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Banking
Federation

EBF Economic Outlook Nr 37

2014 MID-YEAR OUTLOOK
ON THE EURO AREA ECONOMIES IN 2014-2015

A TIMID RECOVERY

June 2014

This bi-annual report is prepared by the members of the European Banking Federation's Economic and Monetary Affairs Committee comprising the Chief Economists of leading European banks and banking associations.

The report reflects a consensus (based on arithmetic averages) on the outlook for the euro area economies. This report is available on the EBF website: http://www.ebf-fbe.eu/index.php?page=economic-outlook

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The EBF is committed to supporting EU policies to promote the single market in financial services in general and in banking activities in particular. It advocates free and fair competition in the EU and world markets and supports the banks' efforts to increase their efficiency and competitiveness.

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1. The CEG Consensus

After two years of recession, the euro area is seeing some light at the end of the tunnel. The European Banking Federation's Chief Economists' Group[1] forecast it to grow by 1.1% in 2014 and 1.5% in 2015 thanks to an increase in global and domestic demand. The latter is led by higher investment spending. They stress the positive impact of ongoing structural reforms and the reduced uncertainty due to the institutional changes that took place at the European level in 2012 and 2013 as well as a lesser drag from fiscal consolidation.

Table 1: Main indicators of the CEG consensus

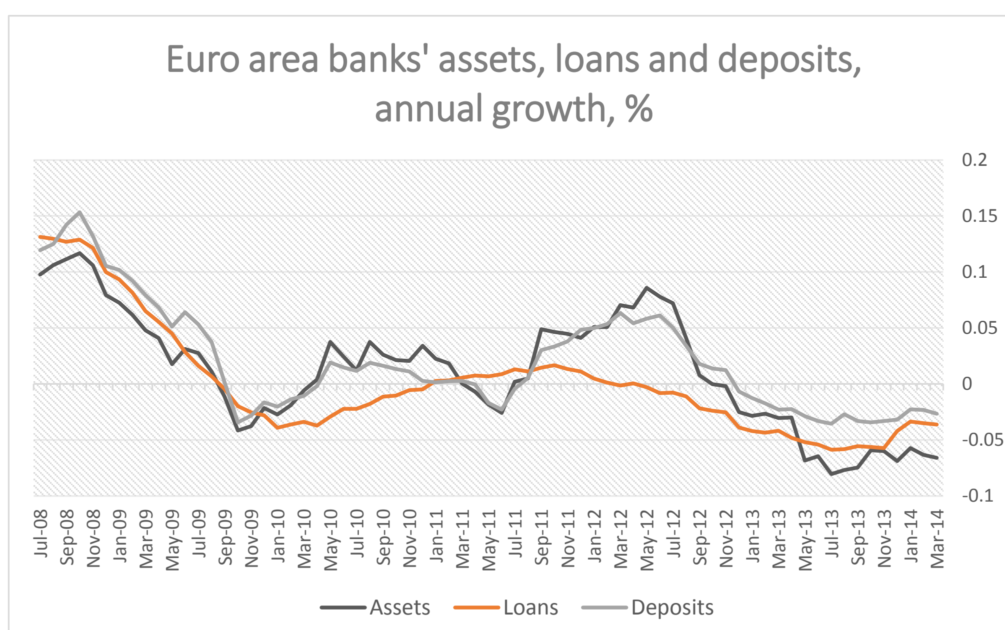
y-o-y growth rates unless specified otherwise, in %

	2011	2012	2013	2014p	2015p
Gross Domestic Product	1.6	-0.7	-0.4	1.1	1.5
Private consumption	0.3	-1.4	-0.7	0.7	1.1
Public consumption	-0.1	-0.6	0.1	0.4	0.5
Gross fixed investment (GFCF)	1.6	-4.0	-3.1	2.4	3.0
Exports	6.5	2.5	1.3	3.9	4.3
Imports	4.5	-0.9	-0.1	3.7	4.3
Unemployment rate	10.1	11.3	12.0	11.9	11.7
Prices (HCPI)	2.7	2.5	1.4	0.9	1.4
General Government balance (% of GDP)	-4.1	-3.7	-3.0	-2.6	-2.3
General Government debt (% of GDP)	88.2	92.8	95.1	95.9	96.0

2011, 2012 and 2013 are data (Eurostat); 2014 and 2015 are current CEG projections

The overall economic sentiment and consumer confidence indicators have improved as have external conditions. The supportive monetary policy of the ECB and the lesser drag from fiscal correction is helping to boost domestic demand. After two years of contraction, the contribution of consumer spending to the change in GDP will be positive and will roughly match that of fixed investment. Net exports will also contribute to growth, albeit by a lesser amount. These trends are forecast to continue in 2015 with domestic demand accelerating further.

If the general sentiment is positive and the euro area is expected to return to growth, the still-elevated level of financial fragmentation and paucity of credit remain significant caveats.



Source: ECB & EBF calculations

[1] Further in the text: CEG

Furthermore, the very low level of inflation renders the recovery vulnerable. The average rate of inflation in the euro area will be around one percentage point below the ECB medium–term goal of close to but below 2% this year and next. The worst-case scenario, outright deflation, that is, a period of general falls in prices, a slump in corporate earnings and the expectations of further price falls, would negatively impact on debt dynamics but this is not part of the CEG central scenario. However, the high level of the euro makes exports less attractive to third-countries and the danger of a further appreciation presents a serious downside risk.

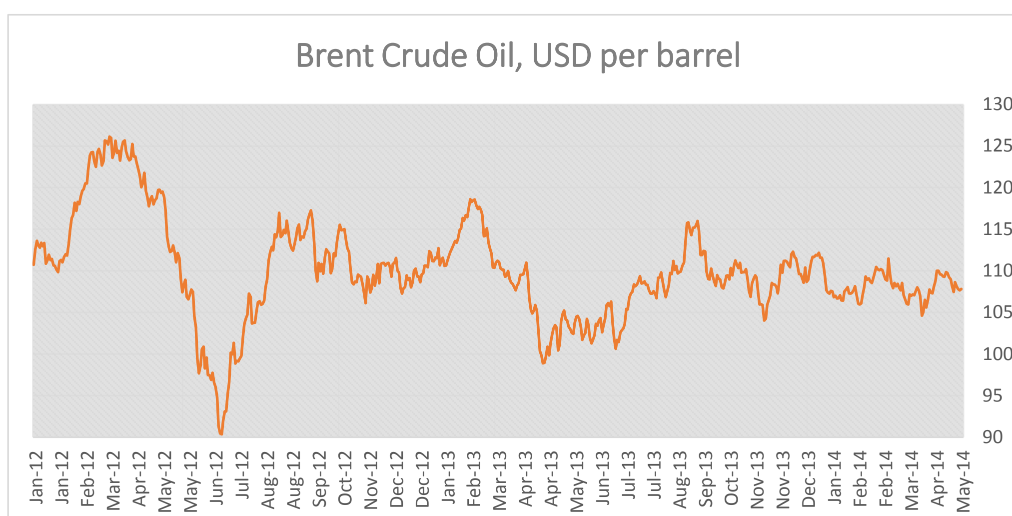
National governments have made significant efforts to reduce their fiscal imbalances and these efforts will pay-off with expected budget deficits below the 3% threshold in 2014 and 2015. However, some euro countries are not managing to achieve the jointly agreed deficit targets even after obtaining extensions. Furthermore, gross general government debt is expected to continue to grow and to reach an all-time high of 96% of GDP in 2015.

2. Global Economic Environment

At a global level, the biggest contribution to growth will come from the United States of America. The economic recovery in the US and the rest of the advanced world should have a positive impact on emerging countries. On the other hand, should the FED and the BoE start tightening rates earlier than expected by the markets, we could witness negative repercussions on emerging countries, especially those with a significant current account deficit. There is a risk of a hard landing in China but this is not considered by the CEG to have a high probability in the short term.

In Europe, tensions on the financial markets could diminish more rapidly than expected as fiscal consolidation, structural reforms and restructuring of the banking sector proceed. On the other hand, some countries could be more reluctant to implement the much needed reforms in the wake of recent political developments. That would of course increase the tensions on the financial markets. Growth in the new EU member states in CEE will improve significantly and, while these economies are quite small on a global scale, they matter significantly for the euro area. Speaking about the East, the Ukrainian crisis, if it were to continue and/or deteriorate, could have a negative impact by creating uncertainty in Europe and because of the consequences of possible trade sanctions.

Looking at the energy side, gas and oil prices are expected to remain subdued. The chief economists anticipate a barrel of Brent Crude Oil at $106.8 in 2014 and $104.3 in 2015. While the price of gas could increase if the confrontation between Russia and Ukraine were to deteriorate, reserves of gas are high in Europe.



Source: ICE

Focus box 1: Trends in the banking sector

Bank lending conditions vary significantly across the euro area, reflecting the still high level of financial fragmentation between countries. Lending to corporates remains weak overall. On the one hand, there is also a weak demand from non-financial corporations for bank loans due to lacklustre demand. In this context, a large proportion of loan applications is driven by the need for working capital and the restructuring of existing financing. On the other hand, bank deleveraging and favourable market conditions are pushing corporates towards capital markets. In general, issues with credit supply are more obvious in the peripheral countries where deleveraging is greater.

In Europe, bank loans represent around three quarters of NFC funding while the remaining quarter comes from the capital markets. In the United States, the situation is the opposite. There is now a strong political will in the European Union to develop capital markets in order to increase their share in the funding mix. Banks are however expected to retain a key role thanks to their expertise and their local relationships which reduce the asymmetry of information between lenders and borrowers. This applies to SMEs in particular because they are smaller and have less opportunities to tap alternative sources of finance. The 2013 Annual Report of the ECB noted that *"bank loans to the private sector are a key factor for financing investment and consumption, particularly in bank-based financial systems such as that of the euro area*[2] *"*.

Source: ECB and EBF calculations

According to the ECB, an economic recovery is not incompatible with an absence of credit growth. Recent research shows that about one in five recoveries is credit-less. This is especially the case after a crisis affecting the banking sector or the currency. Companies rely more on self-financing and other sources of external funding or just move to sectors of activity less dependent on credit. It has to be noted however that GDP growth rates are significantly lower for recoveries without credit growth[3] , stressing again the importance of bank loans to support the recovery in the euro area.

Loans to households and especially mortgages are also very country-specific. Finland is an example of a country where demand for mortgages has declined recently as the situation in the housing market has stagnated and the economic outlook turned negative. Mortgage lending has been quite dynamic in France on the other hand.
The growth of households' deposits is very fragmented too. While countries such as Belgium continue to have growing deposits (increase of about 5% a year), others such as Greece are in negative territory on a year-on-year basis. In fact, because of the strong cuts in salaries, Greek households are currently using their savings to cover living expenses and pay taxes. Deposit growth is also high in Eastern European countries with high economic growth such as Latvia.

Concerning regulatory and structural changes, the main ones are happening at the European level with CRD IV, the banking union and the Asset Quality Review being performed by the ECB. However, at the national level too some changes are affecting the banking sector, e.g. changes in the treatment of loan loss provisions in Italy and Spain.

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[2] European Central Bank (2014), 2013 Annual Report, p. 56

[3] Around a third lower according to the ECB

3. Domestic Economy

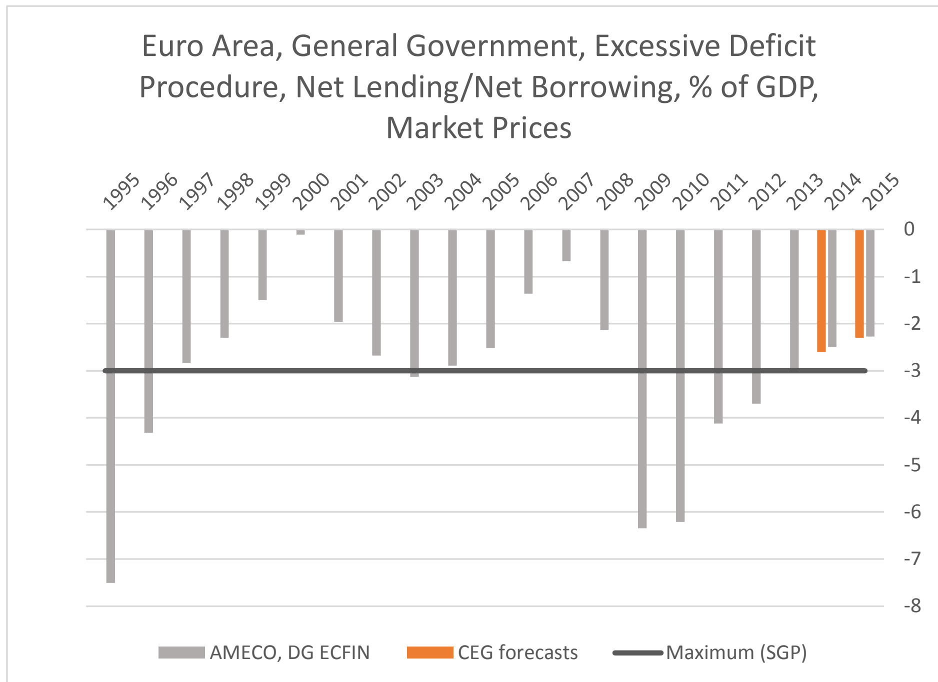
The European economy has turned the corner but is only gradually moving into positive territory. Uncertainty has been reduced and confidence is increasing but this should not distract Member States from persevering with fiscal consolidation and ambitious economic reforms. As already noted in the previous CEG economic outlook, a further slowing of inflation would be a serious threat to the timid recovery and would present a formidable challenge for policy-makers.

On the political side, while some countries such as Italy - which lags behind the European average in terms of economic growth - seem to have speeded up the reform agenda with its new government, in others such as Slovenia the reform process could temporarily slow down because of the recent government resignation and the upcoming extraordinary elections. Moreover, the recent European elections have seen a rise of Euro-sceptic parties that, together with lighter market pressure, could slow the institutional reforms.

4. Fiscal policy and the economy

Since the beginning of the crisis, euro area governments have faced a dilemma between reducing deficits and stimulating economic growth. An initial expansionary policy quickly gave way to consolidation in more recent years. In an attempt to be as growth-friendly as possible, fiscal consolidation is now sought mainly through expenditure reduction rather than revenue increasing measures.

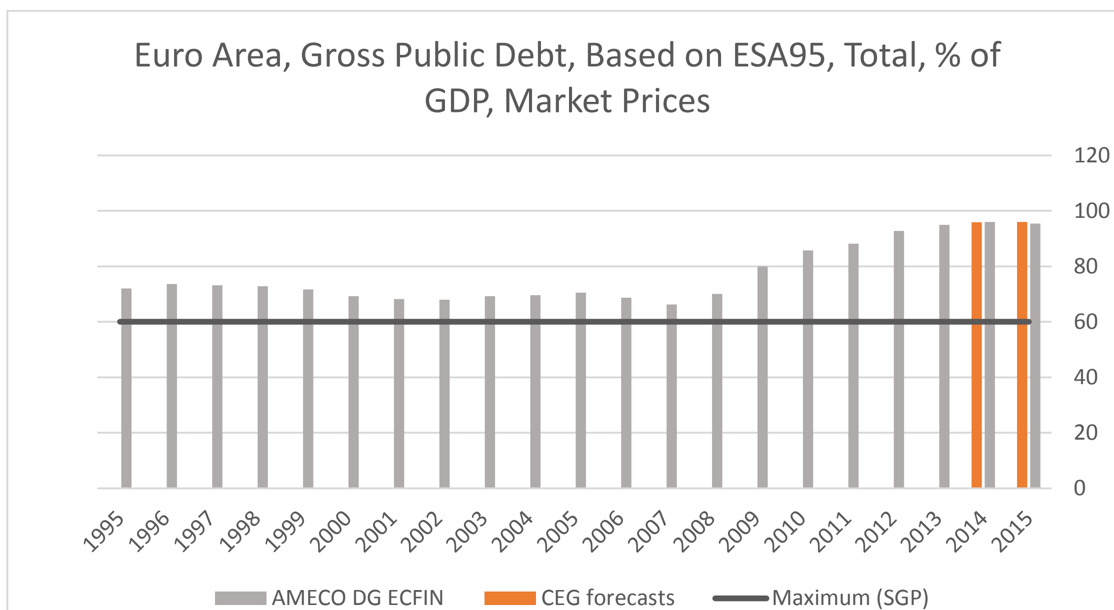
In this context, the countries of the euro area have successfully reduced public deficits and the aggregate EA deficit will be lower than the threshold of 3% in the two coming years. However, even if the aggregated deficit is within the allowed range, there remain significant differences between Member States with, for instance, France and the Netherlands having deficits above 3% in 2014.



Source: European Commission; CEG forecasts for 2014 and 2015

The lower EA public deficit will not translate into a reduction of the level of public debt relative to GDP. In fact, the level of gross debt will continue to grow in the two coming years to reach an all-time high of 96% in 2015. This is 36 percentage points above the threshold of 60% and must be reduced by one-twentieth each year according to the TFEU in coming decades. More efforts are hence needed in order to avoid falling into a snowball scenario – many countries will have to take measures to achieve their Medium Term Budgetary objectives of a structural deficit close to zero. A period of deflation, were this to emerge, would have a negative impact on debt dynamics, making it much harder to achieve the debt and deficit targets. On the other hand,

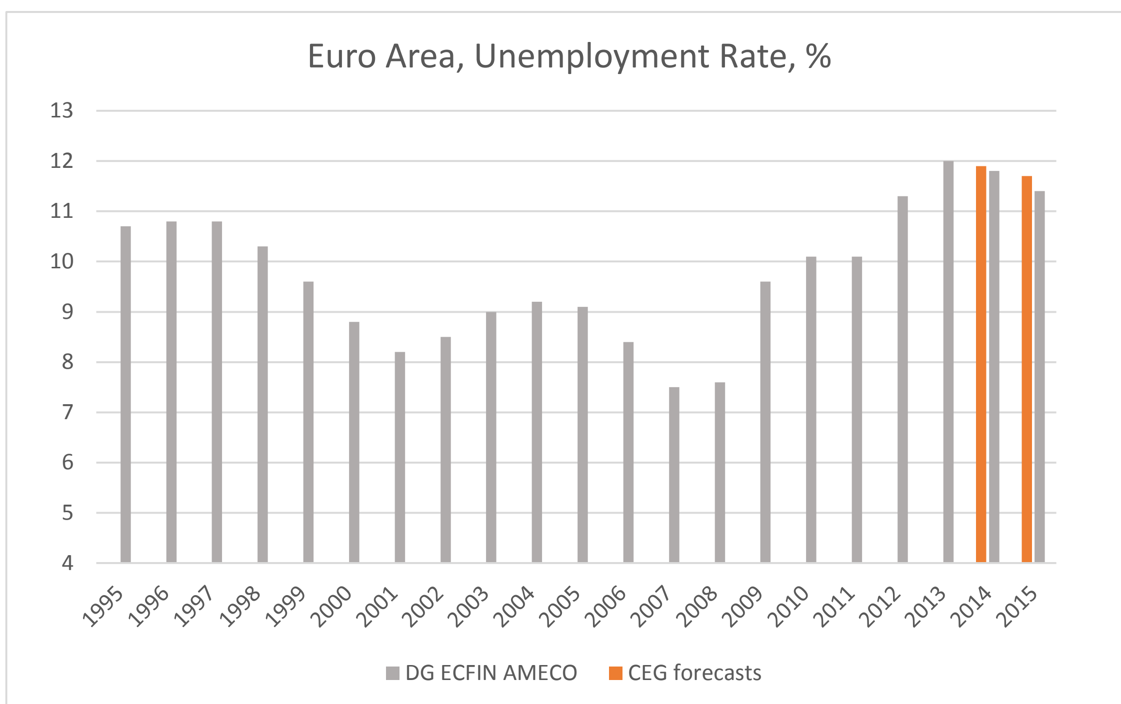
stronger-than-expected growth would make the task much easier but the CEG do not see this happening in the foreseeable future.



Source: European Commission; CEG forecasts for 2014 and 2015

Despite strong efforts to contain expenditure, public consumption is forecast to rise by 0.4% and 0.5% in 2014 and 2015, respectively. This trend started in 2013 when government consumption began to expand after two years of contraction. The contribution to GDP growth is, however, small, around 0.1 of a percentage point.

The level of unemployment in the euro area, which was of 7.1% in 2007, has consistently increased since the beginning of the crisis. It stabilised at 12% in 2013 and will slightly improve in 2014 when it should decrease by 0.1 percentage point to 11.9%. The positive trend is forecast to accelerate in 2015 bringing the unemployment down to 11.7%. There is always a lag between economic improvement and employment increase so it is no surprise that the timid economic recovery (2013 was negative) will only lead to a slight improvement in 2014. The trend should, however, accelerate in the coming years if the economic recovery persists. The unemployment rate will also be pushed down by a falling labour force participation in some countries. However, the recovery is limited and surely not enough to produce a significant decline in the unemployment rate. Moreover, increases in productivity and computerised activities could lead to a job-less growth. In this context, it is of primary importance to avoid creating uncertainty around companies that would prevent them from hiring.



Source: European Commission; CEG forecasts for 2014 and 2015

Investment (GFCF) is projected to increase by 2.4% and 3.0% in 2014 and 2015, respectively. This period of growth in investment takes place after two years of significant decrease due to uncertainty and cuts in bank lending. The rebound in investment spending is a major driver of the recovery forecast for the euro area. This is especially the case in core countries. Furthermore, the European economy will need significant investments in the coming years, especially long-term investment. The Communication of the European Commission on the Long-Term Financing of the European Economy was published in March this year and stresses the need to channel funds towards investments fostering economic growth. These include SMEs and infrastructure. On the infrastructure side alone, the Commission estimate the capital required to integrate energy, transport and telecom networks to be one trillion euro by 2020.

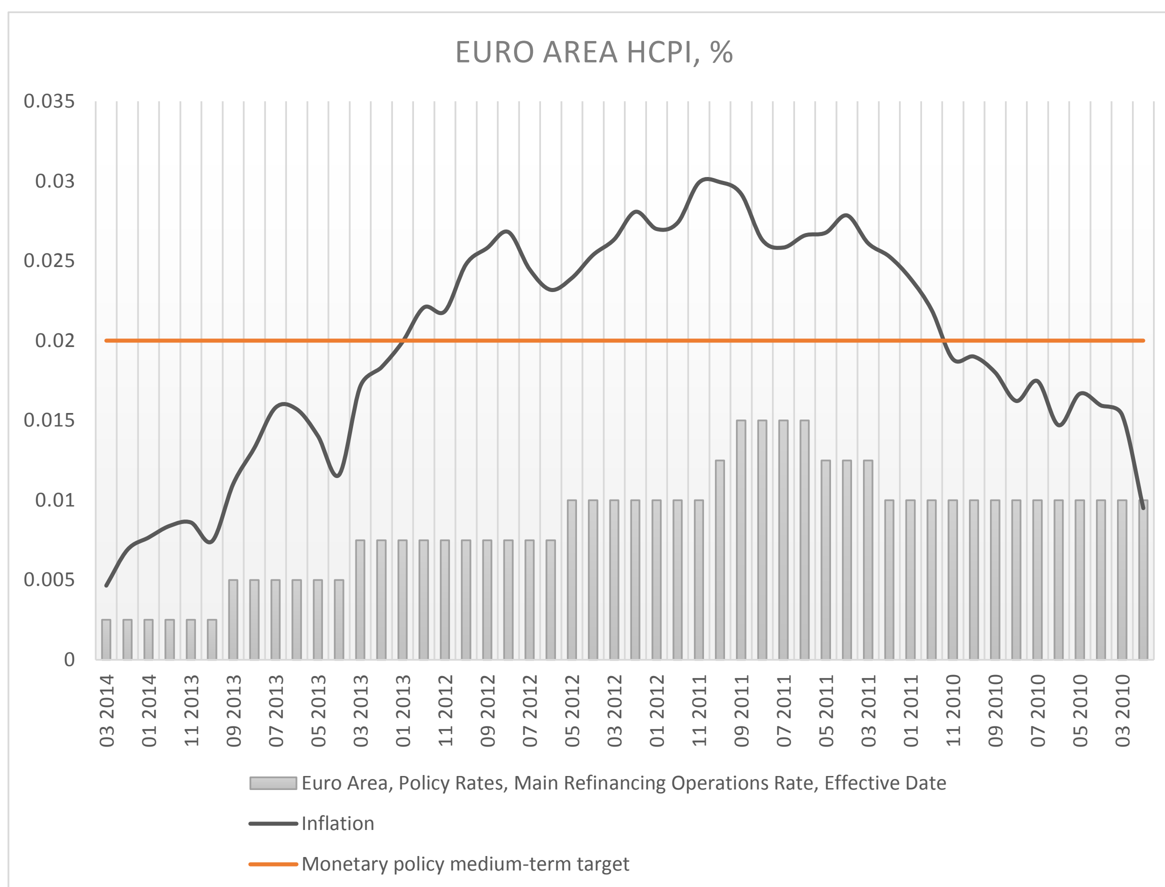
5. Inflation and monetary policy outlook

While monetary policy in the euro area has been very accommodative in recent years with interest rates close to zero and unlimited provision of liquidity, there is a growing view that even more is required. Critically, the ECB has eased financial conditions and helped contain credit contraction and spreads on sovereign bonds, notably through its commitment to Outright Monetary Transactions. However, it now faces two main challenges: fostering the financing of non-financial corporations, especially SMEs, and avoiding deflation.

There are voices calling for the ECB to use its balance sheet more actively to boost activity and increase inflation. Possible action could include the launch of tailor made LTROs, providing incentives to banks to funnel liquidity to firms. Asset purchases, e.g. ABS purchases, could be even more effective as they would remove risk from banks' balance sheets and encourage them to extend new credit, provided the operational obstacles can be overcome together with the difficult question of risk-sharing. On the other hand, one should not forget that low bank lending is also due to the weak financial health of many companies and low credit demand in many euro area countries. Granting loans to non-viable structures should be avoided. Access to finance is not the single issue – it could, however, become more pressing as the recovery gathers momentum and the demand for credit increases.

Most CEG members believe that a further policy loosening is necessary to guard against deflation. In their view, pre-emptive action is necessary as a deflationary scenario would have very serious implications for the solvency of both the private and public sectors and could reinvigorate fears about debt levels in the euro area[3] leading to a renewed debt crisis.

3 See point 4: Fiscal policy and the economy



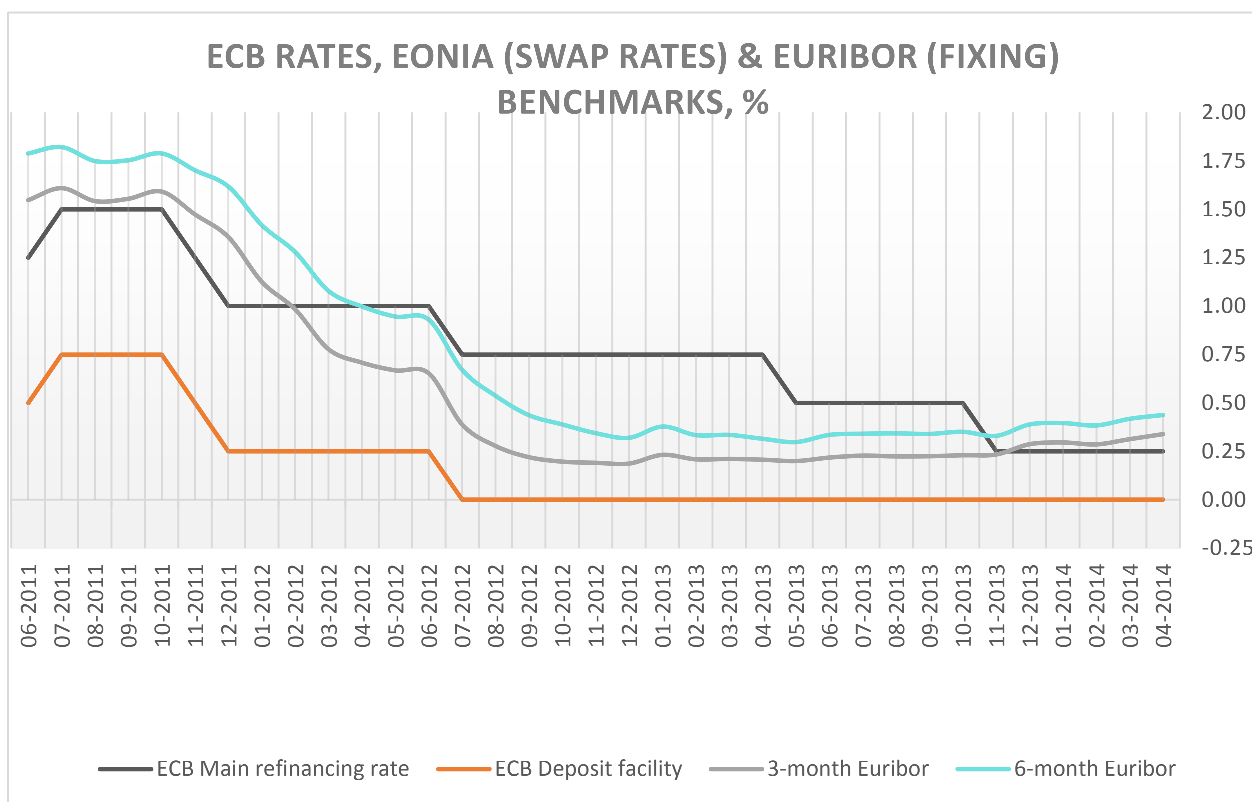
The graph above shows how the inflation rate in the euro area has been consistently below target since the beginning of 2013. Moreover, according to several studies[4] the bias in measured (statistical) inflation relative to inflation in an economic sense is around 0.8-1.0%. This means that the euro area may already be on the brink of deflation in an underlying sense. Furthermore, the current exchange rate makes imported goods cheaper and there is hence no positive pressure coming from this aspect. On the other hand, some of the observed "lowflation" reflects improved productivity and necessary efforts by peripheral countries to regain competitiveness. The chief economists of the CEG expect the headline inflation rate to be less than 1% in 2014 (0.9%) and to only rise to 1.4% in 2015. This would leave it well below the ECB target for three years in succession, adding to the risk that expectations, which are critically important, could be affected. While deviations from the target are not exceptional - the inflation rate was above the target from 2010 until 2012, for example - the greatest source of concern is the deterioration in medium-term inflation expectations. The ECB survey has dipped below 2% recently and Eurozone inflation swaps imply an average inflation around 1% on a two year horizon and below 1.4% on a five year horizon.

In light of this, some argue that the ECB has not done enough to respond to the risk of deflation and the low level of activity in the euro area. However, given the current political and institutional context, the ECB has limited choices. On the one hand, it could reduce again its interest rates. These are already at all-time lows and further action would probably imply having a negative deposit rate with possible unforeseen consequences[5]. Another solution, more radical, would be to embark on a Quantitative Easing programme, similar to those adopted by the US Federal Reserve and the Bank of England. The goal of this programme would be to increase money supply sizeably and to preserve price stability. Such a programme could include purchases of bonds issued by governments and private sector agents. The purchase of government bonds is however likely to be controversial given the constraints set by EU treaties. In its May 2014 issue[6], the think tank Bruegel advocates an asset-purchase programme focussing on private debt securities and bonds from the EFSF, ESM, EU and EIB, which they estimate could raise inflation by 0.8-1.0 percentage point. The impact on inflation is however difficult to calculate. FAZ reported that the ECB carried out simulations of a one trillion euro asset purchases

[4] See Boskin (1996), Lebow (1999) & Gordon (2006)
[5] See Box 2: Negative interest rates
[6] Claeys, G., Darvas, Z., Merler, S. & Wolff, G.B. (2014), Addressing Weak Inflation: The European Central Bank's Shopping List, Bruegel Policy Contribution, Issue 2014/05, May 2014

programme with much lower results in the 0.2 to 0.8 percentage point range. While the CEG do not expect the ECB to announce an extensive QE programme at this stage, they do expect some action.

Speculation around a possible move from the European Central Bank were reinforced on May 8 when President Mario Draghi said that the ECB was ready to act in June if new staff forecasts showed downward revisions to inflation estimates. Some sort of action from the ECB is increasingly expected by the markets and recommended by the vast majority of the CEG as well as by most economists around the world. In fact, a recent Bloomberg survey showed that 90% of respondents predict that the ECB will ease its monetary policy in June. An asset-purchase programme is however seen as unlikely as only 8% see it happening in the coming month.



Source: ECB

Focus box 2: Negative interest rates

Given the already extremely low interest rates, the ECB's conventional monetary policy tools are now nearly exhausted. In the current context of very low inflation, the likelihood has increased that the ECB could not only reduce the main refinancing rate but also the deposit rate. Since the deposit rate is currently zero, a further cut would mean the rate would become negative. This would be an unprecedented move in the euro area. Some countries like Denmark recently and Japan before have already experimented with negative deposit rates with mixed results. Indeed, there are very diverging views about the benefits and drawbacks of negative deposit rates.

A first concern is the negative impact on banks' profitability. Goyal and McKinnon (2003) rely on the Japanese experience to argue that they reduced banks' profit margins. New loans were barely profitable and banks found it impossible to "gradually write off old bad loans out of current earnings". The Danish experience appears to be similar. As the Danish central bank is committed to keeping the exchange rate fixed against the euro, they were forced to introduce negative interest rates in July 2012. In terms of the main objective this was effective, but it had negative consequences for the financial sector. The low demand for credit caused Danish banks to place liquidity in certificates of deposit at the Central Bank where the return was negative. With an average rate of interest at approximately -0.13 percent the total cost was approximately €50 million, assuming that the money otherwise would have earned 0%. This cost corresponded to 2.2 per cent of the banks' total earnings in 2013. Therefore, negative rates are a de facto tax on banks and could exacerbate the situation at a time when profitability is already weak and banks are asked to raise capital.

On the positive side, the impact on the exchange rate is likely to be significant in that the euro would likely unwind some of its recent unwanted appreciation. This would increase the cost of imported goods and services and hence decrease the deflationary pressures. This effect may however turn out to be short-lived as was the case after the two interest rate cuts last year. The second transmission channel could be via low or negative rates on clients' deposits which could force money to move into non euro-denominated assets. Customers could however simply move to longer maturities and/or riskier asset classes. This could, in turn, foster price bubbles in the equity market.

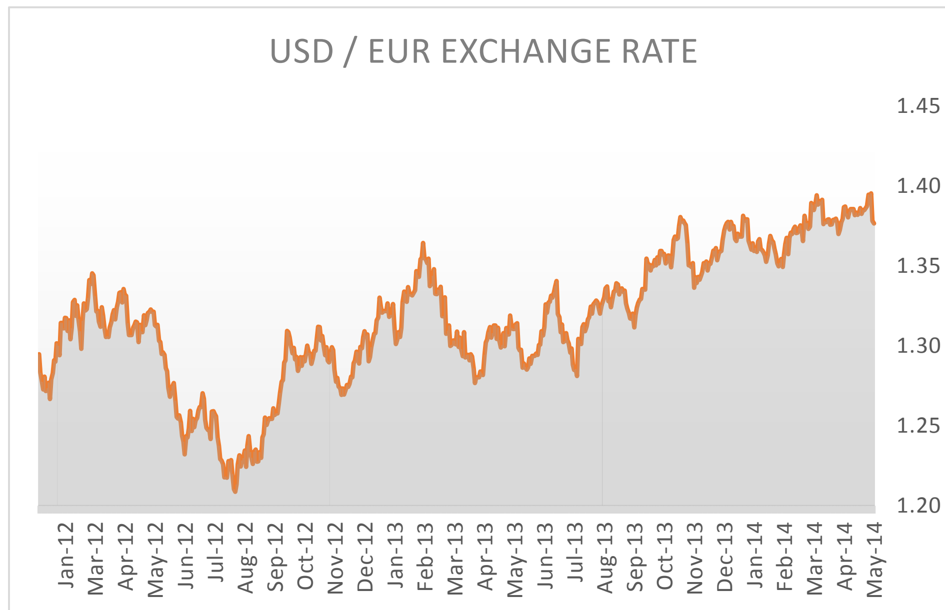
An argument in favour of a negative deposit rate is that it would reinvigorate the interbank market as banks would be more willing to lend money to each other than to pay to place it with the ECB. There are, however, concerns that such a move would not succeed as long as "healthy" banks consider it too risky to lend to other banks. As a consequence, surplus reserves would probably shrink instead, and with them the central bank money stock.

Another reason calling for a negative rate is that it would press banks to lend to the economy instead of parking money at the ECB. The hope is that an increase in credit activity would foster economic recovery and improve access to finance. The CEG think it is doubtful if weakening profitability by punishing banks holding money at the ECB is an effective tool to induce more lending and risk taking. Moreover, a lack of demand for loans and a poorly functioning interbank market could result in the cost associated with a negative deposit rate to being passed on to borrowers. This is what happened in Denmark where the lending rates banks charged their customers actually rose.

In addition, a negative deposit rate could lead to major withdrawals from money market funds. An important source of funding for the money market would then dry up.

All in all, a move by the ECB to a negative deposit rate is a risky one and the benefits might be less than the drawbacks. Because of this, the CEG members expect only a small- if any – negative deposit rate.

6. The euro



Source: ECB

The euro has been appreciating steadily against the dollar since mid-2012 when the ECB undertook to do whatever it takes to safeguard the euro. According to the CEG, the single currency is overvalued against the dollar and many other currencies because of the weak fundamentals of the euro area economy. Over the forecast period, the CEG expects the euro to depreciate to around 1.3 dollars per euro. This forecast reflects growth and interest-rate differentials between the US and the euro area as well as expectations of further rate cuts or QE by the ECB. The US Fed should continue to taper its QE programme and should end its purchases in October this year, following which speculation on US interest-rate increases will mount. The end of quantitative easing in the US and the associated monetary policy tightening should result in growing money market and bond yield differentials in favour of the dollar.

7. Risk to the scenario

A) Risks in Europe

+ Tensions in the financial markets could continue to diminish more rapidly than expected as fiscal consolidation, structural reforms and restructuring of the banking sector proceed.
+ The ECB-led Asset Quality Review and the improving economic climate could lead to an improvement in credit conditions.
+ A more rapid end of the deleveraging process in some peripheral countries, most notably in Spain, could help financing of new investments.

– Financial market tensions could increase again in some euro area countries due to political turmoil and reluctance of governments to continue with reforms and consolidation efforts. Continued fragmentation is a major risk.
– Deflation would have a major negative impact on debt dynamics.
– A rise in interest rates may come too late or too soon and be wrongly interpreted.
– The persistence of an elevated euro exchange rate would be negative for European competitiveness.
– The lack of a common backstop could affect the credibility of the ECB's comprehensive assessment and its ability to restore confidence in the banking sector.

- The deleveraging process of the banking sector is likely to continue to weigh on the performance of the economy and the SME sector in particular.
- The increasing cost of regulation could weight on the credit sector.
- Strong gains by euro sceptics in the European elections could delay the needed institutional and economic reforms.
- Increased uncertainty due to the Ukrainian crisis could weigh on investment spending. Possible trade sanctions would have a significant impact on countries highly dependent on trade with Russia.

B) Risks emerging from the global environment

+ Stronger than expected global growth would have positive repercussions on exports and investment spending.
+ A more robust take-off of private demand, especially in the US, would have a positive impact on the global economy

- A softer than anticipated global demand could lead to slower growth.
- A rapid increase in long-term US interest rates would likely spill-over into Europe with negative implications for borrowing costs by the public and private sectors.
- A fall in global trade for no obvious reason as it is currently happening.

ANNEX 1:

MID-YEAR POLL ON THE EURO AREA ECONOMIC OUTLOOK FOR 2014

TABLE 1	2011	2012	2013	CEG Consensus 2014			2014		
							Earlier CEG Outlooks		Commission's Forecasts
				2014 mean	2014 range		Full-year 2013	Mid-year 2013	Spring 2014
1. Output and aggregate demand: (Ann.% change)									
Gross domestic product (GDP)	1.6	-0.7	-0.4	**1.1**	0.9	1.4	1.0	0.9	1.4
Private consumption	0.3	-1.4	-0.7	**0.7**	0.5	1.0	0.5	0.3	0.8
Public consumption	-0.1	-0.6	0.1	**0.4**	-0.3	0.8	0.1	0.0	0.7
Gross fixed investment (GFCF)	1.6	-4.0	-3.1	**2.4**	1.4	3.4	1.5	1.3	2.3
Exports	6.5	2.5	1.3	**3.9**	3.1	4.6	4.2	4.7	4.0
Imports	4.5	-0.9	-0.1	**3.7**	2.9	4.3	3.7	3.8	3.8
2. Labour market and prices: (Ann.% change)									
Unemployment rate (%)	10.1	11.3	12.0	**11.9**	11.7	12.2	12.1	12.4	11.8
Wages (Unit Labour Cost)	0.8	1.9	1.2	**1.2**	0.5	2.0	1.2	1.0	0.7
Prices (HCPI)	2.7	2.5	1.4	**0.9**	0.7	1.2	1.4	1.6	0.8
Core HCPI	1.4	1.5	1.1	**0.9**	0.7	1.1	1.2	1.4	
3. Public finances: (% GDP)									
Government Balance	-4.1	-3.7	-3.0	**-2.6**	-3.0	-2.5	-2.8	-2.5	-2.5
Government Debt	88.2	92.8	95.1	**95.9**	94.3	97.3	96.6	95.7	96.0
4. External sector: (% GDP)									
Trade Balance	0.3	1.4	1.4	**2.2**	1.5	3.1	1.7	1.8	2.4
Current Account Balance	0.4	1.8	2.6	**2.4**	1.6	3.0	2.2	1.6	2.9
(p.m.) US growth (Ann.% change)	1.8	2.8	1.9	**2.7**	2.5	3.0	2.7	2.7	2.8
(p.m.) Oil price (Brent, annual average) USD / b	111.0	111.8	108.7	**106.8**	102.0	110.0	105.6	106.7	107.6
5. Monetary and financial indicators:									
Interest rate on ECB's main refinancing operations — June	1.25	1.00	0.50	**0.22**	0.10	0.25	0.38	0.64	
Interest rate on ECB's main refinancing operations — December	1.00	0.75	0.25	**0.19**	0.10	0.25	0.41	0.73	
3 month interest rate (EURIBOR) (year-end)	1.36	0.19	0.29	**0.27**	0.10	0.40	0.36	0.57	
10 year government bond yield (Bund) (year-end)	1.83	1.32	1.90	**1.94**	1.50	2.20	2.39	2.24	
M3 growth (annual growth)	1.5	3.0	2.3	**2.5**	1.5	4.0	2.90	4.00	
Credit to private sector (M3 definition) (annual growth)	2.1	-0.3	-1.6	**-1.2**	-2.5	1.5	0.80	1.23	
Exchange rate USD/EUR (year-end)	1.29	1.32	1.38	**1.31**	1.26	1.35	1.26	1.26	1.38

ANNEX 2:

MID-YEAR POLL ON THE EURO AREA ECONOMIC OUTLOOK FOR 2015

TABLE 2		2011	2012	2013	CEG Consensus 2015			2015
					2015 mean	2015 range		Commission's Forecasts Spring 2014
1. Output and aggregate demand: (Ann.% change)								
Gross domestic product (GDP)		1.6	-0.7	-0.4	**1.5**	1.1	1.7	1.6
Private consumption		0.3	-1.4	-0.7	**1.1**	0.8	1.4	1.3
Public consumption		-0.1	-0.6	0.1	**0.5**	0.0	0.9	0.5
Gross fixed investment (GFCF)		1.6	-4.0	-3.1	**3.0**	1.6	4.2	4.2
Exports		6.5	2.5	1.3	**4.3**	3.1	5.7	5.3
Imports		4.5	-0.9	-0.1	**4.3**	3.1	5.9	5.5
2. Labour market and prices: (Ann.% change)								
Unemployment rate (%)		10.1	11.3	12.0	**11.7**	11.3	12.1	11.4
Wages (Unit Labour Cost)		0.8	1.9	1.2	**1.2**	0.2	2.4	0.8
Prices (HCPI)		2.7	2.5	1.4	**1.4**	1.0	2.0	1.2
Core HCPI		1.4	1.5	1.1	**1.1**	0.8	1.4	
3. Public finances: (% GDP)								
Government Balance		-4.1	-3.7	-3.0	**-2.3**	-2.7	-1.8	-2.3
Government Debt		88.2	92.8	95.1	**96.0**	94.5	98.5	95.4
4. External sector: (% GDP)								
Trade Balance		0.3	1.4	1.4	**2.1**	1.0	3.2	2.3
Current Account Balance		0.4	1.8	2.6	**2.3**	0.8	2.9	2.9
(p.m.) US growth	(Ann.% change)	1.8	2.8	1.9	**3.0**	2.3	3.5	3.2
(p.m.) Oil price (Brent, annual average) USD / b		111.0	111.8	108.7	**104.3**	97.0	110.0	102.9
5. Monetary and financial indicators:								
Interest rate on ECB's main refinancing operations	June	1.25	1.00	0.50	**0.21**	0.10	0.50	
	December	1.00	0.75	0.25	**0.33**	0.10	0.75	
3 month interest rate (EURIBOR)	(year-end)	1.36	0.19	0.29	**0.47**	0.10	1.40	
10 year government bond yield (Bund)	(year-end)	1.83	1.32	1.90	**2.44**	1.80	3.15	
M3 growth	(annual growth)	1.5	3.0	2.3	**3.6**	2.0	6.0	
Credit to private sector (M3 definition)	(annual growth)	2.1	-0.3	-1.6	**1.0**	-1.0	3.0	
Exchange rate USD/EUR	(year-end)	1.29	1.32	1.38	**1.29**	1.22	1.35	1.38