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European Economic Forecast

Autumn 2016

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EUROPEAN ECONOMY

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European Commission
Directorate-General for Economic and Financial Affairs

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EUROPEAN ECONOMY

Institutional Paper 038

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
MENA	Middle East and Northern Africa
ROW	Rest of the World

Economic variables and institutions

CCCI	Composite Credit Cost Indicators
CPI	Consumer price index
EDP	Excessive Deficit Procedure
EONIA	Euro Overnight Index Average
ESA	European System of National and Regional Accounts
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

TLTRO	Targeted Long-Term Refinancing Operations
VAT	Value-Added Tax
ECB	European Central Bank
Fed	Federal Reserve, US
IMF	International Monetary Fund
NBB	National Bank of Belgium
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries

Other abbreviations

APP	Asset Purchase Programme
CETA	Comprehensive Economic and Trade Agreement
CSPP	Corporate Sector Purchase Programme
FDI	Foreign Direct Investment
NFC	Non-Financial Corporations
SAFE	Survey on the Access to Finance of Enterprises
SME	Small and medium-sized enterprises
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership

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

The European economy is forecast to continue growing at a moderate pace. GDP is now higher than before the crisis. In the first half of this year, growth in the euro area was even a bit stronger than in the US. Investment has picked up amid generally good financing conditions and high capacity utilisation. Unemployment is gradually decreasing amid respectable employment growth, which past reforms have helped make possible. Headline inflation has started to rebound. Monetary policy is expected to remain highly accommodative while fiscal policy is no longer restrictive.

Is all well, then? Unfortunately, there are still a number of reasons for concern. GDP growth in the euro area has remained slow compared to past recoveries and is not expected to pick up in the coming years. Global GDP is growing at an unusually subdued pace. This is not only due to the cyclical and structural slowdown in emerging market economies. In the advanced economies of the OECD, growth is also expected to be substantially slower between 2016 and 2018 than in the first half of the 2000s. Subdued demand and low trade growth outside the EU imply little if any support from net exports. The continuation of the expansion in the euro area therefore relies on domestic demand. But private consumption growth is set to moderate as the boost from low oil prices is fading. Investment continues to be held back by expectations of sluggish demand.

Substantial slack persists in the economy, particularly in the labour market. Unemployment in the euro area remains at 10%. Hours per worker have not increased in line with employment reflecting a large increase in part-time rather than full time work. Also, the hidden labour market reserve, those who could join the labour market once conditions improve, is still large. The narrowing of the output gap, a measure of slack, is set to slow down. The economy's growth potential is recovering only slowly from the surge in unemployment and the collapse of investment during the recession and the trend slowdown of productivity growth. As expectations of low growth ahead affect investment today, there is potential for a vicious circle. In short, the projected pace of GDP growth may not be sufficient to prevent the cyclical impact of the crisis from becoming permanent (hysteresis).

Moreover, uncertainty and vulnerabilities are large and widespread. At a global scale, geopolitical uncertainties are pervasive, and the ‘new backlash against globalisation’ has given rise to protectionist tendencies and political uncertainties with economic risks in their trail. In Europe, the eventual fallout from the UK's referendum on leaving the EU is still unknown. And although European banks are now in better shape than a few years ago, low profitability raises questions about their capacity to accompany an expansion of investment in the coming years.

In this context, reducing unemployment, boosting investment and potential growth and sharing the fruits of globalisation fairly are obvious priority objectives. Macroeconomic policies need to remain supportive of growth in the near term. Available fiscal space has to be used. Not all Member States have fiscal space, but all can improve the structure of their public finances to support both public and private investment and direct resources towards those uses that determine the future potential of the economy. Needs differ across Member States, but R&D, education and digital infrastructure are surely among them. The Investment Plan for Europe has started delivering results also in these areas. Structural reforms are crucial to lift employment, re-vitalise productivity growth and facilitate investment, which in combination will put the economy on a higher trajectory. Beside a better policy mix and a reorientation of the structural reform agenda, key political and institutional questions need to be tackled to reduce uncertainty, rebuild confidence and hence provide a more favourable environment for domestic and foreign investors. To this goal, the Commission will present, in the first quarter of 2017, a White Paper on the Future of EU of 27 Member States, including the completion of the Economic and Monetary Union.

Marco Buti
Director General, Economic and Financial Affairs

OVERVIEW: MODEST GROWTH IN CHALLENGING TIMES

Differences still large across the euro area

The expansion of euro area GDP progresses at moderate speed...

The European economy has maintained its course of moderate growth in the three first quarters of this year, with a set of supportive factors broadly offset by a number of hindrances to growth. These include elevated geopolitical and political uncertainty, slowing growth outside the EU and weak global trade. In several Member States, legacies from the crisis, such as non-performing loans, high private and public debt and deleveraging processes, as well as an ongoing process of balance sheet repair in the banking sector, also continued to weigh. The risk of hysteresis- that the economy's weak performance in recent years could have a detrimental impact on its future prospects- has not yet been overcome. Although headline unemployment figures have been declining gradually, the slack in the labour market remains substantial. Furthermore, low investment in recent years is weighing on potential growth, while expectations of low growth ahead are having a dampening effect on investment activity. The persistence of slack raises questions about the strength of the recovery and suggests that there is scope for GDP to grow faster without raising inflation.

...as the support from low commodity prices and the euro's past depreciation are already fading...

In the coming years, the European economy will no longer be able to rely on the exceptional level of support from external factors from which it has been benefiting, as the strength of these is already diminishing. The windfall gain from low energy prices since 2014 has been largely consumed, energy prices have started edging up again and inflation is set to pick up further in the

Table 1:

Overview - the autumn 2016 forecast

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2016	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
Belgium	1.2	1.3	1.5	1.7	1.7	1.8	8.0	7.8	7.6	0.6	0.6	0.6	-3.0	-2.3	-2.4
Germany	1.9	1.5	1.7	0.4	1.5	1.5	4.4	4.3	4.2	9.0	8.7	8.5	0.6	0.4	0.3
Estonia	1.1	2.3	2.6	0.8	2.6	2.7	6.5	7.4	8.3	1.8	1.6	1.5	0.5	-0.4	-0.2
Ireland	4.1	3.6	3.5	-0.2	1.2	1.4	8.3	7.8	7.6	7.9	7.7	7.4	-0.9	-0.5	-0.4
Greece	-0.3	2.7	3.1	0.1	1.1	1.0	23.5	22.2	20.3	0.0	0.2	0.3	-2.5	-1.0	0.9
Spain	3.2	2.3	2.1	-0.4	1.6	1.5	19.7	18.0	16.5	1.7	1.5	1.5	-4.6	-3.8	-3.2
France	1.3	1.4	1.7	0.3	1.3	1.4	10.0	9.9	9.6	-2.1	-2.3	-2.6	-3.3	-2.9	-3.1
Italy	0.7	0.9	1.0	0.0	1.2	1.4	11.5	11.4	11.3	2.8	2.5	2.1	-2.4	-2.4	-2.5
Cyprus	2.8	2.5	2.3	-1.1	0.7	1.3	12.5	11.1	10.0	-2.8	-3.3	-3.4	-0.3	-0.4	0.0
Latvia	1.9	2.8	3.0	-0.1	1.8	2.0	9.6	9.2	8.8	0.0	-1.2	-1.9	-0.8	-1.1	-1.2
Lithuania	2.0	2.7	2.8	0.7	1.7	2.1	7.6	7.4	7.0	0.1	-1.2	-0.7	-0.6	-0.8	-0.7
Luxembourg	3.6	3.8	3.6	0.0	1.6	1.9	6.2	6.1	6.2	5.6	5.6	5.8	1.3	0.0	0.1
Malta	4.1	3.7	3.7	1.0	1.6	1.8	5.0	5.2	5.2	2.0	1.7	3.7	-0.7	-0.6	-0.6
Netherlands	1.7	1.7	1.8	0.1	1.0	1.1	6.1	5.8	5.4	8.5	8.0	7.7	-0.8	-0.3	-0.1
Austria	1.5	1.6	1.6	1.0	1.8	1.6	5.9	6.1	6.1	2.8	2.9	3.3	-1.5	-1.3	-1.1
Portugal	0.9	1.2	1.4	0.7	1.2	1.4	11.1	10.0	9.5	0.5	0.8	1.2	-2.7	-2.2	-2.4
Slovenia	2.2	2.6	2.2	0.1	1.5	1.9	8.4	7.7	7.2	7.4	7.0	6.4	-2.4	-2.0	-1.5
Slovakia	3.4	3.2	3.8	-0.5	0.8	1.4	9.7	8.7	7.5	0.6	0.1	0.6	-2.2	-1.5	-0.5
Finland	0.8	0.8	1.1	0.3	1.1	1.2	9.0	8.8	8.7	-0.8	-0.9	-0.7	-2.4	-2.5	-2.0
Euro area	**1.7**	**1.5**	**1.7**	**0.3**	**1.4**	**1.4**	**10.1**	**9.7**	**9.2**	**3.7**	**3.5**	**3.3**	**-1.8**	**-1.5**	**-1.5**
Bulgaria	3.1	2.9	2.8	-0.9	1.0	1.2	8.1	7.1	6.3	2.0	1.0	0.6	-0.9	-0.8	-0.7
Czech Republic	2.2	2.6	2.7	0.5	1.2	1.6	4.2	4.1	4.0	-0.8	-0.7	-0.7	-0.2	-0.6	-0.7
Denmark	1.0	1.7	1.8	0.0	1.2	1.6	6.1	5.9	5.6	6.5	6.4	6.3	-0.9	-2.0	-1.4
Croatia	2.6	2.5	2.3	-0.9	0.8	1.5	13.4	11.7	10.3	3.0	2.4	1.8	-2.1	-1.8	-1.4
Hungary	2.1	2.6	2.8	0.4	2.3	2.7	5.1	4.7	4.1	4.1	3.1	4.1	-1.5	-2.3	-2.3
Poland	3.1	3.4	3.2	-0.2	1.3	1.8	6.2	5.6	4.7	0.8	0.2	-0.1	-2.4	-3.0	-3.1
Romania	5.2	3.9	3.6	-1.0	1.8	2.9	6.5	6.4	6.3	-2.2	-2.6	-2.8	-2.8	-3.2	-3.2
Sweden	3.4	2.4	2.1	1.1	1.6	2.0	6.8	6.4	6.4	5.0	4.9	4.9	0.0	-0.1	0.1
United Kingdom	1.9	1.0	1.2	0.7	2.5	2.6	4.9	5.2	5.6	-5.6	-4.9	-3.3	-3.5	-2.8	-2.3
EU	**1.8**	**1.6**	**1.8**	**0.3**	**1.6**	**1.7**	**8.6**	**8.3**	**7.9**	**2.1**	**2.1**	**2.2**	**-2.0**	**-1.7**	**-1.6**
USA	1.6	2.1	1.9	1.2	2.0	2.1	4.9	4.7	4.7	-2.5	-2.6	-2.7	-4.6	-4.2	-4.0
Japan	0.7	0.8	0.4	-0.3	0.0	0.1	3.2	3.2	3.2	3.7	3.7	3.7	-5.0	-5.1	-5.0
China	6.6	6.2	6.0	:	:	:	:	:	:	:	:	:	:	:	:
World	**3.0**	**3.4**	**3.5**	:	:	:	**:**	**:**	**:**	**:**	**:**	**:**	**:**	**:**	**:**

coming quarters. This normalisation is welcome but it also implies an end to the boost that household purchasing power has been receiving. Similarly, the depreciation of the euro since 2014 helped European exporters to gain market share last year, but no further gains are expected as the euro's trade-weighted exchange rate has recently appreciated.

Monetary policy, however, is supportive of growth and is expected to remain so over the coming years. Fiscal policy has significantly eased in recent years and is not forecast to become restrictive again.

…and the UK vote to leave the EU has raised uncertainty.

In the first months since the UK's referendum on EU membership, the euro area economy seems to have shrugged off the result, but the sharp increase in policy uncertainty associated with it is expected to persist and to weigh on economic activity over the entire forecast horizon. Well beyond the UK, political uncertainty has increased in the context of a rising discontent with globalisation and its impact on the distribution of incomes in advanced economies.

Overall, after having reached 2% in 2015, euro area GDP growth should decelerate somewhat and remain broadly stable between 1.5% and 1.7% over the 2016-2018 period. This expansion is set to be led by domestic demand, underpinned by steady employment growth.

Global growth is set to pick up modestly…

Global GDP growth has slowed further in recent months and is projected to grow this year at its slowest pace since 2009. Growth outside the EU is expected to bottom out at 3.2% in 2016, marginally lower than in 2015, and to pick up modestly to 3.7% next year and 3.8% in 2018.

In the first half of 2016, growth across many advanced economies outside the EU slowed down, leading to a downward revision of forecasts for this year, but not to a major reassessment of their underlying growth momentum. In the US, activity is expected to rebound in the second half of 2016 and to continue at a relatively robust pace next year, as the drag from destocking, past dollar appreciation and low energy prices gradually fades. But in 2018, expansion is set to moderate as the economic cycle matures. In Japan, supportive macroeconomic policies are expected to temporarily boost growth next year before some of these effects unwind and growth slows again in 2018.

After several years on a downward trend, GDP growth in emerging markets as a whole appears to have bottomed out in 2015 and is set to gradually strengthen as of this year. In China, growth is expected to ease to 6.0% by 2018, assuming that macroeconomic policies remain supportive and that current financial fragilities remain under control. However, this outlook remains subject to significant and increasingly negative risks.

…but little support is to be expected from export demand.

World trade is set to strengthen gradually over the forecast horizon, following an exceptionally feeble performance in 2016, pulled down by the remaining weakness of emerging markets but also by the sharp and unexpected deceleration of import demand from advanced economies. World imports of goods and services excluding the EU are expected to grow by 1.0% in 2016, marginally up from 2015, and to recover to 3.0% and 3.3% in 2017 and 2018, respectively. This rebound reflects the assumption that the elasticity of global imports should gradually recover from its current historically low level, underpinned by the cyclical rebound in advanced economies, a modest recovery in import demand from China, and the abatement of temporary dampening factors, such as the contraction in commodity-related investment across the world and the severe terms-of-trade shock which hit many emerging markets after the abrupt falls in commodity prices.

Accordingly, growth in European export markets now looks likely to be significantly less robust this year than expected back in the spring and should even underperform global GDP growth outside the euro area. As of 2017, export markets are expected to grow again in line with global GDP and slightly faster in 2018. The current account surplus of the euro area is projected at 3.5% of GDP this year. Nevertheless, net exports are not expected to contribute to GDP growth over the forecast horizon.

Financial markets have shown resilience to the UK 'leave' vote…

Financial markets have shown resilience in recent months; after the initial hit following the UK referendum, asset prices and investor risk appetite recovered. The monetary easing by the Bank of England in August 2016 appears to have calmed markets and contributed to improving economic sentiment although sterling remains under pressure. Meanwhile, expectations of monetary policy tightening by the US Federal Reserve have been pushed back to December as the Fed kept rates on hold in September.

However, despite the improvements in the stability and capital positions of the banking sector in recent years, European banks are subject to concerns about profitability, fragmentation and high overhead and operational costs as well as high levels of non-performing loans in some Member States. Since mid-September, euro area sovereign bond yields have faced some upward pressure as investors revised slightly upwards their expectations on the future path of monetary policy.

…and funding conditions are supportive…

Funding conditions are supportive for both bank and market funding in the euro area thanks to the exceptionally accommodative monetary policy stance and its improved transmission through the euro area banking system. Corporate bond spreads have tightened significantly, facilitating net issuance of corporate bonds and contributing to the reduction of financing costs for the non-financial corporate sector. Moreover, net bank lending flows to euro area households and non-financial corporations have remained positive over the last few months, supported by further declines in lending rates across euro area Member States. However, banks' poor profitability could adversely impact credit supply and the capacity of the banking sector to accompany the expansion going forward, once credit demand increases.

…while steady employment growth is supporting private consumption.

Private consumption is set to remain the main growth driver over the whole forecast horizon. In 2016, private consumption should benefit from a rise in household real gross disposable income, stemming from robust employment growth and low inflation. Most of these purchasing power gains are expected to be consumed as the household saving rate is expected to change very little. Over the next two years, private consumption is set to continue benefitting from steady but decelerating employment growth as well as a slight pick-up in wage growth that should help offset the dampening impact of rebounding inflation on real disposable incomes. In sum, private consumption growth in the euro area is expected to moderate slightly next year.

Public consumption is keeping pace with GDP growth…

Government consumption is expected to continue contributing to economic growth in 2016. In some Member States, increased public consumption reflects refugee-related expenditures, whereas in others, security-related expenditures have recently increased. The fall in the number of asylum seekers entering the EU will, however, entail some slowdown in government consumption dynamics.

…investment should pick up but in 2018 only.

Investment growth has recovered somewhat in recent quarters, but it continues to reflect hindrances from low demand growth and expectations of weak potential growth, ongoing corporate deleveraging in some Member States, as well as heightened economic and policy uncertainty, including the extra layer of uncertainty added by the UK's 'leave' vote. For now, these factors more than offset the positive impact of improving financing conditions and the expected strengthening of external demand. Investment is forecast to grow this year broadly at the same pace as in 2015 and to slightly decelerate in 2017. The balance of factors driving investment, however, should become increasingly favourable over the forecast horizon supporting the expectation of a pick-up in 2018. Projects financed under the Investment Plan for Europe, as well as, in some Member States, projects co-financed with EU funds from the 2014-2020 programming period, are also expected to yield increasingly tangible results on private and public investment as they enter the implementation phase. Moreover, the recent growth of house prices and of loans for house purchases suggest that construction investment is set to finally end a long period of decline.

Euro-area Member States at different stages of recovery

Over the forecast period, economic activity is set to expand further in all Member States of the euro area. So far, however, the cumulated growth of GDP since the end of the recession differs substantially across Member States. In some, GDP now stands more than 10% above its trough, having passed the pre-crisis level some time ago. In others, the expansion from the trough is still modest, and GDP remains so far lower than at the onset of the crisis.

Net trade should be impacted by the UK 'leave' vote

The current weakness of global trade outside the EU is weighing on euro area exports despite the resilience of intra-euro area trade. Additionally, heightened uncertainty concerning the future trade relationship between the UK and the EU, but also increased protectionist sentiment, are expected to weigh on trade volumes during the forecast years. European export growth is set to decrease strongly this year, and no additional market share is likely to be gained. Over the next two years, euro area exports are expected to accelerate in line with the projected gradual strengthening of world trade. The weaker expected outlook for the UK has actually contributed to a strong downward revision of euro area foreign demand compared to the spring. Furthermore, the sizeable depreciation of sterling vis-à-vis the euro is expected to have an adverse direct impact on euro area exports to the UK. Euro area export market shares are therefore expected to marginally decrease in 2017 and to stagnate in 2018. As import growth is forecast to be stronger than export growth, the contribution of net exports to GDP growth in the euro area is set to remain slightly negative until 2018.

Inflation is picking up…

Inflation in the euro area was very low in the first half of 2016, dragged down by falling energy prices, but it started to pick up in the third quarter, as the impact of negative base effects in energy inflation began to unwind. The inflation profile until the second half of 2017 will be strongly shaped by positive base effects in energy inflation. Thereafter, while these positive base effects fade, headline inflation is expected to remain above 1% and to gradually increase given the current market expectations of a moderate increase in oil prices. Some stabilisation of import and producer prices, as well as higher nominal wage increases, a further narrowing of the output gap and a further slight rise in profit margins, are also expected to be very gradually reflected in a rise in core inflation. Euro area headline inflation is then expected to rise from 0.3% in 2016 to 1.4% in both 2017 and 2018.

…and the current recovery is relatively job-rich.

Employment in the EU and the euro area is expected to grow by 1.4% this year, faster than at any time since 2008. As a corollary to rather job-rich growth, labour productivity growth is set to remain subdued. Robust headcount employment growth, however, has not been enough yet to make up for the large losses seen in the level of hours worked during the recession years. Employment creation is set to continue benefitting from the sustained domestic demand-driven expansion, moderate wage growth, as well as fiscal policy measures and structural reforms implemented in some Member States. Employment growth in the euro area is projected to remain relatively solid, though slightly moderating to 1.0% in 2017 and 2018. In the EU as a whole, employment growth is set to subside a touch more markedly due to the slowdown of the UK economy. Despite the expectation of faster labour force growth this year, due to increased participation rates and the gradual integration of refugees in the labour market, the unemployment rate in the euro area is set to decline relatively fast, from 10.1% this year to 9.2% in 2018.

Public deficit and debt ratios are set to decline further albeit at a slower pace…

The general government deficit in the euro area is expected to decrease from 1.8% of GDP this year to 1.5% in 2017 and, under a no-policy-change assumption, remain at 1.5% in 2018. This decline reflects factors including lower social transfers as a consequence of falling unemployment, wage bill moderation in the public sector, and the lower interest expenditure. The debt-to-GDP ratio in the euro area is projected to continue declining gradually from 91½% this year to 89½% in 2018. This reduction derives from both higher primary surpluses and a more favourable snowball effect driven by reduced interest expenditure, modest real GDP growth and the expected uptick in inflation.

…while fiscal policy should not become restrictive again and monetary conditions should remain ample.

The fiscal policy stance, measured by changes to the fiscal structural balance, turned broadly neutral in 2015 after years of consolidation and is expected to remain so over the forecast horizon. Meanwhile, the full implementation of the set of monetary policy measures introduced in recent years is expected to maintain downward pressure on both bank lending rates and bond yields and thus to ensure that monetary conditions remain accommodative over the forecast horizon.

Risks have intensified and are tilted to the downside

Overall, risks to the outlook are tilted to the downside. Risks have intensified in recent months, mainly in the wake of the UK ‘leave’ vote. Anticipation effects could be triggered by developments over the course of the upcoming negotiations as news emerges about the shape of the future agreement between the UK and the EU. An extended period of uncertainty could also magnify its negative impact. The leave vote could also be seen as an indicator of the increased political risks deriving from opposition to globalisation and free trade arrangements and thereby to the outlook for global trade.

Risks have increased on the external side, in particular of a disorderly adjustment in China and aggravating geopolitical conflicts. The cycle of advanced economies outside the EU (e.g. the US) could also be more mature than thought, entailing a weaker rebound than expected. Risks have also increased on the domestic side, in particular those related to the capacity of the banking sector to accompany the expected expansion of investment in view of its low profitability.

PART I

EA and EU outlook

MODEST GROWTH IN CHALLENGING TIMES

Differences still large across the euro area

The euro area economy continues to grow modestly but remains burdened by legacies from the crises and high uncertainty. While real GDP has surpassed its pre-crisis level, the economy is still growing more slowly than it did before the crisis. Jobs are being created at a robust pace, but employment is lower and unemployment higher than a decade ago. Inflation has recently moved up, amid rather limited domestic price pressures. This suggests that there is still slack in the economy, providing scope for a further expansion of demand and activity.

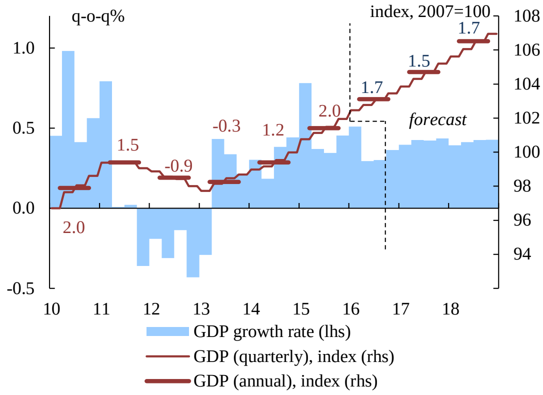
Exceptionally favourable tailwinds originating from low commodity prices, euro depreciation, and very accommodative monetary policy are fading. Weak global growth and slow global trade have already hit the economy. So far, the euro area economy seems to have shrugged off the UK's referendum on EU membership, but 'Brexit' is an unfolding process where the main impact will depend on the outcome of exit negotiations which have yet to begin and which therefore cannot yet be pencilled into the central scenario of this forecast. What has already been observed is a sharp increase in uncertainty, which is expected to hamper economic dynamics primarily in the UK but also in the EU.

Amid new challenges, the euro area economy has completed the first three quarters of 2016 roughly as expected. Private consumption has remained a strong driver of growth as the improving labour market and low inflation pushed real disposable incomes. Investment has over the past year taken up the baton of growth as the fastest growing domestic demand component. The mainly domestically based expansion is fuelling the rise in employment. Headline inflation remains dominated by the energy component, while subdued wage growth and low core inflation hint at the persistence of slack in the labour market.

GDP growth over the forecast horizon is expected to remain fairly constant in the euro area at 1.7% in 2016, 1.5% in 2017, and 1.7% in 2018. Private consumption is set to continue benefitting from employment growth that helps offsetting the negative impact of rebounding inflation on the purchasing power of households. Many of the preconditions for stronger investment growth remain in place and construction investment is set to finally end a long period of decline, but elevated uncertainty is expected to exert a dampening impact. The weakness of global trade and the decline in exports to the UK, compounded by the depreciation of sterling, are limiting factors for export growth. Unemployment rates are expected to fall further and the unwinding of oil price effects is set to raise euro area headline inflation from 0.3% in 2016 to 1.4% in both 2017 and 2018. GDP is set to grow in all Member States, however, their position in terms of recovery and expansion remains quite different.

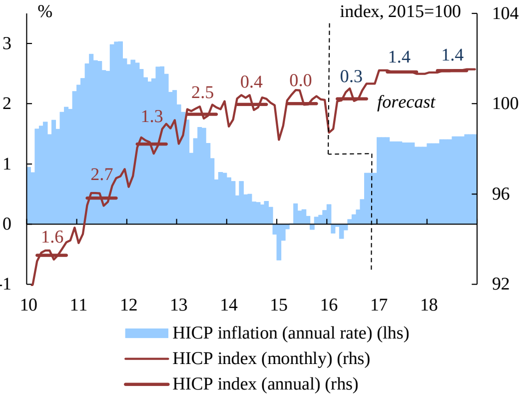
Risks to the growth outlook have recently intensified, mainly in the wake of the UK leave vote, which could be seen as an indicator of a new 'backlash against globalisation' and trends towards protectionism, nationalism and isolationism in Europe and globally. Risks to the growth outlook are also associated with the economic rebalancing in China, the normalisation of monetary policy in the US, geopolitical conflicts, European crisis legacies (e.g. NPLs) and delayed structural reforms. Overall, risks remain predominantly on the downside. Risks to the inflation outlook remain 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: THE 'NEW BACKLASH AGAINST GLOBALISATION' AND THE EURO AREA OUTLOOK

Globalisation and in particular strong growth in the international trade of goods and services has been a key driver of economic growth over the past few decades. The recently observed increase in protectionism and, more generally, growing scepticism about further internationalisation of economic activity, often coined as the 'new backlash against globalisation' could put this growth driver at risk. [1] Against this background this section looks at recent evidence of this 'backlash', examines the role of increasing inequality in advanced economies among its determinants, and finally discusses the implications for this forecast.

Frequently, scepticism about globalisation is linked to an unequal sharing of its benefits. Anaemic growth in the aftermath of the economic and financial crisis ('Great Recession') is furthermore likely to have acted as a catalyst for globalisation discontent. [2]

This matters for the current forecast for two reasons. First, the new backlash against globalisation may further dampen already slow international trade growth. Second, the backlash has increased policy uncertainty that in turn is likely to dampen domestic demand.

Discontent with globalisation has become more acute

Globalisation has been one of the main drivers of global growth. It has lifted economic activity across large parts of the world. Strong growth of foreign trade has been the most visible element of globalisation, but it has also impacted on the location of economic activity, jobs, incomes and many other elements of daily life. Accordingly, there has never been agreement as to whether globalisation is welcome, and attacks against 'globalisation' have frequently been observed. The first wave of globalisation in the second half of the 19th century provoked a backlash well before two World Wars dislocated it. The 1990s saw the emergence of anti-globalisation movements and protests against international summits. [3]

In the past decade, the debate on globalisation has to some extent been overshadowed by the global economic and financial crisis and the sovereign debt crisis in the euro area. However, recent years have seen a renewed strengthening of protests. New regional trade deals (such as TTIP, TPP and CETA) are vibrantly contested, and new trade restrictions among the G20 are being imposed. [4] In parallel, the increased use of labour mobility options within the EU and large numbers of asylum seekers from outside the EU have added the issue of cross-border migration to the globalisation debate. For instance, immigration was one of the key factors in the UK debate on whether or not to stay in the EU.

Surveys of attitudes towards globalisation [5] have depicted support for trade in general, but less so in advanced economies than in developing and emerging markets. Many respondents were sceptical about the concrete benefits of trade such as job creation and lower prices (see Table I.1), and they voice concerns about inequality, consumer protection, environmental standards and perceptions of cultural erosion.

The economic profession has reacted to the swing in the public mood with increased scrutiny of the

(1) E.g. *The Economist*, 20 Sept. 2016; *The Financial Times* 4 Sept. 2016. Lagarde, C. (2016). 'Boosting Growth and Adjusting to Change'. Remarks at Northwestern University, September 28. Mann, C. and K. Ash (2016). 'Achieving and sharing the benefits of globalisation'. posted on September 22 by oecdecoscope.

(2) E.g.: http://bruegel.org/2016/05/the-rebellion-of-globalizations-losers/. Roubini N. (2014). 'The Great Backlash'. *Project Syndicate*, 31 May 2014.

(3) O'Rourke, K. and J. Williamson (1999). 'Globalization and History, The Evolution of a nineteenth-century Atlantic Economy'. MIT Press. C.F. Bergsten: 'The Backlash Against Globalisation', speech given before the Trilateral Commission, Tokyo, Japan, May 9, 2000, Peterson Institute for International Economics. See also the introduction of J. Bhagwati (2004). 'In Defence of Globalization'. Oxford University Press, New York.

(4) WTO (2016). 'Report on G20 Trade Measures, mid-October 1015 to Mid-May 2016'. https://www.wto.org/english/news_e/news16_e/trdev_21jun16_e.htm

(5) Pew global survey Spring 2014 http://www.pewglobal.org/2014/09/16/faith-and-skepticism-about-trade-foreign-investment/ ; A. Kohut and R. Wike (2008). 'Assessing Globalization: Benefits and Drawbacks of Trade and Integration' http://www.pewglobal.org/2008/06/24/assessing-globalization. A Eurobarometer study in 2003 also showed that respondents had a positive view of globalisation in general, but a majority expected a negative impact on jobs. Taylor Nelson Sofres and EOS Gallup Europe (2003). 'Globalisation'. *Flash Eurobarometer* 151b.

benefits and side-effects of globalisation. As of the early and mid-1990s, the distributional consequences of integration, across and within countries, have come to the fore. [6] Economists have also had a closer look at globalisation's political and social consequences, finding the economic, political and social dimensions to be interdependent. If e.g. globalisation increases inequality substantially, economic and possibly political instability may ensue. It has been argued that deep international economic integration, national sovereignty and democracy form an impossible trinity. [7] According to this view, the pursuit of open markets while maintaining full sovereignty can clash with democratic principles. Put differently, among democratic states, economic integration can only be advanced by sharing some aspects of sovereignty, as is notably the case in the EU.

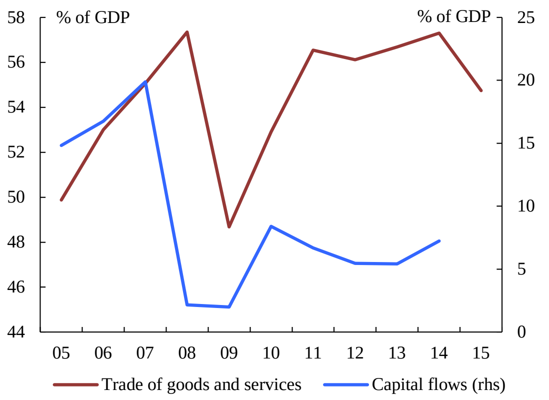
Table I.1:
Attitudes towards trade and FDI

	Percentage of survey respondents agreeing that ...				
	Trade is good	Trade increases wages	Trade creates jobs	Trade lowers prices	Foreign companies buying companies is good
ES	91	28	56	22	43
DE	90	28	43	26	19
UK	88	34	50	24	39
EL	79	21	44	35	31
PL	78	38	51	26	40
FR	73	14	24	28	32
US	68	17	20	35	28
IT	59	7	13	22	23

Source: Pew Research Center, Spring 2014 Global Attitudes Survey

In this context, the trend increase in inequality within advanced economies in recent decades has received much attention, [8] even though globalisation has not been the only contributory factor. Inequality developments may, however, not be able to explain why discontent with globalisation appears to have surged particularly in recent years. [9] By contrast, the 'Great Recession' and the sluggish recovery since may have exacerbated globalisation discontent. [10]

Graph I.3: **World trade and cross-border capital flows**



Source: IMF.

Inequality contributed to globalisation discontent

The benefits of globalisation are not evenly distributed across or within countries. In what follows, the possible distributional impact of the different dimensions of globalisation is discussed focussing on developments in advanced economies. Income inequality has increased in advanced economies over the past decades (see Graph I.4), and empirical studies confirm that the various dimensions of globalisation have contributed to this increase, without necessarily being its main driver.

Turning first to *trade*, its primary economic impact stems from specialisation according to comparative advantage. When markets are competitive, removing trade barriers reduces the price of imported goods, which benefits consumers. To the extent that goods of daily consumption like food and clothing are traded, low-income citizens (whose budget share of such items is high) may, all else equal, be the prime beneficiaries of trade as consumers. Exposure to competition through international trade is also seen

(6) E.g. Krugman P. and A. Venables (1995). 'Globalization and the Inequality of Nations'. *Quarterly Journal of Economics* 110(4), pp. 857–80; Feenstra R. and G. Hanson: (1996). 'Globalization, Outsourcing, and Wage Inequality'. *American Economic Review* 86(2), pp. 240–45. Leamer, E. (1996). 'Wage Inequality from International Competition and Technological Change: Theory and Country Experience'. *American Economic Review* 86(2), 309–14.

(7) Osberg, L. (2013). 'Instability implications of increasing inequality: Evidence from North America'. *Economic Modelling* 35, pp. 918–30. Rodrik D. (2011). The Globalization Paradox: Democracy and the Future of the World Economy. New York and London.

(8) Keeley, B. (2015). 'Income Inequality: The Gap between Rich and Poor'. OECD Publishing, Paris.; See also chapter I.1 of the spring forecast and the sources quoted therein European Commission (2016). European Economic Forecast Spring 2016, *European Economy Institutional Papers* 25.

(9) Gros, D. (2016). 'Is Globalization Really Fuelling Populism?'. *Project Syndicate*, 6 May. https://www.project-syndicate.org/commentary/understand-factors-behind-rising-populism-by-daniel-gros-2016-05?barrier=true

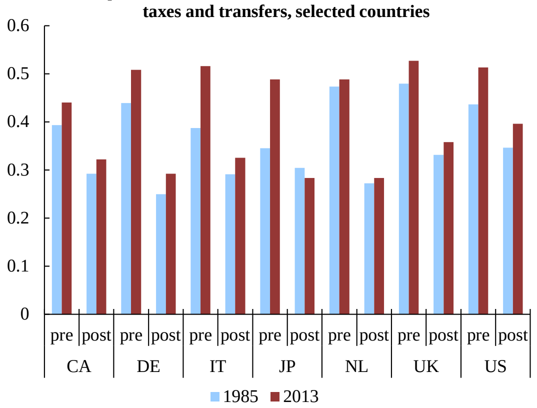
(10) Cf. Roubini (2014) op. cit. Already Bergsten (2000) op. cit. had warned that a crisis would exacerbate the criticism of globalisation.

as a factor increasing productivity growth. [11] However, the standard Heckscher-Ohlin model of trade according to comparative endowments suggests that trade affects the wage shares of different groups of workers. In advanced economies that specialise on production requiring high skills, the wage share of low-skilled workers is reduced. The picture is more complex for intra-industry trade, but the literature also points to the possibility of the high-skilled benefitting disproportionally. [12] Other analyses have pointed to the possibility of wage and skill polarisation: the low-skilled perform jobs catering for local markets with little competition from trade, the high-skilled benefit from the specialisation induced by trade, while the medium-skilled who produce industrial goods subject to trade competition stand to lose (at least in relative terms). [13] In terms of political economy, this hypothesis of a 'hollowing-out' of the middle class may be highly relevant for the discontent with globalisation.

For the other main dimensions of globalisation, similar mechanisms apply. The literature on *capital account opening* points to institutional thresholds: countries with developed institutions stand to benefit more e.g. from risk diversification, and are less exposed to the potential drawbacks of free flows of finance, in particular in terms of sudden stops and financial crises. [14] Also in advanced economies, however, capital account liberalisation is associated with increases in income inequality. [15] *Outward FDI* (offshoring) puts pressure on wages of low- and medium-skilled workers in advanced economies in a similar to trade. Finally, the economic impact of *labour immigration* on advanced host countries is generally found to be positive but small. The distributional impact largely depends on the differences between the skills set of the immigrants and the native population, complementarities and substitution effects. [16]

In light of this review of the likely distributional impact of globalisation, it is not surprising that market-income inequality in advanced economies has increased. However, as long as there are aggregate gains from trade, compensating those particular groups who lose is at least theoretically possible. Indeed, market incomes are generally modified by redistribution through the tax and transfer system. It is therefore important to look at developments in inequality after redistribution through taxes and benefits. In all G7 countries, incomes post taxes and transfers are much more equally distributed than market incomes (Graph I.4). They still display an increase in inequality in most countries, but it is generally only a fraction of the increase in market income inequality.

Graph I.4: **Gini coefficients on income before and after taxes and transfers, selected countries**



Source: OECD, own calculations

But globalisation has not been the only driver of the observed increase in income inequality. Technological change works in the same direction if it is 'skills-biased', i.e. if a new technology

(11) Ahn, J., E. Dabla-Norris, R. Duval, B. Hu and L Njie (2016). Reassessing the Productivity Gains from Trade Liberalization, *IMF Working Paper* 16/77.

(12) E.g. Matsuyama, K. (2007). 'Beyond Icebergs: Towards a Theory of Biased Globalization'. *Review of Economic Studies* 74(1), pp. 237–53 makes the point that trade may lift the wages of those whose skills are needed to organise it.

(13) See e.g. Blanchard, E. and G. Willmann (2016). 'Trade, Education and the shrinking Middle Class'. *Journal of International Economics* 99, pp. 263–78. D. Autor et al., 2013 look at the geographical dimension of import competition. Autor, D. H., D. Dorn and G. H. Hanson (2013). 'The China Syndrome: Local Labor Market Effects of Import Competition in the United States'. *American Economic Review* 103(6), pp. 2121–68. See also Nigai, S (2016). 'On measuring the welfare gains from trade under consumer heterogeneity'. Economic Journal 126(593), pp. 1193–237, and Fajgelbaum P D and A K Khandelwal (2016). 'Measuring the unequal gains from trade'. *Quarterly Journal of Economics* 131(3), pp. 1113–80.

(14) Kose, A. M., E. S. Prasad and A. D. Taylor (2011). 'Thresholds in the process of international financial integration'. *Journal of International Money and Finance* 30(1), pp. 147–79.

(15) Furceri D. and P. Lungani (2015). 'Capital Account Liberalization and Inequality'. *IMF Working Paper* 15/243.

(16) Kerr S. P. and W. R. Kerr (2015). 'Economic Impacts of Immigration: A Survey'. *Finnish Economic Papers*, Finnish Economic Association, 24(1), pp. 1–32; Blau, F. and L. Kahn (2015). 'Immigration and the Distribution of Incomes'. *Handbook of the Economics of International Migration*. Amsterdam: Elsevier. Chiswick, B. and P. Miller, pp. 793–843; European Commission (2016). 'An Economic Take on the Refugee Crisis - A Macroeconomic Assessment for the EU'. *European Economy Institutional Paper* 33.

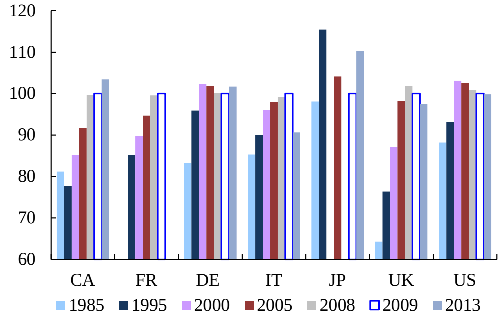
complements the tasks of high-skilled workers (as information technology may do) and/or substitutes the tasks of low-skilled workers (e.g. though the automation of formerly manual production processes). Skills-biased technological change thus reduces the relative wages of the low-skilled. Empirical analyses point to roughly similar contributions of skills-biased technological change and globalisation to the observed increase in income inequality.[17] A 2007 report by the European Commission (2007) also found that the negative impact of openness on the labour share was concentrated on medium-skilled workers, while the low- and the high-skilled were broadly unaffected.

The crisis as a catalyst of discontent with globalisation

Long-standing and relatively slow changes in the distribution of incomes are not sufficient to explain why the criticism of globalisation has become much more acute in recent years. One plausible explanation could be that the stagnation of real disposable median incomes[18] during and after the economic and financial crisis has acted as a catalyst by increasing the income concerns of larger swathes of the population. Moreover, 'income concerns' in a large sense may stem not only from realised absolute drops in real disposable incomes, but also from (the perception of) loss in relative income or the risk of such losses.

Real disposable incomes of the median household in advanced economies have increased in recent decades, though not steadily (see Graph I.5). It is noticeable that the median real disposable income has stagnated or fallen in a number of advanced economies in recent years (in Japan already from the mid-1990s). The global economic and financial crisis was not a direct consequence of 'globalisation'. Nonetheless, by affecting the real income of large parts of the population it may have reinforced the concern that a trend increase in real incomes cannot be taken for granted and thereby acted as catalyst for the observed backlash against globalisation.

Graph I.5: **Median household real disposable income G7 countries, 2009 = 100**



Source: OECD, own calculations
Notes: observations for the following years instead of the indicated: 1984 (IT, US); 1994 (UK); 2004 (DE); 2006(JP); 2012 (JP, US)

Consumption externalities, inequality perceptions and loss aversion

Income inequality and the risk of falling real incomes may affect consumers' well-being and thus their attitudes towards the causes of such income developments more strongly than measured income data suggest. First, social consumption norms (a pattern where a households' utility depends positively on its own consumption but negatively on the consumption of others, also dubbed 'keeping up with the Joneses') have been shown to be a powerful motivator for consumers.[19] A relative decrease in income is therefore likely to reduce households' utility even if the absolute real income remains stable. Second, consumers' perceptions of relative income may be biased. If consumers over-estimate prevailing income inequality,[20] misgivings about the causes of the presumed inequality, including about globalisation, may be amplified. The third mechanism is related to loss aversion. Economic actors have been found to value the risk of losses higher than an equal chance of gains.[21] By highlighting the risk of income losses, the experience of stagnating real incomes and the sluggish recovery in the aftermath of the crisis

[17] International Monetary Fund (2007). 'Globalization and Inequality'. *World Economic Outlook*, chapter 4, Washington D.C., October. European Commission (2007). 'The labour income share in the European Union'. *Employment in Europe*, chapter 5, Brussels.

[18] Other relevant indicators include poverty and deprivation indices. The median income is of particular interest because of its link to the median voter and thus political economy considerations.

[19] Veblen T. (1924). 'The Theory of the Leisure Class: An Economic Study of Institutions'. George, Allen and Unwin, London; Clark, A., P. Frijters, and M. A. Shields (2008). 'Relative income, happiness, and utility: An explanation for the Easterlin paradox and other puzzles'. *Journal of Economic Literature* 46(1), pp. 95–144.

[20] Kuhn, A. (2015). 'The Individual Perception of Wage Inequality: A Measurement Framework and Some Empirical Evidence'. *IZA Discussion Paper* 9579.

[21] Kahneman, D. and A. Tversky (1979). 'Prospect Theory: An Analysis of Decision under Risk'. *Econometrica* 47(2), pp. 263–92. Boyce, C.J., A.M. Wood, J. Banks, A. E. Clark and G. D. A. Brown (2013). 'Money, Well-Being, and Loss Aversion: Does an Income Loss Have a Greater Effect on Well-Being Than an Equivalent Income Gain?'. *Psychological Science* 24(12), pp. 2557–62.

might thus have had a larger impact on households' attitudes than actual income developments would indicate.

Considering the 'backlash' in the forecast: the risk of protectionism and political uncertainty

The above discussion points to two mechanisms that need to be considered in the context of the present forecast: the recent trend towards increasing protectionism [22] and increased uncertainty related to the possible political consequences of the backlash, which in turn could have major economic implications.

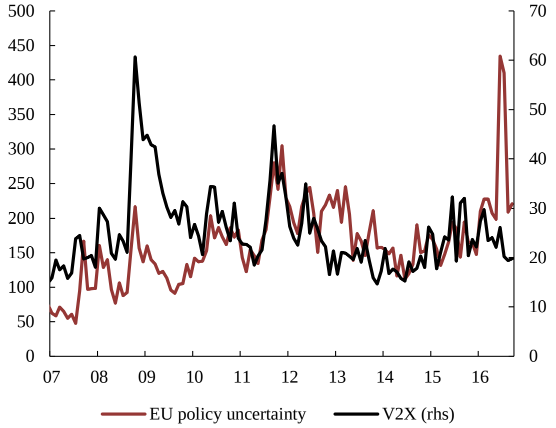
Rising inequality has been discussed here as a likely determinant of discontent with globalisation. The impact of inequality on the near-term outlook was discussed in the spring 2016 forecast. The defence of globalisation by economists often abstracts from how the aggregate gains are distributed. Inequality stemming from globalisation creates the challenge of designing policies for a fairer sharing of the fruits of globalisation in a way that would make globalisation sustainable while preserving its aggregate benefits. [23]

Increasing *protectionism* would reduce GDP growth by diminishing the benefits of globalisation discussed above. The downward revision to world trade growth in this forecast is partly driven by this. The main drivers of the trade slowdown so far are however cyclical effects and shifts in the structure of trade. A more sizeable impact of protectionist measures could nonetheless occur in the medium term beyond the forecast horizon.

The most immediate growth impact from the backlash against globalisation stems from heightened *political uncertainty*. For instance, a major concern in the UK referendum debate was immigration (see Box I.5 on how the outcome of the referendum is reflected in this forecast). Discontent with globalisation could also play a role at a number of electoral milestones in the coming quarters. Moreover, the backlash may feed populism and reduce the chances of economic reforms.

The literature identifies at least three channels through which uncertainty affects GDP growth. [24] First, firms postpone investment and hiring decisions that are costly to reverse. The downward revisions to private investment, in particular equipment investment, in this forecast partly reflect this increased uncertainty (in addition to lower expectations for GDP growth and sales). Second, households may postpone the purchase of durable consumer goods and increase precautionary savings. Third, higher asset risk premia increase the cost of financing. This is taken up in the forecast through technical assumptions (see Box I.6).

Graph I.6: **Uncertainty indicators**



(22) International Monetary Fund (2016). 'Global Trade: What's behind the Slowdown?'. *World Economic Outlook* October, chapter 2. European Commission (2016). 'Report from the Commission to the Council and the European Parliament on Trade and Investment Barriers and Protectionist Trends 1 July 2014 - 31 December 2015'. COM(2016) 406 final, Brussels.

(23) cf. Rodrik, D.: 'There is no need to fret about deglobalisation, Politicians should focus on restoring the domestic social contract'. *Financial Times* of 5 October 2016.

(24) Overview in Baker, S. R., Bloom, N. and S. Davis (2016). 'Measuring economic policy uncertainty'. *Quarterly Journal of Economics* 131(4), pp. 1593–1636. Balta, N., I. Valdés Fernández and E. Ruscher (2013). 'Assessing the impact of uncertainty on consumption and investment'. *Quarterly Report on the Euro Area* 12(2), 7–16.

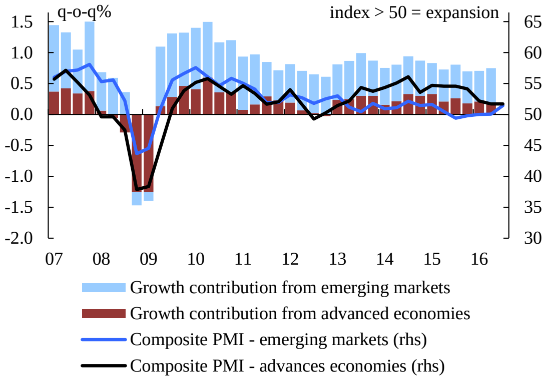
2. EXTERNAL ENVIRONMENT

The outlook for the external environment remains moderate and subject to heightened uncertainty and risks. Global GDP growth has slowed further and is projected to fall to its slowest pace since 2009, followed by a pick-up over the forecast horizon. This pick-up reflects the bottoming out of the downturn in many emerging market economies, but overall economic growth there is expected to remain below past trends. Growth in advanced economies outside the EU is expected to stabilise just below 2%, following the soft patch in the first half of this year. In all regions, the outlook comprises considerable differences between countries, linked to factors such as commodity-price developments, geopolitical tensions, and aggravated domestic problems.

The momentum of the global economy and trade has been weak so far in 2016...

Recent data confirm the weak momentum of the global economy in the first half of 2016, relative to 2015, with forward looking indicators pointing to possible firming in the second half of the year. Global GDP growth slowed to 0.7% (q-o-q) in the first and second quarter, as emerging markets' growth remained stable at around 1% (q-o-q) (unchanged from 2015), and advanced economies slowed to 0.4% (q-o-q), down from 0.5% on average in 2015.

Graph I.7: **Global GDP and global Composite PMI**



Source: OECD, IMF, EUROSTAT, and national statistical institutes for GDP, JPMorgan/Markit for PMI.

Forward looking indicators such as the Global Purchasing Managers' Indices (PMIs) suggest some pick-up in the pace of expansion in the remainder of the year, largely driven by improvements in emerging markets (Graph I.7). Composite PMIs across many emerging market countries recovered over the summer with the emerging markets average rising from around 50 in spring to 51.5 in the third quarter. PMIs for the group of advanced economies have stabilised just below 52 since early 2016, as a gradual pick-up in the US offsets mild deterioration in Japan and in the euro area (until September). Flash PMIs hint at improvements in October, in particular in the US where manufacturing and services PMIs rose strongly.

...but the outlook suggests a gradual pick-up over the forecast horizon...

Global growth (excluding the EU) is projected to reach 3.2% in 2016, marginally less than in 2015 and the lowest rate since 2009. Over the forecast horizon, global growth is set to pick up modestly to 3.7% in 2017 and to 3.8% 2018 as the downturn in many emerging markets is bottoming out.

The rebound in commodity prices eased some of the distress across commodity exporters, improving the outlook for Latin America and the CIS and making them a key contributor to the expected acceleration in economic activity next year. Supported by the increase in commodity prices, improvement in financing conditions and a return to positive growth in the most distressed economies, Brazil and Russia, growth in emerging markets is forecast to strengthen over the forecast horizon. Support is expected to come from the recent shift in sentiment, recovering capital inflows, as well as the slower-than-expected normalisation of US interest rates. However, for other regions (e.g. the Middle East and Northern Africa and Sub-Saharan Africa) this is being offset by a rise in geopolitical tensions and aggravated domestic problems. The gradual acceleration in emerging market economies, accompanied by a stabilisation of expansion in advanced economies just under 2%, will underpin the expected firming of global growth (Graph I.8).

World trade is set to strengthen gradually over the forecast horizon after an exceptionally weak performance in 2016 when it was pulled down by low demand in advanced economies. Growth in non-EU trade is expected to reach 1.1% in 2016, little changed from 2015, and to recover to 2.9% and 3.2% in 2017 and 2018 respectively. This reflects the assumption of a gradual pick-up in global import elasticity underpinned by a cyclical rebound in advanced economies, fading of temporary factors that weighed on trade in 2015

Table I.2:

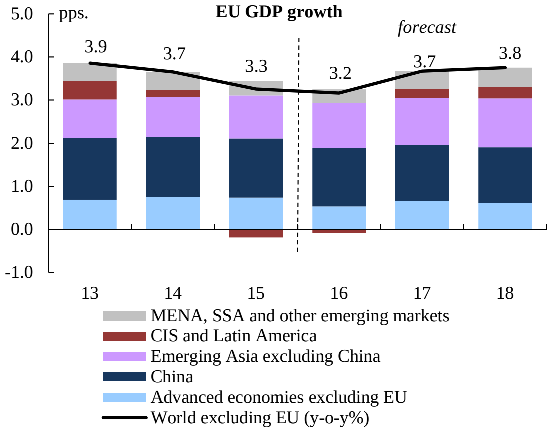
International environment

(Annual percentage change)					Autumn 2016 forecast			*Spring 2016 forecast*	
	(a)	2013	2014	2015	2016	2017	2018	*2016*	*2017*
					Real GDP growth				
USA	15.8	1.7	2.4	2.6	**1.6**	**2.1**	**1.9**	*2.3*	*2.2*
Japan	4.3	1.4	0.0	0.5	**0.7**	**0.8**	**0.4**	*0.8*	*0.4*
Emerging and developing Asia	31.5	6.8	6.6	6.5	**6.4**	**6.2**	**6.1**	*5.8*	*5.7*
- China	17.1	7.8	7.3	6.9	**6.6**	**6.2**	**6.0**	*6.5*	*6.2*
- India	7.0	6.3	7.0	7.2	**7.4**	**7.4**	**7.5**	*7.4*	*7.4*
Latin America	8.3	2.9	1.0	-0.1	**-0.6**	**1.7**	**2.0**	*-0.4*	*1.4*
- Brazil	2.8	3.0	0.1	-3.8	**-3.1**	**0.9**	**1.5**	*-3.7*	*0.3*
MENA	6.8	2.1	2.5	2.2	**2.6**	**3.3**	**3.4**	*2.9*	*3.4*
CIS	4.6	2.1	0.9	-2.9	**-0.6**	**0.9**	**1.3**	*-1.1*	*1.1*
- Russia	3.3	1.3	0.6	-3.7	**-1.0**	**0.6**	**0.8**	*-1.9*	*0.5*
Sub-Saharan Africa	3.2	5.1	4.9	3.5	**2.1**	**3.2**	**3.9**	*3.3*	*3.9*
Candidate Countries	1.6	4.0	2.7	3.8	**2.7**	**3.0**	**3.3**	*3.4*	*3.6*
World (incl.EU)	100.0	3.2	3.3	3.1	**3.0**	**3.4**	**3.5**	*3.1*	*3.4*
					World merchandise trade volumes				
World trade		3.4	3.8	2.8	**1.9**	**3.2**	**3.6**	*2.7*	*3.8*
Extra EU export market growth		4.2	3.3	1.3	**1.3**	**2.8**	**3.1**	*1.9*	*3.1*

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2015.

and 2016, combined with a modest recovery in import demand from China.

Graph I.8: **Global growth and its regional composition, non-EU GDP growth**



...benefitting from the global policy mix.

Given the moderate outlook for the global economy, the G20 has committed to use all economic policy tools earlier this year – monetary, fiscal and structural – individually and collectively to address the legacies of the economic and financial crisis and strengthen growth, investment and financial stability.

In particular, monetary policies continue to support economic activity and ensure price stability, including in some emerging markets (e.g. India) where easing inflationary pressures provide space to lower interest rates. In the United States, despite the initiating of the tightening cycle in December 2015, normalisation has been very slow and monetary policy is set to remain very supportive in the near term.

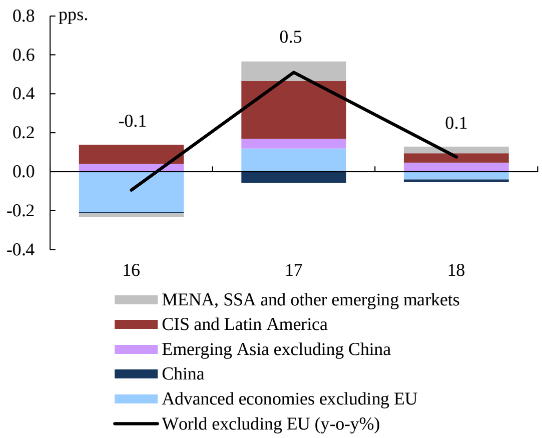
Fiscal strategies are increasingly being used to support growth and job creation, while enhancing resilience and ensuring that debt ratios are on a sustainable path. In Canada, the government used the existing fiscal space to implement targeted tax reductions and increase spending, including for infrastructure projects. Fiscal policies in Canada and elsewhere also increasingly aim at the quality and composition of public finances to support economic growth, productivity and inclusiveness, which is particularly important for countries with fiscal constraints.

To increase the effectiveness of macroeconomic policies and raise potential output, ambitious structural reforms are at the centre of the policy mix. They can strengthen the impact of the pursued macroeconomic policies, but also strengthen confidence, thereby supporting demand and growth in the short-term. The focus now is to foster implementation, which varies across reform areas and countries.

While advanced economies are going through a soft patch in 2016...

Growth turned out weaker than expected in many advanced economies outside the EU in the first half of this year. This soft patch was partly due to transitory factors, such as the wildfires dragging down growth in the second quarter in Canada, and did not call for any major reassessment of the underlying growth momentum. However, as a result, the expansion of non-EU advanced economies this year is now projected to slow to 1.6%, the slowest pace since 2009, before rebounding to 2.0% in 2017 and slowing again to 1.9% in 2018, somewhat below the 2010-2015 average. This limits the contribution of advanced economies to global GDP growth (Graph I.9).

Graph I.9: **Sources of change in global non-EU GDP growth**



In the US, real GDP disappointed in the first and second quarter (rising by a mere 0.2% and 0.4% q-o-q, respectively), as a drawn-out inventory correction coincided with prolonged weakness in business investment. The latter reflects ongoing retrenchment in the energy sector and softer activity in manufacturing, which has borne the brunt of the stronger dollar and weak external demand. Following GDP growth of 0.7% (q-o-q) in the third quarter (advance estimate), overall, activity is expected to rebound in the second half of 2016 and to continue at a relatively robust pace in 2017, as the drag from destocking, past dollar appreciation and low energy prices gradually fades. Further ahead, expansion is set to gradually moderate, in line with the maturing economic cycle even as monetary and fiscal policies remain supportive.

In Japan, the outlook for 2016 remains broadly unchanged from the spring with real GDP expected to grow by 0.7%, underpinned by recovery in domestic demand and supportive macroeconomic policies. The postponed fiscal consolidation, additional fiscal stimulus and continued monetary accommodation are expected to boost growth temporarily in 2017 (to 0.8%), before some of these effects unwind and growth slows again in 2018 (to 0.4%).

...emerging market economies are bottoming out with the outlook remaining subdued and uneven.

Economic activity in emerging markets as a whole remains subdued. After several years on a downward trend, GDP growth appears to have bottomed out in 2015 (at 3.8%, the weakest since 2009) and is set for a mild recovery in 2016 (to 4.0%) and some further strengthening in 2017 and 2018 (to 4.6% and 4.7%, respectively). This recovery, which drives the pick-up in the global economy over the forecast horizon, depends to a large extent on the assumption of a continued gradual increase in commodity prices, a ‘soft landing’ and orderly rebalancing in China, and progressive improvements in economies currently affected by economic, political and geopolitical stress.

Growth prospects for emerging markets have again become more differentiated. Higher commodity prices have lifted the outlook for most commodity exporters, including Russia and Brazil, where a certain normalisation of the political situation is also contributing to improvements. Moreover, many countries have recently benefitted from the positive shift in sentiment, recovery in capital inflows, rising equity prices, and stronger exchange rates, linked to prospects of slower-than-previously assumed normalisation of monetary policy in the United States. At the same time, for some regions, notably the Middle East and Northern Africa and Sub-Saharan Africa, the outlook is still dragged down by deteriorating domestic and geopolitical problems, including armed conflicts, major fiscal consolidation to address the sharp fall in oil revenues, and the impact of regional uncertainty weighing on investment and tourism.

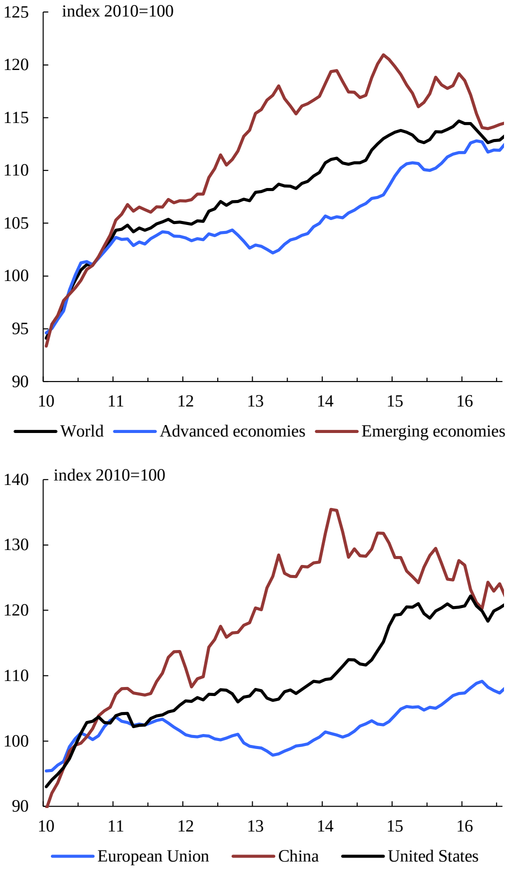
These recent developments come on top of some long-standing forces shaping the outlook for emerging markets, including concerns over spill-overs from the slowdown and rebalancing in China. In China, growth is expected to slow to around 6.6% this year, 6.2% in 2017, and 6.0% in 2018. This profile is underpinned by the assumption that policy will continue to offer all the necessary support in 2017 and 2018 to keep growth in the order of 6%, and that current financial fragilities will remain under control. However, this outlook remains subject to significant and predominantly negative risks. Current stimulus measures to maintain short-term growth are not only adding to China's high corporate leverage and thereby increasing financial vulnerabilities, but are also increasingly aimed at countering a renewed slowdown in private investment. These developments could signal increasingly diminishing returns to policy stimulus which would heighten the risk of an abrupt slowdown in the medium term.

Global trade had a weak start into 2016...

Following the sharp deceleration which began in late 2014, global trade flows of goods have shown no sign of strengthening, raising concerns about the outlook for global trade and, more generally, the future of globalisation (see Section I.1). In the first eight months of this year, global import volumes were flat compared to the same period in 2015. Emerging markets remained a major drag on world trade with goods import volumes falling 2.6% in the first eight months as compared to the same period last year (+1.8% for advanced economies in the same period), largely reflecting the negative spillovers from the slowdown and rebalancing in China, [25] the demand squeeze in commodity exporters and the economic downturn in other emerging market regions. Trade in advanced economies, remarkably resilient throughout 2015, also began to exhibit signs of weakness in early 2016, with import volumes contracting in the US, Japan and EU in the first months of the year and followed only by a modest recovery since June (see Graph I.10).

[25] See e.g. Hong, G.H. et al. (2016). 'China and Asia in global trade slowdown'. *IMF Working Paper* 16/105.

Graph I.10: **Merchandise import volume (3-month moving average)**



Source: CPB

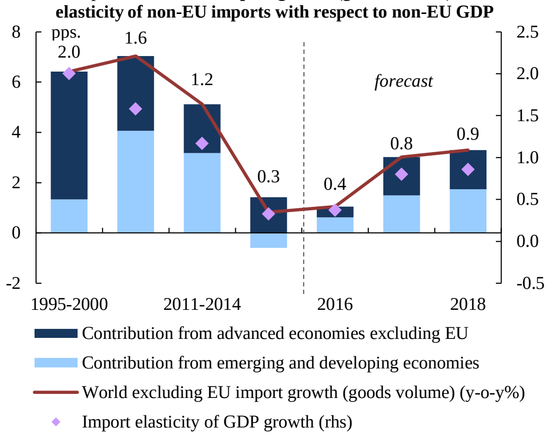
While the slowdown in global trade since 2014 has been exceptionally severe, trade has been slowing for over a decade now, [26] with signs of gradual weakening visible even before the crisis (Graph I.11). There is increasing evidence that this slowdown has both cyclical and structural components. [27] Cyclical factors were weighing on trade flows particularly during the crisis and early recovery, as demand weakened sharply in highly-trading advanced economies, dragged down by investment, the most trade-intensive GDP component. The recent weakness, however, is largely due to emerging markets and China in particular, highlighting the relevance of other factors at play, including structural changes in the

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

[27] See IMF (2016) 'Global trade: What's behind the slowdown'. World Economic Outlook, October, chapter 2; Haugh, D. et al. (2016). 'Cardiac arrest or dizzy spell: why is world trade so weak and what can policy do about it?''. OECD Policy Paper 18; and IRS Trade Task Force (2016). 'Understanding the weakness in global trade – What is the new normal?'. *ECB Occasional Paper* 178.

global economy. Spillovers from the rebalancing in China intensified in recent years, weighing heavily on the country's demand for imports of goods, particularly commodities, intermediate and capital goods. Other relevant structural forces at play are the ongoing retrenchment in global value chains with negative implications for gross trade flows, as well as a broad-based rise in protectionism.

Graph I.11: **Non-EU import growth (goods volume) and elasticity of non-EU imports with respect to non-EU GDP**



...lowering the import elasticity of growth further...

Since late 2014 these forces coincided with the unwinding of the commodity price boom and the aggravation of political and geopolitical problems in many emerging market economies (including Brazil and Russia), which added significantly to pressures on global import demand. As a result, global trade decelerated sharply, while the elasticity of imports with respect to GDP fell to new lows (0.3 in 2015 from 1.2 over 2011-14 and 2.0 over 1995-2000). The trade slowdown impacts negatively on productivity growth through less specialisation, lowered technology diffusion, and weaker competition. [28]

In 2016, two opposing factors are expected to keep the elasticity low. On the one hand, imports in some emerging markets are set to recover, particularly in the CIS and Latin America. On the other hand, imports in advanced economies outside the EU are set to decelerate sharply, lowering their contribution to global non-EU import growth from 1.4 pps. in 2015 to 0.5 pps. in 2016, the lowest level since 2009. The main reason is the exceptional weakness in the US, where the softness in business investment due to a sharp contraction in the energy sector and the broad-based weakness in manufacturing where exports suffered from the strong dollar and weak external demand. This weighed heavily on import demand, in particular for durable industrial supplies and capital goods. A contraction in import volumes in 2016 is expected in Canada, Japan, Hong Kong and Singapore, due to a combination of country-specific and global factors, including spillovers from China and low commodity prices.

...before rebounding somewhat in 2017, helping to firm global trade.

The trade outlook depends on the assumption of a rise in the elasticity of imports from their current lows (see Graph I.11). Although the levels assumed over the forecast horizon remain well below past averages, they are consistent with a certain rebound in global trade flows following two years of exceptional weakness. Trade is expected to bottom out in 2016 with non-EU import growth projected to rebound from 1.0% this year to 3.0% in 2017 and 3.3% in 2018.

The assumption about trade elasticity is underpinned by the projected cyclical rebound in advanced economies, including some modest pick-up in investment; combined with the gradual fading of temporary factors that weighed on trade in 2015 and 2016, such as the impact of a severe terms-of-trade shock on many emerging markets economies, due to the fall of commodity prices, and the contraction in commodity-related investment across the world. Additional support to global imports is likely to come from China, where trade is expected to firm modestly over the forecast horizon, as demand for goods imports normalises gradually amid the continued buoyancy in services imports consistent with the ongoing rebalancing.

Commodity prices recover somewhat but remain at low levels

After several years of declines, commodity prices seem to be bottoming out and recovering somewhat in 2016.

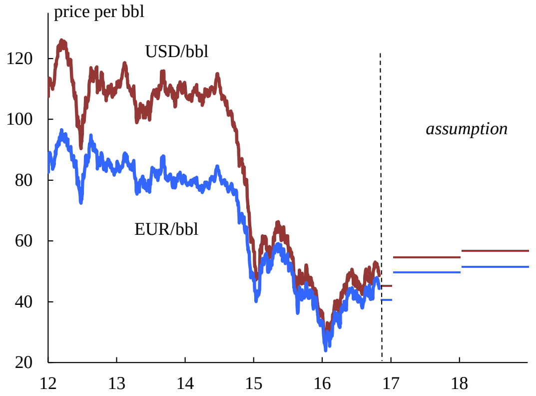
The most recent oil market developments suggest that supply overhangs remain. In the third quarter of 2016, supply exceeded demand, driven by record production in OPEC and new additions from Russia. The re-balancing of the oil market

(28) For an analysis of the impact of the trade slowdown see Constantinescu, C., Mattoo, A. and M. Ruta (2016). 'Does the global trade slowdown matter?'. *Journal of Policy Modeling* 38, pp. 711–22.

remained hampered by high inventories and decelerating oil demand growth in developed and emerging economies, including the US and China. Nevertheless, in October, Brent spot prices passed the mark of 50 USD/bbl, reflecting the agreement OPEC reached in September on limiting its production. The details of this agreement, including individual country allocations and timelines, are yet to be finalised at an OPEC meeting in November.

Over the forecast horizon the International Energy Agency projects a slowdown in global oil demand growth due to some demand saturation in advanced countries, subsidy cuts, a very gradual recovery in emerging market economies, and the rebalancing in China. The supply overhang is set to persist unless producers such as OPEC members and Russia reach an agreement to cut production. However, the potential for oil prices to rise is also limited by shale supply which could respond flexibly to price hikes. These factors are captured in the market-based oil price assumptions of 45.2 USD/bbl in 2016 and 54.7 USD/bbl in 2017, which are 10% and 19% higher than in spring. Futures suggest oil prices rising to USD 56.8/bbl in 2018 (see Graph I.12).

Graph I.12: **Brent oil spot prices, USD and euro**



Source: ICE

The prices of other raw materials are adjusting at different speeds. For many industrial commodities, the rebalancing process is expected to advance gradually in 2017 and 2018, reflecting subdued demand in China and a sluggish supply response to the low price environment as producers cut costs and try to maintain output to preserve market share. Following the damage of adverse weather conditions to crops in South America, food prices increased over the summer. Further price gains are likely to be moderate due to downward pressures from subdued demand, record-high inventories following several bumper harvests in recent years; and sufficient production this season for a number of crops in the Northern hemisphere (US, EU, Russia).

Balance of risks to the outlook for the external environment deteriorates

Risks to the global outlook have increased in the recent period and remain firmly tilted to the downside. In the current situation they largely relate to heightened political and geopolitical uncertainty in both advanced and emerging market economies. The global impact of the outcome of the UK referendum together with possible policy shifts following upcoming elections outside the EU, have increased political uncertainty. Furthermore, risks of aggravating geopolitical tensions in many emerging market regions (e.g. Middle East) remain very high.

Other significant risks include possible disruptions associated with US monetary policy normalisation, including a renewed bout of financial market gyrations, deterioration in market sentiment and tightening of financing conditions for emerging markets. In addition, persisting domestic imbalances, delays in implementation of structural reforms as well as political tensions in a number of emerging market economies accentuate the risk of a prolonged period of weak growth.

Risks of a disorderly adjustment in China are rising, as measures to sustain short-term growth continue to add to financial fragilities. Materialisation of these risks, or even a reassessment by financial markets of the sustainability of existing trends, could reignite concerns over a more protracted slump in emerging market economies, which could combine in some cases with domestic balance sheet problems.

There is also a risk that the weakness in the United States could last longer than expected. This could jeopardise the rebound in US import demand and weigh on the near term growth outlook for a number of emerging and advanced economies.

3. FINANCIAL MARKETS

Financial markets endured a period of additional volatility after the results of the UK referendum in June had taken them mostly by surprise. Following an initial drop, financial asset prices and investors' risk attitude generally recovered. After a bout of heightened volatility immediately after the referendum, markets quietened over summer; but the sensitivity to economic and political news from the UK appears to have increased. The resilience that financial markets have shown over recent months can be associated with very accommodative monetary policy.

Continued very accommodative monetary policies in advanced economies...

Monetary policies of major central banks in advanced economies have remained accommodative since spring.

While the ECB has kept its very accommodative monetary policy unchanged since March 2016 (see also Section I.9). Market expectations of additional monetary stimulus via cuts in euro area policy rates have diminished in recent months amid concerns that they could be counterproductive and lead to a tightening of credit conditions instead of supporting bank lending. Nevertheless, some form of more unconventional monetary easing via an extension of the ECB's Asset Purchase Programme (APP), continues to be expected by some market participants, as the ECB's Governing Council gave a 'full mandate' to the relevant ECB committees to evaluate options that ensure a smooth implementation of the current programme and announced that it would re-evaluate their results in the light of the December 2016 Eurosystem Staff macroeconomic projections at its December meeting.

Following the fallout of the UK's referendum on EU membership, the Bank of England announced a package of monetary easing measures in August 2016. The package consisted of a cut in the policy rate (by 25 bps), which was lowered to 0.25% for the first time since 2009; the expansion of quantitative easing through additional purchases of GBP 10bn of corporate bonds and GBP 60 bn of government bonds, as well as of a new Term Funding Scheme aimed at providing cheap financing to banks. Monetary policy has remained accommodative in the other EU Member States outside the euro area.

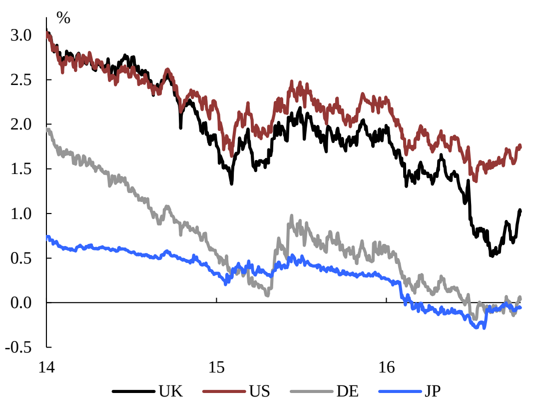
The Bank of Japan decided to introduce several changes to its monetary policy framework at its meeting in September 2016. While policy rates were left unchanged, the central bank announced a commitment to exceed its inflation target in a 'stable manner' with the aim or raising long-term inflation expectations. It also modified the focus of its 'Quantitative and Qualitative Monetary Easing (QQE) with Yield Control' programme from quantity (i.e. increase in the monetary base) to the yield curve, committing to cap the 10-year Japanese government bond yield at 0%.

Monetary policy of the US Federal Reserve has been kept on hold since the end of last year amid concerns about the possible negative impact of foreign economic and financial developments on US economic activity. However, the Federal Reserve stated at its meeting in September 2016 that the case for a rate hike in 2016 had strengthened, as US labour market indicators improved further and household spending grew strongly.

...affected financial markets...

In Europe, the sustained support of the ECB and further safe-haven flows have, over the summer, driven yields of an increasing part of longer term euro area top-rated sovereign bonds into negative territory (Graph I.13). Since mid-September, euro area sovereign bond yields have faced some upward pressure as investors reconsidered their expectations on future path of monetary policy. Euro area sovereign bond spreads of peripheral Member States were broadly stable.

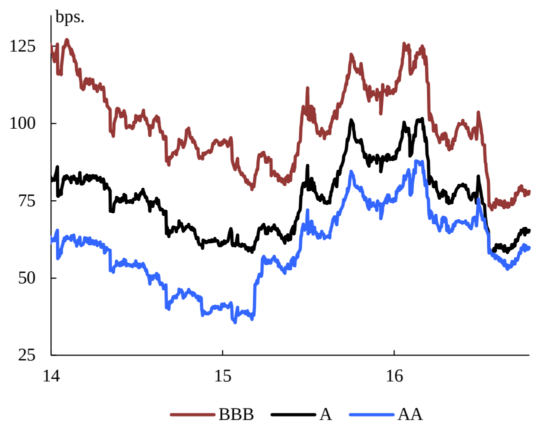
Graph I.13: **10-year maturity sovereign bond rates, selected countries**



Ten-year UK gilt yields dropped significantly over the summer, amid a downward revision to the macroeconomic outlook and the launching of a comprehensive easing package by the Bank of England following the UK's leave vote. In the UK, gilt yields moved up again as market participants became more optimistic about the UK economic outlook.

Corporate bond spreads (against Bunds) have tightened significantly (Graph I.14), amid the implementation of the ECB's Corporate Sector Purchase Programme (CSPP) on the secondary markets, which was announced on 10 March and started on 8 June. The CSPP has incentivised credit investors to rebalance their bond portfolios. This is particularly visible in the spread of BBB-rated corporate bonds, which have fallen to a level not seen since 2007.

Graph I.14: **5-year maturity corporate bond spreads, euro area**



Most EU equity markets were initially hit quite strongly by the outcome of the UK referendum, but recovered quickly within a few weeks and moved sideways thereafter. Bank stocks were a major exception as they did not recover as quickly as other equity indices after the shock. This reflected a reassessment of the profitability of some euro area banks in a low-interest rate/yield environment, the anticipation of central banks' response to the UK leave vote, and increased balance-sheet concerns in a few economies. In some Member States, concerns about the situation of banks aggravated the profit outlook already weighed down by a flatter yield curve. This is seen as putting further pressure onto the already weak profitability of large parts of the banking sector (see Box I.2).

...but had little impact on the external value of the euro.

The euro's exchange rate remained broadly unchanged in nominal effective terms over the first three quarters of 2016. However, this stability masks significant swings in bilateral exchange rates, notably vis-à-vis the pound sterling and the Japanese yen on the back of political uncertainty and changing expectations about the future path of monetary policy in the UK and Japan. While the euro did not show a clear trend against the US dollar, fluctuating within the USD 1.08-1.14 range over the last five months, the euro strengthened against a number of other European currencies and most emerging market currencies.

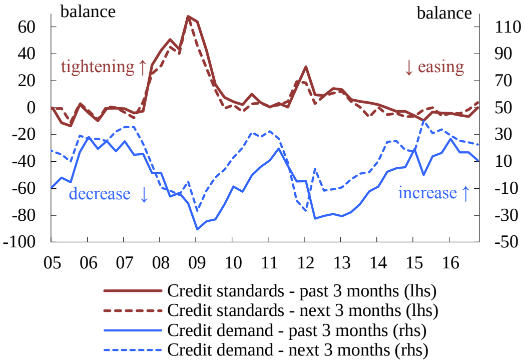
ECB's policies are supporting bank lending...

Net lending flows to households and non-financial corporations stayed positive over the last few months. This led to a gradual rise in the annual growth rate of loans to the private sector. For the whole euro area, the annual growth rate of bank loans to the private sector (adjusted for loan sales and securitisation) increased to 1.7% in September, from 1.8% in April. In particular, annual growth of adjusted loans to households increased to 1.8% in September from 1.5% in April and that to non-financial corporations to 1.9% in September, from 1.2% in April.

The upward trends in bank lending were confirmed by two surveys. The ECB's October 2016 Bank Lending Survey pointed to unchanged credit standards on loans to enterprises, after nine consecutive quarters of easing, and to a further easing of credit standards on loans to households (Graph I.15). The survey also indicated increasing demand across all loan categories. The general level of interest rates and mergers and acquisition activity were reported to be important positive contributors to the demand for loans to enterprises.

The June 2016 Survey on the Access to Finance of Enterprises (SAFE), which covered the period from October 2015 to March 2016, contained information about how corporates consider their lending perspectives and was in line with the views banks expressed in the BLS. It signalled a further improvement in the availability of external sources of finance and in particular, an increased willingness of banks to provide credit at lower interest rates. As in previous survey rounds, SMEs in the euro area considered that finding customers remains the dominant concern while access to finance the least important problem that they faced. Also larger corporations assessed access to finance as a problem of minor importance, less a concern than finding customers, regulation and the costs of production and labour.[29] These survey results points to an aggregate demand problem rather than credit constraints.

Graph I.15: **Net changes in credit standards and credit demand for loans to non-financial corporations, euro area**

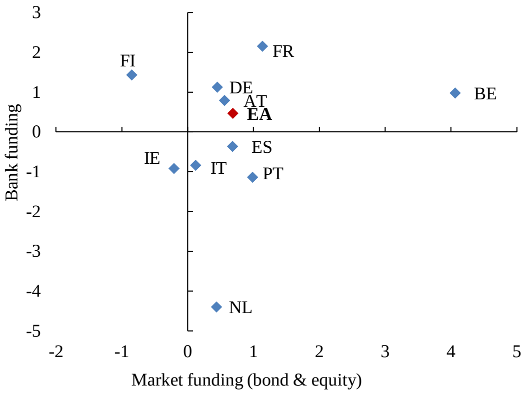


Source: ECB

The positive trends in bank lending were supported by further declining interest rates for non-financial corporations and households across euro area Member States. This suggests a more efficient transmission of the ECB's accommodative monetary policies through the euro area banking system. Interest rates declined rather similarly in all Member States, suggesting a less fragmented euro area lending market. However, the recovery in lending volumes has been less even with a still negative annual growth rate of lending to non-financial corporations for instance in Italy, Spain and Portugal (see Graph I.16). Positively though, lower interest rates for corporates enabled many businesses to take new loans or refinance existing loans at lower rates as suggested by the rapidly rising business volumes in some countries – including in some vulnerable Member States – and for smaller loans.

The development of bank lending will depend on both credit demand and supply. While the economic cycle impacts both, the situation in the banking sector may appear determinant for credit supply in some countries (see Box I.2). A number of banks are facing internal and external pressures and their access to capital markets is constrained by weak profitability prospects and hence a lack of investor appetite. In the current context of high equity cost and low returns on equity, many banks could react by further deleveraging, which may adversely impact on credit growth prospects. Furthermore, facing growing competition from non-bank sectors, banks could engage more in riskier activities.

Graph I.16: **Bank lending vs market funding, NFCs (yearly net flows in % of 2015 GDP, Sept. 2015 to Aug. 2016)**



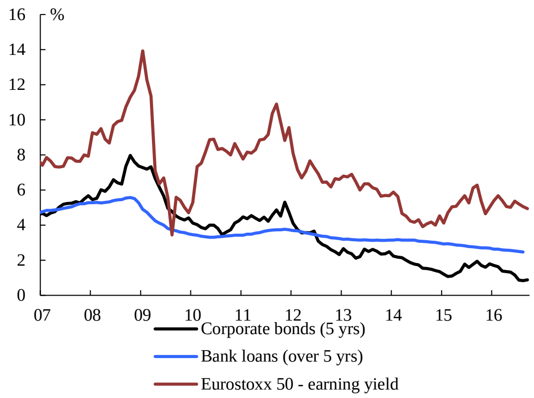
...while market funding continues growing at a high pace.

Flows of net issuance of corporate bonds and equity stayed positive overall over the last few months. The yearly growth rate of debt securities to non-financial corporations trends currently at above 5%; while that of equity issuance slowed down slightly at 0.7%. Such positive developments, particularly in the corporate bond markets, were facilitated by the downward trend in yields since the beginning of this year. While the earning yield has stabilised at close to 5%, the cost of corporate funding using 5-year maturity bonds is currently below 1% (Graph I.17). This is largely due to two factors: the further decline of the risk-free rate and the ongoing ECB's Asset Purchase Programme, which has started to include investment-grade corporate bonds into its range of purchasable assets. The latter left a clear trace in the narrower spreads of corporate bonds relative to the risk-free rate.

Market funding flows continue to contribute more than bank lending flows to the overall external funding of non-financial corporations. A cross-country perspective also suggests that market funding is on a positive trend in most euro area Member States, including in those with still shrinking bank lending volumes, such as Italy, Spain and Portugal. Core euro area Member States, except the Netherlands and Finland, have an expansion of both bank and market funding.

[29] See ECB (2016). '*Survey on the Access to Finance of Enterprises*'. June, chapter 22.

Graph I.17: **Cost of corporate funding, euro area**



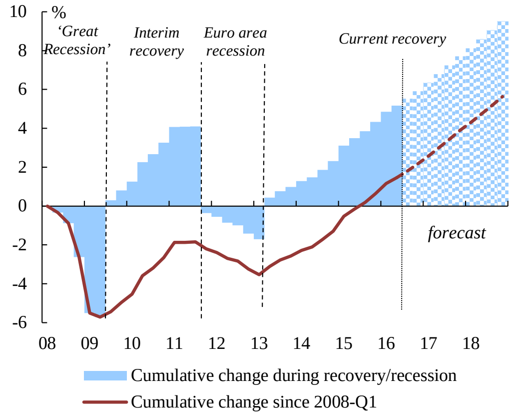
All in all, funding conditions should remain supportive for both bank and market funding thanks to an exceptionally accommodative monetary policy stance. Meanwhile, as the investment expansion continues over the forecast horizon, non-financial corporations' internal funds may become gradually insufficient and thus firms may increasingly tap external funding sources. For this reason it is expected that overall external corporate funding will increase further.

4. GDP AND ITS COMPONENTS

The European economy maintained its course of moderate economic growth in the first half of the year. This added to an expansion that had started in the second quarter of 2013 and that has lifted real GDP in the euro area above the levels seen before the economic and financial crisis in 2008-09 ('Great Recession') (see Graph I.18). Economic growth has been benefiting from a number of favourable factors, including low oil prices, the lagged effects of the euro's past depreciation, the start of very accommodative monetary policy and a more growth-supportive fiscal policy stance. Other policy measures, such as the Investment Plan for Europe and refugee-related expenditures in several Member States, have also contributed. At the same time, past reforms have been paying off. Previous forecasts have presented these supportive factors ('tailwinds') in greater detail. [30]

Despite these supportive factors, the pace of economic growth in the euro area has remained far from exceptional, which can, at least to some extent, be explained by hindrances to growth such as non-performing loans in several Member States, high private and public debt and deleveraging processes and balance sheet repair in the banking sector, all of which are legacies from the crisis. Elevated uncertainty (including policy uncertainty), and external factors, including slowing growth outside the EU (particularly in several emerging market economies), and slowing global trade, are also having a dampening effect.

Graph I.18: **Real GDP during the recession and recovery phases (2008-2018), euro area**



The rich set of supportive and disruptive factors complicates the assessment of the pace of the economic recovery. They also limit the usefulness of comparisons to past (or typical) recoveries, pointing to the question of whether this time is different. At the current juncture, previous answers that relied on the exceptional impact of a deep financial and banking crisis may need to be supplemented by references to long-term trends that have come to the fore in the context of discussions about the secular stagnation hypothesis. [31] There is evidence that slower trend growth had already emerged before the crisis and could be related to a long-term downward trend in productivity, related to factors such as hours worked per employee and demographic change

[30] See the analysis in 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. On the ECB's quantitative easing, see 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. On refugees, see European Commission (DF ECFIN) (2015). European Economic Forecast – Autumn 2015. *Institutional Paper* 11, Section I.1 and Box I.1.

[31] For a recent review of these arguments, see Stock, J.H. and M.W. Watson (2016). 'Why has GDP growth been so slow to recover?'. Paper presented at the Federal Reserve Bank of Boston Conference on '*The Elusive "Great" Recovery: Causes and Implications for Future Business Cycle Dynamics*', October 14-15.

Table I.3:

Composition of growth - Euro area

(Real annual percentage change)

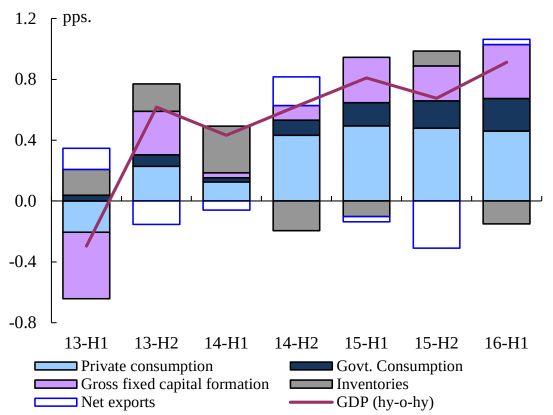
	2015		2011	2012	2013	2014	2015	2016	2017	2018
	bn Euro Curr. prices	**% GDP**	**Real percentage change**					**Autumn 2016 forecast**		
Private consumption	5744.0	54.9	0.0	-1.1	-0.6	0.8	1.8	**1.7**	**1.4**	**1.5**
Public consumption	2163.9	20.7	-0.1	-0.3	0.3	0.6	1.4	**1.9**	**1.3**	**1.3**
Gross fixed capital formation	2063.1	19.7	1.6	-3.5	-2.5	1.4	3.2	**3.3**	**3.1**	**3.5**
Change in stocks as % of GDP	11.8	0.1	0.8	-0.2	0.0	0.3	0.1	**-0.1**	**-0.1**	**-0.1**
Exports of goods and services	4831.5	46.2	6.5	2.7	2.1	4.5	6.5	**2.7**	**3.3**	**4.1**
Final demand	14814.3	141.7	2.3	-0.9	0.2	2.2	3.3	**2.1**	**2.2**	**2.6**
Imports of goods and services	4357.0	41.7	4.4	-0.8	1.4	4.9	6.4	**3.2**	**4.0**	**4.7**
GDP	10455.8	100.0	1.5	-0.9	-0.3	1.2	2.0	**1.7**	**1.5**	**1.7**
GNI	10467.1	100.1	1.6	-0.9	-0.3	1.0	1.7	**1.8**	**1.5**	**1.7**
p.m. GDP EU	14702.1	126.2	1.7	-0.5	0.2	1.6	2.2	**1.8**	**1.6**	**1.8**
			Contribution to change in GDP							
Private consumption			0.0	-0.6	-0.3	0.5	1.0	**0.9**	**0.8**	**0.8**
Public consumption			0.0	-0.1	0.1	0.1	0.3	**0.4**	**0.3**	**0.3**
Investment			0.3	-0.7	-0.5	0.3	0.6	**0.7**	**0.6**	**0.7**
Inventories			0.4	-0.9	0.2	0.3	-0.1	**-0.2**	**0.0**	**0.0**
Exports			2.5	1.1	0.9	2.0	2.9	**1.2**	**1.5**	**1.9**
Final demand			3.2	-1.2	0.3	3.2	4.7	**3.0**	**3.2**	**3.7**
Imports (minus)			1.7	-0.3	0.6	2.0	2.6	**1.3**	**1.6**	**2.0**
Net exports			0.9	1.4	0.4	0.0	0.3	**-0.1**	**-0.1**	**-0.1**

(see Box I.4). Also the role of economic policies in supporting the recovery has been questioned. [32] Moreover, the impact of income inequality has been seen as one factor explaining the observation of inadequate demand. Finally, medium-term growth prospects are transmitted to the near-term outlook through expectations, thereby further complicating the short-term business cycle forecast. What can be said, however, is that there remains substantial slack in the economy right now and that there is a lot of scope for further expansion (see Box I.4).

Economic activity accelerated in the first half of the year...

Economic activity had a relatively strong start to the year. Private consumption and investment were the main drivers. In terms of the half-year on half-year figures, the expansion in the first half of 2016 was the strongest since the start of the recovery (see Graph I.19).

Graph I.19: **Real GDP growth and its components (half year-on-half year), euro area (without Ireland)**



The quarterly profile of growth, however, looks less rosy. Quarter-on-quarter GDP growth in the euro area was 0.5% q-o-q in the first quarter of 2016, but just 0.3% in the second. These figures suggest that the remarkable rigour of the first quarter waned. This slowing was seen across all domestic demand components, except for investment, which was pushed up by exceptional investment growth in Ireland following a strong decline in the first quarter that was due to substantial statistical revisions in the Irish national accounts. [33]

[32] See for a discussion for the US, Taylor, J. B. (2016). ‘Slow economic growth as a phase in the policy performance cycle’. *Journal of Policy Modeling* 38, pp. 649–55.

[33] On 12 July 2016, the Irish Central Statistical Office (CSO) published revised national account data that Eurostat integrated into the euro area aggregates on 21 October

Table I.4:

Composition of growth - EU

(Real annual percentage change)

	2015							Autumn 2016 forecast		
	bn Euro Curr. prices	% GDP	2011	2012	2013	2014	2015	2016	2017	2018
			Real percentage change							
Private consumption	8057.3	56.4	0.1	-0.5	-0.1	1.2	2.1	**2.1**	**1.6**	**1.5**
Public consumption	2950.3	20.5	-0.1	0.0	0.4	1.0	1.4	**1.8**	**1.2**	**1.3**
Gross fixed capital formation	2813.2	19.5	1.9	-2.5	-1.5	2.6	3.5	**2.8**	**2.5**	**3.1**
Change in stocks as % of GDP	37.1	0.3	0.7	0.0	0.1	0.4	0.3	**0.1**	**0.1**	**0.0**
Exports of goods and services	6367.5	43.8	6.6	2.3	2.2	4.4	6.2	**3.0**	**3.5**	**4.2**
Final demand	20222.3	140.5	2.3	-0.4	0.6	2.6	3.4	**2.3**	**2.3**	**2.5**
Imports of goods and services	5866.6	40.5	4.3	-0.2	1.7	5.0	6.2	**3.6**	**3.9**	**4.3**
GDP	14702.1	100.0	1.7	-0.5	0.2	1.6	2.2	**1.8**	**1.6**	**1.8**
GNI	14646.6	99.6	1.7	-0.6	0.2	1.3	1.9	**1.9**	**1.6**	**1.8**
p.m. GDP euro area	10455.8	66.7	1.5	-0.9	-0.3	1.2	2.0	**1.7**	**1.5**	**1.7**
			Contribution to change in GDP							
Private consumption			0.0	-0.3	-0.1	0.7	1.2	**1.2**	**0.9**	**0.8**
Public consumption			0.0	0.0	0.1	0.2	0.3	**0.4**	**0.3**	**0.3**
Investment			0.4	-0.5	-0.3	0.5	0.7	**0.5**	**0.5**	**0.6**
Inventories			0.4	-0.7	0.3	0.4	-0.1	**-0.2**	**0.0**	**0.0**
Exports			2.5	1.0	0.9	1.9	2.7	**1.3**	**1.6**	**1.9**
Final demand			3.2	-0.5	0.8	3.6	4.7	**3.3**	**3.2**	**3.6**
Imports (minus)			1.6	-0.1	0.7	2.0	2.5	**1.5**	**1.6**	**1.8**
Net exports			0.9	1.1	0.2	-0.1	0.2	**-0.1**	**0.0**	**0.1**

The data for the euro area without Ireland show that investment also slowed markedly in the second quarter (from 1.6% q-o-q in 2015-Q4 and 0.9% in 2016-Q1 to 0.3% in 2016-Q2). Temporary factors added to the change in the pace of GDP growth, such as the extremely mild weather in the last quarter of 2015 and the first quarter of 2016, which might have been incompletely captured in the seasonal adjustment ('residual seasonality').

...but the positive impact of supportive factors is diminishing.

In the second half of 2016, however, economic growth will not be able to rely on the previously identified supportive factors, as the strength of their support will have substantially diminished.

– The euro remains at a relatively low level but its depreciation in early 2015 should have already exerted most of its positive impact on exports and economic growth. While euro area exports made strong market share gains in 2015, the outlook for 2016 is flat and a marginal decline is expected for 2017. Moreover, there is increasing evidence that the exchange rate impact on the real economy might have become lower due to the globalisation of value chains and the increasing importance of non-price factors. [34]

– The fall in oil prices started more than two years ago and led to relatively low levels. But prices have started to recover and oil price assumptions have been revised higher. This means that the main boost to disposable incomes is likely to have already taken place and that most of the impact on economic growth might already have been seen. [35] In the euro area the improvement in the terms-of-trade of goods was substantial in 2015 (3.2%), and is now expected to fall to 1.7% this year, before reverting in 2017 (-0.2%) and remaining flat in 2018. [36]

2016. Despite the relatively small weight of the Irish economy in the euro area and EU aggregates, the differences were substantial.

(34) 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 Özyurt, S. (2016). 'Has the exchange rate pass through recently declined in the euro area?'. *ECB Working Paper Series* 1955.

(35) An ECFIN study on the impact of oil prices on GDP presented a negative impact in the second year after the negative oil price shock had hit the euro are, reflecting a rebound in oil prices. See Raciborski, R., Theofilakou, A. and L. Vogel (2015). 'Revisiting the macroeconomic effects of oil price changes'. *Quarterly Report on the Euro Area* 14(2), pp. 19-27.

(36) The fading of past demand support from the oil prices and the exchange rate is confirmed in the model-based decomposition of euro area growth in 2017, see Box I.1.

– Monetary and financing conditions remain supportive to economic growth. The monetary policy measures taken by the ECB over the last two years have been successful in lowering market interest rates and improving borrowing conditions for both households and enterprises. This has supported economic growth, [37] but the main impetus form these policy measures might have already been seen, in particular in connection with the euro depreciation that set in when the policy was announced. Besides, the longer favourable financing conditions persist, the more relative importance moves to other determinants for investment decisions (e.g. demand outlook, risks).

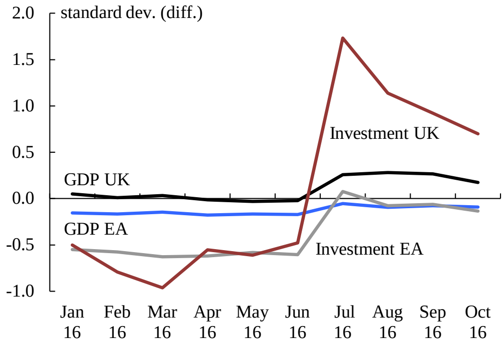
– The fiscal stance in the euro area moved from restrictive towards neutral in 2015 and is expected not to turn restrictive again over the forecast horizon. Refugee-related public expenditures had been added to previously planned measures in several Member States in 2015, when the inflow of asylum seekers into the EU peaked. The decline in the number of arrivals in 2016 suggests a smaller growth contribution of refugee-related expenditures.

At the same time, key growth impediments stemming from the legacies of the crisis remain in place. These continue to include high private and public debt and high unemployment rates in some Member States, and a high burden of non-performing loans among banks which could hold back lending and thereby weigh on investment (see Box I.2). [38]

In addition, external headwinds have been dampening the economic activity in recent months. The slowing of growth outside the EU and the low momentum of global trade are impediments to faster GDP growth in Europe. The expected acceleration of global activity is good news for European exporters but the positive impact will be dampened by the fact that trade elasticities remain relatively low.

An additional headwind that came to the fore is the UK's vote to leave the EU, which caused policy uncertainty to spike to highs at the time. The immediate impact of the referendum result on financial markets was disruptive, involving high volatility and abrupt exchange rate changes. Since then, however, financial markets have recovered and the impact of increased uncertainty has been somewhat attenuated by sterling's depreciation and the monetary easing decisions taken by the Bank of England in August. In the first months since the UK's EU referendum, the euro area economy seems to have shrugged off the result, but the 'Brexit' process is an unfolding one whose main impact is expected to be seen in the medium to long-term (see also Box I.5).

Graph I.20: **Disagreement among forecasters about the outlook for 2017, euro area and UK**



Difference between standard deviations of forecasts included in Consensus surveys in 2016 and the average of standard deviations in the corresponding months in the four years before.

In that regard, the bout in short-term uncertainty that is captured in measures such as the European Policy Uncertainty Index [39] needs to be distinguished from long-run uncertainty. The short-term metric indicated the increase in uncertainty about the economic conditions in the near term and here the concerns of many market participants were belied by data releases in subsequent weeks. But the long-term uncertainty about economic conditions over the next years persists, which is for instance evident in disagreement among macroeconomic forecasters (see Graph I.20). [40] It is this long-term

[37] Wieladek and Pascual estimate that in the absence of the first round of the ECB's quantitative easing, real GDP would have been 1.3% lower; see T. Wieladek and A. G. Pascual (2016). 'The European Central Bank's QE: A New Hope'. *CESifo Working Paper* 5946. For an in-depth discussion of the impact of QE see Deutsche Bundesbank (2016). 'The macroeconomic impact of quantitative easing in the euro area'. *Monthly Report* 68(6), pp. 29–53.

[38] Recent research has pointed to this link as a feedback loop with weak macroeconomic performance playing a significant role for NPLs, see Anastasiou, D., Louri, H. and M. Tsionas (2016). 'Determinants of non-performing loans: Evidence from Euro-area countries'. *Finance Research Letters* 18, pp. 116–9.

[39] See Baker, S. R., Bloom, N. and S. Davis (2016). 'Measuring economic policy uncertainty'. *Quarterly Journal of Economics* 131(4), pp. 1593–636.

[40] see Rossi, B. and T. Sekhposyan (2015). 'Macroeconomic uncertainty indices based on nowcast and forecast error distributions'. *American Economic Review* 105(10), pp. 650–5.

uncertainty that is expected to weigh on economic activity over the entire forecast horizon.

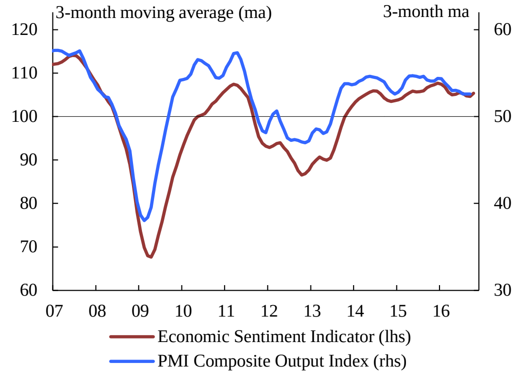
Growth is expected to remain moderate in the short term…

Eurostat's preliminary flash estimate of real GDP growth in the euro area in the third quarter of 2016 and provisional data from a few Member States hint on a continuation of economic growth at an unchanged pace. The preliminary flash estimates of 0.3% GDP growth (q-o-q) in the euro area and 0.4% in the EU are exactly the same as in the second quarter. According to provisional data Spain continued to outperform the euro area (0.7% q-o-q, down from 0.8% in the second quarter), whereas in France growth returned (0.2%) after the decline in the second quarter (-0.1%). Estimates for the other large euro area Member States were not yet available by the cut-off date of this forecast, but estimates from some smaller Member States have already been incorporated. Outside the euro area, GDP growth in the UK (0.5% q-o-q) was slightly lower than in the second quarter (0.7%).

Early information for the fourth quarter suggests that modest economic dynamics continued in October (Graph I.21). There are very few hard data from the fourth quarter, but a number of survey data. Markit's Flash Eurozone PMI Composite Output Index increased markedly in October (53.7, up from 52.6 in September) and reached a ten-month high, driven by higher readings in the manufacturing and the services component. The less favourable element of this year's PMI releases is that the index has been range-bound (52.5-54.0 since January 2016), underscoring the fact that growth has been neither increasing markedly nor decreasing.

Information from the Commission surveys was also rather positive. In October, the Economic Sentiment Indicator increased markedly (+1.4 pts.) in both the euro area and the EU (to 106.3 and 106.9 respectively). Moreover, the increase was broad-based involving industry and services sectors. The increased optimism of survey respondents included important forward-looking assessments such as production expectations and order books, which bodes well for economic growth in the fourth quarter.

Graph I.21: **Economic Sentiment Indicator and PMI Composite Output Index, EU**



Source: EC, Markit Group Limited

The survey data on capacity utilisation in the fourth quarter (based on responses in October) point to a substantial increase in both manufacturing and services. In the euro area, the increase in manufacturing (0.7 pps.) is the highest since the first quarter of 2014 and lifts capacity utilisation to 82.3%, which is the highest level since the third quarter of 2008. This assessment is compounded by an increase in the share of managers who find that the current capacity is not sufficient. In the euro area services sectors, the increase in the capacity utilisation rate (0.4 pts.) raised the level to 89.4, which is the highest level in the history of the series (since 2011).

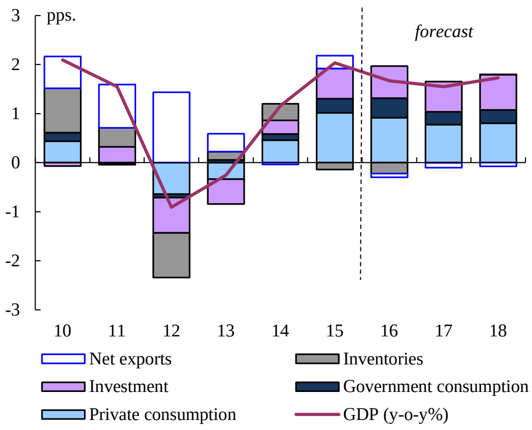
The most recent survey data suggest that the growth patterns have not changed in any significant way from that observed in previous quarters. Overall, this points to a continuation of an unspectacular expansion, possibly slightly more dynamic than in the third quarter. National indicators (e.g. Ifo Business climate, NBB Sentiment), published in October, were also sending upbeat messages.

Given the carry-over from the stronger-than-expected growth in 2015 and considering the so far limited short-term impact of the UK leave vote, GDP growth in the euro area in 2016 has been revised slightly higher since the spring. After having grown by 2.0% in the euro area (2.2% in the EU) in 2015, the strongest growth since 2010, GDP is expected to grow by 1.7% in 2016 (1.8% in the EU).

…and to be modest and fragile over the rest of the forecast horizon…

In 2017, euro area GDP is expected to decelerate further on the back of slowing growth in private consumption (in the euro area from 1.7% to 1.4%), government consumption (from 1.9% to 1.3%) and investment (from 3.3% to 3.1%). Positive base effects in energy prices are expected to drive up headline inflation and to impact negatively on households' real disposable incomes. Investment is expected to be held back by the moderate demand outlook and the high uncertainty related to the 'Brexit' process. [41] Companies, but also consumers, may delay or abandon spending decisions, particularly in the UK (see also Section II.28), but also in other Member States. [42] Also, the support from low oil prices, a weak euro and fiscal policy is expected to diminish further in 2017. On the euro area's external side, the less favourable outlook for the UK economy is set to limit the positive impact of the gradual strengthening in global activity on euro area exports. Over the whole forecast horizon, the expansion is expected to be led by domestic demand (see Graph I.22).

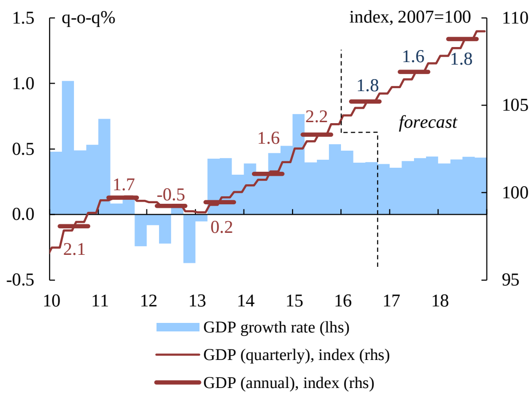
Graph I.22: **Real GDP growth and its components, euro area**



In 2018, economic activity is set to accelerate slightly but to remain fragile. Investment growth is expected to increase benefitting from still low financing costs, some pent-up demand and the improving global demand outlook. The Investment Plan for Europe is also expected to provide some additional stimulus as more projects move to the implementation phase. [43] Private consumption growth is projected to move up marginally.

In conclusion, growth is expected to remain modest and fragile in the euro area over the forecast horizon (Graph I.1 for the euro area, and Graph I.23 for the EU). After having grown by 1.7% in 2016 in the euro area (1.8% in the EU), economic activity is expected to decelerate to 1.5% in 2017 (1.6% in the EU) and to slightly accelerate in 2018, to 1.7% in the euro area (1.8% in the EU).

Graph I.23: **Real GDP, EU**



Figures next to horizontal bars are annual growth rates.

...with all Member States joining the euro area expansion, but in rather different ways.

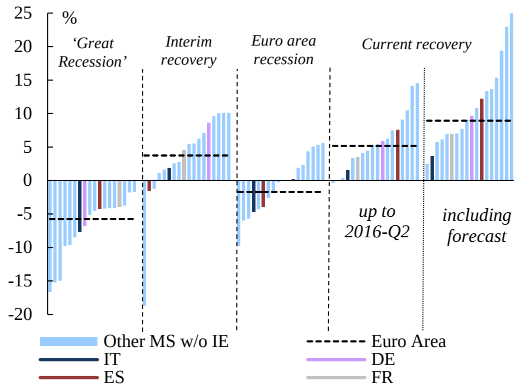
The recovery from the crisis has been rather different across EU Member States, ranging from deep and lasting scars in some countries to economies that had not even faced periods of economic contraction. The picture is more homogeneous in the euro area, where in most cyclical phases the Member States moved into the same direction during the periods of contraction and expansion as the bars for single economies (ranked in order of size in each phase) indicate (see Graph I.24). The recession in the euro area between 2011 and 2013 marked a difference as only about half of the euro area Member States suffered from a GDP contraction, mostly those that were strongly hit by the sovereign debt crisis. The current recovery benefits all economies, but the size of the growth dividend is rather different ranging from below 5% to more than 10% in terms of change of real GDP between the onset of the recovery in 2013 and mid-2016. Over the forecast period the growth dividend of the recovery is expected to increase in all Member States.

(41) For details on how the 'Brexit' issue is dealt with in this forecast see Box I.5.

(42) See European Commission (DG ECFIN) (2016). 'The Economic Outlook after the UK Referendum: a first assessment for the Euro Area and the EU'. *Institutional Paper* 32, July.

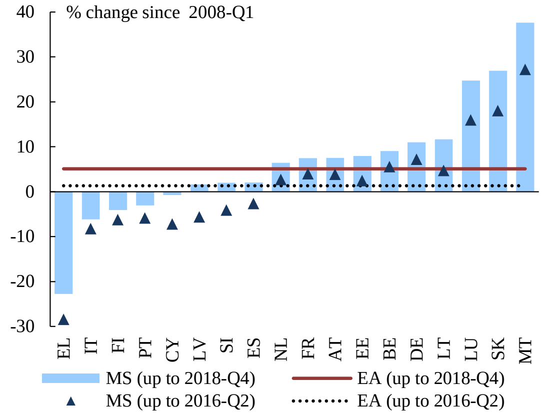
(43) The operations approved under the Plan by 12 October 2016 represent a total financing volume of EUR 24.8 bn. They are located in 27 Member States and they are expected to trigger total investment of EUR 138.3 bn. The target is to trigger EUR 315 bn in investment across the EU by 2018 in terms of approved financing.

Graph I.24: **Real GDP growth during recession and recovery (2008-2018), Member States and euro area**



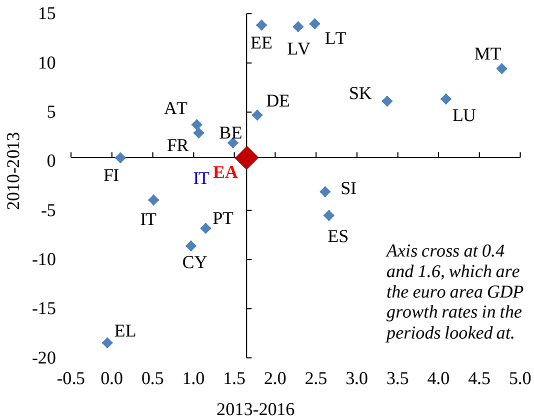
In each phase, the bars for Member States are ranked by the size of change.

Graph I.26: **Recovery of real GDP (2008-2018), euro area and Member States (without Ireland)**



A closer look at economic growth in the euro area Member States during the current recovery reveals some of the growth differences (see Graph I.25). Many of those countries that fared rather well during the interim recovery (2009-2011) and the euro area recession (2011-2013), are again among those which are growing faster than the euro area average.

Graph I.25: **Real GDP growth in euro area Member States, 2010-2013 and 2013-2016**

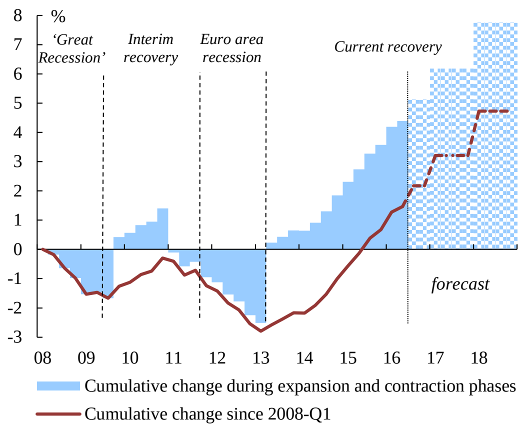


While the outlook for GDP growth looks favourable for all euro area Member States, the success in coping with the losses incurred during the recession phases in 2008-09 and in 2011-13 differs (see Graph I.26). By mid-2016 about half of the Member States had fully recovered the losses and surpassed the real GDP level seen in early 2008. The continuation of the expansion over the forecast horizon is set to increase this group of countries by 2018 so that by then a majority of Member States would have passed the crises troughs.

Private consumption as the main driver of the recovery...

Private consumption has been the main driver of the economic recovery since its beginning in 2013 (see Graph I.27), contributing almost half of the GDP growth in the euro area, but less than the share of private consumption in GDP (about 55%) would have suggested. Over time, the pace of private consumption growth has varied markedly, as for instance in the first half of this year, when a rather strong first quarter was followed by a weaker second quarter.

Graph I.27: **Private consumption (2008-2018), euro area**



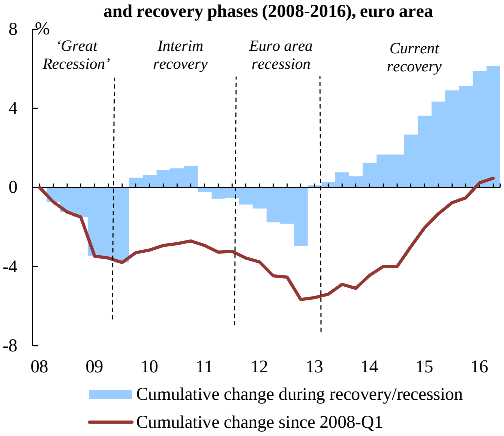
The expansion of private consumption reflects the continued growth of real disposable incomes and an almost unchanged aggregate household saving rate. Nominal disposable incomes benefit from further improvements in the labour market situation (see Section I.6), mainly from higher employment and less from nominal wage growth. The purchasing power of households gets support from low energy prices and, more generally, from the relatively low rate of consumer price inflation over the last two to three years. Moreover, (net) savers can be expected to have a lower marginal propensity to consume than (net) borrowers, so the impact of low interest rates on consumer credit and finally on private consumption is expected to be positive in net terms. [44]

The overall household saving rate has remained fairly stable over recent years. The fall in nominal interest rates has not yet left any clearly visible mark in the aggregate saving rate, confirming that saving decisions are the result of a complex set of factors, including demographic factors, saving habits, housing wealth, and the outlook for pensions. [45] The stability of the household saving rate seems, at first sight, difficult to reconcile with the observation of increased income inequality (see Section I.1) and a larger share of incomes earned by households with a relatively high saving rate which would then depress demand. However, an increased propensity to consume of poor and middle-class households in times of increased awareness of inequality (trickle-down consumption) could offset the higher savings of high-income earners. [46]

...is expected to continue benefitting from labour market improvements...

In the short term, private consumption is expected to continue growing at a solid pace making it the backbone of the continued recovery. Hard data even suggests that private consumption may have accelerated in the third quarter. In July and August 2016, euro area retail sales stood, on average, 0.4% above the average recorded in the second quarter and at their highest level in the history of the series (see Graph I.28). New passenger car registrations in the euro area increased on average by 0.5% in the third quarter compared to the second quarter and remained roughly unchanged in October. In line with these developments, loans to households continued to expand in the past months at annual rates of close to 2%.

Graph I.28: **Retail trade volumes during the recession and recovery phases (2008-2016), euro area**



Survey data gives a somewhat less bright message but may have been negatively swayed to some extent by the UK leave vote.

The Commission's Consumer Confidence Indicator, while remaining above its long-term average, declined slightly in both the euro area and the EU in the third quarter of 2016 compared to the previous quarter and was almost unchanged in October. This mainly reflected higher unemployment fears as well as a more pessimistic assessment of the expected general economic situation, which could be associated with higher uncertainty following the UK leave vote. The especially sharp declines observed in July in the UK and Ireland support this view. However, in August, the pick-up in both countries as well as in the euro area and the EU provides some reassurance that the initial impact of the vote has been short-lived. The Commission's Retail Trade Confidence Indicator decreased rather strongly in the euro area (and the EU) in the third quarter compared to the second one. In contrast and more in line with the hard data, the PMI for retail sales in the euro area increased in the third quarter compared to the previous one (see Graph I.29).

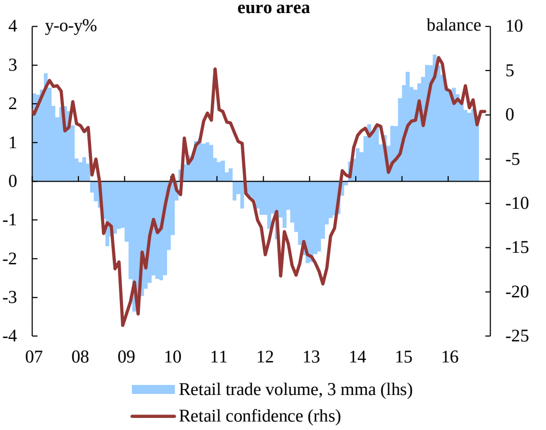
Overall in 2016, private consumption is expected to benefit from strong employment growth and the rise in real gross disposable income. The latter is the result of higher labour income and gains in purchasing power due to low inflation. Private consumption is expected to grow by 1.7% in the euro area in 2016 (2.1% in the EU), after having grown by 1.8% in 2015 (2.1% in the EU).

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

(45) Moreover there are substantial differences across euro area countries as for instance documented in J. Le Blanc et al. (2016). 'Household saving behaviour in the euro area'. *International Journal of Central Banking* 12(2), pp. 15–69.

(46) See P. Bofinger and P. Scheuermeyer (2016). 'Income distribution and aggregate saving: a non-monotonic relationship'. *CEPR Discussion Paper* 11435.

Graph I.29: **Retail trade volumes and retail confidence, euro area**



...but to lose momentum over the forecast horizon.

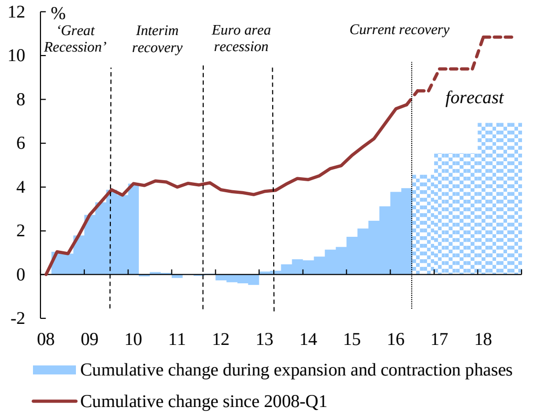
Over the forecast horizon, the expansion of private consumption should remain underpinned by the acceleration of nominal disposable income. The growth of labour incomes is expected to benefit relatively more from wage and salary increases than in the past and less from increases in headcount employment, as employment growth in the euro area is expected to slow somewhat to 1.0% in 2017 and in 2018. Non-labour incomes are expected to accelerate over the forecast horizon, growing in the euro area by 1.4% in 2016, 2.4% in 2017, and 2.6% in 2018. The expected increase in consumer price inflation will dampen the impact on real disposable incomes in 2017 and 2018. Meanwhile, improving bank lending conditions and, in some Member States, progressively lower deleveraging needs should support private consumption growth. Finally, the same holds for wealth effects from increases in housing wealth, reflected in recent increases in house prices. The household saving rate is expected to fall slightly in the euro area in 2017 and 2018.

All in all, these factors suggest a continuation of the expansion of private consumption but with some moderation in 2017, mainly due to slower growth of real disposable incomes. Private consumption is expected to increase by 1.4% in the euro area in 2017 and by 1.5% in 2018 (1.6% and 1.5% in the EU).

Public consumption expected to keep pace with GDP

Government consumption has been a strong contributor to economic growth in recent years, having increased by more than any other domestic component, in percentage terms (see Graph I.30). Following five quarters with quarter-on-quarter growth of about 0.5%, the second quarter recorded a deceleration in both the euro area and the EU. In some Member States, refugee-related expenditures remain a determinant of public consumption growth, whereas in others security related expenditures have recently gained importance. Moreover, consolidation needs differ across countries, which also contributes to the rather heterogeneous development that is expected across countries for this year.

Graph I.30: **Government consumption (2008-2018), euro area**

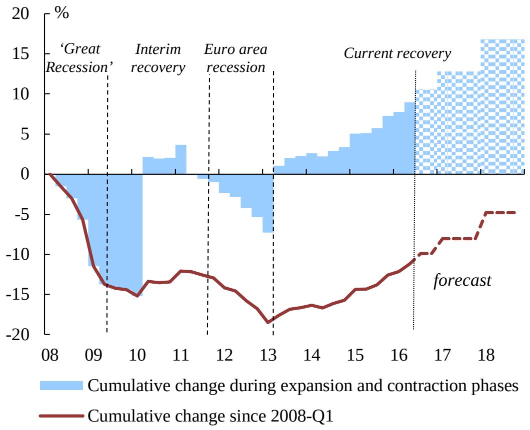


In 2016, aggregate public consumption is expected to grow by 1.9% in the euro area and by 1.8% in the EU, up from 1.4% in both areas in 2015. A deceleration is expected in 2017 (to 1.3% in the euro area and 1.2% in the EU) that mostly reflects developments in Germany, France, Italy and the Netherlands, whereas public consumption is projected to continue contracting in Greece. Growth in public consumption is expected to remain constant in the euro area in 2018 based on a no-policy change assumption, according to 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. So overall, government consumption should expand less than GDP in 2017 and in 2018.

Investment has continued to grow faster than GDP...

Accelerating investment growth is an indispensable ingredient for any sustained economic recovery. Since the onset of the current recovery, the relative weakness of investment has been a key factor for the subdued pace of growth. This is true even if taking into account that a comparison of total investment in early 2008 and developments in subsequent years points to larger movements, as the base period then includes the boom in construction investment in some Member States (see Graph I.31). [47]

Graph I.31: **Investment (2008-2018), euro area**



The pace of investment growth continues to reflect hindrances from expected low demand growth, heightened economic and policy uncertainty (including the extra layer of uncertainty added by the UK's leave vote), and, in some Member States, ongoing corporate deleveraging, which more than offset the positive impact of improving financing conditions in the wake of more than two years of very accommodative monetary policy. Moreover, financial frictions may not only operate through the balance sheet channel (deleveraging), but also through the bank lending channel related to the lending behaviour of banks (see Box I.2). More recently, the slowing economic growth in emerging market economies and some advanced economies outside the EU, and the slower growth of exports have also weighed on investment growth in Europe.

The assessment of recent trends in investment on the basis of quarterly developments is complicated by the volatility of the series. A clearer picture emerges from the analysis of half-year data. Since the beginning of 2015, investment has grown faster than the other domestic components of euro area GDP, but this is still relatively slow compared to a typical recovery. In the first half of 2016, at a rate of 1.8% (half-year on half-year), investment grew twice as fast as GDP (0.9%). This is also true when the extremely volatile investment growth in Ireland is excluded. [48] Since the beginning of the recovery in 2013, the strength of investment has mainly rested on machinery and equipment investment, which in the euro area grew faster than construction investment. In the first half of 2016, machinery and equipment investment was 2.5% higher than in the second half of 2015 (2.8% without Ireland), whereas construction investment increased 1.5% (1.4%).

...and the conditions reducing the gap with pre-crisis levels seem to be in place...

The short-term outlook for investment remains complicated by mixed signals from survey indicators and hard data. Confidence increased in the industry and the construction sectors in the third quarter compared to the previous quarter while confidence in the services and retail sectors decreased. Nevertheless, all indicators remain above their long-term averages.

The first hard data for the third quarter of 2016 bode well for both equipment and construction investment. The production of capital goods, a key series for predicting future equipment investment, increased on average by 0.2% in July and August from the average of the second quarter while industrial new orders increased on average by 0.2% over the same period compared to the second quarter.

As regards construction, the sector's output rose by 1.3% in average in July and August compared to the second quarter. [49] The strong growth in the number of permits in the second quarter of 2016 (and also in 2016-Q1 and 2015-Q4) should also support construction investment. In line with this, the annual rate of growth in loans for house purchases in September increased to 2.4%, the highest rate since end-2011. House prices in the euro area in the second quarter of 2016 increased by 1.4% compared to the previous quarter (0.4% in 2016-Q1). This supports the expectation that the adjustment in the housing sector finally comes to an end (see Graph I.32), driven by residential investment. In that regard, the outlook for further

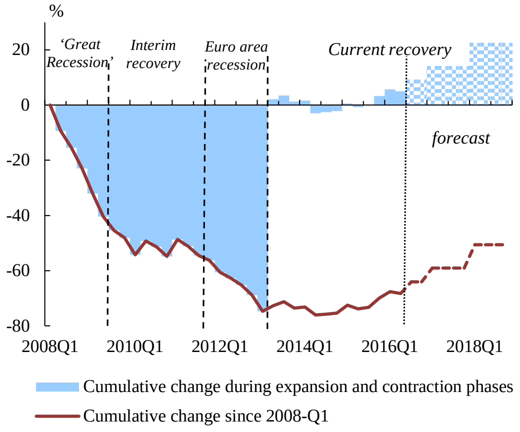
(47) For an in-depth analysis of euro area investment, see ECB (2016). 'Business investment developments in the euro area since the crisis'. *Economic Bulletin* 7, pp. 48–70.

(48) The statement on half-year-on-half year growth also holds for developments that exclude investment growth in Ireland. In terms of quarter-on-quarter growth, in the second quarter of 2016 investment in the euro area expanded by 1.1%, but only by 0.3% if Ireland is excluded. These differences are caused by Irish investment growth of -14.4% in 2016-Q1 and 38.9% in 2016-Q2.

(49) See also ECB (2016). 'Recent developments in euro area construction activity'. *Economic Bulletin* 5, Box 4, pp. 26–28.

expansion and interest expectations may be supportive. [50]

Graph I.32: **Construction investment (2008-2018), euro area**



In 2016, investment growth in the euro area is expected to increase slightly from 3.2% to 3.3% (without Ireland from 2.6% in 2015 to 3.0%), the highest growth rate since 2007. The increase in the growth rate of investment in construction is set to be offset by a decline in the growth rate of equipment investment. For the EU, the picture is somewhat different with total investment expected to decelerate in 2016 compared to 2015 (2.8% after 3.5%) mainly due to the projected sharp deceleration in construction investment in the UK (from 3.7% to 0.4%) and the strong contraction in Poland in 2016 (from 6.5% to -4.1%). These developments at the aggregate level hide substantial differences across Member States. Among the largest euro area countries, investment is expected to accelerate in Germany, France and Italy. In France and Italy, construction investment is set to turn positive for the first time since 2011 and 2007 respectively. In Spain and the Netherlands, growth in total investment seems to have peaked in 2015 and is expected to slow in 2016, on the back of lower growth in both construction and equipment investment. In many of the Member States that acceded the EU in 2004-2007, investment in 2016 is set to contract strongly as a result of the sharp fall in both private and public investment after years of exceptionally high investment at the end of the last financing period of EU funding.

The Investment Plan for Europe, launched at the end of 2014, is expected to contribute to investment over the forecast horizon with projects gradually moving from the signature to the implementation phase. As projects co-financed with EU funds from the new programming period 2014-2020 enter the implementation phase in some Member States, investment will receive a significant boost that should reverse the exceptional declines seen more recently.

...but heightened uncertainty is set to continue weighing on investment.

Over the forecast horizon, the balance of factors driving investment remains favourable. On the positive side, financing conditions are expected to remain in place that appear to be more favourable than in previous years, with bank lending to firms supported by low levels of interest rates and by less tight bank lending standards. However, low funding costs alone cannot be expected to have a strong impact on corporate investment decisions. The scope for capacity-enhancing investment can be expected to be more limited in a set-up with relatively low returns, as for instance suggested by estimates of a declining equilibrium real interest rate. [51] Low financing costs can also result in activities that do not support investment, such as corporate stock buybacks.

Moreover, the expected strengthening of external demand should raise euro area export growth and, as a result, equipment investment. Capacity utilisation in the manufacturing industry is relatively high and above its long-term average.

On the negative side, the moderate pace of domestic demand growth is expected to remain a limiting factor, particularly in 2017 but also to some extent in 2018. Related to this, expectations of weaker potential growth may also discourage investment intentions. Moreover, the declining but still high level of corporate and household debt in some Member States is expected to continue acting as a drag on investment.

(50) See L. Lambertini, C. Mendicino and M. T. Punzi (2017). 'Expectations-driven cycles in the housing market'. *Economic Modelling* 60, pp. 297–312.

(51) Recently lower estimates of the euro area natural rate of interest (the rate at which the economy operates at full employment without inflationary pressures) have been presented (e.g. 2.4% in 1990, 2.0% in 2000, 0.5% in 2015; see e.g. Holston, K., Laubach, T. and J.C. Williams (2016). 'Measuring the natural rate of interest: international trends and determinants'. *Finance and Economics Discussion Series* 2016-073. Washington: Board of Governors of the Federal Reserve System); these estimates confirmed the decline found in earlier studies, e.g. Mésonnier, J.-S. and J.-P. Renne (2007). 'A time-varying natural rate of interest for the euro area'. *European Economic Review* 51(7), pp. 1768–84.

Finally, the high uncertainty level of both economic and political nature is set to continue weighing on investment growth and diminish productivity growth because the relocation of resources from low to high productivity companies is hampered. [52] The period of elevated uncertainty includes the 'Brexit' negotiations over the new terms that will guide economic relations between the UK and the EU. As these terms remain unknown, some investments are likely to be cancelled or at least postponed, both in the UK and in the rest of Europe. Especially cross-border flows (e.g. foreign direct investment) are expected to be negatively affected. [53] As heightened uncertainty has already been identified as an obstacle for some time, the number of investment projects that might be launched once uncertainty dissipates could be substantial.

All in all, total investment is projected to increase in the euro area by 3.1 in 2017 and 3.5% in 2018 (2.5% and 3.1% respectively in the EU).

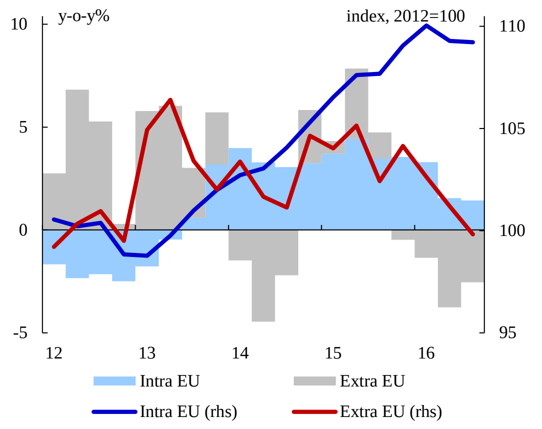
Net exports have contributed slightly to economic growth in the first half of the year...

The relatively slow growth outside the EU and the weakness of global trade are weighing on euro area foreign trade. In the first half of 2016, the average growth rate of the euro area's imports and exports of goods and services fell to their lowest rate since the start of the recovery in the first half of 2013, with a particular weakness observed in the first quarter of the year. The persistence of some lagged effects from movements in the nominal effective exchange rate of the euro has only partially mitigated the weakness in the external environment. Another factor that helped to cushion the impact on total euro area export volumes has been the resilience of intra-euro area exports. The difference between trade among Member States and trade with other economies is even more striking when looking at the difference between EU exports of goods within the EU and outside the EU, with the former increasing by 1.2% in the first half of the year and the latter contracting by 1.3% compared to the second half of last year (see Graph I.33), which also gives an indication of the importance of the internal market for EU companies.

[52] See Bloom, N. (2009). 'The impact of uncertainty shocks'. *Econometrica* 77(3), pp. 623–85.

[53] On the link between (election) uncertainty and FDI, see B. Julio and Y. Yook (2016). 'Policy uncertainty, irreversibility, and cross-border flows of capital'. *Journal of International Economics* 103, pp. 13–26.

Graph I.33: **Exports of goods, EU**



Imports of goods and services remained rather subdued in the first half of this year, growing by 1.0% in the euro area after 3.5% in the first half of last year and 2.3% in the second half. Extra-euro area imports grew stronger than intra-euro area imports. All this added up to a small positive contribution of net exports to economic growth in the first half of this year.

...but slowing global trade hampers the outlook for exports...

The impact of the headwinds stemming from the slowdown in emerging markets and some advanced economies is expected to continue affecting trade in the near term, though gradually fading. After having deteriorated in the two previous quarters, the assessment of export order books in the Commission's manufacturing survey for the third quarter of 2016 improved in the euro area (and the EU) compared to the previous quarter. In line with this, the manufacturing PMI new export orders index also increased in the third quarter. The first hard data for merchandise trade in the third quarter pointed to a stagnation of euro area exports in July and August (average of the two months) as compared to the monthly average in the second quarter (CPB data) and an increase in euro area imports (0.8%). The merchandise trade growth momentum remained negative (up to August). Some lagged effects from the euro's depreciation in 2015 may have continued to exert a positive impact on euro area exports but their contribution would likely have been small. Overall, on the back of the slowdown in global activity, euro area export growth is set to drop significantly in 2016 and grow by just 2.7% (3.0% for the EU), well below pre-crisis rates. In the near-term, imports are expected to follow a similar pattern to that of exports, given the high import content of many export goods. In 2016, imports of goods and services are expected to decelerate to 3.2% (3.6% in the EU), from 6.4% in 2015 (6.2% respectively).

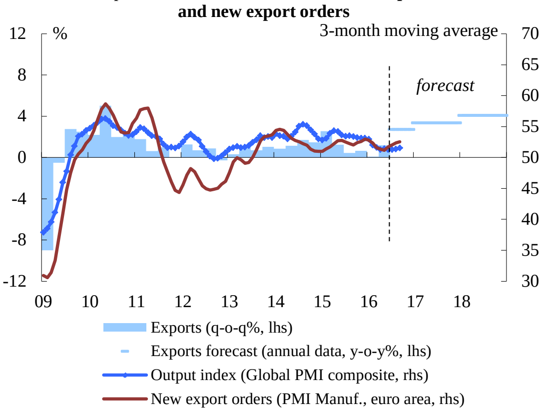
The heightened uncertainty concerning the future trading relations between the UK and the EU, but also increased protectionist sentiment is expected to weigh on trade during the forecast years. The Member States with the largest UK trade exposure are set to be the most affected (Ireland, Germany, the Netherlands, and Belgium) while others could be hurt at the margin, for instance by lower numbers of tourists from the UK.

...and the contribution of net exports to euro area growth is set to remain negative.

Over the forecast horizon, foreign demand for euro area exports is expected to rise as economic activity in emerging market economies gradually strengthens. However, the weakening of the outlook for the UK since the spring has contributed to a strong downward revision in the projected growth rate of foreign demand for euro area exports. To the extent that exchange rate factors affect export performance, [54] the sizeable depreciation of the sterling vis-à-vis the euro is expected to dampen import demand in the UK with an adverse direct impact on euro area exports to the UK, which is one of the largest trading partners of the euro area. Moreover, the deteriorated price competitiveness of euro area companies vis-à-vis their UK competitors could trigger small indirect effects through trade with third countries.

Market shares of euro area exports are expected to remain almost flat in 2016 after gaining considerable ground in 2015 thanks to the significant depreciation of the euro. In 2017, they should marginally decrease and hold steady in 2018. All in all, euro area exports of goods and services are expected to gather some momentum over the forecast horizon (Graph I.34). They are projected to accelerate to 3.3% (3.5% in the EU) in 2017 and to 4.1% (4.2% in the EU) in 2018. Imports are again forecast to continue following a similar pattern to those of exports, while growing stronger, accelerating to 4.0% in the euro area (3.9% in the EU) in 2017 and to 4.7% (4.3% in the EU) in 2018. Overall, the past positive contribution from net exports to economic growth is expected to fade away, resulting in a small negative contribution in 2016-2018. For the EU, the net trade contribution is expected to be nil in 2017 and slightly positive in 2018, given the strong positive contribution of net exports to UK GDP growth in 2017 and 2018.

Graph I.34: **Global demand, euro-area exports and new export orders**

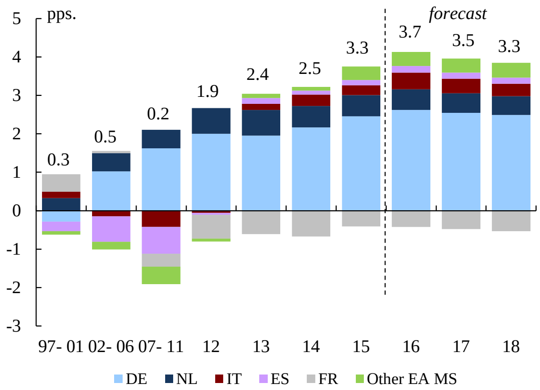


Source: EC, Markit Group Limited

5. THE CURRENT ACCOUNT

The adjusted current account surplus of the euro area gradually rose over the last decade. The largest contributions to the surplus continues to come from Germany and the Netherlands, while the contributions from Spain, Italy and other Member States are relatively small and France continues to exhibit current account deficits (see Graph I.35).

Graph I.35: **Current account, euro area, contributions by Member States**



Figures above bars are unadjusted euro-area balances (% of GDP).

In 2015, favourable conditions such as low commodity prices, a lower external value of the euro, and relatively weak domestic demand pushed

[54] Recent studies suggest that non-price/non-exchange rate factors play a critical and often predominant role in shaping trade developments; for an overview see Di Mauro, F. et al. (2016). 'Fighting 'currency wars' with blanks: The limited role of exchange rates in export competitiveness'. *VoxEU*, June 29.

the surplus to 3.1% of GDP. This year, the improvement of the adjusted current account balance is expected to culminate and reach 3.5% of GDP. As commodity prices have been rebounding this year and extra-euro area exports are expected to grow only modestly from the second half of 2016 onwards, the adjusted current account surplus should gradually decline over the forecast horizon.

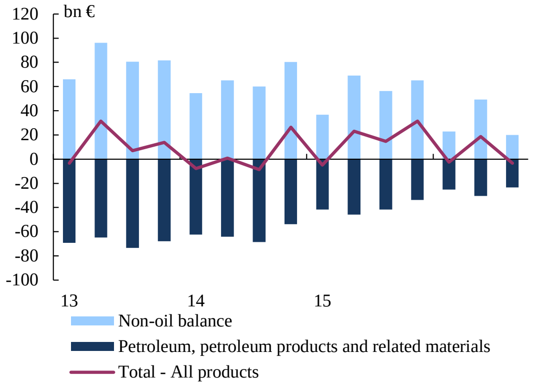
Low commodity prices and a depreciated currency mitigating exceptionally weak foreign demand in 2016...

The low price of most commodities helped push the euro area's adjusted trade surplus even wider in 2015, most notably by affecting nominal imports. Despite bottoming-out in 2016, commodity prices remain relatively low and are still expected to be the main factor boosting the trade surplus even slightly further this year. This is evident from the euro area's oil balance (see Graph I.36). Moreover, the strong depreciation of the euro in nominal and real effective terms helped significantly to gain export market shares in 2015. Until October 2016, the currency has remained relatively weak but its positive impact on gaining additional export market shares has been fading away.

By contrast, the weakness of global economic activity recently (including in many advanced economies outside the EU) and the weak momentum of global trade have been weighing on the expansion of the euro area's merchandise exports this year. The weakness of foreign demand has also shown itself in the significant decrease in the elasticity of global imports. Moreover, the geographical composition of exports does not seem to be beneficial, since the growth of the euro area's export markets is expected to be weaker (2.8%) than the growth of GDP outside the euro area (3.2%) in 2016.

Altogether, the euro area's adjusted merchandise trade surplus is expected to increase from 3.4% of GDP in 2015 to 3.5% in 2016, whereas the adjusted current account surplus is expected to increase from 3.1% of GDP to 3.5%. The increase in both trade and adjusted current account surpluses reflected the improved price competitiveness stemming from low commodity prices, the slight decrease in relative unit labour costs and the weak euro mitigating the negative impact of worsened foreign demand. As a result, the euro area's export performance is expected to remain broadly stable in 2016.

Graph I.36: **Oil and non-oil balance for Extra-EU trade**

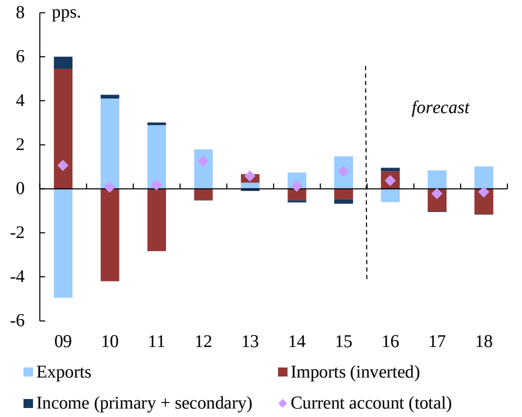


Customs basis trade balance data differ from those presented elsewhere in the forecast document.

...with gradual shrinking of the current account over the forecast horizon...

The euro area's trade balance surplus is expected to gradually recede in 2017 and 2018. Over the forecast horizon, global economic activity is expected to strengthen modestly, mainly on the back of the recovery in emerging market economies and the expected gradual increase in the elasticity of global imports and exports. As foreign demand increases, export markets are projected to grow in line with GDP growth outside the euro area in 2017 and slightly faster in 2018. Export and import prices in the euro area are projected to be influenced mainly by the slight gradual increase of commodity prices and the modest appreciation of the euro, resulting in a negative and zero growth in terms of trade of goods in 2017 and 2018 respectively. Moreover, domestic demand is projected to remain rather subdued. Overall, exports are expected to grow at lower pace than imports, resulting in the slight deterioration of the euro area's adjusted trade surplus. More specifically, the surplus is expected to decrease to 3.3% of GDP in 2017 and 3.2% of GDP in 2018. The adjusted current account surplus (see Graph I.37) is expected to reach 3.2% and 3.1% of GDP in the euro area in 2017 and 2018 respectively.

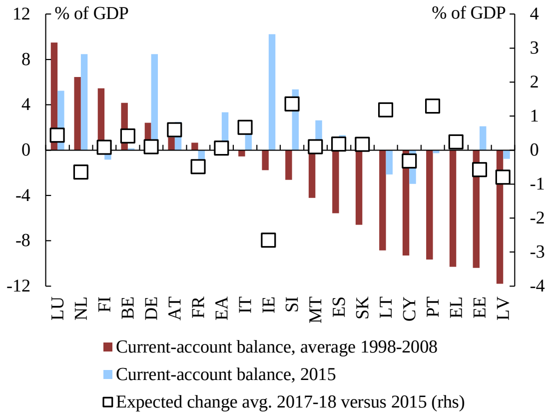
Graph I.37: **Decomposition of the change in the current account balance relative to GDP, euro area**



...while asymmetric adjustment is expected to continue.

The projected shrinking of the adjusted current account surplus in the euro area over the forecast horizon compounds an asymmetric adjustment among Member States (see Graph I.38). Several Member States, which experienced a rebalancing of their current accounts from large deficits to growing surpluses, are expected to further improve or stabilise their current accounts over the forecast horizon (e.g. Ireland, Slovenia and Hungary). On the other hand, the current accounts of some other countries (e.g. Lithuania and Romania) are projected to lapse back into deficit after a short period of rebalancing in 2013 and 2014. A deepening of deficits over the whole forecast horizon is expected in France, Cyprus, Latvia and Romania. The current accounts of the UK, Finland and the Czech Republic are projected to remain in deficit over the forecast horizon as well, but gradual improvement is expected.

Graph I.38: **Current-account balances, euro area and Member States**

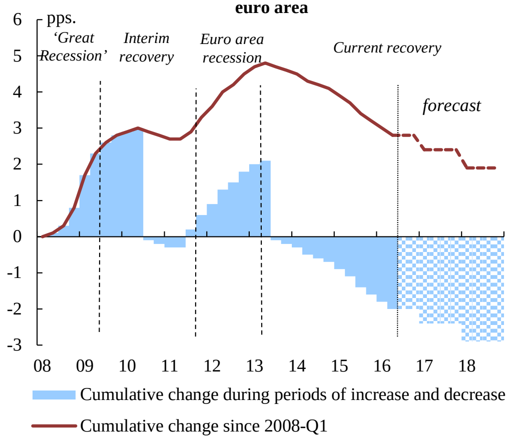


By contrast, large current account surpluses are expected to be registered over the forecast horizon in Ireland, Germany, the Netherlands, Slovenia and Denmark. Over the forecast horizon, the surpluses of these countries are expected to stabilise or recede but to remain at very high levels (as a percentage of GDP).

6. THE LABOUR MARKET

The euro area labour market continues to recover, as visible in increasing employment and declining unemployment. However, the strong increases in unemployment rates during the 'Great Recession' of 2008-2009 and the euro area recession in 2011-2013 have not yet been reversed (see Graph I.39), which suggests that slack persists in the labour market. Behind these headline figures, the recent improvement in the labour market situation has seen some features that can be expected to shape labour market developments over the forecast horizon. They include for instance the observed dynamics of job creation, the unabated trend towards a higher share of part-time work, and receding cross-country differences.

Graph I.39: **Unemployment rate (2008-2018), euro area**



Labour market conditions have improved further on the back of strong job creation...

Employment has risen uninterruptedly since the third quarter of 2013 with the rebound being somewhat stronger than economic growth would have suggested, making the current recovery relatively job-rich. In the EU and the euro area, employment grew by 1.3% in the four quarters up to mid-2016, the best performance since mid-2008. However, in the euro area these developments have not yet been enough to make up for the large losses seen in the level of hours worked during the recession years (see Graph I.40), while in the EU

Table I.5:

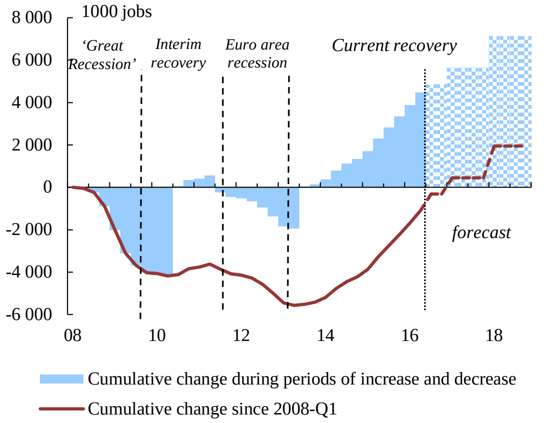
Labour market outlook - euro area and EU

(Annual percentage change)	Euro area						EU					
	Autumn 2016 forecast				*Spring 2016 forecast*		Autumn 2016 forecast				*Spring 2016 forecast*	
	2015	2016	2017	2018	2016	2017	2015	2016	2017	2018	2016	2017
Population of working age (15-64)	0.1	**0.3**	**0.4**	**0.2**	*0.3*	*0.2*	0.1	**0.3**	**0.3**	**0.2**	*0.3*	*0.2*
Labour force	0.2	**0.6**	**0.5**	**0.5**	*0.4*	*0.5*	0.2	**0.6**	**0.5**	**0.4**	*0.4*	*0.5*
Employment	1.1	**1.4**	**1.0**	**1.0**	*1.1*	*1.0*	1.2	**1.4**	**0.9**	**0.8**	*1.0*	*0.9*
Employment (change in million)	1.5	**2.0**	**1.5**	**1.5**	*1.6*	*1.5*	2.6	**3.1**	**2.0**	**1.9**	*2.2*	*2.0*
Unemployment (levels in millions)	17.5	**16.3**	**15.6**	**14.9**	*16.6*	*16.0*	22.9	**21.1**	**20.3**	**19.5**	*21.7*	*20.9*
Unemployment rate (% of labour force)	10.9	**10.1**	**9.7**	**9.2**	*10.3*	*9.9*	9.4	**8.6**	**8.3**	**7.9**	*8.9*	*8.5*
Labour productivity, whole economy	0.9	**0.3**	**0.5**	**0.7**	*0.5*	*0.8*	1.1	**0.4**	**0.7**	**0.9**	*0.8*	*1.0*
Employment rate (a)	59.6	**60.2**	**60.6**	**61.0**	*60.0*	*60.4*	59.8	**60.5**	**60.8**	**61.2**	*60.2*	*60.6*

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

headcount employment has already passed the pre-crisis level.

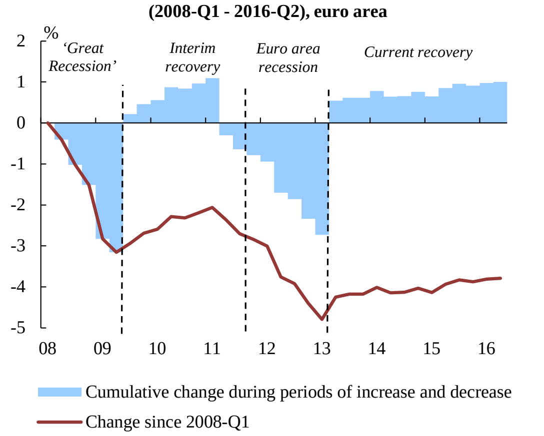
Graph I.40: **Employment growth (2008-2018), euro area**



Net job creation in the EU and the euro area has been supported by the ongoing economic expansion, modest wage growth, structural reforms, as well as short-term fiscal measures in some Member States. In the euro area, the ratio between employment and GDP growth has increased from an average of about 0.55 in the pre-crisis period (1999-Q1 to 2008-Q1) to about 0.65 in the current recovery (up to 2016-Q2). This increased responsiveness of employment to economic growth suggests that the capacity of the economy to create jobs at a given growth rate has increased in recent years and suggests a change in the underlying relationship between GDP growth and employment. [55]

One reason for this development is the ongoing transition from manufacturing to services ('de-industrialisation'), which are traditionally more labour intensive. [56] A second reason is that service sectors tend also to be those where the part-time work ratio is typically higher than in other sectors. A third reason can be found in structural reforms undertaken in several Member States, which may also have contributed to making the current recovery relatively job-rich, for example by decreasing excessive employment protection and or making wages more responsive to activity in specific sectors.

Graph I.41: **Working hours per employed person (2008-Q1 - 2016-Q2), euro area**



...while hours worked remained lacklustre...

The increase in headcount employment has not been mirrored in the development of hours worked by employees. In the euro area, average hours worked of employed persons have remained broadly flat in recent years and remained about 4% below the pre-crisis level in the second quarter of 2016 (see Graph I.41). This can be related to the shift in the composition of labour towards sectors

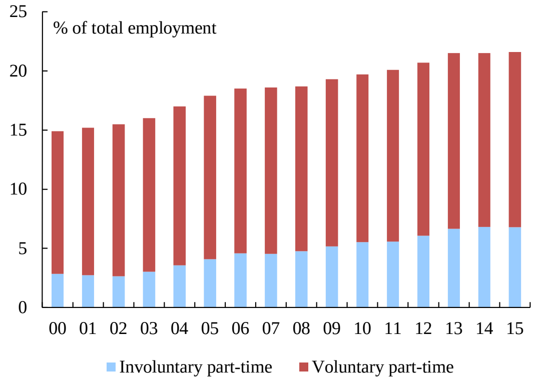
(55) See also ECB (2016). 'The employment-GDP relationship since the crisis.' *Economic Bulletin* 6, pp. 53–71.

(56) An empirical study by the OECD concluded that the goods producing sector accounted for most of the jobs lost during the recession, while the services sector accounted for essentially all of the jobs added during the recovery; see OECD (2016). '*OECD Employment Outlook* 2016', OECD: Paris, chapter 1.

with a higher share of part-time contracts such as market services (see also Box I.4). [57]

In the euro area, the share of part-time workers has increased from 18.6% at the onset of the 'Great Recession' to 21.6% in the second quarter of 2016 (see Graph I.42). Almost in parallel, the share of involuntary part-time work in all part-time work has increased from 24.4% in 2007 to 31.4% in 2015. At the same time, significant shares of jobs have temporary contracts, which hint at structural reasons behind the increase in part-time employment. The more recent increase is consistent with a high level of economic and policy uncertainty as such contracts offer more flexibility to employers to adjust their staff to business activity.

Graph I.42: **Part-time employment, euro area**



...and the unemployment rate continued its gradual descent.

Reflecting rather strong net job creation, unemployment rates have continued their downward trend. By August 2016, the unemployment rate had fallen to 10.1% of the labour force in the euro area and 8.6% in the EU, which are the lowest levels since July 2011. The recent standstill in the decline in the unemployment rate may reflect a larger pool of individuals entering the labour force in line with the recent positive developments in participation for female and older workers.

Falling unemployment rates were also observed for young workers and for those experiencing a long unemployment spell. Youth unemployment has continued to decline faster than the overall unemployment but stands at still high level (18.6% in August in the EU). The comparatively high unemployment rate of young persons could be linked to the over-representation of low-skilled potential workers in this age group, because many young persons have not yet completed their education and are thus not participating in the labour force that enters the calculation of the youth unemployment rate. Looking at the share of youth unemployed in their age group, the "unemployment" rate goes down to close to 8%. [58]

Long-term unemployment has continued to fall gradually over the course of 2016, following the ongoing recovery in labour markets with a lag. However, the proportion of people unemployed for 24 months or more remains high and far above pre-crisis levels. The persistence of a high level of long-term unemployment can be expected to continue weighing on the efficiency of labour market matching in the EU and the euro area and increase the risk that high levels of unemployment could become entrenched.

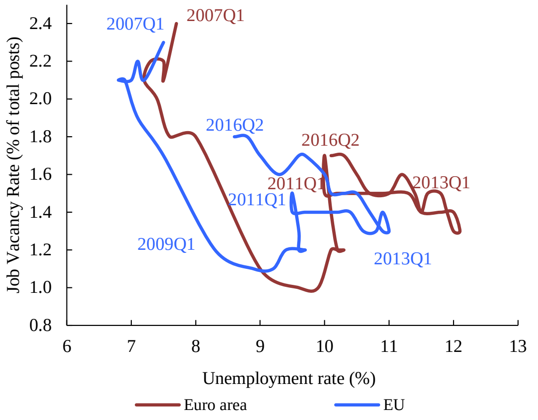
The still relatively high unemployment rate in the euro area is somewhat puzzling given the increase in the vacancy rate from 1.3% in mid-2013 to 1.7% in the first half of 2016. Developments in matching efficiency and unemployment as depicted in the Beveridge curve for the euro area (which shows the unemployment rate for a given level of labour demand i.e. the availability of job vacancies) continue to point to problems in the labour market matching (see Graph I.43). For a given level of job vacancies, the unemployment rate in the euro area was still higher in 2016 than it was before the crisis, in line with the rise in structural unemployment. However, the further inward shift of the curve during the current recovery points to a small decrease in labour market mismatching. This moderate improvement can be partly explained by the slower pace of job destruction in some countries as well as higher job-finding rates and the declining share of long-term unemployment. Still, structural unemployment in the euro area remains high, also reflecting skill mismatches, notably among low-skilled workers. [59]

(57) See ECB (2016). 'Factors behind developments in average hours worked per person employed since 2008'. *Economic Bulletin* 6, Box 6, pp. 49–52.

(58) The rate of young persons that are being neither in education, employment nor training (NEET) is slowly receding. It stood at 12% in 2015 in the EU, 1 pp. below its 2013 peak.

(59) Anderton, R. et al. (2015). 'Comparisons and contrasts of the impact of the crisis on euro area labour markets'. *ECB Occasional Paper Series* 159.

Graph I.43: **Beveridge curve, euro area and EU**



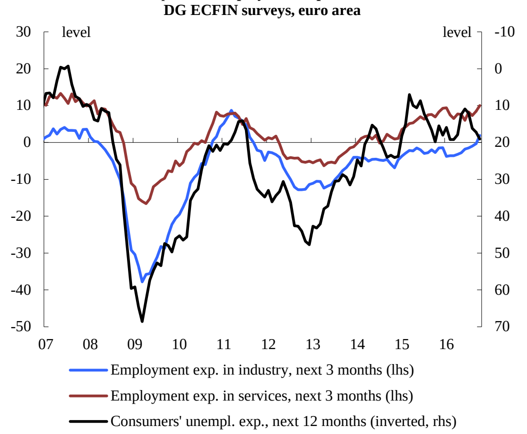
Labour market conditions should continue improving but job creation will be unspectacular...

Labour market conditions are projected to improve further, reducing gradually the amount of labour market slack. Employment creation is set to continue benefitting from the sustained domestic-demand driven expansion, still moderate wage growth, as well as fiscal policy measures and structural reforms implemented in some Member States. On the positive side, the increased recourse to part-time working should also benefit job creation going forward. On the negative side, the slow recovery of hours worked back to pre-crisis levels is expected to act as a drag on stronger employment increases over the forecast horizon.

In addition, some country-specific factors are at play. They include fiscal measures such as temporary reductions in social security contributions in Italy, active labour market policies in Spain and the impact of the *CICE* in France. [60] They also include more cyclical factors such as the maturing of the economic cycle in Spain, where job creation should remain dynamic but lose momentum and the fact that labour supply shortages are likely to become more binding in Germany, where labour market conditions are becoming tight.

In the short-term, the Commission's survey data on employment expectations continue to point to further net job creation (see Graph I.44). Overall, in both the EU and the euro area, the hiring intentions of firms remain above their long-term averages in all sectors. With the exception of the construction sector, employment expectations in the third quarter have improved in the EU industry, retail trade and service sectors. In October, hiring intentions increased again in the EU in all sectors suggesting continuous job creation at the beginning of the fourth quarter. The employment component of the euro area's Composite PMI also increased in October to a third-month high. Meanwhile the difference between employees' (consumers') fears of unemployment versus employers' (industry, retail, services, construction) employment expectations increased. Consumers' unemployment fears rose slightly in the third quarter of 2016, possibly due to heightened economic and policy uncertainty in the aftermath of the UK's referendum outcome.

Graph I.44: **Employment expectations, DG ECFIN surveys, euro area**



All in all, headcount employment is set to grow by 1.4% in the euro area and the EU in 2016, faster than previously expected due to the dynamism of job creation in the first half of the year. This would indicate the strongest momentum since 2008. In 2017 and in 2018, employment growth is set to moderate somewhat but to continue growing by 1.0% in the euro area. In the EU, employment growth should continue slowing in 2018 (to 0.8%, down from 0.9% in 2017), due to specific developments in the UK economy.

...and a slight moderation in the further decline in unemployment.

Developments in the labour force and in unemployment are expected to remain closely linked. The expected annual increase in the labour force of around 0.5% between 2016 and 2018 (up from 0.2% in 2015) reflects a larger working-age population due to net migration (including refugees that enter the labour force), higher

[60] Tax Credit for Encouraging Business and Jobs. The CICE is intended to finance improvements in the competitiveness of businesses through investment, research, innovation, but also recruitment and training.

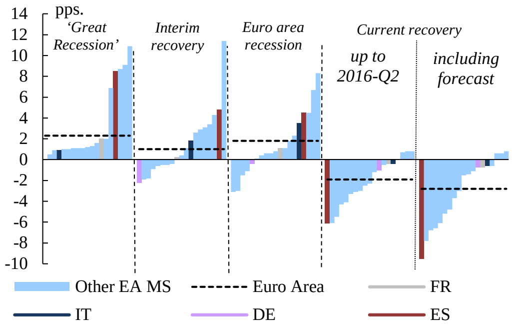
participation rates in line with long-term trends observed already before the crisis for women and older workers, and the effects of an improved labour market situation ('the encouraged worker effect'). Nevertheless, unemployment rates in both the euro area and the EU are set to decline relatively quickly. In 2018, the unemployment rate is projected to reach 9.2% of the labour force in the euro area and 7.9% in the EU, the lowest levels since 2008.

The Non-Accelerating Wage Rate of Unemployment (NAWRU) is expected to continue falling over the forecast horizon. As actual unemployment is set to decline faster than the estimated NAWRU, the unemployment gap is projected to narrow. Labour productivity growth (output per person employed) is expected to reach a trough in 2016 before gradually recovering in 2017 and 2018, reflecting the normalisation in job creation and in line with the pro-cyclicality of labour productivity. It is set to reach 0.7% in the euro area in 2018 (0.9% in the EU), which remains relatively low compared to the decade preceding the crisis (1997-2007) reflecting a continued trend-slowdown in the wake of a shift towards low-productivity services sectors.

Labour market disparities should remain high and recede only slowly

Labour market responses to the crisis have differed substantially across Member States and so have responses to the ongoing expansion. While most Member States recorded increasing unemployment rates during the 'Great Recession' (2008-09), the interim recovery (2009-2011), and the euro area recession (2011-2013), the current recovery has already by now lowered unemployment rates in almost all countries. The expected continuation of the recovery and the accompanying further improvement in the labour market situation is projected to allow for a further decline in unemployment rates (see Graph I.45).

Graph I.45: **Unemployment rate changes (2008-2018), Member States and euro area**

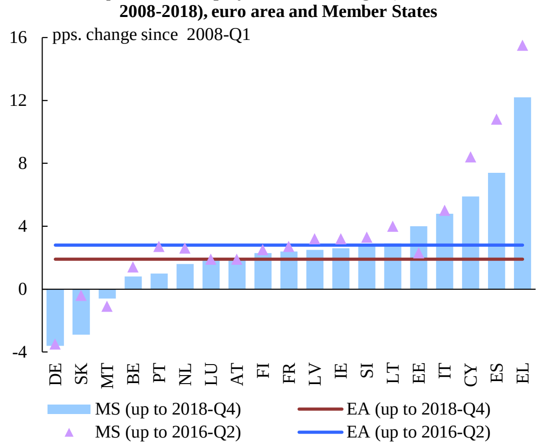


In each phase, the bars for Member States are ranked by the size of change.

Despite the marked decline in unemployment rates during the current recovery, many countries have still not returned to the unemployment levels observed before the crisis. Substantial declines in unemployment rates in Portugal, Greece and Spain, have been accompanied by smaller reductions in countries where the labour market has already become tight (Germany, Austria and to a lesser extent the Netherlands). Employment growth was positive in the majority of Member States and accelerated in some in the first half of the year, notably in France and Italy where improvements had so far been timid.

The projected further decline of unemployment rates helps reducing the crisis legacy in terms of unemployment but will not be sufficient to return to pre-crisis levels (see Graph I.46).

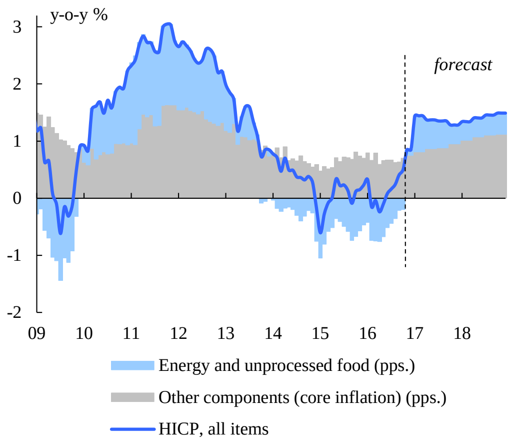
Graph I.46: **Unemployment rate changes (2008-2016, 2008-2018), euro area and Member States**



Labour market disparities across countries are set to continue receding gradually over the forecast horizon. This reflects differences in the initial conditions prior to the crisis but also differences in the adjustment mechanisms, such as prevailing labour market institutions, but also the impact of structural reforms put in place by Member States.

Structural measures may notably have contributed to an increase in the responsiveness of employment to GDP during the recovery in several euro area countries. These include measures which increase labour market flexibility by decreasing excessive employment protection, for example by reducing severance payments or making wages more flexible. At the same time, other factors, such as sectoral differences in growth rates and job creation, as well as differences in rebound rates due to previous (substantial) job losses during the crisis may also play a role in explaining the differences in unemployment rates.

Graph I.47: **Inflation breakdown, euro area**



7. INFLATION

Inflation in the euro area was very low in the first ten months of 2016, dragged down by falling energy prices. However, it picked up in the third quarter as the impact of negative base effects in energy inflation began to unwind. As the assumed path of energy commodity prices imply, the inflation profile until the second half of 2017 will be strongly shaped by positive base effects in energy inflation. Thereafter, overall inflation is expected to remain above 1% and to gradually increase as stronger economic activity will be reflected in higher underlying price pressures.

Inflation slowly picking up…

The Harmonised Index of Consumer Prices (HICP) in the euro area picked up in the third quarter of 2016 after inflation had been negative in the second quarter, which was strongly dragged down by negative energy inflation (see Graph I.47). HICP inflation in the euro area averaged 0.0% and -0.1% in the first and second quarters of 2016, respectively, and picked up in the third quarter to 0.3%. Headline inflation in the third quarter was lifted by less negative energy inflation, and unprocessed food inflation, which also tends to be very volatile, averaged 2.2%, up from 1.4% in the second quarter.

Core inflation (excluding energy and unprocessed food) in the third quarter of 2016 remained unchanged at 0.8%, with services inflation ticking up to 1.1%, while non-energy industrial goods and processed food declined somewhat. Core inflation so far in 2016 has hovered around 0.8%, the same level as the average in 2015, and showed no discernible trend yet.

In October (flash estimate), headline HICP in the euro area increased to 0.5%, from 0.4% in September, as the impact of negative base effects in energy inflation continued to diminish. Energy inflation in October was -0.9%, up from -3.0% in September and -8.5% in October 2015. Given the oil price rebound since the start of the year, developments in energy prices suggest an effect that is lagged by a few months between the pass-through of actual energy prices to the energy inflation subcomponent. Services inflation remained at 1.1% in October, reflecting subdued domestic demand pressures. Non-energy industrial goods inflation also remained unchanged compared to September (at 0.3%), but food inflation dropped to 0.4%.

…while global inflation is moving up.

Meanwhile, there is increasing evidence that global inflation is moving up, in part uplifted by increasing energy prices. Headline and core inflation rates in the US and China, for example, increased recently while the global PMI input prices and output charges indices indicate some uptick in price pressures. While the information content of global inflation for euro area inflation may be more limited in times of relatively stable trends, [61] producer prices measures have a direct link to euro area producer prices. Producer prices in China, which until January were falling markedly, posted the first increase in almost five years in September. Slowly increasing pipeline price pressures may improve the pricing power of businesses and in turn should help lift corporate profit growth and business investment. Given the

(61) See Mikolajun, I. and D. Lodge (2016). ‘Advanced economy inflation: the role of global factors’. *ECB Working Paper Series* 1948.

Table I.6:

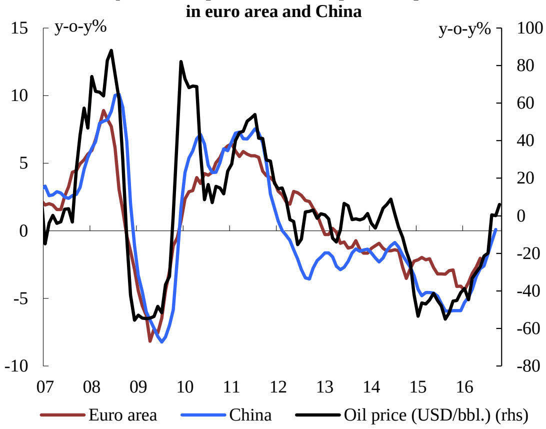
Inflation outlook - euro area and EU

(Annual percentage change)	Euro area						EU					
	Autumn 2016 forecast				*Spring 2016 forecast*		Autumn 2016 forecast				*Spring 2016 forecast*	
	2015	2016	2017	2018	2016	2017	2015	2016	2017	2018	2016	2017
Private consumption deflator	0.1	**0.4**	**1.3**	**1.4**	*0.4*	*1.3*	0.2	**0.5**	**1.6**	**1.7**	*0.5*	*1.4*
GDP deflator	1.1	**1.0**	**1.2**	**1.5**	*1.2*	*1.3*	1.0	**1.0**	**1.4**	**1.7**	*1.3*	*1.5*
HICP	0.0	**0.3**	**1.4**	**1.4**	*0.2*	*1.4*	0.0	**0.3**	**1.6**	**1.7**	*0.3*	*1.5*
Compensation per employee	1.2	**1.2**	**1.7**	**2.0**	*1.5*	*1.9*	1.2	**1.6**	**2.0**	**2.3**	*2.0*	*2.4*
Unit labour costs	0.3	**1.0**	**1.2**	**1.3**	*0.9*	*1.1*	0.3	**1.2**	**1.3**	**1.4**	*1.3*	*1.3*
Import prices of goods	-3.6	**-3.2**	**1.5**	**1.3**	*-2.7*	*1.1*	-3.6	**-1.6**	**2.3**	**1.6**	*-2.1*	*1.1*

globalised supply chains of European companies this is also expected to translate into higher pipeline pressures in the euro area (see Graph I.48).

The latest data on industrial import prices in the euro area show that they are still declining on a year-on-year basis, as in August they fell at an annual rate of 2.9%. However, the rate is quickly recovering from a trough of -7.1% in April. This decline in industrial import prices also contributed to subdued producer price developments in the euro area, which fell at an annual rate of 2.1% in August. However, the monthly change has been positive since spring - except for August - which also signals an upward turn in the producer price cycle. The recent uptick in energy prices and the projected further increase of energy prices may help to further stabilise both import and producer prices once the impact of base effects runs its course towards the end of the year. Yet the eventual pick-up in pipeline pressures is set to pass-through to retail prices only very slowly in 2017.

Graph I.48: **Oil prices, industrial producer prices in euro area and China**



The profile of headline HICP is expected to be dominated by energy base effects...

Headline inflation is expected to pick up noticeably towards the end of this year and the first half of 2017, with the profile of headline HICP inflation expected to be shaped by the reversal of energy prices taken on a year-on-year basis. Indeed, the latest positive developments in oil prices signal that the period of negative inflation rates is past, as oil prices have recovered from their January lows of around 30 USD/bbl to their current level of around 50 USD/bbl. As October 2016 levels are already above October 2015 levels, the negative impact of energy inflation is expected to fade away with some delay and then turn noticeably positive by early next year. The inflation path in the next months will therefore be shaped by rather strong positive base effects in energy inflation. While the pass-through to energy inflation of this percentage increase in oil prices will only be partial and broadly proportional, it is expected to lift inflation to above 1% already in the first quarter of 2017 and then to filter gradually into the other inflation components.

...before core inflation picks up...

As the expected positive base effects are expected to fade away by the second half of 2017 given the current market expectations about the future price of oil, the outlook for a gradual uptick in inflation rests on an expected increase in underlying price pressures. Signs of a pick-up in underlying price pressures are still very rare. Core inflation is expected to increase only very gradually, and mainly towards the second half of 2017, reflecting a prolonged delay after a long period of declining headline inflation below core inflation. While the two variables move similarly, core inflation tends to lag headline inflation. [62] This is because oil

[62] The ECB found the lag between headline and core measures to have become shorter in recent years. ECB (2016). 'The relationship between HICP inflation and

price or weather shocks, for example, are quickly passed-through to energy or food prices but the impact of these on services is less immediately evident. This is expected to be the case also once headline inflation moves above core inflation in 2017. This expected reversal will reduce the risk of second-round effects.

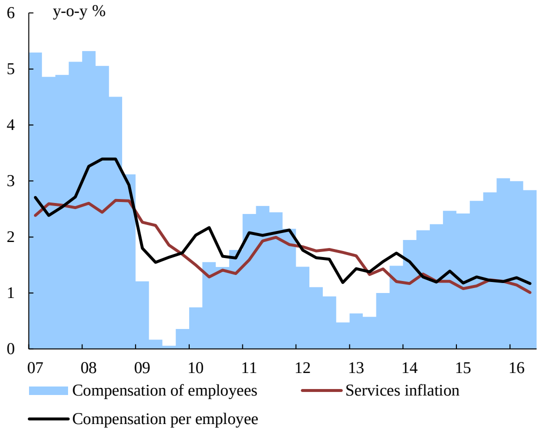
Core inflation in the euro area has also been fairly impervious to the improvement in economic activity for the past year. This could be for several reasons. First, the strong decline in energy inflation over the past year has had an indirect depressing impact on other components of core inflation like transport, which is energy-intensive. Second, another important factor has been the global disinflationary trend evident in producer prices, associated with falling oil prices and industrial over-capacity, especially in China, which drag the non-energy industrial goods component of core inflation. Third, wage growth has been subdued. Fourth, the output gap for the euro area remains in negative territory and, while the link is non-linear, it tends to restrain the increase in underlying price pressures until remaining slack in the economy clears. All these factors are expected to turn supportive of an uptick in core inflation next year, including and especially the expected reduction in the output gap.

...but only very gradually...

Looking further into the detail of the main components of core inflation, there are several developments that support the expected slow uptick over the next two years. First, the increase in energy prices and the upswing in global producer prices are expected to be positive for non-energy industrial goods inflation. The uplift in companies' pricing power is, however, expected to remain feeble and gradual considering the weakness in aggregate demand in times of high uncertainty.

Inflation in services, which makes up about two thirds of the euro area core inflation index, tends to be closely related to wage growth and wage growth per employee has been subdued in the light of still relatively high unemployment. Wages and salaries per hour grew at an annual rate of just 0.9% in the second quarter of 2016, down from 1.6% in the first quarter, although this sudden decline partly reflects some base effects in Germany and the Netherlands. The growth rate of nominal compensation per employee was also subdued at 1.2% in the second quarter of 2016. At the same time, the decline in this rate can be strongly attributed to the increase in part-time employment as the growth of total nominal compensation has been increasing steadily in line with employment growth. [63] This is especially so in the services sector, where short-term employment schemes are more important and where a structural increase in labour force participation is expected to continue exerting a downward pressure on this measure. On the other hand, wage growth per hour in the construction sector has been stronger, attesting more clearly to the impact of the cyclical upswing. Therefore, while growth in compensation per employee for the whole economy is expected to remain relatively low due to structural aspects of the labour market, the increase in total compensation, as also reflected in higher employment and lower unemployment rates, are supportive of the expected increase in private consumption and services inflation (see Graph I.49).

Graph I.49: **Wage growth and services inflation, euro area**



Indeed, as expected growth in nominal incomes continues to exceed inflation, changes in the real wage rate and the purchasing power of households are set to remain positive over the forecast horizon. In fact, the growth rate of real compensation per employee increased further to 1.0% in 2015, substantially up from 0.6% in 2013 and 0.8% in 2014. With inflation remaining very low again in 2016 and the growth of nominal compensation per employee expected to remain broadly stable, the real compensation growth per employee is expected to remain positive at 0.8% in 2016. This

HICP inflation excluding energy and food'. *Economic Bulletin* 2, Box 7, pp. 54–56.

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

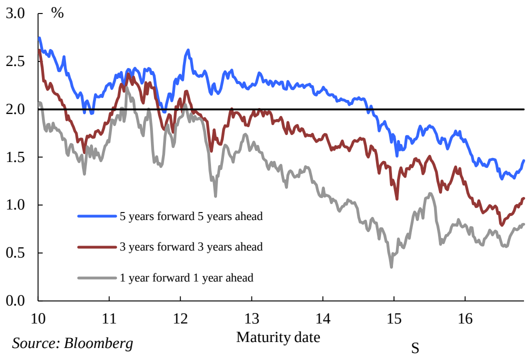
could imply some pent-up demand that will eventually add upward pressure on domestic prices.

Furthermore, monetary policy is expected to support an increase in underlying price pressures through its usual transmission channels. One noticeable aspect of this is the increase in credit for house loans and the upswing in house prices. House prices are recovering very strongly in a number of Member States, especially in Germany where this increase is expected to be translated into higher rents and housing-related prices which have a substantial weight in the consumption basket.

...in line with slowly recovering inflation expectations.

Market-based measures of inflation expectations have recovered somewhat since the spring forecast, providing further evidence of the close link between oil prices and recent inflation developments. Market-based indicators fell to their lowest levels in February 2016. At the cut-off date of this forecast, inflation-linked swap rates at the one-year forward one year ahead horizon stood at 0.8% (see Graph I.50). Swap rates at the three-year forward three-year ahead horizon imply an average inflation rate of 1.1%. On a longer horizon, the widely watched five-year forward five-year ahead indicator suggests inflation of 1.5%. This indicates that market participants are reversing slowly their inflation outlook and consider it likely that inflation will pick up soon, but very gradually.

Graph I.50: **Inflation expectations derived from implied forward inflation-linked swap rates**



Source: Bloomberg

Survey-based measures of inflation expectations have remained unchanged or been revised down since spring. The monthly mean of market forecasters calculated by Consensus Economics stood in October at 0.2% in 2016 (latest revision in July from 0.3%) and 1.3% in 2017 (unchanged from 1.3%). This slower path, despite the upward revision in GDP growth in 2016, can be linked to the larger role of lagged inflation under persistently low inflation. [64] The ECB's October 2016 Survey of Professional Forecasters includes inflation forecast means of 0.2% in 2016 (down from 0.3% in the July survey), 1.2% in 2017 (1.2%), and 1.4% (1.5%) in 2018. The longer-term inflation expectations (for 2020) stood unchanged at 1.8%. According to the Commission's surveys, selling price expectations in the retail and services sectors have remained positive although the level remains subdued. The euro area PMI index for input prices increased to a 15-month high in October, whereas selling prices increased for the first time since August 2015.

The outlook for inflation remains broadly unchanged...

In 2016, headline inflation in the euro area is projected to come in at 0.3%, which is only 0.1 pps. higher than forecast in spring, reflecting mainly the upward revision in oil price assumptions. In 2017, and as described above, the impact of higher nominal wages and domestic demand, the further narrowing of the output gap, and the assumed moderate increase in oil prices should start feeding into underlying price pressures towards the second half of the year. Headline inflation in 2017 is projected to stand at 1.4%. The impact of the upward revision in oil price assumptions on headline inflation is set to be partly offset by a weaker-than-previously expected gradual increase in the components of core inflation. With upward price pressures remaining subdued well into 2018, inflation is projected to remain at an annual rate of 1.4%.

...while inflation differentials are expected to narrow.

Aggregate HICP inflation rates mask substantial differences between euro area Member States. In 2015, HICP inflation rates in the Member States ranged from -1.5% in Cyprus to 1.2% in Malta. In 2016, inflation rates are expected to range from -1.1% in Cyprus to 1.7% in Belgium; and in 2017, from 0.7% in Cyprus to 2.6% in Estonia. In 2018, all euro area countries are expected to have inflation rates between 1% and 2%, with the exception of Estonia and Lithuania which are expected to have higher inflation rates. The

[64] See M. Ehrmann (2015). 'Targeting inflation from below: how do inflation expectations behave?'. *International Journal of Central Banking* 11(Supplement), pp. 213–49.

variation in inflation rates is thus expected to narrow after substantial rebalancing and price adjustments after the crisis, with remaining differences reflecting several country-specific factors including differences in real GDP growth, wage growth pressures, convergence in price levels, and the different impact of exchange rate and commodity price movements, which in turn depend on the composition of consumption and industrial structures.

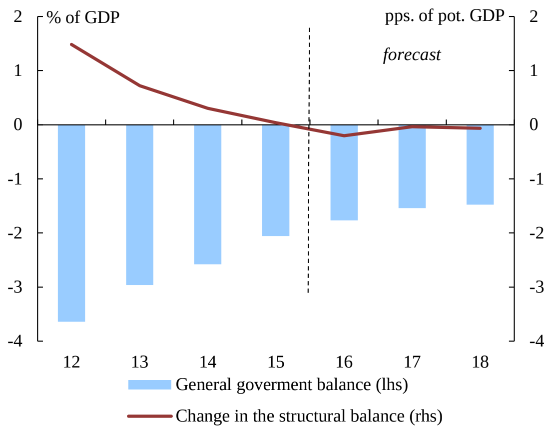
8. PUBLIC FINANCES

The general government deficit-to-GDP and gross debt-to-GDP ratios in the euro area continued to decline in 2016, on the back of the ongoing economic expansion and historically low interest rates. Over the forecast horizon, both government deficit and debt ratios are projected to remain on a downward path, albeit at a slower pace than in previous years.

The government deficit is expected to continue to fall but at a slower pace

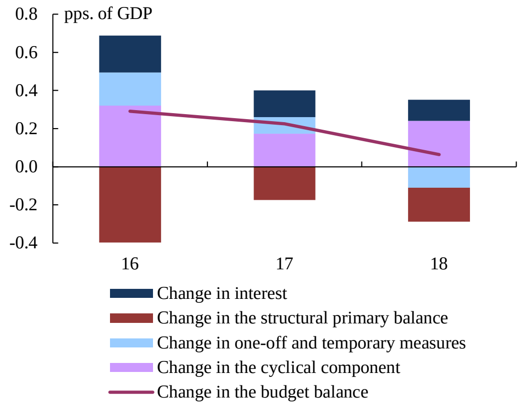
In 2016, the aggregate general government deficit in the euro area is expected to fall to 1.8% of GDP (2.0% in the EU), 0.3 pps. of GDP (0.4 pps. in the EU) lower compared to the previous year. It is expected to continue to decline in both areas in 2017 and 2018, albeit at a slower pace than in previous years. In the euro area, the aggregate deficit (see Graph I.51) should fall to 1.5% in 2017 and, under a no-policy-change assumption, remain unchanged in 2018 (compared to 1.7% and 1.6% respectively, in the EU) (see Table I.7).

Graph I.51: **Budgetary developments, euro area**



Several factors are at play when breaking down the change in the headline budget balance for the euro area on aggregate into its main components (see Graph I.52). More specifically, the ongoing economic expansion as reflected in the change in the cyclical component is expected to make a positive contribution of somewhat more than 0.3% of GDP to the reduction of the aggregate euro area deficit this year. The contribution of the business cycle is projected to fall below 0.2% of GDP in 2017 on the back of the expected slight deceleration of the euro area economy, and to edge up again above 0.2% of GDP in 2018 as economic activity gathers some momentum. [65] In some Member States, the unwinding of one-off budgetary factors, in particular associated with support to the financial sector, are also expected to help lower the government deficit in 2016.

Graph I.52: **Breakdown of the change in the aggregate general government deficit, euro area**



After several years of increases in the euro area structural balance, in 2015 the balance remained broadly unchanged. It is projected to fall by 0.2 pps. of GDP in 2016 and around 0.1 pps. in 2017 while remaining broadly unchanged in 2018 (see Section I.9). [66] The reduction in interest expenditure continues to have a positive impact on the structural balance, although this effect is expected to decrease over the forecast horizon, from close to 0.2% of GDP in 2016 to around 0.1% in 2018. The decline in interest expenditure reflects depressed long-term interest rates amid negative policy rates, subdued GDP growth expectations but also non-standard monetary

(65) For an explanation of the EU methodology for adjusting the budget balance for the business cycle, 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.

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

Table I.7:

General Government budgetary position - euro area and EU

(% of GDP)	Euro area						EU					
	Autumn 2016 forecast				*Spring 2016 forecast*		Autumn 2016 forecast				*Spring 2016 forecast*	
	2015	2016	2017	2018	*2016*	*2017*	2015	2016	2017	2018	*2016*	*2017*
Total receipts (1)	46.5	**46.2**	**46.1**	**45.9**	*46.1*	*46.0*	44.9	**44.9**	**44.9**	**44.7**	*44.8*	*44.7*
Total expenditure (2)	48.5	**48.0**	**47.7**	**47.4**	*48.0*	*47.6*	47.3	**46.9**	**46.6**	**46.3**	*46.9*	*46.5*
Actual balance (3) = (1)-(2)	-2.1	**-1.8**	**-1.5**	**-1.5**	*-1.9*	*-1.6*	-2.4	**-2.0**	**-1.7**	**-1.6**	*-2.1*	*-1.8*
Interest expenditure (4)	2.4	**2.2**	**2.1**	**1.9**	*2.3*	*2.2*	2.3	**2.1**	**2.0**	**1.9**	*2.2*	*2.1*
Primary balance (5) = (3)+(4)	0.3	**0.4**	**0.5**	**0.5**	*0.4*	*0.5*	-0.1	**0.2**	**0.3**	**0.3**	*0.0*	*0.3*
Cyclically-adjusted budget balance (a)	-1.2	**-1.2**	**-1.2**	**-1.3**	*-1.3*	*-1.4*	-1.7	**-1.6**	**-1.5**	**-1.5**	*-1.7*	*-1.6*
Cyclically-adjusted primary balance (a)	1.2	**1.0**	**0.9**	**0.6**	*1.0*	*0.8*	0.5	**0.5**	**0.5**	**0.4**	*0.5*	*0.4*
Structural budget balance (a)	-1.0	**-1.2**	**-1.3**	**-1.3**	*-1.3*	*-1.4*	-1.7	**-1.6**	**-1.6**	**-1.5**	*-1.7*	*-1.7*
Change in structural budget balance (a)	0.0	**-0.2**	**0.0**	**-0.1**	*-0.3*	*-0.1*	0.1	**0.0**	**0.1**	**0.0**	*-0.1*	*0.1*
Gross debt	92.6	**91.6**	**90.6**	**89.4**	*92.2*	*91.1*	86.6	**86.0**	**85.1**	**83.9**	*86.4*	*85.5*

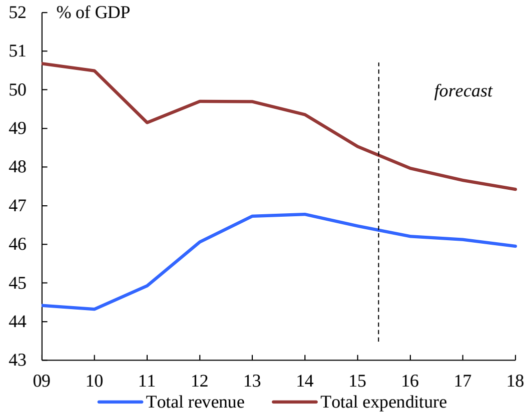
(a) as a % of potential output. The structural budget balance is the cyclically-adjusted budget balance net of one-off and other temporary measures estimated by the European Commission.

policy measures (see also Section 9). [67] The structural primary balance, which excludes interest expenditure, is expected to fall by 0.4 pps. of GDP in 2016 and around 0.2 pps. of GDP in 2017 and 2018.

Expenditure driving the headline deficit reduction...

The reduction in the aggregate general government deficit-to-GDP ratio over the forecast horizon is expected to be driven by the fact that the general government expenditure-to-GDP ratio is falling somewhat faster than the respective revenue ratio, both in the euro area and the EU (Graph I.53).

Graph I.53: **General government revenue and expenditure, euro area**



The government expenditure-to-GDP ratio in the euro area is expected to decline over the forecast horizon from 48.0% in 2016 to 47.4% in 2018, under a no-policy-change assumption. This decline reflects factors including the reduced expenditure (as a percentage of GDP) on social transfers as a consequence of the economic recovery and falling unemployment, wage bill moderation in the public sector and lower interest expenditure.

The public investment-to-GDP ratio for the euro area as a whole is set to stabilise at about 2.7% over the forecast period, still standing below the pre-crisis average. In some Member States, positive contributions to total investment growth are expected over the forecast horizon, as projects from the new programming period of EU funding enter the implementation phase. Also, the revamped Investment Plan for Europe should have a positive impact on public investment, notably in the outer years of the forecast horizon. Increases in public investment could boost demand and have positive spillover effects on other Member States. [68]

The government revenue-to-GDP ratio is expected to decline as well but to a lesser extent than the government expenditure ratio. The revenue-to-GDP ratio in the euro area is set to continue its gradual decrease from its peak of 46.8% in 2014 to 45.9% in 2018, under a no-policy change assumption. This decrease reflects factors including a reduced weight (as a percentage of GDP) of income taxes and social contributions, stemming from measures to reduce the tax burden on labour.

...while government debt is set to continue to decline from a high level.

In 2016, the general government debt-to-GDP ratio is expected to continue its downward trend to

(67) An increase in the average maturity of debt has also been associated with a reduction in the long term interest rate. See, Beetsma, R., M. Giuliodori, and I., Sakalauskaite (2016). 'Long-term interest rates and public debt maturity'. *Economica* (forthcoming).

(68) For an analysis for surplus countries, see In 't Veld, J. (2016). 'Public investment stimulus in surplus countries and their euro area spillovers'. *European Economy Economic Brief* 16 (European Commission – DG ECFIN).

91.6% in the euro area (86.0% in the EU). Over the next two years, the government debt ratio is projected to continue declining gradually. In the euro area, the general government debt-to-GDP ratio is forecast to decline to 90.6% in 2017 (85.1% in the EU) and, under a no-policy-change assumption, to 89.4% in 2018 (83.9% in the EU). Debt reduction finds its roots both in higher primary surpluses and in a more favourable snow-ball effect driven by reduced interest expenditure, modest real GDP growth and the expected uptick of inflation (Table I.8).

9. MACROECONOMIC POLICIES IN THE EURO AREA

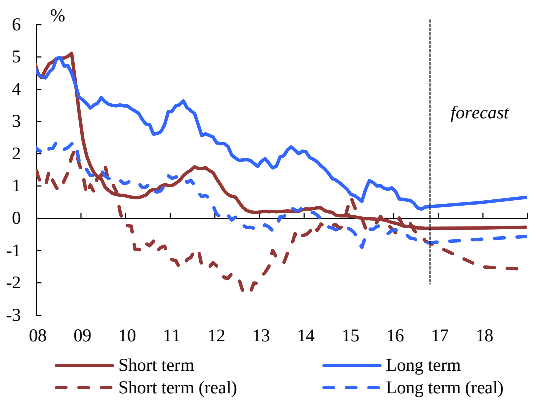
Monetary conditions in the euro area are accommodative, with low financing costs and credit supply conditions that have been easing. Based on the customary assumptions, [69] monetary conditions are set to remain accommodative over the forecast horizon. The fiscal policy stance turned broadly neutral in 2015 and is not expected to turn restrictive again over the forecast horizon. These developments should be seen against a backdrop of the fragile and uneven global recovery that is subject to considerable political and economic risks.

Monetary conditions are expected to remain accommodative

The full implementation of the set of monetary policy measures introduced in recent years is expected to maintain downward pressure on both bank lending rates and bond yields and thus to ensure that monetary conditions remain accommodative. The ECB's asset purchases under the corporate sector purchases-programme (CSPP) that started in June 2016 should additionally ease financing conditions for non-financial corporations directly as well as indirectly through portfolio rebalancing effects, e.g. by freeing up space in bank balance sheets for lending to SMEs. At the same time, the effects of the negative deposit facility rate on money markets and lending conditions should be reinforced by the growing excess liquidity generated through the asset purchases, thereby exploiting the synergies between the different policy instruments in the transmission of the effects of the ECB's asset purchases to the real economy through both banks and financial markets.

In the money market, the overnight rate (EONIA) has adjusted smoothly to the latest cut in the ECB's deposit facility rate and is expected to remain close to current levels over the forecast horizon, as indicated by EONIA forward rates. Since spring, the three-month Euribor gradually declined further while the three-month Euribor-OIS spread, a measure of interbank market stress, narrowed. While real short-term interest rates in the euro area have been below zero for most of the past six years, the decline in inflation rates drove them temporarily above zero in 2015, before decreasing back into negative territory since March 2016 (Graph I.54) [70]. Reflecting the flattening of the yield curve, real long-term interest rates derived from inflation and interest rate swaps also became negative in mid-2014. Forward rates suggest that both nominal short- and long-term rates will only increase gradually over the forecast horizon, which taken together with the expected pick-up in inflation, implies that real interest rates should remain in negative territory over the forecast horizon.

Graph I.54: **Euro area interest rates**



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

Monetary policy uses a variety of (standard and non-standard) tools, affecting various economic variables with different and time-varying lags. Any indicator reflecting the monetary policy stance or monetary conditions therefore bears the risk of oversimplifying a complex reality.

[69] The interest rate assumptions underlying the forecast are market-based; nominal exchange rates are assumed to remain constant with respect to a base period. For details, see Box I.6 in this document.

[70] 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 forward interest rate swaps deflated by the inflation forecast and market-based measures of inflation.

Table I.8:
Euro-area debt dynamics

	Average 2004-11	2013	2014	2015	2016	2017	2018
General government gross debt ratio1 (% of GDP)	**73.4**	**93.7**	**94.4**	**92.6**	**91.6**	**90.7**	**89.4**
Change in the ratio	2.3	2.2	0.7	-1.8	-1.0	-0.9	-1.2
Contributions to the change in the ratio:							
1. Primary balance	**0.4**	**0.2**	**-0.1**	**-0.3**	**-0.4**	**-0.5**	**-0.5**
2. “Snow-ball” effect[2]	**0.9**	**1.9**	**0.8**	**-0.5**	**-0.3**	**-0.4**	**-0.8**
Of which:							
Interest expenditure	2.9	2.8	2.7	2.4	2.2	2.1	2.0
Growth effect	-0.8	0.2	-1.1	-1.9	-1.5	-1.4	-1.5
Inflation effect	-1.1	-1.2	-0.8	-1.0	-1.0	-1.1	-1.3
3. Stock-flow adjustment	**1.0**	**0.2**	**0.0**	**-1.0**	**-0.3**	**0.0**	**0.1**

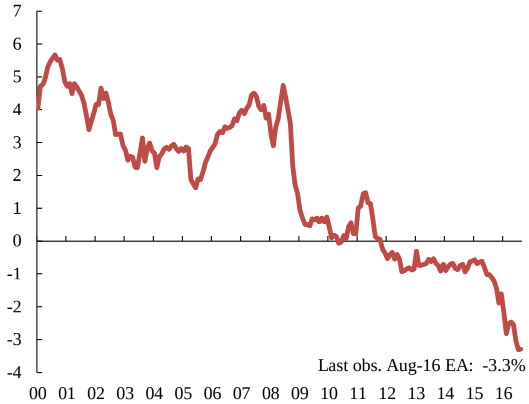
[1] End of period.

[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.

Two indicators are looked at. A shadow interest rate [71] is displayed as an approximate measure of the monetary policy stance in times when the policy rate is restricted by the lower bound on interest rates (see Graph I.55). While the overall level of the shadow rate should be interpreted with caution, [72] its change over time nonetheless illustrates the support provided by ECB actions and in particular the accommodative effect of the public sector asset purchase programme that started in March 2015. The latter is reflected in the steep downward movement in the shadow interest rate.

The transmission of these developments to the financing conditions in the non-financial private sector is captured by the decline in the composite credit cost indicators (CCCI) [73] for non-financial corporations and households (see Graph I.56). Credit costs for both non-financial corporations and households decreased further on balance since the beginning of the year.

Graph I.55: **Euro area shadow rate (EA K-ANMS(2) Fixed LB)**



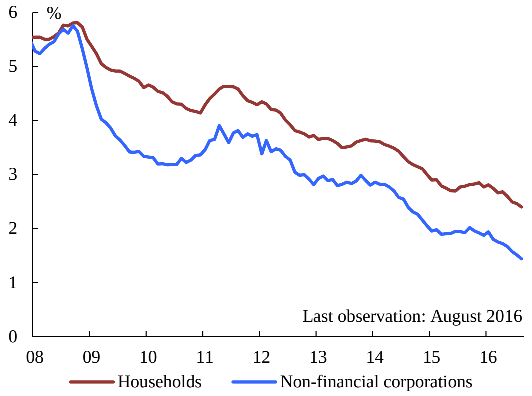
Moreover, a considerable amount of the easing packages introduced by the ECB over the past year have yet to be implemented, as two targeted long-term refinancing operations (TLTRO-II) have yet to be carried out and the asset purchases of EUR 80 billion per month are set to be running at least until March 2017. This feeds market expectations that the Eurosystem balance sheet is likely to stay at an elevated level over the forecast horizon. In the light of the inflation forecast for the euro area, this seems consistent with the ECB's forward guidance to keep interest rates at low levels well past the end of the asset purchases. Therefore, monetary conditions are expected to remain very accommodative over the forecast horizon.

(71) The shadow interest rate is a hypothetical estimated short term rate that would be consistent with the OIS curve term structure in the absence of a lower bound on interest rates. The estimates presented here are based on the methodology of Krippner, L. (2013). ‘Measuring the stance of monetary policy in zero lower bound environments’. *Economics Letters* 118(1), pp. 135–8. There are considerable uncertainties in particular surrounding the level of shadow rate estimates, which should therefore be interpreted cautiously.

(72) See, Carnot, N., Clemens, U., Larch, M. and B. Vasicek (2016). ‘The macroeconomic policy mix in the euro area, when monetary policy is at the zero lower bound (ZLB)’. European Commission, *Quarterly Report on the Euro Area* (forthcoming).

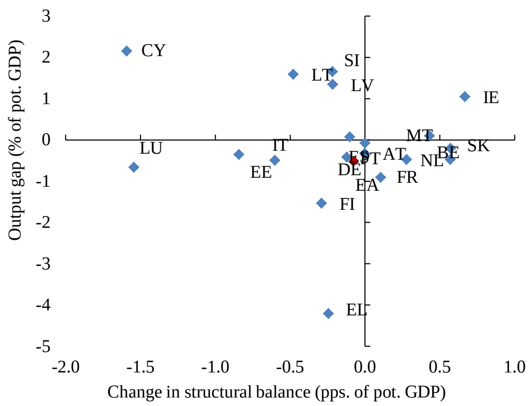
(73) The CCCIs are calculated as weighted averages of interest rates on different types of bank loans and corporate bonds (in case of non-financial corporations).

Graph I.56: **Composite credit cost indicators, euro area**



Sources: ECB, Bloomberg, own calculations

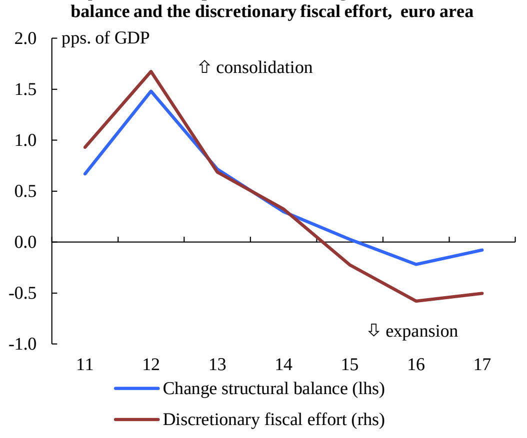
Graph I.58: **Change in the structural balance vs output gap, 2017**



Fiscal policy is no longer restrictive

The fiscal stance in the euro area, as measured by the change in the structural balance, stopped being restrictive in 2015 and is not expected to turn restrictive again over the forecast horizon (see Graph I.57). The discretionary fiscal effort, which is an alternative measure of the size of discretionary fiscal policy (computed by adding up discretionary measures on the revenue side and by measuring the gap between potential growth and expenditure growth on the expenditure side) signals the same departure from the strong fiscal consolidation efforts undertaken in previous years (see Graph I.57).

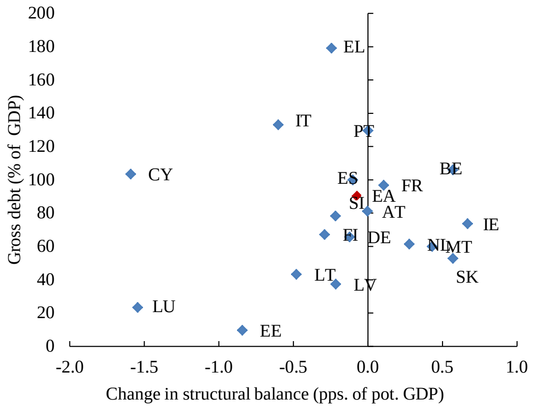
Graph I.57: **Development of the change in the structural balance and the discretionary fiscal effort, euro area**



The picture varies significantly in individual Member States. Considering Member States' output gaps, individual countries are widely dispersed in terms of the change in their structural balance in 2017 (see Graph I.58). The output gap has been negative for several years in some Member States.

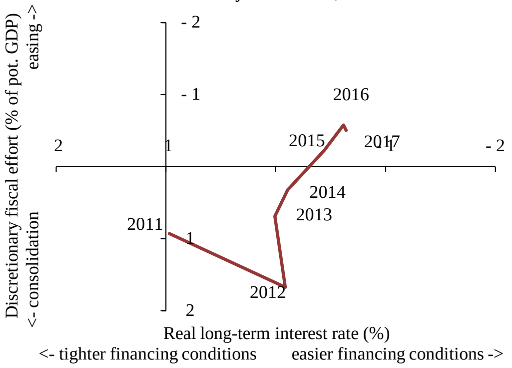
At the same time, national fiscal stances seem to give more attention to the economic stabilisation aim. There is not always a relation between the expected fiscal effort (in terms of the change in the structural balance) and the level of debt-to-GDP (Graph I.59). Given that debt ratios are still high in many Member States, there remains a risk that the snowball effect – currently dampened by low interest rates – could turn less favourable again, weighing on the budget balance.

Graph I.59: **Change in the structural balance vs government debt, 2017**



This year and next, the policy mix in the euro area is reflected at the interplay between financing conditions and fiscal policy (see Graph I.60). The additional measures taken by the ECB since the end of 2014 have exerted continued downward pressure on nominal long-term rates. However, monetary easing was only partially transmitted to real rates as long-term inflation expectations remained subdued. For 2016, real long-term rates (derived from the 10-year swap rate deflated by inflation expectations) are expected to decline further. Looking ahead to 2017, financing conditions are expected to remain easy. At the same time, as illustrated by the discretionary fiscal effort, fiscal policy has significantly eased over the past years and is not forecast to become restrictive.

Graph I.60: **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.

Overall, the policy mix in the euro area should be considered in the context of the fragile and uneven global recovery and heightened uncertainty. Given this backdrop, the G20 committed earlier this year to use all economic policy tools individually and collectively to address the legacies of the financial crisis and strengthen growth, investment and financial stability (see Section I.2).

10. RISKS

Risks to the growth outlook remain tilted to the downside. Both upside and downside risks have intensified in recent months, mainly in the wake of the UK vote on EU membership in June. The standard upside and downside risks accompany the assumptions underlying this forecast (e.g. monetary policy, interest rates, exchange rates, commodity prices, global trade elasticity). For instance, a renewed fall in oil prices but also a faster rebound would impact on the pace of economic growth and the projected rebound in inflation.

'Brexit'-related risks are predominantly on the downside…

With the long-term set-up of relations between the UK and the EU still unknown (e.g. trade regimes, migration and labour mobility), risks to the growth outlook have become more prominent on both sides. However, studies on the impact of 'Brexit' overwhelmingly suggest that the risks are predominantly to the downside. Depending on the exit negotiations, consumers, corporations, or governments could already respond to changes during the forecast years. An extended period of uncertainty could magnify the negative impact. Decisions on the free movement of UK and EU citizens could impact on labour markets in both the UK and the countries of origin. Upside risks relate in some Member States to the possible relocation of financial services from the UK or the redirection of FDI flows. All these aspects remain unknown and are therefore not incorporated in the central scenario of the forecast. The 'Brexit' vote has highlighted and probably further increased risks to the continuation of globalisation and free trade arrangements and thereby to the outlook for global trade. The leave vote could also be seen as an indicator of increased political risks deriving from trends towards protectionism, de-globalisation, nationalism and isolationism in Europe and globally.

Although very short-term risks associated the referendum have not materialised, all risks related to the negotiation process, the future situation (steady state), and the adjustment towards it, are likely to play out gradually and are unlikely to fully materialise until beyond the forecast horizon.

…adding to pre-existing risks on the external and the domestic side…

On the external side, several downside risks already identified in spring remain relevant. First, emerging market related risks remain a concern. A hard landing for China in its transition or sudden stops in capital flows to vulnerable emerging market economies would affect global activity and impact negatively on the euro area. Second, the rebound in advanced non-EU economies that reported low economic growth in the first half of the year could be weaker than currently envisaged, as cycles may already be more mature than thought. Third, discussions of free-trade agreements and election campaigns have pointed to risks related to possibly increasing protectionism. Fourth, geopolitical risks remain intense. The conflict between Ukraine and Russia is still ongoing and military action in Syria and Iraq has intensified in 2016. In Europe, security threats remain elevated following the recent attacks in several Member States.

On the domestic side, risks have also increased. First, the capacity of the banking sector to accompany an expansion of investment might be more limited than expected in view of the banking sectors' low profitability (against the backdrop of a flat yield curve, and, in several Member States, overbanked markets and high NPLs) and upcoming capital requirements. The profitability outlook for banks could further unsettle investor confidence. Second, the pace of structural reforms may have slowed more than already documented. In a context of heightened financial and economic policy uncertainty, there is also a risk of the reversal of the process of structural reforms and adjustment of imbalances, which is still not complete, and of paralysis of the process of European integration. Third, a return of problems in vulnerable economies cannot be ruled out. Fourth, the risk of becoming stuck in a low-growth, low inflation equilibrium due to self-fulfilling expectations remains.

...which paint overall the picture of more fragile economic growth...

Recent developments in risks to the euro area growth outlook are visible in the fan chart (see Graph I.61), 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. While the intensification of risks results in the widening of the confidence bands for given probabilities, the prevalent dominance of downside risks is visible in the asymmetry of these bands

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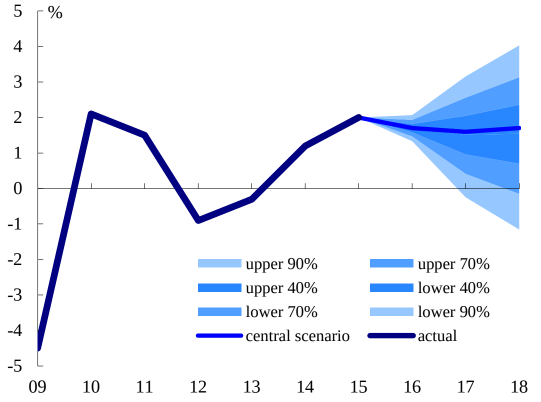
Graph I.61: **Euro area GDP forecast - Uncertainty linked to the balance of risks**



...and higher risks surrounding the inflation outlook.

Risks to the inflation outlook have intensified, but remain broadly balanced. The 'Brexit'-related risks to the growth outlook have an equivalent impact on the inflation side, as any materialisation that slows economic activity would lower price pressures and weigh on consumer price inflation.

On the domestic side, the long period of relatively low shorter term inflation expectations could increasingly de-anchor also long-term inflation expectations and impact on wage and price setting. However, several of these downside risks, if they were to materialise, could be expected to trigger a depreciation of the euro, which would then partly offset the initial impact on consumer prices.

Box I.1: Main drivers of growth in 2017 - shock decomposition from an estimated model

This box uses an estimated multi-region structural macro model [1] in order to provide a model-based quantification of the main drivers of euro area (EA) GDP growth in 2017. The model has been estimated on historical quarterly data for the period since 1999-Q1 and extended with forecast data from the European Commission's forecast for the set of available variables. The methodology allows decomposing deviations of real GDP growth from the long-run trend into the underlying shocks that drive the short- and medium-term dynamics. Hence, the decomposition provided in this box takes the European Commission's forecast as an input to recover the factors that explain the forecast in a model-consistent way. In other words, the analysis presents the exogenous factors ("shocks") that provide a model-consistent interpretation of the GDP growth forecast.

The advantage of using an estimated structural macroeconomic model to decompose economic dynamics is that the former uses all information in the dataset. Notably, the size of shocks to the model economy (e.g., financial, savings, and productivity shocks) is determined in such a way that these shocks fit not only the movement of GDP, but also the dynamics of other variables (including investment, consumption, the exchange rate, and employment) and the correlations between them (e.g., the correlation between GDP and inflation, or the correlation between employment and wages).

It should be noted, however, that the model-based decompositions are not necessarily identical with the impact that the same factors have in the European Commission's forecast. The driving factors recovered in the model-based analysis are conditioned on the structure of the model and the estimated parameter values, which have been obtained by fitting the model on seventeen years of quarterly data.

Not all estimated shocks can be interpreted directly in the sense of recovering the fundamental "causes" of fluctuations (behavioural, policy, etc.) within a model of tractable size. For instance, changes in financial risk premia and financing costs that affect interest-sensitive domestic demand, notably investment, and the exchange rate in the model can emanate from various sources that are not further analysed in the model, including regulatory policies and non-standard monetary policy measures (QE). The simplified structure of the multi-region macro model and most other dynamic stochastic general equilibrium models alone does not identify the specific "events" behind the shock in such cases.

The estimated persistence of variables in the model, which is related, e.g., to price and wage stickiness, habit persistence, inertia in adjusting the capital stock and labour demand, and gradual adjustment of monetary and fiscal policies, implies that past events affect future economic outcomes together with current news and expectations about future developments.

Table 1 presents a decomposition of EA real GDP growth for 2017 as projected by the European Commission's forecast (1.5%) into its principal drivers based on the estimated multi-region model. The table summarises the large number of shocks in main groups of supply- and demand-side drivers and separates the contribution of past and future shocks. The first column ("historical") shows the contribution of shocks that occurred up to 2015-Q4 to the outlook for EA GDP growth in 2017, a contribution that is based on the persistence in the transmission channels in the model. The second column ("forecast") shows the contribution of shocks over the 2016-18 horizon. Shocks over the 2016-18 horizon are additional innovations in exogenous variables that the model requires to fit the forecast given the historical data and estimated shocks. The contribution of historical and forecast-horizon shocks adds up to the total impact of the various supply and demand forces, shown in the third column ("total"). Other factors, i.e. exogenous determinants outside the listed groups of supply- and demand-side drivers, are summarised in the "others" group.

The trend component (1.4%) in Table 1 is the attainable long-run growth rate if the euro area economy were to grow with the average growth rates of total factor productivity (TFP) and the population of working age as observed over the period since 1999. Real GDP growth is forecast to exceed trend growth by 0.2 percentage points (pps.) in 2017 due to positive shocks that outweigh negative factors.

The decomposition in Table 1 shows that there are positive and negative contributions from supply- and demand-side factors alike. The overall impact of past supply-side developments ("historical") on the deviation of GDP growth from trend is neutral,

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

(Continued on the next page)

Box (continued)

whereas the impact of new shocks over the forecast horizon ("forecast") is slightly negative.

Table 1:
Shock decomposition for real GDP growth in 2017

	Historical	Forecast	Total
Supply:			
Long-run trend			1.4
TFP	-0.2	-0.2	-0.4
Labour & goods market adjustment	0.2	0.0	0.2
Oil	0.0	0.0	0.0
Demand:			
Domestic:			
Consumption	0.1	0.0	0.1
Investment	-0.1	0.0	-0.2
Fiscal spending	-0.1	0.0	0.0
Monetary policy	0.5	0.0	0.5
Foreign:			
World demand and int. trade	0.5	-0.5	0.0
Exchange rate	-0.1	0.0	-0.1
Others			-0.1
Real GDP growth (from forecast)			1.5

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 decomposition finds negative contributions of TFP in previous years and over the forecast horizon (-0.2 pps. each) to the forecast for EA real GDP growth, which suggests that TFP growth remains subdued and below the long-run trend over the forecast horizon. Deducting the negative impact of the slowdown in TFP on 2017 GDP growth (-0.4 pps.) from long-term trend growth (1.4%) gives a growth rate of 1.0%, which coincides with the current-vintage estimate of EA potential growth in 2017.

Labour and goods market adjustment in the past (0.2 pps.) has made a positive contribution on the supply side. The positive contribution is driven by wage developments. In particular, the model interprets moderate real wage growth compared to labour productivity growth, accompanied by declining unemployment, as structural adjustment of wages in the EA labour market, i.e. as positive labour supply shock that strengthens employment and economic activity. The contribution of product market factors is slightly negative. In particular, the GDP deflator increases more strongly than unit labour costs on average over the 2016-18 period, which the model interprets as increase in the price mark-up.

Falling oil prices, which reduce firms' production costs and boost household real disposable income, have been an important stimulus to EA GDP growth in previous years. For 2017, the positive contribution disappears in light of the recent recovery of oil prices and the further recovery that is embodied in the forecast's external assumptions.

On the demand side, one can distinguish between domestic and foreign factors. Among the domestic-demand factors, the model-based decomposition points to a small positive contribution (0.1 pps.) of the evolution of household savings in past years, namely a saving rate below the sample average, to private consumption and real GDP growth. The contribution of shocks to consumption behaviour over the forecast horizon is zero in light of the stabilising of the savings rate.

Investment growth in 2017 is strong compared to consumption growth, but it is still held back by estimated investment risk premia (financing costs, access to finance) in the model. The decomposition attributes -0.1 pps. of GDP growth to the delayed impact of elevated risk premia (financing costs) in the recent past, without significant contribution of new investment shocks over the forecast horizon.

While a -0.1 pps. negative contribution to 2017 EA real GDP growth is recorded for historical shocks to fiscal spending (government consumption and investment), the discretionary fiscal expansion that is embedded in the fiscal forecast does not make a significant positive contribution to GDP growth. It should be stressed, however, that the fiscal shock in Table 1 measures the impact of deviations of fiscal policy from estimated patterns of fiscal behaviour over the sample period. These deviations are not identical to the fiscal impulse as measured by the primary government balance.

A strong positive impact (0.5 pps.) is assigned by the model to monetary policy shocks that occurred before 2016. Monetary policy has been tighter than prescribed by the model's estimated Taylor rule and this partly reflects the fact that the zero bound has prevented a further reduction of short-term policy rate. The constraint on interest rates has negatively affected EA output in recent years, leading to a lower level of economic activity and a more negative output gap. Together with the assumption of a closing of the output gap this negative past impact on activity, however, implies a positive effect on GDP growth during the forecast horizon.

Robust growth of foreign demand and trade until 2014 has contributed to EA GDP growth and remains a positive factor (0.5 pps.) for GDP growth in 2017 due to the estimated persistence in demand and price adjustment. World demand and trade growth have slowed down in 2015-16, however. The forecast includes a pick-up of external demand and trade in 2017, but the dynamics remains weaker than over the sample average and the recent

(Continued on the next page)

Box (continued)

past. The weaker external demand over the forecast horizon, in particular in 2016, has the consequence that external demand no longer contributes positively to the gap between EA GDP growth and trend growth in 2017. Exchange rate assumptions for the forecast horizon, which imply limited real effective euro appreciation, do not imply competitiveness gains that could mitigate the impact of external demand.

Summarising the picture of growth drivers in Table 1, the overall GDP growth contribution of new shocks on the listed supply and demand factors over the forecast horizon is clearly negative (-0.7 pps.), with a strong downside contribution from external factors. The downside impact of developments within the forecast horizon can be interpreted as a slowdown of the recovery in 2017.

Box I.2: The shape of the euro-area banking sector and implications for the economic outlook

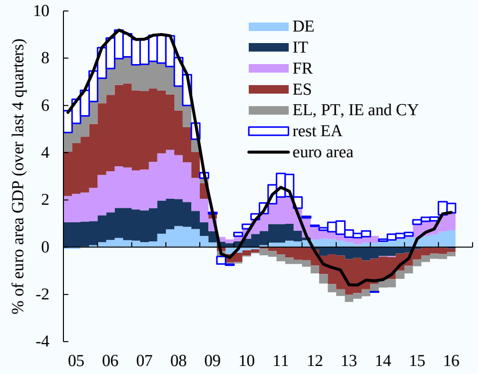
Credit plays a crucial role for the allocation of capital in an economy, especially in the euro area where the bulk of it is provided by the banking system. Empirical research confirms the importance of credit not only as a driver of the business cycle and inflation, but also for long-term growth. [(1)] Credit flows have a leading and causal impact on investment, growth and growth multipliers (even if the causality sometimes runs both ways).

Credit in the euro area started recovering only recently. Lending decreased during 2012-14, partly due to a further episode of tightening in credit standards which took place in the broader context of the prolonged period of unprecedented tightening which followed the 2008 financial crisis. But since early 2015, overall credit standards have been easing noticeably promoting loan expansion in the Member States less affected by the crisis, and reducing credit pressure in the majority of the most affected Member States (Graph 1a). The easing in lending conditions may have helped to halt the decline of investment as a share of GDP (an increase to 20% of GDP is projected for 2016).

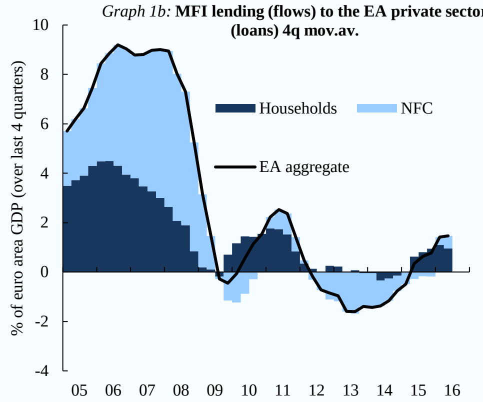
The recovery of euro area lending has mostly rested on expanding mortgages, while lending to the non-financial corporate sector (NFCs) remains weak (Graph 1b).

New loans to households are expanding and are matching their 2011 growth rates, partly due to mortgage growth in Germany. In contrast, lending to NFCs remains weak despite some improvement. After averaging minus 1% of GDP p.a. during 2012-14, new NFC loans amount to 0.5% of GDP since mid-2015. While flows have returned to 2011 levels in most Member States, some countries defy that trend. For instance, credit contraction in Italy remains particularly severe. Monetary policy has helped to halve nominal interest rates on new loans to Italian NFCs since 2012, and stabilize household loans. But NFC loans continue to decline, and remain 12% below their 2011 level. As a result, private investment has fallen to a low of 14.2% of GDP in 2015, 4.5 percentage points below its (already sub-par) 2007 level.

Graph 1a: **MFI lending (flows) to the EA private sector (loans) 4q mov.av.**



Graph 1b: **MFI lending (flows) to the EA private sector (loans) 4q mov.av.**



Source: ECB, own calculations

Going forward, the prospects for more dynamic bank lending will be determined inter alia by the banking sectors' health and in particular its current and prospective capital position. Thanks to years of monetary accommodation, the availability of liquidity is unlikely to pose a constraint in the foreseeable future. However, the capital position of the euro area banking system faces a set of challenges which warrant close monitoring. Its capacity to weather shocks has greatly improved and continues to do so, making stability risks less of a concern for policy makers. But the system's capacity and readiness to support credit and growth going forward will critically depend on the extent to which banks expect their capital buffers to comfortably cover the risk related to new lending. [(2)]

[(1)] Much of this research is based on the seminal work by Levine, Loayza and Beck (2000) *Financial intermediation and growth: Causality and causes.* While it is financial development, not credit *per se,* which is the focus of the analysis, the former is usually measured by credit to the private sector as a share of GDP.

[(2)] Concerning the link between bank capital and lending, see *inter alia* Gambacorta and Shin (2016): *Why bank capital matters for monetary policy.* BIS Working Papers No 558 as well as Cohen and Scagtigna (2014): *Banks and capital requirements: channels of adjustment.* BIS Working Papers No 443.

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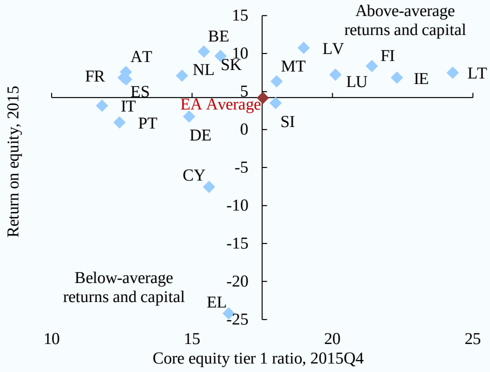
Box (continued)

Since retaining earnings is the easiest way to strengthen capital positions, profitability remains under scrutiny in this context. In 2015, bank profitability in the euro area improved. This was due to receding losses from non-performing exposures in some banking systems as well as increasing asset prices also thanks to the effects of financial asset purchases from monetary authorities. However, going forward bank profitability is likely to get under pressure.

Importantly, these nuanced dynamics take place against the backdrop of persistently low *levels* of profitability as highlighted by many observers (ECB, OECD, IMF). Low profitability levels and subdued prospects are mainly driven by three factors, which apply to the different Member States in different degrees (see Graph 2). First, legacy issues from previous stages of the cycle such as high levels of non-performing exposures and/or provisioning needs for legal costs; second, a fractionalized sector with high overhead and operational costs; and third, business models that are challenged by the low yield environment, technological change and competition from non-banks. Given the outlook described above, already low profitability in combination with a relatively weak capital position (SW quadrant in Graph *2*) constitutes an important concern.

Graph 2: **Return on bank equity and capital ratios**

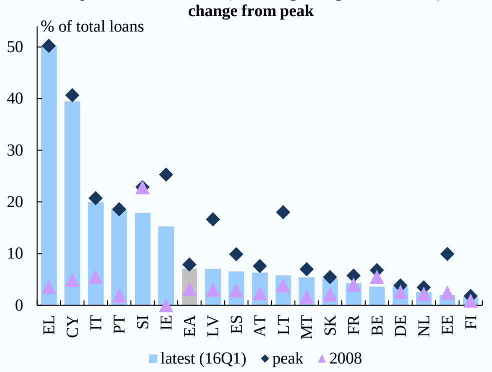


Source: ECB

In addition to directly limiting bank's sources of capital, low profitability also makes alternative sources of capital less accessible. In combination with the unfavourable prospects indicated above, it already translated into a noticeable stock market underperformance when compared with the broader economy, accentuated since late 2015. From beginning of 2016 until August, when the results of the EBA stress tests were revealed, the market capitalisation of euro area banks declined by close to a quarter of their total value. When compared with US peers, European banks continue to trade at a significantly smaller fraction of their book value. As a consequence, banks have little incentive to issue new shares for capital-raising purposes.

As for the underlying causes of low profitability, the prevalence of non-performing loans in Italy has lately received much attention in the media. However, the issue is of importance for a number of banking systems (Graph 3).

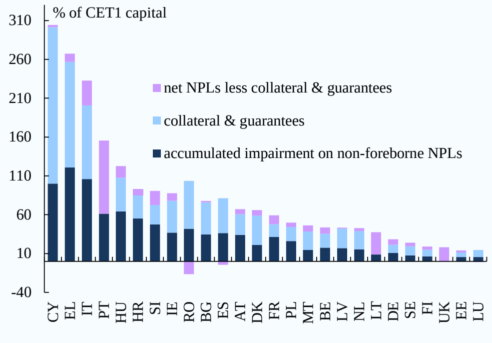
Graph 3: **NPLs of banks (including foreign-owned subs), change from peak**



Source: ECB, own calculations

While the level of NPLs has fallen from its post-crisis peak in nearly all of them, it still remains exceptionally elevated in several countries when compared with pre-crisis levels. The degree to which NPLs are covered by provisions and collateral also varies across banking systems (see Graph 4).

Graph 4: **Coverage of non-performing loans**



Source: ECB, own calculations. Note: No data available for SK. No information on collateral and guarantees is available for PT.

Situations where the amount of NPLs is neither covered by sufficient provisioning nor by a realistic assessment of the value of the underlying collateral are of particular concern. In these cases, banks need to be particularly wary to ensure that their NPL portfolio does not further impinge on their capital positions. Thus, they can be expected to be particularly cautious concerning new lending.

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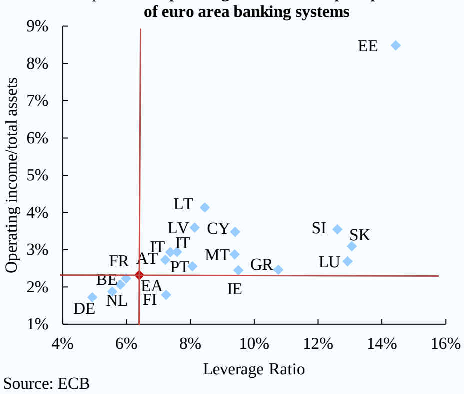
Box (continued)

In addition, the European banking sector is still characterised by national specificities and different degrees of competition in different segments of the market (e.g. financial institutions of different client base and/or size). In some segments and Member States, banks still carry particularly high overhead and operational costs which is coming under increasing pressure with a view to make better use of synergies and economies of scale.

Finally, the shift away from trading activities, growing competition from alternative advisory service providers (i.e. putting pressure on fee income), the increasing need for technology investment (including adressing competition from fintechs) and costs of safeguarding against higher operational risks are limiting banks' capability of exploiting alternative sources of income in a situation where the low yield environment is starting to eat into profits from traditional maturity transformation. Operating profits are already very low in a number of banking systems (Graph 5).

Graph 5: **Net operating income and capital position of euro area banking systems**



Source: ECB

Interestingly, those systems where deposit funding is relatively important, fare particularly bad in this respect. This could be because banks are reluctant to reduce deposit rates too significantly [3] either as they account for a large part of funding (Germany, Belgium) or, conversely, they are relatively scarce entailing upward price competition (Netherlands, France). High market fragmentation and high costs further add to the pressure in some banking systems.

These developments may not have an immediate visible impact on the capital position, but given the underlying problems, persistence of low yields will increase their severity over time. As low operating income margins are observed to be associated with low regulatory capital relative to assets (leverage ratio), capital constraints could quickly become binding in some banking systems, especially if hitherto unaccounted risks for the solidity of balance sheets materialise.

While required for ensuring financial stability at all times, new regulatory requirements will need to be managed going forward. The upcoming review of Regulation (EU) No 575/2013 (CRR) and of Directive 2013/36/EU (CRD IV) will introduce some regulatory innovations. While these are the outcome of international and European discussions and as such already mostly anticipated, those banks that have not already adjusted their balance sheets will be required to do so over the coming years. Most importantly, this is expected to include implementation of limits to banks' leverage as well as strengthened loss absorption capacity through the internationally agreed to "Total Loss Absorption Capacity" (TLAC) requirement and the minimum requirement for bail-in-able liabilities ("MREL") required by Directive 2014/59/EU (BRRD). Moreover, transitory regimes for regulatory capital requirements, in particular concerning the gradual build-up of a capital conservation buffer of 2.5% of risk weighted assets, will completely fade out by 2018.

All of these observations are supportive of a nuanced picture concerning the capital position of banks in the euro area and their capacity to support or even promote economic growth by means of new lending. Subdued profitability appears to result from a number of factors and is a relatively widespread phenomenon, and the low-yield environment makes it less sustainable biting ever more the longer it persists. Member States where banks already suffer from low profitability given structural features, may hence relatively soon add to those facing difficulties today. As NFC loans in particular bear higher capital and surveillance costs than investment-grade bond purchases or household loans, such difficulties have the potential to mutate into an important bottleneck for wider economic developments relatively soon. Also for this reason, efforts to create a European Capital Markets Union as priority are geared towards opening up more diverse sources of funding to the economy.

(3) Cœuré (2016): *Assessing the implications of negative interest rates*. Speech at the Yale Financial Crisis Forum, Yale School of Management, New Haven, 28 July 2016

Box I.3: **What survey data tell us about Inequality**

Advanced economies have registered a trend increase in inequality over recent decades, as documented prominently by T. Piketty's (2014) 'Capital in the Twenty-First Century'. The 2008-09 financial crisis and ensuing sovereign debt crisis have added to the resulting distributional concerns. While relevant from a point of view of social justice, inequality developments also have a number of possible effects on growth, as discussed, with a particular focus on short-term developments, in the EC Spring Forecast 2016 (Part I, chapter 1).

This box presents an indicator of developments in financial inequality among households based on consumer surveys. This indicator has the advantages of timely availability, long and complete time series and broad coverage of EU Member States and candidate countries.

After describing the construction of the indicator, the box embarks on a preliminary analysis of developments in selected Member States. [1]

In spite of its topicality, the analysis of inequality developments arguably (still) suffers from a scarcity of appropriate indicators which, on top, suffer from a number of shortcomings:

(i) they mostly focus on income inequality (after taxes and transfers), while (net) wealth inequality is arguably at least equally important to grasp societal differences in economic well-being [2] and seems to be more pronounced than income inequality; [3]

(ii) income and wealth surveys are conducted rather infrequently and irregularly; [4]

(iii) the history of most income/wealth studies is short, making it impossible to track inequality developments over longer periods;

(iv) given a lack of methodological harmonisation, cross-country comparisons have limited meaning;

(v) relatively high-income/wealthy respondents are prone to underreport their income/wealth, leading to downward-biased inequality indicators. [5]

This box describes an innovative, alternative way of getting an indication of inequality developments which could complement the existing indicators. [6] The idea is to extract information on inequality from the results of the Joint Harmonised EU Consumer Survey Programme, which collects every month qualitative assessments of some 40,000 consumers across Europe in respect of their personal finances, consumption plans, etc. The survey question particularly useful for the purpose is the following: "How has the financial situation of your household changed over the last 12 months?" The responses are summarised in a so-called balance, i.e. the share of replies indicating an improvement minus the share of those reporting a deterioration. The annual [7] inequality indicator is constructed as the difference between the balance statistics of the highest and the lowest income quartile reflecting the difference between "rich" and "poor" households. [8] As lower-income households show a generally more pessimistic reporting behaviour than richer households, irrespective of the question concerned, the indicator is adjusted for such differences. [9]

The resulting inequality indicator provides an indication of whether (i) inequality is increasing or decreasing (depending on which of the two balance series is larger) and (ii) the speed at which the two categories approach each other or drift apart

(1) The indicator is at this stage still experimental. Results should therefore be seen as preliminary, further analysis being required in particular to better understand country-specific developments.

(2) The ECB's Eurosystem Household Finance and Consumption Survey (HFCS) is the only (euro-area wide) wealth study with a single wave released so far. Own calculations on the basis of HFCS data show that households' wealth is 7-15 times larger than their annual income.

(3) See OECD (2015). *In it together – Why less inequality benefits all*. Paris: OECD.

(4) There is, e.g., a 5-year gap between the last wave of the European Community Household Panel and its successor, the European Union Survey on Income and Living Conditions.

(5) The ECB finds indications of such a phenomenon, when comparing its HFCS results with mean wealth levels per person, as derived from national accounts; see ECB (2013). 'The eurosystem household finance and consumption survey – results from the first wave'. *Statistics Paper Series No 2 / April 2013*.

(6) An earlier version was published by the EC (2016). 'What survey data tell us about inequality'. *European Business Cycle Indicators – 2nd Quarter 2016*.

(7) To distil meaningful, long-term tendencies, the difference is built on an annual basis. The annual balance series are derived from the originally monthly data by taking their average over the last three months of a year (i.e. the average of the values in October, November and December 2015 represent the value of the balance series in 2015).

(8) With income and wealth highly correlated, differences between responses of the highest/lowest income quartile can be interpreted, more broadly, as differences between the "rich" and the "poor"; see ECB (2013). 'The eurosystem household finance and consumption survey – results from the first wave'. *Statistics Paper Series No 2 / April 2013*.

(9) More precisely, a proxy of the 'genuine' differences in reporting habits of the rich and the poor is subtracted from the indicator. For each country, the proxy is the mean difference between "rich" and "poor" households' replies to the question "How has the general economic situation in the country changed over the past 12 months?". The rationale is that the general (macro-) economic situation is the same for all so that mean differences in the groups' answers are likely to reflect systematic differences in their optimism.

(Continued on the next page)

Box (continued)

(depending on the absolute magnitude of the difference between them).

At the same time, the new indicator addresses many of the above-described shortcomings of existing inequality measures: (i) derived from a survey question about households' financial situation, the indicator does not only reflect changes in the level of income, but also encompasses changes in wealth. It is assumed that "financial wealth" is understood as a broad concept, including residential property; (ii) the indicator can be constructed for a comparatively long time-period (for some countries, going back to 1985) and has no gaps; (iii) trends are fully comparable across countries, since the underlying survey data are generated by the same, harmonised methodology; [10] (iv) since respondents to the survey indicate qualitative changes in their financial situation, underreporting of income/wealth developments is unlikely.

Given the space constraints of this box, the inequality indicators are presented for eight EU countries only. The countries were chosen with a view to the quality of their national survey series and so as to cover both 'core' (Germany, France, Netherlands, Sweden) and 'periphery' (Italy, Spain, Portugal, Ireland) Member States. [11]

Inequality is increasing across Europe

Graphs 1a and 1b show a widespread increase in inequality across Member States (the indicators are mostly in positive territory). [12]

Among the 'core' countries, relatively high readings for the Netherlands (throughout the observation period) and Sweden (since about 2005) could surprise at first sight, given generally low inequality of incomes (post taxes and benefits) in these countries. They are, however, plausible considering that households take wealth into account when responding to the survey. [13]

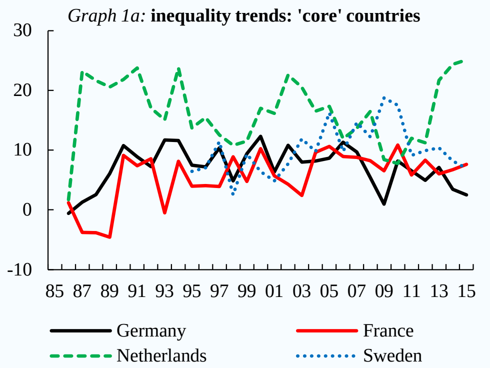
(10) The indicator measures changes in inequality, not their level; it does not allow to conclude that "Society in country A is less equal than in country B".

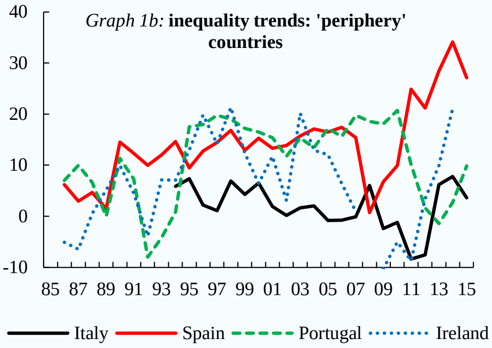
(11) Note that there are no Irish data-series for 2008/15.

(12) This is in line with available evidence from other sources. See, e.g., OECD (2015), which reports on wealth and income inequality, as well as T. Piketty (2014), who shows wealth concentration to have increased in France, Sweden, the UK and the US.

(13) Skopek et al. (2011) in 'Wealth inequality in Europe and the delusive egalitarianism of Scandinavian countries' find that Scandinavian welfare states are successful in reducing income inequalities by progressive taxation but are less successful in reducing wealth inequalities. The OECD (2015) points to high wealth inequality in the Netherlands.

Turning to the 'periphery' countries and focussing on developments from the mid 1990s onwards, the level of inequality growth tends to be higher than in most 'core' countries in Spain and Portugal. The Italian level, by contrast, appears particularly low, while Ireland is a (volatile) case in between.





The effect of the financial crisis…

To enable a thorough interpretation of the dynamics of the inequality indicators during the financial and sovereign debt crisis, Graph 2 plots the inequality indicators (black line), and also indicates how the underlying balance series reflecting households' assessments of their financial situation have changed. Red bars indicate that the financial situation has deteriorated, while green bars reflect an improvement. The bars in the upper half of the graph refer to the assessments made by households belonging to the 4th quartile (rich), the ones in the lower half to those made by households in the first quartile (poor).

Compared to the sovereign debt crisis (2010-13) and ensuing recovery, the effect of the financial crisis on inequality was limited. Overall, in five out of seven countries, 2008 combined a general deterioration in households' financial situation with a moderation of the inequality indicator. The deteriorating assessments of the financial situation across the board could be linked to the flood of worrying economic/financial news and the rise in

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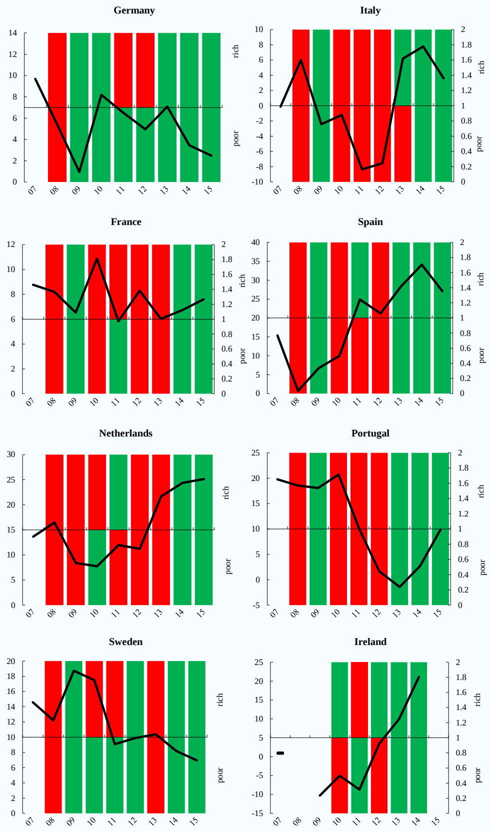
Box (continued)

unemployment having inclined all households to make more cautious assessments of their financial situation. The reason why the assessments of the more affluent households deteriorated more strongly than those of the low-income households (inequality decreased) may relate to the massive losses of global stock markets in the aftermath of the Lehman Brothers collapse, which can be assumed to have mainly hit the richer layers of society.

Graph 2: **Inequality indicators and households' assessments of their financial situation**



The year 2009 seems to have improved the financial situation of European households (see green bars in six out of seven countries with available data). This could be linked to the implementation of large stimulus packages targeted to households at the EU level and in most Member States during that period. Contrary to 2008 though, there is no uniform picture across countries as to whether the general improvement is more pronounced among the wealthier or poorer households.

… e sovereign debt crisis…

The sovereign debt crisis apparently had sweeping and persistent (i.e. so far non-reversed) effects on all national inequality trajectories, as measured by the survey based indicators (exceptions are Germany/France). In most of the six countries showing a strong reaction (Netherlands, Italy, Spain, Ireland), the period 2010-13 brought, on balance, large increases in the national inequality indicators. That is quite intuitive, considering, i.a., the record levels of unemployment caused by the crisis which almost mechanically [14] drove up the inequality indicator. At the same time, plummeting house prices are likely to have taken their toll on the financial situation of home-owners.

…and the uneven recovery.

Another finding worth highlighting is the role that the recovery following the sovereign debt crisis has played in some countries, notably Portugal and Ireland, where the years 2014/15 coincided with substantial increases in the inequality indicator. In the remaining six countries, the recovery was socially more equitable, i.e., on average, the national inequality indicators in 2015 stand close to their 2013 levels. What is more, as the recovery got more entrenched (2015), the inequality indicators either dropped or remained (broadly) flat in all countries observed, except for Portugal.

Connection to the Autumn Forecast

Inequality affects growth in various ways. [15] For the near-term cyclical analysis, poorer households' lower savings rate plays a prominent role. Accordingly, the degree to which private consumption helps sustaining the current recovery critically hinges on the relative degree to which per-capita increases in GDP benefit the less- rather than high-earning households.

In view of the forecast, the timely availability of the proposed indicator is particularly valuable (data from income surveys that are comparable across countries are now generally available up to 2013/14 for OECD countries). As the indicator shows, inequality still increased in some Member States in 2014-15, but at a slower pace. Moreover, the financial situation of both the "poor" and the "rich" has improved. In that sense, the last finding of the previous section, notably a rather equitable distribution of the effects of the 2015 recovery, arguably increases the chances of sustained private consumption in the short-term.

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(14) When people get unemployed, they are likely to (i) move to a lower income group, driving up the share of unemployed in the lowest quartile and (ii) report a worsened financial situation. Rising unemployment thus tends to increase the share of respondents reporting deteriorating personal finances in the lowest income quartile, driving up the inequality indicator.

(15) See, e.g., F. Cingano (2014). 'Trends in Income Inequality and its Impact on Economic Growth', *OECD Social, Employment and Migration Working Papers, No. 163*.

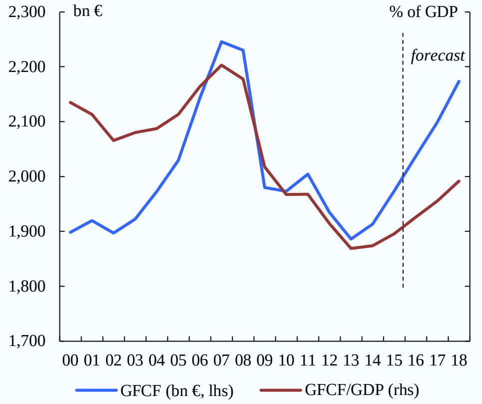
Box I.4: How is the recovery proceeding in the euro area?

Now that GDP in the euro area has passed its pre-crisis level is a good moment to take stock of the state of the recovery again. Previous assessments of the recovery have pointed to its subdued pace, the weakness of domestic demand, in particular investment, the drop of potential growth and the slow closure of the output gap. [(1)] This analysis shows that in late 2016, the recovery is still incomplete in several important respects and economic slack is still significant.

Domestic demand still weak, mostly due to investment

Private consumption has been a steady and robust contributor to the recovery of GDP. Like GDP, private consumption is now past its pre-crisis peak. By contrast, the contribution from investment to GDP growth has been more volatile and, until recently, weaker. The level of investment is still about 9% from its peak. More meaningfully (considering that the investment level was affected by a boom in some Member States in the run-up to the crisis), the share of investment in GDP is about 2 pps. lower than in the early 2000s (see Graph 1).

Graph 1: **Investment level and share of GDP, euro area**



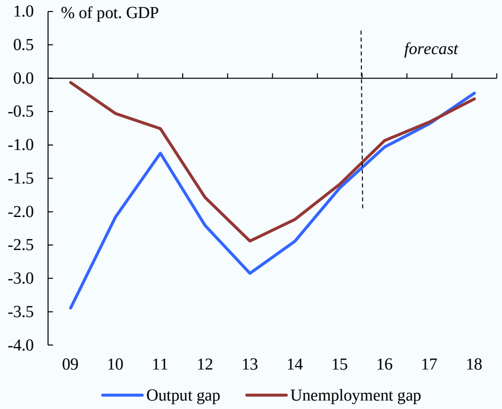
A corollary to weak investment is the savings-investment imbalance that has led to an increase of the euro-area current-account surplus from close to balance in the early 2000s to 3.5% in 2016. Looking at imports and exports separately, the picture of weak domestic demand [(2)] persists: The increase of the euro area's trade surplus in recent years was driven by slow import growth, while exports grew at a rate similar to that of the pre-crisis period.

Furthermore, the euro-area economy is not catching up with the US economy in terms of per-capita GDP or potential growth. GDP per capita in the euro area has stagnated at about 75% of the US level since the mid-1990s, losing further ground in 2011-15. Potential GDP growth in the US has recovered to about 2% in 2016 against 1% in the euro area. Over the medium term it is projected at 1.8% in the US by 2021 and 1.1% in the euro area.

The pace of output-gap closure is set to slow down

From -3.4% in 2009, the euro-area output gap (i.e. the difference between actual and potential GDP) has been reduced to -1.0% in 2016. [(3)] The projected GDP expansion over the forecast horizon is set to reduce the output gap further without closing it completely (-0.2% in 2018). However, the pace at which this reduction occurs is now slowing down considerably compared to previous years (see Graph 2). In 2016, the output gap narrowed by 0.6 pps.; in 2017 the gap is expected to be reduced by only 0.3 pps. in a context of diminishing growth drivers (see also box 1).

Graph 2: **Output gap and unemployment gap, euro area**



(1) A detailed analysis was done by E. Ruscher and B. Vasicek (2015). 'The euro area recovery in perspective'. *Quarterly Report on the Euro Area* 14(3), 6-18.

(2) For a more formal analysis see the box on 'The cyclical component of current-account balances' in European Commission (DG ECFIN) (2014). 'European Economic Forecast – Winter 2014'. *European Economy* 2.

(3) On the methodology for estimating the output gap and the NAWRU see Havik, K., K. Mc Morrow, F. Orlandi, C. Planas, R. Raciborski, W. Röger, A. Rossi, A. Thum-Thysen, V. Vandermeulen (2014). 'The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps'. *European Economy Economic Paper* 535.

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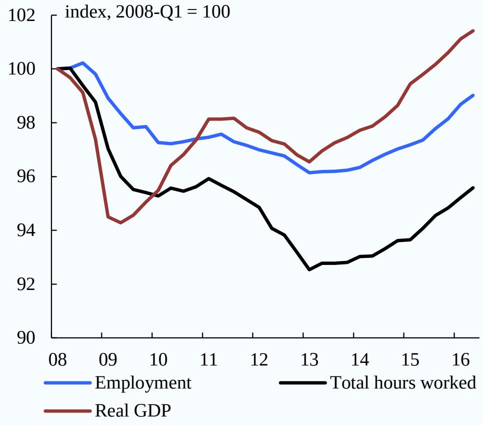
Box (continued)

Still substantial slack in the labour market...

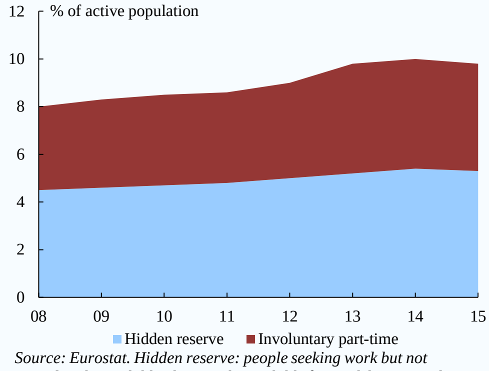
Unemployment stood at 10.1% in the euro area in August 2016. This is 0.9 pps. above the estimated non-accelerating wage rate of unemployment (NAWRU). Employment has been increasing faster than past performance of labour markets would have suggested in view of the moderate GDP growth. However, employment so far remains below pre-crisis levels: The pre-crisis number of 154 million jobs in the euro area is only set to be reached again in 2017. In the meantime, labour supply has increased on the back of population growth and a further expansion of labour-market participation. Moreover, the recovery in headcount employment contrasts sharply with hours per worker, which dropped by about 3% between 2008 and 2013 and have not shown any signs of increasing since (see Graph 3).

Graph 3: **Employment, total hours worked and real GDP, euro area**



The corollary of increasing employment and flat hours per worker is increased part-time employment, which does not always reflect workers' preferences. The share of those in involuntary part-time work (those who work part-time would prefer a full-time job if one was available) rose by 7 percentage points to 31% of part-time workers in the euro area between 2007 and 2015. [4] This suggests that total hours worked could be expanded significantly to accommodate an increase in demand, without resulting in higher headcount employment or lower unemployment figures. The hidden employment reserve is also still substantial. The number of persons who were either looking for a job but not immediately available, or available but not actively searching increased from 3.3% of the labour force in 2008 to 4.3% in 2015 (see Graph 4). In sum, the slack present in the labour market is likely to be substantially higher than suggested by the unemployment rate.

Graph 4: **Hidden reserve and involuntary part-time work, euro area**

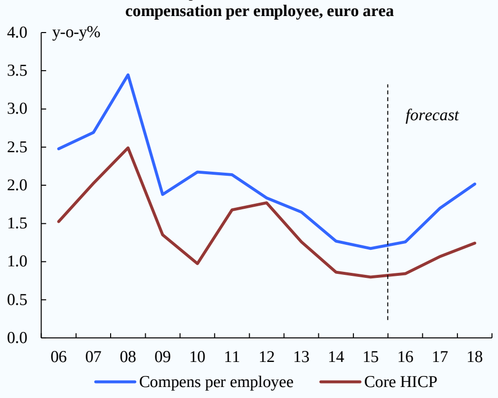


Source: Eurostat. Hidden reserve: people seeking work but not immediately available plus people available for work but not seeking.

...contributes to low core inflation.

Labour-market slack is one reason why wage growth and core inflation are not picking up more strongly. [5] Compensation per employee has increased by 1¼% in each of the past three years and is expected to pick up only gradually to 2% in 2018. Core inflation was 0.8% in September 2016, having evolved in a range of 0.6-1.0% over the past two years. It is projected to increase very gradually to 1.3% in 2018 (see Graph 5).

Graph 5: **Core inflation and compensation per employee, euro area**



Potential growth dropped during the crisis...

Potential growth has fallen from 1.9% in 2000-08 to 0.5% in 2009-14 as investment collapsed, unemployment surged and total factor productivity (TFP) growth further slowed.

(4) European Commission (2016): Labour market and wage developments in Europe.

(5) Jarocinski M. and M. Lenza (2016). 'An inflation-predicting measure of the output gap in the euro area'. *ECB Working Paper*, 1966.

(Continued on the next page)

Box (continued)

Lower investment in the crisis and its aftermath has been attributed to low (expectations of) aggregate demand, adverse financing conditions, deleveraging needs, and uncertainty. Another reason for a decline in total investment has been public expenditure cuts primarily directed towards public investment. Productivity growth declined as companies have pulled back on investment and the adoption of new technologies during the recession, ([6]) this impacts productivity growth in a longer-lasting way. Capital misallocation in the run-up to the crisis may also have contributed to the slowdown in TFP growth. In the labour market, the NAWRU increased due to sectoral mismatch and hysteresis stemming from the cyclical increase in unemployment amid wage and price rigidities.

...but the crisis impact is expected to fade gradually.

As shown in Table 1, the estimated individual contributions from capital and labour to potential growth do not recover to pre-crisis levels, and TFP growth is estimated to remain subdued. However, pre-crisis potential growth of 2% is also clearly not attainable. The capital contribution before the crisis was inflated by unsustainable over-investment in a number of Member States. The labour contribution is structurally reduced by population ageing, and its dampening impact on labour force growth will become more stringent in the coming years.

This leaves the question of how much potential growth can be recovered, and under what conditions. The baseline scenario for the medium term is a gradual recovery of investment rates, a declining trend of the NAWRU on the back of structural reforms undertaken in many Member States and a stabilisation of TFP growth.

This baseline is subject to the downside risk that expectations of slow growth feed back into firms' sales expectations and lead them to hold back on investment, thus perpetuating the weakness of capital formation and probably preventing a recovery of TFP growth at the same time. This can be understood as a form of hysteresis.

On the upside, policies that increase TFP growth (e.g. supporting private and public R&D, product market reforms) could reverse its long-standing trend decrease. Moreover, in the presence of hysteresis, demand-side policies may increase medium-term supply as recently suggested by Federal Reserve Chair Janet Yellen. ([7]) A temporary boost to aggregate demand might draw discouraged workers back into the labour market and stronger demand could potentially yield productivity gains by prompting higher levels of research and development spending and increasing adoption rates of new technologies. Moreover, as low demand expectations are at present the strongest impediment to investment, higher demand in the short run could accelerate capital accumulation and increase the growth potential.

Table 1: **Potential growth trends: past, present and future**

		2000-08	2009-14	2015-21
Potential GDP growth		1.9	0.5	1.1
Contributions from:	**Total labour**	0.4	-0.1	0.3
	Capital	0.8	0.3	0.4
	TFP	0.7	0.4	0.5
NAWRU		9.1	9.5	9.0

([6]) see Anzoategui, D., D. Comin, M. Gertler and J. Martinez (2016). ' Endogenous Technology Adoption and R&D as Sources of Business Cycle Persistence'. *NBER Working Paper* No. 22005. Varga, J., W. Roeger and J. in 't Veld (2016). 'Financial crisis and TFP growth in the Euro Area'. *European Economy Economic Paper*, forthcoming.

(7) https://www.federalreserve.gov/newsevents/speech/yellen20161014a.htm

Box I.5: The treatment of the impact of the UK's leave vote in the current forecast

This box focuses on the technical treatment of the consequences of the leave vote in the autumn 2016 forecast, to the extent they can be perceived today. It describes the judgement about the short-term impact embedded in this forecast. The box also briefly recalls the available economic assessments of medium and long term impacts of different scenarios, but without attempting new original analysis at this stage. As events unfold, the impact of both the process of leaving and that of a future regime will become clearer and will have to be revisited in future forecast rounds. In the meantime, uncertainty is likely to remain high.

The UK referendum on leaving the EU has produced political and economic uncertainty around the future economic relationship between the UK and the EU, and over the path to new arrangements. The future regime (for e.g. trade in goods and services and migration) is at this stage uncertain, and uncertainty also surrounds the available assessments of the long-term impact of various possible regimes.

A moderate near-term impact of the UK leave vote

In line with assessments of the short-run impact of the UK leave vote that were prepared prior to the referendum, the Commission's scenario analysis in July focussed on increased uncertainty. [1] Economic and policy uncertainty is expected to affect demand (investment and consumption) and increase asset risk premia. A dampening of housing demand has also been identified as a possible channel.

So far, growth in the UK following the 23 June referendum has been resilient. Third-quarter growth in 2016 is estimated by the UK's Office for National Statistics at 0.5%. Financial-market volatility in the aftermath of the referendum quickly abated, though the initial depreciation of sterling has been followed by further falls. The monetary easing by the Bank of England in early August appears to have supported financial markets and domestic demand. Survey indicators have rebounded after sharp losses in July, but remain consistent with a coming softening of growth. The depreciation of sterling is likely to help exporters while increasing consumer prices and thus decreasing purchasing power.

A drop in investment driven by heightened uncertainty is expected in the coming quarters. It is set to weigh heavily on UK growth in 2017, and to a lesser extent in 2018. Real household income growth and private consumption are set to soften through the forecast period as a response to higher inflation and a weaker labour market. In the present forecast, GDP growth for the UK has therefore been revised down to 1.0% in 2017 and 1.2% in 2018. The impact on other EU Member States is assessed to be small in the baseline forecast, but there are downside risks, in particular for Member States with sizeable trade exposures.

The longer-term impact of the end of the UK's EU membership is not yet clear

Beyond the short-run impact of the referendum result, the end of the UK's membership of the EU (the actual 'Brexit') could affect the UK economy's trend growth. This will be dependent on the future relationship between the UK, the EU and the rest of the world. While any supply-side effects will largely be felt after 2018, anticipation effects could start to materialise within the forecast horizon and constitute a downside risk to the forecast.

Ex-ante assessments of the longer-term implications of Brexit have used different methodologies, but have mostly centred on the direct and indirect supply-side implications of potential barriers to trade, foreign direct investment, competition and labour mobility. [2] A general conclusion is that the looser the UK's future economic relationship with the EU, the larger the likely negative impact on the UK economy.

The absolute and relative impact of these different factors crucially depends on the regime for trade, migration etc. that the UK will eventually set up outside the EU. At this stage, this future regime is unknown.

Although it is likely that the shape of the future regime will start gradually emerging over the forecast horizon, the present forecast is not the right place to speculate about it. In the autumn 2016 forecast, the longer-term economic impact of the leave vote is therefore captured mostly through the macroeconomic impact of increased uncertainty on demand.

(1) European Commission (2016). 'The Economic Outlook after the UK Referendum, A first Assessment for the Euro Area and the EU'. *European Economy Institutional Paper* 32, July 2016. See also UK Treasury (2016). 'HM Treasury analysis: the immediate economic impact of leaving the EU'. London. IMF (2016). 'United Kingdom: Selected Issues.' *IMF Country Report* No. 16/169.

(2) IMF (2016) op. cit. appendix 3 offers an overview. See also OECD (2016). 'The economic consequences of BREXIT: A taxing decision'. *Economic Policy Paper* 16, April 2016. UK Treasury (2016). 'HM Treasury analysis: long-term economic impact of EU membership and the alternatives'. London.

Box I.6: Some technical elements behind the forecast

The cut-off date for taking new information into account in this European Economic Forecast was 31 October. The forecast incorporates validated public finance data as published in Eurostat's News Release 204/2016 of 21 October 2016.

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 7 and 20 October) 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 1.11 in 2016, and 1.10 in 2017 and 2018. The average JPY/EUR is 119.35 in 2016, 114.56 in 2017 and 2018.

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 2016, 2017, and 2018 in the euro area. Long-term euro area interest rates are assumed to be 0.1% in 2016, and 0.2% in 2017, and 0.3% in 2018.

Commodity prices

Commodity price assumptions are also, as far as possible, based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 45.21 USD/bbl in 2016, 54.73 USD/bbl in 2017, and 56.82 USD/bbl in 2018. This would correspond to an oil price of 40.61 EUR/bbl in 2016, 49.58 EUR/bbl in 2017, and 51.47 EUR/bbl in 2018.

Budgetary data and forecasts

Data up to 2015 are based on data notified by Member States to the European Commission before 1 October and validated by Eurostat on 21 October 2016.

Eurostat is expressing a reservation on the quality of the data reported by Cyprus in relation to a series of technical issues, such as the recording of EU flows, the basis for the working balance of central government, incomplete use of source data for accrual reporting and the absence of reporting of statistical discrepancy in EDP tables, which were not clarified in a satisfactory manner during the October 2016 data assessment. Eurostat will investigate these issues with the Cypriot 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). Eximbank needs to 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, deemed to be undertaken on behalf of government.

Eurostat is withdrawing the reservations on the quality of the data reported by France in relation to (1) the classification of the French Deposit Guarantee and Resolution Funds (Fonds de Garantie des Dépôts et de Résolution - FGDR), as the entity has been reclassified by INSEE inside government and (2) the recording chosen by INSEE of settlements costs related to the restructuring of complex debt instruments issued by local government, pending the results of ongoing consultations on this issue at EU level.

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

(Continued on the next page)

Box (continued)

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.

EU and euro area aggregates for general government debt in the forecast years 2016-18 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 2015, 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 204/2016 of 21 October 2016 (by 2.2 pps. in the euro area 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.

Change to the NAWRU methodology used in the potential growth rate calculations for the autumn 2016 forecasts

Following the approval of the Member States, the Commission has introduced a change to the existing NAWRU methodology, which forms part of the overall production function methodology used for calculating potential growth and output gaps. The revised NAWRU approach, in essence, involves using additional long run information, specifically the structural unemployment rate from the T+10 calculations, to anchor the short and medium term NAWRU estimates. This change will result in methodological improvements, essentially less pro-cyclical NAWRU estimates. In addition, the previous model had a tendency to show a delayed reaction of the NAWRU to improvements in the labour market and was showing little reaction of the NAWRU in the current juncture, thereby resulting in the actual unemployment and NAWRU series tending to track each other too closely. With the new approach, this pro-cyclicality problem will be significantly alleviated. Moreover, by integrating the structural unemployment estimates from the T+10 exercise into the calculations for the short and medium term NAWRU estimates, a more comprehensive recognition will be given to the efforts of the Member States to implement structural reforms in their respective labour market. Since there will be more work done over the coming months on the NAWRU anchor estimate itself, a total of eight countries asked that the old NAWRU methodology would be retained as a short term measure for the autumn 2016 forecast. These countries are: Estonia, Ireland, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.

PART II

Prospects by individual economy

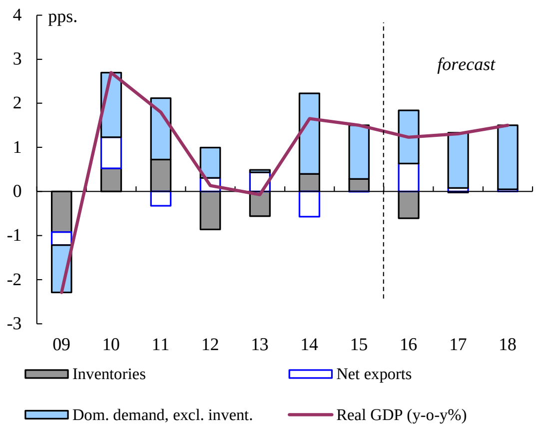
Member States

1. BELGIUM
Modest growth, strengthening labour market

Economic growth is expected to remain fairly stable, at 1.2% in 2016, 1.3% in 2017 and 1.5% in 2018. Domestic demand continues to be the main growth engine with a particular impetus from investment and private consumption progressively gaining momentum over the forecast horizon, assisted by job and wage growth. The fiscal deficit is expected to widen again in 2016 to 3.0% of GDP before falling back to 2.3% in 2017, when public debt would level off at around 107% of GDP.

The Belgian economy lost some steam in the first nine months of the year. This deceleration coincides to some extent with the March terrorist attacks and their aftermath. Any impact from the March events is expected to be transitory, though, in spite of a continuing slump in tourist arrivals. Activity is set to expand by 1.2% in 2016, the same as in the spring projections. Domestic demand has been the prime growth driver in recent quarters and this is expected to remain the case over the forecast horizon as private consumption rebounds and joins the rather dynamic growth in investment. In spite of a less supportive external environment, also following the British leave vote and the relatively tight trade links with the United Kingdom, external demand is expected to deliver a small, positive contribution to overall growth in coming years.

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



Brightening outlook for private consumption

After several years of low wage growth due to the government's strategy of sustained wage moderation, employees are seeing an uptick in their pay cheques in 2016 as wages are again being adjusted for the cost of living, some real wage increases have been negotiated and income tax cuts are being enacted. These factors compensate for the dampening effect of higher inflation on purchasing power and are set to remain in place in coming years. Overall, household consumption is expected to grow by 0.7% in 2016 and to rise to 1.3% in 2017 and 1.4% in 2018.

The positive outlook for private consumption is underpinned by the good performance of the labour market, with comprehensive job creation in the private sector. While leading indicators suggest a mild fall-back in upcoming quarters from recent rates, continued economic growth and the prospect of additional cuts in social security contributions for employers in 2018 are expected to keep net job creation at 40,000 and 45,000 in 2017 and 2018, compared to 53,000 in 2016. This implies a decline in the unemployment rate from a peak of 8.5% in 2015 to 7.6% in 2018.

Broad-based increase in investment

The expected increase in investment of 3.3% in 2016 and about 3% in coming years is broad-based across sectors. Business investment has been leading the way, following a steady increase in profit margins as a result of labour cost reductions. Together with supportive financing conditions, improving competitiveness relative to peer-countries further underpins business investment, with risks surrounding this positive outlook mainly rooted in the external environment. Construction investment has also been dynamic recently, due to housing and public infrastructure projects, such as school buildings. While historically low mortgage interest rates and comparatively low yields for alternative investment assets create the setting for a continuation of housing investment, the investment cycle of local governments and the start of large infrastructure works are forecast to drive public investment in 2017-18.

Inflation to remain around 1.7%

HICP inflation is forecast at 1.7% in 2016, compared with 0.6% in 2015. Annual price pressures peaked at 2% over the summer but the fading impact of a number of past government measures has led to slower price growth since.

Rising oil prices and dynamic service prices should keep inflation nevertheless broadly at 1.7% in the coming years, higher than the euro area average.

Fiscal consolidation halts in 2016, taken up again in 2017

The general government deficit is projected to widen to 3.0% of GDP in 2016, pausing the slow-moving consolidation of public finances. The deterioration from the 2.5% of GDP deficit in 2015 is revenue-driven. The reductions in income taxes and social security contributions mentioned above have not been fully compensated for by alternative financing measures, which add to generally disappointing tax collection. Lower one-off revenues contribute to the decline in the revenue-to-GDP ratio. Conversely, spending restraint is thwarted by temporary expenditures related to asylum-seekers and the terrorist threat (0.2% of GDP in total), one-off expenditure and high inflation leading to faster-than-initially-anticipated indexation of public wages and social benefits. In spite of a further decline in interest expenditure (0.4% of GDP), the structural balance is projected to deteriorate slightly in 2016.

In 2017, the deficit is expected to narrow to 2.3% of GDP. Primary expenditure growth should be curtailed by the disappearance of part of the temporary expenditure increases mentioned above, savings in health care (0.2% of GDP) and other social benefits. Government wages and social benefits are projected to be indexed in the third quarter of 2017. Interest expenditures are forecast to decrease by another 0.2% of GDP next year. On the revenue side, indirect taxes (0.1% of GDP) and taxes on income (0.1% of GDP) contribute to the overall consolidation of public finances. The structural balance is projected to improve by around ¾ pps. of GDP in 2017.

Under a no-policy-change assumption, the deficit is estimated to increase again to 2.4% of GDP in 2018, with the structural balance deteriorating by around ¼ pps. of GDP given planned tax cuts for which financing has not yet been identified.

Public debt is expected to increase from 105.8% in 2015 to around 107% in 2016 and 2017, before starting to decline again as of 2018. Stock-flow adjustments stemming from regional loans and interest rate swaps contribute to the increase in government debt.

Table II.1.1:

Main features of country forecast - BELGIUM

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	410.4	100.0	1.9	-0.1	1.7	1.5	**1.2**	**1.3**	**1.5**
Private Consumption	210.2	51.2	1.4	0.7	0.6	1.1	**0.7**	**1.3**	**1.4**
Public Consumption	98.1	23.9	1.6	0.1	1.4	0.5	**0.4**	**-0.3**	**0.3**
Gross fixed capital formation	94.4	23.0	2.2	-1.5	5.1	2.4	**3.3**	**2.9**	**2.9**
of which: equipment	31.2	7.6	1.9	-1.4	8.5	0.7	**3.9**	**2.6**	**2.9**
Exports (goods and services)	340.3	82.9	4.3	0.8	5.1	4.3	**3.7**	**3.9**	**4.4**
Imports (goods and services)	333.4	81.3	4.1	0.3	5.9	4.3	**2.9**	**3.9**	**4.4**
GNI (GDP deflator)	410.5	100.0	1.9	-0.8	0.5	1.0	**1.3**	**1.3**	**1.5**
Contribution to GDP growth:	Domestic demand		1.6	0.1	1.8	1.2	**1.2**	**1.2**	**1.4**
	Inventories		0.1	-0.6	0.4	0.3	**-0.6**	**0.0**	**0.0**
	Net exports		0.3	0.4	-0.6	0.0	**0.6**	**0.1**	**0.1**
Employment			1.0	-0.3	0.4	0.9	**1.2**	**0.9**	**1.0**
Unemployment rate (a)			7.9	8.4	8.5	8.5	**8.0**	**7.8**	**7.6**
Compensation of employees / head			2.6	2.5	1.0	0.0	**0.8**	**1.9**	**1.8**
Unit labour costs whole economy			1.7	2.2	-0.2	-0.5	**0.7**	**1.5**	**1.2**
Real unit labour cost			0.0	1.0	-0.9	-1.4	**-0.6**	**-0.1**	**-0.5**
Saving rate of households (b)			15.8	12.3	12.1	11.7	**12.7**	**12.1**	**12.2**
GDP deflator			1.8	1.2	0.7	0.9	**1.3**	**1.6**	**1.7**
Harmonised index of consumer prices			2.1	1.2	0.5	0.6	**1.7**	**1.7**	**1.8**
Terms of trade goods			-0.6	0.4	1.0	1.8	**-0.1**	**-0.5**	**-0.1**
Trade balance (goods) (c)			1.7	-0.7	-0.7	0.3	**0.0**	**-0.5**	**-0.5**
Current-account balance (c)			3.5	1.1	-0.1	0.2	**0.6**	**0.6**	**0.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.5	1.0	-0.4	0.2	**0.5**	**0.7**	**0.7**
General government balance (c)			-1.7	-3.0	-3.1	-2.5	**-3.0**	**-2.3**	**-2.4**
Cyclically-adjusted budget balance (d)			-1.9	-2.1	-2.6	-2.3	**-2.8**	**-2.0**	**-2.2**
Structural budget balance (d)			-	-2.7	-2.9	-2.6	**-2.7**	**-2.0**	**-2.2**
General government gross debt (c)			102.8	105.4	106.5	105.8	**107.0**	**107.1**	**106.4**

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

2. BULGARIA

Strong growth ahead

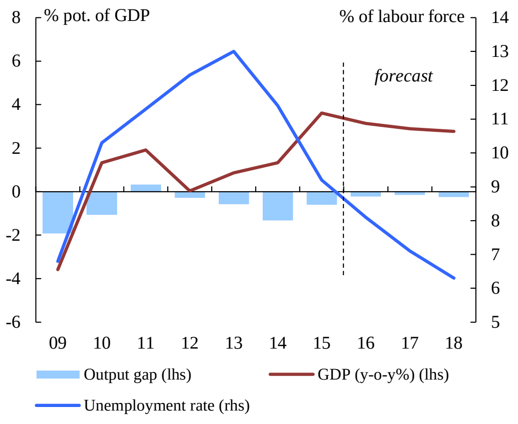
After a strong performance in 2015 and in the first half of this year, real GDP growth is forecast to reach 3.1% in 2016 and then just slightly less over the forecast horizon. Private consumption is expected to be the key growth driver. While remaining negative in 2016, inflation is forecast to move into positive territory in 2017. Unemployment is expected to continue decreasing in the coming years. The fiscal deficit for 2016 is projected at 0.9% of GDP, but is forecast to marginally increase in 2017.

Strong performance of private consumption

A substantial revision of national accounts data lifted real GDP growth figures from 3.0% to 3.6% in 2015. Private consumption growth, driven by rising consumer confidence, was particularly buoyant in 2015 at 4.5%.

GDP growth is projected at 3.1% in 2016 followed by a slight decrease to 2.9% and 2.8% in 2017 and 2018, respectively. For 2016, domestic demand is expected to contribute 2 pps. to real GDP growth with net exports contributing 1.1pps. While private consumption growth is forecast to remain robust at 3.2% in 2016, investment is expected to contract by 0.8% due to the slowdown in EU funds absorption following the completion of the 2007-2013 programming period. Investment is forecast to pick up momentum with growth of 3.2% in 2017, as more projects co-financed by the EU under the new, 2014-2020 programme, are likely to be implemented in 2017.

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



The overall strength of GDP growth in Bulgaria is expected to further reduce the economy's output gap from -0.6% in 2015 to -0.2% in 2016. However, the output gap is projected not to fully close over the forecast horizon.

Overall, risks to the growth outlook appear balanced. Upside risks on the domestic front include better-than-expected private consumption growth. However, as a domestic downside risk, a significantly slower absorption of EU funds could dent investment and growth in 2017. Given the openness of the economy, weak import demand from the main trading partners, especially in Europe, and surging oil prices would pose external downside risks.

Positive but declining current account balance

Driven by stable demand from EU trading partners as well as a strong tourism season, Bulgaria's exports have been performing well in 2016. The current account balance is forecast at 2% of GDP this year and is expected to decline to 1% in 2017 and 0.6% in 2018, mainly due to higher import growth fuelled by a strong domestic demand and by the expected rise in energy import costs.

The end of deflation in 2017

While annual HIPC inflation is forecast to be negative in 2016 at -0.9%, it is expected to pick up pace to reach 1% in 2017, mainly driven by buoyant domestic demand as well as recovering energy prices.

Further improvement of the unemployment and labour market conditions

Employment growth is projected to increase from 0.4% in 2015 to 0.8% in 2016 and to slightly slow down to 0.7% in 2018. Together with the expected decrease in the labour force due to population ageing and emigration, this is likely to further reduce the unemployment rate to 8.1% in 2016, 7.1% in 2017 and 6.3% in 2018.

Fiscal consolidation likely to continue but contingent liabilities could pose a risk

The public deficit is expected to decrease from 1.7% in 2015 to 0.9% of GDP in 2016 and is forecast to gradually decrease to 0.8% and 0.7% in 2017 and 2018, respectively. The adjustment in 2016 is due to a better-than-expected performance of both revenue and expenditure. Budget revenue benefited from better macroeconomic conditions and some revenue enhancing measures such as increases in excise duties for energy and improvements in the tax control and collection systems, together with some signs of improving tax compliance. On the expenditure side, the improvement is mainly due to lower capital and other current expenditure, as the implementation of the new EU funds programmes has yet to gain momentum.

Revenue performance in 2017 is forecast to continue improving on the back of the positive macroeconomic developments. Under a no-policy-change assumption, expenditure is forecast to increase mainly due to higher capital expenditure most of which would be matched by EU funds. The same trends are expected to drive budget components in 2018.

Contingent liabilities of public and other entities, including the envisaged state aid to the national energy company, pose downside risks to public finances over the entire forecast horizon. Additional risks on the expenditure side include announced plans to increase wages in the public sector. Upside risks may stem from continued improvements in tax collection.

General government debt is expected to increase to 29.4% of GDP in 2016, mainly driven by the decision to temporarily increase cash buffers. It is then forecast to decline to 26.3% of GDP in 2017 and to further reduce to 25.9% of GDP in 2018 as a result of the relatively low primary balance and the improving debt financing conditions. The structural deficit is expected to drop to ¾% of GDP in 2016 and remain below 1% of GDP in both 2017 and 2018.

Table II.2.1:

Main features of country forecast - BULGARIA

	2015		Annual percentage change						
bn BGN	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	88.6	100.0	3.0	0.9	1.3	3.6	**3.1**	**2.9**	**2.8**
Private Consumption	55.4	62.5	3.5	-2.5	2.7	4.5	**3.2**	**2.9**	**2.8**
Public Consumption	14.3	16.1	2.9	0.6	0.1	1.4	**1.1**	**1.4**	**1.6**
Gross fixed capital formation	18.6	21.0	12.4	0.3	3.4	2.7	**-0.8**	**3.2**	**3.6**
of which: equipment	8.1	9.2	-	1.2	13.9	9.8	**-0.5**	**5.0**	**3.5**
Exports (goods and services)	56.8	64.1	2.3	9.6	3.1	5.7	**5.0**	**4.5**	**4.6**
Imports (goods and services)	56.6	64.0	6.5	4.3	5.2	5.4	**3.3**	**4.3**	**4.6**
GNI (GDP deflator)	86.8	98.0	3.8	0.0	2.7	2.4	**3.6**	**2.2**	**2.3**
Contribution to GDP growth: Domestic demand			4.7	-1.5	2.5	3.6	**2.0**	**2.7**	**2.7**
Inventories			0.5	-0.8	0.2	-0.1	**0.0**	**0.0**	**0.0**
Net exports			-2.2	3.1	-1.3	0.1	**1.1**	**0.2**	**0.0**
Employment			-0.3	-0.4	0.4	0.4	**0.8**	**0.8**	**0.7**
Unemployment rate (a)			11.7	13.0	11.4	9.2	**8.1**	**7.1**	**6.3**
Compensation of employees / head			27.6	8.8	5.6	5.6	**5.4**	**4.8**	**4.2**
Unit labour costs whole economy			23.5	7.4	4.6	2.3	**3.0**	**2.7**	**2.1**
Real unit labour cost			0.2	8.2	4.1	0.1	**3.2**	**1.6**	**0.6**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			23.3	-0.7	0.5	2.2	**-0.1**	**1.1**	**1.4**
Harmonised index of consumer prices			-	0.4	-1.6	-1.1	**-0.9**	**1.0**	**1.2**
Terms of trade goods			1.0	-0.8	0.7	0.6	**0.5**	**-0.5**	**0.2**
Trade balance (goods) (c)			-13.7	-7.0	-6.5	-5.8	**-4.7**	**-5.1**	**-5.3**
Current-account balance (c)			-6.1	1.2	0.0	0.4	**2.0**	**1.0**	**0.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.7	2.3	2.2	-1.5	**0.3**	**-0.5**	**-0.8**
General government balance (c)			-0.1	-0.4	-5.5	-1.7	**-0.9**	**-0.8**	**-0.7**
Cyclically-adjusted budget balance (d)			-0.1	-0.2	-5.0	-1.5	**-0.8**	**-0.8**	**-0.6**
Structural budget balance (d)			-	-0.2	-1.8	-1.4	**-0.8**	**-0.8**	**-0.6**
General government gross debt (c)			40.5	17.0	27.0	26.0	**29.4**	**26.3**	**25.9**

(a) as % of total labour force. (b) gross saving divided by 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

Growth expected to gather speed but downside risks dominate

Economic growth is expected to fall to 2.2% in 2016 from 4.5% in 2015, largely due to the drop in investment linked to the cycle of EU investment funding. Growth is expected to pick up to 2.6% in 2017 and 2.7% in 2018 as investment activity recovers, also supported by the continuing strength in private and public consumption. The headline government deficit is forecast to decline to 0.2% in 2016, from 0.6% in 2015, but to creep upwards in 2017 and 2018.

Investment weighing on growth in 2016

The economy of the Czech Republic is forecast to grow by 2.2% in 2016, compared to 4.5% in 2015. There was a sharp fall in investment during the first half of 2016, partly due to a significantly lower level of EU co-financed investment activity. While investment activity is expected to recover somewhat during the second half of the year, it is forecast to detract from growth for the year as a whole. Private consumption growth was somewhat weak during the first half of the year. While it is expected to recover during the second half of the year, overall growth in 2016 is expected to be lower relative to 2015, giving rise to an increase in the savings rate. Net exports, by contrast, are expected to make a strong contribution to growth as the fall in investment reduces demand for investment-related imports.

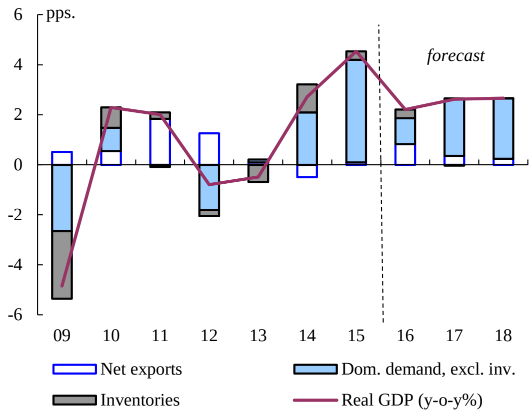
Acceleration of growth in 2017 and 2018

A forecast acceleration of investment growth in 2017 and 2018 is expected to contribute to higher real GDP growth as the Czech authorities increase their absorption of EU funds. Private consumption is also expected to make a large positive contribution, despite an expected slowdown in employment growth. As investment picks up, however, the positive contribution of net exports is expected to fade, as demand for investment-related imports increases. Risks to the outlook are tilted to the downside and include uncertainty over the timing and size of the recovery in investment activity and the possibility of lower-than-expected growth in global trade.

Improving trade balance

The trade surplus is expected to rise to 5.1% of GDP this year, from 4.5% in 2015, with lower investment and weaker consumption growth weighing on imports. While import growth is expected to recover over the forecast horizon, the trade surplus is expected to rise marginally due to slightly positive terms of trade changes.

Graph II.3.1: **Czech Republic - Real GDP growth and**



Employment growth expected to slow

The strong growth in employment in recent quarters has been driven by a sharp increase in the participation rate, with the population of working age falling during this period. This has been facilitated by the increased participation of women and older workers in the labour market. The scope for the participation rate to increase further above the EU average is likely to be limited and employment growth is forecast to be close to zero over the forecast horizon. With the unemployment rate expected to remain around 4% during this period, among the lowest rates in the EU, labour market conditions are expected to come under strain and wage growth to accelerate. Tight labour market conditions represent a further downside risk to economic growth in the Czech Republic as labour market shortages could potentially weigh on the competitiveness of the economy.

Slow return to inflation target

Inflation remained low during the first three quarters of 2016 and is expected to average 0.5% for the year as a whole. Inflation is forecast to increase in 2017 amid higher import prices and rising regulated prices, particularly in the energy sector. This rising trend is forecast to continue in 2018 and inflation is expected to return to the

Czech National Bank's target of 2% during the second half of the year. The Czech National Bank has stated that it expects to end its exchange rate commitment vis-à-vis the EUR in 2017. This could give rise to an appreciation of the CZK and represents a downside risk to inflation.

Improved fiscal position in 2016

The general government's 2015 deficit has been slightly revised from 0.4% to 0.6% of GDP, due to a reclassification of EU transfers as (deficit-increasing) national expenditure. The 2016 headline deficit is projected to improve to around 0.2% of GDP. Total tax revenues are projected to increase, with personal income taxes and social contributions expected to grow most strongly. Higher tobacco excises and the expected positive impact of the introduction of the VAT control statement should contribute to tax growth. Despite an increase in tax revenues, total revenues are expected to decline somewhat, mainly due to a fall in transfers received from EU. On the expenditure side, the falling drawdown of EU funds in 2016 is reflected in lower public investment. Continued strong growth in government consumption – mainly due to rising wages in state administration and for teachers – should partly offset the slowdown in investment.

The general government deficit in 2017 is projected to deteriorate to 0.6% of GDP. This is mainly due to an expected pick-up in public investment after the contraction in the previous year. Tax revenues are set to be bolstered by measures aimed at fighting tax evasion, such as the newly-implemented electronic sales reporting. These broad trends are expected to continue in 2018, when the headline deficit is forecast to reach 0.8% of GDP. Upward pressure on current expenditure is expected to abate in 2018. At the same time, capital investment is expected to continue as the use of EU funds to co-finance projects increases.

The structural deficit is forecast to decrease to ¼% of GDP in 2016. In 2017 and 2018, the structural deficit is expected to widen to ¾% and 1.0% of GDP respectively. The debt-to-GDP ratio is forecast to continue on a downward path and decline from around 40% in 2015 to 38.5% of GDP in 2018.

Table II.3.1:

Main features of country forecast - CZECH REPUBLIC

		2015		Annual percentage change						
	bn CZK	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		4554.6	100.0	2.3	-0.5	2.7	4.5	**2.2**	**2.6**	**2.7**
Private Consumption		2139.7	47.0	2.1	0.5	1.8	3.0	**2.6**	**2.5**	**2.5**
Public Consumption		889.7	19.5	1.3	2.5	1.1	2.0	**2.8**	**2.4**	**2.1**
Gross fixed capital formation		1198.1	26.3	1.7	-2.5	3.9	9.0	**-2.8**	**2.5**	**3.3**
of which: equipment		542.3	11.9	3.6	0.3	6.4	8.5	**0.9**	**3.0**	**3.5**
Exports (goods and services)		3778.3	83.0	9.2	0.2	8.7	7.7	**5.1**	**4.4**	**4.7**
Imports (goods and services)		3499.1	76.8	8.2	0.1	10.1	8.2	**4.4**	**4.3**	**4.8**
GNI (GDP deflator)		4255.2	93.4	2.0	-0.2	1.9	4.7	**2.2**	**2.5**	**2.6**
Contribution to GDP growth:	Domestic demand			1.8	0.1	2.1	4.1	**1.0**	**2.3**	**2.4**
	Inventories			-0.1	-0.7	1.1	0.3	**0.3**	**0.0**	**0.0**
	Net exports			0.6	0.1	-0.5	0.1	**0.8**	**0.4**	**0.2**
Employment				-0.1	0.3	0.6	1.4	**1.4**	**0.1**	**0.1**
Unemployment rate (a)				7.0	7.0	6.1	5.1	**4.2**	**4.1**	**4.0**
Compensation of employees / head				5.7	-0.3	2.6	2.6	**3.5**	**4.1**	**4.3**
Unit labour costs whole economy				3.2	0.5	0.4	-0.5	**2.7**	**1.6**	**1.7**
Real unit labour cost				0.4	-0.9	-2.0	-1.5	**2.3**	**0.2**	**0.2**
Saving rate of households (b)				11.5	10.9	11.8	11.8	**12.3**	**12.3**	**12.2**
GDP deflator				2.8	1.4	2.5	1.0	**0.3**	**1.4**	**1.6**
Harmonised index of consumer prices				3.2	1.4	0.4	0.3	**0.5**	**1.2**	**1.6**
Terms of trade goods				-0.2	1.5	1.8	0.5	**0.3**	**0.1**	**0.1**
Trade balance (goods) (c)				-2.6	4.1	5.1	4.5	**5.1**	**5.3**	**5.4**
Current-account balance (c)				-3.9	-1.1	-1.2	-1.2	**-0.8**	**-0.7**	**-0.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.2	1.1	0.5	1.9	**1.2**	**1.2**	**1.2**
General government balance (c)				-3.8	-1.2	-1.9	-0.6	**-0.2**	**-0.6**	**-0.7**
Cyclically-adjusted budget balance (d)				-4.0	0.1	-1.0	-0.7	**-0.3**	**-0.8**	**-1.0**
Structural budget balance (d)				-	0.2	-0.8	-0.7	**-0.2**	**-0.8**	**-1.0**
General government gross debt (c)				27.0	44.9	42.2	40.3	**39.7**	**39.1**	**38.5**

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

4. DENMARK

The moderate recovery continues

The modest recovery of the Danish economy continued in the first half of 2016 and is expected to strengthen over the forecast horizon. The recovery has been driven by domestic demand, underpinned by low interest rates and a buoyant labour market. The general government deficit is expected to remain well below 3% but with strong fluctuations due mostly to the volatility of certain revenue items.

GDP growth has picked up

Following two quarters of negative GDP growth in the second half of last year, GDP picked up in the first half of 2016. On an annual basis, GDP is expected to grow by 1.0% in 2016, mainly driven by domestic demand, in particular by private consumption growth.

Domestic demand remains the main driver

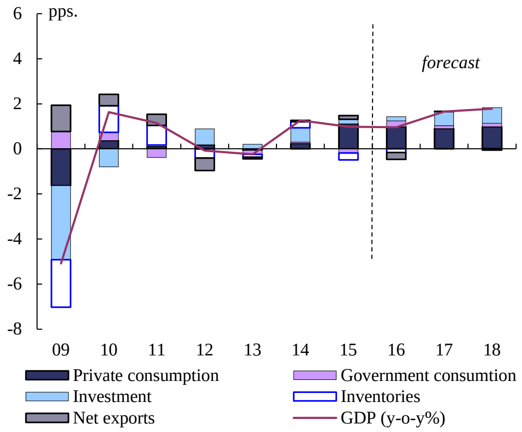
The moderate recovery of the Danish economy is expected to continue in the following two years, with GDP forecast to accelerate to 1.7% in 2017 and to 1.8% in 2018.

Private consumption is projected to remain the main driver of real GDP growth, supported by steadily rising disposable income due to robust employment and wage growth as well as low inflation. The net-asset position of households has also improved, partly due to the increase in house prices since mid-2012. Consumer confidence remains at a level consistent with the continued growth in private consumption, although it has come down from its peak in spring of 2015. Private consumption is expected to grow by around 2% annually between 2016 and 2018.

House prices continued to rise in the first half of the year, but at a somewhat slower pace than in 2015. House prices are supported by low interest rates and growing incomes, while in the large cities – where price growth has been higher than the national average – strong population growth has further increased demand for housing. Residential investments have been to slow to pick up in response to the improvements on the housing market. This is to some extent due to an overhang of housing supply after the crisis, and investments are expected to increase gradually as the recovery entrenches.

Export growth also picked up in the first half of 2016 after a weak performance in 2015. Exports are expected to accelerate in 2017 and 2018, expanding at a rate of 3.0% and 3.5% respectively, supported by higher growth in Denmark's main export markets. With imports forecast to increase in line with final demand, net exports are projected to have a broadly neutral impact on GDP growth in 2017 and 2018.

Graph II.4.1: **Denmark - Real GDP growth and its components**



Strong labour market performance

Employment growth has gathered steam, growing every quarter since the beginning of 2013 and by 1.8% (y-o-y) in the second quarter of 2016. This strong performance, which has in particular been driven by private sector employment, contrasts with the weak recovery of GDP. This should, however, be seen in light of a weak performance of sectors with high capital intensity, such as the oil and gas extraction sector and the shipping industry, whereas more labour intensive sectors have fared better. Unemployment has been on a declining trend since spring 2012 and has flattened out just above 6%, due to a strong increase in the labour force. The strong labour market performance is expected to continue over the coming years with employment forecast to grow by around 1% both in 2017 and 2018.

Inflation remains subdued

Consumer prices (HICP) dropped by 0.3% on an annual basis in September 2016. Inflation has been dragged down by a fall in energy prices and in the price of non-energy industrial goods. Core inflation, which excludes energy and unprocessed foods, stood at 0.0% in September. HICP inflation is expected to be flat in 2016 before rising to 1.2% in 2017 and 1.6% in 2018, with positive contributions from the expected increase in energy prices in 2017 and from services in both 2017 and 2018 partly reflecting a gradual increase in wage growth as labour market conditions tighten.

Risks to the outlook appear broadly balanced

Macroeconomic risks to the forecast appear broadly balanced and are on the one hand related to general uncertainty from the external side, while on the other hand, there is a positive risk related to the possibility of stronger growth in private consumption and investments if households and companies choose to reduce their currently high rates of saving.

Volatility masks an underlying improvement in public finances

The general government balance is expected to improve from a deficit of 1.7% of GDP in 2015 to a deficit of 1.4% of GDP in 2018. The overall improvement is, however, affected by temporary factors, which explain the volatile profile of the headline balance. One important factor is the volatility of revenues from the pension yield tax. The revenues from this tax are expected to increase by around 1 per cent of GDP from 2015 to 2016, before dropping by 1.5 per cent of GDP from 2016 to 2017.

The structural balance is expected to improve from a deficit of 1½% of GDP in 2015 to a surplus of around ½% of GDP in 2016, before returning to negative territory with an expected deficit of around ¾% of GDP in 2017 and around ½% of GDP in 2018. The profile of the structural balance is also affected by the volatility of pension yield tax revenues and of other volatile revenue items such as revenues from North Sea oil and gas extraction.

The general government gross debt level is expected to gradually decrease from 40.4% of GDP in 2015 to 38.2% of GDP in 2018.

Table II.4.1:

Main features of country forecast - DENMARK

	2015			Annual percentage change						
	bn DKK	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		1985.3	100.0	1.3	-0.2	1.3	1.0	**1.0**	**1.7**	**1.8**
Private Consumption		953.5	48.0	1.2	-0.1	0.5	2.3	**2.0**	**1.9**	**2.0**
Public Consumption		518.8	26.1	1.7	-0.7	0.2	-0.7	**1.0**	**0.5**	**0.6**
Gross fixed capital formation		377.9	19.0	1.7	1.1	3.4	1.1	**1.0**	**3.2**	**3.6**
of which: equipment		115.4	5.8	1.9	5.1	5.3	1.1	**0.3**	**4.6**	**3.6**
Exports (goods and services)		1060.5	53.4	4.0	0.9	3.1	0.3	**0.5**	**3.0**	**3.5**
Imports (goods and services)		936.2	47.2	4.8	1.1	3.3	0.0	**1.3**	**3.4**	**4.1**
GNI (GDP deflator)		2036.3	102.6	1.5	0.7	1.5	0.1	**1.3**	**1.7**	**1.8**
Contribution to GDP growth:	Domestic demand			1.4	0.0	0.9	1.1	**1.4**	**1.7**	**1.8**
	Inventories			0.0	-0.1	0.3	-0.3	**-0.2**	**0.0**	**0.0**
	Net exports			-0.1	-0.1	0.1	0.2	**-0.3**	**0.0**	**-0.1**
Employment				0.3	0.1	0.8	1.1	**1.5**	**0.9**	**1.0**
Unemployment rate (a)				5.3	7.0	6.6	6.2	**6.1**	**5.9**	**5.6**
Compensation of employees / head				3.3	1.2	1.8	1.9	**1.9**	**2.3**	**2.7**
Unit labour costs whole economy				2.3	1.5	1.3	2.0	**2.4**	**1.5**	**1.9**
Real unit labour cost				0.1	0.2	0.6	0.8	**1.7**	**-0.2**	**0.0**
Saving rate of households (b)				5.8	7.9	4.4	11.0	**10.7**	**13.8**	**13.9**
GDP deflator				2.2	1.4	0.8	1.2	**0.7**	**1.7**	**1.9**
Harmonised index of consumer prices				2.0	0.5	0.4	0.2	**0.0**	**1.2**	**1.6**
Terms of trade goods				0.7	1.7	0.5	1.7	**0.9**	**0.2**	**0.5**
Trade balance (goods) (c)				2.8	2.7	2.2	2.9	**3.3**	**3.5**	**3.6**
Current-account balance (c)				3.4	7.1	7.7	7.0	**6.5**	**6.4**	**6.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.4	7.1	7.7	7.0	**6.7**	**6.4**	**6.3**
General government balance (c)				0.7	-1.1	1.5	-1.7	**-0.9**	**-2.0**	**-1.4**
Cyclically-adjusted budget balance (d)				0.3	1.1	3.2	-0.1	**0.7**	**-0.8**	**-0.6**
Structural budget balance (d)				-	-0.4	0.1	-1.5	**0.6**	**-0.8**	**-0.6**
General government gross debt (c)				-	44.7	44.8	40.4	**38.9**	**38.3**	**38.2**

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

5. GERMANY

Growth momentum maintained

Supported by robust employment and consumption, the German economy is forecast to maintain the growth momentum over the forecast horizon although a slight (technical) slowdown is expected next year. The solid labour market, resilient exports and booming construction investment are expected to provide a boost to growth and support equipment investment. The current account surplus is projected to ease slightly while remaining at a historically high level. The budget will remain in surplus supported by a decreasing interest bill and buoyant revenues.

Temporary slowdown after a stronger-than-expected start in 2016

Germany's quarter-on-quarter real GDP growth rate slowed from 0.7% in the first quarter of 2016 to 0.4% in the second quarter in seasonally and working day adjusted terms. The contribution of foreign trade strengthened, largely due to a decline in imports. Private and public consumption slowed down, while investment posted a decline.

Economic activity is likely to have grown moderately in the third quarter, supported by factors such as rising employment and household incomes (including pension increases). Monthly indicators for foreign trade, retail sales, industrial production and construction for July and August send mixed signals and point to a temporary standstill. However, a swift recovery in business sentiment and in firms' employment expectations in September points to sustained activity growth in the coming quarters. The robust labour market, favourable financing conditions and still sizable expenditure boost linked to immigration are also expected to contribute to growth. 2017 may see a slowdown until the relative weakness of the second half of 2016 is overcome, and also due to fewer working days. Overall, real GDP is expected to increase by 1.9% in 2016, 1.5% in 2017 and 1.7% in 2018.

Consumption growth to remain solid

Employment is expected to continue growing at a steady pace alongside the expansion of the economy. The actual number of asylum seekers in 2015 has turned out significantly lower than originally estimated (890 thousand instead of 1.1 million) and the rate of new arrivals has fallen substantially. The integration of refugees into the labour market will be staggered over a number of years and is not expected to significantly affect employment dynamics over the forecast horizon. Still, a proportion of them could add to the labour force and marginally slow down the decline in unemployment. With energy prices no longer depressing price dynamics, real household consumption is forecast to slow down somewhat, but to remain relatively strong thanks to the continued rise in employment and real labour incomes. The latter will be boosted by the update of the minimum wage next year. The household saving rate is expected to remain close to its current high level over the forecast horizon despite the low rates of return. Government consumption growth is expected to slow as the number of asylum seekers arriving declines.

Some volatility in investment dynamics

Private investment declined in the second quarter of 2016 after positive surprises in the two preceding quarters. The trend in orders of investment goods points to a weaker phase in equipment investment in the second half of 2016. This is expected to be overcome over the course of next year as export growth recovers somewhat and replacement needs mature, but downward risks related to policy uncertainty, including with regard to the 'Brexit' negotiations, could weigh on this prospect. Construction investment, particularly in housing, is projected to continue growing relatively strongly as factors stimulating both supply and demand, including rising prices and low interest rates, remain in place.

Historically high current account surplus to edge down slightly

Exports held up well in the first half of 2016, while imports underperformed due to weaker than expected consumption and investment growth. Data for July and August suggest more subdued export growth for the remainder of the year. All in all however net exports are set to contribute positively to GDP growth, in contrast to what was expected in spring. Over the course of next year, exports are forecast to pick up again as foreign demand improves. Together with stable domestic demand growth, this should also spur import growth. Overall, net trade is expected to detract slightly from growth over the next two years. In addition, the positive terms of trade benefits from low oil prices are also set to fade. As a result, Germany's trade surplus should start to gradually decline.

Headline inflation to pick up

With the effect of oil prices fading, headline inflation is projected to pick up in 2017 (1.5%). Firming domestic demand and wage growth should ensure that core inflation rises in both 2017 and 2018.

Moderate decreases in budget surpluses

Total revenue is expected to increase as percentage of GDP over the next couple of years. However, increases in the basic personal allowance and child allowances as well as an adjustment of the income tax brackets, to offset the impact of fiscal drag, will weigh on the revenue growth. At the same time, current expenditure (% of GDP) is set to increase in 2016-2018 as the continued decline in interest expenditure will be counteracted by growing pension payments. Public investment is expected to grow slightly as a result of additional funds earmarked for infrastructure investment and social housing, while capital transfers are set to decrease slightly in 2017 due to proceeds from the broadband spectrum auction resulting in negative capital expenditure.

Overall, the headline balance, though decreasing, is expected to remain in surplus over the forecast horizon. The structural surplus is projected to decrease by around ¼ % of GDP in 2016, and to stay around ½ % of GDP in 2017 and 2018. The gross debt-to-GDP ratio is set to fall from 71.2% in 2015 to around 63% in 2018.

Graph II.5.1: **Germany - General government budget balance and gross debt**

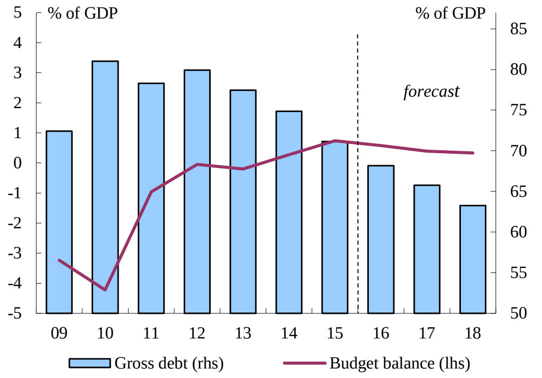


Table II.5.1:

Main features of country forecast - GERMANY

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	3032.8	100.0	1.4	0.5	1.6	1.7	**1.9**	**1.5**	**1.7**
Private Consumption	1636.0	53.9	0.9	0.7	0.9	2.0	**1.7**	**1.4**	**1.4**
Public Consumption	583.7	19.2	1.2	1.2	1.2	2.7	**3.9**	**2.8**	**2.5**
Gross fixed capital formation	603.8	19.9	1.0	-1.1	3.4	1.7	**2.5**	**1.9**	**2.9**
of which: equipment	200.2	6.6	2.7	-2.1	5.5	3.7	**1.6**	**1.1**	**3.6**
Exports (goods and services)	1418.8	46.8	6.3	1.9	4.1	5.2	**2.6**	**2.8**	**4.2**
Imports (goods and services)	1189.3	39.2	5.2	3.1	4.0	5.5	**2.8**	**3.9**	**5.4**
GNI (GDP deflator)	3098.8	102.2	1.5	0.5	1.4	1.7	**2.0**	**1.5**	**1.7**
Contribution to GDP growth: Domestic demand			0.9	0.4	1.4	2.0	**2.2**	**1.6**	**1.9**
Inventories			-0.1	0.5	-0.1	-0.5	**-0.4**	**0.0**	**0.0**
Net exports			0.5	-0.4	0.3	0.2	**0.2**	**-0.2**	**-0.1**
Employment			0.6	0.6	0.8	0.9	**1.2**	**0.9**	**0.9**
Unemployment rate (a)			8.4	5.2	5.0	4.6	**4.4**	**4.3**	**4.2**
Compensation of employees / head			1.3	1.8	2.8	2.4	**2.0**	**2.6**	**2.4**
Unit labour costs whole economy			0.6	1.9	2.0	1.6	**1.3**	**2.1**	**1.6**
Real unit labour cost			-0.3	0.0	0.2	-0.3	**-0.3**	**0.4**	**-0.2**
Saving rate of households (b)			16.2	16.3	16.7	17.0	**17.3**	**17.2**	**16.9**
GDP deflator			0.9	2.0	1.8	2.0	**1.5**	**1.6**	**1.8**
Harmonised index of consumer prices			1.6	1.6	0.8	0.1	**0.4**	**1.5**	**1.5**
Terms of trade goods			-0.3	1.8	1.7	3.1	**2.5**	**0.1**	**0.1**
Trade balance (goods) (c)			5.7	7.5	7.7	8.7	**9.0**	**8.8**	**8.6**
Current-account balance (c)			3.2	6.9	7.5	8.5	**9.0**	**8.7**	**8.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.2	6.8	7.5	8.4	**8.9**	**8.6**	**8.4**
General government balance (c)			-2.2	-0.2	0.3	0.7	**0.6**	**0.4**	**0.3**
Cyclically-adjusted budget balance (d)			-2.0	0.1	0.5	0.8	**0.6**	**0.6**	**0.5**
Structural budget balance (d)			-	0.1	0.8	0.8	**0.6**	**0.4**	**0.5**
General government gross debt (c)			65.9	77.5	74.9	71.2	**68.1**	**65.7**	**63.1**

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

6. ESTONIA

Growth slips this year but should pick up with external demand

Real GDP growth in Estonia is expected to slip to 1.1% this year but should recover to 2.3% in 2017 and 2.6% in 2018, as negative external shocks fade and investment recovers. Unemployment is set to rise as reforms prompt work-incapacity pensioners to re-enter the labour market. The fiscal position is projected to dip below balance in 2017-2018 but public debt should remain below 10% of GDP.

Growth in 2016 has been disappointing

After dropping to 1.4% in 2015, annual real GDP growth in Estonia slowed further in the first half of 2016, as imports grew significantly faster than exports. This mainly reflected higher imports of capital goods, demanded by the resumption of investment. However, exports began to grow again even though the country's oil shale sector and related-exports continued to suffer from low international energy prices. Private consumption slightly decelerated, amid rising inflation, despite robust hourly wage growth in a tight labour market. In parallel, public consumption stabilised, allowing public finances to remain strong. Overall, real GDP growth is expected at 1.1% in 2016.

Net exports are set to improve, albeit slowly

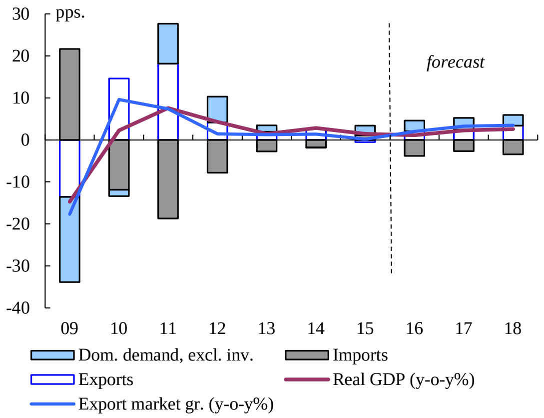
Estonia's real GDP is forecast to grow by 2.3% in 2017 and 2.6% in 2018 as external demand, especially from Finland and the other two Baltic States, gathers pace and international oil prices rise. Growth in exports and imports turned positive in early 2016. However, as import-intensive investment resumes and competitiveness gains remain limited, the contribution of net exports to growth will likely remain negative over the forecast period. In services, high tech exports increasingly offset contracting exports in transport, as transit trade with Russia collapsed. The external balance of goods and services is set to remain positive over the forecast period.

Investment resumes

Industry confidence is improving with the rise in regional demand. Also, companies are increasingly investing in equipment as the domestic labour force is becoming more expensive. Estonian businesses are therefore projected to increase investment over the forecast horizon. This is expected to be accompanied by higher bank lending to enterprises. In parallel, public investment is projected to soar in 2017 as the bulk of projects under the new programming period of EU investment enter the implementation phase.

By contrast, private consumption growth is expected to decelerate in 2017 and 2018 as rising consumer price inflation overshadows the increase in wages. Similarly, household investment is set to slow due to lower real incomes. Nevertheless, domestic demand is set to remain the main driver of growth over the forecast horizon.

Graph II.6.1: **Estonia - Real GDP growth and contributions, export market growth**



Risks to the forecast are balanced. Positive risks relate to the possibility of an earlier-than-expected recovery of neighbouring economies, especially Finland, and to higher-than-assumed oil prices. On the downside, lower demand from other EU Member States could further delay a rebound in growth.

The work ability reform affects the labour market

The working age population has declined significantly over the past years due to ageing and emigration, but higher wages have raised the participation rate to historically high levels of 70%. Recently, also emigration flows have reversed. Considering the already high participation rate and lacklustre GDP growth, the room for further employment gains appears limited. Nevertheless, the introduction of a 'work ability' reform in mid-2016 is gradually bringing work-incapacity pensioners back to the labour market. Owing to the reform, employment is expected to continue growing in 2017-2018, while unemployment is also projected to rise from about 6½ % in 2016 to over 8% in 2018. Wage growth is forecast to remain robust, albeit slowing to about 5% annually in 2017-2018 on account of public sector wage restraint.

Inflation is on the rise

HICP inflation has been increasing since mid-2016, driven by food prices and the fading base effect from low energy prices. Inflation is projected to accelerate to around 2.7% in 2017-18. The increase is driven by an assumed rise in global energy prices, strong wage growth, and a significant rise in excise tax rates. These, together with some administrative price rises, are set to push inflation up by almost 1 pp. in 2017 and 0.5 pps. in 2018.

Strong fiscal outcome despite weak GDP growth

While GDP growth remains moderate, its composition appears favourable to government revenue, especially labour and consumption taxes. As a result, after a surplus of 0.1% of GDP in 2015, 2016 is set to close with a general government surplus of 0.5% of GDP. An important contributor to the surplus is lower-than-planned expenditure on investment. In 2017, by contrast, public investment is forecast to rebound as the bulk of EU funded projects from the new programming period take off. In parallel, local elections, taking place in 2017, typically lead to higher investment. Higher social expenditure and costs related to the EU Council Presidency in the second half of 2017 are also projected to add to expenditure growth. However, the central government is projected to cut government employment and curb the growth of the public sector wage bill, which should lead to some savings. On the revenue side, a stepwise reduction in labour taxes in 2016-18, is set to be partly financed by rising excise taxes on fuels, tobacco and alcohol. Also, a temporary increase of state transfers to the second-pillar pension fund over 2014-17 will come to an end. Overall, the general government deficit is projected at 0.4% of GDP in 2017 and 0.2% of GDP in 2018. In structural terms, this should lead to a slight deficit in 2017 and a balance in 2018. Estonia's public debt is expected to stand below 10% of GDP in 2016-18.

Table II.6.1:

Main features of country forecast - ESTONIA

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	20.3	100.0	4.4	1.4	2.8	1.4	**1.1**	**2.3**	**2.6**
Private Consumption	10.6	52.4	4.5	3.8	3.3	4.7	**3.3**	**2.9**	**2.8**
Public Consumption	4.1	20.3	1.9	1.9	2.7	3.4	**0.0**	**1.3**	**0.6**
Gross fixed capital formation	4.8	23.7	7.6	-2.8	-8.1	-3.3	**3.2**	**5.3**	**4.8**
of which: equipment	1.8	8.6	8.7	17.0	-11.6	-12.4	**3.3**	**5.8**	**5.5**
Exports (goods and services)	16.1	79.3	8.3	2.3	3.1	-0.6	**2.7**	**3.3**	**3.5**
Imports (goods and services)	15.2	75.1	8.8	3.2	2.2	-1.4	**4.9**	**4.2**	**4.0**
GNI (GDP deflator)	19.8	97.9	4.1	3.2	2.4	2.1	**0.6**	**2.3**	**2.8**
Contribution to GDP growth: Domestic demand			5.4	1.5	0.0	2.3	**2.5**	**3.0**	**2.8**
Inventories			0.2	0.0	2.5	-1.6	**0.2**	**-0.3**	**0.1**
Net exports			-1.0	-0.8	0.8	0.6	**-1.6**	**-0.5**	**-0.2**
Employment			-0.3	1.2	0.8	2.9	**1.2**	**0.2**	**0.2**
Unemployment rate (a)			10.4	8.6	7.4	6.2	**6.5**	**7.4**	**8.3**
Compensation of employees / head			10.2	4.6	4.2	5.7	**6.1**	**5.1**	**5.0**
Unit labour costs whole economy			5.3	4.5	2.2	7.2	**6.2**	**2.9**	**2.5**
Real unit labour cost			-0.5	0.6	0.4	6.1	**2.4**	**-0.1**	**-0.8**
Saving rate of households (b)			4.2	6.3	9.4	6.9	**9.1**	**9.7**	**9.8**
GDP deflator			5.9	3.9	1.7	1.0	**3.7**	**3.0**	**3.3**
Harmonised index of consumer prices			4.8	3.2	0.5	0.1	**0.8**	**2.6**	**2.7**
Terms of trade goods			0.8	0.8	0.0	0.1	**3.4**	**0.1**	**0.2**
Trade balance (goods) (c)			-14.0	-5.2	-5.1	-4.3	**-3.5**	**-3.9**	**-4.2**
Current-account balance (c)			-7.6	-0.2	1.0	2.1	**1.8**	**1.6**	**1.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.2	2.4	2.1	4.2	**3.2**	**3.1**	**3.0**
General government balance (c)			0.4	-0.2	0.7	0.1	**0.5**	**-0.4**	**-0.2**
Cyclically-adjusted budget balance (d)			-0.3	-0.8	-0.3	-0.4	**0.5**	**-0.2**	**0.0**
Structural budget balance (d)			-	-0.6	-0.1	-0.1	**0.6**	**-0.2**	**0.0**
General government gross debt (c)			5.8	10.2	10.7	10.1	**9.4**	**9.5**	**9.4**

(a) as % of total labour force. (b) gross saving divided by 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

Sustained growth amidst heightened risks

Irish GDP growth surged to 26.3% in 2015, driven by the operations of some multinationals, with little impact on the domestic economy. Yet, discounting this factor, underlying economic activity grew strongly, at an estimated 4 to 5%. In 2016-2018, domestic demand is projected to continue expanding at robust rates, although risks have heightened, including since the UK referendum. Having dropped in 2015 with the GDP surge, deficit and debt indicators are expected to continue to improve gradually.

Multinationals drove 2015 GDP growth but the domestic economy also performed strongly

In 2015, gross value added (GVA) doubled in the production sectors where foreign multinationals dominate [74]. A few such companies restructured their operations, leading to a bigger share of GVA from global value chains being booked in Ireland. As a result, net exports contributed 18 pps. to GDP growth, driven by contract manufacturing. [75] This level-shift is assumed not to revert or reproduce over the forecast horizon. At the same time, the domestic economy also grew at robust rates, with GVA in the other sectors up by 4.4% and core domestic demand [76] up by 5.4% in 2015.

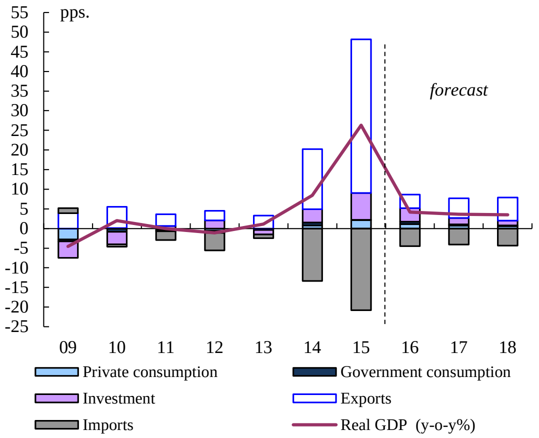
Economic activity is expected to remain strong driven by domestic demand and jobs

Job creation and recovering wages are projected to support consumption in 2016-2018, with increased household formation and inward migration helping to drive demand particularly for durable goods. Housing completions are forecast to grow at close to 15% per year, albeit from a low base, supported by government policies and improvements to the infrastructure necessary for housing development. After years of contraction, public investment is forecast to grow gradually, reaching 2% of GDP in 2018, in line with government plans and helped by the Investment Plan for Europe. Equipment investment is due to decelerate in 2016, after the recent completion of a large project, but is expected to recover over the next two years as firms further replenish their capital stock to meet demand and construction picks-up. In the labour market, the unemployment rate is forecast to fall to 7.6% in 2018, thanks to continued job creation and despite sizeable natural population growth and net inward migration. Unit labour costs are expected to increase moderately but remain well below pre-2015 levels. Inflation is forecast to increase on account of the constant improvements in the labour market and the gradual growth in energy prices.

However, risks have heightened considerably, including since the UK referendum

The contribution of net exports to GDP growth is forecast to be negative in 2016 but to recover thereafter, in line with global trade. The weak sterling affects mostly indigenous firms, including in the agri-food sector, but has limited impact on multinationals with exports denominated in other currencies. Short-run job losses in the sectors more exposed to the sterling depreciation are expected to be more than compensated by employment growth in services and construction. At the same time, the positive contribution of contract manufacturing to GVA is expected to remain, although its size is uncertain and further level-shifts could take place.

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



Risks to the outlook relate mostly to uncertainty following the UK 'leave' vote. Further falls in sterling or hits to consumer or business confidence could weigh on economic activity. Yet, stronger-than-anticipated investment in infrastructure and housing could push employment and household

(74) Such as pharmaceuticals, communications, reproduction of recorded media, electronics or medical devices.

(75) Contract manufacturing refers to the production of goods abroad on behalf of Irish-domiciled entities for exporting. Under ESA-2010, their sale abroad counts as Irish exports. Following the corporate restructurings in 2015, it started to have a large positive contribution to GVA in Ireland.

(76) A measure of domestic demand that excludes investment in intangible assets and transport equipment.

consumption beyond the central forecast scenario. While the increased share of corporate tax receipts in government revenue makes public finances more sensitive to shifts in corporate tax strategies, the growing interest of some multinationals in basing more manufacturing in Ireland could also lead to higher investment.

Public finances are expected to improve on the back of resilient economic growth

The general government deficit is forecast to fall to 0.9% of GDP in 2016, a small improvement from last year's underlying deficit of 1.1% [77]. Relative to the spring forecast, the improvement (0.2 pps.) reflects the large revision to 2015 GDP as well as the additional expenditure allocated to healthcare in June 2016 to address emerging overruns.

Cash returns for the first three quarters of 2016 were slightly above government projections due to buoyant corporate tax and excise duties. For the second year in a row, corporate tax receipts are on course to exceed the government's own projections by a wide margin. Overall, cash returns increased by 5.7% over the twelve months to September, while expenditure remained below the target set in June, supported by lower interest expenditure.

Ireland's 2017 Draft Budgetary Plan includes new expansionary measures of around EUR 1.3 billion, at a ratio of three euros in spending increases for every euro in tax cuts. Due to the resilient outlook for GDP and domestic demand, the deficit is still expected to fall to 0.5% of GDP in 2017 and, based on a no-policy change assumption, to narrow further to 0.4% in 2018. Risks to the fiscal forecast mainly relate to the uncertainties surrounding the macroeconomic outlook and the volatility of some sources of government revenue. On the upside, November cash returns could exceed expectations.

The structural deficit is expected to remain broadly stable in 2016 at about 1¾% of GDP and to narrow gradually to about ⅔% of GDP in 2018. Gross general government debt is projected to continue to decline. The GDP surge in 2015 had a direct arithmetic effect on the debt-to-GDP ratio, which stood at 78.6%, around 15 pps. below the ratio in the spring forecast. It is projected to further decline to 75.4% in 2016 and to reach 71.9% in 2018, contingent on still robust GDP growth and the realisation of primary budget surpluses of more than 1½% of GDP per year in 2016 and 2017.

[77] Excluding a one-off transaction of 0.8% of GDP, related to the restructuring of a state-owned bank's capital base.

Table II.7.1:

Main features of country forecast - IRELAND

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	255.8	100.0	4.2	1.1	8.5	26.3	**4.1**	**3.6**	**3.5**
Private Consumption	87.3	34.1	3.8	-0.3	1.8	5.0	**3.4**	**2.1**	**1.8**
Public Consumption	32.1	12.5	3.5	-1.3	4.5	0.3	**4.7**	**2.1**	**1.5**
Gross fixed capital formation	54.2	21.2	4.1	-5.7	18.3	32.9	**16.0**	**6.8**	**5.0**
of which: equipment	16.4	6.4	7.4	-6.3	24.2	3.0	**1.0**	**6.0**	**5.0**
Exports (goods and services)	317.2	124.0	8.2	3.1	14.4	34.4	**2.8**	**4.2**	**4.8**
Imports (goods and services)	236.0	92.2	7.9	1.1	15.3	21.7	**4.9**	**4.4**	**4.7**
GNI (GDP deflator)	203.9	79.7	3.4	5.1	8.7	18.2	**5.4**	**3.5**	**2.3**
Contribution to GDP growth: Domestic demand			3.3	-1.5	4.9	8.9	**5.1**	**2.6**	**2.1**
Inventories			0.0	-0.1	1.3	-0.8	**0.0**	**0.0**	**0.0**
Net exports			1.2	2.3	1.9	18.3	**-1.1**	**1.0**	**1.5**
Employment			2.1	2.5	1.7	2.5	**2.3**	**1.9**	**1.9**
Unemployment rate (a)			7.5	13.1	11.3	9.4	**8.3**	**7.8**	**7.6**
Compensation of employees / head			3.9	1.4	1.8	2.8	**2.7**	**2.5**	**2.1**
Unit labour costs whole economy			1.8	2.8	-4.5	-16.5	**0.9**	**0.9**	**0.5**
Real unit labour cost			-0.8	1.4	-3.4	-20.4	**1.4**	**-0.3**	**-1.0**
Saving rate of households (b)			-	10.3	10.9	10.7	**10.7**	**10.8**	**10.8**
GDP deflator			2.6	1.4	-1.2	4.9	**-0.5**	**1.2**	**1.5**
Harmonised index of consumer prices			2.3	0.5	0.3	0.0	**-0.2**	**1.2**	**1.4**
Terms of trade goods			0.5	0.9	-5.6	8.3	**-0.2**	**-0.1**	**0.1**
Trade balance (goods) (c)			21.7	19.1	21.1	43.2	**41.8**	**42.0**	**43.1**
Current-account balance (c)			-1.7	2.1	1.7	10.2	**7.9**	**7.7**	**7.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.3	1.6	-1.8	9.7	**8.2**	**8.0**	**7.7**
General government balance (c)			-3.5	-5.7	-3.7	-1.9	**-0.9**	**-0.5**	**-0.4**
Cyclically-adjusted budget balance (d)			-3.7	-3.2	-3.7	-2.6	**-1.8**	**-1.0**	**-0.6**
Structural budget balance (d)			-	-3.6	-3.6	-1.8	**-1.7**	**-1.0**	**-0.6**
General government gross debt (c)			50.7	119.5	105.2	78.6	**75.4**	**73.6**	**71.9**

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

8. GREECE

Recovery backed by domestic demand and exports

After a mild contraction of real GDP by 0.2% in 2015, economic activity is expected to gradually pick up as of the second half of 2016 and accelerate markedly in 2017, on account of strengthened economic sentiment after the conclusion of the first review of the ESM programme, and stabilisation of public finances. Unemployment is set to continue decreasing from very high levels.

Investment and labour market improvement to support expected growth

Real GDP growth in the first half of this year was flat compared to the second half of last year and lower than the first half of 2015. While private consumption declined mildly compared to the second half of 2015, investment increased over the same period driven by a strong increase in machinery and equipment investment in the second quarter of 2016. In the first semester of this year, exports decreased more than imports, resulting in net exports detracting from GDP growth.

Real GDP growth is expected to gradually pick up during the second half of the year notably driven by improved economic sentiment following the conclusion of the first review of the ESM programme and higher liquidity in the corporate sector amid clearance of arrears. Still, for the year as a whole, real GDP is expected to mildly contract by 0.3% in 2016. Economic recovery is expected to return strongly in 2017 with growth at 2.7%, on account of the assumed gradual normalisation of the financial sector, which should lead to the gradual relaxation of capital controls over time. Domestic demand is expected to increase, with investment fuelling a positive net exports contribution. Investment is expected to take off in 2017 backed by improved credit conditions and EU funding. Real GDP is expected to continue recovering at a robust pace in 2018, with growth forecast to reach 3.1%.

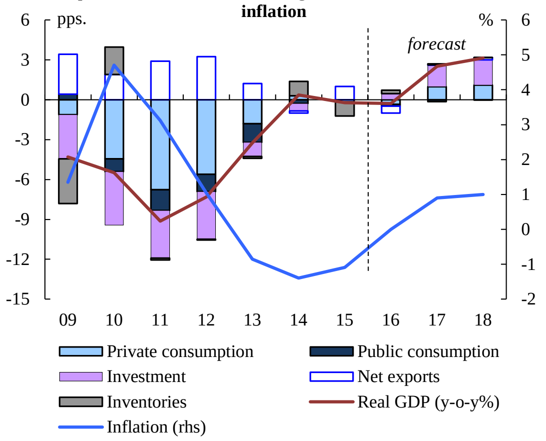
The labour market performed better than expected in the first half of 2016, with unemployment declining to 23.2% in July from an annual average of 24.9% in 2015. Employment increased by 2.7% in the period January–July 2016 compared to an annual average growth rate of 0.5% in 2015. Employment is projected to rise at a broadly stable pace until 2018 and unemployment to keep decreasing, reflecting lagged effects of economic recovery, still subdued wage dynamics and the impact of labour market reforms.

The external sector contribution to GDP growth is expected to be negative in 2016, with both exports and imports declining substantially due to capital controls still being in place. Net exports' contribution to growth should turn positive in 2017 on account of increased goods exports driven by recent competitiveness gains and higher investment in the sector.

Deflationary pressures have eased in 2016, mainly due to the increase in indirect taxation. The HICP is expected to increase slightly in 2016 before picking up over the next two years as domestic demand strengthens. Wages are expected to increase along with economic recovery.

Downside risks are related mainly to uncertainties over the completion of the second review of the ESM programme that may trigger a reversal of the current positive sentiment and expectations, as well as external factors such as regional geopolitical tensions and the refugee crisis.

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



Strong budget execution offsets impact of downward revision in 2015 fiscal outcome

The October 2016 EDP notification revised the 2015 headline general government deficit to 7.5% of GDP, up from 7.2% of GDP notified in spring. The revision was driven by regular methodological refinements and improved data availability. As a result, the 2015 primary budget balance according to the programme definition [78] was revised to 0.2% of GDP, well above the target of -0.25% of GDP but lower than the surplus of 0.7% of GDP notified in spring 2016.

Greece is forecast to reach the programme's primary surplus target of 0.5% of GDP in 2016, with the composition of the fiscal adjustment tilted more to the revenue side. The stronger-than-forecast revenue outcome primarily stems from higher VAT revenue (reflecting the prudent initial estimates of the VAT reform and improved tax compliance) and higher corporate income taxes thanks to positive y-o-y growth in taxable profits. These gains were partially offset by spending slippages, mainly in the wage bill and the health sector. The achievement of the primary surplus target combined with reduced interest expenditure will result in the headline general government fiscal deficit falling to 2.5% of GDP in 2016.

By end 2016, the authorities will legislate the 2017 Budget and Medium-term Fiscal Strategy 2017-20, including any adjustments in fiscal policies needed, to ensure the achievement of the ESM programme primary balance targets of 1.75% of GDP in 2017 and 3.5% of GDP in 2018.

An upside risk to this forecast is the persistence of the strong revenue performance seen so far this year on the back of the improving macro-economic performance and revenue administration reforms. Downsides include ongoing spending slippages and potential deviations in the yields of the large fiscal reforms worth 1.6% of GDP (personal income tax, pensions) agreed in the first review for 2017, which have high implementation risks.

The debt-to-GDP ratio is expected to increase from 177.4% in 2015 to 181.6% in 2016 due to the fiscal deficit, the clearance of arrears and still declining nominal GDP. Interest expenditure, however, is projected to decrease over the forecast years due to declining interest rates for financial assistance loans and updated interest consolidation confirmed by the October 2016 EDP notification. The improved fiscal position and positive GDP growth in 2017 are expected to put the debt-to-GDP ratio on a declining path starting in 2017. [79]

[78] 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, which in total were equal to 4.2 % of GDP in 2015.

[79] The debt forecast presented in the table is in line with the Eurostat convention that differs slightly from the debt sustainability analysis of the ESM programme.

Table II.8.1:

Main features of country forecast - GREECE

	2015		Annual percentage change						
	bn EUR Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	175.7	100.0	1.0	-3.2	0.4	-0.2	**-0.3**	**2.7**	**3.1**
Private Consumption	122.8	69.9	1.1	-2.6	0.4	-0.2	**-0.5**	**1.5**	**1.6**
Public Consumption	35.3	20.1	1.2	-6.4	-1.4	0.0	**-0.7**	**-0.7**	**-0.1**
Gross fixed capital formation	20.3	11.5	-1.1	-8.4	-4.6	-0.2	**4.0**	**13.7**	**14.2**
of which: equipment	8.3	4.7	0.6	-4.5	21.0	-1.5	**6.9**	**15.8**	**15.2**
Exports (goods and services)	56.1	31.9	5.3	1.5	7.8	3.4	**-4.0**	**3.6**	**4.7**
Imports (goods and services)	55.8	31.8	3.1	-2.4	7.6	0.3	**-2.8**	**3.0**	**4.2**
GNI (GDP deflator)	176.3	100.3	0.9	-4.0	0.7	-0.1	**-0.5**	**2.7**	**3.1**
Contribution to GDP growth: Domestic demand			1.1	-4.3	-0.6	-0.2	**0.0**	**2.5**	**2.9**
Inventories			-0.1	-0.1	1.1	-1.0	**0.1**	**0.0**	**0.0**
Net exports			0.1	1.2	-0.2	1.0	**-0.4**	**0.2**	**0.2**
Employment			0.0	-2.6	0.0	0.5	**2.2**	**2.2**	**2.3**
Unemployment rate (a)			11.6	27.5	26.5	24.9	**23.5**	**22.2**	**20.3**
Compensation of employees / head			4.5	-7.5	-2.1	-2.9	**0.2**	**1.0**	**2.0**
Unit labour costs whole economy			3.5	-6.9	-2.4	-2.2	**2.7**	**0.5**	**1.2**
Real unit labour cost			0.5	-4.6	-0.6	-1.2	**2.9**	**-0.4**	**0.0**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.9	-2.4	-1.8	-1.0	**-0.2**	**0.8**	**1.2**
Harmonised index of consumer prices			3.3	-0.9	-1.4	-1.1	**0.1**	**1.1**	**1.0**
Terms of trade goods			-0.3	1.7	0.9	0.6	**0.1**	**0.0**	**0.0**
Trade balance (goods) (c)			-14.7	-9.8	-10.8	-9.1	**-8.6**	**-8.9**	**-9.0**
Current-account balance (c)			-9.7	-2.2	-2.6	0.0	**0.0**	**0.2**	**0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-8.1	0.5	-0.6	2.1	**1.9**	**2.1**	**2.1**
General government balance (c)			-7.8	-13.2	-3.6	-7.5	**-2.5**	**-1.0**	**0.9**
Cyclically-adjusted budget balance (d)			-7.9	-6.1	2.4	-2.1	**2.6**	**2.7**	**3.0**
Structural budget balance (d)			-	2.4	2.4	1.9	**2.6**	**2.7**	**3.0**
General government gross debt (c)			115.3	177.4	179.7	177.4	**181.6**	**179.1**	**172.4**

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

9. SPAIN

Growth expected to decelerate but remain robust

Economic growth has again exceeded expectations in recent quarters. It is still expected to ease but remain robust throughout the forecast horizon. Although domestic demand is expected to remain the main driver of growth, the contribution of the external sector is set to turn positive. Inflation is expected to pick up in 2017 as oil prices increase and core inflation recovers. Unemployment is set to continue to fall steadily to 16½% by 2018. The reduction of the general government deficit in 2017 and 2018 relies to a large extent on the positive macroeconomic outlook.

Upward revision to growth in 2016

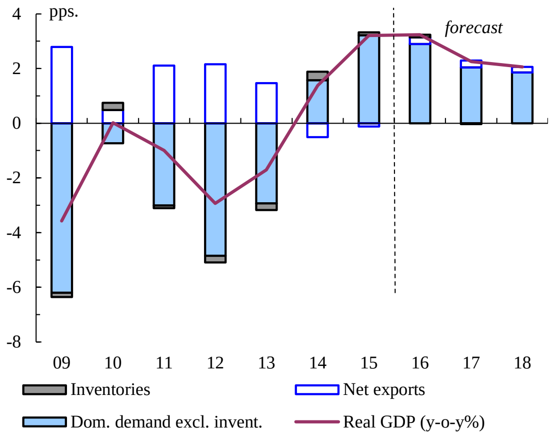
The pace of economic growth again exceeded expectations in the first three quarters of 2016, when GDP grew by 0.8% quarter-on-quarter in both the first and second quarters and by 0.7% in the third quarter. Accordingly, Spain's economy is forecast to grow by 3.2% in 2016 as a whole, revised up from 2.6% in the spring forecast. Although domestic demand is expected to remain the main growth driver, the contribution of the external sector to GDP growth is turning positive.

Growth set to decelerate but remain robust

The rate of GDP growth is expected to ease over the forecast horizon to a still relatively robust 2.3% in 2017 and 2.1% in 2018. Private consumption is expected to slow down as employment growth decreases and the tailwinds that supported the growth of disposable income in recent years (i.e. the decline in oil prices and improving financial conditions) gradually abate. Investment growth is expected to ease somewhat in 2017 before increasing again in 2018, driven by the gradual recovery of construction investment, both residential and non-residential. Equipment investment growth, by contrast, is expected to moderate in line with final demand.

Export growth is picking up this year compared to 2015, especially for services. It is expected to slow down slightly in 2017 and 2018. However, despite declining in yearly terms, exports are expected to pick up again towards the end of the forecast period as Spain's trading partners recover. At the same time, imports are forecast to decelerate in line with final demand and grow more slowly than exports throughout the forecast horizon. As a result, net exports are set to make a positive contribution to growth also in 2017 and 2018. However, after widening in 2016, Spain's current account surplus is forecast to marginally decrease in 2017 and stabilise thereafter, under the impact of the expected swings in terms of trade. Net external lending is expected to remain at or above 2.4% of GDP over the forecast horizon.

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



Inflation expected to pick up

The assumed oil price increases are set to continue dominating inflation developments in the short term. Hence, headline inflation is forecast to rise from −0.4% in 2016 to 1.6% in 2017, before decreasing slightly to 1.5% in 2018 as the effect of energy price increases fades away. At the same time, core inflation is expected to gradually increase over the forecast horizon.

Employment growth expected to moderate

Job creation accelerated in the third quarter of 2016 compared to the second quarter, and although it is set to ease over the forecast period, it is projected to remain strong, allowing for further reductions in unemployment. The unemployment rate, which amounted to 18.9% of the labour force in the third quarter of 2016, is expected to continue falling to 16½% by 2018. Continued wage moderation combined with still low productivity gains is set to lead to moderate increases in nominal unit labour costs over the forecast horizon.

Deficit reduction driven by the recovery, while remaining high

Despite strong economic growth, Spain's general government deficit barely changed in the first half of 2016. Available monthly data for August and September for some subsectors of general government confirmed this picture. Whereas expenditure has grown in line with expectations, revenues have been weighed down by significant shortfalls in income tax revenue. This is especially the case for the corporate income tax following the second leg of the tax reform and the abolition of the minimum advance payments, which came into effect in 2016. To limit the negative impact on the budget balance of the latter, the parliament adopted a Royal Decree Law in October reintroducing the minimum advance payments, with an extended coverage of firms and increased amounts. As a result, the general government deficit is expected to decrease from 5.1% in 2015 to 4.6% in 2016. It is then expected to narrow to 3.8% of GDP in 2017 and is projected to reach 3.2% of GDP in 2018. In the absence of a budget for 2017, the reduction of the deficit in both years relies to a large extent on the positive macroeconomic outlook, which should continue supporting tax revenues and keeping social transfers in check. In particular, while pension expenditure is expected to continue rising, falling unemployment should reduce the growth of social transfers. Previous improvements in financing conditions imply that interest expenditure is set to continue decreasing.

After deteriorating significantly in 2015, Spain's structural deficit is expected to increase further by some 1% of GDP in 2016 and stabilise thereafter. Relatively strong nominal GDP growth largely offsets the still large, though declining, deficit expected over the forecast horizon, allowing the general government debt ratio to remain broadly stable around 100% of GDP. The forecast assumes a planned debt-decreasing stock-flow adjustment of 1.1% of GDP in 2016, as reported in the draft budgetary plan.

Table II.9.1:

Main features of country forecast - SPAIN

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	1075.6	100.0	2.2	-1.7	1.4	3.2	**3.2**	**2.3**	**2.1**
Private Consumption	625.0	58.1	1.9	-3.1	1.6	2.9	**3.2**	**2.1**	**1.6**
Public Consumption	208.5	19.4	3.5	-2.1	-0.3	2.0	**0.9**	**0.8**	**0.8**
Gross fixed capital formation	212.1	19.7	1.8	-3.4	3.8	6.0	**4.2**	**3.6**	**3.8**
of which: equipment	72.7	6.8	2.9	5.0	8.3	8.9	**6.7**	**4.5**	**3.9**
Exports (goods and services)	356.9	33.2	4.5	4.3	4.2	4.9	**6.1**	**4.5**	**4.4**
Imports (goods and services)	330.5	30.7	4.2	-0.5	6.5	5.6	**5.8**	**4.3**	**4.1**
GNI (GDP deflator)	1074.9	99.9	2.2	-1.5	1.6	3.5	**3.2**	**2.2**	**2.1**
Contribution to GDP growth: Domestic demand			2.3	-2.9	1.6	3.2	**2.9**	**2.1**	**1.9**
Inventories			0.0	-0.2	0.3	0.1	**0.1**	**0.0**	**0.0**
Net exports			0.0	1.5	-0.5	-0.1	**0.2**	**0.2**	**0.2**
Employment			1.3	-3.5	1.1	3.0	**2.8**	**2.1**	**1.8**
Unemployment rate (a)			14.1	26.1	24.5	22.1	**19.7**	**18.0**	**16.5**
Compensation of employees / f.t.e.			3.0	1.4	-0.1	0.4	**1.2**	**1.2**	**1.4**
Unit labour costs whole economy			2.1	-0.5	-0.4	0.2	**0.8**	**1.1**	**1.1**
Real unit labour cost			-0.4	-0.8	-0.1	-0.3	**0.1**	**-0.1**	**-0.4**
Saving rate of households (b)			10.2	9.6	9.0	8.2	**8.4**	**8.4**	**8.4**
GDP deflator			2.6	0.4	-0.3	0.5	**0.7**	**1.2**	**1.5**
Harmonised index of consumer prices			2.7	1.5	-0.2	-0.6	**-0.4**	**1.6**	**1.5**
Terms of trade goods			-0.2	0.6	-0.5	2.0	**0.8**	**-0.9**	**-0.4**
Trade balance (goods) (c)			-5.5	-1.4	-2.2	-2.0	**-1.9**	**-2.1**	**-2.2**
Current-account balance (c)			-4.6	1.5	1.0	1.3	**1.7**	**1.5**	**1.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.9	2.1	1.5	2.0	**2.6**	**2.4**	**2.4**
General government balance (c)			-3.1	-7.0	-6.0	-5.1	**-4.6**	**-3.8**	**-3.2**
Cyclically-adjusted budget balance (d)			-3.2	-2.5	-2.3	-3.0	**-3.8**	**-3.8**	**-3.8**
Structural budget balance (d)			-	-2.0	-1.9	-2.8	**-3.8**	**-3.8**	**-3.8**
General government gross debt (c)			54.3	95.4	100.4	99.8	**99.5**	**99.9**	**100.0**

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

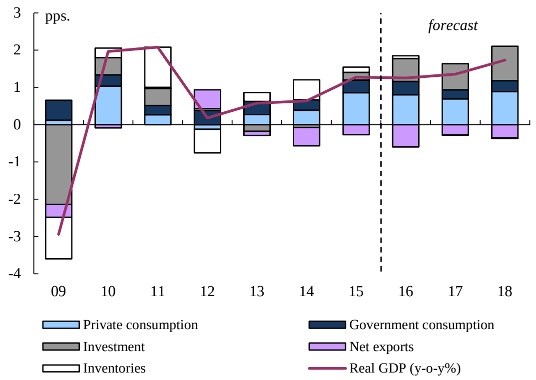
10. FRANCE

A prolonged period of moderate growth

Economic growth in France is forecast to continue at a moderate pace. The recovery in investment, particularly in the construction sector, is expected to rebalance growth, making it less dependent on private consumption. However, net exports are set to remain a significant drag on growth. The general government deficit is expected to fall from 3.3% of GDP in 2016 to 2.9% in 2017. Unemployment is set to continue its gradual decline. Inflation should pick-up to reach 1.4% in 2018.

After recording strong growth in the first quarter of this year, economic activity contracted slightly in the second quarter due to several temporary factors that affected growth negatively (backlash to Euro cup ticket sales and to the change in television standards, as well as strikes). In the third quarter of 2016, GDP grew modestly by 0.2%. Overall, in recent quarters, economic activity has been primarily driven by private consumption and investment. GDP growth is forecast at 1.3% in 2016 and 1.4% in 2017. In 2018, a pick-up in growth to 1.7% is expected under the no-policy-change assumption.

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



Growth mainly driven by domestic demand, while net exports remain a drag

Private consumption is set to remain sustained over the forecast horizon, as the purchasing power gains due to past oil price declines have not yet been spent entirely and labour market conditions continue to improve.

The recovery in investment is gaining momentum, particularly in the construction sector, which is forecast to recover after four years of contraction. At the same time, equipment investment has been boosted by the anticipation of the end of the over-amortisation scheme, a fiscal incentive for firms to invest. Rising profit margins and relatively easy financing conditions are expected to sustain robust growth rates.

After an exceptional performance in 2015, exports stalled in the first three quarters of 2016, in part due to delivery delays in the aircraft sector. Export growth is expected to normalise in 2017 and 2018, in line with the projected moderate recovery in French export market growth. However, as imports continue to be supported by strong domestic demand, net exports are set to remain a drag on growth throughout the forecast horizon.

Unemployment rate expected to decline while inflation picks up

Employment is projected to grow markedly in 2016 on the back of a strong increase in the first half of the year. Supported by policy measures to encourage job creation by reducing the labour tax wedge (the Tax Credit for Competitiveness and Employment, the Responsibility and Solidarity Pact, and the Hiring Subsidy) and sustained economic activity, employment is expected to grow stronger than the labour force in the coming two years. Moreover, the emergency plan for employment announced in January is further decreasing the unemployment rate, by shifting a part of the labour force into training. Consequently, the unemployment rate is forecast to decline to 10.0% in 2016 and 9.9% in 2017 before dropping to 9.6% in 2018.

Inflation has started to recover in recent months and is expected to average 0.3% in 2016. With oil prices set to increase, inflation is forecast to pick up substantially to 1.3% in 2017 and to 1.4% in 2018 as the effect of rising oil prices gives way to pressures from rising wages.

Risks to the outlook

In addition to risks related to increased uncertainty to the global outlook, the effects of recent terrorist attacks, while expected to be short-lived, might affect certain sectors such as tourism for example in a more long-lasting manner. On the other hand, a stronger growth in employment or wages could boost private consumption.

The headline deficit is projected to decrease to 2.9% in 2017

The headline deficit is projected to decrease to 3.3% of GDP in 2016 (after 3.5% in 2015), on the back of better-than-expected budget execution. Public revenue growth is expected to slow somewhat this year, notably due to discretionary measures which are part of the Responsibility and Solidarity Pact (RSP). Public expenditure net of tax credits should increase by 1.2% compared to 0.9% in 2015 as inflation is low and interest payments continue to decline. Public investment is projected to rebound, albeit from low levels, in line with the local electoral cycle.

The government deficit is expected to further decrease to 2.9% of GDP in 2017. Revenue growth should be slightly more dynamic, reflecting higher GDP growth and the increase in local and green taxes. The draft budget for 2017 includes consolidation measures amounting to EUR 14 billion (0.6% of GDP) designed notably to offset the deficit-increasing impact of measures in favour of households, companies and local authorities announced since spring. The main measure was the replacement of the last phase of the RSP planning tax cuts of 0.2% of GDP in 2017 by tax credits and corporate tax cuts with a similar budgetary impact in 2018. Moreover, the forecast does not incorporate EUR 2.3 bn (0.1% of GDP) of these measures as they have not been sufficiently specified. Overall, public expenditure net of tax credits is expected to increase by 1.7%, reflecting higher wages for civil servants following the end of the wage freeze in 2016 and the increase of the healthcare spending norm compared to 2016. The structural balance is projected to improve by around ¼ pps. in both 2016 and 2017.

Under the no-policy-change assumption, the deficit is forecast to reach 3.1% of GDP in 2018. The revenue-to-GDP ratio should decline by 0.2 pps. as the corporate income tax is cut and due to the temporary nature of the yield of some revenue measures in 2017. The expenditure-to-GDP ratio would stabilize. Public investment and interest charges would grow at a more dynamic pace than over 2013-2017. However, current expenditure net of tax credits and interest charges would grow at a somewhat slower pace than over 2013-2017 in volume terms as it is assumed that the expenditure containment strategy is continued. The structural balance is projected to fall by around ¼ pps. in 2018. The debt-to-GDP ratio is forecast to rise further and reach 97.1% of GDP in 2018.

Table II.10.1:

Main features of country forecast - FRANCE

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	2181.1	100.0	1.7	0.6	0.6	1.3	**1.3**	**1.4**	**1.7**
Private Consumption	1201.5	55.1	1.9	0.5	0.7	1.5	**1.5**	**1.3**	**1.6**
Public Consumption	521.8	23.9	1.4	1.5	1.2	1.4	**1.5**	**1.0**	**1.2**
Gross fixed capital formation	469.2	21.5	2.2	-0.8	-0.3	1.0	**2.9**	**3.2**	**4.2**
of which: equipment	103.2	4.7	2.6	-3.5	2.0	2.3	**6.2**	**4.2**	**5.1**
Exports (goods and services)	654.9	30.0	4.1	1.9	3.3	6.1	**1.0**	**3.1**	**4.0**
Imports (goods and services)	685.0	31.4	4.8	2.1	4.7	6.6	**2.8**	**3.8**	**4.9**
GNI (GDP deflator)	2216.5	101.6	1.7	0.6	0.6	1.6	**1.3**	**1.4**	**1.7**
Contribution to GDP growth: Domestic demand			1.8	0.4	0.6	1.4	**1.8**	**1.6**	**2.1**
Inventories			0.1	0.2	0.5	0.1	**0.1**	**0.0**	**0.0**
Net exports			-0.1	-0.1	-0.5	-0.3	**-0.6**	**-0.3**	**-0.4**
Employment			0.7	0.1	0.2	0.4	**1.1**	**0.7**	**0.9**
Unemployment rate (a)			9.0	10.3	10.3	10.4	**10.0**	**9.9**	**9.6**
Compensation of employees / f.t.e.			2.5	1.6	1.2	1.1	**0.6**	**1.5**	**1.9**
Unit labour costs whole economy			1.6	1.1	0.8	0.2	**0.4**	**0.8**	**1.1**
Real unit labour cost			0.1	0.3	0.3	-0.4	**-0.4**	**0.0**	**-0.1**
Saving rate of households (b)			15.1	14.0	14.1	14.1	**14.3**	**14.1**	**14.1**
GDP deflator			1.5	0.8	0.5	0.6	**0.8**	**0.8**	**1.2**
Harmonised index of consumer prices			1.7	1.0	0.6	0.1	**0.3**	**1.3**	**1.4**
Terms of trade goods			-0.2	1.3	1.6	3.8	**1.9**	**-0.2**	**0.1**
Trade balance (goods) (c)			-0.5	-2.0	-1.7	-1.0	**-1.2**	**-1.5**	**-1.7**
Current-account balance (c)			0.1	-2.9	-3.2	-2.0	**-2.1**	**-2.3**	**-2.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			0.1	-2.8	-3.2	-2.0	**-1.8**	**-2.1**	**-2.3**
General government balance (c)			-3.5	-4.0	-4.0	-3.5	**-3.3**	**-2.9**	**-3.1**
Cyclically-adjusted budget balance (d)			-3.9	-3.2	-2.9	-2.6	**-2.5**	**-2.2**	**-2.6**
Structural budget balance (d)			-	-3.3	-2.9	-2.6	**-2.5**	**-2.3**	**-2.6**
General government gross debt (c)			68.0	92.3	95.3	96.2	**96.4**	**96.8**	**97.1**

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

11. CROATIA

Towards a broad-based recovery

Croatia's economy is expected to grow 2.6% this year on the back of a rebound in consumption, strong investment growth and a record tourist season. Domestic demand is expected to remain strong but net trade is set to continue detracting from growth in 2017 and 2018, due to strong demand for imports. Unemployment is projected to fall sharply due to employment growth and a shrinking labour force. The general government deficit is forecast to decline further, setting the debt-to-GDP ratio on a declining path already this year.

Expectations of a strong third quarter support the growth outlook for 2016

Domestic demand grew buoyantly in the first half of the year, with investment and consumption rising by 4.8% and 2.3% respectively. Exports of goods performed well, hinting at further gains in export market shares, mainly within the EU.

Both, industrial production and retail trade signal a continuation of the positive trends in the third quarter, while confidence indicators are at record highs. Most importantly, a sharp increase in tourist arrivals (7.0% y-o-y up to August) confirms a new record tourist season, with exports of services set to grow this year by another 5.6%. Despite this, the net contribution of external demand is expected to turn slightly negative and the current account surplus to decrease to 3.0% of GDP, as growth of imports outpaces that of exports.

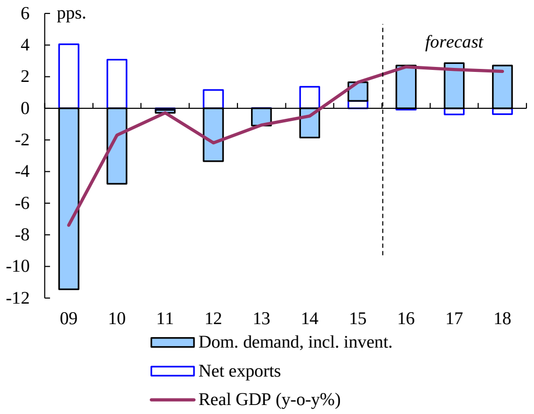
Overall, GDP is projected to expand by 2.6% in 2016. The acceleration of economic activity is set to have a positive impact on the labour market, with employment expected to increase by 1.8%. The fall in the unemployment rate is forecast to be much sharper (nearly 3 pps.), as the labour force keeps contracting on the back of adverse demographic dynamics and net migration outflows. Prices continued to decrease faster than the EU average up to September. As a result, average inflation is projected to fall to -0.9% this year, on the back of falling oil price and a reduction in gas tariffs and subdued core inflation.

Low interest rates and increased EU fund absorption support the recovery of investment

Following a significant increase in 2016 of almost 3%, on the back of negative inflation, real growth of average compensation per employee is set to slow down in 2017 and 2018, while employment is forecast to keep expanding. Despite the expected turnaround in inflation dynamics (0.8% in 2017 progressively accelerating to 1.5% in 2018) and the fading-out of the impact of last year's tax reform, household consumption is projected to continue growing moderately.

Over the next two years, investment growth is expected to remain strong. Easing credit standards for the corporate sector, decreasing non-performing loans and solid deposit growth are set to support the recovery of private investment. Public investment is also expected to recover, following its collapse in 2015, also thanks to the continued rise in Croatia's absorption of EU funds.

Graph II.11.1: **Croatia - Real GDP growth and contributions**



Croatia's ongoing integration into the EU single market is expected to further benefit exports, but the growth in exports of goods is projected to slow down, as the boost from EU accession fades out. Exports of services are also set to grow more moderately, as tourist arrivals are expected to stabilise with oil prices recovering. All in all, external demand is expected to detract from growth in 2017 and 2018, as vibrant domestic demand pushes up imports. On account of these developments, GDP growth is set to progressively ease to 2.3% in 2018, while the current account surplus is set to shrink to 1.8% of GDP.

Risks to the forecast are broadly balanced. A deterioration of external conditions in 2017 could result in a sharper deceleration of exports. By contrast, the new government might resume the structural reform agenda and implement the tax reductions which are still being considered. These developments would have a positive impact on investment and consumption.

Fast declining general government deficit and debt

Following substantial consolidation efforts in 2015, the general government balance is projected to further improve to -2.1% of GDP in 2016. The improvement is to a large extent driven by the acceleration of the economic activity, resulting in windfall revenues. In the first three quarters, revenues from corporate income tax were especially strong and VAT performed well, as rising private consumption and a strong tourist season more than offset the effects of deflation. Growth in government expenditure has been restrained, owing more to under-execution during the caretaker government than to structural consolidation measures. Provisional data suggest that public investment is no longer bearing the brunt of consolidation: after a series of sharp decreases (totalling a cumulative reduction of 48% in 2008-2015), it is now projected to increase by 16.5%, on the back of higher take-up of EU funds.

In the absence of a budget for 2017, the headline deficit should continue shrinking on the back of economic growth, bringing the general government balance to -1.8% and -1.4% of GDP in 2017 and 2018, respectively. However, the structural balance, which improved by some 1½ pps. from 2013 to 2016, is set to deteriorate by about ¾ pps. of GDP by 2018.

Croatia's debt-to-GDP ratio is expected to fall to 85% in 2016, largely due to stronger GDP growth and the appreciation of the HRK against the EUR, as the majority of the debt is in EUR. The debt ratio is projected to further decline over the forecast horizon to 82.8% in 2018, as growth continues and prices recover.

Risks to the fiscal forecast include the outcome of public sector wage negotiations and the dispute with banks over plans to convert CHF-denominated loans, as well as the comprehensive tax reform currently under consideration.

Table II.11.1:

Main features of country forecast - CROATIA

		2015		Annual percentage change						
	bn HRK	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		333.8	100.0	2.1	-1.1	-0.5	1.6	**2.6**	**2.5**	**2.3**
Private Consumption		196.2	58.8	2.0	-1.8	-1.6	1.2	**2.7**	**2.5**	**2.4**
Public Consumption		65.8	19.7	1.6	0.3	-0.8	-0.3	**0.9**	**1.0**	**0.9**
Gross fixed capital formation		65.1	19.5	3.5	1.4	-2.8	1.6	**4.8**	**6.1**	**5.3**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		166.8	50.0	4.0	3.1	7.6	10.0	**6.0**	**3.5**	**4.0**
Imports (goods and services)		157.7	47.2	3.7	3.1	4.5	9.4	**6.6**	**4.6**	**5.0**
GNI (GDP deflator)		334.3	100.1	1.9	0.2	-1.8	4.5	**-0.3**	**2.5**	**2.4**
Contribution to GDP growth:	Domestic demand			2.5	-0.7	-1.7	1.0	**2.7**	**2.9**	**2.7**
	Inventories			0.0	-0.3	-0.2	0.2	**0.0**	**0.0**	**0.0**
	Net exports			-0.3	0.0	1.4	0.5	**-0.1**	**-0.4**	**-0.4**
Employment				-0.2	-2.7	2.7	1.5	**1.8**	**1.5**	**1.2**
Unemployment rate (a)				-	17.3	17.3	16.3	**13.4**	**11.7**	**10.3**
Compensation of employees / head				6.3	-0.6	-5.4	-0.3	**1.7**	**1.9**	**2.0**
Unit labour costs whole economy				3.9	-2.3	-2.4	-0.5	**0.8**	**1.0**	**0.9**
Real unit labour cost				0.0	-3.0	-2.4	-0.6	**0.6**	**0.1**	**-0.3**
Saving rate of households (b)				-	10.5	12.8	14.5	**14.6**	**14.5**	**13.4**
GDP deflator				3.9	0.8	0.0	0.1	**0.2**	**0.9**	**1.2**
Harmonised index of consumer prices				-	2.3	0.2	-0.3	**-0.9**	**0.8**	**1.5**
Terms of trade goods				1.3	-1.6	-0.9	-0.8	**0.2**	**-0.5**	**-0.8**
Trade balance (goods) (c)				-19.0	-15.1	-14.8	-15.2	**-15.4**	**-15.6**	**-16.2**
Current-account balance (c)				-4.4	1.6	1.1	5.3	**3.0**	**2.4**	**1.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.4	1.6	1.1	5.8	**3.9**	**3.5**	**3.1**
General government balance (c)				-	-5.3	-5.4	-3.3	**-2.1**	**-1.8**	**-1.4**
Cyclically-adjusted budget balance (d)				-	-3.5	-3.5	-2.1	**-1.7**	**-2.2**	**-2.5**
Structural budget balance (d)				-	-3.3	-3.7	-2.2	**-1.8**	**-2.3**	**-2.5**
General government gross debt (c)				-	82.2	86.6	86.7	**85.0**	**84.3**	**82.8**

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

12. ITALY

Economic recovery to continue at a modest pace

Italy's economic recovery is set to continue at a modest pace, as still tight financing conditions and uncertainty hold back a stronger recovery. The phasing out of incentives for new hires is expected to lead to a deceleration in employment growth. The rise in energy prices sustains headline inflation while wage pressures remain muted. Deficit and debt are both set to broadly stabilise as a ratio of GDP.

Growth to continue at a modest pace

In the first half of 2016, Italy's economy continued to expand on a yearly basis. However, economic growth in the second quarter was dragged down by manufacturing. Real GDP is projected to grow by 0.7% in 2016 (after expanding at the same rate in 2015) as recent indicators point to a moderate growth in the second half of the year.

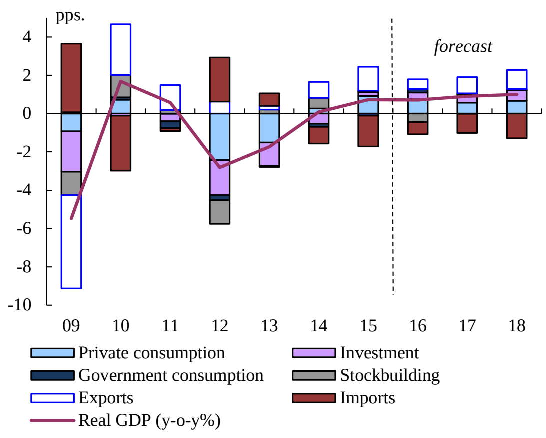
In 2017, real GDP is expected to increase by 0.9%, driven by both domestic demand and stronger exports as external demand recovers. Higher employment continues to support real disposable income and thus private consumption. A reduction in corporate tax and new public incentives are designed to support a recovery in investment in equipment and innovation. Larger and healthy firms can self-finance their investment and take advantage of improving market funding, benefitting from the broadening of the ECB asset purchase programme. Bank lending is set to increase only very gradually, since non-performing loans still burden bank balance sheets and hinder their profitability. These developments are expected to continue weighing on small firms' financing conditions. The recovery in construction is forecast to be gradual for the same reasons. Overall, the moderate growth of investment expected over the forecast horizon is set halt the ongoing depletion of the capital stock.

Italy's economic recovery is forecast to continue in 2018, sustained by domestic and external demand. The current-account surplus is projected to decline from 2.8% of GDP in 2016 to 2.1% in 2018 with the expected increase in savings more than offset by higher investment. Downside risks stem from policy uncertainty, especially due to the 4 December referendum on constitutional reform, a further slowdown in external demand, and the slow adjustment of the banking sector.

Employment growth to slow down

The three-year social contribution cuts for new permanent hires granted in 2015 and 2016 have been supporting the increase in headcount employment seen since 2015. However, as incentives expire at the end of 2016, employment growth is projected to subside in 2017 and 2018. Moreover, employment growth is expected less in terms of headcount and more in working hours. As a result, the unemployment rate is set to decline only marginally over the forecast horizon, also because previously discouraged people are expected to join the labour force. Upward pressure on labour costs is projected to remain limited, also thanks to cuts to the labour tax wedge. Moreover, the increases in real wages realised over recent years is deemed to be taken into account in future bargaining rounds. Overall nominal unit labour costs are projected to slightly increase, with a temporary uptick in 2018 due to a base effect of expiring incentives on new hires.

Graph II.12.1: **Italy - Real GDP growth and contributions**



Energy prices to push up inflation

In 2016, consumer prices are forecast to remain stable as the fall in imported energy prices is offset by a moderate increase in core inflation (0.6%). HICP inflation is expected to rise to 1.2% in 2017 and to 1.4% in 2018, mainly driven by the recovery in energy prices. Core inflation is set to stay low and only gradually recover (0.8% in 2017 and 1.1% in 2018) as wage pressures are expected to remain very limited and profit margins recover gradually after being squeezed during the crisis.

Deficit- and debt-to GDP ratios to broadly stabilise

In 2016, the general government deficit is forecast to decline slightly to 2.4% of GDP (from 2.6% in 2015) thanks to a higher primary surplus and lower interest expenditure. Current primary expenditure is set to increase by less than 2% in nominal terms. Public investment is anticipated to remain broadly stable, while other capital spending is projected to decline significantly, mainly as a result of sizeable one-off spending in 2015. Revenues are set to increase by less than 1% in nominal terms, i.e. below the expected 1.7% growth in nominal GDP. This confirms a further slight reduction in the tax burden, following various cuts in the labour tax wedge and the abolition of the property tax on primary residences.

In 2017, the deficit is forecast to stabilise at 2.4% of GDP, as the reduction in the primary surplus is offset by further declining interest expenditure. The 2017 Draft Budgetary Plan (DBP) envisages additional pension expenditure. However, past pension reforms and a still modest rise in public wages is set to contain the increase in current primary expenditure. The DBP also introduces new measures to boost public investment, for instance through a preventive plan to increase the safety of buildings against seismic risks. By contrast, other capital expenditure is forecast to decline. This is also due to the planned one-off intake from the sale of broadband licences, which is recorded as lower capital spending. On the revenue side, the tax burden is set to further decline in 2017 mainly thanks to the reduction in the corporate income tax rate.

Under a no-policy change assumption, in 2018, the deficit is forecast to increase to 2.5% of GDP, also because of some further decline in the tax burden included in the DBP such as a flat tax regime for entrepreneurial income of small firms (IRI), otherwise subject to progressive personal income tax rates.

The high reliance on one-off revenues to finance the expansionary measures envisaged in the DBP contributes to a marked worsening of the structural balance in 2016 and 2017.

Italy's government debt-to-GDP ratio is set to increase to 133% in 2016 and then broadly stabilise at that level in 2017-2018, mainly thanks to progressively lower interest rates paid on debt and higher nominal GDP growth.

Table II.12.1:

Main features of country forecast - ITALY

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	1642.4	100.0	0.6	-1.7	0.1	0.7	**0.7**	**0.9**	**1.0**
Private Consumption	1001.8	61.0	0.8	-2.5	0.4	1.5	**1.2**	**0.9**	**1.1**
Public Consumption	311.0	18.9	0.8	-0.3	-0.9	-0.6	**1.0**	**0.3**	**0.3**
Gross fixed capital formation	273.4	16.6	0.3	-6.6	-3.0	1.3	**2.1**	**2.6**	**3.2**
of which: equipment	95.1	5.8	0.7	-8.2	0.9	4.3	**4.5**	**4.5**	**4.2**
Exports (goods and services)	493.7	30.1	2.2	0.7	2.9	4.3	**1.7**	**2.8**	**3.3**
Imports (goods and services)	443.1	27.0	2.7	-2.4	3.3	6.0	**2.4**	**3.8**	**4.7**
GNI (GDP deflator)	1633.3	99.4	0.6	-1.8	0.3	0.2	**1.1**	**0.9**	**1.0**
Contribution to GDP growth: Domestic demand			0.7	-2.8	-0.4	1.0	**1.3**	**1.1**	**1.3**
Inventories			0.0	0.2	0.6	0.1	**-0.4**	**0.0**	**0.0**
Net exports			0.0	0.9	0.0	-0.4	**-0.1**	**-0.2**	**-0.3**
Employment			0.3	-2.4	0.3	0.8	**1.2**	**0.7**	**0.7**
Unemployment rate (a)			8.7	12.1	12.7	11.9	**11.5**	**11.4**	**11.3**
Compensation of employees / f.t.e.			2.5	1.3	-0.2	0.4	**0.0**	**0.4**	**1.5**
Unit labour costs whole economy			2.2	0.6	0.0	0.5	**0.5**	**0.2**	**1.2**
Real unit labour cost			0.0	-0.6	-0.8	-0.2	**-0.4**	**-0.7**	**0.0**
Saving rate of households (b)			13.8	11.0	11.1	10.4	**10.7**	**11.0**	**11.3**
GDP deflator			2.2	1.2	0.9	0.6	**1.0**	**0.9**	**1.3**
Harmonised index of consumer prices			2.3	1.2	0.2	0.1	**0.0**	**1.2**	**1.4**
Terms of trade goods			-0.6	1.8	3.3	4.0	**3.5**	**-0.7**	**-0.2**
Trade balance (goods) (c)			0.6	2.2	2.9	3.2	**3.7**	**3.4**	**3.1**
Current-account balance (c)			-0.8	1.0	1.9	1.6	**2.8**	**2.5**	**2.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.6	1.0	2.1	1.8	**2.9**	**2.7**	**2.3**
General government balance (c)			-3.2	-2.7	-3.0	-2.6	**-2.4**	**-2.4**	**-2.5**
Cyclically-adjusted budget balance (d)			-3.2	-0.5	-1.0	-1.2	**-1.5**	**-1.9**	**-2.5**
Structural budget balance (d)			-	-1.0	-1.2	-1.1	**-1.6**	**-2.2**	**-2.4**
General government gross debt (c)			107.6	129.0	131.9	132.3	**133.0**	**133.1**	**133.1**

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

13. CYPRUS

Resilient domestic demand leads the recovery

Economic growth in Cyprus is set to ease but should remain robust over the forecast horizon. The recovery has benefitted the labour market and unemployment has started to decrease, although it remains high. Inflation is forecast to return to moderate positive levels. The general government position is expected to remain close to balance, helping to reduce the public debt ratio.

Real GDP growth strengthened, supporting the labour market

Real GDP growth reached 2.9% y-o-y in the second quarter of 2016, the sixth consecutive quarter of positive growth. The recovery has so far been primarily driven by domestic demand, amid declining consumer prices and an improving labour market. The tourism sector, benefitting from measures to extend the season, improved air connectivity, and geopolitical tensions in the competing markets, has provided significant support to exports. Net exports nevertheless contributed negatively to growth due to increasing imports.

The unemployment rate declined to 12.4% of the labour force in mid-2016, due to both increasing employment and a declining labour force. The economic recovery and the renewal of collective agreements have put upward pressure on labour costs. Combined with low productivity growth, unit labour costs have started to increase.

The decline in consumer prices has moderated, bringing HICP inflation to -1.4% y-o-y in the first nine months of 2016. Following a marked increase in profits margins since 2013, the latest indicators point to a reversal of this trend.

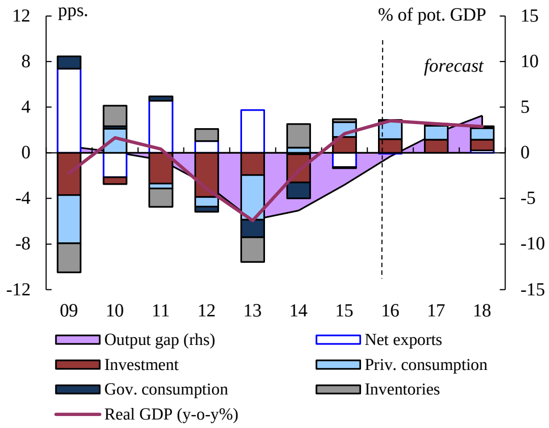
Robust growth forecast until 2018…

Real GDP growth is expected to reach 2.8% in 2016 and then to moderate gradually to 2.3% in 2018. The 2017-2018 growth forecast is driven by private consumption and investment, the latter benefitting from a stabilising housing market. Growth in the tourism sector is forecast to continue, albeit less buoyantly. Job creation is expected to continue reducing unemployment and thus putting upward pressure on wages and unit labour costs.

HICP inflation is expected to return to positive territory in 2017, providing less support to real GDP growth. However, the increase in HICP inflation is forecast to remain moderate, as profit margins are forecast to narrow further, limiting the pass-through of higher unit labour costs to consumer prices.

Meanwhile, ongoing deleveraging and continued loan restructuring efforts by banks combined with weak lending activities is projected to put a lid on more pronounced domestic private demand growth as investments continue having to be financed mainly from retained profits and savings.

Graph II.13.1: **Cyprus - Real GDP growth and contributions, output gap**



…with risks remaining balanced.

On the upside, lagged effects from declining energy prices and stronger labour incomes could support consumption more than currently envisaged, and FDI could perform better than currently forecast. Moreover, the performance in the tourism sector could turn out stronger than forecast. On the downside, risks stemming from main trading partners and negative spillovers from the UK's referendum to leave the EU could weigh more on activity than forecast. In the financial sector, the slow reduction in non-performing loans could lead to a more prolonged period of tight credit conditions, which would dampen the recovery.

Stable headline balance

In 2016, the general government primary balance is expected to improve further, reaching a surplus of 2.3% of GDP. However, taking into account the one-offs recorded in 2015 related to the banking sector recapitalisation, there is an underlying deterioration of 0.4 pps. of GDP in 2016, that is also explained by a significant reduction in property tax and the partial switch to professional soldiers, which will take place in November 2016. There are also additional factors beyond the control of the government weighing on the revenue, notably new location rules regarding VAT on e-commerce services and a decrease in dividend income from the Central Bank of Cyprus (CBC) due to a decrease in the emergency liquidity assistance. In parallel with the primary balance, the headline balance also improved recording a deficit of 0.3% of GDP (from -1.1% of GDP in 2015).

In 2017, the general government primary surplus is forecast to decrease marginally to 2.0% of GDP. The authorities are expected to abolish the immovable property tax paid to the central government without compensatory measures. In addition, a special payroll contribution levied in response to the crisis is expected to expire at the end of 2016. The implementation of the new location rules regarding VAT for e-commerce services is also expected to have a negative impact on revenue in 2017. The partial switch to professional soldiers should contribute to the rise in expenditure, as it is expected to take place in November 2016, but with a full-year effect in 2017. This will increase the compensation of employees in 2017 by about 0.1% of GDP. In addition, compensation of employees is also forecast to increase further due to the expiration at end-2016 of the freeze on public sector hiring and wage increments.

In 2018, the small improvement in the general government primary surplus is largely based on the improving economic outlook.

Despite the stable headline balance, the structural balance is expected to worsen over the forecast horizon.

Public debt is expected to decline to 100.6% of GDP in 2018. The debt path is slightly better than envisaged in the spring, mainly due to higher nominal GDP.

Table II.13.1:

Main features of country forecast - CYPRUS

	2015		Annual percentage change						
mio EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	17637.2	100.0	2.8	-6.0	-1.5	1.7	**2.8**	**2.5**	**2.3**
Private Consumption	12254.5	69.5	3.4	-5.9	0.7	1.9	**2.4**	**1.8**	**1.5**
Public Consumption	2772.2	15.7	4.5	-8.2	-7.9	-0.6	**-0.2**	**0.9**	**0.9**
Gross fixed capital formation	2347.3	13.3	0.4	-12.9	-17.5	12.0	**9.1**	**8.3**	**6.4**
of which: equipment	813.3	4.6	-0.5	-16.3	-34.8	94.1	**10.0**	**7.0**	**6.2**
Exports (goods and services)	10797.1	61.2	1.7	2.1	4.2	0.0	**5.5**	**4.6**	**3.9**
Imports (goods and services)	10738.1	60.9	1.9	-4.8	4.6	2.1	**5.7**	**4.7**	**3.6**
GNI (GDP deflator)	17574.7	99.6	2.7	-7.5	-0.6	5.2	**2.7**	**2.5**	**2.3**
Contribution to GDP growth: Domestic demand			3.0	-7.4	-3.4	2.6	**2.9**	**2.5**	**2.1**
Inventories			0.0	-2.2	2.1	0.3	**0.0**	**0.0**	**0.0**
Net exports			-0.2	3.7	-0.1	-1.3	**-0.1**	**0.0**	**0.2**
Employment			1.8	-5.9	-1.9	0.8	**1.8**	**1.6**	**1.5**
Unemployment rate (a)			5.4	15.9	16.1	15.0	**12.5**	**11.1**	**10.0**
Compensation of employees / head			3.9	-5.4	-3.6	-0.5	**1.2**	**1.5**	**1.9**
Unit labour costs whole economy			2.8	-5.4	-4.0	-1.5	**0.3**	**0.6**	**1.1**
Real unit labour cost			0.0	-4.4	-2.5	-0.2	**1.3**	**0.2**	**-0.1**
Saving rate of households (b)			6.8	-3.3	-7.9	-5.7	**-2.5**	**-1.3**	**-0.7**
GDP deflator			2.8	-1.0	-1.5	-1.3	**-1.1**	**0.3**	**1.2**
Harmonised index of consumer prices			2.6	0.4	-0.3	-1.5	**-1.1**	**0.7**	**1.3**
Terms of trade of goods			0.1	0.2	7.1	3.2	**2.0**	**-0.3**	**0.6**
Trade balance (goods) (c)			-24.1	-16.2	-16.0	-18.0	**-19.7**	**-21.2**	**-21.6**
Current-account balance (c)			-8.5	-4.9	-4.4	-3.0	**-2.8**	**-3.3**	**-3.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-8.2	-3.5	-3.5	-2.7	**-2.5**	**-2.9**	**-3.1**
General government balance (c)			-3.2	-4.9	-8.8	-1.1	**-0.3**	**-0.4**	**0.0**
Cyclically-adjusted budget balance (d)			-	-1.1	-5.4	0.8	**0.1**	**-1.3**	**-1.8**
Structural budget balance (d)			-	-0.4	3.0	1.7	**0.2**	**-1.3**	**-1.8**
General government gross debt (c)			58.4	102.2	107.1	107.5	**107.1**	**103.7**	**100.6**

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

14. LATVIA

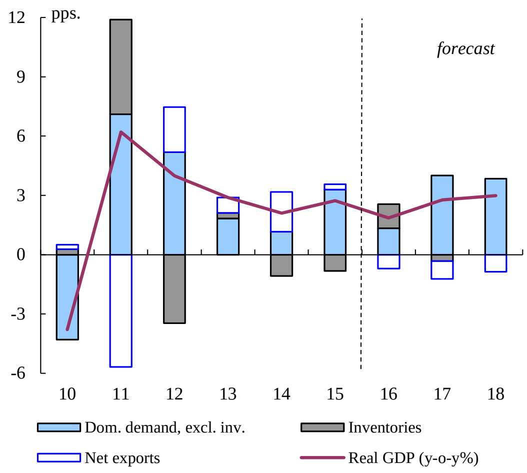
Growth drops below expectations but outlook remains favourable

Economic growth is projected to ease to 1.9% in 2016 as the use of EU funding for investment has dropped substantially below projections. However, the expected rebound in the investment cycle is set to lift growth to around 3% over the forecast horizon, supported by an improving labour market. Public finances appear to be slowly deteriorating, with a reliance on one-off revenue.

Weak investment curbs economic growth

Economic growth slowed considerably in the first half of 2016 as the use of EU funding for investment was much less than expected. Under the revised government plan for the use of EU funds, investment is expected to pick up strongly over the next two years, contributing to the projected economic rebound, which is also supported by robust household consumption. Overall, economic growth is expected to improve from 1.9% in 2016 to 2.8% in 2017 and 3.0% in 2018. The balance of risks is tilted somewhat to the downside in view of possible further delays in the absorption of EU funds and the uncertain external environment.

Graph II.14.1:**Latvia - Real GDP growth and contributions**



Construction set to rebound after sharp fall

The downturn in the investment cycle severely hit the construction sector, which contracted by nearly 20% y-o-y in the first half of 2016. This decrease was directly linked to the slower use of EU funds, while the level of residential construction remained broadly stable amid some increase in new mortgage loans. Investment in road infrastructure picked up in July 2016 and the whole construction sector is expected to gain some momentum in the second half of the year, as prompted from the latest economic sentiment indicator and the government's investment plans. Increasing bank lending to companies should also have a positive impact on investment and growth.

External balance benefits from price effects

Import volumes increased faster than exports in the first half of 2016 in line with expectations, but the balance of trade improved due to positive terms of trade effects related to energy prices. As prices of energy commodities are assumed to gradually increase, the trade deficit is set to widen in 2017 and 2018. The outflow of primary income had previously been expected to reflect a one-off negative impact from profit repatriation in the banking sector, but this is now set to affect only foreign investment. As a result, the current account in 2016 should improve much more than expected in the spring. Accordingly, the current account is estimated to be broadly balanced in 2016 and to move back to a deficit afterwards.

Unemployment drops in line with expectations

Despite weaker-than-expected economic growth, the labour market performed in line with expectations in the first half of 2016. Unemployment declined somewhat and job creation picked up marginally while wage growth slowed. The downturn in construction was concentrated in less labour-intensive activities and the job losses there were more than offset by other sectors. The positive trend in the labour market is set to continue at a slow pace, as job creation remains restrained by the shrinking population.

Energy, service prices to push up inflation

Consumer prices picked up in the third quarter of 2016, but the full-year average is projected to remain very low, reflecting the earlier strong downward effect from energy prices. In 2017, inflation is forecast to rebound to 1.8% under the assumption of higher oil prices, including their lagged effect on natural gas and heating prices.

Further acceleration in service prices, helped by wage growth, and a fading impact from energy prices are set to keep inflation around 2% in 2018.

Fiscal position benefits from one-off revenue

The headline government deficit is expected to reach 0.8% of GDP in 2016. The relatively solid growth of consumption and wages should support tax revenue. VAT revenue suffers from weak investment but this is more than offset by strong performance in excise and corporate income taxes. Expenditure overruns on sick leaves and unemployment benefits stem from the increased generosity over the past years and the behavioural response to this. However, the overruns are balanced by capital and interest savings. Moreover, a one-off receipt from anti-money laundering investigations should improve the government balance by 0.2% of GDP in 2016.

In 2017, the government deficit is projected at 1.1% of GDP. The draft budget envisages net revenue-increasing measures of 0.4% of GDP and net expenditure-increasing measures of 0.6% of GDP, including an allocation to the health sector reform (0.1% of GDP). Half of the revenue measures consist of a postponed change in the tax payment date for vehicles and a one-off receipt of confiscated illicit money, with the rest comprising small tax increases and collection improvements. The expenditure measures target health, internal security and education, and half of them are linked to pay increases. Expenditure growth is projected to be largely driven by a pick-up in public wages and capital spending, as implementation of EU-funded projects picks up, and a further expansion of social expenditure.

Under a no-policy change assumption, the government deficit is projected to worsen to 1.2% of GDP in 2018, as the expenditure trends are expected to continue and the effect of the previous one-off revenue will cease. Latvia's structural deficit is estimated to increase from 1½% of GDP in 2016 to around 1¾% in 2017 and 2018.

The government debt is estimated at 40% of GDP in 2016 and should decline to 36% of GDP by 2018, as the temporary accumulation of cash balances in 2016 is reduced and nominal GDP growth outpaces the government's net borrowing.

Table II.14.1:

Main features of country forecast - LATVIA

	2015			Annual percentage change						
	mio EUR Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	24348.5	100.0	4.5	2.9	2.1	2.7	**1.9**	**2.8**	**3.0**
Private Consumption	14863.9	61.0	3.9	5.0	1.3	3.5	**3.8**	**3.9**	**4.0**
Public Consumption	4395.2	18.1	1.7	1.6	2.1	3.0	**2.7**	**2.5**	**2.5**
Gross fixed capital formation	5496.8	22.6	8.4	-6.0	0.1	2.8	**-6.5**	**5.5**	**4.2**
of which: equipment	2168.8	8.9	8.9	-5.4	-10.9	9.8	**-**	**-**	**-**
Exports (goods and services)	14360.7	59.0	7.6	1.1	3.9	2.6	**2.0**	**2.6**	**3.1**
Imports (goods and services)	14636.3	60.1	6.7	-0.2	0.5	2.1	**3.1**	**4.1**	**4.5**
GNI (GDP deflator)	24290.5	99.8	4.4	3.4	2.2	2.6	**1.8**	**2.8**	**3.0**
Contribution to GDP growth: Domestic demand			5.3	1.8	1.2	3.3	**1.3**	**4.0**	**3.9**
Inventories			0.1	0.3	-1.1	-0.8	**1.2**	**-0.3**	**0.0**
Net exports			-0.7	0.8	2.0	0.3	**-0.7**	**-0.9**	**-0.9**
Employment			-0.5	2.3	-1.4	1.4	**0.3**	**0.5**	**0.5**
Unemployment rate (a)			12.9	11.9	10.8	9.9	**9.6**	**9.2**	**8.8**
Compensation of employees / head			9.6	5.5	8.6	6.9	**5.1**	**5.5**	**5.5**
Unit labour costs whole economy			4.5	4.9	4.9	5.5	**3.6**	**3.1**	**2.9**
Real unit labour cost			-0.9	3.5	3.3	5.1	**2.7**	**1.3**	**0.7**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			5.4	1.3	1.5	0.4	**0.8**	**1.8**	**2.2**
Harmonised index of consumer prices			4.8	0.0	0.7	0.2	**-0.1**	**1.8**	**2.0**
Terms of trade of goods			-0.3	1.3	-0.9	2.4	**2.8**	**-0.7**	**0.0**
Trade balance (goods) (c)			-16.8	-11.2	-9.3	-8.4	**-7.5**	**-8.6**	**-9.3**
Current-account balance (c)			-8.3	-2.1	-2.0	-0.8	**0.0**	**-1.2**	**-1.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.2	0.4	1.2	2.0	**2.0**	**1.0**	**0.2**
General government balance (c)			-2.5	-0.9	-1.6	-1.3	**-0.8**	**-1.1**	**-1.2**
Cyclically-adjusted budget balance (d)			-2.4	-1.0	-2.0	-1.8	**-1.3**	**-1.6**	**-1.6**
Structural budget balance (d)			-	-1.0	-1.6	-1.8	**-1.5**	**-1.7**	**-1.6**
General government gross debt (c)			19.7	39.0	40.7	36.3	**40.0**	**37.2**	**36.0**

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

15. LITHUANIA

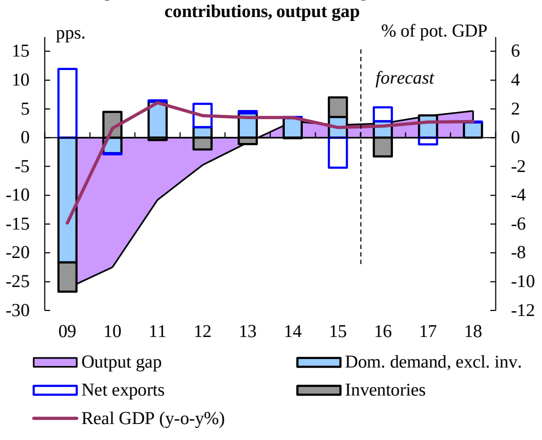
Growth approaches a plateau

Recovering investment is set to increase GDP growth from 2.0% in 2016 to 2.7% in 2017. However, higher inflation is forecast to dampen private consumption which will increasingly weigh on growth in 2017 and 2018. Employment growth is expected to slow down considerably as labour supply nears its potential. Public finances are on track to achieve fiscal targets.

Weak investment growth weighs on strong performance elsewhere

Real GDP grew around 2% in the first three quarters of 2016, somewhat more than last year but below expectations. Despite continued strong private consumption growth, domestic demand was dampened by weak investment, which suffered severely from an interruption in EU funds flow. Investment, however, is expected to pick up by the end of the year as EU-funded projects gather pace. Exports have recovered from a difficult 2015 and are set to grow by some 3% in 2016. Meanwhile, import growth slowed down markedly, largely due to weak investment growth.

Graph II.15.1: **Lithuania - Real GDP growth and contributions, output gap**



Recovering inflation and slowing employment growth curb private consumption

Real GDP growth is forecast to climb from 2.0% in 2016 to 2.7% in 2017 and 2.8% in 2018. Even though wage growth is expected to remain strong, little room for employment growth and rising inflation should mean disposable income growth and hence household consumption growth will slow down in 2017 and 2018. A rapid recovery in EU fund spending is set to boost investment growth in 2017 before slowing down somewhat in 2018. Increases in defence and social spending are set to increase government consumption slightly.

Export growth is expected to be modest in both 2017 and 2018 because constantly rising real unit labour costs will make it increasingly hard to gain market share, on the back of weak external demand growth. Meanwhile, import growth is expected to recover in step with investment in 2017 and then to slow down somewhat in 2018. The growth contribution of net exports is expected to turn negative in 2017 before balancing out in 2018.

The unemployment rate is set to fall sharply on the back of strong employment growth in 2016. The situation should further improve in 2017 and 2018 but a shrinking labour force will be the main driver of the decline. While in 2016 the tight labour market attracted more people to join the labour force, labour supply constraints are set to become increasingly binding in the coming years as the growth of the labour force in 2016 has come mostly from people at or beyond the retirement age. Labour market tightening will mean the acceleration in wage growth is unlikely to see any respite over the forecast horizon.

Risks to the forecast are balanced as uncertainty related to ‘Brexit’ negotiations and the prolongation of sanctions against Russia are balanced by the possibility that the supply of idle labour could be sufficient to provide room for further employment growth.

Energy prices drive inflation

Annual HICP inflation is projected at 0.7% in 2016 as effects from lower oil prices and steadily rising service prices work in opposite directions. However, an expected recovery in oil prices in 2017 is about to gradually reverse the trend in energy price inflation. This development, together with steady service price growth, is forecast to bring inflation up to around 2% in 2017 and 2018.

Fiscal targets are achievable

Lithuania’s general government deficit is set to increase to 0.6% of GDP in 2016 from 0.2% of

GDP in 2015, thus staying well below the government's initial deficit target of 1.2%. The deficit is expected to widen due to an increase in non-taxable incomes, pensions and some public wages, as well as fading one-off revenues from the deposit insurance scheme's surpluses. Continued strong wage growth should lift tax revenues above the government's plan despite weaker-than-expected GDP growth.

For 2017, the general government deficit is forecast to increase to 0.8% of GDP in line with the deficit target of the outgoing government. A set of small tax increases and efforts to improve tax compliance roughly matches lost revenues due to the increase in non-taxable incomes and the reduction of social insurance contributions. The boost in revenues from tax rich economic growth, however, is set to cover only part of expenses due to pension indexation, increased social payments and public wages costs.

Assuming no policy changes, the general government deficit is forecast to fall to 0.7% of GDP in 2018, mainly on the back of solid economic growth and expectations that the increase in expenditure will be limited.

Risks to the public finance forecast are tilted to the upside due expectations of robust growth in the tax base, but only if expenditure is contained after the 2016 electoral cycle.

Lithuania's structural deficit is expected to increase to about 1% of GDP in 2016 and about 1½% of GDP in 2017 due to the additional expenditure measures, staying at around 1½% of GDP in 2018.

General government debt is set to fall from 42.7% of GDP in 2015 to 40.8% in 2016. In 2017, debt is forecast to increase to 43.3% of GDP due to the end of year pre-financing of forthcoming bond redemptions, while in 2018 it is expected to fall again to 40.2%.

Table II.15.1:

Main features of country forecast - LITHUANIA

		2015		Annual percentage change						
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		37.3	100.0	4.5	3.5	3.5	1.8	**2.0**	**2.7**	**2.8**
Private Consumption		23.6	63.2	4.7	4.3	4.3	4.1	**4.4**	**3.7**	**2.6**
Public Consumption		6.6	17.6	1.3	0.7	0.3	0.9	**1.5**	**2.2**	**2.1**
Gross fixed capital formation		7.2	19.3	6.0	8.3	3.7	4.7	**-0.9**	**6.0**	**3.0**
of which: equipment		2.3	6.2	7.9	12.5	0.5	6.0	**8.0**	**6.0**	**3.0**
Exports (goods and services)		28.3	75.9	9.5	9.6	3.5	-0.4	**4.1**	**2.8**	**3.4**
Imports (goods and services)		28.6	76.5	9.1	9.3	3.3	6.2	**0.9**	**4.5**	**3.2**
GNI (GDP deflator)		35.8	96.0	4.3	4.0	4.9	-1.0	**2.3**	**2.8**	**2.9**
Contribution to GDP growth:	Domestic demand			4.9	4.3	3.4	3.6	**2.9**	**3.9**	**2.6**
	Inventories			0.2	-1.1	-0.1	3.4	**-3.2**	**0.0**	**0.0**
	Net exports			-0.4	0.3	0.2	-5.2	**2.4**	**-1.2**	**0.2**
Employment				-1.0	1.3	2.0	1.3	**2.3**	**0.3**	**0.1**
Unemployment rate (a)				11.9	11.8	10.7	9.1	**7.6**	**7.4**	**7.0**
Compensation of employees / head				8.3	5.4	4.7	5.3	**5.4**	**6.1**	**6.3**
Unit labour costs whole economy				2.6	3.1	3.2	4.8	**5.7**	**3.6**	**3.5**
Real unit labour cost				-0.7	1.7	2.2	4.6	**4.3**	**1.9**	**0.8**
Saving rate of households (b)				3.9	2.1	-0.6	-1.9	**-0.9**	**0.4**	**1.4**
GDP deflator				3.4	1.4	1.0	0.2	**1.4**	**1.6**	**2.7**
Harmonised index of consumer prices				3.5	1.2	0.2	-0.7	**0.7**	**1.7**	**2.1**
Terms of trade goods				1.0	0.0	0.6	3.2	**-0.5**	**-0.7**	**0.3**
Trade balance (goods) (c)				-10.4	-2.6	-2.6	-5.3	**-3.9**	**-5.5**	**-5.1**
Current-account balance (c)				-6.9	1.4	3.8	-2.2	**0.1**	**-1.2**	**-0.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.5	4.5	6.5	0.8	**1.2**	**0.5**	**1.1**
General government balance (c)				-3.8	-2.6	-0.7	-0.2	**-0.6**	**-0.8**	**-0.7**
Cyclically-adjusted budget balance (d)				-3.7	-2.5	-1.1	-0.5	**-1.0**	**-1.4**	**-1.5**
Structural budget balance (d)				-	-2.0	-1.5	-0.7	**-0.9**	**-1.4**	**-1.5**
General government gross debt (c)				23.1	38.7	40.5	42.7	**40.8**	**43.3**	**40.2**

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

16. LUXEMBOURG

Rising domestic demand drives growth

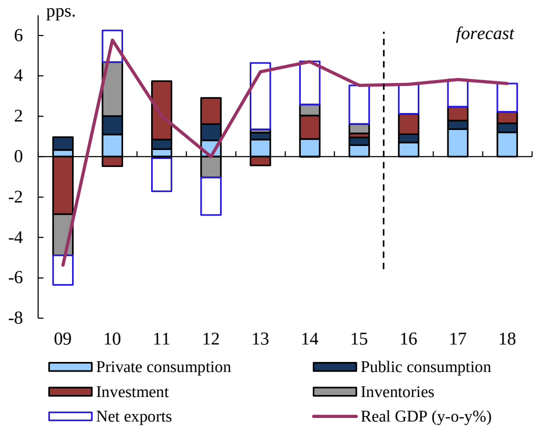
Economic activity in Luxembourg is expected to grow by 3.6% in 2016 and then to pick up to 3.8 % in 2017 before returning to 3.6% in 2018. Growth looks set to be driven by strong domestic demand, with additional support from the external sector. Unemployment is expected to decline as job creation continues to be dynamic, while inflation should increase progressively. In spite of a substantial fiscal stimulus, public finances are projected to remain in balance.

Sustained growth in 2016

Economic activity in Luxembourg is projected to increase at a sustained pace of 3.6% in 2016, with both domestic demand and net exports contributing substantially to growth.

Private consumption is expected to improve moderately, helped by robust job creation, contained inflation and favourable financial conditions, which will also favour investment that is expected to expand further. In particular, construction, both residential and non-residential, is projected to remain robust though decelerating somewhat, supported by households' and government investment. By contrast, as both capacity utilisation and demand from the euro area remain low and in spite of the accommodative credit stance, the surge in equipment investment is mostly driven by specific sectors, in particular purchases from the aeronautic and satellite industry.

Graph II.16.1: **Luxembourg - Real GDP growth and contributions**



The financial sector, traditionally Luxembourg's main growth engine, has regained strength after a sharp drop at the beginning of the year following increased volatility in financial markets. The investment fund industry was in July close to reaching the record high levels of end-2015. Overall, in spite of the high costs that adjusting to the new regulatory standards has entailed, the banking sector maintained its profitability in the first half of the year and credit to the non-financial private sector increased. However, recent data suggest that a deceleration could take place in the second half of the year.

Domestic demand boosting growth

Important policy stimulus marks the outlook for 2017. First, the government has announced a tax reform, including new measures in favour of both households and corporations. Secondly, automatic wage indexation is expected to be triggered by the end of 2016, implying nominal wage increases of 2.5%. These stimuli are likely to spur consumption and investment, but the impact on GDP is expected to be contained given that part of it will be saved and a large share of consumption and investment in Luxembourg is imported. Nonetheless, economic activity should remain buoyant and GDP growth is projected to climb slightly to 3.8% in 2017.

In 2018, consumption is expected to lose some momentum, with income effects fading away and inflation kicking in. Economic growth is expected to be sustained by a recovery in the external environment, especially in the euro area. Overall, growth is projected to ease slightly to 3.6%.

Buoyant job creation

In 2016, employment is expected to rise to 2.8%. Labour market prospects are expected to remain positive, with employment growth set to reach 2.9% in 2017, driven by the economy's strong momentum and 2.6% in 2018. The unemployment rate is estimated at 6.2% in 2016 to then decline marginally to 6.1% in 2017 (6.2% in 2018), not as much as employment figures would suggest due to the high share of non-residents among new workers.

Inflation ready to pick up

HICP inflation is set to remain flat in 2016, mainly due to the low oil prices. However, as energy inflation appears to have bottomed out, and based on the assumed increase in oil prices over the forecast horizon, HICP inflation is projected to increase and reach around 2% in 2018. Core inflation is expected to remain subdued and to accelerate only in 2018, given the lengthy pass-through of low energy prices to other sectors.

Available fiscal space has been used

In 2016, the general government balance is expected to post a surplus of 1.3% of GDP. Low inflation combined with the incremental impact of measures adopted in the 2015 budget should help to contain expenditure, despite a high level of public investment maintained by the authorities. At the same time, revenues are set to remain firm in line with the robust economic growth projected.

The general government surplus is then expected to fall to a balanced budget in 2017, mostly due to the impact of the announced taxation reform that is to take effect at the beginning of the year. In addition to repealing the temporary budgetary levy introduced in 2015, tax brackets are set be revised to become less progressive, while two new tax brackets for high revenues are expected to be introduced. In addition, tax credits related to house purchases are planned to be increased. Moreover, the corporate income tax rate is expected to be reduced to 19% from 21% and a more favourable tax treatment for small enterprises is likely to be introduced. All in all, these tax reforms are expected to shave revenues by an estimated 0.8% of GDP. Finally, due to a change in legislation, the share of VAT revenues held by Luxembourg on e-commerce related transactions will decline to 15% from 30%. Based on a no-policy change assumption, the general government balance is projected to improve slightly in 2018 to a surplus of 0.1% of GDP.

The large structural surplus is then expected to narrow by around 1½ of percentage points of GDP between 2016 and 2018, but to remain in positive territory. Luxembourg debt-to-GDP ratio stood at to 22.1% of GDP in 2015. In spite of a regular primary surplus, it is set to increase to 23.5 % of GDP over the forecast horizon, as the surplus of the social security sector cannot be used to finance the deficit of the central government.

Table II.16.1:

Main features of country forecast - LUXEMBOURG

	2015			Annual percentage change						
mio EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	51216.2	100.0	3.8	4.2	4.7	3.5	**3.6**	**3.8**	**3.6**
Private Consumption	15702.8	30.7	2.9	2.6	2.7	1.8	**2.3**	**4.6**	**4.1**
Public Consumption	8553.9	16.7	4.0	1.9	0.0	2.3	**3.1**	**2.6**	**2.7**
Gross fixed capital formation	9719.0	19.0	4.9	-2.1	6.0	1.0	**5.3**	**3.6**	**3.0**
of which: equipment	3349.4	6.5	8.1	-6.2	6.1	-12.7	**4.2**	**3.6**	**3.3**
Exports (goods and services)	120658.0	235.6	6.3	6.3	12.1	12.8	**2.7**	**3.9**	**4.3**
Imports (goods and services)	103749.5	202.6	6.6	5.3	13.1	14.0	**2.4**	**3.9**	**4.4**
GNI (GDP deflator)	33335.1	65.1	2.6	0.2	4.4	0.6	**6.5**	**3.8**	**4.1**
Contribution to GDP growth:	Domestic demand		2.7	0.8	2.0	1.1	**2.2**	**2.5**	**2.2**
	Inventories		0.1	0.2	0.5	0.5	**0.0**	**0.0**	**0.0**
	Net exports		1.1	3.3	2.1	1.9	**1.3**	**1.3**	**1.4**
Employment			3.4	1.8	2.6	2.6	**2.8**	**2.9**	**2.6**
Unemployment rate (a)			3.8	5.9	6.0	6.4	**6.2**	**6.1**	**6.2**
Compensation of employees / head			3.0	2.3	2.6	0.9	**0.4**	**2.5**	**1.9**
Unit labour costs whole economy			2.5	0.0	0.5	0.1	**-0.4**	**1.6**	**0.9**
Real unit labour cost			0.2	-1.3	-1.0	-0.3	**-2.3**	**-1.3**	**-1.3**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.3	1.3	1.5	0.4	**1.9**	**2.9**	**2.2**
Harmonised index of consumer prices			2.5	1.7	0.7	0.1	**0.0**	**1.6**	**1.9**
Terms of trade of goods			0.3	-0.9	1.1	2.0	**0.2**	**0.4**	**0.1**
Trade balance (goods) (c)			-6.9	-1.0	1.3	3.4	**3.1**	**2.9**	**3.2**
Current-account balance (c)			8.8	5.6	5.1	5.2	**5.6**	**5.6**	**5.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	3.8	2.9	4.1	**6.1**	**6.1**	**6.4**
General government balance (c)			2.0	1.0	1.5	1.6	**1.3**	**0.0**	**0.1**
Cyclically-adjusted budget balance (d)			1.9	2.6	2.5	2.4	**1.9**	**0.4**	**0.4**
Structural budget balance (d)			-	2.6	2.5	2.2	**1.9**	**0.4**	**0.4**
General government gross debt (c)			10.7	23.5	22.7	22.1	**23.2**	**23.3**	**23.5**

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

17. HUNGARY

Private consumption to drive growth

Hungary's real GDP growth is expected to decrease in 2016 before rebounding in 2017 and 2018. Unemployment is set to decrease further, falling to 4.1% by 2018 in a tightening labour market. Inflation is projected to pick up gradually. The fiscal deficit is set to widen to 2.3% of GDP in 2017.

Domestic demand relies on household consumption

In the first half of 2016, real GDP growth declined to 1.9% after expanding by 3.1% in 2015. This moderation is mainly due to a temporary lull in EU-funded investment, which is important for Hungary. Investment contracted by 16.5% in in the first half of the year, following 3.8% growth in 2015. Despite this contraction, domestic demand growth remained positive, as private consumption grew by a robust 4.3% supported by accelerating wage growth and growing employment. Trade flows remained strong as imports and exports grew by 7% and 6.9% respectively in H1-2016

Economic growth is forecast at 2.1% in 2016. The negative developments regarding investments in the first half of 2016 highly affect the yearly growth prospects. Investment is expected to pick up in the second part of the year as EU fund absorption is set to rebound after some quarters of strong decline. Household consumption is forecast to continue growing, driven by improved consumer confidence, an upturn in bank lending to households and continuing positive labour market trends. As a result, private consumption remains the main contributor to economic growth. On the production side, dynamic growth of market services and a favourable year for agriculture are expected to boost growth.

Real GDP is forecast to expand by 2.6% in 2017 and 2.8% in 2018 with domestic consumption remaining the main growth driver. Household consumption is forecast to grow by 4.0% in 2017 and by 3.6% in 2018, amid accelerating wage growth. Consumer confidence is at a post-crisis high, and further positive developments in lending to households and second-round effects from the improved housing market are expected. However, employment growth, which boosted household income growth and private consumption until now, is expected to slow down over the forecast horizon as the economy reaches full employment.

Investment is forecast to recover progressively in 2017 and 2018. This is mainly due to an increased absorption of EU funds, improving domestic demand prospects, increasing household' investment and several large investments planned in the automotive sector. The low interest rate environment and a recovery in corporate bank lending, in particular to SMEs, are also expected to boost investment.

Net exports contributed positively to growth until 2016 but are forecast to start having an adverse effect as of 2017, when the pick-up in domestic demand boosts imports. Hungary's relative trade performance is set to deteriorate slowly in line with increasing unit labour costs, which should start putting pressure on price competitiveness.

Unemployment continues to fall while inflation picks up

The unemployment rate fell to 4.9% in September 2016 but is projected to decrease only marginally further over the forecast horizon. This is due to the fact that the labour market is starting to get tight, with skill mismatches overall and difficulties to match both skilled and unskilled workers with growing vacancies. Consequently, there is significant pressure on wage growth, leading to a sizeable expansion in real incomes. Nominal gross wages are forecast to grow by more than 5% per year over the forecast horizon. As labour shortages have already started to limit production, mainly in industry, construction and services, wage pressures are expected to become more prominent.

Consumer prices remained broadly stable in 2015. HICP inflation is expected to accelerate moderately to 0.4% in 2016. Elevating oil prices and low inflationary expectations imply that inflation will only gradually pick up and get close to the central bank's 3% target at the end of the forecast horizon.

The headline deficit is projected to rebound from an historic low

In 2016, the general government deficit is projected to decrease further to 1.5% of GDP. The fiscal balance benefits from a tax-rich recovery and a steady decline in interest outlays and social payments. In addition, sizeable temporary gains arise from state land sales and a windfall in corporate income tax which is expected to be paid during 2016 and 2017. The increased budgetary leeway is forecast to be largely absorbed by tax cuts and spending increases even though it is assumed that the planned public investments will not be fully implemented this year.

Based on the already adopted budget, the deficit is forecast to increase to 2.3% of GDP in 2017. This reflects the phase out of one-off revenues from land sales, expenditure increasing measures and rising domestic co-financing needs as EU-funded projects get underway. The forecast also incorporates additional tax reductions, most notably selective VAT cuts, which are largely offset by increases in excise duties and the conservatively estimated impact of further steps to enhance tax collection.

Based on a no-policy-change assumption, the deficit is forecast to stay at 2.3 % of GDP in 2018. The deficit-increasing effect of phasing out corporate income tax revenue windfalls is expected to be partly offset by projected savings in interest and social transfer expenditure. It is also assumed that the stability reserve (some 0.2% of GDP) will not be spent.

Regarding budgetary risks, delays in the implementation of the large scale investment projects budgeted may result in considerably lower-than-projected deficit outcome, particularly this year and next. Furthermore, the fiscal effects of the new housing scheme and measures to combat tax avoidance are subject to significant uncertainty.

The structural balance is estimated to deteriorate significantly, from -1.8% of GDP in 2015 to -2.6% in 2016 and then further to around -3% by 2018. This mirrors a widening positive output gap and the one-off effect linked to land sales in 2016. The debt-to-GDP ratio is projected to decline steadily, by nearly 1½ pps. this year to somewhat above 73% and then to around 72% by the end of 2018. The speed of debt reduction is assumed to be negatively affected by the expected lags in the cash payment of EU funds, while the relatively high rate of nominal GDP growth has the opposite effect.

Table II.17.1:

Main features of country forecast - HUNGARY

	2015		Annual percentage change						
bn HUF	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	33999.0	100.0	2.2	2.1	4.0	3.1	**2.1**	**2.6**	**2.8**
Private Consumption	16775.0	49.3	2.0	0.3	2.5	3.4	**4.9**	**4.0**	**3.6**
Public Consumption	6811.7	20.0	1.1	4.1	4.5	1.0	**2.0**	**1.0**	**2.0**
Gross fixed capital formation	7366.9	21.7	2.4	9.8	9.9	1.9	**-8.2**	**5.9**	**3.0**
of which: equipment	3077.7	9.1	4.7	2.6	20.5	2.2	**-9.0**	**4.2**	**3.0**
Exports (goods and services)	30846.2	90.7	10.5	4.2	9.8	7.7	**6.7**	**5.1**	**6.4**
Imports (goods and services)	27816.7	81.8	9.8	4.5	10.9	6.1	**6.2**	**6.6**	**7.2**
GNI (GDP deflator)	32404.2	95.3	2.2	3.6	2.4	2.6	**2.6**	**2.9**	**3.9**
Contribution to GDP growth: Domestic demand			2.0	2.9	4.3	2.3	**1.0**	**3.4**	**2.8**
Inventories			-0.2	-0.8	0.0	-1.0	**0.0**	**0.0**	**0.0**
Net exports			0.5	0.0	-0.2	1.8	**1.0**	**-0.8**	**-0.1**
Employment			-0.1	1.1	4.8	2.6	**2.7**	**0.6**	**0.8**
Unemployment rate (a)			8.0	10.2	7.7	6.8	**5.1**	**4.7**	**4.1**
Compensation of employees / head			8.4	1.6	1.3	1.6	**4.4**	**5.4**	**5.0**
Unit labour costs whole economy			6.0	0.6	2.1	1.1	**5.1**	**3.3**	**3.0**
Real unit labour cost			-0.7	-2.3	-1.2	-0.6	**2.6**	**0.7**	**0.2**
Saving rate of households (b)			10.2	9.8	10.9	9.6	**8.6**	**6.5**	**6.4**
GDP deflator			6.8	2.9	3.4	1.7	**2.4**	**2.6**	**2.8**
Harmonised index of consumer prices			7.3	1.7	0.0	0.1	**0.4**	**2.3**	**2.7**
Terms of trade goods			-0.6	0.8	1.0	0.8	**0.4**	**0.0**	**0.2**
Trade balance (goods) (c)			-2.9	3.3	2.3	4.0	**4.7**	**3.7**	**3.4**
Current-account balance (c)			-5.3	3.8	2.0	3.1	**4.1**	**3.1**	**4.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.5	7.4	5.8	7.8	**6.9**	**6.1**	**7.7**
General government balance (c)			-5.6	-2.6	-2.1	-1.6	**-1.5**	**-2.3**	**-2.3**
Cyclically-adjusted budget balance (d)			-	-1.3	-1.9	-1.9	**-1.9**	**-2.9**	**-3.1**
Structural budget balance (d)			-	-1.4	-2.2	-1.8	**-2.6**	**-2.9**	**-3.1**
General government gross debt (c)			64.9	76.6	75.7	74.7	**73.4**	**72.5**	**71.8**

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

18. MALTA

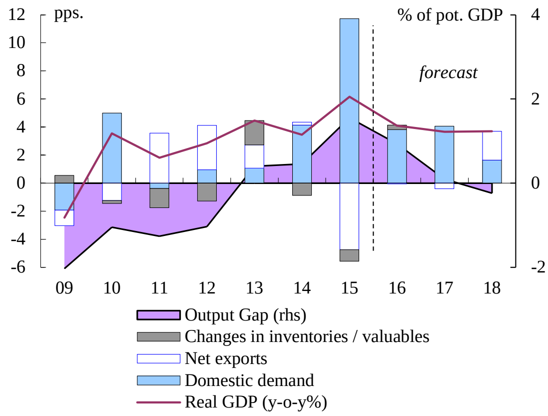
Soft landing after growth peaking in 2015

After climbing to 6.2% in 2015, GDP growth is projected to glide down to 4.1% this year and 3.7% in 2017 and 2018, still among the fastest growing in the euro area. Growth is to continue to be based on strong labour market fundamentals - robust job creation and low unemployment. Fiscal consolidation is set to continue, bringing down the government debt below 60% of GDP.

Moderating growth and closing output gap

The Maltese economy continues to perform strongly. After peaking in 2015, real GDP growth moderated in the first half of 2016 to 4.1%, still higher than most peers. With economic sentiment still above the long-term average, the pace of growth is projected to remain unchanged in the second half of the year, coming in at 4.1% for 2016 as a whole. Thereafter, growth is forecast to decline somewhat, but to remain robust at 3.7% in 2017 and 2018. As a result, the positive output gap is expected to close rapidly.

Graph II.18.1: **Malta - Output gap and contributions to real GDP growth**



Domestic demand still going strong

Domestic demand is projected to remain the main driver of growth in 2016 and 2017. Private consumption is seen to be the main contributor reflecting rising disposable income, a growing population, and a decreasing saving rate. Following the construction of a new power plant, private investment is projected to remain strong in 2016 and 2017 boosted by newly-emerging activities in the transport sector as well as a number of large projects. As the investment cycle moderates, gross fixed capital formation is seen to contract in 2018 on a high base.

Services, in particular transport, are projected to be the main driver of exports over the forecast horizon, despite a projected decrease in demand from the United Kingdom. The government's citizenship programme also positively affects services exports. Meanwhile, goods exports are forecast to contract in 2016 and to embark on a gradual recovery thereafter, particularly driven by the chemical and pharmaceutical industry. The high import content of investment is projected to lead to a slightly negative contribution of net exports to growth in this and next year. By contrast, with domestic demand slowing down in 2018, net exports are projected to make a significant contribution to GDP growth.

The launching of additional investment projects could pose an upside risk to these projections. The ability of the tourism sector to quickly counterbalance a slowdown in demand from the United Kingdom represents an additional upside risk. A protracted weakness in goods exports, linked with lower demand from emerging markets, could result in weaker-than-expected economic growth.

Low unemployment, recovering inflation

The unemployment rate is projected to drop further to 5% in 2016 on the back of sustained strong job creation. Thereafter, unemployment is forecast to increase slightly, in line with moderating GDP and employment growth, but should remain very low by historical standards. Nevertheless, upward pressure on wages is forecast to remain limited as the influx of foreign labour mitigates labour market shortages. Growth in unit labour costs is projected to average 1.4% between 2016 and 2018 – well below the long-term average.

HICP inflation is projected to reach 1.0% in 2016, mainly driven by services and food prices. It is forecast to accelerate to 1.6% in 2017 on the back of rising oil prices and a further acceleration of services inflation. Thereafter, overall HICP inflation is projected to edge up to 1.8% in 2018.

Structural deficit decreases

In 2016, the general government deficit is forecast to decrease to 0.7% of GDP, from 1.4% in 2015. Current tax revenue is expected to grow more than nominal GDP, boosted by the positive outlook for the labour market and consumer demand as well as the rise in excise duties and the proceeds from the citizenship programme. Current expenditure is expected to continue growing, mainly driven by public sector wages and intermediate consumption related also to costs associated with the country's upcoming EU presidency. Debt servicing costs, by contrast, is estimated to decrease. As a result, current expenditure is expected to decrease by 0.4pps. of GDP. The sharp decline in the absorption of EU funds due to the beginning of a new programming period and the lower capital injection into the national airline is more than compensated by a higher reliance on national funds. As a result, net capital expenditure is expected to increase by 0.3 pps. of GDP.

In 2017, the deficit is expected to decline marginally to 0.6% of GDP. Lower proceeds from the citizenship scheme are projected to result in a decline of current revenue (-0.7 pps. of GDP) despite tax revenue being boosted by the introduction of new excise duties and the concessions on stamp duty for business inheritance. These measures are partly offset by an income tax rebate for pensioners and incentives for businesses. Despite the introduction of several measures aimed at increasing social spending and expenditure on intermediate consumption and other current expenditure in the 2017 budget, current expenditure is expected to decrease due to lower interest expenditure. As reliance on national funds decreases due to an increase in the absorption of EU funds, net public investment is anticipated to decrease by 0.3 pps. of GDP. In 2018, under a no-policy-change assumption, the deficit is expected remain stable due also to a decline in revenue linked to the citizenship programme. Potential expenditure overruns could come from the renewal of the public sector wage agreement.

The structural deficit is projected to be on a declining path, decreasing by more than 1 pp. of GDP in 2016, by ½ pps. of GDP in 2017 and by ¼ pps. of GDP in 2018, thanks to a swift closure of the positive output gap. From 64% in 2015, the debt-to-GDP ratio is projected to fall below 60% in 2017 and to reach 57.2% by 2018.

Table II.18.1:

Main features of country forecast - MALTA

	2015			Annual percentage change						
	mio EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		8788.4	100.0	2.7	4.5	3.5	6.2	**4.1**	**3.7**	**3.7**
Private Consumption		4654.5	53.0	2.2	2.3	2.3	5.5	**4.0**	**2.8**	**2.7**
Public Consumption		1693.8	19.3	1.9	0.1	7.0	4.6	**3.6**	**6.9**	**6.7**
Gross fixed capital formation		2230.2	25.4	1.4	-1.4	8.7	43.1	**4.0**	**5.0**	**-4.0**
of which: equipment		1227.0	14.0	-	-1.4	1.7	116.6	**-**	**-**	**-**
Exports (goods and services)		12354.6	140.6	5.7	0.1	-0.2	2.1	**2.0**	**3.7**	**3.9**
Imports (goods and services)		12100.5	137.7	4.9	-0.9	-0.4	5.6	**2.1**	**4.1**	**2.4**
GNI (GDP deflator)		8673.8	98.7	2.5	3.8	6.2	7.2	**4.2**	**3.7**	**3.8**
Contribution to GDP growth:	Domestic demand			2.1	1.1	4.1	11.8	**3.9**	**4.1**	**1.7**
	Inventories			-0.2	1.7	-0.8	-0.7	**0.3**	**0.0**	**0.0**
	Net exports			0.8	1.6	0.2	-4.8	**-0.1**	**-0.5**	**2.1**
Employment				1.0	3.7	5.1	3.4	**2.7**	**2.5**	**2.4**
Unemployment rate (a)				6.8	6.4	5.8	5.4	**5.0**	**5.2**	**5.2**
Compensation of employees / head				3.9	1.9	1.1	2.7	**2.9**	**2.7**	**2.5**
Unit labour costs whole economy				2.1	1.1	2.7	0.0	**1.5**	**1.6**	**1.3**
Real unit labour cost				-0.3	-0.7	0.8	-2.2	**-0.2**	**-0.6**	**-0.8**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				2.4	1.9	2.0	2.3	**1.8**	**2.2**	**2.1**
Harmonised index of consumer prices				2.7	1.0	0.8	1.2	**1.0**	**1.6**	**1.8**
Terms of trade of goods				0.2	2.5	1.5	0.3	**1.4**	**0.9**	**-0.1**
Trade balance (goods) (c)				-16.2	-13.3	-12.8	-19.4	**-22.0**	**-22.5**	**-20.9**
Current-account balance (c)				-3.9	2.8	7.1	2.6	**2.0**	**1.7**	**3.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.8	4.5	8.9	4.4	**3.7**	**3.4**	**5.2**
General government balance (c)				-4.9	-2.6	-2.1	-1.4	**-0.7**	**-0.6**	**-0.6**
Cyclically-adjusted budget balance (d)				-4.9	-2.8	-2.3	-2.1	**-1.1**	**-0.7**	**-0.5**
Structural budget balance (d)				-	-2.9	-2.8	-2.2	**-1.1**	**-0.7**	**-0.5**
General government gross debt (c)				64.0	68.4	67.0	64.0	**62.1**	**59.9**	**57.2**

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

19. THE NETHERLANDS

Steady expansion set to continue

The Netherlands is forecast to see solid demand-driven growth of around 1¾% per year between 2016 and 2018. Labour market conditions should continue to improve, leading to a steady decrease in the unemployment rate. HICP inflation is expected to recover from its low levels over 2017 and 2018 with rising energy prices and the waning of base effects. The fiscal position is projected to continue improving towards a nearly balanced budget and a debt ratio slightly below 60% by 2018.

Steady expansion in first half of 2016

The rather strong performance of the Dutch economy in 2015 continued in the first two quarters of 2016, with quarterly GDP growth of 0.6% in both the first and second quarter. Most notably, the recovery of domestic demand was sustained, with the most important contributions coming from investment, and in particular housing. Supportive monetary policy has driven interest rates down, leading to relatively favourable mortgage lending conditions and an improved affordability of housing. Private household consumption also contributed positively to economic growth in the first six months of this year, supported by solid wage growth and significant tax relief.

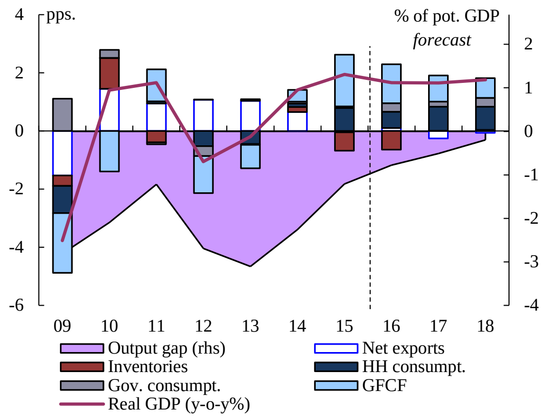
Private consumption expected to pick up

Looking ahead, domestic demand is set to continue expanding, driven by private consumption. In particular, increased labour income, reflecting strong wage and employment growth, is expected to fuel household consumption. The saving rate of households is forecast to decline gradually over the forecast horizon, as increased household incomes translate more into expenditures. However, increased uncertainties, mainly related to the situation of pension funds, could dampen consumption growth through higher premiums or the prospect of lower pension payments.

Investment growth to normalise

Investment growth reached almost 10% in 2015 and is expected to slow down to more sustainable levels, reflecting the maturing of the economic cycle. In particular investment in housing has boomed on the back of the market's sharp recovery. This growth has only slightly slowed down in recent quarters. Investment in transport equipment also increased sharply in the final quarter of 2015, as many commercial leasing companies invested in their car fleet in anticipation of a less favourable tax treatment from 2016. Forward-looking indicators like business confidence, industrial production and capacity utilisation rates indicate further growth of equipment investment.

Graph II.19.1: **The Netherlands - Real GDP growth and contributions**



A declining current account surplus

Imports are expected to grow faster than exports, as domestic demand improves more strongly than foreign demand. The unusually weak trade numbers in the first half of 2016, the UK 'leave' vote and the related depreciation of sterling are expected to result in slower export growth in 2016. Nevertheless, the continued strength of the German economy and demand growth in other important trading partners should provide a still solid basis for the growth of exports. The current account surplus, which peaked above 10% of GDP in 2012 and 2013, declined to 8.5% of GDP in 2015. The trade surplus is forecast to fall gradually in line with the increase in domestic demand. For 2016, the associated lowering of the current account balance is partly offset by incidental transactions on the income account, leading to a current account surplus of 8.5%. For 2017 and 2018, the decline is projected to continue at a moderate pace to 8% and 7.7% of GDP, respectively.

Robust labour market performance

Employment grew relatively quickly in the first half of 2016, accompanied by a fall in the unemployment rate from 6.5% in January to 5.7% in September. This trend is expected to continue as soft indicators such as vacancy rates continue to signal strong demand for labour. The decline of the unemployment rate is expected to slow down slightly as the improved cyclical conditions encourage more people to enter the labour force leading to a slightly stronger labour supply growth in 2017.

HICP inflation to increase

Since 2014, HICP inflation has been hovering around zero. This trend has continued in 2016 with inflation expected to average 0.1% for the year. Based on the oil prices projections, energy prices are expected to start contributing to inflation in the near future. The pick-up of wage growth is expected to lead to price increases for services. These forces, in combination with relatively stable core-inflation, the closing of the output gap and positive base-effects are expected to lead to an HICP inflation rate of around 1% in 2017 and 2018.

Public finances to improve further

The budgetary situation is projected to improve substantially over the forecast horizon. The headline deficit is set to fall to 0.8% of GDP in 2016 from 1.9% of GDP in 2015, as lower gas revenues are more than offset by strong increases in tax revenues, specifically corporate taxes. In 2017, the budget balance is forecast to come out at -0.3% of GDP, partly linked to incidentally high revenues stemming from a tax abatement for director/major shareholders, worth EUR 2.1 bn (0.3% of GDP), which is considered as a one-off in the calculation of the structural budget balance. By 2018, a nearly balanced budget is projected (-0.1% of GDP) in line with a positive labour market outlook and robust domestic demand growth. The structural balance is projected to increase by ¼ pps. of GDP in 2017 and ¼ pps. of GDP in 2018. As a result of the sustained improvement in the headline balance and stable GDP growth, the debt-to-GDP ratio is forecast to decrease from 63.0% of GDP in 2016 to 59.3% of GDP in 2018. The debt reduction is likely to accelerate if the government proceeds with the reprivatisation of financial institutions.

Table II.19.1:

Main features of country forecast - NETHERLANDS

	2015			Annual percentage change					
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	676.5	100.0	2.0	-0.2	1.4	2.0	**1.7**	**1.7**	**1.8**
Private Consumption	301.8	44.6	1.4	-1.0	0.3	1.8	**1.3**	**1.9**	**1.8**
Public Consumption	171.4	25.3	2.8	-0.1	0.3	0.2	**1.1**	**0.7**	**1.2**
Gross fixed capital formation	131.4	19.4	1.4	-4.3	2.3	9.9	**6.9**	**4.4**	**3.2**
of which: equipment	38.0	5.6	2.5	-6.1	-0.2	13.4	**7.6**	**4.7**	**3.6**
Exports (goods and services)	557.9	82.5	4.9	2.1	4.5	5.0	**3.4**	**3.5**	**3.6**
Imports (goods and services)	485.0	71.7	4.9	1.0	4.2	5.8	**3.7**	**4.4**	**4.2**
GNI (GDP deflator)	674.1	99.6	2.0	-0.8	-0.2	1.8	**1.6**	**1.6**	**1.7**
Contribution to GDP growth: Domestic demand			1.7	-1.3	0.6	2.6	**2.2**	**1.9**	**1.8**
Inventories			0.0	0.1	0.2	-0.6	**-0.6**	**0.0**	**0.0**
Net exports			0.3	1.0	0.6	0.0	**0.1**	**-0.3**	**-0.1**
Employment			0.9	-1.2	-0.3	1.0	**1.4**	**1.3**	**1.3**
Unemployment rate (a)			4.7	7.3	7.4	6.9	**6.1**	**5.8**	**5.4**
Compensation of employees / f.t.e.			3.1	2.2	1.6	0.4	**2.4**	**2.1**	**2.2**
Unit labour costs whole economy			2.0	1.2	-0.1	-0.6	**2.1**	**1.7**	**1.8**
Real unit labour cost			0.0	-0.2	-0.2	-0.7	**1.9**	**0.5**	**0.4**
Saving rate of households (b)			13.1	14.1	13.1	12.7	**13.4**	**13.2**	**12.8**
GDP deflator			2.1	1.4	0.1	0.1	**0.3**	**1.2**	**1.3**
Harmonised index of consumer prices			2.2	2.6	0.3	0.2	**0.1**	**1.0**	**1.1**
Terms of trade goods			0.2	0.5	0.1	1.3	**0.0**	**0.0**	**0.0**
Trade balance (goods) (c)			8.7	11.5	11.5	11.3	**10.7**	**10.3**	**10.0**
Current-account balance (c)			6.8	10.2	8.5	8.5	**8.5**	**8.0**	**7.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			6.6	10.0	8.4	3.5	**8.1**	**7.8**	**7.6**
General government balance (c)			-1.6	-2.4	-2.3	-1.9	**-0.8**	**-0.3**	**-0.1**
Cyclically-adjusted budget balance (d)			-1.3	-0.4	-0.8	-1.1	**-0.3**	**0.1**	**0.1**
Structural budget balance (d)			-	-1.0	-0.7	-1.2	**-0.5**	**-0.2**	**0.0**
General government gross debt (c)			54.2	67.7	67.9	65.1	**63.0**	**61.3**	**59.3**

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

20. AUSTRIA

Private consumption driving growth as income tax reform unfolds

Austria's GDP growth is expected to rise to about 1½% in the next years. Private consumption has become the main growth driver following the income tax reform, which increased the net disposable income of households. Public finances, which are impacted by the spending on refugees and the tax reform, are expected to recover on the back of the positive economic cycle.

Consumption is the main driver of growth

In the first half of the year, Austria's economy maintained the upward growth trend, which started at the end of 2015. Growth has mainly been driven by private consumption, which has significantly increased since the start of 2016 when an income tax reform kicked in. With consumption picking up, investment activity has also been increasing, most notably in machinery and equipment. Exports were weak in the first half of the year, whereas imports rose markedly on the back of accelerating investment. Consequently, the contribution of net exports to growth has decreased.

Improved growth outlook

In the third and fourth quarter of 2016, economic growth is expected to continue to be driven by stronger private consumption and equipment investment. As a result, Austria's GDP growth is expected to grow by 1.5% this year, compared to just 1.0% in 2015.

In 2017 and 2018, growth is expected to stabilise at 1.6%, still benefitting from the increase in private consumption and investment following the income tax reform. These effects are expected to gradually fade away and, in the absence of similar measures, a stronger contribution from other sources will be required to maintain this level of growth.

The Austrian export industry is expected to grow steadily, even though the world economy and demand from emerging markets remain weak. Investments in new technologies and the further digitalisation of the industry are expected to help rein in market share losses and help to improve price competitiveness. Imports are expected to grow strongly both this and the next year due to increased domestic demand from private consumption and equipment investment. The current account balance is expected to remain in surplus and to grow steadily over the forecast horizon.

Investment growth, especially in machinery and equipment, should further benefit from increased private consumption and increased replacement needs in the coming years. Construction investment is projected to rise, driven by strong demand, as the population continues to grow due to immigration, including from refugees. This higher demand for housing is also pushing up house prices.

Strong labour force and employment

Employment continues growing steadily in Austria supported by the higher supply of labour coming from both the inflow of asylum-seekers and strong migration from other EU countries. Compared to 2015, the number of refugees arriving in Austria this year has decreased. The impact of asylum-seekers on the labour market is expected to be gradual, as asylum procedures and language training take time to run their course. The supply of labour is also benefiting from greater participation by women and elderly workers, which is a result of the measures to reduce early retirement. Over the forecast horizon, the unemployment rate is thus expected to increase only gradually from 5.7% in 2015 to 5.9% in 2016 and 6.1% in the outer years.

Stronger inflation as oil prices increase

The effect of low oil prices continues to weigh on HICP inflation in 2016, which is expected to reach 1.0% after 0.8% in 2015. As this effect fades, HICP inflation is projected to accelerate to 1.8% in 2017 and 1.6% in 2018. Increasing prices in the service sectors, mainly in the tourism sector (hotel, restaurants), help maintain a positive inflation rate in Austria above the EU average. Core inflation is projected to remain stable at around 1.6% in the coming years.

Public finances expected to recover after the tax reform and the peak in refugee spending

The 2015 general government deficit was revised down from 1.2% to 1.0% of GDP, mainly due to lower expenditure for social security. The deficit is forecast to increase to 1.5% of GDP in 2016. This year, revenues from taxes on income and wealth declined significantly due to the tax relief measures that took effect in January this year. At the same time, measures against tax fraud have so far not yielded the expected results, partly due to delays in their implementation. In addition, the increase in taxes on capital gains led to an anticipatory effect in 2015 that lowered revenues in 2016. On the contrary, yields from corporate income taxes picked up, as did social security contributions, which benefited from the rise in employment and the update of the upper contribution threshold. On the expenditure side, costs for bank support are expected to fade while the spending related to refugees is forecast to increase significantly, mainly due to the high number of arrivals at the end of 2015 and the length of the application procedure.

In 2017, revenues from income and wealth taxes will still be affected by a deferred impact of the tax relief, but are expected to gradually recover on the back of the positive economic cycle and the projected increase in employment. Yields from capital gains taxes are expected to normalise also thanks to the rate increase. Expenditure for refugees is forecast to decline only slightly despite the lower number of applications, mainly due to a shift in spending from first aid to means-tested benefits for recognised refugees. Overall, in 2017, the deficit is expected to decline to 1.3% of GDP. Given the acceptance of the buy-back offer for HETA's liabilities covered by Carinthia's guarantees, risks of further negative spillovers from the banking sector to public finances have been considerably reduced, although the possibility of additional contingent costs cannot be excluded. On the contrary, the possibility of a deferred effect from the measures against tax fraud represents an upward risk. In 2018, revenues are expected to continue recovering and social spending on refugees to decrease more tangibly, leading to a lower projected deficit.

The structural balance is expected to decline from a balanced position in 2015 to around -1.0% of GDP in 2016 and to remain broadly stable in 2017. After reaching 85.5% of GDP in 2015, the general government debt is projected to decline from 2016 onwards, mainly due to the progressive divestment of impaired assets from distressed financial institutions included in the government accounts.

Table II.20.1:

Main features of country forecast - AUSTRIA

		2015		Annual percentage change						
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		339.9	100.0	2.0	0.1	0.6	1.0	**1.5**	**1.6**	**1.6**
Private Consumption		179.1	52.7	1.5	-0.1	-0.3	0.0	**1.3**	**1.2**	**1.1**
Public Consumption		67.7	19.9	1.6	0.7	0.8	2.1	**1.2**	**0.9**	**0.7**
Gross fixed capital formation		76.8	22.6	1.0	2.2	-0.9	0.7	**3.1**	**2.3**	**1.7**
of which: equipment		25.3	7.5	1.3	2.4	-1.0	3.6	**5.1**	**2.9**	**2.3**
Exports (goods and services)		180.3	53.1	5.3	0.5	2.3	3.6	**2.7**	**2.9**	**3.2**
Imports (goods and services)		166.7	49.1	4.2	0.7	1.3	3.4	**3.3**	**2.7**	**2.5**
GNI (GDP deflator)		338.0	99.5	2.0	0.3	0.6	0.2	**1.5**	**1.6**	**1.6**
Contribution to GDP growth:	Domestic demand			1.4	0.6	-0.2	0.6	**1.6**	**1.3**	**1.1**
	Inventories			0.1	-0.5	0.3	0.0	**0.0**	**0.0**	**0.0**
	Net exports			0.5	0.0	0.5	0.2	**-0.1**	**0.2**	**0.5**
Employment				-	0.3	0.9	0.6	**0.8**	**0.8**	**0.9**
Unemployment rate (a)				4.7	5.4	5.6	5.7	**5.9**	**6.1**	**6.1**
Compensation of employees / f.t.e.				2.1	2.1	1.9	1.9	**1.4**	**1.6**	**1.6**
Unit labour costs whole economy				1.1	2.3	2.1	1.5	**0.8**	**0.8**	**0.9**
Real unit labour cost				-0.4	0.8	0.4	-0.3	**-1.1**	**-0.8**	**-0.8**
Saving rate of households (b)				15.3	12.6	12.6	13.0	**14.1**	**13.2**	**12.3**
GDP deflator				1.5	1.6	1.8	1.9	**1.9**	**1.7**	**1.7**
Harmonised index of consumer prices				1.8	2.1	1.5	0.8	**1.0**	**1.8**	**1.6**
Terms of trade goods				-0.4	-0.1	0.5	1.8	**1.2**	**-0.3**	**-0.1**
Trade balance (goods) (c)				-0.6	-0.5	0.2	0.6	**0.6**	**0.5**	**0.7**
Current-account balance (c)				1.2	1.6	2.6	2.5	**2.8**	**2.9**	**3.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				1.1	1.5	2.4	2.0	**2.7**	**2.7**	**2.8**
General government balance (c)				-2.6	-1.4	-2.7	-1.0	**-1.5**	**-1.3**	**-1.1**
Cyclically-adjusted budget balance (d)				-2.6	-1.0	-2.2	-0.5	**-1.1**	**-1.1**	**-1.0**
Structural budget balance (d)				-	-1.2	-0.7	0.0	**-1.0**	**-0.9**	**-1.0**
General government gross debt (c)				69.8	81.3	84.4	85.5	**83.5**	**81.1**	**79.2**

(a) as % of total labour force. (b) gross saving divided by 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

Robust growth amid expansionary fiscal policy

Private consumption is set to remain the main growth driver, supported by accelerating wage growth and fiscal transfers. Investment activity is expected to contract in 2016, but should gradually recover as utilisation of EU funds picks up. Price pressures are set to remain subdued. The headline general government deficit is projected to decrease slightly in 2016, but to widen in 2017 and 2018.

Falling investment in the first half of 2016

Falling investment was the main factor behind the 0.1% (q-o-q) decline in GDP in the first quarter of this year. Investment continued to fall in the second quarter but strong exports lifted GDP growth to 0.9% (q-o-q). The weakness of investment appears to be mainly related to the slow start of projects financed by EU structural funds under the new programming period and lower investment activity by state-owned and state-influenced enterprises after the change of government in late 2015. Private consumption, by contrast, continued to rise steadily in the first half of 2016, helped by solid increases in wages and employment.

Growth outlook positive, price pressures subdued

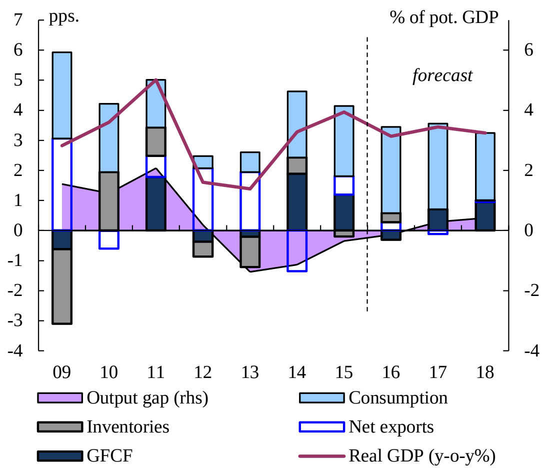
The outlook remains favourable with real GDP growth projected to reach 3.1% in 2016, 3.4% in 2017 and 3.2% in 2018, resulting in the estimated output gap turning positive. Private consumption is set to remain the dominant growth driver, with particularly strong contributions in 2016 and 2017. Further improvements in the labour market and an increase in government transfers, notably a new child benefit, are expected to boost disposable income and improve consumer confidence. Private consumption is projected to slow down towards the end of the forecast period as the temporary effects of new social transfers fade off.

Investment activity is expected to gradually recover starting from late 2016 as more projects co-financed with EU structural funds under the new programming period enter the implementation phase. Several factors point to sizeable investment potential, including, on the one hand, strong domestic demand and an outlook for further export gains and, on the other hand, a relatively high degree of capacity utilisation, still solid corporate profits and low interest rates. However, investment decisions are likely to be affected by uncertainty over the future direction of economic policies.

Polish exports are expected to continue growing robustly as labour costs remain low and the exchange rate supports cost competitiveness. In addition, external demand is projected to gradually strengthen. At the same time, accelerating domestic demand is set to fuel imports so that the growth contribution of net exports is forecast to be close to zero in 2017 and 2018.

Inflation is projected to turn positive at the end of 2016 but price pressures should remain subdued. Consumer prices are forecast to fall by 0.2% on average in 2016 and to grow by 1.3% in 2017 and 1.8% in 2018.

Graph II.21.1: **Poland - Real GDP growth and contributions, output gap**



Tightening labour market

Wage growth is forecast to accelerate in an environment of record-low and still falling unemployment. Employment growth is expected to decelerate in 2017 and come to a halt in 2018 as a result of combined effects of a decreasing working age population and policy measures discouraging labour participation, particularly among the less skilled. These measures include the new universal child benefit and the lowering of the retirement age.

Balanced risks

Risks to the macroeconomic forecast are broadly balanced. On the downside, a prolongation of uncertainty related to the future course of economic policies (e.g. changes to taxation and benefits as well as the role of state-owned enterprises) and questions concerning the rule of law, including the effective constitutional oversight of legislative acts, could affect economic activity more negatively than currently foreseen. On the upside, public and private investment could accelerate faster than currently projected.

Government deficit to widen in 2017

The headline general government deficit is expected to narrow to 2.4% of GDP in 2016, its lowest level since 2007. The improvement is mainly driven by one-off revenue of 0.5% of GDP from the sale of mobile internet frequencies.

Poland's 2017 deficit is projected to widen to 3.0% of GDP due to the increasing costs of the child benefit (in force since the second quarter of 2016) and planned lowering of the statutory retirement age (to be applied from the fourth quarter of 2017). This is expected to be partially offset by increasing revenues from taxes and social contributions due to improved macroeconomic fundamentals. In turn, additional revenues due to continued efforts to improve tax collection are not included in this forecast, as their estimated impact is difficult to assess ex ante and very much conditional on their concrete implementation.

Under a no-policy-change assumption, the general government deficit is set to reach 3.1% of GDP in 2018. This reflects, amongst other things, the full-year effect of the planned lowering of the statutory retirement age. There is, however, uncertainty as to the 2018 fiscal outlook, as some policy proposals (such as the planned reform of the personal income tax) are not yet known in sufficient detail so as to be included in the forecast.

After increasing from 2¼% of GDP in 2015 to 2¾% of GDP in 2016, Poland's structural deficit is projected to widen significantly again in 2017 and to a lesser extent in 2018, reaching 3¼% of GDP.

The general government debt-to-GDP ratio is set to increase from around 51% in 2015 to around 56% in 2018. The debt projections for Poland are, however, uncertain due to the high share of sovereign debt denominated in foreign currencies.

Table II.21.1:

Main features of country forecast - POLAND

	2015			Annual percentage change						
bn PLN	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	1798.3	100.0	4.1	1.4	3.3	3.9	**3.1**	**3.4**	**3.2**
Private Consumption	1051.4	58.5	3.8	0.3	2.4	3.2	**3.7**	**3.9**	**2.9**
Public Consumption	323.5	18.0	3.1	2.5	4.1	2.3	**4.0**	**3.3**	**3.1**
Gross fixed capital formation	360.8	20.1	5.4	-1.1	10.0	6.1	**-1.5**	**3.7**	**4.9**
of which: equipment	136.5	7.6	5.2	4.6	11.2	5.3	**2.4**	**3.9**	**5.0**
Exports (goods and services)	891.1	49.6	8.3	6.1	6.7	7.7	**8.3**	**6.3**	**6.5**
Imports (goods and services)	835.4	46.5	7.7	1.7	10.0	6.6	**8.2**	**7.0**	**6.8**
GNI (GDP deflator)	1744.3	97.0	3.9	1.8	3.1	4.5	**2.8**	**3.4**	**3.1**
Contribution to GDP growth: Domestic demand			4.1	0.4	4.1	3.5	**2.6**	**3.6**	**3.2**
Inventories			0.0	-1.0	0.5	-0.2	**0.3**	**0.0**	**0.0**
Net exports			0.0	1.9	-1.3	0.6	**0.3**	**-0.1**	**0.1**
Employment			0.2	-0.1	1.7	1.4	**1.1**	**0.3**	**0.0**
Unemployment rate (a)			13.4	10.3	9.0	7.5	**6.2**	**5.6**	**4.7**
Compensation of employees / head			7.1	1.7	2.2	1.2	**2.7**	**4.3**	**5.2**
Unit labour costs whole economy			3.0	0.2	0.6	-1.2	**0.6**	**1.2**	**1.8**
Real unit labour cost			-1.2	-0.1	0.1	-1.8	**0.3**	**0.0**	**0.1**
Saving rate of households (b)			8.3	2.5	1.9	2.1	**2.8**	**2.4**	**2.5**
GDP deflator			4.4	0.3	0.5	0.6	**0.3**	**1.2**	**1.7**
Harmonised index of consumer prices			4.9	0.8	0.1	-0.7	**-0.2**	**1.3**	**1.8**
Terms of trade goods			-0.2	1.7	2.2	2.9	**0.6**	**-0.3**	**-0.3**
Trade balance (goods) (c)			-4.3	-0.1	-0.8	0.5	**0.8**	**0.4**	**0.0**
Current-account balance (c)			-4.1	-0.5	-1.1	0.9	**0.8**	**0.2**	**-0.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.5	1.5	0.5	2.8	**2.3**	**2.1**	**2.1**
General government balance (c)			-4.4	-4.1	-3.4	-2.6	**-2.4**	**-3.0**	**-3.1**
Cyclically-adjusted budget balance (d)			-4.4	-3.3	-2.8	-2.4	**-2.4**	**-3.1**	**-3.3**
Structural budget balance (d)			-	-3.3	-2.6	-2.3	**-2.8**	**-3.1**	**-3.3**
General government gross debt (c)			45.1	55.7	50.2	51.1	**53.4**	**55.0**	**55.5**

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

22. PORTUGAL

A modest recovery hampered by weak investment

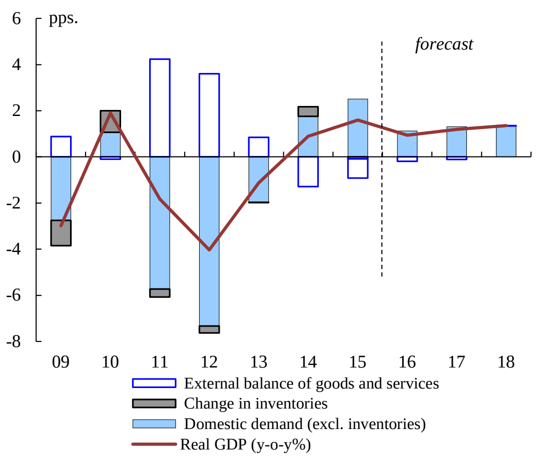
The economic recovery continues, albeit at a modest pace, driven by private consumption but held back by weak investment. Unemployment is set to continue to decline, reaching 9.5% by 2018. Inflation is projected to increase by the end of the forecast horizon to reach 1.4%.The general government headline deficit is expected to reach 2.7% of GDP in 2016 and to remain below 2.5% over the forecast horizon. The structural balance is forecast to broadly stabilise in 2016 and 2017 followed by a slight deterioration in 2018.

A gradual pick-up in growth dependent on a rebound in investment

Real GDP growth in Portugal remains weak though a gradual improvement is projected over the forecast horizon. Growth was stable at 0.9% (y-o-y) in the second quarter of 2016 and marginally accelerated to 0.3% on a quarterly basis. Despite a substantial reduction in investment, the contribution of domestic demand to economic growth remained positive, although it dropped from 1.6 pps. to 0.6 pps. in the second quarter. This drop was driven by a marked deceleration in the growth of durable goods consumption, mainly of motor vehicle components after an exceptional first quarter. The contribution of net external trade turned slightly positive, reflecting the more intense slowdown in imports.

The European Commission's Economic Sentiment Indicator (ESI) improved by the end of the third quarter. Nevertheless, private consumption growth is expected to be more modest in the coming quarters in line with more stable consumption of durable goods, the still high level of household debt and increased oil prices. Investment is projected to improve marginally by the end of this year, as slightly improved confidence indicators point to a less negative outcome for construction than in the first two quarters. Investment in machinery and equipment fared better than construction investment in the first half of 2016 and a positive trend is expected to continue over the remainder of 2016, particularly since employment is still improving and investment in transport equipment is growing. Weak public investment has played a role in depressing private investment, as EU funds absorption was low. Taking into account the delay in budget execution processes, a more positive outcome in public investment and some positive spillover to the private sector could be expected in the coming quarters. Coming from a low level in 2016, investment is set to gather pace in 2017, driven by the gradual pick up in investments co-financed by the EU under the new programming period for such funding. In 2018, investment growth is forecast to gain momentum with the additional support of strengthening external demand, particularly in emerging markets. However, bank credit is expected to pick up only gradually over the forecast horizon as the banking system remains burdened by the large stock of non-performing loans. Feeble external trade activity over the first half of the year mainly reflected the weak economic outlook in markets outside the EU and the contraction in exports of services. Short term indicators confirm that, despite some weakness in the export of goods, exports of services increased significantly, mainly due to exceptionally high tourism. Looking ahead, exports are forecast to grow in line with foreign demand, whereas imports are expected to outweigh exports, mainly due to increased investment. As a result, the contribution of net trade to GDP growth is forecast to remain slightly negative in 2016 and 2017 while it is set to turn neutral in 2018.

Graph II.22.1: **Portugal - Real GDP growth and contributions**



Overall, real GDP growth in Portugal is projected to moderate to 0.9% in 2016, before picking up slightly to 1.2% in 2016 and 1.4% in 2018. This will depend on a rebound in investment, which has so far remained fragile and sensitive to the materialisation of any negative shock. Thus, risks to the forecast are tilted to the downside.

Labour market outlook improves and inflation set to increase

HICP inflation increased to 0.6% in September 2016. It is expected to average 0.7% in 2016, mainly driven by higher indirect taxes, and then gradually rise to 1.4% in 2018 on the back of higher oil prices. Job creation remained robust in the first half of 2016 and the unemployment rate fell to 11.2%. Employment growth is expected to slow down over the forecast horizon while a moderate decrease in the labour force is expected to bring unemployment down to 11.1% in 2016 and around 10% in 2017 and 2018.

Public finances benefitting from the recovery

The general government deficit is forecast to reach 2.7% of GDP in 2016. Lower revenue collection is expected to be largely offset by the containment of expenditure, in particular due to the freezing of intermediate consumption. As a result, the structural balance is projected to remain broadly unchanged in 2016.

The headline deficit is projected to decrease to 2.2% of GDP in 2017, mainly due to a one-off operation (a guarantee to BPP bank worth ¼ pps. of GDP) and the continued moderate economic recovery. As the impact of discretionary measures is expected to be broadly neutral, the structural balance is projected to remain broadly unchanged. Under the no-policy change assumption, both the headline deficit and the structural balance are set to slightly deteriorate in 2018.

Risks to the fiscal outlook are tilted to the downside, linked to the uncertainties surrounding the macroeconomic outlook, the potential deficit impact of banking support measures and possible spending slippages.

After reaching 129.0% at the end of 2015, Portugal's gross public debt-to-GDP ratio is expected to rise to 130.3% in 2016, mainly due to a downward revision in projected proceeds from sales of financial assets, including Novo Banco, and higher issuance of government debt for the planned recapitalisation of the state-owned bank CGD. The ratio is forecast to decline to 129.5% in 2017 and to 127.8% in 2018, due to primary budget surpluses and continued economic growth.

Table II.22.1:

Main features of country forecast - PORTUGAL

		2015		Annual percentage change						
		bn EUR Curr. prices	**% GDP**	**97-12**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
GDP		179.5	100.0	1.1	-1.1	0.9	1.6	**0.9**	**1.2**	**1.4**
Private Consumption		117.8	65.6	1.2	-1.2	2.3	2.6	**1.8**	**1.1**	**1.0**
Public Consumption		32.7	18.2	1.6	-2.0	-0.5	0.8	**0.6**	**0.4**	**0.5**
Gross fixed capital formation		27.4	15.3	-0.8	-5.1	2.3	4.5	**-1.4**	**3.7**	**4.1**
of which: equipment		8.9	5.0	0.1	8.1	13.3	9.7	**3.0**	**7.6**	**6.7**
Exports (goods and services)		72.8	40.6	4.3	7.0	4.3	6.1	**2.8**	**3.7**	**4.1**
Imports (goods and services)		71.5	39.8	3.0	4.7	7.8	8.2	**3.3**	**4.1**	**4.3**
GNI (GDP deflator)		175.3	97.6	1.0	0.0	0.5	0.9	**1.0**	**1.3**	**1.4**
Contribution to GDP growth:	Domestic demand			1.0	-2.0	1.7	2.6	**1.1**	**1.4**	**1.4**
	Inventories			0.0	0.0	0.4	-0.1	**0.0**	**0.0**	**0.0**
	Net exports			0.1	0.9	-1.3	-0.8	**-0.2**	**-0.1**	**0.0**
Employment				0.0	-2.9	1.4	1.4	**1.0**	**0.7**	**0.5**
Unemployment rate (a)				8.6	16.4	14.1	12.6	**11.1**	**10.0**	**9.5**
Compensation of employees / head				3.0	3.6	-1.8	-0.3	**1.2**	**1.1**	**1.1**
Unit labour costs whole economy				1.8	1.8	-1.3	-0.5	**1.3**	**0.5**	**0.2**
Real unit labour cost				-0.6	-0.5	-2.0	-2.5	**-0.4**	**-1.1**	**-1.5**
Saving rate of households (b)				9.5	7.8	5.2	4.4	**4.5**	**4.3**	**4.1**
GDP deflator				2.5	2.3	0.8	2.1	**1.8**	**1.7**	**1.7**
Harmonised index of consumer prices				2.5	0.4	-0.2	0.5	**0.7**	**1.2**	**1.4**
Terms of trade goods				0.0	1.7	1.2	3.2	**2.5**	**1.3**	**1.0**
Trade balance (goods) (c)				-10.4	-4.0	-4.7	-4.3	**-3.6**	**-3.4**	**-3.3**
Current-account balance (c)				-8.8	0.7	-0.3	-0.3	**0.5**	**0.8**	**1.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.1	2.3	1.0	0.9	**1.6**	**2.0**	**2.3**
General government balance (c)				-5.3	-4.8	-7.2	-4.4	**-2.7**	**-2.2**	**-2.4**
Cyclically-adjusted budget balance (d)				-5.3	-2.7	-5.7	-3.6	**-2.3**	**-2.2**	**-2.7**
Structural budget balance (d)				-	-3.0	-1.9	-2.3	**-2.4**	**-2.4**	**-2.7**
General government gross debt (c)				70.8	129.0	130.6	129.0	**130.3**	**129.5**	**127.8**

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

23. ROMANIA

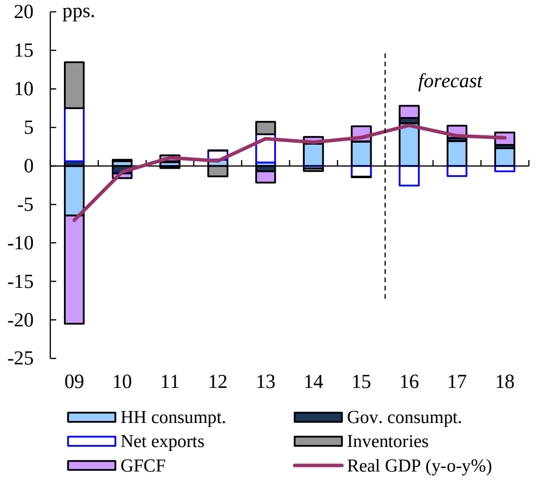
Loosening fiscal stance boosts growth to a post-crisis peak

Real GDP growth is currently among the fastest in the EU and is projected to remain robust over the forecast horizon, supported by fiscal easing and wage increases. Inflation is expected to increase as the output gap closes and the effects of previous tax reductions fade away. The general government deficit is projected to widen considerably due to tax cuts and public wage increases.

The upswing in domestic demand accelerates

Growth hit a post-crisis high in the first half of 2016 (5.2% y-o-y). The surge was driven by household consumption rising on the back of wage hikes, VAT reductions and low interest rates. Investment added to the momentum with a solid expansion of 7.4% (y-o-y), while net exports continued to detract from growth (-2.8 pps. contribution to growth) as rising domestic demand stimulated imports. Real GDP growth is forecast to remain robust and to post a rate of 5.2% in 2016. The current account deficit is expected to double this year, compared with 2015, to 2.2% of GDP due to the swiftly widening trade deficit.

Graph II.23.1: **Romania - Real GDP growth and contributions**



Pace of growth set to moderate in 2017-2018

Another round of fiscal stimuli is planned for 2017, but its magnitude is significantly lower than the measures enacted in 2016. As a result, and as consumer prices start to increase, household consumption growth is forecast to moderate somewhat. Total investment is projected to remain stable over the forecast horizon, supported by low interest rates and positive economic-growth prospects. Public investment is set to remain a drag on growth in 2016, but is expected to recover from 2017 onwards with the improved implementation of projects financed by EU funds in the 2014-2020 financing period. Accordingly, real GDP is forecast to expand by 3.9% in 2017 and by 3.6% in 2018.

The steady rate of export growth in 2016 and 2017 is projected to increase in 2018 as external demand strengthens. Import growth is set to remain strong over the forecast horizon, driven by robust domestic demand. The current account deficit is therefore estimated to widen further to 2.6% of GDP in 2017 and 2.8% of GDP in 2018 due to the deteriorating trade balance.

Inflation bottomed out and is set to rise further

Inflation hit a new historical low in May 2016 (-3.0% y-o-y) due to a sharp reduction in VAT rates and low imported inflation. As the base effect of the VAT cut is wearing out, inflation is picking up and annual average inflation is forecast to reach -1.0% in 2016. Inflation pressures are building up as the output gap is turning positive, tax-cuts effects are fading, domestic demand remains strong and wages are growing fast. Another cut of the standard VAT rate by 1 pp. from January 2017 will still moderate the pace of inflation, expected to reach 1.8% on average in 2017. In 2018, annual average inflation is projected to increase sharply to 2.9%.

Risks to the macroeconomic forecast are slightly tilted to the downside. The recovery in external demand could turn out slower than currently expected. In an electoral environment, new legislative initiatives and the stalling implementation of structural reforms add to the uncertainty. Risks to the inflation outlook are more on the upside.

Wages accelerate on a tight labour market

Strong GDP growth in 2016 has been mirrored by a rise in employment, leading to a tighter labour market. Consequently, the unemployment rate has fallen to an eight-year low. Employment is expected to continue growing over the forecast horizon driven by a robust economic outlook, while the unemployment rate is projected to decline moderately. Public and minimum wage hikes in 2015 and 2016 have pushed economy-wide wage growth (y-o-y) into double-digit territory. Unit labour costs are forecast to rise as productivity developments lag behind the evolution of labour compensation.

Pro-cyclical fiscal policy is set to substantially increase the public deficit

Despite robust economic growth, the headline deficit is projected to rise significantly during the forecast horizon due to tax cuts and expenditure increases.

In 2016, the headline deficit is expected to increase to 2.8% of GDP, from 0.8% of GDP in 2015. The tax cuts enacted at the end of last year, in particular the cut of the standard VAT rate by 4 pps., are set to have a negative effect on tax revenues. On the expenditure side, public wages were considerably increased while public investment is projected to drop this year due to a slow take-up of large projects in the 2014-2020 programming period of EU funding.

In 2017, the headline deficit is projected to deteriorate to 3.2% of GDP and to remain at this level in 2018 under a no-policy-change assumption. An additional cut in the standard VAT rate by one percentage point, the abolition of the extra excise duty on fuel and of the special construction tax are expected to have a negative impact on revenues.

The structural deficit is forecast to increase strongly from around ½% of GDP in 2015 to about 2½% in 2016 and 3½% in 2017 and 2018 as a consequence of the fiscal easing. Despite strong GDP growth, Romania's debt-to-GDP ratio is thus projected to rise from 38.9% of GDP in 2015 to about 41.5% in 2018.

This forecast does not take into account the additional expansionary legislative initiatives still under consideration in parliament at the cut-off-date of this forecast. They include a significant increase of old-age pensions, a cut by 5 pps. of social contributions, and a removal of around one hundred minor taxes and fees. These initiatives are the main downward risk to the fiscal outlook.

Table II.23.1:

Main features of country forecast - ROMANIA

	2015		Annual percentage change						
bn RON	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	712.8	100.0	2.5	3.5	3.1	3.7	**5.2**	**3.9**	**3.6**
Private Consumption	438.0	61.4	4.5	0.7	4.7	5.1	**9.0**	**5.2**	**3.7**
Public Consumption	96.2	13.5	0.3	-4.6	0.8	0.3	**5.3**	**3.0**	**3.0**
Gross fixed capital formation	176.2	24.7	5.2	-5.4	3.2	8.1	**6.3**	**6.4**	**6.5**
of which: equipment	74.5	10.5	6.2	4.8	-5.1	9.0	**9.0**	**7.0**	**6.9**
Exports (goods and services)	292.9	41.1	8.7	19.7	8.0	5.5	**5.2**	**5.2**	**5.9**
Imports (goods and services)	296.7	41.6	10.9	8.8	8.7	8.8	**11.2**	**8.1**	**7.2**
GNI (GDP deflator)	699.3	98.1	2.4	3.0	4.2	2.5	**5.3**	**3.9**	**3.7**
Contribution to GDP growth: Domestic demand			4.6	-1.7	3.8	5.2	**7.8**	**5.2**	**4.3**
Inventories			-0.2	1.6	-0.3	-0.1	**0.0**	**0.0**	**0.0**
Net exports			-1.8	3.6	-0.3	-1.4	**-2.6**	**-1.3**	**-0.7**
Employment			-1.6	-0.9	0.8	-0.9	**1.8**	**0.8**	**0.6**
Unemployment rate (a)			7.0	7.1	6.8	6.8	**6.5**	**6.4**	**6.3**
Compensation of employees / head			27.9	3.8	6.7	1.3	**7.9**	**5.8**	**5.6**
Unit labour costs whole economy			22.8	-0.6	4.3	-3.1	**4.4**	**2.7**	**2.5**
Real unit labour cost			-1.6	-3.9	2.6	-5.9	**2.5**	**0.6**	**0.3**
Saving rate of households (b)			-5.5	13.3	-14.6	-13.2	**-9.1**	**-6.8**	**-4.8**
GDP deflator			24.9	3.4	1.7	2.9	**1.8**	**2.0**	**2.2**
Harmonised index of consumer prices			23.6	3.2	1.4	-0.4	**-1.0**	**1.8**	**2.9**
Terms of trade goods			3.1	4.7	0.8	2.5	**2.7**	**2.4**	**1.5**
Trade balance (goods) (c)			-8.0	-4.0	-4.3	-4.8	**-6.4**	**-7.1**	**-7.6**
Current-account balance (c)			-6.5	-0.6	0.0	-1.1	**-2.2**	**-2.6**	**-2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.0	1.5	2.7	1.9	**-0.8**	**-0.5**	**-0.6**
General government balance (c)			-3.8	-2.1	-0.8	-0.8	**-2.8**	**-3.2**	**-3.2**
Cyclically-adjusted budget balance (d)			-3.8	-1.0	-0.1	-0.3	**-2.9**	**-3.4**	**-3.3**
Structural budget balance (d)			-	-1.0	-0.6	-0.5	**-2.6**	**-3.4**	**-3.3**
General government gross debt (c)			21.5	37.8	39.4	37.9	**38.9**	**40.2**	**41.5**

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

24. SLOVENIA

Solid, broad-based growth ahead

Driven by rising exports and consumption, economic growth in the first half of 2016 showed resilience despite a contraction in public investment. Growth in 2017 and 2018 is expected to be broad-based with a further shift from external to domestic demand. Labour market conditions are expected to improve further. Public finances are projected to improve gradually reflecting the favourable macroeconomic outlook.

Stable economic growth

Slovenia's real GDP grew by 0.5% (q-o-q) in both the first and the second quarter of 2016. Rising inventories, exports and private consumption contributed to this, while investment contracted. The latter was caused by a large fall in public investment (due to the end of the programming period of EU funding) which was only partially compensated by solid private investment growth. Economic activity is likely to have increased further in the third quarter as indicated by strong employment growth and signs of a strong tourist season. GDP is expected to grow by 2.2% in 2016, with all components except investment contributing to growth.

Positive outlook ahead

Private consumption, boosted by rising employment, increasing public wages and coupled with a mild housing market recovery, is set to make a growing contribution to economic growth. Once the effect of a temporary decline due to the new period of EU funding is absorbed, both private and public investment are expected to contribute strongly to GDP growth. High capacity utilisation and continued increase in external demand point to a strong rebound in investment.

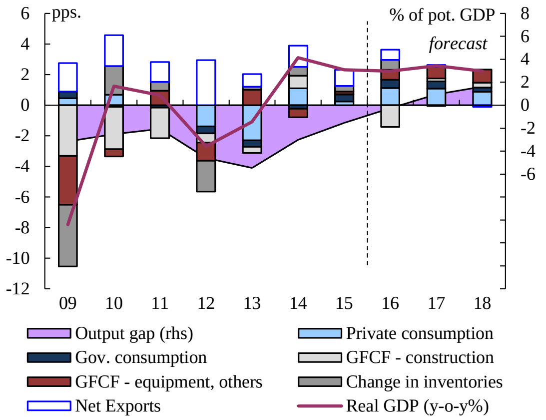
Exports, driven by improved cost competiveness, are expected to stay strong, although they will suffer a slight knock from slowing demand in major trading partners. The contribution of net exports to GDP growth is forecast to fall, as rising domestic demand fuels imports. Real GDP is expected to increase by 2.6% in 2017 and 2.2% in 2018.

Trade surplus boosts current account

Slovenian companies continue to deleverage, while recording a high foreign trade surplus. This has led to a large current account surplus, which is expected to start falling slightly as imports increase.

Risks to the growth forecast are mainly external and broadly balanced. Exports to Slovenia's trading partners could be affected by the slowdown in world trade, and the rebound in public investment could be delayed. On the positive side, large investment projects could accelerate the struggling construction sector. A quicker-than-expected recovery in Russia could boost exports.

Graph II.24.1: **Slovenia - Real GDP growth and contributions, output gap**



Low inflation likely to continue, while employment is expected to rise further

The mild recovery in oil prices this year after last year's slump implies that inflation is likely to remain around zero in 2016. As oil prices are expected to rise further in 2017 and 2018 and wages are also set to increase, inflation is expected to start rising again, although it should remain subdued until the end of the forecast horizon. As the demand for labour is broad-based, job creation should continue as long as wage increases in the private sector remain in line with productivity trends.

General government balance continues to improve

In 2015, the general government deficit fell considerably, to 2.7% of GDP, driven by the phasing-out of temporary measures and positive revisions regarding the impact of the Bank Asset Management Company (BAMC). In 2016, the deficit is expected to decrease to 2.4% of GDP as a result of higher-than-expected tax revenues, a large decline in public investment (following the end of the 2007-2013 EU funding period) and reduction in interest expenditure. Conversely, the public wage bill and pensions are projected to increase in 2016 (by 5% and 0.4%, respectively). In addition, migration related expenditure is set to increase by 0.1% of GDP.

The general government deficit is expected to decline further to 2.0% of GDP in 2017, mainly due to buoyant tax and social contributions receipts. Nevertheless, the compensation of public employees is expected to continue increasing at a strong pace due to the re-negotiation of wages and the reversal of several consolidation measures. The restructuring of the tax system is expected to be fiscally neutral. It consists of a decrease in both the personal income taxes and the taxation of bonuses paid by employers, which together are estimated to reduce tax receipts by 0.3% of GDP. This is partly offset by an increase in the corporate tax rate from 17% to 19%, which should increase revenue by an estimated 0.1% of GDP. Measures to improve the efficiency of tax collection are expected to compensate the remaining cost of the reform. In 2018, under a no-policy-change assumption, the general government balance is expected to decrease to 1.5% of GDP mainly due to economic growth and improved labour market conditions.

The structural balance is expected to worsen in 2016. It is forecast to deteriorate further in 2017, due to a considerable increase in the positive output gap, before slightly improving in 2018, under a no policy change assumption.

The debt-to-GDP ratio is expected to have peaked at 83.1% in 2015. Supported by the economic recovery and a reduction in precautionary cash buffers, public debt is forecast to decrease to 80.2% of GDP in 2016. It is projected to continue declining to 78.3% in 2017 and to 76.6% in 2018.

The main downside risks to public finances over the forecast horizon stem from the uncertainty that remains regarding the fiscal implications of the activities of BAMC and migration related costs.

Table II.24.1:

Main features of country forecast - SLOVENIA

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	38.6	100.0	2.6	-1.1	3.1	2.3	**2.2**	**2.6**	**2.2**
Private Consumption	20.1	52.1	2.2	-4.0	2.0	0.5	**2.1**	**2.1**	**1.7**
Public Consumption	7.2	18.7	2.4	-2.1	-1.2	2.5	**2.9**	**2.6**	**1.5**
Gross fixed capital formation	7.5	19.5	1.6	3.2	1.4	1.0	**-3.9**	**5.3**	**6.4**
of which: equipment	2.8	7.2	3.7	12.6	-7.5	2.4	**8.3**	**9.5**	**10.5**
Exports (goods and services)	30.1	77.9	6.6	3.1	5.7	5.6	**6.2**	**4.0**	**4.6**
Imports (goods and services)	26.5	68.8	5.7	2.1	4.2	4.6	**6.0**	**4.5**	**5.4**
GNI (GDP deflator)	37.7	97.7	2.5	-0.9	3.6	0.1	**3.3**	**2.5**	**2.2**
Contribution to GDP growth: Domestic demand			2.2	-2.1	1.2	0.9	**0.9**	**2.5**	**2.3**
Inventories			0.0	0.2	0.6	0.4	**0.7**	**-0.1**	**0.0**
Net exports			0.5	0.8	1.4	1.1	**0.7**	**0.1**	**-0.1**
Employment			0.2	-1.1	0.4	1.1	**1.1**	**0.9**	**0.7**
Unemployment rate (a)			6.6	10.1	9.7	9.0	**8.4**	**7.7**	**7.2**
Compensation of employees / head			6.6	0.5	1.3	1.4	**1.8**	**1.8**	**2.9**
Unit labour costs whole economy			4.1	0.4	-1.3	0.3	**0.7**	**0.1**	**1.4**
Real unit labour cost			-0.2	-0.4	-2.1	-0.7	**-0.8**	**-1.2**	**-0.1**
Saving rate of households (b)			13.7	13.4	13.3	14.8	**17.2**	**16.0**	**15.5**
GDP deflator			4.3	0.9	0.8	1.0	**1.5**	**1.3**	**1.6**
Harmonised index of consumer prices			4.9	1.9	0.4	-0.8	**0.1**	**1.5**	**1.9**
Terms of trade goods			-0.5	0.8	1.1	1.3	**1.9**	**-0.5**	**-0.3**
Trade balance (goods) (c)			-3.4	0.8	2.9	3.9	**4.7**	**4.3**	**3.8**
Current-account balance (c)			-1.8	3.6	6.2	5.4	**7.4**	**7.0**	**6.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.7	4.1	6.6	6.4	**7.7**	**7.5**	**7.1**
General government balance (c)			-3.0	-15.0	-5.0	-2.7	**-2.4**	**-2.0**	**-1.5**
Cyclically-adjusted budget balance (d)			-	-12.4	-3.6	-1.9	**-2.2**	**-2.4**	**-2.3**
Structural budget balance (d)			-	-1.9	-2.5	-1.9	**-2.1**	**-2.3**	**-2.2**
General government gross debt (c)			29.5	71.0	80.9	83.1	**80.2**	**78.3**	**76.6**

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

25. SLOVAKIA

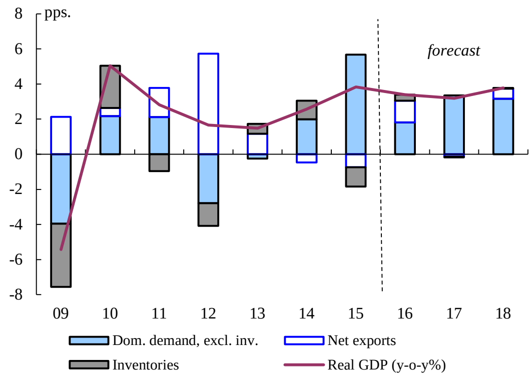
Robust growth to ensure steady labour market improvement

GDP growth this year looks solid, underpinned by strengthening household demand and net exports. Labour market conditions have been improving significantly and sustained job creation should help bring the unemployment rate below 8% in 2018. Consumer prices are expected to continue declining this year before inflation turns positive in 2017.The government deficit is expected to decline to near-balance in 2018 in a revenue-driven consolidation.

Growth to remain solid as composition evolves

After a strong 2015, annual real GDP growth in Slovakia is expected to remain above 3% between 2016 and 2018. While household consumption is expected to provide the largest positive impulse to growth throughout the forecast horizon, the role of investment and net exports looks set to evolve. A pronounced downturn in public investment linked to the cycle of EU investment co-funding is expected to restrain growth in 2016. Although an increase in private investment is unlikely to fully compensate for this drop in 2016, overall investment is forecast to return to solid growth in 2017 and 2018. Buoyant investment in the car industry and a rise in public investment spending, including large infrastructure projects such as the Bratislava ring road, bolster the outlook.

Graph II.25.1: **Slovakia - Real GDP growth and contributions**



Net exports reflect uneven investment pattern

Owing to the high import intensity of Slovak investment (particularly for equipment), the outlook for imports is strongly shaped by fixed investment, whose growth is expected to peak in 2017. In conjunction with the expected gradual rise in exports over the forecast horizon, net exports look set to partly offset this pattern of investment. In 2016, net exports are expected to be the second largest driver of real GDP growth, before exerting a minor drag on growth in 2017. Expanding car production in new and upgraded facilities is expected to boost (net) exports and GDP growth again in 2018.

Robust household spending underpins growth

Private consumption growth is set to rise in 2016 and 2017, benefitting from the continued improvement in the labour market and subdued inflation. The saving rate of households is likely to peak in 2016 and to gradually decline thereafter, allowing gains in real disposable income to feed through to household spending. The low interest rate environment is likely to help accelerate household credit, in turn fuelling consumption expenditure. Growth in household demand is forecast to peak in 2017 at 3.3% and to slow in 2018, as increasing prices start to restrain real disposable income.

The unemployment rate falls well below 10%

Following three years of improvement in the labour market, the unemployment rate is forecast to fall to 9.7% in 2016. Employment is expected to be boosted by buoyant economic activity in the forecast years, pushing the unemployment rate below 8% in 2018. At the same time, the participation rate is set to gradually increase, as incentives to join the labour force for the long-term unemployed and foreign workers increase. Recent significant declines in unemployment and greater inflows of foreign workers point to a tightening labour market, which should drive future wage increases. With regard to emerging labour shortages, especially in the western and central region, nominal wage growth is forecast to steadily increase from 2.3% this year to 4.8% in 2018.

Low price growth even in the medium term

Inflation is forecast to decline to -0.5% in 2016, the third consecutive year of declining consumer prices. The main drags are falling energy and food prices, which are overshadowing rising service prices. Energy prices are expected to continue declining on an annual basis in 2017 due to a reduction in regulated electricity and gas prices. This should be outweighed by rising service prices and a renewed growth in food and fuel prices, thus bringing inflation into positive territory in 2017. Growth in consumer prices is set to increase gradually thereafter.

Fiscal adjustment driven by revenues

The general government deficit for 2015 was revised downwards by 0.3 pps. to 2.7% of GDP mainly on account of higher tax revenues. In 2016, the deficit is projected to decline to 2.2% of GDP. This fall is supported by robust corporate income tax receipts reflecting rising profitability, as well as by steady growth in personal income taxes and social contributions due to favourable labour market developments. A more pronounced deficit reduction will, however, be hindered by non-budgeted spending (e.g. financial corrections related to EU funds) and higher-than-budgeted investments.

The consolidation effort in 2017, which comes exclusively from the revenue side, is expected to reduce the deficit to 1.5 % of GDP. A shortfall in revenue from the reduction of the corporate income tax rate to 21% and increasing lump-sum deductions for the self-employed are more than compensated by other measures including a higher levy on regulated businesses, higher excises on tobacco and a new levy on non-life insurance policies. The bank levy, which had been expected to expire, has also been retained for 2017. The forecast also assumes additional revenue from the changes to social contributions that were approved by the Parliament. Assuming no changes in policies beyond the introduction of a 7% tax on dividends, the deficit is set to decline to 0.5% of GDP in 2018, driven by buoyant tax revenues from strong GDP growth.

The structural deficit is expected to decline to 2% of GDP in 2016, going down more slowly than the headline deficit due to the closing output gap. In the following two years the improvement in the structural balance will broadly mirror the decline in the headline deficit, as the economy is expected to operate at near-potential levels. Following an increase in 2016, the debt-to-GDP ratio is projected to revert to a downward trend falling below 52% in 2018, owing to favourable deficit developments and accelerating nominal GDP.

Table II.25.1:

Main features of country forecast - SLOVAKIA

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	78.7	100.0	4.0	1.5	2.6	3.8	**3.4**	**3.2**	**3.8**
Private Consumption	43.2	54.9	3.6	-0.8	1.4	2.2	**2.9**	**3.3**	**3.1**
Public Consumption	15.3	19.5	2.6	2.2	5.3	5.4	**2.3**	**2.5**	**2.7**
Gross fixed capital formation	18.1	23.0	2.0	-0.9	1.2	16.9	**-0.9**	**4.9**	**4.3**
of which: equipment	8.2	10.4	3.5	-9.4	12.1	12.4	**0.0**	**5.0**	**4.3**
Exports (goods and services)	73.6	93.5	9.3	6.7	3.7	7.0	**5.2**	**5.2**	**6.4**
Imports (goods and services)	71.7	91.1	7.2	5.6	4.4	8.1	**4.0**	**5.6**	**6.0**
GNI (GDP deflator)	77.4	98.4	3.8	2.5	1.7	4.0	**3.5**	**3.2**	**3.8**
Contribution to GDP growth:	Domestic demand		3.2	-0.2	2.0	5.7	**1.8**	**3.4**	**3.2**
	Inventories		-0.2	0.6	1.1	-1.1	**0.3**	**0.0**	**0.0**
	Net exports		1.1	1.2	-0.5	-0.7	**1.2**	**-0.1**	**0.6**
Employment			0.2	-0.8	1.4	2.0	**2.7**	**1.5**	**1.7**
Unemployment rate (a)			14.9	14.2	13.2	11.5	**9.7**	**8.7**	**7.5**
Compensation of employees / head			7.6	2.6	1.8	3.1	**2.3**	**3.7**	**4.8**
Unit labour costs whole economy			3.6	0.3	0.7	1.3	**1.7**	**2.0**	**2.7**
Real unit labour cost			0.0	-0.2	0.9	1.5	**1.9**	**0.9**	**1.1**
Saving rate of households (b)			8.3	5.9	7.2	8.8	**9.6**	**8.5**	**8.3**
GDP deflator			3.6	0.5	-0.2	-0.2	**-0.2**	**1.0**	**1.5**
Harmonised index of consumer prices			5.2	1.5	-0.1	-0.3	**-0.5**	**0.8**	**1.4**
Terms of trade goods			-0.6	-0.6	0.3	-0.1	**-0.1**	**-0.1**	**-0.1**
Trade balance (goods) (c)			-5.1	3.7	3.4	2.3	**3.0**	**2.7**	**3.0**
Current-account balance (c)			-5.9	1.5	0.6	0.1	**0.6**	**0.1**	**0.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.7	3.1	1.6	2.2	**0.3**	**0.3**	**0.8**
General government balance (c)			-5.3	-2.7	-2.7	-2.7	**-2.2**	**-1.5**	**-0.5**
Cyclically-adjusted budget balance (d)			-5.4	-1.7	-1.9	-2.3	**-2.0**	**-1.4**	**-0.7**
Structural budget balance (d)			-	-1.7	-2.2	-2.3	**-2.0**	**-1.4**	**-0.7**
General government gross debt (c)			39.5	54.7	53.6	52.5	**53.3**	**52.7**	**51.5**

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

26. FINLAND

Investment-led growth in 2017 with exports picking up in 2018

Booming construction investment is leading the recovery of the Finnish economy. Household confidence is supporting consumption despite weak income developments this year, but consumption growth is expected to weaken next year. Economic activity is forecast to increase modestly this year and next. In 2018, however, growth is expected to pick up as improved cost-competitiveness boosts exports. After decreasing over 2015-16, the public deficit is expected to increase in 2017 due to the planned income tax cuts decided in conjunction with the recent labour market agreement.

Slow growth in the first half of 2016

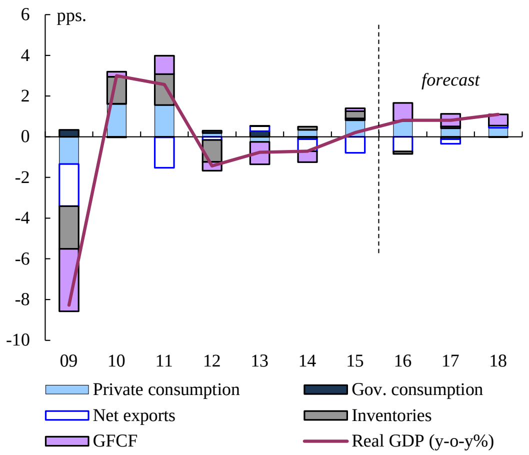
In the first half of 2016, Finland's economy grew by 0.8% compared with the same period one year before. Domestic demand increased on the back of increasing construction investment, which grew by about 8.4% (y-o-y). The increased activity in construction was driven both by pent-up demand for new housing in growing urban regions where building of new apartments declined in 2012-15 and, by increased non-residential construction. Owing to low inflation and gradually improving employment, private consumption also increased at a fairly brisk rate of about 2% (y-o-y) in the first half of 2016. Net exports detracted from growth as imports grew by 2.6% while export growth was flat.

Forward-looking indicators suggest that economic growth should continue in the latter half of 2016. Consumer confidence, which has been on an upward trend, hit a five-year high in September, and more and more construction companies are optimistic about the outlook in the near term. Despite some good news in industries such as shipbuilding, the export order books for manufacturers overall look still rather thin and production expectations remain low. Real GDP is forecast to grow by 0.8% in 2016-17 and by 1.1% in 2018.

Agreement to improve competitiveness...

The Competitiveness Pact that was signed between the social partners in late summer covers more than 90% of salary earners in the public and private sectors. The Pact includes a 12-month wage freeze in 2017 and an increase in annual working time by 24 hours. Employees have also agreed to take on some of their employers' contributions to social security and the annual holiday bonus for public sector workers for 2017-19 has been cut by 30%. To compensate for the higher social security contributions for workers, personal income tax will be cut starting in 2017. Over the longer run, the Pact is expected to have a positive impact on cost-competitiveness, exports and employment. In the forecast period, nominal unit labour costs are expected to fall in 2017 and to remain broadly constant in 2018. Competitiveness relative to other EU Member States is projected to improve which should support an increase in exports from 2017.

Graph II.26.1: **Finland - Real GDP growth and contributions**



...with mixed impact in the short term.

In 2016, exports are expected to continue to fall as goods exports decline, while last year's strong growth in service exports is expected to level off. However, in 2017, export growth is expected to pick up to 1.8% and to increase further in 2018. Due to increasing domestic demand and base-effects, imports are forecast to increase in 2016. While exports are expected to grow in 2017, imports are also set to increase, mitigating the positive growth impulse from foreign trade. Finland's current account is expected to remain negative over the forecast horizon, as the significant improvement seen in 2014-15 was due to the fall in commodity prices.

Employment is expected to start growing again gradually this year and should continue to do so in

2017 and 2018, albeit slowly. The wage freeze and the higher payments for workers restrain, while the income tax cut supports the growth of nominal disposable income. As inflation is expected to pick up due to rising energy prices and hikes in indirect taxes in 2017, real disposable income is forecast to grow only modestly. Although the household saving rate is projected to fall further in 2017, consumption growth is expected to drop to 0.8%. The growth in investment is also forecast to slow down in 2017 as construction activity calms down.

Risks are broadly balanced in the forecast. On one hand, the most recent confidence indicators in manufacturing were very positive which could lead to higher-than-expected activity and exports over the forecast period. On the other hand, the overall uncertainty related to the external environment, including the pace of the recovery of the Russian economy, remains high and could postpone investment which would also weigh on the growth of Finnish exports.

Revenues reduced in 2017

The budget deficit amounted to 2.8% in 2015 and is expected to decline to 2.4% in 2016, as a result of expenditure cuts decided in the general government fiscal plan for 2016-19 and revenue measures such as the increase in unemployment insurance contributions. In 2017, in accordance with the Competitiveness Pact, personal income tax and employers' health insurance contributions are lowered. These measures lead to a revenue loss amounting to 0.7% of GDP. On the account of the implementation of expenditure cuts in line with the fiscal plan and the reduction of holiday bonuses, overall the deficit is projected to worsen to 2.5% of GDP in 2017. In 2018, the deficit is expected to fall again to 2.0% of GDP thanks to increasing economic activity and additional expenditure cuts presented in the fiscal plan.

The structural balance is expected to improve marginally in 2016 but it is projected to worsen by about ¼ pps. of GDP in 2017, before improving by about ¼ pps. of GDP in 2018. Given the continued nominal deficits and sluggishly increasing nominal GDP, Finland's gross government debt-to-GDP ratio is set to increase to 65.4% in 2016, to 67.1% in 2017 and reach 68.1% in 2018.

Table II.26.1:

Main features of country forecast - FINLAND

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	209.1	100.0	2.5	-0.8	-0.7	0.2	**0.8**	**0.8**	**1.1**
Private Consumption	115.7	55.3	2.7	-0.5	0.6	1.5	**1.4**	**0.8**	**0.8**
Public Consumption	51.0	24.4	1.5	1.1	-0.5	0.4	**0.0**	**-0.5**	**0.0**
Gross fixed capital formation	42.7	20.4	2.6	-4.9	-2.5	0.7	**4.3**	**3.0**	**2.6**
of which: equipment	10.0	4.8	2.1	-8.7	-1.8	7.0	**3.7**	**2.9**	**2.7**
Exports (goods and services)	76.6	36.6	5.0	1.1	-1.7	-0.2	**-0.7**	**1.8**	**3.0**
Imports (goods and services)	77.5	37.1	5.3	0.5	-0.2	1.9	**1.2**	**2.3**	**2.6**
GNI (GDP deflator)	210.9	100.8	2.7	-0.9	-0.1	0.2	**1.0**	**0.8**	**1.1**
Contribution to GDP growth: Domestic demand			2.2	-1.1	-0.3	1.0	**1.7**	**0.9**	**1.0**
Inventories			0.1	0.0	0.2	0.4	**-0.1**	**0.1**	**0.0**
Net exports			0.3	0.3	-0.6	-0.8	**-0.7**	**-0.2**	**0.1**
Employment			1.2	-0.7	-0.5	-0.4	**0.2**	**0.3**	**0.4**
Unemployment rate (a)			8.9	8.2	8.7	9.4	**9.0**	**8.8**	**8.7**
Compensation of employees / head			3.1	1.3	1.0	1.6	**1.2**	**-0.8**	**0.9**
Unit labour costs whole economy			1.9	1.4	1.2	1.0	**0.6**	**-1.2**	**0.2**
Real unit labour cost			0.1	-1.1	-0.5	-0.6	**-0.5**	**-2.0**	**-0.8**
Saving rate of households (b)			8.7	8.6	7.2	6.8	**6.4**	**6.0**	**5.5**
GDP deflator			1.8	2.6	1.7	1.6	**1.1**	**0.8**	**1.0**
Harmonised index of consumer prices			1.9	2.2	1.2	-0.2	**0.3**	**1.1**	**1.2**
Terms of trade goods			-1.4	0.8	1.7	4.6	**1.5**	**-0.1**	**-0.2**
Trade balance (goods) (c)			5.5	0.1	0.2	0.5	**0.2**	**0.0**	**0.0**
Current-account balance (c)			4.1	-1.9	-1.3	-0.8	**-0.8**	**-0.9**	**-0.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			4.1	-1.8	-1.2	-0.8	**-0.7**	**-0.6**	**-0.4**
General government balance (c)			1.9	-2.6	-3.2	-2.8	**-2.4**	**-2.5**	**-2.0**
Cyclically-adjusted budget balance (d)			1.7	-1.4	-1.7	-1.4	**-1.4**	**-1.6**	**-1.4**
Structural budget balance (d)			-	-1.4	-1.8	-1.4	**-1.3**	**-1.6**	**-1.4**
General government gross debt (c)			43.0	56.5	60.2	63.6	**65.4**	**67.1**	**68.1**

(a) as % of total labour force. (b) gross saving divided by 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

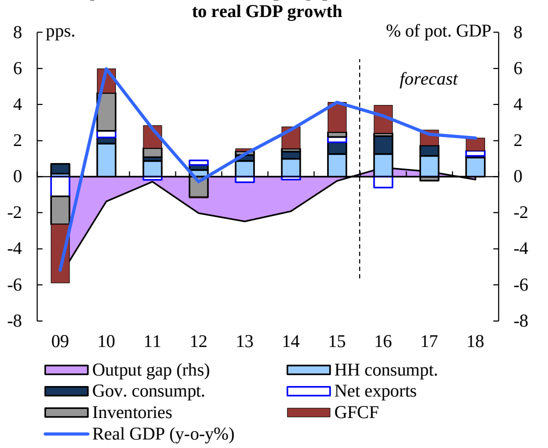
Growth decreases but remains robust

After a strong performance this year and last year, the pace of real GDP growth in Sweden is expected to fall back in line with the economy's potential rate. Domestic demand is expected to be the main driver, while net exports, which are set to be negative in 2016, should turn broadly neutral. Unemployment is projected to decrease before stabilising. Inflation has picked up and is set to rise gradually. The general government balance is expected to remain broadly balanced.

Domestic demand the main growth driver

Following broad-based real GDP growth of 4.1% in 2015, Sweden's economy is forecast to lose steam in 2016. While domestic demand, in particular housing investment, is set to be robust, net exports are expected to lower real GDP growth to 3.4% in 2016 due to subdued growth in some of Sweden's major trading partners. Going forward, economic growth is forecast to slip to 2.4% in 2017 and 2.1% in 2018 on the back of flattening domestic demand, while net exports are set to turn positive only in 2018.

Graph II.27.1: **Sweden - Output gap and contributions to real GDP growth**



Public and private consumption growth to slow

While the large inflow of migrants in 2015 is set to increase government consumption by 3.8% in 2016, the significant drop in 2016 is expected to result in a lower government consumption growth at 2.2% in 2017 and 0.3% in 2018. In particular, the payments from the central to local governments to accommodate asylum seekers are set to be reduced as of mid-2017.

In parallel, continued employment growth and increasing wages on the back of a tighter labour market are expected to support disposable income and ultimately private consumption over the forecast horizon.

Investment to shift into a lower gear

Strong investment growth is forecast to continue in 2016 at a rate of 6.6%. Housing investment has been strong, growing at double-digit rates, but R&D, machinery and equipment investment have also expanded. However, the growth in housing investment is set to decline in 2017 and 2018 as the construction sector is likely to face shortages of labour and building land. At the same time, local authorities have been granted additional funding to cope with demographic challenges and therefore public investment growth is projected to peak in 2017. Overall, investment is expected to grow moderately at 3.5% in 2017 and 2.9% in 2018.

Net exports only supportive in 2018

Buoyant domestic demand boosted imports in the first half of 2016, while exports stalled due to the weaker global environment. Exports of goods decreased in the second quarter of 2016 for the first time since the end of 2013 but exports of services are expected to continue outpacing exports of goods. Overall, net exports are projected to detract from growth in 2016. For 2017 and 2018, exports are forecast to pick up again by 3.4% and 3.8% respectively, as demand in Sweden's main export markets is set to rise. In parallel, import growth is expected to slow in line with domestic demand. Thus, net exports are set to make a small, positive contribution to growth in 2018, while the current account surplus relative to GDP is expected to remain broadly stable.

Robust employment growth

The labour market is forecast to strengthen, with employment growing and unemployment falling in 2016. However, the unemployment rate of non-EU born and low-skilled people is expected to remain elevated. Due to the gradual expansion of the labour force (notably the integration of refugees from the high 2015 influx) and reported labour shortage and skills mismatch, unemployment is set to stabilise at 6.4% in 2017 and 2018.

Inflation gradually approaching 2%

Inflation started to pick up slowly in the first half of 2016, driven particularly by prices in the services sector. It is expected continue rising due to higher oil prices, rising cost pressures due to high capacity utilisation rates and tighter labour market conditions. Despite this and an increase in inflation expectations, wage increases are forecast to remain relatively modest in 2017 as long as exporting industries continue to set the benchmark for the annual bargaining negotiations. Overall, HICP is projected to reach 1.1% in 2016, 1.6% in 2017 and 2.0% in 2018.

Risks are broadly balanced

On the positive side, a stronger-than-expected external environment in Europe could induce larger demand for Swedish investment goods which represents a large proportion of the country's exports. In addition, the economy could benefit in the medium term if migrants are successfully integrated into the labour market. On the downside, a correction in house prices could dampen business confidence, household consumption and construction investment.

Resilient public finances in spite of new welfare expenditure

After a surplus in 2015, the general government balance is expected to be balanced in 2016. The effect of somewhat weaker economic growth is set to be cushioned by strong corporate tax payments and lower expenditure for the reception of asylum-seekers (due to a lower number of arrivals). In 2017, lower spending related to the reception and integration of refugees (included in the Budget Bill) and to fewer people eligible for sickness leave benefits are set to partly compensate for the budgeted new welfare spending. Overall, the general government balance is projected to show a slight deficit of 0.1% of GDP. Under a no-policy-change assumption, public finances are expected to improve in 2018 with the general government reaching a surplus of 0.1% of GDP. The structural deficit is projected to worsen in 2016 while staying below the medium-term budgetary objective of 1.0% of GDP over the forecast horizon. The debt-to-GDP ratio is set to decrease from 43.9% in 2015 to 38.2% in 2018.

Table II.27.1:

Main features of country forecast - SWEDEN

		2015		Annual percentage change						
	bn SEK	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		4180.5	100.0	2.5	1.2	2.6	4.1	**3.4**	**2.4**	**2.1**
Private Consumption		1884.2	45.1	2.5	1.9	2.1	2.7	**2.8**	**2.6**	**2.4**
Public Consumption		1084.5	25.9	1.0	1.3	1.5	2.5	**3.8**	**2.2**	**0.3**
Gross fixed capital formation		990.7	23.7	3.1	0.6	5.5	7.2	**6.6**	**3.5**	**2.9**
of which: equipment		305.5	7.3	4.1	0.1	-1.1	6.2	**5.2**	**2.6**	**2.5**
Exports (goods and services)		1906.2	45.6	5.1	-0.8	5.3	5.6	**2.3**	**3.4**	**3.8**
Imports (goods and services)		1707.7	40.8	4.9	-0.1	6.3	5.5	**4.1**	**3.8**	**3.5**
GNI (GDP deflator)		4274.2	102.2	2.7	1.1	2.5	4.1	**3.3**	**2.3**	**2.1**
Contribution to GDP growth:	Domestic demand			2.1	1.3	2.6	3.6	**3.8**	**2.6**	**1.9**
	Inventories			0.0	0.2	0.2	0.3	**0.2**	**-0.2**	**0.0**
	Net exports			0.4	-0.3	-0.2	0.3	**-0.6**	**0.0**	**0.3**
Employment				0.8	1.0	1.4	1.5	**1.8**	**1.3**	**0.9**
Unemployment rate (a)				7.3	8.0	7.9	7.4	**6.8**	**6.4**	**6.4**
Compensation of employees / head				3.5	1.9	2.2	3.5	**3.1**	**3.3**	**3.2**
Unit labour costs whole economy				1.8	1.7	1.0	0.9	**1.5**	**2.2**	**1.9**
Real unit labour cost				0.2	0.6	-0.7	-1.1	**-0.7**	**0.0**	**-0.3**
Saving rate of households (b)				10.7	17.7	18.3	18.7	**18.6**	**18.0**	**17.2**
GDP deflator				1.6	1.1	1.8	2.0	**2.3**	**2.2**	**2.2**
Harmonised index of consumer prices				1.6	0.4	0.2	0.7	**1.1**	**1.6**	**2.0**
Terms of trade goods				-0.8	0.5	0.9	1.9	**1.6**	**-0.1**	**-0.1**
Trade balance (goods) (c)				6.5	3.2	3.1	3.0	**2.7**	**2.6**	**2.6**
Current-account balance (c)				6.2	5.1	4.8	5.4	**5.0**	**4.9**	**4.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.0	4.9	4.7	5.2	**4.6**	**4.5**	**4.6**
General government balance (c)				0.6	-1.4	-1.6	0.2	**0.0**	**-0.1**	**0.1**
Cyclically-adjusted budget balance (d)				0.8	0.1	-0.4	0.3	**-0.3**	**-0.3**	**0.1**
Structural budget balance (d)				-	0.1	-0.4	0.3	**-0.3**	**-0.3**	**0.1**
General government gross debt (c)				47.8	40.4	45.2	43.9	**41.6**	**39.9**	**38.2**

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

28. THE UNITED KINGDOM

Growth to moderate and inflation to rise

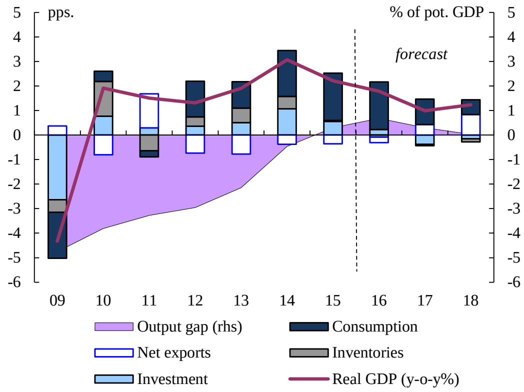
Growth is projected to moderate in 2016 as the economy reaches a mature phase in its cycle. In 2017, growth is projected to almost halve reflecting the impact on confidence and uncertainty of the vote to leave the EU in the referendum on 23 June 2016. However, growth is expected to pick up somewhat in 2018 as net exports continue to rise sharply and partially shield the economy from continued weakness in domestic demand. Inflation is projected to rise rapidly to over 2%. The impact on the labour market of the fall in demand is likely to be muted. The pace of fiscal consolidation looks set to slow.

Healthy growth in 2016

After moderating to 2.2% in 2015, growth is projected to soften further to 1.9% in 2016 as the economy enters a mature phase in its business cycle. Robust growth of 1.1% in 2016-H1 was driven by strong growth in domestic demand. Private consumption continued to support growth, boosted by buoyant growth in household disposable income and a decline in saving; the household saving ratio fell to 5.1% in 2016-Q2.

However, growth remains unbalanced. Exports declined in 2016-H1 while brisk import growth exceeded strong domestic demand growth. Consequently, net exports detracted from growth, continuing the pattern of the past four years.

Graph II.28.1: **The United Kingdom - Real GDP growth and contributions, output gap**



On 23 June 2016, the UK voted, in a referendum on continued EU membership, to leave the EU. The impact on near-term growth of the vote in the referendum has been muted. Growth in 2016-Q3 was 0.5% - in line with the average of the preceding six quarters. The resilience of growth in 2016-Q3 was driven by continued growth in the services sector. Although quarterly growth is projected to decline in 2016-Q4, overall growth in 2016 is projected at 1.9%, slightly above that in the spring forecast.

Growth to soften markedly in 2017

Nevertheless, growth is projected to almost halve in 2017, to 1.0%, reflecting the impact of heightened uncertainty following the referendum and its impact on business confidence and broader economic conditions. Consistent with the results of recent surveys of businesses' investment intentions, business investment is expected to decline sharply throughout 2017 and fall by 2.2%.

Growth in private consumption is projected to slow, by from 2.9% in 2016 to 1.5% in 2017. The decline reflects the response of households to a sharp fall in real household disposable income growth in 2017, itself a reflection of rising price inflation eroding real earnings growth. In response to the drop in income growth, households are expected to smooth consumption, resulting in a fall in the household saving ratio.

In contrast to the pattern of previous years, a significant boost to net exports, of 0.4 pps., is projected in 2017. Exports are projected to be supported by the substantial depreciation of sterling in 2016 to date and underpinned by modest growth in major trading partners. Moreover, import growth is expected to fade, as domestic demand wanes and import prices rise following the depreciation. The boost to net exports should partly alleviate the negative impact on GDP of the fall in growth in domestic demand.

A mild recovery in 2018

Growth is projected to rise in 2018 to 1.2%. A further and stronger rise in net exports is projected to underpin growth in 2018. Domestic demand is, however, expected to remain subdued. Uncertainty is likely to remain high as negotiations on the future relationship between the UK and EU continue, impeding the extent of the rise in growth in 2018.

Labour market to remain resilient and inflation to rise sharply

The impact of increased uncertainty on employment is expected to be muted, partly because modest nominal wage growth is expected to cushion the impact of the fall in GDP growth on employment. Nonetheless, the unemployment rate is to rise to 5.6% in 2018 from 4.9% in 2016.

Inflation is expected to rise rapidly, and significantly, to 2.5% in 2017 and 2.6% in 2018, above the Bank of England's inflation target of 2%. The rise in inflation reflects the impact of the depreciation of the exchange rate which raises import prices, in the first instance, and then flows more widely to other sectors.

Fiscal consolidation to continue more slowly

The general government deficit fell to 4.1% of GDP in 2015-16 from 5.1% in 2014-15, driven both by cuts to the public wage bill and robust revenues, the latter linked to strong domestic demand. The structural deficit decreased to 4.3% of GDP in 2015-16, from 4.9% in 2014-15.

The government's plans for expenditure-focused fiscal consolidation throughout the forecast period remain in place, at this time, with ongoing cuts to resource spending, including public sector wages. The headline deficit is forecast to fall to 3.2% of GDP in 2016-17. Reforms to national insurance raise social contributions but, to date, overall revenues have been slightly weaker than expected. The structural deficit is projected to fall by more than ½ pps. to 3.5% of GDP.

In 2017-18 and 2018-19, the headline deficit is expected to decline further - to 2.7% and 2.2% of GDP respectively. The pace of deficit reduction slows, however, as a result of lower GDP growth and subdued imports and private consumption. The structural deficit is expected to improve by at least ½ pps. per year, to about 2¾% of GDP in 2017-18 and about 2¼% of GDP in 2018-19. The government debt ratio is expected to have stabilised in 2015-16 at 87.9% of GDP and to remain almost flat in 2016-17 and 2017-18, before declining to 86.3% in 2018-19.

Table II.28.1:
General government projections on a financial-year basis

ESA10	Actual		Forecast		
	2014-15	2015-16	2016-17	2017-18	2018-19
General government balance~	-5.1	-4.1	**-3.2**	**-2.7**	**-2.2**
Structural budget balance	-4.9	-4.3	**-3.5**	**-2.8**	**-2.3**
General government gross debt	87.4	87.9	**87.9**	**87.6**	**86.3**

~APF transfers included

Table II.28.2:
Main features of country forecast - UNITED KINGDOM

	2015		Annual percentage change						
bn GBP	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	1870.7	100.0	2.0	1.9	3.1	2.2	**1.9**	**1.0**	**1.2**
Private Consumption	1215.9	65.0	2.4	1.6	2.2	2.5	**2.9**	**1.5**	**0.7**
Public Consumption	363.0	19.4	2.3	0.3	2.3	1.5	**0.3**	**0.5**	**0.8**
Gross fixed capital formation	316.9	16.9	1.1	3.2	6.7	3.4	**1.3**	**-2.2**	**-0.9**
of which: equipment	74.6	4.0	0.7	2.5	6.8	4.3	**3.8**	**-1.3**	**-0.9**
Exports (goods and services)	508.8	27.2	3.6	1.1	1.5	4.5	**3.1**	**3.3**	**3.8**
Imports (goods and services)	547.4	29.3	4.3	3.4	2.5	5.4	**3.6**	**1.7**	**1.0**
GNI (GDP deflator)	1833.8	98.0	2.0	1.4	2.3	1.5	**2.2**	**1.3**	**1.5**
Contribution to GDP growth:	Domestic demand		2.2	1.6	2.9	2.5	**2.2**	**0.7**	**0.4**
	Inventories		0.0	0.6	0.5	0.0	**-0.1**	**-0.1**	**-0.1**
	Net exports		-0.2	-0.8	-0.4	-0.4	**-0.2**	**0.4**	**0.8**
Employment			0.8	1.2	2.4	1.8	**1.2**	**0.5**	**0.3**
Unemployment rate (a)			6.0	7.6	6.1	5.3	**4.9**	**5.2**	**5.6**
Compensation of employees / head			3.9	2.1	0.4	1.1	**2.3**	**2.2**	**2.1**
Unit labour costs whole economy			2.7	1.3	-0.3	0.6	**1.6**	**1.7**	**1.3**
Real unit labour cost			0.7	-0.6	-1.9	0.2	**1.0**	**-0.4**	**-1.3**
Saving rate of households (b)			8.4	6.7	6.8	6.1	**5.7**	**4.5**	**4.2**
GDP deflator			2.0	1.9	1.6	0.4	**0.6**	**2.0**	**2.6**
Harmonised index of consumer prices			2.1	2.6	1.5	0.0	**0.7**	**2.5**	**2.6**
Terms of trade goods			0.0	1.4	-0.4	-1.7	**-1.4**	**-0.5**	**0.5**
Trade balance (goods) (c)			-4.6	-6.9	-6.7	-6.8	**-8.0**	**-8.3**	**-7.8**
Current-account balance (c)			-2.1	-4.4	-4.7	-5.4	**-5.6**	**-4.9**	**-3.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-2.1	-4.4	-4.7	-5.4	**-5.6**	**-5.0**	**-3.4**
General government balance (c)			-3.6	-5.7	-5.7	-4.3	**-3.5**	**-2.8**	**-2.3**
Cyclically-adjusted budget balance (d)			-3.5	-4.4	-5.5	-4.5	**-3.9**	**-2.9**	**-2.3**
Structural budget balance (d)			-	-4.4	-5.4	-4.5	**-3.8**	**-2.9**	**-2.3**
General government gross debt (c)			49.1	86.2	88.1	89.1	**89.2**	**88.9**	**87.5**

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

Candidate Countries

29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

A rebound in investment expected after the December elections

Amidst an extended political crisis, the economy expanded at a slower pace in the first half of 2016. Output growth is projected to pick up again on the back of a renewed surge in investment in 2017, and robust household spending, provided the political crisis recedes. This is projected to be supported by continuing fiscal stimulus. The government's plans for fiscal consolidation become increasingly elusive, given the lack of identified measures and repeated fiscal slippages.

Political uncertainties take their toll on growth

After accelerating to 3.7% (y-o-y) in 2015, carried by strong private and public consumption as well as exports, GDP growth slowed down markedly in the first half of 2016 (2.1% annualised), largely on account of weak investment expenditure and a slowdown in private consumption growth, reflecting a protracted political crisis. While labour market conditions improved further, and real net wages, supported by lingering deflation, continued to post solid gains, disposable income was negatively affected by weak private transfers from abroad. Private sector credit growth slowed down noticeably over the summer, in annual terms, amidst important deposit withdrawals prompted by the political crisis.

Prospect of receding crisis restores confidence

Looking ahead, assuming the political stalemate will be overcome following elections scheduled for December 2016, a gradual rebound in investment by private domestic and foreign companies is projected for 2017 and 2018. This expectation is supported by strong high-frequency indicators for the third quarter, such as industrial production, capital goods imports and production, and construction activity. Household consumption is likely to grow at a robust, but slower pace, as gains in both, employment and net wages decelerate, private transfers remain only slightly above 2015 levels, and the government's appetite for ad hoc increases in transfers and subsidies diminishes post-election. A modest rise in price pressures in 2017, on the back of firming oil prices and rising import prices contributes to this development. In spite of strong projected growth in exports, in particular from new and extended production capacities by foreign companies, the foreign balance is not likely to make a positive contribution to economic growth in 2016, given faster increase in imports related to investment and export production. In 2017 and 2018, the contribution is likely to be positive, but small.

External vulnerabilities remain contained

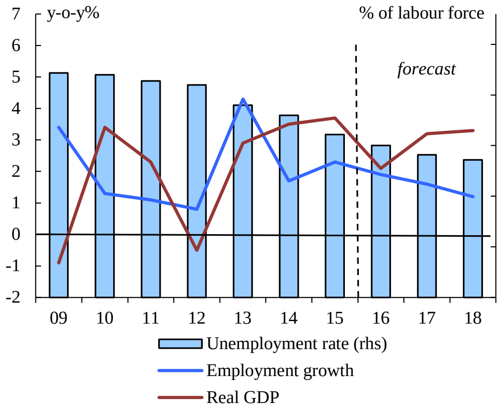
External vulnerabilities increased slightly in the first half of 2016, as the current account deficit widened in response to a deteriorating merchandise trade balance and a slowdown in private transfer inflows. Some potential foreign direct investors hesitated amidst political uncertainties, and FDI inflows in the year to July, at 1.3% of projected full-year GDP, were lower than one year earlier and markedly below their long term-average. Sustained outflows of investment income burdened the primary income balance, possibly reflecting recent changes to the taxation of retained earnings. Going ahead, the current account deficit is likely to remain modest and to widen only slightly in 2016, on account of strong import growth in relation with investment and production by FDI, and little pick up in private transfer growth. With a higher services surplus and an improved merchandise trade balance expected in 2017 and 2018, on the back of increased production capacities by foreign companies as well as projected recovery of demand in major trade partner economies, the external deficits are likely to diminish again.

These projections are subject to downside risks in case the political crisis lingers on. Negative confidence effects would constrain private consumption, reinforced by a drop in disposable incomes resulting from reduced private transfer inflows. Private sector investment would remain subdued. In case foreign currency inflows from direct and portfolio investment moderated, external vulnerabilities would increase.

Job creation continues with less speed

The situation in the labour market is likely to improve further, yet at a slower pace. Employment gains are projected to decelerate, against the background of some slowdown in government-sponsored employment programs after the elections. The likely further reduction in the overall unemployment rate by some 3.9 pps. over the forecast horizon comes on the back of an aggregate increase in employment of 5%, while the overall labour force is projected to decline.

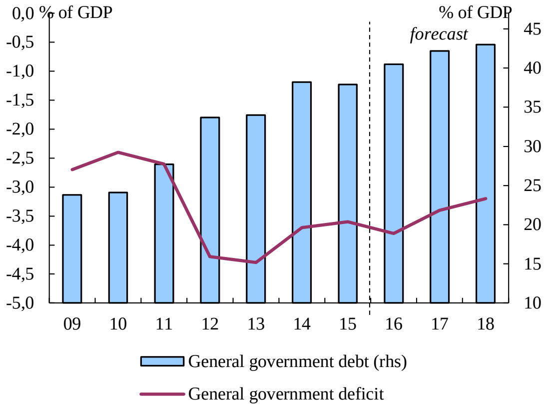
Graph II.29.1: **The former Yugoslav Republic of Macedonia - Labour market**



Persistent fiscal slippages prevent consolidation and weigh on debt

The government resorted twice to the adoption of a supplementary budget this year, motivated by lower growth projections for 2016 as well as by a decision to provide EUR 35 mn in relief payments to flood victims. As a result, the original 2016 deficit target was raised by 0.8 pps. to 4% of GDP. However, as some additional expenditures are transferred to 2017, the 2016 deficit may remain below target. The government plans to reduce the budget deficit to 2.2% by 2019. This appears unrealistic in the absence of specified consolidation measures. With primary balances remaining elevated, debt stabilisation during the forecast years is unlikely.

Graph II.29.2: **The former Yugoslav Republic of Macedonia - Public finances**



Rather, rises in government spending on capital projects, goods and services and social transfers including the additional 5% average increase in pensions scheduled for December, are likely to continue to provide a stimulus to the economy over the forecast horizon.

Table II.29.1:

Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	2015			Annual percentage change						
	bn MKD	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		560.1	100.0	2.8	2.9	3.5	3.7	**2.1**	**3.2**	**3.3**
Private Consumption		379.3	67.7	3.1	1.9	2.1	3.2	**2.4**	**2.5**	**2.5**
Public Consumption		93.6	16.7	1.2	0.5	1.0	4.6	**2.6**	**2.5**	**2.4**
Gross fixed capital formation		129.1	23.0	-	3.5	13.7	3.5	**1.8**	**3.5**	**4.0**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		271.8	48.5	7.4	6.1	18.2	4.6	**7.1**	**6.7**	**6.3**
Imports (goods and services)		363.0	64.8	7.5	2.2	16.0	2.4	**5.6**	**4.9**	**4.6**
GNI (GDP deflator)		542.4	96.8	-	2.7	4.1	2.2	**2.5**	**3.4**	**3.3**
Contribution to GDP growth: Domestic demand				-	2.3	4.9	3.8	**2.5**	**2.9**	**3.0**
Inventories				-	-0.7	0.5	-0.8	**-0.2**	**0.2**	**0.2**
Net exports				-1.2	1.3	-1.9	0.6	**-0.2**	**0.1**	**0.1**
Employment				-	4.3	1.7	2.3	**1.8**	**1.6**	**1.5**
Unemployment rate (a)				33.7	29.0	28.0	26.1	**24.4**	**23.2**	**22.2**
Compensation of employees / head				-	-4.2	1.5	1.1	**0.4**	**2.5**	**3.2**
Unit labour costs whole economy				-	-2.8	-0.3	-0.3	**0.1**	**0.9**	**1.4**
Real unit labour cost				-	-7.0	-1.4	-3.0	**0.1**	**-0.1**	**-1.3**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				3.0	4.5	1.1	2.8	**0.0**	**1.0**	**2.7**
Consumer-price index				2.5	2.8	-0.3	-0.3	**0.1**	**0.9**	**2.4**
Terms of trade goods				-	-0.8	4.9	-0.1	**-0.1**	**-0.1**	**-0.1**
Trade balance (goods) (c)				-20.6	-22.8	-21.8	-20.0	**-20.7**	**-20.8**	**-19.9**
Current-account balance (c)				-5.3	-1.6	-0.5	-2.1	**-2.2**	**-1.7**	**-1.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-4.3	-3.7	-3.6	**-3.8**	**-3.4**	**-3.2**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	34.0	38.2	37.9	**40.5**	**42.2**	**43.0**

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

30. MONTENEGRO

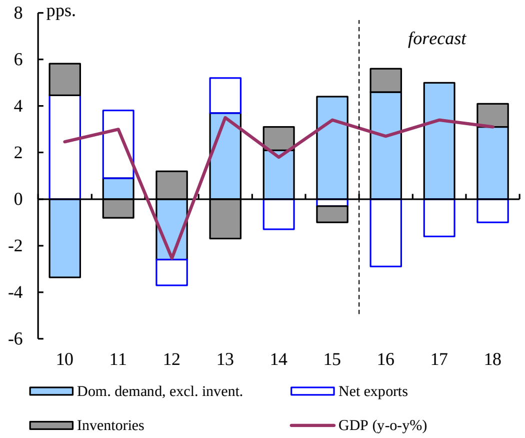
Large public spending results in fiscal strain

Domestic demand has been recovering driven by private consumption and investments. However, the impact of economic growth on job creation is lower than expected. External imbalances have become more pronounced, but imports are projected to ease as some import-intensive investments come to a conclusion. The fiscal position remains weak, accentuated by recent increases in public spending, and is set to deteriorate further when a large highway project resumes.

Lower growth than expected

After recording annual growth of 3.4% in 2015, the pace moderated to 2% in the first half of 2016, when growth was still largely driven by a surge in investments, and to a lesser extent by private consumption and exports. The high import-dependence of investments fuelled imports which grew faster than exports, resulting in a negative contribution of net exports to growth.

Graph II.30.1: **Montenegro - GDP growth and contributions**



Domestic demand is projected to further accelerate in 2016 driven by private and government consumption as well as investments, the latter mostly private. The contribution of domestic demand to growth is forecast to remain broadly similar in 2017 after public investments accelerate, offsetting the deceleration in private and public consumption. Domestic demand is projected to record some deceleration in 2018 as the intensity of investments is assumed to decline in real terms over the year.

Imports on the rise

Net exports are set to remain on negative territory over the forecast horizon due to the weak and volatile performance of manufacturing (especially, the metal industry which is being restructured), and the expected robust growth of investments with strong import needs, in particular for construction machinery and appliances to equip the new infrastructures (namely hotels, roads and power plants), sustaining the high trade deficit. Moreover, the transport of these goods is also likely to narrow the surplus of the services account, in spite of a benign outlook for the Montenegrin tourism industry. A declining trend of imports is expected in 2017 and 2018, as some construction projects are being completed. Overall, the current account deficit is set to further increase while continuing to be largely financed by net FDI inflows.

Weak labour market performance

Despite robust investment activity, job creation is set to remain modest over the forecast period. Moreover, employment growth during 2016 is being offset by the number of women leaving the labour market to become eligible for generous pension rights, thanks to a new law for mothers of three or more children. Once the statistical impact of this law fades in 2017, we project employment to resume annual growth rates (between 2% and 3%) similar to previous years.

A consumption boost before the elections

As financial stability indicators keep improving and lending to households growing, private consumption is expected to accelerate supported also by low inflation. However, in the context of the parliamentary elections that took place in October 2016, a series of expenditure measures were introduced at the beginning of the year, such as a generous new benefit for mothers, or the realignment of salaries in the public sector that resulted in an overall increase of wages across the board. Notwithstanding any future government policy on wages and pensions, credit activity is projected to recover and moderate inflation is expected to continue supporting private consumption in 2017 and 2018.

Inflation to gradually stabilise

Despite the increase in households' disposable income, imported inflation (namely fuels and food) has been keeping overall prices practically flat during 2016. A marginal regain of inflation could be expected by end-2016 to gradually increase in 2017 and 2018 as global oil prices recover some lost ground.

A revival of fiscal imbalances anticipated

In 2016, Montenegro has planned to spend 8.8% of GDP into public investments, most of it on a highway. However, due to delays with construction permits and readjustment of technical standards, the government only spent 0.5% of GDP until August, substantially narrowing the budget deficit to 0.9% of GDP, well below the 6.5% figure planned for the period. Government borrowing for the highway and other works, together with the cyclical end-of-the-year spending surge, would increase public debt and deficit, albeit by less than originally planned for 2016.

The Ministry of Transport foresees borrowing some 6.4% of GDP in 2017 to finance the highway, and additional 6.8% of GDP in 2018. These loans are assumed to increase the general government debt and deficit proportionally. According to Montenegro's fiscal rules, once the public debt exceeds 60% of GDP (as happened at the end of 2015), the government must present a debt restructuring plan to reduce the debt below this threshold within 5 years. However, such a plan and its related fiscal consolidation measures have not been adopted so far. Therefore, a technical assumption of no policy change is maintained for the purposes of this forecast. A reassessment of the fiscal situation will have to be done on the basis of the fiscal strategy after the elections.

Downside risks

Recent increases in public expenditure without an adequate financing plan represent a non-negligible risk for public finances should the new government fail to produce a consolidation plan. Another important risk remains the exposure of the Montenegrin economy to external shocks, in particular tourism, which together with related services accounts for 20% of the economy, and raw materials exports, namely aluminium and steel, which account for 23% of total merchandise exports and rely on global market prices.

Table II.30.1:

Main features of country forecast - MONTENEGRO

		2015			Annual percentage change					
		mio EUR Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		3624.7	100.0	-	3.5	1.8	3.4	**2.7**	**3.4**	**3.1**
Private Consumption		2871.9	79.2	-	1.6	2.9	2.2	**3.3**	**1.8**	**2.0**
Public Consumption		701.5	19.4	-	1.3	1.4	1.9	**4.0**	**1.1**	**1.6**
Gross fixed capital formation		736.3	20.3	-	10.7	-2.5	11.9	**5.9**	**16.0**	**5.0**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		1539.2	42.5	-	-1.3	-0.7	5.7	**1.8**	**2.1**	**1.6**
Imports (goods and services)		2213.6	61.1	-	-3.1	1.6	4.4	**6.0**	**4.1**	**2.6**
GNI (GDP deflator)		-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth:	Domestic demand			-	3.7	2.1	4.4	**4.6**	**5.0**	**3.1**
	Inventories			-	-1.7	1.0	-0.7	**1.0**	**0.0**	**1.0**
	Net exports			-	1.5	-1.3	-0.3	**-2.9**	**-1.6**	**-1.0**
Employment				-	1.1	7.1	2.4	**1.6**	**2.7**	**3.0**
Unemployment rate (a)				-	19.5	18.0	17.5	**17.8**	**17.6**	**17.3**
Compensation of employees / head				-	-2.0	6.1	0.9	**4.7**	**0.4**	**1.2**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-6.2	10.5	-1.4	**2.6**	**-1.4**	**-1.0**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				-	-	-	-	**-**	**-**	**-**
Consumer-price index				-	1.8	-0.5	1.4	**0.5**	**1.2**	**2.0**
Terms of trade of goods				-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)				-	-39.5	-39.8	-40.4	**-41.1**	**-41.5**	**-40.9**
Current-account balance (c)				-	-14.5	-15.2	-13.3	**-15.3**	**-17.4**	**-17.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-4.6	-2.9	-8.4	**-4.7**	**-7.6**	**-7.1**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	57.6	54.8	61.2	**66.1**	**71.8**	**75.8**

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

31. SERBIA

Growth is firming up supported by rising consumption

After a modest recovery last year, GDP growth accelerated markedly in the first half of 2016. While export growth is expected to remain solid, domestic demand and, in particular, stronger private consumption is forecast to pull the economy up. Nevertheless, the economy remains exposed to multiple external risks. Fiscal consolidation is foreseen to slow down but to be sufficient to turn around the trend of growing government debt.

Robust export and investment growth

After a modest recovery in 2015, GDP growth accelerated markedly to 2.9% (y-o-y) in the first half of 2016. The rebound of economic activity continued to be supported by base effects, low oil prices, and increased confidence as a result of implemented reforms and strong fiscal consolidation. Although the economy is not far from its pre-crisis level, there is a new growth momentum based on sounder fundamentals and robust investment and export performance. There are signs that consumption is also gathering pace, faster than expected. Public consumption grew strongly on the back of expanding government spending on goods and services. Underpinned by growing real wages, gains in employment and improved expectations, private consumption growth accelerated in the first half of the year. Net exports contributed negatively to growth as strong demand pushed imports up.

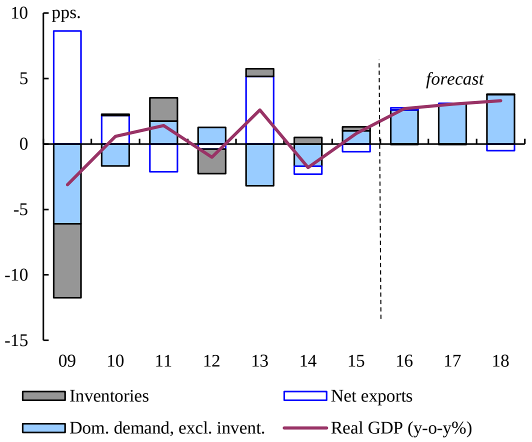
On the supply side, growth remained broad-based and most of the sectors continued expanding. High frequency indicators suggest that the economy's performance was strong in the third quarter as well, with growing domestic and external trade, and steady and broad-based manufacturing growth.

Domestic demand to pull the economy up

Export performance is expected to remain solid, supported by incoming foreign direct investments in tradable sectors and productivity gains as a result of domestic reforms. However, export growth is forecast to slow down due to base effects and idiosyncratic factors linked to a fall in production of a particular car model which is past its peak. Net exports are forecast to contribute only marginally or slightly negatively to growth as imports increase due to stronger domestic demand.

Investment is foreseen to be one of the main engines of growth, although its level remains relatively modest at below 20% of GDP. The investment cycle that started last year should be further supported by confidence effects from recent and ongoing reform efforts, past monetary easing, rising foreign direct investments, and higher public capital expenditure. Economic growth, however, is expected to be increasingly driven by private consumption. Following years of decline, it is forecast to accelerate, contributing most to the rising domestic demand. Steady gains in mainly private employment and wages, coupled with reinvigorated lending activity and overall macroeconomic stability should underpin the envisaged rebound in consumption.

Graph II.31.1: **Serbia - Real GDP growth and contributions**



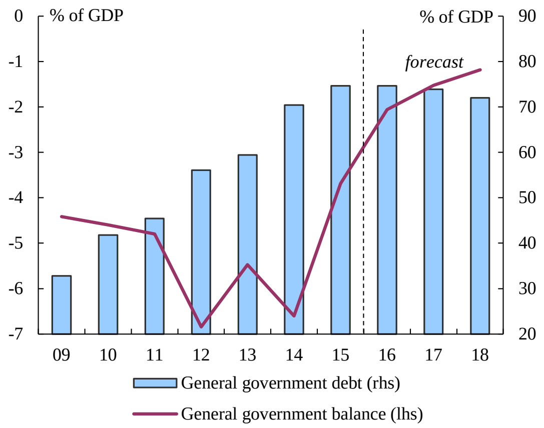
Better placed to face bumps on the road

Domestic and external imbalances have been reduced and the economy is better placed to face possible shocks. Inflation is foreseen to remain low, well within the central bank target tolerance band, aided by a relative stability in commodity prices and further reduction of the budget deficit. The current account deficit, which has come a long way down over the last years, is foreseen to expand slightly on the back of higher income outflows and stronger imports.

The economy, however, remains highly sensitive to international capital flow reversals and fluctuations in commodity prices. In addition geopolitical tensions are non-negligible and have the potential to growth via worsening investment prospects and weakening export demand. Major domestic risks to the forecast scenario stem from a potential reversal of fiscal consolidation or a relaxation of structural reform efforts.

Strong fiscal consolidation to bring a turnaround in government debt dynamics

Graph II.31.2: **Serbia - Public finances**



Fiscal consolidation has been very strong and the budget deficit was reduced significantly over the last two years. Although the consolidation drive was partially supported by one-offs, rising economic activity and efforts to reduce the grey economy have led to sizeable revenue over-performance. Robust revenue growth is also the main contributor to an expected reduction of the deficit in 2016, while growth in expenditure on wages and pensions remains subdued. The pace of fiscal consolidation is forecast to slow down as of next year but the deficit levels would be sufficiently low to sustain a turnaround in government debt dynamics. Thus, after eight years of uninterrupted increase, government debt is expected to peak in 2016 before falling in the next two years.

However, fiscal risks remain elevated and the fiscal scenario continues to face a number of uncertainties. Government debt is high, refinancing needs and interest payments are significant and are sensitive to fluctuations in exchange and interest rates. Fiscally important structural reforms have been only partially implemented and would need to be advanced further in order to put public finances on a sounder footing.

Table II.31.1:
Main features of country forecast - SERBIA

	2015			Annual percentage change					
bn RSD	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	4043.5	100.0	-	2.6	-1.8	0.8	**2.7**	**3.0**	**3.3**
Private Consumption	3019.7	74.7	-	-0.6	-1.3	0.5	**1.2**	**2.2**	**3.1**
Public Consumption	655.9	16.2	-	-1.1	-0.6	-1.5	**3.3**	**1.3**	**2.0**
Gross fixed capital formation	715.5	17.7	-	-12.0	-3.6	5.6	**6.7**	**7.0**	**6.3**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1887.2	46.7	-	21.3	5.7	10.2	**8.6**	**6.4**	**5.2**
Imports (goods and services)	2281.6	56.4	-	5.0	5.6	9.3	**6.8**	**5.5**	**5.4**
GNI (GDP deflator)	3842.4	95.0	-	1.8	-1.7	-0.2	**2.3**	**3.0**	**3.3**
Contribution to GDP growth: Domestic demand			-	-3.2	-1.7	1.0	**2.6**	**3.1**	**3.8**
Inventories			-	0.6	0.5	0.4	**-0.1**	**0.0**	**0.0**
Net exports			-	5.2	-0.6	-0.6	**0.2**	**0.0**	**-0.5**
Employment			-	3.7	10.1	0.6	**1.6**	**0.8**	**1.0**
Unemployment rate (a)			-	22.1	19.4	17.9	**16.5**	**15.6**	**15.0**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	5.4	2.7	2.7	**1.5**	**2.0**	**2.5**
Consumer-price index			-	7.8	2.1	1.4	**1.1**	**2.4**	**3.3**
Terms of trade goods			-	-2.3	0.4	3.5	**2.3**	**-0.7**	**-0.2**
Trade balance (goods) (c)			-	-11.6	-12.3	-11.9	**-10.9**	**-11.1**	**-11.5**
Current-account balance (c)			-	-6.1	-6.0	-4.7	**-4.4**	**-4.3**	**-4.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-5.3	-6.6	-3.7	**-2.1**	**-1.5**	**-1.2**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	59.4	70.4	74.6	**74.6**	**73.8**	**71.9**

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

32. TURKEY

Economic slowdown amidst conflicts and turmoil

Economic activity has suffered from Syria-related conflicts, terrorist attacks, and a military coup attempt. While short-term economic disruptions are projected to fade and growth is expected to pick up moderately, a deteriorating business environment is reducing medium-term growth prospects. In 2017-18, private consumption and, to a lesser extent, public spending will provide the main support to economic activity. The large current account deficit continues to pose a downside risk.

Economy is cooling despite policy measures

The Turkish economy grew by 4% in 2015. In 2016-Q2, real GDP growth was only 0.3% (q-o-q) in seasonally adjusted terms. Monthly data indicate that real GDP may have contracted in the third quarter. To a large extent, the slowdown has been caused by a drop in foreign tourism (-32% y-o-y in the first eight months) in the context of a deteriorating security situation, including large-scale terrorist attacks, and Russia's temporary restrictions on tourist visits to Turkey. The military coup attempt in July has resulted in economic disruptions and is also set to weigh on economic growth in the short term. Annual GDP growth is expected to record a relatively modest 2.7% in 2016.

Partly in response to the challenges facing the country, the fiscal policy stance has become more expansionary. Spending on security and defence has increased. Targeted fiscal measures, including subsidies for charter flights, have been introduced. Public wages have been raised significantly in addition to the 30% hike of the minimum wage that took effect at the beginning of the year. Overall, public consumption is currently surging at a double-digit rate in real terms.

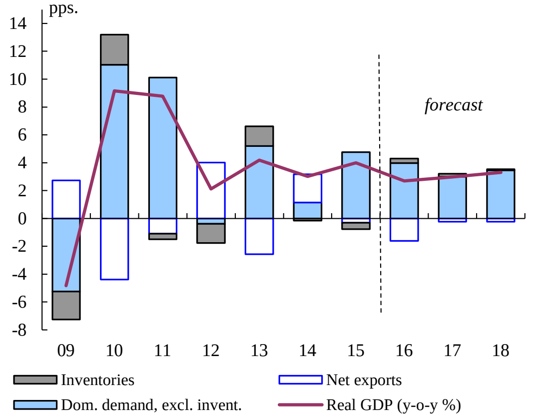
Monetary policy has also been eased. The central bank lowered the overnight lending rate gradually by a total of 250 basis points to 8.25 % between March and September, significantly reducing the average cost of funding. Reserve requirement ratios have been cut, releasing liquidity to financial markets. Macro-prudential rules, especially for credit card borrowing, have been relaxed to stimulate consumer spending.

Net exports and private investment set to remain weak

Looking forward, private consumption is expected to continue benefitting from higher wages, growing employment, and to some extent from the inflow of refugees. Although retail sales have been relatively soft in recent months and consumer loan growth is decelerating, it is projected that private consumption will remain the backbone of GDP growth over the forecasting period. In contrast, private investment is expected to remain weak in the context of a deteriorating business environment due to the government's targeted actions against critical media, business people and political opponents.

Regarding the external sector, the drop in foreign tourist visits is leading to a decline in exports of goods and services in 2016. It is expected that tourism will gradually return to the previous level over 2 - 3 years, resulting in moderately growing exports. Reflecting relatively strong consumption, import growth is projected to remain above export growth. As a result, net exports are set to continue subtracting from GDP growth, albeit much less than in the current year.

Graph II.32.1: **Turkey - Real GDP growth and contributions**



Current drags expected to moderate, but downside risks to growth remain large

Over the next two years, a lower drag on growth from net exports is projected to more than compensate for decelerating public consumption. Fixed investment is forecast to stabilise and stop subtracting from growth by 2018. As a result, annual GDP growth is projected to strengthen moderately to 3.0% next year and 3.3% in 2018.

This forecast is associated with significant downside risks. First, the security situation may worsen again, domestically and in the near abroad, with negative economic spill-overs as in 2016. Secondly, the large current account deficit, mainly financed with relatively short-term capital inflows, makes the economy vulnerable to worsening investor sentiment towards Turkish assets. A reversal of capital flows could, for instance, occur in the context of further downgrading of Turkey's sovereign debt by rating agencies and require a sharp tightening of macroeconomic policy.

Underlying imbalances remain large

Average inflation amounted to 7.8% in the first three quarters of 2016, slightly higher than last year. The monthly rate has trended downward helped by lower food price inflation and the slowdown in aggregate demand. Going forward, it is projected that the pass-through from this year's surge in wages and currency depreciation will raise average annual inflation to 8% next year.

The current account deficit narrowed in the previous two years, but is now on the rise again as tourism receipts falter. Going forward, rising oil prices (cf. external assumptions) will add to the import bill, resulting in a deficit clearly above 5% of GDP next year in spite of the partial recovery in receipts from tourism.

Employment growth is forecast to remain somewhat below output growth. Since the labour force is projected to outpace the number of available jobs, the annual unemployment rate is projected to remain on an upward trend and surpass 11% in 2017.

Fiscal deficit to rise, but debt to remain stable

This year's surge in public spending is projected to increase the deficit of general government to 2.5% of GDP. The widening of the deficit is kept at bay by strongly rising revenues (14.2% for central government in the first three quarters) based on wage acceleration and some broadening of the tax base. Decelerating public spending is projected to lower the fiscal deficit again as of next year.

As a result of the current fiscal expansion, the downward trend in the general government debt ratio is flattening. However, at the level of 32–33% of GDP, public debt is sustainable.

Table II.32.1:

Main features of country forecast - TURKEY

	2015		Annual percentage change						
bn TRY	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	1953.6	100.0	3.9	4.2	3.0	4.0	**2.7**	**3.0**	**3.3**
Private Consumption	1341.2	68.7	3.9	5.1	1.4	4.8	**4.3**	**3.8**	**4.0**
Public Consumption	306.6	15.7	4.3	6.5	4.7	6.7	**12.0**	**6.0**	**5.6**
Gross fixed capital formation	396.6	20.3	4.4	4.4	-1.3	3.6	**-1.1**	**-1.4**	**0.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	546.3	28.0	6.8	-0.3	7.4	-0.8	**-1.3**	**3.5**	**4.3**
Imports (goods and services)	602.1	30.8	6.9	9.0	-0.3	0.3	**5.0**	**4.0**	**4.7**
GNI (GDP deflator)	1917.9	98.2	4.0	4.0	2.9	3.5	**3.0**	**3.1**	**3.4**
Contribution to GDP growth: Domestic demand			4.3	5.3	1.2	4.8	**4.0**	**3.0**	**3.5**
Inventories			2.1	1.4	0.1	-0.6	**0.3**	**0.2**	**0.1**
Net exports			-0.3	-2.5	1.8	-0.3	**-1.6**	**-0.3**	**-0.3**
Employment			1.0	2.8	1.6	2.5	**2.3**	**2.2**	**2.7**
Unemployment rate (a)			8.6	8.9	10.1	10.5	**10.7**	**11.2**	**11.5**
Compensation of employees / head			26.8	10.9	11.2	12.1	**17.2**	**7.1**	**9.3**
Unit labour costs whole economy			23.2	9.4	9.7	10.5	**16.7**	**6.3**	**8.7**
Real unit labour cost			-1.8	3.1	1.3	2.8	**6.1**	**-1.4**	**1.4**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			25.6	6.2	8.3	7.5	**10.0**	**7.8**	**7.2**
Consumer-price index			27.8	7.5	8.9	7.7	**7.8**	**8.0**	**7.6**
Terms of trade goods			-0.7	3.4	1.0	6.1	**3.3**	**-1.0**	**-0.3**
Trade balance (goods) (c)			-6.3	-9.5	-7.7	-6.3	**-5.5**	**-6.4**	**-6.8**
Current-account balance (c)			-3.4	-7.7	-5.5	-4.5	**-4.9**	**-5.4**	**-5.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-7.7	-5.5	-4.5	**-4.9**	**-5.3**	**-5.6**
General government balance (c)			-	-1.3	-0.9	-1.0	**-2.5**	**-2.0**	**-1.8**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	36.1	33.5	32.9	**32.9**	**32.6**	**32.2**

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

33. ALBANIA

A gradual but steady recovery

Economic activity is accelerating mainly because of rising household spending and private investment. Private consumption and investment are projected to go on increasing on the back of solid gains in employment and strong growth in FDI-inflows. Public debt as a share of GDP is projected to fall, but the upcoming election period might test the authorities' commitment to the path of fiscal consolidation.

Growth strengthens in the first half of 2016

The Albanian economy advanced 3.1% (y-o-y) in the first six months of 2016. All components of domestic demand provided a positive contribution to output expansion. Household spending gained strength and became the main growth driver. After declining throughout 2015, public consumption also increased, even if only marginally. Investment growth decreased, but remained firmly in positive territory. The external sector subtracted from output growth because of surging imports, even as real exports also showed signs of a rebound following a weak performance in 2015.

Monetary policy to remain supportive

Domestic demand is expected to continue being supported by an expansionary monetary policy stance. Since May the Central Bank has kept its policy interest rate unchanged at a record low of 1.25%. With the gradual closure of the output gap, the Central Bank projects inflation to return to the 3% target only in the second half of 2018 and hinted that it would not raise the policy rate throughout 2016.

Interest rates have been on a downward trend across a wide range of financial instruments but private credit, especially business loans, remained sluggish. Bank lending continues to be impaired by the high level of non-performing loans (NPLs). Driven by some large bankruptcies, the proportion of NPLs has edged up since the beginning of the year, rising to 21.4% in August from 18.2% at end-2015.

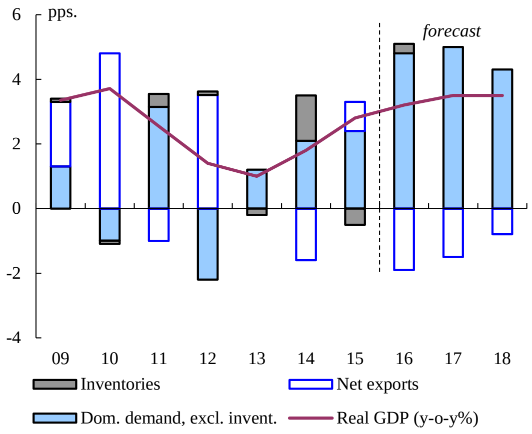
It is expected that the NPL ratio resume declining in the remainder of this year as the authorities' planned measures to tackle the problem get implemented and the economic recovery goes hand in hand with higher demand for new loans.

Positive outlook for private domestic demand

A marked improvement in the labour market conditions has underpinned the increase in household spending and this is forecast to continue over the forecast horizon. Employment increased by 5.8% (y-o-y) in the second quarter of 2015 and triggered a drop in unemployment rate (15-64 years) to 15.9%, its lowest level in more than three years. Private consumption has also benefitted from a pick-up in household credit amid the continued easing of lending standards applied by banks for this loan category.

The upward trend in investment is also projected to continue as the significant boost from energy-sector FDI inflows related in particular to two large projects, should continue to offset the decline in gross capital formation in the extraction sector caused by low oil prices.

Graph II.33.1: **Albania - Real GDP growth and contributions**



Net exports set to remain a drag on growth

Exports of goods in both nominal and real terms have suffered from the impact of low oil and other commodities prices. However, the extent of the decline since their peak in 2014 suggests that exports of goods might be close to bottoming out, especially as oil prices have started to recover somewhat. Exports of services, which make up the bulk of foreign sales, have recently gained momentum thanks to strong growth in tourism and manufacturing services. All in all, real export growth is expected to continue increasing in line with the gradual recovery of Albania's main trading partners in the EU.

At the same time, rising domestic demand is projected to lift imports, leading to an overall negative contribution to growth from the external sector in the years to come.

Downside risks dominate

The balance of risks remains tilted to the downside. Increased political uncertainty related to next year's parliamentary election might dampen consumption and investment. Credit recovery might take longer than expected in the context of persistently high NPLs. Electricity production remains subject to weather-induced volatility. On the other hand, implementing structural reforms, such as the recently started comprehensive overhaul of the justice system, could improve the business environment and the economy's growth potential.

Fiscal consolidation faces mounting risks

In the first eight months of this year, tax revenues increased broadly in line with the authorities' plans, although this has been partly due to the one-off payment of a large disputed tax obligation which might have to be reimbursed. Expenditures in the same period were lower than one year earlier as a result of the completion of the arrears clearance exercise. Overall, budget execution in January-August resulted in a surplus amounting to 0.9% of estimated full-year GDP. The government took measures to speed up sluggish infrastructure spending and now expects a deficit of 2.3% of GDP for the year as a whole. This is 0.2 pps. of GDP higher than the initial target, but the difference is fully financed by new privatisation receipts.

Under the no-policy change assumption, the reduction of the budget deficit is expected to continue in line with the government's current fiscal strategy, and the public debt to GDP ratio is projected to gradually decrease. However, in the run-up to next year's election there is a risk that the government relaxes its fiscal consolidation plans, which will lose an important anchor following the end of the country's IMF-supported programme in February 2017.

Table II.33.1:

Main features of country forecast - ALBANIA

	2015			Annual percentage change						
bn ALL		Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		1435.8	100.0	4.7	1.0	1.8	2.8	**3.2**	**3.5**	**3.5**
Private Consumption		1148.9	80.0	3.0	1.8	3.0	-0.4	**2.8**	**2.2**	**3.1**
Public Consumption		155.9	10.9	-0.2	2.9	6.4	-3.2	**1.1**	**1.9**	**2.9**
Gross fixed capital formation		390.7	27.2	7.3	-2.0	-4.0	12.5	**8.9**	**10.7**	**4.9**
of which: equipment		-	-	6.4	-	-	-	**-**	**-**	**-**
Exports (goods and services)		391.1	27.2	15.8	-12.4	1.8	-0.3	**6.6**	**5.4**	**5.8**
Imports (goods and services)		638.7	44.5	9.8	-7.9	4.6	-2.1	**8.4**	**6.4**	**5.1**
GNI (GDP deflator)		1421.9	99.0	4.5	2.0	0.4	3.0	**3.5**	**3.5**	**3.5**
Contribution to GDP growth:	Domestic demand			4.2	1.2	2.1	2.4	**4.8**	**5.0**	**4.3**
	Inventories			0.1	-0.2	1.4	-0.5	**0.3**	**0.0**	**0.0**
	Net exports			-1.2	0.0	-1.6	0.9	**-1.9**	**-1.5**	**-0.8**
Employment				-0.5	-9.7	1.6	2.0	**3.4**	**2.6**	**2.7**
Unemployment rate (a)				-	16.4	17.9	17.5	**16.0**	**15.2**	**14.2**
Compensation of employees / head				-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				4.1	0.3	1.4	0.2	**0.6**	**1.7**	**2.3**
Harmonised index of consumer prices				-	1.9	1.6	1.9	**1.4**	**2.3**	**2.6**
Terms of trade goods				-1.8	1.6	1.5	0.8	**-3.8**	**-0.1**	**-0.1**
Trade balance (goods) (c)				-24.0	-20.6	-22.2	-22.4	**-24.8**	**-25.8**	**-26.2**
Current-account balance (c)				-	-10.9	-12.9	-10.7	**-12.2**	**-13.1**	**-13.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-5.0	-5.2	-4.0	**-2.3**	**-1.7**	**-1.3**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	70.4	72.1	72.7	**72.2**	**70.5**	**68.1**

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

Other non-EU Countries

34. THE UNITED STATES OF AMERICA
Expansion moderates amid increasing risks

The expansion in the US economy is set to moderate as the cycle matures amid increasing external and political risks. The forecast for 2016 is revised down to 1.6% reflecting lower-than-expected growth in the first half of the year, largely due to weak investment and inventory correction. As these drags wane, growth is expected to pick up to 2.1% in 2017 and to slow again to 1.9% in 2018 in line with the cyclical moderation in domestic demand in a still favourable policy environment.

Exceptional weakness in the first half of 2016

After expanding by 2.6% in 2015 (the fastest rate since 2006), real GDP slowed visibly to 0.2% (q-o-q) and 0.4% (q-o-q) in the first and second quarter respectively, dragged down by the drawn-out adjustment of inventories and the exceptional weakness in capital spending. The negative contribution from net exports that weighed on growth in 2015, turned neutral in 2016 as imports also weakened. Household consumption remained the bright spot, boosted by low energy prices and the buoyant labour market, contributing an average of half-a-percentage point to growth in both quarters.

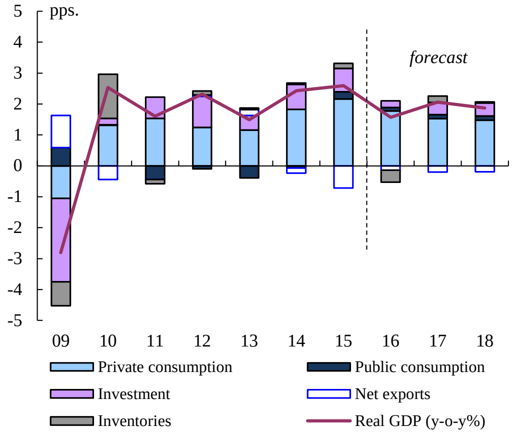
Consumption to remain the key growth driver

Private consumption is expected to remain the key driver of the US economy in the forecast horizon. It is set to benefit from the buoyant labour market, rising net wealth and supportive policy environment. Additional support is set to come from the projected gradual decline in the savings rate which rose significantly in 2015 as households decided to save large parts of windfall gains from cheaper energy. Nevertheless, following strong growth in 2015 and early 2016, household consumption is expected to moderate to around 2% by 2018, in line with the maturing cycle and the ensuing slowing employment as well as rising energy prices.

Business investment going through a weak spot

Business investment has been exceptionally weak since late 2015, as the contraction in equipment spending (since 2015-Q4) exacerbated the ongoing retrenchment in the energy sector. Slowing non-energy investment seems to be largely reflecting the weakness in manufacturing, which recently had to bear the brunt of the deteriorating competitiveness (strong dollar, narrowing energy price advantage), weak external demand, but also rising policy uncertainty ahead of the November elections. Outright contraction in the energy industry, weakness in many manufacturing sectors, combined with falling profits and uncertain near-term prospects have led many businesses to sharply cut their capital spending. This brought the momentum in non-residential investment in mid-2016 to its weakest since the Great Recession, with the outlook for 2016 broadly flat. While some of the recent drags are likely to fade gradually in 2017 and 2018 (i.e. impact of energy price declines and currency appreciation), business investment is expected to remain weak in the forecast horizon reflecting the persistently sluggish productivity growth, and the maturing US cycle. An additional fillip to investment in the near term is likely to come from restocking, following an extended period of inventory correction in 2015 and 2016.

Graph II.34.1: **US - Real GDP growth and contributions**



Trade slows sharply

Weak foreign demand and worsening competitiveness weighed on US exports since late 2014, with net exports subtracting as much as 0.7 pps. from growth in 2015. More recently however, the weakness spilled over to imports, partly reflecting falling demand from exporting sectors and the overall downturn in capital spending, but also the somewhat surprising weakness in consumer goods imports. Consequently, US trade in 2016 is likely to post its slowest expansion since 2009 and recover only gradually in 2017 and 2018. This strengthening is set to be underpinned on the export side by the projected pick-up in demand in key US trading partners (incl. Canada, EU and Brazil) and additionally supported, on the imports side, by the modest firming in investment.

Tightening labour market set to generate increasing wage and price pressures

Strong momentum in the labour market extended into the third quarter of 2016, with sustained solid job creation and the first meaningful pick-up in the participation rate in more than a decade. There is increasing evidence that the gradual tightening of the labour market generates modest but sustained upward pressures on wages and prices. Growth in average hourly earnings firmed to 2.6% (y-o-y) in Q3, the fastest since 2009. Inflation is also on the rise as rising energy prices have lifted headline indices to their 2-year highs and core inflation stabilised at around 2.2% and 1.7% (y-o-y), for the CPI and PCE, respectively. Both wage and price inflation are set to increase gradually to around 2% in 2017-18, as the drag from energy prices wanes, labour market tightens further and the output gap gets more positive.

Normalisation of monetary policy amid rising uncertainty and risks

Following the initial decision to lift interest rates by 25 bps. to 0.5% in late 2015, the Fed put the normalisation of monetary policy on hold, citing the unstable global outlook. While another interest rate hike is possible still in 2016, the challenge of calibrating the future pace of normalisation remains complex, given various, often conflicting signals on the US outlook. They include disappointing growth figures amid the still buoyant labour market and rising uncertainties in the US and worldwide.

Risks on the rise

Risks to the outlook deteriorated recently with the balance now firmly tilted to the downside. The central risk is related to potential adverse policy shifts following the November presidential and congressional elections and the related uncertainty. These developments may weigh on sentiment, extending the current soft patch in investment and trade, potentially depressing household consumption and jeopardising the projected firming of growth from 2017.

Table II.34.1:

Main features of country forecast - USA

	2015		Annual percentage change						
bn USD	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	18036.6	100.0	2.4	1.7	2.4	2.6	**1.6**	**2.1**	**1.9**
Private Consumption	12283.7	68.1	2.7	1.5	2.9	3.2	**2.6**	**2.2**	**2.1**
Public Consumption	2604.9	14.4	1.5	-2.4	-0.7	1.6	**0.8**	**0.9**	**1.0**
Gross fixed capital formation	3576.6	19.8	2.2	3.0	4.2	3.7	**1.0**	**2.1**	**2.1**
of which: equipment	1227.3	6.8	4.5	3.3	4.6	3.1	**-0.9**	**2.3**	**2.1**
Exports (goods and services)	2264.3	12.6	4.4	3.5	4.3	0.1	**0.3**	**3.6**	**3.7**
Imports (goods and services)	2786.3	15.4	5.0	1.1	4.4	4.6	**1.2**	**4.1**	**4.0**
GNI (GDP deflator)	18242.3	101.1	2.6	1.7	2.3	2.3	**1.5**	**2.0**	**1.8**
Contribution to GDP growth:	Domestic demand		2.6	1.2	2.7	3.1	**2.1**	**2.1**	**2.0**
	Inventories		0.0	0.2	-0.1	0.2	**-0.4**	**0.2**	**0.0**
	Net exports		-0.2	0.3	-0.1	-0.7	**-0.1**	**-0.2**	**-0.2**
Employment			-	1.0	1.6	1.7	**1.7**	**1.0**	**0.5**
Unemployment rate (a)			6.0	7.4	6.2	5.3	**4.9**	**4.7**	**4.7**
Compensation of employees / f.t.e.			3.4	1.5	2.8	3.0	**2.1**	**3.5**	**4.0**
Unit labour costs whole economy			1.7	0.8	2.0	2.0	**2.2**	**2.4**	**2.6**
Real unit labour cost			-0.2	-0.8	0.2	1.0	**0.8**	**0.3**	**0.4**
Saving rate of households (b)			10.4	10.3	10.4	11.2	**11.1**	**10.8**	**10.5**
GDP deflator			2.0	1.6	1.8	1.1	**1.4**	**2.1**	**2.2**
Consumer-price index			2.4	1.5	1.6	0.1	**1.2**	**2.0**	**2.1**
Terms of trade goods			-0.4	0.7	-0.2	2.3	**0.0**	**-0.5**	**-0.8**
Trade balance (goods) (c)			-4.6	-4.4	-4.5	-4.4	**-4.2**	**-4.4**	**-4.6**
Current-account balance (c)			-3.8	-2.3	-2.3	-2.6	**-2.5**	**-2.6**	**-2.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.8	-2.3	-2.3	-2.6	**-2.5**	**-2.6**	**-2.7**
General government balance (c)			-5.0	-5.3	-4.9	-4.4	**-4.6**	**-4.2**	**-4.0**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			70.0	104.6	104.7	105.2	**108.1**	**108.5**	**108.4**

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

(*) Employment data from the BLS household survey.

35. JAPAN

Stimulus-driven growth in the near term

Fiscal stimulus, postponed fiscal consolidation and continued monetary accommodation is set to underpin growth in 2016 and 2017, but waning stimulus effects and underlying weakness in domestic demand will weigh on economic performance in 2018.

In 2016 real GDP is projected to grow by 0.7% underpinned by recovery in domestic demand and supportive macroeconomic policies. In 2017 postponed fiscal consolidation, additional fiscal stimulus and continued monetary accommodation are expected to maintain growth above potential at 0.8%. However, on the back of waning fiscal stimulus and underlying weakness in domestic demand growth is likely to decrease to 0.4% in 2018. Over the medium-term supply-side constraints in terms of adverse population dynamics and labour market rigidities are expected to continue weighing on growth in the absence of forceful structural reforms.

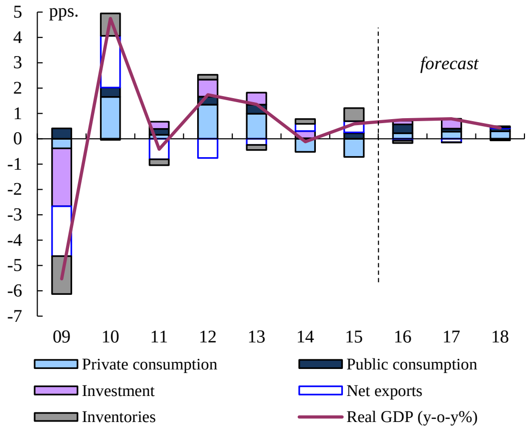
Near-term growth should remain resilient...

After contracting by 0.4% quarter-on-quarter in 2015-Q4, real GDP rebounded to 0.5% (q-o-q) in 2016-Q1. Growth moderated in Q2 to 0.2% (q-o-q) as net exports subtracted 0.3 pps to quarterly growth. Private consumption – which recovered only weakly in the aftermath of the April 2014 increase in the consumption tax rate – gradually firmed up over the first half of the year, and improved consumer confidence points to continued recovery. Private consumption is expected to grow gradually underpinned by fiscal stimulus supporting low-income households, moderate employment creation, and by subdued inflation dynamics. At the same time weak wage dynamics is projected to remain a drag over the medium term. Unemployment is expected to remain at the current low rate of around 3%, with employment increasing only moderately driven by the gradual recovery of domestic demand and persistent labour supply bottlenecks. However wage growth is set to remain subdued, reflecting entrenched duality in the labour market, weaker inflation dynamics feeding into lower pay rises in annual wage negotiations, and to some extent lower profits in the export sector (as a result of the stronger yen).

Gross fixed capital formation is expected to contribute to growth in 2016 and 2017, and subtract slightly in 2018 when stimulus-driven public investment expires. Housing starts are on an upward trend, pointing to a gradual recovery in private residential investment after the collapse in the aftermath of the April 2014 increase in the consumption tax rate. Loose financing conditions and fiscal support for low-income households should underpin growth in housing investment over the forecast horizon, but weak household income growth and population decline should continue acting as drags over the medium term.

As the recently adopted fiscal stimulus is implemented, public infrastructure investment is expected to lift economic activity in the near term, whilst waning stimulus effects are expected to subtract from growth in 2018. Private sector core machinery orders – a leading indicator of business investment – suggest only moderate expansion over the second half of the year. Whereas supportive macroeconomic policies is assumed to also underpin business investment, the pace of growth is set to remain subdued as diminished external profitability and weak potential growth weigh on the business environment.

Graph II.35.1: **Japan - Real GDP growth and contributions**



External demand has deteriorated over the first half of the year, with exports falling 1.5% (q-o-q) in 2016-Q2, and monthly export volume data suggest continued volatility stretching into the second half of the year. The outlook for exports has worsened due to weakening demand from China, and diminished profitability from the yen appreciation. Overall net exports are expected to weigh on growth in 2016 and 2017, and remain broadly neutral in 2018.

...underpinned by changes in fiscal policy...

Recent changes in fiscal policy had a substantial impact on the growth outlook. In early June the increase to 10% in the consumption tax rate previously planned for April 2017 was postponed to October 2019, which had the effect to smoothen near-term growth projections. In early August the government announced a large fiscal stimulus package including direct government spending equivalent to 1.5% of GDP, centred on supporting public infrastructure projects and improving income conditions in the nursing sector, which is set to boost economic activity in the near term. Fiscal consolidation is expected to pause over the forecast horizon, and the general government deficit should remain at around 5% of GDP.

...and continued monetary accommodation.

Following a comprehensive assessment ahead of its September monetary policy meeting, the Bank of Japan has introduced a new QQE framework with Yield Curve Control, which also includes an inflation-overshooting commitment entailing continued expansion in the monetary base until core CPI inflation exceeds the 2% target in a stable manner. CPI inflation has followed a downward trajectory over the last quarters, reflecting lower energy prices and gradual currency appreciation, and weighing on inflation expectations which have lowered adaptively. As inflationary pressures are expected to remain subdued reflecting lack of demand-driven inflation dynamics, monetary policy is set to remain accommodative in line with the inflation overshooting commitment aimed at triggering forward-looking inflation expectations.

Risks predominantly on the downside

Weaker profitability in the export sector may entail stronger-than-expected knock-on effects on wage growth and business investment. As potential growth remains weak, domestic risks prevail over the medium term, with underlying fragility in domestic demand and negative confidence effects due to lack of progress with fiscal consolidation possibly weighing on growth.

Table II.35.1:

Main features of country forecast - JAPAN

		2015			Annual percentage change					
	bn JPY	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		499211.2	100.0	0.7	1.4	0.0	0.5	**0.7**	**0.8**	**0.4**
Private Consumption		292409.0	58.6	0.8	1.7	-0.9	-1.2	**0.4**	**0.5**	**0.5**
Public Consumption		101812.5	20.4	1.8	1.9	0.1	1.2	**1.8**	**0.6**	**0.6**
Gross fixed capital formation		108222.1	21.7	-1.4	2.5	1.3	0.0	**0.7**	**1.9**	**-0.3**
of which: equipment		-	-	0.2	0.3	3.5	-	**-**	**-**	**-**
Exports (goods and services)		89352.6	17.9	4.0	1.2	8.3	2.8	**-1.0**	**0.8**	**1.0**
Imports (goods and services)		94141.5	18.9	2.3	3.1	7.2	0.3	**-0.7**	**1.8**	**0.9**
GNI (GDP deflator)		522126.5	104.6	0.8	1.9	0.3	1.1	**0.3**	**0.9**	**0.4**
Contribution to GDP growth:	Domestic demand			0.5	1.9	-0.2	-0.5	**0.9**	**0.9**	**0.3**
	Inventories			0.0	-0.2	0.2	0.6	**-0.1**	**0.0**	**0.0**
	Net exports			0.2	-0.3	0.0	0.4	**-0.1**	**-0.1**	**0.0**
Employment				-0.3	0.6	0.6	0.4	**0.8**	**0.3**	**0.2**
Unemployment rate (a)				4.5	4.0	3.6	3.4	**3.2**	**3.2**	**3.2**
Compensation of employees / head				-0.8	0.0	1.1	0.6	**-0.2**	**0.5**	**0.6**
Unit labour costs whole economy				-1.8	-0.8	1.8	0.5	**-0.2**	**0.0**	**0.4**
Real unit labour cost				-0.6	-0.2	0.1	-1.5	**-0.5**	**0.3**	**-0.1**
Saving rate of households (b)				10.4	6.5	6.1	7.9	**8.9**	**9.2**	**9.0**
GDP deflator				-1.1	-0.6	1.7	2.0	**0.3**	**-0.4**	**0.4**
Consumer-price index				-0.1	0.3	2.8	0.8	**-0.3**	**0.0**	**0.1**
Terms of trade goods				-3.0	-2.2	-1.1	8.3	**6.3**	**0.1**	**0.2**
Trade balance (goods) (c)				1.7	-2.2	-2.5	-0.8	**0.0**	**-0.1**	**0.0**
Current-account balance (c)				3.0	0.7	0.5	3.2	**3.7**	**3.7**	**3.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				2.9	0.5	0.5	3.2	**3.7**	**3.6**	**3.7**
General government balance (c)				-6.3	-7.7	-6.2	-5.3	**-5.0**	**-5.1**	**-5.0**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				176.3	244.5	249.1	248.3	**250.7**	**254.7**	**257.7**

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

36. CHINA

Steady headline growth, but underlying risks are rising

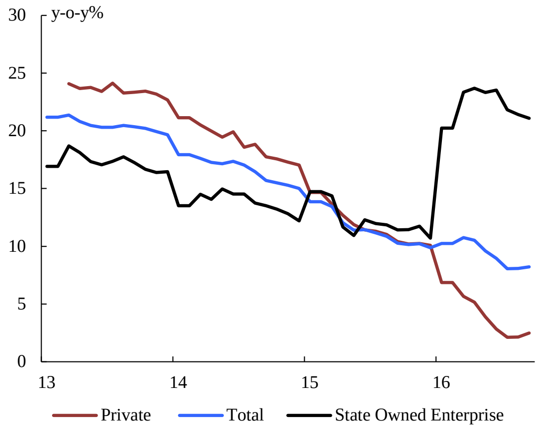
Growth has steadied in China following a weak first quarter and a turbulent start to the year, when poor high frequency data rattled Chinese and global financial markets. Stimulus measures have now kicked in and growth is set to reach the 6.5% target for the year with ease. Short term risks are balanced. However, the continued reliance on state-led investment to support activity suggest that the pace of structural reform is not fast enough to open up new, more sustainable growth drivers, with the risk of somewhat slower growth in the medium term and rising financial fragilities

China's real GDP growth rate over the first three quarters of 2016 was 6.7% (y-o-y), only marginally lower than the growth rate in 2015. However, this stability of headline growth masks important underlying trends, with growth supported by renewed policy stimulus, as a sharp rise in state-led investment offset weakness in private sector investment. Credit has continued to expand more rapidly than nominal GDP and corporate leverage continues to rise. The risk of an abrupt slowdown in the short run appears low, as consumption growth remains solid, the real estate sector has recovered from 2015 lows, and further policy support can be expected if growth should falter. The current projection therefore is for a continued gradual slowdown in activity, with growth of 6.6% in 2016, 6.2% in 2017 and 6% in 2018. However, without a marked revival of private investment, or a sustained period of faster consumption growth, this forecast implies rising domestic imbalances, rising hidden costs in the financial system and rising medium term risks.

Investment stimulus holds up growth again

China's growth in 2015 appeared consistent with a smooth rebalancing of demand and a controlled growth slowdown. The economy grew steadily at 6.9%, despite a marked step down in the growth of fixed asset investment, with consumption providing a bigger share of growth than in previous years. However, late 2015 saw emerging weakness as retail sales and fixed asset investment both slowed perceptibly. Exports also recorded a string of poor readings, down over 7% in both October and November, and seemingly reflecting the impact of the sharp rise in the RMB between mid-2014 and mid-2015. In this context, poor manufacturing PMI readings in early January, following on from weak service sector PMI readings in December, provoked a sharp sell-off in Chinese and global financial markets. The Shanghai composite index dropped 15% in less than 2 weeks and advanced economy indices dropped by 10%. Growth in 2016-Q1 was subsequently recorded at just 1.2% (q-o-q), compared to 1.6% for 2015-Q4. Growth subsequently picked up to 1.9% in Q2 and 1.8% in Q3. This is partly attributable to some recovery in exports, supported by a fall in the RMB real effective exchange rate of 7% between January and September. However, growth has also been underpinned by a steep rise in state-led investment.

Graph II.36.1: **China - Growth of fixed asset investment**



Policy is likely to remain reactive

Looking ahead, macroeconomic policy is expected to remain flexible and accommodative, with fiscal policy in particular expected to react to any further weakness in demand that puts annual growth targets at risk. Continued rapid credit growth suggests that the underlying monetary policy stance is highly accommodative. Total social financing, a measure of overall credit, has grown at over 12% over the first three quarters of 2016. The interbank SHIBOR rate has been kept stable at just below 2.5% while CPI inflation has remained below 2%. Growth in public and private consumption is set to continue to receive some support from looser fiscal policy and growth of household income is broadly in line with GDP growth. Private investment has received some support from a revival in real estate in 2016, but public investment is expected to continue to act as the main shock absorber, aiming to offset any further emergent weakness in demand.

External trade is expected to pick up modestly

China saw a sharp adjustment in trade volumes in 2015, with goods export volumes contracting for the first time since the global financial crisis in 2009. The sharp rise in the RMB real exchange rate from mid-2014 and tepid global growth both played a role. Exports volumes have subsequently picked up to low positive growth rates in 2016, broadly in line with global trade growth. A further slight pick-up in 2017 and 2018 is expected to be underpinned by the recent drop in the RMB's trade-weighted exchange rate. Import volumes were flat in 2015, reflecting a combination of the slowdown in real estate and lower construction material imports, the broader restructuring of the economy away from import-intensive investment, and reduced imports for reprocessing into exports. Imports appear to have recovered a little in 2016 to reach modest growth rates, and a further rise in 2017 and 2018 to growth rates of around 3% is anticipated, supported by continued private income growth, some revival of imports linked to real estate investment, and buoyant service sector imports. The net contribution to growth from the external sector is expected to be negligible. It is noteworthy that there are differences emerging in historical estimates from different sources (WTO, CPB, Chinese customs) of growth rates of Chinese imports and exports (in volume terms).

Short term risks are balanced, but medium term risks are rising

Short term risks are balanced. Private investment may rebound from current low levels, while exports could respond more positively than expected to the lower RMB. China is likely to continue to use established policy levers to provide an effective floor to growth, limiting downside risks in the short run. However, to maintain growth over 6.5% in 2016 China has relied on state-led investment and continued rapid credit growth which appears increasingly unsustainable. China faces a complex task if a smooth transition to lower but more sustainable growth rates is to be achieved. This would likely require a combination of a step-shift to higher levels of household income and consumption as a share of GDP, and structural reforms to open up new avenues for productive investment. Developments in 2016 so far suggest that this process may be stalling, raising the prospect of growing financial fragilities and potentially slower growth in the medium term.

Table II.36.1:

Main features of country forecast - CHINA

	2015			Annual percentage change						
bn CNY	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	69630,0	100,0	9,8	7,8	7,3	6,9	**6,6**	**6,2**	**6,0**
Consumption	35952,0	51,6	55,1	-	-	-	**-**	**-**	**-**
Gross fixed capital formation	30196,0	43,4	38,7	-	-	-	**-**	**-**	**-**
of which: equipment			-	-	-	-	**-**	**-**	**-**
Change in stocks as % of GDP			-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	15141,0	21,7	26,0	8,8	6,9	-1,8	**1,9**	**2,6**	**2,8**
Final demand			-	-	-	-	**-**	**-**	**-**
Imports (goods and services)	12740,0	18,3	22,0	10,6	8,7	0,6	**3,0**	**3,2**	**3,6**
GNI (GDP deflator)	-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth :	Domestic demand		-	-	-	-	**-**	**-**	**-**
	Inventories		-	-	-	-	**-**	**-**	**-**
	Net exports		-	-	-	-	**-**	**-**	**-**
Employment			-	-	-	-	**-**	**-**	**-**
Unemployment (a)			4,0	4,1	4,1	4,1	**-**	**-**	**-**
Compensation of employees/head			-	-	-	-	**-**	**-**	**-**
Unit labour costs			-	-	-	-	**-**	**-**	**-**
Real unit labour costs			-	-	-	-	**-**	**-**	**-**
Saving rate of households			-	-	-	-	**-**	**-**	**-**
GDP deflator			3,4	2,4	1,2	0,4	**1,0**	**1,0**	**1,5**
Private consumption deflator			-	-	-	-	**-**	**-**	**-**
Index of consumer prices (c)			1,9	2,6	2,0	1,4	**-**	**-**	**-**
Merchandise trade balance (b)			4,1	3,7	4,1	5,1	**5,5**	**5,2**	**5,1**
Current-account balance (b)			4,1	1,5	2,6	3,0	**3,0**	**2,6**	**2,3**
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

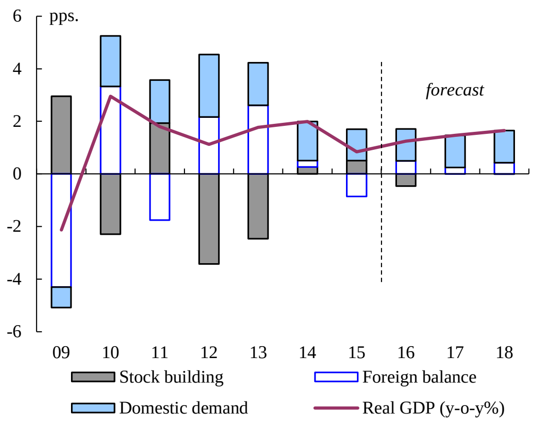
Improving domestic demand as external vulnerabilities remain

Economic growth among the EFTA countries remains positive, although to slightly varying degrees: Switzerland's economy is expected to undergo a modest rebound already in 2016; while continued drags from Norway's energy sector will delay recovery until next year; and, growth in Iceland remains robust and supported by tourism but also a rapid expansion in domestic demand. Vulnerabilities (exchange rate, crude oil prices) are largely external and will remain pronounced in the near term.

Switzerland

Switzerland's economy continues to improve in 2016 (GDP growth of 0.3% (q-o-q) in Q1 and 0.6% (q-o-q) in Q2) as both domestic and external demand support growth. The labour market's stagnation resulted in flat private consumption during the first half of this year, with this being mitigated by increasing public expenditures and fixed investment in transport equipment. With respect to trade, commodity trade and robust pharmaceutical exports have offset weakness among other core goods (watches, precision tools, machinery). Growth is expected to moderate in the second half of 2016 in line with a somewhat weaker outlook in the EU, with full year growth forecast to come in at 1.2%. In future years, growth is forecast to accelerate to 1.5% and 1.7% in 2017 and 2018, respectively, similarly driven by domestic and external demand.

Graph II.37.1: **Switzerland - Real GDP growth and contributions**



After falling to -1.1% in 2015 following the Swiss National Bank's (SNB) decision to abandon the exchange rate ceiling with the euro, inflation is forecast to increase slightly in 2016 (to -0.4%). Further improvement in growth prospects should generate positive price growth once again by 2018, although it is likely to remain below the SNB's official target of 2%. With respect to fiscal policy, public consumption growth in the first half of 2016 is expected to result in a minor budget deficit (0.4% of GDP) in 2016. It is anticipated that this will be gradually reduced during the forecast horizon before posting a modest surplus (0.2% of GDP) once again in 2018.

The slight increase (0.1 pps.) in the unemployment rate to 4.6% in 2015 is likely to broadly persist throughout 2016 and 2017. However, in line with improving growth prospects from 2016 onwards, the unemployment rate will fall towards the 4.0% level as employment growth picks up marginally in future years.

The current environment of low interest rates should support private consumption and investment in construction. However, as profit margins among Swiss firms remain somewhat weak, equipment investment is set to remain muted in 2017, before recovering in 2018.

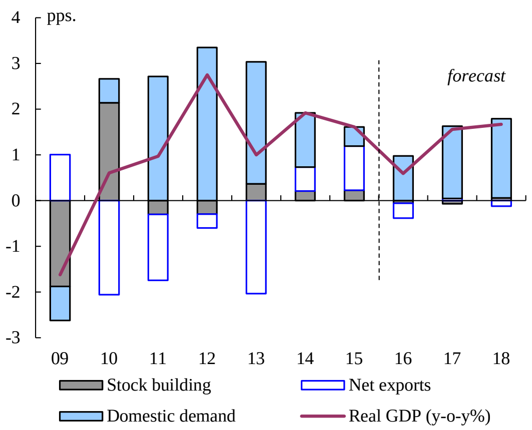
A more comprehensive recovery of exports (including machinery, electrical and metal industries) as well as tourism is forecast to be gradual, accelerating in 2018 in line with the fading effects of past exchange rate appreciation and a recovery in global trade. Nevertheless, the economy remains vulnerable to possible renewed volatility in financial markets, which once again could trigger safe-haven capital inflows and put upward pressure on the exchange rate.

Risks are tilted to the downside and relate to the uncertainty over the future of Switzerland's relations with the EU and a possible resurgence of global financial market volatility. The latter could spill over to the real estate market, where house prices are elevated and banks are exposed to mortgage lending.

Norway

Norway's economy has continued to slow during 2016 (GDP growth of 1.0% (q-o-q) in Q1 followed by 0.0% (q-o-q) in Q2) due largely to declining fixed investment in the energy sector and weak exports. Other domestic demand components have remained broadly stable due to a supportive macroeconomic policy mix offsetting a weaker labour market. Going forward, the economy is expected to continue its reallocation of factors towards non-energy related sectors while being supported by fiscal stimulus measures (amounting to 0.3% of GDP) in 2017. It is anticipated that stimulus will wane slightly from 2018 onwards as the labour market improves, fixed investment accelerates and export growth picks up. Overall, GDP growth has been revised down to 0.7% in 2016 (from 1.6% in 2015) and is expected to accelerate modestly to 1.6% in 2017 as current drags begin to dissipate, and to be sustained at 1.7% in 2018.

Graph II.37.2: **Norway - Real GDP growth and contributions**



The macroeconomic policy mix continues to provide considerable impetus to growth, with interest rates remaining at historic lows (0.5%) and the government leaning on extra-budgetary funds. The space for further monetary policy easing in the near term appears constrained by consumer price inflation which is running above Norges Bank's 2.5% target. However, provisional budget plans for 2017 anticipate that the structural non-oil balance will deteriorate by an additional -0.3 pps. (to -6.4% of GDP). The headline fiscal balance will remain positive at over 3% of GDP in 2017. Fiscal stimulus is expected to ease from 2018 onwards as output begins converging towards potential.

The labour market's deterioration is forecast to subside during 2016, with expanding output in non-energy related sectors and stimulus measures boosting employment growth from 2017 onwards. However, growth rates will remain relatively subdued given the economy's broader adjustment to lower oil prices and the reallocation of factors which this requires. In addition, corresponding with the Norwegian krone's (NOK) depreciation since 2014, higher import prices and inflation have implied weak real wage growth. These dynamics are expected to persist as inflation declines only gradually during the forecast horizon. As such, private consumption growth will remain broadly steady at around 2%, notwithstanding the modest boost which increasing household wealth (driven by accelerating house prices) may provide.

Following further contraction this year, the drag from declining fixed investment in the energy sector is set to fully dissipate in 2017. A modest improvement in the domestic economy and low interest rates should support business investment in non-energy sectors. Added to this, increasing residential investment by households should see total fixed investment turn positive in 2017 following three consecutive years of contraction, before accelerating further in 2018.

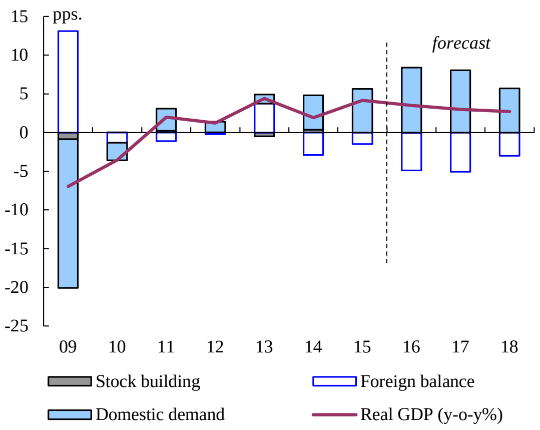
With respect to the external sector, weak import demand among Norway's key trading partners has imposed a substantial drag on growth so far in 2016. Exports are expected to recover in future years, although this is subject to uncertainties arising from future trajectory of oil prices given their pass-through to the NOK.

Risks are largely external (e.g. crude oil prices), but high household debt levels would have impacts on private consumption in the event of an asset price correction or an interest rate spike.

Iceland

GDP growth in Iceland remained close to 4% during the first half of 2016, driven mainly by private consumption and investment, with tourism-related construction particularly strong. Fixed investment increased by 23% (y-o-y); while private consumption grew by 7.7%, reflecting high wage growth and low inflation. The labour market has also remained strong, with the unemployment rate (3.6%) falling well-below pre-crisis levels as jobs growth remained robust. During the forecasting period, key drivers of growth should continue to be strong private consumption, benefitting from low prices, continued employment growth and high wage agreements that were concluded in 2015. Investment is also expected to remain strong, particularly in the fishing industry and silicon-related projects, as well as further construction in the tourism sector. These drivers should moderate over the forecast horizon; while stronger domestic demand should lead to a widening of the trade deficit. The high import content of investment and private consumption has already resulted in a worsening of Iceland's trade balance, increasing the deficit to 7.1% of GDP by mid-2016.

Graph II.37.3: **Iceland - Real GDP growth and contributions**



A strong exchange rate (appreciating by 11% since end-2015) and low import prices have helped to keep inflation low (1.7% in the first eight months of 2016). Inflation is likely to rise, reflecting the lagged effects of high wage agreements which were finalised in 2015, but also due to strong demand from tourism. Wage agreements may dampen employment growth in the near term; although this may be offset by increased labour supply. This will increasingly have to come from abroad as domestic employment rates are already high, resulting in the unemployment rate falling at a moderate pace.

Following a small budget deficit last year, fiscal accounts for the first half of 2016 have recorded a surplus of some 16% of estimated end-year GDP. This has resulted from a one-off windfall gain due to the lifting of capital controls, and current plans are for this revenue to be used largely for debt reduction. If those funds are used primarily for lowering the debt burden, the debt ratio could drop well below 60% of GDP by end-2016, and below 45% of GDP by end-2018. The general government is likely to maintain largely balanced public sector accounts during the remainder of the forecasting period.

On 11 October, the parliament adopted new legislation to liberalise the capital account regime, taking effect from 1 January 2016. This has a positive effect on the country's medium-term outlook and safety clauses should prevent sudden swings in capital flows. However, there are risks that persistent capital inflows could further increase the upward pressure on Iceland's currency, further eroding the country's international price competitiveness.

Table II.37.1:

Main features of country forecast - EFTA

	Iceland				Norway				Switzerland			
(Annual percentage change)	**2015**	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**
GDP	4.2	**4.0**	**3.5**	**2.7**	1.6	**0.7**	**1.6**	**1.7**	0.8	**1.2**	**1.5**	**1.7**
Private Consumption	4.3	**7.3**	**5.0**	**4.0**	2.1	**1.9**	**1.8**	**2.1**	1.1	**1.0**	**1.3**	**1.4**
Public Consumption	1.0	**0.8**	**1.2**	**1.4**	2.1	**2.1**	**2.1**	**2.0**	2.2	**1.7**	**1.5**	**1.1**
Gross fixed capital formation	18.3	**20.0**	**8.0**	**5.0**	-3.8	**-1.4**	**1.3**	**1.8**	1.6	**2.0**	**1.4**	**1.8**
of which: equipment	:	**:**	**:**	**:**	-0.4	**1.1**	**0.6**	**0.9**	1.6	**2.3**	**0.2**	**2.0**
Exports (good and services)	9.2	**6.6**	**4.5**	**4.5**	3.7	**-0.6**	**2.4**	**2.1**	2.3	**3.7**	**3.2**	**3.7**
Imports (goods and services)	13.5	**15.6**	**7.2**	**6.8**	1.6	**0.1**	**2.5**	**2.9**	4.5	**3.6**	**3.4**	**3.9**
GNI (GDP deflator)	5.0	**4.5**	**3.6**	**2.7**	1.6	**0.7**	**1.6**	**1.7**	0.8	**1.2**	**1.5**	**1.7**
Contribution to GDP growth: Domestic demand	5.6	**7.6**	**4.6**	**3.5**	0.4	**1.0**	**1.6**	**1.8**	1.2	**1.2**	**1.2**	**1.3**
Inventories	0.0	**0.1**	**0.0**	**0.0**	0.2	**-0.1**	**-0.1**	**0.0**	0.5	**-0.5**	**0.0**	**0.0**
Net exports	-1.5	**-3.6**	**-1.1**	**-0.9**	1.0	**-0.3**	**0.0**	**-0.2**	-0.9	**0.5**	**0.2**	**0.4**
Employment	3.4	**2.8**	**2.5**	**2.0**	0.3	**0.0**	**0.6**	**1.0**	1.5	**0.1**	**0.4**	**0.7**
Unemployment rate (a)	4.2	**3.4**	**3.0**	**2.7**	4.2	**4.7**	**4.3**	**4.0**	4.6	**4.6**	**4.5**	**4.0**
Compensation of employee/head	5.5	**8.0**	**6.0**	**4.0**	2.7	**2.5**	**3.2**	**3.6**	-2.9	**-1.2**	**0.5**	**0.7**
Unit labour cost whole economy	4.7	**6.7**	**5.0**	**3.3**	1.3	**1.8**	**2.2**	**2.8**	-2.2	**-2.3**	**-0.5**	**-0.3**
Real unit labour cost	-1.1	**3.6**	**1.1**	**-1.5**	3.7	**0.0**	**-1.2**	**0.2**	-1.7	**-1.6**	**-0.5**	**-0.6**
Saving rate of households (b)	:	**:**	**:**	**:**	14.2	**14.4**	**14.5**	**13.7**	22.0	**21.5**	**21.5**	**21.7**
GDP deflator	5.9	**3.0**	**3.8**	**4.8**	-2.3	**1.8**	**3.4**	**2.6**	-0.6	**-0.7**	**0.0**	**0.3**
Harmonised index of consumer prices	0.3	**1.7**	**2.2**	**3.3**	2.0	**3.5**	**3.0**	**2.6**	-0.8	**-0.4**	**0.0**	**0.2**
Terms of trade goods	10.6	**0.7**	**0.3**	**-0.1**	-15.5	**-5.7**	**2.0**	**-0.4**	1.2	**0.1**	**0.0**	**0.0**
Trade balance (goods) (c)	-1.6	**-4.7**	**-5.0**	**-5.8**	6.6	**5.0**	**5.4**	**5.2**	8.0	**8.3**	**8.3**	**8.5**
Current account balance (c)	5.1	**2.4**	**1.2**	**0.2**	4.7	**3.1**	**3.6**	**3.2**	12.3	**12.4**	**12.6**	**12.9**
Net lending (+) or borrowing (-) vis-a-vis ROW	5.0	**2.4**	**1.2**	**0.1**	4.7	**3.1**	**3.5**	**3.2**	11.6	**11.7**	**11.9**	**12.3**
General government balance (c)	-0.8	**1.2**	**0.5**	**0.0**	6.4	**4.1**	**3.4**	**3.7**	-0.6	**-0.4**	**0.0**	**0.2**
General government gross debt (c)	66.0	**52.5**	**48.0**	**44.0**	31.8	**31.9**	**31.8**	**30.0**	35.3	**35.4**	**34.9**	**34.0**

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

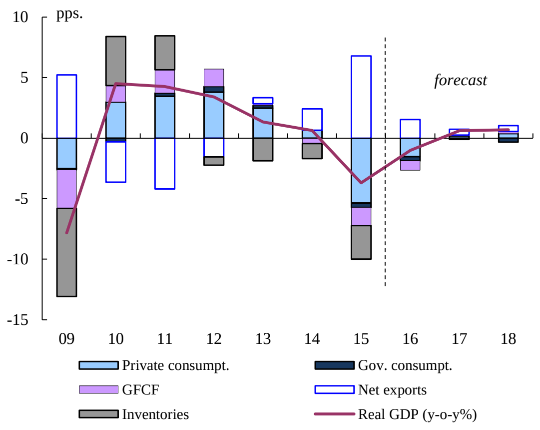
38. RUSSIAN FEDERATION

A gradual upturn in activity but numerous uncertainties remain

Russia's economy is set to continue to contracting in 2016, albeit at a much more moderate pace as there are increasing signs that the recession is bottoming-out. Growth should to turn positive from 2017 onwards, although the recovery is expected to be only gradual as structural impediments to growth persist, aggravated further by tightening fiscal policy and only limited space for monetary easing.

Russia's recession should continue into 2016, although GDP outturns for 2016-Q1 (-1.2% y-o-y) and 2016-Q2 (-0.6% y-o-y) point to greater resilience than initially anticipated. However, the significant contribution to growth coming from inventory investment (2.2pps. in Q1; 1.5pps. in Q2) may not be sustainable in the near term, and therefore caution is required in interpreting the economy's recent upturn. At the same time, both private consumption and fixed investment continue to contract at substantial rates. Going forward, growth in private consumption and investment is set to turn mildly positive in 2017 and 2018 as real incomes begin a modest recovery. A tightening fiscal policy stance, offset only in part by a gradual continuation of the monetary policy easing cycle, is expected to place a constraint on the economy's rebound as public consumption contracts throughout the forecast horizon. Export growth, while moderating in line with more stable exchange rate dynamics, should continue to contribute positively to growth. Overall, GDP growth is estimated at -1.0% in 2016, and should turn positive at 0.6% and 0.8% in 2017 and 2018, respectively.

Graph II.38.1: **Russia - Real GDP growth and contributions**



Domestic demand to lead a weak recovery

Despite some improvement over recent months, most short-term indicators (PMIs, industrial output, retail sales) underline the continued weakness in the domestic economy. Real wage growth is expected to turn consistently positive in late-2016 and early-2017 as inflationary pressures begin to subside. Combined with a cautious improvement in consumer sentiment as economic conditions stabilise, this should facilitate a return to modest private consumption growth. However, only partial indexation of public salaries and social transfers, as well as continued high levels of precautionary savings, should restrain the potential rebound.

Investment should also benefit from relative macroeconomic stability and continued output growth in agriculture and extractive industries. Nonetheless, high interest rates and still weak demand in the domestic economy are set to act as a counterbalance to growth across almost all sectors.

Fiscal consolidation will weigh on growth…

The rapid decline in the value of the Reserve Fund, which is expected to be fully exhausted by early-2017, will require consolidation on the expenditure side as the public finances adjust to lower oil prices. Alternative extra-budgetary funds (the National Welfare Fund) and privatisation proceeds will continue to finance the deficit, but still-limited access to external financing and relatively shallow domestic capital markets provide with little space to delay this adjustment further. Budgetary plans announced in October set out fiscal consolidation at the federal level amounting to 1 pp. of GDP annually from 2017 onwards. Nominal expenditure is forecast to remain broadly constant throughout this period, implying declines in real terms with public consumption expected to continue falling over the outer years of the forecast. The pace of consolidation is subject to uncertainties, including the possible over-performance of fiscal revenues relative to the government's conservative oil price assumptions, as well as the need to sustain expenditure on social transfers. In light of this, consolidation at the general government level is anticipated to be somewhat less ambitious, with the general government deficit falling by 0.2 pps. and 0.5 pps. of GDP in 2017 and 2018, respectively.

...while monetary policy should also remain tight.

The Central Bank of Russia's (CBR) commitment to achieving its 4% inflation target by end-2017 implies only limited scope for further monetary policy easing (policy rates are currently at 10.0%). Core inflation has been falling over recent months, albeit helped in part by base effects, and is expected to fall further in line with weak domestic demand, fiscal consolidation measures and output remaining below potential. Nonetheless, high inflation expectations remain deeply entrenched and this will likely lead to inflation coming in slightly above the CBR's target. Continued progress is subject to risks regarding the rouble's exposure to crude oil price volatility and its consequent pass-through to inflation. As such, the space for further monetary policy easing appears constrained in the near term.

Gradual shift to non-energy related output...

The economy's reliance on the oil and gas sector remains significant, and a transition towards alternative sectors is expected to be very gradual as the government's programme of import substitution proceeds. This reorientation remains impeded by the continued presence of structural impediments to growth, including a poor investment environment, adverse demographics and labour market participation rates, and high financing costs. The persistence of these constraints provides that growth is not expected to accelerate substantially in 2018.

...as financing constraints remain in place.

The banking sector's near-term stabilisation has been secured due to numerous emergency policy measures. However, despite its recent return to modest profitability, the sector's capacity to finance economic recovery remains severely limited by poor credit quality and high levels of non-performing loans in both the corporate and household sectors. Subdued domestic credit growth is accompanied by limited access to external financing (due in part to sanctions) and this too should restrain growth going forward.

Continued vulnerability to external shocks

Key sources of uncertainty remain oil price dynamics and a possible prolongation of sanctions, while a re-emergence of volatility among emerging markets could also entail adverse spillovers.

Table II.38.1:

Main features of country forecast - RUSSIA

		2015		Annual percentage change						
	bn RUB	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		72862.5	100.0	4.2	1.3	0.6	-3.7	**-1.0**	**0.6**	**0.8**
Private Consumption		40167.7	55.1	6.4	4.9	1.2	-9.4	**-4.1**	**0.4**	**0.8**
Public Consumption		15049.7	20.7	1.3	1.1	-0.1	-1.8	**-1.1**	**-0.9**	**-1.0**
Gross fixed capital formation		13702.4	18.8	6.3	0.6	-2.1	-7.8	**-4.5**	**0.7**	**1.1**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		23110.7	31.7	5.2	4.6	-0.1	3.7	**0.5**	**2.1**	**2.1**
Imports (goods and services)		16381.3	22.5	9.4	3.8	-7.9	-25.7	**-4.4**	**1.1**	**1.3**
GNI (GDP deflator)		70462.5	96.7	4.1	0.9	0.9	-3.4	**-0.9**	**0.8**	**1.0**
Contribution to GDP growth:		Domestic demand		4.7	2.8	0.2	-6.9	**-3.3**	**0.2**	**0.4**
		Inventories		0.1	-1.9	-1.2	-3.1	**1.1**	**0.0**	**0.0**
		Net exports		-0.6	0.5	1.8	7.0	**1.1**	**0.4**	**0.4**
Employment				-	-0.2	0.2	-0.7	**-0.3**	**-0.2**	**-0.1**
Unemployment rate (a)				-	5.5	5.2	5.6	**5.7**	**5.7**	**5.6**
Compensation of employees / head				-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				19.0	5.0	7.2	6.0	**5.3**	**6.3**	**5.4**
Consumer-price index				-	6.8	7.8	15.7	**7.3**	**5.2**	**4.2**
Terms of trade goods				5.1	-6.6	-4.0	-25.9	**-9.1**	**1.0**	**0.0**
Trade balance (goods) (c)				11.7	8.8	10.1	10.8	**9.7**	**10.1**	**10.1**
Current-account balance (c)				7.2	1.6	3.2	5.5	**5.0**	**5.6**	**5.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				7.3	1.6	3.1	5.5	**5.0**	**5.6**	**5.8**
General government balance (c)				-	1.9	1.3	-1.3	**-2.3**	**-2.1**	**-1.6**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	14.0	17.1	18.7	**21.4**	**23.3**	**24.5**

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

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Table 1: Gross domestic product, volume (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	2.7	2.2	1.3	0.1	-0.1	1.7	1.5	**1.2**	**1.3**	**1.5**	*1.2*	*1.6*
Germany	2.1	1.0	1.2	0.5	0.5	1.6	1.7	**1.9**	**1.5**	**1.7**	*1.6*	*1.6*
Estonia	6.3	7.9	-0.9	4.3	1.4	2.8	1.4	**1.1**	**2.3**	**2.6**	*1.9*	*2.4*
Ireland	9.1	5.5	-0.7	-1.1	1.1	8.5	26.3	**4.1**	**3.6**	**3.5**	*4.9*	*3.7*
Greece	3.9	4.2	-3.3	-7.3	-3.2	0.4	-0.2	**-0.3**	**2.7**	**3.1**	*-0.3*	*2.7*
Spain	4.4	3.4	0.0	-2.9	-1.7	1.4	3.2	**3.2**	**2.3**	**2.1**	*2.6*	*2.5*
France	3.0	1.7	0.7	0.2	0.6	0.6	1.3	**1.3**	**1.4**	**1.7**	*1.3*	*1.7*
Italy	2.1	1.0	-0.6	-2.8	-1.7	0.1	0.7	**0.7**	**0.9**	**1.0**	*1.1*	*1.3*
Cyprus	4.4	3.7	1.7	-3.2	-6.0	-1.5	1.7	**2.8**	**2.5**	**2.3**	*1.7*	*2.0*
Latvia	6.0	9.3	-1.5	4.0	2.9	2.1	2.7	**1.9**	**2.8**	**3.0**	*2.8*	*3.1*
Lithuania	4.9	7.8	0.9	3.8	3.5	3.5	1.8	**2.0**	**2.7**	**2.8**	*2.8*	*3.1*
Luxembourg	7.0	3.5	1.9	0.0	4.2	4.7	3.5	**3.6**	**3.8**	**3.6**	*3.3*	*3.9*
Malta	3.9	2.3	2.0	2.9	4.5	3.5	6.2	**4.1**	**3.7**	**3.7**	*4.1*	*3.5*
Netherlands	4.0	1.6	0.9	-1.1	-0.2	1.4	2.0	**1.7**	**1.7**	**1.8**	*1.7*	*2.0*
Austria	2.8	2.1	1.2	0.7	0.1	0.6	1.0	**1.5**	**1.6**	**1.6**	*1.5*	*1.6*
Portugal	3.8	0.8	-0.1	-4.0	-1.1	0.9	1.6	**0.9**	**1.2**	**1.4**	*1.5*	*1.7*
Slovenia	4.2	4.1	0.7	-2.7	-1.1	3.1	2.3	**2.2**	**2.6**	**2.2**	*1.7*	*2.3*
Slovakia	2.9	6.1	3.6	1.7	1.5	2.6	3.8	**3.4**	**3.2**	**3.8**	*3.2*	*3.3*
Finland	4.9	2.9	0.5	-1.4	-0.8	-0.7	0.2	**0.8**	**0.8**	**1.1**	*0.7*	*0.7*
Euro area	2.9	1.8	0.5	-0.9	-0.3	1.2	2.0	**1.7**	**1.5**	**1.7**	*1.6*	*1.8*
Bulgaria	0.8	6.3	2.5	0.0	0.9	1.3	3.6	**3.1**	**2.9**	**2.8**	*2.0*	*2.4*
Czech Republic	1.5	4.7	1.5	-0.8	-0.5	2.7	4.5	**2.2**	**2.6**	**2.7**	*2.1*	*2.6*
Denmark	2.6	1.9	-0.5	-0.1	-0.2	1.3	1.0	**1.0**	**1.7**	**1.8**	*1.2*	*1.9*
Croatia	2.9	4.8	-0.5	-2.2	-1.1	-0.5	1.6	**2.6**	**2.5**	**2.3**	*1.8*	*2.1*
Hungary	3.7	4.3	-0.6	-1.6	2.1	4.0	3.1	**2.1**	**2.6**	**2.8**	*2.5*	*2.8*
Poland	4.3	4.1	4.5	1.6	1.4	3.3	3.9	**3.1**	**3.4**	**3.2**	*3.7*	*3.6*
Romania	0.1	6.2	1.5	0.6	3.5	3.1	3.7	**5.2**	**3.9**	**3.6**	*4.2*	*3.7*
Sweden	3.6	3.3	1.2	-0.3	1.2	2.6	4.1	**3.4**	**2.4**	**2.1**	*3.4*	*2.9*
United Kingdom	3.2	2.8	0.2	1.3	1.9	3.1	2.2	**1.9**	**1.0**	**1.2**	*1.8*	*1.9*
EU	3.0	2.1	0.5	-0.5	0.2	1.6	2.2	**1.8**	**1.6**	**1.8**	*1.8*	*1.9*
USA	3.7	2.9	0.6	2.2	1.7	2.4	2.6	**1.6**	**2.1**	**1.9**	*2.3*	*2.2*
Japan	0.4	1.5	-0.1	1.7	1.4	0.0	0.5	**0.7**	**0.8**	**0.4**	*0.8*	*0.4*

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2016-18) 31.10.2016

	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4
Belgium	0.1	0.5	0.2	0.4	0.2	0.3	0.4	0.4	0.3	0.4	0.4	0.4
Germany	0.7	0.4	0.4	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Estonia	-0.5	0.5	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	0.8	0.8	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
France	0.6	-0.1	0.2	0.4	0.5	0.3	0.3	0.4	0.5	0.5	0.5	0.5
Italy	0.3	0.0	0.2	0.1	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	-0.1	0.6	0.5	0.9	0.6	0.7	0.8	1.1	0.7	0.7	0.8	0.8
Lithuania	0.6	0.4	0.1	0.5	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.6	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.4
Austria	0.6	0.1	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Portugal	0.2	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Slovenia	0.5	0.5	0.7	0.8	0.7	0.6	0.5	0.5	0.6	0.5	0.6	0.5
Slovakia	0.8	0.9	0.7	0.7	0.8	0.9	0.9	0.9	1.0	1.0	1.0	0.9
Finland	0.3	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Euro area	0.5	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Bulgaria	0.8	0.9	0.7	0.7	0.6	0.8	0.8	0.7	0.7	0.8	0.6	0.7
Czech Republic	0.4	0.9	0.0	0.3	0.7	0.9	1.0	1.0	0.6	0.4	0.4	0.3
Denmark	0.7	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Croatia	0.6	0.5	0.9	0.1	0.1	1.0	1.0	1.0	0.4	0.3	0.3	0.3
Hungary	-0.5	1.0	1.1	1.1	0.4	0.4	0.4	0.5	0.8	0.8	0.8	0.8
Poland	-0.1	0.9	1.3	1.1	0.6	0.5	0.7	0.8	0.9	0.9	0.9	0.9
Romania	1.5	1.5	0.9	1.4	0.9	0.6	0.7	1.2	1.0	0.6	1.2	0.8
Sweden	0.4	0.5	0.5	0.5	0.4	0.6	0.6	0.6	0.3	0.4	0.5	0.4
United Kingdom	0.4	0.7	0.5	0.2	0.1	0.2	0.3	0.3	0.2	0.3	0.3	0.3
EU	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
USA	0.2	0.4	0.7	0.6	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Japan	0.5	0.2	0.5	0.0	0.2	0.3	0.2	-0.1	0.1	0.1	0.1	0.1

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2016-18) 31.10.2016

	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4
Belgium	1.3	1.2	1.2	1.2	1.3	1.1	1.3	1.3	1.4	1.5	1.6	1.6
Germany	1.8	1.7	1.9	1.9	1.6	1.7	1.8	1.9	1.9	1.7	1.7	1.6
Estonia	1.5	0.6	1.5	1.0	2.0	2.2	2.5	2.5	2.5	2.6	2.6	2.6
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	3.4	3.4	3.1	2.9	2.6	2.3	2.1	2.0	2.0	2.1	2.1	2.1
France	1.4	1.3	1.1	1.2	1.0	1.4	1.5	1.5	1.5	1.7	1.8	1.9
Italy	0.9	0.7	0.8	0.8	0.7	1.0	1.1	1.2	1.1	1.0	0.8	0.6
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	1.2	0.8	0.7	2.0	2.7	2.8	3.1	3.2	3.3	3.3	3.2	3.0
Lithuania	2.5	2.1	1.6	1.6	1.9	2.3	3.0	3.1	2.9	2.8	2.8	2.9
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	1.1	1.7	1.8	2.0	1.8	1.6	1.6	1.6	1.6	1.7	1.8	1.9
Austria	1.5	1.3	1.7	1.7	1.5	1.8	1.6	1.6	1.6	1.6	1.6	1.6
Portugal	0.9	0.9	1.0	0.9	1.0	1.1	1.4	1.6	1.5	1.4	1.2	1.1
Slovenia	2.1	1.9	2.3	2.5	2.7	2.8	2.6	2.2	2.2	2.1	2.1	2.2
Slovakia	3.7	3.7	3.4	3.1	3.1	3.0	3.3	3.5	3.7	3.9	4.0	4.0
Finland	1.2	0.4	0.8	0.7	0.6	0.9	0.9	0.8	0.9	1.0	1.2	1.3
Euro area	1.7	1.6	1.6	1.6	1.5	1.6	1.6	1.7	1.7	1.7	1.7	1.7
Bulgaria	3.4	3.6	3.3	3.1	2.9	2.8	2.8	2.9	3.0	3.0	2.9	2.8
Czech Republic	3.0	2.6	1.6	1.6	2.0	2.0	2.9	3.6	3.5	3.0	2.4	1.8
Denmark	0.2	0.3	1.4	2.1	1.8	1.8	1.6	1.6	1.6	1.7	1.8	1.9
Croatia	2.3	1.9	1.5	2.2	1.7	2.2	2.2	3.1	3.4	2.7	2.0	1.3
Hungary	0.9	1.8	2.5	2.7	3.7	3.0	2.3	1.6	2.1	2.6	3.0	3.3
Poland	2.6	3.1	3.5	3.2	3.9	3.5	2.9	2.6	3.0	3.3	3.6	3.6
Romania	4.2	5.9	5.2	5.4	4.7	3.8	3.7	3.6	3.6	3.5	4.0	3.5
Sweden	4.2	3.4	2.9	1.9	1.9	2.0	2.1	2.3	2.2	2.0	1.8	1.6
United Kingdom	1.9	2.1	2.3	1.8	1.5	1.0	0.8	0.8	0.9	1.1	1.1	1.2
EU	1.8	1.8	1.8	1.8	1.7	1.6	1.6	1.6	1.7	1.7	1.7	1.7
USA	1.6	1.3	1.5	1.9	2.2	2.3	1.9	1.8	1.7	1.9	1.9	2.0
Japan	0.1	0.8	0.8	1.2	0.9	1.0	0.7	0.6	0.5	0.3	0.3	0.5

Table 4: Gross domestic product per capita (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	2.5	1.6	0.4	-0.6	-0.5	1.2	1.0	**0.7**	**0.8**	**1.0**	*0.6*	*0.8*
Germany	2.1	1.0	1.5	0.3	0.2	1.2	0.9	**0.7**	**0.3**	**0.9**	*0.7*	*1.3*
Estonia	6.8	8.5	-0.6	4.7	1.8	3.2	1.6	**1.1**	**2.3**	**2.6**	*2.3*	*2.8*
Ireland	7.8	3.4	-2.1	-1.4	0.8	8.2	25.5	**3.2**	**2.6**	**2.6**	*3.8*	*2.7*
Greece	3.4	3.9	-3.4	-6.8	-2.5	1.0	0.1	**-0.3**	**2.7**	**3.1**	*-0.3*	*2.7*
Spain	3.9	1.7	-1.0	-3.0	-1.3	1.7	3.3	**3.3**	**2.4**	**2.2**	*2.7*	*2.7*
France	2.5	1.0	0.2	-0.3	0.1	0.2	0.9	**0.8**	**0.9**	**1.3**	*0.9*	*1.2*
Italy	2.1	0.5	-1.1	-3.3	-2.2	-0.1	0.8	**0.7**	**0.6**	**0.7**	*1.1*	*1.0*
Cyprus	3.2	2.3	-0.8	-4.6	-5.7	-0.4	2.3	**3.1**	**2.3**	**1.9**	*2.0*	*1.8*
Latvia	7.0	10.4	0.0	5.3	4.0	3.0	3.5	**2.5**	**3.4**	**3.5**	*3.5*	*3.6*
Lithuania	5.7	9.1	2.5	5.2	4.6	4.4	2.7	**3.2**	**3.9**	**3.9**	*4.0*	*4.3*
Luxembourg	5.6	2.1	0.0	-2.3	1.6	2.3	1.5	**1.5**	**1.7**	**1.5**	*0.9*	*1.5*
Malta	3.2	1.7	1.5	2.1	3.5	2.5	5.0	**3.3**	**2.9**	**3.0**	*3.3*	*2.7*
Netherlands	3.4	1.2	0.5	-1.4	-0.5	1.0	1.5	**1.1**	**1.0**	**1.2**	*1.1*	*1.3*
Austria	2.6	1.6	0.9	0.3	-0.5	-0.1	0.0	**0.7**	**1.1**	**1.1**	*0.7*	*1.1*
Portugal	3.2	0.5	-0.1	-3.6	-0.6	1.4	2.0	**1.4**	**1.7**	**1.8**	*2.0*	*2.2*
Slovenia	4.1	4.0	0.3	-2.9	-1.2	3.0	2.2	**2.1**	**2.4**	**2.1**	*1.5*	*2.2*
Slovakia	2.8	6.0	3.6	1.5	1.4	2.5	3.8	**3.4**	**3.2**	**3.8**	*3.2*	*3.3*
Finland	4.6	2.6	0.1	-1.9	-1.2	-1.1	-0.1	**0.4**	**0.4**	**0.7**	*0.3*	*0.3*
Euro area	2.6	1.2	0.1	-1.2	-0.5	1.0	1.7	**1.2**	**1.1**	**1.4**	*1.2*	*1.5*
Bulgaria	1.7	7.4	3.2	0.6	1.4	1.9	4.0	**3.8**	**3.5**	**3.4**	*2.6*	*3.0*
Czech Republic	1.7	4.6	1.0	-0.9	-0.5	2.6	4.4	**2.0**	**2.5**	**2.6**	*1.9*	*2.4*
Denmark	2.2	1.6	-1.0	-0.4	-0.6	0.7	0.3	**0.2**	**1.2**	**1.4**	*0.7*	*1.5*
Croatia	4.3	4.7	-0.4	-1.9	-0.8	0.1	2.1	**2.8**	**2.7**	**2.6**	*2.0*	*2.3*
Hungary	4.0	4.6	-0.4	-1.1	2.4	4.3	3.4	**2.2**	**2.8**	**2.9**	*2.7*	*3.0*
Poland	4.3	4.1	4.3	1.6	1.5	3.3	4.0	**3.2**	**3.5**	**3.3**	*3.8*	*3.6*
Romania	0.2	7.4	2.6	1.1	3.9	3.5	4.2	**5.2**	**4.1**	**3.9**	*4.3*	*3.9*
Sweden	3.5	2.8	0.4	-1.0	0.4	1.6	3.0	**2.2**	**0.9**	**0.5**	*2.1*	*1.4*
United Kingdom	2.9	2.2	-0.6	0.6	1.3	2.3	1.4	**1.2**	**0.3**	**0.5**	*0.9*	*1.1*
EU	2.8	1.8	0.2	-0.7	0.0	1.4	1.9	**1.4**	**1.2**	**1.4**	*1.4*	*1.6*
USA	2.6	1.9	-0.3	1.5	0.9	1.6	1.8	**0.8**	**1.3**	**1.1**	*1.4*	*1.4*
Japan	0.2	1.4	-0.1	2.0	1.5	0.1	0.7	**0.8**	**0.9**	**0.5**	*1.0*	*0.6*

Table 5: Domestic demand, volume (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	2.3	1.7	1.5	-0.2	-0.5	2.2	1.5	**0.6**	**1.3**	**1.5**	*0.8*	*1.4*
Germany	1.7	0.1	1.1	-0.8	0.9	1.4	1.6	**1.9**	**1.8**	**2.0**	*2.5*	*1.9*
Estonia	6.7	10.8	-3.0	8.5	1.5	2.5	0.7	**2.8**	**2.9**	**2.9**	*2.7*	*2.6*
Ireland	8.4	6.2	-2.5	1.3	-1.9	7.7	9.9	**7.5**	**3.7**	**2.9**	*5.4*	*3.9*
Greece	4.2	4.4	-4.1	-9.9	-4.3	0.5	-1.2	**0.0**	**2.4**	**2.9**	*-0.5*	*2.5*
Spain	4.8	4.5	-1.2	-5.1	-3.2	1.9	3.4	**3.0**	**2.1**	**1.9**	*3.0*	*2.6*
France	3.0	2.0	1.0	-0.3	0.7	1.1	1.5	**1.8**	**1.6**	**2.1**	*1.6*	*1.7*
Italy	2.6	1.2	-0.6	-5.7	-2.6	0.1	1.1	**0.9**	**1.1**	**1.3**	*1.4*	*1.4*
Cyprus	3.5	5.3	1.7	-4.0	-9.4	-1.4	2.9	**2.9**	**2.6**	**2.1**	*2.0*	*1.6*
Latvia	6.0	11.3	-3.3	1.6	2.0	0.1	2.4	**2.5**	**3.7**	**3.8**	*3.5*	*3.7*
Lithuania	5.3	9.4	-0.6	-0.2	3.2	3.4	7.1	**-0.4**	**4.0**	**2.7**	*3.5*	*3.8*
Luxembourg	5.8	2.8	2.7	2.7	1.3	3.7	2.4	**3.3**	**3.8**	**3.4**	*2.2*	*2.9*
Malta	1.8	3.1	1.1	-0.3	3.0	3.5	11.8	**4.3**	**4.2**	**1.7**	*3.6*	*4.2*
Netherlands	4.2	1.2	0.7	-2.3	-1.4	0.9	2.2	**1.7**	**2.1**	**2.0**	*2.6*	*2.3*
Austria	1.9	1.6	1.1	0.2	0.0	0.1	0.6	**1.7**	**1.4**	**1.2**	*1.4*	*1.4*
Portugal	4.6	0.6	-0.9	-7.3	-2.0	2.2	2.5	**1.1**	**1.4**	**1.4**	*1.5*	*1.9*
Slovenia	4.2	3.7	0.0	-5.7	-2.0	1.8	1.4	**1.7**	**2.7**	**2.6**	*1.3*	*2.8*
Slovakia	2.6	5.0	2.1	-4.0	0.3	3.2	4.7	**2.2**	**3.4**	**3.3**	*2.4*	*3.7*
Finland	4.0	2.9	1.2	-1.2	-1.1	-0.2	1.4	**1.5**	**1.0**	**1.0**	*0.9*	*0.7*
Euro area	2.9	1.7	0.2	-2.4	-0.7	1.2	1.8	**1.8**	**1.7**	**1.9**	*2.0*	*1.9*
Bulgaria	5.7	8.7	0.5	2.1	-2.2	2.7	3.4	**2.0**	**2.7**	**2.8**	*0.9*	*1.7*
Czech Republic	1.3	3.8	0.9	-2.1	-0.6	3.4	4.7	**1.5**	**2.4**	**2.6**	*1.9*	*2.6*
Denmark	2.3	2.9	-0.7	0.5	-0.2	1.3	0.9	**1.4**	**1.8**	**1.9**	*2.0*	*1.9*
Croatia	2.7	6.2	-1.4	-3.3	-1.1	-1.9	1.2	**2.8**	**2.9**	**2.8**	*1.7*	*2.2*
Hungary	4.2	4.1	-2.3	-3.0	2.3	4.6	1.4	**1.2**	**3.7**	**3.1**	*2.0*	*2.7*
Poland	4.4	3.9	4.5	-0.5	-0.6	4.7	3.4	**3.0**	**3.7**	**3.3**	*4.1*	*3.9*
Romania	1.5	9.1	1.9	-0.5	-0.1	3.4	5.0	**7.8**	**5.2**	**4.3**	*6.4*	*4.9*
Sweden	3.0	2.5	1.8	-0.6	1.6	2.9	4.0	**4.2**	**2.5**	**2.0**	*3.5*	*3.0*
United Kingdom	3.9	3.0	-0.4	2.2	2.1	3.4	2.5	**2.0**	**0.6**	**0.3**	*2.3*	*2.0*
EU	3.0	2.1	0.3	-1.5	-0.1	1.8	2.1	**2.0**	**1.7**	**1.7**	*2.2*	*2.1*
USA	4.3	3.2	0.1	2.1	1.3	2.4	3.2	**2.0**	**2.0**	**2.0**	*2.9*	*2.6*
Japan	0.2	0.8	-0.2	2.6	1.7	0.0	0.1	**0.7**	**0.8**	**0.3**	*0.3*	*0.1*

Table 6: Final demand, volume (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	3.8	2.8	2.1	0.7	0.1	3.5	2.8	**2.0**	**2.5**	**2.8**	*2.3*	*3.1*
Germany	3.2	2.0	1.8	0.3	1.2	2.3	2.8	**2.2**	**2.1**	**2.7**	*2.4*	*2.8*
Estonia	6.9	11.1	1.0	6.7	1.9	2.8	0.1	**2.7**	**3.1**	**3.2**	*2.3*	*3.1*
Ireland	13.1	5.4	0.5	1.9	0.9	11.6	24.2	**4.5**	**4.0**	**4.1**	*6.3*	*5.6*
Greece	5.6	4.2	-3.5	-7.7	-3.0	2.1	-0.1	**-0.9**	**2.7**	**3.3**	*-0.3*	*2.9*
Spain	5.7	4.2	-0.5	-3.7	-1.4	2.5	3.8	**3.8**	**2.7**	**2.6**	*3.4*	*3.3*
France	4.1	2.2	1.1	0.3	0.9	1.6	2.5	**1.6**	**1.9**	**2.5**	*2.2*	*2.4*
Italy	2.9	1.5	-0.5	-4.0	-1.9	0.8	1.8	**1.1**	**1.5**	**1.8**	*1.7*	*2.0*
Cyprus	3.7	3.2	1.8	-3.6	-5.5	0.7	1.8	**3.9**	**3.4**	**2.8**	*2.2*	*2.0*
Latvia	6.2	11.1	-0.9	4.5	1.7	1.5	2.5	**2.3**	**3.3**	**3.6**	*2.7*	*3.4*
Lithuania	6.2	10.6	2.1	5.0	6.1	3.4	3.7	**1.5**	**3.5**	**3.0**	*3.3*	*3.8*
Luxembourg	8.9	5.5	2.4	2.7	4.9	9.9	10.2	**2.8**	**3.9**	**4.1**	*3.8*	*4.5*
Malta	2.7	4.1	4.8	4.3	1.2	1.2	5.8	**3.0**	**3.9**	**3.0**	*3.5*	*4.1*
Netherlands	5.6	2.6	1.5	0.5	0.3	2.6	3.5	**2.5**	**2.8**	**2.8**	*3.6*	*3.3*
Austria	3.9	2.9	1.5	0.7	0.2	0.9	1.6	**2.1**	**1.9**	**1.9**	*1.9*	*2.2*
Portugal	4.9	1.4	-0.2	-4.7	0.5	2.8	3.6	**1.6**	**2.0**	**2.2**	*2.3*	*2.8*
Slovenia	5.4	5.9	1.2	-3.1	0.2	3.5	3.3	**3.8**	**3.3**	**3.5**	*2.5*	*3.7*
Slovakia	4.0	9.3	3.3	2.1	3.4	3.4	5.8	**3.7**	**4.3**	**4.9**	*3.3*	*4.8*
Finland	5.8	3.7	0.9	-0.5	-0.4	-0.6	1.0	**0.9**	**1.2**	**1.5**	*1.0*	*1.2*
Euro area	4.1	2.6	0.8	-0.9	0.2	2.2	3.3	**2.1**	**2.2**	**2.6**	*2.5*	*2.8*
Bulgaria	1.4	9.3	2.3	2.1	2.2	2.8	4.3	**3.2**	**3.4**	**3.5**	*2.4*	*3.1*
Czech Republic	3.6	7.4	2.8	0.6	-0.3	5.8	6.1	**3.2**	**3.4**	**3.6**	*3.7*	*3.9*
Denmark	3.7	3.5	-0.1	0.5	0.2	1.9	0.7	**1.1**	**2.2**	**2.5**	*1.8*	*2.7*
Croatia	3.8	6.3	-1.1	-2.4	0.2	1.0	4.0	**3.9**	**3.2**	**3.2**	*3.1*	*2.9*
Hungary	8.4	7.2	1.2	-2.4	3.2	7.1	4.5	**3.9**	**4.4**	**4.8**	*4.1*	*4.6*
Poland	5.4	5.3	5.0	1.0	1.5	5.4	4.8	**4.8**	**4.6**	**4.4**	*4.8*	*4.8*
Romania	3.4	9.7	2.6	-0.1	5.1	4.7	5.2	**7.0**	**5.2**	**4.7**	*5.8*	*4.8*
Sweden	4.6	3.7	1.7	-0.1	0.8	3.6	4.5	**3.6**	**2.8**	**2.5**	*3.7*	*3.4*
United Kingdom	4.1	3.6	-0.2	1.8	1.9	2.9	2.9	**2.3**	**1.2**	**1.1**	*2.3*	*2.2*
EU	4.2	3.0	0.8	-0.4	0.6	2.6	3.4	**2.3**	**2.3**	**2.5**	*2.6*	*2.9*
USA	4.3	3.3	0.5	2.2	1.6	2.7	2.9	**1.9**	**2.2**	**2.2**	*2.7*	*2.7*
Japan	0.5	1.7	-0.1	2.2	1.6	1.1	0.5	**0.5**	**0.8**	**0.4**	*0.6*	*0.6*

Table 7: **Private consumption expenditure, volume (percentage change on preceding year, 1997-2018)** 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	2.0	1.0	1.4	0.6	0.7	0.6	1.1	**0.7**	**1.3**	**1.4**	*1.0*	*1.3*
Germany	1.7	0.4	0.5	1.3	0.7	0.9	2.0	**1.7**	**1.4**	**1.4**	*2.0*	*1.4*
Estonia	6.4	9.6	-2.2	4.3	3.8	3.3	4.7	**3.3**	**2.9**	**2.8**	*3.3*	*2.6*
Ireland	7.8	4.8	-0.1	-1.2	-0.3	1.8	5.0	**3.4**	**2.1**	**1.8**	*2.7*	*2.0*
Greece	3.7	3.8	-2.2	-8.0	-2.6	0.4	-0.2	**-0.5**	**1.5**	**1.6**	*-0.4*	*1.8*
Spain	4.1	3.4	-0.6	-3.5	-3.1	1.6	2.9	**3.2**	**2.1**	**1.6**	*3.0*	*2.3*
France	2.9	2.1	1.1	-0.2	0.5	0.7	1.5	**1.5**	**1.3**	**1.6**	*1.5*	*1.4*
Italy	2.4	0.9	-0.1	-3.9	-2.5	0.4	1.5	**1.2**	**0.9**	**1.1**	*1.5*	*1.1*
Cyprus	4.5	4.1	2.7	-1.3	-5.9	0.7	1.9	**2.4**	**1.8**	**1.5**	*1.5*	*1.4*
Latvia	3.4	10.7	-2.0	3.1	5.0	1.3	3.5	**3.8**	**3.9**	**4.0**	*3.8*	*3.9*
Lithuania	5.3	9.8	-0.5	3.1	4.3	4.3	4.1	**4.4**	**3.7**	**2.6**	*4.3*	*3.9*
Luxembourg	4.4	2.4	1.8	2.5	2.6	2.7	1.8	**2.3**	**4.6**	**4.1**	*2.2*	*2.8*
Malta	4.0	2.2	1.0	-0.3	2.3	2.3	5.5	**4.0**	**2.8**	**2.7**	*4.4*	*3.5*
Netherlands	4.3	0.4	0.2	-1.2	-1.0	0.3	1.8	**1.3**	**1.9**	**1.8**	*1.6*	*1.9*
Austria	2.0	1.8	1.0	0.5	-0.1	-0.3	0.0	**1.3**	**1.2**	**1.1**	*1.5*	*1.4*
Portugal	3.6	1.3	0.0	-5.5	-1.2	2.3	2.6	**1.8**	**1.1**	**1.0**	*1.8*	*1.7*
Slovenia	3.1	2.5	2.2	-2.5	-4.0	2.0	0.5	**2.1**	**2.1**	**1.7**	*2.3*	*2.5*
Slovakia	4.2	5.1	2.5	-0.4	-0.8	1.4	2.2	**2.9**	**3.3**	**3.1**	*3.6*	*3.2*
Finland	3.3	3.6	1.8	0.3	-0.5	0.6	1.5	**1.4**	**0.8**	**0.8**	*0.7*	*0.5*
Euro area	2.6	1.5	0.3	-1.1	-0.6	0.8	1.8	**1.7**	**1.4**	**1.5**	*1.8*	*1.5*
Bulgaria	0.2	7.5	2.8	3.0	-2.5	2.7	4.5	**3.2**	**2.9**	**2.8**	*2.0*	*1.7*
Czech Republic	1.9	3.6	1.5	-1.2	0.5	1.8	3.0	**2.6**	**2.5**	**2.5**	*2.8*	*2.7*
Denmark	1.2	2.8	-0.1	0.4	-0.1	0.5	2.3	**2.0**	**1.9**	**2.0**	*2.0*	*2.1*
Croatia	2.9	4.6	-0.3	-3.0	-1.8	-1.6	1.2	**2.7**	**2.5**	**2.4**	*1.7*	*2.0*
Hungary	4.2	4.5	-1.8	-2.1	0.3	2.5	3.4	**4.9**	**4.0**	**3.6**	*3.2*	*3.0*
Poland	4.5	3.3	4.4	0.7	0.3	2.4	3.2	**3.7**	**3.9**	**2.9**	*4.1*	*4.0*
Romania	1.5	10.6	2.3	1.2	0.7	4.7	5.1	**9.0**	**5.2**	**3.7**	*6.9*	*5.0*
Sweden	3.2	2.6	2.0	0.8	1.9	2.1	2.7	**2.8**	**2.6**	**2.4**	*2.8*	*2.9*
United Kingdom	4.4	3.1	-0.2	1.7	1.6	2.2	2.5	**2.9**	**1.5**	**0.7**	*2.4*	*2.1*
EU	3.0	2.0	0.4	-0.5	-0.1	1.2	2.1	**2.1**	**1.6**	**1.5**	*2.1*	*1.8*
USA	4.4	3.2	0.9	1.5	1.5	2.9	3.2	**2.6**	**2.2**	**2.1**	*2.9*	*2.4*
Japan	0.7	1.1	0.5	2.3	1.7	-0.9	-1.2	**0.4**	**0.5**	**0.5**	*-0.3*	*0.0*

Table 8: **Government consumption expenditure, volume (percentage change on preceding year, 1997-2018)** 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	1.8	1.5	1.6	1.4	0.1	1.4	0.5	**0.4**	**-0.3**	**0.3**	*0.6*	*0.0*
Germany	1.2	0.5	2.0	1.1	1.2	1.2	2.7	**3.9**	**2.8**	**2.5**	*2.9*	*2.2*
Estonia	0.1	3.7	1.7	3.2	1.9	2.7	3.4	**0.0**	**1.3**	**0.6**	*1.7*	*1.7*
Ireland	7.7	4.2	0.0	-2.8	-1.3	4.5	0.3	**4.7**	**2.1**	**1.5**	*1.3*	*2.0*
Greece	2.2	4.1	-1.3	-6.0	-6.4	-1.4	0.0	**-0.7**	**-0.7**	**-0.1**	*-0.5*	*-0.1*
Spain	3.6	5.1	3.5	-4.7	-2.1	-0.3	2.0	**0.9**	**0.8**	**0.8**	*1.0*	*1.0*
France	1.0	1.7	1.5	1.6	1.5	1.2	1.4	**1.5**	**1.0**	**1.2**	*1.1*	*0.7*
Italy	2.1	0.7	0.1	-1.4	-0.3	-0.9	-0.6	**1.0**	**0.3**	**0.3**	*0.6*	*0.7*
Cyprus	5.6	5.5	3.7	-2.3	-8.2	-7.9	-0.6	**-0.2**	**0.9**	**0.9**	*-1.2*	*0.0*
Latvia	3.5	4.1	-2.2	0.3	1.6	2.1	3.0	**2.7**	**2.5**	**2.5**	*3.2*	*2.5*
Lithuania	1.3	3.1	-0.6	1.2	0.7	0.3	0.9	**1.5**	**2.2**	**2.1**	*1.4*	*1.9*
Luxembourg	5.6	3.3	3.1	4.7	1.9	0.0	2.3	**3.1**	**2.6**	**2.7**	*2.4*	*2.6*
Malta	0.0	1.8	2.9	6.4	0.1	7.0	4.6	**3.6**	**6.9**	**6.7**	*4.4*	*7.2*
Netherlands	3.3	3.5	2.4	-1.3	-0.1	0.3	0.2	**1.1**	**0.7**	**1.2**	*0.8*	*0.9*
Austria	1.8	1.8	1.5	0.2	0.7	0.8	2.1	**1.2**	**0.9**	**0.7**	*0.9*	*0.7*
Portugal	4.1	1.9	-0.3	-3.3	-2.0	-0.5	0.8	**0.6**	**0.4**	**0.5**	*0.6*	*0.4*
Slovenia	3.8	2.9	1.6	-2.2	-2.1	-1.2	2.5	**2.9**	**2.6**	**1.5**	*2.7*	*2.3*
Slovakia	2.0	4.4	2.5	-2.1	2.2	5.3	5.4	**2.3**	**2.5**	**2.7**	*0.9*	*2.6*
Finland	2.1	1.7	0.8	0.5	1.1	-0.5	0.4	**0.0**	**-0.5**	**0.0**	*-0.1*	*0.0*
Euro area	1.8	1.8	1.5	-0.3	0.3	0.6	1.4	**1.9**	**1.3**	**1.3**	*1.4*	*1.2*
Bulgaria	6.2	3.8	-0.3	-2.0	0.6	0.1	1.4	**1.1**	**1.4**	**1.6**	*1.2*	*1.3*
Czech Republic	1.3	2.7	0.5	-2.0	2.5	1.1	2.0	**2.8**	**2.4**	**2.1**	*3.0*	*1.9*
Denmark	2.3	1.5	1.5	0.0	-0.7	0.2	-0.7	**1.0**	**0.5**	**0.6**	*1.0*	*0.0*
Croatia	0.3	3.9	1.2	-1.0	0.3	-0.8	-0.3	**0.9**	**1.0**	**0.9**	*0.9*	*1.9*
Hungary	1.1	3.4	-0.5	-1.5	4.1	4.5	1.0	**2.0**	**1.0**	**2.0**	*2.9*	*0.5*
Poland	4.0	3.6	2.4	-0.3	2.5	4.1	2.3	**4.0**	**3.3**	**3.1**	*4.0*	*2.9*
Romania	0.7	-1.0	1.2	0.4	-4.6	0.8	0.3	**5.3**	**3.0**	**3.0**	*6.3*	*2.4*
Sweden	0.9	0.9	1.2	1.1	1.3	1.5	2.5	**3.8**	**2.2**	**0.3**	*4.5*	*3.0*
United Kingdom	2.8	3.3	0.9	1.7	0.3	2.3	1.5	**0.3**	**0.5**	**0.8**	*0.2*	*0.6*
EU	2.0	2.0	1.4	0.0	0.4	1.0	1.4	**1.8**	**1.2**	**1.3**	*1.5*	*1.2*
USA	2.3	1.8	1.0	-0.9	-2.4	-0.7	1.6	**0.8**	**0.9**	**1.0**	*1.7*	*1.8*
Japan	2.9	1.4	1.3	1.7	1.9	0.1	1.2	**1.8**	**0.6**	**0.6**	*1.2*	*1.0*

Table 9: Total investment, volume (percentage change on preceding year, 1997-2018) — 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	3.8	2.3	1.0	0.2	-1.5	5.1	2.4	**3.3**	**2.9**	**2.9**	*0.0*	*3.1*
Germany	1.8	0.1	1.4	-0.7	-1.1	3.4	1.7	**2.5**	**1.9**	**2.9**	*2.5*	*2.7*
Estonia	10.6	16.9	-4.5	12.7	-2.8	-8.1	-3.3	**3.2**	**5.3**	**4.8**	*2.3*	*3.5*
Ireland	10.7	9.4	-8.3	11.9	-5.7	18.3	32.9	**16.0**	**6.8**	**5.0**	*13.4*	*8.3*
Greece	8.1	4.4	-9.9	-23.5	-8.4	-4.6	-0.2	**4.0**	**13.7**	**14.2**	*-0.9*	*11.6*
Spain	7.6	6.3	-5.9	-8.6	-3.4	3.8	6.0	**4.2**	**3.6**	**3.8**	*4.7*	*5.0*
France	4.8	2.2	0.2	0.2	-0.8	-0.3	1.0	**2.9**	**3.2**	**4.2**	*1.5*	*4.0*
Italy	3.9	2.2	-2.9	-9.3	-6.6	-3.0	1.3	**2.1**	**2.6**	**3.2**	*3.2*	*4.1*
Cyprus	-0.2	9.2	-2.8	-20.5	-12.9	-17.5	12.0	**9.1**	**8.3**	**6.4**	*9.1*	*5.1*
Latvia	17.9	13.7	-5.9	14.4	-6.0	0.1	2.8	**-6.5**	**5.5**	**4.2**	*3.1*	*4.1*
Lithuania	8.5	14.4	-2.6	-1.8	8.3	3.7	4.7	**-0.9**	**6.0**	**3.0**	*2.5*	*4.6*
Luxembourg	8.0	2.4	4.0	6.6	-2.1	6.0	1.0	**5.3**	**3.6**	**3.0**	*1.9*	*3.4*
Malta	0.6	5.8	-1.6	-0.6	-1.4	8.7	43.1	**4.0**	**5.0**	**-4.0**	*1.0*	*3.0*
Netherlands	5.1	0.8	-0.1	-6.3	-4.3	2.3	9.9	**6.9**	**4.4**	**3.2**	*5.9*	*4.5*
Austria	1.9	0.6	0.5	1.4	2.2	-0.9	0.7	**3.1**	**2.3**	**1.7**	*1.8*	*1.9*
Portugal	7.3	-2.3	-3.7	-16.6	-5.1	2.3	4.5	**-1.4**	**3.7**	**4.1**	*1.6*	*4.9*
Slovenia	7.5	5.0	-5.1	-8.8	3.2	1.4	1.0	**-3.9**	**5.3**	**6.4**	*-2.6*	*5.6*
Slovakia	1.4	5.2	1.7	-9.0	-0.9	1.2	16.9	**-0.9**	**4.9**	**4.3**	*1.5*	*5.7*
Finland	6.8	1.8	0.3	-1.9	-4.9	-2.5	0.7	**4.3**	**3.0**	**2.6**	*2.5*	*2.1*
Euro area	4.1	2.2	-1.3	-3.5	-2.5	1.4	3.2	**3.3**	**3.1**	**3.5**	*2.9*	*3.8*
Bulgaria	29.3	14.7	-2.2	1.8	0.3	3.4	2.7	**-0.8**	**3.2**	**3.6**	*-2.4*	*2.2*
Czech Republic	0.9	4.0	1.4	-3.1	-2.5	3.9	9.0	**-2.8**	**2.5**	**3.3**	*-0.5*	*3.0*
Denmark	4.8	4.5	-4.3	3.9	1.1	3.4	1.1	**1.0**	**3.2**	**3.6**	*2.4*	*4.1*
Croatia	4.9	11.2	-3.7	-3.3	1.4	-2.8	1.6	**4.8**	**6.1**	**5.3**	*2.6*	*3.4*
Hungary	7.3	4.1	-2.9	-3.0	9.8	9.9	1.9	**-8.2**	**5.9**	**3.0**	*-1.7*	*4.0*
Poland	6.4	4.9	6.5	-1.8	-1.1	10.0	6.1	**-1.5**	**3.7**	**4.9**	*4.4*	*4.5*
Romania	1.6	12.9	2.4	0.1	-5.4	3.2	8.1	**6.3**	**6.4**	**6.5**	*5.5*	*6.1*
Sweden	5.0	4.0	1.1	-0.2	0.6	5.5	7.2	**6.6**	**3.5**	**2.9**	*4.0*	*3.2*
United Kingdom	2.2	3.0	-2.2	2.3	3.2	6.7	3.4	**1.3**	**-2.2**	**-0.9**	*3.8*	*3.8*
EU	3.9	2.6	-1.2	-2.5	-1.5	2.6	3.5	**2.8**	**2.5**	**3.1**	*3.0*	*3.8*
USA	6.0	3.1	-3.1	6.3	3.0	4.2	3.7	**1.0**	**2.1**	**2.1**	*3.6*	*4.0*
Japan	-1.9	-0.4	-2.8	3.4	2.5	1.3	0.0	**0.7**	**1.9**	**-0.3**	*1.4*	*-0.4*

Table 10: Investment in construction, volume (percentage change on preceding year, 1997-2018) — 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	0.2	2.7	1.5	3.4	-2.3	2.3	1.4	**4.7**	**3.2**	**2.9**	*1.2*	*3.2*
Germany	-1.7	-2.3	1.3	0.5	-1.1	1.9	0.3	**3.0**	**2.3**	**2.8**	*2.8*	*1.9*
Estonia	7.4	17.7	-5.7	8.9	-15.1	-6.4	2.8	**3.2**	**5.5**	**4.6**	*3.3*	*4.0*
Ireland	9.8	8.1	-18.4	-1.3	12.4	9.5	7.7	**11.7**	**9.5**	**8.8**	*11.7*	*9.4*
Greece	4.8	3.7	-11.6	-16.3	-12.9	-19.0	0.0	**2.6**	**10.6**	**14.7**	*-3.5*	*8.0*
Spain	7.2	6.6	-8.4	-12.3	-8.6	1.2	4.9	**2.5**	**3.1**	**4.2**	*3.5*	*5.1*
France	3.4	3.0	-0.8	-1.7	-0.8	-2.3	-0.8	**1.3**	**2.7**	**3.7**	*-0.1*	*2.8*
Italy	2.5	2.8	-4.1	-9.3	-8.0	-6.6	-0.4	**1.1**	**1.3**	**2.2**	*2.4*	*2.8*
Cyprus	-0.2	10.9	-4.6	-18.9	-18.5	-12.8	-2.9	**8.6**	**8.6**	**6.8**	*9.5*	*4.3*
Latvia	13.0	18.0	-8.0	20.0	-10.3	10.2	-4.1	**:**	**:**	**:**	*:*	*:*
Lithuania	4.2	13.9	-3.9	-4.4	8.0	4.6	3.6	**-4.5**	**6.5**	**3.0**	*2.7*	*3.2*
Luxembourg	5.0	3.7	2.0	-7.8	3.2	5.5	10.6	**6.2**	**3.8**	**3.1**	*4.6*	*3.9*
Malta	:	4.2	-7.4	15.0	-4.1	16.0	1.9	**:**	**:**	**:**	*:*	*:*
Netherlands	3.7	0.4	-2.2	-10.6	-6.2	2.4	11.3	**8.3**	**4.7**	**3.1**	*7.2*	*4.3*
Austria	-0.3	0.2	-1.7	2.2	-0.9	-0.1	-1.2	**2.1**	**1.5**	**1.3**	*0.8*	*1.3*
Portugal	6.5	-3.8	-5.2	-20.0	-12.1	-3.7	4.1	**-5.2**	**1.2**	**3.2**	*1.7*	*3.1*
Slovenia	5.0	2.7	-7.8	-6.5	-4.6	9.6	0.1	**-15.6**	**2.6**	**4.4**	*-14.3*	*3.9*
Slovakia	1.6	6.7	-3.0	-8.2	4.7	-4.2	22.9	**-1.2**	**4.8**	**4.3**	*2.4*	*5.7*
Finland	6.7	2.9	0.5	-5.1	-3.8	-3.6	0.1	**7.2**	**3.5**	**2.9**	*3.1*	*2.1*
Euro area	:	2.1	-2.9	-4.6	-3.5	-0.9	1.3	**2.7**	**2.8**	**3.3**	*2.3*	*3.0*
Bulgaria	:	18.6	-2.0	9.5	-0.5	-4.1	-3.8	**-1.7**	**1.1**	**3.3**	*-4.4*	*-0.1*
Czech Republic	-4.0	3.9	-0.6	-2.9	-4.9	1.0	11.2	**-8.5**	**2.1**	**3.7**	*-4.1*	*2.3*
Denmark	2.7	5.0	-6.2	-0.9	-0.2	2.4	-0.4	**1.5**	**2.5**	**3.8**	*1.5*	*2.6*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	3.7	3.2	-5.8	-8.4	11.2	10.5	1.4	**-7.2**	**7.7**	**2.8**	*0.2*	*3.8*
Poland	6.0	4.6	7.6	-0.5	-5.9	8.7	6.5	**-4.1**	**3.6**	**4.8**	*3.0*	*4.6*
Romania	-2.1	11.5	4.7	15.2	-15.0	10.1	7.8	**3.4**	**5.8**	**6.1**	*2.7*	*5.9*
Sweden	2.9	6.1	-1.0	-0.3	-1.3	9.4	8.3	**7.8**	**4.3**	**3.1**	*4.4*	*3.1*
United Kingdom	5.2	3.0	-3.9	2.1	3.4	8.1	3.7	**0.4**	**-2.4**	**-0.9**	*3.4*	*3.1*
EU	2.4	2.5	-2.7	-3.3	-2.7	1.2	2.2	**2.0**	**2.1**	**2.8**	*2.4*	*3.1*
USA	3.7	1.1	-7.8	6.9	3.5	5.1	4.2	**2.4**	**2.0**	**2.1**	*4.0*	*4.3*
Japan	-4.3	-3.5	-3.8	2.9	4.5	-0.3	:	**:**	**:**	**:**	*:*	*:*

Table 11: **Investment in equipment, volume (percentage change on preceding year, 1997-2018)** 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	7.1	1.3	-1.1	-4.8	-1.4	8.5	0.7	**3.9**	**2.6**	**2.9**	*2.2*	*2.9*
Germany	6.0	2.7	0.6	-3.2	-2.1	5.5	3.7	**1.6**	**1.1**	**3.6**	*1.8*	*3.8*
Estonia	14.4	16.1	-5.0	18.5	17.0	-11.6	-12.4	**3.3**	**5.8**	**5.5**	*1.3*	*3.3*
Ireland	9.1	13.1	-1.6	18.6	-6.3	24.2	3.0	**1.0**	**6.0**	**5.0**	*8.0*	*11.0*
Greece	15.9	5.3	-8.4	-36.5	-4.5	21.0	-1.5	**6.9**	**15.8**	**15.2**	*1.0*	*15.0*
Spain	8.7	5.2	-3.0	-6.2	5.0	8.3	8.9	**6.7**	**4.5**	**3.9**	*7.7*	*6.5*
France	7.4	0.5	0.1	2.1	-3.5	2.0	2.3	**6.2**	**4.2**	**5.1**	*4.8*	*6.2*
Italy	5.3	2.1	-2.1	-13.6	-8.2	0.9	4.3	**4.5**	**4.5**	**4.2**	*4.1*	*5.8*
Cyprus	0.0	5.9	-1.6	-24.7	-16.3	-34.8	94.1	**10.0**	**7.0**	**6.2**	*10.5*	*5.2*
Latvia	22.7	10.3	-4.9	11.9	-5.4	-10.9	9.8	**:**	**:**	**:**	*:*	*:*
Lithuania	13.7	15.8	-3.4	2.1	12.5	0.5	6.0	**8.0**	**6.0**	**3.0**	*1.3*	*7.0*
Luxembourg	7.8	2.2	9.9	34.3	-6.2	6.1	-12.7	**4.2**	**3.6**	**3.3**	*-1.6*	*3.2*
Malta	:	7.9	0.8	-19.8	-1.4	1.7	116.6	**:**	**:**	**:**	*:*	*:*
Netherlands	5.8	0.4	2.7	-5.0	-6.1	-0.2	13.4	**7.6**	**4.7**	**3.6**	*6.9*	*5.1*
Austria	2.7	-0.2	1.4	0.6	2.4	-1.0	3.6	**5.1**	**2.9**	**2.3**	*3.1*	*2.8*
Portugal	9.4	-0.4	-4.4	-17.0	8.1	13.3	9.7	**3.0**	**7.6**	**6.7**	*3.3*	*9.0*
Slovenia	11.0	8.6	-4.5	-12.2	12.6	-7.5	2.4	**8.3**	**9.5**	**10.5**	*8.4*	*9.1*
Slovakia	3.2	4.3	6.2	-10.9	-9.4	12.1	12.4	**0.0**	**5.0**	**4.3**	*0.8*	*5.7*
Finland	4.8	-0.6	0.6	10.2	-8.7	-1.8	7.0	**3.7**	**2.9**	**2.7**	*5.1*	*2.3*
Euro area	:	2.4	-0.6	-4.7	-2.7	4.4	4.7	**4.2**	**3.5**	**4.2**	*3.9*	*5.3*
Bulgaria	:	12.8	-3.7	-5.5	1.2	13.9	9.8	**-0.5**	**5.0**	**3.5**	*-0.3*	*4.7*
Czech Republic	5.3	4.3	3.2	-6.2	0.3	6.4	8.5	**0.9**	**3.0**	**3.5**	*3.0*	*4.0*
Denmark	5.6	4.3	-6.3	15.5	5.1	5.3	1.1	**0.3**	**4.6**	**3.6**	*3.6*	*5.6*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	11.0	4.9	-1.2	2.9	2.6	20.5	2.2	**-9.0**	**4.2**	**3.0**	*0.0*	*4.0*
Poland	7.0	5.5	5.3	-4.5	4.6	11.2	5.3	**2.4**	**3.9**	**5.0**	*6.3*	*4.5*
Romania	5.9	15.5	-0.4	-2.7	4.8	-5.1	9.0	**9.0**	**7.0**	**6.9**	*7.4*	*6.2*
Sweden	5.3	4.8	2.6	2.8	0.1	-1.1	6.2	**5.2**	**2.6**	**2.5**	*3.5*	*3.2*
United Kingdom	0.4	3.1	-1.7	2.4	2.5	6.8	4.3	**3.8**	**-1.3**	**-0.9**	*7.0*	*5.8*
EU	5.6	3.0	-0.5	-3.4	-1.4	4.7	4.8	**3.9**	**3.0**	**3.7**	*4.3*	*5.2*
USA	7.8	5.0	-0.1	8.8	3.3	4.6	3.1	**-0.9**	**2.3**	**2.1**	*3.1*	*3.7*
Japan	-0.5	2.7	-2.2	3.5	0.3	3.5	:	**:**	**:**	**:**	*:*	*:*

Table 12: **Public investment (as a percentage of GDP, 1997-2018)** 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	2.3	2.1	2.2	2.5	2.4	2.4	2.4	**2.4**	**2.4**	**2.5**	*2.3*	*2.4*
Germany	2.3	2.0	2.2	2.2	2.2	2.1	2.1	**2.2**	**2.2**	**2.2**	*2.2*	*2.3*
Estonia	4.8	5.1	5.6	6.3	5.6	5.1	5.4	**4.3**	**4.9**	**4.9**	*5.2*	*5.2*
Ireland	3.2	3.7	3.8	2.0	2.0	2.2	1.7	**1.7**	**1.8**	**2.0**	*1.8*	*1.8*
Greece	5.1	5.3	4.5	2.5	3.4	3.7	3.9	**4.1**	**4.1**	**3.7**	*3.9*	*4.2*
Spain	3.7	4.1	4.5	2.5	2.2	2.2	2.5	**2.1**	**2.2**	**2.2**	*2.3*	*2.3*
France	3.8	3.9	4.0	4.1	4.0	3.7	3.5	**3.5**	**3.5**	**3.5**	*3.4*	*3.3*
Italy	2.8	2.9	3.0	2.6	2.4	2.3	2.2	**2.2**	**2.3**	**2.4**	*2.3*	*2.2*
Cyprus	3.5	3.6	3.6	2.6	2.0	1.8	1.9	**1.9**	**1.9**	**1.9**	*1.8*	*1.8*
Latvia	1.8	3.3	5.1	4.8	4.4	4.5	4.6	**3.5**	**3.9**	**3.9**	*3.7*	*4.3*
Lithuania	2.4	3.5	5.0	4.0	3.7	3.5	3.6	**3.6**	**3.7**	**3.7**	*3.5*	*3.5*
Luxembourg	4.2	4.6	4.1	4.0	3.5	3.6	4.0	**4.3**	**4.2**	**4.1**	*4.2*	*4.1*
Malta	4.0	4.2	2.7	3.2	2.9	3.7	4.5	**2.9**	**2.9**	**2.9**	*2.9*	*3.0*
Netherlands	3.7	4.0	4.1	3.7	3.6	3.5	3.5	**3.4**	**3.3**	**3.3**	*3.3*	*3.3*
Austria	2.8	2.7	3.2	3.0	3.1	3.0	2.9	**2.9**	**2.8**	**2.8**	*3.0*	*2.9*
Portugal	5.0	4.2	4.0	2.5	2.2	2.0	2.3	**1.8**	**2.2**	**2.2**	*1.9*	*2.0*
Slovenia	3.8	3.9	4.7	4.1	4.4	5.1	4.7	**2.7**	**2.7**	**2.8**	*3.3*	*3.6*
Slovakia	4.5	3.5	3.6	3.4	3.3	4.0	6.3	**3.3**	**3.6**	**3.6**	*3.2*	*3.0*
Finland	3.9	3.7	3.7	4.0	4.2	4.2	3.9	**3.9**	**3.9**	**3.9**	*4.1*	*4.1*
Euro area	3.1	3.2	3.3	2.9	2.8	2.7	2.7	**2.6**	**2.7**	**2.7**	*2.7*	*2.7*
Bulgaria	3.4	3.6	4.8	3.4	4.0	5.2	6.6	**4.1**	**4.8**	**4.9**	*5.0*	*4.9*
Czech Republic	4.1	5.1	4.9	4.2	3.7	4.1	5.1	**3.7**	**3.8**	**3.9**	*3.8*	*3.9*
Denmark	2.8	2.8	3.2	3.8	3.7	3.9	3.8	**3.6**	**3.5**	**3.4**	*3.6*	*3.6*
Croatia	:	6.1	5.0	3.5	3.7	3.6	3.2	**3.6**	**3.8**	**4.0**	*3.1*	*3.3*
Hungary	3.5	4.4	3.6	3.7	4.4	5.4	6.6	**5.0**	**6.2**	**6.6**	*5.5*	*5.3*
Poland	2.9	3.2	5.1	4.7	4.1	4.5	4.4	**4.1**	**4.3**	**4.5**	*4.3*	*4.5*
Romania	2.4	3.5	6.0	4.8	4.5	4.3	5.1	**3.7**	**4.4**	**4.8**	*3.8*	*4.1*
Sweden	4.2	4.2	4.4	4.6	4.5	4.4	4.2	**4.2**	**4.3**	**4.3**	*4.4*	*4.4*
United Kingdom	1.8	2.1	3.0	2.8	2.6	2.8	2.7	**2.7**	**2.7**	**2.7**	*2.6*	*2.6*
EU	:	3.0	3.4	3.1	3.0	2.9	2.9	**2.8**	**2.9**	**2.9**	*2.8*	*2.8*
USA	3.6	3.8	4.0	3.6	3.3	3.2	3.2	**3.2**	**3.1**	**3.1**	*3.4*	*3.4*
Japan	5.4	3.9	3.2	3.1	3.6	3.5	3.4	**3.3**	**3.6**	**3.5**	*3.3*	*3.2*

Table 13: Potential GDP, volume (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	2.4	1.9	1.5	1.0	0.8	0.9	1.0	**1.3**	**1.4**	**1.3**	*1.2*	*1.4*
Germany	1.6	1.3	1.0	0.8	1.5	1.5	1.6	**1.7**	**1.7**	**1.7**	*1.9*	*1.6*
Estonia	4.2	5.8	1.4	1.6	1.9	2.1	2.4	**2.4**	**2.6**	**2.5**	*2.4*	*2.1*
Ireland	8.7	5.2	0.5	0.8	1.8	3.4	24.5	**3.8**	**4.3**	**4.2**	*4.8*	*4.8*
Greece	3.7	3.5	-0.2	-2.9	-2.9	-2.3	-1.5	**-1.1**	**-0.6**	**-0.2**	*-1.9*	*-1.4*
Spain	3.1	3.5	1.8	-0.7	-0.8	-0.2	0.1	**0.6**	**0.7**	**0.9**	*0.4*	*0.7*
France	2.0	1.8	1.3	1.0	0.9	1.0	0.9	**1.2**	**1.2**	**1.3**	*1.0*	*1.1*
Italy	1.7	1.1	0.0	-1.3	-0.5	-0.4	-0.4	**-0.3**	**0.1**	**0.3**	*-0.2*	*0.1*
Cyprus	:	3.3	2.6	-0.4	-1.9	-2.5	-1.2	**-0.3**	**0.1**	**0.5**	*-0.6*	*-0.3*
Latvia	:	7.1	1.3	0.3	0.8	1.3	2.3	**2.0**	**2.8**	**3.2**	*2.7*	*3.2*
Lithuania	:	5.9	2.8	1.3	1.9	2.0	2.0	**1.9**	**2.2**	**2.4**	*2.4*	*2.5*
Luxembourg	5.2	4.4	2.6	2.6	2.5	3.2	3.1	**3.1**	**3.2**	**3.4**	*3.2*	*3.2*
Malta	3.5	2.3	2.3	2.6	3.0	3.4	5.0	**4.7**	**4.5**	**4.1**	*4.3*	*4.2*
Netherlands	3.5	1.9	1.2	0.4	0.2	0.5	0.9	**1.2**	**1.4**	**1.4**	*1.0*	*1.2*
Austria	2.6	2.1	1.2	0.9	0.9	0.9	1.0	**1.3**	**1.3**	**1.4**	*1.2*	*1.3*
Portugal	3.2	1.3	0.1	-1.3	-1.0	-0.5	0.1	**0.2**	**0.5**	**0.7**	*0.3*	*0.6*
Slovenia	:	3.4	1.9	-0.1	-0.2	0.5	0.8	**0.9**	**1.3**	**1.5**	*0.7*	*1.1*
Slovakia	:	4.8	4.4	2.6	2.2	2.0	2.7	**2.7**	**3.0**	**3.2**	*2.8*	*3.0*
Finland	4.1	2.9	0.8	0.0	-0.2	-0.2	0.0	**0.2**	**0.6**	**0.6**	*0.0*	*0.4*
Euro area		1.9	1.0	0.2	0.5	0.7	1.2	**1.0**	**1.2**	**1.3**	*1.0*	*1.1*
Bulgaria	2.3	5.5	2.8	0.6	1.2	2.1	2.9	**2.7**	**2.8**	**2.8**	*2.3*	*2.3*
Czech Republic	:	3.8	2.5	0.6	0.9	1.7	2.3	**2.2**	**2.2**	**2.3**	*1.9*	*2.0*
Denmark	2.4	1.4	0.9	0.4	0.4	0.6	0.8	**0.9**	**1.0**	**1.0**	*0.9*	*1.0*
Croatia	:	3.5	0.4	-0.8	-0.3	-0.2	-0.1	**1.0**	**0.6**	**0.9**	*0.5*	*0.6*
Hungary	:	3.4	0.6	0.1	1.0	1.8	2.1	**2.0**	**2.2**	**2.2**	*2.1*	*2.2*
Poland	5.1	3.6	4.1	3.5	3.0	3.0	3.1	**2.9**	**3.0**	**3.1**	*3.2*	*3.2*
Romania	1.5	4.5	3.5	1.8	1.7	2.2	2.8	**3.4**	**3.7**	**3.8**	*3.1*	*3.4*
Sweden	3.0	2.8	1.7	1.5	1.7	2.0	2.4	**2.6**	**2.6**	**2.6**	*2.8*	*2.7*
United Kingdom	3.0	2.6	1.2	1.0	1.1	1.3	1.4	**1.5**	**1.4**	**1.4**	*1.6*	*1.7*
EU	:	2.1	1.2	0.5	0.7	0.9	1.4	**1.3**	**1.4**	**1.4**	*1.3*	*1.4*
USA	3.6	2.5	1.2	1.4	1.6	1.8	2.0	**2.0**	**2.0**	**2.0**	*2.1*	*2.3*
Japan	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*

Table 14: Output gap relative to potential GDP [1] (deviation of actual output from potential output as % of potential GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	0.6	0.4	0.6	-0.7	-1.5	-0.8	-0.3	**-0.4**	**-0.5**	**-0.4**	*-0.7*	*-0.5*
Germany	0.5	-1.1	-0.5	0.5	-0.4	-0.3	-0.2	**0.0**	**-0.3**	**-0.3**	*-0.5*	*-0.6*
Estonia	-1.8	5.1	0.8	1.9	1.4	2.1	1.2	**-0.1**	**-0.4**	**-0.3**	*-0.2*	*0.2*
Ireland	2.3	1.5	-1.0	-4.0	-4.7	-0.1	1.4	**1.7**	**1.0**	**0.4**	*1.7*	*0.6*
Greece	1.6	2.7	-0.5	-14.4	-14.7	-12.3	-11.2	**-10.5**	**-7.5**	**-4.5**	*-6.3*	*-2.4*
Spain	1.1	2.5	-1.7	-7.6	-8.4	-6.9	-4.0	**-1.5**	**0.0**	**1.2**	*-1.5*	*0.3*
France	0.6	1.7	0.2	-1.1	-1.5	-1.8	-1.5	**-1.4**	**-1.2**	**-0.8**	*-1.5*	*-0.9*
Italy	0.9	0.8	-0.8	-2.9	-4.1	-3.7	-2.6	**-1.6**	**-0.8**	**0.0**	*-1.6*	*-0.4*
Cyprus	:	2.4	2.1	-3.4	-7.3	-6.4	-3.7	**-0.8**	**1.6**	**3.4**	*-1.4*	*0.9*
Latvia	-0.6	3.0	-2.9	-1.8	0.3	1.1	1.5	**1.4**	**1.3**	**1.0**	*1.8*	*1.7*
Lithuania	-0.5	1.5	-1.8	-1.9	-0.4	1.0	0.8	**0.9**	**1.5**	**1.8**	*0.5*	*1.1*
Luxembourg	2.1	1.0	-1.1	-5.2	-3.7	-2.3	-1.9	**-1.4**	**-0.9**	**-0.6**	*-1.0*	*-0.3*
Malta	0.2	0.4	-0.2	-1.0	0.4	0.5	1.6	**0.9**	**0.1**	**-0.2**	*1.3*	*0.6*
Netherlands	1.1	-1.3	-0.4	-2.7	-3.1	-2.3	-1.2	**-0.8**	**-0.5**	**-0.2**	*-0.7*	*0.0*
Austria	0.5	-0.4	0.1	0.1	-0.7	-0.9	-0.9	**-0.7**	**-0.4**	**-0.3**	*-0.7*	*-0.3*
Portugal	2.3	-0.5	-0.2	-4.1	-4.2	-2.9	-1.5	**-0.8**	**0.0**	**0.6**	*-1.1*	*0.0*
Slovenia	:	1.4	1.1	-4.6	-5.5	-3.0	-1.5	**-0.3**	**0.9**	**1.6**	*0.6*	*1.8*
Slovakia	-0.1	-0.8	2.1	-2.0	-2.7	-2.1	-1.0	**-0.4**	**-0.2**	**0.3**	*-0.6*	*-0.3*
Finland	1.6	-0.1	0.1	-1.5	-2.1	-2.6	-2.4	**-1.8**	**-1.6**	**-1.1**	*-1.6*	*-1.2*
Euro area		0.5	-0.4	-2.2	-2.9	-2.4	-1.6	**-1.0**	**-0.7**	**-0.2**	*-1.1*	*-0.5*
Bulgaria	-0.6	0.6	0.9	-0.3	-0.6	-1.3	-0.6	**-0.2**	**-0.2**	**-0.2**	*-0.6*	*-0.5*
Czech Republic	-1.2	1.6	1.3	-1.8	-3.1	-2.1	0.1	**0.1**	**0.5**	**0.8**	*0.2*	*0.7*
Denmark	2.0	1.6	-0.9	-2.9	-3.5	-2.9	-2.7	**-2.6**	**-1.9**	**-1.2**	*-2.5*	*-1.6*
Croatia	:	0.5	1.4	-3.0	-3.8	-4.1	-2.5	**-0.9**	**0.9**	**2.3**	*-1.7*	*-0.3*
Hungary	:	1.9	-1.0	-3.6	-2.5	-0.4	0.6	**0.7**	**1.1**	**1.7**	*0.5*	*1.0*
Poland	0.8	-2.8	2.1	0.2	-1.4	-1.1	-0.3	**-0.1**	**0.3**	**0.4**	*0.0*	*0.4*
Romania	-3.4	3.2	0.7	-4.8	-3.1	-2.2	-1.4	**0.3**	**0.5**	**0.4**	*0.0*	*0.3*
Sweden	-0.1	0.1	-0.6	-2.0	-2.5	-1.9	-0.3	**0.5**	**0.3**	**-0.1**	*0.2*	*0.4*
United Kingdom	0.6	1.0	-1.8	-3.0	-2.1	-0.5	0.3	**0.7**	**0.3**	**0.0**	*0.3*	*0.5*
EU	:	0.6	-0.6	-2.3	-2.8	-2.1	-1.3	**-0.7**	**-0.4**	**-0.1**	*-0.8*	*-0.2*
USA	0.6	0.3	-1.0	-0.7	-0.6	0.0	0.6	**0.2**	**0.2**	**0.1**	*0.5*	*0.4*
Japan	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*

Table 15: Deflator of gross domestic product (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	1.5	2.0	1.8	2.1	1.2	0.7	0.9	**1.3**	**1.6**	**1.7**	*1.5*	*1.4*
Germany	0.4	0.9	1.2	1.5	2.0	1.8	2.0	**1.5**	**1.6**	**1.8**	*1.8*	*1.7*
Estonia	7.1	5.8	5.2	3.2	3.9	1.7	1.0	**3.7**	**3.0**	**3.3**	*1.7*	*2.8*
Ireland	5.5	3.0	-0.6	2.7	1.4	-1.2	4.9	**-0.5**	**1.2**	**1.5**	*1.8*	*1.2*
Greece	4.1	3.1	2.4	-0.4	-2.4	-1.8	-1.0	**-0.2**	**0.8**	**1.2**	*-0.2*	*0.8*
Spain	3.0	4.0	1.2	0.1	0.4	-0.3	0.5	**0.7**	**1.2**	**1.5**	*0.9*	*1.4*
France	1.1	1.9	1.4	1.2	0.8	0.5	0.6	**0.8**	**0.8**	**1.2**	*1.0*	*1.0*
Italy	2.3	2.6	1.7	1.4	1.2	0.9	0.6	**1.0**	**0.9**	**1.3**	*0.8*	*1.2*
Cyprus	2.9	3.1	2.6	1.9	-1.0	-1.5	-1.3	**-1.1**	**0.3**	**1.2**	*-0.3*	*0.6*
Latvia	3.6	8.0	5.0	3.6	1.3	1.5	0.4	**0.8**	**1.8**	**2.2**	*1.0*	*2.2*
Lithuania	2.8	3.1	4.4	2.7	1.4	1.0	0.2	**1.4**	**1.6**	**2.7**	*1.7*	*1.9*
Luxembourg	0.1	3.6	3.2	2.4	1.3	1.5	0.4	**1.9**	**2.9**	**2.2**	*0.9*	*1.9*
Malta	2.0	2.4	2.9	1.9	1.9	2.0	2.3	**1.8**	**2.2**	**2.1**	*2.3*	*2.5*
Netherlands	2.8	2.3	1.2	1.4	1.4	0.1	0.1	**0.3**	**1.2**	**1.3**	*1.1*	*1.1*
Austria	1.0	1.7	1.8	2.0	1.6	1.8	1.9	**1.9**	**1.7**	**1.7**	*1.3*	*1.7*
Portugal	3.7	3.3	1.2	-0.4	2.3	0.8	2.1	**1.8**	**1.7**	**1.7**	*1.4*	*1.5*
Slovenia	7.3	4.0	2.4	0.3	0.9	0.8	1.0	**1.5**	**1.3**	**1.6**	*1.1*	*2.1*
Slovakia	6.3	4.1	1.0	1.3	0.5	-0.2	-0.2	**-0.2**	**1.0**	**1.5**	*0.0*	*1.3*
Finland	2.2	0.7	2.1	3.0	2.6	1.7	1.6	**1.1**	**0.8**	**1.0**	*0.8*	*1.0*
Euro area	1.6	2.1	1.4	1.3	1.2	0.9	1.1	**1.0**	**1.2**	**1.5**	*1.2*	*1.3*
Bulgaria	75.0	5.0	6.0	1.6	-0.7	0.5	2.2	**-0.1**	**1.1**	**1.4**	*0.1*	*1.2*
Czech Republic	5.5	1.7	1.3	1.5	1.4	2.5	1.0	**0.3**	**1.4**	**1.6**	*1.0*	*1.3*
Denmark	2.1	2.2	2.2	2.8	1.4	0.8	1.2	**0.7**	**1.7**	**1.9**	*1.0*	*1.8*
Croatia	5.5	3.7	3.0	1.6	0.8	0.0	0.1	**0.2**	**0.9**	**1.2**	*0.3*	*1.0*
Hungary	12.5	4.9	3.8	3.4	2.9	3.4	1.7	**2.4**	**2.6**	**2.8**	*2.4*	*2.5*
Poland	8.0	2.4	3.2	2.3	0.3	0.5	0.6	**0.3**	**1.2**	**1.7**	*0.2*	*1.3*
Romania	59.4	16.7	8.6	4.7	3.4	1.7	2.9	**1.8**	**2.0**	**2.2**	*2.0*	*2.4*
Sweden	1.5	1.3	2.1	1.1	1.1	1.8	2.0	**2.3**	**2.2**	**2.2**	*2.7*	*1.8*
United Kingdom	1.4	2.5	2.1	1.5	1.9	1.6	0.4	**0.6**	**2.0**	**2.6**	*1.7*	*2.1*
EU	2.2	2.3	1.7	1.4	1.3	1.0	1.0	**1.0**	**1.4**	**1.7**	*1.3*	*1.5*
USA	1.8	2.5	1.7	1.8	1.6	1.8	1.1	**1.4**	**2.1**	**2.2**	*1.5*	*2.3*
Japan	-0.6	-1.4	-1.3	-0.9	-0.6	1.7	2.0	**0.3**	**-0.4**	**0.4**	*0.2*	*1.1*

Table 16: Price deflator of private consumption (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	1.7	2.2	2.1	2.0	0.8	0.7	0.3	**1.8**	**1.7**	**1.7**	*1.4*	*1.4*
Germany	0.9	1.3	1.4	1.5	1.0	1.0	0.6	**0.6**	**1.5**	**1.5**	*0.8*	*1.4*
Estonia	6.1	4.1	4.9	4.0	2.7	0.5	0.0	**0.9**	**2.8**	**3.0**	*0.6*	*2.5*
Ireland	3.7	3.0	-0.7	1.6	1.6	1.5	0.6	**0.9**	**1.5**	**1.5**	*1.5*	*1.5*
Greece	3.7	2.8	3.0	0.4	-1.8	-2.6	-1.6	**0.1**	**1.1**	**1.0**	*-0.3*	*0.6*
Spain	2.8	3.3	2.1	2.4	1.0	0.2	-0.2	**0.0**	**1.6**	**1.5**	*-0.1*	*1.4*
France	1.0	1.7	1.3	1.4	0.7	0.1	-0.2	**0.1**	**1.1**	**1.4**	*0.1*	*1.0*
Italy	2.4	2.6	1.9	2.7	1.2	0.2	0.0	**0.0**	**1.2**	**1.4**	*0.2*	*1.4*
Cyprus	2.4	2.7	2.7	2.4	0.0	-0.5	-1.7	**-1.4**	**0.5**	**1.3**	*-0.7*	*1.0*
Latvia	4.1	7.5	4.8	3.4	0.3	1.7	-0.6	**0.0**	**1.9**	**2.0**	*0.3*	*2.1*
Lithuania	2.8	1.0	5.3	3.1	1.0	0.1	-0.9	**0.7**	**1.7**	**2.1**	*0.6*	*1.8*
Luxembourg	1.9	2.2	1.9	2.0	1.6	0.3	-0.7	**0.0**	**1.5**	**1.9**	*0.4*	*2.1*
Malta	2.4	2.3	2.2	2.5	1.2	0.1	1.1	**1.0**	**1.6**	**1.8**	*1.4*	*2.2*
Netherlands	2.5	2.2	1.3	1.5	2.4	0.8	0.0	**0.7**	**1.2**	**1.3**	*0.7*	*1.3*
Austria	1.3	1.8	2.0	2.4	2.2	2.1	1.4	**1.2**	**1.9**	**1.8**	*0.9*	*1.8*
Portugal	3.1	3.4	1.5	1.8	0.8	0.3	0.7	**0.8**	**1.3**	**1.5**	*0.7*	*1.2*
Slovenia	7.3	4.0	2.7	1.4	0.8	0.0	-0.7	**0.1**	**1.5**	**1.9**	*-0.2*	*1.6*
Slovakia	6.8	4.9	2.4	3.4	1.3	-0.1	-0.1	**-0.5**	**0.8**	**1.4**	*0.0*	*1.5*
Finland	2.2	1.1	2.3	2.8	2.5	1.5	0.4	**0.5**	**0.8**	**1.1**	*0.3*	*1.0*
Euro area	1.7	2.1	1.6	1.9	1.1	0.5	0.1	**0.4**	**1.3**	**1.4**	*0.4*	*1.3*
Bulgaria	73.3	3.3	4.3	3.6	-2.6	0.0	1.2	**-0.9**	**1.0**	**1.0**	*-0.7*	*0.9*
Czech Republic	5.3	1.5	2.1	2.2	0.8	0.6	0.1	**0.4**	**1.2**	**1.6**	*0.5*	*1.4*
Denmark	2.1	1.6	2.2	2.4	0.8	0.8	0.6	**0.5**	**1.4**	**1.5**	*0.7*	*1.7*
Croatia	5.0	2.7	3.1	3.2	1.9	-0.5	-0.5	**-0.9**	**0.8**	**1.5**	*-0.5*	*0.7*
Hungary	12.3	4.5	4.7	6.2	1.8	1.0	-0.3	**0.4**	**2.3**	**2.8**	*0.8*	*2.3*
Poland	8.9	2.3	3.3	3.3	0.4	-0.1	-1.3	**-0.2**	**1.3**	**1.8**	*0.0*	*1.6*
Romania	55.6	12.0	6.0	4.5	2.6	1.2	1.2	**-0.5**	**0.7**	**2.1**	*0.2*	*1.8*
Sweden	1.3	1.2	2.0	0.5	0.7	1.1	1.0	**1.1**	**1.6**	**2.0**	*1.1*	*1.3*
United Kingdom	1.0	1.6	2.5	1.9	2.3	1.7	0.3	**0.9**	**2.6**	**2.8**	*1.0*	*1.8*
EU	2.3	2.1	1.9	2.0	1.3	0.7	0.2	**0.5**	**1.6**	**1.7**	*0.5*	*1.4*
USA	1.7	2.3	1.9	1.9	1.3	1.5	0.4	**1.2**	**2.0**	**2.1**	*1.2*	*2.3*
Japan	-0.3	-0.8	-1.1	-0.9	-0.2	1.9	0.2	**-0.8**	**-0.3**	**0.3**	*0.2*	*1.1*

Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	2016	2017
Belgium	1.7	2.0	2.4	2.6	1.2	0.5	0.6	1.7	1.7	1.8	1.7	1.6
Germany	1.2	1.6	1.8	2.1	1.6	0.8	0.1	0.4	1.5	1.5	0.3	1.5
Estonia	6.1	3.3	5.1	4.2	3.2	0.5	0.1	0.8	2.6	2.7	0.8	2.9
Ireland	3.0	3.2	0.8	1.9	0.5	0.3	0.0	-0.2	1.2	1.4	0.3	1.3
Greece	3.7	3.4	3.3	1.0	-0.9	-1.4	-1.1	0.1	1.1	1.0	-0.3	0.6
Spain	2.4	3.3	2.4	2.4	1.5	-0.2	-0.6	-0.4	1.6	1.5	-0.1	1.4
France	1.2	2.0	1.8	2.2	1.0	0.6	0.1	0.3	1.3	1.4	0.1	1.0
Italy	2.1	2.4	2.2	3.3	1.2	0.2	0.1	0.0	1.2	1.4	0.2	1.4
Cyprus	2.7	2.6	2.6	3.1	0.4	-0.3	-1.5	-1.1	0.7	1.3	-0.7	1.0
Latvia	3.9	4.9	6.3	2.3	0.0	0.7	0.2	-0.1	1.8	2.0	0.2	2.0
Lithuania	4.0	1.4	5.3	3.2	1.2	0.2	-0.7	0.7	1.7	2.1	0.6	1.8
Luxembourg	1.9	2.9	2.7	2.9	1.7	0.7	0.1	0.0	1.6	1.9	-0.1	1.8
Malta	3.1	2.5	2.4	3.2	1.0	0.8	1.2	1.0	1.6	1.8	1.4	2.2
Netherlands	2.6	2.1	1.6	2.8	2.6	0.3	0.2	0.1	1.0	1.1	0.4	1.3
Austria	1.4	1.7	2.2	2.6	2.1	1.5	0.8	1.0	1.8	1.6	0.9	1.7
Portugal	2.7	2.9	1.8	2.8	0.4	-0.2	0.5	0.7	1.2	1.4	0.7	1.2
Slovenia	8.0	4.4	2.9	2.8	1.9	0.4	-0.8	0.1	1.5	1.9	-0.2	1.6
Slovakia	8.5	5.3	2.3	3.7	1.5	-0.1	-0.3	-0.5	0.8	1.4	-0.1	1.5
Finland	1.9	1.1	2.4	3.2	2.2	1.2	-0.2	0.3	1.1	1.2	0.0	1.3
Euro area	1.7	2.2	2.0	2.5	1.3	0.4	0.0	0.3	1.4	1.4	0.2	1.4
Bulgaria	:	5.6	5.7	2.4	0.4	-1.6	-1.1	-0.9	1.0	1.2	-0.7	0.9
Czech Republic	5.6	1.5	2.6	3.5	1.4	0.4	0.3	0.5	1.2	1.6	0.5	1.4
Denmark	2.1	1.8	2.2	2.4	0.5	0.4	0.2	0.0	1.2	1.6	0.3	1.5
Croatia	:	2.7	2.8	3.4	2.3	0.2	-0.3	-0.9	0.8	1.5	-0.6	0.7
Hungary	12.3	4.8	5.3	5.7	1.7	0.0	0.1	0.4	2.3	2.7	0.4	2.3
Poland	9.9	1.9	3.5	3.7	0.8	0.1	-0.7	-0.2	1.3	1.8	0.0	1.6
Romania	68.0	13.1	6.1	3.4	3.2	1.4	-0.4	-1.0	1.8	2.9	-0.6	2.5
Sweden	1.5	1.5	2.0	0.9	0.4	0.2	0.7	1.1	1.6	2.0	0.9	1.2
United Kingdom	1.4	1.7	3.2	2.8	2.6	1.5	0.0	0.7	2.5	2.6	0.8	1.6
EU	4.3	2.3	2.4	2.6	1.5	0.5	0.0	0.3	1.6	1.7	0.3	1.5
USA	:	2.6	2.2	2.1	1.5	1.6	0.1	1.2	2.0	2.1	1.2	2.2
Japan	0.1	-0.2	-0.2	-0.1	0.3	2.8	0.8	-0.3	0.0	0.1	0.0	1.5

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2016-18) 31.10.2016

	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4
Belgium	1.5	1.6	1.9	1.6	2.0	1.6	1.6	1.7	1.7	1.8	1.8	1.8
Germany	0.1	0.0	0.4	1.2	1.7	1.4	1.4	1.3	1.3	1.5	1.5	1.5
Estonia	0.3	0.1	1.2	1.7	2.6	2.6	2.5	2.6	2.6	2.7	2.7	2.9
Ireland	-0.2	-0.1	-0.2	1.0	1.1	1.3	1.4	1.1	1.6	1.2	1.3	1.3
Greece	-0.2	-0.1	0.2	0.4	1.3	1.3	0.9	1.1	1.1	1.1	1.1	0.9
Spain	-0.8	-1.0	-0.3	0.7	1.6	1.7	1.4	1.5	1.4	1.4	1.4	1.6
France	0.0	0.1	0.4	0.8	1.3	1.3	1.3	1.2	1.2	1.3	1.4	1.5
Italy	0.0	-0.4	0.0	0.4	1.0	1.2	1.3	1.3	1.4	1.4	1.4	1.4
Cyprus	-1.8	-2.0	-0.5	-0.3	0.6	0.8	0.8	0.8	1.0	1.2	1.4	1.6
Latvia	-0.5	-0.7	0.2	0.6	2.0	1.8	1.7	1.8	1.9	1.9	2.0	2.0
Lithuania	0.7	0.4	0.4	1.1	1.4	1.7	1.8	1.8	1.9	2.0	2.3	2.4
Luxembourg	-0.2	-0.5	-0.1	0.6	1.9	1.5	1.6	1.5	1.6	1.8	2.2	2.2
Malta	0.9	0.9	1.0	1.1	1.2	1.7	1.8	1.8	1.8	1.9	1.9	1.8
Netherlands	0.4	-0.2	-0.2	0.3	1.0	1.2	0.9	0.8	1.0	1.2	1.3	1.0
Austria	1.0	0.6	0.8	1.6	2.3	1.8	1.7	1.5	1.5	1.5	1.6	1.6
Portugal	0.4	0.5	0.7	0.9	1.3	1.2	1.1	1.4	1.3	1.4	1.4	1.4
Slovenia	-0.9	-0.4	0.0	1.6	3.0	1.6	1.3	0.3	0.7	1.4	2.7	3.0
Slovakia	-0.5	-0.6	-0.7	-0.2	0.3	0.6	1.2	1.1	1.4	1.4	1.4	1.4
Finland	0.0	0.3	0.5	0.6	1.1	0.9	1.0	1.3	1.2	1.2	1.2	1.2
Euro area	0.0	-0.1	0.3	0.8	1.4	1.4	1.4	1.3	1.3	1.4	1.5	1.5
Bulgaria	-1.1	-2.3	-1.1	0.3	0.8	0.9	0.8	1.1	1.1	1.1	1.1	1.3
Czech Republic	0.5	0.2	0.6	0.7	1.0	1.0	1.2	1.5	1.5	1.6	1.7	1.7
Denmark	0.1	-0.1	-0.1	0.0	0.8	1.1	1.2	1.5	1.4	1.5	1.6	1.8
Croatia	-0.5	-1.1	-1.1	-1.1	-0.2	1.7	1.4	0.5	0.9	2.0	2.1	1.2
Hungary	0.4	0.0	0.1	0.3	2.0	1.9	2.7	2.5	2.5	2.5	2.8	2.9
Poland	-0.3	-0.4	-0.5	0.2	1.1	1.2	1.4	1.5	1.6	1.8	1.9	2.0
Romania	-2.0	-2.1	-0.1	0.0	1.0	1.8	2.1	2.4	2.7	2.8	2.9	3.1
Sweden	1.1	1.0	1.1	1.3	1.7	1.6	1.7	1.5	1.8	1.9	2.0	2.2
United Kingdom	0.3	0.3	0.7	1.5	2.0	2.3	2.7	3.0	2.8	2.8	2.5	2.1
EU	0.0	-0.1	0.3	0.9	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7
USA	1.1	1.1	1.2	1.6	2.2	2.0	2.0	2.0	2.0	2.0	2.1	2.1
Japan	0.0	-0.3	-0.5	-0.3	0.0	-0.2	0.0	0.2	0.3	0.4	0.5	0.5

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	2016	2017
Belgium	1.2	1.1	1.5	1.6	-0.6	-1.4	-3.3	-2.4	1.4	1.4	0.0	1.4
Germany	0.4	-0.1	0.8	1.6	-0.7	-0.5	0.8	-1.2	1.4	1.6	-0.4	1.2
Estonia	3.9	2.1	3.6	0.8	-0.1	-1.7	-1.8	0.5	2.1	1.9	-0.5	1.9
Ireland	1.9	-1.2	-0.5	3.1	-2.8	-0.2	9.9	-0.7	0.9	1.5	1.6	0.9
Greece	3.1	2.0	3.6	4.7	-1.9	-3.1	-11.5	-2.9	2.8	3.0	-8.0	2.9
Spain	2.0	1.5	1.7	2.5	-1.2	-2.2	0.5	-2.0	0.8	1.2	0.6	1.1
France	0.0	-0.1	1.2	1.5	-0.5	-1.2	-0.6	-1.7	0.8	0.4	-1.0	0.1
Italy	1.8	1.1	1.9	1.9	-0.6	-0.5	-0.5	-0.8	1.6	1.3	-0.3	1.5
Cyprus	2.5	2.5	2.4	0.6	2.1	1.3	0.8	-0.7	1.1	2.0	0.0	1.1
Latvia	-0.2	8.9	6.1	3.8	1.8	-1.4	0.2	-0.9	1.8	1.6	0.2	1.5
Lithuania	0.8	2.9	5.0	3.6	-1.9	-3.2	-5.3	-8.0	2.0	1.8	-0.2	1.5
Luxembourg	0.2	2.3	3.7	2.0	-1.8	-0.2	-1.7	-2.0	1.1	1.1	-0.2	1.1
Malta	2.4	1.5	3.1	-4.0	-3.3	-4.4	0.6	0.2	2.6	1.4	-4.2	1.2
Netherlands	0.9	0.7	2.0	3.0	-1.4	-2.6	-3.9	-2.5	1.5	1.5	-4.2	1.3
Austria	0.4	1.0	1.4	0.9	-0.9	-0.9	-1.0	-0.5	0.7	1.2	-0.6	0.5
Portugal	1.8	0.9	1.5	1.7	-1.6	-1.9	-2.1	-1.5	1.4	1.5	-1.5	1.4
Slovenia	5.3	2.7	1.5	0.7	-1.2	-0.4	-0.6	-2.9	1.0	1.2	-0.5	1.6
Slovakia	4.1	1.8	0.5	0.8	-4.2	-5.6	-4.7	-0.5	0.8	1.0	-0.7	0.8
Finland	-1.6	-0.6	-0.1	0.7	-1.8	-0.8	-1.7	-3.2	1.1	1.5	-0.5	3.2
Euro area	0.8	0.4	1.3	1.9	-0.9	-1.2	-0.4	-1.5	1.3	1.3	-0.8	1.1
Bulgaria	62.5	7.2	6.5	0.2	-3.6	-2.2	-2.3	-2.5	1.5	2.0	-2.5	1.5
Czech Republic	2.5	-1.6	-1.0	3.2	1.6	3.8	-1.5	-3.0	1.2	1.4	-1.8	1.4
Denmark	1.2	1.8	2.4	3.0	-0.4	-0.2	1.4	-1.1	2.2	2.5	1.5	2.0
Croatia	7.0	2.2	3.8	2.5	-2.0	-1.7	-2.3	-2.8	0.7	0.8	-0.5	0.0
Hungary	8.6	-0.3	0.7	3.0	-0.1	1.0	-0.3	-0.1	0.3	0.7	-0.1	0.3
Poland	6.8	3.8	4.3	4.4	0.5	0.0	1.6	-0.1	1.5	1.7	0.5	1.5
Romania	50.8	9.8	8.0	3.8	-5.8	-1.1	0.2	1.0	3.0	3.0	-1.1	1.6
Sweden	0.0	0.0	0.9	-1.7	-3.2	2.1	1.2	0.6	3.6	1.5	0.3	1.3
United Kingdom	-2.3	0.8	5.0	-0.5	1.2	-4.7	-8.6	5.5	7.5	4.0	2.0	2.0
EU	1.1	0.6	1.8	1.7	-0.8	-1.2	-0.9	-0.8	1.9	1.6	-0.5	1.2
USA	-1.2	2.4	2.7	0.4	-0.7	-0.9	-6.8	-4.1	0.4	0.6	-4.0	0.0
Japan	-1.9	-0.4	-3.5	-2.1	9.6	2.6	0.3	-7.5	1.1	1.7	0.9	1.1

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	2016	2017
Belgium	2.1	1.5	2.3	1.4	-1.0	-2.4	-5.0	-2.4	1.9	1.5	-0.4	1.6
Germany	1.0	-0.1	1.0	1.9	-2.4	-2.2	-2.2	-3.6	1.3	1.5	-2.5	1.1
Estonia	2.7	0.3	3.6	2.4	-0.8	-1.7	-1.9	-2.8	2.0	1.7	-0.7	1.7
Ireland	0.0	-0.1	-1.3	3.5	-3.6	5.7	1.5	-0.5	1.0	1.4	1.3	1.0
Greece	3.7	2.2	3.9	4.9	-3.6	-4.0	-12.0	-3.0	2.8	3.0	-7.6	3.0
Spain	2.2	0.9	2.6	3.8	-1.9	-1.7	-1.6	-2.8	1.7	1.6	-1.5	1.3
France	0.2	0.2	1.4	1.9	-1.8	-2.8	-4.3	-3.6	1.0	0.3	-3.7	-0.2
Italy	1.9	2.3	2.3	3.3	-2.3	-3.6	-4.3	-4.2	2.3	1.5	-3.0	1.5
Cyprus	2.3	2.4	2.2	1.5	1.9	-5.4	-2.4	-2.6	1.4	1.4	-2.2	1.4
Latvia	2.3	8.5	4.3	7.8	0.5	-0.5	-2.1	-3.6	2.5	1.6	-0.6	1.6
Lithuania	-1.5	1.7	5.1	4.6	-1.9	-3.8	-8.3	-7.5	2.7	1.5	-0.7	1.8
Luxembourg	1.5	1.1	2.3	3.0	-0.9	-1.2	-3.7	-2.2	0.7	1.0	-0.2	0.9
Malta	2.6	1.5	1.7	-2.2	-5.6	-5.8	0.4	-1.2	1.7	1.5	-4.0	1.0
Netherlands	0.1	0.2	2.6	3.2	-1.9	-2.7	-5.1	-2.5	1.5	1.5	-6.1	1.7
Austria	0.6	1.1	2.2	1.7	-0.8	-1.4	-2.7	-1.7	1.0	1.3	-0.8	0.7
Portugal	1.7	1.0	1.6	1.0	-3.2	-3.0	-5.1	-3.9	0.1	0.5	-2.6	0.5
Slovenia	5.4	3.2	2.3	2.0	-2.0	-1.5	-1.9	-4.7	1.5	1.5	-1.2	1.2
Slovakia	4.1	2.1	1.8	2.2	-3.6	-5.9	-4.5	-0.4	0.9	1.1	-0.6	1.0
Finland	-1.0	1.9	1.0	2.0	-2.6	-2.5	-6.0	-4.6	1.2	1.7	-1.9	3.5
Euro area	1.1	0.7	1.8	2.5	-2.1	-2.4	-3.6	-3.2	1.5	1.3	-2.7	1.1
Bulgaria	64.1	4.2	4.3	3.8	-2.8	-2.9	-2.9	-3.0	2.0	1.8	-3.0	1.6
Czech Republic	2.2	-1.3	-0.4	3.8	0.0	2.0	-2.0	-3.3	1.0	1.3	-2.4	1.3
Denmark	0.6	0.7	2.1	2.7	-2.1	-0.7	-0.2	-2.0	2.0	2.0	0.6	1.9
Croatia	5.1	0.8	2.5	2.9	-0.4	-0.9	-1.5	-3.0	1.2	1.7	-0.7	0.4
Hungary	9.1	0.5	1.1	4.3	-0.9	0.1	-1.1	-0.5	0.3	0.5	-0.5	0.3
Poland	7.7	3.5	4.1	5.8	-1.2	-2.2	-1.3	-0.7	1.8	2.0	0.0	2.0
Romania	44.9	6.6	4.4	7.5	-10.0	-1.9	-2.3	-1.7	0.6	1.5	-3.4	1.2
Sweden	1.5	1.3	0.7	-1.9	-3.7	1.2	-0.7	-1.0	3.7	1.6	-2.9	1.2
United Kingdom	-2.1	0.4	5.1	-0.2	-0.1	-4.4	-7.0	7.0	8.0	3.5	0.5	1.0
EU	1.4	0.8	2.2	2.3	-1.9	-2.3	-3.6	-1.6	2.3	1.6	-2.1	1.1
USA	-1.6	3.4	3.3	0.6	-1.3	-0.6	-8.9	-4.1	0.9	1.3	-4.3	0.6
Japan	-1.1	4.7	-0.1	-0.2	12.1	3.8	-7.4	-13.0	1.0	1.5	-0.1	1.4

Table 21: Terms of trade of goods (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	-0.8	-0.4	-0.8	0.2	0.4	1.0	1.8	**-0.1**	**-0.5**	**-0.1**	*0.4*	*-0.2*
Germany	-0.6	0.0	-0.2	-0.4	1.8	1.7	3.1	**2.5**	**0.1**	**0.1**	*2.2*	*0.2*
Estonia	1.1	1.9	0.0	-1.6	0.8	0.0	0.1	**3.4**	**0.1**	**0.2**	*0.2*	*0.2*
Ireland	1.9	-1.0	0.9	-0.4	0.9	-5.6	8.3	**-0.2**	**-0.1**	**0.1**	*0.3*	*-0.1*
Greece	-0.6	-0.2	-0.2	-0.2	1.7	0.9	0.6	**0.1**	**0.0**	**0.0**	*-0.4*	*-0.1*
Spain	-0.2	0.5	-0.9	-1.3	0.6	-0.5	2.0	**0.8**	**-0.9**	**-0.4**	*2.1*	*-0.2*
France	-0.3	-0.3	-0.2	-0.3	1.3	1.6	3.8	**1.9**	**-0.2**	**0.1**	*2.8*	*0.3*
Italy	-0.1	-1.2	-0.4	-1.4	1.8	3.3	4.0	**3.5**	**-0.7**	**-0.2**	*2.8*	*-0.1*
Cyprus	0.2	0.1	0.2	-0.9	0.2	7.1	3.2	**2.0**	**-0.3**	**0.6**	*2.2*	*-0.3*
Latvia	-2.4	0.4	1.7	-3.7	1.3	-0.9	2.4	**2.8**	**-0.7**	**0.0**	*0.8*	*-0.1*
Lithuania	2.3	1.3	-0.1	-0.9	0.0	0.6	3.2	**-0.5**	**-0.7**	**0.3**	*0.5*	*-0.3*
Luxembourg	-1.3	1.2	1.4	-0.9	-0.9	1.1	2.0	**0.2**	**0.4**	**0.1**	*0.0*	*0.2*
Malta	-0.2	0.0	1.3	-1.8	2.5	1.5	0.3	**1.4**	**0.9**	**-0.1**	*-0.2*	*0.2*
Netherlands	0.7	0.4	-0.6	-0.2	0.5	0.1	1.3	**0.0**	**0.0**	**0.0**	*2.0*	*-0.4*
Austria	-0.2	0.0	-0.7	-0.7	-0.1	0.5	1.8	**1.2**	**-0.3**	**-0.1**	*0.2*	*-0.2*
Portugal	0.2	-0.1	-0.1	0.7	1.7	1.2	3.2	**2.5**	**1.3**	**1.0**	*1.1*	*0.9*
Slovenia	-0.1	-0.4	-0.7	-1.3	0.8	1.1	1.3	**1.9**	**-0.5**	**-0.3**	*0.7*	*0.4*
Slovakia	0.0	-0.3	-1.2	-1.3	-0.6	0.3	-0.1	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.2*
Finland	-0.6	-2.5	-1.0	-1.3	0.8	1.7	4.6	**1.5**	**-0.1**	**-0.2**	*1.4*	*-0.3*
Euro area	-0.2	-0.3	-0.5	-0.5	1.2	1.2	3.2	**1.7**	**-0.2**	**0.0**	*1.9*	*0.0*
Bulgaria	-1.0	2.9	2.1	-3.5	-0.8	0.7	0.6	**0.5**	**-0.5**	**0.2**	*0.5*	*-0.1*
Czech Republic	0.3	-0.3	-0.6	-0.6	1.5	1.8	0.5	**0.3**	**0.1**	**0.1**	*0.6*	*0.1*
Denmark	0.6	1.2	0.3	0.4	1.7	0.5	1.7	**0.9**	**0.2**	**0.5**	*0.9*	*0.1*
Croatia	1.7	1.3	1.3	-0.4	-1.6	-0.9	-0.8	**0.2**	**-0.5**	**-0.8**	*0.3*	*-0.4*
Hungary	-0.4	-0.9	-0.4	-1.2	0.8	1.0	0.8	**0.4**	**0.0**	**0.2**	*0.4*	*0.0*
Poland	-0.8	0.3	0.2	-1.3	1.7	2.2	2.9	**0.6**	**-0.3**	**-0.3**	*0.5*	*-0.5*
Romania	4.0	3.0	3.5	-3.4	4.7	0.8	2.5	**2.7**	**2.4**	**1.5**	*2.4*	*0.4*
Sweden	-1.5	-1.3	0.2	0.2	0.5	0.9	1.9	**1.6**	**-0.1**	**-0.1**	*3.3*	*0.1*
United Kingdom	-0.1	0.4	-0.1	-0.3	1.4	-0.4	-1.7	**-1.4**	**-0.5**	**0.5**	*1.5*	*1.0*
EU	-0.3	-0.2	-0.3	-0.7	1.3	0.9	2.3	**1.5**	**0.0**	**0.0**	*2.0*	*0.1*
USA	0.4	-1.0	-0.6	-0.2	0.7	-0.2	2.3	**0.0**	**-0.5**	**-0.8**	*0.4*	*-0.6*
Japan	-0.8	-4.9	-3.4	-1.9	-2.2	-1.1	8.3	**6.3**	**0.1**	**0.2**	*1.0*	*-0.3*

Table 22: Total population (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	0.2	0.5	0.8	0.7	0.5	0.5	0.5	**0.6**	**0.5**	**0.5**	*0.6*	*0.7*
Germany	0.0	-0.1	-0.2	0.2	0.3	0.4	0.9	**1.2**	**1.2**	**0.8**	*0.9*	*0.3*
Estonia	-0.5	-0.6	-0.3	-0.3	-0.4	-0.3	-0.2	**0.0**	**0.0**	**0.0**	*-0.4*	*-0.4*
Ireland	1.3	2.0	1.4	0.3	0.3	0.3	0.6	**0.9**	**1.0**	**0.9**	*1.0*	*0.9*
Greece	0.5	0.3	0.2	-0.5	-0.7	-0.7	-0.3	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*
Spain	0.4	1.7	1.1	0.1	-0.4	-0.3	-0.1	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.1*
France	0.5	0.7	0.5	0.5	0.5	0.5	0.4	**0.5**	**0.5**	**0.4**	*0.5*	*0.5*
Italy	0.0	0.5	0.6	0.5	0.5	0.2	-0.1	**0.0**	**0.3**	**0.3**	*0.0*	*0.3*
Cyprus	1.2	1.4	2.5	1.5	-0.2	-1.1	-0.6	**-0.3**	**0.2**	**0.4**	*-0.3*	*0.2*
Latvia	-1.0	-1.0	-1.5	-1.2	-1.0	-0.9	-0.8	**-0.7**	**-0.6**	**-0.5**	*-0.7*	*-0.5*
Lithuania	-0.7	-1.2	-1.5	-1.3	-1.0	-0.9	-0.9	**-1.2**	**-1.1**	**-1.0**	*-1.2*	*-1.1*
Luxembourg	1.3	1.4	1.9	2.3	2.6	2.4	2.0	**2.0**	**2.1**	**2.1**	*2.4*	*2.3*
Malta	0.7	0.6	0.5	0.8	0.9	1.0	1.1	**0.8**	**0.7**	**0.7**	*0.8*	*0.7*
Netherlands	0.7	0.4	0.4	0.4	0.3	0.4	0.4	**0.6**	**0.6**	**0.5**	*0.6*	*0.6*
Austria	0.2	0.6	0.3	0.5	0.6	0.8	1.0	**0.8**	**0.5**	**0.5**	*0.8*	*0.5*
Portugal	0.6	0.3	0.1	-0.4	-0.5	-0.5	-0.4	**-0.5**	**-0.5**	**-0.4**	*-0.5*	*-0.5*
Slovenia	0.0	0.2	0.4	0.2	0.1	0.1	0.1	**0.1**	**0.1**	**0.1**	*0.1*	*0.2*
Slovakia	0.0	0.0	0.0	0.2	0.1	0.1	0.1	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*
Finland	0.2	0.3	0.5	0.5	0.5	0.4	0.3	**0.4**	**0.4**	**0.4**	*0.4*	*0.4*
Euro area	0.3	0.5	0.4	0.3	0.2	0.2	0.3	**0.4**	**0.5**	**0.4**	*0.4*	*0.3*
Bulgaria	-0.9	-1.0	-0.7	-0.6	-0.6	-0.6	-0.4	**-0.6**	**-0.6**	**-0.6**	*-0.6*	*-0.6*
Czech Republic	-0.2	0.1	0.4	0.1	0.0	0.1	0.2	**0.2**	**0.1**	**0.1**	*0.2*	*0.2*
Denmark	0.4	0.3	0.5	0.4	0.4	0.5	0.7	**0.8**	**0.5**	**0.4**	*0.5*	*0.4*
Croatia	-1.3	0.1	-0.1	-0.3	-0.3	-0.6	-0.5	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*
Hungary	-0.2	-0.2	-0.2	-0.5	-0.3	-0.3	-0.2	**-0.1**	**-0.1**	**-0.2**	*-0.1*	*-0.2*
Poland	0.0	-0.1	0.2	0.0	-0.1	0.0	-0.1	**0.0**	**0.0**	**-0.1**	*0.0*	*0.0*
Romania	-0.2	-1.1	-1.0	-0.4	-0.4	-0.4	-0.5	**0.1**	**-0.2**	**-0.2**	*-0.1*	*-0.2*
Sweden	0.1	0.4	0.8	0.7	0.9	1.0	1.1	**1.2**	**1.4**	**1.6**	*1.3*	*1.5*
United Kingdom	0.3	0.6	0.8	0.7	0.6	0.8	0.8	**0.7**	**0.7**	**0.7**	*0.8*	*0.8*
EU	0.2	0.3	0.3	0.2	0.2	0.2	0.3	**0.4**	**0.4**	**0.3**	*0.4*	*0.3*
USA	1.1	0.9	0.9	0.7	0.7	0.8	0.8	**0.8**	**0.8**	**0.8**	*0.8*	*0.9*
Japan	0.2	0.1	0.0	-0.2	-0.2	-0.1	-0.1	**-0.1**	**-0.1**	**-0.1**	*-0.2*	*-0.2*

Table 23: **Total employment (percentage change on preceding year, 1997-2018)** 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	1.4	0.7	1.1	0.4	-0.3	0.4	0.9	**1.2**	**0.9**	**1.0**	*0.8*	*1.1*
Germany	1.0	-0.1	1.0	1.2	0.6	0.8	0.9	**1.2**	**0.9**	**0.9**	*1.1*	*0.8*
Estonia	-1.0	1.8	-1.7	1.6	1.2	0.8	2.9	**1.2**	**0.2**	**0.2**	*-0.9*	*-0.2*
Ireland	5.6	3.3	-1.7	-0.6	2.5	1.7	2.5	**2.3**	**1.9**	**1.9**	*1.7*	*1.4*
Greece	0.9	1.8	-1.5	-6.3	-2.6	0.0	0.5	**2.2**	**2.2**	**2.3**	*0.5*	*2.0*
Spain	4.2	3.1	-1.6	-4.9	-3.5	1.1	3.0	**2.8**	**2.1**	**1.8**	*2.5*	*2.0*
France	1.8	0.6	0.2	0.1	0.1	0.2	0.4	**1.1**	**0.7**	**0.9**	*0.5*	*0.7*
Italy	1.0	0.8	-0.6	-1.4	-2.4	0.3	0.8	**1.2**	**0.7**	**0.7**	*0.9*	*0.9*
Cyprus	1.6	3.0	1.7	-3.2	-5.9	-1.9	0.8	**1.8**	**1.6**	**1.5**	*1.0*	*1.3*
Latvia	0.1	1.8	-3.3	1.4	2.3	-1.4	1.4	**0.3**	**0.5**	**0.5**	*0.3*	*0.5*
Lithuania	-2.1	1.0	-2.4	1.8	1.3	2.0	1.3	**2.3**	**0.3**	**0.1**	*0.2*	*0.1*
Luxembourg	4.7	2.7	3.0	2.4	1.8	2.6	2.6	**2.8**	**2.9**	**2.6**	*2.6*	*2.5*
Malta	0.3	0.6	1.9	2.5	3.7	5.1	3.4	**2.7**	**2.5**	**2.4**	*2.9*	*2.7*
Netherlands	2.3	0.1	0.7	-0.6	-1.2	-0.3	1.0	**1.4**	**1.3**	**1.3**	*1.1*	*1.2*
Austria	1.0	0.8	1.1	1.0	0.3	0.9	0.6	**0.8**	**0.8**	**0.9**	*0.9*	*0.9*
Portugal	2.2	-0.3	-1.1	-4.1	-2.9	1.4	1.4	**1.0**	**0.7**	**0.5**	*0.9*	*0.7*
Slovenia	0.3	0.5	0.1	-0.9	-1.1	0.4	1.1	**1.1**	**0.9**	**0.7**	*0.7*	*0.7*
Slovakia	-1.1	0.9	0.7	0.1	-0.8	1.4	2.0	**2.7**	**1.5**	**1.7**	*1.8*	*1.5*
Finland	2.3	1.0	0.5	0.9	-0.7	-0.5	-0.4	**0.2**	**0.3**	**0.4**	*0.2*	*0.3*
Euro area	1.6	0.8	0.0	-0.8	-0.8	0.6	1.1	**1.4**	**1.0**	**1.0**	*1.1*	*1.0*
Bulgaria	-2.3	2.4	-0.5	-2.5	-0.4	0.4	0.4	**0.8**	**0.8**	**0.7**	*0.3*	*0.5*
Czech Republic	-1.1	0.6	0.2	0.4	0.3	0.6	1.4	**1.4**	**0.1**	**0.1**	*0.4*	*0.3*
Denmark	1.0	0.4	-0.4	-0.6	0.1	0.8	1.1	**1.5**	**0.9**	**1.0**	*0.9*	*0.9*
Croatia	-0.9	2.1	-0.6	-3.5	-2.7	2.7	1.5	**1.8**	**1.5**	**1.2**	*1.0*	*1.4*
Hungary	1.1	-0.2	-1.1	0.2	1.1	4.8	2.6	**2.7**	**0.6**	**0.8**	*0.9*	*0.1*
Poland	-1.0	0.5	1.3	0.1	-0.1	1.7	1.4	**1.1**	**0.3**	**0.0**	*0.7*	*0.5*
Romania	-1.0	-2.5	-0.5	-4.8	-0.9	0.8	-0.9	**1.8**	**0.8**	**0.6**	*0.0*	*-0.1*
Sweden	1.4	0.1	0.8	0.7	1.0	1.4	1.5	**1.8**	**1.3**	**0.9**	*1.6*	*1.6*
United Kingdom	1.2	1.0	0.2	1.1	1.2	2.4	1.8	**1.2**	**0.5**	**0.3**	*1.0*	*0.9*
EU	1.0	0.6	0.0	-0.6	-0.4	1.0	1.2	**1.4**	**0.9**	**0.8**	*1.0*	*0.9*
USA	1.5	1.1	-0.6	1.8	1.0	1.6	1.7	**1.7**	**1.0**	**0.5**	*2.3*	*1.1*
Japan	-0.6	0.1	-0.4	0.0	0.6	0.6	0.4	**0.8**	**0.3**	**0.2**	*0.1*	*0.1*

Table 24: **Unemployment rate [1] (number of unemployed as a percentage of total labour force, 1997-2018)** 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	8.1	8.2	7.6	7.6	8.4	8.5	8.5	**8.0**	**7.8**	**7.6**	*8.2*	*7.7*
Germany	8.7	10.0	7.3	5.4	5.2	5.0	4.6	**4.4**	**4.3**	**4.2**	*4.6*	*4.7*
Estonia	11.5	9.1	10.5	10.0	8.6	7.4	6.2	**6.5**	**7.4**	**8.3**	*6.5*	*7.7*
Ireland	6.3	4.5	10.3	14.7	13.1	11.3	9.4	**8.3**	**7.8**	**7.6**	*8.2*	*7.5*
Greece	11.0	9.9	11.3	24.5	27.5	26.5	24.9	**23.5**	**22.2**	**20.3**	*24.7*	*23.6*
Spain	14.2	10.3	15.7	24.8	26.1	24.5	22.1	**19.7**	**18.0**	**16.5**	*20.0*	*18.1*
France	9.5	8.6	8.6	9.8	10.3	10.3	10.4	**10.0**	**9.9**	**9.6**	*10.2*	*10.1*
Italy	10.5	7.9	7.5	10.7	12.1	12.7	11.9	**11.5**	**11.4**	**11.3**	*11.4*	*11.2*
Cyprus	4.9	4.4	5.4	11.9	15.9	16.1	15.0	**12.5**	**11.1**	**10.0**	*13.4*	*12.4*
Latvia	14.3	10.6	13.4	15.0	11.9	10.8	9.9	**9.6**	**9.2**	**8.8**	*9.6*	*9.3*
Lithuania	13.6	10.2	11.4	13.4	11.8	10.7	9.1	**7.6**	**7.4**	**7.0**	*7.8*	*6.4*
Luxembourg	2.4	4.1	4.7	5.1	5.9	6.0	6.4	**6.2**	**6.1**	**6.2**	*6.2*	*6.2*
Malta	6.7	7.2	6.5	6.3	6.4	5.8	5.4	**5.0**	**5.2**	**5.2**	*5.1*	*5.1*
Netherlands	4.5	5.0	4.5	5.8	7.3	7.4	6.9	**6.1**	**5.8**	**5.4**	*6.4*	*6.1*
Austria	4.3	5.1	4.7	4.9	5.4	5.6	5.7	**5.9**	**6.1**	**6.1**	*5.9*	*6.1*
Portugal	5.9	7.8	10.7	15.8	16.4	14.1	12.6	**11.1**	**10.0**	**9.5**	*11.6*	*10.7*
Slovenia	6.9	6.4	6.1	8.9	10.1	9.7	9.0	**8.4**	**7.7**	**7.2**	*8.6*	*8.1*
Slovakia	15.8	17.0	12.2	14.0	14.2	13.2	11.5	**9.7**	**8.7**	**7.5**	*10.5*	*9.5*
Finland	10.6	8.6	7.5	7.7	8.2	8.7	9.4	**9.0**	**8.8**	**8.7**	*9.4*	*9.3*
Euro area	:	8.9	9.0	11.4	12.0	11.6	10.9	**10.1**	**9.7**	**9.2**	*10.3*	*9.9*
Bulgaria	14.2	12.6	8.2	12.3	13.0	11.4	9.2	**8.1**	**7.1**	**6.3**	*8.6*	*8.0*
Czech Republic	7.4	7.7	6.1	7.0	7.0	6.1	5.1	**4.2**	**4.1**	**4.0**	*4.5*	*4.4*
Denmark	4.8	4.8	5.7	7.5	7.0	6.6	6.2	**6.1**	**5.9**	**5.6**	*6.0*	*5.7*
Croatia	:	13.6	10.6	16.0	17.3	17.3	16.3	**13.4**	**11.7**	**10.3**	*15.5*	*14.7*
Hungary	7.3	6.4	9.5	11.0	10.2	7.7	6.8	**5.1**	**4.7**	**4.1**	*6.4*	*6.1*
Poland	13.8	18.1	8.8	10.1	10.3	9.0	7.5	**6.2**	**5.6**	**4.7**	*6.8*	*6.3*
Romania	6.9	7.7	6.5	6.8	7.1	6.8	6.8	**6.5**	**6.4**	**6.3**	*6.8*	*6.7*
Sweden	7.2	7.0	7.4	8.0	8.0	7.9	7.4	**6.8**	**6.4**	**6.4**	*6.8*	*6.3*
United Kingdom	5.8	5.0	6.9	7.9	7.6	6.1	5.3	**4.9**	**5.2**	**5.6**	*5.0*	*4.9*
EU	:	8.9	8.5	10.5	10.9	10.2	9.4	**8.6**	**8.3**	**7.9**	*8.9*	*8.5*
USA	4.5	5.4	7.6	8.1	7.4	6.2	5.3	**4.9**	**4.7**	**4.7**	*4.8*	*4.5*
Japan	4.4	4.8	4.5	4.3	4.0	3.6	3.4	**3.2**	**3.2**	**3.2**	*3.4*	*3.3*

Table 25: Compensation of employees per head (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	2.7	2.6	2.5	3.2	2.5	1.0	0.0	**0.8**	**1.9**	**1.8**	*0.7*	*1.5*
Germany	1.2	0.8	1.7	2.5	1.8	2.8	2.4	**2.0**	**2.6**	**2.4**	*2.5*	*3.0*
Estonia	12.7	11.8	6.9	6.6	4.6	4.2	5.7	**6.1**	**5.1**	**5.0**	*5.6*	*5.2*
Ireland	6.0	5.3	1.0	0.8	1.4	1.8	2.8	**2.7**	**2.5**	**2.1**	*2.2*	*2.1*
Greece	7.3	6.8	1.1	-3.0	-7.5	-2.1	-2.9	**0.2**	**1.0**	**2.0**	*-0.8*	*1.5*
Spain	2.6	3.6	3.5	-0.6	1.4	-0.1	0.4	**1.2**	**1.2**	**1.4**	*0.8*	*1.0*
France	2.0	3.1	2.5	2.4	1.6	1.2	1.1	**0.6**	**1.5**	**1.9**	*1.1*	*1.5*
Italy	2.2	3.3	2.4	0.4	1.3	-0.2	0.4	**0.0**	**0.4**	**1.5**	*0.3*	*0.5*
Cyprus	4.5	5.1	2.7	1.5	-5.4	-3.6	-0.5	**1.2**	**1.5**	**1.9**	*1.1*	*1.4*
Latvia	7.5	15.8	6.2	7.7	5.5	8.6	6.9	**5.1**	**5.5**	**5.5**	*5.2*	*5.5*
Lithuania	9.2	12.0	4.6	4.2	5.4	4.7	5.3	**5.4**	**6.1**	**6.3**	*4.6*	*5.1*
Luxembourg	3.1	3.5	2.6	1.8	2.3	2.6	0.9	**0.4**	**2.5**	**1.9**	*0.3*	*2.6*
Malta	4.7	3.7	3.2	3.5	1.9	1.1	2.7	**2.9**	**2.7**	**2.5**	*1.9*	*2.3*
Netherlands	3.9	3.0	2.6	2.5	2.2	1.6	0.4	**2.4**	**2.1**	**2.2**	*1.8*	*2.6*
Austria	1.9	2.2	2.2	2.7	2.1	1.9	1.9	**1.4**	**1.6**	**1.6**	*1.4*	*1.6*
Portugal	5.4	3.3	1.7	-3.1	3.6	-1.8	-0.3	**1.2**	**1.1**	**1.1**	*1.6*	*1.4*
Slovenia	10.2	7.0	4.1	-1.0	0.5	1.3	1.4	**1.8**	**1.8**	**2.9**	*1.7*	*2.0*
Slovakia	10.4	8.4	5.0	2.6	2.6	1.8	3.1	**2.3**	**3.7**	**4.8**	*3.5*	*3.9*
Finland	3.4	2.9	3.1	2.8	1.3	1.0	1.6	**1.2**	**-0.8**	**0.9**	*1.2*	*1.2*
Euro area	2.2	2.5	2.5	1.8	1.6	1.3	1.2	**1.2**	**1.7**	**2.0**	*1.5*	*1.9*
Bulgaria	82.5	6.4	10.8	7.7	8.8	5.6	5.6	**5.4**	**4.8**	**4.2**	*3.6*	*4.3*
Czech Republic	8.2	6.6	3.2	1.7	-0.3	2.6	2.6	**3.5**	**4.1**	**4.3**	*3.2*	*3.6*
Denmark	3.7	3.5	3.0	1.7	1.2	1.8	1.9	**1.9**	**2.3**	**2.7**	*2.0*	*2.3*
Croatia	10.8	5.9	3.6	0.1	-0.6	-5.4	-0.3	**1.7**	**1.9**	**2.0**	*1.1*	*1.6*
Hungary	14.8	9.1	3.0	2.0	1.6	1.3	1.6	**4.4**	**5.4**	**5.0**	*4.6*	*4.3*
Poland	13.8	2.1	6.3	3.6	1.7	2.2	1.2	**2.7**	**4.3**	**5.2**	*3.8*	*4.3*
Romania	67.2	19.7	7.9	9.4	3.8	6.7	1.3	**7.9**	**5.8**	**5.6**	*6.9*	*6.2*
Sweden	3.8	3.5	3.4	3.1	1.9	2.2	3.5	**3.1**	**3.3**	**3.2**	*3.1*	*3.2*
United Kingdom	5.5	4.2	2.5	1.7	2.1	0.4	1.1	**2.3**	**2.2**	**2.1**	*3.3*	*3.5*
EU	3.9	2.9	2.6	2.0	1.7	1.1	1.2	**1.6**	**2.0**	**2.3**	*2.0*	*2.4*
USA	:	3.3	2.5	2.2	1.5	2.8	3.0	**2.1**	**3.5**	**4.0**	*2.7*	*3.9*
Japan	-0.5	-1.4	-0.8	-0.2	0.0	1.1	0.6	**-0.2**	**0.5**	**0.6**	*0.6*	*0.4*

Table 26: Real compensation of employees per head [1] (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	1.0	0.4	0.5	1.1	1.6	0.3	-0.3	**-1.0**	**0.2**	**0.1**	*-0.7*	*0.1*
Germany	0.3	-0.5	0.4	1.0	0.7	1.8	1.8	**1.4**	**1.1**	**0.9**	*1.7*	*1.6*
Estonia	6.2	7.5	1.8	2.5	1.9	3.7	5.7	**5.2**	**2.2**	**2.0**	*5.0*	*2.6*
Ireland	2.2	2.3	1.7	-0.8	-0.2	0.4	2.2	**1.8**	**1.0**	**0.6**	*0.7*	*0.6*
Greece	3.6	3.9	-1.8	-3.5	-5.8	0.5	-1.3	**0.1**	**-0.1**	**1.0**	*-0.5*	*0.9*
Spain	-0.2	0.3	1.4	-2.9	0.4	-0.2	0.6	**1.2**	**-0.4**	**-0.1**	*0.9*	*-0.4*
France	1.0	1.3	1.3	0.9	0.9	1.1	1.3	**0.5**	**0.4**	**0.5**	*1.0*	*0.5*
Italy	-0.2	0.7	0.6	-2.2	0.1	-0.4	0.4	**0.0**	**-0.7**	**0.1**	*0.2*	*-0.9*
Cyprus	2.1	2.4	0.0	-0.9	-5.4	-3.2	1.2	**2.7**	**1.0**	**0.6**	*1.8*	*0.4*
Latvia	3.2	7.8	1.4	4.2	5.2	6.8	7.6	**5.1**	**3.5**	**3.4**	*4.9*	*3.3*
Lithuania	6.2	10.9	-0.6	1.1	4.3	4.6	6.3	**4.7**	**4.4**	**4.1**	*3.9*	*3.2*
Luxembourg	1.2	1.2	0.8	-0.1	0.7	2.2	1.6	**0.4**	**1.0**	**0.1**	*-0.1*	*0.5*
Malta	2.3	1.3	0.9	1.0	0.7	0.9	1.6	**1.9**	**1.1**	**0.7**	*0.4*	*0.1*
Netherlands	1.3	0.8	1.3	1.0	-0.2	0.8	0.4	**1.6**	**0.8**	**0.9**	*1.1*	*1.3*
Austria	0.6	0.4	0.2	0.2	0.0	-0.3	0.5	**0.2**	**-0.3**	**-0.2**	*0.5*	*-0.2*
Portugal	2.2	-0.1	0.2	-4.9	2.8	-2.1	-1.0	**0.4**	**-0.2**	**-0.4**	*0.9*	*0.2*
Slovenia	2.7	2.9	1.4	-2.4	-0.3	1.3	2.1	**1.7**	**0.2**	**1.0**	*2.0*	*0.4*
Slovakia	3.4	3.4	2.6	-0.8	1.2	1.9	3.2	**2.8**	**2.9**	**3.4**	*3.5*	*2.4*
Finland	1.3	1.8	0.7	0.0	-1.1	-0.5	1.2	**0.6**	**-1.5**	**-0.2**	*0.9*	*0.2*
Euro area	0.5	0.4	0.8	0.0	0.6	0.8	1.0	**0.8**	**0.4**	**0.5**	*1.0*	*0.6*
Bulgaria	5.3	3.0	6.2	4.0	11.7	5.6	4.4	**6.3**	**3.8**	**3.2**	*4.3*	*3.4*
Czech Republic	2.8	5.1	1.0	-0.4	-1.1	2.0	2.5	**3.0**	**2.9**	**2.7**	*2.7*	*2.1*
Denmark	1.6	1.8	0.9	-0.6	0.4	1.0	1.3	**1.4**	**0.8**	**1.2**	*1.3*	*0.6*
Croatia	5.5	3.1	0.4	-3.1	-2.4	-5.0	0.2	**2.6**	**1.1**	**0.5**	*1.6*	*0.9*
Hungary	2.2	4.4	-1.7	-3.9	-0.2	0.4	1.9	**4.0**	**3.1**	**2.1**	*3.7*	*2.0*
Poland	4.5	-0.2	2.9	0.2	1.3	2.3	2.6	**2.9**	**3.0**	**3.3**	*3.9*	*2.7*
Romania	7.5	6.9	1.8	4.7	1.1	5.4	0.2	**8.4**	**5.1**	**3.4**	*6.6*	*4.3*
Sweden	2.5	2.2	1.4	2.5	1.2	1.1	2.4	**2.0**	**1.6**	**1.1**	*2.0*	*1.8*
United Kingdom	4.5	2.6	0.0	-0.2	-0.2	-1.3	0.8	**1.4**	**-0.4**	**-0.7**	*2.3*	*1.6*
EU	1.6	0.9	0.7	0.0	0.4	0.4	1.0	**1.1**	**0.4**	**0.5**	*1.4*	*0.9*
USA	:	1.0	0.6	0.3	0.2	1.3	2.6	**0.9**	**1.4**	**1.9**	*1.5*	*1.6*
Japan	-0.3	-0.5	0.3	0.7	0.2	-0.8	0.4	**0.6**	**0.8**	**0.3**	*0.4*	*-0.7*

Table 27: Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1997-2018) — 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	2016	2017
Belgium	1.3	1.5	0.2	-0.3	0.3	1.2	0.6	0.1	0.4	0.5	0.4	0.4
Germany	1.1	1.1	0.3	-0.7	-0.1	0.8	0.8	0.8	0.5	0.8	0.6	0.8
Estonia	7.4	6.0	1.0	2.6	0.2	2.0	-1.4	-0.1	2.1	2.4	2.9	2.6
Ireland	3.3	2.2	1.2	-0.5	-1.4	6.7	23.2	1.8	1.6	1.6	3.1	2.2
Greece	2.9	2.3	-1.8	-1.1	-0.6	0.3	-0.7	-2.4	0.5	0.8	-0.8	0.7
Spain	0.2	0.3	1.7	2.1	1.9	0.3	0.2	0.4	0.2	0.3	0.1	0.5
France	1.2	1.2	0.6	0.1	0.5	0.4	0.9	0.2	0.7	0.8	0.8	1.0
Italy	1.1	0.2	0.0	-1.5	0.7	-0.2	-0.1	-0.5	0.2	0.3	0.2	0.4
Cyprus	2.8	0.7	0.0	0.0	0.0	0.4	0.9	1.0	0.9	0.8	0.8	0.7
Latvia	5.9	7.4	2.1	2.5	0.6	3.5	1.4	1.5	2.3	2.5	2.4	2.6
Lithuania	7.2	6.7	3.4	2.0	2.1	1.5	0.5	-0.3	2.4	2.7	2.6	3.0
Luxembourg	2.1	0.8	-1.1	-2.4	2.3	2.0	0.9	0.8	0.9	1.0	0.7	1.3
Malta	3.6	1.7	0.1	0.3	0.7	-1.6	2.7	1.4	1.1	1.2	1.2	0.7
Netherlands	1.7	1.5	0.2	-0.4	1.0	1.7	1.0	0.2	0.3	0.5	0.5	0.7
Austria	1.8	1.3	0.1	-0.3	-0.2	-0.3	0.3	0.7	0.8	0.7	0.6	0.7
Portugal	1.5	1.1	1.1	0.1	1.8	-0.5	0.2	-0.1	0.5	0.9	0.6	1.1
Slovenia	3.8	3.6	0.7	-1.8	0.0	2.7	1.2	1.1	1.7	1.5	1.0	1.6
Slovakia	4.0	5.1	2.9	1.6	2.3	1.1	1.8	0.6	1.7	2.1	1.3	1.8
Finland	2.5	1.8	0.0	-2.3	0.0	-0.2	0.6	0.6	0.4	0.7	0.5	0.4
Euro area	1.3	1.0	0.5	-0.2	0.6	0.6	0.9	0.3	0.5	0.7	0.5	0.8
Bulgaria	3.2	3.9	3.0	2.6	1.3	1.0	3.3	2.3	2.1	2.1	1.7	2.0
Czech Republic	2.7	4.1	1.3	-1.2	-0.8	2.2	3.1	0.8	2.5	2.6	1.7	2.3
Denmark	1.6	1.5	-0.1	0.5	-0.4	0.5	-0.1	-0.5	0.8	0.8	0.3	1.0
Croatia	4.2	2.6	0.2	1.4	1.7	-3.1	0.1	0.8	0.9	1.1	0.7	0.7
Hungary	2.7	4.5	0.5	-1.8	1.0	-0.8	0.5	-0.6	2.0	1.9	1.6	2.7
Poland	5.4	3.6	3.2	1.5	1.5	1.5	2.5	2.0	3.1	3.3	3.0	3.0
Romania	1.1	9.1	2.1	5.7	4.4	2.3	4.6	3.3	3.0	3.0	4.2	3.8
Sweden	2.2	3.1	0.4	-1.0	0.3	1.2	2.6	1.6	1.0	1.3	1.8	1.4
United Kingdom	2.0	1.7	0.0	0.2	0.7	0.7	0.5	0.6	0.5	0.8	0.7	1.1
EU	1.9	1.5	0.5	0.1	0.6	0.6	1.1	0.4	0.7	0.9	0.8	1.0
USA	2.2	1.8	1.2	0.4	0.7	0.8	0.9	-0.2	1.1	1.4	0.0	1.1
Japan	1.0	1.3	0.4	1.7	0.8	-0.6	0.1	-0.1	0.5	0.2	0.7	0.3

Table 28: Unit labour costs, whole economy [1] (percentage change on preceding year, 1997-2018) — 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	2016	2017
Belgium	1.4	1.1	2.4	3.5	2.2	-0.2	-0.5	0.7	1.5	1.2	0.3	1.1
Germany	0.1	-0.2	1.5	3.2	1.9	2.0	1.6	1.3	2.1	1.6	1.9	2.2
Estonia	5.0	5.5	5.8	3.8	4.5	2.2	7.2	6.2	2.9	2.5	2.7	2.5
Ireland	2.6	3.0	-0.1	1.3	2.8	-4.5	-16.5	0.9	0.9	0.5	-0.8	-0.1
Greece	4.3	4.4	2.9	-2.0	-6.9	-2.4	-2.2	2.7	0.5	1.2	0.0	0.8
Spain	2.4	3.2	1.8	-2.6	-0.5	-0.4	0.2	0.8	1.1	1.1	0.7	0.6
France	0.8	1.9	2.0	2.3	1.1	0.8	0.2	0.4	0.8	1.1	0.3	0.6
Italy	1.1	3.1	2.4	1.9	0.6	0.0	0.5	0.5	0.2	1.2	0.2	0.1
Cyprus	1.7	4.4	2.7	1.5	-5.4	-4.0	-1.5	0.3	0.6	1.1	0.4	0.7
Latvia	1.5	7.8	4.0	5.0	4.9	4.9	5.5	3.6	3.1	2.9	2.7	2.8
Lithuania	1.9	4.9	1.2	2.2	3.1	3.2	4.8	5.7	3.6	3.5	1.9	2.0
Luxembourg	0.9	2.6	3.7	4.3	0.0	0.5	0.1	-0.4	1.6	0.9	-0.4	1.2
Malta	1.1	2.0	3.1	3.2	1.1	2.7	0.0	1.5	1.6	1.3	0.7	1.6
Netherlands	2.1	1.5	2.4	2.9	1.2	-0.1	-0.6	2.1	1.7	1.8	1.2	1.9
Austria	0.1	0.9	2.1	3.0	2.3	2.1	1.5	0.8	0.8	0.9	0.8	0.9
Portugal	3.8	2.2	0.6	-3.2	1.8	-1.3	-0.5	1.3	0.5	0.2	1.0	0.3
Slovenia	6.2	3.3	3.4	0.8	0.4	-1.3	0.3	0.7	0.1	1.4	0.7	0.4
Slovakia	6.1	3.1	2.1	1.0	0.3	0.7	1.3	1.7	2.0	2.7	2.1	2.1
Finland	0.9	1.0	3.0	5.2	1.4	1.2	1.0	0.6	-1.2	0.2	0.7	0.8
Euro area	1.0	1.7	2.0	1.9	1.1	0.7	0.3	1.0	1.2	1.3	0.9	1.1
Bulgaria	76.8	2.4	7.5	5.0	7.4	4.6	2.3	3.0	2.7	2.1	1.9	2.3
Czech Republic	5.3	2.5	1.9	3.0	0.5	0.4	-0.5	2.7	1.6	1.7	1.5	1.3
Denmark	2.1	1.9	3.1	1.2	1.5	1.3	2.0	2.4	1.5	1.9	1.7	1.3
Croatia	6.3	3.2	3.4	-1.3	-2.3	-2.4	-0.5	0.8	1.0	0.9	0.4	0.9
Hungary	11.8	4.4	2.5	3.9	0.6	2.1	1.1	5.1	3.3	3.0	2.9	1.5
Poland	7.9	-1.4	3.0	2.0	0.2	0.6	-1.2	0.6	1.2	1.8	0.8	1.3
Romania	65.3	9.7	5.7	3.5	-0.6	4.3	-3.1	4.4	2.7	2.5	2.5	2.3
Sweden	1.6	0.3	3.0	4.1	1.7	1.0	0.9	1.5	2.2	1.9	1.3	1.8
United Kingdom	3.5	2.5	2.5	1.5	1.3	-0.3	0.6	1.6	1.7	1.3	2.6	2.4
EU	2.1	1.8	2.2	2.0	1.1	0.6	0.3	1.2	1.3	1.4	1.3	1.3
USA	:	1.5	1.3	1.7	0.8	2.0	2.0	2.2	2.4	2.6	2.7	2.8
Japan	-1.5	-2.6	-1.2	-1.9	-0.8	1.8	0.5	-0.2	0.0	0.4	-0.1	0.1

Table 29: Real unit labour costs [1] (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	-0.1	-0.9	0.6	1.4	1.0	-0.9	-1.4	**-0.6**	**-0.1**	**-0.5**	*-1.1*	*-0.3*
Germany	-0.3	-1.1	0.2	1.6	0.0	0.2	-0.3	**-0.3**	**0.4**	**-0.2**	*0.1*	*0.5*
Estonia	-2.0	-0.3	0.6	0.6	0.6	0.4	6.1	**2.4**	**-0.1**	**-0.8**	*0.9*	*-0.3*
Ireland	-2.8	0.0	0.5	-1.3	1.4	-3.4	-20.4	**1.4**	**-0.3**	**-1.0**	*-2.6*	*-1.3*
Greece	0.2	1.2	0.5	-1.6	-4.6	-0.6	-1.2	**2.9**	**-0.4**	**0.0**	*0.2*	*0.0*
Spain	-0.6	-0.7	0.6	-2.7	-0.8	-0.1	-0.3	**0.1**	**-0.1**	**-0.4**	*-0.2*	*-0.8*
France	-0.3	0.0	0.6	1.1	0.3	0.3	-0.4	**-0.4**	**0.0**	**-0.1**	*-0.7*	*-0.4*
Italy	-1.2	0.5	0.7	0.5	-0.6	-0.8	-0.2	**-0.4**	**-0.7**	**0.0**	*-0.6*	*-1.1*
Cyprus	-1.2	1.2	0.1	-0.4	-4.4	-2.5	-0.2	**1.3**	**0.2**	**-0.1**	*0.7*	*0.1*
Latvia	-2.0	-0.2	-1.0	1.4	3.5	3.3	5.1	**2.7**	**1.3**	**0.7**	*1.7*	*0.6*
Lithuania	-0.9	1.8	-3.1	-0.5	1.7	2.2	4.6	**4.3**	**1.9**	**0.8**	*0.2*	*0.1*
Luxembourg	0.8	-0.9	0.6	1.8	-1.3	-1.0	-0.3	**-2.3**	**-1.3**	**-1.3**	*-1.3*	*-0.7*
Malta	-0.9	-0.5	0.1	1.2	-0.7	0.8	-2.2	**-0.2**	**-0.6**	**-0.8**	*-1.5*	*-0.9*
Netherlands	-0.6	-0.9	1.2	1.5	-0.2	-0.2	-0.7	**1.9**	**0.5**	**0.4**	*0.1*	*0.7*
Austria	-1.0	-0.8	0.3	1.0	0.8	0.4	-0.3	**-1.1**	**-0.8**	**-0.8**	*-0.5*	*-0.8*
Portugal	0.1	-1.1	-0.6	-2.8	-0.5	-2.0	-2.5	**-0.4**	**-1.1**	**-1.5**	*-0.3*	*-1.2*
Slovenia	-1.0	-0.7	1.0	0.5	-0.4	-2.1	-0.7	**-0.8**	**-1.2**	**-0.1**	*-0.5*	*-1.6*
Slovakia	-0.2	-0.9	1.1	-0.3	-0.2	0.9	1.5	**1.9**	**0.9**	**1.1**	*2.1*	*0.8*
Finland	-1.3	0.3	0.9	2.2	-1.1	-0.5	-0.6	**-0.5**	**-2.0**	**-0.8**	*-0.1*	*-0.2*
Euro area	-0.7	-0.5	0.5	0.7	-0.2	-0.2	-0.9	**-0.1**	**0.0**	**-0.2**	*-0.3*	*-0.2*
Bulgaria	1.0	-2.4	1.4	3.4	8.2	4.1	0.1	**3.2**	**1.6**	**0.6**	*1.8*	*1.1*
Czech Republic	-0.2	0.7	0.5	1.5	-0.9	-2.0	-1.5	**2.3**	**0.2**	**0.2**	*0.4*	*0.0*
Denmark	0.0	-0.2	0.9	-1.5	0.2	0.6	0.8	**1.7**	**-0.2**	**0.0**	*0.6*	*-0.5*
Croatia	0.7	-0.5	0.4	-2.8	-3.0	-2.4	-0.6	**0.6**	**0.1**	**-0.3**	*0.0*	*-0.1*
Hungary	-0.6	-0.5	-1.2	0.4	-2.3	-1.2	-0.6	**2.6**	**0.7**	**0.2**	*0.5*	*-0.9*
Poland	0.0	-3.7	-0.2	-0.3	-0.1	0.1	-1.8	**0.3**	**0.0**	**0.1**	*0.6*	*-0.1*
Romania	3.7	-6.0	-2.6	-1.2	-3.9	2.6	-5.9	**2.5**	**0.6**	**0.3**	*0.5*	*-0.1*
Sweden	0.1	-0.9	0.8	3.0	0.6	-0.7	-1.1	**-0.7**	**0.0**	**-0.3**	*-1.3*	*0.0*
United Kingdom	2.1	-0.1	0.4	0.0	-0.6	-1.9	0.2	**1.0**	**-0.4**	**-1.3**	*0.9*	*0.3*
EU	-0.2	-0.8	0.4	0.4	-0.3	-0.5	-0.9	**0.2**	**-0.1**	**-0.4**	*-0.2*	*-0.2*
USA	:	-1.0	-0.4	-0.1	-0.8	0.2	1.0	**0.8**	**0.3**	**0.4**	*1.1*	*0.5*
Japan	-0.8	-1.3	0.2	-0.9	-0.2	0.1	-1.5	**-0.5**	**0.3**	**-0.1**	*-0.3*	*-1.0*

Table 30: Nominal bilateral exchange rates against Ecu/euro (1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Germany	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Estonia	15.6802	15.6466	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Ireland	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Greece	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Spain	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
France	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Italy	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Cyprus	0.5781	0.5788	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Latvia	0.6129	0.6559	0.7047	0.6973	0.7015	:	:	**:**	**:**	**:**	*:*	*:*
Lithuania	4.1124	3.4541	3.4528	3.4528	3.4528	3.4528	:	**:**	**:**	**:**	*:*	*:*
Luxembourg	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Malta	0.4211	0.4244	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Netherlands	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Austria	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Portugal	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Slovenia	197.1999	235.6156	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Slovakia	41.5357	40.0076	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Finland	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Euro area	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Bulgaria	1.9454	1.9526	1.9558	1.9558	1.9558	1.9558	1.9558	**1.9558**	**1.9558**	**1.9558**	*1.9558*	*1.9558*
Czech Republic	35.7063	30.5328	25.8041	25.1491	25.9797	27.5359	27.2792	**27.0327**	**27.0225**	**27.0225**	*27.0308*	*27.0279*
Denmark	7.4649	7.4424	7.4502	7.4437	7.4579	7.4548	7.4587	**7.4455**	**7.4404**	**7.4404**	*7.4465*	*7.4420*
Croatia	7.3627	7.4408	7.3259	7.5217	7.5786	7.6344	7.6137	**7.5294**	**7.5073**	**7.5073**	*7.5250*	*7.4958*
Hungary	244.3260	252.1100	267.6088	289.2494	296.8730	308.7061	309.9956	**310.5801**	**305.9260**	**305.9260**	*311.7262*	*311.6200*
Poland	3.9079	4.1405	3.9477	4.1847	4.1975	4.1843	4.1841	**4.3441**	**4.3029**	**4.3029**	*4.3037*	*4.2847*
Romania	1.6073	3.6159	3.9418	4.4593	4.4190	4.4437	4.4454	**4.4887**	**4.5023**	**4.5023**	*4.4752*	*4.4698*
Sweden	8.8150	9.1892	9.6103	8.7041	8.6515	9.0985	9.3535	**9.4544**	**9.7010**	**9.7010**	*9.2521*	*9.2283*
United Kingdom	0.6518	0.6730	0.8195	0.8109	0.8493	0.8061	0.7258	**0.8271**	**0.8999**	**0.8999**	*0.7933*	*0.8006*
EU	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
USA	1.0280	1.1641	1.3907	1.2848	1.3281	1.3285	1.1095	**1.1133**	**1.1039**	**1.1039**	*1.1260*	*1.1336*
Japan	122.5931	133.2686	134.2481	102.4919	129.6627	140.3061	134.3140	**119.3479**	**114.5560**	**114.5560**	*124.4438*	*123.5960*

Table 31: Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	-1.1	1.4	0.4	-1.9	2.4	0.6	-3.0	**1.4**	**0.5**	**0.0**	*1.1*	*0.1*
Germany	-1.0	1.8	0.2	-2.3	3.2	1.0	-3.9	**1.5**	**0.4**	**0.0**	*1.2*	*0.1*
Estonia	-0.4	1.0	0.3	-1.7	1.5	1.5	-0.8	**1.2**	**0.5**	**0.0**	*0.8*	*0.0*
Ireland	-1.8	2.3	0.9	-3.6	3.1	0.0	-6.2	**2.3**	**1.0**	**0.0**	*1.9*	*0.2*
Greece	0.3	1.7	0.7	-1.7	3.1	2.1	-2.1	**2.1**	**0.6**	**0.0**	*1.5*	*0.0*
Spain	-1.1	1.4	0.5	-1.9	2.3	0.7	-3.0	**1.6**	**0.5**	**0.0**	*1.2*	*0.1*
France	-1.0	1.7	0.3	-2.4	3.1	0.8	-3.7	**1.2**	**0.4**	**0.0**	*1.0*	*0.1*
Italy	0.1	1.8	0.3	-2.1	2.9	1.1	-3.7	**1.3**	**0.3**	**0.0**	*1.1*	*0.1*
Cyprus	4.9	1.6	0.4	-2.1	2.8	0.3	-4.0	**2.3**	**1.1**	**0.0**	*1.5*	*0.1*
Latvia	4.4	-3.4	0.1	0.1	1.1	0.9	-1.2	**1.3**	**0.3**	**0.0**	*1.0*	*0.0*
Lithuania	8.4	2.1	0.4	-1.3	1.8	0.9	-1.9	**1.4**	**0.4**	**0.0**	*1.2*	*0.0*
Luxembourg	-1.0	0.8	0.4	-1.5	1.8	0.6	-2.0	**1.0**	**0.3**	**0.0**	*1.1*	*0.0*
Malta	0.4	1.3	0.2	-2.1	2.6	0.7	-2.6	**1.1**	**0.5**	**0.0**	*1.4*	*0.1*
Netherlands	-1.0	1.1	0.5	-1.8	2.0	0.5	-2.7	**1.5**	**0.6**	**0.0**	*1.1*	*0.1*
Austria	-0.2	1.0	0.1	-1.3	2.0	0.8	-2.4	**0.9**	**0.2**	**0.0**	*0.7*	*0.0*
Portugal	-1.1	1.0	0.4	-1.5	1.7	0.4	-2.6	**1.2**	**0.5**	**0.0**	*1.0*	*0.1*
Slovenia	-4.0	-1.2	0.3	-0.6	1.4	0.8	-1.4	**0.7**	**0.1**	**0.0**	*0.6*	*0.0*
Slovakia	-1.3	3.5	4.6	-0.4	1.2	0.7	-1.3	**1.3**	**0.4**	**0.0**	*0.9*	*0.0*
Finland	-1.0	1.7	0.2	-2.6	3.1	1.6	-2.9	**1.1**	**0.3**	**0.0**	*0.9*	*0.0*
Euro area	-1.7	3.5	0.8	-4.4	5.9	2.1	-6.8	**2.5**	**0.7**	**0.0**	*2.3*	*0.1*
Bulgaria	-32.2	1.7	0.8	-0.7	2.2	1.7	-1.5	**1.4**	**0.4**	**0.0**	*1.2*	*0.0*
Czech Republic	0.9	4.5	3.2	-3.2	-1.8	-5.2	-0.8	**2.2**	**0.4**	**0.0**	*1.9*	*0.0*
Denmark	-0.9	1.4	0.3	-2.6	2.6	1.4	-2.8	**1.7**	**0.6**	**0.0**	*1.4*	*0.1*
Croatia	-0.8	1.3	-0.1	-2.2	1.0	0.2	-1.5	**2.0**	**0.5**	**0.0**	*1.9*	*0.4*
Hungary	-4.7	0.2	-0.8	-4.4	-1.1	-3.1	-2.0	**0.9**	**1.9**	**0.0**	*0.2*	*0.0*
Poland	-1.1	-0.5	-0.9	-2.8	1.4	1.1	-1.7	**-2.5**	**1.5**	**0.0**	*-1.9*	*0.5*
Romania	-30.1	-4.7	-3.1	-5.9	2.8	0.6	-1.7	**0.3**	**0.1**	**0.0**	*0.3*	*0.1*
Sweden	-2.5	1.8	0.8	1.2	3.6	-3.8	-5.2	**0.4**	**-2.5**	**0.0**	*2.7*	*0.3*
United Kingdom	4.8	0.2	-4.8	4.5	-1.7	6.7	6.6	**-12.1**	**-8.5**	**0.0**	*-8.1*	*-0.9*
EU	-0.9	5.2	-0.9	-5.2	8.0	4.6	-7.3	**-1.4**	**-2.2**	**0.0**	*0.3*	*-0.1*
USA	5.0	-3.9	-2.4	4.1	2.8	3.6	17.2	**2.3**	**0.7**	**0.0**	*1.0*	*-0.9*
Japan	1.5	-2.5	6.4	3.3	-18.4	-6.7	-3.3	**14.4**	**3.9**	**0.0**	*10.0*	*0.9*

Table 32: Relative unit labour costs, to rest of a group[1] of industrialised countries (nat. curr) (percentage change over preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	-0.7	-0.4	0.3	1.3	1.0	-1.4	-1.3	**-0.8**	**0.0**	**:**	*-1.2*	*-0.6*
Germany	-3.0	-2.0	-0.7	1.2	0.8	0.9	1.0	**-0.3**	**0.7**	**:**	*0.5*	*0.7*
Estonia	2.0	3.7	3.3	0.7	2.7	0.5	5.8	**4.3**	**1.4**	**:**	*1.0*	*0.7*
Ireland	0.3	1.6	-2.0	-0.6	1.6	-5.5	-17.3	**-0.5**	**-0.7**	**:**	*-2.4*	*-1.9*
Greece	-1.4	2.2	0.4	-4.6	-8.5	-4.6	-3.9	**-0.4**	**-1.5**	**:**	*-2.7*	*-1.7*
Spain	-0.2	1.5	-0.2	-4.5	-1.8	-1.5	-0.5	**-0.7**	**-0.4**	**:**	*-0.8*	*-1.0*
France	-1.8	0.4	0.0	0.4	-0.1	-0.4	-0.6	**-1.1**	**-0.7**	**:**	*-1.3*	*-1.1*
Italy	-2.0	1.5	0.4	-0.1	-0.7	-1.4	-0.4	**-1.2**	**-1.4**	**:**	*-1.5*	*-1.7*
Cyprus	-6.6	2.2	0.4	0.4	-5.0	-4.5	-1.8	**-1.5**	**-0.8**	**:**	*-1.1*	*-0.9*
Latvia	-1.7	6.1	1.6	2.3	3.2	3.4	4.1	**1.4**	**1.4**	**:**	*0.9*	*0.9*
Lithuania	-2.1	3.0	-1.3	-0.6	1.4	1.6	3.6	**3.7**	**1.9**	**:**	*0.1*	*0.2*
Luxembourg	-1.0	1.1	1.6	1.8	-1.4	-0.6	-0.6	**-1.8**	**0.1**	**:**	*-1.9*	*-0.5*
Malta	-0.8	0.7	1.4	1.5	-0.1	1.7	-0.6	**0.1**	**0.2**	**:**	*-1.1*	*-0.2*
Netherlands	0.1	0.1	0.4	0.7	-0.2	-1.2	-1.3	**0.7**	**0.2**	**:**	*-0.3*	*0.2*
Austria	-2.5	-0.5	0.1	0.7	1.1	0.9	0.7	**-0.8**	**-0.7**	**:**	*-0.7*	*-0.8*
Portugal	1.8	0.4	-1.3	-4.4	0.8	-2.1	-1.1	**0.0**	**-0.9**	**:**	*-0.3*	*-1.1*
Slovenia	3.4	1.7	1.1	-1.5	-0.7	-2.5	-0.6	**-0.9**	**-1.4**	**:**	*-0.8*	*-1.2*
Slovakia	2.8	1.8	-0.1	-1.6	-1.0	-0.6	0.5	**0.0**	**0.4**	**:**	*0.6*	*0.5*
Finland	-1.8	-0.4	0.9	2.8	0.0	-0.2	0.0	**-1.1**	**-2.9**	**:**	*-0.9*	*-1.0*
Euro area	-3.9	-0.3	-0.2	0.3	0.1	-1.1	-1.1	**-1.1**	**-0.4**	**:**	*-1.1*	*-0.9*
Bulgaria	65.0	-0.3	5.0	2.3	6.3	2.7	1.2	**0.3**	**0.8**	**:**	*-0.5*	*0.1*
Czech Republic	2.6	1.3	-0.2	0.5	-0.8	-1.0	-1.3	**1.1**	**0.0**	**:**	*-0.1*	*-0.4*
Denmark	0.0	0.7	0.8	-1.1	0.1	0.1	1.2	**0.9**	**-0.1**	**:**	*0.1*	*-0.4*
Croatia	3.2	1.4	1.2	-3.7	-3.5	-3.7	-1.5	**-0.9**	**-0.5**	**:**	*-1.2*	*-0.7*
Hungary	8.6	3.0	0.3	1.4	-0.7	0.6	0.3	**3.3**	**1.7**	**:**	*1.3*	*-0.2*
Poland	5.4	-2.9	0.8	-0.5	-1.2	-0.7	-2.2	**-1.1**	**-0.5**	**:**	*-0.9*	*-0.5*
Romania	58.2	7.4	3.3	0.7	-2.1	2.7	-4.3	**2.3**	**1.0**	**:**	*0.5*	*0.4*
Sweden	-1.0	-1.2	0.6	1.7	0.1	-0.3	0.0	**-0.1**	**0.8**	**:**	*-0.3*	*0.1*
United Kingdom	1.2	1.0	0.6	-0.5	0.1	-1.3	0.3	**0.3**	**0.3**	**:**	*1.2*	*0.8*
EU	-3.0	0.2	0.4	0.2	-0.2	-2.1	-1.8	**-1.3**	**-0.4**	**:**	*-1.4*	*-1.1*
USA	-0.5	0.0	-0.7	0.0	-0.5	0.4	1.5	**1.2**	**1.3**	**:**	*1.7*	*1.6*
Japan	-3.9	-4.3	-3.1	-3.8	-2.0	0.4	-0.5	**-1.6**	**-1.7**	**:**	*-1.8*	*-1.8*

Table 33: Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (USD) (% change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	-1.9	1.0	0.8	-0.7	3.4	-0.8	-4.3	**0.6**	**0.5**	:	*-0.1*	*-0.5*
Germany	-4.0	-0.2	-0.4	-1.1	4.0	1.9	-2.9	**1.2**	**1.1**	:	*1.8*	*0.7*
Estonia	1.6	4.7	3.5	-1.0	4.2	2.1	4.9	**5.5**	**1.9**	:	*1.8*	*0.7*
Ireland	-1.5	4.0	-1.1	-4.2	4.8	-5.5	-22.4	**1.8**	**0.3**	:	*-0.5*	*-1.7*
Greece	-1.1	3.9	1.1	-6.3	-5.7	-2.6	-5.9	**1.6**	**-0.9**	:	*-1.2*	*-1.6*
Spain	-1.3	2.9	0.3	-6.3	0.5	-0.8	-3.5	**0.8**	**0.2**	:	*0.4*	*-0.9*
France	-2.7	2.0	0.3	-2.0	3.0	0.5	-4.2	**0.1**	**-0.3**	:	*-0.3*	*-1.1*
Italy	-1.9	3.4	0.7	-2.3	2.2	-0.3	-4.1	**0.1**	**-1.0**	:	*-0.4*	*-1.6*
Cyprus	-2.0	3.9	0.8	-1.7	-2.4	-4.2	-5.7	**0.7**	**0.3**	:	*0.4*	*-0.8*
Latvia	2.6	2.4	1.7	2.4	4.3	4.3	2.8	**2.7**	**1.7**	:	*1.9*	*0.9*
Lithuania	6.1	5.2	-0.9	-1.9	3.2	2.6	1.6	**5.1**	**2.3**	:	*1.2*	*0.2*
Luxembourg	-1.9	2.0	2.0	0.2	0.4	0.0	-2.6	**-0.8**	**0.5**	:	*-0.9*	*-0.4*
Malta	-0.4	2.1	1.6	-0.6	2.5	2.4	-3.2	**1.1**	**0.7**	:	*0.3*	*-0.1*
Netherlands	-0.9	1.2	0.8	-1.1	1.8	-0.8	-4.0	**2.3**	**0.8**	:	*0.9*	*0.3*
Austria	-2.7	0.5	0.2	-0.6	3.1	1.7	-1.7	**0.1**	**-0.5**	:	*0.0*	*-0.8*
Portugal	0.6	1.4	-0.9	-5.9	2.6	-1.7	-3.6	**1.2**	**-0.4**	:	*0.6*	*-1.1*
Slovenia	-0.8	0.4	1.4	-2.1	0.7	-1.7	-1.9	**-0.2**	**-1.3**	:	*-0.2*	*-1.2*
Slovakia	1.4	5.4	4.5	-2.0	0.2	0.1	-0.8	**1.3**	**0.7**	:	*1.4*	*0.5*
Finland	-2.8	1.3	1.0	0.1	3.1	1.4	-2.9	**0.0**	**-2.6**	:	*0.0*	*-1.0*
Euro area	-5.5	3.3	0.5	-4.1	6.0	0.9	-7.8	**1.4**	**0.3**	:	*1.1*	*-0.7*
Bulgaria	11.9	1.4	5.8	1.6	8.7	4.5	-0.3	**1.7**	**1.2**	:	*0.7*	*0.1*
Czech Republic	3.5	5.8	2.9	-2.6	-2.6	-6.1	-2.1	**3.3**	**0.3**	:	*1.8*	*-0.4*
Denmark	-0.9	2.1	1.1	-3.7	2.7	1.5	-1.6	**2.7**	**0.5**	:	*1.5*	*-0.3*
Croatia	2.4	2.7	1.1	-5.8	-2.6	-3.4	-3.0	**1.1**	**0.0**	:	*0.6*	*-0.3*
Hungary	3.5	3.2	-0.4	-3.0	-1.8	-2.5	-1.7	**4.2**	**3.6**	:	*1.5*	*-0.2*
Poland	4.3	-3.4	0.0	-3.3	0.1	0.4	-3.9	**-3.6**	**1.1**	:	*-2.8*	*0.0*
Romania	10.6	2.4	0.1	-5.2	0.7	3.3	-5.9	**2.6**	**1.1**	:	*0.9*	*0.6*
Sweden	-3.5	0.6	1.4	2.9	3.7	-4.1	-5.2	**0.4**	**-1.7**	:	*2.4*	*0.4*
United Kingdom	6.0	1.2	-4.2	3.9	-1.6	5.3	6.9	**-11.8**	**-8.3**	:	*-7.1*	*-0.1*
EU	-3.9	5.4	-0.6	-5.0	7.8	2.4	-9.0	**-2.6**	**-2.6**	:	*-1.1*	*-1.2*
USA	4.5	-3.9	-3.0	4.1	2.3	4.0	19.0	**3.5**	**2.0**	:	*2.7*	*0.7*
Japan	-2.5	-6.6	3.1	-0.7	-20.0	-6.3	-3.8	**12.6**	**2.2**	:	*8.0*	*-0.9*

Table 34: Total expenditure, general government (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	50.0	49.8	52.1	55.8	55.7	55.1	53.9	**53.8**	**53.2**	**52.8**	*53.7*	*53.0*
Germany	47.0	46.5	45.2	44.3	44.7	44.4	44.0	**44.1**	**44.4**	**44.5**	*44.3*	*44.5*
Estonia	37.7	34.6	39.6	39.3	38.5	38.5	40.3	**39.9**	**40.6**	**40.4**	*40.3*	*40.2*
Ireland	33.7	33.3	47.2	41.8	39.8	37.8	29.4	**28.1**	**27.6**	**27.0**	*32.4*	*31.5*
Greece	45.5	46.1	51.8	55.4	62.3	50.6	55.4	**51.6**	**49.3**	**46.4**	*50.7*	*49.6*
Spain	40.0	38.4	43.5	48.1	45.6	44.9	43.8	**42.6**	**41.6**	**41.0**	*42.1*	*41.3*
France	52.1	52.6	54.9	56.8	57.0	57.3	57.0	**56.5**	**56.3**	**56.3**	*56.2*	*55.9*
Italy	47.7	47.1	49.0	50.8	50.8	50.9	50.4	**49.7**	**49.3**	**49.1**	*49.7*	*48.6*
Cyprus	34.3	38.6	40.3	41.9	41.3	48.2	40.1	**38.5**	**38.1**	**37.8**	*38.7*	*38.2*
Latvia	37.2	34.8	39.8 :	37.1	37.0	37.5	37.1	**36.6**	**37.5**	**37.4**	*36.8*	*37.3*
Lithuania	41.8	34.2	40.6 :	36.1	35.5	34.7	35.1	**35.1**	**35.8**	**35.9**	*35.2*	*34.5*
Luxembourg	39.8	42.9	42.3	44.3	43.4	42.3	42.1	**41.7**	**41.2**	**40.6**	*41.5*	*40.9*
Malta	41.4	42.7	41.5	42.5	41.8	43.2	43.4	**40.7**	**40.2**	**39.5**	*40.5*	*40.2*
Netherlands	43.6	43.5	45.9	47.1	46.3	46.2	45.1	**44.7**	**44.0**	**43.6**	*44.3*	*43.7*
Austria	51.8	51.7	51.7	51.5	51.2	52.8	51.6	**50.7**	**50.5**	**50.5**	*51.4*	*50.7*
Portugal	42.9	45.4	48.4	48.5	49.9	51.8	48.4	**46.4**	**46.1**	**45.7**	*46.6*	*45.8*
Slovenia	45.6	45.2	46.7	48.6	60.3	50.0	47.8	**45.5**	**44.8**	**43.9**	*45.7*	*45.2*
Slovakia	47.7	40.3	40.1	40.6	41.4	42.0	45.6	**42.1**	**41.8**	**41.0**	*41.3*	*40.2*
Finland	51.0	49.0	51.8	56.2	57.5	58.1	57.7	**57.3**	**56.9**	**56.6**	*58.3*	*58.1*
Euro area	47.3	46.8	48.4	49.7	49.7	49.4	48.5	**48.0**	**47.7**	**47.4**	*48.0*	*47.6*
Bulgaria	37.4	37.5	36.8	34.5	37.6	42.1	40.7	**37.5**	**38.1**	**37.9**	*38.9*	*38.7*
Czech Republic	41.4	43.5	41.9	44.5	42.6	42.2	42.0	**40.7**	**41.1**	**41.1**	*41.4*	*41.3*
Denmark	54.3	52.2	54.2	58.3	56.5	56.0	55.7	**54.8**	**53.9**	**52.7**	*54.8*	*53.5*
Croatia	:	46.5	46.7	47.1	48.3	48.3	46.9	**46.3**	**46.1**	**45.7**	*46.8*	*46.6*
Hungary	48.7	50.0	49.7	48.6	49.3	49.0	50.0	**48.0**	**49.4**	**49.0**	*48.4*	*48.1*
Poland	44.4	44.7	44.3	42.7	42.4	42.1	41.5	**41.6**	**42.4**	**42.9**	*41.7*	*42.2*
Romania	36.7	33.9	39.3	37.2	35.4	34.4	35.7	**34.5**	**34.7**	**35.1**	*34.6*	*34.9*
Sweden	56.0	53.1	51.0	51.7	52.4	51.5	50.3	**49.8**	**50.0**	**49.7**	*50.1*	*50.4*
United Kingdom	36.0	39.9	45.7	46.3	44.7	43.7	42.8	**42.7**	**42.1**	**41.3**	*42.6*	*42.0*
EU	:	45.7	47.9	49.0	48.7	48.1	47.3	**46.9**	**46.6**	**46.3**	*46.9*	*46.5*
USA	34.5	36.3	40.8	40.0	38.7	38.0	37.7	**37.9**	**37.7**	**37.7**	*38.0*	*38.1*
Japan	38.4	37.0	39.4	41.8	42.5	42.0	41.4	**41.4**	**41.7**	**41.6**	*41.5*	*41.6*

Table 35: Total revenue, general government (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	49.3	49.0	49.2	51.6	52.7	52.0	51.3	**50.8**	**50.9**	**50.4**	*50.9*	*50.7*
Germany	45.1	43.1	43.5	44.3	44.5	44.7	44.7	**44.7**	**44.8**	**44.8**	*44.5*	*44.6*
Estonia	37.4	36.4	39.4	39.0	38.4	39.1	40.5	**40.3**	**40.2**	**40.2**	*40.1*	*40.0*
Ireland	36.0	34.4	34.2	33.8	34.1	34.1	27.6	**27.2**	**27.1**	**26.6**	*31.3*	*30.8*
Greece	40.0	39.2	41.1	46.6	49.1	47.0	47.9	**49.1**	**48.3**	**47.2**	*47.6*	*47.8*
Spain	38.1	38.9	37.0	37.6	38.6	38.9	38.6	**38.0**	**37.8**	**37.8**	*38.2*	*38.3*
France	50.1	49.4	49.9	52.0	52.9	53.4	53.5	**53.2**	**53.4**	**53.2**	*52.8*	*52.6*
Italy	45.2	43.6	45.5	47.8	48.1	47.9	47.8	**47.4**	**46.9**	**46.6**	*47.2*	*46.7*
Cyprus	30.9	35.2	37.9	36.1	36.4	39.4	39.0	**38.3**	**37.7**	**37.7**	*38.3*	*38.1*
Latvia	35.8	33.6	34.6	36.3	36.1	35.9	35.8	**35.8**	**36.4**	**36.2**	*35.8*	*36.4*
Lithuania	36.9	33.2	34.8	33.0	32.9	34.0	34.9	**34.5**	**35.0**	**35.2**	*34.2*	*34.1*
Luxembourg	44.0	43.5	43.6	44.6	44.4	43.8	43.7	**43.0**	**41.2**	**40.7**	*42.5*	*41.0*
Malta	34.5	37.9	38.5	38.9	39.2	41.1	42.0	**40.0**	**39.6**	**39.0**	*39.6*	*39.4*
Netherlands	43.5	42.1	43.0	43.2	43.9	43.9	43.2	**43.9**	**43.8**	**43.5**	*42.6*	*42.6*
Austria	49.7	49.1	48.6	49.2	49.9	50.0	50.6	**49.2**	**49.2**	**49.3**	*49.9*	*49.4*
Portugal	39.1	40.5	41.3	42.9	45.1	44.6	44.0	**43.7**	**44.0**	**43.2**	*44.0*	*43.5*
Slovenia	42.6	43.3	42.8	44.5	45.3	45.0	45.1	**43.1**	**42.8**	**42.4**	*43.4*	*43.2*
Slovakia	40.2	36.4	35.3	36.3	38.7	39.3	42.9	**39.9**	**40.3**	**40.5**	*38.9*	*38.6*
Finland	53.7	52.0	52.4	54.0	54.9	54.9	54.9	**54.9**	**54.4**	**54.5**	*55.8*	*55.9*
Euro area	45.5	44.2	44.6	46.1	46.7	46.8	46.5	**46.2**	**46.1**	**45.9**	*46.1*	*46.0*
Bulgaria	37.9	38.1	35.6	34.1	37.1	36.6	39.0	**36.6**	**37.3**	**37.3**	*37.0*	*37.2*
Czech Republic	37.3	39.4	38.9	40.5	41.4	40.3	41.3	**40.5**	**40.5**	**40.4**	*40.7*	*40.7*
Denmark	54.7	54.6	54.3	54.8	55.5	57.4	53.9	**53.8**	**51.9**	**51.3**	*52.3*	*51.6*
Croatia	:	42.4	41.7	41.8	43.0	42.9	43.6	**44.2**	**44.3**	**44.3**	*44.1*	*44.4*
Hungary	43.6	42.1	45.1	46.2	46.8	46.9	48.5	**46.4**	**47.0**	**46.8**	*46.4*	*46.1*
Poland	40.7	40.0	39.4	39.0	38.4	38.7	38.9	**39.1**	**39.5**	**39.8**	*39.1*	*39.1*
Romania	32.7	32.4	33.3	33.6	33.3	33.6	34.9	**31.6**	**31.5**	**31.9**	*31.8*	*31.5*
Sweden	56.9	53.4	51.9	50.8	51.0	50.0	50.5	**49.8**	**49.9**	**49.8**	*49.8*	*49.7*
United Kingdom	36.0	36.9	38.7	38.1	39.0	38.0	38.5	**39.2**	**39.3**	**39.0**	*39.2*	*39.6*
EU	:	43.1	43.7	44.7	45.4	45.2	44.9	**44.9**	**44.9**	**44.7**	*44.8*	*44.7*
USA	34.0	31.7	31.7	31.2	33.4	33.1	33.2	**33.2**	**33.5**	**33.7**	*33.5*	*33.7*
Japan	31.4	31.5	33.4	33.1	34.8	35.8	36.1	**36.3**	**36.6**	**36.6**	*37.0*	*37.5*

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	-0.7	-0.8	-2.9	-4.2	-3.0	-3.1	-2.5	**-3.0**	**-2.3**	**-2.4**	*-2.8*	*-2.3*
Germany	-1.9	-3.4	-1.7	0.0	-0.2	0.3	0.7	**0.6**	**0.4**	**0.3**	*0.2*	*0.1*
Estonia	-0.4	1.7	-0.2	-0.3	-0.2	0.7	0.1	**0.5**	**-0.4**	**-0.2**	*-0.1*	*-0.2*
Ireland	2.3	1.2	-13.1	-8.0	-5.7	-3.7	-1.9	**-0.9**	**-0.5**	**-0.4**	*-1.1*	*-0.6*
Greece	-5.5	-7.0	-10.7	-8.8	-13.2	-3.6	-7.5	**-2.5**	**-1.0**	**0.9**	*-3.1*	*-1.8*
Spain	-2.0	0.5	-6.5	-10.5	-7.0	-6.0	-5.1	**-4.6**	**-3.8**	**-3.2**	*-3.9*	*-3.1*
France	-2.1	-3.2	-5.0	-4.8	-4.0	-4.0	-3.5	**-3.3**	**-2.9**	**-3.1**	*-3.4*	*-3.2*
Italy	-2.5	-3.6	-3.5	-2.9	-2.7	-3.0	-2.6	**-2.4**	**-2.4**	**-2.5**	*-2.4*	*-1.9*
Cyprus	-3.4	-3.4	-2.4	-5.8	-4.9	-8.8	-1.1	**-0.3**	**-0.4**	**0.0**	*-0.4*	*0.0*
Latvia	-1.4	-1.2	-5.1	-0.8	-0.9	-1.6	-1.3	**-0.8**	**-1.1**	**-1.2**	*-1.0*	*-1.0*
Lithuania	-4.9	-1.0	-5.8	-3.1	-2.6	-0.7	-0.2	**-0.6**	**-0.8**	**-0.7**	*-1.1*	*-0.4*
Luxembourg	4.3	0.7	1.3	0.3	1.0	1.5	1.6	**1.3**	**0.0**	**0.1**	*1.0*	*0.1*
Malta	-6.9	-4.8	-3.1	-3.6	-2.6	-2.1	-1.4	**-0.7**	**-0.6**	**-0.6**	*-0.9*	*-0.8*
Netherlands	-0.1	-1.4	-2.9	-3.9	-2.4	-2.3	-1.9	**-0.8**	**-0.3**	**-0.1**	*-1.7*	*-1.2*
Austria	-2.1	-2.6	-3.1	-2.2	-1.4	-2.7	-1.0	**-1.5**	**-1.3**	**-1.1**	*-1.5*	*-1.4*
Portugal	-3.8	-4.9	-7.0	-5.7	-4.8	-7.2	-4.4	**-2.7**	**-2.2**	**-2.4**	*-2.7*	*-2.3*
Slovenia	-3.0	-1.9	-3.9	-4.1	-15.0	-5.0	-2.7	**-2.4**	**-2.0**	**-1.5**	*-2.4*	*-2.1*
Slovakia	-7.4	-3.9	-4.8	-4.3	-2.7	-2.7	-2.7	**-2.2**	**-1.5**	**-0.5**	*-2.4*	*-1.6*
Finland	2.8	3.0	0.6	-2.2	-2.6	-3.2	-2.8	**-2.4**	**-2.5**	**-2.0**	*-2.5*	*-2.3*
Euro area	-1.9	-2.6	-3.9	-3.6	-3.0	-2.6	-2.1	**-1.8**	**-1.5**	**-1.5**	*-1.9*	*-1.6*
Bulgaria	0.5	0.6	-1.3	-0.3	-0.4	-5.5	-1.7	**-0.9**	**-0.8**	**-0.7**	*-2.0*	*-1.6*
Czech Republic	-4.1	-4.2	-3.1	-3.9	-1.2	-1.9	-0.6	**-0.2**	**-0.6**	**-0.7**	*-0.7*	*-0.6*
Denmark	0.5	2.4	0.1	-3.5	-1.1	1.5	-1.7	**-0.9**	**-2.0**	**-1.4**	*-2.5*	*-1.9*
Croatia	:	-4.1	-5.0	-5.3	-5.3	-5.4	-3.3	**-2.1**	**-1.8**	**-1.4**	*-2.7*	*-2.3*
Hungary	-5.0	-7.9	-4.7	-2.3	-2.6	-2.1	-1.6	**-1.5**	**-2.3**	**-2.3**	*-2.0*	*-2.0*
Poland	-3.7	-4.7	-5.0	-3.7	-4.1	-3.4	-2.6	**-2.4**	**-3.0**	**-3.1**	*-2.6*	*-3.1*
Romania	-4.0	-1.5	-6.0	-3.7	-2.1	-0.8	-0.8	**-2.8**	**-3.2**	**-3.2**	*-2.8*	*-3.4*
Sweden	0.9	0.3	0.9	-1.0	-1.4	-1.6	0.2	**0.0**	**-0.1**	**0.1**	*-0.4*	*-0.7*
United Kingdom	0.0	-2.9	-7.0	-8.3	-5.7	-5.7	-4.3	**-3.5**	**-2.8**	**-2.3**	*-3.4*	*-2.4*
EU	:	-2.6	-4.2	-4.3	-3.3	-3.0	-2.4	**-2.0**	**-1.7**	**-1.6**	*-2.1*	*-1.8*
USA	-0.5	-4.6	-9.2	-8.9	-5.3	-4.9	-4.4	**-4.6**	**-4.2**	**-4.0**	*-4.4*	*-4.4*
Japan	-7.0	-5.5	-6.0	-8.7	-7.7	-6.2	-5.3	**-5.0**	**-5.1**	**-5.0**	*-4.5*	*-4.2*

Table 37: Interest expenditure, general government (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	7.0	4.9	3.8	3.6	3.3	3.3	3.0	**2.6**	**2.4**	**2.2**	*2.7*	*2.6*
Germany	3.2	2.8	2.6	2.3	2.0	1.8	1.6	**1.4**	**1.2**	**1.1**	*1.4*	*1.3*
Estonia	0.4	0.2	0.2	0.1	0.1	0.1	0.1	**0.1**	**0.1**	**0.1**	*0.1*	*0.1*
Ireland	2.6	1.1	2.1	4.1	4.2	3.9	2.6	**2.3**	**2.2**	**2.0**	*2.8*	*2.7*
Greece	7.3	4.9	5.5	5.1	4.0	4.0	3.6	**3.3**	**3.1**	**2.8**	*3.9*	*3.8*
Spain	3.6	2.1	1.8	3.0	3.5	3.5	3.1	**2.8**	**2.6**	**2.5**	*2.9*	*2.7*
France	3.0	2.7	2.6	2.6	2.3	2.2	2.0	**1.9**	**1.8**	**1.8**	*1.9*	*1.9*
Italy	7.1	4.8	4.6	5.2	4.8	4.6	4.2	**4.0**	**3.8**	**3.6**	*4.0*	*3.8*
Cyprus	2.8	3.0	2.4	2.9	3.1	2.8	2.8	**2.6**	**2.5**	**2.5**	*2.6*	*2.4*
Latvia	0.8	0.6	1.2 :	1.6	1.5	1.4	1.3	**1.1**	**1.0**	**1.0**	*1.1*	*1.0*
Lithuania	1.3	1.0	1.2 :	2.0	1.8	1.6	1.5	**1.5**	**1.4**	**1.4**	*1.5*	*1.4*
Luxembourg	0.4	0.3	0.4	0.5	0.6	0.4	0.4	**0.4**	**0.4**	**0.4**	*0.4*	*0.3*
Malta	3.4	3.7	3.3	3.0	2.9	2.9	2.6	**2.3**	**2.1**	**2.0**	*2.4*	*2.3*
Netherlands	3.8	2.3	1.9	1.6	1.5	1.4	1.3	**1.1**	**1.0**	**0.9**	*1.2*	*1.1*
Austria	3.6	3.2	3.0	2.7	2.6	2.5	2.4	**2.2**	**2.2**	**2.2**	*2.3*	*2.3*
Portugal	3.2	2.7	3.3	4.9	4.9	4.9	4.6	**4.3**	**4.4**	**4.3**	*4.5*	*4.3*
Slovenia	2.3	1.7	1.4	2.0	2.6	3.2	2.9	**2.8**	**2.6**	**2.5**	*2.8*	*2.6*
Slovakia	3.2	2.2	1.4	1.8	1.9	1.9	1.8	**1.5**	**1.4**	**1.3**	*1.5*	*1.5*
Finland	3.1	1.7	1.4	1.4	1.3	1.2	1.2	**1.1**	**1.1**	**1.0**	*1.2*	*1.1*
Euro area	4.1	3.1	2.9	3.0	2.8	2.7	2.4	**2.2**	**2.1**	**1.9**	*2.3*	*2.2*
Bulgaria	4.4	1.8	0.8	0.8	0.7	0.9	0.9	**0.9**	**0.8**	**0.8**	*1.0*	*1.0*
Czech Republic	0.9	1.1	1.2	1.4	1.3	1.3	1.1	**1.0**	**0.9**	**0.9**	*1.0*	*1.0*
Denmark	4.2	2.4	1.8	1.8	1.7	1.5	1.6	**1.3**	**1.1**	**1.1**	*1.2*	*1.2*
Croatia	:	1.9	2.4	3.4	3.5	3.5	3.6	**3.4**	**3.4**	**3.3**	*3.6*	*3.6*
Hungary	6.4	4.1	4.2	4.6	4.5	4.0	3.5	**3.1**	**2.9**	**2.8**	*3.1*	*3.0*
Poland	3.5	2.7	2.4	2.7	2.5	1.9	1.8	**1.7**	**1.6**	**1.6**	*1.7*	*1.5*
Romania	4.1	1.5	1.2	1.8	1.8	1.6	1.6	**1.6**	**1.6**	**1.7**	*1.7*	*1.7*
Sweden	3.8	2.0	1.3	1.0	0.8	0.7	0.5	**0.4**	**0.4**	**0.5**	*0.5*	*0.5*
United Kingdom	2.7	1.9	2.5	2.9	2.9	2.7	2.3	**2.4**	**2.4**	**2.4**	*2.3*	*2.2*
EU	:	2.8	2.7	2.9	2.7	2.5	2.3	**2.1**	**2.0**	**1.9**	*2.2*	*2.1*
USA	4.2	3.4	3.7	3.8	3.6	3.5	3.4	**3.6**	**3.7**	**4.0**	*3.6*	*3.8*
Japan	3.2	1.9	2.0	2.1	2.1	2.1	2.0	**2.0**	**1.9**	**1.9**	*1.9*	*1.9*

Table 38: Primary balance, general government [1] (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	6.3	4.0	0.9	-0.6	0.3	0.2	0.5	**-0.5**	**0.1**	**-0.2**	*-0.1*	*0.3*
Germany	1.3	-0.6	0.9	2.3	1.8	2.1	2.2	**2.0**	**1.6**	**1.4**	*1.6*	*1.5*
Estonia	0.0	1.9	0.0	-0.1	-0.1	0.8	0.2	**0.6**	**-0.3**	**-0.1**	*0.0*	*-0.1*
Ireland	4.9	2.3	-11.0	-3.9	-1.4	0.1	0.7	**1.5**	**1.7**	**1.7**	*1.7*	*2.1*
Greece	1.8	-2.1	-5.2	-3.7	-9.1	0.4	-3.9	**0.8**	**2.1**	**3.7**	*0.8*	*2.0*
Spain	1.7	2.6	-4.6	-7.5	-3.5	-2.5	-2.0	**-1.8**	**-1.1**	**-0.7**	*-1.1*	*-0.4*
France	1.0	-0.5	-2.4	-2.2	-1.8	-1.8	-1.5	**-1.5**	**-1.2**	**-1.3**	*-1.5*	*-1.3*
Italy	4.6	1.2	1.1	2.3	2.1	1.6	1.5	**1.6**	**1.4**	**1.1**	*1.6*	*1.9*
Cyprus	-0.5	-0.3	0.0	-2.9	-1.8	-6.0	1.7	**2.3**	**2.0**	**2.5**	*2.2*	*2.4*
Latvia	-0.6	-0.6	-3.9 :	0.8	0.6	-0.1	0.1	**0.3**	**0.0**	**-0.3**	*0.1*	*0.0*
Lithuania	-3.5	0.0	-4.5 :	-1.2	-0.9	0.9	1.3	**0.9**	**0.7**	**0.7**	*0.4*	*1.0*
Luxembourg	4.7	0.9	1.7	0.9	1.5	1.9	2.0	**1.7**	**0.4**	**0.5**	*1.4*	*0.5*
Malta	-3.5	-1.1	0.2	-0.6	0.3	0.8	1.2	**1.6**	**1.5**	**1.4**	*1.5*	*1.4*
Netherlands	3.7	0.9	-0.9	-2.2	-0.9	-0.8	-0.6	**0.3**	**0.7**	**0.8**	*-0.5*	*0.0*
Austria	1.5	0.6	-0.1	0.5	1.2	-0.3	1.3	**0.7**	**0.8**	**1.0**	*0.9*	*0.9*
Portugal	-0.6	-2.2	-3.8	-0.8	0.0	-2.3	0.2	**1.7**	**2.2**	**1.8**	*1.8*	*2.0*
Slovenia	-0.7	-0.2	-2.5	-2.1	-12.5	-1.9	0.3	**0.4**	**0.7**	**0.9**	*0.5*	*0.6*
Slovakia	-4.2	-1.7	-3.4	-2.6	-0.8	-0.8	-1.0	**-0.7**	**-0.1**	**0.8**	*-0.9*	*-0.2*
Finland	5.9	4.8	2.0	-0.8	-1.4	-1.9	-1.6	**-1.2**	**-1.4**	**-1.0**	*-1.4*	*-1.1*
Euro area	2.3	0.5	-1.0	-0.6	-0.2	0.1	0.3	**0.4**	**0.5**	**0.5**	*0.4*	*0.5*
Bulgaria	4.9	2.4	-0.5	0.5	0.3	-4.6	-0.8	**0.0**	**0.0**	**0.1**	*-0.9*	*-0.5*
Czech Republic	-3.1	-3.1	-1.9	-2.5	0.1	-0.6	0.4	**0.7**	**0.4**	**0.2**	*0.3*	*0.4*
Denmark	4.6	4.8	1.9	-1.7	0.6	3.0	-0.1	**0.4**	**-0.8**	**-0.3**	*-1.2*	*-0.7*
Croatia	:	-2.3	-2.7	-1.9	-1.8	-1.9	0.3	**1.3**	**1.6**	**1.8**	*0.9*	*1.3*
Hungary	1.4	-3.8	-0.5	2.3	2.0	1.9	2.0	**1.6**	**0.6**	**0.5**	*1.1*	*1.0*
Poland	-0.2	-2.0	-2.6	-1.0	-1.5	-1.5	-0.8	**-0.8**	**-1.3**	**-1.5**	*-0.9*	*-1.5*
Romania	0.1	0.0	-4.8	-1.9	-0.3	0.8	0.9	**-1.3**	**-1.6**	**-1.5**	*-1.1*	*-1.6*
Sweden	4.8	2.3	2.2	0.0	-0.6	-0.9	0.7	**0.4**	**0.3**	**0.5**	*0.1*	*-0.2*
United Kingdom	2.7	-1.0	-4.6	-5.4	-2.8	-3.0	-2.0	**-1.0**	**-0.4**	**0.1**	*-1.1*	*-0.1*
EU	2.4	0.2	-1.5	-1.4	-0.6	-0.5	-0.1	**0.2**	**0.3**	**0.3**	*0.0*	*0.3*
USA	3.7	-1.2	-5.5	-5.1	-1.7	-1.4	-1.1	**-1.1**	**-0.4**	**0.0**	*-0.8*	*-0.6*
Japan	-3.8	-3.5	-4.0	-6.6	-5.6	-4.1	-3.3	**-3.0**	**-3.1**	**-3.1**	*-2.6*	*-2.3*

Table 39: Cyclically-adjusted net lending (+) or net borrowing (-), general government[1] (as a percentage of potential GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	2016	2017
Belgium	-1.1	-1.1	-3.3	-3.8	-2.1	-2.6	-2.3	**-2.8**	**-2.0**	**-2.2**	*-2.4*	*-2.0*
Germany	-2.2	-2.8	-1.4	-0.3	0.1	0.5	0.8	**0.6**	**0.6**	**0.5**	*0.5*	*0.5*
Estonia	0.5	-0.5	-0.5	-1.1	-0.8	-0.3	-0.4	**0.5**	**-0.2**	**0.0**	*-0.1*	*-0.2*
Ireland	1.1	0.4	-12.5	-5.8	-3.2	-3.7	-2.6	**-1.8**	**-1.0**	**-0.6**	*-2.0*	*-1.0*
Greece	-6.3	-8.3	-10.5	-1.9	-6.1	2.4	-2.1	**2.6**	**2.7**	**3.0**	*0.0*	*-0.6*
Spain	-2.6	-0.9	-5.6	-6.4	-2.5	-2.3	-3.0	**-3.8**	**-3.8**	**-3.8**	*-3.1*	*-3.2*
France	-2.5	-4.2	-5.0	-4.1	-3.2	-2.9	-2.6	**-2.5**	**-2.2**	**-2.6**	*-2.5*	*-2.7*
Italy	-3.0	-4.0	-3.1	-1.4	-0.5	-1.0	-1.2	**-1.5**	**-1.9**	**-2.5**	*-1.6*	*-1.7*
Cyprus	:	-4.6	-3.5	-4.0	-1.1	-5.4	0.8	**0.1**	**-1.3**	**-1.8**	*0.3*	*-0.5*
Latvia	-1.2	-2.3	-4.0	-0.1	-1.0	-2.0	-1.8	**-1.3**	**-1.6**	**-1.6**	*-1.7*	*-1.6*
Lithuania	-4.7	-1.7	-5.0	-2.4	-2.5	-1.1	-0.5	**-1.0**	**-1.4**	**-1.5**	*-1.3*	*-0.8*
Luxembourg	3.4	0.2	1.8	2.7	2.6	2.5	2.4	**1.9**	**0.4**	**0.4**	*1.4*	*0.3*
Malta	-7.0	-5.0	-3.0	-3.2	-2.8	-2.3	-2.1	**-1.1**	**-0.7**	**-0.5**	*-1.5*	*-1.1*
Netherlands	-0.8	-0.5	-2.6	-2.1	-0.4	-0.8	-1.1	**-0.3**	**0.1**	**0.1**	*-1.2*	*-1.2*
Austria	-2.4	-2.4	-3.1	-2.3	-1.0	-2.2	-0.5	**-1.1**	**-1.1**	**-1.0**	*-1.1*	*-1.2*
Portugal	-5.0	-4.7	-6.9	-3.6	-2.7	-5.7	-3.6	**-2.3**	**-2.2**	**-2.7**	*-2.1*	*-2.3*
Slovenia	:	-2.6	-4.5	-1.9	-12.4	-3.6	-1.9	**-2.2**	**-2.4**	**-2.3**	*-2.6*	*-2.9*
Slovakia	-7.4	-3.6	-5.6	-3.6	-1.7	-1.9	-2.3	**-2.0**	**-1.4**	**-0.7**	*-2.2*	*-1.5*
Finland	1.9	3.1	0.6	-1.3	-1.4	-1.7	-1.4	**-1.4**	**-1.6**	**-1.4**	*-1.6*	*-1.5*
Euro area	-2.3	-2.9	-3.7	-2.5	-1.4	-1.3	-1.2	**-1.2**	**-1.2**	**-1.3**	*-1.3*	*-1.4*
Bulgaria	0.7	0.4	-1.6	-0.2	-0.2	-5.0	-1.5	**-0.8**	**-0.8**	**-0.6**	*-1.8*	*-1.4*
Czech Republic	-3.6	-4.8	-3.7	-3.2	0.1	-1.0	-0.7	**-0.3**	**-0.8**	**-1.0**	*-0.8*	*-0.9*
Denmark	-0.8	1.4	0.7	-1.7	1.1	3.2	-0.1	**0.7**	**-0.8**	**-0.6**	*-0.9*	*-0.9*
Croatia	:	-4.3	-5.7	-3.9	-3.5	-3.5	-2.1	**-1.7**	**-2.2**	**-2.5**	*-1.9*	*-2.1*
Hungary	:	-8.9	-4.1	-0.6	-1.3	-1.9	-1.9	**-1.9**	**-2.9**	**-3.1**	*-2.2*	*-2.5*
Poland	-4.1	-3.3	-6.1	-3.8	-3.3	-2.8	-2.4	**-2.4**	**-3.1**	**-3.3**	*-2.6*	*-3.3*
Romania	-2.8	-2.6	-6.3	-2.1	-1.0	-0.1	-0.3	**-2.9**	**-3.4**	**-3.3**	*-2.8*	*-3.4*
Sweden	1.0	0.2	1.2	0.2	0.1	-0.4	0.3	**-0.3**	**-0.3**	**0.1**	*-0.5*	*-0.9*
United Kingdom	-0.4	-3.5	-6.0	-6.5	-4.4	-5.5	-4.5	**-3.9**	**-2.9**	**-2.3**	*-3.6*	*-2.7*
EU	:	-2.9	-3.9	-3.0	-1.8	-1.9	-1.7	**-1.6**	**-1.5**	**-1.5**	*-1.7*	*-1.6*

Table 40: Cyclically-adjusted primary balance, general government[1] (as a percentage of potential GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	2016	2017
Belgium	6.0	3.8	0.5	-0.2	1.2	0.7	0.7	**-0.2**	**0.4**	**0.0**	*0.3*	*0.6*
Germany	1.0	0.0	1.2	2.0	2.0	2.2	2.4	**2.0**	**1.8**	**1.5**	*1.9*	*1.8*
Estonia	0.8	-0.3	-0.4	-1.0	-0.7	-0.2	-0.3	**0.6**	**-0.1**	**0.0**	*0.0*	*-0.2*
Ireland	3.6	1.5	-10.4	-1.8	1.1	0.2	0.0	**0.6**	**1.2**	**1.4**	*0.8*	*1.8*
Greece	1.0	-3.4	-5.0	3.2	-2.0	6.3	1.5	**5.9**	**5.8**	**5.8**	*3.9*	*3.2*
Spain	1.1	1.2	-3.8	-3.4	1.0	1.2	0.1	**-1.0**	**-1.2**	**-1.3**	*-0.2*	*-0.5*
France	0.6	-1.5	-2.5	-1.6	-0.9	-0.7	-0.6	**-0.6**	**-0.4**	**-0.8**	*-0.6*	*-0.8*
Italy	4.1	0.8	1.5	3.8	4.4	3.6	2.9	**2.5**	**1.8**	**1.2**	*2.4*	*2.1*
Cyprus	:	-1.6	-1.1	-1.1	2.0	-2.6	3.6	**2.7**	**1.2**	**0.8**	*2.9*	*1.9*
Latvia	-0.4	-1.7	-2.9	1.5	0.5	-0.5	-0.5	**-0.2**	**-0.5**	**-0.6**	*-0.6*	*-0.6*
Lithuania	-3.3	-0.7	-3.8	-0.4	-0.7	0.5	1.0	**0.5**	**0.1**	**-0.1**	*0.2*	*0.6*
Luxembourg	3.8	0.5	2.2	3.2	3.2	2.9	2.8	**2.3**	**0.8**	**0.8**	*1.8*	*0.6*
Malta	-3.6	-1.3	0.3	-0.2	0.1	0.6	0.5	**1.1**	**1.5**	**1.5**	*0.9*	*1.2*
Netherlands	3.0	1.8	-0.7	-0.5	1.1	0.6	0.1	**0.8**	**1.0**	**1.0**	*-0.1*	*-0.1*
Austria	1.2	0.8	-0.1	0.4	1.6	0.2	1.9	**1.1**	**1.1**	**1.2**	*1.3*	*1.1*
Portugal	-1.8	-2.0	-3.7	1.3	2.1	-0.8	1.0	**2.1**	**2.2**	**1.5**	*2.4*	*2.0*
Slovenia	:	-0.9	-3.0	0.1	-9.9	-0.4	1.0	**0.6**	**0.2**	**0.2**	*0.2*	*-0.3*
Slovakia	-4.1	-1.4	-4.2	-1.8	0.2	0.0	-0.5	**-0.5**	**0.0**	**0.7**	*-0.7*	*0.0*
Finland	5.0	4.8	1.9	0.1	-0.2	-0.5	-0.2	**-0.2**	**-0.5**	**-0.4**	*-0.5*	*-0.4*
Euro area	1.8	0.2	-0.8	0.5	1.4	1.4	1.2	**1.0**	**0.9**	**0.6**	*1.0*	*0.8*
Bulgaria	5.1	2.3	-0.7	0.6	0.5	-4.2	-0.6	**0.1**	**0.1**	**0.1**	*-0.7*	*-0.4*
Czech Republic	-2.6	-3.8	-2.5	-1.7	1.4	0.3	0.4	**0.7**	**0.2**	**-0.1**	*0.2*	*0.1*
Denmark	3.4	3.8	2.5	0.1	2.8	4.7	1.6	**2.0**	**0.4**	**0.5**	*0.3*	*0.3*
Croatia	:	-2.5	-3.4	-0.5	0.0	0.0	1.4	**1.7**	**1.1**	**0.8**	*1.7*	*1.4*
Hungary	:	-4.8	0.0	4.0	3.2	2.1	1.6	**1.3**	**0.1**	**-0.3**	*0.9*	*0.5*
Poland	-0.6	-0.6	-3.7	-1.1	-0.8	-0.9	-0.6	**-0.7**	**-1.5**	**-1.7**	*-0.9*	*-1.7*
Romania	1.3	-1.1	-5.1	-0.3	0.7	1.6	1.4	**-1.4**	**-1.8**	**-1.7**	*-1.1*	*-1.7*
Sweden	4.8	2.3	2.5	1.2	0.9	0.3	0.8	**0.1**	**0.1**	**0.6**	*0.0*	*-0.4*
United Kingdom	2.3	-1.6	-3.5	-3.6	-1.5	-2.8	-2.2	**-1.4**	**-0.5**	**0.1**	*-1.3*	*-0.5*
EU	1.9	-0.1	-1.2	-0.2	0.9	0.6	0.5	**0.5**	**0.5**	**0.4**	*0.5*	*0.4*

Table 41: Structural budget balance, general government[1] (as a percentage of potential GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	2016	2017
Belgium	:	:	:	-3.4	-2.7	-2.9	-2.6	**-2.7**	**-2.0**	**-2.2**	*-2.3*	*-2.1*
Germany	:	:	:	-0.2	0.1	0.8	0.8	**0.6**	**0.4**	**0.5**	*0.4*	*0.4*
Estonia	:	:	:	-0.2	-0.6	-0.1	-0.1	**0.6**	**-0.2**	**0.0**	*0.0*	*-0.2*
Ireland	:	:	:	-5.8	-3.6	-3.6	-1.8	**-1.7**	**-1.0**	**-0.6**	*-2.0*	*-1.0*
Greece	:	:	:	0.4	2.4	2.4	1.9	**2.6**	**2.7**	**3.0**	*0.0*	*-0.6*
Spain	:	:	:	-3.4	-2.0	-1.9	-2.8	**-3.8**	**-3.8**	**-3.8**	*-3.1*	*-3.2*
France	:	:	:	-4.2	-3.3	-2.9	-2.6	**-2.5**	**-2.3**	**-2.6**	*-2.4*	*-2.7*
Italy	-3.8	:	-3.4	-1.5	-1.0	-1.2	-1.1	**-1.6**	**-2.2**	**-2.4**	*-1.7*	*-1.7*
Cyprus	:	:	:	-4.2	-0.4	3.0	1.7	**0.2**	**-1.3**	**-1.8**	*0.4*	*-0.5*
Latvia	:	:	:	-0.1	-1.0	-1.6	-1.8	**-1.5**	**-1.7**	**-1.6**	*-1.6*	*-1.6*
Lithuania	:	:	:	-2.4	-2.0	-1.5	-0.7	**-0.9**	**-1.4**	**-1.5**	*-1.2*	*-0.8*
Luxembourg	:	:	:	2.7	2.6	2.5	2.2	**1.9**	**0.4**	**0.4**	*1.4*	*0.3*
Malta	:	:	:	-3.5	-2.9	-2.8	-2.2	**-1.1**	**-0.7**	**-0.5**	*-1.6*	*-1.2*
Netherlands	:	:	:	-2.1	-1.0	-0.7	-1.2	**-0.5**	**-0.2**	**0.0**	*-1.5*	*-1.2*
Austria	:	:	:	-1.9	-1.2	-0.7	0.0	**-1.0**	**-0.9**	**-1.0**	*-0.9*	*-1.2*
Portugal	:	:	-6.3	-3.5	-3.0	-1.9	-2.3	**-2.4**	**-2.4**	**-2.7**	*-2.2*	*-2.5*
Slovenia	:	:	:	-1.9	-1.9	-2.5	-1.9	**-2.1**	**-2.3**	**-2.2**	*-2.5*	*-2.9*
Slovakia	:	:	:	-3.6	-1.7	-2.2	-2.3	**-2.0**	**-1.4**	**-0.7**	*-2.1*	*-1.5*
Finland	:	:	:	-1.3	-1.4	-1.8	-1.4	**-1.3**	**-1.6**	**-1.4**	*-1.6*	*-1.5*
Euro area	:	:	:	-2.1	-1.4	-1.1	-1.0	**-1.2**	**-1.3**	**-1.3**	*-1.3*	*-1.4*
Bulgaria	:	:	:	-0.2	-0.2	-1.8	-1.4	**-0.8**	**-0.8**	**-0.6**	*-1.8*	*-1.4*
Czech Republic	:	:	:	-1.4	0.2	-0.8	-0.7	**-0.2**	**-0.8**	**-1.0**	*-0.7*	*-0.9*
Denmark	:	:	0.7	-0.2	-0.4	0.1	-1.5	**0.6**	**-0.8**	**-0.6**	*-1.0*	*-0.9*
Croatia	:	:	:	-3.9	-3.3	-3.7	-2.2	**-1.8**	**-2.3**	**-2.5**	*-1.9*	*-2.1*
Hungary	:	:	:	-1.3	-1.4	-2.2	-1.8	**-2.6**	**-2.9**	**-3.1**	*-2.9*	*-2.5*
Poland	:	:	:	-3.9	-3.3	-2.6	-2.3	**-2.8**	**-3.1**	**-3.3**	*-3.0*	*-3.3*
Romania	:	:	:	-2.6	-1.0	-0.6	-0.5	**-2.6**	**-3.4**	**-3.3**	*-2.8*	*-3.4*
Sweden	:	:	:	0.2	0.1	-0.4	0.3	**-0.3**	**-0.3**	**0.1**	*-0.5*	*-0.9*
United Kingdom	:	:	:	-6.5	-4.4	-5.4	-4.5	**-3.8**	**-2.9**	**-2.3**	*-3.6*	*-2.7*
EU	:	:	:	-2.7	-1.8	-1.8	-1.7	**-1.6**	**-1.6**	**-1.5**	*-1.7*	*-1.7*

Table 42: Gross debt, general government (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	2016	2017
Belgium	114.4	97.6	96.2	104.1	105.4	106.5	105.8	**107.0**	**107.1**	**106.4**	*106.4*	*105.6*
Germany	58.9	64.0	72.0	79.9	77.5	74.9	71.2	**68.1**	**65.7**	**63.1**	*68.6*	*66.3*
Estonia	5.9	5.1	5.5	9.7	10.2	10.7	10.1	**9.4**	**9.5**	**9.4**	*9.6*	*9.3*
Ireland	45.8	27.7	64.8	119.5	119.5	105.2	78.6	**75.4**	**73.6**	**71.9**	*89.1*	*86.6*
Greece	101.6	104.0	131.5	159.6	177.4	179.7	177.4	**181.6**	**179.1**	**172.4**	*182.8*	*178.8*
Spain	60.0	45.1	51.4	85.7	95.4	100.4	99.8	**99.5**	**99.9**	**100.0**	*100.3*	*99.6*
France	59.8	64.3	75.7	89.5	92.3	95.3	96.2	**96.4**	**96.8**	**97.1**	*96.4*	*97.0*
Italy	108.8	101.4	109.3	123.3	129.0	131.9	132.3	**133.0**	**133.1**	**133.1**	*132.7*	*131.8*
Cyprus	54.8	61.7	54.5	79.3	102.2	107.1	107.5	**107.1**	**103.7**	**100.6**	*108.9*	*105.4*
Latvia	11.6	12.6	30.8	41.3	39.0	40.7	36.3	**40.0**	**37.2**	**36.0**	*39.8*	*35.6*
Lithuania	20.2	19.2	26.6	39.8	38.7	40.5	42.7	**40.8**	**43.3**	**40.2**	*41.1*	*42.9*
Luxembourg	7.2	7.3	15.5	21.8	23.5	22.7	22.1	**23.2**	**23.3**	**23.5**	*22.5*	*22.8*
Malta	57.2	67.8	66.1	67.6	68.4	67.0	64.0	**62.1**	**59.9**	**57.2**	*60.9*	*58.3*
Netherlands	57.2	48.1	54.8	66.4	67.7	67.9	65.1	**63.0**	**61.3**	**59.3**	*64.9*	*63.9*
Austria	65.1	66.4	75.5	82.0	81.3	84.4	85.5	**83.5**	**81.1**	**79.2**	*84.9*	*83.0*
Portugal	52.4	62.7	86.3	126.2	129.0	130.6	129.0	**130.3**	**129.5**	**127.8**	*126.0*	*124.5*
Slovenia	24.1	26.6	32.9	53.9	71.0	80.9	83.1	**80.2**	**78.3**	**76.6**	*80.2*	*78.0*
Slovakia	42.4	37.9	35.5	52.2	54.7	53.6	52.5	**53.3**	**52.7**	**51.5**	*53.4*	*52.7*
Finland	45.3	40.8	40.8	53.9	56.5	60.2	63.6	**65.4**	**67.1**	**68.1**	*65.2*	*66.9*
Euro area	69.9	67.9	76.5	91.4	93.7	94.4	92.6	**91.6**	**90.6**	**89.4**	*92.2*	*91.1*
Bulgaria	75.8	35.8	14.7	16.7	17.0	27.0	26.0	**29.4**	**26.3**	**25.9**	*28.1*	*28.7*
Czech Republic	16.2	27.7	33.7	44.5	44.9	42.2	40.3	**39.7**	**39.1**	**38.5**	*41.3*	*40.9*
Denmark	:	41.7	38.1	45.2	44.7	44.8	40.4	**38.9**	**38.3**	**38.2**	*38.7*	*39.1*
Croatia	:	39.0	49.9	70.7	82.2	86.6	86.7	**85.0**	**84.3**	**82.8**	*87.6*	*87.3*
Hungary	57.7	59.2	75.2	78.2	76.6	75.7	74.7	**73.4**	**72.5**	**71.8**	*74.3*	*73.0*
Poland	38.7	45.4	49.5	53.7	55.7	50.2	51.1	**53.4**	**55.0**	**55.5**	*52.0*	*52.7*
Romania	20.3	18.5	22.6	37.3	37.8	39.4	37.9	**38.9**	**40.2**	**41.5**	*38.7*	*40.1*
Sweden	59.7	47.6	38.0	37.8	40.4	45.2	43.9	**41.6**	**39.9**	**38.2**	*41.3*	*40.1*
United Kingdom	39.3	37.9	62.7	85.1	86.2	88.1	89.1	**89.2**	**88.9**	**87.5**	*89.7*	*89.1*
EU	:	60.3	70.2	85.3	87.4	88.5	86.6	**86.0**	**85.1**	**83.9**	*86.4*	*85.5*

Table 43: Gross national saving (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	27.1	27.0	25.7	24.7	23.3	23.0	23.4	**23.5**	**23.8**	**24.1**	*24.3*	*24.7*
Germany	22.2	23.1	26.1	26.4	26.3	27.3	27.7	**28.0**	**27.8**	**27.9**	*27.6*	*27.5*
Estonia	22.2	22.9	23.9	27.2	27.4	26.9	25.3	**24.9**	**25.1**	**25.4**	*24.9*	*25.8*
Ireland	24.5	24.9	17.4	17.6	22.0	24.6	31.8	**32.3**	**32.9**	**33.0**	*29.4*	*30.6*
Greece	17.6	15.1	7.3	8.6	9.4	9.3	9.9	**10.2**	**11.7**	**13.5**	*10.4*	*12.0*
Spain	22.4	23.0	20.1	19.5	20.2	20.4	21.4	**22.1**	**22.3**	**22.7**	*22.8*	*23.2*
France	23.3	22.2	21.3	19.7	19.5	19.3	20.4	**20.8**	**20.9**	**21.1**	*21.2*	*21.6*
Italy	21.0	20.5	18.4	17.5	17.9	18.8	18.6	**19.5**	**19.5**	**19.7**	*19.3*	*19.7*
Cyprus	18.9	11.4	10.6	10.2	8.3	7.9	11.5	**12.1**	**12.6**	**13.2**	*12.1*	*12.2*
Latvia	16.5	20.7	23.2	22.5	21.8	21.1	21.3	**20.0**	**19.0**	**18.3**	*19.5*	*19.7*
Lithuania	13.1	15.9	16.4	18.4	20.7	22.5	17.7	**15.9**	**15.2**	**15.7**	*18.5*	*19.0*
Luxembourg	31.9	31.1	27.2	25.9	24.7	24.7	24.9	**25.3**	**24.9**	**25.0**	*22.9*	*22.2*
Malta	16.5	15.6	18.4	19.2	21.1	25.6	27.5	**27.5**	**27.9**	**28.3**	*26.2*	*25.0*
Netherlands	28.5	28.3	28.7	29.4	28.5	27.1	27.8	**28.2**	**28.2**	**28.2**	*29.0*	*28.8*
Austria	24.4	26.0	26.7	25.7	25.4	26.0	25.9	**26.2**	**26.4**	**26.7**	*25.3*	*25.4*
Portugal	19.3	15.0	11.7	13.7	15.4	15.0	15.2	**15.3**	**15.8**	**16.5**	*15.4*	*16.0*
Slovenia	24.8	26.2	24.4	20.8	23.3	26.0	25.4	**26.5**	**26.6**	**26.8**	*26.4*	*26.7*
Slovakia	25.5	21.0	20.3	21.3	22.5	22.3	23.3	**23.3**	**23.0**	**23.6**	*21.5*	*21.6*
Finland	28.8	28.5	25.1	20.6	19.5	19.6	19.9	**20.4**	**21.0**	**21.7**	*20.0*	*20.5*
Euro area	22.9	22.8	22.3	21.9	22.0	22.5	23.2	**23.7**	**23.7**	**24.0**	*23.6*	*23.9*
Bulgaria	17.8	16.8	17.5	21.0	22.5	21.4	21.5	**22.6**	**21.7**	**21.4**	*22.9*	*23.3*
Czech Republic	27.6	25.7	24.1	23.9	23.6	24.6	26.1	**25.3**	**25.2**	**25.2**	*24.5*	*24.7*
Denmark	24.1	25.9	25.0	25.3	26.6	27.6	26.6	**26.0**	**26.2**	**26.5**	*26.2*	*26.5*
Croatia	17.9	22.2	21.2	19.8	20.7	19.6	24.1	**22.2**	**22.4**	**22.6**	*22.9*	*22.9*
Hungary	21.1	17.6	19.4	21.3	24.9	24.9	24.8	**23.7**	**23.2**	**24.0**	*26.2*	*25.9*
Poland	20.0	16.4	17.6	17.7	18.5	19.2	21.3	**20.7**	**20.2**	**20.2**	*20.3*	*19.9*
Romania	14.3	17.3	21.7	22.6	24.9	24.7	24.5	**23.4**	**23.3**	**23.5**	*23.4*	*23.2*
Sweden	26.3	29.0	30.4	28.3	27.6	28.2	29.6	**30.1**	**30.0**	**30.1**	*30.0*	*29.9*
United Kingdom	17.2	16.1	13.8	12.4	12.3	12.7	12.3	**12.1**	**12.2**	**13.3**	*13.1*	*13.7*
EU	21.9	21.7	21.1	20.6	20.8	21.1	21.5	**22.0**	**22.2**	**22.5**	*22.1*	*22.3*
USA	20.6	18.0	15.6	17.7	18.3	19.2	19.1	**17.1**	**17.2**	**17.2**	*17.5*	*17.2*
Japan	28.2	26.0	24.5	21.9	21.9	22.4	25.2	**25.5**	**25.8**	**25.8**	*25.9*	*25.9*

Table 44: Gross saving, private sector (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	24.8	24.9	25.6	24.9	23.1	22.9	23.2	**23.9**	**23.6**	**24.0**	*24.5*	*24.5*
Germany	21.2	23.3	24.5	23.5	23.7	24.1	24.4	**24.7**	**24.7**	**24.7**	*24.7*	*24.7*
Estonia	17.5	16.3	19.2	22.2	22.9	21.3	20.3	**19.9**	**20.4**	**20.5**	*20.3*	*21.2*
Ireland	19.1	20.4	20.8	23.0	25.8	25.9	30.8	**31.1**	**31.3**	**31.1**	*28.4*	*29.3*
Greece	18.4	16.9	14.4	13.0	9.7	10.5	10.5	**10.0**	**9.8**	**10.1**	*10.2*	*10.3*
Spain	19.8	17.7	21.0	23.2	24.2	23.9	24.0	**24.5**	**24.0**	**23.8**	*24.4*	*24.0*
France	20.8	21.0	21.3	19.6	18.6	18.7	19.8	**20.3**	**19.9**	**20.2**	*20.7*	*20.9*
Italy	20.0	20.1	17.9	16.8	17.8	18.5	17.4	**18.8**	**18.8**	**18.7**	*18.7*	*18.5*
Cyprus	18.3	11.1	8.4	12.2	9.8	5.0	8.9	**9.8**	**10.3**	**10.6**	*9.7*	*9.4*
Latvia	14.9	17.9	23.6	20.0	19.6	19.3	19.4	**18.3**	**17.4**	**17.0**	*17.9*	*17.6*
Lithuania	11.7	13.5	17.7	19.4	20.7	21.2	15.5	**13.9**	**13.8**	**14.3**	*16.4*	*16.6*
Luxembourg	23.0	24.6	20.6	20.5	19.3	19.0	18.8	**19.2**	**20.2**	**20.2**	*17.1*	*17.4*
Malta	19.8	17.0	19.4	20.6	21.6	25.4	26.4	**25.4**	**26.0**	**26.5**	*24.6*	*23.8*
Netherlands	25.0	25.9	27.3	29.3	27.5	25.7	26.2	**25.2**	**25.0**	**25.0**	*26.8*	*26.1*
Austria	22.3	24.0	25.3	23.8	23.3	23.5	22.9	**24.2**	**24.2**	**24.2**	*23.1*	*23.4*
Portugal	18.5	16.3	14.9	17.8	18.2	17.0	16.1	**16.5**	**16.4**	**16.9**	*16.6*	*16.9*
Slovenia	22.7	23.5	23.2	21.0	23.5	25.5	23.9	**26.2**	**26.0**	**25.8**	*25.8*	*25.6*
Slovakia	24.3	20.3	21.3	22.8	22.6	22.0	21.4	**21.3**	**20.6**	**20.3**	*20.3*	*20.1*
Finland	22.0	21.9	20.9	18.8	18.1	18.6	18.7	**18.8**	**19.6**	**19.7**	*18.6*	*18.7*
Euro area	21.1	21.5	21.9	21.5	21.4	21.5	21.9	**22.4**	**22.2**	**22.3**	*22.4*	*22.4*
Bulgaria	13.6	12.4	14.6	19.0	20.7	20.6	20.3	**20.0**	**18.7**	**18.2**	*20.7*	*21.0*
Czech Republic	24.0	22.3	22.2	21.8	21.2	22.6	22.8	**22.3**	**22.3**	**22.3**	*21.6*	*21.6*
Denmark	20.8	20.9	21.5	23.4	23.6	21.8	24.1	**23.0**	**24.5**	**24.4**	*24.8*	*24.7*
Croatia	:	18.7	19.5	21.2	21.4	20.4	24.0	**20.9**	**20.7**	**20.5**	*22.4*	*21.8*
Hungary	20.1	19.5	20.1	20.4	24.2	23.1	21.3	**20.8**	**19.4**	**20.1**	*23.2*	*22.5*
Poland	20.2	17.4	17.6	17.6	19.1	19.0	20.2	**19.9**	**19.6**	**19.9**	*19.8*	*19.4*
Romania	14.8	13.8	21.2	21.3	22.9	22.5	21.4	**22.3**	**22.7**	**22.7**	*22.7*	*23.3*
Sweden	21.3	24.5	25.2	25.0	24.7	25.3	25.2	**25.7**	**25.6**	**25.6**	*26.0*	*26.1*
United Kingdom	15.0	16.2	17.0	16.9	15.1	15.4	13.6	**12.5**	**11.9**	**12.7**	*13.5*	*13.1*
EU	:	20.5	21.1	20.8	20.6	20.6	20.5	**20.8**	**20.8**	**20.9**	*21.0*	*21.0*
USA	17.8	18.9	20.3	22.9	20.3	20.9	20.6	**18.7**	**18.4**	**18.2**	*18.5*	*18.3*
Japan	27.2	27.4	27.7	26.9	25.3	24.7	26.9	**27.1**	**27.1**	**27.2**	*26.9*	*26.7*

Table 45: Saving rate of households (1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	16.6	15.6	15.7	12.9	12.3	12.1	11.7	**12.7**	**12.1**	**12.2**	*12.5*	*12.0*
Germany	15.7	16.1	16.8	16.4	16.3	16.7	17.0	**17.3**	**17.2**	**16.9**	*17.0*	*16.9*
Estonia	6.5	-3.0	8.1	9.2	6.3	9.4	6.9	**9.1**	**9.7**	**9.8**	*12.2*	*13.0*
Ireland	:	7.5	10.6	11.8	10.3	10.9	10.7	**10.7**	**10.8**	**10.8**	*9.0*	*8.4*
Greece	8.1	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Spain	11.2	10.0	9.7	8.6	9.6	9.0	8.2	**8.4**	**8.4**	**8.4**	*9.5*	*9.6*
France	15.0	15.1	15.2	14.7	14.0	14.1	14.1	**14.3**	**14.1**	**14.1**	*14.9*	*14.8*
Italy	15.0	14.7	12.6	9.5	11.0	11.1	10.4	**10.7**	**11.0**	**11.3**	*10.7*	*10.7*
Cyprus	6.6	7.8	6.5	3.6	-3.3	-7.9	-5.7	**-2.5**	**-1.3**	**-0.7**	*-6.2*	*-5.6*
Latvia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Lithuania	4.8	4.8	2.6	1.8	2.1	-0.6	-1.9	**-0.9**	**0.4**	**1.4**	*:*	*:*
Luxembourg	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Malta	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Netherlands	13.8	12.8	12.5	14.1	14.1	13.1	12.7	**13.4**	**13.2**	**12.8**	*14.7*	*14.3*
Austria	15.6	15.0	15.6	14.0	12.6	12.6	13.0	**14.1**	**13.2**	**12.3**	*14.2*	*13.5*
Portugal	11.1	9.6	8.2	7.7	7.8	5.2	4.4	**4.5**	**4.3**	**4.1**	*4.4*	*4.3*
Slovenia	12.7	14.6	14.3	10.8	13.4	13.3	14.8	**17.2**	**16.0**	**15.5**	*14.5*	*12.9*
Slovakia	11.5	6.9	6.9	6.2	5.9	7.2	8.8	**9.6**	**8.5**	**8.3**	*10.5*	*10.3*
Finland	9.2	8.4	8.5	7.8	8.6	7.2	6.8	**6.4**	**6.0**	**5.5**	*7.3*	*7.1*
Euro area	:	14.0	13.4	12.3	12.5	12.5	12.5	**12.8**	**12.7**	**12.6**	*13.1*	*12.9*
Bulgaria	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Czech Republic	11.4	11.1	12.1	11.1	10.9	11.8	11.8	**12.3**	**12.3**	**12.2**	*10.4*	*10.4*
Denmark	3.8	6.5	6.8	7.5	7.9	4.4	11.0	**10.7**	**13.8**	**13.9**	*13.9*	*13.3*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	13.4	9.2	8.5	8.2	9.8	10.9	9.6	**8.6**	**6.5**	**6.4**	*9.1*	*7.5*
Poland	14.4	7.8	4.0	1.5	2.5	1.9	2.1	**2.8**	**2.4**	**2.5**	*4.0*	*2.5*
Romania	0.4	-9.6	-5.5	-14.6	13.3	-14.6	-13.2	**-9.1**	**-6.8**	**-4.8**	*-12.8*	*-11.3*
Sweden	6.6	9.5	14.5	17.9	17.7	18.3	18.7	**18.6**	**18.0**	**17.2**	*17.8*	*17.5*
United Kingdom	9.5	7.5	8.3	8.3	6.7	6.8	6.1	**5.7**	**4.5**	**4.2**	*4.2*	*3.9*
EU	:	11.9	11.5	10.9	10.9	10.3	10.1	**10.4**	**10.3**	**10.1**	*10.4*	*10.2*
USA	10.1	9.8	10.9	12.9	10.3	10.4	11.2	**11.1**	**10.8**	**10.5**	*9.8*	*9.5*
Japan	14.2	9.1	8.5	7.7	6.5	6.1	7.9	**8.9**	**9.2**	**9.0**	*9.4*	*8.8*

Table 46: Gross saving, general government (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	2.3	2.1	0.1	-0.2	0.1	0.1	0.1	**-0.4**	**0.2**	**0.1**	*-0.3*	*0.2*
Germany	1.0	-0.2	1.7	2.9	2.7	3.2	3.3	**3.3**	**3.1**	**3.2**	*2.9*	*2.8*
Estonia	4.7	6.6	4.6	5.0	4.5	5.6	5.0	**5.0**	**4.7**	**4.9**	*4.6*	*4.6*
Ireland	5.4	4.5	-3.4	-5.4	-3.8	-1.3	1.0	**1.2**	**1.7**	**1.9**	*1.0*	*1.4*
Greece	-0.8	-1.8	-7.0	-4.4	-0.3	-1.3	-0.6	**0.2**	**1.9**	**3.4**	*0.2*	*1.8*
Spain	2.6	5.3	-0.8	-3.7	-4.0	-3.5	-2.7	**-2.4**	**-1.7**	**-1.1**	*-1.6*	*-0.8*
France	2.5	1.2	0.0	0.1	0.8	0.7	0.6	**0.6**	**1.0**	**1.0**	*0.5*	*0.6*
Italy	1.0	0.4	0.5	0.7	0.1	0.3	1.2	**0.7**	**0.8**	**1.0**	*0.6*	*1.2*
Cyprus	0.6	0.4	2.2	-2.0	-1.5	3.0	2.6	**2.4**	**2.3**	**2.6**	*2.4*	*2.8*
Latvia	1.5	2.7	-0.4	2.5	2.2	1.8	1.9	**1.7**	**1.6**	**1.3**	*1.6*	*2.1*
Lithuania	1.4	2.4	-1.3	-1.0	0.0	1.4	2.3	**2.0**	**1.3**	**1.3**	*2.1*	*2.4*
Luxembourg	8.9	6.5	6.6	5.3	5.3	5.8	6.1	**6.1**	**4.7**	**4.8**	*5.8*	*4.8*
Malta	-3.2	-1.4	-1.0	-1.4	-0.5	0.2	1.1	**2.0**	**1.9**	**1.7**	*1.6*	*1.2*
Netherlands	3.5	2.4	1.4	0.1	1.0	1.3	1.6	**2.9**	**3.2**	**3.2**	*2.2*	*2.7*
Austria	2.1	2.0	1.3	1.9	2.1	2.5	3.0	**2.0**	**2.1**	**2.5**	*2.2*	*2.1*
Portugal	0.9	-1.3	-3.2	-4.2	-2.8	-2.0	-0.9	**-1.2**	**-0.6**	**-0.4**	*-1.2*	*-0.9*
Slovenia	2.1	2.7	1.2	-0.1	-0.2	0.5	1.5	**0.3**	**0.6**	**1.0**	*0.7*	*1.1*
Slovakia	1.2	0.7	-1.0	-1.4	-0.1	0.3	2.0	**1.9**	**2.4**	**3.3**	*1.2*	*1.5*
Finland	6.8	6.6	4.3	1.8	1.4	1.0	1.2	**1.6**	**1.5**	**1.9**	*1.5*	*1.8*
Euro area	1.9	1.3	0.4	0.4	0.6	0.9	1.3	**1.3**	**1.5**	**1.7**	*1.2*	*1.5*
Bulgaria	4.2	4.4	3.0	2.0	1.8	0.8	1.2	**2.6**	**3.1**	**3.2**	*2.2*	*2.2*
Czech Republic	3.7	3.4	1.9	2.2	2.4	2.1	3.3	**3.0**	**2.8**	**2.8**	*2.8*	*3.1*
Denmark	3.4	5.0	3.5	1.9	3.0	5.8	2.5	**3.0**	**1.7**	**2.2**	*1.4*	*1.8*
Croatia	:	3.5	1.6	-1.4	-0.7	-0.8	0.1	**1.3**	**1.6**	**2.0**	*0.5*	*1.1*
Hungary	1.0	-1.9	-0.7	0.9	0.7	1.7	3.5	**2.9**	**3.9**	**3.9**	*3.0*	*3.3*
Poland	-0.3	-1.0	0.0	0.1	-0.6	0.2	1.1	**0.8**	**0.6**	**0.3**	*0.5*	*0.5*
Romania	-0.5	3.5	0.5	1.2	2.1	2.2	3.1	**1.1**	**0.6**	**0.8**	*0.8*	*0.0*
Sweden	5.1	4.4	5.2	3.4	2.9	2.9	4.4	**4.4**	**4.4**	**4.5**	*4.0*	*3.8*
United Kingdom	2.2	-0.2	-3.2	-4.5	-2.7	-2.6	-1.3	**-0.4**	**0.2**	**0.6**	*-0.4*	*0.6*
EU	:	1.2	0.1	-0.2	0.2	0.5	1.0	**1.2**	**1.4**	**1.6**	*1.0*	*1.4*
USA	2.8	-0.9	-4.8	-5.2	-2.0	-1.7	-1.5	**-1.6**	**-1.2**	**-1.0**	*-1.1*	*-1.1*
Japan	1.0	-1.4	-3.2	-5.0	-3.4	-2.3	-1.7	**-1.5**	**-1.4**	**-1.4**	*-1.1*	*-0.8*

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	6.2	4.3	2.8	1.8	0.8	5.1	4.3	**3.7**	**3.9**	**4.4**	*4.1*	*5.1*
Germany	8.9	7.2	3.4	2.8	1.9	4.1	5.2	**2.6**	**2.8**	**4.2**	*2.3*	*4.8*
Estonia	7.1	11.8	6.9	4.8	2.3	3.1	-0.6	**2.7**	**3.3**	**3.5**	*1.8*	*3.6*
Ireland	18.1	4.5	3.6	2.4	3.1	14.4	34.4	**2.8**	**4.2**	**4.8**	*6.9*	*6.6*
Greece	14.4	3.5	-0.4	1.2	1.5	7.8	3.4	**-4.0**	**3.6**	**4.7**	*0.5*	*4.2*
Spain	8.9	3.1	2.3	1.1	4.3	4.2	4.9	**6.1**	**4.5**	**4.4**	*4.5*	*5.2*
France	8.3	3.0	1.3	2.5	1.9	3.3	6.1	**1.0**	**3.1**	**4.0**	*4.1*	*4.8*
Italy	4.2	2.6	-0.2	2.3	0.7	2.9	4.3	**1.7**	**2.8**	**3.3**	*2.4*	*4.0*
Cyprus	3.9	-0.1	2.1	-2.7	2.1	4.2	0.0	**5.5**	**4.6**	**3.9**	*2.4*	*2.6*
Latvia	6.6	10.5	5.2	9.8	1.1	3.9	2.6	**2.0**	**2.6**	**3.1**	*1.2*	*2.8*
Lithuania	8.1	13.2	6.9	12.2	9.6	3.5	-0.4	**4.1**	**2.8**	**3.4**	*3.1*	*3.8*
Luxembourg	10.7	6.8	2.3	2.7	6.3	12.1	12.8	**2.7**	**3.9**	**4.3**	*4.3*	*4.9*
Malta	4.3	4.9	7.5	7.2	0.1	-0.2	2.1	**2.0**	**3.7**	**3.9**	*3.4*	*4.0*
Netherlands	7.8	4.7	2.5	3.8	2.1	4.5	5.0	**3.4**	**3.5**	**3.6**	*4.5*	*4.4*
Austria	8.9	5.4	2.4	1.7	0.5	2.3	3.6	**2.7**	**2.9**	**3.2**	*2.6*	*3.6*
Portugal	5.9	4.7	2.4	3.4	7.0	4.3	6.1	**2.8**	**3.7**	**4.1**	*4.1*	*5.1*
Slovenia	8.2	9.8	3.1	0.6	3.1	5.7	5.6	**6.2**	**4.0**	**4.6**	*3.9*	*4.9*
Slovakia	7.0	16.3	5.0	9.3	6.7	3.7	7.0	**5.2**	**5.2**	**6.4**	*4.3*	*5.9*
Finland	10.2	5.6	0.1	1.2	1.1	-1.7	-0.2	**-0.7**	**1.8**	**3.0**	*1.2*	*2.5*
Euro area	8.2	4.9	2.3	2.7	2.1	4.5	6.5	**2.7**	**3.3**	**4.1**	*3.5*	*4.7*
Bulgaria	-9.4	11.1	6.2	2.0	9.6	3.1	5.7	**5.0**	**4.5**	**4.6**	*4.6*	*5.0*
Czech Republic	9.3	14.0	5.5	4.3	0.2	8.7	7.7	**5.1**	**4.4**	**4.7**	*5.7*	*5.4*
Denmark	7.1	4.7	1.1	0.6	0.9	3.1	0.3	**0.5**	**3.0**	**3.5**	*1.5*	*4.2*
Croatia	7.1	6.3	-0.6	-0.1	3.1	7.6	10.0	**6.0**	**3.5**	**4.0**	*5.7*	*4.2*
Hungary	16.6	12.3	5.5	-1.8	4.2	9.8	7.7	**6.7**	**5.1**	**6.4**	*6.2*	*6.4*
Poland	9.7	9.8	6.2	4.6	6.1	6.7	7.7	**8.3**	**6.3**	**6.5**	*6.2*	*6.6*
Romania	11.1	11.6	5.0	1.0	19.7	8.0	5.5	**5.2**	**5.2**	**5.9**	*4.5*	*4.8*
Sweden	8.4	6.2	1.6	1.0	-0.8	5.3	5.6	**2.3**	**3.4**	**3.8**	*4.1*	*4.3*
United Kingdom	5.1	6.1	0.3	0.6	1.1	1.5	4.5	**3.1**	**3.3**	**3.8**	*2.5*	*2.8*
EU	7.8	5.5	2.3	2.3	2.2	4.4	6.2	**3.0**	**3.5**	**4.2**	*3.5*	*4.6*
USA	3.7	4.9	4.7	3.4	3.5	4.3	0.1	**0.3**	**3.6**	**3.7**	*1.0*	*3.5*
Japan	2.9	9.5	0.8	-0.2	1.2	8.3	2.8	**-1.0**	**0.8**	**1.0**	*2.0*	*3.0*

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	5.7	3.9	3.2	1.4	0.3	5.9	4.3	**2.9**	**3.9**	**4.4**	*3.6*	*5.0*
Germany	7.7	5.5	3.5	-0.1	3.1	4.0	5.5	**2.8**	**3.9**	**5.4**	*4.4*	*6.1*
Estonia	7.9	16.1	2.6	9.7	3.2	2.2	-1.4	**4.9**	**4.2**	**4.0**	*2.8*	*3.9*
Ireland	18.2	5.2	1.6	5.4	1.1	15.3	21.7	**4.9**	**4.4**	**4.7**	*7.7*	*7.4*
Greece	12.2	4.4	-4.0	-9.1	-2.4	7.6	0.3	**-2.8**	**3.0**	**4.2**	*-0.1*	*3.8*
Spain	10.7	6.9	-2.4	-6.4	-0.5	6.5	5.6	**5.8**	**4.3**	**4.1**	*5.8*	*5.8*
France	8.8	4.2	2.3	0.7	2.1	4.7	6.6	**2.8**	**3.8**	**4.9**	*4.8*	*4.7*
Italy	7.1	3.5	0.0	-8.1	-2.4	3.3	6.0	**2.4**	**3.8**	**4.7**	*3.8*	*4.7*
Cyprus	2.6	2.5	2.0	-4.4	-4.8	4.6	2.1	**5.7**	**4.7**	**3.6**	*2.9*	*2.0*
Latvia	6.6	14.6	-0.4	5.4	-0.2	0.5	2.1	**3.1**	**4.1**	**4.5**	*2.5*	*3.8*
Lithuania	8.4	15.9	3.9	6.6	9.3	3.3	6.2	**0.9**	**4.5**	**3.2**	*4.0*	*4.7*
Luxembourg	10.7	7.0	2.7	4.6	5.3	13.1	14.0	**2.4**	**3.9**	**4.4**	*4.1*	*4.8*
Malta	2.2	5.6	6.8	5.3	-0.9	-0.4	5.6	**2.1**	**4.1**	**2.4**	*3.0*	*4.5*
Netherlands	8.5	4.4	2.4	2.7	1.0	4.2	5.8	**3.7**	**4.4**	**4.2**	*6.2*	*5.3*
Austria	6.5	4.6	2.2	1.1	0.7	1.3	3.4	**3.3**	**2.7**	**2.5**	*2.7*	*3.2*
Portugal	8.1	3.3	-0.2	-6.3	4.7	7.8	8.2	**3.3**	**4.1**	**4.3**	*4.3*	*5.6*
Slovenia	8.0	9.1	2.0	-3.7	2.1	4.2	4.6	**6.0**	**4.5**	**5.4**	*3.7*	*5.8*
Slovakia	5.9	13.9	3.0	2.5	5.6	4.4	8.1	**4.0**	**5.6**	**6.0**	*3.5*	*6.5*
Finland	8.1	6.8	1.7	1.6	0.5	-0.2	1.9	**1.2**	**2.3**	**2.6**	*2.0*	*2.4*
Euro area	8.4	5.0	1.8	-0.8	1.4	4.9	6.4	**3.2**	**4.0**	**4.7**	*4.6*	*5.3*
Bulgaria	2.9	15.4	1.9	5.5	4.3	5.2	5.4	**3.3**	**4.3**	**4.6**	*3.1*	*4.1*
Czech Republic	8.3	12.5	4.9	2.7	0.1	10.1	8.2	**4.4**	**4.3**	**4.8**	*5.8*	*5.7*
Denmark	7.0	7.4	0.9	1.8	1.1	3.3	0.0	**1.3**	**3.4**	**4.1**	*3.2*	*4.4*
Croatia	5.9	9.6	-2.6	-3.0	3.1	4.5	9.4	**6.6**	**4.6**	**5.0**	*5.8*	*4.7*
Hungary	17.6	11.7	3.5	-3.5	4.5	10.9	6.1	**6.2**	**6.6**	**7.2**	*6.0*	*6.6*
Poland	9.7	8.9	6.1	-0.3	1.7	10.0	6.6	**8.2**	**7.0**	**6.8**	*7.1*	*7.4*
Romania	13.1	17.8	4.9	-1.8	8.8	8.7	8.8	**11.2**	**8.1**	**7.2**	*9.8*	*7.6*
Sweden	7.6	4.8	3.0	0.5	-0.1	6.3	5.5	**4.1**	**3.8**	**3.5**	*4.3*	*4.6*
United Kingdom	7.8	6.3	-0.8	2.9	3.4	2.5	5.4	**3.6**	**1.7**	**1.0**	*4.0*	*3.0*
EU	8.3	5.7	1.7	-0.2	1.7	5.0	6.2	**3.6**	**3.9**	**4.3**	*4.7*	*5.1*
USA	8.9	6.4	0.5	2.2	1.1	4.4	4.6	**1.2**	**4.1**	**4.0**	*3.7*	*5.1*
Japan	1.7	4.2	0.4	5.3	3.1	7.2	0.3	**-0.7**	**1.8**	**0.9**	*0.6*	*2.0*

Table 49: Merchandise trade balance¹ (fob-fob, as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	2.4	3.5	-0.2	-1.3	-0.7	-0.7	0.3	**0.0**	**-0.5**	**-0.5**	*1.4*	*1.1*
Germany	3.6	6.5	6.7	7.3	7.5	7.7	8.7	**9.0**	**8.8**	**8.6**	*8.7*	*8.5*
Estonia	-18.6	-17.0	-7.7	-7.1	-5.2	-5.1	-4.3	**-3.5**	**-3.9**	**-4.2**	*-4.6*	*-4.8*
Ireland	22.7	21.1	20.7	21.0	19.1	21.1	43.2	**41.8**	**42.0**	**43.1**	*30.7*	*31.7*
Greece	-13.8	-15.6	-15.5	-10.9	-9.8	-10.8	-9.1	**-8.6**	**-8.9**	**-9.0**	*-7.6*	*-7.8*
Spain	:	-6.6	-5.8	-2.8	-1.4	-2.2	-2.0	**-1.9**	**-2.1**	**-2.2**	*-1.9*	*-2.4*
France	1.2	-0.2	-2.1	-2.5	-2.0	-1.7	-1.0	**-1.2**	**-1.5**	**-1.7**	*-0.4*	*-0.3*
Italy	1.9	0.3	-0.5	1.0	2.2	2.9	3.2	**3.7**	**3.4**	**3.1**	*3.5*	*3.4*
Cyprus	-24.7	-24.2	-24.5	-18.0	-16.2	-16.0	-18.0	**-19.7**	**-21.2**	**-21.6**	*-18.4*	*-18.6*
Latvia	-16.3	-20.9	-14.1	-12.1	-11.2	-9.3	-8.4	**-7.5**	**-8.6**	**-9.3**	*-8.8*	*-9.3*
Lithuania	:		-9.1	-3.3	-2.6	-2.6	-5.3	**-3.9**	**-5.5**	**-5.1**	*-5.2*	*-6.1*
Luxembourg	:	-8.6	-2.8	-3.3	-1.0	1.3	3.4	**3.1**	**2.9**	**3.2**	*0.4*	*1.0*
Malta	-17.0	-14.0	-18.0	-14.2	-13.3	-12.8	-19.4	**-22.0**	**-22.5**	**-20.9**	*-15.3*	*-15.6*
Netherlands	7.0	9.1	9.5	11.0	11.5	11.5	11.3	**10.7**	**10.3**	**10.0**	*11.2*	*10.9*
Austria	-1.8	0.3	-0.3	-1.0	-0.5	0.2	0.6	**0.6**	**0.5**	**0.7**	*0.9*	*1.0*
Portugal	-11.3	-10.5	-10.5	-5.0	-4.0	-4.7	-4.3	**-3.6**	**-3.4**	**-3.3**	*-4.0*	*-4.1*
Slovenia	-5.2	-3.0	-2.9	0.1	0.8	2.9	3.9	**4.7**	**4.3**	**3.8**	*4.6*	*4.5*
Slovakia	-9.7	-6.2	-1.1	3.1	3.7	3.4	2.3	**3.0**	**2.7**	**3.0**	*3.2*	*2.7*
Finland	9.4	6.1	2.1	-0.4	0.1	0.2	0.5	**0.2**	**0.0**	**0.0**	*1.2*	*1.1*
Euro area	1.7	1.6	0.9	2.0	2.7	2.9	4.2	**4.2**	**4.0**	**3.9**	*4.0*	*3.9*
Euro area, adjusted²	:	0.7	0.3	1.3	2.1	2.4	3.4	**3.5**	**3.3**	**3.2**	*3.2*	*3.2*
Bulgaria	:			-9.5	-7.0	-6.5	-5.8	**-4.7**	**-5.1**	**-5.3**	*-3.3*	*-3.1*
Czech Republic	-7.7	-2.4	1.0	3.0	4.1	5.1	4.5	**5.1**	**5.3**	**5.4**	*5.1*	*5.2*
Denmark	3.3	3.1	1.9	2.7	2.7	2.2	2.9	**3.3**	**3.5**	**3.6**	*2.5*	*2.3*
Croatia	:	-21.5	-17.7	-14.3	-15.1	-14.8	-15.2	**-15.4**	**-15.6**	**-16.2**	*-15.3*	*-15.7*
Hungary	-7.2	-3.9	1.3	2.9	3.3	2.3	4.0	**4.7**	**3.7**	**3.4**	*4.4*	*4.3*
Poland	-6.4	-2.9	-4.1	-2.1	-0.1	-0.8	0.5	**0.8**	**0.4**	**0.0**	*0.3*	*-0.3*
Romania	-5.6	-8.7	-10.1	-5.8	-4.0	-4.3	-4.8	**-6.4**	**-7.1**	**-7.6**	*-5.9*	*-7.0*
Sweden	7.9	7.3	4.8	3.7	3.2	3.1	3.0	**2.7**	**2.6**	**2.6**	*3.5*	*3.4*
United Kingdom	-2.7	-4.7	-5.9	-6.6	-6.9	-6.7	-6.8	**-8.0**	**-8.3**	**-7.8**	*-6.9*	*-6.8*
EU	0.9	0.4	-0.3	0.5	1.0	1.1	1.9	**2.0**	**1.8**	**1.8**	*1.9*	*1.8*
EU, adjusted²	:	-0.6	-1.1	-0.2	0.3	0.3	0.9	**1.0**	**0.9**	**0.9**	*0.9*	*0.8*
USA	-3.4	-5.4	-4.9	-4.8	-4.4	-4.5	-4.4	**-4.2**	**-4.4**	**-4.6**	*-4.3*	*-4.6*
Japan	2.4	2.3	1.1	-1.2	-2.2	-2.5	-0.8	**0.0**	**-0.1**	**0.0**	*-0.4*	*-0.3*

Table 50: Current-account balance¹ (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			*Spring 2016 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	4.4	4.6	2.0	1.5	1.1	-0.1	0.2	**0.6**	**0.6**	**0.6**	*1.8*	*1.9*
Germany	-0.9	3.6	6.0	7.1	6.9	7.5	8.5	**9.0**	**8.7**	**8.5**	*8.5*	*8.3*
Estonia	-8.0	-12.5	-3.7	-1.9	-0.2	1.0	2.1	**1.8**	**1.6**	**1.5**	*0.9*	*1.6*
Ireland	0.9	-1.7	-4.0	-2.6	2.1	1.7	10.2	**7.9**	**7.7**	**7.4**	*4.6*	*4.6*
Greece	-7.0	-10.1	-13.1	-4.2	-2.2	-2.6	0.0	**0.0**	**0.2**	**0.3**	*0.6*	*1.3*
Spain	-2.6	-6.0	-6.1	-0.4	1.5	1.0	1.3	**1.7**	**1.5**	**1.5**	*1.5*	*1.3*
France	2.2	0.3	-1.6	-2.9	-2.9	-3.2	-2.0	**-2.1**	**-2.3**	**-2.6**	*-1.1*	*-1.0*
Italy	1.0	-0.8	-2.5	-0.4	1.0	1.9	1.6	**2.8**	**2.5**	**2.1**	*2.4*	*2.3*
Cyprus	-1.9	-10.9	-13.3	-5.9	-4.9	-4.4	-3.0	**-2.8**	**-3.3**	**-3.4**	*-4.2*	*-4.6*
Latvia	-8.1	-12.5	-5.4	-3.5	-2.1	-2.0	-0.8	**0.0**	**-1.2**	**-1.9**	*-2.6*	*-2.4*
Lithuania	-8.5	-7.3	-6.0	-0.9	1.4	3.8	-2.2	**0.1**	**-1.2**	**-0.7**	*0.0*	*0.1*
Luxembourg	9.5	9.8	7.5	5.9	5.6	5.1	5.2	**5.6**	**5.6**	**5.8**	*5.3*	*4.8*
Malta	-6.1	-3.7	-2.9	1.4	2.8	7.1	2.6	**2.0**	**1.7**	**3.7**	*5.6*	*4.4*
Netherlands	5.3	7.2	7.3	10.2	10.2	8.5	8.5	**8.5**	**8.0**	**7.7**	*8.9*	*8.2*
Austria	-1.5	2.0	2.9	1.7	1.6	2.6	2.5	**2.8**	**2.9**	**3.3**	*3.1*	*3.3*
Portugal	-8.8	-9.2	-9.7	-2.0	0.7	-0.3	-0.3	**0.5**	**0.8**	**1.2**	*0.3*	*0.5*
Slovenia	-2.5	-1.6	-2.2	2.1	3.6	6.2	5.4	**7.4**	**7.0**	**6.4**	*7.0*	*6.9*
Slovakia	-6.4	-7.5	-5.2	0.4	1.5	0.6	0.1	**0.6**	**0.1**	**0.6**	*-0.6*	*-1.1*
Finland	6.4	5.2	1.8	-1.9	-1.9	-1.3	-0.8	**-0.8**	**-0.9**	**-0.7**	*0.3*	*0.4*
Euro area	0.4	0.6	0.2	1.9	2.4	2.5	3.3	**3.7**	**3.5**	**3.3**	*3.7*	*3.6*
Euro area, adjusted²	:	0.2	-0.1	1.3	2.2	2.4	3.1	**3.5**	**3.2**	**3.1**	*3.3*	*3.2*
Bulgaria	0.3	-8.6	-11.1	-0.9	1.2	0.0	0.4	**2.0**	**1.0**	**0.6**	*2.3*	*2.7*
Czech Republic	-3.4	-3.9	-4.7	-2.2	-1.1	-1.2	-1.2	**-0.8**	**-0.7**	**-0.7**	*-1.5*	*-1.3*
Denmark	2.2	3.6	3.8	5.7	7.1	7.7	7.0	**6.5**	**6.4**	**6.3**	*6.3*	*6.2*
Croatia	-4.3	-5.6	-4.5	0.5	1.6	1.1	5.3	**3.0**	**2.4**	**1.8**	*4.4*	*4.0*
Hungary	-6.3	-8.2	-2.7	1.8	3.8	2.0	3.1	**4.1**	**3.1**	**4.1**	*5.0*	*4.5*
Poland	-3.9	-3.4	-5.2	-3.3	-0.5	-1.1	0.9	**0.8**	**0.2**	**-0.1**	*-0.3*	*-0.9*
Romania	-5.4	-6.8	-7.6	-4.3	-0.6	0.0	-1.1	**-2.2**	**-2.6**	**-2.8**	*-2.1*	*-2.8*
Sweden	4.6	7.0	7.1	5.7	5.1	4.8	5.4	**5.0**	**4.9**	**4.9**	*5.8*	*5.7*
United Kingdom	-1.4	-1.8	-2.7	-3.7	-4.4	-4.7	-5.4	**-5.6**	**-4.9**	**-3.3**	*-4.9*	*-4.4*
EU	0.0	0.1	-0.3	0.9	1.4	1.4	1.8	**2.1**	**2.1**	**2.2**	*2.2*	*2.1*
EU, adjusted²	:	-0.6	-0.9	0.6	1.1	0.9	1.1	**1.5**	**1.5**	**1.6**	*1.3*	*1.3*
USA	-2.9	-5.0	-3.7	-2.9	-2.3	-2.3	-2.6	**-2.5**	**-2.6**	**-2.7**	*-2.8*	*-3.1*
Japan	2.5	3.5	3.4	1.1	0.7	0.5	3.2	**3.7**	**3.7**	**3.7**	*3.9*	*4.1*

Table 51: Net lending (+) or net borrowing (-) of the nation[1] (as a percentage of GDP, 1997-2018) 31.10.2016

	5-year averages							Autumn 2016 forecast			Spring 2016 forecast	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	4.3	4.6	1.8	2.2	1.0	-0.4	0.2	**0.5**	**0.7**	**0.7**	*1.5*	*1.7*
Germany	-0.9	3.6	6.0	7.1	6.8	7.5	8.4	**8.9**	**8.6**	**8.4**	*8.5*	*8.2*
Estonia	-7.6	-11.5	-1.0	1.5	2.4	2.1	4.2	**3.2**	**3.1**	**3.0**	*2.1*	*3.1*
Ireland	1.8	-1.4	-4.0	-2.6	1.6	-1.8	9.7	**8.2**	**8.0**	**7.7**	*4.7*	*4.8*
Greece	-5.3	-8.7	-11.4	-2.4	0.5	-0.6	2.1	**1.9**	**2.1**	**2.1**	*2.6*	*3.2*
Spain	-1.7	-5.1	-5.6	0.1	2.1	1.5	2.0	**2.6**	**2.4**	**2.4**	*2.3*	*2.1*
France	2.2	0.2	-1.6	-3.1	-2.8	-3.2	-2.0	**-1.8**	**-2.1**	**-2.3**	*-0.5*	*-0.5*
Italy	1.2	-0.7	-2.5	-0.1	1.0	2.1	1.8	**2.9**	**2.7**	**2.3**	*2.5*	*2.4*
Cyprus	-1.8	-10.3	-13.0	-5.8	-3.5	-3.5	-2.7	**-2.5**	**-2.9**	**-3.1**	*-3.6*	*-3.9*
Latvia	-7.8	-11.7	-3.4	-0.5	0.4	1.2	2.0	**2.0**	**1.0**	**0.2**	*0.0*	*0.1*
Lithuania	-8.5	-6.5	-3.0	1.9	4.5	6.5	0.8	**1.2**	**0.5**	**1.1**	*2.4*	*2.7*
Luxembourg	:	9.8	6.9	4.9	3.8	2.9	4.1	**6.1**	**6.1**	**6.4**	*5.8*	*5.3*
Malta	-5.7	-2.2	-1.7	3.3	4.5	8.9	4.4	**3.7**	**3.4**	**5.2**	*7.3*	*6.0*
Netherlands	5.1	7.2	6.8	9.2	10.0	8.4	3.5	**8.1**	**7.8**	**7.6**	*7.8*	*7.0*
Austria	-1.7	1.9	2.8	1.6	1.5	2.4	2.0	**2.7**	**2.7**	**2.8**	*3.1*	*3.3*
Portugal	-6.9	-7.5	-8.5	0.0	2.3	1.0	0.9	**1.6**	**2.0**	**2.3**	*1.5*	*1.7*
Slovenia	-2.5	-1.9	-1.7	2.6	4.1	6.6	6.4	**7.7**	**7.5**	**7.1**	*7.5*	*7.6*
Slovakia	-6.5	-7.9	-4.1	1.9	3.1	1.6	2.2	**0.3**	**0.3**	**0.8**	*-0.9*	*-1.1*
Finland	6.5	5.3	1.9	-1.8	-1.8	-1.2	-0.8	**-0.7**	**-0.6**	**-0.4**	*0.3*	*0.2*
Euro area	:	0.7	0.3	2.0	2.6	2.6	3.2	**3.9**	**3.7**	**3.5**	*3.9*	*3.8*
Euro area, adjusted[2]	:	0.3	0.0	1.4	2.3	2.4	2.9	**3.7**	**3.5**	**3.3**	*3.5*	*3.4*
Bulgaria	0.3	-8.1	-10.7	0.4	2.3	2.2	-1.5	**0.3**	**-0.5**	**-0.8**	*3.5*	*3.8*
Czech Republic	-3.3	-3.7	-3.2	-1.2	1.1	0.5	1.9	**1.2**	**1.2**	**1.2**	*0.3*	*0.5*
Denmark	2.3	3.7	3.8	5.7	7.1	7.7	7.0	**6.7**	**6.4**	**6.3**	*5.7*	*5.8*
Croatia	-4.3	-5.6	-4.4	0.6	1.6	1.1	5.8	**3.9**	**3.5**	**3.1**	*5.0*	*4.7*
Hungary	-6.2	-7.8	-1.2	4.3	7.4	5.8	7.8	**6.9**	**6.1**	**7.7**	*7.7*	*7.7*
Poland	-3.9	-3.1	-4.0	-1.2	1.5	0.5	2.8	**2.3**	**2.1**	**2.1**	*0.9*	*0.4*
Romania	-5.2	-6.4	-7.2	-2.9	1.5	2.7	1.9	**-0.8**	**-0.5**	**-0.6**	*0.1*	*-0.7*
Sweden	4.3	6.8	7.0	5.5	4.9	4.7	5.2	**4.6**	**4.5**	**4.6**	*5.6*	*5.5*
United Kingdom	-1.4	-1.8	-2.7	-3.7	-4.4	-4.7	-5.4	**-5.6**	**-5.0**	**-3.4**	*-5.0*	*-4.5*
EU	:	0.2	-0.2	1.1	1.6	1.5	1.8	**2.4**	**2.4**	**2.5**	*2.4*	*2.4*
EU, adjusted[2]	:	-0.5	-0.7	0.8	1.3	1.1	1.1	**1.7**	**1.8**	**1.9**	*1.5*	*1.5*
USA	-2.8	-5.0	-3.7	-2.9	-2.3	-2.3	-2.6	**-2.5**	**-2.6**	**-2.7**	*-2.8*	*-3.1*
Japan	2.3	3.4	3.3	1.0	0.5	0.5	3.2	**3.7**	**3.6**	**3.7**	*3.8*	*4.0*

Table 52: Current-account balance[1] (in billions of euro, 2009-18) 31.10.2016

								Autumn 2016 forecast			Spring 2016 forecast	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	3.0	13.5	0.9	5.9	4.2	-0.5	0.7	**2.5**	**2.4**	**2.6**	*7.6*	*8.3*
Germany	144.6	148.2	167.3	197.0	194.0	219.3	257.1	**281.3**	**280.9**	**283.6**	*265.7*	*267.5*
Estonia	0.4	0.3	0.2	-0.3	0.0	0.2	0.4	**0.4**	**0.4**	**0.3**	*0.2*	*0.4*
Ireland	-7.9	-2.0	-2.8	-4.6	3.9	3.2	26.2	**21.0**	**21.5**	**21.6**	*10.5*	*11.1*
Greece	-29.7	-25.6	-21.3	-8.1	-4.0	-4.6	0.0	**-0.1**	**0.4**	**0.6**	*1.1*	*2.3*
Spain	-46.5	-42.0	-35.3	-4.6	15.0	10.4	14.3	**18.7**	**17.4**	**18.1**	*17.3*	*15.6*
France	-31.2	-34.9	-46.0	-61.2	-60.4	-68.3	-42.9	**-45.7**	**-53.1**	**-60.4**	*-24.8*	*-24.1*
Italy	-29.7	-54.8	-49.3	-5.8	15.4	30.5	26.6	**46.1**	**41.9**	**36.8**	*39.4*	*38.6*
Cyprus	-1.4	-2.2	-0.8	-1.2	-0.9	-0.8	-0.5	**-0.5**	**-0.6**	**-0.6**	*-0.7*	*-0.8*
Latvia	1.5	0.4	-0.6	-0.8	-0.5	-0.5	-0.2	**0.0**	**-0.3**	**-0.5**	*-0.7*	*-0.7*
Lithuania	0.6	-0.1	-1.2	-0.3	0.5	1.4	-0.8	**0.1**	**-0.5**	**-0.3**	*0.0*	*0.1*
Luxembourg	2.7	2.7	2.6	2.6	2.6	2.5	2.7	**3.0**	**3.2**	**3.5**	*2.9*	*2.8*
Malta	-0.4	-0.3	0.0	0.1	0.2	0.6	0.2	**0.2**	**0.2**	**0.4**	*0.5*	*0.4*
Netherlands	38.5	48.3	56.9	65.6	66.7	56.5	57.4	**58.3**	**56.7**	**56.0**	*62.4*	*58.9*
Austria	5.9	9.3	5.8	5.4	5.2	8.4	8.4	**9.9**	**10.4**	**12.2**	*10.9*	*11.7*
Portugal	-17.7	-18.5	-9.6	-3.4	1.3	-0.4	-0.5	**0.9**	**1.6**	**2.3**	*0.6*	*1.0*
Slovenia	-0.3	-0.2	0.0	0.8	1.3	2.3	2.1	**3.0**	**2.9**	**2.8**	*2.8*	*2.9*
Slovakia	-2.2	-3.2	-3.9	0.3	1.1	0.5	0.1	**0.5**	**0.0**	**0.5**	*-0.5*	*-0.9*
Finland	3.7	2.7	-2.9	-3.8	-3.8	-2.7	-1.8	**-1.8**	**-1.9**	**-1.4**	*0.7*	*0.9*
Euro area	33.9	41.5	59.9	183.5	241.7	258.0	349.3	**397.7**	**383.5**	**378.0**	*395.8*	*396.1*
Euro area, adjusted[2]	13.6	23.5	22.8	125.8	216.0	241.2	323.7	**372.0**	**357.9**	**352.3**	*348.1*	*348.3*
Bulgaria	-3.1	-0.7	0.2	-0.4	0.5	0.0	0.2	**0.9**	**0.5**	**0.3**	*1.0*	*1.3*
Czech Republic	-5.7	-8.1	-7.6	-3.6	-1.7	-1.9	-2.0	**-1.4**	**-1.3**	**-1.3**	*-2.6*	*-2.3*
Denmark	7.6	13.8	14.1	14.4	18.2	20.1	18.6	**17.7**	**17.9**	**18.3**	*17.1*	*17.5*
Croatia	-2.2	-0.4	-0.3	0.2	0.7	0.5	2.3	**1.4**	**1.1**	**0.9**	*2.0*	*1.9*
Hungary	-0.7	0.3	0.9	1.8	3.9	2.1	3.4	**4.7**	**3.8**	**5.3**	*5.6*	*5.4*
Poland	-10.7	-17.4	-18.0	-12.7	-1.8	-4.7	3.8	**3.4**	**1.0**	**-0.5**	*-1.4*	*-4.3*
Romania	-4.9	-5.7	-5.8	-5.7	-0.9	0.0	-1.8	**-3.7**	**-4.6**	**-5.4**	*-3.6*	*-5.0*
Sweden	20.9	24.6	21.3	24.1	22.2	20.8	24.0	**23.4**	**23.3**	**24.6**	*27.9*	*28.8*
United Kingdom	-50.3	-50.2	-33.5	-75.8	-90.0	-105.4	-138.0	**-129.4**	**-108.0**	**-75.6**	*-118.2*	*-109.2*
EU	-15.3	-2.4	31.2	125.9	192.7	189.5	259.8	**314.7**	**317.2**	**344.5**	*323.8*	*330.1*
EU, adjusted[2]	-70.3	-44.0	-30.8	82.1	151.4	130.6	167.3	**222.2**	**224.7**	**252.1**	*196.1*	*202.4*
USA	-273.8	-336.3	-345.9	-364.4	-290.7	-302.4	-430.3	**-420.0**	**-451.3**	**-495.8**	*-457.8*	*-540.5*
Japan	105.4	156.4	88.5	49.2	24.9	18.9	119.6	**157.7**	**162.2**	**167.1**	*157.8*	*167.7*

Table 53: Export markets (a) (percentage change on preceding year, 2009-18) 31.10.2016

								Autumn 2016 forecast			*Spring 2016 forecast*	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	-10.6	10.3	5.0	1.1	1.3	3.8	4.6	**2.9**	**3.7**	**4.2**	*4.2*	*4.7*
Germany	-11.7	10.5	5.2	1.2	1.7	3.1	3.1	**2.9**	**3.7**	**3.9**	*3.7*	*4.4*
Estonia	-17.7	9.6	7.4	1.5	1.2	1.4	0.2	**2.0**	**3.3**	**3.5**	*2.6*	*3.7*
Ireland	-11.5	10.7	4.6	1.3	1.9	3.2	3.8	**2.3**	**3.5**	**3.7**	*3.9*	*4.4*
Greece	-12.4	10.4	4.9	1.1	2.1	2.8	2.5	**2.6**	**3.7**	**3.9**	*3.6*	*4.3*
Spain	-10.6	9.8	4.2	0.5	1.9	3.3	4.0	**2.4**	**3.5**	**4.0**	*3.7*	*4.5*
France	-11.1	10.3	4.9	1.0	1.9	3.8	3.8	**2.6**	**3.6**	**4.0**	*3.7*	*4.6*
Italy	-11.0	9.9	5.4	1.6	2.1	3.0	3.2	**2.8**	**3.7**	**4.1**	*3.6*	*4.5*
Cyprus	-13.6	8.1	7.4	1.3	3.5	0.8	-6.3	**0.3**	**2.8**	**3.0**	*1.8*	*3.3*
Latvia	-17.0	12.5	10.4	3.9	2.7	1.6	-0.5	**2.0**	**3.5**	**3.5**	*2.8*	*4.1*
Lithuania	-16.6	11.2	9.8	3.5	1.6	0.6	-2.3	**2.2**	**3.6**	**3.9**	*2.2*	*4.1*
Luxembourg	-11.2	10.1	4.2	0.4	1.6	5.3	5.8	**2.4**	**3.7**	**4.3**	*4.3*	*4.8*
Malta	-11.7	10.3	4.4	0.8	2.2	6.1	3.7	**2.2**	**3.2**	**3.7**	*3.4*	*4.0*
Netherlands	-11.2	10.4	5.2	0.9	1.5	4.2	4.6	**3.0**	**3.7**	**4.2**	*3.9*	*4.9*
Austria	-11.5	11.3	5.9	1.1	1.7	3.3	4.1	**2.9**	**3.9**	**4.6**	*4.0*	*5.1*
Portugal	-12.6	9.7	3.9	-0.3	1.8	4.1	4.7	**2.7**	**3.7**	**4.1**	*4.1*	*4.8*
Slovenia	-13.1	9.8	5.5	0.4	1.0	3.3	3.6	**3.5**	**4.1**	**4.6**	*3.9*	*4.9*
Slovakia	-12.3	11.7	6.2	0.8	1.3	4.7	4.5	**3.9**	**4.2**	**4.7**	*4.5*	*5.3*
Finland	-12.2	11.9	7.7	2.7	2.2	2.7	0.4	**2.3**	**3.5**	**3.7**	*3.0*	*4.2*
Euro area (b)	-11.3	10.4	5.1	1.1	1.7	3.5	3.6	**2.8**	**3.7**	**4.0**	*3.8*	*4.6*
Bulgaria	-12.8	9.4	5.6	0.0	1.6	3.4	1.7	**3.0**	**4.0**	**4.5**	*3.6*	*4.7*
Czech Republic	-12.3	11.2	5.9	1.3	1.5	3.5	3.8	**3.4**	**4.1**	**4.7**	*3.9*	*5.3*
Denmark	-11.4	11.4	5.4	1.5	1.7	4.0	3.7	**2.6**	**3.6**	**3.9**	*3.7*	*4.5*
Croatia	-12.7	10.4	5.3	-0.4	1.4	3.2	3.6	**2.9**	**3.8**	**4.3**	*3.8*	*4.7*
Hungary	-12.5	11.0	6.1	1.3	1.4	3.7	4.0	**3.5**	**4.1**	**4.6**	*4.1*	*5.2*
Poland	-12.4	11.4	6.2	1.7	1.4	3.0	3.2	**2.8**	**3.7**	**4.3**	*3.6*	*4.9*
Romania	-12.4	10.2	5.4	0.7	1.5	3.2	3.5	**2.9**	**3.8**	**4.5**	*3.7*	*4.8*
Sweden	-11.9	9.7	5.0	1.7	2.0	3.1	2.6	**2.1**	**3.4**	**3.8**	*3.3*	*4.2*
United Kingdom	-11.1	10.5	5.0	1.4	1.9	3.5	3.5	**2.3**	**3.7**	**4.0**	*3.7*	*4.6*
EU (b)	-11.5	10.5	5.2	1.2	1.7	3.5	3.6	**2.7**	**3.7**	**4.1**	*3.8*	*4.6*
USA	-11.2	13.1	6.6	3.3	3.3	3.4	2.2	**1.3**	**3.0**	**3.3**	*2.4*	*3.5*
Japan	-9.0	14.8	7.0	3.4	3.3	3.3	1.5	**1.7**	**3.3**	**3.6**	*2.6*	*3.6*

Table 54: Export performance (a) (percentage change on preceding year, 2009-18) 31.10.2016

								Autumn 2016 forecast			*Spring 2016 forecast*	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
Belgium	1.3	0.0	1.6	0.7	-0.4	1.2	-0.3	**0.8**	**0.2**	**0.2**	*-0.1*	*0.3*
Germany	-2.9	3.7	2.9	1.6	0.2	0.9	2.0	**-0.2**	**-0.8**	**0.3**	*-1.4*	*0.4*
Estonia	-3.2	13.2	15.6	3.3	1.0	1.7	-0.8	**0.7**	**0.0**	**0.1**	*-0.8*	*-0.1*
Ireland	18.2	-4.4	-1.6	1.0	1.1	10.9	29.5	**0.5**	**0.7**	**1.1**	*2.9*	*2.1*
Greece	-7.0	-5.0	-4.6	0.0	-0.6	4.8	0.8	**-6.4**	**0.0**	**0.7**	*-3.0*	*-0.1*
Spain	-0.5	-0.3	3.1	0.5	2.3	0.9	0.9	**3.6**	**1.0**	**0.4**	*0.8*	*0.7*
France	-0.2	-1.2	1.9	1.6	0.0	-0.4	2.2	**-1.6**	**-0.5**	**0.0**	*0.4*	*0.2*
Italy	-7.9	1.7	-0.2	0.8	-1.3	-0.1	1.0	**-1.1**	**-0.8**	**-0.8**	*-1.2*	*-0.5*
Cyprus	11.0	-3.4	-1.6	-4.0	-1.4	3.5	6.7	**5.2**	**1.8**	**0.8**	*0.7*	*-0.7*
Latvia	5.0	0.8	1.5	5.6	-1.6	2.3	3.1	**-0.1**	**-0.9**	**-0.4**	*-1.6*	*-1.3*
Lithuania	4.6	7.0	4.6	8.4	7.9	2.8	1.9	**1.9**	**-0.8**	**-0.5**	*0.9*	*-0.3*
Luxembourg	-0.9	-3.3	-0.5	2.3	4.5	6.5	6.7	**0.3**	**0.2**	**0.0**	*0.0*	*0.1*
Malta	12.8	-3.1	-2.2	6.4	-2.0	-6.0	-1.6	**-0.1**	**0.4**	**0.2**	*0.0*	*0.1*
Netherlands	2.6	0.1	-0.8	2.9	0.6	0.3	0.4	**0.4**	**-0.2**	**-0.6**	*0.6*	*-0.5*
Austria	-4.0	2.3	0.1	0.5	-1.1	-1.0	-0.5	**-0.2**	**-1.0**	**-1.3**	*-1.3*	*-1.5*
Portugal	2.7	-0.2	3.0	3.7	5.1	0.2	1.3	**0.1**	**0.1**	**0.1**	*0.0*	*0.3*
Slovenia	-4.0	0.3	1.3	0.2	2.0	2.3	1.9	**2.6**	**0.0**	**0.0**	*0.0*	*-0.1*
Slovakia	-5.1	3.6	5.5	8.4	5.3	-1.0	2.4	**1.3**	**1.0**	**1.6**	*-0.2*	*0.6*
Finland	-9.0	-5.1	-5.3	-1.4	-1.1	-4.3	-0.6	**-2.9**	**-1.7**	**-0.7**	*-1.7*	*-1.6*
Euro area (b)	-1.2	0.8	1.4	1.6	0.4	1.0	2.7	**-0.1**	**-0.3**	**0.0**	*-0.3*	*0.2*
Bulgaria	1.2	1.5	6.6	2.1	7.9	-0.3	3.9	**2.0**	**0.5**	**0.1**	*0.9*	*0.3*
Czech Republic	2.8	3.3	3.1	2.9	-1.3	5.0	3.7	**1.7**	**0.4**	**0.0**	*1.8*	*0.1*
Denmark	2.2	-8.5	1.8	-0.9	-0.8	-1.0	-3.2	**-2.0**	**-0.6**	**-0.4**	*-2.1*	*-0.4*
Croatia	-1.6	-3.8	-2.9	0.3	1.7	4.3	6.3	**3.0**	**-0.3**	**-0.3**	*1.8*	*-0.5*
Hungary	1.3	0.3	0.4	-3.1	2.7	5.9	3.5	**3.1**	**1.0**	**1.8**	*2.0*	*1.2*
Poland	7.4	1.5	1.6	2.9	4.6	3.5	4.4	**5.3**	**2.5**	**2.0**	*2.5*	*1.6*
Romania	8.1	4.6	6.2	0.3	17.9	4.7	1.9	**2.2**	**1.3**	**1.3**	*0.8*	*0.0*
Sweden	-2.9	2.0	1.0	-0.7	-2.7	2.1	3.0	**0.2**	**0.0**	**0.0**	*0.8*	*0.1*
United Kingdom	2.6	-4.3	0.8	-0.8	-0.8	-2.0	0.9	**0.7**	**-0.4**	**-0.2**	*-1.2*	*-1.7*
EU (b)	-0.2	0.1	1.3	1.2	0.5	0.9	2.5	**0.3**	**-0.2**	**0.1**	*-0.2*	*0.0*
USA	2.7	-1.1	0.2	0.1	0.2	0.9	-2.0	**-0.9**	**0.6**	**0.3**	*-1.3*	*0.0*
Japan	-16.7	8.7	-6.9	-3.5	-2.0	4.9	1.3	**-2.7**	**-2.4**	**-2.6**	*-0.6*	*-0.6*

Table 55: World GDP, volume (percentage change on preceding year, 2011-18) 31.10.2016

							Autumn 2016 forecast			*Spring 2016 forecast*	
	(a)	2011	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
EU	16.9	1.7	-0.5	0.2	1.6	2.2	**1.8**	**1.6**	**1.8**	*1.8*	*1.9*
Euro area	11.9	1.5	-0.9	-0.3	1.2	2.0	**1.7**	**1.5**	**1.7**	*1.6*	*1.8*
Belgium	0.4	1.8	0.1	-0.1	1.7	1.5	**1.2**	**1.3**	**1.5**	*1.2*	*1.6*
Bulgaria	0.1	1.9	0.0	0.9	1.3	3.6	**3.1**	**2.9**	**2.8**	*2.0*	*2.4*
Czech Republic	0.3	2.0	-0.8	-0.5	2.7	4.5	**2.2**	**2.6**	**2.7**	*2.1*	*2.6*
Denmark	0.2	1.2	-0.1	-0.2	1.3	1.0	**1.0**	**1.7**	**1.8**	*1.2*	*1.9*
Germany	3.4	3.7	0.5	0.5	1.6	1.7	**1.9**	**1.5**	**1.7**	*1.6*	*1.6*
Estonia	0.0	7.6	4.3	1.4	2.8	1.4	**1.1**	**2.3**	**2.6**	*1.9*	*2.4*
Ireland	0.2	0.0	-1.1	1.1	8.5	26.3	**4.1**	**3.6**	**3.5**	*4.9*	*3.7*
Greece	0.3	-9.1	-7.3	-3.2	0.4	-0.2	**-0.3**	**2.7**	**3.1**	*-0.3*	*2.7*
Spain	1.4	-1.0	-2.9	-1.7	1.4	3.2	**3.2**	**2.3**	**2.1**	*2.6*	*2.5*
France	2.3	2.1	0.2	0.6	0.6	1.3	**1.3**	**1.4**	**1.7**	*1.3*	*1.7*
Croatia	0.1	-0.3	-2.2	-1.1	-0.5	1.6	**2.6**	**2.5**	**2.3**	*1.8*	*2.1*
Italy	1.9	0.6	-2.8	-1.7	0.1	0.7	**0.7**	**0.9**	**1.0**	*1.1*	*1.3*
Cyprus	0.0	0.3	-3.2	-6.0	-1.5	1.7	**2.8**	**2.5**	**2.3**	*1.7*	*2.0*
Latvia	0.0	6.2	4.0	2.9	2.1	2.7	**1.9**	**2.8**	**3.0**	*2.8*	*3.1*
Lithuania	0.1	6.0	3.8	3.5	3.5	1.8	**2.0**	**2.7**	**2.8**	*2.8*	*3.1*
Luxembourg	0.0	2.0	0.0	4.2	4.7	3.5	**3.6**	**3.8**	**3.6**	*3.3*	*3.9*
Hungary	0.2	1.7	-1.6	2.1	4.0	3.1	**2.1**	**2.6**	**2.8**	*2.5*	*2.8*
Malta	0.0	1.8	2.9	4.5	3.5	6.2	**4.1**	**3.7**	**3.7**	*4.1*	*3.5*
Netherlands	0.7	1.7	-1.1	-0.2	1.4	2.0	**1.7**	**1.7**	**1.8**	*1.7*	*2.0*
Austria	0.4	2.8	0.7	0.1	0.6	1.0	**1.5**	**1.6**	**1.6**	*1.5*	*1.6*
Poland	0.9	5.0	1.6	1.4	3.3	3.9	**3.1**	**3.4**	**3.2**	*3.7*	*3.6*
Portugal	0.3	-1.8	-4.0	-1.1	0.9	1.6	**0.9**	**1.2**	**1.4**	*1.5*	*1.7*
Romania	0.4	1.1	0.6	3.5	3.1	3.7	**5.2**	**3.9**	**3.6**	*4.2*	*3.7*
Slovenia	0.1	0.6	-2.7	-1.1	3.1	2.3	**2.2**	**2.6**	**2.2**	*1.7*	*2.3*
Slovakia	0.1	2.8	1.7	1.5	2.6	3.8	**3.4**	**3.2**	**3.8**	*3.2*	*3.3*
Finland	0.2	2.6	-1.4	-0.8	-0.7	0.2	**0.8**	**0.8**	**1.1**	*0.7*	*0.7*
Sweden	0.4	2.7	-0.3	1.2	2.6	4.1	**3.4**	**2.4**	**2.1**	*3.4*	*2.9*
United Kingdom	2.4	1.5	1.3	1.9	3.1	2.2	**1.9**	**1.0**	**1.2**	*1.8*	*1.9*
Candidate Countries	1.6	8.0	1.8	4.0	2.7	3.8	**2.7**	**3.0**	**3.3**	*3.4*	*3.6*
- Turkey	1.4	8.8	2.1	4.2	3.0	4.0	**2.7**	**3.0**	**3.3**	*3.5*	*3.7*
- The former Yugoslav Republic of Macedonia	0.0	2.3	-0.5	2.9	3.5	3.7	**2.1**	**3.2**	**3.3**	*3.5*	*3.5*
- Montenegro	0.0	3.2	-2.7	3.5	1.8	3.4	**2.7**	**3.4**	**3.1**	*3.6*	*3.9*
- Serbia	0.1	1.4	-1.0	2.6	-1.8	0.8	**2.7**	**3.0**	**3.3**	*2.0*	*2.5*
- Albania	0.0	2.5	1.4	1.0	1.8	2.8	**3.2**	**3.5**	**3.5**	*3.2*	*3.5*
Potential Candidates	0.1	2.6	0.6	2.2	0.5	3.4	**3.1**	**3.5**	**3.5**	*3.2*	*3.4*
USA	15.8	1.6	2.2	1.7	2.4	2.6	**1.6**	**2.1**	**1.9**	*2.3*	*2.2*
Canada	1.4	3.1	1.7	2.2	2.5	1.1	**1.4**	**2.0**	**2.0**	*1.7*	*2.1*
Japan	4.3	-0.5	1.7	1.4	0.0	0.5	**0.7**	**0.8**	**0.4**	*0.8*	*0.4*
Korea	1.6	3.7	2.3	2.9	3.3	2.6	**2.6**	**2.6**	**2.8**	*2.6*	*2.8*
Norway	0.3	1.0	2.7	1.0	1.9	1.6	**0.7**	**1.6**	**1.7**	*1.2*	*1.7*
Switzerland	0.4	1.8	1.0	1.8	2.0	0.8	**1.2**	**1.5**	**1.7**	*1.2*	*1.5*
Iceland	0.0	2.0	1.2	4.4	1.9	4.2	**4.0**	**3.5**	**2.7**	*3.5*	*3.3*
Australia	1.0	2.7	3.6	2.0	2.7	2.4	**2.7**	**2.7**	**2.8**	*2.5*	*2.8*
New Zealand	0.1	1.8	2.8	1.7	3.0	3.0	**2.7**	**2.7**	**2.6**	*2.3*	*2.4*
Advanced economies	45.2	1.8	1.1	1.2	1.9	2.2	**1.7**	**1.9**	**1.8**	*2.0*	*2.0*
CIS	4.6	4.8	3.4	2.1	0.9	-2.9	**-0.6**	**0.9**	**1.3**	*-1.1*	*1.1*
- Russia	3.3	4.3	3.4	1.3	0.6	-3.7	**-1.0**	**0.6**	**0.8**	*-1.9*	*0.5*
- Other CIS	1.3	6.1	3.5	4.2	1.7	-0.9	**0.4**	**1.9**	**2.7**	*0.7*	*2.4*
MENA	6.8	3.3	3.8	2.1	2.5	2.2	**2.6**	**3.3**	**3.4**	*2.9*	*3.4*
Emerging and developing Asia	31.5	7.7	6.9	6.8	6.6	6.5	**6.4**	**6.2**	**6.1**	*5.8*	*5.7*
- China	17.1	9.5	7.9	7.8	7.3	6.9	**6.6**	**6.2**	**6.0**	*6.5*	*6.2*
- India	7.0	7.3	5.3	6.3	7.0	7.2	**7.4**	**7.4**	**7.5**	*7.4*	*7.4*
- Indonesia	2.5	6.2	6.0	5.6	5.0	4.8	**4.9**	**5.0**	**5.1**	*4.9*	*5.0*
Latin America	8.3	4.6	3.0	2.9	1.0	-0.1	**-0.6**	**1.7**	**2.0**	*-0.4*	*1.4*
- Brazil	2.8	3.9	1.9	3.0	0.1	-3.8	**-3.1**	**0.9**	**1.5**	*-3.7*	*0.3*
- Mexico	2.0	4.0	4.0	1.4	2.2	2.5	**2.0**	**2.2**	**2.4**	*2.2*	*2.4*
Sub-Saharan Africa	3.2	4.7	4.1	5.1	4.9	3.5	**2.1**	**3.2**	**3.9**	*3.3*	*3.9*
Emerging and developing economies	54.8	6.1	5.3	4.9	4.5	3.8	**4.0**	**4.6**	**4.7**	*3.9*	*4.4*
World	100.0	4.0	3.3	3.2	3.3	3.1	**3.0**	**3.4**	**3.5**	*3.1*	*3.4*
World excluding EU	83.1	4.6	4.2	3.9	3.7	3.3	**3.2**	**3.7**	**3.8**	*3.3*	*3.7*
World excluding euro area	88.1	4.4	4.0	3.7	3.6	3.3	**3.2**	**3.6**	**3.7**	*3.3*	*3.6*

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2011-18) 31.10.2016

							Autumn 2016 forecast			*Spring 2016 forecast*	
	(a)	2011	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
EU (b)	34.5	6.6	2.3	2.2	4.4	6.2	**3.0**	**3.5**	**4.2**	*3.5*	*4.6*
Euro area (b)	25.8	6.5	2.7	2.1	4.5	6.5	**2.7**	**3.3**	**4.1**	*3.5*	*4.7*
Candidate Countries	1.1	6.6	16.0	1.0	7.4	0.2	**-0.3**	**3.8**	**4.4**	*1.4*	*3.4*
- Turkey	1.0	6.5	18.3	-0.3	7.4	-0.8	**-1.3**	**3.5**	**4.3**	*0.8*	*3.0*
- The former Yugoslav Republic of Macedonia	0.0	16.1	2.0	6.1	18.2	4.6	**7.1**	**6.7**	**6.3**	*6.8*	*7.0*
- Montenegro	0.0	14.6	-0.3	-1.3	-0.7	5.7	**1.8**	**2.1**	**1.6**	*0.9*	*3.2*
- Serbia	0.1	5.0	0.8	21.3	5.7	10.2	**8.6**	**6.4**	**5.2**	*6.9*	*6.3*
- Albania	0.0	6.9	-0.6	-12.4	1.8	-0.3	**6.6**	**5.4**	**5.8**	*3.8*	*4.6*
USA	10.9	6.9	3.4	3.5	4.3	0.1	**0.3**	**3.6**	**3.7**	*1.0*	*3.5*
Canada	2.3	4.8	2.6	2.8	5.3	3.4	**1.6**	**3.4**	**2.7**	*3.3*	*3.6*
Japan	3.6	-0.4	-0.2	1.2	8.3	2.8	**-1.0**	**0.8**	**1.0**	*2.0*	*3.0*
Korea	3.1	15.1	5.1	4.3	2.0	0.8	**2.2**	**2.8**	**3.7**	*2.3*	*2.7*
Norway	0.7	-0.8	1.4	-1.7	3.1	3.7	**-0.6**	**2.4**	**2.1**	*2.6*	*3.7*
Switzerland	2.0	4.9	1.1	15.3	-6.2	2.3	**3.7**	**3.2**	**3.7**	*3.1*	*3.2*
Iceland	0.0	3.4	3.6	6.7	3.2	9.2	**6.6**	**4.5**	**4.5**	*6.1*	*4.8*
Australia	1.1	0.1	5.8	5.9	6.7	6.0	**6.0**	**4.8**	**4.4**	*5.6*	*5.6*
New Zealand	0.2	2.6	1.9	0.8	3.0	6.6	**3.2**	**3.2**	**3.2**	*2.1*	*2.4*
Advanced economies	66.7	6.0	2.7	3.2	4.1	3.8	**1.9**	**3.1**	**3.6**	*2.9*	*4.2*
CIS	2.8	4.7	2.6	0.7	-1.3	-1.6	**-0.7**	**2.8**	**2.9**	*-0.3*	*2.7*
- Russia	1.8	0.3	1.1	4.6	-0.1	3.7	**0.5**	**2.1**	**2.1**	*2.5*	*2.0*
- Other CIS	1.0	13.2	5.6	-6.5	-3.6	-12.1	**-2.8**	**4.0**	**4.5**	*-5.9*	*4.1*
MENA	5.7	5.2	7.4	2.2	-1.0	4.9	**3.5**	**3.5**	**3.8**	*2.6*	*3.4*
Emerging and developing Asia	18.2	12.1	4.6	6.8	6.1	-0.7	**1.8**	**3.0**	**3.3**	*1.9*	*2.7*
- China	11.7	14.6	5.9	8.8	6.9	-1.8	**1.9**	**2.6**	**2.8**	*2.1*	*3.0*
- India	2.1	10.5	1.0	4.6	4.4	-4.0	**2.0**	**3.2**	**3.5**	*3.0*	*4.2*
- Indonesia	0.8	7.4	0.4	1.5	0.8	-1.6	**1.1**	**2.7**	**3.8**	*2.6*	*4.0*
Latin America	5.1	6.3	3.0	1.8	2.1	4.3	**2.3**	**2.9**	**3.2**	*2.3*	*2.9*
- Brazil	1.1	5.2	-0.3	2.8	-0.8	6.3	**5.9**	**2.7**	**2.9**	*-0.5*	*1.9*
- Mexico	1.9	8.2	5.8	2.4	7.0	9.0	**0.6**	**2.7**	**3.0**	*4.3*	*3.7*
Sub-Saharan Africa	1.5	-1.1	-1.1	4.6	0.7	3.1	**1.4**	**3.0**	**3.8**	*2.8*	*3.5*
Emerging and developing economies	33.3	8.1	4.3	4.2	2.9	1.3	**2.0**	**3.0**	**3.4**	*1.9*	*2.9*
World	100.0	6.7	3.2	3.5	3.7	3.0	**1.9**	**3.1**	**3.5**	*2.5*	*3.6*
World excluding EU	65.5	6.7	3.7	4.2	3.3	1.3	**1.3**	**2.8**	**3.1**	*1.9*	*3.1*
World excluding euro area	74.2	6.7	3.4	4.0	3.4	1.7	**1.6**	**3.0**	**3.3**	*2.2*	*3.2*

Table 57: Export shares in EU trade (goods only - 2015) 31.10.2016

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	63.1	45.9	2.0	7.9	1.3	7.5	3.7	3.1	2.2	5.0	2.6	1.7
Euro area	63.0	45.2	1.9	7.9	1.3	7.0	3.8	3.2	2.1	5.2	2.8	1.8
Belgium	73.4	58.2	1.2	5.7	0.8	4.0	1.9	3.8	1.0	4.1	1.5	2.7
Bulgaria	65.3	47.6	12.6	2.1	0.3	2.1	2.8	2.8	4.4	6.2	0.6	0.9
Czech Republic	82.6	64.8	1.7	2.6	0.5	3.4	1.5	1.2	2.8	2.4	0.7	0.6
Denmark	61.7	38.5	1.0	8.6	2.0	11.2	4.4	2.7	1.4	3.3	2.7	1.0
Germany	57.6	36.2	2.0	9.6	1.5	8.7	6.4	3.5	2.4	4.2	2.9	1.3
Estonia	73.9	46.7	1.6	3.6	0.7	7.0	1.5	1.7	6.8	1.7	0.6	0.8
Ireland	51.9	35.0	0.6	24.5	4.1	8.4	2.2	1.9	0.7	2.9	2.0	0.9
Greece	54.2	37.5	12.5	5.1	0.3	3.5	1.0	1.9	2.6	15.3	1.8	1.7
Spain	65.0	51.2	2.2	4.9	1.2	4.7	1.9	2.0	1.2	8.5	6.5	1.8
France	57.9	45.0	1.6	8.1	1.6	7.3	4.3	4.4	1.6	7.4	3.0	2.7
Croatia	72.1	60.1	9.9	4.0	0.5	2.7	0.9	0.8	3.0	4.5	0.8	0.5
Italy	53.7	39.4	3.2	9.2	1.5	9.8	3.1	3.3	2.7	8.5	3.6	1.5
Cyprus	51.2	32.4	0.4	1.2	0.0	3.9	1.7	9.9	2.0	27.4	0.4	2.0
Latvia	70.8	48.5	1.5	2.0	0.4	4.3	1.1	1.2	12.0	5.1	0.7	0.8
Lithuania	65.2	43.1	1.0	4.7	0.9	5.1	0.5	1.3	17.7	2.4	0.6	0.7
Luxembourg	83.4	71.8	1.1	3.0	0.4	3.7	1.5	1.5	1.2	2.5	0.9	0.9
Hungary	78.3	56.7	3.0	4.3	0.9	2.9	2.2	1.0	3.9	1.7	1.5	0.4
Malta	38.4	28.1	0.8	5.2	3.5	13.2	6.2	9.1	0.8	19.2	1.2	2.5
Netherlands	77.6	59.3	1.0	3.5	0.6	4.4	1.8	2.6	1.2	3.2	2.0	2.2
Austria	69.6	51.6	1.6	6.8	1.0	8.2	2.7	2.4	2.5	2.7	1.9	0.7
Poland	79.2	56.5	2.0	2.6	0.4	3.8	1.2	1.2	5.1	1.9	1.6	0.9
Portugal	70.3	59.3	1.0	5.6	0.5	3.5	2.2	0.7	0.7	4.7	3.4	7.3
Romania	71.8	52.6	5.6	2.8	0.6	3.0	1.6	1.0	4.7	6.8	1.2	0.9
Slovenia	78.5	54.5	5.4	2.1	0.2	3.0	1.0	1.0	4.6	3.2	0.6	0.4
Slovakia	84.0	46.8	1.8	2.7	0.1	3.0	2.3	0.4	3.3	1.6	0.5	0.3
Finland	58.6	38.2	1.6	6.9	2.1	8.3	5.0	3.9	5.8	3.5	3.0	1.2
Sweden	60.0	40.7	1.2	7.3	1.3	13.0	4.2	3.5	1.7	3.9	2.4	1.5
United Kingdom	46.0	40.6	1.5	14.1	1.5	14.8	5.2	4.6	1.4	6.6	2.1	2.1

Table 58: World imports of goods and services, volume (percentage change on preceding year, 2011-18) 31.10.2016

							Autumn 2016 forecast			*Spring 2016 forecast*	
	(a)	2011	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*
EU (b)	32.6	4.3	-0.2	1.7	5.0	6.2	**3.6**	**3.9**	**4.3**	*4.7*	*5.1*
Euro area (b)	23.8	4.4	-0.8	1.4	4.9	6.4	**3.2**	**4.0**	**4.7**	*4.6*	*5.3*
Candidate Countries	1.3	10.3	-0.3	8.1	0.6	1.0	**5.2**	**4.2**	**4.7**	*3.7*	*4.2*
- Turkey	1.1	10.9	-0.5	9.0	-0.3	0.3	**5.0**	**4.0**	**4.7**	*3.5*	*4.0*
- The former Yugoslav Republic of Macedonia	0.0	8.0	8.2	2.2	16.0	2.4	**5.6**	**4.9**	**4.6**	*5.3*	*5.5*
- Montenegro	0.0	0.3	0.6	-3.1	1.6	4.4	**6.0**	**4.1**	**2.6**	*3.4*	*2.9*
- Serbia	0.1	7.9	1.4	5.0	5.6	9.3	**6.8**	**5.5**	**5.4**	*5.3*	*5.2*
- Albania	0.0	6.2	-6.6	-7.9	4.6	-2.1	**8.4**	**6.4**	**5.1**	*4.8*	*5.1*
USA	13.7	5.5	2.2	1.1	4.4	4.6	**1.2**	**4.1**	**4.0**	*3.7*	*5.1*
Canada	2.6	5.6	3.6	1.5	1.8	0.3	**-0.8**	**2.4**	**2.4**	*0.7*	*2.1*
Japan	3.8	5.9	5.3	3.1	7.2	0.3	**-0.7**	**1.8**	**0.9**	*0.6*	*2.0*
Korea	2.7	14.3	2.4	1.7	1.5	3.2	**1.8**	**2.5**	**3.0**	*2.8*	*3.1*
Norway	0.6	4.0	3.1	4.9	2.4	1.6	**0.1**	**2.5**	**2.9**	*0.6*	*2.8*
Switzerland	1.7	9.2	-2.6	13.5	-7.8	4.5	**3.6**	**3.4**	**3.9**	*3.4*	*3.4*
Iceland	0.0	6.8	4.6	0.1	9.8	13.5	**15.6**	**7.2**	**6.8**	*9.5*	*7.0*
Australia	1.3	11.1	6.1	-1.8	-1.7	1.7	**0.8**	**1.9**	**2.4**	*0.4*	*1.9*
New Zealand	0.2	7.0	2.8	6.2	7.9	3.6	**2.0**	**2.8**	**2.8**	*2.2*	*2.3*
Advanced economies	67.1	5.2	1.2	2.4	4.0	4.5	**2.2**	**3.4**	**3.7**	*3.8*	*4.6*
CIS	2.3	18.9	9.3	1.9	-8.2	-21.7	**-3.3**	**1.6**	**1.9**	*-4.8*	*1.2*
- Russia	1.3	20.3	8.7	3.8	-7.9	-25.7	**-4.4**	**1.1**	**1.3**	*-3.2*	*0.8*
- Other CIS	1.0	16.8	10.2	-1.1	-8.7	-15.1	**-2.0**	**2.3**	**2.6**	*-6.9*	*1.7*
MENA	6.1	2.5	9.1	6.5	5.8	0.6	**2.6**	**3.3**	**3.7**	*3.4*	*3.8*
Emerging and developing Asia	16.8	14.1	5.6	6.3	6.9	2.0	**2.4**	**3.3**	**3.8**	*2.4*	*3.2*
- China	10.1	17.7	6.6	10.6	8.7	0.6	**3.0**	**3.2**	**3.6**	*2.7*	*3.7*
- India	2.4	8.8	1.6	-3.8	6.7	2.8	**1.1**	**2.6**	**3.3**	*2.8*	*4.5*
- Indonesia	0.8	15.4	15.2	0.3	-0.9	-5.4	**0.9**	**2.6**	**3.7**	*1.8*	*2.9*
Latin America	5.8	11.7	4.8	3.0	0.4	-2.2	**-1.2**	**2.6**	**3.1**	*-0.2*	*2.8*
- Brazil	1.2	10.6	0.4	7.0	-1.0	-14.2	**-8.4**	**3.6**	**3.3**	*-6.6*	*2.5*
- Mexico	2.1	8.0	5.5	2.6	6.0	5.0	**0.1**	**2.9**	**3.4**	*2.9*	*3.4*
Sub-Saharan Africa	2.0	8.9	5.3	3.5	6.9	1.2	**0.3**	**3.1**	**4.1**	*3.4*	*4.0*
Emerging and developing economies	32.9	11.7	6.4	5.1	4.0	-1.2	**1.3**	**3.1**	**3.5**	*1.8*	*3.2*
World	100.0	7.2	2.8	3.3	4.0	2.6	**1.9**	**3.3**	**3.6**	*2.9*	*4.0*
World excluding EU	67.4	8.7	4.4	4.1	3.5	0.8	**1.0**	**3.0**	**3.3**	*2.1*	*3.4*
World excluding euro area	76.2	8.1	4.1	3.9	3.7	1.4	**1.5**	**3.1**	**3.3**	*2.4*	*3.6*

Table 59: Import shares in EU trade (goods only - 2015) 31.10.2016

	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	7.2	4.1	4.0	2.6	1.9	1.5
Euro area	63.9	48.5	1.4	5.3	1.3	6.0	6.9	4.1	4.2	3.1	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, 2010-18) 31.10.2016

	2010	2011	2012	2013	2014	2015	Autumn 2016 forecast 2016	2017	2018	*Spring 2016 forecast 2016*	*2017*
EU	-30.2	-39.7	83.1	185.8	208.4	309.6	**323.0**	**305.7**	**309.3**	*321.4*	*317.1*
EU, adjusted[1]	-138.5	-155.6	-42.6	50.6	62.8	147.6	**160.5**	**144.5**	**148.1**	*149.5*	*144.1*
Euro area	122.2	118.2	253.1	354.4	396.1	482.6	**508.0**	**490.8**	**492.2**	*487.8*	*493.2*
Euro area, adjusted[1]	38.4	32.2	158.0	279.1	320.6	393.6	**418.6**	**402.2**	**403.6**	*390.6*	*395.3*
Candidate Countries	-69.2	-102.7	-77.5	-90.0	-73.9	-55.9	**-52.0**	**-62.6**	**-72.7**	*-63.9*	*-73.2*
USA	-670.3	-778.0	-778.7	-736.8	-775.5	-788.7	**-774.8**	**-842.7**	**-921.6**	*-807.4*	*-900.2*
Japan	91.0	-20.3	-72.9	-109.3	-117.3	-34.6	**2.1**	**-3.7**	**-2.4**	*-19.3*	*-14.6*
Norway	49.3	66.8	69.0	60.9	49.8	25.5	**19.3**	**22.1**	**22.1**	*24.7*	*26.6*
Switzerland	34.2	29.5	40.2	53.7	55.5	53.6	**55.1**	**55.5**	**58.0**	*60.1*	*61.2*
Iceland	0.5	0.3	0.1	0.1	-0.1	-0.3	**-0.9**	**-1.1**	**-1.4**	*-0.9*	*-1.1*
Advanced economies	-453.2	-698.4	-630.9	-472.7	-471.1	-296.7	**-237.5**	**-347.9**	**-426.8**	*-530.8*	*-631.6*
CIS	174.0	239.4	221.1	199.8	221.4	132.8	**99.7**	**126.2**	**135.8**	*88.6*	*97.1*
- Russia	151.9	198.6	193.5	183.0	188.4	128.6	**110.4**	**130.3**	**138.8**	*108.0*	*114.6*
MENA	352.7	610.9	647.5	585.8	462.0	115.1	**39.5**	**114.7**	**129.7**	*19.7*	*55.9*
Asia	190.8	128.6	143.6	224.7	344.9	485.4	**542.0**	**528.4**	**545.4**	*731.0*	*731.1*
- China	246.4	228.7	311.6	359.0	435.0	567.0	**620.1**	**625.3**	**652.8**	*633.2*	*669.1*
Latin America	48.2	67.6	35.5	4.8	-16.8	-56.6	**-29.4**	**-24.6**	**-26.0**	*-8.6*	*-35.1*
Sub-Saharan Africa	73.9	91.4	66.6	58.6	22.9	-36.9	**-49.4**	**-46.7**	**-53.7**	*-43.9*	*-43.6*
Emerging and developing economies	839.6	1137.9	1114.3	1073.7	1034.6	639.7	**602.5**	**698.0**	**731.1**	*786.9*	*805.4*
World	386.5	439.6	483.4	601.0	563.4	343.0	**365.0**	**350.1**	**304.3**	*256.1*	*173.9*

Table 61: World current-account balances (in billions of US dollar, 2010-18) 31.10.2016

	2010	2011	2012	2013	2014	2015	Autumn 2016 forecast 2016	2017	2018	*Spring 2016 forecast 2016*	*2017*
EU	-3.2	43.4	161.7	256.0	251.7	288.2	**350.4**	**350.1**	**380.3**	*364.6*	*374.1*
EU, adjusted[1]	-58.3	-42.9	105.4	201.0	173.6	185.6	**247.4**	**248.1**	**278.2**	*220.8*	*229.4*
Euro area	55.0	83.4	235.8	321.0	342.7	387.6	**442.8**	**423.4**	**417.2**	*445.7*	*449.0*
Euro area, adjusted[1]	31.1	31.8	161.7	286.9	320.5	359.1	**414.2**	**395.0**	**388.9**	*392.0*	*394.9*
Candidate Countries	-49.7	-82.0	-54.9	-68.3	-48.7	-36.0	**-40.4**	**-47.0**	**-54.9**	*-41.1*	*-48.5*
USA	-445.9	-481.5	-468.2	-386.1	-401.7	-477.4	**-467.5**	**-498.2**	**-547.3**	*-515.5*	*-612.7*
Japan	207.4	123.2	63.2	33.1	25.0	132.7	**175.5**	**179.1**	**184.5**	*177.7*	*190.1*
Norway	46.8	61.6	63.4	53.5	42.0	18.1	**11.9**	**14.7**	**13.8**	*19.5*	*21.7*
Switzerland	88.3	56.9	73.1	85.1	87.8	82.2	**81.9**	**83.9**	**87.6**	*77.3*	*80.1*
Iceland	-0.9	-0.8	-0.6	0.9	0.7	0.9	**0.5**	**0.3**	**0.0**	*0.2*	*0.0*
Advanced economies	-122.2	-242.6	-146.3	51.7	72.9	145.8	**247.5**	**206.0**	**188.6**	*-36.9*	*-120.4*
CIS	72.9	104.8	64.0	18.8	57.4	51.7	**40.7**	**58.8**	**72.0**	*37.3*	*46.5*
- Russia	71.0	93.7	67.7	33.8	58.8	65.7	**57.0**	**72.7**	**80.5**	*54.9*	*59.8*
MENA	181.8	415.2	424.9	359.7	197.0	-103.3	**-151.8**	**-107.8**	**-73.9**	*-172.3*	*-153.8*
Asia	226.0	117.9	126.5	92.5	271.1	337.7	**336.5**	**290.1**	**266.6**	*679.0*	*646.0*
- China	237.8	136.1	215.4	148.2	277.4	330.6	**342.7**	**309.9**	**296.2**	*376.3*	*369.6*
Latin America	-95.9	-113.6	-135.6	-163.7	-185.3	-180.1	**-118.6**	**-123.9**	**-132.6**	*-162.6*	*-165.5*
Sub-Saharan Africa	1.5	4.4	-14.7	-25.3	-53.2	-80.8	**-59.6**	**-55.6**	**-61.7**	*-84.2*	*-80.1*
Emerging and developing economies	386.3	528.6	465.1	282.1	286.9	25.3	**47.1**	**61.6**	**70.5**	*297.2*	*293.1*
World	264.1	286.0	318.8	333.8	359.8	171.1	**294.6**	**267.7**	**259.1**	*260.4*	*172.7*

Table 62: Primary commodity prices (in US dollar, percentage change on preceding year, 2010-18) 31.10.2016

STIC Classification	2010	2011	2012	2013	2014	2015	Autumn 2016 forecast 2016	2017	2018	*Spring 2016 forecast 2016*	*2017*
Food	9.8	13.1	0.2	3.2	-3.7	-15.7	**-0.7**	**2.1**	**1.5**	*-4.7*	*-0.9*
Basic materials	40.1	22.0	-15.9	-4.8	-4.7	-18.7	**-3.6**	**0.3**	**-0.9**	*-6.7*	*1.7*
- of which:											
Agricultures non-food	31.1	32.5	-15.9	-4.7	3.8	-14.3	**-0.3**	**-0.8**	**-0.4**	*-2.9*	*3.3*
- of which:											
Wood and pulp	6.2	9.0	-5.8	1.2	2.6	-3.7	**-2.3**	**-1.6**	**0.2**	*0.3*	*0.7*
Minerals and metals	46.6	15.2	-15.8	-4.9	-11.1	-22.5	**-6.7**	**1.5**	**-1.3**	*-10.3*	*0.0*
Fuel products	26.3	38.0	1.3	-2.9	-7.9	-45.0	**-16.8**	**19.1**	**3.4**	*-22.8*	*10.4*
- of which:											
Crude petroleum	28.8	38.3	0.8	-2.7	-8.3	-46.5	**-15.4**	**21.1**	**3.8**	*-23.1*	*11.9*
Primary Commodities											
- Total excluding fuels	26.2	18.5	-9.7	-1.4	-4.3	-17.4	**-2.3**	**1.2**	**0.2**	*-5.8*	*0.5*
- Total including fuels	26.3	34.5	-0.4	-2.7	-7.4	-41.0	**-13.8**	**14.9**	**2.7**	*-19.2*	*8.0*
					Crude petroleum - price per barrel						
Brent (usd)	80.2	110.9	111.8	108.8	99.7	53.4	**45.2**	**54.7**	**56.8**	*41.1*	*45.9*
Brent (euro)	60.5	79.7	87.0	81.9	75.1	48.1	**40.6**	**49.6**	**51.5**	*36.5*	*40.5*

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 2016, 2017 and 2018 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). 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 2015.

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).

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, Syria, Iraq, Iran, Yemen, Sudi 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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