



European  
Commission

ISSN 2443-8014 (online)

# European Economic Forecast

## Winter 2017

INSTITUTIONAL PAPER 048 | FEBRUARY 2017

EUROPEAN ECONOMY



*Economic and  
Financial Affairs*

**European Economy Institutional Papers** are important reports analysing the economic situation and economic developments prepared by the European Commission's Directorate-General for Economic and Financial Affairs, which serve to underpin economic policy-making by the European Commission, the Council of the European Union and the European Parliament.

Views expressed in unofficial documents do not necessarily represent the views of the European Commission.

## LEGAL NOTICE

Neither the European Commission nor any person acting on its behalf may be held responsible for the use which may be made of the information contained in this publication, or for any errors which, despite careful preparation and checking, may appear.

This paper exists in English only and can be downloaded from  
[http://ec.europa.eu/economy\\_finance/publications/](http://ec.europa.eu/economy_finance/publications/).

***Europe Direct is a service to help you find answers  
to your questions about the European Union.***

**Freephone number (\*):  
00 800 6 7 8 9 10 11**

(\*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

More information on the European Union is available on <http://europa.eu>.

Luxembourg: Publications Office of the European Union, 2017

KC-BC-17-048-EN-N (online)  
ISBN 978-92-79-64680-5 (online)  
doi:10.2765/308309 (online)

KC-BC-17-048-EN-C (print)  
ISBN 978-92-79-64679-9 (print)  
doi:10.2765/94869 (print)

© European Union, 2017

Reproduction is authorised provided the source is acknowledged.

# European Economic Forecast

## Winter 2017

## 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 North Africa
ROW	Rest of the World

### Economic variables and institutions

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

ECB	European Central Bank
Fed	Federal Reserve, US
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries

#### Other abbreviations

APP	Asset Purchase Programme
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

#### 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



## CONTENTS

Overview	1
PART I: EA and EU outlook	7
Navigating through choppy waters	9
1. Putting the forecast into perspective: How persistent are crisis effects in the euro area?	10
2. External environment	15
3. Financial markets	20
4. GDP and its components	23
5. The labour market	32
6. Inflation	36
7. Public finances	40
8. Macroeconomic policies in the euro area	43
9. Risks	46
PART II: Prospects by individual economy	57
Member States	59
1. Belgium: Economy continues to grow steadily	60
2. Bulgaria: Robust growth amid ongoing fiscal consolidation	62
3. The Czech Republic: Solid GDP growth persists amid strong labour market	64
4. Denmark: Recovery is gaining pace	66
5. Germany: Robust momentum amid new challenges	68
6. Estonia: Rising external demand to boost GDP growth	70
7. Ireland: Robust growth in uncertain times	72
8. Greece: Signs of recovery linked to programme implementation	74
9. Spain: Growth continues to surprise, but signs of deceleration emerging	76
10. France: The recovery holds up despite uncertainties	78
11. Croatia: Growth gathering steam	80
12. Italy: Stable, modest economic growth ahead	82
13. Cyprus: Robust recovery with mild deceleration ahead	84
14. Latvia: Investment temporarily weighs on growth	86
15. Lithuania: Investment set to drive growth in 2017	88
16. Luxembourg: Strong broad-based growth	90
17. Hungary: High private consumption and rebounding investment	92
18. Malta: Economic activity to remain robust	94
19. The Netherlands: Maintaining momentum	96
20. Austria: Improved growth expected to maintain momentum	98
21. Poland: Public deficit to widen despite stronger GDP growth	100
22. Portugal: Strong tourist sector supports growth	102
23. Romania: Robust growth sustained by fiscal easing	104
24. Slovenia: Private consumption becomes the main growth driver	106
25. Slovakia: Solid growth set to continue along with a recovery in investment	108
26. Finland: Exports to strengthen as domestic demand growth levels off	110

27. Sweden: Growing at a healthy pace	112
28. The United Kingdom: Softer growth and rising inflation in 2017 and 2018	114
Candidate Countries	117
29. The former Yugoslav Republic of Macedonia: Broader-based recovery at risk from political crisis	118
30. Montenegro: High import content of investment drags on growth	120
31. Serbia: Domestic demand to drive growth	122
32. Turkey: Statistical boost to GDP but fragile outlook	124
33. Albania: Recovery set to be sustained by domestic demand	126
Other non-EU Countries	129
34. The United States of America: Fiscal stimulus boosts near-term outlook amid rising uncertainties	130
35. Japan: Historical growth revised upwards, outlook largely unchanged	132
36. China: Gradual slowdown in growth, cushioned by macroeconomic policy	134
37. EFTA: Solid domestic demand continues to offset external fragilities	136
38. Russian Federation: Oil prices rally brings some respite	139
Statistical Annex	143

## LIST OF TABLES

1.	Overview - the winter 2017 forecast	1
I.1.	Composition of growth - euro area	24
I.2.	Composition of growth - EU	25
I.3.	Labour market outlook - euro area and EU	34
I.4.	Inflation outlook - euro area and EU	37
I.5.	Inflation outlook - euro area	37
I.6.	General Government budgetary position - euro area and EU	40
I.7.	Euro-area debt dynamics	43

## LIST OF GRAPHS

I.1.	Real GDP, euro area	9
I.2.	Inflation breakdown, euro area	9
I.3.	Real GDP, EA-12	10
I.4.	Real GDP, advanced economies	11
I.5.	Total investment, EA-12	11
I.6.	Total investment, advanced economies	11
I.7.	Investment breakdown, euro area	12
I.8.	Unemployment rate, advanced economies	12
I.9.	Labour Market indicators, euro area	13
I.10.	Unemployment and NAWRU, euro area	14
I.11.	Potential GDP, advanced economies	14
I.12.	Global GDP and global Composite PMI	15
I.13.	Contributions to global, non-EU GDP growth	16



I.14.	Sources of change in global non-EU GDP growth	16
I.15.	Merchandise import volume (3-month moving average)	18
I.16.	Non-EU import growth (goods volume) and elasticity of non-EU imports with respect to non-EU GDP growth	18
I.17.	Brent oil spot prices, USD and euro	19
I.18.	Benchmark 10-year government bond yields, selected Member States	21
I.19.	Corporate bond spreads, 5-year maturity, euro area	21
I.20.	Interest rates on loans to NFC's, selected Member States	22
I.21.	Growth of credit to NFC's, selected Member States	22
I.22.	NFC debt funding structure, euro area	23
I.23.	Real GDP during the recession and recovery phases (2008-2018), euro area	23
I.24.	Policy uncertainty, 'European News Index'	26
I.25.	Economic Sentiment Indicator and PMI Composite Output Index, euro area	27
I.26.	Real GDP growth and its components, euro area	27
I.27.	GDP growth divergence, euro area	28
I.28.	Private consumption and consumer confidence, euro area	28
I.29.	Retail trade volumes and retail confidence, euro area	29
I.30.	Equipment investment and capacity utilisation, euro area	31
I.31.	Global demand, EU exports and new export orders	32
I.32.	Unemployment rate (2008-2018), euro area	33
I.33.	Employment, hours worked/employee and real GDP, euro area	33
I.34.	Underemployment and potential labour force in the euro area	34
I.35.	Employment expectations, DG ECFIN surveys, euro area	35
I.36.	Unemployment rates dispersion, EU, EA and Member States, 2018 and highest and lowest since 2008	36
I.37.	HICP, euro area	37
I.38.	Oil prices, industrial producer prices in euro area	38
I.39.	Extra-EU oil imports invoiced in USD	38
I.40.	Inflation expectations derived from implied forward inflation-linked swap rates	40
I.41.	Budgetary developments, euro area	41
I.42.	Breakdown of the change in the aggregate general government deficit, euro area	41
I.43.	General government revenue and expenditure, euro area	42
I.44.	Euro area interest rates	43
I.45.	Euro area shadow rate (EA K-ANMS(2) Fixed LB)	44
I.46.	Composite credit cost indicators, euro area	45
I.47.	Development of the change in the structural balance and the discretionary fiscal effort, euro area	45
I.48.	Change in the structural balance vs output gap, 2017	45
I.49.	Real long term interest rates and discretionary fiscal effort, euro area	45
I.50.	Euro area GDP forecast - Uncertainty linked to the balance of risks	46

## LIST OF BOXES

I.1.	China's economy in transition: dealing with the twin challenge of deleveraging and rebalancing growth	48
I.2.	A 'new modesty'? Level shifts in survey data and the decreasing trend of 'normal' growth	52
I.3.	Some technical elements behind the forecast	55

## FOREWORD

The European economy has proven resilient to a number of challenges. Last year saw an unusual string of economic, political and security events that could have dented or even derailed the recovery: concerns about growth in emerging markets, exceptionally weak world trade, terrorist attacks in some Member States and neighbouring countries, the UK's vote to leave the EU, an acrimonious US election campaign and the large policy uncertainty that has followed, to mention just a few. Nonetheless, GDP grew in line with the projections we made a year ago, accelerating somewhat in the second half of 2016. It is expected to continue growing at a pace above potential this year and next, driven mainly by domestic demand.

The recovery seems to be firmer than many observers thought a few months ago. We need, however, to remain cautious and avoid hasty conclusions. The fact is that despite the recent good news, the recovery does not yet extend to the entire economy and is assailed by risks. Its partial nature is reflected in the level of unemployment, which though falling, remains high and in the continued shortfall in investment. The investment share of GDP is still two percentage points lower than in the early 2000s. Banks are struggling with low profitability, which may limit their ability to finance investment once demand picks up more robustly. As savings largely exceed capital formation, the investment weakness is also reflected in the euro area's comparatively large current-account surplus of 3% of GDP. Unemployment stood at 9.6% in the euro area at the end of 2016 and participation rates are increasing. However, substantial slack remains in the labour-market as e.g. the average number of hours performed per worker remains low.

Large uncertainties characterise the economic outlook globally and in the euro area. The path for the UK's exit from the Union and its future status are still unclear, and elections are coming up in a number of large Member States, adding to policy uncertainty. The concrete shape of the economic policies of the new US administration has still to emerge. A fiscal stimulus and tighter monetary policy are widely expected. The resulting increase in long-term interest rates will have its main impact on emerging market economies, but may also trigger new divergences in the euro area. There are risks to the upside: The fiscal boost could in the short run lead to higher global growth than expected. But imbalances risk building up in the US and could become a destabilising factor in the world economy especially if they fuel protectionist pressures. Misguided as the concept is economically, the mood in international economic relations appears to be swinging towards mercantilism. Being tightly integrated into global markets, Europe would stand to lose considerably should lasting damage be done to the rules, institutions and practice of international trade and finance.

Supporting the recovery of the European economy, sharing the benefits of globalisation more equitably, and bracing for the possibility of a much less supportive global economic environment, must therefore be economic policy priorities. The Commission has called for a positive fiscal stance in the euro area that would contribute to a completion of the recovery. A more balanced macroeconomic policy mix would also help to lessen intra-euro area divergences and to reduce the large external surplus of the euro area. The latter reflects an over-reliance on external demand and risks becoming an economic and political vulnerability. Dealing with the sources of low bank profitability, notably non-performing loans, remains high on the agenda. Labour market policies and facilitating private investment are essential to prevent the protracted impact of the crisis from affecting our growth potential. To navigate the choppy waters ahead, Europe urgently needs to complete the internal market and the banking union as part of the completion of EMU's architecture. But most of all, it needs to find a sense of purpose and a new unity in an increasingly fragmented global system. The summit for the 60<sup>th</sup> anniversary of the creation of the Union provides such opportunity. The main risks to the current well entrenched recovery are political; a renewed political dynamism will therefore also have important positive effects on the economic outlook.



Marco Buti  
Director General, Economic and Financial Affairs



## OVERVIEW: NAVIGATING THROUGH CHOPPY WATERS

Euro area recovery continues, surrounded by heightened uncertainty

The economic recovery is set to continue at a moderate pace but the forecast is surrounded by uncertainty...

There is a high degree of uncertainty surrounding the global economic outlook at present. This comes after an already difficult 2016, in which the European economy had to cope with numerous international and domestic challenges including the lowest pace of global and trade growth since 2009, geopolitical tensions, terrorist attacks in several Member States, stressed banking sectors, UK's vote to leave the EU, and a mounting backlash against globalisation. So far though, the European economy has proved to be resilient and has stayed the course of economic growth and job creation. EU GDP growth rose towards the end of last year and looks to have maintained its momentum into this year. This resilience has been supported by a number of well-known favourable factors, including the relatively low oil price, the past depreciation of the euro, accommodative monetary policies and a broadly neutral fiscal policy stance. The implementation of structural reforms in some Member States has also helped to underpin the recovery, particularly in the labour market. Private consumption has remained the main growth driver while investment has continued to disappoint. This persistent weakness in investment casts a shadow of doubt over the sustainability of the recovery and the economy's potential growth.

Table 1:

Overview - the winter 2017 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	1.4	1.6	1.8	2.0	1.8	8.0	7.8	7.6	1.0	1.2	1.3	-2.9	-2.2	-2.3
Germany	1.9	1.6	1.8	0.4	1.9	1.5	4.1	4.1	4.1	8.7	8.3	8.0	0.6	0.4	0.4
Estonia	1.1	2.2	2.6	0.8	2.8	2.8	6.9	7.9	8.7	0.6	0.3	0.0	0.1	-0.5	-0.2
Ireland	4.3	3.4	3.3	-0.2	0.9	1.0	8.0	7.0	6.7	9.6	9.5	9.3	-0.9	-0.6	-0.6
Greece	0.3	2.7	3.1	0.0	1.3	1.0	23.4	22.0	20.3	-0.7	-0.7	-0.6	-1.1	-1.1	0.7
Spain	3.2	2.3	2.1	-0.3	1.9	1.7	19.6	17.7	16.0	1.8	1.7	1.6	-4.7	-3.5	-2.9
France	1.2	1.4	1.7	0.3	1.5	1.3	10.0	9.9	9.6	-2.3	-2.6	-2.7	-3.3	-2.9	-3.1
Italy	0.9	0.9	1.1	-0.1	1.4	1.3	11.7	11.6	11.4	2.7	2.1	1.8	-2.3	-2.4	-2.6
Cyprus	2.8	2.5	2.3	-1.2	1.2	1.1	13.3	12.0	11.0	-1.6	-2.1	-2.3	0.0	-0.2	0.4
Latvia	1.6	2.8	3.0	0.1	1.9	2.0	9.7	9.5	9.0	-0.1	-2.5	-3.3	0.0	-1.0	-1.0
Lithuania	2.2	2.9	2.8	0.7	2.1	1.9	8.0	7.5	7.1	-1.6	-2.9	-2.6	-0.5	-0.7	-0.7
Luxembourg	3.8	4.0	3.9	0.0	2.0	2.1	6.3	6.2	6.2	5.3	4.9	5.8	1.6	0.2	0.3
Malta	4.0	3.7	3.7	0.9	1.6	1.8	4.8	4.9	4.9	5.0	5.3	6.0	-0.7	-0.6	-0.6
Netherlands	2.1	2.0	1.8	0.1	1.4	1.4	6.0	5.2	4.7	8.0	7.4	7.1	-0.1	0.2	0.3
Austria	1.5	1.6	1.6	1.0	1.8	1.6	6.0	6.1	6.2	2.4	2.2	2.4	-1.4	-1.2	-0.9
Portugal	1.3	1.6	1.5	0.6	1.3	1.4	11.2	10.1	9.4	0.3	0.4	0.6	-2.3	-2.0	-2.2
Slovenia	2.5	3.0	3.0	-0.2	1.1	2.3	7.9	7.0	6.2	6.3	5.5	5.0	-2.0	-1.7	-1.4
Slovakia	3.3	2.9	3.6	-0.5	0.9	1.4	9.7	9.0	7.9	1.2	1.2	1.5	-2.2	-1.4	-0.6
Finland	1.5	1.2	1.5	0.4	1.5	1.2	8.8	8.6	8.3	-0.5	-0.6	-0.5	-2.2	-2.3	-1.8
Euro area	1.7	1.6	1.8	0.2	1.7	1.4	10.0	9.6	9.1	3.6	3.2	3.1	-1.7	-1.4	-1.4
Bulgaria	3.3	2.9	2.8	-1.3	0.8	1.2	7.7	7.1	6.8	2.6	1.4	0.8	-0.4	-0.5	-0.3
Czech Republic	2.4	2.6	2.7	0.6	2.0	1.8	4.0	3.9	3.8	-0.2	-0.5	-0.4	0.3	0.1	0.2
Denmark	1.0	1.5	1.8	0.0	1.4	1.6	6.2	5.9	5.7	7.3	7.0	7.0	-1.6	-1.6	-0.9
Croatia	2.8	3.1	2.5	-0.6	1.7	1.6	12.8	10.8	9.3	2.8	1.8	1.3	-1.8	-2.1	-1.8
Hungary	1.9	3.5	3.2	0.4	2.2	3.1	5.2	4.8	4.5	5.4	3.7	3.2	-1.8	-2.4	-2.5
Poland	2.8	3.2	3.1	-0.2	2.0	2.1	6.3	5.6	4.7	0.2	-0.4	-0.8	-2.3	-2.9	-3.0
Romania	4.9	4.4	3.7	-1.1	1.6	2.9	6.0	5.7	5.6	-2.2	-2.9	-3.1	-2.8	-3.6	-3.9
Sweden	3.3	2.4	2.1	1.1	1.7	1.8	6.9	6.5	6.4	4.8	4.8	4.9	0.5	-0.2	0.2
United Kingdom	2.0	1.5	1.2	0.7	2.5	2.6	4.9	5.2	5.6	-5.0	-4.8	-3.9	-3.4	-2.8	-2.5
EU	1.9	1.8	1.8	0.3	1.8	1.7	8.5	8.1	7.8	2.1	1.9	1.9	-1.9	-1.7	-1.6
USA	1.6	2.3	2.2	1.3	2.4	2.5	4.9	4.6	4.5	-2.5	-3.0	-3.5	-4.8	-5.1	-5.7
Japan	0.9	1.0	0.5	-0.1	0.4	0.6	3.1	3.1	3.0	3.9	4.1	4.2	-3.7	-4.0	-3.8
China	6.7	6.4	6.2	-	-	-	-	-	-	-	-	-	-	-	-
World	3.0	3.4	3.6	-	-	-	-	-	-	-	-	-	-	-	-

...which has reached a new high.

There is increasing evidence that the exceptional strength of the supportive factors has started to fade even as Europe faces numerous challenges. Uncertainty is rising to an extraordinarily high level, driven by the uncertain outcome of the UK's 'Brexit' negotiations and by upcoming elections in a number of large Member States. The outcome of the US presidential election adds some upside risks related to fiscal stimulus, but has also raised the possibility of isolationist and protectionist policies that would hurt the global and European economy, should they be enacted.

Overall, after 1.7% in 2016, euro area GDP growth is set to ease somewhat this year to 1.6% and then pick up slightly to 1.8% in 2018. This steady but moderate expansion should remain driven by domestic demand. Global GDP growth is expected to have reached a low point in 2016 and is projected to strengthen this year and next. Growth outside the EU is projected to pick up gradually from 3.2% in 2016 to 3.7% in 2017 and 3.9% in 2018.

Fiscal stimulus in the US is likely to raise interest rates and the US dollar

Growth prospects for advanced economies outside the EU have recently improved somewhat and a modest rebound is forecast this year, largely given assumptions of fiscal stimulus in the US. The implementation of a fiscal stimulus package would likely boost US GDP in the near term, but even though its timing, size and breakdown are still unknown, its multiplier is likely to be very low as the combination of loose fiscal policy and tighter monetary policy could spur further appreciation of the dollar and lead to an increase in long-term interest rates.

Growth in emerging markets remains fragile. After five years on a persistent downward trend, the protracted downturn appears to have bottomed out in 2015-2016 and a gradual recovery is expected to begin this year. This recovery should be supported by a gradual increase in commodity prices, as well as recovering demand from advanced economies, including some positive spillover effects from the planned US fiscal stimulus. However, tighter financial conditions and heightened uncertainty regarding future US policies are likely to impact business confidence and investment.

Financial markets have so far reacted positively to the US elections...

Global financial markets have rediscovered some optimism since the autumn, driven by improving macro-economic data, a pick-up in inflation, and expectations of a pro-growth policy in the US. In Europe, market perceptions of an improving economic outlook, sustained ECB asset purchases and expectations about US policy have led equity markets higher. Government bond yields have picked up, raising slightly credit financing costs but also providing some relief for bank profitability. Euro area sovereign bond spreads widened moderately on account of perceptions of heightened political risks in some Member States.

...while monetary policy is set to remain accommodative...

In the short term, the trajectory of monetary policy in the US and the euro area is expected to diverge and the dollar has already seen a broad-based strengthening on the back of expectations that monetary policy accommodation in the US will roll back more quickly. In the euro area, the extension of the ECB's asset purchase programme should ensure the prolongation of the stimulus.

...allowing favourable funding conditions...

Credit costs for non-financial corporations remained broadly unchanged on balance over the path months, as rising corporate bonds yields were compensated by further declines in bank lending rates. In some Member States, banks still face balance sheet constraints and low profitability but overall, euro area banks have continued to improve their capacity to support

lending by strengthening their capital positions and reducing the risk on their balance sheets. As a result, both bank and market funding should remain supportive over the forecast horizon.

...which is a necessary but not sufficient condition for investment.

Investment remained weak last year despite substantial policy support and the related improvement in financing conditions. This year, investment is expected to be dampened by the demand outlook, which remains moderate, and by the heightened uncertainty related to the path of the UK's exit from the EU and the uncertainty surrounding future US policies. Also, in some Member States, corporate deleveraging still more than offsets the positive impact of improving financing conditions. The pace of growth in construction investment is, however, expected to have increased in the euro area in 2016 thanks to low mortgage rates and improved access to loans for house purchases. The recent rise in construction output and house prices also supports the expectation that the adjustment in the housing sector is ending. Investment is expected to accelerate somewhat next year thanks to low financing costs, the improving global demand outlook, high capacity utilisation, and recovering profit margins. A growing number of projects approved under the umbrella of the Investment Plan for Europe are also expected to move to the implementation phase, boosting both public and private investment. Investment growth is nevertheless set to remain subdued as the abovementioned hindrances to investment are likely to persist.

Private consumption is likely to moderate but remains the main growth driver...

Private consumption was the principal contributor to growth in 2016 and is expected to remain the main growth driver over the forecast horizon, underpinned by a continued acceleration of nominal labour and non-labour incomes. Households should indeed continue benefitting from employment growth and a rise in compensation, whilst increases in house prices are set to generate positive wealth effects. However, the expected increase in inflation will dampen the growth of real disposable incomes. Household saving rates are expected to remain broadly stable as the pass through to savings of past oil price-related income gains should come to an end, while uncertainty could lead to precautionary savings.

...whilst public consumption is a steady growth contributor...

Government consumption is expected to continue its rather steady contribution to GDP growth. After moderating slightly this year following the boost from refugee and security-related expenditures in some Member States last year, public consumption growth should remain stable next year under a no-policy change assumption.

...but little support is expected from export demand.

World trade is expected to firm this year, driven by the projected cyclical strengthening in advanced economies and the rebound in commodity prices, which should help with investment and the terms of trade in commodity exporters. Excluding the EU, imports of goods and services likely grew by a meagre 0.8% in 2016, but are expected to recover gradually to 3.0% in 2017 and to accelerate to 3.7% in 2018, which is more robust than expected back in the autumn due to the effects of the assumed US fiscal stimulus and a firmer trade outlook for China.

This rebound is set to raise foreign demand for European exports, but it should be partly offset by slowing growth in the UK and the pound's depreciation. Despite some further price competitiveness gains in terms of relative unit labour costs, European exporters are also likely to lose marginal market shares this year and next in line with past trends. Imports are set to continue following a similar pattern to those of exports, while growing

stronger. Overall, the contribution of net exports to GDP growth is set to be fairly neutral.

Heterogeneity among Member States might widen again...

The recent appreciation of the US dollar and the increase in benchmark yields could affect euro area Member States in different ways, causing growth differences, which have been diminishing, to widen again. Different degrees of openness and uneven progress in achieving price and cost competitiveness imply that changes in the external value of the euro impact differently on the economic performance and the external position of countries. Moreover, the vulnerability of Member States to a normalisation of long-term interest rates will also differ depending on the strength of the banking sector and its exposure to bond markets, persistent impacts from the crisis and fiscal consolidation needs. The extent to which deleveraging has taken place, the labour market situation and the extent to which reforms have been implemented will also make a difference.

...while labour market slack persists despite broad improvements...

Improvements in the labour market are expected to continue, supported by the domestic-demand driven expansion, still relatively moderate wage growth, as well as structural reforms and policy measures implemented in some Member States. The pace of net job creation in 2017 and 2018 should, however, be slower than last year which may reflect a normalisation of some temporary factors that boosted employment in some Member States. Employment growth is projected to moderate from 1.3% to 1% in the euro area and to a lower 0.8% in the EU in 2017 and 2018 respectively. As job creation should outpace labour force growth, unemployment is likely to continue declining, yet unlikely to recover to pre-crisis levels over the forecast horizon. Also the slow recovery in the number of working hours per employee and the increase in the share of involuntary part-time work suggest that there is still non-negligible slack in the labour market.

...and the rise of energy prices is temporarily driving inflation up.

Inflation in the euro area has been picking up since the second half of 2016, mostly reflecting the recovery in oil prices from very low levels and base effects. Core inflation was fairly stable in 2016, as slack in the labour market as well as structural reforms implemented in some Member States prevented underlying prices from rising further. The depreciation of the euro against the dollar and rising global input price pressures are set to drive import prices further up in 2017, contributing to a rise in headline inflation this year. The impact of positive base effects in energy inflation, however, is set to fade over the forecast horizon. The slight increase in wages expected this year and next, as well as the narrowing and closure of the output gap, should begin supporting a moderate and gradual pick up in underlying price pressures. As a result, euro area headline inflation is forecast to rise from 0.2% in 2016 to 1.7% in 2017 and to recede to 1.4% 2018, as the gradual increase in core inflation is not expected to fully offset the fading inflationary impact of higher oil prices.

Public debt ratios are set to decline further...

The general government deficit in the euro area is expected to decrease from 1.7% of GDP last year to 1.4% in 2017 and, under a no-policy-change assumption, to remain at 1.4% in 2018. This decline reflects the reduced expenditure (as a percentage of GDP) on social transfers, which is a consequence of the economic recovery and falling unemployment, wage bill moderation in the public sector and the reduction in interest expenditure. The debt-to-GDP ratio in the euro area is projected to continue declining gradually from 91½% last year to 89¼% 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.

...whereas the policy mix in the euro area should remain growth-supportive.

The fiscal policy stance, measured by changes to the fiscal structural balance, stopped being restrictive in 2015 and is expected to turn broadly neutral over the forecast horizon. Real financing costs should decrease somewhat in the short run thanks to the full implementation of the set of monetary policy measures and rising inflation.

The range of possible outcomes has considerably increased

This forecast is surrounded by exceptionally high uncertainty. The balance of risks remains tilted to the downside although upside risks have also emerged, especially in the short run.

In the near term, the eventual package of US fiscal stimulus and pro-business reforms could provide a stronger boost to global GDP than currently expected. But in the medium term, potential disruptions associated with shifting US positions on trade policy could damage international trade at a time when global growth is bottoming out and its recovery is still fragile. A faster reversal of the US' monetary policy stance and a stronger-than-expected dollar appreciation could negatively impact emerging market economies, particularly those with unhedged USD-denominated debt. As financial markets may be challenged by all these factors, a sudden and abrupt drop in global risk appetite and a re-assessment of currently compressed risk premia could cause significant turmoil in global financial markets. Long-standing risks surrounding a disorderly adjustment in China have increased amid rapid domestic credit growth and continued reliance on stimulus measures.

On the domestic side, the UK 'leave' vote continues to pose a significant downside risk to the UK and to a lesser extent the overall European economy, as does the political uncertainty surrounding upcoming elections in large Member States. Fragile banking sectors in some countries are also a concern, even though the recent steepening of the yield curve provides some relief.



# PART I

EA and EU outlook



# NAVIGATING THROUGH CHOPPY WATERS

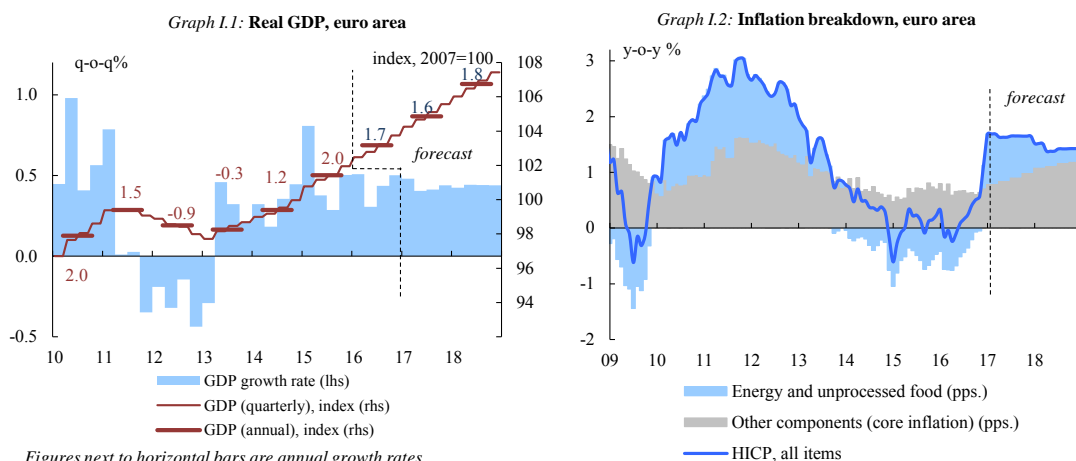
## Euro area recovery continues, surrounded by heightened uncertainty

*The European economy demonstrated resilience in 2016, as it maintained its course of growth and job creation even as it faced a number of challenges. Growth was moderate but picked up slightly towards the end of the year, with the continued support of very accommodative monetary policy, low commodity prices, the euro's relatively low exchange rate as well as endogenous factors such as improving labour market conditions. The resilience of the euro area recovery, however, cannot be taken for granted. While GDP has recovered to its pre-crisis level, the persistent weakness of investment casts a shadow over the sustainability of the recovery.*

*The macroeconomic and financial landscape is being strongly challenged and the level of uncertainty at the current juncture is exceptionally high, for reasons including a possible sharp shift in US policies, a lack of information about the path for the UK's exit from the EU, monetary policy divergence at the global level, and upcoming elections in a number of European countries. While the EU economy navigates these choppy waters, it will do so with fading support from some of the extraordinary external factors that have been helping it thus far, such as low oil prices and past exchange rate depreciation.*

*GDP growth is expected to remain fairly steady in the euro area at 1.6% in 2017 and 1.8% in 2018. Private consumption, the main source of growth so far, is set to slow down as consumer prices rise and dampen real disposable income growth. It should, however, continue to benefit from rising employment, though to a lesser extent than in 2016. Investment growth is projected to remain moderate. On the one hand, investment should benefit from many favourable determinants including strengthening global activity, high capacity utilisation and policy support (e.g. low financing costs and the Investment Plan for Europe). However, a number of hindrances will remain, such as the high level of corporate and household debt in some Member States, the moderate demand outlook in Europe, and the high level of uncertainty. As regards trade, the expected pick-up in emerging market economies, and some advanced economies, should raise foreign demand for euro area exports. Although declining, growth differentials across euro area Member States remain large and the increase in benchmark yields and the USD appreciation could exacerbate these growth differences again. Unemployment in the euro area is forecast to fall further to 9.1% in 2018. Oil prices are expected to drive headline inflation in the euro area to 1.7% in 2017 but inflation is expected to drop back slightly to 1.4% in 2018. Core inflation is projected to slightly increase and stand at 1.4% in 2018.*

*Downside risks to the growth outlook have intensified since the autumn but upside risks have also emerged, at least for the short term. The factors supporting these upside risks, however, carry the seeds of their own decline. The eventual package of US fiscal stimulus and pro-business reforms could provide a stronger near-term boost to US and global GDP than currently assumed. However, new downside risks for the medium term are related to potential disruptions associated with shifting US positions on trade policy, a faster reversal of the US monetary policy stance and its impact especially on emerging markets. Risks to the growth outlook are also associated with the process of the UK leaving the EU, remaining banking fragilities in the euro area, an abrupt drop in global investor risk appetite, as well as the possibility of a disorderly adjustment in China. Overall, risks to growth remain predominantly on the downside, while risks to the inflation outlook remain broadly balanced.*



## 1. PUTTING THE FORECAST INTO PERSPECTIVE: HOW PERSISTENT ARE CRISIS EFFECTS IN THE EURO AREA?

Nine years after the global economic and financial crisis struck in 2008, the euro area is experiencing a moderate expansion of economic activity with robust employment growth. However, several elements suggest that the recovery is still incomplete. The output gap is narrowing but has not yet closed; the unemployment rate remains about 2 pps. higher than before the crisis and is still very high in some Member States; investment remains weak; and the euro area's potential growth has been hit by the impact of the crisis.

A slow recovery from the financial and economic crisis was expected<sup>(1)</sup> and has indeed been a feature in many advanced economies following the Great Recession of 2008-2009. But even so, the recovery in the euro area has been particularly slow. Its drawn-out nature carries the risk of permanent damage to productive capacity as highlighted by a number of observers.<sup>(2)</sup>

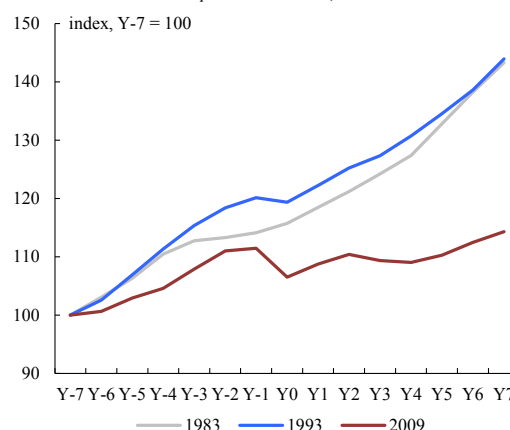
Indeed, the observed protracted weakness of investment could become self-reinforcing as expectations of slow potential growth become entrenched. Also some labour-market indicators point to areas where cyclical unemployment is at risk of becoming structural. Left unattended, this could result in a highly persistent<sup>(3)</sup> crisis impact on the euro-area economy.

### The recovery was particularly slow in the euro area

Real GDP in the euro area recovered its pre-crisis level in 2015-Q3, but the pace of growth is slow compared to past recoveries after major recessions

(see Graph I.3) and compared to recoveries in other economies/regions (see Graph I.4). To be sure, developments in the euro area were more challenging than elsewhere. The global financial crisis was followed by the sovereign debt crisis (2011-2013) and a fully-fledged recovery started only in 2013. Already before 2008, the growth performance of the euro area was relatively weaker than in other advanced economies; the debt crisis induced an outright decoupling of the euro area from other developed countries, including those that were also hit by the banking crisis.<sup>(4)</sup> The difference is particularly striking when compared to the US, which was at the epicentre of the global economic and financial crisis.

Graph I.3: Real GDP, EA-12



Note: (1) Y0 is the year of cyclical trough in the EA, i.e. 1983, 1993 and 2009. 2009 is also the year when most advanced economies started to recover from the global crisis. For the recovery after 2009, Y7 (2016) is based on the European Commission's Winter Forecasts. EA12 (15) is GDP-weighted aggregate of BE, DE, IE, EL, ES, FR, IT, LU, NL, AT, PT, FI, SI, CY, MT). 'mean\_crisis' is the un-weighted mean of CH, JP, SE, UK, US. 'mean\_non-crisis' is the un-weighted mean of AU, CA, KO, NO, NZ.

In the context of the sovereign debt crisis, domestic demand in the euro area was dampened by negative feedback loops between banks and sovereigns and the need for frontloaded fiscal consolidation, while monetary easing was constrained by the zero lower bound and financial fragmentation. Structural deficiencies in labour and product markets and a comparatively less advantageous geographical orientation of external trade added to the slowness of the recovery.<sup>(5)</sup>

<sup>(1)</sup> This was highlighted in a number of ECFIN forecasts in the past years, e.g. DG ECFIN (2012). European Economic Forecast – Spring, *European Economy* 1.

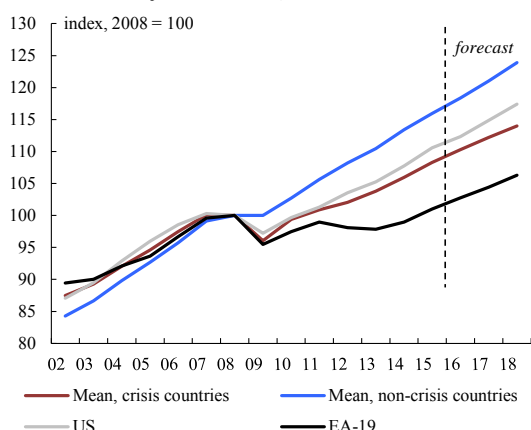
<sup>(2)</sup> Ball, L. (2014). 'Long-term damage from the Great Recession in OECD countries'. *NBER Working Paper*, No 20185, May. Haltmaier, J. (2012). 'Do Recessions Affect Potential Output?', Board of Governors of the Federal Reserve System, *International Finance Discussion Papers*, No. 1066. Mourougane, A. (2016). 'Crisis, potential output and hysteresis.' *International Economics*, forthcoming.

<sup>(3)</sup> In what follows, the term "persistent" is used for shocks that take a long time, compared to usual business-cycle developments, to be absorbed. A large literature has developed around the concept of "hysteresis", which, strictly speaking, requires shocks to have permanent effects.

<sup>(4)</sup> Ruscher, E. and B. Vašíček (2015). 'The euro area recovery in perspective'. *Quarterly Report on the Euro Area* 14(3), pp. 6-18.

<sup>(5)</sup> Ruscher, E. and B. Vašíček, (2015). Op. cit.. Consolidation efforts were strongest in the years 2011-2013, as reflected in the change of the structural fiscal balance. Since 2015, the fiscal stance has been broadly neutral (see Section I.8).

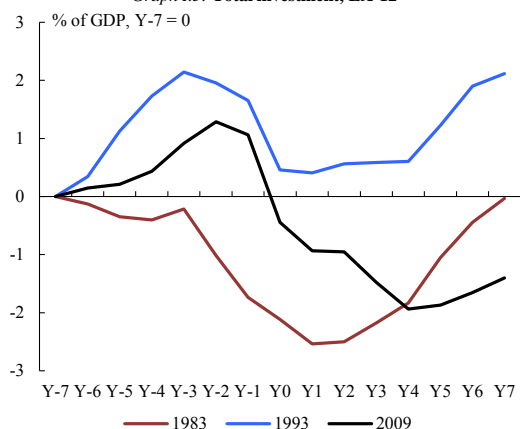
Graph I.4: Real GDP, advanced economies



### Investment continues to lag behind

Despite 15 consecutive quarters of GDP growth, investment in the euro area remains weak. The comparison with past recoveries suggests that investment growth in the euro area has so far failed to pick up to a speed that is typical for an advanced stage of recovery. The comparison with other advanced economies shows that investment has remained depressed for far longer than in other crisis-hit countries. Investment as a percentage of GDP in the euro area is still 1.8 pps. below the average of the early 2000s (i.e. before the pre-crisis investment boom) (see Graph I.5).

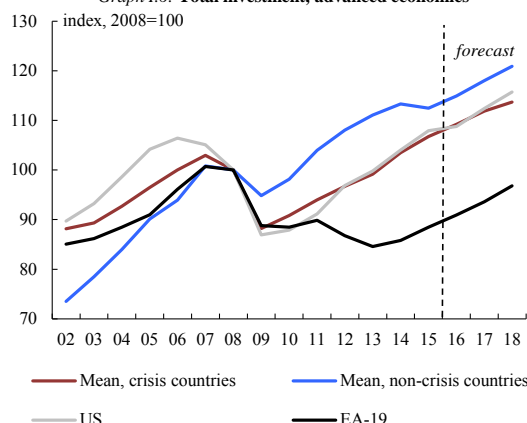
Graph I.5: Total investment, EA-12



A number of factors have contributed to keeping investment low, with different weights at different stages of crisis and recovery. In the initial years, financing constraints played a major role, as banks were first hit by the financial crisis and then, in some Member States, by negative feedback loops

between the sovereign and the banking sector.<sup>(6)</sup> At the same time, firms trying to reduce their debt typically cut back on investment.<sup>(7)</sup> The importance of these factors has diminished gradually. More recently, a subdued outlook for demand was found to be a major brake on investment, in line with the accelerator model.<sup>(8)</sup> Finally, firms tend to delay investment when they are faced with high uncertainty.<sup>(9)</sup>

Graph I.6: Total investment, advanced economies



According to this forecast, the drop in investment as a proportion of GDP is not permanent (hysteresis in the strict sense) but, with total investment growth forecast at 2.9% this year and 3.4% next, it is set to be protracted. Assuming investment growth and GDP growth at the rates forecast for 2017, it would take until 2023 for the investment share to recover to 22%, its level in the years 2000-05.

Looking at the components of fixed capital formation, construction investment has collapsed with the onset of the crisis, which in many Member States was related to the bursting of a housing bubble, as was the case in the US. In the euro area, it has bottomed out only in 2014<sup>(10)</sup> and is expected to increase at around 3% p.a. this year and next. This leaves its share of GDP

<sup>(6)</sup> Balta, N. and B. Vašíček, (2016). 'Financial channels and economic activity in the euro area'. *Quarterly Report on the Euro Area* 15(2), pp. 19-3.

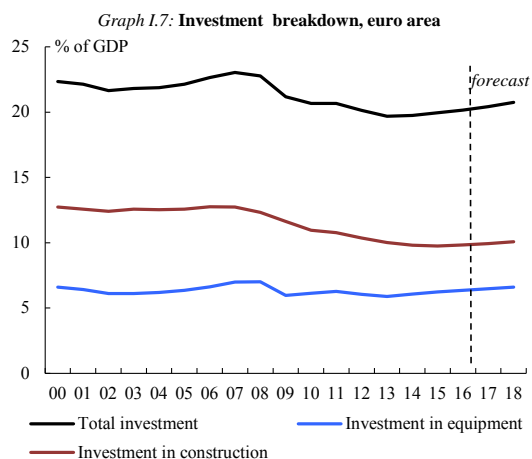
<sup>(7)</sup> DG ECFIN (2014). 'Private sector deleveraging: outlook and implications for the forecast'. Box in European Economic Forecast – Autumn. *European Economy* 7.

<sup>(8)</sup> Barkbu, B., S. P. Berkmen, P. Lukyantsau, S. Saksonovs, and H. Schoelermann (2015). 'Investment in the Euro Area: Why Has It Been Weak?'. *IMF Working Paper* 15/32.

<sup>(9)</sup> Balta, N., I. Valdes Fernandez and E. Ruscher (2013). 'Assessing the impact of uncertainty on consumption and investment'. *Quarterly Report on the Euro Area* 12(2), pp. 7-16.

<sup>(10)</sup> Housing investment in the US bottomed out in 2010.

significantly lower than it was in the early 2000s, before the housing boom, (see Graph I.7). Equipment investment registered a double dip with troughs in 2009 and 2013. By 2016, its share of GDP was similar to the first half of the 2000s.

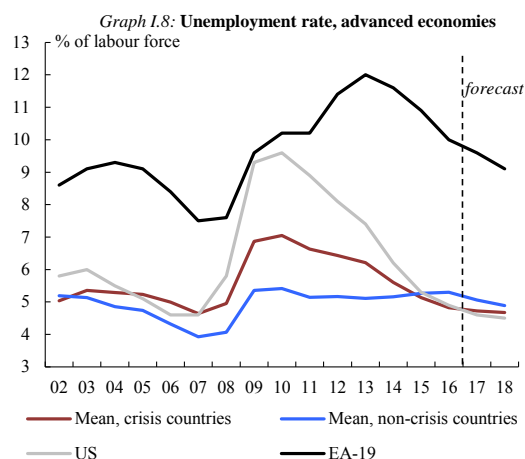


### Labour-market healing is incomplete...

The economy has been creating jobs uninterruptedly for three years. Employment growth in the past two years was even surprisingly strong considering the modest rates of GDP growth (see Section I.5). In December 2016, the unemployment rate reached 9.6% of the labour force in the euro area, its lowest level since May 2009. However, supplementary indicators to unemployment signal that slack in the labour market still remains important, but also that there is a risk of elevated long-term/structural unemployment that could be detrimental to the further improvement of the labour market and potential growth.

Even before the crisis, unemployment in the euro area was higher than in other advanced economies (see Graph I.8), arguably reflecting labour-market institutions and structural rigidities.<sup>(11)</sup> Due to the double-dip recession, the unemployment rate in the euro area peaked only in 2013 (2010 in the US). It currently remains 2 pps. above its pre-crisis level, while the US rate is back to its 2007 level, also helped by a fall in the labour-force participation.

<sup>(11)</sup> International Monetary Fund (2003). 'Unemployment and labour market institutions: why reforms pay off?', Chapter IV of the *World Economic Outlook*, April.



The chances of finding a job decrease with the length of the spell out of employment. Joblessness that started as a cyclical phenomenon can therefore become structural. Forecasting labour market developments thus requires an assessment of which parts of the labour force could be brought into employment relatively easily, representing the cyclical component of joblessness or labour-market slack, and which part of unemployment is structural or at risk of becoming so, making the crisis impact protracted or even permanent.<sup>(12)</sup> Graph I.9 provides a useful approximation. It displays for different labour-market indicators the impact of the crisis (the difference between pre-crisis levels and the peak) and the most recent reading. The closer the latest reading remains to the peak, the less impact the recent cyclical improvement has had on that indicator and the higher the risk of structural ossification.<sup>(13)</sup>

### ...and some segments are particularly affected.

People working part time because they cannot find full-time work or who have withdrawn from the labour market possibly due to the lack of job opportunities (i.e. the 'hidden reserve' of workers<sup>(14)</sup> are not counted as unemployed. While there is a trend towards more part-time work in general, involuntary part-time work can be expected to fall back to pre-crisis levels as labour

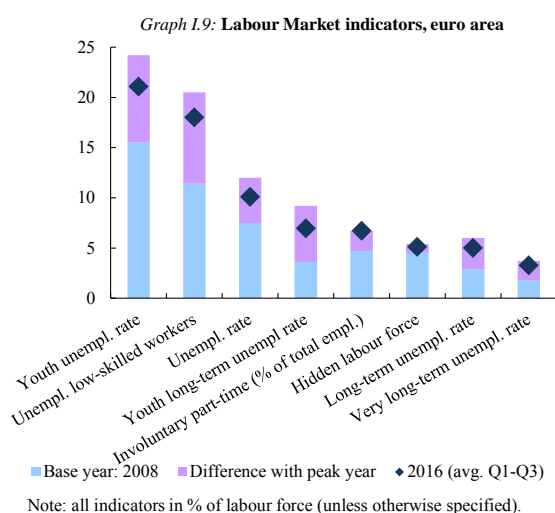
<sup>(12)</sup> Gali, J. (2015). 'Hysteresis and the European unemployment problem revisited'. *NBER Working Paper* 21430.

<sup>(13)</sup> Being a simple gauge, this approach cannot distinguish whether a recent improvement is due to cyclical developments alone or to structural reforms. The cyclical impact may thus be overestimated.

<sup>(14)</sup> The hidden reserve of workers includes "people available for work but not seeking" and "people seeking work but not immediately available".



demand rises. Similarly, the downward trend for the hidden reserve of workers should continue as the recovery of the labour market encourages more and more workers to (re-)enter the labour force. Additionally, further increases in labour-market participation are also warranted in view of population ageing.



The unemployment rates for the long-term unemployed, the low-skilled and the youth have peaked more than ‘headline’ unemployment, and decreased at a much slower pace and with a delay (for long-term and the low-skilled). Unemployment among these groups remains at very high levels, suggesting less reactivity to cyclical improvements. The persistence of such ‘pockets’ of very high unemployment could thus be detrimental to structural unemployment in the future.

Long-term unemployment (people being unemployed for more than 12 months) continued to decline in the first three quarters of 2016, though very slowly. At 5% of the labour force in the first three quarters of 2016, it stood 1 pp. below its peak of 2014, but still more than 2 pps. above its pre-crisis level (of 2.9% in 2008). More worryingly, the average duration of unemployment has increased, and the share of the long-term unemployed now represents half of total unemployment compared to around 37% in 2009. In the US, the share is just 20%. Very long-term unemployment (people who remain unemployed for more than two years) has barely started to decline and counted for 65% of the total long-term unemployed in the first half of 2016.

This may indicate that unemployment is becoming more entrenched. The literature points to several factors that make it harder to find a job the longer a worker remains unemployed: e.g. loss of skills, discouragement as well as signalling effects (employers are reluctant to hire someone who has been unemployed for a long time because they suspect that the long unemployment spell signals poor performance).<sup>(15)</sup> All this suggests that long-term unemployment has a negative impact on structural unemployment, labour-force participation and thus potential growth.

Young people and the low-skilled have been among the groups most affected by the crisis. Youth unemployment rate skyrocketed in the aftermath of the crisis to 24.4% in the euro area in 2013 and at 21% in 2016 remains very high by international and historical standards. Despite the positive trend, one should remember that prolonged spells of unemployment can cause long-lasting damage to the career of young people, reducing their future wages and opportunities. This is notably due to the lack of on-the-job training as well as the depreciation of knowledge and skills which tend to increase the risk of social exclusion.<sup>(16)</sup> Moreover, during the crisis years, the positions they do manage to find, given the competition on the job market, might well involve a lower rate of pay and less favourable career prospects than they could expect in less adverse circumstances.<sup>(17)</sup> So the economic crisis has potentially scarring effects on young people. The loss of knowledge and skills for a significant

<sup>(15)</sup> Becker G. (1962). ‘Investment in human capital: a theoretical analysis’. *Journal of Political Economy*, 70(1), S9-S49.; Spence M. (1973). ‘Job market signalling’. *Quarterly Journal of Economics*, 87(3), 355-374. Mortensen D. (1986). ‘Job search and labor market analysis’. *Handbook of Labor Economics*; Knabe, A. and S. Rätzl (2011). ‘Scarring or Scaring? The Psychological Impact of Past Unemployment and Future Unemployment Risk’. *Economica* 78, pp. 283–293. Ekert-Jaffé, O and I. Terraz (2011). ‘The scarring effect of unemployment in ten European countries: an analysis based on the ECHP’. BETA Document de Travail n° 2011 – 09.

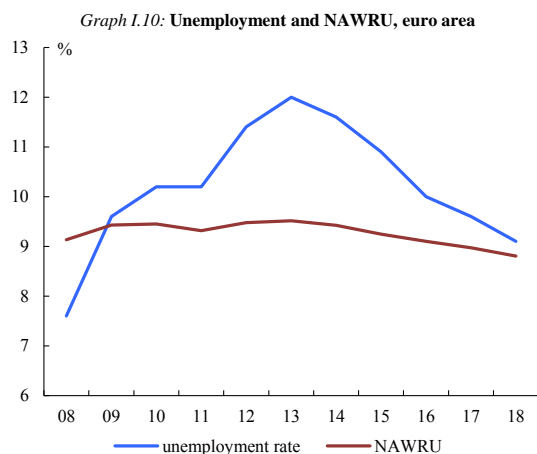
<sup>(16)</sup> Gregg P. and Tominey E. (2005). ‘The wage scar from male youth unemployment’. *Labour Economics*, 12, 487-509. Nordström Skans, O. (2011). ‘Scarring Effects of the First Labor Market Experience’. *IZA Discussion Paper No. 5565*, March. Mroz, T.A. and T.H. Savage (2006). ‘The Long-Term Effects of Youth Unemployment’. *Journal of Human Resources* 41(2), Spring, pp. 259-293.

<sup>(17)</sup> The youth making the transition from education into work during crisis years and experience a spell of unemployment as a result face more difficulty in remaining in employment throughout their working life and receive lower lifetime earnings than those beginning their working career during more favourable times. Fondeville, N and T. Ward (2014). ‘Scarring Effects of the Crisis’. European Commission Social Situation Monitor Research Note 6/2014.

number of youth not being employed for a long period of time could reduce the average productivity of the workforce and eventually lower potential growth.

A different approach to distinguishing the cyclical and structural components of unemployment consists of comparing headline unemployment to an estimated measure of structural unemployment. DG ECFIN estimates a non-accelerating wage rate of unemployment (NAWRU) as part of its assessment of potential GDP growth and output gaps. The euro-area unemployment gap in 2016 is estimated at 0.9 pps., down from 2.5 pps. in 2012 (see Graph I.10). By comparison, in the US, the unemployment gap is estimated to have closed in 2014. It should be noted that the estimated NAWRU does also move with the cycle.

Looking at the different indicators in conjunction suggests that once full employment is reached, further employment growth can tap into slack that is still present (low number of hours, hidden labour force), but that a swift and continued reduction of unemployment would become more and more difficult to achieve in the medium to long-term particularly if a high share of long-term unemployment persists.

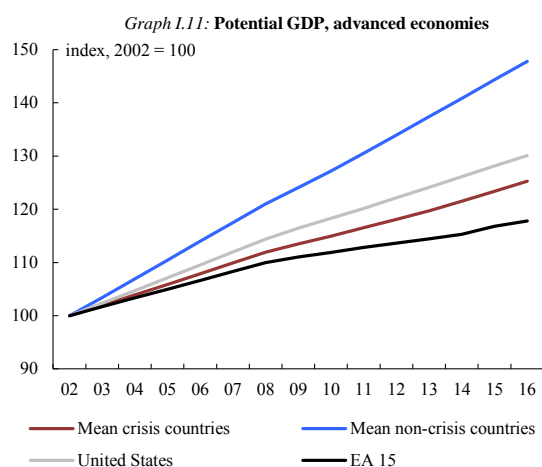


### Lingering effects of the crisis interact with potential growth

Euro-area potential GDP growth has fallen from close to 2% in the pre-crisis years to just ½% in the aftermath of the crisis and has recovered only partly to 1.1% in 2016. It has been affected by the crisis as structural unemployment (in this context the NAWRU) has reduced the labour contribution to potential GDP while the investment shortfall has reduced the capital contribution and productivity

growth as new technology is adopted less quickly. The contributions of labour and capital to potential growth declined by a similar amount during the crisis. The crisis has compounded longer-term negative trends of decelerating total factor productivity and population ageing, not fully compensated by a trend of increasing labour-market participation.

The international comparison shows that the Great Recession and the sovereign debt crisis have exacerbated the differences in potential growth with other regions (see Graph I.11).



Based on the present forecast, the very modest recovery in potential growth over the forecast horizon suggests a persistent impact of the crisis on the growth potential.

Looking further ahead, despite the continued decline in the “headline” unemployment rate, the probability that a non-negligible share of cyclical unemployment becomes structural or that difficult career starts for young workers transform into lower productivity cannot be ruled out. If unaddressed, these issues could contribute to persistently lowering the contribution of labour to potential growth. On the side of investment, long-lasting effects could stem from a negative feedback loop, as low investment reduces the growth potential and the anticipation of a lower economic growth potential reduces the incentives to invest.

## 2. EXTERNAL ENVIRONMENT

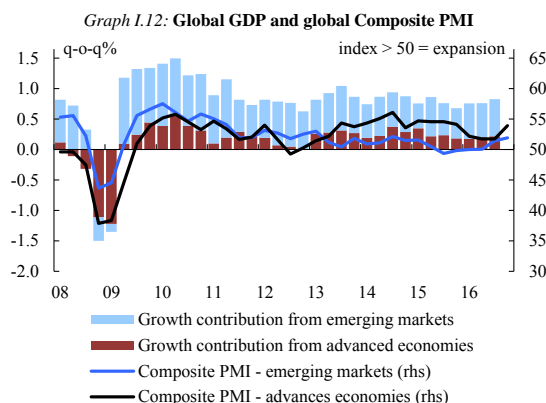
The global economy is on the path of gradual recovery but uncertainty and risks (both downside and upside) have increased markedly following the results of the US presidential election. Global GDP growth reached a low point in 2016 but is expected to firm over the forecast horizon. The protracted downturn in emerging markets finally appears to have bottomed out and a gradual recovery should be supported by a turnaround in commodity prices. Better growth prospects in advanced economies in the near term reflect mainly an expected fiscal stimulus in the US. Nevertheless, the outlook for the global economy is subject to considerable uncertainty, linked above all to the uncertain policy stance of the new US administration. While a stronger-than-expected short-term fiscal impulse in the US would constitute a possible upside risk in the short term, a move towards more protectionism is likely to have a major negative impact on the global economy in the medium term. In addition, a stronger-than-expected US dollar would imply intensifying headwinds for emerging market economies, in particular tighter financing conditions, a risk of capital outflows and increased financial pressure on highly leveraged countries with unhedged USD-denominated debt.

### Global activity has been on the rise since the second half of 2016

Global activity gained momentum in the third quarter of 2016 with an acceleration in both emerging markets and advanced economies. Real global GDP growth firmed to 0.9% (q-o-q) in the third quarter, its fastest in two years. Among advanced economies, growth in the US and Canada rebounded particularly strongly, outweighing some soft patches elsewhere, with outright GDP contractions registered in Australia, Norway and Singapore. Growth in emerging markets generally picked up in the third quarter, but outturns were also quite differentiated with strong readings in Mexico and emerging Asia but weaker data in Brazil and South Africa.

Forward looking indicators suggest that global growth has likely strengthened further in the final quarter of last year (see Graph I.12). Business confidence in advanced economies has been rising steadily for some time now, with December's composite and manufacturing PMIs both reaching 54.0, respectively, 12-month and 30-month highs.

Business sentiment also continued to improve in emerging markets with third quarter levels near 9-quarter highs, largely driven by gradual improvements in China and Russia.



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

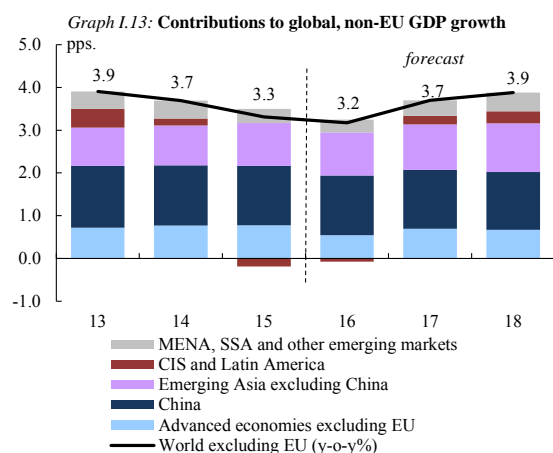
### The recovery is expected to gain momentum amid heightened uncertainty and risks

Global growth (excluding the EU) is projected to have reached 3.2% in 2016, the weakest since 2009, but is expected to pick up over the forecast horizon to 3.7% in 2017 and 3.9% in 2018, driven by a modest rebound in advanced economies in 2017 and some firming in emerging markets in both years (see Graph I.13). The recent improvement in the growth prospects for advanced economies largely reflects expectations of a fiscal stimulus in the US. Growth in emerging markets remains fragile after five years of decline, but is also expected to firm over the forecast horizon, although the picture varies considerably between countries and regions. On the whole, the recovery in emerging markets should be supported by a gradual increase in commodity prices, expected recoveries in the most distressed economies (Brazil and Russia) and stronger demand from advanced economies.

### Uncertainty concerning future US policy direction

The results of the US presidential election represent at the current juncture the largest source of uncertainty for the global economic outlook. Policy direction on a wide range of key economic issues has yet to be fully articulated and some statements have suggested the possibility of a radical departure from past policies. It is however expected that a fiscal stimulus package will be introduced, although details concerning its exact

size and the breakdown between expenditure increases and tax cuts remain unknown.



A fiscal stimulus package in the US would provide a boost to economic growth in the near term, both domestically and globally. Thus far, financial markets have reacted positively to the pro-growth elements of the new administration's statements, which include a potentially significant programme of deregulation across various sectors. Nonetheless, the maturation of the current cycle and the labour market's steady progression towards full employment imply constraints on the economy's scope to accelerate significantly.

Price and wage pressures have been building in recent months. Reflecting these pressures and the strong performance of the US labour market, the Federal Reserve increased its policy interest rate by 25 basis points from 0.5% to 0.75% at its meeting in December 2016 and raised its forecast for the future path of interest rates. The implementation of a fiscal stimulus package would likely add further to these pressures, potentially accelerating the tightening cycle that is currently under way. This would likely spur further US dollar appreciation and raise financing costs for businesses and households.

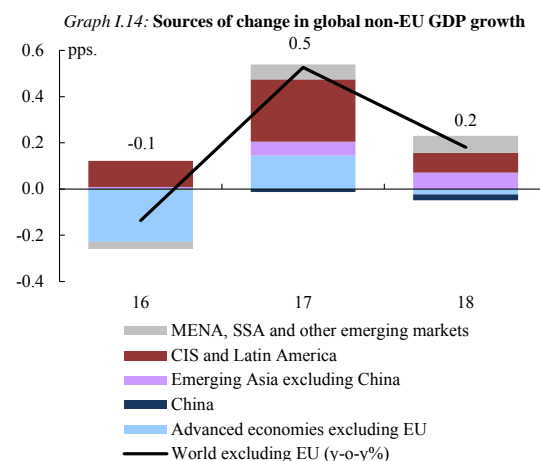
This forecast is based on the assumption that a fiscal stimulus package of around  $\frac{1}{2}$  percent of GDP will be deployed in 2017 and an additional 1 per cent of GDP in 2018. This is around the mid-to lower-range of current market expectations. Given the offsetting factors (the appreciation of the dollar and higher interest rates), this would generate a moderate net boost to US GDP growth of around  $\frac{1}{2}$  -  $\frac{3}{4}$  pps. cumulatively over the forecast horizon. This low implied fiscal multiplier suggests that one of the main outcomes of the

expected US stimulus could be a noticeable increase in the US public debt.

Current policy positions across non-fiscal areas such as international trade present potentially significant downside risks to the economic outlook.

### Outlook has improved among advanced economies

The outlook among advanced economies outside the EU has improved in recent months, led principally by the US where a fiscal stimulus package is anticipated. Overall, following a slowdown in GDP growth in advanced economies (excluding the EU) to 1.6% in 2016, growth is expected to rebound modestly to 2.1% in 2017 as transitory drags wane and underlying economic activity gains momentum before slightly slowing down to 2.0% in 2018 (see Graph I.14).



In the US, following a weak start to the year, growth rebounded to 0.9% (q-o-q) in 2016-Q3 as robust private consumption was accompanied by strong exports and an end to the prolonged period of inventory correction. The advance estimate for the fourth quarter shows that US growth moderated to 0.5% q-o-q. For 2016 as a whole, GDP is expected to have grown by 1.6%, slightly less than the euro area, which grew by an estimated 1.7%.

Initial indications signal that solid momentum will be carried into the early part of 2017, as confidence indicators among businesses and households have reached multi-year highs. The new administration's implementation of fiscal stimulus is expected to provide a further boost to growth from the second half of 2017. Growth is

expected to accelerate to 2.3% and 2.2% in 2017 and 2018, respectively. Overall, while the US outlook has been revised upwards for the coming period, underlying dynamics continue to point to an economic cycle that is gradually maturing and diminishing slack in the labour market.

In Japan, growth in recent years has been stronger than previously reported. Following a strong start to 2016, the recent moderation in growth to 0.3% (q-o-q) in 2016-Q3 implies that full-year growth should come in at 0.9%. Domestic demand is expected to be sustained in the near term by a supportive macroeconomic policy mix and steady employment creation, with GDP growth forecast at 1.0% in 2017. However, waning fiscal stimulus measures in 2018 may see growth halving to 0.5% in 2018.

Growth in other advanced economies outside the EU is also set to improve modestly particularly as one-off factors (e.g. wildfires in Canada) fall out and rebounding commodity prices improve investment dynamics in commodity exporters such as Australia and Norway.

#### **Growth in emerging markets is firming, but uncertainty has increased markedly**

After several years on a downward trend, aggregate GDP growth in emerging markets appears to have bottomed out in 2015-2016 (at around 4%, the weakest since 2009) and is set for some acceleration in 2017 and 2018 supported by a gradual increase in commodity prices. Following a period of intense financial market volatility and capital outflows in 2015 and at the beginning of 2016, market sentiment towards emerging markets began to shift, reflecting a modest improvement in growth prospects as well as accommodative monetary policy in advanced economies. However, emerging markets came under renewed pressure toward the end of last year following the US elections which has raised uncertainty and increased downside risks. As concrete details of future US policies are still unknown, the forecast for emerging markets only factors in the initial market reaction to the US election results, as well as the effects of heightened uncertainty on business confidence and investment and spillovers expected from the US fiscal stimulus.

Emerging markets are likely to be affected by the upcoming change in US policy through both the trade and financial channels. On the trade side,

many emerging markets are strongly exposed to the US either through direct trade links or, as in the case of several Asian economies, indirectly through China. The impact of possible changes in US trade policy on emerging markets is not included in the baseline scenario but represents a considerable downside risk, even though there may be some positive spillover effects of the planned US fiscal stimulus on some commodity-exporting countries. In terms of regional impact, Latin America is likely to be most affected while the effect on emerging Asia will crucially depend on the nature of future China-US relations.

With the possibility of faster-than-expected US monetary policy normalisation and a stronger US dollar, emerging markets are faced with a prospect of more financial market volatility, currency depreciations, intensified inflationary pressures and capital outflows. The likely response could be tighter domestic monetary and financial conditions. In many emerging markets the accumulation of debt, both public and private, is also a source of risk in this context, especially in cases of high corporate balance sheet exposure to unhedged USD-denominated debt.<sup>(18)</sup>

These challenges come on top of some long-standing forces shaping the outlook for emerging markets, including spillovers from the slowdown and rebalancing in China. Although the momentum of activity in China has increased in recent months and the short-term outlook appears benign, current stimulus measures are fighting a sharp slowdown in private investment and are adding to China's high corporate leverage, thereby increasing potential bad debts and financial vulnerabilities. Together with the slow pace of structural reforms, this raises significant concerns about medium-term growth prospects.

#### **Global trade flows remained weak in 2016...**

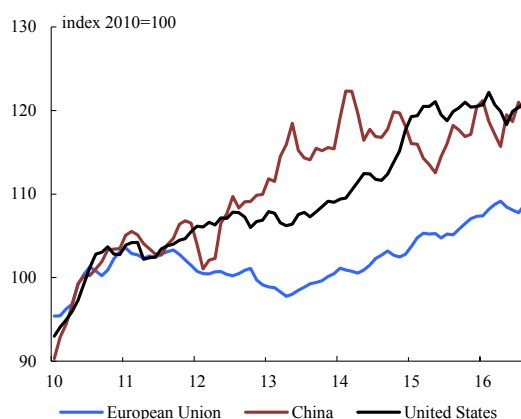
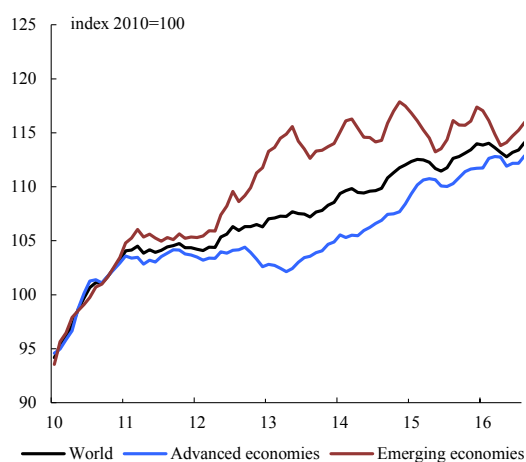
World trade remained very weak in 2016. In the first 11 months of the year, world trade volumes grew by a mere 1.1% (y-o-y), the weakest since the crisis year 2009 (see Graph I.15). The drag on world trade continues to come largely from emerging markets, but the significant weakness in 2016 is also due to a soft patch in advanced economies, which posted exceptionally weak

<sup>(18)</sup> According to available data published by the Bank for International Settlements, USD-denominated credit to emerging market economies amounted to USD 3.3 trillion in 2016-Q2. The extent and nature of hedging against currency risk varies considerably across countries.



imports in the first half of 2016. The weakness in China's imports, that has weighed on global trade flows since late 2014, seems to have bottomed out in 2015, with the second half of 2016 marked by a robust recovery<sup>(19)</sup>. This rebound was offset by a severe weakening in the Middle East and North Africa as well as in Latin America, where import volumes contracted by a massive 6.7% and 3.9% (y-o-y) respectively between January and November, reflecting second-round effects from commodity price declines, exacerbated by domestic political and geopolitical instability.

Graph I.15: Merchandise import volume (3-month moving average)



Source: CPB

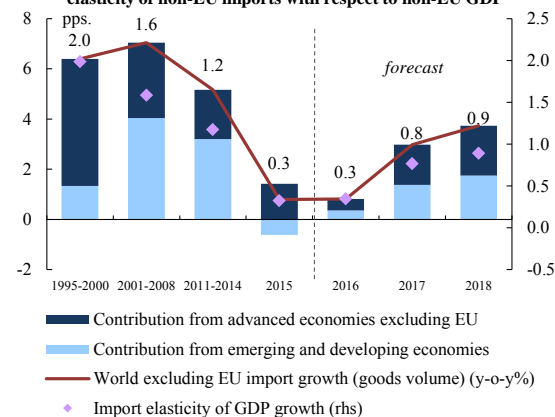
...but are expected to firm in 2017 driven by a certain rebound of trade elasticity.

Overall, outside the EU, imports of goods and services are expected to have grown by 0.8% in 2016, unchanged from 2015, their weakest rate since 2009. However, imports are expected to recover gradually to 3.0% in 2017 and 3.7% in

<sup>(19)</sup> After 11 months of 2016 Chinese import volumes were up by 3.4% (y-o-y).

2018. For the latter year, this is a non-negligible upward revision from the autumn, mainly due to the stronger-than-expected US import growth and a firmer trade outlook for China. The acceleration of world imports (excluding the EU) over the forecast horizon reflects predominately the assumption of import elasticity rising from the current lows of 0.3 (in 2015 and 2016) to 0.8 in 2017 and 0.9 in 2018 (see Graph I.16). While these levels remain well below past averages, they are consistent with a certain rebound in global trade flows following two years of exceptional weakness.<sup>(20)</sup>

Graph I.16: Non-EU import growth (goods volume) and elasticity of non-EU imports with respect to non-EU GDP



This assumption is underpinned by the projected cyclical strengthening in advanced economies and a related pick-up in investment, combined with the gradual fading of temporary factors that weighed on trade in 2016. These temporary drags include the contraction in commodity-related investment across the world (including in the US and Canada), second-round effects of a severe terms-of-trade shock on many emerging markets and other one-off factors (e.g. wildfires in Canada).

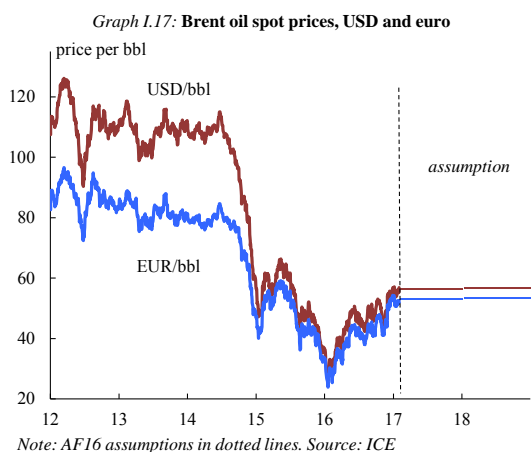
### Global recovery is expected to be supported by a gradual rebound in commodity prices

The OPEC deal signed in November 2016 has provided an immediate boost to oil prices. OPEC members agreed to cut output by 1.2 million bbl/day from January 2017 and secured a reduction of 558,000 bbl/day from non-OPEC countries led by Russia. Following the OPEC

<sup>(20)</sup> Some of the factors behind a long-standing weakening of global trade flows include: (i) cyclical weakness in intensely-trading countries (e.g. EU); (ii) weakness in trade-intensive investment; (iii) maturation of Global Value Chains; (iv) structural changes in China and; (v) the slower pace of trade liberalisation.

agreement, the Brent price rose by five US dollars per barrel overnight and continued to fluctuate around 55 USD/bbl in January. In the fourth quarter of 2016, the oil market was still in surplus with global production outpacing global demand. If the agreed cuts are fully implemented, the market should re-balance faster and move to a small deficit in the first half of 2017. For the second half of 2017, the outlook is uncertain as the proposed cuts cover only the first six months and should be reviewed at the next OPEC ministerial meeting end of May. Moreover, the current price recovery provides some relief and incentives to raise output for other oil producers, including shale producers in the US. The International Energy Agency forecasts global demand growth to slow down moderately in 2017 compared to 2016.

Assumptions for Brent prices are revised upwards to an average of USD 56.4/b for 2017 or 3% higher than in the autumn while the assumption for 2018 stands broadly unchanged at 56.9 USD/bbl (see Graph I.17). The average price for 2016 at 44.8 USD/bbl is 1% lower than assumed in the autumn, reflecting mainly the Brent price slippage in November 2016.



The prices of other commodities showed divergent trends in the fourth quarter of 2016. Nearly all metal prices witnessed some recovery. Food and raw material prices remained roughly stable or slightly declining due to record-high stocks accumulated through successive bumper harvests in recent years. The outlook for food prices for 2017-2018 remains subdued due to high inventories. Metal prices are forecast to increase in 2017 due to higher oil prices and declining oversupply but to fall in 2018 in line with slowing investment in China.

### Emergence of positive risks in the short term slightly shifts the balance

Risks to the global outlook have risen markedly over recent months, driven largely by the results from the US presidential election and the policy uncertainty which this has created. Nonetheless, positive risks have emerged (particularly for advanced economies) in the form of the new US administration's fiscal stimulus proposals, which would enhance growth in the near term. A larger fiscal stimulus package than currently assumed or a stronger reaction on the part of businesses and consumers would have positive demand spillovers for the global economy.

On the negative side, there is a risk that the fiscal stimulus could be less ambitious or less effective than currently assumed. More pronounced downside risks include a shift in the new US administration towards increased protectionism. The withdrawal from multilateral trade agreements or imposition of import tariffs present potentially significant downside risks, particularly at a time when global growth is bottoming-out and its recovery is still fragile.

An accelerated pace of monetary policy tightening, in the US poses risks for advanced economies, including the EU, and emerging market economies. For the latter in particular, downside risks dominate given their greater exposure to spillovers from increased protectionism, capital outflows and financial market disruption. This is a notable risk for those with higher external vulnerabilities as well as greater trade and financial linkages with the US. Even in the absence of adverse policy shifts, increased uncertainty and draining confidence could potentially weigh on investment decisions.

Concerns regarding future developments in China also remain because of long-standing risks surrounding its economic transition and the correction of large accumulated imbalances. The short-term outlook for China appears fairly buoyant and sentiment has improved somewhat in recent months. However, rapid domestic credit growth and continued reliance on stimulus measures are increasing the risks of a disorderly adjustment.

### 3. FINANCIAL MARKETS

Global financial markets have rediscovered some optimism since the autumn, driven by improving macro-economic data, a pick-up in inflation, and boosted by high expectations of the pro-growth policy statements (including deregulation, cutting taxes, and an infrastructure investment program) announced by the new US administration. Global government bond yields have risen significantly, but remain low overall, while most equity markets have yielded positive returns. Banking shares outperformed the broad market amid the steepening of the yield curve. Monetary policy has remained very accommodative globally, while the US dollar has seen a broad-based strengthening on the back of rising expectations of a faster removal of monetary accommodation in the US.

#### Growing divergence between monetary policies on the two sides of the Atlantic...

Following the December 2016 monetary policy decisions of the ECB and the US Federal Reserve, a growing divergence in monetary policy trajectories between the euro area and the US can be expected in the short term. As already described in the previous section, the US Federal Reserve raised its target range for the policy rate by 25 bps. to 0.75% in December. This was the second rate hike in ten years and had been long priced in by financial markets. While the US Fed considered that three rate increases would be needed in 2017 (compared to two previously), a somewhat slower pace of monetary policy normalisation is implied by the Fed Fund futures (i.e. two interest rate hikes). Against this background, the US Federal Reserve Chair, Janet Yellen, also warned that it would be unwise to raise rates too quickly (as implied by some monetary policy rules such as the Taylor rule) as the reduction over time of the US Federal Reserve's asset holdings, bought under its large-scale asset purchase programmes, would amount to a "passive" policy tightening.

In the euro area, the ECB decided at its December 2016 meeting to extend its purchases under the asset purchase programme (APP) until at least December 2017 with the aim of maintaining the substantial degree of monetary accommodation needed to secure a sustained convergence of inflation towards its target rate of close to, but below 2%, over the medium term. While the monthly pace of purchases will be lowered from EUR 80bn to EUR 60 bn from April 2017, the

ECB announced its intention to increase the size and/or duration of the programme should the outlook become less favourable or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation.

The extension of the purchases until at least December 2017 will result in additional monetary accommodation (i.e. via the creation of central bank reserves) while at the same time allowing for a more sustained market presence of the central bank and, therefore, a more lasting transmission of the stimulus measures.<sup>(21)</sup> According to the ECB, the calibration of monetary policy measures reflects the moderate but firming recovery of the euro area economy and still subdued underlying inflationary pressures. Furthermore, the lower pace of asset purchases from April 2017 onwards may also help to address concerns about ultra-loose monetary policy and its adverse impact on bank profitability. In this respect, the broadening of the eligible universe of euro area government bonds to include shorter maturities is indicative of the ECB's preference for a steeper yield curve, given its possible positive implications for bank profitability. At the same time, the ECB's forward guidance on policy rates, according to which they should stay at current or lower levels well past the horizon of the APP, should help contain upward pressures on short- and long-term interest rates.

Monetary policy also remained accommodative in the EU countries outside the euro area amid higher inflation and increasing inflation expectations. In the UK, the Bank of England's Monetary Policy Committee maintained its policy rate at the record low of 0.25% and decided to continue its previously announced asset purchases for monetary policy purposes with both headline and core inflation reaching 1.6% at the end of 2016. Inflation also increased in most Eastern European countries at the end of last year, reaching 2% in the Czech Republic, and broadly reversing the previous trend of lower inflation.

<sup>(21)</sup> To ensure a smooth implementation of the APP, the ECB also decided to adjust some technical parameters of the APP as of January 2017. These changes consisted of a broadening of the maturity range of the public sector purchase programme to include securities with a minimum remaining maturity of one year while purchases of public sector securities with a yield below the deposit facility rate are to also be permitted to the "extent necessary".



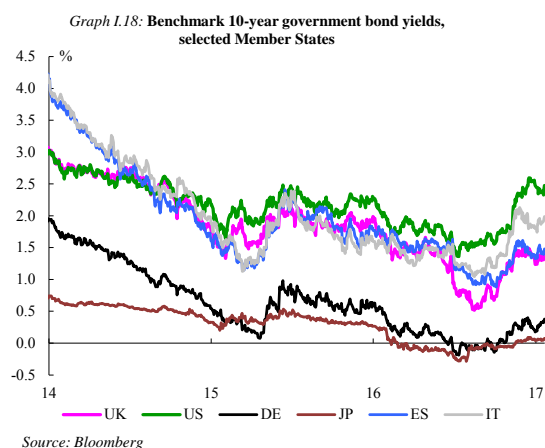
### ...with only a limited impact on the euro.

While the euro remained broadly unchanged in nominal effective terms (NEER) over the past few months, it has been generally weaker against the US dollar, dropping to below the 1.04 mark in mid-December 2016 mainly driven by the broad-based strengthening of the US dollar since the US elections. The euro has subsequently recovered part of its losses against the US dollar and also strengthened somewhat against the pound sterling amid persistent uncertainty surrounding the outcome of the Brexit negotiations as well as the policies of the new US administration.

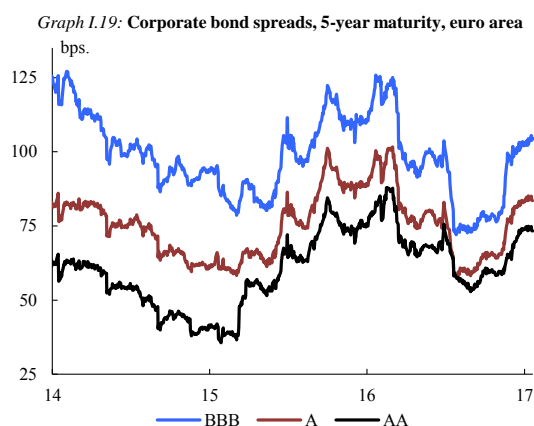
### Meanwhile global financial markets have turned more optimistic

In the past few months, markets have started to embrace a new paradigm of stronger growth, higher inflation and higher natural interest rates following the US elections.

In Europe, market perceptions of an improving economic outlook, sustained ECB asset purchases and the expected tailwind from the US have lifted government bond yields and led equity markets higher (see Graph I.18). Euro area sovereign bond spreads widened somewhat on account of heightened perceived political risks in some euro area countries. All that led to moderately widening spreads to the German bund for most euro area countries. However, despite the recent rise in bond yields, still almost EUR 4 trillion of euro area sovereign bonds trade at negative yields. Euro area corporate bond spreads versus German bunds have picked up amid supply pressures and softer investor demand, and despite the ECB's ongoing purchases (see Graph I.19). The widening of spreads was more pronounced in the high-yield (lower grade) segment.



In Asia, Chinese stock markets initially did not participate in the broad upward move following the US elections. However, they have recently picked up after strong macroeconomic data releases. Further, amid the rising US dollar, monetary authorities in several emerging markets had to intervene in some form to defend their currencies.



The market performance of the last few months should also be assessed in the light of sustained exceptionally accommodative stance of monetary policy in several parts of the world, including the euro area.<sup>(22)</sup> While investor confidence has strengthened, financial markets in the near future may be challenged by several factors, such as the outcome of upcoming elections in major EU economies, (remaining) fragilities in emerging markets, unforeseen shifts in market expectations relating to US monetary policy, or inflation surprises, a rise in geopolitical tensions, a possible increase in commodity prices amid the instalment of an OPEC production cap, the phasing out of QE globally, among others.

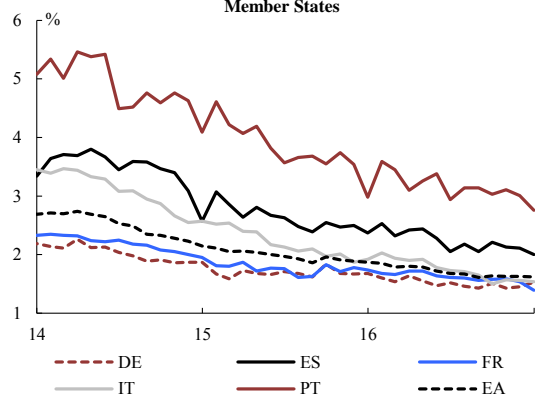
### The ECB's low rates continue to impact bank lending positively...

Euro area banks have been further lowering interest rates to non-financial corporations (NFCs) and households over the past year, contributing to the gradual recovery in lending volumes in the euro area (see Graph I.20). Net lending flows to households and NFCs continued to be positive

<sup>(22)</sup> Indeed, while the US Fed has started to taper, other major central banks are currently adding a combined amount of USD 200 billion to their balance sheet each month. The balance sheets of the ten largest central banks in the world now total USD 21.6 trillion, 10% more than at the end of 2015.

over the last few months (see Graph I.21). This translated into a further rise in the annual growth rate of loans to the private sector. Specifically, for the whole euro area, the annual growth rate of monetary financial institution (MFI) loans (adjusted for loan sales and securitisation) increased further to 2.3% in December 2016 for NFCs and to 2.0% for households. This suggests that the transmission of the ECB's accommodative monetary policy has been efficient at the overall level of the euro area. At the same time, broad money growth (M3) has continued to expand at around 5% (y-o-y) in recent months, supported by a robust expansion (i.e. above 8% annual growth rate) of narrow money (M1).

Graph I.20: Interest rates on loans to NFC's, selected Member States



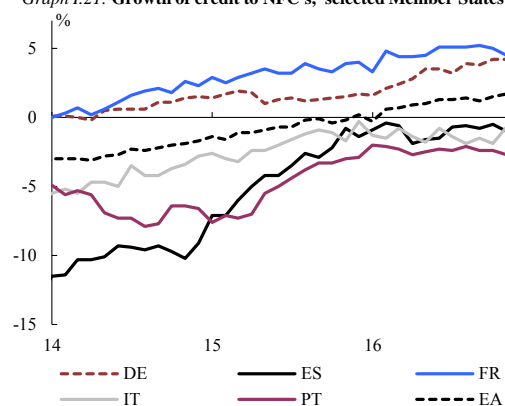
Source: ECB

Differences remain across euro area Member States with interest rates stabilising at higher levels in some countries. Such differences could partly explain the still uneven recovery in lending volumes. In Spain and Portugal, credit to NFCs is still shrinking year-on-year, while interest rates are at higher levels than in other euro area Member States. Credit growth to NFCs in Italy has also remained negative despite low interest rates. This could be explained by other factors on the supply side such as balance sheet constraints (high non-performing loans) or by demand being lower than the euro area average.

The latest results from bank lending surveys confirm the positive trends visible at the euro area level. The ECB's latest bank lending survey (BLS) released in January 2017 indicates that credit standards in the euro area tightened marginally for NFCs while remaining broadly unchanged for housing loans and continuing to ease for consumer credit. The slight tightening for corporate credit, however, was due to one country in particular: the Netherlands. Meanwhile, loan demand continued

to improve for all loan categories, supporting further the credit growth for corporations and households. For the first quarter of 2017, banks covered by the BLS expect a net easing of credit standards across all loan categories and a further increase in net demand. The latest Survey on the Access to Finance of Enterprises (SAFE)<sup>(23)</sup> takes a corporate perspective and confirms the views of 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 surveys, euro area SMEs considered that finding customers remained the dominant concern while access to finance the least important problem that they faced.

Graph I.21: Growth of credit to NFC's, selected Member States



Source: ECB

Looking at the next two years, the situation in the banking sector is expected to remain an important factor for credit supply, particularly in some Member States where banks face balance sheet constraints. Overall, euro area banks have further improved their capacity to support lending as they have continued to adjust to regulatory and supervisory actions by strengthening their capital positions and reducing the risk on their balance sheets. In addition, the ECB's policies continue to help banks by offering attractive price conditions for their funding. Meanwhile demand for credit is picking up across all euro area countries, which should enable credit volumes to rise further over the coming quarters, tracing the economic cycle.

In the euro area, the overall impact of a steepening of the yield curve on the net interest margin can be expected to be positive but relatively muted and slow-to-appear, depending on each bank's balance

<sup>(23)</sup> The latest SAFE survey was released in November 2016 and covers the months from April to September 2016.

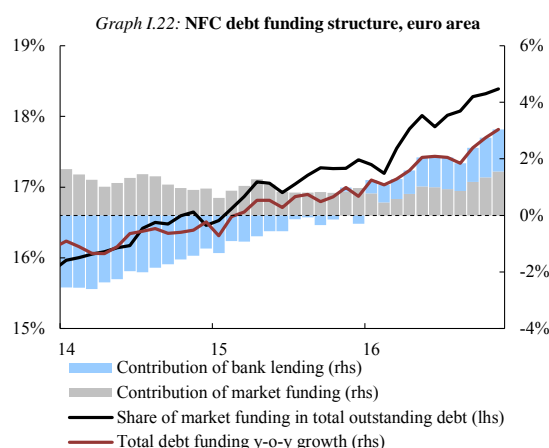
sheet structure and market characteristics. For instance, where fixed-rate loans dominate mortgage markets, banks can benefit more from a steeper curve. Also, banks that rely more on deposits to finance their assets could minimise the negative effects of a steeper curve on their liabilities, as long as their deposit base is stable. On account of a strong decrease in bank's trading activities in recent years, unfavourable asset price fluctuations would be expected to play only a minor role.<sup>(24)</sup> The decline in trading book activities would suggest that benefits materialise more quickly than in the past but still at a limited pace, as new higher lending rates can only be agreed for new contracts (either rollover or new business).

#### ...while NFC's can rely on both market and banking funding.

Market funding has continued to expand in the euro area. Monthly flows of net issuance of corporate bonds and equity have stayed positive over the last few months. Yet market conditions have slightly deteriorated over the last three months, particularly on bond markets, where yields have risen somewhat. The yearly growth rates of debt securities to NFCs trends at 6%, while that of equity issuance slowed down slightly to 0.7%. After a period of several years during which euro area NFCs relied more on market instruments for their external debt funding, bank lending is recovering and contributed to an equal degree over the last quarters (see Graph I.22).

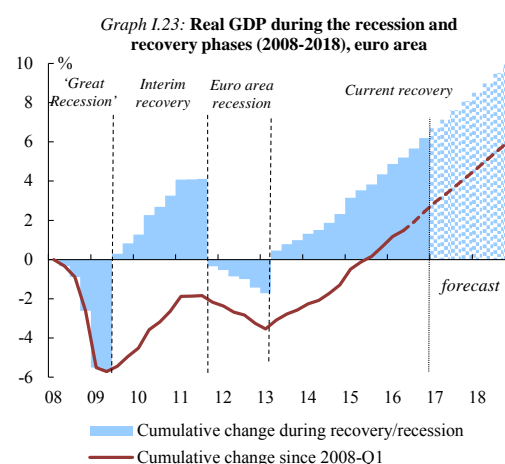
All in all, funding conditions should remain supportive for both bank and market funding, thanks mainly to the exceptionally accommodative monetary policy stance. Both external and internal funding sources are expected to support corporate investment over the forecast horizon. Corporate surpluses may progressively narrow as the economic cycle strengthens while bank lending and market funding cycles are expected to accelerate.

<sup>(24)</sup> Trading books' shares in banks' overall assets are now generally below 10% for the large majority of euro area banking systems and hedging would be expected to protect them from large valuation swings. These observations also hold when it comes to sovereign exposures, which are largely held to maturity, and whose price swings hence do not affect the banks' profitability.



#### 4. GDP AND ITS COMPONENTS

The European economy had to cope with many challenges in 2016 but proved to be resilient, successfully maintaining its course of economic growth and job creation. In spite of these challenging times, the economy continued to expand at a moderate pace, though picking up slightly towards the end of the year (see Graph I.23). While GDP level surpassed its pre-crisis level in 2015, investment has yet to fully recover.<sup>(25)</sup> The weakness, or even absence, of investment growth in some intervals contributes to concerns about the sustainability of the recovery.



#### Supportive factors keep the recovery on track...

Over the last few years, the economic recovery has benefited from a number of favourable factors, including relatively low oil prices following the

<sup>(25)</sup> At the cut-off date, detailed quarterly national account data were available only up to the third quarter of 2016.

Table I.1:

**Composition of growth - euro area**

(Real annual percentage change)

								Winter 2017 forecast		
2015			2011	2012	2013	2014	2015	2016	2017	2018
bn Euro	Curr. prices	% GDP	Real percentage change							
Private consumption	5744.0	54.9	0.0	-1.1	-0.6	0.8	1.8	1.9	1.5	1.6
Public consumption	2163.9	20.7	-0.1	-0.3	0.3	0.6	1.4	2.0	1.4	1.4
Gross fixed capital formation	2063.3	19.7	1.6	-3.5	-2.5	1.4	3.2	2.8	2.9	3.4
Change in stocks as % of GDP	11.7	0.1	0.8	-0.2	0.0	0.3	0.1	0.0	0.0	0.0
Exports of goods and services	4833.0	46.2	6.5	2.7	2.1	4.5	6.5	2.7	3.3	3.7
Final demand	14816.0	141.7	2.3	-0.9	0.2	2.2	3.3	2.2	2.3	2.5
Imports of goods and services	4357.7	41.7	4.4	-0.8	1.4	4.9	6.4	3.3	3.8	4.3
GDP	10456.6	100.0	1.5	-0.9	-0.3	1.2	2.0	1.7	1.6	1.8
GNI	10467.7	100.1	1.6	-0.9	-0.3	1.0	1.7	1.7	1.7	1.8
p.m. GDP EU	14711.0	140.7	1.7	-0.5	0.2	1.6	2.2	1.9	1.8	1.8
Contribution to change in GDP										
Private consumption			0.0	-0.6	-0.3	0.5	1.0	1.0	0.8	0.9
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	0.5	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	1.3	1.5	1.7
Final demand			3.2	-1.2	0.3	3.2	4.7	3.1	3.2	3.6
Imports			-1.7	0.3	-0.6	-2.0	-2.6	-1.4	-1.5	-1.8
Net exports			0.9	1.4	0.4	0.0	0.3	-0.1	0.0	-0.1

sharp fall in prices between mid-2014 and early 2016 and the lagged effects of the euro's past depreciation, which mainly took place in early 2015. The very accommodative monetary policies since 2014 and the broadly neutral fiscal policy stance have also provided considerable support. These factors have been complemented by additional policy measures, such as the Investment Plan for Europe, announced in 2014, and additional public spending in some Member States, linked to the arrival of an exceptional large number of asylum seekers between mid-2015 and spring 2016. At the same time, past reforms implemented in some Member States have started to pay off.

In early 2017, many of the aforementioned factors remain in place, but there is increasing evidence that the strength of their support is fading.

- Oil prices, though still low, have been on the rebound. Compared to a year ago, oil prices have almost doubled and oil price assumptions foresee a further increase over the forecast horizon. In that regard, OPEC's decision to lower oil production, taken in September 2016, and the agreement on implementation details in November, point to supply constraints. Whether the removal of environmental regulations and deregulation in the US energy sector could lower production costs and pull down break-even prices, remains unknown.
- The external value of the euro is lower than a few years ago. The depreciation vis-à-vis the US dollar continued in the wake of the US elections but was partly offset in January 2017. The euro has also weakened somewhat against the pound sterling since October, but all these effects were mitigated by the euro's appreciation against the Japanese yen and the currencies of several emerging market economies. Future asynchronous monetary policies in the US and in the euro area are already priced in by markets. In all, the future related gains in price competitiveness appear to be rather limited and moreover it cannot be taken for granted that trade flows are as sensitive to exchange rate changes as they have been in times of less developed global value chains.
- Monetary policy remains very accommodative in the euro area and several other Member States. Monetary policy is supportive of growth and is expected to remain so over the coming years. It lowers financing cost and eases access to funding, but it also facilitates deleveraging. The ECB's decision in December to prolong its APP at least until the end of December 2017 extends the support of monetary policy. According to the ECB, past non-standard monetary policy measures are estimated to have a cumulated positive impact on real GDP

Table I.2:

**Composition of growth - EU**

(Real annual percentage change)

(Real annual percentage change)									Winter 2017 forecast		
2015			2011	2012	2013	2014	2015	2016	2017	2018	
bn Euro	Curr. prices	% GDP	Real percentage change								
Private consumption	8284.2	56.3	0.1	-0.5	-0.1	1.2	2.1	2.3	1.8	1.6	
Public consumption	3019.6	20.5	-0.1	0.0	0.4	1.0	1.4	1.9	1.4	1.3	
Gross fixed capital formation	2869.8	19.5	1.9	-2.5	-1.5	2.6	3.6	2.3	2.9	3.1	
Change in stocks as % of GDP	25.5	0.2	0.7	0.0	0.1	0.4	0.2	0.1	0.1	0.1	
Exports of goods and services	6467.6	44.0	6.6	2.4	2.2	4.4	6.4	2.8	3.5	3.8	
Final demand	20666.8	140.5	2.3	-0.4	0.6	2.6	3.4	2.3	2.4	2.5	
Imports of goods and services	5958.3	40.5	4.3	-0.2	1.7	5.0	6.2	3.5	3.9	4.1	
GDP	14711.0	100.0	1.7	-0.5	0.2	1.6	2.2	1.9	1.8	1.8	
GNI	14666.5	99.7	1.7	-0.6	0.2	1.4	2.0	1.9	1.8	1.8	
p.m. GDP euro area	10456.6	71.1	1.5	-0.9	-0.3	1.2	2.0	1.7	1.6	1.8	
Contribution to change in GDP											
Private consumption			0.0	-0.3	-0.1	0.7	1.2	1.3	1.0	0.9	
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	0.4	0.6	0.6	
Inventories			0.4	-0.7	0.3	0.4	-0.2	0.0	-0.1	0.0	
Exports			2.5	1.0	0.9	1.9	2.8	1.2	1.5	1.7	
Final demand			3.2	-0.5	0.9	3.6	4.7	3.3	3.3	3.5	
Imports			-1.6	0.1	-0.7	-2.0	-2.5	-1.4	-1.6	-1.7	
Net exports			0.9	1.0	0.2	-0.1	0.2	-0.2	0.0	0.0	

of about 1.3 pps. over a three-year horizon.<sup>(26)</sup> Another positive impact could stem from the steepening of the euro area yield's curve, which has started easing pressures on bank profitability.

- Fiscal policy has significantly eased in recent years and is expected to remain broadly neutral.

### ...despite an increasing number of growth hindrances.

The power of these supportive factors has been constrained by a number of European and non-European growth hindrances. Some of the European hindrances are (still) crisis related such as the large amount of non-performing loans in several Member States, whereas others have occurred more recently, such as policies and events that have strengthened the backlash against European integration. The UK vote to leave the EU can be summarised under this heading. While the UK economy has been growing stronger than expected since the referendum, it has created substantial uncertainty, which is expected to have a negative impact on economic growth over the next

two years, primarily in the UK but to a lesser extent in the rest of Europe too.

Non-European growth hindrances include the weakness of global trade, particularly related to slowing economic growth in several emerging and developing market economies and, more recently, to the revival of isolationist and recent protectionist statements in some countries such as the US, which has withdrawn from the Trans-Pacific Partnership trade deal.

Measures of political uncertainty such as the Baker-Bloom index show a clear upward trend since 2014, with exceptional increases in uncertainty following the UK leave vote and the US election (see Graph I.24). While the index has decreased since then, it remained at a very high level in January 2017. This high uncertainty could significantly dampen activity, and notably investment.<sup>(27)</sup>

In addition to the aforementioned growth hindrances, there is evidence that slower trend growth had already emerged before the crisis, linked to a long-term downward trend in productivity, related to factors such as hours worked per employee and demographic change (see section I.5). Although the European economy

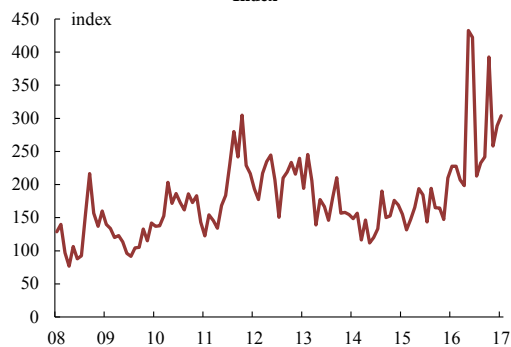
<sup>(26)</sup> This impact was mentioned by ECB President Mario Draghi at the press conference on 9 December 2016 during the Q&A session.

<sup>(27)</sup> See ECB (2016). 'The impact of uncertainty on activity in the euro area'. *Economic Bulletin* 8, Article 1, pp. 55-74.



has shown resilience to several challenges, there remains substantial slack in the economy and there is a lot of scope for further expansion.

Graph I.24: Policy uncertainty, 'European News Index'



Source: Baker, Bloom and Davis at [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com)  
 'Europe' includes news indices of the five largest EU Member States.

### The pace of economic growth has increased in recent quarters...

The second half of 2016 saw a steady increase in the pace of economic growth. In the euro area, GDP increased by 0.3% in 2016-Q2, 0.4% in 2016-Q3 and, according to Eurostat's Preliminary Flash estimate, by 0.5% in 2016-Q4. Overall, GDP in 2016 is expected to have grown by 1.7% in the euro area, in line with the autumn forecast. Meanwhile, economic growth in the EU increased from 0.4% (q-o-q) in 2016-Q2 to 0.5% in 2016-Q3 and, according to Eurostat's Preliminary Flash estimate, to 0.6% in 2016-Q4. For 2016 as a whole, GDP in the EU increased by 1.9%, slightly higher than in the autumn forecast. This reflects the surprisingly robust economic growth in the UK. Overall, the growth momentum has proven rather resilient to the slowing of global trade and the rise in political uncertainty.

In interpreting GDP figures, attention has to be paid to the strong influence of Irish national account data, which have been rather exceptional. The statistical re-classification of some activities of multinational firms is behind strong annual and quarterly data, including GDP growth of 26.3% in 2015, and a 38.9% rise in investment in 2016-Q2. Despite the relatively small weight of Irish GDP in the euro area and EU aggregates, the size of changes makes developments in Ireland a key determinant of aggregate figures. GDP growth in the euro area without Ireland is expected to have increased from 1.6% in 2015 to 1.7%, in 2016 whereas the overall euro area aggregate signals slowing growth in the respective years (from 2.0%

in 2015 to 1.7% in 2016). In the EU, GDP growth without Ireland remained stable at 1.9% in 2015 and 2016, compared to decreasing growth in the aggregate with Ireland.

### ...and is expected to remain almost unchanged in the short term...

The acceleration of GDP towards the end of last year had been signalled by both 'soft' (survey) and 'hard' high-frequency indicators.

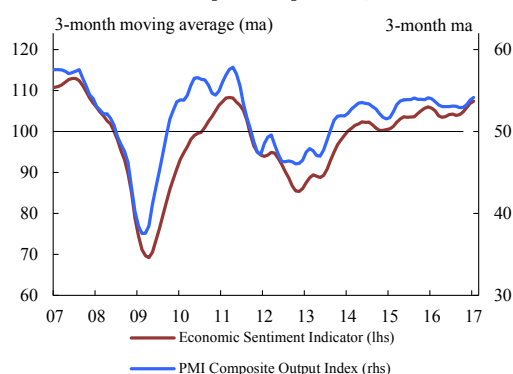
The European Commission's Economic Sentiment Indicator (ESI), as well as the composite output Purchasing Managers' Index (PMI), increased in the fourth quarter as compared to the third quarter and sustained their high levels in the beginning of this year. In January 2017, the ESI in the euro area remained broadly stable, standing at 107.9, its highest level since March 2011. In the EU, the ESI slightly decreased (-0.4 pts.) to 108.5, but remained well above the level of the fourth quarter of 2016 when the index had sharply rebounded due to the survey readings in the UK (which followed a sharp fall in the wake of the UK referendum in June). The increased optimism of survey respondents can be traced back to forward-looking assessments such as production expectations and order books, which bodes well for economic growth in the first quarter of 2017. However, when drawing conclusions about the implications for economic growth, possible breaks in the relationship between qualitative survey ('soft') and quantitative ('hard') data during the crises years need to be taken into account. Recent analyses suggest that the current level of the ESI hints at lower growth rates than the same level of the ESI would have hinted at before the economic and financial crisis began in 2007 because respondents' expectations have shifted down into a new normal where less is expected (see Box I.2).

The Eurozone Flash PMI Composite remained unchanged in January at 54.4 but stood higher than in 2016-Q4 (53.9) and 2016-Q3 (53.1), reflecting only marginally changed readings in the manufacturing (up 0.3 pts. to a 69-month high of 55.2) and no changes in the services component (stable at 53.7 in January) (see Graph I.25).

Some hard data also signal a slightly more dynamic start to the year. The survey data on capacity utilisation in the first quarter of 2017 (based on responses in January) pointed to a continued increase in the manufacturing sector and

a stabilisation, though at a high level in services. In October and November, industrial production in the euro area was on average up by 1.0% over the third quarter (when it had increased by 0.5% over the previous quarter). In a similar vein, euro area retail sales were up by 0.9% on average in October and November compared to the third quarter.

Graph I.25: Economic Sentiment Indicator and PMI Composite Output Index, euro area



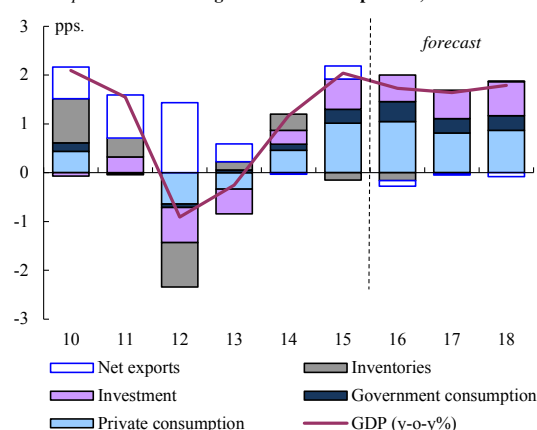
The forward looking nature of these indicators suggests a robust economic expansion in the first quarter of 2017.

#### ...bound for growth of close to but below 2% in 2017-2018...

Over the forecast horizon, the European economy will no longer be able to rely on the exceptional level of support from some of the external factors from which it has been benefiting. In 2017, euro area GDP growth is expected to ease marginally on the back of slowing growth in private consumption (down from 1.9% to 1.5% in the euro area) that proved to be its main growth driver, and in government consumption (from 2.0% to 1.4%). While investment growth is projected to remain broadly unchanged (from 2.8% to 2.9%), the contribution of net exports to GDP growth is set to turn neutral (from -0.1 pps.) (see Graph I.26). Base effects in energy prices are expected to drive up headline inflation and to impact negatively on household real disposable incomes. Investment is expected to remain restrained by the still moderate demand outlook as well as the high level of uncertainty surrounding the unfolding ‘Brexit’ process and the unknown details of future US policies. Companies, but also consumers, may delay or abandon spending decisions, particularly

in the UK, but also in other Member States.<sup>(28)</sup> On the euro area’s external side, the expected slowing of economic growth in the UK economy is set to offset partially the positive impact of the gradual strengthening in global activity on euro area exports. In 2017 and in 2018, the expansion in the euro area and in the EU is expected to continue to be led by domestic demand.

Graph I.26: Real GDP growth and its components, euro area



After having grown by 1.7% in the euro area (1.9% in the EU) in 2016, GDP is expected to grow by 1.6% in 2017 (1.8% in the EU).

In 2018, GDP is set to accelerate slightly in the euro area (to 1.8%) and to remain unchanged in the EU at 1.8%.

Potential growth is expected to remain subdued, reflecting the legacies of the crisis discussed earlier, but also slow total factor productivity growth and demographic factors. It is set to be at 1.2% in both 2017 and 2018 in the euro area (1.4% in the EU). The negative output gap is therefore expected to narrow over the forecast horizon and should be closed in both areas in 2018.

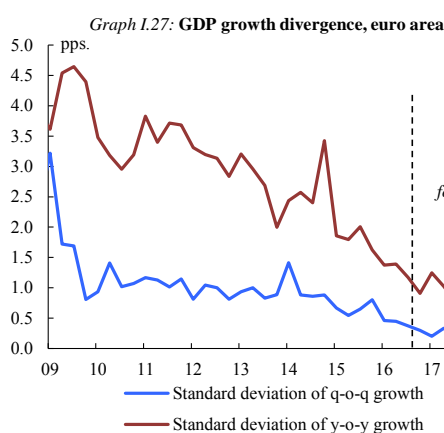
#### ...with diminishing growth differences across Member States.

The economic recovery has been rather uneven across EU Member States, reflecting their different starting positions and different exposures to the most devastating developments in the crisis years. The picture is more homogeneous in the euro area, where in most cyclical phases, the Member States

<sup>(28)</sup> 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.

moved in the same direction during the periods of contraction and expansion.

More recently, the divergence of GDP growth rates has diminished in terms of the standard deviations of growth rates (q-o-q and y-o-y, see Graph I.27). Given differences in potential growth, this does not necessarily point to increased business cycle synchronisation as output gaps still differ a lot. Moreover, diminishing growth differences can endanger the convergence of living standards in the EU, as some countries need substantially higher growth rates to succeed in catching up with the more mature economies.



Note: calculations for 2015-2016 without IE

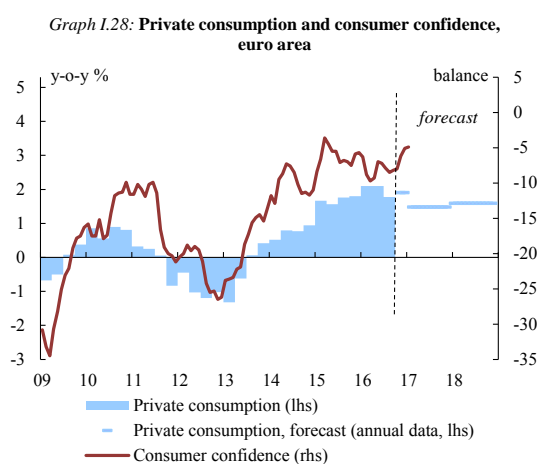
Looking ahead, the US dollar's appreciation and the increase in benchmark yields could affect Member States in different ways and widen growth differences again. Different degrees of openness and uneven progress in achieving price and cost competitiveness imply that changes in the external value of the euro impact differently on the economic performance and on the external position of countries. Moreover, the vulnerability of Member States to a normalisation of long-term interest rates will differ according to differences in terms of persistence of the crisis impact (e.g. remaining needs for external and internal rebalancing) and fiscal consolidation needs, most notably in terms of achieving debt sustainability, but also differences in terms of deleveraging and balance sheet repair, labour-market situation and reform implementation. This could re-animate bank-sovereign feedback loops.

#### Private consumption continues to be the key driver of the recovery...

Private consumption remained the key driver of the economic expansion in 2016. On the back of

rising real disposable incomes, it has contributed to the resilience of the economic recovery.

The ongoing growth of private consumption reflects the further expansion of real disposable incomes and an almost unchanged aggregate household saving rate. Nominal disposable incomes gain from further improvements in the employment situation and nominal wage growth. The purchasing power of households benefits from low energy prices and the relatively low rate of consumer price inflation. However, in the second and third quarters of 2016, private consumption lost some momentum (see Graph I.29).

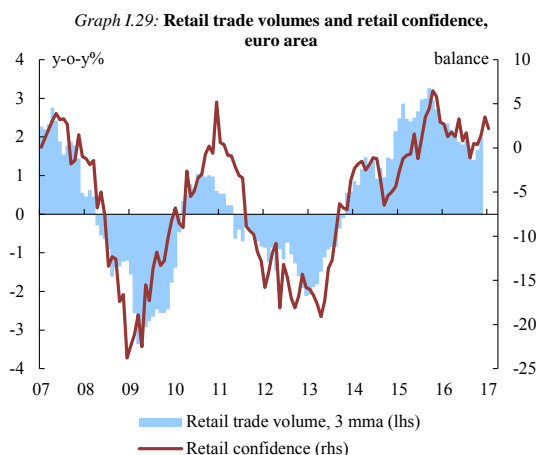


As regards the short term, recent survey indicators suggest that private consumption should continue growing at a solid pace, making it the backbone of the continued expansion. The Commission's Consumer Confidence Indicator increased in both the euro area and the EU in the fourth quarter of 2016 compared to the previous quarter and continued to increase in January 2017. The increase in recent months mainly reflects lower unemployment fears as well as a more optimistic assessment of the expected general economic situation, which could be associated with the robust performance of the euro area and the UK in the second half of the year. The Commission's Retail Trade Confidence Indicator increased strongly in the euro area (and the EU) in the fourth quarter (from 0.4 to 1.8) compared to the third one. Although it decreased in January 2017, it remained in the euro area above the average of the fourth quarter.

Hard data suggests an acceleration of private consumption in the fourth quarter. In October and November 2016, euro area retail sales stood on average 0.9% above the average recorded in the



third quarter and at their highest level in the history of the series (see Graph I.29). New passenger car registrations in euro area Member States increased at an annual rate of 2.2% in December 2016 (7.1% in 2016). In line with these developments, loans to euro area households for consumption continued to expand in recent months, increasing at an annual rate of 3.9% in December 2016, up from 3.7% in November.



...but is expected to slow over the forecast horizon.

In 2017 and 2018, 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 both 2017 and 2018. Non-labour incomes (profit and property related income) are expected to accelerate over the forecast horizon, growing in the euro area by 3.0% in 2017 and 3.1% in 2018. However, the expected increase in consumer price inflation will dampen the growth of real disposable incomes in 2017 and 2018.

At the same time, favourable lending conditions for households in the euro area and, in some Member States, progressively lower deleveraging needs are expected to provide support to consumption growth. Past and future increases in house prices are set to constitute wealth effects that help consumption growth. Moreover, the household saving rate is expected to remain broadly stable in the euro area in 2017 and 2018 after having increased in 2016 as a result of the pass through of oil price related income gains. As

this effect is expected to be coming to an end, it should exert some downward pressure while uncertainty should continue exerting an upward pressure on savings.

All in all, these factors suggest that private consumption should continue growing, though more moderately than in 2016 as real disposable income growth slows.

### Public consumption expected to expand almost in parallel with GDP

Government consumption has been a steady contributor to economic growth in recent years. Following a year of quarter-on-quarter growth exceeding that of GDP, in the third quarter of 2016 both government consumption and GDP grew in the euro area by 0.4% (q-o-q). In some Member States, refugee-related expenditures, particularly related government personnel costs have helped drive public consumption growth, whereas in others, security-related expenditures have risen. Heterogeneity across Member States is also linked to differences in consolidation needs.

In 2016, aggregate public consumption is expected to have grown by 2.0% in the euro area and by 1.9% in the EU (up from 1.4% in both areas in 2015) boosted by the factors mentioned above. A deceleration to 1.4% is expected in both areas in 2017. As regards the largest Member States, slower growth is expected in all except the Netherlands, where the expansion is projected to strengthen slightly. Growth in public consumption is expected to remain unchanged in the euro area and to decrease slightly in the EU in 2018 based on a no-policy change assumption, according to which fiscal policy measures are only factored into the forecast if they have been adopted, presented to national parliaments, or are known in sufficient detail.

### Investment has remained weak throughout the recovery...

Strong and increasing investment growth is an important factor in the sustainability of an economic recovery. In that regard, the current recovery has remained incomplete. Since the onset of the current recovery, the relative weakness of investment has been a key factor for the subdued pace of growth. As a result, the share of investment in GDP has remained well below the levels seen in the years before the crisis (see

Section I.1) and in comparison to its long-term average.

Since the beginning of the recovery in the second quarter of 2013, investment has in total increased by 8.2% in the euro area (10.0% in the EU), which is a modest increase in comparison to GDP (5.7% in the euro area, 6.6% in the EU) given the sharp declines in investment in the five years before (-18.4% in the euro area, -17.2% in the EU) and the more moderate development in GDP during that period (-3.5% in the euro area, -2.5% in the EU).

#### ...with broadly slowing investment growth in the first three quarters in 2016.

The assessment of recent trends in investment on the basis of quarterly developments remains complicated by the volatility of the series, which mainly reflects Irish national account data. Taking account of the huge swings in investment volumes in Ireland, the aggregates of the euro area and the EU, excluding Irish data, point more clearly to trends in investment. In the euro area excluding Ireland, investment growth has slowed during the first three quarters of 2016 (from 1.4% (q-o-q) in 2015-Q4 to 0.7% in 2016-Q1, to 0.3% in 2016-Q2 and 0.0% in 2016-Q3). In the EU excluding Ireland, investment also slowed over the same period. Given the substantial political support (e.g. very accommodative monetary policies, Investment Plan for Europe) this outcome could indicate that funding costs are at present not the main concern of investors, so measures that improve access to funding and lower funding costs may have had less traction.

#### Several necessary conditions for stronger investment are met...

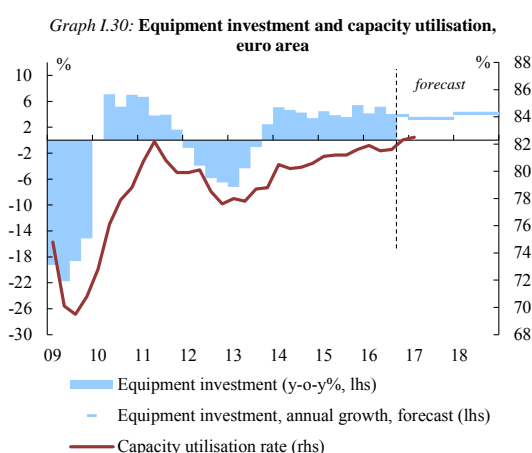
The short-term outlook for investment remains complicated. Survey indicators provide mostly optimistic readings. Confidence increased further in the industry, services, construction and retail trade sectors in the fourth quarter compared to the third quarter of 2016, in both the euro area and the EU with all indicators exceeding long-term averages. However, all sectors except retail trade reported increasing confidence in the second quarter of 2016, while investment continued to slow. By contrast, the latest Commission investment survey pointed to downward revisions to investment plans in manufacturing.

Hard data provide a mixed picture. Signals can be extracted from the production of capital goods, a key series for predicting future equipment investment. In both the euro area and the EU, the 3-month-on-3-month rate stood in November at 0.9% (down from 2.5% in the euro area in October and from 2.4% in the EU). As regards construction, the sector's output rose by 0.2% on average in October and November compared to the third quarter. The annual rate of growth in loans for house purchases in December increased further to 2.7%, the highest rate since end-2011. House prices in the euro area in the third quarter of 2016 increased by 1.3% compared to the previous quarter and by 3.4% year-on-year. This supports the expectation that the adjustment in the housing sector is ending, driven by residential investment.

In 2016, investment growth in the euro area is expected to have increased slightly further if exceptional Irish investment data are excluded (from 2.6% in 2015 to 2.7% in 2016), whereas the full euro area aggregate signals a declining pace of investment growth (from 3.2% in 2015 to 2.8% in 2016). A key factor behind the relatively large difference between the data in the euro area with and without Ireland can be attributed to the fall in investment growth in Ireland from 32.9% in 2015 to 5.0% in 2016 (see country chapter), driven by the doubling of other investment in Ireland in 2015. For the EU, the exceptional Irish data also had an impact but in contrast to the euro area, investment growth is expected to have slowed down in 2016 compared to 2015, with and without Irish data. The deceleration in investment in the EU, compared to the euro area, can be explained by the contraction in investment in Poland (-5.5% in 2016) and the sharp slowdown in the UK in 2016. In Poland, the contraction in investment appears mainly due to the slowdown in projects financed by EU's structural funds, which is linked to the changeover to the new programming period, and increased policy and regulatory uncertainty. In the UK, the slowdown can mainly be explained by a very weak first quarter in 2016, which was due to the contraction in non-residential construction.

Looking at the different asset classes of investment, only the pace of growth in construction investment is expected to have increased in 2016 in the euro area, thanks to low mortgage rates and improved access to loans for house purchases. Housing investment growth is projected to have increased in the euro area from 2.0 to 3.3% (from 2.0% to 3.2% in the euro area

excluding Ireland). By contrast, construction investment in the EU is set to have slowed from 2.3% in 2015 to 1.7% in 2016 (from 2.3% to 1.6% in the EU without Ireland), which reflects the contraction in Poland, Hungary and the Czech Republic (see country sections) after years of exceptionally high investment at the end of the last financing period of EU funding. The deceleration is also explained by the sharp slowing in the UK in 2016. Equipment investment is set to have slowed in the euro area from 4.7% in 2015 to 3.8% in 2016 (from 4.7% to 3.9% excluding Ireland) and slightly more in the EU reflecting the broad-based decline of growth in equipment investment in all non-euro area countries except Denmark (see Graph I.30).



#### ...but the pace of investment growth is set to remain moderate in 2017-2018.

The outlook for investment in the euro area in 2017 and 2018 hinges on the balance between the many favourable and unfavourable determinants. On the one hand, there are favourable factors such as low financing costs, strengthening global activity, high capacity utilisation, recovering profit margins and policy support (e.g. by the Investment Plan for Europe); on the other hand, there are a number of hindrances such as the high level of corporate and household debt in some Member States, the moderate outlook for demand in Europe and elevated uncertainty.

As regards the Investment Plan for Europe, the operations approved by 31 December 2016 represented a total financing volume of EUR 30.2 bn. (about 0.2% of GDP in the EU in 2016), with the largest amounts approved in Italy, France, Spain and the UK. Projects are spread across all Member States and they are expected to

trigger total investment of EUR 163.9 bn, i.e. more than 50% of the target of EUR 315 bn in investment across the EU by 2018. A growing number of projects are expected to move into the implementation phase over the forecast horizon, boosting both public and private investment.

As regards equipment investment, the unusually slow rebound during the early years of the recovery could suggest that the relative importance of factors has changed, with funding costs becoming less important. Moreover, low financing costs can also result in activities that do not support investment, such as corporate stock buybacks. With uncertainty expected to persist at a high level, due to factors such as the Brexit negotiations in Europe and the upcoming policy choices of the new US administration, the outlook for equipment investment remains moderate. By contrast, construction investment is projected to remain buoyant, as low mortgage rates and rising household incomes are set to favour housing investment.

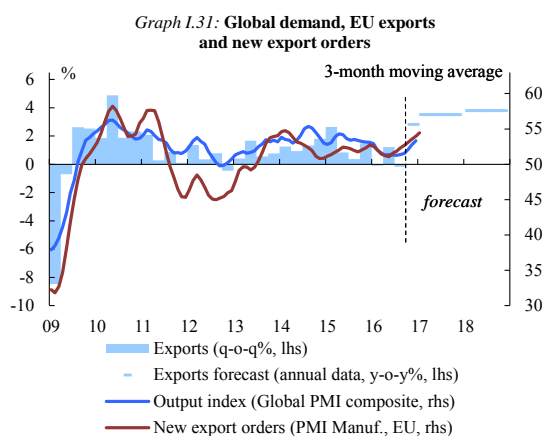
All in all, total investment is projected to increase in the euro area by 2.9% in 2017 and 3.4% in 2018 (2.9% and 3.1% respectively in the EU). Differences between aggregates with and without Ireland are expected to level off (less than  $\pm 0.1$  pps.).

#### Slowing global growth and trade hampered European trade volumes...

The slowing of economic growth outside the EU, most notably in emerging market economies and some advanced economies, as well as the weakness of global trade, have exerted a negative impact on trade volumes for both goods and services in the euro area and the EU, slowing their expansion markedly.

In the first three quarters of 2016, export volumes in the euro area were 2.3% higher than in the first three quarters of 2015 (2.7% in the EU). This compares to a rate of 6.7% between the first three quarters of 2015 and the same period in 2014 (6.5% in the EU). 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. While export market shares grew considerably in 2015 thanks to the significant depreciation of the euro, they remained broadly stable last year. Import growth of goods and

services was rather subdued in the first three quarters in 2016, growing by 3.2% in the euro area (3.5% in the EU) compared to 6.3% (6.2% in the EU) in the first three quarters in 2015.



#### ...but the rebound in the external environment is set to push exports.

In the near term, the negative impact of the past slowdown in emerging markets and some advanced economies is expected to continue affecting trade, though gradually to a lesser degree. After having deteriorated in the first two quarters in 2016, the assessment of export order books in the Commission's manufacturing survey in the euro area and in the EU improved in the third and fourth quarter of last year in line with the rise in global activity. In January 2017, the assessment continued to improve in both the euro area and the EU and stood at its highest level since mid-2011. In line with this, the manufacturing PMI new export orders index also moved up, increasing in the euro area in January 2017 to its highest level since early 2014. The first hard data for merchandise trade in the fourth quarter signalled a rebound, as world trade volumes in October and November were on average slightly higher than the average of the third quarter. Euro area merchandise exports rose in November to their highest level since the Great Recession in 2008-2009. Overall, on the back of the slowdown in global activity, euro area exports look likely to have slowed considerably in 2016, growing by just 2.7% (2.8% for the EU), which is well below pre-crisis levels. In line with this, import growth decreased to 3.3% in the euro area (3.5% in the EU) in 2016.

Looking further ahead, the expected pick-up in emerging market economies and some advanced economies should raise foreign demand for euro

area exports, although this will be partially offset by the negative impact of expected slowing economic growth in the UK in 2017 and 2018.

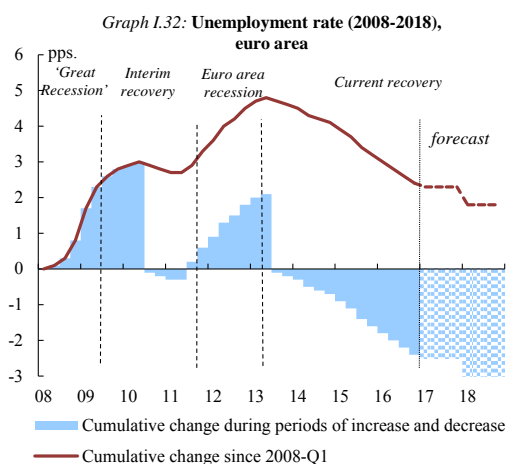
The price competitiveness of the euro area is expected to remain roughly stable over the forecast horizon, which reflects almost unchanged real unit labour costs in 2017 and in 2018 and the technical assumptions on nominal effective exchange rates. As a result, the major gain in price competitiveness in 2015, as measured in terms of the real effective exchange rate, should be preserved and support exports growth. However, European exporters are also likely to lose marginal market shares this year and next in line with past trends.

Exports of goods and services are projected to accelerate to 3.3% (3.5% in the EU) in 2017 and to 3.7% (3.8% in the EU) in 2018. Imports are set to continue following a similar pattern to those of exports, but should grow slightly faster. Imports are expected to rise 3.8% in the euro area in 2017 (3.9% in the EU) and 4.3% in 2018 (4.1% in the EU). Overall, the contribution from net exports to the euro area's economic growth is expected to turn neutral in 2017 and slightly negative in 2018. For the EU, net trade is expected to be neutral in both 2017 and 2018.

## 5. THE LABOUR MARKET

The euro area labour market continues to recover, as suggested by increasing employment and falling unemployment. Despite these improvements, unemployment rates have not yet returned to their pre-crisis levels. This suggests that the negative impact of the Great Recession of 2008-2009 and the ensuing sovereign debt crisis (2011-2013) has not yet been fully offset. Also the working hours per employee and underemployment indicators suggest that a non-negligible labour market slack persists (see Graph I.32).

Recent labour market developments remain characterised by a relatively job-rich recovery, together with an unabated trend towards a higher share of part-time work, and receding cross-country differences. Over the next two years, improvements in the labour market are expected to continue though somewhat more slowly than in the period 2014-2016. This means that the unemployment rate is unlikely to return to pre-crisis levels during this timeframe (7.5% in the euro area and 7% in the EU in 2008).

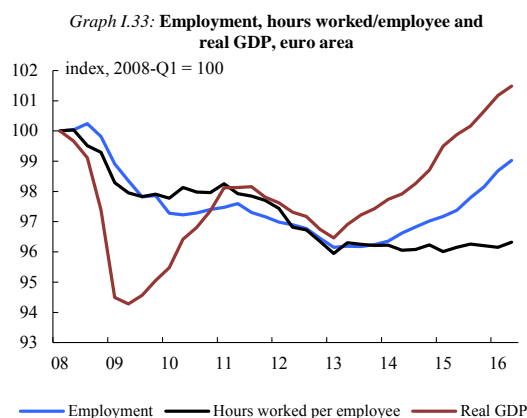


### The labour market continued to recover in 2016...

Employment has been rising uninterruptedly since the third quarter of 2013, growing at a somewhat stronger rate than economic growth would normally suggest. In the euro area and the EU, employment grew by 1.3% in the four quarters up to the summer of 2016, the best performance in the latest eight years. However, in the euro area these developments have not yet been enough to make up for the large job losses seen during the recession years, and 1.8 million jobs are still missing compared to 2008. Moreover, the level of hours worked has not shown any sign of catching up and remains well below its pre-crisis level in both the euro area and the EU as a whole (see Graph I.33). This suggests that despite the recent improvements, significant slack remains in the labour market.<sup>(29)</sup>

Net job creation in the euro area and the EU has been supported by the ongoing economic expansion, modest wage growth, structural reforms, as well as other policy measures in some Member States. As argued in the 2016 autumn forecast, the responsiveness of employment to economic growth seems to have increased in the recent past.<sup>(30)</sup> This could be due to the rising importance of the services sector, as services are traditionally more labour intensive, but also due to the increase in part-time work. Structural reforms in several Member States have also contributed to making the current recovery relatively job-rich, by

facilitating job creation and making wages more responsive to activity at the company level.



### ...but hours worked have not picked up and mirror some underutilisation of the labour force...

Yet, the increase in headcount employment has not been mirrored in the development of hours worked by employees, which has remained broadly flat in recent years. In the euro area, the number of hours stood in the third quarter of 2016 at about 4% below their pre-crisis level. This can be related to the shift in the composition of labour towards sectors with a higher share of part-time contracts such as services.<sup>(31)</sup> In fact, in the euro area, the share of part-time workers has increased by roughly 3 pps. since 2008, rising to 21.6% in the third quarter of 2016. This feature is particularly prominent among youth, for whom part-time employment represents about a third of total employment in the third quarter of 2016 (32.6%), compared to 25.6% in 2008. Also, the overall figure for part-time employment hides an increase in the share of involuntary part-time work, or underemployment<sup>(32)</sup>, by close to 7 pps. since 2008 to 31% of all part-time jobs in 2015. This, together with the low level of hours worked per employee, suggests that the underutilisation of the labour force is greater than what the unemployment rate only would suggest (see Graph I.34).<sup>(33)</sup>

<sup>(29)</sup> See European Commission (DG ECFIN) (2016). 'How is the recovery proceeding in the euro area?'. European Economic Forecast – Autumn 2016, *Institutional Paper 038*, Box I.3, pp. 63-65.

<sup>(30)</sup> See ECB (2016). 'The employment-GDP relationship since the crisis'. *Economic Bulletin* 6, pp. 53-71.

<sup>(31)</sup> See ECB (2016). 'Factors behind developments in average hours worked per person employed since 2008'. *Economic Bulletin* 6, Box 6, pp. 49-52.

<sup>(32)</sup> Underemployment is defined as part-time workers who would like to work more hours and are available to do so.

<sup>(33)</sup> A broad measure of the unemployment slack would take into account the underemployed, the potential additional



Table I.3:

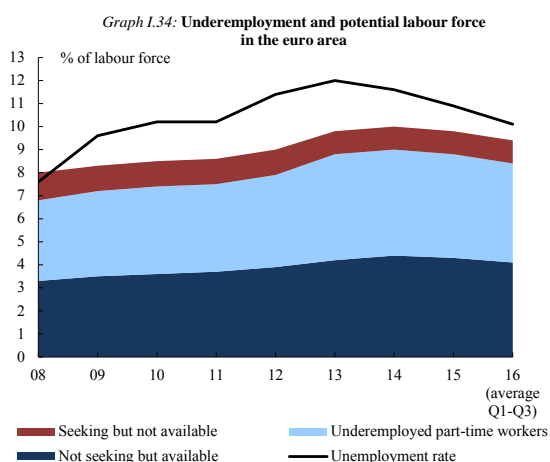
## Labour market outlook - euro area and EU

(Annual percentage change)

	Euro area								EU							
	Winter 2017 forecast				Autumn 2016 forecast				Winter 2017 forecast				Autumn 2016 forecast			
	2015	2016	2017	2018	2016	2017	2018		2015	2016	2017	2018	2016	2017	2018	
Population of working age (15-64)	0.1	0.4	0.4	0.2	0.3	0.4	0.2		0.1	0.3	0.3	0.2	0.3	0.3	0.2	
Labour force	0.2	0.4	0.5	0.4	0.6	0.5	0.5		0.2	0.3	0.4	0.4	0.6	0.5	0.4	
Employment	1.1	1.3	1.0	1.0	1.4	1.0	1.0		1.2	1.3	0.8	0.8	1.4	0.9	0.8	
Employment (change in million)	1.6	1.9	1.4	1.5	2.0	1.5	1.5		2.6	2.8	1.8	1.8	3.1	2.0	1.9	
Unemployment (levels in millions)	17.5	16.2	15.5	14.7	16.3	15.6	14.9		22.9	20.9	20.1	19.2	21.1	20.3	19.5	
Unemployment rate (% of labour force)	10.9	10.0	9.6	9.1	10.1	9.7	9.2		9.4	8.5	8.1	7.8	8.6	8.3	7.9	
Labour productivity, whole economy	0.9	0.4	0.7	0.8	0.3	0.5	0.7		1.1	0.6	0.9	1.0	0.4	0.7	0.9	
Employment rate (a)	59.6	60.1	60.4	60.9	60.2	60.6	61.0		59.8	60.3	60.7	61.0	60.5	60.8	61.2	

(a) As a percentage of population of working age. Definition according to structural indicators.

See also note 6 in the Statistical Annex



...while the overall unemployment rate has continued to decline.

Since 2013, the unemployment rate has been falling steadily, mainly reflecting job creation. By December 2016, the unemployment rate had fallen to 9.6% of the labour force in the euro area and to 8.2% in the EU, which are the lowest levels since May 2009 and January 2009 respectively. In the euro area, the unemployment rate declined by a further 0.2 pps. per quarter in the third and fourth quarter of 2016, despite the slight slowdown in job creation.

Unemployment rates have been falling for all categories of workers, including among young people and those who have been unemployed for more than a year (ie. the long-term unemployed). Although *youth unemployment* has continued to decline on average over the last 12 months, it registered a slight increase at the end of 2016 (notably in Spain, Italy and France). This slight increase, however, is not significant enough to

labour force (persons seeking work but not available and persons available to work but not seeking) in addition to the usual "headline" unemployment rate.

question the positive trend. In December 2016, youth unemployment rate stood at 20.9% in the euro area and 18.6% in the EU. As described in section I.1, persistently elevated rates of youth unemployment bear the risk of long-term skill erosion and scarring effects which could be detrimental to future employability. In parallel, *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 2 years or more remains high and far above pre-crisis levels. The persistence of a high level of long-term unemployment in the euro area and the EU could continue weighing on the efficiency of labour market matching and increase the risk of high levels of unemployment becoming entrenched (see Section I.1).

### More jobs expected to be created...

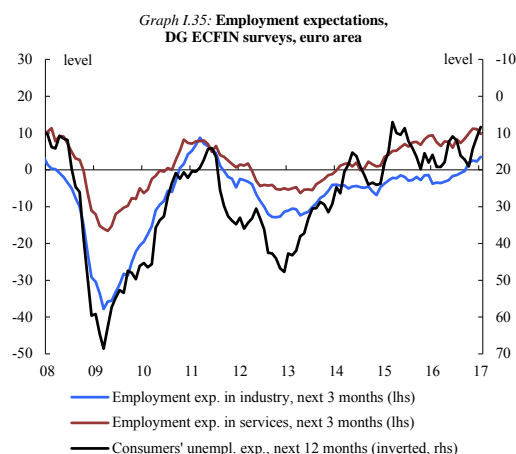
Labour market conditions are projected to improve further over the forecast horizon, though at a slower pace than in the past year. Employment creation is set to continue benefitting from the domestic-demand driven expansion, still relatively moderate wage growth, as well as structural reforms and policy measures implemented in some Member States. The increased recourse to part-time working should also continue benefitting job creation, even if it were to be partly counterbalanced by the slow recovery of hours worked back to pre-crisis levels. Even though the labour market situation has improved considerably in recent years, its outlook remains constrained by modest medium-term economic prospects and a high level of economic and policy uncertainty in the short term.

The somewhat slower pace of employment growth expected may reflect a normalisation of some temporary factors, such as the impact of policy measures in some Member States like Italy and

France. In addition, it could reflect more cyclical factors such as the maturation of the economic cycle in Spain, where job creation is expected to remain dynamic but to lose some momentum. In Germany, labour market conditions are becoming tight and skilled labour supply shortages are becoming more binding.

In the short-term, the Commission's survey data on employment expectations continue to point to further net job creation (see Graph I.35). The hiring intentions of firms remain above their long-term averages in all sectors in both the euro area and the EU. Employment expectations in the fourth quarter of 2016 improved in the EU's industry, construction, retail trade and service sectors. In January 2017, hiring intentions increased in the industry and retail sectors but declined slightly in the services and construction sectors. The level of the indicator still suggests continuous job creation at the beginning of 2017. In line with this, the employment component of the euro area's Composite PMI also increased in January to a nine-year high, signalling strong employment growth at the start of the year. Also, consumers' unemployment fears decreased slightly in the fourth quarter of last year after having jumped in the third, possibly due to heightened economic and policy uncertainty in the aftermath of the UK's referendum outcome. In January, unemployment fears continued to decrease in both the euro area and the EU.

All in all, headcount employment is expected to have grown by 1.3% in both the euro area and the EU in 2016, thanks to dynamic job creation in the first half of last year, 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 both years and by a lower 0.8% in the EU, mainly reflecting a strong slowdown in job creation in the UK and Poland.



...and the unemployment rate should decrease to its lowest level since 2009.

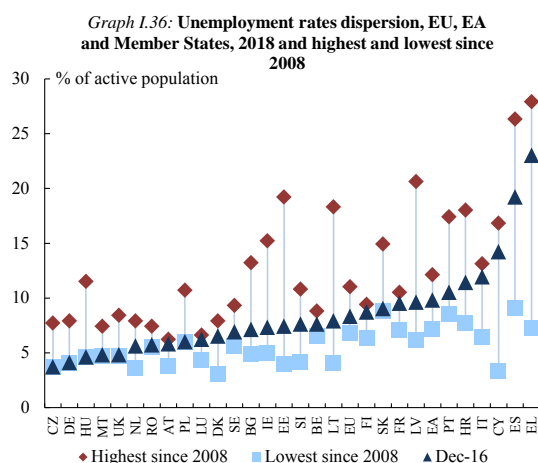
Labour force developments should continue shaping unemployment developments over the forecast horizon. The expected annual increase in the labour force of around 0.5% per year primarily reflects higher job market participation rates for women and seniors in line with long-term trends, but also the positive effects from refugees entering the labour force (particularly in the main destination countries) as well as 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 continue declining as job creation should outpace labour force growth. In 2018, the unemployment rate is projected to reach 9.1% in the euro area and 7.8% in the EU, their lowest levels since 2009.

The Non-Accelerating Wage Rate of Unemployment (NAWRU), a measure of spare capacity in the labour market, is expected to continue falling over the forecast horizon. Labour productivity growth (output per person employed) is expected to have reached a trough in 2016 and is set to gradually recover in 2017 and 2018, reflecting the normalisation in job creation and in line with the pro-cyclicality of labour productivity. Labour productivity growth is expected to be just 0.8% in the euro area in 2018 and 1.0% in the EU compared to 1.1% and 1.6% respectively in the decade preceding the crisis (1997-2007).

Labour market disparities among Member States to remain high and recede only slowly

Labour market conditions and performances have continued to differ substantially across Member States though these disparities are decreasing. In

2016, unemployment is expected to have fallen in all but two Member States. In Portugal, Cyprus, Greece and Spain, where unemployment remains particularly high, it fell by 1.5 pps., almost twice as much as the euro area average. In Ireland, the fall in unemployment was also pronounced and while the unemployment rate is below the euro area average, it still remains high according to Irish standards. The reduction has been more limited in countries where unemployment was already low and labour markets have begun to tighten such as Germany and the UK. This explains the continued reduction in the dispersion of unemployment rates across EU countries. In parallel, employment growth is expected to have been positive in all Member States but Latvia and Romania and to have increased in some such as France, Italy, Greece, Cyprus and Bulgaria where improvements had so far been timid (see Graph I.36).



Labour market disparities across countries are set to recede 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 structural reforms put in place by Member States to weather shocks. Structural measures are likely to have helped improve the responsiveness of employment to GDP during the recovery in several euro area countries.<sup>(34)</sup> At the same time, other factors, such as sectoral differences in growth rates and job creation, as well as a more or less pronounced rebound owing to previous substantial job losses during the crisis,

<sup>(34)</sup> These include measures which increase labour market flexibility by decreasing excessive employment protection, for example by reducing severance payments or making wages more responsive to labour market conditions.

may also help to explain the differences in labour market dynamism.

Overall, reflecting the modest economic growth and continued job creation, unemployment is projected to fall in almost all euro area countries over the forecast horizon, but remain high in the former 'stressed countries'. Unemployment rates are expected to range from 4.1% in Germany to 20.3% in Greece in 2018.

## 6. INFLATION

Harmonised Index of Consumer prices (HICP) inflation has been picking up since the second half of 2016 and should continue to do so in 2017 before falling somewhat in 2018. This temporary rise mostly reflects the recovery of oil prices from very low levels at the end of 2015 and for most of 2016. The contribution from energy base-effects is nevertheless expected to decrease over the forecast horizon as oil prices are assumed to stabilise in the second half of 2017. The recent increase in oil prices is also feeding into higher import and producer prices and different components of HICP through second-round effects.

In parallel, core inflation (excluding energy and unprocessed food) remained broadly stable in 2016 and is expected to pick up only gradually over the forecast horizon. The remaining slack in labour markets as well as structural reforms implemented in some Member States have prevented any acceleration of core inflation so far, but the expected slight increase in wages over this year and next, as well as the narrowing and closure of the output gap, should support underlying price pressures over the forecast horizon.

As a result, HICP inflation is forecast to increase more than previously expected in 2017, and to slow down in 2018 as the gradual increase in core inflation does not fully offset the fading impact of higher oil prices on the energy component.

### Inflation finally picking up...

HICP inflation in the euro area rose in the second half of 2016, mostly supported by the energy component going back to positive territory towards the end of the year, after having significantly weighed on headline inflation throughout most of the year. After flat or slightly negative inflation in the first two quarters of 2016, HICP inflation



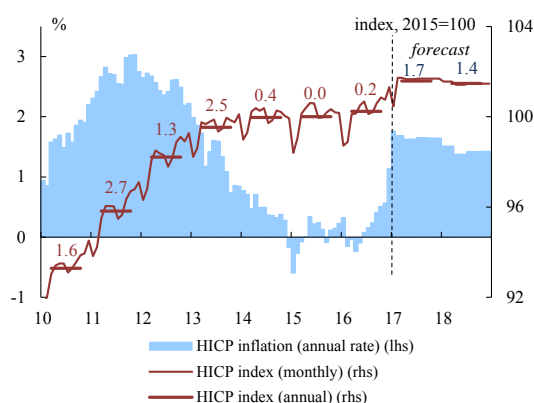
Table I.4:

**Inflation outlook - euro area and EU**

(Annual percentage change)	Euro area							EU						
	Winter 2017 forecast				Autumn 2016 forecast			Winter 2017 forecast				Autumn 2016 forecast		
	2015	2016	2017	2018	2016	2017	2018	2015	2016	2017	2018	2016	2017	2018
Private consumption deflator	0.1	0.4	1.6	1.4	0.4	1.3	1.4	0.2	0.5	1.8	1.7	0.5	1.6	1.7
GDP deflator	1.1	1.0	1.3	1.4	1.0	1.2	1.5	1.1	1.0	1.5	1.6	1.0	1.4	1.7
HICP	0.0	0.2	1.7	1.4	0.3	1.4	1.4	0.0	0.3	1.8	1.7	0.3	1.6	1.7
Compensation per employee	1.2	1.2	1.8	2.1	1.2	1.7	2.0	1.1	1.7	2.2	2.4	1.6	2.0	2.3
Unit labour costs	0.3	0.8	1.1	1.3	1.0	1.2	1.3	0.3	1.1	1.3	1.4	1.2	1.3	1.4
Import prices of goods	-3.5	-3.4	2.7	1.4	-3.2	1.5	1.3	-3.6	-2.5	3.0	1.5	-1.6	2.3	1.6

picked up to 0.3% in the third quarter and accelerated to 0.7% in the final quarter. Over the course of 2016, HICP inflation was gradually lifted by less negative energy inflation, while unprocessed food inflation remained robust, averaging 1.4% over the whole 2016 (see Graph I.37).

Graph I.37: HICP, euro area



Figures next to horizontal bars are annual inflation rates.

Core inflation remained low and stable at 0.8% in the last quarter of 2016 (unchanged compared to the two previous quarters) and has showed no sign of acceleration so far, as services and processed food inflation picked up only slightly (+0.1 pps. both) and non-energy industrial goods remained stable.

In December 2016, headline inflation in the euro area rose to 1.1% (y-o-y) from 0.6% (y-o-y) in November, mostly supported by energy inflation switching back into positive territory at 2.6%, from -1.1% in November. Given the incomplete and lagged pass-through of energy prices into domestic prices, the rebound in oil prices since the beginning of 2016 only started to materialise in inflation figures towards the fourth quarter of 2016. The recovery of oil prices from the very low levels in the course of 2015 generated positive base-effects in the second half of last year, pushing

up headline inflation. Core inflation stood at 0.9% in December 2016, only slightly up (+0.1 pps.) compared to November. Services inflation rose somewhat to 1.3% in December from 1.1% in November and food inflation accelerated more strongly to 1.2%, from 0.7% in November. Non-energy industrial goods inflation remained flat at 0.3% for the fifth consecutive month.

The Eurostat Flash estimate for euro area inflation in January 2017 stood at 1.8% y-o-y, up from 1.1% in December 2016. This is the highest rate since February 2013 but was mostly driven, as expected, by a strong acceleration in energy inflation (8.1% from 2.6% in December). Core inflation remained stable at just 0.9%.

#### ...in line with other advanced economies.

Outside the euro area, global inflation also picked up during the second half of last year, supported by the rebound in oil prices and producer prices as well as more solid growth dynamics in advanced economies. While headline inflation in Japan and in the US has benefitted from positive energy base-effects, core inflation remains more subdued. In parallel, inflation developments in emerging markets have been weak, with core inflation falling. Regarding pipeline pressures, global input price pressures are pushing output prices higher all along the global value chain, including in the euro area.

After a long period of continuous decline, the annual growth rate of import prices finally turned slightly positive in November 2016 (at +0.1%) for the first time since end-2012. While euro area industrial import prices had been falling significantly throughout 2016 on a year-on-year basis, they had been recovering from the trough of -7.2% of April 2016. This turnaround suggests positive pressure from increasing oil prices and reflects, to a lesser extent, the impact of the slight depreciation in the euro's nominal effective

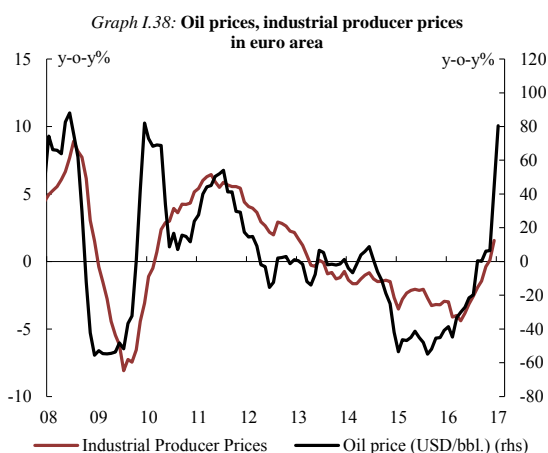
Table I.5:

**Inflation outlook - euro area**

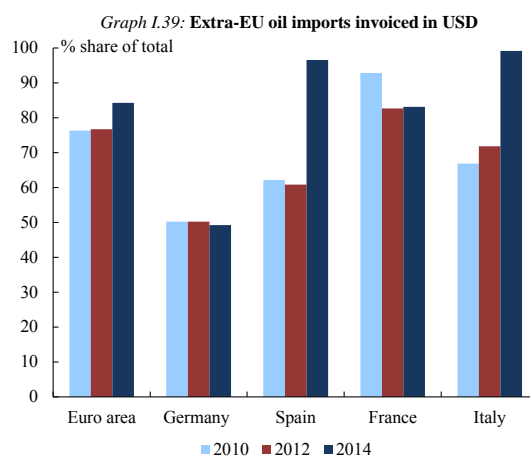
(Annual percentage change)

	Euro area						
	Winter 2017 forecast				Autumn 2016 forecast		
	2015	2016	2017	2018	2016	2017	2018
HICP	0.0	0.2	1.7	1.4	0.3	1.4	1.4
Non-energy industrial goods	0.3	0.4	0.6	1.0	0.5	0.6	1.0
Energy	-6.8	-5.1	6.3	1.5	-5.1	3.6	2.3
Processed food (incl. alcohol and tobacco)	0.6	0.6	1.3	1.7	0.5	0.9	1.3
Unprocessed food	1.6	1.4	1.6	1.7	1.7	1.5	1.5
Services	1.2	1.1	1.3	1.6	1.1	1.4	1.5
HICP excl. energy and unprocessed food	0.8	0.8	1.1	1.4	0.8	1.1	1.3

exchange rate since early November. The past decline in industrial import prices contributed to subdued producer price developments in the euro area which also just turned positive in November at 0.1% y-o-y (see Graph I.38). The recovery of oil prices from the very low levels of the second half of 2015 is likely to help stabilise both import and producer prices once the impact of base effects runs its course towards the end of 2017.



Moreover, given the overall high (and increasing) share of USD-denominated oil imports in the euro area, the depreciation of the euro against the dollar is likely to drive import prices in the euro area further upwards into 2017, even though the picture varies quite a lot from country to country (see Graph I.39).



### The profile of headline HICP should first be driven by energy base effects...

Headline inflation is expected to increase sharply in 2017 after the first signs of rebound at the end of 2016. Its profile should at first mainly be driven by energy base effects. An almost flat quarterly profile for 2017 is expected though, which hides several factors at play. The first and third quarters of the year should be shaped by large positive base-effects from energy inflation. Oil prices have recovered from their January 2016 lows of around 30 USD/bbl to their current level of around 55 USD/bbl. Compared to the autumn forecast, the combination of higher oil prices and the depreciation of the euro against the dollar is likely to push headline inflation higher. The assumed stabilisation of oil prices in the second half of 2017 should imply a lower but still significant contribution from the energy component to headline inflation, decelerating from 6.3% in average in 2017 to 1.5% in 2018 (see Table I.5).

Unprocessed food inflation is expected to be supported by global inflationary pressures on

commodities and to push headline inflation as well. Unprocessed food inflation is expected to remain robust at 1.6% (y-o-y) and 1.7% respectively in 2017 and 2018.

#### ...before core inflation takes over...

As the positive base effects from energy prices are expected to weaken by the end of 2017, the outlook for a gradual uptick in inflation rests on an expected increase in underlying price pressures. Even though signs of a pick-up in underlying price pressures have yet to emerge, core inflation is expected to start rising towards the end of 2017 and support the pace of headline inflation. It is expected to increase slightly from 0.8% in 2016 to 1.1% in 2017, before rising somewhat more strongly in 2018 to reach 1.4%.

#### ...supported by slightly increasing wage growth.

Most of the components of core inflation are expected to pick up gradually over the next two years. First, the increase in energy prices should have a positive impact on energy-intensive components like transport and global producer prices. This should support non-energy goods inflation, which is projected to increase from 0.4% on average in 2016 to 1.0% by 2018.

Second, inflation in services, which accounts for about two-thirds of the euro area core inflation index, is also expected to pick up over the forecast horizon, supported by slightly increasing wage growth. Given the still high level of unemployment in the euro area, wage growth per employee has remained rather subdued. The combination of low inflation, significant slack in the labour market, weak productivity growth and the impact of labour market reforms in several Member States, is likely to have prevented a sustained increase of wage growth. However, more recently, growth in wages and salaries per hour more than doubled from 0.8% y-o-y in the second quarter of 2016 to 1.7% in the third quarter of 2016. The continued downward trend in unemployment and higher inflation expectations should support an increase in wages per head and unit labour costs over the forecast horizon, and push annual inflation in services. Moreover, the low growth in rents (an important component of service inflation) seems to have also acted as a drag.<sup>(35)</sup> With the adjustment

in the housing sector ending and headline inflation picking up, rental prices should increase over the forecast horizon. Overall, service inflation is forecast to increase from 1.1% in 2016 to 1.3% in 2017 and 1.6% in 2018.

While the nominal growth rate of compensation per employee is expected to accelerate from 1.2% in 2016 to 1.8% in 2017 and 2.1% in 2018, the real growth rate should decrease from 0.9% last year to 0.2% this year before rebounding to 0.7% next year as inflation slows down. This continued positive growth of real compensation could eventually exert some upward pressure on domestic prices. Moreover, firm's increased price-setting power, and a corresponding cyclical acceleration in profit margins, should further support its recovery.

Furthermore, the closing of the euro area output gap in 2018 is likely to ease its restraining impact on underlying price pressures. Finally, the accommodative monetary policy measures taken by the ECB are expected to support underlying price pressures by fostering credit growth and lifting inflation expectations.

#### Inflation expectations have recovered...

Compared to September, market-based measures of inflation expectations have increased sharply. They have recovered from the lows reached during summer 2016 and are on average some 30bps. higher for 2017 and 2018 compared to the autumn 2016 forecast. At the cut-off date of this forecast, inflation-linked swap rates at the one-year forward one-year ahead horizon stood at 1.2% (see Graph I.40). Swap rates at the three-year forward three-year ahead horizon imply an average inflation of 1.4%. On a longer horizon, the widely watched five-year forward five-year ahead indicator suggests inflation of 1.8%. This indicates that market participants are reversing slowly their inflation outlook and consider that inflation will likely pick up soon, and faster than expected in the autumn forecast.

Survey-based measures of inflation expectations have also moved up since the autumn. The monthly mean of market forecasters calculated by Consensus Economics stood in January at 1.4% in 2017, slightly up from 1.3% in October. The ECB's January 2017 Survey of Professional

<sup>(35)</sup> See ECB (2016). 'Assessing the impact of housing costs on HICP inflation'. *Economic Bulletin* 8, Box 4, pp. 47-50.

Forecasters includes inflation forecast means of 1.4% in 2017 and 1.5% in 2018, up from respectively 1.2% and 1.4% in the 2016-Q4 exercise. 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 continued to increase in recent months. In line with this, the euro area PMI index for input prices and selling prices have accelerated to their quickest pace since 2012.



...in line with upward revisions in the inflation outlook...

In 2016, headline inflation in the euro area stood at 0.2%, which is 0.1 pps. lower than in the autumn forecast, reflecting mainly a lower-than-expected fourth quarter.

In 2017, the faster-than-expected increase in oil prices combined with a depreciation of the euro against the dollar should lead to stronger base effects from energy prices compared to autumn and support headline inflation, mostly in the first and third quarters of the year. At the same time, as the contribution from the energy component gradually begins to slow down, core inflation is expected to start accelerating, driven by a pick-up in all sub-components, supporting headline inflation towards the end of the year. In 2018, the continued decrease of the contribution from energy inflation should not be fully compensated by other components. Currently, our oil price assumptions suggest a peak in 2017-Q4, which reflects the fact that oil futures prices are higher for short-term than for long-term maturities. Hence, headline inflation is expected to decrease somewhat towards the end of the forecast horizon. Overall, HICP inflation is expected to increase to 1.7% in 2017 (revised up from 1.4% in autumn) before slowing down to 1.4% in 2018 (unchanged).

...while inflation differentials have narrowed but remain.

Aggregate HICP inflation rates mask substantial differences across euro area Member States. In 2016, HICP inflation rates in the Member States ranged from -1.2% in Cyprus to 1.8% in Belgium. In 2017, inflation rates are expected to turn positive in all euro area Member States and to range from 0.9% in Ireland and Slovakia to 2.8% in Estonia; and in 2018, from 1.0% in Ireland and Greece to 2.8% in Estonia. In 2018, most euro area countries are expected to have inflation rates between 1% and 2%, with the exception of Estonia, Slovenia and Luxembourg which are expected to have inflation rates above 2%. The variation in inflation rates is expected to continue narrowing in 2017.

## 7. 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, the government debt ratio is projected to continue declining, while the deficit ratio is expected to stabilise.

The government deficit is expected to continue to fall, though at a slower pace in 2017, before stabilising in 2018

In 2016, the aggregate general government deficit is expected to have fallen to 1.7% of GDP in the euro area and to 1.9% in the EU, respectively 0.4 pps. and 0.5 pps. of GDP lower than in 2015. It is expected to continue to decline in both areas in 2017, albeit at a slower pace than in previous years and to remain broadly unchanged in 2018. In the euro area, the aggregate deficit (see Graph I.41) is expected to fall to 1.4% in 2017 and, under a no-policy-change assumption, remain unchanged in 2018 (compared to 1.7% in 2017 and 1.6% in 2018 in the EU) (see Table I.6).

The performance of individual Member States is expected to be quite different. The general government deficit is expected to have exceeded 3% of GDP in 2016 in three Member States (Spain, France and the UK). By 2018, based on a no-policy change assumption, deficits larger than the 3% of GDP reference value are projected in France and Romania. Over the forecast horizon, deficit reductions are expected in a majority of

Table I.6:

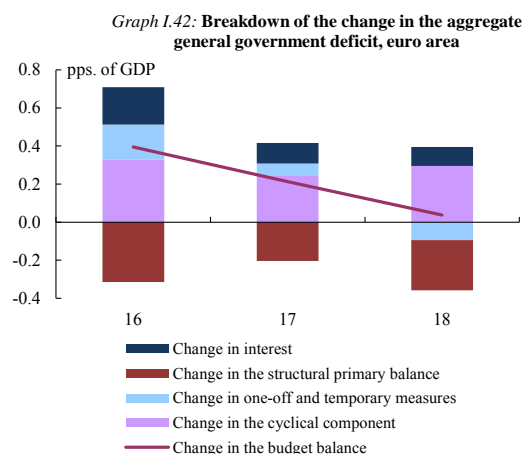
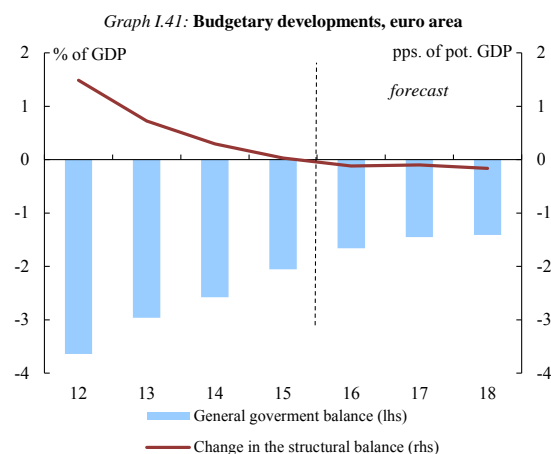
## General Government budgetary position - euro area and EU

(% of GDP)	Euro area							EU						
	Winter 2017 forecast				Autumn 2016 forecast			Winter 2017 forecast				Autumn 2016 forecast		
	2015	2016	2017	2018	2016	2017	2018	2015	2016	2017	2018	2016	2017	2018
Total receipts (1)	46.5	46.3	46.2	46.0	46.2	46.1	45.9	44.9	44.8	44.8	44.7	44.9	44.9	44.7
Total expenditure (2)	48.5	47.9	47.6	47.4	48.0	47.7	47.4	47.3	46.7	46.5	46.3	46.9	46.6	46.3
Actual balance (3) = (1)-(2)	-2.1	-1.7	-1.4	-1.4	-1.8	-1.5	-1.5	-2.4	-1.9	-1.7	-1.6	-2.0	-1.7	-1.6
Interest expenditure (4)	2.4	2.2	2.1	2.0	2.2	2.1	1.9	2.3	2.1	2.0	2.0	2.1	2.0	1.9
Primary balance (5) = (3)+(4)	0.3	0.5	0.6	0.6	0.4	0.5	0.5	-0.1	0.3	0.4	0.4	0.2	0.3	0.3
Cyclically-adjusted budget balance	-1.2	-1.1	-1.2	-1.4	-1.2	-1.2	-1.3	-1.7	-1.5	-1.5	-1.6	-1.6	-1.5	-1.5
Cyclically-adjusted primary balance	1.2	1.1	0.9	0.6	1.0	0.9	0.6	0.5	0.6	0.5	0.4	0.5	0.5	0.4
Structural budget balance	-1.0	-1.1	-1.2	-1.4	-1.2	-1.3	-1.3	-1.6	-1.5	-1.6	-1.6	-1.6	-1.6	-1.5
Change in structural budget balance	0.0	-0.1	-0.1	-0.2	-0.2	0.0	-0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.0
Gross debt	92.6	91.5	90.4	89.2	91.6	90.6	89.4	86.5	85.1	84.8	83.6	86.0	85.1	83.9

The structural budget balance is the cyclically-adjusted budget balance net of one-off and other temporary measures estimated by the European Commission

Member States, most prominently in Greece, Spain and Slovakia, while a large increase in the deficit is expected in Romania.

2017 (by 0.1 pps.) and, under a no-policy-change assumption, in 2018 (by 0.2 pps.) (see Section I.8).



Several factors explain the change in the headline budget balance for the euro area (see Graph I.42). The ongoing economic expansion, as reflected by the improvement in the cyclical component, is projected to reduce the aggregate deficit in the euro area by around 0.3 pps. of GDP every year over the period 2016-18.<sup>(36)</sup>

After several years of increases, the structural balance<sup>(37)</sup> in the euro area is expected to have fallen by 0.1 pps. of GDP in 2016. The structural deficit is expected to increase slightly further in

The structural balance<sup>(38)</sup> continues to benefit from a positive impact related to the reduction in interest expenditure, although this effect is expected to decrease over the forecast horizon, from 0.2 pps. of GDP in 2016 to 0.1 pps. in both 2017 and 2018. The decline in interest expenditure reflects depressed long-term interest rates amid negative policy rates, subdued GDP growth expectations and also non-standard monetary policy measures (see also Section I.8).<sup>(39)</sup> The slight increase in the structural deficit is therefore explained by developments in the structural primary balance, which excludes interest expenditure, indicating a departure from the strong

<sup>(36)</sup> 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.

<sup>(37)</sup> 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.

<sup>(38)</sup> The evolution of the structural balance can be broken down into the change in interest expenditure and the change in the structural primary balance.

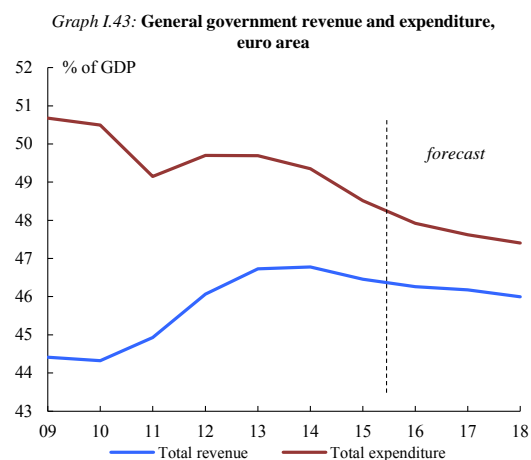
<sup>(39)</sup> An increase in the average maturity of debt has also been associated with a reduction in the long-term interest rate. See, Beetsma, R., M. Giuliodori, and I. Sakalauskaite (2016). 'Long-term interest rates and public debt maturity'. *Economica*, April 2016.



fiscal consolidation efforts undertaken in previous years.

### Expenditure driving headline deficit developments...

The slowdown in the reduction in the aggregate general government deficit-to-GDP ratio over the forecast horizon is expected to be driven by the slower decline of the general government expenditure-to-GDP ratio, both in the euro area and the EU (see Graph I.43).



The government expenditure-to-GDP ratio in the euro area is expected to decline over the forecast horizon from 47.9% 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 due to 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 edge up from 2.6% to 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 as projects from the new programming period of EU funding enter the implementation phase. Also, the Investment Plan for Europe should have a positive impact on public investment over the forecast horizon. Increases in public investment could boost domestic demand and have positive spillover effects on other Member States.<sup>(40)</sup>

The government revenue-to-GDP ratio is also expected to decline in 2017 and 2018, although 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 46.0% 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 (for instance in France and Italy).

### ...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 have continued its downward trend to 91.5% in the euro area (85.1% in the EU). In 2017 and 2018, the government debt ratio is projected to continue declining gradually. In the euro area, it is forecast to decline to 90.4% in 2017 (84.8% in the EU) and, under a no-policy-change assumption, to 89.2% in 2018 (83.6% in the EU). Debt reduction finds its roots both in primary surpluses and in a more favourable snow-ball effect, driven by reduced interest expenditure, modest real GDP growth, and the expected uptick in inflation (see Table I.7). At the Member State level, debt is expected to exceed 100% of GDP in four Member States (Belgium, Greece, Italy and Portugal) over the whole forecast horizon and in Cyprus in 2016 and 2017, while it is expected to remain just below this level in Spain. While debt ratios are expected to decline in a vast majority of Member States, some increases are nevertheless projected, notably in France, Italy, Luxembourg, Finland, Poland and Romania.

---

and their euro area spillovers'. *European Economy Economic Brief 16* (European Commission – DG ECFIN).

<sup>(40)</sup> For an analysis for surplus countries, see In 't Veld, J. (2016). 'Public investment stimulus in surplus countries

## 8. MACROECONOMIC POLICIES IN THE EURO AREA

Monetary conditions in the euro area remain accommodative, with low financing costs and credit supply conditions that have been easing. Based on the customary assumptions,<sup>(41)</sup> financing conditions are set to remain favourable over the forecast horizon, further supported by increasing inflation rates that should lead to somewhat lower real financing costs in the short run. As regards the fiscal policy stance, it turned broadly neutral in 2015 and is expected to remain broadly neutral over the forecast horizon. These developments should be seen against the backdrop of a soft global recovery that has become even more subject to considerable political and economic risks.

### Monetary conditions are expected to remain accommodative

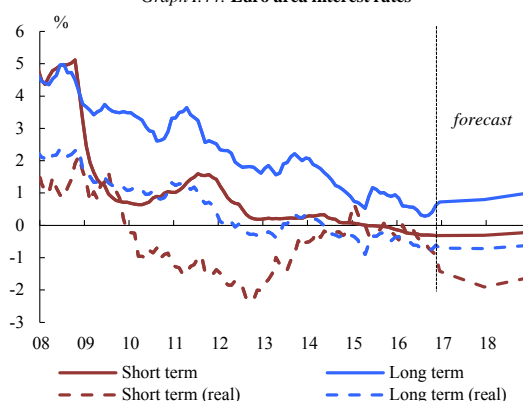
The full implementation of the set of monetary policy measures introduced in recent years is expected to keep financing conditions loose. The recent extension of the duration of the ECB's asset purchase programme until at least December 2017 should ensure that nominal long-term rates stay at overall low levels, additionally supported by the ECB's policy of reinvesting the proceeds from maturing securities, which should come into effect from March 2017. The ECB's asset purchases under the corporate sector purchases-programme (CSPP) that started in June 2016, should also help to 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. Indeed, in the money market, the overnight rate (EONIA) continued to trade closely above the ECB's deposit facility rate over the past months, reflecting the high and still growing excess liquidity in the banking system.

<sup>(41)</sup> 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.3.

Similarly, the three-month Euribor declined only marginally towards the end of last year, leaving the three-month Euribor-Overnight Index Swap spread, a measure of interbank market stress, broadly unchanged.

In real terms, short-term rates continued to fall deeper into negative territory, displaying a significant drop towards the end of 2016 on the back of the recent pick-up in inflation (see Graph I.44).<sup>(42)</sup> Real long-term interest rates derived from inflation and interest rate swaps, which have been negative since mid-2014, have remained comparatively stable over the past few months, as increases in nominal long-term rates were offset by similar increases in longer-term inflation expectations.

Graph I.44: Euro area interest rates



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

In line with the ECB Governing Council's forward guidance on interest rates,<sup>(43)</sup> overnight rates are expected to remain close to current levels over the forecast horizon, as suggested by EONIA forward rates. As inflation is expected to increase further, this should altogether lower real short term interest rates. At the same time, forward rates suggest a gradual increase in nominal long-term rates over the forecast horizon. However, due to increased long-term inflation expectations, real long-term rates should further decline in 2017 before edging up in 2018 while remaining in negative territory.

<sup>(42)</sup> Real rates are derived from the respective short or long-term rate minus annual HICP inflation and expected average inflation according to 10-year inflation swaps, respectively. Forecasts are derived from futures and forward rates, deflated by the inflation forecast and market-based measures of inflation.

<sup>(43)</sup> "The Governing Council continues to expect the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases."



Table I.7:

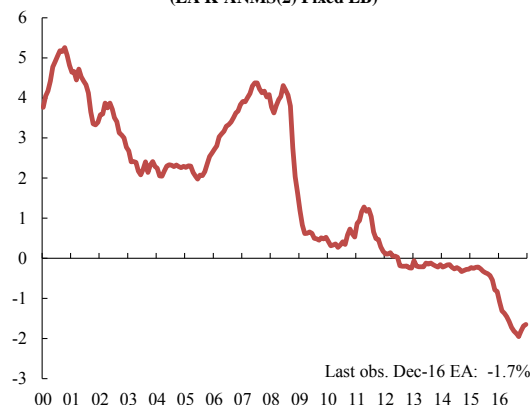
## Euro-area debt dynamics

	Average 2004-11	2013	2014	2015	2016	2017	2018
General government gross debt ratio <sup>1</sup> (% of GDP)	73.4	93.7	94.4	92.6	91.5	90.4	89.2
Change in the ratio	2.3	2.2	0.7	-1.8	-1.1	-1.0	-1.2
Contributions to the change in the ratio:							
1. Primary balance	0.4	0.2	-0.1	-0.3	-0.5	-0.6	-0.6
2. "Snow-ball" effect <sup>2</sup>	0.9	1.9	0.8	-0.5	-0.3	-0.6	-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	-1.6	-1.5	-1.6
Inflation effect	-1.1	-1.2	-0.8	-1.0	-0.9	-1.2	-1.2
3. Stock-flow adjustment	1.0	0.2	0.0	-1.0	-0.3	0.1	0.2

<sup>1</sup> End of period.<sup>2</sup> 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.

While there is no single indicator which is able to fully reflect the monetary policy stance at the current juncture, two indicators are presented here.<sup>(44)</sup> The shadow interest rate 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.45). While the overall level of the shadow rate should be interpreted with caution,<sup>(45)</sup> its change over time nonetheless illustrates the support provided by the conventional and unconventional monetary policies pursued by the ECB in recent years. In particular, the accommodative effect of the ECB's expanded asset purchase programme that started in March 2015 is reflected in a steep downward movement in the shadow interest rate, while the slight uptick at the current juncture is the result of the recent steepening of the yield curve.<sup>(46)</sup>

Graph I.45: Euro area shadow rate  
(EA K-ANMS(2) Fixed LB)

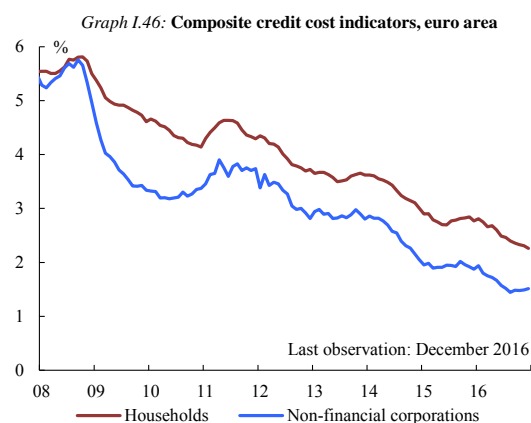
The transmission of these developments to the nominal financing conditions in the non-financial private sector is captured by the composite credit cost indicators (CCCI)<sup>(47)</sup> for non-financial corporations and households (see Graph I.46). While credit costs decreased further for households over the past months, they remained broadly unchanged on balance for non-financial corporations, owing to increasing yields on corporate sector bonds that compensated further declines in bank lending rates for non-financial corporations.

<sup>(44)</sup> 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. 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. (2016), 'Documentation for measures of monetary policy', Reserve Bank of New Zealand. There are considerable uncertainties in particular surrounding the level of shadow rate estimates, which should therefore be interpreted cautiously.

<sup>(45)</sup> See, Carnot, N., Clemens, U., Larch, M. and B. Vasicek (2016). 'The policy mix, when monetary policy is constrained at the zero lower bound'. European Commission, *Quarterly Report on the Euro Area* 15(2), pp.19-28.

<sup>(46)</sup> To the extent that this reflects factors outside of the control of monetary policy, it should not be interpreted as a tightening of the monetary policy stance. While part of the recent steepening of the yield curve might be due to the ECB's December monetary policy decisions and can thus be attributed to monetary policy, it also likely reflects a global rise in inflation expectations on the back of

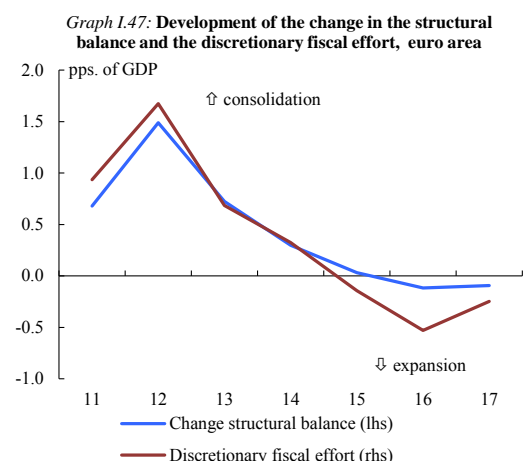
increased oil prices and increasing expectations of a fiscal stimulus in the US under the new administration.  
<sup>(47)</sup> The CCCIs are calculated as weighted averages of interest rates on different types of bank loans and corporate bonds (in case of non-financial corporations).



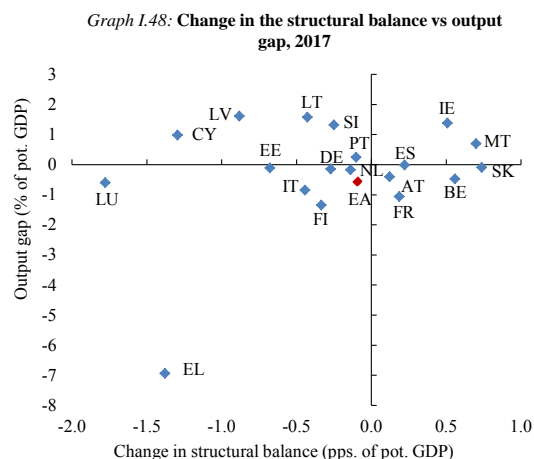
Sources: ECB, Bloomberg, own calculations

### 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 expected to remain broadly neutral over the forecast horizon. 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.47).

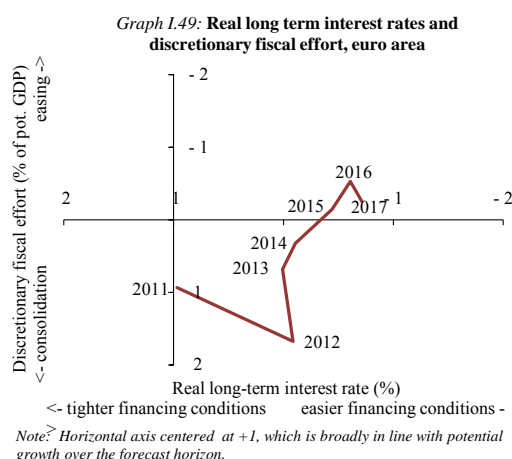


The picture varies significantly across individual Member States. Individual countries are widely dispersed in terms of the change in their structural balance in 2017 (see Graph I.48). The projected change in the structural balance is largely uncorrelated with the level of the output gap, even in the Member States in which the output gap has been negative for several years.



The policy mix in the euro area in 2017 reflects the interplay between financing conditions and fiscal policy (see Graph I.49). The additional measures taken by the ECB since the end of 2014 have continued to exert downward pressure on nominal long-term rates. However, monetary easing was only partially transmitted to real rates as long-term inflation expectations also declined. For 2017, real long-term rates (derived from the 10-year swap rate deflated by inflation expectations) are expected to decline marginally as inflation expectations pick up. At the same time, as illustrated by the discretionary fiscal effort, fiscal policy has significantly eased in recent years and is not expected to become restrictive.

Overall, the policy mix in the euro area should be considered in the context of a soft global recovery and elevated uncertainty.



## 9. RISKS

The macroeconomic and financial landscape is being strongly challenged and uncertainty surrounding these winter 2017 projections is exceptional, associated amongst other things with the expected sharp shift in US policies, the uncertain outcome of the UK's 'Brexit' negotiations, increasing monetary policy divergence at the global level and upcoming elections in large Member States. Downside risks to the growth outlook have intensified since the autumn, but along with that upside risks have also emerged. However, the factors supporting these upside risks in the short term could generate other problems of their own later on (economic policies in the US, the aftermath of the UK leave vote and growth stimulus measures in China).

### The growth outlook is subject to huge uncertainty...

On the external side, uncertainty and risks to the outlook have increased greatly since the autumn forecast and include also some tangible upside risks. First, in the short term, the eventual package of US fiscal stimulus and pro-business reforms could provide a stronger near-term boost to US and global GDP than currently expected. However, for the medium term, new downside risks have also emerged related to potential disruptions associated with shifting US positions on trade policy, a faster reversal of the US monetary policy stance and its impact, especially on emerging markets. A stronger-than-expected rise in the US dollar would hit emerging markets with unhedged USD-denominated debts by making such debts far more burdensome to pay.

A sudden and abrupt drop in global risk appetite and sharp and sustained rise in global risk premia are another downside risk. The search for yield fuelled by the exceptionally low interest rate environment has lifted prices of assets in most market segments, including in the EU. Risk premia are quite compressed despite several uncertainties, and a re-assessment of these compressed risk premia could cause significant turmoil in global financial markets, triggering a very adverse feedback loop to the real economy and the financial sector.

These risks come on top of (and partially reinforce) long standing concerns, including risks of a disorderly adjustment in China (see Box I.1), a more protracted slump in emerging market

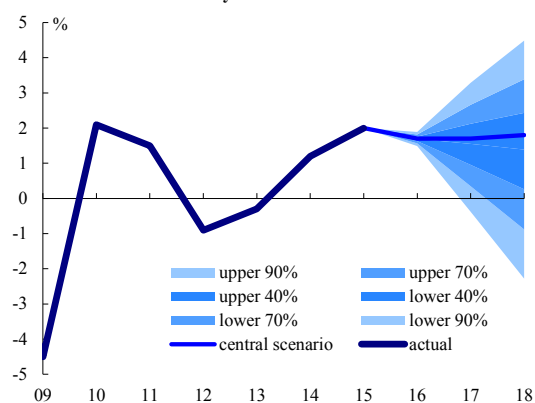
economies reflecting ongoing fiscal adjustment pressures and domestic imbalances, as well as political uncertainty and geopolitical tensions. The materialisation of these risks would affect the euro area and the EU more negatively than currently expected.

On the domestic side, the UK 'leave' vote continues to pose a significant downside risk to the UK and to a lesser extent the overall European economy. While GDP growth in the UK has so far remained robust since the referendum, the sharp increase in policy uncertainty related to the exit scenarios is expected to persist and to weigh on economic activity over the forecast horizon. Domestic downside risks to the outlook also include political uncertainty in view of upcoming elections in large Member States. Also, banking fragilities remain a concern. The low profitability of European banks remains a structural problem, even though the recent steepening of the yield curve provides limited relief. Renewed tensions in the banking sector are not excluded. Finally, the risk of remaining stuck in a low growth, low inflation equilibrium due to self-fulfilling expectations remains.

### ...and the balance of risks remains tilted to the downside.

Overall, the uncertainty around the growth projections is larger than at the time of the autumn forecast. This can be seen in the fan chart (see Graph I.50) which depicts the probabilities associated with various outcomes for euro area GDP growth over the forecast horizon. The darkest area indicates the most likely development. While the intensification of risks leads to a widening of the confidence bands for given probabilities, the dominance of the downside risks can be seen in the asymmetry of these bands.

Graph I.50: Euro area GDP forecast - Uncertainty linked to the balance of risks



### The inflation outlook also surrounded by high uncertainties

Risks to the inflation outlook remain balanced. On the upside, a higher-than-expected rise in oil prices due to the rebalancing in oil could push headline inflation further upwards. While oil prices are likely to play a key role in shaping the profile of inflation developments, there is considerable uncertainty about their future direction. The November 2016 OPEC deal covers only the first half of this year and its further extension for the whole year will be decided at the OPEC Ministerial meeting in May, which leads to large uncertainties regarding the direction of oil prices

for the second half of this year and forward. Moreover, the current price recovery may provide some relief and incentives to raise output for other oil producers, including shale producers in the US.

On the downside, structural impediments to wage growth like weak labour productivity, ongoing labour market reforms or the still-high unemployment rate could weigh negatively on domestic prices and prevent core inflation from accelerating further and take over from the fading impact of high energy inflation. Moreover, the downside risk to the economic outlook translates into downside risks to the inflation outlook.

### Box I.1: China's economy in transition: dealing with the twin challenge of deleveraging and rebalancing growth

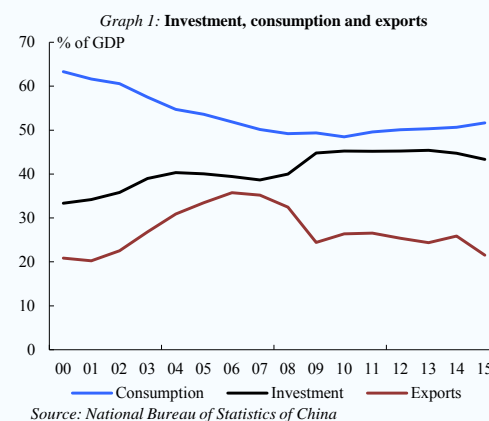
Real GDP growth in China has fallen steadily since 2010, as China's investment-driven growth model has run into diminishing returns. China has also seen a rapid accumulation of both private and public debt to finance investment, particularly after China deployed major fiscal (and monetary) stimulus to offset the effects of the global financial crisis. In an effort to prop up flagging growth rates and to meet short-term growth targets, investment by state-led firms continues to support demand, aided by continued monetary and fiscal support. However, this comes at the expense of further sharp increases in debt. Increased porosity of the capital account and large capital outflows since late 2014 have sharpened the trade-offs between domestic monetary policy and management of exchange rates and added to the challenges of finding the appropriate policy mix.

#### China's dependence on investment-led growth

Since 2000, China's growth has been driven by a combination of exceptionally high capital investment and a rapid expansion of foreign trade. The state-dominated banking system and a largely closed capital account allowed for a policy of financial repression and low lending rates, while the Renminbi's (RMB) peg to the US dollar until 2005 led to an undervaluation of the RMB in real terms. Both domestic and FDI-funded companies benefitted from a range of implicit subsidies. In parallel, privatization of urban housing in the late 1990s created a market for residential property that stimulated a boom in real estate development. As a result, investment's share of GDP in China rose sharply, with a corresponding fall in the share of household income and consumption. Household incomes fell steadily as a percentage of GDP from 67% in 2000 before stabilizing at around 60% of GDP in 2011.

In the wake of the global financial crisis, the Chinese government undertook a large fiscal stimulus to offset a sharp slowdown in foreign trade and a rapidly cooling real estate sector. This was channeled via local governments and state-owned enterprises and a large share was poured into infrastructure development, financed by a rise in local government debt and debt owed by state-owned firms. This helped stabilise short-term growth but reinforced China's over-reliance on investment. China's incremental capital-output ratio has climbed steeply over the past five years. Investment returns have fallen due to fading gains from technological catching-up and the structural

biases that have led to excess capital accumulation in heavy industry, infrastructure and real estate.



The Chinese authorities have acknowledged the need for fundamental reforms and adopted an ambitious reform agenda at the Chinese Communist Party (CCP) Third Party Plenum in November 2013. Subsequent reforms include interest rate liberalisation, tax and social security reforms, further steps to loosen capital controls and a shift to a more market-led exchange rate in August 2015. China's external imbalances have in fact narrowed significantly, with the current account surplus falling sharply from a peak of 10% of GDP in 2007 to just 3% in 2015, due to a stronger RMB, high commodity prices, and the high import intensity of stimulus-led investment.

#### The build-up in debt is continuing unabated

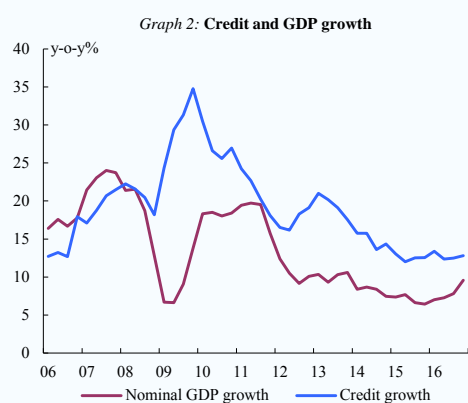
Progress on domestic imbalances has been much less clear, as China's credit and debt growth has continued at a high rate. Credit growth remains around twice the pace of nominal GDP growth, and the corporate debt-to-GDP ratio rose to around 170% at the end of 2015, an increase of 70 pps. since 2008<sup>(1)</sup>. Much of the increase in leverage is concentrated in the state sector. A significant part of the debt expansion has been linked to the growth of lending outside the formal banking system, or

<sup>(1)</sup> See BIS database on non-financial credit at: <http://www.bis.org/statistics/totcredit.htm>

(Continued on the next page)

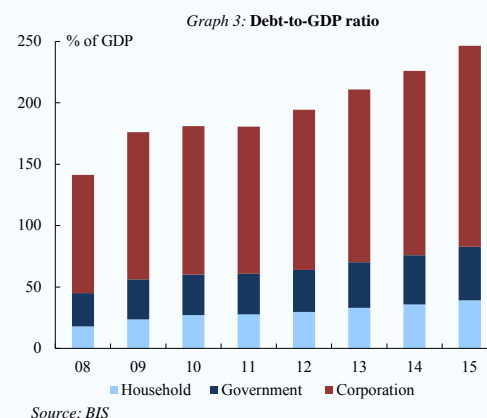
## Box (continued)

‘shadow banking’<sup>(2)</sup>. Banks themselves are widely considered to be rolling over or evergreening existing loans that are under water, either to avoid declaring such loans as non-performing, or because state firms carry a strong implicit guarantee and a future bail-out is expected. As a consequence, while official non-performing loan ratios are around 2%, other estimates typically put them much higher, at between 10 and 20% of total loans.<sup>(3)</sup> BIS estimates<sup>(4)</sup> show that the credit to GDP trend gap, a good indicator of potential financial stress, now stands at around 30% of GDP.



Although central government debt remains modest, below 20% of GDP, this does not incorporate local authority debt which also expanded rapidly after 2008, nor the debts linked to the Ministry of railways and state asset management companies. The central government is also implicitly liable for the debts of state-owned enterprises. Estimates of overall public debt therefore vary according to the precise boundaries drawn around the government sector. The BIS estimates government debt to have reached 45% of GDP by mid-2016, having increased by 20 pps. from 2008, while the IMF estimates government debt to be between 40% and 60% of GDP, depending on the precise definition used, with a similar sharp increase after 2008. The central government deficit is around 2% of GDP,

but the IMF argues that the underlying fiscal deficit is close to 8-10% of GDP when accounting for off-balance-sheet borrowing and reliance on asset sales by local governments to fill a structural spending gap.<sup>(5)</sup>



Linked to the continued growth in debt, is a recent shift in the composition of investment spending. While private investment is now around 60% of total investment, it has slowed sharply over the past two years. This has been largely offset by a rapid expansion in state-led investment. The revived countercyclical role of state firms has gone in parallel with a slowdown in the pace of state-owned enterprises' governance reforms. Importantly, the rate of return on investment is typically only half that of the private sector<sup>(6)</sup>, which suggests that the share of relatively unproductive investment is growing. This in turn exacerbates the risk that this additional capacity will generate insufficient returns to service the additional debt being accumulated.

#### Outward capital flows are complicating the policy environment

Growing concerns over rising debt levels and inefficient investment patterns are linked to, and complicated by, external developments. China has been seeing sustained capital outflows since late 2014. These flows have been partly driven by a shift to net outflows of FDI but there have also been rising non-FDI flows. These may reflect a

<sup>(2)</sup> There is a lively debate on the possible risks that shadow banking poses to China. For a balanced assessment, see Elliot, D., A. Kroeber and Y. Qiao (2015). *'Shadow Banking in China: a primer'*. Brookings.

<sup>(3)</sup> International Monetary Fund (2016). *'Global Financial Stability Report'*. April Annex 1.1. Estimates of NPLs by private analysts are also higher than official figures – e.g. Deutsche Bank (2016). *'Chinese Banks – the degree of evergreening'*. and McKinsey Global Institute (2016). *'China's Choice'*.

<sup>(4)</sup> Ehlers, T and C. Koch (2016). *'Highlights of global financial flows'*. *Bank for International Settlements Quarterly Review*, September.

<sup>(5)</sup> For BIS data see link in footnote 3. For IMF data see IMF Article IV Staff Report for China for 2016 (table 5). For a discussion of deficit measures see Appendix III of Article IV Staff Report for 2014

<sup>(6)</sup> Official data on returns to state industrial enterprises is available in NBS National Statistical Yearbooks at <http://www.stats.gov.cn>

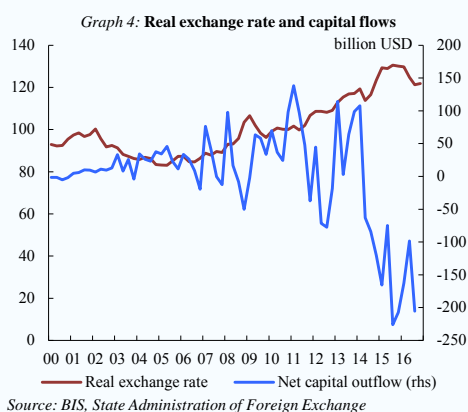
(Continued on the next page)



Box (continued)

growing wish by Chinese residents to diversify assets and reduce exposure to the Chinese financial system. Flows have also been driven by shifting expectations over the future direction of the RMB. The sharp rise in the US dollar since mid-2014 pulled the RMB's real exchange rate up, put severe pressure on Chinese exports, and increased speculative outflows.

China subsequently shifted to a more 'market-driven' exchange rate regime in August 2015 and the RMB fell by around 7% in 2016 in real effective exchange rate terms and by a similar amount against the US dollar. Capital outflows have, however persisted and the fall in the RMB has been moderated by substantial intervention by the Chinese central bank to support the currency and prevent a downward overshooting. China's foreign exchange reserves have fallen by USD 800 billion in total over the last two years. Total reserves now stand at USD 3 trillion.



China has, in the past, emphasised the aim of moving towards a more open capital account, but it is now unclear how quickly this can safely be accomplished. In the current global context, capital outflows could persist for some time, either pulled by rising interest rate differentials as US rates normalise, or pushed by growing concerns about the outlook and financial risks in China itself. The exposure of the domestic financial system to high corporate leverage and growing non-performing loans may itself reduce the willingness to raise domestic interest rates, which could exacerbate pressure on indebted firms. The alternative of scaling back exchange market intervention and allowing a further downward shift in the RMB risks exacerbating capital flight. China has therefore started to review past changes to capital controls and has tightened controls on illicit flows. Continued high levels of capital outflows could precipitate a further policy shift in this direction.

#### China's current policy mix is buying time, but policy buffers are narrowing

China's current policy mix appears to be one of 'buying time' for necessary structural reforms by sustaining short-term growth through demand management measures and attempting to stabilise expectations in financial and foreign exchange markets. To tackle the short-term problems of debt roll-over, China has undertaken debt swaps to underwrite the debts of local authorities and is exploring similar ideas for indebted state-owned enterprises.

This gradualist approach may prove viable if the pace of structural reforms is sufficiently fast to keep underlying productivity growth at a high level. A successful transition requires a structural shift to lower but higher-quality investment, with more bottom-up, innovation-led growth. This in turn means reforms to strengthen market institutions, open protected markets to greater competition, and to dissolve implicit guarantees in the financial sector that distort lending decisions<sup>(7)</sup>. In particular, China faces a fundamental question of how to reform the underperforming parts of the state-owned sector where there are potentially painful short-term adjustment costs. In the absence of necessary reforms, China could face a prolonged period of slowing productivity growth in which productivity falls well below the 6% that many estimate as China's potential medium-term growth rate.

At the same time, scaling back investment growth and restructuring state enterprises could slow GDP growth in the short run and threaten official growth targets unless slower investment demand is offset by faster consumption growth. A sustained rotation of demand would require consumption to grow somewhat faster than GDP for a prolonged period. Macroeconomic data on income shares is only available to 2013, but shows a stable share of household income in GDP. Robust consumption growth in recent years has therefore been boosted by a step-down in the saving ratio, which may not be repeated. In that case, future high consumption growth would require policies to reverse the substantial fall in household income's share of GDP seen from 2000-2010. An alternative would be to engage in large scale asset transfers from the public to private sector to boost consumption levels

<sup>(7)</sup> See for example The World Bank and the Development Research Center of the State Council of the P. R. China (2013). 'China 2030'.

(Continued on the next page)



*Box (continued)*

by increasing household wealth, but this would likely run into political constraints <sup>(8)</sup>.

Without an effective combination of structural reforms to revive productivity growth and greater reliance on consumption demand, China faces either a step down to somewhat lower real (and nominal) GDP growth in the medium term, or a continued expansion of debt. In either scenario, there are important risks. Slower short-term growth would put the credibility of the current political leadership under pressure, while raising pressures on highly indebted corporates. On the other hand, continued reliance on debt to sustain growth increases the risk of a financial crisis, as debt growth increasingly outstrips the capacity for repayment.

In the event of a disorderly adjustment, the state-dominated financial system would still allow for coordinated direct intervention. However, the

greater the scale of hidden costs to be partitioned, the greater the risk that an eventual debt clean-up would have a severe impact on the public balance sheet, as well as reinforcing implicit guarantees embedded in the financial system. While China appears to have the fiscal capacity to deal with a financial crisis, the precise state of public finances is hard to assess due to the lack of comprehensive fiscal data, particularly for local governments. China's margin for manoeuvre may therefore be narrower than commonly assumed.

In short, China faces a substantial challenge in finding an appropriate policy mix that balances the desire for short term stability with the pressing need to unwind structural and financial imbalances. Pressing forward with sufficiently aggressive policies to make this transition may prove to be a difficult process, but there appear to be limited alternatives on offer if China is to maintain high growth rates into the medium and longer term.

<sup>(8)</sup> For a detailed discussion of the problems China faces in rebalancing demand and alternative policy options see Michael Pettis (2016). *'Avoiding the fall: China's Economic Restructuring'*. Carnegie Endowment for International Peace.

**Box 1.2: A 'new modesty'? Level shifts in survey data and the decreasing trend of 'normal' growth**

The experience of the double-dip recession in the euro area in 2008-09 and in 2011-13 and the ensuing slow recovery may arguably have led consumers and business managers to adjust their economic expectations to a more modest 'new normal'. Analytically, this would imply a pre/post crisis break in the relationship between qualitative survey ('soft') and quantitative ('hard') data, which has traditionally been remarkably stable. Using pre-crisis correlations of survey indicators and underlying real variables could then be misleading. This box examines to what extent survey data for the euro area lends support to the hypothesis of a 'new modesty' and how this may be connected with the decline in potential output growth observed in recent years.

Two major arguments can be brought forward to explain the 'new modesty' hypothesis for survey data.<sup>(1)</sup> The first one is a technical argument related to the sampling of the surveys: it explains a positive bias in the surveys by the assumption that the businesses that survive the crises and keep answering the surveys are doing better than the others. Against this hypothesis, it can be argued that such a bias would equally apply to hard data, which are also based on sampling. Moreover, there is no empirical evidence to support the hypothesis that a selection effect occurred during the crisis period.<sup>(2)</sup>

The second argument is of a psychological or cognitive nature: respondents' answers to survey questions are relative to a 'normal' benchmark, or level of aspiration. For instance, the reference for businesses is generally what they planned to produce. In this case, their views on a 'normal' situation are necessarily subject to change.

**Evidence of a shift**

A straightforward way to check whether the relationship between euro area soft and hard data has changed over time is to model GDP growth

using the European Commission's Economic Sentiment Indicator (ESI), which is calculated to track overall economic activity, as an explanatory variable<sup>(3)</sup>. The linear model chosen is simple and widely used: it includes the level of the survey and its first difference<sup>(4)</sup>.

$$Y_t = b_0 + b_1 \cdot ESI_t + b_2 \cdot \Delta ESI_t + u_t$$

By estimating this model twice, once over a pre-crisis sample (up until Q2-2007), and once over a post-crisis<sup>(5)</sup> sample (from Q3-2009), it is possible to compute GDP growth corresponding to the level of ESI in a pre-crisis versus a post-crisis world. Graph 1 illustrates that the relationship between GDP growth and the ESI changed in the euro area around the 2008-2009 recession: GDP growth nowcasted with pre-crisis coefficients is consistently higher than what is suggested by a post-crisis model.

Beyond these aggregate results for the euro area, there is evidence of similar shifts for individual countries, sectors, and specific survey questions.<sup>(6)</sup> For instance, Bruno et al. (2016), using Italian micro-data on capacity utilisation, provide evidence that the level of capacity utilisation that managers consider as 'sufficient' has significantly declined after the crisis.

<sup>(3)</sup> The ESI summarises developments in five sectors (industry, services, retail trade, construction, and among consumers), see the BCS User Guide on [https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys\\_en](https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys_en) for details

<sup>(4)</sup> This model has been used for instance in Rioust De Largentaye T., Roucher D. (2015), "How closely do business confidence indicators correlate with actual growth?", *Trésor-Economics* No. 151, or European Commission (2011), "Is there a decoupling between soft and hard data", *European Business Cycle Indicators*, July. For a review of the use of bridge models, see Ferrara L., Guégan D. and Rakotomahy P. (2010), "GDP nowcasting with ragged-edge data: a semi-parametric modelling", *Journal of Forecasting*, 29(1-2), pp. 186-99.

<sup>(5)</sup> Only the first dip of the Great Recession is excluded for the pre/post-crisis analysis, mainly to avoid an undue effect on the length of the post-crisis sample. Moreover it is the steep 2008-2009 financial crisis that has arguably introduced non-linearities in the link between soft and hard data.

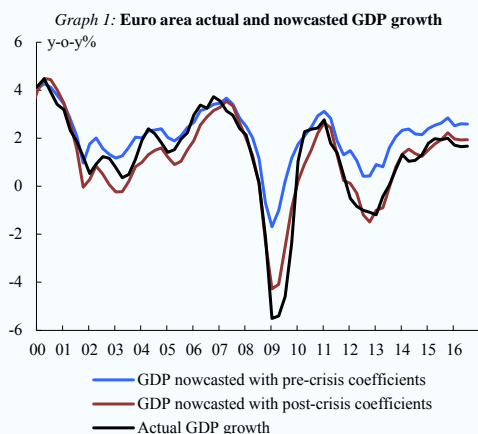
<sup>(6)</sup> For sector-specific results on the basis of the components of the ESI, see European Commission (2016).

(Continued on the next page)

<sup>(1)</sup> See European Commission (2016), "'New normal'? - The impact of the financial crisis on business and consumer survey data", *European Business Cycle Indicators*, 3<sup>rd</sup> quarter.

<sup>(2)</sup> See Bruno G., Crosilla L., Margani P. (2016), "Inspecting the relationship between business confidence and industrial production: evidence based on Italian survey data", paper presented in September 2016 at the CIRET conference in Copenhagen.

Box (continued)



### Estimation of the relationship between GDP growth and survey data

The approach described above is ‘discretionary’ in the sense that it assumes a clear distinction between the pre- and post-crisis implications of a given level of survey results for economic growth. To widen the perspective and better understand how the link between the surveys and GDP growth may have changed over time, one may allow for a continuous adjustment over a large sample.<sup>(7)</sup> To this end, two different econometric methods have been applied. The first one is based on the same linear model as the pre/post-crisis method, but instead of estimating it twice, it is estimated multiple times over rolling samples of 45 quarters.

The choice of a 45-quarter period ensures a sample long enough for stable ordinary least square (OLS) estimation of the coefficients. At the same time, the model results can be considered as a 45-quarter moving average of the parameters. This means that any shift in the link between the ESI and the GDP growth will take 45 quarters (11 years) to be completely taken into account by this model.

Alternatively, one can estimate a time-varying parameter model (TVP).<sup>(8)</sup> Thus, departing from the same structure as above, the coefficients are allowed to vary over time. The advantage of the TVP model compared to the rolling regression is that it does not depend on the choice of the length of the moving average. The coefficients are

estimated using Kalman filtering, in a classical state-space representation.<sup>(9)</sup>

### How strong is economic growth when the ESI equals 100?

When applied to the relationship between GDP growth and the ESI for the euro area, both approaches (i.e. rolling regression and TVP model) provide evidence that the estimated coefficients have changed significantly over the past decades. This implies that for a given level of the ESI, the projected GDP growth did vary over time.

A straightforward way to visualise the changing relationship between the ESI and GDP growth over time is to calculate the annual GDP growth corresponding to the long-term average of the ESI (of 100), which should reflect survey respondents’ ‘normal’ assessment of a ‘neutral’ economic situation.

The TVP and the rolling regression methods give similar results for ‘normal’ annual GDP growth for the euro area corresponding to an ESI level of 100 (see Graph 2): such growth used to be above 2% before 2000, and decreased more or less steadily until 2003. It appears to have stabilised somewhat between 2003 and 2008, before falling steeply in 2008 and 2009. Probably because the rolling regression method is closer to a moving average of the parameters, it shows a slower decrease than the TVP method in the aftermath of the Great Recession. However, estimates from both models confirm that the annual GDP growth corresponding to a level of 100 in ESI is currently just above 1%, as opposed to close to 2% before the crisis.

The method can robustly be applied to other survey data. For instance, the Business Climate Indicator (BCI) differs from the ESI in that it is based only on the manufacturing sector and is calculated as the first factor of a principal component analysis.<sup>(10)</sup> The projection of annual GDP growth corresponding to the long-term average of the BCI (see Graph 3) gives comparable results to those based on the ESI, although the volatility appears to

<sup>(7)</sup> Data for the euro area since 1995 were aggregated by Eurostat. GDP growth up until 1995 is based on Fagan G. J. Henry, and R. Mestre (2001), ‘An Area-wide Model (AWM) for the euro area’, *ECB working paper* No. 42, January.

<sup>(8)</sup> As suggested in European Commission (2011) cited above.

<sup>(9)</sup> For the state-space representation, see for instance Kim, C.-T. and C. R. Nelson (1989), ‘The Time-Varying-Parameter Model for Modeling Changing Conditional Variance: The Case of Lucas Hypothesis’, *Journal of Business and Economic Statistics* 7(4), pp. 433-40. The model was estimated with a diffuse initialisation, as defined in Koopman, S. J. and J. Durbin (2003), ‘Filtering and smoothing of state vector for diffuse state-space models’, *Journal of Time Series Analysis* 24(1), pp. 85-98.

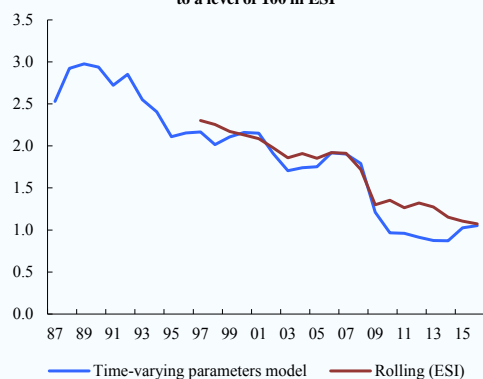
<sup>(10)</sup> See the BCS User Guide cited above for details.

(Continued on the next page)

## Box (continued)

be somewhat higher. In both cases, the estimated annual GDP growth is close to but below 3% around 1990, and follows a slowly decreasing trend up until the steep fall during the Great Recession. This slump is even larger when estimated with the BCI (1.5% from peak to trough) than with the ESI (1.0% from peak to trough). However, for both survey indicators, the annual GDP growth corresponding to the long-term average estimated with the TVP model is just above 1% in 2016. The rolling regression method seems to be lagging compared to the TVP method, but it confirms the general trend.

Graph 2: euro area GDP annual growth corresponding to a level of 100 in ESI



The particularly steep fall around the crisis period of 2008-09 provides some justification for the discretionary 'pre-/post-crisis' view adopted in European Commission (2016); however, the graph shows that, in addition, there is also a more gradual underlying trend of given survey levels being associated with lower growth rates.

Graph 3: euro area GDP annual growth corresponding to the BCI's long term average

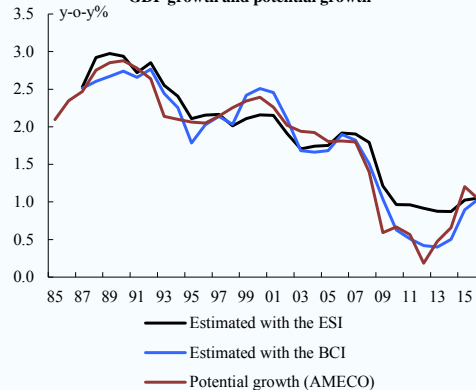


### An alternative measure of potential GDP growth

The long-term averages of the survey indicators describe a neutral or normal assessment of the economic situation by economic agents. Growth rates corresponding to this neutral reference point can arguably be interpreted as the 'underlying' trend, or potential, growth. The results are consistent with the hypothesis that the level of economic activity which people consider as 'normal' changes over time: they adapt their views to the average growth experienced, or perceived, over the mid- to long-term.

Graph 4 shows the 'normal' annual GDP growth estimated with the TVP model using the ESI and the BCI, compared with the potential growth estimated by DG ECFIN using a production function<sup>(11)</sup>. Despite the completely different underlying methodologies, the similarity between the three curves is striking. It suggests that business and consumer survey results can be used, beyond their usual short-term forecasting purposes, to gauge changes in long-term, or potential growth.

Graph 4: 'Normal' euro area GDP growth and potential growth



Overall, the presented results call for caution when translating survey data into actual economic growth rates. While the current level of the ESI, which is well above its long-term average, is compatible with expanding economic activity, it also hints at lower growth rates than those implied in the pre-recession period.

<sup>(11)</sup> On the methodology for estimating the potential growth, see Havik K., Mc Morrow K., Orlandi F., Planas C., Raciborski R., Röger W., Rossi A., Thum-Thysen A., Vandermeulen V. (2014), 'The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps'. *European Economy*, Economic Papers 535.

### Box 1.3: Some technical elements behind the forecast

The cut-off date for taking new information into account in this European Economic Forecast was 1 February. 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 16 and 27 January) 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 1.07 in 2017 and 2018. The average JPY/EUR is 121.88 in 2017 and 121.85 in 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 2017 and -0.2% in 2018 in the euro area. Long-term euro area interest rates are assumed to be 0.5% in 2017, and 0.7% 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 56.38 USD/bbl in 2017, and 56.86 USD/bbl in 2018. This would correspond to an oil price of 52.80 EUR/bbl in 2017, and 53.22 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.

For 2017, the budgets adopted by the national parliaments and all other measures credibly announced and specified in sufficient details are taken into consideration. For 2018, 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 EA19 and by 1.5 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  $\pm 0.1$  pps.). The calculation of potential growth and the output gap does not adjust for working days. Since the working-day effect is considered as temporary, it should not affect the cyclically-adjusted balances.



# PART II

Prospects by individual economy





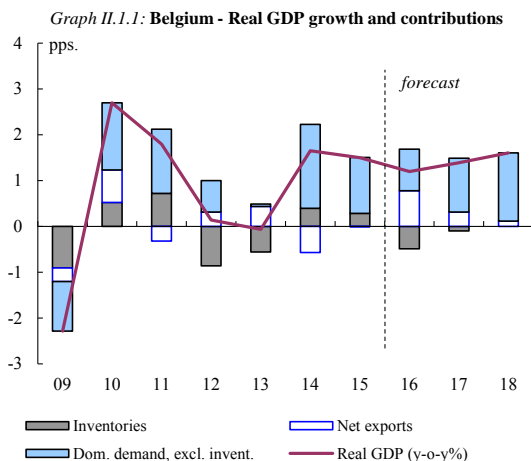
## Member States

# 1. BELGIUM

## Economy continues to grow steadily

*Belgium's economy is expected to grow by approximately 1.5% in 2017 and 2018. Domestic demand is projected to strengthen gradually, leading to a diminishing contribution to growth from net trade. Unemployment is forecast to continue decreasing steadily, falling to 7.6% in 2018. Inflation is set to hit 2% in 2017 and 1.8% in 2018. The fiscal deficit is estimated to have widened to 2.9% of GDP in 2016 and is expected to diminish to 2.2% in 2017 with public debt having peaked in 2016 at 106.8% of GDP.*

The Belgian economy grew by an annualised 1.1% in 2016-Q4, just below the overall growth rate of 1.2% last year. Domestic demand and net exports both contributed notably to GDP growth, while changes in inventories were a drag on growth. In 2017 and 2018, economic growth is forecast to reach 1.4% and 1.6% respectively. Although the outlook for overall growth remains fairly stable, the underlying driver of growth is expected to shift increasingly towards domestic demand, particularly private consumption and investment spending. Risks to the outlook are mainly external. In particular, any potential shift to a less trade-friendly global environment would have negative repercussions for the export sector. Belgium has tight trade links with the UK.



### Wage and job growth underpin consumption

Growth in household consumption is expected to rise to 1.4% in 2017 and 1.5% in 2018, doubling from 2016. Following a period of low wage growth due to a freeze of wage indexation and limited real wage increases, wages started to pick up in 2016 with salaries again being adjusted for inflation. The combination of these cost-of-living adjustments and the 2017-2018 margin for real wage increases agreed between social partners (the highest since 2010) implies that compensation per employee is set to rise by around 2% in both 2017 and 2018, while being flat in 2015-2016.

Purchasing power is further supported by income tax cuts in 2016 and 2018. The effect on household consumption is compounded by the good performance of the labour market, with 59,000 net new jobs in 2016. At around 42,000, net annual job creation in 2017-2018 is projected to allow for a steady reduction in the unemployment rate. It is expected to fall to 7.8% in 2017 and to 7.6% in 2018, which would be the lowest level since 2011.

### Comprehensive investment growth

Investment is forecast to grow by 2.3% in 2017, the same as last year, and to increase by 2.9% in 2018. Business investment performed well in 2016, also when considering that exceptional, large transactions in 2015 distort annual growth figures. Strong corporate investment spending is in line with the upward trend of the profit share of non-financial companies, a result of wage moderation and the reductions in social security contributions.

Though wage growth is set to pick up over the forecast period, additional reductions in employers' social security contributions are planned. The relative competitiveness of Belgian exporters is therefore expected to improve further, which, together with favourable financing conditions and rising external demand, bodes well for equipment investment. Construction investment has been dynamic too, both for housing and public infrastructure. For 2018, the projections include an upturn in public investment, which is typical ahead of local elections.

### Inflation to rise further and hit 2% in 2017

Consumer prices rose by 1.8% in 2016, compared with 0.6% in 2015 and 0.2% in the euro area at large. They are forecast to rise by 2% in 2017 and by 1.8% in 2018. Price pressures remain entrenched, reflecting crude oil price developments, the temporary rise in unprocessed food prices due to poor weather, and picking up wage growth being passed on to service inflation.

### Deficit to fall from 2.9% in 2016 to 2.2% in 2017

The general government deficit is estimated to have widened from 2.5% of GDP in 2015 to 2.9% in 2016. Total expenditure decreased by 0.3 pps. of GDP thanks to a further decline in interest expenditure by 0.4 pps. of GDP. By contrast, primary expenditure is estimated to have risen slightly, in spite of the government's attempts at spending restraint. Temporary costs related to asylum seekers and security amounted to around 0.2% of GDP in 2016. The revenue-to-GDP ratio fell by 0.7 pps. with lower than expected tax collection. The main shortfalls were for withholding tax, VAT and the new system of fiscal regularisation. The structural balance is estimated to have remained broadly unchanged in 2016 as the higher headline deficit is offset by the combination of lower one-off revenues and higher one-off expenditures in comparison to 2015.

The headline balance is expected to narrow to 2.2% of GDP in 2017. Interest expenditure is projected to decline further, contributing 0.2 pps. of GDP to the overall deficit reduction. Primary expenditure growth should be limited by the fading of the aforementioned temporary expenditure increases. Government measures to curb the

growth of health care spending and to limit the welfare adjustment of social benefits are expected to contribute to a decrease in the expenditure-to-GDP ratio of 0.7 pps. of GDP as compared to 2016. On the revenue side, the main measures included in the Commission forecast are a further increase in the standard financial withholding tax, higher indirect taxation and the introduction of a fixed levy on company fuel cards imposed on employers. Smaller measures that contribute to the overall consolidation of public finances relate to improved tax collection and a widening of the scope of the stock exchange transaction tax. The structural balance is projected to improve by about ½ pps. of GDP in 2017.

Under a no-policy-change assumption, the deficit is set to increase slightly, to 2.3% of GDP in 2018, with the structural balance deteriorating by around ¼ pps. of GDP as the additional tax cuts in 2018 and beyond are not yet fully financed.

Public debt is estimated to have increased to 106.8% in 2016 due to the primary deficit and stock-flow adjustments stemming from regional loans and interest rate swaps. Debt is expected to start declining as of 2017 and reach around 106% of GDP in 2018.

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	1.4	1.6
Private Consumption	210.2		51.2	1.4	0.7	0.6	1.1	0.7	1.4	1.5
Public Consumption	98.1		23.9	1.6	0.1	1.4	0.5	0.0	-0.2	0.3
Gross fixed capital formation	94.4		23.0	2.2	-1.5	5.1	2.4	2.3	2.3	2.9
of which: equipment	31.2		7.6	1.9	-1.4	8.5	0.7	2.4	2.9	3.0
Exports (goods and services)	340.3		82.9	4.3	0.8	5.1	4.3	5.5	3.9	4.3
Imports (goods and services)	333.4		81.3	4.1	0.3	5.9	4.3	4.7	3.6	4.3
GNI (GDP deflator)	410.5		100.0	1.9	-0.8	0.5	1.0	1.2	1.3	1.6
Contribution to GDP growth:		Domestic demand		1.6	0.1	1.8	1.2	0.9	1.2	1.5
		Inventories		0.1	-0.6	0.4	0.3	-0.5	-0.1	0.0
		Net exports		0.3	0.4	-0.6	0.0	0.8	0.3	0.1
Employment				1.0	-0.3	0.4	0.9	1.3	0.9	0.9
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	0.1	2.0	1.9
Unit labour costs whole economy				1.7	2.2	-0.2	-0.5	0.2	1.5	1.2
Real unit labour cost				0.0	1.0	-0.8	-1.4	-1.4	-0.1	-0.6
Saving rate of households (b)				15.8	12.3	12.1	11.7	12.6	12.2	12.2
GDP deflator				1.8	1.2	0.7	0.9	1.6	1.7	1.8
Harmonised index of consumer prices				2.1	1.2	0.5	0.6	1.8	2.0	1.8
Terms of trade goods				-0.6	0.4	1.0	1.8	0.3	-0.3	-0.1
Trade balance (goods) (c)				1.7	-0.7	-0.7	0.3	0.5	0.3	0.4
Current-account balance (c)				3.5	1.1	-0.1	0.2	1.0	1.2	1.3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.5	1.0	-0.4	0.2	1.0	1.3	1.4
General government balance (c)				-1.7	-3.0	-3.1	-2.5	-2.9	-2.2	-2.3
Cyclically-adjusted budget balance (d)				-1.9	-2.1	-2.6	-2.3	-2.6	-1.9	-2.2
Structural budget balance (d)				-	-2.7	-2.9	-2.6	-2.5	-2.0	-2.2
General government gross debt (c)				102.8	105.4	106.5	105.8	106.8	106.5	106.1

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

## 2. BULGARIA

### Robust growth amid ongoing fiscal consolidation

*Real GDP growth is expected to have reached 3.3% in 2016 and is forecast to decline slightly over the forecast horizon. Domestic demand continues to be the main growth driver. Inflation is forecast to turn positive in 2017 after a period of deflation since 2013. Unemployment is expected to continue decreasing in the coming years. Fiscal consolidation continued in 2016, mainly due to higher tax revenues and reduced public investment. Risks to the growth outlook are tilted to the downside.*

#### Strong private consumption growth

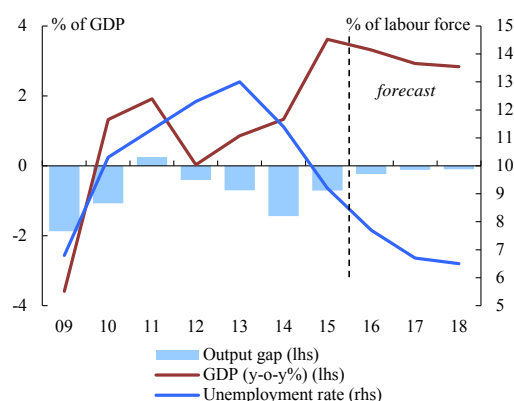
Real GDP continued its robust performance in 2016. Private consumption was particularly buoyant, as also reflected in the strengthening of consumer confidence throughout 2016.

Growth is estimated at 3.3% in 2016, slightly better than expected in the autumn forecast. Growth is then estimated to slightly taper off to 2.9% and 2.8% in 2017 and 2018, respectively, as estimated in the previous forecast. Domestic demand was the main growth driver in 2016, contributing an estimated 2.1 pps. to real GDP growth, with net exports contributing 1.2 pps. Investment is expected to have slightly contracted in 2016, mainly due to the slowdown in EU funds absorption. However, investment is forecast to gain momentum with growth of 3.2% in 2017, as the implementation of projects under the 2014-2020 EU programming period is expected to accelerate.

Robust growth led to a narrowing of the negative output gap to -0.2% in 2016, which is however not projected to fully close over the forecast horizon. Meanwhile, income convergence with the EU is continuing at a slow pace.

Risks to the growth outlook are tilted to the downside. As a domestic downside risk, a significantly slower than expected implementation of EU funds could dent investment and growth. Political uncertainty related to the upcoming elections could also delay consumption and investment decisions. Given the openness of the economy, weaker import demand from the main trading partners, especially in Europe, and surging oil prices would pose external downside risks. However, faster progress with structural reforms could lift the relatively low potential and real growth rates.

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



#### Declining current-account surplus

Driven by stable demand from its EU trading partners as well as a strong tourism season due to favourable geopolitical factors, Bulgaria's exports continued to perform well in 2016. As a result, the current-account balance is estimated at 2.6% of GDP in 2016, but is expected to decline to 1.4% in 2017 and 0.8% in 2018, as strong domestic demand and the expected rise in energy prices fuel import growth. Tourism exports in 2017 are also expected to grow at a slower pace compared to 2016, mainly due to negative base effects.

#### Inflation to turn positive in 2017

Annual HIPC inflation was negative in 2016, but is expected to reach 0.8% in 2017 due to strong domestic demand, rising prices for processed food as well as recovering energy prices. This should reverse the deflationary trend experienced since 2013, which was mainly driven by declining import prices, subdued domestic demand, and reductions in administered prices.

#### Unemployment and labour market conditions continue to improve

Employment growth is projected to increase to 1.1% in 2016 and to slow down slightly in 2017

and 2018, supported mainly by the recovery in domestic demand. 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 7.1% in 2017 and slightly lower in 2018.

#### Fiscal consolidation continued in 2016

The public deficit is estimated to have decreased from 1.7% in 2015 to 0.4% of GDP in 2016. In structural terms, this corresponds to a reduction of about 1 pps. of GDP. Tax revenue increases and public investment reductions were the key drivers of the fiscal adjustment in 2016. Tax revenues performed better than expected not only due to the improved macroeconomic conditions, but also due to the impact of certain revenue-enhancing measures (such as increases in the rates of excise duties for liquid heating fuels), and thanks to improved tax collection. This overperformance more than offset the lower revenue from EU capital transfers. On the expenditure side, the slow transition to the new cycle of EU fund programming is reflected in lower-than-expected capital and current spending.

The general government deficit is forecast at 0.5% of GDP in 2017. On the revenue side, a major positive impact is expected from the increase in social security contributions as of 1 January. Total expenditure, however, is expected to grow by a higher rate than revenue, mainly as a result of increases in the public wage bill and public investment. Under a no-policy-change assumption, the headline deficit in 2018 is forecast at 0.3% of GDP. The structural budget deficit is forecast to remain below ½% of GDP in both 2017 and 2018.

Contingent liabilities of state-owned enterprises (SOEs) pose downside risks to public finances over the entire forecast horizon. The fiscal performance might also be influenced by political uncertainties.

The general government debt in 2016 is estimated at 29% of GDP in 2016, 3 pps. of GDP higher than in 2015. This increase is mainly due to a temporary increase in cash buffers envisaged to partly cover debt repayments in 2017. The general government debt is forecast to decline in 2017 and reach 26% of GDP in 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	3.3	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	2.0	2.3
Gross fixed capital formation	18.6		21.0	12.4	0.3	3.4	2.7	-0.5	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	5.1	4.4	4.5
Imports (goods and services)	56.6		64.0	6.5	4.3	5.2	5.4	3.2	4.3	4.6
GNI (GDP deflator)	86.8		98.0	3.8	0.0	2.7	2.4	4.2	2.1	2.3
Contribution to GDP growth:										
Domestic demand				4.7	-1.5	2.5	3.6	2.1	2.8	2.8
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	1.2	0.2	0.0
Employment				-0.3	-0.4	0.4	0.4	1.1	0.5	0.2
Unemployment rate (a)				11.7	13.0	11.4	9.2	7.7	7.1	6.8
Compensation of employees / head				27.6	8.8	5.6	5.6	3.8	4.8	5.1
Unit labour costs whole economy				23.5	7.4	4.6	2.3	1.6	2.3	2.4
Real unit labour cost				0.2	8.2	4.1	0.1	2.0	1.3	0.9
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				23.3	-0.7	0.5	2.2	-0.4	1.0	1.4
Harmonised index of consumer prices				-	0.4	-1.6	-1.1	-1.3	0.8	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	-5.4
Current-account balance (c)				-6.1	1.2	0.0	0.4	2.6	1.4	0.8
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.7	2.3	2.2	-1.5	0.9	-0.1	-0.6
General government balance (c)				-0.1	-0.4	-5.5	-1.7	-0.4	-0.5	-0.3
Cyclically-adjusted budget balance (d)				-0.1	-0.2	-5.0	-1.5	-0.3	-0.5	-0.3
Structural budget balance (d)				-	-0.2	-1.8	-1.4	-0.3	-0.5	-0.3
General government gross debt (c)				40.5	17.0	27.0	26.0	29.0	27.3	26.0

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

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



### 3. THE CZECH REPUBLIC

#### Solid GDP growth persists amid strong labour market

*Economic growth in the Czech Republic is estimated to have moderated to 2.4% in 2016, as solid household consumption growth was dampened by weaker investment activity. In 2017 and 2018, GDP is forecast to grow at 2.6% and 2.7% respectively, driven by domestic demand. After two years of subdued price pressures, inflation picked up in 2016 and is expected to rise further in 2017. The headline government balance is forecast to have improved to 0.3% in 2016 and to remain in surplus in 2017 and 2018.*

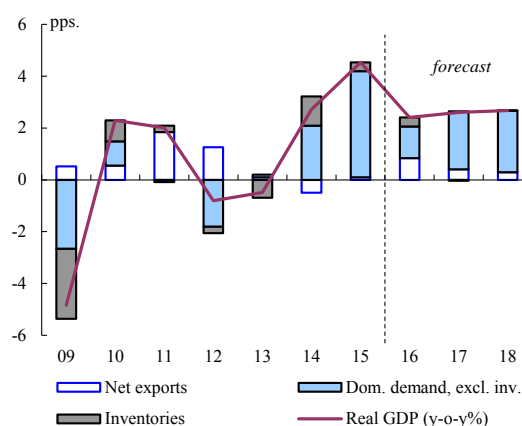
#### Another solid year of growth in 2016

After an exceptional growth of 4.5% in 2015, economic activity in the Czech Republic in 2016 is expected to have grown by a more modest but still robust rate of 2.4%. The main contribution to growth came from private consumption, which was supported by a strong labour market and accelerating wage growth. Investment detracted from growth as the impact of EU co-financed investment activity fell at the beginning of the new programming period. The reduction was felt most in public sector investment, while private sector investment grew only slightly less than in 2015. Given the high import intensity of investment in the Czech Republic, the fall in investment activity in 2016 added to a large positive contribution to growth from net exports of around 0.8 pps.

#### Growth to pick up in 2017 and 2018 as investment recovers

In 2017, GDP is forecast to increase at a somewhat faster pace than in 2016, as also signalled by positive sentiment surveys. Private consumption growth is expected to decrease marginally to 2.4%, amid a slowdown in employment growth. By contrast, on the back of an accelerating drawdown of EU funds, investment is anticipated to increase by 2.5% after having decreased by 1.6% in 2016. In light of this, the contribution of net export to growth is likely to fall in 2017 and 2018 as the increase in investment gives rise to higher imports. The main risk to a stable and sustained improvement in the economy comes from the uncertain growth of external demand. The Czech Republic is a highly open economy, more affected than other EU countries by shocks to demand from its main trading partners. Also, investment could pick up more slowly than forecast if the drawdown of EU funding increases less rapidly than expected, although this represents an upside risk for net exports.

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



#### Strong increase in inflation

Inflation increased slightly to 0.6% in 2016, after 0.3% in 2015. Inflation reached the 2% target of the Czech National Bank (CNB) in December 2016 and is projected to remain at this level, on average, in 2017, driven mainly by administered prices and base effects arising from sharp falls in energy and food prices in 2016. Inflationary pressures are also being driven by tight labour market conditions. In 2018, the inflation rate is likely to be somewhat lower as base effects fade away. The CNB has stated that it does not expect to end its exchange rate commitment vis-à-vis the euro before the second quarter of 2017. A floating exchange rate regime could lead to an appreciation of the koruna and represents a downside risk to inflation.

#### Tight labour market drives accelerating wage growth

The unemployment rate fell further to 4.0% in 2016, and is expected to decrease over the forecast horizon to 3.8% in 2018. Amid demographic constraints and the increased tightening of the labour market, employment growth is forecast to be close to flat across the forecast horizon. In this context, compensation per employee is estimated

to have grown by 3.5% in 2016 and is expected to increase more rapidly by 4.5% in 2017 and 4.6% in 2018.

### Fiscal surplus ahead

The Czech Republic's headline balance is estimated to have reached 0.3% of GDP in 2016. Tax revenues exceeded the government's plans, with continuing strong growth across main tax categories. Excise taxes were likely boosted by an increase in tobacco duties. Robust VAT cash revenues most likely resulted from measures aimed at curbing tax evasion. Moreover, expenditure was limited amid low public investment after the sizeable drawdown of EU funds at the end of the 2007–2013 programming period.

In 2017, the headline balance is projected to deteriorate slightly to 0.1% of GDP. On the revenue side, the trend of strong tax intake is forecast to continue, with additional measures against tax evasion contributing towards this development. Revenues from excise duties are expected to stagnate due to enacted anti-smoking

legislation and changes in mineral oil taxation. The main development on the expenditure side is the expected pick-up of public investment. Government consumption expenditure is expected to continue to grow, while debt service expenditure is forecast to decline on the back of falling government bond yields.

These broad trends are expected to continue in 2018 under a no-policy-change assumption. Robust tax revenues and slower current expenditure growth are leading to a rather moderate change in the headline surplus, expected at 0.2% of GDP.

In structural terms, a surplus around ¼% of GDP is forecast in 2016. As the Czech Republic's positive output gap gradually widens, the structural balance is projected to worsen by around ¼ pps. by the end of the forecast horizon. The debt ratio declined to around 40% in 2015 and is forecast to decline further to 37.8% in 2016. The ratio is expected to continue to follow a downward path, given the fiscal surplus and continued solid GDP growth, and to reach 35.6% 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	2.4	2.6	2.7
Private Consumption	2139.7		47.0	2.1	0.5	1.8	3.0	2.6	2.4	2.4
Public Consumption	889.7		19.5	1.3	2.5	1.1	2.0	2.2	2.6	2.0
Gross fixed capital formation	1198.1		26.3	1.7	-2.5	3.9	9.0	-1.6	2.5	3.3
of which: equipment	542.3		11.9	3.6	0.3	6.4	8.5	0.1	3.0	3.5
Exports (goods and services)	3778.3		83.0	9.2	0.2	8.7	7.7	3.3	4.5	4.4
Imports (goods and services)	3499.1		76.8	8.2	0.1	10.1	8.2	2.5	4.4	4.4
GNI (GDP deflator)	4255.2		93.4	2.0	-0.2	1.9	4.7	2.4	2.6	2.7
Contribution to GDP growth:										
Domestic demand				1.8	0.1	2.1	4.1	1.2	2.2	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	0.3
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	4.0	3.9	3.8
Compensation of employees / head				5.7	-0.3	2.6	2.6	3.5	4.5	4.6
Unit labour costs whole economy				3.2	0.5	0.4	-0.5	2.5	2.0	2.0
Real unit labour cost				0.4	-0.9	-2.0	-1.5	1.3	0.7	0.4
Saving rate of households (b)				11.5	10.9	11.8	11.8	11.6	11.3	11.2
GDP deflator				2.8	1.4	2.5	1.0	1.1	1.2	1.6
Harmonised index of consumer prices				3.2	1.4	0.4	0.3	0.6	2.0	1.8
Terms of trade goods				-0.2	1.5	1.8	0.5	1.0	-0.6	0.0
Trade balance (goods) (c)				-2.6	4.1	5.1	4.5	5.5	5.3	5.4
Current-account balance (c)				-3.9	-1.1	-1.2	-1.2	-0.2	-0.5	-0.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.2	1.1	0.5	1.9	1.5	1.2	1.2
General government balance (c)				-3.8	-1.2	-1.9	-0.6	0.3	0.1	0.2
Cyclically-adjusted budget balance (d)				-4.0	0.1	-1.0	-0.7	0.2	-0.1	-0.1
Structural budget balance (d)				-	0.2	-0.8	-0.7	0.2	-0.1	-0.1
General government gross debt (c)				27.0	44.9	42.2	40.3	37.8	36.7	35.6

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

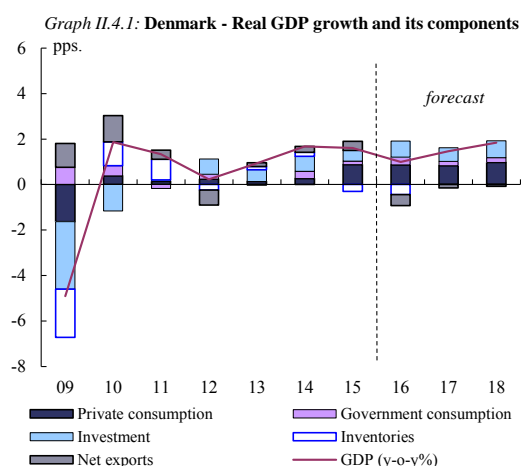
## 4. DENMARK

### Recovery is gaining pace

*Economic growth is expected to increase in the coming years supported by robust private consumption and expanding investment. Employment growth is forecast to remain strong and unemployment to fall further. The general government deficit is projected to remain stable in 2017 before improving in 2018.*

#### GDP growth is strengthening

Economic growth in Denmark is gradually gaining pace. Real GDP growth is estimated to have reached 1.0% in 2016 and is expected to accelerate to 1.5% in 2017 and 1.8% in 2018. Private consumption is forecast to remain the main growth driver with increasing contributions from investment. Net exports are expected to have a weakly negative impact on real GDP growth over the forecast horizon, due to higher growth in imports than in exports.



#### Consumption remains a steady growth engine

Strong employment growth, rising disposable incomes and low interest rates have stoked strong domestic demand in recent years and these factors will continue to support robust private consumption growth over the forecast horizon. Private consumption is projected to expand by around 2% annually between 2016 and 2018. The household saving rate is expected to increase slightly from already high levels, partly reflecting high pension savings. Government consumption is projected to keep expanding at a modest pace.

#### Private investment is boosting economic growth

Investment is expected to grow by 3% in 2017 and by 3.6% in 2018. Private investment is the main

driver of growth, while public investment as a share of GDP is forecast to continue declining gradually. Business investment is forecast to gain pace as the maturing recovery leads to higher capacity utilisation.

Housing investment is projected to have expanded at a particularly robust pace of 5.0% in 2016 supported by strongly rebounding house prices, particularly in urban areas. Although house price increases moderated somewhat over the course of 2016, housing investment is expected to further accelerate to 5.7% in 2017 and 6.7% in 2018.

Following the financial crisis in 2008, public investment was increased dynamically to support the economy. In line with the government plans, public investment is expected to expand moderately in 2017 and to decline in 2018. Public investment is thus expected to decline gradually as a share of GDP, but remains significantly higher than before the crisis.

#### Imports outpace exports

The current-account balance reached 9.2% of GDP in 2015, one of the highest among EU countries. The current-account surplus was revised up following the revision of the national accounts in November 2016. The high surplus partly reflects an adjustment to the crisis, as business and housing investment declined and savings increased. As economic growth strengthens, corporate investment has increased and import growth is forecast to outpace export growth in the coming years. As a result, Denmark's high surplus should gradually decline.

#### Labour market remains strong

Employment growth remains robust, reaching 1.5% in 2016. It has been driven by private sector employment, particularly in the service sector. The employment rate is expected to have increased to 77% in 2016, slightly higher than the historical average between 1995 and 2015 of 76.8%. Employment is forecast to continue growing in the

coming years due to the ongoing recovery of the economy and increased labour supply due to a series of pension and labour market reforms implemented in recent years. Employment is forecast to grow faster than the labour force, reducing the unemployment rate from 6.2% in 2016 to 5.7% in 2018.

### Gradually rising inflation

Following several years of subdued price growth, inflation is expected to pick up in 2017 and 2018. The increase in inflation reflects increasing energy prices, higher capacity utilisation and higher wage growth. HICP inflation was flat in 2016, and is forecast to increase to 1.4% in 2017 and 1.6% in 2018.

### Public debt to gradually decline as public finances improve

The general government deficit is expected at 1.6% of GDP both in 2016 and 2017, before improving to 0.9% of GDP in 2018, based on a no-policy-change assumption. Public expenditure

as per cent of GDP is expected to decrease gradually over the forecast horizon, partly due to lower expenditures on unemployment benefits and lower interest rate expenditures. Public revenues are also expected to decline from 2016 to 2018, partly due to an expected decrease in revenues from the pension yield tax, especially in 2017.

Similarly to previous years, risks to the headline budget balance could come from the high volatility of certain revenue items, such as revenues from oil and gas extraction in the North Sea as well as revenues from the pension yield tax.

The structural budget balance is projected to remain around -½% of GDP in 2017 and to improve to around 0% of GDP in 2018. In both years, the structural budget balance is dragged down by an expected lower level of pension yield tax revenues.

The general government gross debt-to-GDP ratio is projected to continue declining from a level of 38.3% of GDP in 2016 to just below 37% 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	2027.2	100.0	1.3	0.9	1.7	1.6	1.0	1.5	1.8	
Private Consumption	955.9	47.2	1.3	0.3	0.5	1.9	1.8	1.7	2.0	
Public Consumption	520.8	25.7	1.8	-0.1	1.2	0.6	1.3	0.7	0.8	
Gross fixed capital formation	389.9	19.2	1.7	2.7	3.5	2.5	3.7	3.0	3.6	
of which: equipment	118.3	5.8	1.8	10.6	2.7	-0.5	3.2	4.1	3.4	
Exports (goods and services)	1119.5	55.2	4.2	1.6	3.6	1.8	0.2	2.7	3.3	
Imports (goods and services)	969.5	47.8	5.0	1.5	3.6	1.3	1.3	3.4	3.9	
GNI (GDP deflator)	2095.1	103.4	1.6	1.8	2.1	1.3	0.5	1.6	1.9	
Contribution to GDP growth:										
Domestic demand			1.4	0.6	1.2	1.5	1.9	1.6	1.9	
Inventories			0.0	0.1	0.2	-0.3	-0.4	0.0	0.0	
Net exports			-0.1	0.2	0.3	0.4	-0.5	-0.2	-0.1	
Employment			0.3	0.0	1.0	1.3	1.5	1.0	0.9	
Unemployment rate (a)			5.3	7.0	6.6	6.2	6.2	5.9	5.7	
Compensation of employees / head			3.3	1.6	1.5	1.5	1.9	2.2	2.7	
Unit labour costs whole economy			2.2	0.6	0.8	1.1	2.4	1.8	1.7	
Real unit labour cost			0.0	-0.3	0.1	0.2	2.4	0.4	-0.1	
Saving rate of households (b)			5.9	8.8	5.2	10.5	11.4	12.7	12.0	
GDP deflator			2.2	0.9	0.8	0.9	0.0	1.4	1.8	
Harmonised index of consumer prices			2.0	0.5	0.4	0.2	0.0	1.4	1.6	
Terms of trade goods			0.6	1.4	1.0	1.7	3.1	-0.3	0.3	
Trade balance (goods) (c)			3.0	3.7	3.5	4.2	4.8	4.8	4.8	
Current-account balance (c)			3.6	7.8	8.9	9.2	7.3	7.0	7.0	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.7	7.7	8.7	8.8	6.9	6.7	6.7	
General government balance (c)			0.7	-1.0	1.4	-1.3	-1.6	-1.6	-0.9	
Cyclically-adjusted budget balance (d)			0.2	0.6	2.5	-0.5	-0.6	-0.6	0.0	
Structural budget balance (d)			-	-0.9	-0.6	-1.9	-0.6	-0.6	0.0	
General government gross debt (c)			-	44.0	44.0	39.6	38.3	37.8	36.9	

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

## 5. GERMANY

### Robust momentum amid new challenges

*Supported by robust employment and consumption, the German economy is forecast to maintain its momentum over the forecast horizon, although the possible threat of trade barriers with key partners pose significant downward risks. The solid labour market, resilient exports, and booming construction are expected to provide a boost to growth and support equipment investment. The current-account surplus is projected to ease slightly, as imports increase more than exports. The budget surplus is set to decrease but remains supported by buoyant revenues and decreasing interest payments.*

#### Growth has picked up

Germany's economy growth strengthened further in 2016. Gross domestic product (GDP) increased by 1.9% after 1.7% in 2015. Private consumption continued to increase at 2.0%. Public consumption and investment rose markedly, due largely but not exclusively to expenditure for refugees. Private investment growth was primarily driven by housing investment. Net foreign trade made a small negative contribution, as imports increased more than exports.

Available indicators suggest that economic activity strengthened further in the fourth quarter of 2016 and this growth momentum is likely to continue in the coming quarters. Survey indicators for services, industry and construction improved further in late 2016; as has consumer confidence. The robust labour market, favourable financing conditions, continued expansion of construction activity, and further public expenditure increases are expected to sustain the rate of economic growth. Overall, real GDP is expected to increase by 1.6% in 2017, slowed down by fewer working days, and 1.8% in 2018. The slightly negative output gap is expected to close over the forecast horizon.

#### Consumption growth to remain strong

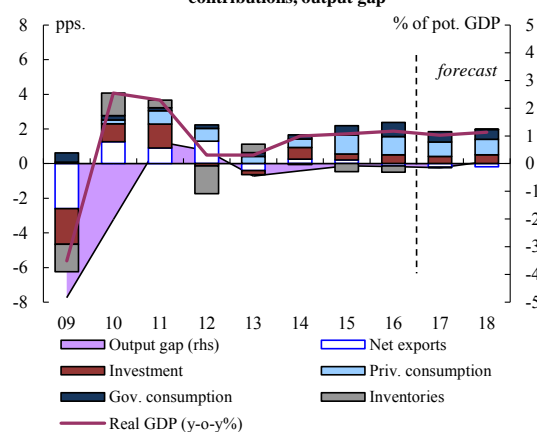
Employment is expected to continue increasing but at a slower pace as the labour market is close to full employment. The integration of the refugees arriving since 2015 will be staggered over a number of years and is not expected to significantly affect employment dynamics over the forecast horizon. Still, a proportion of recognised refugees will add to the labour force, preventing unemployment from falling further below its historically low level. With energy prices rising again, real household consumption is forecast to slow down somewhat, but to remain relatively strong thanks to the continued rise in employment and wages. The latter will be boosted by the

tightening labour market. The household saving rate is expected to remain high. Government consumption growth is expected to remain relatively strong in support of the refugees Germany has sheltered.

#### Divergences in investment dynamics

Construction investment, both public and private, rose strongly in 2016. By contrast, investment in machinery and equipment remained subdued. This, however, is expected to change over the course of next year as replacement needs become more pressing due to the rising rate of capacity utilisation. Downward risks related to policy uncertainty, including with regard to trade relations with Germany's top two trading partners, could weigh on this prospect. Construction investment is projected to continue growing relatively strongly as factors stimulating both supply and demand, including rising housing prices and low interest rates, remain in place.

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



#### Historically high current-account surplus to edge down

Domestic demand growth strengthened in 2016 and imports increased more than exports. The improvement in the terms of trade slowed down

and so did the widening of the current-account surplus. Exports are forecast to pick up again as foreign demand improves. Together with strong domestic demand, this should also lead to stronger import growth. Overall, net trade is expected to detract 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 and core inflation to pick up

With the increase in oil prices, headline inflation is projected to pick up in 2017 (1.9%). Firming domestic demand and wage growth should ensure that core inflation rises in both 2017 and 2018 from the low levels (1.0-1.1%) observed throughout most of 2015-2016.

### Budget surpluses to decrease moderately

Total revenue is expected to increase over 2016-2018, though some adjustments to the personal income tax tariff will weigh on revenue growth. At the same time, current expenditure is also set to increase, as growing pension payments are

expected to offset the effect of declining interest expenditure. Public investment is expected to continue growing due to additional spending for infrastructure and social housing.

Overall, the headline balance is expected to decrease but to remain in surplus over the forecast horizon. The structural surplus is projected to stay flat at around  $\frac{3}{4}\%$  of GDP in 2016, and to decrease to around  $\frac{1}{4}\%$  of GDP by 2018. The gross debt-to-GDP ratio is set to fall from 71.2% in 2015 to around 63% in 2018, driven by budget surpluses and macroeconomic developments.

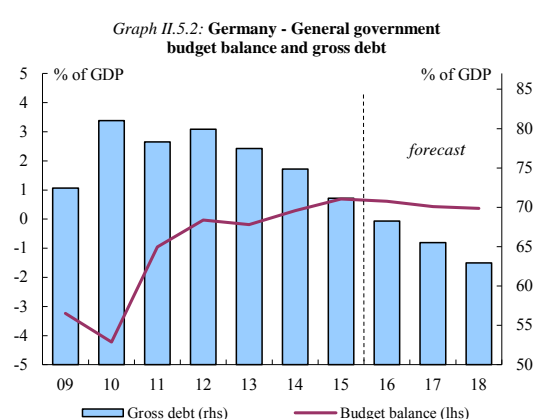


Table II.5.1:

### 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	1.6	1.8
Private Consumption	1636.0		53.9	0.9	0.7	0.9	2.0	2.0	1.6	1.7
Public Consumption	583.7		19.2	1.2	1.2	1.2	2.7	4.2	3.0	2.8
Gross fixed capital formation	603.8		19.9	1.0	-1.1	3.4	1.7	2.5	2.1	2.5
of which: equipment	200.2		6.6	2.7	-2.1	5.5	3.7	1.7	1.2	2.7
Exports (goods and services)	1418.8		46.8	6.3	1.9	4.1	5.2	2.5	2.9	3.2
Imports (goods and services)	1189.3		39.2	5.2	3.1	4.0	5.5	3.4	4.1	4.3
GNI (GDP deflator)	3098.8		102.2	1.5	0.5	1.4	1.7	1.8	1.7	1.8
Contribution to GDP growth:										
Domestic demand				0.9	0.4	1.4	2.0	2.4	1.9	2.0
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	-0.1	-0.2	-0.2
Employment				0.6	0.6	0.8	0.9	1.0	0.8	0.7
Unemployment rate (a)				8.4	5.2	5.0	4.6	4.1	4.1	4.1
Compensation of employees / head				1.3	1.8	2.8	2.4	2.3	2.7	2.8
Unit labour costs whole economy				0.6	1.9	2.0	1.6	1.5	1.8	1.7
Real unit labour cost				-0.3	0.0	0.2	-0.3	0.0	0.0	0.0
Saving rate of households (b)				16.2	16.3	16.7	17.0	17.1	17.0	17.0
GDP deflator				0.9	2.0	1.8	2.0	1.4	1.8	1.6
Harmonised index of consumer prices				1.6	1.6	0.8	0.1	0.4	1.9	1.5
Terms of trade goods				-0.3	1.8	1.7	3.1	2.4	-0.5	0.0
Trade balance (goods) (c)				5.7	7.5	7.7	8.7	8.9	8.4	8.2
Current-account balance (c)				3.2	6.9	7.5	8.5	8.7	8.3	8.0
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.2	6.8	7.5	8.4	8.7	8.3	8.0
General government balance (c)				-2.2	-0.2	0.3	0.7	0.6	0.4	0.4
Cyclically-adjusted budget balance (d)				-2.0	0.1	0.4	0.7	0.7	0.5	0.3
Structural budget balance (d)				-	0.1	0.7	0.7	0.7	0.4	0.3
General government gross debt (c)				65.9	77.5	74.9	71.2	68.2	65.5	62.9

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



## 6. ESTONIA

### Rising external demand to boost GDP growth

*After a slowdown in 2015 and 2016, real GDP growth in Estonia is expected to regain momentum with growth reaching more than 2% in 2017 and 2018, as regional demand strengthens and investment resumes. Unemployment is set to increase as reforms encourage pensioners to re-enter the labour market. The fiscal position is projected to weaken in 2017 and to remain slightly negative in 2018, but public debt should remain low at around 10% of GDP.*

#### Higher imports curb economic growth

After dropping to 1.4% in 2015, real GDP growth in Estonia is expected to have slowed further to 1.1% in 2016. Although private consumption growth remained strong thanks to fast and sustained wage growth, its impact on GDP growth was limited because of its high import content, such as cars. While exports recovered thanks to higher demand from Estonia's main trading partners, investment growth disappointed for a third year in a row. This mainly reflected a very gradual implementation of EU-funds and still-low business investment in equipment and construction.

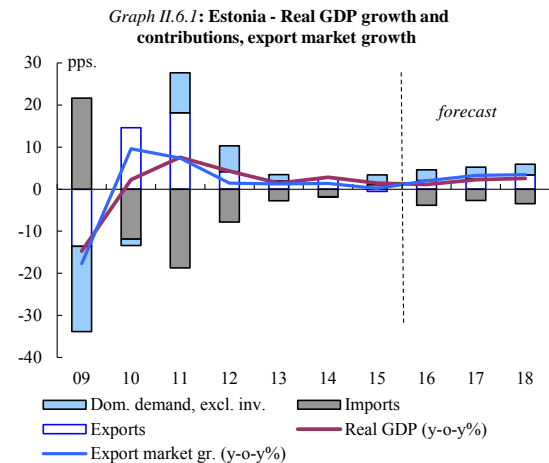
#### External demand is recovering

Estonia's real GDP is forecast to grow by 2.2% in 2017 and 2.6% in 2018. External demand, especially from Finland and the other two Baltic States, is projected to gather pace. In parallel, Estonia's shale oil sector and related exports are set to benefit from the rise in oil prices. In services, buoyant high-tech exports are expected to largely compensate for the losses in transport services resulting from the decline in transit trade with neighbouring Russia. Overall, the external balance of goods and services is set to remain positive over the forecast period. However, as import-intensive investments are projected to resume, the contribution of net exports to growth is set to improve only slowly.

#### Business investment to resume at last

The improvement in regional demand is expected to support business confidence. As a result, Estonian companies are projected to increase investment over the forecast horizon. In parallel, public investment is projected to surge in 2017, as the bulk of projects under the new programming period of EU funds have started being implemented.

Conversely, private consumption is expected to grow at a slower pace in 2017 and 2018, amid rising consumer prices inflation. Similarly, household investment is set to slow down, as real income growth decelerates. Overall, domestic demand is expected to remain the main driver of growth, although it should be increasingly driven by investment rather than consumption.



Risks to the forecast are balanced. Positive risks relate to the possibility of higher exports growth, especially if international oil prices rise faster than assumed. On the downside, a delayed recovery in business investment cannot be excluded.

#### Both unemployment and employment expected to rise

The working age population in Estonia has declined significantly in recent years due to ageing and emigration. In combination with the resulting higher wages, this helped raise the participation rate to 71% in 2016, a historically high level. The recent net positive immigration and the introduction of the 'work-ability' reform in mid-2016, which aims to entice retirees back to the workforce, have had positive effects on labour supply. The workforce is expected to grow faster than employment over the coming years. As a result, unemployment is projected to increase from

about 6.9% in 2016 to about 8.7% in 2018, and wage pressures are projected to slow down to around 5% annually in 2017 and 2018.

### Energy, excises and administrative prices to push up inflation

HICP inflation has been increasing since mid-2016, driven by fading negative base effects from the previously low levels of food and energy prices. Inflation is projected to accelerate to 2.8% in 2017 and 2018. This increase is expected to be driven by higher global energy prices in 2017, as well as robust wage growth and a strong rise in excise tax rates and administrative prices throughout the forecast horizon.

### A more expansionary fiscal stance

2016 is expected to have closed with a general government surplus of 0.1% of GDP. This is somewhat lower than expected in the Commission autumn forecast due to a delay in the increase of some excise duties to 2017. In 2017, public finances are projected to turn into a deficit of 0.5%

of GDP, driven by expenditure increases although the revenue side is expected to continue to benefit from strong domestic demand. In 2018, the headline fiscal position is projected to improve slightly to a deficit of 0.2% of GDP, as a temporary increase in state transfers to the second-pillar pension fund over 2014-2017 will come to an end and reduce expenditure commitments. In structural terms, the fiscal position is expected to turn also into a deficit of about ½% of GDP in 2017 and ¼% in 2018. Estonia's public debt is expected to remain around 10% of GDP.

In late 2016, a new government took office and announced a large deficit-neutral fiscal package for the period 2017-2020. Some of its revenue measures were already adopted in December 2016, the rest are expected to be specified in spring. The Commission forecast does not include the unlegislated measures. The government also announced a large investment plan over 2018-2020 (1.5% of GDP), which is not included in the current Commission forecast, since details are not yet sufficiently available.

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	2.2	2.6
Private Consumption	10.6	52.4		4.5	3.8	3.3	4.7	4.0	3.4	2.8
Public Consumption	4.1	20.3		1.9	1.9	2.7	3.4	1.5	1.9	1.6
Gross fixed capital formation	4.8	23.7		7.6	-2.8	-8.1	-3.3	-2.2	4.4	4.7
of which: equipment	1.8	8.6		8.7	17.0	-11.6	-12.4	-6.0	3.0	4.6
Exports (goods and services)	16.1	79.3		8.3	2.3	3.1	-0.6	3.7	3.1	3.4
Imports (goods and services)	15.2	75.1		8.8	3.2	2.2	-1.4	5.4	4.3	4.1
GNI (GDP deflator)	19.8	97.9		4.1	3.2	2.4	2.1	0.4	2.2	2.7
Contribution to GDP growth:										
Domestic demand				5.4	1.5	0.0	2.3	1.9	3.2	2.9
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	-1.1	-0.7	-0.4
Employment				-0.3	1.2	0.8	2.9	0.8	0.1	0.2
Unemployment rate (a)				10.4	8.6	7.4	6.2	6.9	7.9	8.7
Compensation of employees / head				10.2	4.6	4.2	5.7	6.2	5.1	5.0
Unit labour costs whole economy				5.3	4.5	2.2	7.2	5.9	3.0	2.5
Real unit labour cost				-0.5	0.6	0.4	6.1	3.4	-0.1	-0.5
Saving rate of households (b)				4.3	6.2	9.4	8.8	9.9	9.9	10.6
GDP deflator				5.9	3.9	1.7	1.0	2.4	3.1	3.0
Harmonised index of consumer prices				4.8	3.2	0.5	0.1	0.8	2.8	2.8
Terms of trade goods				0.8	0.8	0.0	0.1	1.5	0.2	0.1
Trade balance (goods) (c)				-14.0	-5.2	-5.1	-4.3	-4.1	-4.9	-5.3
Current-account balance (c)				-7.5	-0.2	1.0	2.1	0.6	0.3	0.0
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.0	2.4	2.1	4.2	2.0	1.9	1.6
General government balance (c)				0.4	-0.2	0.7	0.1	0.1	-0.5	-0.2
Cyclically-adjusted budget balance (d)				-0.3	-0.8	-0.3	-0.4	0.1	-0.4	-0.2
Structural budget balance (d)				-	-0.6	-0.1	-0.1	0.2	-0.4	-0.2
General government gross debt (c)				5.8	10.2	10.7	10.1	9.9	10.1	10.0

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

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

## 7. IRELAND

### Robust growth in uncertain times

*GDP growth is projected to remain firm over the forecast horizon but to gradually decelerate amid heightened risks and an uncertain global backdrop. Domestic demand is expected to remain the main driver of the economy supported by the improving labour market. The general government deficit is estimated to have fallen to 0.9% in 2016 and Ireland's debt-to-GDP ratio is expected to decline gradually, but risks to the fiscal outlook remain.*

#### GDP growth has been stronger than expected

After a mixed picture in the first half of 2016, Ireland's economy performed better in the third quarter. The headline figures were driven up by the activities of some multinational companies in the country. However, domestic activity also grew in 2016-Q3, with core domestic demand<sup>(48)</sup> up by 3.4% on the year. GDP is expected to have grown by 4.3% in 2016 and it is forecast to decelerate over the forecast horizon but remain brisk.

#### Domestic demand the main driver of growth

Consumer spending is expected to remain an important driver of growth, buoyed by robust employment trends, increasing wages and recovering household balance-sheets, combined with low inflation. Sluggish consumer sentiment in recent months, reflecting increased external uncertainty, has not been fully mirrored in retail sales trends. Although the latter have continued to grow, albeit at a slower pace, consumer spending is expected to slow down in the months to come.

Investment activity is projected to remain firm. Excluding aircraft and R&D, investment increased by 5% (y-o-y) in 2016-Q3, sustained mostly by construction activity. Residential property is expected to remain the main driver of investment, supported by government policies. Equipment investment is projected to recover as firms are expected to further replenish their capital stock to meet demand.

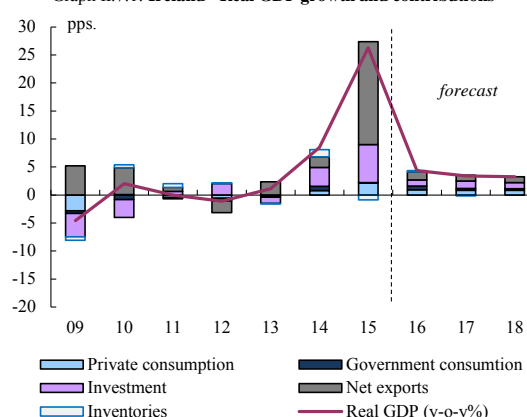
The unemployment rate declined to 8.0% in 2016 despite an increase in the labour force and net inward migration, and is forecast to fall to 7.2% in 2018. Employment trends are also positive, but employment growth is projected to moderate.

<sup>(48)</sup> A measure of domestic demand that excludes investment in intangible assets and transport equipment.

#### Net exports to contribute to GDP growth

Export growth slowed in 2016 mainly due to a slowdown in 'contract manufacturing' by multinationals, and the fall in sterling as the UK accounts for approximately 17% of total Irish exports, with the agri-food sector being the most exposed. Imports declined in the third quarter of 2016 due to a sharp drop in imports of intellectual property assets. Net exports are expected to contribute positively to GDP growth in 2016 and over the forecast horizon in line with global trade.

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



#### Inflation remains subdued

Harmonised consumer prices (HICP) dropped by 0.2% in 2016, mostly dragged down by falling energy prices. HICP is forecast to pick up over the coming years, with the services sector remaining the main source of upward pressure and on the back of an expected increase in energy prices in 2017. Residential rents are also projected to increase due to the still limited supply of residential property and despite the government's rent control initiative.

#### Risks remain tilted to the downside

Risks have heightened in 2016, including uncertainties related to the UK 'leave' vote and those surrounding future US tax and trade policies.

Adverse news could negatively affect consumer confidence and economic activity. The future evolution of the activities of multinationals remains uncertain and could impact GDP growth in both directions.

#### Public finances to improve gradually

In 2016-Q4, the budgetary impact of lower-than-expected revenues was mitigated by a fall in government expenditure, in particular due to a lower-than-anticipated EU budget contribution. On a cumulative basis, on the revenue side, tax receipts increased by 5% over the year, mainly on the back of the strong performance of corporate tax (7%) and excise duties (7.9%). Conversely, VAT receipts grew by 4.0% and ended the year 3.4% below government expectations. On the expenditure side, spending in 2016-Q4 rose in line with the revised resource allocations adopted in June. Compared to the previous year, current spending increased by nearly 2% and government investment by 9.6% in 2016. The general government deficit is expected to have fallen to 0.9% of GDP in 2016, a marginal improvement from the underlying deficit of 1.1% in 2015.

#### Uncertainty weighs on the improvement in public finances

Due to the resilient outlook for GDP and domestic demand, the general government deficit is expected to fall to 0.6% of GDP in 2017, despite EUR 1.3 billion of expansionary measures included in the 2017 budget.

Based on the customary no-policy change assumption, the deficit is expected to remain unchanged in 2018. Risks to the fiscal forecast relate to uncertainties surrounding the macroeconomic outlook and the volatility of some sources of government revenues. On the upside, VAT receipts from Christmas sales may still lower the 2016 deficit.

The structural deficit is expected to worsen in 2016, rising to nearly 2% of GDP before narrowing to about 1% of GDP in 2018. Gross general government debt is projected to continue to fall from an estimated 75.1% in 2016 to 72.6% in 2018, contingent on moderate yet robust GDP growth and the realisation of primary surpluses of around 1.5% of GDP in both 2017 and 2018.

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	4.3	3.4	3.3
Private Consumption	87.3		34.1	3.8	-0.3	1.8	5.0	2.7	2.5	2.5
Public Consumption	32.1		12.5	3.5	-1.3	4.5	0.3	5.4	2.4	2.0
Gross fixed capital formation	54.2		21.2	4.1	-5.7	18.3	32.9	5.0	6.4	5.0
of which: equipment	16.4		6.4	7.4	-6.3	24.2	3.0	1.3	6.0	5.0
Exports (goods and services)	317.2		124.0	8.2	3.1	14.4	34.4	2.3	3.8	4.2
Imports (goods and services)	236.0		92.2	7.9	1.1	15.3	21.7	1.5	4.0	4.5
GNI (GDP deflator)	203.9		79.7	3.4	5.1	8.7	18.2	3.8	3.2	2.9
Contribution to GDP growth:										
Domestic demand				3.3	-1.5	4.9	8.9	2.7	2.5	2.2
Inventories				0.0	-0.1	1.3	-0.8	0.2	-0.2	0.0
Net exports				1.2	2.3	1.9	18.3	1.4	1.1	1.1
Employment				2.1	2.5	1.7	2.5	2.5	2.1	1.8
Unemployment rate (a)				7.5	13.1	11.3	9.4	8.0	7.0	6.7
Compensation of employees / head				3.9	1.4	1.8	2.8	2.9	2.5	2.1
Unit labour costs whole economy				1.8	2.8	-4.5	-16.5	1.1	1.3	0.6
Real unit labour cost				-0.7	1.4	-3.4	-20.4	1.4	0.0	-0.6
Saving rate of households (b)				-	10.3	10.9	10.7	9.8	9.7	9.6
GDP deflator				2.6	1.4	-1.2	4.9	-0.3	1.2	1.2
Harmonised index of consumer prices				2.3	0.5	0.3	0.0	-0.2	0.9	1.0
Terms of trade goods				0.5	0.9	-5.6	8.3	-0.2	0.7	0.6
Trade balance (goods) (c)				21.7	19.1	21.1	43.2	40.9	40.5	40.6
Current-account balance (c)				-1.7	2.1	1.7	10.2	9.6	9.5	9.3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-1.3	1.6	-1.8	9.7	10.0	9.9	9.7
General government balance (c)				-3.5	-5.7	-3.7	-1.9	-0.9	-0.6	-0.6
Cyclically-adjusted budget balance (d)				-3.7	-3.1	-3.6	-2.4	-1.9	-1.4	-1.0
Structural budget balance (d)				-	-3.5	-3.5	-1.6	-1.9	-1.4	-1.0
General government gross debt (c)				50.7	119.5	105.2	78.6	75.1	73.6	72.6

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

## 8. GREECE

### Signs of recovery linked to programme implementation

*The Greek economy has been gradually growing since the conclusion of the first review of the ESM programme. Brighter economic sentiment is supporting recovery in domestic demand, reflected also in labour market developments. Public finances are performing better than expected and the overall macro outlook remains positive, though subject to downside risks.*

#### Growth in third quarter points to the prospect of a sustained recovery

Greece's economy grew by 0.8% q-o-q (1.8% y-o-y) in 2016-Q3 in seasonally adjusted terms following 0.4% (q-o-q) in 2016-Q2. Growth was mainly driven by private consumption, investment and exports. While part of these increases is explained by base effects, short-term indicators overall point towards positive growth in 2016. Economic activity is up in industry, the retail sector and tourism, while exports have also regained strength since the shock in 2015.

Real GDP growth is projected to have reached 0.3% in 2016 reflecting the improvement in business and consumer confidence since the conclusion of the first review of the ESM programme and the good progress that has been made in clearing public sector arrears, which has led to higher liquidity in the corporate sector. Contingent upon the timely completion of the second review of the ESM programme, Greece's economic recovery is expected to gather pace in 2017 with growth of 2.7%, on the back of improving financial conditions amid a gradual relaxation of capital controls. Private consumption and investment are projected to accelerate and the contribution of net exports to become positive. Real GDP is expected to continue recovering at a robust pace in 2018, with a growth rate of 3.1%.

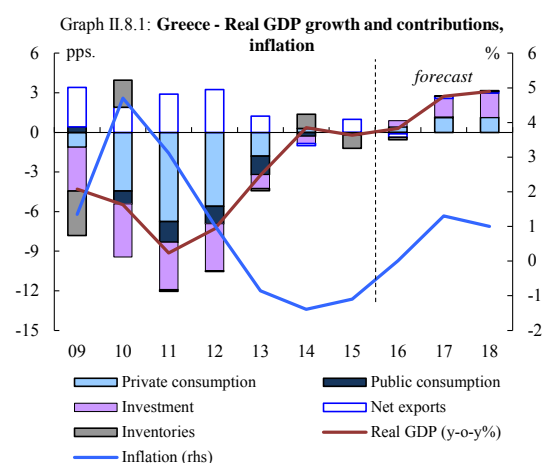
The labour market has been improving for the last two years. Employment grew by 2.4% on average in the first 10 months of 2016, and is projected to grow at a stable average rate of 2.2% until 2018. Unemployment is projected to have fallen to 23.4% in 2016, down from an annual average of 24.9% in 2015. Unemployment is set to decrease steadily over the forecast horizon, backed by the impact of labour market reforms supporting flexible forms of employment and wage setting.

The contribution of net exports to growth was likely still negative in 2016, since imports rose faster than exports amid higher domestic demand. Going ahead, net exports are expected to turn

positive, as improved competitiveness and higher investment in the tradable sector spur exports.

The decrease in the price level halted in 2016 on the back of higher indirect taxation and rising oil prices. These factors are also expected to underpin a moderate rebound of inflation in 2017 and 2018, along with strengthening domestic demand. Over the forecast horizon, wages are expected to increase along with recovering labour productivity.

Downward risks mainly relate to uncertainties over the completion of the second review of the ESM programme and external factors such as international and regional geopolitical and economic tensions, as well as the refugee crisis.



#### Strong revenue performance and ambitious reforms to improve fiscal outcomes

Greece is forecast to reach a general government balance of -1.1% of GDP in 2016. Having over-achieved its primary targets of the ESM programme for 2015, Greece is set to significantly – by about 1½% of GDP – over-perform the primary surplus target of 0.5% of GDP for 2016 according to the ESM programme definition.<sup>(49)</sup> The composition of the fiscal adjustment is tilted to the revenue side amidst restrained expenditure

<sup>(49)</sup> 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.

growth. It follows the adoption of a major fiscal package in the context of the first review projected to yield 3% of GDP through 2018, bringing total fiscal consolidation since the ESM programme was launched to 4.2% of GDP. The stronger-than-forecast revenue primarily stems from dynamic growth in underlying tax bases, particularly for indirect taxes and the corporate income tax, but also several one-off factors related to clearing tax liabilities from previous years and stock-piling effects in view of the 2017 hike in the tobacco tax.

Taking into account the adopted measures (in particular personal income tax and pension reforms) and the 2017 Budget, Greece is projected to achieve the ESM programme primary balance target of 1.75% of GDP in 2017, even after allowing for the national roll-out of the Guaranteed Minimum Income scheme. The strong revenue performance observed thus far especially in 2016, supported by the ongoing revenue administration reforms, implies considerable upside risks to the forecast which augurs well for the achievement of the target also in 2018. Downside risks include the possibility that the 2017 fiscal reforms could yield less than expected due to implementation risks and the effects of uncertainties over the completion of the second review of the ESM programme.

The authorities are expected to adopt the Medium-

term Fiscal Strategy for 2018-2021, including any adjustments in fiscal policies needed, to ensure the achievement of the 2018 programme primary balance target of 3.5% of GDP.

Overall, the general government balance is projected to reach -1.1% of GDP in 2017 before improving to 0.7% of GDP in 2018. In structural terms, given the still-large output gap, the general government balance is forecast to reach 2½% of GDP in 2017 and 2½% of GDP in 2018.

On the back of the fiscal outturn projected for 2016 and the stock-flow adjustment related to the clearance of arrears, Greece's debt-to-GDP ratio is expected to increase from 177.4% in 2015 to 179.7% in 2016. The improved fiscal position and stronger GDP growth are expected to put the debt-to-GDP ratio on a declining path starting in 2017. Interest expenditure is projected to decrease over the forecast years because old loans are replaced with new financial assistance loans with lower interest rates. The implementation of short-term debt measures in 2017 and 2018 will increase interest expenditure in the short run but will lower it in the long term and smoothen the debt repayment schedule.

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	0.6	1.6	1.6
Public Consumption	35.3		20.1	1.2	-6.4	-1.4	0.0	-0.6	0.2	0.0
Gross fixed capital formation	20.3		11.5	-1.1	-8.4	-4.6	-0.2	4.0	12.0	14.2
of which: equipment	8.3		4.7	0.6	-4.5	21.0	-1.5	1.8	13.4	15.2
Exports (goods and services)	56.1		31.9	5.3	1.5	7.8	3.4	0.7	3.9	4.7
Imports (goods and services)	55.8		31.8	3.1	-2.4	7.6	0.3	1.5	3.2	4.2
GNI (GDP deflator)	176.3		100.3	0.9	-4.0	0.7	-0.1	0.1	2.7	3.0
Contribution to GDP growth:										
Domestic demand				1.1	-4.3	-0.6	-0.2	0.7	2.6	2.9
Inventories				-0.1	-0.1	1.1	-1.0	-0.2	0.0	0.1
Net exports				0.1	1.2	-0.2	1.0	-0.3	0.2	0.1
Employment				0.0	-2.6	0.0	0.5	2.2	2.1	2.2
Unemployment rate (a)				11.6	27.5	26.5	24.9	23.4	22.0	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	2.1	0.4	1.1
Real unit labour cost				0.5	-4.6	-0.6	-1.2	2.0	-0.9	0.0
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.9	-2.4	-1.8	-1.0	0.0	1.3	1.2
Harmonised index of consumer prices				3.3	-0.9	-1.4	-1.1	0.0	1.3	1.0
Terms of trade goods				-0.3	1.7	0.9	0.6	-4.4	0.0	-0.1
Trade balance (goods) (c)				-14.7	-9.8	-10.8	-9.1	-9.0	-9.5	-9.5
Current-account balance (c)				-9.7	-2.2	-2.6	0.0	-0.7	-0.7	-0.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-8.1	0.2	-0.6	2.1	1.3	1.1	1.2
General government balance (c)				-7.8	-13.2	-3.6	-7.5	-1.1	-1.1	0.7
Cyclically-adjusted budget balance (d)				-7.9	-6.2	2.3	-2.2	3.7	2.3	2.6
Structural budget balance (d)				-	2.3	2.3	1.8	3.7	2.3	2.6
General government gross debt (c)				115.3	177.4	179.7	177.4	179.7	177.2	170.6

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



## 9. SPAIN

### Growth continues to surprise, but signs of deceleration emerging

*Economic growth exceeded expectations in recent quarters. As favourable tailwinds gradually subside, the pace of growth is set to ease but remain robust throughout the forecast horizon. Unemployment is set to continue to fall steadily, and inflation is picking up as oil prices increase and core inflation recovers. Thanks to both new revenue measures and a positive macroeconomic outlook, the general government deficit is expected to continue declining over the forecast horizon. Public debt is set to stabilise at about 100% of GDP.*

#### Growth continues to outpace the euro area average

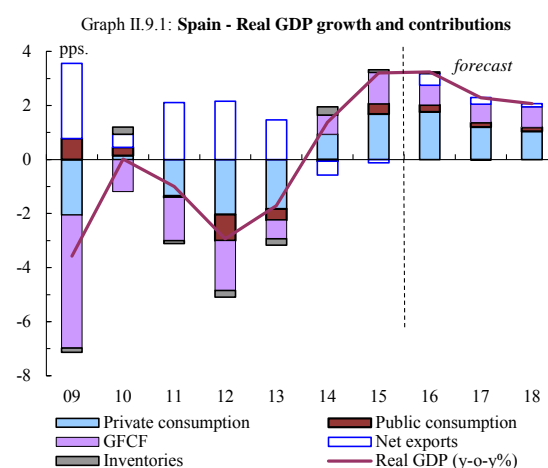
On its third year of expansion, Spain has continued to grow faster than the euro area average, and GDP almost reached its pre-crisis peak last year. Growth surprised on the upside in the first three quarters of 2016, and reached an annual average of 3.2%, despite a slight deceleration in the fourth quarter. The composition of growth is expected to have been more balanced than in previous years. Although domestic demand is expected to have remained the main growth driver, the contribution of net exports to GDP growth is projected to have been positive in 2016 for the first time since the recovery started.

#### GDP set to decelerate but remain robust

The rate of GDP growth is expected to ease over the forecast horizon to a still robust 2.3% in 2017 and 2.1% in 2018. Private consumption is expected to slow down as employment growth decreases and other factors that supported the growth of disposable income in recent years (i.e. the decline in oil prices, tax cuts, and improving financing conditions) gradually abate. Investment growth is set 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 forecast to moderate in line with final demand.

Export growth is expected to have declined in 2016 compared to 2015. However, Spain is projected to have gained market shares, partly driven by record tourist arrivals. Total exports are then expected to slow down again in 2017, before picking up in 2018, as Spain's trading partners recover. Imports are also forecast to have decelerated in 2016 and continue to moderate in 2017, before picking up again in 2018, in line with final demand. As imports are expected to continue to grow more slowly than exports in 2017, net

trade is set to make a positive contribution to growth until 2018. After widening in 2016, Spain's current-account surplus is forecast to decline in 2017 and 2018, as a consequence of worsening terms of trade. Net external lending is similarly expected to gradually decline.



#### 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 -0.3% in 2016 to 1.9% in 2017, before decreasing to 1.7% in 2018, as the base effects of energy price increases in 2017 fade away. Core inflation is projected to gradually increase over the forecast horizon, as wages pick-up, the output gap closes, and second round effects from energy price increases are passed-through into consumer prices.

#### Employment growth expected to moderate

Strong job creation has continued throughout 2016, despite having slowed down in the fourth quarter compared to the previous quarter. Although employment growth 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 18.6%

of the labour force in the fourth quarter of 2016, is expected to continue falling to 16% by 2018. Wage growth is expected to pick up this year, and, combined with low productivity gains, is set to lead to increases in nominal unit labour costs over the forecast horizon. After years of competitiveness gains, Spain's unit labour costs are foreseen to converge to the euro area average.

### The budget deficit is still high, but narrowing

Despite strong economic growth, Spain's general government deficit narrowed by only 0.3% of GDP in the first three quarters of 2016. To limit revenue shortfalls resulting from the expiry at the end of 2015 of minimum advance payments in corporate income taxation, the parliament adopted measures to strengthen corporate tax revenues in October 2016. While this yielded a positive effect on revenues in October, November revenue data were rather weak. This is expected to result in the general government deficit decreasing from 5.1% of GDP in 2015 to 4.7% in 2016.

In 2017, the forecast incorporates a number of additional measures adopted by parliament in December 2016. These consist primarily of

base-broadening measures in the field of corporate taxation, but also of increases of excise duties on alcohol and tobacco as well as a broadening of the base for social contributions. Previous improvements in financing conditions imply that interest expenditure is set to continue decreasing. In combination with the positive macroeconomic outlook, which should continue supporting tax revenues and keeping social transfers in check, the deficit is expected to narrow to 3.5% of GDP in 2017. In 2018, at unchanged policies, the deficit is expected to narrow further to 2.9% of GDP on the back of the cyclical recovery.

Risks to the fiscal outlook mainly relate to contingent liabilities and uncertainty regarding the impact of the recent tax measures.

After deteriorating significantly in 2015, Spain's structural deficit is expected to have widened further by around 1¼% of GDP in 2016. It is set to improve marginally in 2017, and stabilise in 2018. Over the forecast horizon, the general government debt ratio is expected to stabilise at around 100% of GDP, as a result of relatively strong nominal GDP growth largely offsetting the budget deficit.

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	3.0	2.1	1.8	
Public Consumption	208.5	19.4	3.5	-2.1	-0.3	2.0	1.3	0.9	0.8	
Gross fixed capital formation	212.1	19.7	1.8	-3.4	3.8	6.0	3.7	3.4	3.8	
of which: equipment	72.7	6.8	2.9	5.0	8.3	8.9	5.9	4.0	3.8	
Exports (goods and services)	356.9	33.2	4.5	4.3	4.2	4.9	4.3	4.0	4.3	
Imports (goods and services)	330.5	30.7	4.2	-0.5	6.5	5.6	3.2	3.5	4.3	
GNI (GDP deflator)	1074.9	99.9	2.2	-1.5	1.6	3.5	3.2	2.3	2.1	
Contribution to GDP growth:										
Domestic demand			2.3	-2.9	1.6	3.2	2.7	2.0	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	0.4	0.2	0.1	
Employment			1.3	-3.5	1.1	3.0	2.9	2.0	1.7	
Unemployment rate (a)			14.1	26.1	24.5	22.1	19.6	17.7	16.0	
Compensation of employees / f.t.e.			3.0	1.4	-0.1	0.4	0.5	1.4	1.6	
Unit labour costs whole economy			2.1	-0.5	-0.4	0.2	0.2	1.1	1.2	
Real unit labour cost			-0.4	-0.8	-0.1	-0.3	-0.3	-0.3	-0.4	
Saving rate of households (b)			10.2	9.6	9.0	8.2	8.3	8.3	8.2	
GDP deflator			2.6	0.4	-0.3	0.5	0.4	1.4	1.6	
Harmonised index of consumer prices			2.7	1.5	-0.2	-0.6	-0.3	1.9	1.7	
Terms of trade goods			-0.2	0.6	-0.5	2.0	0.3	-1.0	-0.3	
Trade balance (goods) (c)			-5.5	-1.4	-2.2	-2.0	-1.5	-1.7	-1.9	
Current-account balance (c)			-4.6	1.5	1.0	1.3	1.8	1.7	1.6	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.9	2.1	1.5	2.0	2.5	2.2	2.0	
General government balance (c)			-3.1	-7.0	-6.0	-5.1	-4.7	-3.5	-2.9	
Cyclically-adjusted budget balance (d)			-3.2	-2.3	-2.1	-2.8	-3.8	-3.5	-3.6	
Structural budget balance (d)			-	-1.9	-1.8	-2.6	-3.8	-3.6	-3.6	
General government gross debt (c)			54.3	95.4	100.4	99.8	99.7	100.0	99.7	

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

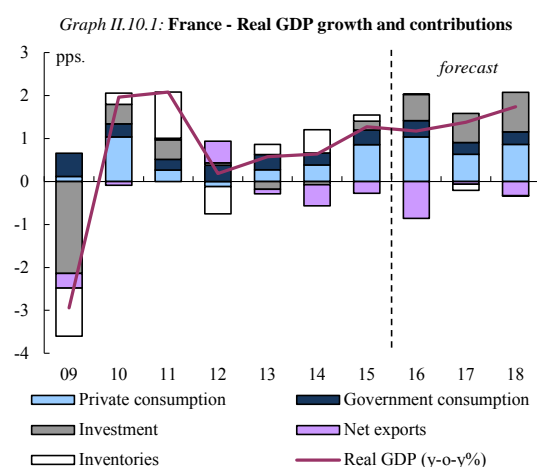
## 10. FRANCE

### The recovery holds up despite uncertainties

*Economic activity in France is forecast to gently accelerate. Business and consumer confidence improved and growth picked up in the fourth quarter. The recovery in exports is expected to rebalance growth away from private consumption and help sustain the recovery, although net exports are forecast to continue to be a drag on growth. Unemployment is set to continue its gradual decline. The general government deficit is expected to fall from 3.3% of GDP in 2016 to 2.9% in 2017.*

#### Net exports weighed on GDP growth in 2016

GDP growth declined slightly to 1.2% in 2016 from 1.3% in 2015, despite growth reaching 0.4% in the fourth quarter. Private consumption accelerated on the back of dynamic household purchasing power, while investment growth has been boosted by anticipation of the end of the over-amortisation scheme, a fiscal incentive for firms to invest. However, after an exceptional performance in 2015, export growth fell to 1.0% in 2016, due to several temporary factors, while imports remained relatively dynamic. As a result, net exports represented a drag on growth of almost 1 pp. of GDP growth in 2016.



#### The recovery of exports is expected to rebalance growth away from consumption

GDP growth is forecast to pick up to 1.4% in 2017 and 1.7% in 2018 under the usual no-policy-change assumption. Private consumption is expected to decelerate in line with purchasing power, as the tailwinds from lower oil prices fade out. Also, the recovery in investment is gaining momentum, particularly in the construction sector. After the strong growth observed in 2016, equipment investment growth is set to moderate somewhat. However, the prolongation of the over-amortisation scheme until 14 April 2017,

rising profit margins and easy financing conditions are expected to sustain robust growth rates.

Export growth is expected to gradually normalise in 2017 and 2018, in line with the moderate recovery projected in French export markets. Meanwhile, imports are forecast to moderate somewhat in 2017, in a context of decelerating domestic demand, allowing for a more balanced contribution of net exports to GDP growth.

#### Unemployment expected to fall further while inflation picks up

Employment is forecast to continue growing at a sustained pace, supported by the ongoing economic recovery and 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). Moreover, the emergency plan for employment announced in January 2016 is further decreasing the unemployment rate by providing training to unemployed people who subsequently do not appear as unemployed any more. Consequently, the unemployment rate is forecast to decline to 9.9% in 2017 and 9.6% in 2018.

Inflation rose sharply to 1.6% in January 2017, from 0.8% in December 2016. Overall, HICP is expected to average 1.5% in 2017, before declining slightly to 1.3%, as the strong positive contribution from recent oil price increases fades out and domestic price pressures increase only gradually.

#### Risks are more balanced

Despite continued global uncertainty, risks to the forecast for France are less tilted to the downside than in the autumn. The improvement of labour market conditions could allow for a more significant drop in the household saving rate on average and thus stronger private consumption.

### Public deficit below 3% in 2017

The headline deficit likely fell to 3.3% of GDP in 2016 (from 3.5% in 2015), on the back of better-than-expected budget execution. Discretionary measures, part of the Responsibility and Solidarity Pact (RSP), are set to weigh on public revenues. In turn, public expenditure net of tax credits is forecast to increase moderately, by 1.0% in 2016 compared to 0.8% the previous year, helped by low inflation and the continued decline in interest payments. After two years of sharp falls, public investment is projected to be broadly flat as the local investment cycle has bottomed out.

The government deficit is expected to decrease further to 2.9% of GDP in 2017. Revenues are set to pick up thanks to higher GDP growth and the increase in local and green taxes. Apart from the consolidation measures contained in the draft budget, the finally adopted budget includes an additional increase in public spending by EUR 0.8 bn. to be financed by budgetary reallocations, which are not specified. Moreover, as negotiations on the new unemployment benefit agreement have not concluded yet, the expected yield thereof, amounting to EUR 1.6 bn, is not taken into account. All in all, public expenditure

net of tax credits is expected to increase by 1.8%, as a result of 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 2016 and 2017. However, the planned recapitalisation of the state-owned company AREVA with a public capital injection of EUR 4.5 bn. entails a negative risk for the 2017 deficit amounting to 0.2% of GDP.

Assuming no policy change, the deficit is forecast to rise again to 3.1% of GDP in 2018. While the revenue-to-GDP ratio is projected to decline by 0.2 pps. due to the corporate income tax cut and some temporary revenue measures in 2017, the expenditure-to-GDP ratio is set to broadly stabilise. Although spending growth is expected to remain moderate, primary current expenditure net of tax credits in volume terms is projected to accelerate slightly with respect to 2013-2017. Public investment and interest payments are also projected to gain momentum with respect to the same period. The structural balance is projected to deteriorate by close to ½ pps. in 2018. The debt-to-GDP ratio is forecast to rise further from 96.4% in 2016 to 97.0% 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	1.2	1.4	1.7
Private Consumption	1201.5		55.1	1.9	0.5	0.7	1.5	1.9	1.2	1.6
Public Consumption	521.8		23.9	1.4	1.5	1.2	1.4	1.6	1.2	1.2
Gross fixed capital formation	469.2		21.5	2.2	-0.8	-0.3	1.0	2.8	3.1	4.1
of which: equipment	103.2		4.7	2.6	-3.5	2.0	2.3	6.0	4.1	5.0
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	3.7	3.1	4.8
GNI (GDP deflator)	2216.5		101.6	1.7	0.6	0.6	1.6	1.2	1.4	1.7
Contribution to GDP growth:		Domestic demand		1.8	0.4	0.6	1.4	2.0	1.6	2.1
		Inventories		0.1	0.2	0.5	0.1	0.0	-0.1	0.0
		Net exports		-0.1	-0.1	-0.5	-0.3	-0.9	-0.1	-0.3
Employment				0.7	0.1	0.2	0.4	0.8	0.6	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	0.9	1.5	1.9
Unit labour costs whole economy				1.6	1.1	0.8	0.2	0.5	0.7	1.1
Real unit labour cost				0.1	0.3	0.3	-0.4	-0.4	-0.2	-0.2
Saving rate of households (b)				15.1	14.0	14.1	14.1	14.2	14.0	14.1
GDP deflator				1.5	0.8	0.5	0.6	0.8	0.9	1.2
Harmonised index of consumer prices				1.7	1.0	0.6	0.1	0.3	1.5	1.3
Terms of trade goods				-0.2	1.3	1.6	3.8	1.7	-1.2	0.5
Trade balance (goods) (c)				-0.5	-2.0	-1.7	-1.0	-1.3	-1.5	-1.6
Current-account balance (c)				0.1	-2.9	-3.2	-2.0	-2.3	-2.6	-2.7
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				0.1	-2.8	-3.2	-2.0	-2.1	-2.4	-2.4
General government balance (c)				-3.5	-4.0	-4.0	-3.5	-3.3	-2.9	-3.1
Cyclically-adjusted budget balance (d)				-3.8	-3.2	-2.9	-2.7	-2.6	-2.3	-2.7
Structural budget balance (d)				-	-3.4	-3.0	-2.7	-2.5	-2.3	-2.7
General government gross debt (c)				68.0	92.3	95.3	96.2	96.4	96.7	97.0

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

## 11. CROATIA

### Growth gathering steam

*A strong and broad-based recovery pushed real output up by an estimated 2.8% in 2016. Growth is projected to strengthen in 2017 and moderate in 2018. Robust domestic demand supports a steady import growth and the current-account surplus is projected to contract to 1.3% of GDP by 2018. Unemployment is set to continue to fall, though at a slower pace as the labour force broadly stabilises. The general government deficit is seen up to 2.1% of GDP in 2017, with a significant deterioration in the structural balance.*

#### The economic recovery accelerated in 2016

At 1.7% (q-o-q), GDP growth in the third quarter was higher than expected in autumn. All components of domestic demand contributed to this strong performance. While exports of goods suffered a temporary setback, exports of services jumped by 3.5% q-o-q due to another strong tourist season. Growth likely decelerated in the fourth quarter of 2016, but all in all, Croatia's economy is expected to have grown by a solid 2.8% in 2016.

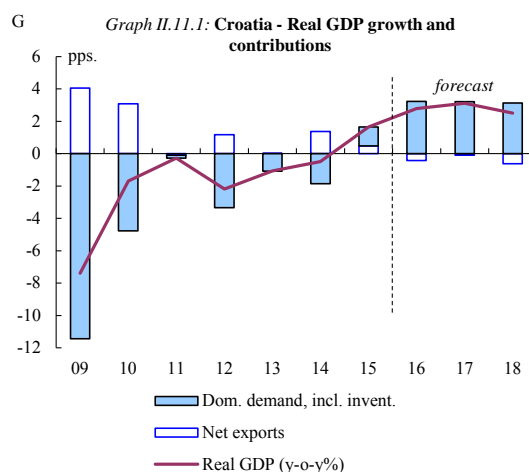
#### Growth set to gather pace in 2017, and slow down thereafter

The strong growth momentum gathered in the second half of 2016 is projected to carry over to 2017 and receive extra impetus from the government's expansionary fiscal stance. Consumption, in particular, is projected to benefit from tax cuts and expand by 3.4%. Corporate investment is projected to rebound, as ample liquidity and favourable financing conditions support credit expansion. EU investment funds are expected to provide an additional boost to public investment. Government consumption is set to grow more moderately, but overall domestic demand is expected to drive real GDP growth. Export growth is expected to slow down somewhat, especially in services, while the strength of domestic demand is expected to underpin steady import growth. As a result, net exports are projected to detract from growth. Overall, real GDP is expected to grow by 3.1% in 2017.

The positive trend in consumption is set to continue in 2018 but moderate slightly as the boost from tax cuts lessens. Investment, on the other hand, is projected to remain strong also thanks to abundant liquidity. The external environment is set to remain supportive, but as export market shares stabilise following the substantial gains since EU accession, export growth is set to slow. Import growth, on the other hand, is expected to remain

vigorous. This, combined with a rebound in import prices both in 2017 and 2018, is set to contribute to a further erosion of the current-account surplus, to about 1.3% of GDP in 2018.

Risks to these growth forecasts are tilted to the downside and are mainly related to a possible deterioration of the external environment and a tightening of monetary policy. At the same time, the positive trend in goods exports and tourism could continue also in 2017 and 2018, with further significant gains in export market shares.



#### Inflation pressures to reappear as unemployment falls and import prices rebound

Unemployment is expected to have decreased by more than 3 pps. in 2016, due to the continued shrinking of the labour force but also increasing employment. By 2018, the unemployment rate is projected to drop to 9.3%, as employment continues to recover, while the labour force broadly stabilises around current levels. After several years of restraint, average compensation of employees is estimated to have risen by 1.7% in 2016 and should accelerate to around 2.4% in 2017. This, together with higher import prices, is projected to push inflation to about 1.7% this year,



confirming the turnaround in price dynamics observed in the last months of 2016. Inflation is projected to slightly decelerate in 2018, as the recovery in energy prices slows down.

#### Deficit set to rise from a record low as tax reforms cut revenue

Croatia's general government deficit is expected to have decreased significantly to 1.8% of GDP in 2016, largely on the back of windfall revenues and contained expenditure growth. Growth in primary expenditure in 2016 is expected to have remained below nominal GDP growth. The headline deficit is projected to increase in 2017 to 2.1% of GDP due to the impact of tax reforms, but improve again in 2018. In particular, the tax reforms have increased the personal allowance and decreased personal income tax rates. In corporate income tax, the general rate was decreased and a reduced rate was introduced, but the tax base is increased through the abolition of some tax breaks and exemptions. In VAT, categories of goods and services were shuffled between the existing rates.

The direct effect on tax revenues is expected at 0.6% of GDP in 2017 and 0.2% in 2018, with the bulk of the reduction coming from cuts in the personal income tax and, to a lesser extent, VAT. The total cost of the reform is however expected to be partially offset by the stronger growth, as the tax cuts boosts consumption and investment.

The revenue-reducing impact of the tax reforms and the projected increase in expenditure indicates an expansionary fiscal stance. After a marked improvement in 2016, the structural balance is forecast to deteriorate by about 1½% of GDP in 2017 and close to ½% of GDP in 2018.

The debt ratio is projected to have shrunk in 2016 (from 86.7 to 84.1% of GDP) thanks to a combination of strong growth, fiscal consolidation, appreciation of the kuna against the euro and favourable refinancing conditions. The debt ratio is projected to keep falling over the forecast horizon, but more moderately, as the effect of fiscal consolidation and appreciation of the kuna against the euro fade out.

Table II.11.1:

#### Main features of country forecast - CROATIA

	2015			97-12	Annual percentage change						
	bn HRK	Curr. prices	% GDP		2013	2014	2015	2016	2017	2018	
GDP	333.8	100.0	2.1	-1.1	-0.5	1.6	2.8	3.1	2.5		
Private Consumption	196.2	58.8	2.0	-1.8	-1.6	1.2	3.0	3.4	3.0		
Public Consumption	65.8	19.7	1.6	0.3	-0.8	-0.3	1.4	1.0	1.0		
Gross fixed capital formation	65.1	19.5	3.5	1.4	-2.8	1.6	4.2	5.2	5.8		
of which: equipment	-	-	-	-	-	-	-	-	-		
Exports (goods and services)	166.8	50.0	4.0	3.1	7.6	10.0	4.9	4.7	4.3		
Imports (goods and services)	157.7	47.2	3.7	3.1	4.5	9.4	6.1	5.2	5.8		
GNI (GDP deflator)	333.2	99.8	1.9	0.2	-1.8	4.2	0.2	3.1	2.4		
Contribution to GDP growth:	Domestic demand			2.5	-0.7	-1.7	1.0	2.9	3.2	3.1	
	Inventories			0.0	-0.3	-0.2	0.2	0.4	0.0	0.0	
	Net exports			-0.3	0.0	1.4	0.5	-0.4	-0.1	-0.6	
Employment				-0.2	-2.7	2.7	1.5	1.9	2.1	1.6	
Unemployment rate (a)				-	17.3	17.3	16.3	12.8	10.8	9.3	
Compensation of employees / head				6.3	-0.6	-5.4	-0.3	1.7	2.4	2.5	
Unit labour costs whole economy				3.9	-2.3	-2.4	-0.5	0.9	1.4	1.5	
Real unit labour cost				0.0	-3.0	-2.4	-0.6	0.2	0.6	-0.3	
Saving rate of households (b)				-	10.5	12.8	14.1	12.8	12.5	11.3	
GDP deflator				3.9	0.8	0.0	0.1	0.7	0.9	1.8	
Harmonised index of consumer prices				-	2.3	0.2	-0.3	-0.6	1.7	1.6	
Terms of trade goods				1.3	-1.6	-0.9	-0.8	0.4	-1.9	0.0	
Trade balance (goods) (c)				-19.0	-15.1	-14.8	-15.2	-15.2	-16.4	-17.2	
Current-account balance (c)				-4.4	1.6	1.1	5.0	2.8	1.8	1.3	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.4	1.6	1.1	5.5	3.8	2.9	2.4	
General government balance (c)				-	-5.3	-5.4	-3.3	-1.8	-2.1	-1.8	
Cyclically-adjusted budget balance (d)				-	-3.4	-3.4	-2.1	-1.3	-2.7	-3.2	
Structural budget balance (d)				-	-3.2	-3.6	-2.1	-1.4	-2.8	-3.2	
General government gross debt (c)				-	82.2	86.6	86.7	84.1	83.0	81.3	

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



## 12. ITALY

### Stable, modest economic growth ahead

*Italy's economy is set to grow by around 1% in both 2017 and 2018, supported by low real interest rates and stronger external demand, while structural weaknesses hinder a stronger recovery. Employment is set to further increase, but at a slower pace than in 2015 and 2016, due to the phasing out of tax incentives for new hires. Higher energy prices are set to drive a pick-up in headline inflation, while core inflation is expected to rise more gradually on the back of moderate wage pressure. Deficit and debt are both set to broadly stabilise as a ratio of GDP.*

#### Economic growth seen steady but modest

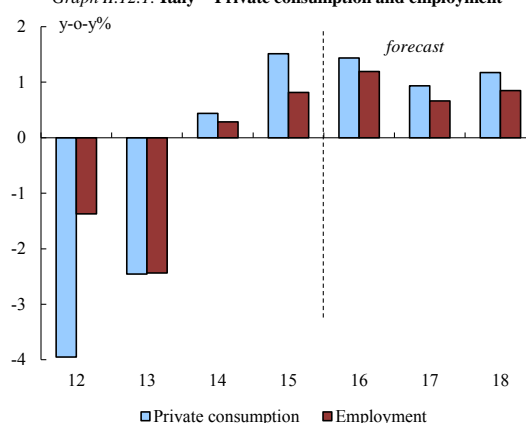
Real GDP is estimated to have grown by 0.9% in 2016 (up from 0.7% in 2015). Private consumption growth remained sustained thanks to employment growth and low energy prices. Tax incentives and low interest rates boosted equipment investment, while the recovery in construction investment remained sluggish. Exports and imports both slowed substantially, in line with global trade. Financing conditions continued to ease in 2016 and real interest rates on new loans reached historically low levels since the inception of the euro. Credit to the household sector expanded slightly, while SMEs and the construction sector still experience difficulties in access to credit. The bank lending survey for 2016-Q4 points to unchanged credit supply standards and no further improvement is expected for 2017-Q1 as regards firms. Looking forward, the banking sector's low profitability and high burden of NPLs are likely to hold back credit growth.

In 2017, annual real GDP growth is forecast at 0.9%, mainly as a result of supportive monetary policy and expected acceleration in global demand. Private consumption is set to benefit from further, although slower, employment creation. However, higher energy prices affect real disposable income and imply some deceleration in consumption compared to 2016. Investment is set to increase by 2.4%, as it benefits from measures in the 2017 Budget, which extended tax incentives and widened their scope to digital investment, and from the Investment Plan for Europe. Still, persistent structural weaknesses are expected to hamper a stronger recovery of investment. Exports are set to take advantage of stronger external demand. Imports are set to accelerate due to higher domestic demand, particularly for investment.

In 2018, annual real GDP growth is set to continue at a similar pace (1.1%) sustained by both domestic and external demand developments. The current-account surplus is projected to decline

from 2.7% of GDP in 2016 to 1.8% in 2018, also due to higher import prices, with the forecast increase in savings more than offset by stronger investment. Political uncertainty and the banking sector's slow adjustment pose downside risks to the growth outlook. Yet, a stronger impulse could still occur from external demand.

Graph II.12.1: Italy - Private consumption and employment



#### The unemployment rate remains elevated

Past reforms, including a permanent reduction in labour taxation, are set to support employment in 2017 and 2018. Yet, net job creation is projected to slow down compared to the 2015-2016 period, when it was boosted by a three-year reduction in social contributions. Over the forecast horizon, employment growth is set to be stronger in terms of working hours than headcount, partly because of diminishing arrangements to reduce working time. This implies, together with higher labour force participation, that the unemployment rate is set to remain above 11% over the forecast horizon. High unemployment and subdued inflation expectations are set to curb labour cost pressure in 2017 and 2018. Recent wage agreements in the metal and other sectors seem to confirm this. Overall, nominal unit labour costs are set to slightly increase in 2017, with some acceleration in 2018 due to expiring tax incentives.

### Energy prices drive headline inflation

In 2016, HICP headline inflation was close to zero for the third year in a row due to a further decline in energy prices and moderate core inflation. As energy prices rise, inflation is set to climb to 1.4% in 2017 and stabilise in 2018. On the back of moderate wage developments and further recovery in profit margins, core inflation is expected to gradually increase (from 0.5% in 2016 to 1.2% in 2018).

### Broadly stable deficit- and debt-to GDP ratios

The general government deficit is expected to turn out at 2.3% of GDP in 2016, down from 2.6% in 2015, mainly thanks to lower interest expenditure. Current primary expenditure is estimated to have increased by around 1.5% in nominal terms. Revenues remained broadly stable, resulting in a reduction in the tax burden. This was mainly due to the lower labour tax wedge and the abolition of property tax on primary residences.

In 2017, the deficit is set to broadly stabilise to 2.4% of GDP, as current primary expenditure and current revenues are both expected to increase by around 1.5% in nominal terms. The 2017 Budget

provided for higher pension expenditure, but past reforms and moderate increases in public wages and healthcare expenditure are set to keep current primary expenditure in check. The budget also supports public investment. In 2017, the tax burden is set to further decline thanks to the reduction in the corporate income tax rate to 24% from 27.5%. The Commission takes positive note of the government's public commitment to adopt additional fiscal measures worth overall 0.2% of GDP by April 2017. These will be taken into account as soon as sufficient details are available to assess the specific provisions to be enacted.

In 2018, under a no-policy-change assumption, the deficit is forecast to increase to 2.6% of GDP, also due to a lower tax burden. The 2017 Budget includes measures with a deficit-increasing impact in 2018, such as the introduction of a flat tax on entrepreneurial income of small firms (IRI).

The government debt-to-GDP ratio is estimated to have increased to 132.8% in 2016 partly due to an increase in the liquidity buffer. A further slight increase is expected also in 2017 partly due to the additional resources earmarked for the public support to the banking sector and retail investors.

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	0.9	0.9	1.1
Private Consumption	1001.8		61.0	0.8	-2.5	0.4	1.5	1.4	0.9	1.2
Public Consumption	311.0		18.9	0.8	-0.3	-0.9	-0.6	0.6	0.2	0.4
Gross fixed capital formation	273.4		16.6	0.3	-6.6	-3.0	1.3	1.9	2.4	3.1
of which: equipment	95.1		5.8	0.7	-8.2	0.9	4.3	4.8	4.6	3.7
Exports (goods and services)	493.7		30.1	2.2	0.7	2.9	4.3	1.5	3.0	3.2
Imports (goods and services)	443.1		27.0	2.7	-2.4	3.3	6.0	2.1	3.9	4.3
GNI (GDP deflator)	1633.3		99.4	0.6	-1.8	0.3	0.2	1.3	0.9	1.1
Contribution to GDP growth:		Domestic demand		0.7	-2.8	-0.4	1.0	1.3	1.0	1.3
		Inventories		0.0	0.2	0.6	0.1	-0.3	0.1	0.0
		Net exports		0.0	0.9	0.0	-0.4	-0.1	-0.1	-0.2
Employment				0.3	-2.4	0.3	0.8	1.2	0.7	0.8
Unemployment rate (a)				8.7	12.1	12.7	11.9	11.7	11.6	11.4
Compensation of employees / f.t.e.				2.5	1.3	-0.2	0.4	0.0	0.8	1.5
Unit labour costs whole economy				2.2	0.6	0.0	0.5	0.3	0.5	1.2
Real unit labour cost				0.0	-0.6	-0.8	-0.2	-0.6	-0.4	0.1
Saving rate of households (b)				13.8	11.0	11.1	10.4	11.0	11.1	11.5
GDP deflator				2.2	1.2	0.9	0.6	0.9	0.9	1.1
Harmonised index of consumer prices				2.3	1.2	0.2	0.1	-0.1	1.4	1.3
Terms of trade goods				-0.6	1.8	3.3	4.0	2.8	-2.1	-0.4
Trade balance (goods) (c)				0.6	2.2	2.9	3.2	3.5	3.0	2.7
Current-account balance (c)				-0.8	1.0	1.9	1.6	2.7	2.1	1.8
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.6	1.0	2.1	1.8	2.9	2.4	1.9
General government balance (c)				-3.2	-2.7	-3.0	-2.6	-2.3	-2.4	-2.6
Cyclically-adjusted budget balance (d)				-3.2	-0.4	-1.0	-1.1	-1.4	-1.9	-2.6
Structural budget balance (d)				-	-0.9	-1.2	-1.0	-1.6	-2.0	-2.5
General government gross debt (c)				107.6	129.0	131.9	132.3	132.8	133.3	133.2

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

## 13. CYPRUS

### Robust recovery with mild deceleration ahead

*Cyprus is experiencing a solid economic recovery and growth is expected to remain robust, although it looks set to slow slightly. Inflation is projected to turn moderately positive this year and the labour market is expected to perform strongly. Banks remain burdened by non-performing loans, despite the ongoing deleveraging efforts. The general government position is expected to remain broadly balanced.*

#### Healthy growth in 2016

The economy of Cyprus is expected to register growth of 2.8% in real terms in 2016. After a strong first half of the year, 2016-Q3 recorded a 2.9% (y-o-y) increase and incoming data suggest that the momentum continued in the fourth quarter.

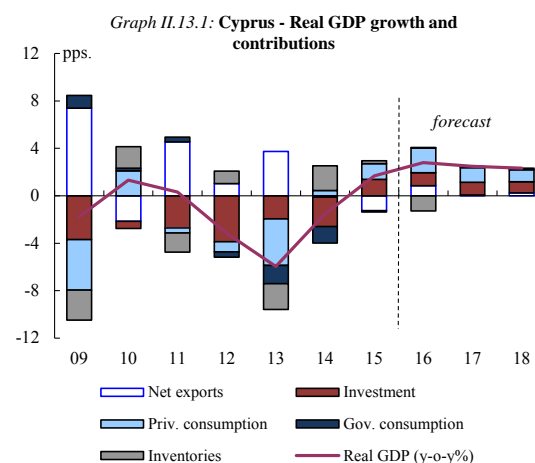
Private consumption led real GDP growth, supported by declining consumer prices, increasing employment, and rising disposable income. Net exports also contributed positively to growth. Service exports were particularly strong, as Cyprus experienced a record-high tourism season, benefitting from geopolitical tensions in competing destinations and successful efforts to extend the tourist season. Meanwhile, imports grew less than expected, with a contraction of imported services recorded in 2016-Q3. With the turn of the economic cycle, accumulated inventories started being used up in 2016, resulting in a negative contribution to real GDP. Investment was volatile, influenced by acquisitions in shipping equipment.

#### Growth momentum set to continue

Real GDP growth is projected to remain robust but to decelerate to 2.5% in 2017 and 2.3% in 2018. Among the underlying reasons is inflation, which will turn positive for the first time in two years. Annual HICP inflation is projected to amount to 1.2% in 2017 and 1.1% in 2018. The increase in 2017 is projected to be largely driven by higher energy prices and, to a lesser extent, robust domestic demand, resulting in upward price pressures. In 2018, the effects from energy prices are expected to fade away, but domestic price pressures are projected to intensify as the economic recovery continues. Domestic demand will continue to be the main driver of growth, especially private and public consumption. A stabilising real estate market, together with increased foreign direct investment, is likely to provide some lift for investment. However, as banks are burdened with a very high share of non-performing loans, credit remains scarce. Thus, corporates are expected to continue to use their

internal resources to finance investment. Similarly, households are expected to continue using accumulated wealth to fund part of their expenditure and the household saving rate is expected to remain negative over the forecast horizon. Given the limited room to further expand the tourism sector, exports are expected to grow less dynamically and the contribution of net exports to growth is expected to be negligible.

Risks to the outlook remain, mainly associated with the UK referendum and the depreciation of the pound (the UK is one of Cyprus' major trading partners), as well as the geopolitical situation in competing tourist destinations. While limited in the short term, these risks may significantly increase in the medium term. In addition, the large share of non-performing loans and their restructuring could lead to a prolonged period of tight credit, dampening growth.



#### Improving labour market

Employment is estimated to have increased by 2.7% in 2016, across most sectors. With the ongoing recovery, job creation is expected to continue in the coming years. The unemployment rate, however, remained higher than previously expected. This is partially explained by revisions in past data, but also by the return of discouraged workers to the active labour force.

### Fiscal policy to ease over the forecast horizon

In 2016, the general government primary balance is expected to improve further, reaching a surplus of 2.5% of GDP which corresponds to an almost balanced headline general government position. The general government primary balance, excluding one-off measures recorded in 2015 related to the recapitalisation of the banking sector, is expected to show a deterioration of 0.2 pps. of GDP in 2016. This is mostly due to a significant reduction in property tax on the revenue side and the effect of the partial switch to professional soldiers and continued reduction in intermediate consumption and interest expenditures on the general government expenditure side.

In 2017, the general government primary surplus is forecast to decrease marginally to 2.2% of GDP, which corresponds to a general government headline deficit of 0.2% of GDP. Total expenditures are expected to diminish by 0.4 pps. of GDP led by intermediate consumption and interest expenditures, while compensation of employees is forecast to increase despite the freeze on public sector hiring (due mainly to the full effect of the switch to professional soldiers). Total revenues are influenced by a combination of new

fiscal policy measures as well as the full year impact of the measures enacted in 2016. 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 place-of-supply rules regarding VAT for e-commerce services is also expected to have a negative impact on government revenue in 2017.

In 2018, the expected improvement in the general government headline balance should be largely driven by the improving economic outlook and the slight reduction, in percentage of GDP terms, in intermediate consumption, interest expenditure and most social transfers.

The structural balance is expected to deteriorate over the forecast horizon as there has been some loosening in the fiscal policy, taking into account the current cyclical position of the Cypriot economy. Public debt remains high but declining and is expected to fall just below 100% of GDP in 2018. The decline in the debt-to-GDP ratio over the forecast period is due mainly to expectations of better primary surpluses.

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	3.0	1.8	1.4
Public Consumption	2772.2	15.7		4.5	-8.2	-7.9	-0.6	0.3	0.7	0.8
Gross fixed capital formation	2347.3	13.3		0.4	-12.9	-17.5	12.0	8.3	7.4	6.3
of which: equipment	813.3	4.6		-0.5	-16.3	-34.8	94.1	13.7	7.0	6.0
Exports (goods and services)	10797.1	61.2		1.7	2.1	4.2	0.0	6.5	4.6	3.8
Imports (goods and services)	10738.1	60.9		1.9	-4.8	4.6	2.1	5.1	4.7	3.6
GNI (GDP deflator)	17574.7	99.6		2.7	-7.5	-0.6	5.2	0.8	2.3	2.1
Contribution to GDP growth:										
Domestic demand				3.0	-7.4	-3.4	2.6	3.2	2.4	2.1
Inventories				0.0	-2.2	2.1	0.3	-1.3	0.0	0.0
Net exports				-0.2	3.7	-0.1	-1.3	0.8	0.1	0.2
Employment				1.8	-5.9	-1.9	0.8	2.7	2.2	1.8
Unemployment rate (a)				5.4	15.9	16.1	15.0	13.3	12.0	11.0
Compensation of employees / head				3.9	-5.4	-3.6	-0.5	0.1	0.9	1.5
Unit labour costs whole economy				2.8	-5.4	-4.0	-1.5	0.0	0.6	0.9
Real unit labour cost				0.0	-4.4	-2.5	-0.2	1.0	-0.4	-0.3
Saving rate of households (b)				6.8	-3.3	-7.9	-5.7	-3.7	-2.3	-0.8
GDP deflator				2.8	-1.0	-1.5	-1.3	-1.0	1.0	1.2
Harmonised index of consumer prices				2.6	0.4	-0.3	-1.5	-1.2	1.2	1.1
Terms of trade of goods				0.1	0.2	7.1	3.2	3.9	0.3	-0.1
Trade balance (goods) (c)				-24.1	-16.2	-16.0	-18.0	-18.7	-20.8	-21.2
Current-account balance (c)				-8.5	-4.9	-4.4	-3.0	-1.6	-2.1	-2.3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-8.2	-3.5	-3.5	-2.7	-1.3	-1.8	-1.9
General government balance (c)				-3.2	-4.9	-8.8	-1.1	0.0	-0.2	0.4
Cyclically-adjusted budget balance (d)				-	-1.2	-5.5	0.9	0.5	-0.7	-0.9
Structural budget balance (d)				-	-0.5	3.0	1.7	0.6	-0.7	-0.9
General government gross debt (c)				58.4	102.2	107.1	107.5	107.4	103.2	99.6

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

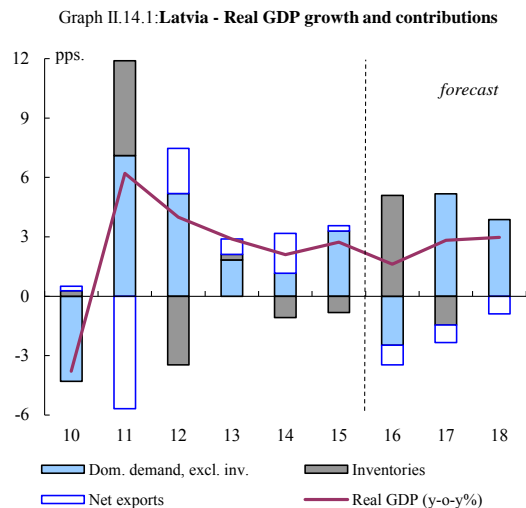
## 14. LATVIA

### Investment temporarily weighs on growth

*Latvia's economy is expected to have showed a subdued growth of 1.6% in 2016 due to a drop in investment, linked to delays in the use of EU investment funds. However, investment is expected to bounce back and push growth to around 3% over the forecast horizon. The government position improved to a balance in 2016, but is projected to record a deficit of 1% of GDP in 2017 and 2018.*

#### Growth in 2016 remained below expectations

In 2016 GDP growth was supported by private consumption and exports but investment plummeted. In particular, delays in the implementation of EU-funded projects, related to the changeover to a new programming period, had a marked impact in the construction sector. Investment is expected to pick up over the next two years as these delays come to an end. Overall, economic growth is expected to improve from 1.6% in 2016 to 2.8% in 2017 and 3.0% in 2018, returning to the trend of a catching-up economy. 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.



#### Construction is set to resume after a sharp fall

In the first three quarters of 2016, investment in construction dropped dramatically. This downturn affected investment in civil engineering the most. It contracted by more than one third in the first three quarters compared with the year before. Residential and non-residential buildings were also affected (-8% and -5% y-o-y respectively). This decrease in construction is for a large part linked to the slower use of EU funds. Yet, investment in equipment goods also dropped in 2016. The pick-

up in EU-funded investment and low interest rates should support the resumption of investment growth in the coming quarters.

#### The external position to turn to a deficit

The trade deficit has been increasing in volume terms as domestic demand outpaced external demand. As a consequence, trade weighed on growth in 2016 and its contribution to GDP growth is expected to remain negative over the forecast horizon. In nominal terms, low energy prices on the import side brought the current-account close to balance in 2016. In 2017 and 2018, higher energy prices are expected to lead to a current-account deficit of -3.3% by 2018.

#### Both unemployment and employment declined in 2016

In 2016, the unemployment rate gradually declined to 9.5%. However, employment also slightly declined, as Latvia suffers from adverse demographic dynamics negatively affecting both its overall population and its working age population. Tightening labour supply combined with regained economic growth should support a further decline in the unemployment rate, down to 9.0% by 2018. It should also support the continuation of wage increases over the forecast horizon. The accumulated wage gains in turn should support private consumption as the main driver of economic growth.

#### Inflation to return to normal

In 2016, inflation remained subdued at 0.1%. This low rate was driven by falling energy prices while non-energy prices hovered closer to 2%. With energy prices projected to rise again, the inflation is forecast to reach 1.9% in 2017 and 2.0% in 2018.

#### Fiscal deficit is projected to increase

The general government is estimated to have reached a balanced position in 2016, significantly



outperforming the 0.8% of GDP deficit estimated in the autumn 2016 forecast. Revenue from excise duties and corporate income tax exceeded expectations. VAT revenue growth was stronger than suggested by its tax base, showing signs of a better tax collection. Moreover, non-tax revenue was stronger than planned, including a one-off receipt from confiscated illicit money (0.2% of GDP). Notable savings were on purchases of goods and services and on EU budget contributions, while social expenditure surpassed the budgetary plans. Public capital spending is estimated to have temporarily dropped by almost 30%, linked to the transition to the new programming period for EU investment financing.

In 2017, the government deficit is projected to increase to 1.0% of GDP as significant expenditure growth is expected to only be partly offset by revenue increases. Expenditure growth is driven by the resumption in capital spending, the decision to increase expenditure for health, internal security and education, as well as a further increase in social expenditure. The latter is driven by both a higher number of recipients and an increase in the level of contribution-based benefits. Tax-revenue-to-GDP ratio is projected to rise on the back of the strong growth in wages and private consumption

and due to revenue-increasing measures. An increase in the micro enterprise tax rate should yield 0.2% of GDP. Moreover, improvements in tax collection and indirect tax increases are expected to more than offset lower revenue collected from state-owned enterprises.

Under a no-policy-change assumption, the government deficit is projected to remain unchanged at 1.0% of GDP in 2018. The structural deficit is expected at 1½% of GDP in 2017 and 2018, after an improvement to ¾% of GDP in 2016. Risks to the budgetary projections are related to the statistical accounting of public capital injections.<sup>(50)</sup> Moreover, the election cycle and a possible upsurge in construction costs along with the pick-up in investment demand could still bring negative surprises for public finances.

The government debt-to-GDP ratio is forecast to decline from 39.4% of GDP in 2016 to around 35% of GDP in 2018, as accumulated cash balances are used for debt repayment and as nominal GDP growth exceeds the government's net borrowing.

<sup>(50)</sup> The forecast excludes any possible deficit-increasing effects of the 2016 capital injections in the national airline Air Baltic and the wind-down of the bad-bank Reverta in 2017.

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	1.6	2.8	3.0
Private Consumption	14863.9		61.0	3.9	5.0	1.3	3.5	3.6	3.9	3.9
Public Consumption	4395.2		18.1	1.7	1.6	2.1	3.0	1.7	3.0	2.5
Gross fixed capital formation	5496.8		22.6	8.4	-6.0	0.1	2.8	-22.0	13.0	4.9
of which: equipment	2168.8		8.9	8.9	-5.4	-10.9	9.8	-11.7	7.1	3.4
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	3.6	4.1	4.5
GNI (GDP deflator)	24290.1		99.8	4.4	3.4	2.2	2.6	1.5	2.8	3.0
Contribution to GDP growth:		Domestic demand		5.3	1.8	1.2	3.3	-2.5	5.2	3.9
		Inventories		0.1	0.3	-1.1	-0.8	5.1	-1.5	0.0
		Net exports		-0.7	0.8	2.0	0.3	-1.0	-0.9	-0.9
Employment				-0.5	2.3	-1.4	1.3	-0.2	0.3	0.5
Unemployment rate (a)				12.9	11.9	10.8	9.9	9.7	9.5	9.0
Compensation of employees / head				9.6	5.5	8.6	6.9	4.8	5.3	5.5
Unit labour costs whole economy				4.5	4.9	4.9	5.4	2.9	2.7	2.9
Real unit labour cost				-0.9	3.5	3.3	5.0	2.3	1.2	0.3
Saving rate of households (b)				1.6	-4.5	-3.5	-2.2	-1.5	-1.5	-1.6
GDP deflator				5.4	1.3	1.5	0.4	0.6	1.5	2.6
Harmonised index of consumer prices				4.8	0.0	0.7	0.2	0.1	1.9	2.0
Terms of trade of goods				-0.3	1.3	-0.9	2.4	3.3	-2.1	-0.3
Trade balance (goods) (c)				-16.8	-11.2	-9.3	-8.4	-7.4	-9.3	-10.2
Current-account balance (c)				-8.3	-2.1	-2.0	-0.8	-0.1	-2.5	-3.3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.2	0.4	1.2	2.0	1.8	-0.3	-0.8
General government balance (c)				-2.5	-0.9	-1.6	-1.3	0.0	-1.0	-1.0
Cyclically-adjusted budget balance (d)				-2.4	-0.9	-1.9	-1.6	-0.5	-1.6	-1.6
Structural budget balance (d)				-	-0.9	-1.5	-1.6	-0.7	-1.6	-1.6
General government gross debt (c)				19.7	39.0	40.7	36.3	39.4	36.5	35.0

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



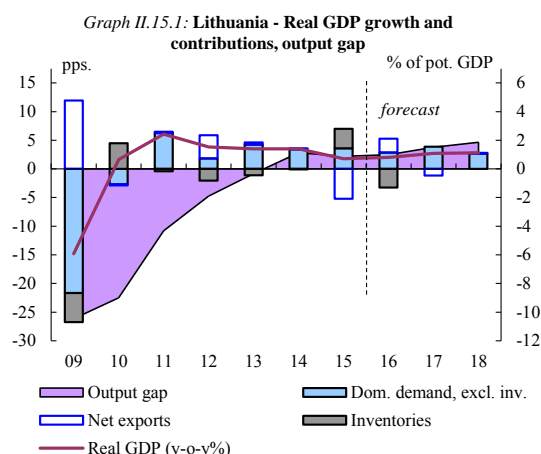
## 15. LITHUANIA

### Investment set to drive growth in 2017

*Investment and exports are set to raise GDP growth from 2.0% in 2016 to 2.9% in 2017. Meanwhile, private consumption growth is forecast to slow in 2017 and 2018 as rising inflation weighs on disposable incomes. Employment growth is expected to slow down considerably as labour supply nears its peak. The general government deficit is set to rise in 2017 as a result of structural reforms.*

#### Private consumption drives growth in 2016

Real GDP is expected to have grown by 2.2% in 2016, improving upon 1.8% growth in 2015. While private consumption growth remained strong, investment was negatively affected by reduced disbursements due to the changeover in the EU fund planning period. A strong performance of the service sector drove export growth in 2016, while import growth was subdued. Inflation sped up markedly as energy price inflation turned positive again.



#### Recovering investment set to lift growth

Real GDP growth is forecast to increase to 2.9% in 2017 and 2.8% in 2018. As the flow of investment projects co-financed by the EU returns to normal level, both private and public investment are forecast to rebound and drive growth in 2017. Private consumption growth, by contrast, is set to slow down in 2017, as the increase in disposable incomes linked to rapid wage growth and lower taxes is more than offset by limited employment growth and rising inflation.

The strong momentum in the growth of service export is expected to continue in 2017. Goods exports are also forecast to pick up as EU demand accelerates. However, constantly rising real unit labour costs will make it increasingly hard to gain market share. Meanwhile, import growth is

expected to recover in step with investment and exports in 2017 and then to slow down somewhat in 2018. Overall, the growth contribution of net exports is expected to turn negative in 2017 before balancing out in 2018.

Risks to the forecast are tilted to the downside and mainly linked to European and global uncertainties, such as the future of negotiations between the EU and the United Kingdom.

#### The labour market is set to tighten further

Thanks to strong employment growth, the unemployment rate fell sharply in 2016. At the same time, the labour force expanded as more people continued working past their retirement age. While employment growth is expected to slow down considerably in 2017, the unemployment rate should further improve due to a shrinking labour force. Consequently, wage growth is unlikely to slow down over the forecast horizon.

#### Energy prices drive inflation

Annual HICP inflation is forecast to increase from 0.7% in 2016 to 2.1% in 2017 on the back of strong services inflation and recovering energy prices. While energy price inflation is expected to spike in 2017 before slowing down in 2018, the tightening labour market and growing wages are expected to keep service price inflation strong throughout over the forecast horizon.

#### Structural reform costs to increase the deficit

Lithuania's general government deficit is expected to increase to 0.5% of GDP in 2016 from 0.2% of GDP in 2015 due to an increase in non-taxable incomes, pensions and some public wages, as well as the loss of one-off revenues from the deposit insurance scheme's surpluses. Continued strong employment and wage growth has lifted tax revenues above the government's initial plan, cutting the planned headline deficit in half.

For 2017, the general government deficit is forecast to increase to 0.7% of GDP. The increase mostly results from the costs of structural reforms related to labour market and pensions (0.5% of GDP). Some new discretionary fiscal measures, in particular an increase in the non-taxable income threshold and in public wages and pensions, are also set to widen the deficit. On the revenue side, a set of tax increases and efforts to improve tax compliance are expected to offset part of revenues losses stemming from cuts in personal income taxes, while the boost in revenues from tax rich economic growth is set to offset part of the higher spending on public wages and pensions.

Assuming a no-policy-change scenario, the general government deficit is forecast to stay at 0.7% of GDP in 2018.

Risks to the public finance forecast are tilted to the upside, due to expectations of robust growth in the tax base, but only if expenditure growth is contained.

Lithuania's structural deficit is expected to increase to 1% of GDP in 2016 and to about 1½% of GDP in 2017 due to the costs of the structural reforms. It is expected to stay at 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 43.5% of GDP due to the end of year pre-financing of forthcoming bond redemptions in 2018 but should fall back to 39.6% in 2018.

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	2.2	2.9	2.8	
Private Consumption	23.6	63.2	4.7	4.3	4.3	4.1	5.3	4.0	2.6	
Public Consumption	6.6	17.6	1.3	0.7	0.3	0.9	1.1	2.2	2.1	
Gross fixed capital formation	7.2	19.3	6.0	8.3	3.7	4.7	-1.2	6.0	3.0	
of which: equipment	2.3	6.2	7.9	12.5	0.5	6.0	8.0	6.1	3.0	
Exports (goods and services)	28.3	75.9	9.5	9.6	3.5	-0.4	2.6	3.4	3.7	
Imports (goods and services)	28.6	76.5	9.1	9.3	3.3	6.2	2.2	5.1	3.5	
GNI (GDP deflator)	35.8	96.0	4.3	4.0	4.9	-1.0	2.5	3.0	2.9	
Contribution to GDP growth:										
Domestic demand			4.9	4.3	3.4	3.6	3.3	4.1	2.6	
Inventories			0.2	-1.1	-0.1	3.4	-1.4	0.0	0.0	
Net exports			-0.4	0.3	0.2	-5.2	0.3	-1.2	0.1	
Employment			-1.0	1.3	2.0	1.3	1.8	0.5	0.1	
Unemployment rate (a)			11.9	11.8	10.7	9.1	8.0	7.5	7.1	
Compensation of employees / head			8.3	5.4	4.7	5.3	5.5	6.1	6.3	
Unit labour costs whole economy			2.6	3.1	3.2	4.8	5.1	3.7	3.6	
Real unit labour cost			-0.7	1.7	2.2	4.6	3.3	1.5	1.2	
Saving rate of households (b)			3.9	2.1	-0.6	-1.9	-2.4	-1.8	-0.5	
GDP deflator			3.4	1.4	1.0	0.2	1.7	2.1	2.3	
Harmonised index of consumer prices			3.5	1.2	0.2	-0.7	0.7	2.1	1.9	
Terms of trade goods			1.0	0.0	0.6	3.2	0.0	-0.5	-0.1	
Trade balance (goods) (c)			-10.4	-2.6	-2.6	-5.3	-5.3	-7.0	-7.0	
Current-account balance (c)			-6.9	1.4	3.8	-2.2	-1.6	-2.9	-2.6	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.5	4.5	6.5	0.8	-0.5	-1.3	-0.8	
General government balance (c)			-3.8	-2.6	-0.7	-0.2	-0.5	-0.7	-0.7	
Cyclically-adjusted budget balance (d)			-3.7	-2.5	-1.1	-0.5	-0.9	-1.4	-1.5	
Structural budget balance (d)			-	-2.1	-1.5	-0.6	-1.0	-1.4	-1.5	
General government gross debt (c)			23.1	38.7	40.5	42.7	40.8	43.5	39.6	

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

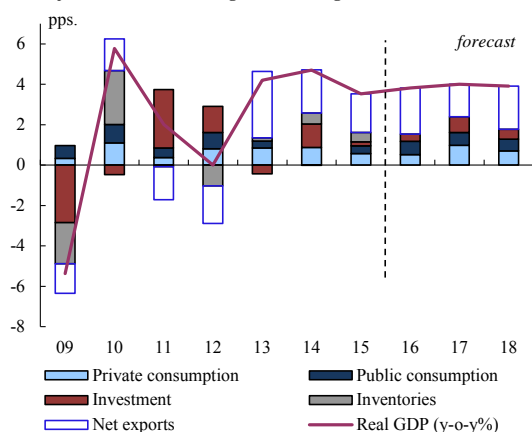
## 16. LUXEMBOURG

### Strong broad-based growth

*Luxembourg's growth is expected to remain close to 4% throughout the forecast horizon. In line with the recovery in oil prices, inflation is projected to rebound. Employment growth will remain solid, while unemployment is expected to decrease only marginally. Even after a tax reform, that will decreased the tax burden overall, public finances are projected to remain sound.*

After a relatively weak performance in the first quarter of 2016, closely related to the negative evolution of financial markets at the beginning of the year, economic activity gained momentum in the following two quarters, supported by a sharp improvement in the net exports of services, particularly financial services. Based on available soft and hard indicators signalling a surge in the confidence of both households and corporations, growth is likely to come in strong in the last quarter of the year. Over 2016 as a whole, Luxembourg's economic growth is expected to have slightly accelerated to 3.8% from 3.5% in 2015.

Graph II.16.1: Luxembourg - Real GDP growth and contributions



In 2017, GDP growth is expected to rise to 4.0%. An improvement in household disposable income should support private consumption expansion growth, as disposable incomes benefit from the tax-decreasing reform that took effect at the start of the year. Favourable financial conditions and strong employment prospects should also outweigh the impact of higher oil prices. Finally, household purchasing power should also benefit from indexed wage increases, which took place at the beginning of the year. Favourable lending conditions are projected to continue boosting investment. In particular, construction is expected to remain robust over the forecast period, supported both by household and public sector investment plans, the latter being engaged with the execution of large

public infrastructure projects. In line with a recovery in capacity utilisation rates and the accommodative credit stance, an improvement in equipment investment is also expected. In light of the high share of import content in investment, a slight decrease in the growth contribution of net exports is expected in 2017.

In 2018, as the impact of the tax reform on households' purchasing power is set to fade away, private consumption is expected to lose some momentum. Economic growth is then projected to be sustained by a recovery in the external environment, especially the euro area, and growth is projected to ease to 3.9%.

#### Job creation remains robust

In 2016, employment growth is expected to have accelerated to 3.0% from 2.6% in 2015. In line with the buoyant economic outlook, job creation is projected to remain robust both in 2017 and 2018. As non-residents are likely to benefit more than residents, the labour market developments will prove to be insufficient to substantially lower the unemployment rate, which will gradually decrease to 6.1% by the end of the forecast horizon from 6.5% in 2015. The unemployment rate is then forecast to stabilise at that level by the end of the forecast horizon.

#### A rebound in inflation

Headline HICP inflation turned out flat in 2016, mainly because of the pronounced drop in oil prices. As oil prices bottomed out at the beginning of 2016 and since then have progressed substantially, a rebound in inflation is projected in 2017 and in 2018, respectively to 2.0% and 2.1%. The automatic indexation of wages, triggered at the start of 2017, is expected to be triggered again in the course of next year. Increases in the headline inflation are then expected to gradually push up core inflation, which is projected to increase to 1.6% in 2017 and to hit 2.1% in 2018.

### Public finances remain sound

In 2016, the general government balance is expected to post a surplus of 1.6% of GDP. Low inflation combined with the incremental impact of saving measures adopted with the 2015 budget will help to contain expenditure, in spite of the high level of public investment maintained by the authorities. At the same time, revenues remained firm in line with the robust economic growth projected.

The general government balance is then expected to shrink to a small surplus of 0.2% of GDP in 2017, mostly due to the impact of the tax reform that took effect at the beginning of the year. In addition to repealing the temporary budgetary levy introduced in 2015, tax brackets were revised to become less progressive, while two new tax brackets for high revenues were introduced. In addition, tax credits related to house purchases were increased. Moreover, the corporate income tax rate was reduced from 21% to 19% in 2017 and to 18% from 2018. A more favourable tax treatment for small enterprises was also introduced. All in all, the tax reform is 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 surplus of the general government balance is projected to edge up to 0.3% of GDP in 2018.

The general government's structural surplus, mirroring the drop in the headline balance and in the light of the closing of the output gap towards the end of the forecast period, is expected to narrow by about 2 pps. of GDP over the forecast horizon, still remaining in positive territory.

Luxembourg debt-to-GDP ratio is expected to decrease from 22.1% of GDP in 2015 to 21.0% of GDP in 2016. It is then projected to increase to 23.5% of GDP over the forecast horizon in spite of the regular primary surplus. The surplus of the social security sector cannot be used to finance the deficit of the central government, which is projected to widen from 2017 onward as for effect of the tax reform and thus has to be financed with new debt issuance.

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	3.8	4.0	3.9
Private Consumption	15702.8	30.7		2.9	2.6	2.7	1.8	1.7	3.3	2.4
Public Consumption	8553.9	16.7		4.0	1.9	0.0	2.3	4.0	3.9	3.4
Gross fixed capital formation	9719.0	19.0		4.9	-2.1	6.0	1.0	1.9	4.2	2.7
of which: equipment	3349.4	6.5		8.1	-6.2	6.1	-12.7	1.1	5.4	2.1
Exports (goods and services)	120658.0	235.6		6.3	6.3	12.1	12.8	3.8	4.7	4.9
Imports (goods and services)	103749.5	202.6		6.6	5.3	13.1	14.0	3.3	4.7	4.7
GNI (GDP deflator)	33335.1	65.1		2.6	0.2	4.4	0.6	6.5	3.4	4.4
Contribution to GDP growth:										
Domestic demand				2.7	0.8	2.0	1.1	1.5	2.4	1.8
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	2.3	1.6	2.1
Employment				3.4	1.8	2.6	2.6	3.0	2.9	2.7
Unemployment rate (a)				3.8	5.9	6.0	6.5	6.3	6.2	6.2
Compensation of employees / head				3.0	2.3	2.6	0.9	0.4	3.1	2.4
Unit labour costs whole economy				2.5	0.0	0.5	0.1	-0.3	2.0	1.1
Real unit labour cost				0.2	-1.3	-1.0	-0.3	-1.9	0.2	-1.0
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.3	1.3	1.5	0.4	1.6	1.8	2.2
Harmonised index of consumer prices				2.5	1.7	0.7	0.1	0.0	2.0	2.1
Terms of trade of goods				0.3	-0.9	1.1	2.0	0.2	-0.3	0.2
Trade balance (goods) (c)				-6.9	-1.0	1.3	3.4	3.5	3.0	3.0
Current-account balance (c)				8.8	5.6	5.1	5.2	5.3	4.9	5.8
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	3.8	2.9	4.1	5.8	5.5	6.4
General government balance (c)				2.0	1.0	1.5	1.6	1.6	0.2	0.3
Cyclically-adjusted budget balance (d)				1.9	2.6	2.5	2.5	2.2	0.4	0.3
Structural budget balance (d)				-	2.6	2.5	2.3	2.2	0.4	0.3
General government gross debt (c)				10.7	23.5	22.7	22.1	21.0	23.1	23.5

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

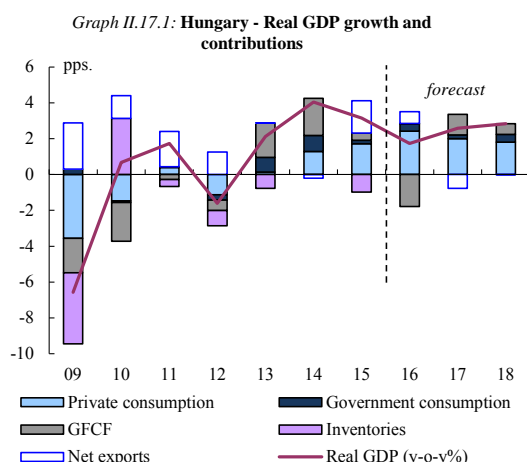
## 17. HUNGARY

### High private consumption and rebounding investment

*Hungary's real GDP growth declined in 2016 but is forecast to strengthen again in 2017 and 2018. Unemployment is set to continue falling and inflation is forecast to rise towards the central bank's target. The country's fiscal stance is projected to loosen.*

#### Domestic demand depends on household consumption

Real GDP growth temporarily declined in 2016 to an estimated 1.9%. This was, mainly due to a 12.7% drop in investment in the first three quarters of the year which was associated with the changeover to a new planning period for EU investment funding. Despite this contraction, domestic demand growth remained positive, as private consumption grew by a robust 4.8% on the back of accelerating wage growth and growing employment. Trade flows remained strong, with imports and exports rising by 7.4% and 6.7% respectively in the first three quarters of 2016.



In November 2016, the government and social partners agreed to substantially increase the minimum wage and to decrease employers' social security contributions in both 2017 and 2018. The corporate income tax rate was cut from 19% for large companies and 10% for SMEs to a single rate of 9% for all companies. This is expected to have a positive effect on growth as higher wages boost consumption and lower taxes boost investment. At the same time, the rise in the minimum wage may also drive firms to substitute labour with capital.

GDP growth is expected to reach 3.5% in 2017 and 3.2% in 2018. Investment is also expected to pick up as investment funds from the EU are put to use. 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. Consumer confidence is at a post-crisis high, and further positive developments are expected in lending to households and from the second-round effects of an improved housing market scheme; factors which support household investment from 2017 onwards.

Net exports contributed positively to growth until 2016 but are forecast to turn negative in 2017, when the pick-up in domestic demand stimulates imports. Hungary's relative trade performance is set to weaken slowly in line with increasing unit labour costs, which should start putting pressure on price competitiveness.

#### Unemployment continues to fall while inflation picks up gradually

The unemployment rate is estimated to have fallen to 5.2% in 2016, and is projected to decrease further by an additional 1 pp. over the forecast horizon. This is because the labour market is already tight, with increasing skill mismatches. Consequently, there is significant pressure on wage growth, adding to the wage pressure stemming from the minimum wage increase. This leads to a sizeable expansion in real incomes. However, as higher minimum wages will encourage firms to replace workers with capital, the tightening of the labour market will be mitigated. Nominal gross wages are forecast to grow by around 8% per year over the forecast horizon. As the further expansion of labour shortages has already started to limit production, mainly in industry, construction and services, wage pressures are expected to become more prominent.

HICP inflation was slightly positive at 0.4% in 2016. In 2017, domestic demand is projected to push inflation up significantly, to 2.4%. In 2018, inflation is expected to reach and even overshoot the 3% target of the central bank.

### The general government deficit is set to increase

The 2016 general government deficit is expected to turn out at 1.8% of GDP, helped by strong tax dynamics and temporary revenues, even though planned one-off receipts from land sales were partly shifted to 2017. At the same time, expenditure on goods and services and on investment declined, considerably below budgeted levels. However, transfer payments to the private sector are forecast to have risen significantly, reflecting the reallocation of unspent appropriations towards the end of the year.

The headline deficit is forecast to rise to 2.4% of GDP in 2017. This reflects the effect of rising domestic co-financing for EU-funded projects, expenditure increasing measures and sizeable tax cuts, including a 5 pps. reduction in employer social security contributions. The deficit increasing measures are expected to be partly offset by declining social transfer payments and interest outlays, as well as by one-off revenues. Based on a no-policy-change assumption, the deficit is projected to increase further to 2.5 % of GDP in

2018. The forecast incorporates further cuts in social security contributions, while it is assumed that the stability reserves will not be spent.

The 2016 deficit outcome depends on the fiscal performance of local governments, about which there is still some uncertainty. Looking ahead, the forecast assumes that the planned increase in investment will not be fully implemented, but this assumption may not hold and is a negative risk for the deficit forecast this year and next. The fiscal effects of a new housing scheme and measures to improve tax collection efficiency are also sources of uncertainty.

The structural balance is estimated to deteriorate significantly, by about half a percentage point to -2¼% of GDP in 2016 and is expected to hit about -3½% in 2017. This reflects a widening positive output gap. The debt-to-GDP ratio is projected to decline steadily, by some 1 pp. in 2016 to around 73.5% and close to 71% by the end of 2018. The fall in debt is helped by the higher nominal GDP growth rate forecast, although lags in the cash payment of EU funds are expected to result in an adverse cash-flow adjustment 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	1.9	3.5	3.2
Private Consumption	16775.0		49.3	2.0	0.3	2.5	3.4	5.0	4.8	3.9
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	-9.6	10.0	5.0
of which: equipment	3077.7		9.1	4.7	2.6	20.5	2.2	-7.8	8.0	4.0
Exports (goods and services)	30846.2		90.7	10.5	4.2	9.8	7.7	6.7	5.0	5.9
Imports (goods and services)	27816.7		81.8	9.8	4.5	10.9	6.1	6.4	6.8	6.7
GNI (GDP deflator)	32404.2		95.3	2.2	3.6	2.4	2.6	3.9	2.5	2.8
Contribution to GDP growth:										
Domestic demand				2.0	2.9	4.3	2.3	0.8	4.5	3.3
Inventories				-0.2	-0.8	0.0	-1.0	0.2	0.0	0.0
Net exports				0.5	0.0	-0.2	1.8	0.9	-1.0	-0.1
Employment				-0.1	1.1	4.8	2.2	1.9	0.5	0.3
Unemployment rate (a)				8.0	10.2	7.7	6.8	5.2	4.8	4.5
Compensation of employees / head				8.4	1.6	1.3	1.6	5.0	6.1	5.6
Unit labour costs whole economy				6.0	0.6	2.1	0.7	5.1	3.0	2.6
Real unit labour cost				-0.7	-2.3	-1.2	-1.1	2.7	0.2	-0.5
Saving rate of households (b)				10.2	9.8	10.9	9.6	14.2	8.2	5.5
GDP deflator				6.8	2.9	3.4	1.7	2.3	2.8	3.2
Harmonised index of consumer prices				7.3	1.7	0.0	0.1	0.4	2.2	3.1
Terms of trade goods				-0.6	0.8	1.0	0.8	1.7	0.1	0.2
Trade balance (goods) (c)				-2.9	3.3	2.3	4.0	5.5	4.3	3.9
Current-account balance (c)				-5.3	3.8	2.0	3.1	5.4	3.7	3.2
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.5	7.4	5.8	7.8	7.0	6.5	6.6
General government balance (c)				-5.6	-2.6	-2.1	-1.6	-1.8	-2.4	-2.5
Cyclically-adjusted budget balance (d)				-5.6	-1.2	-1.7	-1.7	-1.9	-3.0	-3.6
Structural budget balance (d)				-	-1.3	-2.0	-1.7	-2.2	-3.4	-3.6
General government gross debt (c)				64.9	76.6	75.7	74.7	73.5	72.3	71.2

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



## 18. MALTA

### Economic activity to remain robust

*Malta's economic growth has settled down from the exceptional levels of 2014 and 2015 but is forecast to remain well above the EU average. Unemployment is set to remain at record lows while productivity gains contain unit labour costs and preserve competitiveness. The budget deficit is only expected to improve marginally, however, as growing tax revenues are largely offset by rising expenditure.*

In December 2016, annual real GDP growth for 2014 and 2015 was revised upwards to reach an average annual rate of 7.9% - the highest since EU accession. The revisions, which reflected additional information from the regular structural business surveys as well as the gaming sector, affected mainly external trade data, particularly service exports. As a result, net exports became the main driver of growth in 2014 and had a more moderate negative effect on growth in 2015. The revisions confirmed that investment was the main growth engine in 2015, largely boosted by one-off factors. On the supply side, professional services and gaming made the strongest contribution to the expansion of gross value added over these years.

#### Economy settling down gently

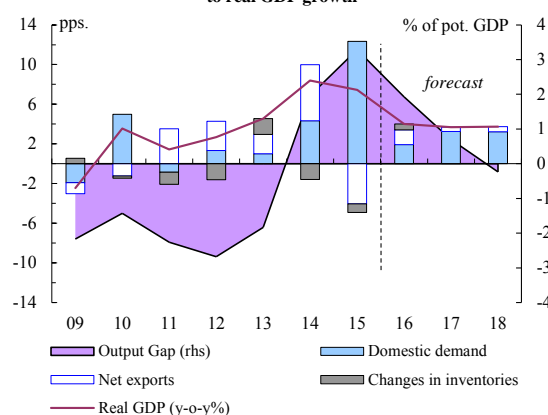
Economic activity expanded by 3.9% in the first three quarters of 2016, compared to the same period in 2015. Meanwhile, investment contracted, compared to its extraordinary levels in 2015, in particular in non-residential construction and machinery and equipment. As imports subsided concomitantly, private consumption and net exports took over as the main engines of growth. Available confidence indicators give no reason to expect a slowdown in the final quarter of the year. As a result, real GDP growth is estimated to have turned out at 4.0% in 2016.

#### Growth seen becoming more self-sustaining

The economic expansion is forecast to continue at a broadly unchanged pace in 2017 and 2018. Private consumption is projected to continue growing robustly, supported by favourable labour market developments. Fiscal policy is set to remain accommodative, while improving financing conditions are set to contribute to the recovery in investment. The current-account is forecast to stabilise at a surplus of over 5% of GDP. Given Malta's high trade openness, shocks to global trade could have a disproportionate impact on the domestic economy. The successful launching of the Malta Development Bank could lead to more dynamic investment in the medium term.

Meanwhile, effective implementation of ongoing structural reforms could boost domestic demand and further support growth prospects going forward.

Graph II.18.1: Malta - Output gap and contributions to real GDP growth



#### Favourable labour market conditions continue

Net job creation in 2016 is expected to have been robust thanks at least in part to the implementation of activation policies by the government. It is forecast to have outpaced the expansion of the labour force, sending the unemployment rate to below 5%. Unemployment is set to remain broadly unchanged over the forecast horizon, close to the structural rate. Skills shortages are expected to put pressure on wage growth. With productivity rising at the same time, however, unit labour cost increases are projected to remain contained.

Consumer price inflation moderated in 2016 in particular due to prices of recreation and cultural services. It is projected to pick up moderately over the forecast horizon but to remain below the long-term average.

#### Budget deficit broadly stable over the forecast horizon

In 2016, the general government deficit is estimated to have decreased to 0.7% of GDP, from 1.4% in 2015. Current revenue is expected to have

grown more than nominal GDP, due to the favourable macroeconomic environment as well as the proceeds from the citizenship programme and the rise in excise duties. Current expenditure is expected to have continued growing, mainly driven by increases in public sector wages and intermediate consumption, which included costs associated with Malta's presidency of the EU. Despite the sharp decline in the absorption of EU funds, due to the beginning of a new programming period, and a lower capital injection into the national airline, net capital expenditure is expected to increase by 0.2 pps. of GDP.

In 2017, the deficit is expected to decline marginally to 0.6% of GDP. Despite a boost to tax revenue by the introduction of revenue increasing measures in the 2017 budget, current revenue is expected to grow slower than nominal GDP due to lower proceeds from the citizenship scheme. Current expenditure growth is also expected to moderate, mainly thanks to lower interest expenditure and a more moderate increase in social spending. On the contrary, higher intermediate consumption and other current expenditure are set to boost the growth rate of the total current

expenditure. Net public investment is expected to decrease by 0.2 pps. of GDP due to greater implementation of investment projects co-financed by the EU. In 2018, under a no-policy-change assumption, the deficit is expected to remain stable even as revenues linked to the citizenship programme continue to fall. Potential expenditure overruns could come from a renewal of the public sector wage agreement.

Risks to the fiscal outlook for 2016 are on the upside, as income tax receipts may still lower the 2016 deficit. For 2017-18, risks are balanced overall, as slippages in current expenditure, mainly related to intermediate consumption and the renewal of the wage agreement (which expired at end-2016), could be compensated by higher proceeds from the citizenship programme.

Thanks to a swift closure of the positive output gap, the structural deficit is projected to be on a declining path and to improve by more than 2 pps. of GDP by 2018. From 60.8% in 2015, the debt-to-GDP ratio is projected to fall below 60% in 2016 and to reach 55.6% 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	9250.3	100.0		2.7	4.6	8.4	7.4	4.0	3.7	3.7
Private Consumption	4665.0	50.4		2.2	2.2	2.6	5.5	3.6	2.8	2.7
Public Consumption	1696.3	18.3		1.9	0.1	7.0	4.7	3.2	7.5	6.2
Gross fixed capital formation	2307.1	24.9		1.4	-1.7	8.8	49.8	-2.0	2.0	3.1
of which: equipment	1255.8	13.6		-	-5.0	15.1	121.3	-	-	-
Exports (goods and services)	13264.6	143.4		5.7	1.0	5.1	4.3	1.5	3.7	3.9
Imports (goods and services)	12538.4	135.5		4.9	-0.2	1.5	7.7	0.5	3.6	3.7
GNI (GDP deflator)	8865.1	95.8		2.4	3.8	8.6	8.0	4.3	4.0	4.0
Contribution to GDP growth:	Domestic demand			2.1	1.0	4.3	12.4	2.0	3.3	3.3
	Inventories			-0.2	1.5	-1.5	-0.8	0.5	0.0	0.0
	Net exports			0.8	1.9	5.6	-4.2	1.5	0.4	0.5
Employment				1.0	3.7	5.1	3.5	3.0	2.8	2.6
Unemployment rate (a)				6.8	6.4	5.8	5.4	4.8	4.9	4.9
Compensation of employees / head				3.8	2.0	1.4	3.8	3.0	2.9	2.8
Unit labour costs whole economy				2.1	1.2	-1.6	0.0	2.0	2.0	1.7
Real unit labour cost				-0.2	-0.7	-3.4	-2.1	0.3	-0.1	-0.6
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.4	1.9	1.9	2.2	1.7	2.1	2.4
Harmonised index of consumer prices				2.7	1.0	0.8	1.2	0.9	1.6	1.8
Terms of trade of goods				0.2	1.7	6.6	1.1	1.4	-0.1	0.0
Trade balance (goods) (c)				-16.2	-13.4	-12.3	-19.3	-18.0	-18.6	-18.7
Current-account balance (c)				-3.9	3.1	9.6	5.2	5.0	5.3	6.0
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.8	4.9	11.2	7.0	6.7	6.9	7.4
General government balance (c)				-4.9	-2.6	-2.0	-1.3	-0.7	-0.6	-0.6
Cyclically-adjusted budget balance (d)				-4.8	-1.8	-2.9	-2.8	-1.6	-0.9	-0.5
Structural budget balance (d)				-	-1.9	-3.4	-2.9	-1.4	-0.7	-0.5
General government gross debt (c)				64.0	68.7	64.3	60.8	59.6	58.0	55.6

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

## 19. THE NETHERLANDS

### Maintaining momentum

*The Dutch economy is expected to grow at a steady rate of around 2% per year over the forecast horizon, driven by private consumption and investment. The labour market is performing well, with the decline in unemployment accelerating in the final months of 2016. Inflation is rising from very low levels recorded in the past years. Strong revenue growth points to a small budget surplus in 2017 and 2018. Although the outlook for the short run is strong, the balance of risks is tilted to the downside.*

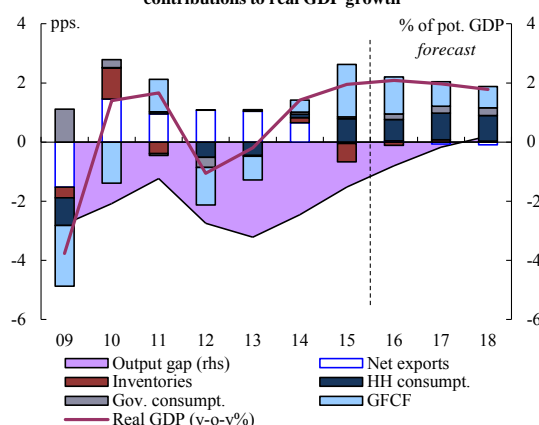
#### A good start to 2017, after a strong 2016

The Dutch economy performed better than expected with a projected growth rate of 2.1% in 2016. Upbeat economic sentiment and positive readings from forward looking economic indicators also suggest a reasonably strong first quarter in 2017. Looking ahead, quarterly growth rates are expected to decrease to slightly lower levels leading to an expected annual GDP growth rate of 2% in 2017 and 1.8% in 2018.

From the start of the recovery until mid-2016 investment was the main driver of growth. Residential investment was particularly strong with double digit growth rates in 2015 and 2016, on the back of a sharp housing market recovery. Equipment investment was reasonably strong, while public investment likely declined in 2016. In 2017 and 2018 household demand is expected to be the most important growth driver. Private consumption is being driven by the rise in household disposable income, which in turn is being fuelled by simultaneous growth in both employment and wages. A declining household saving rate, reflecting reduced household deleveraging, further contributes to growing private consumption expenditure.

In line with the slowdown in global trade, export growth declined in 2016 compared to previous years. Import growth slowed as well, but remains more vigorous than exports because of robust domestic demand. All in all, net exports are expected to detract slightly from growth in 2017 and 2018. The trade surplus is projected to decrease slightly, although the level is likely to remain elevated. In recent years, revenues on foreign direct investments by Dutch multinational corporations have substantially declined, leading to a negative balance on the primary income account. The lower trade balance and lower primary incomes are expected to lead to a current-account surplus of 7.1% of GDP in 2018.

Graph II.19.1: The Netherlands - Output gap and contributions to real GDP growth



Downward risks to the outlook are substantial, particularly towards the end of the forecast horizon. The uncertainty related to United Kingdom's decision to leave the European Union could have a negative impact on Dutch exports as the UK is the Netherlands' second largest export destination in terms of value added. Domestic downside risks to the forecast relate mainly to the situation of pension funds. A large number of pension funds have to cope with under coverage, having fewer assets than discounted obligations on their balance sheet. This could dampen consumption growth through higher premiums or the prospect of lower pension payments.

#### Strong labour market outlook

The Dutch labour market performed well in 2016. Unemployment, which peaked at 7.9% in early 2014 fell to 5.4% in December last year, despite a steady increase in the size of the labour force due to immigration and greater labour market participation of older workers and women. Total employment is now above pre-crisis levels. Looking ahead, in light of the robust short term outlook, employment is expected to continue to grow, leading to a further decline in the unemployment rate to 5.2% in 2017 and 4.7% in 2018.

### Increasing wages and prices

Wage growth has started to pick-up in line with a tightening of the labour market. Gross wages per employee are expected to grow on average by 2.3% over the years 2016-2018, compared to an average of 1.5% in the preceding three years. Public sector wages are expected to grow a little faster than private sector wages, reflecting some catching up after a prolonged period of wage moderation. Wage growth, together with the impact of higher energy prices and a smaller output gap is likely to lead to higher inflation. HICP inflation is expected to rise from its very low levels in recent years to 1.4% in both 2017 and 2018.

### Government balance to turn positive in 2017

The headline deficit is expected to have decreased to 0.1% of GDP in 2016, coming from 1.9% of

GDP in 2015. This was mainly driven by growing corporate tax revenues. In line with robust GDP growth and a strong labour market performance, the headline balance is projected to turn positive to 0.2% and 0.3% of GDP in 2017 and 2018, respectively. Among the few fiscal measures is a temporary tax relief for self-employed persons, which is expected to lead to one-off revenues of around 0.3% of GDP in 2017 and 0.1% of GDP in 2018. Overall, the fiscal outlook over the forecast horizon is largely determined by the macroeconomic environment, based on a no-policy change assumption.

In structural terms, the budget is expected to remain roughly balanced until 2018, while the debt ratio is forecast to decrease from 62.2% in 2016 to 58.3% in 2018. The debt reduction could accelerate further 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	2.0	-0.2	1.4	2.0	2.1	2.0	1.8
Private Consumption	301.8	44.6	1.4	1.4	-1.0	0.3	1.8	1.6	2.0	1.9
Public Consumption	171.4	25.3	2.8	2.8	-0.1	0.3	0.2	0.8	0.9	1.1
Gross fixed capital formation	131.4	19.4	1.4	1.4	-4.3	2.3	9.9	6.4	4.0	3.5
of which: equipment	38.0	5.6	2.5	2.5	-6.1	-0.2	13.4	6.6	4.6	3.6
Exports (goods and services)	557.9	82.5	4.9	4.9	2.1	4.5	5.0	3.3	3.4	3.2
Imports (goods and services)	485.0	71.7	4.9	4.9	1.0	4.2	5.8	3.8	3.9	3.8
GNI (GDP deflator)	674.1	99.6	2.0	2.0	-0.8	-0.2	1.8	1.8	2.2	2.1
Contribution to GDP growth:										
Domestic demand			1.7	1.7	-1.3	0.6	2.6	2.2	2.0	1.8
Inventories			0.0	0.0	0.1	0.2	-0.6	-0.1	0.1	0.0
Net exports			0.3	0.3	1.0	0.6	0.0	0.0	-0.1	-0.1
Employment			0.9	0.9	-1.2	-0.3	1.0	1.4	1.4	1.3
Unemployment rate (a)			4.7	4.7	7.3	7.4	6.9	6.0	5.2	4.7
Compensation of employees / f.t.e.			3.1	3.1	2.2	1.6	0.4	2.3	2.6	2.4
Unit labour costs whole economy			2.0	2.0	1.2	-0.1	-0.6	1.6	2.0	1.9
Real unit labour cost			0.0	0.0	-0.2	-0.2	-0.7	1.1	1.2	1.1
Saving rate of households (b)			13.1	13.1	14.1	13.1	12.7	12.8	12.5	12.4
GDP deflator			2.1	2.1	1.4	0.1	0.1	0.5	0.8	0.8
Harmonised index of consumer prices			2.2	2.2	2.6	0.3	0.2	0.1	1.4	1.4
Terms of trade goods			0.2	0.2	0.5	0.1	1.3	0.5	-1.0	-1.0
Trade balance (goods) (c)			8.7	8.7	11.5	11.5	11.3	10.9	10.4	9.7
Current-account balance (c)			6.8	6.8	10.2	8.5	8.5	8.0	7.4	7.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			6.6	6.6	10.0	8.4	3.5	7.7	7.2	7.0
General government balance (c)			-1.6	-1.6	-2.4	-2.3	-1.9	-0.1	0.2	0.3
Cyclically-adjusted budget balance (d)			-1.3	-1.3	-0.3	-0.7	-0.9	0.4	0.3	0.2
Structural budget balance (d)			-	-	-0.9	-0.6	-1.0	0.2	0.0	0.1
General government gross debt (c)			54.2	54.2	67.7	67.9	65.1	62.2	60.2	58.3

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

## 20. AUSTRIA

### Improved growth expected to maintain momentum

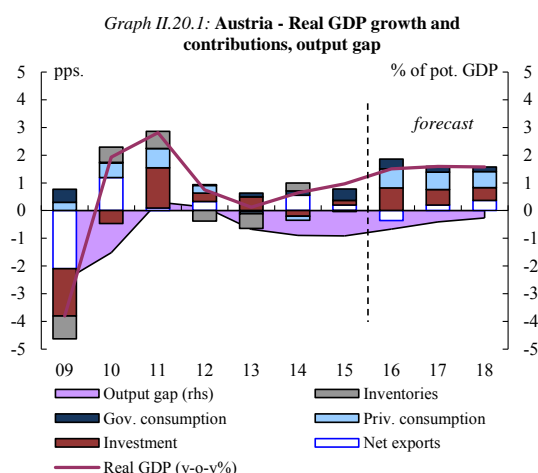
*Austria's GDP growth rose to 1.5% in 2016 and is expected to stay around this level over the forecast horizon. Investment and private consumption benefitted from the income tax reform and have become the main growth drivers. The housing market is buoyant with fast increasing house prices and rents. Public finances are affected by the income tax relief but benefit from economic growth and lower costs for bank support.*

#### Robust domestic demand supports growth

In 2016, Austria's economic growth showed signs of perking up with a noticeable increase in domestic demand. Private consumption, after four years of sluggish growth, increased markedly, benefitting from the 2016 income tax reform and low inflation. Similarly, investment increased strongly, becoming the main driver for GDP growth, which rose to 1.5% in 2016. The strong increase in investment triggered a rise in imports, turning the growth contribution of the external balance negative.

#### Improved growth to continue

In 2017 and 2018, Austria's economy should continue to grow at around 1.6% as investment and private consumption fade slightly but remain strong. As investment slows, imports should decrease, so that net trade starts contributing again to growth.



Investment in machinery and equipment shot up 7.0% in 2016 as the introduction of environmental criteria in taxes on cars triggered increased replacement investments. This effect is expected to

continue but fade over the forecast horizon. By contrast, housing investment is expected to increase only moderately, although migration and population growth should increase housing demand. In 2016, house prices and rents grew significantly, not only in Vienna but in all major cities.

The Austrian export industry is expected to continue growing in the coming years, although the growth prospects for the world economy and trade are uncertain. Austrian exporters should be able to react flexibly to changing trade conditions and, given their focus on EU markets, face a stable outlook. The trade balance is thus expected to continue contributing to the current-account surplus over the forecast horizon.

#### Growing labour force implies higher unemployment

In 2016, the labour force grew markedly due to strong migration from other EU countries and increasing numbers of accepted asylum-seekers. Although employment also continues to grow steadily, the economy cannot fully absorb the growing labour supply, so unemployment is expected to rise from 5.7% in 2015 to 6.0% in 2016. Over the forecast horizon, the unemployment rate is expected to further increase but at a slower speed, reaching 6.2% in 2018.

#### Rise in oil prices spurs inflation

In 2016, the dampening effect of falling oil prices kept HICP inflation low at 1.0%. With the rise in oil prices, which started in 2016 and which is expected to show its full effect in 2017, HICP inflation is forecast to reach 1.8%. Core inflation is expected to increase less strongly at 1.5% in 2017. Steadily increasing prices in the tourism industry (hotels and restaurants) should keep the Austrian inflation rate above the euro area average.

### Public finances supported by economic growth and lower bank support costs

After reaching -1% of GDP in 2015, the general government headline balance is expected to deteriorate to -1.4% of GDP in 2016, mainly as a result of the income tax relief that entered into force in January 2016. This effect is expected to be partly offset by a substantial increase in VAT revenues due to the boost in private consumption and –to some extent– the measures against tax fraud. Social security contributions are also projected to continue increasing, in connection with the rise in employment and the higher ceiling for contributions. Expenditure is expected to grow only moderately in 2016, also thanks to the drop in costs related to bank support measures and a further decline in interest spending. The expenditure for basic support and integration of refugees is projected to increase in 2016 despite the lower number of arrivals, as a large number of people who arrived at the end of 2015 are still in need of assistance.

In 2017, revenues are projected to be further affected by the 2016 tax reform and the legislated reductions in non-wage labour costs. VAT

revenues and social contributions are forecast to continue increasing in line with the overall growth of the economy, though at a slightly slower pace compared to the previous year as a result of base effects. As several antifraud measures connected with the tax reform were implemented only late in 2016, additional revenues from these measures represent an upward risk for 2017. Refugee-related expenditure is expected to gradually decline from 2017 in connection with the decreasing number of arrivals, also recording a partial shift from in kind support for newly-arrived asylum seekers to means-tested benefits for recognised refugees. Overall, the headline balance is expected to improve to -1.2% of GDP in 2017. In 2018, the impact of the tax reform on revenues is expected to be progressively offset, leading to a lower headline deficit of 0.9% of GDP.

Austria's structural balance is expected to deteriorate in 2016 due to the income tax reform and to slightly improve in 2017 and 2018. Government debt is projected to have peaked in 2015 at 85.5% of GDP and is expected to gradually decline to below 80% of GDP by 2018, as impaired assets from nationalised banks are progressively divested.

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	1.8	1.0	0.8
Gross fixed capital formation	76.8		22.6	1.0	2.2	-0.9	0.7	3.6	2.4	2.0
of which: equipment	25.3		7.5	1.3	2.4	-1.0	3.6	7.0	3.5	2.5
Exports (goods and services)	180.3		53.1	5.3	0.5	2.3	3.6	2.7	2.9	3.1
Imports (goods and services)	166.7		49.1	4.2	0.7	1.3	3.4	3.7	2.8	2.6
GNI (GDP deflator)	338.0		99.5	2.0	0.3	0.6	0.2	1.5	1.6	1.5
Contribution to GDP growth:		Domestic demand		1.4	0.6	-0.2	0.6	1.9	1.4	1.2
		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	-0.4	0.2	0.4
Employment				-	0.3	0.9	0.6	0.9	0.8	0.7
Unemployment rate (a)				4.7	5.4	5.6	5.7	6.0	6.1	6.2
Compensation of employees / f.t.e.				2.1	2.1	1.9	1.9	1.4	1.6	1.7
Unit labour costs whole economy				1.1	2.3	2.1	1.5	0.8	0.8	0.8
Real unit labour cost				-0.4	0.8	0.4	-0.3	-0.9	-0.5	-0.7
Saving rate of households (b)				15.3	12.6	12.6	13.0	14.0	13.1	12.3
GDP deflator				1.5	1.6	1.8	1.9	1.7	1.4	1.6
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	0.9	-0.8	-0.2
Trade balance (goods) (c)				-0.6	-0.5	0.2	0.6	0.4	0.1	0.2
Current-account balance (c)				1.2	1.6	2.6	2.5	2.4	2.2	2.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				1.1	1.5	2.4	2.0	2.3	2.0	2.3
General government balance (c)				-2.6	-1.4	-2.7	-1.0	-1.4	-1.2	-0.9
Cyclically-adjusted budget balance (d)				-2.6	-1.0	-2.2	-0.5	-1.0	-1.0	-0.7
Structural budget balance (d)				-	-1.2	-0.7	0.0	-0.9	-0.8	-0.7
General government gross debt (c)				69.8	81.3	84.4	85.5	83.5	81.3	79.3

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

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



## 21. POLAND

### Public deficit to widen despite stronger GDP growth

*The economy is expected to gather momentum in 2017 and 2018 as investment gradually recovers from a substantial contraction in 2016. Private consumption is set to remain the main growth driver, and the labour market is expected to tighten further. Costs from a lowering of the statutory retirement age are set to add to the widening of the budget deficit.*

#### Falling investment explains the 2016 growth slowdown

Investment is estimated to have contracted by 5.5% in 2016, limiting GDP growth to 2.8%. The apparent volatility through weak investment appears to be mainly related to the slow progress of projects financed by EU structural funds under the new programming period and increased policy and regulatory uncertainty. Private consumption, by contrast, expanded strongly (by 3.6%) providing the main growth driver. Solid real wage increases and rising employment, as well as increased social transfers, explain the continued strength of private consumption.

#### Positive growth outlook

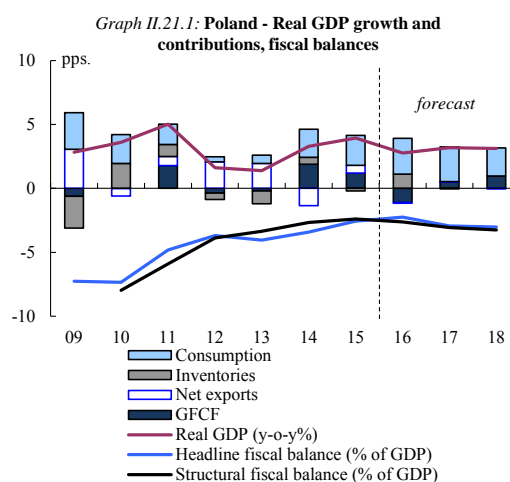
GDP growth is expected to rebound to 3.2% in 2017 and then to broadly stabilise at 3.1% in 2018. This rebound is set to be driven by domestic demand. In particular, private consumption is expected to increase strongly in 2017, before moderating somewhat in 2018, as the transitory impact of increased social transfers fades out and employment stagnates. Public investment is expected to rebound strongly in 2017 and 2018 as EU funds are put to use. Private investment is projected to recover gradually, helped by solid domestic demand and an outlook for further export growth. Relatively high capacity utilisation rates, solid corporate profits and low interest rates are expected to support investment.

Exports are expected to continue their rapid growth as labour costs remain competitive despite wage growth and external demand is projected to gradually strengthen. At the same time, rising domestic demand is set to fuel imports, so the contribution of net exports to growth is forecast to be fairly neutral in 2017 and 2018.

#### Price pressures to remain contained

After turning positive in November 2016, inflation is projected to increase to around 2% in the first months of 2017, mainly driven by rising energy

and food prices. Price pressures are expected to edge upwards in the subsequent period but inflation is expected to remain below 2.5% until the end of 2018.



#### Tightening labour market

Employment growth is expected to decline in 2017 and come to a halt in 2018 due to a combination of a falling working age population and disincentives to labour market participation stemming from certain policy measures. These include a significant lowering of the statutory retirement age from October 2017 and a universal child benefit that was introduced in April 2016. Incentives for labour force participation will weaken mainly for people with low skills. Wage growth is projected to accelerate as unemployment falls to a new record low. Temporary immigration is expected to continue to increase labour supply and the flexibility of the labour market.

#### Risks are broadly balanced

On the downside, a prolongation of policy and regulatory uncertainty may weigh on investment and eventually also private consumption more strongly than currently foreseen. Labour supply could become a growth barrier in some sectors, e.g. if the EU visa-free regime for Ukrainian citizens limits their interest in temporary work in

Poland. On the upside, public and private investment could accelerate faster than currently projected.

#### Government deficit to widen in 2017 and 2018

The headline general government deficit is estimated to have narrowed to 2.3% of GDP in 2016, its lowest level since 2007. The improvement was mainly driven by a drop in public investment and one-off revenue, while tax collection was in line with budget plans.

The general government deficit is set to widen to 2.9% of GDP in 2017. This is because the impact of the lowering of the statutory retirement age starts to be felt on top of a full-year impact of the universal child benefit. In addition, public investment is projected to rise strongly. However, these measures should be partially offset by a two-year extension of higher VAT rates that were initially set to expire at the end of 2016.

Under a no-policy-change assumption, Poland's headline general government deficit is expected to widen further to 3.0% of GDP in 2018, reflecting mainly increasing costs of the lowering of the statutory retirement age. The forecast does not include the effects of ongoing efforts to enhance the collection of taxes on production and income, as their likely impact is hard to estimate with sufficient accuracy at this stage.

After having improved to 2½% of GDP in 2015, the structural deficit is estimated to have widened marginally in 2016. It is projected to continue increasing in 2017 and 2018, to reach around 3¼% of GDP at the end of the forecast horizon.

The general government debt is set to grow, from 53.6% of GDP in 2016 to below 56% of GDP in 2018. Considering the relatively high share of debt denominated in foreign currencies, the debt projection for Poland continues to be particularly uncertain.

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	2.8	3.2	3.1
Private Consumption	1051.4		58.5	3.8	0.3	2.4	3.2	3.6	3.9	2.9
Public Consumption	323.5		18.0	3.1	2.5	4.1	2.3	3.7	2.4	2.5
Gross fixed capital formation	360.8		20.1	5.4	-1.1	10.0	6.1	-5.5	2.7	5.3
of which: equipment	136.5		7.6	5.2	4.6	11.2	5.3	-1.0	3.2	4.9
Exports (goods and services)	891.1		49.6	8.3	6.1	6.7	7.7	7.3	6.0	6.4
Imports (goods and services)	835.4		46.5	7.7	1.7	10.0	6.6	7.9	6.4	6.9
GNI (GDP deflator)	1731.8		96.3	3.9	1.8	2.9	3.9	2.7	3.1	3.0
Contribution to GDP growth:										
Domestic demand				4.1	0.4	4.1	3.5	1.7	3.2	3.2
Inventories				0.0	-1.0	0.5	-0.2	1.1	0.0	0.0
Net exports				0.0	1.9	-1.3	0.6	-0.1	0.0	0.0
Employment				0.2	-0.1	1.7	1.5	0.9	0.3	0.0
Unemployment rate (a)				13.4	10.3	9.0	7.5	6.3	5.6	4.7
Compensation of employees / head				7.1	1.7	2.2	1.1	3.9	4.7	5.3
Unit labour costs whole economy				3.0	0.2	0.6	-1.2	2.0	1.8	2.1
Real unit labour cost				-1.2	-0.1	0.1	-1.8	1.3	0.2	0.0
Saving rate of households (b)				8.2	2.5	2.1	1.8	3.1	2.3	2.1
GDP deflator				4.4	0.3	0.5	0.6	0.7	1.6	2.1
Harmonised index of consumer prices				4.9	0.8	0.1	-0.7	-0.2	2.0	2.1
Terms of trade goods				-0.2	1.7	2.2	2.9	1.5	-0.8	-0.1
Trade balance (goods) (c)				-4.3	-0.1	-0.8	0.5	0.9	0.4	0.1
Current-account balance (c)				-4.1	-0.5	-1.4	0.1	0.2	-0.4	-0.8
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.5	1.5	0.3	2.4	2.1	1.7	1.7
General government balance (c)				-4.4	-4.1	-3.4	-2.6	-2.3	-2.9	-3.0
Cyclically-adjusted budget balance (d)				-4.4	-3.3	-2.9	-2.4	-2.2	-3.1	-3.3
Structural budget balance (d)				-	-3.3	-2.7	-2.4	-2.6	-3.1	-3.3
General government gross debt (c)				45.1	55.7	50.2	51.1	53.6	54.5	55.8

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

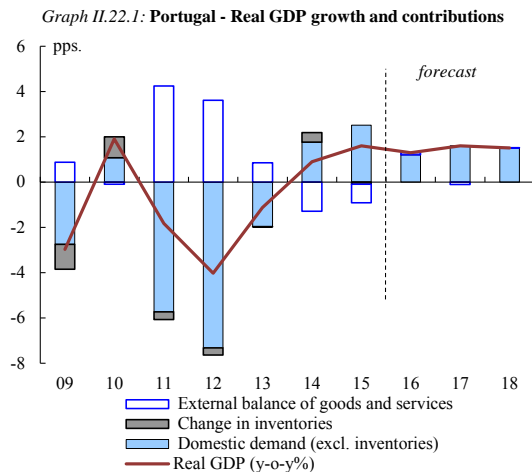
## 22. PORTUGAL

### Strong tourist sector supports growth

*The strong economic performance in the second half of 2016, particularly from tourism, has improved the outlook of the Portuguese economy. Weak investment has weighed negatively on growth but is set to rebound. The general government deficit is expected to turn out at 2.3% of GDP in 2016, helped by one-off revenues, and is set to remain below 2.5% over the forecast horizon. The structural balance is projected to be broadly stable in 2016 and 2017 but to deteriorate slightly in 2018.*

#### Economic outlook improves

Economic growth picked up to 1.6% (y-o-y) in the third quarter of 2016 from 0.9% (y-o-y) over the first half of the year, driven by a solid rebound in private consumption and exports. However, investment continued to decline due to the switchover to the new programming period of EU investment co-financing and because of a further contraction in corporate credit. Portugal's economy likely grew by an estimated 1.3% in 2016 and real GDP growth is forecast to reach 1.6% in 2017 and 1.5% in 2018. The risks to the forecast are tilted to the downside, as unsolved problems in the banking sector could dampen the expected recovery in investment.



The Commission's Economic Sentiment Indicator (ESI) improved substantially towards the end of 2016, providing support to the short-term economic outlook. Most of the recent soft indicators suggest that private consumption should remain robust. In addition, consumer spending is enjoying support from the increase in the minimum wage and the labour market, which continues to improve vigorously. Private consumption is expected to develop more moderately this year and next, in line with more stable wage dynamics, sustained deleveraging pressures and rising prices. Despite some

improvement in confidence, most construction investment indicators remain weak while equipment investment indicators, including manufacturing confidence and capacity utilisation, continue to signal expansion. Construction investment is therefore set to improve only marginally, driven by some recovery in public investment, whereas machinery and equipment investment is expected to continue its positive trend. Overall, investment is expected to gather pace in 2018 as more projects are implemented under the new programming period of EU funding and credit conditions improve gradually.

#### Exports outpace market demand

Estimates for 2016 suggest that Portugal's export sector likely grew significantly faster than external markets, helped by the very strong performance of the tourist sector. The country thus expanded its export market share in 2016 despite the estimated increase in unit labour costs. Carryover effects are projected to keep the country's market share on the rise in 2017 before stabilising in 2018. Imports are meanwhile expected to accelerate along with the projected rebound in investment, resulting in a slight contraction in the external trade surplus. The net contribution of the external sector to growth is therefore also set to deteriorate marginally. Nevertheless, the current-account surplus is expected to improve due to positive developments in primary income and current transfers reflecting lower interest costs and the cycle of EU funding.

#### Job creation to slow down

The strong tourist season supported the labour market as both job creation and wages improved. Employment growth, however, is expected to gradually slow down from 1.3% in 2016 to 0.6% in 2018, as the recent rebound in wages can be expected to dampen labour demand and labour supply restraints linked to the decrease in the working age population are starting to take effect. Unemployment is projected to drop accordingly to around 10% in 2017 and 9.4% in 2018.

### Inflation is picking up

Annual HICP inflation edged up to 0.6% in 2016, largely driven by the service sector. Core inflation reached 1% in the same period while housing prices rose by 7.6% (y-o-y) in the third quarter of the year. Rising labour incomes, as well as the recent rebound in consumer lending, are expected to maintain continuous upward pressure on service prices. Energy prices are projected to add to inflation in 2017 but their impact over 2018 should flatten. All in all, consumer prices are forecast to increase by 1.3% in 2017 and 1.4% in 2018.

### Public finances benefitting from the continued recovery and one-off revenues

The general government deficit is estimated to have reached 2.3% of GDP in 2016. Lower than budgeted revenue collection has been partially offset by additional revenues (0.25% of GDP) from the extraordinary tax debt settlement scheme PERES and overall containment of expenditure, in particular due to lower public investment. The general government deficit net of one-offs is estimated to have reached 2.6% of GDP and the

structural balance is expected to have remained broadly unchanged in 2016.

The headline deficit is projected to decrease to 2.0% of GDP in 2017, mainly due to a one-off operation (the recovery of a guarantee to BPP bank worth 0.25% of GDP), the continued moderate economic recovery and the accommodative monetary policy. As the impact of discretionary measures is expected to be broadly neutral, the structural balance is projected to remain broadly unchanged. Under a no-policy change assumption, both the headline deficit and the structural balance are set to deteriorate slightly in 2018. Risks to the fiscal outlook are tilted to the downside, linked to the uncertainties surrounding the macroeconomic outlook and the potential deficit-increasing impact of banking support measures.

After reaching 129.0% at the end of 2015, Portugal's gross public debt-to-GDP ratio is estimated to have risen to 130.5% in 2016, mainly due to higher issuance of government debt for the ongoing recapitalisation of the state-owned bank CGD. The ratio is forecast to decline to 128.9% in 2017 and to 127.1% 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	1.3	1.6	1.5
Private Consumption	117.8		65.6	1.2	-1.2	2.3	2.6	2.1	1.6	1.2
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	-1.5	3.8	4.2
of which: equipment	8.9		5.0	0.1	8.1	13.3	9.7	2.6	7.9	7.8
Exports (goods and services)	72.8		40.6	4.3	7.0	4.3	6.1	3.9	4.1	4.2
Imports (goods and services)	71.5		39.8	3.0	4.7	7.8	8.2	3.9	4.3	4.3
GNI (GDP deflator)	175.3		97.6	1.0	0.0	0.5	0.9	1.4	2.0	1.7
Contribution to GDP growth:										
Domestic demand				1.0	-2.0	1.7	2.6	1.3	1.7	1.5
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	0.0	-0.1	0.0
Employment				0.0	-2.9	1.4	1.4	1.3	0.8	0.6
Unemployment rate (a)				8.6	16.4	14.1	12.6	11.2	10.1	9.4
Compensation of employees / head				3.0	3.6	-1.8	-0.3	1.4	1.2	1.2
Unit labour costs whole economy				1.8	1.8	-1.3	-0.5	1.3	0.4	0.3
Real unit labour cost				-0.6	-0.5	-2.0	-2.5	-0.2	-0.9	-1.1
Saving rate of households (b)				9.5	7.8	5.2	4.4	4.1	3.7	3.6
GDP deflator				2.5	2.3	0.8	2.1	1.5	1.4	1.4
Harmonised index of consumer prices				2.5	0.4	-0.2	0.5	0.6	1.3	1.4
Terms of trade goods				0.0	1.7	1.2	3.2	0.5	-0.2	0.1
Trade balance (goods) (c)				-10.4	-4.0	-4.7	-4.3	-4.1	-4.5	-4.6
Current-account balance (c)				-8.8	0.7	-0.3	-0.3	0.3	0.4	0.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.1	2.3	1.0	0.8	1.3	1.5	1.7
General government balance (c)				-5.3	-4.8	-7.2	-4.4	-2.3	-2.0	-2.2
Cyclically-adjusted budget balance (d)				-5.3	-2.7	-5.6	-3.5	-1.9	-2.1	-2.6
Structural budget balance (d)				-	-2.9	-1.7	-2.2	-2.2	-2.3	-2.6
General government gross debt (c)				70.8	129.0	130.6	129.0	130.5	128.9	127.1

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

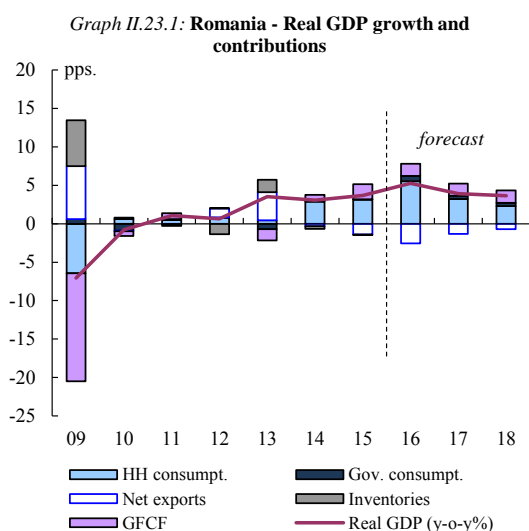
## 23. ROMANIA

### Robust growth sustained by fiscal easing

*Real GDP growth is forecast to remain strong over the forecast horizon, supported by fiscal easing and wage increases. Unemployment decreased significantly in 2016 and is projected to remain stable at low levels. With a positive output gap and the impact of previous tax cuts fading, inflation is set to pick up. The general government deficit is projected to widen due to tax cuts and public spending increases.*

#### Strong growth ahead

Real GDP is estimated to have grown by 4.9% in 2016, a new post-crisis high. Growth was driven by fiscal stimulus and supported by successive increases of the minimum wage and public sector wages, which pushed up private consumption growth to 9%. Investment grew by an estimated 5.5%, mostly on the back of private investment, while public investment recorded its weakest year since Romania joined the EU due to the drop in investment financing from the EU linked to the cycle of EU funding programmes. Net exports subtracted 2.6 percentage points from growth, as robust domestic demand stimulated imports and export growth abated, widening the current-account deficit to 2.2% of GDP in 2016.



Romania's output gap is estimated to have closed in 2016. A new round of fiscal stimuli amounting to about 1% of GDP has been adopted for 2017. With the positive output gap and the fading impact of previous indirect tax cuts, despite a reduction in the standard VAT rate by one percentage point from January 2017, consumer prices are expected to increase gradually in 2017 and more briskly in 2018. Private consumption is expected to grow steadily in 2017, before it moderates slightly in 2018 as consumer prices pick up. After a

deceleration in 2016, investment growth is projected to speed up over the forecast horizon, with public investment gradually recovering as the implementation of projects financed by EU funds in the 2014-2020 financing period catches up. Real GDP is thus forecast to grow by 4.4% in 2017 and 3.7% in 2018.

Export growth is projected to gradually accelerate over the forecast horizon as external demand strengthens. However, with strong import growth driven by robust domestic demand, the current-account deficit is forecast to widen to 2.9% of GDP in 2017 and 3.1% of GDP in 2018. Risks to the macroeconomic outlook are broadly balanced.

#### Inflation is picking up

HICP inflation remained negative in 2016 (-1.1% over the year on average) mainly due to the reduction of the standard VAT rate from January 2016, combined with low imported inflation. Robust domestic demand, boosted by the additional 16% increase of the minimum wage in February 2017 should result in a positive output gap and inflation picking up. Annual average inflation is therefore forecast to turn positive in 2017 (1.6%) and increase further to 2.9% in 2018. Risks to the inflation outlook are tilted to the upside by the combination of strong domestic demand with a positive output gap, growing wages and increasing international oil prices.

#### Unemployment is approaching pre-crisis lows

The labour market continued to improve on the back of strong economic growth. The unemployment rate fell to an eight-year low in 2016. Low unemployment, combined with a shrinking labour force and persistent skills shortages, led to a tighter labour market and economy-wide wage increases. Total employment decreased slightly in 2016 as the decline in self-employment more than offset the increasing number of employees. In 2017-2018, total

employment is forecast to grow driven by strong economic growth, while the unemployment rate is projected to continue declining. With the hikes in the minimum wage and public wages adopted in 2017, unit labour costs are expected to increase over the forecast horizon.

### The general government deficit is widening

In 2016, the headline deficit is projected to have increased to 2.8% of GDP, from 0.8% of GDP in 2015. The tax cuts enacted at the end of 2015, particularly the four-percentage point cut in the standard VAT rate, had a negative effect on tax revenues. On the expenditure side, public wages were increased considerably while public investment is estimated to have dropped due to the slow implementation of large projects in the 2014-2020 programming period of EU funding.

In 2017, the general government headline deficit is projected to deteriorate further, to 3.6% of GDP. The standard VAT rate was cut by an additional one-percentage point from January 2017 and the

extra excise duty on fuel and the special construction tax were abolished. The 2017 budget adopted by the new government contains a number of other tax cuts (in particular, tax exemptions for pension income) as well as expenditure increases such as a significant increase in old-age pensions and public wages. The general government headline deficit is projected to further widen to 3.9% of GDP in 2018, due to the full-year effect of the significant increase in old-age pensions scheduled for July 2017.

As a consequence of the fiscal easing, Romania's structural deficit is forecast to increase from around ½% of GDP in 2015 to about 2½% in 2016 and around 4% in 2017 and 2018. Despite strong GDP growth, Romania's debt-to-GDP ratio is thus projected to rise from 38% of GDP in 2015 to 42.3% in 2018 as a result of the loosening in the fiscal position.

The 2017 budget was adopted by the government but not yet voted by the parliament by the cut-off date of this forecast (1 February 2017).

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	711.1		100.0	2.5	3.5	3.1	3.9	4.9	4.4	3.7
Private Consumption	440.5		61.9	4.5	0.7	4.7	6.0	9.0	6.7	4.2
Public Consumption	97.5		13.7	0.3	-4.6	0.8	0.1	4.5	3.5	3.0
Gross fixed capital formation	176.1		24.8	5.2	-5.4	3.2	8.3	5.5	6.2	6.3
of which: equipment	74.5		10.5	6.2	4.8	-5.1	9.0	8.5	7.5	6.9
Exports (goods and services)	292.3		41.1	8.7	19.7	8.0	5.4	4.7	5.0	5.4
Imports (goods and services)	296.7		41.7	10.9	8.8	8.7	9.2	10.9	9.2	7.3
GNI (GDP deflator)	697.5		98.1	2.5	3.0	4.0	3.0	5.0	4.4	3.7
Contribution to GDP growth:										
Domestic demand				4.6	-1.7	3.8	5.7	7.5	6.3	4.7
Inventories				-0.2	1.6	-0.3	-0.2	0.0	0.0	0.0
Net exports				-1.8	3.6	-0.3	-1.6	-2.6	-1.9	-1.0
Employment				-1.6	-0.9	0.8	-0.9	-0.4	0.3	0.4
Unemployment rate (a)				7.0	7.1	6.8	6.8	6.0	5.7	5.6
Compensation of employees / head				27.9	3.8	6.7	0.9	8.4	7.8	6.0
Unit labour costs whole economy				22.8	-0.6	4.3	-3.8	2.9	3.6	2.6
Real unit labour cost				-1.6	-3.9	2.6	-6.0	1.3	1.2	0.1
Saving rate of households (b)				-5.5	13.3	14.5	15.5	16.7	18.7	21.1
GDP deflator				24.9	3.4	1.7	2.4	1.7	2.3	2.5
Harmonised index of consumer prices				23.6	3.2	1.4	-0.4	-1.1	1.6	2.9
Terms of trade goods				3.1	4.7	0.8	3.2	1.9	1.8	1.6
Trade balance (goods) (c)				-8.0	-4.0	-4.3	-4.9	-6.2	-7.3	-7.7
Current-account balance (c)				-6.5	-0.6	-0.1	-0.6	-2.2	-2.9	-3.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.0	1.5	2.5	1.8	-1.5	-1.5	-1.3
General government balance (c)				-3.8	-2.1	-0.8	-0.8	-2.8	-3.6	-3.9
Cyclically-adjusted budget balance (d)				-3.8	-1.0	-0.1	-0.3	-2.8	-3.8	-4.0
Structural budget balance (d)				-	-1.0	-0.6	-0.6	-2.5	-3.9	-4.0
General government gross debt (c)				21.5	37.8	39.4	38.0	39.1	40.5	42.3

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



## 24. SLOVENIA

### Private consumption becomes the main growth driver

*Economic growth continues to be driven by private consumption and exports, supported by a favourable labour market and improving terms of trade. In 2017 and 2018 private consumption is expected to be the prevalent contributor to growth. The general government deficit is projected to decline gradually in line with the improving economy.*

#### Solid growth in 2016

Real GDP growth is expected to have reached 2.5% in 2016, up from 2.3% in 2015. The economy maintained a positive momentum in the first three quarters of 2016, driven by rising consumption and exports. Private consumption, backed by rising employment, wages and consumer confidence, was the main growth driver. Exports continued to increase at a high rate, but their net contribution to GDP growth declined as imports grew. Rising inventories, private investment and a moderately expansionary fiscal stance contributed positively to economic growth. Overall investment contracted as a consequence of a large decrease in public construction investment, due to the end of the programming period of EU funding.

#### Domestic demand to drive growth ahead

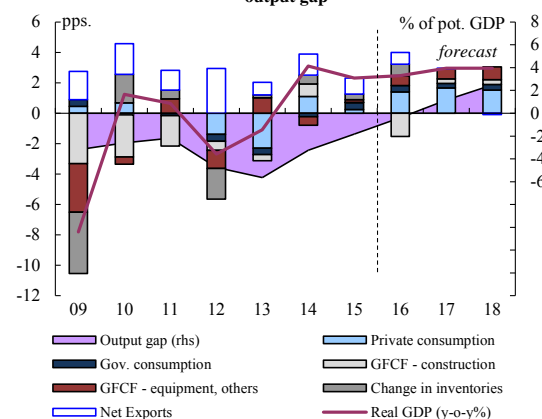
Real GDP growth in 2017 is forecast to accelerate to 3.0% in 2017 and 2018. Private consumption is benefiting from rising employment and increasing wages. It is expected to remain the main growth driver, together with accelerating investment. Increased consumer spending will accelerate import growth, reducing the growth contribution of net exports to close to zero. Export growth is expected to remain stable at around 6% in nominal terms as exporters reap the benefits of improved cost-competitiveness. Private investment is set to rebound, in line with the implementation of some announced large investment projects and still high capacity utilisation. Public investment is also projected to increase and add to overall investment growth.

#### Record current-account surplus to edge down slightly

The current-account surplus increased further in 2016, fuelled by an improved trade balance. As domestic demand strengthens and deleveraging pressures ease, the current-account surplus is expected to start slowly decreasing in 2017-2018 but is set to remain high over the medium term.

Risks to the growth forecast are broadly balanced. The upside risks are primarily domestic, as public investment could exceed the forecast due to a quicker-than-expected usage of EU funding. The risks to the downside are mainly external. Apart from geopolitical tensions which might slow down trade, Slovenia's trade balance could be negatively affected by rising energy and raw materials prices.

Graph II.24.1: Slovenia - Real GDP growth and contributions, output gap



#### Employment, wages and inflation expected to rise

Employment growth is set to continue, supported by rising consumption and investment. As the economy approaches its natural rate of unemployment and continues to grow above its potential, wage pressures are likely to strengthen. Wage increases first observed in the public sector are expected to pass through to the private sector.

Inflation is forecast to pick up quickly, driven by an increase in service and energy prices. Slovenia had one of the lowest inflation rates in the euro area in 2015 and 2016, also due to the higher weight of energy in the consumer basket. As energy prices turn around, the opposite effect can be expected, bringing inflation above the euro area average.

### Gradual improvement in the government balance

In 2016, the general government deficit is projected to have fallen to 2.0% of GDP from 2.7% in 2015, mainly due to higher-than-expected current revenues, lower-than-expected subsidies expenditure and a large decline in public investment (following the end of the 2007-2013 EU funding period).

Public investment is planned to remain at a low level in 2017, growing around 6% after a 40% plunge in 2016. This, coupled with buoyant tax revenues and social contributions, is expected to result in a further decline of the government deficit to 1.7% of GDP in 2017. Nevertheless, the compensation of public employees and pensions are expected to continue rising.

In 2018, under a no-policy-change assumption, the general government deficit is expected to decrease to 1.4% of GDP mainly due to economic growth

and improved labour market conditions, while public investment is expected to pick up.

The main downside risks to public finances over the forecast horizon stem from remaining uncertainties regarding the fiscal implications of the activities of the Bank Asset Management Company and possible one-off expenditures from ongoing court cases, for instance from the case of the Slovenian Farmland and Forest Fund.

In structural terms, Slovenia's fiscal position is expected to worsen from 2016 to 2018. The deterioration of the structural balance is mostly due to the large change in the output gap, which is projected to turn positive in 2017.

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 decline continuously to 76.7% in 2018.

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	2.5	3.0	3.0	
Private Consumption	20.1	52.1	2.2	-4.0	2.0	0.5	2.7	3.2	2.9	
Public Consumption	7.2	18.7	2.4	-2.1	-1.2	2.5	2.3	1.5	1.9	
Gross fixed capital formation	7.5	19.5	1.6	3.2	1.4	1.0	-4.5	5.3	6.4	
of which: equipment	2.8	7.2	3.7	12.6	-7.5	2.4	8.3	8.0	10.5	
Exports (goods and services)	30.1	77.9	6.6	3.1	5.7	5.6	6.4	4.3	4.7	
Imports (goods and services)	26.5	68.8	5.7	2.1	4.2	4.6	6.1	4.9	5.5	
GNI (GDP deflator)	37.7	97.7	2.5	-0.9	3.6	0.1	2.1	2.9	3.0	
Contribution to GDP growth:										
Domestic demand			2.2	-2.1	1.2	0.9	0.9	2.9	3.1	
Inventories			0.0	0.2	0.6	0.4	0.7	0.0	0.0	
Net exports			0.5	0.8	1.4	1.1	0.8	0.1	-0.1	
Employment			0.2	-1.1	0.4	1.1	1.2	1.1	1.1	
Unemployment rate (a)			6.6	10.1	9.7	9.0	7.9	7.0	6.2	
Compensation of employees / head			6.6	0.5	1.3	1.4	2.0	2.2	3.6	
Unit labour costs whole economy			4.1	0.4	-1.3	0.3	0.7	0.3	1.7	
Real unit labour cost			-0.2	-0.4	-2.1	-0.7	-0.7	-0.7	-0.2	
Saving rate of households (b)			13.7	13.4	13.3	14.8	15.1	13.7	12.7	
GDP deflator			4.3	0.9	0.8	1.0	1.4	1.0	1.9	
Harmonised index of consumer prices			4.9	1.9	0.4	-0.8	-0.2	1.1	2.3	
Terms of trade goods			-0.5	0.8	1.1	1.3	1.9	-1.1	-0.3	
Trade balance (goods) (c)			-3.4	0.8	2.9	3.9	4.9	4.1	3.5	
Current-account balance (c)			-1.8	3.6	6.2	5.4	6.3	5.5	5.0	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.7	4.1	6.6	6.4	6.5	5.8	5.5	
General government balance (c)			-3.0	-15.0	-5.0	-2.7	-2.0	-1.7	-1.4	
Cyclically-adjusted budget balance (d)			-	-12.3	-3.5	-1.8	-1.9	-2.3	-2.7	
Structural budget balance (d)			-	-1.8	-2.4	-1.8	-1.9	-2.1	-2.6	
General government gross debt (c)			29.5	71.0	80.9	83.1	80.9	78.9	76.7	

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

## 25. SLOVAKIA

### Solid growth set to continue along with a recovery in investment

*Slovakia's economy expanded further in 2016, driven mainly by strong net exports and accelerating household consumption, while falling investment detracted from growth. Economic activity is expected to continue growing at a solid pace over the forecast horizon, providing further support to the labour market through sustained job creation. Inflation is set to turn positive in 2017 after three years of declining consumer prices. The government deficit is projected to decrease steadily.*

#### Investment cycle shapes growth profile

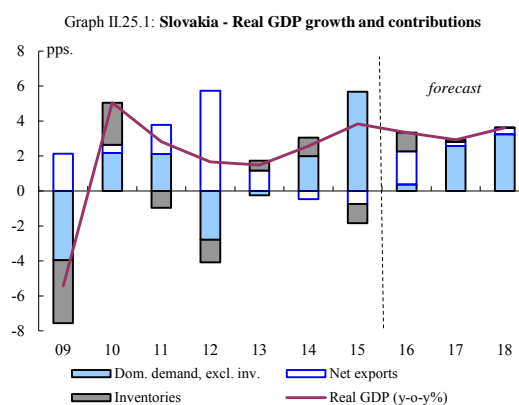
Real GDP is projected to have risen by 3.3% in 2016, slightly less than in 2015. The modest slowing of GDP growth masks a sharp turn in Slovakia's investment cycle in 2016, in which EU-funded investment fell at the start of the new programming period. While public investment contracted particularly sharply in 2016, so too did import growth due to the high import intensity of fixed investment in Slovakia. Coupled with a solid rise in exports, this generated a strong positive contribution of net exports to GDP growth, which was bolstered further by faster growth in household consumption.

Economic growth in Slovakia is projected to remain close to 3% in 2017 and to gather further pace thereafter. Overall investment spending is forecast to return to growth in 2017, accelerating further in 2018. Booming investment in the automotive industry and an expected increase in public investment spending, including large infrastructure projects such as the Bratislava ring road, strengthen the outlook. As investment recovers, import activity is likely to pick up commensurately in 2017. By contrast, export growth is anticipated to accelerate somewhat more gradually, underpinned by rising car production in new and upgraded facilities. Although net trade is likely to prove far less supportive of output growth than in 2016, it is still likely to make a positive contribution throughout the forecast horizon.

#### Household consumption strengthens

Households benefitted from considerable increases in their real disposable income in 2016 thanks to both nominal income and price developments. Rising employment and solid wage growth supported nominal household incomes, while still-low energy prices and inflation further lifted real incomes. With credit costs low, this pushed household consumption growth to an estimated 2.7% in 2016. The saving rate of households is likely to have peaked in 2016 and is set to decline

in 2017, allowing gains in real disposable income to fully feed through to household spending. Growth in private consumption is expected to stay close to 3% over the forecast horizon, reflecting continued growth in employment and wages.



#### Unemployment falls, participation rises

The unemployment rate declined to 9.7% in 2016 and is set to fall further to some 8% in 2018, reflecting the continued economic expansion. The activity rate is also set to gradually increase, as strong labour demand and rising real wages strengthen the incentives for the inactive to join the labour force. Recent increases in the activity rate accompanied with stronger inflows of foreign workers point to a tightening labour market, which should support future wage increases. Taking into account reported labour shortages in specific sectors and regions, nominal wage growth is expected to increase to 4.2% in 2018, lending support to household real disposable income and private consumption.

#### Consumer prices recover

After three consecutive years of declining consumer prices, inflation is set to turn positive in 2017. An acceleration in food and services prices is set to become the main driver of the overall price recovery, allowing CPI inflation to rise to 0.9% in 2017. Notwithstanding the recent rise in

global energy prices, reductions in Slovakia's administrated electricity and gas prices are projected to act as a drag on overall inflation in 2017. Inflation is set to increase gradually throughout 2018, reflecting robust household demand and renewed growth in energy prices.

### Deficit on a downward path

The general government deficit in 2016 is estimated to have declined by 0.5 pps. to 2.2% of GDP. Revenue growth surprised on the upside as labour market improvements drove up growth in revenues from personal income taxes and social contributions, while corporate income tax receipts also increased. Non-budgeted spending (e.g. financial corrections related to EU investment co-financing) and higher-than-budgeted investment and healthcare outlays prevented a faster deficit reduction.

In 2017, the pace of consolidation is projected to accelerate with the deficit declining to 1.4% of GDP. Revenues are anticipated to be the main driver of this adjustment, also due to adopted measures totalling some 0.4% of GDP, which include a higher levy on regulated businesses, higher ceilings on social and healthcare

contributions, a new levy on non-life insurance policies, higher fees for the storage of emergency oil stocks, and higher excises on tobacco. Revenue growth will be tempered by a reduction of the corporate income tax rate by 1.0 pp. to 21% and an increase in lump-sum deductions for the self-employed. Expenditure measures adopted by the government will contribute to a higher spending.

In 2018, a 7% tax on dividends will be introduced with a parallel scrapping of healthcare contributions currently paid on dividends. Assuming no other changes in policies, the deficit is set to decline to 0.6% of GDP in 2018, supported by buoyant tax revenues from robust GDP growth.

After an estimated decline to just above 2.0% of GDP in 2016, the structural deficit is projected to continue decreasing in the following two years. The improvement is likely to broadly mirror the decline in the headline deficit, as the economy is expected to operate close to potential. Following a rise in 2016, Slovakia's debt-to-GDP ratio is projected to decline to 50% of GDP in 2018 on the back of an improving primary deficit and accelerating nominal GDP growth.

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	3.3	2.9	3.6
Private Consumption	43.2		54.9	3.6	-0.8	1.4	2.2	2.7	2.9	2.8
Public Consumption	15.3		19.5	2.6	2.2	5.3	5.4	2.9	2.9	3.0
Gross fixed capital formation	18.1		23.0	2.0	-0.9	1.2	16.9	-7.3	2.1	5.4
of which: equipment	8.2		10.4	3.5	-9.4	12.1	12.4	-2.0	3.3	5.4
Exports (goods and services)	73.6		93.5	9.3	6.7	3.7	7.0	4.1	5.1	6.6
Imports (goods and services)	71.7		91.1	7.2	5.6	4.4	8.1	2.2	5.1	6.5
GNI (GDP deflator)	77.4		98.4	3.8	2.5	1.7	4.0	3.4	3.0	3.6
Contribution to GDP growth:		Domestic demand		3.2	-0.2	2.0	5.7	0.4	2.6	3.2
		Inventories		-0.2	0.6	1.1	-1.1	1.1	0.1	0.0
		Net exports		1.1	1.2	-0.5	-0.7	1.9	0.2	0.4
Employment				0.2	-0.8	1.4	2.0	2.6	1.4	1.6
Unemployment rate (a)				14.9	14.2	13.2	11.5	9.7	9.0	7.9
Compensation of employees / head				7.6	2.6	1.8	3.1	1.5	3.8	4.2
Unit labour costs whole economy				3.6	0.3	0.7	1.3	0.8	2.3	2.1
Real unit labour cost				0.0	-0.2	0.9	1.5	1.1	1.3	0.6
Saving rate of households (b)				8.3	5.9	7.2	8.8	9.6	8.7	8.6
GDP deflator				3.6	0.5	-0.2	-0.2	-0.2	0.9	1.5
Harmonised index of consumer prices				5.2	1.5	-0.1	-0.3	-0.5	0.9	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	3.1	2.4	2.4
Current-account balance (c)				-5.9	1.5	0.6	0.1	1.2	1.2	1.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.7	3.1	1.6	2.2	1.1	1.5	1.8
General government balance (c)				-5.3	-2.7	-2.7	-2.7	-2.2	-1.4	-0.6
Cyclically-adjusted budget balance (d)				-5.4	-1.7	-1.9	-2.3	-2.1	-1.3	-0.8
Structural budget balance (d)				-	-1.7	-2.2	-2.3	-2.1	-1.3	-0.8
General government gross debt (c)				39.5	54.7	53.6	52.5	52.1	51.8	50.0

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

## 26. FINLAND

### Exports to strengthen as domestic demand growth levels off

*Finland's economy turned to broad-based growth in 2016. The expansion is expected to continue in 2017 but at a somewhat lower pace due to weak income growth which should hold back domestic demand. In 2018, growth is expected to pick up again as improved cost competitiveness boosts exports and investment. After decreasing over 2015-2016, the public deficit is expected to increase in 2017 due to the income tax cuts which accompany the agreed wage freeze and the shift of social contributions towards employees.*

#### Growth in 2016 surprised positively...

In 2016, Finland's economy is estimated to have grown by about 1.5%. Domestic demand increased on the back of strengthening private consumption and construction investment. The increased activity in construction was driven both by pent-up demand for new housing in growing urban regions and by increased non-residential construction. Private consumption rose in line with higher confidence and low inflation, which supported purchasing power. Exports are also expected to have increased in 2016 but at a lower rate than imports. The contribution to growth from net exports is therefore expected to have been slightly

#### ...and confidence indicators point to continuing growth momentum.

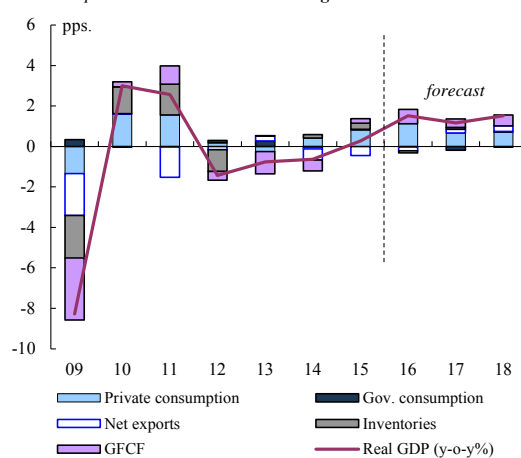
Consumer and manufacturing confidence indicators hit five-year highs in December, possibly reflecting the agreement on the Competitiveness Pact. Confidence indicators for services and construction also rose above their long run averages. All in all, Finland's GDP is projected to expand in 2017 and 2018 by 1.2% and 1.5% respectively.

#### Export growth is expected to pick up in 2017-2018...

Forest industry exports are projected to increase, as capacity has been shifted towards products such as cardboard and soft wood pulp, for which global demand is increasing. Also chemical industries expect exports to rise, while expectations in the metal industry are less positive. Given wage cost reducing measures for 2017 resulting from the Competitiveness Pact, and a technical assumption of an increase in wages in 2018, nominal unit labour costs are expected to fall in 2017 and to remain broadly constant in 2018. Competitiveness relative to other EU Member States, and therefore the outlook for exports, is projected to improve

gradually over the forecast period. Imports are expected to expand in 2017 and 2018 due to increasing exports and higher domestic demand. Finland's trade balance in 2016 is estimated to have remained stable following an improvement in the previous year. The current-account deficit, however, is likely to have declined due to a higher primary income balance. Especially in 2017 rising import prices are expected to offset some of the gains resulting from increasing exports. Overall in 2017-2018 the surplus of goods trade and the current-account deficit are projected to remain broadly stable.

Graph II.26.1: Finland - Real GDP growth and contributions



#### ...while domestic demand growth decelerates.

With wages frozen and inflation rising private consumption growth is projected to slow to a more subdued pace in 2017 and 2018. Employment has started to increase and job creation should become more robust towards the end of 2018, resulting in a lower unemployment rate. Households' somewhat weaker income prospects are projected to lead to a slowdown in the growth of residential investment in 2017 and 2018. Investment in production capacity and facilities is expected to continue to expand over the forecast horizon on the back of rising exports.

Risks to the forecast are broadly balanced. On the one hand, most of the confidence indicators are above their long-term average, which could feed into higher-than-expected activity and exports. On the other hand, order books in the manufacturing industry are thin and the overall uncertainty related to the external environment, including the pace of the recovery of the Russian economy, remains high and could weigh on the growth of exports.

#### Deficit worsening in 2017

After the improvement of the budget deficit from 2.7% of GDP in 2015 to 2.2% of GDP in 2016, the deficit is expected to widen to 2.3% of GDP in 2017. This is due to the measures which accompany the wage freeze in the Competitiveness Pact, namely the cuts in personal income tax and in employers' health insurance contributions. The revenue loss caused by these measures (0.6% of GDP) outweighs the impact of the expenditure cuts

(0.5% of GDP) affecting a broad range of activities which were decided in the government's fiscal plan. Risks to the public finances forecast are linked to the uncertainty surrounding the timing of the expected short-term costs and the long-term benefits of the Competitiveness Pact.

In 2018, the joint impact of growth and of the consolidation measures (0.4% of GDP) arising from the government's fiscal plan is expected to bring the deficit down to 1.8% of GDP, under a no-policy-change assumption.

Given the deficits and sluggishly increasing nominal GDP, Finland's gross government debt-to-GDP ratio is set to increase to 65.6% in 2017 and to 66.5% in 2018.

The structural balance is projected to worsen by about ¼pps. of GDP in 2017, and to improve marginally 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	209.5	100.0	2.5	-0.8	-0.6	0.3	1.5	1.2	1.5	
Private Consumption	115.8	55.3	2.7	-0.5	0.8	1.5	2.0	1.2	1.3	
Public Consumption	51.1	24.4	1.5	1.1	-0.5	0.1	-0.1	-0.8	0.1	
Gross fixed capital formation	42.9	20.5	2.6	-4.9	-2.6	1.1	3.4	2.0	2.5	
of which: equipment	9.9	4.7	2.1	-8.7	-1.6	5.8	0.6	1.5	2.6	
Exports (goods and services)	77.2	36.8	5.0	1.1	-2.7	2.0	0.8	2.0	3.3	
Imports (goods and services)	77.8	37.1	5.3	0.5	-1.3	3.1	1.3	1.5	2.5	
GNI (GDP deflator)	211.3	100.8	2.7	-0.9	-0.1	0.2	1.6	1.2	1.5	
Contribution to GDP growth:										
Domestic demand			2.2	-1.1	-0.3	1.1	1.8	0.9	1.3	
Inventories			0.1	0.0	0.2	0.3	-0.1	0.1	0.0	
Net exports			0.3	0.3	-0.5	-0.4	-0.2	0.2	0.3	
Employment			1.2	-0.7	-0.5	-0.3	0.4	0.5	0.6	
Unemployment rate (a)			8.9	8.2	8.7	9.4	8.8	8.6	8.3	
Compensation of employees / head			3.1	1.3	1.0	1.6	1.2	-0.8	1.2	
Unit labour costs whole economy			1.9	1.4	1.1	1.0	0.1	-1.4	0.3	
Real unit labour cost			0.1	-1.1	-0.6	-0.7	-0.8	-2.3	-0.6	
Saving rate of households (b)			8.7	8.6	7.2	6.7	6.1	5.1	4.4	
GDP deflator			1.8	2.6	1.7	1.7	0.9	1.0	0.9	
Harmonised index of consumer prices			1.9	2.2	1.2	-0.2	0.4	1.5	1.2	
Terms of trade goods			-1.4	0.8	1.7	4.1	0.9	-1.7	0.1	
Trade balance (goods) (c)			5.5	0.1	0.7	1.1	1.1	0.9	1.1	
Current-account balance (c)			4.1	-1.9	-1.3	-0.7	-0.5	-0.6	-0.5	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			4.1	-1.8	-1.2	-0.7	-0.4	-0.4	-0.4	
General government balance (c)			1.9	-2.6	-3.2	-2.7	-2.2	-2.3	-1.8	
Cyclically-adjusted budget balance (d)			1.7	-1.3	-1.5	-1.1	-1.2	-1.5	-1.4	
Structural budget balance (d)			-	-1.2	-1.6	-1.1	-1.2	-1.5	-1.4	
General government gross debt (c)			43.0	56.5	60.2	63.5	63.7	65.6	66.5	

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

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



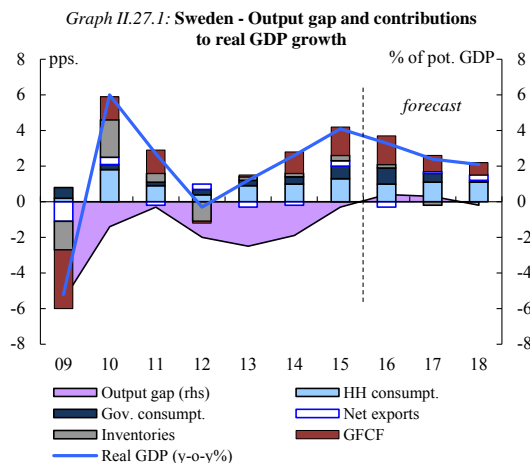
## 27. SWEDEN

### Growing at a healthy pace

*Real GDP growth in Sweden is expected to fall back to the economy's potential growth rate. Domestic demand is set to remain the main driver, but with net exports projected to become supportive again in 2017 and 2018. Unemployment is decreasing due to the buoyant labour market and is expected to stabilise at a relatively low level. Inflation is set to rise gradually towards the Riksbank's 2% target. The general government balance is projected to be broadly balanced over the forecast horizon.*

#### Growth: lower but still robust

Sweden's economy continued to show strong real GDP growth in 2016, likely expanding by an estimated 3.3%. Domestic demand, notably investment and private consumption, provided strong support to economic activity. Economic growth is forecast to slow 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 in 2017.



#### Moderate private and public consumption growth

A steady increase in real disposable income, employment growth and upbeat consumer confidence are all expected to support growth in private consumption of 2.6% in 2017 before slowing slightly to 2.4% in 2018.

Government consumption growth is expected to have been high at 3.4% in 2016. This is largely a reflection of additional public spending to host and integrate the large number of asylum seekers that arrived in 2015. However, the significant drop in arrivals since then means that government

consumption growth is set to slow substantially to 1.9% in 2017 and 0.3% in 2018.

#### Housing construction supports investment

While investment is projected to have grown robustly in 2016 at 6.6%, its pace is set to slow in the coming years. In particular, housing investment is expected to have increased at 15.5% in 2016, but its growth rate is set to decline in 2017 and 2018 as the construction sector faces shortages of labour and building land. At the same time, public investment growth is projected to increase in 2017 as both the central and local governments receive additional resources, particularly for infrastructure and welfare services. Overall, investment growth is expected to shift into a lower gear at 3.5% in 2017 and 2.9% in 2018.

#### Net exports to contribute to growth in 2017

Exports finished 2016 with positive momentum from a weak Swedish krona and a marginally improved external environment. This trend is expected to continue in 2017 and 2018, while import growth is assumed to slow in line with domestic demand. Thus, net exports are set to make a small, positive contribution to growth in 2017, which is forecast to increase slightly in 2018. The current-account surplus relative to GDP is expected to remain broadly stable.

#### Unemployment decreasing

The labour market continues to strengthen, with employment having grown by 1.9% and unemployment falling to 6.9% in 2016. Firms have reported skills shortages, in particular in the public and construction sectors. With the gradual expansion of the labour force, unemployment is set to stabilise around 6.4% in 2018. The unemployment rate of non-EU born and low-skilled people however is expected to remain elevated.

### Modest inflation developments

In 2016, inflation gradually increased on the back of higher oil and commodity prices. Annual HICP inflation increased to 1.1% in 2016. The depreciation of the Swedish krona in 2016 is set to provide an impetus to inflation in 2017, along with rising cost pressures due to high capacity utilisation rates and tighter labour market conditions. However, wage increases are forecast to remain relatively modest this year, as export-oriented industries seek to maintain their competitiveness and set the benchmark for the annual bargaining negotiations. Overall, HICP is projected to increase further to 1.7% in 2017 and 1.8% in 2018.

### Risks are broadly balanced

On the positive side, the economy may benefit in the medium term from a successful integration of migrants into the labour market. Deviation of domestic sectors from the wage benchmark could also provide a further boost to household consumption. On the downside, as a small open economy, a further weakening of world trade could weigh on Sweden's export sector and its overall economic activity. In addition, any correction to

Sweden's housing market could dampen business confidence, household consumption and construction investment.

### Public finances remain strong

The general government balance is expected to have further improved in 2016, reaching a surplus of 0.5% of GDP. Strong corporate tax payments and lower-than-expected expenditure associated with the reception of asylum seekers (due to a lower number of arrivals) are driving the improvement. In 2017, the general government balance is projected to show a slight deficit of 0.2% of GDP. Declines in spending related to the reception and integration of refugees (included in the Budget Bill) and to fewer people eligible for sickness leave benefits are unlikely to compensate for the budgeted new welfare spending. Under a no-policy-change assumption, public finances are expected to improve in 2018 with the general government reaching a surplus of 0.2% of GDP. The structural surplus is projected to have decelerated 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 41.0% in 2016 to 37.6% 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	4181.1		100.0	2.5	1.2	2.6	4.1	3.3	2.4	2.1
Private Consumption	1884.2		45.1	2.5	1.9	2.1	2.7	2.3	2.6	2.4
Public Consumption	1086.4		26.0	1.0	1.3	1.5	2.5	3.4	1.9	0.3
Gross fixed capital formation	988.7		23.6	3.1	0.6	5.5	7.0	6.6	3.5	2.9
of which: equipment	305.5		7.3	4.1	0.1	-1.1	6.2	4.9	2.4	2.3
Exports (goods and services)	1906.2		45.6	5.1	-0.8	5.3	5.6	2.8	3.6	3.8
Imports (goods and services)	1707.7		40.8	4.9	-0.1	6.3	5.5	3.9	3.7	3.5
GNI (GDP deflator)	4245.2		101.5	2.7	1.1	2.5	3.4	3.2	2.3	2.1
Contribution to GDP growth:										
Domestic demand				2.1	1.3	2.6	3.5	3.5	2.5	1.8
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	-0.3	0.1	0.3
Employment				0.8	1.0	1.4	1.5	1.9	1.4	1.2
Unemployment rate (a)				7.3	8.0	7.9	7.4	6.9	6.5	6.4
Compensation of employees / head				3.5	1.9	2.2	3.5	3.1	3.3	3.1
Unit labour costs whole economy				1.8	1.7	1.0	0.9	1.7	2.3	2.2
Real unit labour cost				0.2	0.6	-0.7	-1.1	-0.6	0.0	-0.1
Saving rate of households (b)				10.7	17.7	18.3	18.7	19.0	18.8	18.4
GDP deflator				1.6	1.1	1.8	2.0	2.4	2.3	2.2
Harmonised index of consumer prices				1.6	0.4	0.2	0.7	1.1	1.7	1.8
Terms of trade goods				-0.8	0.5	0.9	1.9	2.1	0.1	-0.1
Trade balance (goods) (c)				6.5	3.2	3.1	3.0	3.1	3.0	3.1
Current-account balance (c)				6.2	5.1	4.8	4.7	4.8	4.8	4.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.0	4.9	4.7	4.5	4.5	4.5	4.6
General government balance (c)				0.6	-1.4	-1.6	0.2	0.5	-0.2	0.2
Cyclically-adjusted budget balance (d)				0.8	0.1	-0.5	0.4	0.3	-0.3	0.3
Structural budget balance (d)				-	0.1	-0.5	0.4	0.3	-0.3	0.3
General government gross debt (c)				47.8	40.4	45.2	43.9	41.0	39.3	37.6

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

## 28. THE UNITED KINGDOM

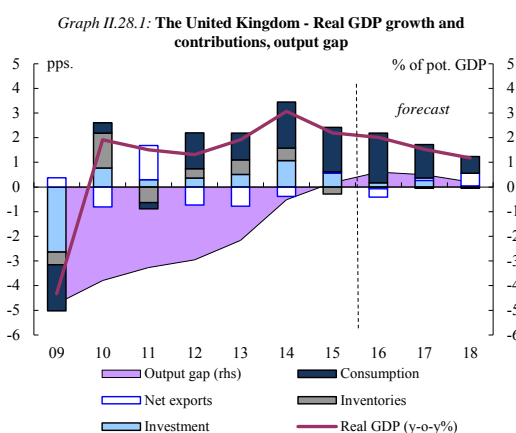
### Softer growth and rising inflation in 2017 and 2018

*Despite resilience in the second half of 2016, economic growth is projected to moderate in 2017 and weaken further in 2018. With time, business investment is likely to be adversely affected by persisting uncertainty while private consumption growth is projected to weaken as growth in real disposable income declines. Inflation is expected to rise to over 2% and remain elevated. The impact on the labour market of subdued demand is likely to be muted. Fiscal consolidation is projected to continue.*

#### Robust growth in 2016

Reflecting recent strength, growth in 2016 was brisk at 2%. Output in the services sector increased by 2.8%; industrial production and construction sector output rose by 1.1% and 1.4% respectively.

The impact of the vote, by the UK to leave the EU in the referendum held on 23 June 2016, on growth has yet to be felt. Growth in each of 2016-Q3 and 2016-Q4 was 0.6%, in line with growth rates in the preceding two years suggesting that the economy has maintained momentum since the referendum. In particular, retail sales rose markedly in H2-2016 and most measures of business confidence and orders in 2016-Q4 remained firm.



Nevertheless, growth remains unbalanced. Strong domestic demand is projected to have contributed 2.2 pps. to growth in 2016, while net exports detracted from growth by 0.1 pps. The increase in domestic demand reflects strength in private consumption and a modest rise in business investment. Private consumption has been supported by a reduction in saving; the household saving ratio fell to 5.6% in 2016-Q3. Business investment declined in 2016-Q1 but picked up in the following three quarters, boosted by accommodative borrowing conditions, previous increases in domestic demand and possibly

reflecting a pipeline of investment already underway.

#### Growth to moderate throughout 2017

Recent momentum is projected to largely continue in 2017-Q1, with growth expected at 0.4%, but ease notably thereafter resulting in growth of 1.5% in 2017. The expected tempering in momentum is driven by a slowdown in private consumption growth, by 0.9 pps., to 1.9%, reflecting an erosion in growth in real household disposable income as inflation rises to match, and then exceed, increases in nominal wages. Households are, however, expected to smooth consumption growth which, despite slowing, should outstrip that in income. The household saving ratio is projected to fall further to 4.3%.

Although expected to rise in 2017 compared with 2016, business investment is projected to slow throughout 2017 as rising uncertainty deters businesses from investing at recent rates. Given the lag between decisions to invest and actual investment, the impact of the result of the EU referendum is expected to become apparent later in 2017. However, net exports are forecast to contribute to growth and, thus, partly alleviate the negative impact on GDP of the fall in domestic demand growth. In particular, exports are expected to be supported by the depreciation of sterling in 2016 while import growth is projected to weaken, consistent with the slowing in domestic demand.

#### Growth to slacken further in 2018

Growth is projected to continue to wane in 2018 to 1.2%. The factors weighing on private consumption growth are expected to persist, and intensify, and business investment is expected to increase only marginally. A further rise in net exports reflecting, predominantly, an expected decline in import growth due to subdued domestic demand, should partly offset the impact of weaker consumption and investment on growth.

### A firm labour market but sharply rising inflation

Although the moderation in GDP growth may have a lagged impact on employment, the effect is expected to be relatively limited reflecting the flexible response of real wages to weaker demand. Nonetheless, employment growth is projected to fall to 0.3% by 2018. The unemployment rate is expected to rise gently to 5.6% in 2018.

Inflation is on an upward path and 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%. Higher inflation is mainly the result of the impact of the depreciation of the exchange rate which raises import prices and then flows more widely to other sectors.

### Ongoing fiscal consolidation

The general government deficit is expected to fall to 3.3% of GDP in the 2016-2017 fiscal year, compared to 4.0% of GDP in 2015-2016. The fall reflects moderation in the increase of the public wage bill and social spending, both of which are estimated to have grown below the rate of nominal GDP. The rise in interest payments, which reflects the rise in bond yields since the referendum, may

lead to an increase in spending. Revenues are expected to show robust growth in 2016-2017. The structural deficit is expected to fall to 3.7% of GDP in 2016-2017, from 4.2% in 2015-2016.

The general government deficit is expected to continue to fall over the forecast horizon to reach 2.8% and 2.5% in 2017-2018 and 2018-2019, respectively. The decline is driven by expenditure-focused fiscal consolidation. The pace of fiscal consolidation is likely to be somewhat slower than in previous years, however, amid lower GDP growth and subdued private consumption. The structural deficit is expected to improve by around ½ pps. per year, to reach a value around 3% of GDP in 2017-2018 and 2½% of GDP in 2018-2019. Given the high degree of uncertainty surrounding the UK's economic outlook, risks to these projections are considered balanced. The government debt ratio is projected to fall over the forecast horizon to reach 86.0% of GDP in 2018-2019, after peaking at 87.5% in 2016-2017.

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-	-5.2	-4.0	-3.3	-2.8	-2.5
Structural budget balance	-4.9	-4.2	-3.7	-3.1	-2.6
General government gross debt	87.2	87.5	87.5	87.0	86.0

-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	1872.7		100.0	2.0	1.9	3.1	2.2	2.0	1.5	1.2
Private Consumption	1214.7		64.9	2.4	1.6	2.2	2.4	2.8	1.9	0.9
Public Consumption	362.8		19.4	2.3	0.3	2.3	1.3	1.0	0.7	0.4
Gross fixed capital formation	317.1		16.9	1.1	3.2	6.7	3.4	1.0	1.6	0.2
of which: equipment	74.9		4.0	0.7	2.5	6.8	4.7	2.3	2.0	0.2
Exports (goods and services)	517.4		27.6	3.6	1.1	1.5	6.1	1.7	3.5	2.9
Imports (goods and services)	547.2		29.2	4.3	3.4	2.5	5.5	2.8	3.0	1.1
GNI (GDP deflator)	1847.0		98.6	2.0	1.4	2.3	2.1	1.8	1.9	1.3
Contribution to GDP growth:		Domestic demand		2.2	1.6	2.9	2.3	2.2	1.6	0.7
		Inventories		0.0	0.6	0.5	-0.3	-0.1	0.0	0.0
		Net exports		-0.2	-0.8	-0.4	0.0	-0.3	0.1	0.5
Employment				0.8	1.2	2.4	1.8	1.3	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	0.9	2.3	2.4	2.4
Unit labour costs whole economy				2.7	1.3	-0.3	0.5	1.6	1.4	1.5
Real unit labour cost				0.7	-0.6	-1.9	-0.1	0.5	-0.4	-1.0
Saving rate of households (b)				8.4	6.7	6.8	6.5	5.5	4.3	3.7
GDP deflator				2.0	1.9	1.6	0.6	1.1	1.9	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	-1.5	0.0	-1.7	0.1
Trade balance (goods) (c)				-4.6	-6.9	-6.7	-6.4	-7.4	-8.2	-7.9
Current-account balance (c)				-2.1	-4.4	-4.7	-4.3	-5.0	-4.8	-3.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.1	-4.4	-4.7	-4.3	-5.1	-4.9	-4.0
General government balance (c)				-3.6	-5.7	-5.8	-4.4	-3.4	-2.8	-2.5
Cyclically-adjusted budget balance (d)				-3.5	-4.4	-5.5	-4.5	-3.7	-3.2	-2.6
Structural budget balance (d)				-	-4.4	-5.4	-4.5	-3.7	-3.2	-2.6
General government gross debt (c)				49.1	86.2	88.1	89.0	88.6	88.1	87.0

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



## Candidate Countries



## 29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

### Broader-based recovery at risk from political crisis

*Subject to a quick stabilisation of the political situation in the country in the aftermath of the December 2016 elections, the economy is set to recover from last year's growth slowdown. Based on solid fundamentals, the forecast implies an increasing contribution of domestic demand to economic growth as investor confidence returns, and a small positive addition from the external sector amidst a gradually tightening price environment and further employment gains.*

#### Weak investment slows down growth in 2016

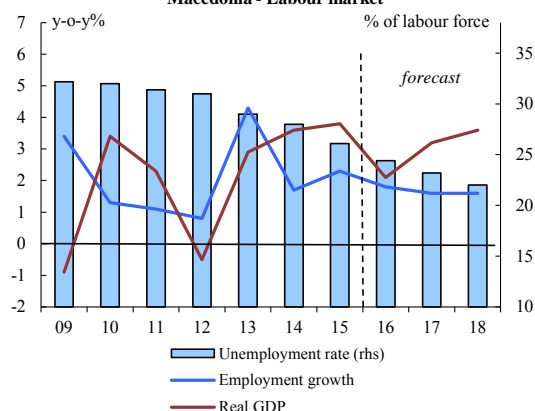
The pace of economic expansion slowed down in the first three quarters of 2016, compared to the same period one year earlier, by 0.4 pps. to 2.7% (y-o-y). Amidst a protracted political crisis, private companies held back on investment, credit growth to corporates was almost flat, and the government reigned in capital expenditure. GDP growth was fuelled by a surge in private consumption, in particular in the third quarter, supported by a benign price environment also in the second half of the year. Consumer prices dropped, on average, by 0.2% in 2016, mainly on account of lower food and energy prices, while core inflation remained positive. Construction activity continued to expand at a solid pace. The manufacturing sector contracted in the year to September. External imbalances remained contained, but sharpened further over the summer. The current-account deficit is likely to have increased noticeably in 2016 compared to 2015, as the deficit in the primary balance widened, and private transfer inflows declined. The merchandise trade deficit, however, likely narrowed somewhat, as exports surged, mainly from established foreign producers in machinery and transport equipment, amidst robust import growth. It is expected to decrease further over the forecast horizon, on account of these dynamics, supporting a renewed improvement in the current-account.

#### Sound fundamentals point to growth pick-up

As investment and credit to corporates pick up, GDP growth is likely to accelerate to 3.2% in 2017, and further to 3.6% in 2018. The biggest contribution is expected from domestic demand, with private consumption spending remaining robust, as it benefits from only moderately rising consumer prices and further improvement in the labour market. Disposable incomes are likely to be bolstered by robust, yet lower increases in real net wages, compensating for the decline in private transfers from abroad. Fiscal policy is expected to remain supportive to domestic demand growth in

2017 and 2018, as the government plans sizeable increases in both transfers and capital expenditure, compared to the 2016 outturn, in a continued low-tax environment. The foreign balance is likely to contribute to growth, as an increase in exports, dominated by established foreign producers, over-compensates import growth, which is also expected to surge, in response to an increase in both private and public investment, including planned new and extended production capacities by foreign producers in the free industrial zones.

Graph II.29.1: The former Yugoslav Republic of Macedonia - Labour market



#### Slower improvement in the labour market

Improvements in the labour market have come more timidly since the summer. Annual employment growth slowed down in the third quarter, but another decline in the labour force contributed to the further reduction in the unemployment rate - which, at 23.4% (average, third quarter) remains high, however. A large share of the new jobs was created through government employment measures. Supported by renewed strengthening of domestic demand and continued large-scale public sector programmes, employment is likely to increase further in 2017 and 2018, albeit more slowly. In combination with the continued labour force contraction due to migration and demographics, this is expected to bring further reductions in the unemployment rate.

### Risks to recovery are on the downside

The expected economic strengthening is put at risk by continued political uncertainty after the December elections which could dampen private investment growth and stifle household consumption. Pressure on foreign reserves could arise, as bank deposits are moved abroad, and foreign investment inflows and remittances decline. Fiscal revenues might drop, adding to pressures resulting from insufficiently concretised fiscal consolidation and further rising debt levels. Investment performance could be further dampened by renewed under-execution of government capital spending. On the external side, disappointing growth in major trading partners would trim projections for the foreign balance.

### Sustained primary deficits drive debt levels

Fiscal policy remained accommodating throughout the year, with two supplementary budgets adopted in mid-year, providing a stimulus to growth. This included one-off payments to victims of the summer floods, and an additional 5% average increase in pensions in December. Total revenues of the central government rose by 5.1% (y-o-y) in 2016. The fiscal deficit remained markedly below

the government's (revised) annual target and below pre-year level. However, the deficit reduction in 2016 comes largely on the back of under-execution of capital expenditure, which amounted to only 76% of plan, and was 9% lower than one year earlier. The deficit ratio is expected to narrow progressively in 2017 and 2018, mainly on account of strong growth dynamics. Primary deficits are likely to remain elevated and to be the main contributor to further increases in general government debt, which is projected to rise by 4.2 pps. between 2015 and 2018.

Graph II.29.2: The former Yugoslav Republic of Macedonia - Public finances

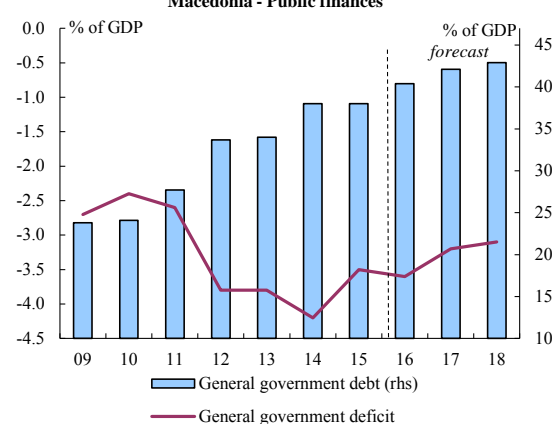


Table II.29.1:

### Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	2015			Annual percentage change						
	bn MKD	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	558.2		100.0	2.8	2.9	3.6	3.8	2.1	3.2	3.6
Private Consumption	382.1		68.5	3.1	1.9	2.2	3.7	3.3	3.2	3.1
Public Consumption	93.1		16.7	1.2	0.5	3.0	2.1	0.8	1.1	1.2
Gross fixed capital formation	129.1		23.1	3.0	3.5	13.7	3.5	1.0	3.4	4.4
of which: equipment	-		-	-	-	-	-	-	-	-
Exports (goods and services)	272.4		48.8	7.4	6.1	16.5	6.7	10.9	7.7	6.9
Imports (goods and services)	363.0		65.0	7.5	2.2	14.1	5.2	8.1	5.8	5.1
GNI (GDP deflator)	540.6		96.8	-	2.7	4.2	2.5	2.6	3.4	3.6
Contribution to GDP growth:										
Domestic demand				3.4	2.3	5.3	3.8	2.6	3.2	3.4
Inventories				0.6	-0.7	-0.2	0.2	-0.6	0.0	0.0
Net exports				-1.2	1.3	-1.5	-0.2	0.1	0.1	0.2
Employment				-	4.3	1.7	2.3	1.8	1.6	1.6
Unemployment rate (a)				33.7	29.0	28.0	26.1	24.4	23.2	22.0
Compensation of employees / head				-	-4.2	1.6	1.2	0.2	1.7	2.3
Unit labour costs whole economy				-	-2.8	-0.3	-0.3	-0.2	0.1	0.4
Real unit labour cost				-	-7.0	-1.7	-2.1	-1.2	-1.6	-1.5
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.0	4.5	1.4	1.9	1.0	1.7	1.9
Consumer-price index				2.5	2.8	-0.3	-0.3	-0.2	0.9	2.4
Terms of trade goods				-	-0.8	4.8	2.7	-0.1	-0.1	-0.1
Trade balance (goods) (c)				-20.6	-22.8	-21.7	-20.2	-19.7	-19.0	-18.1
Current-account balance (c)				-5.3	-1.6	-0.5	-2.1	-2.5	-1.7	-1.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-3.8	-4.2	-3.5	-3.6	-3.2	-3.0
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	34.0	38.0	38.0	40.0	41.3	42.2

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

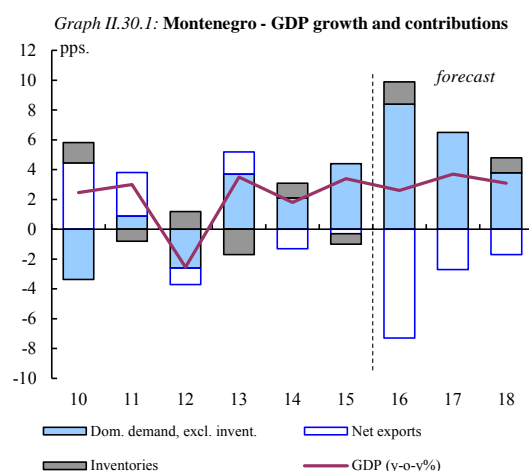
## 30. MONTENEGRO

### High import content of investment drags on growth

*Investment is set to remain the main driver of growth. However, the high import content of investment will likely lead to a moderation of growth too. Fiscal relaxation in 2016, with the increase in public sector wages, pensions and social benefits, is expected to be offset to some extent in 2017 with the implementation of the budget consolidation plan; but then again, the reprisal this year of extensive public works is expected to continue to feed higher budget deficits and debt beyond 2018.*

#### Growth projections revised downwards

Data for the first three quarters of 2016 suggest a lower growth rate for the whole year than foreseen a few months ago. In particular, the outlook for private consumption is revised slightly downwards, with its growth expected to remain below the 3% annual rate for the whole year, as increases in public sector wages and pensions in 2016 were not followed by the private sector. Also, the government reduced its own pace of consumption. By contrast, the faster than expected surge in both public and private investments (by 30% y-o-y in the second and in third quarters), suggests a higher figure for the whole year. Hard data also confirmed the need to review upward the import elasticity ratio of investments, while exports projections appeared underestimated. Overall, these revised projections portray a stronger contribution of domestic demand to growth, offset by a more negative impact of net exports.



#### A modest revival of industry

After a poor performance in 2016, industrial production is set to witness some recovery in 2017 driven by electricity output after the commissioning of the Krnovo windmill. The production of this new plant will account for 8% of

the national electricity output, and will also support exports. With high electricity costs and low aluminium prices, the Montenegrin industry is turning to upstream production in an attempt to gain added value from the market. The production overhaul of aluminium alloy products is expected to commence in autumn 2017 and further develop in 2018.

#### Construction should remain strong, fuelled by investments

In particular, the completion of new hotels should continue improving the export of services, albeit at a slower pace due to high base-effect from the record-high number of visits registered in 2015 and 2016. Works will continue in 2017 and 2018 on the highway and the connection cable with Italy. On the transport sector, the conclusion of the ongoing privatisation of the port of Bar and the railway cargo company could bring efficiency gains, reinforcing the positive performance of services as of 2018. However, all these investments also present a high import component, exacerbating the already high volume of imports and the large external deficit.

#### Weak performance of the labour market

After the introduction in 2016 of a pension for mothers of three or more children, many working women opted out of the labour market while others, previously inactive, registered as unemployed, providing a distorted picture of longer-term trends in the labour market and hindering economic growth. Employment is expected to resume a faster pace in 2017 and 2018; firstly, in the construction sector, and after completion of the new facilities, on the tourism, transport and energy sectors.

#### Banks' deleveraging and consolidation

2017 could see the merge or acquisition of a few domestic banks, bringing some consolidation of the little Montenegrin market, and some further

competition for market share. Meanwhile, the ongoing deleveraging of the financial sector hinders credit growth, except for households and foreign companies.

As a result of weak labour and credit growth, inflation pressures are expected to remain modest despite some increase in energy prices. During 2017 and 2018, the annual change in the consumer price index is expected to return gradually closer to the historical average of around 2%.

### The return of high fiscal deficits

Delays in public works and some improvement on revenue collection resulted in a marked reduction of the general government deficit in 2016. However, as of 2017, budget deficits are set to increase to around 6% of GDP after resuming the financing of the highway. The 2017 fiscal consolidation plan offsets previous year's increase in current expenditure, namely in public sector wages and mothers' pensions introduced in 2016 before the elections. The main corrective measures include the reduction (up to 25%) in mothers' pensions, higher excises on fuel, an 8% cut in public sector wages as well as the suspension (until

2019) of the years of service bonuses. Yet, overall financing needs remain substantial (at 12% of GDP); half of which is expected to be covered by the Chinese loan to finance the Bar-Boljare highway. The projections for the 2018 budget performance are very similar to 2017, except for a further nominal increase in capital spending. However, some increase in VAT and fees revenue would contribute to contain the budget deficit at around 6% of GDP in 2018.

### Main risks

Substantial financing needs, largely funded from foreign sources, will raise the stock of public debt above 70% of GDP until 2018. Although there will be no need to refinance Eurobonds in 2017 or in 2018, the refinancing risk will intensify soon afterwards in 2019, when bonds worth some 7% of GDP are coming to maturity. A possible increase in 2017 of the minimum wage (from current 30% of the average salary to 60%) is not scheduled in the baseline due to the customary no-policy-change assumption. However, such a step increase would have a negative impact on employment as well as on competitiveness and hence, on overall growth.

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
GDP		3624.7	100.0	-	3.5	1.8	3.4	2.6	3.7	3.1
Private Consumption		2871.9	79.2	-	1.6	2.9	2.2	2.9	1.8	1.3
Public Consumption		701.5	19.4	-	1.3	1.4	1.9	2.4	1.4	1.1
Gross fixed capital formation		736.3	20.3	-	10.7	-2.5	11.9	27.4	19.0	9.0
of which: equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		1539.2	42.5	-	-1.3	-0.7	5.7	4.3	3.1	3.2
Imports (goods and services)		2213.6	61.1	-	-3.1	1.6	4.4	15.0	6.1	4.5
GNI (GDP deflator)		-	-	-	-	-	-	-	-	-
Contribution to GDP growth:	Domestic demand			-	3.7	2.1	4.4	8.4	6.5	3.8
	Inventories			-	-1.7	1.0	-0.7	1.5	0.0	1.0
	Net exports			-	1.5	-1.3	-0.3	-7.3	-2.7	-1.7
Employment				-	1.1	7.1	2.4	1.6	2.9	2.9
Unemployment rate (a)				-	19.5	18.0	17.5	17.9	17.4	17.1
Compensation of employees / head				-	-2.0	6.1	0.9	4.2	0.1	1.3
Unit labour costs whole economy				-	-	-	-	-	-	-
Real unit labour cost				-	-6.2	10.5	-1.4	2.5	-1.9	-1.1
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	-	-	-	-	-	-
Consumer-price index				-	1.8	-0.5	1.4	0.1	1.4	2.1
Terms of trade of goods				-	-	-	-	-	-	-
Trade balance (goods) (c)				-	-39.5	-39.8	-40.4	-46.1	-48.3	-49.0
Current-account balance (c)				-	-14.5	-15.2	-13.3	-19.5	-22.7	-23.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-4.6	-2.9	-8.4	-3.8	-6.6	-6.0
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	57.6	54.8	61.2	65.5	70.3	73.3

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

## 31. SERBIA

### Domestic demand to drive growth

*Driven by stronger domestic demand and double-digit export growth, GDP expanded again in 2016. Economic growth is forecast to pick up further on the back of rising private consumption and to be supported by continuously robust export and investment. Despite increasing pressure from stronger demand and higher international oil prices, price stability is expected to be preserved. Fiscal consolidation is envisaged to slow down, but to remain sufficient to sustain a further reduction of government debt.*

#### Double-digit export growth and rising domestic demand supported firming up of growth

GDP growth accelerated from 0.8% in 2015 to 2.7% (y-o-y) in the first three quarters of 2016. The economic recovery continued to be supported by surging exports which maintained double-digit growth rates, beating expectations again in 2016. Export benefitted from recent inflows of manufacturing FDI and a solid demand from major trading partners in the EU. It continued to be well-diversified both in terms of sectors and destination countries. Economic growth was also increasingly underpinned by rising domestic demand. In particular, the robust investment performance continued largely unabated, supported by a better business environment, improved expectations, the easing of financing conditions, and a marked increase in government capital expenditure. Private consumption went up as well on the back of increased employment, incomes, and consumer lending, although its strength has been sapped by a fall in remittances.

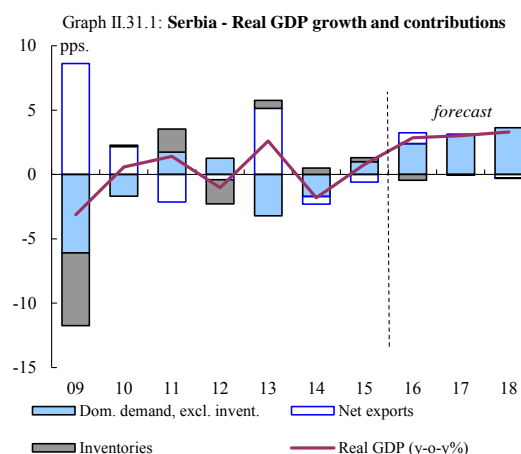
#### Domestic demand is seen to strengthen further

Economic growth is expected to pick up on the back of stronger private consumption. After years of decline or marginal growth, private consumption is forecast to rebound soundly and to increasingly contribute to the rising domestic demand. The envisaged acceleration of private consumption growth should be supported by continuous gains in private employment and wages, buoyant lending and markedly improved expectations. Although its level is still relatively modest, investment is also expected to remain an important engine of growth. There is a significant room for its further expansion, which is foreseen to be driven by the same factors that have bolstered its recent surge – improvements in the business environment, better financing conditions, and government capital spending.

Export growth is forecast to slow down but to remain robust and continue outpacing import growth. As domestic demand strengthens further, the gap between export and import growth is envisaged to shrink and the contribution of net export to growth to become marginal.

#### Price stability is likely to be preserved

Following a recent reduction of the inflation target from  $4\% \pm 1.5$  to  $3\% \pm 1.5$  pps., inflation is expected to move within the new tolerance band. Price pressures are foreseen to increase a bit due to higher international oil prices and stronger demand. However, they should be contained due to a good agricultural season last year and limited adjustments of administered prices.



#### Risks remain elevated

Although the economy is in much better shape to face challenges due to recent reforms and reduced domestic and external imbalances, risks to the forecast baseline are non-negligible. Besides being sensitive to exogenous factors like the effects from tighter US monetary policy and fluctuations in commodity prices, there are still major risks related to incompleteness or reversal of the fiscal

consolidation drive and relaxation of structural reform efforts.

### Putting public finance on a sustainable path

Fiscal consolidation has been very strong. Budget execution continued to outperform and the 2016 deficit fell significantly below both initial and revised targets. Expenditure remained under control and revenue growth turned out much better than expected due to favourable macroeconomic developments, improved tax collection, and unplanned one-offs. This created space for additional spending by the end of last year and a limited wage and pension indexation to be implemented in 2017. Following the recent steep reduction of the budget deficit, the fiscal stance is expected to become more supportive of growth. Under the no-policy change assumption, the 2017 budget deficit is projected to decline only marginally in comparison to the previous year outcome.

In 2016, as a result of fiscal consolidation efforts, the government debt fell for the first time after years of constant increase. The pace of fiscal consolidation is forecast to slow down as of 2017

but the deficit levels would be sufficient to sustain a further lowering of government debt. Fiscal risks, however, remain elevated and the fiscal scenario continues to face a number of uncertainties. Government debt is high, refinancing needs and interest payments remain significant. Debt payments 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.

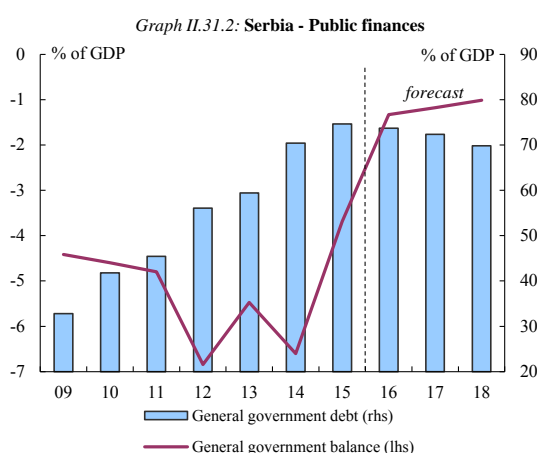


Table II.31.1:

### 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	2.8	3.0	3.3
Private Consumption	3019.7		74.7	-	-0.6	-1.3	0.5	1.2	2.1	3.0
Public Consumption	655.9		16.2	-	-1.1	-0.6	-1.5	2.7	2.5	2.4
Gross fixed capital formation	715.5		17.7	-	-12.0	-3.6	5.6	6.1	6.4	5.8
of which: equipment	-		-	-	-	-	-	-	-	-
Exports (goods and services)	1887.2		46.7	-	21.3	5.7	10.2	10.9	7.0	6.7
Imports (goods and services)	2281.6		56.4	-	5.0	5.6	9.3	7.5	6.0	6.3
GNI (GDP deflator)	3842.4		95.0	-	1.8	-1.7	-0.2	2.2	2.9	3.2
Contribution to GDP growth:										
Domestic demand				-	-3.2	-1.7	1.0	2.4	3.1	3.6
Inventories				-	0.6	0.5	0.4	-0.4	0.0	0.0
Net exports				-	5.2	-0.6	-0.6	0.8	0.0	-0.3
Employment				-	3.7	10.8	0.6	4.7	1.1	1.5
Unemployment rate (a)				-	22.1	19.2	17.7	16.1	14.3	12.6
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	1.0	1.7	2.9
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	2.2	-0.8	0.0
Trade balance (goods) (c)				-	-11.6	-12.3	-11.9	-10.7	-11.0	-11.0
Current-account balance (c)				-	-6.1	-6.0	-4.7	-4.0	-4.2	-4.2
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-5.3	-6.6	-3.7	-1.3	-1.2	-1.0
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	59.4	70.4	74.6	73.7	72.3	69.8

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



## 32. TURKEY

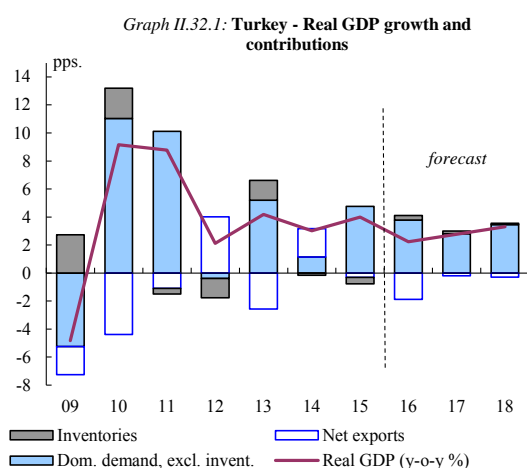
### Statistical boost to GDP but fragile outlook

*In the third quarter of 2016, the Turkish economy shrank for the first time in seven years. Under the new national accounting methodology, the change in momentum is even stronger than foreseen at the time of the autumn forecast. Leading indicators suggest the economic headwinds are likely to continue in 2017. The depreciation of the Lira may offer some relief by supporting export growth. Uncontrolled Lira volatility, however, would pose a risk to the Turkish economy.*

#### New data: bigger economy but more fragility

On 12 December, Turkstat published new national accounts data under a revised methodology intended to better reflect the state of the economy and be aligned with new international and European standards. The economy is 20% larger in the new estimates than in the old estimates. Key macroeconomic indicators have also changed: the government is now considered to have run a surplus in 2015, the current-account deficit is smaller and the Turkish economy is less integrated into the world economy (exports plus imports as share of GDP).

The economic outlook described in what follows, is based on what is known from the new representation of the state of the Turkish economy under the new national accounts methodology. The data in this forecast are still based on the only available complete set of national accounts data which is the data set available under the old methodology.



The change is most prominent in the construction sector that was the sixth largest economic sector in Turkey (4.4% of GDP) but has more than doubled in size and has become the economy's third largest sector (8.2% of GDP). Another notable change is

the sector comprising professional, scientific and technical activities. This sector, that would normally be associated with higher productivity and competitiveness, was 21.9% smaller in 2015 under the new methodology (2.4% of new GDP, previously 3.6%). All in all, it suggests that although the Turkish economy is larger, there are more risks to its competitiveness and, hence, it is more fragile.

#### A stronger loss in momentum

Not only do the new national accounts data show a bigger but more fragile economy but they also show a stronger loss in growth momentum than expected in autumn. Public consumption was the only spending category to contribute to GDP growth in the third quarter.

Neither the current situation nor the outlook for the other spending categories of domestic demand looks particularly promising. Consumer confidence has been declining since August last year and is well below historic average. Business confidence has declined during 2016 and confirms the slower pace in manufacturing output observed at year-end.

The current uncertain situation in emerging economies, which weighs on investment, applies in particular to Turkey with its security issues, political and policy uncertainty and low domestic savings rate. As a consequence, gross fixed capital formation is expected to be the biggest drag on GDP growth in 2017.

As political and policy uncertainty reduce in the second half of 2017, after the referendum on the presidential system, private domestic demand will return to growth at a moderate pace. Private consumption will be supported by the increase in wage income. The services balances poses an upside risk as tourists may return to the country.

### Expansionary macro-economic policy

The government has significantly increased its expenditures in the course of 2016, off-setting part of the slump in domestic demand. Still, because of a tax restructuring, the government budget deficit increased only marginally from last year. Future government revenues growth will be less exuberant, also because of the slower pace at which the domestic tax base grows. In addition, government expenditures are likely to increase further as the government continues its expansionary stance in public finances. The new government budget already foresees an increase in the deficit from 1.1% in 2016 to 2.0% of GDP in 2017. Given the expansionary inclination and lower revenues going forward, it is likely that the government will provide a larger net impetus to the economy. Moreover, interest expenses are likely to increase for government debt with interest rates having risen after the draft budget was sent to Parliament.

Monetary policy is adjusting to the depreciation of the lira at a pace similar to earlier episodes of pressure on the lira. As a consequence, the real

short-term interest rate is returning into negative territory as inflation increases.

Inflation will experience upward pressure as a consequence of the Lira depreciation which is only partly offset by weak domestic demand. Moreover, the raising of the minimum wage by 30% at the beginning of 2016 has not turned out to be the lifeline of high economic growth but is expected to start to feed into inflation. As a consequence, inflation will erode part of the increase in real disposable income brought about by the sizable minimum wage increase. Both consumer and producer prices have already started to increase at the end of 2016.

### Finding the balance (risks)

The government is providing a sizable stimulus to the macro-economy at a time of slack in the private sector and higher volatility in Lira and declining income from tourism services. Already, the general government is paying a price through increased yields on its government debt. However, the largest vulnerability to rising yields on foreign-currency denominated debt lies with the corporate sector.

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	4.3	4.2	3.0	4.0	2.2	2.8	3.2
Private Consumption	1341.2		68.7	4.0	5.1	1.4	4.8	4.0	3.5	4.0
Public Consumption	306.6		15.7	4.8	6.5	4.7	6.7	12.0	6.0	5.6
Gross fixed capital formation	396.6		20.3	6.5	4.4	-1.3	3.6	-1.1	-1.4	0.0
of which: equipment	-		-	-	-	-	-	-	-	-
Exports (goods and services)	546.3		28.0	7.2	-0.3	7.4	-0.8	-2.3	3.5	4.0
Imports (goods and services)	602.1		30.8	7.3	9.0	-0.3	0.3	5.0	4.0	4.7
GNI (GDP deflator)	1917.9		98.2	4.4	4.0	2.9	3.5	2.5	3.1	2.8
Contribution to GDP growth:										
Domestic demand				4.9	5.3	1.2	4.8	3.8	2.8	3.5
Inventories				-0.1	1.4	0.1	-0.6	0.2	0.2	0.1
Net exports				-0.3	-2.5	1.8	-0.3	-1.8	-0.3	-0.4
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				27.5	10.9	11.2	12.1	17.2	7.1	9.3
Unit labour costs whole economy				23.4	9.4	9.7	10.5	17.3	6.6	8.8
Real unit labour cost				-1.8	3.1	1.3	2.8	6.5	-2.2	1.2
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				25.8	6.2	8.3	7.5	10.1	9.0	7.4
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	3.3	2.8
Trade balance (goods) (c)				-6.0	-9.5	-7.7	-6.3	-5.8	-5.7	-5.9
Current-account balance (c)				-3.2	-7.7	-5.5	-4.5	-5.2	-4.3	-4.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-7.7	-5.5	-4.5	-5.2	-4.2	-4.9
General government balance (c)				-	-1.3	-0.9	-1.0	-1.1	-2.0	-1.8
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	36.1	33.5	32.9	31.6	31.2	30.8

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

## 33. ALBANIA

### Recovery set to be sustained by domestic demand

*Economic growth is picking up gradually based on household spending and private investment. An accommodative monetary policy stance, an improving labour market, and strong FDI inflows are set to support consumer spending and business investment over the next two years. The fiscal deficit and the public debt ratio are projected to decline, but the government's commitment to fiscal consolidation may be tested by the end of the IMF programme and the upcoming elections.*

#### Growth strengthened in 2016

The Albanian economy advanced 3.3% (y-o-y) in the first three quarters of 2016 which is a clear improvement compared to the downwardly revised GDP growth rate of 2.6% in 2015. All components of domestic demand provided a positive contribution to output expansion. Gross fixed capital formation remained the main driver of domestic demand benefitting from large foreign investments in the energy sector. Private consumption has also shown solid gains although it decelerated somewhat in the third quarter. Public consumption increased at a moderate pace following the decline in the preceding year. Both exports and imports have expanded at similarly high rates in the first three quarters of 2016. Since the level of imports continues to exceed the level of exports by a significant margin, net exports subtracted from GDP growth.

#### Monetary policy remains accommodative

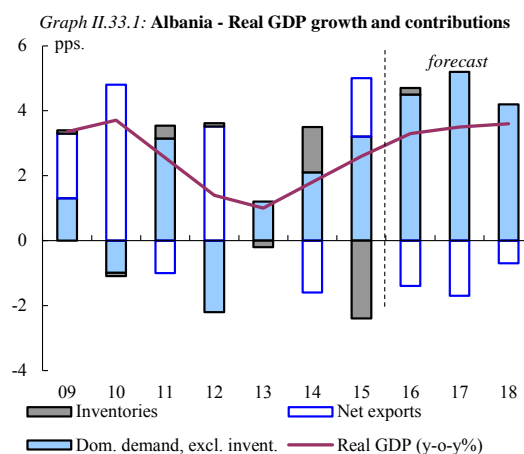
Domestic demand is expected to continue receiving support from an accommodative monetary policy. The Central Bank has kept its policy interest rate unchanged at the record low level of 1.25% since May 2016 and has hinted that it would not tighten monetary policy before the second half of 2017. With the gradual closure of the output gap, the Central Bank projects inflation to return to the 3% target in the course of 2018. Food and energy prices have pushed headline inflation to 2.2% (y-o-y) in December 2016, but underlying price pressures remain very subdued.

With low financing costs and an easing of credit standards for the household sector, lending growth to households has picked up. However, bank lending to the non-financial business sector has remained sluggish as it is constrained by the sizeable overhang of non-performing loans (NPLs) on bank balance sheets. Although the ratio of NPLs to total gross loans has receded slightly in the autumn, it was still above 20% in November. The implementation of the authorities' action plan

for resolving NPLs should help to reduce the ratio further.

#### Positive outlook for private domestic demand

Household spending is not only benefitting from favourable financial conditions, but also from a marked improvement of labour market conditions. Wages are rising and employment was up by 7.4% y-o-y in the third quarter of 2016, triggering a drop in the unemployment rate (15-64 years) to 15.2% which is the lowest in more than three years. These factors are expected to continue supporting household spending over the forecast horizon.



The upward trend in investment is also projected to continue. This is mainly related to two large on-going projects in the energy sector which require additional foreign direct investments, particularly in 2017. Following the recent decline, investment activity in the extraction sector should at least stabilise over the forecasting horizon in view of the assumed path for commodity prices.

#### Net exports set to remain a drag on growth

Exports of goods have suffered from the impact of low oil and other commodities prices, but for overall exports this has been outweighed by sharply rising services exports in 2016. This was

mainly the result of a very good tourism season, but manufacturing services also increased significantly. The moderate recovery of commodity prices is expected to support goods exports going forward. Overall, real export growth is expected to increase somewhat above the growth rate in Albania's export markets in 2017-18. At the same time, rising domestic demand is projected to lift imports, resulting in an overall negative contribution to growth from the external sector, particularly in 2017. The already large current-account deficit is projected to widen slightly to around 13% of GDP.

### Downside risks to growth prevail

While GDP growth is projected to strengthen moderately in the forecasting period, the balance of risks for this projection is tilted to the downside. Increased political uncertainty related to the parliamentary election in June 2017 might dampen consumption and investment. Credit recovery might take longer than expected in the context of persistently high NPLs. The elevated level of sovereign debt provides little room for countercyclical policies in case of need. On the upside, the implementation of structural reforms,

such as the recently started comprehensive overhaul of the justice system, could improve the business environment and, in the longer run, the economy's growth potential.

### Fiscal consolidation will face challenges

The 2016 budget was revised for the second time in December, but the deficit target was left unchanged from the July revision at 2.4% of GDP. The budget realisation data for the first eleven months suggest that the deficit will not be exceeded. 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. This also implies that the ratio of public debt (including guarantees) to GDP would decrease gradually.

The fiscal projection is associated with two significant risks. One is that the government may relax its fiscal policy stance in the context of the upcoming elections. The other is the scheduled termination of the IMF's Extended Fund Facility Arrangement for Albania in February 2017 which means that the government's consolidation strategy will lose an important anchor.

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	1434.7		100.0	4.7	1.0	1.8	2.6	3.3	3.5	3.6
Private Consumption	1168.8		81.5	3.0	1.8	3.0	0.9	2.5	3.0	3.3
Public Consumption	160.7		11.2	-0.2	2.9	6.4	-0.3	1.6	1.8	2.0
Gross fixed capital formation	377.5		26.3	7.3	-2.0	-4.0	10.3	8.7	9.3	4.7
of which: equipment	-		-	6.4	-	-	-	-	-	-
Exports (goods and services)	391.1		27.3	15.8	-12.4	1.8	1.0	10.7	5.5	6.2
Imports (goods and services)	638.7		44.5	9.8	-7.9	4.6	-3.1	9.8	6.9	5.1
GNI (GDP deflator)	1405.4		98.0	4.5	2.0	0.2	1.9	3.6	3.5	3.7
Contribution to GDP growth:										
Domestic demand				4.9	1.2	2.1	3.2	4.5	5.2	4.2
Inventories				1.0	-0.2	1.4	-2.4	0.2	0.0	0.0
Net exports				-1.2	0.0	-1.6	1.8	-1.4	-1.7	-0.7
Employment				-0.5	-9.7	1.6	1.9	4.4	2.6	2.7
Unemployment rate (a)				-	16.4	17.9	17.6	15.3	14.5	13.4
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	0.3	0.4	1.7	2.3
Harmonised index of consumer prices				-	1.9	1.6	1.9	1.3	2.2	2.6
Terms of trade goods				-1.8	1.6	1.5	0.1	-3.8	-0.1	-0.1
Trade balance (goods) (c)				-24.0	-20.6	-22.2	-22.4	-24.4	-25.6	-26.0
Current-account balance (c)				-	-10.9	-13.1	-10.8	-11.8	-13.1	-12.8
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-5.0	-5.2	-4.0	-2.4	-2.2	-1.7
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	70.4	72.1	72.7	71.5	70.0	68.7

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



Other non-EU Countries



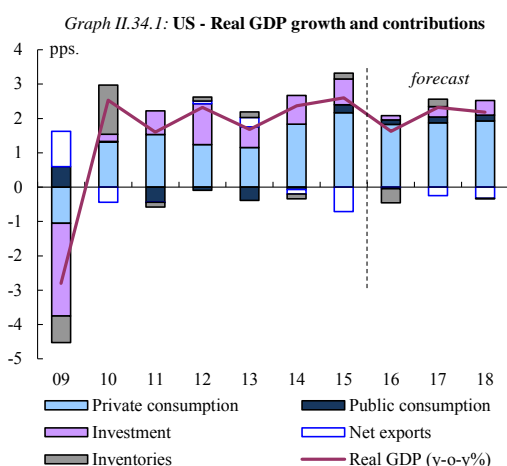
## 34. THE UNITED STATES OF AMERICA

### Fiscal stimulus boosts near-term outlook amid rising uncertainties

*US economic growth is forecast to pick up from 1.6% in 2016 to 2.3% and 2.2% in 2017 and 2018, respectively. The near-term outlook has been revised up in line with assumptions concerning fiscal stimulus measures. Nonetheless, the economic cycle is maturing and risks to the outlook have increased, particularly given the uncertain future policy directions of the new Administration among key areas.*

#### Strong rebound from weak first half of 2016

Following a weak first half of the year, activity in the US rebounded strongly in the third quarter. Real GDP growth accelerated to 0.9% (q-o-q) to moderate to 0.5% (q-o-q) in the fourth quarter (in the advance estimate), as private consumption continued at a robust pace and drags from energy investment and inventories began to dissipate. Key drivers of the US economy, including private consumption, the labour market and business investment, appear to be in place to sustain this relatively strong momentum into 2017.



policies has the potential to dampen medium-term growth prospects.

Initial reactions from financial markets to the new Administration's stimulus and deregulatory proposals have been positive, with consumer and businesses confidence also rising to multi-year highs. While there is a risk that this investor optimism may reverse (e.g. if actual policies fall short of expectations), improved confidence, if sustained, has the potential to materially impact on both consumption and investment levels.

#### Near-term outlook boosted by fiscal stimulus...

Although there is growing anticipation of a stimulus package in the near term, details of its size, timing and composition remain unclear. This forecast is therefore based on a technical assumption that stimulus of around  $\frac{1}{3}\%$  of GDP is implemented in 2017, followed by an additional 1% of GDP in 2018. Although providing a boost to growth, its benign impact would be constrained by the already advanced stage of the US cycle, with the labour market entering 2017 at close to full employment. The re-emergence of upward wage pressures over recent months further points to limited remaining slack.

#### Election result has increased policy uncertainty

The Presidential election has greatly increased uncertainty regarding the future course of US domestic and foreign policies. Throughout the election campaign, the new president proposed numerous tax cuts, increased infrastructure investment, deregulation, a tougher stance on immigration, repeal of the Affordable Care Act and greater protection of US manufacturing from foreign competition. How these announcements translate into concrete policy actions still remains to be seen and will impact the US outlook over the forecast horizon and beyond. Overall, however, while the fiscal stimulus would likely boost growth in the short term, a shift towards more protectionist

#### ...offset in part by tightening monetary policy.

The trend of gradually firming wage and price pressures, visible throughout 2016, is thus set for a marked upgrade. Assisted in part by rising energy prices, consumer price inflation is expected to rise from 1.3% in 2016 to around 2.5% in 2017 and 2018. In turn, nominal wage growth is set to double from 2016 to about 5% in 2018.

The release of these pressures is likely to trigger an accelerated monetary policy tightening cycle. As widely anticipated, the Fed raised its policy interest rate in December 2016 (to 0.5-0.75%), as well as raising its projections for its future path. Fed expectations now suggest three hikes in both 2017 and 2018, prompting dollar appreciation and US Treasury bill yields reaching  $2\frac{1}{2}$ -year highs.

A stronger dollar and higher interest rates are expected to partially offset the growth impulse provided by fiscal stimulus. In the near term, business investment is forecast to recover in 2017 as higher oil prices support energy-related activity, while surging business sentiment has improved the outlook for capital expenditures in other sectors. However, rising financing costs are expected to begin weighing on business and residential investment from 2018 onwards.

#### Private consumption to remain growth driver

Strong labour market dynamics ensure that private consumption will continue to grow at robust rates over the coming period (2.5% and 2.8% in 2017 and 2018, respectively), with high wage growth providing considerable impetus. US dollar strength over the forecast horizon is also expected to contribute to a surge in import growth; while export growth, although recovering moderately in line with rising demand among trading partners, is set to be constrained. As a result of these dynamics, the current-account deficit is forecast to deteriorate by 1 pp. (to -3.5% of GDP) by 2018.

On the whole, GDP growth is forecast to increase from 1.6% in 2016 to around 2¼% in the 2017-18

period. This represents a 0.2 pps. (2017) and 0.4 pps. (2018) upward revision relative to the Autumn Forecast 2016, and largely reflects the assumed short-term impacts of fiscal stimulus. Even with this upward revision, however, the economy's signs of gradual maturation persist.

#### Fiscal deficit and debt set to deteriorate...

Public deficit and debt dynamics will also be materially impacted by any stimulus measures, with the deficit forecast to reach around 5½% of GDP by 2018 and debt levels resuming their upward trend to reach 110% of GDP by 2018.

#### ...while other risks have increased.

The principal downside risk facing the US economy is a potential shift of economic policy towards a more protectionist stance, implying significant losses for the US and global economy. On the upside, the size or growth impulse arising from fiscal stimulus measures and deregulation may be greater than currently assumed.

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	2.3	2.2
Private Consumption	12283.7		68.1	2.7	1.5	2.9	3.2	2.7	2.5	2.8
Public Consumption	2604.9		14.4	1.5	-2.4	-0.7	1.6	0.8	1.1	1.6
Gross fixed capital formation	3576.6		19.8	2.2	3.0	4.2	3.7	0.8	3.3	3.0
of which: equipment	1217.5		6.8	4.5	3.2	4.6	3.0	-2.2	1.4	2.6
Exports (goods and services)	2264.3		12.6	4.4	3.5	4.3	0.1	0.4	2.1	3.4
Imports (goods and services)	2786.3		15.4	5.0	1.1	4.4	4.6	1.1	4.8	6.3
GNI (GDP deflator)	18242.3		101.1	2.6	1.7	2.3	2.3	1.5	2.3	2.2
Contribution to GDP growth:										
Domestic demand				2.6	1.2	2.7	3.1	2.1	2.5	2.8
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	-0.4	-0.5
Employment				-	1.0	1.6	1.7	1.7	1.0	0.7
Unemployment rate (a)				6.0	7.4	6.2	5.3	4.9	4.6	4.5
Compensation of employees / f.t.e.				3.4	1.5	2.8	3.0	2.3	3.6	4.9
Unit labour costs whole economy				1.7	0.8	2.0	2.0	2.5	2.3	3.3
Real unit labour cost				-0.2	-0.8	0.2	1.0	1.1	0.2	0.9
Saving rate of households (b)				10.4	10.6	11.2	11.4	11.9	11.6	11.6
GDP deflator				2.0	1.6	1.8	1.1	1.3	2.0	2.4
Consumer-price index				2.4	1.5	1.6	0.1	1.3	2.4	2.5
Terms of trade goods				-0.4	0.7	-0.2	2.3	0.1	-0.7	-0.9
Trade balance (goods) (c)				-4.6	-4.4	-4.5	-4.4	-4.1	-4.5	-4.9
Current-account balance (c)				-3.5	-2.7	-2.1	-2.2	-2.5	-3.0	-3.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.4	-2.7	-2.1	-2.2	-2.5	-3.0	-3.5
General government balance (c)				-5.0	-5.4	-4.8	-4.2	-4.8	-5.1	-5.7
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				70.0	104.6	104.6	105.2	107.3	108.5	109.6

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

(\*) Employment data from the BLS household survey.

## 35. JAPAN

### Historical growth revised upwards, outlook largely unchanged

*Following methodological changes, the historical real GDP growth series was revised up significantly, but the outlook remains substantially unchanged. Economic growth is expected to pick up marginally to 1.0% in 2017 underpinned by supportive macroeconomic policies, and to slow to 0.5% in 2018 on the back of waning stimulus effects.*

In 2017 economic growth is expected to pick up marginally to 1.0% as continued recovery in domestic demand is underpinned by sustained monetary accommodation, postponed fiscal consolidation, and additional fiscal stimulus. In 2018 the pace of expansion is projected to decelerate to 0.5% as waning fiscal stimulus should weigh on economic performance. Over the medium term, in the absence of more forceful structural reform, potential growth will remain weak reflecting supply-side constraints in terms of adverse population dynamics and labour market rigidities.

#### Historical growth has been stronger than previously estimated...

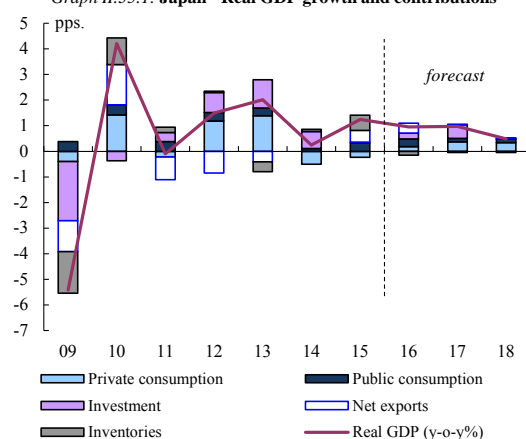
A comprehensive data revision mainly due to the transition from SNA 1993 to SNA 2008 entailed stronger historical growth than previously estimated. This is mostly the result of stronger growth in private non-residential investment stemming from changes in the accounting treatment of research and development (R&D) expenditure. According to the new data, between 2013 and 2015 the economy expanded at an average pace of 1.2% per year, compared to 0.6% according to SNA 1993 data. The economy performed better than previously estimated also in 2016. Real GDP rebounded to 0.7% (q-o-q) in 2016-Q1, before easing to 0.5% and 0.3% in 2016-Q2 and 2016-Q3 respectively. Overall growth for the year is estimated to come in at 0.9% reflecting the ongoing, moderate recovery in private consumption and investment and a positive contribution from net exports mainly stemming from a decline in import volumes.

#### ...but the near-term outlook has not changed fundamentally.

Recovery in private consumption is set to carry on throughout the forecast horizon underpinned by fiscal support for low-income households, tight employment conditions and weak inflation. But subdued wage dynamics are expected to continue and weigh on growth over the medium term.

Employment creation is likely to continue at a slower pace reflecting increasingly stringent labour supply bottlenecks, whilst unemployment should remain at around 3%. Wage growth will continue to be hampered by entrenched labour market duality and weak inflation passing through to limited pay rises in annual wage negotiations.

Graph II.35.1: Japan - Real GDP growth and contributions



Gross fixed capital formation is expected to contribute to growth in 2017 and remain broadly neutral in 2018 as stimulus-driven public investment expires, whilst private investment is projected to grow at a moderate pace. Housing starts point to a resilient recovery in private residential investment, which is expected to continue reflecting loose financing conditions, favourable employment dynamics, and fiscal support for low-income households. Business sentiment has deteriorated as heightened uncertainty surrounding external demand and profitability weighs on the outlook for private non-residential investment, which is projected to grow only modestly over the forecast horizon. Public investment is expected to lift economic activity in the near term, whilst waning stimulus effects should weigh on growth in 2018.

Export volumes are expected to increase at a moderate pace over the forecast horizon, reflecting the ongoing recovery in global trade and improvement in external competitiveness led by

exchange rate dynamics driven by the US tightening cycle. As the recovery in domestic and external demand firms up, import volumes should gradually rebound from the slump in 2016. As a result, net exports are likely to remain broadly neutral in 2017 and 2018.

#### Data revisions point to a slightly better fiscal situation

Recent data revisions have lifted the 2015 nominal GDP level by 6.3%, which is having a positive effect on historical deficit- and debt-to-GDP ratios. According to the new data, the general government deficit declined from 7.6% of GDP in 2013 to 3.5% of GDP in 2015, which implies an additional 0.3 pps. consolidation compared to SNA 1993 data. The primary deficit reached 3.1% of GDP in 2015, which is below the intermediate target of 3.3% set by Japan to achieve a primary balance by fiscal year 2020. As additional fiscal measures were postponed beyond the forecast horizon, fiscal consolidation is expected to stall in the near term, and the general government deficit should hover at around 4% of GDP.

#### Monetary policy to remain accommodative

CPI inflation is expected to have bottomed out at -0.1% (y-o-y) in 2016. However inflationary pressures are likely to remain subdued in the near term, and to be mainly driven by exchange rate dynamics in response to monetary policy divergence among advanced economies, and global commodity price developments. Following the comprehensive assessment of Quantitative and Qualitative monetary Easing (QQE) in September 2016 and the introduction of the Yield Curve Control framework, monetary policy is set to remain accommodative in line with the Bank of Japan's commitment to a protracted easing cycle until CPI inflation exceeds the 2% target in a stable manner. CPI inflation is expected to pick up only gradually over the forecast horizon to around 0.5% (y-o-y).

#### Risks

Heightened uncertainty surrounding the external environment may be reflected domestically into weaker wage and investment dynamics than currently projected. Over the medium term domestic downside risks should prevail, reflecting weak and declining potential growth and incomplete structural reform.

Table II.35.1:

#### Main features of country forecast - JAPAN

	2015			97-12	Annual percentage change						
	bn JPY	Curr. prices	% GDP		2013	2014	2015	2016	2017	2018	
GDP	530545.2	100.0	0.6	2.0	0.3	1.2	0.9	1.0	0.5		
Private Consumption	300081.6	56.6	0.8	2.4	-0.9	-0.4	0.3	0.6	0.6		
Public Consumption	105335.3	19.9	1.8	1.5	0.5	1.6	1.5	0.7	0.7		
Gross fixed capital formation	124305.7	23.4	-1.4	4.9	2.9	0.1	1.0	2.3	0.0		
of which: equipment	40361.2	7.6	0.4	-1.0	4.5	-2.8	-	-	-		
Exports (goods and services)	93566.3	17.6	4.3	0.8	9.3	3.0	0.2	1.0	1.0		
Imports (goods and services)	95280.0	18.0	2.3	3.3	8.3	0.1	-2.0	0.9	0.7		
GNI (GDP deflator)	550623.6	103.8	0.7	2.7	0.6	1.4	0.4	1.0	0.5		
Contribution to GDP growth:	Domestic demand		0.4	2.8	0.3	0.1	0.7	1.0	0.5		
	Inventories		0.0	-0.4	0.1	0.6	-0.2	-0.1	-0.1		
	Net exports		0.3	-0.4	0.0	0.5	0.4	0.0	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	3.1	3.1	3.0		
Compensation of employees / head			-0.6	-0.1	1.1	0.7	0.1	0.7	0.8		
Unit labour costs whole economy			-1.5	-1.5	1.4	-0.1	0.0	0.0	0.5		
Real unit labour cost			-0.5	-1.2	-0.4	-2.1	-0.2	0.1	0.0		
Saving rate of households (b)			12.4	7.1	6.6	7.5	8.7	9.4	9.5		
GDP deflator			-1.0	-0.3	1.7	2.0	0.2	-0.1	0.5		
Consumer-price index			-0.1	0.3	2.8	0.8	-0.1	0.4	0.6		
Terms of trade goods			-3.1	-1.4	-0.7	11.2	4.6	0.5	0.3		
Trade balance (goods) (c)			1.9	-1.7	-2.0	-0.1	0.7	0.9	1.0		
Current-account balance (c)			2.9	0.9	0.8	3.2	3.9	4.1	4.2		
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.8	0.7	0.7	3.1	3.8	4.0	4.1		
General government balance (c)			-6.6	-7.6	-5.4	-3.5	-3.7	-4.0	-3.8		
Cyclically-adjusted budget balance (d)			-	-	-	-	-	-	-		
Structural budget balance (d)			-	-	-	-	-	-	-		
General government gross debt (c)			170.2	232.8	236.1	248.0	248.8	250.6	252.0		

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

## 36. CHINA

### Gradual slowdown in growth, cushioned by macroeconomic policy

*After a slow start to 2016 China regained momentum in the second half of the year, thanks to improved exports and domestic investment stimulus. A modest slowdown in growth is expected in 2017 and 2018. In the short term, risks to the outlook are broadly balanced, but rapid credit growth and high levels of corporate leverage pose substantial medium term risks if not addressed through policy reforms.*

The Chinese economy expanded by 6.7% in 2016, driven mainly by strong consumption growth. This is only marginally down on the 6.9% growth in 2015. The outlook remains largely unchanged, with a further slowdown expected to 6.4% growth in 2017 and 6.2% in 2018. Consumption should remain the principal source of growth, aided by a modest recovery in export volumes. Macroeconomic policy is likely to react flexibly to any significant weakening of momentum so as to keep overall growth in the range of 6 to 6.5%.

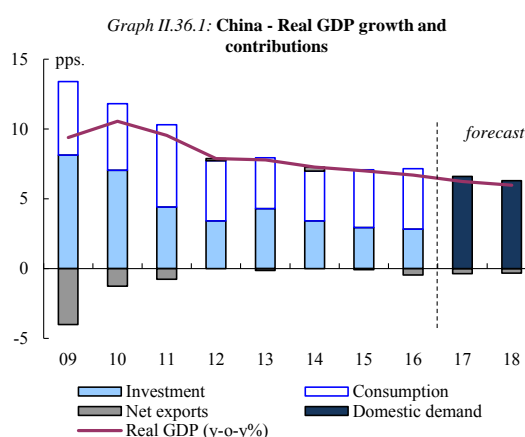
#### Weak momentum in early 2016 was followed by a clear rebound

The Chinese economy lost momentum in early 2016 as trade volumes fell sharply, private investment weakened, and survey indicators turned downwards, leading to a sharp bout of turbulence in global financial markets. Growth was reported at 1.3% (q-o-q) in 2016-Q1, the lowest (q-o-q) growth rate since the series was first published in 2011. The rest of the year saw a substantial rebound. Export volumes picked up from 2016-Q2, while investment stimulus measures compensated for weaker private investment. Real GDP grew by 6.7% for the year as a whole, well within the 6.5%-7% target range set by the government. The composition of growth was consistent with some rebalancing of demand, with the consumption contribution rising to 4.3 pps. (4.1 pps. in 2015), investment falling slightly to 2.8 pps. (2.9 pps. in 2015) while net exports were a modest drag on growth, subtracting -0.5 pps. (-0.1 pps. in 2015).

#### The near-term outlook points to a measured slowdown in growth

Looking ahead, domestic demand is expected to remain the main growth driver. Household consumption is expected to continue to grow at a steady pace, supported by disposable income that is growing faster than GDP, particularly in rural areas, by buoyant employment creation, and rising house prices. Investment is expected to grow more slowly than in 2016, as private investment weakened throughout the course of 2016, and only

a significant expansion in investment by state owned enterprises and a rebound in real estate investment prevented this slowdown from having a much more significant impact on GDP growth.



#### Macroeconomic policies will be geared to support near-term growth

Fiscal policy is expected to remain expansionary throughout the forecast horizon and to respond flexibly to any signs of weakness, though precise assessment of the fiscal stance is hampered by inadequate data. The central government deficit will increase to just over 2% of GDP, but this does not capture fiscal stimulus sourced through SoEs or local government. Monetary policy is expected to remain accommodative. Policy rates have now remained unchanged since 2015-Q4 and real interest rates are now edging downwards. CPI inflation accelerated to 2.0% (y-o-y) in 2016 (1.4% in 2015), while producer price inflation turned positive in 2016, recovering sharply after several years of deflation. Some rebound in commodity prices and the weakening exchange rate will add to inflationary pressures. At the same time, credit growth remains very rapid, expanding at around twice the pace of nominal GDP. The corporate debt stock is now over 170% of GDP, concentrated in the state enterprise sector, raising concerns over potential non-performing loans and financial stability. House prices in tier 1 cities are also growing at over 20% per annum, renewing



concerns over affordability and possible speculative bubbles. Finally, large capital outflows have persisted, and may be negatively affected by faster normalisation of US policy rates. Managing this combination of factors represents a considerable challenge. In the short run, stricter capital controls and targeted measures to cool house prices are likely to be the favoured response.

#### Exports should improve gradually as global demand recovers

China's imports and exports of goods were tepid in 2016, both growing by around 2.5% in volume terms. Overall import volumes were boosted by rapid growth of services imports, while service exports fell marginally. The slow growth in goods trade is part of a broader global phenomenon, overlaid with specific Chinese factors, notably the slowdown in import-intensive investment and lower imports for export reprocessing. Goods exports did pick-up somewhat in 2016-H2 after a very weak 2016-H1, helped by depreciation of the RMB, which fell by 7% in real effective terms during the year. Looking ahead, export volumes should continue to improve slowly, while import volumes are expected to grow at a similar rate to 2016. Goods imports will be held back by slowing

investment and real exchange rate effects, though service imports, underpinned by buoyant consumption, are expected grow at close to 10%. As a whole, net exports are expected to make a small negative contribution to overall growth.

#### Short term risks appear balanced, but structural imbalances are worsening

Short term risks to the forecast are balanced. Continued policy support is likely to put a floor under domestic demand growth, though at the cost rising corporate debt and non-performing loans in the medium term. These issues are addressed in detail in Box I.2. It is unclear precisely to what extent the slowdown in private investment reflects cyclical or more fundamental structural factors, and a rebound in 2017-18 could lead to outperformance. On the external front, trade volumes could respond more positively than forecast to the lower RMB real exchange rate. However, overshadowing the external forecast is the evolution of US-China trade relations, which was a focal point of the US presidential campaign. While fiscal stimulus and faster growth in the US may add to Chinese exports, a shift towards greater protectionism could imply a significant negative shock to China's external trade flows.

Table II.36.1:

#### Main features of country forecast - CHINA

	2015			97-12	Annual percentage change					
	bn CNY	Curr. prices	% GDP		2013	2014	2015	2016	2017	2018
GDP	69630.0		100.0	9.8	7.8	7.3	6.9	6.7	6.4	6.2
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	2.0	3.1	3.4
Final demand				-	-	-	-	-	-	-
Imports (goods and services)	12740.0		18.3	22.0	10.6	8.7	0.6	4.1	3.9	4.1
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	5.4	5.1	5.1
Current-account balance (b)				4.1	1.5	2.6	3.0	2.9	2.4	2.1
Net lending(+) or borrowing(-) vis-à-vis ROW (b)				-	-	-	-	-	-	-
General government balance (b)				-	-	-	-	-	-	-
General government gross debt (b)				-	-	-	-	-	-	-

(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.



## 37. EFTA

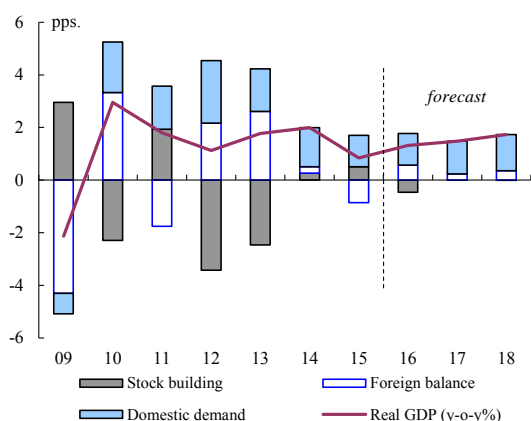
### Solid domestic demand continues to offset external fragilities

*Growth prospects remain positive among EFTA countries and appear to be slowly moving towards solid trajectories in the forecast's outer year: Switzerland and Norway, following earlier slowdowns, are beginning to recover modestly; while growth in Iceland is robust but set to moderate slightly.*

#### Switzerland

The Swiss economy continued on its recovery path during 2016, with GDP growth picking-up following deceleration in 2015. Growth has mainly been led by robust government consumption and foreign trade, where the largest gains came from chemical and pharmaceutical exports. Despite ample liquidity, private investment has remained subdued and increases in gross fixed capital formation have been dominated by public investment in transport equipment and civil engineering construction. Stagnation in the labour market contributed to lacklustre private consumption growth. Economic growth decelerated again during the second half of 2016 following the exceptionally strong 2016-Q2 GDP reading of 0.6% q-o-q (which was driven by increases in public spending). Growth stagnated at 0.0% q-o-q in 2016-Q3 on the back of negative net exports and contracting government consumption.

Graph II.37.1: Switzerland - Real GDP growth and contributions



Going forward, a moderate pace of expansion is projected to continue into 2017 and 2018, supported by domestic demand and foreign trade. More specifically, the labour market's recovery and immigration-led population growth are set to support private consumption. Due to squeezed profit margins of Swiss firms, equipment investment is set to remain muted in 2017 before bottoming-out in 2018.

Strong performance of pharmaceuticals together with weak growth of other core goods (watches, machinery, precision tools) suggests an uneven adjustment across Swiss exporters to past currency appreciation (due to Swiss National Bank's 2015 decision to abandon the exchange rate ceiling with the euro). A gradual recovery of exports across a more comprehensive set of sectors including tourism, mechanical engineering and metal industries, is forecast for 2018.

Consumer prices fell by 0.2% (y-o-y) in 2016-Q3, with the largest negative contribution coming from import prices (oil products in particular), while the prices of domestic goods and services seem to be approaching the end of the deflationary phase. In line with recovering oil prices, inflation is forecast to become slightly positive in 2017 and 2018.

The outlook for the labour market remains roughly unchanged from the autumn forecast. In line with accelerating GDP, employment growth is projected to strengthen, with the unemployment rate falling to 4% by 2018.

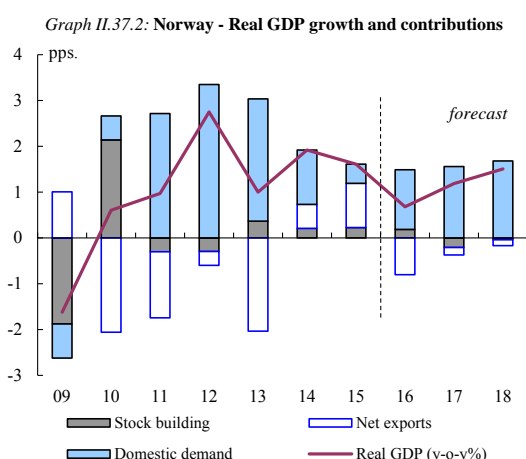
Strong public consumption growth is likely to result in a small budget deficit (-0.2% of GDP) in 2016. However, it is forecast that the budget will gradually return to surplus (driven by pension reform, VAT rate increases and more restrictive spending due to the 2017 referendum on lower corporate taxes) in line with Switzerland's fiscal rule which requires budget overruns be made up by structural surpluses in subsequent years.

The Swiss 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. Extensive integration with global value chains also implies significant risks arising from external political uncertainties and rising protectionism.

#### Norway

Norway's economy continued to slow throughout 2016, with GDP growth contracting by -0.5% (q-o-q) in 2016-Q3 (following 0.0% q-o-q in

2016-Q2) amid the ongoing decline in fixed investment in the oil and gas sector and weak external demand weighing on exports. The slowdown is, however, expected to have bottomed-out in 2016, largely due to earlier drags on growth (energy sector, exports) beginning to dissipate. The authorities' provision of stimulus measures in order to offset the economy's slowdown will continue to provide modest support to growth, although further easing is not anticipated as the domestic economy begins to gain momentum. On the external side, export growth is anticipated to be lower than previously forecast as the Norwegian krone's (NOK) recent appreciation will weigh on demand, while simultaneously providing for solid import growth. Overall, GDP growth is expected to come in at 0.7% in 2016, before picking-up to 1.2% and 1.5% in 2017 and 2018, respectively.



The macroeconomic policy mix has so far been responsive to the slowdown, with fiscal stimulus measures (tax cuts, labour market activation programmes) being deployed. However, these measures are set to be scaled back in the near term as domestic demand recovers, resulting in a minor moderation of public consumption growth from 2017 onwards. On the monetary policy side, Norges Bank's key policy rate was already lowered to 0.5% in early 2016 and upward pressure on inflation dynamics had prevented further easing since then. There has been a sustained decline in core inflation towards Norges bank's 2.5% target (helped in part by NOK appreciation) over more recent months. However, growing concerns regarding robust house price growth and consumer debt levels are likely to limit the space for additional easing going forward.

Against the backdrop of policy stimulus being slowed, the economy continues to adjust to the

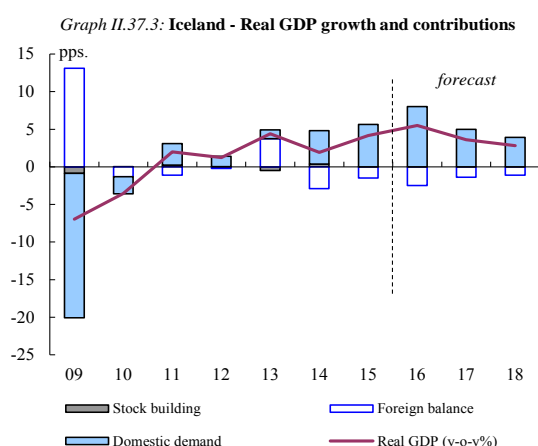
current environment of lower oil prices and the reallocation of factors this requires. Nonetheless, after contracting at double-digit rates during the past two years, the decline in energy-related investment is set to moderate substantially in 2017 as oil prices stabilise. In other sectors, investment remains relatively strong, with robust house price growth supporting residential investment and the recent surge in public fixed investment (to 7.5% q-o-q in 2016-Q3) having material carryover impacts on 2017 also.

The labour market has also undergone a period of adjustment and its recovery in the near term is expected to be gradual due to the relatively subdued prospects for domestic demand over the forecast horizon. The unemployment rate is projected to fall slowly towards 4% by end-2018, while gains in real wages are also set to remain muted. Private consumption is therefore projected to grow at around 1½-2%, supported by a return to modest employment growth and earlier tax cuts. The NOK's appreciation over recent months should contribute to solid import demand.

External risks to the outlook include the future trajectory of oil prices (given their impact on fixed investment), as well as the political uncertainties surrounding the Brexit process going forward given the economy's high exposure to UK trade channels. The housing market is the principal domestic risk facing the economy, with the recent extension of macroprudential measures reflective of growing concerns regarding a correction.

## Iceland

GDP growth in Iceland accelerated above 6% during the first nine months of 2016, driven mainly by private consumption (benefitting from rising real wages) and tourism-related construction pushing up fixed investment. The labour market has remained strong, with robust job growth contributing to the unemployment rate (at 3%) falling well-below pre-crisis levels and wage growth remaining elevated. During the forecast period, private consumption is expected to remain a key driver of growth as it benefits from low inflation, 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; while further construction in the tourism sector is also expected to proceed.



The high import content of investment and private consumption goods has already resulted in a worsening of Iceland's goods trade balance, increasing the deficit to 4.3% of GDP in 2016 before deteriorating further in future years.

A strong exchange rate (appreciating by 16% in 2016) and low import prices have helped to keep inflation low (1.7% throughout 2016). Going forward, inflation is likely to rise, reflecting the lagged effects of high wage agreements and strong demand from tourism sectors also. Wage agreements may dampen employment demand in the near term; while increasing 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.

Fiscal accounts for the first nine months 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. The funds will likely be used for lowering the debt burden, so the debt ratio could drop sharply in the coming years. The downward trend in the debt to GDP ratio is expected to continue as the general government is likely to maintain largely balanced public sector accounts while nominal GDP is expected to increase further.

While growth is expected to remain robust, the economy is showing signs of overheating (rising wages, limited labour supply, rises in house prices) Strong domestic demand and further currency appreciation should lead to a widening of the trade deficit. From 1 January 2017 a new, more liberal capital account regime is in place, facilitating free in-and-out capital flows. This has a positive effect on the country's medium-term outlook and safety clauses should prevent sudden adverse swings. However, there are risks that persistent capital inflows could place further upward on Iceland's currency, further eroding the country's international price competitiveness.

Table II.37.1:

Main features of country forecast - EFTA

(Annual percentage change)	Iceland				Norway				Switzerland			
	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
GDP	4.2	5.5	4.2	2.5	1.6	0.7	1.2	1.5	0.8	1.3	1.5	1.7
Private Consumption	4.3	6.3	5.4	4.2	2.1	1.5	1.7	1.8	1.1	0.9	1.3	1.4
Public Consumption	1.0	1.5	1.7	1.8	2.1	2.2	1.9	1.9	2.2	2.1	2.0	1.7
Gross fixed capital formation	18.3	24.0	8.0	5.3	-3.8	0.6	1.5	1.8	1.6	2.0	1.4	1.8
of which: equipment	-	-	-	-	-0.4	-0.2	1.0	2.0	1.6	2.3	0.2	2.0
Exports (good and services)	9.2	10.0	4.5	4.5	3.7	-1.3	1.7	1.9	2.3	3.7	3.2	3.6
Imports (goods and services)	13.5	17.1	6.6	7.8	1.6	1.0	2.4	2.5	4.5	3.5	3.4	3.8
GNI (GDP deflator)	5.0	6.0	4.3	2.6	2.9	-0.8	0.8	1.1	2.2	1.3	1.5	1.7
Contribution to GDP growth: Domestic demand	5.6	8.0	4.9	3.8	0.4	1.3	1.5	1.7	1.2	1.2	1.2	1.4
Inventories	0.0	0.0	0.0	0.0	0.2	0.2	-0.2	0.0	0.5	-0.5	0.0	0.0
Net exports	-1.5	-2.5	-0.7	-1.2	1.0	-0.8	-0.2	-0.1	-0.9	0.6	0.2	0.4
Employment	3.4	3.8	3.0	1.9	0.3	0.2	0.4	0.9	1.5	0.1	0.4	0.6
Unemployment rate (a)	4.2	3.0	2.5	2.6	4.2	4.8	4.5	4.2	4.6	4.6	4.5	4.1
Compensation of employee/head	5.5	8.4	6.1	4.0	2.7	2.4	2.5	2.7	-0.9	-1.1	0.1	0.5
Unit labour cost whole economy	4.7	6.7	4.9	3.4	1.3	1.9	1.7	2.1	-0.2	-2.3	-0.9	-0.7
Real unit labour cost	-1.1	4.5	1.1	-1.3	3.7	0.9	-0.6	-0.4	0.4	-1.6	-1.1	-1.0
Saving rate of households (b)	:	:	:	:	15.9	17.0	15.7	14.8	22.5	22.1	22.1	22.2
GDP deflator	5.9	2.1	3.7	4.8	-2.3	1.0	2.3	2.4	-0.6	-0.7	0.1	0.3
Harmonised index of consumer prices	0.0	0.8	2.4	3.2	2.0	3.6	2.6	2.3	-0.8	-0.4	0.1	0.2
Terms of trade goods	10.6	-2.4	0.5	-0.1	-15.5	-0.8	0.5	0.6	1.2	0.1	-0.1	0.0
Trade balance (goods) (c)	-1.6	-6.5	-6.1	-7.1	6.6	6.2	6.0	6.1	8.0	8.3	8.4	8.6
Current account balance (c)	5.1	2.6	1.7	0.3	8.7	6.3	5.8	5.4	11.7	11.8	11.9	12.3
Net lending (+) or borrowing (-) vis-a-vis ROW	5.0	2.6	1.7	0.3	8.6	6.2	5.7	5.4	9.5	10.9	11.0	11.4
General government balance (c)	-0.8	15.0	0.8	0.3	6.4	4.6	4.4	4.7	-0.2	-0.2	0.1	0.2
General government gross debt (c)	66.0	38.4	34.5	31.2	31.8	31.7	31.1	28.4	35.3	35.2	34.6	33.7

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

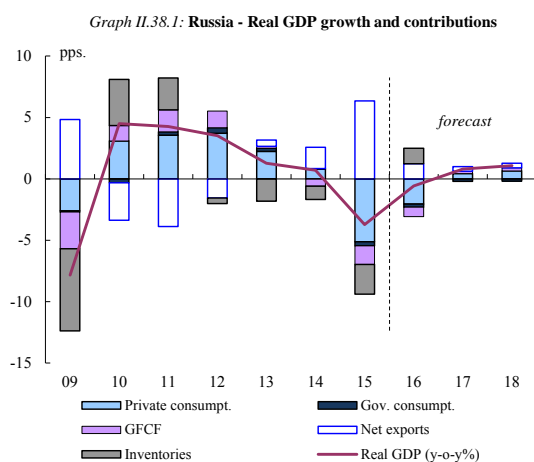
## 38. RUSSIAN FEDERATION

### Oil prices rally brings some respite

*The outlook for the Russian economy has improved over recent months, driven largely by a stabilisation in oil prices and the rouble exchange rate. Economic activity is expected to return to growth in 2017 and 2018, albeit at a very moderate pace due to ongoing fiscal consolidation efforts and only limited room for monetary policy easing; while persistent structural weaknesses should also limit the scale of the upswing.*

#### The end of recession nears

Russia's economy is slowly emerging from recession, with real GDP growth outturns showing gradual improvement throughout 2016. This recovery has largely resulted from a bottoming-out of domestic demand and a pick-up in exports at the end of 2016. Going forward, growth in domestic demand components is expected to turn somewhat positive in 2017 before accelerating further in 2018, as real incomes recover in line with the rouble's appreciation and falling inflation. The rebound in global oil prices is set to prop up exports and provide a boost to confidence. However, the macroeconomic policy mix is likely to limit the scale of the rebound. Fiscal consolidation is expected to proceed; while the central bank's commitment to lowering inflation implies only limited scope for monetary policy easing in the near term. Overall, GDP growth is estimated to have reached -0.6% in 2016, and should turn positive at 0.8% and 1.1% in 2017 and 2018, respectively.



#### Increasing commodity prices support recovery

Recent improvements among short-term indicators (PMIs, industrial output), driven by the brighter oil prices outlook, underline the gradual turnaround currently under way in the domestic economy.

Real wage growth turned positive towards the end of 2016 and is likely to accelerate steadily going forward as inflationary pressures subside. Combined with an expected improvement in consumer sentiment as economic conditions continue to stabilise, this should facilitate a return to modest private consumption growth. Aside from wage growth, however, real disposable income continues to contract, reflecting consumers' reliance on falling real social transfers; while precautionary savings are still increasing. These factors will constrain the scale of the rebound in consumption.

Fixed investment should benefit from improved macroeconomic stability, including the banking sector's return to modest profitability. Nonetheless, ongoing weak demand throughout the domestic economy and relatively high financing costs are set to limit the recovery of investment in the near term. Higher oil prices and new oil extraction capacities coming online should provide some support to exports, while import demand is likely to recover in line with modest increases in domestic demand and a strengthening currency. All in all, the contribution of external trade is set to be positive throughout the forecast horizon.

#### Fiscal consolidation set to dampen rebound

The rapid decline in oil-related revenues and the shrinking value of the liquid reserves in the past two years necessitates budgetary consolidation in the near term. Despite low public debt levels, access to external financing remains somewhat restricted, while domestic market funding entails high costs for the issuer. Given the anticipated size of revenue shortfalls, existing extra-budgetary funds are forecast to decline further, forcing the authorities to proceed with consolidation on the expenditure side. Budgetary plans announced at the end of 2016 set out fiscal consolidation at the federal level amounting to 1.0 pp. of GDP annually from 2017 onwards. Public expenditure as a share of GDP is forecast to decline throughout this period, compensating further declines in revenues.

The pace of consolidation is subject to uncertainties, including on the one hand possible over-performance of fiscal revenues relative to the government's conservative oil price assumptions (of 40 USD per barrel), but also on the other hand the need to sustain social spending in the run-up to the elections. In light of this, the consolidation of the general government balance is anticipated to be somewhat less ambitious, with the general government deficit falling by 0.3 pps. and 0.6 pps. of GDP in 2017 and 2018, respectively.

### Monetary policy likely to ease gradually

The Central Bank of Russia's (CBR) has committed to achieving a 4% inflation target by end-2017, thus limiting scope for rapid monetary easing. Inflation fell consistently during 2016, reflecting negative base effects, strong food harvests and subdued domestic demand. However, high inflation expectations and recent increases in import prices are expected to slow disinflationary pressure; while 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.

### Current-account surplus picks up

The current-account surplus, driven mainly by the large surplus on the trade balance of goods is expected to have fallen significantly from over 5% of GDP in 2015 to around 2% of GDP in 2016, principally as a result of lower commodity prices and rouble depreciation. It is forecast to pick up slightly to above 3% of GDP towards the end of the forecast horizon. The increase is driven mainly by an improvement in terms-of-trade and stronger commodities exports. However, higher imports of tourism services are set to raise the deficit of the balance of services.

### Continued vulnerability to external shocks

Key sources of uncertainty are linked with oil price dynamics, the evolving nature of geopolitical tensions, and a possible prolongation of sanctions. A re-emergence of volatility (driven by normalisation of monetary policy in the US or changes in global trade policies) among emerging markets could also entail adverse spillovers for the Russian economy.

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	80804.3		100.0	4.2	1.3	0.7	-3.7	-0.6	0.8	1.1
Private Consumption	43663.8		54.0	6.4	4.3	1.5	-9.5	-3.8	0.8	1.2
Public Consumption	15403.4		19.1	1.3	1.4	0.2	-1.8	-1.3	-1.0	-1.0
Gross fixed capital formation	17100.0		21.2	6.3	0.8	-3.0	-7.3	-3.6	0.9	1.2
of which: equipment	-		-	-	-	-	-	-	-	-
Exports (goods and services)	23863.0		29.5	5.2	4.6	0.6	3.6	0.9	2.5	2.8
Imports (goods and services)	17135.5		21.2	9.4	3.6	-7.6	-25.7	-4.6	1.5	1.9
GNI (GDP deflator)	78504.3		97.2	4.1	0.8	1.0	-3.3	-1.3	0.8	1.2
Contribution to GDP growth:										
Domestic demand				4.7	2.7	0.3	-7.0	-3.1	0.4	0.7
Inventories				0.1	-1.8	-1.1	-2.4	1.3	0.0	0.0
Net exports				-0.6	0.5	1.7	6.4	1.2	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	4.8	9.0	7.7	3.2	6.6	4.3
Consumer-price index				-	6.8	7.8	15.5	7.2	5.2	4.4
Terms of trade goods				5.1	-6.6	-4.5	-24.2	-11.7	7.4	0.0
Trade balance (goods) (c)				11.7	8.2	9.3	11.1	9.3	10.0	10.1
Current-account balance (c)				7.2	1.4	2.8	5.2	1.9	2.9	3.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				7.3	1.4	2.8	5.2	1.9	2.9	3.1
General government balance (c)				-	-0.2	-1.0	-2.7	-3.8	-3.5	-2.9
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	13.1	15.9	16.4	16.9	17.0	17.7

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



## ACKNOWLEDGEMENTS

This report was prepared in the Directorate-General for Economic and Financial Affairs under the direction of Marco Buti – Director-General, Servaas Deroose – Deputy Director-General, and José Eduardo Leandro – Director “Policy, strategy, coordination and communication”. It has benefitted from the close collaboration with Directorate-General for Financial Stability, Financial Services and Capital Markets Union.

Executive responsibilities were attached to Björn Döhring – Head of Unit “Economic situation, forecasts, business and consumer surveys”, Evelyne Hespel – Head of Sector “Macro-economic forecasts and short-term economic developments”, and the forecast coordinators –Suzanne Casaux and Per Yann Le Floc'h.

The Overview was prepared by Evelyne Hespel. Chapter 1 on “Navigating through choppy waters” was prepared by Laura González Cabanillas under the responsibility of Björn Döhring. This chapter benefitted from contributions by Božena Bobková, Chris Bosma, Lucian Briciu, Suzanne Casaux, Ulrich Clemens, Oliver Dieckmann, Björn Döhring, Salvador Ferrandis Vallterra, Alan Gilligan, Dalia Grigonyte, João Leal, Per Yann Le Floc'h, Eloise Orseau, Bjorn Roelstraete, Rupert Willis, Przemysław Woźniak and Alexandru Zeana. Boxes were contributed by Bertrand Marc and Rupert Willis. Section I.1 on "Putting the forecast into perspective" was prepared by Suzanne Casaux, Björn Döhring and Bořek Vašíček.

The sections on “Member States” were prepared under the supervision of Manfred Bergmann, Carlos Martínez Mongay and István Pál Székely, Directors for the “Economies of the Member States”. These sections benefited from contributions by Frode Aasen, Emiel Afman, Wojciech Balcerowicz, Antonino Barbera Mazzola, Francisco Barros Castro, Barbara Bernardi, Stefan Bohner, Elva Bova, Peghe Braila, Guillaume Cléaud, Iván Csaba, Francisco de Castro Fernández, Ben Deboeck, Miroslav Florián, Norbert Gaál, Olivia Galgau, Luis García Lombardero, Oscar Gómez Lacalle, Oskar Grevesmühl, Julien Hartley, Michal Havlát, David Havrlant, Heiko Hesse, Nora Hesse, Andras Hudecz, Duy Huynh-Olesen, Isabelle Justo, Csanád Sándor Kiss, Violeta Klyviene, Juho Kostiainen, Anastasia Kouskouni, Robert Kraemer, Radoslav Krastev, Robert Kuenzel, Cvetan Kyulanov, Baudouin Lamine, Milan Lisický, Martin Loeffler, Dimitri Lorenzani, Mart Maiväli, Janis Malzubris, Dorin Emil Mantescu, Fabrizio Melcarne, Vasiliki Michou, Allen Monks, Beatriz Moreno Haya, Hans Naudts, Kristian Orsini, Wojciech Paczyński, Mona Papadakou, Arian Perić, Presiyan Petkov, Ventsislav Petrov, Samuli Pietiläinen, Dino Pinelli, Aurélien Poissonnier, Simona Pojar, Dana Popa, Vito Ernesto Reitano, Francesco Rossi-Salvemini, Stefano Santacroce, Giedrius Sidlauskas, Sara Simões, Peeter Soidla, Vladimír Solanič, Antonio Spissu, Nora Straehle, Matija Šušković, Peter Symons, Tsvetan Tsalinski, Ismael Valdés Fernández, Milda Valentínaitė, Alberto Vidan Bermudez, Hauke Vierke, Kai-Young Weisschaedel, Sam Whittaker, Bartłomiej Wiczewski, Rafał Wielądek and Ingars Zustrups. Coordination and editorial support on the country-specific sections on public finances was provided by João Capella Ramos, under the supervision of Jakob Wegener Friis, Head of Unit “Policy, planning and coordination”.

The sections on “Candidate Countries” and “Other non-EU countries” were prepared under the supervision of Elena Flores, Director of the “International economic and financial relations, global governance”. These sections, and forecasts for all other non-EU economies, benefited from contributions by Gintautas Baranauskas, Piotr Bogumil, Bernhard Böhm, Samuel Borralho, Antonella Colavita, Felipe De La Mota, Stylianos Dendrinou, Hans Feddersen, Matteo Fumerio, Malgorzata Galar, Alan Gilligan, Matteo Governatori, Dalia Grigonyte, Renata Hružová, Sarah Jurreit, Plamen Kaloyanchev, Willem Kooi, Ivan Kusen, Safwan Naser, Radostin Neykov, Roxanne Rua, Antonio Sanchez Pareja, Barbara Stearns-Blasing, András Tari, Benjamin Trunk, Rupert Willis, Przemysław Woźniak and Norbert Wunner.

Support in editing the report by Peter Koh, and for its communication and publication by Philip Tod, Robert Gangl, Nicolas Carpentiers, Sarka Novotna, Enrico Portelli, Bjorn Pius and Yasmina Quertnmont, is gratefully acknowledged. IT support was provided by Rudy Druine.



Follow-up calculations were performed by Karel Havik, Atanas Hristov, Vitor Martins, Kieran Mc Morrow, Rafał Raciborski, Werner Röger and Valerie Vandermeulen. Forecast assumptions were prepared by Lucian Briciu, Dalia Grigonyte, Gerda Symens, Eric McCoy and Przemysław Woźniak. Statistical support for the production of the forecast tables was provided by Antoine Avdoulos, Noël Doyle, Salvador Ferrandis Vallterra and Bjorn Roelstraete. Further statistical and layout assistance was provided by Yves Bouquiaux, Paloma Cortés Payá, Paolo Covelli, Lazaros Dimitriadis, Michel Gerday, Susanne Hoffmann, Jan Kattevilder, Johann Korner, Anastasia Kouskouni, Oscar Gomez Lacalle, Anders Lindqvist, Marc Puig, Leonardo Pérez-Aranda, Félix Rodríguez Millán, Ulrike Stierle-von Schuetz, Antonio Spissu, Jacek Szelożyński, Christos Zavos and Tomasz Zdrodowski.

Valuable comments and suggestions by Laura Bardone, Gerrit Bethuyne, Božena Bobková, Suzanne Casaux, Paolo Casini, Oliver Dieckmann, Marie Donnay, Patrick D'Souza, Luis Fau Sebastian, Jakob Wegener Friis, Christian Gayer, Gabriele Giudice, Laura González Cabanillas, Peter Grasmann, Isabel Grilo, Heinz Jansen, Stefan Kuhnert, Paul Kutos, Martin Larch, João Leal, Per Yann Le Floc'h, Julia Lendvai, Pim Lescrauwaet, Martin Loeffler, Maarten Masselink, Magda Morgese Borys, Gilles Mourre, Karl Pichelmann, Marc Puig, Elena Reitano, Matteo Salto, Outi Slotboom, Uwe Stamm, Michael Stierle, Michael Thiel, Charlotte Van Hooydonk, Melanie Ward-Warmedinger, Christian Weise, Florian Wöhlbier, Norbert Wunner and Javier Yaniz Igal are gratefully acknowledged.

Secretarial support for the finalisation of this report was provided by Fernando Montolio Arqué and Els Varblane.

Comments on the report would be gratefully received and should be sent to:  
Directorate-General for Economic and Financial Affairs  
Unit A3: Economic situation, forecasts, business and consumer surveys  
European Commission  
B-1049 Brussels  
E-mail: [ecfin-forecasts@ec.europa.eu](mailto:ecfin-forecasts@ec.europa.eu)

# Statistical Annex

European Economic Forecast – Winter 2017

## Contents

### Output : GDP and its components

1. Gross domestic product	146
2. Profiles (q-o-q) of quarterly GDP	146
3. Profiles (y-o-y) of quarterly GDP	147
4. GDP per capita	147
5. Final domestic demand	148
6. Final demand	148
7. Private consumption expenditure	149
8. Government consumption expenditure	149
9. Total investment	150
10. Investment in construction	150
11. Investment in equipment	151
12. Public investment	151
13. Potential GDP	152
14. Output gap relative to potential GDP	152

### Prices

15. Deflator of GDP	153
16. Deflator of private consumption	153
17. Harmonised consumer prices index	154
18. Harmonised consumer prices quarterly profiles	154
19. Deflator of exports of goods	155
20. Deflator of imports of goods	155
21. Terms of trade of goods	156

### Wages, population and labour market

22. Total population	156
23. Total employment	157
24. Unemployment rate	157
25. Compensation of employees per head	158
26. Real compensation of employees per head	158
27. Labour productivity	159
28. Unit labour costs, whole economy	159
29. Real unit labour costs	160

### Exchange rates

30. Nominal bilateral exchange rates	160
31. Nominal effective exchange rates	161
32. Relative unit labour costs	161
33. Real effective exchange rates	162

## General Government

34. Total expenditure	162
35. Total revenue	163
36. Net lending (+) or net borrowing (-)	163
37. Interest expenditure	164
38. Primary balance	164
39. Cyclically-adjusted net lending (+) or net borrowing (-)	165
40. Cyclically-adjusted primary balance	165
41. Structural budget balance	166
42. Gross debt	166

## Saving

43. Gross national saving	167
44. Gross saving of the private sector	167
45. Saving rate of households	168
46. Gross saving of general government	168

## Trade and international payments

47. Exports of goods and services	169
48. Imports of goods and services	169
49. Merchandise trade balance (% of GDP)	170
50. Current-account balance (% of GDP)	170
51. Net lending (+) or net borrowing (-)	171
52. Current-account balance (bn EUR)	171
53. Export markets (goods and services)	172
54. Export performance (goods and services)	172

## World economy

55. World GDP	173
56. World exports of goods and services	174
57. Export shares (goods) in EU trade	174
58. World imports of goods and services	175
59. Import shares (goods) in EU trade	175
60. World merchandise trade balances (bn USD)	176
61. World current-account balances (bn USD)	176
62. Primary commodity prices	176

Table 1: Gross domestic product, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	2.3	2.5	0.6	-0.1	1.7	1.5	1.2	1.4	1.6	1.2	1.3	1.5
Germany	1.7	1.6	0.7	0.5	1.6	1.7	1.9	1.6	1.8	1.9	1.5	1.7
Estonia	5.2	8.2	-1.5	1.4	2.8	1.4	1.1	2.2	2.6	1.1	2.3	2.6
Ireland	8.1	5.2	-1.6	1.1	8.5	26.3	4.3	3.4	3.3	4.1	3.6	3.5
Greece	3.8	4.1	-5.4	-3.2	0.4	-0.2	0.3	2.7	3.1	-0.3	2.7	3.1
Spain	4.2	3.6	-1.3	-1.7	1.4	3.2	3.2	2.3	2.1	3.2	2.3	2.1
France	2.8	2.0	0.3	0.6	0.6	1.3	1.2	1.4	1.7	1.3	1.4	1.7
Italy	1.8	1.2	-1.5	-1.7	0.1	0.7	0.9	0.9	1.1	0.7	0.9	1.0
Cyprus	4.6	4.0	0.1	-6.0	-1.5	1.7	2.8	2.5	2.3	2.8	2.5	2.3
Latvia	5.6	9.9	-2.6	2.9	2.1	2.7	1.6	2.8	3.0	1.9	2.8	3.0
Lithuania	4.6	8.6	-0.4	3.5	3.5	1.8	2.2	2.9	2.8	2.0	2.7	2.8
Luxembourg	6.6	4.5	0.2	4.2	4.7	3.5	3.8	4.0	3.9	3.6	3.8	3.6
Malta	3.5	2.5	1.7	4.6	8.4	7.4	4.0	3.7	3.7	4.1	3.7	3.7
Netherlands	3.2	2.3	0.0	-0.2	1.4	2.0	2.1	2.0	1.8	1.7	1.7	1.8
Austria	2.7	2.5	0.6	0.1	0.6	1.0	1.5	1.6	1.6	1.5	1.6	1.6
Portugal	3.0	1.1	-1.4	-1.1	0.9	1.6	1.3	1.6	1.5	0.9	1.2	1.4
Slovenia	3.9	4.7	-1.1	-1.1	3.1	2.3	2.5	3.0	3.0	2.2	2.6	2.2
Slovakia	2.6	7.3	1.9	1.5	2.6	3.8	3.3	2.9	3.6	3.4	3.2	3.8
Finland	3.9	3.6	-0.8	-0.8	-0.6	0.3	1.5	1.2	1.5	0.8	0.8	1.1
Euro area	2.6	2.2	-0.3	-0.3	1.2	2.0	1.7	1.6	1.8	1.7	1.5	1.7
Bulgaria	2.2	6.6	1.1	0.9	1.3	3.6	3.3	2.9	2.8	3.1	2.9	2.8
Czech Republic	2.0	5.5	0.2	-0.5	2.7	4.5	2.4	2.6	2.7	2.2	2.6	2.7
Denmark	2.0	2.0	-0.4	0.9	1.7	1.6	1.0	1.5	1.8	1.0	1.7	1.8
Croatia	2.7	4.7	-2.0	-1.1	-0.5	1.6	2.8	3.1	2.5	2.6	2.5	2.3
Hungary	4.0	3.5	-1.0	2.1	4.0	3.1	1.9	3.5	3.2	2.1	2.6	2.8
Poland	3.4	5.1	3.5	1.4	3.3	3.9	2.8	3.2	3.1	3.1	3.4	3.2
Romania	2.1	6.6	0.3	3.5	3.1	3.9	4.9	4.4	3.7	5.2	3.9	3.6
Sweden	3.4	3.5	0.5	1.2	2.6	4.1	3.3	2.4	2.1	3.4	2.4	2.1
United Kingdom	3.1	2.8	-0.1	1.9	3.1	2.2	2.0	1.5	1.2	1.9	1.0	1.2
EU	2.7	2.5	-0.1	0.2	1.6	2.2	1.9	1.8	1.8	1.8	1.6	1.8
USA	3.2	2.9	0.6	1.7	2.4	2.6	1.6	2.3	2.2	1.6	2.1	1.9
Japan	0.4	1.7	-0.2	2.0	0.3	1.2	0.9	1.0	0.5	0.7	0.8	0.4

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2016-18)

1.2.2017

	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	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Germany	0.7	0.4	0.2	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4
Estonia	-0.5	0.5	0.2	0.7	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	0.8	0.8	0.7	0.7	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	0.6	0.3	0.3	0.4	0.4	0.5	0.5	0.5
Italy	0.4	0.1	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	-0.1	0.6	0.2	0.8	0.4	1.4	0.6	0.7	0.7	0.7	0.8	0.7
Lithuania	0.6	0.4	0.4	1.4	1.0	0.5	0.5	0.7	0.8	0.7	0.7	0.7
Luxembourg	-0.5	1.8	-0.1	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.7	0.7	0.8	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.4
Austria	0.6	0.1	0.5	0.6	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.4
Portugal	0.2	0.3	0.8	0.6	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Slovenia	0.6	0.7	1.0	0.4	0.6	1.0	0.9	0.9	0.7	0.6	0.5	0.5
Slovakia	0.7	0.9	0.7	0.7	0.8	0.8	0.8	0.9	1.0	1.0	0.9	0.9
Finland	0.8	-0.1	0.4	0.5	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Euro area	0.5	0.3	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Bulgaria	0.8	0.9	0.7	0.8	0.6	0.8	0.8	0.7	0.7	0.8	0.6	0.7
Czech Republic	0.4	0.9	0.2	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.7
Denmark	0.8	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Croatia	0.6	0.7	1.7	1.1	0.5	0.5	0.5	0.5	0.7	0.7	0.7	0.8
Hungary	-0.6	1.1	0.3	2.4	0.4	0.5	0.3	1.0	0.2	1.0	1.8	1.8
Poland	-0.1	0.8	0.2	1.4	0.6	0.7	0.8	0.7	0.8	0.8	0.8	0.8
Romania	1.5	1.5	0.6	1.3	1.2	1.0	0.9	1.0	0.9	0.7	1.0	1.0
Sweden	0.4	0.6	0.5	0.7	0.6	0.4	0.4	0.3	0.7	0.6	0.5	0.5
United Kingdom	0.3	0.6	0.6	0.6	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.4
EU	0.5	0.4	0.5	0.6	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5
USA	0.2	0.4	0.9	0.5	0.5	0.5	0.6	0.6	0.5	0.6	0.6	0.5
Japan	0.7	0.5	0.3	0.1	0.3	0.3	0.1	0.0	0.1	0.1	0.2	0.1

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2016-18)

1.2.2017

	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	1.3	1.1	1.3	1.3	1.5	1.5	1.6	1.6	1.6	1.6
Germany	1.8	1.7	1.7	1.9	1.8	1.9	2.3	2.2	2.0	1.9	1.8	1.7
Estonia	1.5	0.6	1.3	0.8	1.9	2.0	2.4	2.4	2.5	2.6	2.6	2.5
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	3.4	3.4	3.2	3.0	2.7	2.4	2.1	2.0	2.0	2.1	2.1	2.1
France	1.2	1.1	0.9	1.1	1.1	1.6	1.7	1.7	1.5	1.6	1.8	1.9
Italy	1.0	0.8	1.0	1.0	0.9	1.0	1.0	1.1	1.1	1.1	1.0	1.0
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	1.2	0.8	0.3	1.5	2.0	2.8	3.2	3.1	3.5	2.8	2.9	2.9
Lithuania	2.5	2.1	2.0	2.8	3.2	3.3	3.3	2.7	2.5	2.7	3.0	3.0
Luxembourg	3.5	5.1	4.8	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	1.2	1.9	2.5	2.7	2.4	2.1	1.7	1.6	1.7	1.8	1.8	1.8
Austria	1.5	1.3	1.5	1.7	1.5	1.8	1.7	1.5	1.5	1.5	1.6	1.6
Portugal	0.9	0.9	1.6	1.9	2.0	2.0	1.4	1.2	1.3	1.5	1.6	1.5
Slovenia	2.1	2.2	3.0	2.7	2.7	3.0	2.9	3.4	3.5	3.1	2.7	2.4
Slovakia	3.7	3.6	3.2	3.0	3.1	3.0	3.1	3.3	3.6	3.8	3.8	3.8
Finland	2.0	0.9	1.6	1.6	1.0	1.4	1.3	1.2	1.3	1.5	1.5	1.5
Euro area	1.7	1.6	1.8	1.8	1.7	1.8	1.8	1.7	1.7	1.7	1.8	1.8
Bulgaria	3.4	3.6	3.4	3.3	3.1	3.1	3.2	3.0	3.1	3.0	2.8	2.8
Czech Republic	3.0	2.6	1.9	2.2	2.6	2.3	2.7	2.8	2.7	2.7	2.6	2.7
Denmark	0.8	0.4	1.2	1.8	1.4	1.4	1.5	1.5	1.7	1.8	1.8	1.9
Croatia	2.3	2.0	2.7	4.1	4.0	3.8	2.6	2.0	2.2	2.3	2.6	2.9
Hungary	0.9	1.9	1.6	3.1	4.2	3.7	3.6	2.2	2.0	2.4	4.0	4.7
Poland	2.8	3.1	2.2	2.3	3.0	2.8	3.5	2.8	3.1	3.2	3.2	3.3
Romania	4.1	5.8	4.5	5.0	4.7	4.2	4.5	4.2	3.8	3.5	3.7	3.7
Sweden	4.2	3.6	2.8	2.2	2.3	2.2	2.1	1.6	1.8	2.0	2.1	2.3
United Kingdom	1.8	2.0	2.2	2.2	2.2	1.8	1.4	0.9	0.9	1.0	1.2	1.4
EU	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.7	1.7	1.7	1.8	1.8
USA	1.6	1.3	1.7	1.9	2.2	2.4	2.1	2.2	2.2	2.2	2.2	2.2
Japan	0.3	0.9	1.0	1.6	1.2	1.0	0.9	0.8	0.6	0.4	0.4	0.5

Table 4: Gross domestic product per capita (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	2.0	1.9	-0.2	-0.5	1.2	1.0	0.6	0.8	1.1	0.7	0.8	1.0
Germany	1.7	1.8	0.8	0.2	1.2	0.8	0.9	0.8	1.2	0.7	0.3	0.9
Estonia	5.5	8.9	-1.3	1.8	3.2	1.6	1.1	2.2	2.6	1.1	2.3	2.6
Ireland	6.6	2.8	-2.5	0.8	8.2	25.5	3.4	2.4	2.4	3.2	2.6	2.6
Greece	3.3	3.8	-5.4	-2.5	1.0	0.1	0.3	2.7	3.1	-0.3	2.7	3.1
Spain	3.5	1.8	-1.9	-1.3	1.7	3.3	3.4	2.4	2.2	3.3	2.4	2.2
France	2.2	1.3	-0.2	0.1	0.2	0.9	0.7	0.9	1.3	0.8	0.9	1.3
Italy	1.7	0.6	-2.0	-2.2	-0.1	0.8	0.8	0.6	0.9	0.7	0.6	0.7
Cyprus	3.4	2.4	-2.3	-5.7	-0.4	2.3	3.1	2.3	1.9	3.1	2.3	1.9
Latvia	6.7	10.9	-1.0	4.0	3.0	3.5	2.3	3.4	3.5	2.5	3.4	3.5
Lithuania	5.4	10.0	1.1	4.6	4.4	2.7	3.4	4.1	3.8	3.2	3.9	3.9
Luxembourg	5.3	3.0	-1.7	1.6	2.3	1.5	2.0	2.1	1.9	1.5	1.7	1.5
Malta	2.8	2.0	1.1	3.6	7.4	6.3	3.1	2.9	2.9	3.3	2.9	3.0
Netherlands	2.5	2.0	-0.5	-0.5	1.0	1.5	1.5	1.3	1.2	1.1	1.0	1.2
Austria	2.4	2.0	0.3	-0.5	-0.1	0.0	0.7	1.1	1.1	0.7	1.1	1.1
Portugal	2.4	0.9	-1.3	-0.6	1.4	2.0	1.8	2.1	2.0	1.4	1.7	1.8
Slovenia	3.8	4.5	-1.5	-1.2	3.0	2.2	2.3	2.8	2.9	2.1	2.4	2.1
Slovakia	2.6	7.2	1.8	1.4	2.5	3.8	3.3	2.9	3.6	3.4	3.2	3.8
Finland	3.7	3.2	-1.2	-1.2	-1.1	-0.1	1.1	0.8	1.1	0.4	0.4	0.7
Euro area	2.2	1.6	-0.6	-0.5	1.0	1.7	1.3	1.3	1.5	1.2	1.1	1.4
Bulgaria	3.4	7.4	1.7	1.4	1.9	4.0	3.9	3.6	3.5	3.8	3.5	3.4
Czech Republic	2.2	5.2	-0.1	-0.5	2.6	4.4	2.2	2.5	2.6	2.0	2.5	2.6
Denmark	1.7	1.7	-0.9	0.5	1.1	0.9	0.2	0.9	1.2	0.2	1.2	1.4
Croatia	3.9	4.7	-1.7	-0.8	0.1	2.1	4.0	3.4	2.7	2.8	2.7	2.6
Hungary	4.2	3.7	-0.7	2.4	4.3	3.4	2.0	3.7	3.4	2.2	2.8	2.9
Poland	3.4	5.1	3.2	1.5	3.3	4.0	2.8	3.2	3.2	3.2	3.5	3.3
Romania	2.9	7.4	1.1	3.9	3.5	4.4	5.7	4.9	4.4	5.2	4.1	3.9
Sweden	3.2	3.0	-0.3	0.4	1.6	3.0	2.1	1.0	0.5	2.2	0.9	0.5
United Kingdom	2.7	2.1	-0.8	1.3	2.3	1.4	1.2	0.8	0.5	1.2	0.3	0.5
EU	2.5	2.1	-0.4	0.0	1.4	1.9	1.5	1.4	1.5	1.4	1.2	1.4
USA	2.1	1.9	-0.2	0.9	1.6	1.8	0.9	1.5	1.5	0.8	1.3	1.1
Japan	0.2	1.6	-0.2	2.2	0.5	1.3	1.1	1.1	0.6	0.8	0.9	0.5



Table 5: Domestic demand, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.7	2.5	0.8	-0.5	2.3	1.5	0.4	1.1	1.5	0.6	1.3	1.5
Germany	1.0	0.9	0.6	0.9	1.4	1.6	2.2	2.0	2.1	1.9	1.8	2.0
Estonia	5.8	10.2	-3.2	1.5	2.5	0.7	2.2	3.0	3.1	2.8	2.9	2.9
Ireland	7.5	6.0	-3.0	-1.9	7.7	9.9	4.2	3.3	3.2	7.5	3.7	2.9
Greece	4.5	4.6	-7.0	-4.3	0.5	-1.2	0.7	2.5	2.9	0.0	2.4	2.9
Spain	4.9	4.6	-3.0	-3.2	1.9	3.4	2.9	2.1	2.0	3.0	2.1	1.9
France	3.0	2.4	0.3	0.7	1.1	1.5	2.0	1.4	2.0	1.8	1.6	2.1
Italy	2.3	1.2	-2.0	-2.6	0.1	1.1	1.0	1.1	1.4	0.9	1.1	1.3
Cyprus	4.0	5.6	-0.6	-9.4	-1.4	2.9	2.0	2.5	2.1	2.9	2.6	2.1
Latvia	6.1	12.7	-5.2	2.0	0.1	2.4	2.6	3.7	3.8	2.5	3.7	3.8
Lithuania	4.4	10.9	-3.4	3.2	3.4	7.1	1.9	4.1	2.6	-0.4	4.0	2.7
Luxembourg	5.0	3.5	2.3	1.3	3.7	2.4	2.3	3.7	2.7	3.3	3.8	3.4
Malta	1.3	3.8	0.9	2.7	2.9	13.1	2.7	3.6	3.6	4.3	4.2	1.7
Netherlands	3.3	1.9	-0.4	-1.4	0.9	2.2	2.3	2.3	2.1	1.7	2.1	2.0
Austria	1.6	2.3	0.6	0.0	0.1	0.6	1.9	1.4	1.2	1.7	1.4	1.2
Portugal	3.5	1.1	-2.8	-2.0	2.2	2.5	1.3	1.7	1.5	1.1	1.4	1.4
Slovenia	3.7	5.0	-2.8	-2.0	1.8	1.4	1.9	3.2	3.4	1.7	2.7	2.6
Slovakia	2.1	5.6	-0.1	0.3	3.2	4.7	1.5	2.8	3.4	2.2	3.4	3.3
Finland	3.1	3.6	0.0	-1.1	-0.1	1.4	1.7	1.0	1.2	1.5	1.0	1.0
Euro area	2.5	2.2	-0.8	-0.7	1.2	1.8	1.9	1.7	2.0	1.8	1.7	1.9
Bulgaria	8.2	9.8	-1.1	-2.2	2.7	3.4	2.1	2.8	2.9	2.0	2.7	2.8
Czech Republic	2.2	4.4	-0.8	-0.6	3.4	4.7	1.7	2.4	2.6	1.5	2.4	2.6
Denmark	1.5	3.1	-0.8	0.8	1.5	1.3	1.6	1.7	2.0	1.4	1.8	1.9
Croatia	2.0	5.4	-3.2	-1.1	-1.9	1.2	3.3	3.3	3.2	2.8	2.9	2.8
Hungary	4.7	2.6	-2.7	2.3	4.6	1.4	1.1	5.0	3.7	1.2	3.7	3.1
Poland	3.0	5.5	2.6	-0.6	4.7	3.4	2.9	3.3	3.3	3.0	3.7	3.3
Romania	3.2	11.3	-1.1	-0.1	3.4	5.5	7.5	6.2	4.6	7.8	5.2	4.3
Sweden	2.9	3.2	0.8	1.6	2.9	4.0	3.8	2.4	1.9	4.2	2.5	2.0
United Kingdom	3.9	3.0	-0.5	2.1	3.4	1.9	2.1	1.6	0.6	2.0	0.6	0.3
EU	2.8	2.6	-0.7	-0.1	1.8	2.0	2.1	1.9	1.8	2.0	1.7	1.7
USA	3.8	2.9	0.2	1.3	2.5	3.2	1.7	2.4	2.7	2.0	2.0	2.0
Japan	0.2	1.0	0.0	2.4	0.4	0.7	0.7	1.0	0.5	0.7	0.8	0.3

Table 6: Final demand, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	3.1	3.4	1.3	0.1	3.5	2.8	2.8	2.4	2.8	2.0	2.5	2.8
Germany	2.4	3.0	1.1	1.2	2.3	2.8	2.3	2.3	2.5	2.2	2.1	2.7
Estonia	4.8	11.5	0.3	1.9	2.8	0.1	2.9	3.1	3.2	2.7	3.1	3.2
Ireland	11.6	5.5	-0.3	0.9	11.6	24.2	3.0	3.7	3.8	4.5	4.0	4.1
Greece	5.0	5.0	-6.1	-3.0	2.1	-0.1	0.7	2.8	3.3	-0.9	2.7	3.3
Spain	5.2	4.6	-2.2	-1.4	2.5	3.8	3.2	2.6	2.6	3.8	2.7	2.6
France	3.7	2.6	0.5	0.9	1.6	2.5	1.8	1.8	2.5	1.6	1.9	2.5
Italy	2.4	1.9	-1.8	-1.9	0.8	1.8	1.1	1.5	1.8	1.1	1.5	1.8
Cyprus	3.7	4.2	-0.3	-5.5	0.7	1.8	3.7	3.3	2.8	3.9	3.4	2.8
Latvia	5.8	12.6	-2.4	1.7	1.5	2.5	2.4	3.3	3.6	2.3	3.3	3.6
Lithuania	5.4	10.6	1.0	6.1	3.4	3.7	2.2	3.8	3.1	1.5	3.5	3.0
Luxembourg	7.6	6.7	1.5	4.9	9.9	10.2	3.5	4.5	4.4	2.8	3.9	4.1
Malta	2.8	4.9	4.4	1.7	4.3	7.6	2.0	3.6	3.7	3.0	3.9	3.0
Netherlands	4.3	3.5	0.7	0.3	2.6	3.5	2.8	2.8	2.6	2.5	2.8	2.8
Austria	3.3	3.5	0.8	0.2	0.9	1.6	2.2	2.0	1.9	2.1	1.9	1.9
Portugal	3.8	2.0	-1.7	0.5	2.8	3.6	2.1	2.4	2.3	1.6	2.0	2.2
Slovenia	4.9	7.1	-1.4	0.2	3.5	3.3	4.0	3.7	4.0	3.8	3.3	3.5
Slovakia	3.5	10.3	1.8	3.4	3.4	5.8	2.8	4.0	5.0	3.7	4.3	4.9
Finland	4.6	4.5	-0.4	-0.4	-0.8	1.5	1.5	1.2	1.8	0.9	1.2	1.5
Euro area	3.5	3.2	-0.1	0.2	2.2	3.3	2.2	2.3	2.5	2.1	2.2	2.6
Bulgaria	2.8	10.7	0.2	2.2	2.8	4.3	3.3	3.4	3.5	3.2	3.4	3.5
Czech Republic	3.9	8.5	1.3	-0.3	5.8	6.1	2.4	3.3	3.4	3.2	3.4	3.6
Denmark	3.2	3.6	-0.1	1.1	2.3	1.5	1.1	2.1	2.5	1.1	2.2	2.5
Croatia	3.1	5.5	-2.7	0.2	1.0	4.0	3.9	3.8	3.6	3.9	3.2	3.2
Hungary	7.7	7.2	-0.5	3.2	7.1	4.5	3.9	5.0	4.8	3.9	4.4	4.8
Poland	4.0	6.8	3.3	1.5	5.4	4.8	4.4	4.2	4.4	4.8	4.6	4.4
Romania	5.1	11.0	0.0	5.1	4.7	5.5	6.7	5.8	4.8	7.0	5.2	4.7
Sweden	3.8	4.4	0.8	0.8	3.6	4.5	3.5	2.7	2.5	3.6	2.8	2.5
United Kingdom	3.9	3.4	-0.3	1.9	2.9	2.8	2.0	2.0	1.2	2.3	1.2	1.1
EU	3.6	3.5	0.0	0.6	2.6	3.4	2.3	2.4	2.5	2.3	2.3	2.5
USA	3.6	3.3	0.6	1.6	2.7	2.9	1.5	2.4	2.8	1.9	2.2	2.2
Japan	0.5	2.0	-0.1	2.2	1.6	1.0	0.6	1.0	0.6	0.5	0.8	0.4

Table 7: Private consumption expenditure, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.7	1.3	1.2	0.7	0.6	1.1	0.7	1.4	1.5	0.7	1.3	1.4
Germany	1.3	0.6	0.8	0.7	0.9	2.0	2.0	1.6	1.7	1.7	1.4	1.4
Estonia	5.8	9.5	-3.0	3.8	3.3	4.7	4.0	3.4	2.8	3.3	2.9	2.8
Ireland	7.2	5.4	-1.6	-0.3	1.8	5.0	2.7	2.5	2.5	3.4	2.1	1.8
Greece	3.9	3.6	-4.6	-2.6	0.4	-0.2	0.6	1.6	1.6	-0.5	1.5	1.6
Spain	4.1	3.5	-2.0	-3.1	1.6	2.9	3.0	2.1	1.8	3.2	2.1	1.6
France	3.2	2.1	0.5	0.5	0.7	1.5	1.9	1.2	1.6	1.5	1.3	1.6
Italy	1.8	1.1	-1.1	-2.5	0.4	1.5	1.4	0.9	1.2	1.2	0.9	1.1
Cyprus	4.5	5.6	0.5	-5.9	0.7	1.9	3.0	1.8	1.4	2.4	1.8	1.5
Latvia	3.6	11.6	-3.3	5.0	1.3	3.5	3.6	3.9	3.9	3.8	3.9	4.0
Lithuania	5.4	11.1	-2.2	4.3	4.3	4.1	5.3	4.0	2.6	4.4	3.7	2.6
Luxembourg	4.6	2.0	1.8	2.6	2.7	1.8	1.7	3.3	2.4	2.3	4.6	4.1
Malta	3.4	2.5	0.9	2.2	2.6	5.5	3.6	2.8	2.7	4.0	2.8	2.7
Netherlands	3.7	0.5	-0.4	-1.0	0.3	1.8	1.6	2.0	1.9	1.3	1.9	1.8
Austria	2.1	1.9	0.8	-0.1	-0.3	0.0	1.3	1.2	1.1	1.3	1.2	1.1
Portugal	3.2	1.6	-1.6	-1.2	2.3	2.6	2.1	1.6	1.2	1.8	1.1	1.0
Slovenia	3.0	3.2	0.4	-4.0	2.0	0.5	2.7	3.2	2.9	2.1	2.1	1.7
Slovakia	3.8	5.4	1.0	-0.8	1.4	2.2	2.7	2.9	2.8	2.9	3.3	3.1
Finland	3.1	3.7	1.1	-0.5	0.8	1.5	2.0	1.2	1.3	1.4	0.8	0.8
Euro area	2.5	1.7	-0.2	-0.6	0.8	1.8	1.9	1.5	1.6	1.7	1.4	1.5
Bulgaria	5.3	8.9	1.0	-2.5	2.7	4.5	3.2	2.9	2.8	3.2	2.9	2.8
Czech Republic	1.9	3.9	0.5	0.5	1.8	3.0	2.6	2.4	2.4	2.6	2.5	2.5
Denmark	0.9	2.9	-0.3	0.3	0.5	1.9	1.8	1.7	2.0	2.0	1.9	2.0
Croatia	2.2	4.3	-2.1	-1.8	-1.6	1.2	3.0	3.4	3.0	2.7	2.5	2.4
Hungary	5.4	3.1	-2.4	0.3	2.5	3.4	5.0	4.8	3.9	4.9	4.0	3.6
Poland	3.8	3.6	3.4	0.3	2.4	3.2	3.6	3.9	2.9	3.7	3.9	2.9
Romania	3.6	12.2	-0.2	0.7	4.7	6.0	9.0	6.7	4.2	9.0	5.2	3.7
Sweden	3.2	2.9	1.4	1.9	2.1	2.7	2.3	2.6	2.4	2.8	2.6	2.4
United Kingdom	4.1	2.9	-0.4	1.6	2.2	2.4	2.8	1.9	0.9	2.9	1.5	0.7
EU	2.8	2.2	-0.2	-0.1	1.2	2.1	2.3	1.8	1.6	2.1	1.6	1.5
USA	4.2	3.2	0.7	1.5	2.9	3.2	2.7	2.5	2.8	2.6	2.2	2.1
Japan	1.0	1.0	0.5	2.4	-0.9	-0.4	0.3	0.6	0.6	0.4	0.5	0.5

Table 8: Government consumption expenditure, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	2.2	1.3	1.5	0.1	1.4	0.5	0.0	-0.2	0.3	0.4	-0.3	0.3
Germany	1.3	0.5	1.9	1.2	1.2	2.7	4.2	3.0	2.8	3.9	2.8	2.5
Estonia	1.0	4.4	1.1	1.9	2.7	3.4	1.5	1.9	1.6	0.0	1.3	0.6
Ireland	7.7	4.2	-1.9	-1.3	4.5	0.3	5.4	2.4	2.0	4.7	2.1	1.5
Greece	3.5	4.7	-3.6	-6.4	-1.4	0.0	-0.6	0.2	0.0	-0.7	-0.7	-0.1
Spain	3.9	5.6	1.2	-2.1	-0.3	2.0	1.3	0.9	0.8	0.9	0.8	0.8
France	1.1	1.7	1.5	1.5	1.2	1.4	1.6	1.2	1.2	1.5	1.0	1.2
Italy	2.2	0.6	-0.3	-0.3	-0.9	-0.6	0.6	0.2	0.4	1.0	0.3	0.3
Cyprus	4.1	5.4	2.6	-8.2	-7.9	-0.6	0.3	0.7	0.8	-0.2	0.9	0.9
Latvia	3.5	4.1	-2.8	1.6	2.1	3.0	1.7	3.0	2.5	2.7	2.5	2.5
Lithuania	0.8	3.0	-0.7	0.7	0.3	0.9	1.1	2.2	2.1	1.5	2.2	2.1
Luxembourg	5.9	2.6	3.9	1.9	0.0	2.3	4.0	3.9	3.4	3.1	2.6	2.7
Malta	0.9	1.4	4.0	0.1	7.0	4.7	3.2	7.5	6.2	3.6	6.9	6.7
Netherlands	3.6	3.3	1.5	-0.1	0.3	0.2	0.8	0.9	1.1	1.1	0.7	1.2
Austria	1.4	1.9	1.3	0.7	0.8	2.1	1.8	1.0	0.8	1.2	0.9	0.7
Portugal	4.1	1.5	-1.1	-2.0	-0.5	0.8	0.6	0.4	0.5	0.6	0.4	0.5
Slovenia	3.6	2.6	0.7	-2.1	-1.2	2.5	2.3	1.5	1.9	2.9	2.6	1.5
Slovakia	2.5	3.8	2.0	2.2	5.3	5.4	2.9	2.9	3.0	2.3	2.5	2.7
Finland	1.9	1.4	0.7	1.1	-0.5	0.1	-0.1	-0.8	0.1	0.0	-0.5	0.0
Euro area	2.0	1.8	1.0	0.3	0.6	1.4	2.0	1.4	1.4	1.9	1.3	1.3
Bulgaria	8.2	3.5	-0.4	0.6	0.1	1.4	1.1	2.0	2.3	1.1	1.4	1.6
Czech Republic	2.2	1.1	0.1	2.5	1.1	2.0	2.2	2.6	2.0	2.8	2.4	2.1
Denmark	2.7	1.3	1.6	-0.1	1.2	0.6	1.3	0.7	0.8	1.0	0.5	0.6
Croatia	0.8	4.0	-0.3	0.3	-0.8	-0.3	1.4	1.0	1.0	0.9	1.0	0.9
Hungary	2.4	0.9	0.6	4.1	4.5	1.0	2.0	1.0	2.0	2.0	1.0	2.0
Poland	3.8	3.8	1.7	2.5	4.1	2.3	3.7	2.4	2.5	4.0	3.3	3.1
Romania	-0.2	-0.1	1.2	-4.6	0.8	0.1	4.5	3.5	3.0	5.3	3.0	3.0
Sweden	1.4	0.6	1.4	1.3	1.5	2.5	3.4	1.9	0.3	3.8	2.2	0.3
United Kingdom	3.7	2.7	1.1	0.3	2.3	1.3	1.0	0.7	0.4	0.3	0.5	0.8
EU	2.3	1.9	1.1	0.4	1.0	1.4	1.9	1.4	1.3	1.8	1.2	1.3
USA	2.7	1.3	0.5	-2.4	-0.7	1.6	0.8	1.1	1.6	0.8	0.9	1.0
Japan	2.9	1.0	1.5	1.5	0.5	1.6	1.5	0.7	0.7	1.8	0.6	0.6

Table 9: Total investment, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.5	4.6	-0.3	-1.5	5.1	2.4	2.3	2.3	2.9	3.3	2.9	2.9
Germany	0.4	2.2	0.5	-1.1	3.4	1.7	2.5	2.1	2.5	2.5	1.9	2.9
Estonia	10.7	14.2	-4.1	-2.8	-8.1	-3.3	-2.2	4.4	4.7	3.2	5.3	4.8
Ireland	8.7	8.2	-6.3	-5.7	18.3	32.9	5.0	6.4	5.0	16.0	6.8	5.0
Greece	7.3	7.6	-17.1	-8.4	-4.6	-0.2	4.0	12.0	14.2	4.0	13.7	14.2
Spain	7.5	6.3	-8.4	-3.4	3.8	6.0	3.7	3.4	3.8	4.2	3.6	3.8
France	4.4	3.5	-0.9	-0.8	-0.3	1.0	2.8	3.1	4.1	2.9	3.2	4.2
Italy	4.4	1.6	-5.0	-6.6	-3.0	1.3	1.9	2.4	3.1	2.1	2.6	3.2
Cyprus	1.6	8.1	-8.6	-12.9	-17.5	12.0	8.3	7.4	6.3	9.1	8.3	6.4
Latvia	16.1	19.2	-7.2	-6.0	0.1	2.8	-22.0	13.0	4.9	-6.5	5.5	4.2
Lithuania	5.9	16.6	-6.8	8.3	3.7	4.7	-1.2	6.0	3.0	-0.9	6.0	3.0
Luxembourg	6.6	5.3	2.4	-2.1	6.0	1.0	1.9	4.2	2.7	5.3	3.6	3.0
Malta	-2.1	11.1	-3.0	-1.7	8.8	49.8	-2.0	2.0	3.1	4.0	5.0	-4.0
Netherlands	2.7	3.0	-2.6	-4.3	2.3	9.9	6.4	4.0	3.5	6.9	4.4	3.2
Austria	1.2	2.1	-0.1	2.2	-0.9	0.7	3.6	2.4	2.0	3.1	2.3	1.7
Portugal	3.8	-1.0	-7.7	-5.1	2.3	4.5	-1.5	3.8	4.2	-1.4	3.7	4.1
Slovenia	5.1	7.3	-8.9	3.2	1.4	1.0	-4.5	5.3	6.4	-3.9	5.3	6.4
Slovakia	-1.2	7.0	-1.9	-0.9	1.2	16.9	-7.3	2.1	5.4	-0.9	4.9	4.3
Finland	3.9	4.4	-2.0	-4.9	-2.6	1.1	3.4	2.0	2.5	4.3	3.0	2.6
Euro area	3.3	3.4	-2.9	-2.5	1.4	3.2	2.8	2.9	3.4	3.3	3.1	3.5
Bulgaria	18.2	15.8	-4.3	0.3	3.4	2.7	-0.5	3.2	3.6	-0.8	3.2	3.6
Czech Republic	2.4	6.2	-1.8	-2.5	3.9	9.0	-1.6	2.5	3.3	-2.8	2.5	3.3
Denmark	2.3	5.0	-3.6	2.7	3.5	2.5	3.7	3.0	3.6	1.0	3.2	3.6
Croatia	3.0	9.8	-5.7	1.4	-2.8	1.6	4.2	5.2	5.8	4.8	6.1	5.3
Hungary	7.1	3.4	-4.3	9.8	9.9	1.9	-9.6	10.0	5.0	-8.2	5.9	3.0
Poland	0.9	10.0	2.5	-1.1	10.0	6.1	-5.5	2.7	5.3	-1.5	3.7	4.9
Romania	3.4	20.4	-5.6	-5.4	3.2	8.3	5.5	6.2	6.3	6.3	6.4	6.5
Sweden	4.2	6.1	-0.5	0.6	5.5	7.0	6.6	3.5	2.9	6.6	3.5	2.9
United Kingdom	3.1	3.5	-2.8	3.2	6.7	3.4	1.0	1.6	0.2	1.3	-2.2	-0.9
EU	3.2	3.9	-2.8	-1.5	2.6	3.6	2.3	2.9	3.1	2.8	2.5	3.1
USA	4.2	3.2	-1.6	3.0	4.2	3.7	0.8	3.3	3.0	1.0	2.1	2.1
Japan	-2.3	0.2	-2.1	4.9	2.9	0.1	1.0	2.3	0.0	0.7	1.9	-0.3

Table 10: Investment in construction, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	-1.6	4.8	1.2	-2.3	2.3	1.4	4.3	1.8	2.9	4.7	3.2	2.9
Germany	-2.6	-1.1	1.5	-1.1	1.9	0.3	3.1	2.7	2.6	3.0	2.3	2.8
Estonia	8.6	14.6	-5.5	-15.1	-6.4	2.8	-3.0	4.7	4.2	3.2	5.5	4.6
Ireland	7.1	7.0	-18.3	12.4	9.5	7.7	16.0	12.6	10.0	11.7	9.5	8.8
Greece	3.9	6.6	-16.1	-12.9	-19.0	0.0	7.3	8.9	14.5	2.6	10.6	14.7
Spain	8.0	5.7	-11.2	-8.6	1.2	4.9	2.4	3.0	3.6	2.5	3.1	4.2
France	3.7	4.0	-2.1	-0.8	-2.3	-0.8	1.2	2.6	3.7	1.3	2.7	3.7
Italy	4.0	1.6	-6.0	-8.0	-6.6	-0.4	0.7	1.0	2.4	1.1	1.3	2.2
Cyprus	1.6	12.4	-10.7	-18.5	-12.8	-2.9	6.9	7.1	6.8	8.6	8.6	6.8
Latvia	18.9	19.8	-6.8	-10.3	10.2	-4.1	-31.2	19.9	6.1	:	:	:
Lithuania	2.8	15.9	-8.4	8.0	4.6	3.6	-4.9	6.5	3.0	-4.5	6.5	3.0
Luxembourg	8.1	3.6	-1.3	3.2	5.5	10.6	3.5	3.5	3.2	6.2	3.8	3.1
Malta	:	4.4	-4.6	-1.7	0.8	13.7	:	:	:	:	:	:
Netherlands	2.4	2.4	-5.5	-6.2	2.4	11.3	8.0	4.6	3.1	8.3	4.7	3.1
Austria	-1.0	1.3	-1.6	-0.9	-0.1	-1.2	1.6	1.5	1.3	2.1	1.5	1.3
Portugal	3.4	-3.4	-9.3	-12.1	-3.7	4.1	-3.8	1.8	2.4	-5.2	1.2	3.2
Slovenia	2.9	5.7	-11.8	-4.6	9.6	0.1	-16.8	4.2	4.4	-15.6	2.6	4.4
Slovakia	-1.7	9.1	-5.6	4.7	-4.2	22.9	-13.4	0.1	5.4	-1.2	4.8	4.3
Finland	4.7	4.9	-2.3	-3.8	-3.8	2.0	6.2	2.6	2.9	7.2	3.5	2.9
Euro area	:	2.7	-4.3	-3.5	-0.9	1.4	2.4	2.8	3.2	2.7	2.8	3.3
Bulgaria	:	17.9	0.1	-0.5	-4.1	-3.8	-1.1	1.4	3.4	-1.7	1.1	3.3
Czech Republic	-1.9	4.8	-2.8	-4.9	1.0	11.2	-6.2	2.0	3.6	-8.5	2.1	3.7
Denmark	0.8	4.9	-5.8	-1.0	5.2	3.2	4.2	2.5	4.2	1.5	2.5	3.8
Croatia	:	:	:	:	:	:	:	:	:	:	:	:
Hungary	4.9	0.2	-6.8	11.2	10.5	1.4	-11.4	11.4	5.9	-7.2	7.7	2.8
Poland	0.6	8.6	4.5	-4.8	8.9	6.5	-8.5	2.5	5.7	-4.1	3.6	4.8
Romania	2.8	22.1	-3.5	-15.0	10.1	7.8	2.6	5.0	5.7	3.4	5.8	6.1
Sweden	5.0	6.6	-2.4	-1.3	9.4	8.3	8.8	4.4	3.1	7.8	4.3	3.1
United Kingdom	3.0	4.2	-4.5	3.4	8.1	3.6	0.6	1.8	0.2	0.4	-2.4	-0.9
EU	2.1	3.3	-4.1	-2.7	1.2	2.3	1.7	2.7	3.0	2.0	2.1	2.8
USA	2.4	0.4	-5.6	3.4	5.2	4.3	1.1	4.6	3.2	2.4	2.0	2.1
Japan	-4.0	-4.3	-2.7	10.9	1.6	-0.5	:	:	:	:	:	:

Table 11: Investment in equipment, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	3.8	4.4	-3.9	-1.4	8.5	0.7	2.4	2.9	3.0	3.9	2.6	2.9
Germany	3.3	6.2	-1.8	-2.1	5.5	3.7	1.7	1.2	2.7	1.6	1.1	3.6
Estonia	13.0	13.8	-4.2	17.0	-11.6	-12.4	-6.0	3.0	4.6	3.3	5.8	5.5
Ireland	6.9	13.9	0.7	-6.3	24.2	3.0	1.3	6.0	5.0	1.0	6.0	5.0
Greece	14.5	9.5	-20.6	-4.5	21.0	-1.5	1.8	13.4	15.2	6.9	15.8	15.2
Spain	6.0	7.3	-5.8	5.0	8.3	8.9	5.9	4.0	3.8	6.7	4.5	3.9
France	6.0	2.7	-1.0	-3.5	2.0	2.3	6.0	4.1	5.0	6.2	4.2	5.1
Italy	4.6	2.4	-5.4	-8.2	0.9	4.3	4.8	4.6	3.7	4.5	4.5	4.2
Cyprus	2.6	-1.1	-6.0	-16.3	-34.8	94.1	13.7	7.0	6.0	10.0	7.0	6.2
Latvia	14.2	22.0	-9.3	-5.4	-10.9	9.8	-11.7	7.1	3.4	:	:	:
Lithuania	9.2	18.1	-7.0	12.5	0.5	6.0	8.0	6.1	3.0	8.0	6.0	3.0
Luxembourg	2.7	8.7	10.8	-6.2	6.1	-12.7	1.1	5.4	2.1	4.2	3.6	3.3
Malta	:	26.8	-4.8	-5.0	15.1	121.3	:	:	:	:	:	:
Netherlands	2.1	3.9	-0.2	-6.1	-0.2	13.4	6.6	4.6	3.6	7.6	4.7	3.6
Austria	1.6	2.6	-0.1	2.4	-1.0	3.6	7.0	3.5	2.5	5.1	2.9	2.3
Portugal	3.6	3.2	-9.4	8.1	13.3	9.7	2.6	7.9	7.8	3.0	7.6	6.7
Slovenia	8.2	10.3	-8.2	12.6	-7.5	2.4	8.3	8.0	10.5	8.3	9.5	10.5
Slovakia	0.2	4.3	2.9	-9.4	12.1	12.4	-2.0	3.3	5.4	0.0	5.0	4.3
Finland	0.8	4.1	-0.5	-8.7	-1.6	5.8	0.6	1.5	2.6	3.7	2.9	2.7
Euro area	:	4.9	-3.2	-2.7	4.4	4.7	3.8	3.4	3.8	4.2	3.5	4.2
Bulgaria	:	14.8	-9.7	1.2	13.9	9.8	-0.5	5.0	3.5	-0.5	5.0	3.5
Czech Republic	6.5	7.6	-1.6	0.3	6.4	8.5	0.1	3.0	3.5	0.9	3.0	3.5
Denmark	3.1	5.8	-5.0	10.6	2.7	-0.5	3.2	4.1	3.4	0.3	4.6	3.6
Croatia	:	:	:	:	:	:	:	:	:	:	:	:
Hungary	8.2	7.0	-2.7	2.6	20.5	2.2	-7.8	8.0	4.0	-9.0	4.2	3.0
Poland	1.1	12.0	-0.4	4.6	11.2	5.3	-1.0	3.2	4.9	2.4	3.9	5.0
Romania	4.2	19.7	-5.8	4.8	-5.1	9.0	8.5	7.5	6.9	9.0	7.0	6.9
Sweden	3.7	8.1	0.9	0.1	-1.1	6.2	4.9	2.4	2.3	5.2	2.6	2.5
United Kingdom	2.2	2.1	-2.4	2.5	6.8	4.7	2.3	2.0	0.2	3.8	-1.3	-0.9
EU	4.0	5.2	-2.9	-1.3	4.7	4.8	3.3	3.4	3.5	3.9	3.0	3.7
USA	5.1	6.5	1.0	3.2	4.6	3.0	-2.2	1.4	2.6	-0.9	2.3	2.1
Japan	-2.5	5.2	-2.0	-1.0	4.5	-2.8	:	:	:	:	:	:

Table 12: Public investment (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	2.3	2.1	2.3	2.4	2.4	2.4	2.4	2.3	2.4	2.4	2.4	2.5
Germany	2.3	2.0	2.2	2.2	2.1	2.1	2.2	2.2	2.3	2.2	2.2	2.2
Estonia	5.0	5.1	5.7	5.6	5.1	5.4	4.4	5.0	5.0	4.3	4.9	4.9
Ireland	3.5	3.8	3.3	2.0	2.2	1.7	1.7	1.8	2.0	1.7	1.8	2.0
Greece	5.3	5.3	4.0	3.4	3.7	3.9	4.0	3.8	3.5	4.1	4.1	3.7
Spain	3.8	4.2	4.1	2.2	2.2	2.5	2.1	2.1	2.1	2.1	2.2	2.2
France	3.8	3.9	4.1	4.0	3.7	3.5	3.4	3.4	3.5	3.5	3.5	3.5
Italy	2.8	3.0	2.9	2.4	2.3	2.2	2.2	2.2	2.2	2.2	2.3	2.4
Cyprus	3.2	3.5	3.5	2.0	1.8	1.9	2.0	2.0	2.0	1.9	1.9	1.9
Latvia	1.8	4.1	4.9	4.4	4.5	4.6	3.2	3.6	3.8	3.5	3.9	3.9
Lithuania	2.6	4.0	4.7	3.7	3.5	3.6	3.4	3.5	3.6	3.6	3.7	3.7
Luxembourg	4.4	4.4	4.2	3.5	3.6	4.0	4.2	4.1	4.1	4.3	4.2	4.1
Malta	4.1	4.1	2.6	2.9	3.6	4.3	2.5	2.5	2.6	2.9	2.9	2.9
Netherlands	3.8	3.9	4.0	3.6	3.5	3.5	3.4	3.3	3.3	3.4	3.3	3.3
Austria	2.7	2.7	3.2	3.1	3.0	2.9	2.9	2.9	2.9	2.9	2.8	2.8
Portugal	4.9	3.9	3.8	2.2	2.0	2.3	1.8	2.2	2.2	1.8	2.2	2.2
Slovenia	3.8	4.1	4.6	4.4	5.1	4.7	2.7	2.8	2.8	2.7	2.7	2.8
Slovakia	4.0	3.3	3.6	3.3	4.0	6.3	3.3	3.7	3.7	3.3	3.6	3.6
Finland	3.7	3.7	3.8	4.2	4.2	3.9	4.0	4.0	4.0	3.9	3.9	3.9
Euro area	3.1	3.2	3.3	2.8	2.7	2.7	2.6	2.6	2.7	2.6	2.7	2.7
Bulgaria	3.8	4.0	4.4	4.0	5.2	6.6	3.9	4.7	4.7	4.1	4.8	4.9
Czech Republic	3.9	5.3	4.8	3.7	4.1	5.1	3.7	3.8	3.9	3.7	3.8	3.9
Denmark	2.8	2.8	3.3	3.7	3.9	3.6	3.6	3.6	3.5	3.6	3.5	3.4
Croatia	:	6.3	4.5	3.7	3.6	3.2	3.6	3.8	4.0	3.6	3.8	4.0
Hungary	3.9	4.2	3.5	4.4	5.4	6.6	3.3	5.5	5.9	5.0	6.2	6.6
Poland	2.8	3.5	5.2	4.1	4.5	4.4	3.7	3.9	4.1	4.1	4.3	4.5
Romania	2.6	4.1	5.7	4.5	4.3	5.2	3.4	3.7	3.9	3.7	4.4	4.8
Sweden	4.2	4.1	4.5	4.5	4.4	4.2	4.2	4.3	4.3	4.2	4.3	4.3
United Kingdom	1.8	2.2	3.0	2.6	2.8	2.7	2.6	2.6	2.6	2.7	2.7	2.7
EU	:	3.1	3.4	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.9	2.9
USA	3.6	3.8	4.0	3.3	3.2	3.2	3.2	3.1	3.1	3.2	3.1	3.1
Japan	5.6	4.1	3.7	3.9	3.9	3.7	3.6	3.8	3.7	3.3	3.6	3.5

Table 13: Potential GDP, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	2.4	1.9	1.3	0.8	0.9	1.1	1.3	1.4	1.3	1.3	1.4	1.3
Germany	1.5	1.3	0.9	1.4	1.4	1.5	1.9	1.7	1.6	1.7	1.7	1.7
Estonia	4.5	5.7	0.8	1.9	2.1	2.4	2.2	2.4	2.4	2.4	2.6	2.5
Ireland	8.1	4.5	0.1	1.9	3.5	24.6	3.5	4.0	3.9	3.8	4.3	4.2
Greece	3.9	3.1	-1.3	-2.9	-2.3	-1.4	-1.0	-0.5	-0.2	-1.1	-0.6	-0.2
Spain	3.2	3.6	0.9	-0.8	-0.2	0.0	0.5	0.6	0.8	0.6	0.7	0.9
France	2.0	1.7	1.1	0.9	0.9	0.9	1.1	1.2	1.3	1.2	1.2	1.3
Italy	1.6	1.0	-0.4	-0.4	-0.3	-0.3	-0.3	0.1	0.3	-0.3	0.1	0.3
Cyprus		3.3	1.7	-1.9	-2.4	-0.9	-0.1	0.4	0.7	-0.3	0.1	0.5
Latvia	5.8	7.6	-0.2	0.8	1.4	2.5	1.2	2.6	3.2	2.0	2.8	3.2
Lithuania	6.1	6.1	1.7	1.9	2.1	2.1	1.9	2.3	2.5	1.9	2.2	2.4
Luxembourg	5.3	4.2	2.4	2.6	3.2	3.2	3.0	3.3	3.4	3.1	3.2	3.4
Malta	3.1	2.5	2.5	3.7	4.4	6.1	5.4	5.0	4.7	4.7	4.5	4.1
Netherlands	3.2	1.8	0.9	0.3	0.6	1.0	1.3	1.3	1.4	1.2	1.4	1.4
Austria	2.5	2.1	1.0	0.9	0.9	1.0	1.3	1.3	1.4	1.3	1.3	1.4
Portugal	3.0	1.0	-0.3	-0.9	-0.4	0.1	0.4	0.7	0.9	0.2	0.5	0.7
Slovenia		3.5	1.2	-0.2	0.5	0.8	1.0	1.3	1.6	0.9	1.3	1.5
Slovakia	4.0	5.2	3.7	2.2	2.0	2.8	2.5	2.7	3.1	2.7	3.0	3.2
Finland	4.0	2.6	0.4	-0.1	0.0	0.2	0.4	0.8	0.8	0.2	0.6	0.6
Euro area		1.9	0.7	0.5	0.7	1.2	1.1	1.2	1.2	1.0	1.2	1.3
Bulgaria	2.8	5.8	1.8	1.2	2.1	2.9	2.8	2.8	2.8	2.7	2.8	2.8
Czech Republic	1.8	4.2	1.7	0.9	1.7	2.3	2.3	2.3	2.4	2.2	2.3	2.4
Denmark	2.0	1.4	1.0	0.8	0.9	1.1	1.2	1.5	1.6	0.9	1.0	1.0
Croatia		3.3	-0.1	-0.2	-0.2	-0.1	1.3	0.7	1.0	1.0	0.6	0.9
Hungary	3.5	3.0	0.3	1.0	1.9	2.1	2.0	2.3	2.4	2.0	2.2	2.2
Poland	4.9	3.6	4.0	3.0	3.0	3.0	2.7	2.8	2.9	2.9	3.0	3.1
Romania	1.9	5.4	2.5	1.7	2.1	2.9	3.6	3.8	3.9	3.4	3.7	3.8
Sweden	3.2	2.6	1.5	1.7	2.0	2.4	2.6	2.5	2.6	2.6	2.6	2.6
United Kingdom	3.1	2.4	1.0	1.1	1.4	1.5	1.6	1.6	1.6	1.5	1.4	1.4
EU		2.1	0.9	0.7	0.9	1.4	1.3	1.4	1.4	1.3	1.4	1.4
USA	3.4	2.3	1.1	1.6	1.9	1.9	2.1	2.1	2.1	2.0	2.0	2.0
Japan												

Table 14: Output gap relative to potential GDP <sup>1</sup> (deviation of actual output from potential output as % of potential GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	0.6	1.0	-0.1	-1.5	-0.8	-0.4	-0.5	-0.5	-0.2	-0.4	-0.5	-0.4
Germany	0.7	-0.8	-0.8	-0.4	-0.3	-0.1	-0.1	-0.1	0.1	0.0	-0.3	-0.3
Estonia	-1.3	7.6	-1.7	1.4	2.1	1.2	0.1	-0.1	0.1	-0.1	-0.4	-0.3
Ireland	2.2	2.3	-2.6	-4.8	-0.3	1.1	1.9	1.4	0.8	1.7	1.0	0.4
Greece	1.4	3.6	-4.4	-14.5	-12.1	-11.1	-9.8	-6.9	-3.8	-10.5	-7.5	-4.5
Spain	2.1	2.6	-3.9	-8.6	-7.2	-4.3	-1.6	0.0	1.3	-1.5	0.0	1.2
France	1.2	1.8	-0.7	-1.4	-1.7	-1.3	-1.3	-1.1	-0.6	-1.4	-1.2	-0.8
Italy	1.1	1.1	-1.8	-4.2	-3.8	-2.8	-1.6	-0.8	0.0	-1.6	-0.8	0.0
Cyprus	0.5	3.1	0.7	-7.2	-6.3	-3.8	-1.1	1.0	2.6	-0.8	1.6	3.4
Latvia	-0.5	5.4	-5.6	0.1	0.8	1.0	1.4	1.6	1.4	1.4	1.3	1.0
Lithuania	-1.9	3.9	-3.9	-0.4	1.0	0.7	1.0	1.6	1.9	0.9	1.5	1.8
Luxembourg	3.2	1.4	-3.2	-3.8	-2.4	-2.1	-1.3	-0.6	-0.1	-1.4	-0.9	-0.6
Malta	0.6	0.6	-1.3	-1.8	2.0	3.3	1.9	0.7	-0.2	0.9	0.1	-0.2
Netherlands	1.1	-0.8	-1.4	-3.2	-2.5	-1.5	-0.8	-0.2	0.2	-0.8	-0.5	-0.2
Austria	0.7	0.0	-0.3	-0.7	-0.9	-0.9	-0.7	-0.4	-0.3	-0.7	-0.4	-0.3
Portugal	2.2	-0.5	-1.3	-4.3	-3.1	-1.6	-0.7	0.2	0.9	-0.8	0.0	0.6
Slovenia	-0.1	2.7	-1.3	-5.7	-3.2	-1.7	-0.3	1.3	2.7	-0.3	0.9	1.6
Slovakia	-1.6	1.3	0.3	-2.7	-2.1	-1.1	-0.3	-0.1	0.4	-0.4	-0.2	0.3
Finland	1.5	0.9	-1.1	-2.3	-2.9	-2.8	-1.7	-1.3	-0.6	-1.8	-1.6	-1.1
Euro area	1.1	0.8	-1.5	-3.0	-2.5	-1.7	-1.0	-0.6	0.0	-1.0	-0.7	-0.2
Bulgaria	-1.2	1.2	0.2	-0.7	-1.4	-0.7	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2
Czech Republic	-1.0	2.8	-0.1	-3.1	-2.1	0.1	0.2	0.5	0.8	0.2	0.5	0.8
Denmark	1.7	2.9	-1.7	-2.6	-1.8	-1.3	-1.6	-1.6	-1.4	-2.6	-1.9	-1.2
Croatia		2.4	-0.3	-4.0	-4.3	-2.6	-1.1	1.3	2.8	-0.9	0.9	2.3
Hungary	-0.5	2.6	-2.3	-2.7	-0.7	0.3	0.2	1.4	2.2	0.7	1.1	1.7
Poland	-0.6	-1.4	1.6	-1.3	-1.1	-0.2	-0.2	0.2	0.4	-0.1	0.3	0.4
Romania	-3.4	4.5	-1.4	-3.2	-2.2	-1.2	0.0	0.6	0.4	0.3	0.5	0.4
Sweden	0.2	1.0	-1.7	-2.5	-1.9	-0.3	0.4	0.3	-0.2	0.5	0.3	-0.1
United Kingdom	0.6	1.4	-2.9	-2.2	-0.5	0.2	0.6	0.6	0.2	0.7	0.3	0.0
EU		1.0	-1.6	-2.8	-2.1	-1.3	-0.7	-0.3	0.1	-0.7	-0.4	-0.1
USA	0.4	1.0	-1.5	-0.6	-0.1	0.6	0.1	0.3	0.4	0.2	0.2	0.1
Japan												

<sup>1</sup> When comparing output gaps between the winter and the autumn forecast it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

Table 15: Deflator of gross domestic product (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.6	2.1	1.8	1.2	0.7	0.9	1.6	1.7	1.8	1.3	1.6	1.7
Germany	0.6	1.0	1.2	2.0	1.8	2.0	1.4	1.8	1.6	1.5	1.6	1.8
Estonia	6.1	7.1	3.6	3.9	1.7	1.0	2.4	3.1	3.0	3.7	3.0	3.3
Ireland	5.8	2.4	-0.7	1.4	-1.2	4.9	-0.3	1.2	1.2	-0.5	1.2	1.5
Greece	3.4	3.1	1.6	-2.4	-1.8	-1.0	0.0	1.3	1.2	-0.2	0.8	1.2
Spain	3.3	3.9	0.5	0.4	-0.3	0.5	0.4	1.4	1.6	0.7	1.2	1.5
France	1.4	2.0	1.1	0.8	0.5	0.6	0.8	0.9	1.2	0.8	0.8	1.2
Italy	2.5	2.4	1.5	1.2	0.9	0.6	0.9	0.9	1.1	1.0	0.9	1.3
Cyprus	2.6	3.9	2.1	-1.0	-1.5	-1.3	-1.0	1.0	1.2	-1.1	0.3	1.2
Latvia	3.5	11.0	2.0	1.3	1.5	0.4	0.6	1.5	2.6	0.8	1.8	2.2
Lithuania	0.7	4.8	3.3	1.4	1.0	0.2	1.7	2.1	2.3	1.4	1.6	2.7
Luxembourg	0.6	3.6	3.4	1.3	1.5	0.4	1.6	1.8	2.2	1.9	2.9	2.2
Malta	2.3	2.4	2.7	1.9	1.9	2.2	1.7	2.1	2.4	1.8	2.2	2.1
Netherlands	3.0	2.0	1.1	1.4	0.1	0.1	0.5	0.8	0.8	0.3	1.2	1.3
Austria	1.0	2.0	1.7	1.6	1.8	1.9	1.7	1.4	1.6	1.9	1.7	1.7
Portugal	3.7	3.1	0.6	2.3	0.8	2.1	1.5	1.4	1.4	1.8	1.7	1.7
Slovenia	7.1	3.4	1.6	0.9	0.8	1.0	1.4	1.0	1.9	1.5	1.3	1.6
Slovakia	6.1	3.5	1.0	0.5	-0.2	-0.2	-0.2	0.9	1.5	-0.2	1.0	1.5
Finland	2.0	1.1	2.2	2.6	1.7	1.7	0.9	1.0	0.9	1.1	0.8	1.0
Euro area	1.8	2.1	1.2	1.2	0.9	1.1	1.0	1.3	1.4	1.0	1.2	1.5
Bulgaria	10.0	6.4	4.1	-0.7	0.5	2.2	-0.4	1.0	1.4	-0.1	1.1	1.4
Czech Republic	4.4	1.9	0.9	1.4	2.5	1.0	1.1	1.2	1.6	0.3	1.4	1.6
Denmark	2.2	2.2	2.2	0.9	0.8	0.9	0.0	1.4	1.8	0.7	1.7	1.9
Croatia	4.8	3.9	2.5	0.8	0.0	0.1	0.7	0.9	1.8	0.2	0.9	1.2
Hungary	10.2	4.3	3.4	2.9	3.4	1.7	2.3	2.8	3.2	2.4	2.6	2.8
Poland	5.6	2.7	3.0	0.3	0.5	0.6	0.7	1.6	2.1	0.3	1.2	1.7
Romania	39.9	14.8	7.0	3.4	1.7	2.4	1.7	2.3	2.5	1.8	2.0	2.2
Sweden	1.5	1.5	1.8	1.1	1.8	2.0	2.4	2.3	2.2	2.3	2.2	2.2
United Kingdom	1.4	2.6	1.9	1.9	1.6	0.6	1.1	1.9	2.6	0.6	2.0	2.6
EU	2.0	2.3	1.5	1.3	1.0	1.1	1.0	1.5	1.6	1.0	1.4	1.7
USA	1.7	2.7	1.6	1.6	1.8	1.1	1.3	2.0	2.4	1.4	2.1	2.2
Japan	-1.1	-1.1	-1.2	-0.3	1.7	2.0	0.2	-0.1	0.5	0.3	-0.4	0.4

Table 16: Price deflator of private consumption (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.7	2.5	1.9	0.8	0.7	0.3	1.7	1.6	1.8	1.8	1.7	1.7
Germany	0.9	1.4	1.3	1.0	1.0	0.6	0.6	1.9	1.5	0.6	1.5	1.5
Estonia	4.9	4.8	4.2	2.7	0.5	0.0	0.9	2.8	2.9	0.9	2.8	3.0
Ireland	4.2	2.6	-1.0	1.6	1.5	0.6	1.5	1.1	1.2	0.9	1.5	1.5
Greece	3.2	3.1	2.3	-1.8	-2.6	-1.6	0.0	1.3	1.0	0.1	1.1	1.0
Spain	2.8	3.4	1.9	1.0	0.2	-0.2	-0.1	1.9	1.7	0.0	1.6	1.5
France	1.0	2.0	1.1	0.7	0.1	-0.2	0.1	1.4	1.3	0.1	1.1	1.4
Italy	2.5	2.5	1.9	1.2	0.2	0.0	-0.1	1.4	1.3	0.0	1.2	1.4
Cyprus	2.3	3.1	2.5	0.0	-0.5	-1.7	-0.9	1.2	1.1	-1.4	0.5	1.3
Latvia	3.7	8.7	3.1	0.3	1.7	-0.6	0.8	2.5	2.5	0.0	1.9	2.0
Lithuania	0.9	2.2	4.7	1.0	0.1	-0.9	0.7	2.1	1.9	0.7	1.7	2.1
Luxembourg	1.9	2.3	1.8	1.6	0.3	-0.7	0.0	1.6	2.1	0.0	1.5	1.9
Malta	2.0	2.2	2.5	1.2	0.1	1.2	0.9	1.6	1.8	1.0	1.6	1.8
Netherlands	2.7	2.0	1.1	2.4	0.8	0.0	0.7	1.2	1.3	0.7	1.2	1.3
Austria	1.2	2.1	2.0	2.2	2.1	1.4	1.1	1.8	1.6	1.2	1.9	1.8
Portugal	3.2	3.3	1.2	0.8	0.3	0.7	1.1	1.5	1.5	0.8	1.3	1.5
Slovenia	7.1	3.4	2.2	0.8	0.0	-0.7	0.1	1.5	2.2	0.1	1.5	1.9
Slovakia	6.5	4.8	2.6	1.3	-0.1	-0.1	-0.5	0.8	1.4	-0.5	0.8	1.4
Finland	2.1	1.1	2.5	2.5	1.3	0.4	0.5	1.4	1.1	0.5	0.8	1.1
Euro area	1.8	2.2	1.5	1.1	0.5	0.1	0.4	1.6	1.4	0.4	1.3	1.4
Bulgaria	7.1	4.3	3.3	-2.6	0.0	1.2	-1.3	0.8	1.0	-0.9	1.0	1.0
Czech Republic	3.8	1.8	1.9	0.8	0.6	0.1	0.6	2.0	1.8	0.4	1.2	1.6
Denmark	2.1	1.6	2.3	0.8	0.8	0.6	0.3	1.1	1.5	0.5	1.4	1.5
Croatia	4.5	2.8	3.2	1.9	-0.5	-0.5	-0.6	1.7	1.6	-0.9	0.8	1.5
Hungary	10.0	4.6	4.7	1.8	1.0	-0.3	0.0	2.2	3.1	0.4	2.3	2.8
Poland	6.6	2.2	3.5	0.4	-0.1	-1.3	-0.2	2.0	2.1	-0.2	1.3	1.8
Romania	36.3	8.7	6.1	2.6	1.2	0.9	-0.6	0.9	1.9	-0.5	0.7	2.1
Sweden	1.3	1.2	1.8	0.7	1.1	1.0	1.1	1.6	2.0	1.1	1.6	2.0
United Kingdom	0.8	1.9	2.5	2.3	1.7	0.3	1.0	2.7	2.8	0.9	2.6	2.8
EU	1.9	2.2	1.9	1.3	0.7	0.2	0.5	1.8	1.7	0.5	1.6	1.7
USA	1.6	2.5	1.8	1.3	1.5	0.4	1.1	2.2	2.5	1.2	2.0	2.1
Japan	-0.8	-0.5	-0.8	-0.1	2.0	0.4	-0.5	-0.3	0.3	-0.8	-0.3	0.3



Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.7	2.0	2.6	1.2	0.5	0.6	1.8	2.0	1.8	1.7	1.7	1.8
Germany	1.2	1.8	1.7	1.6	0.8	0.1	0.4	1.9	1.5	0.4	1.5	1.5
Estonia	5.0	3.9	4.6	3.2	0.5	0.1	0.8	2.8	2.8	0.8	2.6	2.7
Ireland	3.7	2.8	0.6	0.5	0.3	0.0	-0.2	0.9	1.0	-0.2	1.2	1.4
Greece	3.4	3.3	2.9	-0.9	-1.4	-1.1	0.0	1.3	1.0	0.1	1.1	1.0
Spain	2.8	3.2	2.3	1.5	-0.2	-0.6	-0.3	1.9	1.7	-0.4	1.6	1.5
France	1.4	2.0	1.9	1.0	0.6	0.1	0.3	1.5	1.3	0.3	1.3	1.4
Italy	2.2	2.3	2.4	1.2	0.2	0.1	-0.1	1.4	1.3	0.0	1.2	1.4
Cyprus	2.6	2.5	2.7	0.4	-0.3	-1.5	-1.2	1.2	1.1	-1.1	0.7	1.3
Latvia	2.7	6.5	4.8	0.0	0.7	0.2	0.1	1.9	2.0	-0.1	1.8	2.0
Lithuania	2.0	2.5	4.7	1.2	0.2	-0.7	0.7	2.1	1.9	0.7	1.7	2.1
Luxembourg	2.0	3.0	2.7	1.7	0.7	0.1	0.0	2.0	2.1	0.0	1.6	1.9
Malta	2.8	2.1	2.9	1.0	0.8	1.2	0.9	1.6	1.8	1.0	1.6	1.8
Netherlands	3.0	1.7	1.9	2.6	0.3	0.2	0.1	1.4	1.4	0.1	1.0	1.1
Austria	1.5	1.9	2.3	2.1	1.5	0.8	1.0	1.8	1.6	1.0	1.8	1.6
Portugal	3.1	2.7	1.9	0.4	-0.2	0.5	0.6	1.3	1.4	0.7	1.2	1.4
Slovenia	7.8	3.6	2.7	1.9	0.4	-0.8	-0.2	1.1	2.3	0.1	1.5	1.9
Slovakia	8.0	5.0	2.7	1.5	-0.1	-0.3	-0.5	0.9	1.4	-0.5	0.8	1.4
Finland	2.1	1.0	2.7	2.2	1.2	-0.2	0.4	1.5	1.2	0.3	1.1	1.2
Euro area	1.9	2.2	2.1	1.3	0.4	0.0	0.2	1.7	1.4	0.3	1.4	1.4
Bulgaria	8.9	5.9	4.6	0.4	-1.6	-1.1	-1.3	0.8	1.2	-0.9	1.0	1.2
Czech Republic	4.3	1.8	2.8	1.4	0.4	0.3	0.6	2.0	1.8	0.5	1.2	1.6
Denmark	2.2	1.6	2.4	0.5	0.4	0.2	0.0	1.4	1.6	0.0	1.2	1.6
Croatia		2.7	2.9	2.3	0.2	-0.3	-0.6	1.7	1.6	-0.9	0.8	1.5
Hungary	9.7	5.4	4.9	1.7	0.0	0.1	0.4	2.2	3.1	0.4	2.3	2.7
Poland	7.3	2.1	3.7	0.8	0.1	-0.7	-0.2	2.0	2.1	-0.2	1.3	1.8
Romania	41.5	9.5	5.8	3.2	1.4	-0.4	-1.1	1.6	2.9	-1.0	1.8	2.9
Sweden	1.5	1.5	1.9	0.4	0.2	0.7	1.1	1.7	1.8	1.1	1.6	2.0
United Kingdom	1.2	1.9	3.3	2.6	1.5	0.0	0.7	2.5	2.6	0.7	2.5	2.6
EU	3.4	2.3	2.5	1.5	0.5	0.0	0.3	1.8	1.7	0.3	1.6	1.7
USA		2.9	2.1	1.5	1.6	0.1	1.3	2.4	2.5	1.2	2.0	2.1
Japan	-0.4	0.0	-0.2	0.3	2.8	0.8	-0.1	0.4	0.6	-0.3	0.0	0.1

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2016-18)

1.2.2017

	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	2.0	2.4	1.9	1.8	1.7	1.7	1.8	1.9	1.9
Germany	0.1	0.0	0.4	1.0	2.0	1.8	1.9	1.8	1.6	1.5	1.5	1.5
Estonia	0.3	0.1	1.2	1.6	2.9	2.8	2.7	2.7	2.7	2.8	2.8	2.9
Ireland	-0.2	-0.1	-0.2	-0.3	0.9	0.5	0.8	1.2	1.3	0.8	0.7	1.0
Greece	-0.2	-0.1	0.2	0.2	1.4	1.0	1.3	1.4	1.1	1.1	1.1	0.9
Spain	-0.8	-1.0	-0.3	0.8	2.0	2.0	1.7	2.0	2.2	1.4	1.5	1.6
France	0.0	0.1	0.4	0.7	1.6	1.5	1.5	1.6	1.3	1.2	1.3	1.3
Italy	0.0	-0.4	0.0	0.2	1.0	1.5	1.6	1.5	1.4	1.3	1.3	1.2
Cyprus	-1.8	-2.0	-0.5	-0.6	1.8	1.0	1.1	1.0	0.9	1.1	1.2	1.3
Latvia	-0.5	-0.7	0.2	1.5	2.5	1.4	2.2	1.8	1.9	2.0	2.1	2.1
Lithuania	0.7	0.4	0.4	1.2	2.0	2.0	2.4	2.1	1.9	1.9	2.0	2.0
Luxembourg	-0.2	-0.5	-0.1	1.0	2.0	2.1	2.1	1.9	2.0	2.1	2.1	2.1
Malta	0.9	0.9	1.0	0.8	1.1	1.6	1.8	2.0	1.9	1.9	1.9	1.6
Netherlands	0.4	-0.2	-0.2	0.5	1.6	1.3	1.5	1.2	1.3	1.4	1.4	1.4
Austria	1.0	0.6	0.8	1.5	2.2	1.8	1.8	1.6	1.6	1.6	1.6	1.6
Portugal	0.4	0.5	0.7	0.8	1.5	1.2	1.1	1.4	1.3	1.4	1.4	1.4
Slovenia	-0.9	-0.4	0.0	0.7	1.7	0.7	0.7	1.2	1.8	2.0	2.9	2.7
Slovakia	-0.5	-0.6	-0.7	-0.1	0.5	0.6	1.2	1.2	1.4	1.4	1.3	1.3
Finland	0.0	0.3	0.5	0.8	1.6	1.4	1.5	1.4	1.1	1.2	1.3	1.4
Euro area	0.0	-0.1	0.3	0.7	1.7	1.6	1.7	1.6	1.5	1.4	1.4	1.4
Bulgaria	-1.1	-2.3	-1.1	-0.8	0.2	0.7	1.0	1.3	1.2	1.2	1.3	1.3
Czech Republic	0.5	0.2	0.6	1.5	1.9	2.2	2.1	2.0	1.9	1.8	1.7	1.6
Denmark	0.1	-0.1	-0.1	0.2	1.1	1.4	1.5	1.6	1.4	1.5	1.6	1.8
Croatia	-0.5	-1.1	-1.1	0.2	1.2	2.1	2.0	1.6	1.7	1.5	1.6	1.6
Hungary	0.4	0.0	0.1	1.3	1.9	1.8	2.7	2.5	2.9	2.9	3.2	3.4
Poland	-0.3	-0.4	-0.5	0.4	1.8	2.0	2.2	2.1	1.8	2.0	2.2	2.4
Romania	-2.0	-2.1	-0.1	-0.1	0.9	1.5	1.9	2.0	2.7	2.9	2.9	3.1
Sweden	1.1	1.0	1.1	1.4	1.8	1.6	1.7	1.6	1.7	1.8	1.9	1.9
United Kingdom	0.3	0.3	0.8	1.2	2.0	2.3	2.7	3.0	2.8	2.8	2.5	2.1
EU	0.0	-0.1	0.3	0.8	1.7	1.8	1.9	1.9	1.8	1.7	1.7	1.6
USA	1.1	1.1	1.1	1.8	2.6	2.6	2.6	2.0	2.0	2.2	2.6	3.1
Japan	0.0	-0.3	-0.5	0.3	0.6	0.4	0.6	0.1	0.4	0.5	0.7	0.9

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	0.7	1.8	1.5	-0.6	-1.4	-3.3	-3.2	2.8	1.4	-2.4	1.4	1.4
Germany	0.1	0.2	1.1	-0.7	-0.5	0.8	-1.0	1.7	1.6	-1.2	1.4	1.6
Estonia	2.5	3.2	2.6	-0.1	-1.7	-1.8	-1.2	4.5	2.0	0.5	2.1	1.9
Ireland	1.1	-1.0	0.5	-2.8	-0.2	9.9	-2.0	0.5	0.8	-0.7	0.9	1.5
Greece	3.1	2.1	4.1	-1.9	-3.1	-11.5	-7.8	6.9	1.5	-2.9	2.8	3.0
Spain	1.2	2.1	1.8	-1.2	-2.2	0.5	-1.9	1.4	1.2	-2.0	0.8	1.2
France	-0.9	0.8	1.1	-0.5	-1.2	-0.6	-1.8	1.4	0.0	-1.7	0.8	0.4
Italy	1.9	1.4	1.8	-0.6	-0.5	-0.5	-1.0	2.4	1.1	-0.8	1.6	1.3
Cyprus	1.5	3.5	1.8	2.1	1.3	0.8	-0.9	4.5	1.1	-0.7	1.1	2.0
Latvia	0.1	11.0	4.3	1.8	-1.4	0.2	-1.9	2.3	2.0	-0.9	1.8	1.6
Lithuania	-1.1	5.3	4.6	-1.9	-3.2	-5.3	-8.0	5.0	2.0	-8.0	2.0	1.8
Luxembourg	-0.1	3.5	3.0	-1.8	-0.2	-1.7	-2.0	1.9	1.6	-2.0	1.1	1.1
Malta	3.0	1.3	1.8	-3.9	-2.6	1.4	0.2	4.9	1.5	0.2	2.6	1.4
Netherlands	-0.3	1.6	2.2	-1.4	-2.6	-3.9	-4.8	2.0	2.0	-2.5	1.5	1.5
Austria	0.3	1.4	1.3	-0.9	-0.9	-1.0	-0.8	0.8	1.1	-0.5	0.7	1.2
Portugal	1.1	1.3	1.6	-1.6	-1.9	-2.1	-3.3	2.8	1.7	-1.5	1.4	1.5
Slovenia	5.2	2.4	1.2	-1.2	-0.4	-0.6	-2.9	1.3	1.1	-2.9	1.0	1.2
Slovakia	3.1	1.6	0.6	-4.2	-5.6	-4.7	-0.5	0.8	1.0	-0.5	0.8	1.0
Finland	-2.0	0.2	-0.1	-1.8	-0.9	-1.8	-3.0	3.1	1.8	-3.2	1.1	1.5
Euro area	0.3	0.9	1.4	-1.0	-1.2	-0.4	-2.0	1.8	1.3	-1.5	1.3	1.3
Bulgaria	4.5	12.0	3.8	-3.6	-2.2	-2.3	-2.5	1.5	2.0	-2.5	1.5	2.0
Czech Republic	0.1	-0.2	-0.4	1.6	3.8	-1.5	-3.5	2.0	1.4	-3.0	1.2	1.4
Denmark	0.9	2.2	2.5	-0.5	0.1	1.5	0.0	1.6	2.3	-1.1	2.2	2.5
Croatia	5.2	3.4	3.1	-2.0	-1.7	-2.3	-2.5	1.4	1.8	-2.8	0.7	0.8
Hungary	4.6	-0.2	2.2	-0.1	1.0	-0.3	-0.9	0.3	0.4	-0.1	0.3	0.7
Poland	5.2	3.4	4.6	0.5	0.0	1.6	-0.5	1.5	1.9	-0.1	1.5	1.7
Romania	33.2	6.6	8.5	-5.8	-1.1	0.4	0.1	4.0	2.8	1.0	3.0	3.0
Sweden	-0.4	0.8	0.2	-3.2	2.1	1.2	0.5	3.6	1.5	0.6	3.6	1.5
United Kingdom	-1.7	1.0	5.0	1.2	-4.7	-8.4	3.0	3.6	2.7	5.5	7.5	4.0
EU	0.3	1.0	1.9	-0.8	-1.2	-0.9	-1.4	2.0	1.5	-0.8	1.9	1.6
USA	-0.8	3.2	2.1	-0.7	-0.9	-6.8	-3.5	1.6	0.7	-4.1	0.4	0.6
Japan	-2.6	0.2	-4.4	10.4	2.8	0.7	-9.5	1.8	1.8	-7.5	1.1	1.7

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.1	2.4	2.3	-1.0	-2.4	-5.0	-3.5	3.2	1.5	-2.4	1.9	1.5
Germany	-0.2	0.6	1.4	-2.4	-2.2	-2.2	-3.3	2.1	1.7	-3.6	1.3	1.5
Estonia	1.2	1.5	3.2	-0.8	-1.7	-1.9	-2.7	4.3	1.9	-2.8	2.0	1.7
Ireland	-1.5	0.5	0.1	-3.6	5.7	1.5	-1.8	-0.2	0.2	-0.5	1.0	1.4
Greece	3.5	2.5	4.4	-3.6	-4.0	-12.0	-3.6	6.9	1.6	-3.0	2.8	3.0
Spain	0.9	2.0	3.0	-1.9	-1.7	-1.6	-2.2	2.4	1.5	-2.8	1.7	1.6
France	-1.0	1.1	1.7	-1.8	-2.8	-4.3	-3.4	2.6	-0.5	-3.6	1.0	0.3
Italy	1.7	2.8	2.7	-2.3	-3.6	-4.3	-3.7	4.5	1.5	-4.2	2.3	1.5
Cyprus	1.8	2.9	2.1	1.9	-5.4	-2.4	-4.6	4.2	1.2	-2.6	1.4	1.4
Latvia	1.4	8.5	4.7	0.5	-0.5	-2.1	-5.0	4.5	2.3	-3.6	2.5	1.6
Lithuania	-2.5	3.8	5.0	-1.9	-3.8	-8.3	-8.0	5.5	2.1	-7.5	2.7	1.5
Luxembourg	1.0	1.8	2.2	-0.9	-1.2	-3.7	-2.2	2.2	1.4	-2.2	0.7	1.0
Malta	2.7	0.8	1.8	-5.5	-8.6	0.2	-1.2	5.0	1.5	-1.2	1.7	1.5
Netherlands	-1.0	1.5	2.9	-1.9	-2.7	-5.1	-5.3	3.0	3.0	-2.5	1.5	1.5
Austria	0.1	1.7	2.2	-0.8	-1.4	-2.7	-1.7	1.6	1.3	-1.7	1.0	1.3
Portugal	0.8	1.6	1.6	-3.2	-3.0	-5.1	-3.8	3.0	1.6	-3.9	0.1	0.5
Slovenia	4.9	3.1	2.4	-2.0	-1.5	-1.9	-4.7	2.4	1.4	-4.7	1.5	1.5
Slovakia	3.6	2.2	1.9	-3.6	-5.9	-4.5	-0.4	0.9	1.1	-0.4	0.9	1.1
Finland	-1.8	2.9	1.3	-2.6	-2.5	-5.7	-3.9	4.9	1.7	-4.6	1.2	1.7
Euro area	0.1	1.5	2.1	-2.1	-2.4	-3.5	-3.4	2.7	1.4	-3.2	1.5	1.3
Bulgaria	6.2	6.8	3.5	-2.8	-2.9	-2.9	-3.0	2.0	1.8	-3.0	2.0	1.8
Czech Republic	-0.6	0.3	0.5	0.0	2.0	-2.0	-4.5	2.6	1.4	-3.3	1.0	1.3
Denmark	0.1	1.4	2.2	-1.8	-0.9	-0.2	-3.0	1.9	2.0	-2.0	2.0	2.0
Croatia	3.9	1.6	2.5	-0.4	-0.9	-1.5	-2.9	3.4	1.8	-3.0	1.2	1.7
Hungary	5.2	0.8	2.8	-0.9	0.1	-1.1	-2.6	0.2	0.2	-0.5	0.3	0.5
Poland	5.7	2.6	5.1	-1.2	-2.2	-1.3	-2.0	2.3	2.0	-0.7	1.8	2.0
Romania	29.4	1.9	7.6	-10.0	-1.9	-2.8	-1.7	2.1	1.2	-1.7	0.6	1.5
Sweden	1.4	1.4	0.3	-3.7	1.2	-0.7	-1.5	3.5	1.6	-1.0	3.7	1.6
United Kingdom	-1.7	1.0	5.0	-0.1	-4.4	-7.0	3.0	5.4	2.6	7.0	8.0	3.5
EU	0.2	1.5	2.6	-1.9	-2.3	-3.6	-2.5	3.0	1.5	-1.6	2.3	1.6
USA	-1.1	4.5	2.7	-1.3	-0.6	-8.9	-3.6	2.2	1.6	-4.1	0.9	1.3
Japan	-2.3	5.9	-1.3	11.9	3.6	-9.5	-13.5	1.3	1.5	-13.0	1.0	1.5

Table 21: Terms of trade of goods (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	-0.5	-0.6	-0.8	0.4	1.0	1.8	0.3	-0.3	-0.1	-0.1	-0.5	-0.1
Germany	0.3	-0.4	-0.3	1.8	1.7	3.1	2.4	-0.5	0.0	2.5	0.1	0.1
Estonia	1.2	1.6	-0.6	0.8	0.0	0.1	1.5	0.2	0.1	3.4	0.1	0.2
Ireland	2.7	-1.6	0.4	0.9	-5.6	8.3	-0.2	0.7	0.6	-0.2	-0.1	0.1
Greece	-0.4	-0.3	-0.3	1.7	0.9	0.6	-4.4	0.0	-0.1	0.1	0.0	0.0
Spain	0.3	0.1	-1.2	0.6	-0.5	2.0	0.3	-1.0	-0.3	0.8	-0.9	-0.4
France	0.0	-0.3	-0.6	1.3	1.6	3.8	1.7	-1.2	0.5	1.9	-0.2	0.1
Italy	0.2	-1.4	-0.9	1.8	3.3	4.0	2.8	-2.1	-0.4	3.5	-0.7	-0.2
Cyprus	-0.3	0.6	-0.2	0.2	7.1	3.2	3.9	0.3	-0.1	2.0	-0.3	0.6
Latvia	-1.3	2.3	-0.4	1.3	-0.9	2.4	3.3	-2.1	-0.3	2.8	-0.7	0.0
Lithuania	1.5	1.4	-0.4	0.0	0.6	3.2	0.0	-0.5	-0.1	-0.5	-0.7	0.3
Luxembourg	-1.1	1.7	0.8	-0.9	1.1	2.0	0.2	-0.3	0.2	0.2	0.4	0.1
Malta	0.2	0.5	0.0	1.7	6.6	1.1	1.4	-0.1	0.0	1.4	0.9	-0.1
Netherlands	0.8	0.1	-0.6	0.5	0.1	1.3	0.5	-1.0	-1.0	0.0	0.0	0.0
Austria	0.2	-0.3	-0.8	-0.1	0.5	1.8	0.9	-0.8	-0.2	1.2	-0.3	-0.1
Portugal	0.3	-0.3	-0.1	1.7	1.2	3.2	0.5	-0.2	0.1	2.5	1.3	1.0
Slovenia	0.2	-0.7	-1.1	0.8	1.1	1.3	1.9	-1.1	-0.3	1.9	-0.5	-0.3
Slovakia	-0.5	-0.6	-1.3	-0.6	0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Finland	-0.2	-2.6	-1.3	0.8	1.7	4.1	0.9	-1.7	0.1	1.5	-0.1	-0.2
Euro area	0.2	-0.6	-0.7	1.2	1.2	3.2	1.5	-0.9	-0.1	1.7	-0.2	0.0
Bulgaria	-1.7	4.9	0.3	-0.8	0.7	0.6	0.5	-0.5	0.2	0.5	-0.5	0.2
Czech Republic	0.7	-0.5	-0.9	1.5	1.8	0.5	1.0	-0.6	0.0	0.3	0.1	0.1
Denmark	0.8	0.8	0.4	1.4	1.0	1.7	3.1	-0.3	0.3	0.9	0.2	0.5
Croatia	1.2	1.8	0.6	-1.6	-0.9	-0.8	0.4	-1.9	0.0	0.2	-0.5	-0.8
Hungary	-0.6	-1.0	-0.6	0.8	1.0	0.8	1.7	0.1	0.2	0.4	0.0	0.2
Poland	-0.5	0.8	-0.4	1.7	2.2	2.9	1.5	-0.8	-0.1	0.6	-0.3	-0.3
Romania	2.9	4.6	0.8	4.7	0.8	3.2	1.9	1.8	1.6	2.7	2.4	1.5
Sweden	-1.7	-0.6	-0.1	0.5	0.9	1.9	2.1	0.1	-0.1	1.6	-0.1	-0.1
United Kingdom	0.0	0.0	0.0	1.4	-0.4	-1.5	0.0	-1.7	0.1	-1.4	-0.5	0.5
EU	0.0	-0.4	-0.6	1.3	1.0	2.3	1.6	-0.7	-0.1	1.5	0.0	0.0
USA	0.3	-1.2	-0.6	0.7	-0.2	2.3	0.1	-0.7	-0.9	0.0	-0.5	-0.8
Japan	-0.3	-5.4	-3.2	-1.4	-0.7	11.2	4.6	0.5	0.3	6.3	0.1	0.2

Table 22: Total population (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	0.3	0.6	0.8	0.5	0.5	0.5	0.6	0.5	0.5	0.6	0.5	0.5
Germany	0.0	-0.1	-0.1	0.3	0.4	0.9	1.0	0.8	0.6	1.2	1.2	0.8
Estonia	-0.3	-0.6	-0.3	-0.4	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	1.4	2.3	0.9	0.3	0.3	0.6	0.9	1.0	0.9	0.9	1.0	0.9
Greece	0.4	0.3	0.0	-0.7	-0.7	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Spain	0.7	1.8	0.7	-0.4	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
France	0.6	0.7	0.5	0.5	0.5	0.4	0.5	0.5	0.4	0.5	0.5	0.4
Italy	0.1	0.6	0.5	0.5	0.2	-0.1	0.0	0.3	0.3	0.0	0.3	0.3
Cyprus	1.1	1.6	2.4	-0.2	-1.1	-0.6	-0.3	0.2	0.4	-0.3	0.2	0.4
Latvia	-1.0	-1.0	-1.6	-1.0	-0.9	-0.8	-0.7	-0.6	-0.5	-0.7	-0.6	-0.5
Lithuania	-0.8	-1.3	-1.6	-1.0	-0.9	-0.9	-1.2	-1.1	-1.0	-1.2	-1.1	-1.0
Luxembourg	1.2	1.5	2.0	2.6	2.4	2.0	1.8	1.9	2.0	2.0	2.1	2.1
Malta	0.7	0.5	0.6	0.9	1.0	1.1	0.9	0.8	0.8	0.8	0.7	0.7
Netherlands	0.7	0.3	0.5	0.3	0.4	0.4	0.6	0.6	0.5	0.6	0.6	0.5
Austria	0.3	0.5	0.3	0.6	0.8	1.0	0.8	0.5	0.5	0.8	0.5	0.5
Portugal	0.6	0.2	-0.1	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.4
Slovenia	0.1	0.2	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Slovakia	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Finland	0.2	0.3	0.5	0.5	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Euro area	0.3	0.5	0.3	0.2	0.2	0.3	0.4	0.4	0.3	0.4	0.5	0.4
Bulgaria	-1.2	-0.8	-0.6	-0.6	-0.6	-0.4	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Czech Republic	-0.2	0.2	0.4	0.0	0.1	0.2	0.2	0.1	0.1	0.2	0.1	0.1
Denmark	0.3	0.3	0.5	0.4	0.5	0.7	0.8	0.6	0.6	0.8	0.5	0.4
Croatia	-1.2	0.0	-0.2	-0.3	-0.6	-0.5	-1.2	-0.2	-0.2	-0.2	-0.2	-0.2
Hungary	-0.3	-0.2	-0.3	-0.3	-0.3	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2
Poland	0.0	-0.1	0.2	-0.1	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	-0.1
Romania	-0.8	-0.7	-0.8	-0.4	-0.4	-0.5	-0.7	-0.5	-0.6	0.1	-0.2	-0.2
Sweden	0.2	0.5	0.8	0.9	1.0	1.1	1.2	1.4	1.6	1.2	1.4	1.6
United Kingdom	0.4	0.6	0.8	0.6	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7
EU	0.2	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.3
USA	1.1	0.9	0.8	0.7	0.8	0.8	0.7	0.7	0.7	0.8	0.8	0.8
Japan	0.2	0.1	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1

Table 23: Total employment (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.3	1.0	0.8	-0.3	0.4	0.9	1.3	0.9	0.9	1.2	0.9	1.0
Germany	0.9	0.4	0.8	0.6	0.8	0.9	1.0	0.8	0.7	1.2	0.9	0.9
Estonia	-1.0	1.8	-1.4	1.2	0.8	2.9	0.8	0.1	0.2	1.2	0.2	0.2
Ireland	4.8	3.8	-2.7	2.5	1.7	2.5	2.5	2.1	1.8	2.3	1.9	1.9
Greece	1.5	1.6	-3.0	-2.6	0.0	0.5	2.2	2.1	2.2	2.2	2.2	2.3
Spain	3.9	3.2	-3.2	-3.5	1.1	3.0	2.9	2.0	1.7	2.8	2.1	1.8
France	1.8	0.7	-0.1	0.1	0.2	0.4	0.8	0.6	0.9	1.1	0.7	0.9
Italy	1.1	0.8	-1.0	-2.4	0.3	0.8	1.2	0.7	0.8	1.2	0.7	0.7
Cyprus	1.9	3.5	0.2	-5.9	-1.9	0.8	2.7	2.2	1.8	1.8	1.6	1.5
Latvia	-0.5	2.3	-3.8	2.3	-1.4	1.3	-0.2	0.3	0.5	0.3	0.5	0.5
Lithuania	-1.5	0.7	-2.4	1.3	2.0	1.3	1.8	0.5	0.1	2.3	0.3	0.1
Luxembourg	4.6	3.0	2.6	1.8	2.6	2.6	3.0	2.9	2.7	2.8	2.9	2.6
Malta	0.3	1.0	2.0	3.7	5.1	3.5	3.0	2.8	2.6	2.7	2.5	2.4
Netherlands	1.6	0.7	0.0	-1.2	-0.3	1.0	1.4	1.4	1.3	1.4	1.3	1.3
Austria	0.8	1.2	1.0	0.3	0.9	0.6	0.9	0.8	0.7	0.8	0.8	0.9
Portugal	1.7	-0.3	-2.0	-2.9	1.4	1.4	1.3	0.8	0.6	1.0	0.7	0.5
Slovenia	1.0	0.9	-0.8	-1.1	0.4	1.1	1.2	1.1	1.1	1.1	0.9	0.7
Slovakia	-0.9	1.3	0.3	-0.8	1.4	2.0	2.6	1.4	1.6	2.7	1.5	1.7
Finland	1.8	1.2	0.3	-0.7	-0.5	-0.3	0.4	0.5	0.6	0.2	0.3	0.4
Euro area	1.5	1.0	-0.6	-0.8	0.6	1.1	1.3	1.0	1.0	1.4	1.0	1.0
Bulgaria	-1.7	3.0	-1.6	-0.4	0.4	0.4	1.1	0.5	0.2	0.8	0.8	0.7
Czech Republic	-0.9	0.9	-0.1	0.3	0.6	1.4	1.4	0.1	0.1	1.4	0.1	0.1
Denmark	0.8	0.9	-1.0	0.0	1.0	1.3	1.5	1.0	0.9	1.5	0.9	1.0
Croatia	1.9	2.3	-1.6	-2.7	2.7	1.5	1.9	2.1	1.6	1.8	1.5	1.2
Hungary	1.0	-0.1	-1.1	1.1	4.8	2.2	1.9	0.5	0.3	2.7	0.6	0.8
Poland	-1.9	2.0	0.4	-0.1	1.7	1.5	0.9	0.3	0.0	1.1	0.3	0.0
Romania	-3.2	-0.4	-1.6	-0.9	0.8	-0.9	-0.4	0.3	0.4	1.8	0.8	0.6
Sweden	1.7	0.6	0.5	1.0	1.4	1.5	1.9	1.4	1.2	1.8	1.3	0.9
United Kingdom	1.0	1.0	0.2	1.2	2.4	1.8	1.3	0.5	0.3	1.2	0.5	0.3
EU	0.8	1.0	-0.4	-0.4	1.0	1.2	1.3	0.8	0.8	1.4	0.9	0.8
USA	1.0	1.3	-0.5	1.0	1.6	1.7	1.7	1.0	0.7	1.7	1.0	0.5
Japan	-0.9	0.5	-0.5	0.6	0.6	0.4	0.8	0.3	0.2	0.8	0.3	0.2

Table 24: Unemployment rate <sup>1</sup> (number of unemployed as a percentage of total labour force, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	7.8	8.2	7.6	8.4	8.5	8.5	8.0	7.8	7.6	8.0	7.8	7.6
Germany	8.5	10.0	6.6	5.2	5.0	4.6	4.1	4.1	4.1	4.4	4.3	4.2
Estonia	11.9	7.8	11.6	8.6	7.4	6.2	6.9	7.9	8.7	6.5	7.4	8.3
Ireland	5.2	4.5	12.3	13.1	11.3	9.4	8.0	7.0	6.7	8.3	7.8	7.6
Greece	11.1	9.5	14.5	27.5	26.5	24.9	23.4	22.0	20.3	23.5	22.2	20.3
Spain	12.8	9.7	19.1	26.1	24.5	22.1	19.6	17.7	16.0	19.7	18.0	16.5
France	8.9	8.6	9.0	10.3	10.3	10.4	10.0	9.9	9.6	10.0	9.9	9.6
Italy	9.9	7.4	8.4	12.1	12.7	11.9	11.7	11.6	11.4	11.5	11.4	11.3
Cyprus	4.5	4.5	7.0	15.9	16.1	15.0	13.3	12.0	11.0	12.5	11.1	10.0
Latvia	13.7	9.3	15.2	11.9	10.8	9.9	9.7	9.5	9.0	9.6	9.2	8.8
Lithuania	15.1	8.3	13.2	11.8	10.7	9.1	8.0	7.5	7.1	7.6	7.4	7.0
Luxembourg	2.4	4.4	4.9	5.9	6.0	6.5	6.3	6.2	6.2	6.2	6.1	6.2
Malta	6.9	7.0	6.5	6.4	5.8	5.4	4.8	4.9	4.9	5.0	5.2	5.2
Netherlands	4.0	5.1	4.8	7.3	7.4	6.9	6.0	5.2	4.7	6.1	5.8	5.4
Austria	4.2	5.2	4.7	5.4	5.6	5.7	6.0	6.1	6.2	5.9	6.1	6.1
Portugal	5.6	8.4	12.0	16.4	14.1	12.6	11.2	10.1	9.4	11.1	10.0	9.5
Slovenia	6.8	6.1	6.9	10.1	9.7	9.0	7.9	7.0	6.2	8.4	7.7	7.2
Slovakia	17.3	15.4	12.8	14.2	13.2	11.5	9.7	9.0	7.9	9.7	8.7	7.5
Finland	9.9	8.2	7.7	8.2	8.7	9.4	8.8	8.6	8.3	9.0	8.8	8.7
Euro area	9.2	8.7	9.8	12.0	11.6	10.9	10.0	9.6	9.1	10.1	9.7	9.2
Bulgaria	15.5	10.4	9.3	13.0	11.4	9.2	7.7	7.1	6.8	8.1	7.1	6.3
Czech Republic	7.9	7.3	6.4	7.0	6.1	5.1	4.0	3.9	3.8	4.2	4.1	4.0
Denmark	4.7	4.7	6.4	7.0	6.6	6.2	6.2	5.9	5.7	6.1	5.9	5.6
Croatia		12.5	11.8	17.3	17.3	16.3	12.8	10.8	9.3	13.4	11.7	10.3
Hungary	6.6	6.8	10.2	10.2	7.7	6.8	5.2	4.8	4.5	5.1	4.7	4.1
Poland	15.6	16.1	8.9	10.3	9.0	7.5	6.3	5.6	4.7	6.2	5.6	4.7
Romania	7.3	7.3	6.6	7.1	6.8	6.8	6.0	5.7	5.6	6.5	6.4	6.3
Sweden	6.5	7.0	7.8	8.0	7.9	7.4	6.9	6.5	6.4	6.8	6.4	6.4
United Kingdom	5.5	5.0	7.4	7.6	6.1	5.3	4.9	5.2	5.6	4.9	5.2	5.6
EU		8.6	9.2	10.9	10.2	9.4	8.5	8.1	7.8	8.6	8.3	7.9
USA	4.6	5.2	8.3	7.4	6.2	5.3	4.9	4.6	4.5	4.9	4.7	4.7
Japan	4.8	4.5	4.6	4.0	3.6	3.4	3.1	3.1	3.0	3.2	3.2	3.2

<sup>1</sup> Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	2.9	2.5	2.5	2.5	1.0	0.0	0.1	2.0	1.9	0.8	1.9	1.8
Germany	1.3	0.8	2.1	1.8	2.8	2.4	2.3	2.7	2.8	2.0	2.6	2.4
Estonia	10.8	14.7	3.4	4.6	4.2	5.7	6.2	5.1	5.0	6.1	5.1	5.0
Ireland	6.0	5.4	0.0	1.4	1.8	2.8	2.9	2.5	2.1	2.7	2.5	2.1
Greece	6.8	5.6	-0.5	-7.5	-2.1	-2.9	0.2	1.0	2.0	0.2	1.0	2.0
Spain	2.8	3.8	2.5	1.4	-0.1	0.4	0.5	1.4	1.6	1.2	1.2	1.4
France	2.3	3.0	2.5	1.6	1.2	1.1	0.9	1.5	1.9	0.6	1.5	1.9
Italy	2.1	3.2	2.0	1.3	-0.2	0.4	0.0	0.8	1.5	0.0	0.4	1.5
Cyprus	4.4	4.5	2.6	-5.4	-3.6	-0.5	0.1	0.9	1.5	1.2	1.5	1.9
Latvia	7.1	21.9	1.5	5.5	8.6	6.9	4.8	5.3	5.5	5.1	5.5	5.5
Lithuania	5.8	13.9	2.8	5.4	4.7	5.3	5.5	6.1	6.3	5.4	6.1	6.3
Luxembourg	3.5	3.5	2.1	2.3	2.6	0.9	0.4	3.1	2.4	0.4	2.5	1.9
Malta	4.4	3.7	3.2	2.0	1.4	3.8	3.0	2.9	2.8	2.9	2.7	2.5
Netherlands	4.4	2.7	2.4	2.2	1.6	0.4	2.3	2.6	2.4	2.4	2.1	2.2
Austria	2.1	2.4	2.1	2.1	1.9	1.9	1.4	1.6	1.7	1.4	1.6	1.6
Portugal	4.9	3.3	0.4	3.6	-1.8	-0.3	1.4	1.2	1.2	1.2	1.1	1.1
Slovenia	9.4	6.6	2.7	0.5	1.3	1.4	2.0	2.2	3.6	1.8	1.8	2.9
Slovakia	8.8	8.4	3.8	2.6	1.8	3.1	1.5	3.8	4.2	2.3	3.7	4.8
Finland	3.5	3.2	3.0	1.3	1.0	1.6	1.2	-0.8	1.2	1.2	-0.8	0.9
Euro area	2.4	2.5	2.3	1.6	1.3	1.2	1.2	1.8	2.1	1.2	1.7	2.0
Bulgaria	17.5	7.7	9.8	8.8	5.6	5.6	3.8	4.8	5.1	5.4	4.8	4.2
Czech Republic	7.7	6.3	2.3	-0.3	2.6	2.6	3.5	4.5	4.6	3.5	4.1	4.3
Denmark	3.8	3.5	2.6	1.6	1.5	1.5	1.9	2.2	2.7	1.9	2.3	2.7
Croatia	6.2	5.6	2.0	-0.6	-5.4	-0.3	1.7	2.4	2.5	1.7	1.9	2.0
Hungary	12.7	7.9	2.3	1.6	1.3	1.6	5.0	6.1	5.6	4.4	5.4	5.0
Poland	10.1	2.8	5.9	1.7	2.2	1.1	3.9	4.7	5.3	2.7	4.3	5.2
Romania	51.3	19.5	6.7	3.8	6.7	0.9	8.4	7.8	6.0	7.9	5.8	5.6
Sweden	3.2	3.9	3.0	1.9	2.2	3.5	3.1	3.3	3.1	3.1	3.3	3.2
United Kingdom	5.1	4.8	1.8	2.1	0.4	0.9	2.3	2.4	2.4	2.3	2.2	2.1
EU	3.7	3.0	2.3	1.7	1.1	1.1	1.7	2.2	2.4	1.6	2.0	2.3
USA	:	3.7	2.1	1.5	2.8	3.0	2.3	3.6	4.9	2.1	3.5	4.0
Japan	-1.2	-0.4	-0.6	-0.1	1.1	0.7	0.1	0.7	0.8	-0.2	0.5	0.6

Table 26: Real compensation of employees per head <sup>1</sup> (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.2	0.0	0.6	1.6	0.3	-0.3	-1.6	0.4	0.1	-1.0	0.2	0.1
Germany	0.4	-0.6	0.7	0.7	1.8	1.8	1.7	0.7	1.2	1.4	1.1	0.9
Estonia	5.7	9.4	-0.8	1.9	3.7	5.7	5.2	2.3	2.0	5.2	2.2	2.0
Ireland	1.7	2.8	1.0	-0.2	0.4	2.2	1.3	1.4	0.9	1.8	1.0	0.6
Greece	3.5	2.4	-2.7	-5.8	0.5	-1.3	0.2	-0.3	1.0	0.1	-0.1	1.0
Spain	0.0	0.4	0.6	0.4	-0.2	0.6	0.6	-0.5	-0.1	1.2	-0.4	-0.1
France	1.3	1.0	1.3	0.9	1.1	1.3	0.8	0.1	0.6	0.5	0.4	0.5
Italy	-0.5	0.7	0.1	0.1	-0.4	0.4	0.0	-0.6	0.2	0.0	-0.7	0.1
Cyprus	2.0	1.4	0.1	-5.4	-3.2	1.2	1.0	-0.3	0.4	2.7	1.0	0.6
Latvia	3.2	12.1	-1.6	5.2	6.8	7.6	4.0	2.7	2.9	5.1	3.5	3.4
Lithuania	4.8	11.4	-1.9	4.3	4.6	6.3	4.8	3.9	4.3	4.7	4.4	4.1
Luxembourg	1.6	1.1	0.3	0.7	2.2	1.6	0.4	1.4	0.3	0.4	1.0	0.1
Malta	2.4	1.5	0.7	0.9	1.3	2.6	2.1	1.2	1.0	1.9	1.1	0.7
Netherlands	1.7	0.7	1.2	-0.2	0.8	0.4	1.6	1.4	1.1	1.6	0.8	0.9
Austria	0.9	0.3	0.2	0.0	-0.3	0.5	0.3	-0.2	0.1	0.2	-0.3	-0.2
Portugal	1.7	-0.1	-0.8	2.8	-2.1	-1.0	0.2	-0.3	-0.3	0.4	-0.2	-0.4
Slovenia	2.2	3.1	0.5	-0.3	1.3	2.1	1.9	0.7	1.4	1.7	0.2	1.0
Slovakia	2.2	3.4	1.2	1.2	1.9	3.2	2.1	2.9	2.7	2.8	2.9	3.4
Finland	1.3	2.1	0.4	-1.1	-0.4	1.2	0.7	-2.1	0.1	0.6	-1.5	-0.2
Euro area	0.6	0.3	0.7	0.6	0.8	1.0	0.9	0.2	0.7	0.8	0.4	0.5
Bulgaria	9.7	3.2	6.3	11.7	5.6	4.4	5.2	4.0	4.1	6.3	3.8	3.2
Czech Republic	3.7	4.4	0.3	-1.1	2.0	2.5	2.8	2.4	2.8	3.0	2.9	2.7
Denmark	1.7	1.8	0.4	0.8	0.7	0.8	1.6	1.1	1.2	1.4	0.8	1.2
Croatia	1.7	2.7	-1.2	-2.4	-5.0	0.2	2.4	0.7	0.8	2.6	1.1	0.5
Hungary	2.5	3.2	-2.3	-0.2	0.4	1.9	5.0	3.9	2.4	4.0	3.1	2.1
Poland	3.3	0.6	2.3	1.3	2.3	2.5	4.1	2.6	3.1	2.9	3.0	3.3
Romania	11.0	9.9	0.5	1.1	5.4	0.0	9.1	6.9	4.0	8.4	5.1	3.4
Sweden	1.9	2.6	1.1	1.2	1.1	2.4	2.0	1.6	1.1	2.0	1.6	1.1
United Kingdom	4.3	2.8	-0.7	-0.2	-1.3	0.6	1.3	-0.2	-0.4	1.4	-0.4	-0.7
EU	1.8	0.8	0.5	0.4	0.4	1.0	1.2	0.4	0.7	1.1	0.4	0.5
USA	:	1.2	0.3	0.2	1.3	2.6	1.2	1.4	2.3	0.9	1.4	1.9
Japan	-0.4	0.1	0.2	0.0	-0.9	0.3	0.6	1.0	0.6	0.6	0.8	0.3

<sup>1</sup> Deflated by the price deflator of private consumption.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 27: Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.1	1.4	-0.2	0.3	1.2	0.6	-0.1	0.5	0.7	0.1	0.4	0.5
Germany	0.8	1.3	-0.2	-0.1	0.8	0.8	0.9	0.8	1.1	0.8	0.5	0.8
Estonia	6.2	6.3	0.1	0.2	2.0	-1.4	0.3	2.1	2.4	-0.1	2.1	2.4
Ireland	3.2	1.3	1.2	-1.4	6.7	23.2	1.7	1.3	1.5	1.8	1.6	1.6
Greece	2.3	2.4	-2.4	-0.6	0.3	-0.7	-1.9	0.6	0.9	-2.4	0.5	0.8
Spain	0.2	0.4	2.0	1.9	0.3	0.2	0.3	0.3	0.4	0.4	0.2	0.3
France	0.9	1.3	0.4	0.5	0.4	0.9	0.4	0.8	0.8	0.2	0.7	0.8
Italy	0.6	0.5	-0.4	0.7	-0.2	-0.1	-0.3	0.3	0.3	-0.5	0.2	0.3
Cyprus	2.6	0.5	-0.1	0.0	0.4	0.9	0.1	0.3	0.5	1.0	0.9	0.8
Latvia	6.2	7.4	1.5	0.6	3.5	1.4	1.9	2.5	2.5	1.5	2.3	2.5
Lithuania	6.3	7.9	2.1	2.1	1.5	0.5	0.4	2.4	2.6	-0.3	2.4	2.7
Luxembourg	1.9	1.4	-2.3	2.3	2.0	0.9	0.8	1.0	1.2	0.8	0.9	1.0
Malta	3.2	1.5	-0.3	0.8	3.1	3.8	1.0	0.9	1.1	1.4	1.1	1.2
Netherlands	1.5	1.6	0.0	1.0	1.7	1.0	0.6	0.6	0.5	0.2	0.3	0.5
Austria	1.9	1.3	-0.3	-0.2	-0.3	0.3	0.6	0.8	0.9	0.7	0.8	0.7
Portugal	1.3	1.5	0.6	1.8	-0.5	0.2	0.1	0.8	0.9	-0.1	0.5	0.9
Slovenia	2.8	3.8	-0.3	0.0	2.7	1.2	1.2	1.9	1.9	1.1	1.7	1.5
Slovakia	3.5	5.9	1.6	2.3	1.1	1.8	0.7	1.5	2.0	0.6	1.7	2.1
Finland	2.1	2.3	-1.0	0.0	-0.2	0.6	1.1	0.6	0.9	0.6	0.4	0.7
Euro area	1.0	1.1	0.3	0.6	0.6	0.9	0.4	0.7	0.8	0.3	0.5	0.7
Bulgaria	3.9	3.5	2.7	1.3	1.0	3.3	2.2	2.5	2.7	2.3	2.1	2.1
Czech Republic	2.9	4.6	0.3	-0.8	2.2	3.1	1.0	2.5	2.6	0.8	2.5	2.6
Denmark	1.2	1.1	0.6	1.0	0.7	0.3	-0.5	0.4	0.9	-0.5	0.8	0.8
Croatia	0.8	2.4	-0.3	1.7	-3.1	0.1	0.9	1.0	0.9	0.8	0.9	1.1
Hungary	2.9	3.6	0.0	1.0	-0.8	1.0	0.0	3.0	2.9	-0.6	2.0	1.9
Poland	5.4	3.1	3.0	1.5	1.5	2.4	1.8	2.8	3.2	2.0	3.1	3.3
Romania	5.6	7.1	2.0	4.4	2.3	4.9	5.3	4.1	3.3	3.3	3.0	3.0
Sweden	1.7	2.9	0.0	0.3	1.2	2.5	1.3	1.0	0.9	1.6	1.0	1.3
United Kingdom	2.0	1.8	-0.3	0.7	0.7	0.4	0.8	1.0	0.9	0.6	0.5	0.8
EU	1.8	1.4	0.3	0.6	0.6	1.1	0.6	0.9	1.0	0.4	0.7	0.9
USA	2.1	1.5	1.1	0.7	0.8	0.9	-0.1	1.3	1.5	-0.2	1.1	1.4
Japan	1.3	1.2	0.3	1.4	-0.3	0.9	0.1	0.7	0.3	-0.1	0.5	0.2

Table 28: Unit labour costs, whole economy <sup>1</sup> (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.8	1.1	2.7	2.2	-0.2	-0.5	0.2	1.5	1.2	0.7	1.5	1.2
Germany	0.5	-0.5	2.2	1.9	2.0	1.6	1.5	1.8	1.7	1.3	2.1	1.6
Estonia	4.3	7.9	3.4	4.5	2.2	7.2	5.9	3.0	2.5	6.2	2.9	2.5
Ireland	2.8	4.1	-1.1	2.8	-4.5	-16.5	1.1	1.3	0.6	0.9	0.9	0.5
Greece	4.4	3.1	2.0	-6.9	-2.4	-2.2	2.1	0.4	1.1	2.7	0.5	1.2
Spain	2.6	3.4	0.4	-0.5	-0.4	0.2	0.2	1.1	1.2	0.8	1.1	1.1
France	1.4	1.7	2.1	1.1	0.8	0.2	0.5	0.7	1.1	0.4	0.8	1.1
Italy	1.4	2.7	2.4	0.6	0.0	0.5	0.3	0.5	1.2	0.5	0.2	1.2
Cyprus	1.7	4.0	2.7	-5.4	-4.0	-1.5	0.0	0.6	0.9	0.3	0.6	1.1
Latvia	0.9	13.4	0.1	4.9	4.9	5.4	2.9	2.7	2.9	3.6	3.1	2.9
Lithuania	-0.4	5.5	0.6	3.1	3.2	4.8	5.1	3.7	3.6	5.7	3.6	3.5
Luxembourg	1.6	2.1	4.5	0.0	0.5	0.1	-0.3	2.0	1.1	-0.4	1.6	0.9
Malta	1.2	2.2	3.4	1.2	-1.6	0.0	2.0	2.0	1.7	1.5	1.6	1.3
Netherlands	2.9	1.1	2.4	1.2	-0.1	-0.6	1.6	2.0	1.9	2.1	1.7	1.8
Austria	0.2	1.1	2.5	2.3	2.1	1.5	0.8	0.8	0.8	0.8	0.8	0.9
Portugal	3.6	1.8	-0.2	1.8	-1.3	-0.5	1.3	0.4	0.3	1.3	0.5	0.2
Slovenia	6.4	2.7	3.0	0.4	-1.3	0.3	0.7	0.3	1.7	0.7	0.1	1.4
Slovakia	5.2	2.3	2.2	0.3	0.7	1.3	0.8	2.3	2.1	1.7	2.0	2.7
Finland	1.4	0.9	4.0	1.4	1.1	1.0	0.1	-1.4	0.3	0.6	-1.2	0.2
Euro area	1.4	1.5	2.0	1.1	0.7	0.3	0.8	1.1	1.3	1.0	1.2	1.3
Bulgaria	13.1	4.0	6.9	7.4	4.6	2.3	1.6	2.3	2.4	3.0	2.7	2.1
Czech Republic	4.6	1.7	1.9	0.5	0.4	-0.5	2.5	2.0	2.0	2.7	1.6	1.7
Denmark	2.5	2.3	2.0	0.6	0.8	1.1	2.4	1.8	1.7	2.4	1.5	1.9
Croatia	5.4	3.1	2.2	-2.3	-2.4	-0.5	0.9	1.4	1.5	0.8	1.0	0.9
Hungary	9.4	4.1	2.3	0.6	2.1	0.7	5.1	3.0	2.6	5.1	3.3	3.0
Poland	4.5	-0.3	2.8	0.2	0.6	-1.2	2.0	1.8	2.1	0.6	1.2	1.8
Romania	43.3	11.6	4.6	-0.6	4.3	-3.8	2.9	3.6	2.6	4.4	2.7	2.5
Sweden	1.5	0.9	3.0	1.7	1.0	0.9	1.7	2.3	2.2	1.5	2.2	1.9
United Kingdom	3.0	3.0	2.1	1.3	-0.3	0.5	1.6	1.4	1.5	1.6	1.7	1.3
EU	2.1	1.8	2.1	1.1	0.6	0.3	1.1	1.3	1.4	1.2	1.3	1.4
USA	:	2.2	1.0	0.8	2.0	2.0	2.5	2.3	3.3	2.2	2.4	2.6
Japan	-2.5	-1.6	-0.9	-1.5	1.4	-0.1	0.0	0.0	0.5	-0.2	0.0	0.4

<sup>1</sup> Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.



Table 29: Real unit labour costs <sup>1</sup> (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	0.1	-1.0	0.9	1.0	-0.8	-1.4	-1.4	-0.1	-0.6	-0.6	-0.1	-0.5
Germany	-0.2	-1.5	1.0	0.0	0.2	-0.3	0.0	0.0	0.0	-0.3	0.4	-0.2
Estonia	-1.7	0.8	-0.2	0.6	0.4	6.1	3.4	-0.1	-0.5	2.4	-0.1	-0.8
Ireland	-2.9	1.6	-0.5	1.4	-3.4	-20.4	1.4	0.0	-0.6	1.4	-0.3	-1.0
Greece	1.0	0.0	0.4	-4.6	-0.6	-1.2	2.0	-0.9	0.0	2.9	-0.4	0.0
Spain	-0.7	-0.4	-0.1	-0.8	-0.1	-0.3	-0.3	-0.3	-0.4	0.1	-0.1	-0.4
France	0.0	-0.4	1.0	0.3	0.3	-0.4	-0.4	-0.2	-0.2	-0.4	0.0	-0.1
Italy	-1.0	0.3	0.9	-0.6	-0.8	-0.2	-0.6	-0.4	0.1	-0.4	-0.7	0.0
Cyprus	-0.8	0.1	0.6	-4.4	-2.5	-0.2	1.0	-0.4	-0.3	1.3	0.2	-0.1
Latvia	-2.5	2.2	-1.8	3.5	3.3	5.0	2.3	1.2	0.3	2.7	1.3	0.7
Lithuania	-1.1	0.7	-2.5	1.7	2.2	4.6	3.3	1.5	1.2	4.3	1.9	0.8
Luxembourg	1.0	-1.5	1.1	-1.3	-1.0	-0.3	-1.9	0.2	-1.0	-2.3	-1.3	-1.3
Malta	-1.1	-0.2	0.7	-0.7	-3.4	-2.1	0.3	-0.1	-0.6	-0.2	-0.6	-0.8
Netherlands	-0.1	-0.9	1.4	-0.2	-0.2	-0.7	1.1	1.2	1.1	1.9	0.5	0.4
Austria	-0.8	-0.9	0.8	0.8	0.4	-0.3	-0.9	-0.5	-0.7	-1.1	-0.8	-0.8
Portugal	-0.1	-1.3	-0.8	-0.5	-2.0	-2.5	-0.2	-0.9	-1.1	-0.4	-1.1	-1.5
Slovenia	-0.7	-0.7	1.4	-0.4	-2.1	-0.7	-0.7	-0.7	-0.2	-0.8	-1.2	-0.1
Slovakia	-0.9	-1.1	1.2	-0.2	0.9	1.5	1.1	1.3	0.6	1.9	0.9	1.1
Finland	-0.6	-0.2	1.8	-1.1	-0.6	-0.7	-0.8	-2.3	-0.6	-0.5	-2.0	-0.8
Euro area	-0.4	-0.7	0.8	-0.2	-0.2	-0.9	-0.1	-0.1	0.0	-0.1	0.0	-0.2
Bulgaria	2.8	-2.3	2.6	8.2	4.1	0.1	2.0	1.3	0.9	3.2	1.6	0.6
Czech Republic	0.2	-0.2	1.0	-0.9	-2.0	-1.5	1.3	0.7	0.4	2.3	0.2	0.2
Denmark	0.4	0.1	-0.2	-0.3	0.1	0.2	2.4	0.4	-0.1	1.7	-0.2	0.0
Croatia	0.5	-0.8	-0.2	-3.0	-2.4	-0.6	0.2	0.6	-0.3	0.6	0.1	-0.3
Hungary	-0.7	-0.2	-1.1	-2.3	-1.2	-1.1	2.7	0.2	-0.5	2.6	0.7	0.2
Poland	-1.1	-2.9	-0.2	-0.1	0.1	-1.8	1.3	0.2	0.0	0.3	0.0	0.1
Romania	2.4	-2.7	-2.2	-3.9	2.6	-6.0	1.3	1.2	0.1	2.5	0.6	0.3
Sweden	0.0	-0.6	1.2	0.6	-0.7	-1.1	-0.6	0.0	-0.1	-0.7	0.0	-0.3
United Kingdom	1.6	0.4	0.2	-0.6	-1.9	-0.1	0.5	-0.4	-1.0	1.0	-0.4	-1.3
EU	-0.2	-0.7	0.6	-0.3	-0.5	-1.0	0.0	-0.2	-0.2	0.2	-0.1	-0.4
USA	:	-0.6	-0.6	-0.8	0.2	1.0	1.1	0.2	0.9	0.8	0.3	0.4
Japan	-1.5	-0.6	0.3	-1.2	-0.4	-2.1	-0.2	0.1	0.0	-0.5	0.3	-0.1

<sup>1</sup> Nominal unit labour costs divided by GDP price deflator.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 30: Nominal bilateral exchange rates against Ecu/euro (1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	:	:	:	:	:	:	:	:	:	:	:	:
Germany	:	:	:	:	:	:	:	:	:	:	:	:
Estonia	15.6669	15.6466	:	:	:	:	:	:	:	:	:	:
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	:	:	:	:	:	:	:	:	:	:	:	:
France	:	:	:	:	:	:	:	:	:	:	:	:
Italy	:	:	:	:	:	:	:	:	:	:	:	:
Cyprus	0.5767	0.5802	:	:	:	:	:	:	:	:	:	:
Latvia	0.5972	0.6797	0.7041	0.7015	:	:	:	:	:	:	:	:
Lithuania	3.8971	3.4528	3.4528	3.4528	3.4528	:	:	:	:	:	:	:
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	0.4154	0.4285	:	:	:	:	:	:	:	:	:	:
Netherlands	:	:	:	:	:	:	:	:	:	:	:	:
Austria	:	:	:	:	:	:	:	:	:	:	:	:
Portugal	:	:	:	:	:	:	:	:	:	:	:	:
Slovenia	206.1982	238.3482	:	:	:	:	:	:	:	:	:	:
Slovakia	42.4519	38.2238	:	:	:	:	:	:	:	:	:	:
Finland	:	:	:	:	:	:	:	:	:	:	:	:
Euro area	:	:	:	:	:	:	:	:	:	:	:	:
Bulgaria	1.9549	1.9539	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Czech Republic	34.6809	29.9252	25.2808	25.9797	27.5359	27.2792	27.0343	27.0217	27.0217	27.0327	27.0225	27.0225
Denmark	7.4542	7.4464	7.4488	7.4579	7.4548	7.4587	7.4452	7.4362	7.4363	7.4455	7.4404	7.4404
Croatia	7.4493	7.4257	7.3627	7.5786	7.6344	7.6137	7.5333	7.5119	7.5099	7.5294	7.5073	7.5073
Hungary	250.5868	253.7888	275.1883	296.8730	308.7061	309.9956	311.4379	309.2626	309.3000	310.5801	305.9260	305.9260
Poland	3.9363	4.1258	4.0279	4.1975	4.1843	4.1841	4.3632	4.3649	4.3644	4.3441	4.3029	4.3029
Romania	2.0705	3.6576	4.1666	4.4190	4.4437	4.4454	4.4904	4.4984	4.4981	4.4887	4.5023	4.5023
Sweden	8.9170	9.2071	9.5011	8.6515	9.0985	9.3535	9.4689	9.5001	9.4986	9.4544	9.7010	9.7010
United Kingdom	0.6391	0.6841	0.8448	0.8493	0.8061	0.7258	0.8195	0.8626	0.8627	0.8271	0.8999	0.8999
EU	:	:	:	:	:	:	:	:	:	:	:	:
USA	0.9903	1.2490	1.3736	1.3281	1.3285	1.1095	1.1069	1.0677	1.0683	1.1133	1.1039	1.1039
Japan	118.7904	141.9066	122.4959	129.6627	140.3061	134.3140	120.1967	121.8770	121.8530	119.3	114.6	114.6

Table 31: Nominal effective exchange rates to rest of a group<sup>1</sup> of industrialised countries (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	-0.1	1.4	-0.2	2.4	0.6	-3.0	1.3	0.5	0.0	1.4	0.5	0.0
Germany	0.0	1.8	-0.6	3.2	1.0	-3.9	1.4	0.5	0.0	1.5	0.4	0.0
Estonia	0.1	1.1	-0.3	1.5	1.5	-0.8	1.2	0.5	0.0	1.2	0.5	0.0
Ireland	-1.9	2.5	-0.4	3.1	0.0	-6.2	2.0	0.2	0.0	2.3	1.0	0.0
Greece	-0.1	1.3	0.1	3.1	2.1	-2.1	2.1	2.5	0.0	2.1	0.6	0.0
Spain	0.0	1.3	-0.1	2.3	0.7	-3.0	1.5	0.7	0.0	1.6	0.5	0.0
France	-0.1	1.7	-0.5	3.1	0.8	-3.7	1.1	0.4	0.0	1.2	0.4	0.0
Italy	0.2	1.7	-0.4	2.9	1.1	-3.7	1.2	0.6	0.0	1.3	0.3	0.0
Cyprus	0.9	1.2	0.0	2.8	0.3	-4.0	2.1	0.9	0.0	2.3	1.1	0.0
Latvia	2.2	-2.9	0.1	1.1	0.9	-1.2	1.3	0.7	0.0	1.3	0.3	0.0
Lithuania	6.2	1.3	0.0	1.8	0.9	-1.9	1.4	0.6	0.0	1.4	0.4	0.0
Luxembourg	-0.1	0.8	0.0	1.8	0.6	-2.0	1.0	0.5	0.0	1.0	0.3	0.0
Malta	0.3	1.7	-0.8	2.6	0.7	-2.6	1.0	0.6	0.0	1.1	0.5	0.0
Netherlands	-0.1	1.1	-0.1	2.0	0.5	-2.7	1.4	0.5	0.0	1.5	0.6	0.0
Austria	0.2	1.0	-0.3	2.0	0.8	-2.4	0.8	0.3	0.0	0.9	0.2	0.0
Portugal	-0.5	1.1	-0.1	1.7	0.4	-2.6	1.1	0.4	0.0	1.2	0.5	0.0
Slovenia	-3.9	-0.6	0.1	1.4	0.8	-1.4	0.7	0.4	0.0	0.7	0.1	0.0
Slovakia	-2.2	5.3	2.5	1.2	0.7	-1.3	1.3	0.6	0.0	1.3	0.4	0.0
Finland	-0.3	1.7	-0.6	3.1	1.6	-2.9	1.1	0.3	0.0	1.1	0.3	0.0
Euro area	-0.1	3.5	-0.8	5.9	2.1	-6.8	2.3	1.2	0.0	2.5	0.7	0.0
Bulgaria	3.6	1.2	0.5	2.2	1.7	-1.5	1.4	1.8	0.0	1.4	0.4	0.0
Czech Republic	3.5	2.7	2.0	-1.8	-5.2	-0.8	2.1	0.6	0.0	2.2	0.4	0.0
Denmark	-0.2	1.4	-0.5	2.6	1.4	-2.8	1.6	0.3	0.0	1.7	0.6	0.0
Croatia	-0.7	1.0	-0.6	1.0	0.2	-1.5	1.9	1.0	0.0	2.0	0.5	0.0
Hungary	-2.3	0.0	-2.7	-1.1	-3.1	-2.0	0.5	1.3	0.0	0.9	1.9	0.0
Poland	-0.6	1.0	-2.1	1.4	1.1	-1.7	-3.0	0.6	0.0	-2.5	1.5	0.0
Romania	-22.3	-0.3	-5.4	2.8	0.6	-1.7	0.3	1.1	0.0	0.3	0.1	0.0
Sweden	-1.4	1.6	0.7	3.6	-3.8	-5.2	0.2	-0.3	0.0	0.4	-2.5	0.0
United Kingdom	1.7	0.3	-4.3	-1.7	6.7	6.6	-11.1	-5.6	0.0	-12.1	-8.5	0.0
EU	0.7	5.3	-3.2	8.0	4.6	-7.3	-1.3	0.0	0.0	-1.4	-2.2	0.0
USA	3.1	-4.7	-0.5	2.8	3.6	17.2	3.0	5.1	0.0	2.3	0.7	0.0
Japan	1.5	-2.6	8.4	-18.4	-6.7	-3.3	13.2	-2.7	0.0	14.4	3.9	0.0

<sup>1</sup> 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.Table 32: Relative unit labour costs, to rest of a group<sup>1</sup> of industrialised countries (nat. curr) (percentage change over preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	-0.3	-0.4	0.6	1.1	-1.3	-1.3	-1.3	0.1	-0.6	-0.8	0.0	:
Germany	-2.2	-2.4	0.2	0.9	0.9	1.0	-0.1	0.4	-0.1	-0.3	0.7	:
Estonia	2.0	5.7	0.9	2.8	0.6	5.9	4.0	1.5	0.6	4.3	1.4	:
Ireland	0.7	2.3	-2.9	1.7	-5.5	-17.2	-0.3	-0.3	-1.2	-0.5	-0.7	:
Greece	0.2	0.9	-0.7	-8.1	-4.4	-3.7	-1.0	-1.6	-1.4	-0.4	-1.5	:
Spain	0.1	1.7	-1.6	-1.7	-1.5	-0.5	-1.4	-0.3	-0.5	-0.7	-0.4	:
France	-1.0	0.0	0.1	0.0	-0.3	-0.5	-1.1	-0.9	-0.7	-1.1	-0.7	:
Italy	-1.3	1.0	0.3	-0.5	-1.3	-0.4	-1.4	-1.0	-0.7	-1.2	-1.4	:
Cyprus	-2.2	1.8	0.6	-4.9	-4.5	-1.7	-1.7	-0.7	-0.8	-1.5	-0.8	:
Latvia	-1.5	11.2	-2.2	3.3	3.4	4.1	0.6	0.9	0.9	1.4	1.4	:
Lithuania	-3.3	3.0	-1.6	1.5	1.7	3.7	3.1	2.0	1.6	3.7	1.9	:
Luxembourg	-0.3	0.6	2.2	-1.3	-0.6	-0.6	-1.7	0.6	-0.6	-1.8	0.1	:
Malta	-0.6	0.8	1.7	0.1	-2.6	-0.6	0.6	0.6	0.0	0.1	0.2	:
Netherlands	0.8	-0.4	0.3	-0.1	-1.2	-1.3	0.2	0.5	0.2	0.7	0.2	:
Austria	-2.1	-0.3	0.3	1.2	0.9	0.8	-0.7	-0.7	-0.9	-0.8	-0.7	:
Portugal	1.6	-0.2	-1.9	0.9	-2.1	-1.1	0.1	-1.0	-1.4	0.0	-0.9	:
Slovenia	3.9	1.1	0.7	-0.6	-2.5	-0.5	-0.9	-1.2	0.0	-0.9	-1.4	:
Slovakia	2.5	1.0	-0.1	-1.0	-0.6	0.6	-0.9	0.6	0.3	0.0	0.4	:
Finland	-1.0	-0.8	1.8	0.1	-0.2	0.0	-1.6	-3.0	-1.6	-1.1	-2.9	:
Euro area	-2.3	-0.9	0.0	0.4	-1.0	-1.0	-1.4	-0.5	-0.9	-1.1	-0.4	:
Bulgaria	6.7	1.5	4.1	6.6	2.8	1.4	-1.1	0.4	0.1	0.3	0.8	:
Czech Republic	2.3	0.5	-0.3	-0.8	-0.9	-1.3	0.8	0.4	0.2	1.1	0.0	:
Denmark	0.6	0.8	-0.2	-0.7	-0.4	0.3	0.9	0.3	-0.1	0.9	-0.1	:
Croatia	2.6	1.3	-0.1	-3.4	-3.6	-1.4	-0.9	-0.1	-0.3	-0.9	-0.5	:
Hungary	6.9	2.7	-0.1	-0.6	0.7	0.0	3.3	1.4	0.8	3.3	1.7	:
Poland	2.2	-1.8	0.5	-1.1	-0.7	-2.1	0.3	0.1	0.2	-1.1	-0.5	:
Romania	38.2	9.5	2.0	-1.9	2.8	-4.8	0.8	1.9	0.6	2.3	1.0	:
Sweden	-0.9	-0.9	0.6	0.2	-0.2	0.1	0.1	0.9	0.4	-0.1	0.8	:
United Kingdom	0.9	1.3	0.2	0.2	-1.3	0.1	0.3	0.1	-0.2	0.3	0.3	:
EU	-2.0	-0.3	0.2	0.2	-1.9	-1.8	-1.6	-0.4	-1.2	-1.3	-0.4	:
USA	-0.5	0.5	-1.0	-0.4	0.5	1.4	1.4	1.0	1.6	1.2	1.3	:
Japan	-4.7	-3.6	-2.8	-2.7	0.0	-1.3	-1.6	-1.6	-1.6	-1.6	-1.7	:

<sup>1</sup> 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 33: Real effective exchange rate : ulc relative to rest of a group <sup>1</sup> of industrialised countries (USD) (% change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	-0.5	0.9	0.3	3.5	-0.8	-4.3	-0.1	0.6	-0.6	0.6	0.5	:
Germany	-2.3	-0.7	-0.4	4.1	2.0	-2.9	1.3	0.9	-0.1	1.2	1.1	:
Estonia	2.1	6.8	0.6	4.3	2.1	5.0	5.2	2.0	0.6	5.5	1.9	:
Ireland	-1.2	4.9	-3.2	4.8	-5.4	-22.3	1.7	0.0	-1.2	1.8	0.3	:
Greece	0.1	2.2	-0.6	-5.3	-2.4	-5.8	1.1	0.8	-1.4	1.6	-0.9	:
Spain	0.1	3.0	-1.7	0.6	-0.8	-3.4	0.0	0.4	-0.5	0.8	0.2	:
France	-1.1	1.6	-0.3	3.1	0.6	-4.2	0.0	-0.4	-0.7	0.1	-0.3	:
Italy	-1.2	2.7	-0.1	2.4	-0.2	-4.1	-0.2	-0.4	-0.7	0.1	-1.0	:
Cyprus	-1.3	3.0	0.6	-2.3	-4.2	-5.7	0.3	0.1	-0.8	0.7	0.3	:
Latvia	0.7	8.0	-2.1	4.4	4.4	2.9	2.0	1.6	0.9	2.7	1.7	:
Lithuania	2.7	4.3	-1.6	3.3	2.6	1.7	4.5	2.6	1.6	5.1	2.3	:
Luxembourg	-0.4	1.3	2.2	0.5	0.0	-2.6	-0.7	1.1	-0.6	-0.8	0.5	:
Malta	-0.3	2.5	0.9	2.7	-1.9	-3.2	1.6	1.2	0.0	1.1	0.7	:
Netherlands	0.8	0.7	0.2	1.9	-0.7	-4.0	1.6	1.1	0.2	2.3	0.8	:
Austria	-1.8	0.7	0.0	3.2	1.7	-1.7	0.1	-0.5	-0.9	0.1	-0.5	:
Portugal	1.0	0.9	-2.1	2.6	-1.7	-3.6	1.2	-0.6	-1.4	1.2	-0.4	:
Slovenia	-0.2	0.5	0.7	0.7	-1.7	-1.9	-0.1	-0.8	0.0	-0.2	-1.3	:
Slovakia	0.3	6.4	2.4	0.3	0.1	-0.7	0.4	1.2	0.3	1.3	0.7	:
Finland	-1.3	0.9	1.2	3.2	1.3	-2.9	-0.6	-2.7	-1.6	0.0	-2.6	:
Euro area	-2.5	2.6	-0.8	6.3	1.1	-7.7	0.9	0.7	-0.8	1.4	0.3	:
Bulgaria	10.5	2.7	4.6	9.0	4.6	-0.1	0.3	2.2	0.2	1.7	1.2	:
Czech Republic	5.9	3.2	1.7	-2.6	-6.0	-2.1	2.9	0.9	0.2	3.3	0.3	:
Denmark	0.4	2.2	-0.8	1.9	1.0	-2.5	2.5	0.6	-0.1	2.7	0.5	:
Croatia	1.9	2.3	-0.8	-2.5	-3.4	-2.9	1.0	0.9	-0.3	1.1	0.0	:
Hungary	4.4	2.7	-2.8	-1.7	-2.5	-2.0	3.9	2.7	0.8	4.2	3.6	:
Poland	1.6	-0.8	-1.6	0.2	0.4	-3.8	-2.7	0.8	0.3	-3.6	1.1	:
Romania	7.4	9.2	-3.6	0.9	3.4	-6.4	1.1	3.0	0.6	2.6	1.1	:
Sweden	-2.3	0.7	1.3	3.8	-4.0	-5.1	0.4	0.5	0.4	0.4	-1.7	:
United Kingdom	2.6	1.7	-4.1	-1.5	5.3	6.8	-10.9	-5.5	-0.2	-11.8	-8.3	:
EU	-1.3	5.0	-3.0	8.3	2.6	-8.9	-2.8	-0.4	-1.1	-2.6	-2.6	:
USA	2.7	-4.3	-1.5	2.4	4.1	18.9	4.4	6.1	1.6	3.5	2.0	:
Japan	-3.3	-6.1	5.4	-20.6	-6.7	-4.6	11.5	-4.3	-1.6	12.6	2.2	:

<sup>1</sup> 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 34: Total expenditure, general government (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	49.7	49.6	53.6	55.7	55.1	53.9	53.6	52.9	52.5	53.8	53.2	52.8
Germany	46.9	45.6	45.5	44.7	44.4	44.0	44.3	44.4	44.5	44.1	44.4	44.5
Estonia	37.5	34.2	40.6	38.5	38.5	40.3	40.5	41.3	41.2	39.9	40.6	40.4
Ireland	33.0	33.8	48.4	39.8	37.8	29.4	27.9	27.6	27.3	28.1	27.6	27.0
Greece	45.9	46.4	53.4	62.3	50.6	55.4	51.2	49.8	47.0	51.6	49.3	46.4
Spain	39.4	38.5	45.3	45.6	44.9	43.8	42.7	41.6	41.1	42.6	41.6	41.0
France	51.8	52.6	55.8	57.0	57.3	57.0	56.5	56.2	56.2	56.5	56.3	56.3
Italy	47.1	47.1	49.8	50.8	50.9	50.4	49.4	49.1	49.1	49.7	49.3	49.1
Cyprus	34.8	38.7	41.2	41.3	48.2	40.1	38.3	37.8	37.3	38.5	38.1	37.8
Latvia	37.2	34.5	40.4	37.0	37.5	37.1	36.0	38.1	38.5	36.6	37.5	37.4
Lithuania	38.7	34.3	40.8	35.5	34.7	35.1	35.0	35.5	35.7	35.1	35.8	35.9
Luxembourg	39.9	42.1	43.5	43.4	42.3	42.1	41.6	41.6	41.1	41.7	41.2	40.6
Malta	41.3	42.6	41.9	42.0	41.5	41.2	38.7	38.4	37.7	40.7	40.2	39.5
Netherlands	43.3	43.2	46.8	46.3	46.2	45.1	44.5	44.1	43.8	44.7	44.0	43.6
Austria	51.6	51.4	52.1	51.2	52.8	51.6	50.6	50.3	49.8	50.7	50.5	50.5
Portugal	43.1	45.6	49.2	49.9	51.8	48.4	46.2	46.1	45.7	46.4	46.1	45.7
Slovenia	46.0	44.5	48.0	60.3	50.0	47.8	45.2	44.6	43.5	45.5	44.8	43.9
Slovakia	47.0	38.5	40.9	41.4	42.0	45.6	41.9	41.8	41.0	42.1	41.8	41.0
Finland	50.4	49.1	53.7	57.5	58.0	57.0	57.0	56.5	56.2	57.3	56.9	56.6
Euro area	47.0	46.4	49.3	49.7	49.4	48.5	47.9	47.6	47.4	48.0	47.7	47.4
Bulgaria	39.2	37.1	36.2	37.6	42.1	40.7	37.1	38.1	38.3	37.5	38.1	37.9
Czech Republic	42.0	42.6	42.9	42.6	42.2	42.0	40.0	40.3	40.1	40.5	40.6	40.5
Denmark	53.7	51.5	55.6	55.8	55.3	54.8	54.2	53.5	52.4	54.8	53.9	52.7
Croatia		46.0	47.1	48.3	48.3	46.9	46.1	45.7	45.1	46.3	46.1	45.7
Hungary	48.9	49.8	49.4	49.3	49.0	50.0	46.7	47.2	46.8	48.0	49.4	49.0
Poland	44.1	44.2	44.3	42.4	42.1	41.5	41.2	42.2	42.6	41.6	42.4	42.9
Romania	36.8	34.6	39.1	35.4	34.4	35.7	34.1	34.9	35.6	34.5	34.7	35.1
Sweden	55.0	52.2	51.4	52.4	51.5	50.2	49.7	49.9	49.6	49.8	50.0	49.7
United Kingdom	36.4	40.5	46.7	44.7	43.7	42.9	42.3	42.0	41.5	42.7	42.1	41.3
EU		45.5	48.7	48.6	48.1	47.3	46.7	46.5	46.3	46.9	46.6	46.3
USA	34.7	36.5	41.4	38.7	38.1	37.7	38.0	37.9	38.1	37.9	37.7	37.7
Japan	38.0	35.7	39.4	40.6	40.1	39.2	39.2	39.5	39.3	41.4	41.7	41.6

Table 35: Total revenue, general government (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	49.4	48.7	49.8	52.7	52.0	51.3	50.6	50.8	50.2	50.8	50.9	50.4
Germany	44.8	43.0	43.8	44.5	44.7	44.7	44.9	44.9	44.9	44.7	44.8	44.8
Estonia	36.8	36.4	39.9	38.4	39.1	40.5	40.6	40.8	41.0	40.3	40.2	40.2
Ireland	35.0	35.1	33.7	34.1	34.1	27.6	27.0	26.9	26.7	27.2	27.1	26.6
Greece	40.4	39.3	42.3	49.1	47.0	47.9	50.1	48.8	47.7	49.1	48.3	47.2
Spain	38.2	39.5	36.3	38.6	38.9	38.6	38.0	38.2	38.2	38.0	37.8	37.8
France	49.8	49.5	50.4	52.9	53.4	53.5	53.2	53.3	53.1	53.2	53.4	53.2
Italy	44.6	43.9	46.0	48.1	47.9	47.8	47.1	46.8	46.5	47.4	46.9	46.6
Cyprus	31.6	36.8	37.0	36.4	39.4	39.0	38.3	37.6	37.7	38.3	37.7	37.7
Latvia	35.1	33.7	35.2	36.1	35.9	35.8	36.0	37.2	37.4	35.8	36.4	36.2
Lithuania	35.8	33.4	34.5	32.9	34.0	34.9	34.5	34.7	35.0	34.5	35.0	35.2
Luxembourg	44.1	43.2	44.1	44.4	43.8	43.7	43.2	41.8	41.3	43.0	41.2	40.7
Malta	34.7	38.4	38.5	39.4	39.5	39.9	38.0	37.8	37.1	40.0	39.6	39.0
Netherlands	43.0	42.3	43.1	43.9	43.9	43.2	44.4	44.3	44.1	43.9	43.8	43.5
Austria	49.7	48.7	48.8	49.9	50.0	50.6	49.2	49.1	48.9	49.2	49.2	49.3
Portugal	39.4	40.7	41.6	45.1	44.6	44.0	44.0	44.1	43.5	43.7	44.0	43.2
Slovenia	42.9	43.0	43.3	45.3	45.0	45.1	43.2	42.9	42.1	43.1	42.8	42.4
Slovakia	39.2	35.8	35.7	38.7	39.3	42.9	39.6	40.4	40.4	39.9	40.3	40.5
Finland	54.2	52.4	52.9	54.9	54.9	54.2	54.8	54.2	54.4	54.9	54.4	54.5
Euro area	45.2	44.3	44.8	46.7	46.8	46.5	46.3	46.2	46.0	46.2	46.1	45.9
Bulgaria	39.3	38.2	34.6	37.1	36.6	39.0	36.7	37.6	37.9	36.6	37.3	37.3
Czech Republic	37.4	39.6	39.1	41.4	40.3	41.3	40.3	40.4	40.3	40.5	40.5	40.4
Denmark	54.4	54.8	54.0	54.8	56.7	53.5	52.7	51.9	51.5	53.8	51.9	51.3
Croatia		42.1	41.5	43.0	42.9	43.6	44.3	43.6	43.3	44.2	44.3	44.3
Hungary	43.2	42.7	45.3	46.8	46.9	48.5	44.9	44.8	44.3	46.4	47.0	46.8
Poland	40.3	40.1	38.9	38.4	38.7	38.9	39.0	39.3	39.6	39.1	39.5	39.8
Romania	33.2	32.9	32.9	33.3	33.6	35.0	31.3	31.3	31.7	31.6	31.5	31.9
Sweden	55.9	53.4	51.4	51.0	50.0	50.4	50.2	49.7	49.8	49.8	49.9	49.8
United Kingdom	36.4	37.4	38.6	39.0	38.0	38.5	39.0	39.2	39.0	39.2	39.3	39.0
EU		43.3	43.9	45.4	45.1	44.9	44.8	44.8	44.7	44.9	44.9	44.7
USA	33.5	32.1	31.2	33.4	33.3	33.5	33.2	32.8	32.3	33.2	33.5	33.7
Japan	30.4	31.1	31.4	32.9	34.7	35.7	35.6	35.5	35.5	36.3	36.6	36.6

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	-0.3	-0.8	-3.8	-3.0	-3.1	-2.5	-2.9	-2.2	-2.3	-3.0	-2.3	-2.4
Germany	-2.1	-2.6	-1.7	-0.2	0.3	0.7	0.6	0.4	0.4	0.6	0.4	0.3
Estonia	-0.7	2.2	-0.8	-0.2	0.7	0.1	0.1	-0.5	-0.2	0.5	-0.4	-0.2
Ireland	2.0	1.3	-14.7	-5.7	-3.7	-1.9	-0.9	-0.6	-0.6	-0.9	-0.5	-0.4
Greece	-5.5	-7.1	-11.1	-13.2	-3.6	-7.5	-1.1	-1.1	0.7	-2.5	-1.0	0.9
Spain	-1.3	1.0	-9.0	-7.0	-6.0	-5.1	-4.7	-3.5	-2.9	-4.6	-3.8	-3.2
France	-2.0	-3.1	-5.4	-4.0	-4.0	-3.5	-3.3	-2.9	-3.1	-3.3	-2.9	-3.1
Italy	-2.5	-3.3	-3.8	-2.7	-3.0	-2.6	-2.3	-2.4	-2.6	-2.4	-2.4	-2.5
Cyprus	-3.2	-1.9	-4.2	-4.9	-8.8	-1.1	0.0	-0.2	0.4	-0.3	-0.4	0.0
Latvia	-2.1	-0.9	-5.2	-0.9	-1.6	-1.3	0.0	-1.0	-1.0	-0.8	-1.1	-1.2
Lithuania	-2.9	-0.8	-6.2	-2.6	-0.7	-0.2	-0.5	-0.7	-0.7	-0.6	-0.8	-0.7
Luxembourg	4.2	1.0	0.6	1.0	1.5	1.6	1.6	0.2	0.3	1.3	0.0	0.1
Malta	-6.6	-4.2	-3.4	-2.6	-2.0	-1.3	-0.7	-0.6	-0.6	-0.7	-0.6	-0.6
Netherlands	-0.2	-0.9	-3.7	-2.4	-2.3	-1.9	-0.1	0.2	0.3	-0.8	-0.3	-0.1
Austria	-1.9	-2.6	-3.2	-1.4	-2.7	-1.0	-1.4	-1.2	-0.9	-1.5	-1.3	-1.1
Portugal	-3.8	-4.8	-7.6	-4.8	-7.2	-4.4	-2.3	-2.0	-2.2	-2.7	-2.2	-2.4
Slovenia	-3.0	-1.4	-4.7	-15.0	-5.0	-2.7	-2.0	-1.7	-1.4	-2.4	-2.0	-1.5
Slovakia	-7.8	-2.7	-5.3	-2.7	-2.7	-2.7	-2.2	-1.4	-0.6	-2.2	-1.5	-0.5
Finland	3.8	3.3	-0.8	-2.6	-3.2	-2.7	-2.2	-2.3	-1.8	-2.4	-2.5	-2.0
Euro area	-1.8	-2.2	-4.5	-3.0	-2.6	-2.1	-1.7	-1.4	-1.4	-1.8	-1.5	-1.5
Bulgaria	0.1	1.1	-1.6	-0.4	-5.5	-1.7	-0.4	-0.5	-0.3	-0.9	-0.8	-0.7
Czech Republic	-4.6	-3.0	-3.7	-1.2	-1.9	-0.6	0.3	0.1	0.2	0.0	-0.2	-0.1
Denmark	0.7	3.4	-1.6	-1.0	1.4	-1.3	-1.6	-1.6	-0.9	-0.9	-2.0	-1.4
Croatia		-3.9	-5.6	-5.3	-5.4	-3.3	-1.8	-2.1	-1.8	-2.1	-1.8	-1.4
Hungary	-5.7	-7.1	-4.1	-2.6	-2.1	-1.6	-1.8	-2.4	-2.5	-1.5	-2.3	-2.3
Poland	-3.8	-4.1	-5.3	-4.1	-3.4	-2.6	-2.3	-2.9	-3.0	-2.4	-3.0	-3.1
Romania	-3.5	-1.7	-6.2	-2.1	-0.8	-0.8	-2.8	-3.6	-3.9	-2.8	-3.2	-3.2
Sweden	1.0	1.2	0.0	-1.4	-1.6	0.2	0.5	-0.2	0.2	0.0	-0.1	0.1
United Kingdom	0.0	-3.1	-8.1	-5.7	-5.8	-4.4	-3.4	-2.8	-2.5	-3.5	-2.8	-2.3
EU		-2.2	-4.9	-3.3	-3.0	-2.4	-1.9	-1.7	-1.6	-2.0	-1.7	-1.6
USA	-1.1	-4.4	-10.2	-5.4	-4.8	-4.2	-4.8	-5.1	-5.7	-4.6	-4.2	-4.0
Japan	-7.6	-4.6	-8.1	-7.6	-5.4	-3.5	-3.7	-4.0	-3.8	-5.0	-5.1	-5.0

Table 37: Interest expenditure, general government (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	6.7	4.5	3.7	3.3	3.3	3.0	2.6	2.4	2.3	2.6	2.4	2.2
Germany	3.1	2.8	2.5	2.0	1.8	1.6	1.4	1.2	1.1	1.4	1.2	1.1
Estonia	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Ireland	2.1	1.1	2.7	4.2	3.9	2.6	2.3	2.2	2.0	2.3	2.2	2.0
Greece	6.8	4.7	5.6	4.0	4.0	3.6	3.4	3.3	3.0	3.3	3.1	2.8
Spain	3.2	1.8	2.1	3.5	3.5	3.1	2.8	2.7	2.5	2.8	2.6	2.5
France	2.9	2.6	2.6	2.3	2.2	2.0	1.9	1.8	1.8	1.9	1.8	1.8
Italy	6.4	4.7	4.7	4.8	4.6	4.2	3.9	3.9	3.8	4.0	3.8	3.6
Cyprus	3.0	3.0	2.4	3.1	2.8	2.8	2.6	2.3	2.3	2.6	2.5	2.5
Latvia	0.8	0.5	1.4	1.5	1.4	1.3	1.2	1.1	1.0	1.1	1.0	1.0
Lithuania	1.4	0.9	1.5	1.8	1.6	1.5	1.5	1.4	1.4	1.5	1.4	1.4
Luxembourg	0.4	0.3	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Malta	3.7	3.6	3.2	2.9	2.7	2.5	2.2	2.0	1.9	2.3	2.1	2.0
Netherlands	3.4	2.2	1.8	1.5	1.4	1.3	1.1	1.0	1.0	1.1	1.0	0.9
Austria	3.5	3.1	2.9	2.6	2.5	2.4	2.2	2.1	2.1	2.2	2.2	2.2
Portugal	3.0	2.7	3.6	4.9	4.9	4.6	4.3	4.4	4.3	4.3	4.4	4.3
Slovenia	2.3	1.5	1.6	2.6	3.2	2.9	2.8	2.6	2.4	2.8	2.6	2.5
Slovakia	3.5	1.8	1.5	1.9	1.9	1.8	1.5	1.4	1.3	1.5	1.4	1.3
Finland	3.4	1.7	1.5	1.3	1.3	1.2	1.1	1.1	1.0	1.1	1.1	1.0
Euro area	3.9	3.0	2.9	2.8	2.7	2.4	2.2	2.1	2.0	2.2	2.1	1.9
Bulgaria	3.6	1.6	0.8	0.7	0.9	0.9	0.9	1.0	1.0	0.9	0.8	0.8
Czech Republic	1.0	1.1	1.3	1.3	1.3	1.1	0.9	0.9	0.8	1.0	0.9	0.9
Denmark	3.8	2.1	1.8	1.7	1.5	1.6	1.5	1.1	1.0	1.3	1.1	1.1
Croatia		1.9	2.7	3.5	3.5	3.6	3.4	3.4	3.2	3.4	3.4	3.3
Hungary	5.5	4.1	4.3	4.5	4.0	3.5	3.2	2.8	2.6	3.1	2.9	2.8
Poland	3.2	2.5	2.4	2.5	1.9	1.8	1.7	1.6	1.6	1.7	1.6	1.6
Romania	3.8	1.2	1.4	1.8	1.6	1.6	1.6	1.6	1.7	1.6	1.6	1.7
Sweden	3.4	1.8	1.2	0.8	0.7	0.5	0.4	0.4	0.5	0.4	0.4	0.5
United Kingdom	2.4	2.0	2.6	2.9	2.7	2.3	2.5	2.5	2.6	2.4	2.4	2.4
EU		2.7	2.7	2.7	2.5	2.3	2.1	2.0	2.0	2.1	2.0	1.9
USA	3.9	3.4	3.7	3.6	3.5	3.4	3.5	3.8	4.2	3.6	3.7	4.0
Japan	3.0	1.9	2.0	2.0	1.9	1.8	2.0	2.0	2.0	2.0	1.9	1.9

Table 38: Primary balance, general government <sup>1</sup> (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	6.4	3.7	0.0	0.3	0.2	0.5	-0.3	0.2	0.0	-0.5	0.1	-0.2
Germany	1.0	0.2	0.8	1.8	2.1	2.2	2.0	1.6	1.4	2.0	1.6	1.4
Estonia	-0.4	2.4	-0.6	-0.1	0.8	0.2	0.2	-0.4	-0.1	0.6	-0.3	-0.1
Ireland	4.1	2.4	-12.0	-1.4	0.1	0.7	1.4	1.6	1.5	1.5	1.7	1.7
Greece	1.3	-2.4	-5.5	-9.1	0.4	-3.9	2.3	2.2	3.7	0.8	2.1	3.7
Spain	2.0	2.8	-6.9	-3.5	-2.5	-2.0	-1.9	-0.8	-0.3	-1.8	-1.1	-0.7
France	1.0	-0.4	-2.9	-1.8	-1.8	-1.5	-1.5	-1.1	-1.3	-1.5	-1.2	-1.3
Italy	3.9	1.4	0.9	2.1	1.6	1.5	1.7	1.5	1.2	1.6	1.4	1.1
Cyprus	-0.3	1.1	-1.7	-1.8	-6.0	1.7	2.5	2.2	2.7	2.3	2.0	2.5
Latvia	-1.4	-0.3	-3.7	0.6	-0.1	0.1	1.2	0.1	0.0	0.3	0.0	-0.3
Lithuania	-1.5	0.0	-4.7	-0.9	0.9	1.3	1.0	0.7	0.7	0.9	0.7	0.7
Luxembourg	4.6	1.3	1.0	1.5	1.9	2.0	2.0	0.5	0.6	1.7	0.4	0.5
Malta	-2.9	-0.6	-0.2	0.3	0.8	1.2	1.5	1.4	1.3	1.6	1.5	1.4
Netherlands	3.2	1.2	-1.8	-0.9	-0.8	-0.6	1.0	1.2	1.3	0.3	0.7	0.8
Austria	1.6	0.5	-0.3	1.2	-0.3	1.3	0.8	0.9	1.2	0.7	0.8	1.0
Portugal	-0.8	-2.1	-3.9	0.0	-2.3	0.2	2.1	2.5	2.2	1.7	2.2	1.8
Slovenia	-0.8	0.1	-3.1	-12.5	-1.9	0.3	0.8	0.9	1.0	0.4	0.7	0.9
Slovakia	-4.3	-0.9	-3.8	-0.8	-0.8	-1.0	-0.7	0.0	0.7	-0.7	-0.1	0.8
Finland	7.3	5.0	0.6	-1.3	-1.9	-1.5	-1.1	-1.2	-0.8	-1.2	-1.4	-1.0
Euro area	2.1	0.8	-1.6	-0.2	0.1	0.3	0.5	0.6	0.6	0.4	0.5	0.5
Bulgaria	3.7	2.7	-0.8	0.3	-4.6	-0.8	0.5	0.5	0.6	0.0	0.0	0.1
Czech Republic	-3.7	-2.0	-2.5	0.1	-0.6	0.4	1.2	1.0	1.0	1.0	0.8	0.8
Denmark	4.5	5.5	0.2	0.7	2.9	0.2	-0.1	-0.5	0.1	0.4	-0.8	-0.3
Croatia		-2.0	-3.0	-1.8	-1.9	0.3	1.6	1.2	1.4	1.3	1.6	1.8
Hungary	-0.2	-3.1	0.2	2.0	1.9	2.0	1.4	0.5	0.1	1.6	0.6	0.5
Poland	-0.6	-1.6	-2.9	-1.5	-1.5	-0.8	-0.6	-1.3	-1.4	-0.8	-1.3	-1.5
Romania	0.2	-0.5	-4.8	-0.3	0.8	0.9	-1.2	-2.0	-2.2	-1.3	-1.6	-1.5
Sweden	4.4	3.0	1.2	-0.6	-0.9	0.7	0.9	0.2	0.7	0.4	0.3	0.5
United Kingdom	2.4	-1.2	-5.5	-2.8	-3.1	-2.0	-0.9	-0.3	0.0	-1.0	-0.4	0.1
EU		0.5	-2.1	-0.6	-0.5	-0.1	0.3	0.4	0.4	0.2	0.3	0.3
USA	2.8	-1.0	-6.5	-1.7	-1.3	-0.8	-1.3	-1.3	-1.5	-1.1	-0.4	0.0
Japan	-4.6	-2.7	-6.1	-5.7	-3.5	-1.7	-1.6	-2.0	-1.8	-3.0	-3.1	-3.1

<sup>1</sup> Net lending/borrowing excluding interest expenditure.

Table 39: Cyclically-adjusted net lending (+) or net borrowing (-), general government<sup>1</sup> (as a percentage of potential GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	-0.6	-1.4	-3.7	-2.1	-2.6	-2.3	-2.6	-1.9	-2.2	-2.8	-2.0	-2.2
Germany	-2.5	-2.1	-1.3	0.1	0.4	0.7	0.7	0.5	0.3	0.6	0.6	0.5
Estonia	-0.2	-1.2	0.0	-0.8	-0.3	-0.4	0.1	-0.4	-0.2	0.5	-0.2	0.0
Ireland	0.8	0.1	-13.3	-3.1	-3.6	-2.4	-1.9	-1.4	-1.0	-1.8	-1.0	-0.6
Greece	-6.2	-8.8	-9.0	-6.2	2.3	-2.2	3.7	2.3	2.6	2.6	2.7	3.0
Spain	-2.4	-0.4	-6.9	-2.3	-2.1	-2.8	-3.8	-3.5	-3.6	-3.8	-3.8	-3.8
France	-2.7	-4.2	-5.0	-3.2	-2.9	-2.7	-2.6	-2.3	-2.7	-2.5	-2.2	-2.6
Italy	-3.1	-3.8	-2.8	-0.4	-1.0	-1.1	-1.4	-1.9	-2.6	-1.5	-1.9	-2.5
Cyprus	-3.5	-3.5	-4.5	-1.2	-5.5	0.9	0.5	-0.7	-0.9	0.1	-1.3	-1.8
Latvia	-2.0	-2.9	-3.0	-0.9	-1.9	-1.6	-0.5	-1.6	-1.6	-1.3	-1.6	-1.6
Lithuania	-2.1	-2.4	-4.6	-2.5	-1.1	-0.5	-0.9	-1.4	-1.5	-1.0	-1.4	-1.5
Luxembourg	2.8	0.4	2.0	2.6	2.5	2.5	2.2	0.4	0.3	1.9	0.4	0.4
Malta	-6.9	-4.5	-2.8	-1.8	-2.9	-2.8	-1.6	-0.9	-0.5	-1.1	-0.7	-0.5
Netherlands	-0.9	-0.4	-2.8	-0.3	-0.7	-0.9	0.4	0.3	0.2	-0.3	0.1	0.1
Austria	-2.3	-2.7	-3.1	-1.0	-2.2	-0.5	-1.0	-1.0	-0.7	-1.1	-1.1	-1.0
Portugal	-4.9	-4.6	-6.9	-2.7	-5.6	-3.5	-1.9	-2.1	-2.6	-2.3	-2.2	-2.7
Slovenia	-3.0	-2.7	-4.1	-12.3	-3.5	-1.8	-1.9	-2.3	-2.7	-2.2	-2.4	-2.3
Slovakia	-7.2	-3.2	-5.4	-1.7	-1.9	-2.3	-2.1	-1.3	-0.8	-2.0	-1.4	-0.7
Finland	3.0	2.8	-0.2	-1.3	-1.5	-1.1	-1.2	-1.5	-1.4	-1.4	-1.6	-1.4
Euro area	-2.4	-2.6	-3.7	-1.4	-1.3	-1.2	-1.1	-1.2	-1.4	-1.2	-1.2	-1.3
Bulgaria	0.5	0.7	-1.6	-0.2	-5.0	-1.5	-0.3	-0.5	-0.3	-0.8	-0.8	-0.6
Czech Republic	-4.2	-4.2	-3.7	0.1	-1.0	-0.7	0.2	-0.1	-0.1	-0.1	-0.4	-0.4
Denmark	-0.4	1.6	-0.5	0.6	2.5	-0.5	-0.6	-0.6	0.0	0.7	-0.8	-0.6
Croatia		-5.0	-5.5	-3.4	-3.4	-2.1	-1.3	-2.7	-3.2	-1.7	-2.2	-2.5
Hungary	-5.5	-8.4	-3.0	-1.2	-1.7	-1.7	-1.9	-3.0	-3.6	-1.9	-2.9	-3.1
Poland	-3.5	-3.4	-6.1	-3.3	-2.9	-2.4	-2.2	-3.1	-3.3	-2.4	-3.1	-3.3
Romania	-2.4	-3.2	-5.7	-1.0	-0.1	-0.3	-2.8	-3.8	-4.0	-2.9	-3.4	-3.3
Sweden	0.8	0.7	1.0	0.1	-0.5	0.4	0.3	-0.3	0.3	-0.3	-0.3	0.1
United Kingdom	-0.3	-4.0	-6.4	-4.4	-5.5	-4.5	-3.7	-3.2	-2.6	-3.9	-2.9	-2.3
EU		-2.8	-4.0	-1.8	-1.9	-1.7	-1.5	-1.5	-1.6	-1.6	-1.5	-1.5

<sup>1</sup> Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisionsTable 40: Cyclically-adjusted primary balance, general government<sup>1</sup> (as a percentage of potential GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	6.0	3.1	0.0	1.2	0.7	0.7	0.0	0.5	0.1	-0.2	0.4	0.0
Germany	0.6	0.6	1.2	2.0	2.2	2.3	2.0	1.7	1.4	2.0	1.8	1.5
Estonia	0.2	-1.0	0.2	-0.7	-0.2	-0.3	0.2	-0.3	-0.1	0.6	-0.1	0.0
Ireland	2.9	1.1	-10.6	1.1	0.3	0.2	0.4	0.8	1.1	0.6	1.2	1.4
Greece	0.6	-4.2	-3.4	-2.1	6.2	1.4	7.0	5.5	5.5	5.9	5.8	5.8
Spain	0.8	1.4	-4.8	1.1	1.3	0.3	-1.0	-0.8	-1.1	-1.0	-1.2	-1.3
France	0.2	-1.5	-2.4	-0.9	-0.8	-0.7	-0.7	-0.5	-0.9	-0.6	-0.4	-0.8
Italy	3.3	0.8	1.9	4.4	3.6	3.0	2.6	2.0	1.2	2.5	1.8	1.2
Cyprus	-0.5	-0.5	-2.1	1.9	-2.6	3.7	3.1	1.7	1.4	2.7	1.2	0.8
Latvia	-1.2	-2.4	-1.6	0.5	-0.4	-0.3	0.7	-0.5	-0.6	-0.2	-0.5	-0.6
Lithuania	-0.7	-1.6	-3.1	-0.7	0.5	1.0	0.6	0.0	-0.1	0.5	0.1	-0.1
Luxembourg	3.2	0.7	2.4	3.2	2.9	2.9	2.6	0.8	0.7	2.3	0.8	0.8
Malta	-3.2	-0.8	0.4	1.1	-0.1	-0.3	0.6	1.1	1.4	1.1	1.5	1.5
Netherlands	2.4	1.7	-1.0	1.2	0.7	0.4	1.5	1.3	1.2	0.8	1.0	1.0
Austria	1.2	0.5	-0.2	1.6	0.2	1.9	1.2	1.1	1.4	1.1	1.1	1.2
Portugal	-1.9	-1.9	-3.3	2.2	-0.7	1.0	2.4	2.3	1.7	2.1	2.2	1.5
Slovenia	-0.7	-1.2	-2.5	-9.8	-0.3	1.1	0.9	0.3	-0.3	0.6	0.2	0.2
Slovakia	-3.7	-1.4	-3.9	0.2	0.0	-0.5	-0.6	0.1	0.6	-0.5	0.0	0.7
Finland	6.4	4.5	1.3	0.0	-0.3	0.1	-0.1	-0.5	-0.4	-0.2	-0.5	-0.4
Euro area	1.4	0.3	-0.8	1.4	1.4	1.2	1.1	0.9	0.6	1.0	0.9	0.6
Bulgaria	4.0	2.3	-0.9	0.5	-4.1	-0.5	0.6	0.5	0.6	0.1	0.1	0.1
Czech Republic	-3.2	-3.2	-2.4	1.4	0.3	0.4	1.1	0.8	0.7	0.9	0.5	0.5
Denmark	3.4	3.8	1.3	2.3	4.0	1.0	0.9	0.5	0.9	2.0	0.4	0.5
Croatia		-3.1	-2.8	0.1	0.1	1.5	2.1	0.6	0.1	1.7	1.1	0.8
Hungary	0.1	-4.4	1.3	3.3	2.3	1.8	1.3	-0.2	-1.0	1.3	0.1	-0.3
Poland	-0.3	-0.8	-3.7	-0.8	-0.9	-0.7	-0.5	-1.4	-1.6	-0.7	-1.5	-1.7
Romania	1.4	-2.0	-4.3	0.7	1.6	1.3	-1.2	-2.2	-2.3	-1.4	-1.8	-1.7
Sweden	4.3	2.5	2.2	0.9	0.2	0.9	0.6	0.1	0.8	0.1	0.1	0.6
United Kingdom	2.1	-2.0	-3.8	-1.5	-2.8	-2.1	-1.3	-0.7	-0.1	-1.4	-0.5	0.1
EU	1.6	-0.1	-1.3	0.9	0.6	0.5	0.6	0.5	0.4	0.5	0.5	0.4

<sup>1</sup> Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions



Table 41: Structural budget balance, general government<sup>1</sup> (as a percentage of potential GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	:	:	:	-2.7	-2.9	-2.6	-2.5	-2.0	-2.2	-2.7	-2.0	-2.2
Germany	:	:	:	0.1	0.7	0.7	0.7	0.4	0.3	0.6	0.4	0.5
Estonia	:	:	:	-0.6	-0.1	-0.1	0.2	-0.4	-0.2	0.6	-0.2	0.0
Ireland	:	:	:	-3.5	-3.5	-1.6	-1.9	-1.4	-1.0	-1.7	-1.0	-0.6
Greece	:	:	:	2.3	2.3	1.8	3.7	2.3	2.6	2.6	2.7	3.0
Spain	:	:	:	-1.9	-1.8	-2.6	-3.8	-3.6	-3.6	-3.8	-3.8	-3.8
France	:	:	:	-3.4	-3.0	-2.7	-2.5	-2.3	-2.7	-2.5	-2.3	-2.6
Italy	-4.0	:	-3.1	-0.9	-1.2	-1.0	-1.6	-2.0	-2.5	-1.6	-2.2	-2.4
Cyprus	:	:	:	-0.5	3.0	1.7	0.6	-0.7	-0.9	0.2	-1.3	-1.8
Latvia	:	:	:	-0.9	-1.5	-1.6	-0.7	-1.6	-1.6	-1.5	-1.7	-1.6
Lithuania	:	:	:	-2.1	-1.5	-0.6	-1.0	-1.4	-1.5	-0.9	-1.4	-1.5
Luxembourg	:	:	:	2.6	2.5	2.3	2.2	0.4	0.3	1.9	0.4	0.4
Malta	:	:	:	-1.9	-3.4	-2.9	-1.4	-0.7	-0.5	-1.1	-0.7	-0.5
Netherlands	:	:	:	-0.9	-0.6	-1.0	0.2	0.0	0.1	-0.5	-0.2	0.0
Austria	:	:	:	-1.2	-0.7	0.0	-0.9	-0.8	-0.7	-1.0	-0.9	-1.0
Portugal	:	:	-6.3	-2.9	-1.7	-2.2	-2.2	-2.3	-2.6	-2.4	-2.4	-2.7
Slovenia	:	:	:	-1.8	-2.4	-1.8	-1.9	-2.1	-2.6	-2.1	-2.3	-2.2
Slovakia	:	:	:	-1.7	-2.2	-2.3	-2.1	-1.3	-0.8	-2.0	-1.4	-0.7
Finland	:	:	:	-1.2	-1.6	-1.1	-1.2	-1.5	-1.4	-1.3	-1.6	-1.4
Euro area	:	:	:	-1.4	-1.1	-1.0	-1.1	-1.2	-1.4	-1.2	-1.3	-1.3
Bulgaria	:	:	:	-0.2	-1.8	-1.4	-0.3	-0.5	-0.3	-0.8	-0.8	-0.6
Czech Republic	:	:	:	0.2	-0.8	-0.7	0.2	-0.1	-0.1	0.0	-0.4	-0.4
Denmark	:	-0.2	:	-0.9	-0.6	-1.9	-0.6	-0.6	0.0	0.6	-0.8	-0.6
Croatia	:	:	:	-3.2	-3.6	-2.1	-1.4	-2.8	-3.2	-1.8	-2.3	-2.5
Hungary	:	:	:	-1.3	-2.0	-1.7	-2.2	-3.4	-3.6	-2.6	-2.9	-3.1
Poland	:	:	:	-3.3	-2.7	-2.4	-2.6	-3.1	-3.3	-2.8	-3.1	-3.3
Romania	:	:	:	-1.0	-0.6	-0.6	-2.5	-3.9	-4.0	-2.6	-3.4	-3.3
Sweden	:	:	:	0.1	-0.5	0.4	0.3	-0.3	0.3	-0.3	-0.3	0.1
United Kingdom	:	:	:	-4.4	-5.4	-4.5	-3.7	-3.2	-2.6	-3.8	-2.9	-2.3
EU	:	:	:	-1.8	-1.8	-1.6	-1.5	-1.6	-1.6	-1.6	-1.6	-1.5

<sup>1</sup> Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 42: Gross debt, general government (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	110.7	94.1	99.6	105.4	106.5	105.8	106.8	106.5	106.1	107.0	107.1	106.4
Germany	59.0	64.9	75.3	77.5	74.9	71.2	68.2	65.5	62.9	68.1	65.7	63.1
Estonia	5.6	4.7	6.7	10.2	10.7	10.1	9.9	10.1	10.0	9.4	9.5	9.4
Ireland	39.6	26.3	83.9	119.5	105.2	78.6	75.1	73.6	72.6	75.4	73.6	71.9
Greece	102.6	103.7	142.8	177.4	179.7	177.4	179.7	177.2	170.6	181.6	179.1	172.4
Spain	57.4	41.9	61.5	95.4	100.4	99.8	99.7	100.0	99.7	99.5	99.9	100.0
France	59.6	65.2	80.7	92.3	95.3	96.2	96.4	96.7	97.0	96.4	96.8	97.1
Italy	106.4	101.0	114.0	129.0	131.9	132.3	132.8	133.3	133.2	133.0	133.1	133.1
Cyprus	56.1	60.4	59.7	102.2	107.1	107.5	107.4	103.2	99.6	107.1	103.7	100.6
Latvia	12.1	11.7	37.3	39.0	40.7	36.3	39.4	36.5	35.0	40.0	37.2	36.0
Lithuania	21.6	18.0	31.4	38.7	40.5	42.7	40.8	43.5	39.6	40.8	43.3	40.2
Luxembourg	7.0	7.5	18.3	23.5	22.7	22.1	21.0	23.1	23.5	23.2	23.3	23.5
Malta	60.6	67.6	67.3	68.7	64.3	60.8	59.6	58.0	55.6	62.1	59.9	57.2
Netherlands	53.8	46.9	59.6	67.7	67.9	65.1	62.2	60.2	58.3	63.0	61.3	59.3
Austria	65.7	66.1	79.0	81.3	84.4	85.5	83.5	81.3	79.3	83.5	81.1	79.2
Portugal	52.6	65.1	97.8	129.0	130.6	129.0	130.5	128.9	127.1	130.3	129.5	127.8
Slovenia	25.1	25.7	39.1	71.0	80.9	83.1	80.9	78.9	76.7	80.2	78.3	76.6
Slovakia	44.3	35.3	40.0	54.7	53.6	52.5	52.1	51.8	50.0	53.3	52.7	51.5
Finland	42.9	39.5	44.8	56.5	60.2	63.5	63.7	65.6	66.5	65.4	67.1	68.1
Euro area	68.8	67.6	81.8	93.7	94.4	92.6	91.5	90.4	89.2	91.6	90.6	89.4
Bulgaria	66.6	28.8	14.8	17.0	27.0	26.0	29.0	27.3	26.0	29.4	26.3	25.9
Czech Republic	19.0	28.1	37.0	44.9	42.2	40.3	37.8	36.7	35.6	39.5	38.4	37.3
Denmark	:	37.3	41.4	44.0	44.0	39.6	38.3	37.8	36.9	38.9	38.3	38.2
Croatia	:	39.3	56.5	82.2	86.6	86.7	84.1	83.0	81.3	85.0	84.3	82.8
Hungary	56.3	61.3	77.8	76.6	75.7	74.7	73.5	72.3	71.2	73.4	72.5	71.8
Poland	38.6	45.8	51.4	55.7	50.2	51.1	53.6	54.5	55.8	53.4	55.0	55.5
Romania	22.2	16.1	27.5	37.8	39.4	38.0	39.1	40.5	42.3	38.9	40.2	41.5
Sweden	56.1	45.3	37.9	40.4	45.2	43.9	41.0	39.3	37.6	41.6	39.9	38.2
United Kingdom	37.3	39.5	71.3	86.2	88.1	89.0	88.6	88.1	87.0	89.2	88.9	87.5
EU	:	60.0	75.7	87.4	88.5	86.5	85.1	84.8	83.6	86.0	85.1	83.9

Table 43: Gross national saving (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	27.1	27.3	25.0	23.3	23.0	23.4	23.7	24.1	24.3	23.5	23.8	24.1
Germany	22.1	24.3	25.9	26.3	27.3	27.7	27.7	27.4	27.3	28.0	27.8	27.9
Estonia	22.5	24.0	24.5	27.4	26.9	25.3	22.9	22.7	22.8	24.9	25.1	25.4
Ireland	24.1	24.9	16.3	22.0	24.6	31.8	31.1	31.4	31.6	32.3	32.9	33.0
Greece	17.0	14.2	6.7	9.4	9.3	9.9	10.2	11.5	13.4	10.2	11.7	13.5
Spain	22.6	22.7	19.7	20.2	20.4	21.4	22.1	22.3	22.6	22.1	22.3	22.7
France	23.4	22.4	20.7	19.5	19.3	20.4	20.6	20.6	20.9	20.8	20.9	21.1
Italy	20.8	20.5	17.7	17.9	18.8	18.6	19.6	19.4	19.5	19.5	19.5	19.7
Cyprus	18.7	7.1	13.3	8.3	7.9	11.5	10.1	10.4	11.0	12.1	12.6	13.2
Latvia	17.8	20.5	23.6	21.8	21.1	21.3	19.6	17.5	17.0	20.0	19.0	18.3
Lithuania	13.2	16.2	16.6	20.7	22.5	17.7	15.8	15.2	15.5	15.9	15.2	15.7
Luxembourg	31.8	31.2	26.3	24.7	24.7	24.9	24.3	23.9	24.6	25.3	24.9	25.0
Malta	16.4	15.8	18.3	21.0	26.1	28.6	27.9	28.3	29.0	27.5	27.9	28.3
Netherlands	28.1	29.2	28.4	28.5	27.1	27.8	28.0	27.9	28.0	28.2	28.2	28.2
Austria	24.8	26.4	26.2	25.4	26.0	25.9	26.0	26.0	26.3	26.2	26.4	26.7
Portugal	18.7	14.1	11.9	15.4	15.0	15.2	15.1	15.6	16.2	15.3	15.8	16.5
Slovenia	25.0	26.8	22.8	23.3	26.0	25.4	25.4	25.1	25.3	26.5	26.6	26.8
Slovakia	24.7	20.9	20.0	22.5	22.3	23.3	23.2	23.1	23.6	23.3	23.0	23.6
Finland	29.6	28.4	23.3	19.5	19.6	20.0	20.4	20.8	21.2	20.4	21.0	21.7
Euro area	22.9	23.1	21.8	22.0	22.5	23.2	23.5	23.4	23.6	23.7	23.7	24.0
Bulgaria	17.5	15.1	19.8	22.5	21.4	21.5	23.3	22.2	21.6	22.6	21.7	21.4
Czech Republic	27.3	26.1	23.4	23.6	24.6	26.1	26.1	25.7	25.7	25.3	25.2	25.2
Denmark	24.4	26.2	25.1	27.4	28.9	28.9	27.3	27.4	27.7	26.0	26.2	26.5
Croatia	18.7	22.7	20.6	20.7	19.6	23.7	22.1	21.6	21.8	22.2	22.4	22.6
Hungary	20.5	17.2	20.2	24.9	24.9	24.8	25.0	24.3	24.1	23.7	23.2	24.0
Poland	19.1	16.8	17.4	18.5	19.0	20.6	20.0	19.2	19.2	20.7	20.2	20.2
Romania	14.5	15.0	21.2	24.9	24.5	24.4	22.9	22.5	22.7	23.4	23.3	23.5
Sweden	26.9	30.2	29.5	27.6	28.2	28.9	29.8	29.8	30.0	30.1	30.0	30.1
United Kingdom	16.8	16.0	13.1	12.3	12.7	13.1	12.5	12.4	12.9	12.1	12.2	13.3
EU	21.8	21.9	20.7	20.8	21.1	21.7	21.9	21.9	22.1	22.0	22.2	22.5
USA	20.0	17.8	15.6	18.3	19.2	19.1	17.0	16.9	16.5	17.1	17.2	17.2
Japan	29.4	28.4	24.9	24.1	24.7	27.1	27.3	27.7	27.7	25.5	25.8	25.8

Table 44: Gross saving, private sector (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	24.5	25.2	25.4	23.1	22.9	23.2	24.1	23.8	24.1	23.9	23.6	24.0
Germany	21.3	23.8	24.2	23.7	24.1	24.4	24.4	24.3	24.1	24.7	24.7	24.7
Estonia	18.0	17.0	20.6	22.9	21.3	20.3	18.2	18.1	17.9	19.9	20.4	20.5
Ireland	18.7	20.3	21.7	25.8	25.9	30.8	30.0	30.0	30.0	31.1	31.3	31.1
Greece	17.3	16.8	14.0	9.7	10.5	10.5	8.6	10.0	10.4	10.0	9.8	10.1
Spain	19.3	16.8	22.7	24.2	23.9	24.0	24.6	23.8	23.5	24.5	24.0	23.8
France	20.8	21.0	21.0	18.6	18.7	19.8	20.0	19.7	20.1	20.3	19.9	20.2
Italy	19.7	19.6	17.7	17.8	18.5	17.4	18.9	18.7	18.8	18.8	18.8	18.7
Cyprus	18.2	5.3	12.9	9.8	5.0	8.9	7.6	7.8	7.9	9.8	10.3	10.6
Latvia	16.4	17.1	24.5	19.6	19.3	19.4	17.5	16.3	16.2	18.3	17.4	17.0
Lithuania	12.2	13.3	18.9	20.7	21.2	15.5	13.6	13.5	13.9	13.9	13.8	14.3
Luxembourg	22.7	24.5	20.4	19.3	19.0	18.8	18.0	19.1	19.7	19.2	20.2	20.2
Malta	19.3	16.8	19.8	21.5	25.9	27.6	26.1	26.6	27.5	25.4	26.0	26.5
Netherlands	24.6	26.4	27.7	27.5	25.7	26.2	24.5	24.2	24.4	25.2	25.0	25.0
Austria	22.6	24.4	25.0	23.3	23.5	22.9	23.8	23.7	23.7	24.2	24.2	24.2
Portugal	18.1	15.5	15.9	18.2	17.0	16.1	15.9	15.9	16.3	16.5	16.4	16.9
Slovenia	22.9	23.6	22.7	23.5	25.5	23.9	24.6	24.0	23.9	26.2	26.0	25.8
Slovakia	24.1	19.8	21.6	22.6	22.0	21.4	21.4	20.6	20.3	21.3	20.6	20.3
Finland	21.9	21.6	20.4	18.1	18.6	18.8	18.6	19.0	18.9	18.8	19.6	19.7
Euro area	20.9	21.4	22.0	21.4	21.5	21.9	22.1	21.9	22.0	22.4	22.2	22.3
Bulgaria	13.2	9.8	18.0	20.7	20.6	20.3	20.5	19.2	18.7	20.0	18.7	18.2
Czech Republic	24.1	22.2	22.0	21.2	22.6	22.8	22.3	21.9	21.8	22.1	21.9	21.7
Denmark	20.9	20.2	22.8	24.3	22.8	25.9	24.6	24.9	24.7	23.0	24.5	24.4
Croatia		18.8	20.2	21.4	20.4	23.6	20.6	20.4	20.2	20.9	20.7	20.5
Hungary	19.5	19.0	20.8	24.2	23.1	21.3	22.5	21.3	21.0	20.8	19.4	20.1
Poland	19.6	17.0	17.9	19.1	18.8	19.4	19.3	18.8	19.0	19.9	19.6	19.9
Romania	14.2	11.3	21.2	22.9	22.3	21.3	21.9	22.9	23.4	22.3	22.7	22.7
Sweden	21.9	24.9	25.1	24.7	25.3	24.4	25.1	25.6	25.5	25.7	25.6	25.6
United Kingdom	14.5	16.3	17.2	15.1	15.4	14.4	12.8	12.3	12.6	12.5	11.9	12.7
EU		20.4	21.2	20.6	20.6	20.6	20.7	20.5	20.6	20.8	20.8	20.9
USA	17.8	18.4	21.5	20.3	20.8	20.4	18.8	19.0	19.2	18.7	18.4	18.2
Japan	28.8	28.6	28.5	27.1	25.9	27.3	27.5	27.9	28.0	27.1	27.1	27.2

Table 45: Saving rate of households (1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	16.5	15.4	15.1	12.3	12.1	11.7	12.6	12.2	12.2	12.7	12.1	12.2
Germany	15.6	16.3	16.7	16.3	16.7	17.0	17.1	17.0	17.0	17.3	17.2	16.9
Estonia	4.6	-2.2	9.8	6.2	9.4	8.8	9.9	9.9	10.6	9.1	9.7	9.8
Ireland		7.7	11.6	10.3	10.9	10.7	9.8	9.7	9.6	10.7	10.8	10.8
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	10.6	9.1	10.2	9.6	9.0	8.2	8.3	8.3	8.2	8.4	8.4	8.4
France	15.0	14.8	15.2	14.0	14.1	14.1	14.2	14.0	14.1	14.3	14.1	14.1
Italy	14.3	14.5	11.8	11.0	11.1	10.4	11.0	11.1	11.5	10.7	11.0	11.3
Cyprus	6.0	8.2	6.1	-3.3	-7.9	-5.7	-3.7	-2.3	-0.8	-2.5	-1.3	-0.7
Latvia	-0.7	1.2	4.4	-4.5	-3.5	-2.2	-1.5	-1.5	-1.6	0.3	1.0	1.2
Lithuania	5.1	3.1	3.7	2.1	-0.6	-1.9	-2.4	-1.8	-0.5	-0.9	0.4	1.4
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	13.3	12.2	13.1	14.1	13.1	12.7	12.8	12.5	12.4	13.4	13.2	12.8
Austria	15.3	15.6	15.0	12.6	12.6	13.0	14.0	13.1	12.3	14.1	13.2	12.3
Portugal	11.2	8.8	8.3	7.8	5.2	4.4	4.1	3.7	3.6	4.5	4.3	4.1
Slovenia	12.9	14.8	13.4	13.4	13.3	14.8	15.1	13.7	12.7	17.2	16.0	15.5
Slovakia	10.5	6.5	6.7	5.9	7.2	8.8	9.6	8.7	8.6	9.6	8.5	8.3
Finland	9.3	8.0	8.7	8.6	7.2	6.7	6.1	5.1	4.4	6.4	6.0	5.5
Euro area		13.5	13.2	12.5	12.5	12.3	12.5	12.4	12.4	12.8	12.7	12.6
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	11.2	11.2	11.9	10.9	11.8	11.8	11.6	11.3	11.2	11.9	11.6	11.2
Denmark	5.1	6.1	7.1	8.8	5.2	10.5	11.4	12.7	12.0	10.7	13.8	13.9
Croatia	:	:	:	:	:	:	:	:	:	:	:	:
Hungary	11.7	9.0	8.6	9.8	10.9	9.6	14.2	8.2	5.5	8.6	6.5	6.4
Poland	13.7	6.4	3.4	2.5	2.1	1.8	3.1	2.3	2.1	2.8	2.4	2.5
Romania	-2.5	-11.1	-6.5	13.3	14.5	15.5	16.7	18.7	21.1	-9.1	-6.8	-4.8
Sweden	7.7	9.8	15.6	17.7	18.3	18.7	19.0	18.8	18.4	18.6	18.0	17.2
United Kingdom	9.1	7.0	8.6	6.7	6.8	6.5	5.5	4.3	3.7	5.7	4.5	4.2
EU		11.5	11.6	10.8	10.3	10.1	10.3	10.0	9.9	10.4	10.3	10.1
USA	10.0	9.5	11.7	10.6	11.2	11.4	11.9	11.6	11.6	11.1	10.8	10.5
Japan	15.3	10.5	10.2	7.1	6.6	7.5	8.7	9.4	9.5	8.9	9.2	9.0

Table 46: Gross saving, general government (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	2.6	2.1	-0.4	0.1	0.1	0.1	-0.4	0.3	0.2	-0.4	0.2	0.1
Germany	0.9	0.5	1.7	2.7	3.2	3.3	3.4	3.1	3.2	3.3	3.1	3.2
Estonia	4.5	7.0	4.0	4.5	5.6	5.0	4.7	4.6	4.9	5.0	4.7	4.9
Ireland	5.4	4.7	-5.3	-3.8	-1.3	1.0	1.1	1.4	1.6	1.2	1.7	1.9
Greece	-0.3	-2.6	-7.2	-0.3	-1.3	-0.6	1.5	1.5	3.0	0.2	1.9	3.4
Spain	3.3	5.9	-3.1	-4.0	-3.5	-2.7	-2.5	-1.5	-0.9	-2.4	-1.7	-1.1
France	2.5	1.4	-0.4	0.8	0.7	0.6	0.5	0.9	0.9	0.6	1.0	1.0
Italy	1.1	0.8	0.0	0.1	0.3	1.2	0.7	0.7	0.8	0.7	0.8	1.0
Cyprus	0.4	1.8	0.4	-1.5	3.0	2.6	2.5	2.6	3.1	2.4	2.3	2.6
Latvia	1.4	3.5	-0.9	2.2	1.8	1.9	2.1	1.2	0.9	1.7	1.6	1.3
Lithuania	1.1	2.9	-2.3	0.0	1.4	2.3	2.2	1.7	1.6	2.0	1.3	1.3
Luxembourg	9.0	6.7	5.9	5.3	5.8	6.1	6.4	4.8	4.9	6.1	4.7	4.8
Malta	-2.8	-1.0	-1.4	-0.5	0.2	1.0	1.8	1.7	1.5	2.0	1.9	1.7
Netherlands	3.5	2.7	0.7	1.0	1.3	1.6	3.6	3.7	3.6	2.9	3.2	3.2
Austria	2.2	2.0	1.1	2.1	2.5	3.0	2.2	2.3	2.5	2.0	2.1	2.5
Portugal	0.7	-1.3	-4.0	-2.8	-2.0	-0.9	-0.8	-0.3	-0.1	-1.2	-0.6	-0.4
Slovenia	2.1	3.2	0.2	-0.2	0.5	1.5	0.8	1.1	1.3	0.3	0.6	1.0
Slovakia	0.7	1.2	-1.6	-0.1	0.3	2.0	1.8	2.5	3.3	1.9	2.4	3.3
Finland	7.7	6.8	3.0	1.4	1.0	1.2	1.8	1.7	2.3	1.6	1.5	1.9
Euro area	2.0	1.7	-0.2	0.6	0.9	1.3	1.4	1.5	1.7	1.3	1.5	1.7
Bulgaria	4.4	5.4	1.8	1.8	0.8	1.2	2.8	3.0	3.0	2.6	3.1	3.2
Czech Republic	3.3	3.9	1.4	2.4	2.1	3.3	3.8	3.8	3.9	3.2	3.2	3.4
Denmark	3.5	6.0	2.3	3.1	6.1	3.1	2.7	2.5	2.9	3.0	1.7	2.2
Croatia		3.8	0.4	-0.7	-0.8	0.1	1.6	1.3	1.6	1.3	1.6	2.0
Hungary	1.0	-1.9	-0.6	0.7	1.7	3.5	2.6	3.0	3.2	2.9	3.9	3.9
Poland	-0.5	-0.1	-0.5	-0.6	0.2	1.1	0.7	0.4	0.2	0.8	0.6	0.3
Romania	0.3	3.7	0.0	2.1	2.2	3.1	1.0	-0.4	-0.8	1.1	0.6	0.8
Sweden	5.0	5.3	4.4	2.9	2.9	4.5	4.7	4.2	4.5	4.4	4.4	4.5
United Kingdom	2.3	-0.2	-4.1	-2.7	-2.7	-1.3	-0.4	0.1	0.3	-0.4	0.2	0.6
EU		1.5	-0.5	0.2	0.5	1.0	1.2	1.4	1.6	1.2	1.4	1.6
USA	2.2	-0.6	-5.9	-2.1	-1.6	-1.2	-1.8	-2.0	-2.7	-1.6	-1.2	-1.0
Japan	0.5	-0.2	-3.6	-3.0	-1.2	-0.2	-0.2	-0.2	-0.2	-1.5	-1.4	-1.4

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	5.1	4.7	2.0	0.8	5.1	4.3	5.5	3.9	4.3	3.7	3.9	4.4
Germany	7.3	8.3	2.2	1.9	4.1	5.2	2.5	2.9	3.2	2.6	2.8	4.2
Estonia	3.0	13.8	5.4	2.3	3.1	-0.6	3.7	3.1	3.4	2.7	3.3	3.5
Ireland	15.8	5.0	2.3	3.1	14.4	34.4	2.3	3.8	4.2	2.8	4.2	4.8
Greece	8.1	7.2	-2.2	1.5	7.8	3.4	0.7	3.9	4.7	-4.0	3.6	4.7
Spain	6.3	4.5	0.9	4.3	4.2	4.9	4.3	4.0	4.3	6.1	4.5	4.4
France	6.1	3.2	1.2	1.9	3.3	6.1	1.0	3.1	4.0	1.0	3.1	4.0
Italy	2.6	4.5	-0.9	0.7	2.9	4.3	1.5	3.0	3.2	1.7	2.8	3.3
Cyprus	3.1	1.8	0.5	2.1	4.2	0.0	6.5	4.6	3.8	5.5	4.6	3.9
Latvia	5.1	12.3	4.5	1.1	3.9	2.6	2.0	2.6	3.1	2.0	2.6	3.1
Lithuania	7.5	9.8	8.7	9.6	3.5	-0.4	2.6	3.4	3.7	4.1	2.8	3.4
Luxembourg	9.1	8.2	1.1	6.3	12.1	12.8	3.8	4.7	4.9	2.7	3.9	4.3
Malta	4.8	5.8	6.8	1.0	5.1	4.3	1.5	3.7	3.9	2.0	3.7	3.9
Netherlands	6.0	5.7	2.1	2.1	4.5	5.0	3.3	3.4	3.2	3.4	3.5	3.6
Austria	7.5	6.1	1.3	0.5	2.3	3.6	2.7	2.9	3.1	2.7	2.9	3.2
Portugal	5.0	5.5	1.6	7.0	4.3	6.1	3.9	4.1	4.2	2.8	3.7	4.1
Slovenia	7.4	11.0	0.6	3.1	5.7	5.6	6.4	4.3	4.7	6.2	4.0	4.6
Slovakia	6.4	17.9	4.0	6.7	3.7	7.0	4.1	5.1	6.6	5.2	5.2	6.4
Finland	8.1	6.6	-1.4	1.1	-2.7	2.0	0.8	2.0	3.3	-0.7	1.8	3.0
Euro area	6.4	5.9	1.5	2.1	4.5	6.5	2.7	3.3	3.7	2.7	3.3	4.1
Bulgaria	-9.1	13.2	2.9	9.6	3.1	5.7	5.1	4.4	4.5	5.0	4.5	4.6
Czech Republic	7.9	16.2	4.2	0.2	8.7	7.7	3.3	4.5	4.4	5.1	4.4	4.7
Denmark	7.1	4.6	1.0	1.6	3.6	1.8	0.2	2.7	3.3	0.5	3.0	3.5
Croatia	6.7	6.1	-1.3	3.1	7.6	10.0	4.9	4.7	4.3	6.0	3.5	4.0
Hungary	13.2	14.4	2.0	4.2	9.8	7.7	6.7	5.0	5.9	6.7	5.1	6.4
Poland	8.3	10.8	5.1	6.1	6.7	7.7	7.3	6.0	6.4	8.3	6.3	6.5
Romania	12.3	9.8	3.6	19.7	8.0	5.4	4.7	5.0	5.4	5.2	5.2	5.9
Sweden	5.9	6.9	0.9	-0.8	5.3	5.6	2.8	3.6	3.8	2.3	3.4	3.8
United Kingdom	4.0	5.3	0.8	1.1	1.5	6.1	1.7	3.5	2.9	3.1	3.3	3.8
EU	6.1	6.2	1.6	2.2	4.4	6.4	2.8	3.5	3.8	3.0	3.5	4.2
USA	1.1	7.2	3.6	3.5	4.3	0.1	0.4	2.1	3.4	0.3	3.6	3.7
Japan	2.4	10.0	-0.6	0.8	9.3	3.0	0.2	1.0	1.0	-1.0	0.8	1.0

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	4.2	4.9	2.3	0.3	5.9	4.3	4.7	3.6	4.3	2.9	3.9	4.4
Germany	5.3	7.3	2.2	3.1	4.0	5.5	3.4	4.1	4.3	2.8	3.9	5.4
Estonia	5.1	16.1	2.0	3.2	2.2	-1.4	5.4	4.3	4.1	4.9	4.2	4.0
Ireland	15.8	6.0	0.8	1.1	15.3	21.7	1.5	4.0	4.5	4.9	4.4	4.7
Greece	9.7	8.2	-8.5	-2.4	7.6	0.3	1.5	3.2	4.2	-2.8	3.0	4.2
Spain	8.8	7.9	-5.2	-0.5	6.5	5.6	3.2	3.5	4.3	5.8	4.3	4.1
France	7.6	4.9	1.3	2.1	4.7	6.6	3.7	3.1	4.8	2.8	3.8	4.9
Italy	5.2	4.4	-2.7	-2.4	3.3	6.0	2.1	3.9	4.3	2.4	3.8	4.7
Cyprus	2.3	4.7	-0.9	-4.8	4.6	2.1	5.1	4.7	3.6	5.7	4.7	3.6
Latvia	6.2	17.6	-2.5	-0.2	0.5	2.1	3.6	4.1	4.5	3.1	4.1	4.5
Lithuania	6.9	14.0	3.1	9.3	3.3	6.2	2.2	5.1	3.5	0.9	4.5	3.2
Luxembourg	8.6	8.4	2.3	5.3	13.1	14.0	3.3	4.7	4.7	2.4	3.9	4.4
Malta	2.8	7.0	6.3	-0.2	1.5	7.7	0.5	3.6	3.7	2.1	4.1	2.4
Netherlands	6.4	5.5	1.9	1.0	4.2	5.8	3.8	3.9	3.8	3.7	4.4	4.2
Austria	5.0	5.7	1.3	0.7	1.3	3.4	3.7	2.8	2.6	3.3	2.7	2.5
Portugal	5.9	4.4	-2.6	4.7	7.8	8.2	3.9	4.3	4.3	3.3	4.1	4.3
Slovenia	6.8	11.3	-1.9	2.1	4.2	4.6	6.1	4.9	5.5	6.0	4.5	5.4
Slovakia	5.0	14.6	1.6	5.6	4.4	8.1	2.2	5.1	6.5	4.0	5.6	6.0
Finland	6.6	7.5	0.6	0.5	-1.3	3.1	1.3	1.5	2.5	1.2	2.3	2.6
Euro area	6.5	6.3	0.3	1.4	4.9	6.4	3.3	3.8	4.3	3.2	4.0	4.7
Bulgaria	4.2	18.8	-1.1	4.3	5.2	5.4	3.2	4.3	4.6	3.3	4.3	4.6
Czech Republic	8.1	14.2	2.9	0.1	10.1	8.2	2.5	4.4	4.4	4.4	4.3	4.8
Denmark	6.4	7.3	0.5	1.5	3.6	1.3	1.3	3.4	3.9	1.3	3.4	4.1
Croatia	4.1	7.3	-4.3	3.1	4.5	9.4	6.1	5.2	5.8	6.6	4.6	5.0
Hungary	14.5	12.7	0.1	4.5	10.9	6.1	6.4	6.8	6.7	6.2	6.6	7.2
Poland	6.1	11.5	3.0	1.7	10.0	6.6	7.9	6.4	6.9	8.2	7.0	6.8
Romania	13.5	21.1	-0.7	8.8	8.7	9.2	10.9	9.2	7.3	11.2	8.1	7.2
Sweden	4.9	6.6	1.6	-0.1	6.3	5.5	3.9	3.7	3.5	4.1	3.8	3.5
United Kingdom	7.2	4.9	0.0	3.4	2.5	5.5	2.8	3.0	1.1	3.6	1.7	1.0
EU	6.7	6.6	0.4	1.7	5.0	6.2	3.5	3.9	4.1	3.6	3.9	4.3
USA	7.0	6.2	0.4	1.1	4.4	4.6	1.1	4.8	6.3	1.2	4.1	4.0
Japan	1.4	4.9	1.0	3.3	8.3	0.1	-2.0	0.9	0.7	-0.7	1.8	0.9

Table 49: Merchandise trade balance<sup>1</sup> (fob-fob, as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	2.9	2.9	-0.9	-0.7	-0.7	0.3	0.5	0.3	0.4	0.0	-0.5	-0.5
Germany	4.2	6.8	6.5	7.5	7.7	8.7	8.9	8.4	8.2	9.0	8.8	8.6
Estonia	-17.4	-16.7	-6.0	-5.2	-5.1	-4.3	-4.1	-4.9	-5.3	-3.5	-3.9	-4.2
Ireland	25.0	18.6	22.0	19.1	21.1	43.2	40.9	40.5	40.6	41.8	42.0	43.1
Greece	-14.8	-16.3	-13.9	-9.8	-10.8	-9.1	-9.0	-9.5	-9.5	-8.6	-8.9	-9.0
Spain		-7.3	-4.6	-1.4	-2.2	-2.0	-1.5	-1.7	-1.9	-1.9	-2.1	-2.2
France	0.8	-0.7	-2.2	-2.0	-1.7	-1.0	-1.3	-1.5	-1.6	-1.2	-1.5	-1.7
Italy	1.5	0.1	-0.3	2.2	2.9	3.2	3.5	3.0	2.7	3.7	3.4	3.1
Cyprus	-24.7	-24.6	-22.6	-16.2	-16.0	-18.0	-18.7	-20.8	-21.2	-19.7	-21.2	-21.6
Latvia	-16.7	-22.0	-11.8	-11.2	-9.3	-8.4	-7.4	-9.3	-10.2	-7.5	-8.6	-9.3
Lithuania			-6.7	-2.6	-2.6	-5.3	-5.3	-7.0	-7.0	-3.9	-5.5	-5.1
Luxembourg		-7.8	-2.6	-1.0	1.3	3.4	3.5	3.0	3.0	3.1	2.9	3.2
Malta	-14.7	-15.7	-17.6	-13.4	-12.3	-19.3	-18.0	-18.6	-18.7	-22.0	-22.5	-20.9
Netherlands	7.3	9.4	9.8	11.5	11.5	11.3	10.9	10.4	9.7	10.7	10.3	10.0
Austria	-1.2	0.3	-0.6	-0.5	0.2	0.6	0.4	0.1	0.2	0.6	0.5	0.7
Portugal	-11.6	-10.7	-9.3	-4.0	-4.7	-4.3	-4.1	-4.5	-4.6	-3.6	-3.4	-3.3
Slovenia	-4.5	-3.5	-2.1	0.8	2.9	3.9	4.9	4.1	3.5	4.7	4.3	3.8
Slovakia	-9.8	-4.5	-0.1	3.7	3.4	2.3	3.1	2.4	2.4	3.0	2.7	3.0
Finland	9.3	5.4	1.1	0.1	0.7	1.1	1.1	0.9	1.1	0.2	0.0	0.0
Euro area	1.7	1.3	1.1	2.7	3.0	4.2	4.2	3.9	3.7	4.2	4.0	3.9
Euro area, adjusted <sup>2</sup>		0.5	0.4	2.1	2.4	3.4	3.4	3.1	2.9	3.5	3.3	3.2
Bulgaria				-7.0	-6.5	-5.8	-4.7	-5.1	-5.4	-4.7	-5.1	-5.3
Czech Republic	-7.1	-1.2	1.6	4.1	5.1	4.5	5.5	5.3	5.4	5.1	5.3	5.4
Denmark	3.5	2.2	3.1	3.7	3.5	4.2	4.8	4.8	4.8	3.3	3.5	3.6
Croatia		-21.5	-16.1	-15.1	-14.8	-15.2	-15.2	-16.4	-17.2	-15.4	-15.6	-16.2
Hungary	-7.0	-3.1	2.0	3.3	2.3	4.0	5.5	4.3	3.9	4.7	3.7	3.4
Poland	-5.9	-3.2	-3.5	-0.1	-0.8	0.5	0.9	0.4	0.1	0.8	0.4	0.0
Romania	-5.6	-10.4	-8.4	-4.0	-4.3	-4.9	-6.2	-7.3	-7.7	-6.4	-7.1	-7.6
Sweden	7.7	7.1	4.3	3.2	3.1	3.0	3.1	3.0	3.1	2.7	2.6	2.6
United Kingdom	-3.2	-5.1	-6.1	-6.9	-6.7	-6.4	-7.4	-8.2	-7.9	-8.0	-8.3	-7.8
EU	0.7	0.1	-0.1	1.1	1.2	2.0	2.1	1.7	1.6	2.0	1.8	1.8
EU, adjusted <sup>2</sup>		-0.8	-0.9	0.3	0.3	1.0	1.1	0.7	0.6	1.0	0.9	0.9
USA	-3.8	-5.7	-4.7	-4.4	-4.5	-4.4	-4.1	-4.5	-4.9	-4.2	-4.4	-4.6
Japan	2.4	2.4	0.6	-1.7	-2.0	-0.1	0.7	0.9	1.0	0.0	-0.1	0.0

<sup>1</sup> See note 7 on concepts and sources.<sup>2</sup> See note 8 on concepts and sources.Table 50: Current-account balance<sup>1</sup> (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	4.7	4.2	1.5	1.1	-0.1	0.2	1.0	1.2	1.3	0.6	0.6	0.6
Germany	-0.4	4.6	6.1	6.9	7.5	8.5	8.7	8.3	8.0	9.0	8.7	8.5
Estonia	-7.9	-12.6	-0.9	-0.2	1.0	2.1	0.6	0.3	0.0	1.8	1.6	1.5
Ireland	0.4	-3.0	-3.3	2.1	1.7	10.2	9.6	9.5	9.3	7.9	7.7	7.4
Greece	-8.1	-11.4	-10.8	-2.2	-2.6	0.0	-0.7	-0.7	-0.6	0.0	0.2	0.3
Spain	-3.3	-7.2	-4.2	1.5	1.0	1.3	1.8	1.7	1.6	1.7	1.5	1.5
France	1.9	-0.1	-2.0	-2.9	-3.2	-2.0	-2.3	-2.6	-2.7	-2.1	-2.3	-2.6
Italy	0.4	-1.0	-2.3	1.0	1.9	1.6	2.7	2.1	1.8	2.8	2.5	2.1
Cyprus	-1.6	-15.8	-8.9	-4.9	-4.4	-3.0	-1.6	-2.1	-2.3	-2.8	-3.3	-3.4
Latvia	-8.1	-15.3	-1.9	-2.1	-2.0	-0.8	-0.1	-2.5	-3.3	0.0	-1.2	-1.9
Lithuania	-7.6	-9.3	-3.2	1.4	3.8	-2.2	-1.6	-2.9	-2.6	0.1	-1.2	-0.7
Luxembourg	9.4	9.9	6.7	5.6	5.1	5.2	5.3	4.9	5.8	5.6	5.6	5.8
Malta	-4.5	-4.6	-2.2	3.1	9.6	5.2	5.0	5.3	6.0	2.0	1.7	3.7
Netherlands	5.2	7.9	7.6	10.2	8.5	8.5	8.0	7.4	7.1	8.5	8.0	7.7
Austria	-0.6	2.2	2.6	1.6	2.6	2.5	2.4	2.2	2.4	2.8	2.9	3.3
Portugal	-9.3	-9.4	-8.1	0.7	-0.3	-0.3	0.3	0.4	0.6	0.5	0.8	1.2
Slovenia	-2.2	-2.5	-0.9	3.6	6.2	5.4	6.3	5.5	5.0	7.4	7.0	6.4
Slovakia	-6.1	-7.1	-3.9	1.5	0.6	0.1	1.2	1.2	1.5	0.6	0.1	0.6
Finland	7.1	4.4	0.6	-1.9	-1.3	-0.7	-0.5	-0.6	-0.5	-0.8	-0.9	-0.7
Euro area	0.3	0.5	0.5	2.4	2.5	3.3	3.6	3.2	3.1	3.7	3.5	3.3
Euro area, adjusted <sup>2</sup>		0.1	0.1	2.2	2.4	3.0	3.3	2.9	2.8	3.5	3.2	3.1
Bulgaria	-2.3	-12.8	-6.5	1.2	0.0	0.4	2.6	1.4	0.8	2.0	1.0	0.6
Czech Republic	-3.2	-3.9	-4.2	-1.1	-1.2	-1.2	-0.2	-0.5	-0.4	-0.8	-0.7	-0.7
Denmark	2.6	3.4	5.2	7.8	8.9	9.2	7.3	7.0	7.0	6.5	6.4	6.3
Croatia	-3.5	-5.9	-2.9	1.6	1.1	5.0	2.8	1.8	1.3	3.0	2.4	1.8
Hungary	-6.9	-8.3	-0.9	3.8	2.0	3.1	5.4	3.7	3.2	4.1	3.1	4.1
Poland	-3.7	-4.3	-4.6	-0.5	-1.4	0.1	0.2	-0.4	-0.8	0.8	0.2	-0.1
Romania	-4.4	-9.2	-5.9	-0.6	-0.1	-0.6	-2.2	-2.9	-3.1	-2.2	-2.6	-2.8
Sweden	4.8	7.7	6.5	5.1	4.8	4.7	4.8	4.8	4.9	5.0	4.9	4.9
United Kingdom	-1.8	-1.9	-2.9	-4.4	-4.7	-4.3	-5.0	-4.8	-3.9	-5.6	-4.9	-3.3
EU	-0.1	0.0	0.0	1.4	1.4	2.0	2.1	1.9	1.9	2.1	2.1	2.2
EU, adjusted <sup>2</sup>		-0.7	-0.5	1.1	0.9	1.1	1.3	1.1	1.1	1.5	1.5	1.6
USA	-2.8	-4.8	-3.6	-2.7	-2.1	-2.2	-2.5	-3.0	-3.5	-2.5	-2.6	-2.7
Japan	2.5	3.8	2.5	0.9	0.8	3.2	3.9	4.1	4.2	3.7	3.7	3.7

<sup>1</sup> See note 7 on concepts and sources.<sup>2</sup> See note 8 on concepts and sources.

Table 51: Net lending (+) or net borrowing (-) of the nation<sup>1</sup> (as a percentage of GDP, 1998-2018)

1.2.2017

	5-year averages						Winter 2017 forecast			Autumn 2016 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	4.6	4.2	1.5	1.0	-0.4	0.2	1.0	1.3	1.4	0.5	0.7	0.7
Germany	-0.5	4.6	6.0	6.8	7.5	8.4	8.7	8.3	8.0	8.9	8.6	8.4
Estonia	-7.5	-11.5	2.1	2.4	2.1	4.2	2.0	1.9	1.6	3.2	3.1	3.0
Ireland	1.1	-2.8	-3.2	1.6	-1.8	9.7	10.0	9.9	9.7	8.2	8.0	7.7
Greece	-6.5	-9.8	-9.2	0.2	-0.6	2.1	1.3	1.1	1.2	1.9	2.1	2.1
Spain	-2.3	-6.4	-3.8	2.1	1.5	2.0	2.5	2.2	2.0	2.6	2.4	2.4
France	1.9	-0.2	-2.0	-2.8	-3.2	-2.0	-2.1	-2.4	-2.4	-1.8	-2.1	-2.3
Italy	0.5	-0.9	-2.2	1.0	2.1	1.8	2.9	2.4	1.9	2.9	2.7	2.3
Cyprus	-1.4	-15.2	-8.6	-3.5	-3.5	-2.7	-1.3	-1.8	-1.9	-2.5	-2.9	-3.1
Latvia	-7.8	-14.1	0.3	0.4	1.2	2.0	1.8	-0.3	-0.8	2.0	1.0	0.2
Lithuania	-7.6	-8.1	0.0	4.5	6.5	0.8	-0.5	-1.3	-0.8	1.2	0.5	1.1
Luxembourg		9.8	6.0	3.8	2.9	4.1	5.8	5.5	6.4	6.1	6.1	6.4
Malta	-4.1	-2.8	-0.8	4.9	11.2	7.0	6.7	6.9	7.4	3.7	3.4	5.2
Netherlands	5.1	7.6	7.3	10.0	8.4	3.5	7.7	7.2	7.0	8.1	7.8	7.6
Austria	-0.8	2.1	2.5	1.5	2.4	2.0	2.3	2.0	2.3	2.7	2.7	2.8
Portugal	-7.5	-7.9	-6.7	2.3	1.0	0.8	1.3	1.5	1.7	1.6	2.0	2.3
Slovenia	-2.3	-2.7	-0.3	4.1	6.6	6.4	6.5	5.8	5.5	7.7	7.5	7.1
Slovakia	-6.6	-7.0	-2.7	3.1	1.6	2.2	1.1	1.5	1.8	0.3	0.3	0.8
Finland	7.1	4.5	0.7	-1.8	-1.2	-0.7	-0.4	-0.4	-0.4	-0.7	-0.6	-0.4
Euro area		0.6	0.6	2.6	2.6	3.2	3.8	3.5	3.3	3.9	3.7	3.5
Euro area, adjusted <sup>2</sup>		0.2	0.3	2.3	2.4	2.8	3.5	3.2	3.0	3.7	3.5	3.3
Bulgaria	-2.3	-12.7	-5.5	2.3	2.2	-1.5	0.9	-0.1	-0.6	0.3	-0.5	-0.8
Czech Republic	-3.0	-3.8	-2.6	1.1	0.5	1.9	1.5	1.2	1.2	1.2	1.2	1.2
Denmark	2.7	3.4	5.2	7.7	8.7	8.8	6.9	6.7	6.7	6.7	6.4	6.3
Croatia	-3.5	-5.9	-2.9	1.6	1.1	5.5	3.8	2.9	2.4	3.9	3.5	3.1
Hungary	-6.8	-7.9	1.0	7.4	5.8	7.8	7.0	6.5	6.6	6.9	6.1	7.7
Poland	-3.7	-3.9	-3.1	1.5	0.3	2.4	2.1	1.7	1.7	2.3	2.1	2.1
Romania	-4.1	-8.6	-5.3	1.5	2.5	1.8	-1.5	-1.5	-1.3	-0.8	-0.5	-0.6
Sweden	4.5	7.5	6.4	4.9	4.7	4.5	4.5	4.5	4.6	4.6	4.5	4.6
United Kingdom	-1.8	-1.9	-2.9	-4.4	-4.7	-4.3	-5.1	-4.9	-4.0	-5.6	-5.0	-3.4
EU		0.1	0.1	1.7	1.5	2.0	2.3	2.2	2.2	2.4	2.4	2.5
EU, adjusted <sup>2</sup>		-0.6	-0.4	1.3	1.1	1.1	1.5	1.4	1.4	1.7	1.8	1.9
USA	-2.8	-4.8	-3.6	-2.7	-2.1	-2.2	-2.5	-3.0	-3.5	-2.5	-2.6	-2.7
Japan	2.3	3.7	2.5	0.7	0.7	3.1	3.8	4.0	4.1	3.7	3.6	3.7

<sup>1</sup> See note 7 on concepts and sources.<sup>2</sup> See note 8 on concepts and sources.Table 52: Current-account balance<sup>1</sup> (in billions of euro, 2010-18)

1.2.2017

							Winter 2017 forecast			Autumn 2016 forecast		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	13.5	0.9	5.9	4.2	-0.5	0.7	4.1	5.4	5.7	2.5	2.4	2.6
Germany	148.2	167.3	197.0	194.0	219.3	257.1	272.4	267.7	267.7	281.3	280.9	283.6
Estonia	0.3	0.2	-0.3	0.0	0.2	0.4	0.1	0.1	0.0	0.4	0.4	0.3
Ireland	-2.0	-2.8	-4.6	3.8	3.2	26.2	25.7	26.6	27.1	21.0	21.5	21.6
Greece	-25.6	-21.3	-8.1	-4.0	-4.6	0.0	-1.2	-1.3	-1.1	-0.1	0.4	0.6
Spain	-42.0	-35.3	-4.6	15.0	10.4	14.3	19.6	19.3	19.7	18.7	17.4	18.1
France	-34.9	-46.0	-61.2	-60.4	-68.3	-42.9	-52.0	-59.3	-63.4	-45.7	-53.1	-60.4
Italy	-54.8	-49.3	-5.8	15.4	30.5	26.6	45.8	35.8	31.1	46.1	41.9	36.8
Cyprus	-2.2	-0.8	-1.2	-0.9	-0.8	-0.5	-0.3	-0.4	-0.4	-0.5	-0.6	-0.6
Latvia	0.4	-0.6	-0.8	-0.5	-0.5	-0.2	0.0	-0.6	-0.9	0.0	-0.3	-0.5
Lithuania	-0.1	-1.2	-0.3	0.5	1.4	-0.8	-0.6	-1.2	-1.1	0.1	-0.5	-0.3
Luxembourg	2.7	2.6	2.6	2.6	2.5	2.7	2.9	2.8	3.5	3.0	3.2	3.5
Malta	-0.3	0.0	0.1	0.2	0.8	0.5	0.5	0.6	0.7	0.2	0.2	0.4
Netherlands	48.3	56.9	65.6	66.7	56.5	57.4	55.8	52.7	51.8	58.3	56.7	56.0
Austria	9.3	5.8	5.4	5.2	8.4	8.4	8.6	8.1	9.0	9.9	10.4	12.2
Portugal	-18.5	-9.6	-3.4	1.3	-0.4	-0.5	0.5	0.8	1.2	0.9	1.6	2.3
Slovenia	-0.2	0.0	0.8	1.3	2.3	2.1	2.5	2.3	2.2	3.0	2.9	2.8
Slovakia	-3.2	-3.9	0.3	1.1	0.5	0.1	1.0	1.0	1.3	0.5	0.0	0.5
Finland	2.7	-2.9	-3.8	-3.8	-2.7	-1.5	-1.0	-1.3	-1.2	-1.8	-1.9	-1.4
Euro area	41.5	59.9	183.5	241.7	258.2	349.9	384.2	358.9	352.8	397.7	383.5	378.0
Euro area, adjusted <sup>2</sup>	23.5	22.8	125.8	216.0	241.2	316.6	350.9	325.7	319.5	372.0	357.9	352.3
Bulgaria	-0.7	0.2	-0.4	0.5	0.0	0.2	1.2	0.7	0.4	0.9	0.5	0.3
Czech Republic	-8.1	-7.6	-3.6	-1.7	-1.9	-2.0	-0.3	-0.9	-0.8	-1.4	-1.3	-1.3
Denmark	16.0	16.3	16.0	20.1	23.6	24.9	20.1	20.0	20.5	17.7	17.9	18.3
Croatia	-0.4	-0.3	0.2	0.7	0.5	2.2	1.3	0.9	0.6	1.4	1.1	0.9
Hungary	0.3	0.9	1.8	3.9	2.1	3.4	6.1	4.5	4.2	4.7	3.8	5.3
Poland	-17.5	-18.1	-12.8	-2.0	-5.6	0.6	0.8	-2.0	-3.6	3.4	1.0	-0.5
Romania	-5.7	-5.8	-5.6	-0.9	-0.2	-1.0	-3.8	-5.3	-5.9	-3.7	-4.6	-5.4
Sweden	24.6	21.3	24.1	22.2	20.9	20.9	22.4	23.4	25.1	23.4	23.3	24.6
United Kingdom	-50.2	-33.5	-75.8	-90.0	-105.4	-110.5	-117.9	-111.4	-94.0	-129.4	-108.0	-75.6
EU	-0.4	33.3	127.4	194.5	192.1	288.5	314.2	288.8	299.4	314.7	317.2	344.5
EU, adjusted <sup>2</sup>	-44.0	-30.8	82.2	151.6	130.9	167.2	192.8	167.4	178.0	222.2	224.7	252.1
USA	-289.7	-317.5	-358.3	-336.2	-275.8	-353.4	-418.3	-536.3	-669.9	-420.0	-451.3	-495.8
Japan	166.8	93.7	46.5	34.4	28.6	124.5	173.9	180.4	187.9	157.7	162.2	167.1

<sup>1</sup> See note 7 on concepts and sources.<sup>2</sup> See note 8 on concepts and sources.



Table 53: Export markets (a) (percentage change on preceding year, 2010-18)

1.2.2017

							Winter 2017 forecast			Autumn 2016 forecast		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	10.3	5.0	1.1	1.3	3.8	4.6	2.7	3.6	4.1	2.9	3.7	4.2
Germany	10.5	5.2	1.2	1.7	3.1	3.1	2.7	3.7	4.1	2.9	3.7	3.9
Estonia	9.6	7.4	1.5	1.2	1.4	0.2	2.0	3.1	3.5	2.0	3.3	3.5
Ireland	10.7	4.6	1.3	1.9	3.2	3.8	2.2	3.4	4.1	2.3	3.5	3.7
Greece	10.4	4.9	1.1	2.1	2.8	2.5	2.4	3.4	4.1	2.6	3.7	3.9
Spain	9.8	4.2	0.5	1.9	3.3	4.0	2.3	3.3	3.9	2.4	3.5	4.0
France	10.3	4.9	1.0	1.9	3.8	3.8	2.3	3.5	4.0	2.6	3.6	4.0
Italy	9.9	5.4	1.6	2.1	3.0	3.2	2.6	3.6	4.1	2.8	3.7	4.1
Cyprus	8.1	7.4	1.3	3.5	0.8	-6.3	0.1	2.6	3.4	0.3	2.8	3.0
Latvia	12.5	10.4	3.9	2.7	1.6	-0.5	2.1	3.6	3.6	2.0	3.5	3.5
Lithuania	11.2	9.8	3.5	1.6	0.6	-2.3	2.2	3.6	3.9	2.2	3.6	3.9
Luxembourg	10.1	4.2	0.4	1.6	5.3	5.8	2.0	3.2	4.2	2.4	3.7	4.3
Malta	10.3	4.4	0.8	2.2	6.1	3.7	1.4	2.3	3.3	2.2	3.2	3.7
Netherlands	10.4	5.2	0.9	1.5	4.2	4.6	2.9	3.7	4.0	3.0	3.7	4.2
Austria	11.3	5.9	1.1	1.7	3.3	4.1	2.9	4.0	4.3	2.9	3.9	4.6
Portugal	9.7	3.9	-0.3	1.8	4.1	4.7	2.2	3.4	4.1	2.7	3.7	4.1
Slovenia	9.8	5.5	0.4	1.0	3.3	3.6	3.5	4.1	4.5	3.5	4.1	4.6
Slovakia	11.7	6.2	0.8	1.3	4.7	4.5	3.7	4.3	4.4	3.9	4.2	4.7
Finland	11.9	7.7	2.7	2.2	2.7	0.4	2.1	3.5	3.8	2.3	3.5	3.7
Euro area (b)	10.4	5.1	1.1	1.7	3.5	3.6	2.6	3.6	4.0	2.8	3.7	4.0
Bulgaria	9.4	5.6	0.0	1.6	3.4	1.7	3.3	4.1	4.4	3.0	4.0	4.5
Czech Republic	11.2	5.9	1.3	1.5	3.5	3.8	3.3	4.1	4.4	3.4	4.1	4.7
Denmark	11.4	5.4	1.5	1.7	4.0	3.7	2.5	3.6	4.0	2.6	3.6	3.9
Croatia	10.4	5.3	-0.4	1.4	3.2	3.6	3.2	3.8	4.2	2.9	3.8	4.3
Hungary	11.0	6.1	1.3	1.4	3.7	4.0	3.3	4.1	4.4	3.5	4.1	4.6
Poland	11.4	6.2	1.7	1.4	3.0	3.2	2.8	3.8	4.0	2.8	3.7	4.3
Romania	10.2	5.4	0.7	1.5	3.2	3.5	2.9	3.8	4.2	2.9	3.8	4.5
Sweden	9.7	5.0	1.7	2.0	3.1	2.6	2.2	3.3	3.7	2.1	3.4	3.8
United Kingdom	10.5	5.0	1.4	1.9	3.5	3.5	2.1	3.6	4.3	2.3	3.7	4.0
EU (b)	10.5	5.2	1.2	1.7	3.5	3.6	2.6	3.6	4.1	2.7	3.7	4.1
USA	13.1	6.6	3.3	3.3	3.4	2.2	0.9	2.9	3.2	1.3	3.0	3.3
Japan	14.8	7.0	3.4	3.3	3.3	1.5	1.6	3.4	4.0	1.7	3.3	3.6

(a) Imports of goods and services to the various markets (incl. EU-markets) weighted according to their share in country's exports of goods and services.

(b) Intra- and extra-EU trade.

Table 54: Export performance (a) (percentage change on preceding year, 2010-18)

1.2.2017

							Winter 2017 forecast			Autumn 2016 forecast		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	0.0	1.6	0.7	-0.4	1.2	-0.3	2.7	0.2	0.2	0.8	0.2	0.2
Germany	3.7	2.9	1.6	0.2	0.9	2.0	-0.2	-0.7	-0.8	-0.2	-0.8	0.3
Estonia	13.2	15.6	3.3	1.0	1.7	-0.8	1.7	0.0	-0.1	0.7	0.0	0.1
Ireland	-4.4	-1.6	1.0	1.1	10.9	29.5	0.1	0.4	0.1	0.5	0.7	1.1
Greece	-5.0	-4.6	0.0	-0.6	4.8	0.8	-1.7	0.4	0.6	-6.4	0.0	0.7
Spain	-0.3	3.1	0.5	2.3	0.9	0.9	2.0	0.6	0.3	3.6	1.0	0.4
France	-1.2	1.9	1.6	0.0	-0.4	2.2	-1.2	-0.4	0.1	-1.6	-0.5	0.0
Italy	1.7	-0.2	0.8	-1.3	-0.1	1.0	-1.1	-0.6	-0.8	-1.1	-0.8	-0.8
Cyprus	-3.4	-1.6	-4.0	-1.4	3.5	6.7	6.4	2.0	0.4	5.2	1.8	0.8
Latvia	0.8	1.5	5.6	-1.6	2.3	3.1	-0.2	-0.9	-0.4	-0.1	-0.9	-0.4
Lithuania	7.0	4.6	8.4	7.9	2.8	1.9	0.4	-0.2	-0.1	1.9	-0.8	-0.5
Luxembourg	-3.3	-0.5	2.3	4.5	6.5	6.7	1.8	1.4	0.7	0.3	0.2	0.0
Malta	-3.1	-2.5	6.4	-1.1	-1.0	0.6	0.1	1.3	0.5	-0.1	0.4	0.2
Netherlands	0.1	-0.8	2.9	0.6	0.3	0.4	0.4	-0.3	-0.8	0.4	-0.2	-0.6
Austria	2.3	0.1	0.5	-1.1	-1.0	-0.5	-0.2	-1.0	-1.2	-0.2	-1.0	-1.3
Portugal	-0.2	3.0	3.7	5.1	0.2	1.3	1.7	0.7	0.2	0.1	0.1	0.1
Slovenia	0.3	1.3	0.2	2.0	2.3	1.9	2.8	0.2	0.2	2.6	0.0	0.0
Slovakia	3.6	5.5	8.4	5.3	-1.0	2.4	0.4	0.8	2.1	1.3	1.0	1.6
Finland	-5.1	-5.3	-1.4	-1.1	-5.3	1.6	-1.3	-1.4	-0.5	-2.9	-1.7	-0.7
Euro area (b)	0.8	1.4	1.6	0.4	0.9	2.8	0.1	-0.3	-0.3	-0.1	-0.3	0.0
Bulgaria	1.5	6.6	2.1	7.9	-0.3	3.9	1.8	0.3	0.2	2.0	0.5	0.1
Czech Republic	3.3	3.1	2.9	-1.3	5.0	3.7	0.0	0.4	0.0	1.7	0.4	0.0
Denmark	-7.6	1.7	-0.3	-0.1	-0.4	-1.8	-2.2	-0.8	-0.7	-2.0	-0.6	-0.4
Croatia	-3.8	-2.9	0.3	1.7	4.3	6.3	1.7	0.8	0.1	3.0	-0.3	-0.3
Hungary	0.3	0.4	-3.1	2.7	5.9	3.5	3.3	0.8	1.5	3.1	1.0	1.8
Poland	1.5	1.6	2.9	4.6	3.5	4.4	4.4	2.1	2.3	5.3	2.5	2.0
Romania	4.6	6.2	0.3	17.9	4.7	1.8	1.7	1.2	1.1	2.2	1.3	1.3
Sweden	2.0	1.0	-0.7	-2.7	2.1	3.0	0.6	0.3	0.0	0.2	0.0	0.0
United Kingdom	-4.3	0.8	-0.8	-0.8	-2.0	2.5	-0.4	-0.1	-1.3	0.7	-0.4	-0.2
EU (b)	0.1	1.3	1.2	0.5	0.9	2.7	0.2	-0.1	-0.3	0.3	-0.2	0.1
USA	-1.1	0.2	0.1	0.2	0.9	-2.0	-0.5	-0.7	0.1	-0.9	0.6	0.3
Japan	8.8	-6.8	-3.4	-2.4	5.8	1.5	-1.3	-2.3	-2.9	-2.7	-2.4	-2.6

(a) Index for exports of goods and services divided by an index for growth of markets.

(b) Intra- and extra-EU trade.

Table 55: World GDP, volume (percentage change on preceding year, 2012-18)

1.2.2017

	(a)	2012	2013	2014	2015	Winter 2017 forecast			Autumn 2016 forecast		
						2016	2017	2018	2016	2017	2018
EU	16.9	-0.5	0.2	1.6	2.2	1.9	1.8	1.8	1.8	1.6	1.8
Euro area	11.9	-0.9	-0.3	1.2	2.0	1.7	1.6	1.8	1.7	1.5	1.7
Belgium	0.4	0.1	-0.1	1.7	1.5	1.2	1.4	1.6	1.2	1.3	1.5
Bulgaria	0.1	0.0	0.9	1.3	3.6	3.3	2.9	2.8	3.1	2.9	2.8
Czech Republic	0.3	-0.8	-0.5	2.7	4.5	2.4	2.6	2.7	2.2	2.6	2.7
Denmark	0.2	0.2	0.9	1.7	1.6	1.0	1.5	1.8	1.0	1.7	1.8
Germany	3.4	0.5	0.5	1.6	1.7	1.9	1.6	1.8	1.9	1.5	1.7
Estonia	0.0	4.3	1.4	2.8	1.4	1.1	2.2	2.6	1.1	2.3	2.6
Ireland	0.3	-1.1	1.1	8.5	26.3	4.3	3.4	3.3	4.1	3.6	3.5
Greece	0.3	-7.3	-3.2	0.4	-0.2	0.3	2.7	3.1	-0.3	2.7	3.1
Spain	1.4	-2.9	-1.7	1.4	3.2	3.2	2.3	2.1	3.2	2.3	2.1
France	2.3	0.2	0.6	0.6	1.3	1.2	1.4	1.7	1.3	1.4	1.7
Croatia	0.1	-2.2	-1.1	-0.5	1.6	2.8	3.1	2.5	2.6	2.5	2.3
Italy	1.9	-2.8	-1.7	0.1	0.7	0.9	0.9	1.1	0.7	0.9	1.0
Cyprus	0.0	-3.2	-6.0	-1.5	1.7	2.8	2.5	2.3	2.8	2.5	2.3
Latvia	0.0	4.0	2.9	2.1	2.7	1.6	2.8	3.0	1.9	2.8	3.0
Lithuania	0.1	3.8	3.5	3.5	1.8	2.2	2.9	2.8	2.0	2.7	2.8
Luxembourg	0.0	0.0	4.2	4.7	3.5	3.8	4.0	3.9	3.6	3.8	3.6
Hungary	0.2	-1.6	2.1	4.0	3.1	1.9	3.5	3.2	2.1	2.6	2.8
Malta	0.0	2.7	4.6	8.4	7.4	4.0	3.7	3.7	4.1	3.7	3.7
Netherlands	0.7	-1.1	-0.2	1.4	2.0	2.1	2.0	1.8	1.7	1.7	1.8
Austria	0.4	0.7	0.1	0.6	1.0	1.5	1.6	1.6	1.5	1.6	1.6
Poland	0.9	1.6	1.4	3.3	3.9	2.8	3.2	3.1	3.1	3.4	3.2
Portugal	0.3	-4.0	-1.1	0.9	1.6	1.3	1.6	1.5	0.9	1.2	1.4
Romania	0.4	0.6	3.5	3.1	3.9	4.9	4.4	3.7	5.2	3.9	3.6
Slovenia	0.1	-2.7	-1.1	3.1	2.3	2.5	3.0	3.0	2.2	2.6	2.2
Slovakia	0.1	1.7	1.5	2.6	3.8	3.3	2.9	3.6	3.4	3.2	3.8
Finland	0.2	-1.4	-0.8	-0.6	0.3	1.5	1.2	1.5	0.8	0.8	1.1
Sweden	0.4	-0.3	1.2	2.6	4.1	3.3	2.4	2.1	3.4	2.4	2.1
United Kingdom	2.4	1.3	1.9	3.1	2.2	2.0	1.5	1.2	1.9	1.0	1.2
Candidate Countries	1.5	1.8	4.0	2.7	3.8	2.3	2.8	3.2	2.7	3.0	3.3
- Turkey	1.4	2.1	4.2	3.0	4.0	2.2	2.8	3.2	2.7	3.0	3.3
- The former Yugoslav Republic of Macedonia	0.0	-0.5	2.9	3.6	3.8	2.1	3.2	3.6	2.1	3.2	3.3
- Montenegro	0.0	-2.7	3.5	1.8	3.4	2.6	3.7	3.1	2.7	3.4	3.1
- Serbia	0.1	-1.0	2.6	-1.8	0.8	2.8	3.0	3.3	2.7	3.0	3.3
- Albania	0.0	1.4	1.0	1.8	2.6	3.3	3.5	3.6	3.2	3.5	3.5
Potential Candidates	0.1	0.6	2.2	0.5	3.4	3.1	3.5	3.5	3.1	3.5	3.5
USA	15.8	2.2	1.7	2.4	2.6	1.6	2.3	2.2	1.6	2.1	1.9
Canada	1.4	1.7	2.2	2.5	1.1	1.3	2.0	2.1	1.4	2.0	2.0
Japan	4.2	1.5	2.0	0.3	1.2	0.9	1.0	0.5	0.7	0.8	0.4
Korea	1.6	2.3	2.9	3.3	2.6	2.6	2.4	2.6	2.6	2.6	2.8
Norway	0.3	2.7	1.0	1.9	1.6	0.7	1.2	1.5	0.7	1.6	1.7
Switzerland	0.4	1.0	1.8	2.0	0.8	1.3	1.5	1.7	1.2	1.5	1.7
Iceland	0.0	1.2	4.4	1.9	4.2	5.5	4.2	2.5	4.0	3.5	2.7
Australia	1.0	3.6	2.0	2.7	2.4	2.6	2.7	2.8	2.7	2.7	2.8
New Zealand	0.1	2.8	1.7	3.0	3.0	3.0	2.8	2.7	2.7	2.7	2.6
Advanced economies	45.2	1.1	1.4	2.0	2.3	1.7	2.0	2.0	1.7	1.9	1.8
CIS	4.6	3.5	2.1	1.0	-2.9	-0.1	1.3	1.7	-0.6	0.9	1.3
- Russia	3.3	3.5	1.3	0.7	-3.7	-0.6	0.8	1.1	-1.0	0.6	0.8
- Other CIS	1.3	3.5	4.2	1.7	-0.9	0.9	2.3	3.0	0.4	1.9	2.7
MENA	6.8	3.8	2.1	2.5	2.2	2.7	2.8	3.3	2.6	3.3	3.4
Emerging and developing Asia	31.6	6.9	6.8	6.6	6.5	6.3	6.2	6.2	6.4	6.2	6.1
- China	17.3	7.9	7.8	7.3	6.9	6.7	6.4	6.2	6.6	6.2	6.0
- India	7.0	5.3	6.3	7.0	7.2	6.9	7.1	7.5	7.4	7.4	7.5
- Indonesia	2.5	6.0	5.6	5.0	4.8	5.0	5.0	5.1	4.9	5.0	5.1
Latin America	8.2	3.0	2.9	1.0	-0.1	-0.7	1.4	2.1	-0.6	1.7	2.0
- Brazil	2.8	1.9	3.0	0.1	-3.8	-3.4	0.6	1.7	-3.1	0.9	1.5
- Mexico	2.0	4.0	1.4	2.2	2.5	2.1	1.7	2.1	2.0	2.2	2.4
Sub-Saharan Africa	3.2	4.0	5.1	4.8	3.4	1.6	3.1	3.9	2.1	3.2	3.9
Emerging and developing economies	54.8	5.3	4.9	4.5	3.9	4.0	4.5	4.8	4.0	4.6	4.7
World	100.0	3.3	3.2	3.3	3.1	3.0	3.4	3.6	3.0	3.4	3.5
World excluding EU	83.1	4.2	3.9	3.7	3.3	3.2	3.7	3.9	3.2	3.7	3.8
World excluding euro area	88.1	4.0	3.8	3.7	3.3	3.1	3.6	3.8	3.2	3.6	3.7

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

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2012-18)

1.2.2017

	(a)	2012	2013	2014	2015	Winter 2017 forecast			Autumn 2016 forecast		
						2016	2017	2018	2016	2017	2018
EU (b)	34.5	2.4	2.2	4.4	6.4	2.8	3.5	3.8	3.0	3.5	4.2
Euro area (b)	25.8	2.7	2.1	4.5	6.5	2.7	3.3	3.7	2.7	3.3	4.1
Candidate Countries	1.1	16.0	1.0	7.3	0.2	-0.8	3.9	4.4	-0.3	3.8	4.4
- Turkey	1.0	18.3	-0.3	7.4	-0.8	-2.3	3.5	4.0	-1.3	3.5	4.3
- The former Yugoslav Republic of Macedonia	0.0	2.0	6.1	16.5	6.7	10.9	7.7	6.9	7.1	6.7	6.3
- Montenegro	0.0	-0.3	-1.3	-0.7	5.7	4.3	3.1	3.2	1.8	2.1	1.6
- Serbia	0.1	0.8	21.3	5.7	10.2	10.9	7.0	6.7	8.6	6.4	5.2
- Albania	0.0	-0.6	-12.4	1.8	1.0	10.7	5.5	6.2	6.6	5.4	5.8
USA	10.9	3.4	3.5	4.3	0.1	0.4	2.1	3.4	0.3	3.6	3.7
Canada	2.3	2.6	2.8	5.3	3.4	1.2	3.5	3.6	1.6	3.4	2.7
Japan	3.7	-0.1	0.8	9.3	3.0	0.2	1.0	1.0	-1.0	0.8	1.0
Korea	3.1	5.1	4.3	2.0	0.8	2.2	2.8	3.5	2.2	2.8	3.7
Norway	0.7	1.4	-1.7	3.1	3.7	-1.3	1.7	1.9	-0.6	2.4	2.1
Switzerland	2.0	1.1	15.3	-6.2	2.3	3.7	3.2	3.6	3.7	3.2	3.7
Iceland	0.0	3.6	6.7	3.2	9.2	10.0	4.5	4.5	6.6	4.5	4.5
Australia	1.1	5.8	5.9	6.7	6.0	3.8	4.8	4.4	6.0	4.8	4.4
New Zealand	0.2	1.9	0.8	3.0	6.6	3.2	3.2	3.2	3.2	3.2	3.2
Advanced economies	66.8	2.7	3.1	4.2	4.0	1.9	2.9	3.3	1.9	3.1	3.6
CIS	2.8	2.8	0.7	-0.8	-1.7	-0.2	3.0	3.3	-0.7	2.8	2.9
- Russia	1.9	1.4	4.6	0.6	3.6	0.9	2.5	2.8	0.5	2.1	2.1
- Other CIS	1.0	5.6	-6.5	-3.6	-12.1	-2.2	3.7	4.3	-2.8	4.0	4.5
MENA	5.6	8.4	2.5	-0.9	5.3	3.4	3.3	3.5	3.5	3.5	3.8
Emerging and developing Asia	18.1	4.6	6.8	6.1	-0.7	1.9	3.2	3.6	1.8	3.0	3.3
- China	11.7	5.9	8.8	6.9	-1.8	2.0	3.1	3.4	1.9	2.6	2.8
- India	2.1	1.0	4.6	4.4	-4.0	2.0	3.2	3.8	2.0	3.2	3.5
- Indonesia	0.8	0.4	1.5	0.8	-1.6	-1.7	2.9	3.9	1.1	2.7	3.8
Latin America	5.1	3.0	1.8	2.1	4.3	1.5	2.5	3.1	2.3	2.9	3.2
- Brazil	1.1	-0.3	2.8	-0.8	6.3	3.5	2.0	3.1	5.9	2.7	2.9
- Mexico	1.9	5.8	2.4	7.0	9.0	0.3	2.7	2.9	0.6	2.7	3.0
Sub-Saharan Africa	1.5	-1.6	4.5	0.6	3.3	0.7	3.1	3.7	1.4	3.0	3.8
Emerging and developing economies	33.2	4.5	4.3	2.9	1.3	1.9	3.1	3.5	2.0	3.0	3.4
World	100.0	3.3	3.5	3.7	3.1	1.9	2.9	3.4	1.9	3.1	3.5
World excluding EU	65.5	3.8	4.2	3.4	1.3	1.4	2.7	3.2	1.3	2.8	3.1
World excluding euro area	74.2	3.5	4.0	3.5	1.9	1.6	2.8	3.3	1.6	3.0	3.3

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2015.

(b) Intra- and extra-EU trade.

Table 57: Export shares in EU trade (goods only - 2015)

1.2.2017

	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, 2012-18)

1.2.2017

						Winter 2017 forecast			Autumn 2016 forecast		
	(a)	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
EU (b)	32.6	-0.2	1.7	5.0	6.2	3.5	3.9	4.1	3.6	3.9	4.3
Euro area (b)	23.8	-0.8	1.4	4.9	6.4	3.3	3.8	4.3	3.2	4.0	4.7
Candidate Countries	1.3	-0.3	8.1	0.6	1.1	5.5	4.3	4.9	5.2	4.2	4.7
- Turkey	1.1	-0.5	9.0	-0.3	0.3	5.0	4.0	4.7	5.0	4.0	4.7
- The former Yugoslav Republic of Macedonia	0.0	8.2	2.2	14.1	5.2	8.1	5.8	5.1	5.6	4.9	4.6
- Montenegro	0.0	0.6	-3.1	1.6	4.4	15.0	6.1	4.5	6.0	4.1	2.6
- Serbia	0.1	1.4	5.0	5.6	9.3	7.5	6.0	6.3	6.8	5.5	5.4
- Albania	0.0	-6.6	-7.9	4.6	-3.1	9.8	6.9	5.1	8.4	6.4	5.1
USA	13.7	2.2	1.1	4.4	4.6	1.1	4.8	6.3	1.2	4.1	4.0
Canada	2.6	3.6	1.5	1.8	0.3	-0.3	2.8	2.7	-0.8	2.4	2.4
Japan	3.9	5.4	3.3	8.3	0.1	-2.0	0.9	0.7	-0.7	1.8	0.9
Korea	2.7	2.4	1.7	1.5	3.2	1.9	2.6	2.8	1.8	2.5	3.0
Norway	0.6	3.1	4.9	2.4	1.6	1.0	2.4	2.5	0.1	2.5	2.9
Switzerland	1.7	-2.6	13.5	-7.8	4.5	3.5	3.4	3.8	3.6	3.4	3.9
Iceland	0.0	4.6	0.1	9.8	13.5	17.1	6.6	7.8	15.6	7.2	6.8
Australia	1.3	6.1	-1.8	-1.7	1.7	1.6	1.9	2.4	0.8	1.9	2.4
New Zealand	0.2	2.8	6.2	7.9	3.6	2.0	2.8	2.8	2.0	2.8	2.8
Advanced economies	67.1	1.2	2.5	4.1	4.5	2.1	3.5	4.0	2.2	3.4	3.7
CIS	2.4	9.9	1.7	-8.0	-21.7	-3.1	1.8	2.1	-3.3	1.6	1.9
- Russia	1.4	9.7	3.6	-7.6	-25.7	-4.6	1.5	1.9	-4.4	1.7	1.3
- Other CIS	1.0	10.2	-1.1	-8.7	-15.1	-1.0	2.2	2.4	-2.0	2.3	2.6
MENA	6.0	10.2	6.8	5.7	0.3	0.9	1.8	3.0	2.6	3.3	3.7
Emerging and developing Asia	16.8	5.6	6.3	6.9	2.0	2.4	3.5	4.0	2.4	3.3	3.8
- China	10.1	6.6	10.6	8.7	0.6	4.1	3.9	4.1	3.0	3.2	3.6
- India	2.4	1.6	-3.8	6.7	2.8	-1.6	2.1	3.5	1.1	2.6	3.3
- Indonesia	0.8	15.2	0.3	-0.9	-5.4	-2.0	2.8	3.9	0.9	2.6	3.7
Latin America	5.8	4.8	3.0	0.4	-2.2	-2.5	2.2	2.9	-1.2	2.6	3.1
- Brazil	1.2	0.4	7.0	-1.0	-14.2	-9.4	2.7	3.3	-8.4	3.6	3.3
- Mexico	2.1	5.5	2.6	6.0	5.0	0.7	2.8	3.2	0.1	2.9	3.4
Sub-Saharan Africa	1.9	4.1	3.4	7.3	1.4	-0.2	3.1	4.1	0.3	3.1	4.1
Emerging and developing economies	32.9	6.6	5.1	4.0	-1.3	0.7	2.8	3.5	1.3	3.1	3.5
World	100.0	2.9	3.3	4.0	2.6	1.7	3.3	3.8	1.9	3.3	3.6
World excluding EU	67.4	4.5	4.1	3.6	0.8	0.8	3.0	3.7	1.0	3.0	3.3
World excluding euro area	76.2	4.1	3.9	3.8	1.4	1.2	3.1	3.7	1.5	3.1	3.3

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2015.

(b) Intra- and extra-EU trade.

Table 59: Import shares in EU trade (goods only - 2015)

1.2.2017

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub- Saharan Africa
EU	64.3	49.5	1.5	5.3	1.3	6.3	7.2	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, 2011-18)

1.2.2017

						Winter 2017 forecast			Autumn 2016 forecast		
	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
EU	-36.0	85.8	189.3	214.6	325.2	342.0	276.7	268.4	323.0	305.7	309.3
EU, adjusted <sup>1</sup>	-155.6	-42.6	50.6	62.8	156.6	173.8	114.4	106.0	160.5	144.5	148.1
Euro area	118.2	253.1	354.4	397.6	483.9	504.0	456.3	450.2	508.0	490.8	492.2
Euro area, adjusted <sup>1</sup>	32.2	158.0	279.1	320.6	389.0	409.4	365.0	358.9	418.6	402.2	403.6
Candidate Countries	-102.7	-77.5	-90.0	-73.9	-55.9	-53.1	-47.9	-54.3	-52.0	-62.6	-72.7
USA	-778.0	-778.7	-736.8	-775.5	-788.7	-765.5	-874.5	-999.8	-774.8	-842.7	-921.6
Japan	-4.1	-53.6	-89.9	-99.1	-5.2	36.6	41.0	45.6	2.1	-3.7	-2.4
Norway	66.8	69.0	60.9	49.8	25.5	23.4	23.5	24.6	19.3	22.1	22.1
Switzerland	29.5	40.2	53.7	55.5	53.6	55.0	55.2	57.8	55.1	55.5	58.0
Advanced economies	-678.6	-608.8	-449.7	-446.7	-251.7	-177.6	-349.2	-473.0	-237.5	-347.9	-426.8
CIS	239.6	220.4	200.5	222.3	150.0	104.2	147.4	156.8	99.7	126.2	135.8
- Russia	198.8	192.8	183.6	189.3	145.8	115.0	150.0	159.5	110.4	130.3	138.8
MENA	617.8	655.8	592.4	467.4	120.2	57.7	167.1	174.0	39.5	114.7	129.7
Emerging and developing Asia	128.6	143.6	224.7	344.9	485.4	545.8	522.5	562.1	542.0	528.4	545.4
- China	228.7	311.6	359.0	435.0	567.0	608.5	603.9	650.6	620.1	625.3	652.8
Latin America	67.6	35.5	4.8	-16.8	-56.6	-27.5	-15.1	-19.1	-29.4	-24.6	-26.0
Sub-Saharan Africa	96.1	73.5	65.9	29.7	-30.5	-43.7	-36.4	-44.1	-49.4	-46.7	-53.7
Emerging and developing economies	1149.7	1128.9	1088.3	1047.6	668.5	636.5	785.4	829.7	602.5	698.0	731.1
World	471.1	520.1	638.6	601.0	416.8	458.9	436.3	356.7	365.0	350.1	304.3

<sup>1</sup> See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2011-18)

1.2.2017

						Winter 2017 forecast			Autumn 2016 forecast		
	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
EU	46.3	163.7	258.3	255.3	320.1	347.7	308.3	319.8	350.4	350.1	380.3
EU, adjusted <sup>1</sup>	-42.9	105.6	201.3	174.0	185.5	213.4	178.8	190.2	247.4	248.1	278.2
Euro area	83.4	235.8	321.0	343.1	388.2	425.3	383.2	376.9	442.8	423.4	417.2
Euro area, adjusted <sup>1</sup>	31.8	161.7	286.9	320.5	351.3	388.5	347.7	341.4	414.2	395.0	388.9
Candidate Countries	-82.0	-54.9	-68.3	-48.8	-36.0	-41.9	-32.0	-39.9	-40.4	-47.0	-54.9
USA	-442.0	-460.4	-446.5	-366.4	-392.1	-463.0	-572.6	-715.6	-467.5	-498.2	-547.3
Japan	130.5	59.7	45.7	38.0	138.2	192.4	192.6	200.8	175.5	179.1	184.5
Norway	61.6	63.4	53.5	55.0	33.5	23.7	22.6	21.9	11.9	14.7	13.8
Switzerland	56.9	73.1	85.1	68.9	78.4	77.8	78.0	82.7	81.9	83.9	87.6
Advanced economies	-192.8	-139.9	6.2	118.8	280.0	263.7	114.9	-3.3	247.5	206.0	188.6
CIS	107.7	64.8	17.1	54.5	54.9	7.2	29.8	40.9	40.7	58.8	72.0
- Russia	96.6	68.5	32.1	56.0	68.9	23.5	43.7	49.4	57.0	72.7	80.5
MENA	416.9	426.6	361.4	198.7	-101.6	-126.5	-63.6	-61.0	-151.8	-107.8	-73.9
Emerging and developing Asia	117.9	126.5	92.5	271.1	337.7	347.4	277.4	260.7	336.5	290.1	266.6
- China	136.1	215.4	148.2	277.4	330.6	333.1	276.5	265.8	342.7	309.9	296.2
Latin America	-113.6	-135.6	-163.7	-185.3	-180.1	-121.6	-123.6	-134.1	-118.6	-123.9	-132.6
Sub-Saharan Africa	8.9	-6.3	-16.8	-45.4	-74.0	-52.2	-48.9	-50.9	-59.6	-55.6	-61.7
Emerging and developing economies	537.7	475.9	290.5	293.6	37.0	54.3	71.1	55.6	47.1	61.6	70.5
World	344.8	336.0	296.6	412.4	317.1	318.0	186.0	52.3	294.6	267.7	259.1

<sup>1</sup> See note 8 on concepts and sources.

Table 62: Primary commodity prices (in US dollar, percentage change on preceding year, 2011-2018)

1.2.2017

STIC Classification						Winter 2017 forecast			Autumn 2016 forecast		
	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
Food	13.1	0.2	3.2	-3.7	-15.7	-2.8	-1.0	-0.3	-0.7	2.1	1.5
Basic materials	22.0	-15.9	-4.8	-4.7	-18.7	-1.0	5.9	-1.5	-3.6	0.3	-0.9
- of which:											
Agricultures non-food	32.5	-15.9	-4.7	3.8	-14.3	2.2	3.5	-1.0	-0.3	-0.8	-0.4
- of which:											
Wood and pulp	9.0	-5.8	1.2	2.6	-3.7	-2.9	-3.9	-0.2	-2.3	-1.6	0.2
Minerals and metals	15.2	-15.8	-4.9	-11.1	-22.5	-4.2	8.3	-2.0	-6.7	1.5	-1.3
Fuel products	38.0	1.3	-2.9	-7.9	-45.0	-17.4	23.9	0.7	-16.8	19.1	3.4
- of which:											
Crude petroleum	38.3	0.8	-2.7	-8.3	-46.5	-16.2	25.9	0.8	-15.4	21.1	3.8
Primary Commodities											
- Total excluding fuels	18.5	-9.7	-1.4	-4.3	-17.4	-1.8	2.8	-1.0	-2.3	1.2	0.2
- Total including fuels	34.5	-0.4	-2.7	-7.4	-41.0	-14.2	18.9	0.3	-13.8	14.9	2.7
Crude petroleum - price per barrel											
Brent (usd)	110.9	111.8	108.8	99.7	53.4	44.8	56.4	56.9	45.2	54.7	56.8
Brent (euro)	79.7	87.0	81.9	75.1	48.1	40.4	52.8	53.2	40.6	49.6	51.5

**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 Accounts (ESA 2010). US national accounts are based on SNA 2008, whilst the Japanese accounts use SNA 1993.
3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.
4. In Tables 17 and 18, the data are based on the national index for USA and Japan.
5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.
6. Employment data used in tables 23-29 and 32-33 are based on full-time-equivalents (FTEs), where available. Currently, Spain, France, Italy, and the Netherlands report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.
7. Source: National Accounts (ESA 2010), except for US current-account in tables 50, 52, and 61 (Balance of Payments). Discrepancies with balance of payments statistics may arise due to methodological differences and revision schedules.
8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 49 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to 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, Japan, 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, Saudi Arabia, Bahrain, Oman, United Arab Emirates, Kuwait, and Qatar
  - Emerging and Developing asia :**  
All countries in that region except the ones included in the advanced economies and the Asian MENA countries.
  - Latin America :**  
All countries in that region.
  - Sub-Saharan Africa :**  
All countries in that region except the African MENA countries.





## EUROPEAN ECONOMY INSTITUTIONAL SERIES

European Economy Institutional series can be accessed and downloaded free of charge from the following address:

[http://ec.europa.eu/economy\\_finance/publications/eeip/index\\_en.htm](http://ec.europa.eu/economy_finance/publications/eeip/index_en.htm)

Titles published before July 2015 can be accessed and downloaded free of charge from:

- [http://ec.europa.eu/economy\\_finance/publications/european\\_economy/index\\_en.htm](http://ec.europa.eu/economy_finance/publications/european_economy/index_en.htm)  
(the main reports, e.g. Economic Forecasts)
- [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/index\\_en.htm](http://ec.europa.eu/economy_finance/publications/occasional_paper/index_en.htm)  
(the Occasional Papers)
- [http://ec.europa.eu/economy\\_finance/publications/qr\\_euro\\_area/index\\_en.htm](http://ec.europa.eu/economy_finance/publications/qr_euro_area/index_en.htm)  
(the Quarterly Reports on the Euro Area)

Alternatively, hard copies may be ordered via the “Print-on-demand” service offered by the EU Bookshop: <http://bookshop.europa.eu>.



## HOW TO OBTAIN EU PUBLICATIONS

### Free publications:

- one copy:  
via EU Bookshop (<http://bookshop.europa.eu>);
- more than one copy or posters/maps:
  - from the European Union's representations ([http://ec.europa.eu/represent\\_en.htm](http://ec.europa.eu/represent_en.htm));
  - from the delegations in non-EU countries ([http://eeas.europa.eu/delegations/index\\_en.htm](http://eeas.europa.eu/delegations/index_en.htm));
  - by contacting the Europe Direct service ([http://europa.eu/europedirect/index\\_en.htm](http://europa.eu/europedirect/index_en.htm)) or calling 00 800 6 7 8 9 10 11 (freephone number from anywhere in the EU) (\*).

(\*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

### Priced publications:

- via EU Bookshop (<http://bookshop.europa.eu>).

