

5. BOXES

Box I.5.1: Some technical elements behind the forecast

The cut-off date for taking information into account in this European Economic Forecast was 30 April 2021. This forecast incorporates preliminary flash estimate of GDP for the first quarter of 2021 (Eurostat press release 53/2021 of 30 April 2021).

Exchange and interest rates

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 both in 2021 and in 2022. The average JPY/EUR is 129.70 in 2021 and 130.31 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. 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 be -0.3% in 2021 and -0.1% in 2022.

Commodity prices

According to futures markets, and using the average over the 10-day reference period between 14 and 27 April, prices for Brent oil are assumed to be 63.9 USD/bbl in 2021 and 61.6 USD/bbl in 2022. This corresponds to 53.1 EUR/bbl in 2021 and 51.2 EUR/bbl in 2022.

Trade policies and assumptions

Also for trade policy, this forecast pencils in only the measures that have been implemented until the cut-off date. On 5 March the EU and the US agreed to suspend all retaliatory tariffs on EU and U.S. exports imposed in the Airbus and Boeing disputes for a four-month period.

Budgetary data and forecasts

The forecast incorporates validated public finance

data up to 2020 as published in Eurostat's news release 48/2021 of 22 April 2021.

Eurostat is expressing a reservation on the quality of the data reported by Luxembourg for the year 2020. Eurostat is clarifying the recording of the tax revenue deferred to future years in the context of the COVID-19 pandemic, in close cooperation with the Luxembourgish statistical authorities. The deficit for 2020 might be overestimated by a maximum amount of 0.3 pp of GDP.

The public finance forecast is made under the 'no-policy-change' assumption, which extrapolates past revenue and expenditure trends and relationships in a way that is consistent with past policy orientations. This may also include the adoption of working assumptions, in particular to deal with structural breaks caused by the COVID-19 pandemic. The no-policy-change forecast includes all fiscal policy measures that imply a change to past policy orientations on the condition that they are sufficiently detailed as well as adopted or at least credibly announced. For 2021 in particular, the annual budgets adopted or presented to national parliaments as well as Coronavirus crisis relief measures announced before the cut-off data of the forecast are taken into consideration. For 2022, the forecast incorporates the lasting impact of those measures. For the treatment of the Recovery and Resilience Facility, please see Box I.2.3.

EU and euro area aggregates for general government balance and debt in the Commission forecast and in the Eurostat's press release are based exclusively on the Member States' balances and debt. For debt, whereas Eurostat publishes the consolidated figures (corrected for intergovernmental loans, including those made through the European Financial Stability Facility), the projections in the forecast years 2021 and 2022 are published on a non-consolidated basis. To ensure consistency in the time series, historical data are also published on the same basis. For 2020, this implies an aggregate debt-to-GDP ratio which is somewhat higher than the consolidated general government debt ratio published by Eurostat in its news release 48/2021 of 22 April 2021 (by 2.0 pps. in the EA and by 1.7 pps. in the EU).

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Box (continued)

Table 1:
Technical assumptions

	Spring 2021				Autumn 2020		
	2019	forecast			forecast		
		2020	2021	2022	2020	2021	2021
3-month EURIBOR (percentage per annum)	-0.4	-0.4	-0.5	-0.5	-0.4	-0.5	-0.6
10-year government bond yields (percentage per annum) (a)	-0.3	-0.5	-0.3	-0.1	-0.5	-0.5	-0.5
USD/EUR exchange rate	1.12	1.14	1.20	1.20	1.14	1.18	1.18
JPY/EUR exchange rate	122.05	121.81	129.70	130.31	121.71	124.23	124.23
GBP/EUR exchange rate	0.88	0.89	0.87	0.87	0.89	0.91	0.91
EUR nominal effective exchange rate (annual percentage change) (b)	-1.2	3.9	2.3	0.1	3.9	2.7	0.0
Oil price (USD per barrel)	64.1	43.4	63.9	61.6	42.6	44.6	46.4
Oil price (EUR per barrel)	57.2	38.0	53.1	51.2	37.5	37.9	39.4

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

(b) 42 industrial countries EU-27, TR CH NR US UK CA JP AU MX NZ KO CN HK RU BR.

Coronavirus crisis relief measures

Liquidity provisions in the form of public guarantees or loans to companies are in general considered risks to the budgetary projection. Their impacts are only included in the projections in specific cases, notably in case of standardised instruments, where a certain share of such loans or guarantees can be assumed to have an impact on the government balance ex-ante. This recording is without prejudice to the statistical treatment of these measures by the national statistical authorities and Eurostat. The short-term measures taken in direct response to the coronavirus outbreak in 2020 and 2021 are not treated as one-off and are thus reflected in the estimation of the structural budget balance.

ESA 2010

The forecast is based on the ESA 2010 system of national accounts for all Member States, the EU and the euro area aggregates. Information on data quality under ESA 2010, including effects of the Covid-19 pandemic, are available on Eurostat's website.⁽¹⁾

⁽¹⁾ <https://ec.europa.eu/eurostat/web/esa-2010/esa-2010-implementation-and-data-quality>

Calendar effects on GDP growth and output gaps

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.), but it may be significant in case of some member states.

Estimations of potential GDP and output gaps are not adjusted for working days. Furthermore, since the working-day effect is considered temporary, it is not expected to affect cyclically-adjusted balances.