

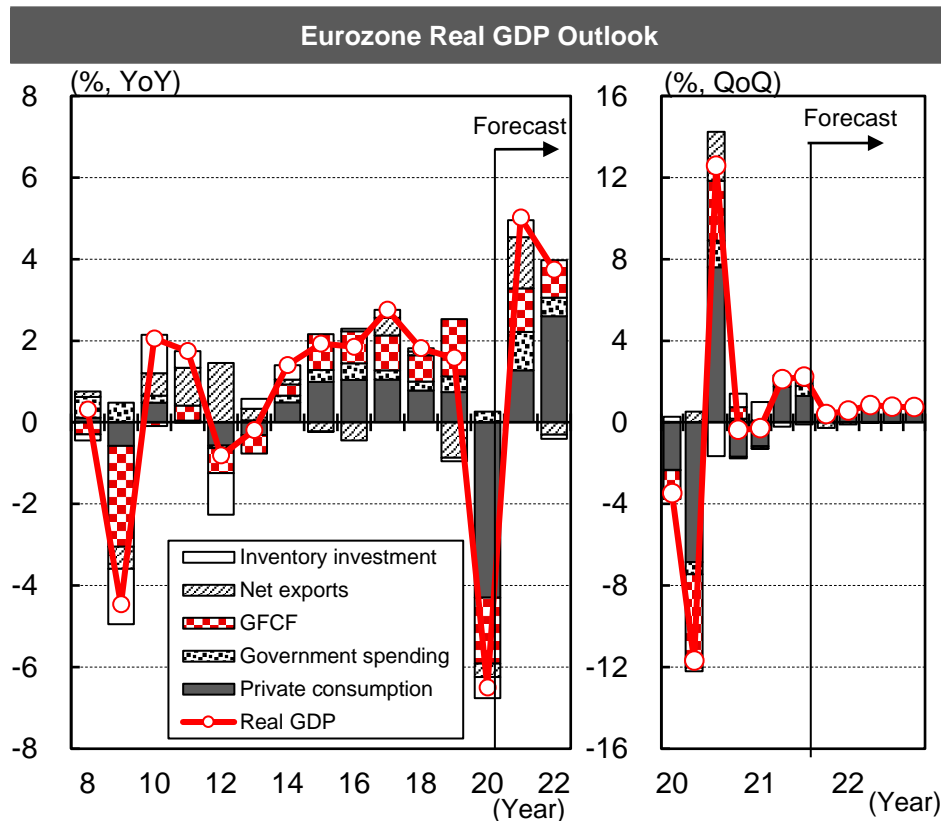
Outlook for the European Economies

ECONOMIC RESEARCH OFFICE

28 December 2021 (original Japanese version released on 3rd December)

European Economies: Eurozone – Overview

- Eurozone real GDP rose by 2.2% QoQ in Q3 (revised), a second consecutive quarter of expansion. This was driven by the increase in vaccination coverage and subsequent relaxation of restrictions, especially for the vaccinated.
- While there has been a recent increase in infections and uncertainty around the Omicron variant, major Eurozone countries will aim to maintain economic activity by using vaccinations as a main measure against COVID. We expect fiscal spending in each country to continue at a relatively high level, and the ECB to maintain its accommodative monetary policy. We forecast the economic recovery will continue but the pace of growth will slow.
- Real GDP is predicted to grow by 5.0% YoY in 2021, and 3.7% in 2022, as the recovery continues after the steep fall in activity in 2020. The level of real GDP is likely to return to pre-pandemic levels by early 2022.



Note: Q3 expenditure breakdown data is a MUFG Bank estimate.

Source: Eurostat, MUFG Bank Economic Research Office

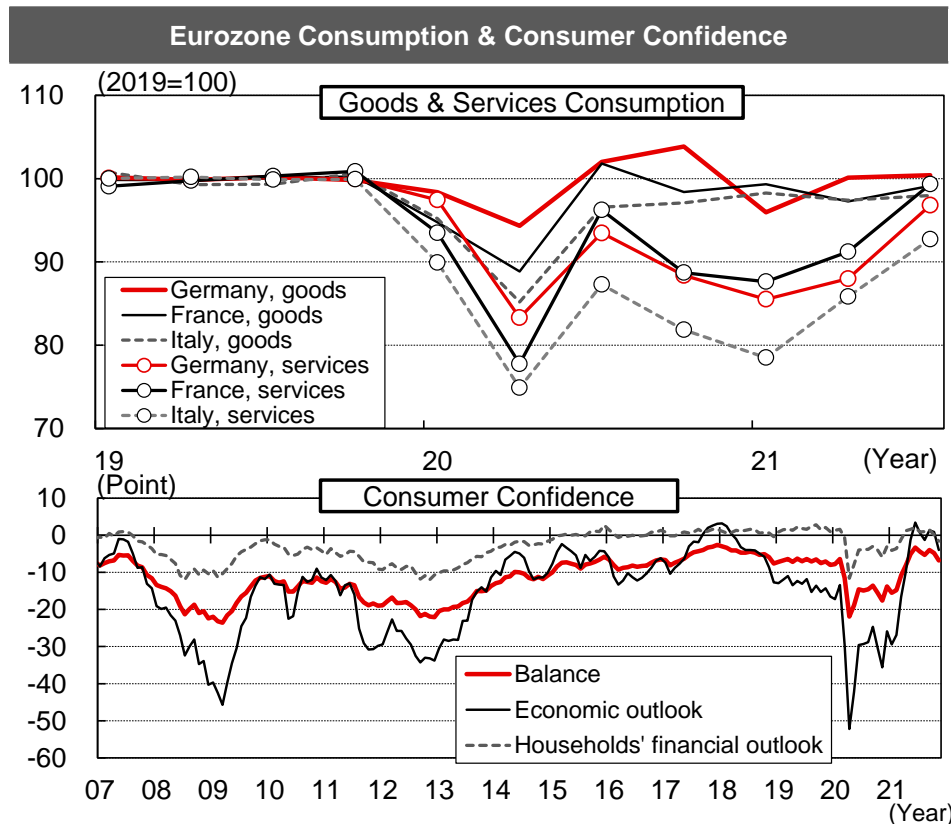
Real GDP Outlook of Major European Countries

	(% , QoQ)					(% , YoY)		
	2020		2021			2020	2021	2022
	Q3	Q4	Q1	Q2	Q3	Actual	Forecast	Forecast
Eurozone	12.4	-0.6	-0.3	2.0	2.2	-6.5	5.0	3.7
Germany	9.0	0.7	-1.9	1.9	1.8	-4.8	2.6	4.0
France	18.5	-1.1	0.1	1.3	3.0	-8.0	6.4	3.4
Italy	15.6	-1.7	0.3	2.7	2.6	-8.9	6.1	3.9
UK	16.9	1.3	-1.6	4.8	1.3	-9.8	6.9	4.5

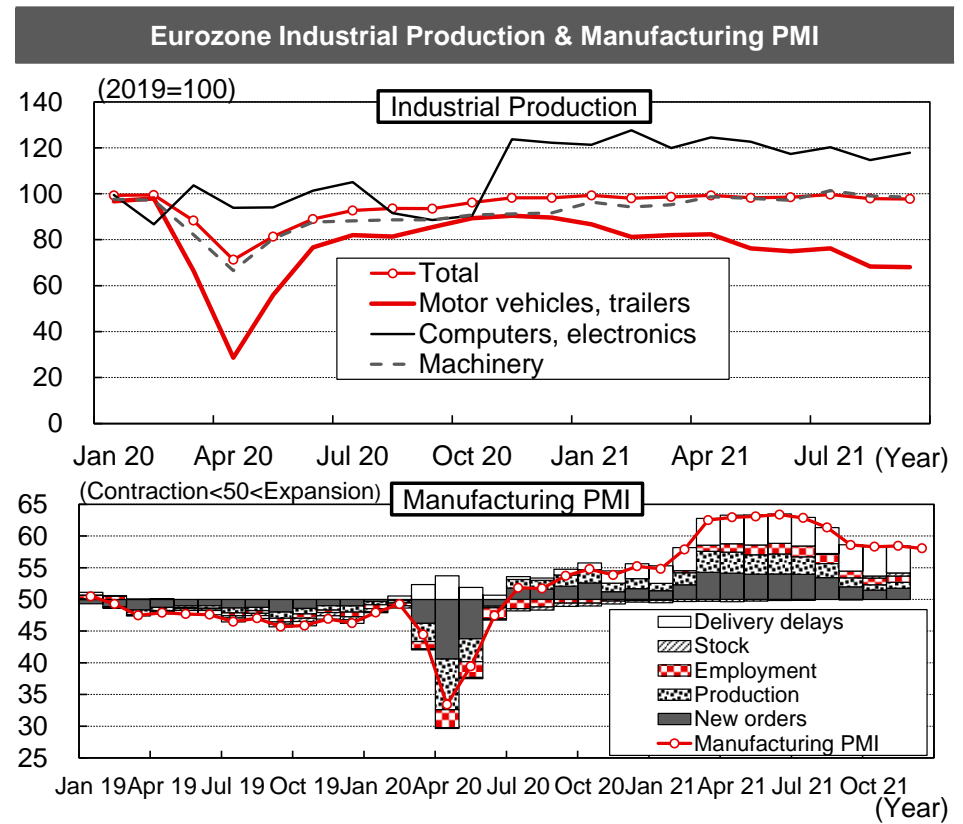
Source: Eurostat, ONS, MUFG Bank Economic Research Office

European Economies: Eurozone – Private Consumption and Production

- Private consumption recovered especially quickly in the services sector after mobility increased rapidly from May with the loosening of restrictions. While infections are currently increasing, we expect private consumption will continue to recover. Most Eurozone governments will attempt to focus on COVID measures that do not affect economic activity, such as vaccinations, but some countries (Austria, the Netherlands, etc.) do now have partial lockdown measures in place. In these countries, there are now signs of lower consumer confidence and the pace of recovery is set to remain particularly slow through to the beginning of next year.
- Automobile production in the Eurozone is currently suffering from supply problems. However, total industrial production has almost recovered to their pre-pandemic levels as tech-related production is at a high level. New orders are continuing to expand and we forecast industrial production will gradually increase in the future as supply-side pressures reduce.



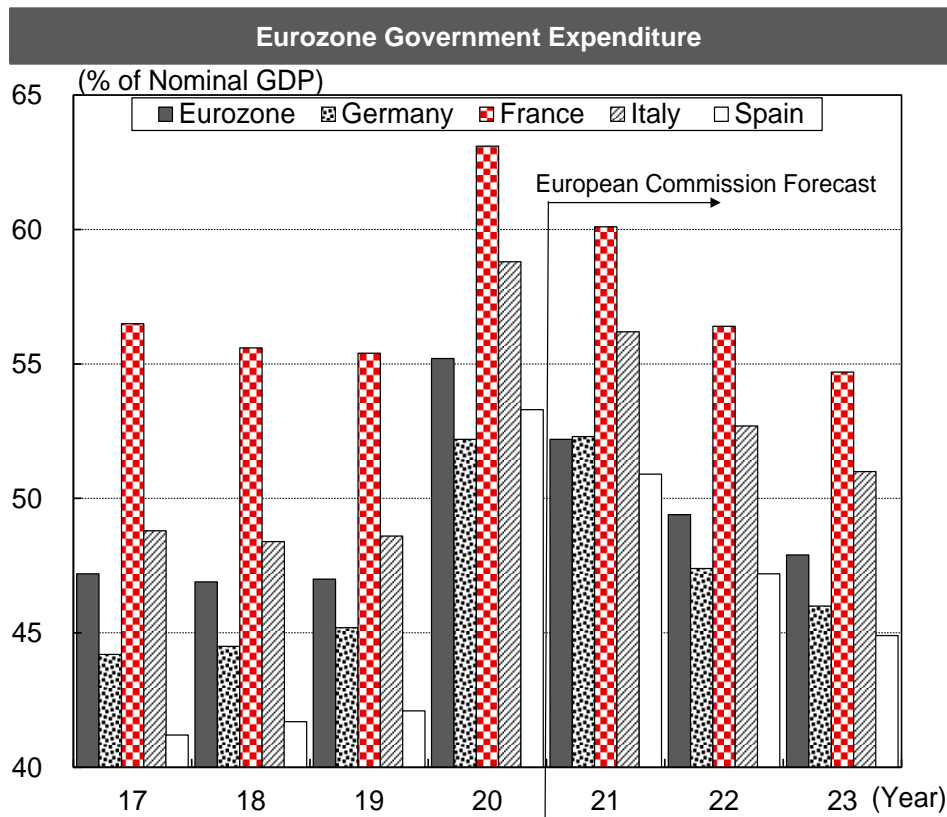
Source: Eurostat, European Commission. MUFG Bank Economic Research Office



Source: Eurostat, IHS Markit, MUFG Bank Economic Research Office

European Economies: Eurozone – Policy Response

- Government expenditure for each Eurozone country since 2021 has fallen from the highs of 2020 as pandemic-related emergency support measures ended as the economy began to recover. However, fiscal policy will remain accommodative in 2022 due to the EU recovery fund.
- The ECB conducted its first monetary policy strategy review for 18 years in July this year. The inflation target rate was changed from “below, but close to 2%” to a symmetric 2% target in the medium term (so now there is some tolerance for a transitory rise in inflation). In September, the pace of PEPP purchases was reduced slightly, but ECB President Christine Lagarde stressed that this is just a “reconciliation”. The PEPP is to end in March next year, but accommodative monetary policy is to be maintained with an upwards adjustment to the existing asset purchase programme (APP).

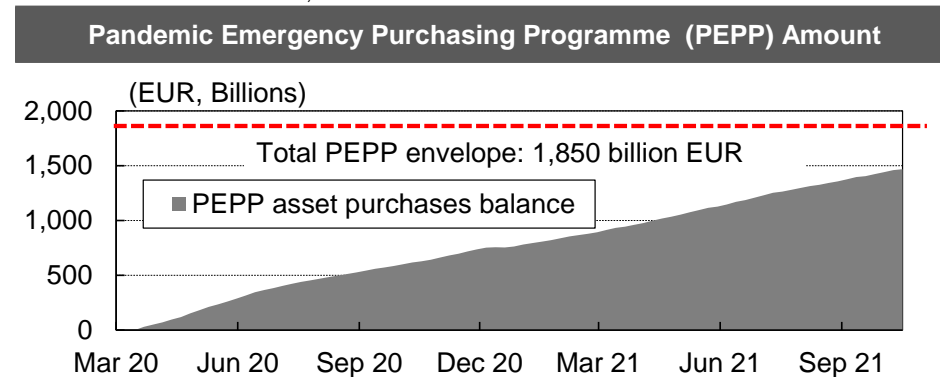


Source: Eurostat, MUFG Bank Economic Research Office

ECB Members' Comments

Speaker	Date	Contents
Luis de Guindos	30/11	<ul style="list-style-type: none"> We must keep our monetary policy accommodative Factors behind the high rate of inflation will not last Observing the Omicron variant. The economy is different from last year and vaccinations are available.
Hernández de Cos	29/11	<ul style="list-style-type: none"> Inflationary pressures are in response to the pandemic. They are likely to decline or settle over the course of next year. It is better to err on the side of caution when adjusting monetary policy

Source: Various news sources, MUFG Bank Economic Research Office

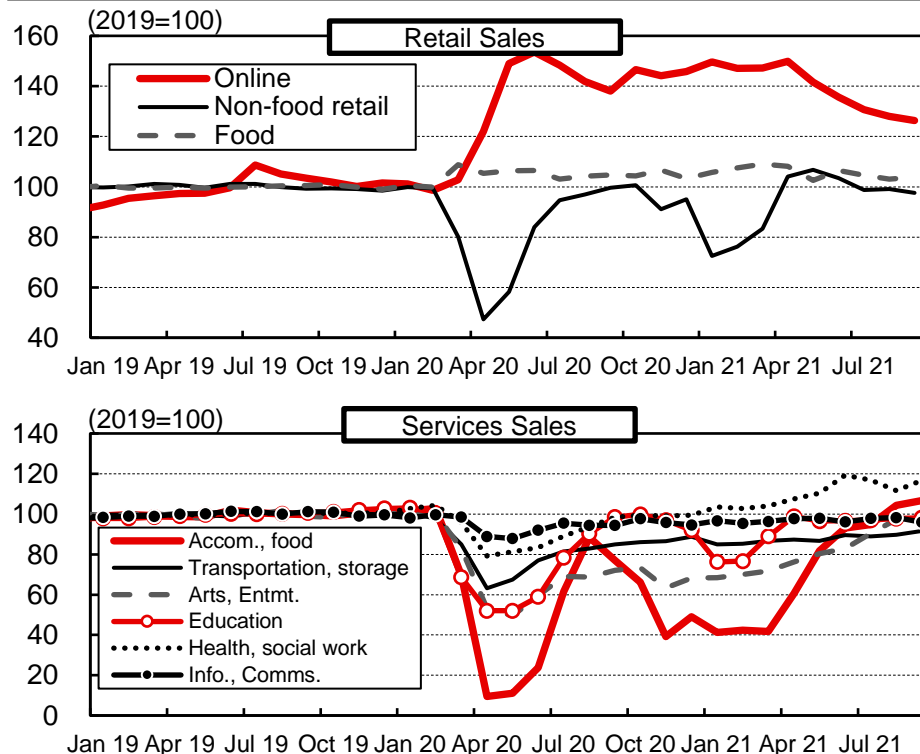


Source: ECB, MUFG Bank Economic Research Office

European Economies: UK

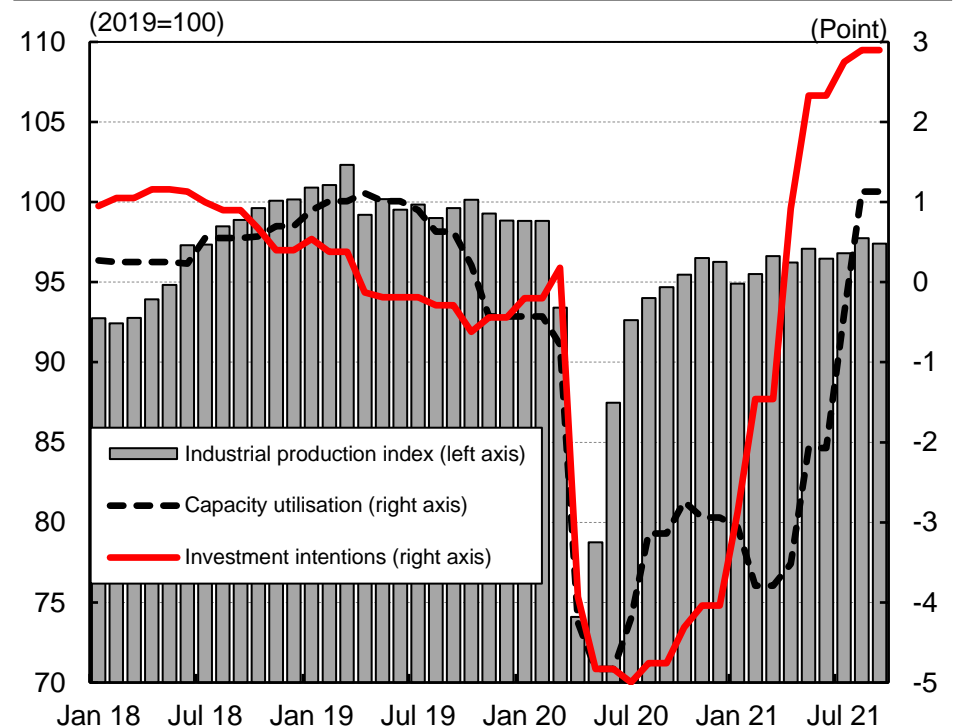
- UK retail sales currently appear to have slowed after reaching a peak, but sales in services have recovered since the relaxation of restrictions in March. In particular, food and accommodation, which were strongly affected by COVID, have now recovered to pre-pandemic levels in 2019. While industrial production remains below pre-pandemic levels in 2019, capacity utilisation and capital investment intentions are recovering substantially. This indicates production will be increasing.
- We expect that the economic recovery will continue based on private consumption from the end of restrictions despite concerns over infections. The British government and BoE have indicated their intentions to normalise fiscal and monetary policies, but both are likely to be cautious. We forecast UK real GDP will expand by 6.9% YoY in 2021 and 4.5% YoY in 2022. Real GDP is expected to return to pre-pandemic levels in H1 2022.

UK Retail and Services Sales (By Industry)



Source: ONS, MUFG Bank Economic Research Office

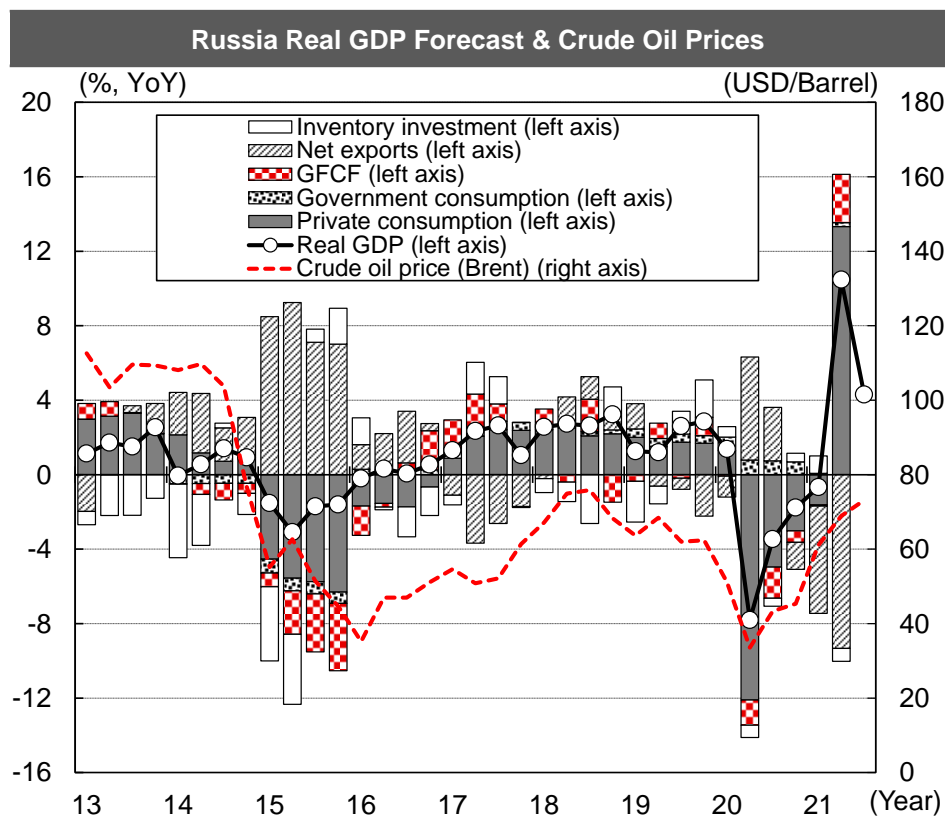
UK Industrial Production and Investment Intentions



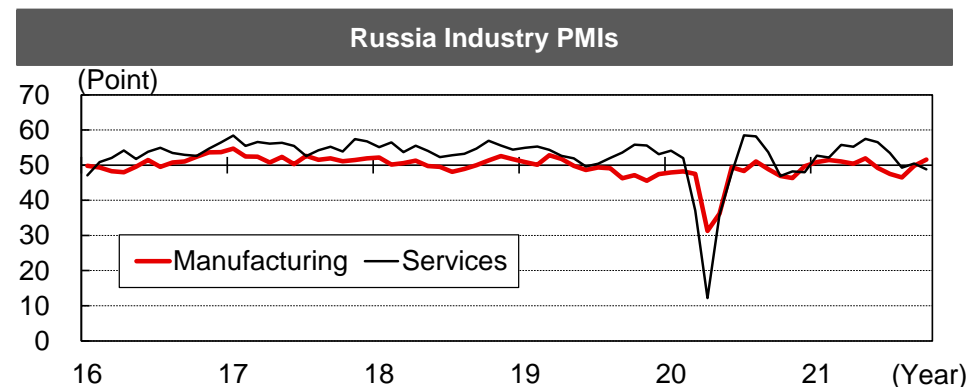
Source: ONS, MUFG Bank Economic Research Office

European Economies: Russia

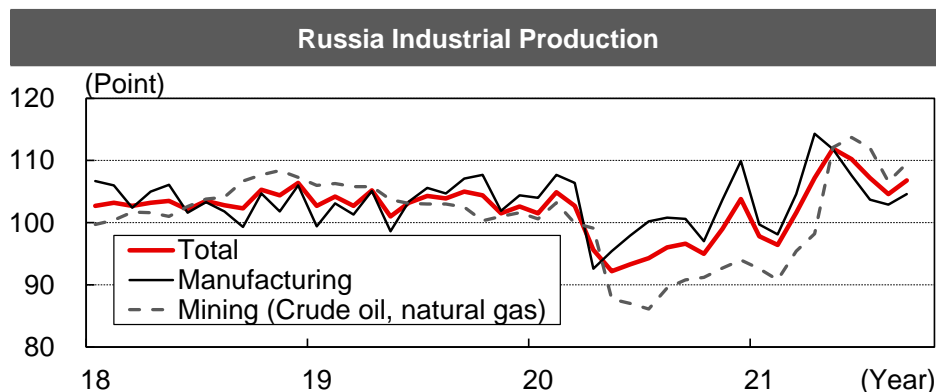
- Russia real GDP rose by 10.5% YoY in Q2 2021, mainly due to a large rebound from its drop last year. More recently, economic activity has softened, especially in the services sector, following a resurgence of COVID infections. Even though there are certain positive factors such as strong production in extractive industries due to the global economic recovery and rise in crude oil prices, we expect the economy to remain under strong downward pressure from recent COVID wave.
- In addition to the government's restrictive fiscal spending, the Russian central bank implemented rate hikes from the beginning of the year to address rising inflation. The result is that economic support from fiscal and monetary policies is likely to remain limited. We forecast real GDP will rise by 4.2% YoY in 2021 and 2.2% YoY in 2022 as the pace of recovery slows down.



Source: Russian Statistics, MUFG Bank Economic Research Office



Source: IHS Markit, MUFG Bank Economic Research Office



Source: Russia Statistics, MUFG Bank Economic Research Office

Appendix: Outlook for the European Economies and Financial Markets

Outlook for European Economies

1. Overview

	Real GDP growth rate (YoY, %)			CPI (YoY, %)			Current Account (USD Billions)		
	2020	2021F	2022F	2020	2021F	2022F	2020	2021F	2022F
Eurozone	-6.5	5.0	3.7	0.3	2.4	2.1	2,546	2,951	2,735
Germany	-4.8	2.6	4.0	0.4	3.1	2.1	2,647	2,919	2,675
France	-8.0	6.4	3.4	0.5	1.9	2.0	-501	-314	-879
Italy	-8.9	6.1	3.9	-0.1	1.8	2.0	669	647	892
UK	-9.8	6.9	4.5	0.9	2.4	3.1	-949	-953	-1,014
Russia	-3.0	4.2	2.2	3.4	6.8	4.4	339	594	558

2. Forecast by Demand Component

(YoY, %)

	Eurozone			UK		
	2020	2021F	2022F	2020	2021F	2022F
Nominal GDP	-5.0	6.2	4.8	-4.4	7.3	6.0
Real GDP	-6.5	5.0	3.7	-9.8	6.9	4.5
Domestic demand contribution	-6.0	3.8	4.0	-10.5	8.1	5.4
Foreign demand contribution	-0.5	1.2	-0.3	0.7	-1.2	-0.9
Private consumption	-8.0	2.4	5.0	-10.8	3.7	6.0
Government consumption	1.3	4.2	2.1	-6.3	15.8	4.2
Gross fixed capital formation	-7.3	4.9	4.2	-9.1	4.9	5.7
Inventory investment (contribution)	-0.6	0.3	-0.1	-0.7	1.3	0.1
Exports	-9.4	10.2	4.6	-14.7	-2.9	2.6
Imports	-9.3	8.1	5.6	-16.8	1.3	5.7

Note: 1. "Eurozone" is total of 19 countries - Germany, France, Italy, Ireland, Estonia, Austria, The Netherlands, Cyprus, Greece, Spain, Slovakia, Slovenia, Finland, Belgium, Portugal, Malta, Luxembourg, Lithuania

2. "CPI" is the standardised inflation rate for the EU (HICP)

Source: Eurostat, UK Office for National Statistics, MUFG Bank Economic Research Office

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