### *Box I.5:* Some technical elements behind the forecast

The cut-off date for taking new information into account in this European Economic Forecast was 21 April. The forecast incorporates validated public finance data as published in Eurostat's News Release 72/2015 of 21 April 2015.

#### 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 6 and 17 April) were used for exchange and interest rates, and for oil prices.

#### Exchange and interest rates

The technical assumption as regards exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to an implied average USD/EUR rate of 1.08 in 2015 and 1.07 2016. The average JPY/EUR is 129.73 in 2015 and 128.30 in 2016.

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 0.0% on average in 2015 and in 2016 in the euro area. Long-term euro area interest rates are assumed to be 0.2% on average in 2015 and 0.3% in 2016.

#### Commodity prices

Commodity price assumptions are also mostly based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 59.4 USD/bbl in 2015 and 66.0 USD/bbl in 2016. This corresponds to an oil price of 54.8 EUR/bbl in 2015 and 61.7 EUR/bbl in 2016.

#### Budgetary data

Data up to 2014 are based on data notified by Member States to the European Commission before 1 April 2015 and are validated by Eurostat. The notification is based on the ESA 2010 system of national accounts.

Eurostat is expressing a reservation on the quality of the data reported by Bulgaria in relation to the sector classification of the Deposit Insurance Fund and the impact on the government deficit of the fund's repayment of the guaranteed deposits (3.7 bn BGN) in the Corporate Commercial Bank. The impact of the transaction will be assessed by Eurostat in cooperation with the Bulgarian statistical authorities during the coming months. This will most likely result in an increase of the government deficit.

Eurostat is also expressing a reservation on the quality of the data reported by Portugal in relation to the capitalisation of Novo Banco. In the third quarter of 2014, the Portuguese Resolution Fund injected 4.9 bn euro (2.8% of GDP) into Novo Banco. In this EDP notification, the transaction has provisionally been recorded by the Portuguese authorities as a financial transaction for its full amount (due to lack of information) without any impact on the government deficit. The final impact of the transaction will be assessed by Eurostat in cooperation with the Portuguese statistical authorities during the coming months following the outcome of the privatisation process of Novo Banco and the final amount which the Portuguese government will obtain from the sale. This will most likely result in an increase of the government deficit.

Eurostat has made no amendments to the data reported by Member States.

For the forecast, measures in support of financial stability have been recorded in line with the Eurostat Decision of 15 July 2009. [1] Unless reported otherwise by the Member State concerned, capital injections known in sufficient detail have been included in the forecast as financial transactions, *i.e.* increasing the debt, but not the deficit. State guarantees on bank liabilities and deposits are not included as government expenditure, unless there is evidence that they have been called on at the time the forecast was finalised. Note, however, that loans granted to banks by the government, or by other entities classified in the government sector, usually add to government debt.

(1) Eurostat News Release N° 103/2009.

For 2015, the budgets adopted by the national parliaments and all other measures credibly announced and specified in sufficient detail are taken into consideration. For 2016, the 'no-policy-change' assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are credibly announced and specified in sufficient detail.

European aggregates for general government debt in the forecast years 2015-16 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans). To ensure consistency in the time series, historical data are also published on the same basis. For 2014, this implies a debt-to-GDP ratio in the euro area (EA19) which is 2.3 pps. (1.8 pps. in the EU) higher than the consolidated general government debt ratio published by Eurostat in its news release 72/2015 of 21 April 2015. General government debt projections for individual Member States in 2015-16 include the impact of guarantees to the EFSF, [2] bilateral loans to other Member States, and the participation in the capital of the ESM as planned on the cut-off date of the forecast.

(2) In line with the Eurostat decision of 27 January 2011 on the statistical recording of operations undertaken by the European Financial Stability Facility, see http://ec.europa.eu/eurostat/documents/2995521/5034386/2-27012011-AP-EN.PDF/25064294-4eae-4b50-a447-60165ca9718d?version=1.0

### ESA2010

The current forecast is based on the ESA 2010 system of national accounts for all Member States, the EU and the euro area aggregates.

### 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.

However, the working-day effect in the EU and the euro area is estimated to be limited over the forecast horizon, implying that adjusted and unadjusted annual growth rates differ only marginally (by up to ±0.1 pps.). The calculation of potential growth and the output gap does not adjust for working days. Since the working-day effect is considered as temporary, it should not affect the cyclically-adjusted balances.