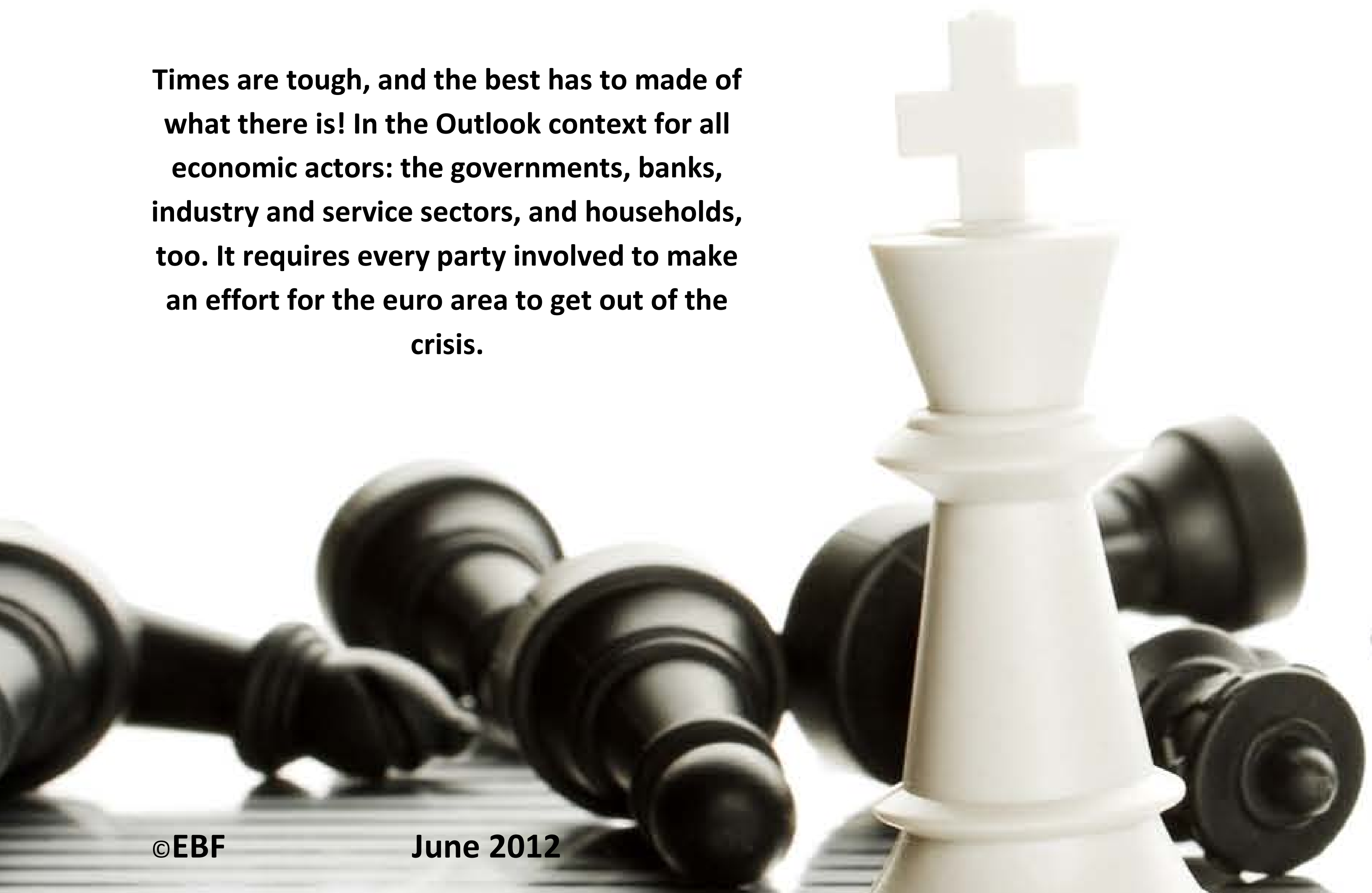
MID-YEAR OUTLOOK ON THE EURO AREA ECONOMIES IN 2012-2013

"A la guerre comme à la guerre"



Times are tough, and the best has to made of what there is! In the Outlook context for all economic actors: the governments, banks, industry and service sectors, and households, too. It requires every party involved to make an effort for the euro area to get out of the crisis.

June 2012

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:

CONTACTS

Florence Ranson
Senior Adviser
Communications
f.ranson@ebf-fbe.eu

Viktorija Proskurovska
Adviser
Economic and Monetary Affairs - Associates
v.proskurovska@ebf-fbe.eu

SUB-EDITOR

Alison Bell
Coordinator&Editor
Economic & Monetary Affairs
a.bell@ebf-fbe.eu

DESIGN & LAYOUT

Sébastien Dieu – Mathilde Poncelet

TERMS & CONDITIONS

Please mention source when quoting. This EBF publication does not necessarily reflect the views of the individual member associations of the Federation.

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 almost 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 only.

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.

1. THE EMAC CONSENSUS

Chief Economists of the EBF Economic and Monetary Affairs Committee, forecast **economic growth** in the euro area to fall into negative territory this year, and to rebound into low positive territory next year (-0.4% and 1.0% respectively). The overriding consensus amongst the forecasters is on the defining factors behind this projection, namely: on-going sovereign debt crisis in the euro area, deleveraging of the financial sector, fiscal consolidation measures implemented in a number of peripheral euro area countries, and the high level of unemployment putting a downward pressure on private consumption. What is more, in some countries the deleveraging of households and businesses is among the forces affecting economic development. This is also reflected in the weak expectations for evolution of bank credit in the next 18 months: credit growth in the euro area is projected to remain within 1-2% per annum. On balance, the German economy will continue growing at a relatively healthy pace, pulling the euro area away from a more significant economic collapse. The continued strength of the German economy and the expectation that the euro area sovereign debt crisis will be gradually contained, are the two critical factors underlying the projections of a return to growth in 2013.

Consumer price inflation in the euro area is expected to stay at an elevated level of 2.4% in 2012, and decelerate to 1.8% next year. The upward pressure on prices this year will be largely on the account of elevated oil prices, increases in taxation and higher-than-average inflation in Germany, where rapid wage growth is stimulating domestic consumption in the short to medium term. Downward price pressures will come from a generally weak private consumption in many other euro area countries, hence, diminishing the strength of German net exports. A recent sharp fall in energy prices may also contribute to lower inflation this year.

Many euro area governments are exercising contractionary **fiscal policies**, some availing themselves of austerity measures, with the aim of reducing their budget deficits, and working towards reducing their public debts. These efforts are expected to help bring the average budget deficit of the euro area countries below 3% of GDP by the end of 2013; however, the overall level of public debt will still continue mounting to over 92% of GDP by the end of next year. The central forecast of the EMAC is based on the assumption that the composition of the euro area does not change during the forecast period, although the possibility of a partial break-up has recently increased.

Expansionary **monetary policy** of the ECB with new 3-year LTRO operations has provided banks with ample liquidity at a low cost and eased their refinancing needs. However, it does not help to guarantee the solvency of the European banks in these turbulent times. In an effort to meet the new standards on capital and liquidity, European **banks** are propelled towards accumulating government bonds to ensure sufficient levels of liquid assets in liquidity buffers and are looking for optimal ways to increase their capital adequacy ratios. Banks, as well as public authorities in many EU Member States, have their hands tied in responding to the economy's needs (see Box for more information). In this vein, the European Investment Bank (EIB[1]) played an important role as a public lender to the economy. In the EIB press release from 15 May 2012, they state: "In 2011 the EIB provided its highest-ever financial contribution to the real economy with EUR 60 billion disbursed to its clients. At the end of last year, the Bank's outstanding loans amounted to around EUR 395 billion, more than the loan portfolio of all other multilateral financial institutions combined."

The Chief Economists expect the **euro** to stabilise at around 1.30 USD/EUR during the forecast period. The US labour market data, upcoming elections, and the degree of success of the resolution of the euro area sovereign debt crisis will all have an impact on the future development of the external value of the euro.

Because of the weak domestic demand, the economic performance of the euro area will also largely depend on the dynamics of the emerging economies, especially in Asia. Should economic growth in that region decelerate, it will put a break on euro area **exports**, thus slowing further the region's tepid recovery.

Table 1: **Main indicators of EMAC consensus**

(2012 & 2013: mean of EMAC projections), y-o-y growth rates unless specified otherwise, in %.

	2010	2011*f*	2012*p*	2013*p*
Gross domestic product	1.8	1.5	-0.4	1.0
Private consumption	0.8	0.2	-0.6	0.5
Public consumption	0.7	-0.1	-0.6	0.0
Gross investment (GFCF)	-0.8	1.3	-1.6	1.2
Exports	11.2	6.2	1.4	3.7
Imports	9.3	3.8	0.0	3.2
Unemployment rate (%)	10.1	10.2	11.0	11.0
Prices (HCPI) (%)	1.6	2.7	2.4	1.8
Government budget balance (% DGP)	-6.0	-4.1	-3.6	-2.9
Public debt (% GDP)	85.4	88.0	91.5	92.3

NB: 2010 figures are fact (DG ECFIN); 2011 is DG ECFIN Spring 2012 forecast; 2012 and 2013 are current EMAC projections.

[1] http://www.eib.org/about/press/2012/2012-062-eib-to-continue-support-for-europes-growth-and-innovation.htm

2. DOMESTIC ECONOMY

a) Fiscal policy and the economy: no Keynesian solution available

In 2012, the euro area economy is going through the second leg of a mild double-dip recession. On the basis that the sovereign debt crisis remains contained, the first two quarters of the year are showing GDP contraction, while the second half of the year is expected to bring a gradual recovery. The gap between actual and potential output remains significant throughout the forecast horizon. Given that a permanent solution to the crisis is found, 2013 should see the euro area economy continuing its measured (below potential) recovery when confidence returns and financial market tensions start to ease (GDP is expected to grow by 1% in 2013).

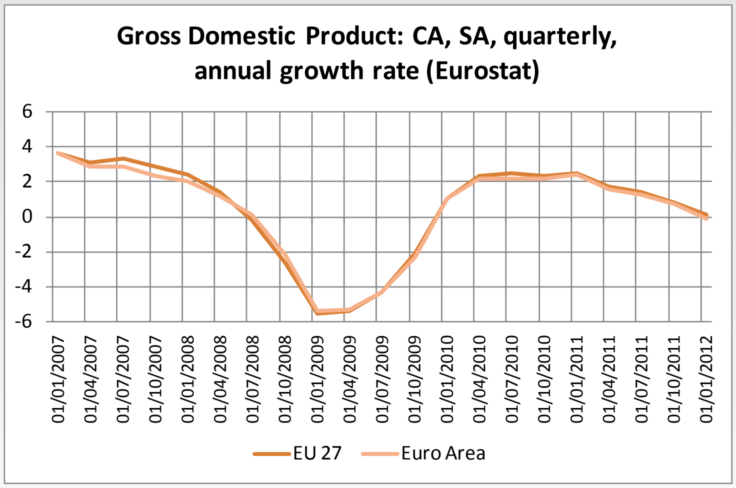
To boost growth, the European Commission has developed a **Roadmap for Stability, Growth and Jobs**[2]. To this effect, at the end of May 2012 the Commission published a package of country-specific recommendations[3] for budgetary measures and economic reforms. An additional element of the package is the recommendations for the euro area as a whole. It is hoped that these efforts will put the European economies back on the growth path, and thus contribute to the recovery from the complex crisis they are going through.

Given the strong interconnectedness between the EU states and their financial sectors, and the negative feedback loop in which the two find themselves, the EU leaders are discussing a plan for an EU Banking Union with a single Deposit Guarantee Scheme, an EU resolution fund and an integrated system of supervision of cross-border banks. If adopted, these proposals will contribute to a deeper **integration of the** EU **financial markets** and to the enhanced stability of the regulatory framework for banks. However, a Banking Union would not help solve the current crisis in the euro area. In addition, the moral hazard problems inherent in all economic structures with joint liabilities need to be addressed thoroughly before making any decisions about a Banking Union.

---

[2] http://ec.europa.eu/news/economy/120531_en.htm

[3] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/513

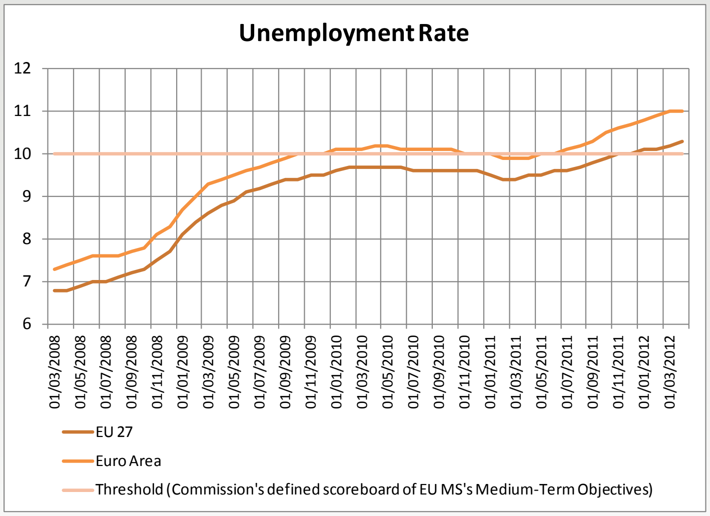


Domestic demand will remain subdued due to a number of factors: low level of confidence both among households and corporates, tight access to credit, increased taxes in most of the euro area members and high **unemployment rate,** which is expected to persist at 11% until the end of 2013, will keep domestic demand and, in particular, private consumption and investment weak.

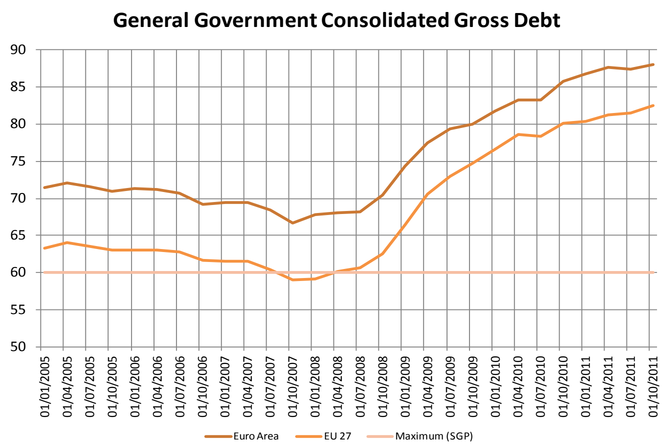
In response to the high level of unemployment in Europe, the European Commission launched the **Employment Package**[4] in April 2012. The Package calls on the EU Member States to implement a number of changes to the demand-side employment situation, including: (a) reduction of taxes on labour; (b) support to business start-ups, (c) focus on the high job potential industries such as green economy, health services and ICT; (d) stimulating internal flexibility to reduce job insecurity and fiscal costs; (e) establishing decent and sustainable wages; (f) ensuring appropriate contractual arrangements; (g) developing lifelong learning opportunities; (h) addressing the skills mismatches in Europe's labour markets, and much more. In 2013, the Commission plans to introduce a scoreboard of employment indicators to keep track of Member States' progress in implementing their National Job Plans; it will be integrated into the European Semester.

Aside from that, the financial sector is deleveraging, and so are households and businesses; all pointing at subdued levels of credit growth in the next 18 months.

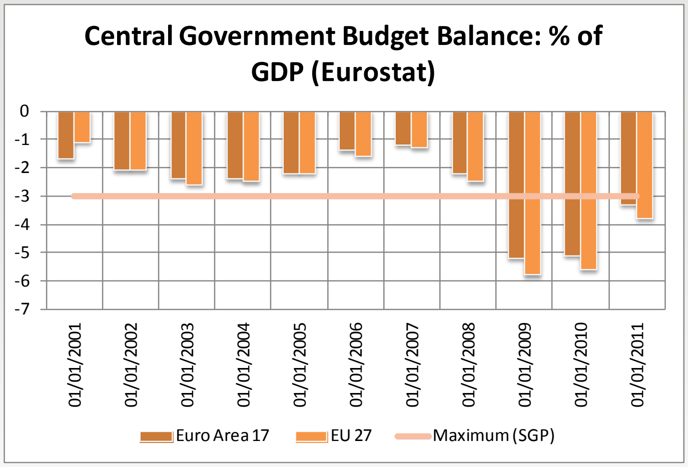
[4] http://ec.europa.eu/social/main.jsp?catId=101&langId=en



Contrary to economic theory, these times of economic hardship, which in some euro area countries (such as Greece and, to a lesser extent, Spain, Italy, France, etc.), has led to social unrest, are not being offset by the fiscal policy. Instead, to counter the stubbornly rising levels of **public debt** (projected to rise on average to 91.5% of GDP in 2012 and to 92.3% in 2013), the euro area governments are exercising contractionary fiscal policy. The motivation behind this is manifold, the most important being the need to bring public finances back on a sustainable footing and maintain access to market-based financing. An additional factor is the strict fiscal and economic conditionality of the Fiscal Pact[5], which will enter into force at the start of next year. This year, the **general government budget deficit** is expected to remain, on average, above the 3% target in the euro area, and then fall narrowly below the mark next year. This said, large discrepancies across the euro area members are observed as far as meeting the fiscal policy targets is concerned.



[5] The inter-governmental Treaty on Stability Coordination and Governance: http://www.european-council.europa.eu/home-page/highlights/treaty-on-stability,-coordination-and-governance-signed?lang=en

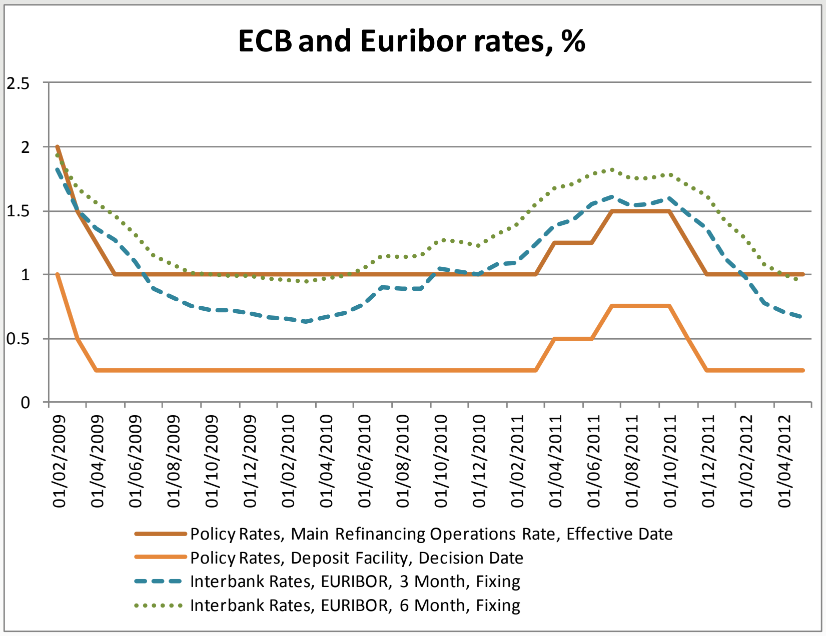


Germany, currently Europe's most dynamic economy, is one of the few euro area countries with relatively brighter prospects. Domestic demand, driven by a relatively high wage growth, as well as the acceleration in the housing market in some of the bigger cities, will help the country outperform its peers.

b) Inflation and monetary policy outlook

The Chief Economists share the view that the **ECB's monetary policy stance** is and has been appropriate under the current economic conditions. The ECB main refinancing rate and the deposit facility rate are at a very low level (1% and 0.25% respectively). Owing to the ECB provision of ample liquidity to the market, it is the deposit facility rate that is considered to be the main steering rate at the moment. Reducing the official rates further would lower banks' refinancing cost, but the effect would be incomparable to the magnitude of the challenges faced by some banks, such as additional capital requirements, or writing off of bad loans.

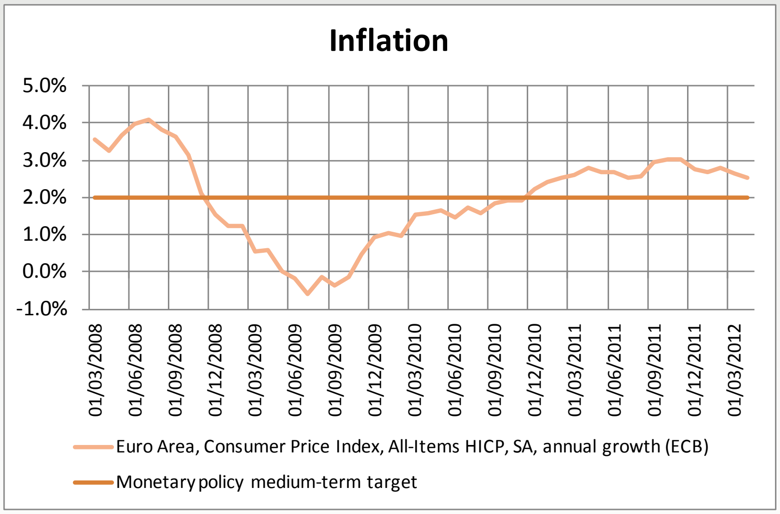
The two 3-year refinancing operations (LTROs) of the ECB, one introduced in December 2011 and the second one in February 2012, with an aggregate volume of over EUR 1 trillion eased the funding pressures of many banks in the euro area, but they did not remove some banks' potential solvency problems. Banks' need to satisfy market and regulatory demands can only be addressed by banks themselves, or by the states in which they are located.



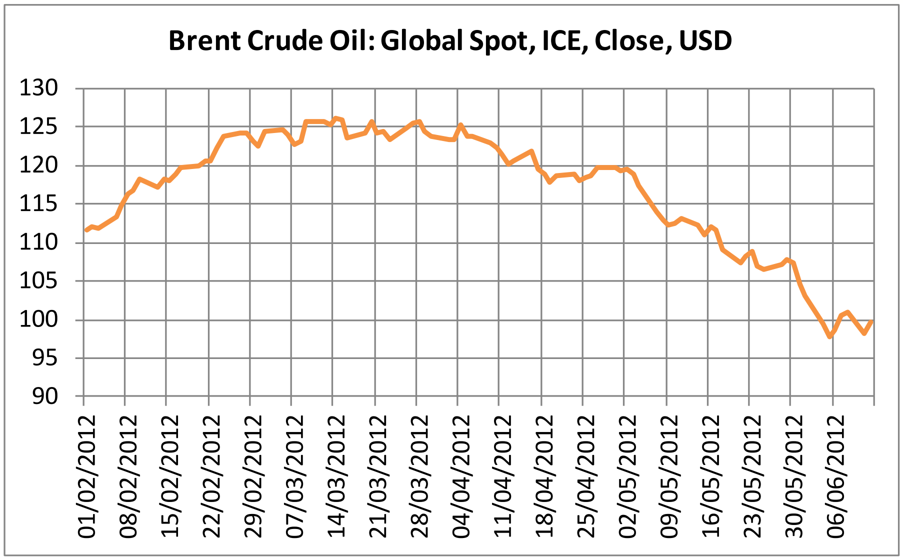
The Chief Economists do not expect the ECB to raise the main refinancing rate before the end-2013, and when it does, it will do so in small steps.

Current conditions could hint at stagflation, but **inflation** this year is forecast to be around 2.4%, gradually decelerating in 2013 to a yearly rate of 1.8% for the euro area as a whole. The inflation landscape across the euro area will be uneven, reflecting wide variations in growth trends. The German economy will probably have to face a correspondingly higher level of inflation, which, for the euro area as a whole, will be somewhat compensated by a much slower price evolution in the peripheral countries on account of their austerity fiscal measures (drastic cost cutting and imposition of direct and indirect taxes), structural reforms, e.g. in labour markets and low domestic demand. The monetary policy stance is too loose for the German economy, which boosts economic activity. However, as said earlier, this relatively strong growth trend in Germany is counterbalanced by a number of countries in the euro area periphery, which go through a downward cycle, accompanied by high levels of unemployment and low demand for credit. The continued deleveraging of banks in light of the new regulations of bank capital adequacy and liquidity ratios will tend to depress growth, too.

Core inflation is expected to remain subdued, around 1.6% in 2012, decreasing to 1.5% in the following year.



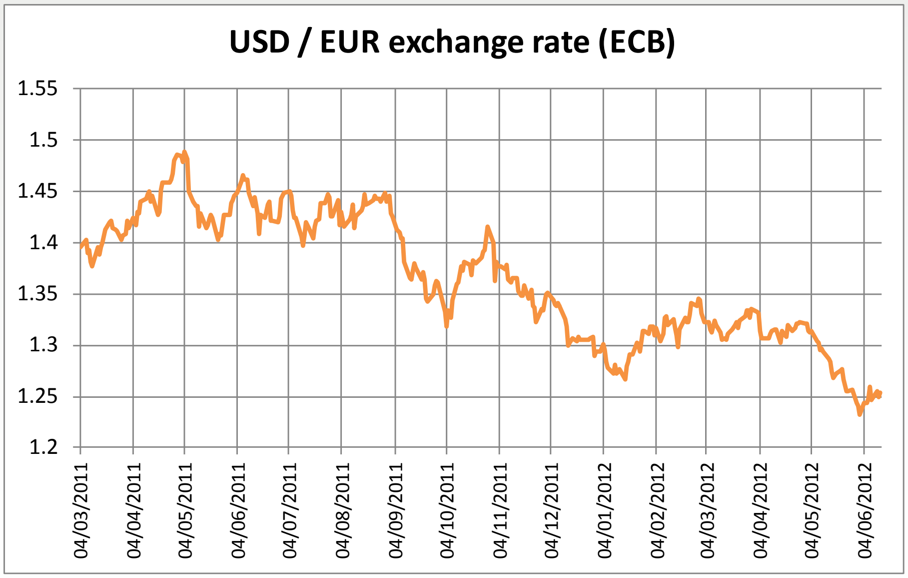
In view of the evolution of the **oil price** over the past years and noting that today the oil price futures are still high at around USD 100 per barrel of Brent crude oil, this parameter remains high on the radar of EMAC's Chief Economists. They expect the price of Brent crude oil to average USD 113 per barrel through the rest of the year.



c) The euro: a fort to fight for!

For as long as uncertainty around the euro area sovereign debt crisis persists, the **euro** is largely expected to remain weak but volatile, within a wide range of 1.23 to 1.45 against the US dollar. A number of other factors play a role in determining the level of exchange rate, not least, the level of economic activity in the euro area.

On the other side of the Atlantic, the situation in the US labour market will influence the Fed's decision on the potential third round of quantitative easing to boost the economy. The result of the upcoming US presidential elections will play a role, too. At all events, the **US economy** is expected to grow at a rate of above 2% both this year and next.

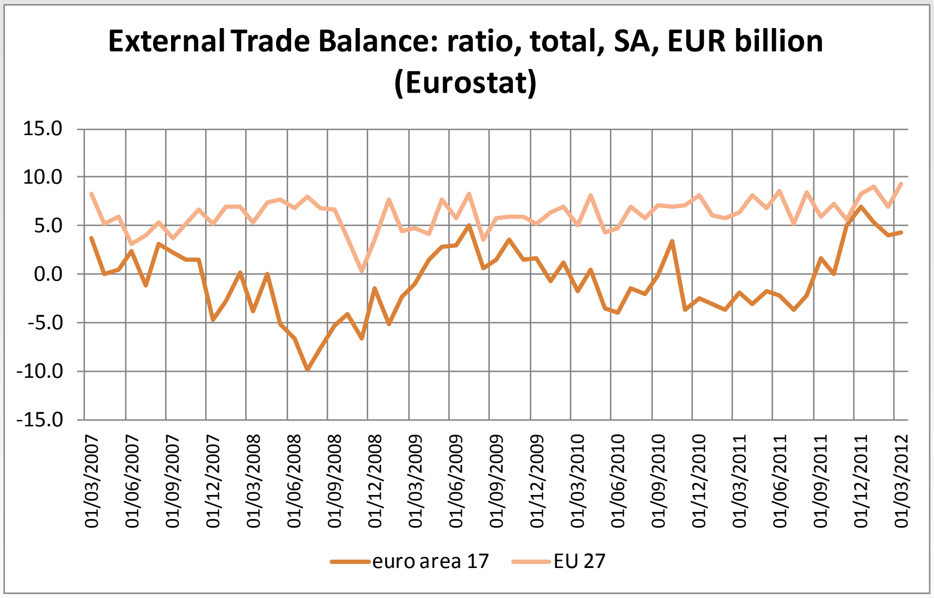


3. GLOBAL ECONOMIC ENVIRONMENT

EMAC's Chief Economists expect the global environment to be broadly supportive of the euro area economy: GDP growth in emerging economies is expected to stay brisk, thus stimulating the euro area export-led economies to pull out of the recessionary trend. The bank-and-government deleveraging in the industrialised economies will, however, keep global economic growth rather tame.

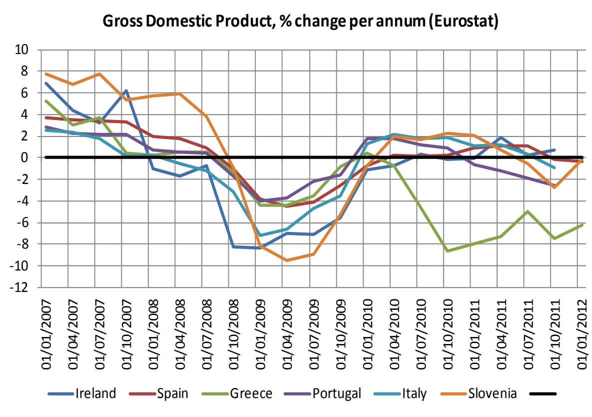
As economic activity in the euro area picks up in 2013, both **exports and imports** are expected to grow at a healthy rate of 3.7% and 3.2% respectively (compared to this year's 1.4% and 0% respectively).

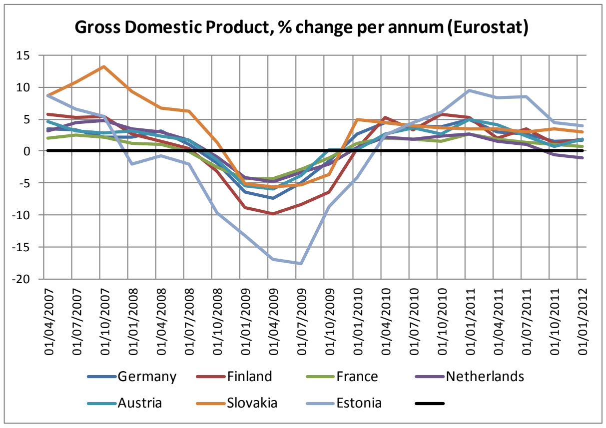
The euro area **trade balance** is projected to be at 0.5% of GDP through the forecast period, and the **current account** is expected to tip into the positive: 0.1% of GDP in 2012, and 0.3% of GDP in 2013.



BOX: BANK REGULATORY ENVIRONMENT

Today, European banks find themselves in a difficult place. Having gone through nearly 5 years of crisis, economic growth is still lacklustre in most of the euro area countries, and in some periphery countries it is even negative. These conditions make it more difficult for banks to fulfil their fundamental role of fuelling economic expansion. Keeping that in mind, one concludes that current economic situation is not a nurturing one.





The second challenge banks are facing is regulatory overhaul, creating a major uncertainty as to when the transition to the new regulatory norm will be over, and what would be the cumulative effect of the new regime on the banking business. Some of those changes have been embraced by the sector; they include higher level and higher quality capital, and introduction of a back-stop leverage ratio. Some other elements of regulatory change, such as liquidity coverage ratio, have not yet been finalised.

A number of independent assessments have been made as to the capital gap of the European banks between their pre-crisis levels and the Basel III requirement, and they largely converge on an amount of €1 trillion. There are a number of ways for a bank to improve the capital adequacy ratio, but none of them are easy. Thus, banks face a tough choice: to risk disappointing shareholders by diluting their capital base; to be forced to sell off parts of business to reduce the asset base, or else to raise capital through high(er than usual) retained earning.

	Capital requirements	Basel III	CRR / CRD4	Basel I/II
Micro	Tier 1 capital	6%	6%	4%
	- incl. Common Equity	4,5%	4,5%	2%
	- additional T1	1.5%	1,5%	
	Conservation buffer	2.5%	2.5%	
	Tier 2 capital	2%	2%	4%
	Total capital required	10,5%	10.5%	8%
Macro	Countercyclical buffer	0 – 2,5%	0-2.5%	
	Systemic Risk buffer	0-3%	0-5%	
	Total capital (micro & macro)	10.5%-?	10.5%-?	8%

What is more, while moving quickly to implement the new level of capital and liquidity requirements, banks are caught in a dichotomy of expectations to deleverage on the one hand; and to support the economy through lending on the other.

Alongside this, the European Commission has started looking into possible regulation of the shadow banking system, as well as into possible restructuring of the EU banking sector, along the lines of the Vicker's report in the UK and the Volker rule in the US.

With the onset of the new liquidity regulation, banks are also forced to hold more government bonds on their balance sheets, which up till now have been highly liquid and carrying zero risk weighting (although the reality is proving it to be otherwise). Uncertainty about the fiscal stability of the euro area, fuelled by a series of downgrades by the Credit Rating Agencies of a number of the euro area sovereigns, and haircuts on government bond holdings which are not held to maturity, create extra pressure on banks' solvency and deters investors away from the European banks.

Thirdly, daily operations of many banks have been hampered by the drying up of liquidity in the inter-bank market. Lack of confidence in the market players is still undermining the regular inter-bank lending, thus pushing the ECB to act as a lender of last resort for many banks. The ECB's 3-year LTROs at the end of 2011 and early 2012 were most critical to avoid an onset of a credit crunch in Europe. Nevertheless, the ECB's non-standard policy measures have only created a small breathing space for the policy makers to fix the underlying problem, i.e. that of the tangled mix of financial, economic, political and social crises, which have been unravelling one after the other in Europe for a number of years.

All these developments are gradually confining the operations of many banks within their national boundaries, thus putting in danger the existence of a single financial market in Europe. Financial market disintegration and fragmentation is enhanced by the fact that some Member States are introducing measures which were not yet adopted at the EU level, such as the Financial Transaction Tax, or higher capital requirements than those outlined in Basel III and CRD4/CRR. This shakes out of balance the level playing field for banks within the euro area, not to speak of their competitive position vis-à-vis their peers in overseas jurisdictions.

The EU integrated financial market idea must not be abandoned. Indeed, some initiatives at the EU level have been demonstrating the political willingness to preserve the goal of an integrated and stable financial market. The Commission has just given its proposal for an EU-wide bank crisis management and resolution framework. In addition, the EU countries succeeded in finding an agreement on such complex issues as the European Stability Mechanism (ESM) as well as the new economic and fiscal governance system in the EU. This said, a lot of work remains to be done. Inter alia, the resolution regime is yet to be finalised, and the ESM has to be 'beefed up' so as to convince the markets that even a large EU Member State in crisis can be handled.

All these (and many more) elements create a complex environment for banks to operate in. Bank profits remain volatile, and the Chief Financial Officers are no longer able to ensure high returns on shareholders' equity. The European banks are confronting the challenges by making adjustments to their business strategies and banking models, by cleaning up their balance sheets, and importantly, re-focusing on the client relationship management, the backbone of their business.

4. RISKS TO THE SCENARIO

Chief Economists outline a number of risks to the scenario, presented below.

Upside Risks:

- Stronger than expected recovery of the core euro area countries;
- Stronger than expected recovery of the peripheral euro area countries (a tail risk);
- Lower than expected inflation;
- Recent 5% trade weighted drop of the Euro, enhancing the competitiveness of the euro area;
- Higher than expected demand for EU exports;
- Higher US economic growth;
- Return of confidence based on the visible results from fiscal consolidation, structural reforms and banking sector consolidation (e.g. in Spain).

Downside Risks:

- Political instability in Greece;
- Political inability on the part of the EU leaders to present comprehensive crisis measures protracting confidence crisis;
- Political inability to present structural reform projects at the EU Member State level to increase competitiveness;
- Worsening situation in Spain and Italy (rising government bond yields will be a litmus indicator of market sentiment);
- Deepening of the sovereign debt crisis in the euro area as a whole;
- Partial breakup of the euro area caused by the exit of Greece from the EMU, exacerbating economic and financial uncertainty;
- Acceleration of deleveraging of banks, in Spain and Italy in particular, which risks leading to a downward spiral;
- Rising oil prices;
- Continuing increase of unemployment;
- Faster slowdown of Chinese and other emerging economies;
- Turnaround in the German labour market, as a result of unfavourable development of export markets.

Notable is the number of downside risks, which points at the uncertainty surrounding the sovereign debt crisis situation in Europe. It remains to be seen how the situation will unfold.

ANNEX

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

TABLE 1	2009	2010	2011	Forecasts for 2012								
				EMAC Consensus			EMAC Outlook		COM Forecast			
				2012 mean	2012 range		end-year 2011	mid-year 2011	Autumn 2011	Spring 2011	Autumn 2010	Spring 2010
1. Output and aggregate demand: (Ann.% change)												
Gross domestic product	-4.1	1.8	1.5	**-0.4**	-0.6	0.1	0.3	1.7	0.5	1.6	1.5	1.5
Private consumption	-1.1	0.8	0.2	**-0.6**	-0.8	-0.4	0.2	1.2	0.4	0.8	0.9	1.1
Public consumption	2.4	0.7	-0.1	**-0.6**	-0.8	0.1	-0.2	0.4	-0.2	0.2	-0.1	0.3
Gross investment (GFCF)	-11.4	-0.8	1.3	**-1.6**	-3.0	-0.2	0.0	2.7	0.5	2.2	2.2	1.8
Exports	-13.2	11.2	6.2	**1.4**	-5.3	3.0	3.2	5.3	3.4	6.9	6.1	5.0
Imports	-12.0	9.3	3.8	**0.0**	-5.3	1.7	2.3	5.0	3.0	5.4	5.1	4.2
2. Labour market and prices: (Ann.% change)												
Unemployment rate (%)	9.5	10.1	10.2	**11.0**	10.9	11.2	10.2	9.3	10.1	10.0	10.0	10.4
Wages (Unit Labour Cost)	4.0	-0.5	0.8	**1.6**	1.0	2.3	1.7	1.6	1.4	0.8	0.6	0.1
Prices (HCPI)	0.3	1.6	2.7	**2.4**	2.0	2.7	1.8	1.9	1.7	2.6	1.8	1.7
Core HCPI				**1.6**	1.4	1.8	1.5	1.6				
3. Public finances: (% GDP)												
Government Balance	-6.3	-6.0	-4.1	**-3.6**	-5.9	-3.1	-3.6	-3.8	-3.4	-4.3	-4.6	-6.1
Government Debt	79.1	85.4	88.0	**91.5**	88.5	102.0	90.8	87.8	90.4	87.7	86.5	88.5
4. External sector: (% GDP)												
Trade Balance	0.6	0.7	0.4	**0.5**	0.3	1.0	0.4	0.1	0.3	0.6	1.0	1.0
Current Account Balance	-0.1	0.1	0.1	**0.1**	-0.3	0.7	-0.2	-0.3	0.0	-0.2	0.0	-0.5
(p.m.) US growth (Ann.% change)	-3.5	3.0	1.7	**2.1**	1.7	2.3	1.9	2.9	0.7	2.6	2.1	2.8
(p.m.) Oil price (Brent) (US$/bl)	62.0	80.2	110.9	**113.0**	109.0	120.0	102.1	105.2	103.8	117.4	88.9	89.2
5. Monetary and financial indicators:												
Interest rate on ECB's main refinancing operations Jun-12	1.25	1.00	1.25	**0.98**	0.75	1.00	0.96	2.13				
Interest rate on ECB's main refinancing operations Dec-12	1.00	1.00	1.00	**0.96**	0.50	1.00	0.98	2.50				
3 month interest rate (EURIBOR) (year-end)	1.22	0.81	1.39	**0.76**	0.40	1.00	1.14	2.67				
10 year government bond yield (Bund) (year-end)	3.76	3.36	2.65	**2.16**	1.30	2.75	2.56	4.02				
M3 growth (annual growth)	-0.3	1.7	1.5	**1.32**	-2.30	5.00	3.45	3.98				
Credit to private sector (M3 definition) (annual growth)	0.7	1.9	1.2	**0.90**	0.20	1.50	2.50	3.50				
Exchange rate USD/EUR (year-end)	1.39	1.34	1.29	**1.31**	1.25	1.44	1.32	1.30		1.43	1.39	1.35

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

TABLE 2		2009	2010	2011	Forecasts for 2013						
					EMAC Consensus			EMAC Outlook	COM Forecast		
					2013 mean	2013 range		end-year 2012	Autumn 2011	Spring 2011	Autumn 2010
1. Output and aggregate demand:	(Ann.% change)										
Gross domestic product		-4.1	1.8	1.5	**1.0**	0.7	1.4		1.3	1.8	1.8
Private consumption		-1.1	0.8	0.2	**0.5**	0.2	0.8		1.0	1.2	1.4
Public consumption		2.4	0.7	-0.1	**0.0**	-0.5	0.7		0.3	0.3	0.2
Gross investment (GFCF)		-11.4	-0.8	1.3	**1.2**	0.1	2.5		2.9	3.7	3.6
Exports		-13.2	11.2	6.2	**3.7**	2.9	4.9		5.3	6.2	6.3
Imports		-12.0	9.3	3.8	**3.2**	2.0	4.6		5.0	5.9	5.9
2. Labour market and prices:	(Ann.% change)										
Unemployment rate (%)		9.5	10.1	10.2	**11.0**	10.8	11.3		10.0	9.7	9.6
Wages (Unit Labour Cost)		4.0	-0.5	0.8	**1.4**	0.4	2.0		0.9	1.2	0.9
Prices (HCPI)		0.3	1.6	2.7	**1.8**	1.3	2.3		1.6	1.8	1.7
Core HCPI					**1.5**	1.1	1.7				
3. Public finances:	(% GDP)										
Government Balance		-6.3	-6.0	-4.1	**-2.9**	-4.4	-2.2		-3.0	-3.5	-3.9
Government Debt		79.1	85.4	88.0	**92.3**	87.5	104.0		90.9	88.5	87.8
4. External sector:	(% GDP)										
Trade Balance		0.6	0.7	0.4	**0.5**	0.3	0.8		0.5	0.7	1.1
Current Account Balance		-0.1	0.1	0.1	**0.3**	-0.1	1.0		0.2	-0.1	0.1
(p.m.) US growth	(Ann.% change)	-3.5	3.0	1.7	**2.3**	1.8	2.9		1.3	2.7	2.5
(p.m.) Oil price (Brent)	(US$/bl)	62.0	80.2	110.9	**111.7**	100.0	122.0		100.0	117.2	90.8
5. Monetary and financial indicators:											
Interest rate on ECB's main refinancing operations	Jun-13	1.25	1.00	1.25	**1.00**	0.50	1.25				
	Dec-13	1.00	1.00	1.00	**1.10**	0.50	1.50				
3 month interest rate (EURIBOR)	(year-end)	1.22	0.81	1.39	**1.12**	0.80	1.50				
10 year government bond yield (Bund)	(year-end)	3.76	3.36	2.65	**2.82**	2.30	3.50				
M3 growth	(annual growth)	-0.3	1.7	1.5	**3.16**	1.10	7.00				
Credit to private sector (M3 definition)	(annual growth)	0.7	1.9	1.2	**2.00**	2.00	2.00				
Exchange rate USD/EUR	(year-end)	1.39	1.34	1.29	**1.31**	1.23	1.45			1.45	1.39

This edition of the EBF Economic Outlook is written by the Economic and Monetary Affairs Committee of the EBF (EMAC) which has the following members:

Mr Stefan ROSSMANITH
BAWAG P.S.K

Mr Andreas BIRNSTINGL
BAWAG P.S.K

Mr Dirk De CORT
Febelfin

Mr Frank LIERMAN
Belfius

Mr Michael KAMMAS
Association of Cyprus Commercial Banks

Mr Ludek NIEDERMAYER
Deloitte
Scientific Council of Czech Banking Association

Mr Helge PEDERSEN
Nordea Bank – Denmark

Ms Katrin TALIHÄRM
Estonian Banking Association

Mr Veli-Matti MATTILA
Federation of Finnish Financial Services

Mr Jean-Paul BETBEZE
Crédit Agricole S.A.

Ms Estelle BRACK
Fédération Bancaire Française

Mr Volker HOFFMAN
Bundesverband deutscher Banken

Mr Stefan SCHILBE
HSBC Trinkaus & Burkhardt

Mr Dimitris MALLIAROPOULOS
EFG Eurobank (EMAC Chair)

Mr Peter CSILLIK
Hungarian Banking Association

Mr János MÜLLER
Hungarian Banking Association

Mr Pat McARDLE
Irish Banking Federation

Mr Vincenzo CHIORAZZO
Associazione Bancaria Italiana

Mr Gregorio DE FELICE
Intesa Sanpaolo

Mr Mārtiņš KAZĀKS
Swedbank AS - Latvia

Mr Serge de CILLIA
Association des Banques et Banquiers à Luxembourg

Mr Hein SCHOTSMAN
ABN Amro Bank N.V.

Mr Erik JOHANSEN
FNH Finansnaeringens Hovedorganisasjon

Mr Mariusz ZYGIEREWICZ
Polish Bank Association

Mr Marcel LAZNIA
Slovak Association of Banks Bratislava

Mr Marko KOSAK
University of Ljubljana

Mr Federico PRADES
Asociación Española de Banca

Ms Alejandra KINDELÁN
Grupo Santander

Mr Jorge SICILIA
BBVA

Mr Jonny SYLVÉN
Swedish Bankers' Association

Mr Martin HESS
Swiss Bankers' Association

Mr Andrew MCLAUGHLIN
The Royal Bank of Scotland Group