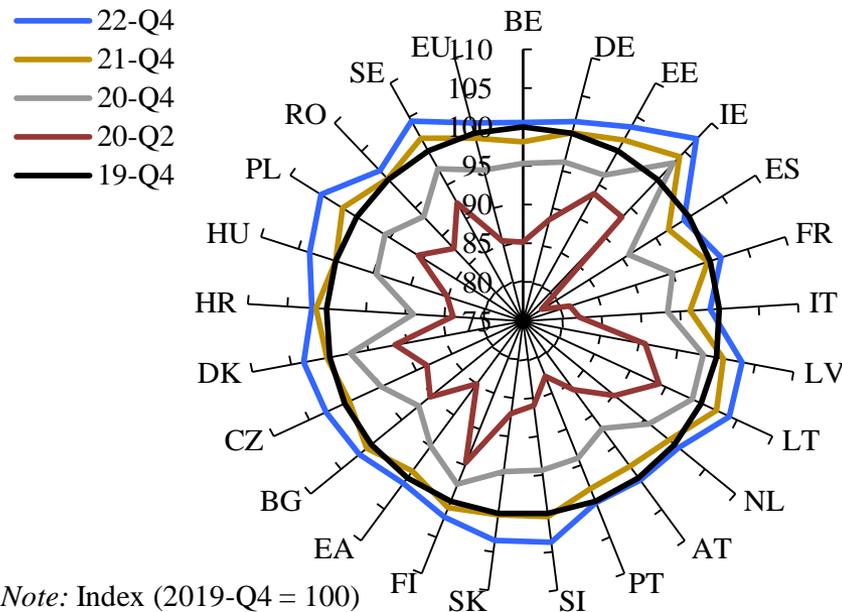


ECFIN's Winter 2021 Interim Forecast +

# ...with most reaching 2019-Q4 levels in 2021...

**Most EU MS reach the 2019-Q4 level by 2021-Q4 (15),  
6 more by 2022-Q4 (23 MS covered)**

Graph: GDP in EU, euro area and Member States (2019-Q4 = 100)

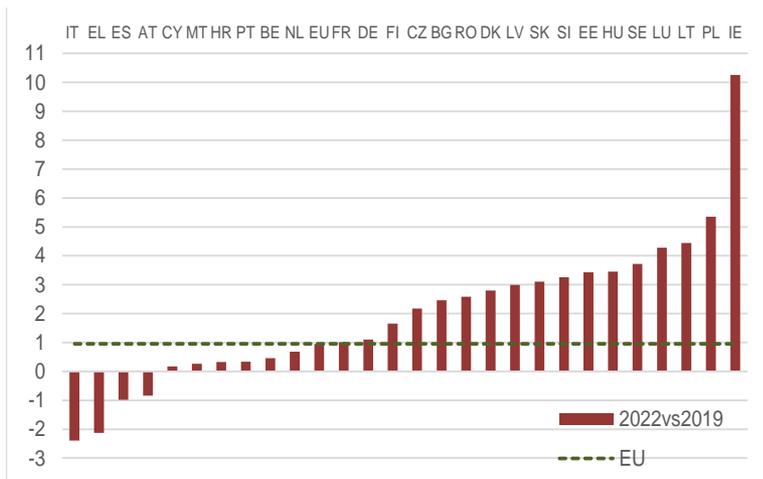


ECFIN's Winter 2021 Interim Forecast +

# ... but without recouping COVID-induced losses.

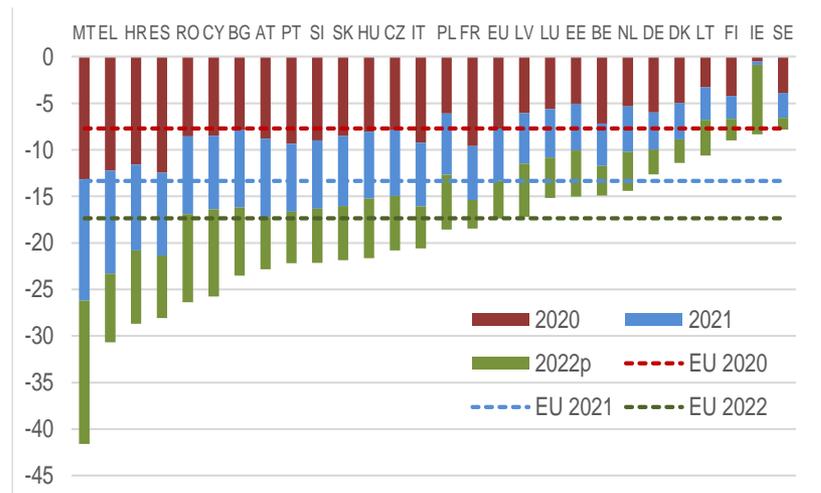
**In 2022, GDP is set to exceed its 2019 level in most countries, ...**

Graph: GDP in 2022, change from 2019 (%)



**...but with cumulated GDP losses due to lower paths than projected in 2019**

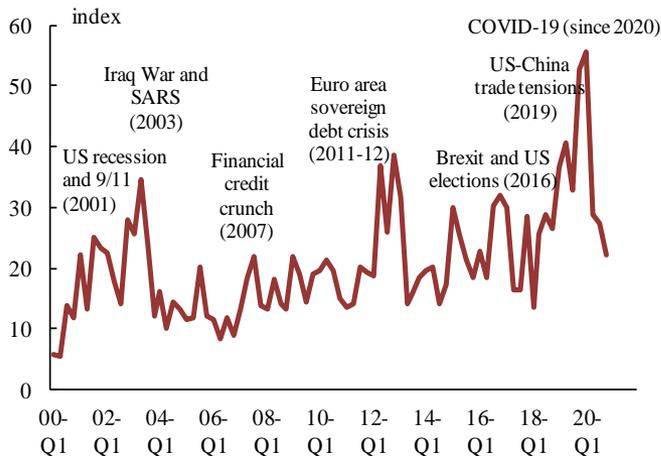
Graph: GDP in 2020-2022 as compared to the Autumn 2019 Forecast (% of 2019 GDP)



# Uncertainty and risks

## Global economic uncertainty is elevated

Graph: World uncertainty index



Source: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo (downloaded on 30 Jan. 2021).

Uncertainty motivates a scenario analyses in the Winter 2021 Interim Forecast (see Box 3).

## Still large downside risks but also upsides

- new virus variants could make pandemic worse again
- economic scars could prove deeper than thought [see CPB presentation at this mtg]
- large cross-country differences could become entrenched
- + vaccination rollout could move more quickly than expected
- + pent-up demand could prove stronger, coupled with innovative investments

And the impact of Next Generation EU has only been partially factored in so far (and technically constitutes an upside risk).

**Thank you for your attention**