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# European Economic Forecast

## Spring 2018

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EUROPEAN ECONOMY

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European Commission
Directorate-General for Economic and Financial Affairs

# European Economic Forecast

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EUROPEAN ECONOMY

Institutional Paper 077

# ABBREVIATIONS

## Countries and regions

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

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

## 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 |
| BIS | Bank for International Settlements |
| ECB | European Central Bank |
| ESRB | European Systemic Risk Board |
| IMF | International Monetary Fund |
| NBER | National Bureau of Economic Research |
| OECD | Organisation for Economic Cooperation and Development |
| OPEC | Organisation of the Petroleum Exporting Countries |
| WTO | World Trade Organisation |

### Other abbreviations

| | |
|---|---|
| EAPP | Expanded Asset Purchase Programme |
| FDI | Foreign Direct Investment |
| NFC | Non-Financial Corporations |

### Graphs/Tables/Units

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

### Currencies

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

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# FOREWORD

The European economy has registered its strongest growth in a decade last year. Fundamental conditions for growth remain favourable with consumers benefitting from rising real wages and strong job creation. The number of employed persons in the euro area and the EU is higher than ever. Companies have stepped up investment amid high capacity utilisation, low financing costs and faster growth in their export markets. Public investment is expected to grow faster than GDP, though it still has to catch up a lot to reach its previous share of output.

However, the weakness of recent indicators points to a cooling of activity and raises the question whether beyond temporary factors in the first quarter there are more stringent limitations to growth. This relates also to the difficult task of assessing Europe's position in the economic cycle. The unemployment rate has declined fast and is getting close to pre-crisis levels. The number of firms reporting production limitations due to labour shortages and capacity constraints has increased substantially over recent quarters. On the other hand, broader measures of underemployment suggest that slack in the labour market, albeit on a declining path, remains. And there are so far few signs of notable price pressures, as underlying aggregate inflation remains sluggish, even if the output gap is estimated to be positive this year. The well-known difficulties of assessing the cyclical position in real time are not just a matter of academic debate. Whether and when full capacity is reached is a key determinant for the growth and inflation outlook, and is crucial for the orientation of macroeconomic and structural policies.

Meanwhile, risks to the forecast have sharply increased. Valuations of some financial assets are based on very favourable expectations about future profits in a context of low global inflation. Recent volatility has underlined the possibility that a relatively minor reassessment of fundamentals and risks could shift global financing conditions. Given that global public and private debt as a share of GDP is now higher than before the crisis, many economic actors appear vulnerable to tighter financing conditions, and negative confidence effects could amplify the impact and spread it further. The large, pro-cyclical fiscal stimulus in the US is expected to provide a limited and temporary boost to GDP growth with positive spillovers to the world economy this year and next. However, it is also set to worsen the US current account deficit and could raise public finance sustainability risks in the medium term. Finally, recent trade-restricting measures have given rise to fears about a damaging escalation and a further undermining of the multilateral trading system. These risks are inter-related in various ways. Should the fiscal stimulus in the US lead to faster than currently anticipated monetary tightening by the Federal Reserve and an increase in term premia, it could trigger significant financial-market stress. At the same time, by creating demand for additional imports into the US, the stimulus could reinforce trade protectionism. Moreover, effects may be highly non-linear and hard to predict. For example, if trade restrictions reach a point where the viability of complex global value chains is undermined, the drop in world trade could be sharp. The materialisation of these risks could throw the expansion off track in a European economy that has recently been more reliant on investment and exports.

In our assessment there is still some scope for the European economy to grow faster than potential this year and in 2019. The likelihood that supply will be gradually more constrained over the coming years, however, is a strong motivation for swiftly implementing policies that encourage higher labour force participation, focus on qualification and education, favour productivity growth and remove bottlenecks in physical and digital infrastructure. This would also make the economy more resilient to adverse financial market conditions, weaker world trade or simply the next economic downturn whenever it comes. To be more resilient, we also have to make sure we have the capacity to use macroeconomic policy in the future, which means we need to continue reducing debt; and we need an ambitious push to complete the EMU. The June European Council must not postpone crucial decisions. It is wise to repair the roof while the sun is shining; but when dark clouds already gather on the horizon the task becomes urgent.

Marco Buti
Director General Economic and Financial Affairs

# OVERVIEW: EXPANSION TO CONTINUE AMID NEW RISKS

## Trade disputes could blow expansion off course

Europe's economic expansion became broad-based in 2017…

The European economy grew at its fastest rate in 10 years in 2017, as the recovery spread to all Member States. For the first time since 2007, all Member States saw their economies expand. This performance was supported by high levels of confidence, increased support from a synchronised global expansion, low financing costs, improving private balance sheets and brightening labour market conditions.

…and should continue above potential for some time…

Short-term indicators suggest that the pace of growth has cooled somewhat in early 2018; a pattern that has been influenced by a number of temporary factors. With sound fundamentals and some slack still remaining, the European economy has the room to continue growing above potential rates for some time, with unemployment falling further and inflation increasing only very gradually.

…but its pace is set to moderate in the next quarters.

GDP growth is therefore expected to remain strong, moderating slightly as monetary stimulus is gradually withdrawn and global trade growth eases somewhat. Labour supply and production capacity constraints, however, are set to become increasingly binding in some Member States. Given the large carry-over from its robust expansion at the end of last year, euro area GDP growth is forecast to moderate only mildly from 2.4% in 2017 to 2.3% this year before easing to 2% in 2019. While these are the same growth rates as

*Table 1:*

**Overview - the spring 2018 forecast**

| | Real GDP | | | Inflation | | | Unemployment rate | | | Current account | | | Budget balance | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Belgium | 1.7 | 1.8 | 1.7 | 2.2 | 1.6 | 1.6 | 7.1 | 6.4 | 6.0 | 0.6 | 0.5 | 0.6 | -1.0 | -1.1 | -1.3 |
| Germany | 2.2 | 2.3 | 2.1 | 1.7 | 1.6 | 1.8 | 3.8 | 3.6 | 3.5 | 8.0 | 7.9 | 7.6 | 1.3 | 1.2 | 1.4 |
| Estonia | 4.9 | 3.7 | 2.8 | 3.7 | 2.9 | 2.5 | 5.8 | 6.0 | 6.3 | 2.9 | 3.0 | 2.9 | -0.3 | 0.0 | 0.3 |
| Ireland | 7.8 | 5.7 | 4.1 | 0.3 | 0.8 | 1.1 | 6.7 | 5.4 | 4.9 | 12.5 | 11.9 | 11.5 | -0.3 | -0.2 | -0.2 |
| Greece | 1.4 | 1.9 | 2.3 | 1.1 | 0.5 | 1.2 | 21.5 | 20.1 | 18.4 | -0.9 | -0.4 | -0.5 | 0.8 | 0.4 | 0.2 |
| Spain | 3.1 | 2.9 | 2.4 | 2.0 | 1.4 | 1.4 | 17.2 | 15.3 | 13.8 | 1.8 | 1.5 | 1.6 | -3.1 | -2.6 | -1.9 |
| France | 1.8 | 2.0 | 1.8 | 1.2 | 1.7 | 1.4 | 9.4 | 8.9 | 8.3 | -3.0 | -2.9 | -2.7 | -2.6 | -2.3 | -2.8 |
| Italy | 1.5 | 1.5 | 1.2 | 1.3 | 1.2 | 1.4 | 11.2 | 10.8 | 10.6 | 2.8 | 2.6 | 2.6 | -2.3 | -1.7 | -1.7 |
| Cyprus | 3.9 | 3.6 | 3.3 | 0.7 | 0.7 | 1.2 | 11.1 | 9.0 | 7.1 | -8.1 | -9.0 | -9.7 | 1.8 | 2.0 | 2.2 |
| Latvia | 4.5 | 3.3 | 3.3 | 2.9 | 2.7 | 2.6 | 8.7 | 8.2 | 7.6 | -0.9 | -2.9 | -2.9 | -0.5 | -1.1 | -1.2 |
| Lithuania | 3.8 | 3.1 | 2.7 | 3.7 | 2.7 | 2.3 | 7.1 | 6.8 | 6.7 | -1.5 | -2.3 | -2.9 | 0.5 | 0.5 | 0.3 |
| Luxembourg | 2.3 | 3.7 | 3.5 | 2.1 | 1.5 | 1.7 | 5.6 | 5.3 | 5.2 | 2.7 | 3.0 | 2.8 | 1.5 | 0.9 | 0.7 |
| Malta | 6.6 | 5.8 | 5.1 | 1.3 | 1.6 | 1.8 | 4.0 | 4.0 | 4.0 | 12.6 | 11.5 | 11.3 | 3.9 | 1.1 | 1.3 |
| Netherlands | 3.2 | 3.0 | 2.6 | 1.3 | 1.6 | 2.2 | 4.9 | 3.8 | 3.5 | 10.1 | 9.8 | 9.5 | 1.1 | 0.7 | 0.9 |
| Austria | 2.9 | 2.8 | 2.2 | 2.2 | 2.1 | 1.9 | 5.5 | 5.2 | 5.0 | 2.3 | 2.5 | 2.8 | -0.7 | -0.5 | -0.2 |
| Portugal | 2.7 | 2.3 | 2.0 | 1.6 | 1.2 | 1.6 | 9.0 | 7.7 | 6.8 | 0.5 | 0.6 | 0.6 | -3.0 | -0.9 | -0.6 |
| Slovenia | 5.0 | 4.7 | 3.6 | 1.6 | 1.9 | 2.0 | 6.6 | 5.6 | 5.4 | 6.7 | 6.6 | 5.2 | 0.0 | 0.5 | 0.4 |
| Slovakia | 3.4 | 4.0 | 4.2 | 1.4 | 2.4 | 2.1 | 8.1 | 7.1 | 6.3 | 0.5 | 0.8 | 1.4 | -1.0 | -0.9 | -0.3 |
| Finland | 2.6 | 2.5 | 2.3 | 0.8 | 1.4 | 1.7 | 8.6 | 8.4 | 8.3 | 0.7 | 1.0 | 1.4 | -0.6 | -0.7 | -0.2 |
| **Euro area** | **2.4** | **2.3** | **2.0** | **1.5** | **1.5** | **1.6** | **9.1** | **8.4** | **7.9** | **3.5** | **3.4** | **3.4** | **-0.9** | **-0.7** | **-0.6** |
| Bulgaria | 3.6 | 3.8 | 3.7 | 1.2 | 1.8 | 1.8 | 6.2 | 5.5 | 5.3 | 3.0 | 1.4 | 0.8 | 0.9 | 0.6 | 0.6 |
| Czech Republic | 4.4 | 3.4 | 3.1 | 2.4 | 2.1 | 1.8 | 2.9 | 2.4 | 2.4 | 0.5 | 0.3 | -0.3 | 1.6 | 1.4 | 0.8 |
| Denmark | 2.2 | 1.8 | 1.9 | 1.1 | 0.8 | 1.4 | 5.7 | 5.5 | 5.2 | 7.8 | 7.6 | 7.4 | 1.0 | -0.1 | 0.0 |
| Croatia | 2.8 | 2.8 | 2.7 | 1.3 | 1.4 | 1.5 | 11.1 | 9.6 | 8.5 | 3.6 | 2.8 | 2.1 | 0.8 | 0.7 | 0.8 |
| Hungary | 4.0 | 4.0 | 3.2 | 2.4 | 2.3 | 3.0 | 4.2 | 3.7 | 3.6 | 2.9 | 1.2 | 0.9 | -2.0 | -2.4 | -2.1 |
| Poland | 4.6 | 4.3 | 3.7 | 1.6 | 1.3 | 2.5 | 4.9 | 4.1 | 3.9 | 0.7 | 0.3 | 0.0 | -1.7 | -1.4 | -1.4 |
| Romania | 6.9 | 4.5 | 3.9 | 1.1 | 4.2 | 3.4 | 4.9 | 4.5 | 4.4 | -3.5 | -3.6 | -3.9 | -2.9 | -3.4 | -3.8 |
| Sweden | 2.4 | 2.6 | 2.0 | 1.9 | 1.9 | 1.7 | 6.7 | 6.3 | 6.3 | 4.0 | 4.1 | 4.4 | 1.3 | 0.8 | 0.9 |
| **EU27** | **2.7** | **2.6** | **2.3** | **1.6** | **1.6** | **1.7** | **7.6** | **6.9** | **6.5** | **3.4** | **3.2** | **3.2** | **-0.8** | **-0.6** | **-0.6** |
| United Kingdom | 1.8 | 1.5 | 1.2 | 2.7 | 2.5 | 1.9 | 4.4 | 4.4 | 4.6 | -4.1 | -3.5 | -3.0 | -1.9 | -1.9 | -1.6 |
| **EU28** | **2.4** | **2.3** | **2.0** | **1.7** | **1.7** | **1.8** | **7.6** | **7.1** | **6.7** | **2.2** | **2.2** | **2.2** | **-1.0** | **-0.8** | **-0.8** |
| USA | 2.3 | 2.9 | 2.7 | 2.1 | 2.2 | 2.2 | 4.4 | 4.0 | 3.5 | -2.4 | -2.7 | -2.9 | -4.9 | -5.3 | -5.9 |
| Japan | 1.7 | 1.3 | 1.1 | 0.5 | 1.0 | 1.1 | 2.8 | 2.7 | 2.6 | 4.1 | 4.6 | 4.6 | -3.8 | -3.2 | -2.7 |
| China | 6.9 | 6.6 | 6.3 | : | : | : | : | : | : | : | : | : | : | : | : |
| **World** | **3.7** | **3.9** | **3.9** | : | : | : | : | : | : | : | : | : | : | : | : |

projected back in the winter interim forecast, the growth drivers behind them have changed somewhat and the balance of risks has shifted meaningfully to the downside as a result of recent policy developments and their potential impact on global financial conditions and trade.

Given the ongoing negotiation on the terms of the UK's withdrawal from the EU, the projections for the period after Brexit are again based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK.

The broad-based global upswing is expected to continue…

Momentum in the global economy remains strong, with the broad-based cyclical upswing expected to continue over the forecast horizon despite signs of retreat from recent peaks in some high-frequency indicators. Strong investment growth, buoyant manufacturing output and the continuing upturn in global trade point to well-synchronised and robust growth across advanced and emerging market economies. In the near term, global activity is expected to benefit from the spillovers of a sizeable but pro-cyclical US fiscal stimulus. Global growth (excluding the EU) is projected to pick up from 3.9% in 2017 to 4.2% in 2018 and 2019, somewhat higher than expected in the winter.

…as long as US fiscal policy does not cause overheating and trade tensions de-escalate…

This upward revision is largely due to a better outlook for advanced economies, particularly the US, where the growth forecast has been raised on expectations that a strong fiscal stimulus will provide a temporarily boost to business investment and private consumption. This benign central scenario foresees that the fiscal stimulus would extend the expansion phase of the already very mature US business cycle into 2019. It also assumes a de-escalation of trade tensions and the limiting of protectionist actions to relatively few sectors and countries. Growth in emerging economies is projected to reach 5% in 2018 and 2019, supported by robust growth momentum in China, firming commodity prices this year, an investment-led strengthening of growth in advanced economies and still favourable financing conditions.

…while a moderation in investment should trigger an easing in world trade growth.

Under such prospects, non-EU world imports are expected to grow by around 5% in 2018, a touch less than last year but about one percentage point more than expected back in the autumn. World import growth (excluding the EU) is then forecast to ease to 4.5% in 2019, as the boost to investment from the US stimulus package wanes gradually, China continues to move away from investment-led to consumption-driven growth, while commodities-related fixed investment moderates in view of the assumed price declines.

Financial markets have become more volatile…

After a prolonged period of relentless appreciation, global financial markets have recently displayed signs of stress. In a context of relatively high US equity market valuations and compressed risk premia, markets reacted to any signs hinting at stronger-than-expected interest rates increases. The market stress episode in the US was mirrored in other regions and notably in Europe. The recent adjustment of global equity prices looks however minor by historical standards and did not expand into other market segments.

…but remain confident so far on the pace of monetary policy normalisation…

A recalibration of monetary policies has gradually started to different degrees across major regions of the world, but so far, investors expect that the unwinding of unconventional monetary policy measures will lift interest rates in an orderly way. In the euro area, benchmark sovereign bond yields temporary moved higher at the beginning of this year before dropping again on the back of low inflation figures and their status as safe haven assets in a period of higher equity market volatility. Yields remain very low in historical terms and investors are still pricing in only a moderate rising trend. Sovereign bond spreads for peripheral Member States continued to narrow while euro area corporate spreads widened only slightly.

…while the euro was supported by strong confidence…

The euro appreciated broadly and significantly against major currencies over the course of 2017 but has been broadly stable against the US dollar in recent months. The euro's value against the dollar is supported by more favourable investor sentiment towards the euro area and the uncertainty surrounding US fiscal and trade policies. Based on the standard technical assumptions, the euro's nominal effective exchange rate is now set to appreciate by about 5% this year, with the bulk of this appreciation having already taken place.

…and private sector funding remains easy.

Financing conditions remain very supportive in the euro area and lending growth is projected to continue increasing over the forecast horizon. Supported by a slight steepening of the yield curve and improved fundamentals including strengthened capital ratios and lower non-performing loan ratios, the EU banking sector is in a good shape to cope with further increases in lending to the private sector.

A shift in the euro area growth drivers has taken place…

The recent strengthening in the external environment created scope for euro area exports to outpace GDP growth by a considerable margin. The composition of growth has thus changed compared to 2016 with a stronger contribution from investment and in particular from net exports to the expansion in the euro area. This combination has made the outlook more sensitive to trade tensions and confidence effects.

…as private consumption lost some momentum…

Private consumption in the euro area slowed in 2017 as inflation picked up and dampened household real disposable income growth, with households reducing their saving rate slightly in response. Looking forward, private consumption growth is expected to remain supported by solid fundamentals and elevated consumer confidence. Households' net worth benefits from increasing house prices and stock market gains. Wages and salaries are expected to pick up on the back of tighter labour markets, while employment growth is expected to slow down. Overall, as inflation is forecast to increase only very gradually, despite the recent oil price increase, the purchasing power of households should strengthen. Private consumption is then set to expand at a moderate but sustained pace over the forecast horizon.

…investment bounced back and should be supported by favourable conditions…

Investment in the euro area (excluding Ireland, where quarterly data are volatile) grew last year at its highest pace since 2007 and is showing signs of a broad-based pick-up across countries. This recovery was supported by elevated business confidence, a high level of order books and capacity utilisation, improving corporate profitability, and low financing costs. The global upswing has also contributed to investment demand. Most of these positive factors are expected to remain in place in the near term, allowing for a robust pace of investment growth this year with all Member States contributing to this expansion. The Investment Plan for Europe is also expected to continue supporting investment, while rising incomes bode well for construction investment. Equipment investment, by contrast, is expected to decelerate next year as world trade moderates, long-term interest rates gradually rise and uncertainty surrounding the external environment continues.

...while net trade made a strong contribution to growth that is set to decline going forward...

Euro area exports accelerated strongly in 2017, in line with the pick-up in foreign demand in the second half of the year. Despite the euro's appreciation, euro-area exporters even gained market share, a development consistent with declining relative unit labour costs and high demand for investment goods. As a result, net trade made an unexpectedly strong contribution to GDP growth last year, fed also by a slowdown in imports, itself partly fuelled by lower energy imports. In the first months of this year, export orders increased further to reach their highest level since the end of 2007. Euro area export growth is expected to rise further this year on the back of the strong demand in export markets but should ease in 2019 in line with the expected slowdown in world trade and the lagged impact of the euro's recent appreciation. Amid more robust import growth, net trade is projected to make a positive but more limited contribution to growth this year that should almost vanish in 2019.

...and the euro area current account surplus should stabilise at historically high levels.

The euro area's current account surplus is forecast to recede only slightly from its historical peak of 3.5% of GDP last year and to stabilise at 3.4% of GDP over this year and next. This is expected to occur as increasing global activity and rising gross saving rates should counter the negative effects of the euro's past appreciation, the rebound in commodity prices and stronger domestic demand.

Labour market tightening is set to limit employment growth...

The strengthening economic expansion has led to a further improvement in the labour market situation: unemployment in the EU and the euro area is now back to, or just above, pre-crisis levels; employment in terms of both the number of persons and working hours is rising; and there is less slack in the labour market. In 2017, the number of employed persons in the euro area was at its highest level since the start of the Economic and Monetary Union in 1999. Employment growth in 2018 and 2019 should continue benefitting from the economy's continued robust expansion. Although underemployment indicators suggest there is still some untapped potential, overall employment growth is nevertheless expected to slow due to tightening labour markets in some Member States. The fading of temporary fiscal stimuli in some countries and a moderate rise in labour productivity growth are also expected to dampen employment growth. Net job creation in the euro area is projected to slow from 1.6% in 2017 to 1.3% in 2018 and 1.1% in 2019. This slowdown, combined with steady growth in the labour force, is expected to limit further declines in the unemployment rate compared to previous years.

...but the outlook for inflation remains one of a very gradual pick-up from low levels...

Euro area headline inflation receded somewhat in the first quarter of this year while core inflation, which excludes energy and unprocessed food prices, is showing signs of a gradual but moderate recovery. Oil prices have rebounded in recent months. Combined with base effects, this should produce a hump-shaped quarterly inflation profile this year, but given its lower-than-expected level at the start of the year, the expected annual headline inflation rate would not be affected. Later on, however, headline inflation is expected to track core inflation's gradual upward movement more closely. Underlying inflation is expected to steadily gather pace as labour markets become progressively tighter, wages accelerate and estimated output gaps become increasingly positive in a larger number of Member States. As the overall rise in unit labour costs is expected to remain contained, the pass through of higher wages into inflation should be limited. The forecast for headline inflation is unchanged since the winter interim forecast at 1.5% in 2018 and 1.6% in 2019.

…while public finances continue to benefit from sound cyclical conditions…

The euro area's general government deficit-to-GDP and gross debt-to-GDP ratios continued to decline in 2017, on the back of robust growth and historically low interest rates. Further declines of the headline deficit are forecast in both 2018 and 2019, mainly due to the impact of improving labour market conditions on social transfers and lower interest expenditure. The latter is expected to fade by 2019. The euro area's general government deficit is expected to fall to 0.6% of GDP in 2019. This compares to a deficit expected at 5.9% of GDP in the US and 2.7% of GDP in Japan. The improved outlook for nominal GDP growth compared to the autumn and low interest rates should continue to support the deleveraging of the public sector. Debt-to-GDP ratios are projected to decline in almost all Member States and, based on a no-policy-change assumption, the euro area ratio is expected to fall to 84% in 2019, which is 7 pps. below its 2016 level.

…and macroeconomic policies are set to remain supportive…

The fiscal policy stance for the euro area, as measured by the change in the structural balance, is expected to be broadly neutral this year. Monetary conditions in the euro area are expected to remain very accommodative. Short-term money market rates are set to increase gradually in 2019 but should remain negative in real terms. Nominal long-term rates are assumed to continue trending up modestly, but a renewed gradual increase in long-term inflation expectations should also keep real long-term financing costs in negative territory.

…but downside risks have meaningfully increased and look likely to stay for some time.

Risks to the growth outlook are now tilted to the downside, as domestic upside risks have faded and downside risks to the global outlook have increased significantly in both the short and the medium term.

Within Europe, given the recent drop in high frequency indicators, near-term upside risks have diminished. Also, while the current forecast interprets the weakness in the first quarter of this year as largely due to temporary factors, this could prove otherwise. Nevertheless, beyond the near-term, the growth momentum could prove stronger and more durable than currently expected as the investment weakness in the first post-crisis years might have left more pent-up investment demand than currently envisaged. In addition, the impact of growth-friendly policies could be larger than expected and extend the acceleration of investment beyond this year.

Outside Europe, the sizeable pro-cyclical fiscal stimulus in the US could accentuate risks of overheating and lead to a stronger-than-assumed monetary policy reaction. Tighter financing conditions and the build-up of fiscal imbalances could raise sustainability concerns and increase the likelihood of a more abrupt correction later on. If higher interest rates were to lead to investor risk aversion globally, there could be significant spillovers in terms of capital flows, financial market stability and financial conditions. Europe's real economy would not remain immune to abrupt market corrections.

The ongoing tensions on trade present an unambiguously negative risk to the global economy. While the increase in tariffs decided so far by the US administration, and the retaliation measures decided by China, should have only a marginal impact on the global outlook, further escalation would be more harmful and could also lead to a sustained loss of confidence in the global multilateral trading system, or further disruption to global supply chains.

The combination of a pro-cyclical fiscal stance and inward-looking trade policies presents a dangerous nexus. Due to its openness and the recent shift in its growth drivers towards exports and investment, the euro area would be particularly vulnerable. Protectionist policies could also trigger market corrections at a time of rising leverage among both sovereigns and corporates in many emerging market economies. Euro area countries with large private or public debts would also be more exposed.

Beyond the risks associated with trade tensions, there are additional downside risks related to geopolitical tensions in other parts of the world. Within Europe, risks related to the outcome of the Brexit negotiations remain.

# PART I

## EA and EU outlook

# EXPANSION TO CONTINUE AMID NEW RISKS

## Trade disputes could blow expansion off course

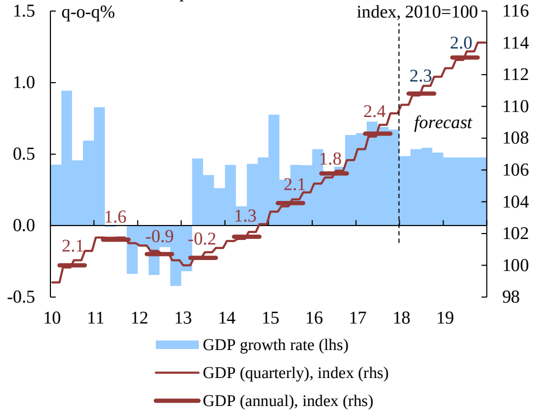
*The European economy has continued to move forward with what has become a more broad-based and stronger economic expansion. In 2017, the euro area economy has recorded at 2.4% its highest annual growth rate in 10 years. Overall, the economy is expected to continue to expand at a similar though slightly more moderate pace this year and next, but external downside risks have increased markedly, and the vulnerability of economic growth to foreign trade or financial shocks may have increased due to a stronger reliance on net exports and investment.*

*Viewed over a longer time perspective, the European economy is making progress in shaking off much of the experience of the economic and financial crises. Beyond overcoming the legacies of the crisis, the anticipation of improving future prospects has strengthened the growth momentum. The European economy is growing at a rate above its potential growth rate and unemployment continues to fall. Inflation, however, remains subdued. Although recent short-term indicators point to somewhat slower growth, this appears likely to result from temporary factors. Looking ahead, growth cannot run above potential forever. Monetary stimulus that has massively supported economic momentum in recent years is set to be gradually withdrawn. Strong employment growth has absorbed large parts of the labour force and reduced the untapped potential. With supply constraints becoming more binding in some sectors and economies, growth is set to moderate somewhat in the euro area in 2018 (2.3%) and in 2019 (2.0%). Inflation is expected to increase very gradually (1.5% in 2018, 1.6% in 2019).*

*Viewed from a more recent perspective, the precise position of the economy in the business cycle is difficult to assess as indicators of remaining slack suggest room for further GDP growth to continue at above potential rates even though other evidence shows supply constraints emerging. The recent drop in survey and 'hard' data has largely removed the risk that growth could turn out stronger than forecast in the near term. Moreover, the outlook is surrounded by higher downside risks. Some of the main determinants of Europe's economic expansion – an improved demand outlook benefitting from strong global trade and elevated confidence – could suffer from the introduction of more protectionist measures, or tighter global financial conditions. The new tariffs implemented thus far are rather limited in size, but further measures under consideration could magnify the negative impact on the global outlook. Due to its openness, the European economy would be negatively affected as well. High global debt, compressed risk premia and the imbalances likely to result in the medium term from the pro-cyclical fiscal stimulus in the US could lead to worse financing conditions than currently expected.*

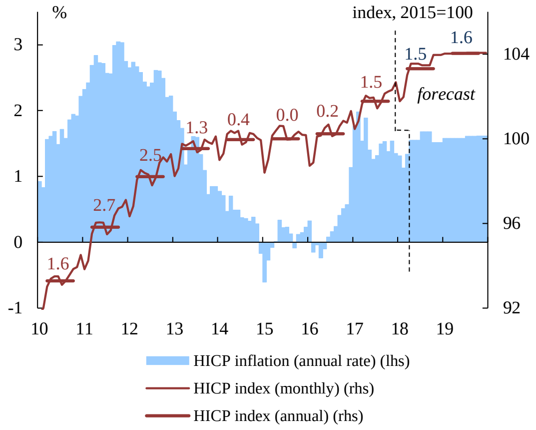
*Changes will follow the end of the UK's membership of the EU in March 2019, but given the ongoing negotiation on the terms of the UK's withdrawal from the EU, the projections for 2019 are again based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. All in all, risks to the growth outlook are now tilted to the downside, in particular for the medium term, while risks to inflation projections are broadly balanced.*

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




*Figures next to horizontal bars are annual growth rates.*

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



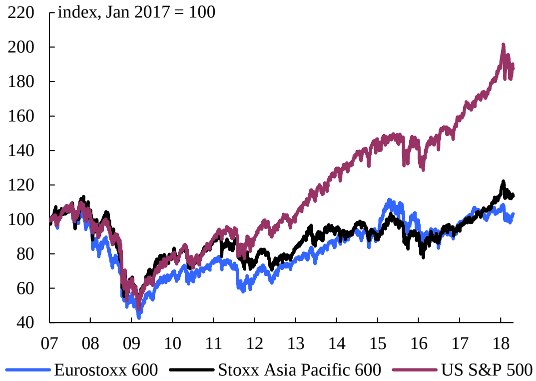

*Figures next to horizontal bars are annual inflation rates.*

## 1. PUTTING THE FORECAST INTO PERSPECTIVE: THE FINANCIAL-ECONOMIC NEXUS

### Global financial markets have shown signs of stress recently

After having appreciated relentlessly for some time on the back of the improving economic situation and low (negative) real interest rates, some financial asset prices experienced a correction earlier this year (Graph I.3).

*Graph I.3:* **Stock market performance**

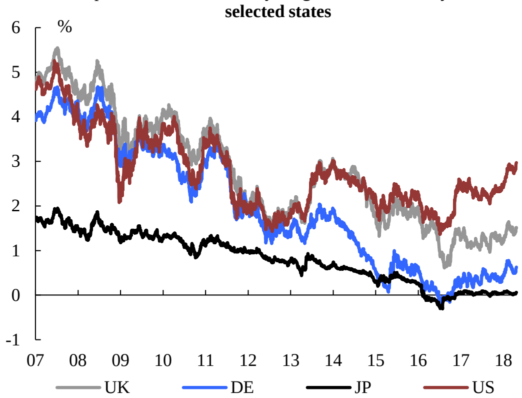



*Source: Macrobond.*

Equity and bond prices have risen substantially since the financial crisis, creating an exceptionally favourable market context by historical standards. Benchmark sovereign bond yields have also fallen lower due to a combination of weak inflation and exceptional levels of monetary policy stimulus (Graph I.4). Lower bond yields have helped to nourish equity prices as investors reallocated assets in search of returns, a trend that was reinforced by the quantitative easing programs of major central banks. Subdued wages and interest rate costs have boosted corporate earnings, hence further supporting the equity risk premia. [(1)]

In such a setting, equity prices could continue to rise without necessarily compressing risk premia. In addition, a number of corporates, mainly large US firms, used their profits and their capacity to issue bonds at very low yields to buy back shares, a practice that contributed significantly to soaring equity prices in recent years. All these positive developments on financial markets supported the economy, essentially via low funding costs for households and corporations and, to some extent, via wealth and confidence effects.

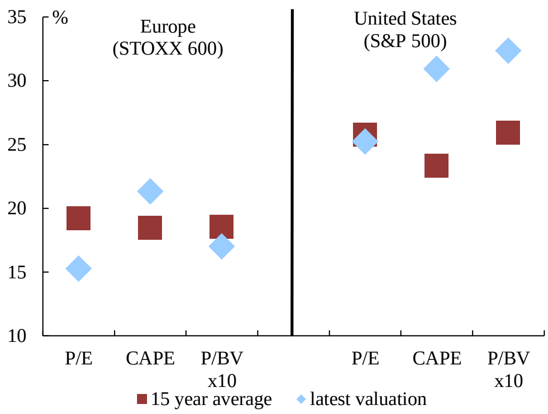
*Graph I.4:* **Benchmark 10-year government bond yields, selected states**




*Source: Macrobond.*

The rise in equity prices since their trough in 2009 has been remarkable to the extent that valuations now look rather stretched. This is mainly true in the US, where equity valuations are currently above historical averages across a range of valuation metrics. In the euro area, by contrast, stock valuations remain broadly in line with historical averages (Graph I.5).

*Graph I.5:* **US and Europe equity valuation**




*Notes: The last valuation is February 2018, or latest available.*
*Source: Macrobond, Barclays Bank, Standard & Poor, Stoxx.*

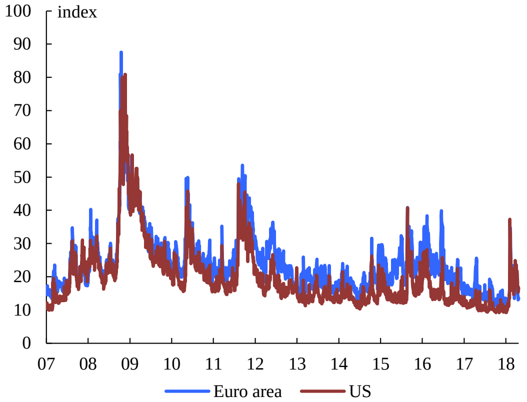
When looking at the risk premia, the difference between the US and the euro area equity markets appear even more striking, as long-term benchmark yields are currently significantly lower in the euro area compared with the US. US 10-year benchmark yields disconnected with euro area and

(1) Equity risk premia is the difference between the expected return on equity and the risk-free rate. It compensates investors for the higher risk of equity investments. Being forward-looking, the expected return on equity is a theoretical measure. A simple but not uncontested metric is to consider the earning yield as proxy for the expected return on equity. For more, see: Duarte F. and C. Rosa (2015). 'The Equity Risk Premium: A Review of Models'. *Economic Policy Review* (Federal Reserve Bank of New York) 21:2, pp. 39-57.

UK peers already in 2013 and moved upwards more strongly in late 2017 - early 2018. Such differentials in equity valuations and risk free yields entail a significantly narrower risk premium on equity indices in the US compared with the euro area.

With US equity markets richly valued and risk premia compressed, investors have become sensitive to any signs that interest rates could rise more than expected. In this context, the release of an unexpected pick-up in US wages earlier this year (on 2 February) triggered temporary market turmoil, as it fuelled concerns that wage increases could lead to a pick-up in headline inflation and push the US Federal Reserve to raise interest rates more quickly. This episode of market stress in the US was mirrored in other parts of the world, including in Europe. From late January to early February the US S&P 500 declined by 10% while Europe's Stoxx 600 lost 8.5%. Beyond compressing equity risk premia, higher corporate costs such as wages and interest rates also have a negative effect on earnings, which has the potential to put further pressure on equity prices. The strong contagion from the US to European equity markets suggests that most investors still think that European and US economic and financial cycles are unlikely to de-correlate. It is also indicative of the perceived idiosyncratic weaknesses of the European economy, ranging from political risks to legacy issues in the banking sector.

*Graph I.6:* **Stock market volatility**

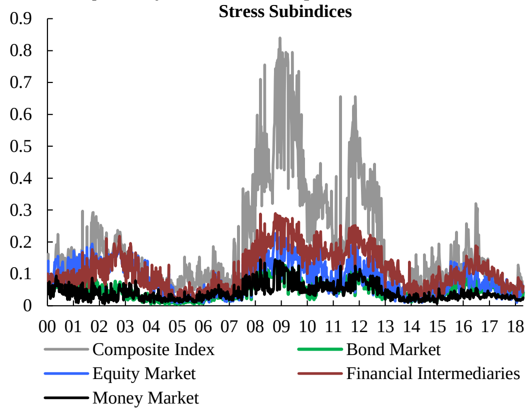



*Source: Macrobond.*

## There are no signs of significant stress in the wider financial market…

The recent jitters in global equity markets look minor by historical standards and did not spill over into other market segments. In the euro area, sovereign bond spreads for peripheral Member States continued to narrow, confirming the view that this asset class seems to have de-correlated from traditional risky assets such as equity and corporate bonds. Euro area money markets also remained unaffected during this period, while euro area corporate spreads widened only slightly. Consistent with these observations, the usual systemic stress risk indicators do not raise any alarms at this stage (see Graph I.7). [(2)] There are also no signs that the recent market jitters have provoked any economic disturbance. Looking forward though, risks for further and more significant adjustments in financial markets exist on the back of external risks and pending vulnerabilities in the European financial system. It is therefore warranted to explore the likely impact of financial market adjustments on macro-economic developments in Europe.

*Graph I.7:* **Systemic Stress Composite Indicator Index and Stress Subindices**




*Source: ECB.*

## …but financial vulnerabilities remain globally and in Europe.

In the euro area, short-term risks to financial stability remain low thanks to the current broad-based cyclical economic recovery associated with still sustained unconventional monetary policy. However, risks in the medium-term are rather elevated as prolonged monetary accommodation at the global level, while necessary to support economic growth and inflation, has also provided conditions for a further build-up of vulnerabilities in the global financial system. [(3)] The excess money has spurred yield-chasing strategies among investors who have

(2) For a better understanding of these indicators, see Holló, D., M. Kremer and M. Lo Duca (2012). 'CISS – A composite indicator of systemic stress in the financial system'. *ECB Working Paper Series* 1426.

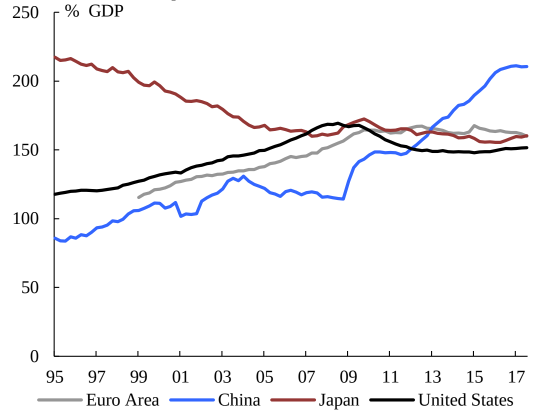
(3) See International Monetary Fund (IMF) (2018). 'Global Financial Stability Report: A bumpy road ahead'. April.

increased their exposure to equities and riskier bonds with longer durations, accepting higher credit and liquidity risk to boost returns. A recalibration of monetary policies is gradually starting to different degrees across the world's major economies and is likely to end the protracted period of very low interest rates. Given the current context of high asset valuations and leverage, this process may be accompanied by financial market volatility and subsequent effects on the economy at large.

In stock markets, the valuation of shares in the euro area remains more moderate than e.g. in the US, but equity markets could still suffer from contagion effects of a correction in global markets. Investors currently expect that the unwinding of unconventional monetary policy measures in major regions of the world will lift risk-free interest rates in an orderly way. However, as the stress episode earlier this year has shown, increasing uncertainty over the inflation outlook could lead to significant and rapid increases in term premia with reverberations in risky asset classes. In this light, the pro-cyclical US fiscal stimulus is a potential concern, as it could lead to further upward pressure on interest rates, if it causes the economy to overheat. In such scenario, tighter labour markets leading to higher wages and inflation could speed up the tightening of monetary policy in the US. At the same time, higher US public deficits will increase the supply of treasuries, which could lead to further upward pressure on yields. A much sharper-than assumed increase in global interest rates remains a major global risk over the coming years (cf. Section I.2)

A medium-term risk is the possible re-emergence of public and private debt sustainability concerns in a context of high public and private global debt levels. In the euro area, the indebtedness of the non-financial private sector remains relatively high with modest deleveraging since the crisis peak (see Graph I.8). [4] High debt levels is making the financial system vulnerable to increases in interest rates, as it would engender refinancing pressures and stretch the debt servicing capacity of weaker borrowers. An increase in interest rates would also raise the costs for governments to service their debt. While the risk of short-term fiscal stress remains generally contained, a reversal in historically low interest rates could act as a headwind to debt sustainability in several Member States.

*Graph I.8:* **Private sector debt to GDP**




*Source: BIS.*

The Commission's Debt Sustainability Monitor (January 2018) sees no Member State at high risk in terms of fiscal sustainability in the short term. However, ten Member States (BE, ES, FR, HR, IT, HU, PT, RO, FI, UK) are deemed at high fiscal sustainability risk in the medium-term, as a result of inherited high post-crisis debt burdens, weak projected fiscal positions in some cases and / or sensitivity to unfavourable shocks. [5]

Market sentiment towards the EU banking sector has improved notably, as the ongoing economic recovery, a slight steepening of the yield curve and sizable declines in non-performing loan ratios have supported banks' earnings' prospects. Furthermore, leverage and total risk exposures have been reduced and funding sources have become far more stable. Although the EU banks' balance sheets and business models have become much more sustainable, the remaining stock of NPLs, high cost-to-income ratios and excess capacity remain a challenge in several countries in the medium term.

A traditional factor of risk for banks is linked to property markets and in particular residential property markets. Amidst a broad based rise in house prices, mortgage lending has continued to expand in most European countries, though its growth is generally moderate. Nevertheless, the synchronicity of housing dynamics across countries in a context of an accommodative monetary policy environment could be a factor of

(4) The still high leverage in the euro area in the post crisis period is also due to the weakness in nominal GDP. There are large cross-country differences in debt to GDP levels and evolutions with some Member States engaged in active deleveraging after the crisis.

(5) See European Commission (DG ECFIN) (2018). 'Debt Sustainability Monitor 2017'. Institutional Paper 071, January.

global financial stability risk as a reversal of financial conditions could lead to simultaneous declines in house prices. [6] In the EU, house prices are accelerating in most Member States which requires monitoring for possible overheating risks. While indicators point to overvaluation in some Member States, valuations are overall below earlier peak levels. [7]

The shadow banking system [8] has increasingly moved into the focus of financial risk assessments due to its rapid growth in size and its interconnectedness with the banking industry. [9] In a search for yield, investment funds have been gradually increasing the duration and credit risk of their exposures, making them more exposed to interest and credit risk. At the same time, entities with low risk profile such as the insurance and pension fund sectors have had to cope with the low-yield environment. While market-based financing carries its own risks, considering that many EU economies were excessively reliant on the banking sector before the crisis, the diversification of funding should overall be positive for both economic growth and financial stability.

A rise in risk premia could also be triggered by other factors, e.g. the materialisation of geopolitical risks.

### Adverse financial developments are empirically linked with economic downturns…

The experience of the financial crisis has amply demonstrated the need to reflect financial conditions in macroeconomic forecasts. Financial vulnerabilities can increase both the duration and severity of economic recessions as they generate financial frictions in the event of a shock on economic activity that can amplify economic downturns. Financial stress indicators (Graph I.7) are widely used to link financial information with the economic situation. A composite financial conditions index aggregates the information content of multiple financial indicators. In this way, such an index can capture idiosyncratic sources of financial tensions and shifting risks.

However, aggregation may obscure relevant developments in different market segments that are equally important for financial stability and policy. Forecasters therefore routinely monitor a range of price (asset prices, interest rates) and volume (credit) indicators. Short-term yields on risk-free bonds and term spreads, for example, are aligned with monetary policy and therefore contain information about expectations for future economic activity. [10] Equity and housing prices are indicative for possible output contractions. [11] As asset prices tend to be buoyant until shortly before risks materialise, tightening financial conditions visible on asset prices, such as equity and corporate bond markets, appear to be a good predictor of macroeconomic downturns in the short run (within one year).

Besides indicators based on asset prices, volume indicators such as credit aggregates and leverage are intimately linked with the economic cycle. A cyclical analysis for EU countries shows that long cycles in real GDP are closely related to those in house prices and bank credit. [12] Volume indicators also provide information of the build-up of vulnerabilities which is informative of risks to GDP, i.e. strong credit growth leading to higher leverage signals increased downside risk to economic growth in the medium term. [13] In the present forecast, projections for credit growth in the euro area are presented for the first time (see Section I.3).

(6) See IMF (2018). 'House price synchronization: what role for financial factors?'. Global Financial Stability Report, April, pp. 93-133.

(7) See European Commission (EC) (2018). 'European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No1176/2011'. March.

(8) The shadow banking system refers to non-bank financial intermediaries and financial activities that are not subject to the traditional regulatory oversight applied to banks. It includes investment firms, hedge funds, insurance companies, unlisted derivatives, etc. Following the financial crisis however, these entities and instruments have come under increasing scrutiny and regulations.

(9) See European Systemic Risk Board (ESRB) (2017). 'EU Shadow Banking Monitor'. May.

(10) See Bernanke, B. and A. Blinder (1992). 'The Federal Funds Rate and the Channels of Monetary Transmission'. *American Economic Review* 82:4, pp. 901–21.

(11) See Bluedorn, J. C., J. Decressin and M. E. Terrones (2016). 'Do asset price drops foreshadow recessions?' *International Journal of Forecasting* 32:2, pp. 518-526.

(12) ECB (2018). 'Real and Financial Cycles in EU countries: Stylized facts and modelling implications'. ECB *Occasional Paper* 205.

(13) See IMF (2017). 'Growth at risk: a macroeconomic measure of financial stability'. Global Financial Stability Report, October, pp. 91-118 (Chapter 3).

### …but synchronisation between financial and economic variables does not automatically imply causality.

Beyond the observed correlation between financial-market indicators with the business cycle, it is important to grasp the mechanisms and transmission channels through which they actually affect macroeconomic variables. For instance, equity price movements are ample and tend to anticipate changes in economic situation, yet the direct channels by which equity price drops cause harm to the economy are weak. Non-financial companies do not rely heavily on equity markets for funding in the EU and wealth effects are small. However, a significant and widely broadcast stock market crash could impact confidence and thereby the decisions of economic agents.

This forecast incorporates the assumption of a gradual and smooth increase in long-term interest rates. However, as argued above, a sharper increase cannot be excluded. For assessing how this might affect the real economy it is useful to examine the likely impact of higher benchmark yields on different sectors of the economy.

Governments have in recent years increased the average maturity of their outstanding debt stock by emitting debt with longer maturities. [14] Budget deficits, and with them the need for new net issuance, have decreased in the euro area. For the euro area as a whole, a 30 bps. increase in yields would require the primary surplus to rise by 0.2 pps. in order to stabilise debt ratios. Nonetheless, in highly indebted Member States, even a moderate increase in yields would require substantial additional efforts.

The household sector is exposed to changes in interest rates through its debt (mostly mortgage debt) and the remuneration on its savings. The effect of higher rates varies across countries, depending on the prevalence of floating-rates vs. fixed long-term contracts in mortgage debt and the overall level of indebtedness. At the same time, higher yields boost the income of net savers among households.

Non-financial companies have predominantly floating rate loans, which means that higher interest rates are passed through quickly. However, their leverage has decreased since the crisis and credit growth to the non-financial corporate sector has been slow. Risks of significant macroeconomic repercussions are largest where firms continue to be burdened by high debt.

Finally, banks should on the whole benefit from an increase in net interest margins resulting from a steepening of the yield curve. The losses from their trading books occur immediately but they are relatively small compared with the margin gains. The non-bank financial sector, mainly insurance, pension and investment funds, should benefit over time from increased returns on their assets.

### Causality between bank credit and business cycles goes both ways

Turning next to the linkages between credit volumes and the business cycle, [15] periods of benign financial conditions support economic activity but also provide a fertile breeding ground for the accumulation of financial vulnerabilities. Indeed, improved economic circumstances reflected in higher asset prices tend to improve capital adequacy and the lending capacity of banks. [16] Meanwhile, easier lending conditions and low interest rates push households and corporations to get more indebted, reducing the incentives to manage liquidity and solvency risks. In a downturn, when asset prices used as collateral by borrowers drop, lenders face balance sheet impairments and maturity mismatches leading banks to tighten overall credit conditions. Such financial frictions amplify declines in investment and economic growth during credit cycle downturns and put a break on economic recoveries that follow. [17] In the particular case of household debt, there is evidence of a trade-off between the short-term benefits of rising household debt to economic growth and the medium-term costs to financial stability and macroeconomic development. [18]

The current cyclical position of credit in the euro area is somewhat mixed (see Graph I.9). Mortgage

(14) IMF (2018). 'Fiscal Monitor: Capitalizing on good times'. April.

(15) Bernanke, B., M. Gertler and S. Gilchrist (1996). 'The Financial Accelerator and the Flight to Quality'. *The Review of Economics and Statistics* 78:1, pp. 1-15, February.

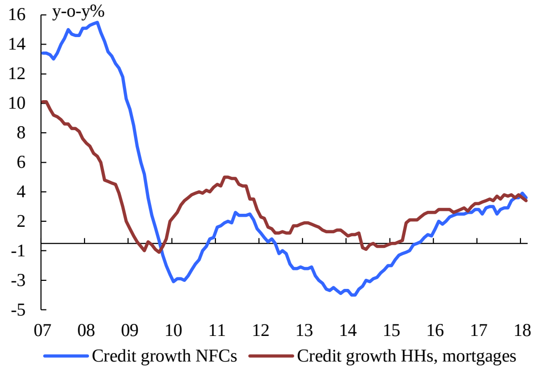
(16) Adrian, T. and H. S. Shin (2010). 'Liquidity and leverage'. *Journal of Financial Intermediation* 19:3, pp. 418-437, July.

(17) Reinhart, C. M. and K. S. Rogoff (2014). 'Recovery from financial crises: Evidence from 100 episodes'. *American Economic Review* 104:5, pp. 50-55.

(18) See IMF (2017). 'Household debt and financial stability'. Global Financial Stability Report, October, pp. 53-89.

credit growth has recovered more quickly since the crisis, propping up housing prices. Meanwhile bank credit to non-financial companies entered a cyclical upturn much later, in 2016, after many years of declines. Overall, and despite pockets of vulnerabilities in some countries, the bank credit cycle has scope to remain strong, backed by low interest rates and the effective transmission of monetary policy to a sounder banking system (see Section I.3).

*Graph I.9:* **Bank lending to households and non-financial corporations, euro area**




*Source: ECB.*

### Risks stem from global financial markets rather than from domestic imbalances.

In conclusion, while the recent market turmoil may appear rather benign in a historical perspective, it serves as a warning that asset prices can adjust abruptly, particularly in a context of upbeat investor expectations of strong growth and low inflation that have led to high equity valuations amid low interest rates. Risks for further and possibly more severe repricing of financial assets exist with numerous triggers linked to the vulnerabilities that build-up in the financial system and possible policy changes, such as damaging protectionist measures. In particular, an abrupt increase in global long-term interest rates, e.g. in response to inflationary surprises, could be destabilising in the context of high private and public indebtedness and could affect the real economy substantially. Sharp drops in equity prices have a weaker direct effect on the real economy unless they permanently depress expectations. This being said, equity market downturns signal economic downturns. Euro area banks are now in a better shape than in the aftermath of the crisis and credit growth remains moderate, having picked up rather late in the recovery. At the same time, financing and risks have been shifting towards markets and non-bank sectors. This diversification of funding sources in the euro area may lessen the strong historical link between bank credit and economic cycles. The financial outlook in the euro area appears thus overall benign as such; risks are mostly related to confidence spillovers or sharply higher global interest rates and risk premia.

## 2. EXTERNAL ENVIRONMENT

Global growth momentum remains strong, with the broad-based cyclical upswing expected to continue over the forecast horizon. Strong investment growth, buoyant manufacturing output and the continuing rebound in global trade all point to well-synchronised and robust growth across both advanced and emerging market economies. In the near term, global activity is expected to benefit from a highly pro-cyclical fiscal stimulus in the US, which should temporarily raise activity and have positive spillovers on the global economy. However, risks to the global outlook have increased markedly and are largely linked to shifts in US fiscal and trade policies. The strong fiscal stimulus in the US could lead to the overheating of the economy, triggering stronger-than-expected monetary policy normalisation and tightening of global financial conditions. The protectionist shift underway in US trade policy entails additional downside risks to the US and global economy and could have an exacerbating effect on other tail risks, including financial vulnerabilities related to stretched market valuations, compressed risk premia and high leverage in some advanced and emerging economies.

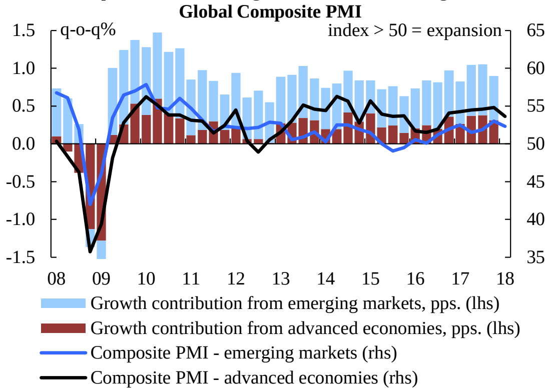
### Global growth momentum still strong but risks are higher

The global economy performed well in the second half of 2017 although global real GDP growth (excluding the EU) edged down somewhat in the fourth quarter of the year to 0.9% (q-o-q), following two quarters of above 1% growth. This deceleration was broad-based with large advanced economies and emerging markets posting somewhat weaker GDP outturns (including the US and Japan as well as China, Brazil and Russia). In the US, this was to a large extent due to exceptionally weak inventory accumulation and weaker net exports while growth in other domestic GDP components remained buoyant. Among emerging markets, growth remained strong in emerging Asia and surprised positively in South

Africa while a slowdown was registered in Brazil and Russia in the final quarter of last year.

Some high-frequency indicators have retreated from their peaks registered around the turn of this year, aligning them more with latest readings of hard data. The Global Composite PMI fell to a 16-month low, while the Global Manufacturing PMI fell to a five-month low in March 2018, likely reflecting escalating trade tensions but also a correction of the strong upward trend observed in recent quarters (Graph I.10). Still, global PMIs remain firmly in expansionary territory – for both advanced and emerging economies – and post multi-year highs if averaged within the first quarter of 2018.

*Graph I.10:* **Growth in global GDP and JPMorgan Global Composite PMI**

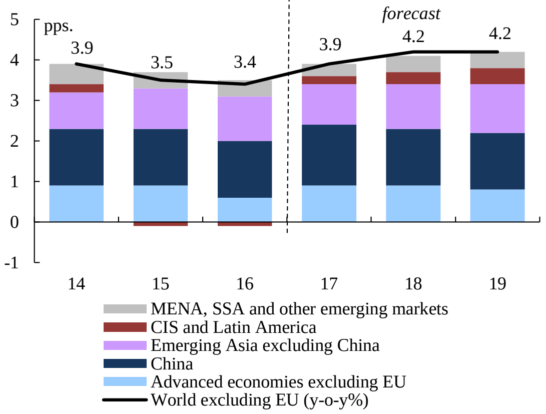



*Source: OECD, IMF and national statistical institutes for GDP, JPMorgan/IHS Markit for PMI.*

Over the forecast horizon, global growth outside the EU is projected to pick up from 3.9% in 2017 to 4.2% in both 2018 and 2019, some 0.2 pps. higher than projected in the autumn. This upward revision reflects the better outlook for advanced economies, attributable to the higher US growth forecast (see Graph I.11).

Tax reform and additional federal spending are expected to boost US growth in the near term through both higher business investment and private consumption. The US fiscal stimulus should have some positive spillovers on the global economy, mainly in the short term, by raising import demand. Importantly, the central scenario depends crucially on the US economy's response to stimulus and the outlook for trade policy. The fiscal stimulus is expected to extend the expansion phase of the already very mature US business cycle into 2019 and to result only in a very moderate increase in inflation and further gradual normalisation of monetary policy, in line with market expectations. This forecast is based on the assumption of a gradual de-escalation of trade tensions, with protectionist actions limited to relatively few sectors and countries.

*Graph I.11:* **Global GDP growth (excluding the EU) and contributions by region**




Trade tensions have been rising since the beginning of 2018, with the US implementing safeguard tariffs on solar panels and washing machines in January and imposing tariffs on steel and aluminium imports (worth roughly USD 48 bn) on the grounds of 'national security' in March. These measures were met with retaliation by China, which first imposed tariffs on sorghum originating from the US and then on a number of US exports, mainly scrap metal and certain foods. Further measures have since been announced by the two countries: the US announced the imposition of tariffs on more than 1300 products (mainly intermediary inputs and capital goods worth a total of about USD 46 bn) originating from China; and China announced a plan to impose import tariffs on more than one hundred US goods (mainly transportation and vegetable products), of roughly the same value. Furthermore, the US is considering imposing additional tariffs on USD 100 bn worth of imports from China. On the other hand, several important US trading partners, including the EU, Mexico, Canada, Republic of Korea and Brazil have been granted an exemption or a temporary exemption from the steel and aluminium tariffs. Overall, the trade measures that have been implemented by the US administration until the cut-off date of this forecast imply a still relatively limited increase in the average tariffs and should have a rather marginal impact on global growth, although the risks are to the downside.

*Table I.1:*

**International environment**

| (Annual percentage change) | ( a ) | 2014 | 2015 | 2016 | Spring 2018 forecast 2017 | 2018 | 2019 | *Autumn 2017 forecast 2017* | *2018* | *2019* |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | **Real GDP growth** | | | | | |
| USA | 15.5 | 2.6 | 2.9 | 1.5 | **2.3** | **2.9** | **2.7** | *2.2* | *2.3* | *2.1* |
| Japan | 4.4 | 0.4 | 1.4 | 0.9 | **1.7** | **1.3** | **1.1** | *1.6* | *1.2* | *1.0* |
| Emerging and developing Asia | 32.4 | 6.6 | 6.6 | 6.6 | **6.4** | **6.5** | **6.3** | *6.3* | *6.4* | *6.3* |
| - China | 17.7 | 7.3 | 6.9 | 6.7 | **6.9** | **6.6** | **6.3** | *6.8* | *6.5* | *6.2* |
| - India | 7.2 | 7.0 | 7.6 | 7.9 | **6.4** | **7.4** | **7.6** | *6.6* | *7.5* | *7.6* |
| Latin America | 7.9 | 1.3 | 0.2 | -0.9 | **1.4** | **2.2** | **2.7** | *1.3* | *2.1* | *2.4* |
| - Brazil | 2.6 | 0.5 | -3.5 | -3.5 | **1.0** | **2.4** | **2.6** | *0.7* | *1.8* | *2.0* |
| MENA | 6.8 | 3.0 | 2.4 | 4.1 | **2.2** | **3.2** | **3.4** | *2.2* | *2.8* | *3.3* |
| CIS | 4.5 | 1.0 | -2.4 | 0.4 | **2.1** | **2.3** | **2.3** | *2.0* | *2.1* | *2.2* |
| - Russia | 3.2 | 0.7 | -2.8 | -0.2 | **1.5** | **1.7** | **1.6** | *1.7* | *1.6* | *1.5* |
| Sub-Saharan Africa | 3.2 | 5.0 | 3.3 | 1.3 | **2.7** | **3.4** | **3.6** | *2.5* | *3.3* | *3.9* |
| Candidate Countries | 1.8 | 4.7 | 5.7 | 3.2 | **7.0** | **4.6** | **4.2** | *5.1* | *4.0* | *4.0* |
| World (incl.EU) | 100.0 | 3.5 | 3.3 | 3.2 | **3.7** | **3.9** | **3.9** | *3.5* | *3.7* | *3.7* |
| | | | | | **World merchandise trade volumes** | | | | | |
| World trade | | 3.9 | 2.7 | 2.3 | **5.0** | **4.9** | **4.3** | *4.3* | *4.1* | *4.0* |
| Extra EU export market growth | | 3.2 | 1.3 | 1.7 | **4.7** | **4.4** | **4.1** | *4.0* | *3.8* | *3.8* |

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

### Advanced economies: strong momentum boosted further by fiscal stimulus in the US

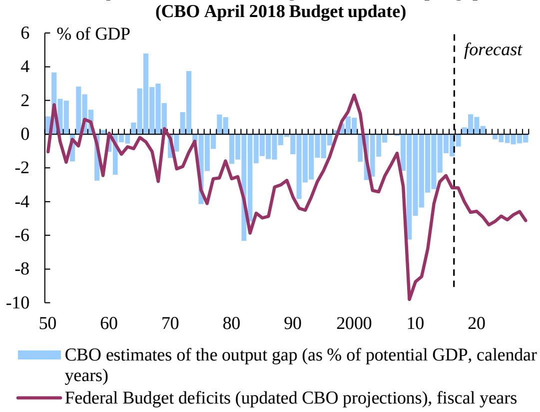
The economic outlook for advanced economies has improved markedly since the autumn, supported by buoyant labour markets and elevated confidence driving household consumption, business investment and trade. Near-term growth is set to receive a further boost from expansionary fiscal policy in the US and the associated positive spillovers to global trade.

While growth in advanced economies slowed somewhat during the last quarter of 2017, this largely reflected a surge in imports fuelled by robust domestic demand (US, Canada, Japan) and inventory correction (US). The underlying momentum across advanced economies appears intact, even if recent confidence readings pointed to somewhat weaker sentiment and activity in manufacturing. In addition to positive trade spillovers from the US fiscal stimulus, the near-term outlook for advanced economies is set to benefit from: (i) unemployment rates falling to cycle lows (US, Canada, Japan) and underpinning robust private consumption; (ii) high global growth boosting investment and trade; (iii) continued favourable financial conditions; (iv) higher commodity prices boosting energy investment and output (in US, Canada and Norway). As a result, wage and price pressures are expected to build up and prompt further gradual monetary policy normalisation measures in these countries. Support from fiscal policy is also expected to be gradually scaled back outside of the US, including in Japan and Australia.

In the US, the recent tax reform and the budget agreement are expected to generate fiscal stimulus of over 2% of GDP cumulatively over 2018 and 2019, pushing US public finances into their deepest ever fiscal deficits outside of periods of wars or major recessions (Graph I.12). This massive pro-cyclical fiscal expansion is expected to have a positive, but relatively moderate effect on GDP growth over the forecast horizon, as the economy is operating broadly at its potential and more signs of supply-side constraints are beginning to emerge. In this setting, the additional growth impulse to business investment and private consumption is expected to be partially offset by higher imports, normalisation of monetary policy at a pace higher than without the fiscal stimulus, and crowding out of some private investment. On the whole, US GDP growth is forecast to increase from 2.3% in 2017 to close to 3% in 2018 and to moderate to 2¾% in 2019, some ½ a percentage point higher than in the autumn 2017 forecast.

The central scenario of stronger US growth, with positive global trade spillovers amid rising but contained inflationary pressures, is subject to significant risks. A sharper short-term increase in growth cannot be excluded, especially given that the US economy is simultaneously boosted by several additional tailwinds (stronger external demand and a weaker US dollar, still relatively favourable financial conditions, a rebound in oil prices). This would, however, also accentuate risks of overheating and could trigger a stronger monetary policy reaction and a sharper correction further down the line. Moreover, the fiscal expansion could lead to a further increase in the current account deficit and add to more calls for protectionism. On the other hand, uncertainties about the response of household and corporate saving rates to the tax reform could imply a weaker growth stimulus than assumed here. Importantly, the pro-cyclical stimulus in 2018 and 2019 will also have ramifications over the more medium-term and thus potentially beyond the current forecast horizon. Persistent federal deficits in the range of 4%-5% of GDP and fast rising debt levels could raise sustainability concerns. Moreover, the medium-term adjustment in US growth could turn out to be sharper than previously expected, as the fiscal stimulus is projected to turn progressively into a drag as temporary measures are phased out. The underlying growth momentum is expected to wane on the back of a maturing cycle and fiscal buffers to offset such a future downturn will be limited (see Section II.34 on the US economy).

*Graph I.12:* **US Federal budget deficit and output gap (CBO April 2018 Budget update)**




*Source: Own calculations based on data from CBO April 2018 Budget update.*

Growth in Japan is projected to slow from 1.7% in 2017 to 1.3% in 2018 and 1.1% in 2019, reflecting broadly stable growth in domestic demand and a waning contribution from net exports. Increasingly tight labour market conditions and continued monetary accommodation will underpin growth in private consumption and investment, with heightened volatility expected towards the end of the forecast period stemming from the planned October 2019 consumption tax hike. After a strong rebound in 2017, export growth is projected to adjust gradually and ease over the forecast horizon, with the net export contribution expected to wane and eventually turn neutral as import demand growth continues in line with domestic demand.

Overall, real GDP growth among advanced economies (excluding the EU) is expected to strengthen from 2.6% in 2017 to 2.7% in 2018 before easing to 2.5% in 2019 as the economic cycle, especially in the US, matures further and capacity constraints become binding.

### Recovery spills over to commodity-exporting emerging market economies

After a period of prolonged slowdown, driven mainly by deteriorating growth prospects among commodity exporters and less accommodative financing conditions, growth in emerging economies rebounded in 2017. Their growth momentum is expected to strengthen over the forecast horizon, fuelled by firming commodity prices (particularly in 2018), still favourable financing conditions and robust global trade amid an investment-led rebound in advanced economies.

On the policy front, fiscal space to support demand is reduced, while generalised monetary easing seems to be coming to an end. However, rate hikes are expected to be rather limited and in some emerging economies (e.g. Russia, Brazil) there is, in principle, still some space for further easing. Capital flows into emerging markets have increased recently, recovering from protracted weakness over 2013-2016, as investors' search for yield, the weaker dollar and a brightening growth outlook fuelled a rally in emerging market equities and bonds, driving bond spreads vis-à-vis US benchmarks significantly lower. Continued capital inflows and the relative stability of exchange rates should mean that financing conditions remain benign over the forecast horizon and supportive of continued growth in emerging economies.

Debt (in particular corporate but in many cases also sovereign) has grown considerably since the global financial crisis, [19] largely driven by developments in China. At the same time, credit quality has deteriorated, as a strong appetite for risk encouraged many higher risk issuers to seek funding. This magnifies the risks for the global economy associated with a faster-than-assumed normalisation of US monetary policy. As some

(19) The total debt-to-GDP ratio in the 27 major emerging markets increased between 2008 and the end of 2017 by more than 60 pps. to about 210% according to data published in the Institute of International Finance.

countries are much more vulnerable than others, divergence in growth performance would increase significantly.

Growth is gradually re-accelerating among commodity exporters and remains quite robust elsewhere. Emerging Asia continues to grow at a solid pace supported by strong global trade, even though China is expected to moderate somewhat as tighter domestic policy and underlying structural factors (falling labour supply, lower returns on capital investment) weigh on activity. In India, recent structural reforms, after causing some temporary disruptions, are expected to support reviving investment activity. In Latin America, lower inflationary pressures and a favourable external environment, with higher demand from the US in particular, will support the recovery. Growth in Russia is set to improve slightly, driven by contained inflation and the positive effects of higher oil prices reverberating through the economy. Among most Gulf and Sub-Saharan Africa oil exporters, rebounding oil prices and recent economic reforms are likely to support economic activity as well. Growth in South Africa is expected to edge up on account of declining political uncertainty and rising confidence, while fiscal and security issues continue to hamper recovery in Nigeria.

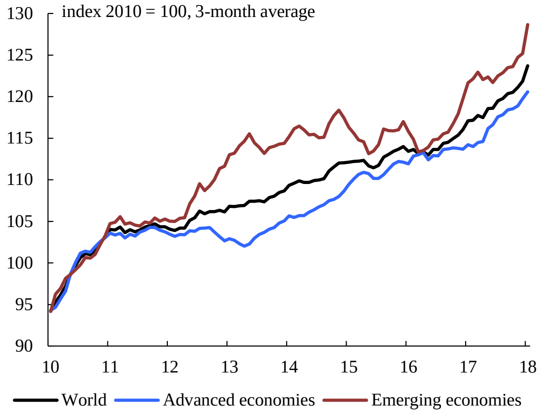
Accordingly, growth in emerging economies is projected to climb to 5% in both 2018 and 2019, supported by robust growth momentum in China, stronger demand from advanced economies and still favourable financing conditions.

## Global trade ends 2017 on solid footing

World trade started to rebound strongly and steadily in the second half of 2016, after nearly two years of stagnation or retrenchment (see Graph I.13). In 2017 as a whole, annual world trade growth reached 5.0%, compared to just 2.3% in 2016. Global trade has been supported by a recovery in global manufacturing and investment. According to the CPB Trade Monitor, January 2018 saw strong global trade growth of 5.7% (y-o-y), mainly driven by very robust trade in China.

Looking forward, world trade is expected to remain strong in 2018. The WTO's latest World Trade Outlook Indicator (WTOI) published in February suggests continued solid trade volume growth in the first quarter of 2018. Component indices for container port throughput and air freight are firmly above trend, indicating strong current trade growth.

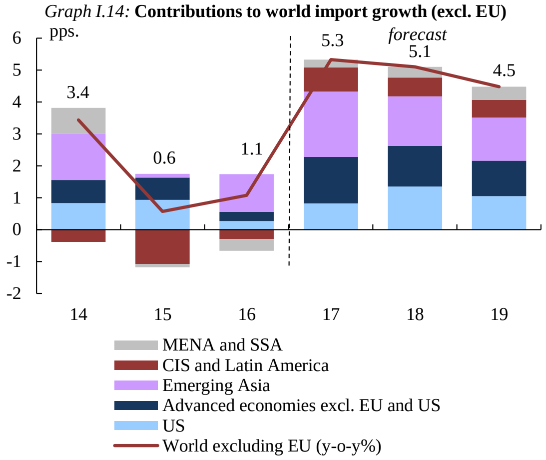
*Graph I.13:* **Volume of goods imports**




*Source: CPB.*

Non-EU world imports are expected to grow by around 5% in 2018 (about 1 pp. higher than expected back in the autumn), as strong momentum in trade continues in both advanced economies and emerging markets, benefiting from factors such as fiscal stimulus in the US. The upward revisions from previous forecasts reflect better prospects predominantly for the US but also emerging Asia and most advanced economies. However, escalating trade protectionism could compromise the positive trade outlook (see Graph I.14).

*Graph I.14:* **Contributions to world import growth (excl. EU)**

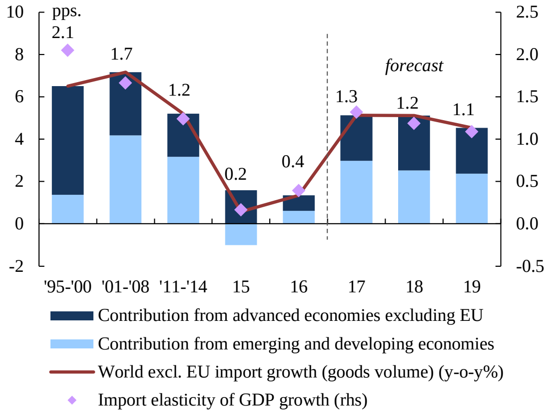



Import elasticity to GDP in non-EU countries rose sharply to a robust 1.3 in 2017 (see Graph I.15), the highest level since 2011, largely reflecting a strong rebound in investment (including commodity-related investment), which is the most trade-intensive component of GDP. The expected deceleration in non-EU world import growth to

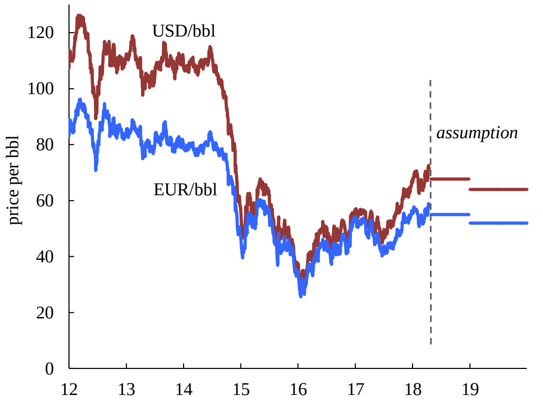
4.5% in 2019 reflects the expected waning of US stimulus package's boost to investment, the ongoing rebalancing in China away from investment-intensive growth to consumption, as well as a moderation of commodity-related fixed investment. Due to these reasons, the trade elasticity is expected to moderate gradually over forecast horizon, but a relatively healthy investment outlook should keep it marginally above 1.

The assumptions for Brent prices are revised strongly upwards to an average of 67.7 USD/bbl in 2018 and 63.9 USD/bbl in 2019, or 21.5% and 16.8% higher than in autumn (see Graph I.16). Given the average of 54.8 USD/bbl in 2017, in 2018 this would imply a second consecutive annual increase of more than 20%. In euro terms, upward revisions compared to the autumn are lower, amounting to 16.3% and 11.9%, respectively.

*Graph I.15:* **Non-EU import growth (goods volume) and elasticity of non-EU imports with respect to non-EU GDP growth**




*Graph I.16:* **Oil price, developments and assumptions**




*Source: Macrobond.*

## Higher and more volatile commodity prices

Oil prices were quite volatile in the first quarter of 2018. After hitting 70 USD/bbl in January, the highest level since end-2014, the Brent spot price hovered around 65 USD/bbl until mid-March, when oil prices began rising continuously, eventually topping 75 USD/bbl in mid-April. The current rebound in the oil price has been supported by the extension of the OPEC and Russia deal to cut production for the rest of 2018, and the so far consistent compliance of OPEC members. In addition, supply disruptions in some oil-exporters (e.g. Venezuela) and heightened geopolitical tensions in the Middle East (e.g. wars in Yemen and Syria, uncertainty about US sanctions against Iran) rattled the market. The current volatility is likely to persist in 2018, as uncertainties about the oil price outlook have increased. On the downside, arguments against further oil price increases include the expected increase in US shale output, the slightly decreasing rate of global oil demand growth, as projected by the International Energy Agency, and the possible easing of production cuts by OPEC and some other major oil producers once their objectives have been met. On the upside, sanctions on Iran and a further deterioration in the security situation in the Middle East could prop up oil prices.

The prices of most other commodities should continue their upward trend over 2018, albeit at lower rates overall than in 2017, before slowly reversing in 2019 in the wake of the expected growth moderation in China. Following five years of consecutive declines, metal prices witnessed a robust recovery of 20% in 2017, supported by recovering energy prices and healthy demand from China and India. Following the corrections in 2017, metal prices are assumed to increase by about 12% in 2018. However, the uncertainty surrounding this assumption is high due to changes in US trade policy. Food prices stayed roughly stable throughout 2017, supported by record high stocks accumulated in recent years. For 2018 and 2019 overall food prices are expected to pick up moderately, driven by strong increases in some cereal prices.

## 3. FINANCIAL MARKETS

In the first few months of the year, asset prices on global financial markets have become more volatile. The equity-friendly environment of synchronised global growth and low inflation was first tested by concerns over a possible faster than expected tightening of the US monetary policy stance in response to a strong pick-up in US wages at the start of the year. Later, market jitters resurfaced and reflected investors' concerns about increased geopolitical tensions and trade policy frictions. The market stress over these past few months has led to a downward adjustment of asset prices from rather high valuations in equity and credit markets amidst heightened volatility. Since then equity prices have moved sideways, supported by still robust global macroeconomic developments as well as strong corporate earnings.

### Expectations of approaching monetary policy normalisation…

Monetary policy in the euro area has remained highly accommodative. The ECB Governing Council decided at its March 2018 meeting to continue on its previous course, while only dropping from its communication the explicit reference to a possible expansion of the asset purchases in the event of a less favourable economic outlook.

The Governing Council reconfirmed its monetary policy measures such as the forward guidance on policy rates, the net asset purchases until at least September 2018 and its reinvestment policy until at least September 2018, [20] because an ample degree of monetary stimulus was still considered necessary for the development of underlying inflation pressures able to support headline inflation developments over the medium term. The omission of an explicit reference to a possible expansion of the asset purchases was decided against the backdrop of strong incoming economic data and the related increase in confidence about the convergence of inflation towards the ECB's inflation objective. Following the reduction in the pace of asset purchases from EUR 60 bn to EUR 30 bn since January 2018, market expectations increased that net asset purchases will come to a halt by the end of 2018.

Looking ahead, any changes to the ECB's monetary policy are expected to be tied to the progress on reaching a sustained adjustment in the path of inflation which would be assessed on the basis of three main criteria: 'convergence' of headline inflation towards the ECB's price stability objective over the medium term, 'confidence' in the expected path of inflation and 'resilience' of inflation convergence.

While the Bank of Japan has also reconfirmed its exceptional monetary easing measures, monetary policy normalisation has continued in the US. The US Federal Reserve increased as expected its target range for the federal funds rate by 25 bps. to 1.50-1.75% at its March 2018 meeting. Although US monetary policymakers continued to expect that two additional interest rate increases would be warranted in 2018, a tighter monetary policy was considered by the Federal Reserve as more appropriate for 2019 as the recently adopted federal tax cuts and government spending increases were expected to provide 'a significant boost to output over the next few years' (FOMC statement).

Monetary policy normalisation has also begun in some non-euro area EU Member States. In the UK, the Bank of England raised its policy rate for the first time in more than 10 years in November 2017. At its meeting in February 2018, the bank's Monetary Policy Committee (MPC) said that rates may need to rise even further and earlier than expected in November, when the bank had published the Inflation Report. This has raised market expectations about the next interest rate increase at the meeting in May. The Czech central bank also increased its policy rate by 25 bps. to 0.75% and the Lombard rate by 50 bps. to 1.5% in February 2018. The National Bank of Romania has raised its main policy rate twice since the beginning of the year as inflation has moved above the upper band of its 3.5% inflation target.

[20] The forward guidance on policy rates states that the key ECB interest rates are expected to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases. The net asset purchases, at the current monthly pace of EUR 30 billion, are intended to run until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. As for the reinvestment policy, the Eurosystem will continue to reinvest the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary.

### ...while the euro moved sideways amid US policy uncertainties.

The euro appreciated broadly and significantly in 2017 but its exchange rate against the US dollar has been almost stable in the first months in 2018, as has its nominal effective exchanger rate. The euro has traded against the US dollar within a range of 1.21-1.25 since the end of January this year, supported by more positive investor sentiment towards the euro area relative to the US in a context of uncertainty regarding US fiscal and trade policies. While the euro exchange rate weakened somewhat against the Japanese yen, it has strengthened vis-à-vis the currencies of most emerging market economies and commodity exporters, possibly reflecting rising geopolitical risks as well as trade and currency war concerns. The euro has also depreciated slightly against the pound sterling since some clarity about a possible transition period for Brexit emerged, and as a result of new expectations about the Bank of England's rate path. At 1.23 in 2018 and in 2019, the standard technical exchange rate assumption for the euro vis-à-vis the US dollar are 4.5% higher than in the autumn forecast. In nominal effective terms, the technical assumptions imply a slightly stronger appreciation of the euro in 2018 than assumed in the autumn forecast, which mainly reflects exchange rate developments already observed in the first months of this year.

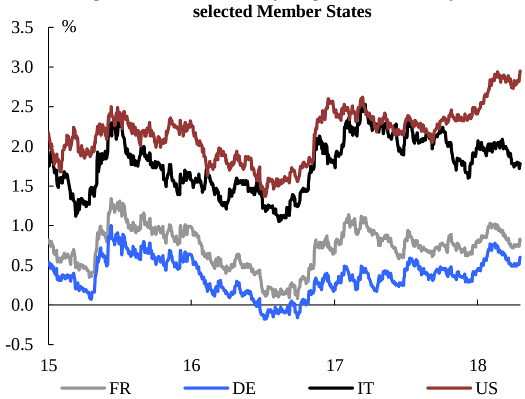
### Market volatility flared up

At the beginning of this year, euro area benchmark sovereign bond yields rose on the back of strong momentum in global and domestic economic growth (Graph I.17). In historical perspective, however, yields remained very low. For example, the 10-year German Bund yield increased from 0.43% in early January to 0.81% in early February. Since then, the 10-year Bund yield has fallen back, driven by the influence of low inflation data and the asset's safe haven status at a time of increased volatility on equity markets.

Sovereign bond spreads in the euro area have narrowed further amid improvements in macroeconomic fundamentals and a broad-based expansion across Member States. Market perceptions of political or policy uncertainty weighed on spreads at specific points in time, especially around the date of the Italian general election, but without interrupting the convergence trend.

In the US, signs of a turnaround in yields appeared early this year, with the 10-year Treasury breaking out of its 36-year downtrend in mid-January and reaching a high of 2.95% at the end of February. Behind this increase lay investors' fears that rising wage pressures would feed broader price rises and would push the Fed to tighten its monetary policy more aggressively than expected. Since then though, the 10-year yields have been consolidating at these higher levels amid reports showing robust job creation without excessive wage growth.

*Graph I.17:* **Benchmark 10-year government bond yields, selected Member States**




*Source: Macrobond.*

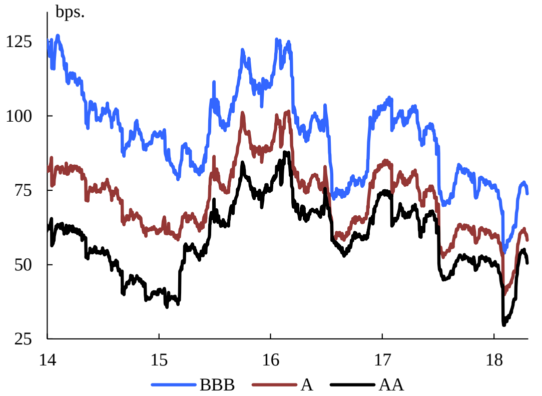
Global stock markets had a strong start in January, but experienced a sudden correction in early February 2018, following the release of data on higher-than-expected wage increases in the US (Graph I.3). The correction appeared technical in part, i.e. a consequence of volatility targeting strategies, de-risking, and of market makers' hedging option positions. The stock market correction originated in the US but spread globally, including in the euro area. After the February correction, global stock markets were hesitantly recovering. A few weeks later, however, they were weighed down by concerns over heightened political and economic risks, particularly in relation to US trade policy. European stock indices, which are likewise sensitive to trade-related issues, broadly mirrored movements of their US peers.

The bond spreads of euro area non-financial corporations (NFCs), which are still supported by the Eurosystem's corporate sector purchase programme, have widened somewhat since the winter in parallel with the increased risk aversion by investors (see Graph I.18).

*Table I.2:*
**Financing side - euro area and EU**

| (Annual percentage change) | Euro area | | | | | | EU | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Spring 2018 forecast | | | | | | Spring 2018 forecast | | |
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Credit to the domestic private sector | -0.6 | 0.2 | 1.7 | **2.1** | **3.3** | **3.8** | 0.0 | 1.5 | -0.5 | **2.5** | **4.1** | **4.3** |
| (% of GDP) | 113.0 | 109.2 | 107.8 | **105.4** | **104.8** | **104.9** | 116.0 | 114.5 | 110.8 | **107.9** | **107.9** | **108.4** |
| - Credit to households | -0.3 | 1.9 | 2.3 | **3.2** | **3.8** | **4.2** | 0.9 | 2.1 | 2.8 | **3.6** | **4.0** | **4.1** |
| (% of GDP) | 51.0 | 50.2 | 50.2 | **49.9** | **49.8** | **50.1** | 54.7 | 55.0 | 53.6 | **52.6** | **52.5** | **52.7** |
| - Credit to other domestic private sectors | -0.9 | -1.3 | 1.1 | **1.2** | **2.9** | **3.3** | -0.7 | 1.0 | -3.6 | **1.4** | **4.2** | **4.4** |
| (% of GDP) | 62.0 | 59.0 | 57.6 | **55.5** | **55.0** | **54.8** | 61.3 | 59.5 | 57.2 | **55.3** | **55.4** | **55.7** |
| Short-term interest rate (%) | 0.2 | 0.0 | -0.3 | **-0.3** | **-0.3** | **-0.1** | : | : | : | **:** | **:** | **:** |
| Long-term interest rate (%) | 2.0 | 1.1 | 0.8 | **1.0** | **0.6** | **0.8** | : | : | : | **:** | **:** | **:** |
| Nominal effective exchange rate | 2.5 | -6.0 | 4.1 | **2.1** | **4.9** | **0.2** | 4.6 | -5.6 | 1.5 | **1.1** | **7.1** | **0.3** |

*Graph I.18:* **Corporate bond spreads, 5-year maturity, euro area**




*Source: Bloomberg.*

The market volatility in February showed how quickly and abruptly risk could be repriced in the current context. Moreover, it raised awareness that market players will, at some point, need to adjust to the new environment of monetary policy normalisation. In a sense, the recent correction served to lower the risk of an even bigger market correction in the future since it has taken some heat out of overvalued assets. Hence, equity and bond investors are pricing in a trend towards somewhat higher sovereign bond yields on the back of robust economic growth, slightly increasing inflation and very cautious steps towards monetary policy normalisation.

### Private sector funding softened slightly but remains supportive

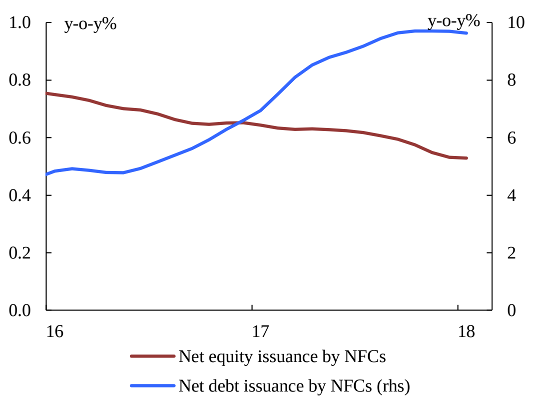
Net lending flows to households and non-financial corporations remained positive in the euro area in the first quarter of 2018 (Graph I.9). The annual growth rate of monetary and financial institutions' loans to the euro area private sector (adjusted for loan sales and securitisation) cooled slightly off to 3.0% in February after an annual growth rate of 3.3% in January 2018 and 2.7% in September 2017. This recent weakening is attributable to a moderation in loans to the non-financial corporate sector, while the growth in lending to households remained stable. Continued growth in lending to corporates and households has taken place in a context of further declines in interest rates over the last six months in most Member States. Overall therefore, financing conditions remain very supportive and lending growth is expected to continue increasing over the forecast horizon (see Table I.2).

The signals from the latest ECB Bank Lending Survey (January 2018) continue to be positive, and are consistent with the ongoing recovery in bank lending volumes. Banks' credit standards for loans to enterprises and for consumer credit and other lending to households remained broadly unchanged in 2017-Q4, while they continued to ease for loans to households for house purchases. Across the three segments, competitive pressures and banks' risk perceptions had an easing impact on credit standards. Loan demand continued to increase across all loan categories mainly due to the low level of interest rates, the growth in fixed investment, favourable housing market prospects and improved consumer confidence.

While the February market turbulence may have affected banks' primary funding markets, secondary markets were less affected. Supported by improved fundamentals, including strengthened capital ratios, the EU banking sector is in a good shape to cope with further increases in lending to the private sector. Issues remain such as still high levels of NPLs in some countries and more generally low profitability and overbanking but latest data show improvements also in these areas. In addition, higher long-term yields leading to a steepening of the yield curve would be broadly supportive for banks' interest-based income, traditionally the main source of income for the majority of European banks.

In recent months, market funding for non-financial corporations expanded at an annual rate of almost 10% (Graph I.19), thanks to very favourable financing conditions. Meanwhile net bond issuance by monetary and financial institutions continued to decline, although to a lesser extent than in the past. This suggests that non-financial corporations' shift from bank loans to market funding, while still ongoing, is slightly weakening as banks step up their lending to corporates. Nevertheless, the disintermediation process of non-financial corporations seems to be a structural rather than a cyclical trend, as the rise in bank lending did not offset market funding, unlike in previous cycles. Equity net issuance stayed more moderate with an annual growth rate of only 0.6%, partly due to the higher cost of equity compared with corporate bonds. For the same reason, equity buybacks by EU corporations stayed at high levels thereby contributing substantially to the low levels of net issuance.

*Graph I.19:* **Equity and debt issuance by NFCs, euro area**




*Source: ECB.*

## 4. GDP AND ITS COMPONENTS

The euro area has so far enjoyed about five years of continuous economic growth. Last year, economic growth has strengthened and the question now is how persistent this step-up in growth will prove to be and whether peak growth rates have already been observed in the current expansion. The observation that the euro area economy has already been growing above potential puts additional emphasis on these issues.

### Economic growth has strengthened in 2017…

In recent quarters, the economic growth in the euro area economy has strengthened. The 2.4% expansion in real GDP in 2017, also seen by the EU, was the fastest rate of growth since the Great Recession, underscoring a strengthened economic performance. Surpassing earlier expectations, the pace of economic growth was driven by high levels of confidence, increased support from the synchronised global expansion, still favourable financing conditions, and continued improvements in the labour market situation.[21] The cyclical upswing that had started in the second quarter in 2013 had become broad-based across all Member States. 2017 was also the first year since 2007 in which all Member States reported positive rates of growth.

The euro area economy ended 2017 on a solid footing, with GDP growth coming in at 0.7% (q-o-q) in 2017-Q4 for the third consecutive quarter, extending the period of successive quarterly growth of 0.6% or more to five quarters. Compared with the same quarter the year before, GDP rose by 2.8% in the euro area and 2.7% in the EU. These rates as well as the annual rates imply that the economic expansion has been proceeding at above-potential GDP growth rates, which it cannot continue indefinitely.

### …but there are limits to above-potential economic growth.

An economy where actual GDP growth exceeds the growth of potential output should after some time run into increasing supply constraints that limit further increases in economic activity. Usually, the accompanying increases in price pressures would come along with a withdrawal of monetary stimulus which could further slowdown

(21) For an analysis of the euro area recovery in recent years and in 2018 see also Box I.3.

*Table I.3:*

**Composition of growth - euro area**

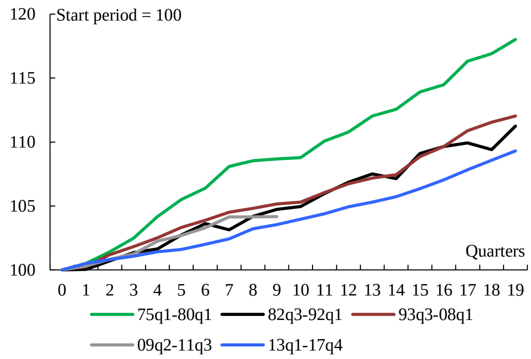
(Real annual percentage change)

| | 2016 | | | | | | | | Spring 2018 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| | bn Euro | Curr. prices | % GDP | Real percentage change | | | | | | | |
| Private consumption | | 5891.3 | 54.6 | -1.1 | -0.6 | 0.8 | 1.8 | 2.0 | **1.7** | **1.7** | **1.7** |
| Public consumption | | 2220.1 | 20.6 | -0.3 | 0.3 | 0.7 | 1.3 | 1.8 | **1.2** | **1.4** | **1.3** |
| Gross fixed capital formation | | 2190.5 | 20.3 | -3.4 | -2.5 | 1.9 | 3.3 | 4.6 | **2.9** | **4.2** | **3.4** |
| Change in stocks as % of GDP | | 11.7 | 0.1 | -0.1 | 0.0 | 0.2 | 0.3 | 0.1 | **0.3** | **0.2** | **0.2** |
| Exports of goods and services | | 4938.1 | 45.8 | 2.5 | 2.1 | 4.7 | 6.4 | 3.4 | **5.1** | **5.4** | **4.4** |
| Final demand | | 15251.6 | 141.4 | -0.9 | 0.2 | 2.4 | 3.4 | 2.7 | **2.9** | **3.2** | **2.8** |
| Imports of goods and services | | 4460.0 | 41.3 | -1.0 | 1.3 | 4.9 | 6.7 | 4.8 | **4.3** | **5.2** | **4.5** |
| GDP | | 10790.1 | 100.0 | -0.9 | -0.2 | 1.3 | 2.1 | 1.8 | **2.4** | **2.3** | **2.0** |
| GNI | | 10804.5 | 100.1 | -0.8 | -0.3 | 1.2 | 1.7 | 2.0 | **2.4** | **2.3** | **2.0** |
| p.m. GDP EU | | 14909.1 | 138.2 | -0.4 | 0.3 | 1.8 | 2.3 | 2.0 | **2.4** | **2.3** | **2.0** |
| | | | | Contribution to change in GDP | | | | | | | |
| Private consumption | | | | -0.6 | -0.4 | 0.5 | 1.0 | 1.1 | **0.9** | **0.9** | **0.9** |
| Public consumption | | | | -0.1 | 0.1 | 0.1 | 0.3 | 0.4 | **0.2** | **0.3** | **0.3** |
| Investment | | | | -0.7 | -0.5 | 0.4 | 0.6 | 0.9 | **0.6** | **0.9** | **0.7** |
| Inventories | | | | -0.9 | 0.2 | 0.3 | 0.0 | -0.2 | **0.1** | **0.0** | **0.0** |
| Exports | | | | 1.1 | 0.9 | 2.1 | 2.8 | 1.6 | **2.3** | **2.5** | **2.1** |
| Final demand | | | | -1.3 | 0.3 | 3.3 | 4.8 | 3.8 | **4.2** | **4.6** | **4.0** |
| Imports | | | | 0.4 | -0.5 | -2.0 | -2.7 | -2.0 | **-1.8** | **-2.2** | **-2.0** |
| Net exports | | | | 1.5 | 0.4 | 0.1 | 0.1 | -0.4 | **0.6** | **0.3** | **0.1** |

the pace of economic growth. At the current juncture, there are doubts over whether the euro area economy is already approaching such a situation.

The historical comparison of economic expansions indicates that even though growth has strengthened, it is still rather moderate compared to what had been observed in past recoveries (see Graph I.20). [22] But due to structural changes, the phases of different business cycles are not directly comparable. For example, the rise of the services sector and the decline of the share of manufacturing output might have weakened the economy's inventory cycle and thereby contributed to a weaker but longer economic recovery phase. [23] Moreover, the severity of the Great Recession [24] and its lasting impact during the subsequent recovery in 2009-2011 and in the recession in 2011-2013 implies that one cannot rely exclusively on historical relationships.

*Graph I.20:* **Comparison of recoveries in the euro area, real GDP, 1970-Q1 - 2017-Q4**




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

Several arguments have been put forward to explain why the euro area economy might be able to continue enjoying above-potential growth also in 2018 and in 2019. [25]

- *Slack in the economy*, mainly in the labour market, still hints at untapped resources that could result in additional activity. The exceptional circumstances of the Great Recession and the slow rebound in working hours since (see Section I.6), might have increased the pool of such resources more than

(22) For a detailed analysis see European Commission (DG ECFIN) (2017). *European Economic Forecast – Autumn 2017*. Institutional Paper 63, Section I.1.

(23) See M. L. Olney and A. Pacitti (2017). 'The rise of services, deindustrialization and the length of economic recovery'. *Economic Inquiry* 55:4, pp. 1625–47.

(24) See C. D. Romer and D. H. Romer (2017). 'New evidence on the aftermath of financial crises in advanced economies'. *American Economic Review* 107:10, pp. 3072-3118.

(25) Since 1999, the euro area has grown above potential in 11 years, including 2014-2017. 24 EU Member States recorded above-potential growth in at least 10 of the 19 years. Among the old Member States, the UK had the longest period of consecutive above-potential growth (2010-2017).

*Table I.4:*

**Composition of growth - EU**

(Real annual percentage change)

| | 2016 | | | 2012 | 2013 | 2014 | 2015 | 2016 | Spring 2018 forecast 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | bn Euro | Curr. prices | % GDP | Real percentage change | | | | | | | |
| Private consumption | | 8357.5 | 56.1 | -0.5 | -0.1 | 1.2 | 2.1 | 2.4 | **1.9** | **1.8** | **1.8** |
| Public consumption | | 3037.2 | 20.4 | -0.1 | 0.4 | 1.2 | 1.3 | 1.6 | **1.1** | **1.4** | **1.3** |
| Gross fixed capital formation | | 2954.0 | 19.8 | -2.4 | -1.5 | 3.0 | 3.6 | 3.5 | **3.4** | **4.2** | **3.2** |
| Change in stocks as % of GDP | | 39.5 | 0.3 | 0.0 | 0.1 | 0.4 | 0.3 | 0.3 | **0.4** | **0.3** | **0.3** |
| Exports of goods and services | | 6558.4 | 44.0 | 2.2 | 2.2 | 4.7 | 6.2 | 3.5 | **5.3** | **5.2** | **4.3** |
| Final demand | | 20946.6 | 140.5 | -0.4 | 0.7 | 2.8 | 3.5 | 2.7 | **3.1** | **3.2** | **2.7** |
| Imports of goods and services | | 6046.5 | 40.6 | -0.4 | 1.6 | 5.3 | 6.3 | 4.8 | **4.5** | **5.1** | **4.4** |
| GDP | | 14909.1 | 100.0 | -0.4 | 0.3 | 1.8 | 2.3 | 2.0 | **2.4** | **2.3** | **2.0** |
| GNI | | 14837.6 | 99.5 | -0.6 | 0.1 | 1.6 | 1.9 | 2.1 | **2.6** | **2.3** | **2.0** |
| p.m. GDP euro area | | 10790.1 | 72.4 | -0.9 | -0.2 | 1.3 | 2.1 | 1.8 | **2.4** | **2.3** | **2.0** |
| | | | | Contribution to change in GDP | | | | | | | |
| Private consumption | | | | -0.3 | 0.0 | 0.7 | 1.2 | 1.3 | **1.1** | **1.0** | **1.0** |
| Public consumption | | | | 0.0 | 0.1 | 0.2 | 0.3 | 0.3 | **0.2** | **0.3** | **0.3** |
| Investment | | | | -0.5 | -0.3 | 0.6 | 0.7 | 0.7 | **0.7** | **0.8** | **0.7** |
| Inventories | | | | -0.7 | 0.3 | 0.3 | 0.1 | 0.0 | **0.0** | **0.0** | **0.0** |
| Exports | | | | 0.9 | 0.9 | 2.0 | 2.7 | 1.6 | **2.3** | **2.4** | **2.0** |
| Final demand | | | | -0.5 | 0.9 | 3.9 | 4.9 | 3.8 | **4.3** | **4.5** | **3.9** |
| Imports | | | | 0.1 | -0.7 | -2.1 | -2.6 | -2.0 | **-1.9** | **-2.2** | **-1.9** |
| Net exports | | | | 1.1 | 0.3 | -0.1 | 0.1 | -0.4 | **0.5** | **0.2** | **0.1** |

previous downturns have done. In the medium term, long-standing demographic trends are set to limit the expansion of the labour force. The contribution of untapped labour resources will therefore rest even more on changes in employment rates and/or migration.

- *Productivity growth might pick up more than currently expected* implying more room for economic expansion due to the so far incomplete coverage of growth drivers such as the use of the internet and automation. [26]

- *Monetary policy* remains very accommodative and financial conditions are still favourable, which could extend the positive growth impact from which the euro area economy has benefitted so much.[27] Relatively high asset price valuations could be interpreted as reflecting considerable optimism about growth prospects among households and companies, which, in a context of still subdued inflation, have been only marginally affected by expectations of monetary policy normalisation.

- *World trade growth* exceeded expectations in 2017 in good part due to the increase in trade elasticity (see Section I.2). World trade is expected to provide growth impetus to Europe this year and (to a lesser extent) in 2019. However, this contribution is unlikely to last in the medium term. [28]

- *The anticipation of a brighter outlook* would imply that increased optimism about the future, more specifically upward revisions in forecasts of potential growth, lead to temporarily stronger demand. This mechanism would reverse the observed weakening of demand that had been attributed to pessimism regarding the demand outlook in the wake of the economic and financial crisis and been interpreted as an obstacle to stronger growth that added to the crisis legacies such as high debt [29]

(26) For supportive arguments see e.g. E. Brynjolfsson, D. Rock, and C. Syverson (2017). 'Artificial intelligence and the modern productivity paradox: a clash of expectations and statistics'. *NBER Working Paper* 24001.

(27) Taking into account all monetary measures taken between mid-2014 and October 2017, the ECB has estimated an overall impact on euro area growth of around 1.9 pps. cumulatively for the period between 2016 and 2020; an impact of the same size was estimated for inflation. ECB President Draghi referred to these estimates in his speech at The ECB and Its Watchers XIX Conference, organised by the Institute for Monetary and Financial Stability, Frankfurt am Main, 14 March 2018.

(28) Pending structural factors weighting on global trade include maturing global value chains, geographical shifts in trade and automation. See ECB (2016). 'Understanding the weakness in global trade: what is the new normal?'. *ECB Occasional Paper Series* 178.

(29) See O. Blanchard, G. Lorenzoni and J.-P. Huillier (2017). 'Short-run effects of lower productivity growth. A twist on the secular stagnation hypothesis'. *Journal of Policy Modelling* 39, pp. 639–49.

- *Structural reforms* implemented in recent years may yield their fruit in the upswing and extend the period of economic expansion; missing price pressures could then be interpreted as evidence of such a development taking place.

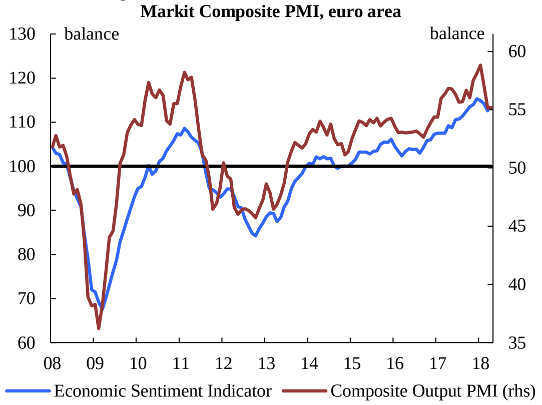
Assessing these factors remains a challenge for macroeconomic forecasting. Against this background the interpretation of high-frequency indicators appears to be even more important as they may contain information as to whether the pace of growth is already slowing.

### Survey indicators signal a moderate downshift in early 2018…

Short-term indicators such as surveys and monthly ‘hard’ data point to a somewhat slower pace of growth in early 2018.

Survey indicators remain close to their highest levels on record but have fallen for three consecutive months in the first quarter (see Graph I.21). This drop has been broad-based across countries and sectors, suggesting that some moderation in the pace of growth is underway.

*Graph I.21:* **Economic Sentiment Indicator and Markit Composite PMI, euro area**




*Source: European Commission, Markit.*

In March, the Commission’s Economic Sentiment Indicator (ESI) decreased in both the euro area (by 1.6 points to 112.6) and the EU (by 1.9 points to 112.5), adding to the declines observed in January and February, although remaining at historically elevated levels. In the euro area, this correction followed seven consecutive months of improving sentiment among households and firms alike. In March the Eurozone Composite Output Purchasing Managers’ Index (PMI) fell markedly to 55.3 (from the 12-year high of 58.8 in January) and remained at that level in April according to the PMI flash estimate. The reading in the first quarter was almost unchanged from the quarter before. The decline in March had been shared by services and manufacturing. However, a decline does not necessarily signal a slowing, because such diffusion indices measure the breadth of strength in the sector, not the magnitude of that strength.

### …while ‘hard’ data also point to a weaker first quarter.

‘Hard’ data came in slightly weaker in recent months. Industrial production in the euro area declined 0.6% (m-o-m) in January and 0.8% in February (by 0.8 %). This represented a 2.9% increase over the corresponding period of the previous year and a growth momentum (3m-o-3m) of 0.3%, compared to 1.4% in December. The 3m-o-3m growth rate of new industrial orders in the euro area fell from 3.7% in December 2017 to 2.8% in January and 1.7% in February, reflecting sharp declines in the 3m-on-3m rates for both domestic and non-domestic orders.

These developments diminish expectations of upside surprises to economic growth, which had been associated with strong survey indicator readings in 2017. The recent declines could also just represent the movement needed to bring ‘hard’ and soft data back into line with GDP growth of about 2%. To some extent, this growth moderation may reflect temporary factors such as winter weather not fully captured by seasonal adjustment that affected both demand and supply.

All in all, the euro area economy looks to have started 2018 somewhat weaker than the previous quarter. However, the evidence available at this stage suggests that it is too early to call a turning point though it is a possibility that bears consideration. At the very least, it does suggest that annual GDP growth seems unlikely to continue accelerating.

### Growth to remain above potential in 2018 and in 2019…

However, the fundamentals for above-potential growth in the following quarters remain in place. The European economy continues to be supported by buoyant activity growth in the rest of the world and foreign trade outside the EU; still growth-supportive monetary conditions, with low financing costs for companies and governments; brightening labour market conditions; and improving corporate and household balance sheets.

Further out, despite sound fundamentals, the projected moderate slowing of economic growth is consistent with a fading of support from a number of tailwinds. These include the gradual withdrawal of monetary stimulus which should be felt more markedly in 2019, slowing global trade growth, and the lagged impact of the strengthening of the euro. Moreover, dampening effects on economic growth are projected to come in some Member States as capacity constraints make themselves felt and labour market slack is absorbed.

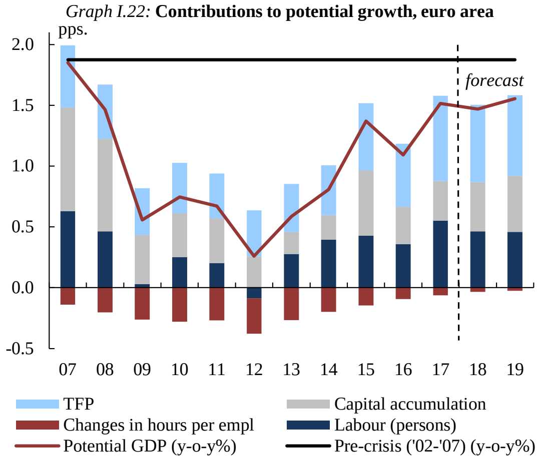
Real GDP growth in the euro area is forecast at 2.3% in 2018, a figure which benefits from a large carry-over of 1.0 pp. from 2017. It is forecast to moderate to 2.0% in 2019. The same growth rates are projected for the EU. This implies for both areas that the winter 2018 interim forecast is confirmed in terms of GDP growth. But the distribution of risks surrounding these projections has been meaningfully altered by recent policy developments.

### ...leading to a closing output gap.

With economic growth in the euro area and EU expected to exceed potential for the fifth consecutive year, a full closing of the output gap is expected in both areas in 2018. The cyclical upswing is thus leading the economy towards full capacity utilisation. According to the Commission's estimates, the growth rate of potential GDP in the euro area is expected to hover around 1½%, compared to an average real GDP growth forecast above 2.0% between 2018 and 2019. At the end of the projection horizon, despite its improvements since 2012, potential output growth is estimated to remain below the rates recorded before the crisis. This is mainly because of a still subdued contribution from capital accumulation, despite the recent increase in the ratio between investment and potential output (Graph I.22).

The contribution from labour has almost steadily increased in recent years, supported by a decline in the Non-Accelerating Wage Rate of Unemployment (NAWRU), which fell from 9.5% in 2009 to 8.4% in 2017, and by the continued increase in trend (labour) participation rates. The contribution of labour to growth is projected to decrease slightly (from 0.5 pps. in 2017 to 0.4 pps. in 2019) due to the forecast slowdown in the growth of the working age population.

*Graph I.22:* **Contributions to potential growth, euro area**

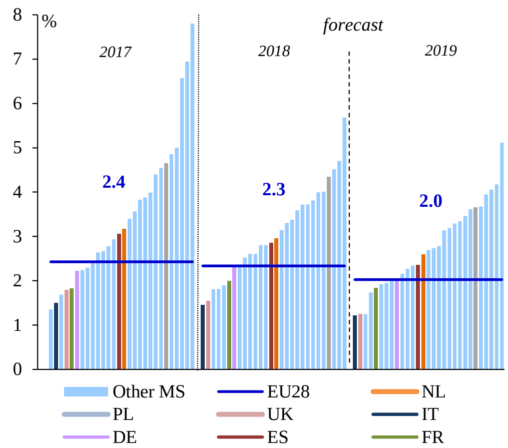



The labour market shortfall is expected to be compensated for by a slight improvement in the trend of total-factor productivity, which is set to reach about 0.7 pps. by 2019, the highest level since 2004, after reaching its through around 2011.

### All Member States are experiencing the economic upswing

Among the largest EU economies, in both 2018 and 2019, Poland, the Netherlands, and Spain are expected to be economic outperformers, with real GDP growth rates above the EU average in both years; Germany is expected to grow at the EU average rate in 2018 and marginally above in 2019 (see Graph I.23). The UK, Italy, and France are set to grow below average in both years. In 2019, all Member States except the UK (1.2%) and Italy (1.2%) are projected to grow at 1.7% or above, but for a large majority of Member States economic growth is set to slow as compared to 2018.

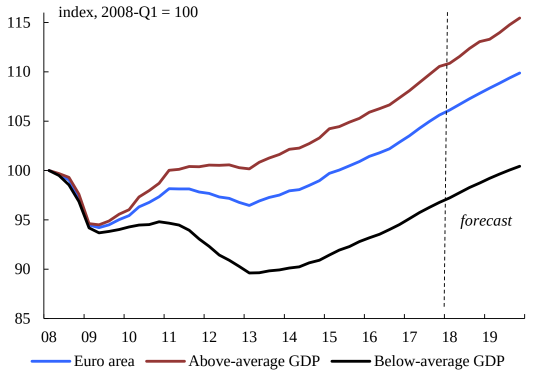
*Graph I.23:* **Real GDP growth, EU and Member States (2017-2019)**




*The bars for all 28 current Member States are ranked by size.*

While the strengthening of economic growth has benefitted all Member States, a closer look at developments over the last decade suggests that it is mainly those countries with higher GDP per-capita levels before the economic and financial crisis in 2008-2009 that have managed to raise their incomes above pre-crisis level (Graph I.24), a fact that does not bode well for continued convergence.[30]

*Graph I.24:* **Economic growth in euro area Member States with above and below per-capita GDP, 2008-2019**




*Note: Country groups according to per-capita GDP in 2007 (8 above average, 11 below).*

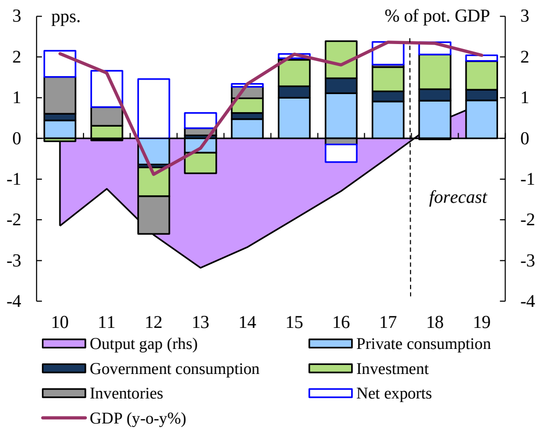
Growth differences across Member States are also sizeable in terms of GDP per capita. For example, among the largest Member States the UK (0.9% in 2018, 0.6% in 2019), Italy (1.5% and 1.2%) and France (1.5% and 1.4%) are projected to grow considerably below the EU28 average (2.1% in 2017 and 1.8% in 2019).

### Growth contributions from investment and net exports have recently increased…

In 2017, the economic expansion in the euro area was driven by both domestic demand and net exports. As regards domestic demand, given its share in GDP of about 55%, private consumption made the largest contribution to growth (0.9 pps.), closely followed by investment (0.6 pps.) and public consumption (0.2 pps.). The contribution from net exports increased substantially in 2017 (from -0.4 pps. in 2016 to 0.6 pps.) and was the highest since 2013 (see Graph I.25). This change in the composition of GDP growth has made the economic outlook more sensitive to trade tensions and confidence effects.

[30] See European Commission (DG ECFIN) (2017). *European Economic Forecast – Autumn 2017*. Institutional Paper 63.

*Graph I.25:* **Real GDP and its components, euro area**




### …but the expansion is set to be almost entirely driven by domestic demand by 2019.

In 2018, the contribution to growth from domestic demand is expected to increase (from 1.7 pps. to 2.1 pps.), driven by a pick-up in investment and public consumption, while the contribution from net exports is set to be reduced to 0.3 pps. A further lowering of the positive contribution to growth from net exports (to 0.1 pps.) explains most of the annual growth moderation expected in 2019. Overall, over the forecast horizon, the expansion is set to remain solid, broad-based across sectors and countries, and increasingly self-sustained.

### Private consumption took a breather…

Private consumption has been a mainstay of the current economic expansion, but its growth in the euro area slowed somewhat in the third and fourth quarter. This resulted in slower private consumption growth in 2017 with the growth rate in the euro area falling to 1.7% (-0.3 pps.), after two consecutive years of increased momentum.

Looking at developments in 2017 in greater detail shows that private consumption growth closely followed the weakening of real gross disposable income growth, which slowed to 1.3% (0.5 pps. less than in 2016), as a period of very low inflation came to an end, and in spite of continued support to income growth from increasing employment. In the last quarter in 2017, private consumption grew by 0.2% (q-o-q) in the euro area (0.3% in the EU), weaker than in the preceding quarter and at the lowest rate since the first quarter in 2014. The weakness has been mainly caused by developments in Germany, where private consumption growth fell in the third quarter and rebounded only weakly in the fourth quarter.

There, the slowdown was to some extent a payback for exceptionally strong growth in the first half of the year (1.6% versus 0.8% in the rest of the euro area). Private consumption growth in the rest of the euro area was rather stable at 0.8% in both the first and second half of the year, when compared to their levels half year before.

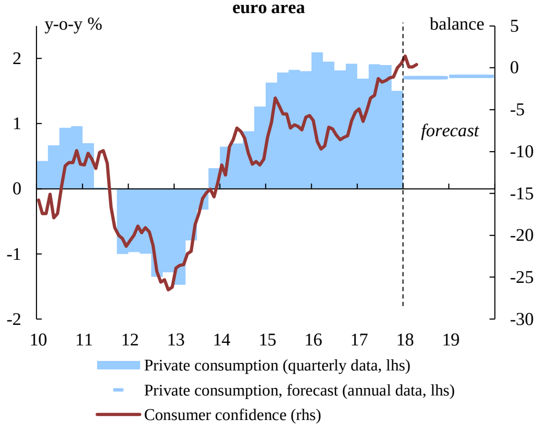
The breakdown of private consumption expenditure shows that the slowdown in the euro area was driven by durable goods (from a growth rate of 5.3% in 2016 to 4.1% in 2017), whereas non-durable goods and services remained stable (at a growth rate of 1.6%). Spending on durable goods tends to be more sensitive to the business cycle, i.e. it tends to be postponed during recessions and to catch up as a recovery advances.[31] As spending on durable goods has a higher probability of being financed using credit, it exhibits higher variability compared to overall consumption growth, due to both income developments and changes in credit standards and interest rates. During recent years, durable goods consumption has been supported by pent-up demand, particularly in countries most affected during the crisis period. As the losses in the stock of durables are progressively offset, and the catch-up phase exhausted, some normalisation is to be expected. At the same time, the household saving rate stood at 11.8% in 2017 in the euro area (12.1% in 2016), its lowest since 1999.

### ...and signals about the short-term outlook are mixed...

According to recent European Commission surveys, the short-term outlook for private consumption looks favourable. After moving up in the first quarter of the year, consumer confidence edged upwards again in April, according to the DG ECFIN's flash estimate, suggesting a solid underlying trend in private consumption (see Graph I.26). Throughout the last year, continued improvements in the labour market situation have reduced unemployment expectations and consumers' optimism about the general economic situation has increased.

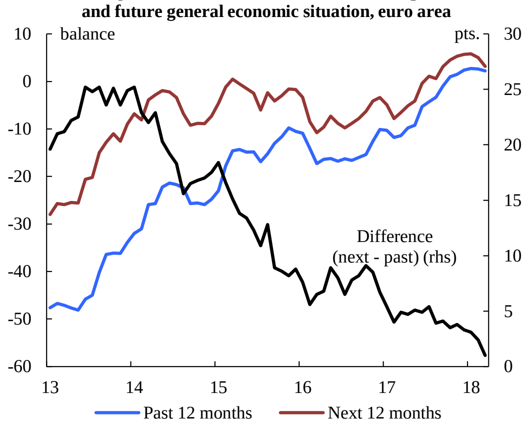
[31] The utility from durable goods consumption is derived from the flow of services provided over their lifetime rather than in the current period and thus are more prone to adjustments following income shocks with a reduced impact on households' utility in the short-term. See ECB (2018). 'Consumption of durable goods in the ongoing economic expansion'. *ECB Economic Bulletin* 1, pp. 25–28.

*Graph I.26:* **Private consumption and consumer confidence, euro area**




As regards the information content of consumer survey data, it is important to notice that the 'optimism bias', i.e. the difference between the assessment of the future and the past economic situation has diminished (see Graph I.27).

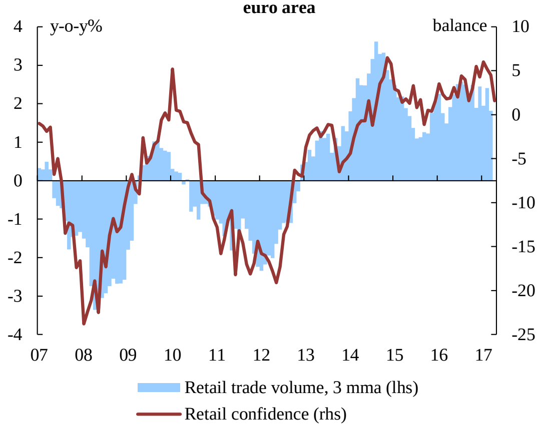
*Graph I.27:* **Consumers' assessment of the past and future general economic situation, euro area**




By contrast, the Commission's Retail Trade Confidence Indicator slightly decreased in the euro area and the EU in the first quarter compared to the previous quarter, while remaining at historically high levels (see Graph I.28).

'Hard' data, however, are consistent with some further moderation of private consumption growth in the short term. In February, euro area retail trade volumes did not fall further after the decline observed in January, but the 3m-o-3m rate signals a contraction of -0.3% (compared to +0.4% in December). New passenger car registrations in the euro area slowed in the first quarter of 2018 with the quarter-on-quarter growth rate falling from 2.1% in the fourth quarter of last year to 1.3%. By contrast, loans to euro area households for consumption continued to expand more quickly than loans for any other purpose, recording an annual increase of 7.3% in February, the highest since early 2007.

*Graph I.28:* **Retail trade volumes and retail confidence, euro area**




While the recent data releases could suggest that private consumption is getting off to a soft start this year, when assessing the prospects for 2018 and 2019, it is important to recognise that a broad set of household fundamentals has remained favourable.

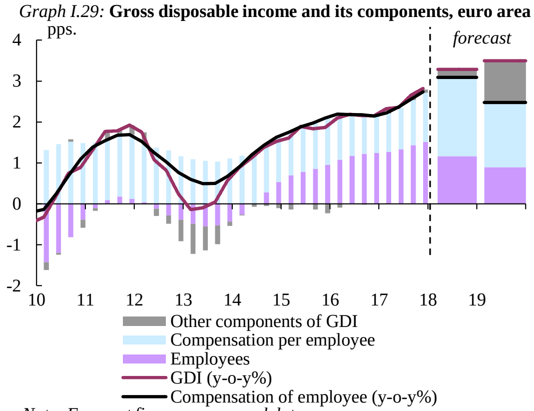
## ...but growth in 2018 and 2019 should remain robust.

Household disposable income is being bolstered by higher wages and continued employment gains, the same factors behind the elevated levels of consumer confidence. In addition to the positive impact of employment growth, rising non-labour incomes are feeding household nominal disposable incomes. Furthermore, the aggregate household balance sheet remains in solid shape, amid a rise in households' net worth, due in part to rising house prices and stock market gains. In 2017-Q4, household net worth (including both financial wealth and non-financial assets) reached its highest level as a percentage of GDP since the end of 2010 and it is at an all-time peak as a percentage of gross disposable income. The household debt service burden is low, reflecting both the extended period of low interest rates in Europe and declining household indebtedness. The households debt-to-income ratio reached 94.6% in 2017-Q4, down from a peak of 99% in 2010-Q4. [32]

Households intending to finance private consumption via consumer credit benefit from the favourable lending conditions as reported in the Bank Lending Survey.

Looking ahead, private consumption is forecast to continue expanding at a moderate but sustained pace, supported by solid fundamentals. With the outlook of slowing employment creation, the momentum in consumer spending will depend on both the extent to which wages move higher and on changes in non-labour incomes (Graph I.29). Gross wages and salaries in the euro area are expected to increase by 3.9% in 2018 (up from 3.7% in 2017) and again by 3.7% in 2019, whereas non-labour incomes should grow more moderately. All in all, household nominal gross disposable income growth is forecast to expand by 3.3% in 2018 (up from 2.8% in 2017) and by 3.5% in 2019. With consumer price inflation expected to remain rather stable in 2018 and in 2019, household real disposable income should grow by 1.8% in 2018 and by 1.9% in 2019.

*Graph I.29:* **Gross disposable income and its components, euro area**




*Note: Forecast figures are annual data.*

With higher real incomes, the number of households with precautionary savings is likely to increase, dampening the expansion of private consumption on aggregate. This is consistent with consumption-smoothing behaviour and pending balance-sheet adjustments, but likely to be counteracted by the impact of persistently low interest rates on saving intentions. All in all, the household saving rate in the euro area is expected to pick up only slightly from 11.8% in 2017 to 11.9% in 2019. Household saving rates are set to remain heterogeneous across countries with almost equal number of economies with increases and with decreases between 2017 and 2019.

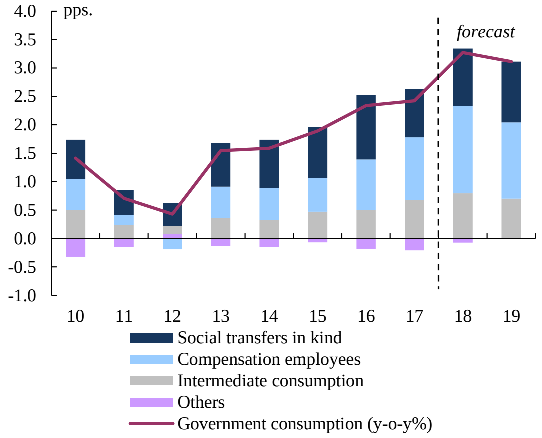
Overall, following an increase of 1.7% in 2017, private consumption growth is projected to remain stable in 2018 and 2019.

(32) See also A. Zabai (2017). 'Household debt: recent developments and challenges'. *BIS Quarterly Review*, December, pp. 39–54.

### Public consumption growth has moderated…

In 2017, government consumption expenditure grew at its slowest pace since 2014. Its contribution to economic growth fell from 0.4 pps. in 2016 to 0.2 pps. According to the sectoral breakdown available up to 2017-Q3, this slowdown appears to be driven by relatively weaker growth in the acquisition of goods and services, which was not compensated by a pick-up in public spending on compensation of employees (see Graph I.30).

*Graph I.30:* **Nominal government consumption, euro area**




### …and is projected to expand slower than other GDP components.

For the year 2018, in most Member States, aggregate government consumption is expected to grow more strongly than in 2017, increasing by 1.4% (1.2% in 2017) in the euro area and by 1.4% in the EU (1.1% in 2017) on the back of stronger compensation of employees and intermediate consumption expenditure. In 2019, public consumption growth is projected to slow in the euro area and the EU (+1.3%).

The forecast for 2019, however, rests on a no-policy-change assumption, according to which measures are only factored into the forecast if they have been adopted and presented to national parliaments, or if they have been sufficiently specified.

### Investment dynamics remain buoyant…

Investment (gross fixed capital formation), which had frequently been identified as the weakest link in the post-crisis recovery, is showing signs of a broad-based pick-up. In 2017, investment made up 20.7% of GDP in the euro area (20.3% in the EU), the highest since 2010 (2009 in the EU). This strong performance reflects a number of supportive factors such as elevated business confidence, a high level of order books and an improved demand outlook, high capacity utilisation, improving corporate profitability, and low financing costs. The synchronised upswing in global economic activity has also boosted investment.

Investment, though still very volatile, strengthened markedly in 2017-Q4, growing by 1.3% in the euro area and 1.2% in the EU (up from -0.3% and +0.1% in the third quarter, respectively) far faster than GDP growth. However, at the current juncture, as in preceding quarters, the euro area and EU aggregates were substantially affected by data for Ireland, where investment expanded by 6.1% in 2017-Q4 (after contracting by 35.7% in 2017-Q3). In Ireland, the statistical re-classification of some activities of multinational firms has resulted in such relatively large ups and downs in quarterly data. Overall, in the euro area excluding Ireland, investment grew by 1.1% in 2017-Q4 and by 4.0% in 2017 (2.9% in the euro area), up from 3.2% in 2016 (down from 4.6% in the euro area), its highest pace since 2007 (1.3% and 3.3% in the EU without Ireland).

In the euro area, the business investment rate, which measures investment of non-financial corporations divided by gross value added, remained at 22.8% in 2017, which is close to its highest rate since 2008. This is consistent with the net profit share, [33] which also currently stands at its highest since 2008. Moreover, the marginal value of capital, as measured by the equity-to-net worth ratio stands at its highest since early 2015 and above its historical average, signalling increased incentives for capital investment and business investment.

Bank lending to firms and other funding for companies should continue to be supported by low interest rates and favourable credit standards (see also Section I.3). Furthermore, in 2017-Q4, the leverage ratio of non-financial companies, i.e. the ratio of debt and total financial liabilities, reached its lowest level since 2007, continuing the downward trend initiated in 2009, while other leverage measures show less sizeable adjustments.

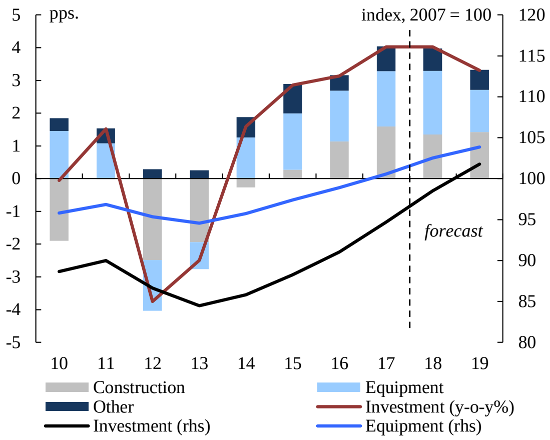
[33] The profit share of non-financial corporations is defined as gross operating surplus excluding the consumption of fixed capital divided by gross value added. This profitability-type indicator shows the share of the value added created during the production process remunerating capital.

The Investment Plan for Europe is expected to continue supporting investment over the forecast horizon. As of March 2018, operations approved under the Investment Plan for Europe were expected to trigger €274 billion in investments. Around 600,000 small and medium-sized businesses are expected to benefit from improved access to finance.[34]

Overall, investment is expected to continue growing, although its pace will slow as external demand growth slows. The continuation of an accommodative monetary policy, despite the gradual withdrawal of monetary stimulus, implies low financing costs throughout the forecast period. Moreover, the duration of the upswing and increasing profits allow a larger role for financing investment with internal funds, which has been shown to be especially important for intangible investments, such as research and development.

In 2018, investment growth is expected to pick up to 4.2% in both the euro area and the EU, before slowing in 2019 to 3.4% in the euro area and to 3.2% in the EU (Graph I.31).

*Graph I.31:* **Investment developments, euro area excluding Ireland**

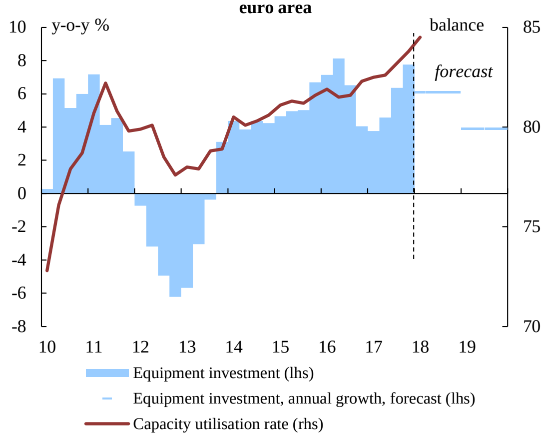



The year 2018 is forecast to be the first year since 2007 in which investment increases in all EU Member States. The continued strength of investment implies strong growth contributions and increases in capital deepening which further support cyclical improvements in labour productivity.

## …and conditions for further increases in equipment investment are in place…

Equipment investment (excluding data from Ireland), rose to 5.3% in 2017, higher than at any time since 2007 and broadly back to its pre-crisis peak in the euro area (see Graph I.32). At 9.4%, the share of non-construction investment is not only above pre-crisis levels but at a new record high.

*Graph I.32:* **Equipment investment and capacity utilisation, euro area**




The outlook for equipment investment is set to benefit from the high rate of capacity utilisation in manufacturing, which stands at its highest since 2007-Q3 and which suggests a growing obsolescence of the capital stock. This could trigger further replacement investment after years of subdued investment. Moreover, in the Commission's Surveys, equipment is increasingly mentioned as a factor limiting production in the manufacturing sector.

The impact of supportive factors is likely to be mitigated by uncertainty regarding the external environment and by the impact of adverse demographic trends. In some Member States, the continuing need for deleveraging and the high remaining stock of non-performing loans on bank balance sheets might also continue to weigh on investment spending despite ongoing improvements.

Overall, equipment investment in the euro area is expected to grow by 6.1% in 2018, before slowing to 3.9% in 2019. Lower growth in 2019 is broad-based among the largest euro area economies, and is forecast in all but nine EU Member States, reflecting a maturing economic cycle, the forecast slowdown in world trade, persisting uncertainty regarding the external

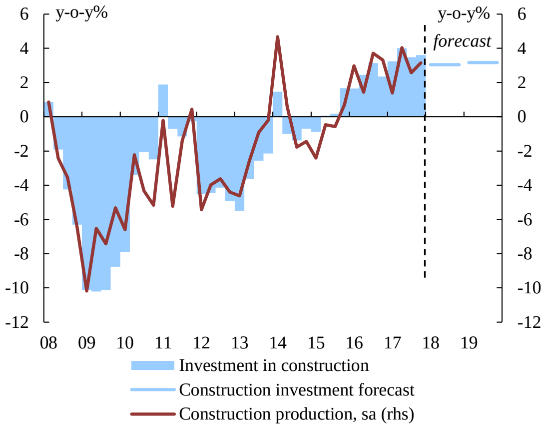
[34] Using its RHOMOLO model, the European Investment Bank has estimated that by 2020, the loans approved under the Investment Plan by the end of 2016 will add 0.7% to GDP in the EU; see European Investment Bank (2018). *Impact into the Future: Activity Report 2017* (p. 10).

environment, as well as the assumed gradual increase in long-term interest rates.

### ...whereas construction investment benefits from the recovery in housing markets.

In 2017, construction investment registered its third consecutive year of recovery, growing by 3.5% in the euro area (4.3% in the EU), but its share of GDP (about 18%) remained clearly below the peak of 2007. In 2017-Q4, construction investment registered its sixth consecutive quarter of positive growth (see Graph I.33).

*Graph I.33:* **Investment and production in construction, euro area**




Most signals for the near-term outlook are positive. On the one hand, the pick-up is reflected in increasing confidence in construction sector surveys, such as in the Commission's Construction Confidence Indicator, which reached a post-crisis high in March 2018 and signals a solid start into the year. The annual rate of growth in loans for house purchases reached 2.9% in February, close to the 3.3% reached in December 2017 and the highest rate since September 2011. All this bodes well for future construction investment. On the other hand, construction production in February declined and the 3m-on-3m growth rate in the euro area fell from 0.8% to 0.3% (to 0.4% in the EU). House prices, as measured by the House Price Index, rose by an average of 3.9% in the euro area and by 4.4% in the EU in 2017, which are the highest rates since 2007 and, given the slower increase in household real disposable income, suggests a slightly deteriorated average housing affordability. [35]

For the euro area aggregate, there is tentative evidence of a quickly closing gap between the level of residential investment and the level implied by real disposable incomes (see Box I.2). Favourable financing conditions for households as well as rising incomes may further support the current momentum. In parallel, the downward adjustment process in the housing markets of several economies has come to an end. Over the forecast horizon, construction investment growth in the euro area is projected to remain strong, at 3.2% in both 2018 and 2019 (3.4% and 3.0% in the EU), with all Member States participating in the expansion.

### With strong export performance...

In 2017, the strengthening external environment created scope for European exporters to increase their market shares, particularly in the second half of the year, resulting in export growth outpacing GDP growth by a considerable margin. The growth rates of euro area's exports of goods and services were markedly higher than in 2016, growing by 5.1% (3.4% in 2016), with a stronger pick-up in the exports of goods (+1.9 pps.) compared to services (+1.0 pp.). This performance allowed for a marginal gain in market shares (+0.3 pps.). Looking at international trade data, extra-euro area export momentum has been mostly driven by manufactured products, particularly with the rebound in machinery and transport goods. Despite a stronger exchange rate, euro area exports rose by 2.2% (q-o-q) in 2017-Q4 (after +1.7% in 2017-Q3), in line with the higher momentum in world trade. Importantly, it was the highest annual rate since the first half of 2015. Euro area imports increased by 1.6% in 2017-Q4 (after +0.6% in 2017-Q3), following the sharp contraction in Irish imports in the previous quarter (-10.9% q-o-q).

At the same time, the dampening impact of last year's appreciation of the euro should be assessed taking into account that it was related to an improved euro area growth outlook and not caused by an exogenous shock, which would usually have had a larger impact. [36] Furthermore, nominal exchange rate fluctuations impact on the economy via various channels. In addition to direct output effects via import prices and inflation, nominal

[35] House prices are only one of the factors determining housing affordability; others are for instance household debt, rental prices and the level of interest rates; see J. Le Roux and M. Roma (2018). 'Recent house price increases and housing affordability'. *ECB Economic Bulletin* 1, pp. 29-34.

[36] See e.g. Forbes, I. Hjortsoe and T. Nenova (2015). 'The shocks matter: improving our estimates of exchange rate pass-through'. *External MPC Unit Discussion Paper* 43 (Bank of England).

exchange rates can have an impact on output via changes in domestic income and through import substitution. By contrast, exchange rate developments in recent weeks appear to relate more to monetary policy decisions than to changes in the economic outlook.

The vulnerability of Member States to exchange rate fluctuations varies significantly, which means that a common shock can have asymmetric effects. The effect of a shock in the nominal effective exchange rate on exports and growth depends both on the elasticity of exports to the real effective exchange rate, but also on the pass-through of exchange rate changes. Differences in the elasticity are related to factors such as the sectoral specialisation of countries; exports of differentiated products are usually less sensitive to exchange rate fluctuations than exports of more homogenous products, because their producers are not price-takers but often have market power so that they can adjust prices while leaving quantities unchanged. Against this background, according to external trade statistics, extra-euro area exports grew by 4.4% in 2017 (1.0% in 2016), the highest since late 2012, which compares with an overall increase in intra-euro area export volumes of 3.1% (2.7% in 2016).

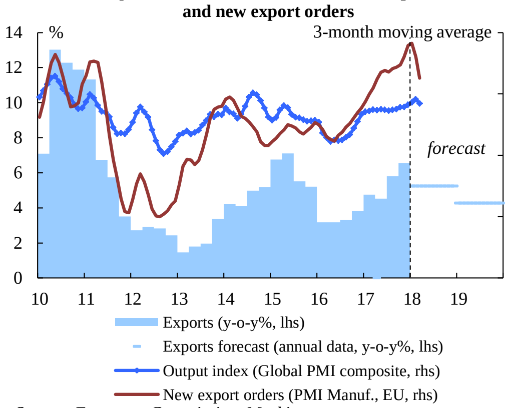
### …net exports should continue to contribute to growth.

The assessment of export order books in the Commission's manufacturing survey has further improved in 2018-Q1 compared to the previous quarter, reaching their highest level since end-2007. Data from the Centraal Planbureau (CPB) on the volume of trade in goods in the euro area shows that in January, the growth momentum stood at 1.3%, up from 1.1% in December. Somewhat in contrast, the manufacturing PMI new export orders index eased in the first quarter, returning to levels close to those observed in 2017-Q1.

All in all, euro area export growth is set to increase from 5.1% in 2017 to 5.4% in 2018 (from 5.3% to 5.2% in the EU) and to moderate slightly in 2019 to 4.4% in the euro area (4.3% in the EU), in line with the expected moderation in world trade, but also reflecting more binding supply constraints in some Member States (see Graph I.34). The euro area is expected to see a further gain in market shares in 2018 (+0.3 pps.), while exports are forecast to grow broadly in line with foreign demand in 2019. Importantly, the projection for 2019 is based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK.

On the import side, despite a pick-up in the expansion of final demand in 2017 (+0.2 pps. to 2.9% in the euro area), import growth slowed down to 4.3% from 4.8%. However, similarly to investment, euro area imports are highly influenced by the inclusion of volatile Irish data, with imports of goods and services excluding Ireland expanding by 5.0% in 2017 (+4.1% in 2016). According to international trade data, extra-euro area imports increased by 2.8% (-0.2 pps. compared to 2016), with this slowdown mainly attributable to a lower contribution from energy imports.

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




*Source: European Commission, Markit.*

Looking ahead, strengthening domestic demand this year and robust export growth are set to remain important determinants behind the expansion in imports. Euro area imports are projected to accelerate to 5.2% (5.1% in the EU) in 2018 and to ease somewhat to 4.5% (4.4%) in 2019. As a result, net trade is projected to make a sizeable contribution to euro area GDP growth in 2018 (+0.3 pps.), before turning almost neutral in 2019 (+0.1 pps.).

## 5. THE CURRENT ACCOUNT

The euro area's current account surplus has risen steadily since 2008, reaching in 2017 the historically high level of 3.5% of GDP, which is the same as the adjusted current account that had peaked in 2016 at 3.6% of GDP.[37] The main

(37) The adjusted current account balances of the EU and the euro area take into account discrepancies between the sum

drivers of the increase in the last few years were lower prices of imported commodities, gains in price competitiveness as a result of the weaker euro and subdued momentum of investment spending coupled with high private sector saving. However, most of these factors have disappeared or weakened since 2016. The nominal effective exchange rate of the euro has been appreciating and commodity prices have rebounded, accompanied by a strengthening in domestic demand. These trends counteract the positive effects of increasing global activity, the increasing saving rate of corporations and the general government on the current account balance, which is expected to stabilise slightly below 3.5% of GDP over the forecast horizon.

### Higher commodity prices and euro appreciation counterbalanced stronger foreign demand in 2017…

Following the peak of both the merchandise trade balance and the adjusted current account balance (as a percentage of GDP) in 2016, slowly increasing commodity prices, a higher external value of the euro and reviving domestic demand dampened the positive impact of the increase in trade momentum on these variables in 2017. As a result, the euro area's trade surplus dropped slightly from 4.1% of GDP in 2016 to 3.8% in 2017. The decline in the trade surplus resulted mainly from a deterioration in the terms of trade following four consecutive years of improvements. In parallel, the adjusted current account surplus decreased as well, but only marginally, from 3.6% of GDP in 2016 to 3.5% in 2017, as the drop in the merchandise trade balance was partially offset by the higher surplus in primary income in the euro area.

### …leading to a stabilisation of the surplus close to a historically high level…

Export and import prices in the euro area are set to be influenced mainly by the past appreciation of the euro and the assumed gradual increase in commodity prices, which also captures the recent pick-up in oil prices (see Section I.2). However, as increases in export prices in 2018 and 2019 broadly match the increases in import prices, the euro area's terms of trade are set to remain almost unchanged.

Euro area export markets are projected to grow at 5.1% and 4.5% in 2018 and 2019 respectively, exceeding economic growth outside of the euro area (4.1% in both 2018 and 2019). Nominal exports and imports are expected to grow at almost the same rate in 2018 and 2019, which implies in the euro area an increase in the current account surplus in absolute terms.

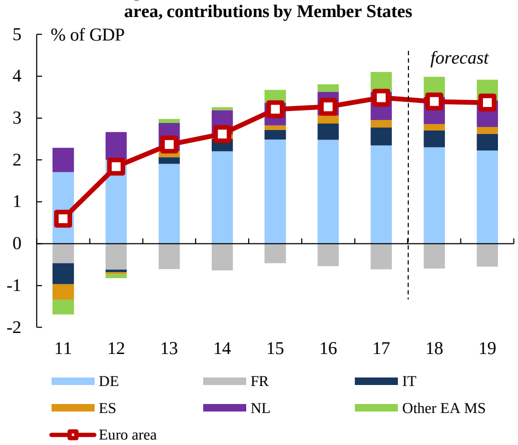
The euro area current account balance is set to stabilise at a relatively high level over the forecast horizon, mainly driven by the trade balance surplus, which is expected to remain roughly unchanged at 3.8% of GDP in both 2018 and 2019.

Even though investment has picked up and is projected to strengthen further in 2018, the increase in gross saving is expected to surpass investment growth, mainly driven by higher public sector and corporate saving rates. As a result, the adjusted current account surplus of the euro area is projected to recede slightly and to remain stable at 3.4% of GDP in both this year and next.

### …while-cross country imbalances persist.

In recent years the number of Member States contributing to the current account surplus of the euro area has increased as the balance in more countries has been in positive territory. However, for several years the euro area current account surplus was driven by Germany and the Netherlands (see Graph I.35).

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

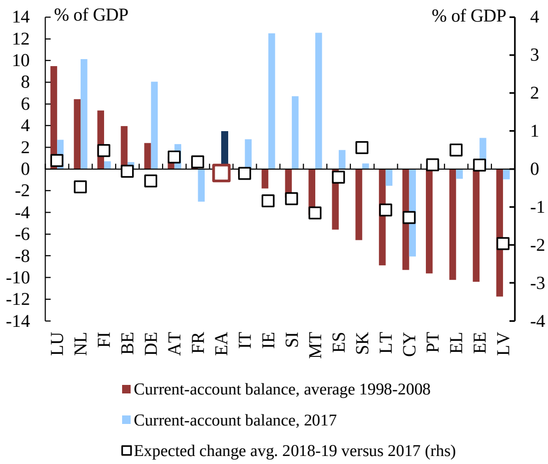



Since 2008, large current account adjustments have taken place in a number of countries with

of the current account balances of the Member States and the aggregate, which should theoretically not exist, but are usually observed due to reporting errors.

sizeable deficits, [38] but current account balances still differ markedly across Member States (see Graph I.36). Several Member States, which experienced a rebalancing of their current accounts from large deficits to surpluses are expected to further increase or stabilise their current account surpluses over the forecast horizon (e.g. Estonia, Portugal, Slovakia, Ireland and Spain). However, other Member States (e.g. Germany and the Netherlands) which have historically registered sizeable surpluses are projected to continue exhibiting large, but gradually receding surpluses (as a percent of GDP) this year and next.

*Graph I.36:* **Current-account balances, euro area and Member States**




Among the Member States with current account deficits, a further increase in the deficit is expected in Cyprus, Latvia and Romania, whereas deficits are expected to diminish in the UK, France and Greece. Some of the countries that had recorded a current account surplus in 2017 are expected to fall back into negative territory by 2019 (e.g. Lithuania, the Czech Republic).

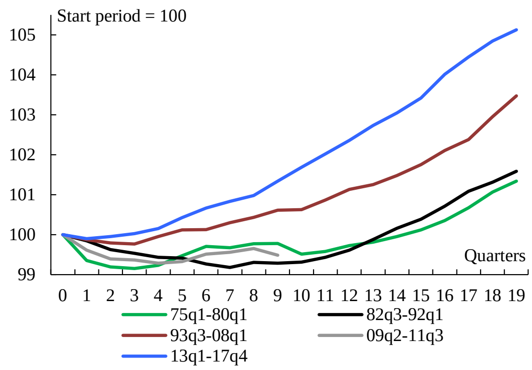
## 6. THE LABOUR MARKET

The strengthening economic expansion has led to a further improvement in the labour market situation with falling unemployment rates, growing employment in terms of persons and working hours, and receding slack in the labour market. Due to the expected continuation of the economic expansion in 2018 and 2019, the labour market outlook remains favourable, but with economic growth exceeding potential growth, the question arises for how long and to what extent employment growth can continue. A closer look at past employment growth and supplementary labour market indicators such as underemployment, suggests that there is still some untapped potential, but that employment growth will slow and thereby also limit the space for euro area and EU unemployment rates to fall further. As the situation differs across Member States, further employment growth and falling unemployment are still projected in a number of economies, particularly in some that were hit most by the past downturn.

### A job-rich expansion with strong employment gains…

The economic expansion has led to strong employment gains. Employment continued to benefit from the sustained domestic-demand driven expansion, moderate wage growth, as well as structural reforms in some Member States. In the last quarter of 2017, the number of employed persons in the euro area has reached the highest level since 1999. This cannot be said about hours worked, but since 1999 only in four quarters in 2007 and 2008 had the number of hours worked been higher than in the fourth quarter of last year. However, as recent years have brought various structural changes to the labour market (e.g. compositional changes in labour demand and supply with respect to required skills and educational attainment of workers) the removal of slack cannot be expected to be equivalent to a return of labour market characteristics as they had prevailed before the economic and financial crisis.

*Graph I.37:* **Comparison of recoveries in the euro area, employment (persons), 1970-Q1 - 2017-Q4**




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

In terms of jobs, the labour market improvement implies that the losses during the economic and financial crisis have been fully recovered. In comparison with employment developments in

[38] For an overview, see J. S. Kang and J. C. Shambaugh (2016). 'The rise and fall of European current account deficits'. *Economic Policy* 31:85, pp. 153–99.

*Table I.5:*

**Labour market outlook - euro area and EU**

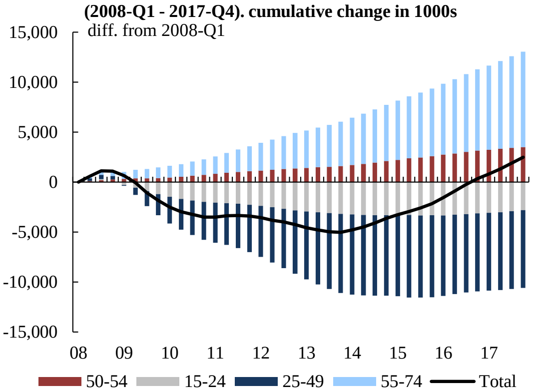
| (Annual percentage change) | Euro area | | | | | | | EU | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Spring 2018 forecast | | | | *Autumn 2017 forecast* | | | Spring 2018 forecast | | | | *Autumn 2017 forecast* | | |
| | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Population of working age (15-64) | 0.2 | **0.3** | **0.2** | **0.2** | *0.3* | *0.2* | *0.2* | 0.1 | **0.2** | **0.2** | **0.2** | *0.2* | *0.2* | *0.2* |
| Labour force | 0.5 | **0.5** | **0.5** | **0.4** | *0.6* | *0.6* | *0.4* | 0.3 | **0.6** | **0.5** | **0.4** | *0.5* | *0.5* | *0.4* |
| Employment | 1.4 | **1.6** | **1.3** | **1.1** | *1.5* | *1.2* | *1.0* | 1.3 | **1.5** | **1.1** | **0.9** | *1.4* | *1.0* | *0.8* |
| Employment (change in million) | 2.0 | **2.3** | **1.9** | **1.6** | *2.3* | *1.8* | *1.5* | 2.8 | **3.5** | **2.6** | **2.0** | *3.2* | *2.3* | *1.8* |
| Unemployment (levels in millions) | 16.3 | **14.7** | **13.6** | **12.8** | *14.8* | *13.9* | *13.0* | 20.9 | **18.8** | **17.4** | **16.5** | *19.0* | *17.9* | *17.0* |
| Unemployment rate (% of labour force) | 10.0 | **9.1** | **8.4** | **7.9** | *9.1* | *8.5* | *7.9* | 8.6 | **7.6** | **7.1** | **6.7** | *7.8* | *7.3* | *7.0* |
| Labour productivity, whole economy | 0.4 | **0.8** | **1.0** | **1.0** | *0.7* | *0.9* | *0.9* | 0.7 | **0.9** | **1.2** | **1.2** | *0.9* | *1.1* | *1.1* |
| Employment rate (a) | 60.2 | **61.0** | **61.7** | **62.2** | *60.9* | *61.5* | *62.0* | 60.4 | **61.3** | **61.9** | **62.3** | *61.1* | *61.6* | *62.0* |

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

previous recoveries, the past five years can be described as a job-rich recovery (see Graph I.37), which sharply differed from episodes that had been characterised as 'jobless recoveries'. Among the reasons for this spectacular rebound are structural features such as a shift of employment from capital-intensive sectors such as manufacturing to services. (39)

A closer look at the increase in employment in the number of employed persons in the past decade shows that mainly the number of older workers has increased, whereas the number of jobs held by young people and persons below the age of 50 has only slightly rebounded in recent years (see Graph I.38).

*Graph I.38:* **Employment by age group, euro area (2008-Q1 - 2017-Q4). cumulative change in 1000s**

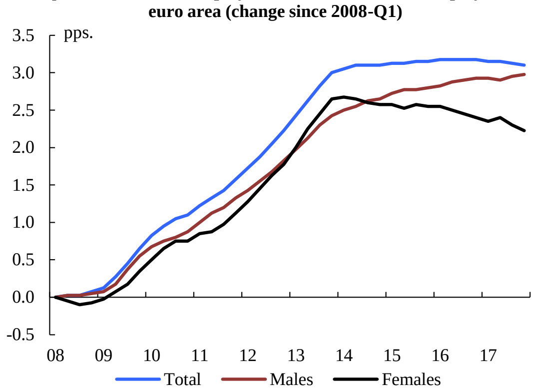



*Note: four-quarter moving averages as compared to the base period 2008-Q1.*

The labour force in the euro area and in the EU grew in 2017, which lifted the activity rate further. The labour market participation rate has continued to follow an upward trend, which mainly reflects the increased activity rate among older people.

As jobs have become more readily available, labour market participants have not only moved from unemployment to employment, but also from part-time to full-time work. As a result, in recent quarters the share of part-time work on total employment has deviated from its trend growth path (Graph I.39), which had also been one of the factors for the divergence between employment growth in terms of persons and in terms of hours in recent years. In the last quarter of 2017, 22.1% of total employment was part-time with substantial differences between the shares observed for women (35.9%) and men (10.1%).

*Graph I.39:* **Part-time employment as a share of total employment, euro area (change since 2008-Q1)**




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

Employment growth has increased across most of Europe. In 2017, all Member States except Lithuania reported an increase in employment. Nevertheless, in some economies, employment levels are still markedly lower than in 2008, for instance in Greece and Latvia where a gap of about 10% persists.

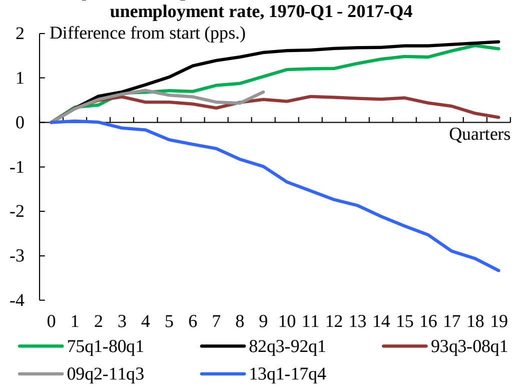
## ...has substantially lowered unemployment...

The unemployment rate in the euro area and in the EU has continued on a downward trend, making the current economic expansion the most

(39) For a recent analysis see IMF (2018). 'Manufacturing Jobs: Implications for Productivity and Inequality'. *IMF World Economic Outlook*, April, pp. 129–71 (chapter 3).

successful in terms of its ability to create jobs (see Graph I.40), [40] even when taking into consideration the fact that comparing phases of different business cycles has become difficult due to structural changes. In February 2018, the unemployment rate in the euro area fell to its lowest since December 2008 (since September 2008 in the EU), which implies that unemployment is now only slightly higher than it was before the economic and financial crisis. Also the youth unemployment rate has fallen markedly in the euro area and in the EU. [41]

*Graph I.40:* **Comparison of recoveries in the euro area, unemployment rate, 1970-Q1 - 2017-Q4**

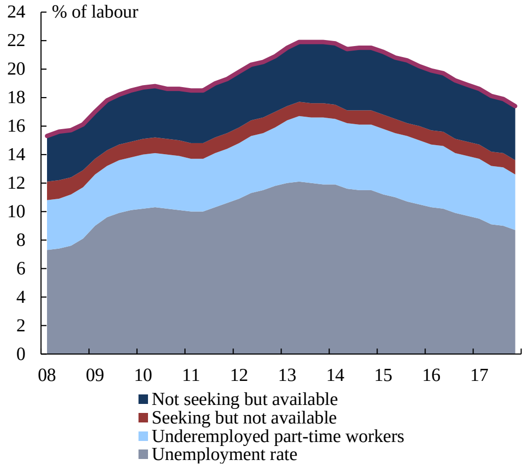



*Note: Recoveries according to decisions by the CEPR Business Cycle Dating Committee (data sources: AWM database and Eurostat).*

## ...but remaining slack in the labour market points to untapped potential.

The (headline) unemployment rate does not tell the whole story, however, because it only includes people actively seeking jobs who are already without work and available within two weeks. Wider definitions also include people working involuntarily part-time and persons without work who are not available within two weeks or who do not search actively. The elevated levels of people working involuntarily in part-time or temporary positions suggests that the impact of the crisis on the 'intensive margin' remains a feature of the labour market in the euro area. Wider unemployment statistics continue to point to remaining slack in the labour market that is not covered by the headline figures (see Graph I.41). [42]

*Graph I.41:* **Total labour market slack, euro area**




The euro area aggregates point to some remaining slack in the labour market, although this is not observed in all Member States. While Greece and Spain recorded the highest unemployment rates in the second quarter in 2017, the highest readings of the other slack indicators were observed in Italy, Finland and Cyprus. But after almost five years of economic expansion, the slack has already receded somewhat and fewer and fewer potential workers are available on the side-lines.

The assessment of economic slack needs to take into account uncertainty surrounding estimates, which is partly due to the impact of labour market reforms on potential output that is difficult to quantify but also includes the possibility that the economic expansion has removed more from the crisis legacy than envisaged in the central scenario and entailed a reversal of crisis-related hysteresis. [43] This argument is supported by the past downward revisions of the Non-Accelerating Wage Rate of Unemployment (NAWRU), a proxy of structural unemployment and thus a measure of

(40) For detailed analyses of labour market developments in the euro area and in the EU, see European Commission (DG Employment, Social Affairs and Inclusion) (2017). '*Labour Market and Wage Developments in Europe, Annual Review*'.

(41) Previous forecasts have highlighted that measuring youth unemployment as a percentage of youth workforce, i.e. employed and unemployed) disregards that many young people are in education and training or inactive, which lowers the denominator and tends to overstate the situation.

(42) See ECB (2017). 'Assessing labour market slack'. *ECB Economic Bulletin* 3, pp. 31-5 (Box 3); and G.H. Hong, et al. (2018). 'More slack than meets the eye? Recent wage dynamics in advanced economies'. *IMF Working Paper* 18/50, March.

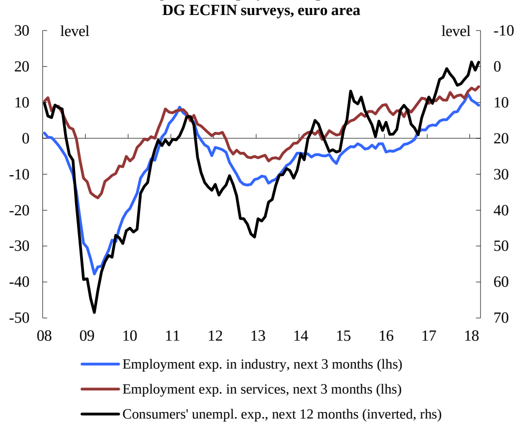
(43) This could include persistent effects of monetary policy on the natural unemployment rate and potential output, as for instance presented by Blanchard; see O. J. Blanchard (2018). 'Should we reject the Natural Rate Hypothesis?'. *Journal of Economic Perspectives* 32:1, Winter, pp. 97–120. For an overview on hysteresis in Europe, see also European Commission (DG ECFIN) (2017), 'How persistent are crisis effects in the euro area?'. *European Economic Forecast – Winter 2017*. Institutional Paper 48, pp. 10–14.

spare capacity in the labour market.[44] This might suggest that the economy could operate at a lower rate of unemployment than in the past before it will lead to upward wages pressures as firms seek to attract and retain workers.

### The short-term labour-market outlook remains favourable…

The Commission's survey data on employment expectations suggest that net job creation will continue. Overall, in both the euro area and the EU, the hiring intentions of firms remain above their long-term averages in all sectors. Employment expectations in the euro area improved in the first quarter of this year compared to the fourth quarter of 2017 in services and construction and consumers' unemployment fears fell to a new post-crisis low. Employment expectations in manufacturing and retail fell but remained above the average of the second half of last year (see Graph I.42).

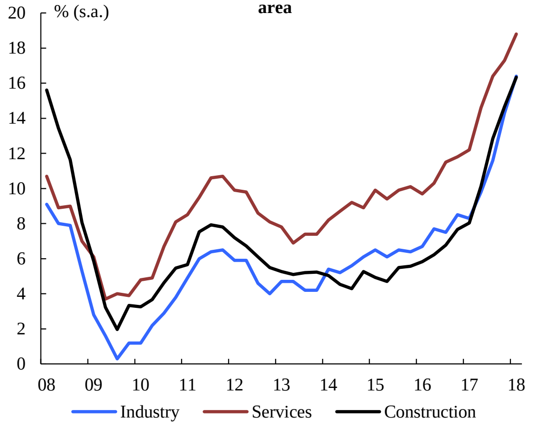
*Graph I.42:* **Employment expectations, DG ECFIN surveys, euro area**




### …but a tightening labour market…

While employment expectations remain compatible with continued employment momentum, surveys also indicate that firms are increasingly facing challenges from a tightening labour market. The Commission's quarterly surveys show that the net percentage of euro area and EU firms mentioning labour as a factor limiting industrial production and services rose in the first quarter of 2018 (survey of January 2018) to the highest level since the start of the series (for industry in 1985, for services in 2003) (see Graph I.43). Among the largest Member States, the highest levels are reported for Germany and the Netherlands, where the pace of employment growth is thus set to be slowed more and more by labour shortages. In these countries, the relief available from longer working hours is expected to be more limited.

*Graph I.43:* **Labour seen as limiting factor of activity, euro area**

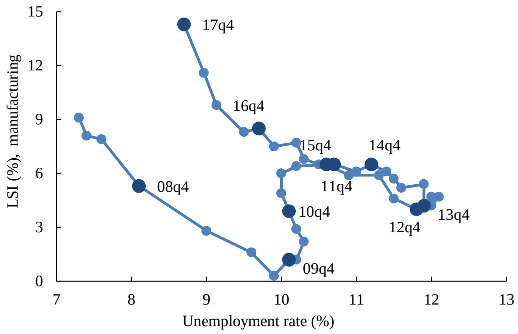



Additional evidence of increasingly binding labour shortages in some countries and some sectors comes from by the job vacancy rate, which has been broadly rising since late 2014 in the euro area and in the EU. In the last quarter of 2017, the seasonally-adjusted vacancy rate reached a new all-time high of the series in the euro area (2.0%) and in the EU (2.1%). The tightening of the labour market is also reflected in the further inward shift of the Beveridge curve. The combination of higher readings of the labour shortage indicator in periods of lower unemployment represents a typical cyclical development (see Graph I.44). However, the recent declines in the unemployment rate occurred in a period when labour shortages were already perceived as higher than in previous periods with the same levels of unemployment. This could hint at larger labour market mismatches than in previous years, which could be associated with skills mismatches from a lower employability. One possible explanation for this could be that fewer workers were able to accumulate skills at work ('learning on-the-job') during the period of high unemployment.[45] This would hint at hysteresis effects that reduce future (potential and actual) employment and output growth.

[44] Evidence of a falling NAIRU has also been presented for the UK, see D. N. F: Bell and D. G. Blanchflower (2018). 'The lack of wage growth and the falling NAIRU'. *NBER Working Paper* 24502, April.

[45] See e.g. K. Walentin and W. Westermark (2018). 'Learning on the Job and the Cost of Business Cycles'. *Sveriges Riksbank Working Paper Series* 353.

*Graph I.44:* **Beveridge curve, euro area**




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

### …starts dampening employment growth…

In addition to bottlenecks and labour shortages there are other factors that suggest the rate of employment growth may slow. In some Member States the fading of temporary fiscal stimuli is expected to exert a dampening impact on employment growth. These include fiscal measures such as temporary reductions in social security contributions in Italy and active labour market policies in Spain.

Moreover, the pace of employment growth is likely to be affected by a moderate rebound in labour productivity growth. In recent years, the counterpart to rather subdued economic growth and a job-rich expansion has been relatively weak productivity growth of 1.0% a year or less. While labour productivity growth in the euro area had been slowing since the 1990s, [46] the low rates in recent years were due to cyclical as well as secular factors. Accordingly, the strengthening of economic activity provides the foundations for an uptick in the productivity growth rate. Such factors include the observed increase in hours worked per employee and a lower increase in the share of part-time employment. Stronger investment growth also should increase the capital stock (capital deepening) and thereby support labour productivity growth (see Section I.4). [47]

Meanwhile, the rising importance of the more labour intensive services sector has weighed on aggregate productivity growth. In addition, in several countries with tightening labour markets, workers with lower productivity may stand better chances of being hired, a fact that could weigh on aggregate productivity growth. Other possible factors include a slower pace of technological progress; a greater dispersion of productivity between frontier and non-frontier (laggard) companies due to some companies adopting new technologies faster than others; and capital misallocation in a low-interest rate environment. [48]

At the same time, however, there are a number of factors at work that are supportive of employment growth. The participation rate is expected to increase a little further as improved labour market conditions encourage those who are marginally attached to the labour market to enter. And the small downward effect of ageing on the participation rate should be offset by a further increase in the participation rate of older persons, which can be partly associated with past pension reforms that raised the statutory pension age in many Member States. [49] In addition, the integration of migrants into the labour market [50] and intra-EU migration towards regions with strong employment opportunities should also support employment growth.

### …and results in the projection of smaller labour market improvements in 2018 and 2019…

Overall, employment growth is set to continue benefitting from the economic expansion. In the euro area it is projected to slow from 1.6% in 2017

(46) See e.g. G. Cette, J. Ferald and B. Mojon (2016). 'The pre-Great recession slowdown in productivity'. *European Economic Review* 88, pp. 3–20; and ECB (2017). 'The slowdown in euro area productivity in a global context'. *ECB Economic Bulletin* 3, pp. 47–67.

(47) The decline in the capital-per-worker-ratio between 2007 and 2015 has been estimated to have contributed 0.4 pps. to the decline in labour productivity in the euro area; see P. Ollivaud, Y. Guillemette and D. Turner (2018). 'Investment as a transmission mechanism from weak demand to weak supply and the post-crisis productivity slowdown'. *OECD Economics Department Working Papers 1466*, April.

(48) Beyond the short-term, the fourth industrial revolution, or the digitisation and automation of economies can be identified as a supportive factor of productivity growth, as for instance by the ECB (see e.g. Cœuré, B. (2018). 'Scars that never were? Potential output and slack after the crisis'. Speech at the CEPII 40th Anniversary Conference, Paris, 12 April).

(49) The IMF has concluded that changes in labour market policies and institutions as well as structural changes and gains in educational attainment account for the bulk of the increase in the labour force attachment of women and older persons; see IMF (2018). 'Labour Force Participation in Advanced Economies: Drivers and Prospects'. *IMF World Economic Outlook*, April, pp. 71–128 (chapter 2).

(50) Hints on the untapped potential could be seen in persisting gaps between the labour market situation of migrants and of refugees, with the latter being 11.6% less likely to find a job and 22.1% more likely to be unemployed than migrants with similar characteristics; see F. Fasani, T. Frattini and L. Minale (2018). '(The struggle for) refugee integration into the labour market: Evidence from Europe'. *CEPR Discussion Paper* 12718.

to 1.3% in 2018 and 1.1% in 2019. Given the only slight moderation of economic growth projected for 2018 and 2019, the employment forecast implies that the growth support from increases in the number of employed persons will be supplemented by an increase in labour productivity growth from 0.8% in 2017 to 0.9% in both 2018 and in 2019. The more pronounced slowing of employment growth in the EU (from 1.5% in 2017 to 1.1% in 2018 and 0.9% in 2019) is mainly attributable to very low employment growth expected in the UK.

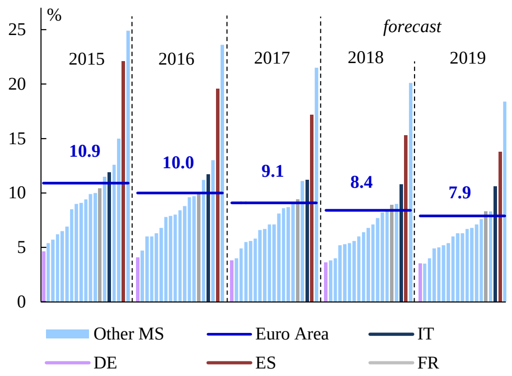
With employment growth slowing, the labour force continuing to grow at rates of about 0.5% and the employment rate continuing to increase, the unemployment rate is set to decline more slowly than in recent years in both the euro area and the EU. By falling in the euro area from 9.1% last year to 8.4% in 2018 and 7.9% in 2019, the actual rate is projected to fall below the NAWRU, which is estimated to fall from 8.4% in 2017 to 8.2% in 2018 and 8.0% in 2019. Similarly, the unemployment rate in the EU is expected to fall more slowly than in recent years (from 7.6% to 7.1% in 2018 and further to 6.7% in 2019).

### ...with differences in the labour market situation among countries persisting.

The labour market situation improved in all countries in 2017, with unemployment rates falling in all Member States and employment growing everywhere, except Lithuania. While broadly moving in similar directions, large differences between unemployment levels were still observed (see Graph I.45). For instance, the gap between the highest and lowest unemployment rates remained wide (between 2.9% of the labour force in the Czech Republic and 21.5% in Greece). Apart from structural features, one has to keep in mind that labour market responses to the economic and financial crisis have differed substantially across Member States and so have now responses during the ongoing economic expansion.

In 2018 and in 2019, the range in unemployment rates is expected to narrow further as unemployment rates are expected to fall most in the countries that were most affected by the crisis. The projected labour market developments should help to heal the scars of the economic and financial crisis in terms of unemployment in both the euro area and in the EU, but they are unlikely to bring unemployment back down to pre-crisis levels in all countries.

*Graph I.45:* **Unemployment rate, euro area and Member States (2015-2019)**




*Note: in each period, the bars for all 19 euro area economies are ranked by size.*

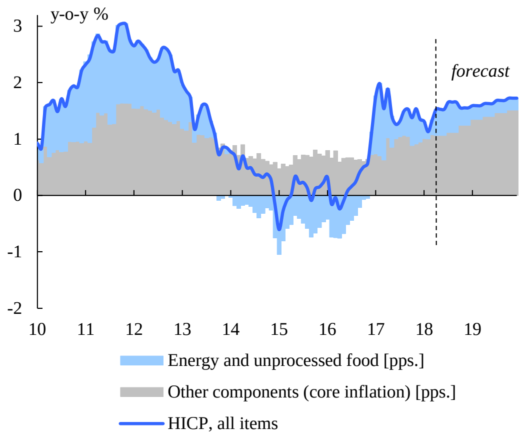
## 7. INFLATION

In the first years of the current expansion, inflation in the euro area had been lingering at levels below 1%, but the situation had changed in 2017. HICP inflation increased to 1.5% (up from 0.2% in 2016), largely reflecting a higher contribution from energy prices. The role of energy prices explains why the increase in core inflation (all HICP items excluding energy and unprocessed food) was more moderate (1.0%).

Looking forward, HICP inflation in the euro area is expected to gradually gather pace as labour markets progressively tighten and wages rise. Higher oil prices, base effects as well as changes in taxes and administered prices are expected to influence the quarterly pattern over the forecast horizon, leading in particular to some upward jumps in headline inflation in the second and third quarter of 2018 before inflation moderates again towards the end of the year.

After the energy price-driven increase in headline inflation in late 2016 and early 2017, inflation fell again to a subdued rate and hovered just above 1% for most of 2017. At the turn of 2018, inflation in the euro area was subdued and slowed down slightly. Lower inflation in 2018-Q1, compared to the last quarter of 2017, however, was mainly due to strong negative base effects in unprocessed food prices, while energy inflation moderated as expected after the increase in the same period last year. Energy prices continue to be a key driver of movements in the headline rate (HICP), and this is expected to remain so when strong positive base effects in energy inflation kick-in again in the second and third quarter of 2018 before tapering off towards the end of the year. The inflation profile in 2018 is thus expected to be hump-shaped. The effect of an early Easter this year (with the Easter week starting in late March instead of mid-April as last year) will also mark the inflation profile around this period since prices tend to rise exceptionally around Easter as a result of increased demand and higher product prices related to the holiday season.[51] As in the winter interim projections, the outlook for inflation remains one of a gradual pick-up from currently low levels (see Graph I.46).

*Graph I.46:* **Inflation breakdown, euro area**




## A bumpy inflation profile due to base effects...

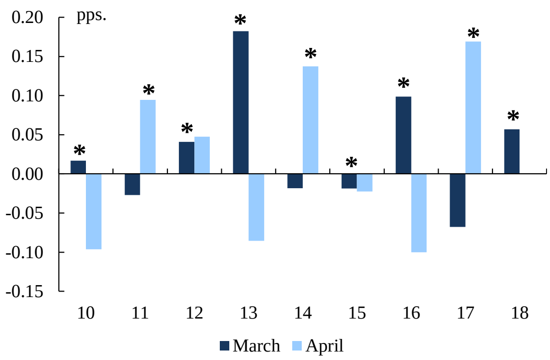
Consumer price inflation, as measured by annual changes in the Harmonised Index of Consumer Prices (HICP), was 1.3% in the first quarter of this year, which was lower than the average (1.5%) for 2017 as a whole and lower than the fourth quarter of 2017 (1.4%). After falling in January (1.3%) and again in February (1.1%) (mainly due to a base-effect-driven sharp fall in unprocessed food inflation), inflation however recovered to 1.3% in March. Given higher oil prices, energy inflation remained positive and over 2% in the first three months, yet the strength of the positive base effects diminished throughout as expected. Unprocessed food inflation rose from 1.1% in January to -0.9% in February and up again to 0.8% in March, reflecting not only base effects from last year but also wild fluctuations in the level of prices in this category from one month to the next, due for example to weather and supply conditions.

Core inflation (all items except energy and unprocessed food) in the euro area is again showing signs of a gradual but moderate increase again after declining towards the end of 2017 but there are still no discernible signs of immediate upward pressures. Core inflation averaged 1.2% in the first quarter of 2018, up from 1.1% in the fourth quarter 2017. In March it went up to 1.3%, from 1.2% in both January and February, mainly on the back of services inflation, and despite the one-off decline in non-energy industrial goods. The latter drop was due to a strong base effect from the monthly variation in March last year, otherwise this category remained overall stable over the past year.

## ...and muted services inflation so far

Services prices – the biggest component in the HICP – remains crucial for projecting price developments and until February services inflation has remained rather weak notwithstanding the acceleration in economic activity. Services inflation surged to 1.5% in March, lifted up by the early Easter holiday period (see Graph I.47). In fact, services related to package holidays and accommodation surged to 3.7% in March, compared to 2.1% in February. However, stripping out this one-off factor, the relative weakness of services inflation still stands out.

*Graph I.47:* **Package holiday inflation in March and April, contributions to HICP (euro area)**




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

(51) Seasonality in the prices of travel-related services also implies strong price changes in the summer and winter months; see E. Lis and M. Porqueddu (2018). 'The role of seasonality and others in HICP inflation excluding food and energy'. *ECB Economic Bulletin* 2, pp. 59–62 (Box 6).

*Table I.6:*

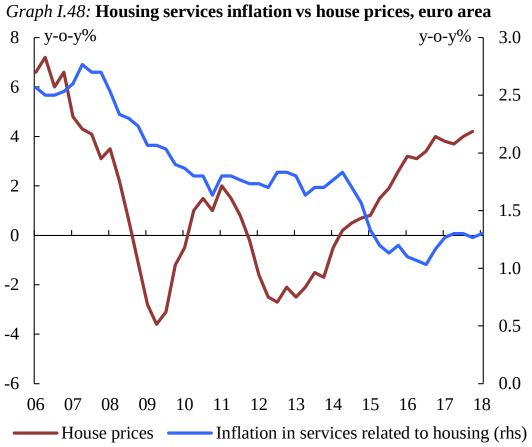
**Inflation outlook - euro area and EU**

| (Annual percentage change) | Euro area | | | | | | | EU | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Spring 2018 forecast | | | | *Autumn 2017 forecast* | | | Spring 2018 forecast | | | | *Autumn 2017 forecast* | | |
| | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Private consumption deflator | 0.4 | **1.4** | **1.5** | **1.6** | *1.4* | *1.3* | *1.6* | 0.6 | **1.6** | **1.7** | **1.7** | *1.7* | *1.6* | *1.7* |
| GDP deflator | 0.8 | **1.1** | **1.5** | **1.6** | *1.1* | *1.6* | *1.6* | 1.0 | **1.4** | **1.7** | **1.7** | *1.4* | *1.7* | *1.7* |
| HICP | 0.2 | **1.5** | **1.5** | **1.6** | *1.5* | *1.4* | *1.6* | 0.3 | **1.7** | **1.7** | **1.8** | *1.7* | *1.7* | *1.8* |
| Compensation per employee | 1.2 | **1.6** | **2.4** | **1.9** | *1.6* | *2.2* | *2.3* | 1.8 | **2.1** | **2.8** | **2.5** | *2.0* | *2.5* | *2.7* |
| Unit labour costs | 0.7 | **0.7** | **1.4** | **1.0** | *0.9* | *1.2* | *1.4* | 1.3 | **1.2** | **1.6** | **1.3** | *1.2* | *1.5* | *1.6* |
| Import prices of goods | -3.4 | **3.4** | **1.2** | **0.7** | *3.1* | *0.0* | *0.9* | -2.4 | **3.5** | **1.3** | **0.8** | *3.2* | *0.3* | *1.0* |

Other one-off factors could also explain some of this weakness. For example, inflation for communication services (which have only a 3% weight in the overall consumption basket) continued their long-term decline, which reflects advancements in technology and global competition. Education services inflation which, although also small in the overall basket (1%), declined very strongly in the fourth quarter of 2017 and continued to fall in the first quarter of 2018, reflecting essentially a change of price levels in Italy since the beginning of last academic year around October.

Inflation of services related to housing (with a weight of around 10% in the consumption basket), has been stable with no discernible trend since 2016 (see Graph I.48). This is puzzling as actual house prices have been on an upward trend for at least the past four years and have increased by around 4% in the euro area in 2017 alone. An increase in house prices tends to shift demand towards renting, consequently putting upward pressure on rents. So far, however, it seems that the reported growth in house prices is not having the expected impact on this component of inflation.

*Graph I.48:* **Housing services inflation vs house prices, euro area**




On the other hand, administered prices – prices directly set or influenced to a significant extent by the government - continued to rise by an average of 1.9% in the first quarter of 2018, close to their historical average. The sharp increase in the first quarter mainly reflects changes in administrative prices in France and Italy (mainly in energy networks).

## Inflation expected to be lifted by higher wage growth…

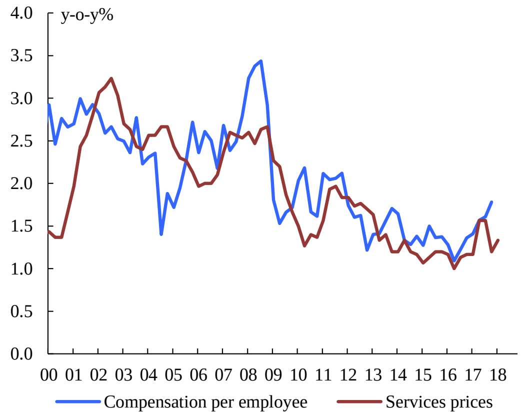
Recent developments in wage growth underpin and drive a good part of the spring inflation forecasts, as wage growth is a key determinant of domestic price pressures, particularly for general and services inflation. In services, the part of wages in overall costs is large, and services inflation closely correlates with wage growth (Graph I.49). Employee compensation per head in the euro area increased by 1.8% in 2017-Q4, after rising 1.6% in the previous quarter. For 2017 as a whole, it increased by 1.6% compared to 1.2% in 2016. Meanwhile, the growth rate of total compensation (i.e. without dividing by the number of employees) was 3.6% in 2017, above its average since 1995. This suggests that the increased share of part-time employees in the total number of employed persons (which adds equally part-time and full-time workers) after the economic and financial crisis in 2008-2009 has depressed wage growth per employee. The negotiated wage indicator increased by 1.5% in 2017, after 1.4% in 2016.

These latest developments, which show some firming in wages, increase confidence that the traditional Phillips curve framework - which examines the relationship between inflation and a measure of the output gap - remains relevant [52] and that wages should continue to increase with

(52) See also M. Ciccarelli and C. Osbat, eds. (2017). 'Low inflation in the euro area: causes and consequences'. *ECB Occasional Paper* 181.

the current economic expansion and tighter labour market in some countries. Cyclical developments are also resulting in a higher wage drift that has a shorter lag with respect to the cyclical upswing than negotiated wages. But also recent information about negotiated wages (e.g. in Germany) provides evidence of a gradual upward trend of wages.

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




In view of the continued expansion and the estimated positive output gap in the euro area over this year and next, the growth of compensation per employee in the euro area is expected to strengthen further to 2.4% this year and to moderate to 1.9% in 2019. The forecast in 2019 is strongly affected by the replacement of the CICE (Tax Credit for Competitiveness and Employment) in France (see Section II.10), which is recorded as a subsidy to firms until the end of 2018, by a permanent reduction in social security contributions in 2019. Accordingly, the change reduces the contribution of employers in total compensation but not the wages and salaries component; thus it should not have an impact on the take-home pay of households per se.

Since wage growth is expected to be supported by slightly increasing productivity growth, it should not fully translate into higher unit labour costs, which in the euro area are expected to remain contained overall.

### …and pipeline price pressures more evident.

Pipeline price pressures along the industrial supply chain remain more evident, yet they have softened somewhat early this year after strong increases in 2017. Industrial producer price inflation stood at 1.6% in the first two months of 2018, falling from an average of 2.5% in the fourth quarter. This could be partially explained by strong base effects from last year but also reflects the lagged impact of the euro's stronger nominal effective exchange rate towards the end of last year. In 2017 as a whole, average producer prices increased by 3.1%, much higher than reflected in domestic price pressures. Producer price inflation in fact mirrors more closely prices along global supply chains (see Box I.1) as with increased length of production chains, producer prices and consumer prices become more different as the common component, domestic consumed final goods which are domestically produced, tend to loses weight in the producer price index. [53]

### Inflation expectations indicators point to a gradual uptick…

Market-based measures of inflation expectations have started to rise gradually after autumn last year but have stabilised since winter, when inflation data came slightly below expectations. Indicators of short-term inflation expectations have recovered somewhat after reaching a peak in January. At the cut-off date of this forecast, inflation-linked swap rates at the one-year forward one-year-ahead horizon stood at 1.3% (see Graph I.50). Swap rates at the three-year forward three-year-ahead horizon imply an average inflation of 1.5%. On a longer horizon, the widely watched five-year forward five-year-ahead indicator suggests inflation of 1.7%, slightly below the ECB's definition of price stability in the medium term.

Survey-based measures of inflation expectations continued to trend upwards with a slight halt in March. According to the Commission's surveys, selling price expectations in manufacturing and services sectors firmed up in the first quarter of 2018. Consumers also reported higher price trends over the past twelve months. Selling price expectations in the retail sector have broadly stabilised but remain above their historical average. Price expectations in the construction sector continued rising and stood much higher in the first quarter in 2018 than their historical average. Euro area PMI indices for March show moderating price pressures, with input price inflation in manufacturing easing to a six-month low. Nonetheless, the assessment of average selling prices in both the manufacturing and services sectors have continued to rise at a solid pace.

(53) See S.-J. Wei and Y. Xie (2018). 'On the divergence between CPI and PPI as inflation gauges: the role of supply chains'. *NBER Working Paper 24319.*

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


*Source: Bloomberg.*

The monthly mean of market forecasters calculated by Consensus Economics stood in April at 1.5% for both 2018 and 2019. The results of the ECB Survey of Professional Forecasters for the first quarter (held in January) showed average inflation expectations at 1.5% in 2018, 1.7% for 2019, and 1.8% in 2020. Longer-term inflation expectations (for 2022) remained at 1.9%.

### …with the outlook for inflation in the euro area set on a gradual increase…

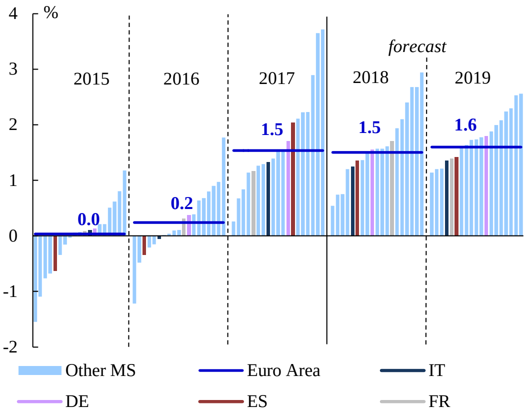
The near-term outlook for inflation remains under the influence of base effects from energy and unprocessed food prices. The quarterly profile for 2018 is thus expected to be hump-shaped, with headline inflation increasing in the second and third quarters under the influence of strong positive base effects in energy prices, before slowing again in the last quarter. Thereafter, inflation is expected to show a gradual upward movement reflecting the projected improvement in economic activity and wage growth. The pass-through to consumer prices of the temporary appreciation in the euro (in nominal effective terms) towards the end of last year is meanwhile expected to remain rather low, also because this appreciation was likely the result of an improved growth outlook in the euro area that supports the currency, as opposed to an unrelated exogenous shock (see also Section I.4). By contrast, the more recent exchange rate developments appear to be more closely related to new information on monetary policy than on further changes in the economic outlook.

Overall, headline inflation is expected to stay at 1.5% in 2018, the same rate as in 2017 and as forecast in the winter interim forecast. Despite the upward revision in commodity price assumptions, the forecast for inflation in 2019 has also been kept at 1.6% - reflecting essentially lower-than-expected inflation outcomes in the first quarter of 2018. The slight increase in 2019 is consistent with a projected positive output gap and a re-assertion of the Phillips curve framework. In line with this view, a stronger acceleration of prices is projected in Member States with high capacity utilisation and tight labour markets.

### …and higher inflation in some Member States reflecting the absorption of slack.

Aggregate HICP inflation rates continue to mask substantial differences across euro area Member States (see Graph I.51), which essentially mirrors the different speeds of expansion and wage growth.

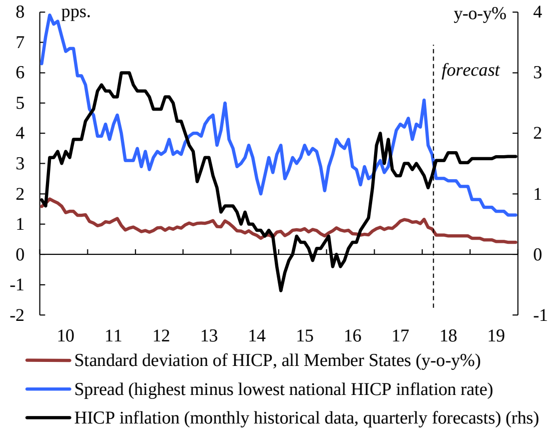
*Graph I.51:* **Inflation rates, euro area and Member States (2015-19)**




*Note: in each period, the bars for all 19 euro area economies are ranked by size.*

By the fourth quarter of 2019, HICP inflation rates at or above 1.5% are forecast in almost all euro area economies, except Ireland, Spain, Italy, Cyprus and Finland, but all are expected to have inflation above 1.2%. In 2019, six euro area Member States, mainly in Central and Eastern Europe, are expected to experience inflation above 2%, reflecting their fast-paced growth. With most countries projected to record inflation rates within a rather narrow range, the dispersion of inflation rates, as measured in terms of the unweighted standard deviation is expected to decline to the lowest level in 10 years (see Graph I.52). The spread between the highest and lowest inflation rate across euro area economies is also set to fall to a post-crisis low.

*Graph I.52:* **Inflation dispersion, euro area**




Outside the euro area, inflation differentials are more pronounced, reflecting to an extent different monetary policies and exchange rate developments. By the fourth quarter of 2019, headline inflation rates are forecast to vary between 1.4% in Croatia and 3.3% in Hungary.

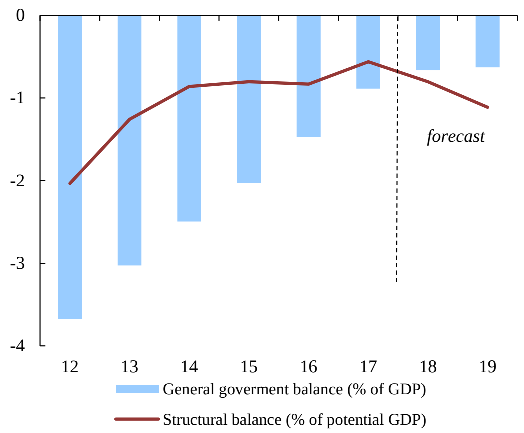
## 8. PUBLIC FINANCES

The aggregate general government deficit of the euro area continued to decline in 2017, on the back of the continuing economic expansion and historically low interest rates. Further declines in the headline deficit are forecast in both 2018 and 2019, while the structural balance is expected to deteriorate slightly, following an increase in 2017 (see Graph I.53). [54] The positive outlook for nominal GDP growth and historically low interest rates support the deleveraging of the public sector, with debt-to-GDP ratios projected to be on a downward path in almost all Member States over the forecast period.

### Growth and low interest rates support deficit reduction…

In 2017, the aggregate general government balance improved to -0.9% of GDP in the euro area and to -1.0% in the EU, which implied a decrease in the deficit in both areas by 0.6 pps. as compared to 2016 (see Table I.7). The balance is expected to continue improving in both areas in 2018 and 2019, albeit at a slower pace, reaching -0.6% of GDP in the euro area and -0.8% in the EU in 2019, based on a no-policy-change assumption. This compares to balances of -5.9% of GDP in the US and -2.7% of GDP in Japan.

*Graph I.53:* **Budgetary developments, euro area**




Several factors contribute to the projected improvement in the euro area general government balance over 2017-2019 (see Graph I.54). The change in the cyclical component of the budget, i.e. the budgetary impact of economic growth outpacing potential growth, is expected to be the main driver of this improvement. [55] Moreover, the reduction in interest expenditure, thanks to interest rates remaining at historical lows, will continue to support fiscal adjustment, although this positive contribution is expected to fade by 2019. By contrast, following a positive contribution in 2017, the structural primary balance is projected to deteriorate in 2018 and 2019, signalling expectations for somewhat looser discretionary fiscal policy. Finally, changes in one-off and temporary measures had a negative impact on the general government balance in 2017, but are set to be smaller over 2018-2019. [56]

The performance of individual Member States in terms of budgetary developments is expected to be mixed. In 2017, the general government deficit exceeded the 3% of GDP Treaty threshold only in Spain. Over the forecast horizon, only Romania shows a deficit forecast larger than 3% of GDP in

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

(55) More specifically, the cyclical component provided a positive contribution of around 0.4 pps. of GDP in 2017, which should slightly increase to around 0.5 pps. in 2018 and drop to 0.3 pps. in 2019, on the back of the expected slowing pace of economic growth.

(56) In 2017, sizeable negative one-offs affected the general government balance in Germany, France and in particular Portugal, while in Italy large expenditure and revenue one-offs offset each other (see country fiches for more details). Examples of typical one-offs include revenues from tax amnesty and from sales of non-financial assets, and expenditure related to short-term emergency costs or to the financial crisis.

*Table I.7:*

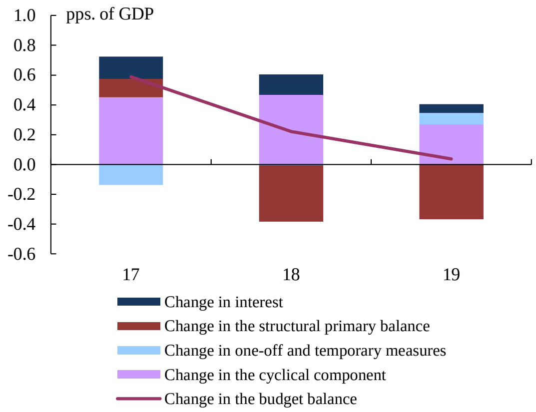
**General Government budgetary position - euro area and EU**

| (% of GDP) | Euro area | | | | | | | EU | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Spring 2018 forecast | | | | *Autumn 2017 forecast* | | | Spring 2018 forecast | | | | *Autumn 2017 forecast* | | |
| | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Total receipts (1) | 46.1 | **46.2** | **46.0** | **45.5** | *46.1* | *45.9* | *45.7* | 44.7 | **44.9** | **44.6** | **44.2** | *44.7* | *44.5* | *44.3* |
| Total expenditure (2) | 47.6 | **47.1** | **46.6** | **46.1** | *47.2* | *46.8* | *46.5* | 46.3 | **45.8** | **45.4** | **45.0** | *46.0* | *45.6* | *45.2* |
| Actual balance (3) = (1)-(2) | -1.5 | **-0.9** | **-0.7** | **-0.6** | *-1.1* | *-0.9* | *-0.8* | -1.6 | **-1.0** | **-0.8** | **-0.8** | *-1.2* | *-1.1* | *-0.9* |
| Interest expenditure (4) | 2.1 | **2.0** | **1.8** | **1.8** | *2.0* | *1.9* | *1.8* | 2.1 | **2.0** | **1.9** | **1.8** | *2.0* | *1.9* | *1.8* |
| Primary balance (5) = (3)+(4) | 0.6 | **1.1** | **1.2** | **1.1** | *0.9* | *1.0* | *1.0* | 0.5 | **1.0** | **1.0** | **1.0** | *0.8* | *0.8* | *0.9* |
| Cyclically-adjusted budget balance | -0.8 | **-0.6** | **-0.9** | **-1.1** | *-0.9* | *-1.1* | *-1.1* | -1.1 | **-0.9** | **-1.1** | **-1.2** | *-1.2* | *-1.3* | *-1.2* |
| Cyclically-adjusted primary balance | 1.3 | **1.3** | **0.9** | **0.7** | *1.1* | *0.8* | *0.7* | 0.9 | **1.1** | **0.7** | **0.6** | *0.9* | *0.6* | *0.6* |
| Structural budget balance | -0.8 | **-0.6** | **-0.8** | **-1.1** | *-1.0* | *-1.1* | *-1.1* | -1.2 | **-0.8** | **-1.0** | **-1.2** | *-1.2* | *-1.3* | *-1.2* |
| Change in structural budget balance | 0.0 | **0.3** | **-0.2** | **-0.3** | *-0.1* | *-0.1* | *-0.1* | 0.3 | **0.4** | **-0.2** | **-0.1** | *0.1* | *0.0* | *0.0* |
| Gross debt | 91.1 | **88.8** | **86.5** | **84.1** | *89.3* | *87.2* | *85.2* | 84.8 | **83.1** | **81.2** | **79.1** | *83.5* | *81.6* | *79.8* |

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

both 2018 and 2019, based on a no-policy-change assumption.

*Graph I.54:* **Breakdown of the change in the aggregate general government balance, euro area**

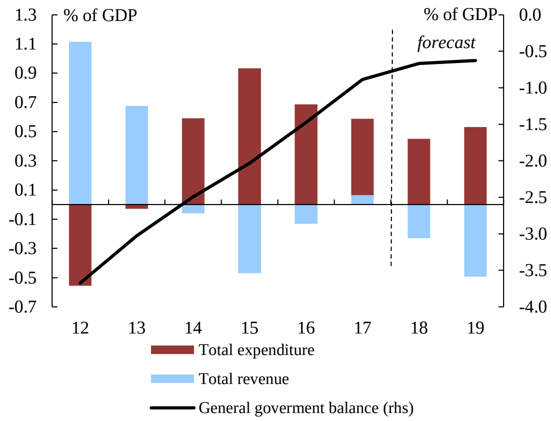



In 2018-2019, improving general government balances are forecast in 13 Member States, notably Spain (1.1 pps.), thanks to positive cyclical conditions, and Portugal (2.4 pps.) since the sizeable negative impact of one-offs affecting 2017 disappears.

The improvement in the euro area general government balance over the forecast horizon is set to be driven by a decline in the expenditure ratio that more than offsets the expected drop in the revenue ratio (see Graph I.55).

The expenditure-to-GDP ratio in the euro area is set to decline by 1 pp. over the forecast period, from 47.1% in 2017 to 46.1% in 2019 (Table I.7), under a no-policy-change assumption. Part of this decline is explained by lower interest expenditure, which is set to fall by 0.2 pps. of GDP, from 2.0% of GDP in 2017 to 1.8% in 2019 and lower one-off expenditure compared to 2017 (by 0.2 pps. of GDP). The remainder reflects the denominator impact due to the ongoing economic expansion, since the rather strong pace of GDP growth is expected to exceed the increase in expenditure in 2018 and 2019. [57] Moreover, cyclical unemployment benefits are projected to decline further thanks to the improving labour market outlook (see also Section I.6).

*Graph I.55:* **General government balance: expenditure and revenue contributions to the change, euro area**




In terms of quality of public spending, the aggregate public investment-to-GDP ratio in the euro area is projected to increase marginally, from 2.6% in 2017 to 2.7% in 2019, remaining well below its pre-crisis average (3.2% of GDP over 2000-2007). [58] Nevertheless, public investment in a number of Member States is expected to benefit from the implementation of the 2014-2020 programming period of EU funding, as well as from the Investment Plan for Europe (see also Section I.4).

Positive cyclical developments are set to reduce the weight of social transfers as a share of total

(57) By comparison, the primary expenditure ratio of the euro area (excluding one-offs) is set to remain broadly stable over 2017-2019 when computed in terms of potential GDP.

(58) Among euro area countries, the fall in public investment relative to the pre-crisis period has been sizeable in Spain, and Portugal (about -2 pps. of GDP), Ireland and Malta (about -1.5 pps.), Greece and Italy (about -1 pp.).

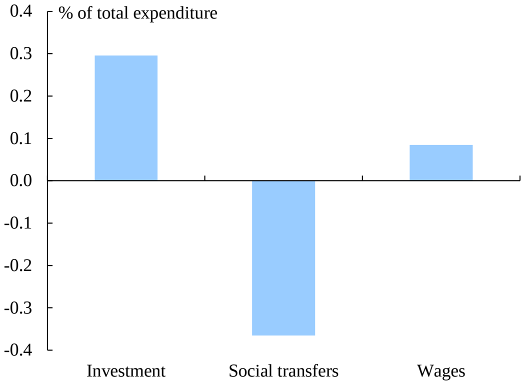
*Table I.8:*
**Euro area debt dynamics**

| | Average 2005-12 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| **General government gross debt ratio[1] (% of GDP)** | **76.7** | **93.9** | **94.2** | **92.1** | **91.1** | **88.8** | **86.5** | **84.1** |
| Change in the ratio | 2.9 | 2.3 | 0.3 | -2.1 | -1.0 | -2.3 | -2.3 | -2.4 |
| Contributions to the change in the ratio: | | | | | | | | |
| **1. Primary balance (reversed sign)** | **0.5** | **0.2** | **-0.1** | **-0.3** | **-0.6** | **-1.1** | **-1.2** | **-1.1** |
| **2. Snowball effect[2]** | **1.3** | **1.9** | **0.5** | **-0.9** | **-0.2** | **-1.1** | **-1.5** | **-1.3** |
| Of which: | | | | | | | | |
| Interest expenditure | 2.9 | 2.8 | 2.6 | 2.3 | 2.1 | 2.0 | 1.8 | 1.8 |
| Growth effect | -0.6 | 0.2 | -1.3 | -1.9 | -1.6 | -2.1 | -2.0 | -1.7 |
| Inflation effect | -1.2 | -1.2 | -0.8 | -1.3 | -0.7 | -1.0 | -1.3 | -1.4 |
| **3. Stock-flow adjustment** | **1.1** | **0.2** | **-0.1** | **-0.9** | **-0.2** | **-0.1** | **0.3** | **0.1** |

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

general government expenditure in the euro area aggregate. By contrast, after several years of restraints, the share of the public sector wage bill is set to increase slightly over the forecast period (see Graph I.56)

*Graph I.56:* **Change in expenditure composition over 2017-19, euro area**




Looking at revenue developments, the revenue-to-GDP ratio of the euro area aggregate is set to decline from 46.2% in 2017 to 45.5% in 2019, mainly reflecting the projected fall in current taxes on income and wealth and social contributions. The reduction in the revenue-to-GDP ratio is largely due to the impact of discretionary measures taken by governments, while underlying revenue developments appears to be consistent with the projected increase in nominal GDP. (59)

### … with the debt ratio remaining on a declining path.

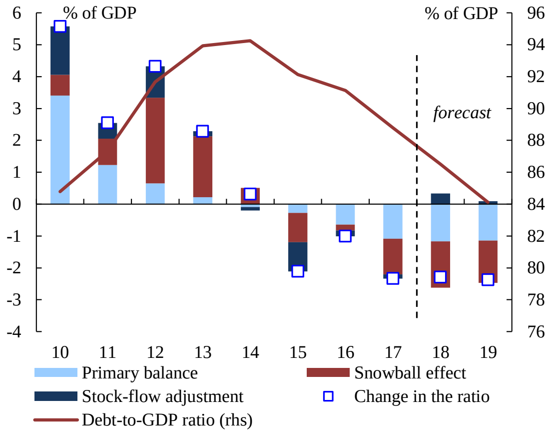
The aggregate general government debt-to-GDP ratio of the euro area has been on a declining path since 2014 (Table I.8), when it reached a peak of 94.2% (88.3% in the EU). In 2017, the debt ratio fell to 88.8% (83.1% in the EU). It is projected to fall further over the forecast period and reach 84.1% in 2019 (79.1% in the EU), under a no-policy-change assumption. In the euro area, the deleveraging of the government sector is supported by low interest rates paid on debt and rather strong nominal GDP growth, implying a debt-decreasing snowball effect. (60) Furthermore, the improved cyclical conditions have helped to achieve a debt-decreasing primary surplus of 1.1% of GDP in 2017, which is set to stabilise by 2019 (see Graph I.57).

The debt-to-GDP ratio is projected to decline in all Member States over 2018-2019 as compared to 2017, except for Romania and Cyprus. All Member States except for France, Latvia and Romania are forecast to run debt-decreasing primary surpluses by 2019, while the snowball effect is projected to provide a debt-decreasing contribution in all Member States.

(59) For further details on expenditure and revenues elasticities see Mourre, G., C. Astarita and S. Princen (2014). 'Adjusting the budget balance for the business cycle: the EU methodology'. European Commission, *European Economy Economic Papers* 536.

(60) The snowball effect is the impact on the debt-to-GDP ratio provided by the difference between nominal growth and the implicit interest rates paid on debt. Specifically, in the euro area aggregate, nominal GDP growth is projected to average 3.8% over 2018-2019 and thus outpace the average interest rate paid on debt, which is set at 2.1%. As a result, the snowball effect is expected to help reduce the debt ratio in the euro area aggregate by around 1.4 pps. of GDP per year on average over the forecast period.

*Graph I.57:* **Gross debt development: change drivers, euro area**




Despite the decline that is expected over the forecast period, the debt-to-GDP ratio in 2019 is forecast to remain above 100% in four Member States (Belgium, Greece, Italy and Portugal), and above 90% in three others (Spain, France and Cyprus).

## 9. MACROECONOMIC POLICIES IN THE EURO AREA

Overall, monetary conditions in the euro area are expected to remain accommodative. Based on the customary assumptions (see Box I.4), short-term money market rates are set to move sideways in 2018 before increasing gradually in 2019 but should remain very supportive on the whole in real terms. In addition, a further gradual increase in long-term inflation expectations should keep real long-term financing costs in negative territory.

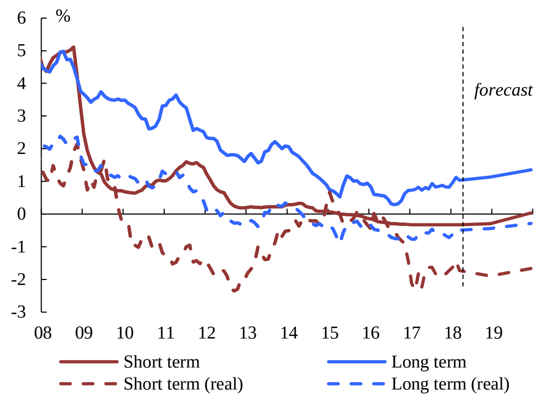
As regards the fiscal policy stance, as measured by the change in the structural budget balance, it is expected to be broadly neutral, on average, over the forecast horizon, under a no-policy-change assumption.

### Monetary conditions are expected to remain accommodative

While the continued growth momentum and gradually improving inflation outlook in the euro area should put some upward pressure on nominal rates over the forecast horizon, the ongoing implementation of current monetary policy measures and the assumed very gradual pace of normalisation, should keep financing conditions in the euro area very loose. Accordingly, although nominal long-term rates have increased from very low levels since last autumn and are assumed to continue to trend up modestly, the high stock of assets purchased under the Expanded Asset Purchase Programme (EAPP) in the Eurosystem's balance sheet, in combination with the continued reinvestment of maturing securities, should ensure that nominal long-term rates stay low. [61] On the short end of the yield curve, the overnight rate (EONIA) has continued to trade slightly above the ECB's deposit facility rate in recent months, reflecting the high and still-growing excess liquidity in the banking system. Similarly, the three-month Euribor rate has stayed near its record low levels since the autumn.

In real terms, short-term rates have increased slightly in recent months compared to the third quarter of 2017, mostly on the back of lower headline inflation at the beginning of the year (see Graph I.58). [62] After having been in negative territory since mid-2014, real long-term interest rates derived from inflation and interest rate swaps decreased slightly towards the end of last year. In January and February 2018 they were edging higher before remaining roughly unchanged in March. The upward movement mirrored an increase in nominal rates, not matched by an equal increase in longer-term inflation expectations.

*Graph I.58:* **Euro area interest rates**




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

Looking ahead, overnight rates are assumed to remain close to current levels until the end of the year and to increase rather gradually thereafter, as

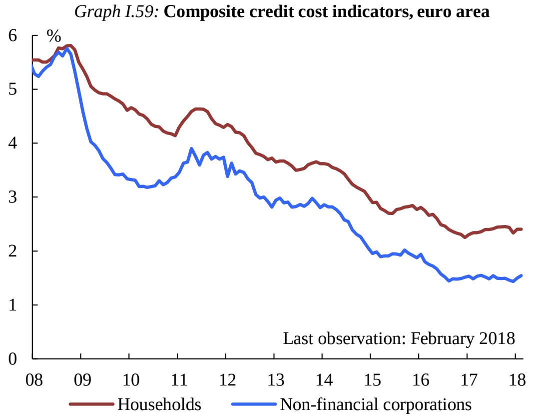
(61) Empirical evidence suggests that the portfolio rebalancing effect of asset purchases on bond market yields works predominantly via the size of the stock of purchased assets rather than the size of the monthly flows.

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

suggested by EONIA forward rates. At the time of writing, markets had fully priced in a 10 bps. rate hike only for mid-2019. This is broadly in line with the ECB Governing Council's forward guidance, according to which interest rates are expected to remain at present levels for an extended period of time and well past the horizon of the net asset purchases. As inflation is expected to increase only slightly towards 2019, this should lead to a roughly flat profile for real short term interest rates in 2018, and a slight increase in the following year. Real short-term rates should nonetheless remain clearly in negative territory. At the same time, forward rates suggest a gradual rise in nominal long-term rates over the forecast horizon, which should translate into somewhat higher (though still negative) real long-term rates, as long-term inflation expectations do not increase at the same pace.

The transmission of these developments to the nominal financing conditions for the non-financial private sector is captured by the composite credit cost indicators (CCCI) for non-financial corporations and households (see Graph I.59), which are calculated as weighted averages of interest rates on different types of bank loans and corporate bonds (in the case of non-financial corporations). In line with the gradual changes in nominal money market rates, developments in credit costs have been rather muted over the past few months. While credit costs have decreased marginally for households since the autumn, on account of slightly lower rates on housing loans, the CCCI has increased somewhat from very low levels for non-financial corporations, reflecting both an increase in corporate sector bond yields and slightly higher bank lending rates for medium- and long-term loans.

*Graph I.59:* **Composite credit cost indicators, euro area**

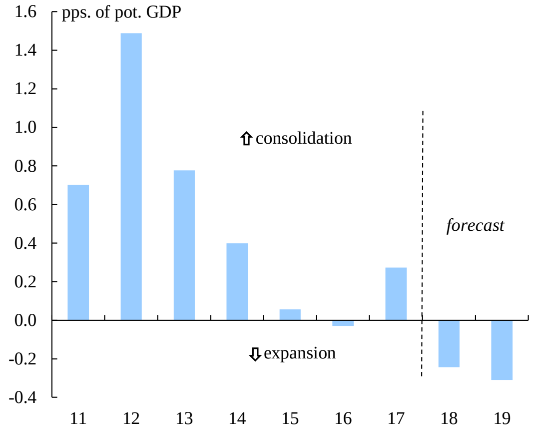



*Sources: ECB, Bloomberg, own calculations.*

### Fiscal policy stance broadly neutral

The fiscal policy stance of the euro area aggregate, as measured by the change in the structural balance, has been broadly neutral since 2015 (Graph I.60) and is expected to remain broadly neutral also in 2018 and to turn slightly expansionary in 2019, based on a no-policy-change assumption.

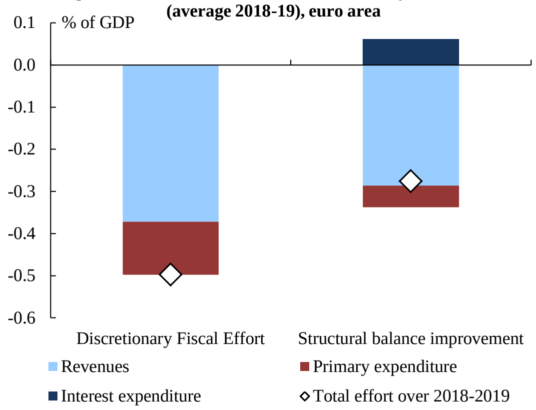
*Graph I.60:* **Change in the structural balance, euro area**



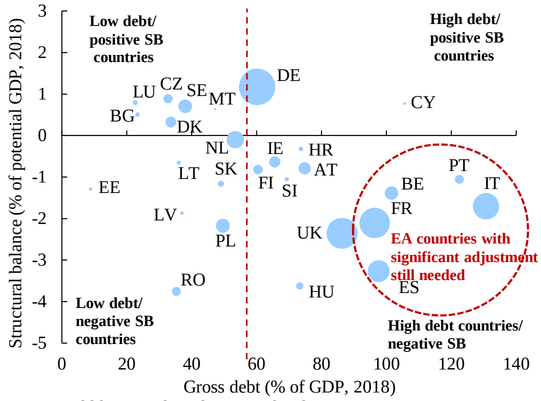

The discretionary fiscal effort, [63] an alternative indicator to assess the fiscal policy stance, broadly confirms this picture. More specifically, in 2017, the euro area primary expenditure - net of one-offs and cyclical unemployment benefits - increased by 2.6%, i.e. more than the estimated 2.3% medium-term nominal potential growth. Over 2018 and 2019, the discretionary fiscal effort projects a slightly expansionary fiscal stance, mainly reflecting the projected reduction in revenues due to discretionary measures (see Graph I.61). Moreover, net primary expenditure is set to increase slightly more than medium-term potential growth, providing further expansionary impulse.

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

*Graph I.61:* **Structural balance vs. discretionary fiscal effort (average 2018-19), euro area**



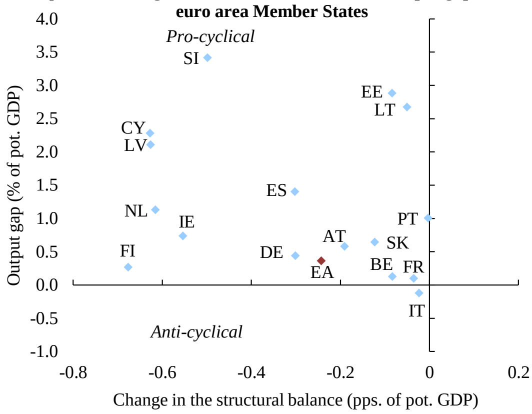

*Graph I.63:* **Structural balance vs. government debt, 2018**




*Note: Bubble size is based on GDP level.*

In 2018, a majority of euro area Member States is projected to have a slightly expansionary fiscal stance combined with a positive output gap (see Graph I.62; upper-left quadrant). Looking at the five largest euro area Member States, an expansionary fiscal stance is projected for Germany, Spain and the Netherlands, while a broadly neutral fiscal stance is forecast for France and Italy.

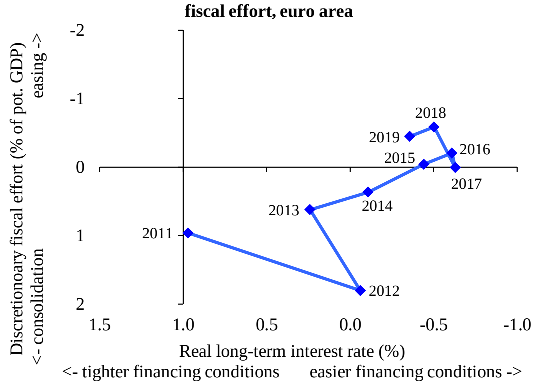
*Graph I.62:* **Change in the structural balance vs. output gap, 2018, euro area Member States**




Five euro area Member States with high debt-to-GDP ratios (Belgium, Spain, France, Italy and Portugal) are forecast to have a sizeable structural deficit in 2018 and thus pending adjustment needs (see Graph I.63).

The policy mix in the euro area reflects the interplay between financing conditions and fiscal policy (see Graph I.64). Overall, the policy mix should be assessed in the context of remaining economic slack, as reflected by persistently subdued core inflation on the one hand, and the ongoing expansion and gradually emerging signs of bottlenecks on the other hand. On the monetary side, the additional measures taken by the ECB since the end of 2014 have exerted a significant downward pressure on nominal long-term rates. However, monetary easing has only been partially transmitted to real rates, as long-term inflation expectations declined over the same period and only started to pick up by the end of 2016. Meanwhile, the renewed appreciation of the euro over the past year as well as at the beginning of 2018 has had a slight tightening effect on broader monetary conditions in the euro area.

*Graph I.64:* **Real long-term interest rates and discretionary fiscal effort, euro area**




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

For 2018 and 2019, average real long-term rates (derived from the 10-year swap rate deflated by inflation expectations) are expected to increase somewhat but to remain negative. However, financing conditions should remain very supportive overall. These monetary developments are accompanied by a broadly neutral fiscal policy stance, on average, over both years, based on a no-policy-change assumption.

## 10. RISKS

Overall, risks to the growth outlook are now tilted to the downside, particularly beyond the very short term.

On the domestic side, at least the near-term upside risks have diminished, given early signals of softening activity arising from high frequency indicators. Against the background of the recent broad-based drop in survey indicators, as well as a weakening in 'hard' data, the previous upside risk from an underestimated growth momentum in the near term appears to be no longer present. The current forecast interprets the weakness in the first quarter as largely the result of temporary factors, but this interpretation could prove wrong. Furthermore, the growth composition of the European economy since 2017, particularly its reliance on strong global demand and elevated confidence, has increased its vulnerability to external developments.

Nevertheless, beyond the near-term, the growth momentum could prove stronger and more durable than currently expected. While investment has expanded more strongly than in past recoveries, the specific features of the first post-crisis years with their investment weakness might have left more pent-up investment demand than currently envisaged. In addition, the impact of growth-friendly policies could be larger than expected and extend the acceleration of investment beyond this year.

On the external side, risks to the global growth outlook have increased significantly both in the short but also in the medium term. These relate predominantly to financial vulnerabilities and uncertainties surrounding the potential impact of US fiscal and trade policies. Global financial market jitters in early February highlighted the risk of an abrupt destabilisation of financial markets following a period of subdued volatility. Stronger-than-expected inflationary pressures could trigger a faster and stronger monetary tightening than currently assumed. If this were to lead to investor risk aversion globally, there could be significant negative spillovers in terms of capital flows, financial market stability and financial conditions. This would hit the US and many emerging markets.

Any sudden change in global financing conditions could trigger a repricing of risk and result in capital flows away from emerging markets, with knock-on effects for investors in advanced economies. The EU and the euro area would not remain immune to ensuing market corrections such as abrupt upward shifts in medium- to long-term bond rates and a bout of volatility. In this context, the sizeable pro-cyclical fiscal stimulus implemented by the US administration could lead to a sharper increase of growth in the short term. This would, however, also accentuate risks of overheating and, together with the build-up of fiscal imbalances, increase the likelihood of a more abrupt correction of the business cycle further out.

As regards trade, additional protectionist measures such as tariffs and retaliatory measures could harm global trade and impact negatively on economic activity and welfare. Trade tensions present an unambiguously negative risk to the global economy. While tariffs applicable so far are set to have only a marginal impact on the global outlook, further escalation would be more harmful. It would have a direct impact on companies exporting the targeted goods, but also affect firms whose value chains they integrate as well as consumers. Additional damage could result from further disruption to global supply. Overall, trade disputes could blow the current expansion off course.

The medium-term risks are mainly related to sustained loss of confidence in the global multilateral trading system. Most notably, this includes the potentially significant damage which the observed shifts could do to the rules-based system underpinning global trade that has been developed over recent decades (the World Trade Organisation); and the wider multilateral efforts to enhance economic cooperation (IMF, G20). These developments have ensured predictability and stability among trading partners, while also helping to spread the welfare-enhancing benefits of trade across the world. A shift towards addressing trade imbalances on a bilateral basis risks a costly disintegration of global flows along bilateral trading lines and may considerably increase business uncertainty and negatively weigh on the overall investment climate.

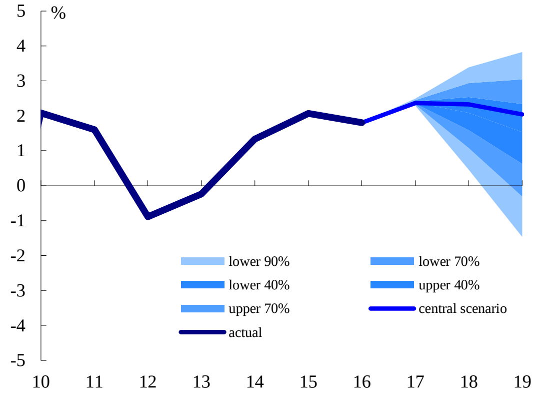
Open economies, such as the euro area, are particularly vulnerable to this. The combination of a pro-cyclical fiscal stance and inward-looking trade policies present a dangerous nexus. Moreover, risks associated with protectionism and financial market valuations are interconnected. As shown by financial market volatility in recent weeks, protectionist policies could also be a trigger for wider asset price corrections.

By clouding an otherwise benign global macroeconomic environment, uncertainties stemming from financial markets and US trade policy could further expose fragilities in a number of countries. Unwinding imbalances and reducing high debt exposures would become more difficult in a number of emerging market economies, including China, where both private and public debt levels have increased markedly in recent years. Vulnerable euro area countries facing a large private and/or public debt overhang would also be more exposed. Beyond the risks associated with trade tensions, additional downside risks are related to persisting geopolitical tensions in other parts of the world, such as the Middle East and the Korean peninsula.

Within Europe, risks related to the outcome of Brexit negotiations remain, particularly if the outcome of the negotiations on the terms of the UK's withdrawal from the EU in March 2019 differ meaningfully from the technical assumption of status quo in terms of trading relations between the EU27 and the UK for 2019.

Recent developments in risks to the euro area growth outlook are visualised in a fan chart (see Graph I.65), which depicts the probabilities associated with various outcomes for euro area economic growth over the forecast horizon. The most likely scenario is represented by the darkest area. All in all, the fan chart highlights the current assessment of risks as being asymmetric and more tilted to the downside.

*Graph I.65:* **Euro area GDP forecast - Uncertainty linked to the balance of risks**




As regards the inflation outlook, risks are seen as broadly balanced. It is particularly sensitive to the assumptions underlying the forecast. For example, deviations of Brent oil prices from the assumptions could occur if global economic activity and thus energy demand turns out to be stronger (weaker) than projected or if geopolitical tensions endanger oil production more (less) than envisaged and push (pull) oil prices higher (lower). Deviations of the exchange rate from the assumed paths and changes to the expected pass-through could also alter the outlook.

Overall, in spring 2018 the economic outlook for growth and inflation is surrounded by higher risks than before.

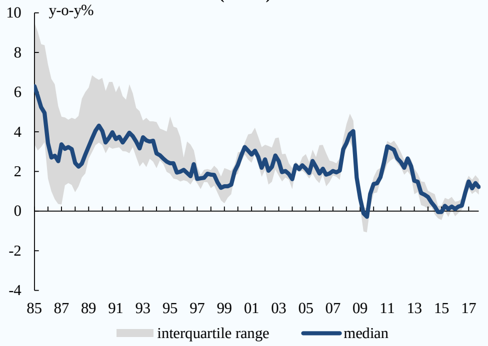
## *Box I.1:* **Has inflation become more 'global'?**

Inflation in the euro area has remained subdued despite the current cyclical upswing in both the euro area and the global economy (see Graph 1). Lower energy prices between the second half of 2014 and mid-2017 could explain only a part of this weakness because core inflation, which excludes energy and unprocessed food prices and reflects the underlying price pressures in the domestic economy, has also remained subdued as explained in the main text. (1) However, the recent literature and empirical studies of several institutions have emphasised the importance of factors common across OECD countries in determining domestic inflation. This box analyses the role of such common factors on consumer price inflation (CPI) using factor analysis tools. (2)

Inflation has followed a broadly similar path across OECD economies in recent years. (3) A commonly used tool to describe the link between prices and domestic determinants is the Phillips curve framework. The Phillips curve relates changes in wages or prices to economic determinants such as, past or expected domestic inflation, productivity developments and the output or unemployment gap, which measure 'slack' in the economy. The Phillips curve framework is augmented with determinants that aim to capture the impact of the external environment on domestic price pressures. The direct impact from the external environment is traditionally reflected in the Phillips curve via trade openness variables (exports and imports, which capture the links of the economy represented); (4) the global output gap; global price developments, particularly commodity prices in general and the oil price in particular; and more competitive markets; the effects of changes in the structure of production (so-called global value chains); foreign demand; or changes in the labour market. (5)

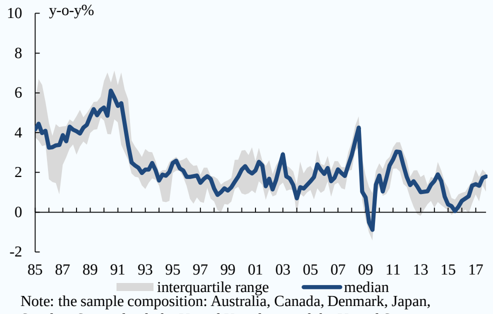
*Graph 1:* **Inflation and its dispersion, 1985q1–2017q4**

**Euro Area (EA-12)**




Source: National statistical offices, own calculations.

**Advanced OECD countries**




Note: the sample composition: Australia, Canada, Denmark, Japan, Sweden, Switzerland, the United Kingdom, and the United States.
Source: National statistical offices, IMF, OECD, own calculations.

The empirical evidence is rather mixed, with known effects on domestic prices related to oil prices and relatively small effects attributable to

(1) See e.g. IMF (2018). 'World Economic Outlook: Cyclical Upswing, Structural Change'. April.

(2) OECD and CPI data were used due to data availability. A static factor model is utilised, see e.g. S. A. Mulaik (2009). 'Foundations of Factor Analysis'. (2nd ed.), Chapman & Hall. Factor analysis allows finding a statistical model for the correlations among the inflation series of the different countries. It assumes that there exist unobserved factors driving the observed inflation rates. Each inflation series is assumed to be dependent on a linear combination of the identified common factors, and their associated weights (known as loadings). Each inflation series also includes a component due to independent random variability (i.e. country specific variance).

(3) See e.g. Ciccarelli, A., and B. Mojon (2010). 'Global Inflation'. *The Review of Economics and Statistics* 92:3, pp. 524–535; Bank for International Settlements (BIS) (2014). '84th Annual Report'. June; ECB (2017). 'Domestic and global drivers of inflation in the euro area', *ECB Economic Bulletin* 4, pp. 72–96; Carney, M. (2017). '[De]Globalisation and inflation'. Speech at the 2017 IMF Michel Camdessus Central Banking Lecture. Washington DC, 18 September.

(4) See e.g. Monacelli, T., and L. Sala (2009). 'The International Dimension of Inflation: Evidence from Disaggregated Consumer Price Data'. *Journal of Money, Credit and Banking* 41:1, pp. 101–20.

(5) See an overview of other determinants in Carney (ibid.) or Neely, C. J., and D. E. Rapach (2011). 'International Comovements in Inflation Rates and Country Characteristics'. *Journal of International Money and Finance* 30:7, pp. 1471-90 (global prices); Andrews, D., Gal, P., and W. Witheridge (2018). 'A Genie in a Bottle? Globalization, Competition and Inflation'. *OECD Economics Department Working Papers* 1462 (value chains); Béreau, S., Faubert, V., and K. Schmidt (2018). 'Explaining and Forecasting Euro Area Inflation: the Role of Domestic and Global Factors'. *Banque de France Working Paper 663* (foreign demand).

*(Continued on the next page)*

*Box (continued)*

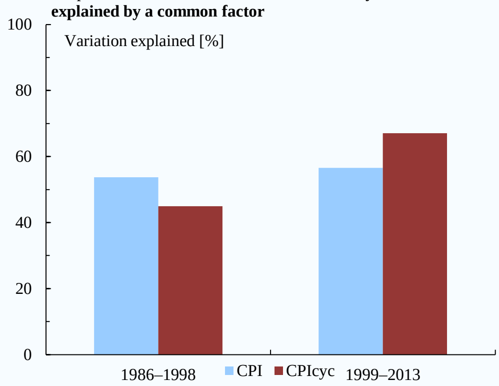
trade variables or the world output gap. The common underlying factors found via the analysis presented in this box reflect the shocks to these variables, but also other possible determinants, such as commodity prices, output and price shocks in large exporters, or common shocks from technological change. [6] A precise analysis of the determinants of these factors is beyond the scope of this box.

This box presents further evidence of the existence of a common underlying factor driving inflation rates in developed OECD countries. The box analyses both headline (CPI) inflation and core inflation. This is important since commodity price developments are important for the variation in the former. The cyclical components of CPI and core inflation are used to show the importance of the common underlying factors for domestic inflation. The results indicate that the relevance of the common factor changes through time, which is to be expected given the large number of shocks that determine it. As the box shows that these changes have intervened during the 1990s, one possible explanation is related to the introduction of the euro, which unified monetary policy in a large set of the OECD countries and, as a consequence, could have engendered a closer correlation of the cyclical components of inflation in these countries. The data show the emergence of a second common supra-national factor after 1999, which could tentatively be interpreted as a factor which is common to euro area countries and exists in parallel with the common factor.

### Inflation in the OECD countries has a common factor, whose relevance increased after 1999

Graph 2 shows that more or less 60% of the headline inflation variability in OECD countries can be attributed to a common underlying factor. The sample is split into a pre-1999 period and a post-1999 period, and the graph shows that overall this factor has remained constant over time, i.e. that, when one considers CPI (solid blue bars), the main common factor explains almost the same percentage of the inflation series in the more recent period. [7]

*Graph 2:* **The share of variance of total and cyclical inflation explained by a common factor**




*Note: the graph shows the percentage of the total variation of both total and cyclical CPI, which can be attributed to the common factor constructed as the first principal component of a subsample of twenty developed OECD countries (these are listed in Table 1). Source: own calculations.*

A different result is obtained if the cyclical component of inflation is taken into consideration. Following Ciccarelli and Mojon (2010) and Kamber and Wong (2018), this box focuses on changes in the explanatory power of the common factor for the cyclical component of headline inflation, which is computed by a filtering

(6) The evidence on global output gap is ambiguous; significant effects are found e.g. by: Borio, C., and A. Filardo (2007). 'Globalisation and inflation: new cross-country evidence on the global determinants of domestic inflation', *Bank for International Settlements Working Paper* 227; Bianchi, F., and A. Civelli (2015). 'Globalization and inflation: Evidence from a time-varying VAR'. *Review of Economic Dynamics* 18:2, pp. 406–433, other studies fail to do so: Ihrig, J., S. B. Kamin, D. Lindner, and J. Marquez (2010). 'Some Simple Tests of Globalization and Inflation Hypothesis', *International Finance* 13:3, pp. 343–375; Mikolajun, S. I., and D. Lodge (2016). 'Advanced economy inflation: the role of global factors'. *ECB Working Paper Series* 1948; Kamber, G., and B. Wong (2018). 'Global factors and trend inflation'. *Bank for International Settlements Working Paper* 688.

(7) The choice of the sub-periods is driven by the introduction of the euro, which, by creating a new monetary area of a size comparable to the US can potentially have changed the commonalities of inflation in a large number of countries. The symmetry of the sample allows the use of the Baxter-King (BK) filter for the computation of the cyclical component of the inflation, as it shortens the series symmetrically (12 quarters on both sides). This implies that the analysis can be done only up to 2014. Finally this is the same sample as in BIS (ibid.), which makes it possible to compare the findings.

*(Continued on the next page)*

*Box (continued)*

procedure.[8] Headline inflation can be thought as the combination of different determinants: those that determine long-run developments of inflation, such as changes in the supply or the market competitive structure, or changes in consumer preferences; and those that are related to business cycle developments, e.g. demand changes. It is important to focus on the cyclical part of inflation because it generally moves in tandem with the business cycle and can be influenced by monetary policy. Moreover, one should take into account that in the 1990s, many countries moved to a lower-inflation environment while introducing changes in the conduct of monetary policy (like the use of inflation targeting) at the same time. Indeed, the common factor of the cyclical component of inflation (red bars of Graph 2) explains almost 70% of the variance of inflation in the recent period, against less than 50% in the first period, a noticeable difference with trend in the explanatory power of the common factor for total CPI.

Table 1: **Total and cyclical inflation and the common factor**

| CPIcyc 1986-1998 | Common Factor | CPIcyc 1999-2013 | Common Factor |
|---|---|---|---|
| US | 0.50 | US | 0.76 |
| DE | 0.31 | DE | 0.77 |
| AU | 0.01 | AU | 0.42 |
| JP | 0.43 | JP | 0.39 |
| FR | 0.71 | FR | 0.85 |
| CZ | 0.52 | CZ | 0.48 |
| UK | 0.37 | UK | 0.39 |
| IT | 0.59 | IT | 0.78 |
| ES | 0.10 | ES | 0.89 |
| SE | 0.38 | SE | 0.64 |
| CA | 0.14 | CA | 0.55 |
| NL | 0.53 | NL | 0.29 |
| DK | 0.06 | DK | 0.64 |
| AT | 0.59 | AT | 0.80 |
| FI | 0.53 | FI | 0.79 |
| IE | 0.36 | IE | 0.75 |
| LU | 0.76 | LU | 0.90 |
| BE | 0.84 | BE | 0.86 |
| EL | 0.00 | EL | 0.42 |
| PT | 0.80 | PT | 0.69 |

*Note: the table shows the percentage of the variance of the inflation explained by the common factor, by country and by sub-period. Shaded cells contains values larger than 0.60. Table 1 shows a common factor computed using a static factor model (with one predefined factor), which is the most important factor in the model as it explains the largest share of the total variance. This is equivalent to the first principal component of the principal component analysis used to compute Graph 2. Source: ECFIN (2018), OECD (2018), and own calculations.*

Table 1 provides an insight on the country dimension of this result, by showing the explanatory power of the common factor for the series of the relevant OECD countries. There are only four countries in which the common factor explains more than 60% of the variation of the cyclical component of the CPI index during the pre-euro period. This number increases to thirteen in the euro period. There seems to be a country-specific pattern visible as only three countries showing an increased relevance of the common factor in explaining their domestic inflation are outside the euro area, and two others are EU members. Comparable results are obtained if one uses an average of inflation computed across countries (whether a simple average or a GDP-weighted one) instead of the principal factor extracted using factorial analysis to describe the common underlying inflation trend, in line with Ciccarelli and Mojon (2010).

### Are commonalities in inflation mostly driven by energy prices?

As discussed above, the analyses based on augmented versions of the Phillips curve indicate that the presence of common shocks is an important explanation for cross-border co-movements in inflation, with the most important external variable affecting domestic inflation is found to be the price of oil (or of commodities more in general). By contrast, the relevance of other possible sources of commonalities, including common shocks and spillovers from other countries, is more difficult to establish. These results are partly supported by the analysis of the presence of common trends in core inflation.

Core inflation provides a picture of underlying price pressures by excluding volatile components from the consumer basket, particularly those that are related to energy.[9] Graph 3 presents the variation in the cyclical components of core inflation along with that of the cyclical component CPI inflation. The graph shows two features of core inflation. First, the share of the variation of the cyclical component of core domestic inflation rates which is explained by the common factor is below 40% and 30% in the pre-1999 and post-1999 periods respectively. This is much smaller than the share of CPI inflation that was explained by the common factor. Moreover the difference in the explained variation of the cyclical component of

(8) In line with the literature quoted above, in order to estimate the cyclical component of inflation, a Baxter-King filter is used, which isolates pre-defined frequencies of the underlying series; e.g. Christiano, L. J., and T. J. Fitzgerald (2003). 'The band pass filter'. *International Economic Review* 44:2, pp. 435-465. In this procedure, headline inflation is decomposed in its long-run trend, and the business cycle fluctuations.

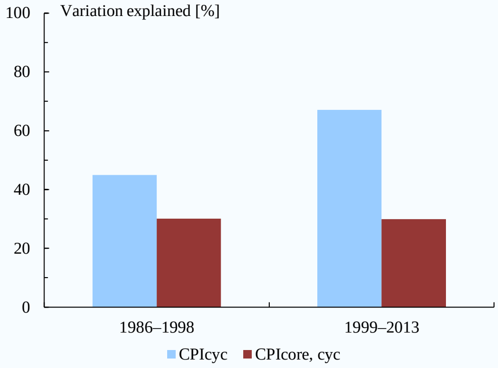
(9) CPI core inflation is calculated on the CPI index excluding prices of volatile components, i.e. food and energy, whose combined weight is around 1/5th.

*(Continued on the next page)*

*Box (continued)*

core inflation across periods is much smaller than for headline inflation. [10] While the explained share for the cyclical CPI is 20% larger than in the case of the cyclical component of core inflation before 1999, this ratio is more than the double after 1999.

*Graph 3:* **Share of the variation of total and core inflation explained by a common factor (cyclical components), pre and post 1999**




*Note: the graph shows the percentage of the total variation of both cyclical CPI and cyclical core inflation that can be attributed to the common factor, see note under Graph 2. The core inflation rate is defined as CPI minus the unprocessed food and energy components. The country sample consists of twenty developed OECD countries as in Table 1. Source: ECFIN (2018), OECD (2018), and own calculations*

The finding of a weaker common factor effect in the core index is not surprising because core inflation excludes energy and unprocessed food. Oil, and other commodities, is itself affected by global shocks common to OECD economies. [11] It would seem that for the price items that compose the core inflation index, domestic determinants play a larger role and these determinants differ across countries, even if a factor, common across the sample of OECD countries used here, still explains one third of the variance of core inflation. Moreover it is interesting to see that while (cyclical) headline inflation has clearly increased, its correlation with common factors, this is not the case for core inflation. Further analysis would be needed to understand the drivers of the commonalities of core inflation, for example the respective role of its non-energy industrial component and its service component.

(10) The cyclical component of core inflation is computed in the same way as for CPI.

(11) Already Ciccarelli and Mojon (ibid.) find this result; similarly a more recent study by Béreau et al. (ibid.).

### Has there been a euro area inflation factor since 1999?

Graph 2 above shows that there was a shift in the 1990s, with an increase in the variation in the cyclical component of inflation explained by common determinants. Table 1 shows that this change has affected many countries that are euro area members. It is therefore tempting to provide an interpretation of these results related to the birth of the euro area.

To explore this possibility a two-factor analysis [12] is used on the cyclical component of CPI. The results indicate that adding a second factor provides, together with the first factor, a better explanation of the cyclical component of the CPI. The explanatory power of this second factor is strong for most euro area countries in the sample, adding credence to the idea that it may be related to euro area membership. However, as the determinants of factors in general are very diverse, this result should not be over-interpreted.

Graph 4 presents the change in the explanatory power of the first (which could be interpreted as a more global factor) and the second (which could be interpreted as rather euro-area related) factor between the pre-euro and euro era periods for the countries considered. There is a visible pattern that cyclical inflation in the members of the euro area becomes more correlated to a second factor in the post-1999 period than it was in the pre-1999 period (solid blue bars with a positive sign) with a corresponding loss in the explanatory power of the global factor (negative dashed bars with a negative sign). This could tentatively suggest the presence of a new euro-area factor alongside the global factor for the Euro period. The main exceptions to this pattern are Greece and Spain, which show a diminished correlation with the euro area factor (Greece) and an increased correlation with the world factor (both Greece and Spain). Both cases could be in principle justified. Spain has continued increasing its internationalisation since adopting the euro, while Greece, on the other hand, started using the euro only in 2002 and has had a very

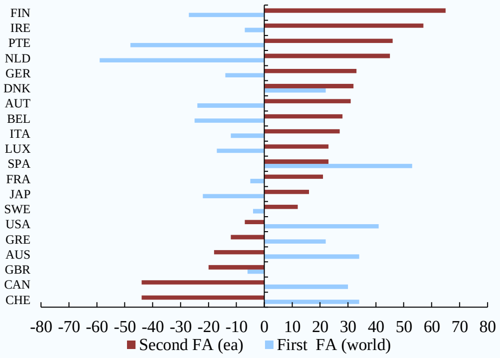
(12) A two factor model is estimated using the maximum likelihood estimator (MLE) and with an oblique rotation on the found factors. It should be noted that the use of the oblique rotation produces factors that are not orthogonal to each other, and in the present case are highly correlated. This makes it difficult to give a separate interpretation of the two factors and their determinants, which should not be over-interpreted.

*(Continued on the next page)*

*Box (continued)*

different behaviour in several aspects from the rest of the area.

*Graph 4:* **Differences in the explanatory power of the first two factors based on the cyclical component of inflation by sub-period (1999–2013 vs. 1986–1998)**




*Note: differences in the share (expressed in pp) of variation in cyclical inflation as explained by the 1st and 2nd factors (computed using the BK-filtered CPI series) between the period 1986–1998 and the period 1999–2013. Descending order given the difference in the 2nd factor. Source: own calculations.*

## Conclusions

This box presents evidence of the existence of a common factor driving the cyclical component of CPI headline inflation and core CPI inflation in advanced OECD countries, in line with the literature. The importance of the common factor increases over time for the cyclical component of the CPI inflation and remains stable in the case of core inflation, differently to what has been argued in part of the literature.

The result is possibly related to the different drivers of headline inflation versus core inflation, as the literature has shown that global oil and commodity price shocks – which constitute the difference between headline inflation and core inflation – are an important driver of domestic inflation in advanced OECD countries.

The box also tentatively indicated the possibility that this behaviour is partly related to the emergence of the euro, which has unified monetary policy in a large set of OECD countries. Among its many consequences, use of a common currency seems to have engendered a closer correlation of the cyclical components of inflation in these countries. Some evidence is provided in this sense by examining the data indicating the presence of a second common supra-national factor after 1999, whose effect can be related to most euro area countries present in the sample and complements the common global factor.

## Box I.2: Residential construction

The large and frequent swings of residential construction investment have an important bearing on the business cycle. This box surveys the cyclical pattern of residential construction investment in euro area countries over almost five decades. It attempts to quantify the main drivers of residential construction in the euro area in the short- and medium term in a standard error-correction framework. The box then zooms in on the near-term outlook for residential construction activity. Overall, residential construction in the euro area and Member States appears set to keep growing at a robust pace, thereby contributing to GDP growth in the forecast years.

### Residential construction cycles and GDP

Despite its limited weight compared to GDP - residential construction investment represented only about 6% of GDP in the euro area on average in 2000-2017 - the quite pronounced ups and downs in residential construction activity are intimately linked to GDP cycles. The housing boom and bust as one of the triggers of the Great Recession has reinforced the interest in understanding the cyclical mechanics of residential construction and its links to GDP.

Drops of residential construction activity are frequent and often deep. In the 15 'old' EU Member States for which long series of annual data are available, [1] there have been 63 episodes of annual real GDP contracting for at least one year since 1970. This compares to 118 episodes (some of them synchronous across Member States) in which annual residential construction investment decreased for at least one year. The standard deviation of GDP growth in these countries since 1970 is 2.8. It is 11.3 for residential construction. Counted from trough to trough, the average cycle in residential construction lasts 5.8 years (median 5), compared to the average business cycle which lasts 10.7 years (median 10).

There is no one-to-one correspondence of contractions of residential investment and drops in GDP, as the former are far more frequent than the latter. However, half of the 58 episodes between 1970 and the Great Recession when residential construction in a Member State dropped by at least 5% were associated with a drop in GDP and almost all others with a substantial slowdown compared to previous years' GDP growth rates. In 2008-2009, housing investment dropped by more than 5% in all examined Member States except Austria, and GDP dropped across all these countries in 2009. The length of the upswing in residential construction investment and the length of the subsequent downturn are positively correlated, [2] and downturns can be long-lasting. Following the excessive housing investment in the euro area in the run-up to the 2008 crisis, it took until 2014 before residential construction investment bottomed out.

The literature on the links between residential construction investment and GDP is most developed for the US. It suggests that shocks to residential construction activity propagate in the economy and affect GDP over and above the weight of the residential construction sector due to close interlinkages with other sectors. Input-output tables for the US show that the construction sector buys much more from the rest of the economy than the other way round. [3] Drops in construction demand therefore swiftly spread to other sectors. For the euro area, the ECB [4] stresses both the inputs from other sectors as well as the high labour intensity in the construction sector, which implies relatively large employment effects of construction cycles. On the financing side, developers respond to house price signals and supply more dwellings when prices are rising while banks provide more lending when the collateral is appreciating (financial accelerator). Another possible transmission channel from housing markets to GDP is through wealth effects of housing. However, there is evidence for this channel mainly in the US, but not in the euro area. [5]

For the US, there is broad agreement that the residential construction cycle leads the business

(1) i.e. BE, DK, DE, IE, EL, ES, FR, IT, LU, NL, AT, PT, FI, SE and UK.

(2) This feature is also present in house prices. Cf. Bracke, P. (2013). 'How long do housing cycles last? A duration analysis for 19 OECD countries', *Journal of Housing Economics* 22:3, pp. 213-230.

(3) Boldrin, M., C. Garriga, A. Peralta-Alva, and J. Sánchez (2013). 'Reconstructing the Great Recession'. *Federal Reserve Bank of St. Louis Working Paper Series* 2013-006.

(4) ECB (2009). 'The construction industry in the downturn'. *Monthly Bulletin* 5, pp. 61-63 (Box 6).

(5) Balta, N., and E. Ruscher (2011). 'Household savings and mortgage decisions: the role of the "down-payment channel" in the euro area'. European Commission, *European Economy*, Economic Papers 455, September.

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*Box (continued)*

cycle.[6] For the euro area, the evidence on a leading role for residential construction investment with respect to GDP is less clear cut.[7] Table 1 suggests that quarterly growth of residential construction in the euro area since 1995 is coincident with GDP growth rather than leading it. Residential construction is leading employment, which is considered a lagging variable with respect to GDP. In line with the findings by Álvarez and Cabrero (2010) building permits lead residential construction as well as GDP by two to four quarters, reflecting the time lapse between the authorisation to start building and the registration of the actual construction activity in national accounts. This makes building permits useful for forecasting short-term fluctuations in residential construction and possibly also GDP. Neither the construction confidence indicator from DG ECFIN's business surveys nor its forward-looking components (order books and construction expectations) appear to be leading indicators of residential construction growth. In conclusion, residential construction is not found to lead GDP in the short run in the euro area, but it is still likely to amplify it.

*Table 1:*
**Correlations in quarterly growth rates**

| Target | Indicator | Leads | | | | | |
|---|---|---|---|---|---|---|---|
| | | t-5 | t-4 | t-3 | t-2 | t-1 | t |
| **GDP** | RC | 0.09 | 0.26 | 0.31 | 0.40 | 0.40 | **0.63** |
| | permits | 0.24 | **0.40** | 0.39 | **0.40** | 0.36 | 0.31 |
| **E** | RC | 0.22 | **0.39** | 0.23 | 0.26 | 0.17 | 0.24 |
| **RC** | conf | 0.15 | 0.26 | 0.27 | 0.34 | 0.41 | **0.45** |
| | exp | 0.12 | 0.26 | 0.25 | 0.23 | 0.34 | **0.42** |
| | permits | 0.30 | 0.42 | 0.30 | **0.48** | 0.30 | 0.38 |

RC: residential construction; E: employment; conf: constr. confidence; exp: constr. expectations

(6) E.g. Leamer, E. (2014). 'Housing *really is* the business cycle: What survives the lessons of 2008-09?'. *Journal of Money, Credit and Banking* 47:1. Gjerstad, S., and V. Smith (2010). 'Household expenditure cycles and economic cycles, 1920-2010'. Chapman University, *Economic Science Institute Working Papers* 10-02.

(7) E.g. Musso, A., S. Neri, and L. Stracca (2011). 'Housing, consumption and monetary policy: How different are the US and the euro area?'. *Journal of Banking and Finance* 35:11, pp. 3019-41; Álvarez L., and A. Cabrero (2010). 'Does housing really lead the business cycle?' *Banco de España Documentos de Trabajo* 1024; Kydland, F., P. Rupert, and R. Šustek (2016). 'Housing Dynamics Over the Business Cycle', *International Economic Review* 57:4, pp. 1149-77.

## Drivers of residential construction investment

In view of the large swings in residential investment and their influence on GDP, there is an obvious interest in understanding the drivers of residential construction. Broadly following Carnot et al (2011), a limited set of drivers of residential investment are examined in an error-correction framework.[8] It includes demographic developments, household incomes and real interest rates as the potential determinants of housing demand in the long run. Over a shorter time horizon, house prices are considered, as higher prices increase the value of a house as an asset as well as the supply of houses. The cost of credit affects affordability, as most households have to incur debt to acquire a house. Moreover, the unemployment rate is considered as a proxy of the uncertainty of households' future income.

Data are taken from the AMECO database for 1960 to 2017, except the house price index, which is taken from the database constructed by Philiponnet and Turrini (2017).[9] The panel estimation is based on the six largest euro area Member States. Country fixed effects account for structural heterogeneity across them.

The upper part of table 2 shows the retained long-run drivers. 'RC' stands for real residential construction investment, 'RDIPC' for disposable income per capita deflated with the private consumption deflator; 'dummy 92' is a variable with value 1 from 1992 on and zero before. It was added to cater for any instability in the coefficients introduced by German reunification. C is a constant that adds to zero with the country fixed effects that are not displayed here. The lower part shows the short-run relationship. It links the annual growth rate of residential investment to the rate of change in the long-run determinants and their lags, the lagged residual of the long-run relationship (l-r res) and additional explanatory factors: dU - the change of the unemployment rate; dHPI - house price

(8) Carnot, N., V. Koen, and B. Tissot (2011). 'Economic forecasting and policy'. Springer. Cf. Piazzesi, M., and M. Schneider (2016). 'Housing and macroeconomics'. *Handbook of Macroeconomics* 2B, pp. 1547-1640, who survey the literature that deals with the specificities of housing and provide a more comprehensive approach to modelling households' demand for housing and housing supply.

(9) Philiponnet, N., and A. Turrini (2017). 'Assessing House Price Dynamics in the EU'. European Commission, *European Economy*, Discussion Paper 48, May.

*(Continued on the next page)*

*Box (continued)*

inflation deflated with the private consumption deflator and dPOP - population growth.

*Table 2:*
**Estimation outcomes**

| | Estimation | |
|---|---|---|
| | **Direct** | **Panel** |
| **Long-run** | | |
| C | | 1.4*** |
| RDIPC | 0.97*** | 0.68*** |
| dummy 92 | 0.08*** | |
| **Short-run** | | |
| dRC lag1 | 0.40*** | 0.33*** |
| dRDIPC | | 0.32* |
| dRDIPC lag1 | -0.60** | -0.47*** |
| dU | -1.52*** | -1.39*** |
| dHPI | 0.67*** | 0.36*** |
| dPOP | | 1.23 |
| l-r res | -0.24 | -0.14 |
| | | |
| *obs* | *39* | *258* |
| *adj. R²* | *0.65* | *0.50* |
| *DW* | *1.82* | *1.97* |

Statistical significance at 1%(***), 2%(**) and 5%(*) levels

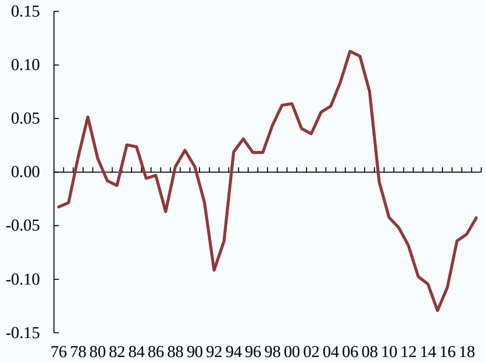
Real disposable income per capita is identified as the major driver of housing investment in the longer run. The real interest rate or demographics are not picked up as long-run drivers of housing investment in the euro area. In the short run, house price inflation is positively linked to housing investment, in other words investment slows down when house prices decelerate or fall. Income uncertainty proxied by the change in the unemployment rate negatively affects residential construction. Improvements in the labour market appear to make households more confident to undertake a major investment and take out a mortgage. According to the panel estimation, residential construction also responds positively to population developments in the near term but the estimated coefficient is not statistically significant.

### The near-term outlook

Graph 1 plots the residuals of the long-run regression extended with the spring 2018 forecast data. The residual graph clearly displays housing overinvestment in the decade preceding the crisis followed by a sharp and protracted drop with a trough in 2015. By 2017, residential construction was well on the recovery path, and the gap between the current level of residential investment and the level implied by real disposable income is now rapidly closing.

Graph 2 illustrates the contributions of the different drivers of residential construction investment. The falling unemployment rate and house prices that increase faster than consumer-price inflation have contributed positively since 2014.

*Graph 1:* **Residuals of long-run regression, euro area**




*Source: AMECO, own calculations.*

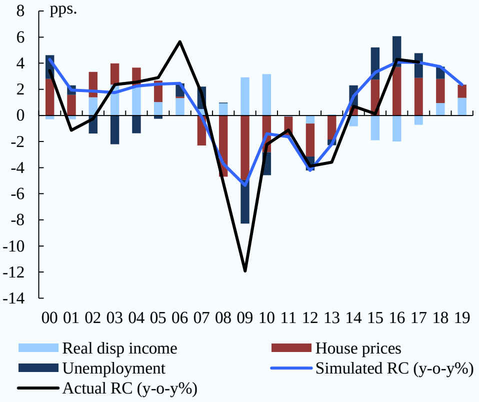
The cyclical drivers identified above suggest a continued expansion of residential construction. The short-run regression can be used to produce a conditional forecast of residential construction into which enters the spring-forecast projection of disposable incomes and the unemployment rate as well as an assumption on house-price inflation. As house prices are not covered in DG ECFIN's macroeconomic forecasts, the analysis of residential construction is based on assumptions and scenario analysis. In 2017, residential construction in the euro area expanded at a rate of 3.9%. Assuming real house prices continue increasing at a rate of 2.3% as in 2017 would yield a conditional forecast of residential construction growth of 3¾% in 2018 and 2½% in 2019. Assuming a stagnation of house prices for 2018 and 2019 would yield conditional forecasts of 2% in 2018 and ½% in 2019. Were real house prices to increase by 5% annually, the conditional residential investment forecast would be 5½% in 2018 and 4½% in 2019.

Assuming constant house price inflation, model-based conditional projections for the larger Member States would suggest a moderation of residential construction growth in Germany, and a slowdown from high growth in the Netherlands. For France and Spain, model projections point to a continuation of robust residential construction at a slightly slower pace, and for Italy a continuation of more modest growth. These model-based conditional projections are illustrative and not necessarily identical with the forecasts entering construction investment in table 10 of the statistical annex.

*(Continued on the next page)*

*Box (continued)*

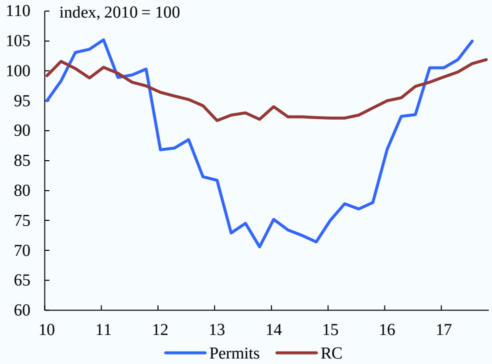
*Graph 2:* **Residential construction growth and contributions, euro area**




Higher-frequency data that could not be included in the model for lack of long time series also point to a continuation of robust growth in residential construction in the euro area. Confidence in the construction sector is high, having picked up sharply since 2014. At 5.2 points in March 2018, construction confidence stands 1½ standard deviations above its long-term average since 1985 pointing to continued strong momentum in the first quarter. Business managers in construction also indicate a backlog of orders slightly above average and a strong flow of incoming orders. Financing conditions are ample and expected to remain so (see section I.3). Acute deleveraging pressures on households have receded. Mortgage credit expanded by 3½% yoy in January and February 2018.

In 2017 compared to 2016 the delivery of new permits in the euro area has slowed down but remains at a high level.

*Graph 3:* **Residential construction and building permits, euro area**




*Source: Eurostat. Permits for residential construction expressed in m².*

Taken together, conditional model projections and high-frequency data point to a continuation of robust residential construction investment growth in the euro area.

## *Box I.3:* Drivers of the euro area recovery - evidence from an estimated model

GDP growth is expected to continue in 2018 at a similar pace to the one observed last year. This box uses an estimated, general equilibrium, multi-region, structural macroeconomic model [(1)] to provide a model-based decomposition of the euro area recovery in recent years from the double-dip recession and the subsequent expansion. The model features two regions, the euro area and the rest of the world (RoW), and it has been estimated on historical quarterly data for the period from 1999-Q1 to 2017-Q4. The historical time series are extended with forecast data from the European Commission's Spring 2018 forecast for the set of available variables to also cover the forecast period.

### Model-based analysis allows disentangling and quantifying key drivers of macroeconomic dynamics

The estimation of a structural model allows to identify the shocks, i.e. the exogenous factors, that drive the short- and medium-term deviation of endogenous variables, including real GDP growth and inflation, from their long-run trends, and to provide an interpretation of the dynamics from the perspective of economic theory.

The advantage of using a detailed structural model to decompose economic dynamics derives from its ability to use the rich information in the data during estimation. In particular, a detailed model allows identifying the driving forces and transmission mechanisms on the basis of restrictions across variables and over time. In particular, the size of the various domestic and foreign demand and supply shocks - including financial market, saving, commodity price, and productivity shocks - is determined by the ability of these shocks to fit not only GDP or inflation, but also other observed variables that are included in the model (e.g. consumption, investment, international trade, employment, the exchange rate) and the co-movement between them, including the observed co-movement of GDP and inflation, GDP and net exports, or employment and wages.

This box focusses on real GDP growth and inflation in the euro area since 2013 as the variables of interest (on inflation, see also the dedicated Box 1.1 in this document). The year 2013 is chosen as a starting point, because it covers the turning point of the latest recession with the trough of euro area real GDP in the first quarter of 2013. [(2)] The results are shown for annual real GDP growth and percent changes in the consumer price index (CPI), while the drivers are merged into main groups for compact presentation.

Seven groups of drivers are separated: (1) shocks to euro area productivity; (2) goods market adjustment as reflected by price mark-up shocks; (3) labour market adjustment as captured by wage mark-up shocks; (4) oil price shocks; (5) monetary and exchange rate shocks, which include deviations of short-term interest rates from the estimated monetary policy rule and foreign exchange market shocks that move the euro exchange rate independently of the monetary policy stance; (6) domestic demand shocks, i.e. changes in domestic consumption and investment demand that are not explained by model fundamentals such as household income, return expectations, and the monetary policy stance; and (7) changes to world demand and international trade, which contains foreign demand and supply shocks and deviations of trade volumes and prices from the estimated export and import demand and pricing equations. The remaining factors are bundled together in the "others" group. Factors (1)-(4) act mainly on the supply side of the economy, whereas the factors (5)-(7) predominantly affect demand for euro area output in the short and medium term.

The model-based interpretation of the recovery that started in 2013 [(3)] is displayed in Graph 1, which shows the decomposition of annual growth rates of euro area real GDP. More precisely, Graph 1 shows the decomposition for the fluctuation of annual real GDP growth around its long-term trend rate (around 1.3%). The solid black line represents the data, including the ECFIN forecast for 2018. The bars depict the contribution of the driving factors

(1) These results are based on the Global Multi-Country (GM) DSGE model developed by DG ECFIN and the Joint Research Centre of the European Commission. A detailed description of the GM model can be found in: Albonico, A., L. Calès, R. Cardani, O. Croitorov, F. Ferroni, M. Giovannini, S. Hohberger, B. Pataracchia, F. Pericoli, R. Raciborski, M. Ratto, W. Roeger, L. Vogel (2017). 'The Global Multi-Country Model (GM): an Estimated DSGE Model for the Euro Area Countries', European Commission, *JRC Working Papers in Economics and Finance* 2017-10.

(2) For a characterisation of the drivers of the double-dip recession in the euro area during 2008-13 in a very similar model to the one used here, see: Kollmann, R., B. Pataracchia, R. Raciborski, M. Ratto, W. Roeger, L. Vogel (2016). 'The post-crisis slump in the Euro Area and the US: Evidence from an estimated three-region DSGE model', *European Economic Review* 88(C), pp. 21-41.

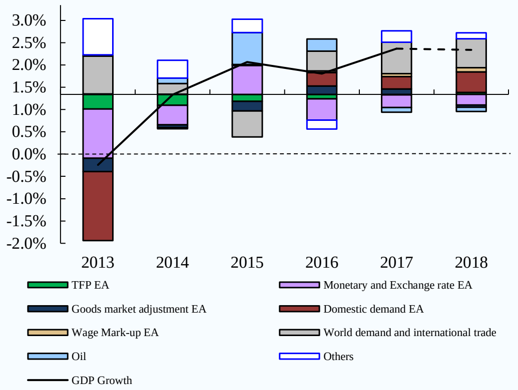
(3) Time series for 38 variables were included in this model.

*(Continued on the next page)*

*Box (continued)*

(1)-(7) and "others" to the deviation of growth from its long-run trend. The components above the horizontal axis indicate positive contributions to GDP growth, whereas those below represent negative contributions. The sum of all positive and negative contributions equals the actual outcome for each year, i.e. the data displayed by the black solid line up to 2017 and dashed for the forecast year.

*Graph 1:* **Euro area real GDP growth**




### Dynamics of a long recovery phase

The model-based decomposition of the euro area real GDP growth suggests that the recession in 2013 has been driven mainly by components of domestic demand, in particular by low private investment and consumption demand. The negative investment demand shock is identified in the model as wedge between the return to capital that is required by investors and the short-term policy rate augmented by a long-term average of the equity premium. Hence, investment demand shocks capture factors like financing constraints and the perception of elevated investment risk that can be behind the temporary rise in the required profitability. The negative consumption demand shock is identified in the model by saving rates that are higher than suggested by fundamentals, such as real interest rates, income and wealth, and the household consumption smoothing behaviour. The negative consumption demand shocks in the model relate to factors such as uncertainty, i.e. low confidence and heightened income risk, and the legacy of high private debt (deleveraging), which is left out from the structural equations for the purpose of model simplicity. [4]

The problem of subdued domestic demand in 2013 has been aggravated by the appreciation of the euro in nominal effective terms and by "contractionary monetary policy shocks" according to the model. Contractionary monetary shocks correspond to the observation that the monetary policy stance, as measured by short-term policy rates, had been tighter than suggested by the estimated Taylor rule coefficients due to the zero lower bound on nominal interest rates. [5]

In comparison with the dominant role of domestic demand shocks, the contribution of supply-side factors to low growth in 2013 is less important. Graph 1 points to some negative contribution by total factor productivity (TFP) growth below trend and by goods market adjustment, where the latter captures the limited downward adjustment of prices in response to the slack in demand.

Contrary to the weakness in domestic demand and negative supply-side factors, the recovery of world output growth and trade after the 2008-09 global recession strengthened euro area activity in 2013.

In line with negative growth in 2013 being driven mainly by weak domestic demand, the recovery of GDP growth over 2014-17 is associated in the first place with a recovery in consumption and, in particular, investment demand. Negative growth effects from domestic demand shocks disappeared in 2014-15, and the recovery of domestic demand has supported the growth of the euro area economic activity since 2016. [6] The European Commission's Spring forecast for GDP growth in 2018 contains a further positive contribution from domestic demand according to the model-based decomposition.

(4) For an estimated structural model with household debt and debt deleveraging see, e.g., in 't Veld, J., R. Kollmann, B. Pataracchia, M. Ratto, W. Roeger, Werner (2014): International capital flows and the boom-bust cycle in Spain, *Journal of International Money and Finance* 48(PB), 314-335.

(5) The monetary policy shock does not capture the impact of unconventional monetary policy measures which rather contribute to the private demand (savings and investment risk premium shocks) and foreign exchange shocks in the model.

(6) The impact of negative domestic demand shocks on the *level* of euro area real GDP is more persistent. Indeed the model estimation suggests a negative contribution of domestic demand shocks to level of GDP and the output gap for all years including the forecast for 2018.

*(Continued on the next page)*

Box (continued)

Tight monetary conditions played an important role in the 2013 recession according to Graph 1, due to the appreciation of the euro in effective terms and the binding constraint on monetary policy. The growth contribution turned positive in 2015 in the context of strong euro depreciation. The contribution over 2016-17 is slightly negative, in line with a moderate recovery in the effective exchange rate.

The impact of world demand and trade on post-2013 euro area growth has remained positive overall, except for 2015, which has been marked by a deceleration of growth in international trade. The positive growth contribution of external demand and trade has strengthened in 2017 compared to 2016. The forecast for 2018 embodies a positive contribution of foreign demand and trade to euro area GDP growth that is very similar in size to 2017.

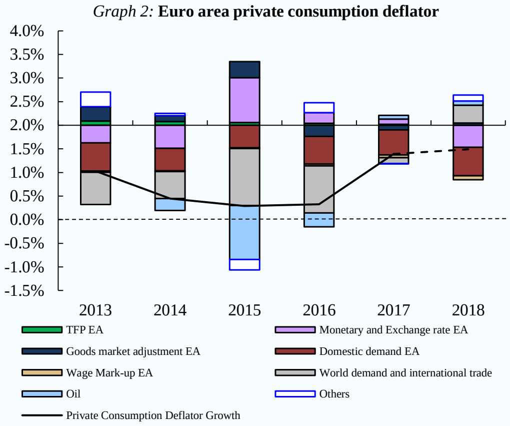
The decline in the oil price between mid-2014 and early 2016 added a positive supply-side impulse to euro area growth, in particular in 2015. (7) The following renewed increase in oil prices has dampened euro area growth moderately in 2017 and continues to slow growth in 2018 based on the forecast's underlying oil price assumption. Concerning the other supply-side factors, TFP growth has normalised after 2013, and its negative contribution to euro area GDP growth gradually disappeared.

With respect to product and goods market adjustment, the decomposition in Graph 1 finally points to a small positive contribution of declining price mark-ups to the euro area recovery during 2016-17. The fall in price mark-ups implies a reduction in the profit margin of firms, which strengthens the purchasing power of wage earners and economic activity in the model in the short and medium term. (8) Similarly, the model suggests a small positive contribution of weak euro area wage growth for 2017 and the 2018 forecast. The estimated fall in the wage mark-up indicates that euro area wages have grown less than suggested by GDP and labour demand in recent years. Wage mark-up reduction strengthens the recovery in the model, where the positive supply-side effect of wage moderation (employment growth) dominates the short-term decline in consumption demand (linked to lower hourly wages) in the medium term.

### Inflation remains below trend in 2018

Turning to inflation dynamics, Graph 2 plots the annual percent change in the euro area private consumption deflator as the bold line and the model-based decomposition of deviations from trend inflation (2%) into groups of drivers as in Graph 1.

*Graph 2:* **Euro area private consumption deflator**




Inflation measured by the growth rate of the private consumption deflator has been below the trend of 2% during 2013-17, and it is expected to remain around 0.5 pps. below trend also in 2018. The decomposition of inflation in Graph 2 mirrors the findings for GDP growth in Graph 1 by attributing an important part of low inflation to the slack in domestic demand. While the impact on GDP *growth* has vanished, the 2012-13 recession has continued to weigh on the *level* of economic activity, translating into low inflation pressure.

Foreign and trade developments have reduced price pressure over 2013-17 according to the model. The negative contribution of this group of drivers is dominated by negative shocks to import prices. The negative shocks account for slower growth of euro area import prices compared to general price inflation in the RoW. Besides the direct dampening impact of cheaper imports on consumer prices, competition from importers implies downward pressure also on euro area output prices. The negative import price shock becomes very small in 2018, implying that import prices are forecast to develop in line with foreign inflation. It is more than offset by a positive contribution from strengthening export demand, which translates into

(7) The size of the oil price effect, notably the positive growth contribution of ca. 0.7 pps. in 2015, is in line with magnitudes in previous DG ECFIN analysis in Raciborski, R., A. Theofilakou, L. Vogel (2015). 'Revisiting the macroeconomic effects of oil price changes', European Commission, *Quarterly Report on the Euro Area* 14:2, pp. 19-27.

(8) The estimated profile of the price-mark up shock, i.e. an elevated mark-up during the recession and a declining mark-up in the recovery, is required by the model to fit inflation data as explained below.

(Continued on the next page)

*Box (continued)*

a positive aggregate contribution by world demand and international trade shocks to consumer price inflation in 2018. Monetary and exchange rate shocks played a negative role for inflation during 2013-14, in line with the effective nominal appreciation of the euro and constrained monetary policy, and a positive role especially in 2015 but also during 2015-16, which is attributable to the estimated depreciation pressure on the euro.

On the supply side, low wage growth, i.e. the weak response of wage inflation to the recovery, as reflected in the negative shock to the wage mark-up has had a dampening, but quantitatively only very moderate impact on inflation. Falling oil prices in 2014-16 have dampened consumer price growth especially in 2015 (-1.1 pps.), i.e. the year for which the oil price decline has been strongest in annual terms. The effect has been reversed to some extent with the partly recovery of oil prices since.

The inflation-reducing effects of falling non-oil and oil import prices and the legacy of weak domestic demand explain the weakness of inflation during 2013-17 to a large extent according to the model-based decomposition, but they do not fully account for the persistence of low euro area inflation in a context of domestic and global recovery in most recent years. The gap between prices and domestic costs is filled in the estimation by a price mark-up shock. According to the estimated shock, sluggish price adjustment has upheld inflation in 2013-15, in line with the shock's dampening impact on GDP growth (Graph 1), and has lowered inflation in 2016-17, consistent with a positive supply-side contribution to GDP growth.

Despite the fact that the euro area estimated output gap moves to positive territory in 2018, inflation remains below trend. Three factors keep inflation down in 2018. First, the appreciation of the euro reduces import prices. Second, despite positive growth contributions of domestic demand, investment and consumption levels are still below their long run trend and still contribute negatively to the output gap and inflation. The output gap is positive because of both positive demand and supply shocks from the rest of the world. The latter still exert negative pressure on import prices and therefore keep inflation down. Ongoing wage moderation also contributes positively to the output gap but also reduces inflation pressures.

Taken together, the estimated model attributes the post-2013 euro area GDP growth recovery mainly to the sustained recovery in domestic demand, supported by persistently strong growth in the rest of the world, and by the temporary boost from falling commodity prices in 2014-15. Inflation below trend mainly reflects the legacy of the demand slump and foreign factors, namely appreciation pressure on the euro in 2013-14, low prices for manufactured imports, and the decline in the oil price during 2014-16.

## *Box I.4:* Some technical elements behind the forecast

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

The cut-off date for taking new information into account in this European Economic Forecast was 23 April 2018. The forecast incorporates validated public finance data as published in Eurostat's news release 69/2018 of 23 April 2018.

### 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 4 and 17 April) 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 1.23 in 2018 and 2019. The average JPY/EUR is 132.2 in 2018 and 131.9 in 2019.

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

### Commodity prices

Commodity price assumptions are also based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 67.67 USD/bbl in 2018 and 63.94 USD/bbl in 2019. This would correspond to an oil price of 54.96 EUR/bbl in 2018, and 51.91 EUR/bbl in 2019.

### Budgetary data and forecasts

Data up to 2017 are based on data notified by Member States to the European Commission before 1 April and validated by Eurostat on 23 April 2018. [(1)]

Eurostat is **expressing a reservation** on the quality of the data reported by France. Firstly, in relation to the sector classification of the *Agence Française de Développement*, which Eurostat considers should be classified inside the general government sector. A future reclassification will result in an increase in government debt. Moreover, Eurostat considers that the capital injection by the State into AREVA (NewCo/Orano) for an amount of €2.5 bn (0.1% of GDP) in 2017 should be treated as a capital transfer, with an impact on the deficit.

Eurostat is **expressing a reservation** on the quality of the data reported by Hungary in relation to the sector classification of the foundations created by the Hungarian National Bank. Eurostat considers that these foundations, including their subsidiaries, should be classified inside general government. Eurostat is **withdrawing the reservation** on the quality of the data reported by Hungary in relation to the sector classification of Eximbank (Hungarian Export-Import Bank Plc), due to the reclassification of Eximbank inside general government undertaken by the Hungarian statistical authorities.

Eurostat is **withdrawing the reservation** on the quality of the data reported by Belgium in relation to the sector classification of hospitals, pending the results of on-going consultations on the issue at EU level. Eurostat has made no amendments to the data reported by Member States.

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

(1) Eurostat News Release No 69/2018

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*Box (continued)*

presented to national parliaments are taken into consideration.

EU and euro area aggregates for general government debt in the forecast years 2018-19 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans, including those made through the European Financial Stability Facility). To ensure consistency in the time series, historical data are also published on the same basis. For 2017, 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 69/2018 of 23 April 2018 (by 2.1 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 ±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

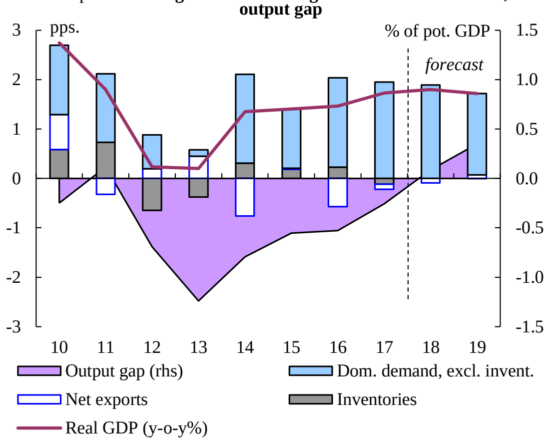
## Sustained growth supports public debt reduction

*Economic growth is expected to strengthen to 1.8% in 2018 on the back of improved labour market and investment conditions before easing gently to 1.7% in 2019. After considerable improvement in 2017, the headline general government deficit is expected to remain broadly stable in the coming years, which should allow for the debt-to-GDP ratio to fall further.*

Economic growth in Belgium rose to 1.7% in 2017, in line with expectations, as positive net exports offset a slight moderation in domestic demand. Improved labour market conditions, both in terms of real wage and employment growth, as well as a favourable investment climate are paving the way for domestic demand to strengthen and further support growth.

Available soft and hard indicators remain steadily above their long-term averages, suggesting that the growth momentum in the Belgian economy should continue. Overall, GDP growth is expected to rise to 1.8% in 2018 before easing to 1.7% in 2019.

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




### Rising employment to underpin solid private consumption growth

Prolonged wage restraint, which has supported employment growth and competitiveness gains in recent years, will ease out with the new collective wage agreement coming gradually into effect from 2018. This is expected to contribute to a modest increase in real wages. The job market is forecast to continue developing favourably with employment growth of around 1% in 2018 and 2019. As a result, the unemployment rate in Belgium is expected to fall to 6% in 2019. Amid rising disposable income, private consumption growth is expected to accelerate this year and next while households' saving rate should stabilise around its current level.

### Rising investment to support demand

Private investment is expected to contribute significantly to growth. Business investment is set to increase on the back of high capacity utilisation rates, favourable financing conditions and sizeable liquidity reserves. Housing investment is projected to increase moderately over the forecast horizon despite interest rates remaining relatively low. The local investment cycle, the start of large infrastructure works, and defence investments are expected to drive public investment growth in 2018 and 2019.

The contribution of net exports to growth is projected to be neutral. Stronger domestic demand should raise imports, while exporters are not expected to gain market shares. Both import and export growth rates are expected to weaken towards the end of 2019.

### Inflation to stabilise in line with euro area

The high rate of inflation observed in 2017 (HICP at 2.2%) stemmed notably from the relatively rapid transmission of fossil fuel prices variations into retail energy prices in Belgium, sector-specific administrative measures, and weak competition in some business and professional services sectors. The phasing-out of the energy levy in Flanders and the abrogation of a television license fee in Wallonia are expected to contribute to lower headline inflation, which is forecast to slip back to 1.6%, in 2018 and 2019. The inflation gap with the euro area observed until 2017 is expected to finally close in 2018.

### Deficit to stabilise after sharp decline

In 2017, the general government deficit decreased by 1½ pps. to 1% of GDP. This reflected both the substantial structural effort implemented by the authorities, as well as positive cyclical conditions and strong advance corporate income tax payments.

In 2018, the headline deficit is expected to widen to 1.1% of GDP. This deficit corresponds to a decrease in revenue and expenditure of around half a percentage point of GDP each. With the economy keeping up its solid expansion, taxes on consumption and labour are expected to remain buoyant. According to preliminary data, advance corporate income tax payments are likely to remain high, fostered by higher penalties associated with insufficient prepayments. Social contributions are expected to decline slightly as a share of GDP, as in 2018 the second phase of the so-called "tax shift" (reducing the tax burden on labour) kicks in. Concerning spending, around half of the decrease in the expenditure ratio stems from lower interest payments, whereas public investment is expected to increase strongly. The structural balance is forecast to deteriorate by 0.1 pps. of GDP in 2018.

The forecast includes the reduction of the corporate tax base rate, which is assumed to be budgetary neutral and is partly financed by means of a revision of the notional interest deduction scheme, a new tax on securities accounts, and restrictions on tax deductions for companies. Other major measures include taxes on consumption (higher excise duties on sugary drinks and tobacco) and financial income (broader scope of withholding tax, increased tax on stock exchange transactions and transparency tax), as well as part of the expected collection of cross-border road fines and anti-fraud measures. Insufficiently specified tax collection associated with the fight against fraud was not included in the forecast.

In 2019, under a no-policy-change assumption the headline deficit is expected to widen to 1.3% of GDP, as already specified tax cuts are not fully offset by revenue-increasing or expenditure-decreasing measures. Specifically, reductions in personal income taxation and social security contributions explain a decline in the revenue-to-GDP ratio of 0.4 pps. whereas expenditure is expected to grow broadly at the same pace as economic activity. The debt ratio is projected to continue falling, from 103.1% of GDP in 2017 to 100.2% in 2019.

*Table II.1.1:*

**Main features of country forecast - BELGIUM**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn EUR | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 423.0 | 100.0 | 1.7 | 1.4 | 1.4 | 1.5 | **1.7** | **1.8** | **1.7** |
| Private Consumption | | 216.6 | 51.2 | 1.4 | 0.6 | 0.9 | 1.7 | **1.1** | **1.7** | **1.8** |
| Public Consumption | | 99.7 | 23.6 | 1.6 | 0.7 | 0.5 | 0.5 | **1.1** | **0.2** | **1.0** |
| Gross fixed capital formation | | 99.2 | 23.4 | 1.7 | 6.0 | 2.7 | 3.6 | **1.0** | **4.0** | **2.7** |
| of which: equipment | | 35.4 | 8.4 | 1.2 | 7.9 | 1.6 | 13.1 | **-1.2** | **5.6** | **3.6** |
| Exports (goods and services) | | 350.6 | 82.9 | 3.6 | 5.2 | 3.3 | 7.5 | **4.5** | **5.0** | **4.4** |
| Imports (goods and services) | | 344.9 | 81.5 | 3.5 | 6.2 | 3.3 | 8.4 | **4.1** | **5.0** | **4.5** |
| GNI (GDP deflator) | | 425.7 | 100.6 | 1.7 | 0.4 | 0.5 | 2.3 | **1.9** | **1.9** | **1.7** |
| Contribution to GDP growth: | Domestic demand | | | 1.4 | 1.8 | 1.2 | 1.9 | **1.0** | **1.8** | **1.8** |
| | Inventories | | | 0.1 | 0.3 | 0.2 | 0.2 | **0.2** | **0.0** | **0.0** |
| | Net exports | | | 0.2 | -0.8 | 0.0 | -0.6 | **0.4** | **0.0** | **0.0** |
| Employment | | | | 0.9 | 0.4 | 0.9 | 1.3 | **1.4** | **1.2** | **1.0** |
| Unemployment rate (a) | | | | 7.9 | 8.5 | 8.5 | 7.8 | **7.1** | **6.4** | **6.0** |
| Compensation of employees / head | | | | 2.6 | 0.9 | 0.0 | 0.1 | **1.7** | **2.0** | **2.2** |
| Unit labour costs whole economy | | | | 1.8 | 0.0 | -0.5 | -0.1 | **1.4** | **1.5** | **1.5** |
| Real unit labour cost | | | | 0.1 | -0.7 | -1.6 | -1.7 | **-0.5** | **-0.1** | **-0.2** |
| Saving rate of households (b) | | | | 15.5 | 12.3 | 11.9 | 11.2 | **11.1** | **10.7** | **11.2** |
| GDP deflator | | | | 1.8 | 0.7 | 1.1 | 1.6 | **1.9** | **1.6** | **1.7** |
| Harmonised index of consumer prices | | | | 2.0 | 0.5 | 0.6 | 1.8 | **2.2** | **1.6** | **1.6** |
| Terms of trade goods | | | | -0.6 | 0.2 | 1.8 | 0.7 | **-0.5** | **0.0** | **0.3** |
| Trade balance (goods) (c) | | | | 1.5 | -0.8 | 0.1 | 0.3 | **0.9** | **0.9** | **0.9** |
| Current-account balance (c) | | | | 3.3 | -0.3 | -0.4 | 0.1 | **0.6** | **0.5** | **0.6** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 3.3 | -0.5 | -0.4 | 0.2 | **0.8** | **0.7** | **0.9** |
| General government balance (c) | | | | -1.7 | -3.1 | -2.5 | -2.5 | **-1.0** | **-1.1** | **-1.3** |
| Cyclically-adjusted budget balance (d) | | | | -1.9 | -2.6 | -2.1 | -2.2 | **-0.9** | **-1.2** | **-1.6** |
| Structural budget balance (d) | | | | - | -2.9 | -2.2 | -2.1 | **-1.3** | **-1.4** | **-1.7** |
| General government gross debt (c) | | | | 101.8 | 107.0 | 106.1 | 105.9 | **103.1** | **101.5** | **100.2** |

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

# 2. BULGARIA

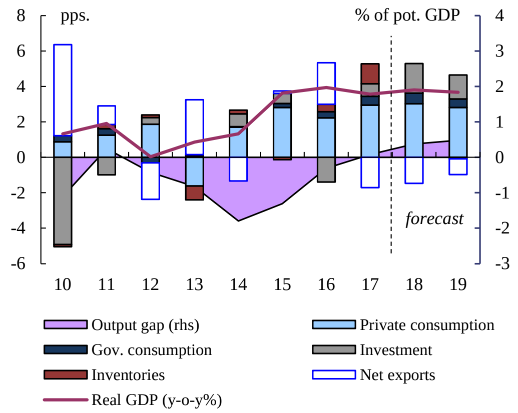
## Strong, domestic demand-driven growth

*Bulgaria's economy is set to continue growing robustly. Domestic demand is expected to be the main growth driver, while the contribution of net exports is set to remain negative. Inflation is expected to continue increasing this year as a result of strong private demand. Positive labour market trends will continue, with robust wage increases and rising employment. Public finances are projected to remain sound, supported by the favourable macroeconomic environment and despite increases in public investment and wages.*

### Strong growth is expected to continue

Real GDP in Bulgaria grew by a robust 3.6% in 2017, driven by strong domestic demand. While private consumption remained buoyant, public consumption also picked up. Strong demand and lower uncertainty also spurred investment growth, mostly private investment. Inventories contributed a sizable 1.1 pps. to growth in 2017.

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




Real GDP growth is projected to reach 3.8% in 2018 before tapering off to 3.7% in 2019. Domestic demand is projected to remain the main growth engine. Positive developments on the labour market and real disposable income growth are set to support strong private consumption. Private investment growth is projected to remain strong, supported by low interest rates, but to decline somewhat. The main driver of investment growth in 2018 is expected to be the capital expenditure of the government due to the uptake of EU funds under the 2014-2020 EU programming period. Higher government revenues are also forecast to support public consumption. Robust growth led to a closing of the output gap in 2017, which is projected at 0.4% and 0.5% in 2018 and 2019, respectively.

Risks to the growth forecast are broadly balanced. On the upside, higher wages and employment growth could translate into higher demand. Also, given the rise in new orders, the utilisation of production capacity, favourable credit conditions and EU funds mobilisation, investment activity could turn out even stronger than expected. The main downside risk comes from the external environment, given the openness of the economy.

### Current account surplus is diminishing

Bulgaria's current account surplus declined to 3.0% of GDP in 2017, as import growth outweighed export growth. Over the forecast horizon, strong domestic demand and rising energy prices are expected to keep Bulgaria's demand for imports above the demand for its exports. As a result, the trade balance is set to deteriorate and the current account surplus to reduce further to 1.4% and 0.8% of GDP in 2018 and 2019 respectively.

### Strong private demand increases inflation

After a long period of deflation, annual HICP inflation reached 1.2% in 2017. Over the next two years, inflation is expected to rise further due to increasing purchasing power of households, rising administrative prices and higher energy prices than last year. Inflation is forecast to increase to 1.8% in 2018 and remain at the same level in 2019.

### Employment returning to its pre-crisis peak

The strong labour market recovery continued in 2017, with employment rising by 1.8% and the employment rate returning to its pre-crisis high of 64.3%. This was supported by positive developments in economic activity. Employment growth, however, is expected to ease in 2018 and 2019 due to labour supply limits. The unemployment rate is forecast to continue falling to 5.5% in 2018 and 5.3% in 2019.

### Public finances remain sound

In 2017, the general government surplus widened further to 0.9% of GDP, mainly due to significantly lower-than-planned public investment. A fiscal surplus of 0.6% of GDP is expected in both 2018 and 2019.

For this year, the reduction of the surplus is set to be mainly the result of higher capital expenditure through EU-funded programmes, which are partly compensated by higher capital transfers received. Current expenditure is also projected to increase, driven mainly by announced wage increases in some categories of teaching staff and in public security personnel. On the revenue side, higher domestic demand is expected to fuel higher indirect taxes. At the same time, revenues from direct taxes and social security contributions are projected to benefit from rising wages.

The positive output gap is forecast to push the structural balance slightly below the headline figures at about ½ % of GDP in both 2018 and 2019.

The fiscal outlook is subject to downside risks. The uncertainty around the public investment performance remains high as a number of new projects have been announced without clear implementation and financing schedules. Bulgaria's 2018 Convergence Programme takes into account all of these projects and includes a significantly higher public investment expenditure for 2018 and 2019 compared to the Commission's forecast.

Bulgaria's general government debt declined to 25.4% of GDP in 2017. The primary surpluses and the low interest payments projected for 2018 and 2019 are expected to lead to a further reduction of the general government debt.

*Table II.2.1:*

**Main features of country forecast - BULGARIA**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn BGN | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 94.1 | 100.0 | 3.1 | 1.3 | 3.6 | 3.9 | **3.6** | **3.8** | **3.7** |
| Private Consumption | | 57.3 | 60.9 | 4.5 | 2.7 | 4.5 | 3.6 | **4.8** | **4.9** | **4.5** |
| Public Consumption | | 14.7 | 15.7 | 3.5 | 0.1 | 1.4 | 2.2 | **3.2** | **3.7** | **3.0** |
| Gross fixed capital formation | | 17.5 | 18.6 | 8.8 | 3.4 | 2.7 | -6.6 | **3.8** | **8.7** | **6.8** |
| of which: equipment | | 7.0 | 7.4 | - | 13.9 | 9.8 | -14.9 | **3.9** | **12.4** | **9.3** |
| Exports (goods and services) | | 60.2 | 64.0 | 2.4 | 3.1 | 5.7 | 8.1 | **4.0** | **5.0** | **4.8** |
| Imports (goods and services) | | 56.2 | 59.7 | 6.8 | 5.2 | 5.4 | 4.5 | **7.2** | **7.4** | **6.2** |
| GNI (GDP deflator) | | 93.9 | 99.7 | 3.2 | 2.7 | 2.4 | 5.8 | **3.7** | **3.4** | **3.3** |
| Contribution to GDP growth: | Domestic demand | | | 5.3 | 2.5 | 3.6 | 1.2 | **4.2** | **5.3** | **4.6** |
| | Inventories | | | 0.2 | 0.2 | -0.1 | 0.4 | **1.1** | **0.0** | **-0.1** |
| | Net exports | | | -2.3 | -1.3 | 0.1 | 2.3 | **-1.7** | **-1.5** | **-0.9** |
| Employment | | | | -0.1 | 0.4 | 0.4 | 0.5 | **1.8** | **1.1** | **0.4** |
| Unemployment rate (a) | | | | 11.8 | 11.4 | 9.2 | 7.6 | **6.2** | **5.5** | **5.3** |
| Compensation of employees / head | | | | 11.4 | 5.6 | 5.6 | 5.8 | **7.5** | **7.6** | **7.0** |
| Unit labour costs whole economy | | | | 7.9 | 4.6 | 2.3 | 2.3 | **5.7** | **4.8** | **3.6** |
| Real unit labour cost | | | | 1.4 | 4.1 | 0.1 | 0.1 | **4.5** | **2.6** | **1.3** |
| Saving rate of households (b) | | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | | 6.3 | 0.5 | 2.2 | 2.2 | **1.2** | **2.2** | **2.3** |
| Harmonised index of consumer prices | | | | 6.0 | -1.6 | -1.1 | -1.3 | **1.2** | **1.8** | **1.8** |
| Terms of trade goods | | | | 1.0 | 0.7 | 0.6 | 3.9 | **-1.3** | **0.1** | **0.4** |
| Trade balance (goods) (c) | | | | -14.7 | -6.5 | -5.8 | -2.0 | **-4.5** | **-5.8** | **-6.4** |
| Current-account balance (c) | | | | -6.5 | 0.2 | 0.6 | 5.3 | **3.0** | **1.4** | **0.8** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -6.0 | 2.4 | 3.9 | 7.3 | **4.7** | **3.2** | **2.7** |
| General government balance (c) | | | | -0.1 | -5.5 | -1.6 | 0.2 | **0.9** | **0.6** | **0.6** |
| Cyclically-adjusted budget balance (d) | | | | -0.1 | -4.9 | -1.2 | 0.3 | **0.9** | **0.5** | **0.5** |
| Structural budget balance (d) | | | | - | -1.7 | -1.1 | 0.3 | **0.9** | **0.5** | **0.5** |
| General government gross debt (c) | | | | 35.5 | 27.0 | 26.0 | 29.0 | **25.4** | **23.3** | **21.4** |

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

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

# 3. THE CZECH REPUBLIC
## Soft landing amid capacity and labour constraints

*The Czech economy expanded by 4.4% in 2017. GDP growth is expected to moderate but remain above potential in 2018 and 2019, with domestic demand continuing as the main driver of the economy. The unemployment rate is now the lowest in the EU and rising labour market shortages could constrain economic growth in the near future. After three interest rates hikes since August 2017, inflation seems to have been tamed. The government balance is forecast to remain positive in 2018 and 2019.*

### Steady growth ahead

Real GDP growth jumped to 4.4% in 2017 from 2.6% in 2016, with positive contributions from all demand components. Quarterly growth was particularly dynamic in the first half of 2017 before moderating somewhat in the second half (0.8% q-o-q growth in 2017-Q4). Overall, GDP is forecast to expand by 3.4% in 2018 and then by 3.1% in 2019.

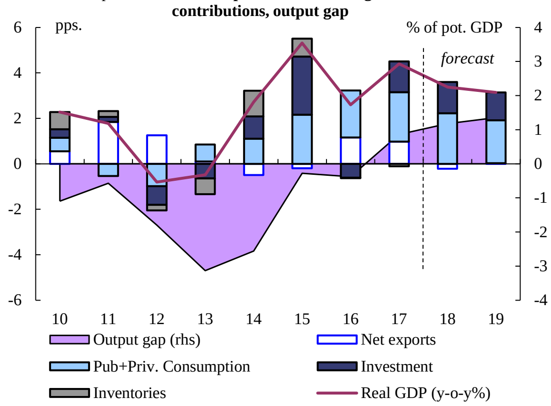
Boosted by wage dynamics and consumer confidence, private consumption is expected to remain the main driver of economic growth in 2018 and is forecast to increase by 3.9%, roughly the same pace as in 2017. Investment growth is expected to maintain strong momentum, rising by an expected 5.4% in 2018, as firms will turn to capital to compensate for workforce shortages. The public sector is also expected to contribute positively to investment, supported by EU funds under the 2014-2020 financial framework. After contributing 1.0 pp. to GDP growth in 2017, net exports are expected to detract slightly from growth in 2018. Imports are likely to grow faster than exports, driven by the upswing in private consumption and investment. Risks to the outlook for the external sector mainly concern the possibility of a stronger-than-assumed appreciation of the koruna.

### Minimal spare capacity in the economy

The unemployment rate fell to 2.9% in 2017 and is projected to stabilise at 2.4% in 2018 and 2019. At the end of 2017, the Czech Republic had the lowest unemployment rate in the EU and the highest job vacancy rate. Employment growth is forecast to slow down to 0.7% in 2018, and to 0.2% in 2019. Labour market shortages are limiting capacity to increase production across all sectors, especially in manufacturing and construction. Mismatches between supply and demand are fuelling rising wages in both the private and public sectors. Nominal compensation per employee rose by 6.7% in 2017 and is forecast to increase equally strongly in 2018 and 2019.

Most of the downside risks for the Czech economy are associated with tightness in the labour market. The resulting pay rises have also to be viewed in the context of convergence with the EU and gains in productivity. However, they could contribute to the overheating of the economy and reduce the capacity of firms to react in the event of an adverse shock. Wage pressures and labour shortages could also affect foreign direct investment, particularly in the manufacturing industry.

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




### Inflation set to stabilise near targeted level

Year-on-year inflation accelerated firmly towards the end of 2016 and the start of 2017. However, the appreciation of the koruna and three successive interest rate hikes since then should help to put a lid on inflationary pressures in import prices and services. Headline inflation is forecast at 2.1% in 2018, down from 2.4% in 2017; prices for services and food are expected to be the main contributors to price growth. Consumer price inflation (HICP) was weaker than expected in the first quarter of 2018 (1.7%), influenced by base effects and a particularly significant weakening in food prices. However, inflationary pressures remain strong due to rising wage growth, robust domestic demand and a positive and widening output gap. In this context, the HICP inflation rate is expected to again exceed the 2% target over the coming quarters. Inflation is forecast to moderate in 2019 to average 1.8% over the year.

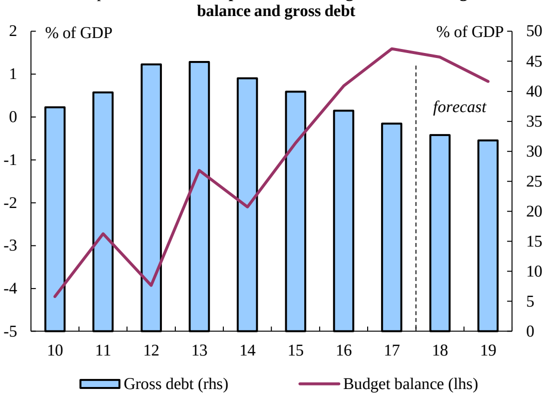
### Public surplus to last

The 2017 general government balance surprised on the upside with a surplus of 1.6% of GDP. This surplus was supported by tax-rich growth on the back of a strong labour market. Tax revenue growth also benefited from measures addressing tax evasion. As for expenditure, investment growth fell short of previous expectations. Other notable developments were significant public sector pay rises and falling debt service payments.

In 2018, the general government surplus is expected to be around 1.4% of GDP. While tax growth moderates slightly, public investment activity is forecast to pick up pace and reach double-digit growth. Interest payments are likely to start increasing, after three consecutive years of decline. Public wages are expected to continue to grow by almost 8%. Similarly, pensions are being bolstered by stronger indexation.

As for 2019, the headline surplus is expected to decline to 0.8% of GDP, as a result of faster wage growth and discretionary pension measures. Plans to lower effective tax rates and simplify the tax system currently being discussed could cost an estimated 0.5% of GDP, if enacted.

*Graph II.3.2:* **Czech Republic - General government budget balance and gross debt**




The structural balance remained in surplus at around 1¼% of GDP in 2017 and is expected to further narrow as the positive output gap widens in 2018 and 2019. The debt-to-GDP ratio is forecast to decrease steadily, from 34.6% in 2017 to 31.8% in 2019.

*Table II.3.1:*

**Main features of country forecast - CZECH REPUBLIC**

| | 2016 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn CZK Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 4773.2 | 100.0 | 2.3 | 2.7 | 5.3 | 2.6 | **4.4** | **3.4** | **3.1** |
| Private Consumption | 2241.6 | 47.0 | 2.0 | 1.8 | 3.7 | 3.6 | **4.0** | **3.9** | **3.1** |
| Public Consumption | 917.1 | 19.2 | 1.1 | 1.1 | 1.9 | 2.0 | **1.5** | **1.9** | **2.1** |
| Gross fixed capital formation | 1191.5 | 25.0 | 1.9 | 3.9 | 10.2 | -2.3 | **5.4** | **5.4** | **4.8** |
| of which: equipment | 543.4 | 11.4 | 3.8 | 6.4 | 9.3 | -1.1 | **7.2** | **6.1** | **5.8** |
| Exports (goods and services) | 3796.7 | 79.5 | 8.7 | 8.7 | 6.0 | 4.5 | **6.5** | **4.8** | **4.7** |
| Imports (goods and services) | 3439.5 | 72.1 | 7.8 | 10.1 | 6.8 | 3.4 | **5.8** | **5.6** | **5.1** |
| GNI (GDP deflator) | 4467.8 | 93.6 | 2.0 | 1.9 | 5.3 | 3.0 | **5.2** | **3.2** | **3.0** |
| Contribution to GDP growth: Domestic demand | | | 1.8 | 2.1 | 4.7 | 1.5 | **3.5** | **3.6** | **3.1** |
| Inventories | | | 0.0 | 1.1 | 0.8 | 0.0 | **-0.1** | **0.0** | **0.0** |
| Net exports | | | 0.6 | -0.5 | -0.2 | 1.2 | **1.0** | **-0.2** | **0.0** |
| Employment | | | 0.0 | 0.6 | 1.4 | 1.3 | **1.6** | **0.7** | **0.2** |
| Unemployment rate (a) | | | 7.2 | 6.1 | 5.1 | 4.0 | **2.9** | **2.4** | **2.4** |
| Compensation of employees / head | | | 5.0 | 2.6 | 3.0 | 4.6 | **6.7** | **6.8** | **6.2** |
| Unit labour costs whole economy | | | 2.6 | 0.4 | -0.8 | 3.3 | **3.8** | **4.1** | **3.2** |
| Real unit labour cost | | | 0.3 | -2.0 | -2.0 | 2.0 | **2.4** | **1.4** | **1.6** |
| Saving rate of households (b) | | | 11.5 | 11.8 | 12.0 | 11.2 | **10.6** | **10.1** | **9.8** |
| GDP deflator | | | 2.3 | 2.5 | 1.2 | 1.2 | **1.4** | **2.7** | **1.5** |
| Harmonised index of consumer prices | | | 2.8 | 0.4 | 0.3 | 0.6 | **2.4** | **2.1** | **1.8** |
| Terms of trade goods | | | -0.2 | 1.8 | 0.5 | 1.0 | **-1.2** | **1.1** | **-0.3** |
| Trade balance (goods) (c) | | | -1.8 | 5.1 | 4.1 | 5.2 | **4.8** | **4.8** | **4.3** |
| Current-account balance (c) | | | -3.6 | -1.2 | -1.6 | -0.1 | **0.5** | **0.3** | **-0.3** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -2.9 | 0.5 | 1.2 | 0.4 | **1.0** | **0.8** | **0.2** |
| General government balance (c) | | | -3.6 | -2.1 | -0.6 | 0.7 | **1.6** | **1.4** | **0.8** |
| Cyclically-adjusted budget balance (d) | | | -3.7 | -1.0 | -0.5 | 0.9 | **1.2** | **0.9** | **0.2** |
| Structural budget balance (d) | | | - | -0.7 | -0.5 | 1.0 | **1.2** | **0.9** | **0.2** |
| General government gross debt (c) | | | 29.0 | 42.2 | 40.0 | 36.8 | **34.6** | **32.7** | **31.8** |

(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.

## 4. DENMARK

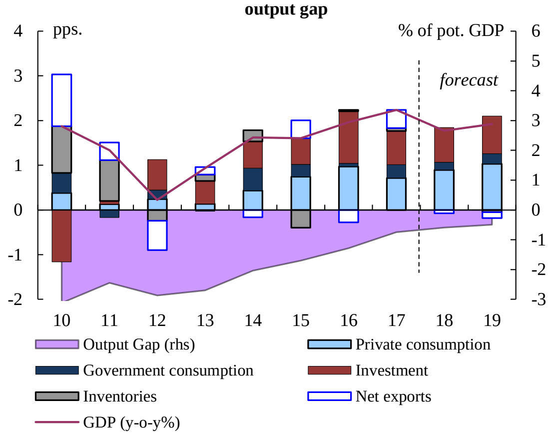
### Stable growth ahead

*Denmark's economy is forecast to expand at a stable pace in the coming years, underpinned by robust domestic demand. Employment is projected to increase further despite a gradually tightening labour market. The general government nominal headline position is projected to remain close to balance.*

#### Growth in 2017 the highest in a decade

Denmark's economy grew by 2.2% in 2017, faster than at any time in the last decade. However, this rate was flattered by a large payment for the use of a Danish patent (recorded as a service exports) that lifted real GDP growth by 0.4 pps. Discounting this effect, real GDP growth in 2017 would have been around the same level as the 1.8% forecast for 2018 or the 1.9% forecast for 2019.

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




#### Domestic demand remains solid

Private consumption grew by 1.5% in 2017, somewhat weaker than expected due to a steep drop in car sales in 2017-Q3 that occurred just ahead of the change in the tax regime for new cars. The new car taxation scheme entered into force in 2017-Q4 and household car sales have normalised since then. Private consumption is projected to increase to 2.0% in 2018 and 2.2% in 2019, supported by steady disposable income and employment growth. In addition, policy measures are also expected to boost household incomes over the forecast horizon. These include payments to households from the reform of the voluntary early retirement scheme in 2018 and the repayment of excessively-collected property taxes in 2019.

Employment growth has been robust in recent years, particularly when compared with real GDP developments. Employment grew by 1.6% in 2017 and the unemployment rate declined to 5.7%. Supported also by past reforms to increase labour supply, employment is projected to rise further in the coming years and the unemployment rate is forecast to fall to 5.2% in 2019. Labour shortages are growing in several sectors. Wages are therefore expected to increase somewhat faster than projected productivity developments.

Investment continued to expand at a solid pace, posting a 3.7% growth in 2017. This was driven by housing and machinery investment, which rose by 6.2 % and 4.4%, respectively. On the other hand, general government investment fell by 8.4% in 2017, as public investment is decreasing from historical high levels. Housing investment is set to expand at a robust though slightly declining pace over the forecast horizon, supported by rising housing prices. Investment in machinery and equipment is expected to grow by around 4.4% over the coming years, due to growth in Denmark's main export markets and rising industry capacity utilisation rates.

#### Positive outlook for exports

Robust growth in Denmark's main trading partners should support exports. In 2017, goods exports increased by 5.7%. By contrast, services exports declined (if the impact of the large payment for the use of a Danish patent is excluded). With private consumption and business investment growth forecast to strengthen, imports are projected to rise faster than exports. Net exports' contribution to real GDP growth is set to be slightly negative in both 2018 and 2019, which should result in a marginal decline of the current account surplus.

#### Moderate price pressures

Despite the solid economic performance and a tightening labour market, consumer price increases have remained subdued: HICP inflation was 1.1% in 2017. Consumer price inflation moderated further in 2018-Q1 due to relatively small increases in housing rents and food prices as well as lower car taxes. Despite rising energy prices, HICP inflation is forecast to dampen to 0.8% in

2018 also due to the lowering of various taxes. Consumer prices are forecast to rise by 1.4% in 2019, on the back of solid wage growth.

### Important risks to consider

Household savings remain high by historical standards, meaning there is potential for stronger consumption growth. On the downside, a potential escalation of an ongoing labour conflict related to the negotiations over new terms for public sector workers could negatively impact consumption. Being a small open economy with a large shipping sector, frictions in world trade could have large negative repercussions on exports.

### Balanced public finances

The general government headline balance improved to 1.0% of GDP in 2017, up from -0.4% in 2016. The improvement was mainly due to higher pension yield tax and corporate tax revenues.

In 2018, the net lending position of the general government is forecast to return to a broadly balanced position. This mainly reflects a decline in pension yield tax revenue. The change is also due to the reform of the voluntary early retirement scheme in 2018, which is estimated to transfer 0.2% of GDP to households. Despite a gradually closing negative output gap, the headline position is projected to remain balanced in 2019. This reflects the one-off repayment of excessively collected property tax to households and companies in 2019, estimated at a total of DKK 13.5 bn (0.6% of GDP).

The surplus int the structural balance is expected to decline from 1½% of GDP in 2017 to ¼% in 2018, due to the above-mentioned decline in pension yield tax revenues and the transfer to households linked to the reform of the voluntary early retirement scheme. The structural balance is set to increase in 2019, reflecting the narrowing of the output gap.

Public gross debt is projected to gradually decline from 36.4% of GDP in 2017 to 32.3% of GDP in 2019, initially helped by a reduction in the general government's cash reserves, but also due to the low interest rate environment and buoyant economic growth.

*Table II.4.1:*

**Main features of country forecast - DENMARK**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn DKK | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 2066.0 | 100.0 | 1.2 | 1.6 | 1.6 | 2.0 | **2.2** | **1.8** | **1.9** |
| Private Consumption | | 979.9 | 47.4 | 1.1 | 0.9 | 1.6 | 2.1 | **1.5** | **2.0** | **2.2** |
| Public Consumption | | 524.8 | 25.4 | 1.7 | 1.9 | 1.1 | 0.3 | **1.2** | **0.7** | **0.9** |
| Gross fixed capital formation | | 421.7 | 20.4 | 1.3 | 3.1 | 3.1 | 6.0 | **3.7** | **3.8** | **4.1** |
| of which: equipment | | 121.8 | 5.9 | 1.8 | -0.1 | 1.1 | 3.0 | **4.4** | **4.2** | **4.4** |
| Exports (goods and services) | | 1107.0 | 53.6 | 4.1 | 3.1 | 2.3 | 2.8 | **4.4** | **3.3** | **3.0** |
| Imports (goods and services) | | 979.1 | 47.4 | 4.5 | 3.9 | 1.9 | 3.8 | **4.1** | **3.9** | **3.7** |
| GNI (GDP deflator) | | 2118.1 | 102.5 | 1.5 | 2.1 | 1.1 | 1.4 | **1.7** | **1.8** | **1.9** |
| Contribution to GDP growth: | Domestic demand | | | 1.2 | 1.5 | 1.6 | 2.2 | **1.8** | **1.9** | **2.1** |
| | Inventories | | | 0.0 | 0.3 | -0.4 | 0.0 | **0.1** | **0.0** | **0.0** |
| | Net exports | | | 0.0 | -0.2 | 0.4 | -0.3 | **0.4** | **-0.1** | **-0.1** |
| Employment | | | | 0.2 | 0.9 | 1.4 | 1.6 | **1.6** | **1.2** | **0.9** |
| Unemployment rate (a) | | | | 5.4 | 6.6 | 6.2 | 6.2 | **5.7** | **5.5** | **5.2** |
| Compensation of employees / head | | | | 3.2 | 1.5 | 1.8 | 1.3 | **1.3** | **2.2** | **2.8** |
| Unit labour costs whole economy | | | | 2.2 | 0.8 | 1.6 | 0.9 | **0.7** | **1.6** | **1.8** |
| Real unit labour cost | | | | 0.1 | -0.3 | 0.9 | 0.9 | **-0.9** | **0.2** | **-0.1** |
| Saving rate of households (b) | | | | 6.2 | 4.2 | 10.7 | 10.8 | **11.2** | **11.7** | **11.6** |
| GDP deflator | | | | 2.1 | 1.0 | 0.7 | 0.0 | **1.6** | **1.3** | **1.9** |
| Harmonised index of consumer prices | | | | 2.0 | 0.4 | 0.2 | 0.0 | **1.1** | **0.8** | **1.4** |
| Terms of trade goods | | | | 0.8 | 0.7 | 1.2 | 1.4 | **-0.6** | **0.2** | **0.1** |
| Trade balance (goods) (c) | | | | 3.9 | 4.5 | 5.2 | 5.6 | **5.7** | **5.6** | **5.4** |
| Current-account balance (c) | | | | 3.7 | 8.9 | 8.8 | 7.3 | **7.8** | **7.6** | **7.4** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 3.7 | 8.7 | 8.5 | 7.3 | **7.8** | **7.6** | **7.6** |
| General government balance (c) | | | | 0.7 | 1.1 | -1.5 | -0.4 | **1.0** | **-0.1** | **0.0** |
| Cyclically-adjusted budget balance (d) | | | | 0.6 | 2.4 | -0.4 | 0.4 | **1.4** | **0.3** | **0.3** |
| Structural budget balance (d) | | | | - | -0.7 | -1.8 | 0.3 | **1.4** | **0.3** | **0.9** |
| General government gross debt (c) | | | | - | 44.3 | 39.9 | 37.9 | **36.4** | **33.6** | **32.3** |

(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.

# 5. GERMANY

## Robust growth coupled with twin surpluses

*The German economy is expected to continue growing steadily on the back of robust domestic demand, and strong foreign trade. Private consumption growth is being fuelled by the rise in real wages, which should continue as labour market constraints become apparent. Investment, particularly business investment, is also set to remain robust. Imports have been growing strongly, but the external surplus is set to remain high. Robust economic growth is projected to support a rise in the budget surplus and a sizeable decline in public debt.*

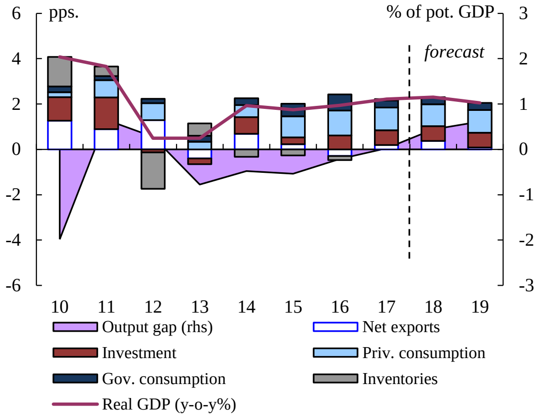
### Solid momentum despite some concerns

GDP growth in the second half of 2017 was predominantly driven by exports, as domestic demand growth temporarily stagnated. Private consumption slowed down after very strong increases in the first half, while construction investment was hampered by capacity constraints. At the start of 2018, forward looking survey indicators (particularly in manufacturing and retail) pointed to some cooling down of business sentiment. By contrast, order books in manufacturing and construction suggest considerable production backlogs that should sustain growth in the coming quarters. Constraints to growth seem to stem from the supply side, in particular from mounting skilled labour shortages. On the other hand, aggregate demand should benefit from the strong labour market and rising household incomes, investment demand and, not least, solid foreign demand. The latter is assumed to weather well the escalation of protectionist rhetoric, but remains subject to downside risks. Overall, real GDP is expected to increase by 2.3% this year and by 2.1% in 2019.

### Strong labour market to support consumption and saving

Employment growth is set to continue leading to further declines in the unemployment rate, which reached a new post-unification low of 3.5% in February. The scope for increasing hours per worker, rising labour market participation of older workers and women, as well as still significant inflows of workers from abroad, could help sustain employment growth, but most probably less than before. The integration of the recently arrived refugees into the labour force is progressing slower than initially assumed. Scarcity in the labour market seems to be impacting wage settlements and is expected to lead to a pick-up in wage growth over the forecast horizon. With moderate inflation, this will translate to increases in purchasing power. These developments are expected to further improve disposable income and sustain the pace of consumption growth, but also maintain the saving rate at a high level.

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




### Investment boost from high capacity utilisation and housing demand

Equipment investment is set to intensify further in 2018 as firms report a need to renew capacity. Housing, and more generally construction investment, has been in a soft patch since mid-2017 but is expected to resume growth as capacity constraints in the sector are gradually resolved. The sector faces strong demand judging from ample order book backlogs.

### The external surplus likely to stay high

Strong domestic demand is expected to lead to a further increase in the import-to-GDP ratio. On the other hand, export growth rose strongly in the second half of 2017 and the foreign trade outlook remains favourable. Thus, the current account surplus should remain high in 2018 and decline somewhat in 2019. Export dynamics are subject to downside risks in the context of geopolitical tensions and escalating protectionist rhetoric from some of Germany's main trading partners outside the EU. The latter may have affected business sentiment and stock market valuations and could lead to negative revisions of investment plans.

### Inflation to remain moderate

Core inflation (excluding energy and unprocessed food) increased from just above 1% over 2015-2016 to 1.6% in 2017 and is to pick up to 1.8% by 2019, in the context of strong demand and higher wage growth. Headline inflation is expected to slow from 1.7% in 2017 to 1.6% in 2018 due to lower energy price inflation. In 2019, energy prices could rise due to the planned increase in the renewable energy surcharge. However, inflation should remain moderate (1.8%) and supportive of household purchasing power.

### Budget surpluses increasing further

The favourable macroeconomic outlook supports the positive trend in the budget balance. The budget surpluses of recent years are expected to increase further over the forecast period, despite a one-off guarantee payment in 2018 related to the finalisation of the sale of HSH Nordbank.

Due to the recent constitution of the Federal government, the 2018 budget is still to be prepared. In 2018 and 2019, under a no-policy change assumption, revenues are expected to develop positively, supported by economic growth, remaining broadly stable as a percentage of GDP. By contrast expenditure is projected to decline as a percentage of GDP.

After peaking at 1½% of GDP in 2017, the positive structural balance is projected to gradually decline to 1% of GDP over the forecast horizon. Government debt is expected to fall below the 60% Maastricht-threshold by 2019 for the first time since 2002. Germany's debt-to-GDP ratio is forecast to decrease from 64.1% in 2017 to 56.3% in 2019.

*Table II.5.1:*

**Main features of country forecast - GERMANY**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn EUR | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 3144.1 | 100.0 | 1.3 | 1.9 | 1.7 | 1.9 | **2.2** | **2.3** | **2.1** |
| Private Consumption | | 1674.4 | 53.3 | 0.9 | 1.0 | 1.7 | 2.1 | **1.9** | **1.8** | **1.9** |
| Public Consumption | | 615.4 | 19.6 | 1.2 | 1.5 | 2.9 | 3.7 | **1.6** | **1.6** | **1.6** |
| Gross fixed capital formation | | 630.0 | 20.0 | 0.9 | 3.7 | 1.5 | 3.1 | **3.3** | **3.2** | **3.1** |
| of which: equipment | | 205.8 | 6.5 | 2.2 | 5.9 | 3.9 | 2.2 | **4.0** | **5.7** | **3.4** |
| Exports (goods and services) | | 1450.0 | 46.1 | 5.6 | 4.6 | 5.2 | 2.6 | **4.7** | **5.9** | **4.1** |
| Imports (goods and services) | | 1199.4 | 38.1 | 4.8 | 3.6 | 5.6 | 3.9 | **5.1** | **6.1** | **4.6** |
| GNI (GDP deflator) | | 3197.2 | 101.7 | 1.4 | 1.6 | 1.6 | 1.8 | **2.4** | **2.3** | **2.1** |
| Contribution to GDP growth: | | Domestic demand | | 0.9 | 1.6 | 1.8 | 2.4 | **2.0** | **1.9** | **2.0** |
| | | Inventories | | -0.1 | -0.3 | -0.3 | -0.2 | **0.1** | **0.0** | **0.0** |
| | | Net exports | | 0.5 | 0.7 | 0.2 | -0.3 | **0.2** | **0.4** | **0.1** |
| Employment | | | | 0.7 | 0.8 | 0.9 | 1.3 | **1.5** | **1.0** | **0.7** |
| Unemployment rate (a) | | | | 8.2 | 5.0 | 4.6 | 4.1 | **3.8** | **3.6** | **3.5** |
| Compensation of employees / head | | | | 1.4 | 2.8 | 2.7 | 2.2 | **2.6** | **3.1** | **3.1** |
| Unit labour costs whole economy | | | | 0.8 | 1.7 | 1.8 | 1.6 | **1.9** | **1.7** | **1.7** |
| Real unit labour cost | | | | -0.2 | -0.1 | -0.2 | 0.2 | **0.3** | **0.0** | **-0.2** |
| Saving rate of households (b) | | | | 16.2 | 16.8 | 17.0 | 17.1 | **17.3** | **17.4** | **17.4** |
| GDP deflator | | | | 1.0 | 1.8 | 2.0 | 1.3 | **1.5** | **1.7** | **1.8** |
| Harmonised index of consumer prices | | | | 1.6 | 0.8 | 0.1 | 0.4 | **1.7** | **1.6** | **1.8** |
| Terms of trade goods | | | | 0.0 | 1.7 | 3.1 | 2.3 | **-1.5** | **-0.5** | **-0.3** |
| Trade balance (goods) (c) | | | | 5.9 | 7.8 | 8.6 | 8.7 | **8.2** | **8.2** | **7.9** |
| Current-account balance (c) | | | | 3.6 | 7.6 | 8.6 | 8.5 | **8.0** | **7.9** | **7.6** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 3.6 | 7.6 | 8.6 | 8.5 | **7.9** | **7.8** | **7.5** |
| General government balance (c) | | | | -2.0 | 0.5 | 0.8 | 1.0 | **1.3** | **1.2** | **1.4** |
| Cyclically-adjusted budget balance (d) | | | | -1.8 | 0.8 | 1.1 | 1.1 | **1.3** | **1.0** | **1.0** |
| Structural budget balance (d) | | | | - | 1.1 | 1.1 | 1.1 | **1.5** | **1.2** | **1.0** |
| General government gross debt (c) | | | | 67.2 | 74.7 | 71.0 | 68.2 | **64.1** | **60.2** | **56.3** |

(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.

# 6. ESTONIA

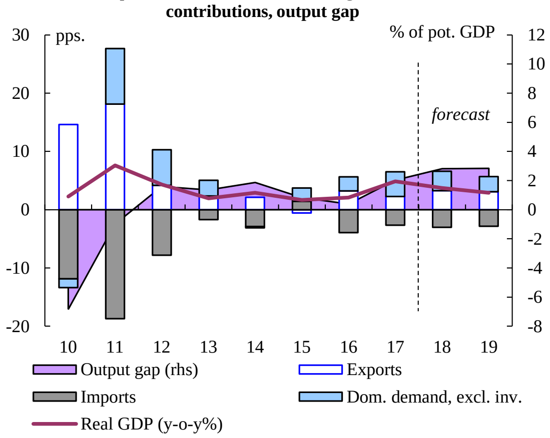
## Strong GDP growth easing over the forecast horizon

*After expanding by almost 5% in 2017, GDP growth in Estonia is set to ease gradually. Domestic demand growth is set to slow as investment moderates from exceptionally high levels in 2017, while private consumption is forecast to pick up over the forecast horizon. The combination of positive external and domestic factors should help to sustain employment at high levels. However, higher participation due to the Work Ability Reform and skills mismatches could lead to a slight rise in unemployment rate.*

### External demand and investment support growth

Real GDP growth in Estonia hit 4.9% in 2017, on the back of a surge in investment and a recovery in external demand. Although growth was broad-based across all areas of activity, the main contribution came from investment, which grew by slightly more than 13% as a result of a number of sizeable one-off projects and increased absorption of EU structural funds. Since the import content of investment is very high, the net contribution of external trade was slightly negative. Private consumption growth was somewhat subdued due to excise tax increases. Labour productivity grew faster than labour costs for the first time in years in spite of wage increases and significant labour market capacity constraints.

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




The strong external outlook is expected to result in export-driven growth in 2018 and 2019. Service exports, particularly digital and transportation services, are forecast to contribute to a positive trade balance over the forecast horizon, while industrial exports are also expected to rise, in line with foreign demand. Household consumption is forecast to rise due to the buoyant labour market and higher real disposable incomes. The personal income tax reform, which introduced some tax progressivity in 2018, should provide a small additional boost to consumption, while net borrowing by households is expected to remain stable. Investment growth is set to moderate from the levels of 2017 but investment should remain strong in light of improved profit margins in the private sector and the EU structural funds cycle. As in the past, inventories remain the most volatile GDP component due to statistical discrepancies.

### Lower inflation in line with global prices

In 2017, HICP inflation reached 3.7% mainly due to excise tax increases and higher global commodity price. The euro's appreciation has had a moderating effect on oil prices, slowing down inflationary pressures given the relatively high share of energy in the consumer basket. Inflation is set to moderate in line with global price trends, as planned tax increases remain limited. Inflation is forecast at 2.9% in 2018 and 2.5% in 2019.

### Labour market allows economy to grow

Despite already high employment and participation rates, employment grew by some 2% in 2017. This was more than expected given the restricted number of permits for foreign workers. It also suggests that the government's 'Work Ability Reform' has so far had a positive effect and that many people with a limited capacity to work were able to find a job after having re-entered the labour market. Labour supply pressures, however, are expected to gradually build up, reflecting structural factors such as skills mismatches and an overall decline in the working age population that will kick in towards the end of the forecast horizon. As in the past, human capital will remain key to sustaining competitiveness in the coming years. Nominal wage growth is forecast to accelerate in 2018 to 6.5% and to moderate slightly in 2019. Capacity constraints and lower external demand growth are likely to exert downward pressure on the GDP growth, which is forecast to be 3.7% in

2018 and 2.8% in 2019, slowing down in line with the economy's potential rate.

## Fiscal consolidation ahead

The general government recorded a deficit of 0.3% of GDP in 2017. While tax revenues were overall strong, an election-year increase in public investment drove the government balance into a deficit. Some temporary increases in expenditure were related to the Estonian presidency of the EU Council in the second half of 2017, and to the costs of municipal reforms. On the revenue side, one specific tax category disappointed in 2017: excise tax revenues on alcohol and fuels were lower than expected due to growing cross-border purchases of those goods.

Several new tax measures have taken effect in 2018, although they are largely budget-neutral. The revenue lost from the lowering of personal income taxes, for example, is more or less offset by the effect of corporate income tax reforms and some increases in excise taxes. Revenues from the main tax category - labour taxes - have outperformed expectations in the first months of 2018, reflecting the favourable developments in the labour market. On the expenditure side, several new programmes in healthcare, education, social funding and in financing municipalities also kicked in this year.

The government's recent Stability Programme envisages measures to improve the fiscal position from 2019 onwards, mainly by various non-tax sources of revenues (0.7% of GDP). Expenditure-side measures are, on aggregate, deficit neutral. The current forecast includes about half of the recently announced revenue-side measures, because some of the plans are not yet sufficiently detailed.

Overall, the fiscal position is expected to improve to a balanced position in 2018 and to a surplus of 0.3% of GDP in 2019. In line with this, the deficit in structural terms is estimated to improve over the forecast horizon from about 1¼ % of GDP in 2018 to slightly below 1% of GDP in 2019. Public debt is expected to decline to less than 9% of GDP.

*Table II.6.1:*

**Main features of country forecast - ESTONIA**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 21.1 | 100.0 | 3.8 | 2.9 | 1.7 | 2.1 | **4.9** | **3.7** | **2.8** |
| Private Consumption | 11.1 | 52.8 | 3.9 | 3.4 | 4.6 | 4.4 | **2.2** | **3.8** | **2.7** |
| Public Consumption | 4.4 | 20.7 | 2.2 | 2.6 | 3.3 | 1.9 | **0.8** | **1.4** | **1.0** |
| Gross fixed capital formation | 4.7 | 22.3 | 6.3 | -8.7 | -2.9 | -1.2 | **13.1** | **4.4** | **4.3** |
| of which: equipment | 1.8 | 8.4 | 6.8 | 0.7 | -13.7 | 6.2 | **19.6** | **5.8** | **7.3** |
| Exports (goods and services) | 16.7 | 79.0 | 7.0 | 2.5 | -0.7 | 4.1 | **2.9** | **4.2** | **4.0** |
| Imports (goods and services) | 15.8 | 75.1 | 7.2 | 3.6 | -1.8 | 5.3 | **3.5** | **4.1** | **4.1** |
| GNI (GDP deflator) | 20.7 | 98.1 | 3.8 | 2.5 | 2.3 | 2.2 | **4.8** | **3.6** | **3.0** |
| Contribution to GDP growth: | Domestic demand | | 4.8 | -0.2 | 2.3 | 2.4 | **4.2** | **3.3** | **2.6** |
| | Inventories | | -0.2 | 3.7 | -1.3 | 0.7 | **-0.1** | **0.2** | **0.0** |
| | Net exports | | -0.6 | -0.8 | 0.9 | -0.7 | **-0.4** | **0.3** | **0.1** |
| Employment | | | -0.2 | 0.8 | 2.9 | 0.3 | **2.1** | **0.6** | **0.3** |
| Unemployment rate (a) | | | 10.3 | 7.4 | 6.2 | 6.8 | **5.8** | **6.0** | **6.3** |
| Compensation of employees / head | | | 9.3 | 6.5 | 3.3 | 5.9 | **5.4** | **6.5** | **5.8** |
| Unit labour costs whole economy | | | 5.2 | 4.3 | 4.5 | 4.0 | **2.6** | **3.3** | **3.3** |
| Real unit labour cost | | | -0.2 | 2.7 | 3.3 | 2.4 | **-1.3** | **-0.2** | **0.3** |
| Saving rate of households (b) | | | 4.4 | 10.7 | 11.7 | 11.3 | **11.4** | **11.8** | **12.5** |
| GDP deflator | | | 5.4 | 1.5 | 1.2 | 1.6 | **4.0** | **3.5** | **3.0** |
| Harmonised index of consumer prices | | | 4.4 | 0.5 | 0.1 | 0.8 | **3.7** | **2.9** | **2.5** |
| Terms of trade goods | | | 0.7 | 0.0 | 0.2 | 1.0 | **1.4** | **0.4** | **-0.1** |
| Trade balance (goods) (c) | | | -12.8 | -5.5 | -4.2 | -3.7 | **-4.0** | **-3.9** | **-4.3** |
| Current-account balance (c) | | | -6.7 | 0.3 | 2.0 | 1.9 | **2.9** | **3.0** | **2.9** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -5.1 | 1.3 | 4.0 | 3.0 | **3.7** | **4.6** | **4.7** |
| General government balance (c) | | | 0.2 | 0.7 | 0.1 | -0.3 | **-0.3** | **0.0** | **0.3** |
| Cyclically-adjusted budget balance (d) | | | -0.4 | -0.2 | -0.3 | -0.5 | **-1.2** | **-1.3** | **-0.9** |
| Structural budget balance (d) | | | - | 0.0 | 0.0 | -0.4 | **-1.2** | **-1.3** | **-0.9** |
| General government gross debt (c) | | | 6.0 | 10.7 | 10.0 | 9.4 | **9.0** | **8.8** | **8.4** |

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

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

# 7. IRELAND

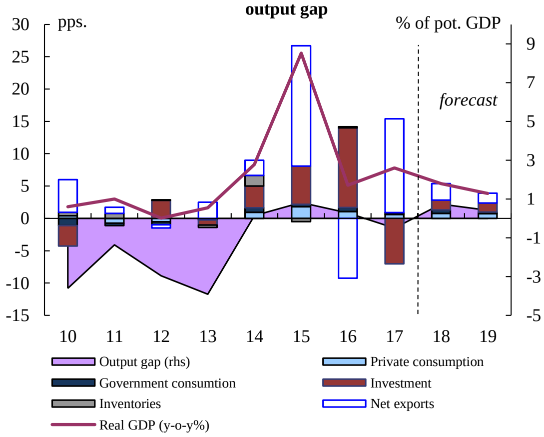
## Domestic economy to sustain robust growth

*The strong growth in GDP is projected to moderate over this year and next. While volatility in the headline national accounts figures is likely to continue in the near term because of the role of multinational companies, the domestic economy is expected to remain robust, supported by positive labour market trends and investment in construction. The government deficit is moving closer to balance but risks to the fiscal outlook remain.*

### GDP grew strongly last year, largely driven by the activities of multinationals

In 2017, Ireland's real GDP grew by 7.8%, well above the euro area average. However, the headline figures were somewhat distorted by the activities of multinational companies operating in Ireland. GDP growth is expected to moderate over the forecast horizon but to remain robust at 5.7% in 2018 and 4.1% in 2019.

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




### Employment and investment in construction to further support domestic economy

*Modified domestic demand* [64], a measure of domestic activity that strips out some of the effects of multinationals, grew by 3.9% in 2017. It was driven by private consumption and construction investment, and is projected to expand at an average rate of 4% over the forecast period.

Employment, in particular full-time employment, increased strongly last year and is approaching its 2007 peak. The unemployment rate stood at 6.1% in March 2018 and is forecast to drop below 5% in 2019. Household incomes also grew, driven by a modest increase in hourly wages and robust job creation. The tightening of the labour market is expected to put upward pressure on wages and thus support household consumption in the short term.

In 2017, headline investment declined by 22.3%, heavily influenced by the volatility of investment in intangible assets and aircraft. These two components have a neutral impact on GDP as they are imported. Construction activity increased by 16.7%, though coming from a very low base, and is expected to maintain momentum supported by various government measures.

### Inflation to support consumption

HICP inflation was just 0.3% in 2017 with a negative impact from lower import prices due to the fall in the value of the pound. However, services prices grew strongly, in part due to increasing property rents on the back of a housing supply shortage. HICP inflation is projected to increase by 0.8% in 2018, mainly driven by higher services and energy prices, and by 1.1% in 2019, when service prices will be the main driver. The modest inflation outlook is expected to provide additional support to consumer spending.

### Trade developments shrouded in uncertainty

Net exports contributed 14.5 pps. to GDP growth last year. Exports increased by 6.9%, largely driven by exports of royalties attributed to the intellectual property assets registered in Ireland, and computer services exports. Cross-border goods exports, captured by customs data and offering a clearer picture of the flows linked to domestic activity, reached a record level in 2017, growing by 9.7% in volume terms and 2.7% in value terms, with the positive trend continuing in 2018. Total imports declined by 6.2% due to a fall in imports of research and development and royalty fee payments. On the other hand, cross-border imports increased by 4.7% in volume terms. Over the forecast horizon, exports are expected to increase in line with global trade and imports to track

[64] The *modified domestic demand* indicator, published by the Irish Central Statistics Office, is defined as total domestic demand net of trade in aircraft by leasing companies and investment in intellectual property.

domestic demand, with net exports contributing positively to GDP growth, but to a significantly lower extent than in 2017. However, headline trade figures may continue to be influenced by the impact of contract manufacturing.

### External risks to the outlook tilted to the downside

The uncertainty around Ireland's economic outlook remains elevated and relates primarily to the outcome of the negotiations between the UK and the EU as well as changes to the international taxation and trade environment. A high degree of unpredictability remains linked to the activities of multinationals, which could drive headline GDP growth in either direction.

### Public finances recovering further

The headline government deficit improved from 0.5% of GDP in 2016 [65] to 0.3% of GDP in 2017 on the back of a continued strengthening in the economy. Tax revenues, including social security contributions, were up 5.2% in 2017, driven by the strong performance in corporate and value added taxes (VAT). Government expenditure, excluding one-offs, increased compared to the previous year by 3.2%. A fall in the interest burden facilitated the deficit reduction.

The headline government deficit is projected to fall to 0.2% of GDP in 2018, based on expectations of strong revenue growth, with earnings from personal income taxes and VAT reflecting the rise in employment and private consumption. Expenditure is expected to remain buoyant amid infrastructure and demographic pressures. The deficit is forecast to remain broadly stable in 2019. Risks to the fiscal outlook remain on the downside, mainly reflecting uncertainty as regards the economic outlook and the sustainability of the current level of government revenue from some sources, notably corporate tax.

After improving in 2017, the structural balance is expected to deteriorate in 2018 before improving again in 2019. The general government debt ratio further declined to 68.0% of GDP in 2017. It is projected to fall to 65.6% and 63.2% of GDP in 2018 and 2019 respectively, contingent on continued stable medium-term economic growth and primary surpluses.

(65) The 2016 balance has been revised by +0.2% of GDP since the autumn 2017 data transmission.

*Table II.7.1:*

**Main features of country forecast - IRELAND**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 275.6 | 100.0 | 4.0 | 8.3 | 25.6 | 5.1 | **7.8** | **5.7** | **4.1** |
| Private Consumption | 90.8 | 33.0 | 3.8 | 2.1 | 4.2 | 3.2 | **1.9** | **2.5** | **2.4** |
| Public Consumption | 34.1 | 12.4 | 1.8 | 4.1 | 2.2 | 5.2 | **1.8** | **4.4** | **1.9** |
| Gross fixed capital formation | 87.7 | 31.8 | 2.9 | 18.2 | 28.2 | 60.8 | **-22.3** | **6.5** | **6.0** |
| of which: equipment | 20.5 | 7.5 | 6.4 | 21.6 | -0.7 | 27.9 | **-11.0** | **4.0** | **3.3** |
| Exports (goods and services) | 335.0 | 121.6 | 7.3 | 14.4 | 38.4 | 4.6 | **6.9** | **5.8** | **4.6** |
| Imports (goods and services) | 274.4 | 99.6 | 6.8 | 14.9 | 26.0 | 16.4 | **-6.2** | **4.6** | **4.4** |
| GNI (GDP deflator) | 227.7 | 82.6 | 3.6 | 8.7 | 16.5 | 9.9 | **6.4** | **4.4** | **3.4** |
| Contribution to GDP growth: Domestic demand | | | 2.8 | 5.0 | 7.9 | 14.2 | **-6.3** | **2.9** | **2.4** |
| Inventories | | | 0.0 | 1.7 | -0.4 | 0.1 | **0.1** | **0.0** | **0.0** |
| Net exports | | | 1.4 | 2.3 | 18.6 | -9.2 | **14.5** | **2.8** | **1.7** |
| Employment | | | 1.8 | 1.7 | 2.5 | 2.8 | **1.9** | **2.2** | **1.8** |
| Unemployment rate (a) | | | 8.1 | 11.9 | 10.0 | 8.4 | **6.7** | **5.4** | **4.9** |
| Compensation of employees / head | | | 3.8 | 1.8 | 2.1 | 2.0 | **2.9** | **2.5** | **2.7** |
| Unit labour costs whole economy | | | 1.6 | -4.4 | -16.6 | -0.2 | **-2.7** | **-0.9** | **0.5** |
| Real unit labour cost | | | -0.4 | -4.1 | -22.3 | -0.2 | **-2.4** | **-1.5** | **-0.8** |
| Saving rate of households (b) | | | 7.9 | 7.3 | 6.8 | 6.7 | **7.0** | **6.9** | **6.9** |
| GDP deflator | | | 2.1 | -0.4 | 7.3 | 0.0 | **-0.3** | **0.6** | **1.3** |
| Harmonised index of consumer prices | | | 2.2 | 0.3 | 0.0 | -0.2 | **0.3** | **0.8** | **1.1** |
| Terms of trade goods | | | 0.5 | -5.2 | 8.0 | 2.3 | **-5.5** | **-1.0** | **-0.3** |
| Trade balance (goods) (c) | | | 21.7 | 20.9 | 43.3 | 38.4 | **36.2** | **35.0** | **34.3** |
| Current-account balance (c) | | | -1.8 | 1.6 | 10.9 | 3.3 | **12.5** | **11.9** | **11.5** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -1.5 | -1.8 | 10.4 | 1.5 | **3.4** | **3.3** | **3.4** |
| General government balance (c) | | | -4.0 | -3.6 | -1.9 | -0.5 | **-0.3** | **-0.2** | **-0.2** |
| Cyclically-adjusted budget balance (d) | | | -4.1 | -3.7 | -2.3 | -0.7 | **-0.1** | **-0.6** | **-0.4** |
| Structural budget balance (d) | | | - | -3.6 | -1.5 | -0.8 | **-0.1** | **-0.6** | **-0.4** |
| General government gross debt (c) | | | 54.3 | 104.5 | 76.9 | 72.8 | **68.0** | **65.6** | **63.2** |

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

# 8. GREECE

## A new chapter of growth ahead

*Greece's economy grew by 1.4% last year, marking the first time that real GDP growth has exceeded 1% since 2007. The economic recovery is expected to accelerate assuming a successful completion of the stability support programme. Unemployment is expected to fall below 20% by 2019, for the first time since 2011. Having reached a fiscal surplus in 2017, for a second year in a row, Greece is on track to achieving the 3.5% of GDP primary surplus target in both 2018 and 2019.*

### Slowdown at the end of a good year

Greece's real GDP grew by 1.4% in 2017 although growth in last quarter of the year was a modest 0.1% q-o-q (in seasonally-adjusted terms), corresponding to a rise of 1.9% over the same period the year before. Although this figure was below forecast, this marks the first time since 2006 that Greece's economy grew in all four quarters of the year.

As regards the composition of GDP growth, investment increased by 9.6% with a significant surge in the last quarter, mainly due to corporate investment. Investment thereby became the main driver of growth, with a contribution of 1.1 pps. Private consumption added a meagre 0.1 pps. contribution, while public consumption detracted 0.2 pps from growth. The export sector benefitted from higher demand overseas, but the import content of exports and investments remained high, driving down the external sector contribution.

### Gradual acceleration in the years ahead

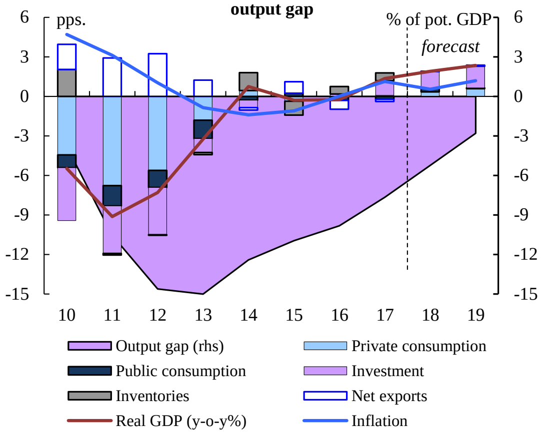
Real GDP is now forecast to grow by 1.9% in 2018 and 2.3% in 2019, revised down compared to the 2018 winter forecast. This reflects the considerably lower carry-over effect for 2018 resulting from the lower-than-expected growth in the last quarter of 2017. Furthermore, the lacklustre performance of private consumption suggests that households may be more financially stretched than previously assumed and that the considerable improvements in employment are taking longer to translate into consumption growth. Investment is expected to continue to grow dynamically in both years, supported by further improvements in economic sentiment and the ongoing privatisation programme. Additional liquidity should come from the government's effort to clear its arrears, foreign direct investment, and the support of international financial institutions.

Exports are expected to continue performing well. Based on pre-bookings, the tourism sector is looking at another very favourable season this year. Goods exports are expected to reach historical highs. However, import demand is also set to be strong as a result of investment growth. As a result, net exports are unlikely to contribute much to growth overall.

The labour market recovery looks set to continue in the coming years. Employment grew by 2.1% in 2017. Unemployment fell to 21.5% and is expected to drop below 20% by 2019.

Inflationary pressures are expected to remain subdued this year and next due to a larger than expected base effect from last year's tax measures, and a slow recovery in private consumption. Similarly, wages are expected to rise only slightly.

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




The outlook is conditional upon the orderly completion of the fourth and final review and assumes the successful conclusion of Greece's stability support programme with the ESM. Downside risks to the forecast are more pronounced and are related to investment financing and regional geopolitical tensions.

### On track to successful programme conclusion

Greece reached a general government surplus of 0.8% of GDP in 2017 and significantly – by about 2½% of GDP – over-performed its primary surplus target of 1.75% according to the ESM programme definition. [66] This result was supported by many measures, in particular the 2016 pension reform and the reform of indirect taxation. Nevertheless, the carryover impact of the over-performance is likely to be limited, as it was partly achieved through lower-than-expected spending and a number of temporary factors, including the payments of tax arrears through a voluntary disclosure initiative.

Greece is projected to achieve the ESM primary surplus target of 3.5% of GDP in 2018 and to maintain it in 2019, as agreed in the context of the second review of the programme. The forecast takes into account fiscal measures adopted over the course of the programme, including the post-programme package from May 2017. In view of the projected compliance with fiscal targets, the latter is assumed to be implemented in a budget-neutral fashion. The package includes a re-alignment of all pensions with the new pension formula, yielding 1% of GDP savings in 2019. The fiscal impact of this is expected to be offset by an increase in social and investment spending.

The forecast does not take into account the ongoing fiscal-structural reforms and the recurrent underspending vis-à-vis adopted budget targets, which is a considerable upside risk. Downside risks relate mainly to the recent decisions of the Council of State on certain past wage reforms, as the size and recording of the impacts are yet to be clarified; and the timely completion of ongoing reforms, including the reassessment of property values for the ENFIA property tax.

Overall, the general government surplus is expected to reach 0.4% of GDP in 2018 and 0.2% of GDP in 2019. In view of the projected narrowing of the output gap, the general government structural balance is set to decline from a surplus of about 2½% of GDP in 2018 to about 1½% of GDP in 2019. The debt-to-GDP ratio fell from 180.8% in 2016 to 178.6% in 2017 and is projected to decrease further on the back of high primary surpluses and faster nominal growth.

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

*Table II.8.1:*

**Main features of country forecast - GREECE**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 174.2 | 100.0 | 0.5 | 0.7 | -0.3 | -0.2 | **1.4** | **1.9** | **2.3** |
| Private Consumption | | 121.7 | 69.9 | 0.7 | 0.6 | -0.5 | 0.0 | **0.1** | **0.5** | **0.9** |
| Public Consumption | | 35.2 | 20.2 | 0.9 | -1.4 | 1.2 | -1.5 | **-1.1** | **1.2** | **0.4** |
| Gross fixed capital formation | | 20.5 | 11.7 | -1.9 | -4.7 | -0.3 | 1.6 | **9.6** | **10.3** | **12.1** |
| of which: equipment | | 8.5 | 4.9 | -0.4 | 29.3 | 7.9 | -12.3 | **28.9** | **11.8** | **13.4** |
| Exports (goods and services) | | 53.1 | 30.5 | 4.1 | 7.7 | 3.1 | -1.8 | **6.8** | **5.7** | **4.6** |
| Imports (goods and services) | | 54.3 | 31.2 | 2.4 | 7.7 | 0.4 | 0.3 | **7.2** | **5.5** | **4.4** |
| GNI (GDP deflator) | | 175.1 | 100.5 | 0.4 | 1.5 | -0.5 | -0.2 | **1.0** | **2.0** | **2.0** |
| Contribution to GDP growth: | Domestic demand | | | 0.6 | -0.4 | -0.1 | -0.2 | **0.9** | **1.9** | **2.3** |
| | Inventories | | | -0.1 | 1.4 | -1.1 | 0.6 | **0.6** | **0.0** | **0.0** |
| | Net exports | | | 0.1 | -0.2 | 0.9 | -0.7 | **-0.2** | **0.0** | **0.0** |
| Employment | | | | -0.2 | 0.9 | 0.7 | 0.5 | **2.1** | **1.7** | **1.8** |
| Unemployment rate (a) | | | | 12.7 | 26.5 | 24.9 | 23.6 | **21.5** | **20.1** | **18.4** |
| Compensation of employees / head | | | | 3.2 | -2.0 | -2.3 | -0.9 | **0.1** | **0.8** | **1.3** |
| Unit labour costs whole economy | | | | 2.5 | -1.8 | -1.3 | -0.2 | **0.9** | **0.6** | **0.8** |
| Real unit labour cost | | | | 0.1 | 0.0 | -0.3 | 0.8 | **0.2** | **-0.3** | **-0.5** |
| Saving rate of households (b) | | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | | 2.4 | -1.8 | -1.0 | -1.0 | **0.7** | **0.9** | **1.3** |
| Harmonised index of consumer prices | | | | 2.9 | -1.4 | -1.1 | 0.0 | **1.1** | **0.5** | **1.2** |
| Terms of trade goods | | | | -0.2 | 1.1 | 0.6 | -2.3 | **0.7** | **0.3** | **0.0** |
| Trade balance (goods) (c) | | | | -14.7 | -10.8 | -9.1 | -9.5 | **-10.5** | **-10.7** | **-10.8** |
| Current-account balance (c) | | | | -9.6 | -2.1 | 0.0 | -0.7 | **-0.9** | **-0.4** | **-0.5** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -8.0 | -0.1 | 2.4 | 0.9 | **1.0** | **1.5** | **1.3** |
| General government balance (c) | | | | -8.2 | -3.6 | -5.7 | 0.6 | **0.8** | **0.4** | **0.2** |
| Cyclically-adjusted budget balance (d) | | | | -7.8 | 2.4 | -0.4 | 5.4 | **4.5** | **3.0** | **1.6** |
| Structural budget balance (d) | | | | - | 2.4 | 2.2 | 4.4 | **4.0** | **2.5** | **1.6** |
| General government gross debt (c) | | | | 120.2 | 178.9 | 176.8 | 180.8 | **178.6** | **177.8** | **170.3** |

(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.

# 9. SPAIN

## Resilient growth to continue, improved outlook for 2018 and 2019

*After another year of robust real GDP growth in 2017, economic activity is expected to moderate, driven by a slowdown in private consumption. The growth outlook for 2018 and 2019 is set to be supported by the measures contained in the 2018 draft budget law. Unemployment is forecast to continue its rapid decline while headline inflation should moderate despite the projected pickup in wages. The fiscal deficit continues to narrow, but at a slower pace than in 2017 due to deficit-increasing measures.*

### A continued good economic performance

GDP growth remained strong in 2017, at 3.1%, above the euro area average for the third year in a row. Private consumption continued to be the most important growth driver, although investment, and in particular residential construction, was stronger than expected. Net exports also contributed to growth in 2017, but less than anticipated. The consequences for growth of the events in Catalonia have so far remained contained, and GDP expanded by 0.7% q-o-q in 2017-Q3 and Q4.

### Deceleration still expected, but outlook improved for 2018 and 2019

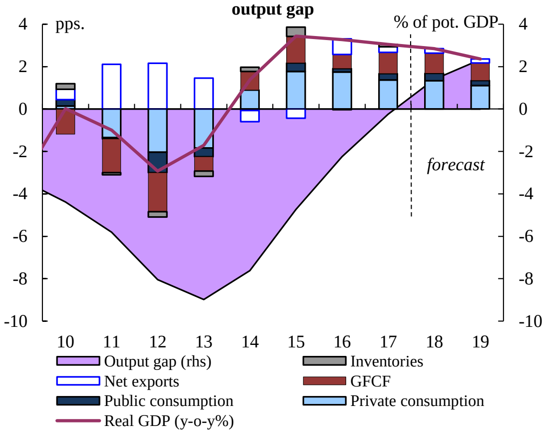
Soft and hard indicators signal continued dynamic economic activity in the first quarter of this year, when real GDP is expected to expand again by 0.7% q-o-q. The pace of growth is projected to remain broadly stable in the following quarters, as the measures planned in the 2018 draft budget law, if finally adopted, are set to support otherwise moderating private consumption. Overall GDP growth for 2018 is now forecast at 2.9%, 0.3 pps. higher than projected in the winter forecast.

Growth is expected to decelerate in 2019, to 2.4% (also 0.3 pps. higher than in winter). The deceleration will be mainly driven by a slowdown in private consumption, as households increase their saving rate, which in 2017 reached an historic low. Still, strong job creation and increasing, but still moderate wage growth, should continue to support consumer spending. Investment is forecast to decelerate but continue growing robustly in 2018 and 2019. Equipment investment is projected to moderate in line with final demand, while residential construction is also expected to slow down somewhat. At the same time, non-residential construction is expected to rebound this year, partly helped by a projected increase in public investment, before slowing down in 2019.

### Positive but declining contribution of net exports to growth

Exports are set to grow strongly in 2018 and 2019, as Spain continues to register small gains in market shares despite the projected appreciation of the euro. As imports are forecast to increase in line with fundamentals, net exports are still projected to make a positive contribution to growth, but less so than previously forecast, partly due to a milder slowdown in final demand. This, together with movements in the terms of trade, should result in a decline in the current account surplus in 2018 before improving in 2019. Still, Spain's net lending position should remain firmly positive.

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




### The unemployment rate set to fall below 14%

Administrative data up to 2018-Q1 point to sustained employment growth, above the pace of job creation reported by the Labour Force Survey in recent quarters. Employment growth is set to ease over the forecast period, but remain strong, at 2.6% this year and 2.3% in 2019. This will allow the unemployment rate to fall below 14% by 2019, the lowest level since 2008. After remaining subdued in 2017, wage growth is projected to gradually pick up both in the public and private sector over 2018 and 2019. Wages are projected to grow faster than inflation in 2019. Productivity is forecast to grow only marginally, leading to contained increases in nominal unit labour costs, which should nevertheless grow below the average for the euro area. After reaching 2% in 2017, HICP inflation is set to decline to 1.4% in 2018 and to remain at this level in 2019, as negative base effects from oil price developments are offset by the pickup in core inflation.

### Budgetary measures limit deficit reduction

On the back of strong economic growth and contained public expenditure, Spain's general government deficit narrowed by 1.4 pps., to 3.1% of GDP, in 2017. With the economic expansion forecast to continue in 2018, the deficit is set to decline further. However, the measures contained in the draft budget law presented to parliament in early April, in particular the tax cut for low-income earners, the higher revaluation of pensions at the lower end and the 1.75% pay hike for public employees, are projected to dampen the pace of deficit reduction compared to 2017. The forecast for 2018 also includes a temporary hike in public investment, reflecting the general government's takeover of a number of distressed motorways. All in all, this is expected to lead to a deficit of 2.6% of GDP in 2018. In 2019, under a no-policy change assumption, it is forecast to narrow further to 1.9% of GDP on the back of the cyclical recovery. Risks to the 2018-2019 fiscal outlook relate to uncertainty about the strength of tax revenues in the current phase of the cycle and the materialisation of contingent liabilities such as higher land expropriation costs for the distressed motorways and compensation payments following the Supreme Court decision of February 2018 to declare void the ATLL water concession in Catalonia. At the same time, the government's intention to resell the motorways that reverted to the state in 2018 could, if it materialises, improve the government balance in 2019.

After improving by about ¼ pps. of GDP in 2017, Spain's structural deficit is expected to increase by the same magnitude in 2018 and then improve slightly again in 2019. Over the forecast horizon, the general government debt-to-GDP ratio is expected to decrease slightly to 95.9% in 2019 due to relatively strong nominal GDP growth and the narrowing budget deficit.

*Table II.9.1:*

**Main features of country forecast - SPAIN**

| | | 2016 | | | | | Annual percentage change | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 1118.5 | 100.0 | 1.9 | 1.4 | 3.4 | 3.3 | **3.1** | **2.9** | **2.4** |
| Private Consumption | | 644.7 | 57.6 | 1.5 | 1.5 | 3.0 | 3.0 | **2.4** | **2.3** | **1.9** |
| Public Consumption | | 210.9 | 18.9 | 3.2 | -0.3 | 2.1 | 0.8 | **1.6** | **1.9** | **1.3** |
| Gross fixed capital formation | | 223.6 | 20.0 | 1.2 | 4.7 | 6.5 | 3.3 | **5.0** | **4.6** | **3.9** |
| of which: equipment | | 77.4 | 6.9 | 2.5 | 5.9 | 11.5 | 5.0 | **6.2** | **5.0** | **4.3** |
| Exports (goods and services) | | 368.5 | 32.9 | 3.9 | 4.3 | 4.2 | 4.8 | **5.0** | **5.0** | **4.7** |
| Imports (goods and services) | | 334.8 | 29.9 | 3.4 | 6.6 | 5.9 | 2.7 | **4.7** | **4.7** | **4.5** |
| GNI (GDP deflator) | | 1118.3 | 100.0 | 1.9 | 1.6 | 3.6 | 3.5 | **3.1** | **2.8** | **2.4** |
| Contribution to GDP growth: | Domestic demand | | | 1.9 | 1.7 | 3.4 | 2.6 | **2.7** | **2.6** | **2.2** |
| | Inventories | | | 0.0 | 0.2 | 0.4 | 0.0 | **0.1** | **0.0** | **0.0** |
| | Net exports | | | 0.1 | -0.5 | -0.4 | 0.7 | **0.3** | **0.2** | **0.2** |
| Employment | | | | 0.9 | 1.0 | 3.2 | 3.0 | **2.8** | **2.6** | **2.3** |
| Unemployment rate (a) | | | | 14.6 | 24.5 | 22.1 | 19.6 | **17.2** | **15.3** | **13.8** |
| Compensation of employees / f.t.e. | | | | 2.9 | 0.1 | 1.6 | -0.3 | **0.1** | **1.1** | **1.6** |
| Unit labour costs whole economy | | | | 2.0 | -0.2 | 1.4 | -0.6 | **-0.1** | **0.8** | **1.5** |
| Real unit labour cost | | | | -0.4 | 0.0 | 0.7 | -0.9 | **-1.0** | **-0.5** | **-0.1** |
| Saving rate of households (b) | | | | 10.0 | 9.3 | 8.6 | 7.7 | **5.7** | **5.5** | **5.6** |
| GDP deflator | | | | 2.4 | -0.2 | 0.6 | 0.3 | **1.0** | **1.4** | **1.6** |
| Harmonised index of consumer prices | | | | 2.7 | -0.2 | -0.6 | -0.3 | **2.0** | **1.4** | **1.4** |
| Terms of trade goods | | | | -0.2 | -0.5 | 2.4 | 0.1 | **-1.6** | **-1.3** | **0.0** |
| Trade balance (goods) (c) | | | | -5.4 | -2.1 | -2.1 | -1.6 | **-2.1** | **-2.3** | **-2.3** |
| Current-account balance (c) | | | | -4.5 | 1.0 | 1.0 | 1.9 | **1.8** | **1.5** | **1.6** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -3.8 | 1.5 | 1.7 | 2.1 | **2.0** | **1.7** | **1.9** |
| General government balance (c) | | | | -3.3 | -6.0 | -5.3 | -4.5 | **-3.1** | **-2.6** | **-1.9** |
| Cyclically-adjusted budget balance (d) | | | | -3.1 | -1.9 | -2.7 | -3.3 | **-3.0** | **-3.3** | **-3.2** |
| Structural budget balance (d) | | | | - | -1.5 | -2.4 | -3.3 | **-3.0** | **-3.3** | **-3.2** |
| General government gross debt (c) | | | | 56.2 | 100.4 | 99.4 | 99.0 | **98.3** | **97.6** | **95.9** |

(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.

# 10. FRANCE

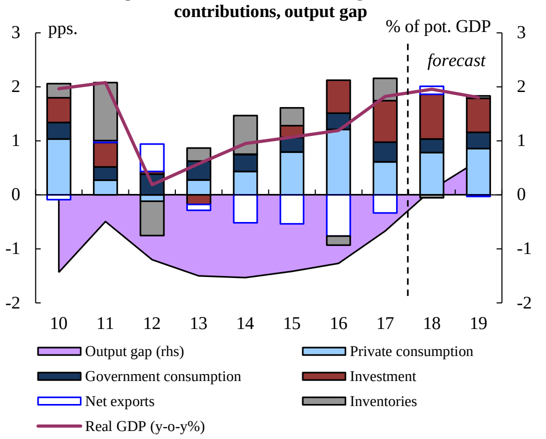
## Continued solid growth despite short-term volatility

*Economic activity is forecast to accelerate further in 2018, despite the weak start to the year. Exports are set to rebound sharply on the back of strong global demand. In addition, the gradual pick up in private consumption should somewhat offset the slowdown in investment growth expected in 2019. Unemployment is set to fall substantially and the budget deficit is forecast to remain under 3% of GDP.*

Economic activity in France accelerated sharply in 2017 and 2017-Q4 marked the fifth consecutive quarter of growth of at least 0.5%. However, GDP growth likely went through a temporary soft patch in the first quarter of 2018, as late Christmas holidays dampened activity at the start of the year. In addition, output dropped sharply in transport equipment, a payback following a strong increase in 2017.

In the absence of such temporary, one-off factors, GDP growth should bounce back over the rest of the year. Economic sentiment indicators remain at very high levels, although slightly down from late 2017. In addition, the strong tailwinds that allowed economic activity to accelerate in 2017 (accommodative monetary policy, buoyant global demand) remain largely in place, supporting continued solid growth. As a result, GDP growth is expected to reach 2.0% in 2018 before cooling to 1.8% in 2019 as spare capacities in the economy are reabsorbed.

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




### Consumption to pick up gradually, while investment growth cools

Private consumption growth, which was weak in 2017, is forecast to pick up gradually, as strong employment growth and rising nominal wages boost household incomes. Moreover, the decrease in income and wealth taxes should provide further support to purchasing power and consumption in 2019, although some of this could be diverted to savings.

Investment growth is forecast to remain buoyant in 2018 before cooling down in 2019. Public investment is expected to rebound in 2018 after several years of contraction, in line with the local electoral cycle. By contrast, housing investment is projected to slow down after very high growth in 2017, while corporate investment is also expected to ease, albeit more gradually.

### Exports are set to rebound sharply in 2018

After two years of subdued growth due to temporary factors that hampered tourism and agriculture, exports are set to rebound sharply in 2018, on the back of buoyant global demand. Import growth, by contrast, is set to remain broadly stable. As a result, net exports are expected to make a broadly neutral contribution to growth, rather than a negative one, for the first time in five years.

### Unemployment is expected to continue falling

Unemployment in France is expected to continue falling, in line with the solid economic expansion. However, employment growth is set to moderate somewhat as the effects of past cuts to the labour tax wedge fade. Inflation is forecast to increase to 1.7% in 2018, from 1.2% in 2017, boosted by increases in excise duties and higher oil prices. In 2019, a slight decline is expected as these effects wear out, although core inflation should increase.

### Risks to the outlook

Negative risks still mainly stem from the external side, although new domestic risks have emerged. The strikes in the railway sector in the second quarter of 2018 could weigh on growth, although the effect is likely to be limited and short-lived. In addition, a prolonged decline in business sentiment over the year could end up translating into a steeper decline in growth in 2019.

### Budget deficit below 3% of GDP until end 2019

The headline deficit was 2.6% of GDP in 2017, down from 3.4% in 2016. This is 0.3 pps. of GDP better than in the 2017 autumn forecast. The difference is mainly explained by a remarkable rise in tax receipts, especially from VAT and corporate taxes, which more than offset higher-than-expected expenditure. The data for 2017 include a 0.1% of GDP impact from the recapitalisation of AREVA SA, the amount notified by French authorities. However, Eurostat has issued a reservation on the 0.1% of GDP recapitalisation of NewCo/Orano.

In 2018, the headline deficit is expected to fall to 2.3% of GDP. Revenue growth should remain strong due to favourable cyclical conditions despite planned tax cuts of 0.3% of GDP announced in the 2018 draft budget plan. Deficit-increasing measures, such as a housing tax exemption, the replacement of the current wealth tax with a tax on real estate wealth, or the introduction of a flat tax on saving revenues, are partially compensated by the increase in environmental taxes of around 0.1% of GDP. Public expenditure in nominal terms and net of tax credits is expected to rise by 1.7%, which, once the effects of higher inflation are discounted, reflects a significant deceleration to 0.5% growth in real terms. The forecast incorporates an impact of EUR 5.5 billion in 2018 associated with the reimbursement of a 3% tax on dividends. The structural balance is projected to remain broadly flat in 2018. The risks to the fiscal forecast appear broadly contained, with some uncertainty regarding the final effectiveness of the new contractual approach between the central government and local authorities on operational expenditure targets.

Assuming no change in policies, the deficit is forecast to increase to 2.8% of GDP in 2019. This is due to the temporary deficit-increasing impact of 0.9% of GDP stemming from the replacement of the CICE (Tax Credit for Competitiveness and Employment) by a permanent cut in social security contributions. Netting out this effect, the deficit should decline to 1.9% of GDP, mainly due to positive cyclical conditions, and the revenue-to-GDP ratio should decrease by 0.4 pps. The expenditure-to-GDP ratio, by contrast, is expected to decline by 0.9 pps. Excluding the impact of the replacement of the CICE, the structural balance is projected to deteriorate marginally. The debt-to-GDP ratio is forecast to decline to 96.4% in 2018 and to fall to 96% in 2019.

*Table II.10.1:*

**Main features of country forecast - FRANCE**

| | 2016 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 2228.9 | 100.0 | 1.6 | 0.9 | 1.1 | 1.2 | **1.8** | **2.0** | **1.8** |
| Private Consumption | 1232.9 | 55.3 | 1.9 | 0.8 | 1.4 | 2.2 | **1.1** | **1.4** | **1.6** |
| Public Consumption | 526.7 | 23.6 | 1.4 | 1.3 | 1.1 | 1.3 | **1.5** | **1.1** | **1.3** |
| Gross fixed capital formation | 489.4 | 22.0 | 2.1 | 0.0 | 1.0 | 2.8 | **3.5** | **3.7** | **2.8** |
| of which: equipment | 111.9 | 5.0 | 2.1 | 2.1 | 4.2 | 6.2 | **1.4** | **4.7** | **3.2** |
| Exports (goods and services) | 652.2 | 29.3 | 3.4 | 3.3 | 4.3 | 1.8 | **3.1** | **4.7** | **4.4** |
| Imports (goods and services) | 695.6 | 31.2 | 4.4 | 4.8 | 5.7 | 4.2 | **4.0** | **3.9** | **4.1** |
| GNI (GDP deflator) | 2264.3 | 101.6 | 1.6 | 1.0 | 1.1 | 1.3 | **1.8** | **2.0** | **1.8** |
| Contribution to GDP growth: Domestic demand | | | 1.8 | 0.8 | 1.3 | 2.1 | **1.7** | **1.9** | **1.8** |
| Inventories | | | 0.0 | 0.7 | 0.3 | -0.2 | **0.4** | **-0.1** | **0.0** |
| Net exports | | | -0.2 | -0.5 | -0.5 | -0.8 | **-0.3** | **0.1** | **0.0** |
| Employment | | | 0.7 | 0.3 | 0.1 | 0.5 | **0.9** | **0.8** | **0.9** |
| Unemployment rate (a) | | | 8.9 | 10.3 | 10.4 | 10.1 | **9.4** | **8.9** | **8.3** |
| Compensation of employees / f.t.e. | | | 2.5 | 1.5 | 0.9 | 1.0 | **1.8** | **2.3** | **0.3** |
| Unit labour costs whole economy | | | 1.7 | 0.9 | 0.0 | 0.3 | **1.0** | **1.1** | **-0.6** |
| Real unit labour cost | | | 0.2 | 0.3 | -1.1 | -0.1 | **0.2** | **0.0** | **-2.1** |
| Saving rate of households (b) | | | 15.0 | 14.3 | 13.9 | 13.6 | **13.8** | **13.8** | **13.9** |
| GDP deflator | | | 1.5 | 0.6 | 1.1 | 0.4 | **0.8** | **1.1** | **1.5** |
| Harmonised index of consumer prices | | | 1.7 | 0.6 | 0.1 | 0.3 | **1.2** | **1.7** | **1.4** |
| Terms of trade goods | | | -0.2 | 1.7 | 4.3 | 1.2 | **-1.1** | **-0.7** | **0.7** |
| Trade balance (goods) (c) | | | -0.8 | -1.8 | -1.2 | -1.3 | **-1.9** | **-1.7** | **-1.5** |
| Current-account balance (c) | | | -0.3 | -3.0 | -2.2 | -2.6 | **-3.0** | **-2.9** | **-2.7** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -0.3 | -3.1 | -2.3 | -2.5 | **-2.9** | **-3.0** | **-2.9** |
| General government balance (c) | | | -3.6 | -3.9 | -3.6 | -3.4 | **-2.6** | **-2.3** | **-2.8** |
| Cyclically-adjusted budget balance (d) | | | -3.9 | -3.0 | -2.8 | -2.6 | **-2.2** | **-2.4** | **-3.1** |
| Structural budget balance (d) | | | - | -3.0 | -2.7 | -2.6 | **-2.1** | **-2.1** | **-3.1** |
| General government gross debt (c) | | | 70.8 | 94.9 | 95.6 | 96.6 | **97.0** | **96.4** | **96.0** |

(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

## Domestic demand to continue supporting growth

*Economic activity lost some steam at the end of last year, weighing on the still positive growth outlook for 2018 and 2019. A pickup in investment is set to support the pace of growth, while private consumption remains robust. Strong employment growth helps to keep the unemployment rate on a fast-declining path. The general government headline balance is projected to remain in surplus, leading to further reductions in the debt ratio.*

### Marked slowdown in late 2017

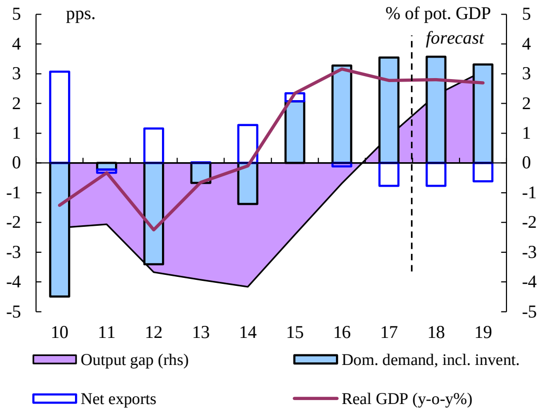
Following three solid quarters, the last quarter of 2017 was weighed down by a marked decline in the take-up of EU investment funds, particularly in the public sector. Together with the impact of the Agrokor crisis [67], this resulted in a slowdown in investment in 2017 and lower-than-expected real GDP growth of 2.8%. A slowdown in goods exports that started at the end of last year has continued in the first months of 2018, in line with weaker industrial production data. At the same time, positive readings in consumer sentiment and solid retail trade data indicate sustained growth of private consumption, while promising early booking indicators and growing pre-season arrivals signal another strong tourist season. However, due to the significant import content of final demand, imports are projected to continue detracting from GDP growth.

### Growth expected to edge down

Real GDP growth is expected to remain at 2.8% in 2018 and to moderate to 2.7% in 2019. Private consumption is expected to drive growth over the forecast horizon due to continued wage and employment growth and increasing remittances from Croatians working abroad, in an environment of low inflation and falling interest rates. A sizeable pickup in project contracting toward the end of 2017 should give rise to higher EU-funded capital spending this year and next, particularly in the public sector. Despite ongoing deleveraging, credit flows to the corporate sector are slowly picking up as financing conditions improve. Overall, investment is projected to contribute more strongly to growth than in recent years.

Goods exports are projected to progressively slow this year and next, despite solid external demand and further, albeit more modest, market share gains. Tourism is projected to continue posting strong figures, also on account of growing arrivals outside of the main season thanks to sizeable investment in the hotel sector in recent years. As domestic industrial production lags, imports are projected to grow again faster than exports, with a negative impact on the external balance of goods and services, despite improving terms of trade. The negative balance of primary income is also set to deteriorate mostly on account of higher profits in the banking sector. The current account surplus is thus projected to drop below 3% of GDP in 2018, and to decrease further in 2019.

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




Overall, the rate of growth is likely to have peaked, and is expected to slightly moderate over the forecast horizon. The economy, however, remains on track to reaching its pre-crisis volume of output in 2019. With strong employment growth and rising wages (evidenced by administrative data), outbound migration is expected to ease.

Forecast risks arise from results of the Agrokor creditors' settlement agreement, which is still pending. A successful outcome could increase production and investment in the group and its suppliers, while a failure to agree a final settlement could result in financial and operational disruptions.

[67] In 2017, the profitability of the largely foreign–owned banking sector was hit by provisioning due to the crisis in Agrokor, the country's largest private employer, in financial distress since early 2017.

### Inflation increases slowly

The full effects of last year's public sector wage increases are kicking in this year. Coupled with reported labour shortages in tourism and construction, wages are projected to rise steadily over the forecast period. Productivity is expected to increase at broadly the same pace, leading to stabilisation of unit labour costs. Inflation remains subdued, as price movements in the volatile components of food and energy are expected to largely offset each other. Overall, the inflation rate is projected to remain at 1.4% in 2018 and increase slightly next year.

### Debt ratio to continue declining as government balance remains positive

The general government balance continued improving and turned into a surplus of 0.8% of GDP in 2017. This was a result of both strong revenue growth supported by recovering GDP growth, and substantial expenditure containment. Expenditure growth was largely curbed through public investment cuts, lower interest payments and social benefits growing slower than nominal GDP, whereas public sector wages were increased.

The headline balance is projected to remain positive in 2018 (0.7% of GDP) as revenue growth outpaces spending. Namely, taxes on products are projected to benefit from another good tourist season and strong consumption. Income taxes and contributions will be supported by growing corporate profits, employment and wages. Expenditure is expected to increase largely due to the full-year effect of the public sector wage hikes, legislated additional spending on war veterans and maternity benefits, and rising pension payments. The expected recovery in the uptake of EU funding should increase both revenue and expenditure.

In 2019, under a no-policy-change scenario, the surplus of the general government is forecast to slightly increase, supported by continued revenue growth. As growth remains above potential, the structural balance is set to deteriorate somewhat in 2018 and 2019. Risks to this scenario include activation of contingent liabilities, most notably guarantees to distressed state-owned enterprises.

Due to positive government balances and steady nominal GDP growth, the reduction of the debt ratio is expected to accelerate, despite advance payments for the purchase of fighter jets in 2018 and 2019.

*Table II.11.1:*

**Main features of country forecast - CROATIA**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn HRK | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 349.4 | 100.0 | 1.6 | -0.1 | 2.3 | 3.2 | **2.8** | **2.8** | **2.7** |
| Private Consumption | | 200.3 | 57.3 | 1.2 | -1.6 | 1.1 | 3.5 | **3.6** | **3.1** | **2.9** |
| Public Consumption | | 68.8 | 19.7 | 1.5 | 0.8 | -0.9 | 1.9 | **2.0** | **3.1** | **2.2** |
| Gross fixed capital formation | | 69.5 | 19.9 | 2.1 | -2.8 | 3.8 | 5.3 | **3.4** | **6.2** | **6.0** |
| of which: equipment | | - | - | - | - | - | - | **-** | **-** | **-** |
| Exports (goods and services) | | 171.3 | 49.0 | 3.7 | 6.0 | 9.4 | 5.6 | **6.1** | **4.8** | **4.6** |
| Imports (goods and services) | | 161.4 | 46.2 | 2.3 | 3.1 | 9.2 | 6.2 | **8.1** | **6.6** | **6.0** |
| GNI (GDP deflator) | | 337.8 | 96.7 | 1.5 | 0.0 | 3.7 | 0.4 | **3.9** | **2.1** | **2.0** |
| Contribution to GDP growth: | Domestic demand | | | 1.6 | -1.3 | 1.2 | 3.4 | **3.1** | **3.6** | **3.3** |
| | Inventories | | | -0.2 | 0.0 | 0.8 | -0.2 | **0.4** | **-0.1** | **0.0** |
| | Net exports | | | 0.3 | 1.3 | 0.3 | -0.1 | **-0.8** | **-0.8** | **-0.6** |
| Employment | | | | -0.1 | 2.7 | 1.2 | 0.3 | **2.2** | **1.7** | **1.5** |
| Unemployment rate (a) | | | | - | 17.2 | 16.1 | 13.4 | **11.1** | **9.6** | **8.5** |
| Compensation of employees / head | | | | 4.8 | -5.2 | 0.4 | -0.2 | **-1.1** | **1.1** | **1.4** |
| Unit labour costs whole economy | | | | 2.9 | -2.6 | -0.7 | -3.0 | **-1.7** | **0.0** | **0.3** |
| Real unit labour cost | | | | -0.5 | -2.7 | -0.7 | -2.9 | **-2.8** | **-2.1** | **-1.6** |
| Saving rate of households (b) | | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | | 3.5 | 0.1 | 0.0 | -0.1 | **1.2** | **2.1** | **1.9** |
| Harmonised index of consumer prices | | | | - | 0.2 | -0.3 | -0.6 | **1.3** | **1.4** | **1.5** |
| Terms of trade goods | | | | 1.0 | -0.9 | -1.2 | -0.6 | **-1.3** | **0.4** | **0.2** |
| Trade balance (goods) (c) | | | | -18.4 | -15.0 | -15.7 | -15.8 | **-16.8** | **-17.1** | **-17.5** |
| Current-account balance (c) | | | | - | 2.0 | 4.6 | 2.4 | **3.6** | **2.8** | **2.1** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | - | 2.2 | 5.3 | 3.5 | **4.1** | **3.9** | **3.5** |
| General government balance (c) | | | | - | -5.1 | -3.4 | -0.9 | **0.8** | **0.7** | **0.8** |
| Cyclically-adjusted budget balance (d) | | | | - | -3.2 | -2.3 | -0.6 | **0.3** | **-0.3** | **-0.6** |
| Structural budget balance (d) | | | | - | -3.4 | -2.4 | -0.7 | **0.4** | **-0.3** | **-0.6** |
| General government gross debt (c) | | | | - | 84.0 | 83.8 | 80.6 | **78.0** | **73.7** | **69.7** |

(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.

# 12. ITALY

## Investment-driven recovery is set to continue

*Following the acceleration in output growth in 2017, the Italian economy is expected to continue to grow at the same pace of 1.5% this year, largely supported by domestic demand. As support from tailwinds is expected to wane and the output gap closes, GDP growth is set to moderate to 1.2% in 2019. The general government deficit is projected to decrease in 2018 to 1.7% of GDP assuming no further policy changes, while the debt-to-GDP ratio is set to slightly decline below 130% by 2019 on the back of stronger nominal GDP growth.*

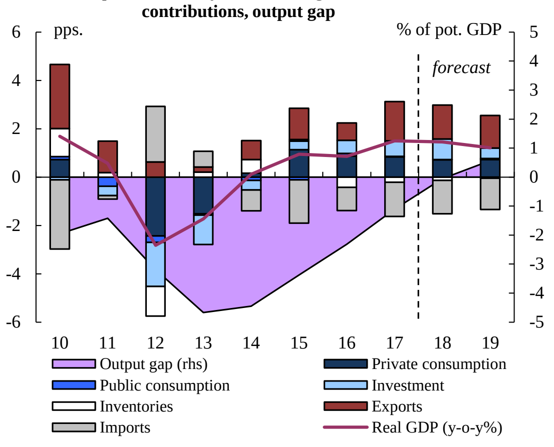
### Italy's economic recovery accelerated in 2017

The year 2017 ended on a solid footing, with GDP growth enjoying the support of exports and investment. Overall, Italy's real GDP expanded by 1.5%, driven both by domestic and external demand. However, weak industrial production data in early 2018 and the softening of survey indicators suggest a temporary slowdown in the first quarter of 2018.

### Domestic demand is supporting growth

Despite the expected moderation in growth momentum in the first quarter, GDP growth in 2018 is forecast at 1.5%. Household consumption is projected to grow in line with the moderate wage and employment outlook, while tax incentives and favourable financing conditions are set to boost equipment investment.

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




Buoyant business investment is forecast to induce higher imports, while export growth is expected to lose some momentum due to the lagged impact of the euro's appreciation. As a result, net trade is not expected to make a positive contribution to growth in 2018 implying, together with higher prices for energy imports, a lower current account surplus. In 2019, the Italian economy is expected to continue growing above potential but growth is forecast to moderate to 1.2% as global demand becomes less supportive and the output gap closes. Investment growth is set to slow down, partly due to a smaller carry-over effect, whereas private consumption growth is forecast to remain sustained.

Risks to the growth outlook have become more tilted to the downside. Policy uncertainty has become more pronounced and, if prolonged, could make markets more volatile and affect economic sentiment and risk premia. On the upside, the investment-led recovery may spur productivity, and eventually GDP growth, more than expected.

### Upward trend in employment continues but unemployment recedes only gradually

Positive labour market trends, which began in 2015, are expected to continue over the forecast period. Employment is projected to grow broadly in line with economic activity but also to benefit from the new permanent three-year reductions of social contributions for hiring newly-employed young workers. Due to higher labour force participation, the unemployment rate is set to fall below 11% in 2018 and to decrease to 10.6% in 2019. Contained wage growth due to the remaining slack in the labour market and moderately increasing productivity are expected to keep the average growth of nominal unit labour costs at about 1% in 2018 and 2019.

### Consumer prices increase moderately

In the first quarter of 2018, headline annual HICP inflation slowed to 0.9% from 1.3% in 2017. This deceleration was largely due to negative base effects related to prices for unprocessed food. For the remainder of the year, consumer prices are projected to rise moderately and average 1.2% on the back of higher oil prices. Annual HICP inflation is expected to increase to 1.4% in 2019, mainly driven by the steady rise of prices for non-energy industrial goods and services. Core inflation is set to pick up gradually over the forecast period – in line with moderate wage growth – and reach 1.4% in 2019.

### Stable deficit at unchanged policies

The general government headline deficit slightly declined to 2.3% of GDP in 2017 (from 2.5% in 2016), as rising revenues and contained spending more than compensated for the cost of the support to the banking sector.

In 2018, the headline deficit is expected, assuming no further policy changes, to decline to 1.7% of GDP, supported by economic growth and some measures included in the 2018 budget. Overall, Italy's primary balance is forecast to improve from 1.5% of GDP in 2017 to 1.9% in 2018. Revenues are set to benefit from the positive impact of past provisions aimed at collecting unsettled tax liabilities and fighting tax evasion, as well as from the postponement to 2019 of a tax regime for small enterprises, which was previously legislated for 2018. The temporary reduction of social security contributions is expected to have only a limited negative impact on revenues. The spending review included in the 2018 budget is set to curb government expenditure for intermediate consumption, at both central and local level. On the other hand, the total compensation of employees is expected to rise due to the moderate increase in public wages, which have been frozen since 2010. Although wage increases were agreed already for 2017 in specific sectors, their budgetary impact will only be recorded as from 2018. Overall, Italy's structural balance is expected to remain broadly unchanged, at -1¾% of GDP.

In 2019, the headline deficit is set to remain constant at 1.7% of GDP, under the assumption of unchanged policies and excluding the legislated hike in VAT rates. Revenues are forecast to benefit from the introduction of compulsory electronic invoicing for private sector transactions, while being slightly curbed by other measures like the fiscal incentives for investment. Expenditure growth is expected to slightly accelerate, partly due to small increases in social spending legislated since 2016. The structural balance is estimated to worsen by about ¼ pps. of GDP.

The debt-to-GDP ratio is expected to have peaked in 2017 at 131.8%, also due to public support to the banking sector, and to progressively decline to 130.7% in 2018 and 129.7% in 2019, mainly as a result of stronger nominal GDP growth.

*Table II.12.1:*

**Main features of country forecast - ITALY**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn EUR | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 1680.9 | 100.0 | 0.4 | 0.1 | 1.0 | 0.9 | **1.5** | **1.5** | **1.2** |
| Private Consumption | | 1022.4 | 60.8 | 0.4 | 0.3 | 1.9 | 1.4 | **1.4** | **1.2** | **1.2** |
| Public Consumption | | 316.5 | 18.8 | 0.8 | -0.7 | -0.6 | 0.6 | **0.1** | **0.1** | **0.2** |
| Gross fixed capital formation | | 288.1 | 17.1 | -0.2 | -2.3 | 2.1 | 3.2 | **3.8** | **4.8** | **2.4** |
| of which: equipment | | 104.4 | 6.2 | -0.1 | 1.9 | 4.6 | 7.4 | **8.3** | **9.1** | **3.1** |
| Exports (goods and services) | | 500.9 | 29.8 | 1.9 | 2.7 | 4.4 | 2.4 | **5.4** | **4.5** | **4.2** |
| Imports (goods and services) | | 446.3 | 26.5 | 2.0 | 3.2 | 6.8 | 3.5 | **5.3** | **4.9** | **4.5** |
| GNI (GDP deflator) | | 1684.7 | 100.2 | 0.4 | 0.3 | 0.4 | 1.6 | **1.8** | **1.4** | **1.2** |
| Contribution to GDP growth: | Domestic demand | | | 0.4 | -0.4 | 1.4 | 1.5 | **1.5** | **1.6** | **1.2** |
| | Inventories | | | 0.0 | 0.6 | 0.1 | -0.4 | **-0.2** | **-0.1** | **0.0** |
| | Net exports | | | 0.1 | -0.1 | -0.5 | -0.2 | **0.2** | **0.0** | **0.0** |
| Employment | | | | 0.1 | 0.2 | 0.7 | 1.4 | **0.8** | **0.8** | **0.7** |
| Unemployment rate (a) | | | | 8.8 | 12.7 | 11.9 | 11.7 | **11.2** | **10.8** | **10.6** |
| Compensation of employees / f.t.e. | | | | 2.3 | 0.0 | 1.0 | 0.3 | **0.3** | **2.1** | **1.0** |
| Unit labour costs whole economy | | | | 2.1 | 0.1 | 0.7 | 0.8 | **-0.4** | **1.5** | **0.5** |
| Real unit labour cost | | | | 0.0 | -0.9 | -0.3 | -0.1 | **-1.0** | **0.1** | **-0.8** |
| Saving rate of households (b) | | | | 13.4 | 11.2 | 10.6 | 10.4 | **9.7** | **9.7** | **9.9** |
| GDP deflator | | | | 2.1 | 1.0 | 0.9 | 0.8 | **0.6** | **1.4** | **1.3** |
| Harmonised index of consumer prices | | | | 2.3 | 0.2 | 0.1 | -0.1 | **1.3** | **1.2** | **1.4** |
| Terms of trade goods | | | | -0.6 | 3.5 | 4.2 | 3.2 | **-1.6** | **0.1** | **0.3** |
| Trade balance (goods) (c) | | | | 0.5 | 2.9 | 3.1 | 3.4 | **3.3** | **3.3** | **3.4** |
| Current-account balance (c) | | | | -0.9 | 1.9 | 1.5 | 2.5 | **2.8** | **2.6** | **2.6** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -0.8 | 2.0 | 1.7 | 2.3 | **2.7** | **2.6** | **2.6** |
| General government balance (c) | | | | -3.2 | -3.0 | -2.6 | -2.5 | **-2.3** | **-1.7** | **-1.7** |
| Cyclically-adjusted budget balance (d) | | | | -3.1 | -0.6 | -0.7 | -1.2 | **-1.7** | **-1.6** | **-2.0** |
| Structural budget balance (d) | | | | -3.7 | -0.8 | -0.6 | -1.4 | **-1.7** | **-1.7** | **-2.0** |
| General government gross debt (c) | | | | 108.5 | 131.8 | 131.5 | 132.0 | **131.8** | **130.7** | **129.7** |

(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.

# 13. CYPRUS

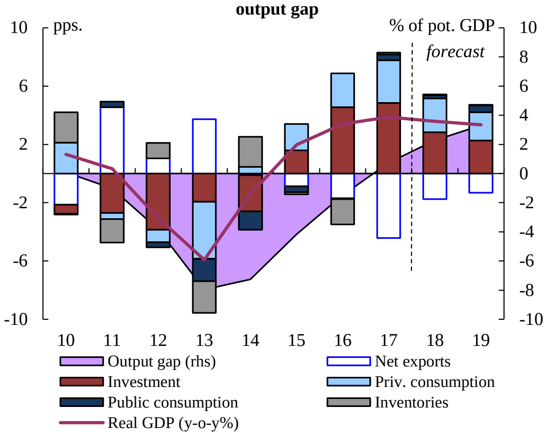
## Strong growth momentum continues

*Economic growth is expected to be strong, fuelled by foreign-funded investment and solid private consumption. Unemployment has fallen below 10% and is expected to continue decreasing. Inflation remains very low and is set to stay moderate. The budget surplus is projected to further improve, although risks to the fiscal outlook remain. Public debt is expected to increase in 2018 but to decline again in 2019.*

### Strong domestic demand-driven growth

After strong growth of 3.9% in 2017, early hard data and survey indicators point to robust growth in the first quarter of 2018. The growth momentum is expected to continue with GDP forecast to expand by 3.6% in 2018 and 3.3% in 2019, underpinned by strong domestic demand. Net exports, by contrast, are projected to have a negative impact on growth.

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




### Solid consumption is set to last

Private consumption accelerated in 2017, as rapid employment growth and low inflation provided a boost to households' real disposable incomes. Most sectors of the economy have markedly increased the number of employees and the unemployment rate fell below 10% in early 2018. Employment expectations and consumer confidence are on the rise, supporting the outlook.

### Investment becomes the engine for growth

In 2017, investment surged further. It was strongly supported by construction, as the tourism boom has created additional demand for accommodation and other infrastructure, while new residential construction also increased. Investment in equipment has been even stronger, mainly as a result of the growth in ship registrations. The near-term outlook for investment is very positive, supported by foreign-funded large-scale projects. A gradual revival of new bank lending is expected to lift investment further.

Amid strong domestic demand, imports increased sharply in 2017, outweighing the healthy growth of exports and leading to a marked widening of the current account deficit. Activities of special purpose entities, particularly linked to ship registration, heavily influence the current account in Cyprus, determining a very large share of its deficit. A further deterioration of the current account is projected in both 2018 and 2019 due to the high import content in investment and consumption, which should outweigh the forecast increase in service exports.

### Inflation remains subdued

After a very modest 2017, HICP inflation was surprisingly weak in the first quarter of 2018 (-0.9%), with all components, except services, in negative territory. While some of the deflationary pressures came from one-off factors, notably in unprocessed food category, stronger competition among suppliers keeps prices in Cyprus low. Inflation is expected to rebound somewhat, driven by energy and service prices, but to remain low at 0.7% for the year as a whole before increasing moderately to 1.2% in 2019.

### Downside and upside risks widen

Recent developments in the financial sector have widened the risks to the outlook. Tourism faces both upside and downside risks. While the recently expanded air transport and accommodation capacity brightens the sector's prospects, the reopening of neighbouring markets for this season increases competition. At the same time, even stronger investment than currently foreseen and advancement of gas exploration projects could further support the outlook in the short to medium term.

### General government surpluses increasing further, but risks to the outlook remain

The government's fiscal performance in 2017 was remarkably strong. The general government headline balance registered a surplus of 1.8% of GDP, whilst the primary balance reached a surplus of 5.0% of GDP, one of the highest in the EU. This was mostly due to high tax collection, in particular of VAT, social security contributions and corporate income taxes. In structural terms, this corresponds to a surplus of about 1½% of GDP.

In 2018, the headline and primary surpluses are forecast to remain high at 2.0% of GDP and 5.0% of GDP, respectively. This is mainly explained by the expected good performance in revenues underpinned by the positive economic outlook and the improving labour market. Both total revenue and total expenditure are forecast to increase (by around 4% each), but they are set to marginally decline as a percentage of GDP (to 39.6% and 37.6%, respectively). In 2019, under a no-policy change assumption, the headline surplus is expected to increase to 2.2% of GDP, mainly on account of positive cyclical developments and a rise in social security contributions (by 0.4 pps. of GDP). The structural balance is forecast to deteriorate somewhat over the forecast horizon.

Downside risks to public finances stem from the absence of a mechanism regulating public sector payroll growth from 2019 onwards, the potential additional costs of the national health system reform and the contingent risks from the high proportion of NPLs in the banking sector. The forecast is also subject to uncertainties on the budgetary impact of the government's transaction on 3rd April 2018 related to the Cyprus Cooperative Bank (CCB).

### Public debt expected to increase in 2018

Public debt fell significantly in 2017. However, it is expected to rise by around 8 pps. of GDP in 2018 to 105.7%, due to the government's operations with the CCB, which included the issuance of bonds of EUR 2.35 bn, the proceeds of which were deposited with the CCB. However, public debt is projected to steadily decline thereafter, mostly owing to the projected primary surplus and strong real GDP growth.

*Table II.13.1:*

**Main features of country forecast - CYPRUS**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | mio EUR | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 18219.1 | 100.0 | 2.3 | -1.4 | 2.0 | 3.4 | **3.9** | **3.6** | **3.3** |
| Private Consumption | | 12573.4 | 69.0 | 2.9 | 0.7 | 2.6 | 3.3 | **4.2** | **3.4** | **2.9** |
| Public Consumption | | 2729.5 | 15.0 | 3.1 | -7.2 | -2.6 | -0.4 | **2.7** | **1.5** | **3.3** |
| Gross fixed capital formation | | 3172.9 | 17.4 | -0.7 | -17.5 | 13.6 | 35.0 | **27.8** | **13.4** | **9.8** |
| of which: equipment | | 1601.1 | 8.8 | -2.6 | -34.8 | 70.4 | 113.8 | **28.1** | **1.5** | **3.0** |
| Exports (goods and services) | | 11789.6 | 64.7 | 1.8 | 4.2 | 5.8 | 4.0 | **3.4** | **2.3** | **1.9** |
| Imports (goods and services) | | 11931.1 | 65.5 | 1.6 | 4.6 | 7.4 | 6.8 | **10.1** | **4.8** | **3.7** |
| GNI (GDP deflator) | | 17934.2 | 98.4 | 2.3 | -0.4 | 6.6 | 1.1 | **3.5** | **3.6** | **3.4** |
| Contribution to GDP growth: | Domestic demand | | | 2.3 | -3.3 | 3.0 | 6.8 | **8.2** | **5.4** | **4.7** |
| | Inventories | | | -0.1 | 2.1 | -0.1 | -1.7 | **0.1** | **0.0** | **0.0** |
| | Net exports | | | 0.1 | -0.1 | -0.9 | -1.7 | **-4.4** | **-1.8** | **-1.3** |
| Employment | | | | 1.3 | -1.8 | 1.5 | 3.3 | **3.4** | **2.8** | **2.8** |
| Unemployment rate (a) | | | | 6.0 | 16.1 | 15.0 | 13.0 | **11.1** | **9.0** | **7.1** |
| Compensation of employees / head | | | | 3.3 | -3.6 | -1.2 | -0.7 | **0.7** | **1.4** | **2.0** |
| Unit labour costs whole economy | | | | 2.3 | -4.0 | -1.7 | -0.8 | **0.2** | **0.6** | **1.4** |
| Real unit labour cost | | | | -0.3 | -2.4 | -0.5 | -0.1 | **-1.3** | **-0.9** | **-0.3** |
| Saving rate of households (b) | | | | 6.4 | -6.3 | -5.0 | -2.3 | **-4.2** | **-4.2** | **-4.1** |
| GDP deflator | | | | 2.6 | -1.6 | -1.2 | -0.7 | **1.5** | **1.5** | **1.7** |
| Harmonised index of consumer prices | | | | 2.5 | -0.3 | -1.5 | -1.2 | **0.7** | **0.7** | **1.2** |
| Terms of trade of goods | | | | 0.0 | 7.1 | 3.2 | -0.4 | **0.4** | **0.6** | **0.4** |
| Trade balance (goods) (c) | | | | -23.5 | -16.0 | -16.7 | -21.2 | **-23.5** | **-25.0** | **-25.7** |
| Current-account balance (c) | | | | -8.5 | -4.4 | -1.4 | -4.9 | **-8.1** | **-9.0** | **-9.7** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -8.1 | -4.4 | -1.1 | -4.7 | **-7.6** | **-8.6** | **-9.3** |
| General government balance (c) | | | | -3.2 | -9.0 | -1.3 | 0.3 | **1.8** | **2.0** | **2.2** |
| Cyclically-adjusted budget balance (d) | | | | -3.6 | -5.2 | 0.8 | 1.1 | **1.4** | **0.8** | **0.5** |
| Structural budget balance (d) | | | | - | 3.3 | 1.7 | 1.2 | **1.4** | **0.8** | **0.5** |
| General government gross debt (c) | | | | 61.6 | 107.5 | 107.5 | 106.6 | **97.5** | **105.7** | **99.5** |

(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.

# 14. LATVIA

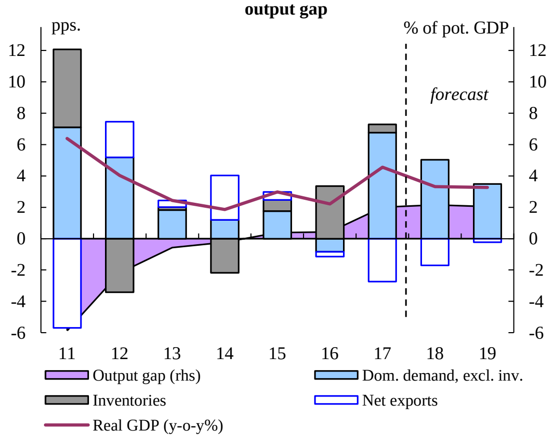
## Solid growth momentum to continue

*Enduringly strong private consumption and robust investment spending driven by the inflow of EU funds are set to carry GDP growth to 3.3% in both 2018 and 2019, somewhat below the investment recovery-led GDP growth of 4.5% in 2017. Vigorous foreign demand for exports is set to be countered by an expected decline in rail transport and financial services. A moderate increase in employment combined with a shrinking labour force are set to continue driving down the unemployment rate and exert upward pressure on wages. Inflation, however, is expected to ease in both 2018 and 2019. Despite the large fiscal costs of tax cuts, the government deficit is expected to remain at around 1% of GDP in both 2018 and 2019.*

### Investment drives growth in 2017

GDP growth increased to 4.5% in 2017, led by rapidly recovering investment and strong growth in all other demand components. Investment dynamics were strongly supported by the absorption of EU structural funds, which more than doubled in 2017 compared with 2016. At nearly 8% in 2017, wage growth supported an increase in households' disposable income and boosted an already strong private consumption. Strong foreign demand drove export growth but this was not enough to offset the jump in imports and as a consequence net export contribution was negative. The unemployment rate continued to decrease as a result of a declining labour force and moderate employment growth.

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




### Growth momentum to carry on in 2018 and 2019

Latvia's solid growth momentum is expected to continue, albeit at a lower pace, in 2018 and 2019 with GDP growing by 3.3% in both years. Further increases in EU-funded projects should keep overall investment growth at a high but falling rate as the EU fund flow reaches a stable level in 2019.

Private consumption growth is expected to remain strong on the back of high wage growth, moderate gains in employment and tax cuts. However, in 2019, it is expected to slow down in line with slowing employment growth and the waning impact of the tax cuts.

### Goods exports strong while services struggle

The favourable external outlook is expected to spur the growth of goods exports in 2018 before slowing down in 2019. However, the closing down of ABLV bank, a large financial services exporter, and an expected decline in rail services exports due to a falling number of cargoes coming from Russia are set to significantly impact services exports in 2018. Services export growth is expected to recover somewhat in 2019 as the impact of the decline in financial services fades. High investment and export growth are forecast to keep import growth high in 2018, but it is expected to slow down in 2019. The current account is set to deteriorate as the rise in investment is set to stimulate imports.

### Some increase in employment expected

Wage growth is expected to remain high due to an increase in the minimum wage in 2018 and a continued fall in labour supply. Employment growth is expected to remain moderate in 2018, but it will likely tend to zero in 2019 as the slack in the labour market disappears. As a result, the unemployment rate is forecast to fall to 7.6% in 2019, well below the historical average rate of about 10%.

HICP inflation is forecast to moderate to 2.7% in 2018 and 2.6% in 2019 as the impact of the spike in food prices wanes. An increase in energy prices and excise tax hikes are expected to drive inflation in 2018 while service price inflation is projected to be the main driver in 2019.

The risks to the forecast are balanced. On the positive side, rapidly rising wages might attract migrants and therefore increase the labour supply. On the negative side, there is uncertainty surrounding the future of Latvia's non-resident banking sector. Should activity cease as a result of tighter regulations, the impact on GDP growth over the forecast horizon would be negative.

### Fiscal deficit set to rise to above 1% of GDP

In 2017, the government deficit at 0.5% of GDP turned out lower than 0.9% of GDP estimated in the 2017 autumn forecast. The improvement stems from both higher-than-expected tax returns and lower public spending.

In 2018, the government deficit is projected at 1.1% of GDP, as expenditure savings in 2017 are not expected to be repeated and revenue growth is expected to be somewhat affected by the moderation in economic growth. The projections reflect the effect of budget measures, including the tax reform, which is estimated to have a fiscal cost of around 1% of GDP. Expenditure growth is driven by an increase in capital spending, public sector pay increases and a further expansion in social benefits. The structural deficit is expected to widen from around 1¼% of GDP in 2017 to about 2% of GDP in 2019, following the nominal deficit path.

In 2019, the government deficit is projected at 1.2% of GDP under a no-policy-change assumption. Tax revenue is still expected to be affected by the tax reform. Expenditure growth is projected to be driven by a further increase in social spending, while an increase in the public sector wage bill should be contained by reforms that reduce the number of public sector employees. Public investment expenditure is set to stabilise after a surge in new EU-financed projects in 2017 and 2018.

The government debt is expected to fall from around 40% of GDP in 2017 to around 37% of GDP in 2018 and 2019. The debt dynamics reflect an assumption of lower cash balances and the government's net borrowing being lower than nominal GDP growth.

*Table II.14.1:*

**Main features of country forecast - LATVIA**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | mio EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | |
| GDP | 24925.6 | 100.0 | 4.1 | 1.9 | 3.0 | 2.2 | **4.5** | **3.3** | **3.3** | |
| Private Consumption | 15319.5 | 61.5 | 3.8 | 1.4 | 2.5 | 3.3 | **5.1** | **4.7** | **3.6** | |
| Public Consumption | 4502.4 | 18.1 | 1.6 | 1.9 | 1.9 | 2.7 | **4.1** | **3.0** | **1.5** | |
| Gross fixed capital formation | 4537.8 | 18.2 | 7.7 | 0.1 | -0.5 | -15.0 | **16.0** | **7.9** | **4.8** | |
| of which: equipment | 1761.4 | 7.1 | 7.2 | -10.9 | -1.3 | -6.5 | **13.7** | **7.0** | **4.0** | |
| Exports (goods and services) | 14965.8 | 60.0 | 6.8 | 6.0 | 3.0 | 4.1 | **4.8** | **3.7** | **3.4** | |
| Imports (goods and services) | 14742.4 | 59.1 | 6.4 | 1.2 | 2.1 | 4.5 | **9.5** | **6.4** | **3.6** | |
| GNI (GDP deflator) | 24865.4 | 99.8 | 4.0 | 1.7 | 2.8 | 2.5 | **4.1** | **3.4** | **3.4** | |
| Contribution to GDP growth: Domestic demand | | | 5.1 | 1.2 | 1.8 | -0.8 | **6.8** | **5.0** | **3.6** | |
| Inventories | | | 0.0 | -2.2 | 0.7 | 3.3 | **0.5** | **0.0** | **0.0** | |
| Net exports | | | -0.8 | 2.8 | 0.5 | -0.3 | **-2.7** | **-1.7** | **-0.3** | |
| Employment | | | -0.6 | -1.4 | 1.4 | -0.3 | **0.6** | **0.4** | **0.2** | |
| Unemployment rate (a) | | | 12.7 | 10.8 | 9.9 | 9.6 | **8.7** | **8.2** | **7.6** | |
| Compensation of employees / head | | | 9.6 | 8.6 | 7.7 | 6.8 | **7.9** | **7.8** | **5.8** | |
| Unit labour costs whole economy | | | 4.7 | 5.2 | 6.1 | 4.2 | **3.8** | **4.8** | **2.6** | |
| Real unit labour cost | | | -0.4 | 3.3 | 6.1 | 3.9 | **0.8** | **2.1** | **-0.2** | |
| Saving rate of households (b) | | | 1.3 | -1.9 | 1.8 | 2.7 | **1.4** | **3.2** | **3.1** | |
| GDP deflator | | | 5.2 | 1.8 | 0.0 | 0.3 | **3.1** | **2.6** | **2.8** | |
| Harmonised index of consumer prices | | | 4.3 | 0.7 | 0.2 | 0.1 | **2.9** | **2.7** | **2.6** | |
| Terms of trade of goods | | | 0.3 | -0.9 | 2.4 | 3.5 | **0.9** | **-1.0** | **0.0** | |
| Trade balance (goods) (c) | | | -16.5 | -10.1 | -9.1 | -7.7 | **-9.7** | **-10.7** | **-10.4** | |
| Current-account balance (c) | | | -8.1 | -1.7 | -0.5 | 1.4 | **-0.9** | **-2.9** | **-2.9** | |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -6.8 | 1.5 | 2.3 | 2.4 | **-0.3** | **-1.5** | **-0.8** | |
| General government balance (c) | | | -2.7 | -1.5 | -1.4 | 0.1 | **-0.5** | **-1.1** | **-1.2** | |
| Cyclically-adjusted budget balance (d) | | | -2.5 | -1.4 | -1.5 | -0.1 | **-1.2** | **-1.9** | **-1.9** | |
| Structural budget balance (d) | | | - | -1.1 | -1.5 | -0.3 | **-1.2** | **-1.9** | **-1.9** | |
| General government gross debt (c) | | | 21.3 | 40.9 | 36.8 | 40.5 | **40.1** | **37.0** | **37.3** | |

(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.

# 15. LITHUANIA

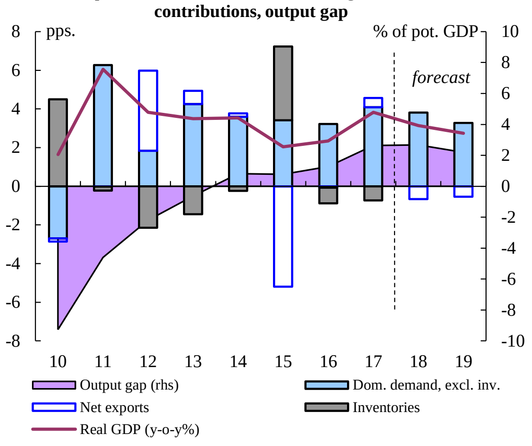
## Higher investment to drive GDP growth

*A strong rebound in investment, flourishing exports, and the continuing strength of private consumption pushed GDP growth to 3.8% in 2017. While investment activity is expected to stay strong, export growth will ease this year and next, slowing GDP growth to 3.1% in 2018 and 2.7% in 2019. After peaking in 2017, inflation is forecast to moderate, supporting private consumption. The shrinking labour force will continue to drive down unemployment and drive up wages. Lithuania is expected to maintain a general government surplus over the forecast horizon.*

### Strong and broad-based growth in 2017

Economic growth reached 3.8% in 2017, the highest rate since 2012. This good performance was driven by a boost in exports and strong investment growth, despite the lower-than-expected use of EU funds. The manufacturing and transport sectors increased their investment in equipment in order to build-up productive capacity. Together with stronger foreign demand, this capacity effect had a positive impact on exports, which increased by 13.2% in 2017. Driven by high wage growth, private consumption continued to perform well but was somewhat dampened by high inflation and the shrinking population.

*Graph II.15.1:* **Lithuania - Real GDP growth and contributions, output gap**




### High investment activity drives growth

Economic growth is forecast to remain strong but is expected to slow down somewhat to 3.1% in 2018 and 2.7% in 2019, in line with the slowdown in export growth as external demand is expected to ease.

Investment – private and public – is expected to remain an important growth driver as companies strive to satisfy strong domestic and foreign demand in the context of high capacity utilisation and increasing labour shortages. This should support productivity growth, which started to recover in 2017, countering strong wage increases. As a result, the growth of unit labour costs is expected to slow down, improving the cost-competitiveness of the Lithuanian economy. After a sluggish performance in the last two years, the implementation of EU-funded projects is also expected to pick up in 2018.

At the same time, investment remains a driving force behind the strong demand for the import of capital goods. On the export side, ICT and transport services are expected to contribute substantially to export growth. Overall, the combination of a slowdown in export growth and the continued strong performance of domestic demand with a high import content is projected to lead to a negative contribution of net trade to GDP growth over the forecast horizon.

As Lithuania is a small and open economy, risks to the forecast are tilted to the downside, mainly due to possible indirect effects of negative geopolitical developments affecting its main trading partners.

### Shrinking labour force

In 2017, due to negative demographic trends and emigration, the labour force contracted by 1.3%, which is the most notable decrease in the last six years. As a result, the number of employed persons shrunk by 0.5%, while the employment rate reached a record-high and unemployment fell further. This trend is forecast to continue in 2018 and 2019. However, labour market tensions are seeing some relief from workers coming from neighbouring non-EU countries who are not captured in the labour force survey. According to administrative data, the number of non-EU resident workers increased notably in 2017. Overall, demand for labour is expected to remain strong, and the unemployment rate is expected to remain below 7% over the forecast horizon.

### Inflation expected to moderate

After reaching a six-year high and peaking at 3.7% in 2017, HICP inflation is expected to moderate to 2.7% in 2018 and 2.3% in 2019. The slowdown partly reflects the fading effects of significant excise duties hikes in 2017. The rising price of services, driven by continuously growing labour costs and sustained by increasing household disposable income, will remain one of the main drivers of consumer inflation. However, the pace of their increase is expected to slow down as the effect of the minimum wage increases dissipate, wage growth slightly moderates and the effects of one-off factors (such as a hike in prices of transport services due to the reconstruction of the Vilnius Airport runway in summer 2017) disappears. Lower inflation in the coming period should increase real disposable income and support private consumption.

### A sustained budget surplus

Lithuania's general government surplus increased from 0.3% of GDP in 2016 to 0.5% in 2017. This was achieved thanks to a strong collection of the payroll taxes combined with limited government expenditure growth. The general government surplus is set to remain at a similar level in 2018 and 2019 as revenues from tax-rich economic growth and revisions of some taxes and efforts to improve the tax administration are expected to offset higher social spending.

Risks to the public finance forecast are tilted to the upside, due to expectations of robust growth in the tax base, but may materialise only as long as the government maintains discipline in expenditure growth.

The structural deficit is expected to stand at around ¾% of GDP in 2018 and ½% in 2019. This is slightly worse compared to 2016 mostly because of the increase in the positive output gap.

The general government debt is set to decrease from 39.7% of GDP in 2017 to 36.0% in 2018. This expected decline mostly relies on the redemption of EUR 1.33 billion of Eurobonds in February 2018, for which the pre-financing was secured by the end of 2017. The debt-to-GDP ratio is set to increase again in 2019 to 38.2% due to the planned pre-financing of forthcoming bond redemptions in 2020.

*Table II.15.1:*

**Main features of country forecast - LITHUANIA**

| | 2016 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 38.7 | 100.0 | 4.2 | 3.5 | 2.0 | 2.3 | **3.8** | **3.1** | **2.7** |
| Private Consumption | 24.9 | 64.3 | 4.6 | 4.0 | 4.0 | 4.9 | **3.9** | **3.4** | **3.3** |
| Public Consumption | 6.6 | 17.2 | 1.0 | 0.3 | 0.2 | 1.3 | **1.2** | **1.6** | **1.5** |
| Gross fixed capital formation | 7.3 | 18.9 | 5.0 | 5.8 | 4.8 | -0.5 | **7.3** | **7.3** | **4.7** |
| of which: equipment | 2.7 | 6.9 | 6.6 | -0.2 | 13.4 | 9.0 | **8.9** | **9.5** | **5.2** |
| Exports (goods and services) | 28.8 | 74.5 | 8.8 | 3.3 | -0.4 | 3.5 | **13.2** | **5.5** | **4.4** |
| Imports (goods and services) | 28.3 | 73.2 | 8.0 | 3.1 | 6.2 | 3.5 | **12.8** | **6.5** | **5.2** |
| GNI (GDP deflator) | 37.1 | 96.1 | 4.1 | 4.9 | -0.8 | 2.5 | **4.2** | **3.3** | **2.8** |
| Contribution to GDP growth: Domestic demand | | | 4.5 | 3.6 | 3.4 | 3.2 | **4.1** | **3.8** | **3.3** |
| Inventories | | | -0.1 | -0.2 | 3.8 | -0.8 | **-0.7** | **0.0** | **0.0** |
| Net exports | | | 0.0 | 0.2 | -5.2 | -0.1 | **0.5** | **-0.7** | **-0.5** |
| Employment | | | -1.0 | 2.0 | 1.3 | 2.0 | **-0.5** | **-0.4** | **-0.4** |
| Unemployment rate (a) | | | 12.2 | 10.7 | 9.1 | 7.9 | **7.1** | **6.8** | **6.7** |
| Compensation of employees / head | | | 7.2 | 4.7 | 5.8 | 6.2 | **9.1** | **6.6** | **6.0** |
| Unit labour costs whole economy | | | 2.0 | 3.2 | 5.0 | 5.9 | **4.6** | **3.0** | **2.8** |
| Real unit labour cost | | | -0.7 | 2.1 | 4.7 | 4.9 | **0.3** | **0.3** | **0.5** |
| Saving rate of households (b) | | | 3.9 | 0.2 | 0.0 | -0.5 | **-4.6** | **-5.1** | **-5.6** |
| GDP deflator | | | 2.8 | 1.0 | 0.3 | 1.0 | **4.3** | **2.7** | **2.3** |
| Harmonised index of consumer prices | | | 2.9 | 0.2 | -0.7 | 0.7 | **3.7** | **2.7** | **2.3** |
| Terms of trade goods | | | 0.7 | 0.8 | 3.2 | 2.4 | **0.5** | **-0.2** | **-0.2** |
| Trade balance (goods) (c) | | | -9.8 | -2.6 | -5.3 | -4.6 | **-4.9** | **-6.0** | **-6.7** |
| Current-account balance (c) | | | -6.2 | 4.0 | -2.0 | -0.6 | **-1.5** | **-2.3** | **-2.9** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -4.6 | 6.6 | 1.0 | 0.9 | **-0.3** | **-1.1** | **-1.8** |
| General government balance (c) | | | -3.3 | -0.6 | -0.2 | 0.3 | **0.5** | **0.5** | **0.3** |
| Cyclically-adjusted budget balance (d) | | | -3.0 | -1.0 | -0.6 | -0.3 | **-0.6** | **-0.6** | **-0.6** |
| Structural budget balance (d) | | | - | -1.4 | -0.7 | -0.3 | **-0.6** | **-0.7** | **-0.6** |
| General government gross debt (c) | | | 24.5 | 40.5 | 42.6 | 40.1 | **39.7** | **36.0** | **38.2** |

(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.

# 16. LUXEMBOURG

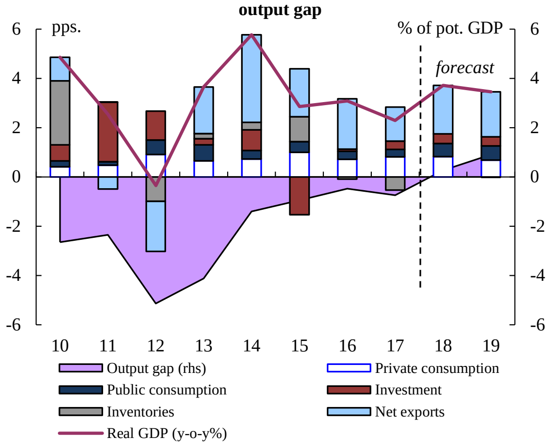
## Volatile growth but strong job creation

*Economic growth is projected to rebound in 2018 and then slow slightly in 2019. Employment growth is set to remain solid and unemployment is forecast to continue falling. Inflation is projected to drop below 2%, driven initially by energy prices in 2018 and then sustained by domestic price pressures. In 2017, the headline surplus decreased only slightly as windfall revenues, particularly from corporate income taxation, helped to compensate for the impact of the tax-decreasing reform.*

### Unexpected slowdown in 2017

In 2017, Luxembourg's economic growth slowed to 2.3%, from 3.1% in 2016. The slowdown was in marked contrast with the upward trends observed in economic indicators for the same period and needs to be taken with caution given the frequent and substantial revisions to Luxembourg's national accounts-data. The slowdown was mainly due to a weaker external demand, specifically to a reduced activity in the financial services sector. Nevertheless, nominal GDP growth strengthened, reflecting positive price effects from the robust performance of financial markets.

*Graph II.16.1:* **Luxembourg - Real GDP growth and contributions, output gap**




### Stronger growth ahead

Positive signals continued to arrive in the first months of 2018, including from stronger job creation, while the fund investment industry set new records in January. Luxembourg's economic prospects therefore remain favourable, as the outlook for the external environment has brightened and consumer sentiment indicators are at high levels.

Economic growth is projected to strengthen in 2018, driven by robust domestic demand and net services exports. Private consumption growth is expected to remain strong, supported by disposable income growth. The latter will be sustained, in particular, by a further improvement in the labour market, lingering effects from the tax reform and the wage indexation projected for 2018-Q3, which will more than offset the continued negative impact of higher oil prices. The contribution to growth from the financial sector, traditionally Luxembourg's main growth engine, is projected to strengthen, underpinned by the euro area's strong expansion. Indeed, the latest indicators suggest a continuation of these trends. Overall, GDP is forecast to grow by 3.7% in 2018.

In 2019, private consumption growth is projected to lose some momentum, as labour market conditions improve more slowly and past income gains fade away. The external sector, driven by financial services exports, is expected to decline somewhat but remain robust, in line with financial markets prospects. GDP growth looks set at 3.5%.

### Strong labour market

In 2017, total employment grew by 3.3%, up from 3.0% in 2016. The strong economic expansion should support job creation, which is projected to remain robust in both 2018 and 2019. The recent rise in national employment, which reduced the unemployment rate to 5.6% in 2017 from 6.3% in 2016, is forecast to continue in 2018, before moderating in 2019. All in all, unemployment should fall to 5.3% in 2018 and 5.2% in 2019.

### A change of inflation drivers

HICP inflation bounced up to 2.1% in 2017 from zero in 2016, mainly as a result of oil price movements. Higher oil prices are expected to feed into high headline inflation in 2018, although less markedly than in 2017 and should be partly offset by the subsidies in childcare and healthcare services introduced in November 2017, pushing inflation down to 1.5%. As these effects dissipate, domestic price pressures, including from past wage increases, should drive the headline inflation to 1.7% in 2019.

### The general government surplus surprised positively

The general government surplus is estimated at 1.5% of GDP in 2017. Revenue collection increased by 6.0%. Windfall revenues from corporate income taxes and from payroll taxes compensated for the impact of the tax-reducing reform enacted by the government at the start of the year (a drop in revenues of 0.8 pps of GDP). In addition, buoyant revenues from indirect taxes offset the loss in VAT revenues, from e-commerce related transactions (equivalent to 0.5% of GDP), which were due to the cut from 30% to 15% in the share of VAT revenues that Luxembourg retains.

Expenditure growth increased broadly at the same pace as revenues, driven by the automatic wage indexation that took place at the start of 2017 and to which a large share of public expenditure is linked. The wage bill expanded following the implementation of the wage agreement in the public sector. Public investment, by contrast, expanded less than initially expected in the budget as some projects were delayed.

In 2018, the general government surplus is expected to decline to 0.9% of GDP. Buoyant revenue growth underpinned by strong underlying economic growth will be outpaced by growth in government expenditure, especially high spending in infrastructure investment.

Based on a no-policy-change assumption, the general government surplus is projected to slightly decline in 2019 as growth slows. The projection does not include the purchase of a military plane, for a cost estimated at around 0.3% of GDP, the delivery of which has been postponed to 2020.

In 2017 the structural balance is expected to stabilise at about 1¾% of GDP as the negative output gap widens. In 2018 and 2019, in line with the projected deterioration of the headline position and as the output gap moves to positive territory the structural balance surplus is expected to decline.

Luxembourg's debt-to-GDP ratio increased to 23% in 2017. It is expected to decline only slightly over the forecast horizon, as new debt has to be issued to finance the deficit of the central government as the surplus of the social security sector cannot be used for this purpose.

*Table II.16.1:*

**Main features of country forecast - LUXEMBOURG**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| mio EUR | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 53004.8 | 100.0 | 3.5 | 5.8 | 2.9 | 3.1 | **2.3** | **3.7** | **3.5** |
| Private Consumption | 16036.7 | 30.3 | 2.4 | 2.3 | 3.3 | 2.4 | **2.7** | **2.7** | **2.3** |
| Public Consumption | 8849.1 | 16.7 | 3.5 | 2.0 | 2.6 | 2.0 | **1.8** | **3.2** | **3.4** |
| Gross fixed capital formation | 9112.4 | 17.2 | 4.6 | 4.3 | -8.0 | 0.5 | **1.9** | **2.4** | **2.2** |
| of which: equipment | 3168.1 | 6.0 | 6.8 | 5.3 | -16.5 | -7.0 | **11.2** | **0.5** | **2.4** |
| Exports (goods and services) | 117282.5 | 221.3 | 6.4 | 14.0 | 6.9 | 2.7 | **3.9** | **4.1** | **3.7** |
| Imports (goods and services) | 98675.5 | 186.2 | 6.8 | 14.6 | 7.1 | 2.1 | **3.9** | **3.8** | **3.5** |
| GNI (GDP deflator) | 36048.9 | 68.0 | 1.6 | 2.5 | 5.4 | 5.7 | **-0.1** | **3.7** | **2.5** |
| Contribution to GDP growth: Domestic demand | | | 2.4 | 1.9 | -0.1 | 1.1 | **1.5** | **1.8** | **1.6** |
| Inventories | | | 0.0 | 0.3 | 1.0 | -0.1 | **-0.5** | **0.0** | **0.0** |
| Net exports | | | 1.1 | 3.6 | 1.9 | 2.0 | **1.4** | **2.0** | **1.8** |
| Employment | | | 3.3 | 2.6 | 2.6 | 3.0 | **3.3** | **3.6** | **3.1** |
| Unemployment rate (a) | | | 4.0 | 6.0 | 6.5 | 6.3 | **5.6** | **5.3** | **5.2** |
| Compensation of employees / head | | | 3.0 | 2.2 | 3.0 | 0.7 | **2.8** | **2.6** | **2.2** |
| Unit labour costs whole economy | | | 2.9 | -0.9 | 2.8 | 0.7 | **3.8** | **2.5** | **1.9** |
| Real unit labour cost | | | 0.1 | -2.5 | 1.4 | 2.0 | **1.7** | **1.0** | **0.4** |
| Saving rate of households (b) | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | 2.8 | 1.6 | 1.3 | -1.3 | **2.1** | **1.4** | **1.5** |
| Harmonised index of consumer prices | | | 2.5 | 0.7 | 0.1 | 0.0 | **2.1** | **1.5** | **1.7** |
| Terms of trade of goods | | | 0.3 | 0.8 | -2.2 | 0.3 | **-0.3** | **-1.4** | **0.5** |
| Trade balance (goods) (c) | | | -6.4 | 1.6 | -0.5 | -1.4 | **-0.7** | **-0.9** | **-0.7** |
| Current-account balance (c) | | | 4.7 | -0.9 | 2.5 | 3.5 | **2.7** | **3.0** | **2.8** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | 3.9 | -0.3 | 1.1 | 0.5 | **3.5** | **3.7** | **3.4** |
| General government balance (c) | | | 1.9 | 1.3 | 1.4 | 1.6 | **1.5** | **0.9** | **0.7** |
| Cyclically-adjusted budget balance (d) | | | 1.9 | 1.9 | 1.8 | 1.8 | **1.8** | **0.8** | **0.3** |
| Structural budget balance (d) | | | - | 1.9 | 1.6 | 1.8 | **1.8** | **0.8** | **0.3** |
| General government gross debt (c) | | | 11.9 | 22.7 | 22.0 | 20.8 | **23.0** | **22.6** | **22.5** |

(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

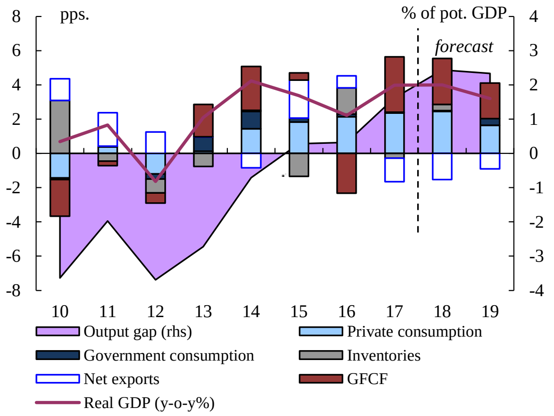
## Rapid growth is facing increasing capacity constraints

*Growth remains strong in 2018 but is set to slow in 2019 as construction experiences capacity constraints and the impact of minimum wage increases on consumption fades. The tight labour market will gradually feed into costs and prices while strong demand should contribute to a narrowing current account surplus. Growth is also being supported by fiscal expansion that should see the deficit peaking at 2.4% of GDP in 2018.*

### Economic growth rebounded in 2017

GDP growth rose to 4.0% in 2017, driven by strong domestic demand. Gross fixed capital formation grew by 16.8% thanks to rebound in public investment and the cyclical recovery of the housing market. Private consumption was supported by significant administrative wage increases and rising employment. Final demand was increasingly met by imports; the falling trade balance contributed to the narrowing of the current account surplus, by 3.1 pps. to 2.9% of GDP.

Graph II.17.1: **Hungary - Real GDP growth and contributions, output gap**




### Domestic demand continues to drive growth

Short-term business indicators and surveys point to sustained growth momentum in early 2018. GDP growth is expected to remain close to 4% this year, but is forecast to slow down in 2019 as the level of investment reaches a plateau and the tailwinds supporting consumption moderate.

Corporate investment is forecast to grow vigorously, supported by high capacity utilisation, FDI inflows, and the rising absorption of EU funds. The investment-to-GDP ratio may rise to 25% by 2019, close to its historic peak. At the same time, capacity constraints in the construction sector may limit the further expansion of residential investment. Household income and consumption growth are likely to remain strong in 2018 but are expected to slow down in 2019 as the impact of past, large administrative wage increases fades. Rising household borrowing is decreasing the saving rate. This will be matched by an increase in households' investment ratio. Despite a moderation of external demand growth, export growth is expected to remain stable. However, imports will continue to outpace exports due to the rapid growth of investment and durables' consumption. The trade balance and the current account surplus are expected to narrow, although the rising absorption of EU funds will keep net lending stable.

### Tight labour market and strong demand put pressure on costs and prices

Employment growth is expected to moderate as available labour reserves become exhausted. The unemployment rate is projected to decrease further to below 4%. In addition to administrative wage hikes over 2017 and 2018, labour shortages are also contributing to wage growth, although their impact on labour costs is being mitigated by significant cuts in social contributions. Nonetheless, rising production costs are already becoming apparent in the prices of more labour-intensive services and in construction costs. House prices have risen rapidly as demand continued to outpace supply. HICP inflation is set to remain at 2.3% in 2018 thanks to moderating food price dynamics and selective VAT cuts. After these temporary factors fade, inflation is expected to rise to 3.0% in 2019.

Risks to the forecast are broadly balanced. Labour shortages could accelerate wage growth and consumption, but they may also raise inflation and contribute to a more pronounced deterioration of the external balance. On the other hand, capacity constraints in construction could lead to the postponement of investment projects, reducing GDP growth over the forecast horizon.

### Fiscal expansion continues in 2018

In 2017, the general government deficit reached 2.0% of GDP, increasing from 1.7% in the previous year but remaining below the official target of 2.4%. The tax-to-GDP ratio declined notably as a result of tax and social contribution cuts, although fast wage growth generated considerable extra revenues. While interest outlays decreased nominally, primary expenditure grew strongly, particularly capital spending from national sources. However, public expenditure without EU funds increased more slowly than nominal GDP, partly compensating for the budgetary impact of tax cuts.

The headline deficit is set to remain on an increasing path in 2018, rising to 2.4% of GDP. This reflects further tax cuts, including an additional 2.5 pps. reduction in the employers' social contribution rate. In addition, a significant deficit-increasing effect stems from the phase-out of temporary receipts from land sales and an extra item in corporate tax payments, which benefited the budget in 2016 and 2017. The impact of these developments on the deficit is expected to be moderated by the slowdown in expenditure growth, apart from the spending on EU co-financed projects. In 2019, based on a no-policy change assumption, the deficit is projected to decline to 2.1%.

The key budgetary risks are linked to plans for a sizeable increase in public investment expenditure. The Commission forecast projects lower-than-budgeted capital spending in 2018, expecting some delays in projects partly due to capacity constraints in construction. However, implementation risks could affect the deficit in both directions compared to the forecast figure. At the same time, the tightly set operating budget for healthcare providers remains a source of a negative fiscal risk.

The structural balance is calculated to have deteriorated in 2017 from around -1¾% of GDP to below -3%. The fiscal stance is estimated to loosen further in 2018 with the structural balance reaching -3½%, while some reversal is projected in 2019. The public debt-to-GDP ratio decreased from 76.0% in 2016 to 73.6% in 2017. The reduction of debt is expected to slow down in 2018 due to adverse stock-flow adjustment effects, with the debt ratio decreasing to 73.3%. Thereafter, the debt ratio is projected to decline at a faster rate, falling to 71% by the end of 2019 due to the high rate of nominal GDP growth forecast.

*Table II.17.1:*

**Main features of country forecast - HUNGARY**

| | | 2016 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn HUF | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 35420.3 | 100.0 | 2.1 | 4.2 | 3.4 | 2.2 | **4.0** | **4.0** | **3.2** |
| Private Consumption | | 17669.6 | 49.9 | 1.9 | 2.8 | 3.6 | 4.3 | **4.7** | **4.9** | **3.3** |
| Public Consumption | | 7174.8 | 20.3 | 1.5 | 5.1 | 1.1 | 0.8 | **0.3** | **0.2** | **1.8** |
| Gross fixed capital formation | | 6811.7 | 19.2 | 2.4 | 12.3 | 1.9 | -10.6 | **16.8** | **12.5** | **8.8** |
| of which: equipment | | 3102.9 | 8.8 | 4.0 | 21.5 | 0.8 | 1.1 | **10.0** | **12.6** | **12.3** |
| Exports (goods and services) | | 31714.2 | 89.5 | 9.4 | 9.1 | 8.5 | 3.4 | **7.1** | **7.0** | **6.5** |
| Imports (goods and services) | | 28143.5 | 79.5 | 8.6 | 11.0 | 6.4 | 2.9 | **9.7** | **9.5** | **8.0** |
| GNI (GDP deflator) | | 34545.5 | 97.5 | 2.3 | 2.6 | 3.1 | 4.3 | **2.0** | **4.6** | **4.0** |
| Contribution to GDP growth: | Domestic demand | | | 2.0 | 5.0 | 2.5 | 0.0 | **5.6** | **5.2** | **4.1** |
| | Inventories | | | -0.3 | 0.1 | -1.3 | 1.5 | **-0.3** | **0.4** | **0.0** |
| | Net exports | | | 0.5 | -0.8 | 2.2 | 0.7 | **-1.4** | **-1.5** | **-0.9** |
| Employment | | | | 0.0 | 4.8 | 2.4 | 2.6 | **2.0** | **0.9** | **0.5** |
| Unemployment rate (a) | | | | 8.0 | 7.7 | 6.8 | 5.1 | **4.2** | **3.7** | **3.6** |
| Compensation of employees / head | | | | 7.3 | 0.8 | -1.5 | 4.0 | **7.9** | **7.4** | **5.6** |
| Unit labour costs whole economy | | | | 5.1 | 1.4 | -2.4 | 4.4 | **5.8** | **4.2** | **2.8** |
| Real unit labour cost | | | | -0.6 | -1.9 | -4.2 | 3.4 | **2.1** | **1.4** | **-0.3** |
| Saving rate of households (b) | | | | 9.8 | 10.9 | 9.6 | 8.4 | **10.2** | **9.7** | **8.6** |
| GDP deflator | | | | 5.8 | 3.4 | 1.9 | 1.0 | **3.7** | **2.8** | **3.0** |
| Harmonised index of consumer prices | | | | 6.3 | 0.0 | 0.1 | 0.4 | **2.4** | **2.3** | **3.0** |
| Terms of trade goods | | | | -0.6 | 1.1 | 1.0 | 1.4 | **-0.4** | **-0.6** | **-0.1** |
| Trade balance (goods) (c) | | | | -2.3 | 2.0 | 4.0 | 4.1 | **1.9** | **0.3** | **-0.5** |
| Current-account balance (c) | | | | -4.8 | 1.5 | 3.4 | 6.1 | **2.9** | **1.2** | **0.9** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -3.8 | 5.2 | 8.0 | 6.0 | **4.2** | **4.1** | **3.8** |
| General government balance (c) | | | | -5.5 | -2.6 | -1.9 | -1.7 | **-2.0** | **-2.4** | **-2.1** |
| Cyclically-adjusted budget balance (d) | | | | -5.3 | -2.2 | -2.0 | -1.8 | **-2.8** | **-3.6** | **-3.3** |
| Structural budget balance (d) | | | | - | -2.1 | -2.0 | -1.8 | **-3.1** | **-3.6** | **-3.3** |
| General government gross debt (c) | | | | 65.9 | 76.6 | 76.7 | 76.0 | **73.6** | **73.3** | **71.0** |

(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.

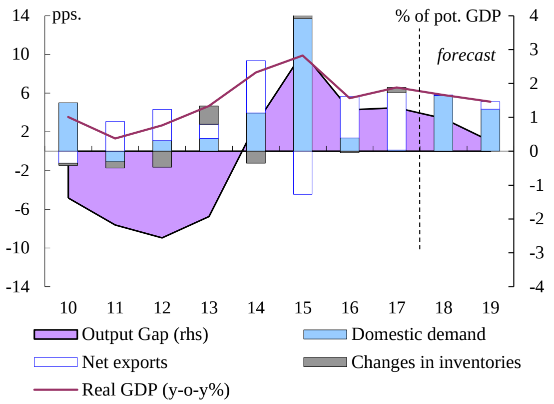
# 18. MALTA
## Sustained economic growth

*Economic growth is projected to moderate but to remain vigorous over the forecast horizon. Malta's economy is among the fastest growing economies in the EU, with record-low unemployment and moderate wage growth. The current account and the budget balances are set to remain in surplus.*

### Strong economic growth continues

The robust growth momentum enjoyed by Malta in recent years continued in 2017. Real GDP grew by 6.6% on the back of a significant current account surplus. Growth was predominantly driven by the services sector, which helped to fuel export growth and strengthen the external position. With imports contracting at the same time, net exports accounted for most of the increase in real GDP growth. Private consumption growth remained steady and gross fixed capital formation declined, largely because of exceptional investments in the aviation and energy sectors in previous years.

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




Following the buoyant performance of 2017, growth is set to remain strong but to ease somewhat over the forecast horizon. Domestic demand is expected to become the main driver of growth in 2018, underpinned by the expansion in private consumption and the recovery in investment. Real GDP growth is forecast to average 5.8% for 2018 as a whole, in a context of favourable labour market conditions and high consumer confidence. The strong performance of the services sector, particularly in areas such as tourism, remote gaming and professional services, is expected to sustain the sizeable current account surplus.

In 2019, investment is expected to pick up further, supported by several projects in the health, technology and telecommunication sectors. With domestic demand projected to remain the main driver of growth, and a modest contribution from net exports, real GDP is set to increase by 5.1%.

### Sustained employment creation and modest price increases

Labour supply continued to increase thanks to the inflows of foreign workers and the rising participation of women in the labour market. Over the forecast horizon, strong economic momentum should further support employment creation, while the unemployment rate is forecast to remain at the record-low rate of 4%. The increase in the labour supply helped to keep wage pressures contained, resulting in stable unit labour costs in 2017. In the near term, higher expected growth in compensation per employees is projected to result in increases of unit labour costs by respectively 1.5% and 1.6% in 2018 and 2019, above the euro area average.

Inflation pressures remained contained as a result of weak wage dynamics and the relatively moderate increase in regulated fuel prices, contributed to contain inflationary pressures. Headline annual HICP inflation is forecast to gradually pick up over the forecast horizon to reach 1.8% in 2019, driven by price pressures in the services component.

### Broadly balanced risk profile

Risks to the macroeconomic outlook appear broadly balanced. Upside risks mainly pertain to lower increase in imports and higher investment growth, including from the activities of the Malta Development Bank. In addition, the services sector could benefit from opportunities arising in new areas such as blockchain and cryptocurrencies exchanges. Among downside risks, a normalisation in market rates and yields could put downward pressure on house prices and negatively affect the construction sector. A possible deterioration in trade opportunities, resulting from emerging global geo-political tensions or trade frictions, would also constitute a significant risk for Malta's small and open economy.

## Government balance to remain firm

In 2017, the fiscal surplus increased substantially, to 3.9% of GDP. This much better-than-expected outcome is explained by the high growth rate of current revenue, including both tax revenue and the proceeds from Malta's citizenship scheme (2.6% of GDP). Current expenditure grew faster than in the previous year. Intermediate consumption, public wages and social security expenditure were particularly dynamic. Apart from the costs associated with Malta's presidency of the EU, intermediate consumption was also driven by spending in the health and education sectors and by other entities in the central government sector. Despite an improvement in the absorption of EU funds, net capital expenditure decreased by 0.3 pps. of GDP.

In 2018, after incorporating the expected impact of the expansionary measures introduced with the 2018 Budget, the fiscal surplus is expected to decline to 1.1% of GDP. In line with robust real GDP growth and a strong labour market, and despite a reduction in government revenue of 0.2% of GDP, tax revenues are expected to continue growing. However, following much lower budgetary impact from the citizenship scheme (at 0.9% of GDP), overall current revenue growth is expected to slow down substantially. Current expenditure growth is projected to remain strong in all its components, except interest expenditure which is set to decrease. Following a pick-up in the implementation of investment projects co-financed by the EU and a capital transfer to Air Malta of 0.5% of GDP related to the transfer of landing rights, net capital expenditure is forecast to recover. In 2019, under a no-policy-change assumption, the fiscal surplus is expected to improve marginally to 1.3% of GDP.

The structural balance is estimated to have improved significantly in 2017 to a surplus of 3½% of GDP. In 2018 it is estimated to decline to about ½% of GDP and to improve to around 1% of GDP in 2019.

The government debt-to-GDP ratio, which fell to 50.8% in 2017, is forecast to decline further to 43.4% by 2019.

*Table II.18.1:*

**Main features of country forecast - MALTA**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | mio EUR | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 10191.7 | 100.0 | 2.7 | 8.1 | 9.9 | 5.5 | **6.6** | **5.8** | **5.1** |
| Private Consumption | | 4790.5 | 47.0 | 2.2 | 2.7 | 5.6 | 3.0 | **4.2** | **4.0** | **3.7** |
| Public Consumption | | 1671.0 | 16.4 | 1.9 | 6.6 | 3.7 | -2.7 | **-0.3** | **19.8** | **6.9** |
| Gross fixed capital formation | | 2504.3 | 24.6 | 1.8 | 6.8 | 58.2 | 1.6 | **-7.4** | **4.3** | **7.2** |
| of which: equipment | | 1216.5 | 11.9 | - | 1.7 | 85.5 | 15.4 | **-34.2** | **-** | **-** |
| Exports (goods and services) | | 14065.6 | 138.0 | 5.4 | 3.2 | 3.5 | 4.5 | **1.6** | **2.0** | **2.7** |
| Imports (goods and services) | | 12903.9 | 126.6 | 5.0 | -0.2 | 7.1 | 1.5 | **-3.0** | **2.3** | **2.5** |
| GNI (GDP deflator) | | 9586.6 | 94.1 | 2.4 | 7.9 | 10.7 | 3.3 | **6.6** | **5.7** | **4.8** |
| Contribution to GDP growth: | Domestic demand | | | 2.2 | 4.0 | 13.7 | 1.4 | **0.1** | **5.7** | **4.3** |
| | Inventories | | | 0.0 | -1.2 | 0.7 | -0.1 | **0.6** | **0.0** | **0.0** |
| | Net exports | | | 0.6 | 5.4 | -4.4 | 4.3 | **5.9** | **0.1** | **0.8** |
| Employment | | | | 1.2 | 5.1 | 3.9 | 4.0 | **5.4** | **3.9** | **3.4** |
| Unemployment rate (a) | | | | 6.8 | 5.8 | 5.4 | 4.7 | **4.0** | **4.0** | **4.0** |
| Compensation of employees / head | | | | 3.7 | 1.6 | 5.1 | 2.9 | **1.1** | **3.4** | **3.3** |
| Unit labour costs whole economy | | | | 2.2 | -1.2 | -0.6 | 1.5 | **0.0** | **1.5** | **1.6** |
| Real unit labour cost | | | | -0.2 | -3.4 | -2.9 | 0.0 | **-2.2** | **-0.5** | **-0.5** |
| Saving rate of households (b) | | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | | 2.5 | 2.3 | 2.4 | 1.5 | **2.3** | **2.0** | **2.1** |
| Harmonised index of consumer prices | | | | 2.5 | 0.8 | 1.2 | 0.9 | **1.3** | **1.6** | **1.8** |
| Terms of trade of goods | | | | 0.3 | 4.7 | 0.5 | -3.4 | **4.8** | **-0.3** | **-0.2** |
| Trade balance (goods) (c) | | | | -15.9 | -13.4 | -19.6 | -18.3 | **-14.3** | **-14.4** | **-14.5** |
| Current-account balance (c) | | | | -3.3 | 8.8 | 4.5 | 7.0 | **12.6** | **11.5** | **11.3** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -2.1 | 10.5 | 6.2 | 7.4 | **13.0** | **12.0** | **11.8** |
| General government balance (c) | | | | -4.5 | -1.8 | -1.1 | 1.0 | **3.9** | **1.1** | **1.3** |
| Cyclically-adjusted budget balance (d) | | | | -4.4 | -2.1 | -2.4 | 0.4 | **3.3** | **0.7** | **1.2** |
| Structural budget balance (d) | | | | - | -2.6 | -2.5 | 0.5 | **3.5** | **0.6** | **1.1** |
| General government gross debt (c) | | | | 65.3 | 63.8 | 58.7 | 56.2 | **50.8** | **47.1** | **43.4** |

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

# 19. THE NETHERLANDS

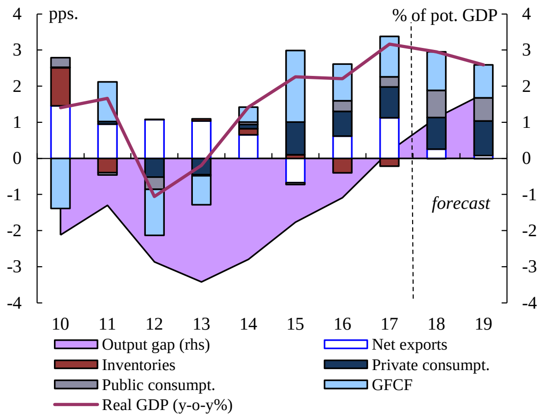
## Broad-based expansion driven by domestic demand

*While growth has peaked in 2017, the outlook for 2018 and 2019 remains very positive with growth rates well above potential. Wage growth is expected to pick up as the labour market tightens and unemployment falls to historically low levels. Robust tax revenue growth is expected to lead to headline budget surpluses over the next two years, despite a substantial fiscal expansion. The external surplus remains at historically high levels.*

### Positive momentum continues while composition of growth shifts

The economic growth momentum in the Dutch economy is solid. Real GDP grew at a rate of 3.2% in 2017 and is expected to remain strong at 3.0% in 2018, before moderating somewhat to 2.6% in 2019, which is still well above potential. With the maturing cycle, domestic demand is expected to be the main growth driver over the forecast horizon while the contribution of net exports fades.

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




An increase in real disposable income, resulting from positive wage and employment developments, is set to drive slightly stronger private consumption, which increased by a steady 1.9% in 2017. The coalition agreement is expected to have a positive effect on real disposable income, as lower income taxation more than offsets the increase of the reduced VAT rate.

Investment has been contributing positively to growth since 2014 and its outlook remains favourable, as capacity utilisation rates are peaking and business confidence indicators remain at elevated levels. A buoyant housing market continues to sustain residential investment growth, although it is projected to increase at a more moderate pace than the exceptional rates of recent years, as the level of residential investment recovers from its post-crisis trough.

Strong growth of government consumption is expected, as the expansionary fiscal policy measures of the coalition agreement take effect in 2018 with an additional impact in 2019. Main items of the package include higher expenditure on education, defence and infrastructure.

Export growth reached 6.1% in 2017 and is expected to remain robust, but to moderate somewhat over the forecast horizon in line with expected EU and global trade developments. Import growth is expected to increase in 2018, boosted by solid domestic demand growth. The buoyant export performance in 2017, combined with an increase in net primary income from abroad, pushed the current account surplus to over 10% of GDP. With the expected moderation in export growth and the pick-up of domestic demand, the current account surplus is set to decrease gradually in 2018 and 2019 while remaining at elevated levels.

### The labour market is tightening

Unemployment fell to 4.9% in 2017 and is set to decrease further to 3.8% this year. Employment grew rapidly in 2017 and monthly data show sustained momentum in 2018. However, in specific sectors, such as construction, vacancy rates point to increased tightening and the overall vacancy rate is gradually approaching pre-crisis levels. The increase in employment is expected to level off in 2019 as the labour market tightens further and the unemployment rate drops to a historically low level of 3.5%.

### Wages and prices expected to pick up

Wage growth has been subdued so far, but a positive trend set in towards the end of last year and is expected to strengthen in line with the increased tensions in the labour market. As a result, wages are expected to increase by 2.7% in

2018 and 3.3% in 2019, considerably above the 1.8% average over the past ten years.

HICP inflation is expected to gradually increase from 1.3% in 2017 to 1.6% in 2018 and 2.2% in 2019, as the above potential economic growth rate puts upward pressure on wages and prices. For 2019, the planned increase in the reduced VAT rate will also contribute to higher inflation through some expenditure categories, such as foods and certain services. Energy prices are expected to show a strong increase in 2018 following oil price developments, and should continue to increase in 2019 due to higher energy taxation.

## Fiscal developments

In 2017, the general government balance reached 1.1% of GDP, up from 0.4% in 2016, mostly driven by a large increase in tax revenues in line with the strong economic performance. In addition, government revenues received a boost from a one-off measure related to the phasing out of a tax allowance for director/major shareholders, with an estimated budgetary impact of 0.5% of GDP in 2017, and 0.1% of GDP in both 2018 and 2019. In 2018, the general government surplus is expected to decline to 0.7% of GDP, as a discretionary fiscal stimulus of 0.6% of GDP is being implemented and the impact of the aforementioned one-off waters down. For 2019, the outlook continues to be bright, with a nominal headline surplus estimated at 0.9% of GDP, projecting robust growth of tax-revenues and an incremental discretionary fiscal stimulus of 0.3% of GDP. In structural terms, the budget balance is expected to deteriorate by almost ¾ of a percentage point in 2018, due to the decline in the nominal surplus and a widening of the output gap. For 2019, a further weakening is expected, leading to a structural budget deficit of just over half a percentage point of GDP.

The general government gross debt-to-GDP ratio fell below the 60% threshold in 2017, to 56.7%. The nominal budget surplus and nominal GDP growth drove the decline in the debt-to-GDP ratio, as well as sizeable stock-flow adjustments linked to the sale of financial assets (1.4% of GDP). The outlook of robust nominal GDP growth and budget surpluses is expected to lead to a further decline of general government debt, to 53.5% in 2018 and slightly over 50% in 2019. Lower natural gas revenues pose a risk to the fiscal forecast as the current production plans could be scaled down further in the next few years.

*Table II.19.1:*

**Main features of country forecast - NETHERLANDS**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 702.6 | 100.0 | 1.7 | 1.4 | 2.3 | 2.2 | **3.2** | **3.0** | **2.6** |
| Private Consumption | | 310.7 | 44.2 | 1.1 | 0.3 | 2.0 | 1.6 | **1.9** | **2.0** | **2.2** |
| Public Consumption | | 173.7 | 24.7 | 2.6 | 0.3 | -0.2 | 1.2 | **1.2** | **3.1** | **2.6** |
| Gross fixed capital formation | | 140.0 | 19.9 | 0.7 | 2.3 | 11.0 | 5.3 | **5.6** | **5.2** | **4.4** |
| of which: equipment | | 39.9 | 5.7 | 1.4 | -0.2 | 15.8 | 3.4 | **6.5** | **6.1** | **5.2** |
| Exports (goods and services) | | 579.3 | 82.4 | 4.4 | 4.5 | 6.5 | 4.3 | **6.1** | **5.5** | **4.4** |
| Imports (goods and services) | | 502.0 | 71.4 | 4.3 | 4.2 | 8.4 | 4.1 | **5.4** | **6.0** | **5.0** |
| GNI (GDP deflator) | | 694.2 | 98.8 | 1.7 | -0.2 | 1.9 | 1.6 | **3.8** | **2.9** | **2.6** |
| Contribution to GDP growth: | Domestic demand | | | 1.3 | 0.6 | 2.8 | 2.0 | **2.3** | **2.7** | **2.5** |
| | Inventories | | | 0.0 | 0.2 | 0.1 | -0.4 | **-0.2** | **0.0** | **0.0** |
| | Net exports | | | 0.4 | 0.6 | -0.7 | 0.6 | **1.1** | **0.3** | **0.1** |
| Employment | | | | 0.6 | -0.1 | 1.0 | 1.3 | **1.9** | **2.3** | **1.6** |
| Unemployment rate (a) | | | | 4.8 | 7.4 | 6.9 | 6.0 | **4.9** | **3.8** | **3.5** |
| Compensation of employees / f.t.e. | | | | 3.1 | 1.6 | -0.3 | 1.2 | **1.5** | **2.7** | **3.3** |
| Unit labour costs whole economy | | | | 2.1 | 0.1 | -1.5 | 0.3 | **0.3** | **2.0** | **2.3** |
| Real unit labour cost | | | | 0.1 | -0.1 | -2.2 | -0.3 | **-0.9** | **0.3** | **0.2** |
| Saving rate of households (b) | | | | 12.4 | 14.5 | 13.1 | 13.1 | **12.7** | **12.7** | **12.5** |
| GDP deflator | | | | 2.0 | 0.1 | 0.8 | 0.6 | **1.1** | **1.7** | **2.1** |
| Harmonised index of consumer prices | | | | 2.2 | 0.3 | 0.2 | 0.1 | **1.3** | **1.6** | **2.2** |
| Terms of trade goods | | | | 0.1 | 0.1 | 2.6 | 1.2 | **-0.6** | **-0.1** | **0.1** |
| Trade balance (goods) (c) | | | | 9.0 | 11.5 | 11.5 | 11.9 | **12.4** | **12.1** | **11.8** |
| Current-account balance (c) | | | | 6.8 | 8.9 | 8.3 | 8.7 | **10.1** | **9.8** | **9.5** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 6.5 | 8.8 | 3.3 | 8.5 | **10.0** | **9.5** | **9.1** |
| General government balance (c) | | | | -1.7 | -2.3 | -2.1 | 0.4 | **1.1** | **0.7** | **0.9** |
| Cyclically-adjusted budget balance (d) | | | | -1.2 | -0.5 | -0.9 | 1.1 | **1.0** | **0.0** | **-0.2** |
| Structural budget balance (d) | | | | - | -0.4 | -0.9 | 0.8 | **0.5** | **-0.1** | **-0.3** |
| General government gross debt (c) | | | | 54.5 | 68.0 | 64.6 | 61.8 | **56.7** | **53.5** | **50.1** |

(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.

# 20. AUSTRIA

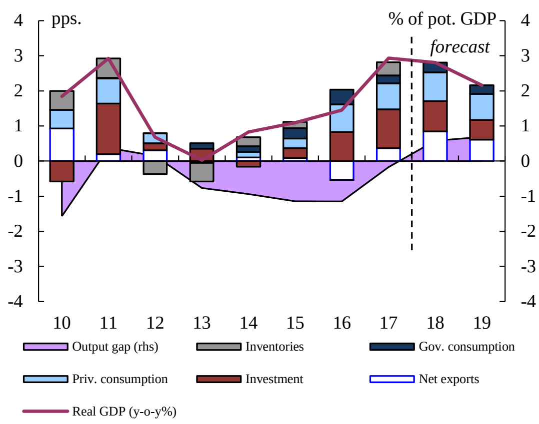
## Positive growth dynamics continue

*Austria's economic growth is expected to remain high in 2018 and to decrease somewhat in 2019. Domestic demand is set to remain the main growth driver. In spite of higher risks in world markets, exports are expected to remain strong in 2018 with net exports contributing positively to growth. The government headline deficit is foreseen to improve on the back of the positive economic environment, while the public debt-to-GDP ratio is forecast to continue declining.*

### Strong economic growth in 2017

Austria's GDP growth rate hit a six-year high of 2.9% in 2017, almost twice as high as in 2016. Growth was supported by the impact of the 2016 tax reforms and significant increases in machinery and equipment investment. These increases were driven by replacement and expansion needs in light of high capacity utilisation, due to strong domestic and foreign demand. An additional boost came from international trade. Exports grew faster than imports, contributing positively to GDP growth.

*Graph II.20.1:* **Austria - Real GDP growth and contributions, output gap**




### Growth to slow down but remain robust

While business and consumer sentiment indicators are slipping from high levels, GDP growth is expected to remain robust at 2.8% in 2018 before decreasing to 2.2% in 2019. Domestic demand remains the main driver of growth, although its influence is slightly fading. The positive contribution to growth from net trade should rise in 2018 thanks to the favourable outlook for world trade before slightly dipping in 2019. The dynamic investment environment continues to support economic growth. The growth of in construction investment is projected to slow gradually, after a sharp increase in 2017, as the inflow of migrants diminishes and population growth decelerates.

Investments in machinery and equipment remained remarkably robust in 2017 and are set to only slowly fade as capacity utilisation remains high and expansion investments are still needed. After a strong rise in 2017 to 5.7%, export growth is expected to remain solid in 2018 at 5.2% despite increasing risks and uncertainty in the development of trade growth and to ease in 2019. Import growth is set to decrease gradually.

### Sturdy labour market and steady decline in unemployment

Employment growth was high at 1.7% in 2017 and is expected to remain solid, fuelled by the buoyant economic environment. The unemployment rate fell to 5.5% and is set to further decrease in 2018 and 2019 to 5.2% and 5.0% respectively, despite growing labour supply.

### Inflation

After a strong increase in 2017 to 2.2%, the projected rise in oil prices and strong economic growth are expected to keep headline HICP inflation at about 2% over the forecast horizon. Core inflation also rose strongly to 2.2% in 2017 and is set ease only slightly to 2.1% in 2018 and 2019, due to rising services (particularly tourism sector) prices, as well as processed foods, rents and industrial goods prices. The positive gap between the Austrian inflation rate and the euro area average is expected to close only gradually.

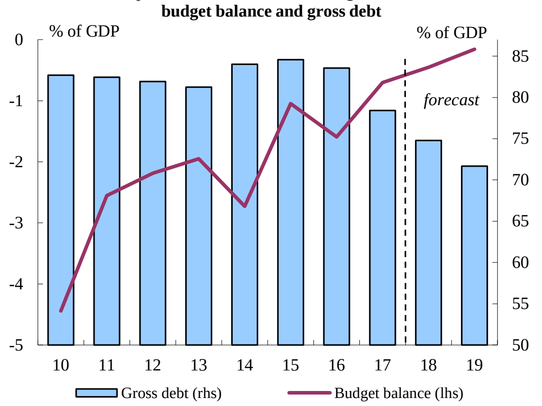
### Public finances benefit from economic environment

Having worsened to 1.6% of GDP in 2016 after the comprehensive personal income tax reform, the government headline deficit improved markedly in 2017, narrowing to 0.7% of GDP. Despite strong private consumption, revenues from indirect taxes have increased at a slower pace due to the reduced stability fee for banks and cuts in employers' contributions to the Family Equalisation Fund. However, strong employment and payroll developments increased revenues from personal income taxes and social security contributions. Government expenditure as a percentage of GDP fell from 50.6% to 49.1% in 2017, mainly due to a strong decline in interest expenditures and unemployment benefits.

In March, Austrian authorities have submitted an updated Draft Budgetary Plan 2018/2019 together with the Stability Programme, which has been taken into account in what follows.

In 2018, the government headline deficit is expected to improve further to 0.5% of GDP thanks to strong economic growth and the discontinuation or reduction of several measures implemented by the previous government. Rising employment and wages boost revenues from income taxes and social contributions. Private consumption and foreign demand contribute to rising revenues from indirect taxes. Government expenditure is projected to increase by 3.3%, which is mainly the result of expansionary fiscal measures (e.g., Employment Bonus, Investment premiums, Municipal Investment Programme) legislated in 2017, whose budgetary impact will only unfold in 2018. In 2019, the headline deficit is expected to narrow further to 0.2% of GDP, despite the budgetary impact of planned measures such as the Family Bonus. Several cost-cutting measures (e.g. in the administration) are not yet sufficiently specified to be taken into account. The structural balance is expected to deteriorate in 2018 and to improve in 2019.

*Graph II.20.2:* **Austria - General government budget balance and gross debt**




Public debt is expected to decrease from 78.4% of GDP in 2017 to 74.8% and 71.7% of GDP in 2018 and 2019 respectively. This mainly reflects the divestment of impaired assets from bad banks and declining interest expenditures.

*Table II.20.1:*

**Main features of country forecast - AUSTRIA**

| | 2016 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 353.3 | 100.0 | 1.8 | 0.8 | 1.1 | 1.5 | **2.9** | **2.8** | **2.2** |
| Private Consumption | 186.2 | 52.7 | 1.5 | 0.3 | 0.5 | 1.5 | **1.4** | **1.6** | **1.4** |
| Public Consumption | 70.6 | 20.0 | 1.5 | 0.8 | 1.5 | 2.1 | **1.1** | **1.4** | **1.3** |
| Gross fixed capital formation | 81.5 | 23.1 | 1.1 | -0.7 | 1.2 | 3.7 | **4.8** | **3.7** | **2.4** |
| of which: equipment | 26.8 | 7.6 | 1.2 | -1.6 | 1.5 | 8.6 | **7.9** | **6.2** | **3.5** |
| Exports (goods and services) | 184.6 | 52.3 | 4.7 | 3.0 | 3.1 | 1.9 | **5.7** | **5.2** | **4.3** |
| Imports (goods and services) | 172.8 | 48.9 | 3.8 | 2.9 | 3.1 | 3.1 | **5.4** | **3.9** | **3.4** |
| GNI (GDP deflator) | 353.1 | 99.9 | 1.9 | 0.7 | 0.2 | 2.1 | **2.7** | **2.8** | **2.1** |
| Contribution to GDP growth: Domestic demand | | | 1.4 | 0.2 | 0.8 | 2.0 | **2.1** | **2.0** | **1.5** |
| Inventories | | | 0.0 | 0.3 | 0.2 | 0.0 | **0.4** | **0.0** | **0.0** |
| Net exports | | | 0.5 | 0.1 | 0.1 | -0.5 | **0.4** | **0.8** | **0.6** |
| Employment | | | - | 1.0 | 0.6 | 1.2 | **1.7** | **1.5** | **1.2** |
| Unemployment rate (a) | | | 4.8 | 5.6 | 5.7 | 6.0 | **5.5** | **5.2** | **5.0** |
| Compensation of employees / f.t.e. | | | 2.2 | 1.9 | 2.1 | 2.4 | **1.6** | **2.5** | **2.5** |
| Unit labour costs whole economy | | | 1.3 | 2.0 | 1.6 | 2.1 | **0.4** | **1.2** | **1.6** |
| Real unit labour cost | | | -0.2 | 0.0 | -0.7 | 1.0 | **-1.1** | **-0.5** | **-0.1** |
| Saving rate of households (b) | | | 15.3 | 12.4 | 12.5 | 13.4 | **12.5** | **12.4** | **12.6** |
| GDP deflator | | | 1.6 | 2.0 | 2.3 | 1.1 | **1.5** | **1.7** | **1.7** |
| Harmonised index of consumer prices | | | 1.9 | 1.5 | 0.8 | 1.0 | **2.2** | **2.1** | **1.9** |
| Terms of trade goods | | | -0.3 | 1.0 | 1.5 | 0.4 | **-0.8** | **-0.5** | **-0.2** |
| Trade balance (goods) (c) | | | -0.4 | 0.3 | 0.6 | 0.1 | **0.2** | **0.6** | **0.8** |
| Current-account balance (c) | | | 1.5 | 2.5 | 2.1 | 2.3 | **2.3** | **2.5** | **2.8** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | 1.4 | 2.4 | 1.6 | 2.1 | **1.9** | **2.0** | **2.2** |
| General government balance (c) | | | -2.5 | -2.7 | -1.0 | -1.6 | **-0.7** | **-0.5** | **-0.2** |
| Cyclically-adjusted budget balance (d) | | | -2.6 | -2.2 | -0.4 | -0.9 | **-0.6** | **-0.8** | **-0.6** |
| Structural budget balance (d) | | | - | -0.7 | -0.1 | -0.9 | **-0.6** | **-0.8** | **-0.6** |
| General government gross debt (c) | | | 71.2 | 84.0 | 84.6 | 83.6 | **78.4** | **74.8** | **71.7** |

(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.

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

# 21. POLAND

## Positive economic conditions expected to continue

*Poland's economy is expected to continue growing robustly with only limited moderation in 2019. Consumption and investment are the main growth drivers, supported by fast wage growth, strong consumer confidence and EU structural funds. Inflation is forecast to dip in 2018 and then increase on the back of rising wages. The headline fiscal deficit is projected to decrease slightly in 2018 and remain stable in 2019, while the structural fiscal balance is expected to continue deteriorating gradually.*

### Growth to remain strong

Poland's economy is expected to continue growing strongly. Real GDP is forecast to expand by 4.3% this year, only slightly less than the 4.6% recorded in 2017. A limited moderation is forecast for 2019, with real GDP expected to rise by 3.7%. Domestic demand is projected to remain the key growth driver.

Private consumption growth is set to slow gradually from 4.1% in 2018 to 3.4% in 2019 but will nevertheless remain high as a result of strong wage growth and record-high consumer confidence. Public investment is projected to continue its fast recovery rising quickly in 2018, as funds offered by the EU are put to work, with strong moderation in 2019. Private investment, which remained weak in 2017, is expected to gradually recover over 2018 and 2019, given high capacity utilisation rates, the solid demand outlook and low interest rates. The rising scarcity of adequately qualified workers, however, is expected to limit investment growth by discouraging some investment decisions.

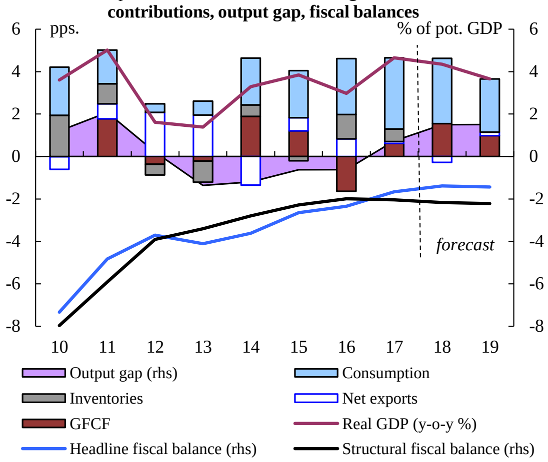
Exports are projected to continue rising in 2018 and 2019, faster than demand growth in key export markets. Strong domestic demand, in particular the investment recovery, is set to translate into higher import demand in 2018. As a result the contribution of net exports to GDP is expected to be slightly negative in 2018, before turning marginally positive in 2019.

### Labour market getting tighter

Job creation was strong until late 2017 when it slowed down, partly due to a lowering of the statutory retirement age. Employment is expected to continue rising in the second half of 2018 and in 2019, but its rate of growth is set to slow given the shrinking pool of unemployed and of people who can join the labour force. There remains substantial uncertainty as to the possibility for further strong increases in employment by migrant workers, mainly from Ukraine.

Unemployment, which fell to historically low levels in 2017, is expected to continue falling. As workers become increasingly scarce, wage growth is expected to strengthen.

*Graph II.21.1:* **Poland - Real GDP growth and contributions, output gap, fiscal balances**




### Wage hikes to gradually translate into higher inflation

Inflation dipped in early 2018 as a result of several sector-specific developments, such as lower dynamics of food and energy products and a decline in financial services charges. Going forward, inflation is forecast to increase for the rest of this year and next. Faster wage growth is expected to be the main factor behind rising prices, especially in the services sector. The modest strengthening of the zloty vis-à-vis the euro in 2018, however, will dampen some prices.

### Little improvement in headline deficit expected despite strong growth

The general government headline deficit contracted strongly from 2.3% of GDP in 2016 to 1.7% of GDP in 2017. This is a consequence of revenue growing faster than expenditure, in particular social contributions and taxes. The growth of social contribution revenue reflects the buoyant situation on the labour market, while the increase in revenue from taxes is driven by several factors. These include the robust macroeconomic environment and measures to increase tax collection, particularly in the area of indirect taxes.

In 2018, both revenue and expenditure are projected to increase as a share of GDP. On the revenue side, the strongest gains are again expected in indirect taxes and social contributions. On the expenditure side, the fastest increase is expected for investment. Overall, the general government headline deficit is expected to further narrow to 1.4% of GDP in 2018.

Under a no-policy-change scenario, the general government headline deficit is forecast to stabilise in 2019. Increasing tax revenue is set to counterbalance higher social spending and public investment.

In turn, the structural general government deficit is estimated to have remained broadly constant in 2017 at 2% of GDP. Considering the cyclical position of the economy marked by strong GDP growth and an increasingly positive output gap, the structural deficit is projected to widen over the forecast horizon. It is expected to reach 2¼% of GDP in 2019.

After a significant fall from above 54% of GDP in 2016 to less than 51% of GDP in 2017, the general government debt is forecast to continue declining to around 49% of GDP in 2019.

Risks to the fiscal forecast are generally balanced. On the one hand, recent policy announcements suggest that new spending measures are likely to be implemented. If so, this would increase both headline and structural deficits. On the other hand, a further extension of the application of higher VAT rates beyond 2018 could help maintain strong VAT revenues. In addition, there remains uncertainty as to the capacity to carry out public investment plans, the effectiveness of new measures to increase tax compliance, the efficiency of public expenditure management, as well as the number of retiring people who actually stop working in light of the recently reduced statutory retirement age.

*Table II.21.1:*

**Main features of country forecast - POLAND**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn PLN | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 1858.5 | 100.0 | 3.8 | 3.3 | 3.8 | 3.0 | **4.6** | **4.3** | **3.7** |
| Private Consumption | | 1088.4 | 58.6 | 3.4 | 2.4 | 3.0 | 3.9 | **4.7** | **4.1** | **3.4** |
| Public Consumption | | 332.0 | 17.9 | 3.1 | 4.1 | 2.4 | 1.8 | **3.4** | **3.7** | **3.1** |
| Gross fixed capital formation | | 335.0 | 18.0 | 4.0 | 10.0 | 6.1 | -8.2 | **3.4** | **8.7** | **5.3** |
| of which: equipment | | 135.8 | 7.3 | 4.1 | 11.2 | 12.1 | -7.6 | **4.5** | **6.9** | **5.1** |
| Exports (goods and services) | | 971.4 | 52.3 | 7.9 | 6.7 | 7.7 | 8.8 | **8.2** | **7.3** | **6.2** |
| Imports (goods and services) | | 896.3 | 48.2 | 6.5 | 10.0 | 6.6 | 7.6 | **8.7** | **8.4** | **6.3** |
| GNI (GDP deflator) | | 1788.8 | 96.3 | 3.6 | 2.9 | 3.9 | 2.9 | **4.3** | **4.3** | **3.5** |
| Contribution to GDP growth: | Domestic demand | | | 3.6 | 4.1 | 3.4 | 1.0 | **4.0** | **4.6** | **3.5** |
| | Inventories | | | 0.0 | 0.5 | -0.2 | 1.1 | **0.6** | **0.0** | **0.0** |
| | Net exports | | | 0.3 | -1.3 | 0.6 | 0.8 | **0.1** | **-0.3** | **0.2** |
| Employment | | | | 0.1 | 1.7 | 1.5 | 0.6 | **1.4** | **0.8** | **0.3** |
| Unemployment rate (a) | | | | 13.3 | 9.0 | 7.5 | 6.2 | **4.9** | **4.1** | **3.9** |
| Compensation of employees / head | | | | 5.9 | 2.2 | 1.7 | 5.1 | **4.0** | **6.8** | **7.4** |
| Unit labour costs whole economy | | | | 2.2 | 0.6 | -0.6 | 2.6 | **0.7** | **3.2** | **3.9** |
| Real unit labour cost | | | | -1.3 | 0.1 | -1.3 | 2.3 | **-1.2** | **1.5** | **1.4** |
| Saving rate of households (b) | | | | 7.4 | 2.3 | 2.3 | 4.4 | **1.7** | **1.8** | **1.4** |
| GDP deflator | | | | 3.5 | 0.5 | 0.8 | 0.3 | **1.9** | **1.7** | **2.4** |
| Harmonised index of consumer prices | | | | 4.1 | 0.1 | -0.7 | -0.2 | **1.6** | **1.3** | **2.5** |
| Terms of trade goods | | | | 0.1 | 2.2 | 2.9 | 0.6 | **0.4** | **0.1** | **0.0** |
| Trade balance (goods) (c) | | | | -3.9 | -0.8 | 0.5 | 0.7 | **0.1** | **-0.4** | **-0.6** |
| Current-account balance (c) | | | | -4.0 | -1.4 | 0.2 | 0.9 | **0.7** | **0.3** | **0.0** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -3.3 | 0.4 | 2.6 | 1.7 | **1.5** | **1.5** | **1.5** |
| General government balance (c) | | | | -4.4 | -3.6 | -2.6 | -2.3 | **-1.7** | **-1.4** | **-1.4** |
| Cyclically-adjusted budget balance (d) | | | | -4.2 | -3.0 | -2.3 | -2.0 | **-2.0** | **-2.2** | **-2.2** |
| Structural budget balance (d) | | | | - | -2.8 | -2.3 | -2.0 | **-2.0** | **-2.2** | **-2.2** |
| General government gross debt (c) | | | | 45.9 | 50.3 | 51.1 | 54.2 | **50.6** | **49.6** | **49.1** |

(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.

# 22. PORTUGAL

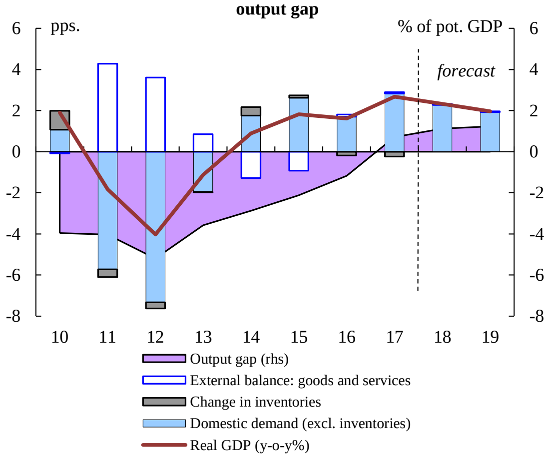
## Growth remains robust after strong upswing in 2017

*GDP and employment increased significantly in 2017, driven by buoyant domestic demand and exports. Growth is expected to ease slightly but should remain strong in 2018 and 2019 as exports and employment continue to expand. The general government deficit is set to remain below 1.0% in 2018 and 2019 while the structural balance should remain broadly stable. The gross public debt-to-GDP ratio is projected to decrease by around three percentage points per year.*

### Outlook remains favourable despite moderate slowdown

Economic growth picked up to 2.7% in 2017, driven by both domestic demand and exports. Private consumption grew by a solid 2.3% supported by job creation, wage growth and favourable financing conditions. Investment growth rose to 9.1% reflecting a sharp upturn in construction and equipment. Net external demand had a slightly positive contribution to annual growth, reflecting the strength of net services exports.

*Graph II.22.1:* **Portugal - Real GDP growth and contributions, output gap**




The Commission's Economic Sentiment Indicator (ESI) eased in the first quarter of 2018, reflecting a broad-based decrease across its sectoral components. By contrast, consumer confidence remained resilient, suggesting that private consumption growth was slightly stronger than expected. Nevertheless, private consumption growth is expected to cool somewhat while household savings are set to increase, although they should remain at a relatively low level over the medium term. Investment is expected to rise faster than GDP but at a weaker pace than in 2017. This reflects a negative base effect in equipment investment after the large capacity upgrade in the automotive industry in 2017 and some slowdown in construction investment after a steep rebound in 2017. Overall, GDP growth is expected to slow to 2.3% in 2018 and 2.0% in 2019. Risks to the outlook are slightly tilted to the downside, mainly due to uncertainties in the external environment.

### External balance still benefiting from tourism

Exports and imports are forecast to grow at a similar pace in 2018 and 2019, keeping the current account relatively stable in the range of 0.5-0.6% of GDP. Despite some slowdown, tourism is set to remain a major driver supporting the country's external balance. The recent capacity expansion in the automotive sector is projected to further influence trade dynamics in 2018, contributing to sizeable gains in export market shares. The external position is also supported by the projected increase in absorption of EU structural funds and lower interest cost for domestic borrowers.

### Labour market slack declines substantially

Following a substantial improvement in 2017, labour market indicators are expected to maintain positive momentum albeit at a slowing pace. Unemployment is forecast to decline from 9.0% in 2017 to 7.7% in 2018 and 6.8% in 2019 amid further employment growth and a higher activity rate. Unemployment is already lower than it was just before the global financial crisis in 2008 but is still above the historical low of 5.1% in 2000. The employment rate for the age group of 15-74 is meanwhile approaching its historical high of 62.7% reached in 2001. Therefore, the slack in the labour market is rapidly declining and wages are projected to gradually grow over the forecast period along with the unfreezing of career progressions in the public sector. Yet the increase in the economy-wide average wage is likely to be partly offset by strong job creation in sectors with lower-than-average wages.

### Inflation faces temporary dip

Inflation is projected to slow to 1.2% in 2018 reflecting the impact of the recent euro's appreciation and a large base effect in accommodation prices. In 2019, inflation is set to rebound to 1.6% as wage developments are expected to gradually push up service prices while energy prices are expected to have a disinflationary impact. Core inflation is forecast to move slightly above the headline rate in 2019 after a temporary dip in 2018. House price rises are set to gradually slow down over the forecast horizon after a large increase of 9.2% in 2017.

### Public finances benefitting from the recovery, lower interest and contained primary spending

The general government headline deficit turned out at 3.0% of GDP in 2017 including the fiscal impact of the recapitalisation of public bank Caixa Geral de Depósitos, which was worth 2.0% of GDP. Excluding this and other one-off operations, the 2017 headline deficit ratio would have been reduced to 0.9% thanks to lower interest expenditure, contained primary expenditure growth and higher cyclical-related revenue. As a result, the structural balance is estimated to have improved by about 1% of GDP in 2017 and the structural primary balance by ½% of GDP.

The headline deficit is forecast to be 0.9% of GDP in 2018, impacted by further banking support operations, in particular the activation of the Novo Banco contingent capital mechanism (0.4% of GDP), while the deficit net of one-offs is set to improve to 0.5% of GDP. As the impact of discretionary measures and savings in interest expenditure in 2018 is expected to be broadly neutral, the structural balance is projected to remain broadly stable. Under a no-policy-change assumption, the headline deficit is set to improve to 0.6% of GDP in 2019 while the structural balance is set to slightly deteriorate. The structural primary balance is forecast to worsen by about ½% of GDP over the forecast horizon. Risks to the fiscal outlook are tilted to the downside, linked to uncertainties surrounding the macroeconomic outlook and the potential further deficit-increasing impact of banking support measures.

After falling by 4.2 pps. to 125.7% in 2017, gross public debt-to-GDP is forecast to further decline to 122.5% in 2018 and 119.5% in 2019, mainly due to primary budget surpluses and high nominal GDP growth.

*Table II.22.1:*

**Main features of country forecast - PORTUGAL**

| | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 185.5 | 100.0 | 0.8 | 0.9 | 1.8 | 1.6 | **2.7** | **2.3** | **2.0** |
| Private Consumption | 121.3 | 65.4 | 0.9 | 2.3 | 2.3 | 2.1 | **2.3** | **2.0** | **1.8** |
| Public Consumption | 33.4 | 18.0 | 1.3 | -0.5 | 1.3 | 0.6 | **-0.2** | **0.7** | **0.3** |
| Gross fixed capital formation | 28.3 | 15.3 | -2.0 | 2.3 | 5.8 | 1.5 | **9.1** | **5.7** | **5.3** |
| of which: equipment | 9.4 | 5.1 | -0.5 | 13.3 | 10.4 | 5.2 | **13.3** | **7.7** | **8.5** |
| Exports (goods and services) | 74.4 | 40.1 | 4.2 | 4.3 | 6.1 | 4.4 | **7.8** | **6.8** | **5.5** |
| Imports (goods and services) | 72.4 | 39.0 | 2.6 | 7.8 | 8.5 | 4.2 | **7.9** | **6.9** | **5.6** |
| GNI (GDP deflator) | 181.0 | 97.6 | 0.7 | 0.5 | 0.7 | 2.0 | **2.9** | **2.4** | **2.1** |
| Contribution to GDP growth: Domestic demand | | | 0.5 | 1.7 | 2.6 | 1.8 | **2.8** | **2.3** | **2.1** |
| Inventories | | | 0.0 | 0.4 | 0.1 | -0.2 | **-0.2** | **0.0** | **0.0** |
| Net exports | | | 0.3 | -1.3 | -0.9 | 0.1 | **0.1** | **0.0** | **0.0** |
| Employment | | | -0.4 | 1.4 | 1.4 | 1.6 | **3.3** | **2.1** | **1.3** |
| Unemployment rate (a) | | | 9.2 | 14.1 | 12.6 | 11.2 | **9.0** | **7.7** | **6.8** |
| Compensation of employees / head | | | 2.9 | -1.8 | 0.4 | 2.1 | **1.1** | **1.8** | **2.0** |
| Unit labour costs whole economy | | | 1.7 | -1.3 | 0.0 | 2.1 | **1.7** | **1.5** | **1.2** |
| Real unit labour cost | | | -0.7 | -2.0 | -2.0 | 0.6 | **0.3** | **0.2** | **-0.1** |
| Saving rate of households (b) | | | 9.3 | 5.2 | 5.3 | 5.9 | **5.4** | **6.1** | **6.3** |
| GDP deflator | | | 2.4 | 0.8 | 2.0 | 1.5 | **1.4** | **1.3** | **1.4** |
| Harmonised index of consumer prices | | | 2.4 | -0.2 | 0.5 | 0.6 | **1.6** | **1.2** | **1.6** |
| Terms of trade goods | | | 0.1 | 1.2 | 2.7 | 0.3 | **-0.6** | **0.0** | **0.0** |
| Trade balance (goods) (c) | | | -10.1 | -4.7 | -4.5 | -4.3 | **-5.2** | **-5.5** | **-5.8** |
| Current-account balance (c) | | | -8.3 | -0.3 | -0.9 | 0.1 | **0.5** | **0.6** | **0.6** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -6.8 | 1.0 | 0.3 | 1.0 | **1.4** | **1.5** | **1.5** |
| General government balance (c) | | | -5.3 | -7.2 | -4.4 | -2.0 | **-3.0** | **-0.9** | **-0.6** |
| Cyclically-adjusted budget balance (d) | | | -5.2 | -5.6 | -3.6 | -1.5 | **-3.1** | **-1.4** | **-1.3** |
| Structural budget balance (d) | | | - | -1.8 | -2.3 | -2.0 | **-1.1** | **-1.1** | **-1.1** |
| General government gross debt (c) | | | 75.4 | 130.6 | 128.8 | 129.9 | **125.7** | **122.5** | **119.5** |

(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.

# 23. ROMANIA

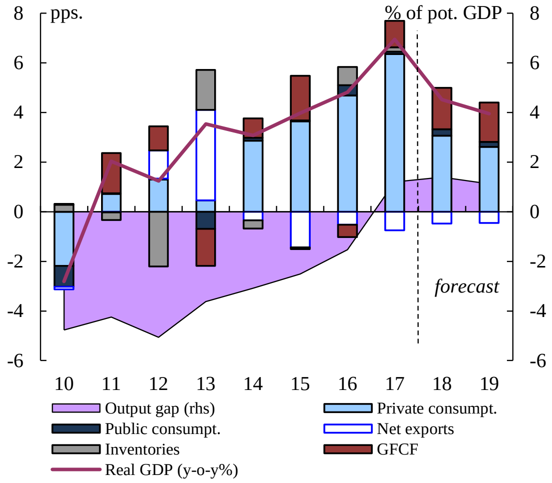
## Strong growth set to decelerate

*Real GDP growth rose again in 2017, driven by a boom in private consumption boosted by expansionary fiscal policy. Growth is forecast to decelerate in 2018 but will remain robust. The labour market is expected to remain tight over the forecast horizon. Inflation picked up in late 2017 and is set to rise further in 2018 before tempering somewhat in 2019. The budget deficit is projected to increase significantly, mostly due to public sector wage increases.*

### Growth set to slow down but remain robust

Romania's economic boom intensified in 2017, with real GDP increasing by 6.9%, a post-crisis high. The main driver of growth continued to be private consumption, which expanded by around 10% in real terms. The private consumption boom was spurred by expansionary fiscal policy measures including cuts to indirect taxes and public sector pay rises. After contracting in 2016, investment returned to growth in 2017 on the back of rising private investment in both machinery and equipment and residential construction. Public investment, however, fell sharply for the second consecutive year. The growth in private consumption also boosted imports. As a consequence, net exports have worked as a drag on real GDP growth, despite continued export market share gains.

*Graph II.23.1:* **Romania - Output gap and contributions to real GDP growth**




Looking ahead, growth is expected to decelerate but remain robust. Private consumption is forecast to slow down in 2018, as nominal wage growth moderates and inflation increasingly weighs on real disposable income, but will remain the main driver of growth. Investment, however, is likely to further strengthen in 2018 on the back of a pick-up in the implementation of projects financed by EU funds. Overall, real GDP growth is expected to be 4.5% in 2018 and 3.9% in 2019. The output gap is estimated to have turned positive in 2017 and is forecast to remain relatively stable over the forecast horizon.

Imports are projected to continue rising faster than exports in 2018 and 2019. Accordingly, net exports will remain a drag on real GDP growth. The current account deficit has been widening progressively since 2014, when it was close to zero, mainly on account of a weakening trade balance. The current account deficit widened to 3.5% of GDP in 2017 and is forecast to be 3.6% of GDP in 2018 and 3.9% in 2019.

Unemployment rate in Romania dropped to a 20-year low of 4.9% in 2017. The tight labour market, together with a 16% minimum wage hike in February 2017 and substantial public sector pay rises, led to an acceleration of wage growth. Average compensation per employee increased by 15% in real terms in 2017. Wages are expected to continue to grow in 2018, albeit at a slower pace, due to further increases in public wages and an additional 9% increase in the net minimum wage which took effect in January.

### Inflation picks up

After two consecutive years of falling consumer prices, inflation turned positive in 2017, despite being dampened by VAT rate cuts and lower excise duties on fuel. Inflation started to accelerate in the second half of the year mainly on account of rising food and energy prices, the latter caused both by higher global fuel prices and the reversal in October 2017 of the January cut in excise duties. Inflation further accelerated in early 2018 as the effect of the January 2017 tax cuts faded away, reaching 4.0% by March. It is forecast to be 4.2% for 2018 as a whole and to decline to 3.4% in 2019 as energy price inflation moderates. Core inflation is projected to increase from 0.8% in 2017 to 3.3% in 2018 and 3.5% in 2019. As inflation re-entered its target band (2.5% ± 1 pp.), the National Bank of Romania has started to tighten its highly accommodative monetary policy. In January and February this year, the key monetary policy rate was raised by a total of 0.5 pps. to 2.25 %, the first rate hikes since 2008.

### Risks to the growth forecast

The gradual tightening of the central bank's monetary policy in response to emerging inflation pressures and a widening output gap could dampen the outlook for private investment. Investment could also be adversely affected if the government were to further cut public investment in order to reach its budgetary deficit targets. A continuing increase in unit labour costs, due to wage growth outpacing productivity growth, may also curtail Romania's exports. More generally, uncertainty regarding the government's policies could hamper growth.

### The fiscal stance remains expansionary

In 2017, the government deficit amounted to 2.9% of GDP, a slight drop compared to 2016. The decrease of the headline deficit was cyclical in nature and not due to fiscal consolidation measures. Indirect taxes were cut, while public wages were considerably increased. On the other hand, public investment dropped significantly.

In 2018, the general government deficit is projected to increase to 3.4% of GDP. The unified wage law, enacted in summer 2017, increased gross public wages by 25% in January 2018 and contains additional increases for doctors and teachers. The fiscal cost of this is set to be partially compensated by a shift of social security contributions from 22.75% for employers and 16.5% for employees to 2.25% and 35% respectively. Moreover, the flat personal income tax (PIT) rate was cut from 16% to 10%. The deficit is projected to reach 3.8% of GDP in 2019, driven by increases in social transfers and public investment.

As a consequence of fiscal easing, Romania's structural deficit has risen from around 2% of potential GDP in 2016 to around 3¼% in 2017 and is projected to reach around 4¼ % in 2019. Despite strong GDP growth, the debt-to-GDP ratio is thus projected to increase within the forecast horizon.

*Table II.23.1:*

**Main features of country forecast - ROMANIA**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn RON | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 762.3 | 100.0 | 3.0 | 3.1 | 4.0 | 4.8 | **6.9** | **4.5** | **3.9** |
| Private Consumption | | 477.9 | 62.7 | 4.7 | 4.7 | 5.9 | 7.6 | **10.1** | **4.9** | **4.2** |
| Public Consumption | | 108.5 | 14.2 | -0.1 | 0.8 | 0.2 | 3.1 | **0.7** | **1.7** | **1.3** |
| Gross fixed capital formation | | 175.1 | 23.0 | 5.5 | 3.2 | 7.4 | -2.0 | **4.7** | **7.4** | **6.9** |
| of which: equipment | | 72.6 | 9.5 | 5.9 | -5.1 | -3.8 | 5.2 | **5.0** | **5.0** | **5.0** |
| Exports (goods and services) | | 315.1 | 41.3 | 9.3 | 8.0 | 4.6 | 8.7 | **9.7** | **7.5** | **6.8** |
| Imports (goods and services) | | 322.0 | 42.2 | 10.8 | 8.7 | 8.0 | 9.8 | **11.3** | **8.2** | **7.4** |
| GNI (GDP deflator) | | 739.8 | 97.0 | 3.0 | 4.0 | 3.0 | 3.7 | **7.3** | **4.9** | **4.0** |
| Contribution to GDP growth: | Domestic demand | | | 4.8 | 3.8 | 5.5 | 4.6 | **7.5** | **5.0** | **4.4** |
| | Inventories | | | -0.2 | -0.3 | -0.1 | 0.7 | **0.2** | **0.0** | **0.0** |
| | Net exports | | | -1.5 | -0.3 | -1.4 | -0.5 | **-0.7** | **-0.5** | **-0.5** |
| Employment | | | | -1.7 | 0.8 | -1.3 | -0.9 | **2.6** | **0.9** | **0.1** |
| Unemployment rate (a) | | | | 7.1 | 6.8 | 6.8 | 5.9 | **4.9** | **4.5** | **4.4** |
| Compensation of employees / head | | | | 23.1 | 6.7 | 1.9 | 10.1 | **16.0** | **8.7** | **6.7** |
| Unit labour costs whole economy | | | | 17.4 | 4.3 | -3.3 | 4.1 | **11.3** | **4.9** | **2.7** |
| Real unit labour cost | | | | -1.0 | 2.6 | -5.7 | 2.0 | **5.7** | **-0.2** | **-1.3** |
| Saving rate of households (b) | | | | -5.4 | 14.5 | 15.5 | 12.2 | **10.9** | **9.1** | **7.7** |
| GDP deflator | | | | 18.6 | 1.7 | 2.6 | 2.1 | **5.3** | **5.2** | **4.0** |
| Harmonised index of consumer prices | | | | 16.8 | 1.4 | -0.4 | -1.1 | **1.1** | **4.2** | **3.4** |
| Terms of trade goods | | | | 2.6 | 0.8 | 1.0 | 0.6 | **-1.2** | **0.0** | **0.3** |
| Trade balance (goods) (c) | | | | -7.8 | -4.3 | -4.9 | -5.4 | **-6.3** | **-6.6** | **-6.9** |
| Current-account balance (c) | | | | -6.1 | -0.1 | -0.6 | -2.1 | **-3.5** | **-3.6** | **-3.9** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -5.5 | 2.5 | 1.8 | -1.1 | **-1.9** | **-2.1** | **-2.1** |
| General government balance (c) | | | | -3.7 | -1.3 | -0.8 | -3.0 | **-2.9** | **-3.4** | **-3.8** |
| Cyclically-adjusted budget balance (d) | | | | -3.7 | -0.3 | 0.1 | -2.5 | **-3.3** | **-3.9** | **-4.2** |
| Structural budget balance (d) | | | | - | -0.3 | -0.2 | -2.1 | **-3.3** | **-3.8** | **-4.2** |
| General government gross debt (c) | | | | 22.7 | 39.1 | 37.7 | 37.4 | **35.0** | **35.3** | **36.4** |

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

# 24. SLOVENIA

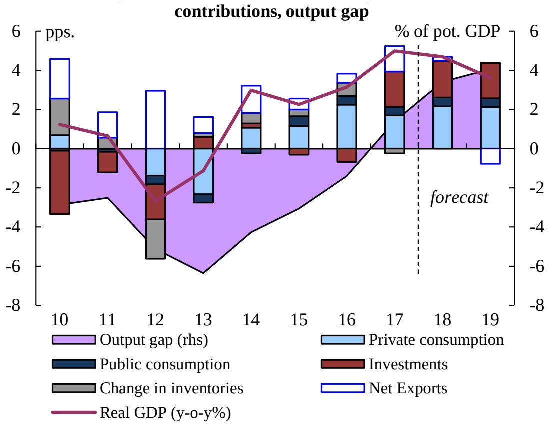
## Continued growth momentum

*Economic growth reached 5.0% in 2017 and is expected to remain robust in 2018 and 2019. In 2018, both domestic and foreign demand are forecast to contribute positively, while growth is set to become more domestically driven in 2019. Investment in machinery and equipment is expected to be strong, creating conditions to meet growing domestic and international demand amid a tightening labour market. Public finances are projected to improve, as a result of the favourable macroeconomic outlook.*

### Solid growth in 2017

In 2017, Slovenia's real GDP grew by 5.0%, making its economy one of the fastest growing in the euro area. Domestic demand continued to expand helped by 10.3% increase in investment. Yet while investment grew in the private sector, public investment was lower than in 2016. Private consumption increased by 3.2%, supported by growing disposable income. However, growth in private as well as public consumption was lower in 2017 than in 2016. Exports grew by 10.6%, outpacing import growth, which stood at 10.1%. Growth accelerated through the year, reaching 6.2% y-o-y in the last quarter. This results in a sizeable carry-over to 2018.

*Graph II.24.1:* **Slovenia - Real GDP growth and contributions, output gap**




### Strong growth expectations for 2018 and 2019

High frequency indicators show no signs of weakening growth in the first quarter of the year, and the factors that have previously supported growth are still present. Real GDP growth is forecast to reach 4.7% in 2018 and 3.6% in 2019. Growth composition is expected to shift more towards domestic demand, with a negative contribution from net exports in 2019. Private consumption is expected to be supported by growing employment, wages and bank lending. Investment growth is projected to remain strong in the private sector and to pick up in the public sector. Driven by strong demand, capacity utilisation is high and the labour market is tightening, creating the need for investment in additional production capacity. Businesses are able to invest thanks to their strong balance sheets and improved lending conditions. While investment in 2017 was mainly driven by machinery and equipment, construction is expected to strengthen going forward. Furthermore, the uptake of EU funds related projects is forecast to improve in 2018 and 2019.

Until now, unit labour costs have remained stable but are forecast to increase going forward, helping to explain the lower projected increase in export market shares. With market shares and exports markets growing, Slovenia's exports are forecast to further expand. Imports are forecast to grow faster than exports due to the strengthening domestic demand. Slovenia's current account surplus reached 6.7% of GDP in 2017 and is projected to decline in 2018 and 2019.

Risks to the growth outlook are seen as balanced and mostly domestic in nature. On the upside, better access to credit could further support investment, particularly in residential properties. On the downside, labour shortages could prove to be a stronger limiting factor to the growth outlook.

### Labour market tightens

In 2017, employment grew by 2.8% and the unemployment rate decreased from 8.0% to 6.6%. Employment is forecast to grow by 2.3% in 2018 and 1.5% in 2019, as labour shortages increase amid a tightening labour market. Foreign workers and a rising participation rate should help to alleviate labour supply constraints to some extent. The unemployment rate is projected to fall to 5.4% in 2019, which would be below its long-term average and close to the levels reached in 2007-2008. Under these conditions, wage pressures are set to rise. Compensation per employee is forecast to grow by 3.9% in 2018 and by 4.8% in 2019 – slightly faster than projected productivity growth.

HICP inflation was 1.6% in 2017 and stood at 1.5% in the first quarter of 2018. Inflation is projected to accelerate over 2018 and 2019, driven by energy prices and the expected growth in wages. Overall, consumer prices are projected to rise by 1.9% in 2018 and 2.0% in 2019.

### General government balance improves

In 2017, the general government finances were in balance, a marked improvement from the 1.9% deficit of 2016. The improvement was driven by stronger-than-expected revenues and lower public investment.

In 2018, the general government is expected to reach a surplus of 0.5% of GDP. Tax revenues and social contributions continue to grow in line with the improving economic situation while interest expenditure is forecast to fall. However, public investment is projected to rebound and both compensation of employees as well as pensions are expected to continue rising.

Under a no-policy-change assumption, the general government balance is expected to reach a surplus of 0.4% of GDP in 2019.

In structural terms, Slovenia's fiscal position improved by about ½ pps. in 2017 but, given the rapidly widening output gap, it is expected to worsen by a similar amount in both 2018 and 2019, reaching about −1 ½%. This is due to the previously implemented temporary consolidation measures expiring and no new structural measures to improve public finances having been taken.

The debt-to-GDP ratio has decreased by 9 pps. between 2015 and 2017, reaching 73.6%. By the end of 2019, the ratio is projected to fall to 65.1% thanks to high GDP growth and primary surplus.

The main downside risks to public finances over the forecast horizon stem from additional upward pressure on public wages and pensions. On the upward side, the good cyclical conditions may boost revenues more than expected.

*Table II.24.1:*

**Main features of country forecast - SLOVENIA**

| | 2016 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 40.4 | 100.0 | 2.2 | 3.0 | 2.3 | 3.1 | **5.0** | **4.7** | **3.6** |
| Private Consumption | 21.6 | 53.4 | 1.8 | 1.9 | 2.1 | 4.2 | **3.2** | **4.1** | **4.1** |
| Public Consumption | 7.6 | 18.7 | 2.0 | -1.2 | 2.7 | 2.5 | **2.3** | **2.5** | **2.5** |
| Gross fixed capital formation | 7.1 | 17.6 | 1.1 | 1.1 | -1.6 | -3.6 | **10.3** | **10.1** | **9.3** |
| of which: equipment | 3.0 | 7.4 | 3.6 | -8.5 | 3.8 | 7.5 | **9.7** | **11.0** | **9.0** |
| Exports (goods and services) | 31.4 | 77.7 | 6.0 | 5.7 | 5.0 | 6.4 | **10.6** | **8.1** | **6.5** |
| Imports (goods and services) | 27.7 | 68.5 | 5.1 | 4.1 | 4.7 | 6.6 | **10.1** | **8.9** | **8.4** |
| GNI (GDP deflator) | 39.3 | 97.2 | 2.2 | 3.4 | 0.1 | 3.4 | **5.6** | **4.8** | **3.7** |
| Contribution to GDP growth: Domestic demand | | | 1.8 | 1.1 | 1.4 | 2.0 | **3.9** | **4.5** | **4.4** |
| Inventories | | | 0.0 | 0.5 | 0.3 | 0.7 | **-0.2** | **0.0** | **0.0** |
| Net exports | | | 0.5 | 1.4 | 0.6 | 0.5 | **1.3** | **0.2** | **-0.8** |
| Employment | | | 0.3 | 0.4 | 1.2 | 1.9 | **2.8** | **2.3** | **1.5** |
| Unemployment rate (a) | | | 6.8 | 9.7 | 9.0 | 8.0 | **6.6** | **5.6** | **5.4** |
| Compensation of employees / head | | | 5.8 | 1.3 | 1.4 | 2.8 | **2.8** | **3.9** | **4.8** |
| Unit labour costs whole economy | | | 3.8 | -1.2 | 0.4 | 1.6 | **0.6** | **1.5** | **2.7** |
| Real unit labour cost | | | -0.1 | -2.0 | -0.6 | 0.7 | **-1.4** | **-1.0** | **0.0** |
| Saving rate of households (b) | | | 13.4 | 12.5 | 12.7 | 12.8 | **12.2** | **11.3** | **10.7** |
| GDP deflator | | | 3.9 | 0.8 | 1.0 | 0.9 | **2.0** | **2.6** | **2.7** |
| Harmonised index of consumer prices | | | 4.5 | 0.4 | -0.8 | -0.2 | **1.6** | **1.9** | **2.0** |
| Terms of trade goods | | | -0.4 | 1.1 | 1.3 | 0.8 | **-0.6** | **0.6** | **0.1** |
| Trade balance (goods) (c) | | | -3.1 | 2.9 | 3.8 | 3.8 | **3.8** | **3.4** | **2.0** |
| Current-account balance (c) | | | -1.8 | 5.8 | 4.5 | 5.3 | **6.7** | **6.6** | **5.2** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -1.6 | 6.0 | 5.6 | 4.5 | **6.1** | **7.1** | **6.1** |
| General government balance (c) | | | -3.8 | -5.5 | -2.9 | -1.9 | **0.0** | **0.5** | **0.4** |
| Cyclically-adjusted budget balance (d) | | | -3.8 | -3.5 | -1.4 | -1.3 | **-0.6** | **-1.1** | **-1.6** |
| Structural budget balance (d) | | | - | -2.1 | -1.3 | -1.1 | **-0.6** | **-1.1** | **-1.5** |
| General government gross debt (c) | | | 32.5 | 80.3 | 82.6 | 78.6 | **73.6** | **69.3** | **65.1** |

(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.

# 25. SLOVAKIA

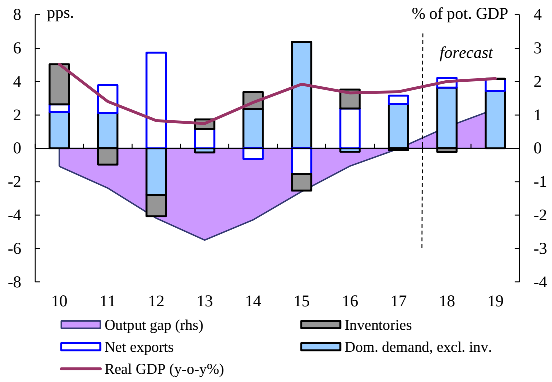
## Growth strengthens thanks to investment and exports

*Slovakia's economic growth is projected to strengthen in 2018 and 2019 on the back of an upswing in investment and more positive contributions of net trade. At the same time, private consumption is set to remain the main contributor to overall growth, backed by solid real wage growth and further employment gains. Consumer prices will likely grow by around 2%, reflecting buoyant wage increases and robust private demand. The government deficit is projected to decrease further.*

### Growth to rise above potential

Following a solid expansion in 2017, Slovakia's economic growth is expected to pick up to around 4% in 2018 and 2019 thanks to stronger investment activity and exports. Private consumption is expected to maintain its recent momentum and is likely to remain the main contributor to growth in 2018 and 2019, backed by solid wage growth, further employment gains and upbeat consumer confidence. The quickened pace of economic expansion is estimated to be above Slovakia's potential growth rate. Signs of spare productive capacity disappearing are evident in the projected falls in an already low unemployment rate, as well as in rising wage and consumer inflation. At the same time, the current productivity-enhancing investment projects and possible activation of labour supply reserves provide scope for a boost in potential growth.

*Graph II.25.1:* **Slovakia - Real GDP growth and contributions, output gap**




### Investment growth and net trade strengthen

Following a rebound in 2017, investment growth is set to peak in 2018 at around 6% on the back of large investment projects in the automotive industry, including the completion of a new car factory. Overall investment activity is likely to remain robust in 2019, buoyed by public infrastructure projects such as the Bratislava ring road. However, the relatively slow drawdown of EU investment funds in 2016 and 2017 poses a negative risk to the near-term investment outlook and increases the likelihood of renewed investment swings at the end of the current funding period.

Export growth is expected to rise over the forecast horizon to around 8% in 2019. Expanded production facilities in the car industry boost Slovakia's export capacities in conditions of robust foreign demand. Imports are also set to strengthen on the back of buoyant exports and investment, both of which are relatively import-intensive. The contribution of net trade to overall GDP growth is set to rise as exports outpace imports.

### Tight labour market boosts wage growth

The tightening of the labour market coupled with insufficient labour supply in some regions is bound to continue exerting upward pressure on nominal wages, particularly in an environment of reviving consumer prices. Unemployment fell to a record low of 8.1% in 2017 and is expected to decline further to around 6% in 2019, reflecting continued economic expansion. Reported labour shortages surged across sectors in 2017, dwarfing their rise before the financial crisis. At the same time, there is scope for bolstering the labour supply, mainly due to further increases in the participation ratio, the return of Slovaks from abroad, and the inflow of foreign workers. Still, demand for labour is likely to exceed supply, thus pushing nominal wage growth to over 5% in 2018 and 2019. Real wage growth is set to gradually increase to more than 3% in 2019, reinforcing household budgets and private consumption.

### Inflation reflects upbeat demand and wages

Inflation is expected to pick up to over 2% in 2018, reflecting renewed growth in energy prices and rising prices of services. By contrast, food price growth is set to soften over the course of the year. Headline inflation is projected to remain close to 2% in 2019, underpinned by brisk services price inflation of over 3%, which is driven by robust wage growth and solid consumer spending.

Core inflation (excl. energy and unprocessed food) is set to remain around 2.2% over the forecast horizon.

### Government deficit gradually improving

The general government deficit narrowed from 2.2% of GDP in 2016 to 1.0% in 2017, its lowest level on record. The fiscal improvement resulted mainly from high revenue collection, underpinned by brisk economic growth and a strengthening labour market. Total revenues grew broadly in line with GDP owing to increases in social contributions and VAT receipts. The general government expenditure ratio declined by 1.1 pps. to 40.4% of GDP on the back of lower central government investment and declining interest payments. However, these deficit-reducing effects were partly offset by spending increases, notably on wages and intermediate consumption. The structural deficit reached 1% of potential GDP in 2017, a decrease of 1 pp. compared to 2016.

In 2018, the headline deficit is to set to decline to 0.9% of GDP, with total expenditure and revenue levels falling by close to 1 pp. of GDP each. Buoyant private consumption and a strong labour market are likely to ensure steady growth in revenues, particularly from social contributions and personal income taxes. The 2018 budget foresees marked increases in public wages and social benefits, including an ad hoc pension increase for those who became pensioners before 2004. While the level of EU funds drawdown is planned to remain at a low level, public investment may pick up in light of municipal elections in autumn 2018. Due to limited fiscal consolidation measures in 2018 - a year in which the output gap turns positive - the structural balance is expected to deteriorate slightly in 2018.

In 2019, the headline deficit is expected to improve to 0.3% of GDP. The main downside risk to the public finances over the forecast horizon is political uncertainty owing to the fragility of the coalition government. The main upside risk to the forecast deficit is a possible overshooting of public investment spending.

The general government debt-to-GDP ratio is expected to decline to less than 50% by 2018 and to 46.6% in 2019, driven by expected primary surpluses and robust nominal GDP growth.

*Table II.25.1:*

**Main features of country forecast - SLOVAKIA**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn EUR Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 81.2 | 100.0 | 3.7 | 2.8 | 3.9 | 3.3 | **3.4** | **4.0** | **4.2** |
| Private Consumption | | 44.3 | 54.5 | 3.1 | 1.4 | 2.2 | 2.7 | **3.6** | **3.6** | **3.6** |
| Public Consumption | | 15.7 | 19.4 | 2.7 | 5.2 | 5.4 | 1.6 | **0.2** | **1.6** | **2.0** |
| Gross fixed capital formation | | 17.2 | 21.2 | 1.1 | 3.0 | 19.8 | -8.3 | **3.2** | **6.5** | **5.2** |
| of which: equipment | | 8.8 | 10.8 | 1.7 | 20.3 | 13.0 | 2.0 | **3.0** | **5.3** | **5.2** |
| Exports (goods and services) | | 76.8 | 94.6 | 9.1 | 3.9 | 6.4 | 6.2 | **4.3** | **7.1** | **7.9** |
| Imports (goods and services) | | 73.9 | 91.1 | 6.9 | 4.8 | 8.4 | 3.7 | **3.9** | **6.8** | **7.6** |
| GNI (GDP deflator) | | 80.0 | 98.6 | 3.7 | 2.4 | 3.3 | 3.8 | **3.3** | **4.0** | **4.2** |
| Contribution to GDP growth: | Domestic demand | | | 2.6 | 2.3 | 6.4 | -0.2 | **2.7** | **3.6** | **3.5** |
| | Inventories | | | 0.0 | 1.0 | -1.0 | 1.1 | **-0.1** | **-0.2** | **0.0** |
| | Net exports | | | 1.2 | -0.6 | -1.5 | 2.4 | **0.5** | **0.6** | **0.7** |
| Employment | | | | 0.2 | 1.4 | 2.0 | 2.4 | **2.2** | **1.4** | **1.2** |
| Unemployment rate (a) | | | | 15.1 | 13.2 | 11.5 | 9.7 | **8.1** | **7.1** | **6.3** |
| Compensation of employees / head | | | | 6.7 | 1.8 | 3.5 | 2.3 | **4.1** | **5.4** | **5.7** |
| Unit labour costs whole economy | | | | 3.0 | 0.5 | 1.6 | 1.4 | **2.8** | **2.7** | **2.7** |
| Real unit labour cost | | | | -0.3 | 0.7 | 1.7 | 1.8 | **1.6** | **0.0** | **0.1** |
| Saving rate of households (b) | | | | 7.8 | 7.2 | 8.9 | 9.5 | **7.7** | **6.8** | **6.0** |
| GDP deflator | | | | 3.3 | -0.2 | -0.2 | -0.4 | **1.3** | **2.7** | **2.5** |
| Harmonised index of consumer prices | | | | 4.9 | -0.1 | -0.3 | -0.5 | **1.4** | **2.4** | **2.1** |
| Terms of trade goods | | | | -0.8 | 0.2 | -0.2 | -0.4 | **-0.7** | **0.4** | **0.6** |
| Trade balance (goods) (c) | | | | -4.3 | 3.4 | 1.3 | 2.9 | **2.7** | **3.4** | **4.3** |
| Current-account balance (c) | | | | -5.3 | 1.0 | -1.0 | 0.4 | **0.5** | **0.8** | **1.4** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -4.9 | 1.9 | 1.1 | 0.2 | **0.2** | **0.6** | **1.5** |
| General government balance (c) | | | | -5.1 | -2.7 | -2.7 | -2.2 | **-1.0** | **-0.9** | **-0.3** |
| Cyclically-adjusted budget balance (d) | | | | -5.0 | -1.9 | -2.2 | -2.0 | **-1.0** | **-1.2** | **-0.8** |
| Structural budget balance (d) | | | | - | -2.1 | -2.2 | -2.0 | **-1.0** | **-1.2** | **-0.8** |
| General government gross debt (c) | | | | 41.0 | 53.5 | 52.3 | 51.8 | **50.9** | **49.0** | **46.6** |

(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.

# 26. FINLAND

## Growth momentum remains robust

*Economic growth continues to be fuelled by private consumption and investment, supported by high confidence levels, rising employment and low interest rates. Public finances are improving further and the debt-to-GDP ratio is projected to decline to under 60% of GDP in 2019.*

### Strong results for 2017

Preliminary data for 2017 show that GDP growth climbed to 2.6%, driven by net exports, investment and private consumption. Exports rose by 7.8%, with growth in all major categories, while imports growth remained subdued. The increase in exports is due to growing demand in Finland's main export markets but also due to improved cost competitivness and to the recent expansion in production capacity in the forest and automotive industries. Domestic demand rose on the back of the strongest increase in corporate investment since 2007 and a rise in private consumption that came despite the subdued wage growth induced by a broad private and public sector negotiated wage freeze.

### Positive growth outlook

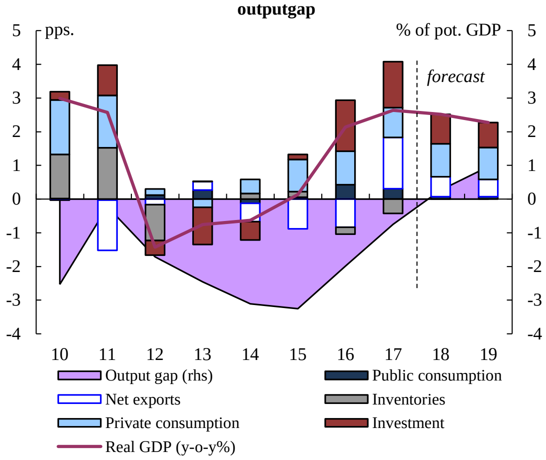
Private consumption is forecast to become the main growth driver over the forecast horizon, supported by the rise in household disposable income, rising employment and high consumer confidence. The positive economic sentiment, record low interest rates and rising employment prospects are likely to keep the household saving rate on historically low levels with only a slight recovery in 2019.

The growth rate of private investment is expected to slow down from a very high level, but to remain positive. Growth in the construction sector is expected to slowdown, while equipment investment is expected to continue, underpinned by above-average business confidence levels and favourable financing conditions. Public investment is forecast to decline in 2019 after modest growth in 2018.

Export growth is forecast to remain positive in both 2018 and 2019, on the back of rising external demand, improved cost competitiveness and recent capacity expansions. High sentiment indicators and expanding industrial orders point to strong growth in the short term.

Import growth is expected to pick up again in line with domestic demand, but at a slower pace than export growth, leading to an improved trade balance and a rising current account surplus. As a result, net exports are set to give a small positive contribution to GDP growth over the forecast horizon.

*Graph II.26.1:* **Finland - Real GDP growth and contributions, outputgap**




### Improving labour market and rising prices

After almost no increase in wages in 2017, agreed sectoral wage increases of at least 1.6% in both 2018 and 2019 are likely to raise hourly labour costs only moderately. Employment growth is set to continue, supported by rising demand. The unemployment rate is expected to decrease by less than the rise in the employment rate due to the return of many new job seekers from inactivity.

Inflation is forecast to accelerate but to remain below 2%. Higher oil prices and the agreed increases in wages are likely to increase the prices of energy and services to some extent.

Risks to the outlook are tilted to the upside. Private consumption could give an even stronger push to the economy as high confidence levels may encourage household to reduce their savings. Faster-than-expected growth in Finland's main export markets (especially Russia) would further boost exports. Domestic downside risks relate to the possibility of a stronger-than-forecast rise in wages which would impact price competitiveness.

### Public finances

Finland's public finances improved in 2017 thanks to the favourable economic cycle and continued expenditure cuts. Corporate income tax revenues jumped up by more than one fifth from the previous year, partly thanks to one single ownership arrangement. In accordance with the Competitiveness Pact, income tax was cut and social security contributions were lowered in 2017. All in all, the growth rate of total revenue at 1.6% was rather modest compared to the growth of the economy. In 2017 total general government expenditure fell by 0.6% to 53.7% of GDP. This was mainly due to a decrease in the compensation of employees and transfers to the EU. As the labour market gained strength over the course of the year cyclical expenditure decreased gradually. Altogether, the general government headline balance improved from -1.8% of GDP to -0.6%.

Despite the projected economic expansion and the planned consolidation of public finances in 2018, the government balance is expected to slightly worsen to -0.7% of GDP as some of the above mentioned positive factors fade out. In 2019, as some of the government's investment projects come to an end and consolidation continues, the headline deficit is projected to improve to 0.2% of GDP.

With the improved balance and faster nominal GDP growth, the decline in Finland's debt-to-GDP ratio has accelerated. The ratio fell by 1.6 pps. to 61.4% in 2017 and is projected at 59.6% in 2019.

Finland's structural balance is estimated to be broadly balanced in 2017 and is expected to worsen in 2018 to about ¾% of GDP.

*Table II.26.1:*

**Main features of country forecast - FINLAND**

| | | 2016 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **bn EUR Curr. prices** | **% GDP** | **98-13** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** |
| GDP | | 215.8 | 100.0 | 2.0 | -0.6 | 0.1 | 2.1 | **2.6** | **2.5** | **2.3** |
| Private Consumption | | 119.1 | 55.2 | 2.5 | 0.8 | 1.7 | 1.8 | **1.6** | **1.8** | **1.8** |
| Public Consumption | | 51.7 | 24.0 | 1.3 | -0.5 | 0.2 | 1.8 | **1.3** | **0.3** | **0.3** |
| Gross fixed capital formation | | 46.5 | 21.6 | 1.6 | -2.6 | 0.7 | 7.4 | **6.3** | **3.9** | **3.2** |
| of which: equipment | | 10.8 | 5.0 | 0.8 | -1.6 | 4.6 | 10.7 | **12.4** | **6.1** | **6.5** |
| Exports (goods and services) | | 77.7 | 36.0 | 4.2 | -2.7 | 0.9 | 3.5 | **7.8** | **5.4** | **4.8** |
| Imports (goods and services) | | 79.4 | 36.8 | 4.6 | -1.3 | 3.2 | 5.7 | **3.5** | **3.9** | **3.6** |
| GNI (GDP deflator) | | 217.5 | 100.8 | 2.2 | -0.1 | 0.1 | 2.0 | **3.0** | **2.4** | **2.2** |
| Contribution to GDP growth: | Domestic demand | | | 1.9 | -0.3 | 1.2 | 2.9 | **2.6** | **1.9** | **1.8** |
| | Inventories | | | 0.0 | 0.2 | 0.2 | -0.2 | **-0.4** | **0.0** | **0.0** |
| | Net exports | | | 0.2 | -0.5 | -0.9 | -0.8 | **1.5** | **0.6** | **0.5** |
| Employment | | | | 1.0 | -0.5 | -0.1 | 0.3 | **1.1** | **1.0** | **0.6** |
| Unemployment rate (a) | | | | 8.6 | 8.7 | 9.4 | 8.8 | **8.6** | **8.4** | **8.3** |
| Compensation of employees / head | | | | 3.1 | 1.0 | 1.4 | 1.3 | **-1.1** | **1.5** | **2.2** |
| Unit labour costs whole economy | | | | 2.0 | 1.1 | 1.2 | -0.6 | **-2.5** | **0.0** | **0.5** |
| Real unit labour cost | | | | 0.2 | -0.6 | -0.7 | -1.3 | **-3.4** | **-1.4** | **-1.1** |
| Saving rate of households (b) | | | | 8.6 | 7.2 | 6.9 | 6.2 | **5.9** | **5.9** | **6.2** |
| GDP deflator | | | | 1.8 | 1.7 | 1.9 | 0.8 | **0.9** | **1.5** | **1.6** |
| Harmonised index of consumer prices | | | | 2.0 | 1.2 | -0.2 | 0.4 | **0.8** | **1.4** | **1.7** |
| Terms of trade goods | | | | -1.2 | 1.7 | 5.0 | 2.0 | **-1.1** | **-0.8** | **-0.3** |
| Trade balance (goods) (c) | | | | 4.9 | 0.7 | 0.8 | 0.4 | **1.0** | **1.2** | **1.4** |
| Current-account balance (c) | | | | 3.6 | -1.3 | -0.8 | -1.1 | **0.7** | **1.0** | **1.4** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 3.7 | -1.2 | -0.7 | -1.1 | **0.8** | **1.1** | **1.5** |
| General government balance (c) | | | | 1.8 | -3.2 | -2.8 | -1.8 | **-0.6** | **-0.7** | **-0.2** |
| Cyclically-adjusted budget balance (d) | | | | 1.7 | -1.4 | -0.9 | -0.7 | **-0.1** | **-0.9** | **-0.8** |
| Structural budget balance (d) | | | | - | -1.5 | -0.9 | -0.7 | **-0.1** | **-0.8** | **-0.9** |
| General government gross debt (c) | | | | 43.3 | 60.2 | 63.5 | 63.0 | **61.4** | **60.4** | **59.6** |

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

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

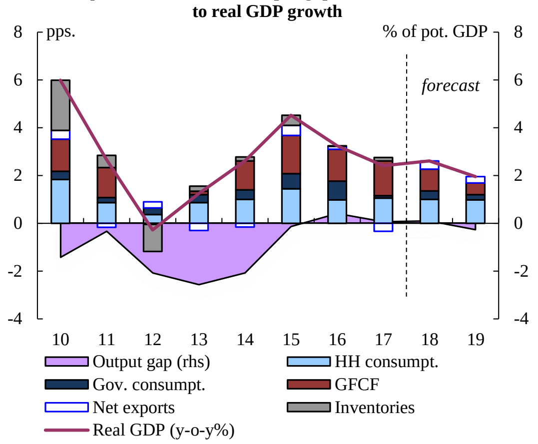
## 27. SWEDEN
### Preparing for a soft landing

*Economic growth in Sweden is expected to remain solid this year on the back of domestic demand and exports, but is forecast to moderate in 2019 when construction investment declines. The unemployment rate is set to fall and stabilise over 2018 and 2019. Inflation is expected to remain broadly stable and below the Riksbank's target of 2%. Despite an increase in public consumption in 2018, the general government balance is projected to remain in surplus.*

#### Growth to ease somewhat

Real GDP growth in Sweden cooled to 2.4% in 2017 and is set to grow at a broadly similar pace in 2018 before easing further to 2.0% in 2019. The moderation in the economy's growth rate is mainly the result of an abatement in domestic demand growth, although stronger net exports offset this effect somewhat. While economic confidence has been edging down a bit, it remains positive and above its long-term average.

*Graph II.27.1:* **Sweden - Output gap and contributions to real GDP growth**




#### Slowing domestic demand growth

Domestic demand growth is set to decelerate from 2.6% in 2017 to 1.7% in 2019, mainly due to developments in housing investment. After years of strong growth, house prices declined in the last quarter of 2017 and have broadly stabilised at a lower level. This fall seems to have negatively affected sentiment in the construction industry and production in the construction sector also decreased recently. The number of newly built homes is expected to significantly decline over the forecast horizon from a 30-year peak reached in 2017. Overall, instead of a positive contribution to real GDP growth of around 0.7 pps. in 2017, residential investment is expected to subtract some 0.2 pps. in 2019.

Capacity utilisation is set to remain high and demand prospects have increased since the autumn. Machinery and equipment investment is therefore expected to expand at a solid albeit declining pace in 2019, making overall gross fixed capital formation likely to grow by 3.7% in 2018 and 1.9% in 2019.

Private consumption growth is projected to remain broadly stable, with 2.3% in 2018 and 2.2% in 2019. While employment growth is expected to remain quite robust, wage growth is set to be lacklustre. With core inflation gradually increasing towards the end of 2019, real disposable income growth appears inadequate to spur any acceleration in household consumption growth.

General government consumption is set to increase by 1.4% in 2018, with additional spending from the 2018 budget bill compared to 2017, before slowing to 0.8% in 2019. Most of the additional spending is expected to be undertaken by local authorities to hire staff and improve infrastructures in view of a growing and ageing population.

#### Net exports to support growth

Goods exports rose by 3.2% in Q4-2017 quarter-on-quarter, bolstered by improvements in global trade, while exports of services were not as strong. As the import content of Swedish exports is high, goods imports also rose. Net exports are expected to turn positive in 2018, in line with the strong demand from Sweden's trading partners, notably Germany, and should remain positive in 2019 with import growth forecast to slow as domestic demand weakens.

#### Strong labour market activity

Employment growth was strong in 2017 and is set to remain solid, though at somewhat lower levels, as economic conditions are generally favourable. As shortages of skilled labour are increasingly acute, however, unemployment is expected to fall and stabilise at around 6.3% over 2018 and 2019.

The strong expansion in the labour force in 2017, particularly among low-skilled workers, means that the unemployment rate is unlikely to fall further.

### Steady inflation

Headline inflation is expected to stay around 1.9% in 2018 and to edge down to 1.7% in 2019. The weak Swedish krona is set to exert upward pressures on import prices along with higher oil and electricity prices in 2018 but wage and rent growth remains muted, preventing a further acceleration in consumer price inflation. Agreed wage increases among exporters for 2018-2019 of around 2.2% per year are holding back core inflation despite a tight domestic labour market.

### Risks tilted to the downside

While the decline in house prices seems to have come to a halt, a further decrease could lead to a stronger fall in residential construction activity. This could have potentially negative repercussions on consumer confidence and therefore household consumption, and ultimately growth.

### Smaller surpluses

Sweden's general government balance had a surplus of 1.3% of GDP in 2017, up from 1.2% in 2016 on the back of strong revenues. In addition to the measures already announced last autumn for 2018, the government proposed new reforms in its 2018 spring budget bill to further improve the integration of newly-arrived migrants, as well as additional spending on security and the environment. Since these measures are forecast to be only partially financed by additional revenue growth, it is expected that net lending will decline to 0.8% of GDP in 2018.

The headline surplus is set to increase slightly to 0.9% of GDP under a no-policy-change assumption. This would be above the adopted new surplus target of 0.33% of GDP with effect from 2019. The structural surplus is projected to decline by around ½ pps. of GDP in 2018 and to increase to 1.0% of GDP in 2019. Sweden's gross debt has been falling in recent years, and should continue to do so, on the back of economic growth and budget surpluses. The debt-to-GDP ratio is projected to fall from 40.6% in 2016 to 35.5% in 2019.

*Table II.27.1:*

**Main features of country forecast - SWEDEN**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn SEK | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 4404.8 | 100.0 | 2.4 | 2.6 | 4.5 | 3.2 | **2.4** | **2.6** | **2.0** |
| Private Consumption | | 1949.8 | 44.3 | 2.4 | 2.1 | 3.1 | 2.2 | **2.4** | **2.3** | **2.2** |
| Public Consumption | | 1151.7 | 26.1 | 1.1 | 1.5 | 2.4 | 3.1 | **0.4** | **1.4** | **0.8** |
| Gross fixed capital formation | | 1059.5 | 24.1 | 3.1 | 5.5 | 6.9 | 5.6 | **6.0** | **3.7** | **1.9** |
| of which: equipment | | 319.4 | 7.3 | 3.9 | -1.1 | 5.1 | 4.8 | **4.8** | **5.7** | **3.8** |
| Exports (goods and services) | | 1950.1 | 44.3 | 4.2 | 5.3 | 5.7 | 3.3 | **3.7** | **4.7** | **3.7** |
| Imports (goods and services) | | 1737.0 | 39.4 | 4.1 | 6.3 | 5.2 | 3.4 | **5.0** | **4.3** | **3.5** |
| GNI (GDP deflator) | | 4455.0 | 101.1 | 2.6 | 2.5 | 3.7 | 3.1 | **2.7** | **2.5** | **1.9** |
| Contribution to GDP growth: | Domestic demand | | | 2.1 | 2.6 | 3.7 | 3.1 | **2.6** | **2.3** | **1.7** |
| | Inventories | | | 0.0 | 0.2 | 0.4 | 0.0 | **0.1** | **0.0** | **0.0** |
| | Net exports | | | 0.3 | -0.2 | 0.4 | 0.1 | **-0.3** | **0.3** | **0.3** |
| Employment | | | | 0.9 | 1.4 | 1.5 | 1.7 | **2.3** | **1.6** | **1.3** |
| Unemployment rate (a) | | | | 7.3 | 7.9 | 7.4 | 6.9 | **6.7** | **6.3** | **6.3** |
| Compensation of employees / head | | | | 3.3 | 2.2 | 2.7 | 2.8 | **2.1** | **2.7** | **2.4** |
| Unit labour costs whole economy | | | | 1.8 | 1.0 | -0.3 | 1.3 | **2.0** | **1.7** | **1.8** |
| Real unit labour cost | | | | 0.2 | -0.7 | -2.3 | -0.3 | **0.0** | **-0.4** | **-0.6** |
| Saving rate of households (b) | | | | 11.3 | 18.9 | 17.6 | 18.9 | **18.2** | **18.4** | **17.6** |
| GDP deflator | | | | 1.6 | 1.8 | 2.1 | 1.6 | **2.1** | **2.1** | **2.3** |
| Harmonised index of consumer prices | | | | 1.5 | 0.2 | 0.7 | 1.1 | **1.9** | **1.9** | **1.7** |
| Terms of trade goods | | | | -0.7 | 0.9 | 1.7 | 0.5 | **-0.6** | **-0.9** | **0.5** |
| Trade balance (goods) (c) | | | | 6.2 | 3.1 | 3.0 | 2.7 | **2.9** | **2.8** | **3.1** |
| Current-account balance (c) | | | | 6.2 | 4.7 | 4.6 | 4.7 | **4.0** | **4.1** | **4.4** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 6.0 | 4.6 | 4.4 | 4.6 | **4.0** | **4.0** | **4.3** |
| General government balance (c) | | | | 0.6 | -1.6 | 0.2 | 1.2 | **1.3** | **0.8** | **0.9** |
| Cyclically-adjusted budget balance (d) | | | | 0.8 | -0.3 | 0.3 | 0.9 | **1.2** | **0.7** | **1.0** |
| Structural budget balance (d) | | | | - | -0.3 | 0.3 | 0.9 | **1.2** | **0.7** | **1.0** |
| General government gross debt (c) | | | | 46.7 | 45.5 | 44.2 | 42.1 | **40.6** | **38.0** | **35.5** |

(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.

# 28. THE UNITED KINGDOM

## Outlook remains subdued as slowdown persists

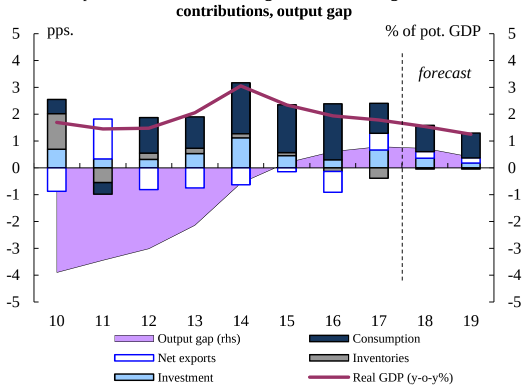
*Annual GDP growth in the UK has slowed continuously since its post crisis high in 2014. Based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK, growth is expected to moderate further. Private consumption growth is projected to be modest, in line with wage growth and stabilisation of household savings. Business investment is forecast to remain weak while uncertainty persists, in addition net trade is expected to moderate. Although the labour market is expected to remain tight, inflation should ease as the impact of sterling's 2016 depreciation fades.*

### External demand supported growth in 2017

UK GDP growth has been slowing since 2014, when it reached a post-crisis high of 3.1%. The slowdown from 1.9% in 2016 to 1.8% in 2017 may appear marginal but the 2017 rate was in fact supported by a positive statistical (carry-over) effect from 2016. Notwithstanding this effect, a more material slowdown is apparent in the quarterly figures throughout 2017.

This slowdown was driven primarily by a decline in private consumption growth, which fell to 1.7% in 2017, its lowest rate since 2013. This was mainly due to the squeeze on real disposable incomes caused by the rate of nominal wage growth falling below consumer price inflation. Additionally, due to ongoing uncertainty, business investment growth was weaker than one would expect given otherwise favourable financing and external demand conditions.

*Graph II.28.1:* **The United Kingdom - Real GDP growth and contributions, output gap**




Against this, supported by the earlier depreciation of sterling and buoyant external markets, net exports contributed 0.6 pps. to GDP growth in 2017, compared to a negative 0.8 pps. in 2016.

### The slowdown in growth is set to continue in 2018 and 2019

The modest growth momentum in 2017 appears to have continued into the first quarter of 2018. High frequency indicators suggest that GDP growth slowed in 2018-Q1, in part due to severe weather disruption in March.

For 2018 as a whole, private consumption growth is expected to remain subdued despite support from lower inflation, as the household saving rate stabilises around historic lows. Business investment growth is projected to remain relatively weak while uncertainly persists. Net trade contribution to growth is expected to moderate in 2018, in line with the unwinding of the boost from sterling's earlier depreciation and moderating export market growth. Reflecting this outlook, modest GDP growth of 1.5% in 2018 is forecast.

Given the ongoing negotiation over the terms of the UK's withdrawal from the EU, projections for 2019 continue to be based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. This is for forecasting purposes only and has no bearing on the talks underway in the context of the Article 50 process. Under this assumption, GDP growth is expected to remain weak at 1.2% in 2019. The boost from lower consumer price inflation on private consumption is projected to be offset by a slight increase in the household saving rate and stabilising wage growth. Business investment is projected to remain subdued following a period of prolonged uncertainty. Net export growth is forecast to remain positive but modest, broadly in line with growth in export markets.

### The labour market is set to remain tight but inflation is projected to ease

Over the forecast period, the labour market is expected to show continued resilience, with the unemployment rate forecast to remain broadly steady. As a result of the tight labour market, wage growth is expected to pick up, but only modestly, reflecting the UK's flexible labour market and elevated levels of uncertainty. Despite the pick-up in wages, inflation is expected to gradually ease throughout 2018, as the impact of sterling's earlier depreciation on consumer prices unwinds. Inflation in 2019 is expected to be 1.9%.

## General government deficit to fall in 2018-2019

The general government deficit is expected to have fallen to 2.2% of GDP in the 2017-2018 fiscal year, from 2.4% in 2016-2017. This further reduction in the deficit occurred despite slightly lower government revenues (as a percentage of GDP). The narrowing deficit reflects the ongoing expenditure-based fiscal consolidation being undertaken by the UK authorities. There was, however, a sharp increase in interest payments, due to the impact of higher inflation on inflation-linked bond coupon payments. The structural deficit is expected to have fallen to about 2½% of GDP in 2017-2018, from about 2¾% in 2016-17.

Over the forecast horizon, the general government deficit is expected to fall to 1.8% of GDP in 2018-2019 and 1.7% of GDP in 2019-2020, amid expected further declines in the expenditure-to-GDP ratio. However, following the announcement of a number of expenditure-increasing discretionary fiscal measures, the projected decline in the deficit is lower than previously expected. Moreover, risks to the projected general government balance are to the downside, in particular due to growing pressures for increased spending on public services. The structural deficit is expected to fall to about 2¼% of GDP in 2018-2019 and to about 1¾% of GDP in 2019-2020. The general government debt ratio is projected to fall to 84.3% of GDP in 2019-2020 after having remained steady at 86.7% of GDP between 2015-2016 and 2017-2018.

*Table II.28.1:*
**General government projections on a financial-year basis**

| *ESA10* | Actual | | Forecast | | |
|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| General government balance~ | -4.0 | -2.4 | **-2.2** | **-1.8** | **-1.7** |
| Structural budget balance | -4.2 | -2.8 | **-2.6** | **-2.2** | **-1.8** |
| General government gross debt | 86.7 | 86.7 | **86.7** | **85.5** | **84.3** |

~APF transfers included

*Table II.28.2:*
**Main features of country forecast - UNITED KINGDOM**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn GBP | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 1963.3 | 100.0 | 1.9 | 3.1 | 2.3 | 1.9 | **1.8** | **1.5** | **1.2** |
| Private Consumption | | 1292.4 | 65.8 | 2.1 | 2.1 | 2.6 | 2.9 | **1.7** | **1.2** | **1.2** |
| Public Consumption | | 369.7 | 18.8 | 2.3 | 2.5 | 0.6 | 0.8 | **0.1** | **1.0** | **0.8** |
| Gross fixed capital formation | | 323.8 | 16.5 | 1.3 | 7.1 | 2.8 | 1.8 | **4.0** | **2.1** | **1.1** |
| of which: equipment | | 80.5 | 4.1 | 0.8 | 17.7 | 6.4 | 1.6 | **-1.9** | **0.3** | **1.0** |
| Exports (goods and services) | | 554.7 | 28.3 | 3.2 | 2.7 | 5.0 | 2.3 | **5.7** | **3.6** | **2.9** |
| Imports (goods and services) | | 595.4 | 30.3 | 4.0 | 4.5 | 5.1 | 4.8 | **3.2** | **2.7** | **2.2** |
| GNI (GDP deflator) | | 1912.9 | 97.4 | 1.8 | 3.1 | 2.1 | 1.6 | **2.8** | **1.5** | **1.2** |
| Contribution to GDP growth: | Domestic demand | | | 2.1 | 3.5 | 2.4 | 2.4 | **1.8** | **1.3** | **1.1** |
| | Inventories | | | 0.1 | 0.2 | 0.1 | -0.1 | **-0.4** | **0.0** | **0.0** |
| | Net exports | | | -0.3 | -0.6 | -0.1 | -0.8 | **0.6** | **0.2** | **0.2** |
| Employment | | | | 0.8 | 2.4 | 1.7 | 1.4 | **1.0** | **0.5** | **0.4** |
| Unemployment rate (a) | | | | 6.1 | 6.1 | 5.3 | 4.8 | **4.4** | **4.4** | **4.6** |
| Compensation of employees / head | | | | 3.8 | 0.5 | 1.1 | 3.3 | **2.9** | **2.9** | **2.9** |
| Unit labour costs whole economy | | | | 2.7 | -0.1 | 0.4 | 2.7 | **2.2** | **1.9** | **2.1** |
| Real unit labour cost | | | | 0.7 | -1.8 | 0.0 | 0.7 | **0.2** | **-0.1** | **0.5** |
| Saving rate of households (b) | | | | 8.9 | 8.4 | 9.2 | 7.1 | **5.1** | **5.0** | **5.5** |
| GDP deflator | | | | 2.0 | 1.7 | 0.5 | 2.0 | **2.0** | **2.0** | **1.6** |
| Harmonised index of consumer prices | | | | 2.2 | 1.5 | 0.0 | 0.7 | **2.7** | **2.5** | **1.9** |
| Terms of trade goods | | | | 0.1 | -0.2 | -1.6 | 2.7 | **0.1** | **0.9** | **0.9** |
| Trade balance (goods) (c) | | | | -4.9 | -6.7 | -6.3 | -6.9 | **-6.7** | **-6.3** | **-6.0** |
| Current-account balance (c) | | | | -3.0 | -5.3 | -5.2 | -5.8 | **-4.1** | **-3.5** | **-3.0** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -3.0 | -5.4 | -5.3 | -5.9 | **-4.1** | **-3.6** | **-3.2** |
| General government balance (c) | | | | -3.8 | -5.4 | -4.3 | -3.0 | **-1.9** | **-1.9** | **-1.6** |
| Cyclically-adjusted budget balance (d) | | | | -3.5 | -5.1 | -4.4 | -3.3 | **-2.4** | **-2.4** | **-1.9** |
| Structural budget balance (d) | | | | - | -5.0 | -4.4 | -3.3 | **-2.4** | **-2.4** | **-1.9** |
| General government gross debt (c) | | | | 51.6 | 87.4 | 88.2 | 88.2 | **87.7** | **86.3** | **85.3** |

(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.

# Candidate Countries

# 29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

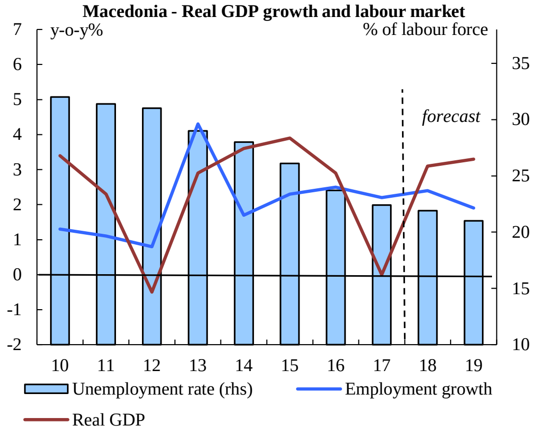
## Fiscal stimulus accelerates nascent recovery

*After marked output losses in the first three quarters, as investor confidence was dampened by the extended political crisis, the economy has shown signs of recovery since last autumn. Supported by government subsidies to investment and wages, growth is projected to accelerate in 2018 and 2019.*

### The economy has begun its recovery as investor sentiment bounces back

The economy returned to modest growth of 1.2% (y-o-y) in the fourth quarter of 2017. However, the fledgling recovery could not compensate for output losses of the first three quarters, which resulted from a deep dip in the growth rate of private and public investment. On average in 2017, economic output remained largely at the same level as one year earlier. Household spending increased further, driven by robust job creation and rising real net wages. Net exports did not contribute to GDP growth, as import increases remained particularly strong in spite of the investment downturn. Loans to the corporate sector recovered in the second half of the year, posting increasing annual growth rates each month. After three consecutive years of deflation, consumer prices rose again in 2017, at 1.1% (y-o-y) on average, as food and fuel price increases spilled over into other sectors. The labour market improved further in 2017, though annual employment gains slowed down.

*Graph II.29.1:* **The former Yugoslav Republic of Macedonia - Real GDP growth and labour market**




### Supported by government subsidies, the growth pick-up is likely to accelerate

Growth is expected to rebound in 2018 and 2019 carried by domestic demand. The economy is likely to expand at a solid and accelerating pace. Household consumption should benefit from further employment gains, buttressed by additional public funding for labour market measures, and from robust growth in disposable incomes. The latter are set to benefit from the rise in minimum wages, subsidised by the government, as well as in social transfers, both effective since September 2017, and from strengthening private transfers from abroad. Real wages are expected to increase further, albeit at a slower pace, as a result of higher inflation over the forecast horizon.

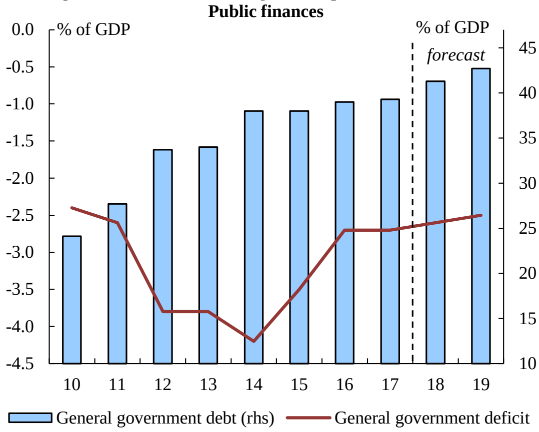
With private investors regaining confidence, and the government providing some EUR 32 mn investment support in its 2018 budget, with an additional EUR 16 mn budgeted by other public sector bodies, gross fixed capital formation may add to GDP growth in 2018 and 2019. Early signs are gradual increases, since summer 2017, in capital goods imports and corporate credit, including long-term loans. Public investment, even though subdued in the first two months of the year, is expected to strengthen. Important administrative obstacles to the continuation of motorway construction have been cleared. The government foresees capital expenditure to increase by 22% in 2018 on the 2017 outcome, and by a further 6% in 2019. It plans to raise implementation rates, which hovered at some 83% of budget in past years.

Export growth is expected to remain robust. The government has signed new contracts with foreign investors, and established foreign companies are planning to expand their capacities. The importance of these entities as drivers of growth and employment is increasing. They are largely specialised in technology-intensive sectors and account for a growing share of the country's exports. As a result of the expected expansion in import-intensive investment and production, import growth will remain strong as well. Overall, the external position is likely to remain stable.

### Risks to projections are on the downside

The performance of the external sector may, however, turn out less buoyant if looming global trade frictions, caused by US threats of rising import restrictions, are exacerbating, and if growth in major trade partners underperforms current expectations. Domestically, the risk of renewed political instability, given the fragile parliamentary majority of the government could lead to a delay in growth- and employment-enhancing structural reforms, and in fiscal consolidation, posing a challenge to the sustainability of public finances.

*Graph II.29.2:* **The former Yugoslav Republic of Macedonia - Public finances**




### Fiscal policy remains supportive of growth

In 2017, the general government deficit remained below the revised target of 2.9%. Revenues and expenditures were higher by 6% (y-o-y). Net VAT receipts contributed about one fifth of total revenue increase, even though the government started on clearing its VAT arrears to the private sector. Transfers rose by 6.6%, including subsidies to help employers fund an increase in minimum wages. Looking ahead, the government has embarked on a sizeable fiscal stimulus, including higher social transfers and support to corporate investment and the labour market. The government is committed to restrain public consumption expenditure. It has already reigned in expenditure on goods and services since taking up office. Still, it is funding wage increases in some public sectors, such as education, defence and health. In light of this stimulus, government plans to lower the fiscal deficit to 2.5% of GDP in 2019 remain ambitious. There are no durable spending cuts or revenue measures foreseen to underpin this target (other than an increase in excise tax on diesel fuel, expected to yield some 0.2% of GDP). Rather, medium-term consolidation plans rely primarily on strong nominal growth. General government debt is expected to rise further this year and next, driven by sustained primary fiscal balances, gradually increasing interest payments, and new borrowing to cover fiscal deficits and funding of heavy debt repayment obligations coming up in 2020.

*Table II.29.1:*

**Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | bn MKD Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 598.9 | 100.0 | 2.9 | 3.6 | 3.9 | 2.9 | **0.0** | **3.1** | **3.3** |
| Private Consumption | | 395.0 | 66.0 | 3.1 | 2.2 | 4.4 | 3.1 | **2.9** | **3.0** | **3.3** |
| Public Consumption | | 96.9 | 16.2 | 1.4 | 3.0 | 3.9 | 1.9 | **-1.5** | **0.2** | **0.6** |
| Gross fixed capital formation | | 143.5 | 24.0 | 3.5 | 4.0 | 5.8 | 6.0 | **0.8** | **6.2** | **6.3** |
| of which: equipment | | - | - | - | - | - | - | **-** | **-** | **-** |
| Exports (goods and services) | | 299.3 | 50.0 | 6.0 | 16.5 | 8.5 | 8.1 | **9.2** | **8.4** | **7.8** |
| Imports (goods and services) | | 387.5 | 64.7 | 6.0 | 14.1 | 9.9 | 11.6 | **7.3** | **7.9** | **7.4** |
| GNI (GDP deflator) | | 575.2 | 96.1 | 2.9 | 4.2 | 2.5 | 2.1 | **-0.3** | **2.5** | **3.4** |
| Contribution to GDP growth: | Domestic demand | | | 3.5 | 3.0 | 5.1 | 3.9 | **1.8** | **3.5** | **3.9** |
| | Inventories | | | 0.4 | 2.1 | 1.2 | 2.6 | **-1.6** | **0.4** | **0.1** |
| | Net exports | | | -1.0 | -1.5 | -2.4 | -3.6 | **-0.2** | **-0.8** | **-0.7** |
| Employment | | | | 1.6 | 1.7 | 2.3 | 2.5 | **2.4** | **2.4** | **2.2** |
| Unemployment rate (a) | | | | 33.3 | 28.4 | 27.9 | 23.7 | **22.4** | **21.9** | **21.6** |
| Compensation of employees / head | | | | 2.4 | 5.0 | 1.9 | -1.7 | **0.5** | **1.5** | **2.0** |
| Unit labour costs whole economy | | | | 1.1 | 3.0 | 0.4 | -2.1 | **2.9** | **0.8** | **1.0** |
| Real unit labour cost | | | | -1.8 | 1.5 | -1.6 | -6.0 | **-0.6** | **-2.9** | **-2.8** |
| Saving rate of households (b) | | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | | 3.1 | 1.4 | 2.0 | 4.1 | **3.5** | **3.8** | **3.9** |
| Harmonised index of consumer prices | | | | 2.4 | -0.3 | 0.0 | -0.2 | **1.4** | **1.9** | **2.0** |
| Terms of trade goods | | | | 0.4 | 2.5 | 3.9 | 5.9 | **1.9** | **0.0** | **-0.1** |
| Trade balance (goods) (c) | | | | -21.4 | -21.7 | -20.1 | -18.6 | **-18.0** | **-17.9** | **-17.9** |
| Current-account balance (c) | | | | -4.9 | -0.5 | -2.0 | -2.7 | **-1.3** | **-1.2** | **-1.3** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | - | - | - | - | **-** | **-** | **-** |
| General government balance (c) | | | | - | -4.2 | -3.5 | -2.7 | **-2.7** | **-2.6** | **-2.6** |
| Cyclically-adjusted budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| Structural budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| General government gross debt (c) | | | | - | 38.0 | 38.0 | 39.6 | **39.3** | **42.0** | **43.9** |

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

# 30. MONTENEGRO

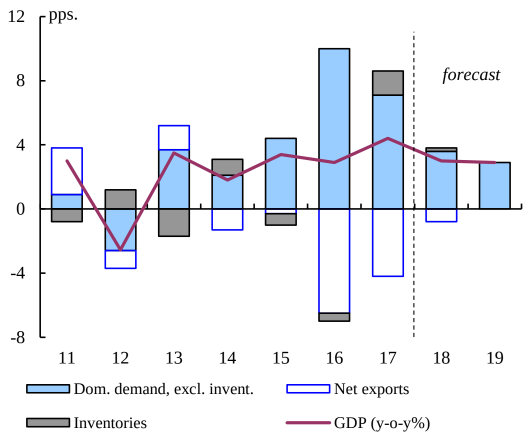
## Growth momentum driven by construction and tourism

*Construction and tourism have been supporting the strong performance of the economy. However, this trend is expected to decelerate as a result of the gradual termination of some large investments. Fiscal consolidation measures, aiming to bring public finances close to balance in 2019, would also have a negative impact on both households and government consumption, even if it is likely to be alleviated to some extent by credit and employment growth. External imbalances are expected to remain high, reflecting limited production capacities.*

### Strong growth performance in 2017

In 2017, real GDP growth accelerated to 4.4% driven by a surge in both public and private investment. Private consumption growth decelerated somewhat, also impacted by consolidation measures, which lowered public sector wages and some social benefits, reducing household's disposable income. Government consumption grew by 1.3%, up from 0.8% pace a year earlier. Despite the good performance of exports, supported by a successful tourism season, imports grew much faster, leading to a larger negative contribution from net exports.

*Graph II.30.1:* **Montenegro - GDP growth and contributions**




### Completion of some large investment projects would trim down growth

The gradual completion of some important infrastructure projects, like the interconnection power cable with Italy and the first section of the Bar-Boljare highway as well as some large hotels, are expected to dampen investment as well as imports of material and construction equipment. At the same time, a new wind farm is expected to come into production in early 2019, further reducing energy imports. New investments in the aluminium industry could also help improving net exports performance in 2019.

The government announced fiscal measures for 2018 including an increase in VAT and excise rates, and the introduction of excise duties on coal; these measures are to be followed by increases of fuel, tobacco and alcohol excises in 2019. Meanwhile, public sector wages and discretionary spending are expected to be contained. Therefore, the fiscal strategy is set to have an adverse impact on both private and public consumption.

### External imbalances to remain high

External imbalances are expected to remain high given the limited capacity of local companies to absorb both domestic and external demand. However, in addition to some improvement in the merchandise trade balance, both services and current transfers' balances could support a narrowing of the current account deficit according to preliminary data on tourism and remittances. The current account deficit was largely covered by net FDI, totalling around 11 % of GDP in 2017, and is expected to remain at this level until 2019.

### Monetary trends point to a rise in lending

Credit institutions' liquidity remains high, reinforced by fast growing bank deposits and improved financial stability indicators. Consequently, credit activity is expected to expand moderately and remain supportive of domestic demand during the forecast period, easing to some extent the negative impact of fiscal tightening on consumption. In addition to credit growth, tax and regulated electricity prices increases are set to keep inflationary pressures up during 2018. Inflation is forecast to moderate in 2019, once the base effects of the previous year price increase fades.

### Further improvement in the labour market

Strong economic activity had a positive impact on employment. The average unemployment rate declined to 16.2% in 2017, compared to 17.9% in 2016, while employment increased by around

2.0% over the year. The expected deceleration of growth in 2018 and 2019, in particular in the construction sector as some investments are completed, would have an adverse impact on employment. Moreover, fiscal consolidation and inflation are set to have a negative impact on real wage growth.

### Prevalence of external risks

Mounting trade and geopolitical tensions at the global level could negatively affect growth prospects in both tourism and basic metals. These two sectors are particularly vulnerable given Montenegro's reliance on Russian visitors and the downward risk for the local aluminium industry if markets are overflown with excess capacity from other countries, or upwards, if metal prices rise as a result of US tariffs. Weather-related shocks could also hinder local energy production (as in 2017), broadening the trade deficit.

### Fiscal position expected to stabilise

The general government budget deficit stood at 5.4% of GDP in 2017, 1.2 pps higher than the revised budget target. The overrun was driven by unexpected repayment of liabilities from past years and the intensification of the Bar-Boljare highway works, also increasing the public debt-to-GDP ratio to 65.1% at the end of 2017. The announced tax increases and expenditure freeze would result in lower budget deficits in 2018 and a budget close to balance in 2019. The public debt is set to peak at around 70% of GDP in 2018 due to new loans and issuance of Eurobonds to write-off public debt maturing in 2019. The public debt stock is then projected to decline in 2019 broadly back to its 2017 level but under more favourable conditions in terms of both cost and maturity structure.

The materialisation of contingent liabilities remains the main risk to public finances. These are largely linked to government guarantees to state-owned enterprises, unfavourable court decisions (mostly related to labour rights litigation and legacy property restitution claims), and possible cost overruns on the Bar-Boljare highway.

*Table II.30.1:*

**Main features of country forecast - MONTENEGRO**

| | | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | mio EUR | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 3954.2 | | 100.0 | - | 1.8 | 3.4 | 2.9 | **4.4** | **3.0** | **2.9** |
| Private Consumption | | 3035.1 | | 76.8 | - | 2.9 | 2.2 | 5.4 | **4.2** | **2.2** | **2.5** |
| Public Consumption | | 775.5 | | 19.6 | - | 1.4 | 1.9 | 0.8 | **1.3** | **1.0** | **1.4** |
| Gross fixed capital formation | | 916.7 | | 23.2 | - | -2.5 | 11.9 | 27.5 | **15.8** | **6.8** | **2.9** |
| of which: equipment | | - | | - | - | - | - | - | **-** | **-** | **-** |
| Exports (goods and services) | | 1599.9 | | 40.5 | - | -0.7 | 5.7 | 6.2 | **4.1** | **4.7** | **3.4** |
| Imports (goods and services) | | 2488.1 | | 62.9 | - | 1.6 | 4.4 | 15.0 | **9.3** | **4.1** | **2.1** |
| GNI (GDP deflator) | | - | | - | - | - | - | - | **-** | **-** | **-** |
| Contribution to GDP growth: | Domestic demand | | | | - | 2.1 | 4.4 | 10.0 | **7.1** | **3.6** | **2.9** |
| | Inventories | | | | - | 1.0 | -0.7 | -0.5 | **1.5** | **0.2** | **0.0** |
| | Net exports | | | | - | -1.3 | -0.3 | -6.5 | **-4.2** | **-0.8** | **0.0** |
| Employment | | | | | - | 7.1 | 2.5 | 1.7 | **3.5** | **2.3** | **2.0** |
| Unemployment rate (a) | | | | | - | 17.9 | 17.7 | 17.9 | **16.2** | **15.6** | **14.8** |
| Compensation of employees / head | | | | | - | 3.2 | 0.8 | 3.7 | **1.6** | **1.7** | **1.9** |
| Unit labour costs whole economy | | | | | - | - | - | - | **-** | **-** | **-** |
| Real unit labour cost | | | | | - | - | - | - | **-** | **-** | **-** |
| Saving rate of households (b) | | | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | | | - | - | - | - | **-** | **-** | **-** |
| Consumer-price index | | | | | - | -0.5 | 1.4 | 0.1 | **2.8** | **3.0** | **2.2** |
| Terms of trade of goods | | | | | - | - | - | - | **-** | **-** | **-** |
| Trade balance (goods) (c) | | | | | - | -39.8 | -40.0 | -37.0 | **-40.4** | **-38.8** | **-38.5** |
| Current-account balance (c) | | | | | - | -15.2 | -13.2 | -18.1 | **-18.9** | **-17.5** | **-16.7** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | | - | - | - | - | **-** | **-** | **-** |
| General government balance (c) | | | | | - | -2.9 | -8.3 | -3.6 | **-5.4** | **-3.5** | **-0.3** |
| Cyclically-adjusted budget balance (d) | | | | | - | - | - | - | **-** | **-** | **-** |
| Structural budget balance (d) | | | | | - | - | - | - | **-** | **-** | **-** |
| General government gross debt (c) | | | | | - | 58.6 | 62.3 | 64.4 | **65.1** | **69.9** | **66.4** |

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

# 31. SERBIA

## Economic growth outlook remains bright

*In 2018 economic growth is forecast to accelerate to its highest level in a decade. Domestic demand should strengthen further on the back of buoyant consumption and investment activity, supported by continuous foreign direct investment inflows. While export growth is expected to remain robust, net exports contribution to growth is likely to be negative again this year, given strong imports. Following a dip in 2018, inflation is foreseen to slowly return to the centre of the central bank target tolerance band. The budget balance is set to remain in surplus, amid still non-negligible fiscal risks.*

### Growth is picking up

A cold spell in the winter and a drought in the summer trimmed growth to just below 2% in 2017, well below initial expectations. However, economic expansion gathered pace in the fourth quarter with real GDP growing by 2.5% (y-o-y), sustained by a double-digit increase in gross fixed capital formation and strong contribution from changes in inventories. Household final consumption expanded steadily as gains in employment firmed up. Export growth decelerated in the last quarter of the year, while rising domestic demand drove import growth up, resulting in a sizable negative contribution of net exports to growth in the fourth quarter.

Short-term indicators point at an acceleration of growth in the beginning of 2018. In the first two months, industrial production grew strongly. Manufacturing activity, in particular, rose across the board with 21 out of 24 sub-sectors on a positive trajectory. Retail trade picked up as well, indicating rising domestic consumption.

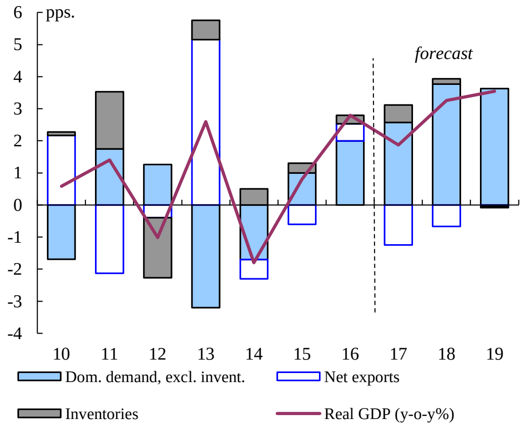
### The new investment and growth cycle is in full swing

Gross fixed capital formation has increased steadily over the last three years. It was driven mainly by the private sector and supported by growing foreign direct investment, large part of which went into tradable sectors. Investment growth is forecast to remain robust as favourable financing conditions and improved confidence continue trickling down. The envisaged substantial increases in government capital spending will also contribute to a sustained recovery of investment.

Private consumption is expected to be the other major driver of domestic demand and economic growth. Employment gains and slowly rising wages and transfers have already propelled it to growth. Private consumption growth is forecast to further gather pace in 2018 before stabilising as the growth cycle matures. Given that the general government was in surplus last year, fiscal sustainability considerations should not constrain public consumption anymore and it will revert to a steady positive contribution to growth. Rising domestic demand would continue pulling imports up. As a result, net exports contribution to growth is expected to remain negative or close to zero over the forecast horizon, despite persistently strong export growth.

A more vibrant economic growth should continue to work its way to further increase formal employment. Unemployment, however, despite decreasing over the forecast horizon, is expected to remain large in view of significant structural problems on the labour market.

Graph II.31.1: **Serbia - Real GDP growth and contributions**



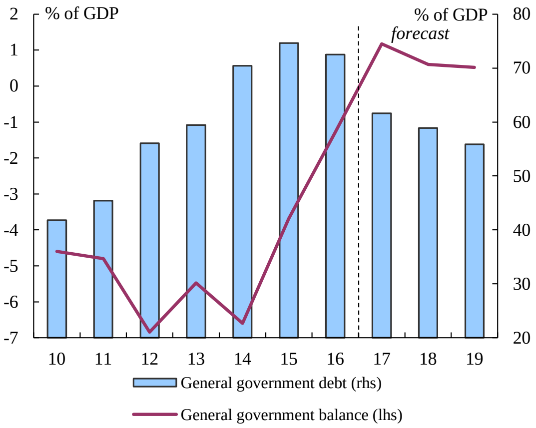

### Contained price pressures – the new normal?

Inflation moved within the central bank target tolerance band last year before falling steeply in the beginning of 2018. Low price pressures are projected to persist throughout the forecast, underpinned by strong dinar exchange rate and limited administered price adjustments, cushioning also effects from higher demand.

### External imbalances remain elevated

Following a widening of external imbalances last year, they are expected to remain broadly stable at a rather elevated level. Although fully covered by foreign direct investment, the size of the current account deficit is indicative of a major economic vulnerability. Fluctuations in commodity prices and international capital flow reversals remain the main risks to the forecast.

*Graph II.31.2:* **Serbia - Public finances**




### Budget prospects good again

In 2017, for the first time in more than a decade, the consolidated government budget was in surplus. The outcome, at 1.2% of GDP, outperformed by far both initial and revised budget deficit targets. As in the previous two years, this result was mainly driven by strong revenue.

Preliminary data in the first quarter point to a continuation of better-than-expected revenue results. Given recent wage and pension increases, the forecast envisages smaller budget surpluses in the next two years. As a result, government debt, excluding possible restitution-related debt, is foreseen to fall and remain under 60% of GDP.

The good fiscal prospects and mounting spending pressures, however, would continue testing government resolve to maintaining strict control of current spending, in particular, over the public sector wage bill and pension expenditure. The expiration of the Stand-By Arrangement with the IMF and a dysfunctional system of fiscal rules also add to the uncertainty about the future course of fiscal policy. In addition, major reforms of the tax and public administration and in state-owned enterprises, with potentially significant budgetary impact, remain unfinished.

*Table II.31.1:*

**Main features of country forecast - SERBIA**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn RSD | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 4261.9 | 100.0 | - | -1.8 | 0.8 | 2.8 | **1.9** | **3.3** | **3.5** |
| Private Consumption | | 3085.0 | 72.4 | - | -1.3 | 0.5 | 1.0 | **1.8** | **3.1** | **2.9** |
| Public Consumption | | 681.4 | 16.0 | - | -0.6 | -1.5 | 2.2 | **1.0** | **2.0** | **2.0** |
| Gross fixed capital formation | | 755.8 | 17.7 | - | -3.6 | 5.6 | 5.1 | **6.2** | **6.8** | **6.4** |
| of which: equipment | | - | - | - | - | - | - | **-** | **-** | **-** |
| Exports (goods and services) | | 2132.0 | 50.0 | - | 5.7 | 10.2 | 12.0 | **9.8** | **9.7** | **8.8** |
| Imports (goods and services) | | 2449.6 | 57.5 | - | 5.6 | 9.3 | 9.0 | **10.7** | **9.4** | **7.6** |
| GNI (GDP deflator) | | 4020.9 | 94.3 | - | -1.7 | -0.2 | 2.1 | **0.5** | **2.7** | **3.1** |
| Contribution to GDP growth: | Domestic demand | | | - | -1.7 | 1.0 | 2.0 | **2.6** | **3.8** | **3.6** |
| | Inventories | | | - | 0.5 | 0.4 | 0.3 | **0.5** | **0.2** | **0.0** |
| | Net exports | | | - | -0.6 | -0.6 | 0.5 | **-1.2** | **-0.7** | **0.0** |
| Employment | | | | - | 10.8 | 0.6 | 5.6 | **2.8** | **2.0** | **2.1** |
| Unemployment rate (a) | | | | - | 19.2 | 17.7 | 15.3 | **13.6** | **12.1** | **10.0** |
| Compensation of employees / head | | | | - | - | - | - | **-** | **-** | **-** |
| Unit labour costs whole economy | | | | - | - | - | - | **-** | **-** | **-** |
| Real unit labour cost | | | | - | - | - | - | **-** | **-** | **-** |
| Saving rate of households (b) | | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | | - | 2.7 | 2.7 | 2.5 | **2.8** | **2.0** | **2.7** |
| Consumer-price index | | | | - | 2.1 | 1.4 | 1.1 | **3.2** | **1.7** | **2.7** |
| Terms of trade goods | | | | - | 0.4 | 3.5 | 2.8 | **-1.7** | **-0.5** | **0.0** |
| Trade balance (goods) (c) | | | | - | -12.3 | -11.9 | -10.0 | **-11.4** | **-11.5** | **-11.4** |
| Current-account balance (c) | | | | - | -6.0 | -4.7 | -4.0 | **-6.2** | **-6.9** | **-6.9** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | - | - | - | - | **-** | **-** | **-** |
| General government balance (c) | | | | - | -6.6 | -3.7 | -1.3 | **1.2** | **0.6** | **0.5** |
| Cyclically-adjusted budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| Structural budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| General government gross debt (c) | | | | - | 70.4 | 74.6 | 72.5 | **61.6** | **58.9** | **55.9** |

(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.

## 32. TURKEY

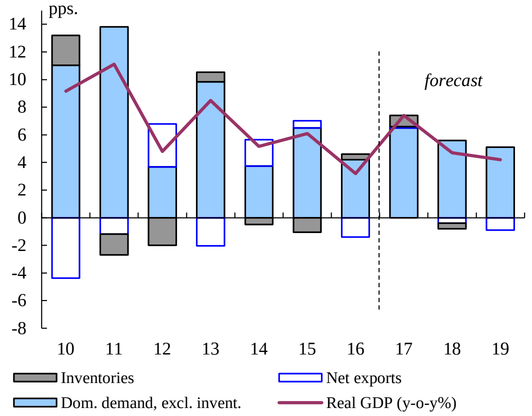
### Positive momentum slowly abating

*The strong economic momentum that built up in the first half of last year will run out of steam only slowly. The driver of demand has shifted from strong government stimulus and foreign demand to private consumption. Positive developments in the labour market and wage increases as well as low real interest rates will continue supporting private consumption and, to a lesser extent, private investment. However, an output gap turning increasingly positive will keep inflation high while the ensuing wage growth coupled with low productivity growth puts competitiveness under pressure.*

#### Decelerating but still positive momentum

Economic growth in Turkey was strong throughout 2017, registering 7.4% (y-o-y). The government gave a strong stimulus to the economy which, with the benefit of hindsight, was pro-cyclical. Even according to the relatively high potential output growth estimates of the Turkish government, the output gap was reduced by 2 pps. in 2017 alone and closed at the end of the year. The output gap is now expected to turn positive with private consumption the biggest driver behind the continuing growth momentum. The fast closing of the output gap seen in 2017 will spill over into 2018.

*Graph II.32.1:* **Turkey - Real GDP growth and contributions**




Gross fixed capital formation saw a sizable loss in momentum in the fourth quarter, dropping from an upwardly revised 13.2% for the third quarter to a 6.0% y-o-y, with both investments in productive capital and construction declining. Companies appear relatively reluctant to invest in new productive capacity, regardless of high capacity utilisation and industrial output growth. Household consumption growth took a hit as well, but remained relatively solid at 6.6% (y-o-y), following an exceptionally high growth in the previous quarter. Government consumption accelerated to 7.4% (y-o-y) but net trade increasingly becomes a drag on the economy. Moreover, towards the end of the fourth quarter here was a sizable contribution of stock building to growth that will start to unwind in 2018.

#### Consume first, invest later

Private consumption will be supported in 2018 by continued employment growth, improved confidence and lower inflation in combination with a boost for purchasing power from still high nominal wage growth. The elections being called for June 2018 imply that little additional government stimulus can precede the elections. A negative impact can be expected on the private sector. Consumer confidence is likely to come under pressure as a consequence of the uncertainty in the run-up to the elections. A larger impact from that same uncertainty will come from its impact on the business climate on top of existing uncertainties from the state of emergency. Regardless of the high capacity utilisation rate, investments in machinery and equipment have disappointed, so far, as has employment growth. The additional uncertainty will put downward pressure on both till the new president has started his duties under the new constitution.

#### Current account deficit widening further

The contribution of net trade should turn increasingly negative as a consequence of high private domestic demand and slowing export growth. Government incentives to save have not yet had a strong positive impact but, rather, the strong incentives provided in 2017 to increase loans, coupled with high inflation and low real interest rates have stimulated debt accumulation and increased the current account deficit. The current account balance is also at risk from the pressure on Turkish competitiveness and from higher risk aversion of international investors. High inflation and strong nominal wage growth risk igniting second-round effects reducing competitiveness. Low expected productivity growth further dampens Turkey's competitiveness.

### Inflation a major risk to the economy

Inflation expectations have become increasingly unanchored, as headline and core inflation reached double digits in 2017. Several factors are adding to inflationary pressure: capacity utilisation at a historic high, strengthening employment growth, high wage growth, M3 growth outpacing nominal GDP growth since the financial crisis and economic growth above potential. It would therefore require a strong anchoring of inflation expectations and low money growth combined with declining energy prices and an appreciating currency to decisively reach lower inflation. With the elections approaching this seems not to be in the cards immediately. As the elections are concluded and the new presidential system is implemented, the policy mix is expected to become more conducive towards lower inflation. This comes at the cost of lower economic growth and with the risk that the economy has moved to a high inflation path with its repercussions for the real value of debt and nominal wage demands.

### Contingent liabilities clouding sound public finances

The government deficit is expected to increase only 0.1 pps. this year. Early elections mean that the impetus will be more restricted than expected earlier as little time to implement new policy initiatives will remain. The debt level as a share of GDP is expected to continue its moderate decline due to high nominal growth and the limited budget deficit. However, contingent liabilities have increased from public-private partnerships and the fast loan growth in state-owned banks.

Central government transfers have been driven up by a trend of increasing health expenditure and the legacy of public-private partnerships, i.e. the need to supplement shortfalls in earnings below the guaranteed revenues. Spending on defence goods is likely to see upward pressure as well. Revenues are likely to benefit from increased imports and the return of tourists leading to increased income from the special consumption tax. However, the increased dependence on these two types of tax revenues also implies increased exposure to external developments and inserts a pro-cyclical bias in the government balance.

*Table II.32.1:*

**Main features of country forecast - TURKEY**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn TRY | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 2608.5 | 100.0 | 4.4 | 5.2 | 6.1 | 3.2 | **7.4** | **4.7** | **4.2** |
| Private Consumption | | 1560.5 | 59.8 | 4.0 | 3.0 | 5.4 | 3.7 | **6.1** | **5.8** | **4.8** |
| Public Consumption | | 387.0 | 14.8 | 5.0 | 3.1 | 3.9 | 9.5 | **5.0** | **5.3** | **5.3** |
| Gross fixed capital formation | | 764.7 | 29.3 | 6.4 | 5.1 | 9.3 | 2.2 | **7.3** | **4.6** | **4.9** |
| of which: equipment | | 286.5 | 11.0 | - | 3.9 | 18.5 | 1.2 | **-0.2** | **6.1** | **5.7** |
| Exports (goods and services) | | 573.0 | 22.0 | 6.1 | 8.2 | 4.3 | -1.9 | **12.0** | **6.1** | **4.5** |
| Imports (goods and services) | | 648.2 | 24.9 | 6.4 | -0.4 | 1.7 | 3.7 | **10.3** | **6.7** | **6.5** |
| GNI (GDP deflator) | | 2580.8 | 98.9 | 4.4 | 5.2 | 5.8 | 3.2 | **7.2** | **5.4** | **4.8** |
| Contribution to GDP growth: | Domestic demand | | | 4.9 | 3.7 | 6.5 | 4.2 | **6.6** | **5.5** | **5.1** |
| | Inventories | | | 0.2 | -0.6 | -1.1 | 0.4 | **0.7** | **-0.5** | **-0.1** |
| | Net exports | | | -0.3 | 1.8 | 0.5 | -1.3 | **0.1** | **-0.3** | **-0.6** |
| Employment | | | | 1.2 | 1.6 | 2.7 | 2.2 | **3.8** | **3.4** | **3.2** |
| Unemployment rate (a) | | | | 8.8 | 9.9 | 10.3 | 11.0 | **10.3** | **9.8** | **9.4** |
| Compensation of employees / head | | | | 23.0 | 14.8 | 12.8 | 20.2 | **14.6** | **12.1** | **10.1** |
| Unit labour costs whole economy | | | | 19.2 | 10.9 | 9.1 | 19.1 | **10.8** | **10.7** | **9.0** |
| Real unit labour cost | | | | -1.9 | 3.2 | 1.2 | 10.2 | **0.0** | **0.3** | **-0.8** |
| Saving rate of households (b) | | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | | 21.6 | 7.4 | 7.8 | 8.1 | **10.8** | **10.4** | **9.8** |
| Consumer-price index | | | | 23.5 | 8.9 | 7.7 | 7.8 | **11.1** | **10.9** | **9.0** |
| Terms of trade goods | | | | -0.9 | 1.3 | 0.1 | -0.8 | **-1.3** | **-0.9** | **-0.1** |
| Trade balance (goods) (c) | | | | -6.1 | -6.5 | -6.5 | -7.3 | **-8.8** | **-9.9** | **-9.8** |
| Current-account balance (c) | | | | -3.5 | -4.7 | -3.7 | -3.8 | **-5.6** | **-6.0** | **-5.6** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | - | -4.7 | -3.8 | -3.9 | **-5.6** | **-6.0** | **-5.7** |
| General government balance (c) | | | | - | 0.1 | 1.3 | -1.3 | **-2.0** | **-2.1** | **-1.4** |
| Cyclically-adjusted budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| Structural budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| General government gross debt (c) | | | | - | 28.6 | 27.5 | 28.5 | **28.5** | **27.8** | **27.2** |

(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.

# 33. ALBANIA

## Growth set to continue at a solid pace

*Albania's robust economic expansion is set to continue. Private consumption is set to remain the most important growth driver, based on rising employment, higher wages and above-average consumer confidence. A very accommodative monetary policy stance supports both household spending and business investment. External trade is expected to expand relatively strongly, but to subtract from GDP growth in net terms. The current account deficit is set to increase again. The fiscal policy stance is slowly reducing the high level of public debt as a share of GDP.*

### The expansion has strengthened

The cyclical upturn of the Albanian economy continued for a fourth consecutive year in 2017 with GDP growth of 3.8%. All components of domestic demand provided a positive contribution to output expansion. Gross fixed capital formation increased at a particular fast rate, benefitting from two large foreign direct investments in the energy sector. Private consumption growth was solid, based on rising employment and wages and improving consumer confidence as the domestic political situation stabilised. Exports of services continued to increase at a double-digit rate, partly reflecting another good tourist season, while goods exports advanced for the first time in four years. Nevertheless, net exports subtracted from GDP growth because buoyant domestic demand pushed import growth to a long-time high.

### Monetary policy continues to provide support

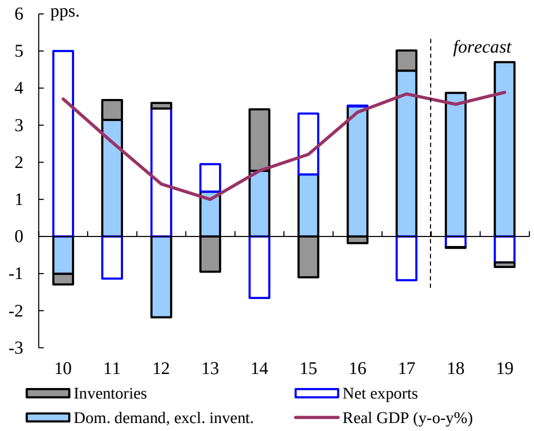
Domestic demand is expected to continue receiving support from an accommodative monetary policy. The Bank of Albania has kept its policy interest rate unchanged at the record low level of 1.25% since 2016 and has stated that the intensity of the monetary stimulus is unlikely to be reduced before the fourth quarter of 2018 despite above-potential growth. Inflation has increased to the level of 2% from a low point in 2016, but mainly as a result of higher food prices. Underlying price pressures have remained 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 still constrained by a relatively large overhang of non-performing loans (NPLs) on bank balance sheets. However, the ratio of NPLs to total gross loans has trended down significantly in 2017 and stood at 13.7% in February 2018.

### Consumer spending is set to remain solid

Household spending is not only benefitting from favourable financial conditions, but also from a marked improvement of labour market conditions. Employment was up by 2.7% in 2017, reducing the unemployment rate (15-64 years) to 14.1% which is the lowest annual rate since 2012. A 10% wage hike was implemented in large parts of the public sector in 2017. Rising employment and higher wages are expected to continue supporting household spending over the forecast horizon.

*Graph II.33.1:* **Albania - Real GDP growth and contributions**




Gross fixed capital formation, to the contrary, is likely to decelerate substantially this year as the two large energy projects approach their completion. Investments in tourism facilities and in the extraction sector are, however, expected to support overall investments. Public consumption growth is projected to increase moderately based on the government's plans.

### Net exports expected to subtract from growth again

Over the forecast horizon, overall export growth is expected to remain significantly above the growth rate of Albania's export markets. The recent real appreciation of the Albanian currency has weighed on price competitiveness, but higher prices for oil and other commodities are expected to boost the extractive industry and its exports. At the same time, robust domestic demand is supporting imports, resulting in a clearly negative contribution of net exports to growth. The current account deficit narrowed for the third consecutive year in 2017, but is expected to widen to 8% of GDP over the following two years.

### Solid GDP growth and lower unemployment

GDP growth is expected to soften slightly and temporarily in 2018 as investment activity decelerates in connection with the energy-related investment projects. The growth rate is, however, expected to pick up to last year's pace in 2019. In this forecast, private consumption expenditure is set to remain the main growth driver, expanding more than 3% over the forecast horizon. Following the expected dip in 2018, investment growth is projected to reach 6% in 2019. Employment is forecast to increase by around 3% annually commensurate to output growth. This should allow the unemployment rate to decline by about three quarters of a percentage point per year. Although inflationary pressures are still difficult to discern, a declining output gap is expected to increase consumer price inflation gradually. However, the central bank's 3% inflation target is not expected to be reached within the forecast horizon.

The risks to the growth outlook seem to be balanced. On the upside, progress in the accession process towards EU membership may give a boost to the economy. On the downside, delays in the implementation of much-needed structural reforms may lower confidence and performance.

### Moderate fiscal deficits will allow the public debt ratio to decline, but only slowly

The fiscal deficit in 2017 amounted to 2.0% of GDP which was in line with the budget. On the basis of the government's current fiscal strategy, it is expected that the deficit will remain at this level in the current year and decline slightly in 2019. Together with the projections for nominal GDP, it implies that the public debt-to-GDP ratio is expected to fall gradually from 70.1% at the end of 2017 to 66.3% at the end of 2019. Weaknesses in public finance management continue to pose a challenge for the execution of public budgets according to plan and constitute a negative risk to this fiscal projection.

*Table II.33.1:*

**Main features of country forecast - ALBANIA**

| | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| bn ALL | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 1475.3 | 100.0 | 5.6 | 1.8 | 2.2 | 3.4 | **3.8** | **3.6** | **3.9** |
| Private Consumption | 1199.3 | 81.3 | 4.4 | 2.8 | 1.2 | 2.7 | **2.8** | **3.1** | **3.4** |
| Public Consumption | 165.9 | 11.2 | 0.8 | 6.4 | -1.1 | 4.7 | **2.5** | **3.3** | **3.2** |
| Gross fixed capital formation | 365.5 | 24.8 | 8.7 | -4.5 | 3.5 | 3.3 | **7.7** | **3.8** | **6.0** |
| of which: equipment | - | - | 9.0 | - | - | - | **-** | **-** | **-** |
| Exports (goods and services) | 426.7 | 28.9 | 16.4 | 1.2 | 1.0 | 11.5 | **8.9** | **9.0** | **8.0** |
| Imports (goods and services) | 674.9 | 45.7 | 9.8 | 4.3 | -2.9 | 7.0 | **8.2** | **6.7** | **7.0** |
| GNI (GDP deflator) | 1499.2 | 101.6 | 5.4 | 1.0 | 2.5 | 3.8 | **3.0** | **3.3** | **3.7** |
| Contribution to GDP growth: Domestic demand | | | 5.8 | 1.8 | 1.7 | 3.5 | **4.5** | **3.9** | **4.7** |
| Inventories | | | 0.1 | 1.7 | -1.1 | -0.2 | **0.5** | **0.0** | **-0.1** |
| Net exports | | | -1.2 | -1.7 | 1.6 | 0.0 | **-1.2** | **-0.3** | **-0.7** |
| Employment | | | -0.7 | 1.6 | 4.9 | 6.1 | **2.7** | **3.0** | **3.2** |
| Unemployment rate (a) | | | - | 17.9 | 17.5 | 15.6 | **14.1** | **13.4** | **12.6** |
| Compensation of employees / head | | | - | 1.6 | -2.0 | 1.8 | **6.6** | **3.4** | **3.7** |
| Unit labour costs whole economy | | | - | 1.5 | 0.7 | 4.5 | **5.4** | **2.8** | **3.0** |
| Real unit labour cost | | | - | -0.1 | 0.1 | 5.0 | **4.0** | **1.1** | **0.8** |
| Saving rate of households (b) | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | 3.4 | 1.5 | 0.6 | -0.5 | **1.4** | **1.8** | **2.2** |
| Harmonised index of consumer prices | | | - | 1.6 | 1.9 | 1.3 | **2.0** | **2.1** | **2.4** |
| Terms of trade goods | | | -1.3 | 1.0 | 0.5 | -2.0 | **6.5** | **0.0** | **-1.2** |
| Trade balance (goods) (c) | | | -24.6 | -22.2 | -22.4 | -24.2 | **-24.4** | **-25.2** | **-26.3** |
| Current-account balance (c) | | | -9.2 | -10.8 | -8.6 | -7.6 | **-6.9** | **-7.3** | **-8.0** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | - | -9.9 | -7.4 | -6.9 | **-5.9** | **-6.3** | **-7.1** |
| General government balance (c) | | | - | -5.2 | -4.1 | -1.8 | **-2.0** | **-2.0** | **-1.8** |
| Cyclically-adjusted budget balance (d) | | | - | - | - | - | **-** | **-** | **-** |
| Structural budget balance (d) | | | - | - | - | - | **-** | **-** | **-** |
| General government gross debt (c) | | | - | 70.1 | 72.7 | 72.3 | **70.1** | **68.5** | **66.3** |

(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.

# Other non-EU Countries

# 34. THE UNITED STATES OF AMERICA
## Pro-cyclical fiscal stimulus adds to strong growth momentum aggravating risks

*US economic growth is projected to accelerate from 2.3% in 2017 to 2.9% and 2.7% in 2018 and 2019, respectively, as fiscal stimulus adds impetus to an already solid momentum, supported by strong global growth, weak dollar and benign financing conditions. However, the highly procyclical fiscal expansion accentuates risks of overheating, a more abrupt tightening of financial conditions, and widening of the current account deficit. This adds to uncertainty created by the recent escalation of trade tensions.*

### Strong growth momentum carried into 2018

Economic activity in the US rebounded strongly in 2017 driven by buoyant domestic demand, high confidence and a confluence of tailwinds, including robust global growth, a weak dollar, benign financing conditions and higher energy prices. Growth in private consumption, business investment and imports accelerated to multi-year highs at the end of 2017, with the strong momentum largely carried into 2018. Labour markets have tightened considerably, with buoyant employment growth pushing the unemployment rate to a cycle low of around 4.1%. Altogether the economy appears to be operating broadly at potential, amid increasing signs of gradually building price and wage pressures.

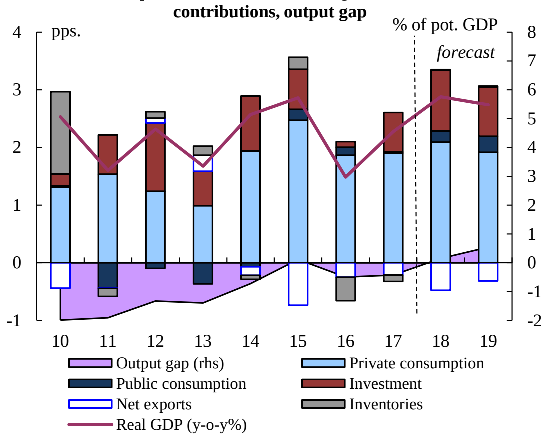
Growth is expected to strengthen further in the forecast horizon. Supported by the procyclical fiscal stimulus and a number of aforementioned tailwinds, the US economy is expected to accelerate to around 3% in 2018 before moderating slightly to 2¾% in 2019, as the cycle matures and the impact of the fiscal impulse and other supporting factors wanes gradually.

### Fiscal stimulus to boost near-term growth

Fiscal policy is expected to provide a material boost to growth in the forecast horizon. The Tax Cuts and Jobs Act (TCJA) enacted in December, together with the Bipartisan Budget Act of 2018 (BBA) adopted in February, add up to a fiscal stimulus of around 2% of GDP cumulatively over 2018-19.

Changes in the corporate tax code are expected to generate the biggest growth impulse in the near term, as tax cuts and the decline in the user cost of capital improve incentives to invest. Gross domestic investment is thus assumed to pick up temporarily to 5% in 2018, a 6-year high, even if this is subject to great uncertainty.[68] Personal income tax cuts are also expected to provide a material boost to private consumption in the forecast horizon (pushing it to around 3% over 2018-19), though the effect may be muted by the fact that they are temporary and skewed towards richer households (which save more). Finally, the BBA is expected to boost growth in government spending to around 2% by 2019, a decade high.

*Graph II.34.1:* **US - Real GDP growth and contributions, output gap**




### Countervailing factors

All in all, the fiscal package is set to provide a material boost to domestic demand in the near term. However, given that the US economy is already running at full capacity, a fiscal impulse of this magnitude is expected to hit domestic supply constraints, crowding out private investment, boosting imports, and trigger faster monetary policy normalisation. This is expected to offset – to some extent - the benign effect of the stimulus, limiting fiscal multipliers to around 0.5 at this particular juncture. All in all, the fiscal package is expected to boost growth by around ¾-1% of GDP, distributed roughly equally in both years.

(68) Firms may choose, in line with past behaviour, to channel most windfall gains towards dividends or accumulate profits rather than increase investment or wages.

### Gradual increase in price pressures

The labour market is expected to tighten further in the forecast horizon with robust job growth bringing the unemployment rate to 3.5%. This will add to wage and inflation pressures that remained contained so far, but should build gradually in the forecast horizon amid an ongoing normalisation of monetary policy. While the stimulus package is expected to add only modestly to the path of policy interest rate, it also greatly complicates the process by increasing the risk upward inflation and wage surprises.

### Aggravated long-term sustainability concerns

Near-term boost to growth will come at a price of a higher current account deficit and a sharp deterioration in the fiscal outlook. The current account deficit is set to widen from 2.4% of GDP in 2017 to 2.9% in 2019. Federal budget deficit is expected to reach roughly 6% of GDP in 2019, highly irregular in the US outside of wars and major recessions, while the debt will hit close to 110% of GDP in 2019, a historical high. The fiscal expansion is thus set to aggravate existing fiscal sustainability concerns, as well as depriving the US of fiscal buffers and limiting the policy space to respond to future downturns.

### Faster near-term growth amid higher risks

The benign baseline scenario of a temporary pick-up in growth amid a gradual tightening of financing conditions is subject to major uncertainties and risks. They largely relate to a possible overheating of the economy that would prompt a more aggressive tightening of monetary policy, and a sharper adjustment down the line. This would have broader financial market implications and could weigh on confidence and growth. Furthermore, the pro-cyclical boost to domestic demand could lead to a sharper-than-expected deterioration in the trade balance and reinforce calls for protectionism. Moreover, should protectionist measures escalate further, this could generate a sizeable negative supply shock and weigh on growth. On the other hand, uncertainties about the response of household and corporate saving rates to the tax reform could imply a higher/lower multiplier and ensue a stronger/weaker impact on growth.

*Table II.34.1:*

**Main features of country forecast - USA**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| bn USD | Curr. prices | % GDP | | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 18624.5 | 100.0 | | 2.2 | 2.6 | 2.9 | 1.5 | **2.3** | **2.9** | **2.7** |
| Private Consumption | 12820.7 | 68.8 | | 2.6 | 2.9 | 3.6 | 2.7 | **2.8** | **3.0** | **2.8** |
| Public Consumption | 2658.1 | 14.3 | | 1.3 | -0.5 | 1.3 | 1.0 | **0.1** | **1.4** | **2.1** |
| Gross fixed capital formation | 3631.8 | 19.5 | | 2.0 | 4.8 | 3.5 | 0.6 | **3.4** | **5.0** | **4.1** |
| of which: equipment | 1177.2 | 6.3 | | 4.1 | 5.6 | 3.2 | -2.9 | **4.9** | **8.7** | **5.0** |
| Exports (goods and services) | 2214.5 | 11.9 | | 3.9 | 4.3 | 0.4 | -0.3 | **3.4** | **4.5** | **4.3** |
| Imports (goods and services) | 2735.8 | 14.7 | | 4.3 | 4.5 | 5.0 | 1.3 | **4.0** | **6.5** | **5.2** |
| GNI (GDP deflator) | 18821.6 | 101.1 | | 2.3 | 2.5 | 2.6 | 1.4 | **2.3** | **3.0** | **2.7** |
| Contribution to GDP growth: | Domestic demand | | | 2.4 | 2.8 | 3.4 | 2.1 | **2.6** | **3.3** | **3.0** |
| | Inventories | | | 0.0 | -0.1 | 0.3 | -0.4 | **-0.1** | **0.0** | **0.0** |
| | Net exports | | | -0.2 | -0.2 | -0.8 | -0.2 | **-0.2** | **-0.4** | **-0.3** |
| Employment | | | | - | 1.6 | 1.7 | 1.7 | **1.3** | **1.4** | **0.9** |
| Unemployment rate (a) | | | | 6.1 | 6.2 | 5.3 | 4.9 | **4.4** | **4.0** | **3.5** |
| Compensation of employees / f.t.e. | | | | 3.2 | 2.9 | 3.2 | 1.0 | **1.9** | **3.3** | **4.2** |
| Unit labour costs whole economy | | | | 1.7 | 1.9 | 2.0 | 1.2 | **0.9** | **1.8** | **2.3** |
| Real unit labour cost | | | | -0.3 | 0.1 | 0.9 | -0.1 | **-0.9** | **-0.2** | **0.3** |
| Saving rate of households (b) | | | | 10.4 | 11.3 | 11.6 | 10.5 | **9.3** | **9.4** | **9.5** |
| GDP deflator | | | | 2.0 | 1.8 | 1.1 | 1.3 | **1.8** | **2.0** | **2.1** |
| Consumer-price index | | | | 2.4 | 1.6 | 0.1 | 1.3 | **2.1** | **2.2** | **2.2** |
| Terms of trade goods | | | | -0.4 | -0.2 | 2.2 | 0.0 | **-0.3** | **0.5** | **0.0** |
| Trade balance (goods) (c) | | | | -4.7 | -4.5 | -4.4 | -4.2 | **-4.3** | **-4.6** | **-4.8** |
| Current-account balance (c) | | | | -3.4 | -2.1 | -2.4 | -2.4 | **-2.4** | **-2.7** | **-2.9** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -3.4 | -2.1 | -2.4 | -2.4 | **-2.4** | **-2.7** | **-2.9** |
| General government balance (c) | | | | -5.3 | -4.8 | -4.2 | -4.9 | **-4.9** | **-5.3** | **-5.9** |
| Cyclically-adjusted budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| Structural budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| General government gross debt (c) | | | | 72.9 | 105.1 | 105.2 | 107.1 | **107.8** | **108.1** | **109.4** |

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

(*) Employment data from the BLS household survey.

# 35. JAPAN

## Gradually slowing expansion

*The economy should continue to benefit from relatively stable growth in domestic demand spurred by favourable employment and financial conditions. Overall output growth is expected to decelerate gradually reflecting waning contribution from net exports.*

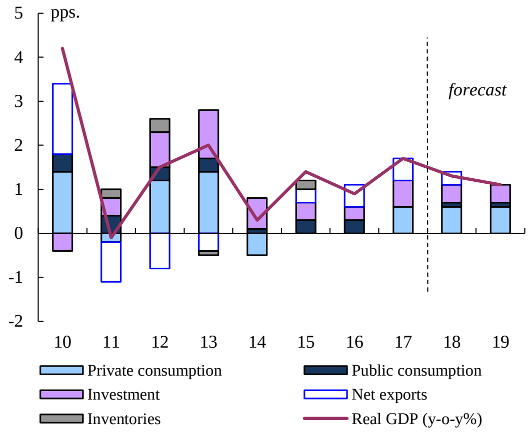
### Solid short-term economic performance

After a growth spurt of 1.7% in 2017 underpinned by eight consecutive quarters of broad-based economic expansion, the pace of growth is expected to decelerate to 1.3% in 2018 and 1.1% in 2019. In 2017 domestic demand was buoyant, with private consumption and gross fixed capital formation adding 0.6 pps each to growth, while recovery in global demand entailed a strong rebound in export growth and a net export contribution of 0.6 pps. Leading indicators point to steady near-term growth driven by resilient private consumption and stable growth in private non-residential investment. Amid some volatility in household spending, consumer confidence remains robust supported by increasingly tight labour market conditions, with the job-offers-to-applicants ratio hovering at 45-year-high levels. Business sentiment was slightly dented by near-term currency appreciation, but remains elevated in expansionary territory and close to 10-year highs. Core machinery orders suggest continued expansion in domestic business investment amid increasingly severe labour shortages, and steady external demand of capital goods.

### Positive economic momentum expected to continue

The positive economic momentum should continue over the forecast horizon as labour market conditions are bound to remain very tight, with the unemployment rate expected to remain at levels well below 3% reflecting the ongoing decline in working age population and continued employment creation spurred by above-potential growth. Favourable employment conditions will underpin growth in private consumption, which should remain rather stable over the coming quarters before accelerating in the run-up to the October 2019 consumption tax hike, and contracting immediately thereafter. At the same time subdued wage dynamics will continue weighing on consumption as various remaining sources of slack – high share of non-regular employment, lower female employment, and growing cohorts of elderly – together with entrenched labour market rigidities will hamper more dynamic wage growth. Gross fixed capital formation should expand at a stable pace reflecting a favourable backdrop for private investment. Non-residential (business) investment will benefit from loose financial conditions and resilient private consumption, while increasingly severe labour shortages will also underpin capital accumulation. Growth in private residential investment should recover moderately reflecting favourable labour market and financial conditions. The October 2019 tax increase is bound to entail some near-term volatility also for private investment components, with acceleration in the wake of the hike followed by contraction. Public investment is expected to decline as past stimulus unwinds and investment levels adjust gradually.

*Graph II.35.1:* **Japan - Real GDP growth and contributions**




After a strong export rebound in 2017, export growth is expected to decelerate gradually over the forecast period in line with global and regional trade dynamics. Import demand growth should remain stable in line with domestic demand, and accelerate in the run-up to the October 2019 tax hike. The positive contribution from net exports will gradually narrow and turn neutral towards the end of the forecast horizon. The current account balance should remain above 4% of GDP, with primary income set to remain well above 3% of GDP underpinned by solid global growth and favourable exchange rate dynamics.

### Monetary policy expected to remain accommodative

Headline CPI inflation picked up in 2017 at 0.5% reflecting rising commodity prices, moderate currency depreciation, and recovery in underlying core inflation. However in recent months near-term appreciation dynamics have been dampening cost-push inflationary pressures. As the Bank of Japan remains committed to achieving the 2% inflation target, monetary conditions are set to be loose and supportive over the forecast horizon. Increasing monetary policy divergence among advanced economies should support the inflationary trend, with headline CPI inflation expected to remain rather stable at around 1% (y-o-y) in 2018 and 2019 in the absence of a more dynamic pick-up in wage dynamics.

### Fiscal consolidation makes gradual progress

The state of public finances has gradually improved over the last few years with the headline general government deficit narrowing steadily from 7.9% of GDP in 2013 to 3.4% in 2016 thanks to stronger economic growth and structural consolidation measures. Fiscal consolidation is estimated to have paused in 2017, with the deficit expanding at around 3.8% of GDP, and is projected to resume via withdrawal of public investment, restrained expenditure growth, steady revenue growth and the consumption tax rate increase from 8% to 10% planned for October 2019. The general government deficit is expected to decline gradually to below 3% of GDP over the forecast horizon. Longer-term projections will be contingent on the outcome of the 2018 fiscal policy review, with medium-term fiscal targets and possible related expenditure and revenue measures expected to be unveiled over the coming months.

### Risks are broadly balanced

On the domestic front, tightening labour market conditions and increasingly severe labour shortages may give rise to more dynamic wage growth than currently expected. External risks are more tilted to the downside, with heightening trade policy frictions possibly denting trade and investments flows, and spurring safe haven effects with adverse foreign exchange dynamics.

*Table II.35.1:*

**Main features of country forecast - JAPAN**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn JPY | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 538445.7 | 100.0 | 0.7 | 0.4 | 1.4 | 0.9 | **1.7** | **1.3** | **1.1** |
| Private Consumption | | 299858.6 | 55.7 | 0.9 | -0.9 | 0.0 | 0.1 | **1.1** | **1.0** | **1.1** |
| Public Consumption | | 106473.9 | 19.8 | 1.8 | 0.5 | 1.5 | 1.3 | **0.1** | **0.3** | **0.7** |
| Gross fixed capital formation | | 126788.9 | 23.5 | -1.0 | 3.1 | 1.7 | 1.1 | **2.5** | **1.7** | **1.8** |
| of which: equipment | | 42400.7 | 7.9 | 0.1 | 5.0 | 2.9 | 1.6 | **-** | **-** | **-** |
| Exports (goods and services) | | 86792.9 | 16.1 | 3.6 | 9.3 | 2.9 | 1.3 | **6.8** | **4.8** | **2.8** |
| Imports (goods and services) | | 81560.7 | 15.1 | 2.5 | 8.3 | 0.8 | -1.9 | **3.6** | **2.8** | **2.8** |
| GNI (GDP deflator) | | 556475.5 | 103.3 | 0.8 | 0.6 | 1.6 | 0.5 | **1.9** | **1.4** | **1.2** |
| Contribution to GDP growth: | Domestic demand | | | 0.6 | 0.3 | 0.7 | 0.6 | **1.2** | **1.0** | **1.2** |
| | Inventories | | | 0.0 | 0.1 | 0.3 | -0.2 | **-0.1** | **-0.1** | **-0.1** |
| | Net exports | | | 0.2 | 0.0 | 0.4 | 0.6 | **0.6** | **0.4** | **0.0** |
| Employment | | | | -0.2 | 0.6 | 0.4 | 1.0 | **0.7** | **0.6** | **0.5** |
| Unemployment rate (a) | | | | 4.6 | 3.6 | 3.4 | 3.1 | **2.8** | **2.7** | **2.6** |
| Compensation of employees / head | | | | -0.8 | 0.8 | 0.6 | 1.2 | **1.5** | **1.1** | **0.7** |
| Unit labour costs whole economy | | | | -1.7 | 1.1 | -0.4 | 1.2 | **0.5** | **0.4** | **0.1** |
| Real unit labour cost | | | | -0.6 | -0.7 | -2.5 | 0.9 | **0.8** | **-0.4** | **-0.7** |
| Saving rate of households (b) | | | | 11.7 | 6.6 | 7.6 | 9.0 | **10.1** | **10.2** | **9.6** |
| GDP deflator | | | | -1.1 | 1.7 | 2.1 | 0.3 | **-0.2** | **0.8** | **0.7** |
| Consumer-price index | | | | -0.2 | 2.8 | 0.8 | -0.1 | **0.5** | **1.0** | **1.1** |
| Terms of trade goods | | | | -2.9 | -0.7 | 11.5 | 7.4 | **-4.2** | **0.4** | **-0.6** |
| Trade balance (goods) (c) | | | | 1.6 | -2.0 | -0.2 | 1.0 | **0.5** | **0.8** | **0.8** |
| Current-account balance (c) | | | | 2.8 | 0.8 | 3.1 | 3.8 | **4.1** | **4.6** | **4.6** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 2.7 | 0.7 | 3.0 | 3.7 | **3.9** | **4.4** | **4.4** |
| General government balance (c) | | | | -6.8 | -5.4 | -3.6 | -3.4 | **-3.8** | **-3.2** | **-2.7** |
| Cyclically-adjusted budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| Structural budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| General government gross debt (c) | | | | 181.7 | 242.0 | 237.3 | 235.6 | **235.9** | **234.3** | **232.8** |

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

# 36. CHINA

## Solid growth but key structural challenges remain

*China's economy grew more rapidly than expected in 2017, and this momentum was maintained into early 2018. Growth in 2018 is nevertheless expected to fall as the property sector slows and export growth moderates. Trade tensions are a major risk factor, though policy can be expected to respond flexibly to any significant downturn, keeping growth close to the official target of "around 6.5%".*

### Growth in 2017 outperformed expectations

China grew by 6.9% in 2017, compared to 6.7% in 2016, the first time China's annual growth rate has increased since 2010. This positive momentum carried over into 2018-Q1 which saw growth of 6.8% (y-o-y). Growth for 2018 as a whole is forecast at 6.6%, marginally lower than in 2017, falling to 6.3% in 2019.

Risks to the outlook remain broadly balanced. External risks have increased, notably due to rising trade tensions, but there remains scope for domestic demand to outperform. The pace at which the property sector slows down will be one key issue, while a revival in domestic private investment is an important upside risk. Credit growth remains high, but the corporate debt-to-GDP fell slightly in 2017 due to a sharp increase in the GDP deflator. The medium term outlook for leverage remains a concern in the absence of reforms to tackle its underlying structural drivers.

### Real estate and trade boosted growth in 2017

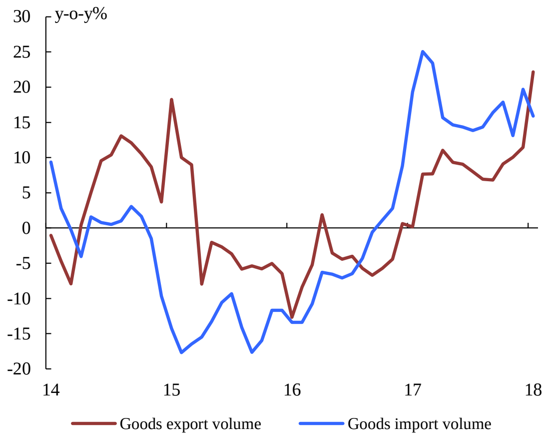
The composition of growth shifted somewhat in 2017. Net exports made the strongest contribution to growth since the global financial crisis (+0.6 pps.), a significant uptick when compared to 2017 (-0.6 pps.). Consumption (both government and private) contributed 4 pps. (4.5 pps. in 2017) while investment added 2.2 pps. (2.9 pps. in 2017). China's extended property market cycle proved to be a key factor underpinning growth. Real estate investment accounts for around 14% of GDP and grew somewhat faster than overall investment in 2017, with other components of private investment remaining weak.

### High frequency indicators suggest solid momentum

China's high frequency data paints a benign picture. PMIs for both service and manufacturing sectors remain above 50, while the first quarter of 2018 saw an uptick in retail sales, industrial production and fixed asset investment. Consumer confidence remains at a multi-year high, and mortgage borrowing and consumer loans are growing rapidly. House price growth has decelerated, but remains elevated in tier 2 and tier 3 cities where the bulk of the urban population live and can be expected to provide some support to the consumer sector through wealth effects.

The medium term outlook for consumption is less clear, as household incomes are growing no faster than GDP and consumption has been boosted by a falling household saving rate and rising leverage. Domestic investment is expected to remain subdued as state firms' investment is likely to continue to wind down from the high growth rates seen in 2016 and there are only weak signs of a recovery in private investment.

*Graph II.36.1:* **China - growth in goods trade (3-month average)**




### Policy mix will remain reactive while financial risks are tackled through regulatory measures.

Corporate leverage stabilised at around 164% of GDP in 2017, mostly reflecting a sharp rise in producer prices which pushed up the GDP deflator. Consumer price inflation remains below 2% and has yet to show any pass-through from the spike in producer prices. Monetary policy has been gradually tightened over the past two years, with a rise in both inter-bank and bond market rates, but the current PBoC stance is officially "neutral" and rates are unlikely to be pushed up sharply. Capital outflows have tailed off over the past 12 months and the exchange rate has moved in a narrow range against a basket of currencies. Managing risks in the financial system is a stated political priority, and regulatory measures in 2017 sharply reduced the growth of lending to non-bank financial institutions. This does not seem to have impaired the flow of credit to the real economy. Announced fiscal targets for 2018 suggests a modest tightening in 2018, but a more expansionary policy or some reversal of the slowdown in state firm investment are to be expected should downside risks to the forecast materialise.

### Trade remains a key driver

Trade in the Asia region rebounded strongly in 2017 after a particularly weak 2015 and subdued 2016. The strong momentum seen in China's external trade in 2017-H2 carried over into early, 2018, but current high growth rates likely reflects some bounce back from earlier low growth, and some moderation is expected towards 2019.

### Short term risks are balanced, but fragilities remain

China's current property cycle has been prolonged and sales are now on a downward trend, a sharper than expected slowdown in the sector is a key risk to the outlook. It also remains to be seen whether the resilient contribution of consumption to growth can be sustained without faster growth of household incomes. Although exports account for around 20% of China's GDP, compared to 35% in 2007, some 4% of GDP can be traced to exports to the US. A sharp ratcheting up of tensions is a clear possibility. The economic impact would clearly depend on the scope and level of tariffs. On some private estimates a broad based US tariff on Chinese imports could push growth down by up to around 0.5 pps.

Financial risk management measures and slower corporate leverage growth have eased short-term concerns over financial stability, but structural factors fuelling leverage growth remain, such as those related to the use of SoEs as a counter-cyclical policy instrument. Private fixed asset investment has been growing at rates well below overall GDP and an uptick in private investment, around 60% of the total, is an upside risk given the strong revival in export performance in 2017.

*Table II.36.1:*

**Main features of country forecast - CHINA**

| | 2016 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn CNY Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | 74563.2 | 100.0 | 9.6 | 7.3 | 6.9 | 6.7 | **6.9** | **6.6** | **6.3** |
| Consumption | 39991.0 | 53.6 | - | - | - | - | **-** | **-** | **-** |
| Gross fixed capital formation | 31808.4 | 42.7 | - | - | - | - | **-** | **-** | **-** |
| of which: equipment | | | - | - | - | - | **-** | **-** | **-** |
| Change in stocks as % of GDP | | | - | - | - | - | **-** | **-** | **-** |
| Exports (goods and services) | 14253.7 | 19.1 | 16.4 | 4.3 | -2.2 | 1.1 | **6.8** | **4.6** | **3.7** |
| Final demand | | | - | - | - | - | **-** | **-** | **-** |
| Imports (goods and services) | 12595.2 | 16.9 | 15.7 | 7.8 | -0.5 | 4.7 | **7.2** | **5.3** | **4.2** |
| GNI (GDP deflator) | - | - | - | - | - | - | **-** | **-** | **-** |
| Contribution to GDP growth : Domestic demand | | | - | - | - | - | **-** | **-** | **-** |
| Inventories | | | - | - | - | - | **-** | **-** | **-** |
| Net exports | | | - | - | - | - | **-** | **-** | **-** |
| Employment | | | - | - | - | - | **-** | **-** | **-** |
| Unemployment (a) | | | 3.9 | 4.1 | 4.1 | 4.0 | **3.9** | **-** | **-** |
| Compensation of employees/head | | | - | - | - | - | **-** | **-** | **-** |
| Unit labour costs | | | - | - | - | - | **-** | **-** | **-** |
| Real unit labour costs | | | - | - | - | - | **-** | **-** | **-** |
| Saving rate of households | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | 3.5 | 1.0 | 1.1 | -0.1 | **1.9** | **2.0** | **2.4** |
| Private consumption deflator | | | - | - | - | - | **-** | **-** | **-** |
| Index of consumer prices (c) | | | 1.9 | 2.0 | 1.4 | 2.0 | **1.6** | **-** | **-** |
| Merchandise trade balance (b) | | | 4.3 | 4.1 | 5.1 | 4.4 | **4.0** | **2.9** | **2.8** |
| Current-account balance (b) | | | 4.0 | 2.2 | 2.7 | 1.8 | **1.4** | **0.6** | **0.5** |
| 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

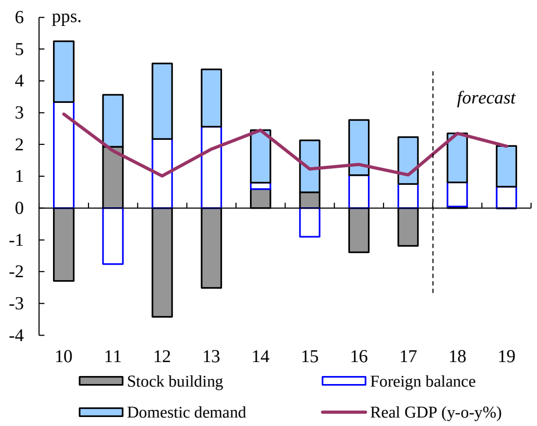
## Consolidation after overcoming external shocks

*Supported by global recovery and rebounding oil prices, Switzerland and Norway are undergoing a cyclical upswing. In contrast, in Iceland after a mainly tourism-driven boom in 2016, output growth is decelerating towards a more sustainable level.*

### Switzerland

Following somewhat sluggish GDP growth in the first half of 2017, economic activity in Switzerland accelerated in the second half of the year (to 0.7% and 0.6% in 2017-Q3 and Q4, respectively) with growth becoming broad-based across the sectors of manufacturing, construction and most services. On the expenditure side, the main impetus came from private consumption and equipment investment. Full-year GDP growth is estimated at 1.0%. The contribution of net exports was also positive, while the estimates for exports and import growth have been affected by commodity and non-monetary gold trade.

*Graph II.37.1:* **Switzerland - Real GDP growth and contributions**




Going forward, real GDP growth is forecast to accelerate in 2018 to 2.3% and continue at 1.9% in 2019. In line with robust growth outlook in the EU and US, the Swiss GDP growth should be underpinned by rising equipment investment and a stronger expansion of exports. In particular, the KOF conducted survey shows a rising number of Swiss firms which plan to undertake expansion investments in 2018. The robust performance of chemical-pharmaceutical industry has been supporting export growth since 2015, while recently growing sales of watches, precision tools and metal products reflect a more broad-based export performance, which benefits from fading effects of the Swiss Franc's past appreciation and related profit margin recovery of Swiss firms.

Private consumption is set to expand moderately on the back of gradual improvement in the labour market while the growth of wages is likely to remain modest. After two years of deflation, inflation reached 0.5% in 2017 supported by recovering oil prices and a weaker Swiss franc. As underlying price pressures remain weak, inflation is projected to continue in a slightly positive range over the forecast period, but below the official target of Swiss National Bank (SNB) of 2%.

The current mix of restrictive fiscal and accommodative monetary policy is unlikely to change in 2018. In the most recent policy meeting, the SNB has maintained interest rates on sight deposits at -0.75%. The underlying inflation outlook does not suggest the need for near-term monetary tightening which could hamper the ongoing recovery and price competitiveness of Swiss exports.

For 2017, the federal government has recorded a small surplus which is in line with the cyclical upswing and the statutory debt brake, requiring a balanced budget position over the course of the economic cycle. Further moderate surpluses are projected over the forecast horizon. This forecast does not incorporate any assumption for future reforms of corporate taxation and pension system following their rejection in 2017, as new proposals are envisaged for the second half of 2018.

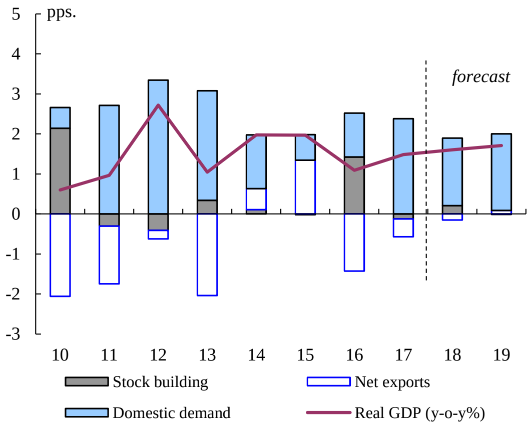
Risks to the outlook are tilted to the downside and mainly related to the external environment. Geopolitical turbulences and renewed volatility in the financial markets could lead to safe haven capital inflows which would put an upward pressure on the exchange rate. Further downside risk relates to the uncertain global trade outlook.

### Norway

The Norwegian economy's adjustment to lower energy prices progressed markedly in 2017, with full-year GDP growth coming in at 1.8% (up from 1.1% in 2016). Robust economic activity over recent months has been underpinned by strong employment growth and the bottoming-out of the energy sector's decline, as well as the continued support provided by macroeconomic policies.

Going forward, the economic outlook appears broadly benign and supported by several factors: continued strength in the labour market, high consumer sentiment and positive real wage growth are expected to underpin private consumption; while fixed investment should receive support from rebounding oil prices and strong demand in the mainland economy, partly offsetting an anticipated decline in residential construction. However, despite improved growth prospects among key trading partners, negative carry-overs into 2018 provide that net exports will continue to drag on growth this year before turning neutral thereafter. Overall, GDP growth is forecast at 1¾% and 2% in 2018 and 2019, respectively; with the macroeconomic policy mix expected to turn slightly less supportive over the forecast horizon as the economy progresses towards full capacity.

*Graph II.37.2:* **Norway - Real GDP growth and contributions**




In line with rebounding employment growth, several estimates now point to a substantial closing of the output gap already in 2017, and further progress is anticipated in the near term. Despite this improvement, however, wage and price pressures remain contained at this stage: core inflation fell to 1.2% in March and interest rates remained on hold at historic lows of 1.25%. Nonetheless, the labour market's continued tightening over the forecast horizon is expected to begin placing upward pressure on wage growth; while Norges Bank has signalled its intention to begin gradually tightening monetary policy already from the second half of 2018.

This brings monetary and fiscal policy slowly closer towards withdrawing the extensive support provided during the economy's recent downturn. Fiscal policy is expected to turn broadly neutral in 2018 and 2019, resulting in a more moderate outlook for growth in public consumption and infrastructure investment; while rising interest rates are expected to slightly dampen residential investment and private consumption, reflecting high debt levels among Norwegian households (over 100% of GDP).

Rising oil prices and falling break-even costs have improved the outlook for Norway's energy sector, and oil- and gas-related fixed investment is now expected to increase for the first time since 2013. This is complemented also by a robust outlook for investment in other sectors in line with rising demand and still-accommodative financing conditions. However, recent declines in house prices following a period of rapid growth will offset these positive dynamics, with residential investment expected to decline in 2018 before rebounding modestly in future years.

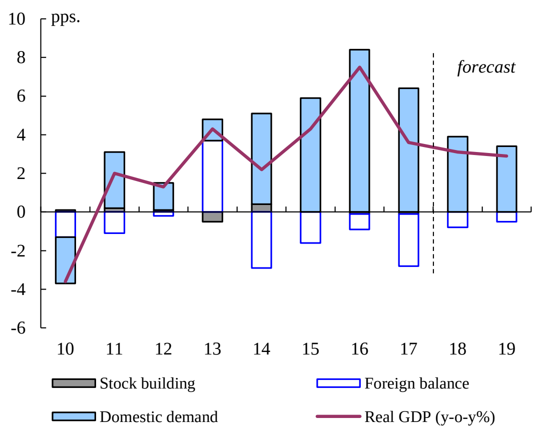
Risks to the outlook mainly concern the housing sector, as there remains significant uncertainty going forward. Modest price declines over recent months reduce the risk of a potentially more severe and disruptive adjustment in future, while financial stability concerns are allayed by several underlying strengths (high profitability, capital adequacy). Nonetheless, a steeper deterioration in the outlook for house prices presents a significant domestic risk facing the Norwegian economy. Concerning the external environment, oil prices present both upside and downside risks; while a broad-based protectionist shift in trade policies would weigh materially on growth.

## Iceland

Economic growth slowed down to 3.6% in 2017, after tourism driven exports and investment had pushed up output growth to 7.5% in 2016. The main reasons for this slowdown were a deceleration in growth of tourism exports as well as of tourism-related construction. Private consumption remained strong (+7.8% in 2017), benefitting from a marked gain in real disposable income, resulting from high employment and wage growth as well as low inflation. Low import prices and an appreciating currency helped to keep inflation below the Central Bank's inflation target of 2.5%. Following lower demand, employment growth slowed down, but still was at 1.8%, compared 3.8% in 2016.

The public sector registered a surplus of 1.5% in 2017, mainly resulting from solid revenue growth. Early debt repayments facilitated a sharp drop in public debt, falling close to 40% of GDP, compared to 53% the year before.

*Graph II.37.3:* **Iceland - Real GDP growth and contributions**




In the coming years, Iceland's economy is likely to converge towards a more sustainable pace of growth, decelerating to around 3% until 2019, mainly as a result of a slowing down in private consumption and investment, as well as a slowdown in growth rates of tourism inflows. In line with this overall picture, employment growth is also expected to slow down, reaching around 1½% in 2019. Unemployment rate is forecast to increase again in the near future, reflecting a continued high increase in labour supply, while labour demand is set to slow down. Strong output and employment growth translate into higher inflation. Iceland's external accounts are likely to deteriorate: Domestic consumption is expected to remain strong, resulting in high import growth, which will contribute to a widening of Iceland's trade deficit, increasing to around 7% by 2019. The expected decelerating inflow of tourist revenues will contribute to lower current account surpluses.

After significant one-off revenues, related to the lifting of capital controls, had resulted in a general government surplus of 12.6% of GDP in 2016, still strong revenue growth led to a surplus of 1.5% in 2017, which however will probably shrink to only minor surpluses in 2018 and 2019. Strong growth and early debt repayments are expected to lead to a further marked drop in the debt ratio.

In view of still above-potential growth, there is a risk of inflationary pressures emerging, which could erode the country's international price competitiveness, in particular in labour-intensive sectors such as tourism.

*Table II.37.1:*

**Main features of country forecast - EFTA**

| (Annual percentage change) | Iceland 2016 | 2017 | 2018 | 2019 | Norway 2016 | 2017 | 2018 | 2019 | Switzerland 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GDP | 7.5 | **3.6** | **3.1** | **2.9** | 1.1 | **1.8** | **1.7** | **2.0** | 1.4 | **1.0** | **2.3** | **1.9** |
| Private Consumption | 7.1 | **7.8** | **5.3** | **4.0** | 1.5 | **2.3** | **2.1** | **1.8** | 1.5 | **1.2** | **1.3** | **1.4** |
| Public Consumption | 2.3 | **2.6** | **2.3** | **2.0** | 2.1 | **2.0** | **1.7** | **1.5** | 1.6 | **0.9** | **0.7** | **0.6** |
| Gross fixed capital formation | 22.5 | **9.3** | **3.0** | **4.0** | -0.2 | **3.5** | **1.4** | **3.1** | 3.1 | **3.0** | **3.0** | **1.9** |
| of which: equipment | - | - | - | - | -0.9 | **9.8** | **-1.2** | **-2.2** | -1.6 | **3.2** | **3.6** | **1.7** |
| Exports (good and services) | 10.9 | **4.8** | **4.5** | **4.2** | -1.8 | **0.8** | **2.3** | **3.3** | 6.5 | **-1.0** | **4.2** | **3.9** |
| Imports (goods and services) | 14.5 | **11.9** | **6.8** | **5.6** | 2.3 | **2.2** | **2.9** | **3.2** | 6.0 | **-2.6** | **3.7** | **3.5** |
| GNI (GDP deflator) | 9.9 | **2.0** | **3.1** | **2.9** | 1.7 | **1.9** | **1.9** | **2.1** | -0.1 | **1.0** | **2.3** | **1.9** |
| Contribution to GDP growth: Domestic demand | 8.4 | **6.4** | **3.9** | **3.4** | 1.1 | **2.4** | **1.7** | **1.9** | 1.7 | **1.5** | **1.5** | **1.3** |
| Inventories | -0.1 | **-0.1** | **0.0** | **0.0** | 1.4 | **-0.1** | **0.2** | **0.0** | -1.4 | **-1.2** | **0.0** | **0.0** |
| Net exports | -0.8 | **-2.7** | **-0.8** | **-0.5** | -1.4 | **-0.4** | **-0.2** | **0.1** | 1.0 | **0.8** | **0.8** | **0.7** |
| Employment | 3.8 | **1.8** | **2.0** | **1.4** | 0.3 | **1.0** | **1.0** | **0.7** | 1.4 | **0.6** | **0.6** | **0.5** |
| Unemployment rate (a) | 3.1 | **3.0** | **4.3** | **4.2** | 4.6 | **4.0** | **3.4** | **3.2** | 4.7 | **4.6** | **4.5** | **4.4** |
| Compensation of employee/head | 7.3 | **7.9** | **5.0** | **4.0** | 1.4 | **1.9** | **2.6** | **3.0** | -0.2 | **0.0** | **0.6** | **0.9** |
| Unit labour cost whole economy | 3.6 | **6.0** | **3.9** | **2.5** | 0.5 | **1.1** | **1.8** | **1.7** | -0.2 | **-0.4** | **-1.2** | **-0.6** |
| Real unit labour cost | 1.4 | **5.5** | **2.3** | **0.0** | 1.7 | **-2.1** | **-0.2** | **-0.5** | 0.4 | **-0.7** | **-1.5** | **-0.8** |
| Saving rate of households (b) | : | : | : | : | 12.8 | **12.6** | **12.6** | **13.2** | 22.8 | **23.2** | **23.4** | **23.5** |
| GDP deflator | 2.1 | **0.5** | **1.5** | **2.5** | -1.1 | **3.3** | **2.0** | **2.3** | -0.6 | **0.3** | **0.3** | **0.2** |
| Harmonised index of consumer prices | 0.8 | **-1.4** | **2.3** | **2.9** | 3.9 | **1.9** | **2.2** | **2.3** | -0.4 | **0.5** | **0.5** | **0.4** |
| Terms of trade goods | -2.4 | **-0.3** | **0.0** | **0.0** | -10.7 | **6.5** | **-0.6** | **0.0** | -2.2 | **-1.6** | **-0.3** | **0.0** |
| Trade balance (goods) (c) | -4.1 | **-6.5** | **-6.7** | **-6.9** | 3.2 | **4.3** | **4.1** | **4.1** | 7.4 | **7.6** | **8.3** | **8.5** |
| Current account balance (c) | 7.7 | **3.7** | **2.4** | **2.0** | 3.9 | **5.2** | **4.9** | **5.0** | 8.8 | **8.5** | **9.7** | **10.1** |
| Net lending (+) or borrowing (-) vis-a-vis ROW | 7.6 | **3.6** | **2.3** | **2.0** | 3.8 | **5.1** | **4.8** | **5.0** | 9.3 | **7.7** | **8.9** | **9.4** |
| General government balance (c) | 12.6 | **1.5** | **0.4** | **0.6** | 4.0 | **4.4** | **4.9** | **4.9** | 0.4 | **0.4** | **0.6** | **0.6** |
| General government gross debt (c) | 53.4 | **43.5** | **41.2** | **38.4** | 35.3 | **34.3** | **33.3** | **32.0** | 35.2 | **34.7** | **33.6** | **32.7** |

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

# 38. RUSSIAN FEDERATION
## Moderate recovery supported by rising oil prices

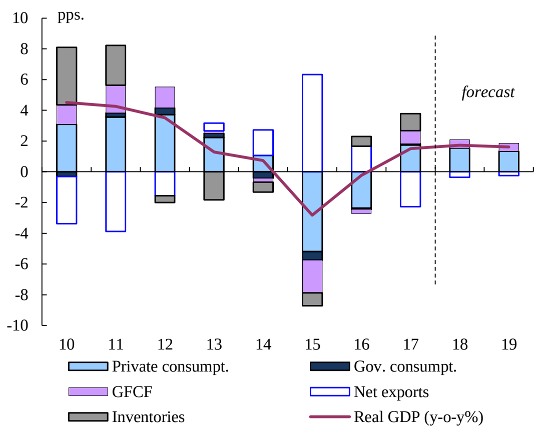
*The effects of higher oil prices recirculate through the economy fuelling the recovery, while at the same time higher oil-revenues help to replenish fiscal buffers. Improved confidence, contained inflation and accommodative monetary policy are set to support domestic demand in the near term, although structural bottlenecks hamper stronger rebound.*

### Recovery held down by temporary factors

The economic activity in Russia expanded by 1.5% in 2017 as a whole as firming oil prices and falling inflation supported domestic demand. However, the economic activity has been lacklustre towards the end of 2017, with real GDP growth decelerating from 2.2% (y-o-y) in 2017-Q3 to 0.9% (y-o-y) in 2017-Q4. Domestic demand remained robust, driven by rising business and consumer confidence and increasing credit supply. Yet it led to a rapid expansion of imports, not least on the back of the appreciation of the national currency. Consequently, net exports and destocking contributed negatively to the country's GDP.

Going forward, the impact of higher oil prices recirculating throughout the economy is likely to further support domestic demand and thereby GDP which is expected to grow by 1.7% in 2018. Growth is expected to edge down slightly to 1.6% in the outer year of the forecast horizon, reflecting subdued productivity growth and lingering effects of sanctions.

*Graph II.38.1:* **Russia - Real GDP growth and contributions**




### Domestic demand still the main growth engine

After three years of declines, disposable incomes are expected to start increasing moderately driven by growing real wages and indexation of public employees' salaries. Rising disposable incomes and continued rebound in consumption credit are forecast to support private consumption spending, while public consumption growth is set to be lacklustre due to ongoing fiscal consolidation.

Gradual loosening of monetary policy, growing domestic demand and improving business sentiment are likely to fuel investment spending, as after several years of falling capital spending and increasing capacity utilisation the depleted capital stock requires significant replacement investment. Growth is set to be moderate, however, as the investment cycle of large infrastructure projects nears the end and weak business environment limits the attractiveness of investment outside of the energy sector.

On the external side, import growth is likely to decelerate, after rising by 17.4% in 2017, as exchange rate stabilises and pent-up demand is gradually saturated. Export growth is set to be contained as a result of oil production cuts agreed with OPEC and weaker price competitiveness of non-energy exports. All-in-all, the contribution of external trade to the real GDP growth is forecast to narrow compared to the very negative contribution of -2.3 pps. in 2017 but remain moderately negative over the forecast horizon. Decelerating import growth together with improving terms-of-trade are set to raise current account surplus to 3% of GDP in 2018, though it should shrink back to around 2½% of GDP in the outer year of the projection.

### Monetary policy easing cycle comes to an end

Headline inflation fell to 2.3% in March 2018, well below the central bank target of 4%, driven by prolonged slowdown in food price inflation, flat regulated fuel and utilities prices and previous currency appreciation. Going forward, inflation is expected to pick up to around 4% reflecting a stabilising currency and strong wage growth. Still, the central bank's estimated target interest rate of

6%-7% gives some space for some monetary policy easing from the current level (7.25%).

On the fiscal side, higher oil prices, stronger growth and improved tax collection resulted in a sizable improvement in the budget deficit from 3.3% of GDP in 2016 to 1.6% of GDP in 2017. Going forward, higher oil prices will help to replenish off-budget reserves. The budget balance is likely to reach surplus at the end of the forecast horizon, driven mainly by higher budget revenues amid moderate consolidation on the expenditure side.

### Stabilisation policies reinforced but structural bottlenecks persist

The revised budget rule came into force in 2018 and set spending of oil and gas revenues according to a ceiling of USD 40 per barrel (rising 2% annually in line with US inflation), with receipts above this level saved in the National Wealth Fund. The rule, coupled with the inflation targeting regime, is likely to reduce the dependence of the Russian economy and public finances on global oil market cycles in the medium term, allowing Russian authorities more room to run macroeconomic stabilisation policies.

Diversification of the economy away from the extractive industries and related sectors (banking, transportation) is, however, progressing very slowly. Higher oil prices diminished the necessity to ease long-standing growth bottlenecks (poor business environment, low investment, labour market rigidities) that hamper the development of non-energy related industrial branches and result in potential growth hovering around 1½%. At the same time, appreciating currency dented part of previous cost competitiveness gains in the manufacturing sector.

The recent US sanctions are expected to weigh further on medium- and long-term growth prospects, most notably via increasing uncertainty in financial markets, hampering access to external finance and severing trade links.

### Major risks remain

Uncertainties surrounding the geopolitical situation and the impact of the recent US sanctions on investors' confidence remain the key downside risk facing the economic outlook for Russia, while higher oil prices and stronger wage growth are the major upside risks for the growth outlook.

*Table II.38.1:*

**Main features of country forecast - RUSSIA**

| | | 2016 | | | Annual percentage change | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **bn RUB Curr. prices** | **% GDP** | **98-13** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** |
| GDP | | 86043.6 | 100.0 | 4.2 | 0.7 | -2.8 | -0.2 | **1.5** | **1.7** | **1.6** |
| Private Consumption | | 44273.3 | 51.5 | 6.4 | 2.0 | -9.7 | -4.5 | **3.4** | **3.0** | **2.6** |
| Public Consumption | | 15549.4 | 18.1 | 1.6 | -2.1 | -3.1 | -0.5 | **0.4** | **0.0** | **0.0** |
| Gross fixed capital formation | | 17169.5 | 20.0 | 7.0 | -1.3 | -10.4 | -1.4 | **4.3** | **2.8** | **2.6** |
| of which: equipment | | - | - | - | - | - | - | **-** | **-** | **-** |
| Exports (goods and services) | | 22124.4 | 25.7 | 5.6 | 0.5 | 3.7 | 3.1 | **5.1** | **4.6** | **4.2** |
| Imports (goods and services) | | 17685.8 | 20.6 | 9.7 | -7.3 | -25.8 | -3.8 | **17.4** | **7.5** | **6.4** |
| GNI (GDP deflator) | | 83763.6 | 97.4 | 4.1 | 1.1 | -2.2 | -0.3 | **2.4** | **1.8** | **1.7** |
| Contribution to GDP growth: | Domestic demand | | | 4.9 | 0.4 | -7.9 | -2.7 | **2.7** | **2.1** | **1.9** |
| | Inventories | | | -0.1 | -0.6 | -0.8 | 0.6 | **1.1** | **0.0** | **0.0** |
| | Net exports | | | -0.5 | 1.7 | 6.3 | 1.7 | **-2.3** | **-0.4** | **-0.2** |
| Employment | | | | - | 0.2 | 1.1 | -2.1 | **0.1** | **0.1** | **0.1** |
| Unemployment rate (a) | | | | 8.1 | 5.2 | 3.9 | 5.7 | **5.4** | **5.2** | **4.9** |
| Compensation of employees / head | | | | - | - | - | - | **-** | **-** | **-** |
| Unit labour costs whole economy | | | | - | - | - | - | **-** | **-** | **-** |
| Real unit labour cost | | | | - | - | - | - | **-** | **-** | **-** |
| Saving rate of households (b) | | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | | 18.3 | 10.7 | 8.2 | 3.6 | **6.1** | **4.8** | **3.8** |
| Consumer-price index | | | | - | 7.8 | 15.5 | 7.1 | **3.7** | **3.7** | **4.0** |
| Terms of trade goods | | | | 5.3 | -4.7 | -24.0 | -18.2 | **12.0** | **4.9** | **0.0** |
| Trade balance (goods) (c) | | | | 12.0 | 9.0 | 10.7 | 7.0 | **7.2** | **7.9** | **7.6** |
| Current-account balance (c) | | | | 7.3 | 2.6 | 4.9 | 2.0 | **2.2** | **3.0** | **2.6** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | 7.4 | 2.6 | 4.9 | 2.0 | **2.2** | **3.0** | **2.6** |
| General government balance (c) | | | | - | -2.3 | -1.8 | -3.3 | **-1.6** | **-0.6** | **0.1** |
| Cyclically-adjusted budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| Structural budget balance (d) | | | | - | - | - | - | **-** | **-** | **-** |
| General government gross debt (c) | | | | - | 15.6 | 15.9 | 16.3 | **15.4** | **13.8** | **11.8** |

(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.

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# Statistical Annex

## European Economic Forecast – Spring 2018

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## Exchange rates

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## Saving



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## World economy

Table 1: Gross domestic product, volume (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 2.1 | 2.5 | 0.5 | 1.4 | 1.4 | 1.5 | **1.7** | **1.8** | **1.7** | *1.7* | *1.8* | *1.7* |
| Germany | 1.2 | 2.0 | 0.6 | 1.9 | 1.7 | 1.9 | **2.2** | **2.3** | **2.1** | *2.2* | *2.1* | *2.0* |
| Estonia | 5.8 | 5.5 | 0.0 | 2.9 | 1.7 | 2.1 | **4.9** | **3.7** | **2.8** | *4.4* | *3.2* | *2.8* |
| Ireland | 7.0 | 3.8 | 0.3 | 8.3 | 25.6 | 5.1 | **7.8** | **5.7** | **4.1** | *4.8* | *3.9* | *3.1* |
| Greece | 4.2 | 2.8 | -5.9 | 0.7 | -0.3 | -0.2 | **1.4** | **1.9** | **2.3** | *1.6* | *2.5* | *2.5* |
| Spain | 4.0 | 3.2 | -1.8 | 1.4 | 3.4 | 3.3 | **3.1** | **2.9** | **2.4** | *3.1* | *2.5* | *2.1* |
| France | 2.2 | 1.9 | 0.4 | 0.9 | 1.1 | 1.2 | **1.8** | **2.0** | **1.8** | *1.6* | *1.7* | *1.6* |
| Italy | 1.5 | 1.0 | -1.6 | 0.1 | 1.0 | 0.9 | **1.5** | **1.5** | **1.2** | *1.5* | *1.3* | *1.0* |
| Cyprus | 4.0 | 4.3 | -1.9 | -1.4 | 2.0 | 3.4 | **3.9** | **3.6** | **3.3** | *3.5* | *2.9* | *2.7* |
| Latvia | 6.0 | 7.3 | -1.4 | 1.9 | 3.0 | 2.2 | **4.5** | **3.3** | **3.3** | *4.2* | *3.5* | *3.2* |
| Lithuania | 5.2 | 7.0 | -0.3 | 3.5 | 2.0 | 2.3 | **3.8** | **3.1** | **2.7** | *3.8* | *2.9* | *2.6* |
| Luxembourg | 4.9 | 3.8 | 1.2 | 5.8 | 2.9 | 3.1 | **2.3** | **3.7** | **3.5** | *3.4* | *3.5* | *3.3* |
| Malta | 3.3 | 2.7 | 1.9 | 8.1 | 9.9 | 5.5 | **6.6** | **5.8** | **5.1** | *5.6* | *4.9* | *4.1* |
| Netherlands | 2.3 | 2.6 | -0.4 | 1.4 | 2.3 | 2.2 | **3.2** | **3.0** | **2.6** | *3.2* | *2.7* | *2.5* |
| Austria | 2.2 | 2.7 | 0.3 | 0.8 | 1.1 | 1.5 | **2.9** | **2.8** | **2.2** | *2.6* | *2.4* | *2.3* |
| Portugal | 1.9 | 1.4 | -1.6 | 0.9 | 1.8 | 1.6 | **2.7** | **2.3** | **2.0** | *2.6* | *2.1* | *1.8* |
| Slovenia | 3.8 | 4.8 | -2.0 | 3.0 | 2.3 | 3.1 | **5.0** | **4.7** | **3.6** | *4.7* | *4.0* | *3.3* |
| Slovakia | 2.8 | 7.4 | 1.1 | 2.8 | 3.9 | 3.3 | **3.4** | **4.0** | **4.2** | *3.3* | *3.8* | *4.0* |
| Finland | 3.3 | 3.3 | -1.1 | -0.6 | 0.1 | 2.1 | **2.6** | **2.5** | **2.3** | *3.3* | *2.7* | *2.4* |
| Euro area | 2.1 | 2.1 | -0.4 | 1.3 | 2.1 | 1.8 | **2.4** | **2.3** | **2.0** | *2.2* | *2.1* | *1.9* |
| Bulgaria | 2.5 | 6.8 | 0.1 | 1.3 | 3.6 | 3.9 | **3.6** | **3.8** | **3.7** | *3.9* | *3.8* | *3.6* |
| Czech Republic | 2.8 | 5.3 | -0.4 | 2.7 | 5.3 | 2.6 | **4.4** | **3.4** | **3.1** | *4.3* | *3.0* | *2.9* |
| Denmark | 1.7 | 1.9 | -0.1 | 1.6 | 1.6 | 2.0 | **2.2** | **1.8** | **1.9** | *2.3* | *2.0* | *1.9* |
| Croatia | 3.4 | 4.0 | -2.4 | -0.1 | 2.3 | 3.2 | **2.8** | **2.8** | **2.7** | *3.2* | *2.8* | *2.7* |
| Hungary | 3.9 | 2.9 | -0.8 | 4.2 | 3.4 | 2.2 | **4.0** | **4.0** | **3.2** | *3.7* | *3.6* | *3.1* |
| Poland | 3.2 | 5.2 | 2.9 | 3.3 | 3.8 | 3.0 | **4.6** | **4.3** | **3.7** | *4.2* | *3.8* | *3.4* |
| Romania | 3.6 | 7.1 | -0.4 | 3.1 | 4.0 | 4.8 | **6.9** | **4.5** | **3.9** | *5.7* | *4.4* | *4.1* |
| Sweden | 3.0 | 2.9 | 0.8 | 2.6 | 4.5 | 3.2 | **2.4** | **2.6** | **2.0** | *3.2* | *2.7* | *2.2* |
| EU27 | 2.2 | 2.3 | -0.3 | 1.5 | 2.3 | 2.0 | **2.6** | **2.5** | **2.2** | *2.4* | *2.2* | *2.0* |
| United Kingdom | 3.0 | 2.0 | 0.5 | 3.1 | 2.3 | 1.9 | **1.8** | **1.5** | **1.2** | *1.5* | *1.3* | *1.1* |
| EU | 2.3 | 2.3 | -0.2 | 1.8 | 2.3 | 2.0 | **2.4** | **2.3** | **2.0** | *2.3* | *2.1* | *1.9* |
| USA | 2.9 | 2.2 | 1.0 | 2.6 | 2.9 | 1.5 | **2.3** | **2.9** | **2.7** | *2.2* | *2.3* | *2.1* |
| Japan | 0.9 | 1.2 | 0.4 | 0.4 | 1.4 | 0.9 | **1.7** | **1.3** | **1.1** | *1.6* | *1.2* | *1.0* |

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2017-19) 23.4.2018

| | 2017/1 | 2017/2 | 2017/3 | 2017/4 | 2018/1 | 2018/2 | 2018/3 | 2018/4 | 2019/1 | 2019/2 | 2019/3 | 2019/4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | 0.7 | 0.5 | 0.2 | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 |
| Germany | 0.9 | 0.6 | 0.7 | 0.6 | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Estonia | 1.0 | 1.7 | 0.4 | 2.2 | 0.4 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.7 |
| Ireland | : | : | : | : | : | : | : | : | : | : | : | : |
| Greece | : | : | : | : | : | : | : | : | : | : | : | : |
| Spain | 0.8 | 0.9 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 |
| France | 0.7 | 0.6 | 0.5 | 0.7 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Italy | 0.5 | 0.4 | 0.4 | 0.3 | 0.2 | 0.3 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 |
| Cyprus | : | : | : | : | : | : | : | : | : | : | : | : |
| Latvia | 1.6 | 1.3 | 1.5 | 0.3 | 0.7 | 0.9 | 0.9 | 0.6 | 0.7 | 0.9 | 1.0 | 1.0 |
| Lithuania | 1.1 | 0.7 | 0.5 | 1.4 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Luxembourg | -0.9 | 0.9 | 1.8 | -0.1 | : | : | : | : | : | : | : | : |
| Malta | : | : | : | : | : | : | : | : | : | : | : | : |
| Netherlands | 0.7 | 1.5 | 0.4 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Austria | 1.2 | 0.7 | 0.8 | 0.8 | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Portugal | 0.7 | 0.3 | 0.6 | 0.7 | 0.5 | 0.6 | 0.5 | 0.6 | 0.5 | 0.5 | 0.4 | 0.5 |
| Slovenia | 1.4 | 1.4 | 1.2 | 2.0 | 0.8 | 0.8 | 0.8 | 0.8 | 1.0 | 1.0 | 1.0 | 0.9 |
| Slovakia | 0.8 | 1.0 | 0.8 | 0.9 | 1.0 | 1.2 | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 | 1.1 |
| Finland | 1.1 | 0.4 | 0.1 | 0.6 | 0.8 | 0.8 | 0.6 | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 |
| Euro area | 0.6 | 0.7 | 0.7 | 0.7 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Bulgaria | 0.9 | 1.0 | 0.9 | 0.7 | 1.0 | 1.0 | 1.0 | 1.0 | 0.8 | 0.8 | 0.9 | 0.9 |
| Czech Republic | 1.5 | 2.4 | 0.7 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.7 |
| Denmark | 2.4 | -1.1 | -0.9 | 0.9 | 0.7 | 0.7 | 0.7 | 0.7 | 0.4 | 0.4 | 0.4 | 0.4 |
| Croatia | 0.6 | 0.8 | 0.7 | 0.1 | 0.8 | 0.9 | 0.8 | 0.7 | 0.7 | 0.5 | 0.6 | 0.5 |
| Hungary | 1.5 | 1.0 | 1.0 | 1.3 | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| Poland | 1.3 | 0.8 | 1.3 | 0.9 | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 |
| Romania | 2.0 | 1.7 | 2.4 | 0.5 | 1.0 | 0.8 | 0.9 | 0.9 | 1.1 | 1.0 | 0.9 | 0.9 |
| Sweden | 0.4 | 1.2 | 0.8 | 0.9 | 0.7 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| EU27 | 0.7 | 0.7 | 0.7 | 0.7 | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| United Kingdom | 0.3 | 0.2 | 0.5 | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| EU | 0.7 | 0.7 | 0.7 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| USA | 0.3 | 0.8 | 0.8 | 0.7 | 0.5 | 0.8 | 0.8 | 0.7 | 0.6 | 0.6 | 0.7 | 0.6 |
| Japan | 0.5 | 0.6 | 0.6 | 0.4 | 0.1 | 0.3 | 0.4 | 0.3 | 0.2 | 0.5 | 1.1 | -1.9 |

**Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2017-19)** 23.4.2018

| | 2017/1 | 2017/2 | 2017/3 | 2017/4 | 2018/1 | 2018/2 | 2018/3 | 2018/4 | 2019/1 | 2019/2 | 2019/3 | 2019/4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | 1.8 | 1.5 | 1.6 | 1.9 | 1.6 | 1.7 | 2.0 | 1.9 | 2.0 | 1.8 | 1.7 | 1.5 |
| Germany | 2.1 | 2.3 | 2.7 | 2.9 | 2.5 | 2.4 | 2.3 | 2.2 | 2.2 | 2.1 | 2.0 | 2.1 |
| Estonia | 3.9 | 5.3 | 4.5 | 5.3 | 4.7 | 3.6 | 4.0 | 2.5 | 2.8 | 2.8 | 2.7 | 2.7 |
| Ireland | : | : | : | : | : | : | : | : | : | : | : | : |
| Greece | : | : | : | : | : | : | : | : | : | : | : | : |
| Spain | 3.0 | 3.1 | 3.1 | 3.1 | 3.0 | 2.8 | 2.8 | 2.8 | 2.6 | 2.5 | 2.3 | 2.1 |
| France | 1.2 | 1.9 | 2.3 | 2.5 | 2.1 | 1.9 | 1.9 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 |
| Italy | 1.3 | 1.6 | 1.8 | 1.6 | 1.4 | 1.3 | 1.3 | 1.3 | 1.4 | 1.2 | 1.1 | 1.1 |
| Cyprus | : | : | : | : | : | : | : | : | : | : | : | : |
| Latvia | 4.2 | 4.9 | 6.2 | 4.7 | 3.8 | 3.4 | 2.8 | 3.2 | 3.2 | 3.2 | 3.2 | 3.6 |
| Lithuania | 4.0 | 4.1 | 3.6 | 3.8 | 3.3 | 3.2 | 3.3 | 2.7 | 2.7 | 2.8 | 2.8 | 2.7 |
| Luxembourg | 3.2 | 1.4 | 3.1 | 1.6 | : | : | : | : | : | : | : | : |
| Malta | : | : | : | : | : | : | : | : | : | : | : | : |
| Netherlands | 2.7 | 3.8 | 3.3 | 3.4 | 3.5 | 2.7 | 3.0 | 2.9 | 2.8 | 2.6 | 2.6 | 2.5 |
| Austria | 2.6 | 2.9 | 3.5 | 3.6 | 3.1 | 3.0 | 2.7 | 2.4 | 2.2 | 2.2 | 2.1 | 2.1 |
| Portugal | 2.9 | 3.0 | 2.4 | 2.4 | 2.2 | 2.5 | 2.4 | 2.3 | 2.3 | 2.1 | 2.0 | 1.9 |
| Slovenia | 4.9 | 5.4 | 5.1 | 6.2 | 5.6 | 5.0 | 4.5 | 3.3 | 3.4 | 3.6 | 3.7 | 3.9 |
| Slovakia | 3.1 | 3.4 | 3.5 | 3.5 | 3.7 | 4.0 | 4.4 | 4.6 | 4.7 | 4.5 | 4.3 | 4.2 |
| Finland | 2.8 | 3.1 | 2.2 | 2.4 | 2.0 | 2.4 | 2.9 | 2.8 | 2.6 | 2.3 | 2.0 | 1.8 |
| Euro area | 2.1 | 2.4 | 2.7 | 2.8 | 2.4 | 2.2 | 2.2 | 2.1 | 2.1 | 2.0 | 1.9 | 1.9 |
| Bulgaria | 3.7 | 3.7 | 3.9 | 3.5 | 3.7 | 3.7 | 3.8 | 4.1 | 3.9 | 3.7 | 3.6 | 3.5 |
| Czech Republic | 3.0 | 4.6 | 5.2 | 5.5 | 4.7 | 3.0 | 2.9 | 2.9 | 3.0 | 3.1 | 3.2 | 3.2 |
| Denmark | 4.2 | 2.4 | 1.1 | 1.3 | -0.3 | 1.5 | 3.1 | 2.9 | 2.5 | 2.2 | 1.8 | 1.5 |
| Croatia | 3.5 | 3.6 | 3.1 | 2.2 | 2.4 | 2.5 | 2.7 | 3.3 | 3.2 | 2.8 | 2.5 | 2.3 |
| Hungary | 4.0 | 3.8 | 4.3 | 4.9 | 4.3 | 4.2 | 4.0 | 3.5 | 3.4 | 3.2 | 3.1 | 3.1 |
| Poland | 4.6 | 4.2 | 5.4 | 4.3 | 4.3 | 4.5 | 4.2 | 4.1 | 3.9 | 3.7 | 3.5 | 3.4 |
| Romania | 5.8 | 6.1 | 8.5 | 6.8 | 5.7 | 4.8 | 3.3 | 3.7 | 3.9 | 4.0 | 4.0 | 3.9 |
| Sweden | 1.9 | 2.6 | 2.9 | 3.3 | 3.6 | 3.0 | 2.6 | 2.1 | 1.8 | 1.6 | 1.6 | 1.7 |
| EU27 | 2.3 | 2.6 | 2.9 | 2.9 | 2.5 | 2.4 | 2.4 | 2.2 | 2.2 | 2.1 | 2.1 | 2.0 |
| United Kingdom | 2.1 | 1.9 | 1.8 | 1.4 | 1.4 | 1.6 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | 1.2 |
| EU | 2.2 | 2.5 | 2.7 | 2.7 | 2.4 | 2.3 | 2.2 | 2.1 | 2.1 | 2.0 | 1.9 | 1.9 |
| USA | 2.0 | 2.2 | 2.3 | 2.6 | 2.8 | 2.9 | 2.9 | 2.9 | 3.0 | 2.8 | 2.6 | 2.6 |
| Japan | 1.3 | 1.6 | 1.9 | 2.1 | 1.7 | 1.4 | 1.2 | 1.1 | 1.1 | 1.4 | 2.1 | -0.2 |

**Table 4: Gross domestic product per capita (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 1.8 | 1.8 | -0.2 | 0.9 | 0.9 | 1.0 | **1.2** | **1.3** | **1.2** | *1.2* | *1.3* | *1.2* |
| Germany | 1.2 | 2.2 | 0.6 | 1.5 | 0.9 | 1.1 | **1.8** | **2.0** | **1.8** | *1.3* | *1.6* | *1.7* |
| Estonia | 6.1 | 6.1 | 0.2 | 3.2 | 1.9 | 1.9 | **4.9** | **3.7** | **2.8** | *4.1* | *3.1* | *2.8* |
| Ireland | 5.5 | 1.4 | -0.1 | 8.0 | 24.8 | 4.2 | **5.1** | **4.6** | **3.1** | *3.7* | *2.9* | *2.1* |
| Greece | 3.8 | 2.5 | -5.7 | 1.4 | 0.4 | 0.2 | **1.9** | **2.4** | **2.9** | *2.1* | *3.1* | *3.1* |
| Spain | 3.0 | 1.4 | -2.1 | 1.7 | 3.5 | 3.2 | **2.8** | **2.5** | **1.9** | *3.0* | *2.5* | *2.1* |
| France | 1.5 | 1.2 | -0.1 | 0.4 | 0.6 | 0.8 | **1.4** | **1.5** | **1.4** | *1.1* | *1.2* | *1.1* |
| Italy | 1.3 | 0.4 | -2.0 | -0.1 | 1.0 | 1.0 | **1.6** | **1.5** | **1.2** | *1.5* | *1.3* | *1.0* |
| Cyprus | 2.8 | 2.4 | -3.6 | -0.3 | 2.6 | 2.9 | **2.9** | **3.0** | **2.6** | *3.5* | *2.2* | *2.1* |
| Latvia | 7.1 | 8.4 | 0.2 | 2.8 | 3.9 | 3.1 | **5.7** | **4.2** | **4.2** | *5.2* | *4.5* | *4.1* |
| Lithuania | 6.0 | 8.5 | 1.3 | 4.4 | 3.0 | 3.7 | **5.5** | **4.4** | **3.8** | *5.4* | *4.4* | *3.9* |
| Luxembourg | 3.6 | 2.1 | -1.0 | 3.3 | 0.9 | 0.5 | **0.1** | **1.4** | **1.2** | *0.9* | *1.1* | *0.9* |
| Malta | 2.6 | 2.1 | 1.1 | 5.9 | 7.3 | 3.1 | **4.3** | **3.7** | **3.3** | *4.6* | *4.1* | *3.4* |
| Netherlands | 1.7 | 2.3 | -0.8 | 1.0 | 1.8 | 1.6 | **2.6** | **2.4** | **2.1** | *2.8* | *2.3* | *2.1* |
| Austria | 1.8 | 2.2 | -0.1 | 0.0 | 0.1 | 0.2 | **2.3** | **2.2** | **1.7** | *1.8* | *1.7* | *1.7* |
| Portugal | 1.3 | 1.2 | -1.4 | 1.4 | 2.2 | 1.9 | **2.9** | **2.4** | **2.1** | *2.8* | *2.2* | *1.9* |
| Slovenia | 3.7 | 4.6 | -2.4 | 2.9 | 2.2 | 3.1 | **4.9** | **4.6** | **3.5** | *4.6* | *3.9* | *3.2* |
| Slovakia | 2.9 | 7.3 | 1.0 | 2.6 | 3.8 | 3.2 | **3.3** | **3.9** | **4.1** | *3.2* | *3.7* | *3.9* |
| Finland | 3.0 | 2.9 | -1.5 | -1.1 | -0.2 | 1.9 | **2.4** | **2.1** | **1.9** | *2.9* | *2.3* | *2.0* |
| Euro area | 1.7 | 1.6 | -0.7 | 1.1 | 1.8 | 1.5 | **2.1** | **2.1** | **1.8** | *1.9* | *1.8* | *1.7* |
| Bulgaria | 3.6 | 7.3 | 1.1 | 1.9 | 4.3 | 4.7 | **3.9** | **4.2** | **4.0** | *4.5* | *4.2* | *3.9* |
| Czech Republic | 3.0 | 4.8 | -0.6 | 2.6 | 5.1 | 2.4 | **4.2** | **3.1** | **3.0** | *4.1* | *2.8* | *2.6* |
| Denmark | 1.3 | 1.5 | -0.6 | 1.1 | 0.9 | 1.1 | **1.6** | **1.2** | **1.4** | *1.5* | *1.2* | *1.1* |
| Croatia | 3.0 | 4.0 | -2.2 | 0.3 | 3.3 | 3.9 | **3.5** | **3.4** | **3.2** | *4.1* | *3.4* | *3.2* |
| Hungary | 4.2 | 3.1 | -0.5 | 4.5 | 3.6 | 2.5 | **4.3** | **4.3** | **3.5** | *4.0* | *3.9* | *3.4* |
| Poland | 3.2 | 5.3 | 2.7 | 3.3 | 3.9 | 3.0 | **4.7** | **4.3** | **3.7** | *4.2* | *3.8* | *3.5* |
| Romania | 4.5 | 8.2 | 0.1 | 3.5 | 4.5 | 5.4 | **7.3** | **5.0** | **5.1** | *6.8* | *5.0* | *4.7* |
| Sweden | 2.8 | 2.3 | 0.0 | 1.6 | 3.4 | 1.8 | **1.0** | **1.2** | **0.9** | *1.7* | *1.3* | *1.1* |
| EU27 | 2.0 | 2.0 | -0.5 | 1.4 | 2.1 | 1.7 | **2.3** | **2.3** | **2.0** | *2.2* | *2.0* | *1.9* |
| United Kingdom | 2.6 | 1.2 | -0.3 | 2.3 | 1.5 | 1.1 | **1.2** | **0.9** | **0.6** | *0.7* | *0.6* | *0.4* |
| EU | 2.1 | 1.9 | -0.4 | 1.5 | 2.0 | 1.6 | **2.2** | **2.1** | **1.8** | *2.0* | *1.8* | *1.7* |
| USA | 1.8 | 1.3 | 0.3 | 1.8 | 2.1 | 0.8 | **1.5** | **2.1** | **2.0** | *1.4* | *1.6* | *1.4* |
| Japan | 0.7 | 1.0 | 0.4 | 0.5 | 1.5 | 1.1 | **1.9** | **1.5** | **1.3** | *1.7* | *1.3* | *1.2* |

**Table 5: Domestic demand, volume (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Belgium | 1.3 | 2.8 | 0.4 | 2.1 | 1.4 | 2.1 | 1.2 | 1.8 | 1.8 | 1.9 | 1.9 | 1.7 |
| Germany | 0.6 | 1.1 | 0.5 | 1.3 | 1.6 | 2.4 | 2.2 | 2.1 | 2.1 | 2.4 | 2.4 | 2.1 |
| Estonia | 6.7 | 5.9 | -1.0 | 3.6 | 1.0 | 3.2 | 4.2 | 3.6 | 2.7 | 4.8 | 3.3 | 2.6 |
| Ireland | 6.5 | 4.2 | -2.5 | 8.3 | 9.2 | 21.3 | -7.9 | 4.2 | 3.6 | 3.0 | 4.0 | 3.2 |
| Greece | 4.6 | 3.0 | -7.7 | 0.9 | -1.1 | 0.4 | 1.5 | 1.8 | 2.2 | 1.4 | 2.2 | 2.4 |
| Spain | 4.5 | 3.7 | -3.6 | 2.0 | 4.0 | 2.6 | 2.9 | 2.7 | 2.2 | 2.5 | 2.3 | 1.9 |
| France | 2.5 | 2.3 | 0.4 | 1.4 | 1.6 | 1.9 | 2.1 | 1.8 | 1.8 | 1.9 | 1.8 | 1.7 |
| Italy | 1.9 | 0.8 | -2.3 | 0.2 | 1.5 | 1.1 | 1.3 | 1.5 | 1.2 | 1.6 | 1.5 | 1.1 |
| Cyprus | 4.3 | 7.3 | -4.6 | -1.2 | 2.9 | 5.1 | 8.3 | 5.2 | 4.5 | 4.1 | 3.5 | 3.3 |
| Latvia | 6.0 | 8.2 | -3.1 | -1.0 | 2.4 | 2.5 | 7.3 | 5.0 | 3.4 | 6.7 | 4.0 | 3.5 |
| Lithuania | 4.9 | 9.4 | -3.4 | 3.4 | 7.4 | 2.4 | 3.4 | 3.9 | 3.3 | 4.0 | 3.5 | 3.2 |
| Luxembourg | 4.1 | 3.2 | 1.8 | 3.3 | 1.4 | 1.6 | 1.4 | 2.7 | 2.6 | 4.0 | 2.6 | 2.6 |
| Malta | 3.1 | 2.9 | 0.8 | 2.9 | 16.3 | 1.3 | 0.8 | 6.9 | 5.2 | 0.5 | 5.7 | 4.1 |
| Netherlands | 2.2 | 2.2 | -1.1 | 0.9 | 3.3 | 1.8 | 2.3 | 3.1 | 2.8 | 2.6 | 3.0 | 2.7 |
| Austria | 1.5 | 2.1 | 0.3 | 0.4 | 1.1 | 2.1 | 2.5 | 2.0 | 1.6 | 2.0 | 1.7 | 1.5 |
| Portugal | 1.7 | 1.7 | -3.4 | 2.2 | 2.7 | 1.6 | 2.8 | 2.3 | 2.1 | 2.6 | 2.0 | 2.0 |
| Slovenia | 3.7 | 4.7 | -3.8 | 1.7 | 1.8 | 2.9 | 4.1 | 5.0 | 4.9 | 4.1 | 4.4 | 3.6 |
| Slovakia | 1.2 | 6.8 | -1.2 | 3.5 | 5.6 | 0.9 | 2.7 | 3.6 | 3.6 | 3.2 | 3.4 | 3.2 |
| Finland | 2.6 | 3.1 | -0.4 | -0.1 | 1.3 | 2.7 | 2.1 | 1.9 | 1.8 | 2.5 | 1.9 | 1.4 |
| Euro area | 2.0 | 2.0 | -1.0 | 1.3 | 2.1 | 2.3 | 1.9 | 2.1 | 2.0 | 2.2 | 2.1 | 1.9 |
| Bulgaria | 7.4 | 9.5 | -2.8 | 2.7 | 3.4 | 1.6 | 5.5 | 5.4 | 4.6 | 4.0 | 3.8 | 3.4 |
| Czech Republic | 3.3 | 4.1 | -1.3 | 3.4 | 5.9 | 1.5 | 3.7 | 3.9 | 3.4 | 3.5 | 3.5 | 3.1 |
| Denmark | 1.0 | 2.9 | -0.6 | 1.9 | 1.3 | 2.4 | 2.0 | 2.0 | 2.2 | 2.0 | 2.2 | 2.2 |
| Croatia | 3.8 | 4.8 | -3.9 | -1.4 | 2.1 | 3.4 | 3.6 | 3.7 | 3.4 | 3.4 | 3.0 | 3.0 |
| Hungary | 4.4 | 1.5 | -2.3 | 5.5 | 1.2 | 1.6 | 6.0 | 6.0 | 4.3 | 4.9 | 4.5 | 3.0 |
| Poland | 2.3 | 6.1 | 1.4 | 4.7 | 3.3 | 2.2 | 4.7 | 4.8 | 3.6 | 5.0 | 4.3 | 3.5 |
| Romania | 4.4 | 11.2 | -2.5 | 3.4 | 5.4 | 5.3 | 7.6 | 4.9 | 4.3 | 6.4 | 4.8 | 4.4 |
| Sweden | 2.3 | 2.8 | 1.1 | 2.9 | 4.3 | 3.3 | 2.9 | 2.4 | 1.8 | 3.2 | 2.5 | 2.0 |
| EU27 | 2.1 | 2.3 | -0.9 | 1.6 | 2.3 | 2.4 | 2.2 | 2.3 | 2.1 | 2.4 | 2.3 | 2.0 |
| United Kingdom | 3.6 | 1.8 | 0.5 | 3.6 | 2.4 | 2.2 | 1.4 | 1.3 | 1.1 | 0.9 | 1.0 | 1.0 |
| EU | 2.4 | 2.2 | -0.7 | 1.9 | 2.3 | 2.4 | 2.1 | 2.2 | 2.0 | 2.2 | 2.1 | 1.9 |
| USA | 3.4 | 2.0 | 0.8 | 2.7 | 3.5 | 1.7 | 2.4 | 3.2 | 2.9 | 2.4 | 2.5 | 2.4 |
| Japan | 0.7 | 0.5 | 0.7 | 0.4 | 1.0 | 0.4 | 1.2 | 1.1 | 1.1 | 1.7 | 1.2 | 1.1 |

**Table 6: Final demand, volume (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Belgium | 2.6 | 3.6 | 0.9 | 3.5 | 2.2 | 4.6 | 2.7 | 3.3 | 3.0 | 3.1 | 3.1 | 2.9 |
| Germany | 1.9 | 3.1 | 1.0 | 2.4 | 2.8 | 2.5 | 3.0 | 3.4 | 2.8 | 2.8 | 2.9 | 2.7 |
| Estonia | 5.1 | 8.1 | 1.8 | 3.1 | 0.3 | 3.6 | 3.6 | 3.9 | 3.3 | 4.3 | 3.7 | 3.2 |
| Ireland | 8.8 | 4.3 | 0.7 | 11.8 | 26.2 | 10.4 | 1.1 | 5.2 | 4.2 | 3.5 | 4.3 | 3.8 |
| Greece | 4.9 | 3.8 | -6.7 | 2.5 | -0.1 | -0.1 | 2.7 | 2.8 | 2.8 | 2.6 | 2.8 | 2.9 |
| Spain | 4.7 | 3.7 | -2.4 | 2.6 | 4.0 | 3.1 | 3.4 | 3.3 | 2.9 | 3.4 | 3.0 | 2.6 |
| France | 2.8 | 2.5 | 0.6 | 1.8 | 2.2 | 1.9 | 2.3 | 2.4 | 2.4 | 2.1 | 2.3 | 2.3 |
| Italy | 1.9 | 1.5 | -1.8 | 0.8 | 2.2 | 1.4 | 2.3 | 2.2 | 1.9 | 2.4 | 2.1 | 1.6 |
| Cyprus | 3.2 | 5.4 | -2.7 | 0.8 | 4.0 | 4.7 | 6.4 | 4.1 | 3.5 | 3.6 | 3.0 | 2.8 |
| Latvia | 5.7 | 9.2 | -0.9 | 1.6 | 2.6 | 3.1 | 6.4 | 4.5 | 3.4 | 5.6 | 4.1 | 3.7 |
| Lithuania | 6.0 | 9.8 | 1.0 | 3.3 | 3.9 | 2.9 | 7.6 | 4.6 | 3.8 | 6.8 | 4.3 | 3.7 |
| Luxembourg | 6.4 | 6.8 | 1.9 | 11.2 | 5.5 | 2.5 | 3.4 | 3.8 | 3.5 | 4.8 | 4.3 | 3.7 |
| Malta | 2.8 | 6.6 | 2.2 | 3.1 | 8.3 | 3.2 | 1.3 | 3.9 | 3.7 | 2.0 | 4.4 | 3.8 |
| Netherlands | 3.3 | 3.7 | 0.4 | 2.6 | 4.8 | 3.0 | 4.1 | 4.3 | 3.6 | 4.0 | 3.8 | 3.5 |
| Austria | 2.8 | 3.5 | 0.5 | 1.3 | 1.8 | 2.0 | 3.6 | 3.2 | 2.6 | 3.1 | 2.7 | 2.5 |
| Portugal | 2.2 | 2.3 | -1.8 | 2.8 | 3.7 | 2.4 | 4.2 | 3.7 | 3.1 | 4.1 | 3.6 | 2.9 |
| Slovenia | 4.6 | 7.0 | -2.1 | 3.5 | 3.3 | 4.5 | 7.1 | 6.5 | 5.6 | 6.3 | 5.8 | 4.5 |
| Slovakia | 4.3 | 10.0 | 1.5 | 3.7 | 6.0 | 3.5 | 3.5 | 5.3 | 5.8 | 3.9 | 5.1 | 5.4 |
| Finland | 3.6 | 4.7 | -1.0 | -0.8 | 1.2 | 2.9 | 3.6 | 2.9 | 2.6 | 4.2 | 2.9 | 2.5 |
| Euro area | 2.8 | 3.0 | -0.2 | 2.4 | 3.4 | 2.7 | 2.9 | 3.2 | 2.8 | 2.9 | 2.9 | 2.6 |
| Bulgaria | 4.0 | 10.2 | -0.5 | 2.8 | 4.3 | 4.1 | 4.9 | 5.2 | 4.7 | 4.5 | 4.3 | 4.1 |
| Czech Republic | 4.7 | 8.1 | 0.6 | 5.8 | 5.9 | 2.9 | 5.0 | 4.3 | 4.0 | 5.1 | 4.1 | 3.9 |
| Denmark | 2.5 | 3.8 | -0.2 | 2.4 | 1.7 | 2.6 | 2.8 | 2.5 | 2.5 | 3.0 | 2.8 | 2.6 |
| Croatia | 5.0 | 4.6 | -3.1 | 0.8 | 4.4 | 4.1 | 4.5 | 4.0 | 3.8 | 4.4 | 4.0 | 3.7 |
| Hungary | 6.9 | 6.6 | -0.6 | 7.2 | 4.7 | 2.5 | 6.5 | 6.5 | 5.4 | 6.3 | 5.8 | 4.6 |
| Poland | 3.5 | 6.9 | 2.5 | 5.4 | 4.7 | 4.5 | 6.0 | 5.7 | 4.5 | 5.5 | 5.2 | 4.3 |
| Romania | 6.6 | 10.4 | 0.0 | 4.7 | 5.1 | 6.3 | 8.2 | 5.6 | 5.0 | 6.9 | 5.5 | 5.1 |
| Sweden | 3.1 | 4.0 | 0.8 | 3.6 | 4.7 | 3.3 | 3.1 | 3.1 | 2.4 | 3.5 | 3.0 | 2.6 |
| EU27 | 2.9 | 3.4 | -0.1 | 2.7 | 3.6 | 2.8 | 3.2 | 3.4 | 2.9 | 3.2 | 3.1 | 2.8 |
| United Kingdom | 3.6 | 2.4 | 0.6 | 3.4 | 3.0 | 2.2 | 2.3 | 1.8 | 1.5 | 1.7 | 1.5 | 1.4 |
| EU | 3.0 | 3.2 | 0.0 | 2.8 | 3.5 | 2.7 | 3.1 | 3.2 | 2.7 | 3.0 | 2.8 | 2.6 |
| USA | 3.2 | 2.5 | 1.0 | 2.8 | 3.1 | 1.5 | 2.5 | 3.3 | 3.1 | 2.5 | 2.7 | 2.6 |
| Japan | 1.1 | 1.5 | 0.5 | 1.6 | 1.3 | 0.5 | 2.0 | 1.6 | 1.4 | 2.2 | 1.3 | 1.2 |

**Table 7:** Private consumption expenditure, volume (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 1.3 | 1.6 | 1.0 | 0.6 | 0.9 | 1.7 | **1.1** | **1.7** | **1.8** | *1.8* | *1.9* | *1.8* |
| **Germany** | 1.1 | 0.7 | 0.8 | 1.0 | 1.7 | 2.1 | **1.9** | **1.8** | **1.9** | *2.1* | *1.9* | *1.8* |
| **Estonia** | 6.6 | 6.6 | -1.4 | 3.4 | 4.6 | 4.4 | **2.2** | **3.8** | **2.7** | *2.2* | *3.6* | *2.5* |
| **Ireland** | 6.7 | 5.3 | -1.4 | 2.1 | 4.2 | 3.2 | **1.9** | **2.5** | **2.4** | *2.6* | *2.6* | *2.4* |
| **Greece** | 3.8 | 3.5 | -5.8 | 0.6 | -0.5 | 0.0 | **0.1** | **0.5** | **0.9** | *0.9* | *1.2* | *1.2* |
| **Spain** | 3.7 | 2.9 | -2.5 | 1.5 | 3.0 | 3.0 | **2.4** | **2.3** | **1.9** | *2.6* | *2.2* | *1.6* |
| **France** | 2.7 | 1.9 | 0.6 | 0.8 | 1.4 | 2.2 | **1.1** | **1.4** | **1.6** | *1.1* | *1.4* | *1.4* |
| **Italy** | 1.3 | 0.8 | -1.4 | 0.3 | 1.9 | 1.4 | **1.4** | **1.2** | **1.2** | *1.4* | *1.1* | *0.9* |
| **Cyprus** | 4.0 | 6.6 | -2.2 | 0.7 | 2.6 | 3.3 | **4.2** | **3.4** | **2.9** | *3.3* | *2.9* | *2.7* |
| **Latvia** | 5.0 | 8.1 | -0.8 | 1.4 | 2.5 | 3.3 | **5.1** | **4.7** | **3.6** | *4.3* | *4.0* | *3.9* |
| **Lithuania** | 6.7 | 9.5 | -2.1 | 4.0 | 4.0 | 4.9 | **3.9** | **3.4** | **3.3** | *3.9* | *3.4* | *3.1* |
| **Luxembourg** | 4.2 | 1.4 | 1.8 | 2.3 | 3.3 | 2.4 | **2.7** | **2.7** | **2.3** | *2.6* | *2.5* | *2.3* |
| **Malta** | 3.8 | 1.6 | 1.2 | 2.7 | 5.6 | 3.0 | **4.2** | **4.0** | **3.7** | *4.2* | *4.1* | *3.6* |
| **Netherlands** | 2.5 | 0.8 | -0.8 | 0.3 | 2.0 | 1.6 | **1.9** | **2.0** | **2.2** | *2.1* | *2.3* | *1.8* |
| **Austria** | 1.8 | 1.7 | 0.7 | 0.3 | 0.5 | 1.5 | **1.4** | **1.6** | **1.4** | *1.4* | *1.5* | *1.3* |
| **Portugal** | 2.2 | 1.9 | -2.1 | 2.3 | 2.3 | 2.1 | **2.3** | **2.0** | **1.8** | *1.9* | *1.6* | *1.6* |
| **Slovenia** | 3.1 | 3.0 | -0.9 | 1.9 | 2.1 | 4.2 | **3.2** | **4.1** | **4.1** | *3.4* | *3.6* | *3.0* |
| **Slovakia** | 3.1 | 6.1 | -0.4 | 1.4 | 2.2 | 2.7 | **3.6** | **3.6** | **3.6** | *3.3* | *3.3* | *3.3* |
| **Finland** | 3.0 | 3.3 | 0.6 | 0.8 | 1.7 | 1.8 | **1.6** | **1.8** | **1.8** | *2.0* | *1.8* | *1.6* |
| **Euro area** | 2.1 | 1.6 | -0.4 | 0.8 | 1.8 | 2.0 | **1.7** | **1.7** | **1.7** | *1.8* | *1.7* | *1.5* |
| **Bulgaria** | 6.3 | 8.3 | -0.2 | 2.7 | 4.5 | 3.6 | **4.8** | **4.9** | **4.5** | *4.6* | *3.8* | *3.5* |
| **Czech Republic** | 3.0 | 3.5 | 0.0 | 1.8 | 3.7 | 3.6 | **4.0** | **3.9** | **3.1** | *3.5* | *3.0* | *2.8* |
| **Denmark** | 0.7 | 2.7 | -0.3 | 0.9 | 1.6 | 2.1 | **1.5** | **2.0** | **2.2** | *2.3* | *2.5* | *2.5* |
| **Croatia** | 3.2 | 3.7 | -2.7 | -1.6 | 1.1 | 3.5 | **3.6** | **3.1** | **2.9** | *3.6* | *2.8* | *2.3* |
| **Hungary** | 6.1 | 1.3 | -2.2 | 2.8 | 3.6 | 4.3 | **4.7** | **4.9** | **3.3** | *4.6* | *3.8* | *3.1* |
| **Poland** | 3.2 | 4.6 | 2.1 | 2.4 | 3.0 | 3.9 | **4.7** | **4.1** | **3.4** | *4.9* | *3.7* | *3.2* |
| **Romania** | 4.1 | 11.9 | -1.6 | 4.7 | 5.9 | 7.6 | **10.1** | **4.9** | **4.2** | *8.6* | *4.8* | *4.6* |
| **Sweden** | 3.0 | 2.4 | 1.7 | 2.1 | 3.1 | 2.2 | **2.4** | **2.3** | **2.2** | *2.4* | *2.5* | *2.3* |
| **EU27** | 2.1 | 1.9 | -0.3 | 1.0 | 2.0 | 2.2 | **2.0** | **2.0** | **1.9** | *2.1* | *1.9* | *1.7* |
| **United Kingdom** | 4.1 | 2.0 | 0.0 | 2.1 | 2.6 | 2.9 | **1.7** | **1.2** | **1.2** | *1.4* | *1.1* | *1.1* |
| **EU** | 2.5 | 1.9 | -0.3 | 1.2 | 2.1 | 2.4 | **1.9** | **1.8** | **1.8** | *2.0* | *1.8* | *1.6* |
| **USA** | 3.7 | 2.4 | 1.1 | 2.9 | 3.6 | 2.7 | **2.8** | **3.0** | **2.8** | *2.6* | *2.4* | *2.3* |
| **Japan** | 1.3 | 0.7 | 1.1 | -0.9 | 0.0 | 0.1 | **1.1** | **1.0** | **1.1** | *1.6* | *1.1* | *1.2* |

**Table 8:** Government consumption expenditure, volume (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 2.1 | 1.6 | 1.0 | 0.7 | 0.5 | 0.5 | **1.1** | **0.2** | **1.0** | *0.3* | *0.6* | *0.3* |
| **Germany** | 1.0 | 1.1 | 1.5 | 1.5 | 2.9 | 3.7 | **1.6** | **1.6** | **1.6** | *1.8* | *2.3* | *2.0* |
| **Estonia** | 1.4 | 4.5 | 0.7 | 2.6 | 3.3 | 1.9 | **0.8** | **1.4** | **1.0** | *1.1* | *1.6* | *1.6* |
| **Ireland** | 5.2 | 2.4 | -2.9 | 4.1 | 2.2 | 5.2 | **1.8** | **4.4** | **1.9** | *3.3* | *3.5* | *1.9* |
| **Greece** | 3.5 | 3.6 | -4.4 | -1.4 | 1.2 | -1.5 | **-1.1** | **1.2** | **0.4** | *0.9* | *0.2* | *0.4* |
| **Spain** | 4.2 | 5.8 | -0.3 | -0.3 | 2.1 | 0.8 | **1.6** | **1.9** | **1.3** | *0.9* | *0.8* | *0.8* |
| **France** | 1.6 | 1.6 | 1.6 | 1.3 | 1.1 | 1.3 | **1.5** | **1.1** | **1.3** | *1.2* | *1.7* | *1.3* |
| **Italy** | 2.3 | 0.5 | -0.5 | -0.7 | -0.6 | 0.6 | **0.1** | **0.1** | **0.2** | *0.7* | *0.3* | *0.3* |
| **Cyprus** | 4.1 | 3.4 | -0.5 | -7.2 | -2.6 | -0.4 | **2.7** | **1.5** | **3.3** | *3.3* | *1.3* | *1.7* |
| **Latvia** | 1.9 | 3.7 | -2.9 | 1.9 | 1.9 | 2.7 | **4.1** | **3.0** | **1.5** | *4.0* | *2.5* | *2.0* |
| **Lithuania** | 0.5 | 2.4 | -0.6 | 0.3 | 0.2 | 1.3 | **1.2** | **1.6** | **1.5** | *1.6* | *1.6* | *1.5* |
| **Luxembourg** | 5.5 | 2.6 | 2.6 | 2.0 | 2.6 | 2.0 | **1.8** | **3.2** | **3.4** | *3.8* | *3.2* | *3.4* |
| **Malta** | 2.3 | 3.2 | 1.3 | 6.6 | 3.7 | -2.7 | **-0.3** | **19.8** | **6.9** | *6.8* | *10.0* | *6.2* |
| **Netherlands** | 3.5 | 3.3 | 0.8 | 0.3 | -0.2 | 1.2 | **1.2** | **3.1** | **2.6** | *1.0* | *2.9* | *2.8* |
| **Austria** | 1.0 | 2.4 | 0.7 | 0.8 | 1.5 | 2.1 | **1.1** | **1.4** | **1.3** | *1.3* | *1.2* | *1.1* |
| **Portugal** | 3.1 | 1.3 | -1.6 | -0.5 | 1.3 | 0.6 | **-0.2** | **0.7** | **0.3** | *0.4* | *0.5* | *0.5* |
| **Slovenia** | 3.4 | 3.1 | -0.6 | -1.2 | 2.7 | 2.5 | **2.3** | **2.5** | **2.5** | *1.5* | *1.6* | *1.3* |
| **Slovakia** | 2.4 | 3.9 | 1.2 | 5.2 | 5.4 | 1.6 | **0.2** | **1.6** | **2.0** | *0.8* | *1.8* | *1.8* |
| **Finland** | 1.8 | 1.5 | 0.6 | -0.5 | 0.2 | 1.8 | **1.3** | **0.3** | **0.3** | *0.7* | *0.3* | *0.1* |
| **Euro area** | 2.0 | 1.9 | 0.6 | 0.7 | 1.3 | 1.8 | **1.2** | **1.4** | **1.3** | *1.2* | *1.6* | *1.4* |
| **Bulgaria** | 6.2 | 2.3 | -0.7 | 0.1 | 1.4 | 2.2 | **3.2** | **3.7** | **3.0** | *2.7* | *3.9* | *2.8* |
| **Czech Republic** | 3.8 | 0.3 | 0.1 | 1.1 | 1.9 | 2.0 | **1.5** | **1.9** | **2.1** | *2.2* | *2.2* | *1.7* |
| **Denmark** | 2.1 | 1.9 | 0.9 | 1.9 | 1.1 | 0.3 | **1.2** | **0.7** | **0.9** | *0.9* | *0.6* | *0.9* |
| **Croatia** | 0.5 | 3.4 | 0.2 | 0.8 | -0.9 | 1.9 | **2.0** | **3.1** | **2.2** | *1.7* | *1.7* | *1.0* |
| **Hungary** | 3.3 | 0.6 | 0.8 | 5.1 | 1.1 | 0.8 | **0.3** | **0.2** | **1.8** | *0.6* | *1.2* | *0.7* |
| **Poland** | 4.1 | 4.0 | 1.4 | 4.1 | 2.4 | 1.8 | **3.4** | **3.7** | **3.1** | *2.5* | *3.3* | *3.3* |
| **Romania** | 3.1 | -0.6 | -1.2 | 0.8 | 0.2 | 3.1 | **0.7** | **1.7** | **1.3** | *3.0* | *3.0* | *3.0* |
| **Sweden** | 0.8 | 0.7 | 1.4 | 1.5 | 2.4 | 3.1 | **0.4** | **1.4** | **0.8** | *0.6* | *1.3* | *0.7* |
| **EU27** | 2.0 | 1.9 | 0.6 | 0.9 | 1.4 | 1.8 | **1.2** | **1.4** | **1.4** | *1.3* | *1.6* | *1.4* |
| **United Kingdom** | 3.8 | 2.3 | 0.7 | 2.5 | 0.6 | 0.8 | **0.1** | **1.0** | **0.8** | *0.6* | *0.5* | *0.4* |
| **EU** | 2.3 | 1.9 | 0.6 | 1.2 | 1.3 | 1.6 | **1.1** | **1.4** | **1.3** | *1.2* | *1.5* | *1.3* |
| **USA** | 2.7 | 1.5 | -0.4 | -0.5 | 1.3 | 1.0 | **0.1** | **1.4** | **2.1** | *0.1* | *1.1* | *1.2* |
| **Japan** | 3.1 | 0.6 | 1.8 | 0.5 | 1.5 | 1.3 | **0.1** | **0.3** | **0.7** | *0.4* | *0.8* | *0.8* |

**Table 9: Total investment, volume (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 1.0 | 5.1 | -1.0 | 6.0 | 2.7 | 3.6 | **1.0** | **4.0** | **2.7** | *4.1* | *3.2* | *2.8* |
| **Germany** | -0.6 | 2.7 | -0.1 | 3.7 | 1.5 | 3.1 | **3.3** | **3.2** | **3.1** | *3.8* | *3.6* | *2.9* |
| **Estonia** | 9.8 | 7.5 | -1.1 | -8.7 | -2.9 | -1.2 | **13.1** | **4.4** | **4.3** | *16.6* | *4.4* | *3.6* |
| **Ireland** | 7.6 | 4.0 | -4.6 | 18.2 | 28.2 | 60.8 | **-22.3** | **6.5** | **6.0** | *3.5* | *5.6* | *4.6* |
| **Greece** | 6.0 | 3.1 | -17.3 | -4.7 | -0.3 | 1.6 | **9.6** | **10.3** | **12.1** | *5.1* | *11.5* | *12.1* |
| **Spain** | 6.8 | 4.0 | -8.3 | 4.7 | 6.5 | 3.3 | **5.0** | **4.6** | **3.9** | *4.1* | *4.0* | *3.7* |
| **France** | 3.5 | 3.3 | -1.2 | 0.0 | 1.0 | 2.8 | **3.5** | **3.7** | **2.8** | *3.2* | *3.6* | *2.9* |
| **Italy** | 3.5 | 1.1 | -5.7 | -2.3 | 2.1 | 3.2 | **3.8** | **4.8** | **2.4** | *2.5* | *3.8* | *2.7* |
| **Cyprus** | 5.4 | 9.7 | -12.5 | -17.5 | 13.6 | 35.0 | **27.8** | **13.4** | **9.8** | *7.8* | *7.3* | *6.4* |
| **Latvia** | 10.3 | 14.7 | -6.5 | 0.1 | -0.5 | -15.0 | **16.0** | **7.9** | **4.8** | *17.8* | *5.5* | *4.0* |
| **Lithuania** | 4.6 | 12.6 | -4.5 | 5.8 | 4.8 | -0.5 | **7.3** | **7.3** | **4.7** | *6.4* | *5.1* | *4.6* |
| **Luxembourg** | 4.2 | 6.4 | 2.1 | 4.3 | -8.0 | 0.5 | **1.9** | **2.4** | **2.2** | *6.8* | *2.4* | *2.4* |
| **Malta** | 4.4 | 2.8 | -0.8 | 6.8 | 58.2 | 1.6 | **-7.4** | **4.3** | **7.2** | *-11.5* | *5.6* | *3.5* |
| **Netherlands** | 1.1 | 4.2 | -4.3 | 2.3 | 11.0 | 5.3 | **5.6** | **5.2** | **4.4** | *5.5* | *4.5* | *4.4* |
| **Austria** | 1.3 | 1.7 | -0.2 | -0.7 | 1.2 | 3.7 | **4.8** | **3.7** | **2.4** | *3.9* | *2.7* | *2.4* |
| **Portugal** | 0.0 | 0.6 | -8.7 | 2.3 | 5.8 | 1.5 | **9.1** | **5.7** | **5.3** | *8.1* | *5.3* | *4.9* |
| **Slovenia** | 4.7 | 7.6 | -9.6 | 1.1 | -1.6 | -3.6 | **10.3** | **10.1** | **9.3** | *9.1* | *9.8* | *7.4* |
| **Slovakia** | -3.3 | 8.0 | -2.4 | 3.0 | 19.8 | -8.3 | **3.2** | **6.5** | **5.2** | *1.0* | *5.9* | *4.5* |
| **Finland** | 2.4 | 3.8 | -3.0 | -2.6 | 0.7 | 7.4 | **6.3** | **3.9** | **3.2** | *6.9* | *4.4* | *3.0* |
| **Euro area** | 2.3 | 3.0 | -3.3 | 1.9 | 3.3 | 4.6 | **2.9** | **4.2** | **3.4** | *3.9* | *3.9* | *3.3* |
| **Bulgaria** | 15.1 | 17.6 | -7.9 | 3.4 | 2.7 | -6.6 | **3.8** | **8.7** | **6.8** | *3.5* | *3.9* | *3.8* |
| **Czech Republic** | 3.0 | 6.4 | -2.8 | 3.9 | 10.2 | -2.3 | **5.4** | **5.4** | **4.8** | *4.9* | *5.5* | *5.0* |
| **Denmark** | 1.3 | 4.1 | -2.6 | 3.1 | 3.1 | 6.0 | **3.7** | **3.8** | **4.1** | *2.8* | *3.2* | *2.9* |
| **Croatia** | 7.0 | 7.1 | -7.1 | -2.8 | 3.8 | 5.3 | **3.4** | **6.2** | **6.0** | *4.2* | *5.0* | *6.6* |
| **Hungary** | 4.9 | 3.4 | -2.7 | 12.3 | 1.9 | -10.6 | **16.8** | **12.5** | **8.8** | *15.2* | *10.9* | *4.9* |
| **Poland** | -1.5 | 11.6 | 0.6 | 10.0 | 6.1 | -8.2 | **3.4** | **8.7** | **5.3** | *4.2* | *7.9* | *4.8* |
| **Romania** | 6.5 | 22.0 | -7.7 | 3.2 | 7.4 | -2.0 | **4.7** | **7.4** | **6.9** | *1.6* | *6.5* | *5.5* |
| **Sweden** | 3.2 | 5.7 | -0.5 | 5.5 | 6.9 | 5.6 | **6.0** | **3.7** | **1.9** | *7.6* | *3.8* | *2.8* |
| **EU27** | 2.3 | 3.7 | -3.2 | 2.4 | 3.7 | 3.8 | **3.3** | **4.5** | **3.5** | *4.1* | *4.1* | *3.4* |
| **United Kingdom** | 1.4 | 1.9 | -0.6 | 7.1 | 2.8 | 1.8 | **4.0** | **2.1** | **1.1** | *1.9* | *0.7* | *1.1* |
| **EU** | 2.2 | 3.4 | -2.9 | 3.0 | 3.6 | 3.5 | **3.4** | **4.2** | **3.2** | *3.8* | *3.7* | *3.1* |
| **USA** | 3.2 | 1.4 | 0.0 | 4.8 | 3.5 | 0.6 | **3.4** | **5.0** | **4.1** | *3.4* | *3.8* | *3.5* |
| **Japan** | -1.6 | -0.5 | -0.4 | 3.1 | 1.7 | 1.1 | **2.5** | **1.7** | **1.8** | *3.1* | *1.7* | *1.1* |

**Table 10: Investment in construction, volume (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | -1.2 | 4.8 | 0.5 | 2.5 | -0.4 | 2.4 | **2.4** | **2.4** | **2.1** | *2.7* | *2.3* | *2.0* |
| **Germany** | -3.0 | -0.8 | 1.4 | 2.3 | -1.4 | 2.7 | **2.6** | **1.7** | **2.9** | *4.7* | *3.6* | *2.8* |
| **Estonia** | 7.9 | 10.1 | -2.9 | -13.6 | 3.1 | -7.6 | **8.1** | **3.9** | **1.8** | *15.1* | *3.9* | *0.4* |
| **Ireland** | 6.9 | 3.2 | -14.6 | 10.0 | 7.4 | 18.4 | **16.7** | **15.3** | **13.7** | *17.3* | *14.3* | *11.0* |
| **Greece** | 4.1 | 0.5 | -16.2 | -25.4 | -12.0 | 19.4 | **-5.8** | **7.5** | **10.0** | *-6.1* | *8.9* | *11.0* |
| **Spain** | 7.7 | 3.0 | -11.8 | 4.2 | 3.8 | 2.4 | **4.6** | **4.8** | **4.1** | *3.8* | *4.0* | *3.8* |
| **France** | 3.5 | 3.0 | -1.9 | -1.7 | -1.2 | 1.1 | **3.2** | **2.5** | **2.4** | *3.2* | *3.7* | *3.1* |
| **Italy** | 4.4 | 0.4 | -6.9 | -6.6 | -0.7 | 1.2 | **1.1** | **2.3** | **1.9** | *1.2* | *2.6* | *2.0* |
| **Cyprus** | 4.1 | 9.8 | -14.5 | -12.8 | -2.1 | 11.7 | **24.9** | **30.4** | **17.8** | *17.5* | *13.4* | *10.1* |
| **Latvia** | 15.3 | 13.1 | -6.2 | 10.2 | -0.2 | -19.7 | **16.4** | **8.6** | **5.5** | *18.0* | *5.8* | *4.0* |
| **Lithuania** | 2.2 | 11.9 | -7.1 | 8.4 | 0.1 | -6.6 | **4.5** | **5.4** | **4.1** | *6.8* | *5.0* | *5.0* |
| **Luxembourg** | 6.5 | 2.9 | -1.2 | 3.6 | -3.6 | 5.6 | **-0.8** | **3.5** | **2.2** | *4.2* | *3.5* | *3.1* |
| **Malta** | : | 0.7 | -3.2 | 4.3 | 55.6 | -14.0 | **22.0** | **:** | **:** | *:* | *:* | *:* |
| **Netherlands** | 1.0 | 3.7 | -7.3 | 2.4 | 10.9 | 8.3 | **6.7** | **5.4** | **4.2** | *8.2* | *4.5* | *4.3* |
| **Austria** | -0.1 | 0.4 | -2.0 | -0.1 | 1.1 | 1.1 | **2.6** | **2.0** | **1.6** | *2.7* | *1.7* | *1.5* |
| **Portugal** | -0.2 | -2.5 | -10.8 | -3.7 | 5.1 | -0.4 | **9.2** | **5.5** | **4.2** | *8.2* | *4.7* | *3.0* |
| **Slovenia** | 3.5 | 6.6 | -14.3 | 9.8 | -5.5 | -14.0 | **13.6** | **11.7** | **11.5** | *5.6* | *7.5* | *5.1* |
| **Slovakia** | -4.8 | 9.7 | -4.0 | -7.2 | 29.0 | -18.2 | **2.2** | **7.9** | **5.2** | *-7.2* | *4.4* | *4.5* |
| **Finland** | 2.7 | 4.1 | -2.7 | -3.8 | 1.5 | 10.2 | **4.6** | **3.4** | **1.9** | *7.0* | *5.3* | *2.5* |
| **Euro area** | : | 1.7 | -4.5 | -0.4 | 0.5 | 2.5 | **3.5** | **3.2** | **3.2** | *4.1* | *3.8* | *3.2* |
| **Bulgaria** | : | 25.0 | -7.4 | -4.1 | -3.8 | -2.7 | **3.8** | **5.6** | **4.5** | *2.0* | *3.1* | *3.3* |
| **Czech Republic** | 0.5 | 3.1 | -3.5 | 1.0 | 9.7 | -5.8 | **3.7** | **5.6** | **4.7** | *4.9* | *5.9* | *4.6* |
| **Denmark** | 1.1 | 2.4 | -4.5 | 4.1 | 3.9 | 5.2 | **5.0** | **3.8** | **4.4** | *2.1* | *2.8* | *2.6* |
| **Croatia** | : | : | : | : | : | : | **:** | **:** | **:** | *:* | *:* | *:* |
| **Hungary** | 3.1 | 1.5 | -5.2 | 10.5 | 5.8 | -23.1 | **25.2** | **15.1** | **7.4** | *20.0* | *9.9* | *6.2* |
| **Poland** | -1.5 | 10.0 | 1.9 | 8.9 | 2.2 | -10.2 | **2.3** | **11.1** | **6.0** | *7.4* | *9.7* | *5.8* |
| **Romania** | 5.1 | 25.6 | -9.4 | 10.1 | 20.9 | -4.8 | **3.8** | **10.3** | **9.2** | *1.4* | *9.7* | *3.5* |
| **Sweden** | 4.5 | 5.7 | -2.1 | 9.4 | 8.6 | 9.1 | **8.9** | **2.2** | **-0.5** | *11.1* | *5.1* | *2.3* |
| **EU27** | 1.8 | 2.4 | -4.3 | 0.6 | 1.4 | 1.8 | **3.8** | **3.7** | **3.3** | *4.5* | *4.2* | *3.3* |
| **United Kingdom** | 1.1 | 1.3 | -0.9 | 5.4 | 3.5 | 2.5 | **6.8** | **2.2** | **1.2** | *3.8* | *0.4* | *1.2* |
| **EU** | 1.7 | 2.2 | -3.9 | 1.2 | 1.7 | 1.9 | **4.3** | **3.4** | **3.0** | *4.4* | *3.7* | *3.0* |
| **USA** | 2.1 | -2.2 | -3.1 | 5.2 | 4.1 | 0.5 | **1.9** | **2.3** | **2.1** | *2.5* | *2.2* | *2.2* |
| **Japan** | -4.2 | -4.7 | 0.7 | 1.6 | 0.3 | 1.3 | **:** | **:** | **:** | *:* | *:* | *:* |

**Table 11: Investment in equipment, volume (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 2.2 | 5.7 | -4.5 | 7.9 | 1.6 | 13.1 | **-1.2** | **5.6** | **3.6** | *5.2* | *4.0* | *3.5* |
| **Germany** | 1.2 | 6.8 | -2.7 | 5.9 | 3.9 | 2.2 | **4.0** | **5.7** | **3.4** | *2.6* | *3.7* | *3.0* |
| **Estonia** | 11.9 | 3.4 | 0.3 | 0.7 | -13.7 | 6.2 | **19.6** | **5.8** | **7.3** | *21.0* | *5.8* | *7.3* |
| **Ireland** | 5.1 | 6.2 | 4.7 | 21.6 | -0.7 | 27.9 | **-11.0** | **4.0** | **3.3** | *-2.7* | *5.7* | *4.5* |
| **Greece** | 9.7 | 7.0 | -21.5 | 29.3 | 7.9 | -12.3 | **28.9** | **11.8** | **13.4** | *18.0* | *13.4* | *13.4* |
| **Spain** | 3.7 | 6.1 | -4.4 | 5.9 | 11.5 | 5.0 | **6.2** | **5.0** | **4.3** | *5.1* | *4.5* | *4.1* |
| **France** | 3.8 | 3.1 | -2.3 | 2.1 | 4.2 | 6.2 | **1.4** | **4.7** | **3.2** | *1.1* | *3.3* | *2.6* |
| **Italy** | 2.2 | 2.2 | -6.2 | 1.9 | 4.6 | 7.4 | **8.3** | **9.1** | **3.1** | *4.5* | *5.3* | *2.8* |
| **Cyprus** | 9.3 | 9.0 | -14.1 | -34.8 | 70.4 | 113.8 | **28.1** | **1.5** | **3.0** | *0.7* | *2.5* | *3.3* |
| **Latvia** | 6.7 | 18.4 | -9.6 | -10.9 | -1.3 | -6.5 | **13.7** | **7.0** | **4.0** | *18.0* | *5.0* | *4.0* |
| **Lithuania** | 7.0 | 12.1 | -1.1 | -0.2 | 13.4 | 9.0 | **8.9** | **9.5** | **5.2** | *7.0* | *5.7* | *4.2* |
| **Luxembourg** | -0.9 | 15.2 | 6.4 | 5.3 | -16.5 | -7.0 | **11.2** | **0.5** | **2.4** | *12.1* | *1.0* | *1.5* |
| **Malta** | : | 3.1 | -0.1 | 1.7 | 85.5 | 15.4 | **-34.2** | **:** | **:** | *:* | *:* | *:* |
| **Netherlands** | 0.7 | 5.2 | -3.1 | -0.2 | 15.8 | 3.4 | **6.5** | **6.1** | **5.2** | *3.9* | *5.9* | *5.5* |
| **Austria** | 1.3 | 2.6 | -0.8 | -1.6 | 1.5 | 8.6 | **7.9** | **6.2** | **3.5** | *5.7* | *3.8* | *3.7* |
| **Portugal** | -1.2 | 5.4 | -8.9 | 13.3 | 10.4 | 5.2 | **13.3** | **7.7** | **8.5** | *12.5* | *7.7* | *9.0* |
| **Slovenia** | 7.0 | 8.8 | -6.5 | -8.5 | 3.8 | 7.5 | **9.7** | **11.0** | **9.0** | *15.6* | *15.2* | *11.5* |
| **Slovakia** | -1.6 | 6.7 | -1.2 | 20.3 | 13.0 | 2.0 | **3.0** | **5.3** | **5.2** | *5.6* | *6.5* | *4.5* |
| **Finland** | -0.7 | 4.6 | -2.9 | -1.6 | 4.6 | 10.7 | **12.4** | **6.1** | **6.5** | *9.5* | *3.5* | *4.9* |
| **Euro area** | : | 5.0 | -3.9 | 4.6 | 5.4 | 5.6 | **4.8** | **6.1** | **3.9** | *3.8* | *4.5* | *3.7* |
| **Bulgaria** | : | 12.8 | -10.1 | 13.9 | 9.8 | -14.9 | **3.9** | **12.4** | **9.3** | *5.0* | *5.0* | *4.0* |
| **Czech Republic** | 5.5 | 9.4 | -2.8 | 6.4 | 9.3 | -1.1 | **7.2** | **6.1** | **5.8** | *5.0* | *6.0* | *6.0* |
| **Denmark** | 0.4 | 5.1 | -1.8 | -0.1 | 1.1 | 3.0 | **4.4** | **4.2** | **4.4** | *4.3* | *3.8* | *3.4* |
| **Croatia** | : | : | : | : | : | : | **:** | **:** | **:** | *:* | *:* | *:* |
| **Hungary** | 6.2 | 5.0 | -1.8 | 21.5 | 0.8 | 1.1 | **10.0** | **12.6** | **12.3** | *12.8* | *11.7* | *4.0* |
| **Poland** | -2.0 | 14.3 | -1.5 | 11.2 | 12.1 | -7.6 | **4.5** | **6.9** | **5.1** | *2.1* | *6.4* | *4.0* |
| **Romania** | 8.7 | 18.8 | -6.5 | -5.1 | -3.8 | 5.2 | **5.0** | **5.0** | **5.0** | *2.5* | *3.0* | *6.5* |
| **Sweden** | 2.8 | 7.9 | 0.1 | -1.1 | 5.1 | 4.8 | **4.8** | **5.7** | **3.8** | *6.5* | *4.1* | *3.6* |
| **EU27** | 2.3 | 5.7 | -3.6 | 4.6 | 5.5 | 4.5 | **4.9** | **6.2** | **4.2** | *4.0* | *4.6* | *3.8* |
| **United Kingdom** | 0.2 | 1.5 | -1.1 | 17.7 | 6.4 | 1.6 | **-1.9** | **0.3** | **1.0** | *-0.4* | *1.3* | *1.0* |
| **EU** | 2.1 | 5.3 | -3.4 | 5.8 | 5.6 | 4.2 | **4.1** | **5.6** | **3.9** | *3.5* | *4.3* | *3.5* |
| **USA** | 3.4 | 4.8 | 2.5 | 5.6 | 3.2 | -2.9 | **4.9** | **8.7** | **5.0** | *3.8* | *4.5* | *3.8* |
| **Japan** | -0.1 | 3.9 | -1.7 | 5.0 | 2.9 | 1.6 | **:** | **:** | **:** | *:* | *:* | *:* |

**Table 12: Public investment (as a percentage of GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 2.3 | 2.1 | 2.4 | 2.3 | 2.3 | 2.2 | **2.2** | **2.4** | **2.5** | *2.2* | *2.3* | *2.4* |
| **Germany** | 2.2 | 2.0 | 2.3 | 2.1 | 2.1 | 2.1 | **2.2** | **2.2** | **2.3** | *2.2* | *2.2* | *2.2* |
| **Estonia** | 5.0 | 5.3 | 5.6 | 5.1 | 5.3 | 4.8 | **5.6** | **5.9** | **5.7** | *5.6* | *5.8* | *5.4* |
| **Ireland** | 3.7 | 4.1 | 2.7 | 2.2 | 1.7 | 1.8 | **1.9** | **2.1** | **2.4** | *1.9* | *2.0* | *2.4* |
| **Greece** | 5.5 | 5.3 | 3.6 | 3.7 | 3.9 | 3.5 | **4.6** | **4.0** | **4.2** | *3.5* | *3.2* | *3.6* |
| **Spain** | 3.9 | 4.3 | 3.6 | 2.1 | 2.5 | 1.9 | **2.0** | **2.2** | **2.1** | *2.1* | *2.2* | *2.2* |
| **France** | 3.8 | 4.0 | 4.1 | 3.7 | 3.4 | 3.4 | **3.4** | **3.4** | **3.5** | *3.3* | *3.5* | *3.5* |
| **Italy** | 2.8 | 3.0 | 2.8 | 2.3 | 2.3 | 2.1 | **2.0** | **2.0** | **2.0** | *2.0* | *2.0* | *2.0* |
| **Cyprus** | 3.4 | 3.5 | 3.5 | 2.1 | 2.2 | 2.6 | **2.7** | **2.8** | **2.9** | *2.8* | *3.0* | *3.1* |
| **Latvia** | 2.0 | 4.6 | 4.8 | 4.5 | 4.8 | 3.6 | **4.0** | **4.5** | **4.6** | *4.4* | *4.3* | *4.1* |
| **Lithuania** | 2.7 | 4.5 | 4.4 | 3.5 | 3.7 | 3.0 | **3.2** | **3.3** | **3.3** | *3.1* | *3.1* | *3.2* |
| **Luxembourg** | 4.5 | 4.1 | 4.1 | 3.6 | 3.9 | 3.9 | **4.0** | **4.0** | **4.1** | *4.2* | *4.3* | *4.4* |
| **Malta** | 4.1 | 3.7 | 2.7 | 3.6 | 4.2 | 2.5 | **2.2** | **2.7** | **3.0** | *2.6* | *2.8* | *3.0* |
| **Netherlands** | 4.0 | 3.9 | 4.0 | 3.5 | 3.6 | 3.5 | **3.5** | **3.6** | **3.6** | *3.4* | *3.5* | *3.4* |
| **Austria** | 2.6 | 2.9 | 3.1 | 3.0 | 3.0 | 3.0 | **3.0** | **3.0** | **3.0** | *3.0* | *3.0* | *2.9* |
| **Portugal** | 4.7 | 3.8 | 3.5 | 2.0 | 2.2 | 1.5 | **1.8** | **2.2** | **2.3** | *1.6* | *2.1* | *2.1* |
| **Slovenia** | 3.8 | 4.2 | 4.5 | 5.1 | 4.7 | 3.2 | **2.9** | **3.1** | **3.5** | *3.2* | *3.5* | *3.6* |
| **Slovakia** | 3.7 | 3.3 | 3.6 | 4.0 | 6.3 | 3.2 | **3.2** | **3.0** | **2.8** | *3.4* | *2.7* | *2.7* |
| **Finland** | 3.7 | 3.6 | 3.9 | 4.2 | 3.9 | 4.0 | **3.9** | **3.8** | **3.6** | *3.9* | *3.9* | *3.8* |
| **Euro area** | 3.1 | 3.2 | 3.2 | 2.7 | 2.7 | 2.6 | **2.6** | **2.6** | **2.7** | *2.6* | *2.6* | *2.7* |
| **Bulgaria** | 3.7 | 4.4 | 4.1 | 5.2 | 6.6 | 2.6 | **2.1** | **2.9** | **3.5** | *3.6* | *4.0* | *4.0* |
| **Czech Republic** | 4.9 | 5.1 | 4.7 | 4.1 | 5.1 | 3.3 | **3.3** | **3.6** | **3.7** | *3.4* | *3.8* | *3.9* |
| **Denmark** | 2.8 | 2.9 | 3.4 | 3.9 | 3.6 | 3.8 | **3.4** | **3.5** | **3.4** | *3.6* | *3.5* | *3.5* |
| **Croatia** | | 6.0 | 4.0 | 3.6 | 3.2 | 3.2 | **2.7** | **2.7** | **2.8** | *3.1* | *3.4* | *3.5* |
| **Hungary** | 3.9 | 4.1 | 3.7 | 5.3 | 6.6 | 3.1 | **4.4** | **5.5** | **5.8** | *4.2* | *5.0* | *4.9* |
| **Poland** | 2.7 | 3.9 | 5.1 | 4.5 | 4.4 | 3.3 | **3.7** | **4.4** | **4.5** | *3.9* | *4.3* | *4.5* |
| **Romania** | 2.9 | 4.7 | 5.3 | 4.3 | 5.1 | 3.6 | **2.8** | **2.9** | **3.1** | *3.0* | *3.5* | *3.8* |
| **Sweden** | 4.2 | 4.1 | 4.5 | 4.4 | 4.2 | 4.4 | **4.5** | **4.6** | **4.6** | *4.5* | *4.6* | *4.5* |
| **EU27** | 3.2 | 3.3 | 3.4 | 2.9 | 3.0 | 2.7 | **2.7** | **2.8** | **2.9** | *2.7* | *2.8* | *2.9* |
| **United Kingdom** | 1.9 | 2.7 | 3.0 | 2.8 | 2.7 | 2.7 | **2.6** | **2.6** | **2.7** | *2.6* | *2.6* | *2.6* |
| **EU** | | 3.2 | 3.3 | 2.9 | 2.9 | 2.7 | **2.7** | **2.8** | **2.9** | *2.7* | *2.8* | *2.9* |
| **USA** | 3.7 | 3.8 | 3.8 | 3.2 | 3.1 | 3.1 | **3.2** | **3.2** | **3.2** | *3.1* | *3.1* | *3.1* |
| **Japan** | 5.4 | 3.8 | 3.7 | 3.9 | 3.7 | 3.6 | **3.7** | **3.6** | **3.5** | *3.6* | *3.7* | *3.4* |

**Table 13: Potential GDP, volume (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 2.3 | 1.9 | 1.1 | 1.0 | 1.2 | 1.4 | **1.4** | **1.4** | **1.4** | *1.5* | *1.5* | *1.5* |
| Germany | 1.5 | 1.3 | 1.0 | 1.6 | 1.8 | 1.6 | **2.0** | **1.9** | **1.9** | *1.9* | *1.9* | *1.9* |
| Estonia | 4.8 | 5.0 | 0.7 | 2.4 | 2.7 | 2.5 | **3.2** | **2.9** | **2.8** | *3.1* | *2.9* | *2.7* |
| Ireland | 7.3 | 4.0 | 1.0 | 3.9 | 24.7 | 5.7 | **8.7** | **4.4** | **4.4** | *5.1* | *4.9* | *4.7* |
| Greece | 4.1 | 2.4 | -1.9 | -2.2 | -1.9 | -1.5 | **-1.0** | **-0.7** | **-0.2** | *-0.9* | *-0.5* | *0.0* |
| Spain | 3.4 | 3.5 | 0.3 | -0.1 | 0.3 | 0.6 | **1.0** | **1.2** | **1.4** | *0.9* | *1.0* | *1.2* |
| France | 1.9 | 1.7 | 0.9 | 1.0 | 0.9 | 1.0 | **1.2** | **1.2** | **1.3** | *1.2* | *1.2* | *1.3* |
| Italy | 1.3 | 0.8 | -0.4 | -0.1 | -0.2 | -0.2 | **0.3** | **0.4** | **0.5** | *0.2* | *0.4* | *0.5* |
| Cyprus | 3.3 | 3.5 | 0.8 | -2.2 | -1.3 | 0.6 | **1.6** | **2.0** | **2.3** | *1.1* | *1.4* | *1.7* |
| Latvia | 6.2 | 6.6 | -0.5 | 1.5 | 2.3 | 2.2 | **3.0** | **3.2** | **3.4** | *3.2* | *3.7* | *3.9* |
| Lithuania | 6.1 | 6.0 | 1.0 | 2.0 | 2.1 | 1.8 | **2.4** | **3.1** | **3.2** | *2.4* | *2.8* | *2.9* |
| Luxembourg | 4.8 | 3.7 | 2.2 | 2.9 | 2.4 | 2.6 | **2.6** | **2.7** | **2.8** | *2.9* | *3.0* | *3.2* |
| Malta | 2.9 | 2.5 | 2.8 | 5.2 | 7.6 | 7.3 | **6.5** | **6.2** | **5.8** | *5.6* | *5.2* | *4.7* |
| Netherlands | 2.9 | 1.7 | 0.7 | 0.8 | 1.2 | 1.5 | **1.8** | **2.0** | **1.9** | *1.8* | *1.9* | *1.9* |
| Austria | 2.4 | 2.1 | 0.9 | 1.0 | 1.3 | 1.5 | **1.9** | **2.0** | **2.0** | *1.8* | *2.1* | *2.0* |
| Portugal | 2.6 | 0.9 | -0.6 | -0.2 | 0.4 | 0.8 | **1.4** | **1.6** | **1.7** | *1.3* | *1.4* | *1.5* |
| Slovenia | 3.5 | 3.6 | 0.6 | 0.7 | 1.0 | 1.4 | **2.1** | **2.7** | **3.0** | *2.0* | *2.4* | *2.7* |
| Slovakia | 3.8 | 5.5 | 3.0 | 2.1 | 3.0 | 2.5 | **2.9** | **3.3** | **3.6** | *2.8* | *3.3* | *3.5* |
| Finland | 3.8 | 2.3 | 0.1 | 0.0 | 0.3 | 0.8 | **1.4** | **1.5** | **1.6** | *1.5* | *1.6* | *1.6* |
| Euro area | 2.2 | 1.8 | 0.6 | 0.8 | 1.4 | 1.1 | **1.5** | **1.5** | **1.5** | *1.4* | *1.5* | *1.5* |
| Bulgaria | 3.4 | 6.0 | 1.0 | 2.3 | 3.1 | 2.9 | **3.2** | **3.5** | **3.6** | *3.2* | *3.3* | *3.3* |
| Czech Republic | 2.2 | 4.4 | 1.1 | 2.1 | 2.9 | 2.7 | **3.1** | **3.1** | **3.0** | *3.1* | *2.9* | *2.8* |
| Denmark | 2.0 | 1.4 | 0.7 | 0.9 | 1.3 | 1.5 | **1.7** | **1.8** | **1.8** | *1.6* | *1.7* | *1.7* |
| Croatia | | 2.8 | -0.5 | 0.1 | 0.5 | 1.4 | **1.2** | **1.4** | **1.9** | *1.1* | *1.4* | *1.9* |
| Hungary | 3.7 | 2.5 | 0.2 | 2.1 | 2.3 | 2.2 | **2.7** | **3.2** | **3.3** | *2.6* | *2.9* | *2.9* |
| Poland | 4.5 | 3.7 | 3.7 | 3.1 | 3.2 | 3.0 | **3.2** | **3.6** | **3.7** | *3.1* | *3.3* | *3.4* |
| Romania | 2.4 | 5.9 | 1.9 | 2.5 | 3.4 | 3.8 | **4.1** | **4.3** | **4.2** | *3.7* | *4.0* | *4.0* |
| Sweden | 3.1 | 2.5 | 1.5 | 2.1 | 2.5 | 2.7 | **2.8** | **2.6** | **2.3** | *3.0* | *2.7* | *2.5* |
| EU27 | | 1.9 | 0.7 | 1.0 | 1.5 | 1.3 | **1.7** | **1.7** | **1.7** | *:* | *:* | *:* |
| United Kingdom | 3.0 | 2.1 | 1.0 | 1.4 | 1.6 | 1.5 | **1.6** | **1.6** | **1.6** | *1.5* | *1.4* | *1.4* |
| EU | | 2.0 | 0.8 | 1.1 | 1.5 | 1.3 | **1.7** | **1.7** | **1.7** | *1.6* | *1.6* | *1.7* |
| USA | 3.1 | 2.1 | 1.2 | 1.9 | 2.1 | 2.1 | **2.2** | **2.3** | **2.4** | *2.1* | *2.2* | *2.3* |
| Japan | | | | : | : | : | **:** | **:** | **:** | *:* | *:* | *:* |

**Table 14: Output gap relative to potential GDP [1] (deviation of actual output from potential output as % of potential GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 0.4 | 1.4 | -0.7 | -0.8 | -0.6 | -0.5 | **-0.2** | **0.1** | **0.4** | *-0.3* | *0.1* | *0.3* |
| Germany | 0.4 | -0.1 | -1.3 | -0.5 | -0.5 | -0.2 | **0.0** | **0.4** | **0.6** | *0.0* | *0.2* | *0.3* |
| Estonia | -0.3 | 7.9 | -2.8 | 1.9 | 0.8 | 0.4 | **2.1** | **2.9** | **2.8** | *1.8* | *2.2* | *2.2* |
| Ireland | 2.3 | 2.2 | -3.4 | 0.1 | 0.8 | 0.3 | **-0.5** | **0.7** | **0.4** | *1.6* | *0.6* | *-0.9* |
| Greece | 1.6 | 4.1 | -8.7 | -12.4 | -11.0 | -9.8 | **-7.7** | **-5.2** | **-2.8** | *-7.7* | *-5.0* | *-2.5* |
| Spain | 2.8 | 2.4 | -6.1 | -7.6 | -4.7 | -2.2 | **-0.2** | **1.4** | **2.3** | *-0.1* | *1.4* | *2.3* |
| France | 1.4 | 2.0 | -1.4 | -1.5 | -1.4 | -1.3 | **-0.7** | **0.1** | **0.6** | *-0.8* | *-0.2* | *0.1* |
| Italy | 1.2 | 1.6 | -3.0 | -4.5 | -3.4 | -2.4 | **-1.2** | **-0.1** | **0.5** | *-0.6* | *0.3* | *0.8* |
| Cyprus | 1.2 | 4.1 | -2.4 | -7.3 | -4.2 | -1.5 | **0.7** | **2.3** | **3.3** | *1.3* | *2.7* | *3.7* |
| Latvia | -1.0 | 5.8 | -6.4 | -0.2 | 0.4 | 0.4 | **2.0** | **2.1** | **2.0** | *2.3* | *2.1* | *1.4* |
| Lithuania | -2.8 | 4.8 | -5.5 | 0.8 | 0.8 | 1.3 | **2.6** | **2.7** | **2.2** | *2.4* | *2.5* | *2.2* |
| Luxembourg | 3.0 | 1.0 | -4.0 | -1.4 | -0.9 | -0.5 | **-0.7** | **0.3** | **0.9** | *-0.4* | *0.1* | *0.2* |
| Malta | 0.9 | 0.6 | -2.1 | 0.8 | 2.9 | 1.2 | **1.3** | **1.0** | **0.3** | *1.1* | *0.8* | *0.3* |
| Netherlands | 0.5 | 0.1 | -2.5 | -2.8 | -1.8 | -1.1 | **0.2** | **1.1** | **1.8** | *0.2* | *1.0* | *1.6* |
| Austria | 0.4 | 0.7 | -0.9 | -0.9 | -1.1 | -1.1 | **-0.2** | **0.6** | **0.7** | *-0.2* | *0.1* | *0.4* |
| Portugal | 1.4 | -0.1 | -2.2 | -3.1 | -1.7 | -0.9 | **0.3** | **1.0** | **1.3** | *0.4* | *1.1* | *1.4* |
| Slovenia | 0.4 | 4.1 | -4.0 | -4.3 | -3.1 | -1.4 | **1.4** | **3.4** | **4.1** | *1.8* | *3.3* | *3.9* |
| Slovakia | -2.6 | 3.1 | -1.7 | -2.1 | -1.3 | -0.5 | **0.0** | **0.6** | **1.2** | *0.0* | *0.5* | *1.0* |
| Finland | 0.9 | 1.8 | -2.4 | -3.1 | -3.3 | -2.0 | **-0.7** | **0.3** | **1.0** | *-0.7* | *0.4* | *1.1* |
| Euro area | 1.1 | 1.3 | -2.5 | -2.7 | -2.0 | -1.3 | **-0.5** | **0.4** | **0.9** | *-0.4* | *0.3* | *0.6* |
| Bulgaria | -2.0 | 1.9 | -0.8 | -1.8 | -1.3 | -0.3 | **0.1** | **0.4** | **0.5** | *0.0* | *0.5* | *0.7* |
| Czech Republic | -0.6 | 3.7 | -1.7 | -2.6 | -0.3 | -0.4 | **0.9** | **1.2** | **1.4** | *0.9* | *1.0* | *1.1* |
| Denmark | 1.1 | 2.3 | -3.1 | -2.0 | -1.7 | -1.3 | **-0.7** | **-0.7** | **-0.6** | *-0.8* | *-0.5* | *-0.4* |
| Croatia | | 3.6 | -2.8 | -4.2 | -2.4 | -0.7 | **0.9** | **2.3** | **3.1** | *0.6* | *2.0* | *2.8* |
| Hungary | -0.3 | 2.6 | -3.3 | -0.7 | 0.3 | 0.3 | **1.6** | **2.4** | **2.3** | *1.5* | *2.1* | *2.4* |
| Poland | -2.1 | -0.2 | 0.7 | -1.2 | -0.6 | -0.6 | **0.7** | **1.5** | **1.5** | *0.6* | *1.1* | *1.1* |
| Romania | -2.4 | 6.4 | -3.7 | -3.1 | -2.5 | -1.5 | **1.2** | **1.4** | **1.1** | *0.7* | *1.1* | *1.2* |
| Sweden | 0.0 | 1.4 | -2.4 | -2.1 | -0.1 | 0.4 | **0.1** | **0.1** | **-0.3** | *0.2* | *0.2* | *-0.2* |
| EU27 | | 1.4 | -2.4 | -2.6 | -1.9 | -1.2 | **-0.4** | **0.4** | **0.8** | *:* | *:* | *:* |
| United Kingdom | 0.9 | 1.3 | -3.4 | -0.6 | 0.2 | 0.6 | **0.8** | **0.7** | **0.4** | *0.6* | *0.4* | *0.2* |
| EU | | 1.4 | -2.6 | -2.3 | -1.5 | -0.9 | **-0.2** | **0.5** | **0.8** | *-0.1* | *0.3* | *0.6* |
| USA | 0.3 | 1.1 | -1.9 | -0.3 | 0.5 | -0.1 | **0.0** | **0.5** | **0.9** | *0.2* | *0.3* | *0.1* |
| Japan | | | | : | : | : | **:** | **:** | **:** | *:* | *:* | *:* |

[1] When comparing output gaps between the spring and the winter 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, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 1.7 | 2.1 | 1.5 | 0.7 | 1.1 | 1.6 | **1.9** | **1.6** | **1.7** | *1.8* | *1.6* | *1.7* |
| Germany | 0.7 | 0.9 | 1.4 | 1.8 | 2.0 | 1.3 | **1.5** | **1.7** | **1.8** | *1.5* | *1.9* | *1.6* |
| Estonia | 5.4 | 7.7 | 2.8 | 1.5 | 1.2 | 1.6 | **4.0** | **3.5** | **3.0** | *4.3* | *3.6* | *2.9* |
| Ireland | 5.2 | 1.4 | -1.1 | -0.4 | 7.3 | 0.0 | **-0.3** | **0.6** | **1.3** | *0.5* | *1.1* | *1.3* |
| Greece | 3.1 | 3.3 | 0.3 | -1.8 | -1.0 | -1.0 | **0.7** | **0.9** | **1.3** | *0.9* | *0.9* | *1.6* |
| Spain | 3.6 | 3.5 | 0.2 | -0.2 | 0.6 | 0.3 | **1.0** | **1.4** | **1.6** | *0.9* | *1.6* | *1.4* |
| France | 1.5 | 2.1 | 0.8 | 0.6 | 1.1 | 0.4 | **0.8** | **1.1** | **1.5** | *0.9* | *1.4* | *1.5* |
| Italy | 2.6 | 2.2 | 1.3 | 1.0 | 0.9 | 0.8 | **0.6** | **1.4** | **1.3** | *0.6* | *1.3* | *1.4* |
| Cyprus | 3.1 | 3.7 | 0.9 | -1.6 | -1.2 | -0.7 | **1.5** | **1.5** | **1.7** | *1.2* | *1.1* | *1.6* |
| Latvia | 3.5 | 12.4 | 0.1 | 1.8 | 0.0 | 0.3 | **3.1** | **2.6** | **2.8** | *2.2* | *3.4* | *3.2* |
| Lithuania | -0.2 | 6.9 | 1.6 | 1.0 | 0.3 | 1.0 | **4.3** | **2.7** | **2.3** | *3.5* | *3.9* | *3.0* |
| Luxembourg | 2.5 | 3.9 | 2.8 | 1.6 | 1.3 | -1.3 | **2.1** | **1.4** | **1.5** | *2.3* | *2.3* | *1.9* |
| Malta | 2.4 | 2.5 | 2.5 | 2.3 | 2.4 | 1.5 | **2.3** | **2.0** | **2.1** | *2.0* | *2.1* | *2.3* |
| Netherlands | 3.0 | 2.1 | 0.8 | 0.1 | 0.8 | 0.6 | **1.1** | **1.7** | **2.1** | *1.1* | *1.4* | *2.1* |
| Austria | 1.2 | 2.1 | 1.7 | 2.0 | 2.3 | 1.1 | **1.5** | **1.7** | **1.7** | *1.8* | *1.6* | *1.7* |
| Portugal | 3.6 | 2.7 | 0.7 | 0.8 | 2.0 | 1.5 | **1.4** | **1.3** | **1.4** | *1.3* | *1.4* | *1.4* |
| Slovenia | 6.8 | 3.1 | 1.1 | 0.8 | 1.0 | 0.9 | **2.0** | **2.6** | **2.7** | *1.7* | *1.6* | *1.7* |
| Slovakia | 6.2 | 3.0 | 0.5 | -0.2 | -0.2 | -0.4 | **1.3** | **2.7** | **2.5** | *2.0* | *1.5* | *1.9* |
| Finland | 1.4 | 1.7 | 2.1 | 1.7 | 1.9 | 0.8 | **0.9** | **1.5** | **1.6** | *0.5* | *1.7* | *1.7* |
| Euro area | 1.9 | 2.0 | 1.0 | 0.9 | 1.4 | 0.8 | **1.1** | **1.5** | **1.6** | *1.1* | *1.6* | *1.6* |
| Bulgaria | 4.5 | 7.6 | 2.4 | 0.5 | 2.2 | 2.2 | **1.2** | **2.2** | **2.3** | *0.6* | *2.1* | *2.1* |
| Czech Republic | 2.7 | 2.0 | 0.8 | 2.5 | 1.2 | 1.2 | **1.4** | **2.7** | **1.5** | *1.4* | *2.3* | *1.8* |
| Denmark | 2.2 | 2.7 | 1.5 | 1.0 | 0.7 | 0.0 | **1.6** | **1.3** | **1.9** | *1.6* | *1.7* | *2.1* |
| Croatia | 4.0 | 4.2 | 1.5 | 0.1 | 0.0 | -0.1 | **1.2** | **2.1** | **1.9** | *1.2* | *2.1* | *2.1* |
| Hungary | 8.6 | 4.3 | 3.0 | 3.4 | 1.9 | 1.0 | **3.7** | **2.8** | **3.0** | *2.8* | *2.9* | *3.1* |
| Poland | 3.6 | 3.4 | 2.3 | 0.5 | 0.8 | 0.3 | **1.9** | **1.7** | **2.4** | *2.1* | *2.0* | *2.5* |
| Romania | 34.9 | 13.9 | 3.9 | 1.7 | 2.6 | 2.1 | **5.3** | **5.2** | **4.0** | *2.0* | *3.2* | *3.3* |
| Sweden | 1.7 | 1.8 | 1.3 | 1.8 | 2.1 | 1.6 | **2.1** | **2.1** | **2.3** | *2.2* | *2.2* | *2.1* |
| EU27 | 2.2 | 2.2 | 1.1 | 1.0 | 1.4 | 0.8 | **1.3** | **1.6** | **1.7** | *1.2* | *1.7* | *1.7* |
| United Kingdom | 1.7 | 2.7 | 1.7 | 1.7 | 0.5 | 2.0 | **2.0** | **2.0** | **1.6** | *2.3* | *2.1* | *1.7* |
| EU | 2.1 | 2.3 | 1.2 | 1.1 | 1.3 | 1.0 | **1.4** | **1.7** | **1.7** | *1.4* | *1.7* | *1.7* |
| USA | 1.9 | 2.7 | 1.5 | 1.8 | 1.1 | 1.3 | **1.8** | **2.0** | **2.1** | *1.7* | *2.1* | *2.3* |
| Japan | -1.4 | -0.9 | -1.1 | 1.7 | 2.1 | 0.3 | **-0.2** | **0.8** | **0.7** | *0.0* | *0.6* | *0.8* |

**Table 16: Price deflator of private consumption (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 1.8 | 2.9 | 1.4 | 0.6 | 0.6 | 1.5 | **1.7** | **1.7** | **1.3** | *1.8* | *1.3* | *1.4* |
| Germany | 1.2 | 1.4 | 1.2 | 0.9 | 0.6 | 0.6 | **1.7** | **1.6** | **1.8** | *1.7* | *1.5* | *1.6* |
| Estonia | 3.9 | 6.1 | 3.2 | 0.5 | -0.2 | 0.9 | **3.7** | **3.0** | **2.6** | *3.7* | *3.1* | *2.8* |
| Ireland | 3.8 | 1.6 | -1.1 | 1.2 | 0.4 | 0.8 | **1.3** | **1.2** | **1.3** | *0.6* | *0.8* | *1.0* |
| Greece | 2.7 | 3.5 | 1.1 | -2.5 | -1.5 | -1.0 | **1.2** | **0.5** | **1.2** | *1.1* | *0.8* | *1.1* |
| Spain | 3.1 | 3.5 | 1.4 | 0.2 | -0.1 | -0.1 | **1.8** | **1.5** | **1.4** | *1.6* | *1.2* | *1.4* |
| France | 1.3 | 2.2 | 0.7 | 0.1 | 0.3 | 0.0 | **0.9** | **1.6** | **1.4** | *0.9* | *1.2* | *1.5* |
| Italy | 2.7 | 2.5 | 1.6 | 0.3 | 0.2 | 0.1 | **1.2** | **1.2** | **1.4** | *1.4* | *1.2* | *1.5* |
| Cyprus | 2.7 | 3.3 | 1.5 | -0.5 | -1.8 | -1.3 | **0.7** | **0.9** | **1.3** | *1.1* | *1.1* | *1.6* |
| Latvia | 3.7 | 10.3 | 0.6 | 1.7 | -1.0 | 1.0 | **3.0** | **2.7** | **2.6** | *2.9* | *2.8* | *2.9* |
| Lithuania | -0.5 | 4.7 | 2.8 | 0.1 | -0.9 | 0.9 | **3.8** | **2.7** | **2.2** | *3.8* | *2.9* | *2.5* |
| Luxembourg | 2.1 | 2.7 | 1.5 | 0.5 | 0.1 | 0.1 | **1.6** | **1.2** | **1.7** | *1.7* | *2.4* | *1.9* |
| Malta | 1.6 | 2.7 | 2.0 | 0.1 | 1.1 | 0.4 | **0.2** | **1.6** | **1.8** | *0.8* | *1.5* | *1.8* |
| Netherlands | 2.7 | 2.0 | 1.2 | 0.8 | 0.2 | 0.8 | **1.7** | **1.8** | **2.4** | *1.6* | *1.5* | *2.7* |
| Austria | 1.4 | 2.2 | 1.9 | 2.1 | 1.4 | 1.2 | **2.1** | **2.1** | **1.9** | *2.0* | *1.7* | *1.8* |
| Portugal | 3.4 | 3.2 | 0.8 | 0.3 | 0.9 | 1.0 | **1.3** | **1.4** | **1.5** | *1.5* | *1.5* | *1.5* |
| Slovenia | 6.8 | 3.4 | 1.6 | -0.1 | -0.6 | -0.3 | **2.6** | **1.9** | **2.5** | *1.6* | *1.5* | *1.8* |
| Slovakia | 6.6 | 4.4 | 1.9 | -0.1 | -0.1 | -0.3 | **1.4** | **2.2** | **1.9** | *1.2* | *1.5* | *1.8* |
| Finland | 2.0 | 1.6 | 2.4 | 1.3 | 0.3 | 0.9 | **0.9** | **1.3** | **1.6** | *1.0* | *1.4* | *1.6* |
| Euro area | 2.0 | 2.3 | 1.2 | 0.5 | 0.3 | 0.4 | **1.4** | **1.5** | **1.6** | *1.4* | *1.3* | *1.6* |
| Bulgaria | 3.4 | 5.5 | 1.5 | 0.0 | 1.2 | -0.1 | **1.1** | **1.8** | **1.8** | *1.0* | *1.5* | *1.6* |
| Czech Republic | 2.1 | 2.7 | 1.2 | 0.6 | 0.1 | 0.5 | **2.5** | **2.1** | **1.8** | *2.8* | *2.0* | *2.0* |
| Denmark | 2.0 | 1.9 | 1.8 | 0.6 | 0.7 | 0.5 | **1.3** | **1.2** | **1.7** | *1.2* | *1.6* | *1.9* |
| Croatia | 3.7 | 3.5 | 2.5 | -0.5 | -0.5 | -1.2 | **1.0** | **1.4** | **1.5** | *1.3* | *1.5* | *1.6* |
| Hungary | 8.1 | 4.9 | 3.9 | 0.9 | -0.2 | -0.2 | **2.3** | **2.3** | **3.0** | *2.3* | *2.6* | *3.0* |
| Poland | 4.6 | 2.9 | 2.7 | -0.1 | -1.1 | -0.4 | **1.9** | **1.5** | **2.5** | *1.5* | *2.0* | *2.7* |
| Romania | 30.2 | 8.3 | 4.2 | 1.2 | 0.9 | 0.9 | **2.0** | **4.2** | **3.4** | *1.3* | *2.9* | *3.0* |
| Sweden | 1.5 | 1.5 | 1.3 | 1.1 | 0.9 | 1.0 | **1.7** | **1.9** | **2.1** | *1.9* | *2.0* | *2.2* |
| EU27 | 2.3 | 2.4 | 1.4 | 0.5 | 0.3 | 0.3 | **1.5** | **1.6** | **1.7** | *1.5* | *1.4* | *1.7* |
| United Kingdom | 0.7 | 2.5 | 2.2 | 1.9 | 0.6 | 1.4 | **2.0** | **2.0** | **1.5** | *2.5* | *2.4* | *1.8* |
| EU | 1.9 | 2.4 | 1.5 | 0.7 | 0.3 | 0.6 | **1.6** | **1.7** | **1.7** | *1.7* | *1.6* | *1.7* |
| USA | 1.8 | 2.7 | 1.5 | 1.5 | 0.3 | 1.2 | **1.7** | **1.9** | **2.0** | *1.7* | *2.2* | *2.2* |
| Japan | -1.0 | -0.2 | -1.0 | 2.0 | 0.4 | -0.5 | **0.2** | **0.5** | **0.9** | *0.0* | *0.4* | *0.9* |

**Table 17:** Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 1.9 | 2.6 | 1.9 | 0.5 | 0.6 | 1.8 | **2.2** | **1.6** | **1.6** | *2.2* | *1.4* | *1.6* |
| Germany | 1.3 | 2.1 | 1.5 | 0.8 | 0.1 | 0.4 | **1.7** | **1.6** | **1.8** | *1.7* | *1.5* | *1.6* |
| Estonia | 3.5 | 5.8 | 3.1 | 0.5 | 0.1 | 0.8 | **3.7** | **2.9** | **2.5** | *3.7* | *3.0* | *2.7* |
| Ireland | 4.1 | 2.6 | 0.1 | 0.3 | 0.0 | -0.2 | **0.3** | **0.8** | **1.1** | *0.3* | *0.8* | *1.2* |
| Greece | 3.2 | 3.4 | 1.9 | -1.4 | -1.1 | 0.0 | **1.1** | **0.5** | **1.2** | *1.2* | *0.8* | *1.3* |
| Spain | 3.0 | 3.4 | 1.8 | -0.2 | -0.6 | -0.3 | **2.0** | **1.4** | **1.4** | *2.0* | *1.4* | *1.5* |
| France | 1.7 | 2.2 | 1.5 | 0.6 | 0.1 | 0.3 | **1.2** | **1.7** | **1.4** | *1.1* | *1.2* | *1.5* |
| Italy | 2.4 | 2.4 | 2.0 | 0.2 | 0.1 | -0.1 | **1.3** | **1.2** | **1.4** | *1.4* | *1.2* | *1.5* |
| Cyprus | 2.9 | 2.5 | 1.9 | -0.3 | -1.5 | -1.2 | **0.7** | **0.7** | **1.2** | *1.0* | *1.1* | *1.4* |
| Latvia | 2.4 | 9.0 | 1.7 | 0.7 | 0.2 | 0.1 | **2.9** | **2.7** | **2.6** | *2.9* | *2.8* | *2.9* |
| Lithuania | 0.7 | 4.9 | 2.8 | 0.2 | -0.7 | 0.7 | **3.7** | **2.7** | **2.3** | *3.8* | *2.9* | *2.5* |
| Luxembourg | 2.4 | 3.3 | 2.2 | 0.7 | 0.1 | 0.0 | **2.1** | **1.5** | **1.7** | *2.1* | *1.7* | *1.9* |
| Malta | 2.5 | 2.6 | 2.1 | 0.8 | 1.2 | 0.9 | **1.3** | **1.6** | **1.8** | *1.3* | *1.5* | *1.8* |
| Netherlands | 3.1 | 1.7 | 2.0 | 0.3 | 0.2 | 0.1 | **1.3** | **1.6** | **2.2** | *1.3* | *1.5* | *2.2* |
| Austria | 1.6 | 2.2 | 2.1 | 1.5 | 0.8 | 1.0 | **2.2** | **2.1** | **1.9** | *2.0* | *1.6* | *1.7* |
| Portugal | 3.3 | 2.6 | 1.5 | -0.2 | 0.5 | 0.6 | **1.6** | **1.2** | **1.6** | *1.5* | *1.4* | *1.5* |
| Slovenia | 7.4 | 3.6 | 1.9 | 0.4 | -0.8 | -0.2 | **1.6** | **1.9** | **2.0** | *1.6* | *1.5* | *1.8* |
| Slovakia | 8.3 | 4.1 | 2.2 | -0.1 | -0.3 | -0.5 | **1.4** | **2.4** | **2.1** | *1.3* | *1.7* | *2.0* |
| Finland | 2.0 | 1.5 | 2.4 | 1.2 | -0.2 | 0.4 | **0.8** | **1.4** | **1.7** | *0.9* | *1.3* | *1.7* |
| Euro area | 2.0 | 2.4 | 1.7 | 0.4 | 0.0 | 0.2 | **1.5** | **1.5** | **1.6** | *1.5* | *1.4* | *1.6* |
| Bulgaria | 5.7 | 7.8 | 2.3 | -1.6 | -1.1 | -1.3 | **1.2** | **1.8** | **1.8** | *1.0* | *1.5* | *1.6* |
| Czech Republic | 2.3 | 3.1 | 1.8 | 0.4 | 0.3 | 0.6 | **2.4** | **2.1** | **1.8** | *2.4* | *2.1* | *2.0* |
| Denmark | 2.3 | 2.0 | 1.8 | 0.4 | 0.2 | 0.0 | **1.1** | **0.8** | **1.4** | *1.0* | *1.4* | *1.7* |
| Croatia | 3.5 | 3.4 | 2.2 | 0.2 | -0.3 | -0.6 | **1.3** | **1.4** | **1.5** | *1.3* | *1.5* | *1.6* |
| Hungary | 7.8 | 5.7 | 4.0 | 0.0 | 0.1 | 0.4 | **2.4** | **2.3** | **3.0** | *2.3* | *2.6* | *3.0* |
| Poland | 5.0 | 2.8 | 3.0 | 0.1 | -0.7 | -0.2 | **1.6** | **1.3** | **2.5** | *1.6* | *2.1* | *2.8* |
| Romania | 32.7 | 8.1 | 4.8 | 1.4 | -0.4 | -1.1 | **1.1** | **4.2** | **3.4** | *1.0* | *2.9* | *3.0* |
| Sweden | 1.8 | 1.7 | 1.3 | 0.2 | 0.7 | 1.1 | **1.9** | **1.9** | **1.7** | *1.8* | *1.6* | *1.7* |
| EU27 | 2.9 | 2.7 | 1.9 | 0.4 | 0.0 | 0.2 | **1.6** | **1.6** | **1.7** | *1.6* | *1.5* | *1.8* |
| United Kingdom | 1.2 | 2.3 | 3.1 | 1.5 | 0.0 | 0.7 | **2.7** | **2.5** | **1.9** | *2.7* | *2.6* | *2.1* |
| EU | 2.7 | 2.6 | 2.1 | 0.5 | 0.0 | 0.3 | **1.7** | **1.7** | **1.8** | *1.7* | *1.7* | *1.8* |
| USA | 2.5 | 3.2 | 1.6 | 1.6 | 0.1 | 1.3 | **2.1** | **2.2** | **2.2** | *2.0* | *2.1* | *2.2* |
| Japan | -0.6 | 0.3 | -0.4 | 2.8 | 0.8 | -0.1 | **0.5** | **1.0** | **1.1** | *0.4* | *0.8* | *1.2* |

**Table 18:** Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2017-19) 23.4.2018

| | 2017/1 | 2017/2 | 2017/3 | 2017/4 | 2018/1 | 2018/2 | 2018/3 | 2018/4 | 2019/1 | 2019/2 | 2019/3 | 2019/4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | 3.0 | 2.0 | 1.9 | 2.0 | 1.6 | 1.6 | 1.7 | 1.3 | 1.2 | 1.6 | 2.1 | 1.5 |
| Germany | 1.9 | 1.6 | 1.7 | 1.6 | 1.3 | 1.6 | 1.7 | 1.6 | 1.8 | 1.8 | 1.8 | 1.8 |
| Estonia | 3.1 | 3.4 | 4.0 | 4.1 | 3.2 | 3.0 | 2.6 | 2.9 | 2.6 | 2.5 | 2.5 | 2.5 |
| Ireland | 0.4 | 0.0 | 0.1 | 0.5 | 0.5 | 0.8 | 0.9 | 0.8 | 1.2 | 1.0 | 1.1 | 1.2 |
| Greece | 1.5 | 1.3 | 0.8 | 0.8 | 0.3 | 0.5 | 0.7 | 0.6 | 0.9 | 1.1 | 1.2 | 1.6 |
| Spain | 2.7 | 2.1 | 1.8 | 1.6 | 1.1 | 1.6 | 1.7 | 1.1 | 1.3 | 1.4 | 1.5 | 1.4 |
| France | 1.5 | 1.0 | 0.9 | 1.2 | 1.5 | 1.7 | 1.9 | 1.7 | 1.3 | 1.4 | 1.4 | 1.5 |
| Italy | 1.3 | 1.6 | 1.3 | 1.1 | 0.9 | 1.2 | 1.4 | 1.5 | 1.4 | 1.3 | 1.3 | 1.4 |
| Cyprus | 1.2 | 1.3 | 0.2 | 0.1 | -0.8 | 1.4 | 1.1 | 1.3 | 1.2 | 1.1 | 1.2 | 1.3 |
| Latvia | 3.1 | 3.0 | 2.9 | 2.5 | 2.0 | 2.7 | 3.2 | 2.8 | 2.6 | 2.5 | 2.6 | 2.5 |
| Lithuania | 3.0 | 3.4 | 4.5 | 4.1 | 3.1 | 2.5 | 2.6 | 2.5 | 2.7 | 2.5 | 2.0 | 1.9 |
| Luxembourg | 2.6 | 2.0 | 2.0 | 1.8 | 1.2 | 1.4 | 1.8 | 1.6 | 1.5 | 1.7 | 1.8 | 1.8 |
| Malta | 1.3 | 1.1 | 1.2 | 1.4 | 1.3 | 1.7 | 1.8 | 1.7 | 1.5 | 1.8 | 1.9 | 1.9 |
| Netherlands | 1.3 | 1.0 | 1.5 | 1.4 | 1.3 | 1.7 | 1.7 | 1.6 | 2.1 | 2.2 | 2.3 | 2.3 |
| Austria | 2.2 | 2.2 | 2.2 | 2.4 | 2.0 | 2.2 | 2.3 | 1.9 | 1.8 | 1.8 | 1.9 | 2.0 |
| Portugal | 1.4 | 1.7 | 1.3 | 1.8 | 0.9 | 1.2 | 1.4 | 1.4 | 1.5 | 1.5 | 1.6 | 1.6 |
| Slovenia | 2.0 | 1.4 | 1.3 | 1.5 | 1.5 | 1.9 | 2.2 | 2.1 | 2.1 | 1.8 | 1.9 | 2.2 |
| Slovakia | 1.0 | 1.0 | 1.6 | 2.0 | 2.4 | 2.5 | 2.4 | 2.3 | 2.0 | 2.0 | 2.1 | 2.2 |
| Finland | 1.1 | 0.9 | 0.7 | 0.6 | 0.8 | 1.3 | 1.6 | 1.8 | 2.2 | 1.7 | 1.6 | 1.4 |
| Euro area | 1.8 | 1.5 | 1.4 | 1.4 | 1.3 | 1.6 | 1.7 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 |
| Bulgaria | 0.8 | 1.4 | 0.9 | 1.7 | 1.6 | 1.8 | 2.2 | 1.7 | 1.7 | 1.8 | 1.9 | 2.0 |
| Czech Republic | 2.5 | 2.3 | 2.4 | 2.5 | 1.7 | 2.1 | 2.3 | 2.2 | 2.0 | 1.9 | 1.7 | 1.6 |
| Denmark | 0.8 | 0.7 | 1.5 | 1.2 | 0.5 | 1.0 | 1.1 | 0.8 | 1.3 | 1.3 | 1.5 | 1.6 |
| Croatia | 1.1 | 1.1 | 1.4 | 1.5 | 1.1 | 1.4 | 1.8 | 1.3 | 1.4 | 1.5 | 1.7 | 1.4 |
| Hungary | 2.6 | 2.1 | 2.5 | 2.3 | 2.0 | 2.3 | 2.6 | 2.3 | 2.7 | 3.0 | 3.1 | 3.3 |
| Poland | 1.7 | 1.5 | 1.5 | 1.8 | 1.0 | 1.1 | 1.6 | 1.3 | 2.0 | 2.6 | 2.7 | 2.8 |
| Romania | 0.4 | 0.6 | 1.0 | 2.4 | 3.7 | 4.3 | 4.6 | 4.3 | 3.8 | 3.5 | 3.2 | 3.0 |
| Sweden | 1.6 | 1.8 | 2.2 | 1.8 | 1.7 | 2.0 | 2.1 | 1.9 | 1.7 | 1.6 | 1.7 | 1.7 |
| EU27 | 1.7 | 1.5 | 1.5 | 1.5 | 1.3 | 1.6 | 1.7 | 1.6 | 1.6 | 1.7 | 1.7 | 1.7 |
| United Kingdom | 2.2 | 2.8 | 2.8 | 3.0 | 2.7 | 2.6 | 2.5 | 2.1 | 1.9 | 2.0 | 1.9 | 1.9 |
| EU | 1.8 | 1.7 | 1.7 | 1.7 | 1.5 | 1.8 | 1.9 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| USA | 2.6 | 1.9 | 2.0 | 2.1 | 2.3 | 2.4 | 2.2 | 2.1 | 1.9 | 2.3 | 2.4 | 2.2 |
| Japan | 0.3 | 0.4 | 0.6 | 0.6 | 1.1 | 0.9 | 1.1 | 0.7 | 0.8 | 0.8 | 0.7 | 2.0 |

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 0.5 | 2.9 | 0.9 | -2.7 | -3.7 | -2.5 | **1.3** | **1.0** | **1.2** | *1.9* | *0.2* | *2.0* |
| **Germany** | 0.0 | 0.6 | 0.8 | -0.6 | 0.9 | -1.0 | **1.5** | **0.7** | **0.7** | *1.7* | *0.4* | *0.8* |
| **Estonia** | 2.0 | 4.4 | 1.3 | -1.7 | -1.9 | -0.1 | **4.5** | **1.9** | **1.4** | *3.5* | *1.1* | *1.6* |
| **Ireland** | -0.6 | 0.6 | -0.5 | -0.3 | 9.9 | -4.0 | **-2.8** | **1.0** | **1.2** | *0.5* | *0.4* | *1.1* |
| **Greece** | 2.4 | 3.3 | 2.6 | -3.1 | -11.5 | -5.5 | **6.3** | **-0.2** | **0.4** | *4.2* | *-0.7* | *2.4* |
| **Spain** | 0.9 | 2.8 | 1.1 | -2.0 | 0.6 | -1.5 | **3.1** | **0.9** | **1.0** | *1.6* | *1.2* | *1.0* |
| **France** | -1.0 | 2.0 | 0.3 | -1.0 | 0.7 | -2.2 | **1.4** | **-0.3** | **-0.3** | *1.4* | *-0.6* | *-0.2* |
| **Italy** | 1.5 | 2.1 | 1.1 | -0.3 | -0.4 | -1.1 | **1.9** | **1.0** | **1.3** | *1.5* | *0.4* | *1.1* |
| **Cyprus** | 1.6 | 3.8 | 1.7 | 1.3 | 0.8 | -0.9 | **0.4** | **0.9** | **1.3** | *1.2* | *1.1* | *1.9* |
| **Latvia** | 1.6 | 11.0 | 3.1 | -1.4 | 0.2 | -2.7 | **4.2** | **2.0** | **2.0** | *5.0* | *1.0* | *1.0* |
| **Lithuania** | 0.1 | 8.6 | 1.4 | -2.8 | -5.3 | -3.1 | **4.7** | **2.3** | **1.5** | *5.0* | *2.5* | *2.0* |
| **Luxembourg** | 0.0 | 5.2 | 1.3 | -0.5 | -2.2 | -1.7 | **3.5** | **0.8** | **1.1** | *3.1* | *0.8* | *1.0* |
| **Malta** | 3.0 | 1.1 | 1.0 | 0.0 | 0.3 | -4.8 | **8.1** | **1.3** | **1.3** | *2.8* | *0.0* | *1.3* |
| **Netherlands** | -0.1 | 2.9 | 1.0 | -2.6 | -2.9 | -3.3 | **3.8** | **0.6** | **0.5** | *3.8* | *1.0* | *1.3* |
| **Austria** | 0.2 | 1.9 | 0.8 | -0.9 | -1.0 | -1.2 | **2.4** | **1.4** | **1.3** | *1.3* | *1.1* | *1.2* |
| **Portugal** | 0.5 | 2.3 | 0.8 | -1.9 | -2.6 | -3.4 | **3.7** | **1.3** | **1.5** | *2.6* | *1.3* | *1.4* |
| **Slovenia** | 5.1 | 2.2 | 0.8 | -0.4 | -0.6 | -2.1 | **2.6** | **0.8** | **0.9** | *2.8* | *0.8* | *0.9* |
| **Slovakia** | 4.5 | 1.5 | 0.0 | -3.6 | -1.3 | -1.7 | **2.2** | **1.7** | **1.9** | *1.4* | *1.7* | *1.8* |
| **Finland** | -2.1 | 0.3 | -0.1 | -0.9 | -1.8 | -2.8 | **3.8** | **1.5** | **1.5** | *4.5* | *1.5* | *1.5* |
| **Euro area** | 0.1 | 1.7 | 0.8 | -1.2 | 0.0 | -1.9 | **1.9** | **0.7** | **0.8** | *2.0* | *0.5* | *1.0* |
| **Bulgaria** | -5.7 | 14.7 | 0.7 | -2.2 | -2.3 | -2.4 | **5.2** | **1.8** | **1.8** | *1.5* | *1.8* | *1.8* |
| **Czech Republic** | -0.5 | -1.3 | 0.9 | 3.8 | -1.4 | -2.9 | **-1.2** | **-2.0** | **0.6** | *1.0* | *1.0* | *1.2* |
| **Denmark** | 1.4 | 3.5 | 1.3 | -1.3 | 1.5 | -1.5 | **1.0** | **-0.4** | **1.0** | *1.8* | *0.1* | *1.3* |
| **Croatia** | 5.1 | 4.3 | 1.7 | -1.7 | -2.3 | -3.1 | **1.2** | **1.6** | **1.8** | *1.5* | *2.0* | *2.0* |
| **Hungary** | 2.0 | -0.1 | 2.1 | 1.2 | -0.1 | -1.0 | **1.5** | **1.4** | **1.5** | *1.6* | *1.4* | *1.6* |
| **Poland** | 4.1 | 1.8 | 5.1 | 0.0 | 1.6 | 0.3 | **1.8** | **1.8** | **1.7** | *1.7* | *1.9* | *1.9* |
| **Romania** | 31.6 | 7.4 | 3.3 | -1.1 | -0.3 | -0.8 | **3.6** | **4.0** | **3.4** | *2.8* | *3.0* | *3.0* |
| **Sweden** | -0.6 | 2.2 | -1.2 | 2.1 | 1.6 | -1.8 | **4.0** | **4.0** | **2.2** | *2.6* | *0.1* | *1.2* |
| **EU27** | 0.4 | 1.8 | 0.9 | -0.9 | 0.1 | -1.8 | **1.9** | **0.9** | **0.9** | *1.9* | *0.6* | *1.1* |
| **United Kingdom** | -0.1 | 3.0 | 2.8 | -4.8 | -8.2 | 5.5 | **5.8** | **2.9** | **1.0** | *5.9* | *1.7* | *1.5* |
| **EU** | 0.3 | 1.9 | 1.1 | -1.2 | -0.6 | -1.2 | **2.2** | **1.0** | **0.9** | *2.3* | *0.7* | *1.1* |
| **USA** | 0.2 | 3.8 | 1.0 | -1.0 | -7.1 | -3.7 | **2.4** | **2.8** | **1.5** | *1.9* | *1.9* | *1.2* |
| **Japan** | -3.5 | 0.1 | -1.6 | 2.8 | 0.8 | -8.7 | **4.3** | **1.4** | **1.0** | *4.6* | *1.8* | *1.2* |

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 1.4 | 4.0 | 1.2 | -2.9 | -5.4 | -3.2 | **1.9** | **1.0** | **0.9** | *1.8* | *0.1* | *1.7* |
| **Germany** | -0.1 | 1.8 | 0.4 | -2.2 | -2.2 | -3.2 | **3.1** | **1.3** | **1.0** | *3.3* | *-0.1* | *0.9* |
| **Estonia** | 0.3 | 3.2 | 1.9 | -1.7 | -2.1 | -1.1 | **3.1** | **1.5** | **1.5** | *3.3* | *0.8* | *1.7* |
| **Ireland** | -2.0 | 1.7 | -0.6 | 5.2 | 1.8 | -6.2 | **3.0** | **2.0** | **1.5** | *0.5* | *-0.3* | *1.0* |
| **Greece** | 2.8 | 3.5 | 2.5 | -4.2 | -12.0 | -3.3 | **5.6** | **-0.5** | **0.4** | *3.5* | *-0.9* | *1.2* |
| **Spain** | 1.0 | 3.4 | 1.6 | -1.5 | -1.8 | -1.6 | **4.8** | **2.2** | **1.0** | *4.1* | *0.5* | *1.7* |
| **France** | -0.8 | 2.4 | 0.5 | -2.7 | -3.4 | -3.4 | **2.5** | **0.4** | **-1.1** | *2.1* | *-1.5* | *-0.8* |
| **Italy** | 1.9 | 4.3 | 1.0 | -3.7 | -4.3 | -4.2 | **3.6** | **0.9** | **1.0** | *3.0* | *-0.4* | *1.0* |
| **Cyprus** | 1.6 | 3.7 | 1.6 | -5.4 | -2.4 | -0.5 | **0.1** | **0.3** | **0.9** | *1.3* | *1.4* | *1.4* |
| **Latvia** | 3.2 | 9.0 | 2.9 | -0.5 | -2.1 | -6.0 | **3.3** | **3.0** | **2.0** | *5.5* | *0.5* | *0.5* |
| **Lithuania** | -2.0 | 6.1 | 2.7 | -3.6 | -8.3 | -5.3 | **4.1** | **2.5** | **1.7** | *5.3* | *1.2* | *1.5* |
| **Luxembourg** | 1.0 | 3.6 | 0.9 | -1.2 | 0.0 | -2.1 | **3.8** | **2.2** | **0.6** | *4.2* | *0.4* | *0.8* |
| **Malta** | 1.8 | 1.1 | 0.6 | -4.5 | -0.2 | -1.5 | **3.2** | **1.6** | **1.5** | *2.8* | *-0.5* | *1.0* |
| **Netherlands** | -0.7 | 3.0 | 1.4 | -2.7 | -5.4 | -4.4 | **4.5** | **0.8** | **0.4** | *4.7* | *1.3* | *1.4* |
| **Austria** | -0.2 | 2.8 | 1.2 | -1.9 | -2.4 | -1.6 | **3.3** | **1.9** | **1.5** | *1.4* | *1.2* | *1.1* |
| **Portugal** | 0.7 | 3.1 | -0.1 | -3.0 | -5.2 | -3.7 | **4.3** | **1.3** | **1.5** | *3.0* | *1.3* | *1.4* |
| **Slovenia** | 5.0 | 3.3 | 1.4 | -1.5 | -1.9 | -2.9 | **3.3** | **0.2** | **0.8** | *3.1* | *1.1* | *1.2* |
| **Slovakia** | 4.4 | 2.4 | 1.0 | -3.8 | -1.1 | -1.3 | **3.0** | **1.3** | **1.3** | *1.5* | *1.6* | *1.7* |
| **Finland** | -1.1 | 3.1 | 0.6 | -2.5 | -6.5 | -4.7 | **5.0** | **2.3** | **1.8** | *6.0* | *0.9* | *1.3* |
| **Euro area** | 0.3 | 2.9 | 0.9 | -2.4 | -3.4 | -3.4 | **3.4** | **1.2** | **0.7** | *3.1* | *0.0* | *0.9* |
| **Bulgaria** | 2.5 | 9.5 | 0.6 | -2.9 | -2.9 | -6.0 | **6.6** | **1.7** | **1.4** | *3.0* | *1.3* | *1.4* |
| **Czech Republic** | -0.5 | -0.3 | 1.1 | 2.0 | -1.9 | -3.9 | **0.1** | **-3.1** | **0.9** | *2.2* | *0.5* | *1.1* |
| **Denmark** | 0.3 | 2.5 | 0.6 | -2.0 | 0.3 | -2.8 | **1.6** | **-0.6** | **0.9** | *1.9* | *-0.1* | *1.1* |
| **Croatia** | 3.8 | 2.5 | 1.6 | -0.9 | -1.2 | -2.4 | **2.5** | **1.2** | **1.6** | *2.9* | *1.6* | *1.6* |
| **Hungary** | 3.0 | 1.1 | 2.2 | 0.1 | -1.1 | -2.4 | **1.9** | **2.0** | **1.6** | *2.3* | *1.2* | *1.4* |
| **Poland** | 5.6 | 0.8 | 4.8 | -2.2 | -1.3 | -0.3 | **1.5** | **1.6** | **1.7** | *0.6* | *2.0* | *2.0* |
| **Romania** | 30.0 | 1.8 | 3.1 | -1.9 | -1.3 | -1.4 | **4.9** | **4.0** | **3.1** | *4.2* | *3.3* | *2.5* |
| **Sweden** | 1.0 | 2.8 | -1.3 | 1.2 | -0.1 | -2.3 | **4.6** | **4.9** | **1.7** | *3.6* | *-0.2* | *1.2* |
| **EU27** | 0.7 | 2.7 | 1.0 | -2.1 | -3.0 | -3.2 | **3.2** | **1.2** | **0.8** | *2.9* | *0.2* | *1.0* |
| **United Kingdom** | -0.5 | 3.4 | 2.5 | -4.6 | -6.8 | 2.8 | **5.7** | **2.0** | **0.1** | *5.1* | *1.2* | *1.0* |
| **EU** | 0.5 | 2.8 | 1.2 | -2.4 | -3.5 | -2.4 | **3.5** | **1.3** | **0.8** | *3.2* | *0.3* | *1.0* |
| **USA** | 0.7 | 6.1 | 0.3 | -0.7 | -9.1 | -3.7 | **2.7** | **2.3** | **1.5** | *2.7* | *1.8* | *1.2* |
| **Japan** | -1.6 | 7.7 | -0.5 | 3.6 | -9.6 | -15.0 | **8.8** | **1.0** | **1.6** | *7.5* | *1.0* | *1.5* |

**Table 21: Terms of trade of goods (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | -0.8 | -1.0 | -0.4 | 0.2 | 1.8 | 0.7 | **-0.5** | **0.0** | **0.3** | *0.1* | *0.1* | *0.2* |
| **Germany** | 0.1 | -1.1 | 0.4 | 1.7 | 3.1 | 2.3 | **-1.5** | **-0.5** | **-0.3** | *-1.5* | *0.5* | *-0.1* |
| **Estonia** | 1.7 | 1.1 | -0.6 | 0.0 | 0.2 | 1.0 | **1.4** | **0.4** | **-0.1** | *0.2* | *0.3* | *-0.1* |
| **Ireland** | 1.4 | -1.0 | 0.0 | -5.2 | 8.0 | 2.3 | **-5.5** | **-1.0** | **-0.3** | *0.0* | *0.7* | *0.1* |
| **Greece** | -0.4 | -0.2 | 0.1 | 1.1 | 0.6 | -2.3 | **0.7** | **0.3** | **0.0** | *0.6* | *0.2* | *1.2* |
| **Spain** | -0.1 | -0.6 | -0.4 | -0.5 | 2.4 | 0.1 | **-1.6** | **-1.3** | **0.0** | *-2.4* | *0.7* | *-0.7* |
| **France** | -0.2 | -0.4 | -0.2 | 1.7 | 4.3 | 1.2 | **-1.1** | **-0.7** | **0.7** | *-0.7* | *0.9* | *0.6* |
| **Italy** | -0.4 | -2.1 | 0.1 | 3.5 | 4.2 | 3.2 | **-1.6** | **0.1** | **0.3** | *-1.5* | *0.8* | *0.1* |
| **Cyprus** | 0.0 | 0.1 | 0.1 | 7.1 | 3.2 | -0.4 | **0.4** | **0.6** | **0.4** | *-0.1* | *-0.3* | *0.5* |
| **Latvia** | -1.5 | 1.8 | 0.2 | -0.9 | 2.4 | 3.5 | **0.9** | **-1.0** | **0.0** | *-0.5* | *0.5* | *0.5* |
| **Lithuania** | 2.2 | 2.4 | -1.3 | 0.8 | 3.2 | 2.4 | **0.5** | **-0.2** | **-0.2** | *-0.2* | *1.3* | *0.5* |
| **Luxembourg** | -1.0 | 1.6 | 0.4 | 0.8 | -2.2 | 0.3 | **-0.3** | **-1.4** | **0.5** | *-1.0* | *0.4* | *0.2* |
| **Malta** | 1.2 | 0.1 | 0.3 | 4.7 | 0.5 | -3.4 | **4.8** | **-0.3** | **-0.2** | *0.0* | *0.5* | *0.3* |
| **Netherlands** | 0.7 | -0.2 | -0.4 | 0.1 | 2.6 | 1.2 | **-0.6** | **-0.1** | **0.1** | *-0.9* | *-0.3* | *-0.1* |
| **Austria** | 0.4 | -0.8 | -0.4 | 1.0 | 1.5 | 0.4 | **-0.8** | **-0.5** | **-0.2** | *-0.1* | *-0.1* | *0.1* |
| **Portugal** | -0.2 | -0.8 | 0.9 | 1.2 | 2.7 | 0.3 | **-0.6** | **0.0** | **0.0** | *-0.3* | *0.0* | *0.0* |
| **Slovenia** | 0.1 | -1.1 | -0.6 | 1.1 | 1.3 | 0.8 | **-0.6** | **0.6** | **0.1** | *-0.3* | *-0.3* | *-0.3* |
| **Slovakia** | 0.1 | -0.9 | -1.0 | 0.2 | -0.2 | -0.4 | **-0.7** | **0.4** | **0.6** | *-0.1* | *0.1* | *0.1* |
| **Finland** | -1.0 | -2.7 | -0.7 | 1.7 | 5.0 | 2.0 | **-1.1** | **-0.8** | **-0.3** | *-1.4* | *0.6* | *0.2* |
| **Euro area** | -0.1 | -1.1 | -0.1 | 1.2 | 3.4 | 1.5 | **-1.4** | **-0.4** | **0.1** | *-1.1* | *0.5* | *0.0* |
| **Bulgaria** | -8.0 | 4.8 | 0.1 | 0.7 | 0.6 | 3.9 | **-1.3** | **0.1** | **0.4** | *-1.5* | *0.5* | *0.4* |
| **Czech Republic** | -0.1 | -1.0 | -0.2 | 1.8 | 0.5 | 1.0 | **-1.2** | **1.1** | **-0.3** | *-1.2* | *0.5* | *0.1* |
| **Denmark** | 1.0 | 1.0 | 0.7 | 0.7 | 1.2 | 1.4 | **-0.6** | **0.2** | **0.1** | *-0.1* | *0.2* | *0.2* |
| **Croatia** | 1.2 | 1.8 | 0.1 | -0.9 | -1.2 | -0.6 | **-1.3** | **0.4** | **0.2** | *-1.4* | *0.4* | *0.4* |
| **Hungary** | -1.0 | -1.2 | -0.1 | 1.1 | 1.0 | 1.4 | **-0.4** | **-0.6** | **-0.1** | *-0.7* | *0.2* | *0.2* |
| **Poland** | -1.5 | 1.0 | 0.3 | 2.2 | 2.9 | 0.6 | **0.4** | **0.1** | **0.0** | *1.1* | *-0.1* | *-0.1* |
| **Romania** | 1.2 | 5.4 | 0.2 | 0.8 | 1.0 | 0.6 | **-1.2** | **0.0** | **0.3** | *-1.3* | *-0.3* | *0.5* |
| **Sweden** | -1.6 | -0.7 | 0.1 | 0.9 | 1.7 | 0.5 | **-0.6** | **-0.9** | **0.5** | *-1.0* | *0.3* | *0.0* |
| **EU27** | -0.3 | -0.9 | 0.0 | 1.2 | 3.1 | 1.4 | **-1.3** | **-0.4** | **0.1** | *-1.0* | *0.4* | *0.0* |
| **United Kingdom** | 0.3 | -0.4 | 0.3 | -0.2 | -1.6 | 2.7 | **0.1** | **0.9** | **0.9** | *0.8* | *0.5* | *0.5* |
| **EU** | -0.2 | -0.8 | 0.0 | 1.0 | 2.4 | 1.8 | **-1.0** | **-0.3** | **0.2** | *-0.7* | *0.4* | *0.1* |
| **USA** | -0.5 | -2.2 | 0.8 | -0.2 | 2.2 | 0.0 | **-0.3** | **0.5** | **0.0** | *-0.8* | *0.1* | *0.0* |
| **Japan** | -1.9 | -7.1 | -1.2 | -0.7 | 11.5 | 7.4 | **-4.2** | **0.4** | **-0.6** | *-2.7* | *0.8* | *-0.3* |

**Table 22: Total population (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 0.3 | 0.6 | 0.8 | 0.5 | 0.5 | 0.5 | **0.5** | **0.5** | **0.5** | *0.6* | *0.5* | *0.5* |
| **Germany** | 0.0 | -0.2 | 0.0 | 0.4 | 0.9 | 0.8 | **0.4** | **0.3** | **0.2** | *0.8* | *0.5* | *0.3* |
| **Estonia** | -0.3 | -0.5 | -0.3 | -0.3 | -0.2 | 0.2 | **0.0** | **0.0** | **0.0** | *0.3* | *0.1* | *0.0* |
| **Ireland** | 1.5 | 2.4 | 0.5 | 0.3 | 0.6 | 0.9 | **2.5** | **1.0** | **0.9** | *1.1* | *1.0* | *0.9* |
| **Greece** | 0.4 | 0.3 | -0.2 | -0.7 | -0.7 | -0.4 | **-0.5** | **-0.5** | **-0.5** | *-0.5* | *-0.5* | *-0.5* |
| **Spain** | 1.0 | 1.7 | 0.3 | -0.3 | -0.1 | 0.1 | **0.2** | **0.3** | **0.4** | *0.1* | *0.1* | *0.1* |
| **France** | 0.7 | 0.7 | 0.5 | 0.5 | 0.5 | 0.4 | **0.4** | **0.4** | **0.4** | *0.5* | *0.5* | *0.5* |
| **Italy** | 0.2 | 0.6 | 0.5 | 0.2 | -0.1 | -0.2 | **-0.1** | **0.0** | **0.0** | *-0.1* | *0.0* | *0.0* |
| **Cyprus** | 1.1 | 1.8 | 1.9 | -1.1 | -0.6 | 0.5 | **0.9** | **0.6** | **0.7** | *0.0* | *0.6* | *0.6* |
| **Latvia** | -1.0 | -1.0 | -1.6 | -0.9 | -0.8 | -0.9 | **-1.1** | **-0.9** | **-0.9** | *-1.0* | *-1.0* | *-0.8* |
| **Lithuania** | -0.8 | -1.3 | -1.6 | -0.9 | -0.9 | -1.3 | **-1.6** | **-1.2** | **-1.0** | *-1.5* | *-1.4* | *-1.3* |
| **Luxembourg** | 1.2 | 1.6 | 2.2 | 2.4 | 2.0 | 2.6 | **2.2** | **2.3** | **2.2** | *2.4* | *2.4* | *2.3* |
| **Malta** | 0.7 | 0.5 | 0.8 | 2.1 | 2.4 | 2.3 | **2.2** | **2.0** | **1.8** | *1.0* | *0.8* | *0.7* |
| **Netherlands** | 0.7 | 0.3 | 0.4 | 0.4 | 0.4 | 0.6 | **0.6** | **0.5** | **0.4** | *0.4* | *0.4* | *0.4* |
| **Austria** | 0.4 | 0.5 | 0.4 | 0.8 | 1.0 | 1.3 | **0.7** | **0.6** | **0.5** | *0.8* | *0.7* | *0.6* |
| **Portugal** | 0.6 | 0.2 | -0.2 | -0.5 | -0.4 | -0.3 | **-0.2** | **-0.1** | **0.0** | *-0.2* | *-0.1* | *-0.1* |
| **Slovenia** | 0.1 | 0.3 | 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 | 0.2 | **0.1** | **0.1** | **0.1** | *0.1* | *0.1* | *0.1* |
| **Finland** | 0.2 | 0.4 | 0.5 | 0.4 | 0.3 | 0.3 | **0.3** | **0.4** | **0.4** | *0.4* | *0.4* | *0.4* |
| **Euro area** | 0.4 | 0.5 | 0.3 | 0.2 | 0.3 | 0.3 | **0.3** | **0.2** | **0.2** | *0.4* | *0.3* | *0.2* |
| **Bulgaria** | -1.1 | -0.5 | -1.0 | -0.6 | -0.6 | -0.7 | **-0.3** | **-0.4** | **-0.3** | *-0.6* | *-0.4* | *-0.3* |
| **Czech Republic** | -0.2 | 0.4 | 0.2 | 0.1 | 0.2 | 0.2 | **0.2** | **0.3** | **0.1** | *0.2* | *0.2* | *0.2* |
| **Denmark** | 0.3 | 0.4 | 0.4 | 0.5 | 0.7 | 0.8 | **0.7** | **0.6** | **0.5** | *0.8* | *0.8* | *0.8* |
| **Croatia** | 0.4 | 0.0 | -0.3 | -0.4 | -0.9 | -0.7 | **-0.7** | **-0.6** | **-0.5** | *-0.8* | *-0.5* | *-0.5* |
| **Hungary** | -0.3 | -0.2 | -0.3 | -0.3 | -0.2 | -0.3 | **-0.3** | **-0.2** | **-0.2** | *-0.3* | *-0.2* | *-0.3* |
| **Poland** | 0.0 | 0.0 | 0.2 | 0.0 | -0.1 | -0.1 | **0.0** | **0.0** | **-0.1** | *0.0* | *0.0* | *-0.1* |
| **Romania** | -0.8 | -1.0 | -0.5 | -0.4 | -0.5 | -0.6 | **-0.3** | **-0.5** | **-1.1** | *-1.1* | *-0.6* | *-0.6* |
| **Sweden** | 0.2 | 0.6 | 0.8 | 1.0 | 1.1 | 1.4 | **1.4** | **1.3** | **1.0** | *1.5* | *1.3* | *1.0* |
| **EU27** | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | **0.2** | **0.2** | **0.1** | *0.3* | *0.2* | *0.2* |
| **United Kingdom** | 0.4 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | **0.6** | **0.6** | **0.6** | *0.7* | *0.7* | *0.7* |
| **EU** | 0.2 | 0.4 | 0.3 | 0.2 | 0.3 | 0.3 | **0.3** | **0.3** | **0.2** | *0.3* | *0.3* | *0.2* |
| **USA** | 1.0 | 0.9 | 0.8 | 0.7 | 0.7 | 0.7 | **0.7** | **0.7** | **0.7** | *0.7* | *0.7* | *0.7* |
| **Japan** | 0.2 | 0.1 | -0.1 | -0.1 | -0.2 | -0.1 | **-0.2** | **-0.2** | **-0.2** | *-0.2* | *-0.1* | *-0.1* |

**Table 23:** **Total employment (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 0.9 | 1.4 | 0.4 | 0.4 | 0.9 | 1.3 | **1.4** | **1.2** | **1.0** | *1.1* | *0.9* | *0.8* |
| Germany | 0.4 | 0.8 | 0.7 | 0.8 | 0.9 | 1.3 | **1.5** | **1.0** | **0.7** | *1.4* | *1.1* | *0.9* |
| Estonia | -0.2 | 1.3 | -1.1 | 0.8 | 2.9 | 0.3 | **2.1** | **0.6** | **0.3** | *0.8* | *0.3* | *0.4* |
| Ireland | 3.5 | 3.3 | -2.1 | 1.7 | 2.5 | 2.8 | **1.9** | **2.2** | **1.8** | *2.9* | *2.2* | *1.9* |
| Greece | 0.9 | 1.6 | -3.8 | 0.9 | 0.7 | 0.5 | **2.1** | **1.7** | **1.8** | *1.9* | *1.7* | *1.8* |
| Spain | 3.7 | 2.7 | -3.9 | 1.0 | 3.2 | 3.0 | **2.8** | **2.6** | **2.3** | *2.7* | *2.1* | *1.6* |
| France | 1.5 | 0.8 | -0.1 | 0.3 | 0.1 | 0.5 | **0.9** | **0.8** | **0.9** | *1.1* | *0.9* | *0.9* |
| Italy | 1.1 | 0.6 | -1.5 | 0.2 | 0.7 | 1.4 | **0.8** | **0.8** | **0.7** | *1.0* | *0.9* | *0.6* |
| Cyprus | 2.3 | 3.5 | -1.7 | -1.8 | 1.5 | 3.3 | **3.4** | **2.8** | **2.8** | *2.9* | *1.9* | *1.4* |
| Latvia | -0.3 | 2.0 | -3.1 | -1.4 | 1.4 | -0.3 | **0.6** | **0.4** | **0.2** | *0.2* | *-0.2* | *-0.2* |
| Lithuania | -0.9 | 0.0 | -1.9 | 2.0 | 1.3 | 2.0 | **-0.5** | **-0.4** | **-0.4** | *-0.3* | *-0.3* | *-0.4* |
| Luxembourg | 4.1 | 3.6 | 2.0 | 2.6 | 2.6 | 3.0 | **3.3** | **3.6** | **3.1** | *3.1* | *3.0* | *2.9* |
| Malta | 0.2 | 1.6 | 2.2 | 5.1 | 3.9 | 4.0 | **5.4** | **3.9** | **3.4** | *4.7* | *3.0* | *2.4* |
| Netherlands | 0.8 | 1.3 | -0.6 | -0.1 | 1.0 | 1.3 | **1.9** | **2.3** | **1.6** | *2.1* | *1.8* | *1.9* |
| Austria | 0.7 | 1.5 | 0.6 | 1.0 | 0.6 | 1.2 | **1.7** | **1.5** | **1.2** | *1.5* | *1.3* | *1.1* |
| Portugal | 1.0 | -0.1 | -2.6 | 1.4 | 1.4 | 1.6 | **3.3** | **2.1** | **1.3** | *2.9* | *1.2* | *0.9* |
| Slovenia | 1.0 | 1.5 | -1.5 | 0.4 | 1.2 | 1.9 | **2.8** | **2.3** | **1.5** | *2.3* | *1.6* | *1.0* |
| Slovakia | -0.5 | 1.8 | -0.5 | 1.4 | 2.0 | 2.4 | **2.2** | **1.4** | **1.2** | *1.3* | *1.2* | *1.2* |
| Finland | 1.5 | 1.7 | -0.3 | -0.5 | -0.1 | 0.3 | **1.1** | **1.0** | **0.6** | *0.5* | *0.7* | *0.7* |
| Euro area | 1.2 | 1.1 | -0.9 | 0.6 | 1.0 | 1.4 | **1.6** | **1.3** | **1.1** | *1.5* | *1.2* | *1.0* |
| Bulgaria | -0.9 | 2.8 | -2.1 | 0.4 | 0.4 | 0.5 | **1.8** | **1.1** | **0.4** | *0.7* | *0.4* | *0.3* |
| Czech Republic | -0.7 | 1.5 | -0.5 | 0.6 | 1.4 | 1.3 | **1.6** | **0.7** | **0.2** | *0.9* | *0.2* | *0.0* |
| Denmark | 0.3 | 1.3 | -1.3 | 0.9 | 1.4 | 1.6 | **1.6** | **1.2** | **0.9** | *1.9* | *1.2* | *0.8* |
| Croatia | 0.5 | 2.1 | -2.9 | 2.7 | 1.2 | 0.3 | **2.2** | **1.7** | **1.5** | *1.8* | *1.7* | *1.5* |
| Hungary | 0.7 | -0.5 | -0.5 | 4.8 | 2.4 | 2.6 | **2.0** | **0.9** | **0.5** | *1.1* | *0.6* | *0.2* |
| Poland | -2.4 | 3.0 | -0.3 | 1.7 | 1.5 | 0.6 | **1.4** | **0.8** | **0.3** | *1.6* | *0.8* | *0.2* |
| Romania | -2.7 | -0.4 | -1.7 | 0.8 | -1.3 | -0.9 | **2.6** | **0.9** | **0.1** | *0.7* | *0.4* | *0.2* |
| Sweden | 1.2 | 0.9 | 0.5 | 1.4 | 1.5 | 1.7 | **2.3** | **1.6** | **1.3** | *1.8* | *1.4* | *1.0* |
| EU27 | 0.6 | 1.2 | -0.9 | 0.8 | 1.0 | 1.2 | **1.6** | **1.2** | **0.9** | *1.5* | *1.1* | *0.8* |
| United Kingdom | 1.0 | 1.0 | 0.3 | 2.4 | 1.7 | 1.4 | **1.0** | **0.5** | **0.4** | *0.9* | *0.5* | *0.4* |
| EU | 0.6 | 1.2 | -0.7 | 1.1 | 1.1 | 1.3 | **1.5** | **1.1** | **0.9** | *1.4* | *1.0* | *0.8* |
| USA | 0.9 | 1.1 | -0.2 | 1.6 | 1.7 | 1.7 | **1.3** | **1.4** | **0.9** | *1.3* | *1.1* | *0.8* |
| Japan | -0.7 | 0.5 | -0.3 | 0.6 | 0.4 | 1.0 | **0.7** | **0.6** | **0.5** | *0.7* | *0.6* | *0.5* |

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

**Table 24:** **Unemployment rate [1] (number of unemployed as a percentage of total labour force, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 7.5 | 7.9 | 7.9 | 8.5 | 8.5 | 7.8 | **7.1** | **6.4** | **6.0** | *7.3* | *7.0* | *6.8* |
| Germany | 8.5 | 9.5 | 6.2 | 5.0 | 4.6 | 4.1 | **3.8** | **3.6** | **3.5** | *3.7* | *3.5* | *3.2* |
| Estonia | 12.1 | 6.8 | 12.2 | 7.4 | 6.2 | 6.8 | **5.8** | **6.0** | **6.3** | *6.9* | *7.7* | *8.5* |
| Ireland | 4.8 | 5.2 | 14.4 | 11.9 | 10.0 | 8.4 | **6.7** | **5.4** | **4.9** | *6.1* | *5.5* | *5.3* |
| Greece | 10.8 | 9.2 | 18.4 | 26.5 | 24.9 | 23.6 | **21.5** | **20.1** | **18.4** | *21.8* | *20.4* | *18.7* |
| Spain | 11.8 | 9.6 | 22.0 | 24.5 | 22.1 | 19.6 | **17.2** | **15.3** | **13.8** | *17.4* | *15.6* | *14.3* |
| France | 8.6 | 8.4 | 9.5 | 10.3 | 10.4 | 10.1 | **9.4** | **8.9** | **8.3** | *9.5* | *9.3* | *8.9* |
| Italy | 9.4 | 7.1 | 9.5 | 12.7 | 11.9 | 11.7 | **11.2** | **10.8** | **10.6** | *11.3* | *10.9* | *10.5* |
| Cyprus | 4.3 | 4.4 | 9.5 | 16.1 | 15.0 | 13.0 | **11.1** | **9.0** | **7.1** | *11.0* | *10.0* | *9.3* |
| Latvia | 13.2 | 8.5 | 16.0 | 10.8 | 9.9 | 9.6 | **8.7** | **8.2** | **7.6** | *8.4* | *7.9* | *7.3* |
| Lithuania | 14.9 | 7.0 | 14.4 | 10.7 | 9.1 | 7.9 | **7.1** | **6.8** | **6.7** | *7.3* | *6.8* | *6.4* |
| Luxembourg | 2.6 | 4.7 | 5.1 | 6.0 | 6.5 | 6.3 | **5.6** | **5.3** | **5.2** | *6.1* | *5.9* | *6.0* |
| Malta | 7.1 | 6.7 | 6.6 | 5.8 | 5.4 | 4.7 | **4.0** | **4.0** | **4.0** | *4.2* | *4.0* | *4.0* |
| Netherlands | 3.9 | 4.9 | 5.5 | 7.4 | 6.9 | 6.0 | **4.9** | **3.8** | **3.5** | *4.8* | *4.0* | *3.5* |
| Austria | 4.3 | 5.1 | 5.0 | 5.6 | 5.7 | 6.0 | **5.5** | **5.2** | **5.0** | *5.6* | *5.5* | *5.4* |
| Portugal | 5.9 | 8.7 | 13.6 | 14.1 | 12.6 | 11.2 | **9.0** | **7.7** | **6.8** | *9.2* | *8.3* | *7.6* |
| Slovenia | 6.7 | 5.6 | 8.1 | 9.7 | 9.0 | 8.0 | **6.6** | **5.6** | **5.4** | *6.8* | *5.9* | *5.2* |
| Slovakia | 18.3 | 13.8 | 13.7 | 13.2 | 11.5 | 9.7 | **8.1** | **7.1** | **6.3** | *8.3* | *7.4* | *6.6* |
| Finland | 9.4 | 7.6 | 8.1 | 8.7 | 9.4 | 8.8 | **8.6** | **8.4** | **8.3** | *8.6* | *8.3* | *8.0* |
| Euro area | 8.9 | 8.4 | 10.7 | 11.6 | 10.9 | 10.0 | **9.1** | **8.4** | **7.9** | *9.1* | *8.5* | *7.9* |
| Bulgaria | 16.0 | 8.7 | 10.7 | 11.4 | 9.2 | 7.6 | **6.2** | **5.5** | **5.3** | *6.4* | *6.0* | *5.7* |
| Czech Republic | 8.1 | 6.6 | 6.9 | 6.1 | 5.1 | 4.0 | **2.9** | **2.4** | **2.4** | *3.0* | *2.9* | *2.9* |
| Denmark | 4.8 | 4.3 | 7.1 | 6.6 | 6.2 | 6.2 | **5.7** | **5.5** | **5.2** | *5.9* | *5.6* | *5.5* |
| Croatia | | 11.4 | 13.6 | 17.2 | 16.1 | 13.4 | **11.1** | **9.6** | **8.5** | *11.1* | *9.2* | *7.5* |
| Hungary | 6.0 | 7.2 | 10.7 | 7.7 | 6.8 | 5.1 | **4.2** | **3.7** | **3.6** | *4.2* | *4.0* | *4.0* |
| Poland | 17.5 | 13.5 | 9.6 | 9.0 | 7.5 | 6.2 | **4.9** | **4.1** | **3.9** | *5.0* | *4.2* | *4.0* |
| Romania | 7.6 | 6.9 | 6.9 | 6.8 | 6.8 | 5.9 | **4.9** | **4.5** | **4.4** | *5.3* | *5.1* | *5.0* |
| Sweden | 6.6 | 6.9 | 8.1 | 7.9 | 7.4 | 6.9 | **6.7** | **6.3** | **6.3** | *6.6* | *6.4* | *6.3* |
| EU27 | 8.9 | 8.1 | 9.9 | 10.2 | 9.4 | 8.5 | **7.6** | **6.9** | **6.5** | *8.2* | *7.7* | *7.2* |
| United Kingdom | 5.3 | 5.2 | 7.8 | 6.1 | 5.3 | 4.8 | **4.4** | **4.4** | **4.6** | *4.5* | *4.7* | *4.8* |
| EU | | 8.1 | 9.9 | 10.2 | 9.4 | 8.6 | **7.6** | **7.1** | **6.7** | *7.8* | *7.3* | *7.0* |
| USA | 4.9 | 5.1 | 8.7 | 6.2 | 5.3 | 4.9 | **4.4** | **4.0** | **3.5** | *4.5* | *4.3* | *4.1* |
| Japan | 5.0 | 4.2 | 4.6 | 3.6 | 3.4 | 3.1 | **2.8** | **2.7** | **2.6** | *2.9* | *2.8* | *2.7* |

[1] Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 3.0 | 2.9 | 2.3 | 0.9 | 0.0 | 0.1 | **1.7** | **2.0** | **2.2** | *1.3* | *1.9* | *2.2* |
| Germany | 1.4 | 0.9 | 2.0 | 2.8 | 2.7 | 2.2 | **2.6** | **3.1** | **3.1** | *2.4* | *2.7* | *3.0* |
| Estonia | 10.3 | 14.6 | 2.6 | 6.5 | 3.3 | 5.9 | **5.4** | **6.5** | **5.8** | *6.4* | *5.5* | *5.2* |
| Ireland | 6.5 | 4.9 | -0.7 | 1.8 | 2.1 | 2.0 | **2.9** | **2.5** | **2.7** | *2.6* | *2.5* | *2.4* |
| Greece | 7.1 | 4.8 | -2.7 | -2.0 | -2.3 | -0.9 | **0.1** | **0.8** | **1.3** | *0.8* | *1.5* | *1.8* |
| Spain | 3.1 | 4.5 | 1.4 | 0.1 | 1.6 | -0.3 | **0.1** | **1.1** | **1.6** | *0.5* | *1.2* | *1.4* |
| France | 2.5 | 3.0 | 2.2 | 1.5 | 0.9 | 1.0 | **1.8** | **2.3** | **0.3** | *1.7* | *2.0* | *2.0* |
| Italy | 3.1 | 3.0 | 1.5 | 0.0 | 1.0 | 0.3 | **0.3** | **2.1** | **1.0** | *0.5* | *1.5* | *1.3* |
| Cyprus | 5.4 | 3.6 | 0.9 | -3.6 | -1.2 | -0.7 | **0.7** | **1.4** | **2.0** | *1.7* | *1.5* | *1.8* |
| Latvia | 7.7 | 23.1 | -0.7 | 8.6 | 7.7 | 6.8 | **7.9** | **7.8** | **5.8** | *9.5* | *8.8* | *8.1* |
| Lithuania | 4.6 | 14.9 | 1.1 | 4.7 | 5.8 | 6.2 | **9.1** | **6.6** | **6.0** | *8.4* | *6.7* | *6.0* |
| Luxembourg | 3.7 | 3.8 | 1.9 | 2.2 | 3.0 | 0.7 | **2.8** | **2.6** | **2.2** | *2.9* | *2.5* | *2.0* |
| Malta | 5.1 | 3.3 | 2.8 | 1.6 | 5.1 | 2.9 | **1.1** | **3.4** | **3.3** | *2.0* | *3.4* | *3.6* |
| Netherlands | 4.5 | 2.7 | 2.1 | 1.6 | -0.3 | 1.2 | **1.5** | **2.7** | **3.3** | *1.7* | *2.7* | *3.1* |
| Austria | 1.9 | 2.7 | 1.9 | 1.9 | 2.1 | 2.4 | **1.6** | **2.5** | **2.5** | *2.3* | *2.3* | *2.3* |
| Portugal | 4.5 | 3.1 | 0.6 | -1.8 | 0.4 | 2.1 | **1.1** | **1.8** | **2.0** | *1.6* | *1.7* | *1.8* |
| Slovenia | 9.3 | 6.5 | 1.4 | 1.3 | 1.4 | 2.8 | **2.8** | **3.9** | **4.8** | *2.8* | *3.2* | *3.1* |
| Slovakia | 8.5 | 8.1 | 3.0 | 1.8 | 3.5 | 2.3 | **4.1** | **5.4** | **5.7** | *4.1* | *4.8* | *4.9* |
| Finland | 3.0 | 3.6 | 2.4 | 1.0 | 1.4 | 1.3 | **-1.1** | **1.5** | **2.2** | *-1.1* | *1.3* | *1.7* |
| Euro area | 2.6 | 2.6 | 1.9 | 1.4 | 1.4 | 1.2 | **1.6** | **2.4** | **1.9** | *1.6* | *2.2* | *2.3* |
| Bulgaria | 8.0 | 10.2 | 8.3 | 5.6 | 5.6 | 5.8 | **7.5** | **7.6** | **7.0** | *7.8* | *8.3* | *6.9* |
| Czech Republic | 7.5 | 5.6 | 1.4 | 2.6 | 3.0 | 4.6 | **6.7** | **6.8** | **6.2** | *7.1* | *6.6* | *5.6* |
| Denmark | 3.7 | 3.5 | 2.2 | 1.5 | 1.8 | 1.3 | **1.3** | **2.2** | **2.8** | *1.9* | *2.5* | *3.0* |
| Croatia | 6.9 | 4.8 | 0.9 | -5.2 | 0.4 | -0.2 | **-1.1** | **1.1** | **1.4** | *2.5* | *2.5* | *2.5* |
| Hungary | 12.1 | 7.3 | 1.4 | 0.8 | -1.5 | 4.0 | **7.9** | **7.4** | **5.6** | *7.6* | *7.2* | *5.8* |
| Poland | 7.7 | 4.1 | 4.5 | 2.2 | 1.7 | 5.1 | **4.0** | **6.8** | **7.4** | *4.8* | *5.7* | *7.1* |
| Romania | 40.7 | 19.3 | 2.6 | 6.7 | 1.9 | 10.1 | **16.0** | **8.7** | **6.7** | *13.2* | *10.9* | *7.8* |
| Sweden | 4.3 | 3.9 | 2.6 | 2.2 | 2.7 | 2.8 | **2.1** | **2.7** | **2.4** | *2.7* | *2.7* | *2.4* |
| EU27 | 3.5 | 2.7 | 2.0 | 1.3 | 1.4 | 1.5 | **1.9** | **2.8** | **2.4** | *2.0* | *2.6* | *2.7* |
| United Kingdom | 4.8 | 4.0 | 2.2 | 0.5 | 1.1 | 3.3 | **2.9** | **2.9** | **2.9** | *2.1* | *2.2* | *2.5* |
| EU | 3.7 | 2.9 | 2.1 | 1.2 | 1.3 | 1.8 | **2.1** | **2.8** | **2.5** | *2.0* | *2.5* | *2.7* |
| USA | : | 3.6 | 1.9 | 2.9 | 3.2 | 1.0 | **1.9** | **3.3** | **4.2** | *1.9* | *3.4* | *4.2* |
| Japan | -1.2 | -0.4 | -0.8 | 0.8 | 0.6 | 1.2 | **1.5** | **1.1** | **0.7** | *0.4* | *0.3* | *0.4* |

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 26: Real compensation of employees per head [1] (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 1.2 | 0.0 | 0.8 | 0.3 | -0.5 | -1.4 | **0.0** | **0.3** | **0.9** | *-0.5* | *0.6* | *0.8* |
| Germany | 0.2 | -0.5 | 0.8 | 1.8 | 2.0 | 1.6 | **0.9** | **1.5** | **1.2** | *0.6* | *1.2* | *1.4* |
| Estonia | 6.2 | 8.0 | -0.6 | 5.9 | 3.5 | 4.9 | **1.6** | **3.3** | **3.1** | *2.6* | *2.4* | *2.3* |
| Ireland | 2.6 | 3.3 | 0.4 | 0.6 | 1.7 | 1.2 | **1.7** | **1.2** | **1.4** | *2.0* | *1.7* | *1.4* |
| Greece | 4.3 | 1.3 | -3.7 | 0.5 | -0.8 | 0.1 | **-1.1** | **0.3** | **0.1** | *-0.2* | *0.7* | *0.7* |
| Spain | 0.0 | 1.0 | 0.0 | -0.1 | 1.7 | -0.3 | **-1.6** | **-0.4** | **0.2** | *-1.1* | *0.0* | *0.0* |
| France | 1.2 | 0.7 | 1.5 | 1.3 | 0.6 | 1.0 | **1.0** | **0.7** | **-1.1** | *0.8* | *0.8* | *0.5* |
| Italy | 0.4 | 0.5 | 0.0 | -0.3 | 0.8 | 0.1 | **-0.8** | **0.9** | **-0.4** | *-0.9* | *0.3* | *-0.2* |
| Cyprus | 2.7 | 0.3 | -0.6 | -3.1 | 0.6 | 0.6 | **0.0** | **0.5** | **0.7** | *0.6* | *0.4* | *0.2* |
| Latvia | 3.8 | 11.5 | -1.3 | 6.8 | 8.9 | 5.7 | **4.8** | **5.0** | **3.2** | *6.5* | *5.8* | *5.1* |
| Lithuania | 5.1 | 9.8 | -1.6 | 4.6 | 6.7 | 5.2 | **5.2** | **3.8** | **3.7** | *4.5* | *3.7* | *3.5* |
| Luxembourg | 1.6 | 1.1 | 0.5 | 1.7 | 2.9 | 0.7 | **1.2** | **1.3** | **0.5** | *1.2* | *0.1* | *0.1* |
| Malta | 3.4 | 0.6 | 0.8 | 1.5 | 3.9 | 2.6 | **0.9** | **1.7** | **1.5** | *1.2* | *1.9* | *1.8* |
| Netherlands | 1.8 | 0.6 | 0.9 | 0.8 | -0.5 | 0.3 | **-0.2** | **1.0** | **0.9** | *0.1* | *1.2* | *0.4* |
| Austria | 0.5 | 0.5 | 0.0 | -0.2 | 0.7 | 1.2 | **-0.4** | **0.4** | **0.6** | *0.3* | *0.6* | *0.5* |
| Portugal | 1.0 | -0.1 | -0.2 | -2.1 | -0.5 | 1.1 | **-0.1** | **0.4** | **0.5** | *0.1* | *0.1* | *0.3* |
| Slovenia | 2.3 | 2.9 | -0.2 | 1.4 | 2.0 | 3.1 | **0.2** | **1.9** | **2.3** | *1.2* | *1.7* | *1.3* |
| Slovakia | 1.7 | 3.6 | 1.1 | 1.9 | 3.6 | 2.6 | **2.6** | **3.1** | **3.7** | *2.8* | *3.3* | *3.0* |
| Finland | 1.0 | 2.0 | 0.0 | -0.4 | 1.2 | 0.4 | **-1.9** | **0.2** | **0.7** | *-2.1* | *-0.1* | *0.1* |
| Euro area | 0.7 | 0.4 | 0.7 | 0.9 | 1.1 | 0.8 | **0.2** | **0.9** | **0.3** | *0.2* | *0.8* | *0.7* |
| Bulgaria | 4.5 | 4.5 | 6.7 | 5.6 | 4.4 | 5.9 | **6.4** | **5.7** | **5.0** | *6.7* | *6.7* | *5.2* |
| Czech Republic | 5.3 | 2.8 | 0.2 | 2.0 | 2.9 | 4.0 | **4.2** | **4.6** | **4.3** | *4.1* | *4.5* | *3.5* |
| Denmark | 1.6 | 1.6 | 0.3 | 0.9 | 1.1 | 0.8 | **0.0** | **0.9** | **1.1** | *0.7* | *0.9* | *1.1* |
| Croatia | 3.1 | 1.3 | -1.5 | -4.8 | 0.9 | 1.1 | **-2.1** | **-0.3** | **-0.1** | *1.2* | *1.0* | *0.9* |
| Hungary | 3.6 | 2.3 | -2.4 | -0.1 | -1.3 | 4.1 | **5.5** | **5.0** | **2.5** | *5.2* | *4.5* | *2.7* |
| Poland | 2.9 | 1.2 | 1.7 | 2.3 | 2.9 | 5.5 | **2.1** | **5.3** | **4.8** | *3.2* | *3.7* | *4.3* |
| Romania | 8.1 | 10.1 | -1.5 | 5.4 | 0.9 | 9.2 | **13.7** | **4.3** | **3.2** | *11.7* | *7.8* | *4.7* |
| Sweden | 2.8 | 2.3 | 1.3 | 1.1 | 1.8 | 1.7 | **0.4** | **0.8** | **0.3** | *0.8* | *0.7* | *0.2* |
| EU27 | 1.2 | 0.4 | 0.7 | 0.8 | 1.1 | 1.1 | **0.5** | **1.2** | **0.7** | *0.5* | *1.1* | *1.0* |
| United Kingdom | 4.1 | 1.5 | 0.0 | -1.4 | 0.5 | 1.9 | **0.9** | **0.9** | **1.4** | *-0.4* | *-0.2* | *0.7* |
| EU | 1.8 | 0.5 | 0.6 | 0.4 | 1.0 | 1.2 | **0.5** | **1.1** | **0.8** | *0.3* | *0.9* | *1.0* |
| USA | : | 0.9 | 0.5 | 1.4 | 2.9 | -0.2 | **0.2** | **1.3** | **2.2** | *0.2* | *1.2* | *1.9* |
| Japan | -0.2 | -0.2 | 0.2 | -1.2 | 0.2 | 1.7 | **1.4** | **0.6** | **-0.2** | *0.4* | *-0.1* | *-0.5* |

[1] 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, 1999-2019) — 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 1.2 | 1.1 | 0.1 | 0.9 | 0.5 | 0.2 | **0.3** | **0.6** | **0.7** | *0.6* | *0.9* | *0.9* |
| Germany | 0.8 | 1.1 | -0.1 | 1.1 | 0.8 | 0.6 | **0.7** | **1.3** | **1.4** | *0.7* | *1.0* | *1.1* |
| Estonia | 6.1 | 4.1 | 1.3 | 2.1 | -1.2 | 1.8 | **2.7** | **3.1** | **2.4** | *3.6* | *2.9* | *2.4* |
| Ireland | 3.4 | 0.5 | 2.6 | 6.5 | 22.5 | 2.3 | **5.8** | **3.4** | **2.2** | *1.9* | *1.7* | *1.2* |
| Greece | 3.2 | 1.2 | -2.2 | -0.2 | -1.0 | -0.7 | **-0.8** | **0.2** | **0.5** | *-0.2* | *0.8* | *0.7* |
| Spain | 0.3 | 0.5 | 2.2 | 0.3 | 0.3 | 0.3 | **0.2** | **0.2** | **0.1** | *0.3* | *0.5* | *0.6* |
| France | 0.7 | 1.1 | 0.5 | 0.6 | 0.9 | 0.7 | **0.9** | **1.2** | **0.9** | *0.6* | *0.8* | *0.8* |
| Italy | 0.4 | 0.4 | -0.1 | -0.1 | 0.3 | -0.5 | **0.7** | **0.6** | **0.5** | *0.4* | *0.4* | *0.4* |
| Cyprus | 1.7 | 0.8 | -0.1 | 0.4 | 0.5 | 0.1 | **0.5** | **0.8** | **0.5** | *0.6* | *0.9* | *1.3* |
| Latvia | 6.3 | 5.3 | 2.0 | 3.3 | 1.5 | 2.5 | **3.9** | **2.9** | **3.1** | *4.0* | *3.7* | *3.4* |
| Lithuania | 6.2 | 7.0 | 1.7 | 1.5 | 0.7 | 0.4 | **4.4** | **3.5** | **3.1** | *4.1* | *3.2* | *3.0* |
| Luxembourg | 0.8 | 0.1 | -0.8 | 3.1 | 0.3 | 0.0 | **-1.0** | **0.1** | **0.4** | *0.3* | *0.5* | *0.4* |
| Malta | 3.1 | 1.1 | -0.3 | 2.8 | 5.7 | 1.4 | **1.1** | **1.8** | **1.6** | *0.9* | *1.8* | *1.7* |
| Netherlands | 1.5 | 1.3 | 0.2 | 1.5 | 1.2 | 0.9 | **1.2** | **0.7** | **1.0** | *1.1* | *0.9* | *0.6* |
| Austria | 1.4 | 1.2 | -0.3 | -0.1 | 0.5 | 0.2 | **1.2** | **1.3** | **1.0** | *1.1* | *1.1* | *1.2* |
| Portugal | 0.9 | 1.4 | 1.0 | -0.5 | 0.4 | 0.0 | **-0.6** | **0.2** | **0.8** | *-0.3* | *0.9* | *0.9* |
| Slovenia | 2.8 | 3.3 | -0.5 | 2.6 | 1.0 | 1.2 | **2.2** | **2.4** | **2.1** | *2.4* | *2.3* | *2.2* |
| Slovakia | 3.4 | 5.5 | 1.6 | 1.3 | 1.8 | 0.9 | **1.2** | **2.6** | **2.9** | *2.0* | *2.6* | *2.8* |
| Finland | 1.8 | 1.6 | -0.7 | -0.2 | 0.3 | 1.9 | **1.5** | **1.5** | **1.7** | *2.8* | *2.0* | *1.7* |
| Euro area | 0.9 | 1.0 | 0.4 | 0.7 | 1.0 | 0.4 | **0.8** | **1.0** | **1.0** | *0.7* | *0.9* | *0.9* |
| Bulgaria | 3.4 | 3.8 | 2.3 | 1.0 | 3.3 | 3.4 | **1.7** | **2.7** | **3.3** | *3.1* | *3.3* | *3.3* |
| Czech Republic | 3.5 | 3.8 | 0.0 | 2.2 | 3.8 | 1.3 | **2.8** | **2.6** | **2.9** | *3.4* | *2.8* | *2.9* |
| Denmark | 1.3 | 0.5 | 1.1 | 0.7 | 0.2 | 0.4 | **0.6** | **0.6** | **1.0** | *0.4* | *0.8* | *1.1* |
| Croatia | 2.9 | 1.9 | 0.5 | -2.7 | 1.1 | 2.9 | **0.6** | **1.1** | **1.1** | *1.4* | *1.2* | *1.2* |
| Hungary | 3.2 | 3.4 | -0.3 | -0.6 | 0.9 | -0.4 | **2.0** | **3.1** | **2.7** | *2.6* | *3.0* | *2.9* |
| Poland | 5.7 | 2.2 | 3.2 | 1.5 | 2.3 | 2.4 | **3.2** | **3.5** | **3.4** | *2.6* | *3.0* | *3.2* |
| Romania | 6.5 | 7.6 | 1.3 | 2.3 | 5.3 | 5.8 | **4.2** | **3.6** | **3.9** | *4.9* | *4.0* | *3.9* |
| Sweden | 1.8 | 2.0 | 0.4 | 1.2 | 3.0 | 1.5 | **0.1** | **1.0** | **0.7** | *1.3* | *1.3* | *1.2* |
| EU27 | 1.6 | 1.1 | 0.6 | 0.7 | 1.3 | 0.7 | **0.9** | **1.2** | **1.2** | *0.9* | *1.2* | *1.2* |
| United Kingdom | 2.0 | 1.0 | 0.2 | 0.7 | 0.6 | 0.5 | **0.7** | **1.0** | **0.8** | *0.5* | *0.7* | *0.7* |
| EU | 1.7 | 1.1 | 0.5 | 0.7 | 1.2 | 0.7 | **0.9** | **1.2** | **1.2** | *0.9* | *1.1* | *1.1* |
| USA | 1.9 | 1.2 | 1.2 | 1.0 | 1.2 | -0.2 | **1.0** | **1.5** | **1.9** | *0.8* | *1.2* | *1.4* |
| Japan | 1.6 | 0.6 | 0.6 | -0.2 | 1.0 | 0.0 | **1.0** | **0.7** | **0.6** | *0.9* | *0.6* | *0.5* |

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

**Table 28:** Unit labour costs, whole economy [1] (percentage change on preceding year, 1999-2019) — 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 1.8 | 1.8 | 2.1 | 0.0 | -0.5 | -0.1 | **1.4** | **1.5** | **1.5** | *0.7* | *1.0* | *1.2* |
| Germany | 0.7 | -0.2 | 2.2 | 1.7 | 1.8 | 1.6 | **1.9** | **1.7** | **1.7** | *1.6* | *1.6* | *1.9* |
| Estonia | 4.0 | 10.1 | 1.3 | 4.3 | 4.5 | 4.0 | **2.6** | **3.3** | **3.3** | *2.6* | *2.5* | *2.7* |
| Ireland | 2.9 | 4.4 | -3.2 | -4.4 | -16.6 | -0.2 | **-2.7** | **-0.9** | **0.5** | *0.7* | *0.8* | *1.2* |
| Greece | 3.8 | 3.5 | -0.5 | -1.8 | -1.3 | -0.2 | **0.9** | **0.6** | **0.8** | *1.1* | *0.7* | *1.1* |
| Spain | 2.8 | 4.0 | -0.8 | -0.2 | 1.4 | -0.6 | **-0.1** | **0.8** | **1.5** | *0.2* | *0.7* | *0.8* |
| France | 1.8 | 1.8 | 1.8 | 0.9 | 0.0 | 0.3 | **1.0** | **1.1** | **-0.6** | *1.1* | *1.1* | *1.3* |
| Italy | 2.7 | 2.6 | 1.7 | 0.1 | 0.7 | 0.8 | **-0.4** | **1.5** | **0.5** | *0.1* | *1.1* | *0.9* |
| Cyprus | 3.6 | 2.8 | 1.0 | -4.0 | -1.7 | -0.8 | **0.2** | **0.6** | **1.4** | *1.0* | *0.5* | *0.5* |
| Latvia | 1.3 | 16.9 | -2.7 | 5.2 | 6.1 | 4.2 | **3.8** | **4.8** | **2.6** | *5.3* | *4.9* | *4.6* |
| Lithuania | -1.6 | 7.4 | -0.6 | 3.2 | 5.0 | 5.9 | **4.6** | **3.0** | **2.8** | *4.2* | *3.3* | *3.0* |
| Luxembourg | 2.9 | 3.6 | 2.7 | -0.9 | 2.8 | 0.7 | **3.8** | **2.5** | **1.9** | *2.6* | *1.9* | *1.6* |
| Malta | 1.9 | 2.2 | 3.0 | -1.2 | -0.6 | 1.5 | **0.0** | **1.5** | **1.6** | *1.1* | *1.6* | *1.9* |
| Netherlands | 3.0 | 1.3 | 1.9 | 0.1 | -1.5 | 0.3 | **0.3** | **2.0** | **2.3** | *0.6* | *1.8* | *2.5* |
| Austria | 0.5 | 1.4 | 2.3 | 2.0 | 1.6 | 2.1 | **0.4** | **1.2** | **1.6** | *1.2* | *1.2* | *1.1* |
| Portugal | 3.6 | 1.6 | -0.4 | -1.3 | 0.0 | 2.1 | **1.7** | **1.5** | **1.2** | *1.9* | *0.8* | *0.9* |
| Slovenia | 6.3 | 3.0 | 1.9 | -1.2 | 0.4 | 1.6 | **0.6** | **1.5** | **2.7** | *0.4* | *0.9* | *0.9* |
| Slovakia | 4.9 | 2.4 | 1.4 | 0.5 | 1.6 | 1.4 | **2.8** | **2.7** | **2.7** | *2.0* | *2.2* | *2.0* |
| Finland | 1.2 | 1.9 | 3.1 | 1.1 | 1.2 | -0.6 | **-2.5** | **0.0** | **0.5** | *-3.8* | *-0.7* | *0.1* |
| Euro area | 1.9 | 1.8 | 1.5 | 0.6 | 0.5 | 0.7 | **0.7** | **1.4** | **1.0** | *0.9* | *1.2* | *1.4* |
| Bulgaria | 4.4 | 6.1 | 5.8 | 4.6 | 2.3 | 2.3 | **5.7** | **4.8** | **3.6** | *4.6* | *4.8* | *3.5* |
| Czech Republic | 3.9 | 1.7 | 1.4 | 0.4 | -0.8 | 3.3 | **3.8** | **4.1** | **3.2** | *3.5* | *3.6* | *2.6* |
| Denmark | 2.3 | 3.0 | 1.0 | 0.8 | 1.6 | 0.9 | **0.7** | **1.6** | **1.8** | *1.5* | *1.7* | *1.9* |
| Croatia | 3.9 | 2.8 | 0.4 | -2.6 | -0.7 | -3.0 | **-1.7** | **0.0** | **0.3** | *1.1* | *1.3* | *1.3* |
| Hungary | 8.6 | 3.7 | 1.7 | 1.4 | -2.4 | 4.4 | **5.8** | **4.2** | **2.8** | *4.9* | *4.1* | *2.7* |
| Poland | 1.8 | 1.9 | 1.3 | 0.6 | -0.6 | 2.6 | **0.7** | **3.2** | **3.9** | *2.1* | *2.6* | *3.8* |
| Romania | 32.1 | 10.9 | 1.3 | 4.3 | -3.3 | 4.1 | **11.3** | **4.9** | **2.7** | *7.9* | *6.6* | *3.7* |
| Sweden | 2.5 | 1.8 | 2.3 | 1.0 | -0.3 | 1.3 | **2.0** | **1.7** | **1.8** | *1.4* | *1.4* | *1.2* |
| EU27 | 2.1 | 1.9 | 1.5 | 0.7 | 0.3 | 0.9 | **1.0** | **1.6** | **1.2** | *1.2* | *1.5* | *1.6* |
| United Kingdom | 2.7 | 3.0 | 2.0 | -0.1 | 0.4 | 2.7 | **2.2** | **1.9** | **2.1** | *1.5* | *1.5* | *1.8* |
| EU | 2.2 | 2.1 | 1.6 | 0.6 | 0.4 | 1.3 | **1.2** | **1.6** | **1.3** | *1.2* | *1.5* | *1.6* |
| USA | : | 2.4 | 0.7 | 1.9 | 2.0 | 1.2 | **0.9** | **1.8** | **2.3** | *1.1* | *2.2* | *2.8* |
| Japan | -2.8 | -1.0 | -1.5 | 1.1 | -0.4 | 1.2 | **0.5** | **0.4** | **0.1** | *-0.4* | *-0.3* | *-0.2* |

[1] 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 [1] (percentage change on preceding year, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 0.1 | -0.3 | 0.6 | -0.7 | -1.6 | -1.7 | **-0.5** | **-0.1** | **-0.2** | *-1.1* | *-0.6* | *-0.5* |
| Germany | -0.1 | -1.1 | 0.7 | -0.1 | -0.2 | 0.2 | **0.3** | **0.0** | **-0.2** | *0.2* | *-0.2* | *0.2* |
| Estonia | -1.3 | 2.2 | -1.5 | 2.7 | 3.3 | 2.4 | **-1.3** | **-0.2** | **0.3** | *-1.5* | *-1.0* | *-0.2* |
| Ireland | -2.2 | 3.0 | -2.0 | -4.1 | -22.3 | -0.2 | **-2.4** | **-1.5** | **-0.8** | *0.2* | *-0.3* | *0.0* |
| Greece | 0.6 | 0.2 | -0.8 | 0.0 | -0.3 | 0.8 | **0.2** | **-0.3** | **-0.5** | *0.2* | *-0.3* | *-0.4* |
| Spain | -0.8 | 0.5 | -1.0 | 0.0 | 0.7 | -0.9 | **-1.0** | **-0.5** | **-0.1** | *-0.7* | *-0.9* | *-0.5* |
| France | 0.3 | -0.3 | 0.9 | 0.3 | -1.1 | -0.1 | **0.2** | **0.0** | **-2.1** | *0.2* | *-0.2* | *-0.2* |
| Italy | 0.1 | 0.3 | 0.4 | -0.9 | -0.3 | -0.1 | **-1.0** | **0.1** | **-0.8** | *-0.5* | *-0.1* | *-0.5* |
| Cyprus | 0.5 | -0.9 | 0.1 | -2.4 | -0.5 | -0.1 | **-1.3** | **-0.9** | **-0.3** | *-0.2* | *-0.5* | *-1.1* |
| Latvia | -2.1 | 4.0 | -2.7 | 3.3 | 6.1 | 3.9 | **0.8** | **2.1** | **-0.2** | *3.0* | *1.5* | *1.4* |
| Lithuania | -1.4 | 0.4 | -2.2 | 2.1 | 4.7 | 4.9 | **0.3** | **0.3** | **0.5** | *0.6* | *-0.5* | *0.0* |
| Luxembourg | 0.4 | -0.3 | -0.1 | -2.5 | 1.4 | 2.0 | **1.7** | **1.0** | **0.4** | *0.3* | *-0.4* | *-0.2* |
| Malta | -0.4 | -0.3 | 0.5 | -3.4 | -2.9 | 0.0 | **-2.2** | **-0.5** | **-0.5** | *-0.9* | *-0.5* | *-0.4* |
| Netherlands | 0.0 | -0.7 | 1.1 | -0.1 | -2.2 | -0.3 | **-0.9** | **0.3** | **0.2** | *-0.4* | *0.4* | *0.4* |
| Austria | -0.7 | -0.6 | 0.6 | 0.0 | -0.7 | 1.0 | **-1.1** | **-0.5** | **-0.1** | *-0.6* | *-0.3* | *-0.6* |
| Portugal | -0.1 | -1.1 | -1.1 | -2.0 | -2.0 | 0.6 | **0.3** | **0.2** | **-0.1** | *0.6* | *-0.6* | *-0.5* |
| Slovenia | -0.5 | -0.1 | 0.7 | -2.0 | -0.6 | 0.7 | **-1.4** | **-1.0** | **0.0** | *-1.3* | *-0.8* | *-0.7* |
| Slovakia | -1.2 | -0.6 | 0.9 | 0.7 | 1.7 | 1.8 | **1.6** | **0.0** | **0.1** | *0.0* | *0.7* | *0.2* |
| Finland | -0.2 | 0.3 | 1.0 | -0.6 | -0.7 | -1.3 | **-3.4** | **-1.4** | **-1.1** | *-4.3* | *-2.4* | *-1.6* |
| Euro area | -0.2 | -0.4 | 0.4 | -0.3 | -1.0 | 0.0 | **-0.3** | **-0.1** | **-0.6** | *-0.2* | *-0.3* | *-0.1* |
| Bulgaria | -0.1 | -1.4 | 3.4 | 4.1 | 0.1 | 0.1 | **4.5** | **2.6** | **1.3** | *3.9* | *2.7* | *1.4* |
| Czech Republic | 1.2 | -0.3 | 0.6 | -2.0 | -2.0 | 2.0 | **2.4** | **1.4** | **1.6** | *2.1* | *1.3* | *0.8* |
| Denmark | 0.1 | 0.3 | -0.5 | -0.3 | 0.9 | 0.9 | **-0.9** | **0.2** | **-0.1** | *-0.1* | *0.0* | *-0.1* |
| Croatia | 0.0 | -1.3 | -1.1 | -2.7 | -0.7 | -2.9 | **-2.8** | **-2.1** | **-1.6** | *0.0* | *-0.7* | *-0.8* |
| Hungary | 0.0 | -0.5 | -1.2 | -1.9 | -4.2 | 3.4 | **2.1** | **1.4** | **-0.3** | *2.0* | *1.2* | *-0.4* |
| Poland | -1.7 | -1.5 | -1.0 | 0.1 | -1.3 | 2.3 | **-1.2** | **1.5** | **1.4** | *0.0* | *0.6* | *1.3* |
| Romania | -2.1 | -2.7 | -2.5 | 2.6 | -5.7 | 2.0 | **5.7** | **-0.2** | **-1.3** | *5.8* | *3.2* | *0.4* |
| Sweden | 0.8 | 0.0 | 0.9 | -0.7 | -2.3 | -0.3 | **0.0** | **-0.4** | **-0.6** | *-0.9* | *-0.8* | *-0.9* |
| EU27 | -0.3 | -0.6 | 0.3 | -0.4 | -1.3 | -0.1 | **-0.3** | **-0.1** | **-0.6** | *-0.2* | *-0.3* | *-0.2* |
| United Kingdom | 1.1 | 0.3 | 0.3 | -1.8 | 0.0 | 0.7 | **0.2** | **-0.1** | **0.5** | *-0.7* | *-0.7* | *0.1* |
| EU | -0.1 | -0.5 | 0.3 | -0.6 | -1.1 | 0.0 | **-0.2** | **-0.1** | **-0.4** | *-0.3* | *-0.3* | *-0.1* |
| USA | : | -0.3 | -0.8 | 0.1 | 0.9 | -0.1 | **-0.9** | **-0.2** | **0.3** | *-0.7* | *0.1* | *0.5* |
| Japan | -1.5 | -0.1 | -0.4 | -0.7 | -2.5 | 0.9 | **0.8** | **-0.4** | **-0.7** | *-0.4* | *-0.9* | *-1.0* |

[1] 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 (1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | : | : | : | : | : | : | : | : | : | : | : | : |
| Germany | : | : | : | : | : | : | : | : | : | : | : | : |
| Estonia | 15.6466 | 15.6466 | : | : | : | : | : | : | : | : | : | : |
| Ireland | : | : | : | : | : | : | : | : | : | : | : | : |
| Greece | : | : | : | : | : | : | : | : | : | : | : | : |
| Spain | : | : | : | : | : | : | : | : | : | : | : | : |
| France | : | : | : | : | : | : | : | : | : | : | : | : |
| Italy | : | : | : | : | : | : | : | : | : | : | : | : |
| Cyprus | 0.5776 | : | : | : | : | : | : | : | : | : | : | : |
| Latvia | 0.5933 | 0.6921 | 0.7039 | : | : | : | : | : | : | : | : | : |
| Lithuania | 3.6907 | 3.4528 | 3.4528 | 3.4528 | : | : | : | : | : | : | : | : |
| Luxembourg | : | : | : | : | : | : | : | : | : | : | : | : |
| Malta | 0.4136 | : | : | : | : | : | : | : | : | : | : | : |
| Netherlands | : | : | : | : | : | : | : | : | : | : | : | : |
| Austria | : | : | : | : | : | : | : | : | : | : | : | : |
| Portugal | : | : | : | : | : | : | : | : | : | : | : | : |
| Slovenia | 215.7784 | 239.5063 | : | : | : | : | : | : | : | : | : | : |
| Slovakia | 42.8416 | 36.1784 | : | : | : | : | : | : | : | : | : | : |
| Finland | : | : | : | : | : | : | : | : | : | : | : | : |
| Euro area | : | : | : | : | : | : | : | : | : | : | : | : |
| Bulgaria | 1.9509 | 1.9553 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | **1.9558** | **1.9558** | **1.9558** | *1.9558* | *1.9558* | *1.9558* |
| Czech Republic | 33.8403 | 28.5453 | 25.4875 | 27.5359 | 27.2792 | 27.0343 | **26.3310** | **25.3382** | **25.3163** | *26.3705* | *25.8237* | *25.8237* |
| Denmark | 7.4405 | 7.4515 | 7.4492 | 7.4548 | 7.4587 | 7.4452 | **7.4386** | **7.4470** | **7.4470** | *7.4388* | *7.4433* | *7.4433* |
| Croatia | 7.5375 | 7.3567 | 7.4337 | 7.6344 | 7.6137 | 7.5333 | **7.4634** | **7.4275** | **7.4240** | *7.4573* | *7.5065* | *7.5065* |
| Hungary | 253.1959 | 253.3676 | 284.2605 | 308.7061 | 309.9956 | 311.4379 | **309.2316** | **311.3572** | **311.4520** | *308.7887* | *309.6650* | *309.6650* |
| Poland | 4.0329 | 3.9483 | 4.1650 | 4.1843 | 4.1841 | 4.3632 | **4.2568** | **4.1853** | **4.1869** | *4.2668* | *4.2714* | *4.2714* |
| Romania | 2.6218 | 3.6431 | 4.3139 | 4.4437 | 4.4454 | 4.4904 | **4.5683** | **4.6584** | **4.6593** | *4.5595* | *4.5819* | *4.5819* |
| Sweden | 8.9586 | 9.3053 | 9.3084 | 9.0985 | 9.3535 | 9.4689 | **9.6347** | **10.2460** | **10.3346** | *9.5780* | *9.5612* | *9.5612* |
| EU27 | | | | : | : | : | : | : | : | : | : | : |
| United Kingdom | 0.6422 | 0.7050 | 0.8554 | 0.8061 | 0.7258 | 0.8195 | **0.8763** | **0.8731** | **0.8698** | *0.8779* | *0.8934* | *0.8934* |
| EU | | | | : | : | : | : | : | : | : | : | : |
| USA | 0.9924 | 1.3170 | 1.3451 | 1.3285 | 1.1095 | 1.1069 | **1.1290** | **1.2312** | **1.2319** | *1.1295* | *1.1780* | *1.1780* |
| Japan | 115.7016 | 146.2032 | 117.9377 | 140.3061 | 134.3140 | 120.1967 | **126.6090** | **132.1974** | **131.9010** | *126.5* | *132.4* | *132.4* |

**Table 31:** Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 1.0 | 0.8 | -0.2 | 1.2 | -2.9 | 2.1 | **1.0** | **2.4** | **0.1** | : | : | : |
| Germany | 1.5 | 1.0 | -0.4 | 1.7 | -3.8 | 2.5 | **1.1** | **3.1** | **0.1** | : | : | : |
| Estonia | 3.7 | 0.8 | 0.0 | 4.3 | 2.7 | 2.7 | **-0.7** | **3.8** | **0.4** | : | : | : |
| Ireland | 0.7 | 1.8 | -0.6 | 0.3 | -6.4 | 2.4 | **1.8** | **3.4** | **0.0** | : | : | : |
| Greece | 3.0 | 0.8 | 0.3 | 3.1 | -1.5 | 3.1 | **2.7** | **4.3** | **0.3** | : | : | : |
| Spain | 1.3 | 0.8 | -0.1 | 1.2 | -2.8 | 2.2 | **1.2** | **2.5** | **0.1** | : | : | : |
| France | 1.1 | 1.0 | -0.4 | 1.2 | -3.7 | 2.1 | **1.2** | **2.7** | **0.1** | : | : | : |
| Italy | 1.7 | 1.0 | -0.3 | 1.7 | -3.3 | 2.2 | **1.2** | **3.2** | **0.1** | : | : | : |
| Cyprus | 3.3 | 0.9 | -0.2 | 0.7 | -4.1 | 2.8 | **1.5** | **2.5** | **0.1** | : | : | : |
| Latvia | 3.7 | -1.3 | 0.5 | 4.5 | 3.7 | 3.3 | **-1.3** | **3.5** | **0.4** | : | : | : |
| Lithuania | 11.2 | 0.6 | 0.6 | 5.3 | 5.5 | 3.9 | **-2.2** | **4.4** | **0.5** | : | : | : |
| Luxembourg | 0.6 | 0.5 | -0.1 | 1.0 | -1.9 | 1.4 | **0.6** | **1.7** | **0.1** | : | : | : |
| Malta | 0.9 | 1.5 | -0.9 | 1.2 | -5.0 | 1.4 | **1.6** | **2.7** | **0.0** | : | : | : |
| Netherlands | 0.9 | 0.8 | -0.2 | 0.9 | -2.7 | 2.1 | **1.0** | **2.0** | **0.1** | : | : | : |
| Austria | 1.2 | 0.5 | -0.1 | 1.6 | -2.0 | 1.7 | **0.4** | **2.3** | **0.1** | : | : | : |
| Portugal | 0.7 | 0.7 | -0.2 | 0.8 | -2.7 | 1.8 | **0.9** | **1.9** | **0.1** | : | : | : |
| Slovenia | -2.7 | -0.3 | 0.4 | 2.2 | 0.3 | 1.7 | **-0.2** | **2.0** | **0.2** | : | : | : |
| Slovakia | 0.1 | 5.9 | 1.1 | 1.6 | -0.8 | 1.9 | **0.2** | **1.5** | **0.1** | : | : | : |
| Finland | 2.3 | 1.0 | -0.3 | 3.2 | -0.9 | 2.6 | **0.3** | **3.8** | **0.2** | : | : | : |
| Euro area | 2.7 | 1.9 | -0.6 | 2.5 | -6.0 | 4.1 | **2.1** | **4.9** | **0.2** | : | : | : |
| Bulgaria | 5.9 | 0.6 | 0.6 | 2.7 | -0.8 | 2.5 | **1.9** | **3.4** | **0.2** | : | : | : |
| Czech Republic | 4.2 | 5.2 | -0.6 | -4.3 | 0.1 | 2.8 | **3.1** | **5.8** | **0.2** | : | : | : |
| Denmark | 1.1 | 0.9 | -0.5 | 1.9 | -2.5 | 2.4 | **1.2** | **2.8** | **0.1** | : | : | : |
| Croatia | 1.6 | 1.4 | -0.8 | 2.0 | 0.7 | 3.2 | **0.8** | **3.1** | **0.3** | : | : | : |
| Hungary | 0.5 | 0.4 | -3.0 | -2.2 | -1.2 | 1.3 | **1.1** | **1.2** | **0.1** | : | : | : |
| Poland | -0.5 | 5.1 | -3.4 | 2.5 | -0.3 | -2.2 | **2.9** | **4.0** | **0.1** | : | : | : |
| Romania | -21.5 | 1.0 | -3.2 | 1.6 | -0.7 | 1.1 | **-0.8** | **0.5** | **0.2** | : | : | : |
| Sweden | 0.7 | 0.0 | 1.7 | -3.2 | -5.0 | 1.1 | **-0.9** | **-3.5** | **-0.8** | : | : | : |
| EU27 | 3.4 | 2.4 | -1.8 | 4.7 | -4.4 | 1.2 | **0.8** | **7.3** | **0.3** | : | : | : |
| United Kingdom | 0.3 | -1.6 | -2.1 | 6.9 | 6.1 | -10.1 | **-5.8** | **3.8** | **0.5** | : | : | : |
| EU | 3.5 | 2.4 | -1.8 | 4.6 | -5.6 | 1.5 | **1.1** | **7.1** | **0.3** | : | : | : |
| USA | 0.8 | -3.8 | 0.6 | 3.3 | 15.2 | 4.7 | **-0.5** | **-4.4** | **-0.1** | : | : | : |
| Japan | 2.9 | -0.5 | 1.1 | -7.0 | -5.7 | 15.1 | **-3.5** | **0.1** | **0.3** | : | : | : |

[1] 42 countries: EU-28, TR, CH, NO, US, CA, JP, AU, MX, NZ, KO, CN, HK, RU and BR.

**Table 32:** Relative unit labour costs, to rest of a group[1] of industrialised countries (nat. curr) (percentage change over preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | -0.4 | 0.0 | 0.5 | -1.0 | -1.2 | -1.6 | **0.2** | **-0.3** | **0.0** | *-0.6* | *-0.5* | : |
| Germany | -1.9 | -2.6 | 0.7 | 0.7 | 1.3 | -0.1 | **0.7** | **0.0** | **0.1** | *0.3* | *0.0* | : |
| Estonia | 1.9 | 6.9 | -0.3 | 2.7 | 3.4 | 2.3 | **1.4** | **1.4** | **1.5** | *1.5* | *0.9* | : |
| Ireland | 0.9 | 2.3 | -4.5 | -5.3 | -17.4 | -1.6 | **-3.9** | **-2.5** | **-1.1** | *-0.4* | *-0.7* | : |
| Greece | -0.1 | 1.0 | -2.5 | -3.8 | -2.9 | -3.4 | **-0.9** | **-2.1** | **-1.6** | *-1.3* | *-1.8* | : |
| Spain | 0.3 | 2.0 | -2.4 | -1.2 | 0.7 | -2.3 | **-1.4** | **-1.0** | **0.1** | *-1.3* | *-0.9* | : |
| France | -0.5 | -0.2 | 0.3 | -0.2 | -0.8 | -1.2 | **-0.2** | **-0.6** | **-2.4** | *-0.1* | *-0.4* | : |
| Italy | 0.2 | 0.5 | 0.1 | -1.2 | -0.2 | -1.0 | **-1.8** | **-0.3** | **-1.2** | *-1.4* | *-0.6* | : |
| Cyprus | 0.5 | 0.3 | -0.1 | -4.5 | -2.1 | -2.3 | **-1.0** | **-1.0** | **-0.2** | *-0.3* | *-0.9* | : |
| Latvia | -0.8 | 13.8 | -4.1 | 3.6 | 4.9 | 1.9 | **2.2** | **2.5** | **0.5** | *3.6* | *3.0* | : |
| Lithuania | -4.1 | 4.1 | -2.0 | 1.6 | 3.8 | 3.7 | **3.0** | **0.7** | **0.7** | *2.4* | *1.3* | : |
| Luxembourg | 0.9 | 1.7 | 1.0 | -1.9 | 2.2 | -0.6 | **2.6** | **0.8** | **0.5** | *1.2* | *0.3* | : |
| Malta | 0.2 | 0.5 | 1.7 | -2.1 | -1.3 | 0.1 | **-1.1** | **-0.1** | **0.3** | *-0.2* | *0.0* | : |
| Netherlands | 0.9 | -0.5 | 0.2 | -0.9 | -2.2 | -1.2 | **-1.1** | **0.3** | **0.8** | *-0.7* | *0.3* | : |
| Austria | -1.8 | -0.3 | 0.6 | 0.9 | 0.8 | 0.5 | **-1.0** | **-0.6** | **-0.1** | *-0.3* | *-0.5* | : |
| Portugal | 1.4 | -0.7 | -1.6 | -2.1 | -0.8 | 1.0 | **0.7** | **0.0** | **-0.3** | *0.8* | *-0.6* | : |
| Slovenia | 3.8 | 1.1 | 0.1 | -2.3 | -0.4 | 0.0 | **-0.7** | **-0.4** | **1.0** | *-1.2* | *-0.9* | : |
| Slovakia | 2.4 | 0.8 | -0.3 | -0.7 | 0.9 | -0.5 | **1.2** | **0.6** | **0.8** | *0.3* | *0.2* | : |
| Finland | -1.1 | -0.2 | 1.5 | -0.1 | 0.3 | -2.2 | **-3.9** | **-1.8** | **-1.2** | *-5.2* | *-2.3* | : |
| Euro area | -1.3 | -1.1 | 0.0 | -0.9 | -0.8 | -1.7 | **-0.8** | **-0.7** | **-0.9** | *-0.9* | *-0.6* | : |
| Bulgaria | -0.8 | 3.4 | 3.9 | 2.8 | 1.3 | -0.6 | **3.7** | **2.2** | **1.4** | *2.2* | *2.5* | : |
| Czech Republic | 1.7 | 0.1 | -0.4 | -0.8 | -1.7 | 1.5 | **2.3** | **2.1** | **1.4** | *1.9* | *1.9* | : |
| Denmark | 0.4 | 1.0 | -0.7 | -0.4 | 0.9 | -0.6 | **-0.6** | **-0.2** | **0.1** | *0.3* | *0.2* | : |
| Croatia | 1.2 | 0.8 | -1.4 | -3.8 | -1.6 | -4.8 | **-3.0** | **-2.0** | **-1.5** | *-0.4* | *-0.5* | : |
| Hungary | 6.1 | 1.9 | 0.0 | 0.1 | -3.2 | 2.6 | **4.0** | **2.1** | **0.9** | *3.0* | *2.1* | : |
| Poland | -0.3 | 0.0 | -0.5 | -0.6 | -1.5 | 0.8 | **-0.9** | **1.2** | **2.1** | *0.5* | *0.8* | : |
| Romania | 27.6 | 8.4 | -0.7 | 2.9 | -4.3 | 1.9 | **9.7** | **2.7** | **0.8** | *6.0* | *4.6* | : |
| Sweden | 0.3 | -0.5 | 0.5 | -0.2 | -1.1 | -0.1 | **1.0** | **0.0** | **0.1** | *0.3* | *-0.1* | : |
| EU27 | -1.0 | -0.4 | 0.2 | -1.6 | -1.6 | -1.6 | **0.1** | **-0.3** | **-0.6** | : | : | : |
| United Kingdom | 0.6 | 1.0 | 0.8 | -1.0 | 0.2 | 1.4 | **1.3** | **0.3** | **0.6** | *0.5* | *0.1* | : |
| EU | -1.0 | -0.4 | 0.1 | -1.7 | -1.7 | -1.6 | **0.1** | **-0.4** | **-0.7** | *-0.4* | *-0.3* | : |
| USA | -0.6 | 0.4 | -0.9 | 0.8 | 1.0 | -0.2 | **-0.5** | **0.4** | **0.9** | *0.2* | *1.1* | : |
| Japan | -4.9 | -3.3 | -2.9 | -0.3 | -1.6 | -0.2 | **-0.4** | **-1.1** | **-1.6** | *-1.4* | *-1.9* | : |

[1] 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, based on HICP/CPI: ulc relative to rest of a group[1] of industrialised countries (USD) (% change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 0.2 | 0.8 | -0.5 | 0.2 | -3.3 | 2.8 | **1.3** | **1.9** | **-0.3** | : | : | : |
| **Germany** | -0.6 | 0.1 | -1.2 | 0.8 | -4.9 | 1.5 | **0.8** | **2.5** | **-0.2** | : | : | : |
| **Estonia** | 1.8 | 2.9 | 0.3 | 2.6 | 0.2 | 1.6 | **0.7** | **4.5** | **0.6** | : | : | : |
| **Ireland** | 2.4 | 1.8 | -2.6 | -0.8 | -7.1 | 1.1 | **0.0** | **2.2** | **-0.8** | : | : | : |
| **Greece** | 0.5 | 0.5 | -0.7 | -0.6 | -4.5 | 1.3 | **0.9** | **1.9** | **-1.3** | : | : | : |
| **Spain** | 1.4 | 1.4 | -0.6 | -0.5 | -4.5 | 0.6 | **1.2** | **1.8** | **-0.6** | : | : | : |
| **France** | -0.1 | 0.3 | -1.2 | 0.3 | -4.7 | 1.3 | **0.4** | **2.4** | **-0.6** | : | : | : |
| **Italy** | 0.7 | 0.4 | -0.7 | 0.2 | -4.4 | 0.8 | **0.4** | **2.2** | **-0.7** | : | : | : |
| **Cyprus** | 1.1 | 0.5 | -0.8 | -0.8 | -6.5 | 0.4 | **0.2** | **1.3** | **-0.7** | : | : | : |
| **Latvia** | 1.3 | 3.6 | -1.0 | 2.7 | 0.7 | 1.4 | **-0.8** | **3.8** | **0.5** | : | : | : |
| **Lithuania** | 4.5 | 1.2 | 0.1 | 2.7 | 0.5 | 2.1 | **-1.0** | **4.7** | **0.2** | : | : | : |
| **Luxembourg** | 0.6 | 1.2 | 0.0 | 0.5 | -2.6 | 0.6 | **0.9** | **1.3** | **-0.1** | : | : | : |
| **Malta** | 1.1 | 1.6 | -1.1 | 0.6 | -4.8 | 1.3 | **1.1** | **2.4** | **-0.1** | : | : | : |
| **Netherlands** | 1.5 | -0.3 | -0.3 | -0.1 | -3.3 | 1.2 | **0.4** | **1.6** | **0.3** | : | : | : |
| **Austria** | -0.3 | -0.2 | -0.3 | 1.7 | -2.2 | 1.7 | **0.7** | **2.4** | **-0.1** | : | : | : |
| **Portugal** | 1.5 | 0.5 | -0.9 | -0.5 | -2.9 | 1.6 | **0.5** | **1.2** | **-0.3** | : | : | : |
| **Slovenia** | 0.5 | 0.0 | -0.2 | 1.1 | -2.0 | 0.5 | **-0.7** | **1.9** | **0.0** | : | : | : |
| **Slovakia** | 4.9 | 7.0 | 0.9 | 0.2 | -2.2 | 0.5 | **-0.4** | **1.9** | **0.1** | : | : | : |
| **Finland** | 0.5 | -0.8 | -0.5 | 2.4 | -3.1 | 1.3 | **-1.0** | **3.0** | **-0.2** | : | : | : |
| **Euro area** | 0.5 | 0.8 | -1.7 | 0.6 | -7.6 | 2.6 | **1.3** | **3.9** | **-0.6** | : | : | : |
| **Bulgaria** | 3.6 | 4.4 | 0.0 | -0.9 | -3.5 | -0.3 | **0.5** | **2.5** | **-0.5** | : | : | : |
| **Czech Republic** | 2.9 | 5.4 | -1.1 | -5.2 | -0.8 | 2.5 | **3.5** | **5.9** | **-0.1** | : | : | : |
| **Denmark** | 0.7 | 0.2 | -0.9 | 0.8 | -3.4 | 1.1 | **0.3** | **1.6** | **-0.5** | : | : | : |
| **Croatia** | 0.2 | 1.4 | -1.2 | 0.4 | -1.4 | 1.1 | **0.0** | **2.3** | **-0.5** | : | : | : |
| **Hungary** | 4.7 | 3.0 | -1.6 | -3.6 | -2.3 | 0.7 | **1.5** | **1.3** | **1.0** | : | : | : |
| **Poland** | 0.6 | 4.7 | -2.8 | 0.9 | -2.5 | -3.5 | **2.4** | **3.1** | **0.5** | : | : | : |
| **Romania** | -0.8 | 5.6 | -1.1 | 1.3 | -2.5 | -1.2 | **-1.9** | **2.5** | **1.2** | : | : | : |
| **Sweden** | -0.5 | -1.0 | 0.8 | -4.5 | -5.5 | 0.9 | **-1.0** | **-3.5** | **-1.2** | : | : | : |
| **EU27** | 0.3 | 0.9 | -2.7 | 2.3 | -7.1 | -0.9 | **0.0** | **6.3** | **-0.5** | : | : | : |
| **United Kingdom** | -1.3 | -2.1 | -1.1 | 7.0 | 5.0 | -10.6 | **-5.0** | **4.4** | **0.4** | : | : | : |
| **EU** | 0.3 | 1.0 | -2.8 | 2.1 | -8.1 | -0.6 | **0.3** | **6.1** | **-0.5** | : | : | : |
| **USA** | 0.3 | -3.4 | -0.2 | 2.6 | 13.3 | 4.1 | **-0.8** | **-4.5** | **-0.1** | : | : | : |
| **Japan** | 0.0 | -3.3 | -1.7 | -6.2 | -6.2 | 13.1 | **-4.9** | **-1.0** | **-0.8** | : | : | : |

[1] 42 countries: EU, TR, CH, NO, US, CA, JP, AU, MX, NZ, CN, HK, KO, RU and BR.

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, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 49.7 | 49.5 | 54.7 | 55.2 | 53.8 | 53.2 | **52.2** | **51.8** | **51.8** | *52.4* | *51.8* | *51.4* |
| **Germany** | 46.9 | 44.7 | 45.7 | 44.1 | 43.7 | 44.0 | **43.9** | **43.8** | **43.5** | *44.2* | *44.0* | *43.9* |
| **Estonia** | 36.6 | 35.1 | 40.3 | 38.4 | 40.2 | 40.6 | **40.2** | **40.4** | **40.4** | *40.3* | *40.7* | *40.3* |
| **Ireland** | 32.7 | 35.6 | 48.1 | 37.6 | 28.9 | 27.1 | **26.1** | **25.4** | **25.0** | *26.4* | *26.0* | *25.9* |
| **Greece** | 46.2 | 47.2 | 55.7 | 50.2 | 53.8 | 49.5 | **48.0** | **48.6** | **47.4** | *50.4* | *47.4* | *46.4* |
| **Spain** | 38.9 | 39.1 | 46.2 | 44.8 | 43.8 | 42.2 | **41.0** | **40.7** | **40.0** | *41.1* | *40.4* | *39.9* |
| **France** | 52.2 | 52.9 | 56.9 | 57.2 | 56.8 | 56.6 | **56.5** | **56.0** | **55.1** | *56.0* | *55.9* | *55.7* |
| **Italy** | 47.1 | 47.2 | 50.5 | 50.9 | 50.3 | 49.3 | **48.9** | **48.0** | **47.6** | *49.1* | *48.5* | *48.1* |
| **Cyprus** | 36.3 | 38.5 | 42.1 | 48.8 | 40.7 | 38.6 | **38.1** | **37.6** | **37.3** | *38.5* | *38.2* | *37.9* |
| **Latvia** | 36.3 | 35.3 | 41.2 | 38.1 | 38.2 | 37.1 | **38.0** | **38.8** | **38.4** | *38.3* | *37.8* | *37.3* |
| **Lithuania** | 37.2 | 35.2 | 40.3 | 34.6 | 34.9 | 34.2 | **33.3** | **33.3** | **33.6** | *34.4* | *34.0* | *34.1* |
| **Luxembourg** | 40.1 | 40.9 | 43.8 | 41.8 | 41.5 | 42.1 | **42.9** | **43.1** | **43.3** | *42.8* | *42.6* | *42.4* |
| **Malta** | 42.1 | 42.1 | 41.8 | 41.3 | 40.1 | 37.1 | **36.5** | **37.3** | **36.8** | *38.1* | *37.6* | *37.3* |
| **Netherlands** | 43.4 | 43.0 | 47.3 | 46.2 | 44.9 | 43.4 | **42.6** | **42.6** | **42.4** | *43.2* | *43.3* | *42.9* |
| **Austria** | 51.4 | 50.9 | 52.1 | 52.3 | 51.0 | 50.6 | **49.1** | **48.5** | **47.9** | *49.8* | *49.2* | *48.7* |
| **Portugal** | 43.7 | 45.6 | 50.1 | 51.8 | 48.2 | 44.9 | **45.9** | **44.1** | **43.5** | *44.8* | *44.6* | *44.4* |
| **Slovenia** | 46.1 | 44.1 | 51.1 | 49.9 | 47.7 | 45.3 | **43.1** | **41.8** | **41.5** | *43.6* | *42.5* | *41.8* |
| **Slovakia** | 45.9 | 37.9 | 41.8 | 42.0 | 45.2 | 41.5 | **40.4** | **39.5** | **38.3** | *40.6* | *39.2* | *38.7* |
| **Finland** | 48.8 | 48.4 | 55.5 | 58.1 | 57.1 | 56.0 | **53.7** | **52.6** | **51.5** | *53.9* | *52.3* | *51.0* |
| **Euro area** | 46.9 | 46.3 | 50.0 | 49.2 | 48.3 | 47.6 | **47.1** | **46.6** | **46.1** | *47.2* | *46.8* | *46.5* |
| **Bulgaria** | 39.9 | 36.8 | 36.3 | 42.1 | 40.7 | 35.0 | **35.2** | **35.8** | **35.8** | *36.2* | *36.4* | *36.1* |
| **Czech Republic** | 43.9 | 41.4 | 43.6 | 42.4 | 41.7 | 39.4 | **38.8** | **38.9** | **39.5** | *39.2* | *39.5* | *39.5* |
| **Denmark** | 53.4 | 50.8 | 56.7 | 55.2 | 54.8 | 53.6 | **51.9** | **51.9** | **51.6** | *53.0* | *52.4* | *51.9* |
| **Croatia** | | 46.5 | 47.7 | 48.1 | 48.4 | 47.2 | **45.3** | **45.1** | **44.6** | *46.3* | *45.8* | *45.2* |
| **Hungary** | 48.5 | 49.6 | 49.4 | 49.4 | 50.1 | 46.5 | **46.5** | **47.1** | **47.1** | *47.5* | *47.2* | *46.6* |
| **Poland** | 44.3 | 44.0 | 44.0 | 42.3 | 41.6 | 41.1 | **41.2** | **41.7** | **41.9** | *41.3* | *41.6* | *41.9* |
| **Romania** | 36.3 | 35.3 | 38.3 | 35.0 | 35.8 | 34.6 | **33.4** | **34.3** | **34.9** | *33.8* | *35.5* | *36.2* |
| **Sweden** | 54.1 | 51.1 | 51.4 | 51.1 | 49.6 | 49.4 | **49.1** | **48.9** | **48.4** | *48.8* | *48.2* | *47.9* |
| **EU27** | 47.1 | 46.4 | 49.7 | 48.9 | 48.0 | 47.2 | **46.7** | **46.3** | **45.8** | *46.8* | *46.5* | *46.2* |
| **United Kingdom** | 36.8 | 41.6 | 46.3 | 43.2 | 42.4 | 41.5 | **41.1** | **40.6** | **40.4** | *41.0* | *40.3* | *39.9* |
| **EU** | | 45.5 | 49.2 | 48.0 | 47.0 | 46.3 | **45.8** | **45.4** | **45.0** | *46.0* | *45.5* | *45.2* |
| **USA** | 35.1 | 37.1 | 41.3 | 38.1 | 37.6 | 37.8 | **37.7** | **37.9** | **38.2** | *38.1* | *37.9* | *38.0* |
| **Japan** | | | 40.5 | 40.2 | 39.3 | 39.1 | **39.4** | **38.8** | **38.3** | *39.7* | *39.4* | *38.8* |

**Table 35:** Total revenue, general government (as a percentage of GDP, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 49.3 | 48.8 | 50.6 | 52.1 | 51.3 | 50.8 | **51.2** | **50.7** | **50.4** | *50.9* | *50.3* | *50.0* |
| Germany | 44.5 | 42.9 | 44.0 | 44.6 | 44.5 | 45.0 | **45.2** | **45.0** | **44.9** | *45.1* | *45.0* | *45.0* |
| Estonia | 36.4 | 36.4 | 40.1 | 39.1 | 40.3 | 40.3 | **39.9** | **40.4** | **40.7** | *40.1* | *40.2* | *39.8* |
| Ireland | 34.3 | 35.4 | 33.6 | 33.9 | 27.0 | 26.6 | **25.7** | **25.2** | **24.9** | *26.0* | *25.9* | *25.7* |
| Greece | 40.4 | 39.7 | 44.0 | 46.6 | 48.2 | 50.2 | **48.8** | **49.0** | **47.6** | *49.2* | *48.3* | *47.2* |
| Spain | 38.1 | 39.3 | 36.7 | 38.9 | 38.5 | 37.7 | **37.9** | **38.1** | **38.1** | *37.9* | *38.0* | *38.2* |
| France | 49.9 | 49.8 | 51.3 | 53.3 | 53.2 | 53.2 | **53.9** | **53.7** | **52.4** | *53.1* | *53.0* | *52.7* |
| Italy | 44.3 | 44.2 | 46.7 | 47.9 | 47.7 | 46.9 | **46.6** | **46.4** | **45.9** | *47.0* | *46.7* | *46.1* |
| Cyprus | 32.6 | 37.9 | 36.7 | 39.8 | 39.3 | 38.9 | **39.9** | **39.6** | **39.6** | *39.6* | *39.6* | *39.7* |
| Latvia | 33.8 | 34.0 | 36.3 | 36.6 | 36.9 | 37.2 | **37.5** | **37.7** | **37.2** | *37.4* | *36.8* | *36.3* |
| Lithuania | 34.7 | 34.0 | 34.1 | 34.0 | 34.6 | 34.5 | **33.8** | **33.8** | **33.9** | *34.5* | *34.3* | *34.2* |
| Luxembourg | 43.6 | 42.6 | 43.9 | 43.1 | 42.9 | 43.7 | **44.4** | **44.0** | **43.9** | *43.3* | *43.0* | *42.9* |
| Malta | 35.5 | 39.0 | 39.0 | 39.6 | 39.0 | 38.1 | **40.5** | **38.4** | **38.1** | *39.0* | *38.1* | *37.8* |
| Netherlands | 42.7 | 42.7 | 43.1 | 43.9 | 42.8 | 43.8 | **43.7** | **43.4** | **43.4** | *43.9* | *43.8* | *43.8* |
| Austria | 49.6 | 48.3 | 48.9 | 49.6 | 49.9 | 49.0 | **48.4** | **48.0** | **47.8** | *48.8* | *48.3* | *48.0* |
| Portugal | 39.9 | 40.9 | 42.3 | 44.6 | 43.8 | 43.0 | **42.9** | **43.2** | **42.9** | *43.4* | *43.2* | *43.2* |
| Slovenia | 43.0 | 42.9 | 43.7 | 44.3 | 44.9 | 43.3 | **43.1** | **42.3** | **41.8** | *42.8* | *42.5* | *42.2* |
| Slovakia | 38.6 | 35.3 | 36.5 | 39.3 | 42.5 | 39.3 | **39.4** | **38.6** | **38.0** | *38.9* | *38.2* | *38.5* |
| Finland | 52.9 | 52.0 | 53.3 | 54.9 | 54.4 | 54.2 | **53.2** | **51.9** | **51.3** | *52.5* | *51.1* | *50.3* |
| Euro area | 44.9 | 44.3 | 45.3 | 46.7 | 46.3 | 46.1 | **46.2** | **46.0** | **45.5** | *46.1* | *45.9* | *45.7* |
| Bulgaria | 39.7 | 38.2 | 34.3 | 36.6 | 39.1 | 35.2 | **36.1** | **36.4** | **36.4** | *36.2* | *36.4* | *36.2* |
| Czech Republic | 38.9 | 39.4 | 40.1 | 40.3 | 41.1 | 40.2 | **40.4** | **40.3** | **40.4** | *40.4* | *40.4* | *40.1* |
| Denmark | 54.1 | 54.9 | 54.2 | 56.4 | 53.3 | 53.2 | **52.9** | **51.8** | **51.6** | *52.0* | *51.5* | *51.0* |
| Croatia | | 43.0 | 41.6 | 43.0 | 44.9 | 46.3 | **46.0** | **45.8** | **45.4** | *45.4* | *44.9* | *44.6* |
| Hungary | 42.9 | 43.1 | 45.5 | 46.8 | 48.2 | 44.9 | **44.5** | **44.7** | **45.0** | *45.5* | *44.6* | *44.3* |
| Poland | 40.2 | 40.4 | 38.6 | 38.6 | 38.9 | 38.8 | **39.6** | **40.3** | **40.5** | *39.5* | *39.9* | *40.0* |
| Romania | 33.1 | 32.9 | 32.8 | 33.6 | 35.0 | 31.6 | **30.5** | **30.9** | **31.1** | *30.8* | *31.7* | *32.0* |
| Sweden | 54.6 | 53.0 | 50.8 | 49.6 | 49.8 | 50.6 | **50.3** | **49.7** | **49.3** | *49.7* | *48.9* | *48.5* |
| EU27 | 45.2 | 44.5 | 45.2 | 46.5 | 46.0 | 45.9 | **45.9** | **45.6** | **45.2** | *45.8* | *45.5* | *45.3* |
| United Kingdom | 36.2 | 38.2 | 38.2 | 37.7 | 38.1 | 38.6 | **39.1** | **38.7** | **38.8** | *38.9* | *38.4* | *38.4* |
| EU | | 43.5 | 44.2 | 45.0 | 44.7 | 44.7 | **44.9** | **44.6** | **44.2** | *44.7* | *44.5* | *44.3* |
| USA | 32.9 | 32.5 | 31.4 | 33.3 | 33.4 | 32.9 | **32.9** | **32.5** | **32.3** | *33.1* | *33.0* | *33.0* |
| Japan | | | 31.7 | 34.8 | 35.7 | 35.7 | **35.6** | **35.5** | **35.6** | *35.4* | *35.5* | *35.7* |

**Table 36:** Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | -0.4 | -0.7 | -4.2 | -3.1 | -2.5 | -2.5 | **-1.0** | **-1.1** | **-1.3** | *-1.5* | *-1.4* | *-1.5* |
| Germany | -2.4 | -1.8 | -1.7 | 0.5 | 0.8 | 1.0 | **1.3** | **1.2** | **1.4** | *0.9* | *1.0* | *1.1* |
| Estonia | -0.2 | 1.3 | -0.3 | 0.7 | 0.1 | -0.3 | **-0.3** | **0.0** | **0.3** | *-0.2* | *-0.4* | *-0.5* |
| Ireland | 1.6 | -0.2 | -14.5 | -3.6 | -1.9 | -0.5 | **-0.3** | **-0.2** | **-0.2** | *-0.4* | *-0.2* | *-0.2* |
| Greece | -5.8 | -7.6 | -11.7 | -3.6 | -5.7 | 0.6 | **0.8** | **0.4** | **0.2** | *-1.2* | *0.9* | *0.8* |
| Spain | -0.7 | 0.2 | -9.5 | -6.0 | -5.3 | -4.5 | **-3.1** | **-2.6** | **-1.9** | *-3.1* | *-2.4* | *-1.7* |
| France | -2.3 | -3.0 | -5.7 | -3.9 | -3.6 | -3.4 | **-2.6** | **-2.3** | **-2.8** | *-2.9* | *-2.9* | *-3.0* |
| Italy | -2.8 | -3.0 | -3.8 | -3.0 | -2.6 | -2.5 | **-2.3** | **-1.7** | **-1.7** | *-2.1* | *-1.8* | *-2.0* |
| Cyprus | -3.6 | -0.6 | -5.3 | -9.0 | -1.3 | 0.3 | **1.8** | **2.0** | **2.2** | *1.1* | *1.4* | *1.9* |
| Latvia | -2.4 | -1.3 | -4.9 | -1.5 | -1.4 | 0.1 | **-0.5** | **-1.1** | **-1.2** | *-0.9* | *-1.0* | *-1.1* |
| Lithuania | -2.5 | -1.2 | -6.1 | -0.6 | -0.2 | 0.3 | **0.5** | **0.5** | **0.3** | *0.1* | *0.2* | *0.2* |
| Luxembourg | 3.6 | 1.6 | 0.1 | 1.3 | 1.4 | 1.6 | **1.5** | **0.9** | **0.7** | *0.5* | *0.3* | *0.4* |
| Malta | -6.6 | -3.2 | -2.8 | -1.8 | -1.1 | 1.0 | **3.9** | **1.1** | **1.3** | *0.9* | *0.5* | *0.5* |
| Netherlands | -0.6 | -0.3 | -4.2 | -2.3 | -2.1 | 0.4 | **1.1** | **0.7** | **0.9** | *0.7* | *0.5* | *0.9* |
| Austria | -1.8 | -2.5 | -3.3 | -2.7 | -1.0 | -1.6 | **-0.7** | **-0.5** | **-0.2** | *-1.0* | *-0.9* | *-0.6* |
| Portugal | -3.8 | -4.7 | -7.8 | -7.2 | -4.4 | -2.0 | **-3.0** | **-0.9** | **-0.6** | *-1.4* | *-1.4* | *-1.2* |
| Slovenia | -3.1 | -1.2 | -7.4 | -5.5 | -2.9 | -1.9 | **0.0** | **0.5** | **0.4** | *-0.8* | *0.0* | *0.4* |
| Slovakia | -7.3 | -2.6 | -5.3 | -2.7 | -2.7 | -2.2 | **-1.0** | **-0.9** | **-0.3** | *-1.6* | *-1.0* | *-0.2* |
| Finland | 4.0 | 3.6 | -2.2 | -3.2 | -2.8 | -1.8 | **-0.6** | **-0.7** | **-0.2** | *-1.4* | *-1.2* | *-0.8* |
| Euro area | -2.0 | -2.0 | -4.7 | -2.5 | -2.0 | -1.5 | **-0.9** | **-0.7** | **-0.6** | *-1.1* | *-0.9* | *-0.8* |
| Bulgaria | -0.2 | 1.5 | -2.0 | -5.5 | -1.6 | 0.2 | **0.9** | **0.6** | **0.6** | *0.0* | *0.0* | *0.2* |
| Czech Republic | -5.1 | -2.0 | -3.5 | -2.1 | -0.6 | 0.7 | **1.6** | **1.4** | **0.8** | *1.2* | *0.8* | *0.6* |
| Denmark | 0.7 | 4.0 | -2.5 | 1.1 | -1.5 | -0.4 | **1.0** | **-0.1** | **0.0** | *-1.0* | *-1.0* | *-0.9* |
| Croatia | | -3.5 | -6.1 | -5.1 | -3.4 | -0.9 | **0.8** | **0.7** | **0.8** | *-0.9* | *-0.9* | *-0.7* |
| Hungary | -5.6 | -6.5 | -3.9 | -2.6 | -1.9 | -1.7 | **-2.0** | **-2.4** | **-2.1** | *-2.1* | *-2.6* | *-2.3* |
| Poland | -4.2 | -3.6 | -5.4 | -3.6 | -2.6 | -2.3 | **-1.7** | **-1.4** | **-1.4** | *-1.7* | *-1.7* | *-1.9* |
| Romania | -3.1 | -2.4 | -5.5 | -1.3 | -0.8 | -3.0 | **-2.9** | **-3.4** | **-3.8** | *-3.0* | *-3.9* | *-4.1* |
| Sweden | 0.5 | 1.9 | -0.7 | -1.6 | 0.2 | 1.2 | **1.3** | **0.8** | **0.9** | *0.9* | *0.7* | *0.6* |
| EU27 | -2.0 | -1.8 | -4.5 | -2.4 | -1.9 | -1.4 | **-0.8** | **-0.6** | **-0.6** | *-1.1* | *-0.9* | *-0.8* |
| United Kingdom | -0.5 | -3.4 | -8.1 | -5.4 | -4.3 | -3.0 | **-1.9** | **-1.9** | **-1.6** | *-2.1* | *-1.9* | *-1.5* |
| EU | | -2.1 | -5.0 | -2.9 | -2.3 | -1.6 | **-1.0** | **-0.8** | **-0.8** | *-1.2* | *-1.1* | *-0.9* |
| USA | -2.2 | -4.6 | -9.9 | -4.8 | -4.2 | -4.9 | **-4.9** | **-5.3** | **-5.9** | *-5.0* | *-4.9* | *-5.1* |
| Japan | | | -8.8 | -5.4 | -3.6 | -3.4 | **-3.8** | **-3.2** | **-2.7** | *-4.3* | *-3.8* | *-3.1* |

**Table 37: Interest expenditure, general government (as a percentage of GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 6.3 | 4.2 | 3.6 | 3.3 | 3.0 | 2.9 | **2.5** | **2.3** | **2.2** | *2.6* | *2.4* | *2.2* |
| **Germany** | 3.0 | 2.7 | 2.4 | 1.5 | 1.3 | 1.1 | **1.1** | **1.0** | **1.0** | *1.2* | *1.1* | *1.1* |
| **Estonia** | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | **0.0** | **0.1** | **0.1** | *0.1* | *0.1* | *0.1* |
| **Ireland** | 1.7 | 1.1 | 3.3 | 3.9 | 2.6 | 2.2 | **2.0** | **1.7** | **1.7** | *2.0* | *1.8* | *1.7* |
| **Greece** | 6.2 | 4.6 | 5.5 | 4.0 | 3.5 | 3.2 | **3.2** | **3.3** | **3.5** | *3.2* | *3.1* | *2.9* |
| **Spain** | 2.9 | 1.7 | 2.5 | 3.5 | 3.1 | 2.8 | **2.6** | **2.4** | **2.4** | *2.5* | *2.3* | *2.2* |
| **France** | 2.9 | 2.7 | 2.5 | 2.2 | 2.0 | 1.9 | **1.8** | **1.7** | **1.6** | *1.8* | *1.7* | *1.7* |
| **Italy** | 5.8 | 4.7 | 4.7 | 4.6 | 4.1 | 4.0 | **3.8** | **3.6** | **3.5** | *3.8* | *3.6* | *3.5* |
| **Cyprus** | 3.1 | 2.9 | 2.6 | 3.4 | 3.8 | 3.3 | **3.2** | **3.0** | **2.8** | *2.4* | *2.2* | *2.1* |
| **Latvia** | 0.8 | 0.5 | 1.6 | 1.4 | 1.3 | 1.0 | **0.9** | **0.8** | **0.7** | *0.9* | *0.8* | *0.7* |
| **Lithuania** | 1.4 | 0.7 | 1.7 | 1.6 | 1.5 | 1.3 | **1.1** | **0.8** | **0.8** | *1.2* | *0.9* | *0.9* |
| **Luxembourg** | 0.4 | 0.3 | 0.5 | 0.4 | 0.4 | 0.3 | **0.3** | **0.3** | **0.3** | *0.3* | *0.3* | *0.3* |
| **Malta** | 3.8 | 3.6 | 3.1 | 2.7 | 2.4 | 2.1 | **1.9** | **1.6** | **1.5** | *1.9* | *1.7* | *1.6* |
| **Netherlands** | 3.0 | 2.1 | 1.7 | 1.4 | 1.2 | 1.1 | **1.0** | **0.8** | **0.7** | *1.0* | *0.8* | *0.8* |
| **Austria** | 3.4 | 3.1 | 2.8 | 2.4 | 2.3 | 2.1 | **1.8** | **1.6** | **1.5** | *1.9* | *1.7* | *1.6* |
| **Portugal** | 2.9 | 2.8 | 4.0 | 4.9 | 4.6 | 4.2 | **3.9** | **3.5** | **3.4** | *3.9* | *3.6* | *3.5* |
| **Slovenia** | 2.2 | 1.4 | 1.9 | 3.2 | 3.2 | 3.0 | **2.5** | **2.0** | **1.7** | *2.6* | *1.9* | *1.8* |
| **Slovakia** | 3.4 | 1.6 | 1.6 | 1.9 | 1.7 | 1.6 | **1.4** | **1.3** | **1.2** | *1.3* | *1.3* | *1.2* |
| **Finland** | 2.4 | 1.5 | 1.3 | 1.2 | 1.2 | 1.1 | **1.0** | **0.9** | **0.9** | *1.0* | *0.9* | *0.5* |
| **Euro area** | 3.6 | 2.9 | 2.9 | 2.6 | 2.3 | 2.1 | **2.0** | **1.8** | **1.8** | *2.0* | *1.9* | *1.8* |
| **Bulgaria** | 3.3 | 1.3 | 0.7 | 0.9 | 0.9 | 0.9 | **0.8** | **0.7** | **0.7** | *0.9* | *0.8* | *0.8* |
| **Czech Republic** | 0.9 | 1.1 | 1.3 | 1.3 | 1.1 | 0.9 | **0.7** | **0.7** | **0.7** | *0.8* | *0.8* | *0.7* |
| **Denmark** | 3.4 | 1.9 | 1.9 | 1.5 | 1.6 | 1.4 | **1.1** | **1.1** | **1.0** | *1.2* | *1.0* | *0.9* |
| **Croatia** | | 1.9 | 2.8 | 3.4 | 3.5 | 3.1 | **2.7** | **2.5** | **2.4** | *2.8* | *2.6* | *2.4* |
| **Hungary** | 4.9 | 4.1 | 4.4 | 4.0 | 3.5 | 3.2 | **2.8** | **2.6** | **2.5** | *2.8* | *2.6* | *2.5* |
| **Poland** | 3.0 | 2.4 | 2.5 | 1.9 | 1.8 | 1.7 | **1.6** | **1.5** | **1.5** | *1.5* | *1.5* | *1.5* |
| **Romania** | 3.3 | 1.0 | 1.6 | 1.6 | 1.6 | 1.5 | **1.3** | **1.4** | **1.4** | *1.5* | *1.6* | *1.6* |
| **Sweden** | 2.9 | 1.7 | 1.0 | 0.7 | 0.4 | 0.4 | **0.4** | **0.3** | **0.2** | *0.4* | *0.3* | *0.2* |
| **EU27** | 3.6 | 2.8 | 2.8 | 2.5 | 2.2 | 2.0 | **1.9** | **1.7** | **1.7** | *1.9* | *1.8* | *1.7* |
| **United Kingdom** | 2.2 | 2.0 | 2.7 | 2.7 | 2.3 | 2.4 | **2.7** | **2.6** | **2.5** | *2.7* | *2.5* | *2.5* |
| **EU** | | 2.7 | 2.8 | 2.5 | 2.2 | 2.1 | **2.0** | **1.9** | **1.8** | *2.0* | *1.9* | *1.8* |
| **USA** | 3.7 | 3.4 | 3.7 | 3.5 | 3.3 | 3.5 | **3.6** | **3.8** | **4.0** | *3.6* | *3.7* | *3.7* |
| **Japan** | 2.7 | 1.8 | 2.0 | 1.9 | 1.8 | 1.8 | **2.0** | **1.9** | **1.9** | *1.8* | *1.7* | *1.7* |

**Table 38: Primary balance, general government [1] (as a percentage of GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 5.8 | 3.5 | -0.6 | 0.2 | 0.5 | 0.4 | **1.4** | **1.2** | **0.8** | *1.1* | *0.9* | *0.7* |
| **Germany** | 0.6 | 0.9 | 0.7 | 2.1 | 2.2 | 2.1 | **2.3** | **2.2** | **2.3** | *2.1* | *2.2* | *2.2* |
| **Estonia** | 0.1 | 1.5 | -0.1 | 0.8 | 0.2 | -0.2 | **-0.2** | **0.0** | **0.4** | *-0.2* | *-0.4* | *-0.4* |
| **Ireland** | 3.3 | 0.9 | -11.2 | 0.3 | 0.7 | 1.7 | **1.6** | **1.5** | **1.5** | *1.6* | *1.7* | *1.6* |
| **Greece** | 0.4 | -2.9 | -6.3 | 0.4 | -2.1 | 3.9 | **4.0** | **3.7** | **3.7** | *2.0* | *3.9* | *3.7* |
| **Spain** | 2.1 | 1.9 | -7.0 | -2.5 | -2.2 | -1.7 | **-0.5** | **-0.2** | **0.4** | *-0.6* | *-0.1* | *0.5* |
| **France** | 0.7 | -0.3 | -3.1 | -1.7 | -1.6 | -1.5 | **-0.8** | **-0.6** | **-1.1** | *-1.1* | *-1.2* | *-1.2* |
| **Italy** | 3.0 | 1.6 | 0.9 | 1.6 | 1.5 | 1.5 | **1.5** | **1.9** | **1.7** | *1.7* | *1.8* | *1.5* |
| **Cyprus** | -0.6 | 2.3 | -2.7 | -5.5 | 2.5 | 3.6 | **5.0** | **5.0** | **5.1** | *3.5* | *3.6* | *3.9* |
| **Latvia** | -1.6 | -0.8 | -3.3 | -0.1 | 0.0 | 1.1 | **0.4** | **-0.3** | **-0.4** | *0.0* | *-0.2* | *-0.3* |
| **Lithuania** | -1.1 | -0.4 | -4.4 | 1.0 | 1.3 | 1.6 | **1.7** | **1.3** | **1.2** | *1.3* | *1.1* | *1.0* |
| **Luxembourg** | 3.9 | 1.9 | 0.6 | 1.8 | 1.7 | 1.9 | **1.9** | **1.3** | **1.0** | *0.8* | *0.6* | *0.7* |
| **Malta** | -2.7 | 0.4 | 0.3 | 1.0 | 1.3 | 3.1 | **5.8** | **2.7** | **2.8** | *2.8* | *2.3* | *2.1* |
| **Netherlands** | 2.4 | 1.8 | -2.5 | -0.8 | -0.8 | 1.4 | **2.1** | **1.6** | **1.7** | *1.7* | *1.4* | *1.7* |
| **Austria** | 1.7 | 0.5 | -0.5 | -0.3 | 1.3 | 0.5 | **1.1** | **1.2** | **1.3** | *0.9* | *0.8* | *1.0* |
| **Portugal** | -0.9 | -1.9 | -3.8 | -2.3 | 0.2 | 2.2 | **0.9** | **2.7** | **2.8** | *2.5* | *2.2* | *2.3* |
| **Slovenia** | -0.9 | 0.2 | -5.5 | -2.3 | 0.4 | 1.1 | **2.5** | **2.5** | **2.0** | *1.8* | *1.9* | *2.2* |
| **Slovakia** | -3.9 | -1.0 | -3.7 | -0.8 | -1.0 | -0.6 | **0.4** | **0.4** | **0.9** | *-0.3* | *0.2* | *1.0* |
| **Finland** | 6.4 | 5.1 | -0.8 | -2.0 | -1.6 | -0.7 | **0.4** | **0.2** | **0.7** | *-0.4* | *-0.3* | *-0.3* |
| **Euro area** | 1.6 | 0.9 | -1.8 | 0.1 | 0.3 | 0.6 | **1.1** | **1.2** | **1.1** | *0.9* | *1.0* | *1.0* |
| **Bulgaria** | 3.1 | 2.8 | -1.2 | -4.6 | -0.7 | 1.1 | **1.7** | **1.3** | **1.3** | *1.0* | *0.8* | *1.0* |
| **Czech Republic** | -4.1 | -1.0 | -2.2 | -0.8 | 0.5 | 1.6 | **2.3** | **2.1** | **1.6** | *2.0* | *1.6* | *1.3* |
| **Denmark** | 4.2 | 5.9 | -0.6 | 2.6 | 0.1 | 0.9 | **2.1** | **1.0** | **1.0** | *0.2* | *0.1* | *0.0* |
| **Croatia** | | -1.6 | -3.4 | -1.7 | 0.0 | 2.2 | **3.4** | **3.3** | **3.2** | *2.0* | *1.7* | *1.8* |
| **Hungary** | -0.7 | -2.4 | 0.5 | 1.4 | 1.6 | 1.6 | **0.8** | **0.1** | **0.3** | *0.7* | *0.1* | *0.2* |
| **Poland** | -1.2 | -1.2 | -2.9 | -1.7 | -0.9 | -0.6 | **-0.1** | **0.1** | **0.1** | *-0.2* | *-0.3* | *-0.4* |
| **Romania** | 0.1 | -1.5 | -3.9 | 0.3 | 0.8 | -1.5 | **-1.6** | **-2.0** | **-2.4** | *-1.6* | *-2.3* | *-2.5* |
| **Sweden** | 3.5 | 3.6 | 0.4 | -0.9 | 0.6 | 1.6 | **1.6** | **1.1** | **1.1** | *1.2* | *1.0* | *0.8* |
| **EU27** | 1.6 | 1.0 | -1.7 | 0.0 | 0.3 | 0.6 | **1.1** | **1.1** | **1.1** | *0.9* | *0.9* | *0.9* |
| **United Kingdom** | 1.6 | -1.3 | -5.4 | -2.8 | -1.9 | -0.5 | **0.8** | **0.6** | **0.9** | *0.5* | *0.6* | *1.0* |
| **EU** | 1.6 | 0.6 | -2.3 | -0.4 | -0.1 | 0.5 | **1.0** | **1.0** | **1.0** | *0.8* | *0.8* | *0.9* |
| **USA** | 1.5 | -1.2 | -6.2 | -1.3 | -0.9 | -1.4 | **-1.3** | **-1.5** | **-1.8** | *-1.4* | *-1.2* | *-1.3* |
| **Japan** | 2.7 | -1.0 | -6.8 | -3.5 | -1.7 | -1.7 | **-1.8** | **-1.3** | **-0.8** | *-2.5* | *-2.1* | *-1.4* |

[1] Net lending/borrowing excluding interest expenditure.

**Table 39: Cyclically-adjusted net lending (+) or net borrowing (-), general government[1] (as a percentage of potential GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| **Belgium** | -0.7 | -1.6 | -3.7 | -2.6 | -2.1 | -2.2 | **-0.9** | **-1.2** | **-1.6** | *-1.4* | *-1.5* | *-1.7* |
| **Germany** | -2.6 | -1.7 | -1.0 | 0.8 | 1.1 | 1.1 | **1.3** | **1.0** | **1.0** | *0.9* | *0.9* | *1.0* |
| **Estonia** | 0.0 | -2.2 | 1.0 | -0.2 | -0.3 | -0.5 | **-1.2** | **-1.3** | **-0.9** | *-1.1* | *-1.4* | *-1.5* |
| **Ireland** | 0.4 | -1.3 | -12.7 | -3.7 | -2.3 | -0.7 | **-0.1** | **-0.6** | **-0.4** | *-1.3* | *-0.5* | *0.3* |
| **Greece** | -6.6 | -9.6 | -7.5 | 2.4 | -0.4 | 5.4 | **4.5** | **3.0** | **1.6** | *2.5* | *3.3* | *2.0* |
| **Spain** | -2.2 | -1.1 | -6.2 | -1.9 | -2.7 | -3.3 | **-3.0** | **-3.3** | **-3.2** | *-3.1* | *-3.1* | *-3.0* |
| **France** | -3.1 | -4.2 | -4.8 | -3.0 | -2.8 | -2.6 | **-2.2** | **-2.4** | **-3.1** | *-2.4* | *-2.8* | *-3.0* |
| **Italy** | -3.4 | -3.9 | -2.2 | -0.6 | -0.7 | -1.2 | **-1.7** | **-1.6** | **-2.0** | *-1.8* | *-2.0* | *-2.4* |
| **Cyprus** | -4.3 | -2.7 | -4.1 | -5.2 | 0.8 | 1.1 | **1.4** | **0.8** | **0.5** | *0.4* | *0.0* | *-0.1* |
| **Latvia** | -2.0 | -3.5 | -2.5 | -1.4 | -1.5 | -0.1 | **-1.2** | **-1.9** | **-1.9** | *-1.8* | *-1.8* | *-1.6* |
| **Lithuania** | -1.4 | -3.2 | -3.9 | -1.0 | -0.6 | -0.3 | **-0.6** | **-0.6** | **-0.6** | *-0.8* | *-0.8* | *-0.7* |
| **Luxembourg** | 2.3 | 1.2 | 1.9 | 1.9 | 1.8 | 1.8 | **1.8** | **0.8** | **0.3** | *0.6* | *0.3* | *0.3* |
| **Malta** | -7.0 | -3.4 | -1.9 | -2.1 | -2.4 | 0.4 | **3.3** | **0.7** | **1.2** | *0.4* | *0.2* | *0.4* |
| **Netherlands** | -1.0 | -0.3 | -2.6 | -0.5 | -0.9 | 1.1 | **1.0** | **0.0** | **-0.2** | *0.6* | *-0.1* | *-0.1* |
| **Austria** | -2.0 | -3.0 | -2.8 | -2.2 | -0.4 | -0.9 | **-0.6** | **-0.8** | **-0.6** | *-0.9* | *-1.0* | *-0.9* |
| **Portugal** | -4.4 | -4.7 | -6.7 | -5.6 | -3.6 | -1.5 | **-3.1** | **-1.4** | **-1.3** | *-1.7* | *-2.0* | *-1.9* |
| **Slovenia** | -3.3 | -3.1 | -5.4 | -3.5 | -1.4 | -1.3 | **-0.6** | **-1.1** | **-1.6** | *-1.7* | *-1.6* | *-1.4* |
| **Slovakia** | -6.3 | -3.8 | -4.6 | -1.9 | -2.2 | -2.0 | **-1.0** | **-1.2** | **-0.8** | *-1.6* | *-1.2* | *-0.6* |
| **Finland** | 3.5 | 2.6 | -0.8 | -1.4 | -0.9 | -0.7 | **-0.1** | **-0.9** | **-0.8** | *-1.0* | *-1.4* | *-1.4* |
| **Euro area** | -2.6 | -2.7 | -3.3 | -1.1 | -1.0 | -0.8 | **-0.6** | **-0.9** | **-1.1** | *-0.9* | *-1.1* | *-1.1* |
| **Bulgaria** | 0.4 | 0.9 | -1.7 | -4.9 | -1.2 | 0.3 | **0.9** | **0.5** | **0.5** | *0.0* | *-0.2* | *-0.1* |
| **Czech Republic** | -4.8 | -3.6 | -2.8 | -1.0 | -0.5 | 0.9 | **1.2** | **0.9** | **0.2** | *0.8* | *0.4* | *0.1* |
| **Denmark** | 0.1 | 2.6 | -0.6 | 2.4 | -0.4 | 0.4 | **1.4** | **0.3** | **0.3** | *-0.5* | *-0.6* | *-0.7* |
| **Croatia** | | -5.2 | -4.9 | -3.2 | -2.3 | -0.6 | **0.3** | **-0.3** | **-0.6** | *-1.1* | *-1.9* | *-2.0* |
| **Hungary** | -5.5 | -7.7 | -2.3 | -2.2 | -2.0 | -1.8 | **-2.8** | **-3.6** | **-3.3** | *-2.8* | *-3.6* | *-3.5* |
| **Poland** | -3.1 | -3.5 | -5.8 | -3.0 | -2.3 | -2.0 | **-2.0** | **-2.2** | **-2.2** | *-2.1* | *-2.3* | *-2.5* |
| **Romania** | -2.3 | -4.6 | -4.2 | -0.3 | 0.1 | -2.5 | **-3.3** | **-3.9** | **-4.2** | *-3.3* | *-4.3* | *-4.6* |
| **Sweden** | 0.5 | 1.1 | 0.8 | -0.3 | 0.3 | 0.9 | **1.2** | **0.7** | **1.0** | *0.8* | *0.6* | *0.7* |
| **EU27** | -2.5 | -2.5 | -3.2 | -1.1 | -0.9 | -0.7 | **-0.6** | **-0.9** | **-1.1** | *-0.9* | *-1.1* | *-1.2* |
| **United Kingdom** | -1.1 | -4.1 | -6.1 | -5.1 | -4.4 | -3.3 | **-2.4** | **-2.4** | **-1.9** | *-2.5* | *-2.2* | *-1.6* |
| **EU** | | -2.8 | -3.6 | -1.7 | -1.6 | -1.1 | **-0.9** | **-1.1** | **-1.2** | *-1.2* | *-1.3* | *-1.2* |

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

**Table 40: Cyclically-adjusted primary balance, general government[1] (as a percentage of potential GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| **Belgium** | 5.6 | 2.6 | -0.2 | 0.7 | 0.9 | 0.7 | **1.6** | **1.1** | **0.6** | *1.2* | *0.9* | *0.5* |
| **Germany** | 0.4 | 1.0 | 1.4 | 2.3 | 2.5 | 2.3 | **2.3** | **2.0** | **2.0** | *2.1* | *2.1* | *2.0* |
| **Estonia** | 0.2 | -2.0 | 1.1 | 0.0 | -0.2 | -0.4 | **-1.2** | **-1.2** | **-0.9** | *-1.0* | *-1.4* | *-1.4* |
| **Ireland** | 2.1 | -0.2 | -9.4 | 0.2 | 0.3 | 1.6 | **1.9** | **1.1** | **1.3** | *0.8* | *1.3* | *2.0* |
| **Greece** | -0.4 | -4.9 | -2.1 | 6.4 | 3.2 | 8.6 | **7.7** | **6.2** | **5.0** | *5.7* | *6.3* | *5.0* |
| **Spain** | 0.6 | 0.6 | -3.7 | 1.6 | 0.4 | -0.5 | **-0.4** | **-0.9** | **-0.8** | *-0.6* | *-0.8* | *-0.7* |
| **France** | -0.2 | -1.5 | -2.3 | -0.8 | -0.8 | -0.8 | **-0.4** | **-0.7** | **-1.5** | *-0.6* | *-1.0* | *-1.3* |
| **Italy** | 2.4 | 0.8 | 2.5 | 4.0 | 3.4 | 2.7 | **2.1** | **1.9** | **1.4** | *2.0* | *1.7* | *1.1* |
| **Cyprus** | -1.2 | 0.2 | -1.5 | -1.7 | 4.6 | 4.4 | **4.6** | **3.8** | **3.3** | *2.8* | *2.2* | *2.0* |
| **Latvia** | -1.3 | -3.0 | -0.8 | 0.0 | -0.2 | 0.9 | **-0.3** | **-1.1** | **-1.2** | *-0.8* | *-1.0* | *-0.9* |
| **Lithuania** | 0.1 | -2.4 | -2.2 | 0.7 | 1.0 | 1.1 | **0.6** | **0.2** | **0.3** | *0.3* | *0.1* | *0.1* |
| **Luxembourg** | 2.6 | 1.5 | 2.3 | 2.4 | 2.1 | 2.2 | **2.2** | **1.1** | **0.6** | *0.9* | *0.6* | *0.6* |
| **Malta** | -3.2 | 0.2 | 1.2 | 0.6 | 0.0 | 2.6 | **5.2** | **2.3** | **2.7** | *2.3* | *1.9* | *2.0* |
| **Netherlands** | 2.0 | 1.8 | -0.8 | 1.0 | 0.3 | 2.1 | **1.9** | **0.8** | **0.5** | *1.6* | *0.7* | *0.7* |
| **Austria** | 1.5 | 0.1 | 0.0 | 0.3 | 2.0 | 1.2 | **1.2** | **0.8** | **0.9** | *1.0* | *0.8* | *0.8* |
| **Portugal** | -1.6 | -1.9 | -2.7 | -0.7 | 1.0 | 2.7 | **0.8** | **2.1** | **2.1** | *2.3* | *1.6* | *1.6* |
| **Slovenia** | -1.1 | -1.8 | -3.6 | -0.2 | 1.8 | 1.8 | **1.8** | **0.9** | **0.1** | *0.9* | *0.3* | *0.4* |
| **Slovakia** | -2.8 | -2.3 | -3.1 | 0.0 | -0.5 | -0.4 | **0.4** | **0.1** | **0.4** | *-0.3* | *0.0* | *0.6* |
| **Finland** | 5.9 | 4.1 | 0.5 | -0.2 | 0.3 | 0.4 | **0.8** | **0.0** | **0.1** | *-0.1* | *-0.5* | *-0.9* |
| **Euro area** | 1.0 | 0.2 | -0.5 | 1.5 | 1.3 | 1.3 | **1.3** | **0.9** | **0.7** | *1.1* | *0.8* | *0.7* |
| **Bulgaria** | 3.7 | 2.2 | -1.0 | -4.0 | -0.3 | 1.2 | **1.7** | **1.2** | **1.1** | *0.9* | *0.7* | *0.7* |
| **Czech Republic** | -3.9 | -2.6 | -1.4 | 0.3 | 0.6 | 1.8 | **2.0** | **1.6** | **1.0** | *1.6* | *1.1* | *0.9* |
| **Denmark** | 3.5 | 4.5 | 1.3 | 3.9 | 1.1 | 1.7 | **2.5** | **1.4** | **1.4** | *0.7* | *0.4* | *0.2* |
| **Croatia** | | -3.3 | -2.1 | 0.3 | 1.2 | 2.5 | **3.0** | **2.2** | **1.7** | *1.7* | *0.8* | *0.5* |
| **Hungary** | -0.6 | -3.7 | 2.1 | 1.8 | 1.5 | 1.4 | **0.0** | **-1.0** | **-0.8** | *0.0* | *-1.0* | *-1.0* |
| **Poland** | -0.1 | -1.2 | -3.3 | -1.1 | -0.6 | -0.3 | **-0.5** | **-0.7** | **-0.7** | *-0.5* | *-0.8* | *-1.0* |
| **Romania** | 1.0 | -3.6 | -2.6 | 1.4 | 1.7 | -1.0 | **-2.0** | **-2.4** | **-2.7** | *-1.8* | *-2.7* | *-2.9* |
| **Sweden** | 3.5 | 2.7 | 1.8 | 0.3 | 0.7 | 1.4 | **1.6** | **1.0** | **1.3** | *1.1* | *0.9* | *0.9* |
| **EU27** | 1.1 | 0.3 | -0.5 | 1.4 | 1.2 | 1.3 | **1.3** | **0.8** | **0.6** | *1.0* | *0.7* | *0.5* |
| **United Kingdom** | 1.1 | -2.1 | -3.4 | -2.4 | -2.1 | -0.9 | **0.3** | **0.2** | **0.6** | *0.2* | *0.3* | *0.9* |
| **EU** | 1.1 | -0.1 | -0.9 | 0.8 | 0.7 | 0.9 | **1.1** | **0.7** | **0.6** | *0.9* | *0.6* | *0.6* |

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

**Table 41: Structural budget balance, general government[1] (as a percentage of potential GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Belgium | | : | | -2.9 | -2.2 | -2.1 | **-1.3** | **-1.4** | **-1.7** | *-1.5* | *-1.5* | *-1.7* |
| Germany | | : | | 1.1 | 1.1 | 1.1 | **1.5** | **1.2** | **1.0** | *0.9* | *0.9* | *1.0* |
| Estonia | | : | | 0.0 | 0.0 | -0.4 | **-1.2** | **-1.3** | **-0.9** | *-1.1* | *-1.4* | *-1.5* |
| Ireland | | : | | -3.6 | -1.5 | -0.8 | **-0.1** | **-0.6** | **-0.4** | *-1.3* | *-0.5* | *0.3* |
| Greece | | : | | 2.4 | 2.2 | 4.4 | **4.0** | **2.5** | **1.6** | *2.5* | *3.3* | *2.0* |
| Spain | | : | | -1.5 | -2.4 | -3.3 | **-3.0** | **-3.3** | **-3.2** | *-3.1* | *-3.1* | *-3.0* |
| France | | : | | -3.0 | -2.7 | -2.6 | **-2.1** | **-2.1** | **-3.1** | *-2.4* | *-2.7* | *-3.0* |
| Italy | -4.5 | : | -2.5 | -0.8 | -0.6 | -1.4 | **-1.7** | **-1.7** | **-2.0** | *-2.1* | *-2.0* | *-2.4* |
| Cyprus | | : | | 3.3 | 1.7 | 1.2 | **1.4** | **0.8** | **0.5** | *0.4* | *0.0* | *-0.1* |
| Latvia | | : | | -1.1 | -1.5 | -0.3 | **-1.2** | **-1.9** | **-1.9** | *-1.8* | *-1.8* | *-1.6* |
| Lithuania | | : | | -1.4 | -0.7 | -0.3 | **-0.6** | **-0.7** | **-0.6** | *-0.9* | *-0.9* | *-0.8* |
| Luxembourg | | : | | 1.9 | 1.6 | 1.8 | **1.8** | **0.8** | **0.3** | *0.6* | *0.3* | *0.3* |
| Malta | | : | | -2.6 | -2.5 | 0.5 | **3.5** | **0.6** | **1.1** | *0.6* | *0.1* | *0.4* |
| Netherlands | | : | | -0.4 | -0.9 | 0.8 | **0.5** | **-0.1** | **-0.3** | *0.3* | *-0.2* | *-0.1* |
| Austria | | : | | -0.7 | -0.1 | -0.9 | **-0.6** | **-0.8** | **-0.6** | *-0.9* | *-1.0* | *-0.9* |
| Portugal | | : | -6.1 : | -1.8 | -2.3 | -2.0 | **-1.1** | **-1.1** | **-1.1** | *-1.8* | *-1.8* | *-1.9* |
| Slovenia | | : | | -2.1 | -1.3 | -1.1 | **-0.6** | **-1.1** | **-1.5** | *-1.6* | *-1.6* | *-1.4* |
| Slovakia | | : | | -2.1 | -2.2 | -2.0 | **-1.0** | **-1.2** | **-0.8** | *-1.6* | *-1.2* | *-0.6* |
| Finland | | : | | -1.5 | -0.9 | -0.7 | **-0.1** | **-0.8** | **-0.9** | *-1.0* | *-1.4* | *-1.4* |
| Euro area | | : | | -0.9 | -0.8 | -0.8 | **-0.6** | **-0.8** | **-1.1** | *-1.0* | *-1.1* | *-1.1* |
| Bulgaria | | : | | -1.7 | -1.1 | 0.3 | **0.9** | **0.5** | **0.5** | *0.0* | *-0.2* | *-0.1* |
| Czech Republic | | : | | -0.7 | -0.5 | 1.0 | **1.2** | **0.9** | **0.2** | *0.8* | *0.4* | *0.1* |
| Denmark | | : | | -0.7 | -1.8 | 0.3 | **1.4** | **0.3** | **0.9** | *-0.5* | *-0.6* | *-0.7* |
| Croatia | | : | | -3.4 | -2.4 | -0.7 | **0.4** | **-0.3** | **-0.6** | *-0.9* | *-1.9* | *-2.0* |
| Hungary | | : | | -2.1 | -2.0 | -1.8 | **-3.1** | **-3.6** | **-3.3** | *-3.2* | *-3.6* | *-3.5* |
| Poland | | : | | -2.8 | -2.3 | -2.0 | **-2.0** | **-2.2** | **-2.2** | *-2.1* | *-2.3* | *-2.5* |
| Romania | | : | | -0.3 | -0.2 | -2.1 | **-3.3** | **-3.8** | **-4.2** | *-3.3* | *-4.3* | *-4.6* |
| Sweden | | : | | -0.3 | 0.3 | 0.9 | **1.2** | **0.7** | **1.0** | *0.8* | *0.6* | *0.7* |
| EU27 | | : | | -0.9 | -0.8 | -0.8 | **-0.5** | **-0.8** | **-1.1** | *-1.0* | *-1.1* | *-1.2* |
| United Kingdom | | : | | -5.0 | -4.4 | -3.3 | **-2.4** | **-2.4** | **-1.9** | *-2.5* | *-2.2* | *-1.6* |
| EU | | : | | -1.6 | -1.5 | -1.2 | **-0.8** | **-1.0** | **-1.2** | *-1.2* | *-1.3* | *-1.2* |

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

**Table 42: Gross debt, general government (as a percentage of GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Belgium | 107.3 | 92.4 | 102.3 | 107.0 | 106.1 | 105.9 | **103.1** | **101.5** | **100.2** | *103.8* | *102.5* | *101.2* |
| Germany | 59.8 | 65.4 | 77.9 | 74.7 | 71.0 | 68.2 | **64.1** | **60.2** | **56.3** | *64.8* | *61.2* | *57.9* |
| Estonia | 5.5 | 4.4 | 7.9 | 10.7 | 10.0 | 9.4 | **9.0** | **8.8** | **8.4** | *9.2* | *9.1* | *9.1* |
| Ireland | 35.3 | 28.8 | 99.4 | 104.5 | 76.9 | 72.8 | **68.0** | **65.6** | **63.2** | *69.9* | *69.1* | *67.2* |
| Greece | 103.4 | 105.3 | 156.4 | 178.9 | 176.8 | 180.8 | **178.6** | **177.8** | **170.3** | *179.6* | *177.8* | *170.1* |
| Spain | 54.4 | 40.3 | 72.7 | 100.4 | 99.4 | 99.0 | **98.3** | **97.6** | **95.9** | *98.4* | *96.9* | *95.5* |
| France | 60.2 | 66.1 | 88.0 | 94.9 | 95.6 | 96.6 | **97.0** | **96.4** | **96.0** | *96.9* | *96.9* | *96.9* |
| Italy | 104.4 | 101.4 | 119.4 | 131.8 | 131.5 | 132.0 | **131.8** | **130.7** | **129.7** | *132.1* | *130.8* | *130.0* |
| Cyprus | 57.8 | 56.8 | 71.6 | 107.5 | 107.5 | 106.6 | **97.5** | **105.7** | **99.5** | *103.0* | *98.3* | *93.9* |
| Latvia | 13.0 | 12.2 | 41.1 | 40.9 | 36.8 | 40.5 | **40.1** | **37.0** | **37.3** | *39.1* | *35.6* | *35.8* |
| Lithuania | 22.3 | 16.8 | 36.0 | 40.5 | 42.6 | 40.1 | **39.7** | **36.0** | **38.2** | *41.5* | *37.9* | *38.9* |
| Luxembourg | 7.3 | 9.0 | 20.0 | 22.7 | 22.0 | 20.8 | **23.0** | **22.6** | **22.5** | *23.7* | *23.0* | *22.9* |
| Malta | 64.1 | 66.3 | 68.3 | 63.8 | 58.7 | 56.2 | **50.8** | **47.1** | **43.4** | *54.9* | *51.6* | *48.8* |
| Netherlands | 51.4 | 48.2 | 62.3 | 68.0 | 64.6 | 61.8 | **56.7** | **53.5** | **50.1** | *57.7* | *54.9* | *51.5* |
| Austria | 66.4 | 67.0 | 81.6 | 84.0 | 84.6 | 83.6 | **78.4** | **74.8** | **71.7** | *78.6* | *76.2* | *73.4* |
| Portugal | 53.9 | 67.7 | 109.3 : | 130.6 | 128.8 | 129.9 | **125.7** | **122.5** | **119.5** | *126.4* | *124.1* | *121.1* |
| Slovenia | 25.9 | 24.8 | 48.8 | 80.3 | 82.6 | 78.6 | **73.6** | **69.3** | **65.1** | *76.4* | *74.1* | *72.0* |
| Slovakia | 45.9 | 32.9 | 45.6 | 53.5 | 52.3 | 51.8 | **50.9** | **49.0** | **46.6** | *50.6* | *49.9* | *47.2* |
| Finland | 42.1 | 37.5 | 49.5 | 60.2 | 63.5 | 63.0 | **61.4** | **60.4** | **59.6** | *62.7* | *62.1* | *61.6* |
| Euro area | 68.1 | 67.7 | 87.4 | 94.2 | 92.1 | 91.1 | **88.8** | **86.5** | **84.1** | *89.3* | *87.2* | *85.2* |
| Bulgaria | 61.5 | 22.6 | 15.6 | 27.0 | 26.0 | 29.0 | **25.4** | **23.3** | **21.4** | *25.7* | *24.3* | *22.8* |
| Czech Republic | 21.9 | 28.0 | 40.0 | 42.2 | 40.0 | 36.8 | **34.6** | **32.7** | **31.8** | *34.6* | *33.3* | *32.5* |
| Denmark | | 34.8 | 43.6 | 44.3 | 39.9 | 37.9 | **36.4** | **33.6** | **32.3** | *36.1* | *35.5* | *34.6* |
| Croatia | | 39.2 | 63.9 | 84.0 | 83.8 | 80.6 | **78.0** | **73.7** | **69.7** | *80.3* | *77.4* | *74.5* |
| Hungary | 56.0 | 64.1 | 78.8 | 76.6 | 76.7 | 76.0 | **73.6** | **73.3** | **71.0** | *72.6* | *71.5* | *69.4* |
| Poland | 40.2 | 45.8 | 53.2 | 50.3 | 51.1 | 54.2 | **50.6** | **49.6** | **49.1** | *53.2* | *53.0* | *53.0* |
| Romania | 23.1 | 14.2 | 32.0 | 39.1 | 37.7 | 37.4 | **35.0** | **35.3** | **36.4** | *37.9* | *39.1* | *40.5* |
| Sweden | 52.9 | 43.8 | 39.4 | 45.5 | 44.2 | 42.1 | **40.6** | **38.0** | **35.5** | *39.0* | *36.6* | *34.4* |
| EU27 | 65.4 | 64.3 | 81.8 | 87.8 | 85.9 | 84.9 | **82.5** | **80.2** | **78.0** | *83.0* | *81.0* | *79.1* |
| United Kingdom | 36.3 | 42.2 | 78.2 | 87.4 | 88.2 | 88.2 | **87.7** | **86.3** | **85.3** | *86.6* | *85.3* | *84.2* |
| EU | | 60.1 | 81.4 | 88.3 | 86.1 | 84.8 | **83.1** | **81.2** | **79.1** | *83.5* | *81.6* | *79.8* |

**Table 43:** Gross national saving (as a percentage of GDP, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 27.0 | 27.4 | 24.2 | 23.1 | 23.1 | 24.0 | **25.2** | **25.4** | **25.6** | *23.2* | *23.5* | *23.9* |
| **Germany** | 21.8 | 25.3 | 25.8 | 27.2 | 27.8 | 27.7 | **27.7** | **27.9** | **27.9** | *27.5* | *27.5* | *27.5* |
| **Estonia** | 22.7 | 23.9 | 25.5 | 26.9 | 25.8 | 24.6 | **27.0** | **27.2** | **27.4** | *26.8* | *26.9* | *27.1* |
| **Ireland** | 23.9 | 23.6 | 16.8 | 24.8 | 32.1 | 36.0 | **36.6** | **36.4** | **36.5** | *35.1* | *35.3* | *35.5* |
| **Greece** | 16.6 | 12.7 | 6.9 | 9.8 | 9.9 | 9.9 | **10.8** | **12.4** | **13.5** | *10.6* | *12.3* | *14.2* |
| **Spain** | 22.9 | 22.0 | 19.7 | 20.4 | 21.4 | 22.4 | **22.9** | **23.2** | **23.8** | *22.6* | *23.1* | *23.6* |
| **France** | 23.1 | 22.5 | 20.0 | 19.7 | 20.5 | 20.4 | **21.0** | **21.5** | **21.9** | *20.9* | *21.4* | *21.8* |
| **Italy** | 20.6 | 20.2 | 17.5 | 18.9 | 18.8 | 19.6 | **20.0** | **20.3** | **20.6** | *19.7* | *20.2* | *20.2* |
| **Cyprus** | 16.1 | 6.3 | 12.2 | 8.0 | 12.8 | 11.9 | **12.4** | **13.3** | **14.0** | *11.6* | *11.8* | *11.9* |
| **Latvia** | 18.9 | 20.7 | 23.5 | 20.9 | 21.8 | 21.0 | **20.5** | **19.7** | **20.2** | *20.4* | *20.3* | *20.5* |
| **Lithuania** | 13.7 | 16.1 | 17.9 | 23.0 | 18.6 | 16.6 | **15.9** | **15.9** | **15.7** | *16.9* | *17.6* | *17.8* |
| **Luxembourg** | 27.7 | 26.4 | 18.9 | 17.9 | 20.6 | 21.4 | **20.0** | **20.1** | **19.6** | *23.1* | *22.9* | *22.6* |
| **Malta** | 16.4 | 16.6 | 18.8 | 26.5 | 30.9 | 32.2 | **35.1** | **33.7** | **33.8** | *29.6* | *29.7* | *30.0* |
| **Netherlands** | 27.6 | 28.6 | 28.5 | 27.4 | 28.3 | 28.8 | **30.3** | **30.4** | **30.5** | *29.6* | *29.5* | *29.5* |
| **Austria** | 24.9 | 27.1 | 25.6 | 26.0 | 25.8 | 26.2 | **27.2** | **27.5** | **27.8** | *26.4* | *27.1* | *27.9* |
| **Portugal** | 17.9 | 13.1 | 12.7 | 15.0 | 14.9 | 15.5 | **16.8** | **17.4** | **17.9** | *16.5* | *17.1* | *17.5* |
| **Slovenia** | 24.8 | 27.1 | 21.7 | 25.4 | 23.9 | 24.0 | **26.0** | **26.8** | **26.6** | *25.4* | *25.9* | *26.4* |
| **Slovakia** | 23.5 | 21.5 | 20.1 | 23.0 | 23.2 | 23.0 | **23.2** | **23.4** | **24.0** | *23.5* | *23.7* | *24.2* |
| **Finland** | 29.6 | 28.5 | 21.7 | 19.6 | 20.0 | 20.5 | **22.7** | **23.3** | **24.0** | *21.8* | *23.0* | *23.9* |
| **Euro area** | 22.7 | 23.2 | 21.6 | 22.5 | 23.3 | 23.7 | **24.2** | **24.5** | **24.8** | *23.8* | *24.2* | *24.5* |
| **Bulgaria** | 16.1 | 14.7 | 21.9 | 21.6 | 21.8 | 24.5 | **23.9** | **23.0** | **22.8** | *22.2* | *21.5* | *21.4* |
| **Czech Republic** | 26.5 | 26.3 | 22.9 | 24.6 | 26.4 | 26.2 | **26.9** | **26.8** | **26.4** | *26.3* | *26.6* | *26.6* |
| **Denmark** | 24.2 | 26.5 | 25.2 | 29.0 | 28.8 | 28.3 | **28.8** | **29.0** | **29.1** | *28.8* | *28.8* | *28.9* |
| **Croatia** | 19.5 | 23.0 | 20.0 | 20.8 | 24.6 | 22.6 | **24.2** | **23.7** | **23.4** | *23.2* | *22.4* | *23.1* |
| **Hungary** | 19.3 | 17.4 | 21.6 | 24.8 | 25.2 | 25.9 | **25.5** | **26.1** | **26.9** | *25.0* | *25.0* | *25.0* |
| **Poland** | 18.2 | 17.0 | 17.5 | 19.0 | 20.7 | 20.4 | **20.4** | **20.6** | **20.6** | *21.2* | *21.2* | *21.1* |
| **Romania** | 16.6 | 17.6 | 23.3 | 24.5 | 24.6 | 21.9 | **20.9** | **21.0** | **21.2** | *21.4* | *21.1* | *21.0* |
| **Sweden** | 27.4 | 30.9 | 28.3 | 28.1 | 28.8 | 29.4 | **29.8** | **30.1** | **30.2** | *30.7* | *31.0* | *31.1* |
| **EU27** | 22.7 | 23.3 | 21.8 | 22.8 | 23.6 | 23.9 | **24.4** | **24.7** | **24.9** | *24.1* | *24.4* | *24.7* |
| **United Kingdom** | 15.6 | 14.2 | 11.6 | 11.8 | 11.8 | 11.6 | **13.2** | **13.7** | **14.0** | *11.9* | *12.2* | *12.5* |
| **EU** | 21.4 | 21.7 | 20.3 | 21.0 | 21.5 | 21.9 | **22.7** | **23.0** | **23.3** | *22.3* | *22.6* | *22.9* |
| **USA** | 19.3 | 17.4 | 16.2 | 19.3 | 19.4 | 18.0 | **17.5** | **17.4** | **17.4** | *17.2* | *17.3* | *17.3* |
| **Japan** | 28.6 | 28.3 | 24.2 | 24.7 | 27.1 | 27.4 | **28.1** | **28.8** | **28.9** | *27.5* | *27.9* | *27.9* |

**Table 44:** Gross saving, private sector (as a percentage of GDP, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 24.6 | 25.2 | 25.0 | 23.1 | 23.0 | 24.1 | **23.9** | **24.1** | **24.5** | *22.5* | *22.6* | *23.0* |
| **Germany** | 21.3 | 24.1 | 24.3 | 23.8 | 24.3 | 24.0 | **23.4** | **23.6** | **23.7** | *23.6* | *23.6* | *23.5* |
| **Estonia** | 17.8 | 17.4 | 21.5 | 21.4 | 20.8 | 20.0 | **22.0** | **21.8** | **22.0** | *22.2* | *22.4* | *22.6* |
| **Ireland** | 18.6 | 19.8 | 22.7 | 26.0 | 31.2 | 34.6 | **34.8** | **34.4** | **34.2** | *33.5* | *33.2* | *33.1* |
| **Greece** | 16.9 | 16.0 | 13.1 | 11.2 | 10.1 | 7.2 | **7.7** | **8.8** | **10.0** | *9.0* | *9.1* | *10.5* |
| **Spain** | 19.0 | 16.7 | 23.8 | 24.0 | 24.1 | 24.6 | **23.8** | **23.4** | **23.6** | *23.4* | *23.2* | *23.0* |
| **France** | 20.9 | 20.9 | 20.5 | 19.0 | 19.9 | 19.6 | **19.2** | **19.5** | **20.5** | *19.6* | *20.0* | *20.3* |
| **Italy** | 19.6 | 19.0 | 17.7 | 18.6 | 17.6 | 19.0 | **18.8** | **18.9** | **19.1** | *18.7* | *18.9* | *19.1* |
| **Cyprus** | 15.8 | 3.7 | 13.4 | 5.6 | 10.7 | 8.7 | **7.7** | **8.5** | **8.7** | *7.5* | *7.0* | *6.5* |
| **Latvia** | 17.7 | 17.4 | 24.1 | 19.4 | 19.8 | 17.9 | **17.3** | **17.1** | **18.0** | *17.8* | *18.3* | *18.8* |
| **Lithuania** | 12.3 | 13.3 | 20.5 | 21.6 | 16.3 | 13.7 | **12.4** | **12.4** | **12.2** | *13.7* | *14.4* | *14.6* |
| **Luxembourg** | 19.2 | 19.5 | 13.6 | 12.2 | 14.9 | 15.0 | **13.8** | **14.4** | **14.2** | *17.4* | *17.2* | *16.8* |
| **Malta** | 18.5 | 17.7 | 19.6 | 26.1 | 29.7 | 28.6 | **28.9** | **29.2** | **29.3** | *25.9* | *26.3* | *26.6* |
| **Netherlands** | 24.3 | 25.3 | 28.4 | 26.1 | 26.7 | 25.0 | **25.8** | **26.0** | **25.7** | *25.2* | *25.2* | *25.0* |
| **Austria** | 22.7 | 24.9 | 24.6 | 23.5 | 22.8 | 24.2 | **24.2** | **24.3** | **24.3** | *23.8* | *24.5* | *25.0* |
| **Portugal** | 17.6 | 14.4 | 17.2 | 17.0 | 15.9 | 16.0 | **15.8** | **16.1** | **16.4** | *16.3* | *16.6* | *16.7* |
| **Slovenia** | 22.8 | 23.6 | 22.3 | 24.9 | 22.7 | 22.6 | **23.0** | **23.5** | **23.3** | *22.9* | *22.6* | *22.6* |
| **Slovakia** | 23.0 | 20.2 | 22.0 | 22.7 | 21.2 | 21.9 | **21.2** | **21.6** | **22.0** | *22.0* | *22.1* | *22.5* |
| **Finland** | 21.9 | 21.5 | 20.0 | 18.6 | 18.8 | 18.4 | **19.8** | **20.5** | **20.9** | *19.5* | *20.5* | *20.9* |
| **Euro area** | 20.8 | 21.2 | 22.1 | 21.6 | 21.9 | 22.0 | **21.8** | **21.9** | **22.3** | *21.8* | *21.9* | *22.0* |
| **Bulgaria** | 12.2 | 8.7 | 21.0 | 20.8 | 20.5 | 21.0 | **20.8** | **20.0** | **19.5** | *19.0* | *18.1* | *17.8* |
| **Czech Republic** | 23.3 | 21.9 | 21.6 | 22.5 | 23.0 | 22.1 | **21.9** | **21.8** | **21.8** | *21.6* | *21.8* | *21.8* |
| **Denmark** | 20.7 | 19.6 | 23.6 | 22.9 | 25.5 | 24.6 | **24.4** | **25.4** | **25.3** | *25.5* | *25.5* | *25.3* |
| **Croatia** | | 18.9 | 20.6 | 21.1 | 23.6 | 19.3 | **20.3** | **19.8** | **19.4** | *20.7* | *19.7* | *20.0* |
| **Hungary** | 18.7 | 18.9 | 22.0 | 23.0 | 21.6 | 22.5 | **21.8** | **22.6** | **22.7** | *22.2* | *22.1* | *21.7* |
| **Poland** | 19.1 | 16.4 | 18.5 | 18.9 | 19.6 | 19.6 | **18.3** | **18.1** | **18.3** | *19.3* | *19.0* | *19.0* |
| **Romania** | 15.6 | 14.3 | 23.5 | 22.4 | 21.7 | 21.2 | **21.7** | **22.2** | **22.9** | *22.0* | *22.3* | *22.4* |
| **Sweden** | 22.7 | 24.8 | 24.5 | 25.2 | 24.4 | 23.8 | **24.0** | **24.8** | **24.8** | *25.2* | *25.6* | *25.9* |
| **EU27** | 20.8 | 21.0 | 22.1 | 21.7 | 22.0 | 22.1 | **21.8** | **22.0** | **22.3** | *21.9* | *22.0* | *22.1* |
| **United Kingdom** | 13.8 | 14.4 | 15.9 | 14.2 | 12.9 | 11.7 | **12.1** | **12.6** | **12.5** | *11.2* | *11.3* | *11.1* |
| **EU** | | 19.9 | 21.2 | 20.4 | 20.4 | 20.4 | **20.3** | **20.5** | **20.8** | *20.3* | *20.4* | *20.5* |
| **USA** | 18.0 | 18.2 | 22.0 | 20.9 | 20.6 | 19.9 | **19.1** | **19.5** | **20.1** | *19.2* | *19.2* | *19.4* |
| **Japan** | 28.7 | 28.3 | 28.4 | 25.9 | 27.3 | 27.7 | **28.5** | **28.8** | **28.5** | *28.1* | *28.0* | *27.6* |

**Table 45: Saving rate of households (1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Belgium | 16.5 | 15.5 | 14.3 | 12.3 | 11.9 | 11.2 | 11.1 | 10.7 | 11.2 | 10.0 | 9.6 | 9.6 |
| Germany | 15.7 | 16.5 | 16.5 | 16.8 | 17.0 | 17.1 | 17.3 | 17.4 | 17.4 | 16.6 | 16.6 | 16.5 |
| Estonia | 2.9 | -0.2 | 10.1 | 10.7 | 11.7 | 11.3 | 11.4 | 11.8 | 12.5 | 12.4 | 12.7 | 13.1 |
| Ireland | 5.6 | 7.9 | 10.2 | 7.3 | 6.8 | 6.7 | 7.0 | 6.9 | 6.9 | 6.7 | 6.6 | 6.4 |
| Greece | : | : | : | : | : | : | : | : | : | : | : | : |
| Spain | 10.6 | 8.4 | 10.5 | 9.3 | 8.6 | 7.7 | 5.7 | 5.5 | 5.6 | 6.6 | 6.4 | 6.8 |
| France | 15.1 | 14.7 | 15.1 | 14.3 | 13.9 | 13.6 | 13.8 | 13.8 | 13.9 | 13.7 | 13.8 | 13.8 |
| Italy | 14.2 | 14.4 | 11.2 | 11.2 | 10.6 | 10.4 | 9.7 | 9.7 | 9.9 | 10.1 | 9.8 | 9.8 |
| Cyprus | 6.4 | 8.6 | 4.8 | -6.3 | -5.0 | -2.3 | -4.2 | -4.2 | -4.1 | -4.7 | -4.8 | -4.9 |
| Latvia | 0.0 | 3.0 | 1.5 | -1.9 | 1.8 | 2.7 | 1.4 | 3.2 | 3.1 | 3.7 | 5.9 | 6.4 |
| Lithuania | 4.2 | 2.5 | 4.3 | 0.2 | 0.0 | -0.5 | -4.6 | -5.1 | -5.6 | -1.9 | -2.6 | -3.1 |
| Luxembourg | : | : | : | : | : | : | : | : | : | : | : | : |
| Malta | : | : | : | : | : | : | : | : | : | : | : | : |
| Netherlands | 12.4 | 10.8 | 13.7 | 14.5 | 13.1 | 13.1 | 12.7 | 12.7 | 12.5 | 13.0 | 13.0 | 13.2 |
| Austria | 15.3 | 16.3 | 14.3 | 12.4 | 12.5 | 13.4 | 12.5 | 12.4 | 12.6 | 12.7 | 12.5 | 12.4 |
| Portugal | 10.7 | 8.2 | 8.5 | 5.2 | 5.3 | 5.9 | 5.4 | 6.1 | 6.3 | 6.2 | 6.2 | 6.3 |
| Slovenia | 12.6 | 15.3 | 12.5 | 12.5 | 12.7 | 12.8 | 12.2 | 11.3 | 10.7 | 11.3 | 10.1 | 10.0 |
| Slovakia | 9.4 | 6.3 | 6.7 | 7.2 | 8.9 | 9.5 | 7.7 | 6.8 | 6.0 | 8.8 | 9.2 | 9.6 |
| Finland | 9.4 | 7.6 | 8.9 | 7.2 | 6.9 | 6.2 | 5.9 | 5.9 | 6.2 | 5.4 | 5.1 | 5.1 |
| Euro area | 13.7 | 13.2 | 12.9 | 12.7 | 12.3 | 12.1 | 11.8 | 11.8 | 11.9 | 12.0 | 11.9 | 12.0 |
| Bulgaria | : | : | : | : | : | : | : | : | : | : | : | : |
| Czech Republic | 11.2 | 11.4 | 11.9 | 11.8 | 12.0 | 11.2 | 10.6 | 10.1 | 9.8 | 10.6 | 10.4 | 10.1 |
| Denmark | 6.1 | 5.0 | 7.9 | 4.2 | 10.7 | 10.8 | 11.2 | 11.7 | 11.6 | 11.4 | 11.2 | 11.0 |
| Croatia | : | : | : | : | : | : | : | : | : | : | : | : |
| Hungary | 9.9 | 9.1 | 9.2 | 10.9 | 9.6 | 8.4 | 10.2 | 9.7 | 8.6 | 9.9 | 10.1 | 8.9 |
| Poland | 12.4 | 5.0 | 3.2 | 2.3 | 2.3 | 4.4 | 1.7 | 1.8 | 1.4 | 2.5 | 2.1 | 1.7 |
| Romania | -3.5 | -9.5 | -2.8 | 14.5 | 15.5 | 12.2 | 10.9 | 9.1 | 7.7 | 14.8 | 14.8 | 15.1 |
| Sweden | 8.8 | 10.9 | 15.7 | 18.9 | 17.6 | 18.9 | 18.2 | 18.4 | 17.6 | 18.2 | 18.1 | 17.3 |
| EU27 | 13.5 | 12.8 | 12.8 | 12.6 | 12.4 | 12.3 | 11.9 | 11.9 | 11.9 | 10.6 | 10.5 | 10.5 |
| United Kingdom | 8.7 | 7.9 | 9.9 | 8.4 | 9.2 | 7.1 | 5.1 | 5.0 | 5.5 | 4.8 | 4.2 | 4.5 |
| EU | 12.2 | 11.3 | 11.8 | 11.2 | 11.2 | 11.0 | 10.3 | 10.3 | 10.3 | 9.7 | 9.6 | 9.6 |
| USA | 9.8 | 9.6 | 11.6 | 11.3 | 11.6 | 10.5 | 9.3 | 9.4 | 9.5 | 9.5 | 9.4 | 9.3 |
| Japan | 13.9 | 10.1 | 9.7 | 6.6 | 7.6 | 9.0 | 10.1 | 10.2 | 9.6 | 8.8 | 8.3 | 7.4 |

**Table 46: Gross saving, general government (as a percentage of GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | Autumn 2017 forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Belgium | 2.5 | 2.2 | -0.7 | 0.0 | 0.2 | -0.1 | 1.2 | 1.2 | 1.0 | 0.7 | 0.8 | 0.9 |
| Germany | 0.5 | 1.2 | 1.6 | 3.4 | 3.5 | 3.8 | 4.3 | 4.2 | 4.2 | 3.9 | 3.9 | 4.0 |
| Estonia | 4.8 | 6.5 | 4.0 | 5.6 | 4.9 | 4.5 | 5.0 | 5.4 | 5.4 | 4.6 | 4.5 | 4.5 |
| Ireland | 5.3 | 3.7 | -5.9 | -1.2 | 0.9 | 1.4 | 1.7 | 2.0 | 2.3 | 1.6 | 2.1 | 2.4 |
| Greece | -0.2 | -3.4 | -6.3 | -1.3 | -0.3 | 2.8 | 3.1 | 3.6 | 3.6 | 1.6 | 3.2 | 3.7 |
| Spain | 3.8 | 5.3 | -4.1 | -3.5 | -2.6 | -2.2 | -0.9 | -0.2 | 0.2 | -0.9 | -0.1 | 0.6 |
| France | 2.2 | 1.6 | -0.5 | 0.7 | 0.7 | 0.8 | 1.8 | 2.0 | 1.4 | 1.3 | 1.4 | 1.4 |
| Italy | 1.0 | 1.2 | -0.2 | 0.3 | 1.2 | 0.5 | 1.2 | 1.4 | 1.4 | 1.0 | 1.2 | 1.1 |
| Cyprus | 0.4 | 2.6 | -1.2 | 2.4 | 2.1 | 3.2 | 4.6 | 4.9 | 5.3 | 4.1 | 4.8 | 5.3 |
| Latvia | 1.2 | 3.3 | -0.6 | 1.6 | 1.9 | 3.0 | 3.2 | 2.6 | 2.3 | 2.6 | 2.1 | 1.8 |
| Lithuania | 1.3 | 2.8 | -2.6 | 1.4 | 2.3 | 2.9 | 3.5 | 3.5 | 3.5 | 3.2 | 3.1 | 3.2 |
| Luxembourg | 8.6 | 6.9 | 5.3 | 5.7 | 5.7 | 6.4 | 6.2 | 5.7 | 5.4 | 5.7 | 5.7 | 5.9 |
| Malta | -2.1 | -1.1 | -0.9 | 0.4 | 1.2 | 3.6 | 6.2 | 4.5 | 4.4 | 3.7 | 3.4 | 3.4 |
| Netherlands | 3.3 | 3.3 | 0.0 | 1.3 | 1.6 | 3.8 | 4.5 | 4.4 | 4.7 | 4.4 | 4.2 | 4.6 |
| Austria | 2.2 | 2.2 | 1.0 | 2.5 | 3.1 | 2.0 | 3.0 | 3.2 | 3.5 | 2.5 | 2.6 | 2.9 |
| Portugal | 0.3 | -1.3 | -4.4 | -2.0 | -0.9 | -0.5 | 1.0 | 1.3 | 1.5 | 0.2 | 0.5 | 0.7 |
| Slovenia | 1.9 | 3.5 | -0.6 | 0.5 | 1.2 | 1.4 | 3.0 | 3.2 | 3.3 | 2.5 | 3.3 | 3.8 |
| Slovakia | 0.5 | 1.3 | -1.9 | 0.3 | 2.0 | 1.0 | 2.1 | 1.9 | 2.0 | 1.6 | 1.6 | 1.7 |
| Finland | 7.7 | 7.1 | 1.7 | 1.0 | 1.1 | 2.1 | 3.0 | 2.8 | 3.1 | 2.4 | 2.5 | 3.0 |
| Euro area | 1.8 | 2.0 | -0.4 | 1.0 | 1.4 | 1.6 | 2.4 | 2.6 | 2.5 | 2.1 | 2.2 | 2.4 |
| Bulgaria | 3.9 | 6.0 | 0.9 | 0.8 | 1.3 | 3.5 | 3.1 | 3.0 | 3.3 | 3.2 | 3.5 | 3.6 |
| Czech Republic | 3.1 | 4.4 | 1.3 | 2.1 | 3.4 | 4.1 | 5.0 | 5.0 | 4.6 | 4.7 | 4.8 | 4.9 |
| Denmark | 3.5 | 6.9 | 1.6 | 6.1 | 3.3 | 3.7 | 4.4 | 3.6 | 3.9 | 3.2 | 3.3 | 3.6 |
| Croatia | | 4.1 | -0.6 | -0.3 | 1.0 | 3.3 | 3.9 | 3.9 | 4.0 | 2.5 | 2.7 | 3.1 |
| Hungary | 0.6 | -1.5 | -0.5 | 1.8 | 3.6 | 3.3 | 3.7 | 3.5 | 4.2 | 2.8 | 2.9 | 3.3 |
| Poland | -0.9 | 0.7 | -1.0 | 0.1 | 1.0 | 0.8 | 2.0 | 2.5 | 2.4 | 1.9 | 2.2 | 2.0 |
| Romania | 1.0 | 3.3 | -0.2 | 2.1 | 2.9 | 0.7 | -0.8 | -1.2 | -1.7 | -0.5 | -1.2 | -1.5 |
| Sweden | 4.7 | 6.0 | 3.8 | 2.9 | 4.5 | 5.6 | 5.8 | 5.4 | 5.5 | 5.4 | 5.4 | 5.2 |
| EU27 | 1.9 | 2.3 | -0.2 | 1.2 | 1.6 | 1.8 | 2.6 | 2.7 | 2.7 | 2.2 | 2.4 | 2.5 |
| United Kingdom | 1.8 | -0.2 | -4.3 | -2.4 | -1.2 | 0.0 | 1.1 | 1.1 | 1.4 | 0.8 | 0.9 | 1.4 |
| EU | | 1.8 | -0.8 | 0.6 | 1.1 | 1.5 | 2.4 | 2.5 | 2.5 | 2.0 | 2.2 | 2.4 |
| USA | 1.3 | -0.7 | -5.8 | -1.6 | -1.3 | -1.9 | -1.6 | -2.1 | -2.6 | -2.0 | -1.9 | -2.1 |
| Japan | -0.2 | 0.0 | -4.1 | -1.2 | -0.2 | -0.3 | -0.4 | 0.0 | 0.4 | -0.6 | -0.1 | 0.3 |

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 4.5 | 4.8 | 1.5 | 5.2 | 3.3 | 7.5 | **4.5** | **5.0** | **4.4** | *4.6* | *4.4* | *4.3* |
| Germany | 6.1 | 8.3 | 2.1 | 4.6 | 5.2 | 2.6 | **4.7** | **5.9** | **4.1** | *3.6* | *4.0* | *4.0* |
| Estonia | 2.4 | 11.9 | 5.7 | 2.5 | -0.7 | 4.1 | **2.9** | **4.2** | **4.0** | *3.8* | *4.2* | *4.1* |
| Ireland | 10.9 | 4.5 | 3.6 | 14.4 | 38.4 | 4.6 | **6.9** | **5.8** | **4.6** | *3.9* | *4.5* | *4.3* |
| Greece | 7.0 | 8.1 | -2.6 | 7.7 | 3.1 | -1.8 | **6.8** | **5.7** | **4.6** | *6.8* | *4.6* | *4.4* |
| Spain | 5.3 | 3.6 | 2.0 | 4.3 | 4.2 | 4.8 | **5.0** | **5.0** | **4.7** | *6.0* | *4.8* | *4.5* |
| France | 4.2 | 3.5 | 1.6 | 3.3 | 4.3 | 1.8 | **3.1** | **4.7** | **4.4** | *3.1* | *4.0* | *4.2* |
| Italy | 1.8 | 4.1 | -0.1 | 2.7 | 4.4 | 2.4 | **5.4** | **4.5** | **4.2** | *4.8* | *3.8* | *3.3* |
| Cyprus | 1.6 | 2.0 | 1.0 | 4.2 | 5.8 | 4.0 | **3.4** | **2.3** | **1.9** | *2.8* | *2.2* | *2.0* |
| Latvia | 5.0 | 11.9 | 4.2 | 6.0 | 3.0 | 4.1 | **4.8** | **3.7** | **3.4** | *3.8* | *4.2* | *4.0* |
| Lithuania | 8.5 | 10.6 | 8.1 | 3.3 | -0.4 | 3.5 | **13.2** | **5.5** | **4.4** | *10.4* | *5.3* | *4.4* |
| Luxembourg | 7.7 | 8.6 | 1.9 | 14.0 | 6.9 | 2.7 | **3.9** | **4.1** | **3.7** | *5.0* | *4.8* | *4.0* |
| Malta | 3.1 | 9.7 | 3.1 | 3.2 | 3.5 | 4.5 | **1.6** | **2.0** | **2.7** | *3.0* | *3.6* | *3.7* |
| Netherlands | 4.9 | 5.8 | 2.2 | 4.5 | 6.5 | 4.3 | **6.1** | **5.5** | **4.4** | *5.4* | *4.7* | *4.4* |
| Austria | 6.0 | 6.5 | 0.9 | 3.0 | 3.1 | 1.9 | **5.7** | **5.2** | **4.3** | *5.3* | *4.5* | *4.3* |
| Portugal | 4.1 | 4.8 | 3.1 | 4.3 | 6.1 | 4.4 | **7.8** | **6.8** | **5.5** | *8.0* | *7.3* | *4.9* |
| Slovenia | 6.5 | 11.2 | 0.4 | 5.7 | 5.0 | 6.4 | **10.6** | **8.1** | **6.5** | *8.9* | *7.4* | *5.5* |
| Slovakia | 10.7 | 14.6 | 4.7 | 3.9 | 6.4 | 6.2 | **4.3** | **7.1** | **7.9** | *4.6* | *6.7* | *7.6* |
| Finland | 6.0 | 8.3 | -2.4 | -2.7 | 0.9 | 3.5 | **7.8** | **5.4** | **4.8** | *9.0* | *5.7* | *5.2* |
| Euro area | 5.1 | 5.9 | 1.7 | 4.7 | 6.4 | 3.4 | **5.1** | **5.4** | **4.4** | *4.5* | *4.4* | *4.2* |
| Bulgaria | -4.4 | 12.4 | 4.3 | 3.1 | 5.7 | 8.1 | **4.0** | **5.0** | **4.8** | *5.2* | *4.9* | *5.0* |
| Czech Republic | 7.7 | 15.2 | 3.4 | 8.7 | 6.0 | 4.5 | **6.5** | **4.8** | **4.7** | *6.9* | *4.8* | *4.7* |
| Denmark | 6.0 | 5.7 | 0.6 | 3.1 | 2.3 | 2.8 | **4.4** | **3.3** | **3.0** | *4.8* | *3.9* | *3.4* |
| Croatia | 9.0 | 4.1 | -0.8 | 6.0 | 9.4 | 5.6 | **6.1** | **4.8** | **4.6** | *6.2* | *5.8* | *5.0* |
| Hungary | 11.3 | 14.6 | 1.5 | 9.1 | 8.5 | 3.4 | **7.1** | **7.0** | **6.5** | *7.7* | *7.1* | *6.1* |
| Poland | 8.2 | 9.4 | 4.9 | 6.7 | 7.7 | 8.8 | **8.2** | **7.3** | **6.2** | *6.4* | *6.8* | *5.8* |
| Romania | 14.7 | 7.5 | 8.2 | 8.0 | 4.6 | 8.7 | **9.7** | **7.5** | **6.8** | *8.3* | *7.3* | *6.7* |
| Sweden | 4.9 | 6.5 | 0.4 | 5.3 | 5.7 | 3.3 | **3.7** | **4.7** | **3.7** | *4.2* | *4.1* | *3.8* |
| EU27 | 5.3 | 6.4 | 1.8 | 4.9 | 6.3 | 3.7 | **5.2** | **5.4** | **4.5** | *4.7* | *4.5* | *4.3* |
| United Kingdom | 3.8 | 4.9 | 0.8 | 2.7 | 5.0 | 2.3 | **5.7** | **3.6** | **2.9** | *4.7* | *3.1* | *2.9* |
| EU | 5.1 | 6.2 | 1.7 | 4.7 | 6.2 | 3.5 | **5.3** | **5.2** | **4.3** | *4.7* | *4.4* | *4.2* |
| USA | 1.0 | 8.0 | 3.1 | 4.3 | 0.4 | -0.3 | **3.4** | **4.5** | **4.3** | *3.3* | *3.8* | *3.9* |
| Japan | 4.8 | 8.3 | -0.8 | 9.3 | 2.9 | 1.3 | **6.8** | **4.8** | **2.8** | *5.0* | *2.0* | *1.9* |

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1999-2019) 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 3.5 | 5.3 | 1.4 | 6.2 | 3.3 | 8.4 | **4.1** | **5.0** | **4.5** | *4.8* | *4.6* | *4.3* |
| Germany | 4.6 | 6.6 | 2.4 | 3.6 | 5.6 | 3.9 | **5.1** | **6.1** | **4.6** | *4.6* | *5.0* | *4.6* |
| Estonia | 5.3 | 11.6 | 3.7 | 3.6 | -1.8 | 5.3 | **3.5** | **4.1** | **4.1** | *4.4* | *4.4* | *4.0* |
| Ireland | 9.8 | 5.9 | 0.9 | 14.9 | 26.0 | 16.4 | **-6.2** | **4.6** | **4.4** | *2.2* | *4.7* | *4.6* |
| Greece | 7.6 | 6.9 | -9.2 | 7.7 | 0.4 | 0.3 | **7.2** | **5.5** | **4.4** | *6.0* | *3.8* | *4.2* |
| Spain | 7.2 | 5.5 | -4.2 | 6.6 | 5.9 | 2.7 | **4.7** | **4.7** | **4.5** | *4.4* | *4.3* | *4.0* |
| France | 5.4 | 5.0 | 1.5 | 4.8 | 5.7 | 4.2 | **4.0** | **3.9** | **4.1** | *3.9* | *4.0* | *4.2* |
| Italy | 3.7 | 3.4 | -2.4 | 3.2 | 6.8 | 3.5 | **5.3** | **4.9** | **4.5** | *5.9* | *4.7* | *3.8* |
| Cyprus | 2.0 | 7.4 | -4.1 | 4.6 | 7.4 | 6.8 | **10.1** | **4.8** | **3.7** | *3.7* | *3.2* | *2.9* |
| Latvia | 5.3 | 12.5 | -0.2 | 1.2 | 2.1 | 4.5 | **9.5** | **6.4** | **3.6** | *7.9* | *5.1* | *4.5* |
| Lithuania | 7.5 | 14.6 | 2.7 | 3.1 | 6.2 | 3.5 | **12.8** | **6.5** | **5.2** | *10.8* | *6.0* | *5.2* |
| Luxembourg | 7.7 | 9.1 | 2.3 | 14.6 | 7.1 | 2.1 | **3.9** | **3.8** | **3.5** | *5.5* | *4.7* | *4.0* |
| Malta | 3.2 | 9.9 | 2.5 | -0.2 | 7.1 | 1.5 | **-3.0** | **2.3** | **2.5** | *-0.8* | *4.0* | *3.6* |
| Netherlands | 5.0 | 5.6 | 1.6 | 4.2 | 8.4 | 4.1 | **5.4** | **6.0** | **5.0** | *5.0* | *5.2* | *4.8* |
| Austria | 4.6 | 5.1 | 1.2 | 2.9 | 3.1 | 3.1 | **5.4** | **3.9** | **3.4** | *4.3* | *3.3* | *3.0* |
| Portugal | 3.0 | 5.0 | -2.2 | 7.8 | 8.5 | 4.2 | **7.9** | **6.9** | **5.6** | *8.0* | *7.2* | *5.2* |
| Slovenia | 6.1 | 10.8 | -2.2 | 4.1 | 4.7 | 6.6 | **10.1** | **8.9** | **8.4** | *8.7* | *8.4* | *6.2* |
| Slovakia | 6.9 | 13.7 | 2.0 | 4.8 | 8.4 | 3.7 | **3.9** | **6.8** | **7.6** | *4.6* | *6.5* | *6.9* |
| Finland | 5.7 | 8.3 | -0.8 | -1.3 | 3.2 | 5.7 | **3.5** | **3.9** | **3.6** | *6.6* | *4.1* | *3.4* |
| Euro area | 5.1 | 5.8 | 0.4 | 4.9 | 6.7 | 4.8 | **4.3** | **5.2** | **4.5** | *4.7* | *4.7* | *4.4* |
| Bulgaria | 7.7 | 16.6 | -1.2 | 5.2 | 5.4 | 4.5 | **7.2** | **7.4** | **6.2** | *5.5* | *5.0* | *4.9* |
| Czech Republic | 8.7 | 13.1 | 2.3 | 10.1 | 6.8 | 3.4 | **5.8** | **5.6** | **5.1** | *6.2* | *5.5* | *5.2* |
| Denmark | 4.7 | 8.6 | -0.2 | 3.9 | 1.9 | 3.8 | **4.1** | **3.9** | **3.7** | *4.6* | *4.5* | *4.2* |
| Croatia | 8.9 | 5.7 | -4.5 | 3.1 | 9.2 | 6.2 | **8.1** | **6.6** | **6.0** | *6.9* | *6.3* | *5.8* |
| Hungary | 11.9 | 12.0 | -0.2 | 11.0 | 6.4 | 2.9 | **9.7** | **9.5** | **8.0** | *9.6* | *8.4* | *6.3* |
| Poland | 4.5 | 11.5 | 1.5 | 10.0 | 6.6 | 7.6 | **8.7** | **8.4** | **6.3** | *8.2* | *7.9* | *5.9* |
| Romania | 14.4 | 17.7 | 1.0 | 8.7 | 8.0 | 9.8 | **11.3** | **8.2** | **7.4** | *9.9* | *8.1* | *7.3* |
| Sweden | 3.4 | 6.6 | 0.9 | 6.3 | 5.2 | 3.4 | **5.0** | **4.3** | **3.5** | *4.4* | *3.9* | *3.5* |
| EU27 | 5.2 | 6.4 | 0.5 | 5.4 | 6.5 | 4.8 | **4.7** | **5.4** | **4.7** | *5.0* | *4.9* | *4.5* |
| United Kingdom | 6.0 | 4.1 | 0.9 | 4.5 | 5.1 | 4.8 | **3.2** | **2.7** | **2.2** | *2.6* | *2.1* | *2.1* |
| EU | 5.3 | 6.1 | 0.5 | 5.3 | 6.3 | 4.8 | **4.5** | **5.1** | **4.4** | *4.7* | *4.6* | *4.3* |
| USA | 5.5 | 4.7 | 1.2 | 4.5 | 5.0 | 1.3 | **4.0** | **6.5** | **5.2** | *4.2* | *5.0* | *4.8* |
| Japan | 3.6 | 4.3 | 1.6 | 8.3 | 0.8 | -1.9 | **3.6** | **2.8** | **2.8** | *3.4* | *2.0* | *2.5* |

**Table 49:** **Merchandise trade balance[1] (fob-fob, as a percentage of GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 3.3 | 1.8 | -0.8 | -0.8 | 0.1 | 0.3 | **0.9** | **0.9** | **0.9** | *0.4* | *0.3* | *0.4* |
| **Germany** | 4.7 | 7.1 | 6.5 | 7.8 | 8.6 | 8.7 | **8.2** | **8.2** | **7.9** | *8.0* | *7.8* | *7.7* |
| **Estonia** | -16.7 | -15.6 | -4.4 | -5.5 | -4.2 | -3.7 | **-4.0** | **-3.9** | **-4.3** | *-4.3* | *-4.3* | *-4.3* |
| **Ireland** | 25.2 | 17.5 | 22.3 | 20.9 | 43.3 | 38.4 | **36.2** | **35.0** | **34.3** | *34.3* | *33.2* | *32.7* |
| **Greece** | -15.3 | -16.8 | -12.2 | -10.8 | -9.1 | -9.5 | **-10.5** | **-10.7** | **-10.8** | *-10.0* | *-9.7* | *-9.6* |
| **Spain** | -5.5 | -7.8 | -3.3 | -2.1 | -2.1 | -1.6 | **-2.1** | **-2.3** | **-2.3** | *-1.9* | *-1.6* | *-1.6* |
| **France** | 0.5 | -1.2 | -2.2 | -1.8 | -1.2 | -1.3 | **-1.9** | **-1.7** | **-1.5** | *-1.8* | *-1.6* | *-1.4* |
| **Italy** | 1.1 | -0.1 | 0.2 | 2.9 | 3.1 | 3.4 | **3.3** | **3.3** | **3.4** | *3.1* | *3.1* | *3.1* |
| **Cyprus** | -24.8 | -26.1 | -19.8 | -16.0 | -16.7 | -21.2 | **-23.5** | **-25.0** | **-25.7** | *-23.7* | *-24.6* | *-25.2* |
| **Latvia** | -17.2 | -21.5 | -10.6 | -10.1 | -9.1 | -7.7 | **-9.7** | **-10.7** | **-10.4** | *-10.3* | *-10.4* | *-10.4* |
| **Lithuania** | -10.9 | -13.0 | -4.6 | -2.6 | -5.3 | -4.6 | **-4.9** | **-6.0** | **-6.7** | *-6.1* | *-6.0* | *-6.3* |
| **Luxembourg** | -9.9 | -6.8 | -1.5 | 1.6 | -0.5 | -1.4 | **-0.7** | **-0.9** | **-0.7** | *-2.6* | *-2.2* | *-2.1* |
| **Malta** | -13.7 | -17.4 | -16.3 | -13.4 | -19.6 | -18.3 | **-14.3** | **-14.4** | **-14.5** | *-14.9* | *-15.3* | *-15.0* |
| **Netherlands** | 7.6 | 9.7 | 10.2 | 11.5 | 11.5 | 11.9 | **12.4** | **12.1** | **11.8** | *12.0* | *11.8* | *11.7* |
| **Austria** | -0.7 | 0.4 | -0.5 | 0.3 | 0.6 | 0.1 | **0.2** | **0.6** | **0.8** | *0.6* | *1.1* | *1.6* |
| **Portugal** | -11.3 | -11.5 | -7.5 | -4.7 | -4.5 | -4.3 | **-5.2** | **-5.5** | **-5.8** | *-5.0* | *-5.1* | *-5.4* |
| **Slovenia** | -4.0 | -4.1 | -0.8 | 2.9 | 3.8 | 3.8 | **3.8** | **3.4** | **2.0** | *4.0* | *3.3* | *2.7* |
| **Slovakia** | -8.0 | -4.2 | 1.1 | 3.4 | 1.3 | 2.9 | **2.7** | **3.4** | **4.3** | *3.3* | *3.5* | *4.3* |
| **Finland** | 8.9 | 4.6 | 0.4 | 0.7 | 0.8 | 0.4 | **1.0** | **1.2** | **1.4** | *0.3* | *0.9* | *1.6* |
| **Euro area** | 1.6 | 1.1 | 1.5 | 2.9 | 4.1 | 4.1 | **3.8** | **3.8** | **3.8** | *3.6* | *3.7* | *3.7* |
| **Euro area, adjusted[2]** | 0.7 | 0.3 | 0.9 | 2.4 | 3.4 | 3.5 | **3.1** | **3.1** | **3.1** | *3.0* | *3.1* | *3.1* |
| **Bulgaria** | -15.5 | -23.3 | -9.0 | -6.5 | -5.8 | -2.0 | **-4.5** | **-5.8** | **-6.4** | *-3.1* | *-2.9* | *-2.8* |
| **Czech Republic** | -7.0 | -0.1 | 2.4 | 5.1 | 4.1 | 5.2 | **4.8** | **4.8** | **4.3** | *5.0* | *4.9* | *4.7* |
| **Denmark** | 4.9 | 2.3 | 4.5 | 4.5 | 5.2 | 5.6 | **5.7** | **5.6** | **5.4** | *4.9* | *4.8* | *4.6* |
| **Croatia** | | -21.4 | -14.7 | -15.0 | -15.7 | -15.8 | **-16.8** | **-17.1** | **-17.5** | *-17.4* | *-18.0* | *-18.5* |
| **Hungary** | -6.6 | -2.2 | 2.9 | 2.0 | 4.0 | 4.1 | **1.9** | **0.3** | **-0.5** | *2.7* | *2.3* | *2.6* |
| **Poland** | -4.9 | -3.9 | -2.2 | -0.8 | 0.5 | 0.7 | **0.1** | **-0.4** | **-0.6** | *0.2* | *-0.4* | *-0.6* |
| **Romania** | -5.8 | -11.8 | -6.1 | -4.3 | -4.9 | -5.4 | **-6.3** | **-6.6** | **-6.9** | *-6.5* | *-7.1* | *-7.4* |
| **Sweden** | 7.5 | 6.8 | 3.9 | 3.1 | 3.0 | 2.7 | **2.9** | **2.8** | **3.1** | *2.4* | *2.5* | *2.6* |
| **United Kingdom** | -3.6 | -5.4 | -6.2 | -6.7 | -6.3 | -6.9 | **-6.7** | **-6.3** | **-6.0** | *-6.3* | *-5.8* | *-5.7* |
| **EU** | 0.6 | -0.2 | 0.3 | 1.2 | 1.9 | 2.1 | **1.9** | **1.9** | **1.9** | *1.8* | *1.9* | *1.9* |
| **EU, adjusted[2]** | -0.5 | -1.1 | -0.4 | 0.3 | 1.0 | 1.2 | **0.9** | **0.9** | **1.0** | *0.9* | *1.1* | *1.1* |
| **USA** | -4.3 | -5.9 | -4.5 | -4.5 | -4.4 | -4.2 | **-4.3** | **-4.6** | **-4.8** | *-4.4* | *-4.6* | *-4.7* |
| **Japan** | 2.3 | 2.2 | 0.1 | -2.0 | -0.2 | 1.0 | **0.5** | **0.8** | **0.8** | *0.8* | *0.9* | *0.7* |

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

**Table 50:** **Current-account balance[1] (as a percentage of GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 4.9 | 3.4 | 1.5 | -0.3 | -0.4 | 0.1 | **0.6** | **0.5** | **0.6** | *-1.0* | *-1.1* | *-0.9* |
| **Germany** | 0.0 | 5.5 | 6.3 | 7.6 | 8.6 | 8.5 | **8.0** | **7.9** | **7.6** | *7.8* | *7.5* | *7.2* |
| **Estonia** | -8.4 | -11.8 | 0.9 | 0.3 | 2.0 | 1.9 | **2.9** | **3.0** | **2.9** | *2.3* | *2.3* | *2.4* |
| **Ireland** | 0.3 | -4.4 | -1.6 | 1.6 | 10.9 | 3.3 | **12.5** | **11.9** | **11.5** | *2.9* | *2.5* | *2.3* |
| **Greece** | -8.9 | -12.4 | -8.1 | -2.1 | 0.0 | -0.7 | **-0.9** | **-0.4** | **-0.5** | *-0.2* | *0.4* | *1.0* |
| **Spain** | -3.8 | -8.2 | -2.1 | 1.0 | 1.0 | 1.9 | **1.8** | **1.5** | **1.6** | *1.7* | *1.9* | *1.9* |
| **France** | 1.5 | -0.6 | -2.3 | -3.0 | -2.2 | -2.6 | **-3.0** | **-2.9** | **-2.7** | *-3.0* | *-2.8* | *-2.6* |
| **Italy** | -0.1 | -1.4 | -1.5 | 1.9 | 1.5 | 2.5 | **2.8** | **2.6** | **2.6** | *2.5* | *2.5* | *2.3* |
| **Cyprus** | -3.6 | -18.2 | -6.8 | -4.4 | -1.4 | -4.9 | **-8.1** | **-9.0** | **-9.7** | *-5.4* | *-6.2* | *-6.8* |
| **Latvia** | -7.9 | -16.1 | 0.2 | -1.7 | -0.5 | 1.4 | **-0.9** | **-2.9** | **-2.9** | *-1.4* | *-1.6* | *-1.2* |
| **Lithuania** | -6.7 | -10.5 | -0.3 | 4.0 | -2.0 | -0.6 | **-1.5** | **-2.3** | **-2.9** | *-0.7* | *-0.3* | *-0.4* |
| **Luxembourg** | 6.2 | 6.5 | 0.5 | -0.9 | 2.5 | 3.5 | **2.7** | **3.0** | **2.8** | *4.6* | *4.8* | *4.7* |
| **Malta** | -3.9 | -4.2 | -1.4 | 8.8 | 4.5 | 7.0 | **12.6** | **11.5** | **11.3** | *9.6* | *9.4* | *9.8* |
| **Netherlands** | 5.2 | 7.1 | 8.6 | 8.9 | 8.3 | 8.7 | **10.1** | **9.8** | **9.5** | *9.1* | *8.7* | *8.4* |
| **Austria** | -0.1 | 2.9 | 2.3 | 2.5 | 2.1 | 2.3 | **2.3** | **2.5** | **2.8** | *2.2* | *2.9* | *3.7* |
| **Portugal** | -9.2 | -10.5 | -5.4 | -0.3 | -0.9 | 0.1 | **0.5** | **0.6** | **0.6** | *0.1* | *0.2* | *0.2* |
| **Slovenia** | -2.3 | -3.4 | 0.6 | 5.8 | 4.5 | 5.3 | **6.7** | **6.6** | **5.2** | *5.9* | *5.4* | *4.9* |
| **Slovakia** | -5.5 | -7.1 | -2.3 | 1.0 | -1.0 | 0.4 | **0.5** | **0.8** | **1.4** | *0.8* | *0.7* | *1.3* |
| **Finland** | 7.0 | 4.0 | -0.3 | -1.3 | -0.8 | -1.1 | **0.7** | **1.0** | **1.4** | *-1.1* | *-0.3* | *0.4* |
| **Euro area** | 0.2 | 0.2 | 1.1 | 2.6 | 3.2 | 3.3 | **3.5** | **3.4** | **3.4** | *3.0* | *3.0* | *2.9* |
| **Euro area, adjusted[2]** | -0.3 | -0.2 | 0.7 | 2.5 | 3.2 | 3.6 | **3.5** | **3.4** | **3.4** | *3.0* | *3.0* | *3.0* |
| **Bulgaria** | -4.5 | -16.2 | -1.3 | 0.2 | 0.6 | 5.3 | **3.0** | **1.4** | **0.8** | *3.0* | *2.4* | *2.3* |
| **Czech Republic** | -3.8 | -4.0 | -3.4 | -1.2 | -1.6 | -0.1 | **0.5** | **0.3** | **-0.3** | *-0.2* | *-0.3* | *-0.6* |
| **Denmark** | 2.7 | 3.0 | 6.1 | 8.9 | 8.8 | 7.3 | **7.8** | **7.6** | **7.4** | *8.4* | *8.3* | *8.2* |
| **Croatia** | -3.9 | -6.3 | -1.0 | 2.0 | 4.6 | 2.4 | **3.6** | **2.8** | **2.1** | *3.1* | *1.9* | *1.9* |
| **Hungary** | -7.2 | -8.0 | 1.2 | 1.5 | 3.4 | 6.1 | **2.9** | **1.2** | **0.9** | *4.3* | *3.3* | *3.2* |
| **Poland** | -3.4 | -5.3 | -3.4 | -1.4 | 0.2 | 0.9 | **0.7** | **0.3** | **0.0** | *1.0* | *0.3* | *0.1* |
| **Romania** | -4.1 | -10.3 | -3.6 | -0.1 | -0.6 | -2.1 | **-3.5** | **-3.6** | **-3.9** | *-3.1* | *-3.2* | *-3.4* |
| **Sweden** | 5.3 | 7.7 | 5.8 | 4.7 | 4.6 | 4.7 | **4.0** | **4.1** | **4.4** | *4.9* | *5.0* | *5.1* |
| **United Kingdom** | -2.3 | -3.2 | -4.0 | -5.3 | -5.2 | -5.8 | **-4.1** | **-3.5** | **-3.0** | *-5.1* | *-4.6* | *-4.4* |
| **EU** | -0.3 | -0.5 | 0.4 | 1.3 | 1.7 | 1.8 | **2.2** | **2.2** | **2.2** | *1.7* | *1.8* | *1.8* |
| **EU, adjusted[2]** | -0.8 | -1.0 | 0.0 | 0.8 | 1.1 | 1.6 | **1.4** | **1.4** | **1.5** | *1.4* | *1.4* | *1.4* |
| **USA** | -3.8 | -5.2 | -2.6 | -2.1 | -2.4 | -2.4 | **-2.4** | **-2.7** | **-2.9** | *-2.7* | *-2.8* | *-2.9* |
| **Japan** | 2.6 | 3.8 | 2.1 | 0.8 | 3.1 | 3.8 | **4.1** | **4.6** | **4.6** | *3.9* | *4.1* | *4.0* |

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

**Table 51:** **Net lending (+) or net borrowing (-) of the nation[1] (as a percentage of GDP, 1999-2019)** 23.4.2018

| | 5-year averages | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1999-03 | 2004-08 | 2009-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 4.8 | 3.2 | 1.6 | -0.5 | -0.4 | 0.2 | **0.8** | **0.7** | **0.9** | *-0.8* | *-1.0* | *-0.8* |
| **Germany** | 0.0 | 5.4 | 6.3 | 7.6 | 8.6 | 8.5 | **7.9** | **7.8** | **7.5** | *7.9* | *7.5* | *7.2* |
| **Estonia** | -8.0 | -10.6 | 4.2 | 1.3 | 4.0 | 3.0 | **3.7** | **4.6** | **4.7** | *4.1* | *4.3* | *3.9* |
| **Ireland** | 0.9 | -4.2 | -1.6 | -1.8 | 10.4 | 1.5 | **3.4** | **3.3** | **3.4** | *1.2* | *0.9* | *0.7* |
| **Greece** | -7.5 | -10.6 | -6.3 | -0.1 | 2.4 | 0.9 | **1.0** | **1.5** | **1.3** | *1.7* | *2.3* | *2.8* |
| **Spain** | -2.9 | -7.6 | -1.6 | 1.5 | 1.7 | 2.1 | **2.0** | **1.7** | **1.9** | *2.0* | *2.2* | *2.2* |
| **France** | 1.4 | -0.6 | -2.3 | -3.1 | -2.3 | -2.5 | **-2.9** | **-3.0** | **-2.9** | *-3.1* | *-2.8* | *-2.7* |
| **Italy** | 0.0 | -1.3 | -1.5 | 2.0 | 1.7 | 2.3 | **2.7** | **2.6** | **2.6** | *2.3* | *2.4* | *2.2* |
| **Cyprus** | -3.3 | -17.6 | -6.3 | -4.4 | -1.1 | -4.7 | **-7.6** | **-8.6** | **-9.3** | *-5.1* | *-6.2* | *-6.8* |
| **Latvia** | -7.5 | -14.8 | 2.5 | 1.5 | 2.3 | 2.4 | **-0.3** | **-1.5** | **-0.8** | *-0.1* | *0.0* | *0.4* |
| **Lithuania** | -6.5 | -9.1 | 3.2 | 6.6 | 1.0 | 0.9 | **-0.3** | **-1.1** | **-1.8** | *0.3* | *0.9* | *0.7* |
| **Luxembourg** | 5.8 | 5.8 | -0.9 | -0.3 | 1.1 | 0.5 | **3.5** | **3.7** | **3.4** | *4.3* | *4.4* | *4.4* |
| **Malta** | -3.6 | -2.4 | 0.2 | 10.5 | 6.2 | 7.4 | **13.0** | **12.0** | **11.8** | *10.3* | *10.1* | *10.5* |
| **Netherlands** | 5.2 | 6.7 | 8.3 | 8.8 | 3.3 | 8.5 | **10.0** | **9.5** | **9.1** | *8.5* | *8.2* | *7.9* |
| **Austria** | -0.2 | 2.8 | 2.3 | 2.4 | 1.6 | 2.1 | **1.9** | **2.0** | **2.2** | *2.0* | *2.6* | *3.3* |
| **Portugal** | -7.4 | -9.1 | -3.9 | 1.0 | 0.3 | 1.0 | **1.4** | **1.5** | **1.5** | *1.0* | *1.1* | *1.1* |
| **Slovenia** | -2.5 | -3.4 | 1.1 | 6.0 | 5.6 | 4.5 | **6.1** | **7.1** | **6.1** | *5.5* | *5.2* | *4.8* |
| **Slovakia** | -6.0 | -6.8 | -0.9 | 1.9 | 1.1 | 0.2 | **0.2** | **0.6** | **1.5** | *0.8* | *0.5* | *1.9* |
| **Finland** | 7.1 | 4.1 | -0.2 | -1.2 | -0.7 | -1.1 | **0.8** | **1.1** | **1.5** | *-1.1* | *-0.3* | *0.5* |
| **Euro area** | 0.3 | 0.3 | 1.2 | 2.7 | 3.0 | 3.2 | **3.3** | **3.2** | **3.1** | *2.9* | *2.9* | *2.9* |
| **Euro area, adjusted[2]** | -0.1 | 0.0 | 0.8 | 2.5 | 3.1 | 3.6 | **3.3** | **3.2** | **3.1** | *3.0* | *3.0* | *2.9* |
| **Bulgaria** | -4.5 | -15.9 | 0.1 | 2.4 | 3.9 | 7.3 | **4.7** | **3.2** | **2.7** | *5.2* | *4.7* | *4.8* |
| **Czech Republic** | -3.6 | -3.7 | -1.6 | 0.5 | 1.2 | 0.4 | **1.0** | **0.8** | **0.2** | *0.2* | *0.0* | *-0.4* |
| **Denmark** | 2.9 | 3.0 | 6.2 | 8.7 | 8.5 | 7.3 | **7.8** | **7.6** | **7.6** | *8.4* | *8.3* | *8.2* |
| **Croatia** | -3.9 | -6.3 | -0.9 | 2.2 | 5.3 | 3.5 | **4.1** | **3.9** | **3.5** | *3.8* | *2.7* | *2.7* |
| **Hungary** | -7.1 | -7.3 | 3.6 | 5.2 | 8.0 | 6.0 | **4.2** | **4.1** | **3.8** | *6.5* | *5.5* | *5.0* |
| **Poland** | -3.4 | -4.7 | -1.5 | 0.4 | 2.6 | 1.7 | **1.5** | **1.5** | **1.5** | *2.5* | *1.9* | *1.8* |
| **Romania** | -3.8 | -9.8 | -2.6 | 2.5 | 1.8 | -1.1 | **-1.9** | **-2.1** | **-2.1** | *-1.6* | *-1.5* | *-1.4* |
| **Sweden** | 5.0 | 7.6 | 5.6 | 4.6 | 4.4 | 4.6 | **4.0** | **4.0** | **4.3** | *4.8* | *5.0* | *5.1* |
| **United Kingdom** | -2.3 | -3.2 | -4.0 | -5.4 | -5.3 | -5.9 | **-4.1** | **-3.6** | **-3.2** | *-5.2* | *-4.7* | *-4.4* |
| **EU** | -0.1 | -0.4 | 0.5 | 1.5 | 1.7 | 1.8 | **2.1** | **2.1** | **2.2** | *1.8* | *1.9* | *1.9* |
| **EU, adjusted[2]** | -0.7 | -0.9 | 0.2 | 1.0 | 1.1 | 1.6 | **1.4** | **1.4** | **1.4** | *1.4* | *1.5* | *1.5* |
| **USA** | -3.8 | -5.2 | -2.6 | -2.1 | -2.4 | -2.4 | **-2.4** | **-2.7** | **-2.9** | *-2.7* | *-2.8* | *-2.9* |
| **Japan** | 2.4 | 3.7 | 2.1 | 0.7 | 3.0 | 3.7 | **3.9** | **4.4** | **4.4** | *3.8* | *4.0* | *4.0* |

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

**Table 52:** **Current-account balance[1] (in billions of euro, 2011-19)** 23.4.2018

| | | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **Belgium** | 0.9 | 5.9 | 4.6 | -1.0 | -1.8 | 0.4 | **2.8** | **2.3** | **3.0** | *-4.2* | *-4.8* | *-4.0* |
| **Germany** | 167.3 | 197.0 | 189.7 | 224.2 | 261.9 | 267.9 | **262.5** | **267.0** | **267.7** | *255.2* | *253.6* | *252.6* |
| **Estonia** | 0.2 | -0.3 | 0.1 | 0.1 | 0.4 | 0.4 | **0.7** | **0.7** | **0.8** | *0.5* | *0.6* | *0.6* |
| **Ireland** | -2.8 | -4.6 | 3.8 | 3.2 | 28.6 | 9.2 | **37.0** | **37.3** | **38.1** | *8.4* | *7.7* | *7.3* |
| **Greece** | -21.3 | -8.1 | -4.0 | -3.7 | 0.1 | -1.2 | **-1.6** | **-0.7** | **-0.9** | *-0.4* | *0.8* | *1.9* |
| **Spain** | -35.3 | -4.6 | 15.0 | 10.3 | 11.0 | 21.1 | **20.4** | **18.0** | **20.0** | *20.3* | *23.2* | *24.3* |
| **France** | -46.0 | -61.2 | -60.4 | -65.0 | -49.1 | -57.8 | **-68.7** | **-68.7** | **-66.3** | *-68.4* | *-64.9* | *-63.7* |
| **Italy** | -49.3 | -5.8 | 15.3 | 30.4 | 24.2 | 41.7 | **47.2** | **46.8** | **47.5** | *42.0* | *44.6* | *41.3* |
| **Cyprus** | -0.8 | -1.2 | -0.9 | -0.8 | -0.3 | -0.9 | **-1.6** | **-1.8** | **-2.1** | *-1.0* | *-1.2* | *-1.4* |
| **Latvia** | -0.6 | -0.8 | -0.6 | -0.4 | -0.1 | 0.3 | **-0.3** | **-0.8** | **-0.9** | *-0.4* | *-0.4* | *-0.4* |
| **Lithuania** | -1.2 | -0.3 | 0.5 | 1.5 | -0.8 | -0.2 | **-0.6** | **-1.0** | **-1.4** | *-0.3* | *-0.1* | *-0.2* |
| **Luxembourg** | 0.5 | -0.1 | -0.6 | -0.5 | 1.3 | 1.8 | **1.5** | **1.8** | **1.7** | *2.6* | *2.8* | *3.0* |
| **Malta** | 0.0 | 0.1 | 0.2 | 0.7 | 0.4 | 0.7 | **1.4** | **1.4** | **1.4** | *1.0* | *1.1* | *1.2* |
| **Netherlands** | 56.9 | 65.6 | 66.7 | 59.1 | 57.0 | 61.2 | **74.2** | **75.0** | **76.7** | *66.9* | *66.5* | *67.3* |
| **Austria** | 6.7 | 6.1 | 6.1 | 8.2 | 7.1 | 8.0 | **8.5** | **9.5** | **11.1** | *8.1* | *11.0* | *14.6* |
| **Portugal** | -9.6 | -3.4 | 1.3 | -0.4 | -1.6 | 0.1 | **1.0** | **1.2** | **1.3** | *0.1* | *0.4* | *0.4* |
| **Slovenia** | -0.1 | 0.6 | 1.2 | 2.2 | 1.8 | 2.1 | **2.9** | **3.1** | **2.6** | *2.6* | *2.4* | *2.3* |
| **Slovakia** | -3.9 | 0.3 | 1.1 | 0.7 | -0.8 | 0.3 | **0.4** | **0.7** | **1.4** | *0.6* | *0.6* | *1.2* |
| **Finland** | -2.9 | -3.8 | -3.8 | -2.7 | -1.7 | -2.4 | **1.6** | **2.3** | **3.4** | *-2.5* | *-0.7* | *1.0* |
| **Euro area** | 58.5 | 181.3 | 235.3 | 266.1 | 337.6 | 352.9 | **389.4** | **394.0** | **405.2** | *331.2* | *343.1* | *349.5* |
| **Euro area, adjusted[2]** | -8.9 | 135.4 | 220.7 | 249.7 | 339.8 | 388.0 | **387.6** | **392.1** | **403.3** | *335.5* | *347.4* | *353.8* |
| **Bulgaria** | 0.2 | -0.1 | 0.9 | 0.1 | 0.3 | 2.6 | **1.5** | **0.7** | **0.4** | *1.5* | *1.3* | *1.3* |
| **Czech Republic** | -7.6 | -3.6 | -1.7 | -1.9 | -2.6 | -0.2 | **0.9** | **0.7** | **-0.8** | *-0.4* | *-0.6* | *-1.2* |
| **Denmark** | 16.3 | 16.0 | 20.1 | 23.7 | 24.0 | 20.3 | **22.5** | **22.7** | **22.9** | *24.4* | *24.8* | *25.5* |
| **Croatia** | -0.3 | 0.2 | 0.5 | 0.9 | 2.0 | 1.1 | **1.8** | **1.4** | **1.1** | *1.5* | *1.0* | *1.0* |
| **Hungary** | 0.9 | 1.8 | 3.8 | 1.6 | 3.8 | 6.9 | **3.6** | **1.6** | **1.2** | *5.2* | *4.3* | *4.5* |
| **Poland** | -18.1 | -12.8 | -2.0 | -5.6 | 0.8 | 3.8 | **3.2** | **1.3** | **0.2** | *4.6* | *1.7* | *0.3* |
| **Romania** | -5.8 | -5.6 | -0.9 | -0.2 | -1.0 | -3.6 | **-6.6** | **-7.3** | **-8.6** | *-5.5* | *-6.2* | *-7.0* |
| **Sweden** | 20.8 | 23.5 | 22.2 | 20.5 | 20.5 | 21.8 | **19.3** | **19.4** | **21.5** | *23.6* | *25.6* | *27.2* |
| **United Kingdom** | -44.8 | -88.3 | -114.3 | -121.6 | -135.2 | -138.6 | **-94.6** | **-85.1** | **-75.8** | *-119.0* | *-109.5* | *-105.9* |
| **EU** | 20.2 | 112.3 | 163.8 | 183.5 | 250.2 | 267.1 | **341.2** | **349.5** | **367.4** | *267.1* | *285.4* | *295.1* |
| **EU, adjusted[2]** | -43.7 | 66.2 | 125.0 | 113.5 | 158.1 | 231.4 | **221.9** | **230.2** | **248.2** | *209.2* | *227.5* | *237.3* |
| **USA** | -319.4 | -331.7 | -263.2 | -281.4 | -391.7 | -408.1 | **-413.0** | **-449.1** | **-502.1** | *-459.9* | *-476.1* | *-526.4* |
| **Japan** | 93.7 | 46.5 | 34.4 | 27.9 | 122.1 | 170.7 | **178.4** | **195.1** | **199.2** | *168.7* | *172.8* | *172.9* |

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

**Table 53: Export markets (a) (percentage change on preceding year, 2011-19)** 23.4.2018

| | | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 5.7 | 1.1 | 2.3 | 4.4 | 4.5 | 3.2 | 4.7 | 5.0 | 4.4 | 4.6 | 4.5 | 4.3 |
| Germany | 6.5 | 1.4 | 2.9 | 3.7 | 3.2 | 3.4 | 5.2 | 5.2 | 4.6 | 4.9 | 4.6 | 4.3 |
| Estonia | 8.8 | 3.4 | 2.1 | 1.7 | 1.4 | 3.3 | 5.9 | 5.0 | 4.2 | 5.8 | 4.5 | 4.1 |
| Ireland | 5.3 | 2.2 | 3.1 | 4.7 | 3.3 | 3.2 | 4.1 | 4.9 | 4.3 | 3.9 | 4.2 | 4.1 |
| Greece | 5.3 | 3.0 | 3.3 | 3.8 | 2.8 | 3.2 | 4.8 | 5.1 | 4.5 | 4.2 | 4.5 | 4.3 |
| Spain | 5.2 | 1.6 | 3.2 | 4.0 | 3.7 | 3.0 | 4.6 | 4.9 | 4.4 | 4.4 | 4.5 | 4.2 |
| France | 5.6 | 1.4 | 2.9 | 4.5 | 3.3 | 2.9 | 4.5 | 5.1 | 4.4 | 4.4 | 4.4 | 4.2 |
| Italy | 6.5 | 1.7 | 3.4 | 3.4 | 3.0 | 3.1 | 4.9 | 5.2 | 4.6 | 4.6 | 4.6 | 4.4 |
| Cyprus | 8.1 | 8.2 | 8.1 | 1.2 | -5.9 | -2.0 | 6.9 | 5.4 | 4.5 | 5.0 | 4.4 | 4.4 |
| Latvia | 11.4 | 5.0 | 3.5 | 1.7 | -0.6 | 2.8 | 6.9 | 5.3 | 4.6 | 6.1 | 4.8 | 4.4 |
| Lithuania | 10.6 | 3.8 | 1.7 | 1.1 | -1.2 | 2.9 | 6.5 | 5.6 | 4.6 | 5.8 | 4.9 | 4.5 |
| Luxembourg | 4.8 | 3.1 | 3.2 | 6.1 | 5.8 | 4.5 | 2.6 | 4.5 | 4.1 | 3.2 | 4.2 | 4.1 |
| Malta | 4.1 | 3.8 | 4.3 | 5.3 | 3.6 | 3.5 | 3.6 | 4.6 | 4.0 | 3.4 | 4.0 | 3.8 |
| Netherlands | 6.1 | 0.6 | 2.2 | 4.7 | 4.6 | 4.5 | 4.3 | 5.0 | 4.4 | 4.5 | 4.5 | 4.3 |
| Austria | 6.5 | 0.9 | 3.5 | 3.4 | 3.9 | 3.5 | 5.2 | 5.8 | 4.9 | 4.9 | 5.0 | 4.7 |
| Portugal | 4.4 | 0.5 | 2.4 | 4.9 | 4.2 | 2.3 | 4.1 | 4.8 | 4.3 | 4.0 | 4.2 | 4.1 |
| Slovenia | 6.1 | -0.1 | 2.2 | 3.6 | 4.0 | 3.9 | 6.1 | 5.8 | 5.0 | 5.6 | 5.1 | 4.7 |
| Slovakia | 6.7 | 0.2 | 2.0 | 4.8 | 4.1 | 4.0 | 6.3 | 5.9 | 5.0 | 5.8 | 5.3 | 4.7 |
| Finland | 8.4 | 3.1 | 2.8 | 3.2 | 0.9 | 2.7 | 5.7 | 5.2 | 4.5 | 4.9 | 4.5 | 4.3 |
| Euro area (b) | 6.1 | 1.4 | 2.9 | 4.1 | 3.5 | 3.4 | 4.8 | 5.1 | 4.5 | 4.6 | 4.5 | 4.3 |
| Bulgaria | 5.9 | 0.7 | 3.1 | 3.7 | 2.3 | 3.5 | 6.4 | 5.8 | 5.1 | 5.5 | 5.1 | 4.9 |
| Czech Republic | 7.0 | 0.5 | 2.7 | 3.8 | 4.0 | 3.8 | 5.6 | 5.8 | 5.0 | 5.2 | 5.1 | 4.7 |
| Denmark | 6.4 | 2.3 | 2.8 | 4.8 | 3.3 | 3.1 | 4.5 | 4.9 | 4.3 | 4.4 | 4.2 | 4.1 |
| Croatia | 4.6 | 1.1 | 3.1 | 4.1 | 4.0 | 3.9 | 5.5 | 5.7 | 5.0 | 5.1 | 5.2 | 4.6 |
| Hungary | 6.8 | 0.7 | 2.6 | 4.0 | 4.1 | 4.0 | 5.8 | 5.7 | 4.9 | 5.3 | 5.0 | 4.7 |
| Poland | 7.0 | 1.2 | 2.2 | 3.5 | 3.5 | 3.5 | 5.5 | 5.4 | 4.7 | 5.1 | 4.8 | 4.5 |
| Romania | 5.6 | 0.4 | 2.4 | 3.9 | 3.7 | 3.3 | 5.5 | 5.5 | 4.8 | 5.1 | 4.9 | 4.5 |
| Sweden | 6.3 | 2.5 | 3.0 | 3.8 | 3.0 | 3.5 | 4.4 | 4.7 | 4.2 | 4.7 | 4.2 | 4.0 |
| United Kingdom | 6.2 | 2.3 | 3.2 | 4.3 | 3.9 | 3.3 | 3.7 | 5.0 | 4.6 | 4.1 | 4.5 | 4.4 |
| EU (b) | 6.2 | 1.5 | 2.9 | 4.1 | 3.6 | 3.4 | 4.7 | 5.1 | 4.5 | 4.6 | 4.5 | 4.3 |
| USA | 8.0 | 4.2 | 3.3 | 4.0 | 2.3 | 2.2 | 4.5 | 4.4 | 4.0 | 3.8 | 3.8 | 3.8 |
| Japan | 8.6 | 3.9 | 4.0 | 3.7 | 2.3 | 3.2 | 6.2 | 5.4 | 4.8 | 4.3 | 4.5 | 4.5 |

(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, 2011-19)** 23.4.2018

| | | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Belgium | 0.9 | -0.8 | -1.4 | 0.8 | -1.2 | 4.2 | -0.2 | 0.0 | 0.0 | 0.1 | -0.1 | 0.1 |
| Germany | 1.7 | 1.4 | -1.1 | 0.9 | 2.0 | -0.8 | -0.5 | 0.7 | -0.5 | -1.2 | -0.6 | -0.4 |
| Estonia | 14.1 | 1.4 | 0.6 | 0.8 | -2.1 | 0.7 | -2.9 | -0.8 | -0.2 | -2.0 | -0.3 | 0.0 |
| Ireland | -2.1 | -0.6 | -0.1 | 9.3 | 33.9 | 1.4 | 2.7 | 0.8 | 0.3 | 0.0 | 0.3 | 0.2 |
| Greece | -5.0 | -1.8 | -1.7 | 3.8 | 0.2 | -4.8 | 1.9 | 0.6 | 0.1 | 2.6 | 0.1 | 0.1 |
| Spain | 2.1 | -0.5 | 1.1 | 0.3 | 0.5 | 1.7 | 0.4 | 0.0 | 0.3 | 1.5 | 0.4 | 0.3 |
| France | 1.2 | 1.1 | -1.0 | -1.1 | 0.9 | -1.1 | -1.4 | -0.4 | -0.1 | -1.3 | -0.4 | 0.0 |
| Italy | -1.2 | 0.6 | -2.6 | -0.7 | 1.4 | -0.7 | 0.5 | -0.7 | -0.4 | 0.3 | -0.8 | -1.0 |
| Cyprus | -2.3 | -10.1 | -5.5 | 3.0 | 12.4 | 6.1 | -3.3 | -3.0 | -2.5 | -2.1 | -2.1 | -2.3 |
| Latvia | 0.6 | 4.5 | -2.3 | 4.2 | 3.7 | 1.2 | -1.9 | -1.5 | -1.1 | -2.2 | -0.6 | -0.4 |
| Lithuania | 4.4 | 8.3 | 8.0 | 2.1 | 0.9 | 0.5 | 6.3 | -0.1 | -0.1 | 4.4 | 0.4 | -0.1 |
| Luxembourg | -0.7 | -0.3 | 2.0 | 7.4 | 1.0 | -1.7 | 1.3 | -0.4 | -0.3 | 1.7 | 0.6 | 0.0 |
| Malta | -2.5 | 3.0 | -3.3 | -2.0 | 0.0 | 0.9 | -1.9 | -2.5 | -1.2 | -0.4 | -0.3 | -0.2 |
| Netherlands | -1.6 | 3.1 | -0.1 | -0.3 | 1.8 | -0.2 | 1.7 | 0.5 | 0.0 | 0.8 | 0.2 | 0.1 |
| Austria | -0.5 | 0.5 | -2.7 | -0.4 | -0.7 | -1.6 | 0.5 | -0.5 | -0.6 | 0.3 | -0.5 | -0.4 |
| Portugal | 2.6 | 2.9 | 4.5 | -0.6 | 1.9 | 2.1 | 3.6 | 2.0 | 1.1 | 3.8 | 3.0 | 0.8 |
| Slovenia | 0.8 | 0.7 | 0.8 | 2.0 | 1.0 | 2.4 | 4.2 | 2.1 | 1.4 | 3.2 | 2.1 | 0.7 |
| Slovakia | 5.0 | 9.1 | 4.6 | -0.8 | 2.2 | 2.2 | -1.9 | 1.1 | 2.8 | -1.1 | 1.4 | 2.8 |
| Finland | -5.9 | -1.8 | -1.7 | -5.7 | 0.1 | 0.8 | 2.1 | 0.2 | 0.3 | 3.9 | 1.2 | 0.9 |
| Euro area (b) | 0.4 | 1.1 | -0.7 | 0.6 | 2.7 | 0.0 | 0.3 | 0.2 | -0.1 | -0.1 | -0.1 | -0.1 |
| Bulgaria | 6.3 | 1.3 | 6.3 | -0.5 | 3.3 | 4.4 | -2.2 | -0.7 | -0.3 | -0.3 | -0.2 | 0.0 |
| Czech Republic | 2.0 | 3.8 | -2.4 | 4.7 | 1.9 | 0.7 | 0.8 | -1.0 | -0.3 | 1.6 | -0.3 | 0.0 |
| Denmark | 0.7 | -1.1 | -1.2 | -1.6 | -0.9 | -0.2 | -0.2 | -1.5 | -1.2 | 0.4 | -0.3 | -0.6 |
| Croatia | -2.3 | -1.2 | 0.1 | 1.9 | 5.2 | 1.7 | 0.6 | -0.9 | -0.4 | 1.0 | 0.6 | 0.4 |
| Hungary | -0.2 | -2.5 | 1.6 | 4.9 | 4.2 | -0.5 | 1.2 | 1.2 | 1.5 | 2.3 | 1.9 | 1.4 |
| Poland | 0.8 | 3.3 | 3.8 | 3.1 | 4.0 | 5.2 | 2.6 | 1.7 | 1.4 | 1.2 | 1.9 | 1.2 |
| Romania | 5.9 | 0.6 | 16.9 | 3.9 | 0.8 | 5.2 | 4.0 | 1.9 | 1.8 | 3.0 | 2.3 | 2.0 |
| Sweden | -0.2 | -1.5 | -3.6 | 1.4 | 2.6 | -0.2 | -0.7 | -0.1 | -0.5 | -0.5 | -0.1 | -0.2 |
| United Kingdom | 0.0 | -2.0 | -2.3 | -1.5 | 1.0 | -1.0 | 1.9 | -1.3 | -1.6 | 0.6 | -1.3 | -1.4 |
| EU (b) | 0.5 | 0.7 | -0.7 | 0.6 | 2.5 | 0.1 | 0.5 | 0.1 | -0.2 | 0.1 | -0.1 | -0.1 |
| USA | -1.0 | -0.7 | 0.1 | 0.3 | -1.8 | -2.5 | -1.1 | 0.0 | 0.3 | -0.6 | -0.1 | 0.1 |
| Japan | -8.1 | -3.8 | -3.1 | 5.4 | 0.7 | -1.8 | 0.6 | -0.6 | -1.9 | 0.6 | -2.4 | -2.4 |

(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, 2013-19)** **23.4.2018**

| | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ( a ) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| **EU** | 16.7 | 0.3 | 1.8 | 2.3 | 2.0 | **2.4** | **2.3** | **2.0** | *2.3* | *2.1* | *1.9* |
| **Euro area** | 11.7 | -0.2 | 1.3 | 2.1 | 1.8 | **2.4** | **2.3** | **2.0** | *2.2* | *2.1* | *1.9* |
| **Belgium** | 0.4 | 0.2 | 1.4 | 1.4 | 1.5 | **1.7** | **1.8** | **1.7** | *1.7* | *1.8* | *1.7* |
| **Bulgaria** | 0.1 | 0.9 | 1.3 | 3.6 | 3.9 | **3.6** | **3.8** | **3.7** | *3.9* | *3.8* | *3.6* |
| **Czech Republic** | 0.3 | -0.5 | 2.7 | 5.3 | 2.6 | **4.4** | **3.4** | **3.1** | *4.3* | *3.0* | *2.9* |
| **Denmark** | 0.2 | 0.9 | 1.6 | 1.6 | 2.0 | **2.2** | **1.8** | **1.9** | *2.3* | *2.0* | *1.9* |
| **Germany** | 3.3 | 0.5 | 1.9 | 1.7 | 1.9 | **2.2** | **2.3** | **2.1** | *2.2* | *2.1* | *2.0* |
| **Estonia** | 0.0 | 1.9 | 2.9 | 1.7 | 2.1 | **4.9** | **3.7** | **2.8** | *4.4* | *3.2* | *2.8* |
| **Ireland** | 0.3 | 1.6 | 8.3 | 25.6 | 5.1 | **7.8** | **5.7** | **4.1** | *4.8* | *3.9* | *3.1* |
| **Greece** | 0.2 | -3.2 | 0.7 | -0.3 | -0.2 | **1.4** | **1.9** | **2.3** | *1.6* | *2.5* | *2.5* |
| **Spain** | 1.4 | -1.7 | 1.4 | 3.4 | 3.3 | **3.1** | **2.9** | **2.4** | *3.1* | *2.5* | *2.1* |
| **France** | 2.3 | 0.6 | 0.9 | 1.1 | 1.2 | **1.8** | **2.0** | **1.8** | *1.6* | *1.7* | *1.6* |
| **Croatia** | 0.1 | -0.6 | -0.1 | 2.3 | 3.2 | **2.8** | **2.8** | **2.7** | *3.2* | *2.8* | *2.7* |
| **Italy** | 1.9 | -1.7 | 0.1 | 1.0 | 0.9 | **1.5** | **1.5** | **1.2** | *1.5* | *1.3* | *1.0* |
| **Cyprus** | 0.0 | -5.9 | -1.4 | 2.0 | 3.4 | **3.9** | **3.6** | **3.3** | *3.5* | *2.9* | *2.7* |
| **Latvia** | 0.0 | 2.4 | 1.9 | 3.0 | 2.2 | **4.5** | **3.3** | **3.3** | *4.2* | *3.5* | *3.2* |
| **Lithuania** | 0.1 | 3.5 | 3.5 | 2.0 | 2.3 | **3.8** | **3.1** | **2.7** | *3.8* | *2.9* | *2.6* |
| **Luxembourg** | 0.0 | 3.7 | 5.8 | 2.9 | 3.1 | **2.3** | **3.7** | **3.5** | *3.4* | *3.5* | *3.3* |
| **Hungary** | 0.2 | 2.1 | 4.2 | 3.4 | 2.2 | **4.0** | **4.0** | **3.2** | *3.7* | *3.6* | *3.1* |
| **Malta** | 0.0 | 4.7 | 8.1 | 9.9 | 5.5 | **6.6** | **5.8** | **5.1** | *5.6* | *4.9* | *4.1* |
| **Netherlands** | 0.7 | -0.2 | 1.4 | 2.3 | 2.2 | **3.2** | **3.0** | **2.6** | *3.2* | *2.7* | *2.5* |
| **Austria** | 0.3 | 0.0 | 0.8 | 1.1 | 1.5 | **2.9** | **2.8** | **2.2** | *2.6* | *2.4* | *2.3* |
| **Poland** | 0.9 | 1.4 | 3.3 | 3.8 | 3.0 | **4.6** | **4.3** | **3.7** | *4.2* | *3.8* | *3.4* |
| **Portugal** | 0.2 | -1.1 | 0.9 | 1.8 | 1.6 | **2.7** | **2.3** | **2.0** | *2.6* | *2.1* | *1.8* |
| **Romania** | 0.4 | 3.5 | 3.1 | 4.0 | 4.8 | **6.9** | **4.5** | **3.9** | *5.7* | *4.4* | *4.1* |
| **Slovenia** | 0.1 | -1.1 | 3.0 | 2.3 | 3.1 | **5.0** | **4.7** | **3.6** | *4.7* | *4.0* | *3.3* |
| **Slovakia** | 0.1 | 1.5 | 2.8 | 3.9 | 3.3 | **3.4** | **4.0** | **4.2** | *3.3* | *3.8* | *4.0* |
| **Finland** | 0.2 | -0.8 | -0.6 | 0.1 | 2.1 | **2.6** | **2.5** | **2.3** | *3.3* | *2.7* | *2.4* |
| **Sweden** | 0.4 | 1.2 | 2.6 | 4.5 | 3.2 | **2.4** | **2.6** | **2.0** | *3.2* | *2.7* | *2.2* |
| **United Kingdom** | 2.3 | 2.1 | 3.1 | 2.3 | 1.9 | **1.8** | **1.5** | **1.2** | *1.5* | *1.3* | *1.1* |
| **Candidate Countries** | 1.8 | 7.9 | 4.7 | 5.7 | 3.2 | **7.0** | **4.6** | **4.2** | *5.1* | *4.0* | *4.0* |
| **- Turkey** | 1.7 | 8.5 | 5.2 | 6.1 | 3.2 | **7.4** | **4.7** | **4.2** | *5.3* | *4.0* | *4.1* |
| **- The former Yugoslav Republic of Macedonia** | 0.0 | 2.9 | 3.6 | 3.9 | 2.9 | **0.0** | **3.1** | **3.3** | *1.7* | *2.7* | *3.2* |
| **- Montenegro** | 0.0 | 3.5 | 1.8 | 3.4 | 2.9 | **4.4** | **3.0** | **2.9** | *3.9* | *3.0* | *3.3* |
| **- Serbia** | 0.1 | 2.6 | -1.8 | 0.8 | 2.8 | **1.9** | **3.3** | **3.5** | *2.0* | *3.3* | *3.5* |
| **- Albania** | 0.0 | 1.0 | 1.8 | 2.2 | 3.4 | **3.8** | **3.6** | **3.9** | *4.0* | *3.8* | *4.2* |
| **Potential Candidates** | 0.1 | 2.9 | 0.5 | 3.9 | 3.1 | **2.3** | **3.3** | **3.3** | *2.9* | *3.1* | *3.3* |
| **USA** | 15.5 | 1.7 | 2.6 | 2.9 | 1.5 | **2.3** | **2.9** | **2.7** | *2.2* | *2.3* | *2.1* |
| **Canada** | 1.4 | 2.5 | 2.9 | 1.0 | 1.4 | **3.0** | **2.2** | **2.0** | *3.0* | *2.1* | *1.9* |
| **Japan** | 4.4 | 2.0 | 0.4 | 1.4 | 0.9 | **1.7** | **1.3** | **1.1** | *1.6* | *1.2* | *1.0* |
| **Korea** | 1.6 | 2.9 | 3.3 | 2.8 | 2.9 | **3.1** | **2.8** | **2.7** | *2.8* | *2.8* | *2.7* |
| **Norway** | 0.3 | 1.0 | 2.0 | 2.0 | 1.1 | **1.8** | **1.7** | **2.0** | *1.5* | *1.6* | *1.8* |
| **Switzerland** | 0.4 | 1.9 | 2.4 | 1.2 | 1.4 | **1.0** | **2.3** | **1.9** | *0.9* | *1.8* | *1.8* |
| **Iceland** | 0.0 | 4.3 | 2.2 | 4.3 | 7.5 | **3.6** | **3.1** | **2.9** | *4.6* | *3.1* | *2.3* |
| **Australia** | 1.0 | 2.2 | 2.5 | 2.5 | 2.6 | **2.3** | **2.8** | **2.7** | *2.4* | *2.8* | *2.7* |
| **New Zealand** | 0.1 | 2.2 | 3.6 | 3.5 | 4.0 | **2.9** | **2.9** | **2.6** | *2.8* | *2.9* | *2.7* |
| **Advanced economies** | 44.9 | 1.5 | 2.2 | 2.5 | 1.8 | **2.6** | **2.6** | **2.4** | *2.4* | *2.2* | *2.1* |
| **CIS** | 4.5 | 2.1 | 1.0 | -2.4 | 0.4 | **2.1** | **2.3** | **2.3** | *2.0* | *2.1* | *2.2* |
| **- Russia** | 3.2 | 1.3 | 0.7 | -2.8 | -0.2 | **1.5** | **1.7** | **1.6** | *1.7* | *1.6* | *1.5* |
| **- Other CIS** | 1.3 | 4.1 | 1.7 | -1.1 | 1.8 | **3.5** | **3.8** | **3.8** | *2.8* | *3.5* | *3.8* |
| **MENA** | 6.8 | 1.8 | 3.0 | 2.4 | 4.1 | **2.2** | **3.2** | **3.4** | *2.2* | *2.8* | *3.3* |
| **Emerging and developing Asia** | 32.4 | 6.7 | 6.6 | 6.6 | 6.6 | **6.4** | **6.5** | **6.3** | *6.3* | *6.4* | *6.3* |
| **- China** | 17.7 | 7.8 | 7.3 | 6.9 | 6.7 | **6.9** | **6.6** | **6.3** | *6.8* | *6.5* | *6.2* |
| **- India** | 7.2 | 6.1 | 7.0 | 7.6 | 7.9 | **6.4** | **7.4** | **7.6** | *6.6* | *7.5* | *7.6* |
| **- Indonesia** | 2.5 | 5.6 | 5.0 | 4.9 | 5.0 | **5.1** | **5.2** | **5.3** | *5.0* | *5.1* | *5.1* |
| **Latin America** | 7.9 | 2.9 | 1.3 | 0.2 | -0.9 | **1.4** | **2.2** | **2.7** | *1.3* | *2.1* | *2.4* |
| **- Brazil** | 2.6 | 3.0 | 0.5 | -3.5 | -3.5 | **1.0** | **2.4** | **2.6** | *0.7* | *1.8* | *2.0* |
| **- Mexico** | 2.0 | 1.4 | 2.8 | 3.3 | 2.9 | **2.0** | **2.3** | **2.7** | *2.1* | *2.2* | *2.2* |
| **Sub-Saharan Africa** | 3.2 | 4.9 | 5.0 | 3.3 | 1.3 | **2.7** | **3.4** | **3.6** | *2.5* | *3.3* | *3.9* |
| **Emerging and developing economies** | 55.1 | 4.9 | 4.6 | 4.0 | 4.3 | **4.6** | **5.0** | **5.0** | *4.5* | *4.8* | *4.9* |
| **World** | 100.0 | 3.3 | 3.5 | 3.3 | 3.2 | **3.7** | **3.9** | **3.9** | *3.5* | *3.7* | *3.7* |
| **World excluding EU** | 83.3 | 3.9 | 3.9 | 3.5 | 3.4 | **3.9** | **4.2** | **4.2** | *3.8* | *4.0* | *4.0* |
| **World excluding euro area** | 88.3 | 3.8 | 3.8 | 3.5 | 3.3 | **3.9** | **4.1** | **4.1** | *3.7* | *3.9* | *3.9* |

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

**Table 56: World exports of goods and services, volume (percentage change on preceding year, 2013-19)** 23.4.2018

| | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ( a ) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| EU (b) | 35.6 | 2.2 | 4.7 | 6.2 | 3.5 | **5.3** | **5.2** | **4.3** | *4.7* | *4.4* | *4.2* |
| Euro area (b) | 26.8 | 2.1 | 4.7 | 6.4 | 3.4 | **5.1** | **5.4** | **4.4** | *4.5* | *4.4* | *4.2* |
| Candidate Countries | 1.1 | 2.5 | 7.9 | 4.8 | -0.3 | **11.7** | **6.5** | **5.0** | *7.7* | *5.8* | *4.8* |
| - Turkey | 0.9 | 1.1 | 8.2 | 4.3 | -1.9 | **12.0** | **6.1** | **4.5** | *7.4* | *5.4* | *4.3* |
| - The former Yugoslav Republic of Macedonia | 0.0 | 6.1 | 16.5 | 8.5 | 8.1 | **9.2** | **8.4** | **7.8** | *8.8* | *8.4* | *8.4* |
| - Montenegro | 0.0 | -1.3 | -0.7 | 5.7 | 6.2 | **4.1** | **4.7** | **3.4** | *6.8* | *4.5* | *2.4* |
| - Serbia | 0.1 | 21.3 | 5.7 | 10.2 | 12.0 | **9.8** | **9.7** | **8.8** | *10.3* | *8.5* | *8.0* |
| - Albania | 0.0 | 1.5 | 1.2 | 1.0 | 11.5 | **8.9** | **9.0** | **8.0** | *10.3* | *8.6* | *8.3* |
| USA | 10.9 | 3.5 | 4.3 | 0.4 | -0.3 | **3.4** | **4.5** | **4.3** | *3.3* | *3.8* | *3.9* |
| Canada | 2.3 | 2.7 | 5.9 | 3.5 | 1.0 | **1.0** | **2.9** | **3.7** | *3.3* | *3.7* | *3.1* |
| Japan | 3.9 | 0.8 | 9.3 | 2.9 | 1.3 | **6.8** | **4.8** | **2.8** | *5.0* | *2.0* | *1.9* |
| Korea | 3.0 | 4.3 | 2.0 | -0.1 | 2.1 | **2.0** | **3.1** | **3.8** | *2.9* | *3.0* | *3.7* |
| Norway | 0.6 | -1.7 | 3.1 | 4.7 | -1.8 | **0.8** | **2.3** | **3.3** | *1.4* | *2.4* | *2.7* |
| Switzerland | 2.2 | 15.2 | -6.2 | 2.4 | 6.5 | **-1.0** | **4.2** | **3.9** | *2.8* | *4.0* | *3.8* |
| Iceland | 0.0 | 6.7 | 3.2 | 9.2 | 10.9 | **4.8** | **4.5** | **4.2** | *7.4* | *4.0* | *3.8* |
| Australia | 1.2 | 5.8 | 6.9 | 6.5 | 6.8 | **3.8** | **5.3** | **5.2** | *4.4* | *4.4* | *4.4* |
| New Zealand | 0.2 | 0.8 | 3.1 | 7.0 | 1.5 | **2.6** | **3.7** | **3.4** | *3.5* | *3.5* | *3.5* |
| Advanced economies | 68.2 | 3.1 | 4.2 | 4.0 | 2.2 | **4.6** | **4.8** | **4.1** | *4.2* | *3.9* | *3.8* |
| CIS | 2.5 | 1.1 | -0.8 | -1.4 | 0.7 | **6.0** | **5.9** | **4.3** | *6.2* | *4.7* | *4.5* |
| - Russia | 1.6 | 4.6 | 0.5 | 3.7 | 3.1 | **5.1** | **4.6** | **4.2** | *5.1* | *4.3* | *4.2* |
| - Other CIS | 0.9 | -5.3 | -3.4 | -11.3 | -4.0 | **7.7** | **8.4** | **4.4** | *8.1* | *5.6* | *5.0* |
| MENA | 5.4 | 3.5 | 2.6 | 5.0 | 4.2 | **1.9** | **2.7** | **3.4** | *2.5* | *3.1* | *3.4* |
| Emerging and developing Asia | 17.4 | 7.2 | 4.3 | -1.2 | 2.5 | **7.3** | **5.1** | **4.6** | *4.9* | *4.4* | *4.3* |
| - China | 10.8 | 8.8 | 4.3 | -2.2 | 1.1 | **6.8** | **4.6** | **3.7** | *5.0* | *4.1* | *3.7* |
| - India | 2.1 | 5.0 | 3.6 | -5.3 | 6.5 | **6.7** | **6.9** | **6.8** | *4.6* | *5.1* | *5.3* |
| - Indonesia | 0.8 | 3.0 | 1.6 | 0.1 | -0.7 | **5.6** | **6.3** | **6.1** | *3.7* | *4.5* | *5.0* |
| Latin America | 5.1 | 1.4 | 1.7 | 4.4 | 2.9 | **4.0** | **4.1** | **4.4** | *3.7* | *4.0* | *4.2* |
| - Brazil | 1.1 | 2.7 | -0.3 | 8.1 | 3.7 | **10.0** | **4.5** | **4.6** | *3.7* | *3.5* | *3.8* |
| - Mexico | 2.0 | 1.4 | 7.0 | 8.4 | 3.5 | **3.9** | **4.6** | **4.8** | *5.1* | *4.3* | *4.6* |
| Sub-Saharan Africa | 1.4 | 5.4 | 1.1 | 2.8 | -1.0 | **1.8** | **3.9** | **4.2** | *3.5* | *3.6* | *4.0* |
| Emerging and developing economies | 31.8 | 4.7 | 2.8 | 1.0 | 2.5 | **5.5** | **4.6** | **4.3** | *4.3* | *4.1* | *4.1* |
| World | 100.0 | 3.7 | 3.7 | 3.0 | 2.3 | **4.9** | **4.7** | **4.2** | *4.2* | *4.0* | *3.9* |
| World excluding EU | 64.4 | 4.4 | 3.2 | 1.3 | 1.7 | **4.7** | **4.4** | **4.1** | *4.0* | *3.8* | *3.8* |
| World excluding euro area | 73.2 | 4.2 | 3.4 | 1.8 | 2.0 | **4.8** | **4.5** | **4.1** | *4.2* | *3.8* | *3.8* |

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2016.
(b) Intra- and extra-EU trade.

**Table 57: Export shares in EU trade (goods only - 2017)** 23.4.2018

| | EU | Euro Area | Candidate Countries | USA | Japan | Other Advanced Economies | China | Rest of Asia | CIS | MENA | Latin America | Sub-Saharan Africa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EU | 63.9 | 46.4 | 2.1 | 7.6 | 1.2 | 7.3 | 3.9 | 3.3 | 2.3 | 4.6 | 2.4 | 1.4 |
| Euro area | 63.9 | 45.7 | 2.0 | 7.6 | 1.2 | 6.8 | 4.0 | 3.3 | 2.2 | 4.8 | 2.6 | 1.5 |
| Belgium | 74.1 | 58.8 | 1.3 | 5.5 | 0.7 | 3.8 | 2.0 | 4.0 | 1.1 | 3.8 | 1.4 | 2.3 |
| Bulgaria | 65.6 | 47.2 | 13.0 | 1.9 | 0.3 | 2.0 | 2.9 | 2.9 | 4.4 | 5.6 | 0.6 | 0.8 |
| Czech Republic | 82.9 | 64.6 | 1.8 | 2.5 | 0.5 | 3.2 | 1.6 | 1.2 | 3.0 | 2.2 | 0.7 | 0.5 |
| Denmark | 62.4 | 39.0 | 1.1 | 8.3 | 1.8 | 11.0 | 4.7 | 2.8 | 1.4 | 3.1 | 2.4 | 0.9 |
| Germany | 58.3 | 36.5 | 2.2 | 9.2 | 1.4 | 8.4 | 6.7 | 3.7 | 2.5 | 3.9 | 2.7 | 1.1 |
| Estonia | 74.3 | 47.4 | 1.7 | 3.4 | 0.6 | 6.6 | 1.6 | 1.7 | 7.2 | 1.6 | 0.6 | 0.7 |
| Ireland | 53.2 | 36.2 | 0.6 | 23.8 | 3.8 | 8.1 | 2.3 | 2.0 | 0.8 | 2.7 | 1.9 | 0.8 |
| Greece | 55.3 | 38.0 | 13.1 | 4.9 | 0.3 | 3.4 | 1.0 | 2.0 | 2.6 | 14.2 | 1.7 | 1.4 |
| Spain | 66.2 | 52.1 | 2.3 | 4.8 | 1.1 | 4.6 | 2.1 | 2.2 | 1.3 | 7.9 | 6.0 | 1.6 |
| France | 58.8 | 45.7 | 1.7 | 7.9 | 1.5 | 7.1 | 4.6 | 4.7 | 1.7 | 6.9 | 2.7 | 2.4 |
| Croatia | 72.4 | 60.1 | 10.6 | 3.8 | 0.5 | 2.6 | 0.9 | 0.9 | 3.1 | 4.1 | 0.7 | 0.5 |
| Italy | 54.7 | 39.9 | 3.4 | 8.9 | 1.4 | 9.5 | 3.3 | 3.5 | 2.8 | 7.9 | 3.3 | 1.3 |
| Cyprus | 52.3 | 32.8 | 0.4 | 1.1 | 0.0 | 3.8 | 1.8 | 10.7 | 2.1 | 25.6 | 0.3 | 1.7 |
| Latvia | 71.3 | 49.0 | 1.5 | 1.9 | 0.4 | 4.1 | 1.2 | 1.3 | 12.4 | 4.6 | 0.6 | 0.7 |
| Lithuania | 65.6 | 43.2 | 1.0 | 4.5 | 0.8 | 4.9 | 0.6 | 1.3 | 18.0 | 2.2 | 0.5 | 0.6 |
| Luxembourg | 84.1 | 72.4 | 1.1 | 2.8 | 0.4 | 3.5 | 1.6 | 1.6 | 1.3 | 2.3 | 0.8 | 0.8 |
| Hungary | 78.7 | 56.4 | 3.2 | 4.1 | 0.8 | 2.8 | 2.3 | 1.0 | 3.9 | 1.5 | 1.4 | 0.4 |
| Malta | 39.1 | 28.6 | 0.9 | 5.0 | 3.3 | 13.2 | 6.6 | 9.8 | 0.8 | 18.0 | 1.0 | 2.2 |
| Netherlands | 78.3 | 60.0 | 1.0 | 3.4 | 0.6 | 4.2 | 1.9 | 2.8 | 1.2 | 3.0 | 1.8 | 1.8 |
| Austria | 70.4 | 51.8 | 1.7 | 6.5 | 0.9 | 7.8 | 2.8 | 2.5 | 2.6 | 2.5 | 1.7 | 0.6 |
| Poland | 79.6 | 56.8 | 2.1 | 2.5 | 0.4 | 3.7 | 1.3 | 1.2 | 5.3 | 1.8 | 1.4 | 0.8 |
| Portugal | 71.6 | 60.3 | 1.1 | 5.6 | 0.4 | 3.4 | 2.4 | 0.8 | 0.8 | 4.4 | 3.1 | 6.4 |
| Romania | 72.3 | 52.7 | 6.0 | 2.6 | 0.5 | 2.9 | 1.6 | 1.0 | 4.8 | 6.3 | 1.1 | 0.8 |
| Slovenia | 78.5 | 54.0 | 5.8 | 2.0 | 0.2 | 2.9 | 1.1 | 1.0 | 4.8 | 2.9 | 0.5 | 0.3 |
| Slovakia | 84.2 | 46.4 | 1.8 | 2.5 | 0.1 | 2.8 | 2.4 | 0.5 | 3.4 | 1.5 | 0.5 | 0.2 |
| Finland | 59.1 | 38.5 | 1.7 | 6.7 | 1.9 | 8.1 | 5.3 | 4.1 | 6.2 | 3.2 | 2.7 | 1.1 |
| Sweden | 60.9 | 41.4 | 1.3 | 7.0 | 1.2 | 12.6 | 4.4 | 3.7 | 1.8 | 3.6 | 2.2 | 1.3 |
| United Kingdom | 46.9 | 41.2 | 1.6 | 13.8 | 1.4 | 14.4 | 5.6 | 5.0 | 1.5 | 6.2 | 1.9 | 1.8 |

**Table 58:** **World imports of goods and services, volume (percentage change on preceding year, 2013-19)** 23.4.2018

| | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ( a ) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| EU (b) | 33.7 | 1.6 | 5.3 | 6.3 | 4.8 | **4.5** | **5.1** | **4.4** | *4.7* | *4.6* | *4.3* |
| Euro area (b) | 24.9 | 1.3 | 4.9 | 6.7 | 4.8 | **4.3** | **5.2** | **4.5** | *4.7* | *4.7* | *4.4* |
| Candidate Countries | 1.3 | 7.4 | 0.5 | 2.5 | 4.5 | **10.2** | **6.9** | **6.6** | *5.6* | *6.5* | *7.0* |
| - Turkey | 1.1 | 8.0 | -0.4 | 1.7 | 3.7 | **10.3** | **6.7** | **6.5** | *5.0* | *6.4* | *7.1* |
| - The former Yugoslav Republic of Macedonia | 0.0 | 2.2 | 14.1 | 9.9 | 11.6 | **7.3** | **7.9** | **7.4** | *5.5* | *6.8* | *7.0* |
| - Montenegro | 0.0 | -3.1 | 1.6 | 4.4 | 15.0 | **9.3** | **4.1** | **2.1** | *6.5* | *2.3* | *1.0* |
| - Serbia | 0.1 | 5.0 | 5.6 | 9.3 | 9.0 | **10.7** | **9.4** | **7.6** | *10.1* | *7.4* | *7.2* |
| - Albania | 0.0 | -0.6 | 4.3 | -2.9 | 7.0 | **8.2** | **6.7** | **7.0** | *7.8* | *5.2* | *6.2* |
| USA | 13.8 | 1.1 | 4.5 | 5.0 | 1.3 | **4.0** | **6.5** | **5.2** | *4.2* | *5.0* | *4.8* |
| Canada | 2.6 | 1.6 | 2.3 | 0.7 | -1.0 | **3.6** | **4.0** | **2.6** | *4.1* | *3.2* | *2.5* |
| Japan | 3.8 | 3.3 | 8.3 | 0.8 | -1.9 | **3.6** | **2.8** | **2.8** | *3.4* | *2.0* | *2.5* |
| Korea | 2.5 | 1.7 | 1.5 | 2.1 | 4.5 | **7.2** | **3.2** | **3.4** | *3.1* | *3.0* | *3.4* |
| Norway | 0.6 | 5.0 | 2.4 | 1.6 | 2.3 | **2.2** | **2.9** | **3.2** | *5.6* | *2.5* | *2.7* |
| Switzerland | 1.8 | 13.5 | -7.7 | 4.7 | 6.0 | **-2.6** | **3.7** | **3.5** | *3.4* | *3.8* | *3.4* |
| Iceland | 0.0 | 0.1 | 9.8 | 13.8 | 14.5 | **11.9** | **6.8** | **5.6** | *10.1* | *5.7* | *4.2* |
| Australia | 1.3 | -2.0 | -1.4 | 1.9 | 0.2 | **7.6** | **4.3** | **4.0** | *1.7* | *2.4* | *2.2* |
| New Zealand | 0.2 | 6.2 | 7.9 | 3.8 | 3.3 | **6.6** | **4.1** | **3.3** | *2.4* | *2.7* | *2.8* |
| Advanced economies | 68.4 | 2.4 | 4.1 | 4.8 | 2.9 | **4.5** | **5.0** | **4.3** | *4.3* | *4.2* | *4.0* |
| CIS | 2.3 | 1.6 | -8.3 | -20.4 | -2.6 | **12.6** | **6.7** | **5.5** | *8.2* | *5.4* | *5.3* |
| - Russia | 1.3 | 3.6 | -7.3 | -25.8 | -3.8 | **17.4** | **7.5** | **6.4** | *9.7* | *6.2* | *5.9* |
| - Other CIS | 1.0 | -1.5 | -9.8 | -11.7 | -1.0 | **6.1** | **5.4** | **4.2** | *6.1* | *4.3* | *4.3* |
| MENA | 5.7 | 7.6 | 8.3 | -1.5 | -0.9 | **1.9** | **4.2** | **3.8** | *2.8* | *3.8* | *4.0* |
| Emerging and developing Asia | 16.5 | 6.4 | 5.9 | 0.5 | 4.7 | **8.2** | **5.8** | **5.2** | *5.3* | *4.9* | *4.9* |
| - China | 9.8 | 10.6 | 7.8 | -0.5 | 4.7 | **7.2** | **5.3** | **4.2** | *5.7* | *4.5* | *4.2* |
| - India | 2.4 | -3.6 | 5.4 | 0.4 | 4.1 | **10.4** | **7.3** | **7.4** | *5.4* | *5.6* | *5.8* |
| - Indonesia | 0.8 | 1.4 | -1.6 | -8.1 | 2.5 | **8.9** | **6.0** | **6.2** | *3.4* | *4.2* | *4.9* |
| Latin America | 5.4 | 3.3 | 0.4 | -1.9 | -2.3 | **3.9** | **4.1** | **4.3** | *3.1* | *3.5* | *3.9* |
| - Brazil | 1.0 | 8.4 | -0.1 | -13.5 | -8.2 | **3.8** | **5.2** | **5.0** | *1.8* | *3.4* | *3.7* |
| - Mexico | 2.1 | 2.1 | 5.9 | 5.9 | 2.9 | **7.0** | **4.5** | **4.7** | *4.7* | *4.1* | *4.3* |
| Sub-Saharan Africa | 1.6 | 3.3 | 6.0 | 1.7 | -9.5 | **3.0** | **4.4** | **4.4** | *3.3* | *3.7* | *4.4* |
| Emerging and developing economies | 31.6 | 5.3 | 3.9 | -2.2 | 1.1 | **6.4** | **5.3** | **4.8** | *4.6* | *4.5* | *4.5* |
| World | 100.0 | 3.4 | 4.0 | 2.5 | 2.3 | **5.1** | **5.1** | **4.5** | *4.3* | *4.3* | *4.2* |
| World excluding EU | 66.3 | 4.2 | 3.4 | 0.6 | 1.1 | **5.3** | **5.1** | **4.5** | *4.2* | *4.1* | *4.1* |
| World excluding euro area | 75.1 | 4.0 | 3.8 | 1.1 | 1.5 | **5.3** | **5.1** | **4.4** | *4.2* | *4.2* | *4.1* |

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2016.

(b) Intra- and extra-EU trade.

**Table 59: Import shares in EU trade (goods only - 2017)** 23.4.2018

| | EU | Euro Area | Candidate Countries | USA | Japan | Other Advanced Economies | China | Rest of Asia | CIS | MENA | Latin America | Sub-Saharan Africa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EU | 64.3 | 49.6 | 1.5 | 5.3 | 1.3 | 6.3 | 7.1 | 4.1 | 4.1 | 2.6 | 1.9 | 1.5 |
| Euro area | 63.8 | 48.5 | 1.4 | 5.3 | 1.3 | 6.0 | 6.9 | 4.2 | 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, 2012-19) 23.4.2018

| | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| EU | 92.7 | 192.2 | 215.6 | 319.7 | 338.6 | **328.0** | **367.4** | **385.2** | *310.7* | *355.5* | *371.2* |
| EU, adjusted[1] | -37.6 | 51.3 | 62.9 | 165.8 | 191.3 | **160.8** | **185.1** | **202.8** | *161.7* | *200.2* | *215.9* |
| Euro area | 254.0 | 353.3 | 396.6 | 474.4 | 491.3 | **479.7** | **538.7** | **557.0** | *455.0* | *500.4* | *518.1* |
| Euro area, adjusted[1] | 160.2 | 275.5 | 321.7 | 398.5 | 415.4 | **389.9** | **440.7** | **458.9** | *378.6* | *420.8* | *438.5* |
| Candidate Countries | -77.6 | -89.6 | -73.8 | -66.3 | -73.4 | **-86.8** | **-102.4** | **-113.9** | *-82.7* | *-90.0* | *-101.9* |
| USA | -779.8 | -738.8 | -778.1 | -793.3 | -778.2 | **-834.1** | **-939.8** | **-1018.2** | *-848.8* | *-924.6* | *-994.4* |
| Japan | -53.6 | -89.9 | -99.1 | -7.3 | 50.9 | **24.5** | **43.8** | **42.0** | *38.3* | *42.6* | *36.5* |
| Norway | 69.0 | 60.9 | 49.8 | 24.5 | 11.7 | **17.0** | **17.8** | **18.9** | *14.0* | *14.4* | *15.0* |
| Switzerland | 40.2 | 53.7 | 55.5 | 53.6 | 49.5 | **51.3** | **59.3** | **62.0** | *51.7* | *57.4* | *60.3* |
| Advanced economies | -579.2 | -426.5 | -424.3 | -253.2 | -173.5 | **-254.0** | **-319.5** | **-359.4** | *-285.4* | *-303.1* | *-349.8* |
| CIS | 215.7 | 197.7 | 218.3 | 147.4 | 81.6 | **115.9** | **145.6** | **140.5** | *117.7* | *123.4* | *124.2* |
| - Russia | 192.8 | 183.6 | 186.8 | 145.8 | 89.9 | **113.9** | **131.0** | **130.8** | *118.3* | *123.5* | *126.7* |
| MENA | 665.5 | 593.2 | 457.0 | 127.7 | 93.6 | **189.9** | **280.9** | **238.6** | *161.5* | *167.1* | *147.6* |
| Emerging and developing Asia | 136.8 | 216.3 | 336.3 | 483.8 | 427.1 | **365.4** | **257.6** | **262.8** | *368.6* | *356.6* | *354.5* |
| - China | 311.6 | 359.0 | 435.0 | 576.2 | 488.9 | **476.1** | **399.1** | **422.6** | *450.9* | *457.6* | *470.0* |
| Latin America | 44.8 | 9.7 | -10.0 | -46.6 | 8.6 | **35.9** | **20.4** | **21.0** | *18.2* | *16.6* | *23.4* |
| Sub-Saharan Africa | 71.4 | 64.5 | 29.6 | -30.8 | -10.1 | **6.6** | **16.2** | **7.9** | *-3.2* | *-4.1* | *-9.8* |
| Emerging and developing economies | 1134.3 | 1081.4 | 1031.1 | 681.4 | 600.7 | **713.6** | **720.7** | **670.9** | *662.7* | *659.5* | *639.9* |
| World | 555.1 | 655.0 | 606.8 | 428.2 | 427.3 | **459.7** | **401.2** | **311.5** | *377.3* | *356.4* | *290.1* |

[1] See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2012-19) 23.4.2018

| | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| EU | 144.3 | 217.6 | 243.7 | 277.6 | 295.6 | **385.2** | **430.3** | **452.6** | *301.6* | *336.2* | *347.6* |
| EU, adjusted[1] | 85.0 | 166.0 | 150.8 | 175.4 | 256.1 | **250.6** | **283.5** | **305.7** | *236.3* | *268.0* | *279.5* |
| Euro area | 232.9 | 312.5 | 353.5 | 374.6 | 390.6 | **439.6** | **485.0** | **499.1** | *374.1* | *404.2* | *411.7* |
| Euro area, adjusted[1] | 174.0 | 293.1 | 331.7 | 377.0 | 429.5 | **437.6** | **482.8** | **496.9** | *379.0* | *409.2* | *416.7* |
| Candidate Countries | -55.0 | -68.3 | -48.5 | -35.5 | -36.6 | **-52.0** | **-58.9** | **-62.9** | *-37.2* | *-44.1* | *-51.8* |
| USA | -426.2 | -349.5 | -373.8 | -434.6 | -451.7 | **-466.2** | **-553.0** | **-618.5** | *-519.5* | *-560.9* | *-620.1* |
| Japan | 59.7 | 45.7 | 37.1 | 135.5 | 189.0 | **201.4** | **240.2** | **245.4** | *190.6* | *203.6* | *203.7* |
| Norway | 64.0 | 54.0 | 53.0 | 30.8 | 14.4 | **20.5** | **21.2** | **22.8** | *17.2* | *17.3* | *18.0* |
| Switzerland | 66.8 | 76.6 | 58.7 | 72.7 | 59.2 | **57.9** | **69.3** | **73.9** | *63.5* | *72.0* | *77.0* |
| Advanced economies | -137.1 | 47.7 | 86.5 | 172.8 | 219.9 | **293.9** | **276.6** | **267.2** | *158.7* | *177.1* | *146.9* |
| CIS | 63.4 | 16.4 | 53.7 | 51.6 | 2.0 | **21.7** | **38.4** | **33.9** | *8.2* | *8.4* | *7.4* |
| - Russia | 68.5 | 32.1 | 53.5 | 66.3 | 25.6 | **34.9** | **49.7** | **44.5** | *31.3* | *29.7* | *26.5* |
| MENA | 462.0 | 375.1 | 234.7 | -74.0 | -79.5 | **12.0** | **50.4** | **21.0** | *-31.3* | *-30.9* | *-21.3* |
| Emerging and developing Asia | 126.2 | 93.1 | 229.4 | 311.8 | 233.7 | **167.6** | **50.1** | **44.2** | *139.5* | *110.8* | *92.7* |
| - China | 215.4 | 148.2 | 236.0 | 304.2 | 202.2 | **164.9** | **79.6** | **83.9** | *138.5* | *126.2* | *118.9* |
| Latin America | -135.4 | -161.5 | -182.4 | -171.3 | -96.2 | **-96.5** | **-118.3** | **-134.2** | *-97.6* | *-110.9* | *-118.2* |
| Sub-Saharan Africa | -10.7 | -23.3 | -50.2 | -78.1 | -43.7 | **-23.3** | **-27.5** | **-36.7** | *-37.1* | *-42.7* | *-46.3* |
| Emerging and developing economies | 505.6 | 299.7 | 285.2 | 40.1 | 16.4 | **81.4** | **-6.8** | **-71.8** | *-18.3* | *-65.3* | *-85.7* |
| World | 368.5 | 347.4 | 371.7 | 212.8 | 236.2 | **375.3** | **269.8** | **195.4** | *140.5* | *111.8* | *61.2* |

[1] See note 8 on concepts and sources.

Table 62: Primary commodity prices (in US dollar, percentage change on preceding year, 2012-2019) 23.4.2018

| STIC Classification | | | | | | Spring 2018 forecast | | | *Autumn 2017 forecast* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | *2017* | *2018* | *2019* |
| Food | 0.2 | 3.2 | -3.7 | -15.7 | -2.6 | **0.5** | **4.2** | **3.1** | *1.2* | *0.7* | *2.5* |
| Basic materials | -15.9 | -4.8 | -4.7 | -18.7 | -0.5 | **12.0** | **5.3** | **-1.0** | *10.6* | *-0.4* | *-0.3* |
| - of which: | | | | | | | | | | | |
| Agricultures non-food | -15.9 | -4.7 | 3.8 | -14.3 | 3.0 | **3.8** | **-2.2** | **-0.5** | *4.7* | *-2.2* | *0.5* |
| - of which: | | | | | | | | | | | |
| Wood and pulp | -5.8 | 1.2 | 2.6 | -3.7 | -3.0 | **1.5** | **5.1** | **-0.9** | *0.1* | *0.8* | *0.2* |
| Minerals and metals | -15.8 | -4.9 | -11.1 | -22.5 | -3.9 | **20.4** | **12.0** | **-1.3** | *16.8* | *1.2* | *-1.0* |
| Fuel products | 1.3 | -2.9 | -7.9 | -45.0 | -16.9 | **21.2** | **17.5** | **-5.9** | *18.7* | *3.3* | *-1.0* |
| - of which: | | | | | | | | | | | |
| Crude petroleum | 0.8 | -2.7 | -8.3 | -46.5 | -15.6 | **21.5** | **23.6** | **-5.5** | *19.7* | *3.8* | *-1.8* |
| Primary Commodities | | | | | | | | | | | |
| - Total excluding fuels | -9.7 | -1.4 | -4.3 | -17.4 | -1.5 | **6.8** | **4.8** | **0.7** | *6.4* | *0.1* | *0.9* |
| - Total including fuels | -0.4 | -2.7 | -7.4 | -41.0 | -13.7 | **17.8** | **14.8** | **-4.6** | *15.8* | *2.6* | *-0.6* |
| | | | | | Crude petroleum - price per barrel | | | | | | |
| Brent (usd) | 111.8 | 108.8 | 99.7 | 53.4 | 45.1 | **54.8** | **67.7** | **63.9** | *53.6* | *55.7* | *54.7* |
| Brent (euro) | 87.0 | 81.9 | 75.1 | 48.1 | 40.7 | **48.5** | **55.0** | **51.9** | *47.5* | *47.3* | *46.4* |

***Note on concepts and sources***

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts in Winter, Spring and Autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the candidate countries, the European Union as a whole, the euro area and the international environment.

2. Data for 2017, 2018 and 2019 are forecasts. The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of Accounting (ESA 2010). Most Member States have now introduced chain-linking in their national accounts to measure the development of economic aggregates in volume terms. For the USA and Japan the definitions are as in the SNA.

3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.

4. In Tables 17 and 18, the data are based on the national index for USA and Japan.

5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.

6. Employment data used in tables 23-29 and 32-33 are based on full-time-equivalents (FTEs), where available. Currently, Spain, France, Italy, and the Netherlands report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.

7. Source: National Accounts (ESA 2010), except for US current-account in tables 50, 52, and 61 (Balance of Payments). Discrepancies with balance of payments statistics may arise due to methodological differences and revision schedules.

8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 49 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2017.

9. Geographical zones are defined as follows :

**Euro area :**
EA19 (BE, DE, EE, IE, EL, ES, FR, IT, CY, LV, LT, LU, MT, NL, AT, PT, SI, SK, and FI)

**European Union :**
EU28 (EA19, BG, CZ, DK, HR, HU, PL, RO, SE and UK).
EU27 (EU28 excluding UK).

**Candidate countries :**
Turkey, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Albania.

**Potential candidates :**
Bosnia-Herzegovina and Kosovo.

**Advanced economies :**
EU, candidate countries, USA, Canada, Japan, Korea, Hong Kong, Singapore, Taiwan, Norway, Switzerland, Iceland, Australia and New Zealand.

**MENA (Middle East and Northern Africa) :**
Algeria, Tunisia, Morocco, Egypt, Israel, Jordan, Lebanon, Iraq, Iran, Yemen, Saudi Arabia, Bahrain, Oman, United Arab Emirates, Kuwait, and Qatar.

**Emerging ad Developing asia :**
All countries in that region except the ones included in the Advanced economies and the Asian MENA countries.

**Latin America :**
All countries in that region.

**Sub-Saharan Africa :**
All countries in that region except the African MENA countries.

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