EBF Economic Outlook Nr 34

2012 END-YEAR ECONOMIC OUTLOOK ON THE EURO AREA ECONOMIES IN 2012-2013

ECONOMIC GROWTH IS THE CURE

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This bi-annual report is prepared by the members of the European Banking Federation's **Economic and Monetary Affairs Committee**. It 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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TERMS & CONDITIONS

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Launched in 1960, the European Banking Federation is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of some 4,500 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU alone.

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 EMAC CONSENSUS

Today, euro area countries are suffering from an economic influenza, with half of the countries having a bad cough and taking antibiotics, and the other half taking preventive measures to avoid the bug.

In other words, the troubling trends identified in the mid-year outlook[1] have deepened: deleveraging of the private sector and continued tensions in the financial markets, combined with an ongoing fiscal consolidation across a number of euro area countries, in the context of a high unemployment rate, low confidence and slowing export markets, all put a break on economic growth. **Chief Economists of the European Banking Federation's Economic and Monetary Affairs Committee expect this year to close with the euro area economy shrinking by -0.5%, and largely stagnating next year, with a possible 0.1% GDP growth**.

Inflation is not seen as a threat to economic stability for the time being: it will remain at 2.5% in 2012, nearing the ECB's target of close to, but below 2% (expected to fall to 1.8% in 2013). What is more, the easy stance of **monetary policy** (current refinancing rate of 0.75% is expected to remain stable throughout the forecast period) and non-standard measures announced by the ECB, namely the Outright Monetary Transactions (OMT) programme, have helped stabilise the situation in the region to some extent.

By contrast, **fiscal austerity** in a number of euro area countries is gripping the euro area citizens by the neck. With declining government spending and negative investment, **unemployment** is rising, and social unrest with it. Lower employment and very modest credit growth, while the domestic capacity to spend and to invest is falling, are all invariably slowing the euro area economic growth.

If in the earlier years of the crisis the euro area economy could count on **external demand** to help maintain its economic dynamics, this no longer works that well:

- emerging markets' economies are slowing down;
- the US economy is burdened with an excessive public debt and is approaching the so-called fiscal cliff;
- political instability surrounding the Japan-China conflict and the unrest in the Middle East create an increasingly unpredictable external environment for the euro area economy.

[1] http://www.ebf-fbe.eu/index.php?page=economic-outlook

Most risks to the current scenario are on the downside, although a few important upside risks exist. For one, if the European authorities take bolder steps towards a **genuine Economic and Monetary Union**, with a single European supervisor (*see Box 1*) and other elements of the Commission's proposal on the EU Banking Union, the confidence in the EU policy and positive economic future could help revive the markets. Another important upside risk is the sooner-than-expected kick-in of the effect of structural reforms (confidence effects and non-Keynesian effects) in a number of euro area countries.

The European authorities have put a lot of effort into discussing economic growth policies, and the relevant EU-level legislation[2]. However due to the long-term nature of policies being introduced, the results emerge only gradually. The Commission and the national governments must urgently develop a compelling and credible plan to help the euro area economy get back on its feet, better sooner than later.

Table: Main indicators of EMAC consensus

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

	2010	2011	*2012p*	*2013p*
Gross Domestic Product	1.8	1.4	**-0.5**	**0.1**
Private consumption	0.8	0.1	**-0.8**	**-0.3**
Public consumption	0.7	-0.1	**-0.2**	**-0.6**
Gross investment (GFCF)	-0.8	1.5	**-3.2**	**-0.5**
Exports	11.2	6.3	**2.7**	**3.4**
Imports	9.6	4.2	**-0.5**	**2.1**
Unemployment rate (%)	10.1	10.1	**11.3**	**11.7**
Prices (HCPI) (%)	1.6	2.7	**2.5**	**1.8**
Government budget balance (% of GDP)	-6.0	-4.1	**-3.5**	**-2.9**
Public debt (% of GDP)	85.4	88.1	**93.2**	**95.0**

2010 & 2011 figures are fact (DG ECFIN); 2012 and 2013 are current EMAC projections

2. DOMESTIC ECONOMY

The euro area has been going through six months of recession, coinciding with a crisis of confidence. Output gap is expected to remain large in a number of the euro area countries, leading to a below-potential economic performance over the years to come. Pre-crisis levels of economic growth are not expected to return soon. The focal point for the euro area today is whether Germany, together with some other northern euro area countries, would be able to

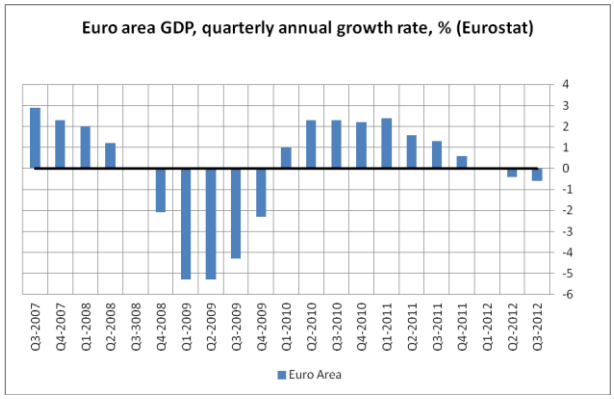
[2] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/130376.pdf

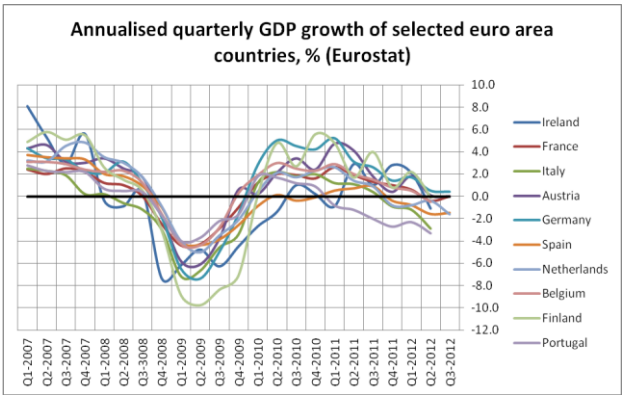
decouple from the rest of the euro area, and continue growing despite the otherwise challenging environment.

The current economic crisis has two risk components: a country-specific one, and the risk of the euro breakup. The latter has been relieved by the ECB's Outright Monetary Transactions programme (OMT); the former needs to be dealt with by the respective euro area governments. The euro area governments have indeed made substantial efforts in the areas of fiscal and external adjustment, strengthening of the financial systems, and structural reforms. Now it is a matter of highest priority to finalise these efforts and to show more determination in advancing the process of the region's economic and financial integration.

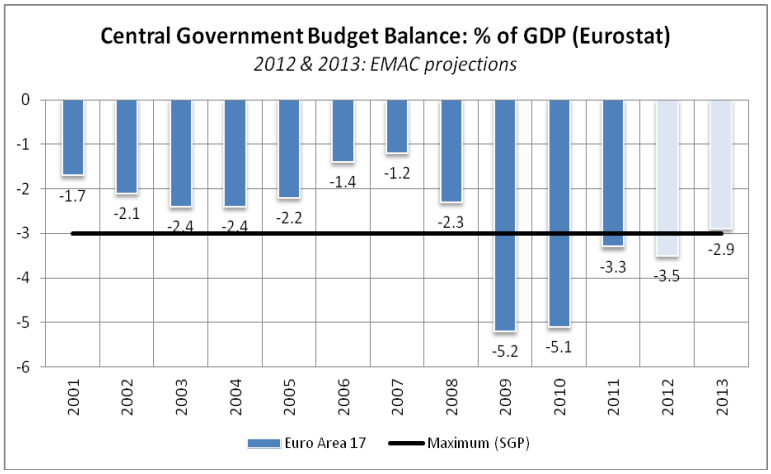
a. Fiscal policy and the economy

Restrictive fiscal policy and persistent uncertainty together with on-going financial market tensions and private sector deleveraging in a number of the euro area countries is now clearly putting a break on growth: 2012 is expected to end with **GDP** growth dipping below zero (-0.5%) in the euro area; for 2013 a phase of stagnation is expected (+0.1%). The Commission's autumn 2012 forecast estimates that domestic demand in the euro area will contribute a negative 1.4% to the GDP in 2012 and a further -0.4% the next year. On balance, net exports are expected to compensate for the downturn in domestic demand in the euro area (+1.3% this year and +0.6% in 2013).

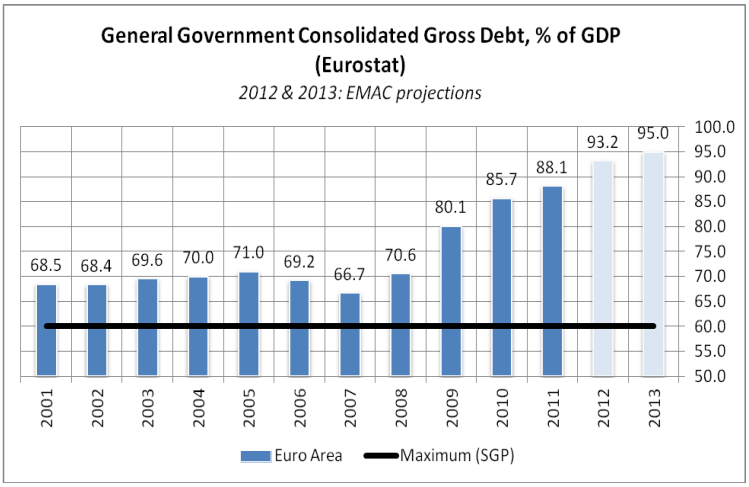




This year, the euro area's general **government budget balance** is (still) expected to surpass the Maastricht limit to arrive at -3.5% of GDP, however, next year's result is to edge on the other side of the 3% government deficit criterion. Concerns stem, *inter alia*, from Spain's ability to reduce its budget deficit while at the same time addressing its banking sector woes, and Greece's ability to implement reforms to re-organise its economy and improve the sustainability of its public finances.



The EMAC Chief Economists expect the euro area **public debt** to arrive at a level of 93.2% by the end of 2012 and to inch further upwards to 95% of GDP by the end of next year. Given the high levels of austerity already in place in a number of the euro area countries, it is now for the public authorities to develop a credible plan to restart economic growth in order to start increasing the employment figures, and to contribute to a healthier level of economic expansion. Growth of **gross fixed capital formation** is expected to remain negative this year and next (-3.2% and -0.5% respectively), a worrying factor in view of the urgent need for long-term investment in the euro area economy.

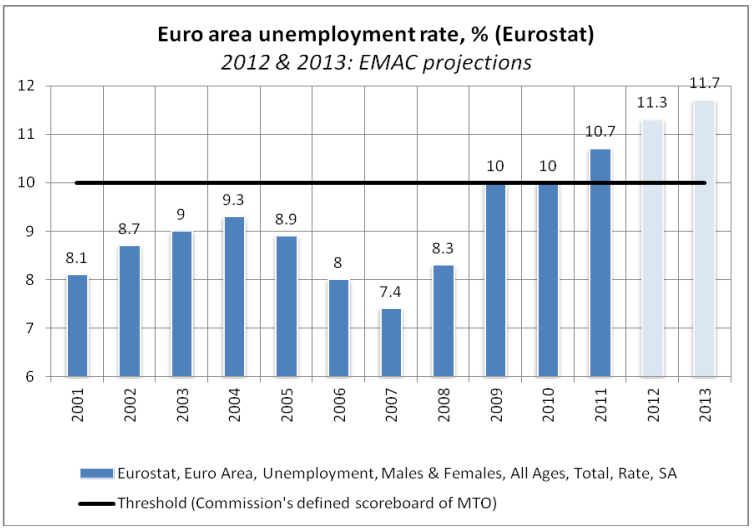


The effects of structural reforms in crisis countries, such as liberalisation of the labour markets, reform of the pension systems, liberalisation of professions, etc, are only expected to bear fruit in the medium/long term. That is why this recession arrives like a sharp pain this year, and will very probably persist into the next. The austerity measures, combined with the private sector contraction create a double squeeze on the economy.

Deleveraging in the private sector is happening on various fronts. On the one hand, following the regulators' instructions, European banks are deleveraging – mainly by reducing their risk-weighted assets - in an effort to reassure investors of their viability, and / or to meet the new capital requirements. Chief economists forecast the **growth of credit to private sector** to be only marginally positive, hovering below 1% both this year and next. The ongoing review of financial services legislation, including the creation of the Banking Union, and the possible legislative consequences of the final report from the Liikanen High-level Expert Group (HLEG) on reforming the structure of the EU banking sector may ignite more bank restructuring and potentially put a further break on bank lending to the economy (*see Boxes 1 & 2 for more information*).

On the other hand, businesses are looking to diversify their funding sources: they reinvest their profits into their own business. Larger firms go directly to capital markets for fresh funding. Smaller enterprises are looking into non-bank funding opportunities. Diversification of business financing has become a reality over the past years, with bank lending to non-financial corporations slowing down, and the size of the non-banking financial sector more than doubling over the past decade, according to a recent FSB study[3]. Furthermore, those euro area countries that have experienced a housing bubble in the pre-crisis period are now witnessing a (gradual) reduction in the stock of private sector debt.

Another aggravating factor is that fiscal austerity is undermining public confidence, leading citizens of a number of euro area countries into the streets in protest. Social unrest is unsurprising: the euro area **unemployment** has been rising over the past years, and continues to do so, towards 11.3% in 2012 and 11.7% in 2013.



[3] http://www.financialstabilityboard.org/publications/r_121118c.pdf

In response to the difficult economic and social situation across the EU, the Commission launched the EU Growth Package[4] whereby 1% of the EU-27 GDP will be dedicated to restarting growth. The European authorities have put a lot of effort into discussing economic growth policies, and the relevant EU-level legislation[5], including the Single Market Act, Energy Efficiency Directive, EU Patent Directive, Services Directive, Digital Agenda and also some trade agreements. The process called the European Semester and other country-specific recommendations direct the Member States to supportive acts for employment growth, as outlined in the National job plans[6]. However, given the long-term nature of these measures, they have brought no tangible relief to date. It is of crucial importance to gain momentum in fuelling the engine of the European economy by focusing on concrete measures that would:

(a) liberalise and 'mobilise' labour markets, and help fuel job-creation;
(b) support and finance economically productive long-term investments; and
(c) give Europe's businesses an opportunity to start new projects by making business easier, reducing administrative burdens and making new start-ups more attractive for investors.

Higher growth figures will also have a positive effect on the sustainability of public debt: higher growth means that the debt-to-GDP ratio will start falling.

Box 1: Single European Supervisor

The concept of a Banking Union, **strongly supported by the European banking community**, is presented in the report - *Towards a genuine Economic and Monetary Union* - issued on 26 June 2012 by the President of the European Council Herman Van Rompuy in collaboration with the Presidents of the Commission (Barroso), the Eurogroup (Junckers) and the European Central Bank (Draghi).

The European Council of 29 June 2012 endorsed the ideas presented in the Van Rompuy report and called on the Commission to come forward with a proposal, which it did on 12 September 2012 when it presented its "Roadmap towards a Banking Union" together with a proposal for a regulation establishing the ECB as the Single Supervisor and a proposal amending provisions in the regulation that established the EBA. The two proposals, currently under consideration by EU legislators in the Council and the EU Parliament, aim to set up a Single Supervisory Mechanism (SSM) for the Euro zone banks.

EMAC's Chief Economists fully support the idea of a Banking Union, and agree that, given the way things stand at present, the ECB is the best-placed authority to execute the function of the single European supervisor, provided that it succeeds in separating its monetary policy function from the function of the European single supervisor. The implementation of the Banking Union should be well-sequenced and well-timed, starting with the Single Supervisor who would work based on a Single Rulebook, and followed by other comprising elements of the Commission's proposal of the Banking Union.

[4] http://ec.europa.eu/europe2020/index_en.htm

[5] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/130376.pdf

[6] http://ec.europa.eu/commission_2010-2014/andor/headlines/news/2012/04/20120418_en.htm

The Banking Union is seen as an important, but not the only, element for breaking the vicious circle between the indebted governments and insolvent banks, thus putting the economy on a healthy growth path. It must be supported by reforms for sustainable public finances and stronger international competitiveness. The ability of the European Stability Mechanism to fund troubled banks directly (without going through the national governments' budgets and as soon as an effective SSM is established) is seen as a central element in the plan. In addition to an effective SSM, direct recapitalisation can strengthen and help rebuild confidence in the European banking sector by helping improve banks' funding conditions and enhancing the overall financial stability. The single supervisory authority will apply the Single Rulebook to all banks, thus strengthening the level playing field. It will also help reduce moral hazard induced by national authorities being captured by local special interests.

This said, a number of important details on clear division of responsibilities between the ECB, the national regulators and the European Banking Authority are yet to be settled. In addition, differences in national positions must be ironed out before a decision on the Resolution regime and possibly the Single Deposit Guarantee Scheme can be reached.

In summary, the EBF considers[7] the following four issues focal:

- Two-tier system of supervision should be avoided;
- Board of appeal needs to be established as a recourse to ECB decisions for banks;
- Clarity and adequate time to adjust is needed in regard to the supervisory decisions and derogations when ECB is given the power to set national discretions (which was granted to national competent supervisors before);
- Banks look to end up paying twice for local supervision and EU supervision frameworks.

Box 2: Liikanen HLEG Report

The **High-level Expert Group (HLEG) chaired by Erkki Liikanen**, Governor of the Finnish Central Bank was established as an independent group by the European Commission in February 2012 with the mandate to consider whether there is a need for structural reforms of the EU banking sector to establish a safe, stable and efficient banking system serving the needs of citizens, the EU economy and the internal market. During its work the HLEG held stakeholder consultations with a number of European banks representing different banking models and a general consultation in May 2012. The HLEG released its final report[8] on 2 October 2012. Having completed a public consultation on this report, the European Commission is now considering the next steps, including a possible legal proposal.

In its final report the Liikanen HLEG presents **five recommendations** for the European Commission to consider further. One of the recommendations is new: mandatory separation of proprietary trading activities and other significant trading activities over a certain threshold. The four other recommendations are add-ons to existing regulatory reform measures already underway from the Basel Committee on Banking Supervision (BCBS) or the European Commission. These four recommendations propose the use of Recovery and Resolution plans to further separate trading activities; use of designated bail-in, a revision of the capital requirements for the trading book and real-estate related lending; and enhanced corporate governance.

The EBF, in its consultation response[9], welcomes the thorough analysis conducted by the HLEG and the fact that it acknowledges that no particular business model was more vulnerable in the crisis than any other, that the benefits of the

[7] Full EBF Position on the SSM can be accessed via this link: http://www.ebf-fbe.eu/uploads/D1794D-2012-Final%20EBF%20position%20on%20a%20Single%20Supervisory%20Mechanism%20%28SSM%29.pdf

[8] http://ec.europa.eu/internal_market/bank/group_of_experts/index_en.htm

[9] http://www.ebf-fbe.eu/uploads/D1994D-2012-Final%20EBF%20consultation%20response%20for%20the%20final%20report%20from%20the%20Liikanen%20HLEG.pdf

universal banking model should be retained, that the Single Market should remain intact and that the regulatory reform agenda represents a substantive and robust response to addressing the deficiencies made apparent during the financial crisis. Viewed in light of this analysis, the final recommendations of the HLEG, especially the recommendation calling for mandatory separation of proprietary trading activities and other significant trading activities over a certain threshold, do not seem to align with it.

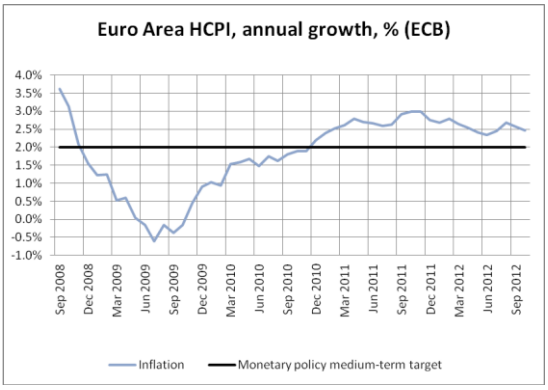
The HLEG recommendation for mandatory separation is viewed as being very general in nature; it does not adequately address the riskiness of assets; it does not solve the issue of systemic risk; it has distortive effects upon bank functions of vital importance to customers and the European economy; it will have a negative impact on banks' ability to lend to the economy; it will reduce diversification benefits of the universal banking model, it will reduce the competitiveness of the European financial sector compared to financial sectors not affected by this recommendation, and it will lead to a further fragmentation of the Single Market.

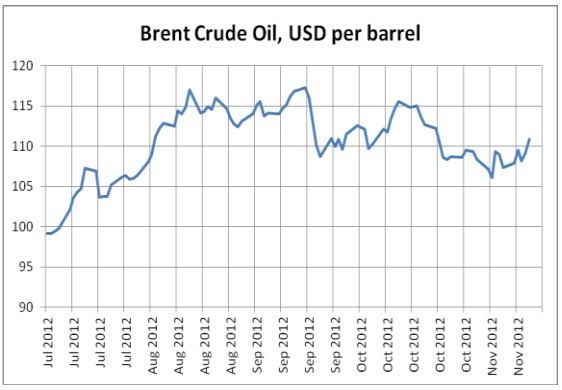
Instead of the proposed mandatory separation, the HLEG recommendation to strengthen further the use of Recovery and Resolution Plans (RRPs) is strongly supported by the banking industry, as it fits better with the current regulatory reform agenda and can be incorporated with a considerably less distortive impact than mandatory separation. By (only) pointing at the possibility of mandatory legal separation, however, the HLEG creates the risk that resolution authorities skip the less far reaching and more proportionate measures and resort to the ultimate and far more damaging measure of mandatory legal separation. The EBF therefore recommends that any impediments to resolvability are addressed along the lines of the better balanced provisions of the European Commission's proposal for a Bank Recovery and Resolution Directive (BRRD).

The effective use of RRPs must be seen in the context of a well-functioning crisis management framework in concurrence with the BRRD proposal and should be based on an ongoing dialogue between the supervisor and the individual bank. Separation of certain activities conditional on the RRP should be the last resort. The supervisor should not impose structural measures on banks that are going concern, and banks should have legal recourse to such supervisory decisions.

b. Inflation and monetary policy outlook

The EMAC Chief Economists foresee this year ending with **inflation** at 2.5%, falling to 1.8% in 2013. The **core inflation** component is expected to remain stable, between 1.4 and 1.6% this year and next. The risks of second round effects of tensions in the energy and food price markets are perceived as negligible. The **Brent crude oil** price is expected to hover just above USD 110 per barrel throughout the forecast horizon. It is more likely that subdued economic activity, high unemployment rate in a large number of euro area countries and consequent weak domestic demand will keep the trend of domestic costs, wages and prices in check.





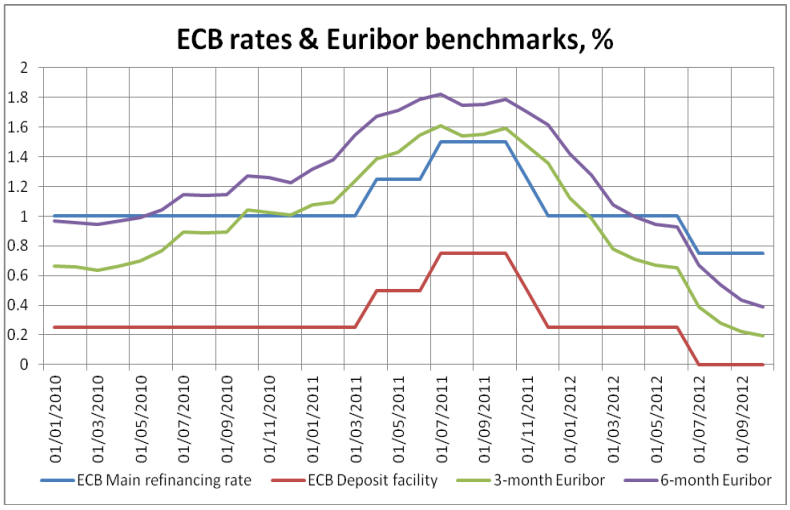
The ECB has proved to be the most effective institution to contain the sovereign debt crisis in the current framework. At the turn of 2012, the ECB gave markets some breathing space by introducing two Long-Term Refinancing Operations (LTROs), although in some euro area countries this operation has partly increased the dependency between banks and government finance. At the end of summer, the ECB took another bold action by announcing the **Outright Monetary Transactions**. OMT is a bond-buying programme, which addresses the risk of a breakup of the euro area. The impact of the OMT announcement by ECB President Mr Draghi has been manifold:

- it calmed the Credit Rating Agencies with regard to ratings of indebted countries, even though there is the risk of implicit downgrading for some core countries;
- it helped reduce the 10-year government bond yields, notably in Italy (significantly below 5%) and Spain (to below 6%);
- it improved investor confidence regarding the resolution of the sovereign debt crisis in the euro area. For example, German and French insurers that hold a lot of Italian and Spanish bonds on their books and are obliged to rating-based investor rules now feel more confident to continue their investment (given that Italian and Spanish bonds would not be downgraded and the governments of these two countries continue implementing reforms).

Overall, it must be acknowledged that the debt crisis cannot be solved by the ECB alone. Structural reforms in the EMU countries and of the EMU's institutional framework are inevitable. Thus, the ECB and its unconventional measures could only buy time for the stabilisation of the banking sector and the sovereign bond markets. This said, without adequate political support, the risks will rise in the medium term, especially the risk of losing credibility and of higher inflation.

EMAC's Chief Economists expect the ECB to keep the main **refinancing rate** at the same level until the end of the forecast horizon, and perhaps even into Q1-2014. A 25 basis-point rate cut is not excluded in Q1-2013, should the euro area economy show more weakness than currently

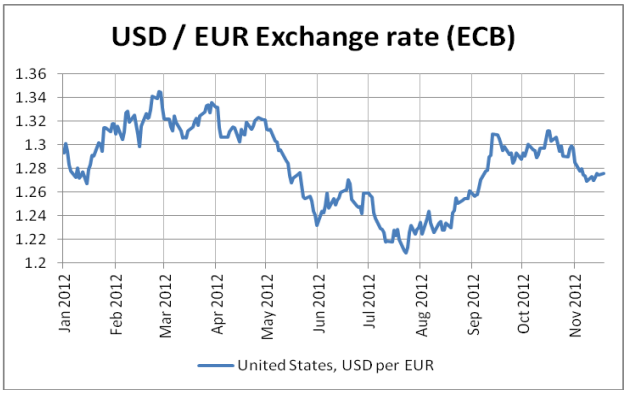
forecasted. However, a rate cut is not expected to bring much relief to the economy, the reason being that the monetary policy transition mechanism is under stress. Should the euro area economy start growing sooner than projected, in late 2013, the ECB could start hiking the main refinancing rate by 25 basis points.



The interbank money market situation remains fragile. EMAC's Chief Economists expect the **3-month Euribor** to stay at 0.30% by the end of 2012 and to increase only to 0.60% by the end of 2013.

c. The euro

The **euro** is expected to remain at current levels against the US dollar, i.e. around 1.25-1.30 throughout the forecast horizon, owing to a rather unstable situation on both sides of the Atlantic. The euro could start appreciating *vis-à-vis* the US dollar once confidence returns to the euro block and the euro area moves gradually out of recession.



3. GLOBAL ECONOMIC ENVIRONMENT

The main concern of the EMAC's Chief Economists, as far as global economic environment is concerned, is how the US authorities are going to deal with the **fiscal cliff**. The end of the tax cuts due in December 2012, as well as planned reduction in government spending, could result in a significant economic slump. Potentially harmful repercussions of the fiscal cliff could not only put a dent in the US GDP growth path due to a sharply reduced disposable income, but could also transform into falling US foreign trade, thus affecting all US trading partners. Today, EMAC's Chief Economists take a positive view on the US economy: the United States is expected to end this year with 2.1% GDP growth, and to perform more or less equally well next year. However, decisions taken by the new US Administration regarding the resolution of the fiscal cliff will play a crucial role for the global economy throughout the forecast horizon.

The **Japan**ese economy, weakened by sluggish domestic demand and slowing export markets, has just avoided a fiscal cliff of its own. A crucial bill has been passed which allows the Japanese government to sell bonds and thus avoid a cashless December. Japan's political situation is weakened by the dispute with China over the Senkaku / Diaoyu islands in the East China Sea. While chances of a war are slim, this territorial dispute caused China to impose trade sanctions on Japanese companies operating on its territory.

Additionally, the political / territorial conflict between Israel and Iran, if taken further, risks causing ramifications for the euro area economy.

On a positive note, demand in the **Emerging Markets** is hoped to hold up, thus securing stable and reliable export markets for the euro area. However, emerging markets will not boom, so the effect is not expected to be of great significance.

4. RISKS TO THE SCENARIO

The central scenario of the EMAC outlook is mildly pessimistic; a cause for concern is that a large number of *downside* risks to this scenario exist:

Risks in Europe

- new bouts of financial market tensions due to erosion of confidence;
- short-term effects of more intense fiscal consolidation;

- deepening crisis in Italy and Spain; possible exit of Greece from the euro area; negative developments in France;
- social tensions;
- deficit of political credibility prevents markets from stabilising, and deepens the crisis of confidence further;
- political risks:
    - core versus peripheral countries;
    - elections in Italy and Germany; the political situation in Greece and Spain, in particular separatism tendencies in Catalonia (and Spain not applying for OMT support);

Risks emerging form adverse developments in the global environment

- the US fiscal cliff, and the way it is handled by the US authorities, can have a spill-over effect on the euro area economy;
- the China / Japan conflict;
- the Israel / Iran conflict.

This said, some *upside risks* are there, too:

- bolder steps towards an integrated Europe make a significantly positive difference: introduction of the Single European Supervisory Mechanism (coupled with the ECB's OMT), helped substantially tame the risk of extreme events (*see Boxes 1 & 2*);
- activation of OMT would bring certainty and facilitate a quicker and stronger turnaround of the euro area business cycle;
- fiscal consolidation, structural reforms and restructuring of the banking sectors (e.g. in Spain) may proceed faster than expected causing confidence to return earlier; the 'backstop' given by the ECB's OMT programme could help achieve this;
- aggressive policy actions in emerging economies could bring an upswing to global economic growth.

END-YEAR POLL ON THE EURO AREA ECONOMIC OUTLOOK FOR 2012-2013

TABLE 1		2009	2010	2011	EMAC Consensus 2012		2012				
							Earlier EMAC Outlooks		Commission's Forecasts		
					2012 mean	2012 range	mid-year 2012	end-year 2011	Autumn 2012	Autumn 2011	Spring 2011
1. Output and aggregate demand:	(Ann.% change)										
Gross domestic product		-4,1	1,8	1,4	**-0,5**	-0,6	-0,4	-0,4	0,3	-0,4	0,5	1,6
Private consumption		-1,1	0,8	0,1	**-0,8**	-1,1	-0,5	-0,6	0,2	-1,0	0,4	0,8
Public consumption		2,4	0,7	-0,1	**-0,2**	-0,8	0,2	-0,6	-0,2	-0,2	-0,2	0,2
Gross investment (GFCF)		-11,4	-0,8	1,5	**-3,2**	-3,9	-2,9	-1,6	0,0	-3,5	0,5	2,2
Exports		-12,4	11,2	6,3	**2,7**	1,6	3,2	1,4	3,2	1,1	3,4	6,9
Imports		-11,1	9,6	4,2	**-0,5**	-2,3	0,0	0,0	2,3	0,2	3,0	5,4
2. Labour market and prices:	(Ann.% change)										
Unemployment rate (%)		9,6	10,1	10,1	**11,3**	11,2	11,5	11,0	10,2	11,3	10,1	10,0
Wages (Unit Labour Cost)		4,3	-0,7	0,9	**1,5**	1,2	1,7	1,6	1,7	1,9	1,4	0,8
Prices (HCPI)		0,3	1,6	2,7	**2,5**	2,2	2,6	2,4	1,8	2,5	1,7	2,6
Core HCPI		0,3	1,6	2,0	**1,6**	1,5	1,8	1,6	1,5	1,7		
3. Public finances:	(% GDP)										
Government Balance		-6,3	-6,0	-4,1	**-3,5**	-4,0	-3,0	-3,6	-3,6	-3,3	-3,4	-4,3
Government Debt		79,1	85,4	88,1	**93,2**	90,7	99,1	91,5	90,8	92,9	90,4	87,7
4. External sector:	(% GDP)										
Trade Balance		0,6	0,6	0,5	**1,4**	0,5	3,7	0,5	0,4	1,3	0,3	0,6
Current Account Balance		0,1	0,3	0,3	**0,6**	0,0	1,0	0,1	-0,2	1,1	0,0	-0,2
(p.m.) US growth	(Ann.% change)	-3,1	2,4	1,8	**2,1**	2,0	2,2	2,1	1,9	2,1	0,7	2,6
(p.m.) Oil price (Brent)	(US$/bl)	62,3	80,2	110,9	**110,1**	100,0	117,0	113,0	102,1	112,5	103,8	117,4
5. Monetary and financial indicators:											
Interest rate on ECB's main refinancing operations	Jun-12	1,25	1,00	1,00	**0,92**	0,75	1,00	0,98	0,96	1,00		
	dec/12	1,00	1,00	1,00	**0,69**	0,50	0,80	0,96	0,98	0,75		
3 month interest rate (EURIBOR)	(year-end)	1,22	1,02	1,39	**0,30**	0,20	0,57	0,76	1,14	0,20		
10 year government bond yield (Bund)	(year-end)	3,76	3,36	2,65	**1,61**	1,40	2,20	2,16	2,56	1,31		
M3 growth	(annual growth)	-0,3	1,1	1,5	**2,61**	1,50	3,40	1,32	3,45	2,70		
Credit to private sector (M3 definition)	(annual growth)	0,7	1,9	1,6	**0,03**	-0,30	0,70	0,90	2,50	-1,40		
Exchange rate USD/EUR	(year-end)	1,39	1,34	1,29	**1,30**	1,27	1,35	1,31	1,32	1,29		1,43

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END-YEAR POLL ON THE EURO AREA ECONOMIC OUTLOOK FOR 2012-2013

TABLE 2		2009	2010	2011	EMAC Consensus 2013			2013			
					2013 mean	2013 range		Earlier EMAC Outlooks	Commission's Forecasts		
								mid-year 2012	Autumn 2012	Autumn 2011	Spring 2011
1. Output and aggregate demand:	(Ann.% change)										
Gross domestic product		-4,1	1,8	1,4	**0,1**	-0,8	0,6	1,0	0,1	1,3	1,8
Private consumption		-1,1	0,8	0,1	**-0,3**	-1,6	0,3	0,5	-0,4	1,0	1,2
Public consumption		2,4	0,7	-0,1	**-0,6**	-0,9	-0,4	0,0	-0,4	0,3	0,3
Gross investment (GFCF)		-11,4	-0,8	1,5	**-0,5**	-2,8	1,1	1,2	-0,6	2,9	3,7
Exports		-12,4	11,2	6,3	**3,4**	2,5	4,9	3,7	1,5	5,3	6,2
Imports		-11,1	9,6	4,2	**2,1**	0,0	3,2	3,2	-0,9	5,0	5,9
2. Labour market and prices:	(Ann.% change)										
Unemployment rate (%)		9,6	10,1	10,1	**11,7**	11,5	12,1	11,0	11,8	10,0	9,7
Wages (Unit Labour Cost)		4,3	-0,7	0,9	**1,4**	0,8	1,7	1,4	2,0	0,9	1,2
Prices (HCPI)		0,3	1,6	2,7	**1,8**	1,6	2,2	1,8	1,8	1,6	1,8
Core HCPI		0,3	1,6	2,0	**1,4**	1,2	1,8	1,5	1,4		
3. Public finances:	(% GDP)										
Government Balance		-6,3	-6,0	-4,1	**-2,9**	-4,1	-2,3	-2,9	-2,6	-3,0	-3,5
Government Debt		79,1	85,4	88,1	**95,0**	91,0	99,9	92,3	94,5	90,9	88,5
4. External sector:	(% GDP)										
Trade Balance		0,6	0,6	0,5	**2,0**	0,5	6,5	0,5	1,6	0,5	0,7
Current Account Balance		0,1	0,3	0,3	**0,8**	0,0	1,5	0,3	1,5	0,2	-0,1
(p.m.) US growth	(Ann.% change)	-3,1	2,4	1,8	**2,0**	1,5	2,5	2,3	2,3	1,3	2,7
(p.m.) Oil price (Brent)	(US$/bl)	62,3	80,2	110,9	**110,5**	105,0	127,0	111,7	109,1	100,0	117,2
5. Monetary and financial indicators:											
Interest rate on ECB's main refinancing operations	Jun-13	1,25	1,00	1,00	**0,67**	0,50	0,80	1,00			
	dec/13	1,00	1,00	1,00	**0,69**	0,50	1,00	1,10			
3 month interest rate (EURIBOR)	(year-end)	1,22	1,02	1,39	**0,45**	0,20	0,80	1,12			
10 year government bond yield (Bund)	(year-end)	3,76	3,36	2,65	**2,09**	1,20	2,80	2,82			
M3 growth	(annual growth)	-0,3	1,1	1,5	**2,94**	2,40	3,34	3,16			
Credit to private sector (M3 definition)	(annual growth)	0,7	1,9	1,6	**0,83**	0,00	2,00	2,00			
Exchange rate USD/EUR	(year-end)	1,39	1,34	1,29	**1,25**	1,15	1,40	1,31			1,45

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