Box .1: **Some technical elements behind the forecast**

The European Commission presents its first summer 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. This interim forecast updates the outlook of the spring 2018 economic forecast of 3 May 2018.

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 3 July 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.

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 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 1.19 in 2018 and 1.16 in 2019. The average JPY/EUR is 129.71 in 2018 and 127.85 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 -0.2% in 2019 in the euro area. Long-term euro area interest rates are assumed to be 0.5% in 2018 and 0.6% 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 72.8 USD/bbl in 2018, and 71.8 USD/bbl in 2019. This would correspond to an oil price of 61.4 EUR/bbl in 2018, and 61.8 EUR/bbl in 2019.

Trade policies

This Interim Summer Forecast is published against a background of rising 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, US duties of 25% and 10% respectively on imports of steel and aluminium went into effect. One of the nations affected was China, which 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 (Argentina, Australia, Brazil and South Korea, which all promised to adhere to voluntary export limits on these metals).
- On 1 June, 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, the European Commission exercised ([2]) its rights under WTO rules and

([1]) European Commission (2018). ‘European Commission reacts to the US restrictions on steel and aluminium affecting the EU’. *European Commission Press Release* 4006. June.

([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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Box (continued)

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. Both Mexico and Canada also retaliated, imposing tariffs on the US exports of equal value to the affected value of their respective imports.

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