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European Economic Forecast

Autumn 2017

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European Commission

Directorate-General for Economic and Financial Affairs

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EUROPEAN ECONOMY Institutional Paper 063

ABBREVIATIONS

Countries and regions

EU	European Union
EA	euro area
BE	Belgium
BG	Bulgaria
CZ	Czech Republic
DK	Denmark
DE	Germany
EE	Estonia
IE	Ireland
EL	Greece
ES	Spain
FR	France
HR	Croatia
IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
HU	Hungary
MT	Malta
NL	The Netherlands
AT	Austria
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom
JP	Japan
US	United States of America

CIS	Commonwealth of Independent States
EFTA	European Free Trade Association
EMU	Economic and Monetary Union
MENA	Middle East and North Africa
ROW	Rest of the World

Economic variables and institutions

CCCI	Composite Credit Cost Indicators
CPI	Consumer price index
EONIA	Euro Overnight Index Average
ESI	Economic Sentiment Indicator
GDP	Gross Domestic Product
GNI	Gross National Income
HICP	Harmonised Index of Consumer Prices
NAWRU	Non-Accelerating Wage Rate of Unemployment
NPL	Non-performing loan
PMI	Purchasing Managers' Index
VAT	Value-Added Tax

ECB	European Central Bank
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries
WTO	World Trade Organisation

Other abbreviations

EAPP	Expanded Asset Purchase Programme
FDI	Foreign Direct Investment
NFC	Non-Financial Corporations
OCA	Optimal Currency Area

Graphs/Tables/Units

bbl	Barrel
bn	Billion
bp. /bps.	Basis point / points
H	Half
lhs	Left hand scale
mn	Million
pp. / pps.	Percentage point / points
pt. / pts.	Point / points
Q	Quarter
q-o-q%	Quarter-on-quarter percentage change
rhs	Right hand scale
tn	Trillion
y-o-y%	Year-on-year percentage change

Currencies

EUR	Euro
ECU	European currency unit
BGN	Bulgarian lev
CNY	Chinese yuan, Renminbi
CZK	Czech koruna
DKK	Danish krone
GBP	Pound sterling
HUF	Hungarian forint
HRK	Croatian kuna
ISK	Icelandic krona
MKD	Macedonian denar
NOK	Norwegian krone
PLN	Polish zloty
RON	New Romanian leu
RSD	Serbian dinar
SEK	Swedish krona
CHF	Swiss franc
JPY	Japanese yen
RMB	Renmimbi
TRY	Turkish lira
USD	US dollar

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FOREWORD

Economic activity in the euro area has accelerated. The pick-up in GDP growth in recent quarters is part of a fairly synchronised global upswing in advanced economies and emerging markets alike. Higher external demand appears to have encouraged European firms to invest more and it has dampened the impact of the euro's appreciation on exports so far. With investment picking up and private consumption still robust, domestic demand is now better balanced.

All Member States are participating in the expansion and seeing improvements in their labour markets. The synchronisation of the business cycle has increased, the adjustment of pre-crisis imbalances in competitiveness continues to advance, and there are signs that the longer-term process of convergence in living standards has resumed. Employment creation is set to continue at a robust pace, leading to a further reduction in unemployment. The euro area unemployment rate is forecast at 8½ % next year. This figure, however, hides significant differences across Member States. In some, unemployment will still be much higher next year than before the crisis. In others, the labour market is increasingly tight. In some, GDP is now running significantly above potential, sometimes accompanied by housing booms.

At the same time, the recovery remains incomplete and several features of the economic expansion remain atypical, still scarred by the legacy of the crisis. Public and private deleveraging have been weighing on demand. Investment, particularly public investment, still accounts for a relatively low proportion of GDP. Potential growth has yet to fully shake off the negative impact of the crisis on the capital stock, employment and productivity. Most conspicuously, the outlook for inflation remains subdued amid sluggish wage growth. This partly reflects low productivity growth and the remaining slack in the labour market, as underemployment exceeds the headline unemployment rate. But low wage growth and inflation appear to be a feature also in many advanced economies outside the EU. This suggests that common factors may be at play and that low inflation expectations are incorporated in wage claims. Stronger wage growth would be an important signpost for the sustainability of the expansion, as it would underpin continued private consumption growth and contribute towards price stability.

These uncommon characteristics of the recovery have important implications for the appropriate macroeconomic policy stance. The ECB has indicated that monetary accommodation will be required until the path of euro area inflation towards its definition of price stability is self-sustained. Given the incomplete nature of the recovery, the broadly neutral aggregate fiscal stance for the euro area as a whole is appropriate for now. However, a proper differentiation across countries is crucial to ensure debt sustainability while supporting growth and employment. The quality of public finances is vital for social fairness as well as stronger growth in the medium term. In Member States at risk of housing market imbalances, this needs to be accompanied by macro-prudential measures. As the cyclical upswing advances, the focus increasingly has to be on potential growth and the deployment of measures sometimes dubbed as 'structural reforms 2.0'. Cushioning the impact of population ageing on the workforce requires improving the functioning of labour markets and increasing labour-market participation. Reversing the decline in productivity growth will require better education and training, stimulating the take-up and diffusion of technology and improving the performance of product markets. A big push for the completion of the single market, including its digital and service dimensions is needed. The cyclical recovery has already been ongoing for 18 straight quarters. Only a determined effort to boost potential growth will allow the expansion to last and its fruits to be shared equitably. Moreover, structural convergence and the completion of EMU, including banking union, are required to make the euro area economy more resilient to future shocks. The Commission will make detailed proposals to this end in December.

Marco Buti
Director General Economic and Financial Affairs

OVERVIEW: CONTINUED GROWTH IN A CHANGING POLICY CONTEXT

Euro area labour market is strong but slack remains

The European economy performs well…

The pace of economic growth in Europe surpassed expectations in the first half of this year, propelled by resilient private consumption, increasing support from a global upswing, loose financing conditions and healthy improvements in the labour market. Investment, which had been lagging, also shows signs of a broad-based pick-up. Very strong consumer and business sentiment, in a context of diminished uncertainty, suggests that this robust economic performance should continue in the near-term.

…but the recovery is still incomplete…

Nevertheless, the cyclical recovery that has now been underway for 18 uninterrupted quarters, still remains incomplete. It is also atypical given its dependence on policy support, the continuing presence of fiscal and financial fragilities stemming from the crisis, and the relatively subdued strength of domestic demand compared to past recoveries. Remaining slack in the labour market and slow productivity growth are among the factors that continue to constrain wage dynamics and dampen inflation.

…suggesting room to expand further.

The recovery in the euro area is less advanced than in other advanced economies such as the US, suggesting that there may be scope for robust growth to continue without inflationary pressures, even though the output gap is set to become positive. A more pronounced acceleration in wages,

Table 1:

Overview - the autumn 2017 forecast

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Belgium	1.7	1.8	1.7	2.2	1.4	1.6	7.3	7.0	6.8	-1.0	-1.1	-0.9	-1.5	-1.4	-1.5
Germany	2.2	2.1	2.0	1.7	1.5	1.6	3.7	3.5	3.2	7.8	7.5	7.2	0.9	1.0	1.1
Estonia	4.4	3.2	2.8	3.7	3.0	2.7	6.9	7.7	8.5	2.3	2.3	2.4	-0.2	-0.4	-0.5
Ireland	4.8	3.9	3.1	0.3	0.8	1.2	6.1	5.5	5.3	2.9	2.5	2.3	-0.4	-0.2	-0.2
Greece	1.6	2.5	2.5	1.2	0.8	1.3	21.8	20.4	18.7	-0.2	0.4	1.0	-1.2	0.9	0.8
Spain	3.1	2.5	2.1	2.0	1.4	1.5	17.4	15.6	14.3	1.7	1.9	1.9	-3.1	-2.4	-1.7
France	1.6	1.7	1.6	1.1	1.2	1.5	9.5	9.3	8.9	-3.0	-2.8	-2.6	-2.9	-2.9	-3.0
Italy	1.5	1.3	1.0	1.4	1.2	1.5	11.3	10.9	10.5	2.5	2.5	2.3	-2.1	-1.8	-2.0
Cyprus	3.5	2.9	2.7	1.0	1.1	1.4	11.0	10.0	9.3	-5.4	-6.2	-6.8	1.1	1.4	1.9
Latvia	4.2	3.5	3.2	2.9	2.8	2.9	8.4	7.9	7.3	-1.4	-1.6	-1.2	-0.9	-1.0	-1.1
Lithuania	3.8	2.9	2.6	3.8	2.9	2.5	7.3	6.8	6.4	-0.7	-0.3	-0.4	0.1	0.2	0.2
Luxembourg	3.4	3.5	3.3	2.1	1.7	1.9	6.1	5.9	6.0	4.6	4.8	4.7	0.5	0.3	0.4
Malta	5.6	4.9	4.1	1.3	1.5	1.8	4.2	4.0	4.0	9.6	9.4	9.8	0.9	0.5	0.5
Netherlands	3.2	2.7	2.5	1.3	1.5	2.2	4.8	4.0	3.5	9.1	8.7	8.4	0.7	0.5	0.9
Austria	2.6	2.4	2.3	2.0	1.6	1.7	5.6	5.5	5.4	2.2	2.9	3.7	-1.0	-0.9	-0.6
Portugal	2.6	2.1	1.8	1.5	1.4	1.5	9.2	8.3	7.6	0.1	0.2	0.2	-1.4	-1.4	-1.2
Slovenia	4.7	4.0	3.3	1.6	1.5	1.8	6.8	5.9	5.2	5.9	5.4	4.9	-0.8	0.0	0.4
Slovakia	3.3	3.8	4.0	1.3	1.7	2.0	8.3	7.4	6.6	0.8	0.7	1.3	-1.6	-1.0	-0.2
Finland	3.3	2.7	2.4	0.9	1.3	1.7	8.6	8.3	8.0	-1.1	-0.3	0.4	-1.4	-1.2	-0.8
Euro area	**2.2**	**2.1**	**1.9**	**1.5**	**1.4**	**1.6**	**9.1**	**8.5**	**7.9**	**3.0**	**3.0**	**2.9**	**-1.1**	**-0.9**	**-0.8**
Bulgaria	3.9	3.8	3.6	1.0	1.5	1.6	6.4	6.0	5.7	3.0	2.4	2.3	0.0	0.0	0.2
Czech Republic	4.3	3.0	2.9	2.4	2.1	2.0	3.0	2.9	2.9	-0.2	-0.3	-0.6	1.2	0.8	0.6
Denmark	2.3	2.0	1.9	1.0	1.4	1.7	5.9	5.6	5.5	8.4	8.3	8.2	-1.0	-1.0	-0.9
Croatia	3.2	2.8	2.7	1.3	1.5	1.6	11.1	9.2	7.5	3.1	1.9	1.9	-0.9	-0.9	-0.7
Hungary	3.7	3.6	3.1	2.3	2.6	3.0	4.2	4.0	4.0	4.3	3.3	3.2	-2.1	-2.6	-2.3
Poland	4.2	3.8	3.4	1.6	2.1	2.8	5.0	4.2	4.0	1.0	0.3	0.1	-1.7	-1.7	-1.9
Romania	5.7	4.4	4.1	1.0	2.9	3.0	5.3	5.1	5.0	-3.1	-3.2	-3.4	-3.0	-3.9	-4.1
Sweden	3.2	2.7	2.2	1.8	1.6	1.7	6.6	6.4	6.3	4.9	5.0	5.1	0.9	0.7	0.6
EU27	**2.4**	**2.2**	**2.0**	**1.6**	**1.5**	**1.8**	**8.2**	**7.7**	**7.2**	**3.0**	**2.9**	**2.9**	**-1.1**	**-0.9**	**-0.8**
United Kingdom	1.5	1.3	1.1	2.7	2.6	2.1	4.5	4.7	4.8	-5.1	-4.6	-4.4	-2.1	-1.9	-1.5
EU28	**2.3**	**2.1**	**1.9**	**1.7**	**1.7**	**1.8**	**7.8**	**7.3**	**7.0**	**1.7**	**1.8**	**1.8**	**-1.2**	**-1.1**	**-0.9**
USA	2.2	2.3	2.1	2.0	2.1	2.2	4.5	4.3	4.1	-2.7	-2.8	-2.9	-5.0	-4.9	-5.1
Japan	1.6	1.2	1.0	0.4	0.8	1.2	2.9	2.8	2.7	3.9	4.1	4.0	-4.3	-3.8	-3.1
China	6.8	6.5	6.2	:	:	:	:	:	:	:	:	:	:	:	:
World	**3.5**	**3.7**	**3.7**	:	:	:	:	:	:	:	:	:	:	:	:

supported by productivity gains, would be an important signpost signalling the ability of the expansion to continue at a robust pace. The broad-based expansion of the European economy is expected to continue over the forecast horizon but the slowing pace of job creation and household purchasing power growth implies a slight moderation in momentum over the next two years. After climbing to 2.2% this year, the highest growth rate in 10 years, euro area GDP growth is forecast to moderate marginally to 2.1% in 2018 and to ease slightly to 1.9% in 2019. Given the ongoing negotiation on the terms of the UK withdrawal from the EU, projections for 2019 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. This is for forecasting purposes only and has no bearing on the talks underway in the context of the Article 50 process.

A broad-based acceleration of global economic activity…

During the second quarter of this year, global economic activity accelerated to its strongest pace in seven years, with relatively well synchronised improvements across both advanced economies and emerging markets. Growth in China outperformed expectations, while the ongoing recovery in economies that were previously in recession (Russia and Brazil) has also been stronger than anticipated so far in 2017, helped by the increase in commodity prices. Global growth (excluding the EU) is projected to pick up to 3¾% in 2017 and to increase further to 4% in 2018 and 2019. The economic recovery in emerging markets is expected to continue over the forecast horizon, driven by rebounding trade, benign financing conditions and firmer activity in advanced economies. The pace of economic growth in advanced economies is expected to peak over 2017 and to moderate thereafter as their economic cycles mature. This is particularly the case in the US, where the progressively tighter labour market should eventually boost wage growth. Like other advanced economies, the US economy should benefit from a rebound in investment and trade. Earlier assumptions about a boost to growth from a potential fiscal stimulus in 2018 have been downgraded from modest to negligible. Overall, the US growth outlook remains largely unchanged, at around 2¼% over 2017 and 2018 before easing marginally in 2019.

…triggers a virtuous circle of trade and investment…

The robust momentum in global trade that started mid-2016 looks to have continued in the three first quarters of this year. World imports of goods and services (excluding the EU) are therefore projected to increase by more than 4% per year between 2017 and 2019, which is substantially stronger than expected back in the spring. This upward revision is predominately due to firming global growth but also to the assumption of a faster than previously-expected recovery in trade elasticity as a result of the projected pick-up in investment, which is the most trade-intensive component of domestic demand.

…and supports financial markets…

Financial markets have shown resilience since spring, supported by the strengthening of the global economic recovery, still accommodative monetary policies at the global level and investors' continued search for yield. In the US, strong equity valuations have also been driven by robust corporate earnings growth and expectations of corporate tax reform. European stock markets temporarily underperformed, amid concerns related to the euro's appreciation, but the combination of positive macroeconomic developments and expectations that monetary policy will remain accommodative revived sentiment. On the bond market, euro area benchmark sovereign bond yields have risen only marginally since spring, while the broadening economic recovery has translated into a further narrowing of spreads.

…as monetary policy is on the road to normalisation.

A normalisation process of monetary policy is underway in advanced economies. The US Federal Reserve raised interest rates for the second time this year in June and restated its view that rates should continue to normalise as the recent subdued inflation is seen as transitory. In the euro area, the ECB has kept its monetary policy very accommodative. Market participants expect a first interest rate increase in 2019. Despite increased monetary policy divergence between the euro area and the US, the euro has strengthened since spring against the US dollar and its major counterparts against the backdrop of a solid economic performance and fading political uncertainty in Europe. The euro's nominal effective exchange rate is now assumed to appreciate by about 6% over this year and next.

Euro area firms are diversifying their sources of funding

Bank lending to the private sector continued to rise in the euro area with banks offering persistently very low interest rates. Bank lending is expected to expand as banks ease their credit standards further and the net demand for loans increases. Furthermore, the lending capacity of banks generally has improved amid a further strengthening of their capital positions. But low profitability, non-performing loans (NPLs) and overcapacity in some segments of the European banking sector remain an issue. Meanwhile, market funding also continued to expand. Remarkably for this phase of the cycle, they contributed as much as bank lending to NFCs overall debt funding in recent quarters. As the corporate sector is running surpluses generating substantial internal funds, access to funding does not appear to be a barrier to new investment and there is room to expand it further.

Private consumption is expected to remain the key driver of growth…

Private consumption gathered further momentum in the first half of 2017. The nominal disposable income of households is set to increase strongly this year due to higher labour and non-labour incomes consistent with improved labour market conditions and corporate profits respectively. But higher inflation compared to last year is dampening the purchasing power of households and this effect is likely to be only partially mitigated by lower savings. Accordingly, private consumption growth is expected to decrease from the solid pace recorded last year. Over the next two years, as employment growth is projected to slow, wages to accelerate somewhat and non-labour incomes to continue their upward trend, growth in the nominal disposable income of households should be fairly stable. Reflecting the slight moderation in inflation expected in 2018 and the mild uptick in 2019, as well as a broadly unchanged household saving ratio, private consumption growth should slightly moderate next year before easing in 2019.

…while investment is picking up…

In the first half of the year, investment gained momentum and even surprised on the upside. The outlook for corporate investment has further improved. Higher demand expectations, supportive financing conditions, diminished uncertainty, strong business sentiment, high capacity utilisation rates and increasing corporate profitability, as well as modernisation needs, all contribute to a positive setting for corporate investment. The Investment Plan for Europe is also expected to boost investment. The high stock of NPLs in some countries and the need for further deleveraging could continue to dampen investment growth but to a lesser extent, as both are gradually receding. Assuming the overall monetary stance remains accommodative, market expectations of a steepening of the yield curve should only have a limited negative impact on investment over the forecast horizon. Equipment investment is likely to accelerate next year while the near-term outlook in the construction sector, whose recovery only started last year, is also positive. Differences in the phase of the housing cycle, however, are more pronounced across countries, with some Member States experiencing signs of overheating. Overall, investment is expected to grow at a robust pace this year and next before slowing somewhat in 2019.

…and net trade should contribute marginally to growth.

Euro area exports are set to accelerate strongly in 2017, in line with the rebound in euro area foreign demand. In 2018 and 2019, export growth is expected to remain robust, supported by the health of foreign demand. Despite the euro's appreciation, the euro area's exports are set to see only a marginal loss in market shares, which could, to some extent, be explained by exporters absorbing the euro's appreciation in their profit margins. Notwithstanding robust import growth, net trade is projected to make a slightly positive contribution to growth over the forecast horizon. The euro area's current account surplus is forecast to fall from 3.3% of GDP in 2016 to 3% this year, as the rise in oil prices contributes to a worsening in the terms of trade. It is expected to broadly stabilise at that level in the outer forecast years.

Job creation continues at a robust pace…

As a result of robust growth dynamics, employment continued to expand strongly in the first half of the year, increasing the number of employed persons in the euro area to the highest level ever recorded and bringing the unemployment rate to its lowest level since early 2009. In 2018 and 2019, employment creation should continue to benefit from the sustained domestic-demand driven expansion, still moderate wage growth, as well as structural reforms implemented in some Member States. However, job creation is set to moderate as a result of the fading of temporary fiscal incentives in some countries and skilled-labour supply shortages in others. Furthermore, the current relatively high elasticity between employment and GDP growth is expected to decrease with a strengthening of labour productivity. With net job creation still significantly outpacing labour force growth, the unemployment rate in the euro area is set to drop from 10% in 2016 to just below 8% in 2019, with nearly half of this decline taking place this year. However, other labour market indicators, such as the relatively low level of working hours per employee, compared to its pre-crisis level, and the relatively high level of 'involuntary' part-time work, suggest persistent, but diminishing, labour market slack.

…but the outlook for inflation remains subdued.

Euro area inflation has oscillated between 1.3% and 2.0% in the first nine months of 2017, mainly as a result of energy base effects. Core inflation, which excludes volatile energy and unprocessed food prices, has remained subdued, but has been gradually rising due to increasing pipeline pressures. The fact that core inflation remains subdued reflects the lagged negative impact of a prolonged period of low inflation, as well as remaining labour market slack and weak wage growth. Headline inflation is projected to dip slightly at the start of 2018 dragged down by negative base effects in energy and unprocessed food prices but also as a result of the euro's appreciation, which should result in lower import prices. Given that oil prices are assumed to remain broadly flat over the forecast horizon, inflation is projected to pick-up gradually in the remainder of 2018 and throughout 2019. Headline inflation is then forecast to slow down from 1.5% this year to 1.4% in 2018 and to tick slightly higher to 1.6% in 2019. While this slight upward trend is consistent with a projected positive output gap in 2019, the rather subdued inflation outlook is mainly related to the projection of increasing but still weak wage growth.

Public finances benefit from improved cyclical conditions…

The euro area's general government deficit is expected to improve this year by more than expected in the spring forecast, since the economy is also expected to grow more strongly. Further, smaller, declines in the euro area deficit are projected in 2018 and 2019, driven by lower interest expenditures and lower spending on unemployment benefits as labour markets continue to improve. The improved outlook for nominal GDP growth and historically low level of interest rates translate into more favourable snowball effects that support the deleveraging of the public sector, with debt-to-GDP ratios projected to be on a downward path in almost all Member States. Under a no-policy-change assumption, the euro area deficit-to-GDP ratio is expected to fall to 0.8% in 2019, while the gross debt-to-GDP ratio is forecast at 85% of GDP.

…while macroeconomic policies are set to remain supportive…

The fiscal policy stance, as measured by the change in the structural balance, is expected to stay broadly neutral in the euro area as a whole over the forecast horizon, even though the fiscal stance is expected to be slightly expansionary in a number of Member States in 2018. Monetary conditions in the euro area are expected to remain accommodative. Short-term money market rates are assumed to increase gradually in 2019 but should remain supportive in real terms. Nominal long term rates are assumed to trend up modestly, but a renewed gradual increase in long-term inflation expectations should keep real long-term financing costs in negative territory.

…and risks have become balanced.

Risks surrounding the economic outlook are broadly balanced. Downside risks are mainly external and mostly come from elevated geopolitical tensions (e.g. on the Korean peninsula) and potentially tighter global financial conditions. A faster or stronger-than-assumed monetary tightening in the US, or an increase in global risk aversion, would not only have important spillovers for countries with elevated leverage but could also impact negatively on Europe. In the medium term, relative high and rising corporate debt in China is increasing financial fragilities and the risk of disorderly adjustment, while more inward-looking policies in the US and elsewhere could have a marked detrimental impact on the global economy. At home, depending on the outcome of the Brexit negotiations, the transition may not be as smooth as technically assumed in this forecast. A stronger-than-assumed appreciation of the euro, especially if not driven by improved economic fundamentals, and a faster-than-assumed steepening of the yield curve would also constitute downside risks. On the upside, sustained diminishing uncertainty, improving sentiment, a faster completion of EMU and the synchronous rebound outside Europe could all result in a more durable and stronger-than-expected expansion in Europe.

PART I

EA and EU outlook

CONTINUED GROWTH IN A CHANGING POLICY CONTEXT

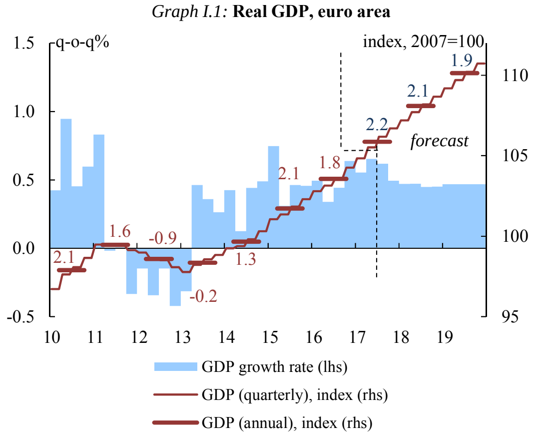
Euro area labour market is strong but slack remains

The EU economy continues to glide forward on the wings of favourable financing conditions made possible by accommodative monetary policies, with additional thrust from improving labour market conditions and stronger global growth and trade. In the first half of 2017, the EU and the euro area economies performed well. Propelled mainly by domestic demand, the pace of economic growth has picked up and the upturn has become increasingly broad-based across countries.

With conditions having brightened in recent months, the flight ahead looks set to continue in similar style. There is plenty of domestic fuel for continued growth, including diminished political uncertainty, very strong sentiment, further job creation, and continued momentum from global demand. The euro's recent appreciation is expected to prove only a minor drag. Of course, there are still headwinds set to prevent growth in many countries from fully reviving to pre-crisis speed. In some countries, this includes crisis legacies such as high private and public debt. Moreover, the subdued pace of wage growth despite robust employment creation, points not only to remaining labour market slack but also to low productivity growth, which could limit the pace of expansion in the future. Overall, the European economy is expected to continue performing well. Real GDP in the euro area is forecast to grow by 2.2% in 2017 (0.5 pps.higher than forecast in spring). Slowing employment growth, lower increases in real disposable incomes and moderating investment growth, suggest that economic growth may moderate slightly over the forecast horizon, to 2.1% in 2018 (0.3 pps. higher than forecast in spring) and 1.9% in 2019. The outlook for the EU28 has also been revised up for this year (+0.4 pps. to 2.3%) and next (+0.2 pps. to 2.1%). As a result of stronger growth dynamics, labour market slack is set to be absorbed at a faster clip than in the first years of the recovery. Since negative base effects are set to affect inflation also in early 2018, inflation in the euro area is expected to moderate from 1.5% in 2017 to 1.4% in 2018, before rising to 1.6% in 2019, while the output gap is expected to turn positive.

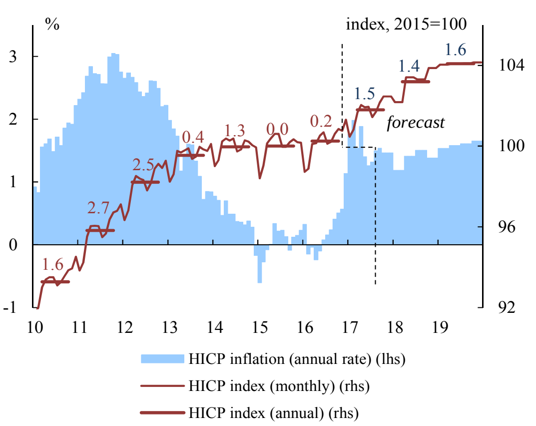
Europe's economic outlook is not without challenges and risks, as the policy context is changing. Central banks around the world have been discussing a "normalisation" of their policies, which could impact markedly on economic activity. Recent months have seen some new punitive tariffs imposed on global trade; the extension of such policies would have a negative impact on the global rebound. Changes will follow the end of the UK's membership of the EU in March 2019, the prospect of which is already having an impact on economic activity. Given the ongoing negotiation on the terms of the UK withdrawal from the EU, the projections for 2019 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. As regards upside risks, diminishing uncertainty, improving sentiment, the synchronous rebound outside Europe and the strengthening in the architecture of EMU could result in stronger-than-expected growth in Europe. Downside risks are mostly external and are associated in particular with assumptions about exchange rates and monetary policy. All in all, risks to growth and inflation projections are broadly balanced.

Graph I.1: **Real GDP, euro area**



Figures next to horizontal bars are annual growth rates.

Graph I.2: **HICP, euro area**



Figures next to horizontal bars are annual inflation rates.

1. PUTTING THE FORECAST INTO PERSPECTIVE: CONVERGENCE AND THE ECONOMIC OUTLOOK

Convergence, in its different dimensions (nominal, real, social, cyclical convergence and convergence towards resilient economic structures), acts as a determinant of macroeconomic developments and is thus relevant in the context of macroeconomic projections. These dimensions, which are clearly interrelated, are also crucial for the socio-economic and political sustainability of the European integration process [(1)] and for the well-functioning of the Economic and Monetary Union (EMU). [(2)] Among these dimensions, convergence of living standards (i.e. real convergence) is already mentioned in the Treaty as a means to promote economic, social and territorial cohesion, which is enshrined among the Union's objectives, [(3)] while nominal convergence has informed the Maastricht criteria for entering the EMU. Although real convergence is not necessarily a pre-condition for a well-functioning EMU [(4)] the euro was introduced to achieve the Union's objectives. Cyclical convergence, as analysed when looking at business cycles and financial cycles is particularly important for the smooth conduct of the common monetary policy. Finally, convergence towards resilient economic structures features prominently in the discussion on the improvement of the architecture of the EMU. [(5)]

Over the longer run, real convergence supports the economic and political sustainability of the integration process. It also eases the identification of common economic policy priorities and coordinated policy-making. A well-functioning EMU can be expected to foster real convergence in a self-reinforcing way, thanks to, inter alia, the removal of frictions to cross-border trade and capital flows, technology and knowledge transfers and labour mobility.

Yet, stronger convergence in one area may not always be supportive of convergence in another. Some temporary divergence might be needed to address imbalances and facilitate rebalancing, thereby clearing the way for further sustained convergence (e.g. need for inflation rates to remain consistently below the euro area average to underpin rebalancing in countries which accumulated competitiveness gaps in the first decade of EMU).

Therefore, the time horizon of adjustment and convergence processes and its various interlinkages need to be analysed carefully. This section reviews the main dimensions of convergence from the perspective of macroeconomic forecasts and assesses how much convergence has been achieved, before discussing if the economy is on the path of nominal and cyclical convergence in view of the present forecast. Special attention is paid to how convergence processes have been altered by the economic and financial crisis.

Some convergence types are more relevant to the forecast than others

The notion of convergence captures many dimensions, which differ with respect to their relevance for short-term macroeconomic forecasts. The most popular concept of real convergence relates to the development of real per-capita income levels over time, often looking at developments over decades. A question more pertinent to the near-term is whether real convergence has started again, and among which countries, after having been interrupted by the crisis.

Nominal variables such as inflation and interest rates can be rather volatile and impact on the effectiveness of economic policy in a monetary union. Not only in the run-up to stage 3 of EMU,

(1) Berti K. and E. Meyermans (2017). "Sustainable convergence in the euro area: a multi-dimensional process". *Quarterly Report on the Euro Area* 17:3 (forthc.).

(2) Cœuré, B. (2017). 'Convergence matters for monetary policy'. Speech at the Competitiveness Research Network (CompNet) conference on "Innovation, firm size, productivity and imbalances in the age of de-globalization". Brussels, 30 June.

(3) In the Treaty on the Functioning of the European Union (TFEU), convergence (in the sense of "overall harmonious development" of the Union and "reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions") is a means to promote economic, social and territorial cohesion. At the same time, the objective of convergence is repeated in the TFEU, in the legal basis for economic policy coordination in the Union. See Andor, L. (2014). "Cohesion and convergence in Europe". Lecture at the Warsaw School of Economics, 24 October.

(4) For instance, Young, A.T., Higgins, M.J. and D. Levy (2013). 'Heterogeneous convergence'. *Economics Letters* 120:2, pp. 238–41, report a significant heterogeneity in the state-level convergence rates across 22 US states.

(5) European Commission (EC) (2015). 'The Five Presidents' Report: Completing Europe's Economic and Monetary Union'. European Commission (EC) (2017). 'Reflection paper on the deepening of the Economic and Monetary Union'.

but also in the post-crisis years, a lot of focus has therefore been on discussing nominal convergence.

Furthermore, the extent to which country-specific business cycles deviate from each other is particularly relevant for the conduct of the single monetary policy, which makes business cycle convergence a key factor in short-term forecasts. Both nominal and cyclical convergence also deserve attention for their impact on adjustment processes across countries. The set-up in which real, nominal, and cyclical convergence emerge depends on economic and institutional structures, which are subject to policymaking. Finally, structural and institutional reforms can raise convergence towards resilient economic structures in the shorter term. This is a necessary albeit not sufficient condition for real convergence in the longer run.

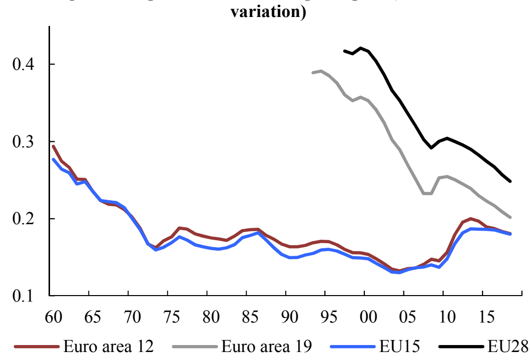
European integration, real convergence and GDP growth

Real convergence across countries (or regions) refers to convergence in living standards, a dimension that is typically relevant over a relatively long time horizon. This section will analyse real convergence among Member States in terms of real GDP per capita (in purchasing power standard). [(6)]

The analysis of real convergence across Member States can be based on two different concepts or measures: the so called 'sigma-convergence', which corresponds to a decrease in the overall dispersion across countries, or 'beta-convergence' that occurs when countries with lower GDP per capita grow faster than those with higher (catching-up process). Within the limits set by data availability, convergence patterns across Member States are summarised below in the broader context of EU developments.

Focussing on the overall dispersion of real GDP per capita across Member States (sigma-convergence), the data show that between 1960 and the early 70s there was strong convergence among the countries that were at that time part of the EU. This was followed by a long phase of continued steady convergence. As expected, the pattern is very similar for the subgroup of countries that became members of the currency union before 2007 (the euro area 12 in Graph I.3). [(7)] When the crisis hit in 2009 the dispersion of real GDP per capita in both groups (EU15 and euro area 12) started to increase significantly and remained on a rising trend until 2012, followed by a very moderate decrease by 2016. The dispersion of GDP per capita is forecast to continue to decrease between 2017 and 2019 – albeit at a somewhat slower pace among the pre-2007 euro area Member States than in the EU as a whole.

Graph I.3: **Dispersion of real GDP per capita (coefficient of variation)**



Note: Changing composition of the aggregates excluding LU and IE. Germany prior to 1991 has been extrapolated using the growth rates of West Germany. Source: AMECO.

Widening the view to considering a majority of EU Member States, the dispersion in real GDP per capita showed a notable decrease between 1997 and 2009. [(8)] In 2010 it increased somewhat but started to decrease again in subsequent years. Again the same pattern is observed for the subgroup of Member States that also became members of the euro area (euro area 19 in the chart). The strong decrease in dispersion observed till 2009 for both groups, EU28 and euro area 19, mostly relates to the catching-up process of central and eastern European Member States. [(9)]

Euro area Member States with lower initial real GDP per capita have been growing faster than others on average (beta-convergence) over the

(6) The purchasing power standard (PPS) is an artificial currency unit used for cross-country comparisons. Theoretically, one PPS can buy the same amount of goods and services in each country.

(7) Chart I.1 shows unconditional dispersions and should not be used to make inferences with regard to the impact of the introduction of the euro on convergence. An in-depth empirical assessment of the impact of EMU on convergence would require an econometric analysis where participation to EMU is one of the explanatory variables, along with others such as the creation of the Single Market, demographic developments and labour market flexibility.

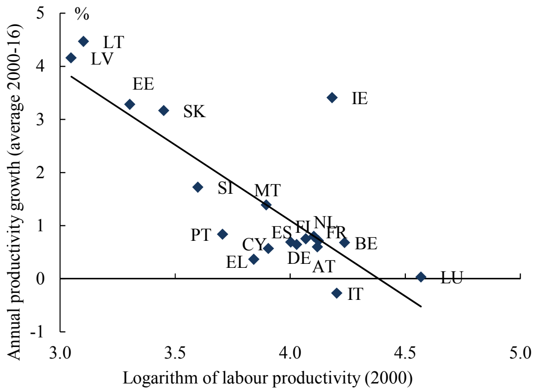
(8) First year with observations for all Member States.

(9) More specifically, the coefficient of variation in real GDP per capita for the group of 7 Member States that joined the euro area in 2007 or later decreased from 0.38 in 2000 to 0.13 in 2015.

period 1999-2016, though the size of the correlation appears to be impacted by the catching up of Member States that joined after 2007. [10] Nevertheless, latest data show that important differences persist. In 2016, GDP per capita was about 60% of the euro area average in Latvia, followed by Greece (64%), Estonia (71%) and Lithuania (71%), while it was about 15% above the average in Germany, Austria and Belgium and 23% in the Netherlands.

Convergence of real GDP per capita is driven by various factors. In general, the lower a country's initial real GDP per capita, the stronger its growth, implying catching-up towards leading economies. [11] Catching-up in terms of productivity [12] is key in this process, [13] with euro area Member States characterised by low productivity levels in 2000 also showing the strongest productivity growth between 2000 and 2016, particularly in the Baltic Member States (Graph I.4). Over the forecast horizon, the catching-up process of these Member States is expected to continue albeit at a somewhat lower annual average productivity growth. [14]

Graph I.4: **Real convergence in the euro area (β-convergence)**



Note: GDP in constant prices (in purchasing power standard).

Monetary union, nominal convergence and cross-country heterogeneity in the euro area

The decision on entering Stage 3 of the EMU was taken in 1998 on the basis of a convergence report that focused on the Maastricht criteria and included measures of nominal convergence, such as inflation and long-term interest rates. [15] In the absence of some adjustment mechanisms (e.g. exchange rates, independent monetary policy), nominal convergence between euro area Member States was seen as essential to ensure the effectiveness of a single monetary policy. While the focus was put on nominal variables, it was also argued that financial and trade integration among countries entering the currency union would foster greater convergence, and notably a better synchronisation of business cycles. [16] After 2000, euro area countries actually saw converging inflation and interest rates. However, in retrospect, these developments were masking the accumulation of macroeconomic imbalances which eventually contributed to the severity of the financial crisis. The crisis notably brought about a great divergence in nominal variables. Nominal dispersion within the euro area is reducing again, raising the question of the underlying trend and potential risks of imbalances.

Between 2000 and 2008, the dispersion in inflation rates within the euro area gradually decreased in spite of inflation rates which, at times, exceeded 3% p.a. on average (see Graph I.5). Moreover, the reduction in the overall dispersion did not prevent inflation differentials between Member States from

(10) See, for instance, Berti K. and E. Meyermans (2017). op.cit.; ECB (2015). "Real convergence in the euro area: evidence, theory and policy implications". *Economic Bulletin*, Issue 5/2015, pp. 30–45, and ranks; Franks, J., B. Barkbu, R. Blavy, W. Oman, and H. Schölermann (2017). 'Economic convergence in the euro area: coming together or drifting apart?'. *IMF Working Paper* (forthc.).

(11) A hypothesis which holds in the context of the neo-classical growth model, with decreasing returns to capital. See, for instance, Barro, R. and X. Sala-i-Martin (1992), 'Convergence', *Journal of Political Economy* 100:2, pp. 223–51.

(12) Productivity catching up takes place to the extent that cross-border flows of capital and technology raise the quantity and quality of capital available to the lagging economies, and to the extent that the latter improve their human capital (via, i.a., adequate skill formation and training). See for instance Berti and Meyermans, op.cit. for some empirical results on factors affecting real convergence.

(13) For instance, Franks, J., B. Barkbu, R. Blavy, W. Oman, and H. Schölermann (2017) argue that the limited productivity catch-up by vulnerable euro area Member States is the main driver of the lack of income convergence.

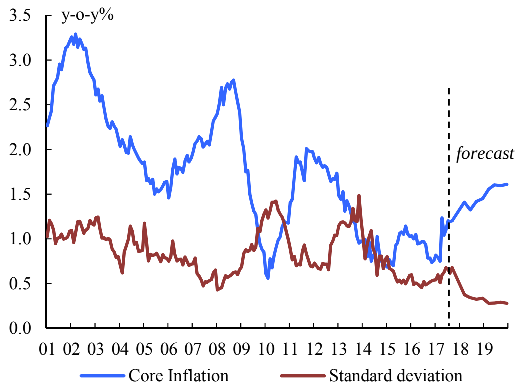
(14) For a review on the conceptual framework behind economic growth and the role played by TFP in convergence see ECB (2015). 'Real convergence in the euro area: evidence, theory and policy implications'. *Economic Bulletin*, Issue 5/2015, pp. 30–45. and Schölermann, H. (2017). 'Real income convergence in the euro area'. *IMF Country Report* 17/236, pp. 4–14.

(15) The complete set of convergence criteria includes also government debt and deficit ratios as well as the exchange rate stability within ERM II.

(16) Frankel, J. A. and A. K. Rose (1999). 'The endogeneity of the optimum currency area criteria'. *Economic Journal* 108:449, pp. 1009–25.

being very persistent in the run-up to the financial crisis. In particular, Ireland, Greece and Spain recorded consistently higher inflation than the euro area average, which translated into diverging competitiveness paths. [17] In these Member States, the weight of the non-tradable sector, and in particular construction, in the overall economy increased rapidly over the period. The drop in economic activity in 2009 came along with a sharp decrease in inflation rates, in particular in countries which had experienced buoyant growth prior to the crisis. Divergences between Member States increased markedly. After a temporary pick-up in 2012, core inflation has remained depressed throughout the euro area up until mid-2017.

Graph I.5: **Core inflation rate and dispersion, euro area**



Note: Unweighted simple average and standard deviation for EA-12.

In recent months, the core inflation rate in the euro area has gradually moved back to above the 1% mark amid tentative signs of reflationary forces taking hold. The recovery in inflation dynamics is expected to gain strength in the medium-term with a number of countries approaching 2% inflation by the end of the forecast period. In parallel, the dispersion of inflation rates should continue its gradual decrease. Still, inflation rates are set to remain consistently below the euro area average in countries such as Greece, Ireland, Italy and Spain, where pre-crisis core inflation rates clearly exceeded the euro area average. The recent dispersion of inflation rates further contributes to the rebalancing of competitiveness.

The stylised picture painted for inflation (nominal convergence before the crisis, divergences during the crisis and gradual re-convergence since then), is even more compelling when looking at interest rates. Between 2000 and 2008, interest rates on government bonds in the euro area converged up to a point where half of euro area Member States where included in a range of 30 basis points, or of only 10 basis points when focusing on the 12 initial euro area Member States. This convergence in interest rates was partly fuelled by inadequate pricing of country-specific risks by financial markets. It resulted in large capital flows towards Members States with chronic current account deficits and mounting external debt. [18] In 2012 and 2013, the sovereign debt crisis unfolded and the yield on government bonds spiked, to above 10% in Greece and in Portugal and above 5% in six other euro area countries.

Since 2015, long-term government interest rates have converged back to historical lows, notably due to the measures taken to tackle financial market fragmentation, also in the context of unconventional monetary policies (Graph I.6). Evidence on bank lending rates for firms and households confirms the convergence of financing conditions in the euro area. Still, in a number of Member States, bank lending rates remain well above the euro area aggregate, largely reflecting different credit risks and the ongoing adjustment of financial and non-financial sector balance sheets. Over the forecast horizon, interest rates in the euro area are expected to revert to a slightly increasing path. However, they are not expected to converge further, suggesting that risk premia will not become compressed again as they were before the crisis.

An integrated financial sector at the euro area level improves financial stability in the face of country-specific shocks and contributes to the balanced transmission of monetary policy. Looking at cross border flows in the euro area, and in particular at intra-euro area cross-border holdings of financial assets, the level of integration in financial markets reached a maximum in 2007. However, financial integration was largely based on short-term interbank lending and therefore not conducive to cross-border risk-sharing. Financial fragmentation gained grounds in the years following the financial crisis on the back of a reversal of capital flows and increasing home bias of investors. Since 2013, financial integration has been advancing again but remains lower than before the crisis. [19] In addition, progresses in financial re-integration,

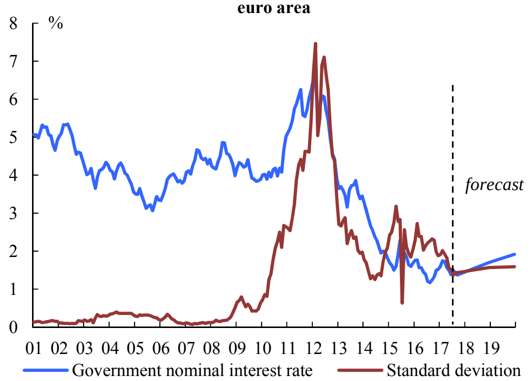
(17) Buti, M. and A. Turrini (2015). 'Three waves of convergence. Can Eurozone countries start growing together again?'. *VoxEU.org*, 17 April.

(18) Hobza, A. and S. Zeugner (2014). 'Current accounts and financial flows in the euro area'. *Journal of International Money and Finance* 48B, pp. 291–313.

(19) ECB (2017). Financial integration in Europe. May.

which decelerated in 2015, seem to have stalled in 2016 despite the improving economic outlook. This puts the emphasis on the importance of the on-going projects to foster deeper integration, notably through the Banking Union and the Capital Markets Union.

Graph I.6: **Government nominal interest rates and dispersion, euro area**



Note: 10-year government bonds denominated in national currencies. Unweighted simple average and standard error for EA-12.

The business cycle, cyclical convergence and synchronisation

The convergence of business cycles is important in a currency area because the single monetary policy is oriented towards the area as a whole. Amid strongly diverging cyclical positions it could be that 'one size fits none'. For this reason, cyclical developments across the euro area are carefully monitored by forecasters. While it is quite undisputed that monetary union is likely to foster economic integration among participating countries, the effects on business cycle synchronisation are less clear. The optimal currency area (OCA) literature has argued that increasing monetary integration will lead to higher business cycle synchronisation through closer trade links acting as a conduit for the symmetric transmission of common demand shocks. [20]

Empirical evidence for the euro area has shown that business cycles have become closely aligned in the run-up to and during the first ten years of the euro. [21] The effect of the economic and financial crisis on euro area synchronisation is theoretically ambiguous: on the one hand, country-specific differences concerning trade and fiscal imbalances when the crisis hit may have led to asymmetries in the transmission of global shocks; on the other hand, the business cycles may have become more synchronised across countries, since all slipped into recession at about the same time. [22]

In conceptual terms, it is important to distinguish between convergence in terms of (i) the variation of the amplitude of cyclical fluctuations across countries over time, and (ii) the periodicity and phase of the cycles, i.e. the timing of cyclical peaks and troughs. Large differences in the amplitudes of national cycles (output gaps) may pose problems for a common monetary policy even if the cycles move closely in sync, since the required intensity of monetary policy could differ widely. Conversely, little dispersion in output gaps may be due to a general phase of subdued economic dynamics ('Great moderation') and may thus hide the fact that individual cycles are out of sync – heralding difficulties for monetary policy once cyclical fluctuations would gain strength again. Therefore, a combined reading of the two sides of cyclical convergence is needed.

Graph I.7 shows the variation of the amplitude of country-specific cycles. [23] It emerges that, after a surge around the financial crisis, where the economies went from boom to bust, the cyclical dispersion has been on a declining trend again

(20) The alternative view due to Krugman, P. (1993). 'Lessons from Massachusetts for EMU'. Adjustment and growth in the European Monetary Union, ed. by F. Torres and F. Giavazzi, Cambridge, argues for less synchronisation due to increasing cross-country-specialisation and inter-industry trade, promoting asymmetric, sector-specific shocks.

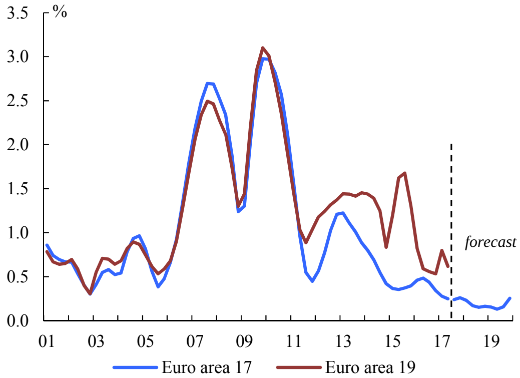
(21) Gayer, C. (2007). 'A fresh look at business cycle synchronisation in the euro area'. European Economy, *Economic Papers* No 287; European Commission (2008). 'EMU@10: Successes and challenges after ten years of Economic and Monetary Union'. *European Economy* No. 2; Degiannakis, S., D. Duffy and G. Filis (2014). 'Business Cycle Synchronization in EU: A Time-Varying Approach'. *Scottish Journal of Political Economy* 61:4, pp. pp. 348–70; Grigoras, V. and I. E. Stanciu (2016). 'New evidence on the (de)synchronisation of business cycles: Reshaping the European business cycle'. *International Economics* 147C, pp. 27–52.

(22) Gächter, M., A. Riedl and D. Ritzberger-Grünwald (2012). 'Business Cycle Synchronization in the Euro Area and the Impact of the Financial Crisis'. *Monetary Policy & the Economy* 2012-Q2 (Oesterreichische Nationalbank), pp. 33–60, and Belke, A., C. Domnick and D. Gros (2016). 'Business Cycle Synchronization in the EMU: Core vs. Periphery'. *CEPS Working Paper* No 427, find evidence of a de-synchronisation of business cycles during the crisis period, the latter especially between core and peripheral countries.

(23) Unweighted standard deviation based on 17 euro-area countries (no quarterly GDP data for MT, SK). Cyclical components of quarterly real GDP extracted by a two-sided HP-filter. Euro area 13 excludes four additional countries for which the forecast does not provide a quarterly GDP growth profile (IE, EL, CY, LU). The results are qualitatively unchanged when using alternative detrending methods, such as the Christiano-Fitzgerald bandpass filter.

(with the exception of a temporary increase during the sovereign debt crisis). Nevertheless, it should be noted that, as pointed out above, this measure is sensitive to the scale of the fluctuations, and thus might increase when the cycle gains strength, even if the synchronisation of cycles remains constant.

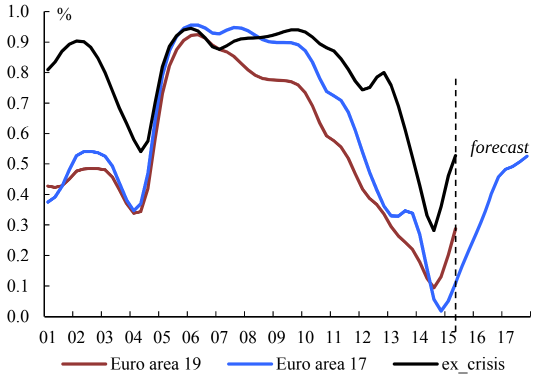
Graph I.7: **Cyclical dispersion, euro area (standard deviation of cyclical GDP components)**



Note: EA-17 excl. IE, EL, CY and LU. EA-19 excl. MT and SK.

The genuine synchronisation dimension of business cycle convergence, disregarding possible changes in amplitude, can best be described by looking at the correlation of individual business cycles. (24) Graph I.8 shows that the synchronisation of euro-area countries' business cycles was indeed on a marked upward trend (temporarily interrupted by a dent around 2004) before the crisis hit in late 2007. This was followed by a protracted period of de-synchronisation until mid-2014. This de-synchronisation in the wake of the crisis is in line with previous empirical findings and appears to mirror asymmetries in the transmission of global shocks due to marked cross-country differences in macroeconomic positions when the crisis hit and different exposure to the fallout from the crisis. The graph also shows that the de-synchronisation was less marked and set in later (after the sovereign debt crisis) when excluding some of the hardest-hit countries. (25) For the more recent period, Graph I.8 shows a pick-up in business cycle synchronisation since 2014, which is projected to have strengthened in 2016-2017. (26)

Graph I.8: **Synchronisation of business cycles, euro area**



Note: EA-17 excl. IE, EL, CY and LY. EA-19 excl. MT and SK. ex_crisis represents EA-17 excl. EL, PT, EE, LV and LT.

As such, both measures of business cycle convergence currently point to an overall improving context for common (monetary) policy. The differences in cyclical amplitudes have diminished considerably after the protracted crisis-period. Furthermore, the business cycles of euro area countries, after a long period of de-synchronisation during and after the crisis, seem to be increasingly in sync again with the economic recovery gaining ground and becoming broad-based. This is confirmed by the quarterly GDP forecasts over the forecast horizon.

Deepening EMU and convergence towards resilient economic structures

Structural and institutional features of euro area economies (e.g. labour, product and financial markets) are important determinants of nominal, real and cyclical convergence. Graph I.9 shows the correlation between institutional and structural features and GDP per capita. (27) Such features also determine the resilience of euro area economies, i.e. their ability to withstand shocks and recover quickly to potential thereafter. (28) Strengthening resilience entails acting on three elements: (i)

(24) Intra-euro-area correlations are summarised by calculating the unweighted average of all 136 bilateral correlation coefficients between 17 euro area countries (excl. MT, SK). Correlations are calculated over moving 4-year (17-quarter) windows and are centred on the midpoint of the window.

(25) EL, PT, EE, LV, LT.

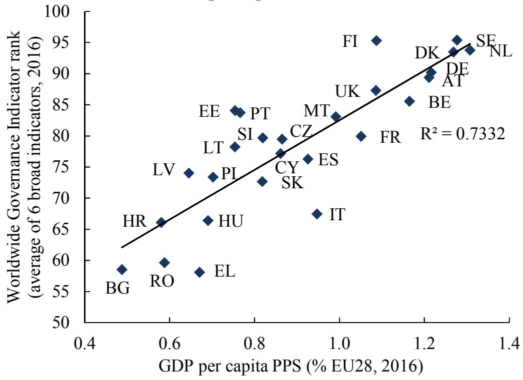
(26) The data point 2015:2 characterises average correlation in the last observable 4-year period from 2013-Q2 to 2017-Q2. Data points thereafter are increasingly based on quarterly GDP forecasts and can only be computed for countries where the forecast includes a quarterly GDP growth profile (euro area 13); the last data point 2017-Q4 is based on observations for 2015-Q4 to 2017-Q2 and forecasts for 2017-Q3 to 2019-Q4. The finding of a pick-up in synchronisation is confirmed when using industrial production instead of GDP cycles and is robust to the length of the correlation window.

(27) Differences in price and wage-setting mechanisms may lead to different reactions of output and inflation to shocks and to cyclical heterogeneity. Cœuré, B. (2017), *op. cit.*.

(28) See European Commission (EC) (2017). 'Economic resilience in EMU. Thematic discussions on growth and jobs'. *Note for the Eurogroup*, 15 September.

reducing economies' vulnerability to shocks; (ii) increasing their shock-absorption capacity; and (iii) increasing their ability to recover from shocks.

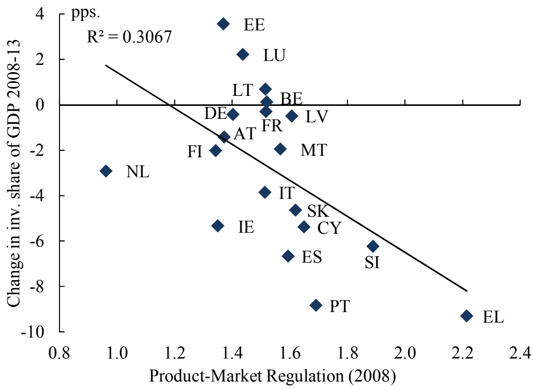
Graph I.9: **Worldwide Governance Indicator rank and GDP per capita, EU Member States**



Note: EU-28 excl. IE and LU. Source: AMECO, World Bank.

The crisis has shown that many euro area economies presented vulnerabilities and lacked the appropriate economic structures to smoothly absorb and recover from the shock. Graph I.10 illustrates the relation of economic structures and resilience: the drop of the share of total investment in GDP was sharper in those euro area Member States with tighter product market regulation.

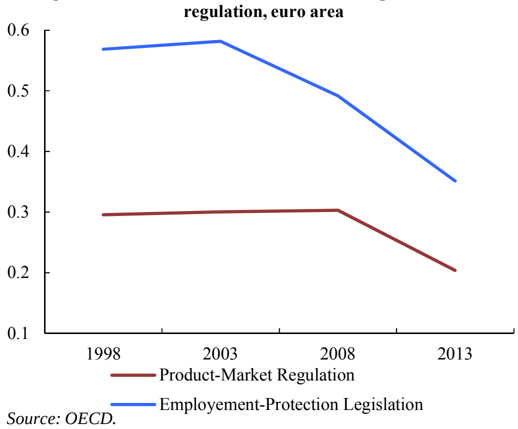
Graph I.10: **Product-Market regulation and investment, euro area Member States**



Source: OECD, AMECO.

Convergence towards resilient economic structures is crucial for the well-functioning of EMU as intra-area exchange rates are not available any longer as an adjustment tool against asymmetric shocks and inflation differentials can exacerbate real interest rate differentials and magnify shocks. [29] Measures that foster convergence toward resilient economic structures can further contribute to supporting cyclical, real and social convergence. Since the start of the century, product-market regulation and, to a lesser extent, labour-market regulation have converged in the euro area (Graph I.11).

Graph I.11: **Standard deviation of labour- and product-market regulation, euro area**



Source: OECD.

Economic resilience and economic and social convergence in the euro area could be fostered in particular by a deepening of the single market, including the Banking and Capital Markets Union, the coordination of economic policy under the European Semester and reinforced links between national reforms and EU funding.

Convergence elements in macroeconomic forecasts

Is the economy on a path of nominal and cyclical convergence? To answer this question it is important to consider that a degree of convergence is generally built into economic forecasts. [30] It is therefore necessary to consider how the degree of convergence in this autumn forecast compares with the average degree of convergence forecast in previous exercises.

There are several reasons why forecasts generally display some nominal and cyclical convergence.

Central scenarios often underestimate the strength of economic dynamics, particularly to the downside, but also to the upside. This may relate to the difficulty of projecting turning points in economic activity amid incomplete information. [31] Key forecast tools such as model-based analysis and expert judgement are

[29] Both the Commission Reflection Paper on the deepening of EMU and the Five Presidents' Report point to convergence towards more resilient economic structures in Member States as essential to the successful performance of EMU.

[30] Fernandez, I. V. (2014). 'Growth differences between EA Member States since the crisis'. *Quarterly Report on the Euro Area* 13:2, pp. 7–20.

[31] Vlieghe, G. (2017). 'Good policy vs accurate forecasts'. Speech at Bloomberg Headquarters. London, 5 April, 2017.

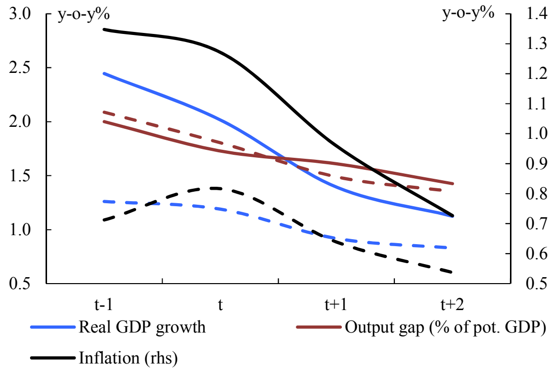
limited in their capacity to fully capture complex interdependencies as well as changing and non-linear economic relationships. [32] One recent example relates to forecasts published during the global financial crisis and the missing inter-linkages between the modelling of real and financial spheres at the time. [33]

Moreover, asymmetric temporary shocks which usually drive cyclical divergence [34] *ex post* are not reflected in baseline scenarios. This may be compounded by the fact that institutional forecasts usually rely on a set of external assumptions on financial variables [35] and commodity prices reflecting market expectations at the time, or the customary no-policy change assumption in fiscal projections. [36]

Finally, forecasts may rely too heavily on historical relationships between different variables and therefore present strong mean-reverting properties. [37] For example, assumptions regarding the closure of the output gap may have some explanatory role over projected growth rates in the outer years of the forecast.

Probably as a result of these factors, nominal convergence (e.g. inflation) and cyclical convergence (e.g. real economic growth, output gaps) has been an inherent feature of both one-year ahead and two-year ahead projections in Commission autumn forecasts over the last 17 years (see Graph I.12). [38] The autumn 2017 forecast (see dashed lines) is no exception.

Graph I.12: **Forecast dispersion (Autumn forecast from 2000-17), EU changing composition**



Note: Dashed lines refer to Autumn 2017 Economic Forecast.

However, the current forecast projects for 2017-2019 dispersion that is below historical norms and falling further. This is consistent with an actual expected reduction in inflation differentials, as well as in economic growth and output gaps heterogeneity and suggests that the increasingly broad-based nature of the economic recovery is indeed accompanied by further convergence.

Conclusion

Overall, in its many dimensions, convergence between EU Member States remains a challenge and an elementary condition for a well-functioning EMU. Differences in economic performances are to some extent unavoidable [39]: over short periods of time due to asymmetric shocks or differences in the response to common economic shocks; over

(32) Mersch, Y. (2017). 'Economic policy and the need for humility'. Speech at the Conference "Banking and Financial Regulation". Bocconi University, 9 October.. Gourio, F. (2012). 'Macroeconomic implications of time-varying risk premia'. *ECB Working Paper Series* 1463.

(33) Mminele, D. (2011). 'Forecasts, errors and what we can learn from them'. Speech at the Reuters Economist of the Year Award. Johannesburg, 5 August.. Similar evidence can also be found in previous historical episodes (e.g. 1970s oil price shock), cf. Lewis, C. and N. Pain (2014). 'Lessons from OECD forecasts during and after the financial crisis'. *OECD Journal: Economic Studies* 5:1, pp. 9–39.

(34) Ahir, H. and P. Loungani (2014) '"There will be growth in the spring": How well do economists predict turning points?'. *VoxEU.org*, 14 April.

(35) On the need to account for non-linear behaviour and financial variables as part of the forecast "toolkit" see Kenny, G. and J. Morgan (2011). 'Some lessons from the financial crisis for the economic analysis'. *ECB Occasional Paper Series* 130. On the extent to which forecast errors can be explained by incorrect technical assumptions see Fioramanti, M., L. González Cabanillas, B. Roelstraete and S. A. Ferrandis Vallterra (2016). 'European Commission's forecasts accuracy revisited: statistical properties and possible causes of forecast errors'. European Economy, *Discussion Papers* No 27.

(36) Lewis, C. and N. Pain (2014) add that, for OECD projections, there is a clear correlation between the errors in the assumptions about bond spreads and the growth forecast errors in 2010-11, with growth weaker than projected in countries whose bond spreads relative to Germany were higher than had been assumed.

(37) Over long periods of time, valuation indicators tend to revert to an average level after having reached cyclical peaks and troughs and are commonly used among practitioners as yardsticks for long-term fundamental equilibrium levels. See ECB (2008). 'Valuing stock markets and the equity risk premium'. *ECB Monthly Bulletin*, November, pp. 87–98.

(38) The output gap estimates used are based on DG ECFIN production function methodology. See Havik, K., K. Mc Morrow, F. Orlandi, C. Planas, R. Raciborski, W. Röger, A. Rossi, A. Thum-Thysen and V. Vandermeulen (2014). 'The production function methodology for calculating potential growth rates & output gaps'. European Economy, *Economic Papers* No 535.

(39) Duisenberg, W. (1999). "Economic divergences in the euro area: the consequences for economic policies". Speech at 'Nieuwspoort'. The Hague, Netherlands, 5 November.

longer horizons, inter alia, due to differences in productivity growth and institutions. If persistent and sizeable, they may turn the transmission of monetary policy ineffective, promote permanent differences in potential growth, spill over to other countries and undermine trust in the EMU. [40]

Developments in recent years point towards a partial correction of previous divergence in growth rates, and the current outlook is also consistent with such a trend. The recovery is increasingly broad-based across countries, translating into a reduction in cyclical dispersion in output growth rates and inflation. Over the forecast horizon, cyclical convergence (or a high degree of business-cycle synchronisation) is expected to take place whereas inflation differentials tentatively point to an ongoing adjustment of imbalances. Whereas real convergence of per capita incomes takes longer time horizons to be assessed, it appears that a number of countries with below-average GDP per capita are again in the process of catching up. However, for real income convergence to be enshrined, economic structures (e.g. both in terms of institutions and governance) will have to be reformed. [41] Strengthening economic resilience will be key in promoting real, social and cyclical convergence given its impact on the capacity to weather future economic shocks. [42]

2. EXTERNAL ENVIRONMENT

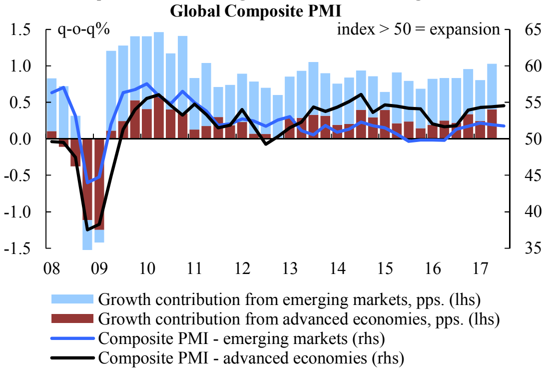
Global growth bottomed out in 2016 and world GDP growth outside the EU now looks set to strengthen to around 4% over the next two years, somewhat stronger than previously expected. Hard data available for the first half of 2017 confirm the pick-up in momentum, including a strong rebound in world trade, with improvements relatively well synchronised across both advanced economies and emerging markets. This has been supported by a gradual recovery in commodity prices, continued rapid growth in China, a return to positive growth in large formerly distressed economies (Brazil, Russia) and firming demand among advanced economies. Uncertainty and risks to the global outlook remain high, but risks appear more balanced than in the spring.

Global expansion gaining momentum…

The global economy performed very well in the first half of the year, with real GDP growth rising from 0.8% q-o-q in the first quarter to 1.0% q-o-q in the second, its strongest rate in seven years, with relatively well synchronised improvements across both advanced economies and emerging markets. Looking at the geographical composition, US GDP growth rebounded to 0.8% q-o-q after a subdued start in the first quarter, while the performance of some other advanced economies (Japan, Canada) has been very strong. Among emerging markets, economic growth in China outperformed expectations, while the ongoing recovery in economies that were previously in recession (Russia, Brazil) has been also stronger than anticipated so far in 2017, helped in part by the increasing commodity prices.

The latest readings of high-frequency indicators from many parts of the world suggest that this momentum continues in the third quarter (see Graph I.13). All measures of business confidence improved further over the summer, with the global manufacturing PMI hitting a six-year high of 53.2 in September, driven by broad-based improvements in both emerging market and advanced economies.

Graph I.13: **Growth in global GDP and JPMorgan Global Composite PMI**



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

Over the forecast horizon, global growth (outside the EU) is projected to pick up from 3.4% in 2016, its weakest pace since 2009, to 3.8% in 2017 and 4.0% in 2018 and 2019, some 0.1 pps. stronger next year than projected in spring. The acceleration

[40] Canton, E., P. Mohl, A. Reut and M. Ward-Warmedinger (2016). 'How to make the Economic and Monetary Union more resilient?'. *Quarterly Report on the Euro Area* 15:3, pp. 7–18.

[41] Banerji, A., C. Ebeke, H. Schölermann, J. Siminitz and K. Koloskova (2017). 'Can structural reforms foster real convergence in the euro area?'. *IMF Country Report* No. 17/236, pp. 15–26. Constâncio, V. (2017). 'Growth, adjustment and resilience in the euro area'. Speech at the Forum Villa d'Este. Cernobbio, 1 September.

[42] European Commission (EC) (2017). 'Economic resilience in EMU. Thematic discussions on growth and jobs'. *Note for the Eurogroup*, 15 September.

Table I.1:

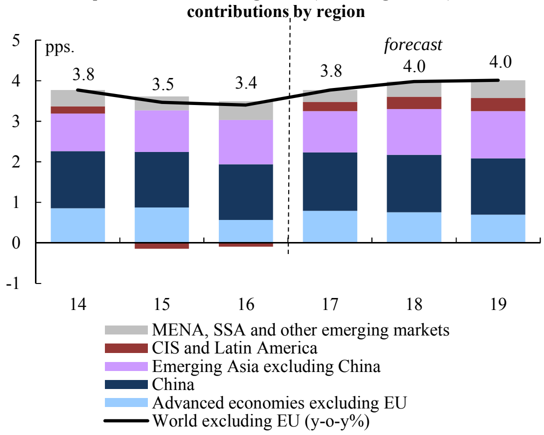
International environment

(Annual percentage change)	(a)	2014	2015	2016	Autumn 2017 forecast 2017	2018	2019	Spring 2017 forecast 2017	2018
Real GDP growth									
USA	15.5	2.6	2.9	1.5	**2.2**	**2.3**	**2.1**	*2.2*	*2.3*
Japan	4.4	0.3	1.1	1.0	**1.6**	**1.2**	**1.0**	*1.2*	*0.6*
Emerging and developing Asia	32.4	6.6	6.5	6.5	**6.3**	**6.4**	**6.3**	*6.4*	*6.3*
- China	17.7	7.3	6.9	6.7	**6.8**	**6.5**	**6.2**	*6.6*	*6.3*
- India	7.2	7.0	7.5	7.9	**6.6**	**7.5**	**7.6**	*7.2*	*7.5*
Latin America	7.8	1.1	-0.1	-1.1	**1.3**	**2.1**	**2.4**	*1.2*	*2.1*
- Brazil	2.6	0.5	-3.8	-3.6	**0.7**	**1.8**	**2.0**	*0.5*	*1.8*
MENA	6.9	2.2	2.3	4.9	**2.2**	**2.8**	**3.3**	*2.3*	*2.9*
CIS	4.5	1.0	-2.3	0.3	**2.0**	**2.1**	**2.2**	*1.6*	*2.0*
- Russia	3.2	0.7	-2.8	-0.2	**1.7**	**1.6**	**1.5**	*1.2*	*1.4*
Sub-Saharan Africa	3.2	4.9	3.4	1.1	**2.5**	**3.3**	**3.9**	*2.6*	*3.4*
Candidate Countries	1.8	4.7	5.7	3.2	**5.1**	**4.0**	**4.0**	*3.0*	*3.3*
World (incl.EU)	100.0	3.4	3.3	3.2	**3.5**	**3.7**	**3.7**	*3.4*	*3.6*
World merchandise trade volumes									
World trade		4.0	2.8	2.4	**4.3**	**4.1**	**4.0**	*3.4*	*3.8*
Extra EU export market growth		3.4	1.5	1.9	**4.0**	**3.8**	**3.8**	*3.1*	*3.3*

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2016.

of economic activity is expected to be broad-based, with the ongoing recovery in emerging markets over 2017-2019 accompanied this year by a rebound in growth in advanced economies (see Graph I.14). Strong investment, manufacturing and trade data are consistent with the high levels of business and household confidence currently observed, as well as buoyant asset markets.

Graph I.14: **Global GDP growth (excluding the EU) and contributions by region**



...with the outlook improving for advanced economies amid remaining uncertainties...

The economic outlook across advanced economies looks brighter now than it did in spring. Recent data confirm that growth has firmed up more than expected across the biggest advanced economies, including the US, Japan, Canada and dynamic Asian economies. Following a soft patch in the first half of 2016, which brought growth down to 1.7% for the year as a whole, activity in advanced economies excluding the EU is on track to rebound to around 2¼% in 2017 and 2018. There is a broad-based rebound in investment, manufacturing and trade, supported by buoyant labour markets and by business and household confidence at the highest levels in several years. A supportive policy mix remains in place in most economies, with monetary policy remaining accommodative across the board (despite the "normalisation" process underway), and fiscal stimulus still important in some economies this year (e.g. Japan and Canada). A gradual moderation of growth to 2.1% is projected in 2019, in line with the progressively maturing economic cycle in most advanced economies where growth rates are converging to potential.

US economic growth is expected to firm to around 2¼% over 2017 and 2018, before easing marginally to 2.1% in 2019. Compared to the spring, the assumption regarding a possible growth impulse from fiscal stimulus in 2018 has been downgraded from modest to negligible, reflecting the most likely political scenario of negotiations in Congress. Moreover, a series of natural disasters in the third quarter of 2017 has changed the expected growth profile of the US. Third-quarter growth is now expected to be somewhat weaker but this should be fully offset by reconstruction-related stimulus in the subsequent two quarters. These two effects (lack of a fiscal impulse and a stronger carry-over effect) leave the projection of annual growth in 2018 roughly unchanged since the spring.

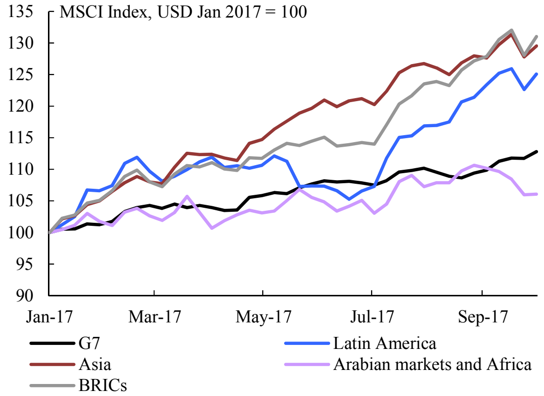
Over the entire forecast horizon, activity in the US is expected to benefit from solid private consumption and investment growth, as well as a progressive firming of the external environment. At the same time, broader signs that the current cycle is maturing continue to accumulate, with the tightening of the labour market set to boost wage growth over the forecast horizon, from its current low level. Uncertainty persists across numerous policy areas including trade, fiscal and monetary policy, with the latter expected to continue its "normalisation" process at a somewhat more measured pace than expected in the spring.

The outlook for GDP growth in Japan has been revised substantially upward since spring to 1.6% and 1.2% in 2017 and 2018 respectively. This is due to robust domestic demand driven by increasingly tight labour market conditions. In 2019, the pace of growth is expected to decline to 1.0%, as the effect of fiscal stimulus wanes and fiscal policy is tightened. Furthermore, the outlook for other advanced Asian economies has been revised up as a result of better short-term prospects for trade with China and the region in general. The forecast for Canada has also improved, driven by stronger-than-expected domestic demand.

...and for emerging market economies where the recovery is strengthening.

Aggregate real GDP growth in emerging markets is expected to continue to increase over the forecast horizon, in line with the spring forecast, driven by firming growth in advanced economies, resilient growth in China underpinned by accommodative policy, rebounding international trade and benign global financing conditions. The recovery is broad-based as the pick-up in company profits fuels capital spending, while rising consumer confidence supports private consumption. Strong capital inflows to most emerging markets, driven by a search for yield among global investors and by appreciating currencies, are feeding equity booms and improving financing conditions (see Graph I.15). After several years of rapid decline, bank credit growth appears to be stabilising, which should eliminate a substantial drag on growth going forward. While there is now less fiscal space to support demand, lower inflation should allow for further monetary policy easing among the countries with relatively high policy interest rates (e.g. Brazil, Russia).

Graph I.15: **World stock markets**



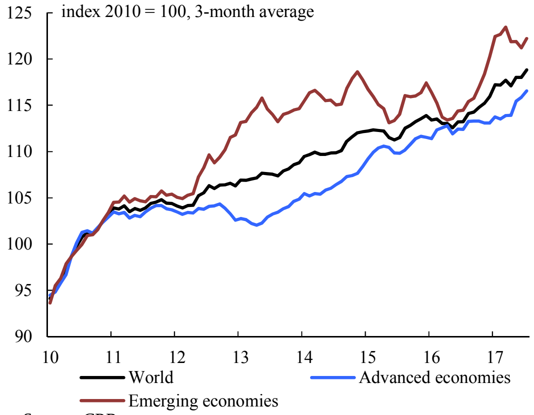
Source: MSCI

The recovery appears to be well synchronised, as major commodity-exporting countries (e.g. Russia, Brazil) finally join the expansion among the emerging markets. Emerging Asia continues to grow at a robust pace, supported by stronger external demand. Growth in China exceeded expectations in the first half of 2017, but may moderate towards year-end due to tighter monetary conditions, a cooling housing market, and reduced fiscal stimulus. In India, the delayed impact of demonetisation and implementation of the goods and services tax in July is set to constrain growth in 2017, but recent structural reforms should support medium-term growth. Growth prospects for Latin America are set to improve over the forecast horizon on the back of a gradual recovery in Brazil and Argentina, supported by easier monetary policies and higher commodity prices. Growth in Russia is set to benefit from the stabilisation in oil prices and the strengthening of the rouble, which has boosted confidence. For most Gulf and Sub-Saharan Africa oil exporters, by contrast, oil production cuts and fiscal adjustment are expected to delay a rebound. Growth in the largest Sub-Saharan Africa economies is expected to edge up from very low levels in 2016, but should remain muted over the forecast horizon.

Strong momentum in global trade continues...

The strong momentum in global trade that started to build in mid-2016 continued during the first half of 2017. Some slowdown in the second quarter (April), largely due to the correction in China (following two consecutive quarters of spectacular growth), was offset by robust trade growth in the euro area and other advanced economies including Australia, Canada and Norway (Graph I.16). Altogether, trade volumes in the first seven months of 2017 were some 4% higher than in the same period of 2016, confirming the ongoing rebound from the low levels of 2015 and 2016.

Graph I.16: **Volume of goods imports**



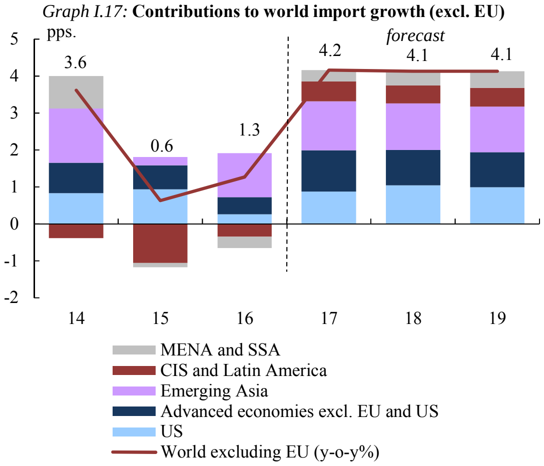
Source: CPB

Forward-looking indicators suggest that the strong momentum in global trade continued in the third quarter of this year. The WTO's composite World Trade Outlook Indicator, which combines a variety of trade-related indices, rose in August to its highest level since 2011, driven by strong real-time data on export orders, air freight and container shipping.

...consistent with the expectation of a gradual recovery in trade elasticity.

The stronger trade momentum in the first three quarters of this year is in line with the outlook for an ongoing recovery in world trade over 2017 and 2018 from last year's exceptionally weak level. Global import growth (outside the EU) is expected to firm from 1.3% in 2016 to more than 4% over 2017-2019, as a synchronous recovery in trade continues in both emerging markets and advanced economies. The substantial upward revisions from spring (1.1 pps. in 2017, 0.3 pps. in 2018) are being driven largely by the observed rebound in the formerly most distressed regions (CIS, Latin America and MENA), as well as strong growth in the US, and most other advanced economies including Canada, Japan and other Asian economies (Graph I.17), and the improved prospects for emerging Asia, the CIS and most advanced economies.

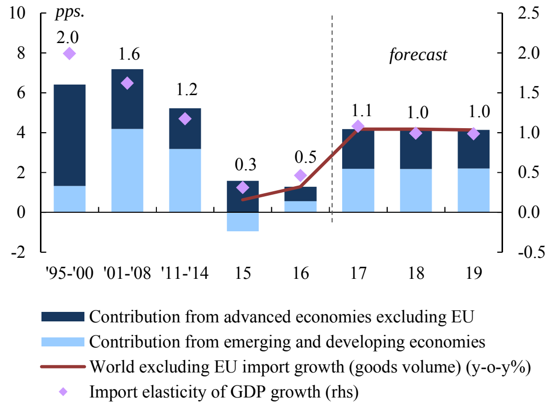
Graph I.17: **Contributions to world import growth (excl. EU)**



The upward revisions to the trade outlook, as compared to spring, are predominately due to firming global growth, but also relate to the assumption of a faster-than-previously-expected recovery in trade elasticity (Graph I.18). The assumed increase in trade elasticities is related to cyclical changes in the composition of demand, most notable the projected pick-up in investment, the most trade-intensive component of domestic demand. After years during which an investment shortfall had translated directly into lower import demand, creating one of the most severe drags on global trade, [43] the trend has now reversed, causing an increase in trade elasticity. The elasticity of imports with respect to GDP is set to rise from as low as 0.3 and 0.5 in 2015 and 2016 respectively, to around 1 in 2017, where it is expected to hover over the entire forecast period. This should be underpinned by the projected cyclical strengthening in advanced economies and a related pick-up in investment, together with a gradual recovery in commodity-related investment across emerging markets.

[43] For an overview see also DG ECFIN (2015). 'Understanding the weakness in global trade'. European Economic Forecast – Winter, *European Economy* 1, Box I.1.

Graph I.18: **Non-EU import growth (goods volume) and elasticity of non-EU imports with respect to non-EU GDP growth**



Global recovery supported by commodity price developments

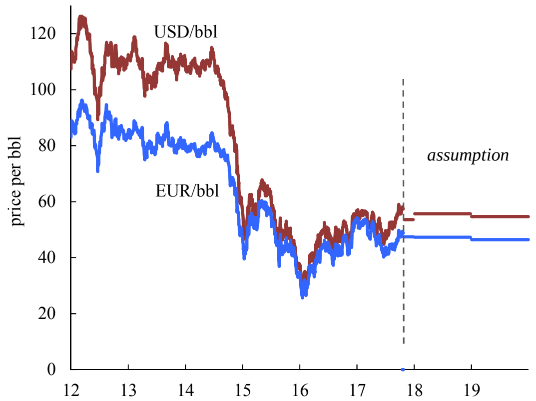
Commodity prices in general are assumed to continue rising over the entire forecast period but the prices for individual commodities are set to evolve differently. These developments are expected to occur against the supportive background of strengthening global activity.

After having fallen to less than 45 USD/bbl in late June and having hovered around 50 USD/bbl in July and August, the spot price for Brent oil has recovered to around 55 USD/bbl. This rebound has been supported by a strengthening of global oil demand, particularly in Europe and the US, and production outages, mainly in non-OPEC countries due to weather-related disruptions (e.g. hurricanes in the US). Supply is set to be affected by the decision by OPEC and Russia to extend their production cuts until March 2018. The prospects for a rebalancing in the oil market also depend on future oil production growth in the US, and in particular on how oil price developments will impact on US shale producers.

Reflecting recent developments in oil prices, the technical assumptions for Brent prices are slightly lower than in spring, at 53.6 USD/bbl in 2017 (-3.3%) and 55.7 USD/bbl in 2018 (-0.2%), which is roughly 20% higher than the average in 2016 (Graph I.19). Due to the appreciation of the euro, the revision of the assumptions from spring is markedly stronger in euro terms (by about 9% in 2017 and in 2018). In 2019, oil prices are assumed to fall slightly to 54.7 USD/bbl (46.4 EUR/bbl).

Metal prices are assumed to rebound strongly in 2017, and to remain rather stable in 2018 and 2019, as highly competitive metal producers seek to preserve their market shares. Food prices are projected to remain broadly stable as successive bumper harvests in recent years have led to the accumulation of large record stocks.

Graph I.19: **Oil price, developments and assumptions**



Source: Bloomberg

Risks have become more balanced

Uncertainty and risks to the global outlook remain high, but risks appear more balanced than in the spring. Although the short-term outlook in China appears benign, relatively high and rising corporate debt is increasing financial fragilities and the risk of a disorderly adjustment.

Among emerging market economies more broadly, elevated political and policy uncertainty present major downside risks. A faster-than-expected tightening of monetary policy in the US and associated monetary policy divergence across advanced economies or a widespread re-assessment of risk premia in asset prices could have important spillovers in terms of capital flows, financial market stability, and financial conditions, with particular risks for many emerging markets that have accumulated large, unhedged USD liabilities. It could also affect the US as a major stock market correction could result in a number of economic outcomes turning out worse than expected.

Further downside risks are related to geopolitical tensions in several parts of the world, including North Korea. Upward surprises could occur if a sustained virtuous circle of investment, trade and growth takes hold in emerging markets.

3. FINANCIAL MARKETS

Global financial markets have continued to show resilience, supported by the gathering momentum in the global economic recovery, the presence of still accommodative monetary policies at the global level, and the risk appetite of investors for returns in a bond market where risk-free rates are still negative in many segments. Volatility in most asset classes has remained very low since spring despite still elevated geopolitical and policy uncertainty in several parts of the world.

Lasting monetary accommodation but changing expectations...

Monetary policy has remained very accommodative in the euro area this year even though expectations of a limited recalibration of the ECB's monetary policy had risen during the summer. Against its view that risks to the growth outlook had become broadly balanced and that the likelihood of very adverse contingencies had diminished, the ECB Governing Council in June removed the easing bias on policy rates from its forward guidance. Moreover, at its meeting in September, the Governing Council had signalled that it would take decisions on a recalibration of monetary policy before the end of the year. But as the ECB Governing Council confirmed all the other elements of its forward guidance, including the implied sequencing of policy instruments, market expectations were for a first increase in policy interest rates not before 2019.

The need for some withdrawal of monetary stimulus has also been under discussion in recent months in EU countries outside the euro area, particularly in the UK. The Czech central bank raised interest rates in August for the first time since the beginning of the financial crisis, and the Romanian central bank narrowed its interest rate corridor in September. In Hungary, policy rates were cut in September. Sweden's Riksbank, by contrast, decided in September to keep its monetary policy expansionary, so that inflation could reach the rate of 2%.

In the US, the Federal Reserve delivered a second interest rates hike in June this year, bringing the target range for the federal funds rate to 1.00-1.25%. Over the summer, market expectations of further "normalisation" [44] of monetary policy in the US in 2017 had been scaled back against the backdrop of weaker-than-expected inflation and uncertainty about the government's fiscal plans**.** Following the meeting of the US Federal Open Market Committee (FOMC) in September, market expectations increasingly priced in an additional policy rate increase of 25 bps. by the end of this year. The FOMC indeed considered the recent weakness in inflation as transitory and continued to judge that further normalisation of the Federal Reserve's policy rates was needed, despite the negative short-term impact of recent hurricanes on the economy. FOMC members continued to forecast one more rate hike this year, three hikes in 2018 and at least two more in 2019. Most importantly, at the same time, the FOMC also decided at its September meeting to start gradually unwinding its balance sheet in October this year. This would be done according to the normalisation plan unveiled at the June meeting. [45]

...while the improving economic outlook supported the euro.

With the euro area economy performing solidly and political uncertainty fading, the euro has strengthened against its major counterparts since spring, As a result, the euro has appreciated by about 6% in nominal effective terms since mid-April this year. This has also taken place in the context of the ongoing uncertainty surrounding Brexit and the policy-mix outlook in the US, as well as renewed geopolitical concerns related to developments on the Korean peninsula.

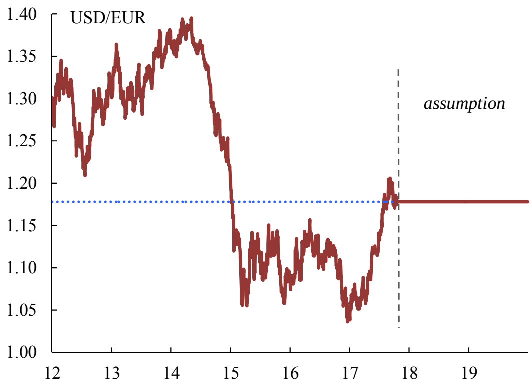
Between April and September, the euro appreciated strongly against the US dollar (Graph I.20) and the Japanese yen. Since September, it has stabilised somewhat against the US dollar as the latter benefitted from expectations of a corporate tax reform and a reassessment of market expectations about the future path of US monetary policy. The euro also appreciated substantially against the pound up to the end of August before retracing back somewhat in

[44] The term "normalisation" should not be misunderstood as returning to what has been seen before the economic and financial crisis; see e.g. A. Blinder, M. Ehrmann, J. de Haan and D.-J. Jansen (2017). 'Necessity as the mother of invention: monetary policy after the crisis?'. *Economic Policy* 32:92, pp. 707–55.

[45] This entails a series of caps for its reinvestments: payments will only be reinvested to the extent they exceed a steadily increasing set of caps. The caps were initially set at USD 6bn per month for the US Treasuries and USD 4bn for agency mortgage backed securities (MBS). They will be thereafter steadily raised every three months until they peak at USD 30bn for Treasuries and USD 20bn for MBS.

September amid increasing expectations that the Bank of England could start tightening its monetary policy this year. The euro recorded gains against the currencies of most emerging market economies, including the Russian rouble and the Turkish lira, but remained broadly stable or even depreciated somewhat against some Central and Eastern European currencies (i.e. the Czech koruna and the Hungarian forint). These developments have entered the technical assumptions underlying the forecast (Box I.4).

Graph I.20: **Exchange rates, developments and assumptions**

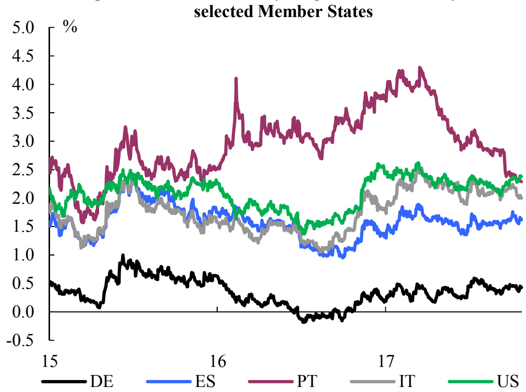


Source: Bloomberg

Global financial markets are thriving with low volatility

Euro area benchmark sovereign bond yields have moved narrowly since spring, climbing marginally higher. Long-term bond yields found support from positive macroeconomic data releases and rising expectations of a gradual removal of monetary stimulus by the ECB. However, the upward movement in yields has been moderate, given the subdued rate of inflation seen in most of the euro area since spring. Meanwhile, most euro area sovereign bond spreads have further narrowed, benefitting from the broadening economic recovery, which has sparked a renewed appetite for euro area bonds, including from foreign investors. Several countries also benefitted from credit rating or outlook revisions by credit rating agencies (e.g. Portugal, Spain, and Italy). However, political risks continue to impact on spreads, as reflected in the recent widening in some EU sovereign bond markets (Graph I.21). In the US, Treasury yields have also fluctuated, although they are in currently close to where they were back in spring.

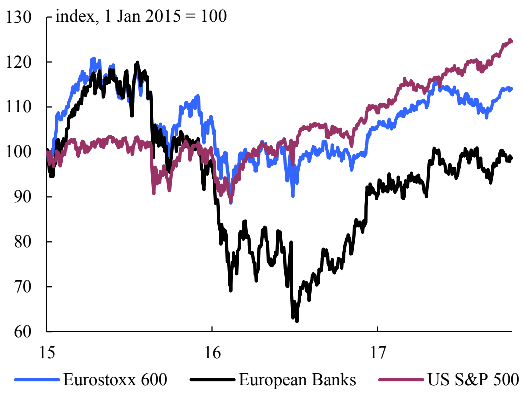
Graph I.21: **Benchmark 10-year government bond yields, selected Member States**



Source: Bloomberg

Several leading stock market indices reached record highs in recent months, with equity valuations in the US reaching new all-time highs in response to robust corporate earnings growth and expectations of fiscal stimulus measures. By contrast, the performance of European stock markets has been relatively muted because the appreciation of the euro has somewhat clouded the earnings outlook for euro-area listed multinationals (Graph I.22). More recently, the combination of positive macroeconomic data releases and expectations that monetary policy will remain accommodative, have lifted sentiment and prices.

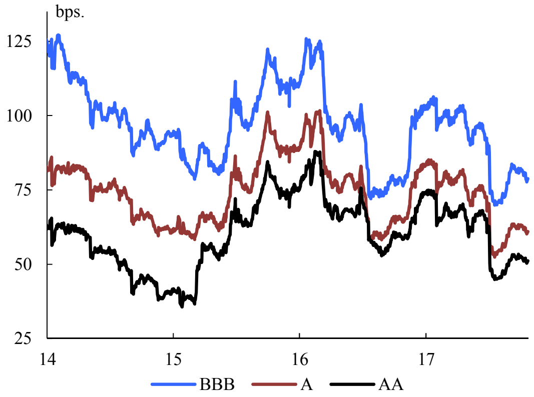
Graph I.22: **European financial stocks by sector**



Source: Bloomberg

Corporate bond spreads have narrowed moderately over the past few months, helped by bond investors venturing into new bond segments and down the credit quality spectrum in search of yield (Graph I.23).

Graph I.23: **Corporate bond spreads, 5-year maturity, euro area**

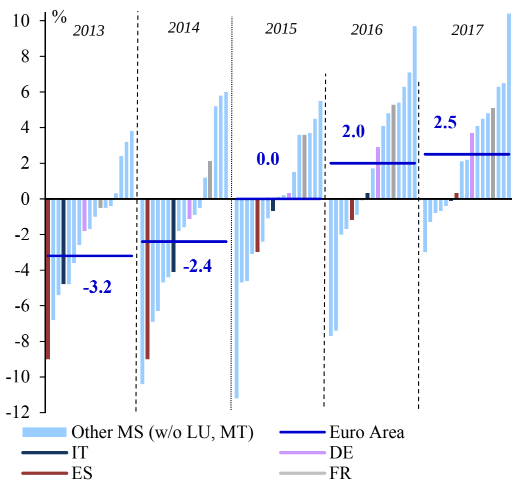


Source: Bloomberg.

Bank lending continues to expand amid very low bank interest rates...

Net lending flows to households and non-financial corporations (NFCs) continued to be positive overall in the euro area, resulting in a +2.7% annual growth rate for households and a +2.5% annual growth rate for NFCs in August 2017 (Graph I.24). However, loan growth to NFCs varies considerably among euro area countries.

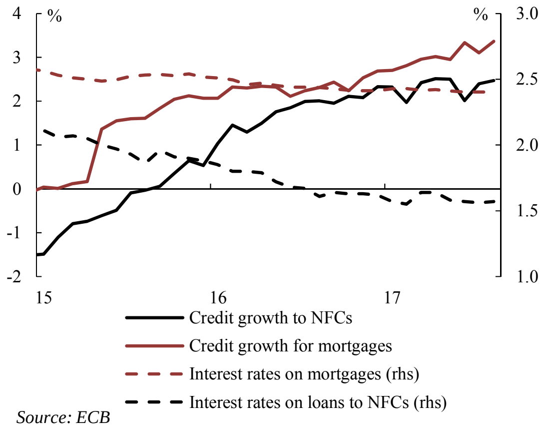
Graph I.24: **Loans to NFCs, annual growth, euro area and MS (2013-2017)**



Note: Annual growth in August. The bars are ranked by size.
Source: ECB

Credit growth has increased, but remains moderate by historical standards and lower than nominal GDP growth. The fact that bank interest rates are still very low (Graph I.25) is a major supporting factor for lending volumes in the euro area. Meanwhile, differences in the interest rates charged for loans have narrowed further since April across the euro area. Such developments suggest that the ECB's accommodative monetary policies are being more effectively transmitted through the euro area banking system and the wider economy.

Graph I.25: **Bank credit and interest rates, euro area**



Source: ECB

The ECB's July bank lending survey (BLS) confirmed the positive trend in bank lending. It indicated that credit standards in the euro area eased in 2017-Q2 for both loans to enterprises and to households for house purchase, driven mainly by competitive pressures and by banks' risk perceptions for housing loans. Meanwhile, loan demand continued to improve for all loan categories thanks mainly to the low general level of interest rates, a pick-up in fixed investments and favourable housing market prospects. According to the survey, banks expected to continue easing their credit standards in 2017-Q3 and to see a further increase in net loan demand for all types of loans.

The ongoing improvements in the euro area's banking sector have facilitated the transmission of the ECB's accommodative monetary policy. In the bank lending survey, euro area banks reported a further strengthening of their capital positions in adjustment to regulatory or supervisory actions in the first half of 2017. Banks also reported improvements in access to both retail and wholesale funding during 2017-Q2, and expected this to continue to improve in the next quarter.

Higher profitability and lower levels of non-performing loans (NPL) have helped to push up bank equity valuations although overcapacity and cost inefficiencies in some segments of the European banking sector are expected to continue weighing on bank profitability.[46] EU banks on average still have a return on equity below their

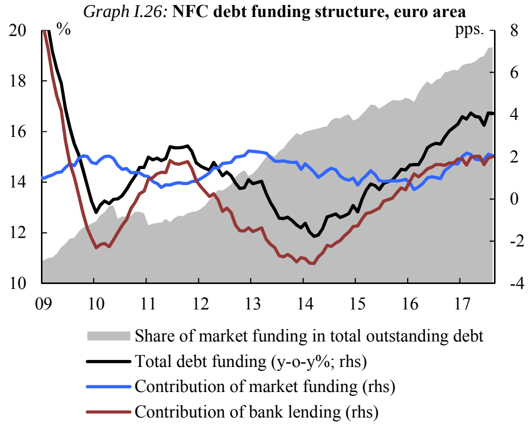
(46) For details see e.g. V. Constâncio (2017). 'The evolving risk landscape in the euro area'. Speech at the Banco de Portugal's conference on financial stability, Lisbon. October 17.

cost of equity, which suggests that investors still take a cautious approach to valuing banks' assets and are still rather pessimistic about future profitability levels. Indeed, interest-based income, traditionally the main source of income for the majority of European banks, has become structurally low in an environment characterised by a flat yield curve. Monetary policy normalisation, leading to steeper yield curves, is therefore likely to have a beneficial effect on bank profitability.

...while the contribution of market funding continued increasing in the euro area.

Monthly net issuance volumes of corporate bonds have risen further since spring, leading to an annual growth rate of +9.3% in August. Meanwhile, equity net issuance has remained more moderate with an annual growth rate of 0.6%. Historically, market funding tends to make up for the weakness in bank lending during crisis periods, cushioning somewhat the funding cycle, which is traditionally bank-based in the euro area. Since 2015 though, both bank lending and market funding have been growing and contributing equally to overall NFC debt funding, despite an uptick in the economic cycle (Graph I.26). This suggests that non-financial companies have adopted a more market-oriented and less bank-based funding structure even during periods of economic expansion.

Graph I.26: **NFC debt funding structure, euro area**



Source: ECB

Access to funding does not seem to be a barrier for either corporate or household investment, a situation that is expected to continue over the forecast horizon. In addition, the euro area corporate sector continues to run surpluses, generating substantial internal funds which could potentially be used to fund investments.

4. GDP AND ITS COMPONENTS

The EU economy continues to glide forward on the wings of favourable financing conditions made possible by accommodative monetary policies, with additional thrust from improving labour market conditions, rising confidence and stronger global growth and trade. [47] The economies of the EU and the euro area performed strongly in the first half of 2017. Propelled mainly by domestic demand, the pace of economic growth has picked up and the upturn has become increasingly broad-based across countries.

Since the trough in economic activity in the first quarter of 2013, the European economy has been growing without any interruption. The economic recovery has lifted economic output in both the EU and the euro area above the levels reached before the euro area recession of 2011-2013 and also above the levels seen before the Great Recession in 2008-2009. The scale of these achievements raises questions about the current cyclical position of the economy and what follows from this for the forecast years 2017-2019.

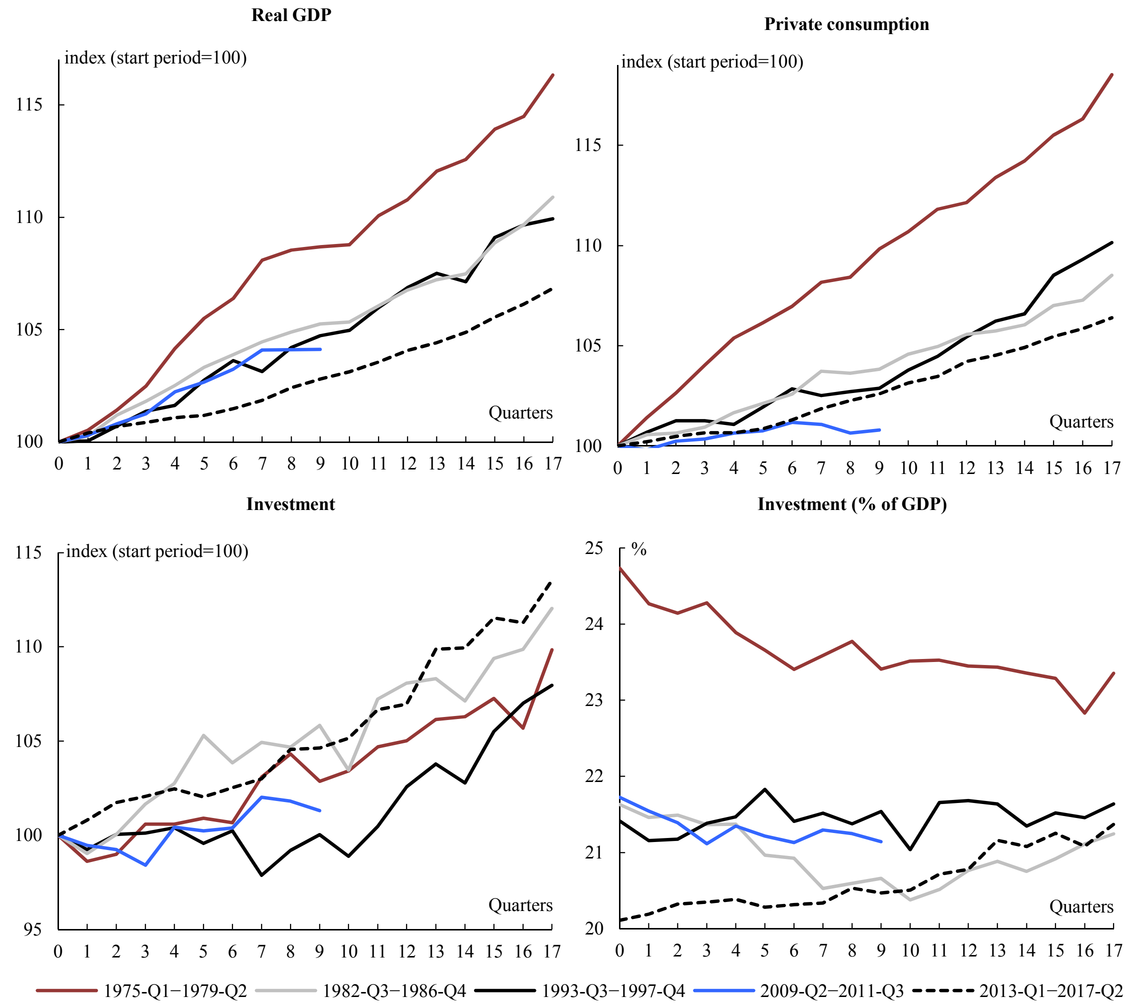
Still a subdued recovery in comparison to previous cycles...

The recovery since the second quarter of 2013 has been subdued and weaker than other recoveries (Graph I.27, first panel), including the recovery that immediately followed the economic and financial crisis in 2009, which had already triggered intense discussion about the weakness of recoveries following deep financial and economic crises. [48]

[47] See the analysis of tailwinds in previous forecasts, such as oil prices (European Commission (DG ECFIN) (2015). 'Putting the winter forecast into perspective: lower oil prices and the EU economy'. In *European Economic Forecast – Winter 2015*, European Economy 1/2015, Section I.1, pp. 10–17), unconventional monetary policy (European Commission (DG ECFIN) (2015). 'Putting the spring forecast into perspective: The ECB's quantitative easing and the euro area economy'. In *European Economic Forecast – Spring 2015*, European Economy 2/2015, Section I.1, pp. 10–15), or the impact of refugee-related expenditures (European Commission (DF ECFIN) (2015). *European Economic Forecast – Autumn 2015*. Institutional Paper 11, Section I.1 and Box I.1).

[48] Previous forecasts covered several aspects of this debate, which had been triggered by Reinhart and Rogoff and has continued since; see the initial contribution by C. M. Reinhardt and K. S. Rogoff (2009). '*This time is different: eight centuries of financial folly*'. Princeton University Press. An updated analysis is provided by C.D. Romer and D.H. Romer (2017). 'New evidence on the aftermath of

Graph I.27: **Comparison of recoveries in the euro area, 1975−2017**



Note: Recoveries according to decisions by the CEPR Business Cycle Dating Committee (data sources: AWM database and Eurostat).

A closer look at the components of GDP and their development in comparison with past recoveries (Graph I.27, second and third panel) suggests that the main difference has been the weakness of private consumption. Investment growth, by contrast, has not fallen short in comparison to previous recoveries.[(49)] The weakness of consumption appears to be closely linked to high household debt that has constrained spending.[(50)]

These findings might sound surprising against the background of ongoing discussions about the weakness of investment in Europe.[(51)] However, one has to keep in mind that it was mainly corrections in residential investment after the pre-crisis boom that had pulled the *investment-to-GDP ratio* to an exceptionally low level. Due to only minor changes in the first post-crisis years, in 2013 the current recovery had to start from very low levels and even relatively strong increases in the ratio during the past quarters were insufficient to

financial crises in advanced countries'. *American Economic Review* 107:10, pp. 3072-3118.

(49) A similar conclusion has been reached by the CEPR Business Cycle Dating Committee in its August 2017 report. See Euro Area Business Cycle Dating Committee (2017). 'A slow but steady euro area recovery'. CEPR, August 7. For a summary see also R. Gürkaynak and P. Weill (2017). 'Eurozone economic recovery: Humming along just fine'. *VoxEU*, August 24.

(50) The IMF has estimated that a 5% increase in household debt to GDP over a three-year period results in a 1¼% decline in real GDP growth in the three years ahead (p.62); IMF (2017). *Global Financial Stability Report*, October. According to ECB data, private sector debt in the euro area rose from 110% of GDP in 1999 to 147% of GDP in 2009" (p.55); ECB (2017). 'Private sector indebtedness and deleveraging in the euro area countries'. *Economic Bulletin* 4, pp. 55–60 (Box 5).

(51) See e.g. ECB (2017). 'Investment dynamics in advanced economies since the financial crisis'. *Economic Bulletin* 6, pp. 35–9 (Box 1).

lift the ratio clearly above what has been observed in past recoveries (Graph I.27, last panel).

...with features suggesting the recovery to be incomplete.

There are several interlinked features that suggest the recovery in Europe remains incomplete. These include:

- *Subdued domestic demand*. The recovery still appears to be dependent on external demand, which in the first half of 2017 became a more important driver of the acceleration. The large current account surplus can only partly be associated with the collapse of oil and other commodity prices; it also points to low domestic demand. Moreover, low medium-term demand expectations may affect investment decisions, potentially preventing the accelerator from kicking in fully, i.e., the anticipation of a less favourable future is temporarily dampening demand.[52]

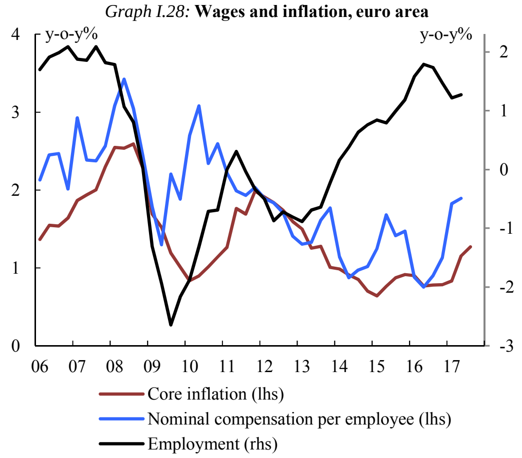
- *Fiscal and financial fragilities*. A number of fiscal and/or financial fragilities still impose challenges to the euro area. In several countries, high public debt and non-performing loans (NPL) in the banking sector signal the persistence of deleveraging needs. [53] Low bank profitability remains an issue, in particular as it can hamper the transmission of monetary policy. [54]

- *Dependence on policy support*. The strength of cyclical dynamics has benefitted from the ECB's non-standard monetary policy and exceptional tailwinds (e.g. the sharp oil price decline); without these factors, the expansion might have been much weaker.

A rebound of wages would signal a cyclical strengthening...

In addition to the points mentioned above, the increased momentum of economic activity and the accompanying increase in employment has not yet been mirrored in wage developments; and limited domestic price pressures have kept core inflation rather flat. This has opened the floor for the discussion of the "missing inflation" puzzle (Graph I.28; for a detailed empirical analysis see Box I.2). [55] It is also one of the reasons why many forecasters have in recent years overestimated inflation despite also underestimating employment dynamics. The "missing inflation" puzzle may reflect remaining cyclical as well as more structural weaknesses.

Graph I.28: **Wages and inflation, euro area**



A cyclical explanation refers to smaller labour market improvements than suggested by standard measures, i.e. slack may suppress wage dynamics (see also Section I.6).

In fact, non-standard measures of the labour market such as the number of underemployed part-time workers suggest that, although declining, slack in the labour market remains considerable. Data suggest that underemployment in a broad sense, including 'involuntary' part-time employment and temporary contracts, might affect almost one fifth of the euro area's (extended) labour force. Alongside a possibly lower NAWRU,

(52) This demand-side argument is also a key element of the secular stagnation hypothesis; see O. Blanchard, G. Lorenzoni and J.-P. L'Huillier (2017). 'Short-run effects of lower productivity growth. A twist on the secular stagnation hypothesis'. *Journal of Policy Modeling* 39, pp. 639–49.

(53) A recent ECB study confirms that even after the post-crisis adjustment, private sector debt-to-GDP ratios have remained very heterogeneous across euro area countries (between 50% and 350% of GDP). See ECB (2017). 'Private sector indebtedness and deleveraging in the euro area countries'. *Economic Bulletin* 4, pp. 55–60.

(54) Reinhart has recently provided examples of countries that recorded cyclical recoveries after deep crisis, but failed to achieve sustainable expansions because crisis legacies were insufficiently dealt with; see C. Reinhart (2017). 'Recovery is not resolution'. *Project Syndicate*, August 1.

(55) See for example the contributions by the IMF (2017). 'Recent wage dynamics in advanced economies: drivers and implications'. *World Economic Outlook*, October, pp. 73–116 (chapter 2); Bank of England (2017). 'Why has wage growth remained subdued?'. *Bank of England Inflation Report*, February, pp. 18–20 (Box), and for a short discussion of implications for central banks, see N. Roubini (2017). 'The mystery of the missing inflation'. *Project Syndicate*, September 13.

slack could be diluting the inflationary impact of labour market improvements.

More medium-term explanations consider low productivity growth and/or positive supply shocks. [56] Low (labour) productivity growth is a corollary of the relative strength of employment creation observed. The shortfall of investment during the crisis is also likely to have reduced (total factor) productivity.

Low wage growth may also be a reflection of the sectoral allocation and contractual features of the new jobs, as well as decreasing union bargaining power. [57] With jobs that are less secure and unemployment being financially more precarious, employees may be less willing to push for higher wages regardless of the unemployment rate. In addition, increased global wage competition as a result of globalisation has increased the substitutability between workers in the EU and workers outside. A similar impact can be attributed to increased automation. [58] Another reason could be the structure of recent employment creation such as an increased labour force participation rate, driven by higher participation of women, which would contribute to lower average wage growth due to the persisting gender pay gap. [59]

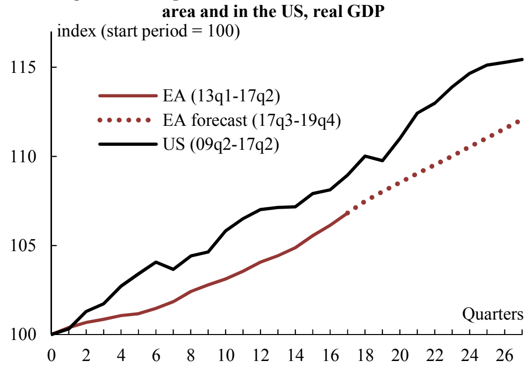
Finally, the economic and financial crisis may have altered the link between the stabilisation of inflation and the stabilisation of the output gap (central banks' 'divine coincidence'). [60] The new equilibrium could include a closed output gap accompanied by a lower rate of inflation than before, which would have implications for the optimal rate of inflation.

In this context, an acceleration of wages supported by productivity gains would be an important signpost signalling the ability of the expansion to continue at a robust pace. An indication that the recovery has entered a more advanced state would not necessarily say that the expansion is approaching its end. This conclusion is reinforced by the observation that even the US economy in its more advanced cyclical position is experiencing a period of lacking wage pressures and low inflation despite strong signals of a tightening US labour market. [61]

...without conveying messages about the duration of the expansion in Europe.

The comparison with the more advanced cycle in the US also points to the potential for an exceptionally long (if not fast) expansion. In that regard, recent research on the disappointing strength of the recovery in the US after 2009 has put emphasis on the slow growth of total factor productivity and the decline in labour force participation, [62] elements which are also expected to be decisive for continued growth in the euro area and the EU.

Graph I.29: **Comparison of economic recoveries in the euro area and in the US, real GDP**



Data sources: AWM database, Eurostat and European Commission's Autumn 2017 forecast; FRED database for US data.

(56) For a discussion see D. Miles, U Panizza, R Reis and A Ubide (2017). 'And yet it moves: Inflation and the Great Recession'. *Geneva Report on the World Economy* 19, ICMB and CEPR.

(57) See e.g. OECD (2017). 'Collective bargaining in a changing world of work'. *OECD Employment Outlook* 2017, OECD Publishing, Paris (chapter 4).

(58) Estimates of automatibility of occupations vary substantially (see e.g Acemoglu and Restrepo) and quantifying the impact on wage formation appears to be almost impossible. A first indication of the possible medium to long-term impact can be found in the IMF's estimate that about half of decline in the labour share of national income in developed economies in the past 30 years is due to the impact of technology. See D. Acemoglu and P. Restrepo (2017). 'Robots and jobs: evidence from US labor markets'. *NBER Working Paper* 23285; and IMF (2017) 'Understanding the downward trend in labor income shares'. *World Economic Outlook*, April, chapter 3.

(59) According to Eurostat data, in 2015 women's gross hourly earnings were on average 16.8% below those of men in the euro area (16.3% in the EU).

(60) The definition of divine coincidence has been pioneered in 2005 in a paper by Blanchard and Galí, which has been published in 2007; see O. Blanchard and J. Galí (2007). 'Real rigidities and the New Keynesian model'. *Journal of Money, Credit and Banking* 39: supplement 1, pp. 35–65.

(61) The "missing inflation" puzzle has also been discussed for the US economy, see e.g. J. Yellen (2017). 'The U.S. economy and monetary policy'. Speech at the Group of 30 International Banking Seminar, Washington D.C., October 15; L. Brainard (2017). 'Understanding the disconnect between employment and inflation with a low neutral rate'. Speech at The Economic Club of New York, 5 September.

(62) See J. G. Fernald, J. H. Stock, R. E. Hall and M. W. Watson (2017). 'The disappointing recovery of output after 2009'. *Brookings Papers on Economic Activity*, Spring, pp. 1–81.

Table I.2:

Composition of growth - Euro area

(Real annual percentage change)

	2016								Autumn 2017 forecast		
	bn Euro Curr. prices	% GDP	2012	2013	2014	2015	2016		2017	2018	2019
			Real percentage change								
Private consumption	5891.5	54.6	-1.1	-0.6	0.8	1.8	2.0		**1.8**	**1.7**	**1.5**
Public consumption	2218.8	20.6	-0.3	0.3	0.7	1.3	1.8		**1.2**	**1.6**	**1.4**
Gross fixed capital formation	2189.2	20.3	-3.4	-2.5	1.9	3.3	4.5		**3.9**	**3.9**	**3.3**
Change in stocks as % of GDP	11.0	0.1	-0.1	0.0	0.2	0.3	0.1		**0.2**	**0.2**	**0.2**
Exports of goods and services	4935.8	45.8	2.5	2.1	4.7	6.4	3.3		**4.5**	**4.4**	**4.2**
Final demand	15246.3	141.3	-0.9	0.2	2.4	3.4	2.7		**2.9**	**2.9**	**2.6**
Imports of goods and services	4457.0	41.3	-1.0	1.3	4.9	6.7	4.7		**4.7**	**4.7**	**4.4**
GDP	10788.8	100.0	-0.9	-0.2	1.3	2.1	1.8		**2.2**	**2.1**	**1.9**
GNI	10804.4	100.1	-0.8	-0.3	1.1	1.7	2.0		**2.1**	**2.1**	**1.9**
p.m. GDP EU28	14904.3	124.8	-0.4	0.3	1.8	2.3	1.9		**2.3**	**2.1**	**1.9**
			Contribution to change in GDP								
Private consumption			-0.6	-0.4	0.5	1.0	1.1		**1.0**	**0.9**	**0.8**
Public consumption			-0.1	0.1	0.1	0.3	0.4		**0.3**	**0.3**	**0.3**
Investment			-0.7	-0.5	0.4	0.6	0.9		**0.8**	**0.8**	**0.7**
Inventories			-0.9	0.2	0.3	0.0	-0.1		**0.1**	**0.0**	**0.0**
Exports			1.1	0.9	2.1	2.8	1.5		**2.1**	**2.1**	**2.0**
Final demand			-1.3	0.3	3.3	4.8	3.8		**4.2**	**4.1**	**3.8**
Imports (minus)			-0.4	0.5	2.0	2.7	2.0		**1.9**	**2.0**	**1.9**
Net exports			1.5	0.4	0.1	0.1	-0.4		**0.1**	**0.0**	**0.1**

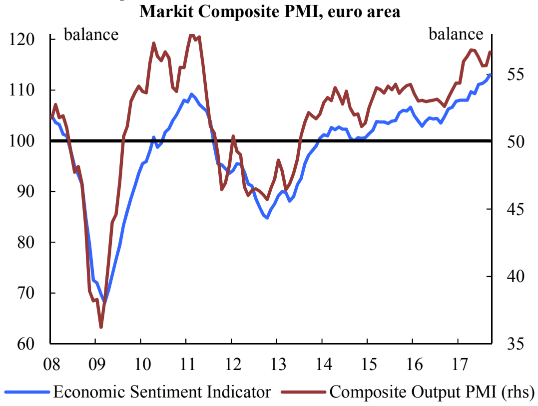
In assessing how advanced the economic upswing is, an interesting insight can be obtained from a comparison with the economic recovery in the US (see Graph I.29). It suggests that the euro area is lagging the US by a substantial amount of time and still has some way to go. [63] This also suggests that discussions about when the recovery could die of old age, as they are held regarding the US economy, [64] are premature.

The relatively strong growth performance in the first half of the year...

In the first half of 2017, the economies of the EU and the euro area grew more strongly than expected. Euro area GDP grew by 0.7% (q-o-q) in the second quarter of 2017, after 0.6% in the first. This extended the period of successive quarterly growth at or above 0.6% to three quarters and suggests that the trend of long-lasting moderate growth has moved up a gear.

Economic growth was supported by all domestic components (investment, private and public consumption), which continued to benefit from an improving labour market situation, prolonged policy support, the ongoing recovery of global output and trade, and diminishing domestic political and economic uncertainty.

Graph I.30: **Economic Sentiment Indicator and Markit Composite PMI, euro area**



Source: European Commission, Markit.

...should continue in the near term, survey indicators suggest...

The positive growth momentum observed in recent quarters has pushed business and consumer confidence to new highs (see Graph I.30). Survey data for the third quarter of 2017 suggest that euro area GDP growth might have maintained its strong pace. The Commission's Economic Sentiment Indicator (ESI) for the euro area reinforced this message as it stood in the third quarter above the

(63) The CEPR Business Cycle Dating Committee estimated that the euro area economy is currently at the same stage of the cycle as the US were two years ago, because of the euro area recession in 2011-2013; ibid., p.7.

(64) See e.e. G. Rudebusch (2016). 'Will the economic recovery die of old age?'. *Federal Reserve Bank of San Francisco Economic Letter* 2016:3.

Table I.3:

Composition of growth - EU28

(Real annual percentage change)	2016 bn Euro Curr. prices	2016 % GDP	2012	2013	2014	2015	2016	Autumn 2017 forecast 2017	2018	2019
			Real percentage change							
Private consumption	8330.9	56.0	-0.5	-0.1	1.2	2.1	2.4	**2.0**	**1.8**	**1.6**
Public consumption	3028.3	20.4	-0.1	0.4	1.1	1.3	1.7	**1.2**	**1.5**	**1.3**
Gross fixed capital formation	2948.7	19.8	-2.5	-1.5	3.0	3.5	3.4	**3.8**	**3.7**	**3.1**
Change in stocks as % of GDP	41.3	0.3	0.0	0.1	0.4	0.3	0.3	**0.3**	**0.3**	**0.3**
Exports of goods and services	6561.7	43.9	2.2	2.2	4.7	6.1	3.4	**4.7**	**4.4**	**4.2**
Final demand	20910.6	140.4	-0.4	0.6	2.7	3.5	2.7	**3.0**	**2.8**	**2.6**
Imports of goods and services	6048.7	40.5	-0.3	1.6	5.2	6.3	4.7	**4.7**	**4.6**	**4.3**
GDP	14904.3	100.0	-0.4	0.3	1.8	2.3	1.9	**2.3**	**2.1**	**1.9**
GNI	14836.9	99.5	-0.6	0.1	1.6	1.9	2.1	**2.2**	**2.1**	**1.9**
p.m. GDP euro area	10788.8	66.0	-0.9	-0.2	1.3	2.1	1.8	**2.2**	**2.1**	**1.9**
			Contribution to change in GDP							
Private consumption			-0.3	0.0	0.7	1.2	1.3	**1.1**	**1.0**	**0.9**
Public consumption			0.0	0.1	0.2	0.3	0.3	**0.2**	**0.3**	**0.3**
Investment			-0.5	-0.3	0.6	0.7	0.7	**0.8**	**0.7**	**0.6**
Inventories			-0.7	0.3	0.3	0.1	0.0	**0.0**	**0.0**	**0.0**
Exports			0.9	0.9	2.0	2.7	1.5	**2.1**	**2.0**	**1.9**
Final demand			-0.6	0.8	3.8	4.9	3.7	**4.2**	**4.1**	**3.7**
Imports (minus)			-0.1	0.7	2.1	2.6	1.9	**1.9**	**2.0**	**1.8**
Net exports			1.1	0.3	-0.1	0.1	-0.4	**0.2**	**0.1**	**0.1**

level of the previous quarter and increased in September to levels last seen 10 years ago. The Eurozone Composite Output Purchasing Managers' Index (PMI) decreased in the third quarter to 56.0 (from 56.6) but the September reading showed a rebound in optimism.

...whereas 'hard' data are sending more mixed signals.

Recent hard data releases were not as spectacular as survey data.

- In August, *industrial production* continued to follow its upward trend, increasing in the first eight months by 2.4% from the corresponding period of the previous year, suggesting that industrial activity has been benefitting from the upswing in foreign demand. In August, the growth momentum (3m-o-3m) stood at 1.1% (1.3% in July).

- By contrast, the 3m-o-3m growth rate of *new industrial orders* in the euro area decreased to 1.0% in July after 1.4% in June.

- *Retail trade volumes* decreased in both July and August from previous months, but the average volume over the two months was equal to the reading in the second quarter, which had been the highest in the history of the series (since 1999). This could suggest that consumers have retrenched a bit after being supported by several special factors in the past.

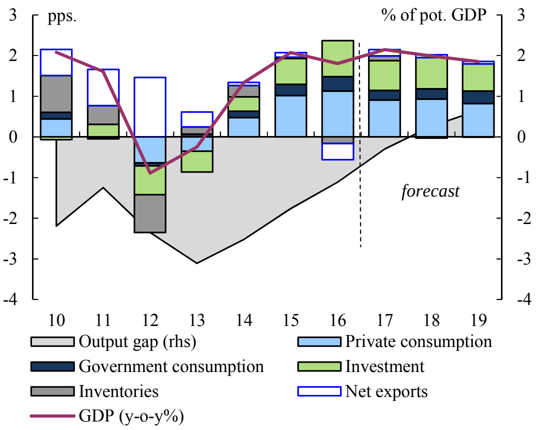
- In August, *construction production* declined slightly after having been more or less stable over the previous three months. The 3m-o-3m growth rate in the euro area increased marginally from 0.0% to 0.1% and the 12m-o-12m rate came in at 3.1%.

While hard data seem to suggest a somewhat less optimistic near-term outlook than survey data, the discrepancy between the two appears to have declined somewhat lately compared to what was observed in spring. With hindsight, the discrepancy appears to have been reduced due to somewhat stronger hard indicators. Given the stronger-than-expected growth in the first half of the year and projections of stronger-than-previously-expected growth in the second half of the year, the forecast for GDP growth in 2017 has been revised upwards considerably from 1.7% to 2.2%, the highest growth rate since 2007.

Growth set to remain rather robust over the forecast horizon...

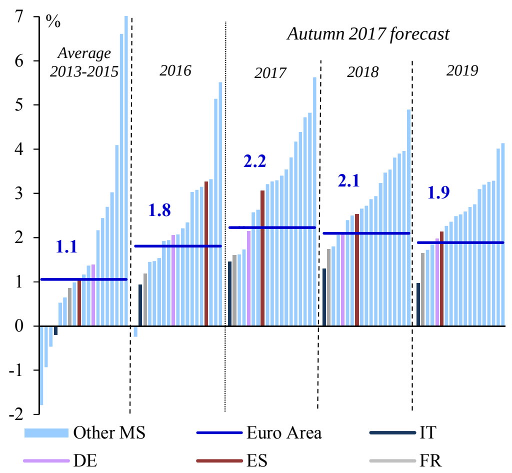
In 2018, domestic demand is expected to remain the key driver of GDP growth (Graph I.31). Investment is forecast to continue to recover on the back of reduced uncertainty, very favourable financing conditions and somewhat lower deleveraging needs. Private consumption should benefit from the ongoing improvement in labour market conditions but slightly less than before. Exports should get support from the expected strengthening of global economic activity and trade. Overall, real GDP growth is expected to moderate slightly in 2018 to 2.1% in both the euro area and the EU28.

Graph I.31: **Real GDP and its components, euro area**



In 2019, the economic expansion should ease somewhat. Less dynamic employment growth and the expected slight rebound in inflation are set to weigh on the purchasing power of households and therefore on private consumption. Real GDP growth is expected to slow in 2019 to 1.9% in the euro area (Graph I.32). [65]

Graph I.32: **Real GDP growth, euro area and Member States (2013-2019)**



In each period, the bars for all 19 euro area economies are ranked by size. Data for Ireland in 2013-15 (11.8%) only partially visible.

The year 2019 will also be the first one that includes a period after the UK has left the EU. Given the ongoing negotiation on the terms of the UK withdrawal from the EU, the projections for 2019 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK.[66]

In contrast to real GDP growth of about 2% throughout the whole forecast period, potential growth in the euro area is expected at just 1.4-1.5%. Although this estimate has been revised upwards since spring, potential growth remains below pre-crisis levels. While the impact of the financial crises should have been diminishing, [67] the low rates continue to reflect the lower contribution of labour, which is constrained by demographic trends, including population ageing and already relatively high participation rates. It also reflects a lower contribution from capital, which is the result of subdued investment growth. But with investment expected to accelerate, its contribution to potential growth is set to increase somewhat over the forecast horizon. The contribution of total factor productivity remains lower than before the economic and financial crisis and should remain constant over the forecast horizon. The output gap is expected to close next year and to turn increasingly positive over the course of 2018 and 2019.

Medium-term developments in the EU are closely related to the changing policy context and policy decisions. They determine whether the cyclical upswing could be associated with stronger potential and actual growth. Without any further growth-enhancing reforms the outlook for potential growth could remain subdued. Low potential growth also sits uneasily with high financial market valuations and could imply a vulnerability to the expansion.

...with all Member States joining the expansion.

In recent quarters, the economic recovery has become more broad-based across euro area Member States. 2016 was the second consecutive year since 2007 in which all Member States except Greece were reporting economic expansion. In the

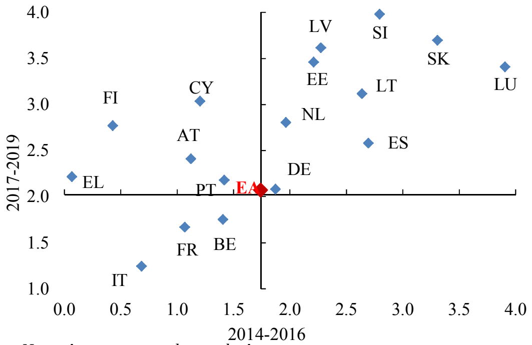
(65) For a model-based analysis of growth drivers in the euro area, see Box 1.

(66) This assumption is for forecasting purposes only and has no bearing on the talks underway in the context of the Article 50 process.

(67) Recent empirical analyses suggested that the financial crises only affect potential output in the first years; see A. Mourougane (2017). 'Crisis, potential output and hysteresis'. *International Economics* 149, pp. 1–14.

three years covered by this forecast all Member States are expected to enjoy positive economic growth. All economies with above-average growth in the last three years are expected to enjoy further above-average growth (Graph I.33). Five countries are expected to move from below average growth in the euro area to stronger than average growth (Greece, Finland, Austria, Portugal and Cyprus), whereas France and Italy are projected to grow in the next two years at the lowest rates of all euro area economies.

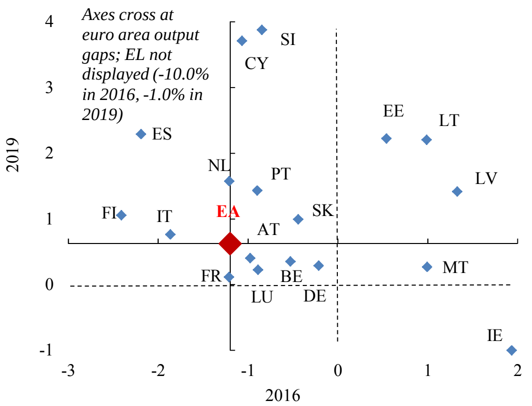
Graph I.33: **Real GDP growth, euro area and Member States, 2014-2016 versus 2017-2019**



Note: Average annual growth. Axes cross at euro area averages; data for IE (13.0% and 3.9%) and MT (6.9% and 4.9%) not displayed.

The breadth of the expansion can also be seen when looking at the output gaps and their projected developments over the forecast horizon (Graph I.34). The changes in cyclical positions do not necessarily coincide with the observed growth differences across euro area Member States.

Graph I.34: **Output gaps, euro area and Member States, 2016 and 2019**

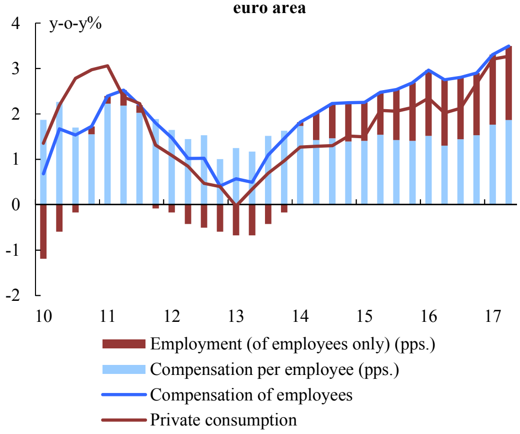


Comparing the output gap forecast for 2019 with that of 2016, a further closing of the output gap is identified for all euro area countries except Ireland, Malta and Latvia. In these three countries, the output gap has been closed since 2014 and has been positive and widening since 2016. The cyclical upswing is projected to be particularly strong in Slovenia and Cyprus, where gaps are estimated to increase in 2019 to 3.9% and 3.7% of potential GDP.

Private consumption has remained robust...

Private consumption has been the main driver of the economic recovery since its beginning in 2013, accounting for almost half of the GDP growth in the euro area. In the first half of 2017, private consumption in the euro area gathered further momentum, benefiting from high levels of consumer confidence and improvements in the labour market underpinned by past labour market reforms in some Member States. Strong employment growth remained more important for the growth of nominal labour incomes than increases in the compensation per employee (Graph I.35).

Graph I.35: **Nominal labour income and private consumption, euro area**

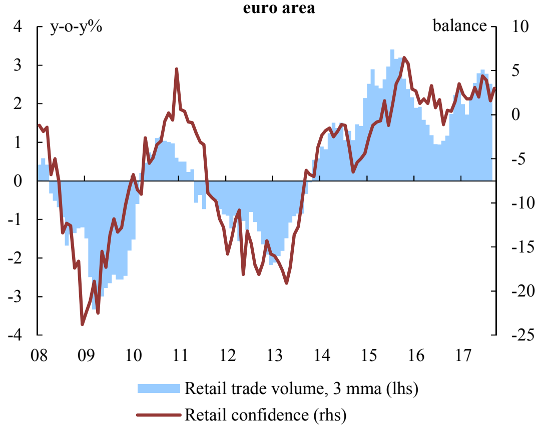


In the first half of 2017, nominal household disposable income increased by an average of 0.8% (q-o-q), up from 0.6% in the second half of last year. However, rising consumer price inflation prevented this from translating into purchasing power gains for households. In the second quarter, household final consumption expenditure rose by 0.5% q-o-q in the euro area, up from 0.4% in the previous quarter.

...but could lose some momentum in the short term...

The short-term indicators for private consumption for the third quarter send mixed signals. On the one hand, hard data suggest a slowdown in consumer spending in the near term. The indicators include retail trade volumes, which in July and August averaged close to where they had been in the second quarter, but recorded month-on-month declines (Graph I.36). New passenger car registrations in the euro area decreased on average by 0.8% in both months compared to the second quarter. In contrast with these developments, the annual growth rate of loans to households remained at 2.7% in July and August, the highest rate since March 2009.

Graph I.36: **Retail trade volumes and retail confidence, euro area**



On the other hand, survey data signal sustained private consumption growth. The Commission's Consumer Confidence Indicator rose strongly in the third quarter of 2017 compared to the previous quarter and reached its highest level in nearly 10 years (December 2007). The October Flash Consumer Confidence Indicator was almost unchanged and confirmed thereby the positive signal. Continued improvements in the labour market have reduced unemployment fears, while optimism about the general economic situation kept on rising. Moreover, both current and future intentions to make major purchases have increased strongly in recent months. The Commission's Retail Confidence Index, by contrast, moved more in line with hard data, decreasing in the third quarter compared to the second.

In 2017, nominal disposable income is set to accelerate strongly (to its highest rate since 2008) on the back of higher wages and non-labour incomes, but the increase in inflation from 2016 will have a dampening effect on the growth of real disposable incomes. Households, however, are expected to mitigate this effect slightly by lowering their saving rate (from 12.3% in 2016 to 12.0% in 2017). Private consumption growth in the euro area is expected to decrease to 1.8% in 2017 (2.0% in 2016).

...and should develop in line with real disposable income growth in the medium term.

Over the forecast horizon, the expansion of private consumption should continue to enjoy the support of stronger labour and non-labour income growth, consistent with higher corporate profits. As employment growth is expected to slow in the next two years, the support from labour market improvements is set to moderate. Overall, nominal disposable incomes are expected to grow at about 3% in each of the two years. Reflecting the slight moderation in inflation in 2018 and the gradual uptick in 2019, this implies that real gross disposable income growth is projected to gain some momentum in 2018 before loosing momentum in 2019. Throughout this period the household saving ratio is expected to remain broadly unchanged with the downward impact of lower precautionary savings in an improving economic situation and the upward impact from the households' smoothing of consumption almost neutralising each other.

Lending conditions for private households remain favourable, according to the latest ECB Bank Lending Survey and should continue supporting private consumption growth. Moreover, interest rates are expected to remain low, which should continue to favour net borrowers among households, which usually have higher marginal propensities to consume. [68] Low interest rates should also continue to prop up asset prices, supporting household wealth, including housing wealth, with moderate positive effects on private consumption. [69] Finally, progressively lower deleveraging needs in some Member States should help lift private consumption.

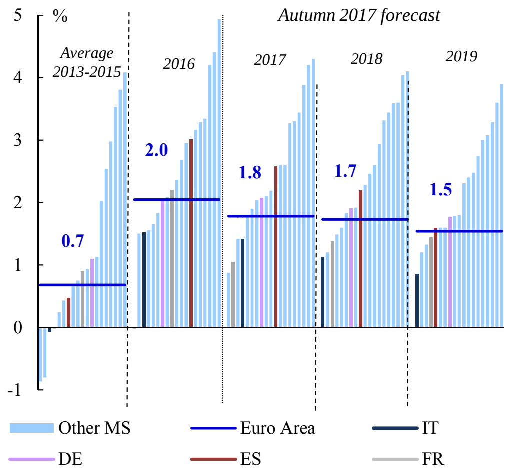
All in all, these factors suggest that private consumption should continue to grow over the next couple of years but with some moderation in

[68] See ECB (2016). 'Low interest rates and households' net interest income'. *Economic Bulletin* 4, pp. 38–40 (Box 3).

[69] Nocera and Roma (2017) found only a modest housing wealth effect in the euro area, with the exception of Ireland and Spain, where a housing demand shock, in terms of a 1% increase in real house prices, is associated with a significant increase of real private consumption of 0.15%, but even this is substantially below the 0.47% estimate recently presented by Aladangady (2017) for the US economy. See A. Nocera and M. Roma (2017). 'House prices and monetary policy in the euro area: evidence from structural VARs'. *ECB Working Paper Series* 2073; A. Aladangady (2017). 'Housing wealth and consumption: evidence from geographically linked microdata'. *American Economic Review* 107:11, pp. 3415–46.

2019, mainly as a result of lower employment growth and the negative impact that the expected uptick in inflation will have on real disposable incomes. Private consumption is expected to increase by 1.7% in the euro area in 2018 and by 1.5% in 2019 (Graph I.37).

Graph I.37: **Private consumption, euro area and Member States (2013-2019)**



In each period, the bars for Member States are ranked by the size of change.

Over the medium term, the expected normalisation of monetary policy, which implies higher long-term interest rates, could have an impact on household spending. The effects are likely to be strongest in countries with high household debt and a predominance of floating-rate loans. By contrast, in countries where fixed-rate household loans predominate, households could see their returns from financial asset returns grow faster than their liabilities. The extent to which this would affect the discretionary spending of households depends on their debt burden and assets. At the same time, wealth effects and increased revenue from financial assets for households with large financial assets could raise disposable incomes and also incentivise household saving. That being said, the increase in long-term interest rates is assumed to be rather modest over the forecast horizon, implying a very limited impact on private consumption.

Public consumption

Government consumption has contributed to economic growth since the first year of the recovery [70] and its annual growth rate has increased over the last four years. In the past two years, additional public spending for security-related measures and to host and integrate asylum seekers, also contributed to this growth.

In the first half of the year, government consumption rose by less than GDP, setting the stage for public consumption growth to slow to 1.2% in the euro area this year (from 1.8% in 2016) and in the EU28 (from 1.7%) respectively. In 2018, public consumption growth is set to rebound to 1.6% in the euro area and to 1.5% in the EU28. The modest slowing projected in 2019 (to 1.4% in the euro area) is made on the basis of a no-policy change assumption, in which consolidation measures are only factored into the forecast if they have been adopted and presented to national parliaments or are known in sufficient detail to be taken into consideration.

These projections for the euro area aggregate mask some divergence among Member States (see Section I.8) with differing consolidation needs and economic situations.

Investment is picking up…

Strong investment growth is a key ingredient of a sustainable economic recovery because it extends potential output, can boost productivity and help keep medium-term inflationary pressures in check. [71] The recently observed strengthening of investment suggests that this component of domestic demand is finally stepping into this role.[72]

In the first half of the year, investment gained momentum and even surprised on the upside, supported by a number of powerful, often interrelated factors, such as favourable financing conditions, increased external demand and strong business confidence. Investment contracted in the first quarter by 0.2% (q-o-q) and grew by 2.0% in the second quarter. Excluding Ireland, for which

(70) The impact on the recovery, however, depended not only on public consumption, but on the fiscal policy mix (e.g. taxes, transfer, investment); see e.g. G. Callegari, F. Drudi and K. Kuester (2017). 'The fiscal mix in the euro-area crisis: dimensions and a model-based assessment of effects'. *Economic Policy* 32:89, 127-169.

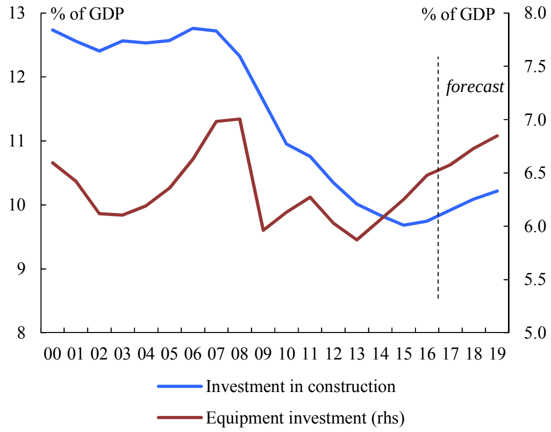
(71) There is also empirical evidence indicating that consumption-led growth is less sustainable, see E. Kharroubi and E. Kohlscheen (2017). 'Consumption-led expansions'. *BIS Quarterly Review*, March, pp 25–37.

(72) For an overview on investment in Europe since the economic and financial crisis see European Commission (DG ECFIN) (2017). 'Investment in the EU Member States: An analysis of drivers and barriers'. *Institutional Paper* 62.

investment data has been very volatile in recent quarters, investment in the euro area increased by 1.6% q-o-q and by 0.9% in the first and second quarters respectively.

In the second quarter, the euro area investment-to-GDP ratio rose to 20.8%, its highest level since mid-2010 and only 1.2 pps. below the average of the period 2000-2005. This increase hides substantial differences in the developments of equipment and construction investment-to-GDP ratios (Graph I.38) with only the former already hinting at a full recovery. The increase also hides divergent developments in investment-to-GDP ratios in the public and the private sector, with the former having fallen to a new all-time low of 2.5% in 2016 and the latter having increased steadily since 2013 (from 16.8% in 2013 to 17.7% in 2016).

Graph I.38: **Investment ratio, euro area**



...and the investment outlook has improved...

As regards the financing of investment spending, bank lending to firms and other funding by corporates should continue to be supported by low levels of interest rates (see also Section I.3). In this regard, the lower leverage ratios of euro area non-financial companies should also be supportive. [73] The negative impact on investment from market expectations of a withdrawal of monetary stimulus and a slight steepening of the yield curve should be limited. Past studies have suggested that financing conditions per se play a rather limited role in determining investment by euro area companies. [74] However, at the current juncture, low financing costs may have become more stimulative due to high business confidence, diminishing uncertainty and the improved demand outlook. Low financing costs, however, can also result in activities that do not support investment, such as share buybacks. In addition, the announcement of a removal of monetary stimulus could be perceived by investors as a confirmation that the recovery has reached a more advanced state and this could encourage them to invest.[75]

The Investment Plan for Europe is expected to boost investment over the forecast horizon. As of September 2017, operations approved under the Investment Plan for Europe, were expected to trigger €236.1 billion in investments. Around 454,000 small and medium-sized businesses are expected to benefit from improved access to finance. [76]

Given the stronger-than expected first half of the year, investment growth for 2017 has been revised up from the spring forecast. In 2017, investment growth in the euro area is now expected to slow down to 3.9% after 4.5% in 2016, which was the highest growth rate since 2007. This figure was however distorted by the increase in Irish investment in 2016 by 60.8%. Excluding Ireland, the outlook for investment is rather for an acceleration, from 3.1% in 2016 to 3.9% in 2017.

In 2018, euro area investment is expected to grow by 3.9% before decelerating to 3.3% in 2019. Differences between euro area aggregates with and without Ireland are expected to be minor in the period 2017-2019 (about 0.1 pps.).

(73) A recent study of 920 non-financial companies in five Member States (IT, ES, PT, EL, SI) confirmed the importance of leverage ratios for investment activity in countries like Italy and Spain; see S. Gebauer, R. Setzer and A. Westphal (2017). 'Corporate debt and investment: a firm level analysis for stressed euro area countries'. *ECB Working Paper* 2101, September.

(74) Several studies, including a survey conducted by the ECB, had found evidence that funding costs are of minor importance for investment decisions; ECB (2015). 'What is behind the low investment in the euro area? Responses from a survey of large euro area firms'. *Economic Bulletin* 8, Box 2, pp. 35–7.

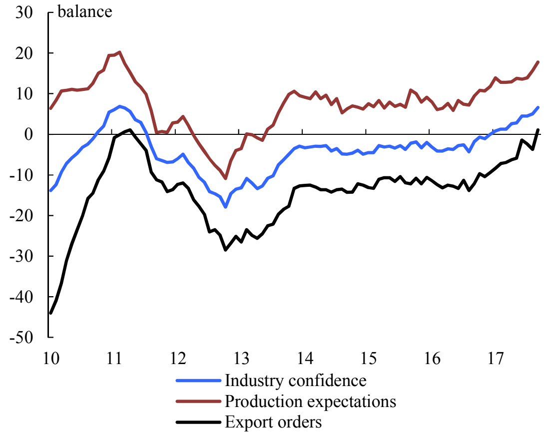
(75) In the euro area, evidence had been presented that unconventional monetary policy had in several countries in the short term a negative effect on expectations; see E. Galariotis, P. Makrichoriti and S. Spyrou (2018). 'The impact of conventional and unconventional monetary policy on expectations and sentiment'. *Journal of Banking and Finance* 86, 1–20.

(76) Using the RHOMOLO model to assess the macroeconomic impact of the Investment Plan for Europe, the European Investment Bank expects the investments approved in the past two years to have added 0.7% to EU GDP and 690,000 jobs by 2020, whereas overall cumulative investments supported by the EIB Group that were approved in 2015 and 2016, are expected to have added by 2020 around 2.3% to EU GDP and 2.25 million jobs.

...on the back of robust growth in equipment investment...

The outlook for corporate investment has improved because demand expectations have increased, financial conditions are set to remain favourable, uncertainty has diminished and no further hindrances (supply shocks) have occurred. Business sentiment is relatively strong (Graph I.39), reflecting factors such as high capacity utilisation rates in both the industry and services sectors, increasing corporate profitability, and modernisation needs.

Graph I.39: **Confidence indicators, euro area**

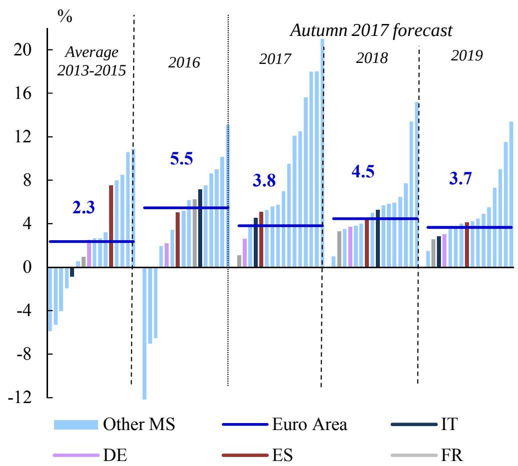


The outlook for equipment investment, however, remains tainted by challenges such as the still high stock of non-performing loans (NPLs) in some countries and the need for further deleveraging. These are expected to continue to weigh on investment but to a lesser extent, as NPLs are gradually receding and the leverage ratio of firms has recently decreased. [77]

Overall, equipment investment in the euro area is expected to grow by 3.8% in 2017, after 5.5% in 2016 (boosted by the 27.9% increase in Ireland). It is then expected to strengthen to 4.5% in 2018 before slowing down to 3.7% (see Graph I.40). The lower growth in 2019 is broad-based among the largest euro-area countries, reflecting a maturing investment cycle.

[77] See ECB (2017). 'Private-sector indebtedness in the euro area countries'. *Economic Bulletin* 4, pp. 55–60 (Box 5).

Graph I.40: **Equipment investment, euro area and Member States (2013-2019)**

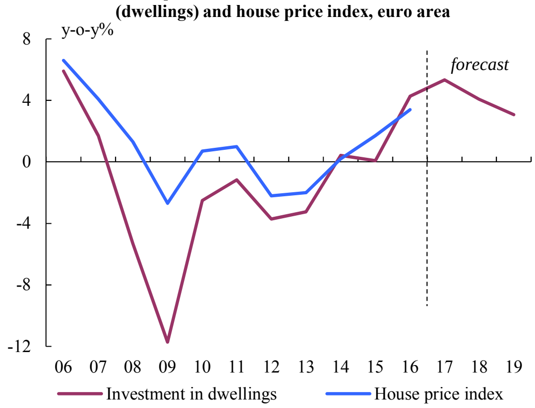


In each period, the bars for Member States are ranked by the size of change. All euro area economies except CY and MT.

...and the projected recovery of construction investment.

The recovery in the construction sector that began last year is projected to continue this year. [78] House prices in the euro area in the first and second quarter of 2017 grew at an annual rate of 3.8%, which is compatible to the recovery in the construction sector (Graph I.41).

Graph I.41: **Investment in construction (dwellings) and house price index, euro area**



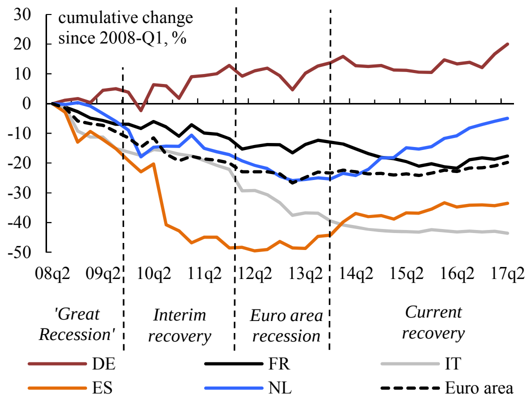
Note: Investment in dwellings without Latvia and Malta.

The adjustment process that has prevailed in the construction sectors in some Member States appears to be coming to an end. However, the difference across countries remains pronounced when viewed in terms of price and in volume indicators. While house prices rose at double digit rates in some countries they stayed almost flat in others. Production in the construction sector has

[78] See also ECB (2016). 'Recent development in euro area construction activity'. *Economic Bulletin* 5, pp. 26–8 (Box 4).

reached its highest levels in more than a decade in some countries but remains substantially lower than before the economic and financial crisis in others. Among the largest euro area economies, only Germany belongs to the former group, while the others appear to have stabilised at levels lower than before the crisis (Graph I.42).

Graph I.42: **Construction production during recession and recovery (2008-2017)**

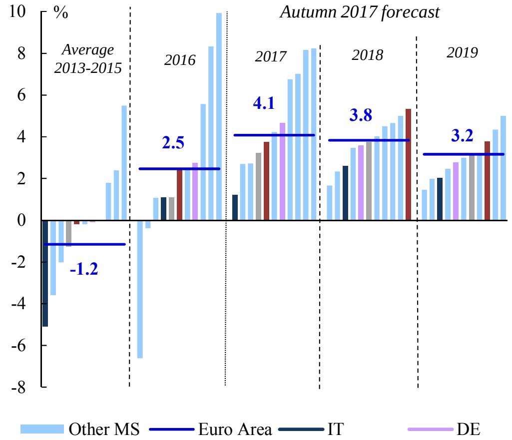


Most signals for the near-term outlook are positive. On the one hand, the Commission's Construction Confidence Indicator reached its highest level in nearly ten years this September. The number of permits in the second quarter of 2017 remained at broadly the same level as in the previous quarter when it had reached its highest level since end-2011. This should continue to push construction investment in the near term. In line with this, the growth in loans for house purchases continued to increase, reaching 3.4% y-o-y in August, its highest rate since end-2011. On the other hand, construction production that same month declined slightly and the 3 month-on-3 month growth rate in the euro area increased only marginally from 0.0% to 0.1% (unchanged at 0.1% in the EU).

In 2017, investment growth in construction is expected to reach 4.1% in the euro area. In many of the Member States that joined the EU in 2004-2007, construction investment in 2017 is set to expand strongly, driven by EU funding.

In 2018, construction investment should continue to enjoy the support of low interest rates. They help to make housing investment both more affordable and more attractive to households. With the expected slight steepening of the yield curve, however, new mortgages would progressively become somewhat more costly. In the euro area, construction investment growth is projected to slow but remain strong in 2018 and in 2019 (Graph I.43). The loss of momentum reflects the maturing phase of the cycle in Germany and the Netherlands, as well as negative effects of demographic trends.

Graph I.43: **Construction investment, euro area and Member States (2013-2019)**



In each period, the bars for Member States are ranked by the size of change.
All euro area economies except EE, IE, EL, CY, LV, MT, SI and SK.

Robust export growth despite euro appreciation...

While the rebound in global trade is pushing European export volumes, competitiveness losses from the recent appreciation of the euro have been eating into the gains spurred by the euro's previous depreciation and continue to weigh on euro area exports outside the euro area. In the second quarter, the growth of exports of goods and services slowed, but remained at rates that exceeded GDP growth.

The impact of an appreciation of the euro depends on the source and persistence of the exchange rate movements. [79] Whether European exporters respond to pressure on their profit margins or mainly aim to preserve market shares (e.g. pricing to market) is crucial for the impact on export volumes. To the extent that the euro's appreciation reflects an improvement in the macroeconomic outlook and in the euro area's attractiveness to investors (e.g. in the wake of diminishing political risks), the overall effect should be relatively small. In addition, some permanent changes may have lowered the pass-through of exchange rate changes

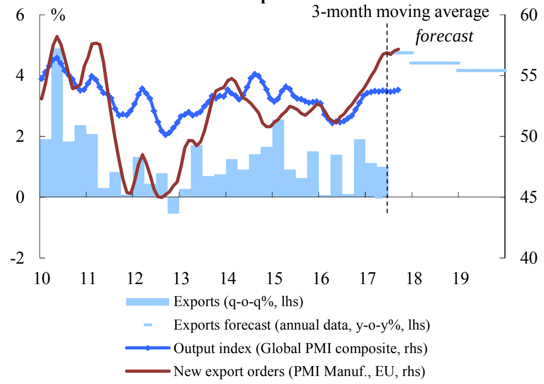
(79) See ECB (2016). 'Exchange rate pass-through into euro area inflation'. *Economic Bulletin* 7, pp. 27–47, and K. Forbes, I. Hjortsoe and T. Nenova (2015). 'The shocks matter: improving our estimates of exchange rate pass-through'. *External MPC Unit Discussion Paper* 43 (Bank of England).

to the real economy. [80] These include heightened competition from increased globalisation, a higher share of less-price sensitive products as a result of lower energy import volumes (more pricing-to-market), a wider use of the euro as an invoicing currency, and global value chains that have altered cross-border trade. Already in the past, exports had been found to react more strongly to demand (which is picking up) than to exchange rate movements, [81] which is in line with observations that price competitiveness has not played a very important role for the export performance.[82] Overall, the impact of the euro's appreciation on GDP is expected to be smaller than in the past.

The near-term outlook remains favourable. The recent strength of survey indicators suggests that the appreciation of the euro should have a relatively limited impact (Graph I.44). In the third quarter, the assessment of export order books in the Commission's manufacturing survey improved in the euro area compared to the previous quarter, reaching in September the highest level since end-2007. In line with this, the manufacturing PMI new export orders index also increased in the third quarter. The data from the Centraal Planbureau (CPB) on the volume of trade in goods in the euro area shows that in July, the growth momentum stood at 1.1%, up from 0.2% in June. In line with the acceleration in euro area foreign demand (intra and extra) in 2017, exports are set to grow strongly in 2017 by 4.5%, and thus only 0.1 pps. slower than export markets.

In 2018 and in 2019, export growth is expected to remain strong, supported by continued buoyant trade and strong foreign demand. The euro area is expected to see only a marginal loss of market share, which could, to some extent, be explained by exporters fully absorbing the euro's appreciation in their profit margins. The projection for 2019 is based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. All in all, euro area exports of goods and services are expected to grow by 4.4% in 2018 and 4.2% in 2019.

Graph I.44: **Global demand, EU28 exports and new export orders**



Source: European Commission, Markit.

…and vigorous import growth.

In the first half of 2017, in line with the strengthening of domestic demand, growth of euro area imports of goods and services was robust at an average of about 1% in each quarter. However, the profile was less even due to strong ups and downs in Irish imports (particularly of intangible assets, such as intellectual property). [83] Import growth rose from 0.4% (q-o-q) in the first quarter to 1.5% in the second quarter (1.2% and 0.9% excluding Ireland).

Over the forecast horizon, imports are forecast to grow robustly due to sustained domestic demand and vigorous export growth (given the high import content of many export goods). They are projected to grow by 4.7% in 2017 and 2018 and by 4.4% in 2019.

Given the strong pick-up in global demand, net trade is projected to make a slightly positive contribution to GDP growth over the forecast horizon, despite the strength of domestic demand and the euro's appreciation.

(80) A recent study based on data up to mid-2015 confirmed the incomplete pass-through for the euro area aggregate and the five largest Member States; see e.g. S. Özyurt (2016). 'Has the exchange rate pass through recently declined in the euro area?'. *ECB Working Paper Series* 1955.

(81) This observation has recently also been confirmed for the US, see Lewis, L. T. (2017) 'How Important Are Trade Prices for Trade Flows?'. *IMF Economic Review* 65:3, pp. 471–97.

(82) See C. Osbat, K. Benkovskis, B. Bluhm, E. Bobeica and S. Zeugner (2017). 'What drives export market shares? It depends!'. *ECB Working Paper Series* 2090.

(83) See IMF (2017) 'Tackling measurement challenges in Irish economic activity'. *IMF World Economic Outlook*, April, pp. 43–5 (Box 1.2).

5. THE CURRENT ACCOUNT

After having gradually risen since 2008, the adjusted current account surplus[84] of the euro area has been stabilising at about 3% of GDP since 2015, where it is also expected to stay close by over the forecast horizon with only a slight moderation as compared to last year. The stabilisation reflects the increase in investment that has exceeded the increase in gross saving in the euro area.

A rise in commodity prices and the euro dull the strengthening of foreign demand in 2017…

A period of relatively weak international trade growth, falling commodity prices, a depreciating euro and rather weak domestic demand lifted the current account surplus last year to 3.3% of GDP, its highest level since the start of economic and monetary union in 1999. This year, however, some of these factors behind the increasing surplus have disappeared or weakened. The euro has been appreciating and commodity prices have stabilised or even slightly rebounded. Moreover, economic growth in advanced and emerging economies outside the EU has gained momentum, and global trade has rebounded from the troughs observed in the past two years. This is supporting the expansion of the euro area's merchandise exports this year, but has little impact on the trade balance, which typically contributes the most to the current account surplus.

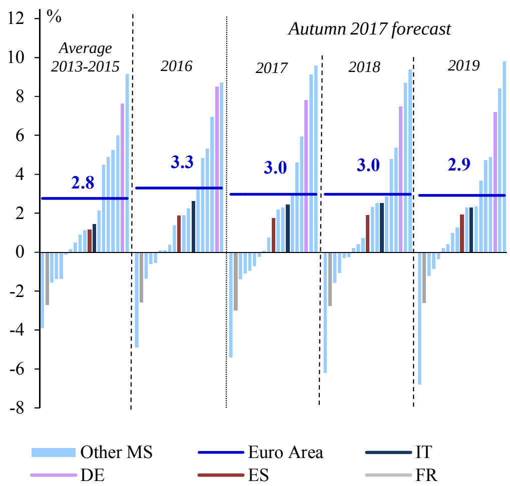
Altogether, the euro area's adjusted merchandise trade surplus is expected to decrease from 3.5% of GDP in 2016 to 3.0% in 2017, whereas the current account surplus is expected to fall from 3.3% of GDP to 3.0%. The decline in both trade and adjusted current account surpluses resulted mainly from the change in relative prices. After four years of improving terms of trade on account of falling import prices, the increase in oil prices is projected to contribute to a worsening in the terms of trade this year. Over the next two years, dampening effects on the current account surplus are expected to stem mainly from a rise in imports. The deteriorated price competitiveness, as measured by the real effective exchange rate based on unit labour costs, weighs on the euro area's export performance.

…leading to a gradual shrinking of the current account over the forecast horizon…

The euro area's trade balance surplus is expected to gradually recede in 2018 and 2019. Over the forecast horizon, global economic activity is expected to strengthen further and global import elasticity is expected to tick higher. With increasing foreign demand, export markets are projected to grow at 4.5% and 4.3% in 2018 and 2019 respectively, which exceeds economic growth outside the euro area (4.0% in 2018 and in 2019), suggesting a beneficial composition of exports. Export and import prices in the euro area are projected to be influenced mainly by the slight gradual increase of commodity prices and the past modest appreciation of the euro. However, with increases in export prices in 2018 and 2019 exceeding the increase in import prices, the terms of trade are expected to rebound in 2018 and to remain almost unchanged in 2019.

Overall, exports are expected to grow almost in parallel to imports, but starting from a surplus, this implies a widening of the current account balance in absolute terms. In relative terms, the adjusted surplus is expected to remain stable in 2018 and 2019 (Graph I.45). [85]

Graph I.45: **Current account balance (% of GDP), euro area and MS, growth rate (2013-2019)**



In each period, the bars for all 19 euro area economies are ranked by size.

[84] The adjusted current account balances of the EU and the euro area take into account discrepancies between the sum of the current account balances of the Member States and the aggregate, which should theoretically not exist, but are usually observed due to reporting errors.

[85] The IMF has assessed the euro area current account as "broadly in line" with medium-term fundamentals (p. 15); IMF (2017). '2017 External Sector Report'. *IMF Policy Paper*, July.

The stabilisation indicates that, looking at the saving-investment relation, the gap between domestic saving and investment has diminished, as both have increased as a percentage of GDP.

...while asymmetric adjustment is expected to continue.

Current account balances across EU Member States vary markedly. And the projected stabilisation of the adjusted current account surplus in the euro area over the forecast horizon compounds an asymmetric adjustment among Member States. Several Member States, which experienced a rebalancing of their current accounts from large deficits into surpluses, are expected to further improve or stabilise their current accounts over the forecast horizon (e.g. Spain, Estonia, Greece, Slovenia, Hungary). The current accounts of France, Cyprus, Belgium, Latvia, Lithuania, the Czech Republic, Romania and the UK are projected to remain in negative territory over the forecast horizon. Large current account surpluses of at least 5% of GDP are expected in Malta, the Netherlands, Germany, Slovenia, Denmark and Sweden.

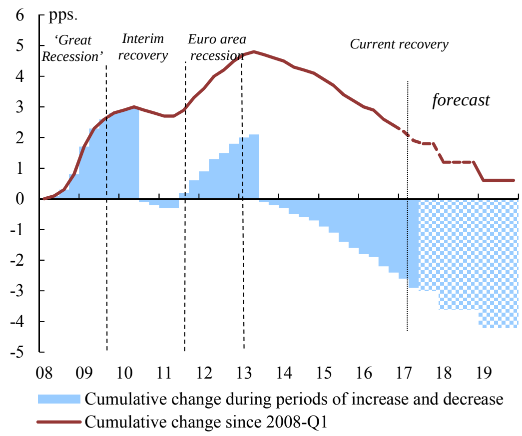
6. THE LABOUR MARKET

Continued economic growth has led to a further improvement in the labour market situation, but indicators point to the persistence of slack. With economic growth expected to continue at an almost steady pace, the slack that weighs on wage developments can be expected to diminish over the next two years. Employment growth is set to continue at a slightly lower pace and further declines in unemployment rates should be somewhat lower as output gaps close. However, as recent years have brought various structural changes to the labour market (e.g. compositional changes in labour demand and supply) the removal of slack cannot be expected to be equivalent to a return of labour market characteristics as they had prevailed before the economic and financial crisis.

Ongoing improvements in the labour market situation...

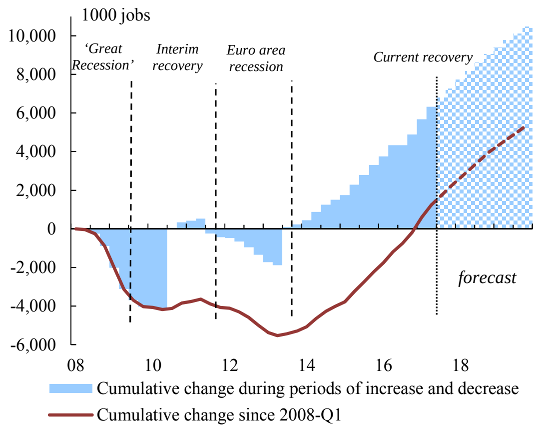
In August 2017, the unemployment rate in the euro area fell to its lowest since February 2009 (since November 2008 in the EU). Despite a substantial decline over the past four years, unemployment in the euro area is still higher than it was before the economic and financial crisis (Graph I.46).

Graph I.46: **Unemployment rate (2008-2019), euro area**



Most of the recent rise in employment consisted of permanent and full-time jobs, [86] which helped to bring more Europeans off the side-lines and into productive employment. Overall, the current recovery has been "job-rich" as the increase in the number of people employed has been somewhat stronger than economic growth would have suggested. [87] This has helped to raise employment above the level observed before the crisis (Graph I.47).

Graph I.47: **Employment growth (2008-2019), euro area**



(86) Between 2016-Q2 and 2017-Q1, in the EU the number of employees with permanent contracts increased by 2.2 mil. (yoy growth of 1.4%), whereas the number of temporary contracts increased by 0.5 mil. (1.5%); meanwhile the number of full-time workers increased by 2.5 mil., whereas the number of part-time workers increased by 150,000; see European Commission, DG Employment (2017). *Employment and Social Developments in Europe*, Quarterly Review, October.

(87) The factors having supported this trend were highlighted in previous European Economic forecasts, e.g. DG ECFIN (2016). *European Economic Forecast – Autumn 2016.* Institutional Paper 38.

Table I.4:

Labour market outlook - euro area and EU28

(Annual percentage change)	Euro area						EU28					
	Autumn 2017 forecast				*Spring 2017 forecast*		Autumn 2017 forecast				*Spring 2017 forecast*	
	2016	2017	2018	2019	2017	2018	2016	2017	2018	2019	2017	2018
Population of working age (15-64)	0.3	**0.3**	**0.2**	**0.2**	*0.4*	*0.2*	0.2	**0.2**	**0.2**	**0.2**	*0.3*	*0.2*
Labour force	0.5	**0.6**	**0.6**	**0.4**	*0.5*	*0.5*	0.4	**0.5**	**0.5**	**0.4**	*0.4*	*0.5*
Employment	1.4	**1.5**	**1.2**	**1.0**	*1.2*	*1.1*	1.3	**1.4**	**1.0**	**0.8**	*0.9*	*0.9*
Employment (change in million)	2.0	**2.3**	**1.8**	**1.5**	*1.7*	*1.7*	2.8	**3.2**	**2.3**	**1.8**	*2.1*	*2.0*
Unemployment (levels in millions)	16.2	**14.8**	**13.9**	**13.0**	*15.3*	*14.6*	20.9	**19.0**	**17.9**	**17.0**	*19.8*	*18.9*
Unemployment rate (% of labour force)	10.0	**9.1**	**8.5**	**7.9**	*9.4*	*8.9*	8.6	**7.8**	**7.3**	**7.0**	*8.0*	*7.7*
Labour productivity, whole economy	0.4	**0.7**	**0.9**	**0.9**	*0.6*	*0.7*	0.7	**0.9**	**1.1**	**1.1**	*0.9*	*1.0*
Employment rate (a)	60.1	**60.9**	**61.5**	**62.0**	*60.6*	*61.1*	60.4	**61.1**	**61.6**	**62.0**	*60.8*	*61.1*

(a) Employment as a precentage of population of working age. Definition according to structural indicators. See also note 6 in the Statistical Annex

Employment continued to grow strongly in the first half of the year. As a result, more people are in employment now than ever before.

...with differences among Member States...

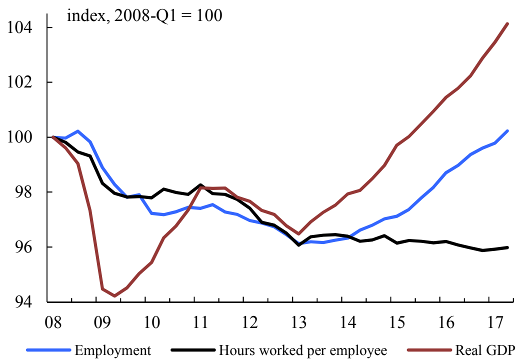
The labour market situation is improving in all countries but significant differences remain. This is not only obvious from the wide gap between the highest and lowest unemployment rates (in 2017 between 3.0% of the labour force in the Czech Republic and 21.8% in Greece), but also in other indicators such as employment rates (in 2017 between 51.6% in Croatia and 70.1% in Germany), and activity rates (between 58.0% in Croatia and 72.6% in Germany). [88]

...and evidence of persisting but diminishing slack.

Labour market developments have been one of the weak spots in macroeconomic analyses and forecasts in recent years. Many forecasters have underestimated the strength of employment growth and at the same time overestimated the increase in employee compensation. This has raised questions as to whether standard labour market measures such as employment growth and unemployment rates can be used to derive conclusions about the tightness of labour markets, and more emphasis has been put on indicators of labour market slack.

Given the strengthening of economic activity in the first half of the year, the recent period of almost stable unemployment rates may raise additional doubts as to whether standard indicators are sufficient to capture developments in the labour market. While the standard indicators such as employment growth and unemployment rates point to a tightening labour market, other indicators still suggest that there is some slack left. These include working hours per employee (Graph I.48), which usually rise as the recovery progresses and workers, who have previously accepted to take part-time and temporary jobs, attempt to increase the number of hours they work or to get permanent contracts.

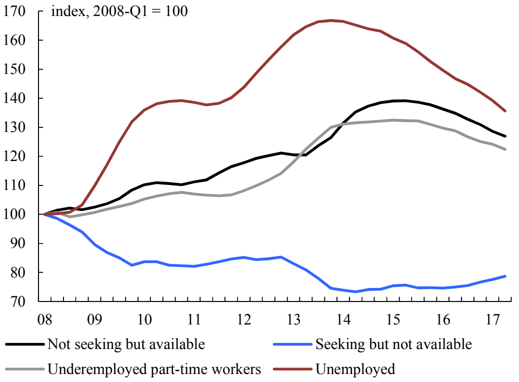
Graph I.48: **Employment, hours worked/employee and real GDP, euro area**



They also include underemployment indicators - such as the number of underemployed part-time workers (Graph I.49) or discouraged workers. For instance, the share of part-time workers seeking full-time hours is still greater now than in 2008. As explained above, the muted response of wages could also be interpreted as a sign that labour markets are not as tight as suggested by standard measures (see also Section I.7).

(88) In the narrower group of those aged 15-64, in the second quarter in 2017 the activity rates ranged between 65.4% in Italy and 82.6% in Sweden, wheras employment rates of 20-64 years old were in the first quarter in 2017 between 57% in Greece and 82% in Sweden (source: European Commission, DG Employment (2017). *Employment and Social Developments in Europe*, Quarterly Review, October).

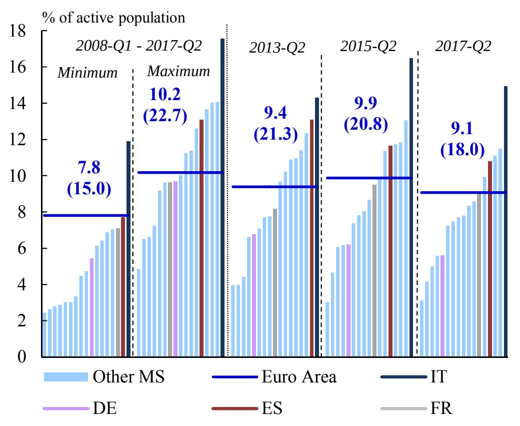
Graph I.49: **Unemployment and labour market slack, euro area**



Note: four-quarter moving averages as compared to the base period 2008-Q1.

The euro area aggregates point to some remaining slack in the labour market, that has recently been reduced, but this development is not shared by all Member States. With respect to slack there are substantial differences across Member States (Graph I.50). To assess the impact of slack it is also important to look at its composition. The readings of the three underemployment indicators that usually supplement the unemployment rate are not necessarily correlated with the size of the unemployment rate. While Greece and Spain recorded the highest unemployment rates in the second quarter in 2017, the highest readings of the other slack indicators were observed in Italy, Finland and Cyprus. [89]

Graph I.50: **Slack in the labour market, euro area and Member States (2008-2017)**



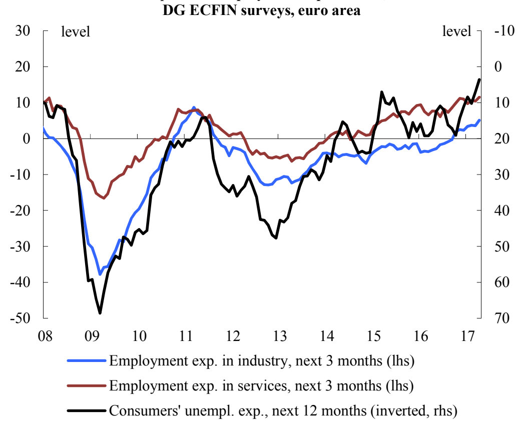
Note: The slack measure is the sum of persons seeking but not immediately available, not seeking but available, and underemployed part-time workers (% of active population); in addition, figures in brackets include unemployed persons. Bars show data for all Member States except MT.

Thus, the labour market might be less tight than the ongoing closure of the unemployment gap suggests. In 2017, the gap between the estimated Non-Accelerating Wage Rate of Unemployment (NAWRU), a measure of spare capacity in the labour market, and the projected unemployment rate is set to decline with a further narrowing projected over the forecast horizon. [90]

Continued improvements over the forecast horizon...

Survey data suggest that labour market conditions should continue to improve. The Commission's survey data on employment expectations continue to suggest that net job creation will remain robust (Graph I.51). Overall, in both the euro area and the EU, the hiring intentions of firms remain above their long-term averages in all sectors. Employment expectations in the euro area improved across all sectors in the third quarter (manufacturing, retail trade, construction and service sectors). In September, in the euro area hiring intentions remained broadly unchanged in industry, services and retail trade, while they were revised upwards in construction. The employment component of the euro area's Flash Composite PMI increased in October to a three-month high.

Graph I.51: **Employment expectations, DG ECFIN surveys, euro area**



...but with smaller employment gains...

In 2018 and 2019, employment should continue to benefit from the sustained domestic-demand driven expansion, moderate wage growth, as well as structural reforms implemented in some Member States. However, several arguments

(89) Miles et al. (2017) have argued that is not just the change in the amount of slack, but also in "the quality of slack" (p. 71) that could matter; see D. Miles, U Panizza, R Reis and A Ubide (2017). 'And yet it moves: Inflation and the Great Recession'. *Geneva Report on the World Economy* 19, ICMB and CEPR.

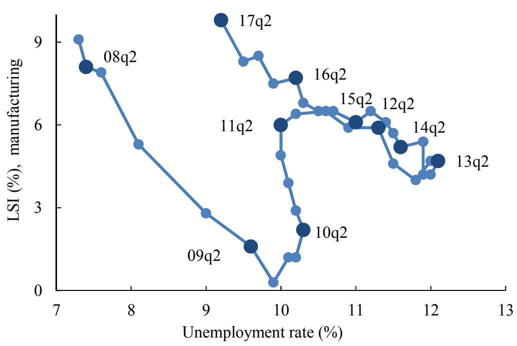
(90) The ECB noted that labour market slack affected around 18% of the euro area's extended labour force. See ECB (2017). 'Assessing labour-market slack'. *Economic Bulletin* 3, pp. 31–5.

suggest that employment gains will be somewhat smaller in 2018 and 2019.

First, the fading of temporary fiscal measures in some countries will likely exert a dampening effect on employment growth. This includes temporary reductions in social security contributions in Italy, active labour market policies in Spain and tax credits for encouraging job creation in France.

Second, in some Member States, labour market improvements have already raised concerns about skilled-labour supply shortages, which are limiting further employment growth. More generally, the Commission's survey results hint on a significant rise in labour shortages in both manufacturing and services, but with both readings well beyond previous cyclical peaks. This is reflected in the inward shift of the Beveridge curve, [91] which can be seen as a typical cyclical development (Graph I.52).

Graph I.52: **Beveridge curve, euro area**

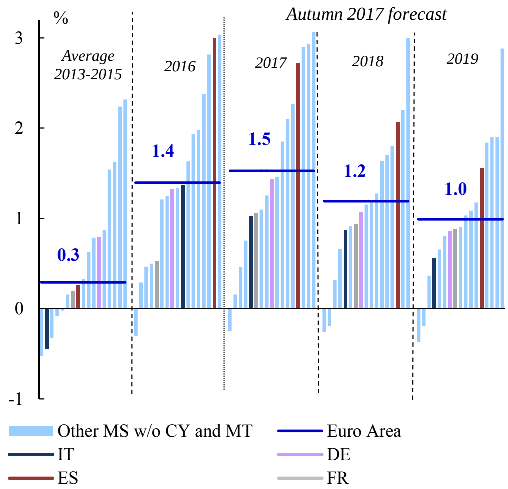


Note: Labour Shortage Indicator (LSI), derived from quarterly EC BCS, manufacturing (% of manufacturing firms pointing to labour shortage as a factor limiting production)

Third, the counterpart to the "job rich" recovery has been weak productivity growth, which hints also at moderate potential growth as a result of factors such as the protracted period of low investment ratios. The expectation of a gradual pick-up in investment ratios, an increase in the number of hours worked per person and a slight up-tick in total factor productivity, imply a strengthening of labour productivity growth in the years ahead.

All in all, headcount employment is set to grow by 1.5% in the euro area in 2017, faster than previously expected, and by 1.2% and 1.0% in the subsequent years (Graph I.53). In the EU, employment growth is projected to ease more markedly next year, due to specific developments in the UK economy.

Graph I.53: **Employment growth, euro area and Member States (2013-2019)**



In each phase, the bars for Member States are ranked by the size of change.

...limiting the further fall of unemployment rates...

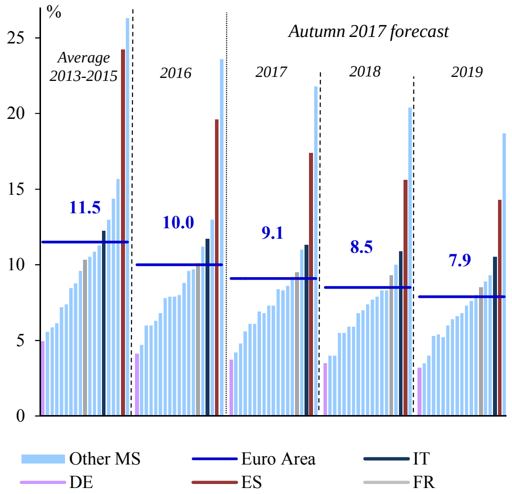
Developments in the labour force and in unemployment are expected to remain closely linked. The total labour force is projected to continue expanding over the forecast horizon, because of labour market reforms (e.g. in France), net migration into the euro area, and, more and more, the integration of refugees. This should help to offset the negative impact of demographic trends on labour supply. A slightly higher activity rate in combination with continued employment growth that exceeds labour force growth should allow for a further decline in the unemployment rate over the forecast horizon. In the euro area, the decline from 10.0% in 2016 to 7.9% in 2019 is projected to happen mainly in 2017 (-0.9 pps.).

...with labour market disparities among Member States diminishing slightly.

Labour market responses to the crisis have differed substantially across Member States and so have responses to the ongoing expansion. While most Member States saw unemployment rise during the Great Recession (2008-2009), the interim recovery (2009-2011), and the euro area recession (2011-2013), the current recovery has already lowered unemployment rates in almost all countries (Graph I.54).

[91] Similar results are obtained when using a Beveridge curve that depicts the vacancy rate as an indicator of the tightness of the labour market.

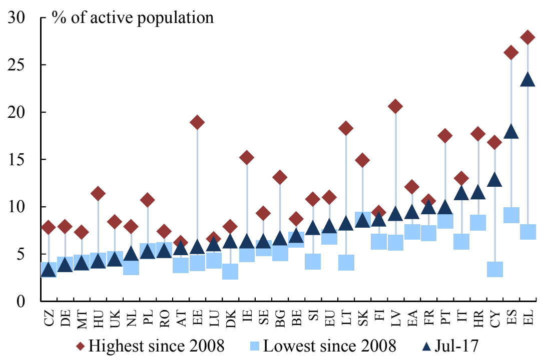
Graph I.54: **Unemployment rate, euro area and MS (2013-2019)**



In each period, the bars for all 19 euro area economies are ranked by size.

Nevertheless, labour market conditions and performances are expected to continue to vary across Member States. The range in unemployment rates is expected to narrow further over the forecast horizon, as unemployment rates are expected to fall most in the countries that were most affected by the crisis (Graph I.55).

Graph I.55: **Unemployment rates dispersion, EU28, EA and Member States, 2018 and highest and lowest since 2008**



Note:BE, EE, EL, HU and UK data from June 2017, IE and SE data from August 2017.

The continued decline in unemployment rates should help to heal the scars of the crisis in terms of unemployment but is unlikely to bring unemployment back down to pre-crisis levels in all countries.

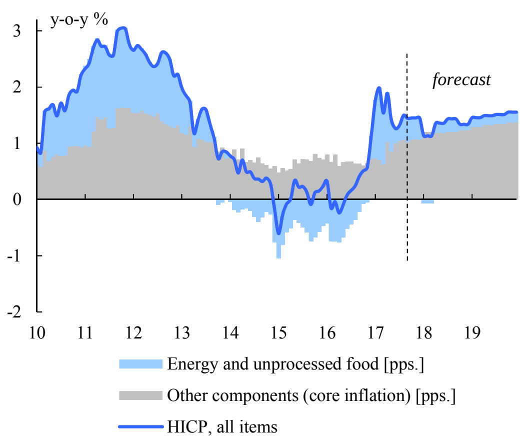
7. INFLATION

Since spring, inflation has continued to be driven by developments in oil prices. On the back of upside base effects, HICP inflation has ticked higher compared to last year, and at the same time services inflation has moved up. Looking through the variations around Easter and those due to energy prices, data suggest a gradual increase of inflation may be under way. Thus, as in the spring, the outlook for inflation remains one of a pickup, albeit from low levels and at a gradual pace.

Recent inflation developments point to a gradual uptick...

Consumer price inflation, as measured by annual changes in the Harmonised Index of Consumer Prices (HICP), has oscillated between 1.3% and 2.0% in the first nine months in 2017. After having risen to 1.8% in the first quarter of 2017 (from 0.7% the quarter before), consumer price inflation moderated to average around 1.5% in both the second and third quarters (0.1 pps. below the spring forecast). The fluctuation in headline inflation, especially in the first quarter, was again driven by the impact of positive energy base-effects following the recovery of oil prices from their low levels in 2016 (Graph I.56).

Graph I.56: **Inflation breakdown, euro area**



Extracting the direct impact of volatile energy and unprocessed food prices, inflation is showing signs of a gradual recovery. [92] Core inflation (all items

[92] Indirect effects have been estimated to have lowered core inflation in the euro area by 0.2 pps. in 2015 and 2016 and by a fraction of this in 2017 and 2018; see C. Conflitti and M. Luciani (2017). 'Oil price pass-through into core inflation'. *Finance and Economics Discussion Series* (Federal Reserve Board), 2017-85.

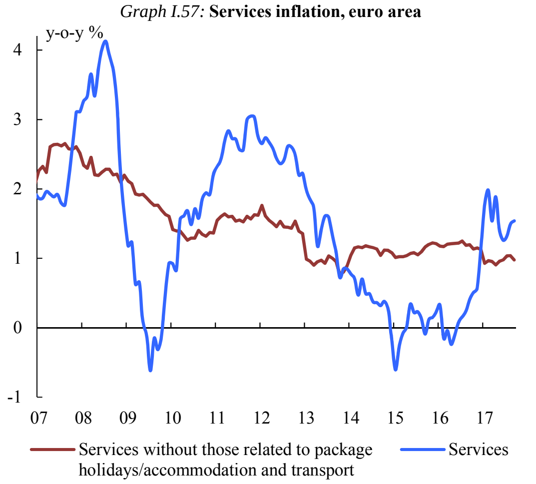
Table I.5:

Inflation outlook - euro area and EU28

(Annual percentage change)	Euro area						EU28					
	Autumn 2017 forecast				*Spring 2017 forecast*		Autumn 2017 forecast				*Spring 2017 forecast*	
	2016	2017	2018	2019	2017	2018	2016	2017	2018	2019	2017	2018
Private consumption deflator	0.3	**1.4**	**1.3**	**1.6**	*1.6*	*1.3*	0.5	**1.7**	**1.6**	**1.7**	*1.8*	*1.6*
GDP deflator	0.8	**1.1**	**1.6**	**1.6**	*1.1*	*1.4*	1.0	**1.4**	**1.7**	**1.7**	*1.3*	*1.6*
HICP	0.2	**1.5**	**1.4**	**1.6**	*1.6*	*1.3*	0.3	**1.7**	**1.7**	**1.8**	*1.8*	*1.7*
Compensation per employee	1.2	**1.6**	**2.2**	**2.3**	*1.8*	*2.1*	1.7	**2.0**	**2.5**	**2.7**	*2.2*	*2.4*
Unit labour costs	0.8	**0.9**	**1.2**	**1.4**	*1.2*	*1.4*	1.3	**1.2**	**1.5**	**1.6**	*1.3*	*1.5*
Import prices of goods	-3.4	**3.1**	**0.0**	**0.9**	*4.0*	*1.1*	-2.4	**3.2**	**0.3**	**1.0**	*4.1*	*1.5*

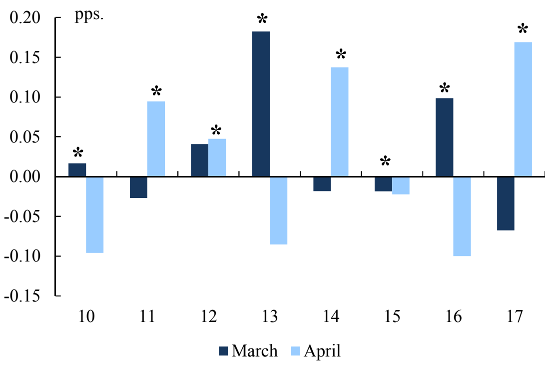
excluding energy and unprocessed food), increased in the second and third quarter to 1.2% and 1.3% after staying at 0.8% in the four quarters before. Given its weight of 54%, the increase is mainly attributable to the uptick in services inflation in the second quarter (from 1.1% to 1.6%), followed by a slight moderation in the third quarter (to 1.5%).

Graph I.57: **Services inflation, euro area**



A closer look at the subcomponents of services inflation (see Graph I.57) shows that the highest rates were recorded for package holidays, reflecting this year's timing of Easter holidays (see Graph I.58), [93] and for transport-related services, which were strongly affected by energy-related factors. [94] Prices for services related to communication, by contrast, continued falling. Tuning out this noise, it looks as if core inflation has slightly risen, which would be in line with the observation that other subcomponents of core inflation are slowly rising towards their respective historical averages.

Graph I.58: **Package holiday inflation in March and April, contributions to HICP (euro area)**



* *Months in which the Good Friday week started.*

The subdued level of core inflation may partly reflect the lagged negative impact of a prolonged period of low inflation, but it also reflects remaining labour market slack and weak wage growth, the latter very closely correlated with services inflation. Non-energy industrial goods inflation also increased to an average of 0.5% in the third quarter (from 0.3% in the second quarter), mirroring advances in the global production cycle and increased producer prices, and despite the significant appreciation of the euro in nominal effective terms over the same period. Prices for processed food - which is the less volatile component of food products - increased rather strongly compared to the other core inflation components to reach an average of 2% in the same quarter.

...despite still somewhat muted producer prices...

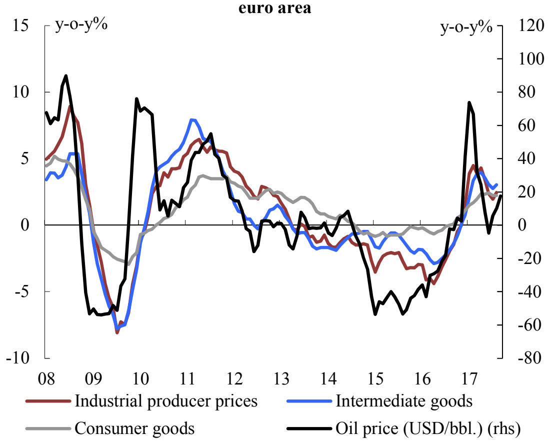
Consistent with an increase in core inflation, is the turnaround in pipeline pressures, where the recovery in prices has been even more vigorous in 2017. Industrial producer price inflation on the domestic market moderated to 2.5% in August after moving strongly into positive territory at the beginning of 2017 (averaging 4.1% in the first quarter), boosted by strong positive base effects from the decline in producer prices in 2016. All the

(93) For an analysis of past years, see ECB (2016). 'Harmonised Index of Consumer Prices - Easter effects and improved seasonal adjustment'. *Economic Bulletin* 3, pp. 17–20 (Box 1).

(94) See ECB (2014). 'Indirect effects of oil price developments on euro area inflation'. *Monthly Bulletin*, December, pp. 54–6.

main subcomponents of headline producer price inflation have been positive so far this year (Graph I.59). The main driving factor is the energy component. However, the headline figure shows that pipeline price pressures are building along the supply chain even when energy prices are excluded, which is consistent with improving domestic demand. For example, in August, capital goods prices - which tend to be less energy-price sensitive rose by 1.0%; intermediate goods prices increased by 3.0%; non-durable consumer goods rose 2.5%; while the rise in durable consumer goods moderated to 0.5%. While producer prices tend to exhibit more dynamism, partly due to fluctuations in the exchange rate, the recent increases across the board should normally feed through to consumer prices, at rates which may differ according to product groups.

Graph I.59: **Oil price and selected producer price indexes, euro area**



The increasing pipeline pressures along the industrial chain are also linked with upward movements in global producer prices. For example, the annual rate of change of the total producer price index for OECD economies stood at 3.7% in August, after averaging 4.0% in the second quarter. The link and transmission to the domestic market is through the euro's nominal effective exchange rate and import prices tend to react relatively fast to its change, even if the pass-through to consumer prices is slower. Indeed, the recent rise in the euro's exchange rate has helped to stunt imported industrial goods inflation, which in August rose a robust 2.4%. The rise in the euro's nominal effective exchange rate may also explain the decline in imported capital goods and durable consumer goods prices in the third quarter compared to the same period of last year.

...and only moderate wage increases.

The annual growth rate of the compensation of employees per head, which is a key determinant of domestic price pressures since it is closely correlated with services inflation and is a linchpin of the purchasing power of households, increased in the second quarter to 1.6% (from 1.4%). In assessing this development, it has to be kept in mind that the indicator increases (decreases) when the share of full-time employees increases (decreases) as it is usually the case during a recovery (recession). [95] Employee compensation growth in the euro area is expected strengthen from last year's 1.2%, to 1.6% this year and 2.2% in 2018 and 2.3% in 2019.

Another argument for expecting increased price pressures comes from house prices. In the first two quarters of 2017, the aggregate rise in house prices in the euro area was 3.8%. In some euro area countries, however, house prices rose at an annual rate of more than 10%, stimulated by a combination of very low interest rates and the economic recovery. Such house price growth generally leads to higher rental prices, which feature as a component in the HICP.

However, inflation expectations remain close to actual inflation rates...

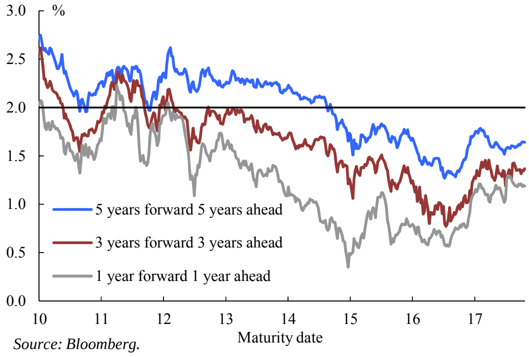
Market-based measures of inflation expectations have remained relatively stable since spring and have moved in a narrow range after dropping from the highs registered in January, when strongly positive energy base effects lifted headline inflation. This confirms that market-based inflation expectations remain strongly influenced by past and actual movements in headline inflation. [96] Meanwhile, short-term measures of inflation expectations have actually increased somewhat since January. At the cut-off date of this forecast, inflation-linked swap rates at the one-year forward one-year-ahead horizon stood at 1.2% (Graph I.60). Swap rates at the three-year forward three-year-ahead horizon imply an average inflation of 1.4%. On a longer horizon, the widely watched five-year forward five-year-ahead indicator suggests inflation of 1.7%, still below the

(95) See also ECB (2016). 'The employment-GDP relationship since the crisis'. *Economic Bulletin* 6, pp. 53–71.

(96) The same has been documented for survey-based inflation expectations; see e.g. T. Łyziak and M. Paloviita (2017). 'Anchoring of inflation expectations in the euro area: Recent evidence based on survey data'. *European Journal of Political Economy* 46, pp. 52–73.

ECB's definition of price stability in the medium term.

Graph I.60: **Inflation expectations derived from implied forward inflation-linked swap rates**



Source: Bloomberg.

Survey-based measures of inflation expectations have not moved uniformly since spring. According to the Commission's surveys, selling price expectations in manufacturing and retail sectors and among consumers fell between the first and the third quarter, whereas they rose in the construction and services sectors. In the third quarter, they were above their long-term averages in manufacturing, services and construction, but below them in the retail sector and among consumers. By contrast, euro area PMI indices for input prices and selling prices increased in September in both the manufacturing and services sectors.

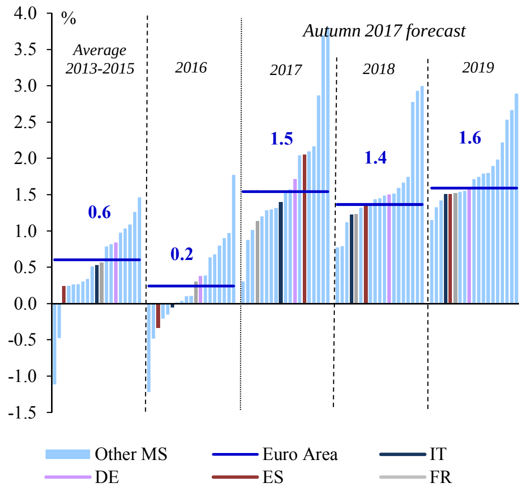
The monthly mean of market forecasters calculated by Consensus Economics stood in October at 1.5% for 2017, and at 1.3% for 2018. The results of the ECB Survey of Professional Forecasters for the third quarter showed downward revisions of average inflation expectations to 1.5%, 1.4% and 1.6% for 2017, 2018 and 2019, respectively (by 0.1 pps. for all three years as compared to the survey for the second quarter). Longer-term inflation expectations (for 2022) stood at 1.8%.

…and the outlook for inflation in the euro area remains broadly unchanged…

The near-term outlook for inflation remains under the influence of base effects from energy and unprocessed food prices. (97) The pass-through of the euro's recent appreciation to consumer prices is expected to remain rather low (see also Section I.6), (98) because it is likely to originate from an improved growth outlook which differs from an exogenous exchange rate shock that lowers price pressures by being a drag on demand. Overall, headline inflation is expected to recover sharply in 2017 to average 1.5%, up from just 0.2% in 2016. The forecast for inflation this year has been lowered slightly since spring because the dampening impact of the euro's appreciation is expected to more than offset the impetus from stronger-than-previously forecast GDP growth.

After reaching 1.5% in the second quarter in 2017 and set to remain there up to the fourth quarter, inflation is projected to dip slightly in the first quarter of 2018, dragged down by negative base effects in energy and unprocessed food prices but also due to the rise of the euro's nominal effective exchange rate, which is expected to lower imported price inflation. Thereafter, inflation is projected to pick-up gradually, as the impact of energy base effects is expected to be mild over the remainder of 2018, given recent energy price developments and the energy price assumptions underlying the forecast. This V-shaped pattern is expected to lead to inflation of 1.4% in the fourth quarter of 2018, with the annual average in 2018 coming in at 1.4% and thus lower than in 2017 (Graph I.61).

Graph I.61: **Inflation rate (HICP), euro area and Member States (2013-2019)**



In each period, the bars for all 19 euro area economies are ranked by size.

In 2019, inflation is expected to tick gradually higher (to 1.6%), which is consistent with a

(97) For a more detailed analyse see ECB (2017). 'The role of base effects in the projected path of HICP inflation'. *Economic Bulletin* 6, pp. 59–61 (Box 6).

(98) The ECB has documented that the pass-through has declined over time; see ECB (2016). 'Exchange rate pass-through into euro area inflation'. *Economic Bulletin* 7, pp. 27–47.

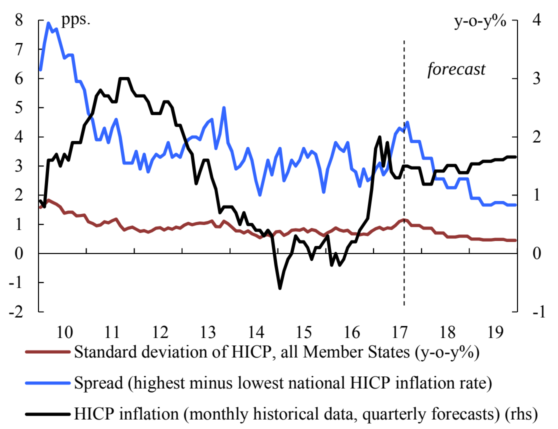
projected positive output gap in 2019. The rather subdued pace is mainly related to the projected relatively low rate of wage growth.

...with inflation differentials expected to narrow.

Aggregate HICP inflation rates continue to mask substantial differences across euro area Member States, which reflect the typical specialisation in different types of economic activity but also structural features and economic adjustment processes. While temporary inflation differentials are usually not seen as a matter of concern, persistent inflation differentials have been among the factors behind the build-up of imbalances (e.g. price and cost imbalances) in the euro area and therefore deserve attention.[99] By contrast, the narrowing of inflation differentials helps to make financial conditions, as measured by real interest rates, more similar across euro area countries.

By the fourth quarter of 2019, HICP inflation rates at or above 1.6% are projected in all euro area economies, except Ireland, Greece, Cyprus and Portugal where inflation will be between 1.2% and 1.4%. In 2019, five euro area Member States are expected to experience inflation at or above 2%. With most countries projected to record inflation rates within a rather narrow range, the dispersion of inflation rates, as measured in terms of the unweighted standard deviation is expected to decline to the lowest level in the past decade (Graph I.62). The spread between the highest and lowest inflation rate across euro area economies is also set to fall to a post-crisis low.

Graph I.62: **Inflation dispersion, euro area (EA19)**



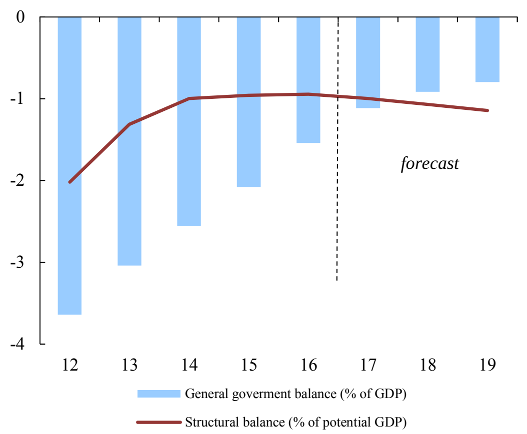
Outside the euro area, inflation differentials are more pronounced. By the fourth quarter of 2019, headline inflation rates are projected to vary between 1.5% in Bulgaria and 3.1% in Romania. Nevertheless, this also implies a narrowing of inflation differentials throughout the forecast years.

One factor behind the narrowing of inflation differentials by 2019 is the end of the pass-through of past oil price developments, which differed markedly across countries. However, in assessing the declines, it has to be taken into account that forecasts usually include some narrowing of inflation differentials (see Section I.1 and Graph I.12).

8. PUBLIC FINANCES

In 2017, the general government deficit of the euro area is projected to decline more than expected in the spring forecast, mainly because of the upward revision to the GDP growth forecast. Further declines in the euro area deficit are forecast in 2018 and 2019 (Graph I.63), while the structural balance is expected to broadly stabilise.[100] The improved outlook for nominal GDP growth and historically low interest rates support the deleveraging of the public sector, with debt-to-GDP ratios projected to be on a downward path in almost all Member States.

Graph I.63: **Budgetary developments, euro area**



(99) See e.g. M. Karanasos, P. Koutroumpis, Y. Karavias, A. Kartsaklas and V. Arakelian (2016). 'Inflation convergence in EMU'. *Journal of Empirical Finance* 39B, pp. 241–53.

(100) The structural balance corrects the headline balance for both cyclical, one-off and temporary budgetary factors, and hence isolates the impact of discretionary government policy action and interest expenditure.

Table I.1.7:

General Government budgetary position - euro area and EU28

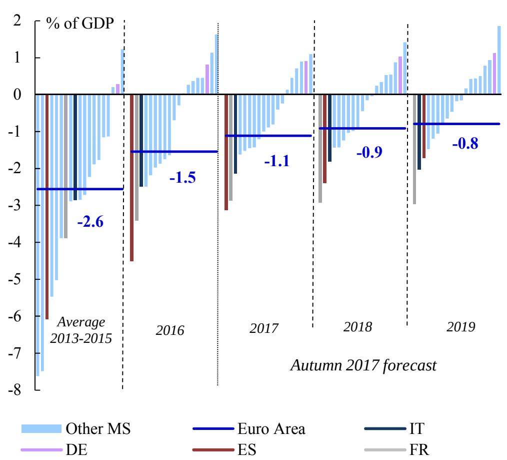
(% of GDP)	Euro area						EU28					
	Autumn 2017 forecast				*Spring 2017 forecast*		Autumn 2017 forecast				*Spring 2017 forecast*	
	2016	2017	2018	2019	*2017*	*2018*	2016	2017	2018	2019	*2017*	*2018*
Total receipts (1)	46.1	**46.1**	**45.9**	**45.7**	*46.2*	*46.0*	44.7	**44.7**	**44.5**	**44.3**	*44.8*	*44.7*
Total expenditure (2)	47.6	**47.2**	**46.8**	**46.5**	*47.6*	*47.3*	46.3	**46.0**	**45.6**	**45.2**	*46.4*	*46.1*
Actual balance (3) = (1)-(2)	-1.5	**-1.1**	**-0.9**	**-0.8**	*-1.4*	*-1.3*	-1.7	**-1.2**	**-1.1**	**-0.9**	*-1.6*	*-1.5*
Interest expenditure (4)	2.2	**2.0**	**1.9**	**1.8**	*2.1*	*2.0*	2.1	**2.0**	**1.9**	**1.8**	*2.0*	*2.0*
Primary balance (5) = (3)+(4)	0.6	**0.9**	**1.0**	**1.0**	*0.7*	*0.7*	0.4	**0.8**	**0.8**	**0.9**	*0.4*	*0.5*
Cyclically-adjusted budget balance (a)	-0.9	**-0.9**	**-1.1**	**-1.1**	*-1.1*	*-1.3*	-1.2	**-1.2**	**-1.3**	**-1.2**	*-1.5*	*-1.5*
Cyclically-adjusted primary balance (a)	1.3	**1.1**	**0.8**	**0.7**	*1.0*	*0.6*	0.9	**0.9**	**0.6**	**0.6**	*0.6*	*0.4*
Structural budget balance (a)	-0.9	**-1.0**	**-1.1**	**-1.1**	*-1.1*	*-1.3*	-1.3	**-1.2**	**-1.3**	**-1.2**	*-1.5*	*-1.5*
Change in structural budget balance (a)	0.0	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.2*	0.3	**0.1**	**0.0**	**0.0**	*-0.2*	*0.0*
Gross debt	91.1	**89.3**	**87.2**	**85.2**	*90.3*	*89.0*	84.8	**83.5**	**81.6**	**79.8**	*84.8*	*83.6*

(a) as a % of potential output. The structural budget balance is the cyclically-adjusted budget balance net of one-off and other temporary measures estimated by the European Commission.

Improving cyclical conditions and lower interest expenditures support deficit reduction...

The euro area general government deficit-to-GDP ratio is set to decline to 1.1% in 2017 (1.2% in the EU), from 1.5% in 2016 (1.7% in the EU) (Table I.6). The deficit is expected to continue falling in both areas in 2018 and 2019. The euro area deficit is set to fall by 0.2 pps. of GDP (to 0.9 %) in 2018, after incorporating policy measures from the 2018 Draft Budgetary Plans (DBPs). [101] The deficit is projected to decline further to 0.8% of GDP in 2019, based on a no-policy-change assumption (Graph I.64).

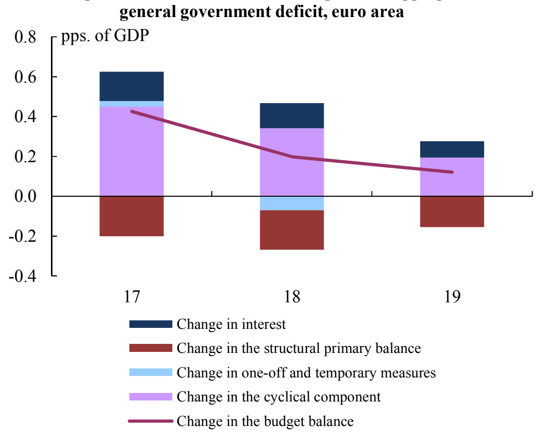
Graph I.64: **Net lending (+) or net borrowing (-), general government, euro area and MS (2013-2019)**



In each period, the bars for all 19 euro area economies are ranked by size.

Several factors contribute to the projected decline in the euro area general government balance between 2017 and 2019 (Graph I.65). The main driver is expected to be the change in the cyclical component of the budget, i.e. the budgetary impact of economic growth outpacing potential growth. More specifically, the cyclical component is set to provide a positive contribution of around 0.45 pps. of GDP in 2017, which should drop to 0.35 pps. in 2018 and 0.2 pps. in 2019 on the back of the expected slowing of economic growth in the euro area. Moreover, with interest rates remaining at historical lows, the reduction in interest expenditure will continue to support the decline in the general government balance over the forecast period, although this effect is expected to fade by 2019. By contrast, a negative contribution is expected from declining structural primary balances in 2017-2019, which signals some deficit-increasing impact from discretionary fiscal policy over the forecast horizon. The impact of one-off and temporary measures is set to be limited over 2017-2019. [102]

Graph I.65: **Breakdown of the change in the aggregate general government deficit, euro area**



Looking at developments at the country level, the general government balance is projected to improve in 18 Member States between 2016 and 2019. In 2017, only Spain is forecast to have a

(101) By comparison, April's stability programmes planned a deficit reduction of 0.4 pps. of GDP in the euro area.

(102) Examples of typical one-offs include revenues from tax amnesty and from sales of non-financial assets, and expenditure related to short-term emergency costs.

Table I.1:
Euro area debt dynamics

	Average 2005-12	2013	2014	2015	2016	2017	2018	2019
General government gross debt ratio[1] (% of GDP)	**76.3**	**93.7**	**94.2**	**92.1**	**91.1**	**89.3**	**87.2**	**85.2**
Change in the ratio	2.9	2.3	0.5	-2.1	-1.1	-1.8	-2.0	-2.0
Contributions to the change in the ratio:								
1. Primary balance (reversed sign)	**0.5**	**0.2**	**-0.1**	**-0.3**	**-0.6**	**-0.9**	**-1.0**	**-1.0**
2. Snowball effect[2]	**1.3**	**1.9**	**0.6**	**-0.8**	**-0.2**	**-1.0**	**-1.3**	**-1.1**
Of which:								
Interest expenditure	2.9	2.8	2.6	2.4	2.2	2.0	1.9	1.8
Growth effect	-0.6	0.2	-1.3	-1.9	-1.6	-2.0	-1.8	-1.6
Inflation effect	-1.2	-1.2	-0.8	-1.3	-0.7	-1.0	-1.4	-1.3
3. Stock-flow adjustment	**1.1**	**0.1**	**0.0**	**-1.0**	**-0.3**	**0.1**	**0.2**	**0.1**

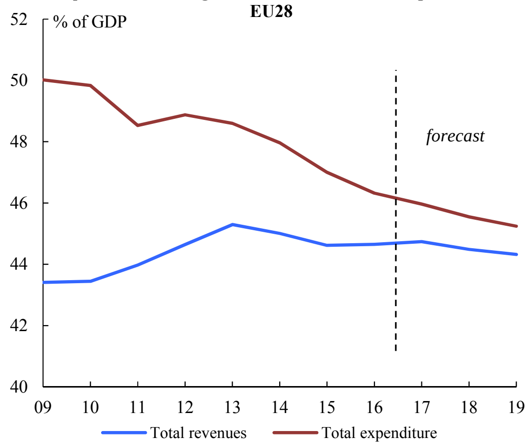
[1] End of period.
[2] The "snow-ball effect" captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.
Note: A positive sign (+) implies an increase in the general government gross debt ratio, a negative sign (-) a reduction.

deficit above the 3.0% of GDP Treaty threshold. (103)

...thanks to a falling expenditure-to-GDP ratio.

Over 2017-2019, the general government deficit-to-GDP ratio is expected to fall in both the euro area and the EU as a result of a fall in the expenditure ratio that is larger than the drop in the revenue ratio. The expenditure-to-GDP ratio in the euro area is set to decline by 1.1 pps. of GDP over the forecast period, from 47.6% in 2016 to 46.5% in 2019, under a no-policy-change assumption (Graph I.66). Part of this decline is explained by lower interest expenditure, which is set to fall by 0.4 pps. of GDP, from 2.2% of GDP in 2016 to 1.8% in 2019. The rest of the 1.1 pps. decline in the expenditure ratio is mainly explained by improving cyclical conditions. As actual GDP is forecast to grow more than potential GDP over 2017-2019, this should imply a dampening impact on the expenditure-to-GDP ratio (other things being equal). (104) At the same time, as labour markets are set to improve, lower unemployment benefits will also contribute to the reduction in the expenditure ratio over the forecast period. (105)

Graph I.66: **General government revenues and expenditure, EU28**



In terms of the quality of public spending, public investment is expected to benefit from the implementation of the 2014-2020 programming period of EU funding as well as from the Investment Plan for Europe (see also Section I.4) Nonetheless, the aggregate ratio of public investment to GDP in the euro area is projected to increase only marginally (to 2.7% in 2019, from 2.5% in 2016) and should thus remain below its pre-crisis average (3.2% of GDP over 2000-2007).

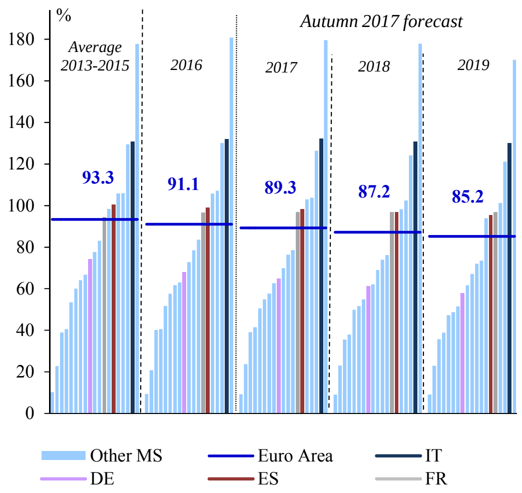
The government revenue-to-GDP ratio of the euro area is set to remain unchanged at about 46.1% in 2017, as the expected stronger economic growth is set to be matched by a similar increase in revenues. The revenue ratio is projected to decline in both 2018 (by 0.2 pps.) and 2019 (by 0.2 pps.) reaching 45.7% (1 pp. below the previous peak of 46.7% recorded in 2014), under a no-policy-change assumption. This decrease mainly reflects a reduced weight of social contributions (to 15.0% of GDP in 2019 from 15.3% in 2017).

(103) Romania shows a deficit forecast larger than 3% of GDP in 2018 and 2019, based on a no-policy-change assumption.
(104) By comparison, the primary expenditure ratio of the euro area is set to remain broadly stable over 2017-2019 when computed in terms of potential GDP.
(105) For further details on expenditure and revenues elasticities see Mourre, G., C. Astarita and S. Princen (2014). 'Adjusting the budget balance for the business cycle: the EU methodology'. European Commission, *European Economy*, Economic Papers 536.

Stronger nominal growth and low interest rates help keep the debt ratio on a declining path

The general government debt-to-GDP ratio of the euro area has been on a declining path since 2014, when it reached a peak of 94.2% (88.2% in the EU). In 2017, the debt ratio is expected to continue falling to 89.3% of GDP (83.5% in the EU) (see Graph I.67 and Table I.6). Over the next two years, the debt-to-GDP ratio in the euro area is projected to fall further to 85.2% in 2019, under a no-policy-change assumption.

Graph I.67: **Gross debt, general government (% of GDP), euro area and Member States (2013-2019)**



In each period, the bars for all 19 euro area economies are ranked by size.

Over 2017-2019, the debt-to-GDP ratio is projected to decline in all Member States, except Romania (40.5% in 2019) and France (96.9%). The reduction in the debt ratio is expected to be supported by debt-decreasing snowball effects in all Member States except Italy. [106] Moreover, a majority of Member States is forecast to run debt-decreasing primary surpluses by 2019. By contrast, stock-flow adjustments are projected to provide a small debt-increasing contribution. Despite its projected decline, the debt-to-GDP ratio in 2019 is set to remain above 100% in four Member States (Belgium, Greece, Italy and Portugal), and above 90% in three others (Spain, France and Cyprus).

(106) The snowball effect is the impact on the debt-to-GDP ratio provided by the difference between nominal growth and the implicit interest rates paid on debt. Specifically, in the euro area aggregate, nominal GDP growth is projected to average 3.5% over 2017-2019 and thus outpace the average interest rate paid on debt, which is set at 2.2%. As a result, the snowball effect is expected to help reduce the debt ratio in the euro area aggregate by slightly more than 1 pp. of GDP per year on average over the forecast period.

9. MACROECONOMIC POLICIES IN THE EURO AREA

Monetary conditions in the euro area remain accommodative. Based on the customary assumptions concerning interest rates and foreign exchange rates (Box 4), short-term money market rates are set to increase gradually in 2018 and 2019 but should remain supportive overall in real terms. In addition, a renewed gradual increase in long-term inflation expectations should keep real long-term financing costs in negative territory. The fiscal policy stance, as measured by the change in the structural balance, turned broadly neutral in 2015 and is expected to stay broadly neutral over the forecast period.

Monetary conditions are expected to remain accommodative

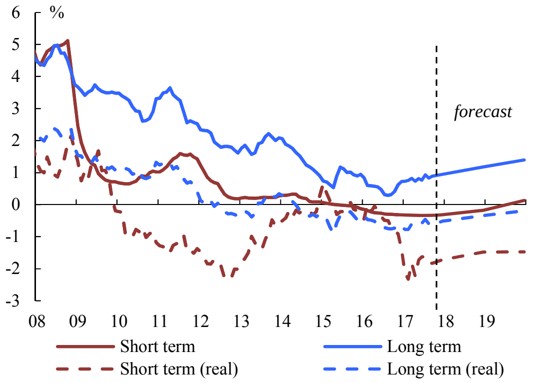
While monetary policy is expected to keep financing conditions in the euro area very loose overall, the further strengthening of economic growth in the euro area and the gradual rise in inflation have led to market expectations of gradually increasing nominal rates over the forecast horizon. Nominal long-term rates have further increased amid fluctuations since the spring and are expected to continue to trend up modestly. The high stock of assets purchased under the Expanded Asset Purchase Programme (EAPP) in the Eurosystem's balance sheet, in combination with the continued reinvestment of maturing securities, should ensure that nominal long-term rates stay low, while the resulting high excess liquidity should weigh on short-term money markets and lending conditions further on. Indeed, in the money market, the overnight rate (EONIA) has continued to trade slightly above the ECB's deposit facility rate in recent months, amid the high and still-growing excess liquidity in the banking system. Similarly, the three-month Euribor rate has stayed at record low levels since the spring.

In real terms, short-term rates stood in September where they had been in March, amid substantial fluctuations that were caused by volatile inflation developments (Graph I.68). [107] Real long-term

(107) Real rates are derived from the respective short- or long-term rate minus annual HICP inflation and expected average inflation according to 10-year inflation swaps, respectively. Forecasts are derived from futures and forward rates, deflated by the Commission's inflation forecast and market-based measures of inflation expectations.

interest rates derived from inflation and interest rate swaps, which have been negative since May 2014, has moved within a narrow range between March and September, as the increase in nominal rates has been offset by higher longer-term inflation expectations.

Graph I.68: **Euro area interest rates**

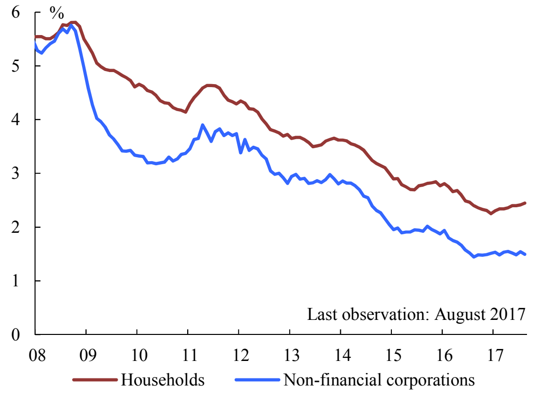


Short term rate: 3M Euribor; Long term rate: 10Y interest swap.
Source: Bloomberg

Looking ahead, overnight rates are assumed to remain close to current levels over the coming months and to increase only very gradually thereafter, as suggested by EONIA forward rates. Market expectations for the first interest rate hike by the ECB have been pushed forward somewhat in recent months, with a 10 bps. rate hike now fully priced in for the first quarter of 2019. As inflation is expected to decrease somewhat in 2018 and pick-up again in 2019, this should lead to a slight increase in real short-term interest rates for 2018 and a decrease in 2019, with real short-term rates nonetheless remaining clearly in negative territory. At the same time, forward rates are consistent with a continued gradual rise in nominal long-term rates over the forecast horizon, which should also translate into slightly higher real long-term rates, as long-term inflation expectations do not increase at the same pace.

The transmission of movements in nominal short- and long-term market rates to nominal financing conditions in the non-financial private sector is captured by the composite credit cost indicators (CCCI) [108] for non-financial corporations and households (Graph I.69). While credit costs for households have continued their moderate increases over the past six months on account of slightly higher rates on housing loans, the CCCI has remained broadly unchanged at very low levels for non-financial corporations. This reflects a further decrease in corporate sector bond yields that was offset by slightly higher bank lending rates, particularly for long-term loans.

Graph I.69: **Composite credit cost indicators, euro area**



Sources: ECB, Bloomberg, own calculations.

A broadly neutral fiscal policy stance

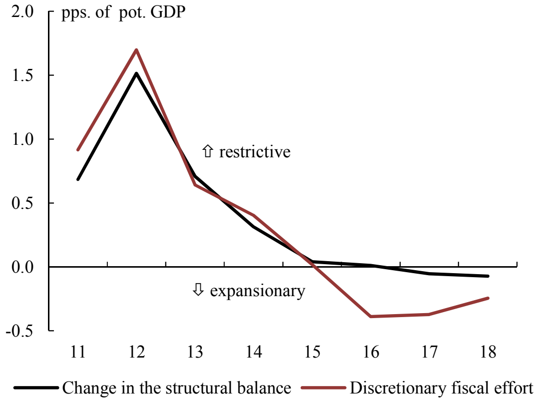
The fiscal policy stance in the euro area has stopped being restrictive in 2015. [109] Over the forecast period, a broadly neutral fiscal stance is projected, based on marginally deteriorating structural balances in 2017 and 2018 (Graph I.70). The discretionary fiscal effort, [110] an alternative indicator to assess the fiscal policy stance, signals a slightly expansionary stance in 2017 and a broadly neutral one in 2018. For 2017 in particular, euro area primary expenditure - net of one-offs and cyclical unemployment benefits - is projected to increase by 3.3% year-on-year in nominal terms. This is more than the estimated 2.2% medium-term nominal potential growth for this year (i.e. 1.1% medium-term real potential growth plus 1.1% GDP deflator growth). As a result, the expected developments in discretionary expenditure imply around 0.45% of GDP of additional spending in 2017 compared to neutral spending developments based on potential growth. This fiscal expansion on the expenditure side is only partly offset by

[108] The CCCIs are calculated as weighted averages of interest rates on different types of bank loans and corporate bonds (in case of non-financial corporations).

[109] Usually, the fiscal stance refers to the orientation of fiscal policy, which can be qualified as expansionary, restrictive or neutral. In this section, a neutral stance is one where government discretionary decisions, essentially the growth of (primary) spending and the new tax measures, neither support nor drag on the private economy compared with a steady state path (e.g. when primary government expenditures – net of one-offs and cyclical unemployment benefits – expand in line with medium-term growth and no tax measures in either direction are taken).

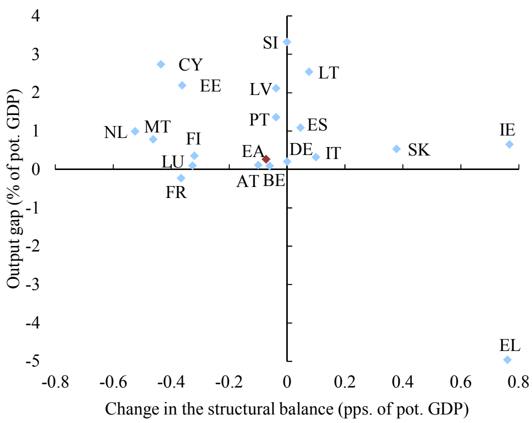
[110] For further details on the methodology to compile the discretionary fiscal effort, see Carnot, N. and F. de Castro (2015). 'The Discretionary Fiscal Effort: an Assessment of Fiscal Policy and its Output Effect'. European Commission, *Economic Papers* 543.

additional structural discretionary revenues, estimated at around 0.1% of GDP.



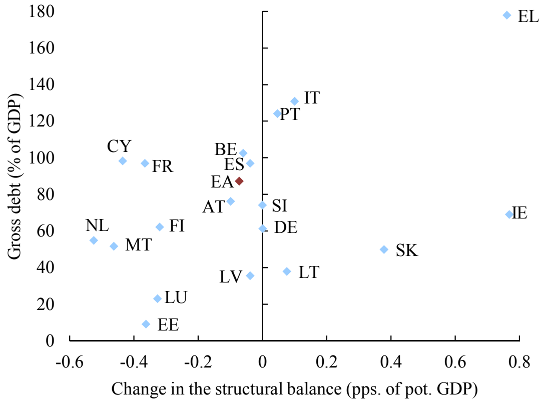
Graph I.70: **Change in the structural balance and Discretionary Fiscal Effort, euro area**

At the national level, six euro area Member States are projected to have an expansionary fiscal stance - in terms of the change in the structural balance - combined with a positive output gap in 2018 (Graph I.71; upper-left quadrant). Looking at the five largest euro area Member States, the autumn forecast points to an expansionary fiscal stance in France and the Netherlands in 2018, while a broadly neutral fiscal stance is forecast for Spain, Germany and Italy.



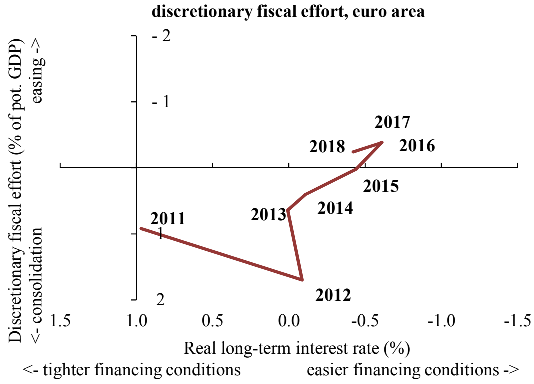
Graph I.71: **Change in the structural balance vs. output gap, 2018**

There is not always a clear relation between the expected fiscal effort (as measured in terms of the change in the structural balance) and the level of debt-to-GDP ratios across Member States (Graph I.72). Looking ahead, further fiscal effort may be needed in several highly indebted Member States in order to achieve an adequate reduction in the debt ratio in a context of moderate growth prospects and amid the risk that historically low interest rates may turn less favourable, further weighing on the budget balance.



Graph I.72: **Change in the structural balance vs. gross debt, 2018**

The policy mix in the euro area reflects the interplay between financing conditions and fiscal policy (see Graph I.73). Overall, the policy mix should be assessed in the context of a recovery that has gained momentum but remains incomplete, as reflected in persistently low core inflation and the prevalence of labour market slack in several Member States. On the monetary side, the additional measures taken by the ECB since the end of 2014 have exerted a significant downward pressure on nominal long-term interest rates in recent years. However, monetary easing has only been partially transmitted to real rates as long-term inflation expectations also declined over the same period and only started to pick up towards the end of 2016. The rise in inflation expectations since then, which has taken place in the context of a strengthening, is reflected in higher nominal long-term rates, resulting in broadly unchanged real rates for 2017. Meanwhile, the appreciation of the euro since April has had a slight tightening effect on broader monetary conditions in the euro area.



Graph I.73: **Real long-term interest rates and discretionary fiscal effort, euro area**

Note: Horizontal axis centered at +1, which is broadly in line with potential growth over the forecast horizon.

For 2018, average real long-term rates (derived from the 10-year swap rate deflated by inflation expectations) are expected to increase somewhat, as the gradual increase in nominal rates is not expected to be accompanied by a corresponding pick-up in inflation expectations further out. However, financing conditions should remain very supportive. At the same time, as illustrated by both the change in the structural balance and the discretionary fiscal effort indicators, the fiscal policy stance is set to remain broadly neutral.

10. RISKS

There are a multitude of risks and uncertainties which could cause macroeconomic developments to turn out differently than described in the central scenario of the autumn forecast. Many of these risks are related to the changing policy context, which might include different policy actions than incorporated in the central scenario. Overall, risks to the outlook for economic growth and inflation are broadly balanced.

Downside risks to the growth outlook are mainly external...

Global risks dominate the spectrum for alternative scenarios. In the short term, downside risks from the external environment mainly come from elevated geopolitical tensions (e.g. on the Korean peninsula and in the Middle East), but also from potentially tighter global financial conditions. Uncertainties about macroeconomic policies pursued in major countries outside Europe and Brexit add to these factors.

Rising geopolitical tensions and domestic political discord can hurt global market sentiment and confidence, burdening economic activity. The main development in the past months is the escalation of the situation on the Korean peninsula, where military action cannot be excluded. [111] But tensions in other parts of the world could also create negative effects on global economic activity and trade (e.g. Syria, Ukraine, South China Sea, Iran), either directly or indirectly, for instance via higher commodity prices.

In the medium term, external risks relate to a possible setback in global trade integration as well as a disorderly adjustment in China, whereas vulnerabilities in other emerging market economies persist, for instance with respect to an abrupt tightening of global financial conditions. A hard landing for China in its transition or sudden stops in capital flows to vulnerable emerging market economies would have adverse repercussions for European economies through weaker trade and deteriorating sentiment. Following a period of rising opposition to globalisation, inward-looking policies could introduce restrictions to foreign trade and foreign direct investment that disrupt global supply chains, lower productivity and distort economic growth, most notably in the more open economies. [112] More inward-looking policies could also trigger a correction in asset valuations and an increase in financial market volatility.

The strength of economic activity will be a key determinant of decisions about the removal of monetary stimulus in advanced economies. For example, in the US economy, stronger-than-expected growth momentum or inflation could trigger a faster or stronger monetary tightening than currently assumed. If this were to lead to investor risk aversion globally, there could be significant spillovers in terms of capital flows, financial market stability and financial conditions. This would hit the US and many emerging markets but could also impact negatively on Europe. The risks associated with a rapid increase in the price of risk are more substantial when leverage ratios are high, as they are now. [113]

Another key mid-term risk is related to the Brexit negotiations. Depending on the outcome of the negotiations, the transition may not be as smooth as assumed in the central scenario. Further risks are related to the technical assumptions underlying the forecast. A stronger-than-assumed appreciation of the euro (especially if not driven by improved economic fundamentals), or a weaker than expected expansion of global economic activity and foreign trade, are both substantial downside risks.

[111] In a recent work, Ben Zeev and Pappa showed that such escalation in tensions can also have real effects for the US economy in the short to medium run via the response of companies and households to announced changes in defence spending; see N. Ben Zeev and E. Pappa (2017). ‘Chronicle of a war foretold: the macroeconomic effects of anticipated defence spending shocks’. *Economic Journal* 127:603, pp. 1568–97.

[112] For an in-depth analysis see e.g., Bundesbank (2017). ‘The danger posed to the global economy by protectionist tendencies’. *Monthly Report* 69:7, pp. 77–91.

[113] See IMF (2017). Global Financial Stability Report, October.

...whereas upside risks are mainly domestic...

On the domestic side, diminishing uncertainty, improving sentiment and the synchronous rebound outside Europe could result in a stronger-than-expected expansion in Europe. Short-term political risks seem to have decreased further in recent months. The dissipating political uncertainty in the wake of elections in Europe had a positive short-run impact on economic growth and, if sustained, creates the foundations for diminishing long-run uncertainty. Further positive momentum could result from a faster than currently envisaged strengthening in the architecture of Economic and Monetary Union.

On the upside, growth momentum could prove stronger and more durable than expected amid strong consumer and business confidence in the euro area and near-term growth could exceed the forecast, which pencils in a cautious reading of sentiment indicators. There is also the possibility that investment could turn out stronger than forecast due to pent-up demand in Europe after many years of weak corporate spending.

On the downside, a faster-than-assumed steepening of the yield curve would probably challenge many asset valuations, which could, through wealth and sentiment effects have some dampening impact on economic growth. While market reactions to recent events in Catalonia have remained contained, the risk exists that future developments could have an impact on economic growth.

As regards the banking sector, public interventions in some countries have somewhat eased near-term risks stemming from the remaining vulnerabilities in the European banking system. But the combination of low profitability and legacy issues (e.g. the stock of non-performing loans) could threaten the viability of some banks. In such a situation, low earnings could limit the ability of banks to build cushions against unexpected losses and to raise capital in markets. A faster-than-expected rise in long-term interest rates would have important and asymmetric effects for banks (e.g. wholesale funding, valuation effects) and sovereigns. Countries more exposed to financial fragilities would be more exposed to sovereign risk, possibly reviving the problem of negative feedback loops. Financial conditions could tighten significantly in high-public debt countries, putting further pressure on banks. Particularly in economies that are very reliant on bank funding, such developments would have a negative effect on economic activity.

In the longer term, the low potential growth constitutes a risk. Lingering crisis legacies and structural weaknesses could hamper potential output growth in the EU more than currently envisaged. Given that potential growth is set to remain around 1½%, which is already low by historical standards, a further deterioration would be detrimental to macroeconomic developments even in the short term.

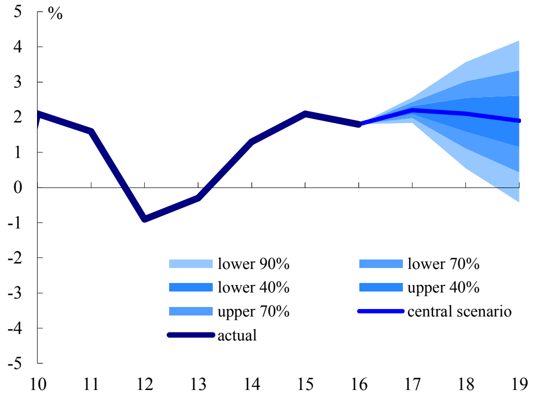
Also in the long-term, the already visible challenges to the European automotive sector (end of combustion engines, development of electric cars, autonomous vehicles) could endanger an important manufacturing sector more than currently projected, in particular in countries where companies have worsened their outlook by observed and/or alleged mis-behaviour.

...which adds up to broadly balanced risks to the growth outlook...

All in all, risks to the growth outlook look broadly balanced. This marks a difference from forecasts in previous years when the crisis-related legacies had mostly driven the balance of risks into negative territory.

Recent developments in risks to the euro area growth outlook are visualised in a fan chart analysis, which depicts the probabilities associated with various outcomes for euro area economic growth over the forecast horizon and shows the most likely development in the darkest area. The broadly balanced risks are visible in the symmetry of the confidence bands for given probabilities (see Graph I.74).

Graph I.74: **Euro area GDP forecast - Uncertainty linked to the balance of risks**



...which are interrelated with risks to the inflation outlook...

Risks to the inflation outlook have intensified, but remain broadly balanced. Many of the risks are closely related to the materialisation of risks to the growth outlook. Upside risks are associated with a stronger-than-expected expansion, which would raise domestic inflationary pressures. Higher external price pressures could also result from a stronger-than-expected increase in oil prices.

Downside risks to the inflation outlook relate to a further appreciation of the euro, which would, given the assumption of constant nominal exchange rates in the central scenario, lower oil prices in euro terms. Further downside risks include innovation-driven positive supply shocks, which could lower price pressures. Also an unexpected fall in inflation expectations with its impact on the behaviour of backward-looking households and companies could lower inflation. For instance, this would keep wage growth lower than expected and reduce domestic inflationary pressures below those expected in the central scenario.

...with risks related to the changing policy context the main difference from earlier risk assessments.

Overall, most of the risks to the growth and inflation outlook are interdependent and can mutually reinforce each other. For example, stronger-than-expected growth momentum would raise inflationary pressures and impact on the pace of the removal of monetary stimulus. A faster-than-expected monetary tightening in the US or in Europe would impact on foreign exchange markets and most likely shift exchange rates away from what is assumed in the forecast. This indicates some of the difficulties of macroeconomic forecasting in times of a changing policy context.

Box I.1: Main drivers of growth in 2018 - shock decomposition from an estimated model

GDP growth is expected to continue at a robust pace in 2018. This box uses an estimated, general equilibrium, multi-region, structural macroeconomic model [1] to provide a decomposition of the main drivers of next year's forecast euro area real GDP growth. The model features two regions, the euro area and the rest of the world, and it has been estimated using historical quarterly data for the period from 1999-Q1 to 2017-Q2. The historical time series have been extended with forecast data from the European Commission's autumn 2017 forecast for the set of available variables.

The use of a structural macroeconomic model makes it possible to identify the exogenous factors driving short- and medium-term deviations of real GDP growth from its long-run trend, and to provide their underlying economic interpretation. The decomposition provided in this box takes the European Commission's forecast as an input and recovers the factors that explain it in a model-consistent way. Hence, the analysis presents the exogenous factors ('shocks') that provide a model-consistent interpretation of the forecast. By implication, these are the factors that would be needed to generate the forecast result in the model.

It should be noted, however, that the model-based decompositions are not necessarily identical to the impact that the same factors would have in the European Commission's forecast. Moreover, within a model of tractable size, not all of the estimated shocks can be interpreted directly as indicating fundamental 'causes'. For instance, changes in financial risk premia and financing costs that affect interest-sensitive demand components (e.g. investment) and the exchange rate may be associated with various behavioural and structural sources that are not specified explicitly and in detail in the model equations, such as changes in (subjective) risk perceptions, financial frictions, or non-standard policies (including quantitative easing).

Developments in the recent past have an impact on growth next year. The estimated persistence in the dynamics of the main variables in the model, which is due to rigidities such as price and wage stickiness, habits, inertia in adjusting the input factors (stock of capital and labour demand), and gradual responses of monetary and fiscal policies, implies that past events still affect current and future economic outcomes together with current events and expectations about future developments.

(1) These results are based on the Global Multi-Country (GM) DSGE model developed by DG ECFIN and the Joint Research Centre of the European Commission.

Based on the estimated model, Table 1 presents a decomposition of euro area real GDP growth in 2018 as projected by the European Commission's forecast (2.1%) into its principal drivers. The table summarises the large number of shocks into main groups of supply- and demand-side drivers and separates the contribution of past and future shocks.

Table 1:
Shock decomposition for real GDP growth in 2018

	Historical	Forecast	Total
Supply:			
Long-run trend			1.3
TFP	0.0	0.0	0.0
Labour & goods market adjustment	0.0	0.2	0.2
Oil	-0.1	0.0	-0.1
Demand:			
Domestic:			
Consumption	0.4	-0.1	0.3
Investment	0.1	-0.1	0.0
Fiscal spending	-0.1	0.0	0.0
Monetary policy	0.2	0.1	0.3
Foreign:			
World demand and int. trade	0.0	0.2	0.2
Exchange rate	0.0	-0.1	-0.1
Others			0.0
Real GDP growth (from forecast)			2.1

Note: The contributions of historical shocks and shocks over the forecast horizon do not at up to total in some cases due to rounding to the first digit.

The first column ('historical') displays the contribution of shocks that occurred up to 2017-Q2 to the outlook for euro area GDP growth in 2018, a contribution that is due to the persistence in the transmission channels embodied in the model. The second column ('forecast') shows the contribution of shocks from 2017-Q3 on, i.e. over the forecast horizon. The shocks over the forecast horizon are additional changes in exogenous variables that are required by the model to fit the forecast given the historical data and the estimated historical shocks. The contribution of past shocks and of shocks over the forecast horizon combines to give the total impact of the various supply and demand factors that is shown in the third column. Shocks that are not listed within a specific group of supply- or demand-side factors are included into the residual category of 'others'.

The long-run trend component (1.3%) in Table 1 is the real GDP growth rate that would prevail if the euro area economy was to grow at the average growth rates of total factor productivity (TFP) and the working-age population as observed over the period since 1999. Real GDP growth is forecast to

(Continued on the next page)

Box (continued)

exceed trend growth by 0.8 percentage points (pps.) in 2018 due to positive factors outweighing negative ones.

The third column of Table 1 shows that the listed demand-side factors dominate the picture and explain most of the positive deviation of the forecast from trend GDP growth, whereas the contribution of supply-side factors is smaller in size. The dominance of demand shocks is consistent with the closing of the output gap that is projected over the forecast horizon. The overall impact of past demand-side drivers (‘historical’) on the deviation of GDP growth from trend is large and positive (0.6 pps.) according to the model. The total impact of demand shocks over the forecast horizon (‘forecast’) is negligable. In other words, using the knowledge of recent data, the judgement-based autumn forecast for 2018 and the projections from the estimated model are aligned.

Regarding the supply side, total factor productivity (TFP) growth is at the long-run average (1999-2017), so that it does not contribute to deviations of the forecast from long-run rend growth.

In 2017, oil prices have risen from their 2016 low. The forecast’s technical assumptions include a moderate, continued rise in world-market oil prices in 2018, which the model attributes to a continuation of the upward trend in 2017. The oil price increase dampens GDP growth in 2018 (-0.1 pps.) via its impact on production costs and real disposable income. It is cushioned, however, by the parallel appreciation of the euro, which offsets the price increase in domestic currency terms (see the discussion of the exchange rate impact below).

Supply-side developments in the labour and goods markets play a positive role (0.2 pps.), which the model attributes to the positive net contribution of shocks in 2018 (‘forecast’). The contribution is driven by wage developments (0.2 pps.). In particular, the model interprets the moderate real wage growth as the impact of wage moderation. Wage moderation means that wage growth is weaker than suggested by the pace of the recovery and labour productivity growth. In the model, wage moderation is associated with positive employment and GDP effects, which is consistent with an upward revision in potential output growth on the basis of a decline in the NAWRU (non-accelerating wage rate of unemployment). This supply-side view of wage moderation holds regardless of the near-term negative demand implications of low wage growth.

Regarding the demand side, the post-crisis recovery of private consumption combined with a declining saving rate is interpreted by the model as a normalisation of savings behaviour after a period of deleveraging. Based on historical data, the model projects a further decline in the saving rate in 2018 that would strengthen consumption and GDP growth (0.4 pps.). The autumn forecast, to the contrary, is more cautious than the model and projects a weaker rise in consumption. In technical terms, the more cautious forecast implies that the model would require additional negative consumption shocks in 2018 to match the autumn forecast for consumption growth, contributing negatively to GDP over the ‘forecast’ horizon (-0.1 pps.).

The forecast for private investment in 2018 is strong compared to the 1999-2017 average, but also indicates some decrease in investment growth in real terms. The estimated model associates the steady investment growth with the improvement of investment specific factors, notably a decline in the investment premium, defined as the gap between the (required) return on investment and the risk-free interest rate after the crisis (0.1 pps.). The estimated model projects further normalisation of investment conditions over the forecast horizon towards the 1999-2017 mean. Investment growth in the autumn forecast is weaker than the model’s projection, which is based on continuously improving investment conditions. In the logic of the model, the more moderate outlook for investment growth in the autumn forecast is associated with an upward correction of investment premia in 2018, which accounts for the negative contribution (-0.1 pps.) of investment shocks in the ‘forecast’ column of Table 1.

The overall contribution of fiscal policy to GDP growth in 2018 in Table 1 is quantitatively minor, despite the projected slight decline in the structural primary balance in 2018. The absence of a quantitatively important fiscal impulse can be attributed by the particular composition of the change in the structural primary balance, which is mainly due to lower structural revenues that have a small fiscal multiplier in the model.

The model assigns a positive contribution of 0.3 pps. overall to monetary policy shocks. This is largely (0.2 pps.) associated with pre-2018 policy decisions that have been shaping future interest rates due to the expected persistence in interest rate

(Continued on the next page)

Box (continued)

setting in the model. With the output gap moving into positive territory in 2018 and prices growing faster than in recent years, the model's policy rule would imply a tapering of monetary accommodation, which is not reflected in the technical assumptions. Instead, the short-term policy rate is expected to remain low over the forecast horizon, which translates into additional monetary stimulus (0.1 pps.) compared to the model projections.

Unconventional monetary policy measures, such as quantitative easing, are not captured by the monetary policy shock in Table 1, which relates in the model to a Taylor rule, an approximation of the responsiveness of interest rates set by the central bank to changes in inflation and output gaps. Quantitative easing enters the model through its impact on savings behaviour (consumption), long-term interest rates and capital costs (investment) and the exchange rate. Quantitative easing would therefore, be one of the factors behind the positive growth contributions from lower saving and normalising investment conditions in Table 1.

The technical assumptions of the autumn forecast include strong output and import growth in the rest of the world (RoW). The assumption exceeds the model's projection for RoW growth that is based on historical information and a gradual return to the historical mean. Hence, the model indicates a positive contribution (0.2 pps.) of world demand and trade shocks that are needed in 2018 to align the model projections with the forecast.

The effective euro appreciation that is incorporated in the technical assumptions for 2018, dampens GDP growth in the short term to some extent compared to the model projection of a weaker euro exchange rate. The euro's appreciation weakens the price competitiveness of goods and services produced in the euro area compared to the rest of the world. It also reduces the price of imported commodities in euros and production costs in the euro area. The gradual response of trade volumes to price changes (i.e. a moderate short-term price elasticity of trade) in the model also attenuates the negative short-term effect of euro appreciation on GDP growth in 2018 (-0.1 pps.).

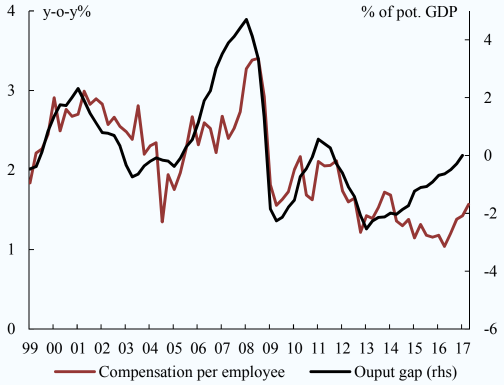
In sum, the overall contribution of the supply and demand factors in Table 1 is positive (0.8 pps.). The (cyclical) demand shocks (0.7 pps.) dominate the picture, which is consistent with the closing of the output gap in 2018. In particular, private consumption and continuously accommodative monetary policy on the domestic side account for most of the positive deviation of the 2018 forecast from trend growth according to the model-based decomposition. Wage moderation, which is needed to reconcile moderate wage growth with the projected strength of the recovery, adds to euro area GDP growth according to the model, which is consistent with an upward revision in potential output growth on the basis of a decline in the NAWRU. The strong world output and international trade growth embedded in the technical assumptions of the forecast contribute positively through higher euro area exports, whereas the built-in euro appreciation, as well as the moderate recovery of world-market commodity prices, dampen the growth outlook. Taken together, the deviations of the autumn forecast from the model projection with respect to foreign and world-market factors neutralise each other in their impact on euro area GDP growth in 2018.

Box I.2: What drives wage developments?

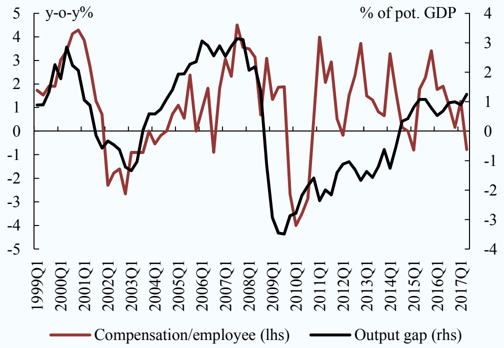
Despite strengthening recovery, wage growth remains subdued

The relationship between nominal wage growth and the output gap seems to have weakened in the past years and particularly in advanced economies. In the euro area, while the recovery of the economy since mid-2013 has led to a gradual closing of the output gap, wage growth (as measured by compensation per employee) has remained subdued, averaging 1.4% y-o-y since mid-2013 as compared to an average annual growth rate of 2.5% between 2004 and 2008. A similar pattern can be observed for the US which is ahead of the euro area in terms of the cycle: while the output gap has turned increasingly positive since its closure around 2014, compensation per employee grew at around 2% since 2012, well below the pre-crisis dynamics (3.5% in 2004-2008).

Graph 1a: **Wage growth and the output gap, euro area**



Graph 1b: **Wage growth and the output gap, US**



Source: Eurostat, US Bureau of Economic Analysis, US Bureau of Labor Statistics, AMECO, own calculations

Subdued wage growth has been observed in a large number of euro area Member States and across different sectors of the economy. In particular, wage growth in Spain has been considerably lower in recent years than before the crisis, followed by Italy and France, whereas German wage growth actually increased on average since mid-2013 as compared to before the crisis. With regard to sectors, while not surprisingly sectors that have seen employment losses over the past years such as construction and manufacturing displayed a slowdown in wage growth, so did also sectors which have expanded their labour force. Although job creation since the crisis has been unevenly distributed, being concentrated mainly in the low-productivity services and public sectors, sectoral shifts in employment have only made a modest contribution to wage moderation. A decomposition of euro area wage growth into weighted sectoral wage growth ('within effect') and those effects that are attributable to shifts in the sectoral composition of the labour force shows that while such sectoral shifts, e.g. over-proportional employment growth in low-wage sectors, have generally exerted a drag on wage growth for the most part of the past decade [(1)], the overall magnitude of this labour shift effect is small. Moreover, a significant post-crisis strengthening of these effects that could explain the slow wage growth relative to the output gap developments since mid-2013 is not visible.

Quantitative analysis suggests a flattening Phillips curve

A quantitative analysis tries to shed more light on the drivers of wage developments in the euro area. To this end, a new Keynesian wage Phillips curve (PC) calibrated for the euro area is estimated, using quarter-on-quarter wage growth as the dependent variable, which is explained by a slack variable, quarter-on-quarter labour productivity growth and backward as well as forward-looking inflation measures. [(2)] As simple wage equations have a tendency to be unstable, a time-varying parameter version of the baseline model is estimated using the Kalman filter to account for parameter instability.

(1) On the euro area level, this pertains in particular to a lower employment share in the high-wage sectors manufacturing and financial and insurance activities, whereas low-wage sectors such as health and social work as well as accommodation and food services activities have grown relatively more.

(2) The baseline model is defined as $\pi_t^w = const + \alpha gap_t + \beta prod_t + \gamma \pi_{t-2}^c + \delta E_t \pi_{t+4} + \varepsilon_t$, where π_t^w denotes quarter-on-quarter wage growth measured by compensation per employee and gap_t the level of the output gap based on trend real GDP published in DG ECFIN's AMECO database. $prod_t$ denotes quarter-on-quarter changes in labour productivity defined as real output per employee, π_{t-2}^c is the second lag of core inflation and $E_t \pi_{t+1}$ the 1-year ahead inflation expectations obtained from the ECB's Survey of Professional Forecasters (SPF). ε_t is an independently and identically distributed error term.

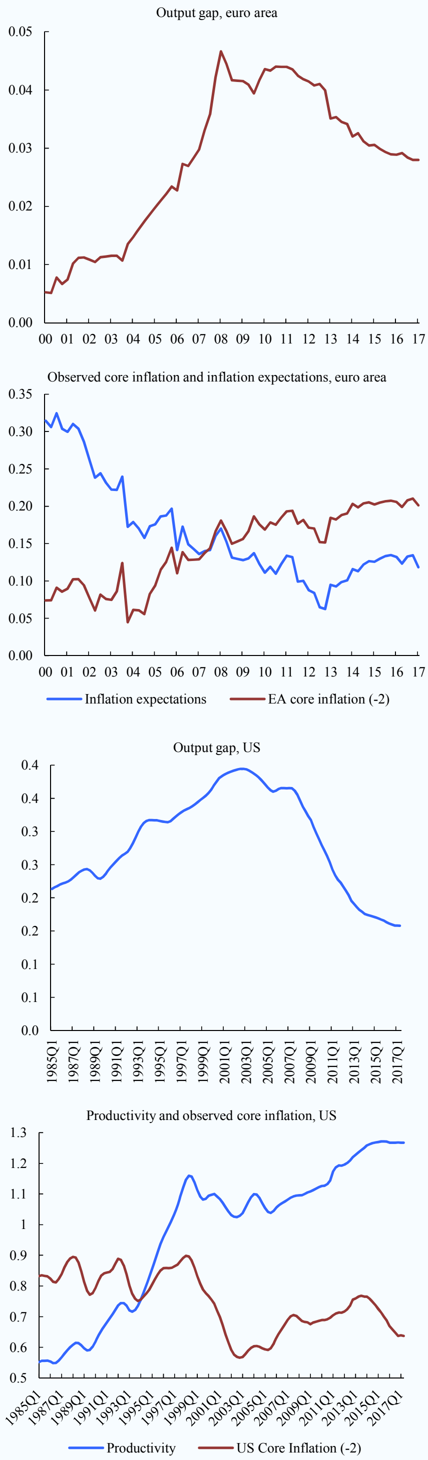
(Continued on the next page)

Box (continued)

The results confirm the important role of standard measures of slack in explaining wage growth but also points to a significant flattening of the wage Phillips curve since about 2011, i.e. the estimated coefficient on the output gap has weakened over this period (Graph 2a). This flattening suggests a decreased sensitivity of wage growth to economic slack in recent years. Adding productivity growth on top of the output gap as an explanatory variable enhances the overall model fit, suggesting that the low level of productivity growth observed in the current recovery has been pushing wage growth down compared with the immediate pre-crisis period. However, this effect remains relatively small overall. By contrast, controlling for past inflation and inflation expectations leads to significant improvements in the model fit. Interestingly, the coefficients for backward and forward looking inflation measures show opposite trends (Graph 2b). Whereas the former increased continuously at least until the global financial crisis, the latter shows an opposite trajectory. This suggests a tendency towards a more backward looking wage formation system during the first decade of the euro. The trend appears to have stopped since the current recovery.

The quantitative analysis for the US based on a similar [(3)] model specification also points to a flattening of the curve starting already in the early 2000s (Graph 2c). Productivity seems to be a much more important factor driving wage developments in the US than in the EA, with its importance rising steadily over time as shown by the Kalman filter time varying model estimation (Graph 2d). Past inflation also weighs heavily on wage developments, with some moderation in the last fifteen years compared to the prior two decades. Contrary to the euro area, inflation expectations do not improve the model fit and introduce instability to the model instead, possibly reflecting the purely adaptive character of inflation expectations. Protracted low productivity coupled with stubbornly weak inflation seem to be the main factors dampening wage growth in the US.

Graph 2: **Time varying coefficients for the euro area and the US**



Note: the model specifications for the euro area and the US differ somewhat in terms of the endogenous variables included, notably inflation expectations are excluded in the US model, and with respect to the growth rates used, as for the US year-on-year growth is used whereas the euro area specification uses quarter-on-quarter growth rates. The results of the Kalman filter estimates thus cannot be directly compared across the two regions.

(3) The baseline model is defined as $\pi_t^w = \alpha gap_t + \beta prod_{t5p} + \gamma \pi_{t-2}^c + \varepsilon_t$, where π_t^w denotes year-on-year wage growth measured by compensation per employee and gap_t the level of the output gap based on trend real GDP published in DG ECFIN's AMECO database. $prod_t$ denotes 5-quarter average of year-on-year changes in labour productivity defined as real output per employee, π_{t-2}^c is the second lag of core CPI inflation. ε_t is an independently and identically distributed error term. The year-on-year specification yields a more stable and robust model for the US. Richer data availability allows for estimating the model since 1961. A number of robustness checks have been conducted using alternative measures of all variables specified in the model.

(Continued on the next page)

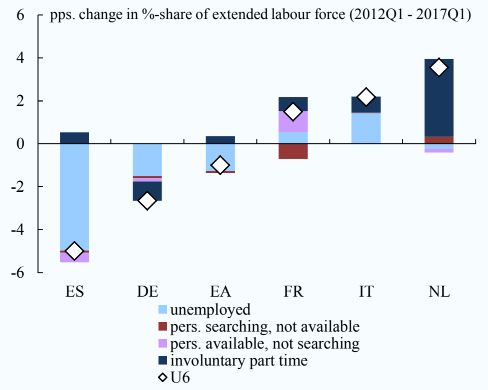
Box (continued)

What other factors can explain wage moderation?

As usually found in the economic literature, however, the overall fit of the wage Phillips curve regression is relatively low suggesting the need to look beyond the simple wage model presented above. Particularly, the current phase of wage moderation may also reflect changes in the labour market structures and in wage setting processes. Recent research has stressed the possible role of changes in the labour market and wage bargaining processes in explaining persistent wage moderation in advanced economies. Two types of argument have, in particular, been put forward. First, traditional measures of labour market slack such as the unemployment rate may not appropriately capture the extent of underemployment in the post-crisis world. Discouraged workers, workers looking for a job but not immediately available and underemployed part-time workers are not included in traditional unemployment measures. To account for this, a broader measure of unemployment (the so-called U6 measure) can be constructed by adding these various forms of unemployment or under-employment to standard unemployment. Changes in the broader measure seem to be following relatively closely changes in the standard unemployment rate but U6 suggests a considerably higher level of slack which could explain lower wage pressures. There is some empirical evidence that the U6 measure of slack on the labour market can improve the fit of Phillips curves in the euro area. [4] However, the additional explanatory power provided by this labour market measure is generally rather low regarding current wage developments. For the US, the U6 measure of slack is of less relevance since both U6 and the traditional unemployment measure have come back to pre-crisis lows recently. A recent study by the IMF [5] reports a negative impact of involuntary part-time employment (which is a component of U6) on wage growth in advanced economies although the effect across the entire country sample is relatively modest.

Second, there may have been structural changes in wage bargaining processes due to structural reforms in the labour market, a deterioration of the quality of employment (e.g. changes in the share of temporary employment) and changes in trade union behaviour. These structural changes could account for the flattening of the wage Phillips curve. For example, trade unions in some countries seem to have broadened the focus of trade negotiations with pay rises being just one element in a wider package. Demands regarding e.g. working-hour flexibility, training conditions or conditions for workers under fixed-term contract or part-time work for older workers seem to have gained in importance. Globalisation, outsourcing and the proliferation of global value chains may also have hampered unions' negotiation power. This is also confirmed by empirical work of the BIS [6], in which a measure of pricing power is included in a panel Phillips curve estimation to account for a possible trend decline in workers' pricing power (notably due to labour market reforms). Indeed, the parameter is found to be positive and significant, indicating that the lower pricing power of workers is one of the possible explanations of the flattening of the curve.

Graph 3: **Euro-area labour market situation**



Source: Eurostat, own calculations

The quality of jobs in terms of contract and working time has indeed deteriorated in the euro area. Between the beginning of 2012 and Q1 2017, 4.2 million jobs have been created in net terms in the euro area. However, the impressive employment creation has come on the back of a shift in the quality of jobs, i.e. in the form of an increase in temporary contracts and/or in part-time work. In fact, 60% of total net job creation over that period were part-time jobs (2.5 million), 34% (1.4 million) were temporary contracts. [7] Over the same period, the share of involuntary part time in job creations remained roughly constant. The

(4) See for example European Commission, DG Employment (2017). *Labour Market and Wage Developments in Europe.* Annual Review 2017 and Ciccarelli, Matteo, and Osbat, Chiara (editors) (2017). "Low inflation in the euro area: Causes and consequences." ECB Occasional Paper Series No 181.

(5) International Monetary Fund (IMF). 2017. *World Economic Outlook.* Washington, DC: IMF, October.

(6) BIS (2017), 87th Annual Report, p.67.

(7) Note that these are not disjoint categories, i.e. jobs can be qualified as both part-time and temporary.

(Continued on the next page)

Box (continued)

employees' bargaining power and thus might have led to more cautious wage demands.

Summing up, the analysis shows that euro-area and US wage growth can to a significant degree be explained by a standard wage equation. A low inflation environment and a backward looking expectation formation process together with low productivity growth (particularly for the US) have weighed on wage growth despite the simultaneous closure of the output gap. In addition there is evidence that the wage Phillips curve for both the euro area and the US has been flattening, i.e. it has become less responsive to cyclical conditions and that wages have become more dependent on past inflation. Finally, the low quality of employment creations in this recovery (e.g. a high share of temporary employment) and the existence of a large pool of workers not captured by standard unemployment measures may also, to some degree, have weighed on wages. If anything, this effect appears, however, to be rather small at the current juncture in the euro area as a whole and in the US.

Looking ahead, the model results suggest that the gradual increase of core inflation in past months should feed into the wage bargaining system, further supporting wage growth. However, the process can be expected to be rather slow due to the stickiness of the wage formation process in the euro area. Significant and structurally higher wage growth would require a trend reversal in low labour productivity growth. Additional factors could also weigh on inflation pressures in the short to medium run. Broader measures of the slack on the labour market like U6 point to a large pool of potential workers that could boost the labour supply in the years to come. For example, discouraged workers which are not captured by official unemployment rates might want to return to the labour market given the on-going recovery and together with a still significant share of involuntary part-time workers could contribute to keep a lid on employees' wage claims. In the US, lifting the wage growth from its current lows will crucially depend of the sustained rebound in productivity. On the other hand, the gradual tightening of the labour market is set to trigger a considerably weaker pass-through to wages compared to the pre-crisis period.

Structural differences in wage formation between Member States

While the baseline specification for the euro area overall explains relatively well recent wage developments at the euro-area level, it does not have the same explanatory power across all Member States. Applying the euro-area baseline wage specification to selected Member States (DE, FR, IT, ES and NL) points to large country differences in the explanatory power of the model both over the entire sample and for the most recent past. This suggests that there is room for further research including country-specific wage equations with idiosyncratic factors. In this respect, the overall relatively-low correlation of additional measures of labour market slack with wage growth for the euro area aggregate might mask significant differences across Member States. For instance, the above-mentioned IMF study finds that in advanced economies with unemployment rates still considerably above pre-crisis levels, involuntary part-time employment has weighed significantly on post-crisis wages. Furthermore, the quality of recent job creations has been more an issue in some euro area Member States than in others. For example, while temporary contracts are now more common than in the pre-crisis period in most advanced economies (WEO, 2017), Spain´s labour market currently stands out in the euro area in terms of workers subject to temporary contracts, both in terms of levels and the contribution to employment growth. This might partly explain why the rapid fall in unemployment in Spain since 2014 has not brought about higher wage growth, as temporary contracts are more likely to weigh on wage levels than permanent or part-time contracts. Similarly, the role of labour market reforms for wage developments in specific Member States might also warrant further research. In several Member States, significant reforms of employment protection systems were implemented introducing more flexible wage formation processes and affecting the shape of the wage equation. Finally, differences in integration in the global economy may also have contributed to country differences in wage growth. The possibility for multinationals to outsource part of the production abroad might be an additional factor constraining wage bargaining for trade unions. For instance, there is some empirical evidence that combines offshoring and labour market reforms to explain the German experience with wage developments, suggesting that German firms have relocated the labour intensive stages of production to low-wage countries, particularly Central European countries, with this relocation being much more pronounced in Germany compared to other European countries. [8]

[8] See Beissinger, T., Chusseau, N., & Hellier, J. (2016). Offshoring and labour market reforms in Germany: Assessment and policy implications. Economic Modelling, 53, 314-333.

Box I.3: **Automatic stabilisers in the euro area: a model-based assessment**

This box examines the contribution of automatic fiscal stabilisers to the stabilisation of GDP in recent years. Understanding the role played by automatic stabilisers in the recent past holds important lessons for forecasters as it should allow them to better assess the impact of future shocks to the economy.

In the EMU, national fiscal policy plays a particularly relevant role as a stabilisation tool because monetary and exchange rate policies are decided in common at the euro area level. The issue has become even more crucial in recent years as the large shocks that hit the economy revived the discussion over how fiscal policy can support macroeconomic stabilisation by reducing macroeconomic volatility. [1]

A fundamental distinction needs to be made between discretionary fiscal policy and automatic stabilisers, whose relative merits have been widely discussed in the academic literature and policy debate. [2] Automatic stabilisation is provided by rules in the tax and transfer systems that contribute to smooth economic fluctuations and thus drive the budget balance to move with the cycle, with the amplitude of budgetary fluctuations dependent on the degree of stabilization provided. Revenue and outlays from different budget components, such as income, corporate and indirect taxes and unemployment benefits and social security contributions, vary during expansions and recessions helping to achieve output stabilisation. McKay and Reis (2016) distinguish several channels through which automatic stabilisers operate: a disposable income channel, stabilisation through marginal incentives, a redistribution channel and a social insurance channel. [3] On the other hand, the use of discretionary fiscal policy to manage short-term demand fluctuations has often been ineffective due to both a difficulty in providing a symmetrical adjustment in good times (it is politically more difficult to cut spending than to raise it) as well as its implementation lags (leading to pro-cyclicality) and impact on agents expectations. [4]

While automatic stabilisers have the advantage of not being subject to implementation lags, a key question is how effective they are in delivering output stabilisation, especially in the context of the budget restrictions such as those that accompanied the recent economic and financial crisis.

Estimates of the effectiveness of automatic stabilisers in the euro area vary considerably. Barrell and Pina (2004) estimate a degree of output smoothing from the presence of automatic stabilisers, measured as the root mean square deviation of GDP growth, of 11%, while Barrell, Hurst and Pina (2002) find a value of 9%. [5] Van den Noord (2000) finds, on average, a degree of smoothing effectiveness of between 25% and 30%, while in 't Veld, Larch and Vandeweyer (2013) estimate that automatic stabilisers smooth economic fluctuations by 13%-27%. [6]

Estimates for individual Member States are also wide-ranging. For example, Brunila, Buti and

(1) See, e.g.: Spilimbergo A., S. Symansky, O. Blanchard and C. Cottarelli (2009), "Fiscal Policy For The Crisis", CESifo Forum, Ifo Institute, vol. 10(2), pages 26-32. Corsetti G., ed. (2012), "Austerity: Too Much of a Good Thing? A VoxEU.org eCollection of views by leading economists", Centre for Economic Policy Research.

(2) See, for example: Hemming, R., M. Kell and S. Mahfouz (2002), "The Effectiveness of Fiscal Policy in Stimulating Economic Activity-A Review of the Literature", IMF Working Paper 02/208. Coenen, G., C. Erceg, C. Freedman, D. Furceri, M. Kumhof, R. Lalonde, D. Laxton, J. Linde, A. Mourougane, D. Muir, S. Mursula, C. de Resende, J. Roberts, W. Roeger, S. Snudden. M. Trabandt, J. in 't Veld (2012), "Effects of Fiscal Stimulus in Structural Models", *American Economic Journal: Macroeconomics*, Vol. 4, No. 1, pp. 22-68. Cogan, J., T. Cwik, J. Taylor and V. Wieland (2010), "New Keynesian versus Old Keynesian Government Spending Multipliers", *Journal of Economic Dynamics and Control,* Vol. 34, pp.281-95. Davig, T. and E. Leeper (2011), "Monetary-Fiscal Policy Interactions and Fiscal Stimulus", *European Economic Review,* Vol. 55, pp.211-227.

(3) McKay A. and R. Reis (2016), "The role of automatic stabilisers in the U.S. business cycle", Econometrica, pp. 141-194.

(4) IMF (2015), "Can fiscal policy stabilize output?", Fiscal Monitor April 2015. Blanchard, O., G. Dell'Ariccia and P. Mauro (2010), "Rethinking Macroeconomic Policy", *Journal of Money, Credit and Banking*, vol.42, pp. 199-215.

(5) Barrell, R., & Pina, A. (2004), "How Important are Automatic Stabilisers in Europe? A Stochastic Simulation Assessment", Economic Modelling, Elsevier, Vol. 21, No. 1: 1-35. Barrell, R., Hurst, I., & Pina, A. (2002), "Fiscal Targets, Automatic Stabilisers and Their Effects on Output", NIESR working paper.

(6) van den Noord, J. (2000), "The Size and Role of Automatic Fiscal Stabilisers in the 1990s and Beyond", OECD Economics Department Working Papers No. 230. in 't Veld, J., M. Larch and M. Vandeweyer (2013), "Automatic Fiscal Stabilisers: what they are and what they do", *Open Economies Review*, 24(1), p. 147-163.

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Box (continued)

in 't Veld (2003) find that, for a sample of EU countries, the smoothing capacity of automatic stabilisers is in the range of 20-30% in the case of a consumption shock, and 10-15% in the case of an investment shock. [7] Buti et al. (2002) find a value of 14% for Belgium and 22% for France, while Tödter and Scharnagl (2004) estimate a degree of stabilisation of up to 26% for Germany. Wijkander and Roeger (2002) calculate an index of stabilising efficiency of 0.24 for France and 0.36 for Germany. [8]

These variations across estimates partly reflect the nature of the shocks hitting the economy, but are to a large extent driven by the use of different benchmarks against which the effectiveness of automatic stabilisers is measured. Several studies use a benchmark where levels of revenue and expenditure are fixed in absolute terms, and variations of this approach have been used in the literature. [9] An alternative approach is to keep taxes and spending constant as a share of GDP. The choice of alternative benchmark budgets can lead to considerably different estimates of the degree of output smoothing provided by automatic stabilisers.

Importantly, the choice of the benchmark determines the narrative about the origin of automatic stabilisation. As clarified by in 't Veld, Larch and Vandeweyer (2013), if the neutral budget is defined as a budget where expenditure and revenues are fixed in levels, changes in the level of taxation and unemployment benefits are seen as automatically stabilising. Since unemployment benefits are relatively small, the bulk of stabilisation is associated with the revenue side of the budget. On the other hand, if the benchmark budget is defined as one where revenue and expenditure are constant as a share of GDP, automatic stabilisations mainly stem from progressive taxation and the size of government, notably from the fact that the bulk of government expenditure does not respond to cyclical fluctuations. [10]

This box uses the Commission's QUEST model to investigate the role played by automatic stabilisers in the euro area and in three large Member States over the period 2014-2016, following the approach adopted by in 't Veld, Larch and Vandeweyer (2013), who measure the effectiveness of automatic stabilisers against the two benchmarks discussed above. [11]

Design of the simulations

A first scenario replicates economic conditions prevailing in the euro area as an aggregate and in France, Italy and Spain in 2014, 2015 and 2016, assuming that automatic stabilisers are operating as normal. This is done by replicating the output gap profile (reported in Table 1) through a combination of shocks to consumption and equity risk premia which broadly mimics estimated consumption and investment gaps over the period. [12]

Table 1:
Output gaps (% of pot. GDP)

	2014	2015	2016
Euro Area	-2.6	-1.8	-1.2
France	-1.5	-1.4	-1.2
Italy	-4.2	-3.0	-1.9
Spain	-7.5	-4.6	-2.2

To assess the effectiveness of automatic stabilisers, in terms of the degree of output smoothing produced by the built-in budgetary elements, the outcome has to be compared to a situation where the automatic stabilisers are "switched off". In order to take into account the uncertainty surrounding the right benchmark to use, the scenario in which automatic stabilisers are operating as normal is compared to two alternative

(7) Brunila, A., M. Buti, and J. in't Veld (2003), "Fiscal Policy in Europe: How Effective are Automatic Stabilisers?", *Empirica*, Vol. 30: 1-24.

(8) Buti, M., C. Martinez-Mongay, K. Sekkat and P. van den Noord (2002), "Automatic Stabilisers and Market Flexibility in the EMU-Is there a trade-off?", OECD Economics Department Working Papers No. 335. Tödter, K., and M. Scharnagl (2004), "How effective are automatic stabilisers? Theory and empirical results for Germany and other OECD countries", *Deutsche Bundesbank Discussion Paper*, 21. Wijkander, H. and W. Roeger (2002), "Fiscal Policy in EMU: The Stabilization Aspect," in M. Buti, J. von Hagen, and C. Martinez- Mongay (eds), The Behaviour of Fiscal Authorities, Basingstoke: Palgrave, pp. 149–166.

(9) For example, Barrell et al. (2002), op. cit., fix taxes and spending at the level implied by their "structural rate", while Tödter and Scharnagl (2004), op. cit., use three different methods to keep the level of the budget balance fixed in the benchmark: exogenisation of the budget components, revenue compensation and expenditure compensation.

(10) A related example can be found in the comparison between the budgetary elasticity and the semi-elasticity. The first measures the change in revenue and expenditures level resulting from a marginal change in GDP. The later measures the reaction to a change in GDP of the ratios of expenditure and revenue to GDP.

(11) in 't Veld, J., M. Larch and M.Vandeweyer (2013), op. cit.

(12) Estimates of the output gap are from DG ECFIN's Spring Forecast. Consumption and investment gaps for the three years have been estimated using the HP filter.

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Box (continued)

benchmark models, reflecting the two definitions of a neutral budget applied in the literature on automatic stabilisers: expenditures and revenues fixed in levels and expenditures and revenues fixed as a ratio of GDP.

In the first benchmark scenario, expenditures and taxes are kept fixed at their baseline level. Government purchases and government investment are kept constant in real terms, while the level of unemployment benefits and other transfers to households are fixed in nominal terms. Changes in lump-sum taxes neutralise the cyclical components of tax revenues and unemployment benefits.

In the second benchmark scenario, expenditure and taxes are kept constant as a share of GDP. Government purchases, government investment and transfers are linked directly to GDP. In this scenario, lump-sum taxes change in order to keep the sum of tax revenues and unemployment benefits constant as a share of GDP.

Effectiveness of automatic stabilisers over the period 2014-2016

Tables 2 to 5 show the macroeconomic effects of the shocks in the three scenarios for the euro area as a whole and Italy, France and Spain. GDP effects are presented as deviations from the steady state, while the smoothing capacity of individual shocks is calculated as $1-\frac{\Delta GDP}{\Delta GDP_{benchmark}}$, to measure the degree of smoothing of GDP fluctuations provided by automatic stabilisers as compared to a neutral budget scenario.

The degree of smoothing provided by the automatic stabilisers differs depending on the benchmark budget against which the macroeconomic effects are compared. In the first benchmark budget scenario, euro area real GDP falls by 3.13% in 2014, i.e. about 20% more than in the case in which automatic stabilisers are operational. When the second benchmark budget is considered, the 2014 drop in GDP is 3.54%, about 36% larger than with automatic stabilisers. If the benchmark does not implicate inertia of government spending over the cycle (i.e. when the second benchmark is used), the degree of smoothing is larger (0.26 instead of 0.17), indicating that automatic stabilisation is not exclusively a result of the tax system, but is also affected by the size of government. Private consumption is most affected by the presence of automatic stabilisers, as stabilisation mainly operates through household disposable income. On the other hand, the effect on corporate investment is very small, as investment decisions in the model are determined by the net present value of investment projects over their whole lifetime.

Table 2:
Role of automatic stabilisers for different budgetary configurations-EA

Year		Percentage change			Percentage smoothing	
		Stabilisers on	Benchmark budget 1	Benchmark budget 2	Benchmark 1	Benchmark 2
2014	Real GDP	-2.61	-3.13	-3.54	0.17	0.26
2015	Real GDP	-1.80	-2.20	-2.53	0.18	0.29
2016	Real GDP	-1.21	-1.46	-1.69	0.17	0.29

Table 3:
Role of automatic stabilisers for different budgetary configurations-IT

Year		Percentage change			Percentage smoothing	
		Stabilisers on	Benchmark budget 1	Benchmark budget 2	Benchmark 1	Benchmark 2
2014	Real GDP	-4.19	-5.08	-5.69	0.18	0.26
2015	Real GDP	-2.99	-3.83	-4.27	0.22	0.30
2016	Real GDP	-1.91	-2.41	-2.62	0.21	0.27

Table 4:
Role of automatic stabilisers for different budgetary configurations-FR

Year		Percentage change			Percentage smoothing	
		Stabilisers on	Benchmark budget 1	Benchmark budget 2	Benchmark 1	Benchmark 2
2014	Real GDP	-1.50	-1.82	-2.02	0.18	0.26
2015	Real GDP	-1.38	-1.67	-1.86	0.17	0.26
2016	Real GDP	-1.20	-1.41	-1.55	0.15	0.23

Table 5:
Role of automatic stabilisers for different budgetary configurations-ES

Year		Percentage change			Percentage smoothing	
		Stabilisers on	Benchmark budget 1	Benchmark budget 2	Benchmark 1	Benchmark 2
2014	Real GDP	-7.48	-9.30	-10.39	0.20	0.28
2015	Real GDP	-4.60	-5.97	-6.77	0.23	0.32
2016	Real GDP	-2.20	-2.87	-3.19	0.24	0.31

Euro area effects in 2015 and 2016, although of smaller magnitude, are similar. This partly reflects the fact that the ratio between the consumption and investment gaps, and therefore the relative size of the consumption and risk premia shocks, is broadly unchanged over the time horizon considered.

In general, the capacity of automatic stabilisers to smooth economic fluctuations varies depending on the shock hitting the economy as well as on how the counterfactual budget is defined. Table 6 shows the effects on consumption and investment and the degree of smoothing provided by automatic stabilisers for a shock to consumption and a shock to equity risk premia in the euro area, both standardised to 1% of GDP.

Table 6:
Role of automatic stabilisers for different shocks and budgetary configurations-EA

	Percentage change			Percentage smoothing	
	Real GDP	Benchmark 1	Benchmark 2	Benchmark 1	Benchmark 2
Shock to consumption	-1.00	-1.23	-1.40	0.19	0.29
Risk premia shocks	-1.00	-1.14	-1.26	0.12	0.21

As could be expected, the effects on consumption and GDP are considerably different. More interestingly, the degree of smoothing offered by automatic stabilisers is remarkably larger in the case of a consumption shock, consistent with

(Continued on the next page)

Box (continued)

findings from Brunila et al. (2003) and Tödter and Scharnagl (2004). [13] In the case of a consumption shock, automatic stabilisers dampen the drop in euro area GDP by 19% compared to a benchmark budget with fixed levels of revenues and expenditure. The degree of smoothing increases to 29% when using a benchmark where revenues and expenditure follow GDP. The smoothing capacity of automatic stabilisers, however, is reduced to 12% and 21% when risk premia shocks are considered. This is largely explained by the fact that, as mentioned above, automatic stabilisers mostly affect disposable income and consumption.

Variations across Member States are explained by differences in tax and transfer systems and by the composition of the shocks hitting the economy. The degree of labour tax progressivity is an important factor affecting the smoothing capacity of automatic stabilisers. The results show a higher degree of output stabilisation in countries with more progressive labour tax systems, such as Spain and Italy. However, in the case of Italy, where the investment gap relative to the consumption gap was larger over the period considered, the estimated effect of automatic stabilisers is smaller. The estimated effectiveness of automatic stabilisers is lowest in the case of France, where the income tax system is less progressive and where the investment gap was relatively large in comparison to the consumption gap.

Overall, these results show that, in recent years, automatic stabilisers played a non-negligible role in stabilising the economy in the euro area as a whole and in a number of Member States. The effectiveness of automatic stabilisers in dampening output fluctuations was larger in countries where the negative GDP effects were more consumption-driven and where the income tax system was relatively more progressive.

(13) Op. cit.

Box I.4: Some technical elements behind the forecast

Given the ongoing negotiation on the terms of the UK withdrawal from the EU, projections for 2019 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. This is for forecasting purposes only and has no bearing on the talks underway in the context of the Article 50 process.

The cut-off date for taking new information into account in this European Economic Forecast was 23 October 2017. The forecast incorporates validated public finance data as published in Eurostat's news release 160/2017 of 23 October 2017.

External assumptions

This forecast is based on a set of external assumptions, reflecting market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 5 and 18 November) were used for exchange and interest rates, and for oil prices.

Exchange and interest rates

The technical assumption regarding exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to an implied average USD/EUR rate of 1.13 in 2017 and 1.18 in 2018 and 2019. The average JPY/EUR is 126.54 in 2017 and 132.41 in 2018 and 2019.

Interest-rate assumptions are market-based. Short-term interest rates for the euro area are derived from futures contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States are calculated using implicit forward swap rates, corrected for the current spread between the interest rate and swap rate. In cases where no market instrument is available, the fixed spread vis-à-vis the euro area interest rate is taken for both short- and long-term rates. As a result, short-term interest rates are assumed to be -0.3% in 2017 and 2018 and -0.1 in 2019 in the euro area. Long-term euro area interest rates are assumed to be 0.3% in 2017, 0.6% in 2018 and 0.8% in 2019.

Commodity prices

Commodity price assumptions are also based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 53.6 USD/bbl in 2017, 55.7 in 2018, and 54.7 USD/bbl in 2019. This would correspond to an oil price of 47.5 EUR/bbl in 2017, 47.3 EUR/bbl in 2018, and 46.4 EUR/bbl in 2019.

Budgetary data and forecasts

Data up to 2016 are based on data notified by Member States to the European Commission before 1 October and validated by Eurostat on 23 October 2017.

Eurostat is expressing a reservation on the quality of the data reported by France in relation to the recording of some operations of the *Agence Française de Développement*. Eurostat will investigate these issues with the French statistical authorities.

Eurostat is maintaining the reservation on the quality of the data reported by Belgium in relation to the sector classification of hospitals. Eurostat considers that, in line with ESA 2010, government controlled hospitals in Belgium should be classified inside government. This is currently not the case. A future reclassification will most likely result in a limited increase in government debt.

Eurostat is maintaining the reservation on the quality of the data reported by Hungary in relation to the sector classification of Eximbank (Hungarian Export-Import Bank Plc). Eurostat considers that Eximbank should be reclassified inside the general government sector, which will result in an increase in government debt. Moreover, Eurostat is discussing with the Hungarian statistical authorities the possible rerouting of operations carried out by the Hungarian National Bank and its Foundations, deemed to be undertaken on behalf of government.

Eurostat is withdrawing the reservation on the quality of the data reported by Hungary in relation to the sector classification of the statutory protection funds and the Hungarian Restructuring and Debt Management Plc. MARK. The statutory protection funds and all their subsidiaries have been retrospectively reclassified inside the general government sector. MARK has been retrospectively consolidated with its parent, the Hungarian National Bank.

Eurostat is withdrawing the reservation on the quality of the data reported by Luxembourg in

(Continued on the next page)

Box (continued)

relation to the sector classification of hospitals, as well as a number of technical issues such as the recording of receivables and payables, the size of statistical discrepancies in the EDP tables and the unavailability of data for local government. Public hospitals have been reclassified to general government. Significant improvement has been made regarding the other technical issues.

Eurostat has made no amendments to the data reported by Member States.

The public finance forecast is made under the 'no-policy-change' assumption, which extrapolates past revenue and expenditure trends and relationships in a way that is consistent with past policy orientations. This may also include the adoption of a limited number of working assumptions, especially to deal with possible structural breaks. The forecast reflects all fiscal policy measures that imply a change to these past policy orientations on the condition that they are sufficiently detailed as well as adopted or at least credibly announced. For 2018 in particular, draft budgets presented before the cut-off date of the forecast are taken into consideration.

EU and euro area aggregates for general government debt in the forecast years 2017-19 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans, including those made through the European Financial Stability Facility). To ensure consistency in the time series, historical data are also published on the same basis. For 2016, this implies an aggregate debt-to-GDP ratio which is somewhat higher than the consolidated general government debt ratio published by Eurostat in its news release 160/2017 of 23 October 2017 (by 2.1 pps. in the EA19 and by 1.6 pps. in the EU).

ESA 2010

The current forecast is based on the ESA 2010 system of national accounts for all Member States, the EU and the euro area aggregates.

Calendar effects on GDP growth and output gaps

The number of working days may differ from one year to another. The Commission's annual GDP forecasts are not adjusted for the number of working days, but quarterly forecasts are.

However, the working-day effect in the EU and the euro area is estimated to be limited over the forecast horizon, implying that adjusted and unadjusted annual growth rates differ only marginally (by up to ±0.1 pps.). The calculation of potential growth and the output gap does not adjust for working days. Since the working-day effect is considered as temporary, it should not affect the cyclically-adjusted balances.

PART II

Prospects by individual economy

Member States

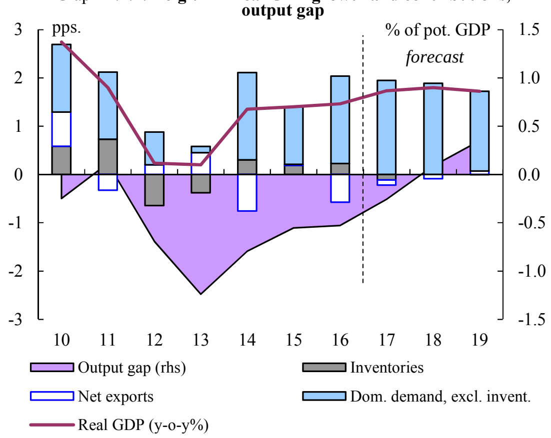
1. BELGIUM
Growth gaining momentum

Economic growth is expected to strengthen to 1.7% in 2017 and 1.8% in 2018 on the back of improved labour market and investment conditions. After considerable improvement in 2017, the headline general government deficit is expected to remain broadly stable in the coming years, which would nevertheless allow for a further reduction in the debt-to-GDP ratio.

Annual growth accelerated to around 1.6% in the first half of 2017, driven mainly by domestic demand, particularly private consumption and investment. This compares to 1.5% for the whole of 2016 when the contribution from net exports was sharply negative.

Available soft and hard advanced indicators remain steadily above their long-term averages, suggesting that growth momentum in the Belgian economy will continue in the second half of the year. Overall, GDP growth for the whole of 2017 is forecast at 1.7%.

Graph II.1.1: **Belgium - Real GDP growth and contributions, output gap**



Higher household purchasing power

In 2018, household purchasing power growth is projected to pick up as a new collective wage agreement comes into effect and job market continues to develop favourably. As labour market conditions improve, households are expected to use a large part of the additional income and even their savings to increase consumption. However, private consumption growth is expected to slow down slightly in 2019 once higher inflation starts to eat into purchasing power.

Private investment is also expected to provide a significant contribution to growth. Concerning business investment, firms are expected to maintain a high level of investment on the back of an already high degree of capacity utilisation, exceptionally favourable financing conditions and sizeable liquidity reserves. Household investment is projected to remain rather stable over the forecast horizon as only a moderate increase in interest rates is expected. The local investment cycle, the start of large infrastructure works, and defence investments are expected to drive public investment growth in 2018 and 2019.

The contribution of net exports to growth is expected to be broadly neutral over the forecast horizon, as stronger domestic demand will raise the demand for imports and exporters make only modest market share gains.

Overall, GDP growth is expected to rise to 1.8% in 2018 before easing to 1.7% in 2019.

Labour market is tightening

Policies put in place to moderate wage growth have helped to make labour relatively less expensive and have succeeded in spurring employment growth. As the latter is expected to outpace labour force growth throughout the forecast period, the unemployment rate is projected to progressively decline to 6.8% in 2019.

Inflation gap to narrow

Headline inflation is projected to increase to 2.2% in 2017 from 1.8% in 2016, mostly as a result of higher energy prices. Nevertheless, the gap with the euro area is expected to reduce and should be eliminated by the end of 2019, helped by the phasing out of a tax on electricity consumption that was introduced at the end of 2015. Headline inflation is thus projected to decline to 1.4% in 2018 and to edge up to 1.6% in 2019.

With the end of the temporary suspension of the indexation mechanism, nominal wage growth is projected to rise in 2017 and in the following years. Nevertheless, real wage growth is expected to remain moderate, contributing to the recovery of productivity.

Deficit to stabilise after sharp decline

The headline deficit is projected to fall to 1.5% of GDP in 2017, down from 2.5% in 2016. The revenue-to-GDP ratio is expected to increase by 0.2 pps. while the expenditure-to-GDP ratio should fall by 0.8 pps. With the economy strengthening, corporate income taxes (+0.3 pps.) and consumption taxes (+0.1 pps.) are the main drivers on the revenue side. Social contributions are expected to decline further (-0.1 pps.), although the overall impact on public finances from the government's policy of reducing the tax burden on labour is fairly neutral in 2017. With regard to spending, both interest payments (-0.3 pps.) and primary expenditure (-0.5 pps.) are expected to fall. The structural balance is estimated to improve by a little over ½% of GDP in 2017.

In 2018, the headline deficit should narrow moderately to 1.4% of GDP. Additional reductions in personal income taxation and social security contributions are behind a decline in the revenue-to-GDP ratio of 0.6 pps. The forecast includes new taxes on consumption (excise duties on sugary drinks and tobacco) and on financial income (broader scope of withholding tax, increased tax on stock exchange transactions, new tax on securities accounts, strengthening of transparency tax). These represent around 0.1% of GDP. Due to a lack of information at the cut-off, the envisaged reform of corporate taxation was not included.

In terms of GDP, expenditure is expected to decrease by 0.6 pps. in 2018. This reflects social benefits (-0.2 pps., mainly unemployment benefits), interest payments (-0.2 pps.), public sector wages (-0.1 pps., due to staff reductions and lower indexation), and subsidies (-0.1 pps. following the revised energy levy in Flanders). The structural balance is forecast to worsen slightly in 2018. Under a no-policy-change assumption the headline deficit would widen to 1.5% of GDP in 2019, as tax cuts are not fully offset by the expected decline in expenditure. The structural balance is estimated to deteriorate by about ¼% of GDP.

The debt ratio is projected to decrease by around 2 pps. of GDP in 2017, thanks to the primary surplus and a downward snowball effect (as nominal growth outpaces interest payments). Upward stock-flow adjustments are limited thanks to the partial sale of the share held by the Belgian state in BNP Paribas. Absent further divestments, debt should fall more slowly in 2018-2019.

Table II.1.1:

Main features of country forecast - BELGIUM

		2016		Annual percentage change						
		bn EUR Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		423.0	100.0	1.7	1.4	1.4	1.5	**1.7**	**1.8**	**1.7**
Private Consumption		216.6	51.2	1.4	0.6	0.9	1.7	**1.8**	**1.9**	**1.8**
Public Consumption		99.7	23.6	1.6	0.7	0.5	0.5	**0.3**	**0.6**	**0.3**
Gross fixed capital formation		99.2	23.4	1.7	6.0	2.7	3.6	**4.1**	**3.2**	**2.8**
of which: equipment		35.4	8.4	1.2	7.9	1.6	13.1	**5.2**	**4.0**	**3.5**
Exports (goods and services)		350.6	82.9	3.6	5.2	3.3	7.5	**4.6**	**4.4**	**4.3**
Imports (goods and services)		344.9	81.5	3.5	6.2	3.3	8.4	**4.8**	**4.6**	**4.3**
GNI (GDP deflator)		425.7	100.6	1.7	0.4	0.5	2.3	**0.2**	**1.9**	**1.8**
Contribution to GDP growth:	Domestic demand			1.4	1.8	1.2	1.8	**2.0**	**1.9**	**1.7**
	Inventories			0.1	0.3	0.2	0.2	**-0.1**	**0.0**	**0.0**
	Net exports			0.2	-0.8	0.0	-0.6	**-0.1**	**-0.1**	**0.1**
Employment				0.9	0.4	0.9	1.3	**1.1**	**0.9**	**0.8**
Unemployment rate (a)				7.9	8.5	8.5	7.8	**7.3**	**7.0**	**6.8**
Compensation of employees / head				2.6	0.9	0.0	0.1	**1.3**	**1.9**	**2.2**
Unit labour costs whole economy				1.8	0.0	-0.5	-0.1	**0.7**	**1.0**	**1.2**
Real unit labour cost				0.1	-0.7	-1.6	-1.7	**-1.1**	**-0.6**	**-0.5**
Saving rate of households (b)				15.5	11.9	11.5	11.4	**10.0**	**9.6**	**9.6**
GDP deflator				1.8	0.7	1.1	1.6	**1.8**	**1.6**	**1.7**
Harmonised index of consumer prices				2.0	0.5	0.6	1.8	**2.2**	**1.4**	**1.6**
Terms of trade goods				-0.6	0.2	1.8	0.7	**0.1**	**0.1**	**0.2**
Trade balance (goods) (c)				1.5	-0.8	0.1	0.3	**0.4**	**0.3**	**0.4**
Current-account balance (c)				3.3	-0.3	-0.4	0.1	**-1.0**	**-1.1**	**-0.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.3	-0.5	-0.4	0.2	**-0.8**	**-1.0**	**-0.8**
General government balance (c)				-1.7	-3.1	-2.5	-2.5	**-1.5**	**-1.4**	**-1.5**
Cyclically-adjusted budget balance (d)				-1.9	-2.6	-2.1	-2.2	**-1.4**	**-1.5**	**-1.7**
Structural budget balance (d)				-	-2.9	-2.2	-2.1	**-1.5**	**-1.5**	**-1.7**
General government gross debt (c)				101.8	106.8	106.0	105.7	**103.8**	**102.5**	**101.2**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

2. BULGARIA

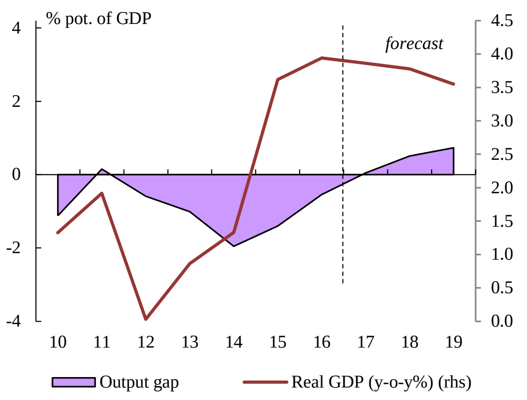
Stable growth supported by domestic demand

Bulgaria's economy is set to continue its steady growth, driven mainly by private and public consumption and a recovery in investment. Last year's significant contribution to growth from net exports is set to diminish this year, as imports grow faster than exports. Inflation, which had been negative for three years, has turned positive as a result of strong domestic demand. Unemployment is projected to continue falling, while wages grow strongly. In this favourable macroeconomic framework, the general government budget is expected to remain balanced and slowly turn into surplus, despite increases in public investment and public wages.

Strengthening domestic demand supports growth

Real GDP growth in 2017 is expected to reach 3.9% following a good performance of the economy in the first half of the year and an upward revision to 2016's real GDP growth rate by 0.5 pps. Domestic demand is the main driver of growth with both private and public consumption projected to expand strongly in 2017. The contribution from investment is expected to turn positive, as investment slowly recovers from its 6.6% drop in 2016. Net exports, which performed very well in 2016, are losing momentum as higher domestic demand is fuelling a rise in imports and exports are slowing down. The contribution from net exports to growth is forecast to be zero this year.

Graph II.2.1: **Bulgaria - Real GDP growth and output gap**



In 2018 and 2019, real GDP growth is forecast to gradually decline to 3.8% and 3.6%, respectively. Domestic demand is expected to remain the engine of growth. Private consumption growth is set to moderate, while investment should continue to boost the economy as the absorption of EU funds under the 2014-2020 EU programming period is expected to accelerate. The contribution to growth from the external sector is forecast to be only slightly positive in 2018 and 2019 as both export and import growth rates are set to slow. The negative output gap is projected to close in 2017 and turn positive thereafter.

Risks to the growth outlook are broadly balanced. Increasing wages and incomes could have second-round positive effects on expectations and, consequently, private consumption. On the downside, a slower utilisation of EU funds could moderate the contribution of investment to growth.

Declining current account surplus

Bulgaria's current account surplus is expected to recede to 3% of GDP in 2017. Growing demand by trading partners is being outweighed by stronger domestic demand, leading to a higher increase in imports than exports in 2017. This trend is expected to continue in 2018 and slightly reverse in 2019. The current account surplus is thus expected to reduce further to 2.4% and 2.3% of GDP in 2018 and 2019 respectively.

Positive and increasing inflation

After a long period of negative inflation, annual HICP inflation is expected to reach 1.0% in 2017 due to strong domestic demand, higher administrative prices for utilities, and recovering energy and commodity prices. Inflation is forecast to gradually increase throughout the forecast period, to 1.5% in 2018 and 1.6% in 2019.

Decreasing unemployment

Employment is expected to rise by 0.7% in 2017, supported by the recovery in domestic demand, especially investment. The increase in employment, alongside a constant labour force is driving a decrease in the unemployment rate to 6.4% in 2017 from 7.6% last year. Employment growth is expected to remain positive but to decrease in 2018 and 2019 due to limited labour supply. The unemployment rate is forecast to decrease to 6% in 2018 and 5.7% in 2019.

Positive fiscal performance

The balanced general government budget achieved in 2016 is expected to be sustained in 2017. The higher expenditure on public investment and increases in public wages are expected to be compensated by a good performance of revenues. Revenues are projected to benefit from the positive economic outlook, as well as an improved tax collection and a higher absorption of EU funds. In structural terms, the deficit is expected to be also zero as the output gap is set to close.

The general government budget is forecast to remain balanced in 2018 and to register a surplus of 0.2% of GDP in 2019. Plans to raise public sector wages and investment are expected to push total expenditure to higher levels, but with this effect being outweighed by a strong revenue performance. Wage developments and increased social security contribution rates are set to have a positive impact on direct tax revenues. The revenue from indirect taxes is also projected to increase in line with consumption and public investment. The positive output gap is expected to push the structural balance back to negative figures, at about ¼% of GDP in 2018 and slightly below zero in 2019.

Bulgaria’s general government debt is forecast to fall to 25.7% of GDP in 2017, more than 3 pps. lower than in 2016. This reduction is due to the positive impact of the primary surplus and the repayment of debt of around 2 pps. of GDP out of accumulated fiscal reserves. The primary surpluses and the low interest payments projected for 2018 and 2019 are expected to lead to a further reduction of the general government debt.

Risks to the fiscal outlook are balanced. Better-than-expected tax collection would imply higher revenues. On the expenditure side, some risks could stem from pressures for additional wage increases, as well as for public investment fully outside the EU funds programmes.

Table II.2.1:

Main features of country forecast - BULGARIA

	2016			Annual percentage change					
	bn BGN Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	94.1	100.0	3.1	1.3	3.6	3.9	**3.9**	**3.8**	**3.6**
Private Consumption	57.3	60.9	4.5	2.7	4.5	3.6	**4.6**	**3.8**	**3.5**
Public Consumption	14.7	15.7	3.5	0.1	1.4	2.2	**2.7**	**3.9**	**2.8**
Gross fixed capital formation	17.5	18.6	8.8	3.4	2.7	-6.6	**3.5**	**3.9**	**3.8**
of which: equipment	7.0	7.4	-	13.9	9.8	-14.9	**5.0**	**5.0**	**4.0**
Exports (goods and services)	60.2	64.0	2.4	3.1	5.7	8.1	**5.2**	**4.9**	**5.0**
Imports (goods and services)	56.2	59.7	6.8	5.2	5.4	4.5	**5.5**	**5.0**	**4.9**
GNI (GDP deflator)	93.9	99.7	3.2	2.7	2.4	5.8	**2.4**	**2.8**	**3.0**
Contribution to GDP growth: Domestic demand			5.3	2.5	3.6	1.2	**3.9**	**3.7**	**3.3**
Inventories			0.2	0.2	-0.1	0.4	**0.0**	**0.0**	**0.0**
Net exports			-2.3	-1.3	0.1	2.3	**0.0**	**0.1**	**0.2**
Employment			-0.1	0.4	0.4	0.5	**0.7**	**0.4**	**0.3**
Unemployment rate (a)			11.8	11.4	9.2	7.6	**6.4**	**6.0**	**5.7**
Compensation of employees / head			11.4	5.6	5.6	5.8	**7.8**	**8.3**	**6.9**
Unit labour costs whole economy			7.9	4.6	2.3	2.3	**4.6**	**4.8**	**3.5**
Real unit labour cost			1.4	4.1	0.1	0.1	**3.9**	**2.7**	**1.4**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			6.3	0.5	2.2	2.2	**0.6**	**2.1**	**2.1**
Harmonised index of consumer prices			6.0	-1.6	-1.1	-1.3	**1.0**	**1.5**	**1.6**
Terms of trade goods			1.0	0.7	0.6	3.9	**-1.5**	**0.5**	**0.4**
Trade balance (goods) (c)			-14.7	-6.5	-5.8	-2.0	**-3.1**	**-2.9**	**-2.8**
Current-account balance (c)			-6.5	0.2	0.6	5.3	**3.0**	**2.4**	**2.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.0	2.4	3.9	7.8	**5.2**	**4.7**	**4.8**
General government balance (c)			-0.1	-5.5	-1.6	0.0	**0.0**	**0.0**	**0.2**
Cyclically-adjusted budget balance (d)			-0.1	-4.9	-1.2	0.1	**0.0**	**-0.2**	**-0.1**
Structural budget balance (d)			-	-1.6	-1.1	0.1	**0.0**	**-0.2**	**-0.1**
General government gross debt (c)			35.5	27.0	26.0	29.0	**25.7**	**24.3**	**22.8**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.

3. THE CZECH REPUBLIC

Swift growth risks draining labour market

The Czech economy continues to grow steadily. GDP growth is forecast to be well above potential in 2017 due to buoyant investment and private consumption, but is expected to moderate in 2018 and 2019. While exports are forecast to continue growing solidly thanks to robust global demand, their positive effect on GDP growth is set to be neutralised by strong import growth. The labour market is nearing full employment and inflation is projected to remain close to the central bank's target of 2%. The headline government balance is on course to remain in surplus territory.

Strong and stable growth in the short term

The economy of the Czech Republic is forecast to grow by 4.3% in 2017, markedly more than in 2016, when the economy expanded by 2.6%. In the first half of this year, both domestic and external demand provided stronger-than-expected positive contributions to GDP growth. While quarter-on-quarter GDP growth is expected to slow in the second half of the year, 2017 is set to mark the beginning of an investment rebound following the previous year's slump. Rapidly increasing wages are expected to support solid household consumption. Net exports are also forecast to provide a positive contribution to GDP growth in 2017, amid strong external demand.

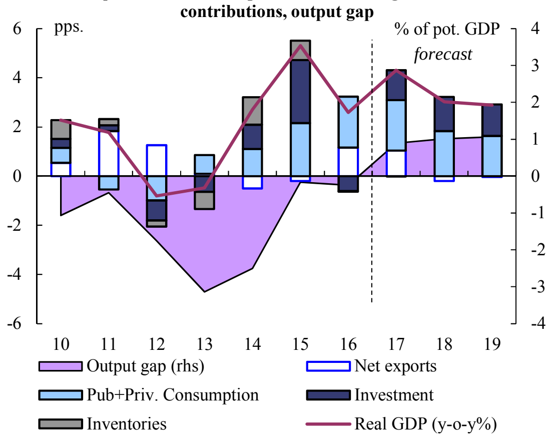
Reversion to trend in 2018 and 2019

In 2018 and 2019 GDP growth is forecast to moderate to 3% and 2.9% respectively, as labour supply constraints hinder further employment growth. This pace of growth is close to the estimated potential growth rates of the Czech economy. Private consumption growth is expected to ease slightly owing to the slowdown in employment growth. Investment is expected to rise rapidly as manufacturers are under pressure to invest in machinery to compensate for a growing scarcity of labour. Investment growth is likely to peak in 2018, supported by the public sector, before easing slightly in 2019.

External trade regains dynamism

The Czech Republic's considerable trade surplus is expected to decline slightly over the forecast horizon. On the one hand, export growth is expected to be firm in 2018 and 2019 thanks to the strength of global trade and the solid outlook of the Czech Republic's main trading partners. On the other hand, given the upswing in investment, as well as its relatively high import content, imports are likely to grow slightly faster than exports over the next two years.

Graph II.3.1: **Czech Republic - Real GDP growth and contributions, output gap**



Labour market strength sets records

Employment grew by 1.4% y-o-y in the first half of 2017, continuing the strong performance of the past two years. With the participation rate already high and the unemployment rate at a record low, the employment gains are likely to slow in the second half of 2017 and to virtually stall from 2018 on, as a shrinking labour force acts as a bottleneck to growth. The unemployment rate is expected to reach 3% in 2017, having fallen from 4% in 2016. Over the following two years it is set to stabilize at 2.9%. Real wages are forecast to increase strongly in 2017, propelled by a record-low ratio of job seekers per vacancy. Wage growth is expected to stay strong also in 2018 and 2019, although it is likely to slow slightly.

Risks to the outlook are tilted to the downside, as labour shortages fuel wage pressures that could reduce the cost-competitiveness of exports. In addition, further rapid house price increases would worsen affordability and may cause further debt accumulation.

Inflation seen landing on target

HICP inflation is forecast at 2.4% in 2017, up from 0.6% in 2016. The revival of inflation this year has been mainly supported by strong increases in food and services prices. Meanwhile, the appreciation of the koruna against the euro, following the Czech National Bank's decision in April to remove the exchange rate floor against the euro, is tempering inflationary pressures on imported goods and services. Inflation is expected to moderate to 2.1% next year and to stabilise at the inflation target of 2% in 2019 amid expected increases in interest rates. The main contributions in 2018 are once again expected to come from food and services, due to base effects and rapid wage growth.

Public balance supported by tax-rich growth

The 2016 general government surplus was revised slightly upwards to 0.7% of GDP due to better-than-expected tax receipts. The headline balance is set to remain in surplus over the forecast horizon, driven by a surge in tax revenues and social contributions. Direct taxation receipts are likely to be buoyed by the rising wage bill while revenues from VAT should benefit from recent measures to address tax avoidance. On the expenditure side, public wages are forecast to increase from November 2017 by 10% for public employees and 15% for teachers.

In 2018, the full impact of the wage hike is expected to become visible in public expenditure levels, with additional outlays from higher indexation of pensions and increased social benefit levels. However, the resulting higher expenditure should be partly offset by stronger tax revenues. Public investment is forecast to remain strong in light of the expiry deadline for EU funds linked to 2015 commitments. Savings from lower debt servicing costs were sizeable in previous years but are likely to fade. In 2019, the headline surplus is expected to moderate to 0.6% of GDP.

Despite the improved outlook for the headline balance, the structural surplus is projected to decline to around ¾ pps. in 2017 as the output gap turns significantly positive. In the following two years the structural surplus is expected to shrink further. The debt-to-GDP ratio is set to decline from 36.8% in 2016 to 32.5% in 2019.

Table II.3.1:

Main features of country forecast - CZECH REPUBLIC

		2016		Annual percentage change						
	bn CZK	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		4773.2	100.0	2.3	2.7	5.3	2.6	**4.3**	**3.0**	**2.9**
Private Consumption		2241.6	47.0	2.0	1.8	3.7	3.6	**3.5**	**3.0**	**2.8**
Public Consumption		917.1	19.2	1.1	1.1	1.9	2.0	**2.2**	**2.2**	**1.7**
Gross fixed capital formation		1191.5	25.0	1.9	3.9	10.2	-2.3	**4.9**	**5.5**	**5.0**
of which: equipment		543.4	11.4	3.8	6.4	9.3	-1.1	**5.0**	**6.0**	**6.0**
Exports (goods and services)		3796.7	79.5	8.7	8.7	6.0	4.5	**6.9**	**4.8**	**4.7**
Imports (goods and services)		3439.5	72.1	7.8	10.1	6.8	3.4	**6.2**	**5.5**	**5.2**
GNI (GDP deflator)		4467.8	93.6	2.0	1.9	5.3	3.0	**4.4**	**3.1**	**2.8**
Contribution to GDP growth:	Domestic demand			1.8	2.1	4.7	1.5	**3.3**	**3.2**	**2.9**
	Inventories			0.0	1.1	0.8	0.0	**0.0**	**0.0**	**0.0**
	Net exports			0.6	-0.5	-0.2	1.2	**1.0**	**-0.2**	**0.0**
Employment				0.0	0.6	1.4	1.3	**0.9**	**0.2**	**0.0**
Unemployment rate (a)				7.2	6.1	5.1	4.0	**3.0**	**2.9**	**2.9**
Compensation of employees / head				5.0	2.6	3.0	4.6	**7.1**	**6.6**	**5.6**
Unit labour costs whole economy				2.6	0.4	-0.8	3.3	**3.5**	**3.6**	**2.6**
Real unit labour cost				0.3	-2.0	-2.0	2.0	**2.1**	**1.3**	**0.8**
Saving rate of households (b)				11.5	11.8	12.0	11.2	**10.6**	**10.4**	**10.1**
GDP deflator				2.3	2.5	1.2	1.2	**1.4**	**2.3**	**1.8**
Harmonised index of consumer prices				2.8	0.4	0.3	0.6	**2.4**	**2.1**	**2.0**
Terms of trade goods				-0.2	1.8	0.5	1.0	**-1.2**	**0.5**	**0.1**
Trade balance (goods) (c)				-1.8	5.1	4.1	5.2	**5.0**	**4.9**	**4.7**
Current-account balance (c)				-3.6	-1.2	-1.6	-0.1	**-0.2**	**-0.3**	**-0.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.9	0.5	1.2	0.4	**0.2**	**0.0**	**-0.4**
General government balance (c)				-3.6	-1.9	-0.6	0.7	**1.2**	**0.8**	**0.6**
Cyclically-adjusted budget balance (d)				-3.8	-0.8	-0.6	0.8	**0.8**	**0.4**	**0.1**
Structural budget balance (d)				-	-0.6	-0.6	0.9	**0.8**	**0.4**	**0.1**
General government gross debt (c)				28.9	42.2	40.0	36.8	**34.6**	**33.3**	**32.5**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

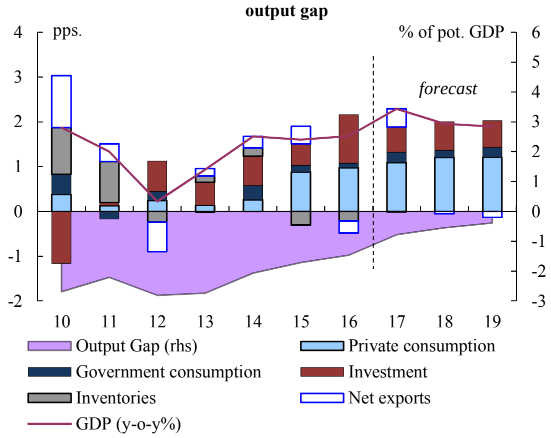
4. DENMARK
Solid growth with domestic headwinds

Denmark's economy is in a solid upswing with real GDP growth expected to average around 2% over the forecast horizon. Employment growth is projected to remain strong and unemployment rate to fall further despite a growing labour force. Inflation is set to pick up, but only moderately. The general government deficit is projected to hover around 1% of GDP.

Robust economic growth ahead

Denmark's real GDP is forecast to expand by 2.3% in 2017 but growth is expected to gradually decline to 2.0% in 2018 and 1.9% in 2019. GDP growth in 2017 could thus reach its highest level since 2006 and stand above its potential growth rate. The upswing is broad-based with all components expected to positively contribute to the expansion.

Graph II.4.1: **Denmark - Real GDP growth and components, output gap**



Private consumption receives additional boost

Private consumption expanded by 2.1% in 2016 and is projected to climb further to 2.5% in 2019, supported by steady employment and disposable income growth. Recent policy measures are also expected to boost household demand, including the reduction of car taxes from October 2017, payments to households due to the reform of the voluntary early retirement scheme in 2018. Many households will also benefit from property tax repayments in 2019, since property tax was excessively collected since 2011 due to flaws in the existing property valuation system. Nevertheless, the household saving rate is forecast to remain high, because of households' sizable contributions to pension savings and continuing efforts to bring down debt. Government consumption is set to expand at a moderate pace.

Investment lifts economic growth

Machinery and equipment investments rebounded in 2016 reaching their pre-crisis levels as a share of GDP. With the recovery in Denmark's main export markets expected to continue and industry capacity utilisation rates set to increase, equipment investment is projected to expand more quickly than GDP. Supported by rising house prices, residential investment is projected to remain an important driver of investment growth in the coming years, albeit at a gradually declining rate. Having expanded by 3.4% in 2016, public investment is expected to decelerate and negatively impact construction activity in 2017 and 2018.

Foreign trade rebounds

Foreign trade is forecast to rebound in line with economic growth in Denmark's main trading partners. Net exports are projected to contribute significantly to economic growth in 2017, thanks largely to the revival of sea freight after a weak performance between 2015 and mid-2016. Bolstered by the pick-up in world trade, services exports increased significantly in 2017. However, import growth is projected to outpace export growth in 2018 and 2019 due to increasing private consumption and strong investment activity. As a result, net trade contribution to real GDP growth is set to remain flat in 2018 and turn slightly negative in 2019.

Gradually tightening labour market

Employment growth is forecast to remain robust in the coming years and the unemployment rate is forecast to further decline from 5.9% in 2017 to 5.5% in 2019. There are already signs of labour shortages in some sectors, particularly construction.

Inflation rising slowly

Price pressures have been subdued in recent years due to the steep fall in oil prices. Consumer prices (HICP) were flat in 2016 but they are expected to rise gradually by 1.0% in 2017, 1.4% in 2018 and 1.7% in 2019. This pick-up is supported by increasing wages and the less negative contribution of energy prices.

Risks to the outlook are tilted to the upside

In terms of upside risks to the growth forecast, both household and corporate savings remain high in historical terms, which could support stronger domestic demand. Being a small, open economy, the rebound in world trade could provide additional boost to Danish exports. As regards downside risks, despite the ongoing reforms to increase labour supply, labour shortages could hamper economic activity in certain sectors.

Stable public finances

The general government headline balance is forecast to remain broadly stable at around -1.0% of GDP over the forecast horizon. While the economic recovery supports the fiscal position over the forecast horizon, temporary factors are projected to weigh on the fiscal balance. The deterioration of the headline balance from -0.6% of GDP in 2016 to -1.0% of GDP in 2017 mainly reflects an expected decline from the high levels recorded in 2016 that came from the pension yield tax. In 2018, new incentives to opt out of the voluntary early retirement scheme introduced in June 2017 are expected to increase the deficit by an estimated 0.2% of GDP in 2018. Additionally, the expected repayment of excessively-collected property taxes is expected to subtract an estimated 0.6% of GDP from the fiscal balance in 2019.

The structural balance is expected to hover around –½% of GDP over the forecast horizon. This reflects the narrowing of the output gap's support of the structural position, which should offset the negative impact from the payments due to the reform of the voluntary early retirement scheme and the excessively collected property taxes.

Public gross debt is projected to gradually decline from 37.7% of GDP in 2016 to 34.6% of GDP in 2019, initially helped by a reduction in the general government's cash reserves, but also due to favourable snowball effects amid the low interest rate environment and buoyant economic growth.

Table II.4.1:

Main features of country forecast - DENMARK

		2016			Annual percentage change					
		bn DKK Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		2064.8	100.0	1.2	1.7	1.6	1.7	**2.3**	**2.0**	**1.9**
Private Consumption		980.8	47.5	1.1	0.5	1.9	2.1	**2.3**	**2.5**	**2.5**
Public Consumption		525.5	25.4	1.7	1.2	0.6	0.4	**0.9**	**0.6**	**0.9**
Gross fixed capital formation		414.1	20.1	1.3	3.5	2.5	5.6	**2.8**	**3.2**	**2.9**
of which: equipment		123.6	6.0	1.8	2.7	-0.5	5.0	**4.3**	**3.8**	**3.4**
Exports (goods and services)		1101.7	53.4	4.0	3.6	1.8	2.5	**4.8**	**3.9**	**3.4**
Imports (goods and services)		962.9	46.6	4.5	3.6	1.3	3.5	**4.6**	**4.5**	**4.2**
GNI (GDP deflator)		2119.2	102.6	1.5	2.1	1.3	1.0	**2.3**	**2.1**	**2.0**
Contribution to GDP growth:	Domestic demand			1.2	1.2	1.5	2.2	**1.9**	**2.0**	**2.0**
	Inventories			0.0	0.2	-0.3	-0.2	**0.0**	**0.0**	**0.0**
	Net exports			0.0	0.3	0.4	-0.3	**0.4**	**0.0**	**-0.1**
Employment				0.2	1.0	1.3	1.7	**1.9**	**1.2**	**0.8**
Unemployment rate (a)				5.4	6.6	6.2	6.2	**5.9**	**5.6**	**5.5**
Compensation of employees / head				3.2	1.5	1.5	1.4	**1.9**	**2.5**	**3.0**
Unit labour costs whole economy				2.2	0.8	1.1	1.4	**1.5**	**1.7**	**1.9**
Real unit labour cost				0.1	0.1	0.2	1.2	**-0.1**	**0.0**	**-0.1**
Saving rate of households (b)				6.2	5.2	10.5	11.2	**11.4**	**11.2**	**11.0**
GDP deflator				2.1	0.8	0.9	0.2	**1.6**	**1.7**	**2.1**
Harmonised index of consumer prices				2.0	0.4	0.2	0.0	**1.0**	**1.4**	**1.7**
Terms of trade goods				0.7	1.0	1.7	3.1	**-0.1**	**0.2**	**0.2**
Trade balance (goods) (c)				3.0	3.5	4.2	4.9	**4.9**	**4.8**	**4.6**
Current-account balance (c)				4.0	8.9	9.2	7.9	**8.4**	**8.3**	**8.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				4.0	8.7	8.8	7.9	**8.4**	**8.3**	**8.2**
General government balance (c)				0.7	1.1	-1.8	-0.6	**-1.0**	**-1.0**	**-0.9**
Cyclically-adjusted budget balance (d)				0.3	2.3	-0.7	0.3	**-0.5**	**-0.6**	**-0.7**
Structural budget balance (d)				-	-0.8	-2.1	0.2	**-0.5**	**-0.6**	**-0.7**
General government gross debt (c)				-	44.0	39.5	37.7	**36.1**	**35.5**	**34.6**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

5. GERMANY

Robust growth ahead

The German economy is expected to maintain a strong growth momentum over the forecast horizon driven by domestic demand and supported by robust world trade and a firming recovery in the euro area. The strength of the labour market means that real wages should continue rising, making for brisk private consumption growth. Improved demand prospects and high capacity utilisation are set to boost business investment. Housing investment may rise further but at a slower pace. Strong domestic demand should further narrow the current account surplus while robust growth would support an upward trend in the budget balance and help lower the government debt ratio.

Steady, robust growth

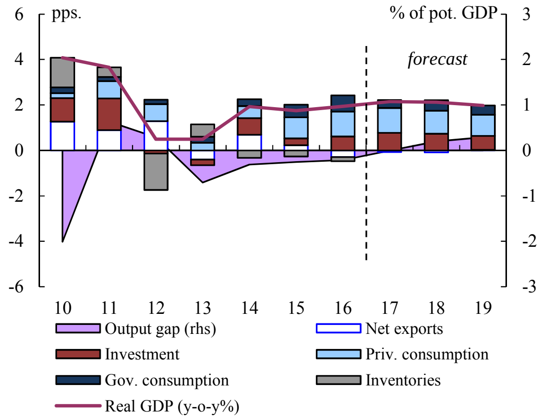
Germany's quarter-on-quarter real GDP growth rate came out at a robust 0.7% in the first quarter followed by 0.6% in the second quarter. Growth was driven by exports and investment in the first quarter and by private consumption in the second.

Monthly indicators on industrial production and construction, foreign trade and employment suggest that economic activity in the third quarter is likely to show further strong growth. Economic sentiment remains very positive. In the manufacturing sector, it points to a sustained expansion in the coming quarters based on improving orders and output expectations, including for exports. Capacity utilisation has continued to increase, which bodes well for investment. The strong labour market, favourable world trade developments and a firming recovery in the euro area should help to sustain an enduring upswing. Overall, real GDP is expected to increase at an average pace of around 2.1% per year over 2017-2019.

Strong labour market to support consumption and saving

Employment growth continued and resulted in a further decline in the unemployment rate to a new post-unification low in August. Factors, like the low number of hours per worker, rising labour market participation of older workers and women, still significant net labour migration, as well as less ambitious union wage demands, have kept wage increases moderate so far. Nevertheless scarcity on the labour market is expected to intensify as businesses report greater difficulties in filling vacancies and lead to a pick-up in both nominal and real wage growth over the forecast horizon. These developments are expected to further improve disposable income and sustain the pace of consumption growth. With inflation remaining moderate, savings are also likely to stay high.

Graph II.5.1: **Germany - Real GDP growth and contributions, output gap**



Investment boost from bright demand outlook and high capacity utilisation

Equipment investment is overcoming last year's soft patch and is likely to strengthen amid favourable demand prospects, not least from the euro area and the rest of the EU. Consistently increasing capacity utilisation should also spur the effort for renewing and expanding the capital stock. Housing investment posted strong growth in the first two quarters of 2017 and is expected to continue increasing, even if at a moderating rate, given ample order book backlogs and a steady flow of building permits.

Steady domestic demand growth to reduce still high external surplus

The export outlook is expected to be favourable and fuel German exports. At the same time the strong domestic demand could keep import growth above that of exports and result in a further easing of the current account surplus ratio.

Inflation to remain moderate

Core inflation (excluding energy and unprocessed food) has increased from just above 1% over the last two years and is expected to average 1.5% this year and to pick up to 1.7% over the forecast horizon, in the context of strong demand and higher wage growth. Overall headline inflation dynamics are projected to be in line with the euro area's. Dampened by the expected stable energy prices this moderate inflation should support household purchasing power.

Budget surpluses increasing further

The favourable macroeconomic outlook supports the positive trend in the budget balance. The budget surpluses of recent years are expected to increase further over the forecast period, despite the repayment of a nuclear fuel tax in 2017 amounting to around 0.2% of GDP. A tax had been collected in the years 2011 to 2016, but was then retroactively ruled unconstitutional by the German constitutional court, so that it had to be paid back in its entirety.

Due to the recent elections, the 2018 budget is still to be prepared by the new government. Revenues are expected to develop positively supported by economic growth, remaining broadly stable as a percentage of GDP. By contrast expenditure is projected to decline as a percentage of GDP in 2018 and 2019, under a no-policy-change assumption. Interest expenditure is set to continue declining although at a slower pace than in 2016.

The positive structural balance is projected to remain stable at around 1% of GDP over the forecast horizon. Government debt, for the first time since 2002, is expected to fall again under the 60% Maastricht-threshold by 2019, decreasing from 68.1% of GDP in 2016 to 57.9% of GDP in 2019. This development is the result of both increasing budget surpluses and robustly growing GDP.

Graph II.5.2: **Germany - General government budget balance and gross debt**

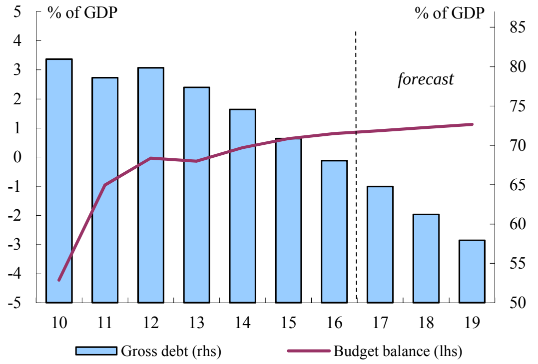


Table II.5.1:

Main features of country forecast - GERMANY

	2016			Annual percentage change						
	bn EUR Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	3144.1	100.0	1.3	1.9	1.7	1.9	**2.2**	**2.1**	**2.0**
Private Consumption	1674.4	53.3	0.9	1.0	1.7	2.1	**2.1**	**1.9**	**1.8**
Public Consumption	615.4	19.6	1.2	1.5	2.9	3.7	**1.8**	**2.3**	**2.0**
Gross fixed capital formation	630.0	20.0	0.9	3.7	1.5	3.1	**3.8**	**3.6**	**2.9**
of which: equipment	205.8	6.5	2.2	5.9	3.9	2.2	**2.6**	**3.7**	**3.0**
Exports (goods and services)	1450.0	46.1	5.6	4.6	5.2	2.6	**3.6**	**4.0**	**4.0**
Imports (goods and services)	1199.4	38.1	4.8	3.6	5.6	3.9	**4.6**	**5.0**	**4.6**
GNI (GDP deflator)	3197.2	101.7	1.4	1.6	1.6	1.8	**2.1**	**2.1**	**1.9**
Contribution to GDP growth: Domestic demand			0.9	1.6	1.8	2.4	**2.2**	**2.2**	**1.9**
Inventories			-0.1	-0.3	-0.3	-0.2	**0.0**	**0.0**	**0.0**
Net exports			0.5	0.7	0.2	-0.3	**-0.1**	**-0.1**	**0.0**
Employment			0.7	0.8	0.9	1.3	**1.4**	**1.1**	**0.9**
Unemployment rate (a)			8.2	5.0	4.6	4.1	**3.7**	**3.5**	**3.2**
Compensation of employees / head			1.4	2.8	2.7	2.2	**2.4**	**2.7**	**3.0**
Unit labour costs whole economy			0.8	1.7	1.8	1.6	**1.6**	**1.6**	**1.9**
Real unit labour cost			-0.2	-0.1	-0.2	0.2	**0.2**	**-0.2**	**0.2**
Saving rate of households (b)			16.2	16.8	17.0	17.1	**16.6**	**16.6**	**16.5**
GDP deflator			1.0	1.8	2.0	1.3	**1.5**	**1.9**	**1.6**
Harmonised index of consumer prices			1.6	0.8	0.1	0.4	**1.7**	**1.5**	**1.6**
Terms of trade goods			0.0	1.7	3.1	2.3	**-1.5**	**0.5**	**-0.1**
Trade balance (goods) (c)			5.9	7.8	8.6	8.7	**8.0**	**7.8**	**7.7**
Current-account balance (c)			3.6	7.6	8.6	8.5	**7.8**	**7.5**	**7.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.6	7.6	8.6	8.5	**7.9**	**7.5**	**7.2**
General government balance (c)			-2.0	0.3	0.6	0.8	**0.9**	**1.0**	**1.1**
Cyclically-adjusted budget balance (d)			-1.8	0.5	0.8	0.9	**0.9**	**0.9**	**1.0**
Structural budget balance (d)			-	0.8	0.8	0.9	**0.9**	**0.9**	**1.0**
General government gross debt (c)			67.2	74.6	70.9	68.1	**64.8**	**61.2**	**57.9**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

6. ESTONIA

GDP growth seen calming after 2017 surge

GDP growth was stronger than expected in the first half of this year due to a surge in investment. While growth is projected to remain robust in 2018 and 2019 it will subside from 2017 levels, as investment growth normalises. Inflation is set to peak at almost 4% in 2017, driven by global prices and excise tax increases. The headline budget balance is projected to remain in a slight deficit over the forecast horizon. In structural terms, the deficit is estimated to be higher at 1½% of GDP in 2018.

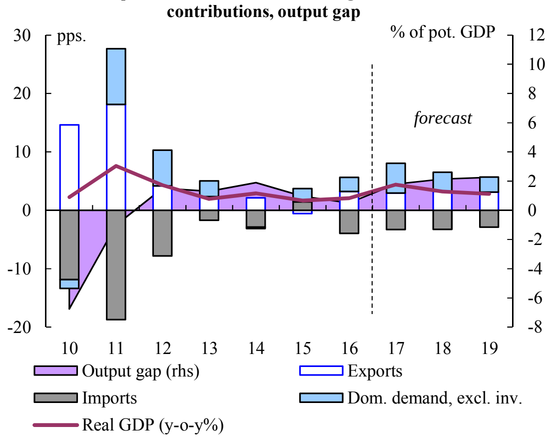
Strong GDP growth in the first half of 2017

The latest quarterly GDP data were stronger than expected, with growth accelerating to over 5% (y-o-y) in 2017-Q2. This was largely driven by surging investment and positive external demand. The jump in GDP is partly explained by base effects, as growth was supressed in the first half of 2016 due to a drop off in investment linked to the EU's investment funding cycle and energy sector downsizing linked to low global energy prices. Those factors have turned around abruptly in 2017. Estonia's real GDP is forecast to grow by 4.4% in 2017 and growth is expected to remain solid, moderating over the forecast horizon to 3.2% in 2018 and 2.8% in 2019. Domestic demand is forecast to remain the main growth driver in 2018 and 2019, with net exports providing a small contribution to GDP growth. In 2018, household consumption is set to get a boost from a significant personal income tax cut targeted at low and middle-income earners, while wage growth is projected to remain high amid a tight labour market.

A temporary spike in investment

In the first half of 2017, the rapid growth in investment was largely driven by public investment, both EU and locally funded. After several years of contraction, corporate investment also picked up substantially, although the pace of investment growth was distorted by a sizeable one-off purchase of ferries. In 2018 and 2019, investment growth is projected to moderate to more sustainable levels just slightly above GDP growth. Public investment is set to peak in 2018 as the contribution from EU funds peters out. This is expected to be balanced by a pick-up in corporate sector investment in equipment, supported by favourable external demand, higher corporate profits and rising capacity utilisation. Housing investment is projected to stabilise at today's high levels, assuming that favourable economic and financial conditions persist.

Graph II.6.1: **Estonia - Real GDP growth and contributions, output gap**



Favourable external environment

Growth in exports has been broad-based over 2017, both for goods and services. Still, exports are set to grow somewhat slower than external demand in 2017, given that the large and traditionally volatile electronics industry (which is dominated by a single firm) has cut output in 2017. Its share is high in both exports and imports, but not in terms of value added or GDP. Looking forward, Estonian exports are projected to rise in line with external demand, but more rapid growth will be held back by the continued rise of unit labour costs. The services export surplus is expected to keep the current account in a surplus of around 2% of GDP over the forecast horizon.

Employment and unemployment rise simultaneously

The employment rate is currently at its historical peak and is projected to increase further over the forecast horizon. Remarkably, even though the working age population is shrinking due to ageing, employment has continued to rise. Labour market participation is boosted by the favourable economic environment, the rising effective pension age and the positive effects from a multi-year work-ability reform, which gradually brings partly disabled people back to the labour market. However, the latter reform is also likely to add to unemployment, which rate is projected to increase from below 7% in 2017 to 7.7% in 2018 and 8.5% in 2019. Wages are projected to continue growing relatively rapidly at over 6% in 2017 and over 5% in 2018-2019.

Energy, food and excises duties drive inflation

After three years of relatively low inflation, HICP has exceeded the euro area average since the end of 2016. The jump in inflation is explained by the rise in global prices for food and energy (which have a relatively high share in Estonia's consumption basket). Also, a significant impact from excise hikes is estimated to contribute close to 1 pp. to inflation in both 2017 and 2018 and around ½ pp. in 2019. Inflation is forecast to reach 3.7% in 2017 and to slow to 3% in 2018 and 2.7% in 2019, as global commodity prices stabilise.

An expansionary fiscal stance

The general government recorded a deficit of 0.3% of GDP in 2016. In 2017, a similar deficit figure is expected. Tax accrual has been uneven in 2017. It expanded rapidly in VAT and labour taxes (in line with their respective tax bases) but yields from corporate income tax and especially excise duties have underperformed due to growing cross-border purchases of excise goods. Public investment surged by about one quarter in 2017, reflecting the upturn in the EU funding cycle.

In 2018, several new tax measures are due to take effect, most notably a significant lowering of personal income taxes, offset by multi-year excise hikes (alcohol, tobacco and fuels) and corporate income tax reform. The excise revenue accrual is impacted by stocking effects ahead of scheduled excise rises, which can be expected to lead to a concentration of excise tax revenues to 2018. On the expenditure side, an investment programme of 0.4% of GDP over 2018-2020 will kick off, as well as several new expenditure programmes in healthcare, education, social funding and in financing municipalities. Overall, the headline fiscal deficit is projected to increase to 0.4% of GDP in 2018, sliding further to 0.5% of GDP in 2019. In structural terms, the fiscal deficit is estimated higher at 1% of GDP in 2017 and 1½% in 2018 and 2019, given the positive output gap. Public debt is expected to remain stable at around 9% of GDP. The main negative risks to this fiscal projection pertain to the yield estimates of the various new tax measures.

Table II.6.1:

Main features of country forecast - ESTONIA

	2016			Annual percentage change						
	bn EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		21.1	100.0	3.8	2.9	1.7	2.1	**4.4**	**3.2**	**2.8**
Private Consumption		11.1	52.8	3.9	3.4	4.6	4.4	**2.2**	**3.6**	**2.5**
Public Consumption		4.4	20.7	2.2	2.6	3.3	1.9	**1.1**	**1.6**	**1.6**
Gross fixed capital formation		4.7	22.3	6.3	-8.7	-2.9	-1.2	**16.6**	**4.4**	**3.6**
of which: equipment		1.8	8.4	6.8	0.7	-13.7	6.2	**21.0**	**5.8**	**7.3**
Exports (goods and services)		16.7	79.0	7.0	2.5	-0.7	4.1	**3.8**	**4.2**	**4.1**
Imports (goods and services)		15.8	75.1	7.2	3.6	-1.8	5.3	**4.4**	**4.4**	**4.0**
GNI (GDP deflator)		20.7	98.1	3.8	2.5	2.3	2.2	**4.1**	**3.5**	**2.9**
Contribution to GDP growth: Domestic demand				4.8	-0.2	2.3	2.4	**5.1**	**3.3**	**2.5**
Inventories				-0.2	3.7	-1.3	0.7	**-0.4**	**0.0**	**0.0**
Net exports				-0.6	-0.8	0.9	-0.7	**-0.3**	**0.0**	**0.2**
Employment				-0.2	0.8	2.9	0.3	**0.8**	**0.3**	**0.4**
Unemployment rate (a)				10.3	7.4	6.2	6.8	**6.9**	**7.7**	**8.5**
Compensation of employees / head				9.3	6.5	3.3	5.9	**6.4**	**5.5**	**5.2**
Unit labour costs whole economy				5.2	4.3	4.5	4.0	**2.6**	**2.5**	**2.7**
Real unit labour cost				-0.2	2.7	3.3	2.4	**-1.5**	**-1.0**	**-0.2**
Saving rate of households (b)				4.4	10.7	11.7	11.3	**12.4**	**12.7**	**13.1**
GDP deflator				5.4	1.5	1.2	1.6	**4.3**	**3.6**	**2.9**
Harmonised index of consumer prices				4.4	0.5	0.1	0.8	**3.7**	**3.0**	**2.7**
Terms of trade goods				0.7	0.0	0.2	1.0	**0.2**	**0.3**	**-0.1**
Trade balance (goods) (c)				-12.8	-5.5	-4.2	-3.7	**-4.3**	**-4.3**	**-4.3**
Current-account balance (c)				-6.7	0.3	2.0	1.9	**2.3**	**2.3**	**2.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.1	1.3	4.0	3.0	**4.1**	**4.3**	**3.9**
General government balance (c)				0.2	0.7	0.1	-0.3	**-0.2**	**-0.4**	**-0.5**
Cyclically-adjusted budget balance (d)				-0.4	-0.2	-0.4	-0.5	**-1.1**	**-1.4**	**-1.5**
Structural budget balance (d)				-	0.0	-0.1	-0.4	**-1.1**	**-1.4**	**-1.5**
General government gross debt (c)				6.0	10.7	10.0	9.4	**9.2**	**9.1**	**9.1**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.

7. IRELAND

Rapid growth to continue

GDP growth is projected to remain robust over the forecast horizon but the pace is expected to moderate slightly. The activities of multinational enterprises continue to distort headline figures and complicate macroeconomic forecasts. The government deficit is moving closer to balance but risks to the fiscal outlook remain.

Underlying domestic demand to maintain its strong momentum…

In the first half of 2017, Ireland's real GDP grew by 5.7% (y-o-y), well above the euro area average. The headline figures remain volatile and heavily influenced by the activities of multinational enterprises in the country. Modified domestic demand, a measure of domestic activity that strips out the effect of multinationals, grew at robust rates driven by private consumption and construction investment. It is expected to continue to expand at an average rate of 4% over the forecast horizon.

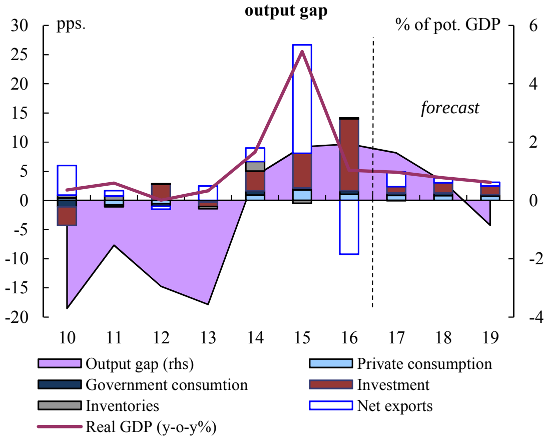
…buoyed by robust employment and investment in construction.

The unemployment rate in Ireland fell to 6.1% in September and is forecast to reach 5.3% by the end of 2019. The strong increase in employment, particularly in full-time employment, is expected to support the further increase in labour income over the forecast horizon. In conjunction with subdued inflation, this is expected to boost consumer spending in the near term.

Investment in construction is projected to contribute substantially to growth in domestic demand, with the strong momentum in residential property investment in 2016 expected to continue in the medium term, supported by government policies. Insufficient housing supply remains a challenge and is expected to show up in house prices and rents. Headline investment figures are likely to remain volatile due to the unpredictable investment in intangibles (e.g. patents and copyrights) by multinationals in Ireland.

Inflation is expected to increase gradually. Consumer prices (HICP) rose only marginally in the first three quarters of 2017 at an average rate of 0.2%. This was due to increasing energy prices and services. However, currency depreciation in the UK, from which Ireland imports much, lowered the price of many goods, offsetting increases in the price of services. Over the forecast horizon, the effect of lower goods prices is expected to moderate, while higher prices for services and residential rents are expected to nudge inflation slightly higher.

Graph II.7.1: **Ireland - Real GDP growth and contributions, output gap**



Trade outlook still clouded by uncertainty

The activities of multinationals in Ireland also have a large influence on the country's export and import statistics. Contract manufacturing [114] weighed on goods exports in 2016 and in the year to June. Total exports of goods dipped by 4.1% (y-o-y), but the contraction was offset by a strong increase in service exports in the first half of 2017. Over the same period, total imports declined by 1.7% (y-o-y) driven by extremely volatile 'imports' of intellectual property services. As a result, net external trade contributed significantly to GDP growth in the first half of 2017. Exports are projected to increase in line with global trade while imports are predicted to gather momentum on the back of strong consumer demand, leading to a moderation of the positive impact of net exports on GDP growth. Given the ongoing negotiations on the terms of the UK withdrawal from the EU, projections for 2019 are based on a purely technical assumption of status quo in terms of trading relations between EU27 and the UK. This is for forecasting purposes only

(114) Contract manufacturing refers to the production of goods abroad on behalf of Irish-domiciled entities for exporting.

and has no bearing on the talks underway in the context of the Article 50 process.

Risks to the outlook are tilted to the downside

The uncertainty surrounding the economic outlook relates primarily to the external environment, including the outcome of the negotiations between the UK and the EU and potential changes to the international taxation environment and US tax and trade policies. A large degree of unpredictability remains and is related to the activities of multinationals with risks being on either side.

Growth outlook positive for public finances

The general government deficit is projected to fall to 0.4% of GDP in 2017, an improvement of 0.4 pps. net of one-offs [115] compared with the previous year's deficit and reflecting the sustained pace of Ireland's economic growth.

Cash returns for the first three quarters of 2017 were broadly in line with government projections despite sizeable shortfalls in personal income tax, excise and stamp duty receipts. Overall, tax revenues increased by 5.4% over the twelve months to September, while expenditure remained below target across all departments except in the health area, where slippages of around EUR 166 million emerged.

Ireland's 2018 Draft Budgetary Plan includes new spending measures of around 0.4% of GDP and a moderate reduction of personal income tax. These expansionary measures are partly financed by revenue raising measures of near 0.3% of GDP. Due to the resilient outlook for GDP and domestic demand, the deficit is still expected to fall to 0.2% of GDP in 2018 and, based on a no-policy change assumption, to remain unchanged in 2019. Risks to the fiscal forecast are on the downside, mainly reflecting uncertainty as regards the economic outlook and the volatility of some sources of government revenues.

The structural deficit is estimated to fall to ½% of GDP in 2018 from 1⅓% of GDP in 2017 and to improve further in 2019. Gross general government debt is projected to fall to 69.9% of GDP in 2017, from 72.8% of GDP in 2016, and to further decline to 69.1% and 67.2% of GDP in 2018 and 2019 respectively. This is contingent on continued robust GDP growth and the realisation of primary budget surpluses.

[115] These mainly relate to the deficit-reducing EFSF pre-paid margin repayment in 2016 (0.2 % of GDP).

Table II.7.1:

Main features of country forecast - IRELAND

	2016		Annual percentage change						
bn EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	275.6	100.0	4.0	8.3	25.6	5.1	**4.8**	**3.9**	**3.1**
Private Consumption	90.8	33.0	3.8	2.1	4.2	3.2	**2.6**	**2.6**	**2.4**
Public Consumption	34.1	12.4	1.8	4.1	2.2	5.2	**3.3**	**3.5**	**1.9**
Gross fixed capital formation	87.7	31.8	2.9	18.2	28.2	60.8	**3.5**	**5.6**	**4.6**
of which: equipment	20.5	7.5	6.4	21.6	-0.7	27.9	**-2.7**	**5.7**	**4.5**
Exports (goods and services)	335.0	121.6	7.3	14.4	38.4	4.6	**3.9**	**4.5**	**4.3**
Imports (goods and services)	274.4	99.6	6.8	14.9	26.0	16.4	**2.2**	**4.7**	**4.6**
GNI (GDP deflator)	227.7	82.6	3.6	8.7	16.5	9.9	**3.0**	**3.4**	**2.9**
Contribution to GDP growth: Domestic demand			2.8	5.0	7.9	14.2	**2.4**	**3.0**	**2.5**
Inventories			0.0	1.7	-0.4	0.1	**0.0**	**0.0**	**0.0**
Net exports			1.4	2.3	18.6	-9.2	**2.5**	**0.9**	**0.6**
Employment			1.9	1.7	2.5	2.8	**2.9**	**2.2**	**1.9**
Unemployment rate (a)			7.7	11.3	9.4	7.9	**6.1**	**5.5**	**5.3**
Compensation of employees / head			3.6	1.8	2.1	2.0	**2.6**	**2.5**	**2.4**
Unit labour costs whole economy			1.5	-4.4	-16.6	-0.2	**0.7**	**0.8**	**1.2**
Real unit labour cost			-0.5	-4.1	-22.3	-0.2	**0.2**	**-0.3**	**0.0**
Saving rate of households (b)			-	6.6	6.6	6.3	**6.7**	**6.6**	**6.4**
GDP deflator			2.1	-0.4	7.3	0.0	**0.5**	**1.1**	**1.3**
Harmonised index of consumer prices			2.2	0.3	0.0	-0.2	**0.3**	**0.8**	**1.2**
Terms of trade goods			0.5	-5.2	8.0	2.3	**0.0**	**0.7**	**0.1**
Trade balance (goods) (c)			21.7	20.9	43.3	38.4	**34.3**	**33.2**	**32.7**
Current-account balance (c)			-1.7	1.6	10.9	3.3	**2.9**	**2.5**	**2.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.4	-1.8	10.4	1.5	**1.2**	**0.9**	**0.7**
General government balance (c)			-4.0	-3.6	-1.9	-0.7	**-0.4**	**-0.2**	**-0.2**
Cyclically-adjusted budget balance (d)			-4.1	-4.1	-2.9	-1.7	**-1.3**	**-0.5**	**0.3**
Structural budget balance (d)			-	-4.0	-2.1	-1.9	**-1.3**	**-0.5**	**0.3**
General government gross debt (c)			54.3	104.5	76.9	72.8	**69.9**	**69.1**	**67.2**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

8. GREECE
Return to growth

Greece's economy is growing again, and the recovery is expected to strengthen as investment rebounds and consumption growth rises. The labour market is recovering fast and unemployment is expected to decline further, although average wages may increase only gradually. Public finances remain on track to meet the primary surplus targets agreed under the ESM programme.

The economy is on a growth path

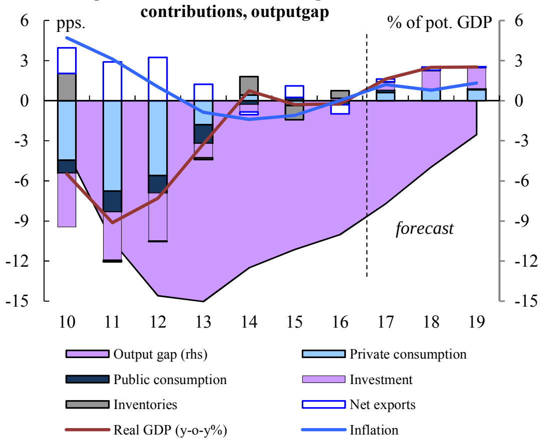
Real GDP in Greece grew by 0.5% (q-o-q) in both the first and second quarters of this year (in seasonally-adjusted terms), corresponding to a rise of 0.6% (y-o-y) for the first half of 2017. Compared to the same quarter of the previous year, equipment investment increased remarkably in the first quarter, as companies made their preparations for the tourist season, while in the second quarter public consumption and net exports fuelled growth. Private consumption increased less than expected in the first half of 2017, whereas investments in residential and non-residential buildings have declined compared to their levels at the end of 2016. Boosted by stronger demand overseas, international trade intensified with both exports and imports growing faster than expected.

Growth to gain pace in the 2nd half of the year

The closure of the second review in June 2017, together with the stronger-than-expected growth in the euro area and a favourable tourist season, are expected to boost the economy in the remainder of the year. In the third quarter of 2017, sentiment indicators rose to levels not seen in a number of years confirming that the closure of the second review was well received by households and companies alike.

Real GDP is expected to grow by 1.6% in 2017 and 2.5% in both 2018 and 2019. The forecast revision for 2017 reflects mainly the weaker-than-expected performance of private consumption in the first half of the year. On the back of a marked improvement in business and consumer sentiment and an improving labour market, both private consumption and investment activity are forecast to be robust in the second half of the year, and to continue to perform well in 2018. A benign external environment is expected to boost net exports, which should thereby contribute to growth this year and the next. This positive outlook is expected to benefit the current-account balance, with moderate surpluses forecast for the coming years.

Graph II.8.1: **Greece - Real GDP growth and contributions, outputgap**



The labour market performed better than expected, with the unemployment rate falling to 21% in July, down from an annual average of 23.6% in 2016. According to quarterly national accounts data, employment rose by 1.5% y-o-y in the first half of 2017, suggesting that the labour market continues to improve faster than the economy as a whole.

Consumer price inflation is expected to reach 1.2% in 2017, mainly as a result of the rebound in energy prices, increases in indirect taxation and with average wages recovering moderately. Headline inflation is expected to decelerate in 2018 as the base effects from taxation and energy price increases fade away and are not fully compensated by an increase in core inflation.

The forecast assumes a smooth completion of the third programme review and an orderly closure of the ESM stability support programme in 2018. Any delay in this process would be harmful for the recovery. Furthermore, there is a risk of a possible under-execution of the public investment budget in 2018, which would hinder overall investment growth as well.

The ESM programme is back on track

The effective stabilisation of the economic and policy environment brought about by the conclusion of the second review has strengthened the fiscal policy outlook for this year and over the medium term. Monthly government statistics to date suggest that the 2017 general government primary balance target (1.75% of GDP in terms of the ESM programme definition) will be met, with the balance of risks tilted to the upside. [116] While income tax revenue has been somewhat below monthly targets, the collection of tax arrears and social contributions has been strong, reflecting improvements in the public revenue administration and the progress in harmonising contribution rates. For the most part, positive risks for 2017 derive from a likely lower-than-budgeted execution of adopted spending targets.

Greece is also projected to achieve the ESM primary surplus target of 3.5% of GDP in 2018 and to maintain it in 2019, as agreed in June this year in the context of the second review of the programme. The forecast takes into account fiscal measures adopted in 2015 and 2016 amounting to 4.5% of GDP, the roll-out of the Social Solidarity Income scheme that started this year, and a post-programme package adopted in May 2017. The latter includes a re-alignment of all pensions with a new pension formula, yielding 1% of GDP savings in 2019. In view of the projected compliance with fiscal targets in that year, the forecast also factors in the implementation of the conditional package of offsetting social and investment spending.

Downside risks relate to the assumption of a full implementation of the programme commitments, particularly in 2018, and the adherence to the expenditure ceilings agreed in the Medium Term Fiscal Strategy from May 2017.

Overall, the general government balance is expected to reach -1.2% of GDP in 2017 before stabilising around 0.9% of GDP over the forecast horizon. In view of the projected narrowing of the output gap, the general government structural balance is forecast to be close to 3% of GDP in 2018, before declining to around 2% of GDP in 2019.

Greece's debt-to-GDP ratio is expected to decline to 179.6% in 2017 and is projected to decline further to 177.8% in 2018 on account of economic growth and the general government surplus forecast for that year. The debt-to-GDP ratio is projected to continue on a downward path reaching 170.1% in 2019.

(116) The programme definition of the primary balance excludes the one-off cost of bank recapitalisation, SMP and ANFA revenues and part of the privatisation proceeds.

Table II.8.1:

Main features of country forecast - GREECE

	2016		Annual percentage change						
	bn EUR Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	174.2	100.0	0.5	0.7	-0.3	-0.2	**1.6**	**2.5**	**2.5**
Private Consumption	121.7	69.9	0.7	0.6	-0.5	0.0	**0.9**	**1.2**	**1.2**
Public Consumption	35.2	20.2	0.9	-1.4	1.2	-1.5	**0.9**	**0.2**	**0.4**
Gross fixed capital formation	20.5	11.7	-1.9	-4.7	-0.3	1.6	**5.1**	**11.5**	**12.1**
of which: equipment	8.5	4.9	-0.4	29.3	7.9	-12.3	**18.0**	**13.4**	**13.4**
Exports (goods and services)	53.1	30.5	4.1	7.7	3.1	-1.8	**6.8**	**4.6**	**4.4**
Imports (goods and services)	54.3	31.2	2.4	7.7	0.4	0.3	**6.0**	**3.8**	**4.2**
GNI (GDP deflator)	175.3	100.6	0.4	1.1	-0.2	0.0	**1.2**	**2.6**	**2.7**
Contribution to GDP growth: Domestic demand			0.6	-0.4	-0.1	-0.2	**1.4**	**2.2**	**2.5**
Inventories			-0.1	1.4	-1.1	0.6	**0.0**	**0.0**	**0.0**
Net exports			0.1	-0.2	0.9	-0.7	**0.2**	**0.2**	**0.0**
Employment			-0.2	0.9	0.7	0.5	**1.9**	**1.7**	**1.8**
Unemployment rate (a)			12.7	26.5	24.9	23.6	**21.8**	**20.4**	**18.7**
Compensation of employees / head			3.2	-2.0	-2.3	-0.9	**0.8**	**1.5**	**1.8**
Unit labour costs whole economy			2.5	-1.8	-1.3	-0.2	**1.1**	**0.7**	**1.1**
Real unit labour cost			0.1	0.0	-0.3	0.8	**0.2**	**-0.3**	**-0.4**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.4	-1.8	-1.0	-1.0	**0.9**	**0.9**	**1.6**
Harmonised index of consumer prices			2.9	-1.4	-1.1	0.0	**1.2**	**0.8**	**1.3**
Terms of trade goods			-0.2	1.1	0.6	-2.3	**0.6**	**0.2**	**1.2**
Trade balance (goods) (c)			-14.7	-10.8	-9.1	-9.5	**-10.0**	**-9.7**	**-9.6**
Current-account balance (c)			-9.6	-2.4	0.0	-0.6	**-0.2**	**0.4**	**1.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-8.0	-0.4	3.0	1.5	**1.7**	**2.3**	**2.8**
General government balance (c)			-8.2	-3.6	-5.7	0.5	**-1.2**	**0.9**	**0.8**
Cyclically-adjusted budget balance (d)			-7.8	2.5	-0.3	5.3	**2.5**	**3.3**	**2.0**
Structural budget balance (d)			-	2.5	2.1	5.3	**2.5**	**3.3**	**2.0**
General government gross debt (c)			120.2	179.0	176.8	180.8	**179.6**	**177.8**	**170.1**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

9. SPAIN

Strong, balanced growth set to continue

Economic activity accelerated in the first half of this year, underpinned by private consumption and exports. Growth is set to remain robust but ease going forward, driven by a slowdown in private consumption. The unemployment rate is projected to continue declining. Thanks to the positive macroeconomic outlook and continued expenditure restraint, the general government deficit and debt ratios are forecast to continue declining.

Strong growth in the first half of the year defers the expected deceleration

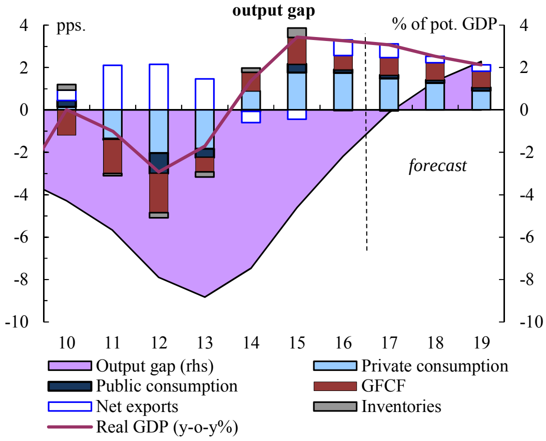
Rather than slowing as expected in spring, economic activity accelerated in the second quarter of 2017. Real GDP posted a strong 0.9% expansion on a quarterly basis in 2017-Q2, finally surpassing its pre-crisis peak. Domestic demand remains the main engine of growth, as strong job creation supports private consumption and residential construction investment rebounded. Net exports also continue to sustain GDP growth. The available hard and soft indicators signal that the pace of growth is easing in the second half of the year, but real GDP is still expected to increase by a robust 3.1% in 2017 as a whole, 0.3pps. higher than projected in spring.

Growth is expected to continue easing over the forecast horizon, to an annual average rate of 2.5% in 2018 and 2.1% in 2019. Private consumption is projected to remain the main driver of growth, but to slow down as the pace of job creation moderates, pent-up demand is absorbed, and other factors that supported the growth of household disposable income in recent years, such as the decrease in oil prices, abate. Residential construction and equipment investment are set to ease gradually, the latter in line with the projected slowdown in final demand.

Net exports set to continue contributing to growth

Exports have been accelerating this year, as Spain continues to record gains in export market shares and the external environment improves. Export growth is expected to moderate somewhat in 2018 and 2019, despite faster growth in Spain's export markets, as gains in market shares slow down. After rebounding this year, imports are also expected to moderate in 2018 and 2019, in line with final demand. As exports are expected to continue growing faster than imports, net trade should make a significant contribution to growth throughout the forecast horizon. After widening in 2016, Spain's current account is forecast to remain in a surplus of close to 2% of GDP until 2019, as swings in the terms of trade are largely offset by changes in export and import volumes and primary income. Spain's net external lending position is also expected to remain firmly positive over the forecast horizon.

Graph II.9.1: **Spain - Real GDP growth and contributions, output gap**



The unemployment rate to fall to about 14% by 2019

Job creation accelerated in the first half of the year, but administrative data suggest that the pace of job creation slowed down in the third quarter. Although employment growth is set to ease over the forecast period, it is projected to remain strong, allowing the unemployment rate to fall to about 14% by 2019, a reduction of almost 12 pps. from its peak in 2013. Wage growth is projected to remain subdued this year despite the pickup in inflation, partly due to a negative wage drift, and then gradually increase in 2018 and 2019. Productivity is expected to grow only moderately, leading to modest increases in nominal unit labour costs over the forecast horizon. However, further cost-competitiveness gains *vis-à-vis* the rest of the euro area are expected.

Inflation expected to moderate again

Base effects from oil price developments, the appreciation of the euro, and the pickup in core inflation are expected to dominate inflation dynamics over the forecast horizon. After a strong rebound in the first half of this year, headline inflation is forecast to moderate to an annual average of 2%. HICP inflation is then projected to decrease to 1.4% in 2018, before increasing again to 1.5% in 2019, as oil prices stabilise. Core inflation is projected to recover gradually over the forecast horizon, as wages pick up and the output gap turns firmly positive.

Risks to the outlook

Market reactions to recent events in Catalonia have remained contained. The risk exists that future developments could have an impact on growth, the size of which cannot be anticipated at this stage. On the upside, growth could benefit from a stronger than expected contribution from net exports, as signs of a structural improvement in export performance and import substitution start to emerge.

Strong growth continues to reduce the deficit

After narrowing to 4.5% of GDP in 2016, Spain's general government deficit continued to decrease in the first half of 2017, by 0.8 pps. Available data for July and August point to a continued reduction in the third quarter. For the year as a whole, a general government deficit of 3.1% of GDP is expected. In the absence of a budget, the fiscal forecast for 2018 is driven by the relatively strong macroeconomic performance supporting revenue growth and by continued expenditure restraint. This is expected to lead to a narrowing of the deficit to 2.4% of GDP in 2018. In 2019, at unchanged policies, it is expected to narrow further to 1.7% of GDP on the back of the cyclical recovery. Risks to the fiscal outlook mainly relate to contingent liabilities, in particular the impact of any settlement involving distressed toll motorways, and uncertainty about the 2018 budget. After deteriorating by some ¾% of GDP in 2016, Spain's structural deficit is expected to improve by about ¼% of GDP in 2017 and to remain broadly stable in 2018 and 2019. Over the forecast horizon, the general government debt ratio is expected to decrease slightly to 95.5% of GDP in 2019, as a result of relatively strong nominal GDP growth and the narrowing budget deficit.

Table II.9.1:

Main features of country forecast - SPAIN

	2016		Annual percentage change						
bn EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	1118.5	100.0	1.9	1.4	3.4	3.3	**3.1**	**2.5**	**2.1**
Private Consumption	644.7	57.6	1.5	1.5	3.0	3.0	**2.6**	**2.2**	**1.6**
Public Consumption	210.9	18.9	3.2	-0.3	2.1	0.8	**0.9**	**0.8**	**0.8**
Gross fixed capital formation	223.6	20.0	1.2	4.7	6.5	3.3	**4.1**	**4.0**	**3.7**
of which: equipment	77.4	6.9	2.5	5.9	11.5	5.0	**5.1**	**4.5**	**4.1**
Exports (goods and services)	368.5	32.9	3.9	4.3	4.2	4.8	**6.0**	**4.8**	**4.5**
Imports (goods and services)	334.8	29.9	3.4	6.6	5.9	2.7	**4.4**	**4.3**	**4.0**
GNI (GDP deflator)	1118.3	100.0	1.9	1.6	3.6	3.5	**3.1**	**2.3**	**2.1**
Contribution to GDP growth:	Domestic demand		1.9	1.7	3.4	2.6	**2.5**	**2.2**	**1.8**
	Inventories		0.0	0.2	0.4	0.0	**0.0**	**0.0**	**0.0**
	Net exports		0.1	-0.5	-0.4	0.7	**0.6**	**0.3**	**0.3**
Employment			0.9	1.0	3.2	3.0	**2.7**	**2.1**	**1.6**
Unemployment rate (a)			14.6	24.5	22.1	19.6	**17.4**	**15.6**	**14.3**
Compensation of employees / f.t.e.			2.9	0.1	1.6	-0.3	**0.5**	**1.2**	**1.4**
Unit labour costs whole economy			2.0	-0.2	1.4	-0.6	**0.2**	**0.7**	**0.8**
Real unit labour cost			-0.4	0.0	0.7	-0.9	**-0.7**	**-0.9**	**-0.5**
Saving rate of households (b)			10.0	9.3	8.6	7.7	**6.6**	**6.4**	**6.8**
GDP deflator			2.4	-0.2	0.6	0.3	**0.9**	**1.6**	**1.4**
Harmonised index of consumer prices			2.7	-0.2	-0.6	-0.3	**2.0**	**1.4**	**1.5**
Terms of trade goods			-0.2	-0.5	2.4	0.1	**-2.4**	**0.7**	**-0.7**
Trade balance (goods) (c)			-5.4	-2.1	-2.1	-1.6	**-1.9**	**-1.6**	**-1.6**
Current-account balance (c)			-4.5	1.0	1.0	1.9	**1.7**	**1.9**	**1.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.8	1.5	1.7	2.1	**2.0**	**2.2**	**2.2**
General government balance (c)			-3.3	-6.0	-5.3	-4.5	**-3.1**	**-2.4**	**-1.7**
Cyclically-adjusted budget balance (d)			-3.1	-1.9	-2.8	-3.3	**-3.1**	**-3.1**	**-3.0**
Structural budget balance (d)			-	-1.6	-2.5	-3.3	**-3.1**	**-3.1**	**-3.0**
General government gross debt (c)			56.2	100.4	99.4	99.0	**98.4**	**96.9**	**95.5**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

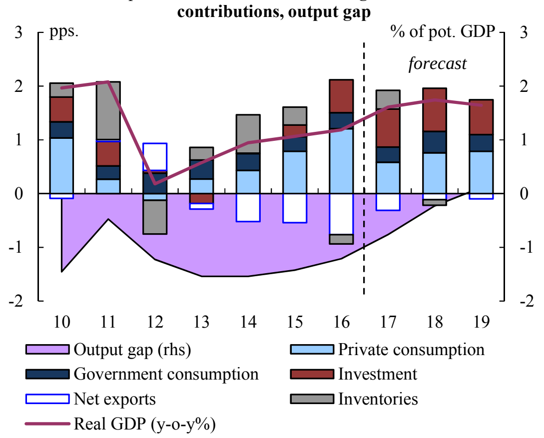
10. FRANCE

Solid growth, lower unemployment

Economic activity is forecast to accelerate sharply in 2017, driven by strong private investment growth and in particular a strong recovery in the housing market. As a result, unemployment rate is set to fall substantially. While the economy is expected to maintain its current momentum in the near future, a slight easing is expected in the medium term, as spare capacities in the economy are reabsorbed.

In the second quarter of 2017, GDP growth reached 0.5% (q-o-q) for the third consecutive quarter. Overall, in the first half of the year, economic activity has been primarily driven by strong private investment growth. On the one hand, corporate investment has been boosted by the over-amortisation scheme, a fiscal incentive for firms to invest. On the other hand, household investment has expanded at a sustained pace, recovering strongly after several years of contraction. By contrast, private consumption slowed as higher inflation ate into the purchasing power of households.

Graph II.10.1: **France - Real GDP growth and contributions, output gap**



Growth set to remain strong in the near future

Growth is expected to remain solid in the coming quarters, as economic sentiment has continued to improve in recent months, with some confidence indicators reaching their highest levels since the 2008 financial crisis. All in all, GDP growth is expected to reach 1.6% in 2017, 1.7% in 2018, and to slightly decelerate to 1.6% in 2019 as spare capacities in the economy are reabsorbed. [117]

Private consumption growth is set to recover somewhat in 2018 and 2019 in line with disposable income, after subdued growth in 2017. Concomitantly, the household saving rate is forecast to increase, as part of the rise in household disposable income stems from tax cuts for higher earners, which will have a lower effect on private consumption.

Investment growth is expected to remain strong in 2017 and 2018 before cooling slightly in 2019 in line with economic activity. Both household and corporate investments are forecast to cool after an exceptionally strong 2017. However, public investment is forecast to rebound in 2018 after several years of contraction, in line with the local electoral cycle.

Import growth is expected to moderate slightly in 2017, after three strong years, in line with slower domestic demand growth. Exports are forecast to gradually recover, following low growth in 2016 and in a context of sustained global demand. As a result, the contribution of net exports is expected to gradually become less negative.

Unemployment rate set to decline while inflation increases gradually

In line with the solid growth expected in France, the unemployment rate is forecast to decline to 9.5% in 2017, 9.3% in 2018, and 8.9% in 2019. However, employment growth is forecast to moderate somewhat after strong growth in 2017, as the effect of past cuts to the labour tax wedge fades. Inflation is forecast to increase gradually to 1.1% in 2017, 1.2% in 2018 and 1.5% in 2019, as a tighter labour market situation leads to gradually stronger wage increases.

Risks to the outlook

Negative risks mainly stem from the external side, while domestic risks are slightly tilted to the upside. Recent cost-competitiveness gains could help exporters to better absorb the euro's appreciation than in the past. Moreover, higher corporate investment could help boost potential growth, leading to self-fulfilling higher growth expectations.

(117) The GDP growth figures are non-calendar adjusted. In 2017, calendar adjusted GDP growth is forecast at 1.8%.

The headline deficit is projected to fall to 2.9% of GDP in 2017

The headline deficit is projected to decrease to 2.9% of GDP in 2017 (after 3.4% in 2016) reflecting higher GDP growth and additional consolidation measures of more than EUR 4 bn to correct State expenditure. Public revenue growth is expected to increase this year, while expenditure net of tax credits is set to rise by 1.8% compared to a growth of 1.0% in 2016, as inflation picked up. The recapitalisation of AREVA is not included in the projection for 2017 pending a final decision by Eurostat on its statistical recording.

In 2018, the headline deficit is expected to remain at 2.9% of GDP. Revenue growth should remain strong despite tax cuts of 0.3% of GDP announced in the 2018 draft budget due to favourable cyclical conditions. Deficit-increasing measures, such as the housing tax exemption, the replacement of the wealth tax by a tax on real estate wealth, or the introduction of a flat tax on savings revenues are partially compensated by the increase in environmental taxes of around 0.1% of GDP. Public expenditure in nominal terms and net of tax credits is expected to rise by 2.6%, reflecting not only higher inflation but also higher public consumption and an increase in planned healthcare expenditure. The forecast does not incorporate the effect of the reimbursement of the 3% tax on dividends following the decision of the French Constitutional Court in that the timing and the exact amount of the reimbursements and arrears interest are still unknown. The structural balance is projected to worsen by around ¼ pps. in 2018. The recapitalisation of AREVA and the reimbursement of the tax on dividends represent clear risks for the forecast and for the correction of the deficit below 3% of GDP.

Assuming no change in policy, the deficit is forecast to creep back up to 3.0% of GDP in 2019 due to the delayed effect of tax cuts. Hence, the revenue-to-GDP ratio is set to decrease by 0.3 pps., whereas the expenditure-to-GDP ratio is expected to decline by 0.2 pps. The forecast does not include the budgetary effect of the replacement of the CICE (Tax Credit for Competitiveness and Employment) by a permanent cut in social security contributions, as details regarding its final implementation have not been specified at this stage. The structural balance is projected to deteriorate further, by some ¼ pps. The debt ratio is forecast to stabilise at 96.9% of GDP as of 2017.

Table II.10.1:

Main features of country forecast - FRANCE

	2016		Annual percentage change						
	bn EUR Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	2228.9	100.0	1.6	0.9	1.1	1.2	**1.6**	**1.7**	**1.6**
Private Consumption	1232.9	55.3	1.9	0.8	1.4	2.2	**1.1**	**1.4**	**1.4**
Public Consumption	526.7	23.6	1.4	1.3	1.1	1.3	**1.2**	**1.7**	**1.3**
Gross fixed capital formation	489.4	22.0	2.1	0.0	1.0	2.8	**3.2**	**3.6**	**2.9**
of which: equipment	111.9	5.0	2.1	2.1	4.2	6.2	**1.1**	**3.3**	**2.6**
Exports (goods and services)	652.2	29.3	3.4	3.3	4.3	1.8	**3.1**	**4.0**	**4.2**
Imports (goods and services)	695.6	31.2	4.4	4.8	5.7	4.2	**3.9**	**4.0**	**4.2**
GNI (GDP deflator)	2264.3	101.6	1.6	1.0	1.1	1.3	**1.6**	**1.7**	**1.6**
Contribution to GDP growth: Domestic demand			1.8	0.8	1.3	2.1	**1.6**	**2.0**	**1.7**
Inventories			0.0	0.7	0.3	-0.2	**0.3**	**-0.1**	**0.0**
Net exports			-0.2	-0.5	-0.5	-0.8	**-0.3**	**-0.1**	**-0.1**
Employment			0.7	0.3	0.1	0.5	**1.1**	**0.9**	**0.9**
Unemployment rate (a)			8.9	10.3	10.4	10.1	**9.5**	**9.3**	**8.9**
Compensation of employees / f.t.e.			2.5	1.5	0.9	1.0	**1.7**	**2.0**	**2.0**
Unit labour costs whole economy			1.7	0.9	0.0	0.3	**1.1**	**1.1**	**1.3**
Real unit labour cost			0.2	0.3	-1.1	-0.1	**0.2**	**-0.2**	**-0.2**
Saving rate of households (b)			15.0	14.4	13.9	13.5	**13.7**	**13.8**	**13.8**
GDP deflator			1.5	0.6	1.1	0.4	**0.9**	**1.4**	**1.5**
Harmonised index of consumer prices			1.7	0.6	0.1	0.3	**1.1**	**1.2**	**1.5**
Terms of trade goods			-0.2	1.7	4.3	1.2	**-0.7**	**0.9**	**0.6**
Trade balance (goods) (c)			-0.8	-1.8	-1.2	-1.3	**-1.8**	**-1.6**	**-1.4**
Current-account balance (c)			-0.3	-3.0	-2.2	-2.6	**-3.0**	**-2.8**	**-2.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.3	-3.1	-2.3	-2.5	**-3.1**	**-2.8**	**-2.7**
General government balance (c)			-3.5	-3.9	-3.6	-3.4	**-2.9**	**-2.9**	**-3.0**
Cyclically-adjusted budget balance (d)			-3.9	-3.0	-2.7	-2.7	**-2.4**	**-2.8**	**-3.0**
Structural budget balance (d)			-	-3.0	-2.7	-2.6	**-2.4**	**-2.7**	**-3.0**
General government gross debt (c)			70.0	95.0	95.8	96.5	**96.9**	**96.9**	**96.9**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

11. CROATIA

Growth proves resilient but risks persist

Growth is set to remain robust and broad-based in 2017. However, economic activity is expected to lose some of its momentum over the next two years and the volume of GDP is only set to return to its pre-crisis level in 2019. The potential negative impact on growth of the ongoing Agrokor restructuring is still looming. The unemployment rate is set to continue falling, albeit at a slowing pace as employment growth and outbound migration ease. The general government deficit is projected to remain stable, but with the economy still growing above its potential, the structural balance is set to deteriorate.

Growth remained surprisingly resilient in the first half of the year, heralding a solid 2017

The restructuring of the distressed food-processing and retail group Agrokor – Croatia's largest private sector employer – appears to have had a smaller-than-anticipated effect on output in the first half of the year. In the second quarter, GDP expanded by 2.8% (y-o-y). Over the summer months, industrial production and retail trade volumes grew buoyantly. Tourism boomed, with arrivals and overnight stays increasing at double-digit rates. Coupled with strong consumer sentiment indicators, these trends suggest that the economy maintains strong growth in the second half of the year, pushing the expected GDP growth for 2017 as a whole to 3.2%.

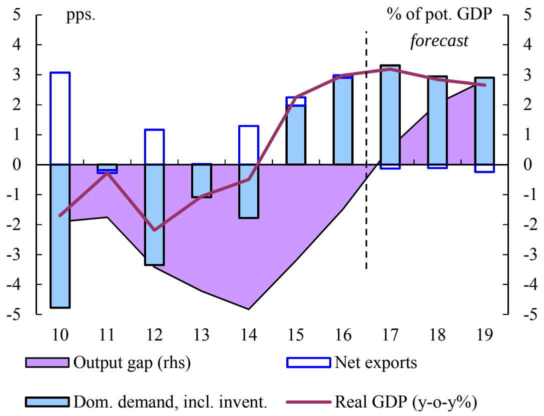
Growth is expected to slow down mildly over the forecast horizon

Domestic demand is set to remain the main driver of growth over the forecast horizon. While the impact of the recent tax reforms is gradually fading out, household consumption is expected to remain strong thanks to employment growth, rising wages and supportive credit conditions. Investment is expected to remain the most dynamic domestic component, with public investment enjoying a boost from the absorption of EU structural funds.

After a negative reading in the second quarter, exports of goods are expected to recover over the rest of the year, underpinned by strong external demand and further inroads into EU markets. Exports of services, mainly through inbound tourism, are on the path to posting record figures. Both trends are seen as likely to continue over the forecast horizon. As strong internal and external demand ushers in dynamic import growth, the overall contribution of the external balance of goods and services is projected to turn slightly negative, in turn leading to a somewhat lower current account surplus in 2018 and 2019. In 2017, however, the surplus is expected to increase on account of the impact on the primary income balance of Agrokor-related provisioning in the financial sector.

In all, real GDP is expected to continue expanding at a solid pace, but at rates below those seen in 2016 and 2017. At this rate economic output will only return to its pre-crisis level at the end of the forecast period. The unemployment rate is expected to contract more modestly than in previous years, as the pace of job creation moderates and outbound migration flows diminish.

Graph II.11.1: **Croatia - Real GDP growth and contributions, output gap**



Wage pressures and higher energy prices set the scene for a modest rebound in inflation

The tightening labour market and wage increases in the public sector are projected to raise the cost of labour in both 2017 and 2018. This, coupled with the adjustment in energy prices, is set to push inflation up to 1.3% in 2017. Thereafter, the inflation rate is expected to increase slightly, with core inflation picking up towards the end of the forecast period.

Risks to the forecast are mainly on the downside and are primarily linked to the ongoing restructuring of Agrokor's debt and business operations, particularly in 2018. Agrokor's creditors could face financial difficulties following the expected partial write-offs of their claims. Moreover, the period of uncertainty could be prolonged should some debtors opt to challenge the outcome of the settlement, which is to be reached by mid-2018 according to the special law.

Growth and expenditure containment keep the deficit stable and the debt ratio on a declining path

The general government deficit decreased sharply to 0.9% of GDP in 2016, from 3.3% the year before. Revenues were boosted by the pick-up in economic activity, especially household consumption, employment and corporate profits, as well as the repayments of overdue tax liabilities accumulated in recent years. Additionally, primary expenditure growth was contained well below nominal GDP growth, while financing costs declined as debt was refinanced at lower rates. In spite of the impact of tax cuts, the headline deficit is projected to stabilize at 0.9% of GDP in 2017 and 2018 and to decline slightly in 2019.

In 2017, revenue growth is expected below nominal GDP growth. Revenues from VAT and social contributions are set to grow strongly, driven by rising personal consumption and employment. The subdued growth in personal and corporate income tax revenues mainly reflects the effects of the tax reform. Expenditure is expected to grow at a similar rate as revenues, driven by compensation of public employees, while interest expenditure is expected to decrease again as more debt is refinanced at cheaper rates. In 2018, revenue should be supported by stronger corporate and personal income taxes in spite of the negative impact of the Agrokor crisis, while expenditure should come under pressure from the negotiated wage increases and additional spending on war veterans.

Risks on the revenue side are related to a stronger-than-expected impact of the Agrokor crisis on tax receipts. On the expenditure side, risks stem from higher-than-expected increases in the wage bill and social spending, namely on war veterans.

Following a strong improvement in 2016, the structural balance is forecast to deteriorate in 2017 and 2018. The debt ratio is set to continue declining to just below 75% in 2019.

Table II.11.1:

Main features of country forecast - CROATIA

	2016		Annual percentage change						
	bn HRK Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	345.2	100.0	1.6	-0.5	2.2	3.0	**3.2**	**2.8**	**2.7**
Private Consumption	199.9	57.9	1.2	-1.6	1.1	3.3	**3.6**	**2.8**	**2.3**
Public Consumption	66.3	19.2	1.4	-0.8	-1.4	1.3	**1.7**	**1.7**	**1.0**
Gross fixed capital formation	69.3	20.1	2.1	-2.8	3.8	5.1	**4.2**	**5.0**	**6.6**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	171.4	49.7	3.7	6.0	9.4	5.7	**6.2**	**5.8**	**5.0**
Imports (goods and services)	160.9	46.6	2.3	3.1	9.2	5.8	**6.9**	**6.3**	**5.8**
GNI (GDP deflator)	333.0	96.5	1.5	-0.5	3.7	0.0	**4.4**	**1.4**	**2.6**
Contribution to GDP growth: Domestic demand			1.6	-1.7	1.1	3.2	**3.3**	**3.0**	**2.9**
Inventories			-0.2	-0.1	0.8	-0.3	**0.0**	**0.0**	**0.0**
Net exports			0.3	1.3	0.3	0.1	**-0.1**	**-0.1**	**-0.2**
Employment			0.4	2.7	1.2	0.3	**1.8**	**1.7**	**1.5**
Unemployment rate (a)			-	17.2	16.1	13.4	**11.1**	**9.2**	**7.5**
Compensation of employees / head			4.4	-5.4	-0.2	-0.1	**2.5**	**2.5**	**2.5**
Unit labour costs whole economy			3.1	-2.4	-1.2	-2.8	**1.1**	**1.3**	**1.3**
Real unit labour cost			-0.4	-2.4	-1.2	-2.7	**0.0**	**-0.7**	**-0.8**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.5	0.0	0.0	-0.1	**1.2**	**2.1**	**2.1**
Harmonised index of consumer prices			-	0.2	-0.3	-0.6	**1.3**	**1.5**	**1.6**
Terms of trade goods			1.0	-0.9	-1.2	-0.6	**-1.4**	**0.4**	**0.4**
Trade balance (goods) (c)			-18.4	-15.1	-15.8	-16.0	**-17.4**	**-18.0**	**-18.5**
Current-account balance (c)			-	2.0	4.6	2.3	**3.1**	**1.9**	**1.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	2.2	5.3	3.3	**3.8**	**2.7**	**2.7**
General government balance (c)			-	-5.1	-3.3	-0.9	**-0.9**	**-0.9**	**-0.7**
Cyclically-adjusted budget balance (d)			-	-2.9	-1.8	-0.2	**-1.1**	**-1.9**	**-2.0**
Structural budget balance (d)			-	-3.1	-1.8	-0.3	**-0.9**	**-1.9**	**-2.0**
General government gross debt (c)			-	85.8	85.4	82.9	**80.3**	**77.4**	**74.5**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

12. ITALY

Recovery is strengthening in the short term

Italy's economic recovery accelerated in 2017, supported by external and domestic demand, but fading tailwinds and lower medium-term growth prospects are expected to moderate growth towards the end of the forecast period. Non-energy industrial goods and services prices are set to drive higher headline inflation, while wage pressures remain limited. The general government headline deficit is predicted to slightly decline over the forecast period while the debt-to-GDP ratio is not expected to fall below 130%.

Recovery gained further traction in 2017

In the first two quarters of 2017, real output grew by an average of 0.4% (q-o-q), benefiting from a stronger global economy and firming domestic demand. The drop in equipment investment at the beginning of the year – partly linked to uncertainty about the prolongation of tax credits for private investment projects – was more than compensated by net exports. Private consumption continued to increase on the back of rising consumer sentiment and employment growth supported by the recent labour market reforms. Survey indicators and short-term business statistics point to a similarly strong second half of the year. In annual terms, real GDP is expected to expand by 1.5% this year, up from 0.9% in 2016.

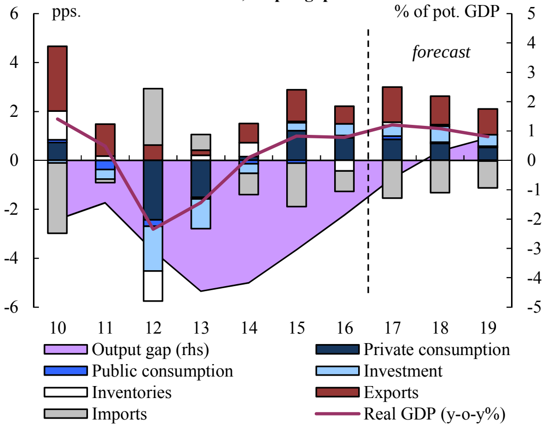
Investment and exports sustain growth but the recent output expansion is set to moderate

In 2018, growth is projected to moderate to 1.3%, while the output gap is expected to close. Export growth is predicted to lose some strength due to the appreciation of the euro, while public and private consumption are projected to decelerate. By contrast, investment growth both in the public and private sector is set to pick up sizeably, the latter supported by benign financing conditions and the extension of tax incentives adopted with the 2018 budget as well as rising corporate profitability.

In 2019, real GDP growth is set to decelerate to 1.0%. Further slowing employment growth and rising consumer prices are likely to dampen private consumption growth. The expected gradual move to a less accommodative monetary policy stance is forecast to affect financing conditions and soften investment spending.

By contrast, the recent government actions to address acute risks in weaker banks could help unclog bank lending and further reduce downside risks, while structural reforms are expected to lift potential growth.

Graph II.12.1: **Italy - Real GDP growth and contributions, output gap**



Employment growth expected to decelerate while wage increases remain modest

After exemptions from social contributions were phased-out at the end of 2016, employment growth is set to slow down to 1.0% in 2017. The renewed fiscal incentives included in the 2018 budget for hiring younger workers are expected to further support jobs growth. Over the rest of the forecast period, however, the development of the labour market is expected to be more in line with economic activity. Employment is projected to increase by 0.9% and 0.6% in 2018 and 2019 respectively. The unemployment rate is predicted to gradually recede from 11.3% in 2017 to 10.5% in 2019, while the still sizable slack in the labour market is set to limit wage pressures. Thus, growth in nominal unit labour costs is expected to remain contained despite weak productivity growth.

Consumer prices are picking up, with the inflation profile shaped by base effects

Headline annual HICP inflation is expected to rise to 1.4% in 2017, after a three-year period of near-zero inflation. Base effects associated with energy and unprocessed foods are likely to reduce price pressures in 2018, partly offset by the steady increase of prices for non-energy industrial goods and services. Annual HICP inflation is expected to increase to 1.5% in 2019. By contrast, core inflation is set to pick up gradually over the forecast period – in line with moderate wage growth and the recovery of profit margins – to reach 1.6% in 2019.

The debt ratio decreases marginally

In 2017, the deficit is set to decline to 2.1% of GDP, down from 2.5% in 2016. This is due to lower interest expenditure and an increase in current primary expenditure (of around 1.6%) in nominal terms which is below nominal growth (2.1%). In particular, past pension reforms, moderate increases in public wages (frozen since 2010) and healthcare expenditure still curb expenditure dynamics. Despite a reduction in the corporate income tax rate from 27.5% to 24%, the tax burden is expected to remain broadly stable mainly due to the additional revenue measures adopted in April 2017. Still, the structural balance is set to slightly deteriorate in 2017, by about ½ pps. of GDP.

In 2018, the headline deficit is forecast to slightly decrease to 1.8% of GDP, due to higher nominal growth (2.6%) and some deficit-decreasing measures put forward in the 2018 budget. These include a spending review at both ministerial and local level, the introduction of compulsory electronic invoicing for private sector transactions, the postponement to 2019 of a simplified tax regime for small enterprises (IRI) previously legislated for 2018 and measures to fight tax evasion. On the other hand, additional deficit-increasing measures like a permanent three-year reduction of social security contribution for new hires and measures to support investment are set to support growth. Moreover, further resources are earmarked to renew public employees' contracts. Overall, the structural balance is estimated to only marginally improve in 2018.

In 2019, under a no-policy change assumption, the deficit is forecast to increase again to 2.0% of GDP. The structural balance is set to deteriorate by about ½ pps. of GDP in 2019.

The debt ratio, after reaching 132.0% in 2016, stabilised in 2017 at 132.1% of GDP also due to additional resources earmarked for public support to the banking sector and retail investors. Thereafter, the debt-to-GDP ratio is expected to marginally decline to 130.8% in 2018 and to 130.0% in 2019, mainly due to stronger nominal growth.

Table II.12.1:

Main features of country forecast - ITALY

		2016			Annual percentage change					
	bn EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		1680.5	100.0	0.4	0.1	1.0	0.9	**1.5**	**1.3**	**1.0**
Private Consumption		1022.5	60.8	0.4	0.3	2.0	1.5	**1.4**	**1.1**	**0.9**
Public Consumption		315.2	18.8	0.8	-0.7	-0.6	0.5	**0.7**	**0.3**	**0.3**
Gross fixed capital formation		287.1	17.1	-0.2	-2.3	1.9	2.8	**2.5**	**3.8**	**2.7**
of which: equipment		103.8	6.2	-0.1	1.9	3.8	7.1	**4.5**	**5.3**	**2.8**
Exports (goods and services)		501.1	29.8	1.9	2.7	4.4	2.4	**4.8**	**3.8**	**3.3**
Imports (goods and services)		444.2	26.4	2.0	3.2	6.7	3.1	**5.9**	**4.7**	**3.8**
GNI (GDP deflator)		1684.3	100.2	0.4	0.3	0.4	1.7	**1.7**	**1.3**	**1.0**
Contribution to GDP growth:	Domestic demand			0.4	-0.4	1.4	1.5	**1.4**	**1.4**	**1.0**
	Inventories			0.0	0.6	0.0	-0.4	**0.1**	**0.1**	**0.0**
	Net exports			0.1	-0.1	-0.5	-0.1	**-0.1**	**-0.2**	**0.0**
Employment				0.1	0.2	0.7	1.4	**1.0**	**0.9**	**0.6**
Unemployment rate (a)				8.8	12.7	11.9	11.7	**11.3**	**10.9**	**10.5**
Compensation of employees / f.t.e.				2.3	0.0	1.0	0.5	**0.5**	**1.5**	**1.3**
Unit labour costs whole economy				2.1	0.1	0.7	0.9	**0.1**	**1.1**	**0.9**
Real unit labour cost				0.0	-0.9	-0.2	0.1	**-0.5**	**-0.1**	**-0.5**
Saving rate of households (b)				13.4	11.2	10.5	10.5	**10.1**	**9.8**	**9.8**
GDP deflator				2.1	1.0	0.9	0.8	**0.6**	**1.3**	**1.4**
Harmonised index of consumer prices				2.3	0.2	0.1	-0.1	**1.4**	**1.2**	**1.5**
Terms of trade goods				-0.6	3.5	4.1	3.3	**-1.5**	**0.8**	**0.1**
Trade balance (goods) (c)				0.5	2.9	3.1	3.6	**3.1**	**3.1**	**3.1**
Current-account balance (c)				-0.9	1.9	1.5	2.6	**2.5**	**2.5**	**2.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.8	2.0	1.7	2.5	**2.3**	**2.4**	**2.2**
General government balance (c)				-3.2	-3.0	-2.6	-2.5	**-2.1**	**-1.8**	**-2.0**
Cyclically-adjusted budget balance (d)				-3.1	-0.8	-0.9	-1.5	**-1.8**	**-2.0**	**-2.4**
Structural budget balance (d)				-3.7	-1.0	-0.8	-1.7	**-2.1**	**-2.0**	**-2.4**
General government gross debt (c)				108.5	131.8	131.5	132.0	**132.1**	**130.8**	**130.0**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

13. CYPRUS

Growth surprises on the upside

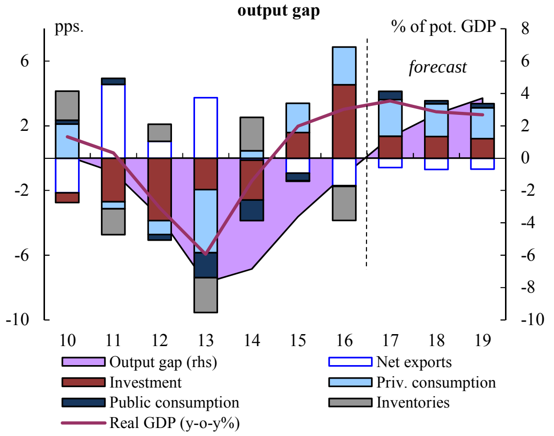
Economic growth has exceeded expectations in recent quarters. It is forecast to reach 3.5% in 2017 and to ease but remain robust over 2018 and 2019. Domestic demand is expected to be the main growth driver. Unemployment is set to continue falling and inflation is expected to remain moderate. On the fiscal side, headline surpluses are expected between 2017 and 2019, underpinned by a favourable macroeconomic environment.

Growth accelerates

Cyprus' economy accelerated in the first half of 2017 and GDP growth is expected to reach around 3.5% for the year as a whole. In the first half of the year, the economy grew by 3.6%, well above expectations, following a strong revision of the first quarter's data. Driven by domestic demand, growth is expected to remain strong, but to ease in 2018 and 2019 to 2.9% and 2.7% respectively.

Growth was driven by private consumption and strong investment, with public consumption also contributing positively. Private consumption continues to benefit from pent-up demand and is expected to remain the main growth driver, supported by steadily rising household disposable income amid robust employment and expectations for wage increases. Moreover, consumer confidence is buoyant, well above pre-crisis levels.

Graph II.13.1: **Cyprus - Real GDP growth and contributions, output gap**



After years of subdued and volatile investment levels, gross fixed capital formation in the first half of 2017 was solid, reaching a share of 19% of GDP, just below the EU average. Construction investment was particularly strong, linked to tourist accommodation and residential properties. Strong momentum in investment is set to continue, with leading indicators in the construction sector pointing to a strong second half of the year. Further support is expected from the recovery in the real estate market and very sizable tourism-related projects planned in the coming years.

Net exports were weak in the first half of 2017 due to a fall in exports, particularly of goods, that rising exports of services were unable to fully offset, despite record numbers of tourists and a 20% increase in tourism revenues. At the same time, imports remained stable. However, when excluding one-offs related to ship purchases in 2016, imports have increased in line with consumption and investment growth.

Strong labour market and modest inflation

Employment growth has gathered steam in 2017, increasing by more than 3% (y-o-y) in the first half of 2017. All sectors (except agriculture) contributed positively, with employment in the construction sector rising fast. The unemployment rate fell below 11% in mid-2017. The strong performance of the labour market is expected to continue over the coming years, with the unemployment rate set to fall to 9.3% in 2019.

Inflation accelerated somewhat in the first half of 2017, driven by energy prices and unprocessed food. With the effect of past increases in oil prices expected to fade away, headline inflation is set to moderate in the second half of the year, leading to an average rate of around 1.0% for the year as a whole. In 2018-19 inflation is expected to rise moderately, driven by wage pressures.

Risks to the growth outlook are broadly balanced. Downside risks mainly pertain to the still very high share of non-performing loans, the macroeconomic prospects of the UK, one of the key trading partners of Cyprus, and possible delays in construction of tourism-related projects. Among upside risks, buoyant confidence leading to stronger domestic demand and a more pronounced economic recovery in the rest of the EU could spur growth more than expected.

Continued general government surplus

The fiscal performance of Cyprus continues to be strong and has again outperformed the government's budgetary targets. In 2017, the general government balance is expected to improve further, reaching a surplus of 1.1% of GDP. The general government primary surplus is also forecast to increase to 3.5% of GDP, while remaining one of the highest in the euro area in 2017. In structural terms, this corresponds to a surplus of about ½% of GDP.

The strong fiscal performance in 2017 is expected to be driven by high revenue collection, underpinned by the favourable macroeconomic situation and positive developments in the labour market. More specifically, total revenue is forecast to increase by 0.8 pps. of GDP as a result of significant revenue increases in both direct and indirect taxes and social security contributions. These gains are expected to be partially offset by the abolition of the immovable property tax and the termination of the temporary wage levy. Furthermore, the government's signature of gas exploration contracts for 2017-2019 will contribute to a rise in revenue (of 0.2 pps. of GDP in each of these years). Public expenditure is expected to increase but at a slower pace (by 0.2 pps. of GDP), mainly due to higher spending on intermediate consumption, compensation of employees following the hiring of additional personnel for security forces, as well as the projected rise in public investment.

In 2018, under a no-policy change assumption, the fiscal surplus is expected to increase to 1.4% of GDP. The revenue-to-GDP ratio is projected to remain broadly stable, while the expenditure-to-GDP ratio is set to decline only slightly. In 2019, the general government surplus is forecast to further increase to 1.9% of GDP, on the back of the cyclical recovery and a rise in social security contributions (by 0.4 pps. of GDP). The structural balance is forecast to be close to a balanced position in both 2018 and 2019. Over the medium-term, downside risks to the forecast stem from the reform of the healthcare system and the absence of a mechanism regulating public sector payroll growth beyond 2018.

Public debt-to-GDP ratio is expected to decline and fall below 100% of GDP by 2018. As a result of the expected continuous primary surpluses and positive nominal growth, general government debt is forecast to reach 93.9% of GDP in 2019.

Table II.13.1:

Main features of country forecast - CYPRUS

		2016		Annual percentage change						
	mio EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		18122.5	100.0	2.3	-1.4	2.0	3.0	**3.5**	**2.9**	**2.7**
Private Consumption		12573.5	69.4	2.9	0.7	2.6	3.3	**3.3**	**2.9**	**2.7**
Public Consumption		2729.2	15.1	3.2	-7.2	-2.8	-0.4	**3.3**	**1.3**	**1.7**
Gross fixed capital formation		3172.8	17.5	-0.7	-17.5	13.6	35.0	**7.8**	**7.3**	**6.4**
of which: equipment		1601.1	8.8	-2.6	-34.8	70.6	113.0	**0.7**	**2.5**	**3.3**
Exports (goods and services)		11834.8	65.3	1.8	4.2	6.3	3.9	**2.8**	**2.2**	**2.0**
Imports (goods and services)		11976.3	66.1	1.6	4.6	8.1	6.6	**3.7**	**3.2**	**2.9**
GNI (GDP deflator)		17838.5	98.4	2.3	-0.4	5.5	1.8	**3.5**	**2.9**	**2.7**
Contribution to GDP growth:	Domestic demand			2.3	-3.3	2.9	6.8	**4.1**	**3.6**	**3.4**
	Inventories			-0.1	2.1	-0.1	-2.1	**0.0**	**0.0**	**0.0**
	Net exports			0.1	-0.1	-0.9	-1.7	**-0.6**	**-0.7**	**-0.7**
Employment				1.3	-1.8	1.5	3.1	**2.9**	**1.9**	**1.4**
Unemployment rate (a)				6.0	16.1	15.0	13.0	**11.0**	**10.0**	**9.3**
Compensation of employees / head				3.3	-3.6	-1.2	-0.8	**1.7**	**1.5**	**1.8**
Unit labour costs whole economy				2.3	-4.0	-1.7	-0.7	**1.0**	**0.5**	**0.5**
Real unit labour cost				-0.3	-2.4	-0.5	0.2	**-0.2**	**-0.5**	**-1.1**
Saving rate of households (b)				6.1	-7.9	-5.7	-4.7	**-4.7**	**-4.8**	**-4.9**
GDP deflator				2.6	-1.6	-1.2	-0.9	**1.2**	**1.1**	**1.6**
Harmonised index of consumer prices				2.5	-0.3	-1.5	-1.2	**1.0**	**1.1**	**1.4**
Terms of trade of goods				0.0	7.1	3.2	-0.4	**-0.1**	**-0.3**	**0.5**
Trade balance (goods) (c)				-23.5	-16.0	-16.7	-21.3	**-23.7**	**-24.6**	**-25.2**
Current-account balance (c)				-8.5	-4.4	-2.5	-4.9	**-5.4**	**-6.2**	**-6.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-8.1	-4.4	-2.2	-4.8	**-5.1**	**-6.2**	**-6.8**
General government balance (c)				-3.2	-8.8	-1.2	0.5	**1.1**	**1.4**	**1.9**
Cyclically-adjusted budget balance (d)				-3.6	-5.2	0.7	1.0	**0.4**	**0.0**	**-0.1**
Structural budget balance (d)				-	3.3	1.6	1.1	**0.4**	**0.0**	**-0.1**
General government gross debt (c)				61.6	107.5	107.5	107.1	**103.0**	**98.3**	**93.9**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

14. LATVIA

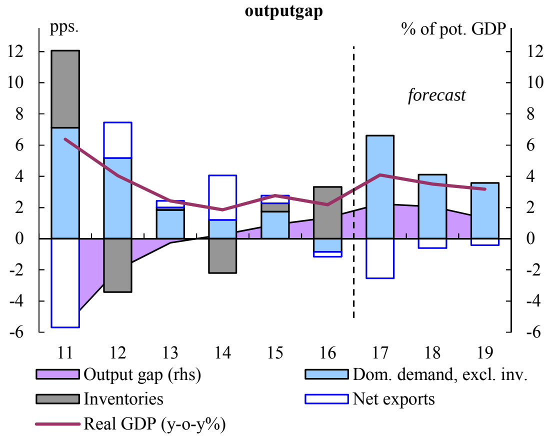
Investment recovers remarkably

The confluence of thriving consumption, greater foreign demand and a strong rebound in investment is set to push Latvia's GDP growth above 4% in 2017. Once the initial boost from the investment recovery wanes, growth should ease but remain over 3% in 2018 and 2019, due to strong consumption and improving external demand. The shrinking labour force will continue to drive down unemployment and stoke wage pressures. Inflation is likely to average around 3% in 2017 and stay thereabout in 2018 and 2019 on the back of rapid wage growth. The government deficit is expected to be contained at 1% of GDP in 2018 and 2019 despite the large costs of tax reforms.

Growth recovers remarkably in 2017

Economic growth exceeded 4% in the first half of 2017, up from 2.2% in 2016. Strong wage growth drove household consumption and inflation, to some extent. The dramatic decline in investment in 2016 looks set to be fully compensated by double-digit growth in 2017, while an improving external outlook has benefited exports. All demand components saw an improvement compared to 2016.

Graph II.14.1: **Latvia- Real GDP growth and contributions, outputgap**



Growth set to remain strong in 2018 and 2019

The investment upswing is expected to extend into 2018 by which time EU structural fund disbursements should reach their normal levels. Household consumption is forecast to remain solid on the back of rapidly rising wages, which will at the same time increasingly translate into higher inflation, dampening real growth. Tax cuts are expected to add some more fuel to the domestic demand in 2018, but are unlikely to impact 2019 growth much.

Trade is on the up

Increasing demand from both the EU and Russia is set to lift goods export growth to some 4% in the coming years. Service exports, by contrast, are forecast to slow down as demand for transit services from Russia is falling. Import growth is set to spike in 2017 due to renewal of the AirBaltic fleet. It is projected to remain high in 2018 and 2019 in line with strong domestic demand. The current account balance is set to deteriorate, mainly as a result of higher imports.

Wage growth set to translate into prices

Despite virtually no employment growth, the unemployment rate is set to decline to 7.3% by 2019. The shrinking labour force therefore exerts strong pressure on wage growth, which will be further boosted by a substantial increase in the minimum wage. Wage growth is expected to jump to around 10% in 2017, also due in part to a reduction in undeclared wages. Over the forecast horizon, wage growth is set to slow to more sustainable levels.

The rebound in energy prices proved to be mild and short-lived, but a surprise spike in food prices pushed HICP inflation to almost 3% in the first half of 2017. While the impact of energy prices is expected to wane by the end of the year, high wage growth is expected to ensure that inflation stays close to 3% in both 2018 and 2019.

Fiscal position controlled despite reform costs

The government deficit is expected to be 0.9% of GDP in 2017. The forecast of government revenue forecast has been revised up by some 0.4 pps., compared to the spring forecast, but the government's decision to pre-pay support for electricity production carries previously unplanned costs of 0.5% of GDP. The better-than-expected performance of tax revenues is linked mainly to the pick-up in wages.

In 2018, the government deficit is projected at 1.0% of GDP, compared to a forecast of 1.8% in spring 2017. The bulk of the improvement is explained by revised tax reform plans. Notably, the revenue loss associated with the transition to a new corporate income taxation system is largely shifted out to 2019. Other measures were also adjusted with a deficit-improving effect. The overall effect of the tax reform measures is still revenue reducing -0.2% of GDP in 2018. The reduction of the standard rate of personal income tax from 23% to 20% costs 0.7% of GDP and the changes in corporate income tax reduce revenues by 0.3% of GDP. These are partly compensated by the increases in excise duties (+0.2% of GDP), tightening administration of VAT (+0.3%) and aligning taxes on both wage and capital income at 20% rate (+0.1%). Moreover, the social contributions rate is due to be increased by 1 pp. yielding 0.3% of GDP, which is ear-marked for financing a 0.7% of GDP increase in healthcare spending. Other spending increases amount to 0.5% of GDP, including for social benefits and road infrastructure. The spending measures are financed from revised revenue projections and through the expenditure review process (0.3% of GDP).

In 2019, the government deficit is projected at 1.1% of GDP under a no-policy-change assumption. While the costs of the tax reform are expected to weigh on tax revenues (-0.8% of GDP), economic growth dynamics should support revenue growth. Expenditure growth is projected to be based on a further increase in social spending, while the increase in the public sector wage bill should be contained by reforms that reduce the number of public sector employees. Moreover, investment expenditure is set to stabilise after a surge in new EU financed projects in 2017 and 2018. Latvia's structural deficit is expected to increase to 1¾% of GDP in 2017 and 2018 before declining to 1½% of GDP in 2019.

The government debt is expected to fall to 39% of GDP in 2017 and should decline further to about 36% of GDP in 2018 and 2019. The debt dynamics reflect fluctuations in expected cash balances, while the underlying debt ratio is on a downward path, as nominal GDP growth outpaces the government's net borrowing.

Table II.14.1:

Main features of country forecast - LATVIA

		2016		Annual percentage change						
	mio EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		24926.7	100.0	4.1	1.9	2.8	2.1	**4.2**	**3.5**	**3.2**
Private Consumption		15319.5	61.5	3.8	1.4	2.5	3.3	**4.3**	**4.0**	**3.9**
Public Consumption		4492.7	18.0	1.6	1.9	1.9	2.7	**4.0**	**2.5**	**2.0**
Gross fixed capital formation		4537.8	18.2	7.7	0.1	-0.5	-15.0	**17.8**	**5.5**	**4.0**
of which: equipment		1761.4	7.1	7.2	-10.9	-1.3	-6.5	**18.0**	**5.0**	**4.0**
Exports (goods and services)		14965.8	60.0	6.8	6.0	3.0	4.1	**3.8**	**4.2**	**4.0**
Imports (goods and services)		14742.4	59.1	6.4	1.2	2.1	4.5	**7.9**	**5.1**	**4.5**
GNI (GDP deflator)		24866.5	99.8	4.0	2.0	2.7	2.1	**4.2**	**3.4**	**3.4**
Contribution to GDP growth:	Domestic demand			5.1	1.2	1.7	-0.8	**6.6**	**4.1**	**3.6**
	Inventories			0.0	-2.1	0.6	3.2	**0.0**	**0.0**	**0.0**
	Net exports			-0.8	2.8	0.5	-0.3	**-2.4**	**-0.6**	**-0.4**
Employment				-0.6	-1.4	1.4	-0.3	**0.2**	**-0.2**	**-0.2**
Unemployment rate (a)				12.7	10.8	9.9	9.6	**8.4**	**7.9**	**7.3**
Compensation of employees / head				9.6	8.6	7.7	6.8	**9.5**	**8.8**	**8.1**
Unit labour costs whole economy				4.7	5.1	6.2	4.3	**5.3**	**4.9**	**4.6**
Real unit labour cost				-0.4	3.3	6.2	4.0	**3.0**	**1.5**	**1.4**
Saving rate of households (b)				1.2	-3.5	-2.2	2.7	**3.7**	**5.9**	**6.4**
GDP deflator				5.2	1.8	0.0	0.3	**2.2**	**3.4**	**3.2**
Harmonised index of consumer prices				4.3	0.7	0.2	0.1	**2.9**	**2.8**	**2.9**
Terms of trade of goods				0.3	-0.9	2.4	3.5	**-0.5**	**0.5**	**0.5**
Trade balance (goods) (c)				-16.5	-10.0	-9.0	-7.7	**-10.3**	**-10.4**	**-10.4**
Current-account balance (c)				-8.0	-1.5	-0.2	1.4	**-1.4**	**-1.6**	**-1.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.7	1.7	2.7	2.4	**-0.1**	**0.0**	**0.4**
General government balance (c)				-2.7	-1.2	-1.2	0.0	**-0.9**	**-1.0**	**-1.1**
Cyclically-adjusted budget balance (d)				-2.6	-1.3	-1.6	-0.5	**-1.8**	**-1.8**	**-1.6**
Structural budget balance (d)				-	-1.0	-1.6	-0.6	**-1.8**	**-1.8**	**-1.6**
General government gross debt (c)				21.3	40.9	36.9	40.6	**39.1**	**35.6**	**35.8**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

15. LITHUANIA

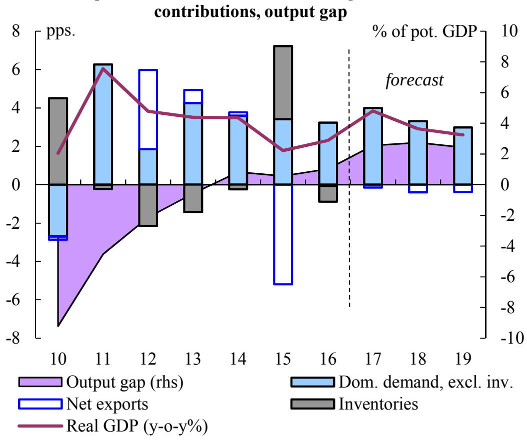
GDP growth to moderate after surging in 2017

A strong boost in exports and investment is set to power GDP growth to 3.8% in 2017. As exports, investment, and private consumption growth slow down, however, GDP growth is forecast to moderate to 2.9% in 2018 and 2.6% in 2019. At the same time, rising inflation is forecast to take its toll on private consumption, by eating into real disposable income growth. Employment is expected to shrink as the labour supply approaches its limit. Lithuania is expected to maintain a general government surplus over the forecast horizon helped by the rise in tax-rich economic growth.

Strong start of 2017

GDP growth reached 4.1% year-on-year in the first half of 2017 on the back of robust growth in private consumption and a jump in exports and private investment. Strong wage increases continued to support private consumption, but rising inflation and contracting employment due to negative demographic trends and emigration started to limit its growth. Private investment grew strongly at the start of 2017, but EU funds-driven public investment failed to gather pace at the start of the year. During the first half of 2017, export growth surpassed expectations as a result of favourable trends in international trade. Meanwhile, import growth also picked up notably due to the high import content of exports and investment. Inflation accelerated significantly on the back of rising energy, food and service prices.

Graph II.15.1: **Lithuania - Real GDP growth and contributions, output gap**



Investments and exports are set to support growth over the forecast horizon

GDP is forecast to grow by 3.8% in 2017 and to slow down to 2.9% in 2018 as exports, investment, and private consumption growth is set to moderate.

Rising inflation and contracting employment are starting to weigh on household consumption even though wage growth, which supports real disposable income, remains strong. A sluggish uptake of EU investment funds is dragging down public investment growth, but it is expected to pick up in 2018. Strong growth in mortgage credit is set to improve investment performance as well, although an increasing stock of newly-built residences may moderate such support.

Exports are set to benefit over the forecast horizon from the positive economic outlook in both the EU and Russia, though the pace of growth is expected to moderate due to rising real unit labour costs. Import growth in 2018 and 2019 is expected to slow down in step with exports. Although exports continue to grow, the contribution of net trade to growth is expected to be close to neutral in 2017 and slightly negative in the next two years.

Risks to the forecast are balanced as potential downsides from geopolitical developments are countered by cautious optimism about a strengthening recovery in Lithuania's main export markets.

The labour market is tightening

In 2017, after six years of employment growth, the number of employed persons started to shrink. Despite a significant increase in the participation rate among older workers, negative demographic trends and emigration are expected to see employers lose around 0.3% of their staff annually between 2017 and 2019. Shrinking supply and high demand for labour should drive the unemployment rate down to 7.3% by the end of 2017, which is low by historical standards. Consequently, the unemployment rate is forecast to decline to 6.8% in 2018 and to 6.4% in 2019.

Inflation spikes in 2017 and is set to remain strong thereafter

HICP inflation is set to reach 3.8% in 2017 before decreasing in 2018 and 2019. Inflation is currently driven by a substantial but short-lived surge in energy prices combined with a pronounced hike in excise duties at the start of 2017, as well as by a strong boost in service prices partially fed by an increase in the minimum monthly wage. The impact of these factors is set to moderate over time, leading to a moderation of inflation in 2018 and 2019. Solid wage growth driven by a shortage of qualified workers, however, is set to keep core inflation elevated over the forecast horizon.

High growth helps fiscal improvement

Lithuania is expected to maintain a general government surplus over the forecast horizon. The buoyant labour market continues to support a strong collection of payroll taxes, while the government contains an overall expenditure increase to smoothen economic growth.

The 2016 general government surplus is set to contract slightly to 0.1% of GDP in 2017. This decrease is mostly explained by the costs of structural reforms (0.5% of GDP), as well as an increase in public wages, pensions and in the non-taxable income threshold. These additional costs and revenue losses are to be offset by the boost in revenues from accelerating tax-rich economic growth helped by a set of tax increases and efforts to improve tax compliance. Assuming continued expenditure restraint, the general government surplus is forecast to rise to 0.2% of GDP in 2018 and 2019.

Risks to the public finance forecast are tilted to the upside, due to expectations of robust growth in the tax base, but may materialise only if the government maintains discipline in expenditure growth.

The structural deficit is expected to increase to close to 1% of GDP in 2017 and to stay at this level until 2019. This change of the structural deficit in 2017 is mostly explained by the increase in the positive output gap.

The general government debt is set to increase form 40.1% of GDP in 2016 to 41.5% in 2017 due to the end-of-year pre-financing of forthcoming bond redemptions in 2018. The debt-to-GDP ratio is forecast to gradually decline to 38.9% by 2019.

Table II.15.1:

Main features of country forecast - LITHUANIA

		2016			Annual percentage change					
		bn EUR Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		38.7	100.0	4.2	3.5	2.0	2.3	**3.8**	**2.9**	**2.6**
Private Consumption		24.9	64.3	4.6	4.0	4.0	4.9	**3.9**	**3.4**	**3.1**
Public Consumption		6.6	17.2	1.0	0.3	0.2	1.3	**1.6**	**1.6**	**1.5**
Gross fixed capital formation		7.3	18.9	5.0	5.8	4.8	-0.5	**6.4**	**5.1**	**4.6**
of which: equipment		2.7	6.9	6.6	-0.2	13.4	9.0	**7.0**	**5.7**	**4.2**
Exports (goods and services)		28.8	74.5	8.8	3.3	-0.4	3.5	**10.4**	**5.3**	**4.4**
Imports (goods and services)		28.3	73.2	8.0	3.1	6.2	3.5	**10.8**	**6.0**	**5.2**
GNI (GDP deflator)		37.1	96.1	4.1	4.9	-0.8	2.5	**4.1**	**3.1**	**2.7**
Contribution to GDP growth:	Domestic demand			4.5	3.6	3.4	3.2	**4.0**	**3.5**	**3.1**
	Inventories			-0.1	-0.2	3.8	-0.8	**0.0**	**0.0**	**0.0**
	Net exports			0.0	0.2	-5.2	-0.1	**-0.2**	**-0.5**	**-0.5**
Employment				-1.0	2.0	1.3	2.0	**-0.3**	**-0.3**	**-0.4**
Unemployment rate (a)				12.2	10.7	9.1	7.9	**7.3**	**6.8**	**6.4**
Compensation of employees / head				7.2	4.7	5.8	6.2	**8.4**	**6.7**	**6.0**
Unit labour costs whole economy				2.0	3.2	5.0	5.9	**4.2**	**3.3**	**3.0**
Real unit labour cost				-0.7	2.1	4.7	4.9	**0.6**	**-0.5**	**0.0**
Saving rate of households (b)				3.9	0.2	0.0	-0.5	**-1.9**	**-2.6**	**-3.1**
GDP deflator				2.8	1.0	0.3	1.0	**3.5**	**3.9**	**3.0**
Harmonised index of consumer prices				2.9	0.2	-0.7	0.7	**3.8**	**2.9**	**2.5**
Terms of trade goods				0.7	0.8	3.2	2.4	**-0.2**	**1.3**	**0.5**
Trade balance (goods) (c)				-9.8	-2.6	-5.3	-4.6	**-6.1**	**-6.0**	**-6.3**
Current-account balance (c)				-6.2	4.0	-2.0	-0.6	**-0.7**	**-0.3**	**-0.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.6	6.6	1.0	0.9	**0.3**	**0.9**	**0.7**
General government balance (c)				-3.3	-0.6	-0.2	0.3	**0.1**	**0.2**	**0.2**
Cyclically-adjusted budget balance (d)				-3.0	-0.9	-0.5	-0.1	**-0.8**	**-0.8**	**-0.7**
Structural budget balance (d)				-	-1.3	-0.6	-0.2	**-0.9**	**-0.9**	**-0.8**
General government gross debt (c)				24.5	40.5	42.6	40.1	**41.5**	**37.9**	**38.9**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

16. LUXEMBOURG

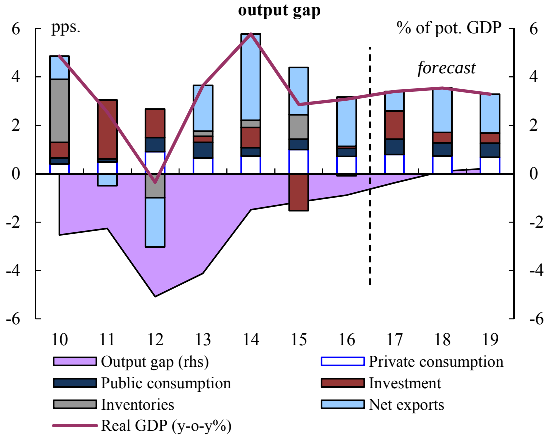
Sustained, broad-based growth

Economic growth is projected to accelerate further in 2017 and 2018, albeit tapering off before slightly decelerating by the end of the forecast horizon. Employment growth is set to remain solid, while unemployment is expected to decrease further. Inflation is projected to be driven mainly by underlying price pressures, as the influence of energy prices fades. In spite of the implementation of a tax reform that decrease the overall tax burden, public finances are projected to remain sound.

Scope for further growth in 2017

Following a significant revision in its National Accounts, Luxembourg's economic growth is projected at 3.4% in 2017. In the first half of the year economic activity grew below expectations. Nevertheless, conditions remain favourable and the latest indicators point to an increasing momentum in the second half of the year.

Graph II.16.1: **Luxembourg - Real GDP growth and contributions, output gap**



Private consumption is expected to recover after a weak performance in the first half of 2017, mainly on the back of stronger employment creation among residents, while the impact of income gains from the tax reforms and the wage indexation measures implemented in January was lowered by the surge in consumer prices. High households' indebtedness and increasing debt burdens, could be also affecting consumption growth. In 2017, private investment will be mainly driven by the satellite and aircraft industry, while growth of construction investment is forecast to remain robust throughout the forecast horizon.

The contribution to growth from the financial sector, traditionally Luxembourg's main growth engine, strengthened in the first half of 2017, underpinned by the euro area's recovery. The fund investment industry set new records, while the profitability of the banking sector was maintained, in spite of the high costs that new regulatory standards have entailed. The latest indicators suggest a continuation of these trends in the second half of the year.

Stable and balanced growth ahead

In 2018, sustained employment creation, the implementation of the next wage indexation (projected for mid-2018) and lower inflation are expected to continue to support private consumption and domestic demand growth. The external sector is expected to remain solid, supported by an improved external environment, especially in the euro area. Overall, GDP is forecast to grow by 3.5% in 2018, with a more balanced, and broad-based composition.

In 2019, consumption growth is projected to ease further, with income gains fading away and inflation progressively taking effect. The external sector, which is dominated by financial services exports, is expected to remain robust, even if receding, in line with financial markets prospects.

Sustained employment creation

In 2017, employment growth is expected to rise to 3.1% from 3.0% in 2016. Strong economic momentum should support stable employment creation throughout the forecast period. Resident employment (excluding frontier workers, who do not count as part of Luxembourg's active working population) rose markedly, helping to curb the unemployment rate, which was 6.3% in 2016. The unemployment rate is forecast to stabilise at around 6.0% by the end of the forecast horizon.

A change of inflation drivers

Headline HICP inflation is forecast to reach 2.1% in 2017 from zero in 2016, mainly as a result of oil price movements. As these effects dissipate, underlying price pressures, including from wage increases, should drive the headline inflation rate to 1.9% in 2019, after 1.7% in 2018.

Rising revenues offset expenditure growth

In 2017, the general government surplus is projected to decline to 0.5% of GDP from 1.6% of GDP in 2016. The drop is mostly explained by the impact of the tax reform enacted by the government at the start of the year to increase households' purchasing power and the country's competitiveness. The reforms are expected to shave revenues from households and corporates by about 0.8% of GDP. Finally, additional revenues, equivalent to 0.3% of GDP, will be lost, due to a cut from 30% to 15% in the share of VAT revenues that Luxembourg earns from e-commerce related transactions.

Expenditure growth is also projected to rise as for effect of the automatic wage indexation, which took place at the start of the year. Public investment is expected to further expand while the wage bill should grow faster given the impact of the implementation of the recent wage agreement in the public sector.

In 2018, the general government surplus is expected to marginally decline further to 0.3% of GDP. Buoyant revenue growth underpinned by strong underlying economic growth will be outpaced by growth in government expenditure, especially still high spending for infrastructure investment.

Based on a no-policy-change assumption, the surplus of the general government balance is projected to slightly improve in 2019. This projection includes the purchase of a military plane for a cost estimated at around 0.3% of GDP.

Mirroring the evolution of the headline balance, a substantial drop in the structural balance from 2.0% to around ½% of GDP is projected in 2017. In the light of the closing of the output gap towards the end of the forecast period, the general government's structural surplus is expected to further diminish in 2018, although it should remain in positive territory. In 2019, the structural surplus is expected to stabilise as the slight improvement in the headline position is offset by the more positive output gap.

After declining to 20.8% in 2016, Luxembourg's debt-to-GDP ratio is set to increase to 22.9 % by 2019, as the government must issue debt to cover its deficit, since the surplus of the social security sector cannot be used for this purpose.

Table II.16.1:

Main features of country forecast - LUXEMBOURG

	2016		Annual percentage change						
mio EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	53004.8	100.0	3.5	5.8	2.9	3.1	**3.4**	**3.5**	**3.3**
Private Consumption	16036.7	30.3	2.4	2.3	3.3	2.4	**2.6**	**2.5**	**2.3**
Public Consumption	8849.1	16.7	3.5	2.0	2.6	2.0	**3.8**	**3.2**	**3.4**
Gross fixed capital formation	9112.4	17.2	4.6	4.3	-8.0	0.5	**6.8**	**2.4**	**2.4**
of which: equipment	3168.1	6.0	6.8	5.3	-16.5	-7.0	**12.1**	**1.0**	**1.5**
Exports (goods and services)	117282.5	221.3	6.4	14.0	6.9	2.7	**5.0**	**4.8**	**4.0**
Imports (goods and services)	98675.5	186.2	6.8	14.6	7.1	2.1	**5.5**	**4.7**	**4.0**
GNI (GDP deflator)	36074.6	68.1	1.5	2.5	5.4	5.8	**2.6**	**3.6**	**3.1**
Contribution to GDP growth:	Domestic demand		2.4	1.9	-0.1	1.1	**2.6**	**1.7**	**1.7**
	Inventories		0.0	0.3	1.0	-0.1	**0.0**	**0.0**	**0.0**
	Net exports		1.1	3.6	1.9	2.0	**0.8**	**1.8**	**1.6**
Employment			3.3	2.6	2.6	3.0	**3.1**	**3.0**	**2.9**
Unemployment rate (a)			4.0	6.0	6.5	6.3	**6.1**	**5.9**	**6.0**
Compensation of employees / head			3.0	2.2	3.0	0.7	**2.9**	**2.5**	**2.0**
Unit labour costs whole economy			2.9	-0.9	2.8	0.7	**2.6**	**1.9**	**1.6**
Real unit labour cost			0.1	-2.5	1.4	2.0	**0.3**	**-0.4**	**-0.2**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.8	1.6	1.3	-1.3	**2.3**	**2.3**	**1.9**
Harmonised index of consumer prices			2.5	0.7	0.1	0.0	**2.1**	**1.7**	**1.9**
Terms of trade of goods			0.3	0.8	-2.2	0.3	**-1.0**	**0.4**	**0.2**
Trade balance (goods) (c)			-6.4	1.6	-0.5	-1.4	**-2.6**	**-2.2**	**-2.1**
Current-account balance (c)			8.4	5.2	5.1	4.8	**4.6**	**4.8**	**4.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			8.0	3.8	4.6	4.4	**4.3**	**4.4**	**4.4**
General government balance (c)			1.9	1.3	1.4	1.6	**0.5**	**0.3**	**0.4**
Cyclically-adjusted budget balance (d)			1.9	2.0	1.9	2.0	**0.6**	**0.3**	**0.3**
Structural budget balance (d)			-	2.0	1.7	2.0	**0.6**	**0.3**	**0.3**
General government gross debt (c)			11.7	22.7	22.0	20.8	**23.7**	**23.0**	**22.9**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

17. HUNGARY

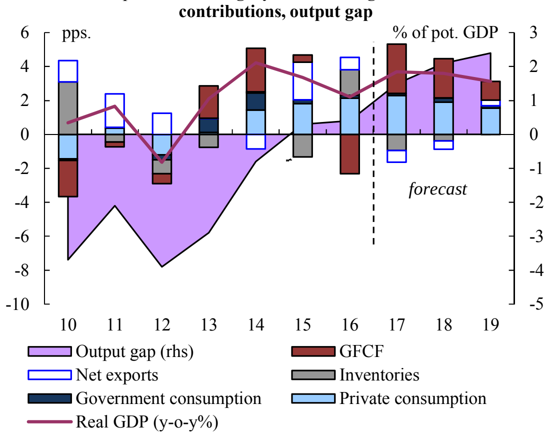
Maturing cycle driven by domestic demand

Economic activity accelerated strongly in 2017, supported by private consumption and rebounding investment. Domestic demand is set to drive growth going forward, but capacity constraints are expected to build up. The labour market is becoming increasingly tight and price pressures are expected to increase over the forecast horizon. The structural balance is expected to deteriorate as a result of fiscal loosening.

Vigorous domestic demand in 2017

In the first half of 2017, Hungary's real GDP growth increased to 3.7% (y-o-y). Economic growth has remained primarily driven by private consumption and boosted by investment. Gross fixed capital formation grew by 25% in the first half of 2017, as the absorption of EU funds resumed under the new multiannual financial framework. Domestic demand dynamics were also underpinned by high consumer confidence and rapid growth in disposable income on the back of very fast wage rises and continued employment growth. Trade flows accelerated in the first half of 2017, but import growth outpaced export growth, largely reflecting strong domestic demand. As a consequence, net exports are set to contribute negatively to real GDP growth in 2017 and Hungary's high current account surplus is projected to decrease.

Graph II.17.1: **Hungary - Real GDP growth and contributions, output gap**



Fast growth to continue in 2018 and 2019

Real GDP growth is projected to increase by 3.6% in 2018, supported by further fiscal loosening, but to slow to 3.1% in 2019 as capacity constraints emerge. Private consumption and household investment are projected to expand strongly in 2018, boosted by both government-initiated and market-driven wage increases, and supported by a strong recovery in bank lending. Corporate and public investments are forecast to continue to grow by double digits as EU-funded projects are completed. At the same time, strong domestic demand is set to result in fast import growth. Net exports are expected to remain negative, despite the projected improvement in trade performance due to capacity upgrades in the automotive sector. In 2019, economic growth is set to slow down as a result of a build-up in capacity constraints, the decline in the growth of real disposable income, and moderating trade with the maturing expansion in the EU.

Tight labour market and price pressures underline the cyclical position

Employment continued to expand to reach new all-time-highs in the first half of 2017 and is expected to grow further. The improvement in the labour market started already in 2013, supported by the public work scheme. In the first half of 2017, the number of public workers decreased significantly but private labour demand quickly absorbed the difference. As a result, the unemployment rate is expected to fall to a record low of 4.2% in 2017. The labour market is becoming increasingly tight. Labour shortages are generating strong wage growth and limiting the prospects for further employment growth in 2018 and 2019.

HICP inflation accelerated to 2.3% (y-o-y) in the first half of 2017 and is projected to accelerate further as domestic-driven price pressures accentuate. Nevertheless, headline inflation is expected to remain in check over the forecast horizon, staying within the target band (3% ±1 pp.) of the central bank, as long as energy and unprocessed food prices remain steady.

Domestic risks to the forecast are broadly balanced. On the upside, significant investment and wage push may increase productivity beyond what is expected in the baseline. On the downside, overheating risks are appearing, as reflected in the positive output gap, elevated asset prices, double-digit wage growth and tightening labour market, accompanied by a loose fiscal stance and accommodative monetary policy.

Expansionary fiscal policy

In 2017, the general government deficit is forecast to rise to 2.1% of GDP. This mainly reflects substantial tax cuts, most notably the lowering of employers' social security contributions and corporate income tax, but also partly reflecting expenditure increasing measures. These measures are compensated to a considerable extent by increasing temporary revenues, extra tax receipts on the back of dynamic wage growth and the continuing decline of interest outlays and social spending.

The headline deficit is expected to increase in 2018 to reach 2.6% of GDP. Social security contributions are to be reduced further alongside VAT cuts on selected items. The forecast also takes into account a considerable deficit increasing effect stemming from the phasing-out of one-off receipts from land sales and a temporary extra revenue component in corporate income tax. While the absorption of EU funds is expected to expand, government spending without EU funds is forecast to grow rather moderately relative to nominal GDP. In 2019, based on a no-policy-change assumption, the deficit is projected to decrease somewhat to 2.3% of GDP.

The main risks to the forecast deficit are related to the planned investment projects. Although the forecast already takes into account the possibility of a slower-than-planned expansion of investment spending, delays in implementation could result in a lower deficit, in particular in 2017-18. At the same time, tight operating budgets for healthcare providers could trigger expenditure slippages.

In structural terms, the budgetary position is estimated to loosen with the structural balance deteriorating from -2% of GDP in 2016 to -3½% by 2018. Although the pre-financing needs of EU-funded projects incur a debt increasing effect during 2017 and 2018, the debt-to-GDP ratio is expected to decline steadily thanks to high nominal GDP growth. It is projected to decrease from 73.9% in 2016 to below 70% by 2019.

Table II.17.1:

Main features of country forecast - HUNGARY

		2016		Annual percentage change						
		bn HUF Curr. prices	**% GDP**	**98-13**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
GDP		35420.3	100.0	2.1	4.2	3.4	2.2	**3.7**	**3.6**	**3.1**
Private Consumption		17669.6	49.9	1.9	2.8	3.6	4.3	**4.6**	**3.8**	**3.1**
Public Consumption		7174.8	20.3	1.5	5.1	1.1	0.8	**0.6**	**1.2**	**0.7**
Gross fixed capital formation		6811.7	19.2	2.4	12.3	1.9	-10.6	**15.2**	**10.9**	**4.9**
of which: equipment		3102.9	8.8	4.0	21.5	0.8	1.1	**12.8**	**11.7**	**4.0**
Exports (goods and services)		31714.2	89.5	9.4	9.1	8.5	3.4	**7.7**	**7.1**	**6.1**
Imports (goods and services)		28143.5	79.5	8.6	11.0	6.4	2.9	**9.6**	**8.4**	**6.3**
GNI (GDP deflator)		34545.5	97.5	2.3	2.6	3.1	4.3	**3.0**	**2.7**	**2.8**
Contribution to GDP growth:	Domestic demand			2.0	5.0	2.5	0.0	**5.3**	**4.5**	**2.8**
	Inventories			-0.3	0.1	-1.3	1.5	**-0.9**	**-0.4**	**0.0**
	Net exports			0.5	-0.8	2.2	0.7	**-0.7**	**-0.5**	**0.3**
Employment				0.0	4.8	2.4	2.6	**1.1**	**0.6**	**0.2**
Unemployment rate (a)				8.0	7.7	6.8	5.1	**4.2**	**4.0**	**4.0**
Compensation of employees / head				7.3	0.8	-1.5	4.0	**7.6**	**7.2**	**5.8**
Unit labour costs whole economy				5.1	1.4	-2.4	4.4	**4.9**	**4.1**	**2.7**
Real unit labour cost				-0.6	-1.9	-4.2	3.4	**2.0**	**1.2**	**-0.4**
Saving rate of households (b)				9.8	10.9	9.6	9.5	**9.9**	**10.1**	**8.9**
GDP deflator				5.8	3.4	1.9	1.0	**2.8**	**2.9**	**3.1**
Harmonised index of consumer prices				6.3	0.0	0.1	0.4	**2.3**	**2.6**	**3.0**
Terms of trade goods				-0.6	1.1	1.0	1.4	**-0.7**	**0.2**	**0.2**
Trade balance (goods) (c)				-2.3	2.0	4.0	4.1	**2.7**	**2.3**	**2.6**
Current-account balance (c)				-4.8	1.5	3.4	6.1	**4.3**	**3.3**	**3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.8	5.2	8.0	6.0	**6.5**	**5.5**	**5.0**
General government balance (c)				-5.5	-2.7	-2.0	-1.9	**-2.1**	**-2.6**	**-2.3**
Cyclically-adjusted budget balance (d)				-5.3	-2.4	-2.1	-2.1	**-2.8**	**-3.6**	**-3.5**
Structural budget balance (d)				-	-2.2	-2.1	-2.0	**-3.2**	**-3.6**	**-3.5**
General government gross debt (c)				65.4	75.2	74.7	73.9	**72.6**	**71.5**	**69.4**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

18. MALTA

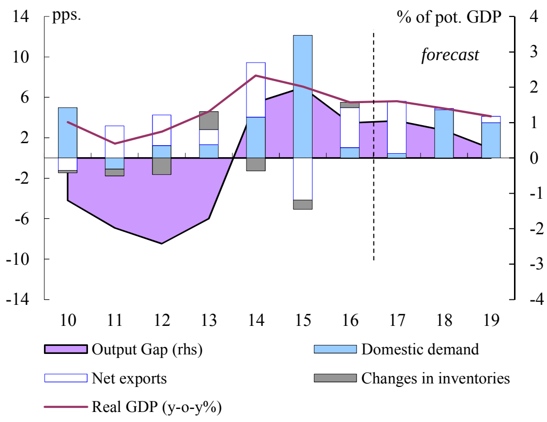
Current account and budget balance surpluses cement

Real GDP growth is projected to remain robust, albeit moderating from the peak in 2014 and 2015. The positive output gap is set to gradually close amid record-low unemployment and moderate wage growth. The current account and the budget balances are set to remain in surplus.

Growth momentum remains strong

Real GDP grew strongly by 6.3% in the first half of 2017. External demand looks set to be the main driver of growth in 2017 with domestic demand playing a secondary role due to a strong contraction of investment (reflecting a high base in 2016). Real GDP growth is forecast to reach 5.6% for 2017 as a whole, marginally higher than the rate recorded in 2016. Strong export growth, particularly in services, and a fall in imports related to the contraction in investment is pushing up the current account surplus, which is forecast to approach 10% of GDP in 2017.

Graph II.18.1: **Malta - Output gap and contributions to real GDP growth**



Private consumption drives growth in the near-term

Real GDP growth is projected to slow somewhat in 2018 to 4.9%. Private consumption is expected to become the main driver of growth on the back of an increasing population and growing disposable income. In addition, improved consumer confidence and consumption is expected to result in a somewhat lower household saving rate. Investment is forecast to recover, led by the residential construction sector which is expected to continue growing strongly in 2018. Exports are forecast to continue rising, in line with growing demand among Malta's main trading partners, resulting in a further increase in the current account surplus.

In 2019, real GDP growth is projected to slow down to 4.1%, below potential output. Private consumption is projected to remain the main driver of growth, while all demand components are forecast to contribute positively. Investment is expected to increase modestly, mainly on the back of the construction sector.

Price pressures remain moderate

Despite a very low unemployment rate and increasing skill shortages, wage growth was moderate in the first half of 2017. Strong increases in labour supply, also on the back of inflows of foreign workers, served to dampen the upward pressure on wages. As the increase in labour supply moderates over the forecast horizon, wage growth is forecast to improve. Despite concomitant gains in productivity, unit labour costs are projected to rise faster than the euro-area average in 2018 and 2019.

Relatively moderate increases in regulated fuel prices have contained overall HICP inflation, which is forecast to average 1.3% in 2017, marginally below the euro-area average. Thereafter inflation is projected to strengthen to 1.8% in 2019. Higher price growth is expected to come mainly from the services component, which is projected to rise in line with growing disposable incomes.

Risks to the macroeconomic projections are linked primarily to the outlook for investment, private consumption and net exports. A faster realisation of planned infrastructure projects could boost growth in the near term. At the same time, more conservative savings behaviour by households could limit consumption, thus dampening real GDP growth. A favourable relocation of financial services operators linked to the process of the UK leaving the EU could also affect GDP growth, particularly in 2019. Finally, in view of Malta's openness to trade (nominal exports and imports combined to reach 270% of GDP in 2016) any volatility in Malta's main exporting sectors would have a disproportionately large impact on real GDP growth.

Government balance to remain in surplus

In 2017, the government balance is projected to remain in surplus, at 0.9% of GDP. Revenue growth is supported by the favourable macroeconomic and labour market conditions, high corporate profits, consumer demand and the proceeds from Malta's citizenship scheme. Overall, total revenue is expected to increase by less than nominal GDP. Current expenditure is projected to increase on the back of a growing public wage bill and intermediate consumption, only partly mitigated by a decrease in interest expenditure. Capital expenditure, net of EU funds, is projected to decrease only marginally.

In 2018, after incorporating the expected impact of the measures introduced with the 2018 Budget, the fiscal surplus is expected to decline to 0.5% of GDP. In line with robust real GDP growth and a strong labour market, and despite the reduction in taxation worth 0.2% of GDP, tax revenues are expected to continue growing. Yet, following expected lower proceeds from the citizenship scheme, overall current revenue growth is expected to slow down. In spite of increases in social spending related to the budget measures (among which is an increase in pensions by €2 per week), current expenditure growth is projected to weaken and interest expenditure is set to marginally decrease. Net public investment is forecast to remain stable, as the implementation of investment projects co-financed by the EU picks up. In 2019, under a no-policy-change assumption, the fiscal surplus is expected to remain stable at 0.5% of GDP.

The structural balance as a percentage of GDP is estimated to be broadly balanced in 2018. In 2019 it is estimated to increase further to ½ % of GDP thanks to a rapid closure of the positive output gap. The government debt-to-GDP ratio, which fell below the 60% threshold in 2016, is forecast to decline further to 48.8% in 2019.

Risks to the fiscal outlook are balanced as higher current expenditure and related slippages in budgetary execution could be compensated by higher proceeds from the citizenship programme.

Table II.18.1:

Main features of country forecast - MALTA

	2016			Annual percentage change						
	mio EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		9943.1	100.0	2.7	8.2	7.1	5.5	**5.6**	**4.9**	**4.1**
Private Consumption		4806.8	48.3	2.2	2.7	5.9	3.0	**4.2**	**4.1**	**3.6**
Public Consumption		1685.8	17.0	1.9	6.5	3.7	-1.8	**6.8**	**10.0**	**6.2**
Gross fixed capital formation		2362.3	23.8	1.8	7.4	48.4	-0.4	**-11.5**	**5.6**	**3.5**
of which: equipment		1296.2	13.0	-	6.2	115.5	2.0	**-**	**-**	**-**
Exports (goods and services)		13878.6	139.6	5.5	3.9	4.2	3.5	**3.0**	**3.6**	**3.7**
Imports (goods and services)		12787.8	128.6	5.0	0.5	7.6	0.8	**-0.8**	**4.0**	**3.6**
GNI (GDP deflator)		9361.4	94.1	2.4	7.9	7.8	3.5	**3.4**	**5.2**	**4.4**
Contribution to GDP growth:		Domestic demand		2.2	4.0	12.2	1.1	**0.5**	**4.9**	**3.6**
		Inventories		0.0	-1.2	-0.9	0.5	**0.0**	**0.0**	**0.0**
		Net exports		0.6	5.4	-4.3	4.0	**5.3**	**0.1**	**0.6**
Employment				1.2	5.1	3.9	3.7	**4.7**	**3.0**	**2.4**
Unemployment rate (a)				6.8	5.8	5.4	4.7	**4.2**	**4.0**	**4.0**
Compensation of employees / head				3.7	1.6	3.2	2.7	**2.0**	**3.4**	**3.6**
Unit labour costs whole economy				2.2	-1.2	0.2	0.9	**1.1**	**1.6**	**1.9**
Real unit labour cost				-0.2	-3.4	-2.2	-0.7	**-0.9**	**-0.5**	**-0.4**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				2.5	2.3	2.5	1.6	**2.0**	**2.1**	**2.3**
Harmonised index of consumer prices				2.5	0.8	1.2	0.9	**1.3**	**1.5**	**1.8**
Terms of trade of goods				0.3	6.5	-0.8	-1.3	**0.0**	**0.5**	**0.3**
Trade balance (goods) (c)				-15.9	-13.4	-20.1	-18.8	**-14.9**	**-15.3**	**-15.0**
Current-account balance (c)				-3.3	10.1	5.2	7.0	**9.6**	**9.4**	**9.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.1	11.8	7.0	7.8	**10.3**	**10.1**	**10.5**
General government balance (c)				-4.5	-1.8	-1.1	1.1	**0.9**	**0.5**	**0.5**
Cyclically-adjusted budget balance (d)				-4.4	-2.5	-2.0	0.7	**0.4**	**0.2**	**0.4**
Structural budget balance (d)				-	-3.0	-2.1	0.8	**0.6**	**0.1**	**0.4**
General government gross debt (c)				65.3	63.8	60.3	57.6	**54.9**	**51.6**	**48.8**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

19. THE NETHERLANDS

Strong growth performance to continue

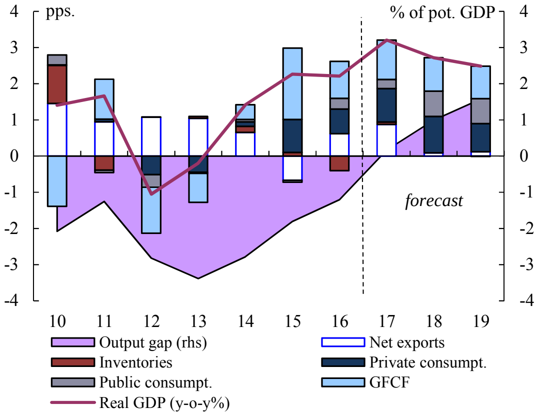
The Dutch economy is expected to grow by 3.2% in 2017 and by 2.7% in 2018 and 2.5% in 2019, supported by a fiscal stimulus package. Unemployment is forecast to fall below 4% in 2019, while wages and inflation are set to pick up. As a result, cost competitiveness is set to deteriorate slightly, having a dampening effect on the current account. Despite the significant fiscal expansion planned, the headline balance is expected to remain in surplus over the forecast horizon. General government debt has fallen below 60% of GDP and is expected to decline further.

Robust economic expansion to continue

Economic growth is expected to reach 3.2% in 2017, based on a particularly strong second quarter. Forward-looking indicators point to continued steady growth, further fuelled by an expansionary fiscal policy announced by the new government in the 2018-2021 Coalition Agreement. The new government plans an increase in both government consumption and public investment in 2018, mostly in the areas of social affairs (in particular child-related benefits), defence and education. These measures have a strong direct impact on domestic demand, which combined with robust underlying momentum, is expected to lead to a growth rate of 2.7% in 2018. The initial impact of the policy stimulus is expected to fade slightly in 2019 but growth is expected to remain solid at 2.5%.

Growth is projected to be driven predominantly by domestic demand, with household consumption and investment as the main drivers, followed by government consumption. With the expected pick-up in inflation in 2019 negatively affecting real disposable income, private consumption growth is expected to decline slightly. Both public and private investment are projected to show steady growth. Non-financial corporations are likely to enlarge their capital stock now that capacity utilisation rates have returned to pre-crisis levels. At the same time, this is partially offset by a slow-down in residential investment, which has recorded very high growth rates in recent years. Export growth is expected to slow down as higher wages and prices weigh on international price competitiveness. Imports are set to be driven by buoyant domestic demand, thus limiting the growth contribution of net exports in this expansionary phase. The current account surplus is projected to reach 9.1% in 2017 and is set to decline to 8.7% in 2018 and 8.4% in 2019.

Graph II.19.1: **The Netherlands - Output gap and contributions to real GDP growth**



Rising house prices

House prices grew on average by almost 7.5% (y-o-y) over the first 8 months of this year. While house prices are still 5% below their pre-crisis peak, they have grown more than 20% compared to their trough in June 2013, although there are substantial regional differences. Importantly, the current increase in house prices doesn't seem to be debt-driven, as total mortgage debt is hardly growing.

Record-breaking employment rate in sight

In 2017, employment growth is expected to reach 2.1%. For the following years the underlying speed of employment growth is set to decline, even though the new government's policy package leads to a further increase in demand for workers in both the public and the private sector. Overall, employment is forecast to grow by just less than 2% in both 2018 and 2019. As a result, the employment rate (of 15-74 year olds) should reach an all-time high of 72% in 2019. The unemployment rate is expected to decrease from 4.8% of the labour force in 2017, to 4% in 2018 and 3.5% in 2019.

Accelerating wages and prices

While wage growth has remained subdued, it is forecast to pick up over the forecast horizon as the labour market tightens and supply constraints become more pronounced. Trade unions are formulating substantially higher wage demands than in previous years. HICP inflation was relatively muted in 2016 but is expected to rise to 1.3% in 2017 and 1.5% in 2018 on the back of base effects in energy prices and a recovery of services price inflation in line with domestic price pressures. Inflation is set to accelerate to 2.2% in 2019 as the planned increases in indirect taxes (VAT and energy taxes) kick in.

Budget in balance, debt below 60%

The budgetary situation has improved markedly over the last few years. In 2017, the general government balance is set to reach a surplus of 0.7% of GDP. Looking ahead, the general government surplus is forecast to deteriorate in 2018 as a result of the planned fiscal stimulus. For 2019, the headline budget balance is set to improve again as revenues are expected to pick up in line with robust economic growth.

In structural terms, the budget balance is expected to deteriorate by about ½ a percentage point in 2018, due to both the decline in the nominal surplus and an increase in the output gap. As the fiscal stimulus fades and nominal GDP increases substantially in 2019, the budget is expected to be almost balanced in structural terms by 2019.

The general government gross debt-to-GDP ratio has fallen below 60% this year. A budget surplus, strong economic growth and sizable stock-flow adjustments through privatisations of financial institutions are expected to lead to a government debt level of 57.7% in 2017. The debt ratio is forecast to continue to decline to 54.9% in 2018 and 51.5% on the back of strong economic growth and fiscal surpluses

Table II.19.1:

Main features of country forecast - NETHERLANDS

		2016		Annual percentage change						
	bn EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		702.6	100.0	1.7	1.4	2.3	2.2	**3.2**	**2.7**	**2.5**
Private Consumption		310.7	44.2	1.1	0.3	2.0	1.6	**2.1**	**2.3**	**1.8**
Public Consumption		173.7	24.7	2.6	0.3	-0.2	1.2	**1.0**	**2.9**	**2.8**
Gross fixed capital formation		140.0	19.9	0.7	2.3	11.0	5.3	**5.5**	**4.5**	**4.4**
of which: equipment		39.9	5.7	1.4	-0.2	15.8	3.4	**3.9**	**5.9**	**5.5**
Exports (goods and services)		579.3	82.4	4.4	4.5	6.5	4.3	**5.4**	**4.7**	**4.4**
Imports (goods and services)		502.0	71.4	4.3	4.2	8.4	4.1	**5.0**	**5.2**	**4.8**
GNI (GDP deflator)		694.2	98.8	1.7	-0.2	1.9	1.6	**3.4**	**2.8**	**2.5**
Contribution to GDP growth:	Domestic demand			1.3	0.6	2.8	2.0	**2.3**	**2.6**	**2.4**
	Inventories			0.0	0.2	0.1	-0.4	**0.1**	**0.0**	**0.0**
	Net exports			0.4	0.6	-0.7	0.6	**0.9**	**0.1**	**0.1**
Employment				0.6	-0.1	1.0	1.3	**2.1**	**1.8**	**1.9**
Unemployment rate (a)				4.8	7.4	6.9	6.0	**4.8**	**4.0**	**3.5**
Compensation of employees / f.t.e.				3.1	1.6	-0.3	1.2	**1.7**	**2.7**	**3.1**
Unit labour costs whole economy				2.1	0.1	-1.5	0.3	**0.6**	**1.8**	**2.5**
Real unit labour cost				0.1	-0.1	-2.2	-0.3	**-0.4**	**0.4**	**0.4**
Saving rate of households (b)				12.4	14.5	13.1	13.1	**13.0**	**13.0**	**13.2**
GDP deflator				2.0	0.1	0.8	0.6	**1.1**	**1.4**	**2.1**
Harmonised index of consumer prices				2.2	0.3	0.2	0.1	**1.3**	**1.5**	**2.2**
Terms of trade goods				0.1	0.1	2.6	1.2	**-0.9**	**-0.3**	**-0.1**
Trade balance (goods) (c)				9.0	11.5	11.5	11.9	**12.0**	**11.8**	**11.7**
Current-account balance (c)				6.8	8.9	8.3	8.7	**9.1**	**8.7**	**8.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.5	8.8	3.3	8.5	**8.5**	**8.2**	**7.9**
General government balance (c)				-1.7	-2.3	-2.1	0.4	**0.7**	**0.5**	**0.9**
Cyclically-adjusted budget balance (d)				-1.3	-0.5	-0.9	1.1	**0.6**	**-0.1**	**-0.1**
Structural budget balance (d)				-	-0.4	-0.9	0.9	**0.3**	**-0.2**	**-0.1**
General government gross debt (c)				54.6	68.0	64.6	61.8	**57.7**	**54.9**	**51.5**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

20. AUSTRIA

Strong growth dynamics supported by domestic demand

The outlook for Austria's economy is favourable. Growth is expected to strengthen robustly in 2017 and should continue to expand at almost the same pace until 2019. Domestic demand, supported by dynamic investment, is expected to be the main growth driver. Strong growth in exports suggests that foreign trade should provide a boost to overall growth. Public finances are expected to benefit from favourable economic trends, despite the costs of recent government measures.

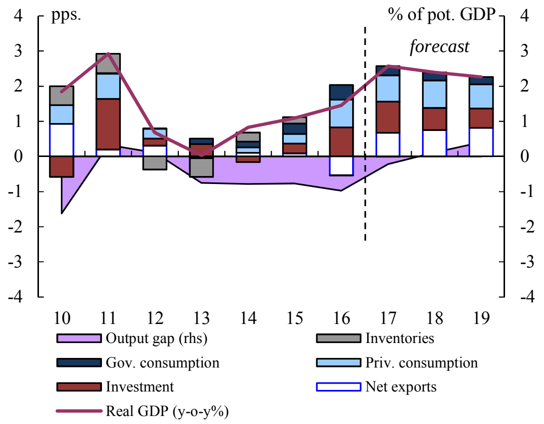
Entering an upswing

After showing signs of strengthening in 2016, the pace of GDP growth accelerated markedly in the first half of 2017. The pick-up in private consumption, triggered by tax reforms in 2016, has given new impetus to investment, further strengthening domestic demand. After a weaker period last year, exports have enjoyed a resurgence in 2017, leading to a noticeably positive contribution of the external balance to GDP growth. With robust domestic and external demand, Austria has entered an upswing phase.

Favourable outlook

During the second half of 2017, strong domestic demand is expected to continue supporting GDP growth, almost doubling this year to 2.6% after 1.5% in 2016.

Graph II.20.1: **Austria - Real GDP growth and contributions, output gap**



In 2018 and 2019, growth is expected to maintain its momentum at 2.4% and 2.3%, respectively. A slight slowdown in domestic demand is expected to be partly offset by stronger external trade, as the outlook for the world economy in general, as well as that of Austria's East European neighbours should benefit Austrian exporters. Robust export growth should stimulate investment in machinery and equipment, while construction investment is supported by continuing strong immigration increasing housing demand.

Strong economy reverses rising trend in unemployment

The strong economic activity in 2017 is supporting a rise in employment that is set to exceed growth in the labour force. As a consequence, the unemployment rate is reversing its trend and dropping for the first time in several years. After 6.0% in 2016, unemployment rate in Austria is expected to decrease to 5.6% in 2017 and to fall further to 5.4% in 2019. Immigration from neighbouring European countries may dampen the drop in unemployment, while several government measures aim to increase the participation and employment of older workers and women.

Stronger HICP and core inflation

Oil prices are set to drive headline HICP inflation up to 2.0% in 2017 and then again down to 1.6% in 2018. On the back of rising prices for industrial goods and processed food, core inflation is set to increase from around 1.5% in the past years to 2.0% in 2017 and then moderate to about 1.9% until 2019. Austria's inflation rate is expected to remain above the euro area average, as inflation in services continues to be strong. Austria's tourism sector is also doing well, as some tourists are avoiding popular foreign destinations such as Turkey and North Africa that are currently experiencing political unrest, leading to price pressure on accommodation and restaurant services.

Public finances to benefit from economic growth

After worsening to -1.6% of GDP in 2016 because of personal income tax reforms, the government headline balance is expected to recover to -1.0% of GDP in 2017, thanks to economic growth. In 2017, revenues are projected to grow strongly, with earnings from personal income taxes and social security contributions reflecting the rise in employment. Revenues from value-added taxes are expected to benefit from rising consumption, and partly from the delayed effect of measures against tax fraud implemented in 2016. At the same time, taxes on production paid by corporations are set to decline due to the legislated reduction in employer contributions to the Family Burden Equalisation Fund, *Familienlastenausgleichsfonds*. Government expenditure is expected to increase only moderately, also thanks to lower debt servicing costs and improvement in the labour market which means lower expenditure on unemployment benefits.

In light of the recent national elections, fiscal projections for 2018 and 2019 rely on a no-policy-change assumption. In 2018, the headline balance is projected to slightly improve to -0.9% of GDP, with the positive trend in government revenues expected to continue, although at a slightly lower rate. Revenues from taxes on production are projected to further decline due the additional cuts in employer contributions and the substantial reduction of the bank levy. Growth in government spending is expected to slightly accelerate, due to several measures approved in 2017. Subsidies are set to increase mainly due to the “employment bonus”, reimbursing half of employer's social security contributions for newly-hired employees over their first three years. In 2019, the headline balance is projected to improve further to -0.6% of GDP, with revenues still benefitting from economic growth and expenditure increasing mildly, on a no-policy-change basis.

Refugee-related expenditure is expected to slowly decline from 2018 onwards, while costs for bank support, which had a big impact on public finances up to 2015, are projected to remain very low in the coming years.

The structural balance is expected to remain broadly stable over 2016-2019, fluctuating around -1% of GDP. Government debt ratio is projected to decline significantly in 2017, mainly due to the progressive wind-down of bad banks included into public accounts. In 2018 and 2019, the government debt ratio is expected to continue declining at a relatively fast pace.

Table II.20.1:

Main features of country forecast - AUSTRIA

		2016			Annual percentage change					
	bn EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		353.3	100.0	1.8	0.8	1.1	1.5	**2.6**	**2.4**	**2.3**
Private Consumption		186.2	52.7	1.5	0.3	0.5	1.5	**1.4**	**1.5**	**1.3**
Public Consumption		70.6	20.0	1.5	0.8	1.5	2.1	**1.3**	**1.2**	**1.1**
Gross fixed capital formation		81.5	23.1	1.1	-0.7	1.2	3.7	**3.9**	**2.7**	**2.4**
of which: equipment		26.8	7.6	1.2	-1.6	1.5	8.6	**5.7**	**3.8**	**3.7**
Exports (goods and services)		184.6	52.3	4.7	3.0	3.1	1.9	**5.3**	**4.5**	**4.3**
Imports (goods and services)		172.8	48.9	3.8	2.9	3.1	3.1	**4.3**	**3.3**	**3.0**
GNI (GDP deflator)		353.1	99.9	1.9	0.7	0.2	2.1	**2.0**	**2.4**	**2.3**
Contribution to GDP growth:	Domestic demand			1.4	0.2	0.8	2.0	**1.9**	**1.6**	**1.5**
	Inventories			0.0	0.3	0.2	0.0	**0.0**	**0.0**	**0.0**
	Net exports			0.5	0.1	0.1	-0.5	**0.7**	**0.8**	**0.8**
Employment				-	1.0	0.6	1.2	**1.5**	**1.3**	**1.1**
Unemployment rate (a)				4.8	5.6	5.7	6.0	**5.6**	**5.5**	**5.4**
Compensation of employees / f.t.e.				2.2	1.9	2.1	2.4	**2.3**	**2.3**	**2.3**
Unit labour costs whole economy				1.3	2.0	1.6	2.1	**1.2**	**1.2**	**1.1**
Real unit labour cost				-0.2	0.0	-0.7	1.0	**-0.6**	**-0.3**	**-0.6**
Saving rate of households (b)				15.3	12.4	12.5	13.4	**12.7**	**12.5**	**12.4**
GDP deflator				1.6	2.0	2.3	1.1	**1.8**	**1.6**	**1.7**
Harmonised index of consumer prices				1.9	1.5	0.8	1.0	**2.0**	**1.6**	**1.7**
Terms of trade goods				-0.3	1.0	1.5	0.4	**-0.1**	**-0.1**	**0.1**
Trade balance (goods) (c)				-0.4	0.3	0.6	0.1	**0.6**	**1.1**	**1.6**
Current-account balance (c)				1.5	2.5	2.1	2.3	**2.2**	**2.9**	**3.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				1.4	2.4	1.6	2.1	**2.0**	**2.6**	**3.3**
General government balance (c)				-2.5	-2.7	-1.0	-1.6	**-1.0**	**-0.9**	**-0.6**
Cyclically-adjusted budget balance (d)				-2.6	-2.2	-0.6	-1.1	**-0.9**	**-1.0**	**-0.9**
Structural budget balance (d)				-	-0.8	-0.3	-1.0	**-0.9**	**-1.0**	**-0.9**
General government gross debt (c)				70.9	83.8	84.3	83.6	**78.6**	**76.2**	**73.4**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.

21. POLAND

Solid growth driven by domestic demand

Faster wage growth, moderate employment gains and strong consumer confidence are set to sustain private consumption as the main growth driver. Investment activity is expected to gradually recover, largely due to a higher utilisation of EU funds. A tightening labour market is expected to lead to faster price increases, particularly in the services sector. The headline government deficit is projected to drop considerably in 2017 and to remain broadly stable in 2018-2019. However, strong growth implies that the cyclically adjusted fiscal deficit is set to increase.

Strong GDP growth in the first half of 2017

The first half of 2017 witnessed a strong increase in private consumption and an accumulation of inventories, while investment activity remained weak. Despite a sizeable hit from negative net exports, GDP increased by 1.1% (q-o-q) in both the first and the second quarters. Private consumption was the main growth driver, supported by solid increases in wages and employment. Public investment took tentative steps towards an expected rebound, while private investment trends varied across sectors. Weak investment was largely explained by continued falls in sectors such as energy, other public utilities and mining, with a large presence of publicly owned and publicly controlled companies.

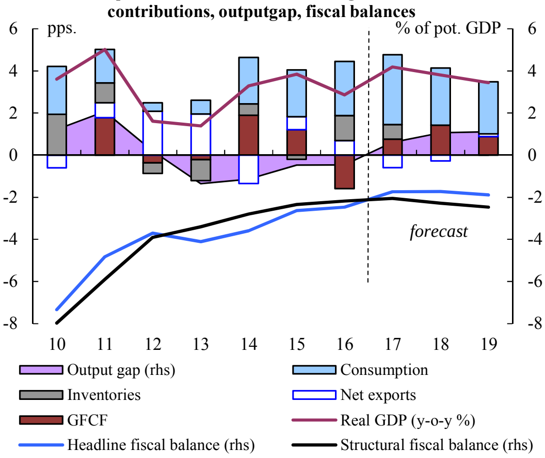
Robust growth outlook

Real GDP growth is projected to reach 4.2% in 2017 and 3.8% in 2018, before moderating to 3.4% in 2019 with an increasingly positive output gap. Growth is expected to be led by domestic demand with private consumption supported by favourable labour market trends and record-high consumer confidence. Some slowing down of consumption towards the end of the forecast period is expected, as higher inflation reduces household real disposable income and employment gains slow.

Following several quarters of weakness, investment activity is projected to gradually recover from the second half of 2017. Public investment growth is expected to be particularly strong in late 2017 and early 2018, due to a higher utilisation of EU structural funds. The rebound in private investment is forecast to be more gradual, supported by factors such as strong domestic and foreign demand, high capacity utilisation and easy access to funding.

Exports are expected to continue expanding, with further gains in export market shares. Strong domestic demand and in particular higher investment and a slight appreciation of the zloty are projected to lead to a fast increase in imports. As a result, the contribution of net exports to growth is set to stay negative in 2017 and 2018 before turning minimally positive in 2019.

Graph II.21.1: **Poland - Real GDP growth and contributions, outputgap, fiscal balances**



Tight labour market and rising inflation

Labour force participation is projected to rise at a slower pace, partly due to the lowering of the retirement age that took effect in October 2017. With the unemployment rate now at record lows, employment gains are forecast to decelerate as wage growth strengthens.

Inflation is projected to average 1.6% in 2017, rising to 2.5% in the second half of 2018 and just under 3% in the second half of 2019. Price pressures, particularly in the services sectors, are set to arise mainly from labour market developments.

Balanced risks

Risks to the macroeconomic forecast are broadly balanced. On the upside, lower economic policy uncertainty (e.g. in the energy sector) could lead to stronger private investment. Further gains in labour force participation or a change towards more permanent immigration could support private consumption, particularly in 2019. On the downside, labour shortages could become a barrier hampering investment, while faster wage growth could translate into higher inflation, which would weigh on real disposable income growth and consumer sentiment. In addition, uncertainty surrounding the rule of law could affect economic activity more negatively than expected.

Stable headline and increasing structural government deficit

The headline general government deficit is forecast to substantially narrow to 1.7% of GDP in 2017, mainly thanks to higher tax revenues and social contributions. The expected rise in revenues from indirect taxes is due to improved macroeconomic fundamentals, a number of measures to increase compliance implemented in 2016 and 2017, and a two-year extension of the application of higher VAT rates. Simultaneously, the revenues from direct taxes and from social contributions reflect mainly the strong labour market.

In 2018, the headline fiscal deficit is projected to remain stable at 1.7% of GDP. Favourable macroeconomic conditions are set to support revenue growth. Expenditures are forecast to rise mainly as a result of the large increase in public investment and the lowering of the statutory retirement age.

Under a no-policy-change assumption, the headline general government deficit is expected to slightly widen to 1.9% of GDP in 2019. Public investment is projected to continue growing, while tax revenue growth is forecast to moderate.

The structural deficit is set to narrow to 2% of GDP in 2017 from 2¼% of GDP in 2016. However, against the background of strong economic growth and a consequently increasing positive output gap, the structural deficit is forecast to widen again to 2¼% of GDP in 2018 and further to 2½% of GDP in 2019.

The general government debt-to-GDP ratio is set to decline from 54.1% at end-2016 to 53% of GDP at the end of 2019.

Table II.21.1:

Main features of country forecast - POLAND

		2016		Annual percentage change						
		bn PLN Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		1858.6	100.0	3.8	3.3	3.8	2.9	**4.2**	**3.8**	**3.4**
Private Consumption		1087.3	58.5	3.4	2.4	3.0	3.9	**4.9**	**3.7**	**3.2**
Public Consumption		331.8	17.9	3.1	4.1	2.4	1.7	**2.5**	**3.3**	**3.3**
Gross fixed capital formation		335.8	18.1	4.0	10.0	6.1	-7.9	**4.2**	**7.9**	**4.8**
of which: equipment		132.6	7.1	4.1	11.2	12.1	-10.3	**2.1**	**6.4**	**4.0**
Exports (goods and services)		971.3	52.3	7.9	6.7	7.7	8.8	**6.4**	**6.8**	**5.8**
Imports (goods and services)		896.1	48.2	6.5	10.0	6.6	7.9	**8.2**	**7.9**	**5.9**
GNI (GDP deflator)		1793.1	96.5	3.6	2.9	3.9	3.0	**4.2**	**3.7**	**3.3**
Contribution to GDP growth:	Domestic demand			3.6	4.1	3.4	1.1	**4.1**	**4.1**	**3.3**
	Inventories			0.0	0.5	-0.1	1.1	**0.7**	**0.0**	**0.0**
	Net exports			0.3	-1.3	0.6	0.7	**-0.6**	**-0.3**	**0.1**
Employment				0.1	1.7	1.5	0.6	**1.6**	**0.8**	**0.2**
Unemployment rate (a)				13.3	9.0	7.5	6.2	**5.0**	**4.2**	**4.0**
Compensation of employees / head				5.9	2.2	1.7	4.4	**4.8**	**5.7**	**7.1**
Unit labour costs whole economy				2.2	0.6	-0.6	2.1	**2.1**	**2.6**	**3.8**
Real unit labour cost				-1.3	0.1	-1.3	1.7	**0.0**	**0.6**	**1.3**
Saving rate of households (b)				7.5	2.1	2.2	3.9	**2.5**	**2.1**	**1.7**
GDP deflator				3.5	0.5	0.8	0.4	**2.1**	**2.0**	**2.5**
Harmonised index of consumer prices				4.1	0.1	-0.7	-0.2	**1.6**	**2.1**	**2.8**
Terms of trade goods				0.1	2.2	2.9	1.0	**1.1**	**-0.1**	**-0.1**
Trade balance (goods) (c)				-3.9	-0.8	0.5	0.6	**0.2**	**-0.4**	**-0.6**
Current-account balance (c)				-4.0	-1.4	0.1	1.2	**1.0**	**0.3**	**0.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.2	0.3	2.4	2.6	**2.5**	**1.9**	**1.8**
General government balance (c)				-4.4	-3.6	-2.6	-2.5	**-1.7**	**-1.7**	**-1.9**
Cyclically-adjusted budget balance (d)				-4.3	-3.0	-2.4	-2.2	**-2.1**	**-2.3**	**-2.5**
Structural budget balance (d)				-	-2.8	-2.3	-2.2	**-2.1**	**-2.3**	**-2.5**
General government gross debt (c)				45.9	50.2	51.1	54.1	**53.2**	**53.0**	**53.0**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

22. PORTUGAL

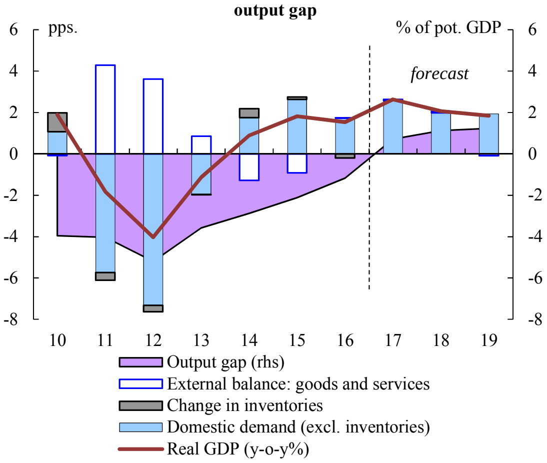
Growth and employment to perform strongly

GDP and employment are set to increase significantly in 2017 driven by exports and investment. Despite some slowdown, economic performance is expected to remain strong in 2018 and 2019 amid further export growth and lower unemployment. The general government deficit is set to remain below 1.5% over the forecast horizon while the structural balance is projected to remain broadly unchanged.

Investment and exports push up growth

Economic growth picked up to 2.9% in the first half of 2017, mainly driven by investment and exports, while private consumption growth continued to slow. Investment rose to 10% (y-o-y) in the first half of the year, supported by both construction and equipment. Net external demand made a slightly positive contribution to annual growth, reflecting the strength of net service exports, particularly tourism. Overall, GDP is forecast to increase by 2.6% in 2017, before decelerating to 2.1% in 2018 and 1.8% in 2019. Risks to the outlook remain slightly tilted to the downside, mainly due to the country's vulnerability to external shocks.

Graph II.22.1: **Portugal - Real GDP growth and contributions, output gap**



The Commission's Economic Sentiment Indicator for Portugal moderated in the third quarter of 2017 but remained significantly above its long-term average. In parallel, consumer confidence deteriorated and retail trade slowed down, suggesting that private consumption growth may also flatten out along with a small increase in the household saving rate. Investment in construction is not expected to reach pre-crisis levels any time soon and its growth is set to weaken somewhat after its rebound this year. Following a big jump in 2017, equipment investment is expected to ease somewhat before picking up again in 2019. These fluctuations are largely due to the base effect from a large boost to investment this year that came from a capacity upgrade in the country's biggest automotive company that is set to fade away in 2018.

External flows remain balanced

Exports of goods and services increased substantially in the first half of 2017, supported by external demand. The ongoing expansion in the automotive industry and the continuous positive cycle in tourism are expected to keep exports growing well above demand from main trading partners in both 2017 and 2018. In 2019, export growth is expected to be more in line with external demand, as the impact of car manufacturing and tourism is set to weaken. Imports are projected to grow at a similar rate to exports over the forecast horizon, reflecting a rebound in equipment investment and the high import content of car manufacturing. As a result, the current account is set to retain a small surplus, also supported by an improvement in net interest transfers.

Job creation outpaces GDP growth

Employment grew faster than GDP in the first half of 2017, particularly in labour-intensive services related to tourism and in construction. Wage growth remained subdued at the aggregate level, as most of the job openings were in sectors with low-skill profiles and lower-than-average salaries. The job-rich recovery reduced substantially both the headline and long-term unemployment rates and supported economic activity as the labour force increased despite a drop in the working age population. Accordingly, the unemployment rate is set to drop from 11.2% in 2016 to 9.2% in 2017, the lowest level since 2008, and further to 7.6% in 2019 amid some slowdown in job creation and a moderate increase in wages.

Inflation moderates despite one-off triggers

After a one-off rebound in the spring triggered by energy prices and the Easter calendar effect, consumer price inflation moderated in the summer months. HICP inflation is projected to remain relatively stable at 1.5% in 2017, 1.4% in 2018 and 1.5% in 2019. Core inflation is expected to be only marginally higher, reflecting the impact of tourism on accommodation services and moderate wage dynamics. House price inflation rose from 7.1% in 2016 to 8% y-o-y in the second quarter of 2017, along with a significant increase in property transactions. Demand for real estate is expected to remain strong but the impact on prices is likely to be at least partly offset by growing supply from new construction.

Public finances benefitting from the recovery and lower interest expenditure

The headline deficit is projected to decrease to 1.4% of GDP in 2017, mainly due to the accelerated economic recovery, decreasing interest expenditure and lower-than-budgeted public investment. The general government deficit net of one-offs is expected to reach 1.6% of GDP. As the improvement in the headline deficit is mostly cyclical in nature and not accompanied by discretionary fiscal consolidation measures, the structural balance is expected to improve only slightly in 2017. The headline deficit is forecast to remain stable at 1.4% of GDP in 2018 due to a more negative impact of one-off operations while the deficit net of one-offs is set to improve to 1.2% of GDP. As the impact of discretionary measures and savings in interest expenditure in 2018 is expected to be broadly neutral, the structural balance is projected to remain broadly stable. Under a no-policy-change assumption, the headline deficit is set to improve slightly in 2019 to 1.2% while the structural balance is set to remain broadly unchanged. The structural primary balance is forecast to deteriorate by about ½% of GDP over the forecast horizon. Risks to the fiscal outlook are tilted to the downside, linked to uncertainties surrounding the macroeconomic outlook and the potential deficit-increasing impact of banking support measures in 2017.

After reaching 130.1% at the end of 2016, Portugal's gross public debt-to-GDP ratio is forecast to decline to 126.4% in 2017, 124.1% in 2018 and 121.1% in 2019, due to primary budget surpluses and higher nominal GDP growth.

Table II.22.1:

Main features of country forecast - PORTUGAL

		2016			Annual percentage change					
	bn EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		185.2	100.0	0.8	0.9	1.8	1.5	**2.6**	**2.1**	**1.8**
Private Consumption		121.3	65.5	0.9	2.3	2.3	2.1	**1.9**	**1.6**	**1.6**
Public Consumption		33.4	18.0	1.3	-0.5	1.3	0.6	**0.4**	**0.5**	**0.5**
Gross fixed capital formation		28.3	15.3	-2.0	2.3	5.8	1.6	**8.1**	**5.3**	**4.9**
of which: equipment		9.4	5.1	-0.5	13.3	10.4	5.2	**12.5**	**7.7**	**9.0**
Exports (goods and services)		74.0	39.9	4.2	4.3	6.1	4.1	**8.0**	**7.3**	**4.9**
Imports (goods and services)		72.2	39.0	2.6	7.8	8.5	4.1	**8.0**	**7.2**	**5.2**
GNI (GDP deflator)		181.2	97.8	0.7	0.5	0.7	2.1	**2.7**	**2.1**	**1.9**
Contribution to GDP growth:	Domestic demand			0.5	1.7	2.6	1.8	**2.6**	**2.0**	**1.9**
	Inventories			0.0	0.4	0.1	-0.2	**0.0**	**0.0**	**0.0**
	Net exports			0.3	-1.3	-0.9	0.0	**0.1**	**0.1**	**-0.1**
Employment				-0.4	1.4	1.4	1.6	**2.9**	**1.2**	**0.9**
Unemployment rate (a)				9.2	14.1	12.6	11.2	**9.2**	**8.3**	**7.6**
Compensation of employees / head				2.9	-1.8	0.4	2.1	**1.6**	**1.7**	**1.8**
Unit labour costs whole economy				1.7	-1.3	0.0	2.2	**1.9**	**0.8**	**0.9**
Real unit labour cost				-0.7	-2.0	-2.0	0.7	**0.6**	**-0.6**	**-0.5**
Saving rate of households (b)				9.3	5.2	5.3	5.8	**6.2**	**6.2**	**6.3**
GDP deflator				2.4	0.8	2.0	1.4	**1.3**	**1.4**	**1.4**
Harmonised index of consumer prices				2.4	-0.2	0.5	0.6	**1.5**	**1.4**	**1.5**
Terms of trade goods				0.1	1.2	2.7	0.3	**-0.3**	**0.0**	**0.0**
Trade balance (goods) (c)				-10.1	-4.7	-4.5	-4.4	**-5.0**	**-5.1**	**-5.4**
Current-account balance (c)				-8.3	-0.3	-0.9	0.1	**0.1**	**0.2**	**0.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.8	1.0	0.3	1.0	**1.0**	**1.1**	**1.1**
General government balance (c)				-5.3	-7.2	-4.4	-2.0	**-1.4**	**-1.4**	**-1.2**
Cyclically-adjusted budget balance (d)				-5.2	-5.5	-3.5	-1.5	**-1.7**	**-2.0**	**-1.9**
Structural budget balance (d)				-	-1.7	-2.3	-2.0	**-1.8**	**-1.8**	**-1.9**
General government gross debt (c)				75.4	130.6	128.8	130.1	**126.4**	**124.1**	**121.1**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

23. ROMANIA

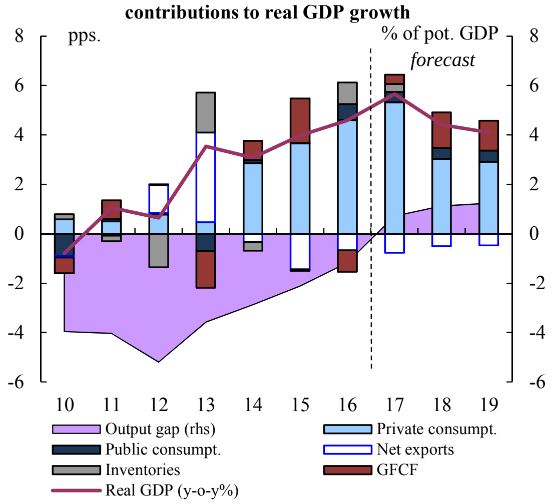
Consumption-led growth

Real GDP growth accelerated in 2017, driven mainly by private consumption. Looking ahead, growth is set to decelerate but remain above potential. Unemployment fell to its lowest levels in more than twenty years in 2017 and is expected to remain low over the forecast horizon. Inflation has turned positive and is set to further pick up as the output gap widens. The budget deficit is projected to increase due to public wage increases projected in the unified wage law.

Private consumption is booming

Growth accelerated in 2017, with real GDP expanding by 5.8% (y-o-y) in the first half of the year. The pick-up in growth has been mostly driven by private consumption, spurred by tax cuts, significant hikes in both public and private wages, and low rates of inflation. Changes in inventories also made a substantial positive contribution to growth in the first half of 2017, while investment remained subdued mainly due to a slow uptake of projects financed by EU funds under the 2014-20 programming period. The booming private consumption also drove an acceleration of imports. As a consequence, net exports have worked as a drag on real GDP growth, despite relatively strong export growth.

Graph II.23.1: **Romania - Output gap and contributions to real GDP growth**



Growth set to decelerate but remain above potential

The output gap is estimated to have closed in 2017 and is projected to expand in 2018 and 2019, with GDP growth slowing down but remaining above its potential growth rate. GDP is forecast to grow by 5.7% in 2017, 4.4% in 2018, and 4.1% in 2019. Private consumption is projected to decelerate in 2018, as inflation increasingly weighs on real disposable income, but is expected to continue acting as the main growth driver. Furthermore, investment is forecast to strengthen on the back of a pick-up in the implementation of projects financed by EU funds.

The current account deficit widens

Import growth is projected to continue outpacing that of exports, in line with strong private consumption. Accordingly, net exports will remain a drag on real GDP growth over the forecast horizon. The weakening of Romania's trade balance is expected to lead to a gradual widening of the current account deficit, which is forecast to reach 3.1% of GDP by 2017, 3.2% in 2018 and 3.4% in 2019.

Labour market tightening and inflation picks up

The economic expansion has prompted a continued improvement of the labour market, with the unemployment rate dropping to its lowest levels in more than twenty years. This low unemployment rate, coupled with a declining labour force and persistent skills shortages, has led to very tight labour market conditions. Wage growth has accelerated in 2017, also driven by a 16% minimum wage hike which took effect in February, as well as by public sector wage increases. This trend is projected to continue in 2018 given approved increases in public wages.

After two consecutive years of falling consumer prices, inflation turned positive in 2017, despite being dampened by VAT rate cuts and lower excise duties on fuel. For the year as a whole, HICP inflation is expected to stand at around 1%. Headline inflation is projected to further pick up as wage hikes pass through to consumer prices and the effect of tax cuts fades away – or, in the case of excise duties, the cuts themselves are reversed. HICP inflation is forecast to re-enter the National Bank of Romania's target band (2.5% ± 1 pp.), reaching 2.9% in 2018 and 3% in 2019.

Risks to the growth forecast

The possible tightening of the central bank's monetary policy in response to emerging inflation pressures and a widening output gap could dampen the outlook for both private investment and exports. Investment could also be adversely affected if the government were to further cut public investment in order to reach its budgetary deficit targets. The continuing increase in unit labour costs, due to wage growth outpacing productivity growth, could also curtail Romania's exports. More generally, uncertainty regarding the government's policies could also hamper growth.

The fiscal stance remains expansionary

In 2017, the general government deficit is projected to remain at 3.0% of GDP. Tax cuts (in particular a cut of the standard VAT rate by 1 pp.) have reduced tax revenues. On the expenditure side, public wages and social benefits were considerably increased. On the other hand, public investment was cut significantly in the September's budget rectification.

In 2018, the general government deficit is projected to increase to 3.9% of GDP. The unified wage law (UWL), enacted in summer 2017, is set to increase all public wages by 25% in January 2018 and contains additional increases for doctors and teachers. Moreover, the personal income tax (PIT) rate is set to be cut from 16% to 10%. These measures are to be partially compensated by an announced shift of social security contributions from the current 22.75% for employers and 16.5% for employees to 2% (so-called solidarity contribution) and 35% respectively. The deficit is projected to reach 4.1% of GDP in 2019 under a no-policy change assumption.

As a consequence of fiscal easing and an increasing output gap, Romania's structural deficit is forecast to rise from around 2¼% in 2016 to around 3¼% in 2017 and around 4½% in 2019. Despite strong GDP growth, the debt-to-GDP ratio is thus projected to rise from 37.6% of GDP in 2016 to 40.5% in 2019.

No draft 2018 budget has been published at the cut-off date of the forecast and several of the announced measures still need to be operationalised. This represents a risk (positive or negative) to the fiscal projections. This is particularly the case for the changes to the social security contributions and to the PIT.

Table II.23.1:

Main features of country forecast - ROMANIA

	2016			Annual percentage change					
	bn RON Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	761.5	100.0	3.0	3.1	4.0	4.6	**5.7**	**4.4**	**4.1**
Private Consumption	470.8	61.8	4.8	4.7	5.9	7.4	**8.6**	**4.8**	**4.6**
Public Consumption	107.2	14.1	0.0	0.8	0.2	4.7	**3.0**	**3.0**	**3.0**
Gross fixed capital formation	172.6	22.7	4.8	3.2	7.4	-3.5	**1.6**	**6.5**	**5.5**
of which: equipment	65.4	8.6	5.5	-5.1	-3.8	-4.0	**2.5**	**3.0**	**6.5**
Exports (goods and services)	315.1	41.4	9.2	8.0	4.6	8.3	**8.3**	**7.3**	**6.7**
Imports (goods and services)	322.3	42.3	10.8	8.7	8.0	9.8	**9.9**	**8.1**	**7.3**
GNI (GDP deflator)	738.2	96.9	2.9	4.0	3.0	3.4	**6.4**	**5.1**	**4.2**
Contribution to GDP growth: Domestic demand			4.7	3.8	5.5	4.4	**6.1**	**4.9**	**4.6**
Inventories			0.0	-0.3	-0.1	0.9	**0.3**	**0.0**	**0.0**
Net exports			-1.5	-0.3	-1.4	-0.7	**-0.8**	**-0.5**	**-0.5**
Employment			-1.7	0.8	-1.3	-0.9	**0.7**	**0.4**	**0.2**
Unemployment rate (a)			7.1	6.8	6.8	5.9	**5.3**	**5.1**	**5.0**
Compensation of employees / head			23.1	6.7	1.9	10.9	**13.2**	**10.9**	**7.8**
Unit labour costs whole economy			17.4	4.3	-3.3	5.0	**7.9**	**6.6**	**3.7**
Real unit labour cost			-1.0	2.6	-5.7	2.8	**5.8**	**3.2**	**0.4**
Saving rate of households (b)			-5.4	14.5	15.5	14.5	**14.8**	**14.8**	**15.1**
GDP deflator			18.7	1.7	2.6	2.2	**2.0**	**3.2**	**3.3**
Harmonised index of consumer prices			16.8	1.4	-0.4	-1.1	**1.0**	**2.9**	**3.0**
Terms of trade goods			2.7	0.8	1.0	0.5	**-1.3**	**-0.3**	**0.5**
Trade balance (goods) (c)			-7.9	-4.3	-4.9	-5.5	**-6.5**	**-7.1**	**-7.4**
Current-account balance (c)			-6.1	-0.1	-0.6	-2.3	**-3.1**	**-3.2**	**-3.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.6	2.5	1.8	-1.3	**-1.6**	**-1.5**	**-1.4**
General government balance (c)			-3.7	-1.4	-0.8	-3.0	**-3.0**	**-3.9**	**-4.1**
Cyclically-adjusted budget balance (d)			-3.6	-0.4	-0.1	-2.6	**-3.3**	**-4.3**	**-4.6**
Structural budget balance (d)			-	-0.4	-0.3	-2.2	**-3.3**	**-4.3**	**-4.6**
General government gross debt (c)			23.0	39.4	37.9	37.6	**37.9**	**39.1**	**40.5**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

24. SLOVENIA

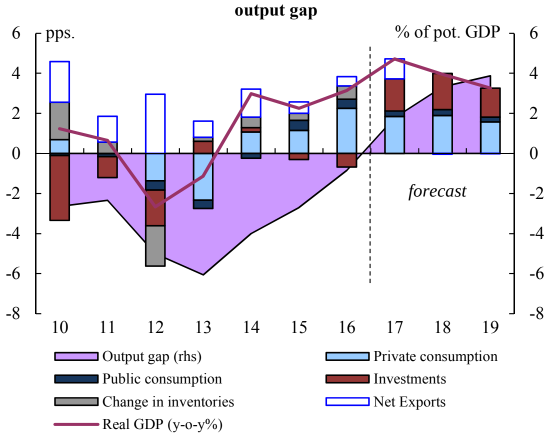
Broad-based expansion

Economic growth reached 3.1% in 2016 and has further accelerated in 2017, driven by exports, private consumption and investment. The economic expansion has been accompanied by rising employment and wage growth. Companies have continued to invest to meet growing demand from both domestic and international markets. Public finances are projected to continue to improve, reflecting the favourable macroeconomic outlook.

Solid growth in the first half of 2017

Slovenia's economy continued to grow at a strong pace in the first half of 2017, as real GDP increased by 4.8%, surpassing its pre-crisis peak. Domestic demand continued to expand. Investment increased by 10% in the first half of 2017, driven by a rebound in public investment, supported by the start of the new EU financing cycle. At the same time, private consumption grew by 3.4%, boosted by growing disposable income and upbeat consumer confidence. Export growth remained strong and outpaced import growth, further contributing to the current account surplus. Solid growth is set to continue in the second half of the year, leading to a real GDP increase of 4.7% in 2017.

Graph II.24.1: **Slovenia - Real GDP growth and contributions, output gap**



Expansion to continue in 2018 and 2019

Real GDP growth is forecast to reach 4% in 2018 and 3.3% in 2019, driven mainly by domestic demand. Private consumption is expected to remain strong over the forecast horizon, supported by growing employment, wages and bank lending. Similarly, investment is expected to grow at a high rate due to the combination of strong external and domestic demand with improving financing conditions and stronger corporate balance sheets. High growth in industrial production, very high capacity utilisation in the export sector, and growing export markets are creating room for further investment in production capacity. At the same time, demand for construction work is gradually strengthening and growth in construction investment is expected to accelerate. In addition, the improved take-up of EU funds is set to boost investment further in 2018 and 2019. Export performance is expected to remain robust, supported by stable unit labour costs and continued gains in price competitiveness. Imports are forecast to grow in line with domestic demand, gradually neutralising the growth contribution of net exports. Slovenia's current account surplus is expected to decrease moderately in both 2018 and 2019.

Risks to the growth outlook are tilted to the upside. These are primarily domestic in nature, as improving sentiment and better access to credit could further support investment, particularly in residential properties. Downside risks are mainly external and relate to the future development of energy and raw material prices.

Inflation set to remain moderate while wage growth accelerates

Employment growth remains high in most sectors as increasing exports, consumption and investment boost labour demand in the economy. Employment is expected to continue to grow by 1%-2% over the forecast horizon, but decelerate as labour shortages increase in the tightening labour market. As a result, the unemployment rate is expected to decline from 8% in 2016 to 5.2% in 2019. As the forecast unemployment rate approaches its natural rate, wage pressures are set to rise. Compensation per employee is expected to grow by 2.8% in 2017 and by around 3.2% in 2018 and 2019.

HICP inflation accelerated towards 2% (y-o-y) in the first quarter of 2017 but slowed thereafter, largely driven by base effects. Overall, consumer prices are projected to increase by 1.6% in 2017. Both headline and core inflation are expected to remain moderate over the forecast horizon. HICP inflation is forecast to reach 1.5% in 2018 and 1.8% in 2019.

General government balance continues to improve

In 2016, the general government deficit decreased to 1.9% of GDP from 2.9% in 2015, mainly due to higher revenues and a drop in public investment linked to the ending of the previous EU funding period.

In 2017, the government deficit is expected to decline to 0.8% of GDP as a result of strong tax revenues and social contributions. Public investment is expected to increase after a plunge of nearly 30% in 2016. Both the compensation of public employees and pensions are expected to continue rising.

In 2018, the general government balance is expected to be 0.0% of GDP as tax revenues and social contributions continue to grow strongly and interest expenditure is expected to decrease significantly. At the same time, the compensation of public employees and expenditure on social benefits are projected to increase further due to wage increases and an extraordinary indexation of pensions. Public investment is expected to grow in line with the dynamics of the current EU multiannual financial framework. Under a no-policy-change assumption, the general government balance is expected to record a surplus of 0.4% of GDP in 2019, mainly due to economic growth and improved labour market conditions.

The main downside risks to public finances over the forecast horizon stem from building expenditure pressures, particularly on wages and pensions.

In structural terms, Slovenia's fiscal position is expected to be broadly unchanged between 2016 and 2018 and improve slightly in 2019. This takes place in a context where the output gap is projected to turn positive in 2017 and increase strongly thereafter.

The debt-to-GDP ratio peaked at 82.6% in 2015, but started to decrease in 2016 to 78.5% of GDP. Supported by the economic recovery and reduced precautionary cash buffers, public debt is forecast to decline steadily to 72.0% in 2019.

Table II.24.1:

Main features of country forecast - SLOVENIA

	2016			Annual percentage change						
	bn EUR Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	40.4	100.0	2.2	3.0	2.3	3.1	**4.7**	**4.0**	**3.3**
Private Consumption	21.6	53.4	1.8	1.9	2.1	4.2	**3.4**	**3.6**	**3.0**
Public Consumption	7.6	18.7	2.0	-1.2	2.7	2.5	**1.5**	**1.6**	**1.3**
Gross fixed capital formation	7.1	17.6	1.1	1.1	-1.6	-3.6	**9.1**	**9.8**	**7.4**
of which: equipment	3.0	7.4	3.6	-8.5	3.8	7.5	**15.6**	**15.2**	**11.5**
Exports (goods and services)	31.4	77.7	6.0	5.7	5.0	6.4	**8.9**	**7.4**	**5.5**
Imports (goods and services)	27.7	68.5	5.1	4.1	4.7	6.6	**8.7**	**8.4**	**6.2**
GNI (GDP deflator)	39.3	97.2	2.2	3.4	0.1	3.4	**4.6**	**4.0**	**3.3**
Contribution to GDP growth:	Domestic demand		1.8	1.1	1.4	2.0	**3.7**	**4.0**	**3.3**
	Inventories		0.0	0.5	0.3	0.7	**0.0**	**0.0**	**0.0**
	Net exports		0.5	1.4	0.6	0.5	**1.0**	**0.0**	**0.0**
Employment			0.3	0.4	1.2	1.9	**2.3**	**1.6**	**1.0**
Unemployment rate (a)			6.8	9.7	9.0	8.0	**6.8**	**5.9**	**5.2**
Compensation of employees / head			5.8	1.3	1.4	2.8	**2.8**	**3.2**	**3.1**
Unit labour costs whole economy			3.8	-1.2	0.4	1.6	**0.4**	**0.9**	**0.9**
Real unit labour cost			-0.1	-2.0	-0.6	0.7	**-1.3**	**-0.8**	**-0.7**
Saving rate of households (b)			13.4	12.5	12.7	12.8	**11.3**	**10.1**	**10.0**
GDP deflator			3.9	0.8	1.0	0.9	**1.7**	**1.6**	**1.7**
Harmonised index of consumer prices			4.5	0.4	-0.8	-0.2	**1.6**	**1.5**	**1.8**
Terms of trade goods			-0.4	1.1	1.3	0.8	**-0.3**	**-0.3**	**-0.3**
Trade balance (goods) (c)			-3.1	2.9	3.8	3.8	**4.0**	**3.3**	**2.7**
Current-account balance (c)			-1.8	5.8	4.5	5.3	**5.9**	**5.4**	**4.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.6	6.0	5.6	4.5	**5.5**	**5.2**	**4.8**
General government balance (c)			-3.8	-5.3	-2.9	-1.9	**-0.8**	**0.0**	**0.4**
Cyclically-adjusted budget balance (d)			-3.8	-3.4	-1.6	-1.5	**-1.7**	**-1.6**	**-1.4**
Structural budget balance (d)			-	-2.2	-1.6	-1.5	**-1.6**	**-1.6**	**-1.4**
General government gross debt (c)			32.5	80.3	82.6	78.5	**76.4**	**74.1**	**72.0**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

25. SLOVAKIA

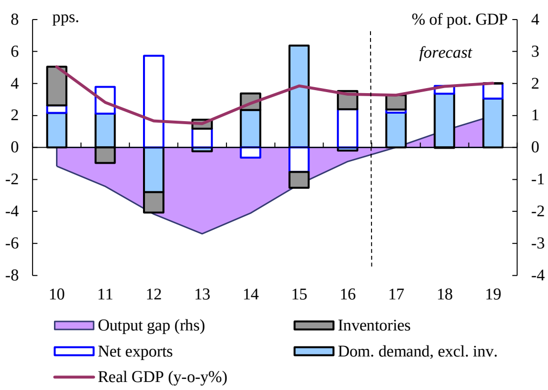
Growth strengthens, the labour market tightens

Slovakia's economic expansion is expected to maintain a robust pace in 2017 and to strengthen thereafter, with private consumption as the main contributor to growth. Household spending is set to benefit as the labour market continues to strengthen. Strong labour demand in some regions and sectors is expected to put upward pressure on nominal wages. Inflation is likely to increase further, supported by favourable demand conditions. The government deficit is projected to decrease steadily.

Recovery fuelled by household spending

Slovakia's real GDP growth is expected to remain solid at 3.3% in 2017 and to gradually increase to around 4% in 2019. Private consumption is set to become the key driver of growth, supported by higher employment, robust increases in real wages, low credit costs and buoyant consumer sentiment. Economic growth is also expected to benefit from a revival in investment and increasingly positive contributions from net trade over the forecast horizon. Strong economic growth is likely to feed through to all segments of the economy, including the upbeat housing market. At the same time, a shrinking supply of skilled workers, coupled with rising demand for labour, is a potential bottleneck for the Slovak economy.

Graph II.25.1: **Slovakia - Real GDP growth and contributions, output gap**



Investment and net exports set to grow

Investment showed a somewhat erratic pattern in 2017, with a swift recovery in the first quarter followed by a substantial fall in the second. On an annual basis investment is projected to return to growth in 2017 and to accelerate thereafter, driven by private investment in the automotive industry and major public investment projects such as the Bratislava ring road. The completion of a new car factory is anticipated to cause investment growth to peak in 2018. At the same time, delays in major infrastructure projects due to litigation, along with a relatively slow use of EU investment funds, could dampen the investment rebound in the near term. Slovakia's export growth is set to pick up again over the forecast horizon thanks to rising foreign demand and expanded production capacities in the automotive sector. The contribution of net trade to GDP growth is likely to increase until 2019 as import growth, which is partly investment-fuelled, is nonetheless outpaced by exports.

Labour demand stimulates wages

As the robust economic recovery bolsters the labour market, the unemployment rate is expected to gradually fall below 7% in 2019. Employment gains are likely to remain strong and broad-based across sectors, contributing to increases in the participation rate as employment prospects for previously inactive persons improve. At the same time, the tightening of the labour market along with increasing labour shortages in some sectors and regions is bound to drive up nominal wage growth, particularly in an environment of rising consumer prices. Nominal wage growth is projected to climb to almost 5% in 2019, allowing real wages to increase by around 3% annually over the forecast horizon.

Consumer inflation set to increase

Headline inflation has firmly entered positive territory and is projected to reach 1.3% in 2017, with accelerating food and services prices contributing most to the rebound. By contrast, energy prices are projected to decline throughout 2017, mainly due to a reduction in administered prices for electricity and gas at the beginning of the year. Core inflation (excluding energy and unprocessed food) is expected to pick up significantly to 1.7% in 2017 and to gradually rise thereafter, reflecting vibrant consumer expenditure and wage pressures.

Headline deficit on a declining path

The general government deficit outturn for 2016 was larger than expected in the spring forecast, having been revised to 2.2% of GDP due to lower-than-anticipated corporate income tax and dividend revenues. Nevertheless, fiscal consolidation is projected to continue in 2017, with the headline deficit forecast to decline to 1.6% of GDP. The adjustment is likely to be supported by strong VAT and labour tax revenues reflecting improving private consumption and labour market conditions, respectively. Tax revenues are also expected to be supported by several policy measures, including a higher levy on regulated businesses and higher ceilings on social and healthcare contributions.

The favourable economic environment is expected to continue to support consolidation in 2018. In addition, a new 7% tax on dividend revenues is projected to contribute positively to public revenues despite a parallel scrapping of healthcare contributions paid on dividends. On the other hand, the abolition of the minimum corporate income tax, introduction of voluntary 13th and 14th monthly salary as well as exempting pensioners' who work on contract agreements from paying social security contributions will reduce revenue. The government has further adopted several expenditure-increasing measures, including an ad-hoc pension increase for those who retired before 2004, and extra outlays on public wages and social benefits. A drop in the drawdown of EU funds will reduce co-financing needs and consequently also lower investment financed from the national budget. In the absence of additional measures, the headline deficit is projected to decline to 1% of GDP in 2018. Assuming a strong rebound in the utilisation of EU funds with no other changes in policies, the deficit is projected to decline in 2019 to 0.2% of GDP.

The structural balance is projected to decline to 1½% of GDP in 2017. The improvement in the structural balance in the two following years will be less than that of the headline balance in light of the progressive widening of the positive output gap from 2018 onwards. The debt-to-GDP ratio is projected to decline to 47% in 2019, driven by declining deficits and accelerating nominal GDP growth.

Table II.25.1:

Main features of country forecast - SLOVAKIA

		2016		Annual percentage change						
		bn EUR Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		81.2	100.0	3.7	2.8	3.9	3.3	**3.3**	**3.8**	**4.0**
Private Consumption		44.3	54.5	3.1	1.4	2.2	2.7	**3.3**	**3.3**	**3.3**
Public Consumption		15.7	19.4	2.7	5.2	5.4	1.6	**0.8**	**1.8**	**1.8**
Gross fixed capital formation		17.2	21.2	1.1	3.0	19.8	-8.3	**1.0**	**5.9**	**4.5**
of which: equipment		8.8	10.8	1.7	20.3	13.0	2.0	**5.6**	**6.5**	**4.5**
Exports (goods and services)		76.8	94.6	9.1	3.9	6.4	6.2	**4.6**	**6.7**	**7.6**
Imports (goods and services)		73.9	91.1	6.9	4.8	8.4	3.7	**4.6**	**6.5**	**6.9**
GNI (GDP deflator)		80.0	98.6	3.7	2.4	3.3	3.8	**3.4**	**3.9**	**4.1**
Contribution to GDP growth:	Domestic demand			2.6	2.3	6.4	-0.2	**2.2**	**3.4**	**3.1**
	Inventories			0.0	1.0	-1.0	1.1	**0.9**	**0.0**	**0.0**
	Net exports			1.2	-0.6	-1.5	2.4	**0.2**	**0.5**	**0.9**
Employment				0.2	1.4	2.0	2.4	**1.3**	**1.2**	**1.2**
Unemployment rate (a)				15.1	13.2	11.5	9.7	**8.3**	**7.4**	**6.6**
Compensation of employees / head				6.7	1.8	3.5	2.3	**4.1**	**4.8**	**4.9**
Unit labour costs whole economy				3.0	0.5	1.6	1.4	**2.0**	**2.2**	**2.0**
Real unit labour cost				-0.3	0.7	1.7	1.8	**0.0**	**0.7**	**0.2**
Saving rate of households (b)				7.8	7.2	8.9	9.5	**8.8**	**9.2**	**9.6**
GDP deflator				3.3	-0.2	-0.2	-0.4	**2.0**	**1.5**	**1.9**
Harmonised index of consumer prices				4.9	-0.1	-0.3	-0.5	**1.3**	**1.7**	**2.0**
Terms of trade goods				-0.8	0.2	-0.2	-0.4	**-0.1**	**0.1**	**0.1**
Trade balance (goods) (c)				-4.3	3.4	1.3	2.9	**3.3**	**3.5**	**4.3**
Current-account balance (c)				-5.3	1.0	-1.0	0.4	**0.8**	**0.7**	**1.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.9	1.9	1.1	0.2	**0.8**	**0.5**	**1.9**
General government balance (c)				-5.1	-2.7	-2.7	-2.2	**-1.6**	**-1.0**	**-0.2**
Cyclically-adjusted budget balance (d)				-5.0	-1.9	-2.3	-2.0	**-1.6**	**-1.2**	**-0.6**
Structural budget balance (d)				-	-2.2	-2.3	-2.0	**-1.6**	**-1.2**	**-0.6**
General government gross debt (c)				41.0	53.5	52.3	51.8	**50.6**	**49.9**	**47.2**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

26. FINLAND

Strong growth as external demand picks up

Finland's GDP is expected to grow at a strong pace of 3.3% in 2017, faster than the EU and euro area on average, supported by a strong increase in investment, robust private consumption and net exports. The economy's growth prospects contribute to an improved outlook for public finances. The general government balance – still in deficit – is moving towards equilibrium, while the debt-to-GDP ratio is projected to decline. The structural balance, however, is set to worsen.

Economic growth significantly above EU average

Finland's 2016 real GDP growth was officially revised upwards in July, from 1.4% to 1.9%, driven by private consumption and investment. Economic growth accelerated at the beginning of this year thanks to an upswing in exports and sustained growth in investment. Real GDP growth is expected to climb to 3.3% in 2017 and remain above the EU average in both 2018 and 2019, at 2.7% and 2.4% respectively.

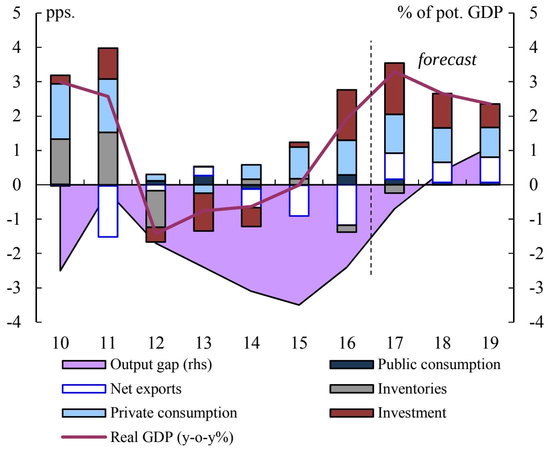
Private consumption growth is expected to remain strong in 2017, at 2.0%. Despite a modest increase in household disposable income, private consumption should continue to grow due to high consumer confidence and improved employment prospects, leading to a historically low saving rate. In 2018 and 2019, private consumption is set to increase by 1.8% and 1.6% respectively, as both employment growth and income growth moderate.

The upswing in investment that began in 2016 is expected to continue with investment expected to expand by about 7% in 2017, supported by favourable financing conditions and above-average business confidence. Overall, construction is also forecast to grow 7%, due to both new housing and non-residential construction. In 2018 and 2019, investment growth is expected to ease, as major projects are completed.

Finland's foreign trade has recently picked up and exports have experienced strong growth since the beginning of the year across all major product categories. This was mainly due to the rebound in key exports markets, especially the euro area, Sweden and the USA, as well as the return to growth in Russia. Other factors include the improvement in cost competitiveness and the expansion in the production capacity of some traditional export sectors such as forestry and shipbuilding, as well as a sizeable expansion in motor vehicle production.

Export prospects are projected to be favourable in 2018 and 2019, with expectations and sentiment indicators at exceptionally high levels and expanding industrial orders. Import growth is expected to pick up again in 2017 and beyond, but at a slower pace than exports. As a result, net exports are set to have a positive effect on GDP growth over the forecast horizon. The current account deficit is also expected to fall gradually in 2017 and 2018 and should turn to a surplus of 0.4% of GDP in 2019.

Graph II.26.1: **Finland - Real GDP growth and contributions, outputgap**



Moderate inflation and slow decrease in unemployment

Inflation is set to remain moderate in a context of higher price competition in the retail market and modest increases in housing expenses and fuel prices. As a result, headline inflation is forecast to be around 1% by the end end of the year and 1.3% in 2018.

Wage growth was almost flat in 2017 following the implementation of the 'Competitiveness Pact'. Possible increases in 2018 and 2019 will depend on the upcoming sector-level wage agreements. Wages are forecast to grow moderately, leading to a slight increase in the purchasing power of households.

Employment growth is set to continue, supported by rising investment and export growth. The unemployment rate is expected to decline, although less than headline GDP growth figures may suggest, as labour supply is increasing in parallel and the labour market is suffering from skills mismatches.

Risks to the forecast are broadly balanced. On the upside, the Finnish economy could benefit from a higher-than-expected increase in world trade and stronger-than-anticipated recoveries in the euro area and Russia. Downside risks mainly pertain to higher-than-expected wage increases and the possibility that the euro could continue to appreciate, which would weaken price competitiveness and thereby export growth.

Public finances

The government has consolidated public finances mainly through expenditure cuts. The cuts in the taxation of personal income in 2016 and 2017 have mitigated the impact of the measures on the expenditure side, but all in all, consolidation measures have improved the general government balance. Expanding employment and higher economic activity are set to improve public finances further towards the end of the forecast period. In 2017, the general government deficit is projected to improve due to slow expenditure growth owing to the measures in the 'Competitiveness Pact' and a rapid increase in corporate income tax revenue. In 2018, under a no-policy change assumption, the headline deficit is expected to improve only marginally, since the previous year's temporary factors are expected to fade. In 2019, the deficit reduction is projected to accelerate again, as consolidation continues.

The general government debt-to-GDP ratio peaked in 2015 and is expected to continue to decline between 2017 and 2019 due to a lower general government deficit and robust GDP growth.

Finland's structural balance is estimated at close to -½% of GDP in 2016 and is expected to worsen over the forecast horizon.

Table II.26.1:

Main features of country forecast - FINLAND

		2016		Annual percentage change						
	bn EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		215.6	100.0	2.0	-0.6	0.0	1.9	**3.3**	**2.7**	**2.4**
Private Consumption		119.1	55.2	2.5	0.8	1.7	1.8	**2.0**	**1.8**	**1.6**
Public Consumption		51.7	24.0	1.3	-0.5	0.0	1.2	**0.7**	**0.3**	**0.1**
Gross fixed capital formation		46.4	21.5	1.6	-2.6	0.7	7.2	**6.9**	**4.4**	**3.0**
of which: equipment		10.7	5.0	0.8	-1.6	4.4	10.1	**9.5**	**3.5**	**4.9**
Exports (goods and services)		76.0	35.2	4.2	-2.7	0.8	1.3	**9.0**	**5.7**	**5.2**
Imports (goods and services)		78.6	36.5	4.6	-1.3	3.2	4.4	**6.6**	**4.1**	**3.4**
GNI (GDP deflator)		217.8	101.0	2.2	-0.1	-0.1	2.2	**3.2**	**2.6**	**2.3**
Contribution to GDP growth:	Domestic demand			1.9	-0.3	1.1	2.8	**2.8**	**2.1**	**1.6**
	Inventories			0.0	0.2	0.2	-0.2	**-0.2**	**-0.2**	**-0.2**
	Net exports			0.2	-0.5	-0.9	-1.2	**0.8**	**0.6**	**0.7**
Employment				1.0	-0.5	-0.1	0.5	**0.5**	**0.7**	**0.7**
Unemployment rate (a)				8.6	8.7	9.4	8.8	**8.6**	**8.3**	**8.0**
Compensation of employees / head				3.1	1.0	1.4	1.0	**-1.1**	**1.3**	**1.7**
Unit labour costs whole economy				2.0	1.1	1.3	-0.4	**-3.8**	**-0.7**	**0.1**
Real unit labour cost				0.2	-0.6	-0.7	-1.3	**-4.3**	**-2.4**	**-1.6**
Saving rate of households (b)				8.6	7.2	6.9	6.0	**5.4**	**5.1**	**5.1**
GDP deflator				1.8	1.7	2.0	0.9	**0.5**	**1.7**	**1.7**
Harmonised index of consumer prices				2.0	1.2	-0.2	0.4	**0.9**	**1.3**	**1.7**
Terms of trade goods				-1.2	1.7	4.9	1.5	**-1.4**	**0.6**	**0.2**
Trade balance (goods) (c)				4.9	0.7	0.8	0.1	**0.3**	**0.9**	**1.6**
Current-account balance (c)				3.6	-1.3	-1.0	-1.4	**-1.1**	**-0.3**	**0.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.7	-1.2	-0.9	-1.3	**-1.1**	**-0.3**	**0.5**
General government balance (c)				1.8	-3.2	-2.7	-1.7	**-1.4**	**-1.2**	**-0.8**
Cyclically-adjusted budget balance (d)				1.7	-1.4	-0.7	-0.4	**-1.0**	**-1.4**	**-1.4**
Structural budget balance (d)				-	-1.5	-0.7	-0.4	**-1.0**	**-1.4**	**-1.4**
General government gross debt (c)				43.3	60.2	63.6	63.1	**62.7**	**62.1**	**61.6**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.

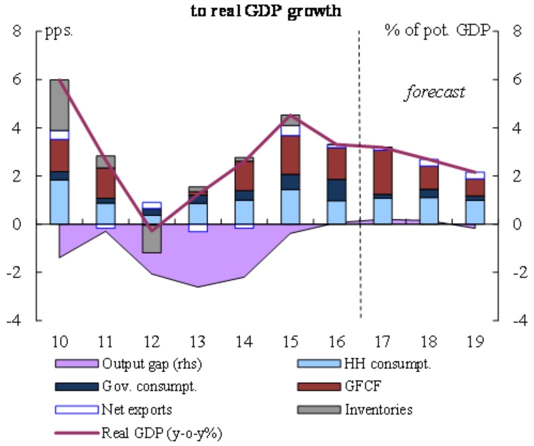
27. SWEDEN
A thriving economy

Economic growth in Sweden is expected to remain strong this year and next, fuelled by construction investment and exports, before moderating in 2019. In view of the increased economic activity, unemployment is forecast to decline further before stabilising. Inflation is expected to remain just below 2% over the forecast horizon. While the 2018 budget bill includes SEK 40 billion of new measures, public finances are projected to remain strong.

Solid growth set to continue

After strong real GDP growth of 3.3% in 2016, Sweden's economy is expected to continue growing at a similar pace in 2017. Domestic demand, particularly investment from the buoyant construction sector, has been the main growth engine. While investment is set to subside in the coming years, the strengthening of global activity should benefit Sweden's small, open and competitive economy. Real GDP growth is projected to edge down to 2.7% in 2018 before easing further to 2.2% in 2019, closer to the economy's potential rate.

Graph II.27.1: **Sweden - Output gap and contributions to real GDP growth**



Robust domestic demand

The growth in government consumption is projected to slow to 0.6% in 2017, as both inflows of migrants and refugee-related spending diminish. The 2018 budget bill proposes additional funding for municipalities that is expected to be used for hiring staff, public sector pay rises, and improvements in health, long-term care and education. General government consumption is therefore set to expand by 1.3% in 2018 and 0.7% in 2019.

Despite moderate wage growth, the increase in employment, low interest rates and additional social transfers and tax cuts in 2018 are expected to support disposable income. While core inflation is set on an upward trend, private consumption is forecast to grow at a reasonable pace of 2.5% in 2018 and 2.3% in 2019.

Investment growth has been driven by the upswing in residential investment since 2013. This support has significantly gathered pace in 2017 and is expected to carry over into 2018. In addition, equipment investment is set to continue growing, as capacity utilisation is high. Overall, investment is expected to grow faster than GDP, at 7.6% in 2017, cooling down to 3.8% in 2018 and 2.8% in 2019.

A rosy export outlook

Exports boosted growth in 2017-Q2, in particular intermediate and investment goods, benefiting from the improvement in the global economy. Imports are set to increase at a slower pace over the forecast horizon due to slowing domestic demand growth. Thus, net exports are expected to contribute positively to GDP growth between 2017 and 2019 and the current account surplus relative to GDP is forecast to edge up to 5.1%.

Significant labour market improvements

Favourable economic conditions boosted the employment rate to 81.2% in 2016, the highest rate in the EU. This development is expected to gradually help those who are inactive or in a weaker position to enter the labour market. Acute shortages of skilled labour are likely to prevent the unemployment rate from declining faster. The unemployment rate is projected to fall further from 6.9% in 2016 to 6.3% in 2019.

Inflation to remain broadly stable

As a result of globalisation and an intensification of e-commerce, Swedish prices and wages have seen only muted growth over the last few years, helping to support the country's competitiveness.

Inflation has finally picked up following a surge in services prices that began in April. However, while positive wage drift is likely to become more widespread across many sectors in 2018 and 2019, the labour market entry of lower-skilled labour and young people is likely to taper total wage growth. Headline inflation is set to slow to 1.6% in 2018 due to the appreciation of the Swedish krona and a declining contribution from energy prices, before slightly rebounding to 1.7% in 2019. With high capacity utilisation rates and a tight labour market, core inflation is projected to reach 1.9% by the end of 2019, overshooting headline inflation.

Balanced risks

On the positive side, the economy could benefit in the medium term from a successful integration of migrants into the labour market. On the downside, any correction to Sweden's house prices could dampen business confidence, household consumption and construction investment. A sharper appreciation of the Swedish krona could also squeeze the profit margins of exporters and dampen inflation.

Budget surplus despite fiscal reforms

Sweden's general government balance is expected to record a surplus of 0.9% of GDP in 2017, slightly down from 1.1% in 2016. Both revenue and expenditure are forecast to grow in line with GDP, keeping the balance broadly unchanged. The government's 2018 budget bill includes SEK 40 billion of discretionary measures that are chiefly aimed in support of the welfare and health care system, as well as strengthening police, defence and environmental protection. Since these measures are forecast to be only partially financed by additional revenue growth from the robust economy, it is expected that net lending will decline to 0.7% of GDP in 2018. For 2019, under a no-policy-change assumption, the surplus is set to fall to 0.6% of GDP. The structural surplus is projected to decline to ¾% of GDP in 2017 and to remain roughly at that level in the following years. Sweden's gross debt has been on a declining trend over the last few years, a trend that is set to continue with the debt-to-GDP ratio projected to fall from 42.2% in 2016 to 34.4% in 2019.

Table II.27.1:

Main features of country forecast - SWEDEN

		2016		Annual percentage change						
		bn SEK Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		4404.9	100.0	2.4	2.6	4.5	3.3	**3.2**	**2.7**	**2.2**
Private Consumption		1949.8	44.3	2.4	2.1	3.1	2.2	**2.4**	**2.5**	**2.3**
Public Consumption		1152.0	26.2	1.1	1.5	2.4	3.4	**0.6**	**1.3**	**0.7**
Gross fixed capital formation		1059.3	24.0	3.1	5.5	6.9	5.6	**7.6**	**3.8**	**2.8**
of which: equipment		319.4	7.3	3.9	-1.1	5.1	4.8	**6.5**	**4.1**	**3.6**
Exports (goods and services)		1950.1	44.3	4.2	5.3	5.7	3.3	**4.2**	**4.1**	**3.8**
Imports (goods and services)		1737.0	39.4	4.1	6.3	5.2	3.4	**4.4**	**3.9**	**3.5**
GNI (GDP deflator)		4474.1	101.6	2.6	2.5	3.8	3.4	**3.1**	**2.6**	**2.1**
Contribution to GDP growth:	Domestic demand			2.1	2.6	3.7	3.2	**3.1**	**2.4**	**1.9**
	Inventories			0.0	0.2	0.4	0.0	**0.0**	**0.0**	**0.0**
	Net exports			0.3	-0.2	0.4	0.1	**0.1**	**0.3**	**0.3**
Employment				0.9	1.4	1.5	1.7	**1.8**	**1.4**	**1.0**
Unemployment rate (a)				7.1	7.9	7.4	6.9	**6.6**	**6.4**	**6.3**
Compensation of employees / head				3.3	2.2	2.7	2.8	**2.7**	**2.7**	**2.4**
Unit labour costs whole economy				1.8	1.0	-0.3	1.2	**1.4**	**1.4**	**1.2**
Real unit labour cost				0.2	-0.7	-2.3	-0.3	**-0.9**	**-0.8**	**-0.9**
Saving rate of households (b)				11.3	18.9	17.6	18.2	**18.2**	**18.1**	**17.3**
GDP deflator				1.6	1.8	2.1	1.5	**2.2**	**2.2**	**2.1**
Harmonised index of consumer prices				1.5	0.2	0.7	1.1	**1.8**	**1.6**	**1.7**
Terms of trade goods				-0.7	0.9	1.7	0.5	**-1.0**	**0.3**	**0.0**
Trade balance (goods) (c)				6.2	3.1	3.0	2.7	**2.4**	**2.5**	**2.6**
Current-account balance (c)				6.2	4.8	4.8	5.1	**4.9**	**5.0**	**5.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.0	4.7	4.6	5.1	**4.8**	**5.0**	**5.1**
General government balance (c)				0.6	-1.6	0.2	1.1	**0.9**	**0.7**	**0.6**
Cyclically-adjusted budget balance (d)				0.8	-0.3	0.4	1.1	**0.8**	**0.6**	**0.7**
Structural budget balance (d)				-	-0.3	0.4	1.1	**0.8**	**0.6**	**0.7**
General government gross debt (c)				46.7	45.5	44.2	42.2	**39.0**	**36.6**	**34.4**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

28. THE UNITED KINGDOM
Slowdown in growth expected to continue

Economic growth in the UK has been slowing since the start of the year, as higher consumer prices constrained private consumption growth. Based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK, growth is still expected to remain subdued over the forecast horizon. Consumption growth is projected to be modest, in line with weak real wage growth, while uncertainty continues to weigh on business investment. However, net exports are expected to provide some support to growth, and the labour market is projected to show continued resilience.

Growth has slowed markedly in 2017

Annual GDP growth moderated from 2.3% in 2015 to 1.8% in 2016, despite initial resilience following the 23 June 2016 vote to leave the EU. The pace of growth has slowed further since the start of this year, from 0.6% in 2016-Q4 to 0.3% in both 2017-Q1 and 2017-Q2. This moderation has been driven primarily by a decline in private consumption growth, which fell to 0.2% in 2017-Q2, mainly due to the squeeze on real disposable incomes as nominal wage growth fell below consumer price inflation. Consumer prices have risen sharply in 2017 following the 2016 depreciation of sterling.

Following negative growth of 0.4% in 2016, business investment remains relatively subdued. In 2017-H2, it grew by just 0.9% compared to 2016-H2. Surveys suggest that heightened uncertainly is weighing on business investment.

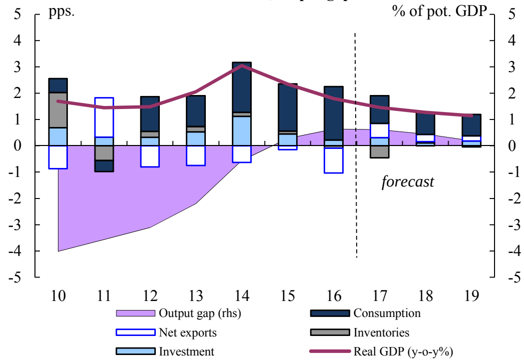
Supported by the earlier depreciation of sterling, net exports contributed 0.3 pps. to year-on-year growth in 2017-H1. Surveys of export order books and official data suggest that net trade should continue to make a modest contribution in 2017-H2. Despite the expected support from net exports, however, other survey and outturn data suggest a continuation of modest growth in 2017-H2. Consequently, annual GDP growth is projected to fall to 1.5% in 2017.

Growth set to slow further in 2018 and 2019

Private consumption growth is expected to remain subdued in 2018 as modest growth in nominal wages continues to be outpaced by elevated consumer price inflation. Nonetheless, households are expected to continue to smooth consumption by further reducing savings. The household savings rate is projected to fall to 4.8% in 2017 and to reach a low of 4.2% in 2018.

Investment growth is forecast to weaken in 2018, as many firms are likely to continue deferring investments in the face of uncertainty. Net exports are forecast to make a smaller contribution to growth, as the growth in export markets will be partially offset by the waning boost from sterling's past depreciation. A reduced contribution from net exports and slower domestic demand means that GDP growth in 2018 is expected to ease to 1.3%.

Graph II.28.1: **The United Kingdom - Real GDP growth and contributions, output gap**



Given the ongoing negotiation on the terms of the UK withdrawal from the EU, projections for 2019 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. This is for forecasting purposes only and has no bearing on the talks underway in the context of the Article 50 process. Under this assumption, GDP growth is still expected to remain subdued at 1.1%. Lower consumer price inflation in 2019 is expected to support private consumption but this may be partially offset by a marginal increase in the household savings rate. Business investment is projected to remain subdued following a period of heightened uncertainty, while net export growth is forecast to moderate marginally, in line with export markets.

Continued labour market resilience while inflation remains elevated

Employment is expected to continue growing, though more slowly than in recent years, as productivity growth remains subdued.

Unemployment is projected to remain low despite the moderation in GDP growth. The unemployment rate is projected to rise gradually from 4.5% in 2017 to 4.7% in 2018 and to 4.8% in 2019. After peaking at 2.7% in 2017, inflation is expected to remain elevated in 2018 at 2.6%. Inflation is projected to ease to 2.1% in 2019, still marginally above the Bank of England's inflation target of 2%.

General government deficit to rise in 2017-2018

Following several years of improvement, the UK's general government deficit is expected to rise to 2.5% of GDP in the 2017-2018 fiscal year. The deficit fell from 4.0% of GDP in 2015-2016 to 2.3% of GDP in 2016-2017. The fall in 2016-2017 was partly due to a temporary boost to revenues arising from a number of factors. The most significant was an increase in income tax revenues in the final quarter of the fiscal year due to changes in taxation for self-assessed (non-wage) incomes. This boost to tax receipts will not be repeated in the final quarter of the 2017-2018 fiscal year, contributing to a slight increase in the deficit. Interest payments are also expected to rise in 2017-2018, following a similar increase in 2016-2017, primarily due to higher interest payments on inflation-linked bonds. In line with the increase in the general government deficit, the structural deficit is expected to rise to 2.9% of GDP in 2017-2018, from 2.7% of GDP in 2016-2017.

The general government deficit is expected to resume a declining trend over the remainder of the forecast horizon, falling to 1.8% of GDP in 2018-2019 and 1.3% of GDP in 2019-2020. In line with measures announced by the UK authorities, fiscal consolidation during this period is largely expected to be expenditure based, although the revenue-to-GDP ratio is also expected to increase slightly. The structural deficit is expected to fall to 2.0% of GDP in 2018-2019 and 1½% of GDP 2019-2020. Risks to the forecast point to upward pressure on the general government deficit, particularly in case of a Brexit-related trade shock during the forecast period. The government debt ratio is projected to fall to 82.9% of GDP in 2019-2020, after peaking at 86.8% of GDP in 2016-2017.

Table II.28.1:

General government projections on a financial-year basis

ESA10	Actual		Forecast		
	2015-16	2016-17	2017-18	2018-19	2019-20
General government balance~	-4.0	-2.3	**-2.5**	**-1.8**	**-1.3**
Structural budget balance	-4.2	-2.7	**-2.9**	**-2.0**	**-1.4**
General government gross debt	86.7	86.8	**85.6**	**84.6**	**82.9**

~APF transfers included

Table II.28.2:

Main features of country forecast - UNITED KINGDOM

		2016			Annual percentage change					
		bn GBP Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		1961.1	100.0	1.9	3.1	2.3	1.8	**1.5**	**1.3**	**1.1**
Private Consumption		1290.3	65.8	2.1	2.1	2.6	2.8	**1.4**	**1.1**	**1.1**
Public Consumption		370.0	18.9	2.3	2.5	0.6	1.1	**0.6**	**0.5**	**0.4**
Gross fixed capital formation		322.4	16.4	1.3	7.1	2.8	1.3	**1.9**	**0.7**	**1.1**
of which: equipment		80.6	4.1	0.8	17.7	6.4	1.7	**-0.4**	**1.3**	**1.0**
Exports (goods and services)		547.5	27.9	3.2	2.7	5.0	1.1	**4.7**	**3.1**	**2.9**
Imports (goods and services)		590.5	30.1	4.0	4.5	5.1	4.3	**2.6**	**2.1**	**2.1**
GNI (GDP deflator)		1910.7	97.4	1.8	3.1	2.1	1.5	**1.5**	**1.3**	**1.2**
Contribution to GDP growth:	Domestic demand			2.1	3.0	2.2	2.3	**1.4**	**0.9**	**1.0**
	Inventories			0.0	0.2	0.1	-0.1	**-0.5**	**0.0**	**0.0**
	Net exports			-0.3	-0.6	-0.1	-0.9	**0.5**	**0.3**	**0.2**
Employment				0.8	2.4	1.7	1.4	**0.9**	**0.5**	**0.4**
Unemployment rate (a)				6.1	6.1	5.3	4.8	**4.5**	**4.7**	**4.8**
Compensation of employees / head				3.8	0.5	1.1	3.1	**2.1**	**2.2**	**2.5**
Unit labour costs whole economy				2.7	-0.1	0.4	2.8	**1.5**	**1.5**	**1.8**
Real unit labour cost				0.7	-1.8	0.0	0.7	**-0.7**	**-0.7**	**0.1**
Saving rate of households (b)				8.9	8.4	9.2	7.1	**4.8**	**4.2**	**4.5**
GDP deflator				2.0	1.7	0.5	2.0	**2.3**	**2.1**	**1.7**
Harmonised index of consumer prices				2.2	1.5	0.0	0.7	**2.7**	**2.6**	**2.1**
Terms of trade goods				0.1	-0.2	-1.6	2.8	**0.8**	**0.5**	**0.5**
Trade balance (goods) (c)				-4.9	-6.7	-6.3	-6.9	**-6.3**	**-5.8**	**-5.7**
Current-account balance (c)				-3.0	-5.3	-5.2	-5.9	**-5.1**	**-4.6**	**-4.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.0	-5.4	-5.3	-6.0	**-5.2**	**-4.7**	**-4.4**
General government balance (c)				-3.8	-5.5	-4.3	-2.9	**-2.1**	**-1.9**	**-1.5**
Cyclically-adjusted budget balance (d)				-3.6	-5.1	-4.4	-3.3	**-2.5**	**-2.2**	**-1.6**
Structural budget balance (d)				-	-5.0	-4.4	-3.3	**-2.5**	**-2.2**	**-1.6**
General government gross debt (c)				51.6	87.4	88.2	88.3	**86.6**	**85.3**	**84.2**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Candidate Countries

29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Recovery ahead as investor confidence returns

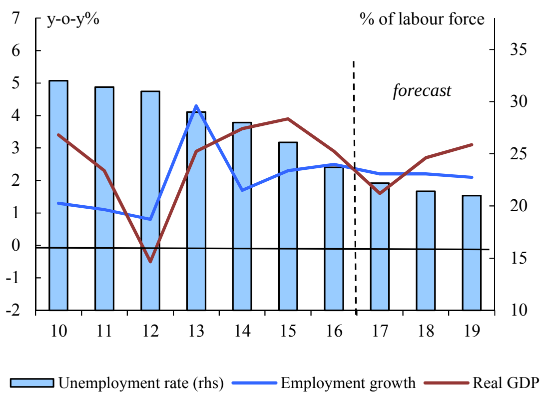
The economy contracted in the first half of the year, as political uncertainties lingered and investment declined sharply. With a new government in office since June, that seems committed to implementing fiscal and structural reforms and to providing support to domestic demand and employment, positive investor sentiment should return. Risks to fiscal sustainability may arise if the government increases corporate and wage subsidies as planned, without implementing durable consolidation measures.

Economy takes a hit from political crisis as investment drops sharply

The prolonged political crisis took a toll on the economy in the first half of this year. Real GDP contracted (-0.9% y-o-y), as investment declined steeply (-8.6% y-o-y). Consumers seemed less affected by the situation: household consumption increased by 3.4% y-o-y, supported by robust job creation and continued solid, although decelerating, growth in real net wages. Net exports made a positive contribution to GDP growth, with imports rising at a markedly slower pace in the second quarter, mainly reflecting the downturn in investment-related imports of capital goods. Private credit growth picked up in the first half of the year and beyond, almost entirely accounted for by household loans.

Annual consumer price inflation accelerated in the first half of the year, after three consecutive years of deflation, as recent increases in the prices of food and fuels spilled over into other sectors, in particular transport, communication, hotels and restaurants.

Graph II.29.1: **The former Yugoslav Republic of Macedonia - Labour market**



Output recovery expected in 2018 and 2019 as investor sentiment rebounds

The economy is expected to recover over the forecast horizon, as investor sentiment is likely to improve with the breakthrough in the country's political stalemate. GDP growth is projected to be driven increasingly by domestic demand. Household spending should benefit from further expected employment gains, bolstered by additional public funding for labour market measures. Disposable income is set to benefit from the rise in minimum wages, subsidised by the government, and by the increase in transfer payments, both effective since September 2017. Real net wages are expected to continue to increase at a slower pace, as consumer price inflation is picking up, driven by developments in core inflation.

With private investors regaining confidence, and obstacles to public investment due to the transition to the new government, gross fixed capital formation is likely to contribute to GDP growth again in 2018 and 2019. Some signs in the third quarter point to renewed momentum in private investment, imports of capital goods strengthened, and corporate credit, which had been declining, in annual terms, for 12 consecutive months has been posting (moderate) gains since July. Expanding production capacities of export-oriented foreign companies are likely to support a positive contribution from net exports to GDP growth at least in 2018, even though investment-related import growth is picking up with the economic recovery. Although the government is embarking on an important fiscal stimulus over the next years, the contribution of government consumption to growth is expected to drop, as public expenditure is likely to be rebalanced towards transfer payments at the expense of goods and services and remuneration. Economic growth may turn out less favourably in case the domestic political situation, which remains fragile, would worsen again, but this risk is less pronounced than in spring.

Fiscal policy set for new stimulus

Public finances stayed on course in the year to August, notwithstanding the economic contraction in the first half of the year. Taxes and contributions were up by 4.6% y-o-y, driven by personal income (+8.9%) and profit taxes (+15%), while VAT receipts rose only marginally. In July, the new government rebalanced the 2017 budget. It lowered revenue projections for this year by 1.5%, compared to the original budget, and for expenditure by 1.4%. Transfer payments were increased, while expenditure for capital investment and public consumption was streamlined and cut. In the first eight months of the year, the deficit amounted to 1.7% of projected full-year GDP. The government may be on track to attain or even to remain below the deficit target of 2.9% this year, yet at the expense of an important under-execution of growth-enhancing capital spending.

Looking ahead, the government plans a sizeable boost to the economy in the medium-term, including the continuation of wage subsidies, new corporate tax incentives, further expansion of active labour market measures and of social transfers. At the same time, the government seems committed to fiscal consolidation, although at a more moderate pace than previously planned. In its recently adopted Public Finance Strategy, it also projects the implementation of binding limits for the general government deficit and for public debt by 2019. However, it has not (yet) proposed durable spending cuts or revenue measures to underpin these plans. The deficit might therefore widen somewhat over the forecast horizon, given the projected moderate speed of economic recovery. The government also intends to clear significant public sector arrears over the forecast horizon, after having embarked on compiling and publishing information on these unpaid liabilities over the summer. With financing costs expected to remain benign, the projected, modest rise in general government debt this year and next would be driven by developments in the primary balance.

Graph II.29.2: **The former Yugoslav Republic of Macedonia - Public finances**

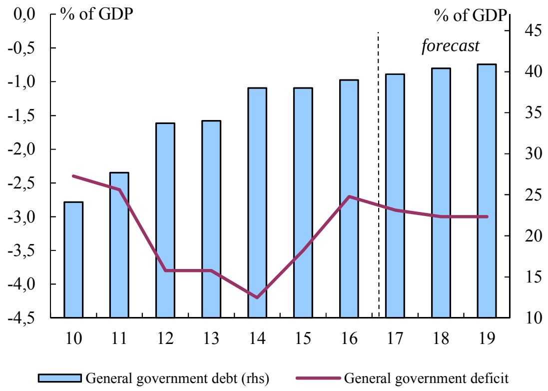


Table II.29.1:

Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

		2016		Annual percentage change						
	bn MKD	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		598.9	100.0	2.9	3.6	3.9	2.9	**1.7**	**2.7**	**3.2**
Private Consumption		395.0	66.0	3.1	2.2	3.7	3.4	**3.7**	**3.5**	**3.4**
Public Consumption		96.9	16.2	1.4	3.0	2.1	-0.4	**1.6**	**1.5**	**1.6**
Gross fixed capital formation		143.5	24.0	3.5	4.0	3.6	-4.3	**-2.2**	**2.2**	**3.2**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		299.3	50.0	6.0	16.5	6.7	11.5	**8.8**	**8.4**	**8.4**
Imports (goods and services)		387.5	64.7	6.0	14.1	5.2	7.6	**5.5**	**6.8**	**7.0**
GNI (GDP deflator)		572.9	95.7	2.9	4.2	2.6	1.7	**1.3**	**2.4**	**3.4**
Contribution to GDP growth:	Domestic demand			3.5	3.0	3.8	1.3	**2.2**	**3.1**	**3.3**
	Inventories			0.4	2.1	0.3	1.0	**-1.2**	**-0.3**	**0.1**
	Net exports			-1.0	-1.5	-0.2	0.6	**0.8**	**0.0**	**-0.2**
Employment				1.6	1.7	2.3	2.5	**2.2**	**2.2**	**2.1**
Unemployment rate (a)				33.3	28.0	26.1	23.7	**22.2**	**21.4**	**21.0**
Compensation of employees / head				2.4	5.0	4.6	0.3	**0.1**	**0.4**	**1.5**
Unit labour costs whole economy				1.1	3.0	3.0	-0.1	**0.5**	**-0.2**	**0.4**
Real unit labour cost				-1.8	1.5	1.0	-4.0	**-0.9**	**-2.0**	**-1.8**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				3.1	1.4	2.0	4.1	**1.4**	**1.9**	**2.3**
Consumer-price index				2.4	-0.3	-0.3	-0.1	**1.2**	**2.0**	**2.4**
Terms of trade goods				0.4	2.4	2.7	2.3	**-0.1**	**-0.1**	**-0.1**
Trade balance (goods) (c)				-21.4	-21.7	-20.1	-19.3	**-18.2**	**-18.3**	**-18.7**
Current-account balance (c)				-4.9	-0.5	-2.1	-3.1	**-2.5**	**-2.4**	**-2.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-4.2	-3.5	-2.7	**-2.9**	**-3.0**	**-3.0**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	38.0	38.0	39.6	**39.7**	**40.4**	**40.9**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

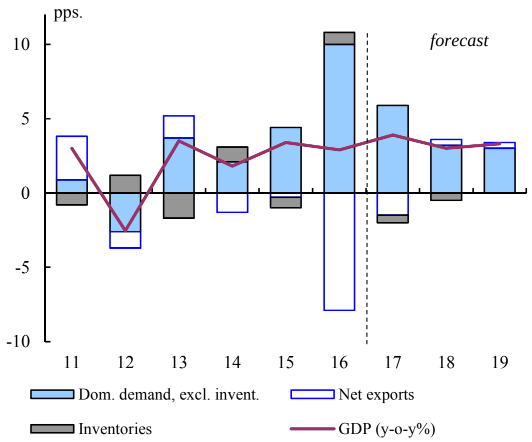
30. MONTENEGRO
Rebalancing growth drivers

Strong growth driven by large infrastructure investments is gradually being taken over by private consumption. The introduction in mid-2017 of a comprehensive fiscal consolidation strategy is expected to improve the fiscal position over time, but would also weight on growth, particularly in 2018. Moreover, until the expected completion of the highway works in mid-2019, the public debt and budget are set to remain under significant pressure.

Higher than expected growth in 2017

In the first half of 2017, real GDP growth accelerated to 4.2% (y-o-y) and was largely driven by private consumption fuelled by rising employment and strong lending to households. Despite the adoption of some consolidation measures, public consumption growth further increased. The pace of gross fixed capital formation slowed down considerably early this year after completion of the construction of a wind power plant and several hotels. The revival of exports, fuelled by the good performance of tourism and sales of mineral ores, helped reduce the drag from net exports.

Graph II.30.1: **Montenegro - GDP growth and contributions**



The role of investment as the major driver of growth is being gradually overtaken by private consumption. This trend is expected to continue over the forecast period, even if a temporary setback of private consumption could be expected in 2018 due to the planned increase of the VAT rate.

Reduction of external imbalances likely

The current account deficit narrowed to 17.5% of GDP in the four quarters to June, compared to 19.6% in the four quarters to March. A sharp deceleration of merchandise imports, largely due lower imports of construction equipment, helped reducing the trade gap. This has been accompanied by improvements in the balance of services owing to the good performance of tourism and the growing surpluses in the primary and secondary income balances. Start of production of a wind power plant and a new tobacco factory planned in November 2017, followed – later on – by the completion of the interconnection electricity cable with Italy, and the opening of some new hotels, are expected to turn the contribution to growth from net exports into positive territory in the next two years and to further reduce external imbalances.

Slight improvement in labour market conditions

Strong economic activity led to further improvements in the labour market. According to the Labour Force Survey (LFS), the unemployment rate declined in the second quarter of 2017 to 15.3%, down from 17.7% a year before. However, given the strong seasonal pattern of the Montenegrin labour market, unemployment is expected to increase again by the end of the year. In 2018 and 2019 a further reduction of the unemployment rate is expected, albeit at a lower rate, as investments are being gradually completed.

Fluctuating prices

Inflation further accelerated in the first eight months of 2017, averaging 2.7% y-o-y, mainly due to rising fuel prices. Moreover, the introduction in June of higher excises on alcohol and tobacco, together with strong demand from tourism, are contributing to rising prices in restaurants and cafes as well as accommodation services. The planned introduction of a higher VAT rate and excises in 2018 would add to inflationary pressures, but this one-off year-on-year price effect will peter out after one year. Yet, overall inflation might remain around 2% in 2019, supported by some further acceleration in private consumption.

Credit to corporates remains subdued

Credit growth remains strong thanks to household and general government borrowing, amidst weak lending to the corporate sector. It is expected that the increase in lending activity, supported by the Central Bank's ongoing programme for reducing commercial banks' non-performing loans, would help ease lending conditions to corporates as the sector keeps deleveraging gradually.

Meanwhile, the financial crisis legacy of high level of indebtedness and liquidity constraints continues constraining the corporate sector, and represents a major risk for the economy, resulting in a large number of firms with their bank accounts frozen due to contract enforcement claims. A decline or a slowdown in the number of tourists represents another important risk for the main export industry of the country.

The fiscal position is expected to strengthen once the highway works are completed

The strong acceleration of economic activity in the first half of 2017 was reflected in growing general government revenue, with stronger demand fuelling VAT and excise receipts as well as corporate income tax and social security contributions. On the expenditure side, the intensified highway works boosted capital spending, although actual expenditure still remained below the budget target. Overall, the consolidated general government deficit reached 2.6% of full-year GDP in June (compared to the deficit target of 4.1% forecast in the plan) due to capital and social security underspending, and a marginal surplus in the local government budget. Also in June, the stock of public debt declined to 61.8% of GDP, down from 64.4% at the end of 2016. However, both the budget deficit and public debt are expected to increase substantially by the end of 2017, once the total costs of the highway works will have fully materialised. The fiscal strategy adopted in June projects a 2 pps. increase of the normal VAT rate to 21% in January 2018, as well as further increase of excises, and the freezing of public sector wages. These measures are expected to contribute reinforcing the budget by additional 2 pps. of GDP annually until 2019.

The construction of the highway has been, so far, the key driver of fiscal deficits. The works are expected to be completed in mid-2019, easing the pressure on public finances.

Table II.30.1:

Main features of country forecast - MONTENEGRO

		2016		Annual percentage change						
	mio EUR	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		3787.5	100.0	-	1.8	3.4	2.9	**3.9**	**3.0**	**3.3**
Private Consumption		3067.0	81.0	-	2.9	2.2	5.4	**4.5**	**2.5**	**2.8**
Public Consumption		711.4	18.8	-	1.4	1.9	0.8	**1.8**	**0.9**	**1.4**
Gross fixed capital formation		944.3	24.9	-	-2.5	11.9	27.5	**7.5**	**3.5**	**1.5**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		1634.2	43.1	-	-0.7	5.7	6.2	**6.8**	**4.5**	**2.4**
Imports (goods and services)		2596.9	68.6	-	1.6	4.4	17.3	**6.5**	**2.3**	**1.0**
GNI (GDP deflator)		-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth:	Domestic demand			-	2.1	4.4	10.0	**5.9**	**3.2**	**3.0**
	Inventories			-	1.0	-0.7	0.8	**-0.5**	**-0.5**	**0.0**
	Net exports			-	-1.3	-0.3	-7.9	**-1.5**	**0.4**	**0.4**
Employment				-	7.1	2.4	1.8	**2.6**	**2.3**	**2.0**
Unemployment rate (a)				-	17.9	17.8	18.0	**17.2**	**16.7**	**16.0**
Compensation of employees / head				-	6.1	0.9	4.4	**1.7**	**2.0**	**2.4**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				-	-	-	-	**-**	**-**	**-**
Consumer-price index				-	-0.5	1.4	0.9	**2.5**	**2.2**	**2.0**
Terms of trade of goods				-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)				-	-39.8	-40.0	-45.7	**-45.6**	**-44.0**	**-42.4**
Current-account balance (c)				-	-15.2	-13.2	-17.9	**-18.0**	**-16.7**	**-16.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-2.9	-8.3	-3.7	**-6.2**	**-5.6**	**-2.7**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	58.6	62.3	67.2	**69.5**	**73.2**	**74.9**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

31. SERBIA

Consumption to sustain economic growth momentum

The 2017 growth forecast is revised downwards because of the impact of adverse weather conditions. The underlying growth trend, however, remains robust and economic activity is expected to pick up already before the end of the year. Private consumption, supported by rising income and employment levels, is seen as a key driver of growth, while exports are projected to remain strong. Price pressures are forecast to be contained and balanced or in surplus budgets should drive the government debt ratio further down.

Supply shocks to trim economic growth in 2017

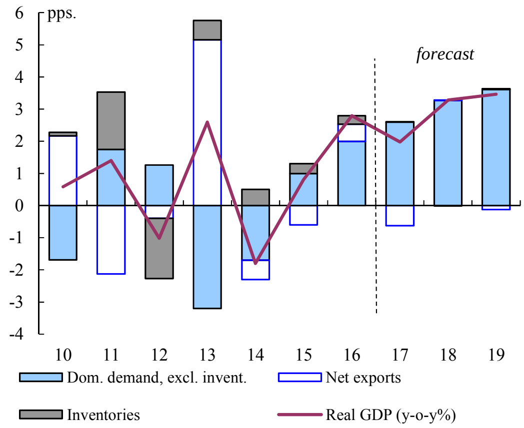
Following a tepid performance in the first quarter, real GDP growth disappointed again in the second quarter (1.3% y-o-y). Despite robust increases in manufacturing and domestic trade, economic activity was impacted by declines in agriculture, which was negatively affected by adverse weather conditions, and construction. On the demand side, growth drivers remained largely unchanged in the first half of the year. Private consumption picked up moderately, supported by rising employment and wages. Investment activity was subdued, undermined by delays in government capital spending since the beginning of the year. Driven by robust external demand in the EU and previous FDIs in tradeable sectors, exports growth remained very strong.

Underlying growth remains vibrant

Despite a slowdown in the first half of the year, the underlying growth trend remains vibrant. This is corroborated by recent high frequency indicators. Industrial production recovered strongly in the summer, underpinned by lively manufacturing activity. Retail trade moved upward as well and merchandise export growth in euro terms remained steadily in the double digits.

Going forward, private consumption is expected to increasingly sustain the growth momentum in the economy. It should be supported by continuous employment gains, higher fiscal transfers, robust consumer lending, and more pronounced wage increases in the private sector. Public consumption is likely to contribute positively to growth as fiscal constraints ease progressively. Private investment growth is set to accelerate from a low pace, benefitting from improved economic prospects and better financing conditions, while government investment is expected to receive a significant boost as part of the available fiscal space will be used to address large infrastructure needs. Buoyant exports growth is forecast to persist as ongoing FDIs in tradeables mature and the EU's recovery remains solid. However, net exports' contribution to growth would be close to zero or negative over the forecast horizon as strong domestic demand drives imports up. Following a widening this year, the trade deficit is projected to remain broadly stable in the next two years. The current account deficit, however, is set to expand further over the forecast horizon due to higher investment income outflows.

Graph II.31.1: **Serbia - Real GDP growth and contributions**

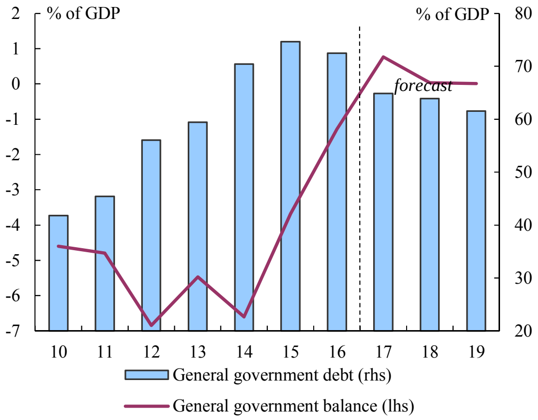


Price pressures to remain contained amidst elevated uncertainty

Inflation has declined since it hit a high of 4% (y-o-y) this spring. It is projected to remain close to the central bank target of 3% as inflationary effects from higher demand and some international commodity prices are expected to be dampened by limited administered price adjustments, a stable dinar exchange rate, and a neutral fiscal stance.

The main risks to the economy remain largely unchanged. Despite reduction in domestic and external imbalances, it is still exposed to fluctuations in commodity prices and international capital flow reversals, i.a. linked to divergences in monetary policies of major central banks. As economic expansion firms up, maintaining a proper policy mix, in particular preserving a prudent fiscal policy, is a key risk for the envisaged forecast profile. The expiration of an IMF-led programme early next year could also test domestic authorities' willingness and capacity to continue pursuing difficult structural reforms.

Graph II.31.2: **Serbia - Public finances**



Good budget performance and mounting spending pressures likely to test government resolve to control current spending

The budget execution in 2017 is set to outperform again by far both initial and revised targets. The general government budget is forecast to turn to a surplus of just under 1% of GDP against a revised deficit target of 1.1% of GDP. This good performance has partially been driven by improvements in revenue collection and unplanned one-off receipts. In addition, on the expenditure side, current spending remained largely under control and there was a significant under execution of capital expenditure by the end of August.

The general government budget is forecast to be in balance or in surplus in the next two years. Correspondingly, government debt, excluding possible restitution-related debt, is set to decline steadily and approach 60% of GDP by the end of the forecast horizon. The good fiscal prospects and mounting spending pressures, however, would likely test government resolve to continue maintaining strict control over current spending. The lack of a functioning system of fiscal rules and a fiscal anchor also add to the uncertainty about future fiscal policy. At the same time, fiscal risks are not negligible as gains in revenue collection are not sufficiently institutionalised, while key fiscally important structural reforms remain unfinished.

Table II.31.1:

Main features of country forecast - SERBIA

	2016			Annual percentage change					
	bn RSD Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	4261.9	100.0	-	-1.8	0.8	2.8	**2.0**	**3.3**	**3.5**
Private Consumption	3085.0	72.4	-	-1.3	0.5	1.0	**2.2**	**2.8**	**3.2**
Public Consumption	681.4	16.0	-	-0.6	-1.5	2.2	**1.7**	**2.1**	**2.0**
Gross fixed capital formation	755.8	17.7	-	-3.6	5.6	5.1	**3.9**	**5.1**	**5.6**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	2132.0	50.0	-	5.7	10.2	12.0	**10.3**	**8.5**	**8.0**
Imports (goods and services)	2449.6	57.5	-	5.6	9.3	9.0	**10.1**	**7.4**	**7.2**
GNI (GDP deflator)	4020.9	94.3	-	-1.7	-0.2	2.1	**0.9**	**2.7**	**3.1**
Contribution to GDP growth: Domestic demand			-	-1.7	1.0	2.0	**2.6**	**3.3**	**3.6**
Inventories			-	0.5	0.4	0.3	**0.0**	**0.0**	**0.0**
Net exports			-	-0.6	-0.6	0.5	**-0.6**	**0.0**	**-0.1**
Employment			-	10.8	0.6	5.6	**3.2**	**2.0**	**2.1**
Unemployment rate (a)			-	19.2	17.7	15.3	**13.5**	**11.6**	**9.5**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	2.7	2.7	2.5	**2.8**	**3.0**	**3.0**
Consumer-price index			-	2.1	1.4	1.1	**3.2**	**3.3**	**3.0**
Terms of trade goods			-	0.4	3.5	2.8	**-0.5**	**-0.3**	**0.0**
Trade balance (goods) (c)			-	-12.3	-11.9	-10.0	**-10.6**	**-10.7**	**-10.5**
Current-account balance (c)			-	-6.0	-4.7	-4.0	**-5.4**	**-5.7**	**-5.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-6.6	-3.7	-1.3	**0.8**	**0.0**	**0.0**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	70.4	74.6	72.5	**64.9**	**63.9**	**61.5**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

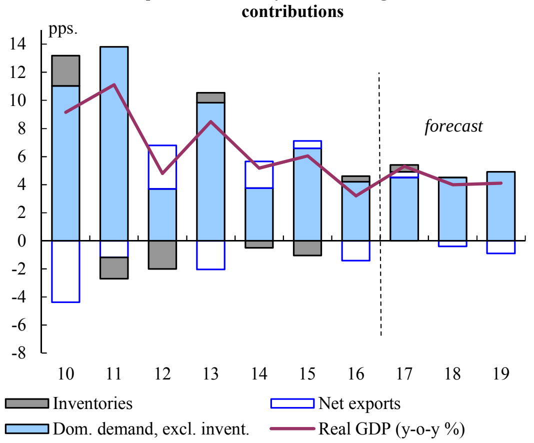
32. TURKEY
A risky path to sustainable growth

The Turkish economy registered strong growth recently, helped by foreign demand, construction activity and a range of government policies from expansionary fiscal policy to credit guarantees and loosening of macro-prudential regulations. Shifting to private consumption and investment in machineries and equipment, growth will move to a more sustainable base. Downside risks are sizable, however, and include past high loan growth, inflation infused by a legacy of monetary overhang, the uncertain business environment and high unemployment.

Positive growth surprises in the first half of 2017

Economic growth in Turkey was surprisingly strong in the first half of 2017, accelerating to 5.3% (y-o-y) from 3.2% in 2016, supported by stronger exports, a significantly depreciated Turkish Lira in comparison with last year and a strong boost from public finances and other policy incentives, intended to restore confidence in the Turkish economy. Construction volume was estimated to have grown by 25% (y-o-y) in the second quarter after an already solid 14% in the first quarter. The loosening of macro-prudential measures and government-sponsored bank lending to corporates provided a further stimulus to the domestic economy as visible in the renewed surge in corporate and consumer loans.

Graph II.32.1: **Turkey - Real GDP growth and contributions**



Monetary policy complicated by high money growth

The output gap has been closing quickly recently and capacity utilisation is at a historic high while inflation expectations are increasingly unanchored, feeding the high inflation rate that also suffers from base effects and end-of-this-year reversal of VAT reductions by the government. Low real interest rates in turn stimulate domestic demand that, in a context of a global search for yield, is partly financed through capital inflows from abroad. This is in particular visible in the parallel run-up of foreign liabilities by banks and an increasing loan-to-deposit ratio. While the Turkish central bank pursues a tight policy stance, "monetarist conditions" are still loose with M3 growth averaging 18.4% (y-o-y) in the first eight months of this year. Moreover, with M3 growth having outpaced nominal GDP growth by 55% since the depth of the economic and financial crisis in the first half 2009 there is a large legacy of loose monetary policy. Recent Lira depreciation will provide further inflationary pressure. Inflation is therefore expected to remain above 7% and risks are to the upside.

Broadening and more sustainable growth

The outlook for the business sector is currently highly positive, judging by the surveys for all sectors except the construction sector. After the surge in construction investment and high wage growth, a contained cooling down of construction activity is not a bad omen. Industrial production has expanded at an increasing rate since the beginning of this year and the expansion is broadening from foreign-demand exposed sectors to more domestically-oriented sectors. This broadening and strengthening of industrial production is expected to finally flow over into renewed investments in machinery and equipment, thus broadening and solidifying the growth base. The forecast therefore expects annual investment growth to accelerate to 4.1% over 2018-19.

Growth of private consumption is expected to increase towards the end of this year and continue its expansion in 2018-19. Employment growth is picking up and consumers are expecting a further reduction in the unemployment rate. The broadening of growth to domestically-oriented industry and services sector will further support employment growth in the near term. Further consumption impetus comes from disposable income which registered solid growth in the past two years, although inflation has eroded the real value of the increase.

A temporary break in expansionary policy impetus

In the first half of the year a broad range of policy incentives reaching from expansionary fiscal policy via a large increase in government guarantees for corporate lending to a loosening of macro-prudential regulation were implemented. The draft budget for 2018 forecasts a fiscal tightening which will lean heavily on raising tax revenues. The government is likely to succeed in reducing the deficit in 2018. Elections in 2019, however, are expected to reinvigorate policy makers' eagerness to stimulate economic growth. Implicit liabilities from recent policy initiatives (credit guarantees, macro-prudential relaxation) will not have abated fully by then, and financing conditions are unlikely to be as beneficial as currently. As a consequence, after hitting its target next year, the government is expected to run a larger deficit in 2019.

Downside risks aplenty

The implicit liabilities the government has built up this year are but one relatively minor risk to the outlook. A more important risk is household consumption not picking up as strongly as in this forecast. Consumer confidence is still at a relatively low level and the limited impact of government incentives has already partly faded. Additionally, the business environment still suffers from the state of emergency, unresolved seizures of companies and a lack of innovation and productivity growth. Corporate indebtedness has risen, also in foreign currency, making companies more vulnerable to changes in external financing conditions. In addition, high investments in construction in combination with high loan growth run the risk of having fuelled a real estate boom. A large part of the banks' increase in loans has been funded from abroad with longer maturity. Banks have passed on the exchange rate risks in part to Turkish companies by extending loans in foreign currency and part to foreign investors. The vulnerability to external conditions can also be seen from the current account that continues to be in negative territory and is expected to be even more so in the coming two years as the pick-up in domestic demand by a shift to private consumption and investment in machinery and equipment increases imports.

Table II.32.1:

Main features of country forecast - TURKEY

		2016		Annual percentage change						
		bn TRY Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		2608.5	100.0	4.4	5.2	6.1	3.2	**5.3**	**4.0**	**4.1**
Private Consumption		1560.5	59.8	4.0	3.0	5.4	3.7	**3.9**	**4.5**	**4.0**
Public Consumption		387.0	14.8	5.0	3.1	3.9	9.5	**8.5**	**4.5**	**8.9**
Gross fixed capital formation		764.7	29.3	6.4	5.1	9.3	2.2	**2.8**	**4.0**	**4.2**
of which: equipment		284.7	10.9	-	3.9	18.5	1.2	**3.7**	**6.9**	**6.7**
Exports (goods and services)		573.0	22.0	6.1	8.2	4.3	-1.9	**7.4**	**5.4**	**4.3**
Imports (goods and services)		648.2	24.9	6.4	-0.4	1.7	3.7	**5.0**	**6.4**	**7.1**
GNI (GDP deflator)		2581.4	99.0	4.4	5.2	5.8	3.3	**5.3**	**3.8**	**4.2**
Contribution to GDP growth:	Domestic demand			4.9	3.7	6.5	4.2	**4.5**	**4.5**	**4.9**
	Inventories			0.2	-0.6	-1.1	0.4	**0.3**	**0.0**	**0.0**
	Net exports			-0.3	1.8	0.5	-1.3	**0.4**	**-0.4**	**-0.8**
Employment				1.2	1.6	2.7	2.2	**2.8**	**3.1**	**3.1**
Unemployment rate (a)				8.8	9.9	10.3	11.0	**11.3**	**11.0**	**10.7**
Compensation of employees / head				23.0	14.8	12.8	20.2	**13.5**	**9.4**	**8.3**
Unit labour costs whole economy				19.2	10.9	9.1	19.1	**10.7**	**8.4**	**7.3**
Real unit labour cost				-1.9	3.2	1.2	10.2	**0.3**	**-0.3**	**-0.3**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				21.6	7.4	7.8	8.1	**10.3**	**8.8**	**7.6**
Consumer-price index				23.5	8.9	7.7	7.0	**11.0**	**8.5**	**7.4**
Terms of trade goods				-0.9	1.3	-0.3	-0.3	**-1.2**	**-0.1**	**-0.1**
Trade balance (goods) (c)				-6.1	-6.5	-7.0	-7.8	**-8.4**	**-8.2**	**-8.4**
Current-account balance (c)				-3.5	-4.7	-3.7	-3.8	**-3.9**	**-4.2**	**-4.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-4.7	-3.8	-3.8	**-3.9**	**-4.2**	**-4.4**
General government balance (c)				-	0.1	1.3	1.2	**-2.4**	**-1.8**	**-2.6**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	28.6	27.5	25.1	**28.2**	**27.9**	**28.0**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

33. ALBANIA

Growth set to be increasingly driven by private consumption

Foreign direct investments in the energy sector are at a peak, resulting in an acceleration of economic activity in the current year. Exports continue growing at a fast pace, benefitting from expanding tourism and the strengthening economies of key trading partners. Growing employment and higher wages bolster household spending. Investment and consumption are supported by an accommodative monetary policy. Inflation is low, but projected to rise gradually towards the official target. The fiscal policy stance is only slowly reducing the high level of public debt as a share of GDP.

Growth strengthened in the first half of 2017

Real output accelerated to a growth rate of 4.0% (y-o-y) in the first half of 2017. The main contributors to growth were investment and exports. Gross fixed capital formation strengthened to 12.9% (y-o-y) growth, reflecting the peak period of foreign direct investment in the Albanian section of the Trans Adriatic Pipeline (TAP) and a large hydropower project. Exports surged 15% based on expanding tourism and a recovery in goods exports following three years of contraction. Imports (which exceed exports by almost 50%) grew more moderately at a rate of 5.8%. Public consumption growth was buoyant (6.6%), particularly in the areas of wages, social insurance, and local budgets. Private consumption growth, on the other hand, was relatively subdued (2.1%), possibly reflecting the political uncertainty in the run-up to the general elections in June.

Monetary policy continues to be supportive

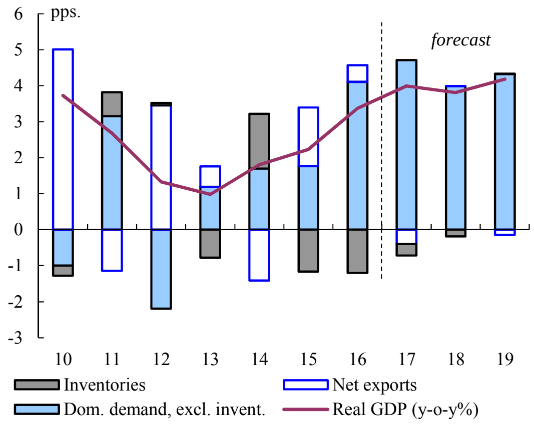
Domestic demand is expected to continue benefitting from an accommodative monetary policy. The Bank of Albania has kept its policy interest rate unchanged at the record low of 1.25% since May 2016. A weather-related spike in food prices last winter will increase the annual inflation rate in 2017, but core inflation has remained below 1%. In this context, the central bank considers that the intensity of the monetary stimulus is unlikely to be reduced before the second quarter of 2018 despite above-potential growth.

With low financing costs and an easing of credit standards for the household sector, lending growth has picked up in conjunction with the strengthening of the economy. Adjusted for exchange rate changes, lending to the overall private sector increased 4% y-o-y in the second quarter of 2017. Even lending to the business sector has eased up somewhat as the overhang of non-performing loans (NPLs) on bank balance sheets has declined over the past twelve months.

Domestic demand is driving growth

Consumer confidence is improving, employment is rising at a decent pace, and overall wages have received a boost from a 10% wage hike in a large part of the public sector in March. This is projected to push private consumption growth to 3% over the next two years compared to a relatively subdued growth rate in 2017. Gross fixed capital formation, to the contrary, is likely to decelerate substantially next year as the two large energy projects approach their completion. Investments in tourism facilities and in the extraction sector are, however, expected to keep overall investment growth at a relatively high level. Public consumption growth is projected to moderate over the next two years following a spike in 2017.

Graph II.33.1: **Albania - Real GDP growth and contributions**



Export growth expected to remain strong

A strong performance of services export, particularly tourism, resulted in a positive contribution of net exports to GDP growth in 2016. Over the forecast horizon, overall export growth is expected to remain significantly above the growth rate of Albania's export markets, but somewhat below last year's performance. The recent real appreciation of the Albanian currency has weighed on price competitiveness, but higher commodity prices are expected to boost the extractive industry and its exports. At the same time, robust domestic demand is supporting imports, resulting in close-to-zero overall contribution of net exports to growth. Following data revisions, the current account deficit for 2016 has been lowered to 7.6% of GDP. The deficit is projected to widen to around 8% in the forecast horizon.

Solid GDP growth and lower unemployment

GDP growth is projected to reach 4% in 2017, but to decline to 3.8% next year as investment activity decelerates. In 2019, the rising contribution from private consumption is projected to lift GDP growth to 4.2%. The balance of risks to the growth outlook has moved from being tilted to the downside to the upside as political uncertainty has declined and the transmission of an accommodative monetary policy to lending growth seems to have gained traction.

Employment is forecast to increase by almost 4%, down from extraordinarily high growth rates in the past two years. Together with a continued trend toward higher labour force participation, this results in a slow but steady decline of the unemployment rate from 15.6% in 2016 to 13.0% by 2019. Although inflationary pressures are still difficult to discern, a declining output gap is expected to increase consumer price inflation gradually. The central bank's 3% inflation target is, not expected to be reached within the forecast horizon.

Moderate fiscal deficits will allow the public debt ratio to decline, but only slowly

The fiscal deficit in 2016 amounted to 1.8% of GDP which was significantly smaller than planned due to lower-than-budgeted expenditures. It is estimated that the fiscal deficit will be slightly higher in the following two years on the basis of the government's current fiscal strategy. Together with the projections for nominal GDP, it implies that the public debt-to-GDP ratio is expected to fall gradually from 72.4% at the end of 2016 to 66% at the end of 2019.

Following the general elections in June, a new government based on a clear electoral mandate has taken office. This has lowered the political risks associated with the fiscal projection. However, risks persist due to weaknesses in public finance management which pose a challenge for the execution of public budgets according to plan.

Table II.33.1:

Main features of country forecast - ALBANIA

		2016				Annual percentage change			
		bn ALL Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		1472.8	100.0	5.6	1.8	2.2	3.4	**4.0**	**3.8**	**4.2**
Private Consumption		1210.8	82.2	4.4	2.8	1.2	2.9	**2.1**	**2.7**	**3.1**
Public Consumption		164.0	11.1	0.8	6.4	-1.1	3.8	**5.0**	**3.5**	**3.3**
Gross fixed capital formation		373.3	25.3	8.7	-4.5	4.0	6.0	**10.0**	**4.4**	**6.2**
of which: equipment		-	-	9.0	-	-	-	**-**	**-**	**-**
Exports (goods and services)		426.7	29.0	16.4	1.8	1.0	13.1	**10.3**	**8.6**	**8.3**
Imports (goods and services)		674.9	45.8	9.8	4.3	-2.9	7.4	**7.8**	**5.2**	**6.2**
GNI (GDP deflator)		1496.7	101.6	5.4	1.0	2.5	3.8	**3.4**	**3.7**	**4.1**
Contribution to GDP growth:	Domestic demand			5.8	1.7	1.8	4.3	**4.9**	**3.8**	**4.6**
	Inventories			0.1	1.5	-1.2	-1.2	**-0.3**	**-0.2**	**-0.1**
	Net exports			-1.2	-1.5	1.6	0.3	**-0.6**	**0.2**	**-0.3**
Employment				-0.7	1.6	4.9	6.1	**3.5**	**3.6**	**3.8**
Unemployment rate (a)				-	17.9	17.5	15.6	**14.2**	**13.7**	**13.0**
Compensation of employees / head				-	1.6	-2.0	1.8	**5.8**	**2.8**	**3.1**
Unit labour costs whole economy				-	1.5	0.6	4.5	**5.3**	**2.6**	**2.7**
Real unit labour cost				-	-0.1	0.5	4.7	**3.4**	**0.6**	**0.3**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				3.4	1.5	0.1	-0.2	**1.8**	**2.0**	**2.3**
Harmonised index of consumer prices				-	1.6	1.9	1.3	**2.0**	**2.4**	**2.7**
Terms of trade goods				-1.3	1.0	0.5	-1.6	**1.4**	**-1.4**	**-0.3**
Trade balance (goods) (c)				-24.6	-22.2	-22.5	-24.3	**-24.9**	**-25.3**	**-25.8**
Current-account balance (c)				-9.3	-10.8	-8.6	-7.6	**-7.9**	**-7.8**	**-8.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-11.7	-9.9	-7.0	**-7.0**	**-7.0**	**-7.3**
General government balance (c)				-	-5.2	-4.1	-1.8	**-2.1**	**-2.0**	**-1.8**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	70.1	73.1	72.4	**70.5**	**68.5**	**66.0**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Other non-EU Countries

34. THE UNITED STATES OF AMERICA

Solid near-term momentum as cycle continues to mature

The US economic outlook is solid, underpinned by a strong labour market, an ongoing rebound in business investment and elevated sentiment. Amid a maturing economic cycle, the economy's current momentum is set to be sustained in the near term, with GDP growth forecast steady at 2¼%.

Current dynamics point to solid momentum

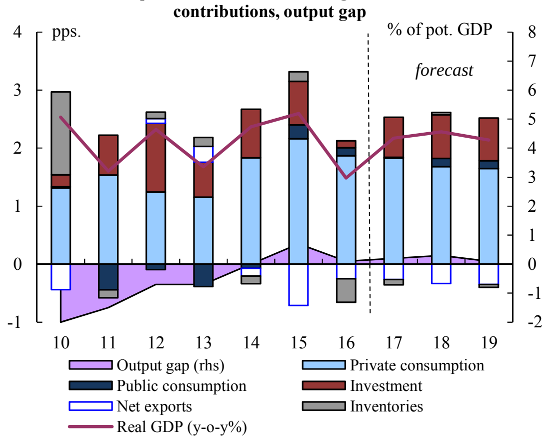
The US outlook remains benign, with growth rebounding to 0.8% (q-o-q) in 2017-Q2 and high-frequency indicators pointing to sustained expansion in the near term. The economy's momentum has been underpinned by labour market strength, comprising robust employment growth and further falls in the unemployment rate, while mildly rising energy prices and elevated sentiment have facilitated the ongoing rebound in business investment. Although growth is set to moderate in the near term (Q3) following recent hurricanes in economically important regions, it is expected to be offset by reconstruction activity.

The economy is expected to sustain its solid underlying performance into 2018 and 2019. Further tightening in the labour market is set to gradually amplify wage growth and underpin private consumption, while business investment is expected to be supported by rising demand (both domestic and global). A major expansionary shift in the US fiscal stance is no longer anticipated at this stage. Taking all of these factors together, US GDP is expected to grow by 2¼% throughout the forecast horizon, even as the cycle matures.

Labour market to sustain current strength

Employment growth has been solid throughout 2017, resulting in further falls in the unemployment rate to new cycle lows (4.2% in September), even as the participation rate also climbed higher. As the economy has likely reached full employment already, employment growth is forecast to slow somewhat in 2018 and 2019. However, given current tight conditions in the labour market, this moderation is set to be accompanied by rising wage growth from currently subdued levels to around 4% by the end of the forecast horizon, adding to already-elevated consumer sentiment and providing a solid foundation for growth in household consumption. Productivity is expected to gradually pick up over the horizon, providing a further boost to wage growth.

Graph II.34.1: **US - Real GDP growth and contributions, output gap**



Fiscal stimulus expectations scaled down further

In line with market expectations, assumptions regarding future fiscal stimulus have been scaled back considerably compared with previous forecasts. Planned tax cuts and ongoing negotiations in Congress over the 2018 budget could still imply a slight loosening of the fiscal stance in the near term (2018 and 2019). However, the growth impulse provided by fiscal policy is expected to be limited given the current stage of the cycle. Hence, the downscaling of fiscal stimulus assumptions does not translate into any major downgrade of the growth outlook, but rather, implies a more gradual path of monetary policy normalisation.

Financing conditions to remain accommodative and to tighten only gradually

Despite the decline in underlying inflation pressures so far in the course of 2017 the Federal Reserve has continued to gradually raise interest rates - by a cumulative 50 basis points since January. Going forward, inflation is expected to pick up steadily in line with stronger wage growth and a positive output gap, triggering further tightening of monetary policy over the near and medium term. Added to this, the commencement of balance sheet unwinding from October 2017 also implies a gradual move towards monetary policy normalisation. However, it is expected that both of these processes will proceed only gradually and without major negative spillovers to real economic activity, while risks of upward pressure on the US dollar are mitigated by improving economic activity elsewhere.

Tax reform likely to widen the fiscal deficit

Negotiations are currently underway in Congress on a corporate tax reform that would reduce statutory corporate tax rates and simplify the personal tax code. While concrete legislative proposals remain uncertain, our assumption is that the reform, in conjunction with the federal spending plan likely to be adopted, will act to widen both the general government deficit and the debt-to-GDP ratio (by an estimated 0.5pps of GDP by 2019 compared with the improvement implied by unchanged policies).

Current account balance broadly unchanged

Solid domestic demand, driven in particular by business investment, is expected to boost imports over the forecast horizon. However, less upward pressure on the USD than previously anticipated (largely owing to the assumption of considerably smaller fiscal expansion and pervasive policy uncertainties) and a steadily improving external environment are expected to moderate the deterioration in the US trade and current account balance. Overall, the current account deficit is now set to widen from around 2½ % of GDP in recent years to 3% of GDP by 2019.

Risks remain pronounced

Risks to the forecast are largely policy-related. A pronounced protectionist shift in US trade policy would place a significant drag on both US and global growth, especially if matched by retaliatory measures elsewhere. Deadlines for raising the debt ceiling and approving the 2018 federal budget have been extended only temporarily, with renewed fiscal negotiations again trigger financial market volatility and weigh on sentiment. Moreover, high and steadily rising corporate leverage remains a source of concern given the outlook for progressively higher interest rates. Upside risks are related to a possible more expansionary shift in fiscal policy than currently assumed and further positive feedback effects from a strengthening global outlook.

Table II.34.1:

Main features of country forecast - USA

		2016		Annual percentage change						
		bn USD Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP		18624.5	100.0	2.2	2.6	2.9	1.5	**2.2**	**2.3**	**2.1**
Private Consumption		12820.7	68.8	2.6	2.9	3.6	2.7	**2.6**	**2.4**	**2.3**
Public Consumption		2658.1	14.3	1.3	-0.5	1.3	1.0	**0.1**	**1.1**	**1.2**
Gross fixed capital formation		3631.8	19.5	2.0	4.8	3.5	0.6	**3.4**	**3.8**	**3.5**
of which: equipment		1177.2	6.3	4.1	5.6	3.2	-2.9	**3.8**	**4.5**	**3.8**
Exports (goods and services)		2214.5	11.9	3.9	4.3	0.4	-0.3	**3.3**	**3.8**	**3.9**
Imports (goods and services)		2735.8	14.7	4.3	4.5	5.0	1.3	**4.2**	**5.0**	**4.8**
GNI (GDP deflator)		18821.6	101.1	2.3	2.5	2.6	1.4	**2.2**	**2.4**	**2.1**
Contribution to GDP growth:	Domestic demand			2.4	2.8	3.4	2.1	**2.5**	**2.6**	**2.5**
	Inventories			0.0	-0.1	0.3	-0.4	**-0.1**	**0.0**	**-0.1**
	Net exports			-0.2	-0.2	-0.8	-0.2	**-0.2**	**-0.3**	**-0.3**
Employment				-	1.6	1.7	1.7	**1.3**	**1.1**	**0.8**
Unemployment rate (a)				6.1	6.2	5.3	4.9	**4.5**	**4.3**	**4.1**
Compensation of employees / f.t.e.				3.2	2.9	3.2	1.0	**1.9**	**3.4**	**4.2**
Unit labour costs whole economy				1.7	1.9	2.0	1.2	**1.1**	**2.2**	**2.8**
Real unit labour cost				-0.3	0.1	0.9	-0.1	**-0.7**	**0.1**	**0.5**
Saving rate of households (b)				10.4	11.2	11.4	10.2	**9.5**	**9.4**	**9.3**
GDP deflator				2.0	1.8	1.1	1.3	**1.7**	**2.1**	**2.3**
Consumer-price index				2.4	1.6	0.1	1.3	**2.0**	**2.1**	**2.2**
Terms of trade goods				-0.4	-0.2	2.2	0.0	**-0.8**	**0.1**	**0.0**
Trade balance (goods) (c)				-4.7	-4.5	-4.4	-4.2	**-4.4**	**-4.6**	**-4.7**
Current-account balance (c)				-3.4	-2.1	-2.4	-2.4	**-2.7**	**-2.8**	**-2.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.4	-2.1	-2.4	-2.4	**-2.7**	**-2.8**	**-2.9**
General government balance (c)				-5.3	-4.8	-4.2	-5.0	**-5.0**	**-4.9**	**-5.1**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				72.4	104.4	104.7	107.1	**108.2**	**108.4**	**108.8**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

(*) Employment data from the BLS household survey.

35. JAPAN

Temporary growth spurt driven by policy stimulus

Supportive macroeconomic policies and firming external demand are set to underpin economic activity over the very near term. Growth is expected to decelerate over the forecast horizon on the back of withdrawal of fiscal stimulus, gradual resumption of fiscal consolidation and continued weakness in wage dynamics.

Growth has firmed up in 2017

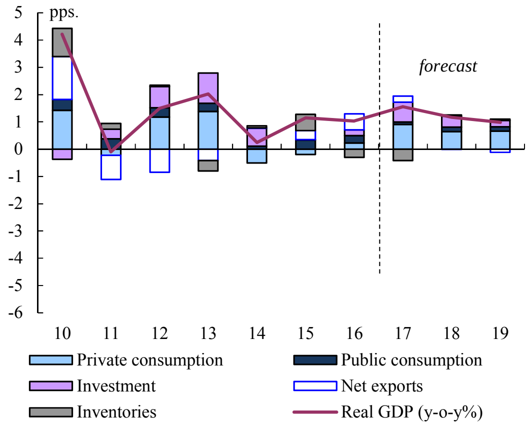
Compared to the Spring Forecast, growth has been revised substantially upward to 1.6% for 2017 on the back of robust domestic demand driven by increasingly tight labour market conditions. The pace of growth should gradually decelerate but still remain above potential at 1.2% in 2018 and 1.0% in 2019, reflecting waning fiscal stimulus, planned fiscal consolidation and subdued wage dynamics. Growth firmed up in the first half of 2017, with real GDP expanding by 0.3% (q-o-q) in the first and 0.6% (q-o-q) in the second quarter. Private consumption was the main growth driver, supported by continued employment creation. The positive contribution from gross fixed capital formation mainly stemmed from steady business investment and robust growth in public investment. Leading indicators point to the positive momentum continuing into the third quarter. Consumer confidence and business sentiment have been improving steadily, the new-job-offers-to-applicant ratio hovers at a 44-year high, and private sector core machinery orders suggest continued vibrant domestic capital investment and overseas demand. Near-term growth should remain robust on the back of continued employment creation and favourable macroeconomic policies supporting stable growth in domestic demand.

Gradual slowdown expected going forward

Labour market conditions are set to remain very tight on the back of robust labour demand and steady decline in working age population, which should keep the unemployment rate below 3% over the forecast period. However, entrenched structural factors – labour market duality, a fragmented and backward-looking wage-setting mechanism, low labour mobility – will continue weighing on wage dynamics, and dampen private consumption growth in the next two years. The planned consumption tax hike in October 2019 will entail acceleration of private consumption in the run-up, followed by contraction in the final quarter of the year.

Gross fixed capital formation is expected to decelerate gradually as private and public investments diverge. On the one hand, business investment is set to remain resilient in the near term reflecting persistently loose financial conditions and sustained growth in private consumption and external demand. Residential investment should follow a similar pattern supported by favourable credit and labour market conditions. Volatility in private consumption induced by planned fiscal consolidation is likely to spill over to private investment dynamics towards the end of the forecast period. On the other hand, withdrawal of fiscal stimulus is set to entail steady contraction in public investment from 2018-H2, which will weigh on growth in 2019.

Graph II.35.1: **Japan - Real GDP growth and contributions**



Steady global and regional growth should underpin exports, while resilient domestic demand will entail continued recovery in imports. Growth in import demand should accelerate in the run-up to the increase in the consumption tax rate, and turn negative in the immediate aftermath. Net exports are thus not expected to contribute to growth.

The current account balance is set to remain in firmly positive territory and hover at around 4% of GDP. Firming global growth and favourable exchange rate effects should underpin primary income, which is expected to account for more than 3% of GDP, while the goods and services balance should remain stable at around 1% of GDP amid continued recovery in export and import demand.

Monetary policy to remain accommodative

Loose monetary conditions are assumed to continue over the forecast horizon reflecting stubbornly low CPI inflation and the Bank of Japan's postponed timeframe to achieve the 2% target. Headline CPI inflation is expected to remain well below 2% in the absence of more sustained wage dynamics, and should pick up only gradually on the back of resilient economic growth and cost-push pressures stemming from currency dynamics driven by diverging monetary policies among advanced economies.

Fiscal consolidation is bound to resume

After several years of steady progress, fiscal consolidation stalled and reversed in 2016. The headline general government deficit is estimated to have widened from 3.5% to around 4.1% of GDP reflecting falling tax revenue growth on the back of currency appreciation, and stimulus-driven acceleration in expenditure growth. The fiscal stance is expected to remain slightly expansionary in 2017 with an increase in the general government deficit to around 4.3% reflecting sustained expenditure growth and gradual recovery in tax revenue driven by improved profitability and continued employment creation. Consolidation is expected to resume in 2018 and 2019 on the back of withdrawal of fiscal stimulus and the increase in the consumption tax rate from 8% to 10% planned for October 2019. The fiscal outlook is subject, however, to a certain degree of uncertainty pending the 2018 fiscal policy review, which is expected to set a realistic medium-term fiscal target possibly backed by identifying expenditure and revenue priorities.

Risks and uncertainty

Policy uncertainty related to labour market and fiscal reform has increased in the run-up to the October general election. Risks have become more balanced amid an improved global outlook. On the domestic front, continued weakness in wage dynamics may entail slower-than-expected growth in private consumption, whilst on the external side geopolitical tensions may engender negative confidence effects and repercussions on trade and investment dynamics.

Table II.35.1:

Main features of country forecast - JAPAN

	2016			Annual percentage change						
bn JPY	Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	537060.8	100.0	0.7	0.3	1.1	1.0	**1.6**	**1.2**	**1.0**
Private Consumption	300226.2	55.9	0.9	-0.9	-0.3	0.4	**1.6**	**1.1**	**1.2**
Public Consumption	106256.7	19.8	1.8	0.5	1.7	1.3	**0.4**	**0.8**	**0.8**
Gross fixed capital formation	124321.2	23.1	-1.0	2.9	0.1	0.9	**3.1**	**1.7**	**1.1**
of which: equipment	-	-	0.1	4.5	-2.8	-	**-**	**-**	**-**
Exports (goods and services)	86761.1	16.2	3.6	9.3	2.9	1.2	**5.0**	**2.0**	**1.9**
Imports (goods and services)	81104.7	15.1	2.5	8.3	0.8	-2.3	**3.4**	**2.0**	**2.5**
GNI (GDP deflator)	554276.1	103.2	0.8	0.6	1.3	0.4	**1.7**	**1.2**	**1.1**
Contribution to GDP growth: Domestic demand			0.6	0.3	0.1	0.7	**1.7**	**1.2**	**1.1**
Inventories			0.0	0.1	0.6	-0.3	**-0.4**	**0.0**	**0.0**
Net exports			0.2	0.0	0.4	0.6	**0.3**	**0.0**	**-0.1**
Employment			-0.2	0.6	0.4	0.9	**0.7**	**0.6**	**0.5**
Unemployment rate (a)			4.6	3.6	3.4	3.1	**2.9**	**2.8**	**2.7**
Compensation of employees / head			-0.8	1.1	0.7	0.0	**0.4**	**0.3**	**0.4**
Unit labour costs whole economy			-1.7	1.3	0.0	-0.2	**-0.4**	**-0.3**	**-0.2**
Real unit labour cost			-0.6	-0.4	-2.1	-0.4	**-0.4**	**-0.9**	**-1.0**
Saving rate of households (b)			11.7	6.6	7.5	8.9	**8.8**	**8.3**	**7.4**
GDP deflator			-1.1	1.7	2.1	0.3	**0.0**	**0.6**	**0.8**
Consumer-price index			-0.2	2.8	0.8	-0.1	**0.4**	**0.8**	**1.2**
Terms of trade goods			-2.9	-0.7	11.2	5.9	**-2.7**	**0.8**	**-0.3**
Trade balance (goods) (c)			1.6	-2.0	-0.1	0.9	**0.8**	**0.9**	**0.7**
Current-account balance (c)			2.8	0.8	3.2	3.8	**3.9**	**4.1**	**4.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.7	0.7	3.1	3.8	**3.8**	**4.0**	**4.0**
General government balance (c)			-6.8	-5.4	-3.5	-4.1	**-4.3**	**-3.8**	**-3.1**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			178.0	236.1	238.0	239.0	**239.6**	**239.1**	**237.8**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

36. CHINA

Solid growth but key structural challenges remain

China has maintained the spurt in momentum seen in late 2016 and early 2017 and growth for 2017 is now expected to be similar to 2016, gradually decelerating into 2018 and 2019 as structural factors weigh on the outlook. Short term risks remain balanced. The growth in corporate leverage slowed in 2017 but overall credit growth continues to outpace nominal GDP growth.

Growth in 2017 stronger than anticipated

China grew by 6.9 % (y-o-y) in the first two quarters of 2017, and by 6.8% in 2017-Q3. This compares to 6.7% growth for 2016. Growth for 2017 is now expected to reach 6.8%, and forecast to fall to 6.5% in 2018 and 6.2% in 2019, as structural factors, including a falling labour supply and declining returns on investment weigh on potential growth. Risks remain broadly balanced in the short term, with the resilience of the property market and prospects for domestic private investment being important uncertainties. Rapid credit growth and rising corporate leverage remain key trends that cast a shadow over the medium term growth outlook. In 2017, the gap between credit growth and nominal GDP growth narrowed due to a sharp increase in the GDP deflator although it remains to be seen whether this reflation is a one-off adjustment.

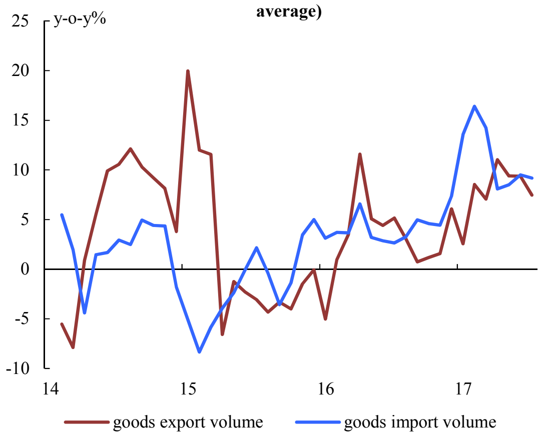
Property and trade underpin solid performance

The composition of growth in the first three quarters of 2017 reflect a significant positive contribution from net exports, with the contribution to GDP moving from -0.5 pps. in 2016 to 0.2 pps. in 2017 Q1-Q3. The contribution from consumption was 4.4 pps. (4.3 pps. in 2016) while investment contributed 2.3 pps. (2.8 pps. in 2016). China's property market cycle is a key factor behind the fairly robust domestic growth performance, with rising house prices and rapid growth of household borrowing helping to underpin consumption. Real estate investment has also outpaced overall investment in 2017 Q1-Q3. The property market is expected to cool gradually, as targeted macro-prudential measures to limit speculative excesses start to bite.

High frequency indicators show steady momentum

China's high frequency data paint a benign picture. PMIs for both service and manufacturing sectors remain above 50, while overall rates of fixed asset investment and retail sales continue to be stable. Growth of industrial production has edged up recently, while industrial profitability has improved sharply due to a surge in producer prices precipitated by restrictions on output in some heavy industrial sectors. Retail sales have continued to grow steadily, while consumer confidence is at a multi-year high, and mortgage borrowing and short term consumer loans increased sharply from the start of 2017. Although house price growth is decelerating in tier 1 cities, the bulk of the urban population lives in tier 2 and tier 3 cities where house price inflation remains on an upward trend. This can be expected to provide further short term support to the consumer sector through wealth effects. The medium term outlook for consumption is however less clear as household incomes are growing slightly below GDP growth and consumption growth has been boosted by a combination of a falling household savings rate and higher borrowing.

Graph II.36.1: **China - growth in goods trade (3-month average)**



Policy remains supportive despite a crackdown on risky lending

The precise fiscal stance remains hard to assess due to the prominent role of off-balance sheet local government spending, but on-budget spending has expanded more rapidly than nominal GDP. Investment by state enterprises also continues to grow more rapidly than investment in general, but the pace of growth is slowing as this form of stimulus is gradually wound down. Monetary policy remains broadly accommodative. During 2017, the Chinese authorities have cracked down on riskier forms of financial intermediation, including new controls on lending from banks to non-bank financial intermediaries. This has led to a rise in inter-bank rates and bond market rates, though the impact on actual effective bank lending rates appears muted. Credit continues to expand faster than nominal GDP, though this gap has narrowed due to the pick-up in producer prices. Capital outflows have abated in recent months as the RMB has benefitted from US dollar weakness, easing the pressure on China to tighten policy to limit outflows. In trade weighted terms the RMB nominal exchange rate has been relatively stable in 2017 (CFETS measure), while the real effective rate has edged down 2-3% (BIS data).

Regional trade has rebounded strongly

Trade in the Asia region has rebounded strongly in 2017 after a particularly weak 2015 and subdued 2016, with China's exports and imports both growing rapidly. High-end consumption goods imports showed particular strength. Looking ahead, export and import growth are both expected to moderate slightly in 2018 and 2019, but the positive outlook for both global and regional growth, together with the supportive currency, should limit the slowdown in exports.

Short term risks are balanced, but fragilities remain

China's property cycle is turning, and a sharper than expected slowdown in the sector is a key risk to the outlook. It also remains to be seen whether the strong contribution of consumption to growth can be sustained without faster growth of household incomes. Corporate leverage appears to have stabilised in 2017, aided by the pick-up in producer prices, but remains at a high level, with much of the growth in leverage concentrated in state firms and the property sector. Structural factors fuelling leverage, such as the use of SoEs as a counter-cyclical policy instrument and the low returns on investment, remain largely unaddressed. While a disorderly adjustment is not projected, it is clear that financial fragilities remain elevated and this form of policy intervention is reaching its limits. Finally, private investment has been growing at just 5% in nominal terms for the past 2-3 years and constitutes a potential upside risk given the strong revival in export performance in 2017.

Table II.36.1:
Main features of country forecast - CHINA

	2016			Annual percentage change					
	bn CNY Curr. prices	% GDP	98-13	2014	2015	2016	2017	2018	2019
GDP	74631.0	100.0	9.6	7.3	6.9	6.7	**6.8**	**6.5**	**6.2**
Consumption	40018.0	53.6	54.6	-	-	-	**-**	**-**	**-**
Gross fixed capital formation	31891.0	42.7	39.6	-	-	-	**-**	**-**	**-**
of which: equipment			-	-	-	-	**-**	**-**	**-**
Change in stocks as % of GDP			-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	14617.7	19.6	16.3	4.3	-2.2	1.1	**5.0**	**4.1**	**3.7**
Final demand			-	-	-	-	**-**	**-**	**-**
Imports (goods and services)	12959.2	17.4	15.6	7.8	-0.5	4.9	**5.7**	**4.5**	**4.2**
GNI (GDP deflator)	-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth : Domestic demand			-	-	-	-	**-**	**-**	**-**
Inventories			-	-	-	-	**-**	**-**	**-**
Net exports			-	-	-	-	**-**	**-**	**-**
Employment			-	-	-	-	**-**	**-**	**-**
Unemployment (a)			3.9	4.1	4.1	4.0	**-**	**-**	**-**
Compensation of employees/head			-	-	-	-	**-**	**-**	**-**
Unit labour costs			-	-	-	-	**-**	**-**	**-**
Real unit labour costs			-	-	-	-	**-**	**-**	**-**
Saving rate of households			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.5	1.0	1.1	0.0	**3.0**	**2.0**	**2.0**
Private consumption deflator			-	-	-	-	**-**	**-**	**-**
Index of consumer prices (c)			1.9	2.0	1.4		**-**	**-**	**-**
Merchandise trade balance (b)			4.3	4.1	5.1	4.4	**3.7**	**3.4**	**3.2**
Current-account balance (b)			4.0	2.2	2.7	1.7	**1.1**	**0.9**	**0.8**
Net lending(+) or borrowing(-) vis-à-vis ROW (b)			-	-	-	-	**-**	**-**	**-**
General government balance (b)			-	-	-	-	**-**	**-**	**-**
General government gross debt (b)			-	-	-	-	**-**	**-**	**-**

(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

37. EFTA

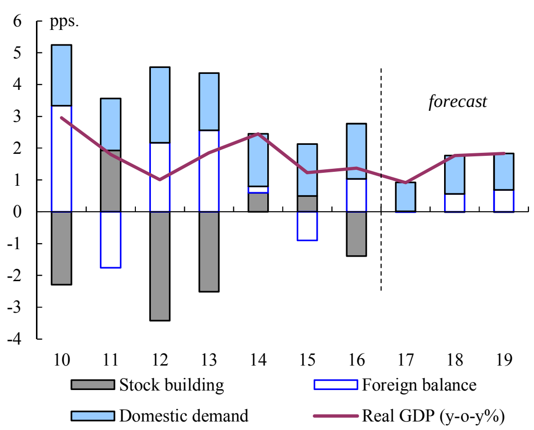
Solid near-term prospects as growth converges to trend

Following a period of adjustment in earlier years, driven largely by external factors (oil prices, currency appreciation), growth is rising steadily in both Switzerland and Norway, underpinned by a steady amelioration in labour markets and solid momentum in domestic demand. In Iceland, meanwhile, exceptionally strong growth in earlier years is beginning to moderate to more sustainable levels.

Switzerland

Revisions to Swiss national accounts data have resulted in material changes to historical figures for the period 2013-2016. On aggregate, this implies an upward revision to historical GDP levels and growth rates. However, as a result of these statistical revisions and the Swiss economy's weak performance in the first half of 2017 (0.1% q-o-q in 2017-Q1, 0.3% q-o-q in 2017-Q2), the outlook for the whole year has been revised down to 0.9%. The economy's slowdown in the first half of 2017 was led by sluggish activity in most service sectors, offsetting improving output in manufacturing, financial services and leisure industries.

Graph II.37.1: **Switzerland - Real GDP growth and contributions**



Going forward, sentiment indicators point to a marked acceleration in activity in the near term, driven largely by the impulse provided by rising global demand and world trade. While the performance of the pharmaceutical sector is likely to remain robust due its low price sensitivity, a moderate broad-based upward trend for other exports (machinery, tourism, financial services) is also projected in line with fading effects of the Swiss Franc's (CHF) past appreciation. Better growth prospects for the EU should also boost domestic confidence and encourage business investment, particularly given still-favourable financing conditions. While wage growth is expected to remain weak, continued moderate recovery in the labour market should support household incomes and private consumption. Combining these factors, Switzerland's economy is forecast to expand by 1.8% in both 2018 and 2019, supported by both exports and domestic demand.

In terms of monetary policy, the Swiss National Bank (SNB) has maintained interest rates on sight deposits at -0.75% at its most recent policy meeting. Going forward, inflation is projected to reach 0.5% in 2017 in line with higher oil prices, while inflationary pressures for the outer years of the forecast horizon are set to remain muted. Given these weak underlying inflation dynamics, the monetary policy stance is forecast to remain accommodative. The Swiss franc depreciated further against the euro over the summer, which, if maintained, would further benefit Swiss exports.

In line with the projected upswing in economic activity and Switzerland's statutory debt brake, which requires a balanced budget over the course of the economic cycle, small surpluses are projected over the coming years.

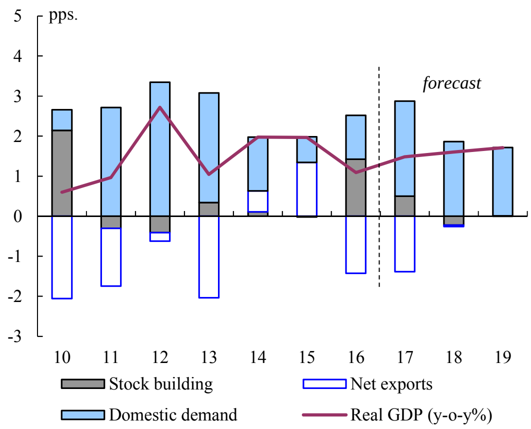
Risks to the outlook are largely external and relate to global demand and global trade. Further uncertainty relating to geopolitical turbulence could also result in safe haven capital inflows and place upward pressure on the Swiss franc.

Norway

Following the Norwegian economy's slowdown in 2016, its adjustment to lower energy prices appears to be progressing steadily, as shown by the pick-up in labour force participation rates and employment, with this feeding into robust GDP growth over recent quarters (1.1% q-o-q in 2017-Q2). Domestic demand has been the principal driver of growth so far in 2017, reflecting the ongoing rebound in the labour market and the continued provision of policy support, particularly on the fiscal side (modest tax cuts, labour market activation measures); while rapid house price growth has supported residential investment. The external environment has proven challenging, in part due to the Norwegian krone's (NOK) steady appreciation.

Going forward, underlying drivers of growth are set to shift somewhat, with the significant negative contribution from net exports turning neutral from 2018 onwards. On the one hand, further improvement in the labour market, positive real wage growth, and additional measures to ease personal income taxes are expected to sustain private consumption growth at robust rates; while on the other, this is offset by fewer public infrastructure projects and the anticipated cooling of the housing market. In turn, import growth is set to moderate as the effects of past currency appreciation subside. Overall, GDP growth is expected to come in at 1.5% in 2017, before accelerating modestly to 1.6% (2018) and 1.8% (2019).

Graph II.37.2: **Norway - Real GDP growth and contributions**



Despite the economy's demonstrable improvement over recent months, remaining slack is evident as nominal wage growth has fallen and core inflation (at 1% in September) is well-below Norges Bank's 2.5% target. Going forward, the macroeconomic policy mix is expected to remain accommodative in the near term, particularly on the monetary policy side as Norge's Bank left its key policy rate on hold at 0.5% in September. This is set to support further improvement in the labour market, with the unemployment rate expected to fall to 3% by the end of the forecast horizon, while wage growth is forecast to accelerate modestly as the labour market tightens. Inflation, meanwhile, is expected to return to around 2½% in the outer years of the forecast as slack is absorbed.

Over the medium term, however, policy support is expected to be scaled-back as economic activity recovers further and inflationary pressures build. This is already being reflected in recent changes to limit spending of petroleum revenues, as well as the government's October budget which provides a broadly neutral fiscal impulse to growth already in 2018.

Recent indications are that activity in the housing market is slowing and house price growth is beginning to moderate. This is expected to lead to more moderate residential investment than in recent years; while the outstanding stock of household debt (230% of disposable income) ensures that related vulnerabilities will decline only gradually.

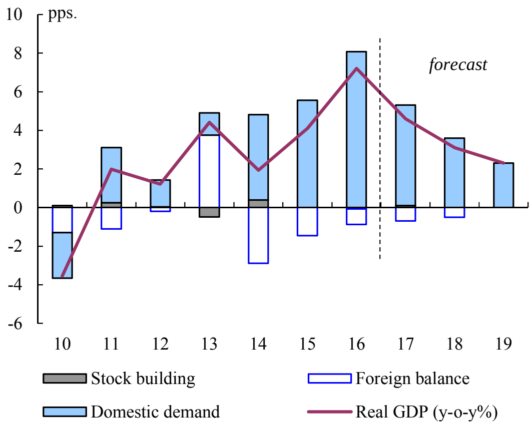
The principal domestic risk facing the outlook relates to the interplay of high levels of household debt with house price inflation, albeit these are beginning to subside slowly. Nonetheless, a large negative price shock or a tighter monetary policy stance than currently anticipated would imply negative spillovers to the real economy also. External risks relate to the future dynamics of oil prices and growth among key trading partners.

Iceland

GDP in Iceland contracted during the first half of 2017 (-0.7% q-o-q in 2017-Q1, -1.1% in 2017-Q2), led by falls in fixed investment and exports in the first quarter, followed by a significant increase in imports in the second. However, this quarterly profile is heavily distorted by unusually large base effects from the second half of 2016, and, when considering the economy's performance in year-on-year terms, growth remains positive. In particular, private consumption and tourism-related exports have been robust; while investment remains solid but is beginning to slow following extraordinarily high growth in earlier years (annual average growth of 20% between 2014 and 2016). The domestic economy has benefited from strong real wage growth and rising labour force participation, as well as buoyant activity in the construction sector in order to meet residential and tourism-related infrastructure demands. Overall, GDP growth is expected to moderate (from an exceptionally strong outturn of 7.2% in 2016) to 4.6% in 2017.

Iceland's economy is expected to undergo a phase of soft landing over the remainder of the forecast horizon, moderating to 3.1% and 2.3% in 2018 and 2019, respectively. Continued employment growth and real wage gains are expected to underpin private consumption; while, despite the anticipated strong performance of residential construction, investment is expected to moderate further. On the external side, tourism exports are set to slow, while import growth is forecast to remain elevated given the high import content of domestic demand.

Graph II.37.3: **Iceland - Real GDP growth and contributions**



Despite robust economic growth, core inflation has yet to show signs of a durable pick-up. Over recent months, it has fallen further (1.7% in September), reflecting the Icelandic krona's appreciation following the relaxation of capital controls, as well as increased competition in the retail sector and building signs of a slowdown in housing inflation.

Nonetheless, price pressures are expected to build as demand grows, with monetary policy responsive in anchoring inflation and inflation expectations around the Central Bank of Iceland's 2.5% target.

The labour market has been strong and the unemployment rate fell further in August (to 2.5%). Going forward, labour demand is expected to be dampened by new wage agreements already in 2018; while additional labour supply will largely depend on foreign workers given already-high domestic employment rates. An extraordinary fiscal surplus of 12.9% of GDP was recorded in 2016 due to a one-off windfall gain from lifting capital controls. This is expected to be much more modest going forward, coming in at around 1-1½% of GDP over the forecast horizon as fiscal policy remains focused on debt reduction. As such, the public debt-to-GDP ratio is forecast to fall to under 30% by 2019.

In the near term, political uncertainty following the collapse of the coalition government could prevent a timely adoption of the 2018 Budget as there are increasing calls for increases in government spending on infrastructure and health care. Large wage increases emerging from upcoming negotiations could erode competitiveness of Icelandic firms, while this could be amplified further by persistent capital inflows and their upward pressure on the krona.

Table II.37.1:

Main features of country forecast - EFTA

	Iceland				Norway				Switzerland			
(Annual percentage change)	**2016**	**2017**	**2018**	**2019**	**2016**	**2017**	**2018**	**2019**	**2016**	**2017**	**2018**	**2019**
GDP	7.2	**4.6**	**3.1**	**2.3**	1.1	**1.5**	**1.6**	**1.8**	1.4	**0.9**	**1.8**	**1.8**
Private Consumption	6.9	**7.5**	**5.4**	**3.4**	1.5	**2.4**	**1.9**	**1.8**	1.5	**1.1**	**1.4**	**1.3**
Public Consumption	1.5	**1.8**	**1.5**	**1.5**	2.1	**1.7**	**1.5**	**1.5**	1.6	**1.1**	**1.2**	**1.2**
Gross fixed capital formation	22.7	**5.1**	**2.6**	**1.3**	-0.2	**3.6**	**2.6**	**2.3**	3.1	**0.7**	**1.3**	**1.3**
of which: equipment	-	**-**	**-**	**-**	-0.9	**2.2**	**2.2**	**2.1**	-1.6	**-0.5**	**0.9**	**0.4**
Exports (good and services)	11.1	**7.4**	**4.0**	**3.8**	-1.8	**1.4**	**2.4**	**2.7**	6.5	**2.8**	**4.0**	**3.8**
Imports (goods and services)	14.7	**10.1**	**5.7**	**4.2**	2.3	**5.6**	**2.5**	**2.7**	6.0	**3.4**	**3.8**	**3.4**
GNI (GDP deflator)	10.0	**2.0**	**3.1**	**2.3**	1.4	**1.8**	**1.5**	**1.8**	-0.1	**0.9**	**1.8**	**1.8**
Contribution to GDP growth: Domestic demand	8.1	**5.2**	**3.6**	**2.3**	1.1	**2.4**	**1.9**	**1.8**	1.7	**0.9**	**1.2**	**1.1**
Inventories	0.0	**0.1**	**0.0**	**0.0**	1.4	**0.5**	**-0.2**	**0.0**	-1.4	**0.0**	**0.0**	**0.0**
Net exports	-0.8	**-0.7**	**-0.5**	**0.0**	-1.4	**-1.4**	**0.0**	**0.0**	1.0	**0.0**	**0.6**	**0.7**
Employment	3.8	**2.4**	**2.0**	**1.0**	0.3	**0.8**	**0.8**	**0.6**	1.4	**0.1**	**0.4**	**0.4**
Unemployment rate (a)	3.1	**3.1**	**3.2**	**3.1**	4.6	**4.0**	**3.3**	**3.0**	4.7	**4.6**	**4.5**	**4.4**
Compensation of employee/head	7.9	**9.5**	**3.4**	**3.6**	1.4	**2.4**	**2.4**	**2.7**	-0.2	**0.5**	**0.3**	**0.4**
Unit labour cost whole economy	4.4	**7.1**	**2.3**	**2.2**	0.5	**1.7**	**1.6**	**1.5**	-0.2	**-0.4**	**-1.0**	**-1.0**
Real unit labour cost	2.4	**4.3**	**-0.4**	**-0.4**	1.7	**-1.2**	**-0.5**	**-0.7**	0.4	**-0.8**	**-1.2**	**-1.1**
Saving rate of households (b)	:	:	:	:	12.3	**12.7**	**12.3**	**12.5**	22.8	**22.5**	**22.4**	**22.1**
GDP deflator	2.0	**2.7**	**2.7**	**2.6**	-1.1	**3.0**	**2.1**	**2.3**	-0.6	**0.4**	**0.1**	**0.1**
Harmonised index of consumer prices	0.8	**1.7**	**2.6**	**2.9**	3.9	**2.1**	**2.2**	**2.4**	-0.4	**0.5**	**0.2**	**0.2**
Terms of trade goods	-2.4	**0.5**	**-0.1**	**-0.1**	-10.7	**3.8**	**-0.3**	**-0.3**	-2.2	**-0.3**	**-0.3**	**-0.1**
Trade balance (goods) (c)	-4.2	**-3.9**	**-4.1**	**-4.4**	3.2	**3.5**	**3.4**	**3.4**	7.4	**7.6**	**8.2**	**8.5**
Current account balance (c)	7.8	**4.4**	**3.3**	**3.4**	4.4	**4.3**	**4.1**	**4.1**	9.4	**9.3**	**10.3**	**10.9**
Net lending (+) or borrowing (-) vis-a-vis ROW	7.8	**4.3**	**3.2**	**3.3**	4.4	**4.3**	**4.0**	**4.0**	9.8	**8.6**	**9.6**	**10.1**
General government balance (c)	12.9	**1.5**	**1.1**	**0.9**	4.0	**4.3**	**4.6**	**4.8**	0.4	**0.2**	**0.1**	**0.1**
General government gross debt (c)	46.2	**35.0**	**32.0**	**29.6**	35.3	**34.7**	**34.0**	**33.0**	29.6	**29.4**	**29.1**	**28.8**

(a) as % of total labour force. (b) gross saving divided by adjustd gross disposable income. (c) as a % of GDP.

38. RUSSIAN FEDERATION

Cyclical rebound fading as structural rigidities kick in

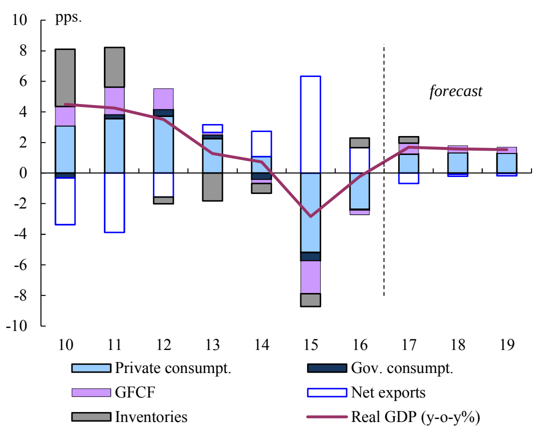
The economy's recovery has gathered momentum as rising oil prices and solid gains in consumer and business confidence are feeding into higher domestic demand. These dynamics are expected to remain in place in the near term, although the current momentum is likely to run into long-standing structural constraints. Overall, growth is forecast to remain moderate and close to potential at around 1½% over the forecast horizon.

Economic recovery to progress gradually

Russia's economic recovery has gathered momentum over recent months, with GDP growth accelerating to 2.5% (y-o-y) in 2017-Q2. Improving growth prospects have been underpinned by the ongoing stabilisation in the macroeconomic environment and rising oil prices, resulting in rising business and consumer confidence and a broad-based upturn in domestic demand; while the contribution from net exports has turned markedly negative as previously pent-up import demand is beginning to expand.

Overall, recent dynamics are expected to remain broadly in place, supporting an upward revision of GDP growth to 1.7% in 2017. However, growth is expected to moderate slightly to around 1½% in future years, reflecting the conclusion of large capital investment projects already in 2017, while fiscal consolidation needs, sanctions, structural barriers to growth and weak prospects for substantive reforms are also expected to weigh on the cyclical upturn currently under way.

Graph II.38.1: **Russia - Real GDP growth and contributions**



Broad-based recovery in domestic demand

The stabilisation of oil prices and the exchange rate, following significant adjustments in earlier years, has facilitated the steady upturn in sentiment among businesses and consumers, albeit from a very low base. On the consumer side, real wages remain firmly in positive territory and the contraction in disposable incomes has largely finished, providing for modest increases in retail sales for the first time since 2014. This has supported rising output and investment among businesses also, and the near term outlook (output, new orders) points to solid growth, complemented also by tentative signs of rising external demand.

Nonetheless, the exceptionally strong performance in 2017-Q2 is expected to moderate going forward, in line with slower investment and weaker inventory accumulation in the coming period.

Macroeconomic policy stance slowly easing

The Central Bank of Russia (CBR) has successfully reined in price growth, with inflation falling further below the 4% target in recent months (2.9% in September). While this is explained in part by exceptionally weak food price inflation and rouble appreciation from 2016 levels, conditions are in place for further easing of the monetary policy stance over the course of the forecast horizon. This is expected to ameliorate financing conditions among businesses, although credit growth is set to remain constrained by the impact of sanctions on external financing costs, as well as still-weak profitability and remaining fragilities in the domestic banking sector.

On the fiscal side, building on the federal government's updated budgetary parameters released in September 2017, it is expected that consolidation will proceed over the forecast horizon. However, higher oil revenues and rising economic activity provide space for modestly higher nominal spending than previously considered, implying a less severe adjustment in real terms.

Overall, the fiscal deficit is now forecast to narrow to 1.1 % of GDP by the end of the forecast horizon (from a 2016 level of 3.7%), with this falling largely on the expenditure side, meaning that public consumption continues to exert a minor drag on growth. The fiscal forecast is subject to some upward risks as the recent bank rescue measures might imply large, yet unknown, fiscal costs and further depletion of remaining fiscal reserves.

Current account balance to deteriorate marginally

Russian exports are expected to benefit from a gradual rise in external demand and higher oil prices. Better terms of trade in 2017 should temporarily outweigh the effects of the unwinding of pent-up import demand (following the cumulative contraction of 34% between 2014 and 2016), which combined with rising domestic activity and rouble appreciation is forecast to result in a modest decline in the current account surplus to 1½% by 2019.

Medium term growth potential still subdued

The economy remains highly reliant on extractive industries, both in terms of value-added and generating fiscal revenues. Significant shifts in this respect are not anticipated over the forecast horizon and, similarly, long-standing structural impediments to growth (poor business environment, low investment, labour market rigidities) are set to remain in place given the persistence of weak reform momentum.

These weaknesses are amplified further by the re-emergence of risks in the financial sector, as highlighted by the recent rescue of two large commercial banks, one of which is considered systemically important. As a result, funding constraints are likely to weigh on growth in the near term.

The current sanctions environment, as well as the recent extension of sanctions in the US, is expected to weigh further on medium- and long-term growth prospects, most notably via their impact on access to external finance.

Major risks remain

Uncertainties surrounding oil price assumptions remain the key downside risk facing the economic outlook for Russia at present, while geopolitical tensions also remain prominent. On the upside, some fiscal loosening in the run-up to the presidential elections in 2018 may result in higher short-term demand stimulus.

Table II.38.1:

Main features of country forecast - RUSSIA

	2016			Annual percentage change						
	bn RUB Curr. prices	% GDP		98-13	2014	2015	2016	2017	2018	2019
GDP	86043.6	100.0		4.2	0.7	-2.8	-0.2	**1.7**	**1.6**	**1.5**
Private Consumption	44273.3	51.5		6.4	2.0	-9.7	-4.5	**2.4**	**2.6**	**2.5**
Public Consumption	15549.4	18.1		1.6	-2.1	-3.1	-0.5	**0.2**	**-0.4**	**-0.2**
Gross fixed capital formation	17169.5	20.0		7.0	-1.3	-10.4	-1.4	**3.5**	**2.3**	**2.0**
of which: equipment	-	-		-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	22124.4	25.7		5.6	0.5	3.7	3.1	**5.1**	**4.3**	**4.2**
Imports (goods and services)	17685.8	20.6		9.7	-7.3	-25.8	-3.8	**9.7**	**6.2**	**5.9**
GNI (GDP deflator)	83870.0	97.5		4.1	1.1	-2.2	-0.2	**1.8**	**1.6**	**1.6**
Contribution to GDP growth:	Domestic demand			4.9	0.4	-7.9	-2.7	**2.0**	**1.7**	**1.7**
	Inventories			-0.1	-0.6	-0.8	0.6	**0.4**	**0.0**	**0.0**
	Net exports			-0.5	1.7	6.3	1.7	**-0.7**	**-0.1**	**-0.1**
Employment				-	0.2	1.1	-2.1	**0.1**	**0.1**	**0.1**
Unemployment rate (a)				8.1	5.2	3.9	5.7	**5.4**	**5.2**	**4.9**
Compensation of employees / head				-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				18.3	10.7	8.2	3.6	**5.1**	**3.6**	**3.4**
Consumer-price index				-	7.8	15.5	7.1	**3.9**	**3.7**	**3.5**
Terms of trade goods				5.3	-4.7	-24.0	-18.2	**8.1**	**0.0**	**0.0**
Trade balance (goods) (c)				12.0	9.0	10.7	7.0	**7.5**	**7.4**	**7.2**
Current-account balance (c)				7.3	2.6	4.8	1.8	**2.0**	**1.8**	**1.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				7.4	2.6	4.8	1.8	**2.0**	**1.8**	**1.5**
General government balance (c)				-	-1.0	-3.4	-3.7	**-2.5**	**-1.7**	**-1.1**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	16.1	15.9	16.3	**15.6**	**15.3**	**14.4**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

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Statistical Annex

European Economic Forecast – Autumn 2017

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Table 1: **Gross domestic product, volume (percentage change on preceding year, 1998-2019)** 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	2.3	2.5	0.6	0.2	1.4	1.4	1.5	**1.7**	**1.8**	**1.7**	*1.5*	*1.7*
Germany	1.7	1.6	0.7	0.5	1.9	1.7	1.9	**2.2**	**2.1**	**2.0**	*1.6*	*1.9*
Estonia	5.2	8.2	-1.5	1.9	2.9	1.7	2.1	**4.4**	**3.2**	**2.8**	*2.3*	*2.8*
Ireland	8.1	5.3	-0.8	1.6	8.3	25.6	5.1	**4.8**	**3.9**	**3.1**	*4.0*	*3.6*
Greece	3.8	4.1	-5.4	-3.2	0.7	-0.3	-0.2	**1.6**	**2.5**	**2.5**	*2.1*	*2.5*
Spain	4.2	3.6	-1.3	-1.7	1.4	3.4	3.3	**3.1**	**2.5**	**2.1**	*2.8*	*2.4*
France	2.8	2.0	0.3	0.6	0.9	1.1	1.2	**1.6**	**1.7**	**1.6**	*1.4*	*1.7*
Italy	1.8	1.2	-1.5	-1.7	0.1	1.0	0.9	**1.5**	**1.3**	**1.0**	*0.9*	*1.1*
Cyprus	4.6	4.0	0.1	-5.9	-1.4	2.0	3.0	**3.5**	**2.9**	**2.7**	*2.5*	*2.3*
Latvia	5.6	9.9	-2.6	2.6	1.9	2.8	2.1	**4.2**	**3.5**	**3.2**	*3.2*	*3.5*
Lithuania	4.6	8.6	-0.4	3.5	3.5	2.0	2.3	**3.8**	**2.9**	**2.6**	*2.9*	*3.1*
Luxembourg	5.8	4.4	0.2	3.7	5.8	2.9	3.1	**3.4**	**3.5**	**3.3**	*4.3*	*4.4*
Malta	3.5	2.5	1.7	4.6	8.2	7.1	5.5	**5.6**	**4.9**	**4.1**	*4.6*	*4.4*
Netherlands	3.2	2.3	0.0	-0.2	1.4	2.3	2.2	**3.2**	**2.7**	**2.5**	*2.1*	*1.8*
Austria	2.7	2.6	0.6	0.0	0.8	1.1	1.5	**2.6**	**2.4**	**2.3**	*1.7*	*1.7*
Portugal	3.0	1.1	-1.4	-1.1	0.9	1.8	1.5	**2.6**	**2.1**	**1.8**	*1.8*	*1.6*
Slovenia	3.9	4.7	-1.1	-1.1	3.0	2.3	3.1	**4.7**	**4.0**	**3.3**	*3.3*	*3.1*
Slovakia	2.6	7.3	1.9	1.5	2.8	3.9	3.3	**3.3**	**3.8**	**4.0**	*3.0*	*3.6*
Finland	3.9	3.6	-0.8	-0.8	-0.6	0.0	1.9	**3.3**	**2.7**	**2.4**	*1.3*	*1.7*
Euro area	2.6	2.2	-0.3	-0.2	1.3	2.1	1.8	**2.2**	**2.1**	**1.9**	*1.7*	*1.8*
Bulgaria	2.2	6.6	1.1	0.9	1.3	3.6	3.9	**3.9**	**3.8**	**3.6**	*2.9*	*2.8*
Czech Republic	2.0	5.5	0.2	-0.5	2.7	5.3	2.6	**4.3**	**3.0**	**2.9**	*2.6*	*2.7*
Denmark	2.0	2.0	-0.4	0.9	1.7	1.6	1.7	**2.3**	**2.0**	**1.9**	*1.7*	*1.8*
Croatia	2.7	4.7	-2.0	-1.1	-0.5	2.2	3.0	**3.2**	**2.8**	**2.7**	*2.9*	*2.6*
Hungary	4.0	3.5	-1.1	2.1	4.2	3.4	2.2	**3.7**	**3.6**	**3.1**	*3.6*	*3.5*
Poland	3.4	5.1	3.5	1.4	3.3	3.8	2.9	**4.2**	**3.8**	**3.4**	*3.5*	*3.2*
Romania	2.1	6.6	0.3	3.5	3.1	4.0	4.6	**5.7**	**4.4**	**4.1**	*4.3*	*3.7*
Sweden	3.4	3.5	0.5	1.2	2.6	4.5	3.3	**3.2**	**2.7**	**2.2**	*2.6*	*2.2*
EU27	2.6	2.4	-0.1	0.0	1.5	2.3	2.0	**2.4**	**2.2**	**2.0**	*1.9*	*2.0*
United Kingdom	3.0	2.7	0.0	2.1	3.1	2.3	1.8	**1.5**	**1.3**	**1.1**	*1.8*	*1.3*
EU28	2.7	2.5	-0.1	0.3	1.8	2.3	1.9	**2.3**	**2.1**	**1.9**	*1.9*	*1.9*
USA	3.2	2.9	0.6	1.7	2.6	2.9	1.5	**2.2**	**2.3**	**2.1**	*2.2*	*2.3*
Japan	0.4	1.7	-0.2	2.0	0.3	1.1	1.0	**1.6**	**1.2**	**1.0**	*1.2*	*0.6*

Table 2: **Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2017-19)** 23.10.2017

	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4
Belgium	0.6	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Germany	0.7	0.6	0.8	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Estonia	1.2	1.3	0.4	0.7	0.9	0.9	0.7	0.7	0.7	0.6	0.6	0.6
Ireland	-3.5	1.4	:	:	:	:	:	:	:	:	:	:
Greece	0.5	0.5	:	:	:	:	:	:	:	:	:	:
Spain	0.8	0.9	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
France	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Italy	0.5	0.3	0.5	0.3	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Cyprus	1.0	0.9	:	:	:	:	:	:	:	:	:	:
Latvia	1.6	1.3	0.2	0.2	1.0	1.2	1.0	1.0	0.8	0.6	0.5	0.4
Lithuania	1.1	0.6	0.5	0.8	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.6
Luxembourg	-0.4	0.6	:	:	:	:	:	:	:	:	:	:
Malta	0.7	1.2	:	:	:	:	:	:	:	:	:	:
Netherlands	0.6	1.5	0.4	0.4	0.7	0.7	0.7	0.7	0.6	0.5	0.5	0.5
Austria	1.2	0.6	0.2	0.4	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.4
Portugal	0.9	0.3	0.4	0.5	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Slovenia	1.2	1.1	0.8	0.8	1.0	1.1	1.0	1.0	0.7	0.6	0.6	0.6
Slovakia	0.8	0.8	0.9	1.0	1.0	0.9	1.0	1.0	1.1	1.1	1.0	1.0
Finland	1.2	0.4	1.3	0.9	0.3	0.6	0.5	0.6	0.5	0.6	0.6	0.7
Euro area	0.6	0.7	0.6	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Bulgaria	0.9	1.0	0.9	0.9	1.0	0.9	0.9	0.8	0.8	0.9	0.9	1.0
Czech Republic	1.5	2.5	0.2	0.4	0.6	0.8	0.9	0.9	0.7	0.6	0.5	0.4
Denmark	0.5	0.7	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Croatia	0.6	0.8	1.0	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Hungary	1.4	0.9	1.0	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.7
Poland	1.1	1.1	1.0	0.9	0.9	0.7	0.8	0.8	0.9	0.8	0.8	0.7
Romania	1.8	1.7	0.8	0.9	1.2	1.1	1.1	1.1	1.0	1.0	0.9	0.9
Sweden	0.6	1.3	0.8	0.8	0.6	0.4	0.3	0.3	0.6	0.6	0.6	0.5
EU27	0.6	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
United Kingdom	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
EU28	0.6	0.7	0.6	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5
USA	0.3	0.8	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Japan	0.3	0.6	0.4	0.2	0.3	0.2	0.2	0.2	0.1	0.6	1.2	-2.0

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2017-19) 23.10.2017

	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4
Belgium	1.6	1.5	1.9	2.0	1.9	1.9	1.8	1.7	1.7	1.6	1.7	1.8
Germany	1.9	2.1	2.6	2.7	2.4	2.3	2.0	1.9	2.0	2.0	2.0	2.0
Estonia	4.3	5.2	4.6	3.7	3.3	3.0	3.2	3.3	3.0	2.7	2.6	2.5
Ireland	5.6	5.8	:	:	:	:	:	:	:	:	:	:
Greece	0.4	0.8	:	:	:	:	:	:	:	:	:	:
Spain	3.0	3.1	3.1	3.1	2.9	2.6	2.4	2.3	2.2	2.1	2.1	2.1
France	1.1	1.8	2.1	2.0	1.9	1.8	1.6	1.5	1.5	1.6	1.7	1.9
Italy	1.3	1.5	1.7	1.6	1.4	1.3	1.0	1.0	1.0	1.0	1.0	0.9
Cyprus	3.7	3.5	:	:	:	:	:	:	:	:	:	:
Latvia	4.2	4.8	4.6	3.4	2.8	2.7	3.5	4.3	4.1	3.4	2.8	2.3
Lithuania	4.2	4.1	3.8	3.0	2.6	2.8	3.1	3.1	2.9	2.7	2.5	2.3
Luxembourg	4.0	2.2	:	:	:	:	:	:	:	:	:	:
Malta	5.8	6.2	:	:	:	:	:	:	:	:	:	:
Netherlands	2.6	3.8	3.4	3.1	3.2	2.3	2.6	2.9	2.8	2.6	2.4	2.3
Austria	2.6	2.8	2.7	2.4	1.9	2.1	2.7	2.9	2.7	2.4	2.1	1.8
Portugal	2.8	3.0	2.5	2.2	2.0	2.2	2.3	2.2	1.9	1.8	1.7	1.7
Slovenia	5.0	5.2	4.6	4.0	3.8	3.8	4.0	4.2	3.9	3.5	3.0	2.6
Slovakia	3.1	3.1	3.3	3.6	3.8	3.9	4.0	4.0	4.0	4.2	4.3	4.3
Finland	2.8	3.0	3.5	3.8	3.0	3.2	2.4	2.1	2.3	2.3	2.4	2.5
Euro area	2.0	2.3	2.5	2.4	2.2	2.1	1.9	1.9	1.9	1.8	1.9	1.9
Bulgaria	3.7	3.7	3.8	3.6	3.8	3.7	3.7	3.7	3.5	3.5	3.4	3.6
Czech Republic	3.0	4.7	4.7	4.8	3.8	2.1	2.8	3.3	3.4	3.2	2.8	2.2
Denmark	2.5	2.7	2.0	2.0	2.0	1.8	2.1	2.0	2.0	1.9	1.9	1.9
Croatia	3.4	3.4	3.0	3.1	3.2	3.0	2.6	2.5	2.5	2.6	2.7	2.8
Hungary	3.8	3.5	4.1	4.3	3.8	3.8	3.6	3.3	3.2	3.2	3.1	2.9
Poland	4.2	4.4	5.0	4.1	3.9	3.5	3.3	3.3	3.3	3.4	3.4	3.3
Romania	5.7	5.9	6.0	5.2	4.6	4.0	4.3	4.6	4.3	4.2	4.0	3.9
Sweden	2.2	3.0	3.2	3.5	3.5	2.6	2.1	1.5	1.5	1.7	2.0	2.3
EU27	2.2	2.5	2.7	2.6	2.4	2.2	2.0	2.0	2.0	2.0	2.0	2.0
United Kingdom	1.8	1.5	1.5	1.2	1.3	1.3	1.2	1.1	1.1	1.2	1.2	1.3
EU28	2.1	2.4	2.5	2.4	2.2	2.1	1.9	1.8	1.9	1.9	1.9	1.9
USA	2.0	2.2	2.1	2.5	2.7	2.3	2.3	2.0	2.0	2.1	2.2	2.2
Japan	1.4	1.6	1.7	1.5	1.6	1.2	1.0	1.0	0.8	1.1	2.2	0.0

Table 4: Gross domestic product per capita (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	2.0	1.9	-0.2	-0.3	0.9	0.9	1.0	**1.2**	**1.3**	**1.2**	*0.7*	*1.2*
Germany	1.7	1.8	0.8	0.2	1.5	0.9	1.0	**1.3**	**1.6**	**1.7**	*0.8*	*1.4*
Estonia	5.5	8.9	-1.3	2.3	3.2	1.9	1.9	**4.1**	**3.1**	**2.8**	*2.2*	*2.8*
Ireland	6.6	3.0	-1.6	1.4	8.0	24.8	4.2	**3.7**	**2.9**	**2.1**	*2.9*	*2.6*
Greece	3.3	3.8	-5.4	-2.5	1.4	0.4	0.1	**2.1**	**3.1**	**3.1**	*2.1*	*2.5*
Spain	3.5	1.8	-1.9	-1.3	1.7	3.5	3.2	**3.0**	**2.5**	**2.1**	*2.7*	*2.3*
France	2.2	1.3	-0.2	0.1	0.4	0.6	0.8	**1.1**	**1.2**	**1.1**	*0.9*	*1.3*
Italy	1.7	0.6	-2.0	-2.2	-0.1	1.1	1.1	**1.5**	**1.3**	**1.0**	*1.0*	*1.1*
Cyprus	3.4	2.4	-2.2	-5.7	-0.3	2.6	2.6	**3.5**	**2.2**	**2.1**	*2.4*	*1.7*
Latvia	6.7	10.9	-1.0	3.6	2.9	3.7	3.0	**5.2**	**4.5**	**4.1**	*3.8*	*4.0*
Lithuania	5.4	10.0	1.1	4.6	4.4	3.0	3.7	**5.4**	**4.4**	**3.9**	*4.3*	*4.9*
Luxembourg	4.5	2.8	-1.8	1.0	3.3	0.9	0.5	**0.9**	**1.1**	**0.9**	*2.1*	*2.2*
Malta	2.8	2.0	1.0	3.6	7.1	5.9	4.2	**4.6**	**4.1**	**3.4**	*3.6*	*3.4*
Netherlands	2.5	2.0	-0.5	-0.5	1.0	1.8	1.6	**2.8**	**2.3**	**2.1**	*1.5*	*1.3*
Austria	2.4	2.1	0.3	-0.6	0.0	0.1	0.2	**1.8**	**1.7**	**1.7**	*0.9*	*1.0*
Portugal	2.4	0.9	-1.3	-0.6	1.4	2.2	1.9	**2.8**	**2.2**	**1.9**	*2.0*	*1.7*
Slovenia	3.8	4.5	-1.5	-1.3	2.9	2.2	3.1	**4.6**	**3.9**	**3.2**	*3.2*	*3.0*
Slovakia	2.6	7.2	1.8	1.4	2.6	3.8	3.2	**3.2**	**3.7**	**3.9**	*3.0*	*3.5*
Finland	3.7	3.2	-1.2	-1.2	-1.1	-0.3	1.7	**2.9**	**2.3**	**2.0**	*0.9*	*1.4*
Euro area	2.2	1.7	-0.6	-0.5	1.1	1.8	1.4	**1.9**	**1.8**	**1.7**	*1.4*	*1.6*
Bulgaria	3.4	7.4	1.7	1.4	1.9	4.3	4.7	**4.5**	**4.2**	**3.9**	*3.6*	*3.4*
Czech Republic	2.2	5.2	-0.2	-0.5	2.6	5.1	2.4	**4.1**	**2.8**	**2.6**	*2.4*	*2.4*
Denmark	1.7	1.7	-0.9	0.5	1.1	0.9	0.8	**1.5**	**1.2**	**1.1**	*0.9*	*1.1*
Croatia	3.9	4.7	-1.7	-0.8	-0.1	3.2	3.7	**4.1**	**3.4**	**3.2**	*3.7*	*3.3*
Hungary	4.3	3.7	-0.8	2.4	4.5	3.7	2.5	**4.0**	**3.9**	**3.4**	*3.8*	*3.6*
Poland	3.4	5.1	3.2	1.5	3.3	3.9	2.9	**4.2**	**3.8**	**3.5**	*3.5*	*3.2*
Romania	2.9	7.4	1.1	3.9	3.5	4.5	5.2	**6.8**	**5.0**	**4.7**	*5.2*	*4.4*
Sweden	3.2	3.0	-0.3	0.4	1.6	3.4	2.0	**1.7**	**1.3**	**1.1**	*1.2*	*1.1*
EU27	2.4	2.0	-0.4	-0.2	1.4	2.1	1.7	**2.2**	**2.0**	**1.9**	*1.6*	*1.8*
United Kingdom	2.6	2.1	-0.8	1.4	2.3	1.5	1.1	**0.7**	**0.6**	**0.4**	*1.0*	*0.5*
EU28	2.5	2.1	-0.4	0.1	1.5	2.0	1.6	**2.0**	**1.8**	**1.7**	*1.5*	*1.6*
USA	2.1	1.9	-0.2	1.0	1.8	2.1	0.8	**1.4**	**1.6**	**1.4**	*1.5*	*1.5*
Japan	0.2	1.5	-0.2	2.1	0.5	1.3	1.2	**1.7**	**1.3**	**1.2**	*1.3*	*0.7*

Table 5: Domestic demand, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.7	2.5	0.9	-0.3	2.1	1.4	2.1	**1.9**	**1.9**	**1.7**	*1.3*	*1.5*
Germany	1.0	0.9	0.6	0.9	1.3	1.6	2.4	**2.4**	**2.4**	**2.1**	*1.9*	*2.2*
Estonia	5.8	10.2	-3.2	1.3	3.6	1.0	3.2	**4.8**	**3.3**	**2.6**	*3.3*	*2.4*
Ireland	7.5	6.0	-2.9	-1.7	8.3	9.2	21.3	**3.0**	**4.0**	**3.2**	*4.3*	*3.7*
Greece	4.5	4.6	-7.0	-4.3	0.9	-1.1	0.4	**1.4**	**2.2**	**2.4**	*1.8*	*2.3*
Spain	4.9	4.6	-3.0	-3.2	2.0	4.0	2.6	**2.5**	**2.3**	**1.9**	*2.4*	*2.2*
France	3.0	2.4	0.3	0.7	1.4	1.6	1.9	**1.9**	**1.8**	**1.7**	*1.4*	*1.9*
Italy	2.3	1.2	-2.0	-2.6	0.2	1.5	1.1	**1.6**	**1.5**	**1.1**	*1.1*	*1.4*
Cyprus	4.0	5.6	-0.6	-9.4	-1.2	2.9	4.7	**4.1**	**3.5**	**3.3**	*2.2*	*2.3*
Latvia	6.1	12.7	-5.2	2.1	-0.9	2.3	2.4	**6.7**	**4.0**	**3.5**	*4.7*	*4.9*
Lithuania	4.4	10.9	-3.4	2.8	3.4	7.4	2.4	**4.0**	**3.5**	**3.2**	*3.9*	*3.3*
Luxembourg	4.5	3.2	2.1	2.6	3.3	1.4	1.6	**4.0**	**2.6**	**2.6**	*4.0*	*3.3*
Malta	1.3	3.8	0.9	3.2	2.9	12.7	1.7	**0.5**	**5.7**	**4.1**	*4.3*	*1.9*
Netherlands	3.3	1.9	-0.4	-1.4	0.9	3.3	1.8	**2.6**	**3.0**	**2.7**	*2.2*	*2.0*
Austria	1.6	2.3	0.6	-0.1	0.4	1.1	2.1	**2.0**	**1.7**	**1.5**	*1.5*	*1.4*
Portugal	3.5	1.1	-2.8	-2.0	2.2	2.7	1.6	**2.6**	**2.0**	**2.0**	*2.1*	*1.7*
Slovenia	3.7	5.0	-2.8	-2.0	1.7	1.8	2.9	**4.1**	**4.4**	**3.6**	*3.5*	*3.5*
Slovakia	2.1	5.6	-0.1	0.3	3.5	5.6	0.9	**3.2**	**3.4**	**3.2**	*2.9*	*3.3*
Finland	3.1	3.6	0.0	-1.1	-0.1	1.2	2.5	**2.5**	**1.9**	**1.4**	*1.0*	*1.4*
Euro area	2.5	2.2	-0.8	-0.6	1.3	2.1	2.3	**2.2**	**2.1**	**1.9**	*1.8*	*2.0*
Bulgaria	8.2	9.8	-1.1	-2.2	2.7	3.4	1.6	**4.0**	**3.8**	**3.4**	*2.9*	*2.8*
Czech Republic	2.2	4.4	-0.8	-0.6	3.4	5.9	1.5	**3.5**	**3.5**	**3.1**	*2.5*	*2.9*
Denmark	1.5	3.1	-0.8	0.8	1.5	1.3	2.1	**2.0**	**2.2**	**2.2**	*1.9*	*2.0*
Croatia	2.0	5.4	-3.2	-1.1	-1.8	2.0	3.0	**3.4**	**3.0**	**3.0**	*3.5*	*3.2*
Hungary	4.7	2.6	-2.7	2.2	5.5	1.2	1.6	**4.9**	**4.5**	**3.0**	*5.2*	*3.9*
Poland	3.0	5.5	2.6	-0.6	4.7	3.3	2.2	**5.0**	**4.3**	**3.5**	*3.7*	*3.5*
Romania	3.2	11.3	-1.1	-0.1	3.4	5.4	5.2	**6.4**	**4.8**	**4.4**	*5.0*	*4.5*
Sweden	2.9	3.2	0.8	1.6	2.9	4.3	3.3	**3.2**	**2.5**	**2.0**	*2.3*	*2.0*
EU27	2.5	2.5	-0.7	-0.5	1.6	2.3	2.4	**2.4**	**2.3**	**2.0**	*2.0*	*2.1*
United Kingdom	3.8	2.8	-0.5	1.9	3.1	2.3	2.1	**0.9**	**1.0**	**1.0**	*1.4*	*0.7*
EU28	2.8	2.5	-0.6	-0.1	1.8	2.3	2.3	**2.2**	**2.1**	**1.9**	*1.9*	*1.9*
USA	3.8	2.9	0.2	1.3	2.7	3.5	1.7	**2.4**	**2.5**	**2.4**	*2.3*	*2.7*
Japan	0.2	1.0	0.0	2.4	0.4	0.7	0.4	**1.7**	**1.2**	**1.1**	*1.0*	*0.5*

Table 6: Final demand, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	3.1	3.4	1.2	0.3	3.5	2.2	4.5	**3.1**	**3.1**	**2.9**	*2.5*	*2.6*
Germany	2.4	3.0	1.1	1.2	2.4	2.8	2.5	**2.8**	**2.9**	**2.7**	*2.5*	*2.8*
Estonia	4.8	11.5	0.3	2.0	3.1	0.3	3.6	**4.3**	**3.7**	**3.2**	*3.5*	*3.0*
Ireland	11.7	5.5	-0.3	1.0	11.8	26.2	10.4	**3.5**	**4.3**	**3.8**	*4.0*	*4.1*
Greece	5.0	5.0	-6.1	-3.0	2.5	-0.1	-0.1	**2.6**	**2.8**	**2.9**	*2.3*	*2.7*
Spain	5.2	4.6	-2.2	-1.4	2.6	4.0	3.1	**3.4**	**3.0**	**2.6**	*3.2*	*2.8*
France	3.7	2.6	0.5	0.9	1.8	2.2	1.9	**2.1**	**2.3**	**2.3**	*1.8*	*2.5*
Italy	2.4	1.9	-1.8	-1.9	0.8	2.2	1.4	**2.4**	**2.1**	**1.6**	*1.7*	*1.9*
Cyprus	3.7	4.2	-0.3	-5.4	0.8	4.2	4.4	**3.6**	**3.0**	**2.8**	*2.6*	*2.6*
Latvia	5.8	12.6	-2.4	1.7	1.6	2.6	3.0	**5.6**	**4.1**	**3.7**	*4.2*	*4.4*
Lithuania	5.4	10.6	1.0	6.0	3.3	3.9	2.9	**6.8**	**4.3**	**3.7**	*3.7*	*3.5*
Luxembourg	7.7	6.5	2.0	4.5	11.2	5.5	2.5	**4.8**	**4.3**	**3.7**	*5.3*	*5.4*
Malta	2.8	4.9	4.4	1.9	3.6	7.3	2.8	**2.0**	**4.4**	**3.8**	*3.9*	*3.5*
Netherlands	4.3	3.5	0.7	0.3	2.6	4.8	3.0	**4.0**	**3.8**	**3.5**	*2.9*	*2.9*
Austria	3.3	3.6	0.8	0.2	1.3	1.8	2.0	**3.1**	**2.7**	**2.5**	*2.1*	*2.0*
Portugal	3.8	2.0	-1.7	0.5	2.8	3.7	2.3	**4.1**	**3.6**	**2.9**	*2.8*	*2.4*
Slovenia	4.9	7.1	-1.4	0.2	3.5	3.3	4.5	**6.3**	**5.8**	**4.5**	*4.6*	*4.4*
Slovakia	3.5	10.3	1.8	3.4	3.7	6.0	3.5	**3.9**	**5.1**	**5.4**	*4.7*	*5.2*
Finland	4.6	4.5	-0.4	-0.4	-0.8	1.1	2.2	**4.2**	**2.9**	**2.5**	*1.4*	*1.9*
Euro area	3.5	3.2	-0.1	0.2	2.4	3.4	2.7	**2.9**	**2.9**	**2.6**	*2.4*	*2.7*
Bulgaria	2.8	10.7	0.2	2.2	2.8	4.3	4.1	**4.5**	**4.3**	**4.1**	*3.6*	*3.6*
Czech Republic	3.9	8.5	1.2	-0.3	5.8	5.9	2.9	**5.1**	**4.1**	**3.9**	*3.4*	*3.8*
Denmark	3.2	3.6	-0.1	1.1	2.3	1.5	2.3	**3.0**	**2.8**	**2.6**	*2.4*	*2.7*
Croatia	3.1	5.5	-2.7	0.2	0.6	4.4	3.9	**4.4**	**4.0**	**3.7**	*4.1*	*3.7*
Hungary	7.7	7.2	-0.6	3.2	7.2	4.7	2.5	**6.3**	**5.8**	**4.6**	*5.1*	*4.9*
Poland	4.0	6.8	3.3	1.5	5.4	4.7	4.5	**5.5**	**5.2**	**4.3**	*5.1*	*4.6*
Romania	5.1	11.0	0.0	5.1	4.7	5.1	6.1	**6.9**	**5.5**	**5.1**	*5.6*	*5.0*
Sweden	3.8	4.4	0.8	0.8	3.6	4.7	3.3	**3.5**	**3.0**	**2.6**	*2.8*	*2.6*
EU27	3.5	3.5	0.0	0.4	2.6	3.6	2.8	**3.2**	**3.1**	**2.8**	*2.7*	*2.8*
United Kingdom	3.8	3.3	-0.2	1.6	3.0	2.9	1.9	**1.7**	**1.5**	**1.4**	*1.8*	*1.2*
EU28	3.6	3.5	0.0	0.6	2.7	3.5	2.7	**3.0**	**2.8**	**2.6**	*2.5*	*2.6*
USA	3.6	3.3	0.6	1.6	2.8	3.1	1.5	**2.5**	**2.7**	**2.6**	*2.4*	*2.8*
Japan	0.5	2.0	-0.1	2.2	1.6	1.1	0.5	**2.2**	**1.3**	**1.2**	*1.3*	*0.6*

Table 7: Private consumption expenditure, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.7	1.3	1.2	0.7	0.6	0.9	1.7	**1.8**	**1.9**	**1.8**	*1.4*	*1.4*
Germany	1.3	0.6	0.8	0.6	1.0	1.7	2.1	**2.1**	**1.9**	**1.8**	*1.3*	*1.7*
Estonia	5.8	9.5	-3.0	3.5	3.4	4.6	4.4	**2.2**	**3.6**	**2.5**	*2.6*	*3.8*
Ireland	7.7	5.9	-1.2	-0.2	2.1	4.2	3.2	**2.6**	**2.6**	**2.4**	*2.8*	*2.7*
Greece	3.9	3.6	-4.6	-2.6	0.6	-0.5	0.0	**0.9**	**1.2**	**1.2**	*1.4*	*1.4*
Spain	4.1	3.5	-2.0	-3.1	1.5	3.0	3.0	**2.6**	**2.2**	**1.6**	*2.5*	*2.0*
France	3.2	2.1	0.5	0.5	0.8	1.4	2.2	**1.1**	**1.4**	**1.4**	*1.2*	*1.6*
Italy	1.8	1.1	-1.1	-2.5	0.3	2.0	1.5	**1.4**	**1.1**	**0.9**	*0.8*	*1.0*
Cyprus	4.5	5.6	0.5	-5.9	0.7	2.6	3.3	**3.3**	**2.9**	**2.7**	*2.1*	*1.9*
Latvia	3.6	11.6	-3.3	5.1	1.4	2.5	3.3	**4.3**	**4.0**	**3.9**	*3.9*	*4.9*
Lithuania	5.4	11.1	-2.2	4.3	4.0	4.0	4.9	**3.9**	**3.4**	**3.1**	*3.8*	*3.4*
Luxembourg	4.1	1.6	1.6	2.0	2.3	3.3	2.4	**2.6**	**2.5**	**2.3**	*3.3*	*2.9*
Malta	3.4	2.5	0.8	2.1	2.7	5.9	3.0	**4.2**	**4.1**	**3.6**	*3.5*	*3.3*
Netherlands	3.7	0.5	-0.4	-1.0	0.3	2.0	1.6	**2.1**	**2.3**	**1.8**	*2.3*	*1.5*
Austria	2.1	1.9	0.9	-0.1	0.3	0.5	1.5	**1.4**	**1.5**	**1.3**	*1.3*	*1.2*
Portugal	3.2	1.6	-1.6	-1.2	2.3	2.3	2.1	**1.9**	**1.6**	**1.6**	*1.9*	*1.3*
Slovenia	3.0	3.2	0.4	-4.1	1.9	2.1	4.2	**3.4**	**3.6**	**3.0**	*3.2*	*3.0*
Slovakia	3.8	5.4	1.0	-0.8	1.4	2.2	2.7	**3.3**	**3.3**	**3.3**	*3.1*	*2.9*
Finland	3.1	3.7	1.1	-0.5	0.8	1.7	1.8	**2.0**	**1.8**	**1.6**	*1.1*	*1.4*
Euro area	2.5	1.7	-0.2	-0.6	0.8	1.8	2.0	**1.8**	**1.7**	**1.5**	*1.5*	*1.6*
Bulgaria	5.3	8.9	1.0	-2.5	2.7	4.5	3.6	**4.6**	**3.8**	**3.5**	*2.7*	*2.7*
Czech Republic	2.0	3.9	0.5	0.5	1.8	3.7	3.6	**3.5**	**3.0**	**2.8**	*2.4*	*2.6*
Denmark	0.9	2.9	-0.3	0.3	0.5	1.9	2.1	**2.3**	**2.5**	**2.5**	*1.9*	*1.9*
Croatia	2.2	4.3	-2.1	-1.8	-1.6	1.1	3.3	**3.6**	**2.8**	**2.3**	*3.2*	*2.8*
Hungary	5.4	3.2	-2.4	0.2	2.8	3.6	4.3	**4.6**	**3.8**	**3.1**	*4.8*	*3.3*
Poland	3.8	3.6	3.4	0.3	2.4	3.0	3.9	**4.9**	**3.7**	**3.2**	*3.9*	*3.1*
Romania	3.6	12.2	-0.2	0.7	4.7	5.9	7.4	**8.6**	**4.8**	**4.6**	*6.9*	*4.7*
Sweden	3.2	2.9	1.4	1.9	2.1	3.1	2.2	**2.4**	**2.5**	**2.3**	*2.1*	*2.4*
EU27	2.5	2.0	-0.1	-0.5	1.0	2.0	2.2	**2.1**	**1.9**	**1.7**	*1.7*	*1.8*
United Kingdom	4.2	2.8	-0.4	1.7	2.1	2.6	2.8	**1.4**	**1.1**	**1.1**	*1.8*	*0.9*
EU28	2.8	2.2	-0.1	-0.1	1.2	2.1	2.4	**2.0**	**1.8**	**1.6**	*1.7*	*1.6*
USA	4.2	3.2	0.7	1.5	2.9	3.6	2.7	**2.6**	**2.4**	**2.3**	*2.4*	*2.8*
Japan	1.0	1.0	0.5	2.4	-0.9	-0.3	0.4	**1.6**	**1.1**	**1.2**	*0.6*	*0.6*

Table 8: Government consumption expenditure, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	2.2	1.3	1.5	0.3	0.7	0.5	0.5	**0.3**	**0.6**	**0.3**	*0.2*	*0.4*
Germany	1.3	0.5	1.9	1.4	1.5	2.9	3.7	**1.8**	**2.3**	**2.0**	*3.2*	*3.0*
Estonia	1.0	4.4	1.1	2.7	2.6	3.3	1.9	**1.1**	**1.6**	**1.6**	*1.8*	*1.9*
Ireland	6.0	2.7	-2.6	-1.0	4.1	2.2	5.2	**3.3**	**3.5**	**1.9**	*3.2*	*2.3*
Greece	3.5	4.7	-3.6	-6.4	-1.4	1.2	-1.5	**0.9**	**0.2**	**0.4**	*0.5*	*0.1*
Spain	3.9	5.6	1.3	-2.1	-0.3	2.1	0.8	**0.9**	**0.8**	**0.8**	*0.9*	*0.8*
France	1.1	1.7	1.5	1.5	1.3	1.1	1.3	**1.2**	**1.7**	**1.3**	*1.2*	*1.2*
Italy	2.2	0.6	-0.3	-0.3	-0.7	-0.6	0.5	**0.7**	**0.3**	**0.3**	*0.2*	*0.0*
Cyprus	4.1	5.4	2.7	-8.1	-7.2	-2.8	-0.4	**3.3**	**1.3**	**1.7**	*0.7*	*0.8*
Latvia	3.6	4.0	-2.8	1.6	1.9	1.9	2.7	**4.0**	**2.5**	**2.0**	*3.0*	*2.5*
Lithuania	0.8	3.0	-0.7	0.7	0.3	0.2	1.3	**1.6**	**1.6**	**1.5**	*1.4*	*1.3*
Luxembourg	5.2	3.2	2.1	3.8	2.0	2.6	2.0	**3.8**	**3.2**	**3.4**	*3.9*	*3.4*
Malta	0.9	1.4	3.8	-0.4	6.5	3.7	-1.8	**6.8**	**10.0**	**6.2**	*11.8*	*4.1*
Netherlands	3.6	3.3	1.5	-0.1	0.3	-0.2	1.2	**1.0**	**2.9**	**2.8**	*0.8*	*1.0*
Austria	1.4	1.9	1.2	0.8	0.8	1.5	2.1	**1.3**	**1.2**	**1.1**	*1.0*	*0.9*
Portugal	4.1	1.5	-1.1	-2.0	-0.5	1.3	0.6	**0.4**	**0.5**	**0.5**	*0.4*	*0.5*
Slovenia	3.6	2.6	0.7	-2.1	-1.2	2.7	2.5	**1.5**	**1.6**	**1.3**	*1.7*	*2.0*
Slovakia	2.5	3.8	2.0	2.2	5.2	5.4	1.6	**0.8**	**1.8**	**1.8**	*2.4*	*2.5*
Finland	1.9	1.4	0.7	1.1	-0.5	0.0	1.2	**0.7**	**0.3**	**0.1**	*-0.8*	*0.3*
Euro area	2.0	1.8	1.0	0.3	0.7	1.3	1.8	**1.2**	**1.6**	**1.4**	*1.5*	*1.5*
Bulgaria	8.2	3.5	-0.4	0.6	0.1	1.4	2.2	**2.7**	**3.9**	**2.8**	*2.0*	*2.2*
Czech Republic	2.0	1.3	-0.2	2.5	1.1	1.9	2.0	**2.2**	**2.2**	**1.7**	*2.0*	*1.9*
Denmark	2.7	1.3	1.6	-0.1	1.2	0.6	0.4	**0.9**	**0.6**	**0.9**	*0.4*	*0.6*
Croatia	0.8	4.0	-0.3	0.3	-0.8	-1.4	1.3	**1.7**	**1.7**	**1.0**	*2.3*	*1.4*
Hungary	2.4	0.9	0.6	4.1	5.1	1.1	0.8	**0.6**	**1.2**	**0.7**	*0.9*	*2.0*
Poland	3.8	3.8	1.7	2.5	4.1	2.4	1.7	**2.5**	**3.3**	**3.3**	*2.8*	*2.8*
Romania	-0.2	-0.1	1.2	-4.6	0.8	0.2	4.7	**3.0**	**3.0**	**3.0**	*3.7*	*3.0*
Sweden	1.4	0.6	1.4	1.3	1.5	2.4	3.4	**0.6**	**1.3**	**0.7**	*1.7*	*0.3*
EU27	2.0	1.7	1.0	0.4	0.9	1.4	1.8	**1.3**	**1.6**	**1.4**	*1.5*	*1.4*
United Kingdom	3.7	2.7	1.0	0.2	2.5	0.6	1.1	**0.6**	**0.5**	**0.4**	*1.2*	*0.7*
EU28	2.3	1.9	1.0	0.4	1.1	1.3	1.7	**1.2**	**1.5**	**1.3**	*1.5*	*1.3*
USA	2.7	1.3	0.5	-2.4	-0.5	1.3	1.0	**0.1**	**1.1**	**1.2**	*0.6*	*1.5*
Japan	2.9	1.0	1.5	1.5	0.5	1.7	1.3	**0.4**	**0.8**	**0.8**	*0.9*	*0.9*

Table 9: Total investment, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.5	4.6	-0.3	-1.5	6.0	2.7	3.6	**4.1**	**3.2**	**2.8**	*2.1*	*3.0*
Germany	0.4	2.2	0.5	-1.3	3.7	1.5	3.1	**3.8**	**3.6**	**2.9**	*1.9*	*2.7*
Estonia	10.7	14.2	-4.1	1.5	-8.7	-2.9	-1.2	**16.6**	**4.4**	**3.6**	*9.3*	*0.1*
Ireland	8.7	8.2	-6.1	-4.0	18.2	28.2	60.8	**3.5**	**5.6**	**4.6**	*6.7*	*5.6*
Greece	7.3	7.6	-17.1	-8.4	-4.7	-0.3	1.6	**5.1**	**11.5**	**12.1**	*6.3*	*10.8*
Spain	7.5	6.3	-8.4	-3.4	4.7	6.5	3.3	**4.1**	**4.0**	**3.7**	*3.4*	*3.9*
France	4.4	3.5	-0.9	-0.8	0.0	1.0	2.8	**3.2**	**3.6**	**2.9**	*2.6*	*3.7*
Italy	4.4	1.6	-5.0	-6.6	-2.3	1.9	2.8	**2.5**	**3.8**	**2.7**	*3.6*	*3.3*
Cyprus	1.6	8.1	-8.6	-12.9	-17.5	13.6	35.0	**7.8**	**7.3**	**6.4**	*3.4*	*4.9*
Latvia	16.1	19.2	-7.2	-6.0	0.1	-0.5	-15.0	**17.8**	**5.5**	**4.0**	*14.2*	*7.3*
Lithuania	5.9	16.6	-6.8	8.3	5.8	4.8	-0.5	**6.4**	**5.1**	**4.6**	*6.0*	*4.5*
Luxembourg	6.2	4.2	4.1	1.2	4.3	-8.0	0.5	**6.8**	**2.4**	**2.4**	*5.4*	*4.0*
Malta	-2.1	11.1	-2.9	1.2	7.4	48.4	-0.4	**-11.5**	**5.6**	**3.5**	*0.5*	*-3.0*
Netherlands	2.7	3.0	-2.6	-4.3	2.3	11.0	5.3	**5.5**	**4.5**	**4.4**	*3.5*	*4.2*
Austria	1.3	2.2	-0.2	1.6	-0.7	1.2	3.7	**3.9**	**2.7**	**2.4**	*2.5*	*2.1*
Portugal	3.8	-1.0	-7.7	-5.1	2.3	5.8	1.6	**8.1**	**5.3**	**4.9**	*5.4*	*4.7*
Slovenia	5.1	7.3	-8.9	3.2	1.1	-1.6	-3.6	**9.1**	**9.8**	**7.4**	*6.3*	*6.4*
Slovakia	-1.2	7.0	-1.9	-0.9	3.0	19.8	-8.3	**1.0**	**5.9**	**4.5**	*0.9*	*5.8*
Finland	3.9	4.4	-2.0	-4.9	-2.6	0.7	7.2	**6.9**	**4.4**	**3.0**	*3.1*	*2.9*
Euro area	3.3	3.4	-2.9	-2.5	1.9	3.3	4.5	**3.9**	**3.9**	**3.3**	*2.9*	*3.5*
Bulgaria	18.2	15.8	-4.3	0.3	3.4	2.7	-6.6	**3.5**	**3.9**	**3.8**	*4.3*	*3.8*
Czech Republic	2.4	6.2	-1.8	-2.5	3.9	10.2	-2.3	**4.9**	**5.5**	**5.0**	*3.5*	*4.2*
Denmark	2.3	5.0	-3.6	2.7	3.5	2.5	5.6	**2.8**	**3.2**	**2.9**	*3.6*	*3.7*
Croatia	3.0	9.8	-5.7	1.4	-2.8	3.8	5.1	**4.2**	**5.0**	**6.6**	*5.2*	*5.7*
Hungary	7.1	3.4	-4.3	9.8	12.3	1.9	-10.6	**15.2**	**10.9**	**4.9**	*12.8*	*7.2*
Poland	0.9	10.0	2.5	-1.1	10.0	6.1	-7.9	**4.2**	**7.9**	**4.8**	*4.9*	*6.1*
Romania	3.4	20.4	-5.6	-5.4	3.2	7.4	-3.5	**1.6**	**6.5**	**5.5**	*1.3*	*5.2*
Sweden	4.2	6.1	-0.5	0.6	5.5	6.9	5.6	**7.6**	**3.8**	**2.8**	*3.9*	*3.1*
EU27	3.3	4.0	-2.8	-2.1	2.4	3.7	3.7	**4.1**	**4.1**	**3.4**	*3.1*	*3.6*
United Kingdom	2.5	3.3	-2.3	3.4	7.1	2.8	1.3	**1.9**	**0.7**	**1.1**	*0.2*	*0.3*
EU28	3.1	3.9	-2.7	-1.5	3.0	3.5	3.4	**3.8**	**3.7**	**3.1**	*2.7*	*3.2*
USA	4.2	3.2	-1.6	3.0	4.8	3.5	0.6	**3.4**	**3.8**	**3.5**	*3.1*	*3.3*
Japan	-2.3	0.2	-2.1	4.9	2.9	0.1	0.9	**3.1**	**1.7**	**1.1**	*2.3*	*0.0*

Table 10: Investment in construction, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	-1.6	4.8	1.2	-2.1	2.5	-0.4	2.4	**2.7**	**2.3**	**2.0**	*2.1*	*2.5*
Germany	-2.6	-1.1	1.5	-1.1	2.3	-1.4	2.7	**4.7**	**3.6**	**2.8**	*2.3*	*2.7*
Estonia	8.6	14.6	-5.5	1.2	-13.6	3.1	-7.6	**15.1**	**3.9**	**0.4**	*6.2*	*4.1*
Ireland	7.1	7.0	-18.3	12.5	10.0	7.4	18.4	**17.3**	**14.3**	**11.0**	*17.2*	*14.4*
Greece	3.9	6.6	-16.1	-12.9	-25.4	-12.0	19.4	**-6.1**	**8.9**	**11.0**	*2.2*	*8.6*
Spain	8.0	5.7	-11.2	-8.6	4.2	3.8	2.4	**3.8**	**4.0**	**3.8**	*3.0*	*3.9*
France	3.7	4.0	-2.1	-0.8	-1.7	-1.2	1.1	**3.2**	**3.7**	**3.1**	*2.5*	*3.7*
Italy	4.0	1.6	-6.0	-8.0	-6.6	-0.6	1.1	**1.2**	**2.6**	**2.0**	*1.8*	*2.9*
Cyprus	1.6	12.4	-10.7	-18.5	-12.8	-2.1	11.7	**17.5**	**13.4**	**10.1**	*7.8*	*4.7*
Latvia	18.9	19.8	-6.8	-10.3	10.2	-0.2	-19.7	**18.0**	**5.8**	**4.0**	*12.6*	*6.2*
Lithuania	2.8	15.9	-8.4	8.0	8.4	0.1	-6.6	**6.8**	**5.0**	**5.0**	*6.4*	*5.0*
Luxembourg	8.6	1.9	-0.2	5.4	3.6	-3.6	5.6	**4.2**	**3.5**	**3.1**	*5.1*	*3.9*
Malta	:	4.4	-4.6	-0.8	1.0	15.2	-6.5	**:**	**:**	**:**	*:*	*:*
Netherlands	2.4	2.4	-5.5	-6.2	2.4	10.9	8.3	**8.2**	**4.5**	**4.3**	*4.6*	*4.2*
Austria	-0.9	1.4	-1.6	-1.6	-0.1	1.1	1.1	**2.7**	**1.7**	**1.5**	*1.5*	*1.3*
Portugal	3.4	-3.4	-9.3	-12.1	-3.7	5.1	-0.4	**8.2**	**4.7**	**3.0**	*6.2*	*3.6*
Slovenia	2.9	5.7	-11.8	-4.6	9.8	-5.5	-14.0	**5.6**	**7.5**	**5.1**	*4.1*	*4.4*
Slovakia	-1.7	9.1	-5.6	4.7	-7.2	29.0	-18.2	**-7.2**	**4.4**	**4.5**	*-1.0*	*5.8*
Finland	4.7	4.9	-2.3	-3.8	-3.8	1.6	9.9	**7.0**	**5.3**	**2.5**	*3.8*	*3.0*
Euro area	:	2.7	-4.3	-3.5	-0.4	0.5	2.5	**4.1**	**3.8**	**3.2**	*2.8*	*3.5*
Bulgaria	:	17.9	0.1	-0.5	-4.1	-3.8	-2.7	**2.0**	**3.1**	**3.3**	*2.7*	*3.3*
Czech Republic	-1.9	4.8	-2.8	-4.9	1.0	9.7	-5.8	**4.9**	**5.9**	**4.6**	*3.1*	*3.9*
Denmark	0.8	4.9	-5.8	-1.0	5.2	3.2	6.9	**2.1**	**2.8**	**2.6**	*3.9*	*3.9*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	4.9	0.2	-6.8	11.2	10.5	5.8	-23.1	**20.0**	**9.9**	**6.2**	*24.5*	*7.2*
Poland	0.6	8.6	4.5	-4.8	8.9	2.2	-7.7	**7.4**	**9.7**	**5.8**	*5.2*	*6.7*
Romania	2.8	22.1	-3.5	-15.0	10.1	20.9	-2.8	**1.4**	**9.7**	**3.5**	*1.4*	*3.2*
Sweden	5.0	6.6	-2.4	-1.3	9.4	8.6	9.1	**11.1**	**5.1**	**2.3**	*5.7*	*2.9*
EU27	2.0	3.2	-4.0	-3.5	0.6	1.3	1.9	**4.5**	**4.2**	**3.3**	*3.2*	*3.6*
United Kingdom	1.9	3.6	-3.1	3.7	5.4	3.5	1.6	**3.8**	**0.4**	**1.2**	*0.3*	*0.3*
EU28	1.9	3.2	-3.9	-2.6	1.2	1.7	1.9	**4.4**	**3.7**	**3.0**	*2.7*	*3.1*
USA	2.4	0.4	-5.6	3.4	5.2	4.1	0.5	**2.5**	**2.2**	**2.2**	*4.1*	*3.5*
Japan	-4.0	-4.3	-2.7	10.9	1.6	-0.5	:	**:**	**:**	**:**	*:*	*:*

Table 11: Investment in equipment, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	3.8	4.4	-3.9	-1.6	7.9	1.6	13.1	**5.2**	**4.0**	**3.5**	*2.1*	*3.4*
Germany	3.3	6.2	-1.8	-2.3	5.9	3.9	2.2	**2.6**	**3.7**	**3.0**	*1.4*	*2.8*
Estonia	13.0	13.8	-4.2	0.9	0.7	-13.7	6.2	**21.0**	**5.8**	**7.3**	*13.8*	*-7.1*
Ireland	6.9	13.9	1.5	-6.0	21.6	-0.7	27.9	**-2.7**	**5.7**	**4.5**	*7.5*	*6.5*
Greece	14.5	9.5	-20.6	-4.5	29.3	7.9	-12.3	**18.0**	**13.4**	**13.4**	*9.5*	*13.2*
Spain	6.0	7.3	-5.8	5.0	5.9	11.5	5.0	**5.1**	**4.5**	**4.1**	*3.9*	*3.7*
France	6.0	2.7	-1.0	-3.5	2.1	4.2	6.2	**1.1**	**3.3**	**2.6**	*3.2*	*4.1*
Italy	4.6	2.4	-5.4	-8.2	1.9	3.8	7.1	**4.5**	**5.3**	**2.8**	*6.4*	*3.7*
Cyprus	2.6	-1.1	-6.0	-16.3	-34.8	70.6	113.0	**0.7**	**2.5**	**3.3**	*0.0*	*5.1*
Latvia	14.2	22.0	-9.3	-5.4	-10.9	-1.3	-6.5	**18.0**	**5.0**	**4.0**	*18.0*	*9.0*
Lithuania	9.2	18.1	-7.0	12.3	-0.2	13.4	9.0	**7.0**	**5.7**	**4.2**	*6.1*	*4.0*
Luxembourg	2.8	9.0	11.1	-4.7	5.3	-16.5	-7.0	**12.1**	**1.0**	**1.5**	*6.1*	*4.0*
Malta	:	26.8	-4.8	3.7	6.2	115.5	2.0	**:**	**:**	**:**	*:*	*:*
Netherlands	2.1	3.9	-0.2	-6.1	-0.2	15.8	3.4	**3.9**	**5.9**	**5.5**	*3.3*	*4.5*
Austria	1.6	2.6	-0.6	1.7	-1.6	1.5	8.6	**5.7**	**3.8**	**3.7**	*3.8*	*2.5*
Portugal	3.6	3.2	-9.4	8.1	13.3	10.4	5.2	**12.5**	**7.7**	**9.0**	*6.0*	*7.7*
Slovenia	8.2	10.3	-8.2	12.6	-8.5	3.8	7.5	**15.6**	**15.2**	**11.5**	*10.6*	*10.5*
Slovakia	0.2	4.3	2.9	-9.4	20.3	13.0	2.0	**5.6**	**6.5**	**4.5**	*1.2*	*5.8*
Finland	0.8	4.1	-0.5	-8.7	-1.6	4.4	10.1	**9.5**	**3.5**	**4.9**	*2.6*	*3.2*
Euro area	:	4.9	-3.2	-2.9	4.6	5.3	5.5	**3.8**	**4.5**	**3.7**	*3.5*	*3.8*
Bulgaria	:	14.8	-9.7	1.2	13.9	9.8	-14.9	**5.0**	**5.0**	**4.0**	*6.0*	*4.0*
Czech Republic	6.5	7.6	-1.6	0.3	6.4	9.3	-1.1	**5.0**	**6.0**	**6.0**	*3.6*	*4.5*
Denmark	3.1	5.8	-5.0	10.6	2.7	-0.5	5.0	**4.3**	**3.8**	**3.4**	*3.9*	*3.8*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	8.2	7.0	-2.7	2.6	21.5	0.8	1.1	**12.8**	**11.7**	**4.0**	*4.0*	*7.0*
Poland	1.1	12.0	-0.4	4.6	11.2	12.1	-10.3	**2.1**	**6.4**	**4.0**	*4.3*	*5.5*
Romania	4.2	19.7	-5.8	4.8	-5.1	-3.8	-4.0	**2.5**	**3.0**	**6.5**	*1.0*	*6.9*
Sweden	3.7	8.1	0.9	0.1	-1.1	5.1	4.8	**6.5**	**4.1**	**3.6**	*3.9*	*4.2*
EU27	4.4	5.6	-3.0	-1.9	4.6	5.3	4.2	**4.0**	**4.6**	**3.8**	*3.5*	*4.0*
United Kingdom	2.7	1.7	-2.4	2.7	17.7	6.4	1.7	**-0.4**	**1.3**	**1.0**	*-0.8*	*0.3*
EU28	4.1	5.1	-2.9	-1.5	5.9	5.5	3.9	**3.5**	**4.3**	**3.5**	*3.1*	*3.6*
USA	5.1	6.5	1.0	3.2	5.6	3.2	-2.9	**3.8**	**4.5**	**3.8**	*1.7*	*3.1*
Japan	-2.5	5.2	-2.0	-1.0	4.5	-2.8	:	**:**	**:**	**:**	*:*	*:*

Table 12: Public investment (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	2.3	2.1	2.3	2.4	2.4	2.3	2.2	**2.2**	**2.3**	**2.4**	*2.4*	*2.5*
Germany	2.3	2.0	2.2	2.1	2.1	2.1	2.1	**2.2**	**2.2**	**2.2**	*2.2*	*2.3*
Estonia	5.0	5.1	5.7	5.6	5.1	5.3	4.8	**5.6**	**5.8**	**5.4**	*5.1*	*5.4*
Ireland	3.5	3.8	3.3	2.0	2.1	1.7	1.8	**1.9**	**2.0**	**2.4**	*1.9*	*2.0*
Greece	5.3	5.3	4.0	3.4	3.7	3.9	3.2	**3.5**	**3.2**	**3.6**	*3.6*	*3.1*
Spain	3.8	4.2	4.1	2.2	2.1	2.5	1.9	**2.1**	**2.2**	**2.2**	*2.2*	*2.2*
France	3.8	3.9	4.1	4.0	3.7	3.4	3.4	**3.3**	**3.5**	**3.5**	*3.4*	*3.5*
Italy	2.8	3.0	2.9	2.4	2.3	2.2	2.1	**2.0**	**2.0**	**2.0**	*2.1*	*2.2*
Cyprus	3.0	3.4	3.4	2.0	1.8	1.9	2.3	**2.8**	**3.0**	**3.1**	*2.3*	*2.3*
Latvia	1.8	4.1	4.9	4.4	4.5	4.8	3.5	**4.4**	**4.3**	**4.1**	*3.8*	*4.0*
Lithuania	2.6	4.0	4.7	3.7	3.5	3.7	3.0	**3.1**	**3.1**	**3.2**	*3.0*	*3.1*
Luxembourg	4.4	4.3	4.2	3.5	3.6	3.7	3.9	**4.2**	**4.3**	**4.4**	*3.8*	*3.7*
Malta	4.1	4.1	2.6	2.9	3.6	4.3	2.5	**2.6**	**2.8**	**3.0**	*2.6*	*2.8*
Netherlands	3.8	3.9	4.0	3.6	3.5	3.6	3.5	**3.4**	**3.5**	**3.4**	*3.3*	*3.3*
Austria	2.7	2.7	3.2	3.0	3.0	3.0	3.0	**3.0**	**3.0**	**2.9**	*3.0*	*2.9*
Portugal	4.9	3.9	3.8	2.2	2.0	2.2	1.5	**1.6**	**2.1**	**2.1**	*2.0*	*2.1*
Slovenia	3.8	4.1	4.6	4.3	5.1	4.7	3.2	**3.2**	**3.5**	**3.6**	*3.1*	*3.3*
Slovakia	4.0	3.3	3.6	3.3	4.0	6.3	3.2	**3.4**	**2.7**	**2.7**	*3.3*	*3.3*
Finland	3.7	3.7	3.8	4.2	4.2	3.9	4.0	**3.9**	**3.9**	**3.8**	*3.9*	*3.9*
Euro area	3.1	3.2	3.3	2.8	2.7	2.7	2.5	**2.6**	**2.6**	**2.7**	*2.6*	*2.7*
Bulgaria	3.8	4.0	4.4	4.0	5.2	6.6	2.6	**3.6**	**4.0**	**4.0**	*4.0*	*4.2*
Czech Republic	4.2	5.6	5.0	3.7	4.1	5.1	3.3	**3.4**	**3.8**	**3.9**	*3.7*	*4.0*
Denmark	2.8	2.8	3.3	3.7	3.9	3.6	3.7	**3.6**	**3.5**	**3.5**	*3.6*	*3.6*
Croatia		6.3	4.5	3.7	3.6	3.0	3.1	**3.1**	**3.4**	**3.5**	*3.3*	*3.5*
Hungary	3.9	4.2	3.5	4.4	5.3	6.6	3.1	**4.2**	**5.0**	**4.9**	*4.5*	*5.6*
Poland	2.8	3.5	5.2	4.1	4.5	4.4	3.3	**3.9**	**4.3**	**4.5**	*4.0*	*4.0*
Romania	2.6	4.1	5.7	4.5	4.3	5.1	3.6	**3.0**	**3.5**	**3.8**	*3.5*	*3.9*
Sweden	4.2	4.1	4.5	4.5	4.4	4.2	4.4	**4.5**	**4.6**	**4.5**	*4.5*	*4.5*
EU27	3.2	3.3	3.4	3.0	2.9	3.0	2.7	**2.7**	**2.8**	**2.9**	*2.8*	*2.9*
United Kingdom	1.8	2.5	3.0	2.6	2.8	2.7	2.7	**2.6**	**2.6**	**2.6**	*2.6*	*2.6*
EU28		3.1	3.4	2.9	2.9	2.9	2.7	**2.7**	**2.8**	**2.9**	*2.8*	*2.8*
USA	3.6	3.8	4.0	3.3	3.2	3.2	3.1	**3.1**	**3.1**	**3.1**	*3.1*	*3.1*
Japan	5.0	3.8	3.7	3.9	3.9	3.7	3.5	**3.6**	**3.7**	**3.4**	*3.5*	*3.4*

Table 13: Potential GDP, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	2.4	1.9	1.3	0.8	0.9	1.2	1.4	**1.5**	**1.5**	**1.5**	*1.3*	*1.3*
Germany	1.5	1.3	1.0	1.5	1.5	1.7	1.9	**1.9**	**1.9**	**1.9**	*1.7*	*1.5*
Estonia	4.5	5.7	0.8	2.1	2.3	2.6	2.5	**3.1**	**2.9**	**2.7**	*2.5*	*2.3*
Ireland	7.9	4.8	0.7	2.3	3.6	24.3	5.0	**5.1**	**4.9**	**4.7**	*4.7*	*4.6*
Greece	3.9	3.1	-1.1	-2.7	-2.2	-1.8	-1.5	**-0.9**	**-0.5**	**0.0**	*-0.4*	*-0.1*
Spain	3.2	3.6	0.9	-0.7	-0.1	0.3	0.7	**0.9**	**1.0**	**1.2**	*0.8*	*0.9*
France	2.0	1.7	1.1	0.9	0.9	0.9	1.0	**1.2**	**1.2**	**1.3**	*1.2*	*1.2*
Italy	1.6	0.9	-0.3	-0.3	-0.2	-0.2	-0.3	**0.2**	**0.4**	**0.5**	*0.0*	*0.3*
Cyprus		3.4	1.9	-1.8	-2.3	-1.4	0.4	**1.1**	**1.4**	**1.7**	*0.8*	*1.1*
Latvia	5.8	7.6	-0.2	0.7	1.4	2.1	1.7	**3.2**	**3.7**	**3.9**	*3.0*	*3.7*
Lithuania	6.1	6.1	1.7	1.9	2.1	2.2	1.9	**2.4**	**2.8**	**2.9**	*2.4*	*2.7*
Luxembourg	4.8	3.9	2.3	2.6	3.0	2.5	2.8	**2.9**	**3.0**	**3.2**	*3.7*	*3.7*
Malta	3.1	2.5	2.4	3.8	4.7	6.6	6.6	**5.6**	**5.2**	**4.7**	*5.6*	*4.8*
Netherlands	3.2	1.8	1.0	0.4	0.8	1.2	1.6	**1.8**	**1.9**	**1.9**	*1.3*	*1.4*
Austria	2.5	2.1	1.0	0.9	0.9	1.1	1.7	**1.8**	**2.1**	**2.0**	*1.4*	*1.4*
Portugal	3.0	1.0	-0.3	-0.9	-0.2	0.3	0.7	**1.3**	**1.4**	**1.5**	*0.8*	*1.0*
Slovenia		3.5	1.2	0.0	0.8	0.9	1.2	**2.0**	**2.4**	**2.7**	*1.6*	*1.9*
Slovakia	4.0	5.2	3.7	2.1	2.1	2.9	2.6	**2.8**	**3.3**	**3.5**	*2.5*	*2.9*
Finland	4.0	2.6	0.4	0.0	0.1	0.4	0.8	**1.5**	**1.6**	**1.6**	*0.9*	*0.8*
Euro area		1.9	0.7	0.5	0.8	1.3	1.2	**1.4**	**1.5**	**1.5**	*1.2*	*1.2*
Bulgaria	2.8	5.9	1.9	1.3	2.3	3.0	3.0	**3.2**	**3.3**	**3.3**	*2.7*	*2.8*
Czech Republic	1.8	4.3	1.7	0.9	2.0	2.8	2.7	**3.1**	**2.9**	**2.8**	*2.4*	*2.3*
Denmark	2.0	1.4	1.0	0.9	1.0	1.2	1.4	**1.6**	**1.7**	**1.7**	*1.7*	*1.7*
Croatia		3.2	0.0	-0.2	0.1	0.5	1.2	**1.1**	**1.4**	**1.9**	*0.5*	*1.2*
Hungary	3.6	3.0	0.2	1.0	2.1	2.2	2.1	**2.6**	**2.9**	**2.9**	*2.3*	*2.4*
Poland	4.9	3.6	4.0	3.0	3.1	3.1	2.9	**3.1**	**3.3**	**3.4**	*2.9*	*3.0*
Romania	1.9	5.4	2.6	1.8	2.3	3.2	3.6	**3.7**	**4.0**	**4.0**	*3.5*	*3.6*
Sweden	3.2	2.6	1.6	1.8	2.2	2.6	2.8	**3.0**	**2.7**	**2.5**	*2.8*	*2.5*
EU27				:	:	:	:	**:**	**:**	**:**	*:*	*:*
United Kingdom	3.1	2.4	1.0	1.1	1.4	1.5	1.4	**1.5**	**1.4**	**1.4**	*1.6*	*1.5*
EU28		2.1	0.9	0.8	1.0	1.5	1.4	**1.6**	**1.6**	**1.7**	*1.4*	*1.4*
USA	3.4	2.3	1.1	1.6	1.9	2.1	2.1	**2.1**	**2.2**	**2.3**	*2.1*	*2.2*
Japan				:	:	:	:	**:**	**:**	**:**	*:*	*:*

Table 14: Output gap relative to potential GDP [1] (deviation of actual output from potential output as % of potential GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	0.5	0.9	-0.1	-1.2	-0.8	-0.6	-0.5	**-0.3**	**0.1**	**0.3**	*-0.4*	*0.0*
Germany	0.7	-0.7	-0.9	-0.7	-0.3	-0.3	-0.2	**0.0**	**0.2**	**0.3**	*-0.2*	*0.1*
Estonia	-1.5	7.4	-2.0	1.3	1.9	1.0	0.5	**1.8**	**2.2**	**2.2**	*0.1*	*0.6*
Ireland	2.5	2.3	-2.8	-3.6	0.8	1.8	1.9	**1.6**	**0.6**	**-0.9**	*1.1*	*0.1*
Greece	1.6	3.7	-4.7	-15.0	-12.5	-11.1	-10.0	**-7.7**	**-5.0**	**-2.5**	*-7.6*	*-5.2*
Spain	2.2	2.6	-4.0	-8.8	-7.5	-4.6	-2.2	**-0.1**	**1.4**	**2.3**	*0.2*	*1.6*
France	1.2	1.8	-0.8	-1.5	-1.5	-1.4	-1.2	**-0.8**	**-0.2**	**0.1**	*-1.1*	*-0.6*
Italy	1.0	1.2	-1.9	-4.5	-4.2	-3.0	-1.9	**-0.6**	**0.3**	**0.8**	*-0.8*	*0.0*
Cyprus	0.5	3.1	0.3	-7.7	-6.9	-3.6	-1.1	**1.3**	**2.7**	**3.7**	*0.8*	*2.0*
Latvia	-0.5	5.3	-5.8	-0.2	0.3	1.0	1.3	**2.3**	**2.1**	**1.4**	*1.8*	*1.6*
Lithuania	-2.0	3.8	-4.2	-0.7	0.7	0.6	1.0	**2.4**	**2.5**	**2.2**	*1.3*	*1.8*
Luxembourg	2.8	1.0	-2.9	-4.1	-1.5	-1.2	-0.9	**-0.4**	**0.1**	**0.2**	*-0.3*	*0.3*
Malta	0.5	0.5	-1.1	-1.7	1.6	2.0	1.0	**1.1**	**0.8**	**0.3**	*0.6*	*0.2*
Netherlands	1.1	-0.8	-1.4	-3.4	-2.8	-1.8	-1.2	**0.2**	**1.0**	**1.6**	*0.0*	*0.5*
Austria	0.7	0.0	-0.3	-0.8	-0.8	-0.8	-1.0	**-0.2**	**0.1**	**0.4**	*-0.4*	*-0.2*
Portugal	2.1	-0.5	-1.2	-4.2	-3.2	-1.7	-0.9	**0.4**	**1.1**	**1.4**	*0.4*	*1.0*
Slovenia	-0.1	2.8	-1.3	-6.1	-4.0	-2.7	-0.8	**1.8**	**3.3**	**3.9**	*1.4*	*2.5*
Slovakia	-1.6	1.2	0.2	-2.7	-2.1	-1.2	-0.4	**0.0**	**0.5**	**1.0**	*0.2*	*0.8*
Finland	1.5	0.8	-1.2	-2.4	-3.1	-3.5	-2.4	**-0.7**	**0.4**	**1.1**	*-1.4*	*-0.5*
Euro area	1.1	0.9	-1.5	-3.1	-2.6	-1.8	-1.2	**-0.4**	**0.3**	**0.6**	*-0.6*	*0.0*
Bulgaria	-1.1	1.2	0.1	-1.0	-2.0	-1.4	-0.5	**0.0**	**0.5**	**0.7**	*-0.1*	*-0.1*
Czech Republic	-1.0	2.8	-0.2	-3.1	-2.5	-0.2	-0.2	**0.9**	**1.0**	**1.1**	*0.5*	*0.9*
Denmark	1.8	2.9	-1.8	-2.7	-2.1	-1.7	-1.5	**-0.8**	**-0.5**	**-0.4**	*-1.4*	*-1.3*
Croatia		2.6	-0.4	-4.2	-4.8	-3.2	-1.5	**0.6**	**2.0**	**2.8**	*1.0*	*2.5*
Hungary	-0.5	2.4	-2.5	-2.9	-0.8	0.3	0.4	**1.5**	**2.1**	**2.4**	*1.4*	*2.5*
Poland	-0.7	-1.4	1.5	-1.4	-1.1	-0.5	-0.5	**0.6**	**1.1**	**1.1**	*0.4*	*0.5*
Romania	-3.4	4.7	-1.5	-3.6	-2.9	-2.1	-1.2	**0.7**	**1.1**	**1.2**	*0.7*	*0.8*
Sweden	0.1	1.0	-1.7	-2.6	-2.2	-0.4	0.1	**0.2**	**0.2**	**-0.2**	*0.0*	*-0.2*
EU27				:	:	:	:	**:**	**:**	**:**	*:*	*:*
United Kingdom	1.1	1.5	-3.0	-2.2	-0.6	0.3	0.6	**0.6**	**0.4**	**0.2**	*0.7*	*0.4*
EU28		1.0	-1.6	-2.9	-2.2	-1.4	-0.8	**-0.1**	**0.3**	**0.6**	*-0.3*	*0.1*
USA	0.4	0.9	-1.6	-0.7	0.0	0.7	0.1	**0.2**	**0.3**	**0.1**	*0.0*	*0.2*
Japan				:	:	:	:	**:**	**:**	**:**	*:*	*:*

[1] When comparing output gaps between the successive forecasts it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

Table 15: Deflator of gross domestic product (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.6	2.1	1.7	1.0	0.7	1.1	1.6	**1.8**	**1.6**	**1.7**	*1.8*	*1.6*
Germany	0.6	1.0	1.2	2.0	1.8	2.0	1.3	**1.5**	**1.9**	**1.6**	*1.4*	*1.6*
Estonia	6.1	7.1	3.6	3.6	1.5	1.2	1.6	**4.3**	**3.6**	**2.9**	*3.6*	*3.3*
Ireland	5.8	2.3	-1.5	1.0	-0.4	7.3	0.0	**0.5**	**1.1**	**1.3**	*1.2*	*1.3*
Greece	3.4	3.1	1.6	-2.4	-1.8	-1.0	-1.0	**0.9**	**0.9**	**1.6**	*1.2*	*1.2*
Spain	3.3	3.9	0.5	0.4	-0.2	0.6	0.3	**0.9**	**1.6**	**1.4**	*1.1*	*1.4*
France	1.4	2.0	1.1	0.8	0.6	1.1	0.4	**0.9**	**1.4**	**1.5**	*0.9*	*1.3*
Italy	2.5	2.4	1.5	1.2	1.0	0.9	0.8	**0.6**	**1.3**	**1.4**	*0.8*	*1.2*
Cyprus	2.6	3.9	2.1	-1.1	-1.6	-1.2	-0.9	**1.2**	**1.1**	**1.6**	*0.8*	*0.9*
Latvia	3.5	11.0	2.0	1.7	1.8	0.0	0.3	**2.2**	**3.4**	**3.2**	*3.1*	*2.7*
Lithuania	0.7	4.8	3.3	1.3	1.0	0.3	1.0	**3.5**	**3.9**	**3.0**	*2.9*	*2.5*
Luxembourg	1.6	3.7	3.2	1.7	1.6	1.3	-1.3	**2.3**	**2.3**	**1.9**	*2.4*	*2.3*
Malta	2.3	2.4	2.8	2.0	2.3	2.5	1.6	**2.0**	**2.1**	**2.3**	*1.6*	*1.8*
Netherlands	3.0	2.0	1.1	1.4	0.1	0.8	0.6	**1.1**	**1.4**	**2.1**	*0.9*	*1.2*
Austria	1.0	1.9	1.7	1.6	2.0	2.3	1.1	**1.8**	**1.6**	**1.7**	*1.4*	*1.5*
Portugal	3.7	3.1	0.6	2.3	0.8	2.0	1.4	**1.3**	**1.4**	**1.4**	*1.4*	*1.4*
Slovenia	7.1	3.4	1.7	1.6	0.8	1.0	0.9	**1.7**	**1.6**	**1.7**	*1.5*	*1.8*
Slovakia	6.1	3.5	1.0	0.5	-0.2	-0.2	-0.4	**2.0**	**1.5**	**1.9**	*0.8*	*1.5*
Finland	2.0	1.1	2.2	2.6	1.7	2.0	0.9	**0.5**	**1.7**	**1.7**	*0.5*	*1.2*
Euro area	1.8	2.1	1.2	1.2	0.9	1.4	0.8	**1.1**	**1.6**	**1.6**	*1.1*	*1.4*
Bulgaria	10.0	6.4	4.1	-0.7	0.5	2.2	2.2	**0.6**	**2.1**	**2.1**	*1.0*	*1.5*
Czech Republic	4.4	1.9	0.9	1.4	2.5	1.2	1.2	**1.4**	**2.3**	**1.8**	*1.6*	*1.7*
Denmark	2.2	2.2	2.2	0.9	0.8	0.9	0.2	**1.6**	**1.7**	**2.1**	*1.6*	*1.7*
Croatia	4.8	3.9	2.5	0.8	0.0	0.0	-0.1	**1.2**	**2.1**	**2.1**	*1.4*	*1.6*
Hungary	10.2	4.4	3.4	2.9	3.4	1.9	1.0	**2.8**	**2.9**	**3.1**	*2.9*	*3.3*
Poland	5.6	2.7	3.0	0.3	0.5	0.8	0.4	**2.1**	**2.0**	**2.5**	*1.4*	*2.0*
Romania	39.9	14.8	7.0	3.4	1.7	2.6	2.2	**2.0**	**3.2**	**3.3**	*1.5*	*2.8*
Sweden	1.5	1.5	1.8	1.1	1.8	2.1	1.5	**2.2**	**2.2**	**2.1**	*2.3*	*2.0*
EU27	2.2	2.2	1.4	1.2	1.0	1.4	0.8	**1.2**	**1.7**	**1.7**	*1.2*	*1.5*
United Kingdom	1.4	2.6	1.9	1.9	1.7	0.5	2.0	**2.3**	**2.1**	**1.7**	*1.6*	*1.9*
EU28	2.0	2.3	1.5	1.3	1.1	1.3	1.0	**1.4**	**1.7**	**1.7**	*1.3*	*1.6*
USA	1.7	2.7	1.6	1.6	1.8	1.1	1.3	**1.7**	**2.1**	**2.3**	*1.9*	*2.2*
Japan	-1.1	-1.1	-1.2	-0.3	1.7	2.1	0.3	**0.0**	**0.6**	**0.8**	*0.2*	*0.4*

Table 16: Price deflator of private consumption (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.7	2.5	1.9	0.8	0.6	0.6	1.5	**1.8**	**1.3**	**1.4**	*2.0*	*1.3*
Germany	0.9	1.4	1.3	1.0	0.9	0.6	0.6	**1.7**	**1.5**	**1.6**	*1.7*	*1.3*
Estonia	4.9	4.8	4.2	3.0	0.5	-0.2	0.9	**3.7**	**3.1**	**2.8**	*3.4*	*2.9*
Ireland	3.7	2.1	-1.2	1.7	1.2	0.4	0.8	**0.6**	**0.8**	**1.0**	*1.1*	*1.2*
Greece	3.2	3.1	2.3	-1.8	-2.5	-1.5	-1.0	**1.1**	**0.8**	**1.1**	*1.2*	*1.1*
Spain	2.8	3.4	1.9	1.0	0.2	-0.1	-0.1	**1.6**	**1.2**	**1.4**	*1.7*	*1.4*
France	1.0	2.0	1.1	0.7	0.1	0.3	0.0	**0.9**	**1.2**	**1.5**	*1.3*	*1.3*
Italy	2.5	2.5	1.9	1.2	0.3	0.1	0.0	**1.4**	**1.2**	**1.5**	*1.5*	*1.3*
Cyprus	2.3	3.1	2.5	0.0	-0.5	-1.8	-1.3	**1.1**	**1.1**	**1.6**	*1.1*	*1.2*
Latvia	3.7	8.7	3.1	0.2	1.7	-1.0	1.0	**2.9**	**2.8**	**2.9**	*3.3*	*3.0*
Lithuania	0.9	2.2	4.7	1.0	0.1	-0.9	0.9	**3.8**	**2.9**	**2.5**	*2.8*	*2.0*
Luxembourg	1.9	2.5	1.8	1.7	0.5	0.1	0.1	**1.7**	**2.4**	**1.9**	*2.3*	*1.8*
Malta	2.0	2.2	2.4	1.2	0.0	0.7	0.8	**0.8**	**1.5**	**1.8**	*1.6*	*1.8*
Netherlands	2.7	2.0	1.1	2.4	0.8	0.2	0.8	**1.6**	**1.5**	**2.7**	*1.5*	*1.5*
Austria	1.2	2.1	1.9	2.1	2.1	1.4	1.2	**2.0**	**1.7**	**1.8**	*1.8*	*1.6*
Portugal	3.2	3.3	1.2	0.8	0.3	0.9	1.0	**1.5**	**1.5**	**1.5**	*1.5*	*1.5*
Slovenia	7.1	3.4	2.3	2.1	-0.1	-0.6	-0.3	**1.6**	**1.5**	**1.8**	*1.5*	*1.7*
Slovakia	6.5	4.8	2.6	1.3	-0.1	-0.1	-0.3	**1.2**	**1.5**	**1.8**	*1.3*	*1.4*
Finland	2.1	1.1	2.5	2.5	1.3	0.3	0.9	**1.0**	**1.4**	**1.6**	*1.0*	*1.2*
Euro area	1.8	2.2	1.5	1.1	0.5	0.3	0.3	**1.4**	**1.3**	**1.6**	*1.6*	*1.3*
Bulgaria	7.1	4.3	3.3	-2.6	0.0	1.2	-0.1	**1.0**	**1.5**	**1.6**	*1.3*	*1.0*
Czech Republic	3.8	1.8	2.0	0.8	0.6	0.1	0.5	**2.8**	**2.0**	**2.0**	*2.5*	*2.0*
Denmark	2.1	1.6	2.3	0.8	0.8	0.6	0.5	**1.2**	**1.6**	**1.9**	*1.2*	*1.6*
Croatia	4.5	2.8	3.2	1.9	-0.5	-0.5	-1.2	**1.3**	**1.5**	**1.6**	*1.6*	*1.5*
Hungary	10.0	4.6	4.7	1.8	0.9	-0.2	-0.2	**2.3**	**2.6**	**3.0**	*2.9*	*3.0*
Poland	6.6	2.2	3.5	0.4	-0.1	-1.1	-0.4	**1.5**	**2.0**	**2.7**	*1.7*	*1.9*
Romania	36.3	8.7	6.1	2.6	1.2	0.9	-0.5	**1.3**	**2.9**	**3.0**	*1.4*	*2.5*
Sweden	1.3	1.2	1.8	0.7	1.1	0.9	1.0	**1.9**	**2.0**	**2.2**	*1.3*	*1.5*
EU27	2.2	2.2	1.7	1.0	0.5	0.3	0.3	**1.5**	**1.4**	**1.7**	*1.6*	*1.4*
United Kingdom	0.7	1.9	2.5	2.4	1.9	0.6	1.4	**2.5**	**2.4**	**1.8**	*2.6*	*2.6*
EU28	1.9	2.2	1.9	1.3	0.7	0.3	0.5	**1.7**	**1.6**	**1.7**	*1.8*	*1.6*
USA	1.6	2.5	1.8	1.3	1.5	0.3	1.2	**1.7**	**2.2**	**2.2**	*2.0*	*2.2*
Japan	-0.8	-0.5	-0.8	-0.1	2.0	0.4	-0.4	**0.0**	**0.4**	**0.9**	*0.2*	*0.4*

Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.7	2.0	2.6	1.2	0.5	0.6	1.8	**2.2**	**1.4**	**1.6**	*2.3*	*1.5*
Germany	1.2	1.8	1.7	1.6	0.8	0.1	0.4	**1.7**	**1.5**	**1.6**	*1.7*	*1.4*
Estonia	5.0	3.9	4.6	3.2	0.5	0.1	0.8	**3.7**	**3.0**	**2.7**	*3.3*	*2.9*
Ireland	3.7	2.8	0.6	0.5	0.3	0.0	-0.2	**0.3**	**0.8**	**1.2**	*0.6*	*1.2*
Greece	3.4	3.3	2.9	-0.9	-1.4	-1.1	0.0	**1.2**	**0.8**	**1.3**	*1.2*	*1.1*
Spain	2.8	3.2	2.3	1.5	-0.2	-0.6	-0.3	**2.0**	**1.4**	**1.5**	*2.0*	*1.4*
France	1.4	2.0	1.9	1.0	0.6	0.1	0.3	**1.1**	**1.2**	**1.5**	*1.4*	*1.3*
Italy	2.2	2.3	2.4	1.2	0.2	0.1	-0.1	**1.4**	**1.2**	**1.5**	*1.5*	*1.3*
Cyprus	2.6	2.5	2.7	0.4	-0.3	-1.5	-1.2	**1.0**	**1.1**	**1.4**	*1.2*	*1.1*
Latvia	2.7	6.5	4.8	0.0	0.7	0.2	0.1	**2.9**	**2.8**	**2.9**	*2.2*	*2.0*
Lithuania	2.0	2.5	4.7	1.2	0.2	-0.7	0.7	**3.8**	**2.9**	**2.5**	*2.8*	*2.0*
Luxembourg	2.0	3.0	2.7	1.7	0.7	0.1	0.0	**2.1**	**1.7**	**1.9**	*2.4*	*1.8*
Malta	2.8	2.1	2.9	1.0	0.8	1.2	0.9	**1.3**	**1.5**	**1.8**	*1.6*	*1.8*
Netherlands	3.0	1.7	1.9	2.6	0.3	0.2	0.1	**1.3**	**1.5**	**2.2**	*1.6*	*1.3*
Austria	1.5	1.9	2.3	2.1	1.5	0.8	1.0	**2.0**	**1.6**	**1.7**	*1.8*	*1.6*
Portugal	3.1	2.7	1.9	0.4	-0.2	0.5	0.6	**1.5**	**1.4**	**1.5**	*1.4*	*1.5*
Slovenia	7.8	3.6	2.7	1.9	0.4	-0.8	-0.2	**1.6**	**1.5**	**1.8**	*1.5*	*1.8*
Slovakia	8.0	5.0	2.7	1.5	-0.1	-0.3	-0.5	**1.3**	**1.7**	**2.0**	*1.4*	*1.6*
Finland	2.1	1.0	2.7	2.2	1.2	-0.2	0.4	**0.9**	**1.3**	**1.7**	*1.0*	*1.2*
Euro area	1.9	2.2	2.1	1.3	0.4	0.0	0.2	**1.5**	**1.4**	**1.6**	*1.6*	*1.3*
Bulgaria	8.9	5.9	4.6	0.4	-1.6	-1.1	-1.3	**1.0**	**1.5**	**1.6**	*1.3*	*1.5*
Czech Republic	4.3	1.8	2.8	1.4	0.4	0.3	0.6	**2.4**	**2.1**	**2.0**	*2.5*	*2.0*
Denmark	2.2	1.6	2.4	0.5	0.4	0.2	0.0	**1.0**	**1.4**	**1.7**	*1.4*	*1.7*
Croatia		2.7	2.9	2.3	0.2	-0.3	-0.6	**1.3**	**1.5**	**1.6**	*1.6*	*1.5*
Hungary	9.7	5.4	4.9	1.7	0.0	0.1	0.4	**2.3**	**2.6**	**3.0**	*2.9*	*3.2*
Poland	7.3	2.1	3.7	0.8	0.1	-0.7	-0.2	**1.6**	**2.1**	**2.8**	*1.8*	*2.1*
Romania	41.5	9.5	5.8	3.2	1.4	-0.4	-1.1	**1.0**	**2.9**	**3.0**	*1.1*	*3.0*
Sweden	1.5	1.5	1.9	0.4	0.2	0.7	1.1	**1.8**	**1.6**	**1.7**	*1.4*	*1.4*
EU27	3.1	2.4	2.4	1.3	0.4	0.0	0.2	**1.6**	**1.5**	**1.8**	*1.6*	*1.5*
United Kingdom	1.2	1.9	3.3	2.6	1.5	0.0	0.7	**2.7**	**2.6**	**2.1**	*2.6*	*2.6*
EU28	3.4	2.3	2.5	1.5	0.5	0.0	0.3	**1.7**	**1.7**	**1.8**	*1.8*	*1.7*
USA	2.3	2.9	2.1	1.5	1.6	0.1	1.3	**2.0**	**2.1**	**2.2**	*2.2*	*2.3*
Japan	-0.4	0.0	-0.2	0.3	2.8	0.8	-0.1	**0.4**	**0.8**	**1.2**	*0.4*	*1.0*

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2017-19) 23.10.2017

	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4
Belgium	3.0	2.0	1.9	1.8	1.6	1.3	1.5	1.4	1.5	1.5	1.6	1.6
Germany	1.9	1.6	1.7	1.7	1.5	1.5	1.6	1.4	1.5	1.6	1.6	1.6
Estonia	3.1	3.4	4.0	4.1	3.5	3.3	2.5	2.7	2.7	2.7	2.7	2.6
Ireland	0.4	0.0	0.1	0.6	0.7	0.8	0.8	0.7	1.0	1.1	1.1	1.3
Greece	1.5	1.3	0.8	1.5	0.4	0.8	0.9	1.1	1.1	1.1	1.1	1.9
Spain	2.7	2.1	1.8	1.8	1.1	1.8	1.5	1.1	1.4	1.5	1.5	1.6
France	1.5	1.0	0.9	1.1	0.8	1.2	1.4	1.4	1.5	1.5	1.5	1.6
Italy	1.3	1.6	1.3	1.3	0.9	1.2	1.4	1.4	1.4	1.4	1.5	1.6
Cyprus	1.2	1.3	0.2	1.4	0.8	1.3	1.1	1.2	1.3	1.4	1.5	1.5
Latvia	3.1	3.0	2.9	2.3	2.2	2.6	3.0	3.3	2.9	2.8	2.9	3.0
Lithuania	3.0	3.4	4.5	4.4	4.0	3.1	2.7	2.0	2.5	2.6	2.7	2.3
Luxembourg	2.6	2.0	2.0	1.8	1.4	1.6	1.9	1.8	1.8	1.9	1.9	2.0
Malta	1.3	1.1	1.2	1.6	1.4	1.6	1.5	1.4	1.7	1.7	1.8	1.9
Netherlands	1.3	1.0	1.5	1.3	1.2	1.5	1.7	1.4	2.1	2.3	2.3	2.3
Austria	2.2	2.2	2.2	1.6	1.4	1.6	1.7	1.6	1.7	1.7	1.7	1.8
Portugal	1.4	1.7	1.3	1.7	1.5	1.0	1.4	1.5	1.6	1.7	1.5	1.4
Slovenia	2.0	1.4	1.3	1.6	1.1	1.3	1.8	1.8	2.1	1.8	1.6	1.7
Slovakia	1.0	1.0	1.6	1.6	1.5	1.8	1.8	1.9	1.9	2.0	2.0	2.0
Finland	1.1	0.9	0.7	0.8	1.3	1.3	1.4	1.3	1.6	1.8	1.8	1.8
Euro area	1.8	1.5	1.5	1.5	1.2	1.4	1.5	1.4	1.5	1.6	1.6	1.7
Bulgaria	0.8	1.4	0.9	1.1	1.4	1.4	1.5	1.6	1.6	1.6	1.6	1.5
Czech Republic	2.5	2.3	2.4	2.2	1.4	1.9	2.3	2.8	2.3	2.1	1.9	1.8
Denmark	0.8	0.7	1.5	1.0	1.0	1.4	1.5	1.5	1.6	1.6	1.8	1.7
Croatia	1.1	1.1	1.4	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Hungary	2.6	2.1	2.5	2.2	1.3	2.5	3.1	3.4	3.6	3.2	2.8	2.5
Poland	1.7	1.5	1.5	1.6	1.4	2.0	2.5	2.6	2.7	2.8	2.9	2.9
Romania	0.4	0.6	1.0	1.9	2.7	2.8	2.9	3.0	3.0	3.0	3.1	3.1
Sweden	1.6	1.8	2.2	1.7	1.4	1.5	1.7	1.6	1.7	1.8	1.7	1.7
EU27	1.7	1.5	1.5	1.5	1.2	1.5	1.6	1.5	1.6	1.7	1.7	1.7
United Kingdom	2.2	2.8	2.8	3.0	2.9	2.8	2.6	2.3	2.2	2.1	2.1	2.0
EU28	1.8	1.7	1.7	1.8	1.5	1.7	1.8	1.7	1.7	1.8	1.8	1.8
USA	2.6	1.9	2.0	1.7	1.5	2.2	2.3	2.4	2.3	2.2	2.2	2.1
Japan	0.3	0.4	0.6	0.3	0.8	0.6	0.8	0.8	0.9	0.9	0.8	2.0

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	0.7	1.8	1.7	-0.7	-2.7	-3.7	-2.5	**1.9**	**0.2**	**2.0**	*2.9*	*1.4*
Germany	0.1	0.2	1.1	-0.7	-0.6	0.9	-1.0	**1.7**	**0.4**	**0.8**	*2.3*	*1.1*
Estonia	2.5	3.2	2.6	-0.7	-1.7	-1.9	-0.1	**3.5**	**1.1**	**1.6**	*4.3*	*1.7*
Ireland	1.1	-1.0	0.5	-2.7	-0.3	9.9	-4.0	**0.5**	**0.4**	**1.1**	*1.2*	*1.2*
Greece	3.1	2.1	4.1	-1.9	-3.1	-11.5	-5.5	**4.2**	**-0.7**	**2.4**	*6.8*	*1.3*
Spain	1.2	2.1	1.8	-1.2	-2.0	0.6	-1.5	**1.6**	**1.2**	**1.0**	*2.0*	*1.2*
France	-0.9	0.8	1.1	-0.5	-1.0	0.7	-2.2	**1.4**	**-0.6**	**-0.2**	*2.7*	*0.1*
Italy	1.9	1.4	1.8	-0.6	-0.3	-0.3	-1.1	**1.5**	**0.4**	**1.1**	*3.2*	*1.3*
Cyprus	1.5	3.5	1.8	2.1	1.3	0.8	-0.9	**1.2**	**1.1**	**1.9**	*2.4*	*1.1*
Latvia	0.1	11.0	4.3	1.8	-1.4	0.2	-2.7	**5.0**	**1.0**	**1.0**	*5.0*	*1.5*
Lithuania	-1.1	5.3	4.5	-2.1	-2.8	-5.3	-3.1	**5.0**	**2.5**	**2.0**	*6.0*	*2.0*
Luxembourg	-0.2	4.0	2.9	-2.1	-0.5	-2.2	-1.7	**3.1**	**0.8**	**1.0**	*3.9*	*1.1*
Malta	3.0	1.3	1.8	-4.0	1.1	-0.3	-3.5	**2.8**	**0.0**	**1.3**	*6.5*	*1.5*
Netherlands	-0.3	1.6	2.2	-1.4	-2.6	-2.9	-3.3	**3.8**	**1.0**	**1.3**	*3.8*	*2.0*
Austria	0.3	1.4	1.4	-0.9	-0.9	-1.0	-1.2	**1.3**	**1.1**	**1.2**	*1.2*	*1.0*
Portugal	1.1	1.3	1.6	-1.6	-1.9	-2.6	-3.5	**2.6**	**1.3**	**1.4**	*2.6*	*1.4*
Slovenia	5.2	2.4	1.2	-1.2	-0.4	-0.6	-2.1	**2.8**	**0.8**	**0.9**	*3.0*	*1.2*
Slovakia	3.1	1.6	0.6	-2.2	-3.6	-1.3	-1.7	**1.4**	**1.7**	**1.8**	*1.1*	*1.3*
Finland	-2.0	0.2	-0.1	-1.8	-0.9	-1.8	-2.8	**4.5**	**1.5**	**1.5**	*5.3*	*1.5*
Euro area	0.3	0.9	1.4	-0.9	-1.2	0.0	-1.9	**2.0**	**0.5**	**1.0**	*2.7*	*1.2*
Bulgaria	4.5	12.0	3.8	-3.6	-2.2	-2.3	-2.4	**1.5**	**1.8**	**1.8**	*1.5*	*2.0*
Czech Republic	0.1	-0.2	-0.4	1.6	3.8	-1.4	-2.9	**1.0**	**1.0**	**1.2**	*2.2*	*1.0*
Denmark	0.9	2.2	2.5	-0.5	0.1	1.5	-0.4	**1.8**	**0.1**	**1.3**	*3.2*	*1.2*
Croatia	5.2	3.4	3.1	-2.0	-1.7	-2.3	-3.1	**1.5**	**2.0**	**2.0**	*2.9*	*2.9*
Hungary	4.6	-0.2	2.2	-0.1	1.2	-0.1	-1.0	**1.6**	**1.4**	**1.6**	*2.0*	*1.8*
Poland	5.2	3.4	4.6	0.5	0.0	1.6	0.4	**1.7**	**1.9**	**1.9**	*1.6*	*1.9*
Romania	33.2	6.6	8.5	-5.8	-1.1	-0.3	-0.9	**2.8**	**3.0**	**3.0**	*4.1*	*2.9*
Sweden	-0.4	0.8	0.2	-3.2	2.1	1.6	-1.8	**2.6**	**0.1**	**1.2**	*4.7*	*1.5*
EU27	0.6	1.0	1.6	-0.9	-0.9	0.1	-1.8	**1.9**	**0.6**	**1.1**	*2.7*	*1.2*
United Kingdom	-1.7	1.0	5.0	1.2	-4.8	-8.2	5.5	**5.9**	**1.7**	**1.5**	*4.0*	*2.9*
EU28	0.3	1.0	1.9	-0.7	-1.2	-0.6	-1.2	**2.3**	**0.7**	**1.1**	*2.8*	*1.4*
USA	-0.8	3.2	2.1	-0.7	-1.0	-7.1	-3.7	**1.9**	**1.9**	**1.2**	*1.4*	*0.6*
Japan	-2.6	0.2	-4.4	10.4	2.8	0.7	-8.9	**4.6**	**1.8**	**1.2**	*6.5*	*1.0*

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.1	2.4	2.7	-0.7	-2.9	-5.4	-3.2	**1.8**	**0.1**	**1.7**	*3.1*	*1.4*
Germany	-0.2	0.6	1.4	-2.5	-2.2	-2.2	-3.2	**3.3**	**-0.1**	**0.9**	*3.8*	*1.0*
Estonia	1.2	1.5	3.2	-0.7	-1.7	-2.1	-1.1	**3.3**	**0.8**	**1.7**	*4.1*	*1.7*
Ireland	-1.5	0.5	0.3	-3.4	5.2	1.8	-6.2	**0.5**	**-0.3**	**1.0**	*1.3*	*1.3*
Greece	3.5	2.5	4.4	-3.6	-4.2	-12.0	-3.3	**3.5**	**-0.9**	**1.2**	*6.6*	*1.2*
Spain	0.9	2.0	3.0	-1.9	-1.5	-1.8	-1.6	**4.1**	**0.5**	**1.7**	*4.1*	*1.6*
France	-1.0	1.1	1.7	-1.8	-2.7	-3.4	-3.4	**2.1**	**-1.5**	**-0.8**	*3.1*	*-0.6*
Italy	1.7	2.8	2.7	-2.3	-3.7	-4.3	-4.3	**3.0**	**-0.4**	**1.0**	*5.7*	*1.2*
Cyprus	1.8	2.9	2.1	1.9	-5.4	-2.4	-0.5	**1.3**	**1.4**	**1.4**	*2.2*	*1.6*
Latvia	1.4	8.5	4.7	0.5	-0.5	-2.1	-6.0	**5.5**	**0.5**	**0.5**	*6.0*	*2.5*
Lithuania	-2.5	3.8	4.9	-1.7	-3.6	-8.3	-5.3	**5.3**	**1.2**	**1.5**	*6.0*	*2.0*
Luxembourg	1.0	2.5	2.1	-2.2	-1.2	0.0	-2.1	**4.2**	**0.4**	**0.8**	*3.9*	*1.2*
Malta	2.7	0.8	1.8	-5.4	-5.1	0.6	-2.2	**2.8**	**-0.5**	**1.0**	*5.3*	*1.2*
Netherlands	-1.0	1.5	2.9	-1.9	-2.7	-5.4	-4.4	**4.7**	**1.3**	**1.4**	*5.5*	*2.5*
Austria	0.1	1.7	2.2	-0.8	-1.9	-2.4	-1.6	**1.4**	**1.2**	**1.1**	*1.9*	*1.3*
Portugal	0.8	1.6	1.6	-3.2	-3.0	-5.2	-3.7	**3.0**	**1.3**	**1.4**	*3.0*	*1.4*
Slovenia	4.9	3.1	2.4	-2.0	-1.5	-1.9	-2.9	**3.1**	**1.1**	**1.2**	*3.5*	*1.2*
Slovakia	3.6	2.2	1.9	-1.7	-3.8	-1.1	-1.3	**1.5**	**1.6**	**1.7**	*1.9*	*1.3*
Finland	-1.8	2.9	1.3	-2.6	-2.5	-6.4	-4.2	**6.0**	**0.9**	**1.3**	*7.7*	*1.4*
Euro area	0.1	1.5	2.1	-2.0	-2.4	-3.4	-3.4	**3.1**	**0.0**	**0.9**	*4.0*	*1.1*
Bulgaria	6.2	6.8	3.5	-2.8	-2.9	-2.9	-6.0	**3.0**	**1.3**	**1.4**	*2.5*	*1.8*
Czech Republic	-0.6	0.3	0.5	0.0	2.0	-1.9	-3.9	**2.2**	**0.5**	**1.1**	*2.8*	*1.0*
Denmark	0.1	1.4	2.2	-1.8	-0.9	-0.2	-3.3	**1.9**	**-0.1**	**1.1**	*3.1*	*1.2*
Croatia	3.9	1.6	2.5	-0.4	-0.9	-1.2	-2.4	**2.9**	**1.6**	**1.6**	*2.9*	*2.4*
Hungary	5.2	0.8	2.8	-0.9	0.1	-1.1	-2.4	**2.3**	**1.2**	**1.4**	*3.0*	*2.2*
Poland	5.7	2.6	5.1	-1.2	-2.2	-1.3	-0.6	**0.6**	**2.0**	**2.0**	*2.5*	*2.0*
Romania	29.4	1.9	7.6	-6.5	-1.9	-1.3	-1.5	**4.2**	**3.3**	**2.5**	*4.8*	*2.1*
Sweden	1.4	1.4	0.3	-3.7	1.2	-0.1	-2.3	**3.6**	**-0.2**	**1.2**	*4.5*	*1.6*
EU27	0.6	1.5	2.3	-2.0	-2.1	-3.0	-3.2	**2.9**	**0.2**	**1.0**	*3.9*	*1.2*
United Kingdom	-1.8	0.7	5.1	0.2	-4.6	-6.8	2.6	**5.1**	**1.2**	**1.0**	*6.0*	*3.7*
EU28	0.2	1.4	2.6	-1.8	-2.4	-3.5	-2.4	**3.2**	**0.3**	**1.0**	*4.1*	*1.5*
USA	-1.1	4.5	2.7	-1.3	-0.7	-9.1	-3.7	**2.7**	**1.8**	**1.2**	*2.1*	*1.0*
Japan	-2.3	5.9	-1.3	11.9	3.6	-9.5	-14.0	**7.5**	**1.0**	**1.5**	*7.5*	*1.0*

Table 21: Terms of trade of goods (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	-0.5	-0.6	-1.0	0.0	0.2	1.8	0.7	**0.1**	**0.1**	**0.2**	*-0.2*	*0.0*
Germany	0.3	-0.4	-0.3	1.8	1.7	3.1	2.3	**-1.5**	**0.5**	**-0.1**	*-1.4*	*0.1*
Estonia	1.2	1.6	-0.6	0.0	0.0	0.2	1.0	**0.2**	**0.3**	**-0.1**	*0.2*	*0.0*
Ireland	2.7	-1.5	0.2	0.7	-5.2	8.0	2.3	**0.0**	**0.7**	**0.1**	*-0.1*	*-0.1*
Greece	-0.4	-0.3	-0.3	1.7	1.1	0.6	-2.3	**0.6**	**0.2**	**1.2**	*0.2*	*0.1*
Spain	0.3	0.1	-1.2	0.6	-0.5	2.4	0.1	**-2.4**	**0.7**	**-0.7**	*-2.0*	*-0.4*
France	0.0	-0.3	-0.6	1.3	1.7	4.3	1.2	**-0.7**	**0.9**	**0.6**	*-0.4*	*0.7*
Italy	0.2	-1.4	-0.9	1.8	3.5	4.1	3.3	**-1.5**	**0.8**	**0.1**	*-2.4*	*0.1*
Cyprus	-0.3	0.6	-0.2	0.2	7.1	3.2	-0.4	**-0.1**	**-0.3**	**0.5**	*0.2*	*-0.5*
Latvia	-1.3	2.3	-0.4	1.3	-0.9	2.4	3.5	**-0.5**	**0.5**	**0.5**	*-0.9*	*-1.0*
Lithuania	1.5	1.4	-0.4	-0.4	0.8	3.2	2.4	**-0.2**	**1.3**	**0.5**	*0.0*	*0.0*
Luxembourg	-1.2	1.4	0.8	0.1	0.8	-2.2	0.3	**-1.0**	**0.4**	**0.2**	*0.0*	*-0.1*
Malta	0.2	0.5	0.0	1.6	6.5	-0.8	-1.3	**0.0**	**0.5**	**0.3**	*1.1*	*0.3*
Netherlands	0.8	0.1	-0.6	0.5	0.1	2.6	1.2	**-0.9**	**-0.3**	**-0.1**	*-1.6*	*-0.5*
Austria	0.2	-0.3	-0.8	-0.1	1.0	1.5	0.4	**-0.1**	**-0.1**	**0.1**	*-0.7*	*-0.3*
Portugal	0.3	-0.3	-0.1	1.7	1.2	2.7	0.3	**-0.3**	**0.0**	**0.0**	*-0.3*	*0.0*
Slovenia	0.2	-0.7	-1.1	0.8	1.1	1.3	0.8	**-0.3**	**-0.3**	**-0.3**	*-0.5*	*0.0*
Slovakia	-0.5	-0.6	-1.3	-0.5	0.2	-0.2	-0.4	**-0.1**	**0.1**	**0.1**	*-0.8*	*0.0*
Finland	-0.2	-2.6	-1.3	0.8	1.7	4.9	1.5	**-1.4**	**0.6**	**0.2**	*-2.2*	*0.1*
Euro area	0.2	-0.6	-0.7	1.1	1.2	3.4	1.5	**-1.1**	**0.5**	**0.0**	*-1.3*	*0.1*
Bulgaria	-1.7	4.9	0.3	-0.8	0.7	0.6	3.9	**-1.5**	**0.5**	**0.4**	*-1.0*	*0.2*
Czech Republic	0.7	-0.5	-0.9	1.5	1.8	0.5	1.0	**-1.2**	**0.5**	**0.1**	*-0.6*	*0.0*
Denmark	0.8	0.8	0.4	1.4	1.0	1.7	3.1	**-0.1**	**0.2**	**0.2**	*0.1*	*0.0*
Croatia	1.2	1.8	0.6	-1.6	-0.9	-1.2	-0.6	**-1.4**	**0.4**	**0.4**	*0.0*	*0.5*
Hungary	-0.6	-1.0	-0.6	0.8	1.1	1.0	1.4	**-0.7**	**0.2**	**0.2**	*-1.0*	*-0.4*
Poland	-0.5	0.8	-0.4	1.7	2.2	2.9	1.0	**1.1**	**-0.1**	**-0.1**	*-0.9*	*-0.1*
Romania	2.9	4.6	0.8	0.8	0.8	1.0	0.5	**-1.3**	**-0.3**	**0.5**	*-0.7*	*0.8*
Sweden	-1.7	-0.6	-0.1	0.5	0.9	1.7	0.5	**-1.0**	**0.3**	**0.0**	*0.2*	*-0.1*
EU27	0.1	-0.5	-0.6	1.1	1.2	3.1	1.5	**-1.0**	**0.4**	**0.0**	*-1.2*	*0.0*
United Kingdom	0.0	0.3	-0.1	1.1	-0.2	-1.6	2.8	**0.8**	**0.5**	**0.5**	*-1.9*	*-0.8*
EU28	0.1	-0.3	-0.6	1.2	1.0	2.4	1.8	**-0.7**	**0.4**	**0.1**	*-1.1*	*-0.1*
USA	0.3	-1.2	-0.6	0.7	-0.2	2.2	0.0	**-0.8**	**0.1**	**0.0**	*-0.6*	*-0.4*
Japan	-0.3	-5.4	-3.2	-1.4	-0.7	11.2	5.9	**-2.7**	**0.8**	**-0.3**	*-0.9*	*0.0*

Table 22: Total population (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	0.3	0.6	0.8	0.5	0.5	0.5	0.5	**0.6**	**0.5**	**0.5**	*0.8*	*0.5*
Germany	0.0	-0.1	-0.1	0.3	0.4	0.9	1.0	**0.8**	**0.5**	**0.3**	*0.8*	*0.5*
Estonia	-0.3	-0.6	-0.3	-0.4	-0.3	-0.2	0.2	**0.3**	**0.1**	**0.0**	*0.1*	*0.0*
Ireland	1.4	2.3	0.9	0.3	0.3	0.6	0.9	**1.1**	**1.0**	**0.9**	*1.1*	*1.0*
Greece	0.4	0.3	0.0	-0.7	-0.7	-0.7	-0.3	**-0.5**	**-0.5**	**-0.5**	*0.0*	*0.0*
Spain	0.7	1.8	0.7	-0.4	-0.3	-0.1	0.1	**0.1**	**0.1**	**0.1**	*0.0*	*0.1*
France	0.6	0.7	0.5	0.5	0.5	0.5	0.4	**0.5**	**0.5**	**0.5**	*0.5*	*0.4*
Italy	0.1	0.6	0.5	0.5	0.2	-0.1	-0.2	**-0.1**	**0.0**	**0.0**	*-0.1*	*0.0*
Cyprus	1.1	1.6	2.4	-0.2	-1.1	-0.6	0.5	**0.0**	**0.6**	**0.6**	*0.0*	*0.6*
Latvia	-1.0	-1.0	-1.6	-1.0	-0.9	-0.8	-0.9	**-1.0**	**-1.0**	**-0.8**	*-0.6*	*-0.5*
Lithuania	-0.8	-1.3	-1.6	-1.0	-0.9	-0.9	-1.3	**-1.5**	**-1.4**	**-1.3**	*-1.4*	*-1.7*
Luxembourg	1.2	1.5	2.0	2.6	2.4	2.0	2.6	**2.4**	**2.4**	**2.3**	*2.2*	*2.2*
Malta	0.7	0.5	0.6	0.9	1.0	1.1	1.3	**1.0**	**0.8**	**0.7**	*1.0*	*1.0*
Netherlands	0.7	0.3	0.5	0.3	0.4	0.4	0.6	**0.4**	**0.4**	**0.4**	*0.6*	*0.5*
Austria	0.3	0.5	0.3	0.6	0.8	1.0	1.3	**0.8**	**0.7**	**0.6**	*0.8*	*0.7*
Portugal	0.6	0.2	-0.1	-0.5	-0.5	-0.4	-0.3	**-0.2**	**-0.1**	**-0.1**	*-0.2*	*-0.1*
Slovenia	0.1	0.2	0.4	0.1	0.1	0.1	0.1	**0.1**	**0.1**	**0.1**	*0.1*	*0.1*
Slovakia	0.0	0.1	0.0	0.1	0.1	0.1	0.2	**0.1**	**0.1**	**0.1**	*0.1*	*0.0*
Finland	0.2	0.3	0.5	0.5	0.4	0.3	0.3	**0.4**	**0.4**	**0.4**	*0.4*	*0.4*
Euro area	0.3	0.5	0.3	0.2	0.2	0.3	0.4	**0.4**	**0.3**	**0.2**	*0.4*	*0.3*
Bulgaria	-1.2	-0.8	-0.6	-0.6	-0.6	-0.6	-0.7	**-0.6**	**-0.4**	**-0.3**	*-0.7*	*-0.6*
Czech Republic	-0.2	0.2	0.4	0.0	0.1	0.2	0.2	**0.2**	**0.2**	**0.2**	*0.2*	*0.3*
Denmark	0.3	0.3	0.5	0.4	0.5	0.7	0.8	**0.8**	**0.8**	**0.8**	*0.8*	*0.7*
Croatia	-1.2	0.1	-0.2	-0.3	-0.4	-0.9	-0.7	**-0.8**	**-0.5**	**-0.5**	*-0.8*	*-0.6*
Hungary	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	**-0.3**	**-0.2**	**-0.3**	*-0.2*	*-0.1*
Poland	0.0	-0.1	0.2	-0.1	0.0	-0.1	-0.1	**0.0**	**0.0**	**-0.1**	*0.0*	*0.0*
Romania	-0.8	-0.7	-0.8	-0.4	-0.4	-0.5	-0.6	**-1.1**	**-0.6**	**-0.6**	*-0.9*	*-0.6*
Sweden	0.2	0.5	0.8	0.9	1.0	1.1	1.3	**1.5**	**1.3**	**1.0**	*1.4*	*1.1*
EU27	0.2	0.4	0.2	0.1	0.2	0.2	0.3	**0.3**	**0.2**	**0.2**	*0.3*	*0.2*
United Kingdom	0.4	0.6	0.8	0.6	0.8	0.8	0.7	**0.7**	**0.7**	**0.7**	*0.7*	*0.7*
EU28	0.2	0.4	0.3	0.2	0.2	0.3	0.3	**0.3**	**0.3**	**0.2**	*0.3*	*0.3*
USA	1.1	0.9	0.8	0.7	0.7	0.7	0.7	**0.7**	**0.7**	**0.7**	*0.7*	*0.8*
Japan	0.2	0.2	0.0	-0.1	-0.1	-0.2	-0.1	**-0.2**	**-0.1**	**-0.1**	*-0.1*	*-0.1*

Table 23: Total employment (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.3	1.0	0.8	-0.3	0.4	0.9	1.3	**1.1**	**0.9**	**0.8**	*0.9*	*0.9*
Germany	0.9	0.4	0.8	0.6	0.8	0.9	1.3	**1.4**	**1.1**	**0.9**	*1.0*	*1.0*
Estonia	-1.0	1.8	-1.4	1.2	0.8	2.9	0.3	**0.8**	**0.3**	**0.4**	*0.3*	*0.2*
Ireland	4.8	3.8	-2.7	2.5	1.7	2.5	2.8	**2.9**	**2.2**	**1.9**	*2.6*	*2.1*
Greece	1.5	1.6	-3.0	-2.6	0.9	0.7	0.5	**1.9**	**1.7**	**1.8**	*1.4*	*1.7*
Spain	3.9	3.2	-3.2	-3.4	1.0	3.2	3.0	**2.7**	**2.1**	**1.6**	*2.3*	*2.1*
France	1.8	0.7	-0.1	0.1	0.3	0.1	0.5	**1.1**	**0.9**	**0.9**	*0.8*	*1.0*
Italy	1.1	0.8	-1.0	-2.4	0.2	0.7	1.4	**1.0**	**0.9**	**0.6**	*0.7*	*0.8*
Cyprus	1.9	3.5	0.2	-5.9	-1.8	1.5	3.1	**2.9**	**1.9**	**1.4**	*2.3*	*1.9*
Latvia	-0.5	2.3	-3.8	2.3	-1.4	1.4	-0.3	**0.2**	**-0.2**	**-0.2**	*0.3*	*0.5*
Lithuania	-1.5	0.7	-2.4	1.3	2.0	1.3	2.0	**-0.3**	**-0.3**	**-0.4**	*0.6*	*0.5*
Luxembourg	4.6	3.0	2.6	1.8	2.6	2.6	3.0	**3.1**	**3.0**	**2.9**	*3.1*	*3.1*
Malta	0.3	1.0	2.0	3.7	5.1	3.9	3.7	**4.7**	**3.0**	**2.4**	*3.0*	*2.8*
Netherlands	1.6	0.7	0.0	-1.2	-0.1	1.0	1.3	**2.1**	**1.8**	**1.9**	*1.7*	*1.3*
Austria	0.8	1.2	0.9	0.3	1.0	0.6	1.2	**1.5**	**1.3**	**1.1**	*1.0*	*0.9*
Portugal	1.7	-0.3	-2.0	-2.9	1.4	1.4	1.6	**2.9**	**1.2**	**0.9**	*1.4*	*0.9*
Slovenia	1.0	0.9	-0.8	-1.1	0.4	1.2	1.9	**2.3**	**1.6**	**1.0**	*1.9*	*1.6*
Slovakia	-0.9	1.3	0.3	-0.8	1.4	2.0	2.4	**1.3**	**1.2**	**1.2**	*1.4*	*1.3*
Finland	1.8	1.2	0.3	-0.7	-0.5	-0.1	0.5	**0.5**	**0.7**	**0.7**	*0.5*	*0.7*
Euro area	1.5	1.0	-0.5	-0.8	0.6	1.0	1.4	**1.5**	**1.2**	**1.0**	*1.2*	*1.1*
Bulgaria	-1.7	3.0	-1.6	-0.4	0.4	0.4	0.5	**0.7**	**0.4**	**0.3**	*0.6*	*0.6*
Czech Republic	-0.9	0.9	-0.1	0.3	0.6	1.4	1.3	**0.9**	**0.2**	**0.0**	*0.3*	*0.0*
Denmark	0.8	0.9	-1.0	0.0	1.0	1.3	1.7	**1.9**	**1.2**	**0.8**	*1.1*	*0.9*
Croatia	1.7	2.1	-2.0	-2.6	2.7	1.2	0.3	**1.8**	**1.7**	**1.5**	*1.9*	*1.5*
Hungary	1.0	-0.1	-1.1	1.1	4.8	2.4	2.6	**1.1**	**0.6**	**0.2**	*0.6*	*0.3*
Poland	-1.9	2.0	0.4	-0.1	1.7	1.5	0.6	**1.6**	**0.8**	**0.2**	*0.4*	*0.0*
Romania	-3.2	-0.4	-1.6	-0.9	0.8	-1.3	-0.9	**0.7**	**0.4**	**0.2**	*0.1*	*0.4*
Sweden	1.7	0.6	0.5	1.0	1.4	1.5	1.7	**1.8**	**1.4**	**1.0**	*1.5*	*1.2*
EU27	0.8	1.0	-0.5	-0.6	0.8	1.0	1.2	**1.5**	**1.1**	**0.8**	*1.0*	*1.0*
United Kingdom	1.0	1.0	0.2	1.2	2.4	1.7	1.4	**0.9**	**0.5**	**0.4**	*0.6*	*0.4*
EU28	0.8	1.0	-0.4	-0.4	1.1	1.1	1.3	**1.4**	**1.0**	**0.8**	*0.9*	*0.9*
USA	1.0	1.3	-0.5	1.0	1.6	1.7	1.7	**1.3**	**1.1**	**0.8**	*1.1*	*0.7*
Japan	-0.9	0.6	-0.4	0.6	0.6	0.4	0.9	**0.7**	**0.6**	**0.5**	*0.3*	*0.2*

Table 24: Unemployment rate [1] (number of unemployed as a percentage of total labour force, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	7.7	8.2	7.6	8.4	8.5	8.5	7.8	**7.3**	**7.0**	**6.8**	*7.6*	*7.4*
Germany	8.5	10.0	6.6	5.2	5.0	4.6	4.1	**3.7**	**3.5**	**3.2**	*4.0*	*3.9*
Estonia	11.9	7.8	11.6	8.6	7.4	6.2	6.8	**6.9**	**7.7**	**8.5**	*7.7*	*8.6*
Ireland	5.2	4.5	12.3	13.1	11.3	9.4	7.9	**6.1**	**5.5**	**5.3**	*6.4*	*5.9*
Greece	11.1	9.5	14.5	27.5	26.5	24.9	23.6	**21.8**	**20.4**	**18.7**	*22.8*	*21.6*
Spain	12.8	9.7	19.1	26.1	24.5	22.1	19.6	**17.4**	**15.6**	**14.3**	*17.6*	*15.9*
France	8.9	8.6	9.0	10.3	10.3	10.4	10.1	**9.5**	**9.3**	**8.9**	*9.9*	*9.6*
Italy	9.9	7.4	8.4	12.1	12.7	11.9	11.7	**11.3**	**10.9**	**10.5**	*11.5*	*11.3*
Cyprus	4.5	4.5	7.0	15.9	16.1	15.0	13.0	**11.0**	**10.0**	**9.3**	*11.7*	*10.6*
Latvia	13.7	9.3	15.2	11.9	10.8	9.9	9.6	**8.4**	**7.9**	**7.3**	*9.2*	*8.7*
Lithuania	15.1	8.3	13.2	11.8	10.7	9.1	7.9	**7.3**	**6.8**	**6.4**	*7.6*	*7.2*
Luxembourg	2.4	4.4	4.9	5.9	6.0	6.5	6.3	**6.1**	**5.9**	**6.0**	*6.1*	*6.0*
Malta	6.8	7.0	6.5	6.4	5.8	5.4	4.7	**4.2**	**4.0**	**4.0**	*4.9*	*4.9*
Netherlands	4.0	5.1	4.8	7.3	7.4	6.9	6.0	**4.8**	**4.0**	**3.5**	*4.9*	*4.4*
Austria	4.2	5.2	4.7	5.4	5.6	5.7	6.0	**5.6**	**5.5**	**5.4**	*5.9*	*5.9*
Portugal	5.6	8.4	12.0	16.4	14.1	12.6	11.2	**9.2**	**8.3**	**7.6**	*9.9*	*9.2*
Slovenia	6.8	6.1	6.9	10.1	9.7	9.0	8.0	**6.8**	**5.9**	**5.2**	*7.2*	*6.3*
Slovakia	17.3	15.4	12.8	14.2	13.2	11.5	9.7	**8.3**	**7.4**	**6.6**	*8.6*	*7.6*
Finland	9.9	8.2	7.7	8.2	8.7	9.4	8.8	**8.6**	**8.3**	**8.0**	*8.6*	*8.2*
Euro area	9.2	8.7	9.8	12.0	11.6	10.9	10.0	**9.1**	**8.5**	**7.9**	*9.4*	*8.9*
Bulgaria	15.5	10.4	9.3	13.0	11.4	9.2	7.6	**6.4**	**6.0**	**5.7**	*7.0*	*6.4*
Czech Republic	7.9	7.3	6.4	7.0	6.1	5.1	4.0	**3.0**	**2.9**	**2.9**	*3.5*	*3.5*
Denmark	4.7	4.7	6.4	7.0	6.6	6.2	6.2	**5.9**	**5.6**	**5.5**	*5.8*	*5.7*
Croatia		12.5	11.8	17.4	17.2	16.1	13.4	**11.1**	**9.2**	**7.5**	*11.6*	*9.7*
Hungary	6.6	6.8	10.2	10.2	7.7	6.8	5.1	**4.2**	**4.0**	**4.0**	*4.1*	*3.9*
Poland	15.6	16.1	8.9	10.3	9.0	7.5	6.2	**5.0**	**4.2**	**4.0**	*5.2*	*4.4*
Romania	7.3	7.3	6.6	7.1	6.8	6.8	5.9	**5.3**	**5.1**	**5.0**	*5.4*	*5.3*
Sweden	6.5	7.0	7.8	8.0	7.9	7.4	6.9	**6.6**	**6.4**	**6.3**	*6.6*	*6.6*
EU27		9.1	9.4	11.4	10.9	10.0	9.1	**8.2**	**7.7**	**7.2**	*:*	*:*
United Kingdom	5.5	5.0	7.4	7.5	6.1	5.3	4.8	**4.5**	**4.7**	**4.8**	*5.0*	*5.4*
EU28		8.6	9.2	10.9	10.2	9.4	8.6	**7.8**	**7.3**	**7.0**	*8.0*	*7.7*
USA	4.6	5.2	8.3	7.4	6.2	5.3	4.9	**4.5**	**4.3**	**4.1**	*4.6*	*4.5*
Japan	4.8	4.5	4.6	4.0	3.6	3.4	3.1	**2.9**	**2.8**	**2.7**	*3.1*	*3.0*

[1] Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium	2.9	2.5	2.5	2.6	0.9	0.0	0.1	**1.3**	**1.9**	**2.2**	*2.0*	*1.7*
Germany	1.3	0.8	2.1	1.8	2.8	2.7	2.2	**2.4**	**2.7**	**3.0**	*2.5*	*2.6*
Estonia	10.8	14.7	3.7	4.8	6.5	3.3	5.9	**6.4**	**5.5**	**5.2**	*5.5*	*5.6*
Ireland	6.0	5.4	0.0	0.2	1.8	2.1	2.0	**2.6**	**2.5**	**2.4**	*3.0*	*2.5*
Greece	6.8	5.6	-0.5	-7.5	-2.0	-2.3	-0.9	**0.8**	**1.5**	**1.8**	*1.5*	*2.1*
Spain	2.8	3.8	2.5	1.4	0.1	1.6	-0.3	**0.5**	**1.2**	**1.4**	*1.0*	*1.3*
France	2.3	3.0	2.5	1.5	1.5	0.9	1.0	**1.7**	**2.0**	**2.0**	*1.5*	*1.8*
Italy	2.1	3.2	2.0	1.3	0.0	1.0	0.5	**0.5**	**1.5**	**1.3**	*0.9*	*1.6*
Cyprus	4.4	4.5	2.7	-5.4	-3.6	-1.2	-0.8	**1.7**	**1.5**	**1.8**	*0.7*	*1.1*
Latvia	7.1	21.9	1.5	5.5	8.6	7.7	6.8	**9.5**	**8.8**	**8.1**	*6.0*	*6.8*
Lithuania	5.8	13.9	2.8	5.4	4.7	5.8	6.2	**8.4**	**6.7**	**6.0**	*5.1*	*5.6*
Luxembourg	3.6	3.5	2.0	2.3	2.2	3.0	0.7	**2.9**	**2.5**	**2.0**	*3.0*	*1.9*
Malta	4.4	3.7	3.2	2.0	1.6	3.2	2.7	**2.0**	**3.4**	**3.6**	*3.0*	*3.1*
Netherlands	4.4	2.7	2.4	2.2	1.6	-0.3	1.2	**1.7**	**2.7**	**3.1**	*2.8*	*2.8*
Austria	2.1	2.4	2.2	2.2	1.9	2.1	2.4	**2.3**	**2.3**	**2.3**	*1.9*	*1.9*
Portugal	4.9	3.3	0.4	3.6	-1.8	0.4	2.1	**1.6**	**1.7**	**1.8**	*1.5*	*1.5*
Slovenia	9.4	6.6	2.7	0.5	1.3	1.4	2.8	**2.8**	**3.2**	**3.1**	*2.7*	*3.4*
Slovakia	8.8	8.4	3.8	2.6	1.8	3.5	2.3	**4.1**	**4.8**	**4.9**	*4.0*	*4.7*
Finland	3.5	3.2	3.0	1.3	1.0	1.4	1.0	**-1.1**	**1.3**	**1.7**	*-0.8*	*1.5*
Euro area	2.4	2.5	2.3	1.6	1.4	1.4	1.2	**1.6**	**2.2**	**2.3**	*1.8*	*2.1*
Bulgaria	17.5	7.7	9.8	8.8	5.6	5.6	5.8	**7.8**	**8.3**	**6.9**	*4.9*	*4.5*
Czech Republic	7.6	6.3	2.3	-0.3	2.6	3.0	4.6	**7.1**	**6.6**	**5.6**	*4.6*	*4.6*
Denmark	3.8	3.5	2.6	1.6	1.5	1.5	1.4	**1.9**	**2.5**	**3.0**	*2.3*	*2.7*
Croatia	6.6	5.3	2.3	-0.7	-5.4	-0.2	-0.1	**2.5**	**2.5**	**2.5**	*2.5*	*2.5*
Hungary	12.6	8.2	2.4	1.8	0.8	-1.5	4.0	**7.6**	**7.2**	**5.8**	*7.1*	*6.3*
Poland	10.1	2.8	5.9	1.7	2.2	1.7	4.4	**4.8**	**5.7**	**7.1**	*4.3*	*5.1*
Romania	51.3	19.5	6.7	3.8	6.7	1.9	10.9	**13.2**	**10.9**	**7.8**	*9.5*	*6.5*
Sweden	3.2	3.9	3.0	1.9	2.2	2.7	2.8	**2.7**	**2.7**	**2.4**	*2.5*	*2.6*
EU27	3.4	2.6	2.5	1.5	1.3	1.4	1.5	**2.0**	**2.6**	**2.7**	*2.1*	*2.4*
United Kingdom	5.1	4.9	1.8	2.8	0.5	1.1	3.1	**2.1**	**2.2**	**2.5**	*2.4*	*2.4*
EU28	3.7	3.0	2.3	1.8	1.2	1.3	1.7	**2.0**	**2.5**	**2.7**	*2.2*	*2.4*
USA	:	3.7	2.2	1.4	2.9	3.2	1.0	**1.9**	**3.4**	**4.2**	*3.5*	*4.0*
Japan	-1.2	-0.6	-0.8	-0.1	1.1	0.7	0.0	**0.4**	**0.3**	**0.4**	*0.7*	*0.5*

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 26: Real compensation of employees per head [1] (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium	1.2	0.0	0.6	1.7	0.3	-0.5	-1.4	**-0.5**	**0.6**	**0.8**	*0.0*	*0.4*
Germany	0.4	-0.6	0.7	0.8	1.8	2.0	1.6	**0.6**	**1.2**	**1.4**	*0.8*	*1.3*
Estonia	5.7	9.4	-0.5	1.8	5.9	3.5	4.9	**2.6**	**2.4**	**2.3**	*2.0*	*2.6*
Ireland	2.2	3.3	1.2	-1.5	0.6	1.7	1.2	**2.0**	**1.7**	**1.4**	*1.8*	*1.3*
Greece	3.5	2.4	-2.7	-5.8	0.5	-0.8	0.1	**-0.2**	**0.7**	**0.7**	*0.3*	*1.0*
Spain	0.0	0.4	0.6	0.3	-0.1	1.7	-0.3	**-1.1**	**0.0**	**0.0**	*-0.7*	*-0.1*
France	1.3	1.0	1.3	0.8	1.3	0.6	1.0	**0.8**	**0.8**	**0.5**	*0.2*	*0.5*
Italy	-0.5	0.7	0.1	0.1	-0.3	0.9	0.5	**-0.9**	**0.3**	**-0.2**	*-0.7*	*0.3*
Cyprus	2.0	1.4	0.1	-5.3	-3.1	0.6	0.5	**0.6**	**0.4**	**0.2**	*-0.4*	*-0.1*
Latvia	3.2	12.1	-1.6	5.2	6.8	8.9	5.7	**6.5**	**5.8**	**5.1**	*2.7*	*3.7*
Lithuania	4.8	11.4	-1.9	4.3	4.6	6.7	5.2	**4.5**	**3.7**	**3.5**	*2.2*	*3.5*
Luxembourg	1.7	0.9	0.3	0.6	1.7	2.9	0.7	**1.2**	**0.1**	**0.1**	*0.6*	*0.1*
Malta	2.4	1.5	0.7	0.8	1.5	2.5	1.9	**1.2**	**1.9**	**1.8**	*1.4*	*1.3*
Netherlands	1.7	0.7	1.2	-0.2	0.8	-0.5	0.3	**0.1**	**1.2**	**0.4**	*1.3*	*1.3*
Austria	0.9	0.3	0.2	0.1	-0.2	0.7	1.2	**0.3**	**0.6**	**0.5**	*0.1*	*0.3*
Portugal	1.7	-0.1	-0.8	2.8	-2.1	-0.5	1.1	**0.1**	**0.1**	**0.3**	*0.0*	*0.0*
Slovenia	2.2	3.1	0.4	-1.6	1.4	2.0	3.1	**1.2**	**1.7**	**1.3**	*1.2*	*1.7*
Slovakia	2.2	3.4	1.2	1.2	1.9	3.6	2.6	**2.8**	**3.3**	**3.0**	*2.7*	*3.3*
Finland	1.3	2.1	0.4	-1.1	-0.4	1.2	0.1	**-2.1**	**-0.1**	**0.1**	*-1.7*	*0.3*
Euro area	0.6	0.3	0.7	0.6	0.9	1.1	0.8	**0.2**	**0.8**	**0.7**	*0.3*	*0.7*
Bulgaria	9.7	3.2	6.3	11.7	5.6	4.4	5.9	**6.7**	**6.7**	**5.2**	*3.6*	*3.5*
Czech Republic	3.7	4.5	0.3	-1.1	2.0	2.9	4.0	**4.1**	**4.5**	**3.5**	*2.0*	*2.6*
Denmark	1.7	1.8	0.4	0.8	0.7	0.8	0.9	**0.7**	**0.9**	**1.1**	*1.1*	*1.1*
Croatia	2.0	2.4	-0.9	-2.5	-4.9	0.3	1.1	**1.2**	**1.0**	**0.9**	*0.9*	*1.0*
Hungary	2.4	3.4	-2.1	0.0	-0.1	-1.3	4.1	**5.2**	**4.5**	**2.7**	*4.1*	*3.2*
Poland	3.3	0.6	2.3	1.3	2.3	2.9	4.9	**3.2**	**3.7**	**4.3**	*2.5*	*3.1*
Romania	11.0	9.9	0.5	1.1	5.4	0.9	11.4	**11.7**	**7.8**	**4.7**	*7.9*	*3.9*
Sweden	1.9	2.6	1.1	1.2	1.1	1.8	1.7	**0.8**	**0.7**	**0.2**	*1.2*	*1.1*
EU27	1.2	0.4	0.7	0.5	0.8	1.1	1.2	**0.5**	**1.1**	**1.0**	*0.6*	*1.0*
United Kingdom	4.3	2.9	-0.7	0.4	-1.4	0.5	1.7	**-0.4**	**-0.2**	**0.7**	*-0.2*	*-0.2*
EU28	1.8	0.8	0.5	0.5	0.4	1.0	1.2	**0.3**	**0.9**	**1.0**	*0.4*	*0.8*
USA	:	1.2	0.4	0.1	1.4	2.9	-0.2	**0.2**	**1.2**	**1.9**	*1.5*	*1.7*
Japan	-0.4	-0.1	0.1	0.0	-0.9	0.3	0.4	**0.4**	**-0.1**	**-0.5**	*0.5*	*0.1*

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 27: Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.1	1.5	-0.2	0.5	0.9	0.5	0.2	**0.6**	**0.9**	**0.9**	*0.6*	*0.8*
Germany	0.8	1.3	-0.2	-0.1	1.1	0.8	0.6	**0.7**	**1.0**	**1.1**	*0.6*	*0.9*
Estonia	6.2	6.3	0.1	0.7	2.1	-1.2	1.8	**3.6**	**2.9**	**2.4**	*2.0*	*2.7*
Ireland	3.2	1.4	2.0	-0.9	6.5	22.5	2.3	**1.9**	**1.7**	**1.2**	*1.3*	*1.5*
Greece	2.3	2.4	-2.4	-0.6	-0.2	-1.0	-0.7	**-0.2**	**0.8**	**0.7**	*0.7*	*0.7*
Spain	0.2	0.4	2.0	1.8	0.3	0.3	0.3	**0.3**	**0.5**	**0.6**	*0.5*	*0.3*
France	1.0	1.3	0.3	0.5	0.6	0.9	0.7	**0.6**	**0.8**	**0.8**	*0.6*	*0.7*
Italy	0.6	0.5	-0.4	0.7	-0.1	0.3	-0.4	**0.4**	**0.4**	**0.4**	*0.2*	*0.3*
Cyprus	2.6	0.5	0.0	0.0	0.4	0.5	-0.1	**0.6**	**0.9**	**1.3**	*0.1*	*0.3*
Latvia	6.2	7.4	1.5	0.3	3.3	1.4	2.4	**4.0**	**3.7**	**3.4**	*2.8*	*3.0*
Lithuania	6.3	7.9	2.1	2.1	1.5	0.7	0.4	**4.1**	**3.2**	**3.0**	*2.2*	*2.6*
Luxembourg	1.1	1.3	-2.3	1.8	3.1	0.3	0.0	**0.3**	**0.5**	**0.4**	*1.2*	*1.3*
Malta	3.2	1.5	-0.3	0.8	2.9	3.0	1.8	**0.9**	**1.8**	**1.7**	*1.6*	*1.6*
Netherlands	1.5	1.6	0.0	1.0	1.5	1.2	0.9	**1.1**	**0.9**	**0.6**	*0.4*	*0.5*
Austria	1.8	1.4	-0.3	-0.3	-0.1	0.5	0.2	**1.1**	**1.1**	**1.2**	*0.7*	*0.8*
Portugal	1.3	1.5	0.6	1.8	-0.5	0.4	-0.1	**-0.3**	**0.9**	**0.9**	*0.4*	*0.7*
Slovenia	2.8	3.8	-0.3	0.0	2.6	1.0	1.2	**2.4**	**2.3**	**2.2**	*1.4*	*1.5*
Slovakia	3.5	5.9	1.6	2.3	1.3	1.8	0.9	**2.0**	**2.6**	**2.8**	*1.6*	*2.3*
Finland	2.1	2.3	-1.0	0.0	-0.2	0.1	1.4	**2.8**	**2.0**	**1.7**	*0.8*	*1.1*
Euro area	1.0	1.1	0.3	0.6	0.7	1.0	0.4	**0.7**	**0.9**	**0.9**	*0.6*	*0.7*
Bulgaria	3.9	3.5	2.7	1.3	1.0	3.3	3.4	**3.1**	**3.3**	**3.3**	*2.3*	*2.2*
Czech Republic	2.9	4.6	0.3	-0.8	2.2	3.8	1.3	**3.4**	**2.8**	**2.9**	*2.4*	*2.7*
Denmark	1.2	1.1	0.6	1.0	0.7	0.3	0.0	**0.4**	**0.8**	**1.1**	*0.6*	*0.9*
Croatia	1.0	2.6	0.0	1.6	-3.1	1.0	2.7	**1.4**	**1.2**	**1.2**	*0.9*	*1.1*
Hungary	3.0	3.6	0.0	1.0	-0.6	0.9	-0.4	**2.6**	**3.0**	**2.9**	*3.0*	*3.1*
Poland	5.4	3.1	3.0	1.5	1.5	2.3	2.3	**2.6**	**3.0**	**3.2**	*3.1*	*3.2*
Romania	5.6	7.1	2.0	4.4	2.3	5.3	5.5	**4.9**	**4.0**	**3.9**	*4.2*	*3.3*
Sweden	1.7	2.9	0.0	0.3	1.2	3.0	1.6	**1.3**	**1.3**	**1.2**	*1.1*	*1.0*
EU27	1.8	1.4	0.4	0.6	0.7	1.3	0.7	**0.9**	**1.2**	**1.2**	*0.9*	*1.0*
United Kingdom	1.9	1.7	-0.2	0.9	0.7	0.6	0.4	**0.5**	**0.7**	**0.7**	*1.2*	*0.8*
EU28	1.8	1.4	0.3	0.7	0.7	1.2	0.7	**0.9**	**1.1**	**1.1**	*0.9*	*1.0*
USA	2.1	1.5	1.1	0.7	1.0	1.2	-0.2	**0.8**	**1.2**	**1.4**	*1.2*	*1.6*
Japan	1.3	1.1	0.2	1.4	-0.3	0.8	0.1	**0.9**	**0.6**	**0.5**	*0.9*	*0.4*

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 28: Unit labour costs, whole economy [1] (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	1.8	1.1	2.6	2.0	0.0	-0.5	-0.1	**0.7**	**1.0**	**1.2**	*1.3*	*0.9*
Germany	0.5	-0.5	2.2	1.9	1.7	1.8	1.6	**1.6**	**1.6**	**1.9**	*1.9*	*1.7*
Estonia	4.3	7.9	3.6	4.1	4.3	4.5	4.0	**2.6**	**2.5**	**2.7**	*3.4*	*2.8*
Ireland	2.8	3.9	-1.9	1.1	-4.4	-16.6	-0.2	**0.7**	**0.8**	**1.2**	*1.6*	*0.9*
Greece	4.4	3.1	2.0	-6.9	-1.8	-1.3	-0.2	**1.1**	**0.7**	**1.1**	*0.9*	*1.3*
Spain	2.6	3.4	0.4	-0.4	-0.2	1.4	-0.6	**0.2**	**0.7**	**0.8**	*0.5*	*1.0*
France	1.4	1.7	2.1	1.1	0.9	0.0	0.3	**1.1**	**1.1**	**1.3**	*1.0*	*1.1*
Italy	1.4	2.7	2.4	0.6	0.1	0.7	0.9	**0.1**	**1.1**	**0.9**	*0.6*	*1.3*
Cyprus	1.7	4.0	2.7	-5.3	-4.0	-1.7	-0.7	**1.0**	**0.5**	**0.5**	*0.6*	*0.8*
Latvia	0.9	13.4	0.1	5.2	5.1	6.2	4.3	**5.3**	**4.9**	**4.6**	*3.1*	*3.7*
Lithuania	-0.4	5.5	0.6	3.2	3.2	5.0	5.9	**4.2**	**3.3**	**3.0**	*2.8*	*2.9*
Luxembourg	2.5	2.2	4.4	0.5	-0.9	2.8	0.7	**2.6**	**1.9**	**1.6**	*1.8*	*0.6*
Malta	1.2	2.2	3.5	1.2	-1.2	0.2	0.9	**1.1**	**1.6**	**1.9**	*1.4*	*1.5*
Netherlands	2.9	1.1	2.4	1.2	0.1	-1.5	0.3	**0.6**	**1.8**	**2.5**	*2.4*	*2.3*
Austria	0.2	1.0	2.5	2.5	2.0	1.6	2.1	**1.2**	**1.2**	**1.1**	*1.1*	*1.1*
Portugal	3.6	1.8	-0.2	1.8	-1.3	0.0	2.2	**1.9**	**0.8**	**0.9**	*1.0*	*0.9*
Slovenia	6.4	2.7	3.0	0.5	-1.2	0.4	1.6	**0.4**	**0.9**	**0.9**	*1.3*	*1.9*
Slovakia	5.2	2.3	2.2	0.3	0.5	1.6	1.4	**2.0**	**2.2**	**2.0**	*2.3*	*2.4*
Finland	1.4	0.9	4.0	1.4	1.1	1.3	-0.4	**-3.8**	**-0.7**	**0.1**	*-1.5*	*0.5*
Euro area	1.4	1.5	2.0	1.0	0.6	0.5	0.8	**0.9**	**1.2**	**1.4**	*1.2*	*1.4*
Bulgaria	13.1	4.0	6.9	7.4	4.6	2.3	2.3	**4.6**	**4.8**	**3.5**	*2.6*	*2.3*
Czech Republic	4.6	1.7	2.0	0.5	0.4	-0.8	3.3	**3.5**	**3.6**	**2.6**	*2.2*	*1.9*
Denmark	2.5	2.3	2.0	0.6	0.8	1.1	1.4	**1.5**	**1.7**	**1.9**	*1.7*	*1.8*
Croatia	5.5	2.6	2.2	-2.2	-2.4	-1.2	-2.8	**1.1**	**1.3**	**1.3**	*1.5*	*1.4*
Hungary	9.4	4.4	2.4	0.8	1.4	-2.4	4.4	**4.9**	**4.1**	**2.7**	*4.0*	*3.1*
Poland	4.5	-0.3	2.8	0.2	0.6	-0.6	2.1	**2.1**	**2.6**	**3.8**	*1.1*	*1.8*
Romania	43.3	11.6	4.6	-0.6	4.3	-3.3	5.0	**7.9**	**6.6**	**3.7**	*5.0*	*3.1*
Sweden	1.5	0.9	3.0	1.7	1.0	-0.3	1.2	**1.4**	**1.4**	**1.2**	*1.4*	*1.5*
EU27	1.9	1.5	2.1	1.0	0.7	0.3	1.0	**1.2**	**1.5**	**1.6**	*:*	*:*
United Kingdom	3.1	3.1	2.0	1.9	-0.1	0.4	2.8	**1.5**	**1.5**	**1.8**	*1.2*	*1.5*
EU28	2.1	1.8	2.1	1.1	0.6	0.3	1.3	**1.2**	**1.5**	**1.6**	*1.3*	*1.5*
USA	:	2.1	1.0	0.7	1.9	2.0	1.2	**1.1**	**2.2**	**2.8**	*2.3*	*2.3*
Japan	-2.5	-1.6	-1.0	-1.5	1.3	0.0	-0.2	**-0.4**	**-0.3**	**-0.2**	*-0.2*	*0.1*

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 29: Real unit labour costs ¹ (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	0.1	-1.0	0.9	1.0	-0.7	-1.6	-1.7	**-1.1**	**-0.6**	**-0.5**	*-0.5*	*-0.7*
Germany	-0.2	-1.5	1.0	0.0	-0.1	-0.2	0.2	**0.2**	**-0.2**	**0.2**	*0.5*	*0.1*
Estonia	-1.7	0.8	0.0	0.5	2.7	3.3	2.4	**-1.5**	**-1.0**	**-0.2**	*-0.2*	*-0.5*
Ireland	-2.9	1.6	-0.4	0.0	-4.1	-22.3	-0.2	**0.2**	**-0.3**	**0.0**	*0.4*	*-0.3*
Greece	1.0	0.0	0.4	-4.6	0.0	-0.3	0.8	**0.2**	**-0.3**	**-0.4**	*-0.3*	*0.2*
Spain	-0.7	-0.4	-0.1	-0.7	0.0	0.7	-0.9	**-0.7**	**-0.9**	**-0.5**	*-0.5*	*-0.4*
France	0.0	-0.4	1.0	0.3	0.3	-1.1	-0.1	**0.2**	**-0.2**	**-0.2**	*0.1*	*-0.2*
Italy	-1.0	0.3	0.9	-0.6	-0.9	-0.2	0.1	**-0.5**	**-0.1**	**-0.5**	*-0.2*	*0.0*
Cyprus	-0.8	0.1	0.7	-4.3	-2.4	-0.5	0.2	**-0.2**	**-0.5**	**-1.1**	*-0.2*	*-0.1*
Latvia	-2.5	2.2	-1.9	3.4	3.3	6.2	4.0	**3.0**	**1.5**	**1.4**	*0.0*	*1.0*
Lithuania	-1.1	0.7	-2.5	1.8	2.1	4.7	4.9	**0.6**	**-0.5**	**0.0**	*-0.1*	*0.4*
Luxembourg	0.9	-1.4	1.1	-1.2	-2.5	1.4	2.0	**0.3**	**-0.4**	**-0.2**	*-0.6*	*-1.7*
Malta	-1.1	-0.2	0.7	-0.8	-3.4	-2.2	-0.7	**-0.9**	**-0.5**	**-0.4**	*-0.2*	*-0.3*
Netherlands	-0.1	-0.9	1.4	-0.2	-0.1	-2.2	-0.3	**-0.4**	**0.4**	**0.4**	*1.5*	*1.0*
Austria	-0.8	-1.0	0.8	0.9	0.0	-0.7	1.0	**-0.6**	**-0.3**	**-0.6**	*-0.2*	*-0.3*
Portugal	-0.1	-1.3	-0.8	-0.5	-2.0	-2.0	0.7	**0.6**	**-0.6**	**-0.5**	*-0.3*	*-0.6*
Slovenia	-0.7	-0.7	1.3	-1.1	-2.0	-0.6	0.7	**-1.3**	**-0.8**	**-0.7**	*-0.2*	*0.1*
Slovakia	-0.9	-1.1	1.2	-0.2	0.7	1.7	1.8	**0.0**	**0.7**	**0.2**	*1.6*	*0.9*
Finland	-0.6	-0.2	1.8	-1.1	-0.6	-0.7	-1.3	**-4.3**	**-2.4**	**-1.6**	*-2.0*	*-0.8*
Euro area	-0.4	-0.7	0.8	-0.2	-0.3	-1.0	0.0	**-0.2**	**-0.3**	**-0.1**	*0.1*	*0.0*
Bulgaria	2.8	-2.3	2.6	8.2	4.1	0.1	0.1	**3.9**	**2.7**	**1.4**	*1.6*	*0.8*
Czech Republic	0.2	-0.2	1.0	-0.9	-2.0	-2.0	2.0	**2.1**	**1.3**	**0.8**	*0.5*	*0.2*
Denmark	0.4	0.1	-0.2	-0.3	0.1	0.2	1.2	**-0.1**	**0.0**	**-0.1**	*0.1*	*0.1*
Croatia	0.7	-1.2	-0.3	-3.0	-2.4	-1.2	-2.7	**0.0**	**-0.7**	**-0.8**	*0.2*	*-0.3*
Hungary	-0.7	0.0	-1.0	-2.0	-1.9	-4.2	3.4	**2.0**	**1.2**	**-0.4**	*1.1*	*-0.2*
Poland	-1.1	-2.9	-0.2	-0.1	0.1	-1.3	1.7	**0.0**	**0.6**	**1.3**	*-0.2*	*-0.2*
Romania	2.4	-2.7	-2.2	-3.9	2.6	-5.7	2.8	**5.8**	**3.2**	**0.4**	*3.4*	*0.2*
Sweden	0.0	-0.6	1.2	0.6	-0.7	-2.3	-0.3	**-0.9**	**-0.8**	**-0.9**	*-0.9*	*-0.4*
EU27	-0.6	-0.9	0.7	-0.3	-0.3	-1.3	-0.1	**-0.2**	**-0.3**	**-0.2**	*0.0*	*-0.1*
United Kingdom	1.6	0.5	0.1	0.0	-1.8	0.0	0.7	**-0.7**	**-0.7**	**0.1**	*-0.4*	*-0.3*
EU28	-0.2	-0.7	0.6	-0.2	-0.6	-1.1	0.1	**-0.3**	**-0.3**	**-0.1**	*0.0*	*-0.1*
USA	:	-0.6	-0.5	-0.9	0.1	0.9	-0.1	**-0.7**	**0.1**	**0.5**	*0.4*	*0.1*
Japan	-1.5	-0.6	0.2	-1.2	-0.4	-2.1	-0.4	**-0.4**	**-0.9**	**-1.0**	*-0.4*	*-0.4*

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 30: Nominal bilateral exchange rates against Ecu/euro (1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Germany	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Estonia	15.6669	15.6466	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Ireland	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Greece	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Spain	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
France	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Italy	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Cyprus	0.5767	0.5802	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Latvia	0.5972	0.6797	0.7041	0.7015	:	:	:	**:**	**:**	**:**	*:*	*:*
Lithuania	3.8971	3.4528	3.4528	3.4528	3.4528	:	:	**:**	**:**	**:**	*:*	*:*
Luxembourg	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Malta	0.4154	0.4285	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Netherlands	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Austria	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Portugal	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Slovenia	206.1982	238.3482	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Slovakia	42.4519	38.2238	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Finland	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Euro area		:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Bulgaria	1.9549	1.9539	1.9558	1.9558	1.9558	1.9558	1.9558	**1.9558**	**1.9558**	**1.9558**	*1.9558*	*1.9558*
Czech Republic	34.6809	29.9252	25.2808	25.9797	27.5359	27.2792	27.0343	**26.3705**	**25.8237**	**25.8237**	*26.7858*	*26.7018*
Denmark	7.4542	7.4464	7.4488	7.4579	7.4548	7.4587	7.4452	**7.4388**	**7.4433**	**7.4433**	*7.4369*	*7.4374*
Croatia	7.4493	7.4257	7.3627	7.5786	7.6344	7.6137	7.5333	**7.4573**	**7.5065**	**7.5065**	*7.4440*	*7.4362*
Hungary	250.5868	253.7888	275.1883	296.8730	308.7061	309.9956	311.4379	**308.7887**	**309.6650**	**309.6650**	*311.3709*	*312.1860*
Poland	3.9363	4.1258	4.0279	4.1975	4.1843	4.1841	4.3632	**4.2668**	**4.2714**	**4.2714**	*4.2609*	*4.2410*
Romania	2.0705	3.6576	4.1666	4.4190	4.4437	4.4454	4.4904	**4.5595**	**4.5819**	**4.5819**	*4.5214*	*4.5210*
Sweden	8.9170	9.2071	9.5011	8.6515	9.0985	9.3535	9.4689	**9.5780**	**9.5612**	**9.5612**	*9.5710*	*9.5930*
EU27				:	:	:	:	**:**	**:**	**:**	*:*	*:*
United Kingdom	0.6391	0.6841	0.8448	0.8493	0.8061	0.7258	0.8195	**0.8779**	**0.8934**	**0.8934**	*0.8505*	*0.8471*
EU28				:	:	:	:	**:**	**:**	**:**	*:*	*:*
USA	0.9903	1.2490	1.3736	1.3281	1.3285	1.1095	1.1069	**1.1295**	**1.1780**	**1.1780**	*1.0648*	*1.0647*
Japan	118.7904	141.9066	122.4959	129.6627	140.3061	134.3140	120.1967	**126.5368**	**132.4070**	**132.4070**	*117.8240*	*116.7300*

Table 31: Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	-0.1	1.4	-0.2	2.4	0.6	-3.0	1.3	**1.5**	**1.0**	**0.0**	*0.0*	*-0.1*
Germany	0.0	1.8	-0.6	3.2	1.0	-3.9	1.4	**1.8**	**1.4**	**0.0**	*-0.2*	*-0.1*
Estonia	0.1	1.1	-0.3	1.5	1.5	-0.8	1.2	**1.1**	**0.6**	**0.0**	*0.2*	*0.0*
Ireland	-1.9	2.5	-0.4	3.1	0.0	-6.2	2.0	**2.1**	**1.7**	**0.0**	*-0.4*	*-0.1*
Greece	-0.1	1.3	0.1	3.1	2.1	-2.1	2.1	**3.4**	**1.5**	**0.0**	*1.7*	*-0.1*
Spain	0.0	1.3	-0.1	2.3	0.7	-3.0	1.5	**1.7**	**1.1**	**0.0**	*0.1*	*-0.1*
France	-0.1	1.7	-0.5	3.1	0.8	-3.7	1.1	**1.7**	**1.3**	**0.0**	*-0.2*	*-0.1*
Italy	0.2	1.7	-0.4	2.9	1.1	-3.7	1.2	**1.9**	**1.4**	**0.0**	*0.0*	*-0.1*
Cyprus	0.9	1.2	0.0	2.8	0.3	-4.0	2.1	**2.2**	**1.3**	**0.0**	*0.2*	*-0.1*
Latvia	2.2	-2.9	0.1	1.1	0.9	-1.2	1.3	**1.1**	**0.7**	**0.0**	*0.2*	*-0.1*
Lithuania	6.2	1.3	0.0	1.8	0.9	-1.9	1.4	**1.2**	**0.8**	**0.0**	*0.1*	*-0.1*
Luxembourg	-0.1	0.8	0.0	1.8	0.6	-2.0	1.0	**1.1**	**0.8**	**0.0**	*0.1*	*-0.1*
Malta	0.3	1.7	-0.8	2.6	0.7	-2.6	1.0	**1.5**	**1.0**	**0.0**	*0.1*	*-0.1*
Netherlands	-0.1	1.1	-0.1	2.0	0.5	-2.7	1.4	**1.4**	**0.9**	**0.0**	*0.1*	*-0.1*
Austria	0.2	1.0	-0.3	2.0	0.8	-2.4	0.8	**1.0**	**0.9**	**0.0**	*-0.2*	*-0.1*
Portugal	-0.5	1.1	-0.1	1.7	0.4	-2.6	1.1	**1.2**	**0.9**	**0.0**	*0.0*	*-0.1*
Slovenia	-3.9	-0.6	0.1	1.4	0.8	-1.4	0.7	**0.7**	**0.6**	**0.0**	*0.0*	*-0.1*
Slovakia	-2.2	5.3	2.5	1.2	0.7	-1.3	1.3	**0.7**	**0.4**	**0.0**	*0.1*	*-0.1*
Finland	-0.3	1.7	-0.6	3.1	1.6	-2.9	1.1	**1.6**	**1.3**	**0.0**	*-0.2*	*-0.1*
Euro area	-0.1	3.5	-0.8	5.9	2.1	-6.8	2.3	**3.5**	**2.7**	**0.0**	*-0.1*	*-0.2*
Bulgaria	3.6	1.2	0.5	2.2	1.7	-1.5	1.4	**2.4**	**1.1**	**0.0**	*1.2*	*-0.1*
Czech Republic	3.5	2.7	2.0	-1.8	-5.2	-0.8	2.1	**3.5**	**2.8**	**0.0**	*1.0*	*0.2*
Denmark	-0.2	1.4	-0.5	2.6	1.4	-2.8	1.6	**1.6**	**1.1**	**0.0**	*-0.1*	*-0.1*
Croatia	-0.7	1.0	-0.6	1.0	0.2	-1.5	1.9	**2.3**	**0.1**	**0.0**	*1.5*	*0.0*
Hungary	-2.3	0.0	-2.7	-1.1	-3.1	-2.0	0.5	**1.9**	**0.3**	**0.0**	*0.2*	*-0.3*
Poland	-0.6	1.0	-2.1	1.4	1.1	-1.7	-3.0	**3.6**	**0.5**	**0.0**	*2.8*	*0.4*
Romania	-22.3	-0.3	-5.4	2.8	0.6	-1.7	0.3	**0.2**	**0.4**	**0.0**	*0.0*	*-0.1*
Sweden	-1.4	1.6	0.7	3.6	-3.8	-5.2	0.2	**0.1**	**1.3**	**0.0**	*-1.5*	*-0.3*
EU27	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
United Kingdom	1.7	0.3	-4.3	-1.7	6.7	6.6	-11.1	**-5.7**	**-0.2**	**0.0**	*-4.6*	*0.3*
EU28	0.7	5.3	-3.2	8.0	4.6	-7.3	-1.3	**3.5**	**3.9**	**0.0**	*-1.2*	*-0.1*
USA	3.1	-4.7	-0.5	2.8	3.6	17.2	3.0	**-0.3**	**-2.3**	**0.0**	*2.8*	*-0.4*
Japan	1.5	-2.6	8.4	-18.4	-6.7	-3.3	13.2	**-3.7**	**-2.1**	**0.0**	*0.1*	*0.9*

Table 32: Relative unit labour costs, to rest of a group[1] of industrialised countries (nat. curr) (percentage change over preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	-0.3	-0.4	0.6	0.8	-1.1	-1.2	-1.5	**-0.6**	**-0.6**	**:**	*-0.3*	*-0.8*
Germany	-2.2	-2.4	0.2	0.9	0.6	1.3	0.0	**0.3**	**0.0**	**:**	*0.3*	*0.1*
Estonia	2.0	5.6	1.1	2.4	2.7	3.3	2.3	**1.5**	**0.8**	**:**	*1.9*	*1.0*
Ireland	0.7	2.2	-3.7	-0.1	-5.4	-17.3	-1.5	**-0.4**	**-0.7**	**:**	*0.1*	*-0.7*
Greece	0.2	0.8	-0.7	-8.2	-3.8	-2.9	-3.4	**-1.3**	**-1.8**	**:**	*-1.7*	*-1.0*
Spain	0.1	1.7	-1.6	-1.6	-1.3	0.6	-2.3	**-1.3**	**-0.9**	**:**	*-1.1*	*-0.6*
France	-1.0	0.0	0.1	0.0	-0.2	-0.9	-1.1	**-0.1**	**-0.4**	**:**	*-0.6*	*-0.6*
Italy	-1.3	0.9	0.3	-0.5	-1.2	-0.2	-0.8	**-1.4**	**-0.6**	**:**	*-1.1*	*-0.4*
Cyprus	-2.2	1.8	0.6	-4.9	-4.5	-2.1	-2.1	**-0.3**	**-1.0**	**:**	*-0.9*	*-0.9*
Latvia	-1.5	11.2	-2.2	3.6	3.6	5.0	2.1	**3.6**	**2.9**	**:**	*1.3*	*1.8*
Lithuania	-3.3	3.0	-1.6	1.5	1.6	3.8	3.8	**2.4**	**1.3**	**:**	*1.0*	*1.0*
Luxembourg	0.6	0.6	2.1	-0.8	-2.0	2.1	-0.7	**1.2**	**0.3**	**:**	*0.2*	*-1.0*
Malta	-0.6	0.7	1.7	0.0	-2.2	-0.4	-0.5	**-0.2**	**0.0**	**:**	*-0.1*	*-0.1*
Netherlands	0.8	-0.4	0.3	-0.1	-1.0	-2.2	-1.2	**-0.7**	**0.2**	**:**	*0.8*	*0.7*
Austria	-2.1	-0.4	0.3	1.3	0.9	0.8	0.5	**-0.3**	**-0.6**	**:**	*-0.5*	*-0.6*
Portugal	1.6	-0.2	-1.9	0.9	-2.1	-0.8	1.1	**0.8**	**-0.7**	**:**	*-0.4*	*-0.7*
Slovenia	3.8	1.1	0.6	-0.6	-2.3	-0.4	0.0	**-1.2**	**-1.0**	**:**	*-0.4*	*0.1*
Slovakia	2.5	1.0	-0.1	-1.0	-0.7	0.9	-0.5	**0.3**	**0.1**	**:**	*0.6*	*0.6*
Finland	-1.0	-0.8	1.8	0.1	-0.2	0.4	-1.9	**-5.2**	**-2.3**	**:**	*-3.1*	*-1.3*
Euro area	-2.3	-1.0	0.0	0.2	-1.0	-0.9	-1.6	**-0.9**	**-0.6**	**:**	*-0.5*	*-0.5*
Bulgaria	6.7	1.5	4.1	6.6	2.8	1.3	-0.5	**2.2**	**2.3**	**:**	*0.2*	*0.1*
Czech Republic	2.3	0.4	-0.3	-0.8	-0.8	-1.7	1.5	**1.9**	**1.8**	**:**	*0.4*	*0.2*
Denmark	0.6	0.8	-0.2	-0.8	-0.3	0.4	0.0	**0.3**	**0.2**	**:**	*0.2*	*0.2*
Croatia	2.8	0.8	-0.2	-3.4	-3.6	-2.1	-4.6	**-0.4**	**-0.5**	**:**	*-0.2*	*-0.4*
Hungary	6.8	2.9	0.1	-0.4	0.1	-3.2	2.5	**3.0**	**1.9**	**:**	*2.1*	*1.3*
Poland	2.2	-1.8	0.5	-1.2	-0.6	-1.5	0.3	**0.5**	**0.8**	**:**	*-0.7*	*0.0*
Romania	38.2	9.5	2.0	-2.0	2.9	-4.4	2.8	**6.0**	**4.6**	**:**	*3.0*	*1.1*
Sweden	-0.9	-0.9	0.6	0.2	-0.2	-1.1	-0.1	**0.3**	**-0.1**	**:**	*0.0*	*-0.1*
EU27	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
United Kingdom	0.9	1.5	0.2	0.8	-1.1	0.1	1.6	**0.5**	**0.1**	**:**	*-0.3*	*0.0*
EU28	-2.0	-0.4	0.2	0.2	-1.8	-1.9	-1.4	**-0.4**	**-0.3**	**:**	*-0.8*	*-0.6*
USA	-0.5	0.4	-1.0	-0.3	0.5	0.8	-0.1	**0.2**	**1.1**	**:**	*1.0*	*0.7*
Japan	-4.7	-3.6	-2.8	-2.7	0.1	-1.2	-1.3	**-1.4**	**-1.9**	**:**	*-1.9*	*-1.7*

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 33: Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (USD) (% change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	-0.5	0.9	0.3	3.2	-0.5	-4.2	-0.3	**0.9**	**0.5**	**:**	*-0.3*	*-0.8*
Germany	-2.3	-0.7	-0.4	4.1	1.7	-2.6	1.4	**2.1**	**1.4**	**:**	*0.2*	*-0.1*
Estonia	2.1	6.8	0.8	3.9	4.2	2.4	3.5	**2.6**	**1.4**	**:**	*2.2*	*1.0*
Ireland	-1.2	4.7	-4.1	3.0	-5.3	-22.4	0.5	**1.7**	**1.0**	**:**	*-0.3*	*-0.8*
Greece	0.1	2.2	-0.6	-5.4	-1.8	-5.0	-1.3	**2.1**	**-0.4**	**:**	*0.0*	*-1.1*
Spain	0.1	3.0	-1.7	0.6	-0.6	-2.3	-0.8	**0.4**	**0.2**	**:**	*-0.9*	*-0.7*
France	-1.1	1.6	-0.3	3.1	0.7	-4.5	-0.1	**1.6**	**0.9**	**:**	*-0.8*	*-0.7*
Italy	-1.2	2.7	-0.1	2.3	-0.1	-3.9	0.4	**0.4**	**0.8**	**:**	*-1.2*	*-0.6*
Cyprus	-1.3	2.9	0.7	-2.3	-4.2	-6.1	0.0	**1.9**	**0.4**	**:**	*-0.6*	*-1.0*
Latvia	0.7	8.0	-2.1	4.8	4.5	3.7	3.5	**4.7**	**3.6**	**:**	*1.5*	*1.7*
Lithuania	2.7	4.3	-1.6	3.3	2.6	1.8	5.2	**3.6**	**2.1**	**:**	*1.1*	*0.9*
Luxembourg	0.5	1.4	2.1	1.0	-1.4	0.0	0.3	**2.4**	**1.1**	**:**	*0.3*	*-1.1*
Malta	-0.3	2.5	0.9	2.7	-1.4	-3.0	0.5	**1.3**	**1.0**	**:**	*0.0*	*-0.2*
Netherlands	0.7	0.7	0.2	1.9	-0.5	-4.9	0.2	**0.7**	**1.1**	**:**	*0.9*	*0.6*
Austria	-1.9	0.6	0.0	3.3	1.7	-1.7	1.4	**0.7**	**0.3**	**:**	*-0.7*	*-0.7*
Portugal	1.0	0.9	-2.1	2.6	-1.7	-3.4	2.3	**2.0**	**0.2**	**:**	*-0.4*	*-0.7*
Slovenia	-0.3	0.5	0.7	0.8	-1.5	-1.8	0.8	**-0.4**	**-0.4**	**:**	*-0.4*	*0.1*
Slovakia	0.3	6.4	2.4	0.2	0.0	-0.4	0.8	**1.0**	**0.6**	**:**	*0.7*	*0.6*
Finland	-1.3	0.8	1.2	3.2	1.4	-2.5	-0.9	**-3.7**	**-1.1**	**:**	*-3.3*	*-1.3*
Euro area	-2.5	2.5	-0.8	6.1	1.1	-7.6	0.7	**2.6**	**2.0**	**:**	*-0.6*	*-0.7*
Bulgaria	10.5	2.7	4.6	9.0	4.6	-0.3	0.9	**4.7**	**3.4**	**:**	*1.4*	*0.0*
Czech Republic	6.0	3.1	1.8	-2.6	-5.9	-2.5	3.7	**5.5**	**4.7**	**:**	*1.5*	*0.4*
Denmark	0.4	2.2	-0.8	1.8	1.1	-2.4	1.6	**1.9**	**1.2**	**:**	*0.1*	*0.1*
Croatia	2.0	1.8	-0.8	-2.5	-3.3	-3.6	-2.8	**1.9**	**-0.4**	**:**	*1.3*	*-0.4*
Hungary	4.3	2.9	-2.6	-1.5	-3.0	-5.1	3.1	**5.0**	**2.3**	**:**	*2.3*	*0.9*
Poland	1.6	-0.8	-1.6	0.2	0.5	-3.2	-2.8	**4.1**	**1.3**	**:**	*2.1*	*0.4*
Romania	7.4	9.1	-3.6	0.8	3.5	-6.0	3.1	**6.2**	**5.0**	**:**	*3.0*	*1.1*
Sweden	-2.3	0.7	1.3	3.8	-4.0	-6.3	0.1	**0.4**	**1.2**	**:**	*-1.5*	*-0.4*
EU27	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
United Kingdom	2.6	1.8	-4.2	-0.9	5.5	6.7	-9.7	**-5.3**	**-0.2**	**:**	*-4.9*	*0.4*
EU28	-1.3	5.0	-3.1	8.3	2.8	-9.0	-2.7	**3.1**	**3.5**	**:**	*-2.0*	*-0.8*
USA	2.6	-4.3	-1.5	2.5	4.2	18.2	2.8	**0.0**	**-1.2**	**:**	*3.8*	*0.3*
Japan	-3.3	-6.1	5.4	-20.6	-6.6	-4.5	11.8	**-5.1**	**-4.0**	**:**	*-1.8*	*-0.8*

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 34: Total expenditure, general government (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	49.7	49.6	53.6	55.8	55.2	53.8	53.2	**52.4**	**51.8**	**51.4**	*52.7*	*52.1*
Germany	46.9	45.6	45.5	44.7	44.3	43.9	44.2	**44.2**	**44.0**	**43.9**	*44.6*	*44.7*
Estonia	37.5	34.2	40.6	38.5	38.4	40.2	40.6	**40.3**	**40.7**	**40.3**	*41.1*	*42.0*
Ireland	33.0	33.8	48.4	40.2	37.5	28.8	27.1	**26.4**	**26.0**	**25.9**	*27.4*	*26.8*
Greece	45.9	46.4	53.4	62.2	50.2	53.8	49.7	**50.4**	**47.4**	**46.4**	*49.6*	*47.3*
Spain	39.4	38.5	45.3	45.6	44.8	43.8	42.2	**41.1**	**40.4**	**39.9**	*41.5*	*40.9*
France	51.8	52.6	55.8	57.0	57.1	56.7	56.4	**56.0**	**55.9**	**55.7**	*56.0*	*55.9*
Italy	47.1	47.1	49.8	51.1	50.9	50.2	49.4	**49.1**	**48.5**	**48.1**	*49.5*	*49.2*
Cyprus	34.8	38.7	41.1	41.6	48.2	40.2	38.3	**38.5**	**38.2**	**37.9**	*37.9*	*37.5*
Latvia	37.2	34.5	41.2	37.7	38.3	38.5	37.4	**38.3**	**37.8**	**37.3**	*37.3*	*37.5*
Lithuania	38.7	34.3	40.8	35.5	34.6	34.9	34.2	**34.4**	**34.0**	**34.1**	*34.3*	*34.0*
Luxembourg	39.7	41.7	43.1	43.3	41.8	41.5	42.1	**42.8**	**42.6**	**42.4**	*40.9*	*40.2*
Malta	41.3	42.6	41.9	42.0	41.3	41.2	38.0	**38.1**	**37.6**	**37.3**	*37.9*	*37.3*
Netherlands	43.3	43.2	46.8	46.3	46.2	44.9	43.4	**43.2**	**43.3**	**42.9**	*43.9*	*43.4*
Austria	51.5	51.2	51.8	51.6	52.3	51.0	50.7	**49.8**	**49.2**	**48.7**	*50.7*	*50.4*
Portugal	43.1	45.6	49.2	49.9	51.8	48.2	45.0	**44.8**	**44.6**	**44.4**	*45.0*	*44.6*
Slovenia	46.0	44.5	48.0	59.5	49.6	47.7	45.1	**43.6**	**42.5**	**41.8**	*44.8*	*44.0*
Slovakia	47.0	38.5	40.9	41.4	42.0	45.2	41.5	**40.6**	**39.2**	**38.7**	*41.6*	*41.3*
Finland	49.4	48.6	53.7	57.5	58.1	56.9	55.8	**53.9**	**52.3**	**51.0**	*55.5*	*54.6*
Euro area	46.9	46.4	49.3	49.8	49.2	48.3	47.6	**47.2**	**46.8**	**46.5**	*47.6*	*47.3*
Bulgaria	39.1	37.1	36.2	37.6	42.1	40.7	35.0	**36.2**	**36.4**	**36.1**	*36.8*	*36.9*
Czech Republic	42.5	43.2	43.2	42.6	42.2	41.7	39.4	**39.2**	**39.5**	**39.5**	*40.2*	*40.5*
Denmark	53.7	51.5	55.6	55.8	55.3	54.8	53.5	**53.0**	**52.4**	**51.9**	*53.3*	*52.3*
Croatia		46.0	47.1	47.7	48.0	47.6	47.2	**46.3**	**45.8**	**45.2**	*48.6*	*48.4*
Hungary	48.9	49.7	49.2	49.3	49.5	50.2	46.7	**47.5**	**47.2**	**46.6**	*47.9*	*47.8*
Poland	44.2	44.3	44.4	42.6	42.3	41.6	41.2	**41.3**	**41.6**	**41.9**	*42.0*	*42.1*
Romania	36.8	34.6	39.1	35.4	34.9	35.7	34.0	**33.8**	**35.5**	**36.2**	*34.1*	*35.2*
Sweden	54.7	51.8	51.1	52.0	51.1	49.6	49.5	**48.8**	**48.2**	**47.9**	*50.0*	*49.4*
EU27	47.1	46.5	49.1	49.4	48.9	48.0	47.2	**46.8**	**46.5**	**46.2**	*47.3*	*47.0*
United Kingdom	36.1	40.4	46.4	44.2	43.2	42.4	41.5	**41.0**	**40.3**	**39.9**	*41.8*	*41.3*
EU28		45.5	48.7	48.6	48.0	47.0	46.3	**46.0**	**45.5**	**45.2**	*46.4*	*46.1*
USA	34.7	36.5	41.4	38.7	38.0	37.6	37.9	**38.1**	**37.9**	**38.0**	*37.8*	*37.9*
Japan	37.7	35.5	39.6	40.8	40.2	39.4	39.5	**39.7**	**39.4**	**38.8**	*39.5*	*39.0*

Table 35: Total revenue, general government (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	49.4	48.7	49.9	52.7	52.1	51.3	50.7	**50.9**	**50.3**	**50.0**	*50.8*	*50.2*
Germany	44.8	43.0	43.8	44.5	44.6	44.5	45.0	**45.1**	**45.0**	**45.0**	*45.1*	*45.0*
Estonia	36.8	36.4	39.9	38.3	39.1	40.3	40.3	**40.1**	**40.2**	**39.8**	*40.8*	*41.5*
Ireland	35.0	35.1	33.7	34.1	33.9	26.9	26.4	**26.0**	**25.9**	**25.7**	*26.9*	*26.6*
Greece	40.4	39.3	42.2	49.0	46.6	48.1	50.2	**49.2**	**48.3**	**47.2**	*48.4*	*47.9*
Spain	38.2	39.5	36.3	38.6	38.9	38.5	37.7	**37.9**	**38.0**	**38.2**	*38.3*	*38.3*
France	49.8	49.5	50.4	52.9	53.1	53.1	53.0	**53.1**	**53.0**	**52.7**	*53.0*	*52.7*
Italy	44.6	43.9	46.0	48.1	47.9	47.7	46.9	**47.0**	**46.7**	**46.1**	*47.2*	*46.9*
Cyprus	31.6	36.8	37.0	36.4	39.5	39.0	38.8	**39.6**	**39.6**	**39.7**	*38.1*	*38.1*
Latvia	35.1	33.7	35.6	36.8	37.1	37.3	37.4	**37.4**	**36.8**	**36.3**	*36.5*	*35.8*
Lithuania	35.8	33.4	34.5	32.9	34.0	34.6	34.5	**34.5**	**34.3**	**34.2**	*34.0*	*33.8*
Luxembourg	43.9	42.7	43.6	44.3	43.1	42.8	43.8	**43.3**	**43.0**	**42.9**	*41.1*	*40.4*
Malta	34.7	38.5	38.8	39.5	39.6	40.1	39.2	**39.0**	**38.1**	**37.8**	*38.3*	*38.1*
Netherlands	43.0	42.3	43.1	43.9	43.9	42.8	43.8	**43.9**	**43.8**	**43.8**	*44.4*	*44.2*
Austria	49.6	48.6	48.6	49.7	49.6	49.9	49.1	**48.8**	**48.3**	**48.0**	*49.4*	*49.4*
Portugal	39.4	40.7	41.6	45.1	44.6	43.8	43.0	**43.4**	**43.2**	**43.2**	*43.2*	*42.7*
Slovenia	42.9	43.1	43.3	44.8	44.3	44.9	43.3	**42.8**	**42.5**	**42.2**	*43.4*	*42.9*
Slovakia	39.2	35.8	35.7	38.7	39.3	42.5	39.3	**38.9**	**38.2**	**38.5**	*40.3*	*40.8*
Finland	53.3	51.9	52.8	54.9	54.9	54.2	54.0	**52.5**	**51.1**	**50.3**	*53.3*	*52.9*
Euro area	45.1	44.3	44.8	46.7	46.7	46.2	46.1	**46.1**	**45.9**	**45.7**	*46.2*	*46.0*
Bulgaria	39.2	38.2	34.6	37.2	36.6	39.1	34.9	**36.2**	**36.4**	**36.2**	*36.3*	*36.6*
Czech Republic	37.9	40.2	39.5	41.4	40.3	41.1	40.1	**40.4**	**40.4**	**40.1**	*40.5*	*40.6*
Denmark	54.4	54.8	54.0	54.6	56.4	53.1	52.9	**52.0**	**51.5**	**51.0**	*52.0*	*51.4*
Croatia		42.1	41.4	42.4	42.9	44.3	46.3	**45.4**	**44.9**	**44.6**	*47.5*	*47.4*
Hungary	43.2	42.5	45.1	46.6	46.8	48.2	44.8	**45.5**	**44.6**	**44.3**	*45.6*	*45.3*
Poland	40.4	40.2	39.0	38.5	38.7	38.9	38.7	**39.5**	**39.9**	**40.0**	*39.1*	*39.3*
Romania	33.2	32.9	32.9	33.3	33.5	34.9	31.0	**30.8**	**31.7**	**32.0**	*30.6*	*31.5*
Sweden	55.6	53.1	51.1	50.6	49.6	49.8	50.6	**49.7**	**48.9**	**48.5**	*50.4*	*50.1*
EU27	45.4	44.5	44.8	46.5	46.4	46.0	45.8	**45.8**	**45.5**	**45.3**	*45.9*	*45.7*
United Kingdom	36.1	37.5	38.3	38.8	37.7	38.1	38.6	**38.9**	**38.4**	**38.4**	*38.8*	*39.0*
EU28		43.3	43.8	45.3	45.0	44.6	44.7	**44.7**	**44.5**	**44.3**	*44.8*	*44.7*
USA	33.5	32.1	31.2	33.4	33.2	33.4	33.0	**33.1**	**33.0**	**33.0**	*33.1*	*32.7*
Japan	30.2	30.8	31.5	33.1	34.8	35.9	35.5	**35.4**	**35.5**	**35.7**	*35.3*	*35.4*

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	-0.3	-0.9	-3.8	-3.1	-3.1	-2.5	-2.5	**-1.5**	**-1.4**	**-1.5**	*-1.9*	*-2.0*
Germany	-2.1	-2.6	-1.7	-0.1	0.3	0.6	0.8	**0.9**	**1.0**	**1.1**	*0.5*	*0.3*
Estonia	-0.7	2.2	-0.8	-0.2	0.7	0.1	-0.3	**-0.2**	**-0.4**	**-0.5**	*-0.3*	*-0.5*
Ireland	2.0	1.3	-14.7	-6.1	-3.6	-1.9	-0.7	**-0.4**	**-0.2**	**-0.2**	*-0.5*	*-0.3*
Greece	-5.5	-7.1	-11.1	-13.2	-3.6	-5.7	0.5	**-1.2**	**0.9**	**0.8**	*-1.2*	*0.6*
Spain	-1.3	1.0	-9.0	-7.0	-6.0	-5.3	-4.5	**-3.1**	**-2.4**	**-1.7**	*-3.2*	*-2.6*
France	-2.0	-3.1	-5.4	-4.1	-3.9	-3.6	-3.4	**-2.9**	**-2.9**	**-3.0**	*-3.0*	*-3.2*
Italy	-2.5	-3.3	-3.8	-2.9	-3.0	-2.6	-2.5	**-2.1**	**-1.8**	**-2.0**	*-2.2*	*-2.3*
Cyprus	-3.2	-1.9	-4.1	-5.1	-8.8	-1.2	0.5	**1.1**	**1.4**	**1.9**	*0.2*	*0.7*
Latvia	-2.1	-0.7	-5.5	-1.0	-1.2	-1.2	0.0	**-0.9**	**-1.0**	**-1.1**	*-0.8*	*-1.8*
Lithuania	-2.9	-0.8	-6.2	-2.6	-0.6	-0.2	0.3	**0.1**	**0.2**	**0.2**	*-0.4*	*-0.2*
Luxembourg	4.2	1.0	0.6	1.0	1.3	1.4	1.6	**0.5**	**0.3**	**0.4**	*0.2*	*0.3*
Malta	-6.6	-4.1	-3.1	-2.4	-1.8	-1.1	1.1	**0.9**	**0.5**	**0.5**	*0.5*	*0.8*
Netherlands	-0.2	-0.9	-3.7	-2.4	-2.3	-2.1	0.4	**0.7**	**0.5**	**0.9**	*0.5*	*0.8*
Austria	-1.9	-2.6	-3.2	-2.0	-2.7	-1.0	-1.6	**-1.0**	**-0.9**	**-0.6**	*-1.3*	*-1.0*
Portugal	-3.8	-4.8	-7.6	-4.8	-7.2	-4.4	-2.0	**-1.4**	**-1.4**	**-1.2**	*-1.8*	*-1.9*
Slovenia	-3.0	-1.4	-4.7	-14.7	-5.3	-2.9	-1.9	**-0.8**	**0.0**	**0.4**	*-1.4*	*-1.2*
Slovakia	-7.8	-2.7	-5.3	-2.7	-2.7	-2.7	-2.2	**-1.6**	**-1.0**	**-0.2**	*-1.3*	*-0.6*
Finland	3.8	3.3	-0.8	-2.6	-3.2	-2.7	-1.7	**-1.4**	**-1.2**	**-0.8**	*-2.2*	*-1.8*
Euro area	-1.8	-2.2	-4.5	-3.0	-2.6	-2.1	-1.5	**-1.1**	**-0.9**	**-0.8**	*-1.4*	*-1.3*
Bulgaria	0.1	1.1	-1.6	-0.4	-5.5	-1.6	0.0	**0.0**	**0.0**	**0.2**	*-0.4*	*-0.3*
Czech Republic	-4.5	-3.0	-3.7	-1.2	-1.9	-0.6	0.7	**1.2**	**0.8**	**0.6**	*0.3*	*0.1*
Denmark	0.7	3.4	-1.6	-1.2	1.1	-1.8	-0.6	**-1.0**	**-1.0**	**-0.9**	*-1.3*	*-0.9*
Croatia		-3.9	-5.7	-5.3	-5.1	-3.3	-0.9	**-0.9**	**-0.9**	**-0.7**	*-1.1*	*-0.9*
Hungary	-5.7	-7.1	-4.1	-2.6	-2.7	-2.0	-1.9	**-2.1**	**-2.6**	**-2.3**	*-2.3*	*-2.4*
Poland	-3.8	-4.1	-5.3	-4.1	-3.6	-2.6	-2.5	**-1.7**	**-1.7**	**-1.9**	*-2.9*	*-2.9*
Romania	-3.5	-1.7	-6.2	-2.1	-1.4	-0.8	-3.0	**-3.0**	**-3.9**	**-4.1**	*-3.5*	*-3.7*
Sweden	1.0	1.3	0.0	-1.4	-1.6	0.2	1.1	**0.9**	**0.7**	**0.6**	*0.4*	*0.7*
EU27	-1.8	-2.0	-4.3	-2.9	-2.5	-2.0	-1.4	**-1.1**	**-0.9**	**-0.8**	*-1.4*	*-1.3*
United Kingdom	0.0	-3.0	-8.1	-5.4	-5.5	-4.3	-2.9	**-2.1**	**-1.9**	**-1.5**	*-3.0*	*-2.3*
EU28		-2.2	-4.9	-3.3	-3.0	-2.4	-1.7	**-1.2**	**-1.1**	**-0.9**	*-1.6*	*-1.5*
USA	-1.1	-4.4	-10.2	-5.4	-4.8	-4.2	-5.0	**-5.0**	**-4.9**	**-5.1**	*-4.7*	*-5.2*
Japan	-7.5	-4.7	-8.1	-7.6	-5.4	-3.5	-4.1	**-4.3**	**-3.8**	**-3.1**	*-4.2*	*-3.6*

Table 37: Interest expenditure, general government (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium	6.7	4.5	3.7	3.3	3.3	3.0	2.9	2.6	2.4	2.2	2.6	2.4
Germany	3.1	2.8	2.5	2.0	1.7	1.5	1.3	1.2	1.1	1.1	1.2	1.1
Estonia	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Ireland	2.1	1.1	2.7	4.3	3.9	2.6	2.2	2.0	1.8	1.7	2.2	2.0
Greece	6.8	4.7	5.6	4.0	4.0	3.6	3.2	3.2	3.1	2.9	3.2	3.3
Spain	3.2	1.8	2.1	3.5	3.5	3.1	2.8	2.5	2.3	2.2	2.6	2.5
France	2.9	2.6	2.6	2.3	2.2	2.0	1.9	1.8	1.7	1.7	1.8	1.8
Italy	6.4	4.7	4.7	4.8	4.6	4.1	4.0	3.8	3.6	3.5	3.9	3.8
Cyprus	3.0	3.0	2.5	3.3	2.8	2.9	2.6	2.4	2.2	2.1	2.4	2.4
Latvia	0.8	0.5	1.5 :	1.5	1.4	1.3	1.0	0.9	0.8	0.7	1.1	1.0
Lithuania	1.4	0.9	1.5 :	1.8	1.6	1.5	1.3	1.2	0.9	0.9	1.2	1.2
Luxembourg	0.4	0.3	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Malta	3.7	3.6	3.2	2.9	2.7	2.5	2.2	1.9	1.7	1.6	2.0	1.9
Netherlands	3.4	2.2	1.8	1.5	1.4	1.2	1.1	1.0	0.8	0.8	1.0	0.9
Austria	3.5	3.1	2.9	2.6	2.4	2.3	2.1	1.9	1.7	1.6	2.0	1.9
Portugal	3.0	2.7	3.6	4.9	4.9	4.6	4.2	3.9	3.6	3.5	4.2	4.1
Slovenia	2.3	1.5	1.6	2.6	3.2	3.2	3.0	2.6	1.9	1.8	3.0	2.8
Slovakia	3.5	1.8	1.5	1.9	1.9	1.7	1.6	1.3	1.3	1.2	1.4	1.3
Finland	2.7	1.6	1.4	1.3	1.2	1.1	1.1	1.0	0.9	0.9	1.0	1.0
Euro area	3.8	3.0	2.9	2.8	2.6	2.4	2.2	2.0	1.9	1.8	2.1	2.0
Bulgaria	3.6	1.6	0.8	0.7	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Czech Republic	1.0	1.1	1.3	1.3	1.3	1.1	0.9	0.8	0.8	0.7	0.9	0.8
Denmark	3.8	2.1	1.8	1.7	1.5	1.6	1.4	1.2	1.0	0.9	1.0	0.9
Croatia		1.9	2.5	3.2	3.4	3.5	3.2	2.8	2.6	2.4	3.0	2.8
Hungary	5.5	4.1	4.3	4.5	4.0	3.5	3.2	2.8	2.6	2.5	2.9	2.7
Poland	3.2	2.5	2.4	2.5	1.9	1.8	1.7	1.5	1.5	1.5	1.7	1.6
Romania	3.8	1.2	1.4	1.8	1.6	1.6	1.5	1.5	1.6	1.6	1.6	1.6
Sweden	3.4	1.8	1.2	0.8	0.7	0.5	0.4	0.4	0.3	0.2	0.5	0.6
EU27	3.8	2.9	2.8	2.7	2.5	2.2	2.1	1.9	1.8	1.7	1.9	1.9
United Kingdom	2.4	1.9	2.6	2.8	2.7	2.3	2.4	2.7	2.5	2.5	2.5	2.5
EU28		2.7	2.7	2.7	2.5	2.3	2.1	2.0	1.9	1.8	2.0	2.0
USA	3.9	3.4	3.7	3.6	3.5	3.4	3.6	3.6	3.7	3.7	3.8	4.1
Japan	2.9	1.8	2.0	2.0	1.9	1.8	1.8	1.8	1.7	1.7	2.0	2.0

Table 38: Primary balance, general government [1] (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium	6.4	3.6	0.0	0.2	0.2	0.6	0.4	1.1	0.9	0.7	0.7	0.5
Germany	1.0	0.2	0.8	1.8	2.1	2.2	2.1	2.1	2.2	2.2	1.7	1.4
Estonia	-0.4	2.4	-0.6	-0.1	0.8	0.2	-0.2	-0.2	-0.4	-0.4	-0.2	-0.4
Ireland	4.0	2.3	-12.0	-1.8	0.3	0.7	1.6	1.6	1.7	1.6	1.6	1.8
Greece	1.3	-2.4	-5.5	-9.1	0.4	-2.1	3.7	2.0	3.9	3.7	2.0	3.9
Spain	2.0	2.8	-6.9	-3.5	-2.5	-2.2	-1.7	-0.6	-0.1	0.5	-0.6	-0.1
France	1.0	-0.4	-2.9	-1.9	-1.8	-1.6	-1.5	-1.1	-1.2	-1.2	-1.2	-1.4
Italy	3.9	1.4	0.9	1.9	1.6	1.5	1.5	1.7	1.8	1.5	1.7	1.5
Cyprus	-0.3	1.1	-1.6	-1.8	-5.9	1.7	3.0	3.5	3.6	3.9	2.6	3.0
Latvia	-1.4	-0.2	-4.1 :	0.5	0.2	0.1	1.1	0.0	-0.2	-0.3	0.3	-0.8
Lithuania	-1.5	0.0	-4.7 :	-0.9	1.0	1.3	1.6	1.3	1.1	1.0	0.9	1.0
Luxembourg	4.6	1.3	1.0	1.5	1.8	1.7	1.9	0.8	0.6	0.7	0.5	0.6
Malta	-2.9	-0.5	0.0	0.4	1.0	1.3	3.3	2.8	2.3	2.1	2.5	2.7
Netherlands	3.2	1.2	-1.8	-0.9	-0.8	-0.8	1.4	1.7	1.4	1.7	1.5	1.7
Austria	1.6	0.5	-0.3	0.7	-0.2	1.3	0.5	0.9	0.8	1.0	0.7	0.9
Portugal	-0.8	-2.1	-3.9	0.0	-2.3	0.2	2.2	2.5	2.2	2.3	2.4	2.2
Slovenia	-0.8	0.1	-3.1	-12.1	-2.1	0.3	1.1	1.8	1.9	2.2	1.6	1.6
Slovakia	-4.3	-0.9	-3.8	-0.8	-0.8	-1.0	-0.5	-0.3	0.2	1.0	0.1	0.8
Finland	6.6	4.9	0.5	-1.4	-2.0	-1.6	-0.7	-0.4	-0.3	0.1	-1.1	-0.8
Euro area	2.0	0.8	-1.6	-0.2	0.1	0.3	0.6	0.9	1.0	1.0	0.7	0.7
Bulgaria	3.7	2.7	-0.8	0.4	-4.6	-0.7	0.9	1.0	0.8	1.0	0.4	0.5
Czech Republic	-3.6	-2.0	-2.4	0.1	-0.6	0.4	1.7	2.0	1.6	1.3	1.1	0.9
Denmark	4.5	5.5	0.2	0.4	2.5	-0.2	0.7	0.2	0.1	0.0	-0.3	0.0
Croatia		-2.0	-3.1	-2.1	-1.7	0.2	2.3	2.0	1.7	1.8	1.9	1.8
Hungary	-0.2	-3.1	0.2	1.9	1.2	1.5	1.3	0.7	0.1	0.2	0.6	0.2
Poland	-0.6	-1.6	-2.9	-1.6	-1.6	-0.9	-0.8	-0.2	-0.3	-0.4	-1.3	-1.2
Romania	0.2	-0.5	-4.8	-0.4	0.3	0.9	-1.5	-1.6	-2.3	-2.5	-2.0	-2.0
Sweden	4.4	3.1	1.2	-0.6	-0.9	0.6	1.6	1.2	1.0	0.8	0.9	1.3
EU27	2.0	0.8	-1.5	-0.3	0.0	0.3	0.6	0.9	0.9	0.9	0.6	0.6
United Kingdom	2.4	-1.0	-5.5	-2.6	-2.8	-1.9	-0.5	0.5	0.6	1.0	-0.5	0.1
EU28	2.1	0.5	-2.1	-0.6	-0.4	-0.1	0.4	0.8	0.8	0.9	0.4	0.5
USA	2.8	-1.0	-6.5	-1.7	-1.3	-0.8	-1.4	-1.4	-1.2	-1.3	-1.0	-1.1
Japan	-4.6	-2.8	-6.1	-5.7	-3.5	-1.7	-2.2	-2.5	-2.1	-1.4	-2.2	-1.6

[1] Net lending/borrowing excluding interest expenditure.

Table 39: **Cyclically-adjusted net lending (+) or net borrowing (-), general government[1] (as a percentage of potential GDP, 1998-2019)** 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium	-0.6	-1.4	-3.7	-2.4	-2.6	-2.1	-2.2	**-1.4**	**-1.5**	**-1.7**	*-1.7*	*-1.9*
Germany	-2.5	-2.2	-1.3	0.2	0.5	0.8	0.9	**0.9**	**0.9**	**1.0**	*0.6*	*0.3*
Estonia	-0.1	-1.1	0.1	-0.8	-0.2	-0.4	-0.5	**-1.1**	**-1.4**	**-1.5**	*-0.3*	*-0.7*
Ireland	0.6	0.0	-13.2	-4.2	-4.1	-2.9	-1.7	**-1.3**	**-0.5**	**0.3**	*-1.1*	*-0.3*
Greece	-6.3	-8.9	-8.9	-5.9	2.5	-0.3	5.3	**2.5**	**3.3**	**2.0**	*2.5*	*3.1*
Spain	-2.4	-0.4	-6.8	-2.2	-1.9	-2.8	-3.3	**-3.1**	**-3.1**	**-3.0**	*-3.3*	*-3.4*
France	-2.7	-4.2	-5.0	-3.2	-3.0	-2.7	-2.7	**-2.4**	**-2.8**	**-3.0**	*-2.4*	*-2.8*
Italy	-3.1	-3.9	-2.8	-0.5	-0.8	-0.9	-1.5	**-1.8**	**-2.0**	**-2.4**	*-1.8*	*-2.3*
Cyprus	-3.5	-3.5	-4.3	-1.1	-5.2	0.7	1.0	**0.4**	**0.0**	**-0.1**	*-0.2*	*-0.4*
Latvia	-2.0	-2.8	-3.3	-0.9	-1.3	-1.6	-0.5	**-1.8**	**-1.8**	**-1.6**	*-1.4*	*-2.4*
Lithuania	-2.1	-2.4	-4.5	-2.3	-0.9	-0.5	-0.1	**-0.8**	**-0.8**	**-0.7**	*-0.9*	*-0.9*
Luxembourg	3.0	0.6	1.9	2.8	2.0	1.9	2.0	**0.6**	**0.3**	**0.3**	*0.4*	*0.1*
Malta	-6.8	-4.4	-2.7	-1.6	-2.5	-2.0	0.7	**0.4**	**0.2**	**0.4**	*0.2*	*0.7*
Netherlands	-0.9	-0.4	-2.8	-0.2	-0.5	-0.9	1.1	**0.6**	**-0.1**	**-0.1**	*0.5*	*0.5*
Austria	-2.3	-2.6	-3.0	-1.5	-2.2	-0.6	-1.1	**-0.9**	**-1.0**	**-0.9**	*-1.1*	*-0.9*
Portugal	-4.8	-4.6	-7.0	-2.7	-5.5	-3.5	-1.5	**-1.7**	**-2.0**	**-1.9**	*-2.0*	*-2.4*
Slovenia	-3.0	-2.8	-4.1	-11.8	-3.4	-1.6	-1.5	**-1.7**	**-1.6**	**-1.4**	*-2.0*	*-2.4*
Slovakia	-7.2	-3.2	-5.4	-1.7	-1.9	-2.3	-2.0	**-1.6**	**-1.2**	**-0.6**	*-1.4*	*-0.9*
Finland	3.0	2.8	-0.2	-1.2	-1.4	-0.7	-0.4	**-1.0**	**-1.4**	**-1.4**	*-1.3*	*-1.5*
Euro area	-2.4	-2.6	-3.7	-1.4	-1.2	-1.1	-0.9	**-0.9**	**-1.1**	**-1.1**	*-1.1*	*-1.3*
Bulgaria	0.5	0.7	-1.6	0.0	-4.9	-1.2	0.1	**0.0**	**-0.2**	**-0.1**	*-0.4*	*-0.3*
Czech Republic	-4.1	-4.2	-3.6	0.1	-0.8	-0.6	0.8	**0.8**	**0.4**	**0.1**	*0.0*	*-0.2*
Denmark	-0.4	1.6	-0.5	0.5	2.3	-0.7	0.3	**-0.5**	**-0.6**	**-0.7**	*-0.4*	*-0.1*
Croatia		-5.1	-5.5	-3.3	-2.9	-1.8	-0.2	**-1.1**	**-1.9**	**-2.0**	*-1.6*	*-2.1*
Hungary	-5.4	-8.3	-2.9	-1.2	-2.4	-2.1	-2.1	**-2.8**	**-3.6**	**-3.5**	*-3.0*	*-3.7*
Poland	-3.5	-3.4	-6.2	-3.4	-3.0	-2.4	-2.2	**-2.1**	**-2.3**	**-2.5**	*-3.1*	*-3.1*
Romania	-2.4	-3.3	-5.7	-0.9	-0.4	-0.1	-2.6	**-3.3**	**-4.3**	**-4.6**	*-3.8*	*-3.9*
Sweden	0.9	0.7	1.0	0.2	-0.3	0.4	1.1	**0.8**	**0.6**	**0.7**	*0.4*	*0.8*
EU27	-2.3	-2.5	-3.6	-1.3	-1.2	-1.1	-0.9	**-0.9**	**-1.1**	**-1.2**	*-1.1*	*-1.3*
United Kingdom	-0.6	-3.8	-6.3	-4.1	-5.1	-4.4	-3.3	**-2.5**	**-2.2**	**-1.6**	*-3.4*	*-2.6*
EU28		-2.8	-4.0	-1.8	-1.8	-1.7	-1.2	**-1.2**	**-1.3**	**-1.2**	*-1.5*	*-1.5*

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 40: **Cyclically-adjusted primary balance, general government[1] (as a percentage of potential GDP, 1998-2019)** 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium	6.1	3.1	0.0	0.9	0.7	0.9	0.7	**1.2**	**0.9**	**0.5**	*1.0*	*0.5*
Germany	0.6	0.6	1.3	2.2	2.2	2.3	2.3	**2.1**	**2.1**	**2.0**	*1.8*	*1.3*
Estonia	0.3	-0.9	0.3	-0.6	-0.1	-0.3	-0.5	**-1.0**	**-1.4**	**-1.4**	*-0.2*	*-0.7*
Ireland	2.7	1.1	-10.5	0.1	-0.2	-0.2	0.5	**0.8**	**1.3**	**2.0**	*1.1*	*1.7*
Greece	0.5	-4.2	-3.2	-1.9	6.4	3.2	8.5	**5.7**	**6.3**	**5.0**	*5.7*	*6.4*
Spain	0.8	1.4	-4.7	1.2	1.5	0.3	-0.5	**-0.6**	**-0.8**	**-0.7**	*-0.7*	*-1.0*
France	0.3	-1.5	-2.4	-0.9	-0.8	-0.7	-0.8	**-0.6**	**-1.0**	**-1.3**	*-0.6*	*-1.0*
Italy	3.3	0.8	1.9	4.3	3.8	3.2	2.5	**2.0**	**1.7**	**1.1**	*2.1*	*1.5*
Cyprus	-0.5	-0.5	-1.8	2.2	-2.4	3.6	3.6	**2.8**	**2.2**	**2.0**	*2.2*	*2.0*
Latvia	-1.2	-2.2	-1.9	0.6	0.1	-0.3	0.6	**-0.8**	**-1.0**	**-0.9**	*-0.4*	*-1.4*
Lithuania	-0.6	-1.5	-3.0	-0.6	0.7	1.0	1.2	**0.3**	**0.1**	**0.1**	*0.3*	*0.3*
Luxembourg	3.4	0.8	2.3	3.3	2.4	2.2	2.3	**0.9**	**0.6**	**0.6**	*0.7*	*0.4*
Malta	-3.2	-0.7	0.5	1.2	0.3	0.4	2.9	**2.3**	**1.9**	**2.0**	*2.2*	*2.6*
Netherlands	2.4	1.8	-0.9	1.3	1.0	0.4	2.2	**1.6**	**0.7**	**0.7**	*1.5*	*1.4*
Austria	1.2	0.5	-0.1	1.1	0.2	1.8	1.0	**1.0**	**0.8**	**0.8**	*0.9*	*1.0*
Portugal	-1.8	-1.9	-3.3	2.2	-0.6	1.0	2.7	**2.3**	**1.6**	**1.6**	*2.2*	*1.7*
Slovenia	-0.7	-1.2	-2.5	-9.2	-0.1	1.6	1.6	**0.9**	**0.3**	**0.4**	*1.0*	*0.4*
Slovakia	-3.7	-1.3	-3.9	0.2	0.0	-0.5	-0.4	**-0.3**	**0.0**	**0.6**	*0.0*	*0.4*
Finland	5.7	4.4	1.2	0.0	-0.2	0.4	0.7	**-0.1**	**-0.5**	**-0.5**	*-0.3*	*-0.5*
Euro area	1.4	0.3	-0.8	1.4	1.4	1.3	1.3	**1.1**	**0.8**	**0.7**	*1.0*	*0.6*
Bulgaria	4.0	2.3	-0.8	0.7	-4.0	-0.2	1.0	**0.9**	**0.7**	**0.7**	*0.4*	*0.5*
Czech Republic	-3.1	-3.2	-2.3	1.5	0.5	0.5	1.8	**1.6**	**1.1**	**0.9**	*0.9*	*0.6*
Denmark	3.4	3.7	1.3	2.1	3.8	0.9	1.6	**0.7**	**0.4**	**0.2**	*0.6*	*0.8*
Croatia		-3.3	-2.9	-0.1	0.6	1.7	3.0	**1.7**	**0.8**	**0.5**	*1.4*	*0.7*
Hungary	0.1	-4.2	1.4	3.3	1.6	1.4	1.1	**0.0**	**-1.0**	**-1.0**	*-0.2*	*-1.0*
Poland	-0.3	-0.8	-3.7	-0.9	-1.1	-0.6	-0.5	**-0.5**	**-0.8**	**-1.0**	*-1.5*	*-1.5*
Romania	1.4	-2.1	-4.3	0.8	1.3	1.6	-1.1	**-1.8**	**-2.7**	**-2.9**	*-2.2*	*-2.3*
Sweden	4.3	2.5	2.1	1.0	0.4	0.8	1.5	**1.1**	**0.9**	**0.9**	*0.9*	*1.4*
EU27	1.5	0.3	-0.8	1.3	1.3	1.2	1.2	**1.0**	**0.7**	**0.5**	*0.8*	*0.5*
United Kingdom	1.8	-1.9	-3.7	-1.3	-2.5	-2.1	-0.8	**0.2**	**0.3**	**0.9**	*-0.9*	*-0.1*
EU28	1.5	-0.1	-1.2	0.9	0.7	0.6	0.9	**0.9**	**0.6**	**0.6**	*0.6*	*0.4*

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 41: Structural budget balance, general government[1] (as a percentage of potential GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium		:		-3.0	-2.9	-2.2	-2.1	**-1.5**	**-1.5**	**-1.7**	*-1.6*	*-2.0*
Germany		:		0.3	0.8	0.8	0.9	**0.9**	**0.9**	**1.0**	*0.6*	*0.3*
Estonia		:		-0.6	0.0	-0.1	-0.4	**-1.1**	**-1.4**	**-1.5**	*-0.3*	*-0.7*
Ireland		:		-4.6	-4.0	-2.1	-1.9	**-1.3**	**-0.5**	**0.3**	*-1.1*	*-0.3*
Greece		:		2.6	2.5	2.1	5.3	**2.5**	**3.3**	**2.0**	*2.5*	*3.1*
Spain		:		-1.8	-1.6	-2.5	-3.3	**-3.1**	**-3.1**	**-3.0**	*-3.4*	*-3.4*
France		:		-3.4	-3.0	-2.7	-2.6	**-2.4**	**-2.7**	**-3.0**	*-2.3*	*-2.8*
Italy	-3.9	:	-3.1	-0.8	-1.0	-0.8	-1.7	**-2.1**	**-2.0**	**-2.4**	*-2.0*	*-2.2*
Cyprus		:		-0.8	3.3	1.6	1.1	**0.4**	**0.0**	**-0.1**	*-0.2*	*-0.4*
Latvia		:		-0.9	-1.0	-1.6	-0.6	**-1.8**	**-1.8**	**-1.6**	*-1.4*	*-2.4*
Lithuania		:		-1.9	-1.3	-0.6	-0.2	**-0.9**	**-0.9**	**-0.8**	*-0.9*	*-1.1*
Luxembourg		:		2.8	2.0	1.7	2.0	**0.6**	**0.3**	**0.3**	*0.4*	*0.1*
Malta		:		-1.8	-3.0	-2.1	0.8	**0.6**	**0.1**	**0.4**	*0.4*	*0.7*
Netherlands		:		-0.8	-0.4	-0.9	0.9	**0.3**	**-0.2**	**-0.1**	*0.2*	*0.4*
Austria		:		-1.7	-0.8	-0.3	-1.0	**-0.9**	**-1.0**	**-0.9**	*-1.1*	*-0.9*
Portugal		:	-6.3	-3.0	-1.7	-2.3	-2.0	**-1.8**	**-1.8**	**-1.9**	*-2.2*	*-2.4*
Slovenia		:		-1.4	-2.2	-1.6	-1.5	**-1.6**	**-1.6**	**-1.4**	*-1.8*	*-2.3*
Slovakia		:		-1.7	-2.2	-2.3	-2.0	**-1.6**	**-1.2**	**-0.6**	*-1.4*	*-0.9*
Finland		:		-1.2	-1.5	-0.7	-0.4	**-1.0**	**-1.4**	**-1.4**	*-1.3*	*-1.4*
Euro area		:		-1.3	-1.0	-1.0	-0.9	**-1.0**	**-1.1**	**-1.1**	*-1.1*	*-1.3*
Bulgaria		:		0.0	-1.6	-1.1	0.1	**0.0**	**-0.2**	**-0.1**	*-0.4*	*-0.3*
Czech Republic		:		0.2	-0.6	-0.6	0.9	**0.8**	**0.4**	**0.1**	*0.0*	*-0.2*
Denmark		:		-1.0	-0.8	-2.1	0.2	**-0.5**	**-0.6**	**-0.7**	*-0.4*	*-0.1*
Croatia		:		-3.1	-3.1	-1.8	-0.3	**-0.9**	**-1.9**	**-2.0**	*-1.7*	*-2.1*
Hungary		:		-1.3	-2.2	-2.1	-2.0	**-3.2**	**-3.6**	**-3.5**	*-3.4*	*-3.7*
Poland		:		-3.4	-2.8	-2.3	-2.2	**-2.1**	**-2.3**	**-2.5**	*-3.2*	*-3.1*
Romania		:		-0.9	-0.4	-0.3	-2.2	**-3.3**	**-4.3**	**-4.6**	*-3.9*	*-4.0*
Sweden		:		0.2	-0.3	0.4	1.1	**0.8**	**0.6**	**0.7**	*0.4*	*0.8*
EU27		:		-1.3	-1.0	-1.0	-0.9	**-1.0**	**-1.1**	**-1.2**	*-1.2*	*-1.3*
United Kingdom		:		-4.2	-5.0	-4.4	-3.3	**-2.5**	**-2.2**	**-1.6**	*-3.4*	*-2.6*
EU28		:		-1.7	-1.7	-1.6	-1.3	**-1.2**	**-1.3**	**-1.2**	*-1.5*	*-1.5*

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 42: Gross debt, general government (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium	110.7	94.1	99.7	105.5	106.8	106.0	105.7	**103.8**	**102.5**	**101.2**	*105.6*	*105.1*
Germany	59.1	65.0	75.4	77.4	74.6	70.9	68.1	**64.8**	**61.2**	**57.9**	*65.8*	*63.3*
Estonia	5.6	4.7	6.8	10.2	10.7	10.0	9.4	**9.2**	**9.1**	**9.1**	*9.5*	*9.6*
Ireland	39.6	26.3	84.0	119.4	104.5	76.9	72.8	**69.9**	**69.1**	**67.2**	*73.5*	*72.7*
Greece	102.6	103.7	142.8	177.4	179.0	176.8	180.8	**179.6**	**177.8**	**170.1**	*178.8*	*174.6*
Spain	57.4	41.9	61.5	95.5	100.4	99.4	99.0	**98.4**	**96.9**	**95.5**	*99.2*	*98.5*
France	59.6	65.1	80.7	92.4	95.0	95.8	96.5	**96.9**	**96.9**	**96.9**	*96.4*	*96.7*
Italy	106.4	101.0	114.0	129.0	131.8	131.5	132.0	**132.1**	**130.8**	**130.0**	*133.1*	*132.5*
Cyprus	56.1	60.4	60.1	102.6	107.5	107.5	107.1	**103.0**	**98.3**	**93.9**	*103.4*	*99.8*
Latvia	12.0	11.4	36.9	39.0	40.9	36.9	40.6	**39.1**	**35.6**	**35.8**	*38.5*	*36.0*
Lithuania	21.6	18.0	31.1	38.8	40.5	42.6	40.1	**41.5**	**37.9**	**38.9**	*42.4*	*38.9*
Luxembourg	6.9	7.4	18.2	23.7	22.7	22.0	20.8	**23.7**	**23.0**	**22.9**	*22.0*	*22.3*
Malta	60.6	67.6	67.1	68.4	63.8	60.3	57.6	**54.9**	**51.6**	**48.8**	*55.8*	*52.5*
Netherlands	54.1	47.2	59.7	67.8	68.0	64.6	61.8	**57.7**	**54.9**	**51.5**	*59.8*	*57.2*
Austria	65.6	66.1	78.8	81.0	83.8	84.3	83.6	**78.6**	**76.2**	**73.4**	*82.8*	*81.2*
Portugal	52.6	65.1	97.8	129.0	130.6	128.8	130.1	**126.4**	**124.1**	**121.1**	*128.5*	*126.2*
Slovenia	25.1	25.7	39.0	70.4	80.3	82.6	78.5	**76.4**	**74.1**	**72.0**	*77.8*	*75.5*
Slovakia	44.3	35.5	40.4	54.7	53.5	52.3	51.8	**50.6**	**49.9**	**47.2**	*51.5*	*49.8*
Finland	42.9	39.5	44.8	56.5	60.2	63.6	63.1	**62.7**	**62.1**	**61.6**	*65.5*	*66.2*
Euro area	68.9	67.6	81.8	93.7	94.2	92.1	91.1	**89.3**	**87.2**	**85.2**	*90.3*	*89.0*
Bulgaria	66.6	28.8	14.8	17.0	27.0	26.0	29.0	**25.7**	**24.3**	**22.8**	*26.8*	*26.0*
Czech Republic	19.0	28.0	36.7	44.9	42.2	40.0	36.8	**34.6**	**33.3**	**32.5**	*36.2*	*35.6*
Denmark		37.3	41.4	44.0	44.0	39.5	37.7	**36.1**	**35.5**	**34.6**	*36.7*	*36.0*
Croatia		39.3	56.5	81.7	85.8	85.4	82.9	**80.3**	**77.4**	**74.5**	*81.9*	*79.4*
Hungary	56.1	60.8	77.1	76.0	75.2	74.7	73.9	**72.6**	**71.5**	**69.4**	*72.6*	*71.2*
Poland	38.6	45.8	51.3	55.7	50.2	51.1	54.1	**53.2**	**53.0**	**53.0**	*54.6*	*55.4*
Romania	22.2	16.1	27.5	37.8	39.4	37.9	37.6	**37.9**	**39.1**	**40.5**	*39.3*	*40.9*
Sweden	56.3	46.2	38.8	40.8	45.5	44.2	42.2	**39.0**	**36.6**	**34.4**	*39.1*	*37.0*
EU27	65.9	64.6	76.7	87.3	87.8	85.9	84.8	**83.0**	**81.0**	**79.1**	*84.0*	*82.8*
United Kingdom	37.4	39.4	71.1	85.6	87.4	88.2	88.3	**86.6**	**85.3**	**84.2**	*88.6*	*87.9*
EU28		60.0	75.7	87.3	88.2	86.1	84.8	**83.5**	**81.6**	**79.8**	*84.8*	*83.6*

Table 43: Gross national saving (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	27.1	27.3	25.0	23.3	23.1	23.1	24.0	**23.2**	**23.5**	**23.9**	*23.9*	*24.5*
Germany	22.1	24.3	25.9	26.2	27.2	27.8	27.7	**27.5**	**27.5**	**27.5**	*27.3*	*27.1*
Estonia	22.5	24.0	24.5	27.4	26.9	25.8	24.6	**26.8**	**26.9**	**27.1**	*24.2*	*23.6*
Ireland	24.1	24.9	16.0	21.6	24.9	32.1	36.0	**35.1**	**35.3**	**35.5**	*35.3*	*36.1*
Greece	17.0	14.2	6.7	9.3	9.5	9.8	10.1	**10.6**	**12.3**	**14.2**	*10.7*	*12.0*
Spain	22.6	22.7	19.7	20.2	20.4	21.4	22.4	**22.6**	**23.1**	**23.6**	*22.3*	*22.6*
France	23.4	22.4	20.7	19.5	19.7	20.5	20.4	**20.9**	**21.4**	**21.8**	*20.6*	*20.9*
Italy	20.8	20.5	17.7	17.9	18.9	18.8	19.6	**19.7**	**20.2**	**20.2**	*19.5*	*19.8*
Cyprus	18.7	7.1	13.3	8.3	7.9	11.7	11.4	**11.6**	**11.8**	**11.9**	*10.0*	*10.1*
Latvia	17.8	20.5	23.7	22.0	21.4	22.2	21.0	**20.4**	**20.3**	**20.5**	*20.2*	*19.2*
Lithuania	13.2	16.2	16.6	20.9	23.0	18.6	16.6	**16.9**	**17.6**	**17.8**	*14.5*	*15.0*
Luxembourg	31.5	29.6	25.3	24.5	24.0	23.2	22.8	**23.1**	**22.9**	**22.6**	*22.7*	*23.0*
Malta	16.4	15.8	18.5	21.7	27.9	29.8	30.7	**29.6**	**29.7**	**30.0**	*28.4*	*29.3*
Netherlands	27.6	28.5	28.3	28.5	27.4	28.3	28.8	**29.6**	**29.5**	**29.5**	*27.5*	*27.6*
Austria	24.7	26.5	26.3	25.5	26.0	25.8	26.2	**26.4**	**27.1**	**27.9**	*25.5*	*25.8*
Portugal	18.7	14.1	11.9	15.4	15.0	14.9	15.6	**16.5**	**17.1**	**17.5**	*16.0*	*16.4*
Slovenia	24.8	26.6	22.6	22.7	25.4	23.9	24.0	**25.4**	**25.9**	**26.4**	*26.5*	*26.7*
Slovakia	24.7	20.9	20.0	22.5	23.0	23.2	23.0	**23.5**	**23.7**	**24.2**	*22.2*	*22.7*
Finland	29.6	28.4	23.3	19.5	19.6	19.9	20.7	**21.8**	**23.0**	**23.9**	*20.4*	*20.9*
Euro area	22.8	23.1	21.8	22.0	22.6	23.3	23.7	**23.8**	**24.2**	**24.5**	*23.4*	*23.7*
Bulgaria	17.5	15.1	20.2	23.4	21.6	21.8	24.4	**22.2**	**21.5**	**21.4**	*23.0*	*22.6*
Czech Republic	27.3	26.0	23.4	23.6	24.6	26.4	26.2	**26.3**	**26.6**	**26.6**	*26.3*	*26.3*
Denmark	24.4	26.2	25.1	27.4	28.9	28.9	28.3	**28.8**	**28.8**	**28.9**	*28.3*	*28.6*
Croatia	18.7	22.7	20.6	20.1	20.6	24.4	22.1	**23.2**	**22.4**	**23.1**	*22.3*	*21.3*
Hungary	20.5	17.2	20.2	24.8	24.8	25.2	25.9	**25.0**	**25.0**	**25.0**	*23.7*	*24.4*
Poland	19.1	16.8	17.4	18.5	19.0	20.6	20.9	**21.2**	**21.2**	**21.1**	*19.4*	*19.4*
Romania	15.5	16.7	22.5	24.9	24.5	24.6	22.8	**21.4**	**21.1**	**21.0**	*21.6*	*21.6*
Sweden	26.9	30.0	29.3	27.6	28.2	29.1	29.9	**30.7**	**31.0**	**31.1**	*30.2*	*30.6*
EU27	22.9	23.1	22.0	22.3	22.9	23.6	24.0	**24.1**	**24.4**	**24.7**	*23.7*	*23.9*
United Kingdom	16.1	14.8	11.9	10.8	11.8	11.8	11.6	**11.9**	**12.2**	**12.5**	*13.7*	*14.3*
EU28	21.7	21.7	20.5	20.6	21.1	21.5	22.0	**22.3**	**22.6**	**22.9**	*22.1*	*22.4*
USA	20.0	17.8	15.6	18.3	19.3	19.4	18.0	**17.2**	**17.3**	**17.3**	*17.0*	*16.8*
Japan	29.4	28.4	24.9	24.1	24.7	27.1	27.2	**27.5**	**27.9**	**27.9**	*27.7*	*27.8*

Table 44: Gross saving, private sector (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	24.5	25.2	25.4	23.2	23.0	22.9	24.1	**22.5**	**22.6**	**23.0**	*23.4*	*23.9*
Germany	21.3	23.8	24.2	23.5	24.0	24.5	24.2	**23.6**	**23.6**	**23.5**	*24.0*	*23.9*
Estonia	18.0	17.0	20.6	22.9	21.4	20.8	20.0	**22.2**	**22.4**	**22.6**	*19.6*	*19.0*
Ireland	18.7	20.3	21.4	25.5	26.1	31.3	34.8	**33.5**	**33.2**	**33.1**	*33.7*	*34.1*
Greece	17.3	16.8	14.0	9.6	10.8	10.1	7.4	**9.0**	**9.1**	**10.5**	*8.8*	*9.1*
Spain	19.3	16.8	22.7	24.2	24.0	24.1	24.6	**23.4**	**23.2**	**23.0**	*23.4*	*23.0*
France	20.8	21.0	21.0	18.6	19.0	19.9	19.6	**19.6**	**20.0**	**20.3**	*19.5*	*19.9*
Italy	19.7	19.6	17.7	17.8	18.6	17.6	19.0	**18.7**	**18.9**	**19.1**	*18.7*	*18.7*
Cyprus	18.3	5.9	13.4	10.8	5.6	9.7	8.3	**7.5**	**7.0**	**6.5**	*7.4*	*7.1*
Latvia	16.4	17.0	24.7	19.7	19.5	20.1	18.1	**17.8**	**18.3**	**18.8**	*18.2*	*18.3*
Lithuania	12.1	13.3	18.9	20.8	21.6	16.3	13.7	**13.7**	**14.4**	**14.6**	*11.9*	*12.4*
Luxembourg	22.4	23.1	19.5	19.2	18.4	17.6	16.4	**17.4**	**17.2**	**16.8**	*18.1*	*18.4*
Malta	19.3	16.7	19.7	22.0	27.5	28.5	27.0	**25.9**	**26.3**	**26.6**	*25.4*	*26.0*
Netherlands	24.1	25.7	27.6	27.5	26.1	26.7	25.0	**25.2**	**25.2**	**25.0**	*23.3*	*23.3*
Austria	22.4	24.5	25.1	23.3	23.4	22.8	24.2	**23.8**	**24.5**	**25.0**	*23.4*	*23.5*
Portugal	18.1	15.5	15.9	18.2	17.0	15.9	16.1	**16.3**	**16.6**	**16.7**	*16.0*	*16.3*
Slovenia	22.7	23.4	22.4	22.9	25.0	22.7	22.7	**22.9**	**22.6**	**22.6**	*24.8*	*24.9*
Slovakia	24.1	19.8	21.6	22.6	22.7	21.2	21.9	**22.0**	**22.1**	**22.5**	*20.6*	*21.1*
Finland	21.9	21.6	20.4	18.1	18.6	18.7	18.5	**19.5**	**20.5**	**20.9**	*18.8*	*18.9*
Euro area	20.9	21.4	22.0	21.4	21.7	22.0	22.1	**21.8**	**21.9**	**22.0**	*21.7*	*21.8*
Bulgaria	13.2	9.8	18.4	21.6	20.8	20.5	21.2	**19.0**	**18.1**	**17.8**	*19.9*	*19.5*
Czech Republic	23.8	21.8	21.8	21.2	22.6	23.0	22.2	**21.6**	**21.8**	**21.8**	*22.4*	*22.3*
Denmark	20.9	20.2	22.8	24.3	22.8	25.9	24.9	**25.5**	**25.5**	**25.3**	*25.3*	*25.4*
Croatia		18.8	20.3	20.9	21.1	24.1	19.8	**20.7**	**19.7**	**20.0**	*20.1*	*18.8*
Hungary	19.5	19.0	20.7	24.1	23.0	21.6	22.6	**22.2**	**22.1**	**21.7**	*21.1*	*21.2*
Poland	19.6	17.0	17.9	19.1	18.9	19.6	20.2	**19.3**	**19.0**	**19.0**	*18.5*	*18.6*
Romania	15.2	13.0	22.9	22.9	22.5	21.6	22.1	**22.0**	**22.3**	**22.4**	*22.2*	*22.5*
Sweden	21.9	24.6	24.9	24.7	25.3	24.6	24.3	**25.2**	**25.6**	**25.9**	*25.2*	*25.3*
EU27	20.8	21.2	21.9	21.5	21.7	22.1	22.2	**21.9**	**22.0**	**22.1**	*21.8*	*21.9*
United Kingdom	13.9	14.9	16.0	13.3	14.2	12.9	11.6	**11.2**	**11.3**	**11.1**	*13.7*	*13.7*
EU28		20.1	21.1	20.3	20.5	20.5	20.5	**20.3**	**20.4**	**20.5**	*20.6*	*20.6*
USA	17.8	18.4	21.5	20.3	20.9	20.6	20.0	**19.2**	**19.2**	**19.4**	*18.7*	*19.0*
Japan	29.3	28.9	28.5	27.1	25.9	27.3	27.9	**28.1**	**28.0**	**27.6**	*28.3*	*28.1*

Table 45: Saving rate of households (1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	16.5	15.4	15.1	12.3	11.9	11.5	11.4	**10.0**	**9.6**	**9.6**	*11.2*	*11.5*
Germany	15.6	16.3	16.7	16.2	16.8	17.0	17.1	**16.6**	**16.6**	**16.5**	*17.2*	*17.1*
Estonia	4.6	-2.2	9.8	9.1	10.7	11.7	11.3	**12.4**	**12.7**	**13.1**	*9.9*	*10.6*
Ireland		7.7	10.1	8.5	6.6	6.6	6.3	**6.7**	**6.6**	**6.4**	*10.4*	*10.3*
Greece	7.3	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Spain	10.6	9.1	10.2	9.6	9.3	8.6	7.7	**6.6**	**6.4**	**6.8**	*7.2*	*7.4*
France	15.0	14.8	15.2	14.0	14.4	13.9	13.5	**13.7**	**13.8**	**13.8**	*14.0*	*14.1*
Italy	14.3	14.5	11.8	11.0	11.2	10.5	10.5	**10.1**	**9.8**	**9.8**	*10.4*	*10.4*
Cyprus	6.0	8.2	6.1	-3.3	-7.9	-5.7	-4.7	**-4.7**	**-4.8**	**-4.9**	*-2.6*	*-1.2*
Latvia	-0.7	1.2	4.4	-4.5	-3.5	-2.2	2.7	**3.7**	**5.9**	**6.4**	*0.2*	*0.1*
Lithuania	5.2	3.0	3.7	2.4	0.2	0.0	-0.5	**-1.9**	**-2.6**	**-3.1**	*-4.8*	*-4.7*
Luxembourg	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Malta	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Netherlands	12.6	11.2	13.1	14.1	14.5	13.1	13.1	**13.0**	**13.0**	**13.2**	*12.2*	*12.1*
Austria	15.4	15.8	15.2	12.7	12.4	12.5	13.4	**12.7**	**12.5**	**12.4**	*13.2*	*12.7*
Portugal	11.2	8.8	8.3	7.8	5.2	5.3	5.8	**6.2**	**6.2**	**6.3**	*4.2*	*4.6*
Slovenia	12.6	14.6	13.1	12.7	12.5	12.7	12.8	**11.3**	**10.1**	**10.0**	*14.0*	*13.5*
Slovakia	10.5	6.5	6.7	5.9	7.2	8.9	9.5	**8.8**	**9.2**	**9.6**	*8.7*	*9.0*
Finland	9.3	8.0	8.7	8.6	7.2	6.9	6.0	**5.4**	**5.1**	**5.1**	*5.5*	*5.6*
Euro area		13.4	13.1	12.5	12.6	12.4	12.3	**12.0**	**11.9**	**12.0**	*12.2*	*12.2*
Bulgaria	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Czech Republic	11.3	11.3	12.0	10.9	11.8	12.0	11.2	**10.6**	**10.4**	**10.1**	*11.7*	*11.5*
Denmark	5.1	6.1	7.1	8.8	5.2	10.5	11.2	**11.4**	**11.2**	**11.0**	*11.5*	*11.3*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	11.7	9.0	8.6	9.8	10.9	9.6	9.5	**9.9**	**10.1**	**8.9**	*9.2*	*7.0*
Poland	13.7	6.4	3.4	2.6	2.1	2.2	3.9	**2.5**	**2.1**	**1.7**	*2.8*	*2.6*
Romania	-2.5	-11.1	-6.5	13.3	14.5	15.5	14.5	**14.8**	**14.8**	**15.1**	*15.3*	*14.9*
Sweden	7.8	9.9	15.1	17.5	18.9	17.6	18.2	**18.2**	**18.1**	**17.3**	*18.5*	*18.0*
EU27		12.2	12.5	11.8	11.8	11.6	11.3	**10.6**	**10.5**	**10.5**	*:*	*:*
United Kingdom	9.0	8.0	9.6	8.7	8.4	9.2	7.1	**4.8**	**4.2**	**4.5**	*4.2*	*3.8*
EU28		11.5	11.6	10.8	10.6	10.4	10.3	**9.7**	**9.6**	**9.6**	*9.8*	*9.7*
USA	10.0	9.5	11.7	10.6	11.2	11.4	10.2	**9.5**	**9.4**	**9.3**	*11.8*	*12.0*
Japan	15.3	10.5	10.2	7.1	6.6	7.5	8.9	**8.8**	**8.3**	**7.4**	*8.8*	*8.6*

Table 46: Gross saving, general government (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	2.6	2.1	-0.4	0.1	0.1	0.2	-0.1	**0.7**	**0.8**	**0.9**	*0.5*	*0.6*
Germany	0.9	0.5	1.7	2.7	3.2	3.3	3.6	**3.9**	**3.9**	**4.0**	*3.3*	*3.3*
Estonia	4.5	7.0	4.0	4.5	5.6	4.9	4.5	**4.6**	**4.5**	**4.5**	*4.5*	*4.5*
Ireland	5.4	4.7	-5.4	-3.9	-1.2	0.8	1.2	**1.6**	**2.1**	**2.4**	*1.6*	*2.0*
Greece	-0.3	-2.6	-7.2	-0.3	-1.3	-0.3	2.7	**1.6**	**3.2**	**3.7**	*1.8*	*2.9*
Spain	3.3	5.9	-3.0	-4.0	-3.5	-2.6	-2.2	**-0.9**	**-0.1**	**0.6**	*-1.0*	*-0.4*
France	2.5	1.4	-0.4	0.8	0.7	0.6	0.8	**1.3**	**1.4**	**1.4**	*1.0*	*0.9*
Italy	1.1	0.8	0.0	0.1	0.3	1.2	0.6	**1.0**	**1.2**	**1.1**	*0.8*	*1.1*
Cyprus	0.4	1.1	-0.1	-2.6	2.3	2.0	3.1	**4.1**	**4.8**	**5.3**	*2.6*	*3.0*
Latvia	1.4	3.6	-1.0	2.3	1.8	2.1	2.9	**2.6**	**2.1**	**1.8**	*2.0*	*0.9*
Lithuania	1.1	2.9	-2.3	0.0	1.4	2.3	2.9	**3.2**	**3.1**	**3.2**	*2.6*	*2.6*
Luxembourg	9.0	6.6	5.8	5.3	5.6	5.6	6.4	**5.7**	**5.7**	**5.9**	*4.6*	*4.6*
Malta	-2.8	-0.9	-1.2	-0.3	0.4	1.2	3.7	**3.7**	**3.4**	**3.4**	*3.0*	*3.4*
Netherlands	3.5	2.7	0.7	1.0	1.3	1.6	3.8	**4.4**	**4.2**	**4.6**	*4.2*	*4.3*
Austria	2.2	2.0	1.2	2.2	2.5	3.0	2.0	**2.5**	**2.6**	**2.9**	*2.1*	*2.4*
Portugal	0.7	-1.3	-4.0	-2.8	-2.0	-0.9	-0.5	**0.2**	**0.5**	**0.7**	*-0.1*	*0.2*
Slovenia	2.1	3.2	0.2	-0.3	0.4	1.2	1.3	**2.5**	**3.3**	**3.8**	*1.7*	*1.8*
Slovakia	0.7	1.2	-1.6	-0.1	0.3	2.0	1.0	**1.6**	**1.6**	**1.7**	*1.6*	*1.7*
Finland	7.7	6.8	3.0	1.4	1.0	1.2	2.1	**2.4**	**2.5**	**3.0**	*1.6*	*2.0*
Euro area	2.0	1.7	-0.2	0.6	0.9	1.3	1.6	**2.1**	**2.2**	**2.4**	*1.7*	*1.9*
Bulgaria	4.4	5.4	1.8	1.8	0.8	1.3	3.2	**3.2**	**3.5**	**3.6**	*3.1*	*3.2*
Czech Republic	3.5	4.2	1.6	2.4	2.1	3.4	4.0	**4.7**	**4.8**	**4.9**	*3.9*	*4.0*
Denmark	3.5	6.0	2.3	3.1	6.1	3.1	3.4	**3.2**	**3.3**	**3.6**	*3.0*	*3.1*
Croatia		3.8	0.3	-0.7	-0.5	0.4	2.3	**2.5**	**2.7**	**3.1**	*2.2*	*2.5*
Hungary	1.0	-1.8	-0.6	0.7	1.8	3.6	3.3	**2.8**	**2.9**	**3.3**	*2.6*	*3.2*
Poland	-0.5	-0.1	-0.5	-0.6	0.1	1.0	0.7	**1.9**	**2.2**	**2.0**	*1.0*	*0.8*
Romania	0.3	3.7	-0.4	2.0	2.1	2.9	0.7	**-0.5**	**-1.2**	**-1.5**	*-0.6*	*-0.9*
Sweden	5.0	5.4	4.4	2.9	2.9	4.4	5.6	**5.4**	**5.4**	**5.2**	*5.0*	*5.3*
EU27	2.0	1.9	0.1	0.8	1.1	1.5	1.8	**2.2**	**2.4**	**2.5**	*1.9*	*2.0*
United Kingdom	2.3	0.0	-4.1	-2.5	-2.4	-1.2	0.0	**0.8**	**0.9**	**1.4**	*0.0*	*0.6*
EU28		1.6	-0.5	0.3	0.5	1.0	1.5	**2.0**	**2.2**	**2.4**	*1.6*	*1.8*
USA	2.2	-0.6	-5.9	-2.1	-1.6	-1.2	-2.0	**-2.0**	**-1.9**	**-2.1**	*-1.7*	*-2.2*
Japan	0.0	-0.5	-3.6	-3.0	-1.2	-0.2	-0.7	**-0.6**	**-0.1**	**0.3**	*-0.6*	*-0.3*

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium	5.1	4.7	1.7	0.9	5.2	3.3	7.5	4.6	4.4	4.3	3.8	3.7
Germany	7.3	8.3	2.2	1.7	4.6	5.2	2.6	3.6	4.0	4.0	3.7	3.9
Estonia	3.0	13.8	5.4	2.8	2.5	-0.7	4.1	3.8	4.2	4.1	3.7	3.7
Ireland	15.9	5.0	2.2	3.0	14.4	38.4	4.6	3.9	4.5	4.3	3.9	4.3
Greece	8.1	7.2	-2.2	1.5	7.7	3.1	-1.8	6.8	4.6	4.4	3.8	4.2
Spain	6.3	4.5	0.9	4.3	4.3	4.2	4.8	6.0	4.8	4.5	5.7	4.8
France	6.1	3.2	1.2	1.9	3.3	4.3	1.8	3.1	4.0	4.2	3.2	4.2
Italy	2.6	4.5	-0.9	0.7	2.7	4.4	2.4	4.8	3.8	3.3	3.4	3.6
Cyprus	3.1	1.8	0.5	2.1	4.2	6.3	3.9	2.8	2.2	2.0	3.3	3.2
Latvia	5.1	12.3	4.5	1.1	6.0	3.0	4.1	3.8	4.2	4.0	3.4	3.6
Lithuania	7.5	9.8	8.8	9.9	3.3	-0.4	3.5	10.4	5.3	4.4	3.5	3.7
Luxembourg	9.6	8.0	1.9	5.3	14.0	6.9	2.7	5.0	4.8	4.0	5.6	5.9
Malta	4.8	5.8	6.7	1.2	3.9	4.2	3.5	3.0	3.6	3.7	3.6	4.5
Netherlands	6.0	5.7	2.1	2.1	4.5	6.5	4.3	5.4	4.7	4.4	3.6	3.8
Austria	7.5	6.2	1.2	0.6	3.0	3.1	1.9	5.3	4.5	4.3	3.2	3.1
Portugal	5.0	5.5	1.6	7.0	4.3	6.1	4.1	8.0	7.3	4.9	4.4	4.2
Slovenia	7.4	11.0	0.6	3.1	5.7	5.0	6.4	8.9	7.4	5.5	5.8	5.4
Slovakia	6.4	17.9	4.0	6.7	3.9	6.4	6.2	4.6	6.7	7.6	6.5	7.0
Finland	8.1	6.6	-1.4	1.1	-2.7	0.8	1.3	9.0	5.7	5.2	2.3	3.3
Euro area	6.4	5.9	1.5	2.1	4.7	6.4	3.3	4.5	4.4	4.2	3.8	4.1
Bulgaria	-9.1	13.2	2.9	9.6	3.1	5.7	8.1	5.2	4.9	5.0	4.6	4.8
Czech Republic	7.9	16.2	4.2	0.2	8.7	6.0	4.5	6.9	4.8	4.7	4.5	4.8
Denmark	7.1	4.6	1.0	1.6	3.6	1.8	2.5	4.8	3.9	3.4	3.3	3.9
Croatia	6.7	6.1	-1.3	3.1	6.0	9.4	5.7	6.2	5.8	5.0	5.2	4.6
Hungary	13.2	14.4	2.0	4.2	9.1	8.5	3.4	7.7	7.1	6.1	5.0	5.8
Poland	8.3	10.8	5.1	6.1	6.7	7.7	8.8	6.4	6.8	5.8	7.7	6.6
Romania	12.3	9.8	3.6	19.7	8.0	4.6	8.3	8.3	7.3	6.7	6.9	6.2
Sweden	5.9	6.9	0.9	-0.8	5.3	5.7	3.3	4.2	4.1	3.8	3.9	3.8
EU27	6.5	6.4	1.6	2.3	4.9	6.3	3.6	4.7	4.5	4.3	4.1	4.2
United Kingdom	4.0	5.3	0.7	0.8	2.7	5.0	1.1	4.7	3.1	2.9	3.4	3.0
EU28	6.1	6.3	1.5	2.2	4.7	6.1	3.4	4.7	4.4	4.2	4.0	4.1
USA	1.1	7.2	3.6	3.5	4.3	0.4	-0.3	3.3	3.8	3.9	3.0	3.5
Japan	2.4	10.0	-0.6	0.8	9.3	2.9	1.2	5.0	2.0	1.9	2.8	1.1

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			Spring 2017 forecast	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	2017	2018
Belgium	4.2	4.9	2.1	0.3	6.2	3.3	8.4	4.8	4.6	4.3	3.6	3.6
Germany	5.3	7.3	2.2	3.0	3.6	5.6	3.9	4.6	5.0	4.6	4.8	5.0
Estonia	5.1	16.1	2.0	2.0	3.6	-1.8	5.3	4.4	4.4	4.0	5.4	3.5
Ireland	15.8	6.0	0.2	0.9	14.9	26.0	16.4	2.2	4.7	4.6	4.1	4.6
Greece	9.7	8.2	-8.5	-2.4	7.7	0.4	0.3	6.0	3.8	4.2	3.0	3.8
Spain	8.8	7.9	-5.2	-0.5	6.6	5.9	2.7	4.4	4.3	4.0	4.8	4.4
France	7.6	4.9	1.3	2.1	4.8	5.7	4.2	3.9	4.0	4.2	3.3	4.7
Italy	5.2	4.4	-2.7	-2.4	3.2	6.7	3.1	5.9	4.7	3.8	4.5	4.7
Cyprus	2.3	4.7	-0.9	-4.8	4.6	8.1	6.6	3.7	3.2	2.9	2.9	3.2
Latvia	6.2	17.6	-2.5	0.4	1.2	2.1	4.5	7.9	5.1	4.5	6.1	6.1
Lithuania	6.9	14.0	3.3	9.1	3.1	6.2	3.5	10.8	6.0	5.2	4.9	4.0
Luxembourg	9.5	8.2	3.1	5.1	14.6	7.1	2.1	5.5	4.7	4.0	5.7	5.8
Malta	2.8	7.0	6.3	0.3	0.5	7.6	0.8	-0.8	4.0	3.6	3.4	2.8
Netherlands	6.4	5.5	1.9	1.0	4.2	8.4	4.1	5.0	5.2	4.8	3.8	4.2
Austria	5.1	5.7	1.3	0.7	2.9	3.1	3.1	4.3	3.3	3.0	3.0	2.7
Portugal	5.9	4.4	-2.6	4.7	7.8	8.5	4.1	8.0	7.2	5.2	5.2	4.5
Slovenia	6.8	11.3	-1.9	2.1	4.1	4.7	6.6	8.7	8.4	6.2	6.4	6.1
Slovakia	5.0	14.6	1.6	5.6	4.8	8.4	3.7	4.6	6.5	6.9	6.6	6.8
Finland	6.6	7.5	0.6	0.5	-1.3	3.2	4.4	6.6	4.1	3.4	1.6	2.4
Euro area	6.5	6.3	0.3	1.3	4.9	6.7	4.7	4.7	4.7	4.4	4.2	4.6
Bulgaria	4.2	18.8	-1.1	4.3	5.2	5.4	4.5	5.5	5.0	4.9	4.7	4.9
Czech Republic	8.1	14.2	2.9	0.1	10.1	6.8	3.4	6.2	5.5	5.2	4.5	5.2
Denmark	6.4	7.3	0.5	1.5	3.6	1.3	3.5	4.6	4.5	4.2	4.0	4.4
Croatia	4.1	7.3	-4.3	3.1	3.1	9.2	5.8	6.9	6.3	5.8	6.6	5.7
Hungary	14.5	12.7	0.1	4.5	11.0	6.4	2.9	9.6	8.4	6.3	6.8	6.5
Poland	6.1	11.5	3.0	1.7	10.0	6.6	7.9	8.2	7.9	5.9	8.5	7.4
Romania	13.5	21.1	-0.7	8.8	8.7	8.0	9.8	9.9	8.1	7.3	8.6	7.9
Sweden	4.9	6.6	1.6	-0.1	6.3	5.2	3.4	4.4	3.9	3.5	3.5	3.4
EU27	6.6	6.9	0.5	1.4	5.4	6.5	4.8	5.0	4.9	4.5	4.5	4.7
United Kingdom	7.3	5.0	0.0	3.1	4.5	5.1	4.3	2.6	2.1	2.1	2.0	1.2
EU28	6.7	6.6	0.4	1.6	5.2	6.3	4.7	4.7	4.6	4.3	4.2	4.3
USA	7.0	6.2	0.4	1.1	4.5	5.0	1.3	4.2	5.0	4.8	4.8	6.1
Japan	1.4	4.9	1.0	3.3	8.3	0.8	-2.3	3.4	2.0	2.5	1.3	0.7

Table 49: Merchandise trade balance[1] (fob-fob, as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	2.9	2.9	-0.9	-0.7	-0.8	0.1	0.3	**0.4**	**0.3**	**0.4**	*1.5*	*1.6*
Germany	4.2	6.8	6.5	7.4	7.8	8.6	8.7	**8.0**	**7.8**	**7.7**	*8.3*	*8.0*
Estonia	-17.4	-16.7	-6.0	-4.9	-5.5	-4.2	-3.7	**-4.3**	**-4.3**	**-4.3**	*-5.6*	*-5.3*
Ireland	25.0	18.6	22.0	19.1	20.9	43.3	38.4	**34.3**	**33.2**	**32.7**	*38.0*	*37.3*
Greece	-14.8	-16.3	-13.9	-9.8	-10.8	-9.1	-9.5	**-10.0**	**-9.7**	**-9.6**	*-9.7*	*-9.7*
Spain		-7.3	-4.6	-1.4	-2.1	-2.1	-1.6	**-1.9**	**-1.6**	**-1.6**	*-1.9*	*-1.9*
France	0.8	-0.7	-2.2	-2.0	-1.8	-1.2	-1.3	**-1.8**	**-1.6**	**-1.4**	*-1.3*	*-1.3*
Italy	1.5	0.1	-0.3	2.2	2.9	3.1	3.6	**3.1**	**3.1**	**3.1**	*2.9*	*2.8*
Cyprus	-24.7	-24.6	-22.6	-16.2	-16.0	-16.7	-21.3	**-23.7**	**-24.6**	**-25.2**	*-22.2*	*-22.9*
Latvia	-16.7	-22.0	-11.8	-11.5	-10.0	-9.0	-7.7	**-10.3**	**-10.4**	**-10.4**	*-8.9*	*-10.5*
Lithuania	-11.8	-12.3	-6.7	-2.6	-2.6	-5.3	-4.6	**-6.1**	**-6.0**	**-6.3**	*-5.6*	*-5.9*
Luxembourg		-7.5	-2.4	0.3	1.6	-0.5	-1.4	**-2.6**	**-2.2**	**-2.1**	*3.7*	*3.6*
Malta	-14.7	-15.7	-17.6	-13.8	-13.4	-20.1	-18.8	**-14.9**	**-15.3**	**-15.0**	*-19.1*	*-18.5*
Netherlands	7.3	9.4	9.8	11.5	11.5	11.5	11.9	**12.0**	**11.8**	**11.7**	*10.7*	*10.4*
Austria	-1.2	0.3	-0.4	-0.4	0.3	0.6	0.1	**0.6**	**1.1**	**1.6**	*0.2*	*0.3*
Portugal	-11.6	-10.7	-9.3	-4.0	-4.7	-4.5	-4.4	**-5.0**	**-5.1**	**-5.4**	*-4.5*	*-4.7*
Slovenia	-4.5	-3.5	-2.1	0.8	2.9	3.8	3.8	**4.0**	**3.3**	**2.7**	*3.4*	*3.0*
Slovakia	-9.8	-4.5	-0.1	3.7	3.4	1.3	2.9	**3.3**	**3.5**	**4.3**	*2.5*	*2.7*
Finland	9.3	5.4	1.1	0.1	0.7	0.8	0.1	**0.3**	**0.9**	**1.6**	*-0.1*	*0.2*
Euro area	1.7	1.3	1.1	2.7	2.9	4.1	4.1	**3.6**	**3.7**	**3.7**	*3.8*	*3.7*
Euro area, adjusted[2]		0.5	0.4	2.1	2.4	3.4	3.5	**3.0**	**3.1**	**3.1**	*3.1*	*3.0*
Bulgaria	-11.1	-22.1	-12.4	-7.0	-6.5	-5.8	-2.0	**-3.1**	**-2.9**	**-2.8**	*-4.2*	*-4.2*
Czech Republic	-7.0	-1.2	1.6	4.1	5.1	4.1	5.2	**5.0**	**4.9**	**4.7**	*5.0*	*4.8*
Denmark	3.5	2.2	3.1	3.7	3.5	4.2	4.9	**4.9**	**4.8**	**4.6**	*5.2*	*5.2*
Croatia		-21.5	-16.1	-15.1	-15.1	-15.8	-16.0	**-17.4**	**-18.0**	**-18.5**	*-16.5*	*-17.1*
Hungary	-7.0	-3.1	2.0	3.3	2.0	4.0	4.1	**2.7**	**2.3**	**2.6**	*2.8*	*2.0*
Poland	-5.9	-3.2	-3.5	-0.1	-0.8	0.5	0.6	**0.2**	**-0.4**	**-0.6**	*-0.5*	*-1.0*
Romania	-5.6	-10.4	-8.4	-4.0	-4.3	-4.9	-5.5	**-6.5**	**-7.1**	**-7.4**	*-6.7*	*-7.3*
Sweden	7.7	7.1	4.3	3.2	3.1	3.0	2.7	**2.4**	**2.5**	**2.6**	*2.8*	*2.8*
United Kingdom	-3.2	-5.0	-6.0	-6.8	-6.7	-6.3	-6.9	**-6.3**	**-5.8**	**-5.7**	*-7.4*	*-7.3*
EU	0.7	0.1	-0.1	1.1	1.1	1.9	2.0	**1.8**	**1.9**	**1.9**	*1.8*	*1.6*
EU, adjusted[2]		-0.8	-0.9	0.3	0.3	1.0	1.2	**0.9**	**1.1**	**1.1**	*0.8*	*0.7*
USA		-5.7	-4.7	-4.4	-4.5	-4.4	-4.2	**-4.4**	**-4.6**	**-4.7**	*-4.5*	*-4.8*
Japan	2.4	2.4	0.6	-1.7	-2.0	-0.1	0.9	**0.8**	**0.9**	**0.7**	*0.9*	*0.9*

[1] See note 7 on concepts and sources.

Table 50: Current-account balance[1] (as a percentage of GDP, 1998-2019) 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	4.7	4.2	1.5	1.2	-0.3	-0.4	0.1	**-1.0**	**-1.1**	**-0.9**	*1.5*	*1.7*
Germany	-0.4	4.6	6.1	6.7	7.6	8.6	8.5	**7.8**	**7.5**	**7.2**	*8.0*	*7.6*
Estonia	-7.9	-12.6	-0.9	0.5	0.3	2.0	1.9	**2.3**	**2.3**	**2.4**	*1.1*	*1.2*
Ireland	0.3	-3.0	-3.3	2.1	1.6	10.9	3.3	**2.9**	**2.5**	**2.3**	*4.8*	*5.0*
Greece	-8.1	-11.4	-10.8	-2.3	-2.4	0.0	-0.6	**-0.2**	**0.4**	**1.0**	*-0.5*	*-0.3*
Spain	-3.3	-7.2	-4.2	1.5	1.0	1.0	1.9	**1.7**	**1.9**	**1.9**	*1.6*	*1.6*
France	1.9	-0.1	-2.0	-2.9	-3.0	-2.2	-2.6	**-3.0**	**-2.8**	**-2.6**	*-2.4*	*-2.5*
Italy	0.4	-1.0	-2.3	1.0	1.9	1.5	2.6	**2.5**	**2.5**	**2.3**	*1.9*	*1.7*
Cyprus	-1.6	-15.8	-8.9	-4.9	-4.4	-2.5	-4.9	**-5.4**	**-6.2**	**-6.8**	*-5.9*	*-6.3*
Latvia	-8.1	-15.3	-1.9	-2.4	-1.5	-0.2	1.4	**-1.4**	**-1.6**	**-1.2**	*-0.9*	*-2.6*
Lithuania	-7.6	-9.3	-3.2	1.4	4.0	-2.0	-0.6	**-0.7**	**-0.3**	**-0.4**	*-2.0*	*-1.9*
Luxembourg	9.4	9.8	6.6	5.5	5.2	5.1	4.8	**4.6**	**4.8**	**4.7**	*4.5*	*5.0*
Malta	-4.5	-4.6	-2.2	2.7	10.1	5.2	7.0	**9.6**	**9.4**	**9.8**	*6.5*	*9.0*
Netherlands	4.8	7.2	7.6	10.2	8.9	8.3	8.7	**9.1**	**8.7**	**8.4**	*7.4*	*7.1*
Austria	-0.8	2.3	2.8	1.9	2.5	2.1	2.3	**2.2**	**2.9**	**3.7**	*2.0*	*2.2*
Portugal	-9.3	-9.4	-8.1	0.7	-0.3	-0.9	0.1	**0.1**	**0.2**	**0.2**	*0.5*	*0.5*
Slovenia	-2.4	-2.7	-1.2	3.2	5.8	4.5	5.3	**5.9**	**5.4**	**4.9**	*6.2*	*5.8*
Slovakia	-6.1	-7.1	-3.9	1.5	1.0	-1.0	0.4	**0.8**	**0.7**	**1.3**	*0.1*	*0.4*
Finland	7.1	4.4	0.6	-1.9	-1.3	-1.0	-1.4	**-1.1**	**-0.3**	**0.4**	*-1.8*	*-1.6*
Euro area	0.2	0.4	0.5	2.4	2.6	3.2	3.3	**3.0**	**3.0**	**2.9**	*3.0*	*2.9*
Euro area, adjusted[2]		0.2	-0.1	2.2	2.4	3.2	3.3	**3.0**	**3.0**	**3.0**	*3.0*	*2.8*
Bulgaria	-2.3	-12.8	-6.1	2.0	0.2	0.6	5.3	**3.0**	**2.4**	**2.3**	*2.4*	*1.8*
Czech Republic	-3.2	-3.9	-4.2	-1.1	-1.2	-1.6	-0.1	**-0.2**	**-0.3**	**-0.6**	*0.0*	*-0.2*
Denmark	2.6	3.4	5.2	7.8	8.9	9.2	7.9	**8.4**	**8.3**	**8.2**	*7.8*	*7.7*
Croatia	-3.5	-5.9	-2.9	1.0	2.0	4.6	2.3	**3.1**	**1.9**	**1.9**	*2.9*	*1.3*
Hungary	-6.9	-8.2	-0.9	3.7	1.5	3.4	6.1	**4.3**	**3.3**	**3.2**	*3.5*	*2.8*
Poland	-3.7	-4.3	-4.6	-0.5	-1.4	0.1	1.2	**1.0**	**0.3**	**0.1**	*-0.6*	*-1.2*
Romania	-4.4	-9.2	-5.9	-0.6	-0.1	-0.6	-2.3	**-3.1**	**-3.2**	**-3.4**	*-2.8*	*-2.9*
Sweden	4.9	7.5	6.3	5.1	4.8	4.8	5.1	**4.9**	**5.0**	**5.1**	*5.2*	*5.4*
United Kingdom	-2.0	-2.7	-3.8	-5.5	-5.3	-5.2	-5.9	**-5.1**	**-4.6**	**-4.4**	*-3.9*	*-3.2*
EU	-0.2	-0.2	-0.2	1.2	1.3	1.7	1.8	**1.7**	**1.8**	**1.8**	*1.9*	*1.9*
EU, adjusted[2]		-0.7	-0.7	0.9	0.8	1.1	1.4	**1.4**	**1.4**	**1.4**	*1.6*	*1.5*
USA	-3.4	-5.2	-3.1	-2.1	-2.1	-2.4	-2.4	**-2.7**	**-2.8**	**-2.9**	*-2.8*	*-3.3*
Japan	2.5	3.8	2.5	0.9	0.8	3.2	3.8	**3.9**	**4.1**	**4.0**	*4.1*	*4.2*

[1] See note 7 on concepts and sources.

Table 51: **Net lending (+) or net borrowing (-) of the nation[1] (as a percentage of GDP, 1998-2019)** 23.10.2017

	5-year averages							Autumn 2017 forecast			*Spring 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	4.6	4.2	1.5	1.1	-0.5	-0.4	0.2	**-0.8**	**-1.0**	**-0.8**	*1.7*	*1.8*
Germany	-0.5	4.6	6.0	6.6	7.6	8.6	8.5	**7.9**	**7.5**	**7.2**	*8.0*	*7.5*
Estonia	-7.5	-11.5	2.1	3.1	1.3	4.0	3.0	**4.1**	**4.3**	**3.9**	*3.1*	*3.3*
Ireland	1.1	-2.8	-3.2	1.6	-1.8	10.4	1.5	**1.2**	**0.9**	**0.7**	*4.6*	*4.8*
Greece	-6.5	-9.7	-9.2	0.1	-0.4	3.0	1.5	**1.7**	**2.3**	**2.8**	*1.4*	*1.5*
Spain	-2.3	-6.4	-3.8	2.1	1.5	1.7	2.1	**2.0**	**2.2**	**2.2**	*1.9*	*1.9*
France	1.9	-0.2	-2.0	-2.8	-3.1	-2.3	-2.5	**-3.1**	**-2.8**	**-2.7**	*-2.4*	*-2.4*
Italy	0.5	-0.9	-2.2	0.9	2.0	1.7	2.5	**2.3**	**2.4**	**2.2**	*1.8*	*1.6*
Cyprus	-1.4	-15.2	-8.7	-3.5	-4.4	-2.2	-4.8	**-5.1**	**-6.2**	**-6.8**	*-5.3*	*-5.8*
Latvia	-7.8	-14.1	0.3	0.1	1.7	2.7	2.4	**-0.1**	**0.0**	**0.4**	*0.9*	*-0.7*
Lithuania	-7.5	-8.1	0.0	4.5	6.6	1.0	0.9	**0.3**	**0.9**	**0.7**	*-1.4*	*-1.0*
Luxembourg	9.0	9.7	5.9	4.3	3.8	4.6	4.4	**4.3**	**4.4**	**4.4**	*5.0*	*5.5*
Malta	-4.1	-2.8	-0.8	4.4	11.8	7.0	7.8	**10.3**	**10.1**	**10.5**	*8.1*	*10.5*
Netherlands	4.7	6.9	7.3	10.0	8.8	3.3	8.5	**8.5**	**8.2**	**7.9**	*6.7*	*6.6*
Austria	-0.9	2.2	2.7	1.8	2.4	1.6	2.1	**2.0**	**2.6**	**3.3**	*2.0*	*2.2*
Portugal	-7.5	-7.9	-6.7	2.3	1.0	0.3	1.0	**1.0**	**1.1**	**1.1**	*1.4*	*1.5*
Slovenia	-2.5	-2.9	-0.6	3.6	6.0	5.6	4.5	**5.5**	**5.2**	**4.8**	*6.4*	*6.3*
Slovakia	-6.6	-7.0	-2.7	3.1	1.9	1.1	0.2	**0.8**	**0.5**	**1.9**	*1.0*	*1.9*
Finland	7.1	4.5	0.7	-1.8	-1.2	-0.9	-1.3	**-1.1**	**-0.3**	**0.5**	*-1.7*	*-1.6*
Euro area	0.4	0.6	0.6	2.5	2.7	3.1	3.3	**2.9**	**2.9**	**2.9**	*3.1*	*2.9*
Euro area, adjusted[2]		0.3	0.0	2.3	2.5	3.0	3.3	**3.0**	**3.0**	**2.9**	*3.0*	*2.9*
Bulgaria	-2.3	-12.7	-4.9	3.9	2.4	3.9	7.8	**5.2**	**4.7**	**4.8**	*4.1*	*3.4*
Czech Republic	-3.0	-3.8	-2.6	1.1	0.5	1.2	0.4	**0.2**	**0.0**	**-0.4**	*0.5*	*0.3*
Denmark	2.7	3.4	5.2	7.7	8.7	8.8	7.9	**8.4**	**8.3**	**8.2**	*7.4*	*7.4*
Croatia	-3.5	-5.9	-2.9	1.2	2.2	5.3	3.3	**3.8**	**2.7**	**2.7**	*4.2*	*2.5*
Hungary	-6.7	-7.8	1.0	7.3	5.2	8.0	6.0	**6.5**	**5.5**	**5.0**	*5.9*	*5.4*
Poland	-3.7	-3.9	-3.1	1.5	0.3	2.4	2.6	**2.5**	**1.9**	**1.8**	*1.0*	*0.6*
Romania	-4.1	-8.6	-5.3	1.5	2.5	1.8	-1.3	**-1.6**	**-1.5**	**-1.4**	*-1.3*	*-0.8*
Sweden	4.6	7.3	6.2	4.9	4.7	4.6	5.1	**4.8**	**5.0**	**5.1**	*5.1*	*5.3*
United Kingdom	-2.0	-2.7	-3.8	-5.6	-5.4	-5.3	-6.0	**-5.2**	**-4.7**	**-4.4**	*-3.9*	*-3.2*
EU	0.0	-0.1	0.0	1.4	1.5	1.7	1.9	**1.8**	**1.9**	**1.9**	*2.0*	*2.0*
EU, adjusted[2]		-0.6	-0.5	1.1	0.9	1.1	1.5	**1.4**	**1.5**	**1.5**	*1.7*	*1.7*
USA	-3.4	-5.2	-3.1	-2.1	-2.1	-2.4	-2.4	**-2.7**	**-2.8**	**-2.9**	*-2.8*	*-3.3*
Japan	2.3	3.7	2.5	0.7	0.7	3.1	3.8	**3.8**	**4.0**	**4.0**	*4.1*	*4.2*

[1] See note 7 on concepts and sources.

Table 52: **Current-account balance[1] (in billions of euro, 2010-19)** 23.10.2017

								Autumn 2017 forecast			*Spring 2017 forecast*	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	13.5	0.9	5.9	4.6	-1.0	-1.8	0.4	**-4.2**	**-4.8**	**-4.0**	*6.6*	*7.8*
Germany	148.2	167.3	197.0	189.7	224.2	261.9	267.9	**255.2**	**253.6**	**252.6**	*259.2*	*252.9*
Estonia	0.3	0.2	-0.3	0.1	0.1	0.4	0.4	**0.5**	**0.6**	**0.6**	*0.2*	*0.3*
Ireland	-2.0	-2.8	-4.6	3.9	3.2	28.6	9.2	**8.4**	**7.7**	**7.3**	*13.4*	*14.8*
Greece	-25.6	-21.3	-8.0	-4.1	-4.3	0.0	-1.0	**-0.4**	**0.8**	**1.9**	*-0.9*	*-0.6*
Spain	-42.0	-35.3	-4.6	15.0	10.3	11.0	21.1	**20.3**	**23.2**	**24.3**	*19.0*	*18.8*
France	-34.9	-46.0	-61.2	-60.4	-65.0	-49.1	-57.8	**-68.4**	**-64.9**	**-63.7**	*-55.5*	*-57.6*
Italy	-54.8	-49.3	-5.8	15.3	30.4	24.7	44.2	**42.0**	**44.6**	**41.3**	*32.2*	*29.9*
Cyprus	-2.2	-0.8	-1.2	-0.9	-0.8	-0.4	-0.9	**-1.0**	**-1.2**	**-1.4**	*-1.1*	*-1.2*
Latvia	0.4	-0.6	-0.8	-0.6	-0.4	0.0	0.3	**-0.4**	**-0.4**	**-0.4**	*-0.2*	*-0.7*
Lithuania	-0.1	-1.2	-0.3	0.5	1.5	-0.8	-0.2	**-0.3**	**-0.1**	**-0.2**	*-0.8*	*-0.8*
Luxembourg	2.7	2.6	2.5	2.5	2.6	2.6	2.6	**2.6**	**2.8**	**3.0**	*2.6*	*3.1*
Malta	-0.3	0.0	0.1	0.2	0.9	0.5	0.7	**1.0**	**1.1**	**1.2**	*0.7*	*1.0*
Netherlands	48.3	56.9	65.6	66.7	59.1	57.0	61.2	**66.9**	**66.5**	**67.3**	*52.8*	*52.5*
Austria	9.9	6.7	6.1	6.1	8.2	7.1	8.0	**8.1**	**11.0**	**14.6**	*7.3*	*8.3*
Portugal	-18.5	-9.6	-3.4	1.3	-0.4	-1.6	0.2	**0.1**	**0.4**	**0.4**	*0.9*	*1.0*
Slovenia	-0.3	-0.1	0.6	1.2	2.2	1.8	2.1	**2.6**	**2.4**	**2.3**	*2.6*	*2.5*
Slovakia	-3.2	-3.9	0.3	1.1	0.7	-0.8	0.3	**0.6**	**0.6**	**1.2**	*0.1*	*0.3*
Finland	2.7	-2.9	-3.8	-3.8	-2.7	-2.0	-3.0	**-2.5**	**-0.7**	**1.0**	*-3.8*	*-3.6*
Euro area	42.0	60.7	184.0	238.4	268.7	339.1	355.9	**331.2**	**343.1**	**349.5**	*335.1*	*328.6*
Euro area, adjusted[2]	-5.8	-8.9	135.4	220.7	245.8	335.0	360.2	**335.5**	**347.4**	**353.8**	*330.5*	*324.0*
Bulgaria	-0.2	0.2	-0.1	0.9	0.1	0.3	2.5	**1.5**	**1.3**	**1.3**	*1.2*	*0.9*
Czech Republic	-7.9	-7.6	-3.6	-1.7	-1.9	-2.6	-0.2	**-0.4**	**-0.6**	**-1.2**	*0.0*	*-0.5*
Denmark	16.0	16.3	16.0	20.1	23.6	24.9	22.0	**24.4**	**24.8**	**25.5**	*22.3*	*22.9*
Croatia	-0.4	-0.3	0.2	0.5	0.9	2.0	1.0	**1.5**	**1.0**	**1.0**	*1.4*	*0.6*
Hungary	0.3	0.9	1.8	3.8	1.6	3.8	6.9	**5.2**	**4.3**	**4.5**	*4.2*	*3.6*
Poland	-17.5	-18.1	-12.8	-2.0	-5.6	0.6	5.0	**4.6**	**1.7**	**0.3**	*-2.9*	*-5.8*
Romania	-5.7	-5.8	-5.6	-0.9	-0.2	-1.0	-3.8	**-5.5**	**-6.2**	**-7.0**	*-5.0*	*-5.5*
Sweden	23.9	20.7	23.5	22.2	20.9	21.4	23.9	**23.6**	**25.6**	**27.2**	*25.0*	*27.0*
United Kingdom	-69.6	-44.8	-88.3	-114.3	-121.6	-135.2	-140.9	**-119.0**	**-109.5**	**-105.9**	*-91.4*	*-77.0*
EU	-19.3	22.3	115.1	167.0	186.4	253.2	272.3	**267.1**	**285.4**	**295.1**	*289.8*	*295.0*
EU, adjusted[2]	-64.2	-44.3	66.5	123.1	109.0	158.6	214.4	**209.2**	**227.5**	**237.3**	*236.2*	*241.3*
USA	-324.9	-319.4	-331.7	-263.2	-281.4	-391.7	-408.1	**-459.9**	**-476.1**	**-526.4**	*-516.8*	*-624.6*
Japan	166.8	93.7	46.5	34.4	28.6	124.5	171.8	**168.7**	**172.8**	**172.9**	*191.6*	*199.2*

[1] See note 7 on concepts and sources.

Table 53: Export markets (a) (percentage change on preceding year, 2010-19) 23.10.2017

								Autumn 2017 forecast			*Spring 2017 forecast*	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	10.3	5.0	1.1	1.3	3.8	4.6	3.2	**4.6**	**4.5**	**4.3**	*3.8*	*4.3*
Germany	10.5	5.2	1.2	1.7	3.1	3.1	3.4	**4.9**	**4.6**	**4.3**	*3.8*	*4.2*
Estonia	9.6	7.4	1.5	1.2	1.4	0.2	3.0	**5.8**	**4.5**	**4.1**	*3.4*	*3.7*
Ireland	10.7	4.6	1.3	1.9	3.2	3.8	3.0	**3.9**	**4.2**	**4.1**	*3.5*	*4.1*
Greece	10.4	4.9	1.1	2.1	2.8	2.5	3.0	**4.2**	**4.5**	**4.3**	*3.6*	*4.1*
Spain	9.8	4.2	0.5	1.9	3.3	4.0	2.9	**4.4**	**4.5**	**4.2**	*3.6*	*4.1*
France	10.3	4.9	1.0	1.9	3.8	3.8	2.8	**4.4**	**4.4**	**4.2**	*3.7*	*4.1*
Italy	9.9	5.4	1.6	2.1	3.0	3.2	3.2	**4.6**	**4.6**	**4.4**	*3.8*	*4.2*
Cyprus	8.1	7.4	1.3	3.5	0.8	-6.3	-2.2	**5.0**	**4.4**	**4.4**	*3.2*	*3.6*
Latvia	12.5	10.4	3.9	2.7	1.6	-0.5	2.8	**6.1**	**4.8**	**4.4**	*3.9*	*3.8*
Lithuania	11.2	9.8	3.5	1.6	0.6	-2.3	2.9	**5.8**	**4.9**	**4.5**	*4.4*	*4.3*
Luxembourg	10.1	4.2	0.4	1.6	5.3	5.8	4.2	**3.2**	**4.2**	**4.1**	*3.5*	*4.1*
Malta	10.3	4.4	0.8	2.2	6.1	3.7	3.2	**3.4**	**4.0**	**3.8**	*2.5*	*3.3*
Netherlands	10.4	5.2	0.9	1.5	4.2	4.6	4.4	**4.5**	**4.5**	**4.3**	*3.9*	*4.2*
Austria	11.3	5.9	1.1	1.7	3.3	4.1	3.5	**4.9**	**5.0**	**4.7**	*4.4*	*4.7*
Portugal	9.7	3.9	-0.3	1.8	4.1	4.7	2.1	**4.0**	**4.2**	**4.1**	*3.8*	*4.2*
Slovenia	9.8	5.5	0.4	1.0	3.3	3.6	3.9	**5.6**	**5.1**	**4.7**	*4.6*	*4.8*
Slovakia	11.7	6.2	0.8	1.3	4.7	4.5	4.0	**5.8**	**5.3**	**4.7**	*4.7*	*4.8*
Finland	11.9	7.7	2.7	2.2	2.7	0.4	2.7	**4.9**	**4.5**	**4.3**	*3.7*	*4.0*
Euro area (b)	10.4	5.1	1.1	1.7	3.5	3.6	3.3	**4.6**	**4.5**	**4.3**	*3.8*	*4.2*
Bulgaria	9.4	5.6	0.0	1.6	3.4	1.7	3.4	**5.5**	**5.1**	**4.9**	*4.2*	*4.6*
Czech Republic	11.2	5.9	1.3	1.5	3.5	3.8	3.8	**5.2**	**5.1**	**4.7**	*4.6*	*4.8*
Denmark	11.4	5.4	1.5	1.7	4.0	3.7	3.0	**4.4**	**4.2**	**4.1**	*3.7*	*4.1*
Croatia	10.4	5.3	-0.4	1.4	3.2	3.6	3.8	**5.1**	**5.2**	**4.6**	*4.4*	*4.5*
Hungary	11.0	6.1	1.3	1.4	3.7	4.0	4.0	**5.3**	**5.0**	**4.7**	*4.6*	*4.8*
Poland	11.4	6.2	1.7	1.4	3.0	3.2	3.5	**5.1**	**4.8**	**4.5**	*4.2*	*4.4*
Romania	10.2	5.4	0.7	1.5	3.2	3.5	3.3	**5.1**	**4.9**	**4.5**	*4.1*	*4.5*
Sweden	9.7	5.0	1.7	2.0	3.1	2.6	3.4	**4.7**	**4.2**	**4.0**	*3.4*	*3.9*
United Kingdom	10.5	5.0	1.4	1.9	3.5	3.5	3.3	**4.1**	**4.5**	**4.4**	*3.7*	*4.4*
EU (b)	10.5	5.2	1.2	1.7	3.5	3.6	3.4	**4.6**	**4.5**	**4.3**	*3.8*	*4.2*
USA	13.1	6.6	3.3	3.3	3.4	2.2	2.0	**3.8**	**3.8**	**3.8**	*2.8*	*3.3*
Japan	14.8	7.0	3.4	3.3	3.3	1.5	3.0	**4.3**	**4.5**	**4.5**	*3.5*	*4.1*

(a) Imports of goods and services to the various markets (incl. EU-markets) weighted according to their share in country's exports of goods and services. (b) Intra- and extra-EU trade.

Table 54: Export performance (a) (percentage change on preceding year, 2010-19) 23.10.2017

								Autumn 2017 forecast			*Spring 2017 forecast*	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
Belgium	0.0	1.6	-0.8	-0.4	1.3	-1.3	4.2	**0.1**	**-0.1**	**0.1**	*0.0*	*-0.6*
Germany	3.7	2.9	1.6	0.0	1.5	2.1	-0.8	**-1.2**	**-0.6**	**-0.4**	*-0.1*	*-0.3*
Estonia	13.2	15.6	3.3	1.5	1.1	-0.8	1.0	**-2.0**	**-0.3**	**0.0**	*0.3*	*0.0*
Ireland	-4.5	-1.4	0.2	1.1	10.9	33.4	1.5	**0.0**	**0.3**	**0.2**	*0.3*	*0.2*
Greece	-5.0	-4.6	0.0	-0.6	4.8	0.6	-4.6	**2.6**	**0.1**	**0.1**	*0.2*	*0.1*
Spain	-0.3	3.1	0.5	2.3	1.0	0.2	1.9	**1.5**	**0.4**	**0.3**	*2.1*	*0.7*
France	-1.2	1.9	1.6	0.0	-0.4	0.4	-0.9	**-1.3**	**-0.4**	**0.0**	*-0.5*	*0.1*
Italy	1.7	-0.2	0.8	-1.3	-0.3	1.2	-0.7	**0.3**	**-0.8**	**-1.0**	*-0.4*	*-0.6*
Cyprus	-3.4	-1.6	-4.0	-1.4	3.5	13.4	6.2	**-2.1**	**-2.1**	**-2.3**	*0.1*	*-0.4*
Latvia	0.8	1.5	5.6	-1.6	4.4	3.5	1.2	**-2.2**	**-0.6**	**-0.4**	*-0.5*	*-0.2*
Lithuania	7.0	5.1	8.6	8.1	2.6	1.9	0.5	**4.4**	**0.4**	**-0.1**	*-0.9*	*-0.6*
Luxembourg	0.2	-0.1	2.3	3.6	8.3	1.0	-1.4	**1.7**	**0.6**	**0.0**	*2.0*	*1.7*
Malta	-3.1	-2.6	6.4	-1.0	-2.1	0.4	0.4	**-0.4**	**-0.3**	**-0.2**	*1.1*	*1.2*
Netherlands	0.1	-0.8	2.9	0.6	0.3	1.8	-0.1	**0.8**	**0.2**	**0.1**	*-0.3*	*-0.4*
Austria	1.6	0.0	0.3	-1.0	-0.4	-0.9	-1.5	**0.3**	**-0.5**	**-0.4**	*-1.1*	*-1.5*
Portugal	-0.2	3.0	3.7	5.1	0.2	1.4	2.0	**3.8**	**3.0**	**0.8**	*0.6*	*0.0*
Slovenia	0.3	1.3	0.2	2.0	2.3	1.3	2.5	**3.2**	**2.1**	**0.7**	*1.2*	*0.6*
Slovakia	3.6	5.5	8.4	5.3	-0.8	1.8	2.2	**-1.1**	**1.4**	**2.8**	*1.8*	*2.1*
Finland	-5.1	-5.3	-1.4	-1.1	-5.3	0.4	-1.4	**3.9**	**1.2**	**0.9**	*-1.4*	*-0.6*
Euro area (b)	0.8	1.4	1.4	0.4	1.2	2.6	0.0	**-0.1**	**-0.1**	**-0.1**	*0.0*	*-0.1*
Bulgaria	1.5	6.6	2.1	7.9	-0.3	3.9	4.5	**-0.3**	**-0.2**	**0.0**	*0.4*	*0.2*
Czech Republic	3.1	3.1	2.9	-1.3	5.0	2.1	0.7	**1.6**	**-0.3**	**0.0**	*-0.1*	*0.0*
Denmark	-7.6	1.7	-0.3	-0.1	-0.4	-1.8	-0.5	**0.4**	**-0.3**	**-0.6**	*-0.3*	*-0.2*
Croatia	-3.8	-2.9	0.3	1.7	2.8	5.6	1.9	**1.0**	**0.6**	**0.4**	*0.8*	*0.0*
Hungary	0.3	0.4	-3.1	2.7	5.2	4.3	-0.5	**2.3**	**1.9**	**1.4**	*0.4*	*1.0*
Poland	1.5	1.6	2.9	4.6	3.6	4.4	5.1	**1.2**	**1.9**	**1.2**	*3.4*	*2.1*
Romania	4.6	6.2	0.3	17.9	4.7	1.0	4.9	**3.0**	**2.3**	**2.0**	*2.7*	*1.6*
Sweden	2.0	1.0	-0.7	-2.7	2.1	3.0	-0.1	**-0.5**	**-0.1**	**-0.2**	*0.5*	*-0.1*
United Kingdom	-4.1	1.2	-1.2	-1.1	-0.8	1.4	-2.1	**0.6**	**-1.3**	**-1.4**	*-0.3*	*-1.3*
EU (b)	0.2	1.4	1.0	0.4	1.2	2.5	0.0	**0.1**	**-0.1**	**-0.1**	*0.2*	*-0.1*
USA	-1.1	0.2	0.1	0.2	0.9	-1.7	-2.3	**-0.6**	**-0.1**	**0.1**	*0.2*	*0.2*
Japan	8.8	-6.8	-3.4	-2.4	5.8	1.4	-1.8	**0.6**	**-2.4**	**-2.4**	*-0.7*	*-2.9*

(a) Index for exports of goods and services divided by an index for growth of markets. (b) Intra- and extra-EU trade.

Table 55: World GDP, volume (percentage change on preceding year, 2012-19) 23.10.2017

							Autumn 2017 forecast			*Spring 2017 forecast*	
	(a)	2012	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
EU	16.7	-0.4	0.3	1.8	2.3	1.9	**2.3**	**2.1**	**1.9**	*1.9*	*1.9*
Euro area	11.7	-0.9	-0.2	1.3	2.1	1.8	**2.2**	**2.1**	**1.9**	*1.7*	*1.8*
Belgium	0.4	0.2	0.2	1.4	1.4	1.5	**1.7**	**1.8**	**1.7**	*1.5*	*1.7*
Bulgaria	0.1	0.0	0.9	1.3	3.6	3.9	**3.9**	**3.8**	**3.6**	*2.9*	*2.8*
Czech Republic	0.3	-0.8	-0.5	2.7	5.3	2.6	**4.3**	**3.0**	**2.9**	*2.6*	*2.7*
Denmark	0.2	0.2	0.9	1.7	1.6	1.7	**2.3**	**2.0**	**1.9**	*1.7*	*1.8*
Germany	3.3	0.5	0.5	1.9	1.7	1.9	**2.2**	**2.1**	**2.0**	*1.6*	*1.9*
Estonia	0.0	4.3	1.9	2.9	1.7	2.1	**4.4**	**3.2**	**2.8**	*2.3*	*2.8*
Ireland	0.3	0.0	1.6	8.3	25.6	5.1	**4.8**	**3.9**	**3.1**	*4.0*	*3.6*
Greece	0.2	-7.3	-3.2	0.7	-0.3	-0.2	**1.6**	**2.5**	**2.5**	*2.1*	*2.5*
Spain	1.4	-2.9	-1.7	1.4	3.4	3.3	**3.1**	**2.5**	**2.1**	*2.8*	*2.4*
France	2.3	0.2	0.6	0.9	1.1	1.2	**1.6**	**1.7**	**1.6**	*1.4*	*1.7*
Croatia	0.1	-2.2	-1.1	-0.5	2.2	3.0	**3.2**	**2.8**	**2.7**	*2.9*	*2.6*
Italy	1.9	-2.8	-1.7	0.1	1.0	0.9	**1.5**	**1.3**	**1.0**	*0.9*	*1.1*
Cyprus	0.0	-3.1	-5.9	-1.4	2.0	3.0	**3.5**	**2.9**	**2.7**	*2.5*	*2.3*
Latvia	0.0	4.0	2.6	1.9	2.8	2.1	**4.2**	**3.5**	**3.2**	*3.2*	*3.5*
Lithuania	0.1	3.8	3.5	3.5	2.0	2.3	**3.8**	**2.9**	**2.6**	*2.9*	*3.1*
Luxembourg	0.1	-0.4	3.7	5.8	2.9	3.1	**3.4**	**3.5**	**3.3**	*4.3*	*4.4*
Hungary	0.2	-1.6	2.1	4.2	3.4	2.2	**3.7**	**3.6**	**3.1**	*3.6*	*3.5*
Malta	0.0	2.6	4.6	8.2	7.1	5.5	**5.6**	**4.9**	**4.1**	*4.6*	*4.4*
Netherlands	0.7	-1.1	-0.2	1.4	2.3	2.2	**3.2**	**2.7**	**2.5**	*2.1*	*1.8*
Austria	0.3	0.7	0.0	0.8	1.1	1.5	**2.6**	**2.4**	**2.3**	*1.7*	*1.7*
Poland	0.9	1.6	1.4	3.3	3.8	2.9	**4.2**	**3.8**	**3.4**	*3.5*	*3.2*
Portugal	0.2	-4.0	-1.1	0.9	1.8	1.5	**2.6**	**2.1**	**1.8**	*1.8*	*1.6*
Romania	0.4	0.6	3.5	3.1	4.0	4.6	**5.7**	**4.4**	**4.1**	*4.3*	*3.7*
Slovenia	0.1	-2.7	-1.1	3.0	2.3	3.1	**4.7**	**4.0**	**3.3**	*3.3*	*3.1*
Slovakia	0.1	1.7	1.5	2.8	3.9	3.3	**3.3**	**3.8**	**4.0**	*3.0*	*3.6*
Finland	0.2	-1.4	-0.8	-0.6	0.0	1.9	**3.3**	**2.7**	**2.4**	*1.3*	*1.7*
Sweden	0.4	-0.3	1.2	2.6	4.5	3.3	**3.2**	**2.7**	**2.2**	*2.6*	*2.2*
United Kingdom	2.3	1.5	2.1	3.1	2.3	1.8	**1.5**	**1.3**	**1.1**	*1.8*	*1.3*
Candidate Countries	1.8	4.3	7.9	4.7	5.7	3.2	**5.1**	**4.0**	**4.0**	*3.0*	*3.3*
- Turkey	1.7	4.8	8.5	5.2	6.1	3.2	**5.3**	**4.0**	**4.1**	*3.0*	*3.3*
- The former Yugoslav Republic of Macedonia	0.0	-0.5	2.9	3.6	3.9	2.9	**1.7**	**2.7**	**3.2**	*2.9*	*3.2*
- Montenegro	0.0	-2.7	3.5	1.8	3.4	2.9	**3.9**	**3.0**	**3.3**	*3.3*	*3.5*
- Serbia	0.1	-1.0	2.6	-1.8	0.8	2.8	**2.0**	**3.3**	**3.5**	*3.2*	*3.6*
- Albania	0.0	1.3	1.0	1.8	2.2	3.4	**4.0**	**3.8**	**4.2**	*3.7*	*3.9*
Potential Candidates	0.1	0.9	2.2	0.4	3.8	2.4	**2.9**	**3.1**	**3.3**	*2.8*	*3.0*
USA	15.5	2.2	1.7	2.6	2.9	1.5	**2.2**	**2.3**	**2.1**	*2.2*	*2.3*
Canada	1.4	1.7	2.5	2.6	0.9	1.5	**3.0**	**2.1**	**1.9**	*2.2*	*2.1*
Japan	4.4	1.5	2.0	0.3	1.1	1.0	**1.6**	**1.2**	**1.0**	*1.2*	*0.6*
Korea	1.6	2.3	2.9	3.3	2.8	2.8	**2.8**	**2.8**	**2.7**	*2.5*	*2.6*
Norway	0.3	2.7	1.0	2.0	2.0	1.1	**1.5**	**1.6**	**1.8**	*1.4*	*1.6*
Switzerland	0.4	1.0	1.9	2.4	1.2	1.4	**0.9**	**1.8**	**1.8**	*1.5*	*1.7*
Iceland	0.0	1.2	4.4	1.9	4.1	7.2	**4.6**	**3.1**	**2.3**	*4.4*	*2.8*
Australia	1.0	3.6	2.1	2.8	2.4	2.5	**2.4**	**2.8**	**2.7**	*2.7*	*2.7*
New Zealand	0.1	2.5	2.1	2.8	3.2	3.6	**2.8**	**2.9**	**2.7**	*3.0*	*2.8*
Advanced economies	44.9	1.2	1.5	2.2	2.5	1.8	**2.4**	**2.2**	**2.1**	*2.1*	*2.0*
CIS	4.5	3.5	2.1	1.0	-2.3	0.3	**2.0**	**2.1**	**2.2**	*1.6*	*2.0*
- Russia	3.2	3.5	1.3	0.7	-2.8	-0.2	**1.7**	**1.6**	**1.5**	*1.2*	*1.4*
- Other CIS	1.3	3.5	4.1	1.7	-0.9	1.8	**2.8**	**3.5**	**3.8**	*2.5*	*3.3*
MENA	6.9	3.6	2.2	2.2	2.3	4.9	**2.2**	**2.8**	**3.3**	*2.3*	*2.9*
Emerging and developing Asia	32.4	6.9	6.7	6.6	6.5	6.5	**6.3**	**6.4**	**6.3**	*6.4*	*6.3*
- China	17.7	7.9	7.8	7.3	6.9	6.7	**6.8**	**6.5**	**6.2**	*6.6*	*6.3*
- India	7.2	5.3	6.1	7.0	7.5	7.9	**6.6**	**7.5**	**7.6**	*7.2*	*7.5*
- Indonesia	2.5	6.0	5.6	5.0	4.9	5.0	**5.0**	**5.1**	**5.1**	*5.0*	*5.1*
Latin America	7.8	3.0	2.9	1.1	-0.1	-1.1	**1.3**	**2.1**	**2.4**	*1.2*	*2.1*
- Brazil	2.6	1.9	3.0	0.5	-3.8	-3.6	**0.7**	**1.8**	**2.0**	*0.5*	*1.8*
- Mexico	1.9	4.0	1.4	2.3	2.6	2.3	**2.1**	**2.2**	**2.2**	*1.7*	*2.1*
Sub-Saharan Africa	3.2	4.0	5.1	4.9	3.4	1.1	**2.5**	**3.3**	**3.9**	*2.6*	*3.4*
Emerging and developing economies	55.1	5.3	4.9	4.5	4.0	4.3	**4.5**	**4.8**	**4.9**	*4.5*	*4.8*
World	100.0	3.3	3.3	3.4	3.3	3.2	**3.5**	**3.7**	**3.7**	*3.4*	*3.6*
World excluding EU	83.3	4.2	4.0	3.8	3.5	3.4	**3.8**	**4.0**	**4.0**	*3.7*	*3.9*
World excluding euro area	88.3	4.0	3.8	3.7	3.5	3.3	**3.7**	**3.9**	**3.9**	*3.6*	*3.8*

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2016.

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2012-19) 23.10.2017

							Autumn 2017 forecast			*Spring 2017 forecast*	
	(a)	2012	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
EU (b)	35.6	2.2	2.2	4.7	6.1	3.4	**4.7**	**4.4**	**4.2**	*4.0*	*4.1*
Euro area (b)	26.8	2.5	2.1	4.7	6.4	3.3	**4.5**	**4.4**	**4.2**	*3.8*	*4.1*
Candidate Countries	1.1	13.1	2.5	8.0	4.8	-0.3	**7.7**	**5.8**	**4.8**	*4.6*	*4.6*
- Turkey	0.9	14.9	1.1	8.2	4.3	-1.9	**7.4**	**5.4**	**4.3**	*4.1*	*4.2*
- The former Yugoslav Republic of Macedonia	0.0	2.0	6.1	16.5	6.7	11.5	**8.8**	**8.4**	**8.4**	*10.2*	*8.7*
- Montenegro	0.0	-0.3	-1.3	-0.7	5.7	6.2	**6.8**	**4.5**	**2.4**	*2.9*	*3.0*
- Serbia	0.1	0.8	21.3	5.7	10.2	12.0	**10.3**	**8.5**	**8.0**	*7.9*	*7.3*
- Albania	0.0	0.3	0.9	1.8	1.0	13.1	**10.3**	**8.6**	**8.3**	*5.6*	*6.4*
USA	10.9	3.4	3.5	4.3	0.4	-0.3	**3.3**	**3.8**	**3.9**	*3.0*	*3.5*
Canada	2.3	2.6	2.7	5.8	3.4	1.0	**3.3**	**3.7**	**3.1**	*3.6*	*3.6*
Japan	3.9	-0.1	0.8	9.3	2.9	1.2	**5.0**	**2.0**	**1.9**	*2.8*	*1.1*
Korea	3.0	5.1	4.3	2.0	-0.1	2.1	**2.9**	**3.0**	**3.7**	*3.6*	*3.5*
Norway	0.6	1.6	-1.7	3.1	4.7	-1.8	**1.4**	**2.4**	**2.7**	*1.3*	*2.0*
Switzerland	2.2	1.1	15.2	-6.2	2.4	6.5	**2.8**	**4.0**	**3.8**	*2.4*	*3.4*
Iceland	0.0	3.6	6.7	3.2	9.2	11.1	**7.4**	**4.0**	**3.8**	*5.7*	*4.4*
Australia	1.2	5.7	5.9	6.9	6.0	7.3	**4.4**	**4.4**	**4.4**	*4.4*	*4.4*
New Zealand	0.2	1.9	0.8	3.1	6.9	1.9	**3.5**	**3.5**	**3.5**	*3.6*	*3.6*
Advanced economies	68.2	2.6	3.2	4.4	3.9	2.3	**4.2**	**3.9**	**3.8**	*3.4*	*3.6*
CIS	2.5	2.5	1.1	-0.6	-1.5	0.6	**6.2**	**4.7**	**4.5**	*5.1*	*4.0*
- Russia	1.6	1.4	4.6	0.5	3.7	3.1	**5.1**	**4.3**	**4.2**	*3.3*	*3.6*
- Other CIS	0.9	4.6	-5.5	-2.8	-11.7	-4.3	**8.1**	**5.6**	**5.0**	*8.3*	*4.8*
MENA	5.4	6.3	3.4	2.7	6.6	5.0	**2.5**	**3.1**	**3.4**	*2.4*	*3.0*
Emerging and developing Asia	17.5	4.5	7.2	4.3	-1.1	2.4	**4.9**	**4.4**	**4.3**	*3.3*	*3.7*
- China	10.8	5.9	8.8	4.3	-2.2	1.1	**5.0**	**4.1**	**3.7**	*3.1*	*3.4*
- India	2.1	0.3	5.0	3.9	-4.5	6.6	**4.6**	**5.1**	**5.3**	*3.3*	*3.9*
- Indonesia	0.8	1.8	3.1	1.6	0.2	-0.7	**3.7**	**4.5**	**5.0**	*2.9*	*3.9*
Latin America	5.1	2.8	1.7	1.6	4.9	1.7	**3.7**	**4.0**	**4.2**	*3.2*	*3.6*
- Brazil	1.1	1.1	2.7	-0.3	8.1	3.7	**3.7**	**3.5**	**3.8**	*2.6*	*3.4*
- Mexico	2.0	5.8	2.4	7.0	10.3	1.2	**5.1**	**4.3**	**4.6**	*4.1*	*3.8*
Sub-Saharan Africa	1.4	-1.0	4.8	0.9	3.0	-0.3	**3.5**	**3.6**	**4.0**	*4.1*	*3.9*
Emerging and developing economies	31.8	4.0	4.7	2.8	1.5	2.5	**4.3**	**4.1**	**4.1**	*3.3*	*3.6*
World	100.0	3.1	3.7	3.8	3.1	2.4	**4.2**	**4.0**	**3.9**	*3.4*	*3.6*
World excluding EU	64.4	3.5	4.5	3.4	1.5	1.9	**4.0**	**3.8**	**3.8**	*3.1*	*3.3*
World excluding euro area	73.2	3.3	4.3	3.5	2.0	2.0	**4.2**	**3.8**	**3.8**	*3.2*	*3.4*

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2016.

Table 57: Export shares in EU trade (goods only - 2016) 23.10.2017

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	63.9	46.4	2.0	7.7	1.2	7.5	3.8	3.1	2.2	4.8	2.4	1.5
Euro area	63.8	45.7	1.9	7.7	1.2	7.0	3.9	3.2	2.0	5.0	2.6	1.6
Belgium	74.1	58.7	1.2	5.6	0.7	3.9	2.0	3.8	1.0	3.9	1.4	2.3
Bulgaria	65.8	47.5	12.7	2.0	0.3	2.1	2.8	2.8	4.2	5.9	0.6	0.8
Czech Republic	83.0	64.9	1.7	2.6	0.5	3.3	1.5	1.2	2.8	2.3	0.7	0.5
Denmark	62.5	38.9	1.1	8.4	1.9	11.1	4.5	2.7	1.3	3.2	2.5	0.9
Germany	58.3	36.6	2.1	9.3	1.4	8.7	6.5	3.5	2.3	4.1	2.7	1.1
Estonia	74.6	47.2	1.6	3.5	0.6	6.8	1.6	1.7	6.6	1.7	0.6	0.7
Ireland	53.0	35.9	0.6	23.8	3.9	8.4	2.2	1.9	0.7	2.8	1.9	0.8
Greece	55.1	37.9	12.8	4.9	0.3	3.4	1.0	1.9	2.5	14.8	1.7	1.5
Spain	66.0	51.9	2.2	4.8	1.1	4.7	2.0	2.1	1.2	8.2	6.1	1.6
France	58.8	45.7	1.6	8.0	1.5	7.3	4.4	4.4	1.6	7.2	2.8	2.4
Croatia	72.2	60.1	10.5	3.9	0.5	2.7	0.9	0.8	2.9	4.4	0.8	0.5
Italy	54.5	39.8	3.3	9.0	1.4	9.8	3.2	3.3	2.6	8.2	3.3	1.3
Cyprus	52.1	32.8	0.4	1.2	0.0	3.8	1.8	10.1	2.0	26.6	0.3	1.7
Latvia	71.5	48.8	1.5	2.0	0.4	4.2	1.2	1.2	11.7	4.9	0.6	0.7
Lithuania	66.1	43.5	1.0	4.6	0.8	5.0	0.6	1.3	17.1	2.3	0.5	0.6
Luxembourg	84.0	72.3	1.1	2.8	0.4	3.6	1.5	1.5	1.2	2.4	0.8	0.8
Hungary	78.8	56.7	3.1	4.1	0.9	2.8	2.2	1.0	3.7	1.6	1.4	0.4
Malta	39.1	28.6	0.8	5.1	3.4	13.1	6.4	9.3	0.7	18.8	1.1	2.2
Netherlands	78.4	60.0	1.0	3.4	0.6	4.3	1.8	2.6	1.1	3.1	1.8	1.9
Austria	70.1	51.8	1.6	6.6	0.9	8.2	2.8	2.4	2.4	2.6	1.8	0.6
Poland	79.8	56.9	2.1	2.5	0.4	3.8	1.3	1.2	5.0	1.9	1.5	0.8
Portugal	71.4	60.1	1.0	5.6	0.4	3.5	2.3	0.8	0.7	4.6	3.1	6.5
Romania	72.3	52.9	5.8	2.7	0.5	3.0	1.6	1.0	4.5	6.6	1.1	0.8
Slovenia	78.7	54.4	5.7	2.0	0.2	3.0	1.1	1.0	4.5	3.0	0.5	0.3
Slovakia	84.3	46.7	1.8	2.6	0.1	2.9	2.3	0.4	3.2	1.6	0.5	0.2
Finland	59.5	38.7	1.6	6.8	2.0	8.2	5.1	4.0	5.7	3.3	2.8	1.1
Sweden	60.9	41.4	1.3	7.1	1.2	12.8	4.2	3.6	1.6	3.8	2.2	1.3
United Kingdom	46.9	41.3	1.5	13.8	1.4	14.8	5.4	4.7	1.4	6.4	2.0	1.8

Table 58: World imports of goods and services, volume (percentage change on preceding year, 2012-19) 23.10.2017

							Autumn 2017 forecast			Spring 2017 forecast	
	(a)	2012	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
EU (b)	33.7	-0.3	1.6	5.2	6.3	4.7	**4.7**	**4.6**	**4.3**	*4.2*	*4.3*
Euro area (b)	24.9	-1.0	1.3	4.9	6.7	4.7	**4.7**	**4.7**	**4.4**	*4.2*	*4.6*
Candidate Countries	1.3	0.8	7.4	0.5	2.3	4.5	**5.6**	**6.5**	**7.0**	*2.7*	*4.9*
- Turkey	1.1	0.7	8.0	-0.4	1.7	3.7	**5.0**	**6.4**	**7.1**	*2.0*	*4.7*
- The former Yugoslav Republic of Macedonia	0.0	8.2	2.2	14.1	5.2	7.6	**5.5**	**6.8**	**7.0**	*6.7*	*6.4*
- Montenegro	0.0	0.6	-3.1	1.6	4.4	17.3	**6.5**	**2.3**	**1.0**	*6.2*	*3.8*
- Serbia	0.1	1.4	5.0	5.6	9.3	9.0	**10.1**	**7.4**	**7.2**	*7.0*	*6.9*
- Albania	0.0	-6.7	-0.6	4.3	-2.9	7.4	**7.8**	**5.2**	**6.2**	*6.7*	*4.9*
USA	13.8	2.2	1.1	4.5	5.0	1.3	**4.2**	**5.0**	**4.8**	*4.8*	*6.1*
Canada	2.6	3.6	1.6	2.2	0.3	-0.9	**4.1**	**3.2**	**2.5**	*1.1*	*2.5*
Japan	3.8	5.4	3.3	8.3	0.8	-2.3	**3.4**	**2.0**	**2.5**	*1.3*	*0.7*
Korea	2.5	2.4	1.7	1.5	2.1	4.5	**3.1**	**3.0**	**3.4**	*3.4*	*2.8*
Norway	0.6	3.0	5.0	2.4	1.6	2.3	**5.6**	**2.5**	**2.7**	*1.7*	*2.3*
Switzerland	1.8	-2.6	13.5	-7.7	4.7	6.0	**3.4**	**3.8**	**3.4**	*2.6*	*3.8*
Iceland	0.0	4.6	0.1	9.8	13.5	14.7	**10.1**	**5.7**	**4.2**	*10.3*	*7.8*
Australia	1.3	5.5	-2.1	-1.1	2.0	0.0	**1.7**	**2.4**	**2.2**	*1.7*	*2.4*
New Zealand	0.2	2.8	6.2	7.9	3.8	3.3	**2.4**	**2.7**	**2.8**	*2.4*	*2.8*
Advanced economies	68.4	1.2	2.5	4.2	4.7	3.0	**4.3**	**4.2**	**4.0**	*3.6*	*4.1*
CIS	2.3	9.7	1.6	-8.1	-21.2	-2.5	**8.2**	**5.4**	**5.3**	*3.6*	*3.2*
- Russia	1.3	9.7	3.6	-7.3	-25.8	-3.8	**9.7**	**6.2**	**5.9**	*2.3*	*3.4*
- Other CIS	1.0	9.6	-1.4	-9.5	-13.7	-0.7	**6.1**	**4.3**	**4.3**	*5.3*	*2.9*
MENA	5.7	8.5	8.0	8.9	-1.5	0.3	**2.8**	**3.8**	**4.0**	*1.8*	*2.9*
Emerging and developing Asia	16.6	5.6	6.4	6.1	0.9	4.8	**5.3**	**4.9**	**4.9**	*4.0*	*4.4*
- China	9.8	6.6	10.6	7.8	-0.5	4.9	**5.7**	**4.5**	**4.2**	*4.6*	*4.7*
- India	2.4	1.4	-3.5	6.0	1.9	4.4	**5.4**	**5.6**	**5.8**	*2.1*	*3.5*
- Indonesia	0.8	14.1	1.3	-1.3	-6.3	3.0	**3.4**	**4.2**	**4.9**	*2.8*	*3.9*
Latin America	5.4	4.2	3.4	0.4	-1.2	-2.9	**3.1**	**3.5**	**3.9**	*2.6*	*3.1*
- Brazil	1.0	-0.3	8.4	-0.1	-13.5	-8.2	**1.8**	**3.4**	**3.7**	*3.2*	*3.6*
- Mexico	2.1	5.5	2.6	6.0	8.6	1.1	**4.7**	**4.1**	**4.3**	*2.6*	*3.3*
Sub-Saharan Africa	1.7	3.1	3.7	6.3	1.1	-10.5	**3.3**	**3.7**	**4.4**	*3.1*	*4.1*
Emerging and developing economies	31.6	6.1	5.5	4.0	-2.0	1.1	**4.6**	**4.5**	**4.5**	*3.3*	*3.8*
World	100.0	2.7	3.5	4.1	2.5	2.4	**4.3**	**4.3**	**4.2**	*3.5*	*4.0*
World excluding EU	66.3	4.3	4.4	3.6	0.6	1.3	**4.2**	**4.1**	**4.1**	*3.1*	*3.8*
World excluding euro area	75.1	4.0	4.2	3.9	1.2	1.7	**4.2**	**4.2**	**4.1**	*3.2*	*3.8*

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2016.

Table 59: Import shares in EU trade (goods only - 2016) 23.10.2017

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	64.3	49.5	1.5	5.3	1.3	6.3	7.1	4.1	4.0	2.6	1.9	1.5
Euro area	63.8	48.5	1.4	5.4	1.3	6.0	6.9	4.2	4.2	3.0	2.2	1.6
Belgium	63.9	53.4	1.0	9.1	1.9	5.1	4.4	5.1	2.3	2.8	2.4	2.0
Bulgaria	66.5	46.8	8.2	1.0	0.3	2.3	3.7	1.7	12.5	1.8	1.4	0.6
Czech Republic	78.7	61.0	0.9	1.5	0.8	3.8	7.3	2.2	4.2	0.3	0.2	0.1
Denmark	70.9	48.3	1.1	2.6	0.5	9.2	7.3	3.4	2.2	0.6	1.6	0.7
Germany	66.6	45.4	1.7	4.8	1.5	7.4	7.0	4.3	3.4	1.0	1.5	0.9
Estonia	76.6	54.7	0.6	1.6	0.4	2.6	5.3	1.4	10.8	0.2	0.4	0.1
Ireland	68.0	30.1	0.6	13.3	1.8	5.3	4.0	3.3	0.5	0.7	1.8	0.8
Greece	53.9	41.1	4.1	1.5	0.5	5.2	6.8	2.9	10.8	12.1	1.3	0.7
Spain	61.5	50.2	1.7	3.5	0.8	3.8	7.1	4.0	2.0	6.9	5.0	3.6
France	69.6	58.6	1.1	5.5	0.9	5.4	5.0	3.3	2.1	4.1	1.3	1.7
Croatia	78.3	61.2	4.0	1.3	0.2	2.5	3.9	1.3	5.7	1.6	0.9	0.3
Italy	58.9	46.6	2.5	3.9	0.9	5.5	7.2	3.9	7.1	5.7	2.4	1.9
Cyprus	70.7	54.4	0.4	1.0	2.3	2.5	6.1	5.2	3.7	6.8	1.0	0.2
Latvia	63.9	46.7	0.7	1.1	0.2	2.0	4.0	1.6	25.8	0.3	0.2	0.1
Lithuania	66.7	45.2	0.9	1.7	0.2	3.2	3.8	0.9	20.5	1.0	0.5	0.5
Luxembourg	74.8	70.9	0.2	7.2	1.5	2.0	10.8	0.8	0.1	0.2	2.2	0.2
Hungary	76.9	58.5	1.6	1.9	1.5	3.4	6.2	2.4	4.9	0.7	0.5	0.1
Malta	40.5	32.4	2.9	3.0	2.0	16.0	11.8	8.4	11.8	3.0	0.2	0.4
Netherlands	47.0	35.9	0.7	8.0	2.3	6.8	13.1	6.5	6.3	3.1	3.8	2.4
Austria	79.2	65.1	1.2	2.6	0.7	6.8	2.7	2.6	2.3	1.3	0.5	0.2
Poland	72.6	59.1	1.3	1.8	0.7	3.7	7.2	2.3	7.8	0.8	1.4	0.4
Portugal	75.9	68.5	0.8	1.5	0.5	2.5	3.7	2.3	2.8	3.1	2.8	4.0
Romania	77.1	55.1	4.9	1.1	0.5	2.2	4.6	1.3	6.4	0.9	0.8	0.4
Slovenia	72.4	54.8	5.7	1.4	0.3	6.4	6.4	2.4	0.9	1.8	1.8	0.4
Slovakia	80.0	44.2	1.1	0.6	0.4	6.1	4.0	1.6	5.9	0.2	0.1	0.0
Finland	71.5	44.1	0.5	2.5	0.5	4.5	4.7	1.6	11.6	0.4	1.6	0.7
Sweden	72.5	52.5	1.0	2.8	1.1	8.8	5.7	2.9	2.7	0.5	1.2	0.8
United Kingdom	54.7	47.7	1.7	9.1	1.6	10.0	9.7	5.8	1.6	2.5	1.7	1.7

Table 60: World merchandise trade balances (fob-fob, in billions of US dollar, 2011-19) 23.10.2017

							Autumn 2017 forecast			*Spring 2017 forecast*	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
EU	-34.7	90.2	189.6	212.2	316.7	337.6	**310.7**	**355.5**	**371.2**	*284.0*	*273.4*
EU, adjusted[1]	-155.8	-41.2	48.5	60.6	164.9	191.7	**161.7**	**200.2**	**215.9**	*132.9*	*122.3*
Euro area	119.2	254.0	353.3	396.6	474.5	492.9	**455.0**	**500.4**	**518.1**	*451.9*	*451.9*
Euro area, adjusted[1]	29.7	160.2	275.5	320.3	398.0	418.1	**378.6**	**420.8**	**438.5**	*366.0*	*366.1*
Candidate Countries	-103.0	-77.6	-89.6	-73.8	-71.0	-78.5	**-82.7**	**-90.0**	**-101.9**	*-79.2*	*-85.3*
USA	-777.9	-779.8	-738.8	-778.2	-793.3	-778.2	**-848.8**	**-924.6**	**-994.4**	*-861.2*	*-974.1*
Japan	-4.1	-53.6	-89.9	-99.1	-5.2	44.9	**38.3**	**42.6**	**36.5**	*44.4*	*47.6*
Norway	66.8	69.0	60.9	49.8	24.5	11.7	**14.0**	**14.4**	**15.0**	*13.4*	*14.0*
Switzerland	29.5	40.2	53.7	55.5	53.6	49.5	**51.7**	**57.4**	**60.3**	*60.2*	*62.4*
Iceland	0.3	0.1	0.1	-0.1	-0.3	-0.8	**-1.0**	**-1.1**	**-1.2**	*-1.3*	*-1.6*
Advanced economies	-662.4	-584.5	-429.7	-431.5	-260.5	-185.0	**-285.4**	**-303.1**	**-349.8**	*-326.1*	*-435.8*
CIS	239.8	215.8	197.7	218.3	147.3	81.9	**117.7**	**123.4**	**124.2**	*143.6*	*153.2*
- Russia	198.8	192.8	183.6	186.8	145.8	89.9	**118.3**	**123.5**	**126.7**	*138.1*	*147.1*
MENA	612.4	665.9	594.0	457.9	130.8	95.6	**161.5**	**167.1**	**147.6**	*178.8*	*182.0*
Asia	124.6	136.9	216.3	336.4	483.1	432.3	**368.6**	**356.6**	**354.5**	*468.5*	*501.8*
- China	228.7	311.6	359.0	435.0	576.2	494.1	**450.9**	**457.6**	**470.0**	*561.8*	*601.5*
Latin America	68.0	41.0	6.7	-13.1	-52.5	5.8	**18.2**	**16.6**	**23.4**	*-0.1*	*-4.1*
Sub-Saharan Africa	93.7	70.5	63.2	27.6	-33.0	-11.9	**-3.2**	**-4.1**	**-9.8**	*-39.4*	*-46.1*
Emerging and developing economies	1138.5	1130.0	1077.9	1027.0	675.7	603.7	**662.7**	**659.5**	**639.9**	*751.3*	*786.7*
World	476.1	545.5	648.2	595.5	415.2	418.8	**377.3**	**356.4**	**290.1**	*425.2*	*350.8*

[1] See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2011-19) 23.10.2017

							Autumn 2017 forecast			*Spring 2017 forecast*	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	*2017*	*2018*
EU	31.1	147.9	221.8	247.6	280.9	301.4	**301.6**	**336.2**	**347.6**	*308.6*	*314.1*
EU, adjusted[1]	-61.6	85.4	163.5	144.8	176.0	237.3	**236.3**	**268.0**	**279.5**	*251.5*	*257.0*
Euro area	84.5	236.4	316.6	357.0	376.2	393.9	**374.1**	**404.2**	**411.7**	*356.8*	*349.8*
Euro area, adjusted[1]	-12.4	174.0	293.1	326.5	371.7	398.7	**379.0**	**409.2**	**416.7**	*351.9*	*345.0*
Candidate Countries	-82.0	-55.0	-68.3	-48.4	-35.5	-36.1	**-37.2**	**-44.1**	**-51.8**	*-39.5*	*-42.8*
USA	-444.6	-426.2	-349.5	-373.8	-434.6	-451.7	**-519.5**	**-560.9**	**-620.1**	*-550.3*	*-665.0*
Japan	130.5	59.7	45.7	38.0	138.2	190.2	**190.6**	**203.6**	**203.7**	*204.0*	*212.1*
Norway	61.1	63.4	53.3	54.6	34.2	16.4	**17.2**	**17.3**	**18.0**	*17.2*	*16.5*
Switzerland	55.1	70.0	79.9	62.2	76.3	62.7	**63.5**	**72.0**	**77.0**	*83.1*	*87.0*
Iceland	-0.8	-0.6	0.9	0.7	0.9	1.6	**1.1**	**0.9**	**0.9**	*1.2*	*1.0*
Advanced economies	-215.5	-127.6	59.8	94.2	197.2	239.5	**158.7**	**177.1**	**146.9**	*146.3*	*58.1*
CIS	106.3	63.4	16.2	53.4	49.5	-2.0	**8.2**	**8.4**	**7.4**	*37.5*	*43.7*
- Russia	96.6	68.5	32.1	53.5	65.5	23.5	**31.3**	**29.7**	**26.5**	*57.0*	*60.9*
MENA	424.6	461.7	376.1	233.7	-73.0	-80.4	**-31.3**	**-30.9**	**-21.3**	*-24.4*	*-20.5*
Asia	118.4	126.6	92.9	229.3	311.7	227.4	**139.5**	**110.8**	**92.7**	*233.2*	*203.8*
- China	136.1	215.4	148.2	236.0	304.2	196.4	**138.5**	**126.2**	**118.9**	*223.8*	*199.3*
Latin America	-113.2	-133.0	-159.4	-182.6	-177.3	-97.9	**-97.6**	**-110.9**	**-118.2**	*-114.5*	*-129.5*
Sub-Saharan Africa	-0.5	-10.7	-24.5	-51.7	-79.1	-44.0	**-37.1**	**-42.7**	**-46.3**	*-45.8*	*-45.1*
Emerging and developing economies	535.7	508.0	301.4	282.2	31.8	3.1	**-18.3**	**-65.3**	**-85.7**	*86.1*	*52.4*
World	320.1	380.3	361.2	376.4	229.0	242.6	**140.5**	**111.8**	**61.2**	*232.3*	*110.5*

[1] See note 8 on concepts and sources.

Table 62: Primary commodity prices (in US dollar, percentage change on preceding year, 2011-19) 23.10.2017

STIC Classification							Autumn 2017 forecast			*Spring 2017 forecast*	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2017	2018
Food	13.1	0.2	3.2	-3.7	-15.7	-2.6	**1.2**	**0.7**	**2.5**	*3.1*	*-0.2*
Basic materials	22.0	-15.9	-4.8	-4.7	-18.7	-0.5	**10.6**	**-0.4**	**-0.3**	*12.9*	*-1.7*
- of which:											
Agricultures non-food	32.5	-15.9	-4.7	3.8	-14.3	3.0	**4.7**	**-2.2**	**0.5**	*6.0*	*-1.0*
- of which:											
Wood and pulp	9.0	-5.8	1.2	2.6	-3.7	-3.0	**0.1**	**0.8**	**0.2**	*-4.4*	*-0.2*
Minerals and metals	15.2	-15.8	-4.9	-11.1	-22.5	-3.9	**16.8**	**1.2**	**-1.0**	*20.1*	*-2.4*
Fuel products	38.0	1.3	-2.9	-7.9	-45.0	-17.4	**18.7**	**3.3**	**-1.0**	*18.5*	*-0.5*
- of which:											
Crude petroleum	38.3	0.8	-2.7	-8.3	-46.5	-16.2	**19.7**	**3.8**	**-1.8**	*24.0*	*0.8*
Primary Commodities											
- Total excluding fuels	18.5	-9.7	-1.4	-4.3	-17.4	-1.5	**6.4**	**0.1**	**0.9**	*8.5*	*-1.1*
- Total including fuels	34.5	-0.4	-2.7	-7.4	-41.0	-14.1	**15.8**	**2.6**	**-0.6**	*16.1*	*-0.7*
Crude petroleum - price per barrel											
Brent (usd)	110.9	111.8	108.8	99.7	53.4	44.8	**53.6**	**55.7**	**54.7**	*55.5*	*55.9*
Brent (euro)	79.7	87.0	81.9	75.1	48.1	40.4	**47.5**	**47.3**	**46.4**	*52.1*	*52.5*

Note on concepts and sources

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts in Winter, Spring and Autumn.These forecasts cover the principal macroeconomic aggregates for the Member States, the candidate countries,the European Union as a whole, the euro area and the international environment.

2. Data for 2017, 2018 and 2019 are forecasts. The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of Accounting (ESA 2010). Most Member States have now introduced chain-linking in their national accounts to measure the development of economic aggregates in volume terms. For the USA and Japan the definitions are as in the SNA.

3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.

4. In Tables 17 and 18, the data are based on the national index for USA and Japan.

5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.

6. Employment data used in tables 23-29 and 32-33 are based on full-time-equivalents (FTEs), where available. Currently, Spain, France, Italy, and the Netherlands report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.

7. Source: National Accounts (ESA 2010), except for US current-account in tables 50, 52, and 61 (Balance of Payments). Discrepancies with balance of payments statistics may arise due to methodological differences and revision schedules.

8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 49 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2016.

9. Geographical zones are defined as follows :

Euro area :

EA19 (BE, DE, EE, IE, EL, ES, FR, IT, CY, LV, LT, LU, MT, NL, AT, PT, SI, SK and FI).

European Union :

EU28 (EA19, BG, CZ, DK, HR, HU, PL, RO, SE and UK).
EU27 (EU28 excluding UK).

Candidate countries :

Turkey, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Albania.

Potential candidates :

Bosnia-Herzegovina and Kosovo.

Advanced economies :

EU, candidate countries, USA, Canada, Japan, Korea, Hong Kong, Singapore, Taiwan, Norway, Switzerland, Iceland, Australia and New Zealand.

MENA (Middle East and Northern Africa) :

Algeria, Tunisia, Morocco, Egypt, Israel, Jordan, Lebanon, Iraq, Iran, Yemen, Saudi Arabia, Bahrain, Oman, United Arab Emirates, Kuwait, and Qatar.

Emerging and Developing asia :

All countries in that region except the ones included in the Advanced economies and the Asian MENA countries.

Latin America :

All countries in that region.

Sub-Saharan Africa :

All countries in that region except the African MENA countries.

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