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THE EU BUSINESS LANDSCAPE

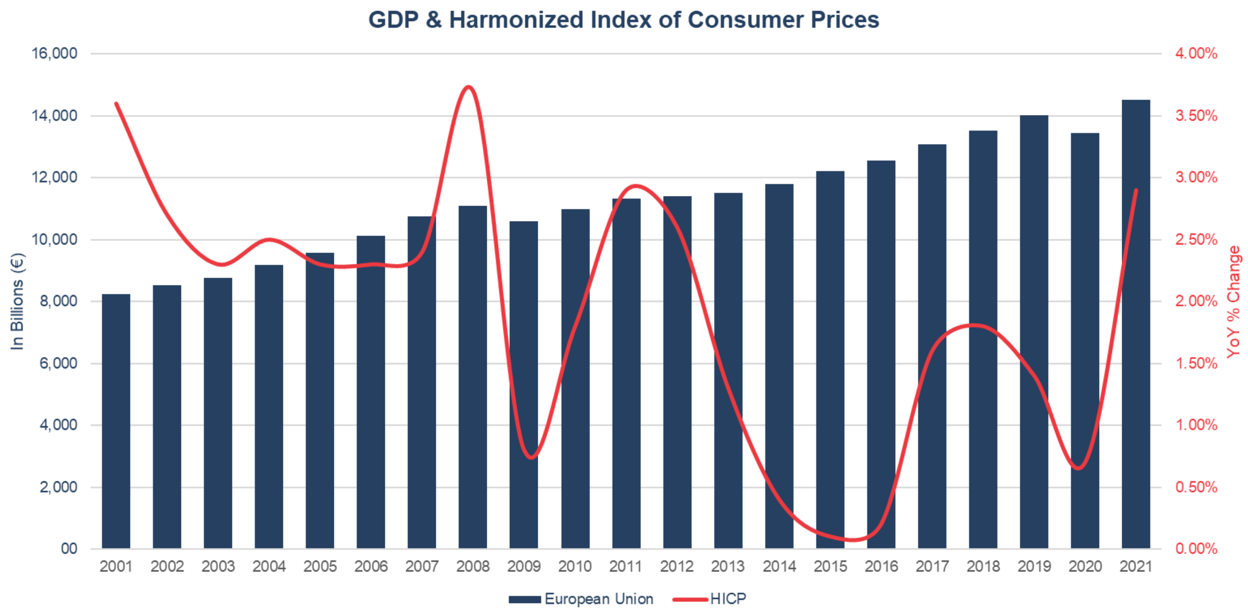
A STATISTICAL ANALYSIS

NOVEMBER 2022

The Macroeconomic Environment in the EU

The COVID-19 pandemic, along with the high inflation rate and the steady increases in interest rates, puts the EU at risk of slipping into its worst recession in history. Economic growth is picking up thanks to bold and innovative policy responses, including a common instrument to fund the National Recovery Plan (Next Generation EU) as well as the transition to green and digital.

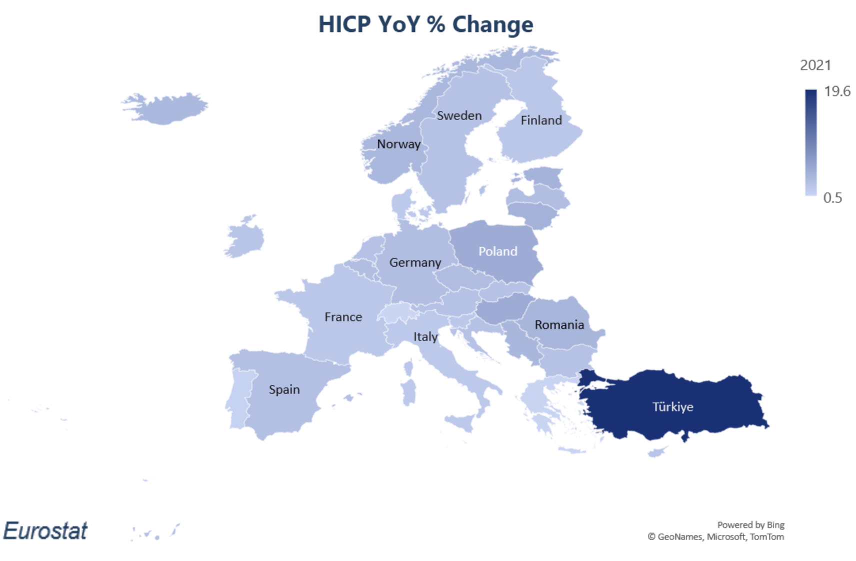
The COVID-19 pandemic forced most eurozone economies into repeated lockdowns in 2020 and early 2021, with the eurozone slipping into its deepest recession in 2020. Politicians responded swiftly and comprehensively to this crisis.



Source: Eurostat

After a strong recovery in 2021, real GDP is expected to grow by 2.6% in 2022 and 1.6% in 2023. The war in Ukraine and the lockdown in China slowed growth significantly in the first half of 2022. With these factors, inflation will continue to rise and is projected to hit 7% this year. This puts pressure on household consumption and increases uncertainty.

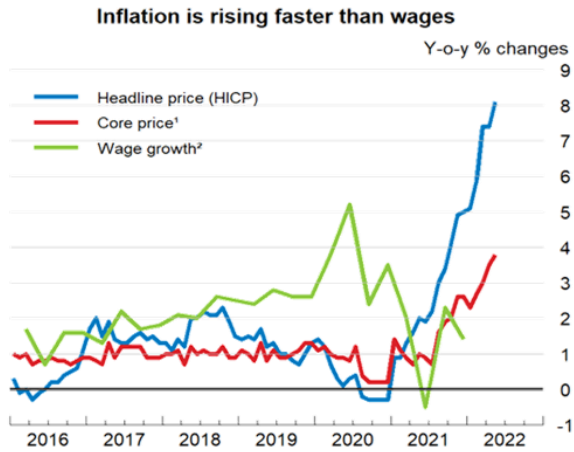
Growth is expected to remain subdued in 2023 and inflation is expected to moderate gradually, as the Russian oil embargo will push oil prices higher in the following years. Risks to economic activity remain on the downside, although a severe disruption of energy supplies, especially gas supplies, would hamper European growth and drive-up inflation further.



Source: Eurostat

As of 2021, the highest annual average rate of change concerning the Harmonized Index of Consumer Prices (HICP) was recorded in Turkey at 19.6%, followed by Hungary and Poland at 5.2%.

The war has significantly impacted the Eurozone economy and spending to support Ukrainian refugees (more than 5 million in the European Union) has been bolstered by the fact that refugees will gradually find work or return home. Until then, it will put an additional strain on public finances in the short term.



Source: Eurostat

In addition, the conflict has also affected imports of important base metals and agricultural commodities and their world market prices. For example, the escalation of sanctions on fossil fuels (coal, oil and, in the future, natural gas) could also have severe macroeconomic consequences for the country most dependent on energy in Europe, especially Russia.

As of 2021, the unemployment rate is at 6.2% as a percentage of the population in the labour force. The countries with the highest rate were Spain, Greece and Turkey, with 14.8%, 14.7% and 13%, respectively.

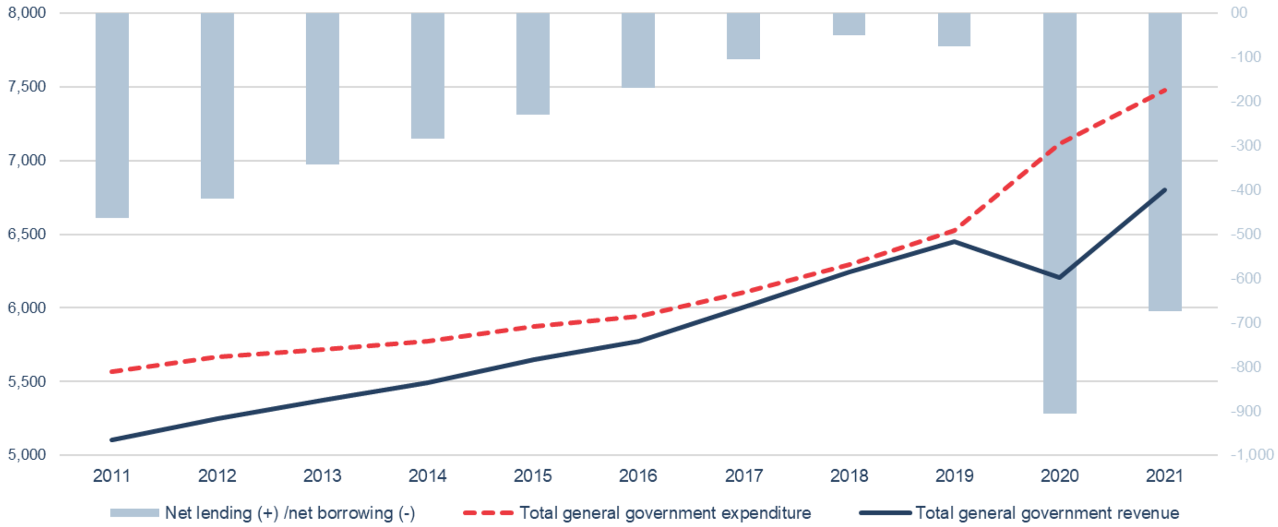
Since the eurozone crisis of 2013, caused by a balance-of-payments crisis and the inability of states to resort to devaluation (reductions in the value of the national currency), unemployment levels are steadily decreasing.

Source: Eurostat

Despite the decreases in 2021 of total expenditure as a percentage of GDP in both the EU and euro area, the levels remain above the long-term trends as a result of the expenditure measures put in place to combat the economic and social impact of the COVID-19 containment measures that started in 2020 and continued in 2021.

Slow economic recovery and heightened risks of a significant increase in public debt will adversely affect the near-term unemployment outlook. General government debt in the European Union fell to 95.6% of GDP in the first quarter of 2022. The decline is due to a recovery in GDP, but the absolute amount of debt continues to rise.

Development of Revenue, Expenditure and Lending in the EU
(Billion EUR)



Source: Eurostat

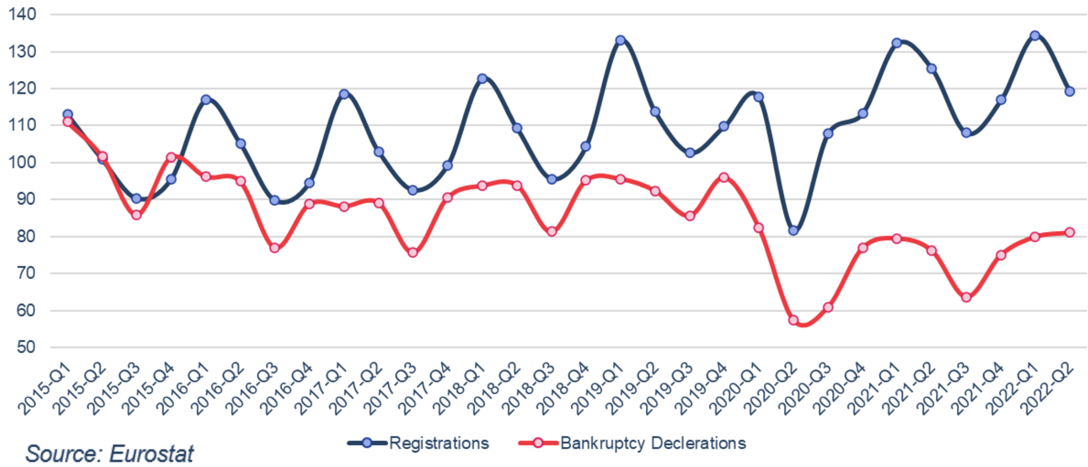
Corporate Landscape

The graph below illustrates the new business registrations and the number of bankruptcy declarations in the European Union (EU) until and including the second quarter of 2022.

In the second quarter of 2022, the seasonally adjusted registrations of businesses decreased by 1.2 % in the EU and by 2.0 % in the euro area, compared with the first quarter of 2022.

During the same period, the seasonally adjusted declarations of bankruptcies increased by 2.2 % in the EU and 2.5 % in the euro area compared with the first quarter of 2022.

Registration of businesses and declarations of bankruptices in the EU
(2015=100)



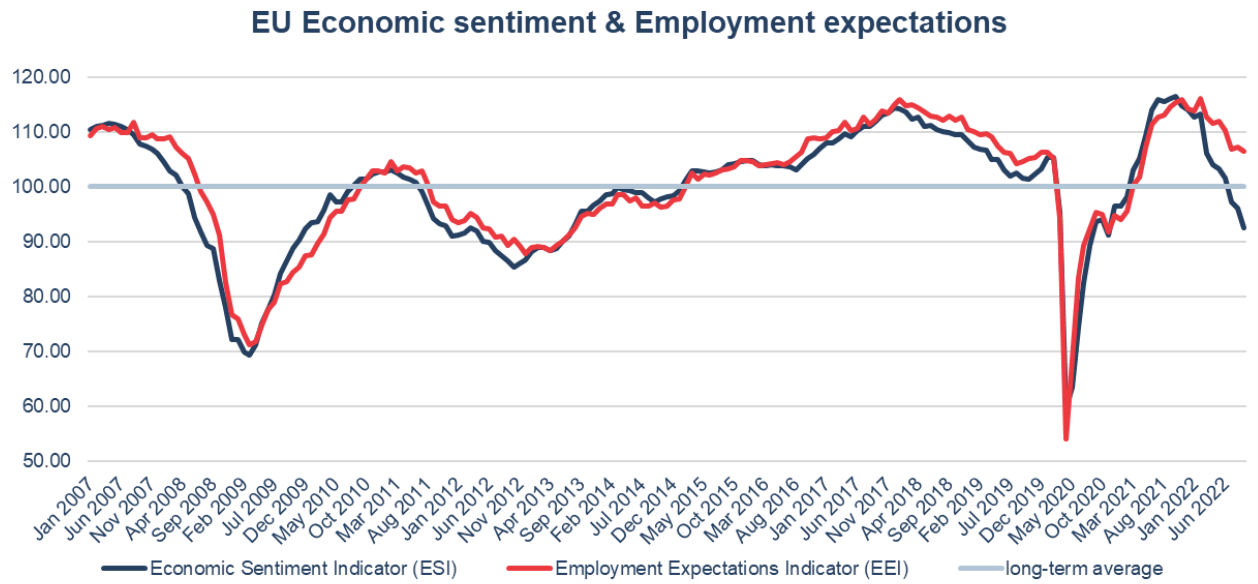
Source: Eurostat

In September 2022, the Economic Sentiment Indicator (ESI) continued its steep decline in both the EU (-3.5 points to 92.6) and the euro area (-3.6 points to 93.7).

As can be seen from the graph below, EU sentiment is affected during a crisis, such as the 2008 housing market crash and the European debt crisis, which started with the collapse of Iceland's banking system, then spread primarily to Portugal, Italy, Ireland, Greece, and Spain in 2009, and the spread of the Covid-19 pandemic.

Since August 2021, overall economic growth came into a hold with the increase of the inflation rate and the subsequent increase of interest rates; economic sentiment fell sharply.

The Employment Expectations Indicator (EEI) decreased more moderately (-0.8 points to 106.4 in the EU and -1.2 points to 106.7 in the euro area), staying markedly above the long-term average.



Source: Eurostat

The euro area's manufacturing sector fell deeper into contraction territory during September, the latest PMI® data from S&P Global showed, due to further slides in both output and new orders.

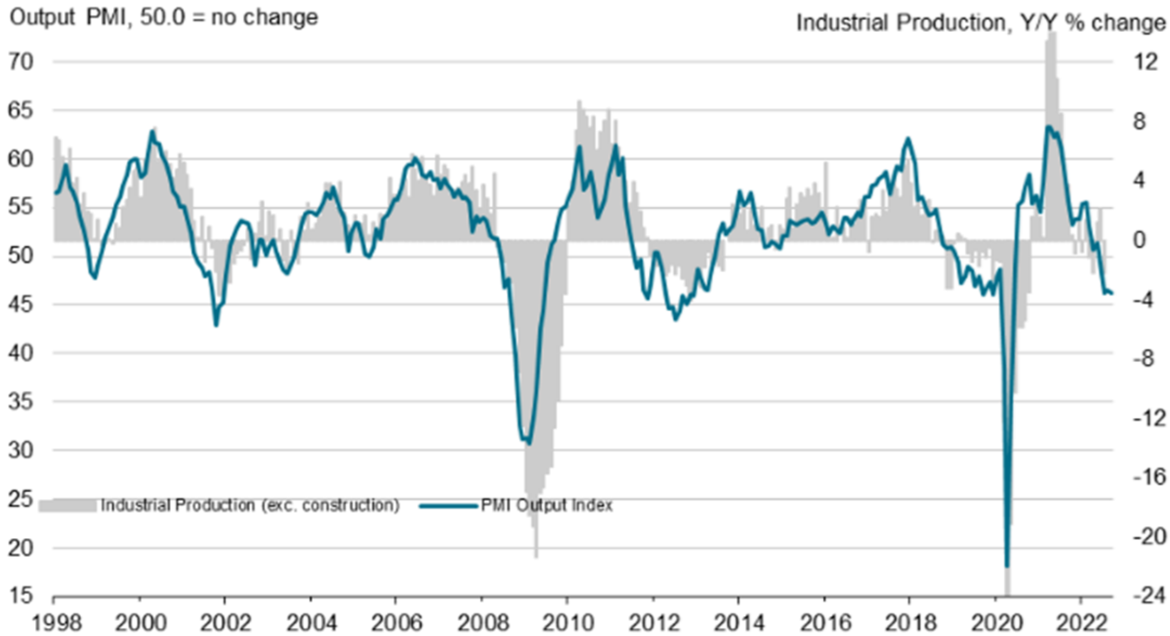
In some cases, production volumes were reduced in response to high energy prices, while many firms downwardly adjusted their operating schedules in line with lower order books.

Demand for eurozone goods sank sharply in September as high inflation and economic uncertainty reportedly squeezed client appetite.

Business confidence subsequently fell to its lowest level since May 2020, leading firms to cut purchasing activity further in anticipation of more challenging conditions.

Meanwhile, inflationary pressures accelerated in September. Although pressures arising from material shortages had reportedly faded slightly, many companies remarked on the rising costs of energy.

The S&P Global Eurozone Manufacturing PMI® fell to 48.4 in September from 49.6 in August, signalling a further worsening of operating conditions for euro area goods producers.



Source: Eurostat

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