

FORECASTS AT A GLANCE

24 April 2017



BERENBERG
PARTNERSHIP SINCE 1590

Challenging times: more growth, more political risks

Outlook: Trend growth in the developed world, some US-led reflation ahead

- **US:** New momentum, consumption and housing solid, investment likely to firm
- **China:** Decelerating growth but no hard landing
- **Japan:** Modest growth, reform momentum remains insufficient
- **Eurozone:** Stable growth at around trend
- **UK:** Brexit vote dampens investment and trend growth, business cycle stable

Policy: Fiscal reform in US, Fed to hike gradually, more stimulus in Japan

- **Policy uncertainties** constrain upside for markets, but growth outlook positive
- **Central banks:** Fed hikes two more times in 2017, BoE in 2018, ECB stays put
- **Fiscal policy:** Major stimulus in US, small stimulus in eurozone, tighter in UK

Three big risks: Political populism, protectionism and unexpected inflation surge

- **Key challenge:** Containing the populist threat to open societies and global trade

Forecast changes

- **French GDP:** We raise our forecasts for 2017 to 1.4% and 2018 to 1.5%
- **Eurozone GDP:** We raise our forecasts for 2017 to 1.8% and 2018 to 1.7%

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	Weight	GDP				Inflation				Unemployment				Fiscal balance			
		2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
World*	100.0	2.6	2.2	2.6	2.8												
US	22.5	2.6	1.6	2.4	2.9	0.1	1.3	2.5	2.4	5.3	4.9	4.5	4.4	-2.4	-3.0	-3.2	-3.6
China	13.4	6.9	6.7	6.4	5.9	1.4	2.0	2.0	2.3	4.0	4.0	4.1	4.1	-2.3	-3.0	-3.0	-3.0
Japan	6.0	1.2	1.0	1.1	1.1	0.8	-0.1	0.5	0.6	3.4	3.1	2.8	2.7	-6.5	-6.3	-5.0	-5.0
India	2.7	7.2	6.9	7.5	7.8	5.9	5.0	4.5	4.7					-3.5	-5.0	-4.0	-3.6
Latin America	7.5	-0.3	-2.0	1.9	2.7	15.5	7.0	20.8	9.3					-7.0	-6.9	-6.2	-5.5
Europe	29.8	1.6	1.6	1.9	1.9												
Eurozone	17.3	1.9	1.7	1.8	1.7	0.0	0.2	1.6	1.6	10.9	10.0	9.4	9.0	-2.1	-1.9	-1.7	-1.5
Germany	5.0	1.5	1.8	1.8	1.6	0.1	0.4	1.7	1.7	4.6	4.2	3.8	4.0	0.7	0.8	0.6	0.3
France	3.7	1.2	1.1	1.4	1.5	0.1	0.3	1.3	1.3	10.4	10.3	9.6	8.9	-3.5	-3.3	-3.1	-2.9
Italy	2.8	0.7	1.0	0.9	1.1	0.1	-0.1	1.3	1.2	11.9	11.7	11.4	11.0	-2.6	-2.6	-2.5	-2.3
Spain	1.8	3.2	3.2	2.7	2.5	-0.6	-0.3	1.8	1.3	22.1	19.6	17.4	15.7	-5.1	-4.1	-3.4	-2.8
Portugal	0.3	1.6	1.4	1.7	1.4	0.5	0.6	1.3	1.4	12.6	11.2	9.8	9.4	-4.4	-2.9	-2.6	-2.4
Other Western Europe																	
UK	3.8	2.2	1.8	2.0	1.7	0.1	0.6	2.7	2.6	5.3	4.9	4.8	4.9	-4.4	-3.7	-3.0	-2.5
Switzerland	0.9	0.8	1.3	1.6	1.7	-1.1	-0.4	0.3	0.6	3.2	3.4	3.4	3.3	-0.2	-0.2	-0.1	0.4
Sweden	0.7	3.8	3.1	2.7	2.6	-0.1	1.0	1.6	1.8	7.4	6.9	6.7	6.5	-1.1	-0.5	-0.5	0.4
Eastern Europe																	
Russia	2.4	-3.7	-0.2	1.7	2.1	15.6	7.1	4.4	4.6	5.6	5.5	5.4	5.3	-2.8	-3.9	-2.9	-2.0
Turkey	1.0	5.9	2.9	2.2	2.8	7.7	7.8	9.9	8.8	10.3	10.9	12.0	11.5	-1.7	-3.1	-2.4	-2.6

Unemployment rate: Harmonised definition (ILO/Eurostat); fiscal balance: general government deficit in % of GDP excluding one-off bank support.

*At current exchange rates, not purchasing power parity. PPP estimates give more weight to fast-growing emerging markets and inflate global GDP.

Weights based on IMF World Global Outlook statistics 2014 GDP figures. Source: Berenberg

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US: fiscal stimulus set to boost economic growth

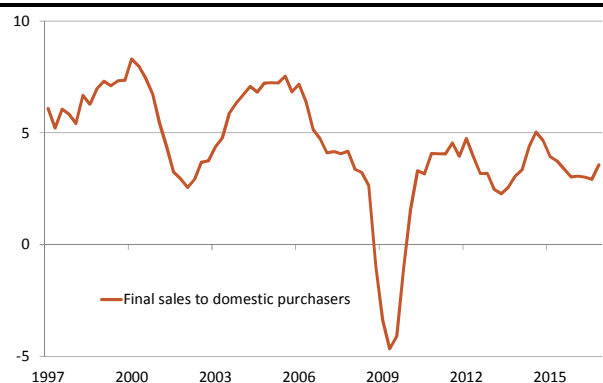
Key drivers of forecast

- **Tax reform and infrastructure spending** are likely to boost economic activity starting in H2 2017
- **Business fixed investment will accelerate** in response to corporate tax reform and looser regulations
- **Consumer spending should remain firm**, supported by healthy gains in real disposable personal incomes that may get a lift from tax cuts
- **The strong dollar will constrain exports**, while imports will be boosted by stronger business investment
- **Monetary policy:** The Fed is likely to raise rates two more times in 2017, still maintaining a negative real Fed funds rate and monetary easing

Risks: Balanced with big uncertainties

- **Upside:** Quick enactment and large boost from fiscal and regulatory reforms
- **Downside:** Misguided trade policies harm all aspects of economy and depress confidence

Healthy consumer spending



% change yoy. Source: BEA

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.4	2.2	0.2	2.9	2.3	0.6
Inflation	2.5	2.5	0.0	2.4	2.4	0.1
Unemployment	4.5	4.6	-0.1	4.4	4.4	0.0

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	% y/y	2.6	1.6	2.4	2.9	1.6	1.3	1.7	2.0	2.1	2.5	2.4	2.6	3.0	2.9	2.9	2.9
	% q/q					0.2	0.4	0.9	0.5	0.3	0.8	0.7	0.7	0.8	0.7	0.7	0.7
	%q/q ann.					0.8	1.4	3.5	2.1	1.3	3.1	3.0	3.0	3.1	2.7	2.8	2.9
Private Consumption	% y/y	3.2	2.7	2.7	2.7	2.4	2.7	2.8	3.1	3.0	2.7	2.6	2.4	2.8	2.7	2.7	2.6
	% q/q					0.4	1.1	0.7	0.9	0.3	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Residential Investment	% y/y	11.7	4.9	4.2	5.0	11.7	5.7	1.5	1.1	1.1	4.4	6.2	5.1	4.4	4.6	5.3	5.6
	% q/q					1.9	-2.0	-1.1	2.3	1.9	1.1	0.7	1.2	1.3	1.3	1.4	1.5
Non-Residential Investment	% y/y	2.1	-0.5	4.4	6.5	-0.4	-0.5	-1.1	-0.1	2.5	3.6	4.9	6.4	6.3	6.5	6.5	6.6
	% q/q					-0.9	0.2	0.3	0.2	1.7	1.4	1.6	1.6	1.6	1.6	1.7	1.7
Government Spending	% y/y	1.8	0.8	0.3	2.6	1.9	0.7	0.4	0.2	-0.5	0.4	0.5	0.9	2.0	2.3	2.8	3.2
	% q/q					0.4	-0.4	0.2	0.0	-0.3	0.5	0.3	0.4	0.8	0.8	0.8	0.8
Final Dom Demand ¹	% y/y	3.1	2.1	2.5	3.2	2.2	2.0	1.8	2.1	2.3	2.5	2.7	2.7	3.2	3.2	3.3	3.3
	% q/q					0.3	0.6	0.5	0.7	0.5	0.8	0.7	0.8	0.9	0.8	0.8	0.8
Net Exports ¹	% y/y	-0.7	-0.1	-0.4	-0.4	-0.3	-0.2	0.2	-0.2	-0.4	-0.4	-0.6	-0.2	-0.2	-0.4	-0.5	-0.5
	% q/q					0.0	0.0	0.2	-0.5	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Stockbuilding ^{1,5}	% y/y	0.2	-0.4	0.1	0.0	-0.1	-0.3	0.1	0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	% y/y	3.7	3.0	4.9	5.4	2.8	2.5	2.9	3.8	4.7	5.0	4.8	5.1	5.5	5.5	5.4	5.3
Current Account Balance	USD bn	-463	-503	-560	-622	-133	-120	-116	-134	-139	-140	-140	-142	-147	-153	-158	-163
	% of GDP	-2.6	-2.7	-2.9	-3.0	-2.9	-2.6	-2.5	-2.8	-2.9	-2.9	-2.9	-2.9	-2.9	-3.0	-3.1	-3.1
Industrial Production ²	% y/y	-0.7	-1.2	1.9	3.2	-2.2	-1.3	-1.2	-0.1	0.6	1.6	2.4	2.9	3.5	3.4	3.1	2.9
	% q/q					-0.3	-0.2	0.2	0.2	0.4	0.8	1.0	0.7	0.9	0.7	0.6	0.6
Unemployment Rate ²	%	5.3	4.9	4.5	4.4	4.9	4.9	4.9	4.7	4.7	4.5	4.5	4.4	4.4	4.4	4.4	4.3
CPI ²	% y/y	0.1	1.3	2.5	2.4	1.1	1.1	1.1	1.8	2.6	2.4	2.4	2.5	2.4	2.5	2.5	2.4
Core PCE ²	% y/y	1.4	1.7	1.8	2.0	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.9	2.0	2.1	2.1
Federal Govt. Balance ^{3,6}	% of GDP	-2.4	-3.0	-3.2	-3.6												
General Govt. Debt	% of GDP	101.5	101.6	100.0	98.5												
Fed Funds Rate ⁴	%	0.50	0.75	1.50	2.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.50	1.75	2.00	2.25	2.50

¹ Contribution to GDP growth ² Period averages ³ Federal budget balance ⁴ End of period

⁵ Annual data refers to yoy change and quarterly data refers to qoq change

⁶ Differs from Maastricht definition used for European countries. Under Maastricht, the balance would be -4.4% in 2015 and -4.6% in 2016 (EU Commission)

China: no hard landing, but risks rising

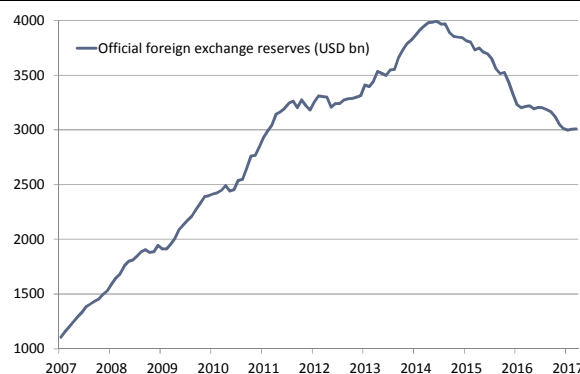
Key drivers of forecast

- **Potential growth is slowing:** Slower productivity and higher unit labour costs have undercut China's exports, its prior engine of growth
- **No hard-landing:** Exports have begun to stabilise while domestic consumption and services continue to grow rapidly
- **Expect more fiscal stimulus** in the form of infrastructure spending to achieve growth goals
- **The government will manage high private debt:** Systematic defaults will be avoided
- **The renminbi** is likely to depreciate further

Risks: Downside for growth; policy blunders?

- **Downside risks:** Export declines resume and drag on growth
- **Policy risks:** Currency depreciation jars markets – a continued fall in FX reserves could bring China even more into markets' focus

Foreign reserves – the big buffer is getting smaller



In billions US dollar. Source: PBoC, Bloomberg.

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	6.4	6.5	-0.1	5.9	6.2	-0.3
Inflation	2.0	2.2	-0.2	2.3	2.3	0.0
Unemployment	4.1	4.1	0.0	4.1	4.1	0.0
Fiscal balance	-3.0	-3.5	0.5	-3.0	-3.5	0.5

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	% y/y	6.9	6.7	6.4	5.9	6.7	6.7	6.7	6.8	6.9	6.6	6.2	6.0	6.1	6.0	5.9	5.8
	% q/q					1.3	1.9	1.8	1.7	1.3	1.5	1.5	1.5	1.4	1.4	1.4	1.4
	%q/q ann					5.3	7.8	7.4	7.0	5.3	6.2	6.0	6.1	5.6	5.8	5.7	5.6
Industrial Production	% y/y	5.9	6.3	6.4	5.6	6.8	6.1	6.1	6.1	6.8	6.5	6.3	6.1	5.9	5.7	5.5	5.3
Exports ¹	% y/y	-2.6	-6.4	3.2	2.7	-9.7	-4.4	-6.7	-5.2	3.5	2.9	3.1	2.8	3.0	2.7	2.6	2.5
Imports ¹	% y/y	-14.4	-5.4	14.9	7.6	-13.3	-6.7	-4.7	2.1	24.4	15.0	13.3	10.0	8.3	7.7	7.6	7.0
Current Account Balance	\$ bn	311	199	306	303	67	58	58	16	102	77	68	59	102	81	76	45
	% of GDP	2.9	1.8	2.3	2.0												
Unemployment Rate	%	4.0	4.0	4.1	4.1	4.0	4.1	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
CPI ²	% y/y	1.4	2.0	2.0	2.3	2.1	2.1	1.7	2.1	1.4	2.1	2.3	2.3	2.3	2.3	2.3	2.3
General Govt. Balance	% of GDP	-2.3	-3.0	-3.0	-3.0												
General Govt. Debt	% of GDP	19.3	19.0	22.0	25.0												

¹ Growth rates based on monthly value data in USD ² Period averages

Japan: fiscal stimulus attempts to lift struggling economy

Key drivers of forecast

- **Consumption and investment** have started to recover from 2014 VAT hike
- **Exports subdued**, suppressed by China's deceleration and some global weakness. The recent dollar strength may now help Japan a little
- **Bank of Japan's QQE** has failed to stimulate the economy
- **Postponed VAT hike and fiscal stimulus will lift real GDP growth in 2017**, but will not have lasting impact

Risks: Short-term neutral, long-term negative

- **Upside:** Cheap oil, the delay in the VAT hike and Prime Minister Abe's fiscal package lift consumer spending
- **Cyclical risk:** Loss in confidence in Abe's reforms and slumping exports push Japan into recession
- **Long-term risk:** Fiscal and monetary stimulus do not address primary factors inhibiting Japan's growth or lift potential; dim prospects and very slow growth at best

Exports have recovered



Change of exports of goods (yoy in %), monthly data. Source: Ministry of Finance/Japan Tariff Association.

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.1	1.2	-0.1	1.1	1.0	0.1
Inflation	0.5	0.7	-0.2	0.6	1.0	-0.4
Unemployment	2.8	3.0	-0.2	2.7	2.9	-0.2
Fiscal balance	-5.0	-5.0	0.0	-5.0	-4.8	-0.2

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	% y/y	1.2	1.0	1.1	1.1	0.4	0.9	1.1	1.6	1.4	1.1	1.0	0.9	1.0	1.1	1.1	1.2
	% q/q					0.5	0.5	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
	%q/q ann.					1.9	2.2	1.2	1.2	0.8	1.0	1.0	1.0	1.2	1.2	1.2	1.2
Private Consumption	% y/y	-0.4	0.4	0.8	1.0	-0.1	0.5	0.3	1.0	0.8	0.8	0.7	0.8	0.9	0.9	1.0	1.1
	% q/q					0.4	0.2	0.4	0.0	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Government Consumption	% y/y	1.6	1.5	0.5	0.8	2.6	1.4	1.2	0.7	-0.4	0.9	0.8	0.8	0.8	0.8	0.8	0.8
	% q/q					1.3	-1.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Private Investment	% y/y	0.6	2.1	2.6	1.3	0.1	2.5	2.0	3.9	4.1	2.7	2.6	1.2	1.3	1.3	1.4	1.4
	% q/q					0.1	1.7	0.3	1.7	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Public Investment	% y/y	-1.7	-2.9	-0.9	2.0	-3.0	-2.6	-2.3	-3.5	-2.0	-2.5	-1.1	1.9	2.0	2.0	2.0	2.0
	% q/q					-1.2	1.0	-0.9	-2.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Final Domestic Demand ¹	% y/y	0.1	0.8	1.0	1.1	0.3	0.9	0.7	1.2	1.0	1.0	1.0	0.9	1.0	1.0	1.1	1.1
	% q/q					0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Net Exports ¹	% y/y	0.5	0.5	0.3	0.0	0.1	0.2	0.7	0.9	0.5	0.6	0.2	0.0	0.0	0.0	0.0	0.0
	% q/q					0.3	0.0	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	0.6	-0.3	-0.2	0.0	-0.1	-0.2	-0.3	-0.5	-0.2	-0.5	-0.2	0.0	0.0	0.0	0.0	0.0
	% q/q					-0.3	0.3	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	JPY trn	16.2	20.3	19.3	18.1	5.9	4.6	5.8	4.1	5.8	4.3	5.5	3.8	5.5	4.0	5.2	3.5
	% of GDP	3.1	3.8	3.5	3.3												
Industrial Production ²	% y/y	-1.2	-0.2	3.2	1.7	-3.1	-1.5	1.0	2.8	3.9	4.5	3.3	1.2	1.6	1.7	1.6	1.8
	% q/q					-0.9	0.2	1.6	1.9	0.2	0.8	0.4	-0.2	0.6	0.9	0.3	0.0
Unemployment Rate ²	%	3.4	3.1	2.8	2.7	3.2	3.2	3.0	3.1	2.9	2.8	2.8	2.8	2.7	2.7	2.7	2.7
CPI ²	% y/y	0.8	-0.1	0.5	0.6	0.0	-0.3	-0.5	0.3	0.4	0.4	0.6	0.5	0.6	0.6	0.6	0.6
General Govt. Balance	% of GDP	-6.5	-6.3	-5.0	-5.0												
General Govt. Debt	% of GDP	246	248	249	250												

¹ Contribution to GDP growth ² Period averages

UK: Brexit vote impact – no doom, some gloom instead of a boom

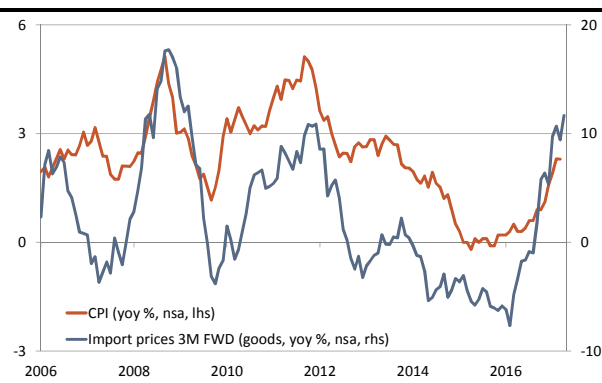
Key drivers of forecast

- **Modest demand-side impact of Brexit vote:** Uncertainty is likely to weigh on households and business, causing a modest slowdown in spending and weaker investment until the post-Brexit outlook becomes clearer
- **Some relief from currency:** Weaker sterling will support the trade balance, partially offsetting the drags from lower consumption and investment growth
- **BoE in neutral until 2018:** The BoE acted aggressively with QE and a rate cut to stabilise domestic demand in mid-2016; it is likely to remain on hold amid Brexit uncertainties before hiking in 2018 as wage growth gradually accelerates – 40% chance of 2017 hike
- **Inflation:** Higher import prices will lead to a sharp rise in near-term inflation before stabilising in late 2017

Risks: Balanced

- **Upside risks to near-term growth:** If nominal wage gains surprise on the upside, household spending could slow by less than anticipated
- **Downside risks to medium-term growth:** Households have started to gear up again – raising the risk of bust following a short-term spending spree

UK: inflation set to rise on back of higher import costs



Monthly data. Source: ONS, Berenberg calculations

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.0	1.8	0.2	1.7	1.3	0.4
Inflation	2.7	2.6	0.1	2.6	2.6	0.0
Unemployment	4.8	4.9	-0.1	4.9	5.2	-0.3
Fiscal balance	-3.0	-3.1	0.1	-2.5	-2.7	0.2

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	% y/y	2.2	1.8	2.0	1.7	1.6	1.7	2.0	1.9	2.2	2.0	1.9	1.7	1.7	1.7	1.7	1.7
	% q/q					0.2	0.6	0.5	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					0.6	2.4	2.0	2.7	1.6	1.8	1.7	1.8	1.6	1.7	1.7	1.7
Private Consumption	% y/y	2.4	2.8	2.0	1.8	2.6	2.9	2.6	2.9	2.5	2.1	1.8	1.5	1.6	1.7	1.9	2.1
	% q/q					0.7	0.7	0.7	0.7	0.3	0.4	0.4	0.4	0.4	0.5	0.6	0.6
	% y/y	1.3	0.8	0.8	1.2	1.7	1.0	0.3	0.4	0.5	0.5	1.0	1.3	1.2	1.2	1.2	1.2
Government Consumption	% q/q					0.4	0.2	-0.1	0.0	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	% y/y	3.4	0.5	0.9	1.4	1.1	0.1	-0.1	1.0	1.2	1.0	0.5	0.8	1.0	1.3	1.6	1.6
	% q/q					0.0	0.2	0.6	0.1	0.2	0.1	0.1	0.4	0.4	0.4	0.4	0.4
Final Domestic Demand ¹	% y/y	2.3	2.0	1.6	1.6	2.2	2.1	1.7	2.1	1.9	1.6	1.4	1.4	1.4	1.5	1.7	1.9
	% q/q					0.5	0.6	0.5	0.5	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5
	% y/y	0.0	-0.4	0.9	0.0	0.2	-0.1	-1.2	-0.5	0.7	0.5	2.0	0.3	0.2	0.1	0.0	-0.2
Net Exports ¹	% q/q					-1.1	0.3	-1.4	1.7	0.1	0.1	0.1	0.1	0.0	0.0	-0.1	-0.1
	% y/y	-0.2	-0.5	-0.4	-0.2	-0.8	-0.7	-0.3	-0.4	-0.1	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0
	% q/q					-0.2	-0.1	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	GBP bn	-80.2	-84.5	-78.2	-75.4	-25.7	-21.0	-25.7	-12.1	-21.7	-19.2	-18.8	-18.5	-18.4	-18.5	-19.0	-19.4
	% of GDP	-4.3	-4.4	-3.9	-3.6	-5.4	-4.3	-5.3	-2.5	-4.4	-3.8	-3.7	-3.6	-3.6	-3.5	-3.6	-3.7
	% y/y	1.2	1.2	2.0	1.2	0.0	1.6	1.1	1.9	3.0	1.2	1.9	1.8	1.4	1.2	1.2	1.2
Industrial Production ²	% q/q					-0.3	2.2	-0.4	0.4	0.7	0.4	0.3	0.3	0.3	0.3	0.3	0.3
	% y/y	5.3	4.9	4.8	4.9	5.0	4.9	4.8	4.7	4.7	4.8	4.8	4.8	4.9	4.9	4.9	5.0
	%					0.3	0.3	0.7	1.2	2.2	2.7	2.9	2.8	2.8	2.6	2.5	2.3
Unemployment Rate ²	% of GDP	-4.4	-3.7	-3.0	-2.5												
	% of GDP	89.2	91.4	90.3	89.2												
General Govt. Balance ³	% of GDP																
General Govt. Debt ³	% of GDP																
BoE Bank Rate ⁴		0.50	0.25	0.25	0.50	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50

¹ Contribution to GDP growth ² Period averages ³ Maastricht basis ⁴ End period

Eurozone: steady growth

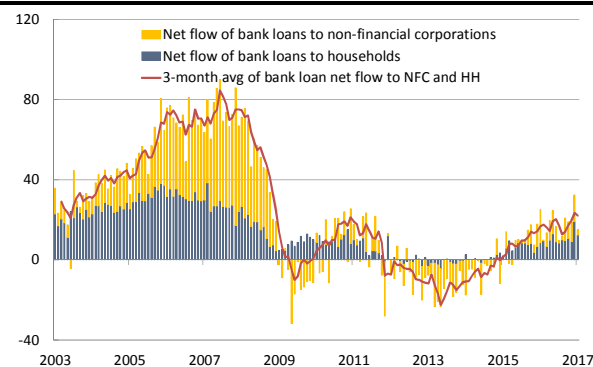
Key drivers of forecast

- **Stable growth at trend:** After accelerating to a little above trend in H2 2016 – after a temporary dip in Q2 – growth is set to remain stable at its trend rate of 0.4% qoq throughout 2017
- **Strong tailwinds** from ECB policy and a weaker euro help. Underlying fundamentals have improved; demand strengthens as the labour market recovers
- **Reform countries ahead:** Spain, Ireland and Cyprus enjoy a solid rebound; growth started to stir a little even in Italy after the 2015 labour reform
- **Austerity over:** Expect a stimulus of 0.2% of GDP in 2017
- **Inflation:** Very gradual rise as the late 2015 oil price plunge drops out of and recent rises enter the year-on-year rate; still-high unemployment keeps core inflation subdued

Risks: Tilted to upside if political risks can be contained

- **Crisis in export markets** could delay investment rebound, weakness of some banks may hit credit growth
- **US-led reflation** creates upside risk to growth
- **Political risks:** reform reversals at the periphery, tail risk of ultra-right victory at French elections in May and June 2017; political uncertainty in Italy

Eurozone: bank loans to non-financial sector edging up



Net flow of bank loans, in € bn; from February 2009 onwards adjusted for sales and securitisations. Net flows to non/financial sector are 3/month moving average. Source: ECB

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.8	1.6	0.2	1.7	1.6	0.1
Inflation	1.6	1.6	0.0	1.6	1.5	0.1
Unemployment	9.4	9.4	0.0	9.0	9.0	0.0
Fiscal balance	-1.7	-1.6	-0.1	-1.5	-1.5	0.0

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	% y/y	1.9	1.7	1.8	1.7	1.7	1.6	1.8	1.8	1.7	1.8	1.8	1.8	1.8	1.7	1.7	1.7
	% q/q					0.6	0.3	0.4	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					2.2	1.3	1.7	1.9	1.8	1.9	1.7	1.7	1.7	1.7	1.7	1.7
Private Consumption	% y/y	1.8	1.9	1.5	1.4	2.0	1.9	1.8	1.9	1.4	1.5	1.5	1.4	1.4	1.4	1.4	1.4
	% q/q					0.7	0.4	0.3	0.5	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Government Consumption	% y/y	1.3	1.8	1.5	1.6	2.0	2.1	1.7	1.6	1.3	1.4	1.7	1.6	1.6	1.6	1.6	1.6
	% q/q					0.7	0.3	0.1	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	3.0	3.5	4.1	2.4	2.5	3.8	2.4	5.1	4.8	4.3	5.1	2.3	2.4	2.4	2.4	2.4
	% q/q					0.8	1.1	-0.2	3.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Final Domestic Demand ¹	% y/y	1.9	2.2	2.0	1.7	2.1	2.3	1.9	2.5	2.1	2.1	2.3	1.6	1.7	1.7	1.7	1.7
	% q/q					0.7	0.5	0.2	1.1	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net Exports ¹	% y/y	0.2	-0.4	-0.6	0.0	-0.3	-0.5	0.0	-0.6	-0.8	-0.7	-0.9	0.0	0.0	0.0	0.0	0.0
	% q/q					0.2	0.0	0.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	-0.2	0.0	0.4	0.4	0.0	0.0	0.0	0.0	0.4	0.6	0.5	0.2	0.2	0.2	0.2	0.2
	% q/q					-0.3	-0.1	0.1	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	336	359	350	329												
	% of GDP	3.2	3.4	3.2	2.9												
Industrial Production ²	% y/y	2.1	1.5	1.6	1.5	1.4	1.1	1.2	2.1	1.2	1.9	1.9	1.4	1.7	1.4	1.4	1.3
	% q/q					0.9	-0.1	0.4	0.9	0.0	0.6	0.4	0.4	0.3	0.3	0.3	0.3
Unemployment Rate ²	%	10.9	10.0	9.4	9.0	10.3	10.1	9.9	9.7	9.5	9.4	9.3	9.2	9.1	9.0	8.9	8.9
						0.0	-0.1	0.3	0.7	1.8	1.7	1.5	1.4	1.4	1.5	1.6	1.7
General Govt. Balance	% of GDP	-2.1	-1.9	-1.7	-1.5												
		90.3	89.6	88.3	87.2												
General Govt. Debt	% of GDP																
		0.05	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ECB main refinancing rate ³																	

¹ Contribution to GDP growth ² Period averages ³ End of period

Germany: broad-based upswing

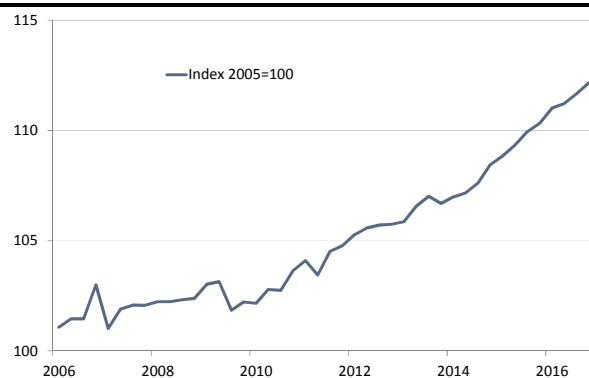
Key drivers of forecast

- **Positive fundamentals:** A strong competitive position, extremely low funding costs and pent-up demand point to a firmer investment trend
- **Buoyant consumer confidence:** Strong gains in employment, rising wages and low inflation support consumption growth
- **Neutral net exports:** Emerging market crisis mostly over, expect German exports to rebound further in 2017
- **Fiscal stimulus:** Extra spending on refugees provided a fiscal stimulus of 0.4% in 2016. The growth of government spending will decelerate in 2017
- **Inflation:** Core inflation still subdued, but normal wage growth will keep it at or above the eurozone average

Risks: Balanced unless Trump starts a series of trade wars

- **Upside:** Cheap oil, undervalued euro boost demand
- **Downside:** Brexit-related tensions or other political risks in Europe escalate, protectionism

Private consumption: heading up



Real private consumption, 2005 = 100. Source: Destatis

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.8	1.6	0.2	1.6	1.6	0.0
Inflation	1.7	1.8	-0.1	1.7	1.7	0.1
Unemployment	3.8	n/a	n/a	4.0	n/a	n/a
Fiscal balance	0.6	0.4	0.2	0.3	0.3	0.0

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP ¹	% y/y	1.5	1.8	1.8	1.6	1.9	1.8	1.7	1.8	1.7	1.6	1.9	1.9	1.6	1.6	1.6	1.6
	% q/q					0.7	0.5	0.1	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					2.9	1.9	0.5	1.7	2.5	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Private Consumption	% y/y	1.9	1.8	1.4	1.5	2.1	1.9	1.6	1.6	1.2	1.4	1.5	1.5	1.5	1.5	1.5	1.5
	% q/q					0.7	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	% y/y	2.7	4.0	2.5	2.0	4.5	4.7	3.7	3.2	2.6	2.3	2.7	2.3	2.1	2.0	2.0	2.0
Government Consumption	% q/q					1.3	0.9	0.2	0.8	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5
	% y/y	1.1	2.1	1.8	2.4	3.7	2.0	1.7	0.9	-0.2	2.0	2.8	2.5	2.4	2.4	2.4	2.4
	% q/q					1.8	-1.5	-0.2	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Final Domestic Demand ²	% y/y	1.9	2.3	1.7	1.8	2.9	2.5	2.0	1.8	1.2	1.7	2.0	1.9	1.8	1.8	1.8	1.8
	% q/q					1.1	0.0	0.1	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
	% y/y	0.1	-0.3	-0.5	-0.4	-0.4	-0.4	-0.3	-0.2	-0.2	-0.8	-0.6	-0.2	-0.3	-0.3	-0.4	-0.4
Net Exports ²	% q/q					0.1	0.5	-0.3	-0.4	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
	% y/y	-0.5	-0.1	0.6	0.5	-0.5	-0.1	0.1	0.2	0.7	0.8	0.6	0.3	0.2	0.2	0.2	0.2
	% q/q					-0.4	-0.1	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Current Account Balance	EUR bn	261	259	247	229	67	69	62	60	65	67	59	57	60	62	55	52
	% of GDP	8.9	8.2	7.6	6.8												
	% y/y	0.9	1.0	2.2	1.8	1.4	0.5	0.8	1.3	1.1	2.2	2.4	3.0	2.0	1.8	1.7	1.6
Industrial Production ³	% q/q					1.6	-0.5	0.3	-0.1	1.4	0.6	0.5	0.5	0.5	0.4	0.4	0.4
	% y/y	4.6	4.2	3.8	4.0	4.3	4.2	4.1	3.9	3.9	3.8	3.8	3.8	3.9	4.0	4.1	4.1
	% y/y	0.1	0.4	1.7	1.7	0.1	0.0	0.4	1.0	1.9	1.7	1.6	1.5	1.6	1.6	1.8	1.8
General Govt. Balance	% of GDP	0.7	0.8	0.6	0.3												
	% of GDP	71.2	68.0	64.6	61.3												

¹ Calendar-adjusted ² Contribution to GDP growth ³ Ex construction, s.a., period averages ⁴ ILO measure, period averages, s.a.

⁵ EU-harmonised, period averages

France: Europe's reform laggard

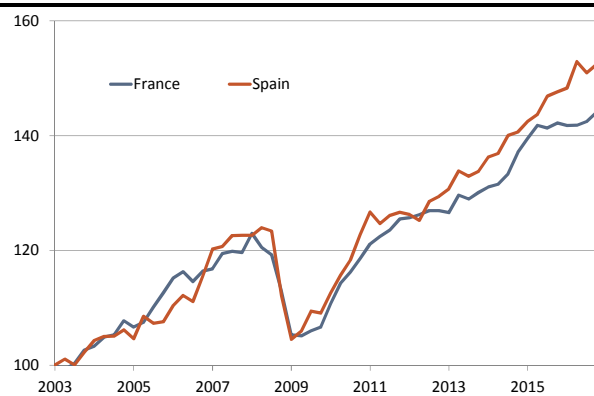
Key drivers of forecast

- **Modest reforms:** Despite some small recent reforms, France lags behind most other European economies. The inflexible labour market prevents a stronger recovery
- **Politics:** Far-right candidate Le Pen looks unlikely to win in the second round of the presidential elections on 7 May 2017. Instead, the independent, former economic minister Macron is in pole position to be the next French president
- **Brighter outlook?** Last year after a solid gain in Q1, GDP growth stalled in Q2 before rebounding in H2. Without significant reforms, French growth will not accelerate much beyond 1% on a sustained basis. Macron promises to deliver the labour market, pension and public sector reforms that France needs

Risks: Balanced in the absence of political shock

- **Upside:** More reforms could bolster business sentiment and thus investment after the 2017 election
- **Downside:** Political risks could weigh on confidence

Real exports: who is competitive, who is not?



France, Spain real exports, 2003 =100. Source: Eurostat

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.4	1.3	0.1	1.5	1.4	0.1
Inflation	1.3	1.4	-0.1	1.3	1.4	-0.1
Unemployment	9.6	9.8	-0.2	8.9	9.6	-0.7
Fiscal balance	-3.1	-3.1	0.0	-2.9	-3.1	0.2

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	% y/y	1.2	1.1	1.4	1.5	1.2	1.1	0.9	1.1	0.9	1.4	1.6	1.6	1.6	1.5	1.5	1.5
	% q/q					0.6	-0.1	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					2.6	-0.5	0.8	1.7	1.5	1.6	1.6	1.5	1.5	1.5	1.5	1.5
Private Consumption	% y/y	1.5	1.8	1.3	1.2	1.9	1.9	1.4	2.1	1.1	1.3	1.5	1.2	1.2	1.2	1.2	1.2
	% q/q					1.2	0.1	0.1	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Government Consumption	% y/y	1.4	1.4	1.0	1.1	1.4	1.5	1.5	1.3	1.2	1.0	0.9	0.8	0.9	1.0	1.1	1.2
	% q/q					0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Investment	% y/y	0.9	2.8	1.5	2.0	3.2	3.3	2.7	1.9	1.1	1.5	1.8	1.8	1.9	2.0	2.0	2.0
	% q/q					1.2	0.0	0.2	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Final Domestic Demand ¹	% y/y	1.3	1.9	1.3	1.3	2.1	2.1	1.7	1.9	1.1	1.3	1.4	1.2	1.3	1.3	1.4	1.4
	% q/q					1.0	0.2	0.2	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net Exports ¹	% y/y	-0.3	-0.8	-0.1	0.0	-1.1	-1.0	-1.0	-0.3	-0.1	-0.5	0.2	0.1	0.1	0.0	0.0	0.0
	% q/q					-0.2	0.5	-0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	0.1	0.0	0.1	0.1	0.2	0.0	0.2	-0.5	-0.2	0.6	0.0	0.2	0.2	0.1	0.1	0.1
	% q/q					-0.2	-0.8	0.7	-0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	-5	-21	-24	-17	-4.5	-3.9	-6.0	-6.6	-11.9	-2.3	-3.8	-6.3	-8.9	-3.5	-0.7	-4.2
	% of GDP	-0.2	-0.9	-1.1	-0.7												
Industrial Production ²	% y/y	1.9	0.2	0.1	1.3	0.8	0.5	-0.5	0.3	-0.2	0.1	0.6	-0.1	1.3	1.3	1.3	1.3
	% q/q					-0.6	0.0	-0.2	1.0	-1.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Unemployment Rate ²	%	10.4	10.3	9.6	8.9	10.1	10.1	10.0	10.0	10.0	9.9	9.4	9.1	8.9	8.9	8.9	8.7
	% y/y	0.1	0.3	1.3	1.3	0.1	0.1	0.4	0.7	1.5	1.3	1.3	1.2	1.2	1.3	1.4	1.4
General Govt. Balance	% of GDP	-3.5	-3.3	-3.1	-2.9												
General Govt. Debt	% of GDP	96.2	96.4	96.7	96.8												

¹ Contribution to GDP growth ² Period averages

Italy: Renzi's reforms pay off – but political risks jeopardise progress

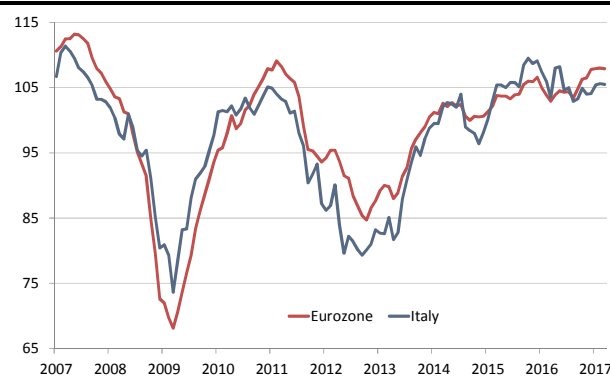
Key drivers of forecast

- **Is the wave of reforms over?** After coming to power in 2014, Prime Minister Renzi introduced a series of reforms. His labour reform boosted business sentiment in 2015. The resignation of Renzi after his failed constitutional referendum could now stall reform efforts
- **Less austerity:** The end of major tax hikes removed that drag on growth in 2014; small stimulus for 2016 and 2017
- **Economic outlook:** Italy's upswing picked up a little momentum in 2016. But it remains paltry with a growth rate around 1%. Political uncertainty is weighing on confidence
- **Politics are key:** Renzi's resignation has raised the risk of snap elections ahead of the regular May 2018 vote. Populist protest parties clamouring for a referendum on the euro are riding high in the polls. However, most Italians seem to be in favour of the euro
- **Inflation:** Very low due to internal devaluation

Risks: Tilted to downside due to political uncertainty

- **Upside:** Serious structural reforms boost potential growth; EU grants some fiscal flexibility
- **Downside:** Escalating political crisis, early new elections

Political risk: Italian economic sentiment has fallen back



Index levels, rebased to 2005 = 100. Source: European Commission

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.9	0.9	0.0	1.1	1.0	0.1
Inflation	1.3	1.4	-0.1	1.2	1.3	-0.1
Unemployment	11.4	11.5	-0.1	11.0	11.2	-0.1
Fiscal balance	-2.5	-2.4	-0.1	-2.3	-2.4	0.1

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	% y/y	0.7	1.0	0.9	1.1	1.1	0.8	1.0	1.0	0.7	0.9	0.9	1.0	1.1	1.1	1.1	1.1
	% q/q					0.4	0.1	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
	%q/q ann.					1.8	0.4	1.0	0.7	0.7	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Private Consumption	% y/y	1.6	1.3	0.7	0.8	1.7	1.5	1.1	0.9	0.9	0.6	0.6	0.7	0.8	0.8	0.8	0.8
	% q/q					0.2	0.5	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Government Consumption	% y/y	-0.7	0.6	0.5	0.4	0.7	0.6	0.3	0.9	0.2	0.6	0.9	0.4	0.4	0.4	0.4	0.4
	% q/q					0.9	-0.3	-0.2	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Investment	% y/y	1.4	3.1	2.4	1.2	2.4	2.3	3.4	4.2	3.3	3.2	2.0	1.0	1.2	1.2	1.2	1.2
	% q/q					1.0	0.4	1.5	1.3	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Final Domestic Demand ¹	% y/y	1.1	1.5	1.0	0.8	1.6	1.5	1.4	1.5	1.2	1.0	0.9	0.7	0.8	0.8	0.8	0.8
	% q/q					0.5	0.3	0.3	0.4	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Exports ¹	% y/y	-0.5	-0.1	0.0	0.2	-0.2	-0.1	0.0	-0.1	-0.1	-0.1	0.1	0.2	0.2	0.2	0.2	0.2
	% q/q					0.1	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Stockbuilding ¹	% y/y	0.2	-0.4	-0.1	0.1	-0.3	-0.5	-0.3	-0.4	-0.3	0.0	-0.1	0.1	0.1	0.1	0.1	0.1
	% q/q					-0.1	-0.3	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	23.7	43.1	45.8	48.2	2.8	11.4	15.6	13.2	2.5	12.9	16.5	13.8	3.1	13.5	17.1	14.4
	% of GDP	1.5	2.6	2.7	2.8												
Industrial Production ²	% y/y	0.9	1.9	1.4	1.3	1.8	0.7	1.8	3.3	1.5	2.3	1.4	0.7	1.4	1.2	1.2	1.2
	% q/q					1.4	-0.3	1.2	1.0	-0.4	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Unemployment Rate ²	%	11.9	11.7	11.4	11.0	11.6	11.6	11.6	11.8	11.6	11.4	11.4	11.3	11.2	11.1	11.0	10.9
CPI ²	% y/y	0.1	-0.1	1.3	1.2	0.0	-0.3	-0.1	0.1	1.4	1.4	1.2	1.2	1.2	1.2	1.2	1.3
General Govt. Balance	% of GDP	-2.6	-2.6	-2.5	-2.3												
General Govt. Debt	% of GDP	132.7	132.4	132.0	131.7												

¹ Contribution to GDP growth ² Period averages

Spain: the poster child for reform

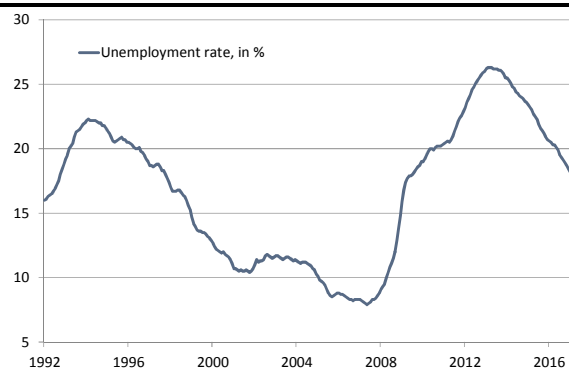
Key drivers of forecast

- **Very competitive:** Wage restraint and labour market reforms have reduced labour costs; exports benefit
- **Fiscal drag over:** While still uncomfortable, the fiscal position has allowed an easing of austerity
- **Rebound in domestic demand:** Crisis over. Consumption and investment are rebounding solidly

Risks: Watch the politics

- **Upside:** The sharp fall in borrowing costs boosts investment; cheap oil helps
- **Downside:** Political uncertainty continues, the lack of a government that could take decisions and the risk of reform reversals weigh on investment
- **Political risks:** Political stalemate has been resolved for now, but Rajoy's minority government cannot pass laws unless the Socialists abstain again. This leaves a risk that Rajoy has to call new elections. Also, Rajoy may have to reverse some reforms to please the Socialists

Spain: reforms create hope for the unemployed



EU-harmonised unemployment in %. Source: Eurostat.

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.7	2.5	0.2	2.4	2.1	0.3
Inflation	1.8	2.1	-0.3	1.3	1.5	-0.2
Unemployment	17.4	17.8	-0.4	15.7	16.5	-0.8
Fiscal balance	-3.4	-3.5	0.1	-2.8	-3.0	0.2

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	% y/y	3.2	3.2	2.7	2.4	3.4	3.4	3.2	3.0	2.9	2.7	2.6	2.5	2.5	2.4	2.4	2.4
	% q/q					0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
	%q/q ann.					3.1	3.4	2.8	2.8	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4
Private Consumption	% y/y	2.9	3.2	2.6	2.4	3.6	3.4	3.0	3.0	2.7	2.6	2.6	2.4	2.4	2.4	2.4	2.4
	% q/q					0.9	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Government Consumption	% y/y	2.0	0.8	1.2	2.0	1.7	0.7	0.8	0.0	0.3	1.3	1.3	2.0	2.0	2.0	2.0	2.0
	% q/q					0.2	-0.6	0.5	-0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Investment	% y/y	6.0	3.1	3.0	3.4	4.3	3.4	2.6	2.2	2.7	2.3	3.3	3.6	3.5	3.4	3.3	3.2
	% q/q					0.4	1.3	-0.1	0.5	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Final Domestic Demand ¹	% y/y	3.4	2.7	2.4	2.5	3.4	2.8	2.4	2.2	2.2	2.3	2.5	2.6	2.6	2.6	2.5	2.5
	% q/q					0.6	0.6	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Net Exports ¹	% y/y	0.0	0.5	0.2	-0.1	0.0	0.5	0.6	0.8	0.6	0.3	0.1	-0.1	-0.1	-0.1	-0.1	-0.1
	% q/q					0.1	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	0.0	0.2	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
	% q/q					0.0	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	15	22	22	20	-0.5	6.3	7.2	8.8	0.3	6.3	6.9	8.5	-0.1	5.7	6.3	7.9
	% of GDP	1.4	2.0	1.9	1.6												
Industrial Production ²	% y/y	3.3	1.9	2.2	2.1	3.0	1.5	1.4	1.7	2.2	2.3	2.2	1.8	1.9	2.1	2.2	2.2
	% q/q					0.0	0.2	0.6	0.9	0.5	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment Rate ²	%	22.1	19.6	17.4	15.7	20.5	20.1	19.3	18.7	18.0	17.6	17.2	16.8	16.3	15.9	15.5	15.1
CPI ²	% y/y	-0.6	-0.3	1.8	1.3	-0.8	-1.0	-0.3	0.8	2.7	2.0	1.3	1.2	1.2	1.2	1.3	1.4
General Govt. Balance	% of GDP	-5.1	-4.1	-3.4	-2.8												
General Govt. Debt	% of GDP	99.2	98.8	98.0	97.0												

¹ Contribution to GDP growth ² Period averages

Portugal: reform reversals constrain trend growth

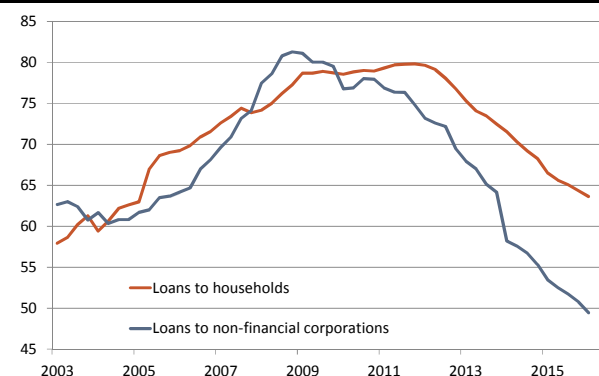
Key drivers of forecast

- **Gains in competitiveness** supported an export- and investment-led recovery until early 2015.
- **Growth** lost momentum in 2015 and early 2016 due to weaker exports and some reform reversals at home. A strong GDP gain in H2 2016 could now herald a return to a more dynamic upturn as investment starts to recover
- **Debt overhang drops** as private debt burden declines
- **Back to bad policies?** The left-wing government reversed some key supply-side reforms. This weighs on trend growth and makes it harder to meet fiscal targets
- **Inflation:** Internal devaluation keeps inflation low
- **Politics:** the leftist minority government is trying to deliver the needed fiscal repair to avoid a confrontation with EU. But tax hikes constrain the growth potential

Risks: Balanced

- **External shock:** Political uncertainties may hurt
- **Political risks:** Reform reversals or a confrontation with Brussels could push Portugal back into crisis

Portugal: paying back the debt



MFI loans to households/NPISH and non-financial corporations, % of GDP. Sources: ECB, INE

Berenberg versus consensus

	2017			2018		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.7	1.5	0.2	1.4	1.4	0.0
Inflation	1.3	1.3	0.0	1.4	1.4	0.0
Unemployment	9.8	10.3	-0.5	9.4	9.5	-0.1
Fiscal balance	-2.6	-2.5	-0.1	-2.4	n/a	n/a

Bloomberg consensus, taken on 24 April 2017. Numbers may not add up due to rounding

		2015	2016	2017	2018	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
GDP	% y/y	1.6	1.4	1.7	1.4	1.0	0.9	1.7	2.0	2.1	2.1	1.5	1.1	1.2	1.3	1.4	1.5
	% q/q					0.2	0.2	0.9	0.7	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
	%q/q ann.					0.9	0.9	3.6	2.7	1.1	1.1	1.1	1.1	1.5	1.5	1.5	1.5
Private Consumption	% y/y	2.6	2.3	1.7	1.1	2.5	1.6	1.9	3.0	1.7	2.1	1.9	1.0	1.0	1.0	1.1	1.2
	% q/q					1.6	-0.1	0.4	1.1	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3
	% y/y	0.7	0.5	0.7	1.2	1.2	0.5	0.2	0.3	0.2	0.2	1.2	1.2	1.2	1.2	1.2	1.2
Government Consumption	% q/q					0.4	0.3	-0.7	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	% y/y	4.5	-0.1	5.2	1.6	-2.5	-2.2	-0.1	4.5	6.3	6.4	6.6	1.6	1.6	1.6	1.6	1.6
	% q/q					-1.3	0.4	0.2	5.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Final Domestic Demand ¹	% y/y	2.5	1.6	2.0	1.2	1.4	0.8	1.3	2.7	2.1	2.4	2.4	1.1	1.1	1.1	1.2	1.3
	% q/q					0.9	0.0	0.2	1.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	% y/y	-0.9	0.0	-0.3	0.1	-0.5	0.1	0.7	-0.5	-0.2	0.1	-0.9	0.0	0.1	0.1	0.1	0.1
Net Exports ¹	% q/q					-0.3	-0.4	1.1	-0.9	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% y/y	0.0	-0.1	-0.1	-0.2	0.0	0.0	-0.2	-0.3	0.1	-0.4	0.0	0.0	0.0	0.0	0.1	0.1
	% q/q					-0.4	0.6	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	0.5	1.8	2.4	2.5	0.5	0.1	0.5	0.6	1.1	0.2	0.5	0.6	1.1	0.2	0.6	0.6
	% of GDP	0.3	1.0	1.3	1.3												
	% y/y	1.7	1.1	2.4	2.6	0.8	1.1	0.5	1.9	2.6	2.2	2.3	2.4	2.5	2.5	2.6	2.7
Industrial Production ²	% q/q					-1.3	3.3	-0.9	0.9	-0.7	2.9	-0.8	1.0	-0.6	3.0	-0.7	1.1
	% y/y	12.6	11.2	9.8	9.4	12.1	11.3	10.9	10.4	10.0	9.9	9.7	9.6	9.5	9.4	9.3	9.2
	%	0.5	0.6	1.3	1.4	0.5	0.5	0.7	0.8	1.5	1.3	1.3	1.2	1.2	1.3	1.4	1.5
General Govt. Balance	% of GDP	-4.4	-2.9	-2.6	-2.4												
General Govt. Debt	% of GDP	129.0	128.0	126.6	125.0												

¹ Contribution to GDP growth ² Period averages

FORECASTS AT A GLANCE

Economics

Forecast changes

- **French GDP:** Better outlook of private consumption and investment – we raise our forecasts for 2017 to 1.4% and for 2018 to 1.5% from 1.2% and 1.3%, respectively.
- **Eurozone GDP:** Pro-European mainstream vote in France boosts outlook in Eurozone – we raise our forecasts for 2017 to 1.8% and for 2018 to 1.7% from 1.7% and 1.6%, respectively.

Berenberg compared to consensus

	GDP		Inflation		Unemployment		Fiscal balance	
	2017	2018	2017	2018	2017	2018	2017	2018
US	0.2	0.6	0.0	0.1	-0.1	0.0		
China	-0.1	-0.3	-0.2	0.0	0.0	0.0	0.5	0.5
Japan	-0.1	0.1	-0.2	-0.4	-0.2	-0.2	0.0	-0.2
UK	0.2	0.4	0.1	0.0	-0.1	-0.3	0.1	0.2
Eurozone	0.2	0.1	0.0	0.1	0.0	0.0	-0.1	0.0
Germany	0.2	0.0	-0.1	0.1	n/a	n/a	0.2	0.0
France	0.1	0.1	-0.1	-0.1	-0.2	-0.7	0.0	0.2
Italy	0.0	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.1
Spain	0.2	0.4	-0.3	-0.2	-0.4	-0.8	0.1	0.2
Portugal	0.2	0.0	0.0	0.0	-0.5	-0.1	-0.1	n/a

The table shows the difference between Berenberg forecasts and Bloomberg consensus. The bars show graphically whether Berenberg forecasts are stronger (green) or weaker (red) than consensus. Bloomberg consensus taken on 24 April 2017. Berenberg's German unemployment forecasts are based on the ILO measure, which is not comparable to consensus figures that are based on the national unemployment definition. Source: Bloomberg, Berenberg

Key financial forecasts

	Current ¹	Mid-2017	End-2017
Central bank rates			
US Fed	0.75-1.00%	1.00-1.25%	1.25-1.50%
ECB	0.00%	0.00%	0.00%
BoE	0.25%	0.25%	0.25%
BoJ	-0.10%	-0.10%	-0.10%
10-year bond yields			
US	2.30%	2.80%	3.10%
Germany	0.33%	0.50%	0.75%
UK	1.08%	1.60%	1.80%
Currencies			
EUR-USD	1.08	1.05	1.07
EUR-GBP	0.85	0.86	0.88
GBP-USD	1.28	1.22	1.22
USD-JPY	110	114	114
EUR-JPY	119	120	122
EUR-CHF	1.08	1.08	1.10

¹ Taken on 24 April 2017 at 08:00h BST. Currency forecasts may not add up due to rounding.

Forecasts for US, China and Japan supplied by Berenberg Capital Markets

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