

FORECASTS AT A GLANCE

16 October 2015



BERENBERG
PARTNERSHIP SINCE 1590

Outlook 2017: sustained growth again

We add 2017 forecasts: Global upturn continues, emerging markets recover, inflation creeps up modestly, central banks reduce stimulus slowly

Outlook 2015/2016: Developed world resilient, emerging markets hit trouble

- **US:** Solid domestic demand, exports drag
- **China:** Decelerating growth but no hard landing
- **Japan:** Struggling to sustain growth, reforms needed
- **Eurozone:** Periphery firm, core suffers near-term dent from export drop
- **UK:** Economic recovery continues, 30% Brexit risk

Policy

- **Central banks:** Fed and BoE remain cautious; ECB likely to ease again
- **Monetary policy** to stay supportive even after hikes begin
- **Fiscal policy:** Neutral in Europe and the US, tighter in UK

Risks: Two big risks – chain reaction in emerging markets and geopolitics

- **Upside:** US domestic demand accelerates, emerging markets stabilise fast
- **Downside:** Emerging markets rout suppresses trade, heightens market tensions

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	Weight	GDP				Inflation				Unemployment				Fiscal balance			
		2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
World*	100.0	2.4	2.4	2.5	2.8												
US	22.5	2.4	2.5	2.6	2.6	1.6	0.2	2.0	2.3	6.2	5.3	4.8	4.5	-2.8	-2.4	-2.2	-2.1
Japan	6.0	-0.1	0.6	0.8	1.1	2.7	0.6	0.7	1.1	3.6	3.4	3.3	3.2	-7.8	-6.5	-6.3	-5.8
China	13.4	7.4	6.8	6.5	6.1	2.0	1.5	2.2	2.3	4.1	4.1	4.3	4.3	-1.8	-1.8	-1.8	-1.8
India	2.7	7.2	7.5	7.5	7.1	6.8	4.5	4.0	4.0					-6.9	-6.5	-6.0	-5.5
Latin America	7.5	1.1	0.0	0.5	2.0	6.0	6.0	4.8	4.0					-3.5	-4.0	-3.5	-3.0
Europe	29.8	1.3	1.0	1.4	1.9												
Eurozone	17.3	0.9	1.5	1.6	1.8	0.4	0.0	0.9	1.4	11.6	11.0	10.5	9.8	-2.4	-2.1	-1.9	-1.6
Germany	5.0	1.6	1.5	1.8	1.8	0.8	0.2	1.1	1.6	5.0	4.7	4.6	4.9	0.7	0.3	0.1	0.1
France	3.7	0.2	1.1	1.2	1.4	0.6	0.2	0.9	1.4	10.3	10.4	10.4	9.8	-4.0	-3.8	-3.4	-3.0
Italy	2.8	-0.4	0.7	1.1	1.2	0.2	0.1	0.8	1.2	12.7	12.1	11.6	11.2	-3.0	-2.8	-2.5	-2.2
Spain	1.8	1.4	3.2	3.0	2.5	-0.2	-0.7	0.6	1.6	24.5	22.4	20.2	18.7	-5.7	-4.2	-2.8	-2.5
Portugal	0.3	0.9	1.6	1.6	1.8	-0.2	0.5	1.0	1.4	14.1	12.6	11.7	10.8	-4.5	-2.9	-2.2	-2.0
Other Western Europe																	
UK	3.8	2.9	2.5	2.5	2.4	1.5	0.1	1.5	1.9	6.2	5.5	5.1	5.0	-5.7	-4.2	-3.3	-2.3
Switzerland	0.9	2.0	0.8	1.2	2.0	0.1	-1.1	-0.1	0.3	3.2	3.4	3.4	3.2	0.5	-0.1	0.1	0.2
Sweden	0.7	2.4	2.5	2.6	2.5	0.2	0.8	1.8	2.4	7.8	7.6	7.2	6.7	-1.8	-1.3	-0.8	-0.5
Eastern Europe																	
Russia	2.4	0.6	-3.8	-1.6	1.0	7.8	14.9	8.8	7.5	5.2	6.8	7.0	6.8	-0.7	-2.8	-2.9	-2.3
Turkey	1.0	2.9	2.6	1.9	2.4	8.9	7.9	7.6	7.2	9.8	10.0	10.1	10.2	-1.6	-1.8	-2.0	-2.0

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 estimated GDP figures.

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US: sustained moderate growth

Key drivers of forecast

- **Consumer spending** will remain healthy, supported by rising personal incomes and lower oil prices, while housing activity will strengthen
- **The stronger US dollar and emerging market weakness** stemming from China's slowdown will weigh on US exports while domestic demand grows
- **Wage increases** soft despite low unemployment, but rising in real terms
- **Profits:** Growth stalls, constrained by stronger US dollar and weaker export orders

Risks: Balanced

- **Upside:** Stronger consumer and housing activity
- **Downside:** International turmoil, particularly among emerging markets, hit exports and confidence

Healthy consumer spending



% change yoy. Source: BEA

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.6	2.6	0.0	2.6	2.4	0.2
Inflation	2.0	1.9	0.1	2.3	2.2	0.1
Unemployment	4.8	4.9	-0.1	4.5	4.8	-0.3

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	2.4	2.5	2.6	2.6	2.9	2.7	2.0	2.2	2.7	2.4	2.7	2.6	2.6	2.6	2.6	2.6
	% q/q					0.2	1.0	0.4	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
	%q/q ann.					0.6	3.9	1.5	2.9	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Private Consumption	% y/y	2.7	3.2	2.7	2.5	3.3	3.3	3.3	2.9	3.1	2.8	2.5	2.5	2.5	2.5	2.5	2.5
	% q/q					0.4	0.9	0.9	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Residential Investment	% y/y	1.8	8.3	5.6	5.3	8.4	8.2	8.9	7.7	6.5	5.5	5.3	5.3	5.3	5.3	5.3	5.3
	% q/q					2.4	2.3	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Non-Residential Investment	% y/y	6.2	3.6	4.3	4.1	3.9	3.8	2.8	3.7	4.5	4.5	4.3	4.2	4.1	4.1	4.1	4.1
	% q/q					0.4	1.0	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Government Spending	% y/y	-0.6	0.7	1.3	1.3	0.4	0.7	0.5	1.1	1.5	1.1	1.2	1.3	1.3	1.3	1.3	1.3
	% q/q					0.0	0.6	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Final Dom Demand ¹	% y/y	2.5	3.0	2.8	2.6	3.0	3.0	2.9	2.8	3.1	2.8	2.6	2.6	2.6	2.6	2.6	2.6
	% q/q					0.4	0.9	0.8	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Net Exports ¹	% y/y	-0.2	-0.7	-0.2	-0.2	-0.7	-0.6	-0.8	-0.6	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
	% q/q					-0.5	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ^{1,5}	% y/y	0.0	0.1	0.0	0.1	0.2	0.0	-0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	% y/y	4.1	2.6	4.7	5.0	2.8	2.8	2.2	2.8	4.4	4.4	5.0	4.9	4.9	4.9	5.1	5.1
Industrial Production ²	% y/y	3.7	1.4	1.4	2.1	3.5	1.4	1.0	0.0	0.5	1.6	1.6	1.9	2.0	2.1	2.1	2.1
	% q/q					-0.1	-0.7	0.6	0.2	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment Rate ²	%	6.2	5.3	4.8	4.5	5.6	5.4	5.2	5.1	5.0	4.9	4.8	4.7	4.6	4.6	4.5	4.4
CPI ²	% y/y	1.6	0.2	2.0	2.3	-0.1	0.0	0.2	0.5	1.6	2.0	2.2	2.2	2.2	2.2	2.4	2.4
Core PCE ²	% y/y	1.5	1.3	1.7	1.8	1.3	1.3	1.3	1.4	1.5	1.6	1.8	1.8	1.8	1.8	1.8	1.8
Current Account Balance	USD bn	-390	-481	-516	-545	-118	-117	-122	-124	-126	-128	-130	-132	-134	-135	-137	-139
	% of GDP	-2.3	-2.7	-2.8	-2.8	-2.8	-2.7	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
General Govt. Balance ^{3,6}	% of GDP	-2.8	-2.4	-2.2	-2.1												
General Govt. Debt	% of GDP	102.9	102.7	100.3	97.7												
Fed Funds Rate ⁴	%	0.25	0.50	1.25	2.00	0.25	0.25	0.25	0.50	0.75	1.00	1.00	1.25	1.50	1.75	2.00	2.00

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 -3.8% in 2015 and -3.6% in 2016 accord. IMF fiscal monitor

China: losing momentum

Key drivers of forecast

- **Potential growth is slowing** as productivity gains ebb as China's economy matures and exports decline in response to higher unit labour costs and the stronger renminbi
- **No hard-landing, as fundamentals point toward decelerating growth:** Private saving is high, inflation is low and huge FX reserves provide flexibility
- **Expect more fiscal stimulus** in the form of infrastructure spending to achieve growth goals
- **Policy leaders** may have more trouble with markets, and the renminbi eventually may need to depreciate further to stem decline in exports

Risks: Downside for growth; policy blunders?

- **Downside risks:** Export declines intensify and drag on growth
- **Policy risks:** Misguided initiatives may jar markets

Slowdown without hard landing



3m moving average yoy % Source: National Bureau of Statistics

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	6.5	6.5	0.0	6.1	6.3	-0.2
Inflation	2.2	2.0	0.2	2.3	2.2	0.1
Unemployment	4.3	4.1	0.2	4.3	4.2	0.1
Fiscal balance	-3.0	-2.5	-0.5	-3.0	-2.6	-0.4

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	7.4	6.8	6.5	6.1	7.0	7.0	6.7	6.6	6.7	6.5	6.4	6.5	6.4	6.2	6.1	6.0
	% q/q					1.4	1.7	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4
	%q/q ann					5.7	7.0	6.6	6.6	6.6	6.6	6.1	6.1	6.1	5.7	5.7	5.7
Industrial Production	% y/y	8.3	5.8	5.0	4.4	5.6	6.3	6.0	5.5	5.2	5.1	4.9	4.8	4.6	4.5	4.3	4.2
Exports ¹	% y/y	6.0	-1.4	4.2	5.0	4.6	-2.2	-5.6	-1.0	1.9	4.7	5.0	5.0	5.0	5.0	5.0	5.0
Imports ¹	% y/y	0.7	-12.7	0.6	5.5	-17.8	-13.6	-10.6	-9.0	-6.0	-2.0	3.7	5.5	5.5	5.5	5.5	5.5
Current Account Balance	\$ bn	220	349	399	319	75.6	73.0	102.9	97.8	88.0	85.5	115.4	110.3	96.6	85.5	115.4	21.7
	% of GDP	0.9	1.3	1.3	1.0												
Unemployment Rate	%	4.1	4.1	4.3	4.3	4.1	4.0	4.2	4.2	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.3
CPI ²	% y/y	2.0	1.5	2.2	2.3	1.2	1.4	1.8	1.8	2.1	2.2	2.2	2.2	2.2	2.2	2.3	2.3
General Govt. Balance	% of GDP	-1.8	-2.3	-3.0	-3.0												
General Govt. Debt	% of GDP	20.9	19.3	19.0	22.0												

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

Japan: will Abe finally deliver?

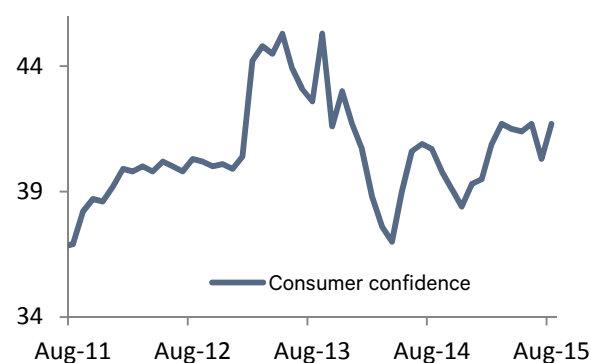
Key drivers of forecast

- **Earlier stimulus and growth momentum side-tracked by 2014 VAT hike:** Since then, economy has struggled to sustain growth
- **The positives:** The BoJ's massive quantitative-qualitative monetary easing (QQE), lower oil prices; lagged impact of weaker yen, modest wage increases
- **The negatives:** Consumers cautious on spending and businesses hoard cash rather than spend, invest and expand; slowdown in China and Asia hamper exports
- **Lack of reforms:** Japan needs serious pro-growth reforms. Abe has made useful proposals, but must deliver more; initiatives to reform corporate governance look promising

Risks: Tilted to the downside

- **Upside chance:** Abe delivers big reforms. Cheap oil boosts consumer purchasing power and spending
- **Cyclical risk:** China and emerging market slowdown clobbers Japan hard and pushes it back into recession; deflationary expectations persist despite BoJ's QQE
- **Long-term risk:** Failure to implement pro-growth reforms—including immigration reform – reinforces abysmally low potential growth drains confidence and dims Japanese prospects and stature

Abenomics: up and down, cheap oil helps a little



Source: Japanese Cabinet Office.

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.8	1.2	-0.4	1.1	0.7	0.4
Inflation	0.7	1.0	-0.3	1.1	2.0	-0.9
Unemployment	3.3	3.3	0.0	3.2	3.1	0.1
Fiscal balance	-6.3	-6.3	0.0	-5.8	-5.0	-0.8

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	-0.1	0.6	0.8	1.1	-0.8	0.9	1.3	1.2	0.3	0.9	1.0	1.1	1.1	1.2	1.1	1.1
	% q/q					1.1	-0.3	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	%q/q ann.					4.5	-1.2	0.6	0.8	1.0	1.1	1.2	1.1	1.1	1.1	1.2	1.2
Private Consumption	% y/y	-1.3	-0.6	0.9	0.9	-4.0	0.3	0.6	0.6	0.5	1.3	1.0	1.0	0.9	0.9	0.9	0.9
	% q/q					0.5	-0.6	0.5	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	% y/y	0.3	1.1	0.5	0.4	1.0	1.4	1.2	1.0	0.8	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Government Consumption	% q/q					0.3	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	% y/y	2.1	0.3	1.2	2.0	-4.2	0.8	2.4	2.6	0.4	1.3	1.4	1.7	1.9	2.0	2.0	2.0
	% q/q					2.5	-0.5	0.4	0.2	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Private Investment	% y/y	3.8	1.9	3.0	2.1	0.9	2.7	1.7	2.2	4.3	2.7	2.6	2.4	2.2	2.1	2.0	2.0
	% q/q					-1.4	2.1	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5
	% y/y	-0.2	0.0	1.0	1.0	-2.8	0.7	1.1	1.1	0.7	1.2	1.0	1.0	1.0	1.0	1.0	1.0
Final Domestic Demand ¹	% q/q					0.7	-0.3	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
	% y/y	0.3	0.3	-0.1	0.1	1.2	0.1	0.1	-0.3	-0.4	0.0	0.0	0.1	0.1	0.1	0.1	0.1
	% q/q					0.0	-0.4	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Exports ¹	% y/y	-0.2	0.3	0.0	0.0	0.8	-0.3	0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Current Account Balance	JPY trn	2.6	14.8	14.7	13.5	4.4	3.8	4.5	2.1	4.4	3.8	4.5	2.0	4.1	3.5	4.2
Industrial Production ²	% of GDP	0.5	2.9	2.8	2.5												
	% y/y	2.1	-0.7	0.5	1.4	-2.2	-0.5	0.2	-0.2	-1.3	0.5	1.5	1.5	1.4	1.4	1.4	1.4
	% q/q					1.6	-1.4	-0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	3.6	3.4	3.3	3.2	3.5	3.3	3.4	3.4	3.4	3.3	3.3	3.2	3.2	3.2	3.2	3.2
	% y/y	2.7	0.6	0.7	1.1	2.3	0.5	0.2	-0.3	0.4	0.5	0.8	1.1	0.9	1.2	1.2	1.2
	General Govt. Balance	% of GDP	-7.8	-6.5	-6.3	-5.8											
General Govt. Debt	% of GDP	244	246	248	249												

¹ Contribution to GDP growth ² Period averages

UK: strong economy but mind the politics

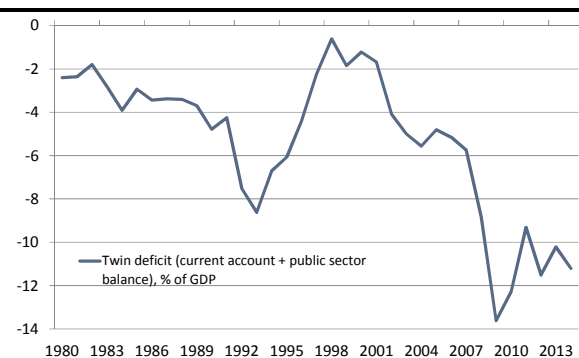
Key drivers of forecast

- **Stable outlook:** External risks will dent Q3 output but solid domestic fundamentals – housing and labour market – will help the UK weather the impact
- **Oil effect:** The oil price fall has boosted real incomes and put fizz back into the recovery this year
- **Policy supportive:** The BoE to start hiking rates in February 2016, proceeding only gradually thereafter
- **Labour market:** Unemployment has hit a sticky spot brought on by Q1 GDP weakness but real wage growth is running at close to 3%, boosting demand
- **Inflation:** Close to zero through most of 2015; in 2016, sterling strength and cheap oil to still hit the headline rate, but wage growth will boost core prices

Risks: Balanced

- **Upside chance:** Productivity growth surprises on the upside; consumers spend oil windfall freely.
- **Downside risks:** Q3 weakness becomes protracted into Q4 and 2016 – pushes back first rate hike
- **Politics:** Conservative election victory puts Brexit referendum on the agenda for 2016 or 2017; UK likely to stay in the EU, but Brexit risk has risen to 30%

UK: living well beyond its means



Current account balance plus public sector balance, % of GDP. Source: IMF WEO

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.5	2.4	0.1	2.4	2.2	0.2
Inflation	1.5	1.4	0.1	1.9	2.0	-0.1
Unemployment	5.1	5.2	-0.1	5.0	5.1	-0.1
Fiscal balance	-3.3	-3.0	-0.3	-2.3	-2.3	0.0

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	2.9	2.5	2.5	2.4	2.7	2.4	2.4	2.3	2.6	2.5	2.5	2.4	2.4	2.4	2.5	2.5
	% q/q					0.4	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
	%q/q ann.					1.5	2.6	2.4	2.7	2.5	2.4	2.4	2.4	2.5	2.5	2.5	2.5
Private Consumption	% y/y	2.6	3.0	3.0	2.8	2.8	3.0	3.0	3.3	3.3	3.0	3.0	2.8	2.8	2.8	2.8	2.8
	% q/q					0.8	0.9	0.7	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Government Consumption	% y/y	1.9	1.9	-0.1	-0.5	2.6	1.6	1.5	2.1	0.8	0.2	-0.4	-0.8	-0.7	-0.6	-0.5	-0.4
	% q/q					1.1	0.4	0.4	0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Investment	% y/y	7.5	4.6	7.2	6.3	3.8	3.4	4.2	7.0	7.2	7.8	7.3	6.7	6.5	6.3	6.2	6.1
	% q/q					1.5	1.0	2.1	2.2	1.7	1.6	1.6	1.6	1.5	1.5	1.5	1.5
Final Domestic Demand ¹	% y/y	3.3	3.1	3.1	2.8	2.9	2.8	2.9	3.7	3.4	3.3	3.1	2.8	2.8	2.8	2.8	2.8
	% q/q					1.0	0.8	0.9	1.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Net Exports ¹	% y/y	-0.4	-0.2	-0.8	-0.4	0.2	0.4	-0.6	-0.9	-0.4	-1.9	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
	% q/q					-0.6	1.4	-1.7	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Stockbuilding ¹	% y/y	0.2	-0.7	0.1	0.2	-1.0	-1.4	-0.3	-0.1	-0.2	1.1	-0.4	0.0	0.0	0.0	0.0	0.0
	% q/q					0.1	-1.3	1.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	GBP bn	-92.9	-85.5	-75.5	-66.2	-24.0	-16.8	-23.4	-21.4	-19.8	-19.2	-18.6	-18.0	-17.4	-16.8	-16.3	-15.7
	% of GDP	-5.1	-4.6	-3.9	-3.3	-5.2	-3.6	-5.0	-4.5	-4.1	-4.0	-3.8	-3.7	-3.5	-3.3	-3.2	-3.1
Industrial Production ²	% y/y	1.4	1.1	1.9	1.5	0.8	1.2	0.9	1.6	1.8	1.6	2.2	1.8	1.6	1.5	1.5	1.6
	% q/q					0.3	0.7	-0.1	0.8	0.5	0.5	0.5	0.4	0.3	0.4	0.5	0.5
Unemployment Rate ²	%	6.2	5.5	5.1	5.0	5.5	5.6	5.4	5.3	5.2	5.1	5.0	5.0	5.0	5.0	5.0	5.0
CPI ²	% y/y	1.5	0.1	1.5	1.9	0.1	0.0	0.0	0.3	1.2	1.4	1.7	1.8	1.8	1.8	1.9	2.0
General Govt. Balance ³	% of GDP	-5.7	-4.2	-3.3	-2.3												
General Govt. Debt ³	% of GDP	89.4	89.4	89.8	86.8												
BoE Bank Rate ⁴		0.50	0.50	1.50	2.00	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.50	1.75	1.75	2.00

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

Eurozone: ECB, weaker euro, cheap oil provide tailwinds

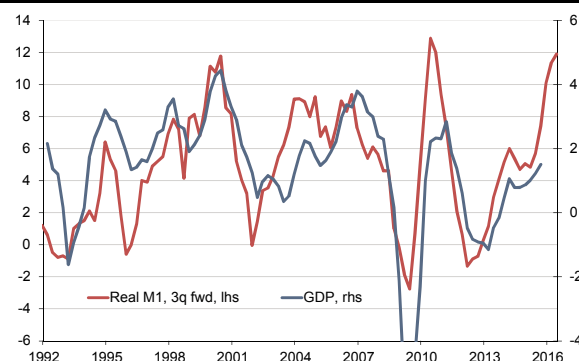
Key drivers of forecast

- **Temporary setback ahead:** Helped by a monetary stimulus and low oil prices, growth advanced to a 1.8% annualised pace in H1 2015; the emerging market crisis will hit exports and investment in late 2015, causing a temporary deceleration of growth
- **Upswing continues in 2016.** Domestic demand will cushion the external blow in late 2015; as the external shock fades in 2016, growth firms again
- **Reform countries ahead:** Spain, Ireland and Portugal enjoy a solid rebound; growth has started to stir even in Italy after the 2015 labour reform
- **Cheaper oil provides a big boost over time**
- **ECB:** Quantitative easing = softer euro – that helps
- **Austerity over:** No net fiscal drag in 2015 and 2016
- **Inflation:** Gradual rise back into positive territory likely as oil prices stabilise; still-high unemployment keeps core inflation subdued

Risks: Balanced

- **Downside risks:** Chain reaction in emerging markets could delay rebound in investment

The power of money: surge in real M1 supports growth



Eurozone GDP and real M1 growth advanced by three quarters, yoy changes in %. Source: ECB; Eurostat

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.6	1.6	0.0	1.8	1.6	0.2
Inflation	0.9	1.2	-0.3	1.4	1.6	-0.2
Unemployment	10.5	10.5	0.0	9.8	10.3	-0.5
Fiscal balance	-1.9	-1.7	-0.2	-1.6	-1.5	-0.1

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	0.9	1.5	1.6	1.8	1.2	1.5	1.6	1.5	1.4	1.6	1.7	1.8	1.9	1.8	1.8	1.8
	% q/q					0.5	0.4	0.3	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4
	%q/q ann.					2.1	1.4	1.4	1.2	1.6	2.0	1.9	1.8	1.8	1.8	1.8	1.8
Private Consumption	% y/y	0.9	1.7	1.5	1.5	1.7	1.9	1.7	1.5	1.4	1.4	1.5	1.6	1.5	1.5	1.5	1.4
	% q/q					0.5	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Government Consumption	% y/y	0.8	1.3	1.2	1.4	1.2	1.3	1.3	1.4	1.1	1.2	1.3	1.4	1.4	1.4	1.4	1.4
	% q/q					0.6	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	1.3	1.7	1.7	2.8	1.8	1.8	1.7	1.4	0.6	1.7	2.1	2.5	2.6	2.7	2.8	2.8
	% q/q					1.3	-0.5	0.2	0.3	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Final Domestic Demand ¹	% y/y	1.0	1.6	1.5	1.7	1.6	1.7	1.6	1.4	1.2	1.4	1.6	1.7	1.7	1.7	1.8	1.7
	% q/q					0.7	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net Exports ¹	% y/y	0.1	0.1	0.1	0.0	-0.1	0.2	0.2	0.1	0.3	0.0	0.0	0.1	0.1	0.1	0.0	0.0
	% q/q					-0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	-0.1	-0.2	0.1	0.1	-0.2	-0.4	-0.1	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
	% q/q					0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	212	286	276	240												
	% of GDP	2.2	2.9	2.7	2.3												
Industrial Production ²	% y/y	0.8	1.4	1.7	2.1	1.4	1.2	1.7	1.6	1.1	1.7	2.0	2.1	2.1	2.1	2.1	2.1
	% q/q					1.0	-0.2	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment rate ²	%	11.6	11.0	10.5	9.8	11.2	11.1	11.0	10.8	10.7	10.6	10.4	10.2	10.1	9.9	9.7	9.7
CPI ²	% y/y	0.4	0.0	0.9	1.4	-0.3	0.2	0.1	0.1	0.8	0.7	0.9	1.2	1.3	1.4	1.5	1.5
General Govt. Balance	% of GDP	-2.4	-2.1	-1.9	-1.6												
General Govt. Debt	% of GDP	91.9	92.0	90.5	88.0												
ECB main refinancing rate ³	%	0.25	0.05	0.05	0.25	0.25	0.15	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.25

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

Germany: domestic stimulus, serious external shock

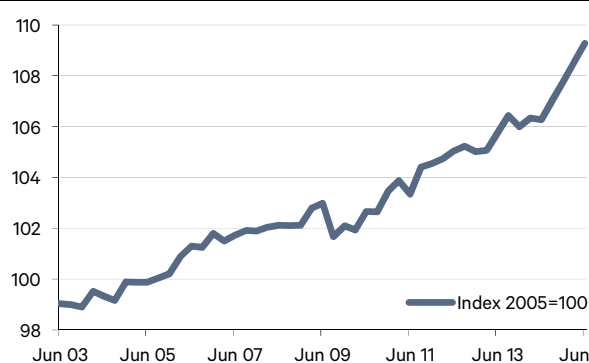
Key drivers of forecast

- **Positive fundamentals:** A strong competitive position, extremely low funding costs and pent-up demand point to a gradual firming of investment
- **Buoyant consumer confidence:** Strong gains in employment, rising wages and low inflation support consumption growth
- **Net trade to turn negative:** After the weaker euro had boosted exports in early 2015, the crisis in many emerging markets will interrupt German export growth in late 2015
- **Fiscal stimulus:** Extra spending on refugees will amount to a fiscal stimulus of 0.5% of GDP from late 2015 onwards, partly offsetting the external shock
- **Inflation:** Still subdued, but normal wage growth will keep inflation above the Eurozone average

Risks: Tilted to the downside for growth

- **Upside:** Cheap oil, undervalued euro boost demand
- **Downside:** Emerging market chain reaction, geopolitical risks or “Dieselgate” hit confidence and delay rebound in business investment

Private consumption: heading up



Real private consumption, 2005 = 100. Source: Destatis

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.8	1.9	-0.1	1.8	1.7	0.1
Inflation	1.1	1.5	-0.4	1.6	1.8	-0.2
Unemployment	4.6	n/a	n/a	4.9	n/a	n/a
Fiscal balance	0.1	0.4	-0.3	0.1	0.4	-0.3

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP ¹	% y/y	1.6	1.5	1.8	1.8	1.1	1.6	1.8	1.4	1.6	1.7	1.8	1.9	1.8	1.8	1.8	1.9
	% q/q					0.3	0.4	0.4	0.3	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5
	%q/q ann.					1.4	1.8	1.4	1.2	2.1	2.0	1.8	1.8	1.7	1.9	1.9	1.9
Private Consumption	% y/y	1.0	1.8	1.8	1.7	1.9	2.1	1.9	1.4	1.6	1.9	1.9	1.9	1.8	1.7	1.7	1.6
	% q/q					0.4	0.2	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Government Consumption	% y/y	1.7	1.9	1.8	1.7	2.3	2.0	1.7	1.7	1.6	1.8	2.0	1.9	1.8	1.7	1.6	1.6
	% q/q					0.6	0.3	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	3.5	1.9	2.1	2.8	0.6	1.8	3.1	2.1	1.1	2.2	2.3	2.7	2.8	2.8	2.8	2.8
	% q/q					1.7	-0.4	0.6	0.3	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Final Domestic Demand ²	% y/y	1.7	1.9	1.9	1.9	1.7	2.0	2.1	1.6	1.5	1.9	2.0	2.1	2.0	2.0	1.9	1.9
	% q/q					0.7	0.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Net Exports ²	% y/y	0.4	0.2	-0.1	-0.1	-0.1	0.8	0.1	0.1	0.3	-0.4	-0.3	-0.1	-0.2	-0.1	-0.1	0.0
	% q/q					-0.2	0.8	-0.2	-0.2	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Stockbuilding ²	% y/y	-0.3	-0.5	0.1	0.1	-0.4	-1.1	-0.3	-0.2	-0.1	0.3	0.2	0.1	0.1	0.1	0.1	0.1
	% q/q					-0.1	-0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	220	243	223	188	60	63	62	58	56	58	57	52	48	49	48	43
	% of GDP	7.5	8.2	7.1	5.8												
Industrial Production ³	% y/y	1.3	1.2	0.8	2.2	0.6	1.8	1.8	0.5	0.2	0.3	0.8	1.7	2.2	2.2	2.2	2.2
	% q/q					0.4	0.5	0.0	-0.3	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment Rate ⁴	%	5.0	4.7	4.6	4.9	4.8	4.7	4.7	4.6	4.5	4.5	4.6	4.7	4.8	4.9	5.0	5.0
CPI ⁵	% y/y	0.8	0.2	1.1	1.6	-0.1	0.4	0.1	0.4	1.1	0.8	1.1	1.4	1.5	1.6	1.7	1.7
General Govt. Balance	% of GDP	0.7	0.3	0.1	0.1												
General Govt. Debt	% of GDP	74.7	72.0	69.8	66.5												

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

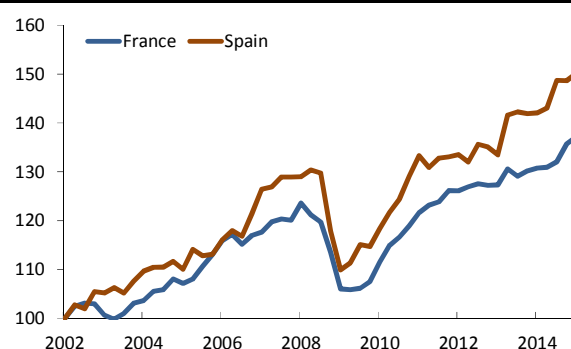
Key drivers of forecast

- **Modest reforms:** President Hollande has thrown his weight behind the reformers – the left-wingers have been side-lined, but the reforms so far are too timid and largely leave out the crucial labour market
- **France continues to lag behind:** Lack of labour market flexibility prevents stronger recovery; need to restrain public spending also weighs on demand.
- **Inflation:** Very low

Risks: Tilted to downside

- **Upside:** More reforms could restore business sentiment and thus investment; cheap oil, weaker euro help.
- **Downside:** Watch the politics – left-wingers within the ruling Socialist Party could block future reform efforts in parliament; although the far-right Front National seemed to hit a ceiling near 25% in regional elections in March 2015, a surge in immigration could strengthen the anti-EU forces on the extreme right and extreme left in France.

Real exports: who is competitive, who is not?



France, Spain real exports, 2002 =100. Source: Eurostat

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.2	1.4	-0.2	1.4	1.5	-0.1
Inflation	0.9	1.1	-0.2	1.4	1.4	0.0
Unemployment	10.4	10.0	0.4	9.8	9.7	0.1
Fiscal balance	-3.4	-3.5	0.1	-3.0	-2.8	-0.2

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	0.2	1.1	1.2	1.4	0.9	1.1	1.0	1.3	0.9	1.3	1.4	1.4	1.4	1.4	1.4	1.4
	% q/q					0.7	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	%q/q ann.					2.7	0.0	1.1	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Private Consumption	% y/y	0.7	1.5	1.1	1.1	1.9	1.5	1.3	1.4	0.9	1.2	1.2	1.1	1.1	1.1	1.1	1.1
	% q/q					0.8	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Government Consumption	% y/y	1.5	1.5	0.5	0.4	1.8	1.8	1.4	1.0	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	% q/q					0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Investment	% y/y	-1.2	-0.6	1.2	1.6	-1.3	-0.9	-0.4	0.1	0.5	1.1	1.5	1.6	1.6	1.6	1.6	1.6
	% q/q					0.0	-0.2	0.0	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Final Domestic Demand ¹	% y/y	0.5	1.1	1.0	1.0	1.2	1.0	1.0	1.0	0.8	1.0	1.1	1.1	1.0	1.0	1.0	1.0
	% q/q					0.6	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net Exports ¹	% y/y	-0.5	0.2	0.3	0.2	-0.3	0.4	0.6	0.3	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	% q/q					-0.2	0.4	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Stockbuilding ¹	% y/y	0.2	-0.2	0.0	0.1	0.1	-0.4	-0.5	-0.1	-0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	% q/q					0.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	-19	-8	-4	2	-26	0.8	-7.2	0.5	-1.6	0.9	-3.7	0.2	1.8	0.7	-1.7	1.3
	% of GDP	-0.9	-0.4	-0.2	0.1												
Industrial Production ²	% y/y	-1.1	1.0	1.3	1.7	1.3	0.9	0.3	1.6	0.2	1.5	1.7	1.7	1.7	1.7	1.7	1.7
	% q/q					1.8	-0.9	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	10.3	10.4	10.4	9.8	10.4	10.4	10.5	10.4	10.3	10.3	10.2	10.2	10.0	9.8	9.7	9.5
CPI ²	% y/y	0.6	0.2	0.9	1.4	-0.2	0.3	0.2	0.4	1.0	0.9	0.9	0.9	1.3	1.4	1.5	1.5
General Govt. Balance	% of GDP	-4.0	-3.8	-3.4	-3.0												
General Govt. Debt	% of GDP	95.0	96.0	96.4	95.6												

¹ Contribution to GDP growth ² Period averages

Italy: Renzi reforms lift confidence

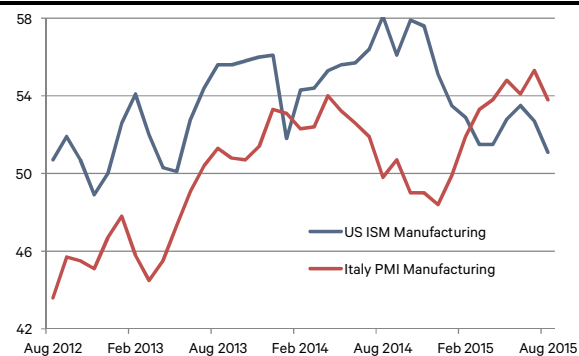
Key drivers of forecast

- **Reforms at last:** Prime Minister Renzi delivered the long-awaited labour reform in early 2015; business sentiment rebounded strongly afterwards
- **Less austerity:** The end of major tax hikes removed that drag on growth in 2014; small stimulus for 2016?
- **Recession over:** After annualised growth of 1.4% in early 2015, strong by Italian standards, demand growth will likely moderate in late 2015 before gaining new momentum over the course of 2016
- **Politics key:** Renzi's reform agenda could lift Italy's weak growth trend, but as he is no longer as popular as he was in early 2015, he may not be able to deliver much more; tail risk of early elections in 2016
- **Inflation:** Very low due to internal devaluation

Risks: Balanced for growth

- **Upside:** Serious structural reforms boost potential growth; the credit crunch eases early, the EU could grant some fiscal flexibility; cheap oil, weaker euro
- **Downside:** Emerging market crisis aborts rebound

Manufacturing PMI above US ISM



Sources: Markit, ISM

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.1	1.2	-0.1	1.2	1.2	0.0
Inflation	0.8	1.0	-0.2	1.2	1.3	-0.1
Unemployment	11.6	12.2	-0.6	11.2	12.0	-0.8
Fiscal balance	-2.5	-2.1	-0.4	-2.2	-1.9	-0.3

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	-0.4	0.7	1.1	1.2	0.1	0.6	0.9	1.1	1.0	1.0	1.1	1.2	1.2	1.2	1.2	1.2
	% q/q					0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	%q/q ann.					1.5	1.2	0.9	0.9	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Private Consumption	% y/y	0.4	0.5	0.9	0.8	0.2	0.6	0.6	0.7	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8
	% q/q					-0.1	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Government Consumption	% y/y	-0.7	0.2	0.3	0.4	0.3	0.6	0.1	-0.2	-0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	% q/q					0.0	-0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Investment	% y/y	-3.4	0.5	0.9	1.4	-0.3	0.0	1.1	1.0	0.2	1.0	1.1	1.4	1.4	1.4	1.4	1.4
	% q/q					1.2	-0.4	0.2	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Final Domestic Demand ¹	% y/y	-0.5	0.5	0.7	0.8	0.1	0.5	0.6	0.6	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8
	% q/q					0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Exports ¹	% y/y	0.1	-0.2	0.1	0.3	0.0	-0.3	-0.2	-0.5	-0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3
	% q/q					-0.4	-0.2	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Stockbuilding ¹	% y/y	0.0	-0.1	-0.1	0.0	0.0	0.5	0.4	1.1	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	% q/q					0.6	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	30.9	40.2	46.2	13.0	0.9	11.4	12.0	15.8	2.4	12.9	13.5	17.3	3.9	14.4	15.0	18.8
	% of GDP	1.9	2.5	2.8	0.8												
Industrial Production ²	% y/y	-0.5	1.1	1.7	1.6	-0.4	0.7	2.2	2.1	1.9	1.7	1.5	1.6	1.6	1.6	1.6	1.6
	% q/q					0.5	0.6	0.6	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	12.7	12.1	11.6	11.2	12.4	12.4	11.9	11.8	11.7	11.6	11.5	11.4	11.3	11.2	11.1	11.0
CPI ²	% y/y	0.2	0.1	0.8	1.2	-0.1	0.1	0.3	0.2	0.6	0.6	0.8	1.1	1.2	1.2	1.2	1.2
General Govt. Balance	% of GDP	-3.0	-2.8	-2.5	-2.2												
General Govt. Debt	% of GDP	132.1	132.0	131.2	130.0												

¹ Contribution to GDP growth ² Period averages

Spain: the poster child for reform

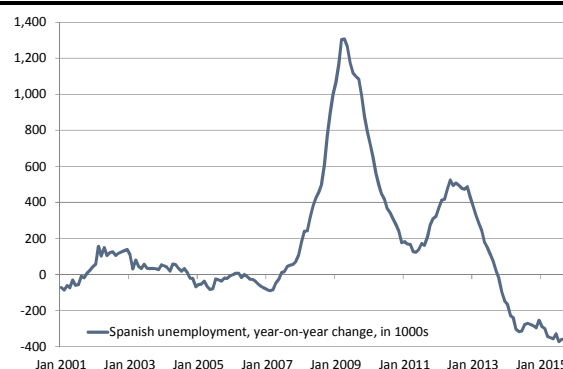
Key drivers of forecast

- **Very competitive:** Wage restraint and labour market reforms have reduced labour costs; exports benefit
- **Diminishing fiscal drag:** While still uncomfortable, the fiscal position has allowed an easing of austerity
- **Rebound in domestic demand:** Consumer confidence is back, consumption and residential investment are rebounding solidly
- **Inflation** to stay below the Eurozone average despite strong demand growth due to internal devaluation

Risks: Balanced

- **Upside:** A sharper fall in borrowing costs boosts investment; cheap oil helps
- **Downside:** Emerging market crisis escalates; Spanish industry is part of the European supply chain that could be visibly affected in late 2015
- **Political risks:** Outcome of 20 December election unclear; centre-right modestly ahead, coalition likely; although support for radical left movement has peaked, Podemos still poses a political risk; Catalan crisis still unresolved.

Spain: reforms create hope for the unemployed



National definition, 000s, 12m sum. Source: Spanish Labour Ministry

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	3.0	2.6	0.4	2.5	2.2	0.3
Inflation	0.6	1.0	-0.4	1.6	1.2	0.4
Unemployment	20.2	20.5	-0.3	18.7	19.4	-0.8
Fiscal balance	-2.8	-2.5	-0.3	-2.5	-3.0	0.5

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	1.4	3.2	3.0	2.5	2.7	3.1	3.5	3.6	3.4	3.0	2.8	2.6	2.6	2.5	2.5	2.5
	% q/q					0.9	1.0	0.9	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6
	%q/q ann.					3.8	4.0	3.6	3.1	2.7	2.7	2.7	2.5	2.5	2.5	2.5	2.5
Private Consumption	% y/y	2.4	3.4	2.6	2.4	3.5	3.5	3.4	3.1	2.9	2.5	2.4	2.4	2.4	2.4	2.4	2.4
	% q/q					0.7	1.0	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Government Consumption	% y/y	0.1	1.3	1.0	0.8	0.2	1.0	1.4	2.8	1.2	1.0	0.9	0.8	0.8	0.8	0.8	0.8
	% q/q					1.7	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investment	% y/y	3.4	5.9	4.4	4.1	6.1	6.1	6.0	5.6	5.2	4.2	4.1	4.1	4.1	4.1	4.1	4.1
	% q/q					1.4	2.0	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Final Domestic Demand ¹	% y/y	2.2	3.5	2.6	2.5	3.4	3.5	3.6	3.5	3.1	2.6	2.5	2.5	2.5	2.5	2.5	2.5
	% q/q					1.1	1.1	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Net Exports ¹	% y/y	-0.7	0.0	0.2	0.1	-0.3	-0.1	0.2	0.1	0.2	0.3	0.2	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
Stockbuilding ¹	% y/y	0.1	-0.1	0.2	0.0	-0.2	-0.1	-0.1	0.1	0.3	0.2	0.2	0.2	0.1	0.1	0.0	0.0
	% q/q					-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	10	16	16	16	-1.4	3.1	6.4	8.1	-1.4	3.1	6.4	8.1	-1.4	3.1	6.4	8.1
	% of GDP	1.0	1.5	1.4	1.4												
Industrial Production ²	% y/y	1.3	2.8	2.2	2.4	1.7	2.8	3.4	3.2	2.6	1.9	2.1	2.4	2.4	2.4	2.4	2.4
	% q/q					1.3	1.2	0.4	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Unemployment Rate ²	%	24.5	22.4	20.2	18.7	23.1	22.6	22.2	21.6	21.0	20.4	19.8	19.4	19.1	18.8	18.5	18.2
CPI ²	% y/y	-0.2	-0.7	0.6	1.6	-1.1	-0.3	-0.6	-0.8	0.2	0.2	0.8	1.2	1.5	1.5	1.7	1.8
General Govt. Balance	% of GDP	-5.7	-4.2	-2.8	-2.5												
General Govt. Debt	% of GDP	96.7	98.9	98.3	97.9												

¹ Contribution to GDP growth ² Period averages

Portugal: gradual rebound

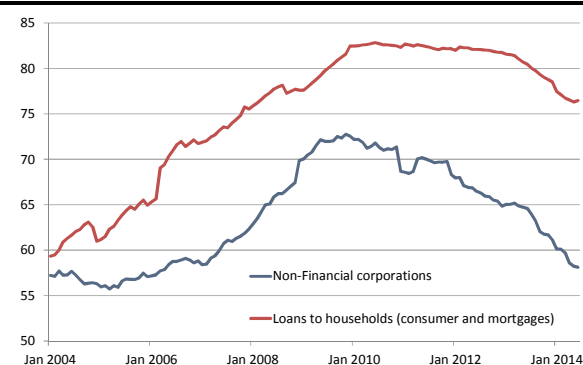
Key drivers of forecast

- **Regained competitiveness** supports an export- and investment-led recovery
- **Debt overhang drops:** Private debt downtrend, government to exit EU excessive deficit procedure in 2015
- **Stronger neighbour:** Neighbouring Spain's return to growth is boosting Portugal's export prospects
- **Inflation:** Inflation is below the Eurozone average due to internal devaluation
- **GDP:** Moderate recovery continues
- **Politics:** Pro-European parties won the elections on 4 October, but centre-right lost its majority. Will centre-left team up with radical left?

Risks: Balanced

- **Upside:** Low interest rates ease fiscal pressure; cheap oil; Spain boom spill-over
- **Downside:** Emerging market shock; post-election reform reversals

Portugal: paying back the debt



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

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.6	1.7	-0.1	1.8	1.5	0.3
Inflation	1.0	1.0	0.0	1.4	1.4	0.0
Unemployment	11.7	12.0	-0.3	10.8	11.2	-0.4
Fiscal balance	-2.2	-2.6	0.4	-2.0	-2.1	0.1

Bloomberg consensus, taken 16 October 2015

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	0.9	1.6	1.6	1.8	1.6	1.6	1.7	1.6	1.5	1.4	1.5	1.7	1.8	1.8	1.8	1.8
	% q/q					0.5	0.5	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					2.0	2.2	1.4	1.0	1.6	1.8	1.8	1.7	1.8	1.8	1.8	1.8
Private Consumption	% y/y	2.2	2.5	1.4	1.2	2.5	3.2	2.1	2.3	1.9	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	% q/q					0.7	1.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Government Consumption	% y/y	-0.5	0.7	1.0	0.8	-0.5	0.6	1.2	1.4	1.4	0.8	0.8	0.8	0.8	0.8	0.8	0.8
	% q/q					0.2	0.8	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investment	% y/y	2.8	6.0	3.2	3.2	8.8	5.1	5.4	4.9	3.3	3.0	3.1	3.2	3.2	3.2	3.2	3.2
	% q/q					2.3	1.1	0.7	0.7	0.8	0.8	0.8	0.7	0.8	0.8	0.8	0.8
Final Domestic Demand ¹	% y/y	1.8	2.7	1.6	1.4	2.8	3.0	2.4	2.5	2.1	1.4	1.4	1.4	1.4	1.4	1.4	1.5
	% q/q					0.8	1.0	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net Exports ¹	% y/y	-1.2	-0.9	0.0	0.3	-0.1	-1.7	-0.6	-1.2	-0.4	0.3	0.1	0.3	0.3	0.3	0.3	0.3
	% q/q					-0.7	-0.6	0.2	-0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Stockbuilding ¹	% y/y	0.3	-0.2	-0.1	0.0	-1.2	0.2	-0.1	0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	1.0	1.5	1.7	1.9	-0.2	-0.7	2.1	0.2	-0.1	-0.6	2.2	0.3	-0.1	-0.5	2.2	0.3
	% of GDP	0.5	0.8	1.0	1.0												
Industrial Production ²	% y/y	1.8	2.5	2.6	2.4	0.4	1.8	3.5	4.2	4.5	2.1	1.7	2.2	2.4	2.4	2.4	2.4
	% q/q					0.1	3.0	1.0	0.1	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Unemployment Rate ²	%	14.1	12.6	11.7	10.8	13.5	12.5	12.3	12.1	12.0	11.8	11.7	11.5	11.2	10.9	10.6	10.3
CPI ²	% y/y	-0.2	0.5	1.0	1.4	0.0	0.7	0.6	0.6	1.1	0.9	0.9	1.1	1.2	1.3	1.5	1.6
General Govt. Balance	% of GDP	-4.5	-2.9	-2.2	-2.0												
General Govt. Debt	% of GDP	130.2	130.0	127.0	126.0												

¹ Contribution to GDP growth ² Period averages

2017 Forecasts

- **Developed world 2017:** We project a continuing moderate recovery for 2017. We do not yet see any of the imbalances or exaggerations such as overinvestment, excessive credit growth or mounting wage pressures that would require a cleansing recession.
- **Emerging markets 2017:** China continues to slow down on trend; India remains firm, many other countries continue the projected 2016 rebound from their 2015 crisis.

Berenberg compared to consensus

	GDP		Inflation		Unemployment Rate		Govt. Budget Balance	
	2016	2017	2016	2017	2016	2017	2016	2017
US	0.0	0.2	0.1	0.1	-0.1	-0.3	0.0	0.0
China	0.0	-0.2	0.2	0.1	0.2	0.1	-0.5	-0.4
Japan	-0.4	0.4	-0.3	-0.9	0.0	0.1	0.0	-0.8
UK	0.1	0.2	0.1	-0.1	-0.1	-0.1	-0.3	0.0
EZ	0.0	0.2	-0.3	-0.2	0.0	-0.5	-0.2	-0.1
Germany	-0.1	0.1	-0.4	-0.2	n/a	n/a	-0.3	-0.3
France	-0.2	-0.1	-0.2	0.0	0.4	0.1	0.1	-0.2
Italy	-0.1	0.0	-0.2	-0.1	-0.6	-0.8	-0.4	-0.3
Spain	0.4	0.3	-0.4	0.4	-0.3	-0.8	-0.3	0.5
Portugal	-0.1	0.3	0.0	0.0	-0.3	-0.4	0.4	0.1

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 16 October 2015. Berenberg's German unemployment forecasts are based on 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	End-2015	Mid-2016
Central bank rates			
US Fed	0.00-0.25%	0.50%	1.00%
ECB	0.05%	0.05%	0.05%
BoE	0.50%	0.50%	0.75%
BoJ	0.10%	0.10%	0.10%
10-year bond yields			
US	2.01%	2.40%	2.70%
Germany	0.58%	0.75%	1.10%
UK	1.79%	2.10%	2.50%
Currencies			
EUR-USD	1.13	1.12	1.18
EUR-GBP	0.73	0.73	0.75
GBP-USD	1.54	1.53	1.57
USD-JPY	119	125	123
EUR-JPY	135	140	145
EUR-CHF	1.08	1.10	1.12

¹ Taken 16 October 2015 at 11:17 BST

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

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