Remarks by Commissioner Gentiloni at the press conference on the Summer 2021 Economic Forecast

Brussels, 7 July 2021

Good morning, good to see some of you here. First time that we meet for a forecast in person.

Let me begin with the main messages emerging from this forecast:First, the gradual re-opening is set to drive a strong economic rebound. In the first months of the year, the resurgence of the pandemic and the need to new restrictions dampened economic activity by less than suggested by the preliminary estimates. This is the first factor.

The success of containment measures and the higher pace of vaccinations have helped bring down the number of new infections. This has led to a gradual re-opening of the economy, mainly in the service sectors.

Both these two factors, the better outcome in the first quarter and the quick re-opening, are fuelling economic recovery in the EU.

The second message is that the growth forecast is revised up markedly for 2021, and slightly also for 2022.

These factors have led us to revise up markedly our growth forecast, with GDP in the EU now expected to increase by 4.8% in 2021 and 4.5% in 2022.

This means upward revisions by 0.6 percentage points in 2021 and by 0.2 percentage points in 2022. To put this in perspective: for 2021, this 0,6% increase is the highest in more than 10 years, but of course this is also due to the fact that we have a rebound

Third, inflation is revised upwards due to stronger transitory factors.

The interplay of rising energy and commodity prices, production bottlenecks and booming demand, both at home and abroad, puts upward pressures on consumer prices.

These factors are set to push inflation to 1.9% in the euro area and 2.2% in the EU in 2021, before moderating gradually in 2022, as supply and demand converge.

Fourth, risks to this forecast are broadly balanced between the upside and downside risks.

Let me now enter in some elements of this forecast.

Vaccination campaigns continue to progress at a fast pace across the EU. As of yesterday, more than 62% of the adult population in the EU had received at least one vaccine dose – double the share of two months earlier – and 45% of the adult population were fully vaccinated.This progress has allowed the EU to reduce the gap with other advanced economies, such as the US or the UK, which experienced a more rapid start of the vaccination rollout.

Thanks to both to this progress with vaccinations and effective containment strategies, the number of reported new COVID-19 infections in the EU has been falling steadily since the beginning of April - though as you will have seen, the most recent data show significant increases in some Member States, driven by the more transmissible Delta variant. EU authorised vaccines show a high level of efficacy against all known variants of the coronavirus, which is why we must maintain and even redouble our efforts. The spread of the Delta variant is a stark reminder that we have not yet emerged from the shadow of the pandemic.

Reflecting the improved health situation, EU Member States embarked on a stepwise relaxation of containment measures over the second quarter. The Oxford Stringency index shows that very clearly.

The easing of restrictions took place at a faster pace than assumed in the Spring Forecast and we continue to expect a further easing in the second half of the year. This would lead us to only marginal restrictions still in place at the end of 2021 and in 2022.

EU mobility, as measured by the Google mobility index, started recovering already during the first quarter, corroborating the observed only marginal decline in economic activity in the EU. This suggests that firms and households adapted to the constraints of the pandemic environment.

The relaxation of restrictions during the second quarter, notably in contact-intensive sectors, allowed mobility to accelerate further, particulary for retail and recreation activities.

Survey data also support this estimate.

Both the Commission's Economic Sentiment Indicator and the Purchasing Manager's Index for the EU improved further during the second quarter. They point to a strong rebound in services over the last two months, while suggesting that industrial activity continues to expand at the highest pace in more than a decade.

All hard data available up to now also support the picture of a strong rebound in the second quarter. EU industrial acitivity could have been even stronger in the absence of some supply chain disruptions, particularly due to semiconductor shortages in the automotive sector.

Looking now at the international picture: global economic activity and trade continue improving overall but the recovery remains uneven.

In advanced economies, progress in vaccination campaigns and persistent declines in reported new infections have led to the relaxation of containment measures. The rebound in industrial activity and more recently in services has been swift.

PMIs for emerging economies show a less marked improvement. This reflects renewed COVID-19 outbreaks in Emerging Asia and the still critical situation in Latin America, where the pace of vaccination remains slow and the pandemic continues to cause death and damage to the economy.

Overall, after subdued growth in the first quarter, global economic activity gained traction and is projected to grow by 5.9% in 2021 and by 4.2% in 2022.

As I mentioned at the start, economic activity in the EU was not as weak as expected at the start of the year. The latest Eurostat estimate for the first quarter indicates a marginal contraction of 0.1%, different from the flash estimate from Eurostat that shows a 0.4% contraction.Economic activity in the second quarter is also expected to be slightly stronger than expected in spring. The swift reopening underway in the EU brought back spending opportunities somewhat earlier than previously expected. This anticipates some of the bounce-back that had been projected for the third quarter to the second quarter. The growth momentum is forecast to ease but to remain solid in the fourth quarter and in 2022.All in all, both the EU and euro area economies are forecast to grow by 4.8% in 2021 and by 4.5% in 2022.

GDP is now projected to return to its pre-crisis level already in the last quarter of 2021, but to remain below the level expected before the pandemic hit.

This year, all EU Member States are forecast to join the recovery, and next year growth is projected to continue again everywhere. However, the speed of the recovery is set to vary, also because different was the impact of the crisis and recession in 2020.

Nevertheless, the economies of all Member States are forecast to reach or surpass their pre-pandemic GDP levels by the third quarter of 2022 at the latest, and most already by the end of this year.

A few words on the largest EU economies, as always:

In Germany, real GDP is expected to increase by 3.6% this year 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. Despite some supply bottlenecks, strong order inflows should fuel an expansion in manufacturing and construction in the next months.

In France, annual real GDP is expected to increase by 6.0% in 2021 and by 4.2% in 2022. France's Recovery and Resilience Plan should strengthen private and public investment, which have already recovered strongly in the past months.

For Italy, real GDP growth is expected to reach 5.0% this year and 4.2% in 2022. The forecast for this year 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. 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.

In Spain, 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. 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.

Finally, in Poland the economy started 2021 on a strong footing with growth already in the first quarter. Real GDP growth is expected to reach 4.8% this year and 5.2% next year. Private investment is expected to remain dynamic on the back of improved business sentiment, the investments planned in the context of the Recovery and Resilience Facility.

Labour market conditions are slowly improving. More and more people are returning to work and no longer need short-time work schemes. Forward-looking indicators also have improved markedly this year.

The Commission's Employment Expectations Indicator has increased since March, and stood in June not only above its pre-pandemic level but also above its long-term average.

However, it remains important to highlight that the labour market outlook hinges not only on the speed of the recovery, but also on the timing of policy support withdrawal and the pace at which workers are reallocated across sectors and firms.

And of course we must look at other indicators to understand the broader social impact of this crisis. As Eurostat indicated two days ago, while the at-risk-of poverty rate among the working age population remained stable in around half of Member States last year, in several it increased.

We are discussing a lot about inflation and this is our estimate.

In the first half of the year inflation rates in the EU came in higher than last year. In the euro area, the annual inflation rate rose to 2% in May, the highest rate since late 2018, and moderated only slightly in June. Energy was the main driver, while underlying inflationary pressures appear limited thus far. Higher price pressures are also signalled by selling price expectations as reported by business managers.

In 2021, a confluence of factors is set to push the average annual inflation rate 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 supply bottlenecks resolve, demand and supply converge and order backlogs are cleared. The expectation of moderating inflation is compatible with recent market-based inflation expectations for the medium- to long term, which remain anchored markedly below 2%.

The forecast confirms that inflation dynamics are currently not identical in Europe and in the United States.

Uncertainty and risks surrounding the summer forecast remain high.

Pandemic-related risks to the growth forecast are posed by virus variants and by the situation outside the EU.

Downside risks are associated with the Delta variant, which seems to be more transmissible and represents a danger in particular for those not yet fully vaccinated. The situation outside the EU also remains a concern. If vaccination does not progress fast enough everywhere, and especially in low-income countries, the recovery could be slowed.

On the upside, faster progress in coping with the pandemic could fuel the economic rebound.

Risks to the growth forecast also relate to the response of households and firms to the easing of restrictions and the impact of policy support withdrawal.

On the downside, there is a risk from long-lasting corporate distress and its impact on labour and financial markets. Moreover, a premature withdrawal of support measures – which we continue to warn against – could dampen the expansion. In addition, a more uneven recovery across Member States could weaken the efficiency of policy coordination and cause fragmentation. On the upside, the unwinding of the large stock of household savings accumulated during the lockdown periods could play out more favourably to economic activity than assumed.

Summing up, risks to the growth forecast appear to have remained broadly balanced.

In conclusion, this summer forecast represents another step forward. In the winter we had for the first time information about the approval and availability of vaccines; in the spring we witnessed the acceleration of vaccination campaigns; and now in the summer we see how the improving health situation has led to a gradual reopening, in turn raising sentiment and kick-starting the economic rebound in all Member States.

To consolidate this progress and address the risks I have described, we must maintain the momentum of vaccinations to push the numbers of fully vaccinated Europeans higher as quickly as possible, and do our utmost to support the avalaibility of vaccines around the world.

And through our common investments and reforms, with national and common policies, we have to transform the rebound in a stable and more sustainable growth because this is the real goal that we have on the recovery for Europe.

And now, I am ready to take your questions.

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