Box .1: Some technical elements behind the forecast

The summer 2019 interim forecast provides an update of the outlook of the spring 2019 forecast of 7 May 2019 and focuses on GDP and inflation developments in all EU Member States.

Given the ongoing ratification process of the Withdrawal Agreement in the UK, projections for 2019 and 2020 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. This is for forecasting purposes only and has no bearing on future negotiations between the EU and the UK.

The cut-off date for taking new information into account in this forecast was 2 July 2019.

ESA 2010

The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of Accounting (ESA 2010). 2019 and 2020 are forecast years.

External assumptions

This forecast is based on a set of external assumptions, reflecting market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 17 and 28 June) were used for exchange and interest rates, and for oil prices.

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 1.13 in 2019 and 2020. The average JPY/EUR is 123.14 in 2019 and 121.98 in 2020.

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. As a result, short-term interest rates are assumed to be -0.3% in 2019 and -0.5% in 2020 in the euro area. Long-term euro area interest rates are assumed to average -0.2% in 2019 and 2020.

Commodity price assumptions are also based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 64.7 USD/bbl in 2019 and 61.5 USD/bbl in 2020. This would correspond to an oil price of 57.2 EUR/bbl in 2019 and 54.4 in 2020.

Trade policies

This forecast is published against a background of elevated trade tensions. The forecast pencils in only the measures that have been implemented until the cut-off date. Compared to the spring forecast, there were a number of changes to the baseline scenario:

- On 10/05/2019, despite ongoing trade negotiations between the US and China, the US further raised tariffs from 10% to 25% on 200 billion USD of Chinese imports already targeted by new tariffs in September 2018. China reacted by raising tariffs from 10% up to 25% on 60 billion USD of imports from the US.

- On 17/05/2019, the US agreed to remove steel and aluminium tariffs on Canada and Mexico,

Table 1:
Technical assumptions

		Summer 2019 interim forecast		Spring 2019 forecast	
	2018	2019	2020	2019	2020
3-month EURIBOR (percentage per annum)	-0.3	**-0.3**	**-0.5**	*-0.3*	*-0.3*
10-year government bond yields (percentage per annum) (a)	0.4	**-0.2**	**-0.2**	*0.1*	*0.2*
USD/EUR exchange rate	1.18	**1.13**	**1.13**	*1.13*	*1.13*
JPY/EUR exchange rate	130.38	**123.14**	**121.98**	*125.57*	*125.73*
GBP/EUR exchange rate	0.88	**0.88**	**0.89**	*0.86*	*0.86*
EUR nominal effective exchange rate (annual percentage change) (b)	4.8	**-0.9**	**0.3**	*-1.6*	*-0.1*
Oil price (USD per barrel)	71.5	**64.7**	**61.5**	*69.2*	*67.8*
Oil price (EUR per barrel)	60.7	**57.2**	**54.4**	*61.3*	*60.2*

(a) 10-year government bond yields for the euro area equal the German government bond yields.
(b) 42 industrial countries EU-28, TR CH NR US CA JP AU MX NZ KO CN HK RU BR.

(Continued on the next page)

Box (continued)

removing an important obstacle for the ratification of the renegotiated NAFTA trade deal (United States-Mexico-Canada, USMCA).

- After an investigation under Section 232 of the Trade Expansion Act of 1962 into whether automotive imports into the US threaten national security, the US secretary of commerce recommended actions to adjust automotive imports. The US President decided on 17/05/2019 to give the US trade representative six months to negotiate an agreement with the involved countries if no agreement is reached, the US President can decide to impose tariffs.

- On 31/05/2019, the US announced that it will withdraw preferential market access for India. India reacted by taking rebalancing measures against the steel and aluminium tariffs, which the US had introduced in March.

Working-day adjustment

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 2019, implying that working-day adjusted and unadjusted annual growth rates differ only marginally. In 2020, this effect is positive and lifts the unadjusted growth rate by about ¼ pps. in the euro area.

Geographical zones

Euro area: EA19 (BE, DE, EE, IE, EL, ES, FR, IT, CY, LV, LT, LU, MT, NL, AT, PT, SI, SK and FI).

European Union: EU28 (EA19, BG, CZ, DK, HR, HU, PL, RO, SE and UK).

EU27: EU28 without UK.

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