

Box 1: Some technical elements behind the forecast

The European Commission presents its first new issue of what will be twice-yearly interim forecasts, resuming its annual schedule of two-fully fledged forecasts and two much shorter interim forecasts as done until the height of the sovereign debt crisis. The interim forecasts provide an update of GDP and inflation developments for all EU Member States. They will be published in February and July, providing an update of its comprehensive spring and autumn economic forecasts. This interim forecast updates the outlook of the autumn 2017 economic forecast of 9 November 2017.

Given the ongoing negotiations on the terms of the UK withdrawal from the EU, projections for 2019 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 outcome of the talks underway in the context of the Article 50 process.

The cut-off date for taking new information into account in this European Economic Forecast was 30 January 2018.

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). 2018 and 2019 are forecast years. 2017 GDP data are also forecast, except for DE and FR.

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 15 and 26 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 1.23 in 2018 and 2019. The average JPY/EUR is 135.51 in 2018 and 135.52 in 2019.

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 2018 and 0.0 in 2019 in the euro area. Long-term euro area interest rates are assumed to be 0.7% in 2018 and 0.9% in 2019.

Commodity price assumptions are also based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 68.3 USD/bbl in 2018, and 64.2 USD/bbl in 2019. This would correspond to an oil price of 55.6 EUR/bbl in 2018, and 52.3 EUR/bbl in 2019.

Global demand in 2018 is revised upwards, following the improved outlook for US growth and a rebound in world trade. After having reached 3.8% in 2017, global GDP growth, excluding the EU, is now forecast to increase further to 4.1% in both 2018 and 2019, about 0.1 pps. more than expected in the autumn forecast. World trade growth has also been revised upwards compared to the autumn. It is now set to pick up in 2018 before moderating slightly in 2019. Import volumes of goods and services (excluding the EU) are estimated to grow by 4.7% in 2018 and 4.5% in 2019 (up from 4.1% in the autumn forecast).

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. 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.).

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