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Eurozone boosts growth forecast despite new wave of COVID cases

Bloc's economy resilient amid higher energy prices, supply chain bottlenecks

BRUSSELS: The EU increased its growth forecast for 2021 yesterday, as the eurozone economy holds strong against higher energy prices, supply chain bottlenecks and a fresh wave of COVID cases.

The European Commission, the EU's executive arm, predicted that the eurozone economy will expand by five percent, instead of 4.8 percent previously, and by the same amount across all the bloc's 27 member states. The prediction for growth next year was brought slightly lower, to 4.5 percent, with a big slowdown seen for 2023, to a still strong 2.4 percent.

The commission insisted that its latest forecasts were marked by great uncertainty and that COVID-related risks could throw its upbeat outlook off course. "The recovery continues to be heavily dependent on the evolution of the pandemic, both within and outside the EU," warned EU economic affairs commissioner Paolo Gentiloni. The commission also said that it expected inflation, a pressing concern worldwide, to peak at 2.6 percent this year before easing slightly next year.

Crucially, the commission proposed that inflation would fall to below target levels in 2023, backing the stance by the European Central Bank that current jumps in consumer prices will subside.

Recent price jumps were "to a large extent linked to the post-pandemic re-opening" and "are still expected to be largely transitory," the commission said. Gentiloni pointed to signs in the gas markets that indicated that energy prices were past their peak.

However, forecasting "is a difficult job in these times so we should monitor the situation," he added.

The forecasts are a quarterly exercise by the EU executive and are used as benchmark for the commission's oversight of the member state economies, including government spending.

The commission said the public debt levels in Italy, France, Belgium, Greece, Spain and Portugal would remain above 100 percent of GDP through 2023. This will be a sensitive point politically among northern member states after the EU last month embarked on a reform of its budget rules, which limits public debt to 60 percent of GDP. Some member states, led by France, are asking for changes to the rules in order to avoid damaging austerity policies that would sap the post pandemic recovery. —AFP

BRUSSELS: European Commissioner for the Economy Paolo Gentiloni addresses media representatives as he gives a press conference on Autumn 2021 Economic Forecast at EU headquarters in Brussels yesterday. —AFP

S Africa sees rebound in growth

CAPE TOWN: South Africa's new finance minister yesterday forecast the economy will this year rebound with 5.1 percent growth, after a record pandemic contraction. Delivering his maiden mid-term budget statement yesterday, minister Enoch Godongwana said the economy had recovered faster than expected during the first half of this year.

"We now expect the South African economy to grow by 5.1 percent in 2021, from a 6.4 percent contraction in 2020," Godongwana told parliament. A strict lockdown imposed in March last year brought most economic activity to a standstill in the continent's most industrialized country.

Rolling power cuts forced by ageing and poorly designed power plants have added to the economic woes. "Over the next three years, the growth of the local economy is expected to average 1.7 percent, reflecting some structural weaknesses such as inadequate electricity supply," said the minister.

South Africa was also hit by riots in July with businesses looted and trashed in the two most populous provinces of Gauteng and KwaZulu-Natal. The unrest "reminds us that crime continues to be a blight on our society," said the minister. "It undermines confidence in our recovery and hinders our long-term economic development." — AFP

UK recovery slows sharply on global supply disruptions

LONDON: Britain's economic recovery from pandemic fallout slowed sharply in the third quarter as global supply disruptions hurt businesses, official data showed yesterday. Gross domestic product grew 1.3 percent in the July-September period, down from 5.5 percent in the second quarter, the Office for National Statistics (ONS) said in a statement.

"As the world reopens we know that there are still challenges to overcome," finance minister Rishi Sunak said in response. Despite the sharp growth slowdown in the third quarter, the chancellor of the exchequer added that the UK was "forecast to have the fastest growth in the G7 this year". The ONS added that the UK economy was still 2.1 percent below its level before the outbreak of the coronavirus pandemic at the end of 2019.

The economy contracted 0.2 percent in July before rebounding in August and September, it said. ONS chief economist Grant Fitzner said that in the third quarter "business investment remained well down on pre-pandemic levels".

He added that the trade deficit widened as exports of goods to countries outside the European Union fell and imports, particularly of fuel, increased.

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'Significant headwinds'

As countries reopen from pandemic lockdowns, companies are struggling to meet demand for goods and services, sending inflation soaring.

"A combination of rising COVID cases and shortages of raw materials, components and labor came together to present significant headwinds to growth," Alpesh Paleja, lead economist at Britain's main business lobby group the CBI said after yesterday's data. "It's encouraging that the economy maintained some momentum in September but there's no denying that this rounded off a tough quarter for businesses, with supply constraints biting hard," he added.

The car industry in particular is under severe pressure owing to a shortage of computer chips needed in all types of vehicles. Hospitality is also struggling to find staff with restaurants and bars having lost workers to other industries during UK lockdowns and as EU nationals returned home in the wake of Brexit.

'Much tougher phase'

The Bank of England (BoE) last week forecast that the UK economy would grow 7.0 percent this year after the nation emerged from lockdowns. However it estimates that growth would then slow to 5.0 percent next year. "With the easy gains from reopening the economy exhausted and policy support being withdrawn, the recovery has entered a much tougher phase," noted Martin Beck, senior economic advisor to financial researchers the EY ITEM Club. "In addition, the situation has been made harder by the escalation of supply chain disruption and the increases in inflation, which will eat into household spending power." Britain's departure from the European Union is meanwhile set to hit the country's economic growth more than the coronavirus pandemic in the long term, the head of a UK government body advising on the financial outlook, said last week.

Britain formally departed the EU at the start of the year when the country was in a strict lockdown. As the UK economy last year headed toward its worst contraction in more than three centuries, the government of Prime Minister Boris Johnson together with the BoE pumped hundreds of billions of pounds into the economy. But the state's costly furlough scheme that kept millions of private sector workers in their jobs ended recently, risking a spike in unemployment over the coming months according to economists. —AFP