

Box 1: Some technical elements behind the forecast

The Winter 2019 (interim) forecast provides an update of the outlook of the Autumn 2018 forecast of 8 November 2018 and focuses on GDP and inflation developments in all EU Member States.

Given the ongoing ratification process of the Withdrawal Agreement in the EU and 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 the talks underway in the context of the Article 50 process.

The cut-off date for taking new information into account in this forecast was 31 January 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. 2018 GDP data are also forecast, except for AT, BE, FR, IT, ES, LT, LV, PL and DE.

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 14 and 25 January) 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 1.14

in 2019 and 2020. The average JPY/EUR is 124.33 in 2019 and 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 -0.1% in 2020 in the euro area. Long-term euro area interest rates are assumed to average 0.3% in 2019 and 0.5% in 2020.

Commodity price assumptions are also based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 61.2 USD/bbl in both 2019 and 2020. This would correspond to an oil price of 53.6 EUR/bbl in 2019 and 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:

- In January 2018, the US implemented safeguard tariffs on solar panels and washing machines from all countries (20 to 30 percent tariffs on imports worth \$10.3 billion, combined).
- On 23 March 2018, US duties of 25% and 10% respectively on imports of steel and aluminium

Table 1:

Technical assumptions

	Winter interim 2019 forecast			Autumn 2018 forecast	
	2018	2019	2020	2019	2020
3-month EURIBOR (percentage per annum)	-0.3	-0.3	-0.1	-0.2	0.2
10-year government bond yields (percentage per annum) (a)	0.4	0.3	0.5	0.7	0.9
USD/EUR exchange rate	1.18	1.14	1.14	1.15	1.15
JPY/EUR exchange rate	130.38	124.33	124.33	130.10	130.10
GBP/EUR exchange rate	0.88	0.88	0.88	0.88	0.88
EUR nominal effective exchange rate (annual percentage change) (b)	4.8	-1.0	0.0	0.6	0.0
Oil price (USD per barrel)	71.5	61.2	61.2	80.6	76.7
Oil price (EUR per barrel)	60.7	53.6	56.3	69.9	66.5

(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.

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Box (continued)

went into effect. Among the nations affected China responded by imposing tariffs (mainly on aluminium waste and scrap as well as food), on imports worth about \$2.5 billion, while several countries gained temporary or permanent or exemptions (e.g. Argentina, Australia, Brazil and South Korea, which all promised to adhere to voluntary export limits).

- On 1 June 2018, the exemptions granted to the EU ⁽¹⁾, Canada and Mexico ended. The US measures are set to affect EU exports worth €6.4 billion in 2017, phased in 2 steps.
- On 20 June 2018, the European Commission exercised ⁽²⁾ its rights under WTO rules and adopted a regulation enacting the EU's rebalancing measures in response to the US tariffs on steel and aluminium, which in a first stage target a list of products worth €2.8 billion. These measures took effect on 22 June 2018. Both Mexico and Canada also retaliated, imposing tariffs on the US exports of equal value to the affected value of their respective imports.
- On 6 July 2018 US 25% tariffs on \$34 billion of Chinese imports go into effect, the first phase of its \$50 billion list realised in response to the US administration report finding China conducting unfair trade practices related to technology transfer, intellectual property, and innovation under Section 301 of the Trade Act of 1974. On 23 August 2018, US tariffs on the remaining \$34 billion of Chinese imports go into effect. The US tariffs are followed up by China's retaliation with a 25% tariff on \$50 billion of US imports.
- US 10% tariffs on \$200 billion of Chinese imports take effect on 24 September 2018. China retaliates by imposing countermeasures on \$60 billion of US exports (with tariff rates of 5% and 10%). The US administration announces an increase of the tariffs to 25% on 1 January 2019, which is subsequently postponed to 1 April 2019.
- As a sign of a (temporary) thaw in the China-US relations, the Chinese authorities reduce tariffs on car imports to 15%. The reduction includes the car imports from the US, for which duties had been raised in July to 40% in response to US

hiking tariffs on a range of Chinese goods, as well as imports from other regions (from 25%).

- The US authorities have time until 17 February 2019 to issue a report concluding an investigation under Section 232 of the Trade Expansion Act of 1962 into whether automotive imports into US threatened national security. In the case of a positive answer, a further round on US imports of autos and car parts would be expected.
- Several important trade agreements were concluded in 2018. On 23/1/2018 11 countries including Australia and Japan concluded negotiations of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The agreement entered into force on 30/12/2018 among the first six countries that had already ratified it. The EU and Japan's Economic Partnership Agreement entered into force on 1 February 2019. Canada, Mexico and the United States renegotiated NAFTA. The new agreement named United States-Canada-Mexico (USMCA) was signed end of 2018 and is awaiting ratification.

Calendar effects on GDP growth

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 adjusted and unadjusted annual growth rates differ only marginally (by up to ±0.1 pps.). However, in 2020 this difference will be larger, approximately 0.2 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

⁽¹⁾ European Commission (2018). 'European Commission reacts to the US restrictions on steel and aluminium affecting the EU'. *European Commission Press Release* 4006. May.

⁽²⁾ European Commission (2018). 'EU adopts rebalancing measures in reaction to US steel and aluminium tariffs'. *European Commission Press Release* 4220. June.

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