European
Commission

ISSN 2443-8014 (online)

European Economic Forecast

Summer 2018 (Interim)

INSTITUTIONAL PAPER 084 | JULY 2018

EUROPEAN ECONOMY

Economic and
Financial Affairs

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Luxembourg: Publications Office of the European Union, 2018

PDF ISBN 978-92-79-77465-2 ISSN 2443-8014 doi:10.2765/81909 KC-BC-18-016-EN-N

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European Commission
Directorate-General for Economic and Financial Affairs

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Institutional Paper 084

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RESILIENT GROWTH AMID INCREASED UNCERTAINTY

Following five consecutive quarters of vigorous GDP growth, economic momentum in the euro area moderated in the first half of the year. GDP growth eased to 0.4% (q-o-q) in the first quarter and the evidence available so far suggests that this softness extended into the second quarter. Outside the EU, activity remains solid overall but growth rates are becoming more differentiated across countries and regions and downside risks are rising.

Although the slowdown of European economic activity in early 2018 is widely believed to have reflected a number of temporary factors, confidence and activity failed to rebound in spring, as trade tensions escalated, political uncertainty rose in some Member States, and oil prices continued their rising trend. While the nature of the current 'soft patch' is not yet fully clear and developments in global trade policy have emerged as a major downside risk to the near and medium term outlook, the fundamentals for sustained growth in Europe remain in place. The euro area economy continues to benefit from supportive monetary conditions, with low financing costs for companies and governments despite the expected gradual withdrawal of monetary stimulus. Furthermore, brightening labour market conditions, as well as improving household balance sheets and still elevated levels of consumer confidence, should ensure continued private consumption growth going forward despite some dampening effect from higher energy prices. Finally, while the support from the external environment is subject to great uncertainty in view of current trade policy tensions, the direct impact of protectionist measures so far remains limited and the baseline forecast continues to see an expansion in global trade this year and next, which should ensure continued demand for European goods and services.

Overall, euro area and EU economies are set to continue expanding this year and in 2019, but at a more moderate pace than in 2017 when growth was the fastest in a decade. Mirroring the weaker-than-expected activity in the first half of the year, the outlook for GDP growth in the euro area and the EU in 2018 has been revised to 2.1%, down by 0.2 pps. compared to the spring forecast, and remains unchanged at 2.0% in 2019. Wages and core inflation pressures are still expected to rise only gradually over this year and next. Headline inflation in the euro area has, however, been revised up to 1.7% in both 2018 and 2019 as a result of higher energy prices.

This relatively benign outlook is, however, predicated on the non-escalation of trade tensions and conflicts at global level. Hence significant downside risks exist. First and foremost, if trade tensions with the US were to escalate further, this could dampen confidence more permanently, weighing on global investment and trade flows, and likely disrupting the current global cyclical upswing. This adds to concerns about the potential for negative consequences from renewed bouts of financial market volatility and a faster-than-expected tightening of global financing conditions, as well as increased imbalances stemming from the highly pro-cyclical fiscal policy in the US. Additional risks relate to political and policy uncertainty in a number of EU countries (including the outcome of Brexit negotiations), as well as political and geopolitical tensions outside Europe.

Table 1:
Overview - the summer 2018 (interim) forecast

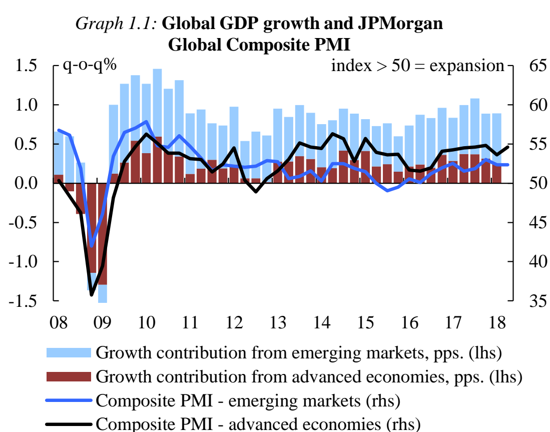
	Real GDP					Inflation				
	Summer 2018 forecast			Spring 2018 forecast		Summer 2018 forecast			Spring 2018 forecast	
	2017	2018	2019	2018	2019	2017	2018	2019	2018	2019
Euro area	2.4	**2.1**	**2.0**	*2.3*	*2.0*	1.5	**1.7**	**1.7**	*1.5*	*1.6*
EU27	2.6	**2.3**	**2.1**	*2.5*	*2.2*	1.6	**1.8**	**1.8**	*1.6*	*1.7*
EU28	2.4	**2.1**	**2.0**	*2.3*	*2.0*	1.7	**1.9**	**1.8**	*1.7*	*1.8*

1. EURO AREA AND EU OUTLOOK

1.1. GLOBAL GROWTH BECOMING LESS SYNCHRONISED

Global economic activity remains solid overall but growth rates are becoming more differentiated across countries and regions and downside risks are rising. GDP data for the first quarter of 2018 indicate that growth momentum remains strong, with global growth advancing by 0.9% (q-o-q), unchanged from the previous quarter (see Graph 1.1). Growth slowed somewhat in advanced economies but picked up in emerging markets, with robust growth in emerging Asia, led by China and India. At the same time, several other emerging markets surprised on the downside (e.g. South Africa, Brazil). High-frequency indicators point to a weakening momentum in global manufacturing output, which has so far been compensated by a rebound in the service sector.

Graph 1.1: **Global GDP growth and JPMorgan Global Composite PMI**



Sources: Data Insight, IMF and national statistical institutes for GDP, JPMorgan/Markit for PMI.

The outlook for global growth outside the EU remains unchanged at 4.2% for 2018, despite sizeable downward revisions for Latin America. Global growth outside the EU is projected to moderate somewhat to 4.1% in 2019, slightly weaker than projected in the spring, as economic activity is expected to slow in both the US and China (see Table 1.1).

The US economy continues to benefit from several tailwinds, including a strong labour market, strong sentiment and fiscal stimulus. However, this highly pro-cyclical loosening of fiscal policy entails significant risks and is expected to further widen the US current account deficit in the near term, which could reinforce protectionist tendencies. The protectionist measures now beginning to materialise are likely to weigh on business confidence and investment in the US. In emerging markets, economic performance is forecast to diverge somewhat. The financial market turmoil experienced by some of the more vulnerable countries in recent weeks (e.g. in Argentina and Turkey) implies lower growth over the forecast horizon, while other emerging markets are expected to post solid growth (emerging Asia) and some are set to benefit from higher oil prices (Russia and OPEC countries).

Global import volumes (outside the EU) are expected to increase by 4.9% in 2018, moderately less than in 2017 and less than expected in the spring forecast. The first quarter of 2018 retained the strong momentum from the previous year, boosted by strong imports in emerging Asia (including China) and Latin America and solid imports in most advanced economies. Trade growth will, however, likely level off and decelerate later this year and in 2019, when global import growth (outside the EU) is expected to settle down to a still-solid 4.4%. This deceleration reflects increased trade tensions following the measures implemented so far and rising uncertainty over global growth in the medium term. The trend has already been signalled by a gradual worsening of high-frequency trade indicators, although these mostly remain above their historical averages.

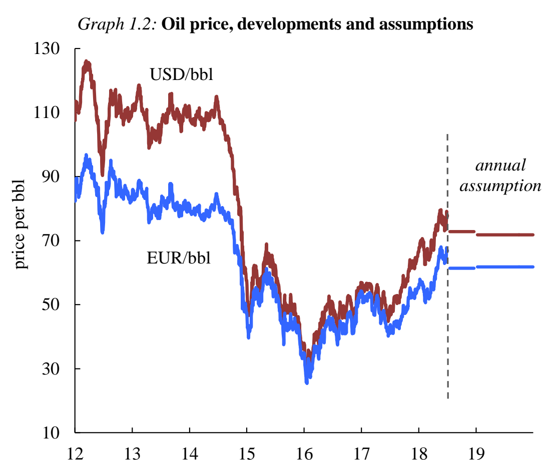
Table 1.1:
International environment

(Annual percentage change)				Summer interim 2018 forecast			*Spring 2018 forecast*		
	2014	2015	2016	2017	2018	2019	*2017*	*2018*	*2019*
					Real GDP growth				
World (excl.EU)	3.8	3.5	3.4	**3.9**	**4.2**	**4.1**	*3.9*	*4.2*	*4.2*
					Merchandise trade volumes				
World (excl.EU) exports of goods and services	3.2	1.3	1.7	**4.7**	**4.2**	**4.1**	*4.7*	*4.4*	*4.1*
World (excl.EU) imports of goods and services	3.4	0.6	1.1	**5.3**	**4.9**	**4.4**	*5.3*	*5.1*	*4.5*

Futures markets suggest higher oil prices

The oil price surges in May, driven by strong demand and tightening supplies, levelled off temporarily in June after OPEC (and Russia) signalled their willingness to increase oil supplies with immediate effect. These additional supplies are expected to partly compensate for the continuing supply disruptions in Venezuela and the risk of lower supply from Iran in the wake of US sanctions. Price volatility around current levels is expected to persist for the remainder of 2018, as geopolitical tensions and potential supply disruptions remain unpredictable and existing stocks have declined. As higher oil prices weigh on oil demand growth and additional supplies from the US should become available in 2019, oil prices are projected to edge down, mainly in the second half of 2019. Overall, based on futures markets, an average price of 72.8 USD/bbl is assumed in 2018 – equivalent to a 33% increase from 2017 and 5.6% higher than assumed in the spring forecast – and 71.8 USD/bbl for 2019. In euro terms, given the euro's recent depreciation vis-à-vis the US dollar, upward revisions compared to the spring are higher, amounting to 9.9% in 2018 and 16.6% in 2019 (see Graph 1.2).

Graph 1.2: **Oil price, developments and assumptions**



Downside risks to the global growth outlook have intensified since the spring forecast, most notably those related to the rise in trade protectionism. Some trade-related risks have already materialised: the US imposed tariffs on steel and aluminium from China, the EU, Canada and Mexico; and selected imports from China; and launched an investigation into automobile imports on national security grounds. Several US trading partners, including the EU, have responded with counter-measures (see technical box for an overview of the implemented measures). While the direct macroeconomic effect of the measures implemented so far are likely to be rather limited, [1] the broader impact on confidence and investment decisions could be much more significant and immediate. The central scenario for global growth and trade does not incorporate a further escalation in trade protectionism but this remains a serious downside risk that could derail global growth over the forecast horizon and beyond.

Financial vulnerabilities in several emerging markets linked to high debt and leverage present another downside risk to the global outlook. Emerging market currencies have been increasingly coming under pressure in recent weeks as the monetary policy normalisation in the US and a stronger US dollar have shifted investor interest away from riskier assets in more vulnerable emerging market economies. Although the ongoing tightening of global financial conditions has not had a material impact on growth and financial stability so far (with the exception of isolated cases such as Argentina), the pressure on emerging markets is clearly increasing and could result in unforeseen disruptions going forward. Among them, China is vulnerable due to its high financial leverage and exposure to protectionist measures.

1.2. EUROPEAN FINANCIAL MARKETS SHOW RESILIENCE TO RISKS

Increasing monetary policy divergence…

Monetary policy divergence between the euro area and the US has increased further. While the ECB signalled in June that it will maintain an accommodative monetary policy stance, the US Federal Reserve has increased its target range for the federal funds rate by 25 bps to 1.75%-2.00%. Moreover, the Fed has indicated that another two interest rate hikes may be required in 2018, compared to just one previously, and that three interest rates hikes may be necessary next year. The resulting divergence in expected future policy rates between the US and the euro area has been further magnified by the introduction of an enhanced ECB forward guidance on policy rates, according to which key ECB interest rates are expected 'to remain at their present level at least

[1] ECB (2018). 'Implications of rising trade tensions for the global economy'. *ECB Economic Bulletin* 3, pp. 21-25. (see Box 1)

through the summer of 2019'. Although net asset purchases are anticipated to end in December 2018 [2], this is subject to incoming data confirming the medium-term inflation outlook.

...reflected in a weakening euro.

The euro has weakened by more than 5% against the US dollar since mid-April this year in a context of fiscal stimulus and an improved economic outlook in the US; and weakening economic momentum and rising political uncertainty in some euro area Member States. In nominal effective terms, the euro has depreciated by 1.5%.

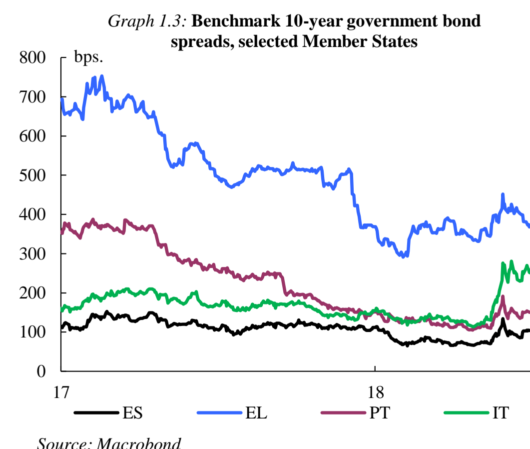
Financial markets have taken a more cautious tone recently...

Prices on global financial markets are increasingly reflecting investor concerns about the adverse effects of trade tensions. The upside pressure on oil prices and the further expected rise in US interest rates have also led global investors to take a more cautious stance, particularly in emerging markets. In the EU, political developments in some Member States have weighed on investor sentiment.

Benchmark yields for some euro area Member States have fallen back in the past few months amid weaker-than-expected economic data in the euro area, renewed risk aversion, and accommodative monetary policy. Italian bond yields spiked briefly over political stability and fiscal sustainability concerns but quickly stabilised below 3% (for 10-year bonds), and the initial contagion to other sovereign bonds proved brief (see Graph 1.3). In the US, Treasury yields oscillated around 3% before declining somewhat, as fragilities in some emerging market economies triggered higher risk aversion and pushed investors back to safe-haven sovereign bonds.

EU stock markets continued to oscillate without clear direction. While the depreciation of the euro vis-à-vis the US dollar has been supportive to euro area stocks, weaker economic indicators compounded with an escalation of trade tensions and the increase in oil prices weighed on EU equity markets. European bank shares underperformed as yield curves flattened. Corporate bond yields have risen over the past few months, but, taken in historical perspective, risk premia are still compressed in many segments. Corporate bond issuance volumes have been strong, particularly in the high-yield segment.

Graph 1.3: **Benchmark 10-year government bond spreads, selected Member States**



Source: Macrobond

Meanwhile, macro-financial vulnerabilities are building up in several parts of the global financial system. Globally, valuations of certain financial (and real) assets continue to seem stretched. Markets appear to be pricing in expectations that the unwinding of unconventional monetary policy measures in major regions of the world will lift risk-free interest rates in an orderly and moderate way.

...but funding flows remain strong.

Bank lending continued to expand over the last few months in the euro area. Net lending growth stood at 3.6% for non-financial corporations (NFCs) and 2.9% for the household sector in May. The April 2018 ECB Bank Lending Survey points to further easing of credit standards in 2018-Q2. Demand for bank loans has been supported by the low level of interest rates and interest rate differentials between euro area Member States have narrowed further over the last couple of months for both households and NFCs, except in some Member States. Market funding for NFCs continued to expand in the euro area.

Overall, households and NFCs are expected to remain unconstrained financially, with benign financial conditions assumed over the forecast horizon. In addition, the euro area corporate sector continues to run funding surpluses generating substantial internal funds, which could potentially be used to boost investment.

[2] To be precise, the ECB announced that: "the Governing Council anticipates that, after September 2018, subject to incoming data confirming [its] medium-term inflation outlook, the monthly pace of the net asset purchases will be reduced to EUR 15 billion until the end of December 2018 and that net purchases will then end."

1.3. EXPANSION CONTINUES IN LOWER GEAR

Growth momentum diminished at the start of the year…

In mid-2018, the European economic outlook remains solid but has moved into a lower gear compared to last year. In the first quarter of the year, GDP grew by 0.4% (q-o-q) in both the euro area and the EU, following 0.7% (q-o-q) growth in the five preceding quarters in both areas. All in all, this represents the 20th consecutive quarter of expansion. The weaker outturn may reflect some adjustment given that growth has been running above its long-run rate for some time. Temporary factors [3] such as unusual weather conditions, strikes in some Member States, the timing of Easter and a wave of influenza-related sick leaves are also likely to have played a role, but are hard to quantify. Despite the soft patch, GDP expanded in the first quarter in all reporting Member States except Romania and Estonia.

…amid a marked shift in growth composition…

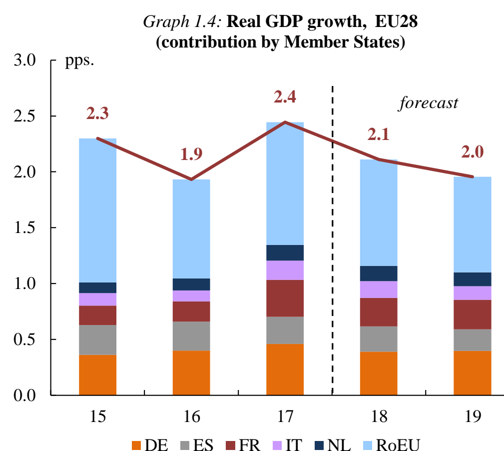
The GDP breakdown for 2018-Q1 shows that the expansion in the euro area was mainly supported by private consumption and investment, whereas the contribution of public consumption was neutral. At the same time, net exports became a drag (-0.2 pps.), following two consecutive quarters of positive contributions to GDP growth.

Private consumption gained some momentum in the first quarter (from 0.2% q-o-q to 0.5%), as labour markets continued to improve and consumer confidence remained higher than average. The pick-up was broad-based across most of the large euro area economies.

Investment growth receded somewhat to 0.5% in the first quarter (after 1.2%), with investment expanding across the largest euro area economies, apart from Italy. The contribution of changes in inventories to GDP growth turned positive, preventing an even sharper slowdown. The assets breakdown indicates that the slowdown was due to non-construction spending.

After 20 consecutive quarters of expansion, including growth of 2.2% in the last quarter of 2017, exports of goods and services contracted by 0.4% (q-o-q) in the first quarter of this year. The decline in exports was broad-based across the largest euro area economies, apart from Spain, and particularly marked in Italy and Germany. According to Eurostat's international trade data, extra-EU exports of goods fell by 0.3% (q-o-q) (+2.1% q-o-q in 2017-Q4) whereas intra-EU exports fell by 0.6% (following +0.9% in the preceding quarter). Imports contracted as well, but the fall was more muted than that of exports.

Graph 1.4: **Real GDP growth, EU28 (contribution by Member States)**



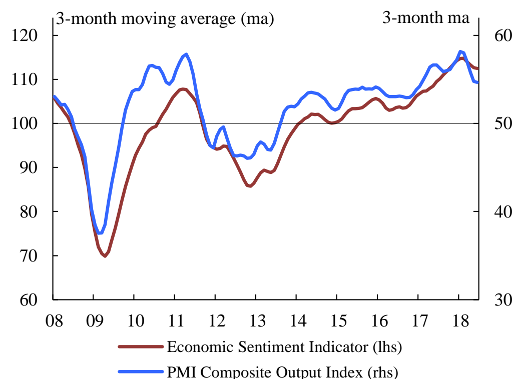
…and available data signal continued moderation in the second quarter…

Incoming data on activity and sentiment provide more evidence that the soft patch in euro area activity extended into the second quarter. While the impact of temporary factors has largely waned, activity and sentiment have so far failed to recover.

In June, the Commission's Economic Sentiment Indicator (ESI) remained broadly unchanged in the euro area for the third consecutive month, while the Eurozone Flash Composite Output Purchasing Managers' Index (PMI) rose from an 18-month low in May, driven by the service sector (see Graph 1.5). Meanwhile, sentiment in manufacturing continued to deteriorate, falling to a 18-month low. Weaker output and order books have been linked to intensifying trade and political concerns.

[3] On whether the moderation has any bearing on medium-term growth see Draghi, M. (2018). 'Monetary policy in the euro area'. Speech at the ECB Forum on Central Banking, Sintra, 19 June.

Graph 1.5: **Economic Sentiment Indicator and PMI Composite Output, euro area**



Source: EC, Markit Group Limited

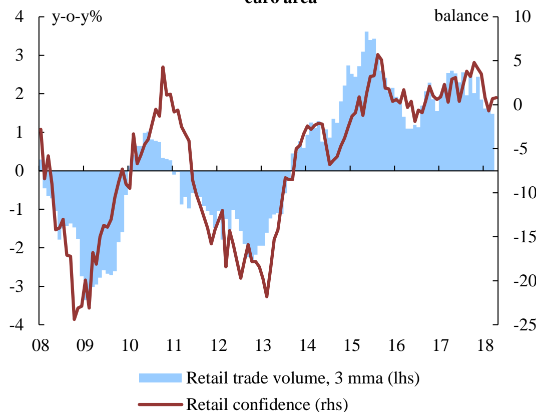
The momentum in euro area industrial production deteriorated further in April to -1.2% (3m-o-3m) (from -0.6% in March), with momentum of new industrial orders falling from -1.0% in March to -2.2% in April.

Available high-frequency indicators are consistent with a moderation of private consumption expenditure in 2018-Q2. After moving up in 2018-Q1, consumer confidence edged downwards again in 2018-Q2. At the same time, the Commission's Retail Trade Confidence Indicator also decreased in the euro area and the EU in the second quarter, although it remains at historically high levels.

By contrast, the momentum in retail trade volumes geared up in May (+0.6% 3m-o-3m), following an unchanged level in the first quarter (see Graph 1.6), whereas car registrations fell markedly over the same period (-1.0% 3m-o-3m, following +1.4% in 2018-Q1). Loans to euro area households for consumption purposes recorded an annual increase of 7.2% in May, close to its highest growth rate since late 2006. [4]

At the same time, high-frequency indicators of business investment have been more benign. The industrial production of capital goods rose in April (+1.9% m-o-m), following a contraction in 2018-Q1 (-2.0%). The capacity utilisation rate in manufacturing is close to its highest since 2008, which suggests a growing obsolescence of the capital stock, with equipment increasingly mentioned as a factor limiting production. Furthermore, May 2018 saw the strongest annual growth of loans to non-financial corporations in nine years, [5] which bodes well for business investment spending.

Graph 1.6: **Retail trade volumes and retail confidence, euro area**



This positive momentum is also visible in the Commission's Construction Confidence Indicator, which reached its highest level since early-1990 in 2018-Q2. Construction output in April increased by 1.8% (m-o-m) in the euro area (+1.2% in the EU) after remaining unchanged in 2018-Q1 (-0.4% in the EU). At the same time, loans for house purchases grew at an annual rate of 3.1% in May, close to the 3.3% reached in December 2017, which was the highest rate since September 2011.

Exports are expected to have remained subdued in the second quarter. The assessment of export order books in the Commission's manufacturing survey has fallen from the post-crisis high reached in 2018-Q1. The IHS Markit's Manufacturing PMI new export orders index points to a continued underperformance in both April and May. And data from the Centraal Planbureau (CPB) on the volume of trade in goods in the euro area shows that the growth momentum (3m-o-3m) moved further down to -1.4% in April (-0.7% in March).

…as the outlook is clouded by lower sentiment and uncertainty…

The recent spell of weak data, coupled with fading tailwinds and an increasing number of headwinds suggest that the European economy is unlikely to regain the strong momentum it enjoyed in 2017.

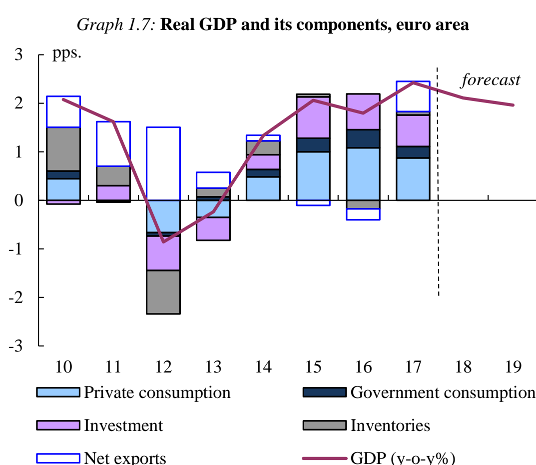
Rising headwinds include first and foremost the fall-out from ongoing trade tensions [6]. The central

(4) For an up-to-date statistical picture of economic conditions for the household sector see ECB (2018). 'Household sector report'. May 2018.

(5) Loans adjusted for sales and securitisation.

(6) See ECB (2018). 'Implications of rising trade tensions for the global economy'. *ECB Monthly Bulletin* May 2018, pp. 21-5 (Box 1) and A. Barattieri, M. Cacciatore and

scenario takes into account only the actions that took place before the cut-off date (3 July), and does not incorporate any further escalation of trade tensions. The direct economic impact of the policy measures implemented so far has been limited, but their indirect effects on confidence are set to weigh on investment decisions, particularly in export-oriented sectors and countries (see technical box). These concerns come on top of the recent de-synchronisation of global momentum and in a context where the liquidity provided by major central banks is about to peak, and global yields have started to rise. Furthermore, the recent bout of political uncertainty in a number of Member States and the increase in oil prices are set to weigh on economic activity. Moreover, capacity constraints are expected to become progressively more binding in a number of Member States, dampening the growth outlook.



Graph 1.7: **Real GDP and its components, euro area**

...but fundamentals remain sound...

However, the fundamentals for above-potential growth remain in place. The European economy continues to benefit from supportive monetary conditions, with low financing costs for companies and governments despite the gradual withdrawal of monetary stimulus; brightening labour market conditions; as well as improving corporate and household balance sheets. Unless business sentiment changes significantly, rising labour utilisation should lead firms to focus on additional capital spending in order to increase supply. Even though tighter labour markets in a number of Member States may limit the pace of employment growth, they are likely to spur investment in technology and training and thereby support productivity growth.

...with domestic demand remaining robust...

Domestic demand is set to remain the main growth engine. Looking ahead, private consumption is forecast to continue expanding at a solid pace. The improvement in labour market conditions, as reflected in continued employment gains and higher wages, are set to continue bolstering household disposable income. Furthermore, the aggregate household balance sheet remains in solid shape with net worth levels rising on the back of rising house prices and past stock market gains. [7] However, household spending growth is expected to slow, as labour market improvements moderate this year and next and oil prices rise.

Investment growth is expected to remain robust but to moderate gradually. Favourable financing conditions, increasing capacity constraints and corporate profitability will continue to support business investment. The continued dynamism in housing markets should further support residential investment, driven by increasing real house prices, favourable income prospects and low nominal interest rates, despite the challenges posed by demographic factors. [8] Also, the Investment Plan for Europe should continue to boost business investment by improving access to finance. [9] The impact of these supportive factors, however, is likely to be partially offset by uncertainty regarding the external environment, through both its direct impact on current demand, as well as on future demand prospects. [10]

F. Ghironi (2018). 'Protectionism and the business cycle'. *NBER Working Paper* 24353. February.

(7) C. Guerrieri and C. Mendicino (2018). 'Wealth effects in the euro area'. *ECB Working Paper Series* 2157. June.

(8) Its leading properties to the economic cycle give increased backing to the narrative on the economic outlook. See E. Kholscheen, A. Mehrotra and D. Mihaljek (2018). 'Residential investment and economic activity: evidence from the past five decades'. *BIS Working Papers* 726. June. and E. Monnet and C. Wolf (2017). 'Is demographics the housing cycle?'. Banque de France, *Rue de la Banque* 41. April.

(9) As of June 2018, operations approved under the Investment Plan for Europe were expected to trigger €294 billion in investments. Around 644,000 small and medium-sized businesses are expected to benefit from improved access to finance.

(10) Uncertainty arises when economic agents cannot reasonably assess the likelihood of all possible future states of nature or characterise the probability distribution of their possible impacts. The real options channel suggests that the option value increases with uncertainty in the case of irreversible investment or consumption decisions. See ECB (2016). 'The impact of uncertainty on activity in the euro area'. *Economic Bulletin* 8. December.

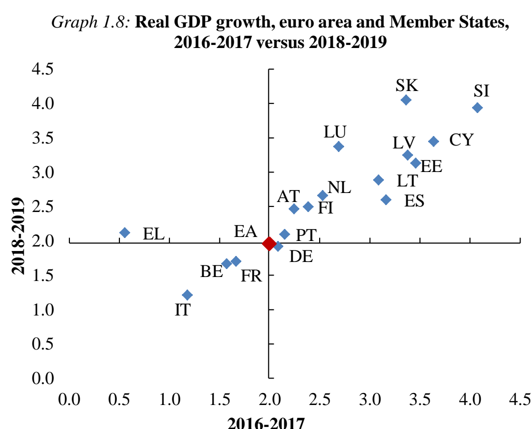
...despite rising risks.

Assuming no further escalation of trade tensions, euro area export growth is expected to slow down gently. Overall, global GDP is still expected to expand at a robust pace, and world import growth is still likely to ease only modestly. The lagged impact of the past appreciation of the euro since early-2017, however, is likely to constrain further market share gains.

Overall, euro area GDP is forecast to continue growing in 2018 but at a slightly slower pace compared to 2017 (2.1% and 2.4% respectively) and to the pace expected in spring. It is set to moderate further to 2.0% in 2019 as supply-side constraints gradually dent the growth momentum, foreign demand slows, and the uncertainty surrounding the outcome of the Brexit transition agreement weighs on confidence.

While all Member States are forecast to continue experiencing an economic upswing, those that have grown at above-average rates over the last two years are set to continue outperforming, whereas the remaining countries are forecast to continue expanding at below-average rates, with the notable exception of Greece, which is forecast to grow much above its previous average [11] (see Graph 1.8).

Graph 1.8: **Real GDP growth, euro area and Member States, 2016-2017 versus 2018-2019**



Note: MT and IE are excluded from the calculation of the euro area average and are not displayed.

[11] Greece will conclude its ESM programme on 20 August. See Eurogroup (2018). 'Eurogroup statement on Greece'. *Press release* 390/18. June.

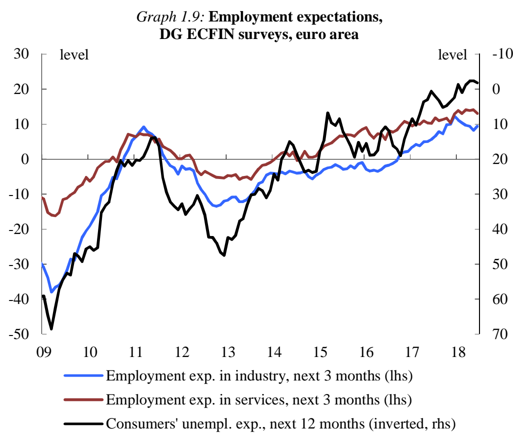
1.4. LABOUR MARKET CONDITIONS SET TO CONTINUE IMPROVING

The labour market situation in the euro area continued to improve in the first half of 2018. Employment rose by 0.4% quarter-on-quarter in 2018-Q1 and was 1.4% higher than one year ago. The number of employed persons reached a new historical high. The long period of employment growth was accompanied by a rebound in the number of total hours worked in the economy. In 2018-Q1 they increased by 0.2% quarter-on-quarter to the highest level since 2008-Q4. The slower growth of hours worked as compared to persons employed reflects the rise in part-time workers over recent years, but also changes in the composition of employment due to structural shifts across sectors. Many part-time workers have identified themselves as involuntarily working less than full time, which is reflected in developments of broader underemployment indicators that continue to suggest that some slack remains in the labour market. Labour market slack has been receding as the market has improved and labour shortages have arisen in several sectors in some Member States. Labour shortages have also become visible in the job vacancy rate, which moved up in the first quarter to 2.1%, its highest level in the history of the series (since 2006). Reflecting the gradual tightening of the labour market, the unemployment rate in the euro area declined to 8.4% in April 2018 and stabilised at that level in May, its lowest level since December 2008.

Employment creation continued to be strong considering the pace of economic expansion. Both in terms of employment and unemployment, labour market conditions have improved across all Member States. Nevertheless, significant differences remain.

Survey indicators of companies' employment expectations retreated somewhat in early 2018 but remain well above their long-term averages (see Graph 1.9). In June, the readings in the Commission's Business and Consumer Surveys were consistent with continued job creation in the coming months, with the unemployment rate set to continue falling. The marginally slower pace of economic growth now expected should have little impact on the labour market outlook.

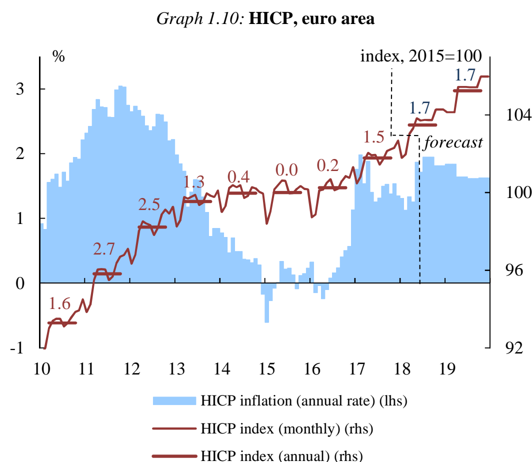
Graph 1.9: **Employment expectations, DG ECFIN surveys, euro area**



1.5. ENERGY PRICES DRIVE INFLATION HIGHER IN THE NEAR TERM

Headline inflation in the euro area edged up, particularly in the second quarter 2018, on the back of higher energy prices. Inflation jumped to 1.9% in May and is estimated at 2% in June. This was a substantial pick-up from the average of 1.3% in the first quarter of 2018 (see Graph 1.10). Although this was to an extent expected, given base effects from last year's energy price developments, the continued rise in oil prices and the drop in the euro exchange rate against the dollar have added further upward pressure on energy prices and led to higher-than-expected inflation. Indeed, energy inflation is estimated at 8% in June, compared to 6.1% in May. The second quarter figures were also driven higher by unprocessed food prices, in particular major cereals and dairy.

Graph 1.10: **HICP, euro area**



Figures next to horizontal bars are annual inflation rates.

On the other hand, core inflation – which excludes energy and unprocessed food prices – has remained muted with no discernible trend so far in 2018. It averaged 1.2% in the first quarter and was estimated at the same rate in June. Services inflation exhibited some volatility due to the timing of Easter (in late March vs. April last year), which affected the prices of package holidays, accommodation and transport. On the whole, non-energy industrial goods inflation has remained stable so far this year. The muted underlying inflation rate reflects the lagged negative impact of a prolonged period of low inflation and weak wage dynamics.

Recent wage developments show a pick-up…

Recent wage indicators in the euro area, however, show signs of a gradual pick-up. The annual growth of both nominal compensation per employee and negotiated wages registered notable increases in the first quarter of 1.9% and 1.8% respectively. Compensation per hour worked also increased strongly, from 1.5% in 2017-Q4 to 1.9% in 2018-Q1. Meanwhile, prices along industrial supply chains are also contributing to rising pressure in underlying inflation, with the growth of industrial producer prices having edged up to the 3% mark in May.

…supportive of a gradual increase in core inflation.

Headline inflation in the euro area is forecast to remain around current levels in 2018, provided that oil prices remain close to the current assumptions based on futures markets. Overall, headline inflation is forecast to average 1.7% over 2018, 0.2 pps. higher than in the spring forecast. Then, in 2019, the impact of energy inflation should slowly taper out, leading to some moderation in the headline rate in the first half of the year. Underlying inflation is then expected to gradually gather pace, as labour markets progressively tighten and wages rise. In fact, recent developments in wage growth underpin and drive a good part of the inflation outlook, as wage growth is a key determinant of domestic price pressures, especially services inflation, which has been subdued until recently. In 2019, headline inflation is expected to average 1.7%, also slightly higher than previously expected.

Market-based measures of inflation expectations have continued to recover since spring and the beginning of the year, but mainly in the short-term spectrum. At the cut-off date of this forecast,

inflation-linked swap rates at the one-year forward one-year-ahead horizon stood at around 1.4%. Swap rates at the three-year forward three-year-ahead horizon imply an average inflation of close to 1.6%. On a longer horizon, the widely watched five-year forward five-year-ahead indicator suggests inflation of 1.7% (see Graph 1.11). Moreover, the ECB's April 2018 Survey of Professional Forecasters includes inflation forecast means of 1.5% in 2018 (unchanged, compared to the 2018-Q1 exercise), 1.6% in 2019 (down by 0.1 pps.) and 1.7% in 2020 (down by 0.1 pps.). Longer-term inflation expectations stood unchanged at 1.9%.

Graph 1.11: **Inflation expectations derived from implied forward inflation-linked swap rates**

Source: Bloomberg

1.6. RISKS TILTED TO THE DOWNSIDE

Overall, even though some of the risks identified in April have materialised, the balance of risks remains clearly tilted to the downside. This is particularly the case beyond the very short term, as some downside risks have increased, notably those related to escalating trade protectionism.

On the upside, rising supply constraints could trigger additional investment and efforts to increase productivity; and additional labour supply could emerge from among the underemployed and the inactive. Given the prominent role played by supply-shocks in driving oil prices over the previous year [12], oil prices could turn out lower than assumed on the back of a recent OPEC agreement and the price-responsiveness of US shale oil production.

Downside risks to the growth outlook, however, clearly dominate. They are mainly on the external side and concern the dangerous nexus between a possible further escalation of trade disputes driven by the US, the potentially disruptive effect of tighter financing conditions, and increased imbalances stemming from the highly pro-cyclical fiscal policy in the US.

Since the spring, trade tensions have further escalated. This forecast takes into account what is already implemented, but several additional protectionist measures are being considered and would probably trigger retaliation if implemented. Further escalating trade conflicts would negatively affect welfare in all countries involved. Restrictions to foreign trade and foreign direct investment would lower productivity. A disruption of global supply chains could have a highly non-linear effect on world trade volumes. In the near term, trade disputes could have a sizeable indirect impact on domestic investment through confidence effects – already seen to some extent in the tradable goods sector in the first half of 2018 - and increased uncertainty. In the longer term, the European and global economy would also likely suffer from a further undermining of open rules-based multilateralism.

The expected further divergence of monetary policies in 2019 may not be fully priced in by financial markets yet, and could lead to a sharper tightening of global financial conditions. Volatility in global financial markets could increase further in a context of relatively high equity valuations and rising treasury yields, impacting financing conditions also in the euro area. [13] If this were to lead to diminished risk appetite globally, there could be significant spillovers in terms of capital flows and financial market stability. As shown over the second quarter of the year, emerging market economies [14], including China, where public and private leverage [15] have increased markedly in recent years, would be particularly vulnerable to changing market conditions.

Also, political and policy uncertainty in a number of EU countries remains an important downside risk to the forecast. This includes the risks related to the outcome of the negotiations on the terms of the UK's withdrawal from the EU in March

(12) ECB (2018). 'Are the recent oil price increases set to last?'. *ECB Economic Bulletin* 2, pp. 36-40, March. (Box 1)

(13) BIS (2018). 'The risks ahead'. *Annual Economic Report*, pp. 12-20. June.

(14) L. Menna and M. Tobal (2018). 'Financial and price stability in emerging markets: the role of the interest rate'. *BIS Working Papers* 717. May.

(15) See World Bank (2018). 'Corporate debt: financial stability and investment implications'. *Global Economic Prospects*. June.

2019 [16], in particular if the outcome differs meaningfully from the technical assumption of status quo in terms of trading relations between the EU27 and the UK for 2019.

(16) See Box 1 on .the technical assumption regarding trading relations between EU27 and the UK for the current forecast.

The relevance of downside risks related to geopolitical tensions in the Korean peninsula appears to have faded, although they remain high in the Middle East. Were these risks to increase, supply-side pressures on oil prices could intensify.

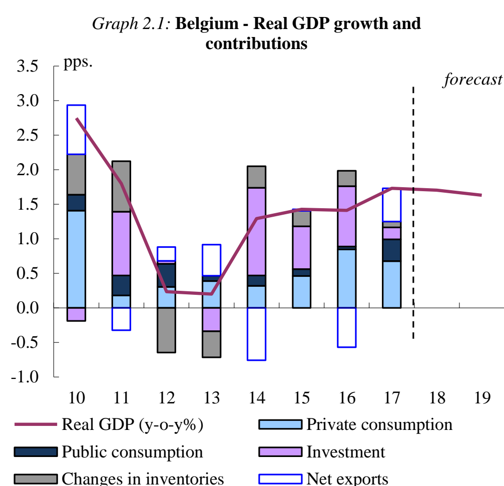
2. PROSPECTS BY MEMBER STATES

2.1. BELGIUM

GDP growth abated slightly in 2018-Q1 to 0.3% (q-o-q) due to slower private sector investment growth and a fall in inventories. Soft indicators have deteriorated in recent months, suggesting that this soft patch may have continued in 2018-Q2. However, confidence indicators remain high, suggesting that growth should pick up again in the second half of the year.

For 2018 as whole, Belgium's GDP growth is forecast to remain stable at 1.7% driven by sustained private demand amid improving labour market and investment conditions. In 2019, growth is forecast to ease to 1.6%, as investment growth is expected to weaken gradually.

Graph 2.1: **Belgium - Real GDP growth and contributions**



The contribution of private investment to growth is expected to increase in 2018 but weaken from 2019. Household investment is projected to rise moderately as interest rates are expected to remain low. Business investment is also expected to increase, amid favourable financing conditions, improved profitability and elevated capacity utilisation rates. Public investment is expected to continue growing in 2018, driven by infrastructure and defence projects and by the local election investment cycle. However, its contribution to growth is set to reduce slightly from 2019, in line with contained public expenditure. Net exports contributed positively to growth in 2017, but should be neutral over the forecast horizon.

After having picked up to 2.2% in 2017, inflation (HICP) is expected to decline to 1.9% in 2018 and 1.6% in 2019. The upwards revision to the inflation forecast since the spring is mostly due to the recent increase in oil prices, which should have its main impact in the second half of 2018. Core inflation is expected to remain close to its 2017 level of 1.6% over the forecast horizon. Nominal wage growth is projected to rise moderately through indexation, although labour cost growth should be contained thanks to cuts in labour taxation. The inflation gap with the euro area is expected to close in 2019.

2.2. BULGARIA

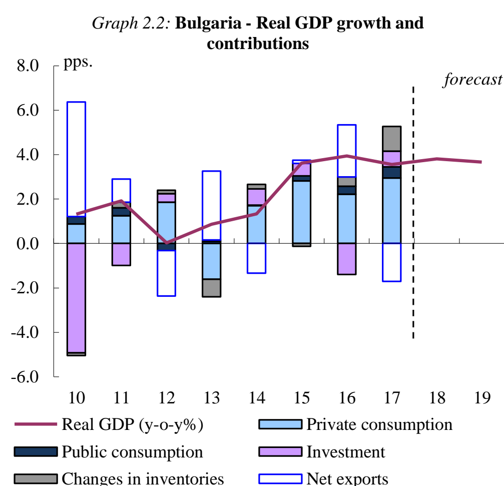
Real GDP growth reached 0.9% (q-o-q) in the first quarter of 2018, maintaining last year's momentum when the economy grew by 3.6%. The ongoing expansion is being driven by strong private consumption and higher investment. Wage increases continued to boost private consumption, while a recovery in the use of EU investment funding programmes is fuelling the growth of public investment. Economic sentiment continues to improve and survey data show expectations of increasing orders, higher output and greater demand, which suggests that the economy should continue expanding in the coming quarters.

Real GDP growth is forecast to remain robust at 3.8% in 2018 and 3.7% in 2019, driven mainly by domestic demand. Positive labour market developments and planned wage increases in the public sector should provide the fuel for continued private consumption growth. Investment growth is also expected to be strong over the forecast period, mainly due to the recovery in EU funds absorption, but also due to stronger private sector investment. At the same time, the contribution from net exports to GDP is expected to be negative. Although solid external demand should support export growth, strong domestic consumption and investment mean that imports will continue to outweigh exports.

Price pressures increased in the spring months as a result of a steep rise in oil prices and second round effects on food prices. Administered prices were also raised significantly over the same period. HICP inflation is thus expected to rise to 2.0% in 2018 before slowing down to 1.8% in 2019. This pattern is mainly due to a strong base effect in energy products, while the rise in real disposable

incomes should provide continued support to consumption and prices generally.

Graph 2.2: **Bulgaria - Real GDP growth and contributions**



2.3. CZECH REPUBLIC

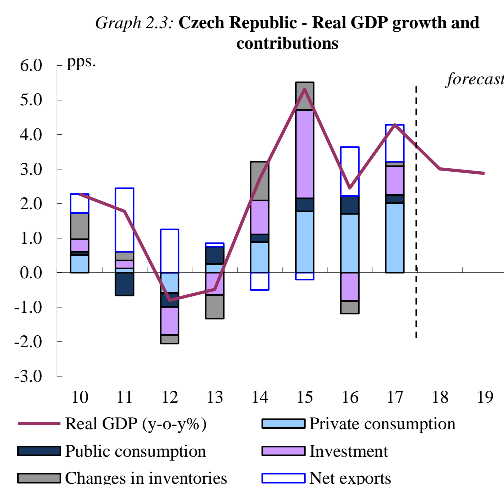
The economy of the Czech Republic expanded by 4.3% in 2017, its second fastest rate in a decade. All demand components contributed positively to GDP growth. Despite an easing of the pace in 2018-Q1 due to weak external demand in key trading partners, GDP growth is forecast at a solid rate of 3.0% for 2018 and 2.9% in 2019, thanks mainly to robust domestic demand. The very high confidence indicators readings seen in the first half of 2018 are fully consistent with these prospects.

Wage increases and high levels of consumer confidence should continue to support private consumption. Investment is also expected to remain vigorous, underpinned by a revival of construction activity, greater use of EU investment funding, and a general trend towards industrial automatisation. Meanwhile, public consumption is set to continue growing at a steady pace, supported by robust wage growth in the public sector.

On the downside, net exports are likely to detract from GDP growth, particularly in 2018. The intensity and duration of this effect will hinge on world trade developments and economic growth in the euro area, particularly in Germany. Labour shortages, which are increasingly cited as a production constraint, also pose a growing risk to the economy. The number of job vacancies was almost twice as large as the number of unemployed persons in 2018-Q1. Continued rapid house price inflation, coupled with rising household debt, also constitutes a vulnerability.

After a temporary slowdown in the first months of 2018, headline inflation is expected to return above 2% in the coming quarters, influenced by the positive output gap, wage dynamics, and oil prices. The gradual increase of interest rates by the Czech National Bank, whose latest hike at the end of June raised the policy rate by 25 bps. to 1.0%, should help temper inflationary pressures and maintain consumer price inflation close to the target of 2%. HICP inflation is forecast to average 2.1% in 2018 and 2.0% in 2019.

Graph 2.3: **Czech Republic - Real GDP growth and contributions**



2.4. DENMARK

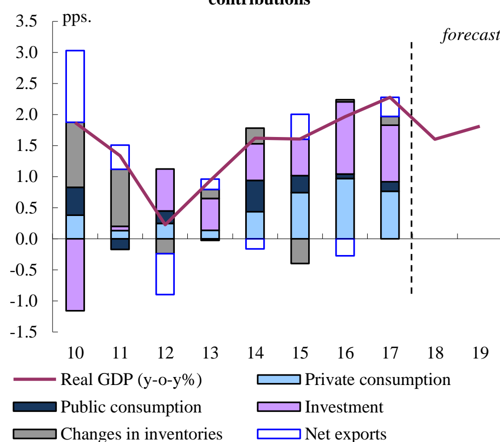
Real GDP growth of 0.4% (q-o-q) in the first quarter of 2018 was somewhat weaker than expected in spring. Service exports dragged down economic growth despite rising world trade and strong demand in Denmark's main export markets. On the other hand, private consumption turned out to be stronger than expected due to the release of pent-up demand for cars following changes in car taxation at the end of last year.

Economic growth in Denmark is forecast to reach 1.6% in 2018 and 1.8% in 2019 after growth of 2.3% in 2017. While the growth momentum is expected to remain solid, headline growth in 2018 is negatively affected by the carry-over of a large one-off transaction linked to the sale of a Danish patent (about 0.4% of GDP recorded as a service export) in 2017. Robust private consumption is expected to help sustain the upswing over the forecast horizon. Supported by rising housing prices, residential construction is set to remain an important driver of investment growth in 2018 and 2019.

Risks to the forecast are gathering. As a small open economy with a large shipping sector, frictions in world trade would have large negative repercussions on Danish exports and investment. Deteriorating sentiment indicators and weakening prospects in Denmark's export markets could rapidly impact Danish exports and business investment.

Despite the solid economic performance and a tightening labour market, consumer prices (HICP) are expected to rise by only 0.9% in 2018 after increasing by 1.1% in 2017. Inflation is revised slightly upwards both in 2018 and 2019 due to higher energy prices. Despite rising energy prices, inflation will decelerate in 2018 mainly because of the impact of lower indirect taxes and the appreciation of the krone. Rising service prices and the waning impact of the tax changes are expected to lift HICP inflation to 1.5% in 2019.

Graph 2.4: **Denmark - Real GDP growth and contributions**



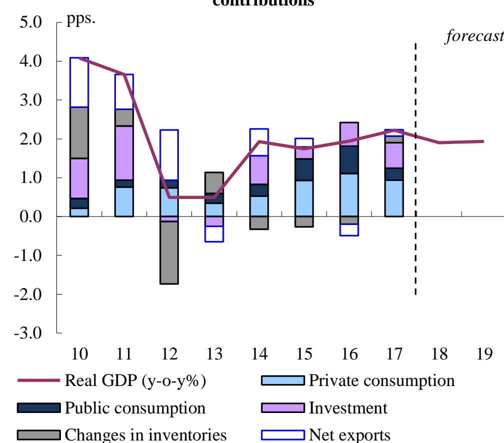
2.5. GERMANY

Germany's GDP growth slowed from 0.6% in late 2017 to 0.3% in the first quarter of 2018. Investment and private consumption held up well, but public consumption and exports declined significantly. Net exports contributed negatively to GDP growth with both exports and imports falling. The weak foreign trade results of the first quarter follow an exceptionally strong performance in the preceding quarter. Nevertheless, overall economic sentiment has cooled since the start of the year, suggesting deteriorating foreign demand and possible investment and consumption restraint in the coming quarters. Survey data point to a moderation of order inflows and industrial activity. Escalating protectionism would likely weigh on business confidence across the globe and thus dampen global investment demand which is likely contributing to the growing concerns of German exporters.

Business investment grew strongly in the first quarter, in response to the steady rise in capacity utilisation rates. Some businesses, however, are likely to hold back on investment due to growing uncertainty over trade policies and their possible impact on global value chains. By contrast, housing investment has proven resilient and positive data on residential construction permits and still robust business sentiment in the sector indicate that construction activity is likely to keep rising.

Willingness to hire remains high and vacancy rates are still on the rise. The strong labour market conditions and solid wage growth should benefit private consumption and continue to sustain growth. Public consumption growth is expected to resume later in the year, as the 2018 budget, which was only just approved, is implemented. Overall, real GDP is now expected to increase by 1.9% in 2018 and 2019, a downward revision compared to the spring. Risks are tilted to the downside. Global trade policy uncertainty could affect the highly open German economy more strongly.

Graph 2.5: **Germany - Real GDP growth and contributions**



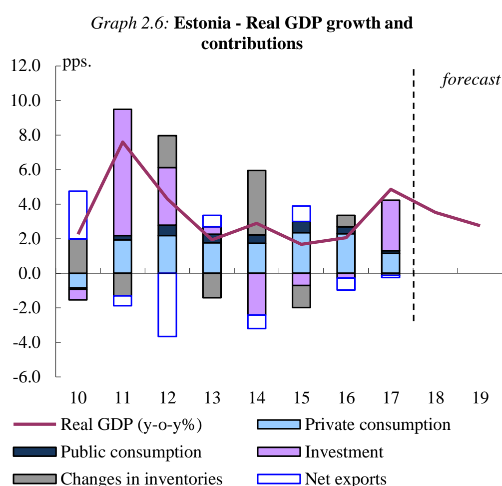
After having picked up to 1.7% in 2017, inflation (HICP) is expected to remain broadly at this level in 2018 and edge up in 2019, reflecting factors such as energy prices and a higher minimum wage, which could affect services inflation. Core inflation is expected to move in parallel to reach 1.6% in 2019.

2.6. ESTONIA

Estonia's GDP growth peaked at 4.9% in 2017, driven by strong investment and a favourable external environment. Economic growth slowed more than expected in 2018-Q1 to -0.1% (q-o-q) or 3.8% (y-o-y). The main reason for the slowdown was weak growth in investment and goods exports. At the same time, domestic demand was strong, upheld by private consumption and construction.

Economic sentiment remains positive but has trended downwards in the first half of 2018. Looking forward though, economic growth is forecast to remain relatively robust, supported by a strong labour market. Buoyant consumption growth reflects growing disposable income, although a notable part of the income increase is being directed to savings. Overall, real GDP is expected to grow by 3.5% in 2018 and to slow to 2.7% in 2019, in line with moderating domestic demand and a less favourable external outlook. Downside risks are mainly related to the external environment, but also to labour shortages and to rising unit labour costs, which could result in lower-than-expected exports, even if the economic growth in the rest of the euro area is sustained.

Graph 2.6: **Estonia - Real GDP growth and contributions**



HICP inflation peaked at 3.7% in 2017 on the back of rising energy and food prices as well as sequential hikes in indirect taxation. Inflation is expected to abate only gradually to 2.9% in 2018 and 2.7% in 2019. The projected downward trend of inflation this year and next reflects a lower impact from consumption tax rises and an expected stabilisation of food prices. These factors should outweigh possible increases in global energy prices and wages.

2.7. IRELAND

Encouragingly, both the labour market and construction investment have maintained their strong momentum in the first half of 2018. Employment recovered its pre-crisis levels in 2018-Q1 and unemployment continues to fall. Household real disposable income continues to grow, driven by robust growth in full-time employment, rising wages and low inflation, thereby also supporting consumer confidence. Total construction output increased by 20.6% in 2018-Q1 on an annual basis, though from low levels. Planning permissions for residential units grew by 80.8% in 2018-Q1 (y-o-y) and the construction PMI remains high.

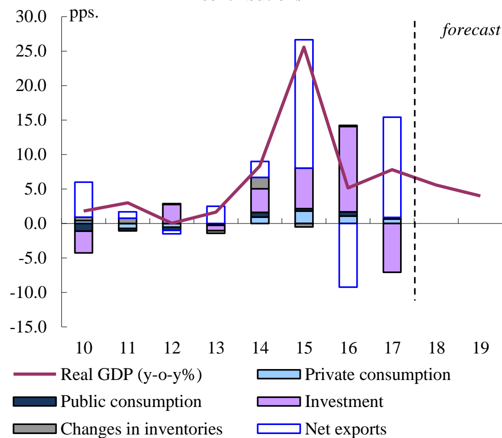
Headline trade and investment figures have recently been very volatile and heavily influenced by the activities of multinational companies. While the outlook for the euro area slightly worsened, the overall external economic environment is expected to remain broadly supportive of Irish exports over the forecast horizon.

Domestic economic activity is projected to continue growing at a solid pace in the short term. The strong momentum in the labour market is expected to further support private consumption. Investment in construction is forecast to expand at a brisk pace driven by the housing shortage and various government policy measures. As a result, real GDP is estimated to grow by 5.6% in 2018 and 4.0% in 2019, with domestic demand as the main contributor.

HICP inflation remained subdued in the first five months of 2018, dragged down by lower import prices due to the appreciation of the euro against sterling. HICP inflation is projected to reach 1.0% in 2018 and to rise to 1.3% in 2019, mainly driven by higher energy and services prices, as a further tightening in the labour market is expected to put upward pressure on wages.

Risks to the macroeconomic outlook are tilted to the downside. Uncertainty relates primarily to the ongoing negotiations between the UK and the EU. As a highly open economy, Ireland is particularly exposed to changes in the international taxation and trade environment. Activities of multinational companies could swing headline GDP growth in either direction.

Graph 2.7: **Ireland - Real GDP growth and contributions**



2.8. GREECE

Greece's economy got off to a strong start in the first quarter in 2018. Following the successful conclusion of the ESM programme, the economic recovery is expected to continue in the coming years, as long as commitments to reforms are upheld.

According to provisional data, real GDP growth reached 0.8% (q-o-q) in the first quarter of 2018 (in seasonally and working-day adjusted terms), which corresponds to a growth rate of 2.3% (y-o-y). This confirms that the slowdown to 0.2% (q-o-q) in the fourth quarter of 2017 was temporary and that Greece is indeed recovering.

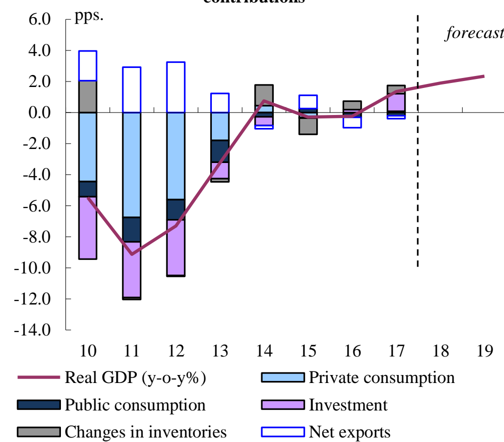
In the first quarter of 2018, growth was led by net exports which contributed 1.4 pps. (q-o-q) to GDP growth. This was a result of both rising exports and decreasing imports. Private consumption registered an increase for the first time since 2016, but its growth contribution was cancelled out by a decrease in public consumption, hence total consumption remained almost flat (0.1%). There was a large decline in investment, which shaved off 2.4 pps. from GDP growth. However, the decline was expected following the strong one-off growth in the preceding quarter.

Real GDP is forecast to reach 1.9% in 2018 and to accelerate further to 2.3% in 2019. The main driver of growth is expected to be investment, which is rising on the back of the improving business environment and increased foreign direct investment. Private consumption is expected to remain subdued, while the contribution of net exports is set to be more moderate over the remainder of the year, as increased investment activity should generate additional demand for goods imports.

The labour market continues to improve. Unemployment fell to 20.1% in March 2018, down 0.7 pps. since the end of 2017, while employment grew by almost 2% in the first three months of 2018. This trend is expected to continue throughout the year.

Consumer price inflation reached 0.8% in May, with an average of 0.4% for the first five months of the year, driven mainly by higher processed food and energy prices. Due to higher oil price assumptions, the forecast for headline inflation is revised slightly upwards.

Graph 2.8: **Greece - Real GDP growth and contributions**



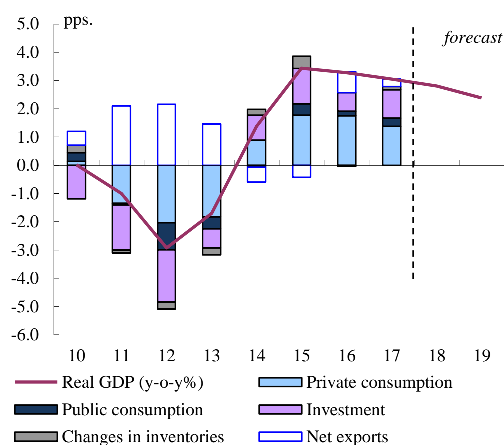
2.9. SPAIN

Spain's economy grew by 3.1% in 2017 and continues to show, so far, little sign of slowing down. GDP expanded by 0.7% (q-o-q) in 2018-Q1, unchanged from the two previous quarters. Both soft and hard indicators, including administrative employment data, point to a similar expansion in 2018-Q2. The composition of growth in the first quarter reveals weaker-than-expected net exports and non-construction investment, which were offset by strong consumption and residential construction.

Over the forecast horizon, consumption and construction investment are expected to remain the most dynamic demand components. The higher-than-anticipated rise in oil prices since the spring is expected to have a negative impact on domestic demand in 2018 and, to a lesser extent, in 2019. In

addition, a less favourable external environment should result in a slightly smaller contribution of net exports to growth. At the same time, the additional expansionary measures that were included in the budget law for 2018 (approved on 28 June, after the cut-off date of the spring forecast) are expected to provide an additional boost to growth in 2018, mainly via private consumption. Consumer spending should also benefit from higher-than-expected real wage growth and dynamic job creation over the forecast horizon. The net effect of these offsetting factors on real GDP growth is slightly negative for 2018, leading to a downward revision by 0.1 pps. compared to spring, to 2.8%. For 2019, the net effect is broadly neutral, with the forecast remaining at 2.4%.

Graph 2.9: **Spain - Real GDP growth and contributions**



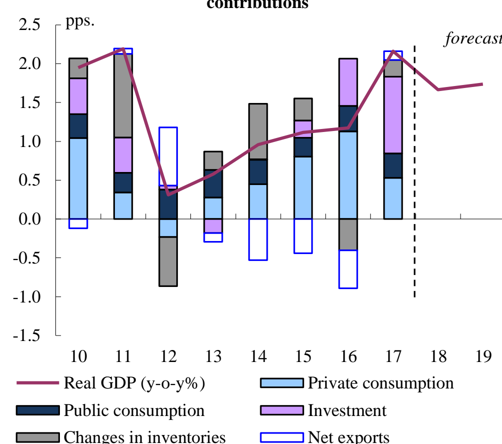
HICP inflation has been rising throughout the first half of the year, reaching 2.1% in May, driven by oil price developments. It is expected to peak in 2018-Q3 and then moderate to an annual average of 1.8% in 2018 and 1.6% in 2019. Core inflation is expected to gradually increase over the forecast horizon, as the output gap turns firmly positive and wage growth in the private sector accelerates following the latest framework agreement between the social partners.

2.10. FRANCE

Following upward revisions by INSEE in national accounts outturns, GDP expanded by a strong 2.2% in 2017 as a whole [17] and by 0.7% in 2017-Q4, in line with the previous two quarters and mainly driven by strong investment and exports. However, GDP growth in the first quarter of 2018 slowed markedly to 0.2% after five quarters of strong expansion and both soft and hard indicators deteriorated. The slowdown was led by a decline in exports and the deceleration in corporate investment. Temporary factors such as particularly cold weather conditions also explain some of the slowdown.

Economic activity, which has also been slightly affected by strikes in the transport sector, is set to remain moderate in 2018-Q2, with quarter-on-quarter GDP growth of 0.3%. While order books, service sector PMIs and the Economic Sentiment Indicator started to improve at the end of the second quarter, consumer confidence has deteriorated. Employment, however, is set to remain relatively resilient.

Graph 2.10: **France - Real GDP growth and contributions**



Growth is set to gain momentum as of the second half of this year, with GDP growth expected to expand by 1.7% in both 2018 and 2019. The reduction in social contributions and housing taxes, projected wage increases and resilient employment growth are expected to have a positive impact on household purchasing power in the coming months, which should fuel private consumption growth in the second half of 2018. In

[17] The GDP annual growth figures are non-calendar adjusted. In 2017, calendar adjusted GDP growth reached 2.3%.

turn, the expected growth uptick in the rest of the euro area should back a moderate rebound in exports as of the second half of the year.

Inflation is expected to pick-up further in 2018. Core inflation is projected to gain momentum in line with the projected uptick in wage growth but should remain contained. HICP inflation is forecast to reach 1.9% this year but to fall back to 1.5% in 2019, as the rise in oil prices abates.

2.11. CROATIA

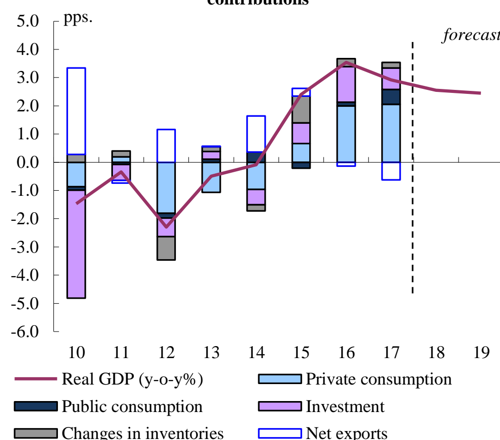
Following the unexpected slowdown in the last quarter of 2017, real GDP growth edged up only slightly in the first quarter in 2018, mainly thanks to robust private consumption and recovering investment. Nevertheless, and despite mixed signals from high frequency indicators, positive labour market developments and survey data suggest that domestic demand will fuel a growth pick up over the rest of 2018.

Private consumption is expected to remain the main driver of growth throughout the forecast period, supported by rising household disposable incomes and low inflation. An improved uptake of EU funds, decreasing interest rates and increasing credit flows to the corporate sector should underpin investment growth. Available early data on tourist arrivals and overnight stays support expectations of a strong growth of services exports in 2018. At the same time, the sudden slowdown of goods exports in early 2018 is in line with the weakening observed in the manufacturing sector. However, the impact of expected lower goods export growth on GDP should be partially offset by a slowdown in import growth, as domestic production is import intensive.

Overall, real GDP growth is expected to moderate slightly over the forecast horizon to 2.6% in 2018 and 2.5% in 2019. The settlement plan adopted by creditors on the debt restructuring of the country's largest employer, Agrokor, has reduced the downward risks to the forecast scenario, but the successful implementation of the agreement remains crucial for the operational and financial stability of the company.

Labour market conditions continue to improve. Wages are projected to continue rising, as labour shortages become more apparent in the tourism and construction sectors. The unemployment rate should continue declining mainly thanks to rising employment, as outbound migration flows slow down. In the first five months of 2018 inflationary pressures remained contained, despite rising energy prices. Strong consumer spending and rising wages are expected to eventually drive consumer price inflation up to 1.6% in 2018 and 1.8% in 2019.

Graph 2.11: **Croatia - Real GDP growth and contributions**



2.12. ITALY

Although Italy's economy grew by 0.3% (q-o-q) in 2018-Q1, only slightly less than in the previous quarter, it did not fully escape the general loss of growth momentum in advanced countries. While private consumption and inventories continued to support the output expansion, weak investment and exports were a drag on growth.

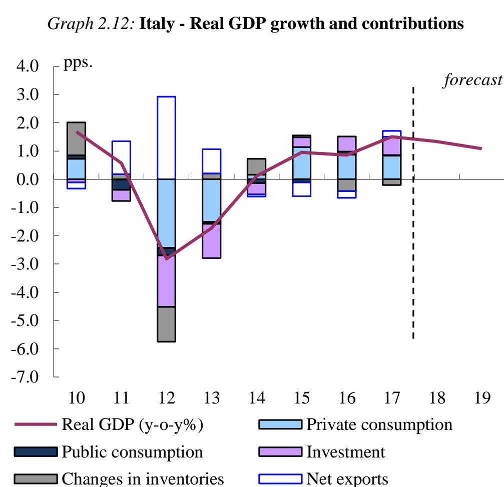
The near-term outlook for the manufacturing sector suggests some weakening ahead. A comprehensive view of leading indicators suggests that the current recovery should weaken but continue at above potential rates. Real GDP is expected to grow by 1.3% in 2018 before easing down to 1.1% in 2019. The forecast scenario is based on a no-policy-change assumption and does not incorporate the effects of legislated VAT and excise tax hikes envisaged for 2019 as a "safeguard clause" in the 2018 budget.

Domestic demand is expected to remain the main growth driver amid a more challenging external environment. Investment is expected to pick-up, supported by favourable financing conditions and tax incentives, although financial market volatility reflecting global and domestic uncertainty is expected to delay some investment decisions in the

short term. In 2019, the phase-out of tax incentives and gradually rising interest rates is forecast to dampen investment growth. The rise in household spending is set to continue in light of rising wages and employment. But higher oil prices are expected to weigh on disposable incomes and slightly dampen private consumption. Net exports are unlikely to make a positive contribution to growth due to the lagged impact of the euro's appreciation and moderating growth in some of Italy's main trading partners.

Downside risks to the growth outlook have become more prominent amid heightened global and domestic policy uncertainty. At the domestic level, any re-emerging concerns or uncertainty about economic policies and the possible spillover of higher sovereign yields into corporate financing costs could worsen funding conditions and mute domestic demand.

Graph 2.12: **Italy - Real GDP growth and contributions**



After averaging 1.3% in 2017, consumer price inflation is set to rise, mainly as a result of higher energy prices. The headline HICP index is expected to increase by 1.4% this year and by 1.6% in 2019, largely due to the effect of higher oil prices, which will be further amplified by a weaker euro. A stronger price increase in 2018 is unlikely given substantial base effects related to services. For 2019, consumer prices are expected to grow in line with rising commodity prices and wages, especially in the services sector. Core inflation is set to pick up gradually over the forecast period, in line with accelerating wage growth.

2.13. CYPRUS

After expanding by 3.9% in 2017, a nine-year high, Cyprus' economy continued its cyclical upswing in early 2018, posting 3.8% (y-o-y) growth in the first quarter of 2018. Growth was driven by solid domestic demand and, lately, exports. Consumer sentiment continued to improve, while business confidence across major sectors either increased or levelled off, suggesting continued momentum in the coming quarters.

The composition of growth shifted somewhat in early 2018. Investment, after breaking an historic high in the last quarter of 2017, fell in the first quarter of this year. Goods exports, by contrast, more than doubled compared to the previous quarter. Shipping sector activity was at the heart of these pronounced changes, with ship acquisitions moderating, while ship sale/deregistration reached record high levels. Excluding shipping activity, the underlying trends remained broadly stable and this compositional shift is expected to be temporary.

Exports of services were subdued in the first quarter of the year. This soft patch is likely to be overcome in the quarters ahead thanks to the marked increase in tourist arrivals already recorded in the spring months as well as the completion of new hotels for tourists.

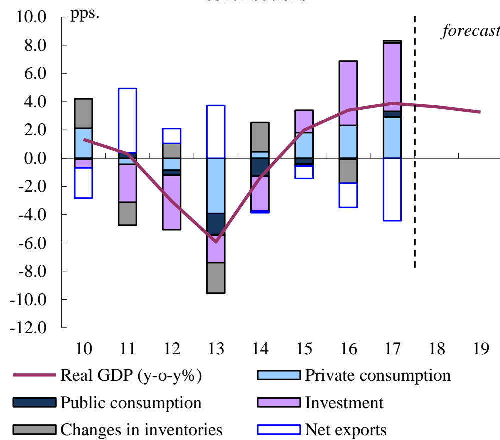
Private consumption continues to expand, supported by rapidly rising employment and gradually increasing wages. Survey data reveal that hiring is set to continue strongly in the near future, giving a further boost to disposable income.

Cyprus' struggling financial sector, which has been a drag on the economy since the crisis years, is consolidating. Once finalised, the sale of the second largest bank, Cyprus Cooperative Bank, is expected to reduce uncertainties surrounding the macroeconomic outlook. Overall, real GDP growth is expected to reach 3.6% in 2018 and 3.3% in 2019, unchanged since the spring.

Inflationary pressures remain weak. HICP inflation dropped during the first four months of the year and turned positive only in May. The decrease in prices was rather broad-based, reflecting strong competition among retailers in several sectors and subdued wage dynamics. HICP inflation is expected to be positive for the year as a whole due to increasing services and energy prices. It is

expected to pick up further in 2019, mainly as a result of higher oil prices and the gradual build-up of domestic price pressures amid rapid economic recovery.

Graph 2.13: **Cyprus - Real GDP growth and contributions**



2.14. LATVIA

In 2017, GDP growth in Latvia reached 4.5%, driven by solid growth in all components including double-digit investment growth as a result of EU investment funding programmes. GDP growth accelerated during the first quarter of 2018, mostly due to continued strong growth in investment. As this trend is unlikely to be sustained at such levels, GDP growth is forecast to slow down in the coming quarters.

Overall, GDP growth is set to average 3.3% in 2018, led by private consumption and investment, which is expected to continue receiving strong impetus from the use of EU investment funds but should slow down towards the end of the year, as the fund flows near their peak. On the other hand, the downsizing of the non-resident banking sector and continued contraction in transit services are expected to weigh on export growth.

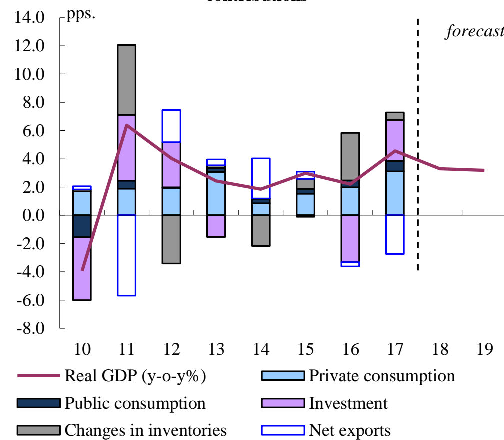
In 2019, economic growth is expected to remain above 3% supported in a balanced way by private consumption, investment and exports. As the use of EU investment funding peaks, the boost to investment should wane, bringing its growth more in line with that of the economy generally. Export growth, however, is expected to recover as the effects of the decline in financial services exports fades.

Wages are expected to rise rapidly over the forecast horizon, with the falling supply of labour and the moderate increase in employment also causing unemployment to decrease further. Wage pressures, however, should temper somewhat as the rate of investment growth normalises.

Inflation is expected to slow down in 2018 and remain flat in 2019. Although energy prices are expected to pick up in 2018, their effects should be outweighed by lower food price increases. In 2019, reversed dynamics are expected as energy prices are set to increase more slowly while service prices are expected to pick up as a result of the high wage increases in recent years.

Risks to the forecast are tilted to the downside as the structural decline in Latvian financial and transport services exports is expected to continue and any worsening in the external environment could weigh on national income and domestic demand.

Graph 2.14: **Latvia - Real GDP growth and contributions**



2.15. LITHUANIA

In 2017, real GDP grew by 3.8%, driven by booming exports and a strong pick up in private investment, although the usage of EU funds remained sluggish. Growth was also supported by strong private consumption. Its dynamics were influenced by notable wage growth, which offset the negative effects of high inflation and population decline.

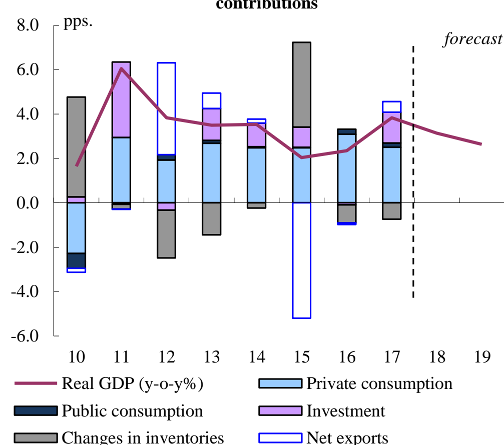
Good economic momentum continued in 2018 with a growth rate of 0.9% (q-o-q) in the first quarter based on the strong performance of industry and the construction sector. Private

consumption continued to be one of the main growth drivers, while the contribution of net exports, though negative, was somewhat better than expected.

The most recent economic sentiment indicators have been strong. Positive expectations in the service sector, high levels of consumer confidence and rapidly rising wages point to a stable expansion of private consumption in the coming quarters. Investment is also set to remain an important growth driver.

Over the forecast horizon, economic growth is expected to moderate somewhat due to slower growth in major trading partners. Overall, real GDP is forecast to grow solidly at 3.1% in 2018 and 2.6% in 2019.

Graph 2.15: **Lithuania - Real GDP growth and contributions**



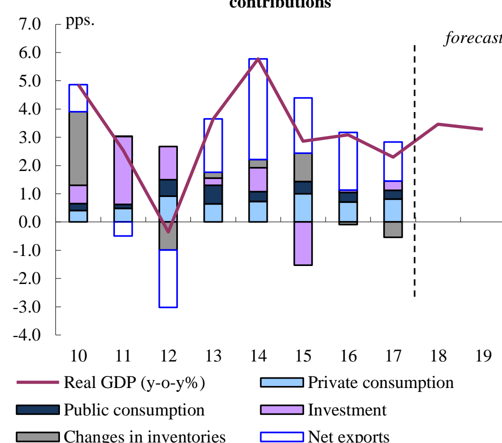
As the effects of excise duties hikes in 2017 fade, inflation is expected to slow, increasing disposable income and supporting private consumption. HICP inflation is forecast to fall from 3.7% in 2017 to 2.7% in 2018 and to 2.2% in 2019. Meanwhile, rising oil prices (especially in 2018) and strong wage growth, which has a particular effect on service prices, are set to drive inflation over the forecast horizon.

2.16. LUXEMBOURG

Luxembourg's economic growth slowed to 2.3% in 2017 from 3.1% in 2016. This slowdown, which was unusual among euro area countries, was driven by weaker external demand and an exceptionally subdued performance in financial services, Luxembourg's main economic driver. Activity contracted in the banking sector following a strong expansion the year before, which was flattered by a large-scale sale of assets. This was only partially offset by the strong performance of the investment funds sector. These figures need to be analysed with caution, given the frequent and substantial revisions to Luxembourg's national accounts data.

Looking forward, the reduced activity in the banking sector and the increased financial market volatility early this year have somewhat weakened growth prospects for financial services and for the economy as a whole. However, the country's economic prospects remain sound, underpinned by the accommodative monetary policy environment and the ongoing expansion in the euro area. Firmer trends in business services and private consumption are also supporting real GDP growth, which is expected to reach 3.5% in 2018, before slowing slightly to 3.3% in 2019.

Graph 2.16: **Luxembourg - Real GDP growth and contributions**



Private consumption growth is expected to strengthen in 2018, as stronger employment creation pushes up disposable income growth. High job vacancy rates remain a source of concern about constraints in the supply of skilled labour. Lingering income gains from recent tax reforms and the wage indexation projected for the third quarter should offset the negative impact of higher oil prices.

In 2019, private consumption growth is projected to lose some momentum as employment growth is expected to slow down while the impact of past income gains fades. Meanwhile private investment should be boosted by the reduction in the corporate income tax. The main downside risk to the forecast concerns a worsening of the external environment, which might lead to a correction in financial

market valuations, to which the economy is especially sensitive.

HICP inflation bounced up to 2.1% in 2017 from zero in 2016, mainly as a result of higher oil prices, which are expected to continue feeding into headline inflation in 2018. However, downside factors for inflation, such as subsidies in child and healthcare services introduced in November 2017, are expected to moderate overall inflation to 1.6% in 2018. As these effects dissipate, domestic price pressures, including from past wage increases, should drive the headline inflation rate to 1.9% in 2019.

2.17. HUNGARY

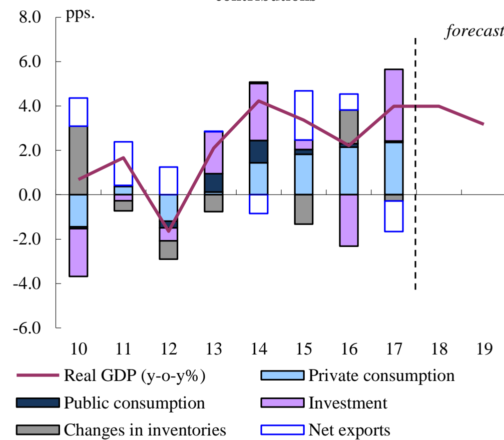
GDP growth remained steady at 1.2% (q-o-q) in the first quarter of 2018, supported mainly by domestic demand. However, exports failed to keep pace with rising import demand. Sentiment indicators have remained buoyant up to June, but recent production data indicate some deceleration in the second quarter. The level of industrial production has been flat since the beginning of the year, and construction output has decreased.

Private consumption is set to grow robustly in 2018 thanks to rising employment and dynamic real wage growth. Investment growth remains broad-based, supported by high capacity utilisation, rising public capital expenditure and the recovery of the real estate sector. The cyclical upswing of domestic demand is set to moderate in 2019, leading to slower GDP growth.

While domestic demand remains dynamic, the external environment has become less supportive. The soft patch of growth in main export markets is proving persistent. Consequently, Hungarian export growth may slow down in 2018, despite major new manufacturing capacities starting production. In addition, the prominent role of the automotive industry (which accounts for over 5% of gross value added) makes the economy sensitive to global trade disputes, creating a new risk for the outlook.

HICP inflation rose to 2.9% in May 2018, driven by the surge in oil prices and the depreciation of the forint. The weaker exchange rate may also raise non-energy prices in the coming quarters. The tight labour market and administrative wage hikes are maintaining upward pressure on wages, which will gradually feed into core inflation. Thus, HICP inflation is expected to remain near 3% throughout 2019. The aggregate effect of newly planned indirect tax measures on inflation is broadly neutral in 2019.

Graph 2.17: **Hungary - Real GDP growth and contributions**



2.18. MALTA

Real GDP rose by 6.4% in 2017, one of the highest growth rates within the EU. Growth was driven by net exports, which reflected sustained export growth combined with a contraction in imports. Domestic demand was affected by a sharp decline in investment, which is attributable to strong base effects from exceptional investment growth in previous years. The solid performance of the internationally-oriented services sector contributed to maintain Malta's sizeable current account surplus.

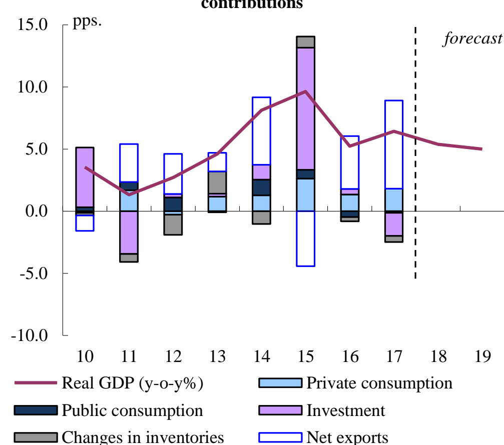
Growth is set to remain robust but to moderate over the forecast horizon. Domestic demand is set to become the main driver of growth in the second half of 2018, underpinned by an expansion in public and private consumption. Investment is expected to recover strongly in 2019, supported by projects in the health, technology and telecoms sectors. The robust growth rate of residential investment is set to moderate in line with the expected slowdown in population growth.

The economic momentum is expected to further support employment creation, on the back of record-low unemployment and increasing labour supply (resulting from the inflows of foreign workers and the rising participation of women in the labour market). Overall, real GDP is forecast to increase by 5.4% in 2018 and 5.0% in 2019.

Downside risks are mainly related to geopolitical uncertainties, which could be particularly relevant for Malta's small and open economy, and the possibility of a slower-than-expected recovery in investment.

Regulated prices in the electricity market and moderate wage dynamics have helped keep inflation slightly below the euro area average. Headline annual HICP inflation is forecast to gradually pick up over the forecast horizon to reach 1.8% in 2019, driven by price pressures in the services component.

Graph 2.18: **Malta - Real GDP growth and contributions**



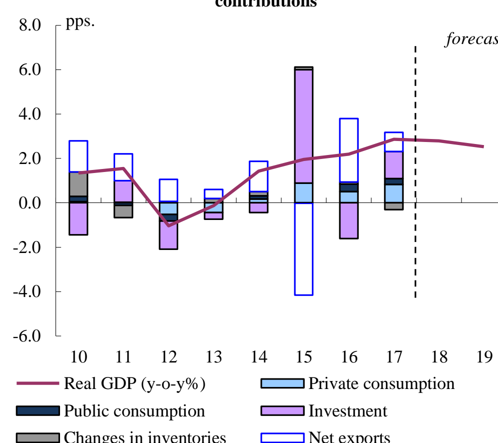
2.19. THE NETHERLANDS

After solid annual real GDP growth of 2.9% in 2017, growth moderated slightly in the first quarter of 2018. Quarterly growth was mainly driven by private consumption, partly attributable to higher energy consumption, and investment. Net exports contributed negatively to growth, reflecting both the transition to domestic demand based growth as the cycle matures and a less dynamic external environment.

Domestic demand is projected to remain the main driver of sustained growth rates. Although they peaked in the first quarter of 2018, confidence indicators continue to point to expansion. Employment growth has been solid so far this year but is expected to moderate gradually as labour market conditions tighten. Labour supply constraints have increasingly been reflected in recent wage agreements. These developments are set to increase disposable incomes and thereby support private consumption growth. High capacity utilisation rates and business expectations on new orders should provide a boost to robust investment growth. Furthermore, the fiscal stimulus ensuing from the 2018-2021 government agreement is expected to raise government consumption growth in 2018 and to a lesser extent in 2019. Net exports are expected to contribute negatively to growth in 2018, although monthly data on goods exports show some recovery after the weak first quarter. Overall GDP growth is expected to reach 2.8% in 2018 and 2.5% in 2019.

HICP inflation averaged 1.3% in 2017 and is expected to rise slightly to 1.5% in 2018, as higher oil prices pass through into energy prices. Accelerating wage growth is set to boost services inflation. In 2019, HICP inflation is forecast to increase to 2.3%, as the increase in the reduced VAT tariff from 6% to 9% takes effect.

Graph 2.19: **The Netherlands - Real GDP growth and contributions**



2.20. AUSTRIA

After a strong second half of 2017, Austria experienced solid GDP growth in the first quarter of 2018, pointing to a continuation of the economic expansion. Growth has been driven by private consumption and investment, as well as a positive contribution from net exports. Economic sentiment indicators have remained well above long-term averages so far this year, although they have declined slightly in recent months. Overall, GDP growth is expected to remain high at 2.8% in 2018 and to decrease somewhat to 2.1% in 2019.

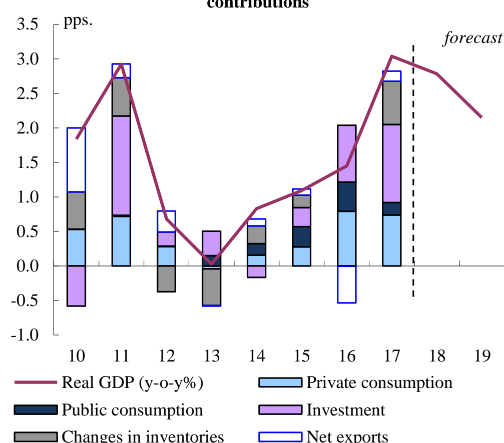
Investment growth is set to stay robust over the forecast horizon, but to moderate from high levels. It is expected to be supported by expansion needs in light of high capacity utilisation as well as by full construction order books resulting from

economic and population growth. Given the positive developments on the labour market and rising wages, private consumption is set to continue to contribute positively to growth. It is expected to grow more strongly in 2018 and to moderate in 2019.

In 2017, GDP growth was supported by a notable uptake in external demand. In 2018 and 2019, Austria's foreign trade is set to be less dynamic, but should continue to contribute positively to economic growth.

Prices increased considerably in 2017, raising headline and core inflation both to 2.2%, which was mainly due to the pick-up of prices in services, as well as rents. In 2018, the assumed increase in oil prices should keep headline inflation at 2.2%, before it slightly decreases to 1.9% in 2019, while core inflation is set to stabilise at 2.1%.

Graph 2.20: **Austria - Real GDP growth and contributions**



2.21. POLAND

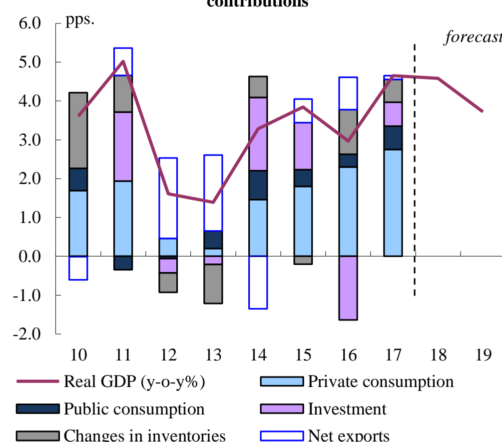
Growth strengthened in the first quarter of 2018 to 1.6% (q-o-q), supported mainly by strong private consumption and a sizeable build-up in inventories. Despite increasing public investment expenditure, investment growth remained modest.

Economic sentiment remained at elevated levels up to June both among households and in the business sector, which suggests that solid growth should continue. Overall, real GDP growth is expected to reach 4.6% in 2018 before slowing to 3.7% in 2019. Fast wage increases and high consumer confidence levels are expected to support private consumption, though its growth is projected to gradually moderate as inflation picks up. Public investment is expected to rise sharply in the coming quarters as projects financed with EU funding make progress. High capacity utilisation is projected to support a more gradual increase in private investment, especially equipment investment.

Downside risks are related to the outlook for German exports, given the strong role of Polish producers in associated supply chains.

Core inflation and especially services prices surprised on the downside in the first few months of 2018 due to sector-specific factors. This partly offset the effects of a faster rise in energy prices. Headline inflation is expected to average 1.3% in 2018 before rising to 2.6% in 2019, driven by fast wage growth, eventually leading to higher services prices.

Graph 2.21: **Poland - Real GDP growth and contributions**



2.22. PORTUGAL

Portugal's GDP growth slowed to 2.1% (y-o-y) in 2018-Q1, mainly due to weaker net exports. Part of the moderation is explained by temporary factors, such as bad weather conditions affecting construction activities and port services. Following a soft patch at the beginning of the year, economic sentiment improved in May and June pointing to a more favourable performance in the second quarter. This is also confirmed by the latest available hard data.

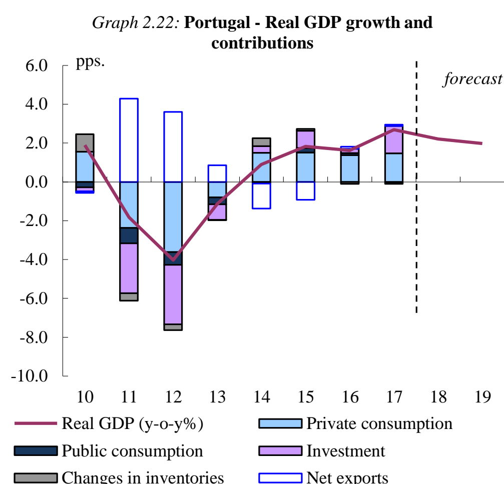
Private consumption continues to benefit from improving labour market conditions but is nevertheless projected to decelerate somewhat over the second half of 2018 as the pace of job creation slows and, to a lesser extent, as a result of

the impact of higher oil prices on real disposable incomes. Equipment investment remains strong and the outlook is also favourable, reflecting the improved financial health of the corporate sector, favourable lending conditions and a steady rise in capacity utilisation. In addition, construction investment is expected to rebound after the heavy rainfalls in March, as suggested by improved data on cement sales in 2018-Q2.

Both exports and imports are projected to continue expanding at high rates, with a slightly negative overall contribution to growth due to a less favourable external environment. Overall, real GDP growth is expected to rise by 2.2% in 2018 and 2.0% in 2019.

Following a significant slowdown early in the year, inflation began to pick up in May, driven mainly by the surge in oil prices. Inflation (HICP) is therefore expected to average 1.4% in 2018 and 1.6% in 2019. Wage growth has been subdued but is projected to gradually pick up over the forecast horizon, pushing service prices above the headline inflation rate. House prices, meanwhile, rose by 12.2% (y-o-y) in 2018-Q1, driven by tourism-related activities and foreign capital inflows. The ongoing recovery in residential construction is expected to gradually rein in house prices but the gap relative to the headline inflation rate is set to remain substantial over the forecast horizon.

Graph 2.22: **Portugal - Real GDP growth and contributions**



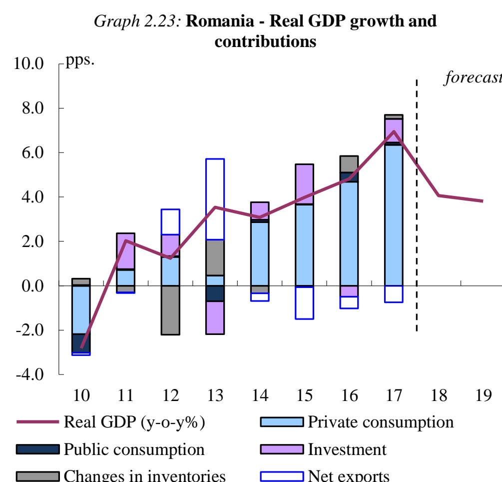
2.23. ROMANIA

The Romanian economic boom has started to wind down. After reaching a post-crisis peak of 6.9% in 2017, real GDP growth decelerated to 4.0% (y-o-y) in the first quarter of 2018. The main driver of the slowdown was a contraction in private consumption as inflation weighed more heavily on real disposable income. Export growth, in contrast, remained very robust in the first quarter of 2018 and outpaced the growth of imports.

Looking ahead, real GDP growth is forecast to decelerate to 4.1% in 2018 and 3.8% in 2019. The composition of growth is expected to become more balanced as private consumption growth tempers and investment strengthens on the back of a pick-up in the implementation of projects financed by EU funds.

Tight labour market conditions are expected to continue over the forecast horizon, with unemployment remaining close to its current very low level. Nominal wage growth is expected to continue in 2018, albeit at a slower pace, on the back of further increases in public wages and an additional 9% hike in the net minimum wage as of January 2018. Real wage growth, however, is expected to moderate significantly in 2018, due to the higher inflation.

Graph 2.23: **Romania - Real GDP growth and contributions**



After two consecutive years of falling consumer prices, inflation turned positive in 2017, despite VAT rate cuts and lower excise duties on fuel. Headline inflation started to accelerate in the second half of the year mainly on account of rising food and energy prices and further picked up in early 2018 as the effect of the January 2017 tax cuts faded away. Annual headline inflation stood at 4.6% in May this year. The reversal of the January excise duties cut in October 2017 will exert an additional pressure on inflation in the first three quarters of 2018. Thus, inflation is forecast to rise to 4.4% in 2018 and 3.4% in 2019. In response to the rising inflation, the National Bank of Romania

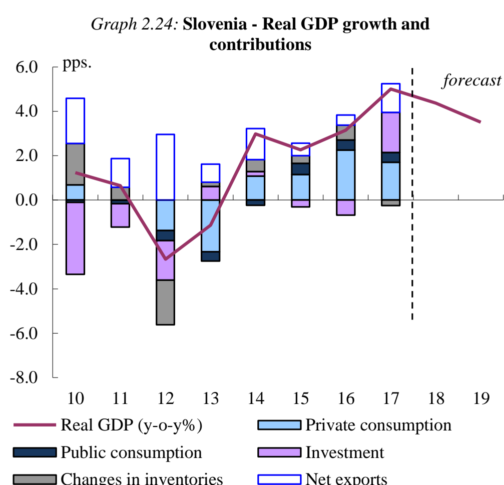
has started to tighten its highly accommodative monetary policy. In 2018 so far the key monetary policy rate was raised by 0.75 pps. to 2.5%. These are the first rate hikes since 2008.

2.24. SLOVENIA

In 2017, real GDP grew by 5.0% in Slovenia, reaching a 10-year high, driven mainly by domestic demand, particularly investment. In 2018-Q1, the economy grew by 0.7%, compared to the previous quarter and 5.0% compared with the same quarter in 2017. Export growth diminished due to lower foreign demand, while imports, consumption and investment continued to expand. Economic sentiment fell somewhat in the first half of 2018 compared to the end of 2017 but remained at a very high level.

Real GDP growth is forecast to reach 4.4% in 2018 and 3.5% in 2019, slightly lower than 4.7% and 3.6% expected in the spring forecast. While external demand has grown less than previously expected, Slovenia's exports are likely to benefit from a good competitive position. Nevertheless net exports' growth contribution is likely to turn negative as domestic demand strengthens, supported by growing employment, wages and favourable financing conditions. Business investment growth is forecast to continue at a rather high rate on the back of high capacity utilisation and a tightening labour market amid stronger balance sheets and improved profitability. In the public sector, a more intensive use of EU funds for investment projects is forecast for 2018 and 2019.

Graph 2.24: **Slovenia - Real GDP growth and contributions**



Downside risks to the growth outlook are linked to developments in Slovenia's key export markets and the possibility that labour supply shortages could start to limit growth. On the upside, the positive impact of improving access to credit could be larger than expected.

Overall, price pressures are expected to increase. HICP inflation was 1.5% in the first quarter of 2018 and rose in April and May. Overall, consumer prices are projected to rise by 2.1% in 2018 and 2.2% in 2019, slightly higher than the 1.9% and 2.0% expected in the spring forecast, driven by energy prices and wages growth.

2.25. SLOVAKIA

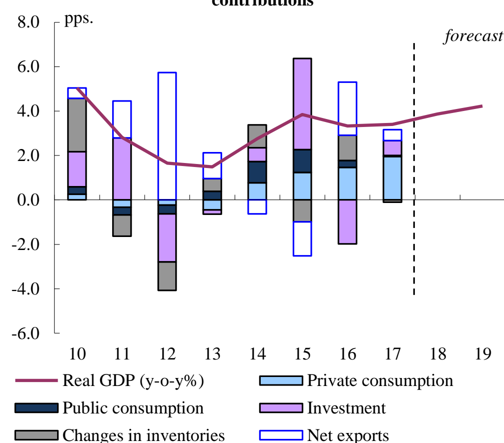
After expanding by 3.4% in 2017, the Slovak economy is expected to grow by around 4% in 2018 and 2019, with private consumption and investment likely to be the main drivers of growth. Investment growth is anticipated to peak in 2018, driven by booming investment in the automotive industry and some large-scale public infrastructure projects. Investment surged by 6.2% (q-o-q) in 2018-Q1, pointing to a robust annual increase for the year as a whole. Investment activity will probably remain solid throughout 2019, supported by a more buoyant drawdown of EU investment funds. Net trade is expected to contribute positively to growth as exports benefit from the car industry's expanded production capacity but there is heightened uncertainty surrounding global trade developments.

Households are expected to see their real disposable incomes rise as improving labour market conditions, including broad-based and swift wage growth, should outweigh the impact of rising inflation. This is expected to support continued growth in private consumption given that consumer confidence remains upbeat. Further labour market tightening in the context of already record-high labour shortages is set to keep nominal wage growth high throughout 2018 and 2019. At the same time, a shrinking supply of skilled workers, coupled with rising demand for labour, represents a potential bottleneck for Slovakia's booming economy.

Headline inflation is projected to increase to 2.6% in 2018, reflecting solid wage growth and robust household spending. Prices of services and food are expected to be the main contributors to overall

growth in consumer prices over the forecast horizon. Core inflation is expected to pick up significantly this year. Both headline and core inflation are expected to ease somewhat in 2019, while remaining above 2%.

Graph 2.25: **Slovakia - Real GDP growth and contributions**



2.26. FINLAND

After reaching a six-year high of 2.6% in 2017, preliminary data show that real GDP growth in Finland hit 3.1% (y-o-y) in the first quarter of 2018, led by private consumption and machinery investment. Investment growth surprised positively with a 7.9% increase (y-o-y). Most indicators suggest that the economy's growth momentum should continue into the second quarter of 2018.

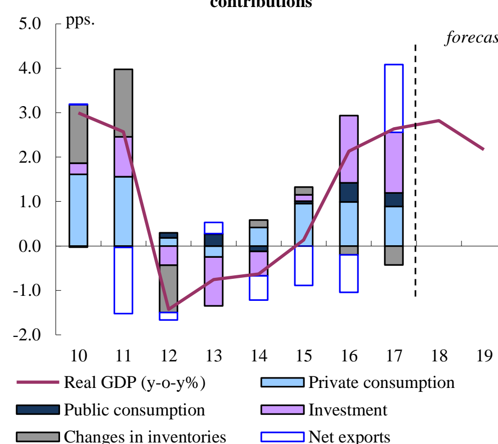
The economic outlook remains favourable. Higher employment, higher disposable income and solid consumer confidence are expected to drive household consumption. High capacity utilisation and favourable financing conditions should support investment. Investment growth is projected to remain strong, despite some deceleration in construction activity. Recent productivity gains have improved competitiveness, which is underpinning export growth, while import growth is expected to strengthen further on the back of rising private consumption. Supported by moderate wage growth, the employment rate is expected to increase further but significant slack is likely to remain in the labour market.

Overall, real GDP growth this year is expected to reach 2.8%. In 2019, however, growth is expected to slow to 2.2%, as Finland's shrinking working-age population and persistently high structural unemployment weigh on growth.

Risks to the outlook are broadly balanced. A higher-than-forecast decrease in demand from Finland's main EU trading partners could harm exports growth and investment. On the flip side, further productivity gains could trigger higher investment spending. Higher oil prices could also boost Russian demand for Finnish goods.

Price pressures are expected to remain subdued. Inflation (HICP) in the first half of 2018 was among the lowest in the EU. Some acceleration is forecast on the back of the rapid increase in oil prices, although core inflation is likely to remain low at 0.8%, with only a gradual acceleration in 2019.

Graph 2.26: **Finland - Real GDP growth and contributions**



2.27. SWEDEN

Economic growth in Sweden eased somewhat in 2017, with real GDP growth of 2.3%, mainly driven by solid domestic demand. The estimate for the first quarter of 2018 suggests that economic activity remained solid (0.7% q-o-q), based on buoyant construction investment and strong private consumption. However, the contribution from net exports turned negative, reflecting weaker demand from Sweden's main trading partners.

Real GDP growth is expected to remain firm at 2.4% in 2018, before moderating to 1.9% in 2019 when lower housing investment is expected to flatten domestic demand. Following two decades of strong growth, house prices declined in 2017-Q4 and have broadly stabilised since. This development in the construction sector is reflected in overall economic sentiment, which has been on a downward trend since November. Nevertheless, a strong labour market has continued to support a

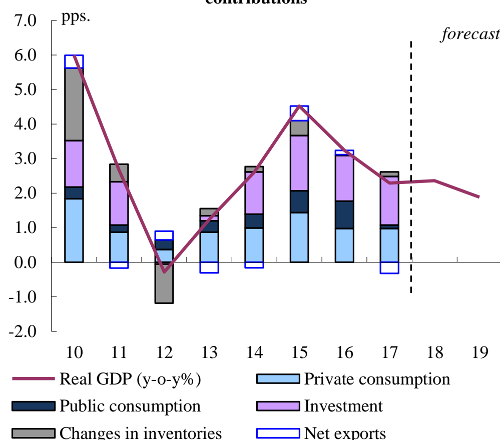
further increase in household incomes, which is likely to feed private consumption growth in 2018 and 2019.

Turning to the external sector, in spite of the Swedish krona's depreciation, exports of goods and services surprised on the downside in the first quarter of 2018, contracting by 0.2% (q-o-q). Trade-related uncertainty is expected to weigh on external demand and investment decisions going forward.

Risks are tilted to the downside. As a small open economy, Sweden remains vulnerable to external shocks. While the recent decline in house prices seems to have come to a halt, a renewed decline could reduce residential construction activity with repercussions on consumer confidence, household consumption, and ultimately growth.

Headline inflation stood at 2.0% in May, the Riksbank's target rate for price increases, fuelled by high energy and food prices. However, core inflation was only at 1.1%, suggesting still subdued price pressures. HICP is projected to be 1.9% in 2018 as in 2017 and to edge down to 1.7% in 2019. The weak Swedish krona is set to exert upward pressures on import prices but despite a tight domestic labour market wage growth remains weak.

Graph 2.27: **Sweden - Real GDP growth and contributions**

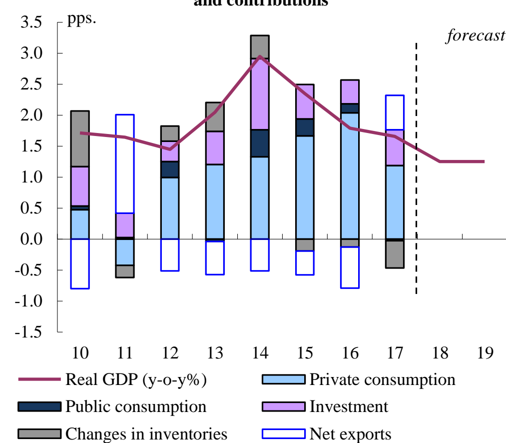


2.28. THE UNITED KINGDOM

Economic growth in the UK slowed significantly at the start of 2018: GDP growth was 0.2% (q-o-q) in 2018-Q1 down from 0.4% in 2017-Q4. This slowdown was in part due to severe weather disruption in March. High frequency indicators suggest that the output lost in 2018-Q1 will not be recovered in 2018-Q2, which is consistent with surveys indicating that firms in the construction and manufacturing sectors are facing capacity constraints and are therefore unable to make up for lost output.

For 2018 as a whole, private consumption growth is expected to remain subdued despite support from generally easing inflation, reflecting low consumer confidence and an anticipated stabilisation in the household saving rate. Business investment growth is projected to remain weak while uncertainty over the UK's future trading relationship with the EU remains. Net trade is expected to moderate in 2018, in line with the unwinding of the boost from sterling's 2016 depreciation and moderating export market growth. Reflecting this outlook, modest GDP growth of 1.3% in 2018 is forecast. Risks to the 2018 forecast are tilted to the downside. Domestically, downside risks relate to the possibility that the household saving rate rises faster than anticipated leading to lower consumption growth. While on the external side, as an open economy, the UK is particularly exposed to an escalation in trade protectionist measures that could further inhibit export growth.

Graph 2.28: **The United Kingdom - Real GDP growth and contributions**



Given the ongoing negotiation over the terms of the UK's withdrawal from the EU, projections for 2019 continue to be 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. Under this assumption, GDP growth is

projected to remain weak at 1.2% in 2019. The boost from lower consumer price inflation on private consumption is expected to be offset by a rise in the household saving rate. Business investment is projected to remain subdued following a period of prolonged uncertainty. Export growth is expected to remain modest, broadly in line with growth in export markets. However, as the purely technical assumption implies a relatively benign scenario, the risks to the 2019 baseline forecast are large and predominantly to the downside.

Consumer price inflation is expected to remain elevated in 2018 at 2.6% but to slow over the course of the year. The impact of the recent rise in oil prices should partly offset the unwinding of the pass through sterling's earlier depreciation on consumer prices. Inflation is projected to ease to 2.0% in 2019.

STATISTICAL ANNEX

Table 1: Gross domestic product, volume (percentage change on preceding year, 1999-2019) 3.7.2018

	5-year averages							Summer 2018 forecast		*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	*2018*	*2019*
Belgium	2.1	2.5	0.5	1.3	1.4	1.4	1.7	**1.7**	**1.6**	*1.8*	*1.7*
Germany	1.2	2.0	0.6	1.9	1.7	1.9	2.2	**1.9**	**1.9**	*2.3*	*2.1*
Estonia	5.8	5.5	0.0	2.9	1.7	2.1	4.9	**3.5**	**2.7**	*3.7*	*2.8*
Ireland	7.0	3.8	0.3	8.3	25.6	5.1	7.8	**5.6**	**4.0**	*5.7*	*4.1*
Greece	4.2	2.8	-5.9	0.7	-0.3	-0.2	1.4	**1.9**	**2.3**	*1.9*	*2.3*
Spain	4.0	3.2	-1.8	1.4	3.4	3.3	3.1	**2.8**	**2.4**	*2.9*	*2.4*
France	2.3	1.9	0.4	1.0	1.1	1.2	2.2	**1.7**	**1.7**	*2.0*	*1.8*
Italy	1.5	1.0	-1.6	0.1	1.0	0.9	1.5	**1.3**	**1.1**	*1.5*	*1.2*
Cyprus	4.0	4.3	-1.9	-1.4	2.0	3.4	3.9	**3.6**	**3.3**	*3.6*	*3.3*
Latvia	6.0	7.3	-1.4	1.9	3.0	2.2	4.5	**3.3**	**3.2**	*3.3*	*3.3*
Lithuania	5.2	7.0	-0.3	3.5	2.0	2.3	3.8	**3.1**	**2.6**	*3.1*	*2.7*
Luxembourg	4.9	3.8	1.2	5.8	2.9	3.1	2.3	**3.5**	**3.3**	*3.7*	*3.5*
Malta	3.3	2.7	1.9	8.1	9.6	5.2	6.4	**5.4**	**5.0**	*5.8*	*5.1*
Netherlands	2.4	2.7	-0.4	1.4	2.0	2.2	2.9	**2.8**	**2.5**	*3.0*	*2.6*
Austria	2.2	2.7	0.3	0.8	1.1	1.5	3.0	**2.8**	**2.1**	*2.8*	*2.2*
Portugal	1.9	1.4	-1.6	0.9	1.8	1.6	2.7	**2.2**	**2.0**	*2.3*	*2.0*
Slovenia	3.8	4.8	-2.0	3.0	2.3	3.1	5.0	**4.4**	**3.5**	*4.7*	*3.6*
Slovakia	2.8	7.4	1.1	2.8	3.9	3.3	3.4	**3.9**	**4.2**	*4.0*	*4.2*
Finland	3.3	3.3	-1.1	-0.6	0.1	2.1	2.6	**2.8**	**2.2**	*2.5*	*2.3*
Euro area	2.1	2.1	-0.4	1.3	2.1	1.8	2.4	**2.1**	**2.0**	*2.3*	*2.0*
Bulgaria	2.5	6.8	0.1	1.3	3.6	3.9	3.6	**3.8**	**3.7**	*3.8*	*3.7*
Czech Republic	2.8	5.3	-0.4	2.7	5.3	2.5	4.3	**3.0**	**2.9**	*3.4*	*3.1*
Denmark	1.7	1.9	-0.1	1.6	1.6	2.0	2.3	**1.6**	**1.8**	*1.8*	*1.9*
Croatia	3.4	4.0	-2.4	-0.1	2.4	3.5	2.9	**2.6**	**2.5**	*2.8*	*2.7*
Hungary	3.9	2.9	-0.8	4.2	3.4	2.2	4.0	**4.0**	**3.2**	*4.0*	*3.2*
Poland	3.2	5.2	2.9	3.3	3.8	3.0	4.6	**4.6**	**3.7**	*4.3*	*3.7*
Romania	3.6	7.1	-0.4	3.1	4.0	4.8	6.9	**4.1**	**3.8**	*4.5*	*3.9*
Sweden	3.0	2.9	0.8	2.6	4.5	3.2	2.3	**2.4**	**1.9**	*2.6*	*2.0*
EU27	2.2	2.4	-0.3	1.5	2.3	2.0	2.6	**2.3**	**2.1**	*2.5*	*2.2*
United Kingdom	3.1	2.0	0.5	2.9	2.3	1.8	1.7	**1.3**	**1.2**	*1.5*	*1.2*
EU28	2.3	2.3	-0.1	1.7	2.3	1.9	2.4	**2.1**	**2.0**	*2.3*	*2.0*

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2017-19) 3.7.2018

	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4
Belgium	0.7	0.5	0.2	0.5	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.3
Germany	0.9	0.6	0.7	0.6	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.4
Estonia	1.1	1.6	0.1	2.1	-0.1	1.0	1.1	0.8	0.6	0.5	0.5	0.5
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	0.8	0.9	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.5
France	0.8	0.7	0.7	0.7	0.2	0.3	0.4	0.4	0.4	0.5	0.5	0.5
Italy	0.5	0.4	0.3	0.4	0.3	0.2	0.3	0.3	0.2	0.3	0.2	0.2
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	1.4	1.4	1.5	0.4	1.5	0.2	0.3	0.4	0.9	1.0	1.0	1.0
Lithuania	1.1	0.7	0.5	1.4	0.9	0.4	0.6	0.7	0.7	0.7	0.7	0.7
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.5	1.0	0.6	0.9	0.6	0.6	0.7	0.7	0.6	0.6	0.5	0.5
Austria	1.1	0.8	0.9	0.9	0.8	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Portugal	0.7	0.3	0.6	0.7	0.4	0.6	0.5	0.6	0.5	0.5	0.4	0.5
Slovenia	1.6	1.3	1.1	1.9	0.7	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Slovakia	0.8	1.0	0.8	0.9	0.9	1.2	1.2	1.2	1.2	1.0	0.9	1.0
Finland	0.9	0.6	0.3	0.9	1.2	0.5	0.3	0.3	0.7	0.7	0.7	0.7
Euro area	0.7	0.7	0.7	0.7	0.4	0.4	0.5	0.5	0.4	0.5	0.5	0.5
Bulgaria	0.9	1.0	0.9	0.7	0.9	1.0	1.0	1.1	0.8	0.8	0.8	0.8
Czech Republic	1.3	2.3	0.5	0.7	0.5	0.7	0.7	0.7	0.7	0.8	0.7	0.7
Denmark	2.4	-1.1	-0.8	0.9	0.4	0.7	0.7	0.7	0.3	0.3	0.3	0.3
Croatia	0.9	0.7	0.6	0.0	0.2	1.0	1.1	0.8	0.6	0.5	0.5	0.5
Hungary	1.4	1.1	1.1	1.3	1.2	0.6	0.7	0.8	0.8	0.8	0.8	0.8
Poland	1.1	0.9	1.4	1.0	1.6	0.9	0.8	0.9	0.9	0.9	0.9	0.9
Romania	2.4	1.6	2.2	0.3	0.0	1.7	1.4	1.2	0.8	0.7	0.6	0.5
Sweden	0.4	1.1	0.6	0.7	0.7	0.5	0.4	0.4	0.4	0.4	0.3	0.3
EU27	0.7	0.8	0.7	0.7	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
United Kingdom	0.4	0.2	0.4	0.4	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.2
EU28	0.7	0.7	0.7	0.7	0.4	0.4	0.5	0.5	0.4	0.5	0.5	0.4

Table 3: Harmonised index of consumer prices (percentage change on preceding year, 1999-2019) 3.7.2018

	5-year averages							Summer 2018 forecast		*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	*2018*	*2019*
Belgium	1.9	2.6	1.9	0.5	0.6	1.8	2.2	**1.9**	**1.6**	*1.6*	*1.6*
Germany	1.3	2.1	1.5	0.8	0.1	0.4	1.7	**1.7**	**1.8**	*1.6*	*1.8*
Estonia	3.5	5.8	3.1	0.5	0.1	0.8	3.7	**2.9**	**2.7**	*2.9*	*2.5*
Ireland	4.1	2.6	0.1	0.3	0.0	-0.2	0.3	**1.0**	**1.3**	*0.8*	*1.1*
Greece	3.2	3.4	1.9	-1.4	-1.1	0.0	1.1	**0.7**	**1.3**	*0.5*	*1.2*
Spain	3.0	3.4	1.8	-0.2	-0.6	-0.3	2.0	**1.8**	**1.6**	*1.4*	*1.4*
France	1.7	2.2	1.5	0.6	0.1	0.3	1.2	**1.9**	**1.5**	*1.7*	*1.4*
Italy	2.4	2.4	2.0	0.2	0.1	-0.1	1.3	**1.4**	**1.6**	*1.2*	*1.4*
Cyprus	2.9	2.5	1.9	-0.3	-1.5	-1.2	0.7	**0.8**	**1.4**	*0.7*	*1.2*
Latvia	2.4	9.0	1.7	0.7	0.2	0.1	2.9	**2.6**	**2.6**	*2.7*	*2.6*
Lithuania	0.7	4.9	2.8	0.2	-0.7	0.7	3.7	**2.7**	**2.2**	*2.7*	*2.3*
Luxembourg	2.4	3.3	2.2	0.7	0.1	0.0	2.1	**1.6**	**1.9**	*1.5*	*1.7*
Malta	2.5	2.6	2.1	0.8	1.2	0.9	1.3	**1.5**	**1.8**	*1.6*	*1.8*
Netherlands	3.1	1.7	2.0	0.3	0.2	0.1	1.3	**1.5**	**2.3**	*1.6*	*2.2*
Austria	1.6	2.2	2.1	1.5	0.8	1.0	2.2	**2.2**	**1.9**	*2.1*	*1.9*
Portugal	3.3	2.6	1.5	-0.2	0.5	0.6	1.6	**1.4**	**1.6**	*1.2*	*1.6*
Slovenia	7.4	3.6	1.9	0.4	-0.8	-0.2	1.6	**2.1**	**2.2**	*1.9*	*2.0*
Slovakia	8.3	4.1	2.2	-0.1	-0.3	-0.5	1.4	**2.6**	**2.2**	*2.4*	*2.1*
Finland	2.0	1.5	2.4	1.2	-0.2	0.4	0.8	**1.3**	**1.7**	*1.4*	*1.7*
Euro area	2.0	2.4	1.7	0.4	0.0	0.2	1.5	**1.7**	**1.7**	*1.5*	*1.6*
Bulgaria	5.7	7.8	2.3	-1.6	-1.1	-1.3	1.2	**2.0**	**1.8**	*1.8*	*1.8*
Czech Republic	2.3	3.1	1.8	0.4	0.3	0.6	2.4	**2.1**	**2.0**	*2.1*	*1.8*
Denmark	2.3	2.0	1.8	0.4	0.2	0.0	1.1	**0.9**	**1.5**	*0.8*	*1.4*
Croatia	3.5	3.4	2.2	0.2	-0.3	-0.6	1.3	**1.6**	**1.8**	*1.4*	*1.5*
Hungary	7.8	5.7	4.0	0.0	0.1	0.4	2.4	**2.7**	**3.2**	*2.3*	*3.0*
Poland	5.0	2.8	3.0	0.1	-0.7	-0.2	1.6	**1.3**	**2.6**	*1.3*	*2.5*
Romania	32.7	8.1	4.8	1.4	-0.4	-1.1	1.1	**4.4**	**3.4**	*4.2*	*3.4*
Sweden	1.8	1.7	1.3	0.2	0.7	1.1	1.9	**1.9**	**1.7**	*1.9*	*1.7*
EU27	3.1	2.7	1.9	0.4	0.0	0.2	1.6	**1.8**	**1.8**	*1.6*	*1.7*
United Kingdom	1.2	2.3	3.1	1.5	0.0	0.7	2.7	**2.6**	**2.0**	*2.5*	*1.9*
EU28	2.7	2.6	2.1	0.5	0.0	0.3	1.7	**1.9**	**1.8**	*1.7*	*1.8*

Table 4: Harmonised index of consumer prices (percentage change on preceding year, 2017-19) 3.7.2018

	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4
Belgium	3.0	2.0	1.9	2.0	1.6	2.1	2.3	1.8	2.0	1.6	1.5	1.4
Germany	1.9	1.6	1.7	1.6	1.3	1.8	2.0	1.8	2.1	1.7	1.7	1.7
Estonia	3.1	3.4	4.0	4.1	3.2	3.1	2.7	2.7	2.8	2.6	2.6	2.6
Ireland	0.4	0.0	0.1	0.5	0.5	0.8	1.4	1.2	1.4	1.3	1.3	1.4
Greece	1.5	1.3	0.8	0.8	0.3	0.8	1.0	0.6	0.9	1.2	1.4	1.6
Spain	2.7	2.1	1.8	1.6	1.1	1.8	2.3	1.9	1.8	1.6	1.6	1.5
France	1.5	1.0	0.9	1.2	1.5	2.2	2.0	1.8	1.4	1.4	1.5	1.6
Italy	1.3	1.6	1.3	1.1	0.9	1.0	1.6	1.9	1.8	1.6	1.5	1.5
Cyprus	1.2	1.3	0.2	0.1	-0.8	0.8	1.6	1.5	1.5	1.3	1.4	1.5
Latvia	3.1	3.0	2.9	2.5	2.0	2.4	3.0	2.8	2.7	2.6	2.5	2.4
Lithuania	3.0	3.4	4.5	4.1	3.1	2.5	2.6	2.6	2.6	2.3	2.0	1.9
Luxembourg	2.6	2.0	2.0	1.8	1.2	1.9	1.9	1.8	1.9	1.9	1.9	2.0
Malta	1.3	1.1	1.2	1.4	1.3	1.7	1.7	1.7	1.6	1.8	1.8	1.8
Netherlands	1.3	1.0	1.5	1.4	1.3	1.5	1.6	1.8	2.3	2.3	2.4	2.3
Austria	2.2	2.2	2.2	2.4	2.0	2.2	2.3	2.2	2.0	1.8	1.9	2.0
Portugal	1.4	1.7	1.3	1.8	0.9	1.3	1.9	1.8	1.7	1.6	1.6	1.6
Slovenia	2.0	1.4	1.3	1.5	1.5	2.1	2.4	2.3	2.3	2.2	2.2	2.2
Slovakia	1.0	1.0	1.6	2.0	2.4	2.9	2.7	2.5	2.1	2.1	2.2	2.2
Finland	1.1	0.9	0.7	0.6	0.8	1.0	1.6	1.7	2.1	1.8	1.6	1.4
Euro area	1.8	1.5	1.4	1.4	1.3	1.7	1.9	1.8	1.8	1.6	1.6	1.6
Bulgaria	0.8	1.4	0.9	1.7	1.6	2.1	2.4	2.0	2.0	1.7	1.7	1.8
Czech Republic	2.5	2.3	2.4	2.5	1.7	2.1	2.4	2.4	2.3	2.0	1.9	1.8
Denmark	0.8	0.7	1.5	1.2	0.5	0.8	1.4	1.0	1.5	1.4	1.5	1.6
Croatia	1.1	1.1	1.4	1.5	1.1	2.4	2.3	1.9	1.7	1.6	1.8	1.9
Hungary	2.6	2.1	2.5	2.3	2.0	2.7	3.2	3.0	3.3	3.3	3.1	3.2
Poland	1.7	1.5	1.5	1.8	1.0	1.2	1.6	1.4	2.1	2.6	2.7	2.8
Romania	0.4	0.6	1.0	2.4	3.7	4.7	4.9	4.2	3.6	3.6	3.3	3.3
Sweden	1.6	1.8	2.2	1.8	1.7	1.9	2.1	2.0	1.9	1.8	1.7	1.5
EU27	1.7	1.5	1.5	1.5	1.3	1.7	2.0	1.8	1.9	1.7	1.7	1.7
United Kingdom	2.2	2.8	2.8	3.0	2.7	2.5	2.8	2.5	2.2	2.0	1.9	1.8
EU28	1.8	1.7	1.7	1.7	1.5	1.9	2.1	2.0	1.9	1.8	1.7	1.7

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.

(Continued on the next page)

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

Acknowledgements

This report was prepared in the Directorate-General for Economic and Financial Affairs under the direction of Marco Buti, Director General, and José Eduardo Leandro, Director of the "Policy, strategy and communication". Executive responsibilities were attached to Björn Döhring, Head of Unit "Economic situation, forecasts, business and consumer surveys", Evelyne Hespel, Head of Sector "Macro-economic forecasts and short-term economic developments", and the forecast coordinators, Reuben Borg and Suzanne Casaux.

The report benefitted from contributions by Aurelija Anciūtė, Wojciech Balcerowicz, Nicolae Biea, Reuben Borg, Chris Bosma, Lucian Briciu, Kathleen Burkhardt, Suzanne Casaux, Francisco de Castro Fernández, András Chabin, Oliver Dieckmann, Violaine Faubert, Norbert Gaál, Mateja Gabrijelcic, Oscar Gomez Lacalle, Benedetta Guerzoni, John Harnett, Julien Hartley, David Havrlant, Andras Hudecz, Jip Italianer, Isabelle Justo, Violeta Klyviene, Radoslav Krastev, Anna Küffel, Ivan Kusen, João Miguel Leal, Julia Lendvai, David Lopes, Natalie Lubenets, Mart Maiväli, Wojciech Paczyński, Mona Papadakou, Gábor Márk Pellényi, Leonardo Pérez-Aranda, Samuli Pietiläinen, Mario Pletikosa, Simona Pojar, Félix Rodríguez Millán, Dan A. Rieser, Maja Semanovic, Sara Simoes, Michael Sket, Peeter Soidla, Ulrike Stierle-von Schütz, Nuria Subirats Rebull, Tsvetan Tsalinski, Ismael Valdés Fernández, Milda Valentinaitė, Przemysław Woźniak, Alexandru Zeana, and Ingars Zustrups.

Statistical and layout assistance was provided by Salvador Adrian Ferrandis Vallterra and Tomasz Zdrodowski.

Support in editing was provided by Peter Koh.

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