European Commission

EUROPEAN ECONOMIC FORECAST

Summer 2018

#ECForecast

12 JULY 2018

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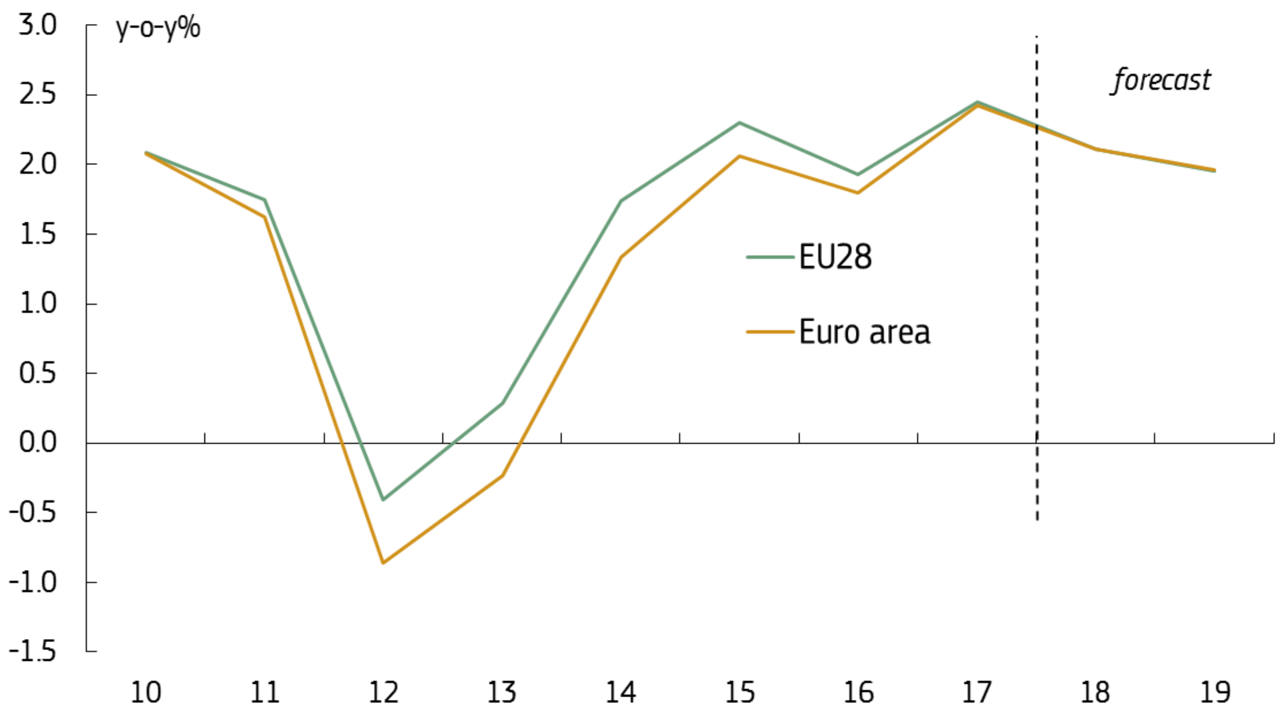
Key messages from the Summer 2018 (Interim) Forecast

1. Fundamentals for sustained growth remain in place
2. The small downward revision for this year mainly mirrors a weaker first half
3. Labour market conditions are set to continue improving
4. Higher energy prices are driving inflation up
5. External downside risks have risen further

Expansion continues but is set to moderate

Real GDP growth rate



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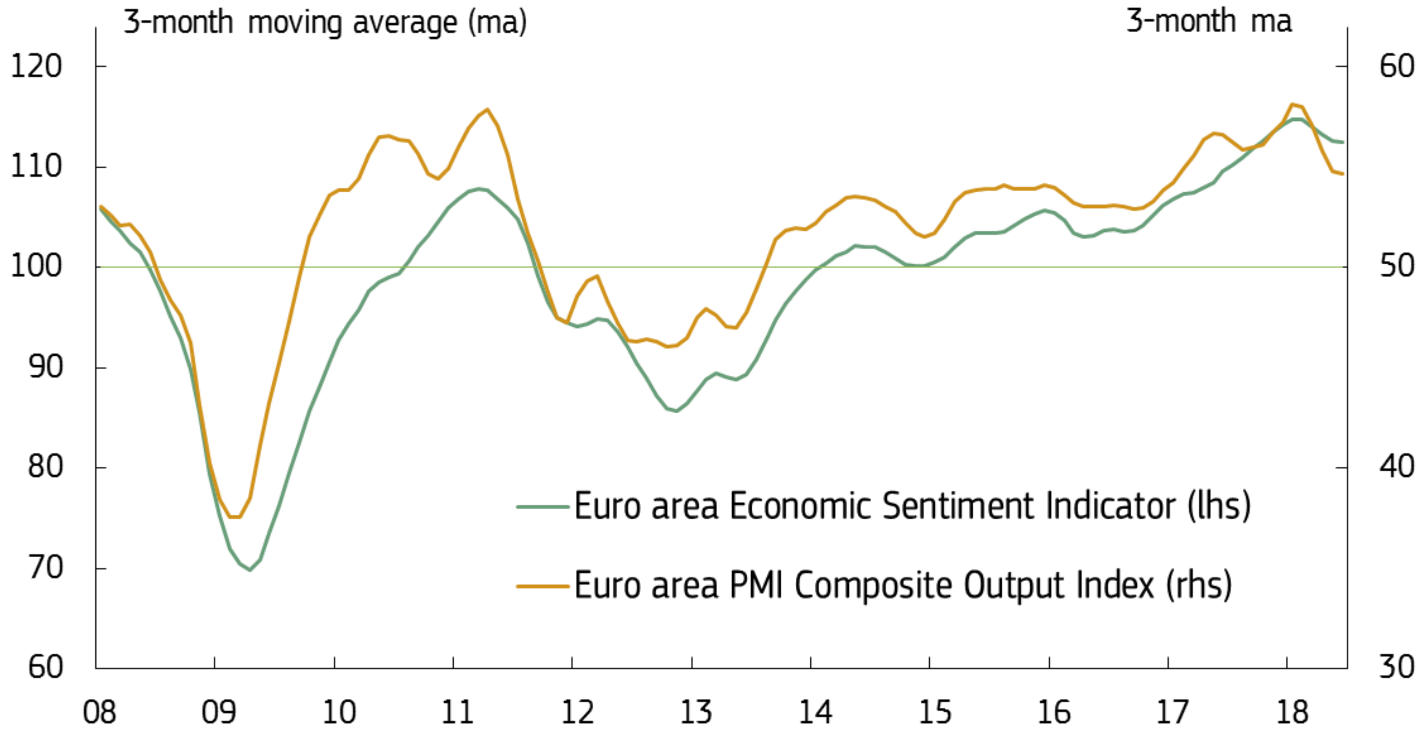
Economic sentiment softened but is still at a high level



Source: EC, Markit Group Limited.

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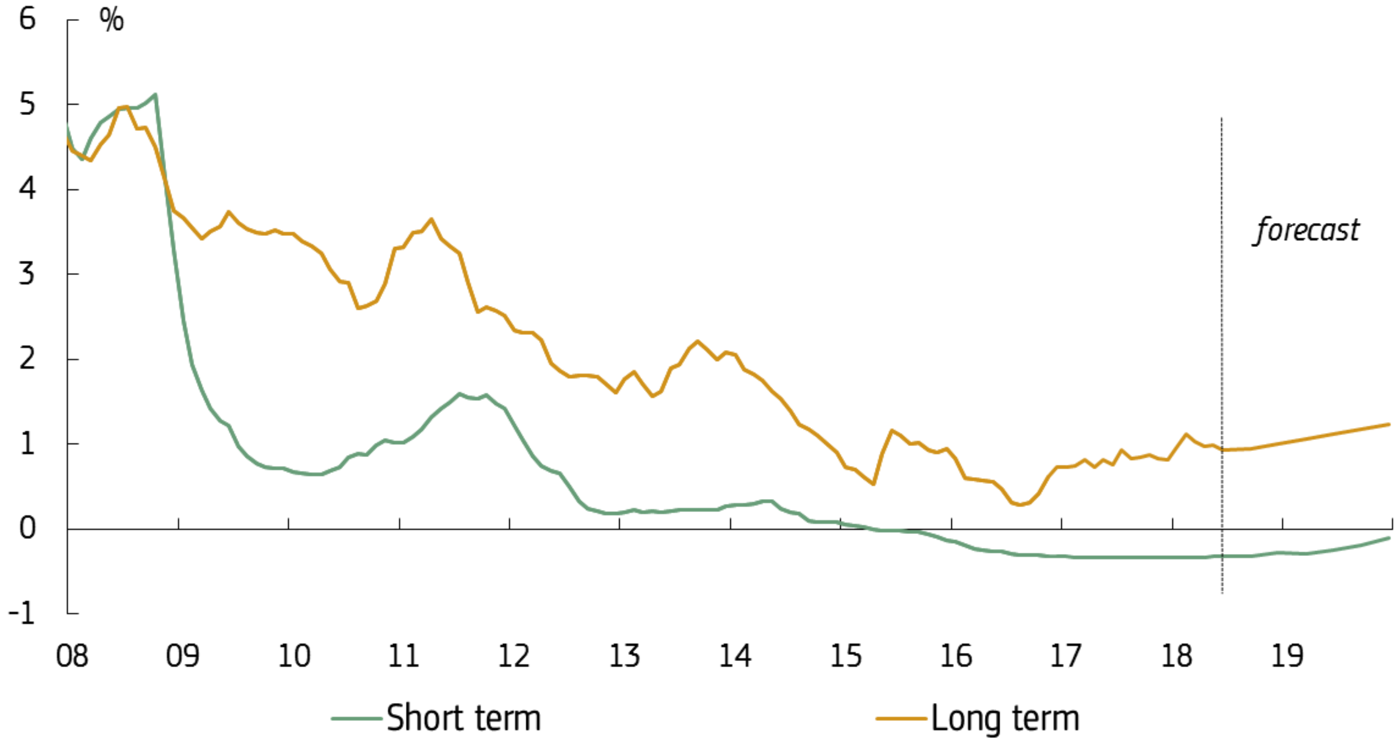
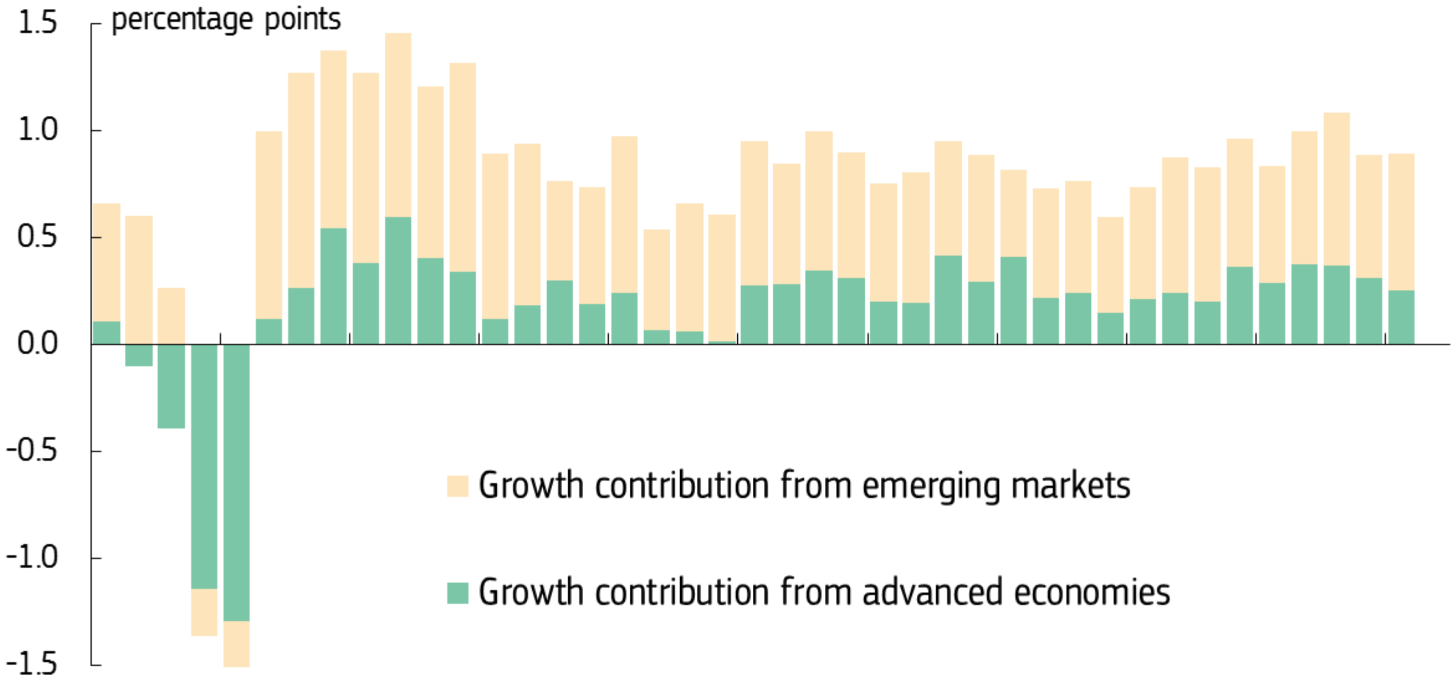
Monetary policy remains supportive



Short term rate: 3M Euribor; Long term rate: 10Y interest swap.

Global growth becoming less synchronised



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

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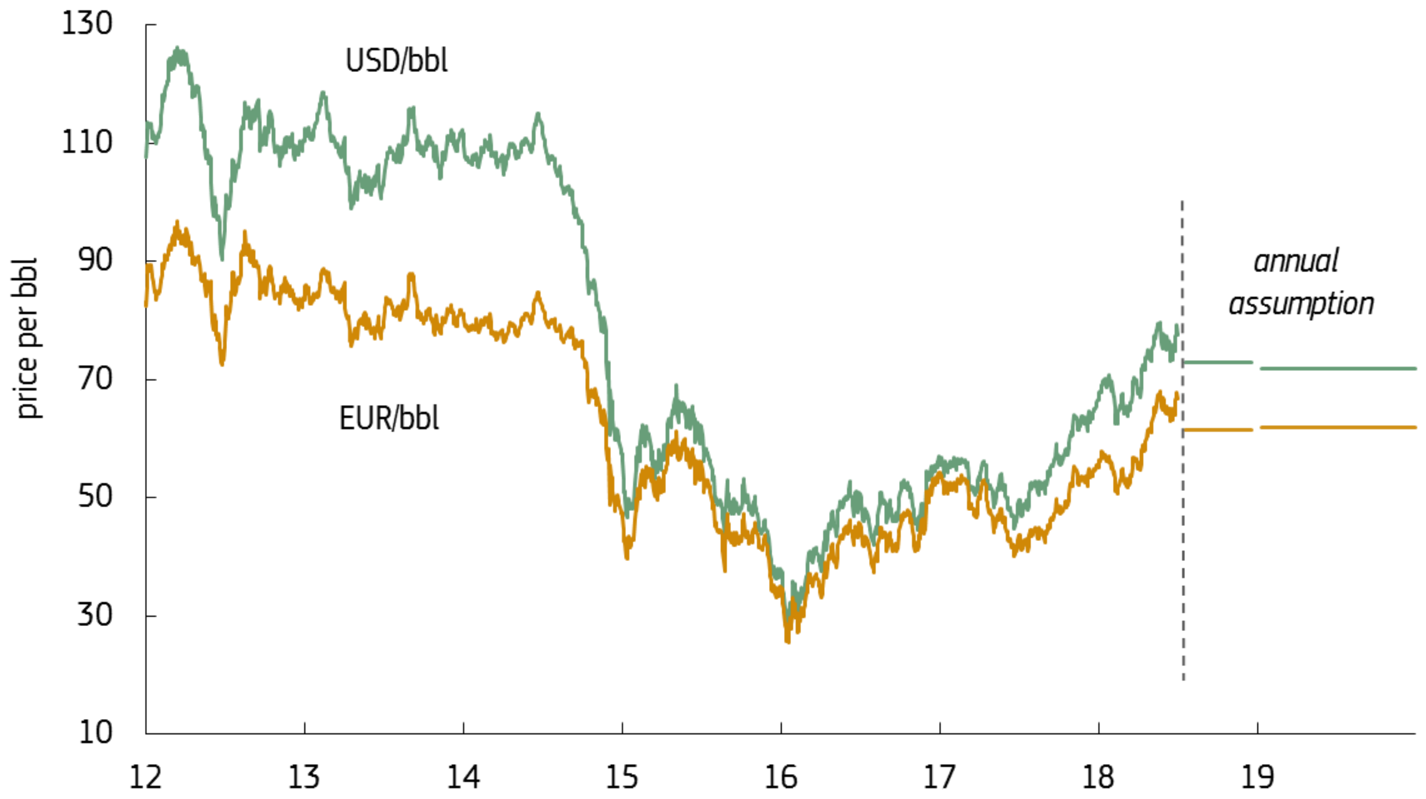
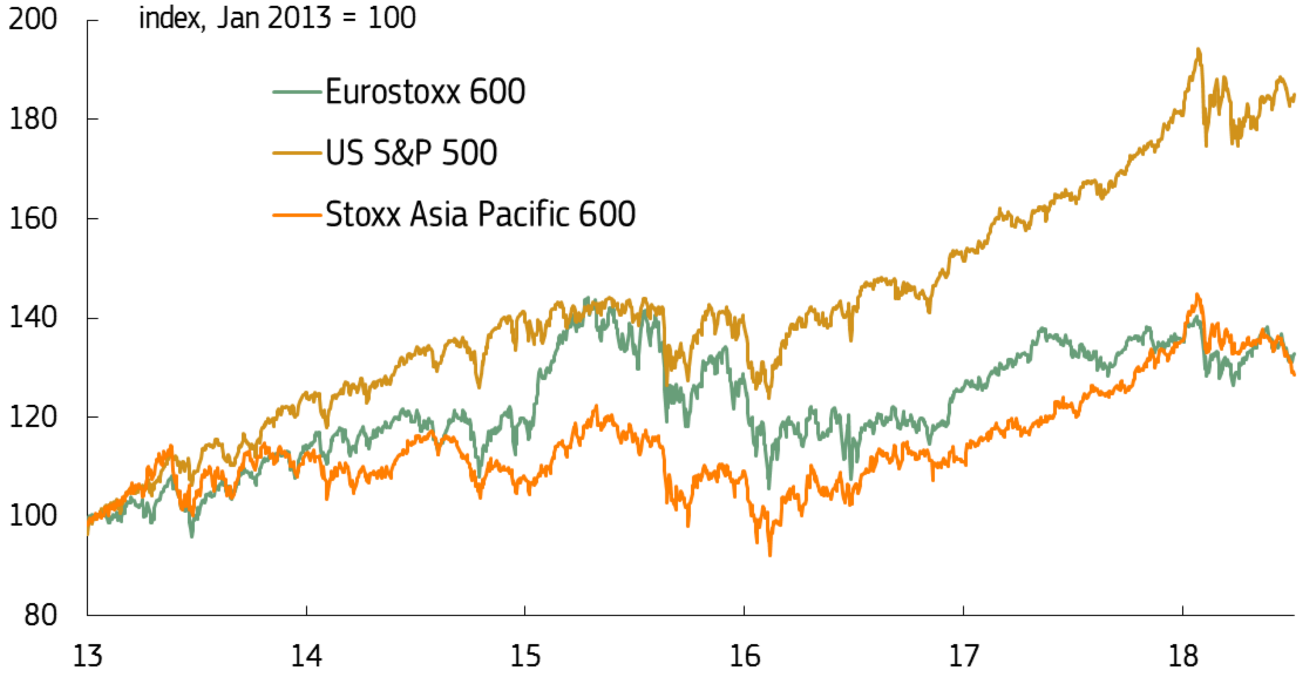
Oil prices picked up



Financial markets show resilience to risks

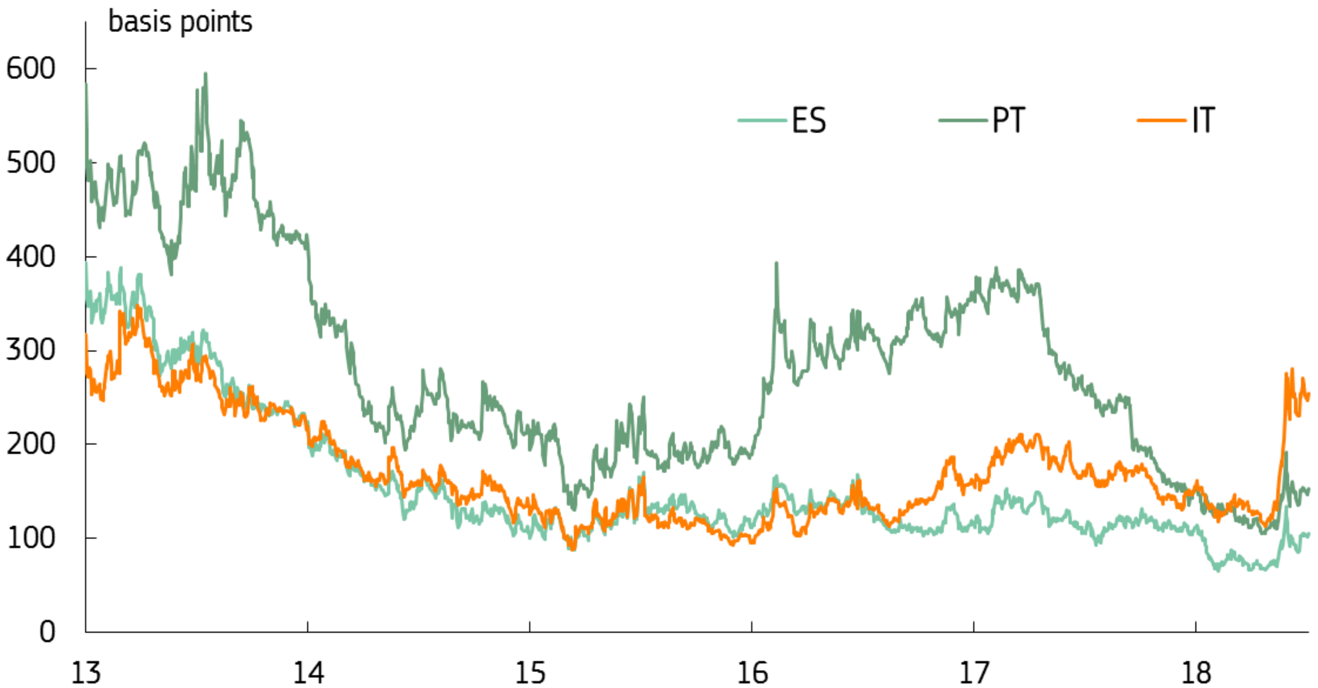
Stock markets



Source: Macrobond.

Financial markets show resilience to risks

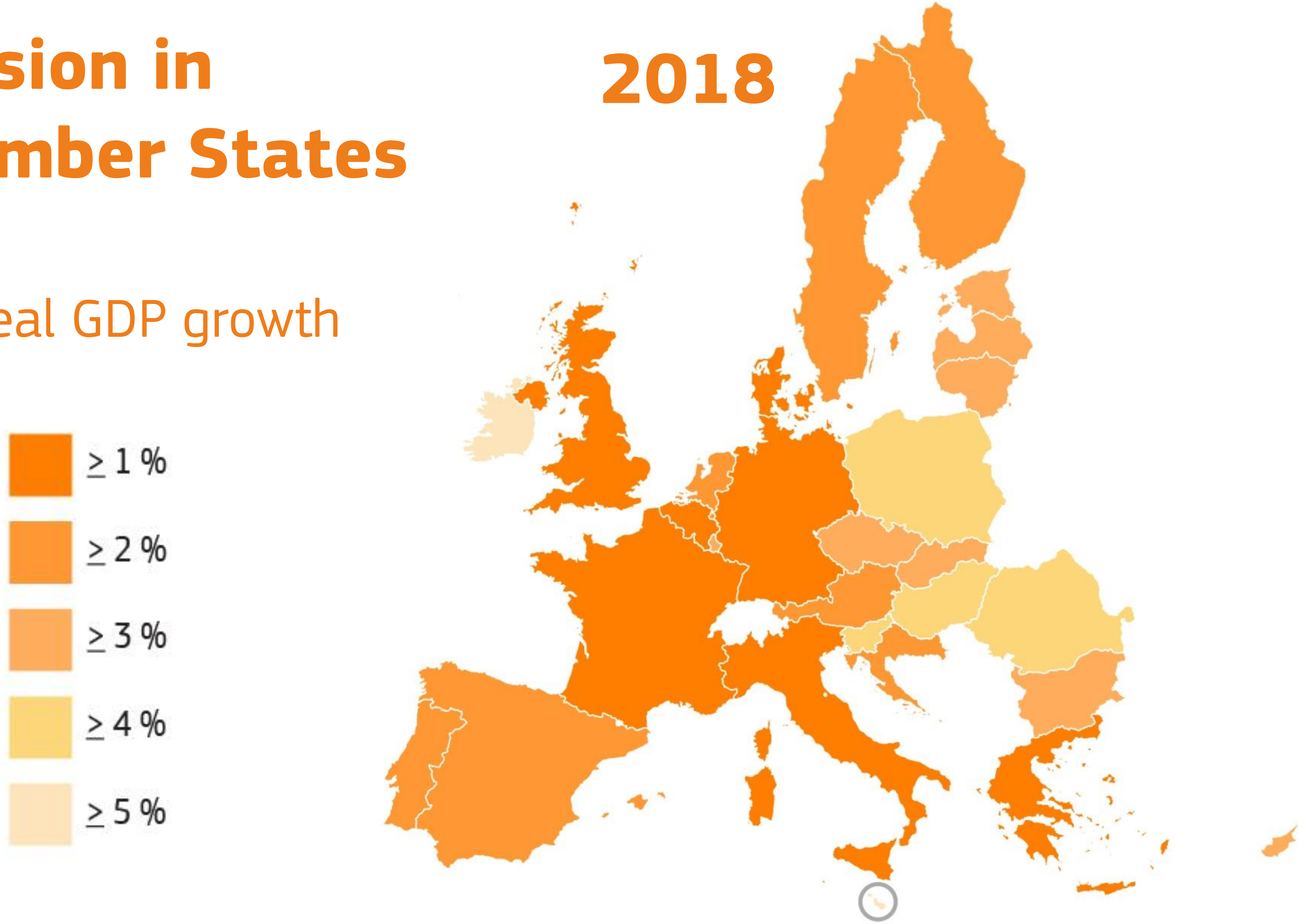
10-year government bond spreads



Source: Macrobond.

Expansion in all Member States

Annual real GDP growth



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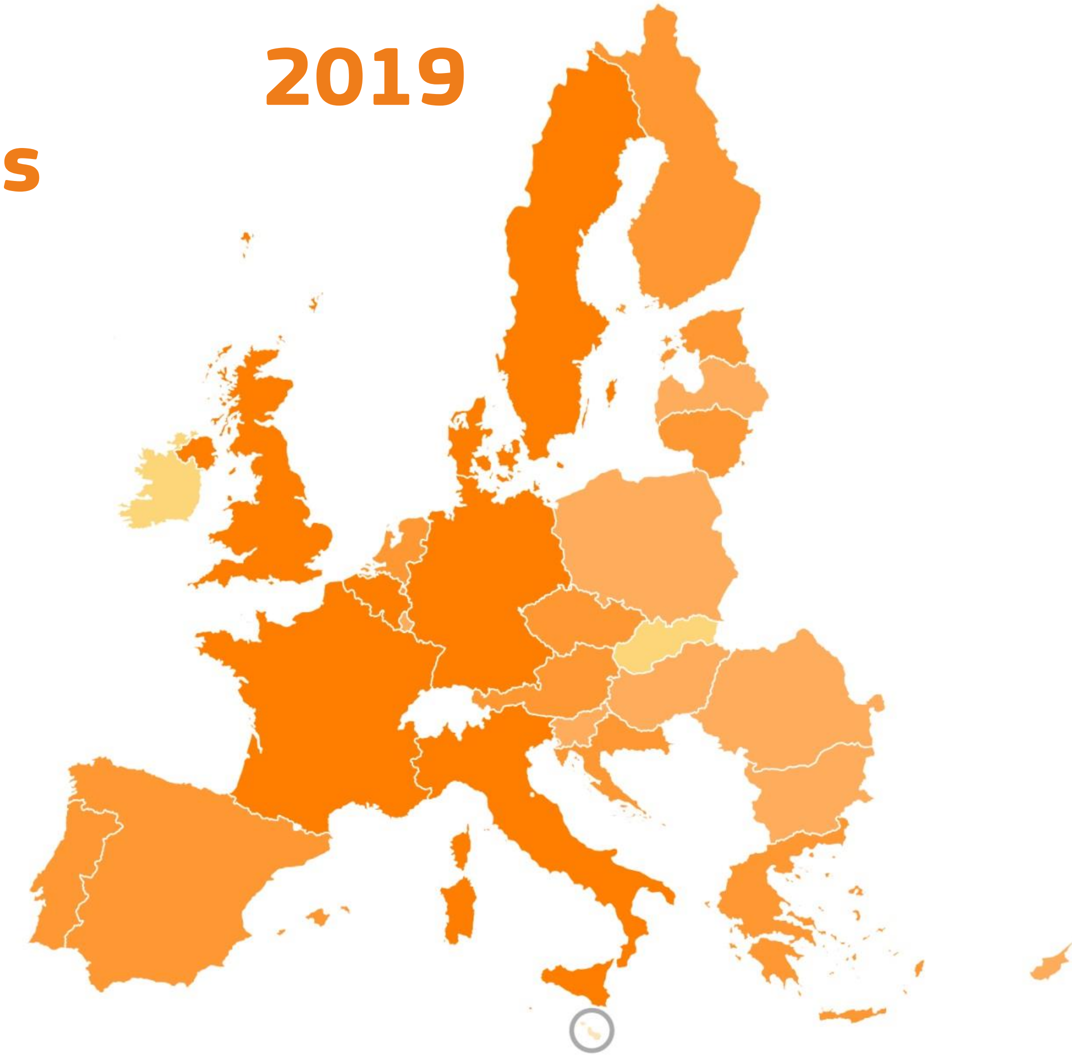
Expansion in all Member States

2019

Annual real GDP growth

- ≥ 1 %
- ≥ 2 %
- ≥ 3 %
- ≥ 4 %
- ≥ 5 %



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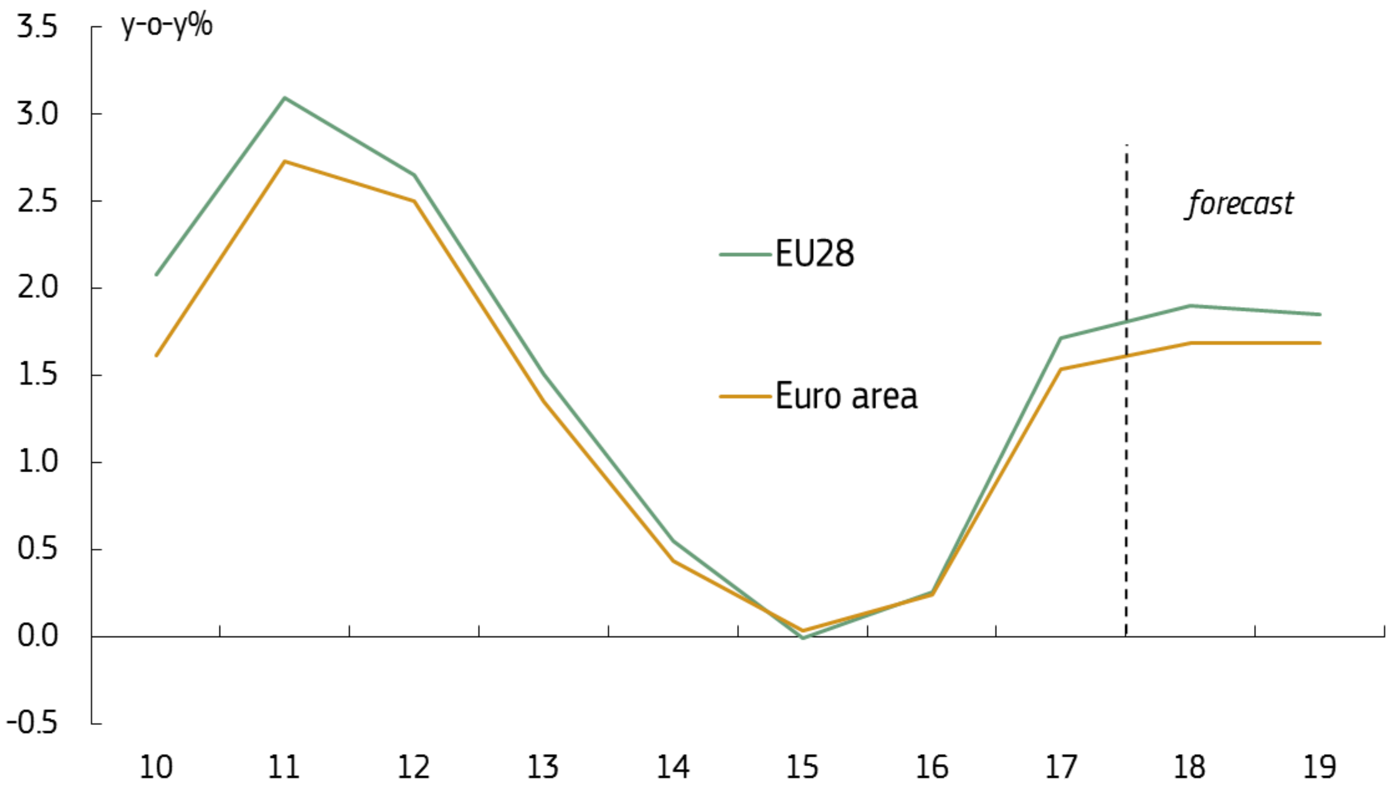
Energy prices drive inflation higher

Harmonised indices of consumer prices (HICP)



Downside risks dominate

- Escalation in trade tensions
- Tighter financial conditions
- Unwarranted effects of the US fiscal stimulus
- Geopolitical tensions
- Policy uncertainty in some EU Member States, including the Brexit negotiations