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European Economic Forecast

Autumn 2018

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EUROPEAN ECONOMY

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Directorate-General for Economic and Financial Affairs

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Institutional Paper 089

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
CN	China
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
OCA	Optimal Currency Area

Graphs/Tables/Units

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

Currencies

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

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FOREWORD

Economic growth in Europe has peaked in 2017. The European economy grew at its fastest pace in a decade last year, but growth has moderated since and the outlook is now less favourable. Barring major shocks, GDP should continue to grow at a moderate pace. The road ahead is however fraught with uncertainty and numerous, interconnected risks.

Last year's exceptionally benign global environment helped to underpin economic activity and investment in the euro area. Although economic momentum has softened this year, mostly as a result of weaker external trade, domestic demand growth has remained sufficiently strong to support robust job creation. Over the next two years we expect GDP in the euro area to decelerate in line with a further slowing momentum of foreign trade as the global economy has entered more choppy waters. Domestically, the pick-up in inflation will weigh on household real income growth even though wages are finally increasing more visibly. The emergence of labour supply shortages in some Member States will make it more difficult to maintain the current pace of job creation over the coming years. However the euro area economy does not display real signs of overheating that could put an untimely end to growth. All in all, this is still a benign projection in which GDP growth gradually eases towards potential and the unemployment rate falls further.

That said, some of the risks identified earlier are materialising, e.g. trade tensions or turmoil in emerging markets. Further downside risks are growing and interconnected; they could lead to a significantly worse outcome than projected. Trade tensions continue to run high, even though so far they mostly concern US-China trade. Should extensive new tariff and non-tariff barriers emerge and spread, the negative impact on international trade and global growth would be sizeable. In a context of high corporate leverage, a combination of tighter-than-expected US monetary policy and an abrupt unwinding of the fiscal stimulus in 2020 could well provoke a brisk slowdown in the US that would spill over and weaken economic growth prospects in many parts of the world, including Europe. Many financial assets look vulnerable to a reversal of investor risk perceptions. A general and sharp retreat from risky assets would be detrimental to highly-indebted firms in advanced and emerging market economies and cause broader spillovers. In Europe, uncertainty about the outlook for public finances in Italy has led to higher interest spreads, and the interaction of sovereign debt with the banking sector is still of concern. Finally, the risk of a no-deal Brexit would entail abrupt changes in trade relations between the UK and the EU after April 2019 and harm the economies on both sides of the Channel. Under any scenario, the impact is expected to be much larger on the UK than on the EU27.

These risks could reinforce one another. Addressing them requires policy action on three fronts. At the global level, there is a need to improve the rules-based multilateral order that has underpinned world trade so far and that has, in particular through the G20, contributed to strengthening international financial and macroeconomic stability. In Europe, decisive progress needs to be made on EMU deepening, in particular through the completion of the Banking Union, to reduce uncertainty and enhance financial stability. Economic policy at this juncture needs to focus on strengthening fundamentals and enhancing resilience to less favourable circumstances. We need to continue to frontload reforms that foster potential growth and resilience and at the same time improve the equality of opportunity for all. The EU can facilitate structural reform, but the bulk of the effort must inevitably come from national authorities. Member States, particularly those with high debt levels, need to run prudent fiscal policies to ensure the sustainability of public finances and re-build policy space while prioritising expenditures that increase fairness and medium-term growth prospects.

Marco Buti
Director General
Economic and Financial Affairs

OVERVIEW: LESS DYNAMIC GROWTH AMID HIGH UNCERTAINTY

Interrelated external and domestic risks are clouding the outlook

The European economy has moved into lower gear…

The EU economy is entering its sixth year of uninterrupted growth and all Member States are expected to grow over the forecast horizon. But the moderation of momentum since the start of the year and leading indicators both suggest that economic growth has peaked in 2017. The extraordinary impulse from the rebound in global growth and trade enjoyed by the European economy last year is already wearing off, as the outlook for global growth is weakening and trade tensions have risen.

…amid still robust domestic fundamentals.

The strength of Europe's domestic growth drivers should however be sufficient to allow activity to continue growing and unemployment falling. The improving labour market, slightly stronger wage growth and expansionary fiscal measures in some Member States, should help to sustain consumption next year. In addition, investment should enjoy the continued support of still favourable financing conditions, even assuming the gradual normalisation of monetary policy. The outlook, however, is clouded by the presence of a number of interrelated downside risks.

GDP growth is set to continue at a slower pace.

From 2.4% in 2017, euro area GDP growth is forecast to moderate to 2.1% this year and 1.9% in 2019, slightly below the growth rate projected back in the summer. It is then expected to ease smoothly to 1.7% in 2020. Exogenous factors, such as fading world trade growth, rising uncertainty and higher oil prices should have a dampening effect on growth in general, while economic

Table 1:

Overview - the autumn 2018 forecast

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Belgium	1.5	1.5	1.4	2.3	2.1	1.6	6.4	6.1	5.9	1.2	1.1	1.1	-1.0	-1.1	-1.3
Germany	1.7	1.8	1.7	1.8	1.9	1.6	3.5	3.2	3.0	7.8	7.3	6.9	1.6	1.2	1.1
Estonia	3.5	2.8	2.6	3.5	3.3	2.5	5.7	6.0	6.0	3.5	3.2	3.2	0.5	0.5	0.2
Ireland	7.8	4.5	3.8	0.7	1.2	1.4	5.6	5.1	4.9	11.7	11.6	11.4	-0.1	-0.1	0.2
Greece	2.0	2.0	2.0	0.8	1.2	1.0	19.6	18.2	16.9	-0.2	-0.2	0.3	0.6	0.6	0.6
Spain	2.6	2.2	2.0	1.8	1.7	1.5	15.6	14.4	13.3	1.2	1.0	1.1	-2.7	-2.1	-1.9
France	1.7	1.6	1.6	2.1	1.7	1.6	9.0	8.8	8.4	-0.6	-0.7	-0.5	-2.6	-2.8	-1.7
Italy	1.1	1.2	1.3	1.3	1.5	1.4	10.7	10.4	10.0	2.6	2.5	2.5	-1.9	-2.9	-3.1
Cyprus	3.9	3.5	2.9	0.8	1.3	1.4	8.2	6.3	4.8	-8.2	-9.3	-9.5	2.8	3.0	2.9
Latvia	4.1	3.2	2.9	2.7	2.7	2.4	7.3	6.7	6.5	0.0	-0.4	-0.4	-0.8	-1.0	-0.7
Lithuania	3.4	2.8	2.5	2.6	2.2	2.1	6.5	6.3	6.3	-0.8	-0.8	-0.6	0.6	0.4	0.1
Luxembourg	3.1	3.0	2.7	2.0	2.0	1.8	5.3	5.2	5.2	4.2	3.8	3.3	1.3	1.2	0.9
Malta	5.4	4.9	4.4	1.8	1.9	2.0	3.9	4.0	4.0	12.3	11.2	10.6	1.3	1.2	0.7
Netherlands	2.8	2.4	1.8	1.6	2.5	1.7	3.9	3.6	3.6	10.1	9.5	9.1	1.1	1.1	1.0
Austria	2.7	2.0	1.8	2.1	2.1	2.0	4.8	4.6	4.4	2.0	2.2	2.4	-0.3	0.0	0.1
Portugal	2.2	1.8	1.7	1.5	1.6	1.6	7.1	6.3	5.9	0.0	-0.1	-0.1	-0.7	-0.6	-0.2
Slovenia	4.3	3.3	3.0	2.0	2.3	2.2	5.6	5.3	5.1	7.5	7.1	6.7	0.5	0.4	0.2
Slovakia	4.0	4.1	3.5	2.6	2.6	2.4	6.9	6.3	6.0	0.0	1.2	2.1	-0.6	-0.3	-0.1
Finland	2.9	2.2	1.9	1.2	1.6	1.8	7.8	7.2	6.9	0.7	1.1	1.6	-0.8	-0.2	-0.1
Euro area	**2.1**	**1.9**	**1.7**	**1.8**	**1.8**	**1.6**	**8.4**	**7.9**	**7.5**	**3.8**	**3.6**	**3.6**	**-0.6**	**-0.8**	**-0.7**
Bulgaria	3.5	3.7	3.6	2.6	2.0	1.8	6.0	5.8	5.7	5.9	4.6	5.1	0.8	0.6	0.6
Czech Republic	3.0	2.9	2.6	2.1	2.2	1.8	2.4	2.5	2.6	-0.5	-0.5	-0.1	1.4	0.8	0.7
Denmark	1.2	1.8	1.6	0.8	1.5	1.7	5.2	4.9	4.7	6.1	6.2	6.1	0.2	-0.1	0.6
Croatia	2.8	2.8	2.6	1.6	1.5	1.4	9.1	7.6	6.6	2.5	2.0	1.8	0.2	0.4	0.1
Hungary	4.3	3.4	2.6	3.0	3.3	3.0	3.6	3.3	3.2	1.2	0.0	0.3	-2.4	-1.9	-1.8
Poland	4.8	3.7	3.3	1.2	2.6	2.7	3.3	2.9	2.8	-0.6	-0.9	-1.3	-0.9	-0.9	-1.0
Romania	3.6	3.8	3.6	4.3	3.5	3.3	4.3	4.2	4.1	-3.7	-4.2	-4.5	-3.3	-3.4	-4.7
Sweden	2.4	1.8	1.8	2.1	1.9	1.6	6.3	6.2	6.2	3.2	3.0	2.9	1.1	0.9	0.8
EU27	**2.2**	**2.0**	**1.9**	**1.8**	**1.9**	**1.7**	**7.4**	**7.0**	**6.6**	**3.5**	**3.3**	**3.2**	**-0.6**	**-0.8**	**-0.6**
United Kingdom	1.3	1.2	1.2	2.6	2.0	1.9	4.3	4.5	4.7	-3.3	-3.2	-3.0	-1.3	-1.0	-1.0
EU28	**2.1**	**1.9**	**1.8**	**2.0**	**2.0**	**1.8**	**6.9**	**6.6**	**6.3**	**2.5**	**2.3**	**2.3**	**-0.7**	**-0.8**	**-0.7**
USA	2.9	2.6	1.9	2.5	2.4	2.2	3.9	3.5	3.5	-2.4	-2.6	-2.8	-5.8	-6.0	-6.0
Japan	1.1	1.0	0.5	0.8	1.0	1.3	2.7	2.6	2.5	4.7	4.7	4.7	-3.3	-3.1	-2.8
China	6.6	6.2	5.9	1.8	2.0	:	:	:	:	0.2	-0.2	-0.4	:	:	:
World	**3.7**	**3.5**	**3.5**	:	:	:	:	:	:	:	:	:	:	:	:

activity should also weaken as labour market improvements slow, slack diminishes, and supply side constraints become more binding in certain Member States.

Global growth increasingly diverges as some risks partly materialised…

After rising in synchronised fashion, GDP growth across the world is set to become more divergent, especially within emerging markets, as previously identified risks related to trade protectionism and financial vulnerabilities in emerging markets have begun to materialise. Global growth, however, is forecast to remain robust in the near-term as economic activity in advanced economies will benefit from buoyant momentum in the US boosted by a pro-cyclical fiscal stimulus, strong labour markets and sentiment. Over the next two years, GDP growth in advanced economies (excluding the EU) is expected to moderate, as the economic cycle matures and less support comes from monetary and fiscal policies. In the US, the positive effect of the fiscal stimulus in 2019 is set to be partly offset by the negative effect of higher tariffs, and GDP growth is now expected to be moderately weaker than forecast in the spring.

…and the outlook is for a deceleration next year…

Global growth (excluding the EU) is now forecast to peak at 4.0% this year before settling down to rest at 3.8% in both 2019 and 2020. This downward revision since the spring, particularly for next year, is largely due to a deterioration in the growth outlook for a number of emerging market economies, which have been hit by tightening financial conditions, geopolitical tensions and domestic policy uncertainty. Rising oil prices cast an additional shadow on the outlook for oil importers but imply an improvement for several oil-exporting countries. Recent US tariff measures are expected to dent China’s GDP growth, although their impact should be partly offset by domestic macroeconomic policy measures.

…surrounded by acute downside risks…

Under the central scenario, economic growth in the US is expected to fall gently below the economy’s estimated potential growth rate in 2020. It also assumes the absence of a further escalation of trade disputes beyond the measures already adopted and firmly announced. Finally, it assumes that financial markets will continue to differentiate between emerging markets, thus containing broader contagion. These benign assumptions, however, imply that the global growth outlook is subject to significant downside risks.

…while global trade is set to ease more markedly amid rising trade tensions.

Global trade growth is expected to decrease markedly over the forecast horizon in light of weakening global activity and trade tensions. Having peaked at 5.5% last year, non-EU world import growth began losing momentum in the first half of the year and is expected to slow to 4.8% this year and 4.0% in 2019 (about ¼ and ½ percentage points below what was expected back in the spring). It is forecast to ease further to 3.7% in 2020, amid lower trade in investment goods as the boost to investment from the US stimulus package diminishes and the Chinese economy moves further away from investment-led to consumption-driven growth.

Financial market sentiment has softened…

In recent months, increased trade tensions and rising global interest rates, driven mainly by the rapid pace of monetary tightening in the US and somewhat lower than expected corporate earnings, have weighed on financial market sentiment. Stock markets have recently fallen in Europe, the US and Asia, while global benchmark bond yields are more mixed, still on the rise in the US and little changed elsewhere.

…while there is so far no contagion from higher Italian yields.

European equity indices have trended downward mainly due to concerns related to US trade policy and the turmoil in some emerging economies. The European banking sector has underperformed as a result of shocks, including the crisis in Turkey, money laundering scandals and the increase in Italian yields. The outlook for public finances in Italy has pushed Italian sovereign yield spreads significantly higher in recent months. So far, no contagion to other Member States has been observed.

The euro strengthened against emerging market currencies…

The euro has appreciated slightly in nominal effective terms in recent months due to a strengthening against a range of emerging market currencies. At the same time, it has weakened rather substantially against the US dollar, reflecting the different pace of monetary policy normalisation as well as uncertainty related to trade tensions. The euro's nominal effective exchange rate is assumed to appreciate by about 5% on average this year and by another 0.6% next year.

…and market-based funding costs slightly increased.

Net lending to households and non-financial corporations (NFCs) in the euro area is expected to continue increasing over the forecast horizon under the combined effect of relatively supportive bank credit conditions and strong demand. However, in most Member States, financing costs for NFCs have risen slightly from very low levels in recent months, reflecting higher corporate bond yields and lower equity prices. Financing costs have risen the most in Italy due to substantial increases in market-based funding costs.

Domestic demand should be the main driver of growth…

Lower momentum in the first half of this year compared to 2017 is largely attributable to the lack of contribution of net trade to growth. With external demand set to weaken further, GDP growth in Europe will depend mainly on domestic fundamentals.

…with private consumption increasingly fuelled by wages rather than by job creation…

Private consumption growth also moderated in the first half of the year, in line with decreasing consumer confidence. It is however forecast to remain a main growth driver supported by solid fundamentals. Labour markets should continue to improve, with wage increases contributing more towards household nominal disposable income growth than rising employment. Low interest rates should also help to sustain asset prices and household wealth. However, the increase in inflation is set to have a dampening effect on household purchasing power this year and next. Overall, private consumption in the euro area is forecast to increase this year by 1.6%, the same pace as last year, and to pick up to 1.8% in 2019 partly due to fiscal measures in some Member States. In 2020, as lower inflation should offset the impact of a further moderation in the pace of job creation, private consumption is set to fall back to 1.6%.

…and investment set to be dampened by fading external demand…

Last year's exceptionally benign global environment helped support investment in the euro area, which continued to grow significantly faster than GDP in the first half of 2018. Still favourable financing conditions, high rates of capacity utilisation in manufacturing and a positive earnings outlook are set to continue to support equipment investment. However, in a context of strong linkages between exports and the business investment, rising trade tensions and trade policy uncertainty have started to dent business sentiment, which combined with growing supply constraints should entail a moderation in the next two years. Residential investment should be supported by the continued dynamism in real house prices and positive income prospects. Yet with the expected steepening of the yield curve, new mortgages should progressively become somewhat more costly and make alternative investments relatively more attractive. Overall, investment in the euro area is projected to lose some momentum over the forecast horizon.

…which should lead to a neutral contribution of net trade to growth…

In the first half of 2018, the growth of euro area exports was less than half the average pace of the previous year. In line with the weaker outlook for global trade, and the lagged impact of the euro's past appreciation, expectations for euro area exports have been lowered significantly since the spring, although in some Member States this also reflects the reality of more binding supply constraints. As a result, net trade, which made a sizeable contribution to growth in 2017, is projected to contribute less this year before turning neutral in 2019 and 2020.

…and a decline of the euro area current account surplus.

The euro area’s current account surplus (as a percentage of GDP) peaked in 2017 and is set to recede somewhat this year before settling down to around 3.6% in 2019 and 2020. The main contributors to the surplus remain Germany and the Netherlands but their combined share is expected to decline, as smaller euro area Member States are forecast to add increasingly to the aggregate surplus.

Labour market slack has meaningfully receded…

Labour market conditions in the euro area continued to improve in the first half of 2018 with employment improving steadily despite the slower pace of growth. The unemployment rate continued to fall while the decline in broader measures of underemployment (e.g. involuntary part-time work) suggests that slack has also been reduced further and that the pool of further potential workers is shrinking. The situation in individual Members States, however, continues to differ significantly. Over the next two years, employment creation should continue to benefit from the economic growth as well as structural reforms and specific policy measures in some countries. Yet job creation is projected to be dampened by increasing labour shortages and the more moderate pace of economic growth. Net job creation in the euro area is projected to slow from 1.4% in 2018 to 1.1% in 2019 and 0.9% in 2020. This slowdown, combined with almost steady growth in the labour force, means that the unemployment rate is likely to fall less than in previous years.

…but the pass-through of higher wages to inflation is set to be only gradual.

Euro area headline inflation rose slightly above 2% in the third quarter of 2018, driven mainly by the rise in energy prices. As oil prices are assumed to peak in the last quarter of this year before falling marginally, strong positive base effects are expected for up to the first quarter of 2019. Despite some pick up in wage growth, core inflation, which excludes energy and unprocessed food prices, has been rather muted so far this year. The pass-through of higher wage growth into underlying price pressures is expected to be gradual and to take longer than previously expected. Over the course of the next two years, however, core inflation is expected to become the main driver of headline inflation, as labour markets progressively tighten further, wages rise more strongly and the output gap remains positive. Due to the upward revision of assumed oil prices, the forecast for euro area headline inflation in 2018 and 2019 has been revised up to 1.8%. It is then expected to recede to 1.6% in 2020, reflecting also the expected further slowdown in activity.

The reduction in the euro area headline deficit should come to a halt next year…

The euro area's general government deficit as a share of GDP is projected to decline further in 2018 thanks to a reduction in interest expenditure but its decline is set to come to a halt next year for the first time since 2009 due to looser discretionary fiscal policies. The euro area's general government deficit is expected to increase from 0.6% of GDP in 2018 to 0.8% in 2019 and to decline to 0.7% in 2020, based on a no-policy-change assumption.

Debt-to-GDP ratios are projected to fall in almost all Member States. In the euro area, the deleveraging is supported by a debt-decreasing primary surplus as well as nominal GDP growth outpacing the interest rate paid on outstanding debt. Based on a no-policy-change assumption, the euro area debt-to-GDP ratio is set to fall to 82.8% in 2020.

…as the euro area aggregate fiscal stance is set to turn slightly expansionary.

The fiscal policy stance for the euro area, as measured by the change in the structural balance, is expected to turn slightly expansionary in 2019. The assumed gradual monetary policy normalisation by the ECB, continued growth and strengthening core inflation should combine to add some upward pressure on nominal rates over the forecast horizon. Nonetheless, real short and long-term rates should remain clearly negative.

Downside risks to the outlook are rising and interconnected

The EU economy is facing a very high level of uncertainty, mainly with respect to economic and trade policies in the US. At the same time, the downside risks surrounding the central scenario are highly interconnected. The materialisation of any of these risks could amplify the others and magnify their impact on the EU economy.

Overheating in the US fuelled by the sizeable pro-cyclical fiscal stimulus could result in a faster-than-assumed monetary tightening that could alter the risk attitude of investors with detrimental effects to the US economy, given the high level of corporate leverage. This would also affect emerging market economies where financial turmoil and reverse capital flows could spill over more widely than they have so far. This would impact negatively on growth and financial stability in advanced economies as well. As a relatively open economy with strong trade links and banks exposed to emerging markets, the EU would suffer. Additionally, the expected deterioration of the US current account could lead to a further escalation of trade disputes. This could particularly hit China with its relatively high and rising corporate debt that is increasing financial fragilities. More globally, a further escalation of trade tensions would sharply and more permanently increase uncertainty, weigh on confidence, investment, global trade and global growth. Given its high integration in global value chains, Europe would be particularly vulnerable to such external shocks.

The materialisation of any of these risks is more likely to occur in 2020. An abrupt end to fiscal stimulus in the US in 2020 could lead to a sharper slowdown in the US with spillovers to its major trade partners (including the EU), while Chinese authorities' attempt to shore up growth could increase debt and heighten the risk of a disorderly adjustment.

In some high-debt euro area countries, most notably Italy, disruptive sovereign-bank loops could also re-emerge in case of doubts about the quality and sustainability of public finances, which in an environment of overall risk repricing and increasing financing costs, could raise financial stability concerns and weigh on economic activity. Finally, risks related to the outcome of the Brexit negotiations also remain. In case of a no deal scenario, the impact is expected to be much larger on the UK than on the EU27 overall.

PART I

EA and EU outlook

LESS DYNAMIC GROWTH AMID HIGH UNCERTAINTY

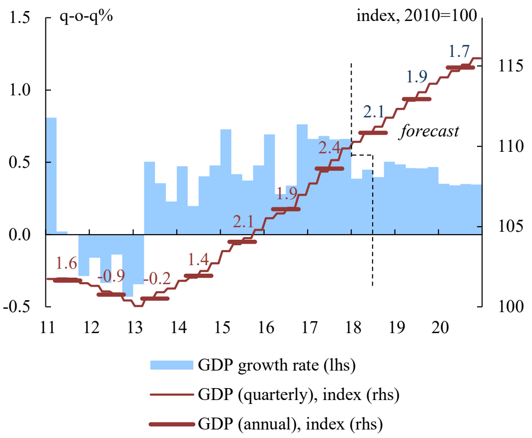
Interrelated external and domestic risks are clouding the outlook

The EU economy is entering a period of less dynamic expansion after five years of continuing growth. A high degree of uncertainty and interrelated external and domestic risks are clouding the economic outlook. After shifting down a gear from 2017's record levels in the first quarter in 2018, economic growth held steady in the second quarter. This reflects the lower, but by historical standards, still high readings of survey indicators and the favourable labour market situation, which has allowed the euro area unemployment rate to fall to levels last seen about a decade ago. While wages have picked up somewhat in the first half of the year, headline inflation in the euro area remains mainly driven by developments in energy prices.

With global growth set to slow and become less synchronous, economic activity in Europe will come to depend almost entirely on the fundamentals behind private consumption and investment: continued employment growth; favourable financing conditions; rising profitability; and the steady outlook for domestic demand. In the near term, economic growth is expected to continue at about the same pace as in the first half of the year, resulting in euro area growth of 2.1% in 2018. The waning momentum of foreign trade due to weakening global economic activity and growing trade tensions, slower employment growth and increased uncertainty impacting on investment, are factors behind less dynamic growth forecast in the coming two years. Increasingly binding supply constraints and diminishing tailwinds from favourable financing conditions are further factors that suggest less dynamic growth in 2019 and in 2020, when euro area GDP is forecast to expand by 1.9% and 1.7%, respectively. With oil prices falling slightly towards the end of the forecast horizon, domestic price pressures should gradually take over as main determinants of headline inflation. Economic growth is set to remain sufficient to gradually diminish remaining pockets of slack in the labour market and slowly push up core inflation via a pick-up in wage growth. Overall, HICP inflation in the euro area is projected to rise from 1.5% in 2017 to 1.8% in 2018 and in 2019 before moderating to 1.6% in 2020.

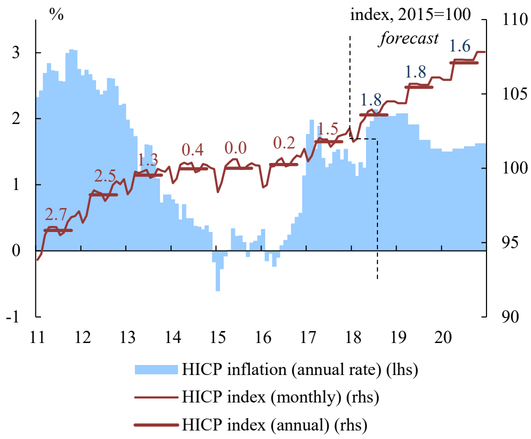
The balance of risks to the growth outlook is tilted to the downside. Interrelated external and domestic risks are clouding a rather benign economic outlook. Such risks are more likely to materialise in full force in 2020. An overheating in the US fuelled by a pro-cyclical fiscal stance could result in a faster-than-assumed monetary tightening by the Fed, which could alter the risk attitude of investors with detrimental effects to the US economy given the high level of corporate leverage, and to emerging market economies, resulting in negative spillovers to advanced economies. The deterioration of the current account in an overheating US economy could also lead to a further escalation of trade disputes. This could particularly hit China with its relative high and rising corporate debt that is increasing financial fragilities. Attempts to shore up growth via domestic policies could raise debt and further heighten the risk of a disorderly adjustment. Such shocks would negatively impact global trade and activity, and disrupt cross-border supply chains. As a relatively open economy with strong trade links and banks exposed to emerging markets, the EU would suffer. Disruptive sovereign-bank loops could also re-emerge in some high-debt euro area countries, which in an environment of risk repricing and increasing financing costs, could raise financial stability concerns.

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: TRADE

The euro area's substantial openness to trade allowed net exports to act as a cyclical buffer during the crisis. Similarly, the euro area economy has benefitted from the recent acceleration in global activity and trade. With global growth now expected to slow and trade tensions on the rise, however, euro area growth is likely to feel a chill.

This introductory section examines the euro area's trade linkages with the rest of the world and their bearing on the business cycle. It argues that the integration in global value chains has increased the exposure to partners outside the EU beyond what gross export and import trade figures suggest. Model simulations highlight the transmission of global developments to domestic demand. Finally, the impact of the trade restricting measures so far adopted between the US and China is analysed and compared to the impact of a generalised increase in protectionism.

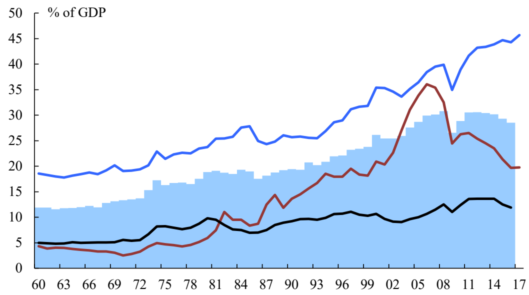
The golden era of global trade…

Over the past few decades trade has become increasingly important for the global economy. This has been facilitated by a conducive trade and investment policy environment, the integration of China into the world economy and several waves of EU enlargement. Broad-based liberalisation coupled with technological advances that pushed down transport and communication costs, fuelled relocation of manufacturing and led to the proliferation of regional and global value chains. Consequently, global trade grew steadily and increased its share of global GDP threefold from around 10% in the early 1960s to over 30% in the run-up to the economic and financial crisis of 2008 (see Graph I.3).

…supported by a marked rise in EU openness.

EU Member States played an active part in this process, benefitting from the creation and subsequent enlargements of the EU single market, the introduction of the euro, and opportunities created by the expansion of the manufacturing base in China and other emerging markets. This has driven the share of exports in euro area GDP up from below 20% in early 1960s and 25% in the early 1990s to over 45% in 2017, with roughly two-thirds representing intra-EU trade. This is more than double the analogous figure for China and roughly four times higher than the corresponding share for the US (Graph I.3). While caution is needed when making such direct comparisons due to the weight of intra-EU trade in the euro area aggregate, an outsize share of exports in its GDP is a testimony to the importance of trade for euro area economies.

Graph I.3: **Share of exports of goods and services**

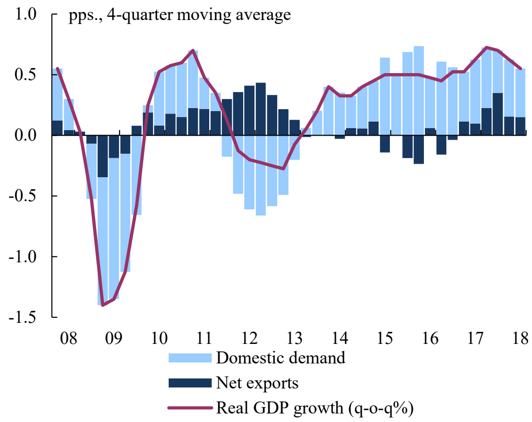


Source: World Bank, World Development Indicators.

Importance of trade for the euro area economy

Given its high openness to trade, it is unsurprising that trade developments have a substantial bearing on the euro-area business cycle as well as its trend GDP growth. The direct contribution from net exports for instance was instrumental to euro area growth during the early 2000s, as global demand provided a much-needed cushion to the collapse in domestic demand, and subsequently during the euro area sovereign debt crisis in 2011-2013. More recently, net exports staged a strong cyclical revival in 2017 when an investment-driven rebound in world trade benefitted EU exporters and contributed three-quarters of a percentage point to euro area GDP growth (see Graph I.4).

Graph I.4: **Contributions to real GDP growth, euro area**



Source: Eurostat.

However, the importance of trade for the euro area, (and for any other economy) goes far beyond the direct contribution of net exports. Export demand boosts investment, which in turn stimulates imports, [(1)] thus setting in motion a positive and self-reinforcing virtuous circle of investment, consumption and trade. This benefit comes on top of medium-to-long term gains linked to a well-established role of trade in spreading innovation, boosting productivity and, ultimately, upgrading economies' long-term growth potential. [(2)] In fact, a recent IMF cross-country analysis shows that a one percentage point increase in trade openness tends to raise real per capita income on average by 3% to 5% in the long run (even if this effect may have been weakened by the financial crisis). [(3)] At the same time, the distributional impact of trade openness very much depends on accompanying measures, including tax policy, education and welfare systems.

Model analysis confirms that external demand constitutes an important cyclical source of growth and was a key factor behind the good performance of the euro area economy in 2016 and 2017. With world growth set to slow, this positive contribution is now expected to turn negative. Simulations [(4)] show that a one-percentage-point drop in world demand dampens euro area GDP growth by roughly half a percentage point. The effect on investment growth is even stronger, with the analogous shock to world demand slowing investment growth by around ¾ of a percentage point. [(5)]

(1) Investment typically has the highest import content of all GDP demand components, see for example M. Bussière, G. Callegari, F. Ghironi, G. Sestieri, and N. Yamano (2013). 'Estimating trade elasticities: Demand elasticities and the trade collapse of 2008-09'. *American Economic Journal: Macroeconomics* 5:3, pp. 118-51.

(2) See e.g. OECD (2018). 'Productivity and Jobs in a Globalised World'.

(3) Cerdeiro, D. and A. Komaromi (2017). 'Trade and Income in the Long Run: Are There Really Gains, and Are They Widely Shared?'. *IMF Working Paper* 17/231.

(4) Two models were used: (1) the GM General equilibrium, multi-region structural macroeconomic model (see Albonico, A., L. Calès, R. Cardani, O Croitorov, F Ferroni, M Giovannini, S. Hohberger, B. Pataracchia, F. Pericoli, R. Raciborski, M. Ratto, W. Roeger and 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* 10) and (2) Large Bayesian VAR (Bańbura, M., D. Giannone and M. Lenza (2014). 'Conditional forecasts and scenario analysis with vector autoregressions for large cross-sections'. European Central Bank, *ECB Working Paper* 1733).

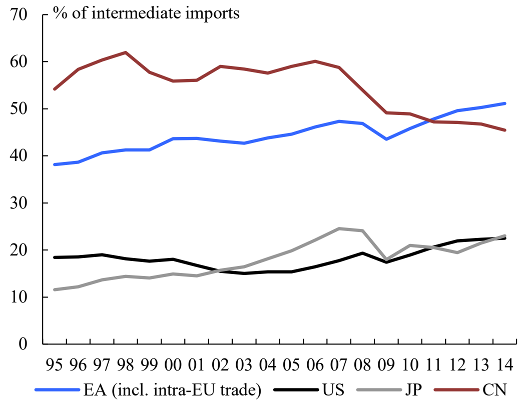
(5) Results are nevertheless sensitive to the nature of the shock hitting the economy as well as its position in the cycle.

High integration in global value chains fostered productivity but also increased Europe's vulnerability to external shocks

Gross data on imports and exports, however, do not provide the full picture of trade integration and the geographical distribution of added value. The expansion of global value chains (GVC) in the two decades preceding the economic and financial crisis meant that increasingly, intermediate goods crossed multiple borders before being consumed or exported as a final good, boosting gross trade flows amid a steady increase in the share of intermediate goods in total trade.

European countries have been very active in the process of international fragmentation of production since the 1990s and Europe is now among the regions most integrated in manufacturing value chains, with much of this coming from close intra-EU links. Based on some standard metrics, such as import content of exports or the share of re-exported intermediate goods in imports, the importance of value chains for the euro area economy has grown steadily in the last two decades and is now well above Japan's or the United States' and roughly comparable with that of China (Graphs I.5 and I.6).

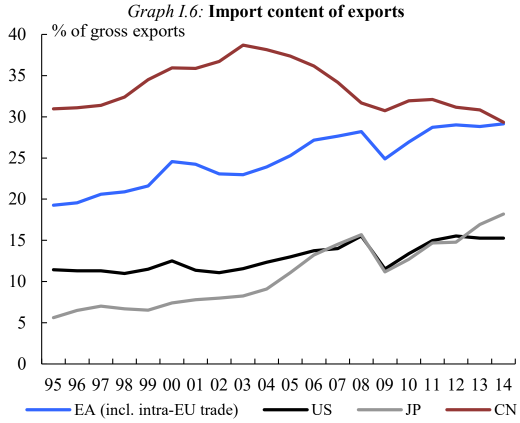
Graph I.5: **Re-exported intermediate imports**



Source: OECD Trade in Value Added Database.

While a very high degree of participation in global value chains has enabled euro area companies to exploit comparative advantages down the production chain, boosting productivity and profits, it has also increased the exposure of producers and exporters to developments in other countries and regions. It made them more vulnerable to e.g. third-country supply disruptions [6], but also to changes in prices, exchange rates, tariffs and non-tariff barriers. Consequently, the current escalation of trade tensions, so far largely contained to the US and China, may impact the euro area economy considerably more than a simple analysis of euro area trade links with these two countries would suggest.

Graph I.6: **Import content of exports**



Source: OECD Trade in Value Added Database.

Moreover, investigating the structure of euro area exports based on value-added rather than on gross flows reveals a higher relative importance of non-EU economies, such as China and the US. This is so because tight supply chain integration within the EU single market 'nets out' many EU/euro area gross trade flows, leaving countries outside the single market with a higher share of EU/euro area value added exports. Notably, the EU accounted for nearly two-thirds of all the euro area's gross exports in 2014, but only roughly one-half of exported *value added.* This aspect of a high participation in GVCs further increases the exposure of the EU economy to developments in third countries, including those currently affected by rising trade tensions.

The trend of trade liberalisation has come to a halt

Intense trade liberalisation in the early 1990s, culminating in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the creation of the World Trade Organisation (WTO) in 1995, and China's accession to the organisation in 2001, created a supportive environment in which trade thrived amid ever-decreasing tariff and non-tariff barriers. Import tariffs applied by advanced economies were falling continuously since the early 1990s until the early 2010s, with the average tariff lowered from around 5% in the early 1990s to around 2.5% in 2013. Reductions in emerging markets were considerably sharper with the average applied tariff reduced from nearly 40% to around 8% over the same period. [7]

Average tariffs remained largely stable after the economic and financial crisis but have started to edge up in advanced economies in recent years. Given the deadlock at the WTO following the collapse of the Doha Development Round, trade liberalisation efforts moved towards bilateral or regional trade deals in the 2010s. Over the past couple of years, however, the apparent shift in sentiment against trade liberalisation and the rise in anti-globalisation rhetoric have slowed trade reforms and led to a sustained rise in non-tariff barriers which increased six-fold between 2010 and 2016. [8] Recent WTO reports on G20 trade measures [9], as well as Global Trade Alert [10] confirm this trend, revealing a rising trend in implementing trade-restricting measures by G20 countries and discriminatory state interventions, respectively.

Recent shifts in US trade policy have started to affect the outlook…

In this context, the recent shifts in US trade policy add greatly to concerns over the future of trade liberalisation. One of the first decisions of the current US Administration was to withdraw from the Trans-Pacific Partnership and trade talks with the EU (Transatlantic Trade and Investment Partnership), as well as force a renegotiation of the North American Free Trade Agreement under the threat of withdrawal from the agreement. Trade tensions escalated to new level in late 2017 and early 2018. As of late October, the US imposed tariffs on goods worth USD 306 bn or 13% of its imports, and put an additional USD 268 bn under review (see table I.1).

(6) As exposed by supply problems following a series of natural disasters in 2011: tsunami in Japan and floods in Thailand.

(7) Quaglietti, L. (2018). 'Implications of rising trade tensions for the global economy'. *ECB Economic Bulletin* 3, pp. 21-5 (Box 1).

(8) See Galar, M. and P. Wozniak, (2018). 'Understanding the Weakness in Global Trade'. European Commission, *Economic Brief* 33.

(9) https://www.oecd.org/g20/topics/trade-and-investment/g20.htm.

(10) https://www.globaltradealert.org/.

Table I.1:
Timeline of the recent escalation in trade tensions

US tariffs (enacted and under review)

Date in effect	Average tariff rates (%)	Value (USD bn) in 2017	Goods targeted	Country affected	% of US imports**	% of world trade**
November 2, 2017	21	5.9	Softwood lumber	Canada	0.2	0.0
February 7, 2018	20	1.8	Washing machines	Multiple	0.1	0.0
February 7	30	8.5	Solar panels	Multiple	0.4	0.0
March 23/ June 1	25	23.4	Steel	Multiple	1.0	0.1
March 23/ June 1	10	16.4	Aluminium	Multiple	0.7	0.1
July 6 / August 23	25	50	Variety (focus: tech, auto, manufact.)	China	2.1	0.3
September 24	10/25*	200	Variety	China	8.5	1.2
Enacted by 22 October (cut-off date)		**306**	**Variety**	**Multiple**	**13.0**	**1.8**
Under review	25	268.6	Autos and parts	Multiple	11.4	1.6
Enacted, announced and under review		**575**	**-**	-	24.4	3.4

* As of January 1, 2019, the tariff rate increases to 25%.
** Based on annual 2017 values from the Census Bureau (US) and CPB (world)
Source: US Department of Commerce, Office of the US Trade Representative, Wells Fargo Securities (2018). 'Tallying up tariffs: the effect on inflation'. Special Commentary, July 19; own calculations based on Census Bureau and CPB data.

Retaliation to US tariffs (only enacted)

Retaliation to US tariffs timeline (only enacted)	Average tariff rates (%)	Value (USD bn) in 2017	Goods targeted	Imposing country	Retaliation to	% of world trade
June 22, 2018	10/25/35/50	3.2	Variety*	EU	US tariffs on steel and aluminium	0.0
July 1, 2018	10/25	12.8	Variety	Canada	US tariffs on steel and aluminium	0.1
After March 23/ June 1	Varied	8	Variety**	Multiple**	US tariffs on steel and aluminium	0.0
July 6 / August 23	25	50	Variety	China	US tariffs on USD 50 bn of imports from China	0.3
September 24	5/10	60	Variety	China	US tariffs on USD 200 bn of imports from China	0.4
Enacted by 22 October (cut-off date)		**134**	-	-	-	0.8

* Further tariffs on USD 4 bn of imports from the US may be imposed at a later date.
** Approximated value taking into account retaliation from China, Meixco, Turkey, India and Russia. The list is not exhaustive.
Source: Peterson Institute for International Economics, European Commission: http://trade.ec.europa.eu/doclib/press/index.cfm?id=1868.

…through their impact on output and confidence.

The macroeconomic impact of these measures remains difficult to establish at this point. While the goods affected so far represent around 2.5% of world merchandise trade, the magnitude of the impact and the list of countries affected may be considerably larger once complex manufacturing value chains are taken into account. Furthermore, risks associated with a further escalation of trade tensions are high, and relate closely to broader concerns about the future of the multilateral and rules-based trading system. If these were to materialise, they would have the potential to sharply and more permanently increase uncertainty, weigh on confidence, investment, trade and growth.

The European Commission's QUEST model has been used to assess the economic impact of two scenarios. **Scenario 1** takes into account all imposed (and announced) tariffs enacted by 22 October, the cut-off date (see Table I.1). **Scenario 2** represents a hypothetical escalation in trade tensions exemplified by a global multilateral 2pps. increase in tariffs by all countries [11]. For each scenario, simulations are made assuming (i) a direct effect via the traditional channel of impact (negative supply shock), (ii) impact via a confidence channel (30 bp. increase in risk premia), and (iii) impact via a confidence and productivity channel, with the latter shock proportional to the reduction in trade volumes.

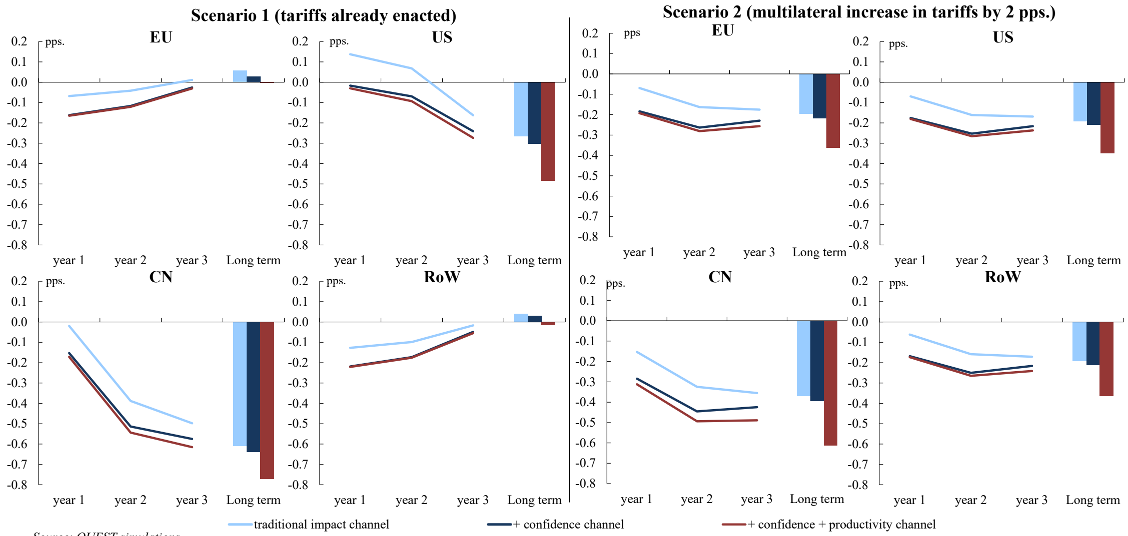
Confidence and productivity shocks were considered to supplement the simulation with more realistic and complex channels of indirect impact. They were chosen to mirror the increase in uncertainty and risk associated with the tariff hikes and current trade tensions that weigh on investment and consumption decisions, and eventually also on total factor productivity, leaving permanent scars on potential growth.

Simulations show that the already implemented tariffs have the potential to weigh on EU GDP in the short term, with a negative impact of around 0.2 pps. in the first year [12], when confidence and productivity shocks are taken into account. The effect turns largely neutral in the long run, as Europe benefits from trade diversion away from the US and China; while lower prices, thanks to a stronger euro, generate a positive supply shock. On the other hand, the US and China, mired in a trade conflict, unsurprisingly lose market shares and experience a much more severe hit to their

(11) Except for EU countries that do not raise tariffs against one another, but only against third countries.

(12) Largely due to the appreciation of the EUR (as US and CN currencies weaken reflecting falling demand for their exports).

Graph I.7: **Simulations of the impact of protectionist shocks on real GDP (deviation from baseline)**



Source: QUEST simulations.

economies.[13] The corresponding impact on GDP is roughly -0.3 pps. and -0.6 pps, respectively, after three years, but increases to -0.5 pps. and -0.8 pps. in the long run (see Graph I.7).

Scenario 2 of a generalised multilateral 2 pps. increase in tariffs shows more symmetric effects across countries, and therefore, a much higher impact on Europe. EU GDP falls by -0.1 pps. to -0.2 pps. on impact, with the loss increasing to roughly -⅓ pps. in the long run when all impact channels are considered. The impact on the US and rest of the world (RoW) economy is comparable, while that on China is roughly double in size compared to other regions, reaching 0.6 pps. in the long run. Confidence and productivity effects are quite significant in all cases (see Graph I.7).

All in all, as the escalation of trade tensions so far remains largely contained to China and the US, it is these countries that are expected to experience the most negative impact on their economies (scenario 1). However, should the tensions rise further and spill over to other countries and regions, affecting global trade flows more broadly, the effect would be much more severe, entailing a marked hit to global growth (scenario 2). These findings are broadly in line with estimates by other international institutions. For the October's World Economic Outlook, the IMF ran an equivalent scenario to QUEST scenario 1 described above and came to the conclusion that "the impact of the tariffs that have been imposed to date is small, but material, with the United States and China bearing the brunt of the costs."[14] The IMF warns, however that, if tariffs are imposed on additional products and the tit-for-tat continues, leading firms to curtail investment and provoking global financial tightening, the output losses could be much deeper and more universally spread.[15] The risk of reverting to protectionism has also been emphasised by the World Bank. In its 2017 report[16], the authors show that "a worldwide increase in tariffs up to legally allowed bound rates coupled with an increase in the cost of traded services would translate into annual global real income losses of 0.8 pps. relative to the baseline after three years".[17] A full-blown trade conflict would likely lead to raising tariffs beyond the legally allowed bound rates, resulting in an even larger welfare loss.

While model simulations such as described above capture the various channels through which tariff hikes may affect the real economy (including confidence and productivity), the resulting estimates should be treated as the lower bound of the possible impact. This is so because the channels considered may in fact turn out much stronger, while other, unknown and unpredictable negative feedback loops may emerge. This is very likely given the sharp increase in the importance of trade for the world economy in recent decades,

(13) Even if the USD depreciation reflecting falling demand for US exports, provides a temporary boost to the US economy in the short term.

(14) International Monetary Fund (2018). 'World Economic Outlook'. October 2018.

(15) Ibidem.

(16) Kutlina-Dimitrova, Z. and C. Lakatos (2017). 'The Global Costs of Protectionism'. *Policy Research Working Papers* 8277.

(17) Ibidem.

coupled with an unprecedented rise in interconnectedness and integration of manufacturing value chains that may amplify some of the effects to an extent that is not yet clear at present.

A hit to trade and growth is also likely to provoke various policy responses to counter the slowdown, including in China where additional stimulus could aggravate imbalances and financial instability concerns. This would in turn further exacerbate the balance of risks to the short to medium-term outlook (see section I.10).

2. EXTERNAL ENVIRONMENT

The outlook for global economic growth remains robust in the near term but more uneven and much less synchronised. Short-term economic activity in advanced economies is benefitting from strong growth in the US, which is expected to exceed potential this year and next. The growth outlook for emerging markets is weaker than in the spring with significant divergence across countries and regions. The outlook for emerging Asia is still solid even though growth prospects in China have slightly deteriorated due to recent US tariff measures. Rising oil prices, as well as tighter financing conditions, cast a shadow on the outlook for oil importers. Growth prospects have deteriorated sharply in several other emerging markets, most notably in Argentina and Turkey, as financing conditions have tightened and geopolitical tensions have risen.

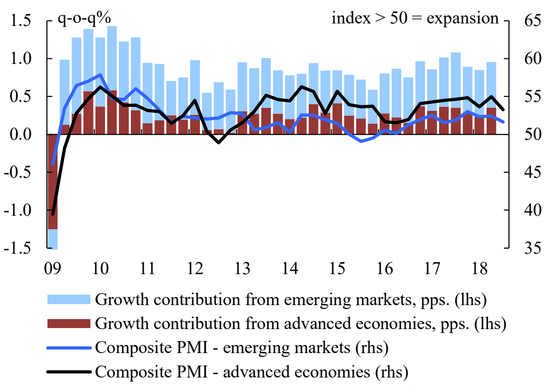
Amid high uncertainty, risks to the global growth outlook are skewed to the downside and are closely interconnected. In the US, the highly pro-cyclical fiscal loosening risks overheating the economy, which could trigger a faster-than-expected tightening of financing conditions in the US and globally, with negative repercussions for the world economy. Rising leverage in the US corporate sector and many emerging markets has increased their vulnerability to higher interest rates. Moreover, trade tensions have continued to increase and further escalation would have a material impact on growth and trade flows, not only in the US and China, but also globally. Rising trade protectionism also aggravates the long-standing risks of a disorderly adjustment in China.

Divergence in global growth becomes more accentuated

Global growth remained robust overall in the first half of 2018 but the performance of different regions and countries has become increasingly divergent. Moreover, some previously identified risks related to trade protectionism and financial vulnerabilities in emerging markets have started to materialise. Global growth picked up slightly to 1.0% (q-o-q) in the second quarter of 2018 on the back of stronger activity in the US, Japan and emerging Asia. At the same time, growth in several emerging markets outside Asia (e.g. Argentina, Mexico and South Africa) fell short of expectations.

Recent high frequency indicators signal a gradual softening of global output growth as well as further divergence across countries and regions. The Global Composite PMI eased again in the third quarter to a two-year low of 52.8 in September, on the back of a moderate deceleration in both advanced and emerging economies (see Graph I.3). While global manufacturing PMIs have been losing momentum since the beginning of this year, reflecting broad-based softening in global output and new export orders, service sector PMIs have shown greater resilience and only began to decelerate in the third quarter. Composite PMIs in both advanced and emerging economies are now around the levels seen in late 2016 but continue to signal expansion.

Graph I.8: **Growth of global GDP and composite PMIs**



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

Global growth (excluding the EU) is forecast to pick up slightly from 3.9% in 2017 to 4.0% in 2018 before settling down to 3.8% in both 2019 and 2020. This implies a downward revision since the spring forecast of 0.2 pps. in 2018 and 0.4 pps. in 2019, which is mainly explained by the sharp downward revision to the growth forecast in some

Table I.2:

International environment

(Annual percentage change)					Autumn 2018 forecast			*Spring 2018 forecast*	
	(a)	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Real GDP growth									
USA	15.3	2.9	1.6	2.2	**2.9**	**2.6**	**1.9**	*2.9*	*2.7*
Japan	4.3	1.4	1.0	1.7	**1.1**	**1.0**	**0.5**	*1.3*	*1.1*
Emerging and developing Asia	33.2	6.6	6.6	6.4	**6.5**	**6.2**	**6.1**	*6.5*	*6.3*
- China	18.2	6.9	6.7	6.9	**6.6**	**6.2**	**5.9**	*6.6*	*6.3*
- India	7.4	7.6	7.9	6.2	**7.4**	**7.5**	**7.5**	*7.4*	*7.6*
Latin America	7.7	0.2	-0.9	1.2	**1.0**	**1.7**	**2.3**	*2.2*	*2.7*
- Brazil	2.5	-3.5	-3.5	1.0	**1.1**	**1.9**	**2.3**	*2.4*	*2.6*
MENA	6.7	1.9	3.9	2.2	**2.2**	**2.2**	**2.4**	*3.2*	*3.4*
CIS	4.5	-2.3	0.4	2.1	**2.3**	**2.2**	**2.3**	*2.3*	*2.3*
- Russia	3.2	-2.8	-0.2	1.5	**1.7**	**1.6**	**1.8**	*1.7*	*1.6*
Sub-Saharan Africa	3.1	3.4	1.3	2.8	**3.1**	**3.6**	**3.8**	*3.4*	*3.6*
Candidate Countries	1.9	5.7	3.2	7.0	**3.8**	**-1.1**	**3.1**	*4.6*	*4.2*
World (incl.EU)	100.0	3.3	3.2	3.7	**3.7**	**3.5**	**3.5**	*3.9*	*3.9*
World merchandise trade volumes									
World trade		2.9	2.3	5.2	**4.1**	**3.8**	**3.5**	*4.9*	*4.3*
Extra EU export market growth		1.5	2.0	5.2	**4.2**	**3.7**	**3.4**	*4.4*	*4.1*

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2017.

emerging economies. Economic activity in advanced economies will benefit from strong growth momentum in the US in the near term and then moderate over the forecast horizon. Growth in emerging markets as a whole is expected to remain broadly stable over the forecast horizon but to show greater divergence across countries and regions. The recent tightening of financial conditions, currency turmoil, as well as geopolitical developments, have led to significant downward revisions in the growth outlook for a number of emerging markets (e.g. Argentina, Turkey, Iran and Venezuela). Growth prospects have also weakened in Brazil, South Africa and several other countries that struggle with sizeable macroeconomic imbalances coupled with domestic policy uncertainty. By contrast, the outlook has improved slightly in several oil-exporting countries where higher oil prices should boost exports and improve current account balances and fiscal positions. Recent tariff measures implemented and announced by the US are likely to have a noticeable negative impact on GDP growth in China, which will, however, partially be offset by a weaker Renminbi and domestic policy measures.

The central scenario is based on several important assumptions, including a 'soft landing' for the US economy. The pro-cyclical fiscal loosening in 2018-2019 is not expected to ignite the kind of price pressures that could lead to a faster pace of monetary policy tightening than assumed in the central scenario. As a result, monetary policy is expected to normalise gradually and slow growth to only slightly below potential. In 2020, a Congressional agreement to extend current expenditure levels in the US is assumed, implying a growth-neutral fiscal stance. Second, on the trade side no further escalation of trade protectionism beyond what has already been adopted (and announced) is factored in (see Section I.1). It is also assumed that any negative confidence and productivity effects from the current trade tensions will remain relatively limited. Finally, the central scenario assumes that the recent financial market turbulence in some emerging markets will not lead to broader contagion or a significant slowdown in emerging market growth overall. These benign assumptions imply that the global growth outlook is subject to significant downside risks (see the risk section below).

Advanced economies: growth to continue beyond peak amid mounting risks

Economic activity in advanced economies has remained solid, with recent GDP data from the second quarter confirming robust growth in the US and Japan after a soft patch in the first quarter. Overall, economic growth in advanced economies excluding the EU is expected to remain stable at

2.6% in 2018, supported by strong labour markets, high consumer and business sentiment and an expansionary fiscal stance in the US, before decelerating in 2019 and further in 2020. The gradual growth moderation after 2018 reflects an outlook for a progressively maturing cycle across most advanced economies combined with withdrawal of monetary (US, Canada, and Australia) and fiscal (Canada, Australia, and Japan) policy support and continued uncertainties surrounding global trade relations.

GDP growth in the US is forecast to remain strong at 2.9% and 2.6% in 2018 and 2019, respectively, supported by strong consumer and business sentiment, a tightening labour market and fiscal stimulus. Corporate tax cuts are already providing a considerable tailwind to private investment and personal income tax cuts are boosting household consumption. [18]

The recent decision to raise tariffs on USD 200 bn worth of Chinese goods imports (adding to earlier trade policy measures) and retaliatory measures by China, are expected to have only a limited direct impact on consumer prices and real activity. Nonetheless, these additional tariffs will marginally weigh on the economy's buoyant momentum [19] and slightly offset the benefits provided by tax cuts. This contributes to marginally weaker GDP growth (-0.1 pps.) in 2019 than predicted in the spring forecast. For 2020, growth is expected to moderate more noticeably to below 2%, slightly below potential growth estimates, as supply-side constraints limit the pace of economic growth and macroeconomic policy support fades.

Monetary policy in the US is assumed to continue tightening gradually, in line with the Federal Reserve's forward guidance. This implies that the federal funds rate should reach a broadly neutral level over the course of 2019 before turning slightly contractionary thereafter. At the same time, a gradual increase in longer-term borrowing costs among corporates is assumed in a context of already high corporate leverage, which reached 74% of GDP in the first quarter of 2018 (from 66% in 2012). [20] On the fiscal side, the growth impulse provided by the stimulus package is expected to be largely exhausted by the end of 2019, with the fiscal stance assumed to turn broadly neutral thereafter.

In Japan, GDP growth should drop to a level of around 1% in 2018 and 2019 (down from 1.7% in 2017), driven by tighter labour market conditions and lower net exports, although monetary policy conditions are expected to remain accommodative. The growth profile, however, could turn more volatile in the second half of 2019, reflecting front-loaded expenditure ahead of a planned consumption tax hike. In 2020, the pace of growth is expected to slow to 0.5% on the back of retrenchment in private consumption following the planned future fiscal consolidation.

A differentiated growth outlook in emerging markets amid localised pressures

The acceleration of economic activity in emerging markets that has been going on since 2015 (see Graph I.9), continued over the first half of 2018 amid still benign financing conditions and rising oil prices. Since then however, it has become more differentiated across countries, as the impact of higher interest rates, a stronger US dollar and increasing trade tensions have started to hit some countries more than others. On aggregate, growth in emerging economies is forecast to inch up to 4.7% in 2018 and to remain stable over the rest of the forecast horizon. This implies a downward revision of 0.3 pps. in both 2018 and 2019 compared to the spring forecast. Economic activity is expected to be driven by growth in advanced economies, which remains robust, and firming commodity prices, which should benefit commodity exporters. Recent financial market turmoil in Argentina and Turkey, as well as renewed US sanctions against Iran will, however, weigh heavily on the regional outlook of these economies. On the policy front, fiscal space to support demand is limited amid existing vulnerabilities, while several emerging markets

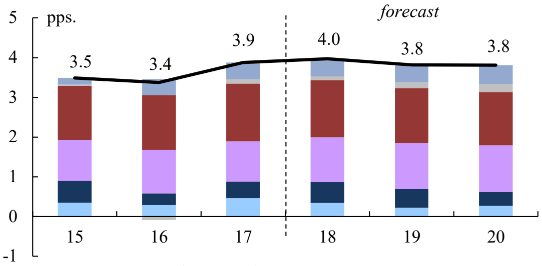
(18) In the US, the 2017 tax act permanently lowered the top corporate income tax rate (to 21%), changed the way that companies' foreign income is taxed, lowered individual income tax rates, and broadened the base of income subject to tax through 2025. The Bipartisan Budget Act of 2018 increased the caps on discretionary funding for 2018 and 2019 and provided substantial funding for emergency assistance. The Consolidated Appropriations Act, 2018 provided appropriations for all discretionary accounts for 2018.

(19) In the US, already in mid-July 2018 a survey conducted by the Federal Reserve Bank of Atlanta found that announced tariffs or retaliation has caused one-fifth of firms to reassess their capital expenditure plans. See D. Altig, N. Bloom, S.J. Davis, B. Meyer, and N. Parker (2018). 'Are tariff worries cutting into business investment'. *Macroblog* (Federal Reserve Bank of Atlanta), August 7.

(20) Bank for International Settlements data on credit to non-financial corporations from all sectors.

have begun to raise interest rates to support their currencies and put a lid on inflationary pressures.

Graph I.9: **Contributions to global, non-EU GDP growth**



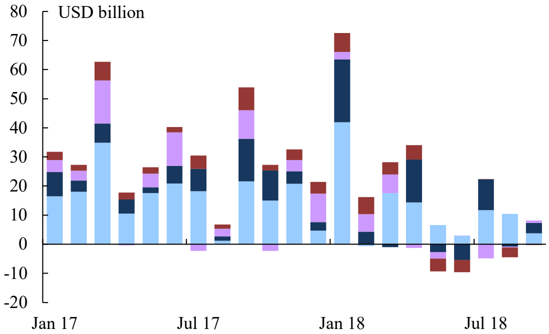
Financial conditions in emerging markets tightened materially between February and October 2018. This tightening, which was triggered by a reappraisal of US growth and inflation prospects, has been driven by higher global long-term interest rates and a decline in emerging market equity prices. Long-term yields have also risen and sovereign spreads have widened, reflecting lower capital flows to emerging market economies (see Graph I.10), though markets appear so far to differentiate between countries, as spreads have widened more for those with greater external financing needs. Nevertheless, tighter global financial conditions, reflecting factors such as the ongoing normalisation of monetary policy in the US, are likely to limit growth prospects in emerging markets as a whole going forward.

Regional divergences in the growth outlook are increasing. In Latin America, the Middle East, Turkey and South Africa, growth is expected to be weaker than forecast in the spring, as financing conditions have tightened and geopolitical tensions have risen. Argentina and Turkey experienced severe currency turmoil over the summer and are expected to slip into recession, recovering slowly in 2020. Growth in other Latin American countries is forecast to pick up over the forecast horizon from the protracted slowdown in recent years, even though political uncertainty and more restricted access to foreign financing will dampen the recovery.

In the Middle East and Sub-Saharan Africa, higher oil prices should support economic activity among oil exporters, though US sanctions will weigh heavily on economic activity in Iran and the outlook for South Africa is clouded by the ongoing land reform debate and financial pressures. Emerging Asia is set to continue growing at a solid pace, even though activity in China is expected to moderate somewhat as domestic investment continues to slow and export growth drops after a very buoyant 2017. Regarding the impact of current trade tensions with the US, China has already started to pre-emptively loosen monetary and fiscal policy to cushion the impact of tariffs. Together with a weaker Renminbi, which has lost almost 10% of its value since the beginning of the year on the back of trade concerns and the broad-based strength of the US dollar, these policy support measures are expected to limit the impact of the recently-announced tariffs on headline growth.

In India, growth has shaken off temporary disruptions from demonetisation and the sales tax reform and should remain buoyant, though the economy remains vulnerable to higher oil prices and tighter global financial conditions. Economic activity in Russia is set to moderate over the forecast horizon as the effects of higher oil prices cannot fully counterbalance the impact of long-term growth bottlenecks and increased uncertainty related to the recent wave of US sanctions.

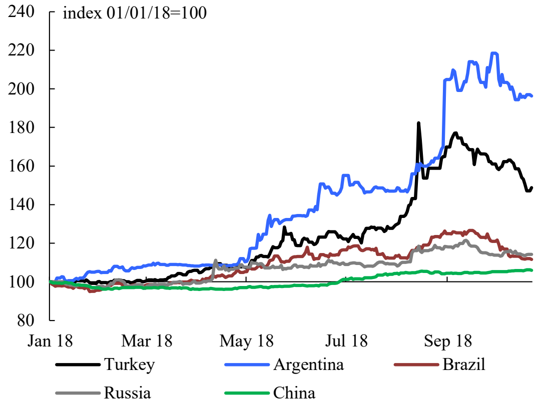
Graph I.10: **Portfolio flows in emerging markets**



Sources: National sources, Bloomberg and Institute of International Finance.

Accordingly, emerging market currencies came under pressure across the board, and particularly in Turkey and Argentina (see Graph I.11). As a result, higher bank funding costs and more restrictive bank lending standards are likely to weigh on the outlook of emerging markets, though to varying degrees.

Graph I.11: **Exchange rates in emerging markets**

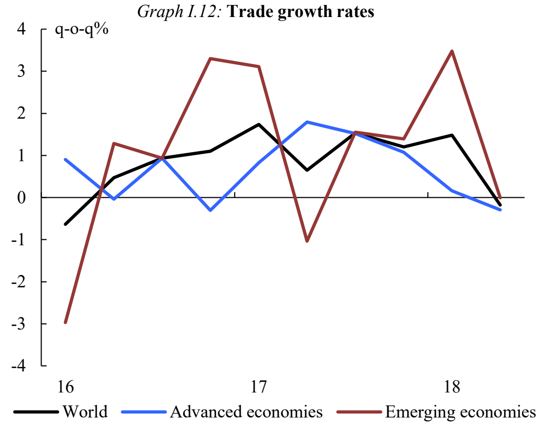


Sources: Macrobond, Central Banks.

Global trade still robust overall in 2018 but poised to slow down amid trade tensions

Following a strong rebound in 2017, world trade growth started to lose momentum in the first half of 2018. Trade still received support from the steady growth of global demand and in particular from solid manufacturing production and investment at the beginning of 2018 but began to decelerate thereafter. The abrupt turnaround was felt across most regions of the world with, the US, China and Japan, in particular all recording a considerable slow-down in import growth in the first half of the year (see Graph I.12).

Graph I.12: **Trade growth rates**

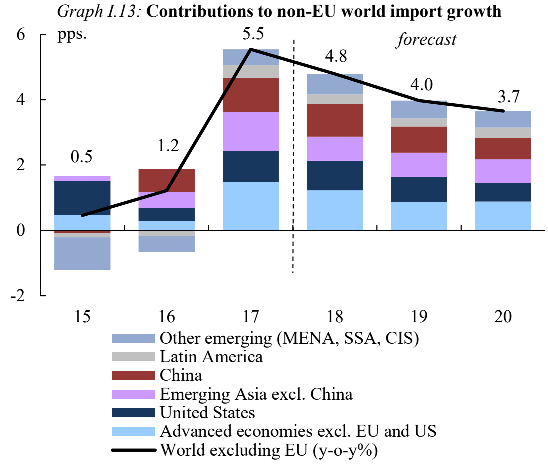


Source: CPB.

The slowdown in trade growth is also visible in leading trade indicators such as the WTO's World Trade Outlook Indicator (WTOI). The significant decline in its latest reading (August), led by a dip in export orders and, to a slightly lesser extent, air freight and container shipping, suggests that trade growth is likely to continue to slow in the coming months.

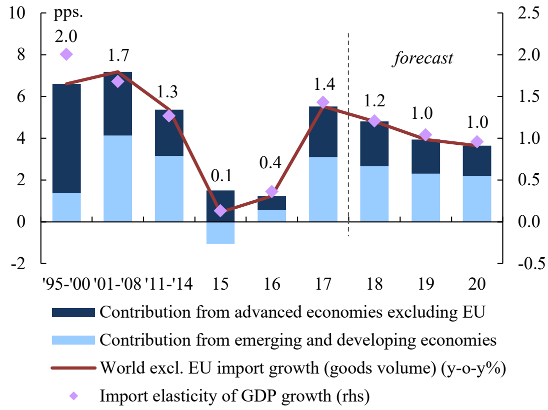
In line with leading indicators, world imports (excluding the EU) are expected to expand at 4.8% in 2018, 0.7 pps. below the 2017 growth rate and 0.3 pps. below the value predicted in spring. Trade this year is set to benefit from the relative strength of global demand, with across-the-board positive contributions from advanced and emerging economies (Graph I.8). Import growth in particular is expected to be sustained in the US, where the positive effect of fiscal stimulus will likely more than offset the negative effect of higher US tariffs. On the other hand, several countries with large current account deficits, in particular Turkey and Argentina, which were affected by turbulence in international financial markets, are expected to reduce their import demand sharply this year. Beyond 2018, non-EU global import growth is expected to slow to 4.0% in 2019 and 3.7% in 2020, reflecting primarily the weakening of economic activity but also, to a more limited degree, the impact of growing trade tensions.

Graph I.13: **Contributions to non-EU world import growth**



The elasticity of global imports of countries outside the EU (non-EU imports) with respect to non-EU GDP growth increased sharply to 1.4 in 2017 (see Graph I.14), the highest level since 2011. This is largely reflecting a strong rebound in investment, the most trade-intensive component of GDP, following several years of weak global capital spending. The trade elasticity is expected to moderate gradually over the forecast years, reflecting the waning effects of the US stimulus on investment both in the US and in other regions. The ongoing rebalancing from investment-intensive growth to consumption in China and current trade tensions (see Section I.1) are expected to weigh on global trade elasticity and bring it towards 1.

Graph I.14: **Non-EU import growth (goods volume) and elasticity of non-EU imports with respect to non-EU GDP growth**

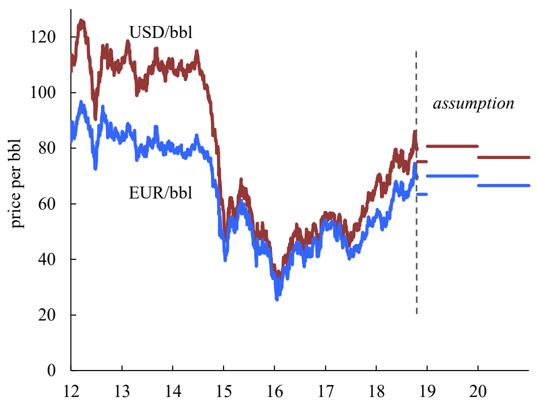


Oil prices increase amid rising uncertainties

Upward pressure on oil prices eased in early summer 2018 as OPEC raised production levels but intensified again in September with Brent crude rising to 86 USD/bbl as renewed worries about US sanctions on Iran and optimism over global economic growth propelled the market higher. Furthermore, the current increase in oil prices has been driven by supply disruptions in Venezuela and Libya and fears that increased output from Saudi Arabia and Russia might not be enough to fully compensate for these supply shortfalls. Over the forecast horizon, upward price pressures are expected to be held down by growing oil production in Canada and the US, although additional supply from the US is likely to reach international markets only in the second half of 2019 due to pipeline capacity constraints. A moderation in global oil demand growth in line with slowing global economic growth, as projected by the International Energy Agency, is also expected to weigh on prices. Substantial uncertainties around this scenario relate to the scale of the reduction in Iranian crude exports, the willingness and ability of Saudi Arabia to bridge this gap, the volatility of Libyan and Venezuelan production as well as the evolution of demand should trade tensions intensify.

The assumptions for Brent oil prices (see Graph I.15) are revised upwards to an average of 75.1 USD/bbl in 2018, 80.6 USD/bbl in 2019 and 76.7 USD/bbl in 2020, or up by 11% in 2018 and 26.1% in 2019 compared to the spring forecast (see also Box I.5). Given the annual average of 54.8 USD/bbl in 2017, this implies a rebound of 38% in 2018, following an increase of about 21% in 2017. The upward revisions since the spring forecast are even higher in euro terms, amounting to about 16% and 35% in 2018 and 2019, respectively.

Graph I.15: **Oil price, developments and assumptions**



Source: Macrobond.

The prices of other commodities are gradually stabilising. After a robust recovery in 2017, metal prices have declined this year by about 12% from their peak in February, pulled down by weaker demand from China following changes to environmental regulations and tighter credit conditions. They are expected to increase modestly in 2018 before declining again in 2019 due to trade tensions and lower growth in China. Food prices are expected to increase moderately in both 2018 and 2019, as adverse weather conditions have boosted prices for some (e.g. wheat) while trade tensions cloud the price outlook for others (e.g. soybeans).

A complex web of downside risks building up

Risks to the outlook for the external environment are skewed to the downside and are closely interconnected (see also Section I.10). In the US, the highly pro-cyclical fiscal loosening risks adding further impetus to price and wage growth, which could accelerate the process of monetary policy normalisation and trigger a stronger-than-assumed increase in long-term interest rates that would weigh on domestic demand. This could also cause a rise in risk aversion and portfolio adjustments, which in a context of high corporate leverage, could have a negative impact on firms' ability to borrow and invest, dampening business activity. The current fiscal stimulus is projected to erode policy buffers available for offsetting adverse shocks in the future, which adds to concerns over US fiscal sustainability and elevated debt levels (both public and private). Over the medium term, a lack of firepower to deal with future shocks could result in a deeper or more prolonged downturn when the cycle eventually turns. In the absence of Congressional agreement on spending levels, an abrupt tightening of fiscal policy in 2020 is also a downside risk for the US. Moreover, an escalation of trade tensions could imply a negative supply-side shock and add to inflationary pressures more strongly than expected, which could trigger faster-than-assumed monetary tightening. Faster-than-expected monetary policy normalisation and a more pronounced slowdown in the US would have a negative impact on the outlook for the rest of the world and on the situation in emerging markets in particular.

In emerging markets, direct contagion from the recent currency sell-off in Turkey and Argentina has so far been broadly contained. At the same time, rising leverage (including in foreign currencies) in many emerging markets has increased their vulnerability to external shocks. An escalation of financial market turmoil – triggered for instance by higher interest rates in the US - would entail sharper-than-expected tightening of financial conditions across emerging markets, accelerate deleveraging and result in restrictive macroeconomic policies that would dampen growth in emerging markets and constrain global economic prospects. An additional downside risk for emerging markets in 2020 stems from the fact that most major global economies are currently projected to slow down that year in a rather synchronised way, which would make it very challenging for emerging markets to sustain their expansion paths.

Some of the previously identified trade-related risks have partly materialised, as trade tensions have continued to increase since the spring. In September, the announcement of additional tariffs on selected imports from China worth USD 200 bn and the announced increase in tariff rates as of January 2019 has heightened the risk of a further escalation of the trade dispute between China and the US beyond retaliatory measures already announced. A sharper-than-projected slowdown in global growth resulting from additional protectionist measures represents a downside risk to the forecast, particularly if confidence effects, disruption of global value chains and the impact on inflation in the US prove to be larger than expected.

Rising trade protectionism also aggravates the long-standing risks of a disorderly adjustment in China. China's domestic growth targets remain important for political reasons and China has already started to loosen policy to counteract the impact of US tariffs. But a return to more domestic stimulus may come at the cost of impeding domestic deleveraging, aggravating macro-financial risks in the future.

All these downside risks are closely tied. For example, the fiscal stimulus in the US is expected to boost domestic demand and imports, widening the US current account deficit in the near term. This could reinforce the calls for more protectionist US trade policies. Additional tariffs imposed by the US could also result in higher inflationary pressures which would further aggravate the risk of tighter financing conditions for emerging markets. Also, China's policy response to the trade measures adds to the concerns about financial stability and may imply a weaker Renminbi, which in turn would aggravate trade tensions with the US.

3. FINANCIAL MARKETS

Since spring, rising global interest rates and increased global trade tensions have weighed on financial market sentiment. However, continued economic growth and low inflation combined with very gradual normalisation of monetary policies across the globe have helped to maintain financial market volatility at rather low levels. Shocks that came along with the tightening cycle were mostly visible in bond markets and less so in stock markets with exceptions in February and October. Overall, financial market conditions have remained supportive of growth in the EU economy.

Further rate hikes are assumed in the US, but global monetary policy is set to remain rather accommodative. Even so, the aggregate liquidity provided by the major central banks may have peaked in the middle of this year. Crises in some emerging market economies (e.g. in Turkey and in Argentina) have impacted markets domestically with repercussions on exchange rates. The outlook for public finances in Italy has pushed Italian sovereign yield spreads significantly higher in recent months. So far, no contagion to other Member States has been observed.

Monetary policy normalisation is proceeding at different paces in major regions

In the US, the Federal Reserve tightened further its monetary policy in a widely-expected move in September, raising its main policy rate in for the eighth time since the tightening cycle started in December 2015. The 25 basis point increase in September lifted the target range for the Federal funds rate to between 2.00% and 2.25%. In addition, the removal of language characterising monetary policy as 'accommodative' in its statement signalled that the funds rate was considered as having moved into neutral territory. Moreover, the Fed indicated that further interest rate hikes may be required over the forecast horizon (2018-2020).

In the euro area, monetary policy normalisation has so far mainly affected the size of net asset purchases and the details of the ECB's forward guidance. Starting in October this year, the ECB reduced the amount of its monthly purchases under the Asset Purchase Programme (APP) to EUR 15bn. At its September meeting, the ECB Governing Council reiterated its intention to end its net asset purchases at the end of the year, subject to incoming data confirming its medium-term inflation outlook. Despite this, the ECB's monetary policy remains very accommodative and will continue to provide significant monetary stimulus even after the end of net asset purchases. This stimulus will be provided by the sizeable stock of acquired assets and the associated reinvestments, as well as by the ECB's enhanced forward guidance introduced in June 2018. According to the latter, the ECB expects key policy rates to remain at their current levels 'at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term'. As for the reinvestments, the ECB forward guidance states that the Eurosystem intends to reinvest the 'principal payments from maturing securities purchased under the APP for an extended period of time after the end of … net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation'.

Outside the euro area, some central banks in the EU have also maintained an accommodative monetary policy stance but opened the door to some degree of monetary policy normalisation by the end of this year or over the course of next year (e.g. Sweden and Hungary). At the same time, a number of other non-euro area central banks in the EU have continued to further normalise their monetary policies (e.g. in the UK and in the Czech Republic).

Meanwhile, monetary policy has also been kept accommodative or has been eased further by other major central banks around the world. Having been obliged to repeatedly cut its inflation forecast, the Bank of Japan has maintained an accommodative stance and introduced new forward guidance at the end of July 2018.[21] The Bank of Japan also revised the formulation of its long-term interest rate target to accommodate for a possible degree of fluctuation depending on the changes in economic and inflation conditions. China's central bank has eased its monetary policy stance since mid-April this year to cushion a domestic growth slowdown and any materialisations of the possible negative impact of US tariffs. China's central bank has mainly cut the rate on the reserves that commercial banks are required to keep in order to maintain 'reasonable and sufficient liquidity' to help supply credit to smaller businesses and 'optimise the liquidity structure' of commercial banks.

Strengthening of euro mainly against emerging market currencies

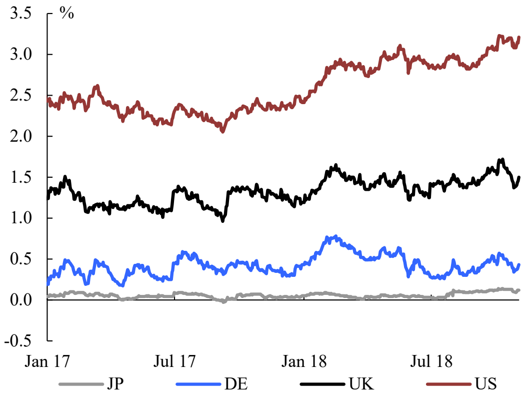
The euro has appreciated slightly in nominal effective terms in recent months. This has been largely due to a strengthening of the euro against a range of emerging market currencies, while at the same time, it has weakened rather substantially against some major currencies such as the US dollar, the Japanese yen and more recently the pound sterling. These developments largely reflected the different pace of monetary policy normalisation in the euro area on the one hand and in the US and the UK on the other hand. However, they were are also associated with policy uncertainties relating to local and global factors (e.g. fiscal policy-related worries in some euro area Member States and trade tensions at the global level). As regards the pound sterling, more optimistic investor perception surrounding the outcome of Brexit negotiations might have also contributed to the recent rebound of the pound sterling against the euro.

(21) According to this new forward guidance, the Bank of Japan expects that short- and long-term interest rates will stay at their current low levels for an extended period of time.

Sovereign yields have resumed their upward trend…

Benchmark sovereign bond yields have been on the rise since late August after a period of stabilisation or slight decline. 10-year US sovereign bond yields have recently broken the 3% threshold and are currently around 3.2% amid strong growth data and the tightening labour market. Following the US, the yield on German 10-year Bunds also increased somewhat, reaching around 0.55%, also supported by a positive, though softening, growth outlook and the confidence expressed by the ECB that inflation is likely to converge towards its target in the medium term. UK 10-year yields have been most of the year below 1.5%, but recently broke that ceiling again, and are currently close to 1.7% (see Graph I.16).

Graph I.16: **Benchmark 10-year government bond yields**

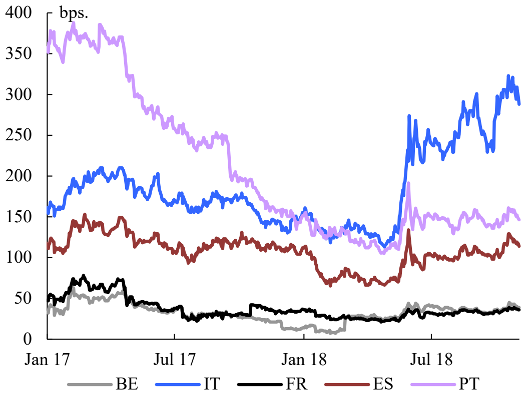


Source: Macrobond.

…with the largest spread widening in Europe related to domestic policy issues.

Euro area sovereign bond spreads have moved in different directions against the German Bund in recent months. After widening in May in the wake of general elections, Italian sovereign bond spreads began widening further in late September reaching 300 basis points on investor concerns about the governments budget plans (see Graph I.17). While on previous occasions, such as during the euro area sovereign debt crisis in 2011-2012, there were strong spillovers from developments in one country on other countries' bond markets, the contagion from the current sell-off of Italian bonds has been limited (see Box I.2). Despite some minor contagion to other Member States during the first stress episode in May, spillovers to others recently have been almost inexistent. [22] Spain's sovereign spreads have remained at around 100 basis points for most of the year, while Greece's sovereign spreads have even narrowed this year.

Graph I.17: **Sovereign 10-year bond spreads to the German bund**



Source: Macrobond.

Global stock markets have diverged

Despite price corrections in early October, the S&P 500 Index, tracking the US stock market, has risen this year, supported by strong corporate earnings and equity buybacks. In Japan, the Nikkei 225 was also on the rise. Conversely, equities in the EU and especially China have underperformed significantly. European equity indexes have trended downwards since spring (see Graph I.18), mainly on concerns related to the impact of US trade policy on export perspectives, but also in relation with the turmoil in some emerging economies (in particular Turkey). The European banking sector has underperformed the wider index in response to various shocks, including the increase in Italian yields (see Box I.2), the crisis in Turkey, and several money-laundering scandals. A number of other factors, however, may also be weighing on European banking stocks including low profitability and still high levels of non-performing loans in some Member States.

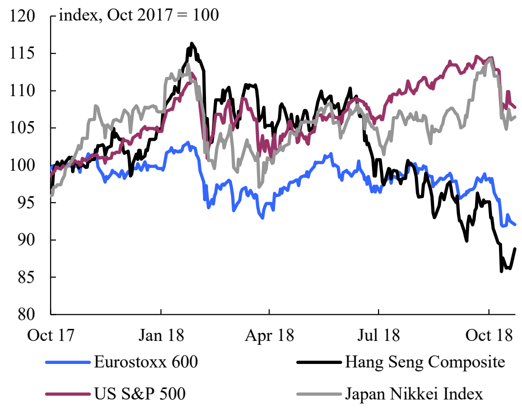
Due to a deteriorated economic outlook, emerging market stock indexes fared worse, with the Hang Seng index showing significant losses since its peak in January, mainly due to growing trade tensions.

(22) This is in line with empirical studies of sovereign bond market stress that emphasise that the nature and the intensity of spillovers varies markedly across time: see e.g. C. Garcia-de-Andoain and M. Kremer (2018). 'Beyond spreads: measuring sovereign market stress in the euro area'. *ECB Working Paper* 2185, October.

Table I.3:
Financing side - euro area and EU

(Annual percentage change)	Euro area						EU					
	Autumn 2018 forecast				*Spring 2018 forecast*		Autumn 2018 forecast				*Spring 2018 forecast*	
	2017	2018	2019	2020	2018	2019	2017	2018	2019	2020	2018	2019
Credit to the domestic private sector	2.1	**2.8**	**3.0**	**3.3**	*3.3*	*3.8*	2.5	**3.8**	**3.7**	**3.9**	*4.1*	*4.3*
(% of GDP)	105.1	**104.3**	**103.6**	**103.3**	*104.8*	*104.9*	107.6	**107.2**	**107.2**	**107.5**	*107.9*	*108.4*
- Credit to households	3.2	**3.3**	**3.5**	**4.0**	*3.8*	*4.2*	3.6	**3.7**	**3.6**	**3.9**	*4.0*	*4.1*
(% of GDP)	49.7	**49.6**	**49.5**	**49.7**	*49.8*	*50.1*	52.4	**52.2**	**52.2**	**52.3**	*52.5*	*52.7*
- Credit to other domestic private sectors	1.2	**2.4**	**2.5**	**2.6**	*2.9*	*3.3*	1.4	**3.8**	**3.8**	**3.8**	*4.2*	*4.4*
(% of GDP)	55.4	**54.7**	**54.1**	**53.6**	*55.0*	*54.8*	55.2	**55.0**	**55.1**	**55.2**	*55.4*	*55.7*

Graph I.18: **Stock market performance**



Source: Macrobond.

Bank lending remains strong in the euro area…

The accommodative monetary policy in the euro area has been transmitted through the banking sector to interest rates on loans to households and non-financial corporations (NFCs). The resulting low interest rates have pushed the growth of net lending flows to the private sector, which stood in August at an annual rate of 3.4%. At 4.2%, the pace of net lending growth to NFCs exceeds the pace of lending to households which stood at 3.1%. Despite the increase, the annual growth rate of loans to households for house purchases remains low from an historical perspective. This masks, however, stronger origination of new loans and a high level of repayments resulting from the boom period in mortgage markets before the financial crisis.

Loan growth continues to be supported by low or declining bank lending rates across the euro area and increases in the supply and demand for bank loans. Interest rates for new loans in Italy and Spain marginally increased in August. However, at the time of the cut-off date of the autumn forecast, it is too early to conclude at a trend attributable to the increase in Italian sovereign yields since May.

…with net easing of credit standards for all loan categories,…

The results of the ECB Bank Lending Survey, published in July, were consistent with a steady recovery of bank lending volumes in the euro area. Banks reported a further easing of credit standards for all loan categories as well as rising demand for loans. Banks expected that the net easing of credit standards for all loan categories would extend into the third quarter of 2018, while net demand was expected to increase further. The main drivers behind the easing of credit standards were increasing competitive pressure and lower risk perception. Terms and conditions on new loans continued to ease across all loan categories, driven mainly by narrower margins. The net percentage share of rejected loan applications increased slightly for loans to NFCs, and remained unchanged for housing loans, while it decreased further for consumer credit and other loans to households.

Overall, lending growth to households and NFCs is expected to continue increasing over the forecast horizon under the combined effect of relatively supportive credit terms and conditions by banks and strong demand (see Table I.3).

…while market funding is also expanding.

Market funding has continued to expand in the euro area in 2018. Bond issuance by NFCs has shown steady net growth despite slightly wider corporate bond spreads compared to earlier this year. The rise in spreads concerns all investment grade ratings and even more so the sub-investment category. Patterns in individual euro area countries, however, have varied over the last few months, with Italian firms in particular seeing a rise in yields (see Box I.2). There have also been signs of fragile market liquidity. Bid-ask spreads even for relatively highly-rated European corporate bonds rose late in spring and over the summer, and have remained at elevated levels since.

Higher market-based funding costs (resulting from higher corporate bond yields and lower equity prices) has also translated into somewhat higher composite financing costs for NFCs (CFCIs) even though bank lending rates have declined in most euro area Member States compared since the end of last year. While composite financing costs for NFCs have moved higher from historically-low levels in most euro area Member States this year, financing costs rose the most in Italy as a result of substantial increases in market-based funding costs in recent months.

All in all, despite some significant headwinds, financial markets have continued pricing credit and interest rate risks at relatively low levels, and spillover effects from country-specific risks have remained contained. Market participants expect a further gradual increase in risk-free interest rates, which would support further price adjustments in some of the more risky and highly-priced market segments globally.

Banking sector profitability continued increasing in the euro area…

The economic expansion in the euro area has strengthened the debt-servicing and loss-absorption capacities of households, non-financial corporations and the financial sector. Lower credit losses and credit risks have contributed to a further improvement in the profitability of the banking sector. This is evident from the increase in the aggregate return on equity of the biggest euro area institutions, which had increased in 2017 to around 6% from 3.5% in the year before, and stood at 6.6% in the first quarter of 2018 (latest available data).

…but going forward profitability is facing important challenges.

In 2018, the slower formation of non-performing loans bodes well for a further improvement in the profitability in the euro area banking sector. [23] However, the stock of non-performing loans remains high in some Member States, suggesting that these stocks remain a significant challenge to the profitability and viability of certain EU banks.

(23) For a discussion of the profitability and the vulnerabilities of the banking sector in the euro area, see ECB (2018). *Financial Stability Review*. May.

Other key determinants of future profitability include the pass-through of higher interest rates, the pace of changes in the yield curve, and the composition of assets and liabilities in bank balance sheets. The possible re-emergence of the sovereign-bank nexus points to the remaining importance of country-specific characteristics, such as the share of holdings of bonds issues by the domestic sovereign (see also Section I.10).

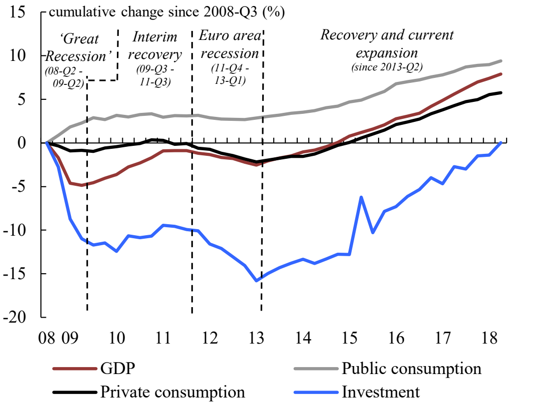
4. GDP AND ITS COMPONENTS

The EU economy is entering a period of less dynamic growth after five years of uninterrupted increases in economic activity. The EU economy is still doing quite well overall, continuing to expand for the sixth year in a row. But growth is expected to be at rates that are lower than last year and the speed looks unlikely to increase again soon.

Growth achievements in the past decade have been muted…

In the 10 years since the economic and financial crisis burst into the open with the collapse of Lehman Brothers in September 2008, the EU economy has made substantial progress in removing the scars of the crisis (see Graph I.19). [24]

Graph I.19: **GDP and components - 10 years after the Lehman collapse (2008-Q3 - 2018-Q2), euro area**



(24) Developments since the trough of the economic and financial crisis in 2008 have been discussed in previous forecast documents. See European Commission (DG ECFIN) (2016). 'European Economic Forecast: Autumn 2016'. *Institutional Paper* 38, chapter I. See also IMF (2018). 'The global recovery 10 years after the financial meltdown'. *World Economic Outlook*, October, pp. 71-100 (chapter 2).

Table I.4:

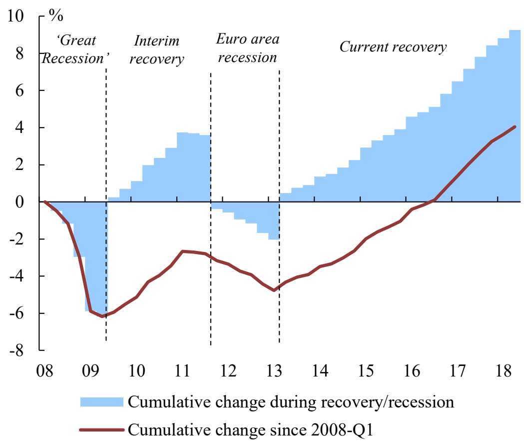
Composition of growth - euro area

(Real annual percentage change)

	2017 bn Euro Curr. prices	2017 % GDP	2013	2014	2015	2016	2017	Autumn 2018 forecast 2018	2019	2020
			Real percentage change							
Private consumption	6058.1	54.1	-0.6	0.9	1.8	2.0	1.6	**1.6**	**1.8**	**1.6**
Public consumption	2279.4	20.3	0.4	0.7	1.3	1.8	1.2	**1.3**	**1.6**	**1.3**
Gross fixed capital formation	2302.8	20.6	-2.3	1.7	4.9	4.0	2.6	**3.3**	**3.0**	**3.0**
Change in stocks as % of GDP	39.7	0.4	0.0	0.3	0.3	0.3	0.4	**0.3**	**0.3**	**0.3**
Exports of goods and services	5293.5	47.2	2.2	4.7	6.5	3.0	5.2	**3.3**	**3.5**	**3.3**
Final demand	15973.5	142.5	0.3	2.4	3.7	2.6	2.8	**2.3**	**2.5**	**2.3**
Imports of goods and services	4770.7	42.6	1.5	4.9	7.6	4.2	3.9	**3.0**	**3.9**	**3.6**
GDP	11205.8	100.0	-0.2	1.4	2.1	1.9	2.4	**2.1**	**1.9**	**1.7**
GNI	11264.4	100.5	-0.2	1.2	1.7	2.1	2.6	**2.0**	**1.8**	**1.7**
p.m. GDP EU	15373.5	121.3	0.3	1.8	2.3	2.0	2.4	**2.1**	**1.9**	**1.8**
			Contribution to change in GDP							
Private consumption			-0.4	0.5	1.0	1.1	0.9	**0.9**	**0.9**	**0.9**
Public consumption			0.1	0.2	0.3	0.4	0.2	**0.3**	**0.3**	**0.3**
Investment			-0.5	0.3	1.0	0.8	0.5	**0.7**	**0.6**	**0.6**
Inventories			0.2	0.3	0.0	0.1	0.0	**0.0**	**0.0**	**0.0**
Exports			0.9	2.1	2.9	1.4	2.4	**1.6**	**1.7**	**1.6**
Final demand			0.4	3.4	5.2	3.7	4.0	**3.3**	**3.6**	**3.3**
Imports (minus)			0.6	2.0	3.1	1.7	1.6	**1.3**	**1.7**	**1.6**
Net exports			0.3	0.1	-0.2	-0.4	0.8	**0.3**	**0.0**	**0.0**

In April 2018, the current economic expansion, which began as a subdued recovery in the second quarter of 2013, entered its sixth year. At the time of publication, economic growth has lifted GDP and its domestic components above the levels seen 10 years ago. But the post-crisis growth record signals that the results were overall rather limited in terms of the accumulated growth of GDP, private consumption and investment. With this aggregate picture hiding a lot of heterogeneity across Member States, it is clear that in some economies improvements in living standards over the past decade were very small or even non-existent. Between the first quarter of 2008 and mid-2018, real per capita GDP in the euro area (see Graph I.20) has only increased by 4.0%. The continuation of the economic expansion is therefore a necessary condition for raising living standards in all Member States markedly above the 2008 level.

Graph I.20: **GDP per capita during the recession and recovery phases (2008-18), euro area**



...raising questions about the expected length and strength of the economic upswing...

The initial relative weakness of the recovery raises questions about how long the current period of growth can continue. The euro area's position in the cycle as well as domestic growth drivers point to a 'soft landing' rather than a cyclical downturn. However, this benign outlook is challenged by recent disruptive developments outside and within the euro area and subject to major downside risks (see Section I.10).

Output gaps in the EU and the euro area are estimated to have closed in 2017 and 2018

Table I.5:

Composition of growth - EU

(Real annual percentage change)	2017		2013	2014	2015	2016	2017	Autumn 2018 forecast 2018	2019	2020
	bn Euro Curr. prices	% GDP	Real percentage change							
Private consumption	8622.0	55.6	-0.1	1.2	2.1	2.4	1.9	**1.8**	**1.9**	**1.7**
Public consumption	3112.7	20.1	0.4	1.1	1.4	1.7	1.0	**1.2**	**1.5**	**1.3**
Gross fixed capital formation	3126.4	20.2	-1.3	2.9	4.8	3.1	3.1	**3.2**	**2.9**	**2.8**
Change in stocks as % of GDP	65.4	0.4	0.1	0.4	0.3	0.4	0.4	**0.4**	**0.4**	**0.4**
Exports of goods and services	7087.1	45.7	2.3	4.7	6.2	3.2	5.4	**3.4**	**3.6**	**3.2**
Final demand	22012.0	142.0	0.7	2.7	3.6	2.7	3.0	**2.4**	**2.5**	**2.3**
Imports of goods and services	6511.2	42.0	1.8	5.2	7.1	4.3	4.2	**3.2**	**3.9**	**3.6**
GDP	15373.5	100.0	0.3	1.8	2.3	2.0	2.4	**2.1**	**1.9**	**1.8**
GNI	15369.0	100.0	0.1	1.6	2.0	2.1	2.8	**2.0**	**1.8**	**1.7**
p.m. GDP euro area	11205.8	64.7	-0.2	1.4	2.1	1.9	2.4	**2.1**	**1.9**	**1.7**
			Contribution to change in GDP							
Private consumption			0.0	0.7	1.2	1.3	1.1	**1.0**	**1.0**	**0.9**
Public consumption			0.1	0.2	0.3	0.3	0.2	**0.2**	**0.3**	**0.3**
Investment			-0.3	0.6	0.9	0.6	0.6	**0.6**	**0.6**	**0.6**
Inventories			0.3	0.4	0.1	0.1	-0.1	**0.0**	**0.0**	**0.0**
Exports			1.0	2.0	2.7	1.4	2.4	**1.5**	**1.7**	**1.5**
Final demand			0.9	3.8	5.1	3.7	4.2	**3.4**	**3.6**	**3.3**
Imports (minus)			0.7	2.1	2.9	1.7	1.7	**1.3**	**1.7**	**1.5**
Net exports			0.2	-0.1	-0.2	-0.3	0.6	**0.2**	**0.0**	**0.0**

respectively, which suggests that output could be expected to gradually converge towards potential levels, which would imply actual growth rates falling below the growth rate of potential output. However, several of the mechanisms that could potentially lead to this outcome look rather unlikely. Signs of overheating might constitute a risk in the US given its advanced position in the cycle (see Sections I.2 and I.10) but can hardly be seen in recent growth patterns in Europe. The mechanism of a build-up of high private debt and stretched asset price valuations that could raise default concerns and thereby widening corporate spreads and slowing economic growth, appears also to be a distant possibility in the euro area. The over-accumulation of capital after strong investment growth that causes a cyclical weakness is also hard to expect given the observed weakness of investment in the euro area after the economic and financial crisis.

Another approach is to look closer at cyclical patterns. Comparisons with previous recoveries are of limited use since structural differences distort the comparability of cyclical phases over time. [25] The relatively long-lasting and very subdued recovery has indeed provided evidence of the limited comparability of cyclical patterns after a severe economic and financial crisis. [26] Acknowledging these limitations puts the focus on two questions: first, are there signs that the economy has already passed a turning point in terms of economic growth rates? Second, what could bring the expansion to an end or even cause a recession? While the former question requires looking at developments in short-term indicators (see below), the second one calls for an evaluation of risks (see Section I.10).

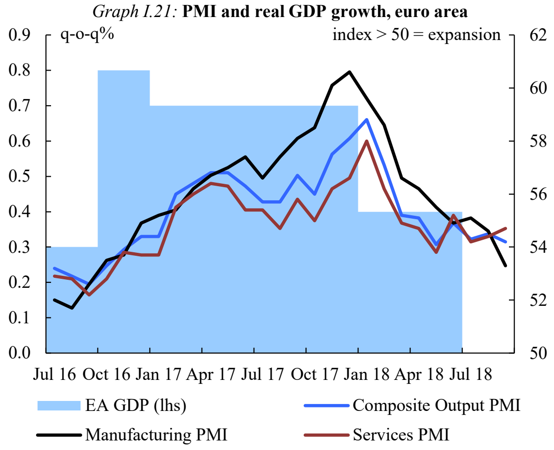
…which might have already peaked in terms of economic growth rates…

Has economic growth in the euro area already peaked? The moderation in economic growth that was observed in the first quarter when GDP growth fell in the euro area to 0.4% (q-o-q) from at least 0.7% in each of the five quarters before and the continuation of the expansion at an unchanged pace in the second quarter could suggest that growth has peaked.

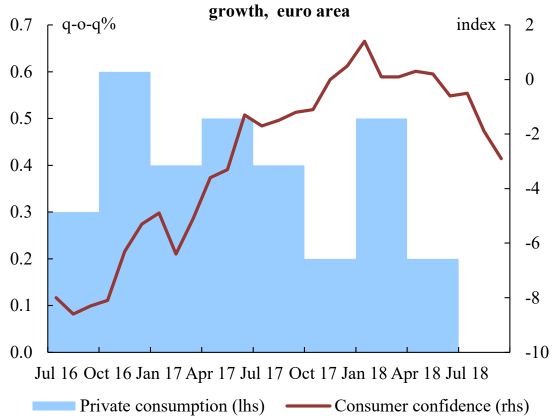
(25) See European Commission (DG ECFIN) (2017). 'European Economic Forecast: Autumn 2017'. *Institutional Paper* 63, pp. 26–28.

(26) Features characterising the economic development since the end of the 'Great Recession' in 2008-2009 have been discussed in various forecast documents. These discussions related to the initial contribution by Reinhart and Rogoff (see Reinhardt, C. M. and K. S. Rogoff (2009). 'This time is different: eight centuries of financial folly'. Princeton University Press 2009) but also to subsequent empirical work (see e.g. Fernald, J. G., Stock, J. H., Hall, R. E. and M. W. Watson (2017). 'The disappointing recovery of output after 2009'. *Brookings Papers on Economic Activity,* Spring, pp. 1–81).

Graph I.21: **PMI and real GDP growth, euro area**



Graph I.22: **Consumer confidence and private consumption growth, euro area**

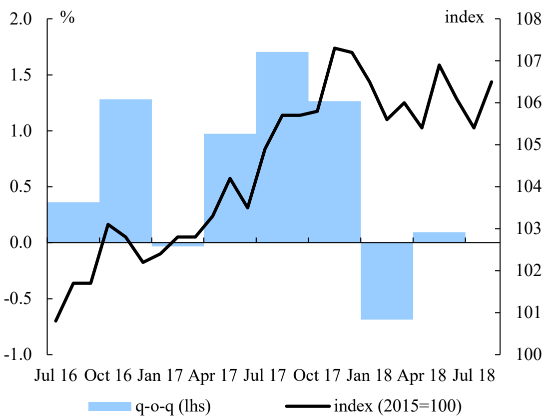


The extraordinary impact of the rebound in the global environment last year may have provided an additional stimulus that cannot be expected to occur again. In fact, the growth contribution of net exports in 2017 (0.8 pps. in the euro area, 0.6 pps. in the EU) was the highest since the start of the recovery in 2013. Thus, the pull-back from the levels of growth seen in 2017 can be associated with the smaller growth contribution of net exports in the first half of the year. In addition, a number of domestic factors have weighed on growth in some Member States such as strikes, extraordinary weather conditions not captured by seasonal adjustment, higher tax burdens for consumers, and unusually high levels of sick leave.

In the near term, leading indicators seem to suggest that growth rates have entered a downward trend. Survey indicators continue to signal expansion but have retreated from the levels seen at the beginning of the year. As regards companies in the euro area, this applies to the Commission's Economic Sentiment Indicator but also to the Purchasing Managers' Indexes (see Graph I.21). As regards households, consumer confidence has also been falling since the start of 2018 (Graph I.22).

A closer look at the manufacturing sector reinforces the suggestion that growth is unlikely to pick up again soon. Abstracting from rather volatile short-term movements (month-on-month), industrial production has gained very little overall this year, which is in line with the more moderate level of economic growth observed in the first half of the year (see Graph I.23).

Graph I.23: **Industrial production (excl. construction), euro area**



...and will eventually depend on the interplay of demand and supply constraints.

A number of factors are expected to come to the fore over the coming months, some of which will be supportive of growth, while others will have a dampening effect. In terms of the latter, a significant factor is that past tailwinds have been fading. This includes the boost to the economy from the decline in oil prices (from mid-2014 to 2016), the highly synchronised uptick in global growth (2016-2017), the improvement in funding conditions (especially after the introduction of quantitative easing in 2015),[27] and the depreciation of the euro (in parallel to the introduction of quantitative easing). Having been in a position of high unemployment, the euro area has also substantially benefited from a high rate of job creation (job-rich recovery) that eventually will decline. Another tailwind unlikely to come back soon given the context of rising trade tensions, is a revival of strong global economic growth. The expected moderation of growth in the external environment in 2019 and 2020 points to the growing importance of domestic factors.

On the demand side, household real disposable income growth will be constrained by the rise in consumer price inflation. What may even be more important for demand is the expected slowdown of employment growth in an environment where cyclical unemployment has diminished (see Section I.6). Linked to that, on the supply side, a relatively high number of companies are reporting labour shortages as a limiting factor of production and thus as a possibly growth-limiting factor.

Growth momentum has diminished since the start of the year…

Looking at recent GDP developments in greater detail, the first half of 2018 saw GDP growth shifting down a gear compared to the exceptional levels of 2017. Real GDP growth in the EU and euro area came in at 0.4% (q-o-q) in the first and the second quarter, following five quarters with rates of at least 0.6%. Half year-on-half year, it expanded by 0.9%, in line with the average observed between the second half of 2013 and 2016. Despite the growth moderation, GDP increased in all Member States for which data are available.

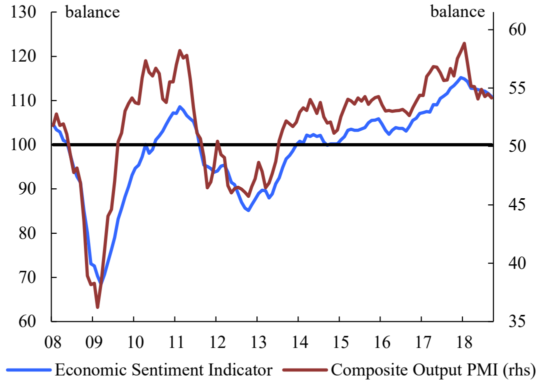
As some of the factors that pushed growth higher in 2017 have since faded, GDP growth has slowed somewhat in the first half of 2018. Weaker foreign demand has coincided with a shift in growth sources from higher net exports towards higher domestic demand contributions. In terms of growth, for both euro area exports and imports, the first half of 2018 was the weakest half year since the start of the recovery in 2013. In the case of exports, a lower impulse from global trade has been compounded by the lagged impact of the euro's appreciation. At the same time, private consumption grew at its slowest pace since the first half of 2014, whereas investment expanded at its highest rate since the second half of 2016.

…with survey indicators signalling more easing in late 2018…

Incoming data on activity and sentiment provide evidence that euro area activity in the third quarter did not pick up from the first quarters of the year.

The Commission's Economic Sentiment Indicator (ESI) for the euro area reinforced this message by declining for the ninth consecutive month this year. It fell in September from 111.6 to 110.9 (112.5 in the second and 114.0 in the first quarter of 2018), despite remaining at a high level by historical standards and consistent with almost steady economic growth (see Graph I.24). Economic sentiment in the euro area has been weighed down by lower confidence among consumers and industry, while services, retail and construction have remained buoyant. Furthermore, the final Eurozone PMI Composite Output Index showed the pace of growth slowing to one of its lowest in two years. While remaining at a relatively high level, it came in at 54.1 in September, a deterioration on August's 54.5 and lower than the average reading of 54.7 in the second quarter of 2018 (57.0 in the first quarter).

Graph I.24: **Economic Sentiment Indicator and Markit Composite PMI, euro area**



Source: European Commission, Markit.

The Ifo Economic Climate for the euro area also showed sentiment weakening in the third quarter.

(27) According to ECB staff estimates, the impact of all policy measures taken between since mid-2014 and October 2017 on inflation and real GDP growth in the euro area between 2016 and 2020 is 1.9 pps.; see M. Draghi (2018). 'Monetary policy in the euro area'. Speech at 'The ECB and Its Watchers XIX Conference', Frankfurt am Main, 14 March 2018. For an overview of empirical studies on the impact of unconventional monetary policy in the euro area, see table 1 in G. Dell'Ariccia, Rabanal, P. and D. Sandri (2018). 'Unconventional Monetary Policies in the Euro Area, Japan, and the United Kingdom'. *Journal of Economic Perspectives* 32:4, pp. 147–72.

Although experts' assessments of the current situation only deteriorated slightly, their expectations dropped to their lowest level since the end of 2012.

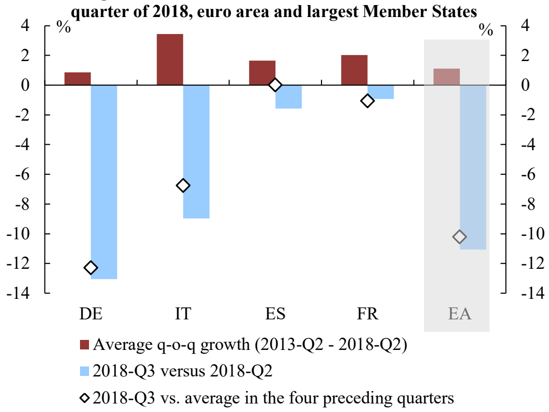
…consistent with available 'hard' data for the third quarter.

Recent data releases of monthly indicators paint a similar picture of moderating economic growth.

- In August, *industrial production* in the euro area rebounded (1.0% m-o-m) following declines of 0.7% in each of the two months before. In July, at 0.3% the annual rate of change had been the lowest since January 2017. Given industry's direct and indirect exposure to tariffs, and the expected weakening of global trade, developments in industrial production are the focal point of attention, but one has to keep in mind that recent European readings were blurred by some exceptional factors, mainly in the car industry, which reported an strong decline in the production of motor vehicles in July and August (Graph I.25). The sharp decline in the durable-goods component of industrial production (-2.3% y-o-y in July and -1.1% in August) is related to the weakness in motor vehicle production (-3.0% and -19.2% y-o-y) due to problems with the certification of cars under the new Worldwide Harmonised Light Vehicle Test Procedure (WLTP),[28] which has particularly hit German car producers (-4.8% and -22.3% y-o-y in July and August).

[28] Since 1 September 2018 all newly built cars must be certified according to the WLTP test procedure. While its predecessor determined test values based on a theoretical driving profile, WLTP was developed using real-driving data. And while previously car producers could just have tested one model of a line, under the new regulation all variants of a line, and all combinations of its body and gearing, have to be tested. There is evidence that some carmakers which were not able to meet the deadline on WLTP certification, had to suspend the sale of some car types and thereby slowed car production, for example by introducing part-time work and/or four-day weeks in some factories. The delays in switching production to WLTP compliant cars is also reported to have caused car deliveries to fall behind.

Graph I.25: **Production of motor vehicles in the third quarter of 2018, euro area and largest Member States**



Note: 2018-Q3 is calculated on the basis of data for July and August.

- *New industrial orders* in the euro area fell in all but one month this year. In July, they contracted by 0.9% m-o-m, with the 3m-o-3m growth rate at -0.2%.

- In August, the euro area *retail trade volume* fell 0.2% m-o-m, driven by a 0.6% decline in fuel sales which can be partly related to price increases in preceding months, as well as by a 0.3% decline in sales of food, drinks and tobacco. The less volatile 3m-on-3m rate stood at 0.1% (0.8% in June).

- In August, the *production in construction* in the euro area decreased further (-0.5% m-o-m), which suggests that growth in the third quarter will be lower than in the second (1.5% q-o-q). The average production level in July and August stood 0.3% higher than on average in the second quarter.

Notwithstanding some sector-specific developments (e.g. in the car industry) that are expected to affect the profile of economic growth in the near term, recent developments suggest that growth should on average continue at a moderate rate in the second half of the year. All in all, with the moderation of growth in the first half of the year expected to persist, but a relatively high carry-over from 2017, the forecast for GDP growth in the euro area in 2018 remains at 2.1%, unchanged from the summer interim forecast.

More moderate economic growth in 2019 and in 2020…

The fundamentals for the continuation of the growth of economic activity remain in place. Domestic demand is expected to benefit from a slightly expansionary fiscal stance in 2019; the continued transmission of growth-supportive monetary conditions, with low financing costs for corporates and governments alike, despite the gradual withdrawal of monetary stimulus; favourable labour market conditions that allow for slightly higher wage increases; and improving corporate and household balance sheets which create lower deleveraging pressures.

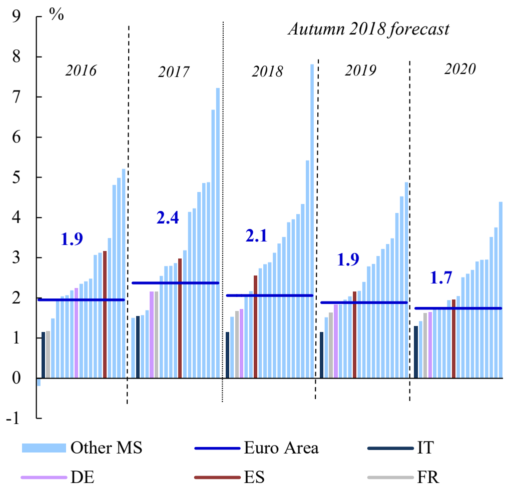
Moreover, the current expansion is still shorter in length and smaller in size when compared to other historical episodes. [29] Although structural changes may limit the comparability of different business cycle phases across different economic expansions, economic growth is still rather moderate when compared to what has been observed in previous recoveries. [30] While assessing how advanced the economic upswing is, a comparison with the economic recovery in the US suggests that there is still some way to go, with room for an exceptionally long expansion and lower concerns regarding a maturing business cycle.

With the scope for further labour market improvements more limited amid binding supply constraints in several Member States and diminishing slack elsewhere, employment gains are expected to be more moderate. As such, absent further drops in business sentiment, rising labour utilisation should lead firms to focus on additional capital spending in order to increase supply. Even though tighter labour markets in a number of Member States may limit the pace of employment growth, they are also likely to spur investment in technology and training, thus supporting productivity growth.

The expected normalisation of monetary policy in the euro area is set to gradually raise financing costs for both companies and households and thereby affect their spending decisions. At the same time, waning foreign trade momentum, and the lagged impact of the strengthening of the euro are set to weigh. How firms reassess their investment plans in light of rising and intensifying trade tensions is also a source of uncertainty. Besides raising input costs and reducing the attractiveness of some investments, an uncertain outlook can also lead companies to postpone investment decisions, following a wait-and-see behaviour, particularly in capital-intensive sectors such as manufacturing. [31]

Overall, real GDP growth is now forecast at 1.9% in the euro area and at 2.0% in the EU27 in 2019, slightly less than expected in the summer interim forecast. Economic growth is projected to continue moderating further in 2020. Real GDP is forecast to grow by 1.7% in the euro area and by 1.9% in the EU27, with the difference between the fastest and slowing growing economies diminishing (Graph I.26). In several Member States, growth is expected to fall below its potential rate, resulting in a gradual closure of the positive output gap.

Graph I.26: **Real GDP growth, euro area and Member States (2016-2020)**



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

...implies more limited changes in the euro area output gap.

Potential output in the euro area is estimated to have expanded at increasing rates, starting from ¼% in 2012 to almost 1½% in 2017, supported by increasing contributions from labour and total factor productivity (Graph I.27). The larger contribution from labour reflected a declining Non-Accelerating Wage Rate of Unemployment (NAWRU), which fell from its latest peak of 9.4% in 2012 to 8.4% in 2017, and the continued increase in trend labour participation rates. The rebound in investment supported the gains in TFP that have been estimated for the past years to have exceeded ½ pps. in terms of contribution to GDP

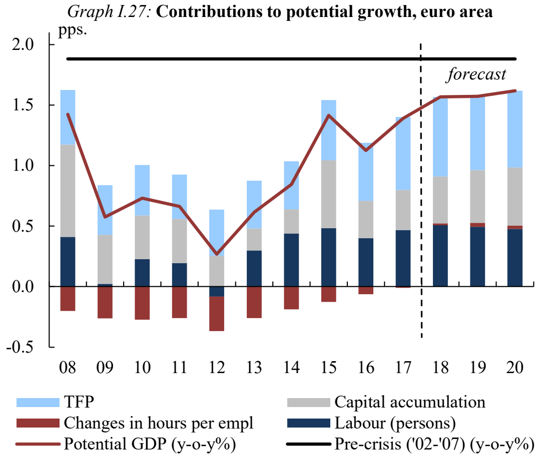
(29) See the analysis in the European Commission (DG ECFIN) (2017). 'European Economic Forecast: Autumn 2017'. *Institutional Paper* 63, p. 26–30.

(30) See European Commission (DG ECFIN) (2018). 'European Economic Forecast: Spring 2018'. *Institutional Paper* 77, pp. 24–7.

(31) On the impact of uncertainty, see European Commission (DG ECFIN) (2017). 'European Economic Forecast: Spring 2017'. *Institutional Paper* 53, p. 10–3.

growth, but which remain relatively low.[32] According to the Commission's estimates, the growth rate of potential GDP in the euro area is expected to rise slightly above 1½% in 2018 and to remain almost constant in 2019 and in 2020.

Graph I.27: **Contributions to potential growth, euro area**



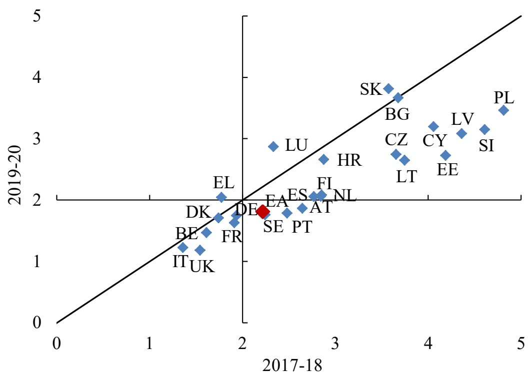
Strong economic growth over the past four years has helped to narrow the negative output gap in both the euro area and the EU. With economic growth in both areas expected to remain at an annual rate of around 2% in 2018, the output gap is projected to turn slightly positive (¼% of potential output in the euro area, ½% in the EU). This implies that the cyclical upturn should have been strong enough to lead the economy towards full capacity utilisation.

In 2019 and 2020, GDP growth is set to be less dynamic in the euro area and in the EU27, with the pace of growth gradually settling back towards its potential rate. At more moderate growth rates in 2019 and in 2020, the positive output gap is projected to widen less than in the past. In all three forecast years, strong employment growth in the euro area is expected to allow the unemployment rate falling below the estimated Non-Accelerating Wage Rate of Unemployment (NAWRU). The NAWRU is projected to continue to decline to about 8% in 2019 and 2020. However, as estimates of potential output and output gaps are inherently uncertain, these results should be interpreted with caution.[33]

The slowing of economic growth is expected to include all Member States...

All Member States are expected to see growing economic activity in the forecast years, but in most of them the pace of economic growth in 2019 and in 2020 is set to fall behind the pace registered on average in 2017 and 2018 (see Graph I.28). In most cases, the strongest performers in recent years are set to continue to outperform and the weaker performers will continue to perform below average. Among the larger EU economies, Poland, Spain, and the Netherlands are expected to be economic outperformers, with real GDP growth rates above the EU average, whereas Germany is expected to grow slightly below the average in 2019 and in line in 2020. Italy, the UK and France are set to lag in both years. In 2020, all EU27 Member States except Italy (1.3%) and Belgium (1.4%) are projected to grow by more than 1.5%, but for a large majority of Member States, economic growth will likely be lower than in 2019.

Graph I.28: **Real GDP growth, euro area and Member States, 2017-2018 versus 2019-2020**



Note: Average annual growth. Data for IE (7.5% in 2017-18, 4.1% in 2019-20), MT (6.1%, 4.6%) and RO (5.4%, 3.7%) not displayed.

GDP per capita growth rates are also expected to continue to differ between Member States. In 2020, among the largest euro area countries, France (1.2%), Italy (1.3%), the Netherlands and Germany (1.4%) are projected to grow below the euro area average (1.5%).

...with growth depending almost entirely on domestic demand.

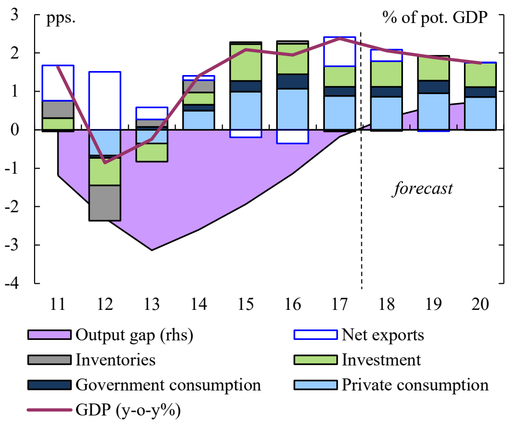
With the momentum of foreign trade waning, real GDP growth will come to rest almost entirely on domestic demand growth. In 2019, the contribution to growth from domestic demand is expected to

(32) See e.g., van Ark, B., de Vries, K. and K. Jäger (2018). 'Is Europe's productivity glass half full or half empty?'. *Intereconomics* 53:2, pp. 53-8.

(33) This includes potential links between the procyclicality of TFP estimates and revisions; see O. Coibion, Gorodnichenko, Y. and M. Ulate (2018). 'The cyclical sensitivity in estimates of potential output'. *Brookings Papers on Economic Activity*, Fall (forthc.); and for a study on the Commission's estimates, S. Maidorn, S. (2018). 'Is there a trade-off between procyclicality and revisions in EC trend TFP estimations'. *Empirica* 45:1, pp. 59-82.

increase (from 1.8 pps. to 1.9 pps.), driven by a pick-up in private and public consumption, while the contribution from net exports is set to turn neutral (from +0.3 pps. in 2018). A lowering of the positive contribution to growth from domestic demand (to 1.7 pps.) explains the annual growth moderation expected in 2020 (see Graph I.29).

Graph I.29: **Real GDP and its components, euro area**



Given the ongoing negotiation over the terms of the UK's withdrawal from the EU, projections for 2019 and 2020 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 growth of private consumption slowed in the first half of the year…

Private consumption growth has been the main driver of the current economic expansion. [34] In the last two years, consumer spending has been resilient due to strong employment growth. But in the second quarter of 2018, private consumption growth moderated, with a weakening to 0.2% q-o-q (euro area) and 0.3% (EU) (from 0.5% in the first quarter of 2018 in the euro area and 0.6% in the EU). Half year-on-half year, it stood at 0.8% in the euro area (0.9% in the EU), unchanged compared to the second but lower than in the first half of 2017. Weaker private consumption growth is one of the reasons for the moderation of growth this year. Private consumption growth has moderated in line with the decrease in consumer confidence but despite steady employment growth and a reduction in the euro area household saving rate (which stood at 12.0% in the first quarter of 2018, the same as in the fourth quarter of 2017 and at its lowest since 1999).

A look at the breakdown of private consumption shows that the slowdown in the first half of the year is explained by lower momentum in the consumption of durable goods. Growth in durable goods consumption fell from a half-year-on-half year rate of 2.1% in the second half of 2017 to 1.4% in the first half of 2018; while non-durable consumer goods and services consumption picked up marginally from 0.5% to 0.6%. With spending on durable goods usually being more sensitive to the business cycle than spending for other types, the observed change in the pace could be associated with economic growth shifting to a lower gear. Moreover, the pent-up demand for durables might have been exhausted after several years of economic expansion. [35]

The slowdown in the second quarter was broad-based across the largest euro area economies, with France posting a contraction for the first time since the third quarter of 2016, driven by a fall in the consumption of non-durable goods and services. This was partly related to temporary factors (e.g. strikes) but also to the unwinding of factors that supported private consumption in the first quarter (e.g. strong energy consumption related to unfavourable weather conditions). Significant differences between countries were apparent in the first half of the year. Private consumption picked-up in Germany (from 0.6% to 0.8%), Italy (from 0.4% to 0.5%) and the Netherlands (from 1.4% to 1.7%) and remained strong in Spain (at 1.2% from 1.5% in the second half of 2017). Only in France did it decelerate.

…is expected to remain moderate in the second half of the year…

The short-term indicators of private consumption are consistent with consumer spending growth returning to the levels seen before the exceptionally weak second quarter.

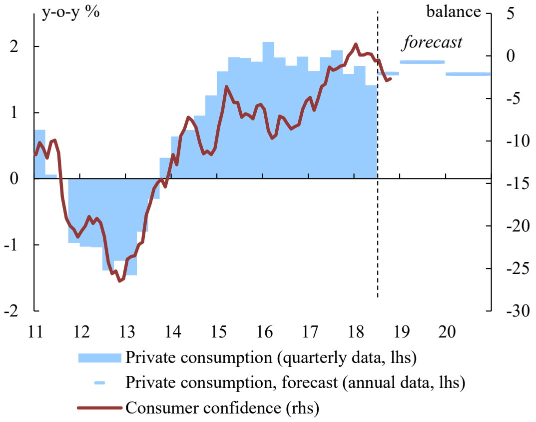
- The *Commission's Consumer Confidence Indicator* declined in September to its lowest level since May 2017 (Graph I.30), but remained well above its long-term average. The

(34) See M. Dossche, Forsells, M., Rossi, L, and G. Stoevsky (2018). 'Private consumption and its drivers in the current economic expansion'. *ECB Economic Bulletin* 5, pp. 86–109.

(35) See M. Dossche and L. Saiz (2018). 'Consumption of durable goods in the ongoing economic expansion'. *ECB Economic Bulletin* 1, pp. 25–28.

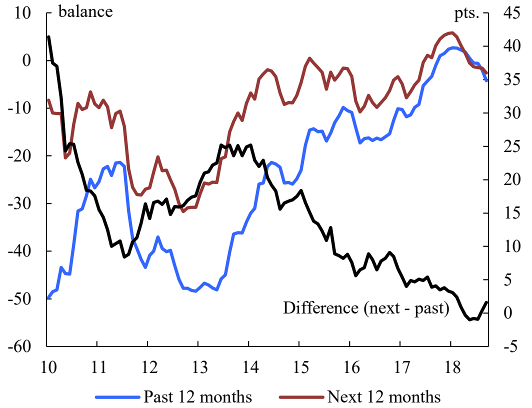
decline was mainly driven by consumers' less favourable outlook over the next 12 months for their financial and for the general economic situation and the more pessimistic assessment of risks of becoming unemployed. By contrast, households' intentions for major purchases over the next 12 months have been quite stable until September 2018, which sends a positive signal for a possible rebound in private consumption growth after the slowing in the second quarter.

Graph I.30: **Private consumption and consumer confidence, euro area**



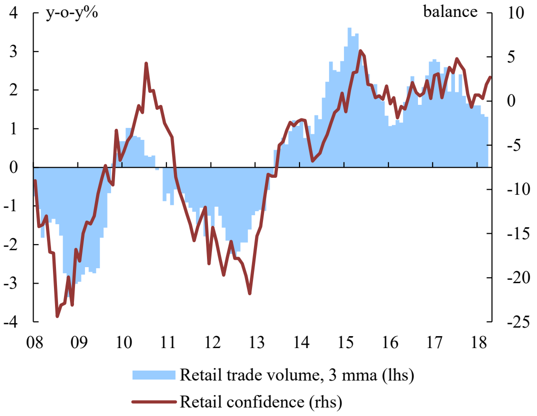
- *Consumers' views on the current and the future economic situation* have deteriorated in recent months and the gap between both assessments has closed (Graph I.31). Since expectations that situations will improve in the future are seen as an incentive to advance spending in an attempt to smooth consumption, the closing of the gap does not bode well for an acceleration of private consumption growth. However, as for several other survey indicators, it has to be noted that the level of the expectations is still relatively high by historical standards.

Graph I.31: **Consumers' assessment of the past and future general economic situation, euro area**



- The *Commission's Retail Trade Confidence Indicator* has been hovering around historically high levels since early 2017, with no discernible cyclical path (see Graph I.32).

Graph I.32: **Retail trade volumes and retail confidence, euro area**



- *New passenger car registrations* in the euro area fell markedly in September 2018 (-37% m-o-m), however, this data may be somewhat misleading because the introduction of a new emissions test for new cars (WLTP) at the beginning of the month caused an exceptional surge in August (20% m-o-m) when car producers registered vehicles manufactured under the old testing rules in order to be able to sell them without having to apply the new rules. In the first nine months in 2018, 4.6% more new cars were registered than in the first nine months in 2017.

- *Loans to euro area households for consumption purposes* continued to expand more quickly than loans for any other purpose and recorded an annual increase of 7.1% in

June, close to its highest growth rate since late 2006.

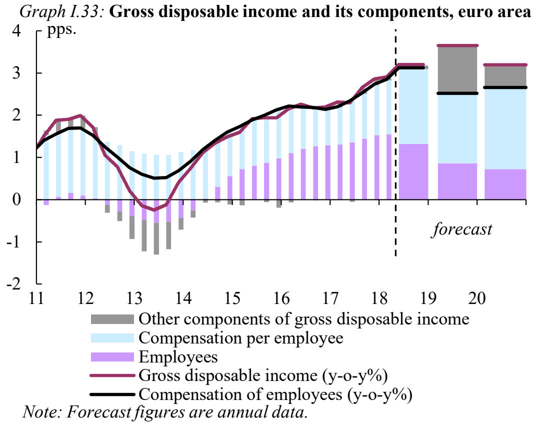
All in all, while the recent data releases could question the near-term outlook for private consumption, it is important to recognise that a broad set of household fundamentals has remained favourable when assessing the prospects for 2019 and 2020.

...but to continue delivering the largest growth contribution in the next two years.

Over the forecast horizon, the expansion of private consumption should get support from the acceleration of nominal disposable income, which is also supporting consumer confidence. The growth of labour incomes is expected to benefit relatively more from wage and salary increases than in the past and less from increases in headcount employment, as employment growth in the euro area is expected to slow. Private consumption will thus lose one of its most important push factors.

With 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.33). Gross wages and salaries in the euro area are expected to increase by 4.0% in 2018 (from 3.6% in 2017), moderating to 3.7% in 2019 and 3.5% in 2020. At the same time, non-labour incomes should grow more moderately. All in all, household nominal gross disposable income is forecast to expand by 3.2% in 2018 (up from 2.9% in 2017), peaking at 3.6% in 2019.

Graph I.33: **Gross disposable income and its components, euro area**



Note: Forecast figures are annual data.

In some Member States, the development of nominal incomes is strongly affected by fiscal policy measures. This includes Germany, where households are set to benefit in 2019 from new measures (see Section II.5). Moreover, some technicalities affect the growth of employee compensation. In France, for example the CICE (Tax Credit for Competitiveness and Employment) (see Section II.10), which is recorded as a subsidy to firms until the end of 2018, is due to be replaced by a permanent reduction in social security contributions in 2019. This is set to reduce 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.

Taking into account the expected acceleration in annual consumer price inflation in both 2018 and 2019, household real disposable income in the euro area is forecast to pick-up to 1.5% in 2018 (1.3% in 2017) and 1.9% in 2019. In 2020, real disposable income is projected to grow more moderately (1.6%), driven by lower nominal disposable income growth and a slowdown in consumer price inflation.

There are several factors that matter for the link between the projected increases in real disposable incomes and the outlook for private consumption. First, the composition of income growth is expected to be less favourable for consumer spending because growth will be increasingly driven by wages rather than employment, which usually implies a lower impact. Second, beyond the negative impact on the purchasing power of households, the increase in energy prices could contribute to higher uncertainty about future prices and lead consumers to postpone purchases of durables and increase precautionary savings. [36]

Households intending to finance spending via consumer credit should continue to benefit from favourable lending conditions, as reported in the ECB Bank Lending Survey. However, in an environment of rising financing costs, the normalisation of monetary policy will also affect the debtors among households. But the impact of higher interest rates on households is not clear cut.

Although it remains low by historical standards, in a perfectly symmetric set-up, higher interest expenditure would be mostly offset by higher

(36) Moreover, empirical studies suggest that the impact of an increase in oil prices is stronger in an environment with elevated uncertainty; see A. Evgenidis (2018). 'Do all oil price shocks have the same impact? Evidence from the euro area'. *Finance Research Letters* 26, pp. 150-55.

household incomes from savings. [37] As net savers are less inclined to spend out of a rise in income than net borrowers, rising interest rates tend to depress spending overall. Moreover, higher interest rates could also increase the attractiveness of saving versus spending, all else being equal. The quantitative relevance of these arguments depends on the strength of household balance sheets in the euro area, which differ across countries.

The aggregate household balance sheet remains in solid shape, amid a rise in households' net worth, due in part to rising house prices and past stock market gains. Households' net worth (including both financial wealth and non-financial assets) is close to its highest level as a percentage of GDP since the end of 2010 and remains close to its 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. Household's debt-to-income ratio reached 93.7% in the second quarter of 2018, down from a peak of 99% in the fourth quarter of 2010.

The dampening effects of rising interest rates are likely to be strongest in countries with higher household debt and a predominance of floating-rate loans. By contrast, in countries where fixed-rate household loans are more common, households could see their returns from financial assets grow faster than their liabilities. That being said, the increase in long-term interest rates is assumed to be rather modest over the forecast horizon. At the same time, still low interest rates should also continue to support asset prices and household wealth, including in housing, with moderate positive effects on private consumption. [38]

With growing real incomes, the number of households with precautionary savings [39] is likely to increase. Indeed, given a still-high level of household indebtedness in some Member States and continued increases in life expectancy, precautionary saving motives have an important role in making households [40] more sensitive to income changes due to e.g. concerns related to unemployment risks and having adequate income during retirement. This is consistent with consumption-smoothing behaviour and – amid a gradual monetary policy normalisation - should be reinforced by the diminished impact of persistently low interest rates on the propensity to save, particularly among financially constrained households.

On aggregate, the household saving rate in the euro area is expected to remain stable between 2018 and 2020, although the situation in individual countries differs considerably. An almost equal number of economies are expected to see saving rates decrease compared to those expected to see saving rates increase or remain unchanged. Furthermore, any increase in uncertainty, even if unrelated to existing economic fundamentals, could have a lasting affect consumer sentiment and subsequently the economic outlook. [41]

All in all, private consumption growth in the euro area is forecast to remain stable in 2018 at 1.6%. It is then expected to pick up to 1.8% in 2019, partly due to fiscal measures in some Member States, before moderating, as employment growth, to 1.6% in 2020 as employment growth slows. Among the largest euro area countries, private consumption growth is expected to peak in 2019 in

(37) Doubts about the symmetric movements of deposit rates could be related to the observed reluctance of banks to pass on negative rates to depositors. See F. Heider, Saidi, F. and G. Schepens (2018). 'Life below zero: Bank lending under negative policy rates'. *CEPR Discussion Paper* 13191.

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

(39) Precautionary savings theory shows that savings also serve as insurance against contingencies, mostly those affecting income, e.g. unemployment and liquidity constraints. Households thus save not only to buffer lower future income but also to insure against different types of risks. On the measurement of the risk to income see Antonin, C. (2018). 'Measuring precautionary savings related to the risk of unemployment'. Sciences Po OFCE *Le Blog*. June.

(40) In particular highly indebted households are more sensitive to income changes because of borrowing and liquidity constraints, highlighting the importance of looking into the heterogeneity of debt burdens. See Nakajima, J. (2018). 'The role of household debt heterogeneity on consumption: Evidence from Japanese household data'. BIS *Working Papers* 736. July.

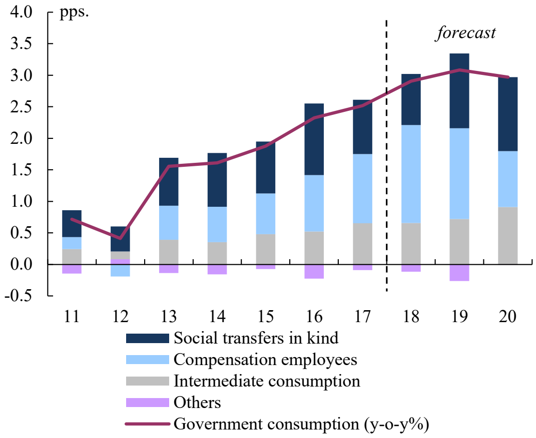
(41) Commonly referred to as "animal spirits", these sentiment shocks can prove self-fulfilling and be particularly long-lasting for private consumption. See Benhabib, J., Shapiro, B., and M. M. Spiegel (2018). 'How persistent are the effects of sentiment shocks'. Federal Reserve Bank of San Francisco *Economic Letter* 22. October.

Germany, also driven by supportive fiscal measures, while a gradual softening is forecast in the Netherlands and Spain. In both France and Italy, private consumption growth is forecast to strengthen in 2019 and to remain stable thereafter.

Public consumption growth has moderated in the first half of the year…

In the first half of the year, government consumption expanded by 0.4% in both the euro area and the EU (0.7% in the second half of 2017), its slowest pace since the second half of 2013. According to the sectoral breakdown available up to the first quarter of 2018, the slowdown in that quarter appears to be driven by relatively weaker growth in the acquisition of goods and services, which were not compensated by a small uptick in public spending on compensation of employees (see Graph I.34).

Graph I.34: **Nominal government consumption, euro area**



In the second quarter, government consumption rebounded (to 0.4% q-o-q, from 0.1%), posting a positive contribution to growth following two consecutive quarters of neutral contributions. This pick-up was broad-based across the larger euro area economies, with a particularly strong rise in Germany (from -0.3% to +0.6%), with the exception of the Netherlands, where there was a slowdown.

…but is projected to pick up in 2019 before moderating again.

Taking into account the outturn of the first half of the year, aggregate government consumption is expected to grow slightly more than in 2017, increasing by 1.3% (1.2% in 2017) in the euro area, on the back of stronger compensation of employees and intermediate consumption expenditure. In 2019, public consumption growth is projected to pick-up, before moderating in 2020 (1.6 and 1.3%, respectively). The modest slowing projected in 2020 is associated with a no-policy-change assumption, in which measures are only factored into the forecast if they have been adopted and presented to national parliaments or are known in sufficient detail to be taken into consideration.

These projections mask some divergence among Member States (see Section I.8) with differing consolidation needs and economic situations. In 2019, government consumption growth is forecast to accelerate in the Netherlands, Germany, and Italy, while remaining steady in France and slowing in Spain, whereas the projected softening in 2020 is broad-based, except in Italy where it is forecast to pick-up marginally.

Investment dynamics remain buoyant…

Following its steep fall during the economic and financial crisis, it took investment (gross fixed capital formation) many years to return to pre-crisis levels. After several years of weak dynamics, as the economic recovery that started in 2013 gained traction, investment began to grow at rates of at least 3%. This exceeds the growth rate of GDP but remains moderate for a highly cyclical component during an upswing.

In the first half of 2018, investment was 1.6% higher than in the second half of 2017, but the marginal increase in the pace of growth (from 1.5% in the second half of 2017) can be attributed to the rebound of investment in Ireland after a sharp contraction in the second half of 2017 (investment growth in the euro area excluding Ireland fell from 2.3% in the second half of 2017 to 1.5% in the first half of 2018). While investment rose markedly in Germany and Spain, it slowed substantially in France and Italy and less markedly in the Netherlands.

Looking at quarterly developments in the euro area, the pick-up in the second quarter was much stronger than the one in the first (1.4% q-o-q after 0.1% q-o-q). These developments lifted the investment-to-GDP ratio to 21%, which is still about one full percentage point lower than the average in the period 2000-2005. However, the aggregate ratio hides substantial differences in the ratios for equipment and for construction investment, with only the former fully recovering.

Differences also persist between investment in the public and in the private sector. While public investment remained in 2017 at the all-time low of 2.6% of GDP that it had arrived the year before, private investment has increased steadily since 2013 to 18.2% of GDP, which is the highest rate since 2008.

In both 2018 and 2019, public investment in the euro area is expected to grow at rates of 3.3% and 3.0% respectively, which translates into a share of 2.7% of GDP. The projected growth of public investment by 3.0% in 2020 is set to lift this share to 2.8%.

In the private sector, increases in the business investment rate are set to be supported by an above-average marginal value of capital, as measured by the equity-to-net worth ratio. As regards the financing of investment spending, bank lending to firms and other funding for companies should continue to be supported by relatively low though increasing interest rates and favourable credit standards (see also Section I.3). In the second quarter of 2018, the leverage ratio of non-financial companies, i.e. the ratio of debt and total financial assets, decreased to its lowest level since 2000, while other leverage measures show less sizeable adjustments.

Investment has also continued to benefit from the support provided by the Investment Plan for Europe ("Juncker Plan"). As of October 2018, operations approved under the Investment Plan for Europe (EUR 67.3 bn.) were expected to trigger EUR 344bn. in investments, with around 793,000 small and medium-sized businesses benefitting from improved access to finance.

Against the background of the weak first quarter and a less favourable demand outlook, investment growth has been revised down from the spring forecast. In 2018, investment growth in the euro area is now forecast to pick-up from 2.6% last year to 3.3% (0.9 pps. less than in the spring), with investment returning to its pre-crisis peak level reached in 2007.

Further ahead, investment should continue to grow but at declining pace. In both 2019 and 2020 investment is expected to grow by 3.0% in the euro area, in line with less buoyant external demand. The year 2019 is also expected to be the first 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.

…with equipment investment between capacity constraints and slower demand growth…

Equipment investment has continued to grow on the back of very favourable financing conditions, rising corporate profitability and solid demand. In the first half of 2018, the acceleration in investment rested on developments in equipment investment, which increased by 2.0% compared to the second half of 2017. On a quarterly basis, equipment investment had even contracted in the first quarter of 2018 (-0.6% q-o-q), but rebounded in the second quarter (2.6%).

While the first half of the year was less dynamic than the second half of 2017, several short-term indicators continued to signal solid equipment investment growth in the near term. *Capacity utilisation in manufacturing* in the euro area fell in the third quarter (survey conducted in July) by 0.2 points to 84.1% but remains above the average since 1990 (81.0%), and capacity utilisation in services increased by 0.4 points to 90.6%, which is above the average since the start of the series 2011 (88.7%). *Confidence* in all sectors surveyed by the European Commission (manufacturing, services, construction, and retail sectors) has been moderating in 2018 but in September was still well above long-term averages. As regards *profitability*, earnings expectations remain favourable; according to the euro area sectoral accounts for the second quarter of 2018, business margins (measured as the ratio of net operating surplus to value added) remain close to their highest level since early 2009. Furthermore, August saw the strongest annual growth of *loans to non-financial corporations* (adjusted for sales and securitisation) since May 2009, boding well for business investment spending. The *demand outlook* though still favourable has been clouded by interrelated downside risks.

Less favourable signals come from the *production of capital goods.* Monthly data on capital goods production in the euro area stood on average in July and August 0.2% below the average level in the second quarter of 2018, when they increased by 0.1% q-o-q (2.3% y-o-y). And increased *uncertainty*, *trade tensions*, and increasing *input* *prices* are not conducive to equipment investment growth.

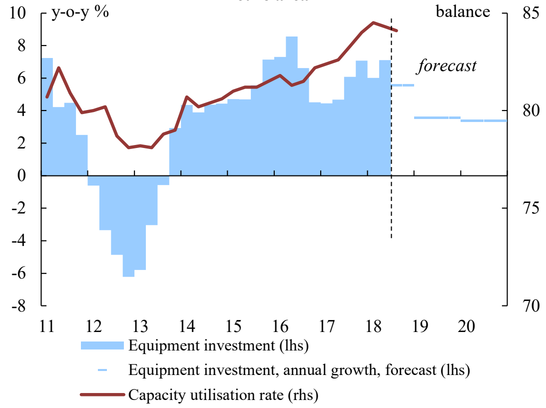
Towards 2019, the outlook for equipment investment (see Graph I.35) is expected to continue benefitting from still favourable financing conditions, rates of capacity utilisation that remain above the long-term average, falling but still decent business confidence and a favourable earnings outlook. The impact of these supportive factors, however, is likely to be partly offset in the short term by rising supply hindrances (particularly on the labour market), which in some Member States are constraining the recruitment required to expand capacities. Another impediment to investment growth is related to uncertainty regarding the external environment, through both its direct impact on current demand, as well as on future demand prospects. [42] Elevated economic uncertainty has been shown to significantly impact corporate decision making, particularly with respect to investment decisions and cash holdings, even in an environment of historically low interest rates. [43] Finally, similarly to previous forecast rounds, pending challenges related to the still high stock of non-performing loans in some countries are expected to continue to weigh on investment but to a lesser extent, as volumes of non-performing loans are gradually receding.

All in all, euro area equipment investment is forecast to grow by 5.5% in 2018, and to moderate thereafter to 3.5% in 2019 and 3.1% in 2020. A lower growth path is expected in all but five EU Member States.

[42] Uncertainty arises when economic agents cannot reasonably assess the likelihood of all possible future states of nature or characterise the probability distribution of their possible impacts. The real options channel suggests that the option value increases with uncertainty in the case of irreversible investment or consumption decisions. See ECB (2016). 'The impact of uncertainty on activity in the euro area'. *Economic Bulletin* 8, pp. 55–74.

[43] Smietanka, P., Bloom, N., and P. Mizen (2018). 'Business investment, cash holdings and uncertainty since the Great Financial Crisis'. Bank of England *Staff Working Paper* 753. August.

Graph I.35: **Equipment investment and capacity utilisation, euro area**



...and construction investment benefitting from the recovery in housing markets.

The construction sector is set to register its fourth consecutive year of recovery in 2018. Over the first half of the year, it continued to expand, though more slowly than equipment investment. The expansion was particularly strong in Spain, the Netherlands and Germany (2% or above) while losing some pace in France and Italy. Overall, in the second quarter of 2018, construction investment registered its twelfth consecutive quarter of positive growth.

House prices have been particularly dynamic. Eurostat's House Price Index rose at an annual rate of 4.3% (y-o-y) in the euro area in the second quarter of 2018, after reaching its highest rate in 11 years the quarter before. Similarly to previous quarters, the slower increase in household real disposable income suggests a decline in the average affordability of housing. [44] At the euro area aggregate level, there is growing evidence that the gap between the level of residential investment and the level implied by real disposable incomes is closing.

Taken together, most signals seem positive for future construction investment. On the one hand, the current positive momentum is reflected in increasing confidence in construction sector surveys, such as in the Commission's Construction Confidence Indicator, which reached its highest historical level in the third quarter of 2018. The number of building permits in the second quarter

[44] For a more granular analysis of house price affordability (e.g. house prices-to-income, loan-to-value ratios) and valuation gaps (based on supply, demand and institutional factors) see Geng, N. (2018). 'Fundamental drivers of house prices in the Netherlands? A cross-country analysis'. IMF *Country Report* 18/131, pp. 15–31. May.

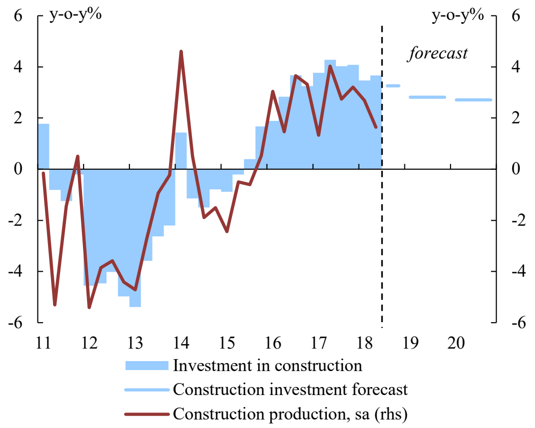
increased by 1.1% (q-o-q), after growing by 0.4% for two consecutive quarters, and reached its highest level since early 2011. Furthermore, the annual growth rate of loans for house purchases stood at 3.2% in August, close to its highest since September 2011.

While net loan flows (newly originated loans adjusted for the repayment of previously granted loans) suggest that mortgage lending remains relatively subdued compared to the pre-boom period, the current level of loan origination is estimated to be close to its average since 2001. [45] These developments are in line with both the previously mentioned buoyant house price growth and messages from the Bank Lending Survey on both credit standards and loan demand.

Construction investment should continue to enjoy the support of low interest rates but, new mortgages should progressively become more costly, making alternative investments relatively more attractive. Interest rate increases have been shown to have an asymmetric impact on residential investment, having a more sizeable effect than interest rate decreases, particularly when the share of residential investment in GDP is rising strongly, which is not the case at the moment. [46] The continued dynamism in real house prices and favourable income prospects should further support residential investment, despite the challenges posed by demographic factors.

In 2018, growth in construction investment is expected to reach 3.3% in the euro area, after peaking at 3.8% in 2017, with its share of GDP (about 10%) still below its peak, which was reached in 2007. It is projected to lose some momentum towards 2020 as capacity constraints in the construction sector become more binding in some Member States (2.8% in 2019 and 3.0% in 2020) with all Member States participating in the expansion. The relatively steady growth path at the aggregate level masks different trends in some Member States. For example, growth is expected to slow in the Netherlands and Spain but to remain broadly unchanged in both Germany and France and to pick-up in Italy (see Graph I.36).

Graph I.36: **Investment and production in construction, euro area**



Global factors are weighing on exports and imports…

Strong export growth (goods and services) has been a key factor behind the ongoing economic expansion in the euro area. In 2017, strong growth in export markets (4.7%) pushed euro area exports up 5.2%, which, in combination with slightly less dynamic import growth (3.9%), led net exports to make a strong growth contribution to growth (0.8 pps.). In the first half of 2018, the growth of euro area exports (goods and services) was less than half as strong as it was in the previous year and weaker than at any time since the first half of 2013. On a quarterly basis, the first quarter of 2018 was the first since 2013 in which euro area exports contracted.

The slowdown in export growth over the first half of the year was widespread among the largest euro area economies with Italy registering a sizeable contraction. While most saw a contraction in the first quarter of 2018, exports either completely or partly rebounded in the second quarter, with the exception of Spain where exports expanded strongly in the first quarter but contracted in the second. For the euro area, international trade data shows that the rebound in exports resulted from an uptick in intra-euro area exports (to rates in line with those observed over the second half of 2017), whereas extra-euro area exports remained unchanged. The slowdown in extra euro area export growth was mostly driven by manufactured products, particularly machinery and transport goods, as well as energy products.

[45] Given the average duration of mortgage loans, repayments have a long-term impact on these statistics, particularly following a boom period. Adalid, R. and M. Falagiarda (2018). 'Developments in mortgage loan origination in the euro area'. ECB *Economic Bulletin* 5, pp. 38–40.

[46] Its leading properties to the economic cycle give increased backing to the narrative on the economic outlook. See E. Kholscheen, A. Mehrotra and D. Mihaljek (2018). 'Residential investment and economic activity: evidence from the past five decades'. *BIS Working Papers* 726. June. and E. Monnet and C. Wolf (2017). 'Is demographics the housing cycle?'. Banque de France, *Rue de la Banque* 41. April.

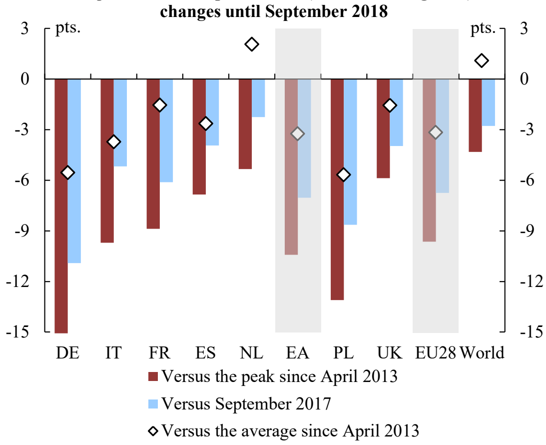
As regards the near-term outlook, most indicators suggest that euro area export growth is likely to remain subdued:

- *Export expectations in manufacturing* as measured by the Commission's quarterly survey, have been steadily moderating since late 2017 and fell to their lowest level since the second quarter of 2017 in the third quarter of this year.

- The monthly *assessment of export order books* in the Commission's manufacturing survey has fallen from the post crisis high reached in January 2018. In the third quarter of this year, the indicator averaged its lowest since the third quarter of last year.

- In September, the index of *new export orders* in the Manufacturing PMI fell below the no-expansion threshold of 50 for the first time since June 2013, after having fallen in the two preceding months. The decline in new export orders was widespread across the largest Member States and substantial over time and with respect to the peaks observed since the start of the recovery in the second quarter of 2013 (see Graph I.37).

Graph I.37: **New export orders (Manufacturing PMI), changes until September 2018**



- *Monthly trade data* from the Centraal Planbureau (CPB) shows that the volume of trade in goods in the euro area declined in July (-0.5%) after having rebounded in the second quarter of 2018 (+0.7% after -0.5% in the first quarter).

These more negative signals for the euro area outlook come on top of other negative signals from the external environment (see also Section I.2).The Global Composite PMI declined in the third quarter of 2018 with the component for new export orders falling in September below the no-growth threshold of 50 for the first time since June 2016.

Overall, these signals suggest that euro area export growth remains slower than in the past, which is also mirrored in the projected annual forecast of 3.3% in 2018, down from 5.2% in 2017.

…and are dampening the export outlook…

In 2019 growth in euro area export markets is forecast to remain broadly stable at 3.9% (3.8% in 2018) and to slow to 3.6% in 2020, rates that are somewhat lower than they have been for most of the years of the current expansion. Another important dampening factor concerns the composition of euro area exports, which are usually closely linked to global investment growth. Increased economic policy and trade policy uncertainty is projected to slow the momentum of global investment growth (see also Section I.2) with a negative impact on euro area exporters.

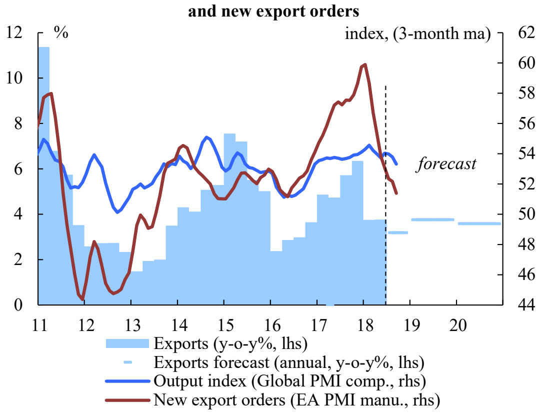
At the current juncture, the direct impact of protectionist measures elsewhere is expected to remain low and the outlook for trade in goods and services is based on the assumption that trade disputes will not escalate any further. What is expected to weigh on trade flows is the impact of the uncertainty generated by implemented, announced and threatened trade measures. This also relates to investment, which is an important determinant of export volumes and where delayed or modified global spending decisions are set to weigh slightly on euro area export volumes. An escalation of trade tensions is a substantial downside risk (see Section I.10) as it would hurt both trade and investment through confidence channels, if it were to materialise.

All in all, several factors are expected to dampen export growth. In addition to the projected moderation in world trade and increased uncertainty with respect to trade policies, the lagged impact of the euro's appreciation, mainly against a range of emerging market currencies, is deteriorating the price competitiveness of euro area companies and constraining their ability to gain market share. Moreover, in some countries and sectors, increasingly binding supply constraints limit the room for further increases in export volumes, particularly where companies tend to prioritise domestic customers. Accordingly, euro area export growth is forecast to remain at around

3½% in 2019 and 2020 (see Graph I.38). Compared to the spring, downward revisions are sizeable, amounting to -1.9 pps. for 2018 and -1.1 pps. for 2019.

As in previous forecasts, the export and import growth projections for 2019 and 2020 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK.

Graph I.38: **Global demand, euro area exports and new export orders**



Source: EC, Markit Group Limited.

...but also clouding the import outlook...

Euro area imports of goods and services also grew more moderately in the first half of the year, in line with the more subdued growth of final demand. Import growth declined by a quarterly rate of 0.5% in the first quarter and rose by 1.2% q-o-q in the second quarter. According to international trade data, extra euro area import growth slowed across product categories, with the exception of energy products which increased on a half-year-on-half year basis.

The impact of import tariffs implemented by the EU in response to US tariffs on steel and aluminium is expected to be very small due to the small share of import goods affected. Going forward, the assumption of no further escalation of trade disputes applies.

Imports of goods and services are thus expected to grow by 3.0% this year compared to 3.9% in 2017, in line with the moderation in exports. A pick-up is expected in 2019 due to a positive carry-over effect from the rise between the first and second half of 2018. Further out, robust domestic demand this year and continued export growth are set to remain important determinants behind the expansion in imports. Euro area imports are projected to grow by 3.6% in 2020.

...altogether turning the growth contribution of net exports neutral.

Reflecting the weakening of export momentum in the first half of 2018, the contribution of net exports to GDP growth turned broadly neutral and thus lower than in the second half of 2017 when it made up 0.6 pps. of GDP growth as compared to the first half of the year.

Although export growth is projected to slow more than import growth in 2018 (-1.9 pps. vs. 0.9 pps.), exports are still expected to grow faster than imports. As a result, net exports should continue to contribute to GDP growth (0.3 pps., down from 0.8 pps. in 2017). As domestic demand is expected to remain relatively strong in the euro area, import growth is expected to overtake export growth in 2019 and 2020, leading to a broadly neutral growth contribution from net exports.

5. THE CURRENT ACCOUNT

In 2017, the current account surplus of the euro area continued to rise and reached a historically high level of 4.0% of GDP on the back of a surge in the surplus from the trade in services and an increase in the net primary income surplus. Also, the adjusted current account [47] surplus remained unchanged at its historical highs of 3.2% of GDP in both 2016 and 2017. Looking ahead, the current account surplus as a percentage of GDP is expected to recede somewhat and remain at a high level, largely on account of a decreasing surplus in the merchandise trade balance and a melting primary income surplus.

The current account surplus reached a new high in 2017...

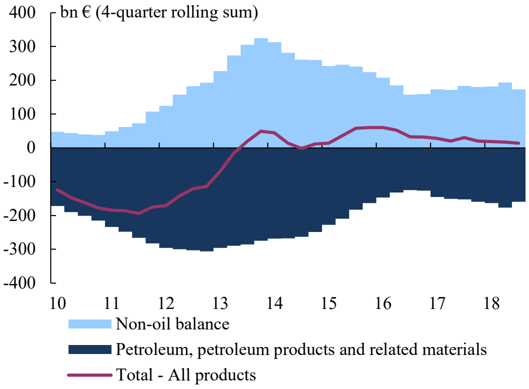
Last year's peak was preceded by a long period of gradually rising current account surpluses, which started after the global financial crisis with the support of several factors. The sharp decline in commodity prices in 2014-2015, gains in price competitiveness due to the lower external value of

(47) The adjusted current account and merchandise trade balance of the euro area and the EU take into account discrepancies between the sum of the trade balances of the Member States and the aggregate, which theoretically should not exists, but are usually observed due to reporting errors.

the euro and the sluggish momentum of investment spending coupled with high private sector savings, all contributed to the steady increase of the surplus. Most of these supportive factors, however, weakened in recent years due to a rebound of oil prices and an appreciation of the nominal effective exchange rate of the euro. In parallel, domestic demand has strengthened albeit to a lesser extent. Despite these developments, the strength of global growth and the rise in net primary income continued to power the euro area current account surplus to a new record in 2017.

The adjusted merchandise trade balance peaked in 2016, in parallel with the fall in the oil-trade deficit to an all-time low that was driven by plunging in oil prices (Graph I.39). As oil prices picked up relatively quickly in 2017, the euro area's terms of trade deteriorated for the first time after four years of steady improvement on the back of falling import prices. Rising oil prices and a higher external value of the euro began weighing on the merchandise trade surplus in 2017 and resulted in a drop of the adjusted merchandise trade balance from 3.4% of GDP in 2016 to 3.0% in 2017. This, however, was counterbalanced by a surge in the services balance in 2017, which picked up substantially (about +0.5 pps. of GDP) and lifted the current account surplus.

Graph I.39: **Oil and non-oil balance for Extra-EU trade**



Note: customs basis trade balance data differ from those presented elsewhere in the forecast document.

...and is expected to remain at a high level until 2020...

The euro area current account surplus is set to recede somewhat but to remain at elevated levels in 2019 and 2020, as the trade balance surplus (as a percentage of GDP) is expected to decline somewhat next year and hold steady in 2020. The dampening effects on the trade balance are expected to stem mainly from a faster rise in imports than exports in both 2019 and 2020 as the positive output gap is projected to be widening, leading to a slight decrease of the merchandise trade surplus relative to GDP.

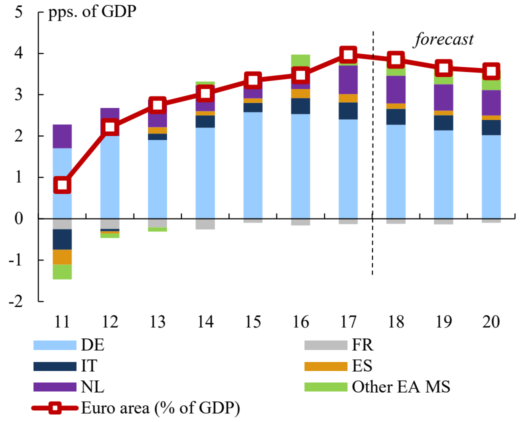
Over the forecast horizon, global economic activity is expected to slow down, while global import elasticity is expected to moderate gradually from high levels in tandem with abating investment growth globally. Euro area export markets are projected to grow at 3.9% in 2019 and 3.6% in 2020, surpassing economic growth outside the euro area in 2019, but lagging slightly behind it in 2020. As increases in export prices in 2019 and 2020 broadly match the increases in import prices, the euro area's terms of trade should remain broadly neutral over the next two years, with a slight deterioration in 2019 and a marginal improvement in 2020. Deteriorated price competitiveness, as measured by the real effective exchange rate based on unit labour costs, is set to weigh on the euro area's export performance.

The broad stabilisation of the current account surplus over the forecast horizon is expected to be the result of different developments in the saving/investment relationships in the private sector and in the public sector that broadly offset each other. Private sector net lending is expected to continue slowly receding in 2019 and 2020, as investment levels remain robust and gross saving increases only marginally. Net borrowing by the public sector has been falling thanks to the increasing public sector saving rate and is set to be broadly balanced by the end of the forecast period.

...with Germany and the Netherlands being the main contributors.

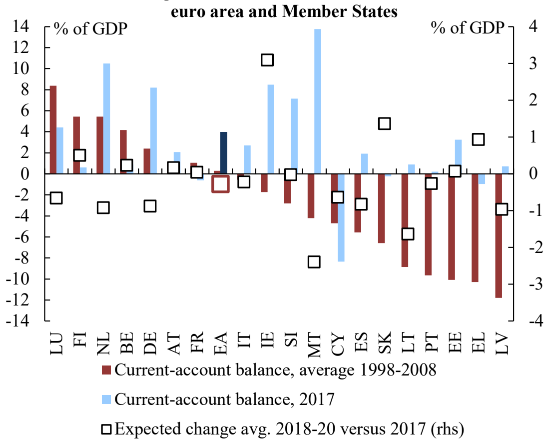
In the past few years, a growing number of Member States have contributed to the euro area's current account surplus. In 2017, 15 euro area Member States posted positive balances. However, the main contributors to the surplus remain the Netherlands and Germany, which together accounted for about 80% of the euro area's overall current account surplus (see Graph I.40). Over the forecast horizon, their combined share is expected to decline as smaller euro area Member States are forecast to contribute more to the current account surplus in both relative and absolute terms.

Graph I.40: **Contributions to the current-account balance, euro area**



Even though the euro area current account surplus is expected to broadly remain at an elevated level over the forecast horizon, the aggregate figure masks significant differences in the current accounts of Member States (Graph I.41).

Graph I.41: **Current-account balances, euro area and Member States**

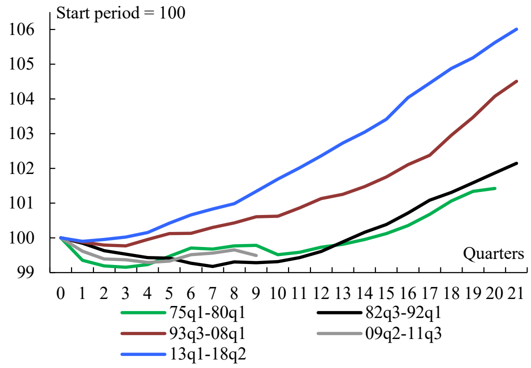


Some of them successfully turned large current account deficits in the years before 2008 into surpluses that are expected to continue in the next two years (e.g. Spain, Estonia, Slovakia). On the other hand, the current accounts of some other countries are expected to slip back into deficit after a short period of rebalancing (e.g. Latvia, Lithuania, Portugal), while Malta, the Netherlands, Germany and Slovenia are forecast to maintain large current account surpluses of at least 5% of GDP. Following relatively low current account deficits up to 2016, the current accounts of Belgium and Finland are expected to improve and remain in surplus over the forecast horizon. Finally, the current accounts of France and Cyprus are projected to remain in negative territory, with the Cypriot balance expected to deteriorate further in 2019 and 2020.

6. THE LABOUR MARKET

Labour market conditions in the euro area continue to improve. [48] The noticeable increases in employment and the continued decline in unemployment confirm the particularly job-rich nature of the current expansion compared to others in the past (see Graph I.42).

Graph I.42: **Comparison of recoveries in the euro area, employment (persons), 1970-Q1 - 2018-Q2**



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

Labour market conditions improved further in 2018…

Labour market conditions have continued to improve in the first half of 2018. Employment has been rising further, both in terms of the number of persons and the number of hours worked. The unemployment rate has been declining further and broader indicators show that underemployment (e.g. involuntary part-time work) also has been receding.

In the four quarters up to mid-2018, employment in the euro area increased by 1.6% from the four preceding quarters and thus at the same pace as in 2017. Despite slower GDP growth in the first half of 2018, headcount employment continued to expand robustly at an unchanged rate of 0.4% quarter-on-quarter in both the first and the second quarter of 2018. Reflecting the ongoing rapid improvement in labour market conditions, the number of people employed in the euro area in the second quarter of 2018 stood 2.4% above the pre-crisis peak recorded in the first quarter of 2008. Employment reached a new record level with more than 158 million people in work. The recent

(48) For detailed analyses of labour market developments in the euro area and in the EU, see European Commission (DG Employment, Social Affairs and Inclusion) (2018). ‘*Labour Market and Wage Developments in Europe*, Annual Review 2018’.

Table I.6:

Labour market outlook - euro area and EU

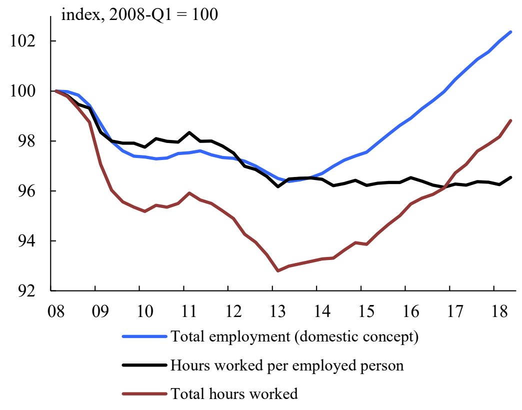
(Annual percentage change)	Euro area						EU					
	Autumn 2018 forecast				*Spring 2018 forecast*		Autumn 2018 forecast				*Spring 2018 forecast*	
	2017	2018	2019	2020	2018	2019	2017	2018	2019	2020	2018	2019
Population of working age (15-64)	0.2	**0.2**	**0.2**	**0.2**	*0.2*	*0.2*	0.2	**0.2**	**0.2**	**0.2**	*0.2*	*0.2*
Labour force	0.5	**0.6**	**0.5**	**0.4**	*0.5*	*0.4*	0.6	**0.5**	**0.4**	**0.4**	*0.5*	*0.4*
Employment	1.6	**1.4**	**1.0**	**0.9**	*1.3*	*1.1*	1.6	**1.2**	**0.8**	**0.7**	*1.1*	*0.9*
Employment (change in million)	2.3	**2.1**	**1.6**	**1.3**	*1.9*	*1.6*	3.5	**2.8**	**1.9**	**1.6**	*2.6*	*2.0*
Unemployment (levels in millions)	14.7	**13.5**	**12.8**	**12.1**	*13.6*	*12.8*	18.8	**17.1**	**16.2**	**15.6**	*17.4*	*16.5*
Unemployment rate (% of labour force)	9.1	**8.4**	**7.9**	**7.5**	*8.4*	*7.9*	7.6	**6.9**	**6.6**	**6.3**	*7.1*	*6.7*
Labour productivity, whole economy	0.8	**0.6**	**0.8**	**0.9**	*1.0*	*1.0*	0.8	**0.9**	**1.1**	**1.1**	*1.2*	*1.2*
Employment rate (a)	61.1	**61.8**	**62.3**	**62.7**	*61.7*	*62.2*	61.3	**61.9**	**62.3**	**62.6**	*61.9*	*62.3*

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

strength in employment growth has been broad-based across countries and sectors.

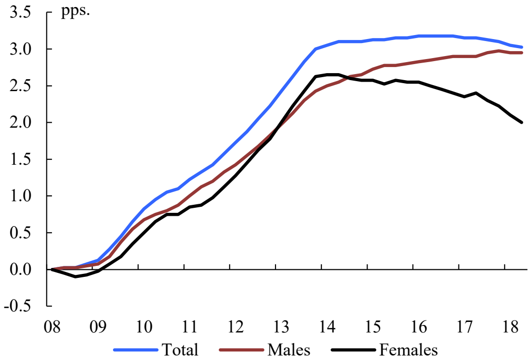
Employment has been rising uninterruptedly since 2013, benefitting from the ongoing economic expansion, modest wage growth, structural reforms and specific policy measures in some countries. In terms of the number of hours worked, however, the current economic expansion has been less impressive (Graph I.43). Hours worked per person employed increased by 0.3% in the second quarter of this year and even declined in the first. The average hours worked during the expansion have remained broadly stable so far while total hours worked remain below pre-crisis levels. This can be explained by the large share of part-time workers in total employment as well as changes in the sectoral composition of employment.

Graph I.43: **Employment and hours worked per employed person, euro area**



More recently, the strength of employment growth has brought the multiyear rise in the share of part-time employment to a halt (see Graph I.44).

Graph I.44: **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.

At the same time, labour supply has expanded rapidly over the past few years. This is mainly thanks to increasing participation rates, but migration within the EU towards Member States with low unemployment and net migration into the EU, have also contributed. [49] The labour force in the euro area and the EU grew strongly in 2017 (+0.5% and +0.6% respectively) compared to the rise in the total population, which lifted the activity rate further. The rise in labour market participation rates now evident for over a decade, mainly reflects increased activity among older people (55-64) and a parallel decline in the share of younger cohorts (15-24). In 2017 the participation rate hit 77.3% (76.6% in the EU).

...and the unemployment rate fell to a 10-year low in the summer 2018.

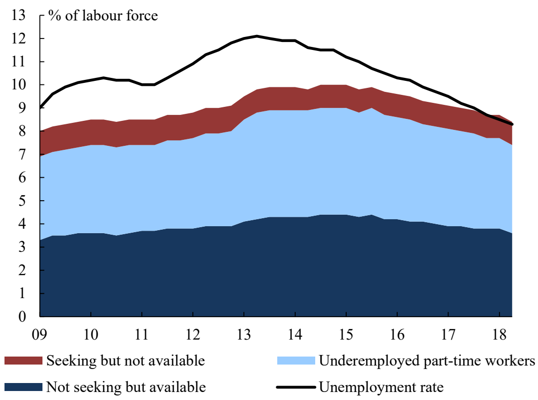
Driven by the rise in employment, unemployment in the euro area and the EU fell further over the summer to 8.1% and 6.8% respectively, their lowest levels since 2008.

(49) For example, the Institute for Employment Research (IAB), the Research Institute of the Federal Employment Agency in Germany, reports a total net migration into Germany between 2014 and 2017 of 3.1 million of which net migration from non-EU countries was 1.8 million.

Between January and August 2018, unemployment rates fell for men and women of all age groups. In August 2018, the youth unemployment rate fell to 16.6% in the euro area and 14.8% in the EU, their lowest since end-2008. In parallel, long and very-long-term unemployment (those unemployed for a year or more; or for at least two years) have continued decreasing, benefiting from the favourable labour market developments and the ongoing economic expansion. The share of long-term unemployed in total unemployment is still high (43% in the first quarter of 2018 in the EU, 47.3% in the euro area respectively) but is slowly decreasing.

Meanwhile in the euro area, economic slack in the labour market, as measured by broader measures of unemployment (i.e. involuntary part-time, people who do not search actively, or who are not available to take a job within two weeks), has diminished further (see Graph I.45). After five years of economic expansion, fewer and fewer workers are available on the side-lines. Yet, the euro area aggregate masks some large disparities among Member States.

Graph I.45: **Underemployment and potential labour force, euro area**



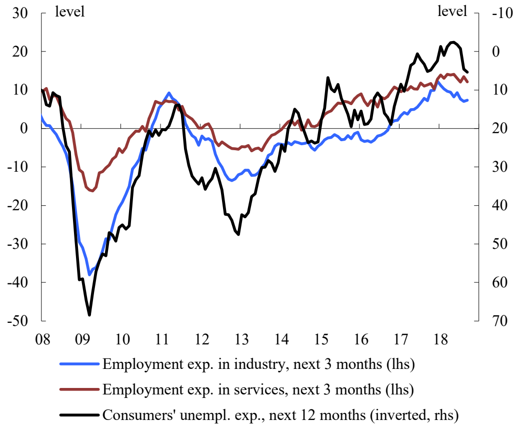
Note: Averages of the last 4 quarters.

In some countries (e.g. in Germany, Belgium and the Netherlands) and sectors (e.g. construction in Germany), the availability of labour has already become a concern for companies and labour shortages have risen up the list of factors that constrain further economic growth.

The short-term outlook remains favourable…

Short-term indicators pointed to continuing strength in the labour market at the end of the third quarter of 2018, even if a slight but noticeable decline has been registered since the beginning of 2018. The hiring intentions of firms remained well above their long-term average in September, in all sectors of the EU and the euro area, even if they have moderated somewhat from very high levels in sectors such as industry (see Graph I.46). Consumers' unemployment expectations remain close to historical lows, following a slight pick-up after May 2018.

Graph I.46: **Employment expectations, DG ECFIN surveys, euro area**



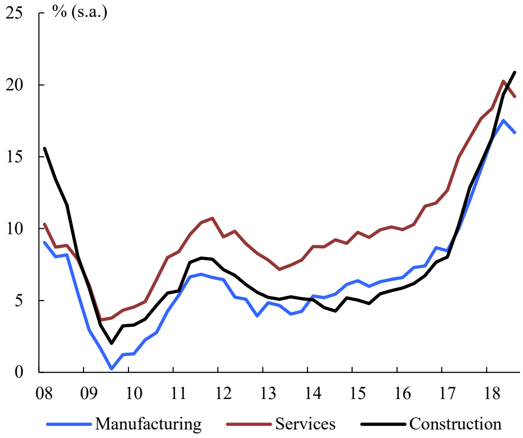
…while an adjustment of job creation to the pace of economic growth appears to be underway…

Labour market conditions are projected to improve further over the next two years, but at a more moderate pace than in the previous two. Employment creation should continue to benefit from growing economic activity and wage growth levels that, though higher than recent years, remain moderate. In some countries, structural reforms and labour market policies will also play an important role. The pace of job creation over the next two years, however, is projected to moderate as labour shortages increase and GDP growth slows.

The Commission's quarterly surveys indicate that firms are facing challenges from a tightening labour market. The share of euro area and EU firms mentioning the availability of labour as a factor limiting production in the industry, the services and construction sector stood at (construction) or close (manufacturing and services) has almost steadily increased in recent years (see Graph I.47).

Additional evidence of binding labour shortages comes from the unmet demand for labour, as expressed by the job vacancy rate. It has broadly risen since late 2014 in the euro area and reached its highest value since 2006 at 2.1% in the first quarter of 2018. The simultaneous increase of the job vacancies rate and the decrease in unemployment could also be linked to increased mismatches, i.e. an outward shift of the Beveridge curve (see Box I.4).

Graph I.47: **Labour seen as limiting factor of activity, euro area**



All in all, these arguments suggest that the room for further employment growth in 2019 and 2020 has become more limited. Headcount employment is expected to expand by 1.4% in 2018, 1.0% in 2019 and 0.9% in 2020 in the euro area (respectively 1.3%, 0.9% and 0.7% in the EU27).

...the unemployment rate should continue to recede but more slowly...

The labour force is expected to continue expanding over the next two years, though its growth should moderate slightly from 0.6% in 2018 to 0.4% in 2020 in the euro area, and from 0.5% in 2018 to 0.4% in the EU. The increase in the labour force is set to be supported by the net immigration of workers in regions with strong job opportunities, the expected integration of refugees, and ongoing increases in labour market participation rates.

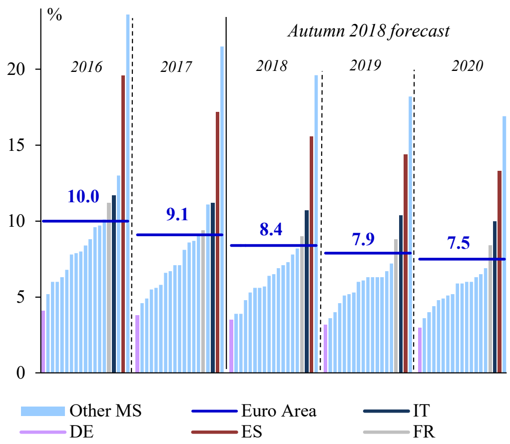
Reflecting the slowdown in the pace of job creation and the continued growth of the labour force at strong rates, unemployment should continue to decline but more slowly than in recent years. With job creation increasing twice as quickly as the labour force, unemployment rates in both the euro area and the EU should fall towards their pre-crisis troughs and below the NAWRU level. In the euro area, the unemployment rate is forecast to fall to 7.5% in 2020 after 7.9% in 2019 and 8.4% in 2018.

Following its cyclical pattern, labour productivity is projected to rebound only slightly in the euro area and the EU as the economic expansion remains job-rich. Labour productivity should grow by 0.9% in the euro area and 1.1% the EU in 2020, compared to 0.6% and 0.8% respectively in 2018.

...with the disparities among Member States very gradually diminishing.

The labour market situation has improved in all countries under the current economic expansion, with unemployment rates falling in all Member States and employment growing everywhere. Despite moving in the same direction, large differences between unemployment levels are still apparent (see Graph I.48).

Graph I.48: **Unemployment rate, euro area and Member States (2016-2020)**



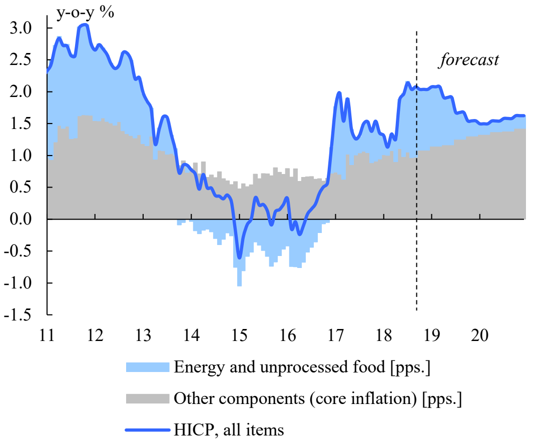
In each period, the bars for all 19 euro area economies are ranked by size.

Partly explained by structural features, the gap between the highest and lowest unemployment rates remains wide. In August 2018, for example, unemployment ranged from 2.5% in the Czech Republic to 19.1% in Greece (see also Box I.4). Going forward, the range in unemployment rates is expected to narrow further as unemployment rates are forecast to fall most in those countries that were most affected by the crisis.

7. INFLATION

Inflation in the euro area, as measured by the Harmonised Index of Consumer prices (HICP), averaged 2.1% in the third quarter of 2018, its highest level since the fourth quarter of 2012 and slightly more than forecast in the summer (Graph I.49). Headline inflation has been driven mainly by the continued rise in energy prices, which topped 9% during the summer months when oil prices rose. Elevated food price inflation which averaged 2.5% (food, alcohol and tobacco category) in the third quarter, also played a role. Although the effect of energy prices was to some extent expected, given base effects compared to last year's energy price levels, the continued rise in oil prices and the drop in the euro exchange rate against the US dollar since mid-April, have added further upward pressure on inflation. These developments largely explain the upward revision in headline inflation for 2018 and the first half of 2019. Core inflation, which excludes energy and unprocessed food prices, by contrast, has remained subdued and the pass-through of higher wage growth to underlying price pressures is expected to be gradual and to take longer than previously expected.

Graph I.49: **Inflation breakdown, euro area**

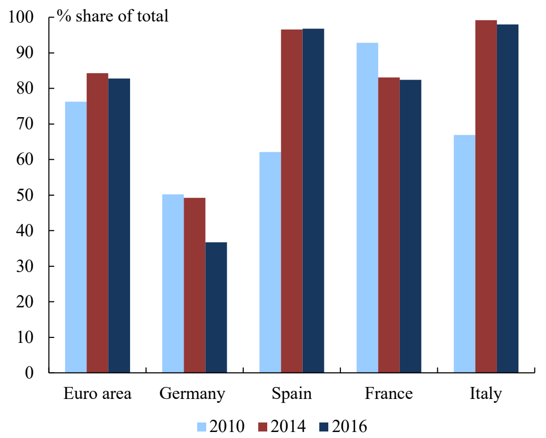


Inflation rose above 2% in the summer, driven by energy prices...

HICP inflation this year has been rising and exceeded 2% in the third quarter. It is expected to remain at similar levels at least until the end of the year. From an average of 1.3% in the first quarter, it increased to 1.7% in the second and jumped to 2.1% in the third quarter. Energy prices continue to be the key driver of movements in the headline rate and strong positive base effects related to energy inflation are expected to remain until the first quarter of 2019 before slowly tapering off.

Brent oil prices seem to have stabilised and moved in a narrow range over the summer. Recently, however, they rose again slightly above 80 USD /bbl (at the cut-off date of 22 October), the highest levels recorded this year. As a result, oil price assumptions have been revised higher since the summer and so too their expected impact on headline inflation. According to the revised technical assumptions, the price of Brent oil is expected to peak in the last quarter of 2018 but should remain relatively stable in 2019 before falling marginally in 2020 (see Section I.2). The revisions are larger in euro terms due to the depreciation of the euro against the US dollar, which is the main currency used for trading oil (see Graph I.50). Given the high share of USD-denominated oil imports in the euro area, the depreciation of the euro against the dollar is likely to drive import prices in the euro area further upwards, even though the picture varies quite a lot from country to country. These two factors largely explain the upward revision for headline inflation in 2018 and the first half of 2019, while in 2020 the technical assumptions lead to a phasing out of base effects in energy inflation.

Graph I.50: **Extra-EU oil imports invoiced in USD**



Following past episodes of substantial oil price increases between 2007 and 2008 and between 2009 and 2011, the increase in energy inflation was followed by a notable acceleration in processed food prices and, to a smaller extent, service prices (which contains sub-components like transport services which are sensitive to oil price movements). The impact of progressively higher oil prices on non-energy industrial goods inflation appears less uniform, even if oil prices are an important component in many input costs of

Table I.7:
Inflation outlook - euro area and EU

(Annual percentage change)	Euro area						EU					
	Autumn 2018 forecast				*Spring 2018 forecast*		Autumn 2018 forecast				*Spring 2018 forecast*	
	2017	2018	2019	2020	2018	2019	2017	2018	2019	2020	2018	2019
Private consumption deflator	1.4	**1.7**	**1.8**	**1.6**	*1.5*	*1.6*	1.6	**1.8**	**1.8**	**1.7**	*1.7*	*1.7*
GDP deflator	1.1	**1.5**	**1.7**	**1.7**	*1.5*	*1.6*	1.4	**1.6**	**1.8**	**1.8**	*1.7*	*1.7*
HICP	1.5	**1.8**	**1.8**	**1.6**	*1.5*	*1.6*	1.7	**2.0**	**2.0**	**1.8**	*1.7*	*1.8*
Compensation per employee	1.6	**2.3**	**2.0**	**2.4**	*2.4*	*1.9*	2.1	**2.7**	**2.6**	**2.8**	*2.8*	*2.5*
Unit labour costs	0.7	**1.6**	**1.2**	**1.5**	*1.4*	*1.0*	1.2	**2.0**	**1.5**	**1.8**	*1.6*	*1.3*
Import prices of goods	3.5	**2.0**	**1.5**	**0.8**	*1.2*	*0.7*	3.6	**2.2**	**1.7**	**0.9**	*1.3*	*0.8*

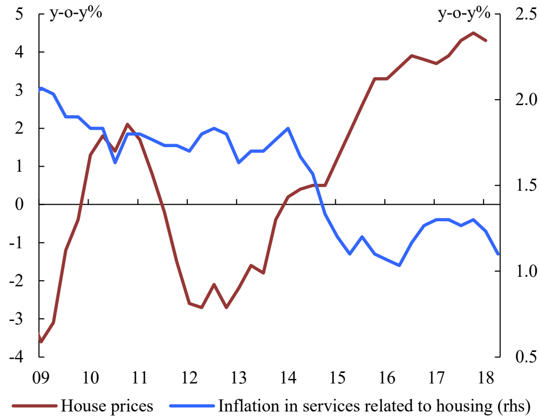
industrial goods. Demand conditions may be a more relevant factor for this category. In the case of unprocessed food inflation, the determining factor may be supply factors, especially weather and harvesting conditions, given that this category is usually a staple of household demand and perishable goods (see Box I.1).

…yet core inflation remains subdued…

Despite the notable increase in the headline rate, core inflation (excluding energy and unprocessed food prices) has been rather muted and moved only little so far this year. It has also been weaker than expected in the summer interim forecast despite the uptick in wages and the projected closure of the output gap in most euro area economies. Core inflation averaged 1.2% in the third quarter, broadly the same as in the first and second quarters.

Services inflation - the main component of domestic price pressures with a weighting of around 55% in the core consumption basket and usually correlated with wage growth – has been relatively contained, rising by only about 1.3% since the beginning of the year. In September, it fell again to slightly below 1.3%, from 1.4% in July and 1.3% in August. Thus the average for the third quarter stood at similar levels to the second, and slightly below the first quarter. Somewhat puzzlingly, service prices related to housing (with a weight of around 10% in the consumption basket), have been stable since 2016 (see Graph I.51). This is despite the fact that actual house prices have been on an upward trend for at least the past five years and have increased by around 4% in the euro area in 2017 alone, and even more in some regions with risks of overheating. An increase in house prices tends to shift demand towards renting due to declining affordability, consequently putting upward pressure on rents. So far, the reported growth in house prices is not having the expected impact on this component of inflation, because rising incomes may have mitigated the impact of house prices on affordability.

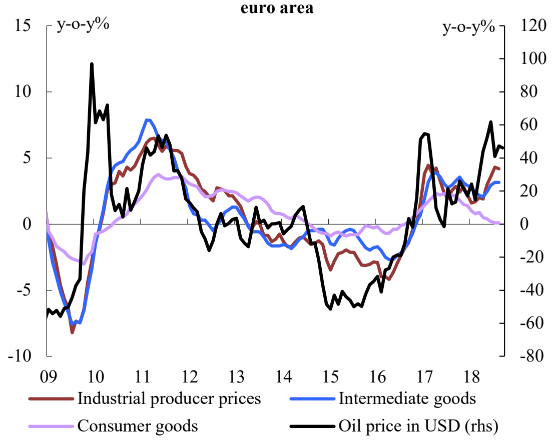
Graph I.51: **Housing services inflation vs house prices, euro area**



…and pipeline pressures remain modest.

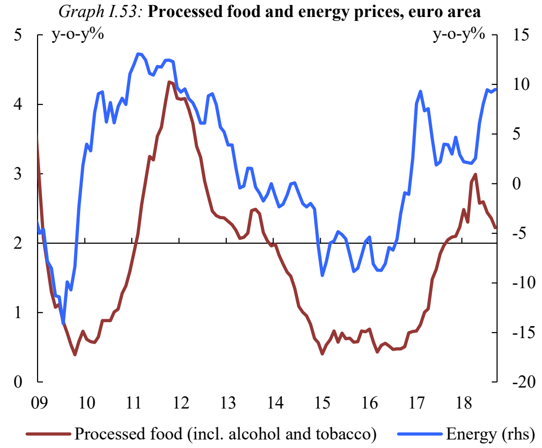
Likewise, non-energy industrial goods inflation has not registered any discernible trend. In 2018 it has hovered around last year's average rate of 0.4%, suggesting competitive pricing pressures along domestic supply chains despite a context of rising oil prices and generally high capacity utilisation across the euro area, as reported by corporate survey respondents. Industrial producer prices excluding energy have also remained modest overall, with some differences within the categories. Non-durable consumer goods inflation slowed during the year to zero in August, while durable consumer goods and intermediate goods inflation firmed to 1.3% and 3.2%, respectively. Total industrial producer prices increased to 4.2% in the same month, driven disproportionally higher by energy producer prices (12%) (see Graph I.52). Industrial import prices have firmed throughout the year, standing at 5.5% in August - reflecting mainly the steep increase in the energy category and the decline of the euro against the US dollar – but have so far had only a limited pass-through on domestic pipeline price pressures.

Graph I.52: **Oil price and selected producer price indices, euro area**



On the other hand, processed food inflation including alcohol and tobacco (considered as part of core inflation in the European Commission's analysis) peaked at 3% in April, before moderating to 2.3% in September. While the processed food category is less volatile than unprocessed food inflation because of the latter's perishability and higher sensitivity to weather and harvesting conditions, it demonstrates rather strong and lagged correlation with energy inflation (see Graph I.53).

Graph I.53: **Processed food and energy prices, euro area**



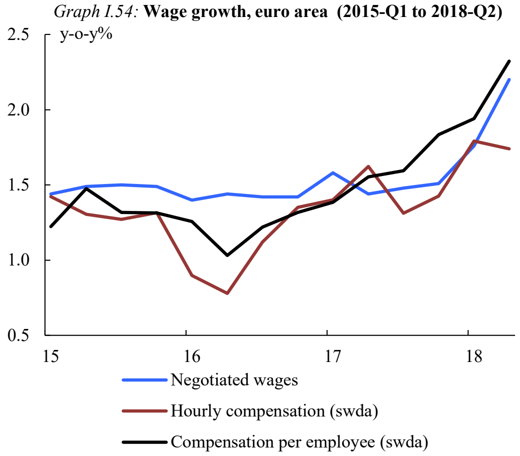
Inflation to remain close to 2% in the short term…

The near-term outlook for inflation remains under the influence of base effects in energy in line with commodity price assumptions and to a smaller extent in food prices until the first half of 2019 where headline inflation is projected to stay at levels close to 2%. The impact of higher oil prices on headline inflation is expected to gradually taper off next year as base effects fade away. However, the strong upward trend in oil prices in 2018 is expected to have some lagged impact on the other components of inflation sensitive to oil prices, as producers respond to higher input costs and capacity constraints. Moreover, in 2019, changes in taxes and administered prices in some countries are also expected to influence the quarterly inflation pattern. On average, headline inflation in the euro area is forecast at 1.8% both in 2018 and in 2019.

… but the pass-through of higher wage growth into higher core inflation looks delayed.

Further out, underlying inflation in the euro area is expected to become the main driver of headline inflation. Over the course of 2019 and 2020, it is set to gradually gather pace as labour markets progressively tighten further, wages rise more strongly and the output gap remains in positive territory. While the increase in wage growth in the first half of 2018 (Graph I.54) was broadly expected with tighter labour markets clearly evident in some economies and industries (see Section I.6), the pass-through to domestic prices has so far been rather weak.

Graph I.54: **Wage growth, euro area (2015-Q1 to 2018-Q2)**

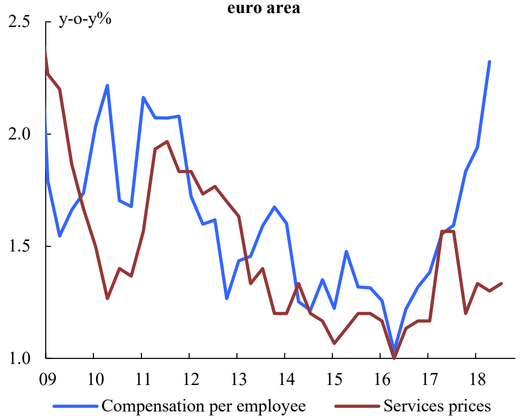


This can be seen, for example, in the growing gap between the growth of compensation per employee – which increased noticeably in the first half of 2018, standing at 2.3% in the second quarter - and recent service inflation. Historically, the two are closely correlated, since the part of wages in overall service costs is large (see Graph I.55).

Growth in compensation per employee in the euro area is projected at 2.0% in 2019, a decline compared to a robust 2.3% increase in 2018. The forecast for 2019, however, 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. In the rest of the euro area (i.e. the euro area excluding France), compensation per employee is expected to increase by around 2½% next year. In 2020, compensation per employee is projected at 2.4% in the euro area as a whole. The growth of real compensation of employees, after deducting for inflation, should remain positive throughout the forecast horizon.

Graph I.55: **Compensation per employee and services inflation, euro area**



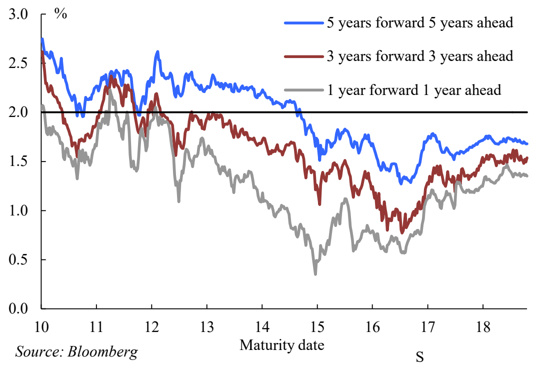
As a result of the increase in compensation per employee growth this year, unit labour cost growth in the euro area is expected to increase substantially to 1.6% in 2018. In 2019, a decrease to 1.2% is projected that can be associated with the CICE measure in France. In 2020, unit labour costs are projected to increase by 1.5%. These rates essentially bring unit labour cost growth to levels similar to those observed before the crisis, 10 years ago. Labour productivity growth in the euro area is expected to remain relatively stable at around ¾% over the forecast horizon.

The outlook for inflation will therefore hinge in part on the extent to which further wage growth translates into higher domestic underlying inflation, especially after the projected impact of oil price base effects has run its course in the first quarter of 2019. This translation is expected to happen gradually with the impact of higher wages on inflation becoming more pronounced only towards late 2019. Thus, headline inflation in the euro area is expected to average 1.6% in 2020, slower than in 2019, but reflecting also the expected further slowdown in activity in 2020.

Inflation expectations indicators stabilised despite higher inflation

After increasing in line with developments in oil prices earlier this year, market-based measures of inflation expectations have been moving sideways despite inflation data coming in above expectations over the summer. This suggests that markets expect the current rate of energy inflation to be temporary. At the cut-off date of this forecast, inflation-linked swap rates at the one-year forward one-year-ahead horizon stood at 1.4% (see Graph I.56). Swap rates at the three-year forward three-years-ahead horizon imply an average inflation of 1.5%. On a longer horizon, the widely watched five-year forward five-years-ahead indicator suggests inflation of 1.7%, slightly below the ECB's definition of price stability in the medium term.

Graph I.56: **Inflation expectations derived from implied forward inflation-linked swap rates**



Source: *Bloomberg*

Survey-based measures of inflation expectations have continued to trend slowly upwards. According to the Commission's surveys, selling price expectations in manufacturing edged up higher in the third quarter of 2018 while that for services stabilised, with both indicators standing above their long-term average. Consumers also reported higher price trends over the past twelve months. Price expectations in the construction sector remain high. Euro area PMI indexes for October show price pressures building up along the supply chain, consistent with a gradual increase in inflation. The assessment of average selling prices in both the manufacturing and services sectors suggest inflation at a more solid clip.

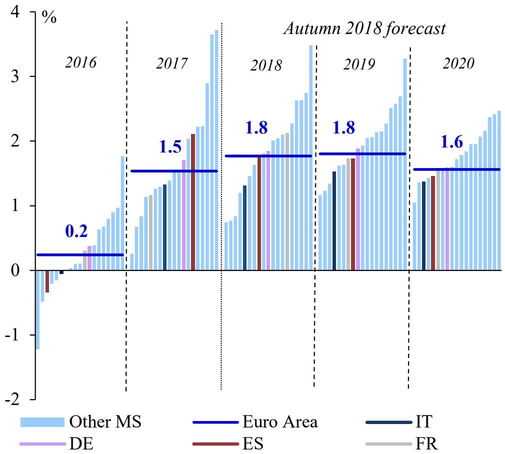
The monthly mean of market forecasters calculated by Consensus Economics stood in October at 1.7% for both 2018 and 2019. The results of the ECB

Survey of Professional Forecasters for the third quarter of 2018 showed average inflation expectations at 1.7% in 2018, 2019, and 2020. Longer-term inflation expectations (for 2023) remained at 1.9%.

Inflation differentials to narrow

Aggregate HICP inflation rates continue to mask substantial differences across euro area Member States (Graph I.57). While temporary inflation differentials are usually not seen as a matter of concern, persistent inflation differentials have been among the factors behind the build-up of past imbalances (e.g. price and cost imbalances) in the euro area. By contrast, the narrowing of inflation differentials helps to make financial conditions, as measured by real interest rates, more similar across euro area countries.

Graph I.57: **HICP inflation, euro area and Member States (2016-2020)**



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

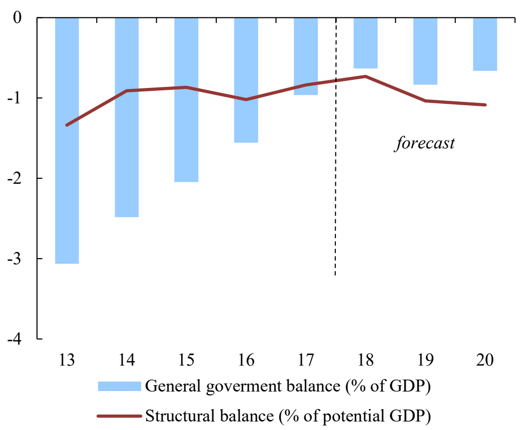
By the fourth quarter of 2020, HICP inflation rates at or above the euro area annual average of 1.6% are projected in all euro area economies, except Italy, Ireland, Greece and Cyprus. In 2020, seven euro area Member States are expected to experience inflation at or above 2%; mostly those small euro area countries which are growing strongly and still converging towards average price levels. With most countries projected to record inflation rates within a narrower range, the dispersion of inflation rates, as measured in terms of the unweighted standard deviation, is expected to decline further. The spread between the highest and lowest inflation rate across the euro area is also set to fall to a post-crisis low.

Outside the euro area, inflation differentials are more pronounced; by the fourth quarter of 2020, headline inflation rates are projected to range from 1.5% in Croatia to 3.3% in Romania.

8. PUBLIC FINANCES

In 2017, the aggregate public deficit of the euro area continued to fall, supported by robust economic growth and low interest rates. The decline in the aggregate deficit is projected to continue in 2018 before coming to a halt in 2019, for the first time since 2009. Following a slight improvement in 2017, the structural balance [50] of the euro area is expected to stabilise in 2018 and to worsen slightly in 2019 (see Graph I.58). Debt-to-GDP ratios are projected to fall in almost all Member States over the forecast period, driven by primary surpluses and nominal GDP growth outpacing interest payments on outstanding debt.

Graph I.58: **Budgetary developments, euro area**



Continued economic growth and low interest rates continue to support public finances…

In 2017, the aggregate general government balance improved by more than half a percentage point of GDP in the euro area and in the EU, to -1.0% of GDP in both (Table I.8). The aggregate budget balance is projected to further improve in 2018 to -0.6% of GDP in the euro area and -0.7% in the EU respectively, thanks to a reduction in interest expenditure. This compares with budget balance projections of -5.8% of GDP in the US and -3.3% in Japan.

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

Table I.8:

General government budgetary position - euro area and EU

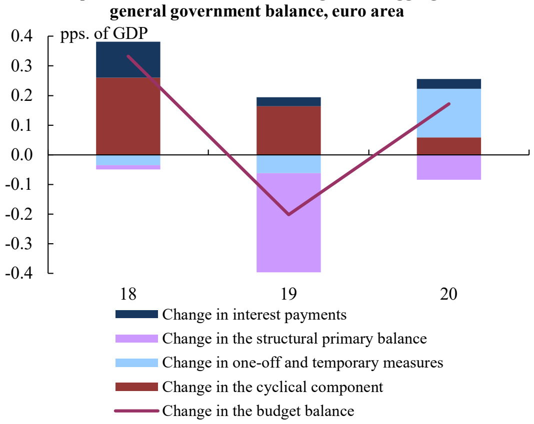
(% of GDP)	Euro area						EU					
	Autumn 2018 forecast				*Spring 2018 forecast*		Autumn 2018 forecast				*Spring 2018 forecast*	
	2017	2018	2019	2020	*2018*	*2019*	2017	2018	2019	2020	*2018*	*2019*
Total receipts (1)	46.1	**46.0**	**45.7**	**45.5**	*46.0*	*45.5*	44.8	**44.8**	**44.6**	**44.4**	*44.6*	*44.2*
Total expenditure (2)	47.0	**46.7**	**46.5**	**46.1**	*46.6*	*46.1*	45.8	**45.5**	**45.4**	**45.1**	*45.4*	*45.0*
Actual balance (3) = (1)-(2)	-1.0	**-0.6**	**-0.8**	**-0.7**	*-0.7*	*-0.6*	-1.0	**-0.7**	**-0.8**	**-0.7**	*-0.8*	*-0.8*
Interest expenditure (4)	2.0	**1.9**	**1.8**	**1.8**	*1.8*	*1.8*	2.0	**1.9**	**1.8**	**1.8**	*1.9*	*1.8*
Primary balance (5) = (3)+(4)	1.0	**1.2**	**1.0**	**1.1**	*1.2*	*1.1*	1.0	**1.2**	**1.0**	**1.1**	*1.0*	*1.0*
Cyclically-adjusted budget balance (a)	-0.9	**-0.8**	**-1.2**	**-1.1**	*-0.9*	*-1.1*	-1.0	**-1.0**	**-1.2**	**-1.1**	*-1.1*	*-1.2*
Cyclically-adjusted primary balance (a)	1.1	**1.0**	**0.6**	**0.7**	*0.9*	*0.7*	0.9	**0.9**	**0.7**	**0.7**	*0.7*	*0.6*
Structural budget balance (a)	-0.8	**-0.7**	**-1.0**	**-1.1**	*-0.8*	*-1.1*	-1.0	**-0.9**	**-1.0**	**-1.1**	*-1.0*	*-1.2*
Change in structural budget balance (a)	0.2	**0.1**	**-0.3**	**-0.1**	*-0.2*	*-0.3*	0.3	**0.1**	**-0.2**	**0.0**	*-0.2*	*-0.1*
Gross debt	88.9	**86.9**	**84.9**	**82.8**	*86.5*	*84.1*	83.2	**81.4**	**79.5**	**77.6**	*81.2*	*79.1*

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

The forecast for 2019, which for euro area Member States takes into account the measures announced in the Draft Budgetary Plans in October 2018, points to a slight decline in the aggregate budget balance (to -0.8% of GDP in the EU and -0.8% in the euro area), which implies the first deterioration in the headline budget balance since 2009. Nevertheless, budget balances are now considerably lower than 10 years ago, as in 2009 they had reached a trough of -6.6% of GDP in the EU and -6.2% in the euro area.

In 2020, the aggregate budget deficit is set to decline again slightly, based on a no-policy-change assumption. Looking at the drivers of the change in the aggregate budget balance of the euro area (see Graph I.59), the change in the cyclical component of the budget is set to remain positive over the entire 2018-2020 forecast period, since actual economic growth is forecast to outpace potential growth. [51] A positive contribution is also expected from falling interest expenditure in 2018. Conversely, the change in the structural primary balance is projected to contribute negatively in 2019, due to looser discretionary fiscal policies.[52] Finally, one-off measures are set to have a negative impact on the aggregate budget balance in 2019 but to have a positive impact in 2020.[53]

Graph I.59: **Breakdown of the change in the aggregate general government balance, euro area**



Budgetary outcomes are forecast to be mixed among individual Member States. While around half of EU Member States are expected to keep their budget balance in surplus over the forecast period, some Member States are projected to maintain rather large public deficits. Among them, Romania is set to post a deficit of over 3% of GDP in 2018 and 2019 and over 4% in 2020; Italy is expected to run a deficit close to 3% of GDP in 2019 and over 3% in 2020, under a no-policy change assumption. A deficit greater than 2% of GDP is expected in Spain and France in 2018 and 2019.

Over the forecast period, both revenue and expenditure ratios are set to decline at aggregate level in the EU and the euro area (see Table I.8). In particular, the aggregate expenditure-to-GDP ratio of the euro area is projected to fall by 0.9 pps. (from 47.0% in 2017 to 46.1% in 2020). The decline is partly explained by lower interest expenditure, which is set to fall from 2.0% of GDP in 2017 to 1.8% in 2020. In addition, labour market developments are expected to reduce spending on unemployment benefits (see also Section I.6). The remainder of the fall in the

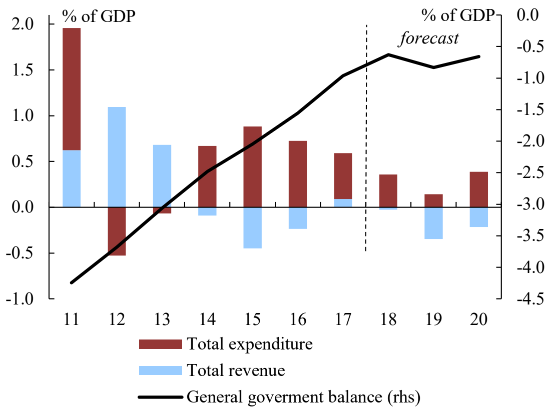
(51) More specifically, the change in the cyclical component is set to give a positive contribution of around 0.3 pps. of GDP in 2018, 0.1 pp. in 2019 and 0.1 pp. in 2020.

(52) The aggregate structural primary balance is projected to deteriorate by 0.3 pps. in 2019 and stabilise in 2020.

(53) In 2019, sizeable negative one-offs are expected to affect the budget balance in France (see Section II.10 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 (for more information on one-off measures see European Commission (DG ECFIN). (2015). 'Report on Public Finances in EMU 2015'. *Institutional Paper* 14).

expenditure ratio reflects the denominator impact from actual GDP growth above potential growth. [54]

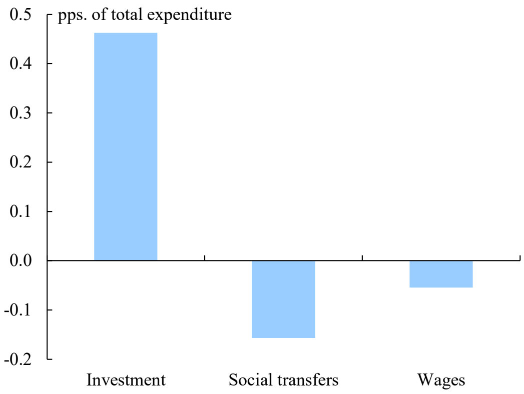
Graph I.60: **General government balance: expenditure and revenue contributions to the change, euro area**



In terms of the 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 2018-2019 and 2.8% in 2020, which is still below its pre-crisis average (3.2% of GDP over 2000-2007). [55] Public investment is expected to benefit from the implementation of the 2014-2020 programming period of EU funding, as well as from the Investment Plan for Europe. Positive cyclical developments are set to reduce the weight of social transfers as a share of total general government expenditure in the euro area aggregate by 2020, despite additional discretionary spending in some Member States. The weight of the wage bill on public expenditure is set to stabilise by 2020 (see Graph I.61).

The revenue-to-GDP ratio of the euro area aggregate is projected to decline by 0.6 pps. over the forecast period (from 46.1% in 2017 to 45.5% in 2020), mainly reflecting the projected fall in social contributions. This decline is largely due to the impact of discretionary measures taken by governments, while underlying revenue developments appear to be in line with the projected increase in nominal GDP. [56]

Graph I.61: **Change in expenditure composition over 2018-20, euro area**



...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 (see Table I.9), when it reached a peak of 94.2% (88.1% in the EU). In 2017, the debt ratio fell to 88.9% (83.2% in the EU) and is projected to fall further over the forecast period to reach 82.8% in 2020 (77.6% 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 robust nominal GDP growth, implying a debt-decreasing snowball effect. [57] Over the forecast period, positive cyclical conditions should also help to keep a debt-decreasing primary surplus of around 1.0% of GDP for the euro area aggregate on average (see Graph I.62). Over 2018-2020, the debt-to-GDP ratio is projected to increase only in Romania, due to a large primary deficit. The debt ratio is now forecast to remain relatively stable in Italy, where the snowball effect is projected to provide a debt-increasing contribution.

The debt-to-GDP ratio in 2020 is expected to remain above 100% in three Member States (Greece, Italy, and Portugal), and above 90% in four others (Belgium, Spain, France and Cyprus).

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(54) By comparison, the primary expenditure ratio of the euro area is set to remain broadly stable over 2017-2020 when computed in terms of potential GDP.

(55) By 2020, the fall in public investment relative to the pre-crisis period would remain sizeable in Spain and Portugal (about -2 pps. of GDP), Ireland and Malta (about -1.5 pps.), Greece and Italy (about -1 pp.).

(56) 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 (DG ECFIN), *European Economy Economic Papers* 536.

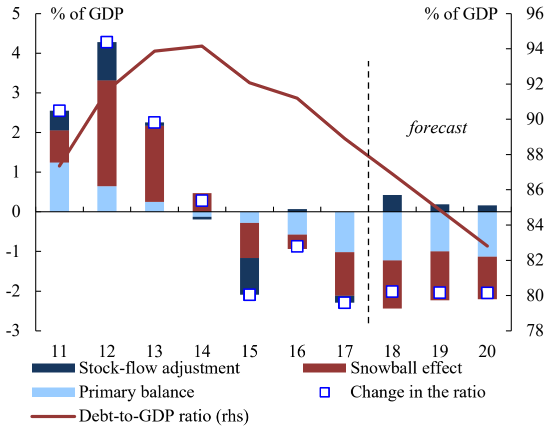
(57) The snowball effect is the impact on the debt-to-GDP ratio provided by the difference between nominal growth and the implicit interest rates paid on debt. Specifically, in the euro area aggregate, nominal GDP growth is projected to average 3.6% over 2018-2020 and thus outpace the average interest rate paid on debt, which is set at 2.2%. As a result, the snowball effect is expected to help reduce the debt ratio.

Table I.9:
Euro area debt dynamics

	Average 2006-13	2014	2015	2016	2017	2018	2019	2020
General government gross debt ratio[1] (% of GDP)	**79.7**	**94.2**	**92.1**	**91.2**	**88.9**	**86.9**	**84.9**	**82.8**
Change in the ratio	3.1	0.3	-2.1	-0.9	-2.3	-2.0	-2.0	-2.0
Contributions to the change in the ratio:								
1. Primary balance (reversed sign)	**0.6**	**-0.1**	**-0.3**	**-0.6**	**-1.0**	**-1.2**	**-1.0**	**-1.1**
2. Snowball effect[2]	**1.4**	**0.5**	**-0.9**	**-0.4**	**-1.1**	**-1.2**	**-1.2**	**-1.1**
Of which:								
Interest expenditure	2.9	2.6	2.3	2.1	2.0	1.9	1.8	1.8
Growth effect	-0.5	-1.3	-1.9	-1.8	-2.1	-1.8	-1.6	-1.4
Inflation effect	-1.1	-0.9	-1.3	-0.7	-1.0	-1.3	-1.5	-1.4
3. Stock-flow adjustment	**1.1**	**-0.1**	**-0.9**	**0.1**	**-0.2**	**0.4**	**0.2**	**0.2**

[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.

Graph I.62: **Gross debt development: change drivers, euro area**



9. MACROECONOMIC POLICIES IN THE EURO AREA

Monetary conditions in the euro area remain very accommodative, overall. Based on the standard technical assumptions,(58) short-term money market rates will remain unchanged for the remainder of 2018 before increasing gradually in 2019 but they should remain very low overall in both nominal and real terms. In addition, a further gradual increase in long-term inflation expectations should keep real long-term financing costs negative. As regards the fiscal policy stance, as measured by the change in the structural budget balance, it turned broadly neutral in 2015 and is expected to remain so in 2018. In 2019, the aggregate fiscal policy stance of the euro area is set to become slightly expansionary.

Monetary conditions are expected to remain accommodative

The assumed gradual pace of monetary policy normalisation by the ECB, in conjunction with continued economic growth in the euro area and gradually strengthening core inflation should put some upward pressure on nominal rates over the forecast horizon. Nonetheless, given that rates are low at present and that the rate of normalisation is expected to be only very gradual, financing conditions in the euro area should remain very loose by historical standards. Accordingly, nominal long-term rates, which have decreased somewhat since the spring, started to pick up again in August and September and are expected to continue to trend up modestly. The high stock of assets purchased under the Expanded Asset Purchase Programme (EAPP) in the Eurosystem's balance sheet, in combination with the continued reinvestment of maturing securities, should ensure that nominal long-term rates stay low, overall.(59) On the short end of the yield curve, high excess liquidity should keep short-term money market rates at very low levels and support favourable lending conditions further on. Indeed, in the money market, the overnight rate (EONIA) has continued to trade only 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 has stayed near its record lows since spring.

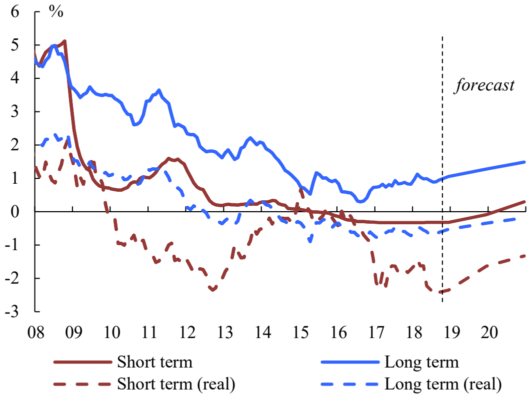
In real terms, short-term rates have decreased considerably since the end of the first quarter of 2018, reflecting the rise in headline inflation since

(58) The interest rate assumptions underlying the forecast are market-based; nominal exchange rates are assumed to remain constant with respect to a given base period. For details, see Box I.5.

(59) 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.

May (see Graph I.63). [60] Real long-term interest rates, which have been negative since mid-2014, decreased somewhat in the second quarter before edging higher again in August and September. This behaviour mirrors the developments in nominal rates that were amplified somewhat by opposite movements in longer-term inflation expectations.

Graph I.63: **Euro area interest rates**



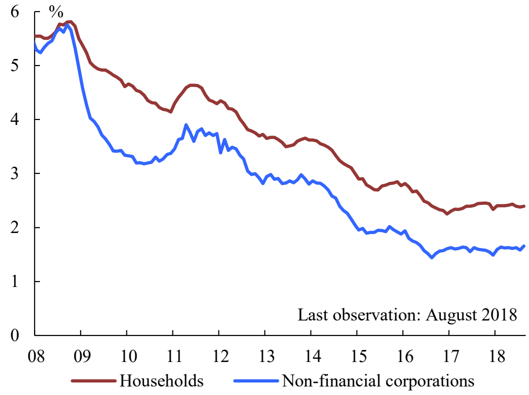
Short term rate: 3M Euribor; Long term rate: 10Y interest swap.

Looking ahead, overnight rates are assumed to remain close to current levels until the second quarter of 2019 and to increase rather gradually thereafter, as suggested by EONIA forward rates. At the time of writing, markets had fully priced in a 10 bp. rate hike only for autumn 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 at least through the summer of 2019. As inflation is expected to remain at its current level for the remainder of the year and decrease somewhat over the course of 2019 and 2020, this should lead to a roughly flat profile for real short-term interest rates for the remainder of 2018, and a gradual increase in the following years. Nonetheless, real short-term rates should remain clearly negative. At the same time, forward rates suggest a continued gradual rise in nominal long-term rates over the forecast horizon, which should also translate into higher, but still negative, real long-term rates, as long-term inflation expectations increase at a much slower pace.

[60] 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.

The transmission of these developments to nominal financing conditions in the non-financial private sector is captured by the composite credit cost indicators (CCCI) [61] for non-financial corporations and households (see Graph I.64), for which developments at the long end of the term structure typically dominate. In line with the gradual changes in nominal money market rates, developments in credit costs have been rather muted since the spring. While credit costs have decreased marginally in net terms for households on account of slightly lower rates on housing loans, the CCCI for non-financial corporations has edged up marginally from very low levels, reflecting both an increase in corporate sector bond yields and somewhat higher bank lending rates for medium-term loans.

Graph I.64: **Composite credit cost indicators, euro area**



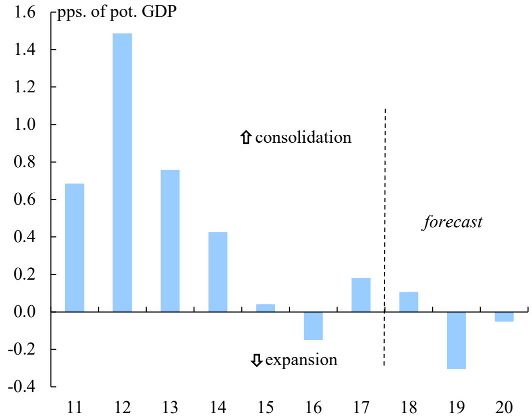
Sources: ECB, Bloomberg, own calculations.

Fiscal policy broadly neutral in 2018 and slightly expansionary in 2019

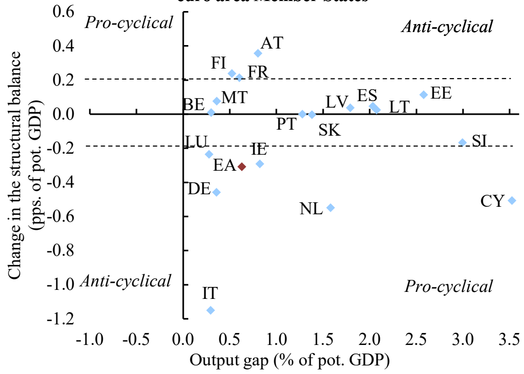
Following the strong consolidation achieved between 2011 and 2014, the fiscal policy stance in the euro area has been neutral overall since 2015 and is expected to remain broadly so in 2018. In 2019, the euro area fiscal policy stance is projected to become slightly expansionary (see Graph I.65).

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

Graph I.65: **Change in the structural balance, euro area**



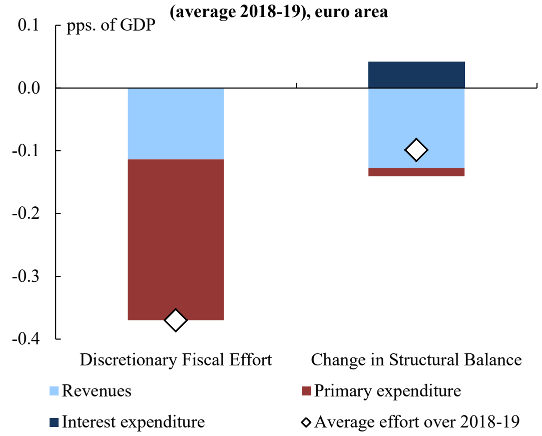
Graph I.67: **Change in the structural balance vs. output gap, 2019, euro area Member States**



Note: Greece is outside the chart area with output gap of -3.8 and change in the structural balance of -1.7

The discretionary fiscal effort, [62] an alternative indicator to assess the fiscal policy stance shows a slightly expansionary fiscal stance between 2018 and 2020. The negative fiscal effort mainly reflects discretionary revenue cuts, also visible in the reduction in the structural revenue ratio (see Graph I.66). Moreover, primary expenditure is set to increase more than medium-term potential growth.

Graph I.66: **Structural balance vs. discretionary fiscal effort (average 2018-19), euro area**

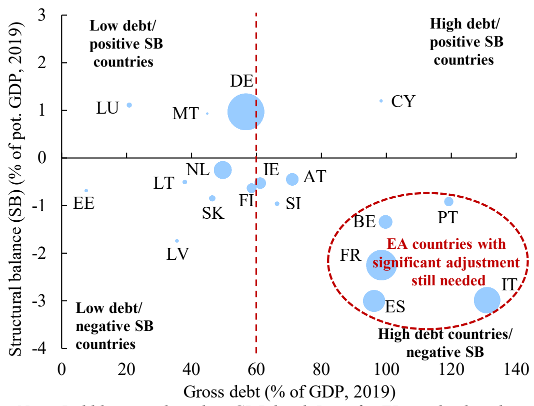


Regarding the distribution of the fiscal stance, eleven euro area Member States are projected to have a neutral or broadly neutral fiscal stance combined with a positive output gap in 2019 (see Graph I.67). Looking at the five largest euro area Member States, France and Spain are set to keep a broadly neutral fiscal stance, while Germany and the Netherlands are expected to use part of their fiscal space to support growth. A loose fiscal stance is projected in Italy.

[62] 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.

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 2019 and thus, pending adjustment needs (see Graph I.68).

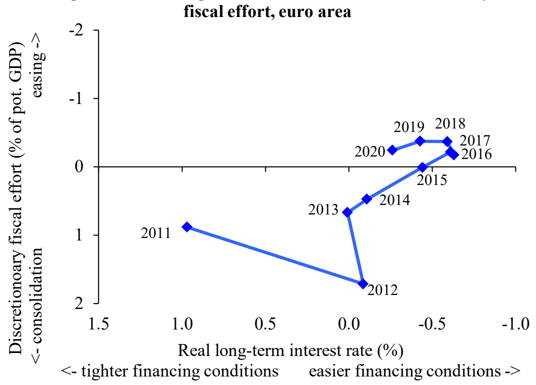
Graph I.68: **Structural balance vs. government debt, 2019**



Note: Bubble size is based on GDP level. Data for EL not displayed.

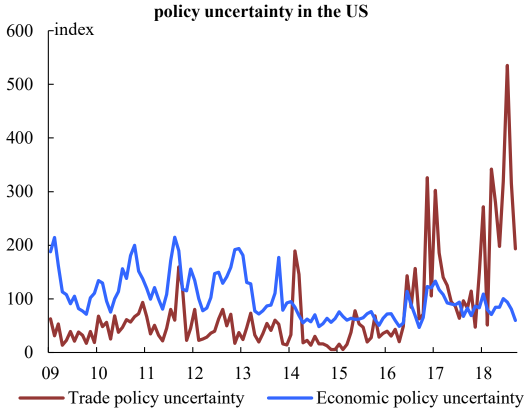
The policy mix in the euro area in 2018 reflects the interplay between financing conditions and fiscal policy (see Graph I.69). On the monetary side, the additional measures taken by the ECB since the end of 2014 have exerted a significant downward pressure on nominal long-term rates in recent years and real long-term interest rates are anticipated to remain in negative territory over the forecast horizon. However, monetary easing has only been partially transmitted to real rates, as long-term inflation expectations also declined over the same period and only started to pick up towards the end of 2016. Meanwhile, the continued appreciation of the euro in recent years has had a slight tightening effect on broader monetary conditions in the euro area.

Graph I.69: **Real long-term interest rates and discretionary fiscal effort, euro area**



Note: Horizontal axis centred at +1.5, which is broadly in line with potential output growth over the forecast horizon.

Graph I.70: **Economic policy uncertainty and trade policy uncertainty in the US**



Source: Baker, Bloom and Davis at www.PolicyUncertainty.com.

For 2018, average real long-term rates (derived from the 10-year swap rate deflated by inflation expectations) are expected to be only slightly higher than in the previous year. They are expected to increase further in 2019 in the context of monetary policy normalisation, albeit at a gradual pace. Thus, overall financing conditions should remain very supportive. At the same time, the overall fiscal policy stance is expected to remain slightly supportive for growth.

10. RISKS

The EU economy is facing a very high level of uncertainty, including with respect to economic policies and future trading relationships. At the same time, the downside risks surrounding the central scenario are characterised by a high degree of interconnectedness, which could magnify their impact on the EU economy. These risks are more likely to materialise in 2020 than before. Overall, risks to the growth outlook are skewed to the downside.

Increasing uncertainties could weigh more heavily on economic growth

Uncertainties have increased since the start of the year, mainly with respect to trade policies and the future of multilateralism. The latter is evident in the US where trade policy uncertainty has substantially increased as trade rhetoric escalated and trade tensions intensified in 2018 (see Graph I.70). Furthermore, the upcoming electoral cycles in the US create some uncertainty with regard to the US fiscal policy stance in 2020.

These uncertainties are already weighing on economic growth in the euro area, but it cannot be excluded that the effects could turn out to be stronger than currently expected.

Uncertainty affects various segments of the economy, including investment where it could lead companies to delay or reduce investment spending, and private consumption, where consumers could increase precautionary savings. The negative impact of uncertainty on investment could lower the efficient allocation of resources as the most productive firms abstain from expanding; market entry of new firms is delayed; or production chains, particularly cross-border chains, are reconsidered in anticipation of distortionary trade policy decisions, for example.

While the central scenario takes into account all effects that are sufficiently assessable, uncertainty about the magnitude and timing of further protectionist measures and counter measures means that not all potential effects are incorporated. Thereby the elevated uncertainty adds to the margin of errors that is unavoidably involved in all macroeconomic forecasts.

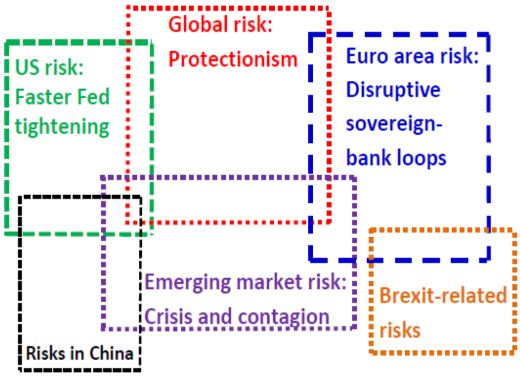
Downside risks are highly interconnected…

Since the forecast in spring, some risks have fully or partly materialised and entered the central scenario, such as the introduction of additional protectionist measures. Nevertheless, in autumn, the risks to the GDP growth forecast are wider than before and they remain tilted to the downside. The main downside risks to the economic growth forecast are closely interconnected, and could amplify each other.

Risks to the growth projections originate from several major sources: (a) In the US, an overheating in the near-term and a faster monetary tightening as well as an abrupt reversal of fiscal policy in 2020, could lead to a sharper deceleration of the economy; (b) In emerging markets financial turmoil could spill over more widely if a sharp tightening of global financial conditions were to raise debt servicing costs and increase refinancing risks, particularly in countries with large dollar-denominated debt, which could lead to capital outflows that would damage growth and financial stability with possible contagion effects to Europe; (c) Across countries, a further escalation of trade conflicts could weigh on trade flows and distort cross-border production links; (d) In China, several triggers could derail the economic rebalancing towards a more services and consumption-based growth model, including the effects of trade tensions and political instability linked to a further increase in debt in a context of already high public and corporate debt; (e) In the euro area, there are risks from financial tensions linked to the resumption of sovereign-bank loops; and (f) In Europe, the outcome of the Brexit negotiations could lead to a more disruptive impact on the EU-UK trade relationship than currently envisaged under the purely technical assumption on trade relations after the UK's exit from the EU.

These areas are closely related and the risks, should they materialise, could not only trigger the materialisation of other risks, but could also amplify each other (see Graph I.71). With vulnerabilities in a number of EU Member States linked to high levels of public and private debt, and in some cases, impaired bank balance sheets, the impact on economic growth could be large.

Graph I.71: **Interrelated risks surrounding the central scenario of the autumn 2018 forecast**



For example, overheating in the US could lead the Fed to tighten monetary policy faster than assumed. This could alter the risk attitude of investors with detrimental effects on the US economy given the high level of corporate leverage. It would also hit emerging market economies and result in negative spillovers to advanced economies. The ensuing deterioration of the US current account could also lead to a further escalation of trade disputes. This could particularly hit China, where high and rising corporate debt represents a financial fragility, which could be further aggravated if Chinese authorities respond by carrying out domestic stimulus or depreciate the currency in response to foreign trade protectionism. The attempt to shore up growth via domestic policies would heighten the risk of a disorderly adjustment. Such shocks could add up and negatively impact on global trade and activity, disrupting cross-border supply chains.

As a relatively open economy with strong trade links and banks exposed to emerging markets, the EU would suffer. A key transmission channel from the US to Europe could operate via term premia, which are usually highly correlated across sovereigns. While the US monetary tightening cycle has so far seen a compression of term premia to the lowest levels in a decade, a sudden rise in US term premia could also impact on long-term interest rates in Europe and thereby negatively affect interest-rate sensitive spending decisions in Europe.

As regards rising protectionism and the retreat from multilateralism, the central scenario of the forecast assumes that a further escalation of trade disputes will be avoided. But tariffs in place so far may only be the tip of the iceberg relative to those under review or threatened. Non-tariff trade barriers (e.g. rules on the production of goods) and the size of tariff rates come to mind, and even threatened tariffs can have a negative impact. They would challenge the international production fragmentation that has been one of the most important features of globalisation in recent decades. [63] Additionally imposed tariffs or higher tariff rates would not only have a direct impact on global growth, they could also exert negative effects via secondary transmission channels that amplify the negative impacts of an escalation in a

(63) Empircial studies of the quantitative impact of supply chain disruptions are rare; some are related to natural disasters, e.g. A. Kondo (2018). 'The effects of supply chain disruptions caused by the Great East Japan Earthquake on workers'. *Japan and the World Economy* 47, pp. 40–50.

tit for tat trade war. Such secondary transmission channels via global supply chains have the potential to substantially amplify negative drags from tariffs, even if the nominal amounts are low.

In the euro area, overly expansionary fiscal policies insufficiently addressing potential growth objectives could create doubts about fiscal sustainability in high-debt countries. Concerns about sovereign debt paths risk fuelling a decompression of risk premia and could lead to a more general repricing of risks that could hit sovereigns and spread through the banking system.[64] Such a risk reappraisal could cause sovereign-bank loops[65] between vulnerable banks, indebted sovereigns and weak economies to take hold in some high-debt euro area countries, most notably Italy, as financing costs for the banking sector would increase and the repair of bank balance sheets would be hampered. Although unconventional monetary policy in the euro area has altered the link between fundamentals and spreads,[66] sovereign-bank loops could hurt the real economy via higher interest rates and reduced credit supply due to increased leveraging needs for banks. Moreover, such events could hurt economic sentiment, which would further weigh on economic activity and could imply that measures taken with the aim of stimulating economic activity could actually have an adverse impact.

Given the ongoing negotiations on the terms of the UK's withdrawal from the EU in March 2019, and a proposed transition period until the end of 2020, the forecast for 2019 and 2020 is based on the purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. The uncertainty around the future status of the UK outside the EU is expected to weigh on UK growth. There are large downside risks to the forecast, particularly in the case of a no deal scenario. The results of relevant studies generally show that Brexit is a lose-lose situation economically. As there is no frictionless trade outside the EU customs union and single market, trade between EU27 Member States and the UK will be affected by Brexit. Under any scenario, the impact is expected to be much larger on the UK than on the EU27 overall. The EU27 is preparing for any scenario.[67]

...widens the range of possible outcomes...

In addition to the aforementioned strong downside risks that surround the global outlook, including the euro area outlook, a number of risks identified in previous forecast rounds remains in place. They include heightened geopolitical tensions (e.g. Syria, Iran, Ukraine), which could be enhanced by the strict imposition of secondary sanctions on EU-based companies in the cases of Russia and Iran.

Moreover, some of the technical assumptions underlying the forecast also constitute risks. Oil prices, for instance, could rise stronger than assumed due to export declines in some oil producing countries, for example Iran, in response to US sanctions and secondary sanctions against Europe.

There are fewer elements that could cause an upside surprise. Labour market reforms and migration might have expanded labour supply more than currently estimated, which would widen the scope for employment growth and make labour shortages a less binding supply-constraint than currently expected in the central scenario. The past increase in capacity utilisation rates could also have a stronger impact on investment than currently expected. Moreover, a reduction of trade-

(64) Empirical studies found an asymmetric causality from sovereign bonds to other bonds; see P. Augustin et al. (2018). 'Sovereign to corporate risk spillovers'. *Journal of Money, Credit and Banking* 50:5, pp. 857–91; for an analysis including the largest euro area economies, see M. González-Sánchez (2018). 'Causality in the EMU sovereign bond markets'. *Finance Research Letters* 26, pp. 281–90.

(65) A recent analysis concluded that correlation between banks and their sovereigns decreased after the launch of Banking Union in November 2014, but that a more complete breaking of the feedback loop remains conditional on the completion of Banking Union; see Bank of Finland (2018). 'How has the feedback loop between banks and sovereigns changed since the crisis?'. *Bank of Finland Bulletin* 1, pp. 38–43.

(66) The ECB's unconventional monetary policy has been found to have reduced the responsiveness of spreads to their fundamental determinants, see e.g. A. Afonso et al. (2018). ''Whatever it takes' to resolve the European sovereign debt crisis? Bond pricing regime switches and monetary policy effects'. *Journal of International Money and Finance* 86, pp. 1–30. On policies intended to stop the sovereign-bank loop, see e.g. Hartmann, P. and F. Smets (2018). 'The first 20 years of the European Central Bank: monetary policy'. *Brookings Papers on Economic Activity* 2, Fall (forthc.).

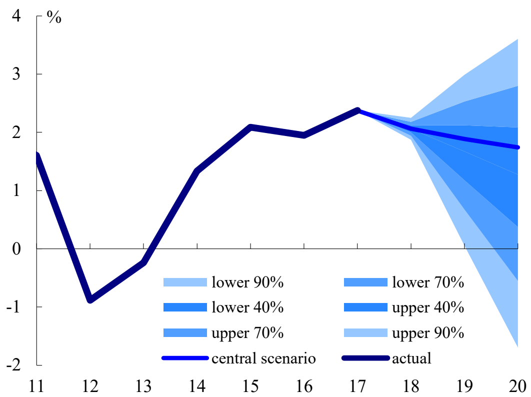
(67) With views to mitigating the consequences of Brexit, the Commission has issued more than 70 notices inviting stakeholders to prepare for the consequences of Brexit. Furthermore, on 19 July 2018, the European Commission adopted a Communication on preparing for the UK's withdrawal from the EU which explains the possible consequences of a no-deal scenario and the importance of contingency planning. See https://ec.europa.eu/info/brexit/brexit-preparedness_en and http://europa.eu/rapid/press-release_IP-18-4545_en.htm.

related uncertainties could release stronger growth momentum than currently envisaged. The recent agreement on a successor to NAFTA, the US-Mexico-Canada trade agreement (USMCA) provided evidence that a reduction of trade tensions is a possibility that cannot excluded.

...and implies that risks to growth are tilted to the downside.

To assess the importance of risks the possible impact of their materialisation is crucial. In that regard, the more than five years of uninterrupted economic growth and the improvements made to the architecture of the EU and the euro area have raised the resilience of the economy against shocks. Gauging against this background the aforementioned upside and downside risks, two results emerge: the dominance of downside risks and the relatively wide band of possible outcomes surrounding the central scenario. This is visualised in the fan chart (Graph I.72), which shows the uncertainty around the central scenario for euro area GDP growth with different confidence intervals.

Graph I.72: **Euro area GDP forecast - Uncertainty linked to the balance of risks**



The very high degree of uncertainty of the central projection is reflected by the large width of the fan chart, most notable in 2020, and the depicted skew of the distributions of the forecasts illustrates the balance of risks of the forecasts, which is seen on the downside.

...whereas risks to the inflation outlook appear broadly balanced.

Risks to the inflation outlook have changed since spring, but their balance is considered to be roughly even. Some of the formerly identified upside risks have already partly materialised (e.g. a sharper increase of oil prices) and thus entered the central scenario, whereas other risks have become more pronounced, such as the price pressures from tariffs.

On the upside, a faster-than-expected recovery, or substantially higher oil prices, which could come from geopolitical tensions in the Middle East or new sanctions against oil-exporting countries, could push HICP inflation in the EU beyond the forecast levels. A faster pick-up of inflation could also originate from bottlenecks in the labour market that push wages much higher.

Downside risks relate to the impact of less dynamic economic growth, which could negatively affect the expected pick-up of wages and slow the build-up of domestic price pressures more than incorporated in the central scenario. The complex web of downside risks surrounding the economic outlook could, if they materialise, dampen the upward movement of energy and commodity prices, which would reduce import prices and keep a lid on external price pressures.

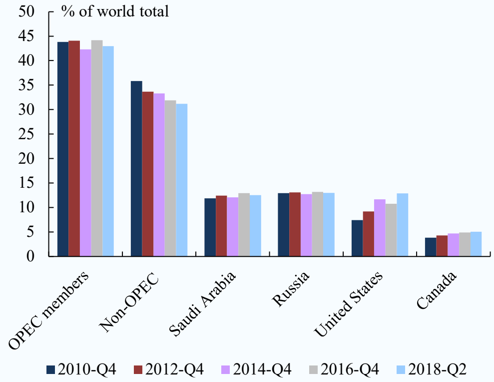
Box I.1: How resilient is the economy to oil price shocks?

Oil prices have increased substantially since the publication of the spring forecast in May 2018. The impact of price fluctuations, which may be substantial over a relatively short period of time, matter for the euro area outlook as oil prices affect the economy through several channels. [(1)] This box overviews the developments on the oil market over the last decade, focussing on the emergence and effects of shale oil production. The response of conventional oil producers to the new source of competition, as well as the outlook for oil prices also are discussed. Finally, an analysis of the impact of an oil price shock (which broadly matches the magnitude of the increase in oil prices since the spring forecast) on euro area GDP growth and inflation is presented. Understanding oil price movements and their effects on macroeconomic variables in the recent past has important lessons for forecasters as it should allow them to better assess the impact of future shocks.

The rise of unconventional oil and OPEC's response

A prolonged period of high oil prices between 2010 and mid-2014 led to a surge in oil production and some redistribution of oil market share among producers, most notably towards unconventional oil [(2)] producers in the US and Canada. The US, the world's largest oil consumer, almost doubled crude oil production from 5.6 million bbl/day in 2010 to 10.5 million bbl/day in 2018, while in the same period, production in Canada rose from 2.9 million bbl/day to 4.1 million bbl/day. Altogether, the two countries have increased their combined market share of global oil production from 11% in 2010 to 18% in 2018, and the US now rivals Saudi Arabia and Russia as the world's top global oil producer (see Graph 1). The increase in shale oil (and gas) production since 2010 has had a lasting effect on the US energy mix and resulted in growing US oil exports (which until 2015 had been prohibited for national security reasons).

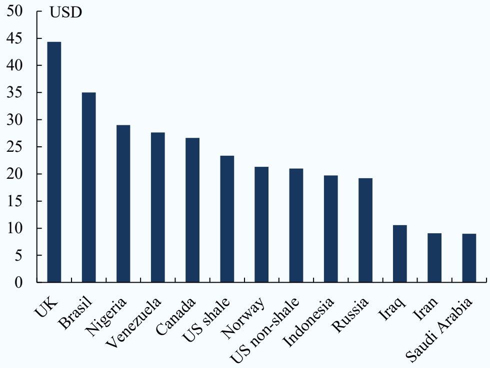
Graph 1: **Oil production**



Source: US Energy Information Administration (EIA).

The rise of unconventional oil in North America influenced OPEC's decisions on whether to target price stabilisation or market share. In 2014, OPEC producers agreed to defend their market share by increasing output, which combined with easing of geopolitical supply disruptions, led to a period of lower oil prices, despite robust global demand. However, advances in technology led to significant reductions in shale oil and gas production costs to an average of USD 25/bbl in 2016. This significantly boosted the competitiveness of the sector (see Graph 2). As a consequence, high-cost production of conventional oil in some non-OPEC countries (e.g. UK, Brazil, Nigeria) declined. Production of shale oil also proved more flexible than that of conventional oil due to its lower initial investment that allowed producers to react more quickly to changing prices.

Graph 2: **Average cost of producing a barrel of oil and gas in 2016**



Source: Rystad Energy UCube.

By the end of 2016, OPEC's strategy of targeting market share had proved effective but costly to the budgets of many of its members, as the efforts to

(1) For a detailed analysis of the impact of oil price changes on euro area see European Commission (2015). 'European Economic Forecast – Winter 2015'. *European Economy, 1/2015, Section I.1.*

(2) Unconventional oil consists of a wider variety of liquid sources including oil shales. oil sands, extra heavy oil, gas to liquids and other liquids.

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Box (continued)

reduce their fiscal break-even prices [3] were not as effective and remained mostly above USD 70/bbl. This led to a return to a price stabilisation strategy and OPEC producers together with eleven non-OPEC oil producers led by Russia, agreed to cut output (OPEC+ agreement). The deal, together with a broad-based upswing in the global economy, helped oil sustain prices above USD 50/bbl.

Reasons for the recent surge in oil prices

Since mid-2017, oil prices have been increasing due to a combination of factors, including a robust growth of global demand, compliance with the OPEC+ agreement, growing tensions in the Middle East, unplanned supply outages in Angola, a sustained plunge of supply from Venezuela, and the US withdrawal from the Iran nuclear deal, which raised concerns about the future Iranian oil suppliesfuture supply from Iran. Most recently, Brent prices rose above USD 80/bbl, as OPEC producers agreed not to increase output soon and as severe weather conditions were threatening to disrupt production in the Gulf of Mexico. At the same time, the US is not yet in a position to turn on the oil tap when the global economy needs it. Only Saudi Arabia, the United Arab Emirates, Kuwait (OPEC), and Russia currently hold enough spare production capacity to offset shortfalls from major lasting supply disruptions.

Question marks about the sustainability of the US shale boom have also helped sustain higher prices. Increasing costs due to labour and material shortages have started to weigh on the economic viability of the sector. A tightening US labour market means that trucking and labour shortages in the Permian Basin are increasingly raising producer cost pressures. In addition, growing costs for the immense amounts of sand and water needed for fracking is also weighing on the profitability of the sector. Infrastructure constraints in the Permian Basin are also making it difficult to get barrels out of the US, as output has overwhelmed pipelines that connect the Texas desert to markets along the Gulf Coast and abroad. As a result, US local prices are declining due to accumulating land-locked shale oil, increasing the spread between the WTI (the main price benchmark for US oil) and Brent. It is likely that additional oil supplies from the US could reach international markets only from the second half of 2019 when new pipelines catch up with surging production in the area. [4]

Rising oil prices have also affected gas prices, which globally have picked up over the last six months. In Europe, however, the link between oil prices and gas prices has weakened due to the significant shift away from oil-indexation and towards hub prices: the share of oil-indexation in gas price formation has decreased from 78% in 2005 to 28% in 2017. [5]

Who benefits and who loses from higher oil prices?

A sustained recovery in oil prices above USD 70/bbl would most benefit conventional oil-exporting countries, where higher oil prices are associated with higher exports and improving current accounts and fiscal positions. Elevated oil prices would also support the medium-term expansion of US shale producers and necessary upstream investments. In particular, US shale producers need prices above USD 65/bbl for further output expansion to be profitable. [6]

By contrast, the impact of higher oil prices on the rest of the world (oil importers) is expected to be negative. In general, higher oil prices affect oil-importing economies through higher inflation, which reduces household real disposable incomes and consumption, as well as through higher production costs in energy-intensive sectors of the economy, potentially putting pressure on corporate profit margins and affecting investment. Energy taxes (or subsidies) may put a wedge between the import price and the domestic price and thereby reduce the domestic price swings. The impact of higher prices also varies considerably depending on the energy efficiency of an economy. In some vulnerable oil importing emerging markets, recent currency depreciations against the US dollar amplify the impact and further widen their current account deficits. This is particularly the case in India and South Africa and to some extent Indonesia and the Philippines, where higher oil prices accentuate the risks related to the funding of their current accounts and put further pressure on their currencies. In others, governments face difficult policy choices, such as whether to subsidise the higher fuel price at the expense of

(3) The price of crude oil needed to meet the spending plans and balance the government budget of an oil-exporting country, in which oil revenues constitute a part of government revenues.

(4) Source: Oil 2018 - Analysis and Forecasts to 2023, International Energy Agency.

(5) Source: Wholesale Gas Price Survey 2017, International Gas Union.

(6) Source: World Energy Investment 2018, International Energy Agency.

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Box (continued)

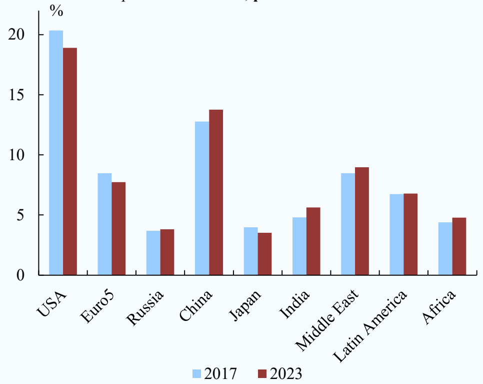
aggravated fiscal positions (as they have in Brazil and Malaysia) or let elevated oil prices take a hit on domestic demand.

The outlook for oil prices

Over the forecast horizon, upward price pressures are expected to be tempered by growing oil production in Canada and the US and moderating demand as global growth is slowing. However, additional supply from the US is likely to reach international markets only in the second half of 2019 due to pipeline capacity constraints and will therefore not be a mitigating factor until then. Moderating global oil demand growth, in line with slowing global economic growth, is also expected to weigh on prices. Substantial uncertainties and possible price fluctuations around this scenario relate to the scale of the reduction in Iranian crude exports, the willingness and ability of Saudi Arabia to bridge this gap, the volatility of Libyan and Venezuelan production, as well as the evolution of demand for oil as trade tensions intensify and growth in emerging markets softens. Beyond 2020, additional upward price pressures could arise if investment into replacing reserves of conventional oil production does not pick up over the forecast horizon.

In the long-term, most of the net growth in oil demand should come from emerging and developing markets outside the OECD, but the overall growth rate of oil demand will slow. Growing populations and rising income levels in emerging and developing countries will be the main driving factor behind oil demand in the future, as advanced economies reduce their dependence on fossil fuel energy in line with environmental policies, the rapid deployment and falling costs of renewable energy, and increased energy efficiency (see Graph 3).

Graph 3: **Oil demand, percent of world total**



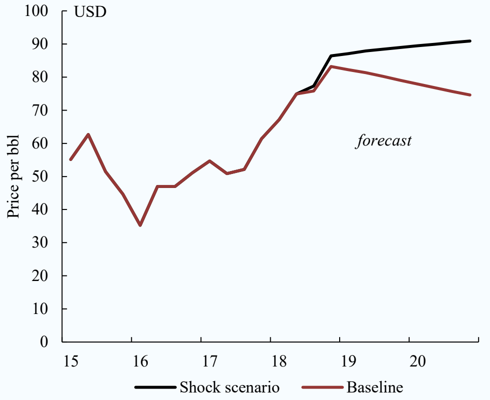
Source: IEA - Oil 2018 - Analysos and Forecasts to 2023.

Impact of oil price increases on the euro area

As a net oil importer, the macroeconomic impact of higher oil prices on the euro area is negative. The costs of industries that use oil and petroleum products as inputs are will rise, which in turn may affect product margins or be transferred to final consumers through higher prices, leading to upward pressure on inflation. In parallel, the increase in fuel prices is weighing on the real disposable income of households.

The magnitude of the direct effects of increasing oil prices may be quantitatively estimated by structural macroeconomic models or more flexible vector autoregressive ones. Simulations of a 20% cumulative increase [7] in Brent oil prices [8] over the forecast horizon [9] suggest a relatively limited dampening of growth and a relatively limited boost to inflation.

Graph 4: **Brent oil price assumptions used in the simulation**



First, a 20% cumulative increase in oil prices is estimated to shave off around 0.1 pps. of euro area GDP growth in 2019, while the negative impact would rise to about 0.2 pps. in 2020 (see Graph 5).

(7) A 20% cumulative increase lifts the assumed oil prices so that the difference between the assumption in the forecast and the oil prices used in the simulation reach 20% by the end of the forecast horizon (see Graph 4).

(8) A 20% increase in Brent oil prices until 2020 corresponds approximately to the increase in the assumed oil prices between the spring and autumn forecasts.

(9) For the simulation, a large scale Bayesian vector autoregressive (BVAR) model is used, developed for conditional forecasting on euro area developments. For a detailed description of the model, see Bańbura, M., D. Giannone and M. Lenza (2014). 'Conditional forecasts and scenario analysis with vector autoregressions for large cross-sections', *ECB Working Paper Series* 1733.

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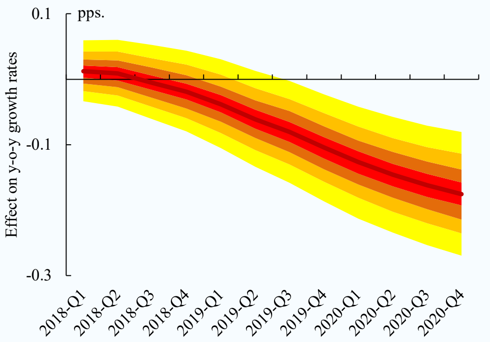
Box (continued)

The dampening effects on GDP mainly take place through private consumption. [10]

Second, the estimates suggest that rising production costs, together with the direct effect of higher oil prices on consumer prices would translate into only a marginal rise in euro area HICP inflation rates of about 0.1 pps. in 2019 and 0.2 pps. in 2020 (see Graph 6).

Graph 5: **Impact of a cumulative 20% increase in oil prices on euro area GDP growth**

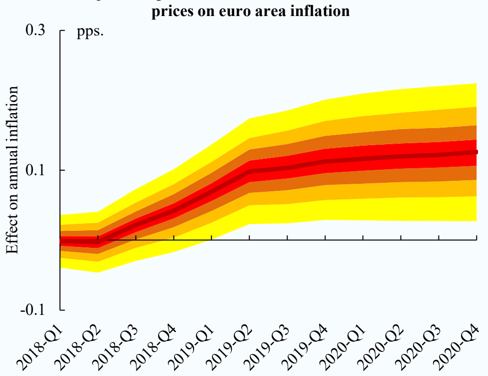


Source: Own calculations.

The results of the above simulation exercise match the impact of the oil price shock estimated with the Global Multi-country model. [11] Across different specifications of the structural macroeconomic model, the impact on inflation for both 2019 and 2020 ranges between 0.1 and 0.2 pps. For GDP, the profile of the negative impact is different, with 2019 being affected more than 2020, but the magnitude is broadly the same across the different models and specifications.

In conclusion, over the past several years, the emergence of shale oil production in North America led to shifts in OPEC's output strategy and that has been a key factor behind oil price fluctuations. The most recent surge in oil prices reflects strong demand and tightening supplies, the latter also driven by geo-political factors in the Middle East. In the short-term, oil prices are expected to peak and then gradually decline on the back of moderating global demand and additional US supplies coming on stream in late 2019. Beyond 2020, additional upward price pressures could arise if investment into oil production fail to pick up in the coming years. In the long-term, the rise of efficiency improvements and clean power sources in the global energy mix, as well as population and income growth will be the main factors determining oil demand.

Graph 6: **Impact of a cumulative 20% incrase in oil prices on euro area inflation**



Source: Own calculations.

The impact of the oil price shock on euro area GDP growth, according to simulation results, is relatively limited but not negligible. The size of the simulated impact on inflation, which is rather on the low side, [12] may be partially explained by the gradually increasing nature of the assumed oil price shock. [13] Also, despite not being captured in these frameworks, the lower [14] and increasingly nonlinear [15] sensitivity of euro area GDP growth and inflation to oil price volatility compared to earlier decades may play a role in explaining its smaller-than-expected effect on these variables.

(10) The model does not capture second round effects that might take place through exports to emerging market economies or other advanced economies, which are as well affected by the oil price increase.

(11) The Global Multi-country model (GM) is an estimated multi-country DSGE model developed by the European Commission. For further details, see Albonico, A., L. Calès, R. Cardani, O. Croitorov, F. Ferroni, M. Giovannini, S. Hohberger, B. Pataracchia, F. Pericoli, R. Raciborski, M. Ratto, W. Roeger and L. Vogel (2017). 'The Global Multi-Country Model (GM): an estimated DSGE model for the euro area countries'. *JRC Working Papers in Economics and Finance 10.*

(12) For 2019, the simulation implied 0.1 pps. increase in the pace of annual inflation is somewhat lower than the 0.2 pps. upward revision in the forecast compared to spring. Though, the oil price assumptions increased more (by 26% in USD terms from the SF18) for 2019 than assumed in the simulation.

(13) A sudden, frontloaded oil price shock where oil prices increased by 20% at the beginning of the shock and remain broadly at that level over the next two years, would affect more 2019 than 2020.

(14) The structural factors include a long-term reduction in the energy and oil intensity of global production as well as in the OECD countries (see e.g. Key World Energy Statistics 2017). This reflects advances in technology, conservation efforts, energy and fuel efficiency.

(15) Hahn, E. and Mestre, R. (2011). 'The role of oil prices in the euro area economy since the 1970s'. *ECB Working Paper Series 1356.*

Box I.2: **Implications of higher yields for the banking sector and private sector funding in the euro area**

The European economy has enjoyed very low funding costs over the last several years, with both the public and the private sector benefiting from a very accommodative monetary policy environment and low levels of risk aversion. However, this situation cannot continue forever as funding costs are bound to rise as monetary policy tightens or pockets of risk aversion emerge. The consequences on the real economy would vary considerably according to the nature of the rise in sovereign yields.

In the absence of risk aversion and still sustained nominal economic growth in the euro area, the gradual normalisation of monetary policy signalled by the ECB's intention to end asset purchases this year and possibly start raising rates next year should have a rather modest impact on real interest rates and the real economy. A rise in risk aversion in particular countries, however, could also cause sovereign yields to rise. If this were to happen without any improvement in macroeconomic conditions and/or higher inflation, then the ensuing rise in real interest rates would be more likely to have a significant adverse impact on the economy. Indeed, higher sovereign yields could raise funding costs for the entire economy if they spread to the private sector via banks or directly via bond markets.

During the 2011/2012 euro area sovereign debt crisis three interrelated contagion channels were observed. The first operated between sovereigns and their respective national banking systems (the co-called 'sovereign bank doom loop'), which led eventually banks to charge higher interest rates and reduce lending to the private sector. The second concerned the bond markets, with higher sovereign yields leading to higher yields for corporate debt. The third ran cross-country and led to higher funding costs for sovereigns and private sector borrowers in other vulnerable euro area Member States.

Following the sovereign market jitters this year triggered mainly by Italy's budgetary plans, this box examines the state of these contagion channels today and assesses the extent to which the current episode differs from the one in 2011/2012.

The sovereign-bank nexus

The sovereign-bank nexus that prevailed during the euro area crisis has been widely documented in the academic literature. [1] The Bank of International Settlements [2] in 2011 identified four channels through which a higher sovereign risk has a negative impact on financial institutions: (i) losses on holdings of government debt which are mostly national; (ii) lower value of the collateral banks can use to raise wholesale funding and central bank liquidity; (iii) lower ratings for banks following sovereign downgrades; (iv) reduced funding benefits that banks derive from implicit and explicit government guarantees. At the same time, the implicit guarantee offered by governments to national banks produced the reverse causality from banks to sovereigns. [3] There is empirical evidence of both causalities playing a role with variations in time and across countries. Bank bailout events can be a turning point in this causal relationship. Quite intuitively, implicit government guarantees mean that higher credit spreads for banks in trouble lead to higher spreads for sovereign before bailouts while after bailouts, the opposite causality prevails. [4] Overall, credit default swaps (CDS) data for banks and sovereigns over longer periods tend to show that bank risks generally led sovereign risks prior to the crisis while the causality reversed after 2010, when sovereign risks became the main source of bank risk. [5]

The interdependence between banks and sovereigns has gone through several phases. Before the 2007 crisis, there was no significant correlation between banks and sovereigns. After the 2008/2009 global financial crisis, correlations started to emerge and become positive [6] overall. After 2010, during the sovereign debt crisis, banks and sovereigns became

(1) For a broad overview see Fratzscher, M. and M. Rieth (2015). 'Monetary policy, bank bailouts and the sovereign-bank risk nexus in the euro area'. *European Commission discussion paper* 009.

(2) See BIS (2011). 'The impact of sovereign credit risk on bank funding conditions'. *CGFS Papers* No 43.

(3) See Ejsing, J. and W. Lemke (2010). 'The Janus-headed salvation: Sovereign and bank credit risk premia during 2008–2009'. *Economics Letters* 110:1, pp.28-31.

(4) See Alter A. and Y. S. Schüler (2012). 'Credit spread interdependencies of European states and banks during the financial crisis'. *Journal of Banking and Finance,* 36:12, pp. 3444-68.

(5) See S. Yu (2017), 'Sovereign and bank interdependencies - evidence from the CDS market'. *Research in International Business and Finance* 39, pp 68-84.

(6) In some specific cases within short timeframes during the crisis, bailouts and guarantees provided to banks have lowered banks' risk but actually raised sovereign risk reflecting the risk transfer.

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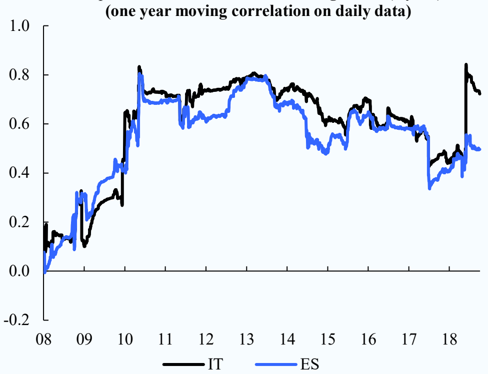
Box (continued)

highly and positively correlated. Such correlations reflect the fundamental-based contagion due to the presence of links through the financial sector or the real economy. A decomposition of the sovereign-bank CDS correlation between common risk factors and domestic or idiosyncratic factors reveals a growing importance of the latter in euro area periphery countries after 2010. [7]

Graph 1 takes the example of the two closest and most representative countries in the euro area periphery in terms of bank sovereign interdependence: Italy and Spain. It confirms that sovereign-bank correlation started to increase rapidly after 2008 and peaked in 2010 at above 0.8. It then followed a progressive decline before May 2018 when a significant bounce occurred in Italy alone. The two countries have hence broken a long history of similarity on this issue with Italy now taking a different path from all other euro area countries, as a result of domestic, idiosyncratic factors.

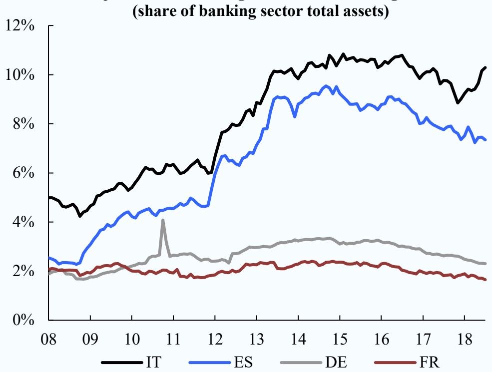
Graph 1: **Domestic bank and sovereign CDS (5 year)** **(one year moving correlation on daily data)**



Source: Bloomberg, own calculations.

One factor still underpinning the strong link between banks and their sovereigns is the domestic bias in banks' sovereign debt holdings. The exposure of banks to their sovereigns has, overall, increased in the euro area's 'peripheral countries' since 2008. Italy and Spain have experienced similar trends, with home biases peaking in 2014 and declining slightly since then. This year, however, the two countries have diverged: Italian banks have increased their holdings of domestic sovereign debt in a context of rising yields (see Graph 2), while Spanish banks have decreased theirs.

Graph 2: **Banks holdings of domestic sovereign debt** **(share of banking sector total assets)**



Source: ECB, own calculations.

A small increase in yields has only limited implications for bank capital ratios. In Italy, for example, a 100 bps. increase in yields leads to an average loss of 4% on banks' sovereign holdings, which account for about 10% of their total assets. This would dent bank capital ratios by about 0.4%. However, a more significant increase in yields and a rising exposure to their national debt would lead to more significant losses. At the same time, a rise in banks' holdings of domestic sovereign debt could take place at the expense of other assets, including loans (substitution effect), as the return on new acquisitions of sovereign debt improves and continues to benefit from the regulatory advantage of zero risk weighting. Such increase in banks' domestic sovereign exposures in response to increases in sovereign yields is no new phenomenon and in fact was widespread during the sovereign debt crisis. It does, however, suggest that banks may have distorted incentives that affect their responses to changes in their own sovereigns' risk. [8]

The bank-sovereign nexus during the euro area sovereign debt crisis led to higher bank interest rates for companies and households as well as lower lending volumes. While demand for loans played a role during the subdued economic growth during the crisis period, the banking sector's capacity and willingness to lend was clearly constrained in the most vulnerable Member States. Banks in these countries required higher interest rates not only because of the higher riskiness of borrowers but also due to their own balance sheet

(7) See Georgoutsos D. and G. Moratis (2017). 'Bank-Sovereign contagion in the Eurozone: A panel VAR Approach'. *Journal of International Financial Markets, Institutions & Money* 48, pp 146-59.

(8) See Battistini N., M. Pagano, S. Simonelli (2014). 'Systemic risk, sovereign yields and bank exposures in the euro crisis'. *Economic Policy* 29:78, pp 203-51.

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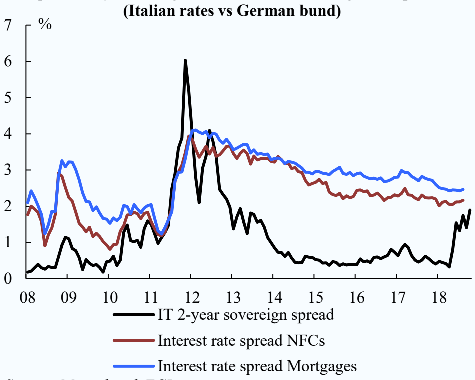
Box (continued)

pressures in the context of tensions in the sovereign debt markets. [9]

So far, the current tensions on the Italian sovereign debt market and the ongoing interplay between the country's sovereign and domestic banks have not led banks to raise interest rates and/or restrictions on loans to households and companies. [10] During the crisis, higher sovereign and bank CDS spreads were rapidly transmitted to retail lending rates. [11]

Graph 3: **Italy: sovereign bond and bank lending rates spreads (Italian rates vs German bund)**



Source: Macrobond, ECB.

This may be because there are a number of significant differences between the present situation and the situation in 2011/2012. First, retail interest rates since the crisis have declined far more slowly than the Italian two-year sovereign yield. This suggests that banks have maintained decent interest margins on retail loans and may explain a possible lag in the substitution effect from bank lending to better-yielding sovereign bonds [12]. Second, while risk premia emerged on banks' equity and bond markets, interest rates on deposits remained unchanged reflecting depositor confidence in the Italian banking sector (see Graph 4). Moreover, since 2012, the deposit base has increased and banks have reduced their reliance on bond financing, leading to a more limited impact from current tensions. Third, the whole euro area economy enjoys currently a robust economic growth, whereas in 2012 it was still reeling from the 2009 economic downturn. This should limit banks' risk perceptions on their lending portfolios to the private sector. Fourth, the ECB's asset purchase programmes for sovereign bonds and corporate bonds have contributed to lower long-term yields in all euro area countries. Also, the ECB's targeted longer-term refinancing operations (TLTROs) are still running. The programme offers long-term funding at attractive conditions to banks in order to ease private sector credit conditions and stimulate bank lending to the real economy. Fifth, European banks, including in Italy, are currently in a far stronger position than they were during the crisis. They are overall much better capitalised and have more stable funding sources, which makes them able to absorb greater losses. Non-performing loans are still high in the most vulnerable Member States but have been on a declining trend for several years. Last but not least, the institutional framework has also changed, with deep regulatory reforms for the European banking sector aimed at addressing the bank sovereign nexus. Europe's banking union has from the outset been politically driven by the need to sever the bank-sovereign vicious circle and allow for the effective transmission of monetary policy. However, while the first two pillars [13] of the banking union have been implemented, the European banking union is not yet complete [14]. To achieve a fully functional banking union, the first two pillars need to be complemented by a credible common backstop to guarantee the credibility of the Single Resolution Mechanism. A European deposit insurance scheme (EDIS) is also needed to further weaken the link between banks and their sovereigns by ensuring that the level of depositor confidence in a bank would not depend on the bank's location.

(9) See Darracq Pariès M., D. Moccero, E. Krylova, C. Marchini (2014). 'The Retail Bank Interest Rate Pass-Through: The Case of the Euro Area During the Financial and Sovereign Debt Crisis'. *ECB Occasional Paper* No. 155.

(10) Latest ECB data for August show broadly unchanged bank interest rates and still rising bank lending volumes in all euro area countries. The latest July 2018 Bank Lending Survey from the ECB also shows no effect from sovereign tensions with ongoing loosening of credit standards in Italy and in the euro area as a whole.

(11) See E. Zoli (2013). 'Italian Sovereign Spreads: Their Determinants and Pass-through to Bank Funding Costs and Lending Conditions'. *IMF Working Paper* 84.

(12) For 10-maturity, the Italian bonds are already yielding more than bank lending.

(13) The single supervisory mechanism (SSM) and the single resolution mechanism (SRM)

(14) See Bruegel paper by Isabel Schnabel and Nicolas Véron: Completing Europe's banking union means breaking the bank-sovereign vicious circle.

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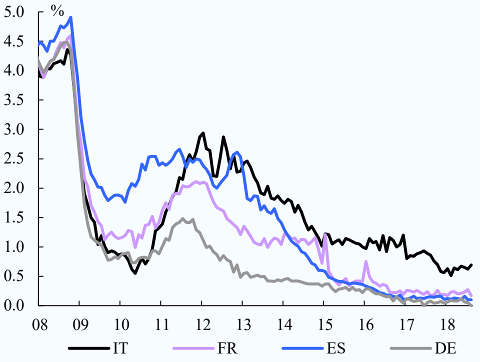
Graph 4: **Bank deposit interest rate (all agreed maturities)**

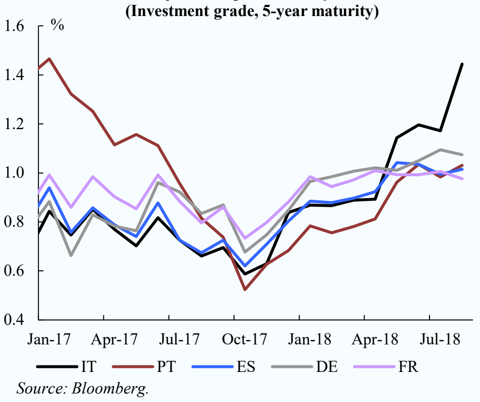


Source: ECB.

Sovereign-corporate bond market contagion

Yield patterns in the euro area's corporate bond markets suggest a contagion from the Italian sovereign to the corporate bond markets. Italian investment grade corporates have faced rising yields over the last few months leading to much higher yields for Italian corporations compared with corporations in other euro area countries (see Graph 5). This suggests an immediate reaction of bond investors who connected the Italian private sector with the country's sovereign. This contrasts with the inertia currently noticeable in the intermediation process of the banking sector. However, corporate bond markets and bank lending are not completely independent, as larger non-financial corporations can chose between the two. Rising funding costs on corporate bond markets should increase corporate demand for bank loans and, *ceteris paribus*, push lending rates higher. Such substitution effects between bank lending and bond markets have taken place since the crisis, with corporates issuing bonds at lower funding costs during periods of higher bank interest rates in several euro area member states.

Graph 5: **Corporate bond yields (Investment grade, 5-year maturity)**

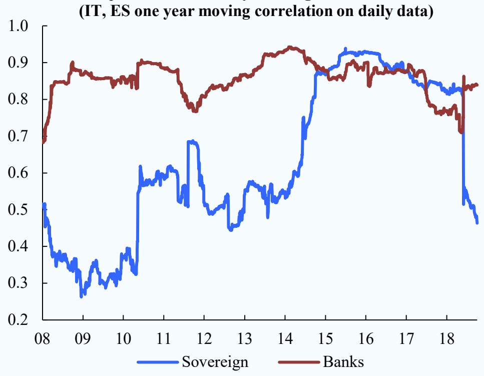


Source: Bloomberg.

Cross country contagion

A particular feature of the recent developments in euro area sovereign debt markets is the absence so far of contagion from the Italian sovereign to other Member States. Looking back, it appears that previously well-integrated bond markets in the euro area have fragmented along national lines during the crisis. Overall, core countries have benefited from flights to quality while peripheral countries have seen rising sovereign yields. When looking only at the euro area periphery, cross-country correlation picked up in 2010 reflecting the upward co-movement in sovereign yields. Since the crisis, the interdependence between the two most similar euro area countries, Italy and Spain, has further increased reflecting the joint reduction in yields, also helped by ECB policy [15] (see Graph 6).

Graph 6: **Cross-country sovereign and bank CDS (IT, ES one year moving correlation on daily data)**



Source: Bloomberg, own calculations.

Following the results of Italy's election earlier this year, a significant decorrelation has taken place between the two sovereigns. At the same time, the high and rising correlation between banks' CDS spreads in the two countries suggests that the perceived riskiness of their respective banking systems remains closely linked. In fact, inter-bank CDS correlations have stayed high since 2008, reflecting the dense network of connections among banks, common risk factors, and the systemic risk of the euro area banking system as a whole. [16] In such a context, a risk factor, even if localised only in one euro area country, has the ability to provoke a more generalised risk aversion in the euro area banking sector.

(15) See Ehrmann M., M. Fratzscher (2017). 'Euro area government bonds – Fragmentation and contagion during the sovereign debt crisis'. *Journal of International Money and Finance* 70, pp 26-44.

(16) See Black L., R. Correa, X. Huang, H. Zhou. 'The systemic risk of European banks during the financial and sovereign debt crisis'. *Journal of Banking & Finance* 63, pp 107-25.

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Box (continued)

Conclusion

The re-emergence of risk aversion for the Italian sovereign debt this year has revealed a number of features as regards the potential contagion effects. While the bank sovereign nexus re-appeared clearly in Italy there is not yet full transmission of the sovereign stress to the private sector bank funding. The numerous differences with the situation that prevailed during the euro area sovereign debt crisis do not allow us to conclude whether this transmission may be prevented or simply delayed. For the moment, the contagion to the non-financial sector appears only via bond markets with higher yields for Italian corporates while the contagion from the Italian sovereign to other euro area sovereigns has not operated.

Box I.3: Euro area GDP growth drivers in 2019 – analysis using a structural model

The real GDP of the euro area is forecast to grow by 1.9% in 2019. This box presents a decomposition of the growth forecast using a structural macroeconomic model. [1] The model features two regions, the euro area and the rest of the world (RoW), and it has been estimated using quarterly data for the period from the first quarter of 1999 to the second quarter of 2018. Estimation of a structural model allows for the identification of shocks, i.e., the exogenous factors that drive the short- and medium-term deviations of the endogenous variables from their long-run trends (including GDP, inflation, domestic demand, and trade), and it provides an interpretation of the dynamics from the perspective of economic theory.[2]

Model-based forecast decomposition

The model-based analysis proceeds in three steps. In the first step, the model is estimated on historical data. The data set is then extended by the European Commission's autumn 2018 forecast until 2019 for the set of the available variables. The final step recovers the shocks [3] that are necessary for the model to replicate the forecast values given the estimated model parameters and historical shocks.

Using a detailed structural model to decompose macroeconomic dynamics has the advantage that the model can exploit the rich information provided by the data. In particular, a detailed model allows for the driving forces to be identified on the basis of restrictions imposed by the model equations, i.e. by economic theory, across variables and over time. The sign and size of the different domestic and foreign demand and supply shocks, including financial, commodity price, productivity, and policy shocks, is determined by the ability of these shocks to fit not only GDP, but also other observed variables in the model, such as consumption, investment, trade, employment, and their co-movement.

The various drivers (the model includes 29 types of exogenous shocks) are summarised into seven distinct groups of factors, namely: (1) shocks to euro area productivity; (2) euro area labour and goods market adjustment as captured by wage and price mark-up shocks; (3) oil price shocks; (4) euro area domestic demand shocks, i.e. changes in consumption and investment demand in the euro area that are not explained by fundamentals such as household income, interest rates and return expectations on physical capital and financial assets; (5) euro area monetary policy shocks that capture deviations of short-term interest rates from the estimated policy rule; (6) euro area exchange rate shocks, which affect the exchange rate of the euro independently of the monetary policy stance; and (7) shocks to world demand and international trade, which include foreign demand and supply shocks and deviations of trade volumes and prices from the estimated export and import demand and pricing equations. The remaining shocks and the effect of initial conditions are summarised as 'others'. The groups (1) to (3) act mainly on the euro area economy's supply side, whereas (4) to (7) predominantly affect demand for goods and services in the euro area in the short and medium term. The model-based decompositions presented below identify the importance of each of these groups of shocks.

Domestic demand drives GDP growth…

Graph 1 displays the model-based decomposition of annual real GDP growth. The solid black line shows the historical data, and the dashed line represents the European Commission's forecast for 2018 and 2019. The coloured bars show the contribution of the groups of driving forces to deviations of GDP growth from its long-run trend of approximately 1.4%, i.e. the value at which the (solid) horizontal axis intersects the vertical axis. Bars above (below) this horizontal axis indicate positive (negative) contributions to GDP growth in a given year. The sum of positive and negative contributions matches the data (black solid line) for any point in time.

The decomposition of real GDP growth in Graph 1 points to domestic demand as the main driver of above-trend growth in 2019. The positive growth contribution by domestic demand is attributed by

(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 and L. Vogel (2017). 'The Global Multi-Country Model (GM): an Estimated DSGE Model for the Euro Area Countries'. *Working Papers 2017-10, Joint Research Centre, European Commission.*

(2) The model is a structural macro-model in the New-Keynesian tradition with rigorous microeconomic foundations derived from utility and profit optimisation and including frictions in goods, labour and financial markets.

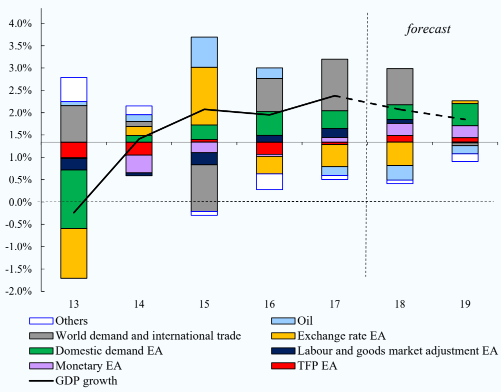
(3) The different types of domestic and foreign shocks on the demand and supply side are discussed below.

(Continued on the next page)

Box (continued)

the model mostly to private consumption. In addition, monetary policy remains expansionary compared to the model's monetary policy rule (targeting a positive output gap and consumer price inflation close to 2%), which is reflected in negative shocks attributed by the model to the policy rate. The negative shocks to the policy rate support euro area GDP growth by stimulating interest-sensitive components of domestic demand (such as investment and durable consumption goods) and by strengthening net exports via depreciation of the euro's nominal effective exchange rate. Regarding supply-side drivers, Graph 1 indicates a small positive contribution from productivity (TFP) growth, whereas increasing oil prices in 2019 have a dampening impact on growth (increase by about 7% in USD terms relative to 2018 in the forecast assumption based on future prices). According to the model, the positive contribution from world demand and international trade peaked in 2017, diminishes in 2018 and turns slightly negative in 2019.

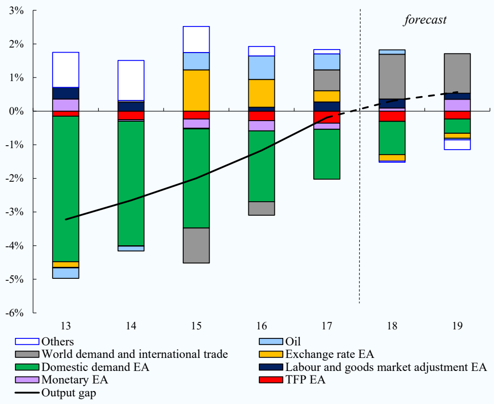
Graph 1: **Euro area real GDP growth**



…but remains still below long-run levels…

While domestic demand, in particular private consumption, appears as the dominant positive contributor to *growth* in 2019 (see Graph 1), the legacy of weak domestic demand still affects the *level* of euro area activity negatively, compared to its long-run trend. This is illustrated by the decomposition of the output gap as the percent gap between actual GDP and potential GDP in Graph 2. Downward pressure from weak domestic demand on output levels has subsided in recent years in line with a deceleration of post-crisis deleveraging in the private sector. Its negative impact on the level of economic activity is estimated to decline further according to the forecast, in line with the positive contribution of domestic demand factors to GDP growth in 2019 (see Graph 1). Despite the gradual recovery of domestic demand and its contribution to closing the output gap in recent years, the contribution of domestic demand factors to the output gap is still negative. By contrast, reflecting its positive contributions to *growth* since 2016, the contribution from world demand and international trade to the *level* of GDP is still positive in 2019 (but smaller than in 2018). Also, Graph 2 points to a positive contribution of monetary policy to the closing of the output gap and its move into positive territory over the forecast horizon, in line with the positive 2019 growth effects in Graph 1.

Graph 2: **Euro area output gap**



…while inflation increases only gradually in 2019…

The fact that domestic demand still hovers below the historical average in the forecast also affects euro area inflation and net exports. Inflation, as measured by the annual growth of the private consumption deflator, is expected to rise moderately in 2019 (Graph 3), but the inflation rate remains below the ECB's definition of price stability, which is close to but below 2%. According to the decomposition from the estimated model, depressed levels of domestic demand remain the main reason for the still subdued pace of annual inflation. Its contribution dominates the positive contribution from the monetary policy stance and from cost-push factors, among which the projected increase in oil prices has the largest effect. As explained above, the contribution of 'monetary policy' only reflects the deviation of interest rates from a Taylor rule. Unconventional monetary policy measures are not explicitly considered but may be partially captured by exchange rate fluctuations and additional domestic demand. This explains the relatively small size of monetary policy shocks over time according to the model.

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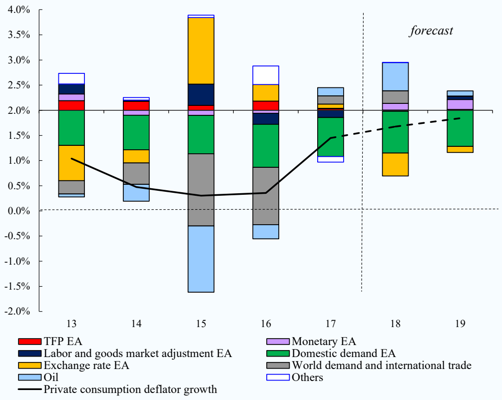
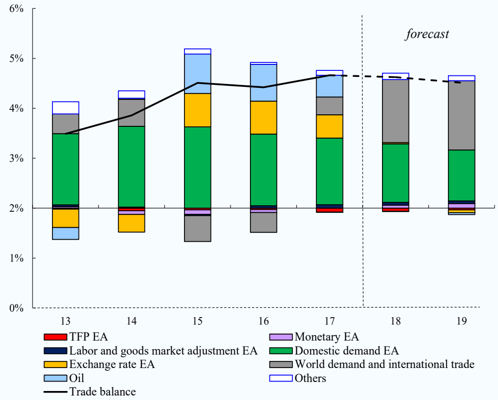
Box (continued)

Graph 3: **Euro area private consumption deflator growth**



Graph 4: **Euro area trade balance (as a percentage of GDP)**



…and the trade surplus is forecast to persist.

The subdued momentum of domestic demand, which dampens the demand for imports, explains around 1.0% of GDP of the euro area's trade surplus projected for 2019. The forecast incorporates world demand and trade factors, as the other important driver of the surplus in 2019 (contribution of 1.4% of GDP). In addition, the decomposition in Graph 4 points to a minor positive contribution from expansionary monetary policy to net exports in 2019 and small negative contributions from the nominal appreciation of the euro and the rise in oil prices, which are part of the forecast assumptions for 2019. (4)

Taken together, the model-based decomposition presented in this box attributes above-trend euro area real GDP *growth* in 2019 to continued domestic demand growth and to an accommodative monetary policy stance. Domestic demand levels remain below the historical average, however, implying a still negative (although diminishing) contribution to the *level* of economic activity. Below-average levels of domestic demand also explain low levels of inflation in the euro area and a significant part of the trade balance surplus incorporated in the European Commission's forecast for 2019.

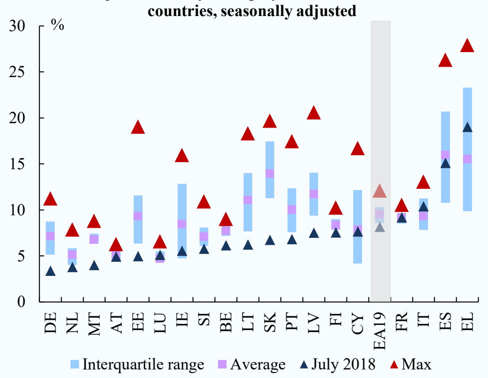
(4) For a detailed account of euro area trade balance drivers in recent years, see Giovannini, M., S. Hohberger, R. Kollmann, M. Ratto, W. Roeger and L. Vogel (2018): 'Euro Area and U.S. External Adjustment: The Role of Commodity Prices and Emerging Market Shocks'. *CEPR Discussion Papers 13141.*

Box I.4: Labour market slack in the euro area

The euro area's economic recovery since the Great Recession has been particularly job-rich. The picture at present, however, is somewhat complex, as indicators point to evidence of both underemployment and labour market tightening occurring at the same time. This box examines different concepts of labour-market slack both at the level of the euro area and at the level of Member States. Its aim is to present a granular picture of the degree of un(der)utilised labour potential and its geographical distribution by looking at key country-specific labour-market indicators that go beyond headline unemployment rates.

Labour market conditions have improved significantly…

Graph 1: **Monthly unemployment rate, euro area countries, seasonally adjusted**



Source: Eurostat. Maximum and average since February 2000.

After more than five years since the beginning of the recovery, the unemployment rate in the euro area is gradually returning to its pre-crisis level and the number of employed persons stands at a record high. In a majority of euro area countries, the unemployment rate is below its long-term average (see Graph 1), but the situation varies considerably between Member States. With supply constraints now apparent in a number of Member States and sectors, a careful monitoring of emerging tensions in labour markets could help to assess the possible emergence of 'speed limits' to GDP growth. Considering the robust rate of employment growth since the start of the recovery and recent signs of labour-market tightening, wage dynamics have been remarkably subdued [(1)]. This observation extends beyond the euro area, in a phenomenon labelled 'wageless' economic growth [(2)]. Many reasons have been put forward for the apparent flattening of the Phillips curve, including remaining slack in the labour market, low inflation and productivity growth, monopsonistic power of large corporations [(3)], changes in wage-bargaining systems, the degree of forward and backward-looking price indexing and downward nominal wage rigidities [(4)]. This debate is, however, beyond the scope of this Box.

The movement of workers from countries with higher unemployment to countries in need of workers could play an important role in cushioning negative labour demand shocks and in smoothing the adjustment process. Yet, despite significant improvements [(5)], cross-border labour mobility plays a weaker role in the EU than it does in the US. This is likely to result from differences in language and culture, as well as and institutional factors hindering labour mobility. The result, however, is that isolated labour demand shocks tend to have stronger and more persistent effects in the EU than in the US [(6)]. Such findings highlight the need for a more detailed assessment of the cyclical position of national labour markets.

…but high underemployment levels remain in some countries…

The underutilisation of labour resources is most commonly measured by the unemployment rate. In most countries, it is now both lower than its average since 2000 and in the lower range of its historical distribution, although Greece, Spain, Italy and Cyprus are obvious exceptions. While highlighting the degree of dispersion of

(1) See Vandeplas, A., Arpaia, A., Ruscher, E., Turrini, A., and W. Roeger (2018). 'Wage dynamics in the EMU'. European Commission *Quarterly Report on the Euro Area*, Forthcoming.

(2) See OECD (2018). Employment Outlook.

(3) Labour market monopsony is sometimes overlooked due to the assumption of an entirely competitive market with workers paid their marginal product of labour. See Azar, J., Marinescu, I., Steinbaum, M. and B. Taska (2018). 'Concentration in US labour markets: Evidence from online vacancy data'. *Vox CEPR Policy Portal*. June.

(4) See Petra, M., Robert, A., Ana, B., Clémence, B. and T. Peter (2017). 'Asymmetric wage adjustment and employment in European firms'. Banque de France *Working Paper Series* 640. September.

(5) Particularly with the crisis, see Jauer, J., Liebig, T., Martin, J. P., and P. A. Puhani (2018). 'Migration as an adjustment mechanism in the crisis? A comparison of Europe and the United States 2006-2016'. IZA Institute of Labor Economics *Discussion Paper* 11328. February.

(6) Beyer, R. C. M. and F. Smets (2015). 'Labour market adjustments in Europe and the US: How different?'. *ECB Working Paper Series* 1767. March.

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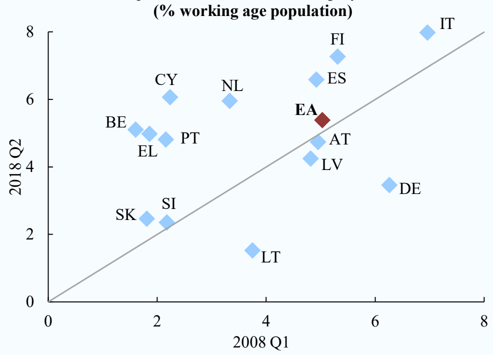
Box (continued)

unemployment rates across countries –which is also the result of structural labour market features - this measure suggests relatively limited spare capacity, on average.

Graph 2: **Labour besides unemployment (% working age population)**



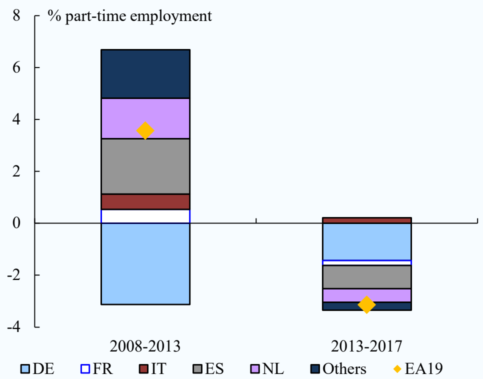
Source: Eurostat. Underemployed part-time workers; persons available to work but not seeking; and seeking but not immediately

This definition however, makes a rigid distinction between employment and unemployment status, depending on a rather narrow definition of unemployment, which includes only those currently without work, available to begin work within two weeks, and actively seeking work [7]. More recently, greater focus has been placed on wider measures of underemployment, which also consider (i) those that are not employed or unemployed but still marginally attached to the labour force [8] as well as (ii) those employed part-time but wishing to work more hours, also named as underemployed part-timers. [9]Despite improving since the start of the recovery in 2013, such measures show that underemployment is still higher than it was 10 years ago in a majority of euro area countries, despite being broadly unchanged for the euro area as a whole (see Graph 2).

Although they provide a richer framework than traditional labour status measures, these survey-based figures should be read with caution. [10] They may be subject to cyclical as well as structural developments, or may depend on factors other than labour-market demand, which complicates their interpretation in terms of labour-market slack. For example, they may depend on the ability of underemployed part-timers to increase the number of hours worked and the willingness of those currently inactive to participate, given expected lower job-finding probabilities and job-search intensities. In many countries, this additional slack is mostly driven by changes in the number of part-time workers wishing to work additional hours. [11]

As for underemployed part-time work, the picture varies considerably between Member States. It currently represents about a fifth of all part-time workers in the euro area, ranging from about 7% of overall part-time employment in Estonia and 12% in Germany, to close to 60% in Cyprus, 70% in Greece and about 50% in Spain. While sizeable in a number of countries, the current share of underemployed part-time workers is already close to or below 2013 levels in the majority of the cases but still significantly above 2008 levels (year for which quarterly data starts to be available) in Cyprus, Greece, Portugal and Spain. All in all, in the euro area, the increase in the share of underemployed part-time workers has been partly reversed and is now about 0.4 pps. higher than in 2008 (see Graph 3).

Graph 3: **Underemployed part-time workers**



Source: Eurostat.

...and a broadly closed labour gap.

To make a more detailed assessment of the cyclical position of the euro area's labour market, one can also take stock of estimates resulting from the European Commission's common methodology for

(7) See European Commission (DG EMPL) (2018). 'Labour market and wage developments in Europe. Annual Review 2017.'

(8) Including those classified as inactive who are not currently seeking work, despite being available (mainly 'discouraged workers') and those who are actively seeking work, but are not available to begin work within the next two weeks.

(9) See Eurostat (2018). 'Underemployment and potential additional labour force statistics'. May.

(10) ECB (2017). 'Assessing labour market slack'. ECB *Economic Bulletin* 3, pp. 31-5 (Box 3).

(11) Measuring the willingness of workers to vary their hours at the current pay rate, it has been argued that underemployment in most European countries has not returned to its pre-recession levels, with the main exception being Germany. Bell, D. N. F., and D. G. Blanchflower (2018). 'Underemployment in the US and Europe'. NBER *Working Paper* 24927. August.

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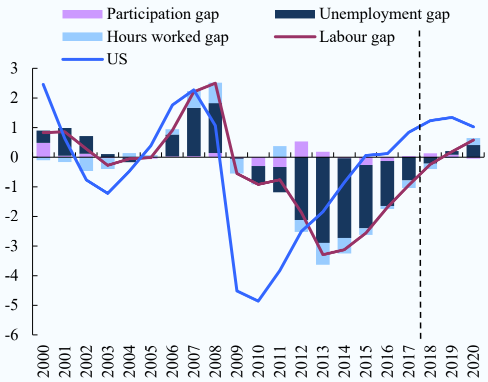
Box (continued)

assessing the output gap. These provide a breakdown of the potential output of the economy into its TFP, net capital stock and its various labour market components. The potential labour supply builds on estimates of (i) the non-accelerating inflation (i.e. wage) rate of unemployment; (ii) the trend participation rate; and (iii) trend hours worked per person employed. Each of these measures helps to identify possible sources of labour market tightness or slack in national labour markets.

According to these estimates, the labour market response to the crisis reached its lowest point in terms of underutilised labour potential in 2013 (see Graph 4). Nearly 90% of the labour market slack in 2013 was due to the unemployment gap – i.e. the difference between the observed unemployment rate and the estimated non-accelerating wage rate of unemployment (NAWRU) [12] - with the remaining 10% due to the hours worked and participation rate gaps.

Graph 4: **Contributions to the labour gap, euro area**



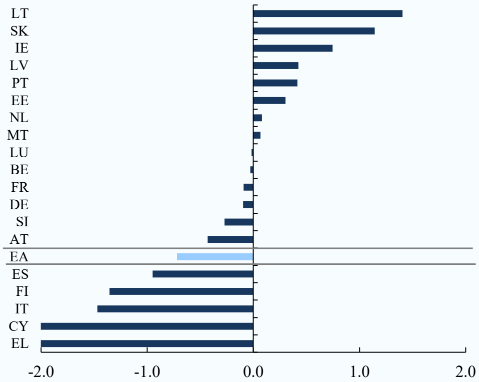
Source: DG ECFIN.

The estimates also suggest that after four years of above-potential average GDP growth rates in the euro area, the crisis-related slack in the labour market has been broadly removed, with the labour gap close to zero. Compared to the US, labour supply in the euro area is thus converging to its potential level with a three- year delay, offering a preview into a possible cyclical path for the euro area labour market.

One important insight is that the euro area NAWRU is estimated to be lower than in the pre-crisis period, standing at around 8.5% in 2017 after peaking at 9.5% in 2009. [13] While not constituting a floor for the unemployment rate, such estimates highlight that inflationary pressures are expected to start building up at comparatively lower levels of unemployment. Notable exceptions are Greece and Spain, where estimates are higher and still above average, as well as Cyprus and Italy, where previously below-average estimates have increased and are now higher than the euro area aggregate.

Although the euro area unemployment gap can be seen as slightly negative, the same cannot be said for all its members (see Graph 5). As of 2017, it was estimated to be negative and below average in five euro area countries, and most significantly in Greece, Cyprus and Italy. At the same time, positive gaps of about 1 pp. are signaled in Lithuania, Slovakia and Ireland.

Graph 5: **Unemployment gap, 2017, euro area**



Source: DG ECFIN. Gap for Greece estimated at around 6 pps. in 2017.

While a majority of countries does not show a large reservoir of untapped labour potential, it emerges that the euro area gap is being weighed down by a sizeable unemployment gap in Greece (which stands out at around -6 pps.), followed by Cyprus, Italy, Finland and Spain (close to -1 pp.). According to the Autumn Forecast, in 2018 the distribution is expected to look more skewed due to rapidly closing gaps in both Cyprus and Spain, with only three countries showing unemployment rates above their estimated NAWRUs (notably Greece, Italy and Finland). This assessment confirms the view that any remaining pockets of slack in the labour market are set to shrink in both number and size.

(12) See D'Auria, F., Denis, C., Havik, K., Mc Morrow, K., Planas, C., Raciborski, R., Röger, W. and A. Rossi (2014). 'The production function methodology for calculating potential growth rates and output gaps'. European Economy, *Economic Papers* 420. July.

(13) With ECFIN's NAWRU estimates currently at lower levels than those estimated by the OECD and IMF.

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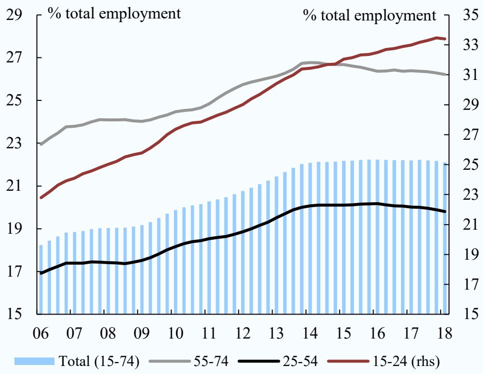
Box (continued)

'Hours worked' is another measure of labour supply and of the 'intensive' use of labour in the production process. Changes in the number of hours worked can be explained by the share of part-time work (see Graph 6), employment creation in sectors with fewer than average hours worked, or changing working patterns (i.e. maximum weekly hours).

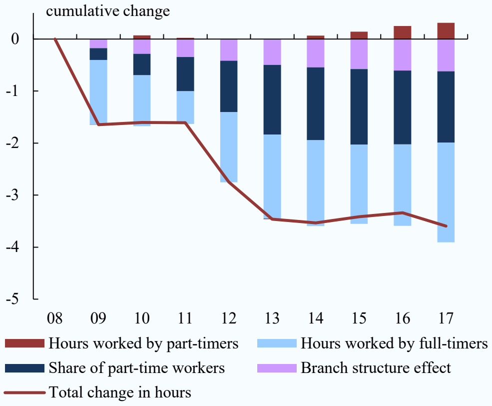
Graph 6: **Part-time employment by age group**



Source: Eurostat.

For the euro area as a whole, average hours worked per employee remain below its pre-crisis level. According to Commission's estimates, trend hours worked have stabilised over recent years, with no indication that its secular decline will be reversed anytime soon. Hours worked have fluctuated around a declining trend – with economic upturns linked to a stabilisation of the trend, not an upward movement. A shift-share decomposition of changes in hours worked confirms the role of some structural factors – namely employment creation in sectors with below-average working hours and an increasing share of part-time employment (see Graph 7). All in all, in 2018, hours worked per person employed are estimated to be close to trend in the euro area and across most Member States.

Graph 7: **Average hours worked per person employed, euro area**



Source: Own calculations.

Finally, the euro area participation rate also is estimated to be close to its trend level with either positive or negative deviations being very limited in size across countries (around 0.5 pps. or less). The responsiveness of participation to slack usually follows stylized mechanisms. Job search is determined, among other factors, by job security, with a lower job-loss risk (typical of a tightening labour market) stimulating those outside the labour force to look for jobs. At the same time, increasing flows into unemployment and rising job scarcity discourages non-active working-age individuals from engaging actively in the market.[14] Nevertheless, participation gaps are estimated to have been rather limited during the crisis years – having a low impact on labour underutilisation.

Crisis legacies weigh on prime-age workers…

One of the usual critiques of methodologies such as the one employed in the previous analysis, is that they do not consider possible participation and unemployment gaps emerging from different age cohorts, skill groups, or gender groups, as they rely on average headline figures. The employment rate has the advantage of offering the same degree of granularity as the unemployment rate, while taking into account the impact of participation rates of specific groups of workers by comparing employment against the working age population, not the labour force (see Graph 8).[15]

The unemployment rate of young cohorts (15-24) typically show a higher sensitivity to changing cyclical conditions. Between 2007 and 2013, the euro area youth unemployment rate increased at twice the pace as the overall unemployment rate. This higher pro-cyclicality reflects a lower level of job-specific skills, lower job security and other social considerations, reflected in a higher proportion of temporary and part-time contracts. Despite declining as the economic expansion progressed,[16] the youth unemployment rate in 2017 was still above pre-crisis levels in around 2/3

(14) Chalom, R., Karahan, F., Pilossoph, L. and G. Topa (2018). 'Whither labour force participation?'. Federal Reserve Bank of New York, *Liberty Street Economics*. September.

(15) The unemployment rate can fall without a rise in employment if unemployed workers leave the labour force. See Donavan, S. (2015). 'An overview of the employment-population ratio'. Congressional Research Service. May.

(16) Also explained by a reduced size of this age group due to smaller new cohorts and immigration flows, and a move towards higher educational attainment and training, rather than job creation. See Qu, H. and H. Schoelermann (2018). 'Youth unemployment during the euro area economic recovery'. *IMF Country Report* 18/224, July.

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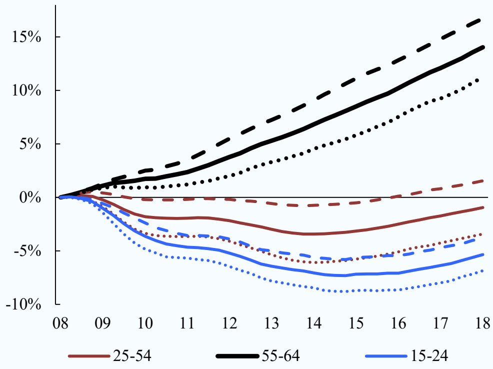
Box (continued)

of the euro area countries and ranged between 43.6% in Greece and 6.8% in Germany.

At the same time, the euro area youth employment rate stood at 32.3% in 2017, above the trough of 30.8% reached in 2015 but below the peak of 37.7% in 2007. When unrelated to higher participation in education, prolonged out-of-work periods can have lasting impacts on skills and incomes due to hysteresis effects eroding human capital. [17] It is also costly to productivity through lower innovation, as highly-productive firms tend to expand while hiring younger people, and on knowledge diffusion, through lower mobility and job-switching.

Graph 8: **Cumulative change in employment rates, euro area**



Source: Eurostats. Dashed line for females and dotted line for males.

The impact of the crisis has been particularly hard on younger people with less than upper secondary education for whom the employment rate has stabilised at a lower level since 2014 (around -10 pps.). Only for those with higher levels of education has the employment rate being edging up to, or neared pre-crisis levels.

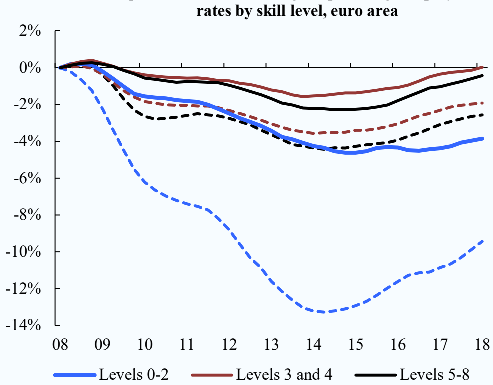
Prime-age cohorts (25-54) are particularly relevant, as their labour market participation remains mostly unaffected by their schooling and retirement decisions. Contrary to the overall employment rate, the euro area prime-age employment rate is still slightly below its 2007 level, but continues to increase, amid differentiated developments between males and females. Despite recovering since 2013, the employment rate of males is still 3.3 pps. below its 2008 level, whereas it is 0.8 pps. above for females; in line with a trend-increase in female participation across age groups.

(17) See Draghi, M. (2017). 'Youth unemployment in the euro area'. Speech at Trinity College, Dublin, 22 September.

...with those with lower skill levels struggling to catch up...

The crisis-impact on prime-age employment rates has also been heterogeneous across skill-levels [18] (see Graph 9). Taking a closer look at the data shows that by 2017, those with less than lower secondary education had an employment rate around 6 pps. lower than by 2007 – which compares with around -1 pp. for those with higher skill levels. At the same time, the impact for low-qualified males has been more than twice as large as that for females (around -10% and -4%, respectively). Evidence of remaining gaps in low-qualified prime-age male employment rates can be found in most countries (see Graph 10), ranging from -18% in Greece, -17% in Cyprus and -13% in Spain to around 10% in Ireland, Italy, France, Belgium, Netherlands, Austria or Finland. Notable exceptions include Slovakia (+15%), Estonia (+6%), and Germany (broadly unchanged).

Graph 9: **Cumulative change in prime-age employment rates by skill level, euro area**



Source: Eurostat. Dotted line for males.

The impact of such gaps is non-negligible – prime-age males with lower education levels account for around 8% of euro area total employment. Nevertheless, it is still unclear the extent to which such gaps will prove to be structural in nature. Much depends on the geographical and skill matching efficiency of the labour market. [19] Indeed, with the dispersion across euro area countries on a declining trend since at least 2005, the employment rate may tend to stabilise at a lower level compared to the pre-crisis period.

(18) Less than lower secondary education (levels 0-2), upper secondary and post-secondary non-tertiary education (3 and 4) and tertiary education (5-8).

(19) Prime-age male labour force participation has been showing a declining trend in other advanced economies. For the US see Valletta, R. and N. Barlow (2018). 'The prime-age workforce and labor market polarization'. Federal Reserve Bank of San Francisco, *Economic Letter* 21, September.

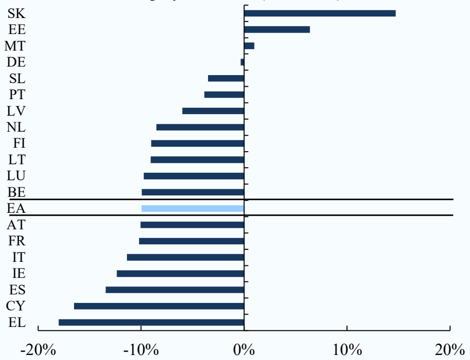
(Continued on the next page)

Box (continued)

...while net employment gains are mostly among senior workers...

The number of employed individuals aged 55-64 was broadly unaffected by the crisis years, and has followed an upward trend, with the employment rate rising from 34.1% in 2000 to 57.1% in 2017. This has been driven by a rising participation rate, as older people extend their working lives in line with reforms introduced in pension systems (e.g. rising pension ages) and improving educational levels. Indeed, it emerges that net employment gains since 2008 can be almost entirely attributed to individuals in this age group.

Graph 10: **Change in low-skill male prime-age employment rates (2017-2007)**



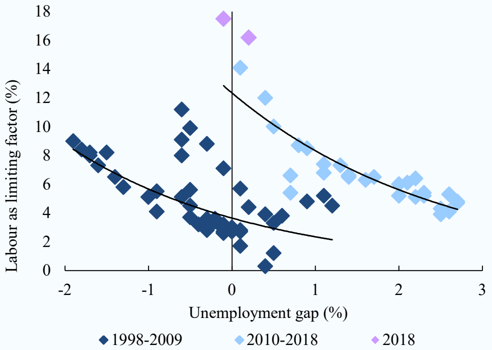
Source: Eurostat, authors' calculations.

...with evidence of a lower matching efficiency.

As the unemployment rate has trended lower, labour market shortages have also begun to appear in some countries and industries. This has been particularly evident in survey-based measures where participants detail the factors limiting their production output. In general, assessments of labour shortages decline during recessions and recover during expansions, showing high cyclicality and correlation across sectors.

Estimates of the Beveridge curve, however, hint at an outward shift and higher steepness of the curve over 2013-2017 and a deterioration of matching mechanisms (see Graph 11). Such evidence is testament to the possibility of shortages arising at higher levels of unemployment and under intense recruitment needs. [20] Such pressures may prevent the reabsorption of those displaced from some permanently downsized sectors and create incentives for increasing working hours of those already employed.

Graph 11: **Euro area Beveridge curve**



Source: Eurostat, DG ECFIN. Unemployment gap based on NAWRU estimates interpolated to a quarterly frequency.

All in all, the outward shift of the euro area's Beveridge curve during the sovereign debt crisis can be plausibly explained by the magnitude of job destruction in some countries combined with reduced job-finding rates and longer spells of unemployment. At the same time, the sizeable downsizing of the construction and real estate sectors likely contributed to lower skill and geographical matching efficiency. [21] Indeed, the skills of workers employed in these sectors may not be easily adaptable to the labour demand emerging in other growing sectors – increasing the need for retraining and activation policies, a medium-term challenge which creates short-term frictions.

Overall, it is arguable that, despite possible measurement uncertainty, most evidence shows a diminishing and relatively limited degree of slack at the aggregate level. Despite the expected closure of the unemployment gap, there remain some important 'pockets' of untapped capacity (be it at country, gender, age or skill level) as exemplified by still-high youth unemployment. The lower level of working hours compared to the pre-crisis period does not necessarily reflect slack, and is not expected to be reversed, as it has to be seen as part of a long-term downward trend. The observed outward shift of the Beveridge curve since 2008 is consistent with evidence of labour shortages (as reported in surveys) arising at comparatively higher levels of unemployment due to lower matching efficiency (e.g. skills mismatch). Such shortages are also compatible with the prevalence of lower employment rates than before the crisis among those with lower skills, which together with lower matching efficiency, amplifies frictions in job-to-job transitions between different sectors.

(20) Drumetz, F. and R. Lecat (2018). 'Is the French labour market under pressure?'. Banque de France, *Eco Notepad*. June.

(21) See Draghi, M. (2014), ibid.

Box I.5: Some technical elements behind the forecast

Given the ongoing negotiations on the terms of the UK withdrawal from the EU, projections for 2019 are based on a purely technical assumption of status quo in terms of trading relations between 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 22 October 2018. The forecast incorporates validated public finance data as published in Eurostat's news release 163/2018 of 22 October 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 October) were used for exchange and interest rates, and for oil prices.

Exchange and interest rates

The technical assumption regarding exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to an implied average USD/EUR rate of 1.18 in 2018 and 1.15 both in 2019 and in 2020. The average JPY/EUR is 130.74 in 2018 and 130.10 in both 2019 and 2020.

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, -0.2% in 2019 and 0.2% in 2020 in the euro area. Long-term euro area interest rates are assumed to be 0.5% in 2018, 0.7% in 2019 and 0.9% in 2020.

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 75.12 USD/bbl in 2018; 80.64 USD/bbl in 2019 and 76.68 USD/bbl in 2020. This would correspond to an oil price of 63.44 EUR/bbl in 2018, 69.96 EUR/bbl in 2019 and 66.52 EUR/bbl in 2020.

Budgetary data and forecasts

Data up to 2017 are based on data notified by Member States to the European Commission before 1 October and validated by Eurostat on 22 October 2018. [1]

Eurostat is **maintaining the 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. This would lead to an estimated increase in government deficit in 2015 by 25.3 bn HUF (0.1% of GDP), in 2016 by 54.0 bn HUF (0.2% of GDP) and in 2017 by 33.7 bn HUF (0.1% of GDP). The debt figures would remain unchanged.

Eurostat is **withdrawing the reservation** on the quality of the data reported by France in relation to the sector classification of the Agence Française de Développement. Eurostat is also withdrawing the reservation on the treatment of the capital injection into AREVA with an impact on the deficit, for an amount of €2.5 bn (0.1% of GDP) in 2017. In the October 2018 EDP Notification the recording has been changed and is now treated as a capital transfer.

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 2019 in particular, draft budgets presented before the cut-off date of the forecast are taken into consideration.

[1] Eurostat News Release No 163/2018.

(Continued on the next page)

Box (continued)

Table 1:
Technical assumptions

		Autumn 2018 forecast			*Spring 2018 forecast*	
	2017	2018	2019	2020	*2018*	*2019*
3-month EURIBOR (percentage per annum)	-0.3	**-0.3**	**-0.2**	**0.2**	*-0.3*	*-0.1*
10-year government bond yields (percentage per annum) (a)	0.3	**0.5**	**0.7**	**0.9**	*0.6*	*0.8*
USD/EUR exchange rate	1.13	**1.18**	**1.15**	**1.15**	*1.23*	*1.23*
JPY/EUR exchange rate	126.61	**130.74**	**130.10**	**130.10**	*132.20*	*131.90*
GBP/EUR exchange rate	0.88	**0.88**	**0.88**	**0.88**	*0.87*	*0.87*
EUR nominal effective exchange rate (annual percentage change) (b)	2.1	**5.0**	**0.6**	**0.0**	*4.8*	*0.2*
Food prices (in USD, annual percentage change)	0.5	**3.6**	**2.6**	**1.4**	*4.2*	*3.1*
Oil price (USD per barrel)	54.8	**75.1**	**80.6**	**76.7**	*67.7*	*63.9*
Oil price (EUR per barrel)	48.5	**63.4**	**70.0**	**66.5**	*55.0*	*51.9*

(a) 10-year government bond yields for the euro area equal the German government bond yields.
(b) 42 industrial countries EU-28, TR CH NR US CA JP AU MX NZ KO CN HK RU BR.

EU and euro area aggregates for general government debt in the forecast years 2018-20 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 163/2018 of 22 October 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 in 2018 and 2019, implying that adjusted and unadjusted annual growth rates differ only marginally (by up to ±0.1 pps.). In 2020, this difference will be close to ¼ pps. in the euro area.

Estimations of potential GDP and output gaps are not adjusted for working days. Furthermore, since the working-day effect is considered temporary, it is not expected to affect cyclically-adjusted balances.

PART II

Prospects by individual economy

Member States

1. BELGIUM

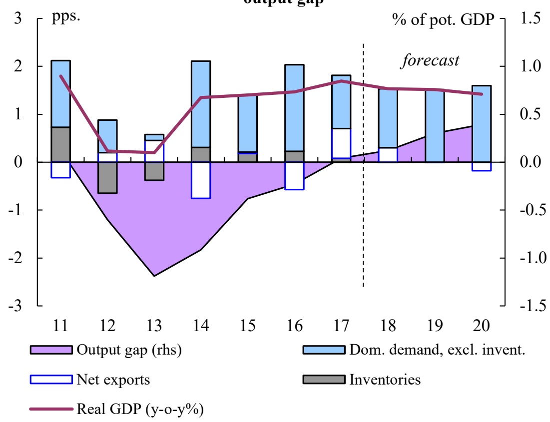
Weaker growth momentum, slower public debt reduction

Economic growth is expected to ease to 1.5% in 2018 and 2019 as the rise in domestic demand is offset by weakening world trade. With the headline general government deficit forecast to deteriorate slightly throughout the forecast horizon, the pace of debt reduction is expected to slow down.

Economic growth in Belgium slowed slightly to 1.4% (y-o-y) in the first half of the year and is expected to continue broadly at the same pace in the rest of 2018. Despite positive net exports, weaker household and public consumption growth are forecast to weigh on GDP growth, which should decline compared to 2017 but remain robust (1.5% in 2018). Continued improvements in labour market conditions as well as sustained investment are paving the way for domestic demand to remain a strong growth engine over the forecast horizon.

Soft and hard indicators remained high in September but have deteriorated since the end of 2017, suggesting that Belgium's economic growth momentum is abating, in parallel with the euro area in general. Overall, real GDP growth is expected to stabilise to 1.5% in 2019 and to slow down gently to 1.4% in 2020.

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



Strong labour market to underpin private consumption growth

The job market should continue developing favourably, as employment growth is forecast to remain strong at 1% in 2018 and to decelerate gradually in 2019 and 2020. Amid growing labour shortages, unemployment in Belgium is expected to fall slightly below 6% in 2020. Household consumption is expected to slowdown in 2018, due to sustained inflation and lower confidence. However, both rising disposable income, thanks to labour market developments and wage indexation, and a slight weakening of households' savings rate should support stronger private consumption growth in 2019 and 2020.

Investment to continue supporting demand

Investment's contribution to growth is expected to moderate slightly. Business investment is set to slow down gradually, on the back of lower capacity utilisation and weakening exports. Housing investment is projected to increase moderately amid a relatively benign interest rates environment. The regional and national electoral cycle, together with the start of large infrastructure works are expected to drive public investment growth markedly over the forecast horizon. All in all, total annual investment growth is forecast to slow slightly from 2.6% in 2018 to 2.0% in 2020.

The contribution of net exports to growth is projected to become slightly negative in 2020 as growing domestic demand supports import levels, while exports growth weakens.

Downside risks to the outlook are mainly external, Belgium being a small open economy. They include potential impacts on the economy from a slow-down in demand in Belgium's main trading partners.

Inflation to stabilise and converge with euro area at the end of the forecast horizon

Headline inflation is forecast to remain high at 2.3% in 2018 and 2.1% in 2019, before falling to 1.6% in 2020. This should notably stem from the rapid transmission of rising fossil fuel prices into retail energy prices, and from the assumed impact of temporary electricity supply bottlenecks on wholesale prices. Sector-specific administrative measures and weak competition in some business and professional services sectors are also expected to contribute to higher core inflation in 2020, which will be reflected in automatic wage indexation. The inflation gap with the euro area is expected to narrow gradually and close in 2020.

Deficit expected to edge up again

In 2018, the headline deficit is projected to widen slightly to 1.0% of GDP, from 0.9% of GDP in 2017. This deficit corresponds to a decrease in revenue and expenditure of 0.3 and 0.2 percentage point of GDP respectively. Additional reductions in personal income taxation (-0.3 pps. of GDP.) and social security contributions (-0.2 pps. of GDP) largely explain the decline in the revenue-to-GDP ratio, as in 2018 the second phase of a planned "tax shift" to reduce the tax burden on labour kicks in. By contrast, taxes on consumption and on corporate income are expected to increase each respectively by 0.2 pps. and 0.1 pps. of GDP. Specifically, advanced corporate income tax payments are expected to remain strong, fostered by higher penalties associated with insufficient prepayments. Primary expenditure is expected to decrease only marginally (-0.04 pps. of GDP), therefore most of the decrease in public spending is expected to stem from lower interest payments (-0.1 pps. of GDP). Despite a broadly neutral structural effort, the structural balance is forecast to improve to -1.3% of GDP in 2018 due to a rounding effect.

In 2019, the headline deficit is expected to widen to 1.1% of GDP, as already specified tax cuts will not be fully offset by revenue-increasing or expenditure-decreasing measures. Specifically, further reductions in personal income taxation and social security contributions (the last phase of the "tax shift") explain a decline in the revenue-to-GDP ratio of 0.3 pps. whereas expenditure is expected to decrease by only 0.1 pps. of GDP. The structural budget balance is expected to remain stable at -1.3% of GDP. In 2020, under a no-policy-change assumption, the headline deficit is expected to further widen to 1.3% of GDP. The structural balance is estimated to deteriorate by about ½ pps. of GDP.

The debt ratio is projected to continue its decreasing path, from 103.4% of GDP in 2017 to 98.7% of GDP in 2020. It is forecast to decrease by 2 pps. of GDP in 2018, mainly thanks to a snowball effect (as nominal growth outpaces interest payments), although this dynamic is softened by some upward stock-flow adjustments.

Table II.1.1:

Main features of country forecast - BELGIUM

		2017		Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		439.1	100.0	1.7	1.7	1.5	1.7	**1.5**	**1.5**	**1.4**
Private Consumption		223.9	51.0	1.2	0.9	1.7	1.1	**0.9**	**1.4**	**1.6**
Public Consumption		102.2	23.3	1.5	0.6	-0.2	0.6	**0.7**	**1.0**	**1.3**
Gross fixed capital formation		103.2	23.5	1.9	2.7	3.8	1.8	**2.6**	**2.3**	**2.0**
of which: equipment		35.7	8.1	1.4	4.4	11.4	0.6	**3.8**	**2.8**	**2.2**
Exports (goods and services)		376.6	85.8	3.7	3.5	7.6	5.0	**3.4**	**3.2**	**2.9**
Imports (goods and services)		371.5	84.6	3.6	3.4	8.5	4.3	**3.1**	**3.3**	**3.1**
GNI (GDP deflator)		444.3	101.2	1.6	0.5	2.1	2.8	**1.5**	**1.6**	**1.4**
Contribution to GDP growth:	Domestic demand			1.4	1.2	1.7	1.1	**1.2**	**1.5**	**1.6**
	Inventories			0.1	0.3	0.3	0.0	**0.0**	**0.0**	**0.0**
	Net exports			0.2	0.1	-0.5	0.6	**0.3**	**0.0**	**-0.2**
Employment				0.9	0.9	1.3	1.4	**1.0**	**0.7**	**0.6**
Unemployment rate (a)				7.8	8.5	7.8	7.1	**6.4**	**6.1**	**5.9**
Compensation of employees / head				2.6	0.0	0.5	1.9	**2.2**	**2.0**	**2.1**
Unit labour costs whole economy				1.8	-0.8	0.3	1.6	**1.7**	**1.2**	**1.3**
Real unit labour cost				0.1	-1.8	-1.5	0.0	**-0.5**	**-0.7**	**-0.5**
Saving rate of households (b)				15.2	11.8	11.3	11.5	**11.7**	**11.0**	**10.7**
GDP deflator				1.7	1.0	1.8	1.7	**2.2**	**1.9**	**1.8**
Harmonised index of consumer prices				2.0	0.6	1.8	2.2	**2.3**	**2.1**	**1.6**
Terms of trade goods				-0.7	1.8	0.5	-1.4	**0.2**	**0.0**	**0.4**
Trade balance (goods) (c)				1.3	0.0	0.0	0.1	**0.4**	**0.2**	**0.2**
Current-account balance (c)				3.0	-0.8	-0.4	0.9	**1.2**	**1.1**	**1.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.0	-0.7	-0.3	1.0	**1.2**	**1.2**	**1.2**
General government balance (c)				-1.9	-2.5	-2.4	-0.9	**-1.0**	**-1.1**	**-1.3**
Cyclically-adjusted budget balance (d)				-2.0	-2.2	-2.3	-0.9	**-1.1**	**-1.2**	**-1.6**
Structural budget balance (d)				-	-2.3	-2.3	-1.4	**-1.3**	**-1.3**	**-1.7**
General government gross debt (c)				101.1	106.5	106.1	103.4	**101.4**	**99.8**	**98.7**

(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.

2. BULGARIA

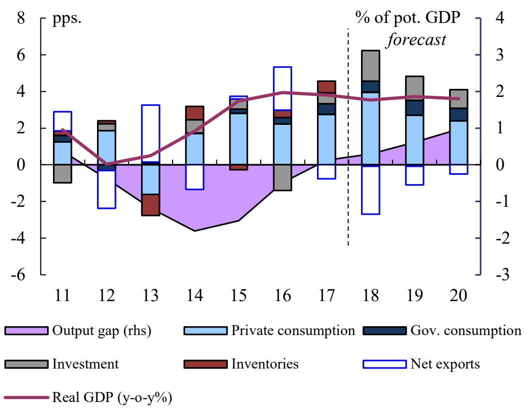
Robust growth ahead

Bulgaria's growth momentum is expected to remain strong, mainly thanks to solid domestic demand, with private consumption supported by real wage growth. High demand, increased capacity utilisation and EU funding are set to boost investment, while imports should outpace exports, leading to a further reduction in the current account surplus. Energy prices and domestic demand increases are expected to lift inflation. The government balance is set to remain positive and public debt should continue falling.

Steady, robust growth

Real GDP growth in Bulgaria is expected to reach 3.5% this year, driven by strong domestic demand dynamics as seen in the first half of this year. Private consumption growth is supported by positive developments in the labour market, increased real disposable income and positive consumer sentiment. Capacity utilisation has continued to increase, which bodes well for investment. Both private and public investment remain strong, enjoying the support of the low interest rate environment and EU funding.

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



Export growth in 2017 has been significantly revised upward. This strong base effect, as well as some one-off events and a decline in exports to Turkey, led to a slow-down of export growth in 2018. At the same time, strong domestic demand is set to keep import growth above that of exports, resulting in a negative contribution of net export to GDP growth.

In 2019 and 2020, real GDP growth is forecast to increase slightly to 3.7% and 3.6%, respectively. Domestic demand is expected to remain the engine of growth in both years. In 2019, public consumption is set to accelerate due to additional rises in public sector wages and intermediate consumption. Strong consumer confidence and increases in real disposable income will continue to support private consumption, although somewhat more moderately than in 2018.

Investment is set to contribute further to the economy's growth, as more projects co-financed by the EU get underway or progress. The contribution of the external sector to growth is forecast to be less negative in 2019 and 2020 as exports are expected to rebound, while import growth is set to moderate somewhat. The positive output gap is projected to widen.

Risks to the growth outlook are tilted to the downside. These mainly concern external demand, which could be hampered by political and economic risks in some major trading partners. On the positive side, a tightening labour market could lead to higher-than-expected increases in wages and income, which in turn could have a stronger positive impact on private consumption.

Inflation is set to moderate in 2019 and 2020

Overall, headline inflation has further increased and is projected to reach 2.6% on average in 2018. This is due to the rise in energy prices passing through to service prices, while strong domestic demand and increases in unprocessed food prices due to a lower harvest over the summer added to inflationary pressures. Over the remaining forecast period, inflation is expected to decrease somewhat to 2.0% in 2019 and 1.8% in 2020 as a result of base effects, despite the support of strong demand and high wage growth.

Record low unemployment

The unemployment rate in Buglaria came close to its pre-crisis low in 2017, thanks to strong employment growth. The unemployment rate is set to reach 6.0% in 2018 and to further declice to 5.7% by 2020. Labour shortages and planned government wage increases are expected to drive wage growth above productivity growth over the forecast period.

Sustained positive budget balance

The supportive macroeconomic environment and an overall prudent approach to fiscal policy should lead to sustained budget surpluses over the forecast period. The general government surplus is expected to narrow slighty from 1.1% of GDP in 2017 to 0.8% of GDP in 2018 due to more dynamic public investment and public sector pay rises. At the same time, revenues are expected to increase significantly as transfers from EU funds accelerate and tax collection improves thanks to both macroeconomic conditions and tax compliance measures.

In 2019 and 2020, the general government surplus is forecast to decrease a bit more to 0.6% of GDP mainly due to the government plans to further increase public sector wages and capital spending from national resources. Strong GDP growth and higher wages in the economy are expected to boost tax revenue and balance the expected current expenditure increases. At the same time, EU funds are set to continue finance a large part of public investment growth.

The budget forecast is subject to some uncertainty, particularly as regards the nationally funded component of the public investment. A large investment in the railway sector, which depends on a yet-to-be-contracted Sofia airport concession and some announced military procurement could have a significant impact on budget balances in the next few years, but for both cases the time schedule is not clear as yet.

The structural budget surplus is set to decrease over the forecast period from around 1% of GDP in 2017 to around ¼% in 2020, reflecting the changes in the headline balance and the positive output gap. Meanwhile, interest spending is reducing and public debt is forecast to drop to below 20% of GDP by 2020.

Table II.2.1:

Main features of country forecast - BULGARIA

		2017			Annual percentage change					
	bn BGN	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		101.0	100.0	2.9	3.5	3.9	3.8	**3.5**	**3.7**	**3.6**
Private Consumption		61.3	60.6	4.8	4.5	3.6	4.5	**6.5**	**4.3**	**3.8**
Public Consumption		15.8	15.6	0.8	1.3	2.2	3.7	**3.9**	**5.2**	**4.3**
Gross fixed capital formation		18.7	18.5	7.3	2.7	-6.6	3.2	**9.0**	**6.8**	**5.2**
of which: equipment		7.5	7.4	7.9	9.8	-14.9	4.3	**9.9**	**9.3**	**7.5**
Exports (goods and services)		68.1	67.4	3.8	5.7	8.1	5.8	**0.7**	**2.9**	**3.4**
Imports (goods and services)		64.4	63.7	7.3	5.4	4.5	7.5	**4.8**	**4.6**	**4.2**
GNI (GDP deflator)		102.4	101.3	3.1	2.3	5.8	5.4	**3.4**	**2.5**	**3.5**
Contribution to GDP growth:	Domestic demand			4.9	3.6	1.2	3.9	**6.2**	**4.8**	**4.1**
	Inventories			-0.1	-0.3	0.4	0.6	**-0.1**	**-0.1**	**0.0**
	Net exports			-1.9	0.1	2.3	-0.8	**-2.6**	**-1.0**	**-0.5**
Employment				-0.1	0.4	0.5	1.8	**0.5**	**0.3**	**0.2**
Unemployment rate (a)				11.8	9.2	7.6	6.2	**6.0**	**5.8**	**5.7**
Compensation of employees / head				8.6	5.6	5.8	10.5	**8.0**	**7.6**	**6.3**
Unit labour costs whole economy				5.5	2.5	2.3	8.4	**4.8**	**4.0**	**2.8**
Real unit labour cost				0.9	0.2	0.1	4.8	**2.2**	**1.6**	**0.6**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				4.5	2.2	2.2	3.4	**2.6**	**2.4**	**2.2**
Harmonised index of consumer prices				4.8	-1.1	-1.3	1.2	**2.6**	**2.0**	**1.8**
Terms of trade goods				-1.0	0.6	3.9	0.3	**0.1**	**0.4**	**0.4**
Trade balance (goods) (c)				-15.3	-5.8	-2.0	-1.5	**-4.6**	**-4.8**	**-5.0**
Current-account balance (c)				-6.8	0.6	5.3	8.2	**5.9**	**4.6**	**5.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.2	3.9	7.3	9.2	**7.1**	**5.9**	**6.5**
General government balance (c)				-0.6	-1.7	0.2	1.1	**0.8**	**0.6**	**0.6**
Cyclically-adjusted budget balance (d)				-0.4	-1.2	0.3	1.1	**0.7**	**0.4**	**0.3**
Structural budget balance (d)				-	-1.2	0.3	1.1	**0.7**	**0.4**	**0.3**
General government gross debt (c)				32.8	26.2	29.6	25.6	**23.3**	**21.3**	**19.5**

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

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

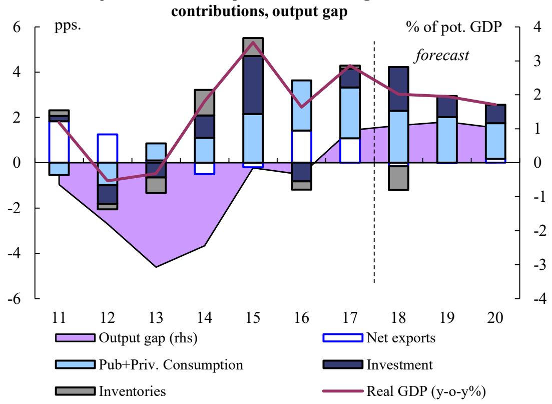
3. THE CZECH REPUBLIC

GDP growth to remain solid amid downside risks

After a strong 2017, economic growth in the Czech Republic is expected to moderate in 2018 and continue declining towards potential growth over the next two years. Domestic demand looks set to be the main driver of GDP growth, with labour shortages and dependence on the external sector seen as potential downside risks for the economy. Inflation is forecast to gradually stabilise at around the 2% target rate. The government budget surplus is expected to decline but remain positive over the forecast horizon.

Domestic demand driving GDP growth in 2018

The Czech economy is expected to grow by 3.0% in 2018, somewhat less than in 2017, when GDP expanded at its second-highest rate in a decade (4.3%). Domestic demand, excluding inventories, propelled GDP growth in the first half of 2018. Investment gained momentum boosted by the automation needs in manufacturing and the surge of public investment supported by EU funds. Wage dynamics and consumer confidence boosted private consumption, while raises in public salaries lifted public expenditure. Conversely, net exports and inventories contributed negatively to year-on-year growth. These dynamics are forecast to continue in the second half of 2018. Overall, domestic demand, excluding inventories, is expected to remain the principal driver of annual GDP growth, while inventories and, to a lesser extent, net exports will depress growth in 2018.



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

GDP growth converging towards potential in the medium term

GDP growth is expected to slow slightly in 2019 and 2020 (2.9% and 2.6%, respectively) towards estimated potential growth rates. Household consumption will benefit from rapid wage growth and social transfers, while their savings will recover to a rate of close to 11% of gross disposable income. Investment growth is set to moderate after peaking in 2018, although both the private and the public sector will continue to support investment activity, especially in machinery. Likewise, the moderation in investment growth is expected to lead to a slight deceleration in import growth due to the relatively high import content of Czech investment. As a result, the contribution of net exports to GDP growth is forecast to be neutral in 2019 and slightly positive in 2020.

External environment and labour shortages remain the main downside risks

As a small open economy, the Czech Republic is highly dependent on the external sector. In the first half of 2018, weak external demand coupled with exchange rate appreciation weighed on economic growth. These two factors pose a risk in the near term.

Moreover, the competitiveness of Czech exports could be affected by rising real unit labour costs, which are forecast to grow strongly in the short term (around 5% in 2018) and moderate later (to about 2½% in 2019 and 1% in 2020). On the one hand, the combination of very low unemployment and a low ratio of job seekers per vacancy (both the lowest in the EU) should stoke wage pressures. On the other hand, there seems to be a lag in the realisation of productivity gains from investment in automation that may persist in the near term.

Gradual return to inflation target supported by monetary policy normalisation

HICP inflation is forecast at 2.1% in 2018, down from 2.4% in 2017. Price dynamics will accelerate at the turn of 2018-2019, influenced by base effects and higher energy prices. Headline inflation is expected to gradually return to the Czech National Bank's (CNB) 2% target in the second half of 2019 and remain close to it in 2020. Annual HICP inflation is forecast at 2.2% in 2019 and

1.8% in 2020. While pro-inflationary factors (in particular wage growth and oil prices) are still prevailing, the ongoing normalisation of the CNB's monetary policy rates – there have been six rate hikes since August 2017 – should temper inflationary pressures.

General government surplus to decrease

In 2018, the general government budget surplus is expected to reach 1.4% of GDP (down from 1.5% in 2017), driven by almost equal rises of around 7% in both revenues and expenditures. The central and the local government balances and the social security funds are all expected to stay in surplus. The public wage hike and the higher indexation of pensions will most likely be fully offset by strong tax and non-tax revenue increases. Recent measures to address tax avoidance seem to have been successful in increasing VAT receipts, while the buoyant economy and rising wages are likely to bring in additional revenue from income taxes. Although some increases have been postponed to 2019, public wages are expected to grow by double digits in 2018.

In 2019, the headline budget surplus is expected to fall to 0.8% of GDP due to higher public wage growth and discretionary pension measures. While revenues are expected to grow in line with the economy, expenditures are expected to increase significantly. Public wage hikes and recently adopted pension increases are expected to raise expenditure by around ½% of GDP. In 2020, the headline budget surplus is expected to remain broadly steady at around 0.7% of GDP. As the end of the current EU funding cycle is approaching, public investment is expected to grow faster than GDP over the forecast horizon. Interest payments are also expected to increase somewhat over the forecast horizon.

The structural balance remained in surplus in 2017 at around 1% of GDP and a similar value is expected for 2018. Nonetheless, as the headline balance is expected to decrease, the structural balance is also expected to narrow. The debt-to-GDP ratio is set to decrease steadily from 34.7% of GDP in 2017 to 31.2% of GDP in 2020.

Table II.3.1:

Main features of country forecast - CZECH REPUBLIC

		2017		Annual percentage change						
	bn CZK	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		5045.2	100.0	2.5	5.3	2.5	4.3	**3.0**	**2.9**	**2.6**
Private Consumption		2394.0	47.5	2.2	3.7	3.6	4.3	**3.7**	**3.3**	**2.5**
Public Consumption		968.7	19.2	1.4	1.9	2.7	1.3	**2.7**	**2.1**	**1.9**
Gross fixed capital formation		1246.1	24.7	2.2	10.2	-3.1	3.3	**7.8**	**3.7**	**3.2**
of which: equipment		552.9	11.0	4.1	9.3	-2.5	3.2	**8.0**	**4.5**	**4.1**
Exports (goods and services)		4024.6	79.8	8.7	6.0	4.3	6.7	**4.4**	**3.7**	**3.4**
Imports (goods and services)		3645.2	72.3	8.1	6.8	2.8	6.0	**5.1**	**4.0**	**3.4**
GNI (GDP deflator)		4735.3	93.9	2.2	5.3	2.7	4.7	**3.2**	**3.1**	**2.7**
Contribution to GDP growth:	Domestic demand			2.0	4.7	1.4	3.1	**4.2**	**2.9**	**2.4**
	Inventories			0.1	0.8	-0.4	0.1	**-1.0**	**0.0**	**0.0**
	Net exports			0.5	-0.2	1.4	1.1	**-0.2**	**0.0**	**0.2**
Employment				0.1	1.4	1.6	1.6	**1.6**	**0.3**	**0.0**
Unemployment rate (a)				7.2	5.1	4.0	2.9	**2.4**	**2.5**	**2.6**
Compensation of employees / head				4.7	3.0	4.0	6.4	**8.0**	**7.8**	**5.6**
Unit labour costs whole economy				2.2	-0.8	3.1	3.6	**6.5**	**5.0**	**3.0**
Real unit labour cost				0.3	-2.0	1.8	2.1	**4.8**	**2.6**	**0.9**
Saving rate of households (b)				11.5	12.0	11.6	9.5	**9.9**	**10.7**	**10.8**
GDP deflator				1.9	1.2	1.3	1.5	**1.6**	**2.3**	**2.0**
Harmonised index of consumer prices				2.3	0.3	0.6	2.4	**2.1**	**2.2**	**1.8**
Terms of trade goods				-0.3	0.5	1.0	-1.4	**-0.4**	**0.3**	**0.5**
Trade balance (goods) (c)				-1.2	4.1	5.4	5.0	**4.3**	**4.2**	**4.4**
Current-account balance (c)				-3.6	-1.5	0.1	0.3	**-0.5**	**-0.5**	**-0.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.7	1.3	0.6	0.8	**0.0**	**0.0**	**0.5**
General government balance (c)				-3.5	-0.6	0.7	1.5	**1.4**	**0.8**	**0.7**
Cyclically-adjusted budget balance (d)				-3.6	-0.5	0.9	1.1	**0.9**	**0.2**	**0.2**
Structural budget balance (d)				-	-0.6	0.9	1.1	**0.9**	**0.2**	**0.2**
General government gross debt (c)				30.7	40.0	36.8	34.7	**33.2**	**32.1**	**31.2**

(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.

4. DENMARK

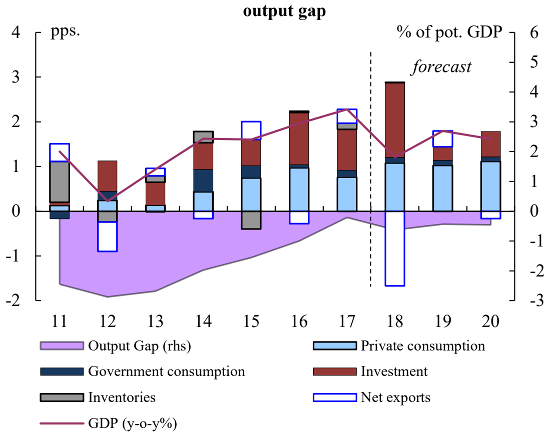
Temporary slowdown

Economic growth in Denmark is forecast to remain solid despite a temporary slowdown in 2018. Private consumption supported by fiscal measures is set to become the main driver of growth. The general government nominal headline position is expected to remain close to balance.

Volatile figures

After reaching a decade high of 2.3% in 2017, real GDP growth in Denmark is forecast to abate to 1.2% in 2018. This slowdown is primarily due to temporary factors. A large payment for the use of a Danish patent (recorded as a service export) lifted real GDP growth by 0.4 pps. in 2017, but causes a similar slowdown in 2018. In addition, weather conditions have negatively affected agricultural production further dragging down economic developments this year. Real GDP is projected to expand at a rate of 1.8% and 2019 before slowing down to 1.6% in 2020 due to the weakening of growth in Denmark's main export markets.

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



Labour market remains strong

Despite a gradual tightening of the labour market, employment growth is expected to remain robust in the coming years. The labour force, which is projected to continue expanding largely thanks to past pension and labour market reforms, should help sustain the trend. Over the forecast horizon, employment growth is expected to outpace the growth of the labour force, so the unemployment rate should continue to fall gradually from 5.7% in 2017 to 4.7% in 2020. Low unemployment and increasing labour shortages in several sectors are projected to fuel wage growth.

Domestic demand remains robust

Private consumption was temporarily suppressed in 2017 by uncertainties related to changes in car taxation in 2017-Q3, which resulted in a 1.6% growth rate last year. In addition, robust employment growth, steadily rising disposable incomes and a number of fiscal measures are also expected to boost household incomes. The latter include payments to households from the reform of the voluntary early retirement scheme in 2018 and the repayment of excessively-collected property taxes at the end of 2019. As a result, private consumption is projected to grow at a rate of around 2.3% over the forecast horizon, becoming the main engine of economic growth.

Investment is set to jump by 8.2% in 2018, partly due to a large import of ships in the second quarter, which is set to swell both equipment investment and imports this year. This temporary lift will have a negative base effect on investment next year, resulting in a relatively low growth rate of 1.4% in 2019, before rising again to 2.6% in 2020. Excluding this temporary factor, the underlying investment growth remains robust. Rising housing prices have now spread outside the main urban areas, and are expected to support a further strong increase in residential property investment. Machinery and equipment investment remains solid but is set to gradually weaken towards 2020, in line with expected developments in Denmark's main trading partners.

Fall in the current account surplus

The above mentioned temporary factors also add to the volatility in Denmark's foreign trade figures. Exports are forecast to grow by a mere 0.6% this year due to the negative base effect of last year's patent exports. On the other hand, imports have been lifted by the large import of ships in 2018-Q2. As a result of these transactions, the current account surplus is projected to fall from 7.8% of GDP in 2017 to 6.1% in 2018, without indicating a deterioration in Danish competitiveness. Over the forecast horizon, exports and imports are expected to resume their steady trend growth, albeit at a weaker pace than growth in Denmark's export markets. With imports boosted by robust private consumption and investment, the current account surplus is set to hover around 6% of GDP.

Slowly increasing inflation

Notwithstanding rising oil prices, solid economic growth and a tightening labour market, HICP inflation is forecast to decline from 1.1% in 2017 to 0.8% in 2018, below the euro area average. This is mainly due to taxation changes and the slow rise of food prices so far this year. Rising energy prices are expected to lift consumer price inflation to 1.5% in 2019, while increasing wage growth is set to lift it up further to 1.7% in 2020.

Solid public finances

After turning out at 1.1% of GDP in 2017, the general government headline surplus is projected to fall to 0.2% of GDP in 2018. The estimated decline of the surplus is primarily the result of an expected fall in the pension yield tax revenue from the high level reached in 2017. While the continuously strong labour market is set to increase current taxes on income and wealth, slowing economic growth is putting downward pressure on corporate tax revenue. The reform of the voluntary early retirement scheme has led to a reimbursement of DKK 4 bn (0.2% of GDP) to households in early 2018.

The budget balance is projected to deteriorate further to -0.1% of GDP in 2019 due to a one-off repayment of DKK 15.5 bn (0.7% of GDP) of excessively-collected property taxes to households and companies, even though the underlying position is improving. Accordingly, the balance is projected to improve again in 2020 to an estimated surplus of 0.6% of GDP.

The structural balance is expected to decline to ½% of GDP in 2018 due to the transfers associated with the reform of the voluntary early retirement scheme. For the remainder of the forecast horizon, it is projected to stabilise at around 1% of GDP.

Public gross debt is projected to fall from 36.1% of GDP in 2017 to 30.5% in 2020 due to positive primary balances, low interest rates and stable growth.

Table II.4.1:

Main features of country forecast - DENMARK

	2017			Annual percentage change						
bn DKK	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	2149.6	100.0	1.2	1.6	2.0	2.3	**1.2**	**1.8**	**1.6**
Private Consumption	1008.4	46.9	1.0	1.6	2.1	1.6	**2.3**	**2.2**	**2.3**
Public Consumption	536.6	25.0	1.7	1.1	0.3	0.6	**0.5**	**0.5**	**0.4**
Gross fixed capital formation	441.2	20.5	1.0	3.1	6.0	4.5	**8.2**	**1.4**	**2.6**
of which: equipment	131.7	6.1	1.1	1.1	3.0	8.1	**14.5**	**-3.0**	**2.0**
Exports (goods and services)	1184.4	55.1	4.0	2.3	2.8	4.4	**0.6**	**2.7**	**1.9**
Imports (goods and services)	1034.9	48.1	4.3	1.9	3.8	4.3	**4.2**	**2.2**	**2.5**
GNI (GDP deflator)	2194.3	102.1	1.5	1.1	1.4	1.8	**1.4**	**1.8**	**1.6**
Contribution to GDP growth: Domestic demand			1.1	1.6	2.2	1.8	**2.9**	**1.4**	**1.8**
Inventories			0.0	-0.4	0.0	0.1	**0.0**	**0.0**	**0.0**
Net exports			0.1	0.4	-0.3	0.3	**-1.7**	**0.4**	**-0.2**
Employment			0.2	1.4	1.6	1.6	**1.7**	**1.1**	**0.8**
Unemployment rate (a)			5.5	6.2	6.2	5.7	**5.2**	**4.9**	**4.7**
Compensation of employees / head			3.0	1.8	1.3	1.1	**2.2**	**2.5**	**2.8**
Unit labour costs whole economy			2.0	1.6	0.9	0.5	**2.7**	**1.8**	**2.0**
Real unit labour cost			0.0	0.9	0.9	-1.2	**1.6**	**0.2**	**0.0**
Saving rate of households (b)			6.2	10.7	10.8	11.6	**12.3**	**12.3**	**12.3**
GDP deflator			2.1	0.7	0.0	1.7	**1.1**	**1.6**	**2.0**
Harmonised index of consumer prices			1.9	0.2	0.0	1.1	**0.8**	**1.5**	**1.7**
Terms of trade goods			0.9	1.2	1.4	-0.6	**-0.6**	**-0.3**	**0.1**
Trade balance (goods) (c)			4.0	5.2	5.6	5.7	**4.1**	**4.1**	**3.9**
Current-account balance (c)			4.3	8.8	7.3	7.8	**6.1**	**6.2**	**6.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			4.3	8.5	7.3	7.9	**6.2**	**6.3**	**6.2**
General government balance (c)			0.8	-1.5	-0.4	1.1	**0.2**	**-0.1**	**0.6**
Cyclically-adjusted budget balance (d)			0.9	-0.5	0.2	1.2	**0.5**	**0.2**	**0.8**
Structural budget balance (d)			-	-1.9	0.1	1.2	**0.5**	**0.9**	**0.8**
General government gross debt (c)			-	39.9	37.9	36.1	**33.3**	**32.2**	**30.5**

(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.

5. GERMANY

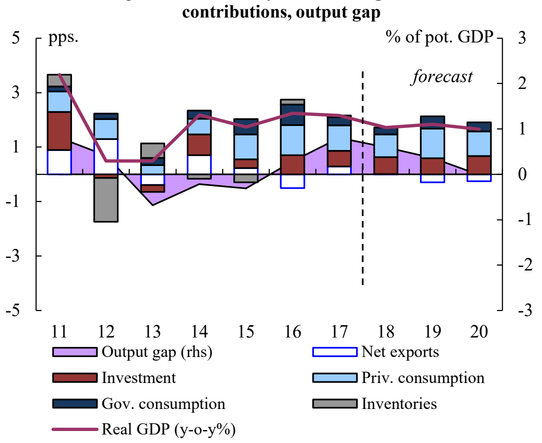
Domestic demand set to continue driving growth

Germany's economy has entered its sixth year of expansion. The strong labour market and ample fiscal capacity are expected to support domestic demand and sustain growth momentum. At the same time, the external environment is becoming less supportive for German exporters. Business investment growth is likely to weaken due to the increase in uncertainty surrounding global trade and the automotive sector.

Solid momentum amid growing concerns

GDP growth in early 2018 was driven by domestic demand, while export growth weakened. Private consumption growth improved after stagnating in the second half of last year. Public consumption resumed growth in the second quarter after declining in the first, due to the prolonged process of forming a government after the elections. In response to the favourable financing conditions and high capacity utilisation, housing and business investment were quite dynamic in the first quarter and increased further in the second, albeit at a slower pace.

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



Forward looking indicators point to a cooling of sentiment and weakening foreign demand. In the third quarter extraordinary sectoral factors are likely to weaken growth significantly. However, a rebound is expected in the last quarter. More generally, while considerable order backlogs in manufacturing and construction should sustain growth in the short run, the escalation of protectionism and rising financing costs in a number of countries could affect German exports by constraining investment demand. Domestic investment is expected to weaken due to uncertainty about global trade and the future of key industries linked to the automotive sector. However, aggregate demand should benefit from a strong labour market and rising incomes over the forecast horizon, not least due to fiscal support. Supply constraints due to a slower expansion of the labour force and tight capacity are forecast to weigh on growth, although activity is expected to be boosted by a calendar effect of about 0.3 pps. in 2020. Overall, real GDP is expected to increase by 1.7% this year, 1.8% in 2019 and 1.7% in 2020.

Strong labour market to support consumption

Employment growth is set to lead to further declines in the unemployment rate, which stood at a post-unification low of 3.4% between May and August. Inflows of foreign workers could help sustain employment growth, but most probably less than in recent years. Recently arrived refugees account for about 0.2 pps. of mid-year employment growth in 2018 (1.3%), which indicates that progress is being made in their integration into the labour market. Although this trend is expected to continue improving marginally over the forecast horizon, significant unused potential is likely to remain. The relative scarcity of labour seems to be having an impact on wage settlements and is expected to boost wage growth over the forecast horizon. With inflation at moderate levels, this should be positive for household purchasing power. The fiscal support for households envisaged in the Coalition Agreement, coming into effect in 2019, should provide an additional boost to disposable income. These developments are expected to sustain consumption growth, while allowing households to maintain their high saving rate.

Investment growth subject to uncertainty

Business investment growth is expected to weaken in the coming quarters as export prospects deteriorate and capacity expansion is reconsidered. At the same time, some manufacturers, e.g. in the automotive sector, may need to make significant investments to overhaul their product range. Housing investment may face supply constraints, while demand remains strong, judging from order levels and a pick-up in building permits.

The large external surplus to continue declining moderately

Solid domestic demand is expected to lead to a further increase in the import-to-GDP ratio. In addition, export growth may prove weaker than in recent years given the increasingly protectionist policies of some of Germany's main trading partners and a probable reshuffling of value chains. As a result, the current account surplus is forecast to continue declining in the coming years.

Inflation to remain moderate

Core inflation (excluding energy and unprocessed food) is expected to remain at 1.5% in 2018 and gradually increase to 1.8% in 2020 in a context of robust consumption and wage growth. Headline inflation is expected to pick up to 1.8% in 2018 and 1.9% in 2019 in line with rising energy prices. In 2020, energy prices are projected to ease slightly, bringing headline inflation down to 1.6%.

Budget surpluses reaching new heights

The budget balance is expected to peak in 2018 at 1.6% of GDP and to stay above 1% of GDP thereafter. The above-average increase in tax revenues, backed by rising wages and private consumption, is driving government revenues up in 2018. At the same time, the budget for 2018 was only adopted in the middle of the year, leading to restrained government expenditure. Nevertheless, public investment is expected to increase strongly in 2018, helped by the good financial situation of some municipalities.

The budget surplus is expected to decrease in 2019 as measures outlined in the March 2018 Coalition agreement start to have effect. The reductions in personal income taxes together with higher family benefits are set to dampen government revenues, while additional spending for pensions and security are projected to increase expenditure.

The positive structural balance is projected to peak in 2018 at about 1½% of GDP and to deteriorate thereafter by around half a percentage point. Government debt is projected to fall to the 60% Maastricht-threshold at the end of 2018 and to continue decreasing to about 57% of GDP by 2019 and 54% of GDP by 2020.

Table II.5.1:
Main features of country forecast - GERMANY

	2017		Annual percentage change						
	bn EUR Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	3277.3	100.0	1.3	1.7	2.2	2.2	**1.7**	**1.8**	**1.7**
Private Consumption	1732.2	52.9	0.9	1.7	2.1	1.8	**1.6**	**2.1**	**1.7**
Public Consumption	638.9	19.5	1.2	2.9	4.0	1.6	**1.3**	**2.3**	**1.7**
Gross fixed capital formation	665.7	20.3	0.9	1.6	3.5	2.9	**3.1**	**2.9**	**3.2**
of which: equipment	215.2	6.6	1.9	4.1	2.2	3.7	**4.7**	**2.9**	**3.3**
Exports (goods and services)	1541.9	47.0	5.4	5.3	2.3	4.6	**2.8**	**2.9**	**3.0**
Imports (goods and services)	1294.1	39.5	4.5	5.6	4.1	4.8	**3.3**	**4.2**	**4.1**
GNI (GDP deflator)	3346.3	102.1	1.5	1.9	2.1	2.3	**1.7**	**1.8**	**1.6**
Contribution to GDP growth: Domestic demand			0.9	1.8	2.6	1.8	**1.7**	**2.1**	**1.9**
Inventories			-0.1	-0.3	0.2	0.1	**0.0**	**0.0**	**0.0**
Net exports			0.5	0.2	-0.5	0.3	**0.0**	**-0.3**	**-0.3**
Employment			0.7	0.9	1.3	1.4	**1.3**	**0.8**	**0.7**
Unemployment rate (a)			7.9	4.6	4.1	3.8	**3.5**	**3.2**	**3.0**
Compensation of employees / head			1.5	2.7	2.2	2.6	**2.9**	**3.0**	**3.0**
Unit labour costs whole economy			0.9	1.9	1.3	1.8	**2.5**	**2.0**	**2.0**
Real unit labour cost			-0.2	-0.1	-0.1	0.3	**0.7**	**0.0**	**0.1**
Saving rate of households (b)			16.3	17.0	17.2	17.3	**17.2**	**17.2**	**17.2**
GDP deflator			1.1	2.0	1.4	1.5	**1.8**	**2.0**	**1.9**
Harmonised index of consumer prices			1.6	0.1	0.4	1.7	**1.8**	**1.9**	**1.6**
Terms of trade goods			-0.1	3.1	2.3	-1.6	**-0.8**	**0.0**	**0.0**
Trade balance (goods) (c)			6.2	8.6	8.5	8.1	**7.5**	**7.1**	**6.8**
Current-account balance (c)			4.2	8.9	8.7	8.2	**7.8**	**7.3**	**6.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			4.1	8.9	8.6	8.0	**7.6**	**7.3**	**6.9**
General government balance (c)			-1.8	0.8	0.9	1.0	**1.6**	**1.2**	**1.1**
Cyclically-adjusted budget balance (d)			-1.7	1.0	0.8	0.6	**1.2**	**1.0**	**1.1**
Structural budget balance (d)			-	1.0	0.7	0.8	**1.4**	**1.0**	**1.1**
General government gross debt (c)			68.1	70.8	67.9	63.9	**60.1**	**56.7**	**53.7**

(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.

6. ESTONIA

Flexible labour market supports growth in the short term

Both cyclical factors, including external demand, and structural factors, such as a flexible labour market, have supported Estonia's economic growth in recent years. Employment growth, which continued to be rapid in 2018 even though employment and participation rates were high, is projected to slow over the forecast horizon. The budget is expected to turn to a surplus from 2018 onwards, but the underlying structural fiscal position is estimated to remain in deficit.

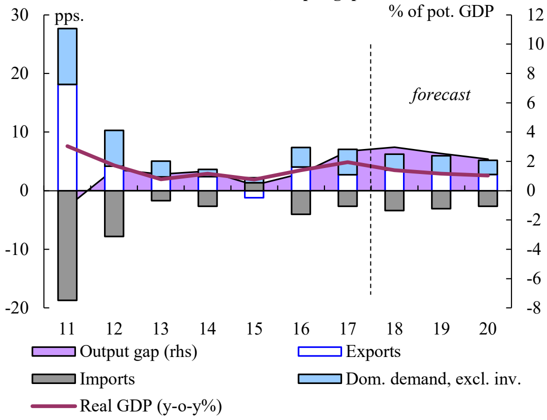
External and domestic demand contribute to a balanced growth outlook

Estonia's economy is forecast to expand by 3.5% in 2018. Growth has been broad based, with the export sector contributing strongly alongside domestic demand. This reflects buoyancy in export markets as well as the sustained competitiveness of industrial manufacturing and, most notably, the ICT services sector. Capacity constraints have been alleviated by the flexibility of the labour market, with labour supply being sustained through inward migration. Borrowing by households has remained stable, with saving rates close to the EU average.

Strong private consumption growth of over 4%, driven by the rise in disposable incomes, which reflects high employment and participation rates, is the main driver of domestic demand. Investment growth is set to fall back to 2.6% in 2018 after 12.7% in 2017, when a number of important one-off projects coincided with peak absorption of EU structural funds. Output growth is expected to be particularly strong in the manufacturing, ICT services, transport and logistics, and construction sectors. The energy production sector also stands to benefit from high oil prices. Corporate profit margins, however, are likely to decrease as the tight labour market has pushed up wages and unit labour costs, while productivity growth has slowed.

In 2019 and 2020, domestic demand is expected to be tempered by more moderate employment and wage growth. Investment, however, is forecast to make a bigger contribution to growth, as companies need to invest to overcome capacity constraints and maintain competitiveness. Industrial exports, by contrast, are expected to weaken, in line with the outlook for foreign demand. Overall, GDP growth is expected to slow to 2.8% in 2019 and 2.6% 2020, slightly below the economy's estimated long-term potential growth rate.

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



Price dynamics reflect external factors

In 2018, HICP inflation is forecast to reach 3.5%, largely due to rising global commodity prices. High oil prices will have a particularly significant impact given the relatively large share of energy in in Estonia inflation basket compared to other Member States. At the same time, the pass-through of higher wages on to services prices has been relatively moderate in recent quarters. Inflation is expected to moderate over the coming years to 3.3% in 2019 and 2.5% in 2020, in line with commodity price trends. Also, the inflationary impact from sharp increases in consumption taxes prior to 2018 will fade over 2019 and 2020.

Labour market surprises on the upside

Employment is projected to grow by about 1% in 2018 and to slow substantially thereafter, under the influence of negative demographic factors. High labour demand and successful labour market policies minimised the negative effect on the employment rate of the Work Ability Reform, introduced in recent years, which incentivised people outside the labour force to seek work. Many people with limited capacity to work have been able to find a job after having re-entered the labour market. Scarcity of labour supply was also alleviated somewhat by greater use of EU labour mobility provisions, such as the Posted Workers Directive, which helped to address labour needs in the growing construction and manufacturing sectors. Estonia's labour market is expected to operate at close to full capacity over the forecast horizon, feeding wage pressures and eroding competitiveness in some sectors of the economy, such as export-oriented manufacturing.

Public expenditure grows rapidly but budget remains in nominal surplus

The general government recorded a deficit of 0.4% of GDP in 2017. This is projected to turn into a surplus of 0.5% of GDP in 2018, in spite of several new expenditure programmes in healthcare, education, social funding and in financing local government mergers. The stronger fiscal balance emerges from better-than-expected tax revenues, as a result of rapid employment and wage growth, as well as cyclically buoyant consumption and construction activity, which boosted VAT revenues. Also, the fiscal cost of the 2018 personal income tax reform appears to have partly shifted from 2018 to 2019, due to the timing effects of tax allowances.

The fiscal surplus is forecast to remain fairly stable at around 0.5% of GDP in 2019 before abating to 0.2% of GDP in 2020. While the outlook for revenues is expected to remain favourable over the forecast horizon, expenditures are expected to rise. In particular, social expenditures are set to grow relatively rapidly due to an indirect link to overall wage growth.

Given that the economy is operating well above its potential, the structural fiscal position is expected to remain in a deficit of about ¾% of GDP in 2018 and to stay at that level over the forecast horizon. Public debt is forecast to remain low and to fall to below 8% by 2020.The main negative risks to this fiscal projection pertain to the broader macroeconomic risks, which could erode the revenue base, while expenditure is set to grow at a relatively rapid pace.

Table II.6.1:

Main features of country forecast - ESTONIA

		2017		Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		23.6	100.0	3.7	1.9	3.5	4.9	**3.5**	**2.8**	**2.6**
Private Consumption		11.8	50.1	3.8	4.4	4.4	2.6	**4.1**	**3.4**	**2.7**
Public Consumption		4.7	19.9	2.2	3.0	2.2	0.6	**0.3**	**0.9**	**0.7**
Gross fixed capital formation		5.8	24.4	4.8	-7.6	2.9	12.5	**2.6**	**4.6**	**4.2**
of which: equipment		2.2	9.5	4.9	-16.1	5.4	27.7	**-2.0**	**7.0**	**5.8**
Exports (goods and services)		18.1	76.5	6.4	-1.4	5.2	3.5	**4.6**	**3.9**	**3.7**
Imports (goods and services)		17.0	72.0	6.6	-1.7	5.5	3.6	**4.7**	**4.4**	**3.9**
GNI (GDP deflator)		23.1	98.0	3.6	2.6	3.4	5.2	**3.4**	**3.0**	**2.8**
Contribution to GDP growth:	Domestic demand			4.2	0.9	3.4	4.3	**2.7**	**3.0**	**2.5**
	Inventories			0.1	0.2	1.1	-0.3	**0.7**	**0.0**	**0.0**
	Net exports			-0.5	0.2	0.0	0.1	**0.1**	**-0.2**	**0.0**
Employment				0.0	2.9	0.3	2.7	**0.8**	**0.3**	**-0.1**
Unemployment rate (a)				10.2	6.2	6.8	5.8	**5.7**	**6.0**	**6.0**
Compensation of employees / head				8.9	3.3	6.3	6.9	**7.0**	**6.0**	**5.6**
Unit labour costs whole economy				5.0	4.3	3.0	4.7	**4.2**	**3.4**	**2.8**
Real unit labour cost				-0.1	3.2	1.5	0.8	**0.0**	**-0.2**	**-0.1**
Saving rate of households (b)				4.7	10.9	10.4	11.6	**10.8**	**10.8**	**11.6**
GDP deflator				5.1	1.0	1.5	3.9	**4.2**	**3.6**	**2.9**
Harmonised index of consumer prices				3.9	0.1	0.8	3.7	**3.5**	**3.3**	**2.5**
Terms of trade goods				0.7	0.2	1.0	0.9	**0.4**	**0.0**	**0.0**
Trade balance (goods) (c)				-11.8	-4.3	-3.5	-3.5	**-3.6**	**-3.9**	**-4.1**
Current-account balance (c)				-6.0	1.8	1.8	3.3	**3.5**	**3.2**	**3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.4	3.9	2.8	4.2	**4.9**	**4.7**	**4.6**
General government balance (c)				0.3	0.1	-0.3	-0.4	**0.5**	**0.5**	**0.2**
Cyclically-adjusted budget balance (d)				-0.3	-0.1	-0.8	-1.6	**-0.8**	**-0.7**	**-0.9**
Structural budget balance (d)				-	0.2	-0.7	-1.6	**-0.8**	**-0.7**	**-0.9**
General government gross debt (c)				6.2	9.9	9.2	8.7	**8.0**	**7.6**	**7.5**

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

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

7. IRELAND

Strong labour market and investment supporting domestic growth

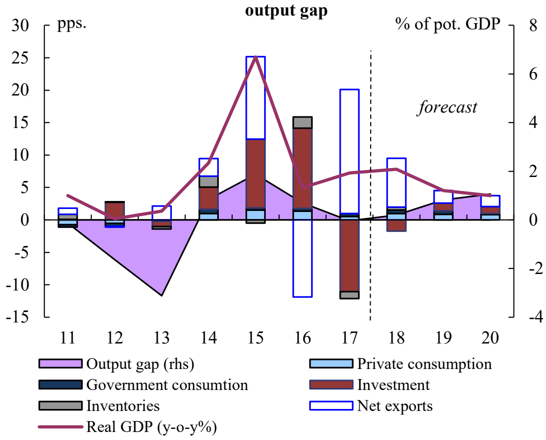
GDP growth in Ireland is expected to be strong this year, driven largely by the activities of multinational companies, but the pace is projected to moderate. The positive performance of the labour market and construction investment are expected to support the domestic economy in the near term. The government deficit is projected to turn slowly into a surplus, but risks to the fiscal outlook remain.

Domestic economy expected to grow at a solid pace…

Ireland reported 9.1% GDP growth in the first half of the year, a level well above the euro area average but distorted by the activities of multinational companies. The economy is forecast to expand by 7.8% this year but growth should moderate to 4.5% in 2019 and 3.8% in 2020.

Modified domestic demand, a measure of domestic activity that strips out some of the effects of multinationals, grew by 6.3% (y-o-y) in the first half of 2018. It is projected to expand at an average rate of over 4.0% between 2018 and 2020.

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



…supported by employment and investment

Employment, in particular full-time employment, increased strongly in the first half of 2018. Both the employment rate and participation rates, which remain below pre-crisis peaks, are expected to continue trending upward. The unemployment rate stood at 5.4% in September 2018 and is forecast to drop below 5% in 2020. Household earnings also grew, driven by robust job creation and moderate increases in hourly wages. The tightening of the labour market is expected to put upward pressure on wages and thus support household disposable income over the forecast horizon.

Construction activity was strong in the first half of 2018 and is expected to maintain momentum, driven by persistent supply shortages. Over the same period, investment in machinery and equipment picked up, partly matched by an associated increase in imports in this category, and is projected to expand by 15.7% in this year. However, headline investment declined by 16.5% (y-o-y) mostly due to a slowdown in imports of intellectual property, with a neutral effect on GDP.

Moderate inflation to support consumption

HICP inflation remained subdued in the first half of 2018 but accelerated in the third quarter as global oil prices rose. HICP inflation is projected to increase by 0.7% in 2018, driven by higher energy and services prices and is forecast to reach 1.2% in 2019 and 1.4% in 2020, as service prices rise in line with strong domestic demand. The modest inflation outlook is expected to remain favourable to the purchasing power of households.

Trade developments remain highly volatile

Through the first half of 2018, total exports increased by 8.7% (y-o-y), driven largely by trade in pharmaceutical goods while exports of services grew only modestly. Over the same period, total imports declined by 3.7% (y-o-y) mainly due to a strong fall in imports of services related to research and development by multinationals. By contrast, imports of goods increased by 7.2%. Consequently, net exports are expected to contribute considerably to GDP growth in 2018. In 2019 and 2020, net exports are expected to contribute positively to GDP growth, although significantly less than in 2018. However, headline trade figures will likely continue to be influenced by the activities of multinationals.

External risks to the outlook on the downside

Ireland's economic outlook is subject to significant uncertainties related, inter alia, to changes in the international taxation and trade environment. A large degree of unpredictability remains linked to the activities of multinationals, which could drive headline growth either up or down.

Public finances supported by buoyant tax revenues

The headline government balance is projected to improve to -0.1% of GDP in 2018. Cash returns for the first three quarters of 2018 were broadly in line with government projections, notwithstanding some expenditure slippages, particularly in the health area. Tax revenues increased by 6.6% over the twelve months to September, partly compensating for strong expenditure growth.

Ireland's 2019 Draft Budgetary Plan includes new spending measures and reductions of personal income tax of around 0.5% of GDP. These expansionary measures are partly financed by revenue raising measures of 0.2% of GDP.

Including the pre-committed expenditure increases, the balance is expected to stay unchanged in 2019 and, based on a no-policy change assumption, register a surplus of 0.2% of GDP in 2020. The main risks to the fiscal outlook remain on the downside, reflecting uncertainty as regards the economic outlook, the sustainability of the current level of some sources of government revenue (notably corporate income taxes) and over-spending within the health sector.

After remaining steady in 2018, the structural balance is expected to deteriorate in 2019 before improving in 2020. The general government debt ratio is projected to decline to 63.9% of GDP in 2018 and to fall further to 61.1% and 56.0% of GDP in 2019 and 2020 respectively. This is contingent on continued stable medium-term economic growth and positive primary balances.

Table II.7.1:

Main features of country forecast - IRELAND

		2017			Annual percentage change					
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		294.1	100.0	3.9	25.1	5.0	7.2	**7.8**	**4.5**	**3.8**
Private Consumption		93.8	31.9	3.0	3.6	4.1	1.6	**3.1**	**2.9**	**2.7**
Public Consumption		35.6	12.1	2.7	1.9	3.5	3.7	**4.3**	**4.3**	**1.4**
Gross fixed capital formation		69.0	23.5	3.1	51.1	51.4	-31.0	**-7.3**	**5.7**	**5.1**
of which: equipment		17.5	6.0	6.3	-2.9	24.2	-11.2	**15.7**	**3.4**	**4.1**
Exports (goods and services)		352.6	119.9	6.6	39.3	4.4	7.8	**6.1**	**4.5**	**4.1**
Imports (goods and services)		263.3	89.5	5.8	33.2	18.5	-9.4	**-0.3**	**4.1**	**3.8**
GNI (GDP deflator)		234.2	79.6	3.5	13.8	11.6	4.6	**6.0**	**4.1**	**3.1**
Contribution to GDP growth:	Domestic demand			2.6	12.3	14.3	-10.1	**-0.2**	**2.6**	**2.0**
	Inventories			0.1	-0.4	1.7	-1.1	**0.5**	**0.0**	**0.0**
	Net exports			1.6	12.7	-11.9	19.1	**7.5**	**1.9**	**1.7**
Employment				1.5	3.5	3.8	2.9	**3.1**	**2.6**	**2.0**
Unemployment rate (a)				8.4	10.0	8.4	6.7	**5.6**	**5.1**	**4.9**
Compensation of employees / head				3.4	2.6	2.1	0.9	**2.7**	**3.0**	**3.4**
Unit labour costs whole economy				1.0	-15.2	0.9	-3.2	**-1.8**	**1.1**	**1.6**
Real unit labour cost				-0.7	-21.0	1.7	-3.6	**-3.5**	**-0.7**	**-0.4**
Saving rate of households (b)				7.9	6.8	6.7	8.6	**8.4**	**8.3**	**8.2**
GDP deflator				1.8	7.4	-0.8	0.4	**1.7**	**1.9**	**2.1**
Harmonised index of consumer prices				2.1	0.0	-0.2	0.3	**0.7**	**1.2**	**1.4**
Terms of trade goods				-0.5	8.0	2.3	-5.3	**0.1**	**0.0**	**0.0**
Trade balance (goods) (c)				21.5	43.2	38.8	36.6	**36.4**	**35.7**	**35.0**
Current-account balance (c)				-1.8	4.4	-4.2	8.5	**11.7**	**11.6**	**11.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-1.8	3.9	-5.7	-1.1	**3.5**	**3.8**	**4.1**
General government balance (c)				-4.3	-1.9	-0.5	-0.2	**-0.1**	**-0.1**	**0.2**
Cyclically-adjusted budget balance (d)				-4.5	-2.9	-0.9	-0.2	**-0.2**	**-0.5**	**-0.3**
Structural budget balance (d)				-	-2.1	-1.0	-0.2	**-0.2**	**-0.5**	**-0.3**
General government gross debt (c)				57.7	76.8	73.4	68.4	**63.9**	**61.1**	**56.0**

(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.

8. GREECE

Programme exit amid strengthening recovery

Greece has exited its European Stability Mechanism programme and economic growth is taking hold, though vulnerabilities remain. Sustaining the reform momentum will be instrumental in underpinning investment and convergence. Employment is recovering and exports are expected to perform well by historical standards. Solid growth, in combination with low borrowing needs and high primary fiscal surpluses should help to reduce significantly the debt-to-GDP ratio.

The forecast is based on a no-policy-change fiscal scenario for 2019-2020 with implications for the macroeconomic outlook and as such, it is not directly comparable with the previous forecasts. Once the fiscal package to reach the 3.5% of GDP primary surplus target is finalised, the forecast will be duly adjusted.

Sustained growth

After a strong first quarter of 2.5% (y-o-y) growth, real GDP growth in Greece decreased in 2018-Q2 to 1.8% (y-o-y), corresponding to 0.2% (q-o-q, in seasonally adjusted terms).

Private consumption grew dynamically for the second consecutive quarter, increasing by 0.6% (q-o-q) in 2018-Q2. Exports recorded a strong 3.9% quarterly growth, driven mainly by services. Imports, however, rebounded strongly from the contraction in the previous quarter, so the overall impact of net exports on growth was negative. Investment remained flat, while government consumption decreased.

Commitment to reforms is key to further growth

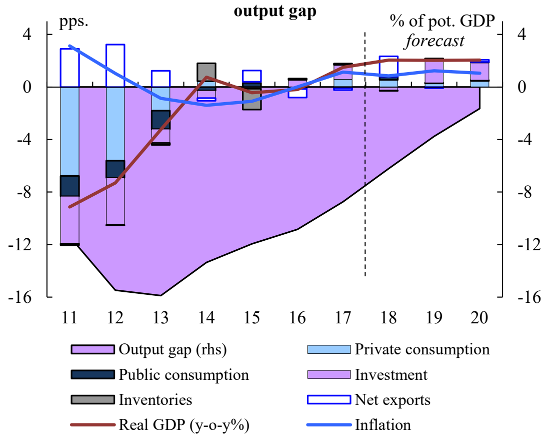
The current forecast rests on an assumption of no policy change for fiscal policy in 2019 and 2020. This is projected to result in a primary surplus of 3.9% of GDP (ESM programme definition). Negotiations for the 2019 budget are ongoing, and it is expected that the final package of measures will lead to a primary surplus of 3.5% of GDP for 2019. In this event, real growth rates would be higher and could reach 2.3% of GDP in 2019-20, which is in line with earlier Commission forecasts.

For 2018, GDP growth is slightly revised to 2.0%, up from 1.9% earlier, on the back of improved consumption dynamics. Investment is expected to contract this year, as the rebound in construction is seen as insufficient to balance the contraction in equipment investment. Greece's export shares have started to increase after several years of decline. Due to falling investment, imports have been markedly lower than anticipated. Net exports are therefore expected to be the main contributor to growth this year.

Based on the no-fiscal-policy-change assumption, growth is forecast to remain at 2.0% in 2019 and 2020. Investment is expected to become an important driver of growth as structural reforms start to bear fruit, provided that post-programme reform implementation is strong. Imports are expected to rise as investment rebounds and net exports thus turn negative.

The labour market recovery continues. Employment is expected to grow by 1.8% in 2018, bringing unemployment below 17% by 2020. HICP inflation is forecast to reach 0.8% this year, and to accelerate further in 2019 as the output gap closes and energy prices rise. With the expected decline in oil prices in 2020, inflation is set to decrease. Real wages are expected to rise gradually, in line with productivity gains.

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



The forecast also assumes that reform momentum will be maintained, providing credibility and a good investment climate. Downside risks include: domestic policy slippages as well as adverse external developments related to international financial markets and geopolitical developments

Public debt is set to decrease rapidly

The general government balance is projected to record a surplus in 2018, the third year in a row.

Building on the fiscal adjustment achieved in recent years, the outcome for 2018 is also expected to benefit from solid growth in the macro bases, a broad-based recovery in taxable profits and higher energy prices. As usual, the forecast assumes a full utilisation of spending ceilings. Underspending would improve the 2018 outturn over and above what is projected at present.

Under a no-policy-change assumption, Greece is set to over-achieve the primary surplus targets agreed in June this year in 2019 and 2020.[68] The main drivers of the emerging fiscal space are the still large output gap, the growing benefits of past pension reforms and ceilings on healthcare spending and new hirings, which help to keep expenditure dynamics in check.

The no-policy-change forecast assumes the implementation of the post-programme package legislated in 2017 to enter into force in 2019 and 2020, in a fiscally broadly neutral manner. The authorities have reiterated their commitment to achieve the primary surplus target of 3.5% of GDP agreed with the Eurogroup in June 2018. At the same time, Greece's Draft Budgetary Plan indicated the government's intention to replace the measures pre-legislated for 2019 by an alternative policy package. The size and the design of the compromise package are still under discussion and it has not been included in the current projection.

While continued improvements in the collection of tax debt represent an upside, there are also important downside risks, such as ongoing court cases that could trigger a partial reversal of earlier reforms and give rise to fiscal liabilities. Additional pressure could arise from new policy initiatives affecting the public wage bill.

Overall, under the no-policy-change assumption, the general government balance is expected to remain stable at 0.6% of GDP over the forecast horizon. In view of the projected narrowing of the output gap, the structural balance is forecast to gradually decline from around 4.0% of GDP in 2018 to 1.5% of GDP in 2020. Greece's public debt is expected to peak at 182.5% this year and to decline to 167.4% of GDP by 2020 on account of the recovery of growth and the high primary surpluses forecast.

(68) The primary balance monitored under the Enhanced Surveillance excludes *inter alia* SMP and ANFA revenues, revenues from the sale or lease of real estate, bank recapitalisation costs and migration-related expenditure.

Table II.8.1:

Main features of country forecast - GREECE

		2017			Annual percentage change					
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		180.2	100.0	0.3	-0.4	-0.2	1.5	**2.0**	**2.0**	**2.0**
Private Consumption		123.8	68.7	0.4	-0.2	0.0	0.9	**0.8**	**0.4**	**0.7**
Public Consumption		35.7	19.8	0.7	1.6	-0.7	-0.4	**1.2**	**0.2**	**0.3**
Gross fixed capital formation		23.2	12.9	-3.4	0.7	4.7	9.1	**-2.1**	**14.6**	**9.6**
of which: equipment		10.5	5.8	-0.9	7.3	-11.4	22.2	**-9.4**	**18.5**	**9.5**
Exports (goods and services)		59.5	33.0	4.3	3.1	-1.8	6.8	**8.4**	**5.7**	**4.4**
Imports (goods and services)		61.3	34.0	1.8	0.4	0.3	7.1	**3.6**	**6.1**	**3.9**
GNI (GDP deflator)		181.0	100.4	0.2	-0.6	-0.1	1.4	**1.4**	**2.2**	**2.3**
Contribution to GDP growth:	Domestic demand			0.1	0.3	0.4	1.6	**0.5**	**2.1**	**1.8**
	Inventories			0.0	-1.6	0.1	0.1	**0.0**	**0.0**	**0.0**
	Net exports			0.3	0.9	-0.7	-0.1	**1.6**	**-0.1**	**0.2**
Employment				-0.4	0.7	0.5	1.5	**1.8**	**1.6**	**1.2**
Unemployment rate (a)				13.7	24.9	23.6	21.5	**19.6**	**18.2**	**16.9**
Compensation of employees / head				2.7	-2.4	-0.9	0.5	**0.9**	**1.3**	**2.0**
Unit labour costs whole economy				2.0	-1.3	-0.3	0.6	**0.6**	**0.9**	**1.2**
Real unit labour cost				0.0	-0.9	0.0	0.0	**0.1**	**-0.2**	**-0.1**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				2.0	-0.3	-0.2	0.6	**0.5**	**1.1**	**1.2**
Harmonised index of consumer prices				2.6	-1.1	0.0	1.1	**0.8**	**1.2**	**1.0**
Terms of trade goods				-0.1	0.6	-2.3	1.2	**0.4**	**-1.0**	**0.2**
Trade balance (goods) (c)				-14.5	-9.1	-9.3	-10.3	**-9.4**	**-10.2**	**-10.2**
Current-account balance (c)				-9.3	0.1	-0.6	-1.0	**-0.2**	**-0.2**	**0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.7	2.5	1.0	0.1	**1.0**	**1.0**	**1.4**
General government balance (c)				-8.1	-5.6	0.5	0.8	**0.6**	**0.6**	**0.6**
Cyclically-adjusted budget balance (d)				-7.0	0.2	5.8	4.9	**3.6**	**2.5**	**1.5**
Structural budget balance (d)				-	2.8	5.1	4.6	**4.0**	**2.3**	**1.5**
General government gross debt (c)				125.3	175.9	178.5	176.1	**182.5**	**174.9**	**167.4**

(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.

9. SPAIN

Growth to decelerate as private consumption eases

Growth is expected to remain robust but decelerate as households restrain consumption to increase their savings. Unemployment is forecast to continue its decline despite decelerating job expansion, and wage growth is expected to pick up. Steady decline in the government deficit is set to keep the debt ratio on a moderate downward path.

Growth has been robust but lower than expected in the first half of the year

Now in its fifth year of expansion, Spain's economy started to show signs of a mild deceleration in the first half of the year. According to the revised national accounts, real GDP growth stood at 0.6% q-o-q in both Q1 and Q2, slightly lower than anticipated. Together with a downward revision of growth estimates for 2017, this implies a lower growth momentum for 2018 as a whole. The composition of growth has also been somewhat different than anticipated, with a lower contribution of net exports. The pace of economic activity is projected to remain broadly stable in the second half of 2018, as the entry into force of the measures contained in the 2018 budget is set to support an otherwise moderating private consumption. Overall, GDP growth for 2018 is now projected at 2.6%, 0.2 pps. lower than in the summer interim forecast.

Private consumption set to slow, but investment expected to remain dynamic

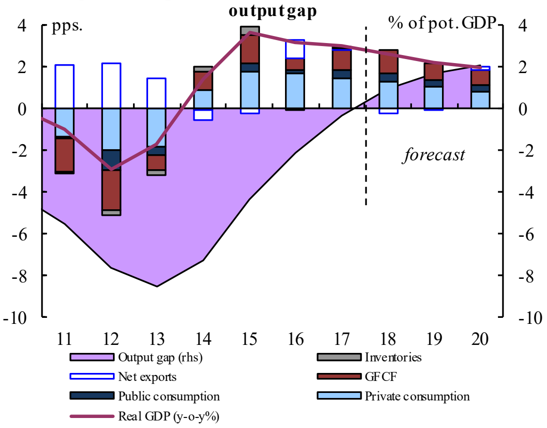
Growth is expected to decelerate further, to 2.2 % in 2019 (also 0.2 pps. lower than in the summer interim forecast) and 2.0% in 2020. The deceleration is mainly driven by a slowdown in private consumption, as oil prices increase further and pent-up demand is absorbed. However, still robust job expansion and accelerating wage growth – also due to the planned increase in the minimum wage - should continue to support disposable income growth over the forecast horizon. As a result, the saving rate, which is expected to reach a historic low in 2018, is projected to rebound in 2019 and increase slightly further in 2020.

Investment is expected to accelerate this year, before moderating over the forecast horizon. Equipment investment, which has surprised by its strength in recent quarters, is expected to slow down but continue growing above final demand, backed by favourable financing conditions. After accelerating this year, construction investment is expected to gradually slow down but remain dynamic over the forecast horizon.

Net exports should support growth again

After a weak start to the year, exports are expected to accelerate in H2-2018 and 2019 and then stabilise, as export markets recover, cost-competitiveness gains continue, and the impact of the appreciation of the euro fades away. After growing more strongly than expected in 2017, imports are set to slow over the forecast horizon as final demand moderates. As a consequence, the contribution of net exports to growth is expected to be negative in 2018, before turning positive again next year. The terms of trade are forecast to deteriorate further this year and then become broadly neutral. These factors should result in a decline of the current account surplus in 2018 and 2019, before improving slightly in 2020.

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



Unemployment set to continue falling

Employment growth is expected to slow down as a consequence of the deceleration of final demand, as well as the dampening impact of the planned increase in the minimum wage. Still, unemployment is set to continue falling, to 13.4% in 2020, its lowest level since 2008. Wage growth is expected to peak in 2019, also under the impact of the increase of the minimum wage, and moderate but still grow at a rate above inflation in 2020. As labour productivity is forecast to grow moderately over the forecast horizon, this will lead to increases in nominal unit labour costs. After reaching 2% in 2017, HICP is expected to gradually moderate over the forecast horizon to 1.5% in 2020, driven by base effects in oil prices. This is despite the gradual increase in core inflation, which is expected to reach 1.7% in 2020, as the output gap widens and wages increase.

Budget deficit set to continue narrowing

After decreasing by 1.4 pps. to 3.1% of GDP in 2017, the general government deficit is expected to decline and reach 2.7% of GDP in 2018, thanks to still robust economic growth. The somewhat slower pace of deficit reduction is due to measures included in the 2018 budget law, namely the higher revaluation of pensions, the pay hike for public employees and, to a lesser extent, the tax cut for low-income earners. The headline deficit is set to decline further in 2019, to 2.1% of GDP, on the back of continued firm economic growth and the net impact of measures in the 2019 draft budgetary plan. The latter include higher revenues from environmental taxes and corporate and household income taxes, as well as new taxes on digital services and financial transactions. Higher expenditure on items such as pensions, long-term care and paternity leave are also included and partly offset the impact of revenue-raising measures. In 2020, at unchanged policies, the deficit is expected to narrow to 1.9% of GDP.

This forecast is based on a cautious assessment of the measures included in the 2019 budget plan. In particular, there is uncertainty regarding the yield of some of the new tax measures, as well as the fiscal impact of the planned increase of the minimum wage. In addition, some of the planned expenditure measures may not be fully executed. Regarding downside risks, compensation payments due following the Supreme Court decision of February 2018 to declare void the ATLL water concession in Catalonia may add to the deficit forecast.

Spain's structural deficit is expected to deteriorate by about ¼% of GDP in 2018 to reach about 3% of GDP, before stabilising around that level over the 2019-2020 period. The general government debt-to-GDP ratio is expected to decrease slightly to 95.4% by 2020, as a result of strong nominal GDP growth and the narrowing budget deficit.

Table II.9.1:

Main features of country forecast - SPAIN

		2017		Annual percentage change						
		bn EUR Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		1166.3	100.0	1.7	3.6	3.2	3.0	**2.6**	**2.2**	**2.0**
Private Consumption		670.5	57.5	1.3	3.0	2.9	2.5	**2.3**	**1.8**	**1.4**
Public Consumption		215.7	18.5	3.0	2.0	1.0	1.9	**1.9**	**1.7**	**1.5**
Gross fixed capital formation		239.0	20.5	0.9	6.7	2.9	4.8	**5.4**	**3.9**	**3.3**
of which: equipment		82.4	7.1	2.0	11.9	5.2	6.0	**6.0**	**4.1**	**3.7**
Exports (goods and services)		400.2	34.3	3.7	4.2	5.2	5.2	**2.6**	**3.3**	**3.4**
Imports (goods and services)		366.2	31.4	2.9	5.4	2.9	5.6	**3.5**	**3.5**	**3.2**
GNI (GDP deflator)		1165.0	99.9	1.7	3.7	3.5	2.8	**2.6**	**2.2**	**2.0**
Contribution to GDP growth:	Domestic demand			1.6	3.5	2.4	2.8	**2.8**	**2.2**	**1.8**
	Inventories			0.0	0.5	-0.1	0.1	**0.0**	**0.0**	**0.0**
	Net exports			0.1	-0.3	0.8	0.1	**-0.2**	**0.0**	**0.1**
Employment				0.7	3.3	3.0	2.9	**2.4**	**1.7**	**1.5**
Unemployment rate (a)				15.1	22.1	19.6	17.2	**15.6**	**14.4**	**13.3**
Compensation of employees / f.t.e.				2.8	0.8	-0.5	0.3	**1.0**	**2.4**	**1.7**
Unit labour costs whole economy				1.8	0.5	-0.6	0.2	**0.9**	**1.9**	**1.2**
Real unit labour cost				-0.4	0.0	-0.9	-1.0	**-0.5**	**0.3**	**-0.5**
Saving rate of households (b)				9.8	8.7	7.8	5.5	**4.5**	**5.1**	**5.2**
GDP deflator				2.2	0.5	0.3	1.2	**1.4**	**1.6**	**1.7**
Harmonised index of consumer prices				2.5	-0.6	-0.3	2.0	**1.8**	**1.7**	**1.5**
Terms of trade goods				-0.4	2.1	0.1	-0.8	**-1.6**	**-0.6**	**-0.1**
Trade balance (goods) (c)				-5.4	-2.0	-1.4	-1.9	**-2.3**	**-2.4**	**-2.3**
Current-account balance (c)				-4.3	1.1	2.2	1.9	**1.2**	**1.0**	**1.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.7	1.7	2.4	2.2	**1.5**	**1.3**	**1.4**
General government balance (c)				-3.5	-5.3	-4.5	-3.1	**-2.7**	**-2.1**	**-1.9**
Cyclically-adjusted budget balance (d)				-3.0	-2.8	-3.3	-2.9	**-3.2**	**-3.1**	**-3.1**
Structural budget balance (d)				-	-2.5	-3.3	-2.9	**-3.1**	**-3.1**	**-3.1**
General government gross debt (c)				58.6	99.3	99.0	98.1	**96.9**	**96.2**	**95.4**

(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.

10. FRANCE

Continued solid growth despite short-term volatility

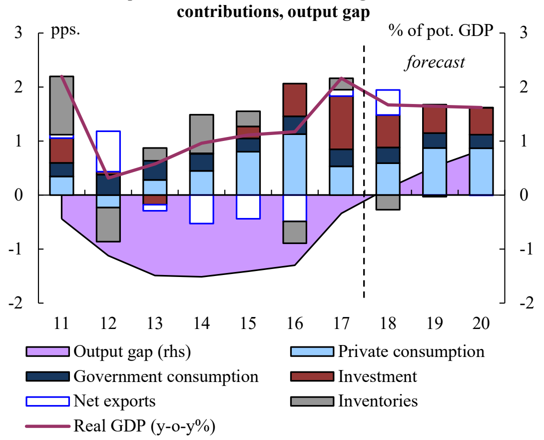
Economic activity is forecast to accelerate in the second half of 2018. Private consumption is set to gain momentum, which should somewhat compensate for the slight slowdown in investment expected in 2019 and 2020. Net trade should support GDP growth in 2018 and turn neutral afterwards. Unemployment continues to decrease. The public deficit is forecast to fall below 2% of GDP as the structural balance is set to improve sightly.

After five strong quarters, GDP growth in France slowed markedly to 0.2% in the first two quarters of the year. Temporary factors, such as the school holiday calendar, strikes and unusually warm weather partly explain this slowdown.

As these factors fade away, economic activity should rebound in the third quarter when consumption is expected to bounce back. Positive fiscal measures (a decrease in social contributions and a cut in the housing tax) should also support consumption at the end of the year. Investment is forecast to remain dynamic, in line with business climate indicators, which remain high. Net trade is expected to make a strong contribution to growth, helped by large exports from the aeronautic sector.

As a result, GDP growth is expected to remain robust at 1.7% in 2018 before cooling marginally to 1.6% both in 2019 and 2020 [69], as spare capacities in the economy are reabsorbed and the external environment becomes less supportive.

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



Consumption to pick up gradually, while investment growth cools

Private consumption growth is forecast to pick up gradually, as rising nominal wages boost disposable incomes and prices slow down. Fiscal measures should provide further support to purchasing power and private consumption at the end of 2018. Net property income is set to accelerate in 2018 and should contribute to an increase in the saving rate.

Investment growth is forecast to remain buoyant in 2018 before cooling down in 2019 and 2020. Public investment is expected to rebound in 2018 and 2019, before local elections. By contrast, housing investment is projected to slow down markedly after very high growth in 2017, while corporate investment is also expected to ease, albeit more gradually.

Export growth to decrease but remain robust

After a strong increase in 2017, exports are set to slow down somewhat in the coming years, as global demand growth loses momentum, external uncertainty rises, and past euro appreciation makes itself felt. Import growth, by contrast, should decrease sharply on average in 2018, as service imports contracted in 2017 and at the beginning of 2018. Imports are set to be back in line with final demand afterwards. As a result, net exports are expected to make a positive contribution to growth in 2018 only, and to be neutral in 2019 and 2020.

Unemployment to continue falling

Unemployment should continue to fall, although by somewhat less than in 2017. Employment growth is set to moderate as the effects of past cuts to the labour tax wedge fade. Inflation is forecast to increase to 2.1% in 2018, from 1.2% in 2017, boosted by higher oil prices and increases in excise duties. In 2019, price pressures should moderate, reaching 1.7% as those effects wear out. Core inflation is estimated to increase gradually.

Risks tilted to the downside

Private consumption could rebound less than anticipated if households decide to increase their

[69] The GDP annual growth figures are non-calendar adjusted. In 2020, calendar adjusted GDP growth would reach 1.5%.

precautionary savings in light of the introduction of the withholding of the income tax and the planned lower indexation of pensions in 2019 and 2020. A prolonged decline in business sentiment could also end up translating into a steeper decline in growth.

Budget deficit to fall below 2% of GDP by 2020

The deficit for 2017 was revised to 2.7% of GDP, 0.1 pps. higher than in the April notification, due to the inclusion of the recapitalisation of AREVA NewCo/Orano, following Eurostat's reservation, and the reclassification of SNCF Réseau under the general government from 2016. These deficit-increasing effects are partly offset by updated information on social security and energy transition accounts. The headline deficit is currently forecast to amount to 2.6% of GDP in 2018, 0.3 pps. higher than in the spring forecast. This revision is mainly explained by the deterioration in the macroeconomic outlook and the deficit of SNCF Réseau that adds 0.1pps. of GDP to the general government deficit. Revenues are set to remain strong despite the tax cuts amounting to 0.3% of GDP. In turn, public expenditure in nominal terms and net of tax credits is expected to rise by 1.8%, which, once the effects of higher inflation are netted out, reflects a decline in real terms by 0.3%. The structural balance is projected to remain broadly flat in 2018.

In 2019, the headline deficit is expected to increase to 2.8% of GDP, due to the one-off deficit-increasing impact of 0.9% of GDP stemming from the replacement of the CICE (crédit d'impôt pour la compétitivité et l'emploi) by a permanent cut in social contributions. Without it, the headline deficit ratio would be 1.9% of GDP. Revenue growth is set to remain robust as cyclical conditions remain favourable. Tax cuts implemented in 2019, including the second cut in housing tax and a decrease in social contributions are partially offset by the increase in tobacco and environmental taxes of around 0.2% of GDP. Public expenditure in nominal terms and net of tax credits is expected to rise by 1.9%. The structural balance is set to improve by around ¼ of GDP.

At unchanged policies, the deficit is set to decline to 1.7% of GDP in 2020, mainly due to positive cyclical conditions. Both the revenue-to-GDP and the expenditure-to-GDP ratios are projected to decline, by 0.3 pps. and 1.3 pps., respectively. The debt-to-GDP ratio is forecast to decline from 98.7% in 2018 to 97.2% in 2020.

Table II.10.1:

Main features of country forecast - FRANCE

		2017			Annual percentage change					
		bn EUR Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		2291.7	100.0	1.5	1.1	1.2	2.2	**1.7**	**1.6**	**1.6**
Private Consumption		1239.2	54.1	1.7	1.5	2.1	1.0	**1.1**	**1.6**	**1.6**
Public Consumption		540.2	23.6	1.6	1.0	1.4	1.3	**1.2**	**1.2**	**1.1**
Gross fixed capital formation		515.9	22.5	1.7	1.0	2.8	4.5	**2.7**	**2.3**	**2.1**
of which: equipment		116.3	5.1	1.5	4.1	7.4	3.4	**3.0**	**3.2**	**2.7**
Exports (goods and services)		707.7	30.9	3.2	4.6	1.5	4.5	**3.4**	**3.4**	**3.2**
Imports (goods and services)		733.0	32.0	4.0	5.9	3.0	4.0	**1.8**	**3.3**	**3.1**
GNI (GDP deflator)		2348.5	102.5	1.5	1.1	1.1	2.5	**1.7**	**1.6**	**1.6**
Contribution to GDP growth:	Domestic demand			1.6	1.3	2.1	1.8	**1.5**	**1.7**	**1.6**
	Inventories			0.0	0.3	-0.4	0.2	**-0.3**	**0.0**	**0.0**
	Net exports			-0.2	-0.4	-0.5	0.1	**0.5**	**0.0**	**0.0**
Employment				0.7	0.3	0.8	1.0	**0.5**	**0.7**	**0.8**
Unemployment rate (a)				8.9	10.4	10.1	9.4	**9.0**	**8.8**	**8.4**
Compensation of employees / f.t.e.				2.4	1.0	0.8	1.9	**2.3**	**0.4**	**2.2**
Unit labour costs whole economy				1.7	0.3	0.4	0.6	**1.2**	**-0.6**	**1.4**
Real unit labour cost				0.2	-0.9	0.2	0.0	**0.2**	**-1.9**	**-0.1**
Saving rate of households (b)				14.4	13.8	13.6	13.9	**14.2**	**14.0**	**13.9**
GDP deflator				1.4	1.1	0.2	0.7	**0.9**	**1.4**	**1.5**
Harmonised index of consumer prices				1.7	0.1	0.3	1.2	**2.1**	**1.7**	**1.6**
Terms of trade goods				-0.2	4.4	1.0	-1.4	**-1.9**	**-0.2**	**0.5**
Trade balance (goods) (c)				-1.0	-1.1	-1.3	-1.8	**-2.0**	**-2.1**	**-1.9**
Current-account balance (c)				0.2	-0.4	-0.8	-0.6	**-0.6**	**-0.7**	**-0.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				0.2	-0.5	-0.8	-0.6	**-0.5**	**-0.5**	**-0.5**
General government balance (c)				-3.7	-3.6	-3.5	-2.7	**-2.6**	**-2.8**	**-1.7**
Cyclically-adjusted budget balance (d)				-3.9	-2.8	-2.8	-2.5	**-2.7**	**-3.1**	**-2.2**
Structural budget balance (d)				-	-2.7	-2.7	-2.4	**-2.5**	**-2.3**	**-2.2**
General government gross debt (c)				73.0	95.6	98.2	98.5	**98.7**	**98.5**	**97.2**

(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.

11. CROATIA

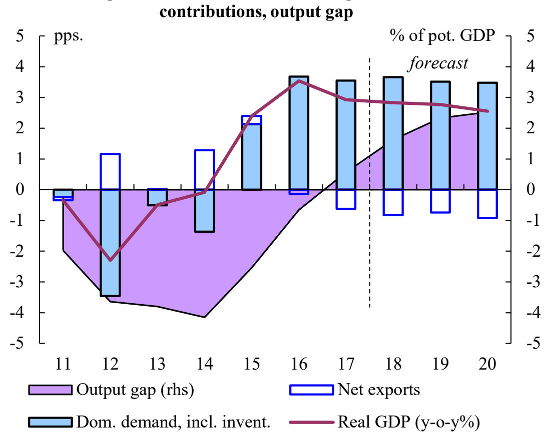
Consumption-driven growth set to moderate

Economic activity is set to moderate but maintain positive momentum over the forecast horizon. Household consumption is expected to be the main driver of growth, supported by steadily increasing disposable incomes. Unemployment is declining quickly, while the downward trend in participation rates is projected to turn positive. Continued strong tax revenue growth is expected to keep the government balance in surplus and the debt ratio declining.

Growth surprises in second quarter signalling a solid 2018

After closing 2017 on a weak quarterly reading, real GDP growth regained momentum in the first half of the year, posting a 1.1% q-o-q rate in the second quarter. Household consumption shows no sign of losing steam, bolstered by positive trends in employment and wages. The pace of export growth for both goods and services slowed down in the first half of the year and is set to moderate further in the second half. At the same time, imports of goods and services, while slowing somewhat, continue posting high growth rates. Overall, real GDP growth in Croatia is forecast at 2.8% in 2018.

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



Pace of expansion expected to moderate over the forecast horizon

Household consumption is expected to remain the main growth driver over the forecast horizon, as disposable incomes benefit from rising wages and employment, as well as steadily increasing tourist receipts and remittances. Furthermore, the purchasing power of households will be supported by subdued inflation, thanks to the planned reduction in VAT rates in 2019 and 2020, and consumer credit at low interest rates. Also private investment is set to benefit from continued favourable financing conditions, while public investment is projected to intensify as the currently lagging absorption of EU funding picks up toward the end of the programming period.

External demand for Croatian goods is expected to remain solid. However, the pace of exports' market share gains is likely to have peaked, and growth of goods exports is projected to continue moderating. Similarly, after years of record-setting numbers, revitalised competition in the Mediterranean is expected to have a dampening impact on the expansion of tourism services exports. Goods imports are projected to continue increasing steadily on account of strong domestic demand, while growth of imports of services is expected to slow down. As a result of these developments, the trade balance is set to progressively deteriorate, but remain positive. In turn, the current account surplus would edge down to below 2% of GDP by 2020, also thanks to higher profits in the banking sector owing to the absence of temporary effects, such as the Agrokor-related provisioning of last year.

Overall, real GDP is forecast to grow by 2.8% in 2019, when it will finally exceed pre-crisis levels, and by 2.6% in 2020, as the economy moves closer in line with its potential output.

Core inflation set to pick up

Job creation is expected to reach 2.3% this year, before moderating over the next two years. Wage growth is also expected to peak this year, under the impact of the stipulated increase in public wages. With unemployment falling rapidly and demand for labour intensifying in some sectors, wage pressures in the private sector are expected to grow stronger in 2019 and 2020. As the labour market continues improving, migration outflows are expected to ease and the negative trend in participation rates is expected to turn positive.

The expected rise in energy prices this year and the next will push up HICP inflation. Conversely, the

VAT rate reduction on several unprocessed food products in 2019 and the reduction of the general VAT rate by 1 pp in 2020 are expected to exert downward pressure on prices. Overall, the inflation rate is projected to rise up to 1.6% in 2018 and moderate thereafter, with core inflation picking up toward the end of the forecast period.

Downside risks to the forecast come from the external side. A slowdown in some of Croatia's main EU trading partners could dampen goods exports, while tourism could suffer more severely than expected from intensified competition in the Mediterranean. Positive risks may come from investment, should there be a more substantial pick-up in the absorption of EU funding.

Government surplus declining as contingent liabilities materialise

After recording a first-ever surplus (0.9% of GDP in 2017), Croatia's public finances remain in good shape in 2018. Revenues are growing strongly on the back of positive labour market developments and retail spending. Expenditure is pushed up by rising public sector wages, partly offset by declining debt servicing costs and lower-than-anticipated public investment. The materialisation of contingent liabilities (government guarantees to the shipyard industry) in excess of 1% of GDP is expected in 2018-2019. Largely due to this, the surplus is set to drop to 0.2% of GDP in 2018.

In 2019, revenue is expected to grow slower than nominal GDP due to the effects of the forthcoming tax reform, which will cut VAT, personal income taxes and social contributions. Expenditure growth should remain contained, largely due to the strong base effect of the rising wage bill and capital transfers in 2018. The surplus is thus expected to increase to 0.4% of GDP in 2019 and fall again to just above balance in 2020, largely on account of public investment growth. In structural terms, the general government balance is projected to fall into negative territory this year and deteriorate thereafter.

Driven by surpluses and GDP growth, the debt ratio is set to continue declining strongly, to 68.2% of GDP in 2020.

Risks to this forecast include the possibility of a greater-than-expected capital transfers to distressed companies.

Table II.11.1:
Main features of country forecast - CROATIA

		2017			Annual percentage change					
	bn HRK	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		365.6	100.0	1.5	2.4	3.5	2.9	**2.8**	**2.8**	**2.6**
Private Consumption		209.6	57.3	1.2	1.1	3.5	3.6	**3.8**	**3.6**	**3.3**
Public Consumption		71.3	19.5	1.4	-1.0	0.7	2.7	**2.7**	**1.8**	**2.0**
Gross fixed capital formation		73.3	20.1	1.8	3.8	6.5	3.8	**4.1**	**5.4**	**5.8**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		186.8	51.1	4.1	9.4	5.6	6.4	**4.3**	**4.2**	**4.1**
Imports (goods and services)		178.6	48.8	3.2	9.2	6.2	8.1	**6.2**	**5.9**	**6.0**
GNI (GDP deflator)		359.0	98.2	1.5	3.8	0.9	4.4	**1.4**	**2.8**	**2.5**
Contribution to GDP growth:	Domestic demand			1.5	1.2	3.4	3.3	**3.5**	**3.5**	**3.5**
	Inventories			0.0	0.9	0.3	0.2	**0.1**	**0.0**	**0.0**
	Net exports			0.1	0.3	-0.1	-0.6	**-0.8**	**-0.7**	**-0.9**
Employment				0.0	1.2	0.3	2.2	**2.3**	**2.0**	**1.3**
Unemployment rate (a)				-	16.1	13.4	11.1	**9.1**	**7.6**	**6.6**
Compensation of employees / head				3.6	0.4	1.3	-1.1	**2.0**	**1.7**	**1.5**
Unit labour costs whole economy				2.1	-0.8	-1.8	-1.8	**1.5**	**0.9**	**0.2**
Real unit labour cost				-0.9	-0.8	-1.8	-2.8	**-0.8**	**-0.8**	**-1.3**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				3.0	0.0	-0.1	1.1	**2.3**	**1.7**	**1.6**
Harmonised index of consumer prices				2.8	-0.3	-0.6	1.3	**1.6**	**1.5**	**1.4**
Terms of trade goods				0.9	-1.2	-0.6	-1.3	**0.7**	**-0.1**	**0.3**
Trade balance (goods) (c)				-18.2	-15.6	-15.7	-16.6	**-16.7**	**-17.3**	**-18.0**
Current-account balance (c)				-	4.6	2.5	4.1	**2.5**	**2.0**	**1.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	5.3	4.0	4.7	**3.4**	**3.2**	**3.2**
General government balance (c)				-	-3.4	-0.9	0.9	**0.2**	**0.4**	**0.1**
Cyclically-adjusted budget balance (d)				-	-2.3	-0.6	0.6	**-0.5**	**-0.7**	**-1.1**
Structural budget balance (d)				-	-2.3	-0.7	0.7	**-0.5**	**-0.7**	**-1.1**
General government gross debt (c)				-	83.7	80.2	77.5	**73.5**	**70.1**	**68.2**

(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.

12. ITALY

Italian economy and public finances at a crossroads

After solid growth in 2017, Italy's economy slowed down over the first half of this year as exports and industrial production weakened. A recovery in exports and higher public spending are expected to support growth moderately over the forecast period. However, the associated rise in the government deficit, coupled with higher interest rates and substantial downside risks, endangers the reduction of Italy's high debt-to-GDP ratio. Inflation is set to accelerate slightly in line with higher energy prices.

Italy's economy is going through a soft patch

After reaching 1.6% in 2017, real output expansion decelerated on the back of a weakening manufacturing sector and flagging exports in the first half of 2018. Economic activity stalled in the third quarter, partly due to the slowdown in the automotive sector, and is expected to remain muted in the very near term. Real GDP growth in 2018 is forecast at 1.1%. Investment is likely to be the main growth driver supported by tax incentives and on average still favourable financing conditions despite financial market turbulences.

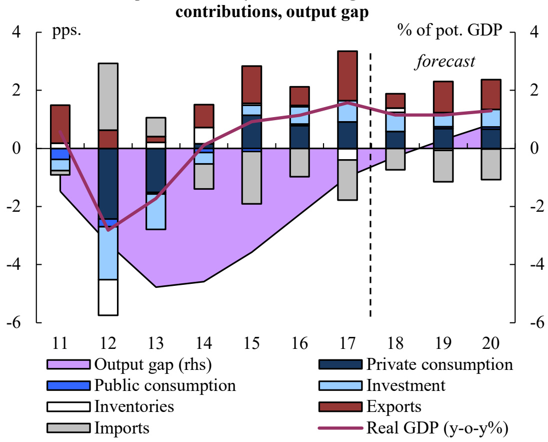
External and internal demand support growth

In 2019, a recovery of exports and higher public spending will help lift real GDP to 1.2%, while the output gap is expected to close. However, implementation lags and administrative bottlenecks are expected to delay the moderate growth impact of policy measures over the forecast period. The recovery of private investment is forecast to slow down as tailwinds such as accommodative monetary policy and tax incentives wane and firms face tighter financing conditions, linked to the impact of higher sovereign spreads on the supply of credit. Private consumption is set to continue growing at steady albeit moderate rates thanks to moderately growing wages and employment as well as increases in social transfers. However, higher oil prices will likely weigh on consumer spending.

In 2020, which has two additional working days, real GDP growth is forecast at 1.3%, supported by investment, especially in construction. Exports are set to grow broadly in line with export markets, while Italian exporters are set to keep their competitive position, thus containing market share losses incurred in 2018.

The growth outlook is subject to high uncertainty amid intensified downside risks. A prolonged rise in sovereign yields would worsen banks' funding conditions and further reduce credit supply, while public spending could crowd out private investment. Envisaged policy measures might prove less effective, having a lower impact on growth. Uncertainty about government policies might affect sentiment and domestic demand. Finally, the planned rollback of structural reforms bodes ill for employment and potential growth.

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



Labour market is improving only slowly

Employment is expected to grow by about 1% annually in 2018-2020, in line with economic activity and supported by hiring incentives. The unemployment rate is set to fall to 10% by 2020. Wage growth accelerated in 2018 on the back of pay rises in the public sector. However, the slack in the labour market implies that wage pressures and the increase in unit labour costs are likely to remain moderate over the forecast period.

Consumer prices are set to rise moderately

The headline HICP index is expected to increase by 1.3% this year and by 1.5% in 2019, largely driven by higher oil prices. Headline inflation should moderate to 1.4% in 2020, while core inflation is forecast to rise gradually to 1.4%. The GDP deflator is set to increase by 1.3% this year, partly due to higher public sector wages, and to grow broadly at this rate over the forecast period.

Government deficit expected to increase

After stabilising at 2.4% of GDP in 2017 due to extraordinary costs to support the banking sector, the government deficit is set to decline to 1.9% of GDP in 2018. Public wages were slightly raised, and the reduction of corporate tax rates introduced in 2017 had a delayed negative impact on revenues. Social security contributions benefitted from the end of the temporary reduction for newly hired employees. The structural balance is projected to remain around -1¾% of GDP.

In 2019, the government deficit is expected to increase to 2.9% of GDP due to the planned measures. Public spending will significantly increase following the introduction of a minimum income scheme, higher flexibility for early retirement and increased funds for public investment. Partial financing is provided by a spending review and several changes in the tax regime, especially for firms, which will temporarily support revenues. The previously budgeted simplified tax regime for small firms (IRI) and the tax incentives for firms' capital uplifts (ACE) will be replaced by the extension of a simplified tax regime for the self-employed and a reduction of corporate tax rates for firms increasing investment or hiring. The structural balance is expected to deteriorate to -3% of GDP.

In 2020, the government deficit is projected to reach 3.1% of GDP. This forecast does not consider the increase in VAT rates legislated as a safeguard clause, given past systematic repeals. The delayed impact of the tax cuts planned for 2019 and higher funds for public investment are expected to be only partially offset by strengthened provisions for electronic invoicing and temporary revenues from a new tax amnesty. The structural balance is projected to further deteriorate to -3½% of GDP.

Risks to the deficit projections include higher risk premia on sovereign yields, lower-than-expected savings from the spending review and higher spending due to the possible renewal of public wage contracts. Conversely, the possible activation of the safeguard clause in 2020 and potential underspending related to the new measures represent upward risks to the fiscal projections.

Due to the fiscal deterioration, coupled with downside risks to nominal growth, Italy's large debt-to-GDP ratio is forecast to remain stable at around 131% over the forecast period.

Table II.12.1:

Main features of country forecast - ITALY

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		1725.0	100.0	0.3	0.9	1.1	1.6	**1.1**	**1.2**	**1.3**
Private Consumption		1048.9	60.8	0.2	1.9	1.3	1.5	**1.0**	**1.1**	**1.1**
Public Consumption		320.0	18.5	0.7	-0.6	0.3	-0.1	**0.0**	**0.3**	**0.4**
Gross fixed capital formation		303.9	17.6	-0.6	2.1	3.5	4.3	**3.7**	**2.0**	**3.1**
of which: equipment		114.5	6.6	-0.5	4.6	6.6	8.8	**9.7**	**2.6**	**2.0**
Exports (goods and services)		537.9	31.2	1.9	4.4	2.1	5.7	**1.6**	**3.4**	**3.2**
Imports (goods and services)		486.0	28.2	1.6	6.8	3.6	5.2	**2.6**	**3.7**	**3.5**
GNI (GDP deflator)		1734.7	100.6	0.3	0.4	1.9	1.9	**1.3**	**1.2**	**1.3**
Contribution to GDP growth:	Domestic demand			0.2	1.4	1.4	1.6	**1.2**	**1.1**	**1.3**
	Inventories			0.0	0.1	0.0	-0.4	**0.1**	**0.1**	**0.0**
	Net exports			0.1	-0.5	-0.3	0.3	**-0.2**	**0.0**	**0.0**
Employment				0.1	0.7	1.3	0.9	**1.0**	**1.0**	**0.9**
Unemployment rate (a)				8.9	11.9	11.7	11.2	**10.7**	**10.4**	**10.0**
Compensation of employees / f.t.e.				2.4	1.0	0.3	0.2	**1.8**	**0.9**	**1.0**
Unit labour costs whole economy				2.2	0.7	0.4	-0.4	**1.6**	**0.8**	**0.6**
Real unit labour cost				0.2	-0.2	-0.7	-0.9	**0.4**	**-0.5**	**-0.8**
Saving rate of households (b)				13.1	10.6	10.5	9.6	**9.7**	**10.0**	**9.9**
GDP deflator				2.0	0.9	1.1	0.5	**1.3**	**1.3**	**1.4**
Harmonised index of consumer prices				2.1	0.1	-0.1	1.3	**1.3**	**1.5**	**1.4**
Terms of trade goods				-0.5	4.2	3.6	-2.2	**-0.7**	**-0.1**	**0.2**
Trade balance (goods) (c)				0.6	3.1	3.4	3.2	**2.8**	**2.7**	**2.8**
Current-account balance (c)				-0.8	1.4	2.5	2.7	**2.6**	**2.5**	**2.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.7	1.7	2.3	2.7	**2.5**	**2.4**	**2.4**
General government balance (c)				-3.2	-2.6	-2.5	-2.4	**-1.9**	**-2.9**	**-3.1**
Cyclically-adjusted budget balance (d)				-3.0	-0.7	-1.3	-1.9	**-1.8**	**-3.0**	**-3.5**
Structural budget balance (d)				-3.6	-0.5	-1.5	-1.8	**-1.8**	**-3.0**	**-3.5**
General government gross debt (c)				109.8	131.6	131.4	131.2	**131.1**	**131.0**	**131.1**

(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.

13. CYPRUS
Strong growth momentum continues

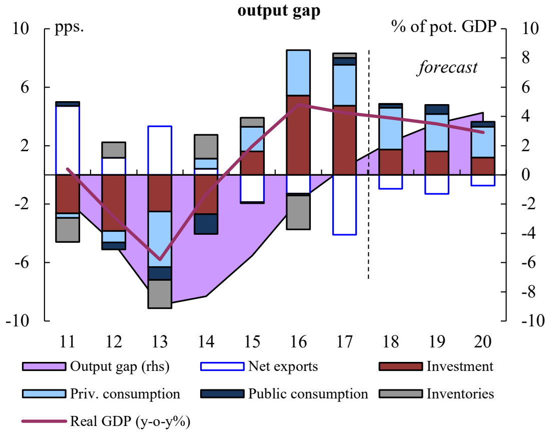
Economic activity is forecast to remain strong, driven by domestic demand. Unemployment is expected to continue its rapid decline, while headline inflation is projected to pick up only moderately. Robust economic growth is expected to support sustained budget surpluses and a decline in public debt from 2019 onwards, although the banking support measures in 2018 shifted public debt upwards and are likely to have deficit-increasing effects.

Strong growth set to continue

Economic growth in Cyprus remained strong in the first half of 2018, backed by solid private consumption, investment and exports, with real GDP growing by 4%. The recent revisions to GDP data paint a more pronounced V-shaped picture of Cyprus' economic recovery since the crisis. For 2016, real GDP has been revised up by 1.4 pps., to 4.8%; and for 2017 by 0.3 pps. up to 4.2%. Going forward, growth is expected to remain fairly strong and above potential, albeit decelerating from 3.9% in 2018 to 2.9% in 2020.

Growth is expected to become more domestic demand-driven. Private consumption accelerated in the first half of the year and is expected to remain fairly strong, as unemployment keeps rapidly declining, wages gradually increase and inflation remains low, further supporting real incomes. Private investment is set to remain buoyant, reflecting the upbeat business sentiment and the many large scale projects already in the construction phase. Public consumption and investment are also in the recovery mode.

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



Exports are expected to continue performing strongly in 2018, due to the sizable ship de-registration in the first quarter of the year (which statistically had the effect of increasing goods exports), but to weaken thereafter. The underlying gradual softening stems from the tourism sector, which has been a driving force behind service sector exports in recent years. It is now confronted with increasing competition from neighbouring countries, where safety concerns are abating, and the lower purchasing power of some tourists (predominantly British and Russian) as a result of currency depreciations. Meanwhile imports, due to their significant content in final demand, are projected to outweigh exports, thus leading to an overall negative contribution of net exports to real GDP growth, and to a further widening of the current account deficit.

With robust employment creation

Positive labour market dynamics, with a rapid employment expansion since 2016, have continued, bringing the unemployment rate down to 8.1% by mid-2018, the lowest level in eight years. The strong expansion of the economy, and in particular the construction sector, provided employment opportunities also for the most vulnerable groups – young and long-term unemployed – reducing their unemployment rates to 19% and 2.5%, respectively. Employment expectations in key sectors are positive, signalling a bright outlook in the short term. Wage growth has remained contained, but recent increases in public wages and diminishing slack in the economy are expected to encourage wage rises in the private sector as well.

Amid subdued inflation

Headline annual HICP inflation is forecast to remain low, at 0.8% in 2018. During the first three quarters of the year, non-energy industrial goods experienced a period of declining prices amid increasing competition, while higher oil prices were transmitted into energy prices with a lag. Going forward, inflation is expected to pick up moderately as the tighter labour market translates into higher wages.

The budget balance is set to remain in surplus, excluding the impact of the banking support measures in 2018, yet to be determined

The government's fiscal performance remains remarkably strong, with the primary surplus being among the highest in the euro area. The budget surplus is expected to increase and remain high over the forecast horizon, although the projection for 2018 does not yet include the potential deficit-increasing impact of banking support measures related to the Cyprus Cooperative Bank (CCB), which is subject to a decision by the statistical authorities.

The general government surplus is forecast to improve to 2.8% of GDP in 2018. Buoyant tax revenue growth underpinned by strong underlying economic growth will outpace government expenditure growth. In particular, taxes on products are projected to benefit from strong consumption, while income taxes and social contributions are expected to be supported by improving labour market conditions. Expenditure is projected to increase somewhat at a slower pace than revenues, mainly due to public sector pay rises and social transfers.

In 2019, the headline surplus is forecast to slightly increase to 3.0% of GDP, mainly due to a rise in social security contributions and despite the public wage growth and the introduction of the Estia scheme (i.e. State support for loan repayment of eligible borrowers with NPLs backed by primary residences). In 2020, under a no-policy change scenario, the headline surplus is projected to somewhat decline in line with the projected growth moderation. The structural surplus is forecast to increase to 1.7% of GDP in 2018 and to narrow in 2019 and 2020 as the positive output gap widens. Risks to the fiscal outlook are tilted to the downside, linked to the uncertainties on the potential 2018 deficit-increasing impact and contingent liabilities from the banking sector, the possible introduction of new taxation reforms in 2019 and the potential additional costs of the national health system reform.

Public debt to resume its declining path

Public debt is expected to register an upward level-shift by around 9 pps. of GDP in 2018 to 105.0%, due to banking support measures related to the CCB. However, public debt is projected to steadily decline thereafter, reflecting the projected primary surplus and strong real GDP growth.

Table II.13.1:

Main features of country forecast - CYPRUS

		2017		Annual percentage change						
	mio EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		19570.9	100.0	2.1	2.0	4.8	4.2	**3.9**	**3.5**	**2.9**
Private Consumption		13331.2	68.1	2.9	2.4	4.5	4.1	**4.2**	**3.8**	**3.1**
Public Consumption		2968.4	15.2	1.8	-0.5	-0.8	3.1	**1.7**	**4.1**	**2.4**
Gross fixed capital formation		4094.4	20.9	-1.3	13.8	41.8	26.8	**8.3**	**7.5**	**5.3**
of which: equipment		1869.1	9.6	-2.3	52.1	107.9	28.0	**4.5**	**3.5**	**3.2**
Exports (goods and services)		12726.2	65.0	1.8	5.2	4.6	6.0	**6.2**	**1.7**	**1.7**
Imports (goods and services)		13415.6	68.5	1.8	8.4	6.6	12.2	**7.3**	**3.5**	**2.7**
GNI (GDP deflator)		19037.2	97.3	1.7	6.5	2.0	3.5	**3.6**	**3.5**	**2.9**
Contribution to GDP growth:	Domestic demand			2.1	3.2	8.4	8.0	**4.8**	**4.8**	**3.6**
	Inventories			0.1	0.6	-2.3	0.3	**0.0**	**0.0**	**0.0**
	Net exports			-0.1	-1.9	-1.3	-4.1	**-1.0**	**-1.3**	**-0.7**
Employment				1.1	1.5	4.6	3.8	**3.9**	**2.8**	**2.3**
Unemployment rate (a)				6.7	15.0	13.0	11.1	**8.2**	**6.3**	**4.8**
Compensation of employees / head				2.8	-1.3	-1.1	0.7	**1.5**	**2.2**	**2.2**
Unit labour costs whole economy				1.9	-1.7	-1.4	0.4	**1.5**	**1.5**	**1.6**
Real unit labour cost				-0.2	-0.5	-0.8	-1.2	**-0.6**	**0.2**	**-0.1**
Saving rate of households (b)				5.8	-5.0	-2.3	-6.5	**-7.2**	**-8.3**	**-8.7**
GDP deflator				2.1	-1.2	-0.6	1.5	**2.1**	**1.3**	**1.7**
Harmonised index of consumer prices				2.3	-1.5	-1.2	0.7	**0.8**	**1.3**	**1.4**
Terms of trade of goods				0.3	3.2	-0.4	0.4	**0.8**	**-0.2**	**0.8**
Trade balance (goods) (c)				-23.1	-16.7	-21.0	-24.3	**-22.8**	**-23.8**	**-24.0**
Current-account balance (c)				-6.2	-2.0	-5.1	-8.4	**-8.2**	**-9.3**	**-9.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.8	-1.7	-4.9	-8.2	**-8.1**	**-9.3**	**-9.5**
General government balance (c)				-3.5	-1.3	0.3	1.8	**2.8**	**3.0**	**2.9**
Cyclically-adjusted budget balance (d)				-3.8	1.6	1.3	1.5	**1.7**	**1.2**	**0.7**
Structural budget balance (d)				-	2.4	1.3	1.5	**1.7**	**1.2**	**0.7**
General government gross debt (c)				65.5	108.0	105.5	96.1	**105.0**	**98.4**	**91.0**

(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.

14. LATVIA

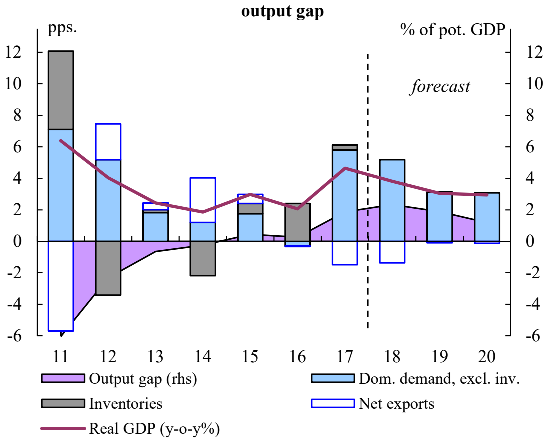
Balanced growth ahead

Economic growth in Latvia was stronger than expected in the first half of the year, but is set to cool in the second half and thereafter as investment growth slows. Inflation is set to remain elevated at around 3%, driven by energy prices. The labour market is expected to tighten further, as the labour force continues to shrink and employment rises. The government deficit is expected to increase to 1.0% of GDP in 2019, before declining in 2020.

2018 growth better than expected

Latvia's GDP grew by a stronger-than-expected rate of 4.6% (y-o-y) in the first half of the year, boosted by investment, which has grown at double-digit rates (y-o-y) for five consecutive quarters. Private consumption growth also improved compared with last year. Exports held up better than projected given the expected decline in financial services and transit services. In the second half of 2018, however, economic growth is expected to slow, as investment growth appears to have peaked and the impact from the winding down of the non-resident banking sector are expected to finally pass through to the economy. As a result, GDP growth in Latvia is expected to reach 4.1% in 2018.

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



Slower but more balanced growth forecast in 2019 and 2020

Latvia's growth momentum is expected to continue over the forecast horizon, albeit at a slower pace, with GDP growth projected at about 3% in both 2019 and 2020. Solid wage growth and continued consumer optimism are set to drive private consumption growth. Following the remarkable surge in 2017 and 2018, investment growth is forecast to slow down considerably but remain positive, as pent-up demand for office space and housing is forecast to drive construction investment over the coming years. Limited fiscal space is expected to weigh somewhat on public consumption growth in 2019. Weakening external demand is set to slow overall export growth over the projection horizon. In addition, the structural decline in financial and transit services are expected to further dent the outlook for export growth, slowing down the underlying positive growth momentum. The current account is set to remain balanced, as historically high and increasing savings easily cover current investment needs.

Investment growth supports employment

Employment is set to increase, thanks in particular to rapid growth in construction investment. The strong demand for labour in the economy has attracted previously inactive people into the labour force and led to a softening of the ageing-driven decline in labour supply. The unemployment rate is set to decline further. The tight labour market should continue to support wage growth over the coming years, although it is somewhat mitigated by slower demand growth and a stable minimum wage.

HICP inflation is set to hover just below 3% in both 2018 and 2019, driven mainly by energy and service prices, before moderating in 2020 as the pressure from energy prices fades out.

The risks to the forecast are balanced. On the positive side, credit growth recovery and increased labour supply could help sustain the investment boom beyond 2018 and therefore reinforce consumption and export growth. On the negative side, adverse developments in the external environment could dampen domestic optimism and undermine overall economic growth.

Fiscal deficit set to increase in 2019

The government deficit is forecast at 0.8% of GDP in 2018, better than expected in the spring.

Corporate income tax revenue exceeded expectations in the first half of the year, while revenues from the personal income taxes underperformed and VAT receipts were broadly in line with consumption growth.[70] Dividends received by the government also surprised on the upside. The government's capital spending is expected to be stronger than planned earlier while spending on goods, services and interest expenditure are set be somewhat below expectations.

For 2019, the government deficit is projected at 1.0% of GDP. This includes the effect of previously adopted tax reform measures as well as the pension expenditure increases adopted in summer of 2018. Social payments and public sector wages are expected to be the main drivers of the expenditure growth, while public investment expenditure is set to stabilise after a surge in the last two years.

Under a no-policy-change assumption, the government deficit is projected to decrease to 0.7% of GDP in 2020. This is linked to an expected resumption of tax revenue growth in line with economic developments, as the effect of the adopted tax-cutting measures is estimated to be lower than in 2018-2019. Public expenditure growth is expected to remain strong, particularly for social spending and public sector wages. Latvia's structural deficit is forecast to decrease from 1¾% of GDP in 2018 to 1¼% by 2020.

Government debt, which was an estimated at 40% of GDP in 2017, should decline to 36% of GDP by 2020, as nominal GDP growth outpaces the government's net borrowing. In 2018-2019, a reduction in the cash reserves should lower the gross debt ratio, but increase it in 2020 ahead of a large debt redemption in early 2021.

[70] For the time being, the forecast includes revenue collected under the VAT reverse charge mechanism for domestic supplies of consumer electronics and electrical household appliances (0.1% of GDP). However, the European Commission has objections concerning this measure because it violates EU VAT rules. Without prejudice to the final decision on this measure, it is assumed as part of the forecast as a technical assumption.

Table II.14.1:
Main features of country forecast - LATVIA

	2017		Annual percentage change						
mio EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	27033.1	100.0	3.8	3.0	2.1	4.6	**4.1**	**3.2**	**2.9**
Private Consumption	16151.6	59.7	3.9	2.5	1.4	4.1	**4.5**	**4.0**	**4.0**
Public Consumption	4836.5	17.9	0.9	1.9	3.9	4.1	**4.0**	**1.8**	**1.8**
Gross fixed capital formation	5650.7	20.9	5.4	-0.5	-8.4	13.1	**11.2**	**2.8**	**2.2**
of which: equipment	2277.1	8.4	3.5	-1.3	11.1	8.2	**5.0**	**3.0**	**3.0**
Exports (goods and services)	16515.7	61.1	6.9	3.1	4.4	6.2	**3.6**	**3.3**	**3.0**
Imports (goods and services)	16491.2	61.0	5.4	2.1	4.4	8.9	**6.3**	**3.4**	**3.3**
GNI (GDP deflator)	26846.0	99.3	3.7	2.8	2.4	4.2	**4.1**	**3.6**	**3.0**
Contribution to GDP growth: Domestic demand			4.5	1.8	-0.3	5.8	**5.7**	**3.3**	**3.2**
Inventories			-0.2	0.7	2.4	0.3	**0.0**	**0.0**	**0.0**
Net exports			-0.2	0.6	0.0	-1.5	**-1.7**	**-0.1**	**-0.2**
Employment			-0.7	1.4	-0.3	0.0	**1.5**	**0.3**	**0.1**
Unemployment rate (a)			12.5	9.9	9.6	8.7	**7.3**	**6.7**	**6.5**
Compensation of employees / head			9.5	7.7	7.3	8.0	**7.1**	**5.8**	**5.8**
Unit labour costs whole economy			4.9	6.1	4.8	3.1	**4.4**	**2.8**	**2.9**
Real unit labour cost			-0.1	6.1	3.9	0.0	**0.7**	**0.7**	**0.2**
Saving rate of households (b)			1.3	1.8	2.7	3.2	**5.4**	**6.0**	**6.8**
GDP deflator			5.0	0.0	0.9	3.2	**3.7**	**2.1**	**2.7**
Harmonised index of consumer prices			4.1	0.2	0.1	2.9	**2.7**	**2.7**	**2.4**
Terms of trade of goods			0.1	2.4	3.5	0.9	**1.2**	**-1.3**	**0.2**
Trade balance (goods) (c)			-16.1	-9.0	-7.5	-8.5	**-8.7**	**-9.3**	**-9.3**
Current-account balance (c)			-7.6	-0.5	1.4	0.7	**0.0**	**-0.4**	**-0.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.1	2.3	2.4	1.5	**1.8**	**1.7**	**1.9**
General government balance (c)			-2.8	-1.4	0.1	-0.6	**-0.8**	**-1.0**	**-0.7**
Cyclically-adjusted budget balance (d)			-2.6	-1.5	0.0	-1.2	**-1.8**	**-1.7**	**-1.2**
Structural budget balance (d)			-	-1.5	0.0	-1.2	**-1.8**	**-1.7**	**-1.2**
General government gross debt (c)			23.3	36.8	40.3	40.0	**37.1**	**35.5**	**35.7**

(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.

15. LITHUANIA

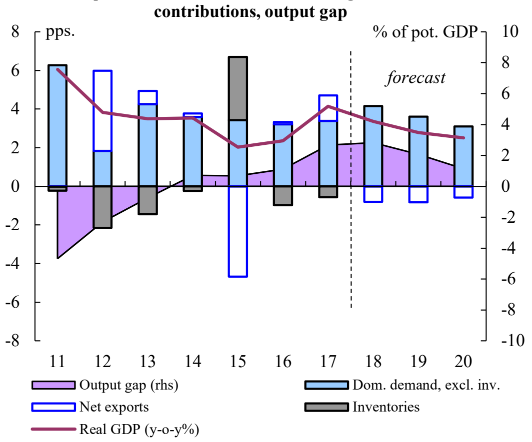
Domestic demand to drive GDP growth

Consumption and investment were strong in the first half of the year and are expected to continue supporting GDP growth over the forecast horizon. After peaking in 2017, inflation is expected to slow, as upward pressures from indirect taxes dissipate. The labour market is tightening and will continue to put pressure on wages. Lithuania is expected to maintain a general government surplus over the forecast horizon and a debt level well below 60% of GDP.

Growth momentum maintained

The strong momentum which propelled GDP growth in Lithuania to 4.1% in 2017 continued in the first half of 2018. The main drivers were private consumption and a robust increase in investment that was also supported by greater use of EU funding. Export growth slowed down to average levels due to a strong base effect (in 2017, exports grew by 13.6%, the highest in the EU) and weakening foreign demand. Contrary to 2017, re-exports, mainly to non-EU partners, almost came to a halt.

Graph II.15.1: **Lithuania - Real GDP growth and contributions, output gap**



Private consumption remains supported by high employment and rising real wages, which increases disposable income. After gaining momentum in 2017, investment continues to flourish, with productive investments, like machinery and intellectual property, growing at a faster pace than non-productive investments. From the beginning of 2018, inflation started slowing as the effect of last year's excise duty hikes and a one-off increase in air passenger transport prices in 2017 waned. Overall, the economy should remain strong in 2018 and grow at a rate of 3.4%.

Domestic factors expected to support growth

In 2019 and 2020, economic growth is expected to moderate to 2.8% and 2.5% respectively, driven by private consumption and, to a lesser extent, by investment. While wage growth is set to be somewhat slower than in 2018, private consumption should get an additional boost from the tax and social security reforms that were adopted this summer. At the same time, investment growth is expected to remain buoyant, boosted by a greater use of EU funds and spurred by capacity constraints in the context of increasing labour shortages.

After an exceptional trade performance in 2017, both imports and exports are expected to grow more slowly over the forecast horizon due to base effects and cooling economic activity in important trading partners. Domestic demand for capital goods as well as strong private consumption are expected to continue driving import growth. Service exports, especially in transport, ICT and manufacturing services are set to remain an important determinant of export growth resulting in a trade surplus in services. However, as this is unlikely to offset the trade deficit in goods, the overall net export contribution to GDP growth is expected to be slightly negative in the coming years.

Persistent tightness in the labour market

In the first half of 2018, the unemployment rate fell to 6.6%, which is approximately 1 pp. lower compared to the same period in 2017. The record high employment rate signals a shrinking labour force and strong labour demand. Due to increases in minimum wages and labour shortages, salaries grew by approximately 10% in the first six months of this year.

On the labour supply side, contrary to previous years, preliminary data points to an improving migration balance. However, more immigrants and the increasing temporary employment of workers from neighbouring non-EU countries cannot fully offset labour shortages. As labour demand is expected to remain strong, the unemployment rate is set to decline to 6.3% by 2019. Tightness in the labour market is also expected to continue exerting upward pressure on wages over the forecast horizon.

Inflation slowing down

After peaking at 3.7% in 2017, HICP inflation is expected to drop to 2.6% in 2018, 2.2% in 2019 and 2.1% in 2020. A significant slowdown in the inflation rate in 2018 reflects the fading away of excise duties hikes and other one-off effects. These factors are expected to offset the upward pressures stemming from higher oil prices and strong wage growth in 2018. In 2019 and 2020, inflation is forecast to further moderate in line with the expected stabilisation of oil prices.

Fiscal loosening ahead

Tax collection, helped by tax-rich economic growth and contained government spending, enabled Lithuania to achieve a general government surplus in 2016 and 2017. As these developments continue in 2018, the general government balance is expected to stand at 0.6% of GDP in 2018. However, the surplus is expected to narrow over the forecast horizon with the implementation of the reform package adopted in 2018. Adjustments to the tax and social security systems are set to result in lower tax revenues and increased spending. Subsequently, the general government balance is expected to stand at 0.4% in 2019 and fall to 0.1% of GDP in 2020.

The structural deficit is expected to fall from ¾% in 2018 to ½% of GDP in 2020, due to a decreasing output gap.

Following the downward trend since 2015, Lithuania's debt-to-GDP ratio is set to decline further in 2018. It should reach 34.8% thanks to a bond redemption at the beginning of the year. As the government will have to secure the pre-financing of 2020 bond redemptions in 2019, the general government debt is set to increase to 37.9% of GDP in 2019 before settling to 37.6% in 2020.

Table II.15.1:

Main features of country forecast - LITHUANIA

		2017		Annual percentage change						
		bn EUR Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		42.2	100.0	3.9	2.0	2.4	4.1	**3.4**	**2.8**	**2.5**
Private Consumption		26.6	63.0	4.5	4.0	5.0	3.3	**4.2**	**3.9**	**3.3**
Public Consumption		6.9	16.4	0.7	0.2	-0.1	-0.4	**0.7**	**0.7**	**0.6**
Gross fixed capital formation		8.1	19.2	4.1	4.9	0.3	6.8	**7.3**	**5.3**	**4.4**
of which: equipment		2.9	6.9	5.5	13.4	8.9	8.6	**9.5**	**6.7**	**5.5**
Exports (goods and services)		34.1	80.9	8.7	0.9	4.0	13.6	**5.2**	**4.1**	**3.7**
Imports (goods and services)		33.0	78.1	7.8	6.8	3.8	12.0	**6.5**	**5.2**	**4.4**
GNI (GDP deflator)		40.5	96.0	4.0	-0.8	2.4	4.2	**3.6**	**3.0**	**2.7**
Contribution to GDP growth:	Domestic demand			4.2	3.4	3.2	3.4	**4.2**	**3.6**	**3.1**
	Inventories			-0.2	3.3	-1.0	-0.6	**0.0**	**0.0**	**0.0**
	Net exports			0.1	-4.7	0.1	1.3	**-0.8**	**-0.8**	**-0.6**
Employment				-0.8	1.3	2.0	-0.5	**-0.4**	**-0.5**	**-0.5**
Unemployment rate (a)				12.0	9.1	7.9	7.1	**6.5**	**6.3**	**6.3**
Compensation of employees / head				6.6	5.9	6.7	8.7	**8.2**	**7.7**	**6.0**
Unit labour costs whole economy				1.8	5.1	6.4	3.8	**4.2**	**4.2**	**2.9**
Real unit labour cost				-0.8	4.7	4.9	-0.5	**1.6**	**0.6**	**-0.7**
Saving rate of households (b)				3.4	0.4	0.2	-1.5	**-2.9**	**-1.9**	**-2.3**
GDP deflator				2.6	0.3	1.4	4.3	**2.6**	**3.7**	**3.6**
Harmonised index of consumer prices				2.6	-0.7	0.7	3.7	**2.6**	**2.2**	**2.1**
Terms of trade goods				1.1	2.5	2.4	0.5	**-0.5**	**0.2**	**0.9**
Trade balance (goods) (c)				-9.0	-5.3	-4.6	-4.6	**-5.9**	**-6.5**	**-6.3**
Current-account balance (c)				-5.2	-2.0	-0.7	0.9	**-0.8**	**-0.8**	**-0.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.5	1.0	0.7	2.1	**0.6**	**0.6**	**0.7**
General government balance (c)				-3.1	-0.3	0.3	0.5	**0.6**	**0.4**	**0.1**
Cyclically-adjusted budget balance (d)				-2.7	-0.5	-0.2	-0.6	**-0.6**	**-0.5**	**-0.4**
Structural budget balance (d)				-	-0.7	-0.4	-0.7	**-0.6**	**-0.5**	**-0.4**
General government gross debt (c)				26.0	42.6	39.9	39.4	**34.8**	**37.9**	**37.6**

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

16. LUXEMBOURG

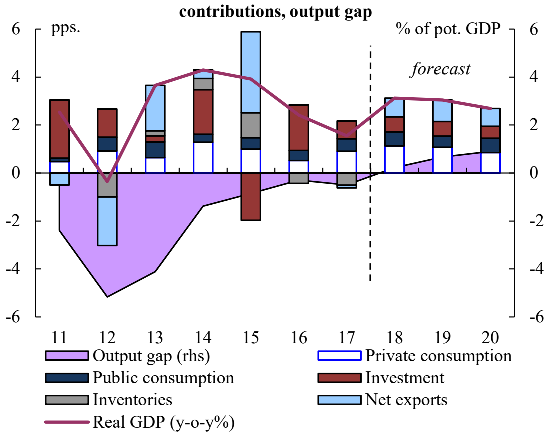
Growth momentum begins to fade

GDP growth in Luxembourg is forecast to rise to an annual average rate of 3.1% in 2018. The economy is largely driven by domestic demand, which is benefiting from improving labour market conditions. But growth is set to moderate in 2019 and 2020 as domestic demand wanes. Inflation is set to average 2.0% in 2018 and 2019 before cooling to 1.8% in 2020. The headline budget surplus is forecast to remain high.

Growth regained momentum in 2018…

After slowing to 1.5% in 2017, economic growth in Luxembourg is showing regained momentum. GDP growth is forecast to average 3.1% in 2018, driven mainly by private consumption and investment, with less support expected from the external environment. However, historical figures need to be taken with caution given the frequent and substantial revisions to Luxembourg's national accounts data.

Graph II.16.1: **Luxembourg - Real GDP growth and contributions, output gap**



Employment growth averaged 3.8% (y-o-y) in the first half of 2018, compared to 3.4% in 2017 and unemployment continued to fall. Private consumption should benefit from the improvement in the labour market, including stronger resident employment creation, while disposable income is set to receive a boost from taxation reforms and a new wage indexation applied from August. Private investment should receive support from continuing corporate tax reductions, favourable financing conditions and high levels of capacity utilisation.

The international financial sector, traditionally Luxembourg's main growth engine, was still profitable, despite subdued growth and recent developments in global financial markets. Bank lending dropped in the first quarter of 2018 and net investment inflows to the funds industry slowed in the second quarter. While growth is set to continue, the moderation in the external environment has weakened growth prospects for financial services, as well as for the economy as a whole.

…but is expected to lose steam.

Several factors suggest slightly less dynamic economic growth over the forecast horizon. With the momentum of foreign trade losing dynamism, economic growth is set to be supported mainly by domestic demand. In time, as employment gains become smaller and the impact of tax reforms fade away, domestic demand will also lose some of its lustre. GDP growth is expected to moderate to 3.0% in 2019 and 2.7% in 2020.

As a small open economy with strong trade and financial links in international markets, Luxembourg remains exposed to materialising risks. Heightened trade and political tensions, and any escalation of the financial turmoil that may ensue, could result in a less benign outcome for Luxembourg's economy. Overall, at the current juncture, uncertainty has increased and risks remain tilted to the downside.

Progressive shift 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 continue feeding into higher headline inflation in 2018 and 2019, although their effect should gradually ease. Downside factors, such as subsidies for child and healthcare services introduced in November 2017, are expected to reduce inflation at 2.0% in 2018. As these effects dissipate, domestic price pressures, including from past wage increases, will reassert their influence and headline inflation should fall from 2.0% in 2019 to 1.8% in 2020.

The general government surplus will slightly decline

The general government surplus is projected to marginally decline to 1.3% of GDP in 2018, compared to 1.4% in 2017. Revenues should remain buoyant underpinned by both direct and indirect taxes. A moderate increase in corporate income tax revenues is expected to be accompanied by a stronger increase in payroll taxes. In addition, VAT revenues should show strong growth in line with the expected acceleration of private consumption.

In 2018, planned increases in government expenditure growth are expected to outpace revenue growth. Intermediate consumption is expected to bounce back after having remained almost flat over the previous year. Public investment, which is already high, is expected to expand further. In addition, the implementation of a multilingual education plan, a childcare voucher scheme and a reform of parental leave, are all projected to add to the increase in expenditure growth.

In 2019, the general government surplus is expected to decline to 1.2% of GDP. Revenue growth will remain buoyant, in line with strong underlying economic growth, although it will be outpaced by growth in government expenditure

Based on a no-policy-change assumption, the general government surplus is projected to decline further in 2020 as growth slows. The projection includes the purchase of a military plane, for a cost estimated at around 0.3% of GDP, the delivery of which is planned in 2020.

The structural surplus is expected to decline over the forecast horizon, but remain comfortably in positive territory.

Luxembourg's debt-to-GDP ratio increased to 23% in 2017. It is expected to decline over the forecast horizon, even if 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

		2017			Annual percentage change					
	mio EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		55299.4	100.0	3.3	3.9	2.4	1.5	**3.1**	**3.0**	**2.7**
Private Consumption		16964.7	30.7	2.5	3.2	1.7	3.0	**3.7**	**3.5**	**2.7**
Public Consumption		9421.8	17.0	3.5	2.8	2.5	3.1	**3.4**	**2.7**	**3.4**
Gross fixed capital formation		10459.6	18.9	4.5	-9.9	10.4	4.0	**3.4**	**3.2**	**2.7**
of which: equipment		4206.4	7.6	6.9	-19.1	15.8	14.8	**3.4**	**3.4**	**2.6**
Exports (goods and services)		123361.5	223.1	6.6	5.3	3.8	-1.9	**3.2**	**2.7**	**2.2**
Imports (goods and services)		104952.4	189.8	7.1	4.3	4.5	-2.2	**3.3**	**2.6**	**2.2**
GNI (GDP deflator)		39199.4	70.9	1.2	5.8	2.8	6.0	**3.2**	**3.0**	**2.7**
Contribution to GDP growth:	Domestic demand			2.4	-0.5	2.8	2.2	**2.4**	**2.1**	**2.0**
	Inventories			0.0	1.0	-0.4	-0.5	**0.0**	**0.0**	**0.0**
	Net exports			1.0	3.4	0.0	-0.1	**0.8**	**0.9**	**0.7**
Employment				3.2	2.6	3.0	3.4	**3.6**	**3.3**	**2.8**
Unemployment rate (a)				4.2	6.5	6.3	5.6	**5.3**	**5.2**	**5.2**
Compensation of employees / head				3.1	1.6	0.9	3.3	**2.2**	**2.6**	**2.3**
Unit labour costs whole economy				3.0	0.3	1.5	5.2	**2.7**	**2.8**	**2.4**
Real unit labour cost				0.0	0.7	0.6	3.0	**0.7**	**0.9**	**0.7**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				3.1	-0.4	0.9	2.2	**2.0**	**1.8**	**1.7**
Harmonised index of consumer prices				2.5	0.1	0.0	2.1	**2.0**	**2.0**	**1.8**
Terms of trade of goods				0.4	-3.1	5.0	0.4	**0.5**	**-0.3**	**0.0**
Trade balance (goods) (c)				-5.5	0.1	1.2	1.2	**1.2**	**1.2**	**1.2**
Current-account balance (c)				5.4	1.9	2.0	4.4	**4.2**	**3.8**	**3.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				4.7	0.5	-1.0	3.2	**3.1**	**2.9**	**2.6**
General government balance (c)				1.7	1.3	1.6	1.4	**1.3**	**1.2**	**0.9**
Cyclically-adjusted budget balance (d)				1.9	1.3	1.4	1.6	**1.3**	**1.1**	**0.8**
Structural budget balance (d)				-	1.1	1.4	1.6	**1.3**	**1.1**	**0.8**
General government gross debt (c)				12.8	22.2	20.7	23.0	**21.4**	**20.8**	**20.6**

(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.

17. HUNGARY

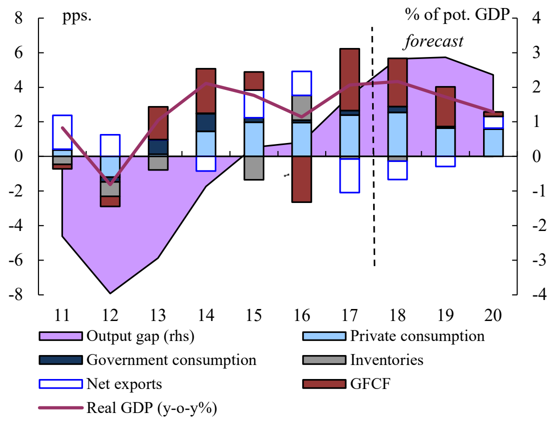
The maturing of the cycle brings slower growth and rising inflation

Economic growth is set to slow down after a strong 2018 as the domestic business cycle matures, fiscal stimulus gradually moderates, and headwinds from the global economy strengthen. Fuel and food prices have driven inflation up, but underlying inflation is also gathering momentum. After peaking at 2.4% of GDP in 2018, the budget deficit is set to fall below 2% in 2019.

Economic growth accelerates further in 2018…

Hungary's broad-based, cyclical upswing is continuing, supported by pro-cyclical fiscal and monetary policy. GDP growth accelerated to 4.9% (y-o-y) in the second quarter of 2018, but survey indicators suggest slower growth ahead as the short-term boost from public spending earlier in the year fades while the manufacturing sector remains in the doldrums.

Graph II.17.1: **Hungary - Real GDP growth and contributions, output gap**



…but is forecast to slow in 2019 and 2020.

GDP growth is set to moderate from 4.3% in 2018 to 3.4% in 2019 and to 2.6% in 2020. The key factor behind the slowdown is the moderation in investment growth, expected as a result of capacity constraints in the construction sector. These bottlenecks are already manifesting themselves in building costs: the construction price index rose by 9.8% (y-o-y) in August 2018. After increasing by almost 2 pps. between 2017 and 2019, the public investment ratio will stabilise in 2020 at a historic high level. Residential investment is also set to peak in 2019, before the preferential VAT rate on new housing expires in January 2020. Corporate investment continues to benefit from strong demand and accessible financing. The central bank extended favourable credit conditions by renewing its lending programme for small enterprises. In addition, several major FDI-related projects are in progress in the manufacturing sector.

Household consumption is set to decelerate in 2019 as employment growth moderates and the impact of past administrative wage increases fades. The recovery of the housing market has reignited mortgage lending, which will gradually reduce households' net financial savings.

Exports will be partly shielded from the slowdown of trade partners as large new export capacities gradually enter into production. However, import demand is set to outpace exports in 2019, and Hungary's terms of trade will worsen as imported energy prices rise. Consequently, the current account surplus is set to diminish.

Commodity prices hasten the rise of inflation

Employment growth is projected to slow as unemployment has already fallen to historically low levels. Additional labour demand will be partially met by the mobilisation of existing reserves, including the reallocation of workers from the public sector, and the continuing rise of the participation rate. Real wage growth is forecast to remain high owing to the tight labour market.

Inflation has risen rapidly since the spring due to rising fuel and unprocessed food prices, as well as the depreciation of the forint. HICP inflation climbed to 3.7% in September, exceeding the central value of the (3% ±1 pp.) tolerance band of the Hungarian National Bank. Average annual inflation is set to increase from 3.0% in 2018 to 3.3% in 2019 on the back of higher commodity prices and tobacco duty increases. While cost-side factors should fade in 2020, strong wage and consumption growth will continue to build the underlying inflation momentum. As a result, HICP inflation is forecast to remain at 3.0% in 2020.

Risks to the forecast are balanced. The tight labour market may sustain rapid real wage growth, leading to faster consumption growth and higher inflation. Downside risks are related to the evolution of international trade due to the strong integration of Hungary into global value chains.

The fiscal stance is set to tighten after 2018

The general government deficit is forecast to peak at 2.4% of GDP in 2018, affected by the loss of previous one-off and temporary receipts. Revenues have also been reduced by tax measures, including a 2.5 pps. decrease in the employer social contribution rate. However, the effect of tax cuts remains largely dampened due to the fast growth of major tax bases. While the revenue outlook improved significantly since the spring, it is set to be matched by extra spending, mainly on public wages and investments. Nonetheless, the growth of government expenditure, excluding increased spending from EU transfers, is forecast to slow down notably compared to 2017.

In 2019, the headline deficit is expected to decrease to 1.9% of GDP. The forecast incorporates an additional 2 pps. cut in social contributions as of next July. The remaining elements of the 2019 tax package are estimated to be revenue neutral overall. While investment expenses are forecast to continue expanding, current expenditure, particularly the public wage bill and social transfers, are set to increase moderately relative to GDP growth, driving the deficit-reduction. In 2020, under a no-policy-change assumption, the nominal deficit is projected to decrease further, to 1.8% of GDP.

The main budgetary risks stem from the rapid growth of public investments planned over 2018-2019. Capacity constraints may slow the execution of projects, but also lead to cost inflation, leaving the overall impact on the deficit uncertain.

The structural balance is estimated to deteriorate further in 2018 by about ½ percentage points to around -3¾% of GDP. After 2018, the impact of past fiscal expansion is expected to be gradually reversed and the structural balance should improve to about -3¼% of GDP in 2019 and -3% in 2020. The debt-to-GDP ratio is set to decrease only modestly in 2018, to 72.9% from 73.3%. This reflects sizeable below-the-line effects mainly due to the pre-financing needs of EU-funded projects and the weakening of the exchange rate. Thereafter, the debt ratio is projected to decline at accelerated speed, falling below 69% by the end of 2020 thanks to the improving budgetary position and the high rate of nominal GDP growth.

Table II.17.1:

Main features of country forecast - HUNGARY

	2017		Annual percentage change						
	bn HUF Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	38355.1	100.0	2.1	3.5	2.3	4.1	**4.3**	**3.4**	**2.6**
Private Consumption	18981.4	49.5	1.8	3.9	4.0	4.8	**5.2**	**3.3**	**3.2**
Public Consumption	7765.3	20.2	1.8	1.3	0.7	1.3	**1.7**	**0.4**	**0.3**
Gross fixed capital formation	8528.1	22.2	2.5	4.7	-11.7	18.2	**12.5**	**9.4**	**1.0**
of which: equipment	3597.0	9.4	4.1	1.5	2.5	13.8	**8.5**	**5.6**	**5.0**
Exports (goods and services)	33848.2	88.2	9.0	7.2	5.1	4.7	**7.1**	**6.0**	**5.6**
Imports (goods and services)	30946.9	80.7	8.0	5.8	3.9	7.7	**9.0**	**7.1**	**5.1**
GNI (GDP deflator)	36823.6	96.0	2.2	3.3	4.4	2.5	**3.9**	**3.2**	**2.4**
Contribution to GDP growth: Domestic demand			2.0	3.3	-0.5	6.2	**5.7**	**4.0**	**1.9**
Inventories			-0.5	-1.3	1.4	-0.2	**-0.3**	**0.0**	**0.0**
Net exports			0.6	1.6	1.4	-1.9	**-1.1**	**-0.6**	**0.7**
Employment			0.2	2.4	3.1	2.0	**0.9**	**0.5**	**0.1**
Unemployment rate (a)			8.0	6.8	5.1	4.2	**3.6**	**3.3**	**3.2**
Compensation of employees / head			6.4	-1.5	4.4	6.2	**8.1**	**6.6**	**6.2**
Unit labour costs whole economy			4.4	-2.6	5.2	4.1	**4.5**	**3.5**	**3.6**
Real unit labour cost			-0.6	-4.4	4.3	0.2	**0.8**	**0.2**	**0.6**
Saving rate of households (b)			11.4	11.2	12.8	12.1	**10.4**	**10.2**	**10.0**
GDP deflator			5.1	1.9	0.9	3.8	**3.7**	**3.3**	**3.0**
Harmonised index of consumer prices			5.4	0.1	0.4	2.4	**3.0**	**3.3**	**3.0**
Terms of trade goods			-0.6	0.8	1.5	0.0	**-0.8**	**-0.7**	**0.0**
Trade balance (goods) (c)			-1.7	3.7	4.1	1.5	**0.3**	**-0.7**	**-0.3**
Current-account balance (c)			-4.3	2.7	6.2	3.0	**1.2**	**0.0**	**0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.1	7.4	6.2	4.3	**3.2**	**2.4**	**2.3**
General government balance (c)			-5.2	-1.9	-1.6	-2.2	**-2.4**	**-1.9**	**-1.8**
Cyclically-adjusted budget balance (d)			-4.9	-2.0	-1.8	-3.1	**-3.8**	**-3.3**	**-3.0**
Structural budget balance (d)			-	-2.0	-1.8	-3.4	**-3.8**	**-3.3**	**-3.0**
General government gross debt (c)			67.0	76.6	75.9	73.3	**72.9**	**70.3**	**68.6**

(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.

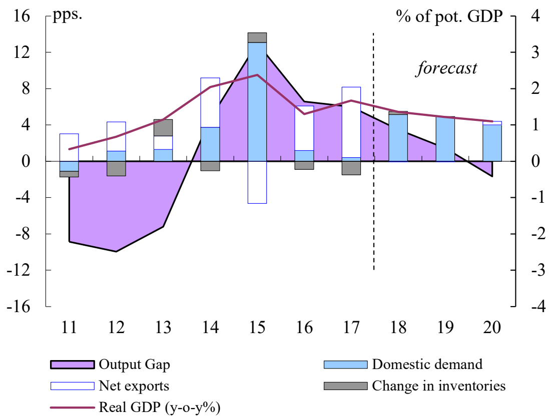
18. MALTA
Sustained economic growth

Malta's strong GDP growth is set to continue as domestic demand replaces net exports as the main engine of economic activity. The internationally oriented services sector continues to underpin the large current account surplus. Inflation is expected to pick up as wage pressures start gaining pace. The government balance is projected to moderate but remain in surplus.

Good economic performance in the first half of 2018

Malta's economic growth is projected to remain robust. Real GDP rose by 6.7% in 2017, driven by strong growth in net exports. In the first half of 2018, real GDP growth slowed moderately compared to 2017. Private consumption growth accelerated, while net exports declined as a result of rapid import growth in the second quarter. Business and consumer confidence indicators remain high and real GDP growth is expected to average 5.4% in 2018.

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



Domestic demand expected to drive growth

Growth is expected to gradually ease over the forecast horizon to an annual average rate of 4.9% in 2019 and 4.4% in 2020. Domestic demand is set to be the main driver of growth, supported by strong investment growth. Various investment projects co-financed by EU structural funds have started and will boost public investment in the second half of 2018. In 2019, the onset of large-scale projects in the health, tourism and real estate sectors is expected to boost private investment. Private consumption is set to remain dynamic, on the back of increasing labour market participation and disposable income.

Export growth is expected to slow down over the forecast horizon from the high growth rates registered in recent years, in line with the projected moderation in global demand, while imports are expected to rise, driven by investment growth. The current account balance is set to remain at historically high levels, underpinned by the large external surplus of the internationally oriented services sector.

Strong labour market performance to lift wages and prices

Employment growth is expected to remain strong, but to moderate over the forecast horizon as economic growth eases. Increasing labour supply has helped to keep wage pressures contained despite strong employment growth and low unemployment, which is projected to remain around 4% in the next two years. As a result of the tighter labour market, wage pressures are expected to strengthen and lead to higher growth in compensation per employee. As a result, growth in unit labour costs is projected to rise to 1.9% in 2018 and to remain broadly stable over the forecast horizon.

Following a period of moderate price pressures, headline inflation began to accelerate in the second quarter of 2018, partly reflecting an increase in the weight of accommodation services in the price index, as well as the rise in international oil prices. Inflation is set to progressively rise over the forecast horizon on the back of wage growth, and should reach around 2% in 2020.

Broadly balanced risks to the outlook

Risks to the macroeconomic outlook appear broadly balanced. As Malta's trade-to-GDP ratio stands at around 250%, further escalations in global trade tensions would imply particular downside risks to Malta's growth projections. On the upside, domestic demand may exceed growth expectations, if investment rises faster than anticipated and employment growth surprises on the upside, pushing up households' consumption.

Fiscal surplus expected to decline

In 2018, the government surplus is projected to decrease to 1.3% of GDP, from 3.5% in the previous year. Tax revenue growth is expected to be lifted by high nominal GDP, supported by favourable macroeconomic and labour market conditions, high corporate profits and consumer demand. An expected fall in the proceeds from Malta's citizenship scheme compared to last year should contribute to a decrease in the fiscal surplus. Current expenditure is projected to be dynamic in almost all components, only partly mitigated by decreasing interest expenditure. Public investment net of EU funding is projected to increase only slightly, while the implementation of investment projects co-financed by the EU is expected to accelerate. Capital expenditure will increase also on the back of a capital transfer to Air Malta related to the purchase of landing rights (equivalent to around 0.5% of GDP).

In 2019, after incorporating the expected impact of the measures introduced with the 2019 budget, the fiscal surplus is expected to decline marginally to 1.2% of GDP. In line with still robust but moderating macroeconomic conditions, and despite the reduction in taxation (worth 0.2% of GDP), growth in tax revenues is expected to slow down somehow towards the growth rate in nominal GDP. Also, the proceeds from the citizenship scheme are expected to be lower compared to the previous year. In spite of increases in social spending related to the budget measures, current expenditure growth is projected to weaken and interest expenditure is set to marginally decrease. Net public investment is forecast to increase marginally, as the implementation of investment projects co-financed by the EU is forecast to remain dynamic, while other capital expenditure is expected to decrease following the base effect from the previous year. In 2020, under a no-policy-change assumption, the fiscal surplus is expected to further decrease to 0.7% of GDP, on account of slightly lower proceeds related to the citizenship scheme and higher public investment.

The structural balance has reached a surplus of around 3% of GDP in 2017. It is estimated to decrease but to remain in surplus at slightly below 1% of GDP in the period 2018-2020. The government debt-to-GDP ratio is forecast to decline further from 50.9% of GDP in 2017 to 42.1% in 2020.

Table II.18.1:

Main features of country forecast - MALTA

	2017		Annual percentage change						
mio EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	11139.7	100.0	3.0	9.5	5.2	6.7	**5.4**	**4.9**	**4.4**
Private Consumption	5012.2	45.0	2.2	5.0	2.6	3.7	**5.2**	**3.8**	**3.6**
Public Consumption	1746.2	15.7	2.5	3.7	-2.8	2.8	**15.7**	**9.0**	**6.9**
Gross fixed capital formation	2351.6	21.1	2.4	56.8	1.7	-7.3	**1.6**	**8.2**	**5.7**
of which: equipment	826.5	7.4	-	85.5	15.4	-34.7	**-**	**-**	**-**
Exports (goods and services)	15074.8	135.3	5.1	3.7	4.2	3.8	**1.5**	**1.9**	**1.9**
Imports (goods and services)	12912.1	115.9	4.8	7.4	0.7	-1.9	**1.9**	**2.3**	**1.9**
GNI (GDP deflator)	10392.7	93.3	2.8	10.7	2.5	5.9	**5.3**	**4.5**	**4.0**
Contribution to GDP growth: Domestic demand			2.4	13.1	1.2	0.4	**5.1**	**4.9**	**4.0**
Inventories			0.0	1.1	-0.9	-1.5	**0.4**	**0.0**	**0.0**
Net exports			0.6	-4.6	4.9	7.8	**-0.1**	**-0.1**	**0.4**
Employment			1.6	3.9	4.2	5.2	**5.0**	**3.6**	**3.4**
Unemployment rate (a)			7.2	5.9	5.2	4.6	**3.9**	**4.0**	**4.0**
Compensation of employees / head			3.6	5.0	2.8	1.7	**2.3**	**3.2**	**3.1**
Unit labour costs whole economy			2.2	-0.4	1.8	0.2	**1.9**	**1.9**	**2.1**
Real unit labour cost			-0.3	-3.0	0.2	-2.3	**-0.3**	**-0.3**	**-0.1**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.5	2.7	1.6	2.6	**2.2**	**2.2**	**2.1**
Harmonised index of consumer prices			2.3	1.2	0.9	1.3	**1.8**	**1.9**	**2.0**
Terms of trade of goods			0.8	0.5	-3.4	5.2	**2.8**	**1.0**	**1.0**
Trade balance (goods) (c)			-15.7	-20.1	-18.2	-12.0	**-11.7**	**-11.5**	**-11.3**
Current-account balance (c)			-2.4	4.5	7.0	13.8	**12.3**	**11.2**	**10.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.2	6.2	7.4	14.3	**12.9**	**12.0**	**11.5**
General government balance (c)			-4.0	-1.0	0.9	3.5	**1.3**	**1.2**	**0.7**
Cyclically-adjusted budget balance (d)			-3.9	-2.5	0.2	2.8	**0.9**	**1.0**	**0.9**
Structural budget balance (d)			-	-2.6	0.3	3.1	**0.9**	**0.9**	**0.9**
General government gross debt (c)			66.0	58.6	56.3	50.9	**47.9**	**44.8**	**42.1**

(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.

19. THE NETHERLANDS

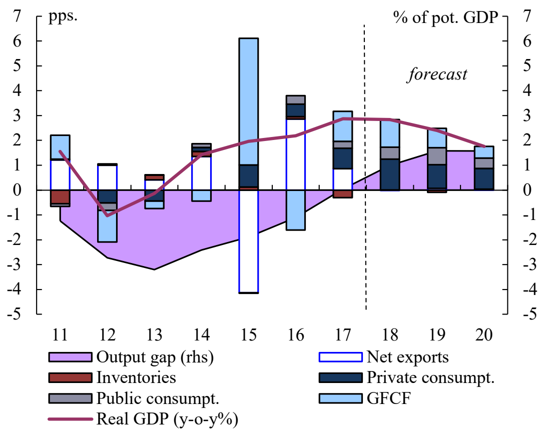
Household and public spending drive growth as cycle matures

Economic growth in the Netherlands is expected to moderate but remain solid. Unemployment is low and wages are projected to rise. The structural budget balance is expected to hover around zero over the forecast horizon, while the debt ratio should continue to fall. The Netherlands' very high external trade surplus is expected to only gradually decline.

Continued growth momentum

There was strong growth momentum in the Netherlands in the first half of the year. GDP growth rose slightly from 0.6% (q-o-q) in the first quarter to 0.8% in the second. At the same time however, leading indicators and a weaker external environment suggest that the pace of growth is likely to moderate. GDP growth is forecast to be above potential in both 2018 and 2019, driven primarily by domestic demand, but the pace of expansion is expected to ease from 2.8% to 2.4%. In 2020, growth is expected to slow to 1.8%, as supply constraints become more binding.

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



Labour market developments have been favourable and consumer confidence has remained elevated since the start of the year. Together with higher energy consumption due to weather conditions, this led to a surprisingly strong increase in private consumption in the first half of 2018. Increasing household disposable income, on the back of rising employment and wages, is set to drive solid but somewhat lower consumption growth over the forecast horizon.

The industrial capacity utilisation rate exceeded its pre-crisis level in the first half of the year and financing costs remain low. Under these favourable conditions, investment is forecast to increase by 5½% in 2018. In line with the slower expected pace of economic expansion and the decline in business sentiment since the start of the year, corporate investment growth is expected to moderate in the coming years. While house prices are still increasing rapidly, a decline in transactions and labour shortages in the construction sector are expected to lead to lower residential investment growth than in previous years.

Export growth is expected to be below recent trends but remain solid over the forecast horizon, in line with demand in main trading partners. In this phase of the economic cycle, robust domestic demand growth is causing imports to grow somewhat faster than exports. This should lead to a slight decline in the trade balance. The current account surplus, which peaked at historically high 10.5% of GDP in 2017, is set to gradually decline but remain high.

Robust employment growth alongside moderate wage developments

Employment grew rapidly in the first nine months of 2018. The increased vacancy rates, high reported labour shortages by employers and the low unemployment rate of 3.7% in September are signs of a tight labour market. At the same time, the labour force expanded markedly in recent months, suggesting there is still scope for solid employment growth in the short term. The unemployment rate is forecast to decline somewhat to 3.6% in 2019 and remain flat in 2020. Despite the tight labour market, wage growth has so far been moderate. Recent wage agreements point to an increase in contractual wages of just below 2.5%, although wage costs are expected to increase at a faster rate due to increasing social contributions. Lower-than-expected wage growth would be a downside risk for the economic outlook, as it would hold back private consumption.

Inflation is increasing

HICP inflation is expected to pick up from 1.3% in 2017 to 1.6% this year. This increase is driven by both higher energy prices in line with the rise in oil prices and an upward pressure on wages and prices due to supply constraints, the latter being particularly visible in service prices. In 2019, inflation is expected to increase further to 2.5%, as the increase in the reduced VAT-tariff kicks in at the start of the year. In 2020, this effect disappears and energy prices are expected to moderate, leading to an inflation rate of 1.7%.

Stable headline surpluses ahead

The headline budget balance is set to record a surplus of 1.1% of GDP in 2018, compared to 1.2% in 2017. For the current year, this is slightly higher than expected at the start of the current government's term, as some of the planned expenditures in the area of defence and infrastructure encounter substantial implementation lags. The budget balance is expected to remain in surplus at around 1% of GDP over the forecast horizon, as strong and tax-rich economic growth is combined with an expansionary fiscal policy stance. Next to expenditure measures in the field of education, defence and health care, a lowering of personal income tax rates is planned for 2019 and 2020. In two steps, the number of tax brackets will be reduced from four to two, a base rate of 37% for all incomes up to EUR 68,600 and a marginal top rate at 49.5% for all income above this threshold. This is only partly financed by an increase in indirect taxes (VAT and energy).

In structural terms, the government deficit is expected to deteriorate from a surplus of ¾% of GDP in 2017, to ¼% of GDP in 2018 and to a deficit of ¼% in 2019, illustrating an expansionary fiscal policy stance in 2018 and 2019.

The government debt-to-GDP ratio is declining at a relatively fast pace, on the back of budget surpluses and nominal GDP growth. In 2019, the debt level is expected to fall below 50% of GDP. A further reprivatisation of financial institutions could lead to faster debt reduction.

Risks to the fiscal outlook come mainly from the macroeconomic side. A worsening of the economic climate or lower-than-projected wage growth could affect income taxes. Lower-than-planned expenditures may entail upside risks for the budget deficit in the short run.

Table II.19.1:

Main features of country forecast - NETHERLANDS

		2017		Annual percentage change						
		bn EUR Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		737.0	100.0	1.5	2.0	2.2	2.9	**2.8**	**2.4**	**1.8**
Private Consumption		326.9	44.4	0.8	2.0	1.1	1.9	**2.8**	**2.2**	**1.9**
Public Consumption		178.7	24.2	2.3	-0.1	1.3	1.1	**2.0**	**2.8**	**1.7**
Gross fixed capital formation		151.2	20.5	0.4	29.0	-7.3	6.1	**5.4**	**3.8**	**2.3**
of which: equipment		45.4	6.2	0.9	14.2	4.8	8.5	**6.0**	**4.2**	**2.3**
Exports (goods and services)		611.4	83.0	4.3	7.4	1.7	5.3	**3.0**	**3.6**	**3.3**
Imports (goods and services)		532.3	72.2	3.9	14.5	-2.0	4.9	**3.4**	**4.1**	**3.7**
GNI (GDP deflator)		740.1	100.4	1.5	2.3	0.6	4.8	**2.7**	**2.2**	**1.6**
Contribution to GDP growth:	Domestic demand			1.1	6.0	-0.8	2.3	**2.8**	**2.4**	**1.7**
	Inventories			0.0	0.1	0.1	-0.3	**0.0**	**-0.1**	**0.0**
	Net exports			0.5	-4.1	2.9	0.9	**0.0**	**0.1**	**0.0**
Employment				0.4	1.0	1.4	2.2	**2.1**	**1.4**	**0.8**
Unemployment rate (a)				4.9	6.9	6.0	4.9	**3.9**	**3.6**	**3.6**
Compensation of employees / f.t.e.				3.0	-0.2	1.2	1.1	**2.4**	**3.1**	**3.5**
Unit labour costs whole economy				1.9	-1.2	0.5	0.5	**1.7**	**2.2**	**2.5**
Real unit labour cost				0.1	-1.9	0.0	-0.7	**-0.3**	**-0.2**	**0.5**
Saving rate of households (b)				12.0	15.9	16.3	15.4	**14.9**	**14.7**	**14.6**
GDP deflator				1.8	0.8	0.5	1.2	**2.0**	**2.4**	**2.0**
Harmonised index of consumer prices				2.1	0.2	0.1	1.3	**1.6**	**2.5**	**1.7**
Terms of trade goods				0.0	2.4	1.0	-0.5	**0.2**	**0.1**	**0.0**
Trade balance (goods) (c)				8.0	9.5	9.3	9.6	**9.2**	**9.1**	**8.9**
Current-account balance (c)				6.7	6.3	8.1	10.5	**10.1**	**9.5**	**9.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.5	5.8	7.9	10.4	**9.8**	**9.2**	**8.8**
General government balance (c)				-1.9	-2.0	0.0	1.2	**1.1**	**1.1**	**1.0**
Cyclically-adjusted budget balance (d)				-1.4	-0.8	0.7	1.2	**0.4**	**0.1**	**0.0**
Structural budget balance (d)				-	-0.8	0.5	0.7	**0.3**	**-0.3**	**-0.1**
General government gross debt (c)				55.0	64.6	61.9	57.0	**53.2**	**49.6**	**46.9**

(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.

20. AUSTRIA

Positive growth dynamics continue

Economic growth in Austria is expected to remain strong in 2018 but to moderate in 2019 and 2020. Domestic demand is set to remain the main driver of growth, while support from foreign demand is set to gradually diminish. Robust tax revenue growth is expected to further improve the government headline balance, leading to a balanced budget in 2019.

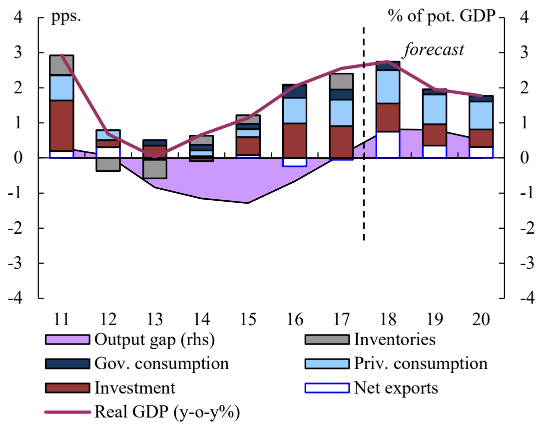
Conditions remain positive for growth

Data from the first half of this year suggest that the strong economic growth momentum experienced by Austria in 2017 has continued into 2018. GDP is forecast to grow by 2.7% this year, compared to 2.6% in 2017. Domestic demand remains the main driver of growth, thanks to a rise in private consumption due to favourable labour market developments and increasing wages, as well as solid investment linked to high capacity utilisation in the business sector. In addition, after several years of subdued growth, the construction sector rebounded in 2017 and has remained firm in the first half of 2018. Despite less dynamic growth in international markets, export growth has so far remained strong and contributed positively to growth.

Growth to slow down but remain robust

In the second half of the year, however, GDP growth is expected to moderate somewhat, mainly due to a less favourable external environment. Thanks to a strong first half of the year, exports but also equipment investment in 2018 are expected to grow at a similar pace as in 2017, while construction investment is expected to decrease somewhat. Private consumption is set to increase to 1.8%.

Graph II.20.1: **Austria - Real GDP growth and contributions, output gap**



In 2019 and 2020, GDP is forecast to grow more moderately at 2.0% and 1.8%, respectively. Strong increases in disposable income support the outlook for solid private consumption growth. High capacity utilisation and business confidence suggest that equipment investment growth will remain firm but decrease gradually as the economic expansion slows. After strong increases in 2017 and 2018, construction activity is expected to decelerate but remain at robust levels, as population growth and rising housing and rental prices support demand for new housing. The contribution to growth of net exports is expected to decrease, in line with the lower growth expected in Austria's main trading partners.

Sturdy labour market and steady decline in unemployment

Strong dynamics in the first half of 2018 indicate robust figures for annual employment growth and a considerable decrease in unemployment. These positive dynamics are set to continue but to moderate somewhat in 2019 and 2020 along with the economic slowdown. Overall, the unemployment rate is expected to fall to 4.8% in 2018 and to 4.4% in 2020.

HICP inflation increasingly driven by core prices

In 2018, the increase in oil prices is expected to keep headline inflation at slightly over 2%. In 2019 and 2020, increasing wages and strong domestic demand should lead to higher domestic price pressure, mainly in the service and industrial goods sector. Overall, rising core inflation is expected to keep headline inflation at 2.1% in 2019, while a further decrease in energy prices should see inflation ease down to 2.0% in 2020.

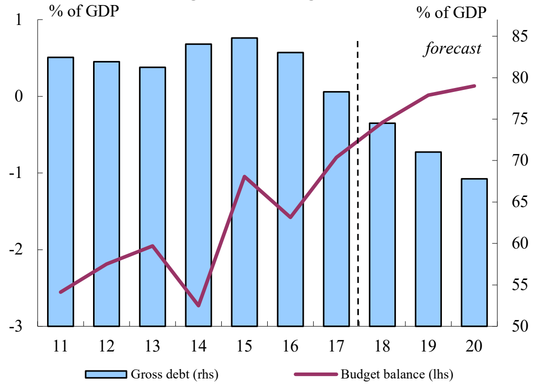
Public finances continue to improve due to the favourable economic environment

Having improved to 0.8% of GDP in 2017 on the back of the economic upswing, the government headline deficit is expected to further narrow to

0.3% of GDP in 2018. The improvement is due to higher-than-expected revenues from personal and corporate income taxes, which benefit from the better employment and demand conditions. Government expenditure as a percentage of GDP is expected to fall from 49.2% of GDP in 2017 to 48.7% of GDP in 2018, mainly due falling interest payments, lower unemployment benefits, and the discontinuation or reduction of several expansionary measures adopted in 2017 (employment bonus, investment premiums, etc.). However, higher-than-expected federal transfers to compensate for the abolished recourse to assets of people in inpatient long-term care (*Pflegeregress*) should prevent the expenditure ratio from declining further.

In 2019, the headline balance is expected to turn from deficit to neutral as tax revenues remain high, despite the tax relief provided by the new Family Bonus plus. On the expenditure side, the impact of previously adopted expansionary measures fades away. In 2020, the general government balance is expected to achieve a surplus of 0.1% of GDP, under a no-policy-change-assumption. While a comprehensive reform of personal and corporate income taxation is planned for that year, there is no sufficient information so far to estimate the budgetary impact.

Graph II.20.2: **Austria - General government budget balance and gross debt**



Public debt is expected to decrease from 78.3% of GDP in 2017 to 74.5% and 71.0% of GDP in 2018 and 2019, respectively. This mainly reflects the favourable development of interest expenditures and the successful divestment of impaired assets.

Table II.20.1:
Main features of country forecast - AUSTRIA

	2017			Annual percentage change						
	bn EUR Curr. prices	% GDP		99-14	2015	2016	2017	2018	2019	2020
GDP	369.9	100.0		1.7	1.1	2.0	2.6	**2.7**	**2.0**	**1.8**
Private Consumption	192.3	52.0		1.4	0.4	1.4	1.4	**1.8**	**1.6**	**1.5**
Public Consumption	72.3	19.6		1.3	0.8	1.8	1.5	**1.2**	**0.8**	**0.8**
Gross fixed capital formation	87.4	23.6		0.8	2.3	4.3	3.9	**3.4**	**2.5**	**2.1**
of which: equipment	29.4	7.9		0.9	3.9	10.6	4.6	**4.6**	**3.2**	**2.4**
Exports (goods and services)	198.8	53.7		4.4	3.5	2.7	4.7	**4.6**	**3.7**	**3.0**
Imports (goods and services)	187.3	50.6		3.6	3.6	3.4	5.1	**3.4**	**3.3**	**2.6**
GNI (GDP deflator)	368.9	99.7		1.7	0.0	2.9	2.4	**2.7**	**2.0**	**1.8**
Contribution to GDP growth:	Domestic demand			1.2	0.9	2.1	2.0	**2.0**	**1.6**	**1.5**
	Inventories			0.0	0.2	0.0	0.5	**0.0**	**0.0**	**0.0**
	Net exports			0.4	0.1	-0.2	-0.1	**0.7**	**0.4**	**0.3**
Employment				-	0.6	1.3	1.7	**1.8**	**1.1**	**0.8**
Unemployment rate (a)				4.8	5.7	6.0	5.5	**4.8**	**4.6**	**4.4**
Compensation of employees / f.t.e.				2.2	1.9	2.4	1.5	**2.5**	**2.6**	**2.4**
Unit labour costs whole economy				1.4	1.4	1.6	0.6	**1.6**	**1.7**	**1.4**
Real unit labour cost				-0.2	-0.7	0.2	-0.6	**0.0**	**-0.2**	**-0.5**
Saving rate of households (b)				15.1	12.4	13.2	12.4	**12.1**	**12.0**	**12.0**
GDP deflator				1.7	2.2	1.4	1.3	**1.6**	**1.9**	**1.8**
Harmonised index of consumer prices				1.9	0.8	1.0	2.2	**2.1**	**2.1**	**2.0**
Terms of trade goods				-0.2	1.7	0.7	-1.4	**-0.8**	**-0.1**	**-0.1**
Trade balance (goods) (c)				-0.3	0.7	0.5	0.3	**0.6**	**0.9**	**1.1**
Current-account balance (c)				1.8	1.9	2.6	2.1	**2.0**	**2.2**	**2.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				1.6	1.3	2.5	2.0	**1.8**	**2.0**	**2.3**
General government balance (c)				-2.5	-1.0	-1.6	-0.8	**-0.3**	**0.0**	**0.1**
Cyclically-adjusted budget balance (d)				-2.5	-0.3	-1.2	-0.8	**-0.8**	**-0.4**	**-0.2**
Structural budget balance (d)				-	0.0	-1.1	-0.8	**-0.8**	**-0.4**	**-0.2**
General government gross debt (c)				72.5	84.8	83.0	78.3	**74.5**	**71.0**	**67.8**

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

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

21. POLAND

Domestic demand to support growth

Private consumption is set to remain the key growth driver but its dynamics will gradually fade as employment gains slow and higher inflation weighs on real disposable income. Public investment activity is projected to remain strong, supported by EU funds, while private investment is set to strengthen. The headline fiscal balance is forecast to remain broadly stable.

Strong growth expected in 2018...

Economic growth in Poland is expected to reach 4.8% in 2018, on par with growth in 2017. As in 2017, private consumption is projected to be the main growth driver, fuelled by favourable labour market developments and strong consumer confidence. Positive growth contributions are also forecast from investment, where the utilisation of EU funds is accelerating and leading to a rise in public investment.

...but expansion set to slow gradually.

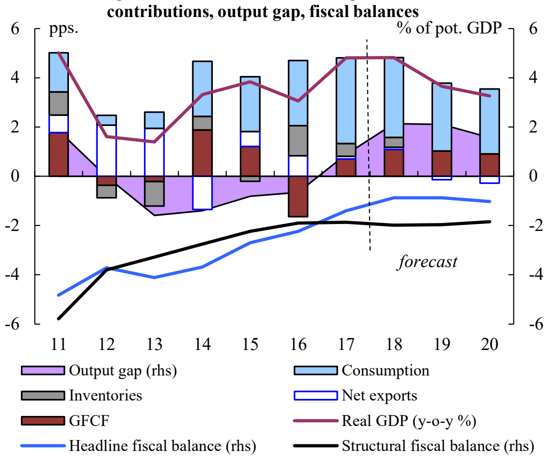
GDP growth is forecast to slow to 3.7% in 2019 and 3.3% in 2020 as private consumption growth cools due to the negative effect of rising inflation on real disposable income and the limited room for further employment gains. Investment growth is projected to remain strong in both 2019 and 2020 as high capacity utilisation levels, low interest rates and a favourable demand outlook spur an increase in private investment following a prolonged period of weak activity. This is expected to make up for the slowing, but still positive dynamics of public investment being supported by EU funding.

Poland is expected to continue gaining export shares in its key markets. Consequently, in the context of slower world trade dynamics, Poland's exports are projected to continue rising over the period 2019-2020, though at a slower pace. This, coupled with strong domestic demand, in particular the investment recovery, is set to translate into higher import demand. As a result, the contribution of net exports to GDP growth is expected to turn slightly negative in 2019 and 2020, after what is forecast to be a marginally positive contribution this year.

Rising wages and record low unemployment

The demand for labour is projected to remain strong, resulting in some acceleration of wage growth. At the same time, employment gains are forecast to slow from 1.4% in 2017 to 0.1% in 2020, given the limited pool of economically inactive and unemployed people with skills sought in the labour market. The employment rate (among 15-74 year olds) is projected to exceed 56% over the forecast period, an all-time high. The unemployment rate is expected to average 3.3% in 2018 and to fall further to 2.8% in 2020.

Graph II.21.1: **Poland - Real GDP growth and contributions, output gap, fiscal balances**



Labour market pressures and energy prices to translate into higher inflation

Inflation has stabilised at low levels since mid-2018, as slower food price increases counteracted the effects of rising energy prices. Inflation is forecast to remain subdued in the last quarter of 2018, due to base effects, but should gradually increase in 2019 and 2020. Faster wage growth is expected to be the main factor behind rising prices, especially in service sectors. Higher electricity prices are also expected to contribute to inflation, both directly through electricity bills paid by households and indirectly through the prices of energy-intensive consumer goods. In turn, strong competition in the markets for consumer goods and services, the rising importance of e-commerce, and the assumed path of global oil prices, are forecast to constrain inflation growth.

Balanced risks

The uncertainty surrounding the economic outlook relates primarily to the external environment and the extent to which possible disruptions in international production chains will affect Polish producers. On the domestic demand side, there is a chance that investment could rise more than expected, if projects co-financed by the EU are rolled out more quickly or if business sentiment improves. However, there is also a chance that concerns about the institutional quality of Poland's justice system could negatively affect investment decisions sooner or more severely than assumed.

Stable nominal fiscal deficit

The headline fiscal deficit is forecast to decrease from 1.4% of GDP in 2017 to 0.9% of GDP in 2018. A strong increase in tax revenue, particularly from personal and corporate income taxes and social contributions are set to be the main driver of growing revenue. This strong performance is mostly explained by the favourable labour market developments. The robust macroeconomic environment and, to a lesser extent, new measures to improve collection support the outlook for indirect tax revenue. Public investment is expected to be the fastest growing expenditure item, driven by an increasing utilisation of EU funds and the election calendar.

In 2019 the headline fiscal deficit is expected to remain stable as a share of GDP. In 2020 – under a no-policy-change scenario – it is projected to increase slightly, to 1.0% of GDP. Tax revenue as well as investment and other expenditure items are expected to see lower dynamics than in 2018. At the same time, the labour market situation is expected to remain favourable, which should support strong growth in social contributions.

The structural deficit is forecast to reach 2% of potential GDP in 2018 and 2019 before declining to around 1¾% of potential GDP in 2020.

General government debt is set to continue its descending path, falling from over 50% of GDP in 2017 to around 47% of GDP in 2020, supported by relatively low deficits and strong nominal GDP growth.

Table II.21.1:

Main features of country forecast - POLAND

		2017		Annual percentage change						
		bn PLN Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		1988.7	100.0	3.7	3.8	3.1	4.8	**4.8**	**3.7**	**3.3**
Private Consumption		1165.3	58.6	3.2	3.0	3.9	4.9	**4.5**	**3.8**	**3.4**
Public Consumption		351.7	17.7	3.2	2.3	1.9	3.5	**3.6**	**3.2**	**3.7**
Gross fixed capital formation		352.3	17.7	3.8	6.1	-8.2	3.9	**6.2**	**5.7**	**4.9**
of which: equipment		140.4	7.1	3.8	12.1	-7.6	4.4	**4.0**	**5.4**	**4.6**
Exports (goods and services)		1079.7	54.3	7.5	7.7	8.8	9.5	**6.1**	**5.8**	**4.6**
Imports (goods and services)		999.7	50.3	6.0	6.6	7.6	10.0	**6.5**	**6.4**	**5.4**
GNI (GDP deflator)		1911.2	96.1	3.5	3.9	2.9	4.6	**4.4**	**3.6**	**3.2**
Contribution to GDP growth:	Domestic demand			3.4	3.4	1.0	4.2	**4.3**	**3.8**	**3.5**
	Inventories			0.0	-0.2	1.2	0.5	**0.4**	**0.0**	**0.0**
	Net exports			0.3	0.6	0.8	0.1	**0.1**	**-0.1**	**-0.3**
Employment				0.2	1.5	0.6	1.4	**0.7**	**0.3**	**0.1**
Unemployment rate (a)				13.3	7.5	6.2	4.9	**3.3**	**2.9**	**2.8**
Compensation of employees / head				5.2	1.7	5.1	6.0	**6.1**	**7.0**	**7.4**
Unit labour costs whole economy				1.6	-0.6	2.5	2.5	**1.9**	**3.5**	**4.1**
Real unit labour cost				-1.2	-1.3	2.2	0.6	**0.8**	**1.0**	**1.5**
Saving rate of households (b)				6.6	2.3	4.2	1.2	**0.9**	**0.7**	**0.9**
GDP deflator				2.9	0.8	0.3	2.0	**1.1**	**2.4**	**2.5**
Harmonised index of consumer prices				3.4	-0.7	-0.2	1.6	**1.2**	**2.6**	**2.7**
Terms of trade goods				0.1	2.9	0.6	0.1	**-1.2**	**0.1**	**0.2**
Trade balance (goods) (c)				-3.5	0.5	0.7	0.2	**-0.7**	**-1.1**	**-1.5**
Current-account balance (c)				-3.9	0.2	0.2	0.2	**-0.6**	**-0.9**	**-1.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.0	2.6	1.4	1.4	**0.5**	**0.3**	**0.0**
General government balance (c)				-4.4	-2.7	-2.2	-1.4	**-0.9**	**-0.9**	**-1.0**
Cyclically-adjusted budget balance (d)				-4.0	-2.3	-1.9	-1.9	**-2.0**	**-2.0**	**-1.8**
Structural budget balance (d)				-	-2.2	-1.9	-1.9	**-2.0**	**-2.0**	**-1.8**
General government gross debt (c)				46.7	51.3	54.2	50.6	**49.2**	**48.3**	**47.4**

(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.

22. PORTUGAL

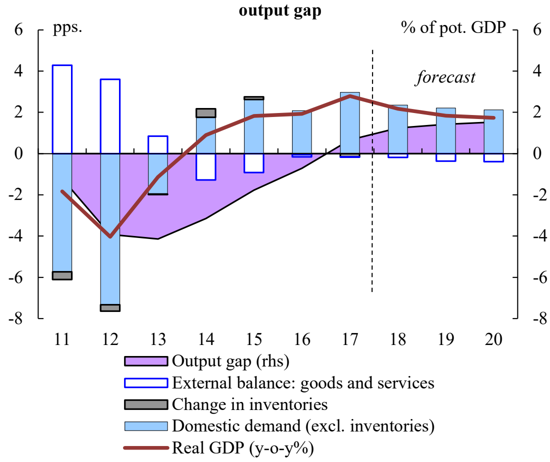
Slower growth in the face of external challenges

Domestic demand remains strong but GDP growth in Portugal is expected to slow down in 2019 and 2020 as net exports weaken. Job creation is also set to weaken amid some improvement in labour productivity. The general government deficit is expected to remain below 1% over the forecast horizon while the structural balance, following some improvement in 2018, is forecast to remain broadly stable thereafter. The gross public debt-to-GDP ratio is set to continue decreasing to around 117% by 2020.

Economic growth to ease in coming years

Real GDP in Portugal rose by 2.3% (y-o-y) over the first half of 2018, mainly driven by strong domestic demand and in line with the summer interim forecast. The Commission's Economic Sentiment Indicator eased further in the third quarter but still remains above its long-term average. Industrial production and foreign trade confirmed the soft patch, while retail trade remained robust. GDP growth is forecast to moderate somewhat in the second half of the year mainly because of the slowdown in external demand. Overall, GDP is now forecast to grow by 2.2% this year, down from 2.8% in 2017.

Graph II.22.1: **Portugal - Real GDP growth and contributions, output gap**



The moderation in job creation points to some slowdown in household demand, which would be only partly offset by the expected increase in wage growth. Private consumption growth is therefore forecast to weaken slightly in 2019 and 2020. The household saving rate, which deteriorated in 2018-Q2 amid further improvements in the financial situation of households and still very low interest rates, is expected to remain stable. Investment is set to rebound in 2019, as the implementation of certain projects supported by EU structural funds scheduled for 2018 were postponed. Net external trade is expected to continue to weigh on growth, reflecting weaker export demand and strong import growth in line with final demand. GDP growth is forecast to slow to 1.8% in 2019 and to 1.7% in 2020. Risks to the forecast appear broadly balanced as the uncertainty in external markets could be compensated by a more positive performance in domestic demand.

External balance worsens

The external balance has deteriorated somewhat since the start of the year, influenced by weaker-than-expected exports of goods and a slowdown in tourism. Oil prices have also adversely affected terms of trade and thus the nominal trade balance. Imports are set to continue outperforming exports, resulting in some deterioration in the current account balance. Larger dividend payments to foreign shareholders put additional pressure on the current account while the projected increase in absorption of EU structural funds and lower interest costs for domestic borrowers are having a positive impact.

Employment growth moderates

Employment growth moderated somewhat in the summer months of 2018 and monthly unemployment stabilised at rates close to the euro area average. Employment growth is projected to moderate further, reflecting increasing signs of supply constraints in some market segments and the maturing economic cycle. Accordingly, the average annual rate of unemployment is set to decrease at a slower pace to 6.3% in 2019 and 5.9% in 2020. This is set to spur labour productivity while wages are projected to gradually accelerate, supported by the unfreezing of career progressions in the public sector and a reduction in labour market slack.

Inflation remains low

Despite the increase in energy prices, the annual rate of inflation is forecast to remain relatively low at 1.5% in 2018 before creeping up to 1.6% in 2019 and 2020. Apart from the impact of energy markets, inflation experienced significant volatility in 2018 driven by accommodation prices, due to calendar effects as well as methodological changes affecting the time horizon of hotel bookings. Core inflation remained below the overall average in 2018 but the situation is expected to gradually reverse over the forecast period, as service prices are expected to pick up in line with more dynamic wage developments. House prices meanwhile rose by 11.2% (y-o-y) in the second quarter of 2018 but are set to slow down over the forecast horizon due to moderate supply growth.

Public finances benefitting from domestic demand and lower interest expenditure

The general government headline deficit is projected to decrease to 0.7% of GDP in 2018, helped by higher cyclical-related revenue, decreasing interest expenditure and lower-than-budgeted public investment but negatively impacted by the activation of the Novo Banco contingent capital mechanism (0.4% of GDP). Excluding this and other one-off operations, the deficit net of one-offs is set to improve to 0.3% of GDP. The structural balance is projected to improve by about ¼ pps. of GDP. The headline deficit is set to decrease to 0.6% of GDP in 2019 while the deficit net of one-offs is set to improve to 0.2% of GDP. As the impact of discretionary measures, savings in interest expenditure and higher property income is expected to be broadly neutral in 2019, the structural balance is projected to remain broadly stable. Under a no-policy-change assumption, the headline deficit is set to improve to 0.2% of GDP in 2020 while the structural balance is set to remain broadly unchanged. The structural primary balance is forecast to worsen by about ¼ pps. 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 4.5 pps. to 124.8% in 2017, the gross public debt-to-GDP ratio is forecast to further decline to 121.5% in 2018, 119.2% in 2019 and 116.8% in 2020, mainly due to primary budget surpluses and high nominal GDP growth.

Table II.22.1:

Main features of country forecast - PORTUGAL

	2017		Annual percentage change						
	bn EUR Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	194.6	100.0	0.5	1.8	1.9	2.8	**2.2**	**1.8**	**1.7**
Private Consumption	126.2	64.8	0.7	2.3	2.4	2.3	**2.3**	**2.0**	**1.8**
Public Consumption	34.0	17.5	0.8	1.3	0.8	0.2	**0.9**	**0.7**	**0.5**
Gross fixed capital formation	32.3	16.6	-2.5	5.8	2.3	9.2	**4.4**	**4.7**	**5.1**
of which: equipment	11.1	5.7	-0.9	10.4	7.5	13.5	**7.0**	**7.8**	**8.5**
Exports (goods and services)	83.1	42.7	4.0	6.1	4.4	7.8	**5.5**	**4.3**	**3.6**
Imports (goods and services)	81.5	41.9	2.3	8.5	4.7	8.1	**6.0**	**5.2**	**4.4**
GNI (GDP deflator)	190.4	97.8	0.5	0.7	2.4	2.9	**2.2**	**2.0**	**1.9**
Contribution to GDP growth: Domestic demand			0.2	2.6	2.1	3.0	**2.4**	**2.2**	**2.1**
Inventories			0.0	0.1	-0.1	0.0	**0.0**	**0.0**	**0.0**
Net exports			0.4	-0.9	-0.1	0.0	**-0.2**	**-0.4**	**-0.4**
Employment			-0.5	1.4	1.6	3.3	**2.2**	**1.3**	**0.8**
Unemployment rate (a)			9.7	12.6	11.2	9.0	**7.1**	**6.3**	**5.9**
Compensation of employees / head			2.4	0.4	1.7	1.6	**1.8**	**2.1**	**2.1**
Unit labour costs whole economy			1.4	0.0	1.4	2.1	**1.8**	**1.6**	**1.2**
Real unit labour cost			-0.8	-2.0	-0.3	0.5	**0.4**	**0.1**	**-0.4**
Saving rate of households (b)			8.9	5.3	5.0	4.7	**4.6**	**4.7**	**4.6**
GDP deflator			2.2	2.0	1.8	1.5	**1.4**	**1.5**	**1.5**
Harmonised index of consumer prices			2.3	0.5	0.6	1.6	**1.5**	**1.6**	**1.6**
Terms of trade goods			0.0	2.7	1.0	-0.9	**-0.3**	**0.2**	**0.2**
Trade balance (goods) (c)			-9.7	-4.5	-4.3	-5.4	**-6.0**	**-6.5**	**-6.9**
Current-account balance (c)			-7.9	-0.9	0.1	0.2	**0.0**	**-0.1**	**-0.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.3	0.3	1.0	1.1	**0.9**	**0.8**	**0.8**
General government balance (c)			-5.5	-4.4	-2.0	-3.0	**-0.7**	**-0.6**	**-0.2**
Cyclically-adjusted budget balance (d)			-5.2	-3.5	-1.6	-3.3	**-1.4**	**-1.3**	**-1.0**
Structural budget balance (d)			-	-2.3	-2.1	-1.3	**-0.9**	**-0.9**	**-1.0**
General government gross debt (c)			80.3	128.8	129.2	124.8	**121.5**	**119.2**	**116.8**

(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.

23. ROMANIA

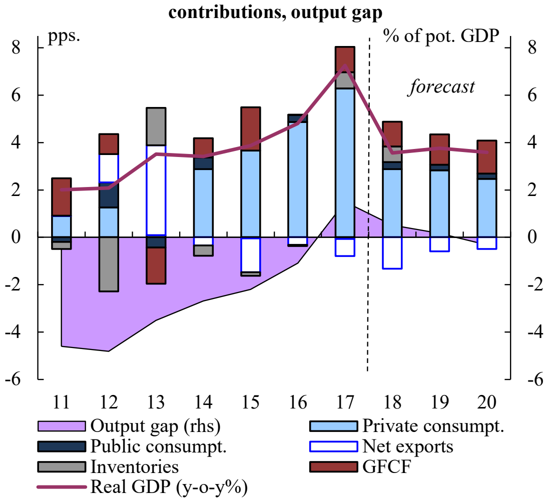
Strong growth set to decelerate

Romania's economic boom is cooling down as private consumption growth slows and the negative contribution of net exports to growth worsens further. GDP is forecast to grow more moderately over the forecast period and the labour market looks set to remain tight. Inflation peaked in spring 2018 and is expected to progressively slow down. The budget deficit is forecast to continue increasing, mostly due to significant increases in public wages and pensions.

Growth is set to slow but remain robust

Romania's economic boom has started to cool down in 2018. Real GDP growth slowed from 4.3% to 4.2% between the first and second quarters of the year and is expected to slow further. For the year overall, real GDP growth is forecast at 3.6%. Private consumption, the main contributor to growth, appears clearly to be weakening. This stems from persistently high inflation, mainly due to energy prices, and the fading out of public policies directed at increasing disposable income. Investment is expected to remain subdued for the rest of 2018. Import growth remains dynamic, despite softening private consumption, while exports are slowing, rendering net exports a drag on real GDP growth.

Graph II.23.1: **Romania - Real GDP growth and contributions, output gap**



In 2019 and 2020, private consumption is forecast to slow down further as nominal wage growth moderates and inflation continues to weigh on real disposable income. It will nonetheless remain the main driver of growth. Investment is expected to increase its contribution to growth on the back of an increase in non-residential construction. Overall, real GDP growth is projected to amount to 3.8% in 2019 and 3.6% in 2020. The output gap, which turned positive in 2017, is expected to narrow over the forecast horizon.

Imports are projected to continue rising at a higher pace than exports in 2019 and 2020. Accordingly, net exports will again make a negative contribution to real GDP growth. The current account deficit is set to continue increasing steadily as the trade balance widens from 3.7% in 2018 to 4.5% in 2020.

The labour market continues to tighten

Unemployment in Romania fell to a new historical low of 4.3% in spring 2018 and is set to stay at a broadly similar level over the forecast horizon. The tight labour market conditions suggest that wages should continue to grow, with some expected spillovers from the public to the private sector, but the pace will likely slow. This should reduce pressure on unit labour costs, which are nonetheless forecast to rise moderately in 2019 and 2020. Real wage growth, however, is expected to moderate significantly in 2018, due to higher inflation.

Inflation is set to rise

Headline inflation continued to grow at a strong pace in spring 2018 as the effect of a cut to standard VAT rates and excise duties on fuel, made in January 2017, faded away. The decision to reverse those cuts in October 2017, added further fuel to the figures. For 2018 as a whole, inflation is forecast at 4.3%, while in 2019 and 2020 it is expected to fall to 3.5% and 3.3% respectively on account of weakening domestic demand.

Risks tilted to the downside

A main risk to the forecast is that wage growth could continue to outpace productivity growth, causing Romania's economic competitiveness to decline further and weaken export growth. Furthermore, volatile food prices and persistently high international commodity prices could cause the current account deficit to widen even further. Uncertainty regarding the government's policies, with potential negative repercussions on the business environment, and the challenge of budgetary deficit targets could hamper investment decisions. On the other hand, an improved absorption of EU funds represents a positive risk for GDP growth in 2019 and 2020.

Public deficit set to increase

In 2018, the general government deficit is projected to increase to 3.3% of GDP, from 2.9% in 2017. Gross wages in the public sector were raised by 25% with even higher increases in the health and education sectors. The fiscal cost of these increases to gross wages was partially compensated for by a shift in the burden of social security contributions from employers to employees (from 22.75% and 16.5% to 2.25% and 35% respectively). The flat personal income tax (PIT) rate was cut from 16% to 10%. Moreover, public investment is projected to rebound slightly from a record low in 2017.

The general government deficit is projected to increase to 3.4% of GDP in 2019 and 4.7% in 2020. This projection is mostly driven by plans to significantly increase the pension point (the main parameter used for pension indexation), included in the governing programme and implemented through the pension law recently adopted by the government. The pension point is set to increase by 15% in September 2019 and 40% in September 2020.

As a consequence of these policy developments, Romania's structural deficit is projected to increase from around 3½ % of GDP in 2017 to around 4½ % in 2020. The debt-to-GDP ratio is projected to increase from 35.1% of GDP in 2017 to 38.2% in 2020.

A positive risk to the 2018 budget balance forecast comes from possibly lower than budgeted public investment. A possible freeze in public wages and potential changes to the draft pension law represent a positive risk for 2019 and beyond. On the other hand, a potential rebound of public investment from its record-low levels represents a negative risk to the general government balance projection in 2019 and 2020 via increased expenditure.

Table II.23.1:

Main features of country forecast - ROMANIA

		2017		Annual percentage change						
	bn RON	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		858.7	100.0	3.4	3.9	4.8	7.3	**3.6**	**3.8**	**3.6**
Private Consumption		537.0	62.5	4.6	6.0	7.9	10.1	**4.6**	**4.6**	**4.0**
Public Consumption		130.0	15.1	1.0	-0.3	2.2	-0.5	**2.0**	**1.5**	**1.4**
Gross fixed capital formation		193.6	22.6	6.0	7.5	-0.2	4.7	**4.6**	**5.6**	**5.9**
of which: equipment		77.5	9.0	6.0	-3.9	-8.9	5.0	**8.5**	**6.5**	**5.5**
Exports (goods and services)		355.7	41.4	10.0	4.6	16.0	9.7	**6.3**	**6.5**	**6.1**
Imports (goods and services)		374.0	43.6	10.7	8.0	16.5	11.2	**9.1**	**7.4**	**6.7**
GNI (GDP deflator)		839.1	97.7	3.5	2.7	4.5	7.4	**4.0**	**3.8**	**3.7**
Contribution to GDP growth:	Domestic demand			5.0	5.5	5.1	7.3	**4.2**	**4.3**	**4.1**
	Inventories			-0.2	-0.1	0.0	0.7	**0.7**	**0.0**	**0.0**
	Net exports			-1.3	-1.4	-0.3	-0.7	**-1.3**	**-0.6**	**-0.5**
Employment				-1.5	-1.3	-1.1	2.8	**0.2**	**-0.3**	**0.1**
Unemployment rate (a)				7.1	6.8	5.9	4.9	**4.3**	**4.2**	**4.1**
Compensation of employees / head				19.0	1.9	15.0	11.1	**13.0**	**6.7**	**6.7**
Unit labour costs whole economy				13.3	-3.1	8.5	6.5	**9.3**	**2.5**	**3.0**
Real unit labour cost				-2.0	-5.6	5.9	1.8	**2.7**	**-1.2**	**-0.5**
Saving rate of households (b)				-2.7	-4.3	-0.7	-1.0	**-0.5**	**-2.2**	**-1.4**
GDP deflator				15.8	2.6	2.5	4.6	**6.5**	**3.8**	**3.5**
Harmonised index of consumer prices				13.5	-0.4	-1.1	1.1	**4.3**	**3.5**	**3.3**
Terms of trade goods				2.0	1.0	-1.7	-1.2	**0.8**	**-0.6**	**-0.4**
Trade balance (goods) (c)				-7.8	-4.9	-5.5	-6.3	**-6.7**	**-7.4**	**-8.0**
Current-account balance (c)				-5.6	-0.8	-1.7	-3.1	**-3.7**	**-4.2**	**-4.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.9	1.6	0.8	-1.6	**-2.1**	**-2.5**	**-2.9**
General government balance (c)				-3.5	-0.7	-2.9	-2.9	**-3.3**	**-3.4**	**-4.7**
Cyclically-adjusted budget balance (d)				-3.6	0.1	-2.5	-3.4	**-3.5**	**-3.4**	**-4.6**
Structural budget balance (d)				-	-0.2	-2.2	-3.4	**-3.3**	**-3.4**	**-4.6**
General government gross debt (c)				24.2	37.8	37.3	35.1	**35.1**	**35.9**	**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.

24. SLOVENIA

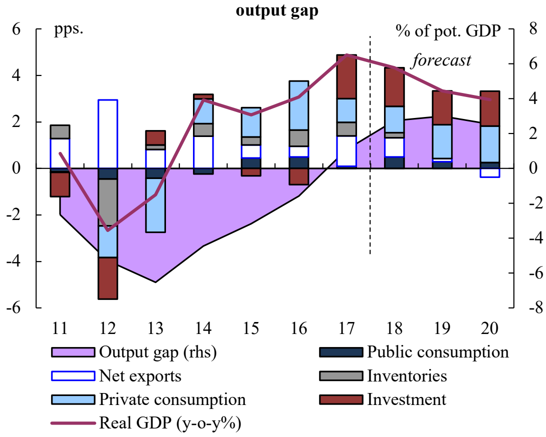
Solid growth over the forecast horizon

Economic growth reached 4.9% in 2017 and has remained strong also in the first half of 2018. Investment and exports have increased, while private consumption growth has been somewhat weaker. Growth is projected to continue at slightly lower pace in 2019 and 2020. Under a no-policy-change scenario, the public finances are expected to remain in surplus but to worsen in structural terms.

Fast growth continued over the first half of 2018

In the first half of 2018, Slovenia's economy grew by 4.6% compared to the first half of 2017 (1.9% compared to the previous six months). Domestic demand expanded thanks to investment, while private consumption grew somewhat more slowly despite relatively strong growth in households' disposable income. Investment growth was particularly strong in non-residential construction (14%) but also investment in machinery and equipment grew by 7.2% in the first half of the year compared to the first half of 2017. Residential construction investment increased by 5.4%. Exports grew by 9.9%, slightly below import growth, which stood at 10.2%. While remaining at a high level, economic sentiment indicators point to some weakening in the growth momentum over the second half of this year. Taking into account some expected slowdown in Slovenia's main export markets, economic growth in the second half of the year is forecast to lose some momentum compared to the beginning of the year. All in all, real GDP growth is forecast to reach 4.3% in 2018, below the 4.7% growth that was forecast in spring.

Graph II.24.1: **Slovenia - Real GDP growth and contributions, output gap**



Growth to remain robust in 2019 and 2020

Economic growth is forecast to slow down to 3.3% in 2019 and to 3.0% in 2020. Growth composition is expected to shift more towards domestic demand, with a negative contribution from net exports expected by 2020. Private consumption is projected to continue to enjoy the support of growing employment and rising wages. Investment is expected to be driven by high capacity utilisation rates and a tightening labour market. It is forecast to weaken somewhat in 2019 in the private sector but to pick up in the public sector, supported by an increased use of EU funds. In a context of high income growth, elevated household saving and rapidly increasing residential real estate prices, residential investment growth is forecast to remain strong over the forecast horizon.

Growth of unit labour costs is expected to pick up between 2018 and 2020. Together with lower export demand, this is set to contribute to somewhat slower export growth. Nevertheless, Slovenia's export market shares are expected to continue improving in 2019 and to remain stable in 2020. Imports are forecast to grow faster than exports due to the strengthening domestic demand. Slovenia's current account surplus is projected to reach 7.5% of GDP in 2018 and slowly decline to 6.7% by 2020.

Negative risks to the growth outlook are mainly external in nature. Were export demand to fall faster than expected, that would weigh on both exports and business investment, compounding its negative impact on economic sentiment. On the upside, households have room to increase consumption, particularly in light of improving credit conditions and a relatively high saving rate.

Labour market tightens

In 2018, employment is set to grow by 3.0% and the unemployment rate to decrease from 6.6% in 2017 to 5.6%. The unemployment rate is expected to fall further, reaching 5.1% in 2020. An inflow of foreign workers and a rising participation rate should help to alleviate labour supply constraints to some extent but wage pressures are nevertheless expected to increase. Compensation per employee is forecast to continue growing well above 3% over the forecast horizon.

Inflation is expected to reach 2.0% in 2018 and to increase to 2.3% in 2019. Inflation is driven by energy prices and the expected wage growth. Core inflation is expected to remain moderate in 2018 but should reach 1.8% in 2020.

Structural budget balance deteriorates

In 2017, the general government surplus stood at 0.1% of GDP, mainly due to high revenues and a strong decline in interest expenditure driven by active public debt management and favourable financial market conditions.

In 2018, the general government surplus is expected to improve to 0.5% of GDP. The revenues from taxes and social contributions are projected to accelerate further in line with the strong labour market performance. Compensation of employees and social transfers are expected to drive growth in government expenditure due to the ending of previously taken temporary restrictive measures.

In 2019, under a no-policy-change budget, the surplus is forecast to slightly decrease to 0.4% of GDP. Although revenues are projected to rise strongly, both compensation of employees and social benefits are projected to increase as a result of negotiations with labour unions and further relaxation of temporary measures. Under a no-policy-change assumption, the general government surplus is expected to recede to 0.2% of GDP in 2020. Along with a higher absorption of EU funds, the growth of government expenditure is forecast to outpace the revenue growth.

The main downside risks to public finances over the forecast horizon stem from considerable expenditure pressures, particularly on wages and social benefits. The implementation of measures announced in the coalition agreement of the new government could potentially lead to further fiscal expansion.

Slovenia's structural deficit is forecast to worsen by about ½ percentage points of GDP in 2018. As the projected output gap is positive, a deteriorating structural deficit would imply a pro-cyclical fiscal policy.

The debt-to-GDP ratio peaked at 82.6% in 2015, but decreased to 74.1% of GDP in 2017. Supported by economic growth and active public debt management, the debt-to-GDP ratio is expected to decline steadily to 62.6% of GDP in 2020.

Table II.24.1:

Main features of country forecast - SLOVENIA

	2017		Annual percentage change						
	bn EUR Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	43.0	100.0	2.2	2.3	3.1	4.9	**4.3**	**3.3**	**3.0**
Private Consumption	22.3	51.9	1.7	2.3	3.9	1.9	**2.2**	**2.9**	**3.1**
Public Consumption	7.8	18.2	1.7	2.4	2.7	0.5	**2.7**	**1.6**	**1.4**
Gross fixed capital formation	8.0	18.5	0.6	-1.6	-3.7	10.7	**9.0**	**7.5**	**7.4**
of which: equipment	3.4	7.8	2.1	3.9	7.3	12.1	**8.2**	**6.6**	**6.5**
Exports (goods and services)	35.6	82.9	5.9	5.0	6.4	10.7	**8.1**	**6.2**	**4.2**
Imports (goods and services)	31.5	73.2	4.7	4.7	6.6	10.3	**8.0**	**6.9**	**5.2**
GNI (GDP deflator)	42.2	98.2	2.2	0.0	3.6	5.8	**4.9**	**3.5**	**3.1**
Contribution to GDP growth: Domestic demand			1.6	1.4	1.9	3.0	**3.3**	**3.2**	**3.3**
Inventories			0.0	0.3	0.7	0.6	**0.2**	**0.0**	**0.0**
Net exports			0.7	0.6	0.5	1.3	**0.8**	**0.1**	**-0.4**
Employment			0.3	1.3	1.8	2.9	**3.0**	**2.5**	**1.7**
Unemployment rate (a)			7.0	9.0	8.0	6.6	**5.6**	**5.3**	**5.1**
Compensation of employees / head			5.4	1.3	3.0	3.2	**3.3**	**3.3**	**3.4**
Unit labour costs whole economy			3.4	0.3	1.8	1.3	**2.0**	**2.5**	**2.2**
Real unit labour cost			-0.1	-0.7	1.0	-0.3	**-0.2**	**-0.1**	**-0.3**
Saving rate of households (b)			13.4	12.4	13.0	13.9	**13.7**	**13.7**	**13.0**
GDP deflator			3.5	1.0	0.8	1.6	**2.2**	**2.6**	**2.5**
Harmonised index of consumer prices			4.0	-0.8	-0.2	1.6	**2.0**	**2.3**	**2.2**
Terms of trade goods			-0.4	1.3	0.8	-0.6	**-0.6**	**-0.2**	**0.2**
Trade balance (goods) (c)			-2.6	3.8	3.8	3.6	**3.4**	**3.2**	**2.4**
Current-account balance (c)			-1.3	4.5	5.4	7.1	**7.5**	**7.1**	**6.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.1	5.6	4.6	6.3	**7.0**	**7.4**	**6.9**
General government balance (c)			-4.0	-2.8	-1.9	0.1	**0.5**	**0.4**	**0.2**
Cyclically-adjusted budget balance (d)			-3.9	-1.3	-1.2	-0.5	**-0.8**	**-1.0**	**-1.0**
Structural budget balance (d)			-	-1.3	-1.0	-0.4	**-0.8**	**-1.0**	**-1.0**
General government gross debt (c)			36.1	82.6	78.7	74.1	**70.2**	**66.3**	**62.6**

(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.

25. SLOVAKIA

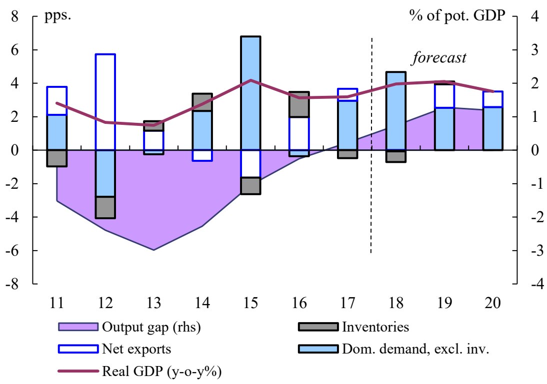
Growth strengthens thanks to investment and exports

Slovakia's economic expansion is expected to strengthen. Private consumption should continue to drive overall growth, backed by solid real wage increases and further employment gains. Exports are expected to replace investment as the second pillar of growth in 2019. The economic expansion is likely to ease in 2020 as export growth slows. Consumer price inflation is expected to be fuelled by buoyant wage increases and robust private demand. The government deficit is projected to decrease further.

Growth nears its peak

Slovakia's economy expanded by 3.2% in 2017, driven principally by domestic demand. Real GDP growth is forecast to reach around 4% in 2018 and to accelerate slightly further in 2019, when the current business cycle is likely to peak. Further improvements in the labour market are likely to make private consumption a key contributor to GDP growth over the forecast horizon, as was already the case in 2017. Expanding export capacities in the large automotive sector will significantly boost economic activity from 2019 onwards. At the same time, mounting labour shortages are leading to an acceleration of wage growth and pose a risk towards further expansion in affected sectors.

Graph II.25.1: **Slovakia - Real GDP growth and contributions, output gap**



Investment boosts export capacities in the automotive industry

A surge in investment activity in the first half of 2018 is expected to be followed by muted investment growth in the second half, which will nonetheless allow investment growth in 2018 to reach double-digit rates. This investment spending is partly directed at the construction of a new car factory, which is expected to be completed by end-2018. In 2020, the approaching end of the current programming period of EU funding and a number of large public investment projects are likely to revive public investment.

The positive effect of new investment on Slovakia's export capacities and trade performance is expected to be built over the forecast horizon. The new car factory will help significantly accelerate export growth, despite an expected slowing in foreign demand. This should result in substantial export market share gains. Ongoing expansion in domestic supply chains should further lift the contribution of net trade to GDP growth.

Wages outpace productivity growth

Employment growth is likely to decelerate over the forecast horizon as unemployment falls to historical lows and labour shortages become more acute in many sectors. While the positive effect from job creation on disposable income growth is expected to fade, accelerating wage growth will take over as a key source of household income growth. In the context of low unemployment risk and supportive financial conditions, consumers are likely to keep spending and invest in the housing market. At the same time, the tight labour market is expected to push wage growth above productivity growth. If sustained, the resulting growth in unit labour costs risks will likely erode the economy's external competitiveness.

Demand pressures will drive inflation

Although the highpoint in consumer price inflation is likely to have already been passed in the second quarter of 2018, HICP inflation is set to remain somewhat elevated over the forecast horizon. Service price inflation in particular is expected to rise over the forecast horizon owing to rapid wage cost growth. Moreover, higher oil prices should lead to an increase in regulated energy prices in 2019. Food prices are likely to continue growing at recent trend rates of around 2.5% - close to the rate of overall HICP inflation expected for 2020.

Public finances to benefit from growth

The general government deficit declined to 0.8% of GDP in 2017. The government headline deficit is expected to continue declining and should be close to 0.6% of GDP in 2018, underpinned by the favourable macroeconomic situation and positive developments in the labour market. However, the main part of these gains is expected to be spent as investment at the local level in the run-up to municipal elections and as government consumption. Revenues from personal income taxes and social contributions are expected to expand markedly. At the same time, revenues from corporate income taxes are increasing thanks to the growing profitability of companies and a better corporate tax settlement for 2017. Revenues from value-added taxes are likely to benefit from improved tax collection, reflected in a rising effective tax rate. Public expenditure is expected to contract by 0.2 pps. of GDP more than revenues.

In 2019, the headline deficit is projected to fall to 0.3% of GDP. In line with robust real GDP growth and a strong labour market, tax revenues are expected to continue growing. Expenditure growth should slow in spite of high indexation of public wages and the impact of the introduction of government expenditure measures – including e.g. free lunches for schoolchildren, Christmas bonuses for pensioners and financial support for spa cures. The general government revenue and expenditure ratios are expected to decrease to 38.9% and 39.3% of GDP, respectively.

In 2020, the headline deficit will be almost negligible with total expenditure and revenue levels falling by 0.6 and 0.3 pps. of GDP, respectively. Buoyant private consumption and favourable labour market conditions are likely to ensure steady growth in revenues, particularly from income taxes, social contributions and VAT. Marked increases in public wages are also planned in 2020. Use of EU funding for investments is expected to increase slightly as the end of the programming period approaches. The main downside risk to the fiscal forecast is the possible spending of windfall government revenues.

The general government debt-to-GDP ratio is expected to decline to 46.4% of GDP by 2019 and to 44.2% of GDP in 2020, driven by expected primary surpluses and robust nominal GDP growth.

Table II.25.1:

Main features of country forecast - SLOVAKIA

	2017			Annual percentage change					
	bn EUR Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	84.9	100.0	3.7	4.2	3.1	3.2	**4.0**	**4.1**	**3.5**
Private Consumption	46.6	54.9	2.8	2.2	2.9	3.5	**2.9**	**3.2**	**3.0**
Public Consumption	16.5	19.5	2.7	5.4	1.6	1.7	**2.2**	**1.4**	**1.6**
Gross fixed capital formation	18.2	21.4	0.8	21.9	-9.4	3.4	**12.4**	**2.2**	**3.0**
of which: equipment	8.7	10.3	2.3	16.9	-1.3	-1.4	**3.9**	**3.2**	**2.9**
Exports (goods and services)	82.2	96.9	9.5	6.0	5.5	5.9	**5.4**	**8.0**	**7.0**
Imports (goods and services)	79.6	93.8	7.3	8.0	3.4	5.3	**5.7**	**6.8**	**6.3**
GNI (GDP deflator)	83.2	98.0	3.6	2.9	3.8	3.1	**4.6**	**4.1**	**3.5**
Contribution to GDP growth: Domestic demand			2.3	6.8	-0.4	3.0	**4.7**	**2.5**	**2.6**
Inventories			0.2	-1.0	1.5	-0.5	**-0.6**	**0.2**	**0.0**
Net exports			1.3	-1.6	2.0	0.7	**-0.1**	**1.4**	**0.9**
Employment			0.3	2.0	2.4	2.2	**1.7**	**1.0**	**0.6**
Unemployment rate (a)			15.1	11.5	9.7	8.1	**6.9**	**6.3**	**6.0**
Compensation of employees / head			6.2	3.5	2.1	5.2	**5.0**	**6.4**	**6.2**
Unit labour costs whole economy			2.8	1.3	1.3	4.2	**2.7**	**3.2**	**3.3**
Real unit labour cost			-0.2	1.4	1.8	2.9	**0.1**	**0.5**	**0.7**
Saving rate of households (b)			7.5	8.7	8.7	8.2	**7.3**	**7.5**	**7.3**
GDP deflator			3.0	-0.2	-0.5	1.2	**2.6**	**2.7**	**2.6**
Harmonised index of consumer prices			4.5	-0.3	-0.5	1.4	**2.6**	**2.6**	**2.4**
Terms of trade goods			-0.5	-0.2	-0.4	-0.8	**-0.2**	**-0.3**	**-0.1**
Trade balance (goods) (c)			-3.3	1.3	2.3	2.0	**1.8**	**2.9**	**3.5**
Current-account balance (c)			-4.6	-2.3	-1.2	-0.2	**0.0**	**1.2**	**2.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.2	-0.2	-1.4	-0.8	**0.2**	**1.6**	**2.5**
General government balance (c)			-4.9	-2.6	-2.2	-0.8	**-0.6**	**-0.3**	**-0.1**
Cyclically-adjusted budget balance (d)			-4.7	-2.2	-2.1	-0.9	**-0.8**	**-0.8**	**-0.6**
Structural budget balance (d)			-	-2.2	-2.1	-0.9	**-0.8**	**-0.8**	**-0.6**
General government gross debt (c)			42.2	52.2	51.8	50.9	**48.8**	**46.4**	**44.2**

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

26. FINLAND
Growth set to moderate

Economic growth is expected to remain strong and broad-based this year, before moderating in 2019 and 2020. Unemployment is forecast to reach close to its structural level while inflation is expected to accelerate but remain just below 2% in 2020. Economic growth will support improvement in the headline budget balance and contribute towards lowering the government debt ratio below 60%.

Strong broad-based growth in 2018...

Finland's GDP is expected to reach 2.9% in 2018. Growth in 2018 is expected to be broad based, driven mainly by private consumption and investment. After a strong first quarter (1.2% q-o-q) and a moderation in the second (0.3% q-o-q), high-frequency indicators suggest that growth should pick up in the second half of the year.

Private consumption increased strongly on the back of rising employment and rising household disposable income. The strong investment growth of 2017 continued in 2018, mainly due to the strength of construction investment. On the back of increased foreign demand, exports are set to outpace imports, which remain subdued. These drivers are expected to contribute to strong GDP growth in 2018, at similar pace as in 2017, and it appears likely that growth may be reaching a cyclical peak.

...set to moderate in 2019 and 2020.

Private consumption is forecast to become the dominant growth driver over 2019 and 2020, supported by the rise in household disposable income, rising employment and high consumer confidence. The rise in income is forecast to outpace the rise in spending, which should help the household saving rate to recover slightly, although it is expected to remain at an historically low level.

Investment growth is forecast to slow down compared to 2018. Construction investment in particular should come down from exceptionally high levels as demand for residential property decreases. On the other hand, increased corporate profits, high capacity utilisation and low interest rates should all encourage business investment, particularly in machinery and equipment.

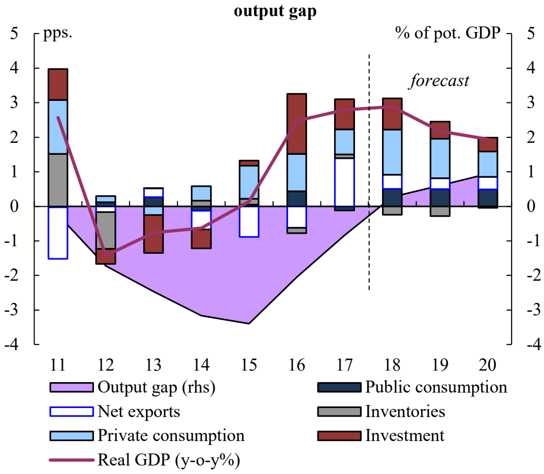
Exports growth is set to lose steam as external demand slows, but improved cost competitiveness could partly counterbalance this effect. Import growth will follow hand-in-hand with lower exports and decelerating private consumption. As a result, the current account surplus is forecast to continue rising from 0.6% in 2017 to 1.6% of GDP in 2020.

The labour market continues to improve and inflation remains moderate

Employment has risen strongly in 2018, with more than half of new workers coming from inactivity. This trend is set to continue in 2019 and 2020 but at a slower pace. As the unemployment rate reaches close to its structural level, supply-side constraints are set to emerge. Following the implementation of the 'Competitiveness Pact', wage growth has been modest in 2018 but is forecast to pick up moderately in 2019 and 2020, which should support households' purchasing power.

Inflation has remained below the euro area average but is set to accelerate with higher labour costs and increases in fuel prices. As a result, headline inflation is forecast to gradually accelerate to close to 2% in 2020.

Graph II.26.1: **Finland - Real GDP growth and contributions, output gap**



Risks to the growth outlook are tilted to the downside. Any worsening in the external environment would hit growth in Finland. On the upside, faster-than-expected realisation of large investment projects planned could boost investment in as early as 2019.

Public debt ratio falls below 60%

The favourable economic cycle is helping to further consolidate Finland's public finances. Taxes on production and imports are expected to increase strongly in 2018, slowing down gradually in 2019 and 2020 in line with the economy. The increase in employment and the expected wage rises will boost revenue from taxes on income in both 2019 and 2020. Accordingly, lower payments of unemployment benefits will help contain government expenditure.

Despite the economic expansion, temporary factors are expected to have a negative impact on the government balance in 2018. The end of one-off revenues from corporate taxes in 2017, the tax refunds and changes in the system of VAT levies on imports will lower government revenues.

Furthermore, in the wake of the reforms under the Competitiveness Pact, taxes on income will also grow more moderately. On the expenditure side, the government is expected to continue spending on large-scale investment projects. Hence, despite favourable cyclical conditions, the general government headline balance in 2018 is forecast to deteriorate to -0.8% of GDP. In 2019, as some of the investment projects come to an end and owing to the general fiscal consolidation policy, the general government finances are projected to improve to -0.2% of GDP.

Due to the above factors, Finland's structural balance is estimated to worsen in 2018 to about ¾% of GDP, before improving to ½% of GDP in 2019.

The decline in Finland's general government debt-to-GDP ratio continues. It is projected to fall below the 60% benchmark already in 2018.

Table II.26.1:

Main features of country forecast - FINLAND

		2017			Annual percentage change					
		bn EUR Curr. prices	**% GDP**	**99-14**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
GDP		223.8	100.0	1.7	0.1	2.5	2.8	**2.9**	**2.2**	**1.9**
Private Consumption		121.9	54.4	2.2	1.7	2.0	1.3	**2.4**	**2.1**	**1.4**
Public Consumption		51.2	22.9	1.2	0.2	1.8	-0.5	**2.2**	**2.2**	**2.2**
Gross fixed capital formation		49.6	22.1	0.8	0.7	8.5	4.0	**4.1**	**2.2**	**1.8**
of which: equipment		11.8	5.3	0.1	4.6	13.7	6.6	**6.8**	**4.0**	**5.0**
Exports (goods and services)		86.3	38.5	3.4	0.9	4.0	7.5	**4.2**	**3.9**	**3.6**
Imports (goods and services)		85.4	38.2	3.9	3.2	5.6	3.5	**3.2**	**3.1**	**2.8**
GNI (GDP deflator)		226.5	101.2	1.8	0.1	3.0	2.6	**2.8**	**2.1**	**1.8**
Contribution to GDP growth:	Domestic demand			1.5	1.2	3.3	1.5	**2.7**	**2.1**	**1.6**
	Inventories			0.0	0.2	-0.2	0.1	**-0.2**	**-0.3**	**0.0**
	Net exports			0.1	-0.9	-0.6	1.4	**0.4**	**0.3**	**0.4**
Employment				0.8	-0.1	0.5	1.2	**2.2**	**1.1**	**0.9**
Unemployment rate (a)				8.4	9.4	8.8	8.6	**7.8**	**7.2**	**6.9**
Compensation of employees / head				2.9	1.4	1.1	-1.2	**1.4**	**2.2**	**2.4**
Unit labour costs whole economy				2.0	1.2	-0.9	-2.7	**0.8**	**1.1**	**1.3**
Real unit labour cost				0.3	-0.7	-1.5	-3.5	**-0.1**	**-0.5**	**-0.7**
Saving rate of households (b)				8.6	6.9	6.1	5.7	**6.3**	**6.5**	**6.5**
GDP deflator				1.7	1.9	0.6	0.8	**0.9**	**1.6**	**2.0**
Harmonised index of consumer prices				1.9	-0.2	0.4	0.8	**1.2**	**1.6**	**1.8**
Terms of trade goods				-1.2	5.0	0.4	-0.6	**-1.2**	**0.6**	**1.1**
Trade balance (goods) (c)				5.7	0.8	0.2	0.8	**0.8**	**1.1**	**1.6**
Current-account balance (c)				3.2	-0.8	-0.6	0.6	**0.7**	**1.1**	**1.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.3	-0.7	-0.6	0.7	**0.6**	**1.0**	**1.1**
General government balance (c)				1.5	-2.8	-1.7	-0.7	**-0.8**	**-0.2**	**-0.1**
Cyclically-adjusted budget balance (d)				1.6	-0.8	-0.5	-0.2	**-0.9**	**-0.5**	**-0.7**
Structural budget balance (d)				-	-0.8	-0.5	-0.2	**-0.8**	**-0.6**	**-0.7**
General government gross debt (c)				44.1	63.6	63.0	61.3	**59.8**	**58.5**	**57.5**

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

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

27. SWEDEN

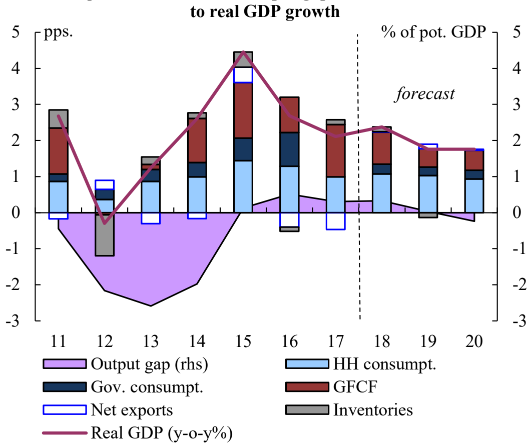
Moderating growth and strong public finances

Economic growth in Sweden is expected to remain solid this year on the back of strong domestic demand but is forecast to slow in 2019 as residential investment declines. Unemployment is set to fall in 2018 and stabilise just above 6% in 2019 and 2020. Inflation is forecast to reach the Riksbank's target of around 2% in late 2018 before receding to 1.6% in 2020. The general government surplus is projected to decline to around 1% of GDP while the debt-to-GDP ratio is set to fall further.

Growth to shift down a gear

Real GDP in Sweden is set to grow by a solid 2.4% this year before cooling down to a below potential rate of 1.8% in 2019 and 2020, as domestic demand growth wanes and the external environment provides only limited support.

Graph II.27.1: **Sweden - Output gap and contributions to real GDP growth**



Slowing domestic demand growth

Domestic demand growth is set to decrease from 2.2% in 2018 to 1.7% in 2020, mainly due to falling residential investment. Following two decades of strong growth, house prices declined in Q4-2017 and have broadly stabilised. As a consequence, after a strong outcome in the first quarter of 2018, housing investment fell back in the second quarter and is expected to decline further.

In addition, investment in equipment is expected to lose speed as trade-related uncertainty weighs on external demand and business sentiment. Overall, gross fixed capital formation is likely to grow by a mere 2% in 2019 and 2.1% in 2020, compared to 6.1% in 2017.

Private consumption was strong in the first half of 2018, mainly driven by advanced car purchases ahead of a tax hike introduced in July. With employment growth set to decline in the next two years and subdued wage increases, real disposable income growth is set to slow. Private consumption is thus projected to expand moderately by around 2.1% in 2020, compared to 2.4% in 2018.

General government consumption is set to increase by 1.1% in 2018 based on the 2018 budget bill, before slowing to 0.9% over 2019 and 2020 on a no-policy-change assumption. Most of the additional spending in the coming years is expected to be undertaken by local authorities to hire staff and improve infrastructure in view of a growing and ageing population.

Net exports hardly contribute to growth

Goods exports rose by 5% in 2017, driven by machinery and transport equipment, and growth remained solid in the first half of 2018. Imports, however, also rose vigorously, due to the country's deep integration into global value chains and Sweden's industry specialisations. As a result, net exports reduced GDP growth. Sentiment among Swedish exporters has been dampened by ongoing trade tensions and expectations of slowing growth in the US. Exports of goods and services are likely to expand by only 3.2% in 2019 and by 3% in 2020. Net trade contribution to growth is set to remain broadly neutral.

Unemployment to stabilise

Economic growth is expected to bring unemployment down to 6.3% in 2018. Shortages of skilled labour and skill mismatches are set to prevent the unemployment rate from falling much further in 2019 and 2020. Employment is likely to grow at a more benign rate than in 2017 and in line with labour force expansion over the forecast horizon.

Inflation slowing down

Headline inflation is forecast to increase to 2.1% in 2018 and to edge down to 1.9% in 2019. Import prices are expected to go up in 2018 as a result of the Swedish krona's depreciation and the rise in oil and unprocessed food prices (caused by unusually dry weather). However, as these temporary factors are projected to fade away and wage growth is assumed to remain muted, HICP inflation should retreat to 1.6% by 2020.

Risks tilted to the downside

As a small open economy, Sweden remains vulnerable to an escalation in trade disputes. While the recent decline in house prices seems to have come to a halt, a renewed fall could reduce further residential construction activity with repercussions on consumer confidence, private consumption, and ultimately growth.

Slightly declining surpluses

Sweden's general government balance had a surplus of 1.6% of GDP in 2017, up from 1.1% in 2016, mainly as a result of stronger-than-expected revenues. As revenues are forecast to revert to more normal performance, a smaller surplus of around 1% of GDP is expected in 2018. This surplus is set to gradually decline to 0.8% of GDP in 2020, as economic growth is slowing down. The structural surplus is projected to fall by around half a percentage point of GDP in 2018 implying a mildly expansionary fiscal stance that should be broadly neutral in 2019-2020. This would be above the adopted new medium-term fiscal surplus target of 0.33% of GDP with effect from 2019.

Sweden's general government gross debt is expected to remain on a declining path, on the back of economic growth and primary budget surpluses. The debt-to-GDP ratio is projected to fall from 40.8% in 2017 to 33.5% in 2020.

Table II.27.1:

Main features of country forecast - SWEDEN

	2017			Annual percentage change						
	bn SEK	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		4578.9	100.0	2.3	4.5	2.7	2.1	**2.4**	**1.8**	**1.8**
Private Consumption		2040.8	44.6	2.4	3.1	2.9	2.2	**2.4**	**2.3**	**2.1**
Public Consumption		1195.6	26.1	1.0	2.4	3.6	0.0	**1.1**	**0.9**	**0.9**
Gross fixed capital formation		1142.6	25.0	2.9	6.7	4.2	6.1	**3.5**	**2.0**	**2.1**
of which: equipment		343.6	7.5	3.2	5.1	5.3	5.8	**4.7**	**4.3**	**3.6**
Exports (goods and services)		2076.7	45.4	4.0	5.7	3.0	3.2	**3.4**	**3.2**	**3.0**
Imports (goods and services)		1907.6	41.7	3.8	5.2	4.3	4.8	**3.7**	**3.2**	**3.1**
GNI (GDP deflator)		4643.7	101.4	2.5	3.6	2.5	2.4	**2.3**	**1.7**	**1.7**
Contribution to GDP growth:	Domestic demand			2.0	3.6	3.2	2.4	**2.2**	**1.8**	**1.7**
	Inventories			0.0	0.4	-0.1	0.1	**0.1**	**-0.1**	**0.0**
	Net exports			0.3	0.4	-0.4	-0.5	**0.0**	**0.1**	**0.0**
Employment				0.9	1.5	1.9	2.3	**1.7**	**0.9**	**0.7**
Unemployment rate (a)				7.3	7.4	6.9	6.7	**6.3**	**6.2**	**6.2**
Compensation of employees / head				3.5	2.7	2.5	2.0	**2.7**	**2.7**	**2.5**
Unit labour costs whole economy				2.1	-0.2	1.7	2.2	**2.0**	**1.8**	**1.3**
Real unit labour cost				0.5	-2.2	0.0	0.0	**-0.5**	**-0.2**	**-0.4**
Saving rate of households (b)				12.2	17.5	18.5	17.6	**17.9**	**17.2**	**16.6**
GDP deflator				1.6	2.1	1.6	2.2	**2.5**	**2.0**	**1.8**
Harmonised index of consumer prices				1.5	0.7	1.1	1.9	**2.1**	**1.9**	**1.6**
Terms of trade goods				-0.6	1.7	0.7	-0.6	**-0.7**	**-0.3**	**-0.2**
Trade balance (goods) (c)				5.9	3.0	2.2	2.4	**2.1**	**2.1**	**2.0**
Current-account balance (c)				6.2	4.6	4.2	3.6	**3.2**	**3.0**	**2.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.0	4.4	4.2	3.6	**3.1**	**2.8**	**2.6**
General government balance (c)				0.5	0.2	1.1	1.6	**1.1**	**0.9**	**0.8**
Cyclically-adjusted budget balance (d)				0.8	0.1	0.8	1.4	**0.9**	**0.9**	**1.0**
Structural budget balance (d)				-	0.1	0.8	1.4	**0.9**	**0.9**	**1.0**
General government gross debt (c)				45.3	44.2	42.4	40.8	**37.8**	**35.5**	**33.5**

(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

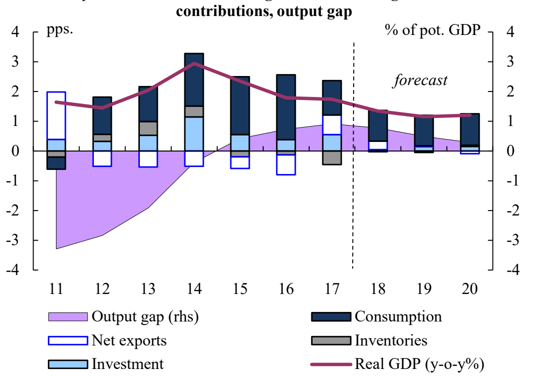
Outlook remains subdued as slowdown persists

UK GDP growth is currently subdued and expected to remain so over the forecast horizon. Private consumption growth is forecast to remain weak as real wages grow modestly and households look to maintain savings. Heightened uncertainty means that business investment growth is likely to remain constrained. The net trade contribution to growth is projected to decrease in-line with a moderation in external demand. Employment growth is expected to slow significantly, leading to a modest rise in unemployment. Inflation should ease as the impact of sterling's 2016 depreciation unwinds.

Weather related effects have impacted the pace of growth in 2018

The pace of UK economic growth this year has been uneven to date, partly due to weather-related effects. GDP growth slowed significantly to 0.1% (q-o-q) in 2018-Q1, down from 0.4% in 2017-Q4. This slowdown was in part due to severe bad weather disruption in March. While the pace of GDP growth in Q2 (0.4%) was in-line with recent trends, growth in the first part of Q3 was boosted by strong private consumption (retail sales) due to warmer than usual summer weather. High frequency indicators suggest that both GDP and private consumption growth will ease back towards the subdued underlying growth rates recently seen.

Graph II.28.1: **The United Kingdom - Real GDP growth and contributions, output gap**



Business investment growth was negative in both 2018-Q1 (-0.7%) and 2018-Q2 (-0.5%). Various business surveys indicate that this subdued performance is largely due to ongoing uncertainty over the UK's future trading relationship with the EU.

The contribution of net exports to GDP growth has also reduced in 2018, as the impacts of the 2016 depreciation of sterling faded and external market growth moderated. Net trade made a negative contribution in Q1 (-0.1 pps.) and Q2 (-0.6 pps.). The large decrease in goods exports in Q2 was mainly due to lower car exports. The most recent official trade data suggests that net trade made a positive contribution to growth in Q3. GDP growth over 2018 as a whole is expected to be 1.3%, down from 1.7% in 2017.

Moderate increase in domestic demand to offset slower external demand in 2019 and 2020

Given the ongoing negotiation over the terms of the UK's withdrawal from the EU, projections for 2019 and 2020 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.

Consumer confidence surveys suggest that savings intentions of consumers are high, reflecting weak overall consumer confidence. Private consumption growth is therefore assumed to remain weak in 2019 as households take the opportunity from modest real wage growth to maintain savings. Business investment growth is projected to rebound slightly in 2019 but to remain relatively subdued following a prolonged period of heightened uncertainty. The net trade contribution to growth is expected to deteriorate further alongside slowing external demand. Reflecting these factors and the technical assumption, GDP growth is expected to remain weak at 1.2% in 2019, marginally lower than in 2018. GDP growth is expected to be stable at 1.2% in 2020.

As this purely technical assumption implies a relatively benign scenario, the risks to the 2019 and 2020 baseline forecast are large and predominantly to the downside.

Employment growth expected to slow alongside easing inflation

Over the forecast horizon employment growth is expected to slow in a context of subdued GDP growth. This is projected to lead to a modest rise in the unemployment rate to 4.7% in 2020. As the impact of sterling's earlier depreciation on consumer prices unwinds fully, inflation is expected to ease to 2.0% in 2019 and to 1.9% in 2020.

General government deficit to stabilise over the forecast horizon

For the current fiscal year (2018-2019) to date, borrowing has been significantly lower than official projections. This over-performance is due to both lower spending as well as higher revenues. Consequently the general government deficit is now projected to fall to 1.3% of GDP in 2018-19 as a whole. The structural deficit is expected to fall to around 1¾ % of GDP in 2018-2019.

Since the last Budget in November 2017, there have been notable public policy spending announcements, including additional funding for the National Health Service. In the absence of compensatory revenue measures, these will have a significant impact on the deficit over the forecast horizon. The UK authorities have announced that the 2018 Budget will be released on 29 October. Based on the publicly available information at the cut-off date for this forecast (22 October 2018) and under our no-policy-change assumption, over the forecast horizon the general government deficit is projected to stabilise at 1.2% of GDP in both 2019-2020 and 2020-2021. The structural deficit is expected to fall and stabilise close to 1½% in 2019-2020 and in 2020-2021, reflecting slightly below-trend GDP growth in both years. As additional spending and/or compensatory revenue measures may yet be announced in the Budget, the risks to the forecast seem balanced. The general government debt ratio is projected to fall from 85.0% of GDP in 2018-2019 to 83.7% of GDP in 2019-2020 and to 82.0% of GDP in 2020-2021.

Table II.28.1:
General government projections on a financial-year basis

ESA10	Actual		Forecast		
	2016-17	2017-18	2018-19	2019-20	2020-2021
General government balance~	-2.4	-2.0	**-1.3**	**-1.2**	**-1.2**
Structural budget balance	-2.8	-2.5	**-1.7**	**-1.5**	**-1.4**
General government gross debt	86.4	85.7	**85.0**	**83.7**	**82.0**

~APF transfers included

Table II.28.2:
Main features of country forecast - UNITED KINGDOM

		2017		Annual percentage change						
		bn GBP Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		2044.5	100.0	1.9	2.3	1.8	1.7	**1.3**	**1.2**	**1.2**
Private Consumption		1343.8	65.7	2.0	2.6	3.1	1.8	**1.4**	**1.3**	**1.3**
Public Consumption		372.8	18.2	2.3	1.4	0.8	-0.1	**0.5**	**0.9**	**1.1**
Gross fixed capital formation		350.7	17.2	1.5	3.4	2.3	3.3	**-0.1**	**0.9**	**0.9**
of which: equipment		87.5	4.3	2.0	5.2	2.0	-2.6	**-3.2**	**0.4**	**1.0**
Exports (goods and services)		617.8	30.2	3.2	4.4	1.0	5.7	**2.1**	**2.9**	**2.0**
Imports (goods and services)		640.5	31.3	3.7	5.5	3.3	3.2	**1.1**	**2.8**	**2.2**
GNI (GDP deflator)		2011.7	98.4	1.7	2.1	1.5	2.7	**1.3**	**1.2**	**1.2**
Contribution to GDP growth:	Domestic demand			2.0	2.5	2.6	1.7	**1.0**	**1.2**	**1.2**
	Inventories			0.0	-0.2	-0.1	-0.5	**0.0**	**0.0**	**0.0**
	Net exports			-0.2	-0.4	-0.7	0.7	**0.3**	**0.0**	**-0.1**
Employment				0.9	1.7	1.4	1.0	**0.8**	**0.4**	**0.3**
Unemployment rate (a)				6.1	5.3	4.8	4.4	**4.3**	**4.5**	**4.7**
Compensation of employees / head				3.4	1.1	2.9	3.1	**3.0**	**3.1**	**3.2**
Unit labour costs whole economy				2.3	0.5	2.5	2.4	**2.5**	**2.3**	**2.3**
Real unit labour cost				0.3	0.1	0.4	0.3	**0.6**	**0.7**	**0.3**
Saving rate of households (b)				8.7	9.4	6.7	4.5	**4.0**	**4.5**	**4.7**
GDP deflator				2.0	0.4	2.1	2.0	**1.9**	**1.6**	**2.0**
Harmonised index of consumer prices				2.1	0.0	0.7	2.7	**2.6**	**2.0**	**1.9**
Terms of trade goods				0.3	-1.7	2.8	0.4	**0.4**	**0.4**	**0.9**
Trade balance (goods) (c)				-5.1	-6.2	-6.7	-6.7	**-6.4**	**-6.3**	**-6.2**
Current-account balance (c)				-3.1	-4.9	-5.2	-3.7	**-3.3**	**-3.2**	**-3.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.1	-5.0	-5.3	-3.8	**-3.4**	**-3.3**	**-3.1**
General government balance (c)				-4.1	-4.2	-2.9	-1.8	**-1.3**	**-1.0**	**-1.0**
Cyclically-adjusted budget balance (d)				-3.7	-4.5	-3.4	-2.3	**-1.8**	**-1.3**	**-1.1**
Structural budget balance (d)				-	-4.5	-3.4	-2.3	**-1.8**	**-1.3**	**-1.1**
General government gross debt (c)				54.2	87.9	87.9	87.4	**86.0**	**84.5**	**82.6**

(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.

Candidate Countries

29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Economic recovery depends on improving investment outlook

Output growth was driven by the strong pickup in exports in the first half of the year, off-setting a drop in investment. The recovery is expected to gain traction in 2019 and 2020, but at a slower pace than projected earlier, and to be increasingly driven by strengthening investment and a sizeable fiscal stimulus. The public debt ratio is set to continue to rise.

Export boom carries the economy in 2018

The economy picked up in the second quarter, following stagnation in 2017 and early 2018. In the first two quarters of the year, real GDP increased by an average of 1.6%, compared to the same period one year earlier, mainly carried by net exports. Export growth accelerated sharply, with the bulk of the increase coming from established foreign companies, which account for 53% of total exports. Import growth slowed, largely reflecting muted investment, which dropped by 10%.

Growth drivers set to change

In the next two years, gross fixed capital formation is expected to provide an increasing contribution to economic growth. The investment climate is improving, amidst firming corporate credit and sizeable public subsidies to companies. The government is determined to address deficiencies in the business environment and to clear the path for EU membership. Transport projects, which were stalled in the summer, are expected to resume before end-2018. Companies' liquidity is expected to benefit from the clearance of government arrears, the funding of which has been raised through the October budget rebalancing. Export growth is projected to remain strong, but decelerate somewhat after peaking in 2018, due to emerging capacity constraints in manufacturing. Import growth is set to increase with the expected pick-up in investment. Net exports may detract from growth in 2019 and 2020.

A further boost to disposable income over the forecast horizon is expected to sustain household spending. Job creation and wage growth are likely to continue at a robust pace. Social transfers have risen by 8% y-o-y in the first eight months of the year and the government has raised wages for public health and education workers by 5% as of September 2018. Furthermore, household credit growth, at 9.8% y-o-y average in the first eight months, is likely to remain strong.

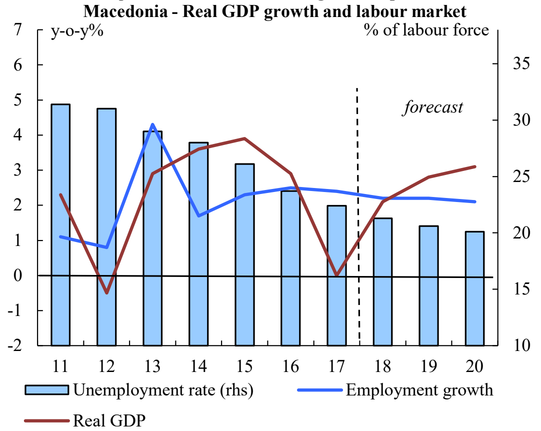
Price pressures likely to remain mild

Consumer prices rose by an average of 1.5% y-o-y in the first nine months of 2018. The increase in food prices was halted over the summer, but energy prices kept on rising, and spilled over in particular to the transport sector. These dynamics are likely to continue, lifting up core inflation somewhat as spill-over effects persist.

Labour market sustained by public subsidies

The labour market improved further in the first half of the year, with employment increasing at a steady rate, and gains being broader-based. Job creation will be further supported by the government's employment subsidies, but slow down somewhat, in particular in manufacturing sectors dominated by foreign investors which are impacted by an acute shortage of skilled labour. Structural problems continue to impact the employment situation, in particular the persistently low participation rate, at some 65%.

Graph II.29.1: **The former Yugoslav Republic of Macedonia - Real GDP growth and labour market**



Downside risks to forecast prevail

Risks to the baseline scenario are mainly on the downside. Domestically, they relate to the possibility of political uncertainty, providing a renewed dent to investor confidence and postponing the expected pick-up in investment.

Fiscal risks may jeopardise consolidation and the execution of growth-enhancing capital projects. On the external side, lower than expected external demand and escalating global trade tensions pose additional downside risks to the forecast.

Public finances remain on shaky grounds

Supported by a strong rise in taxes and contributions (7% y-o-y), the budget deficit remained on course, in the first eight months, at 38% of the full-year target. This came (again) on the back of capital spending, which dropped by 46% y-o-y, reaching only 23% of the annual budget plan. The government is committed to fiscal consolidation, planning to reduce the general government budget deficit to 2% by 2021 from 2.7% in 2017. But it has still not adopted measures to cut expenditure or raise revenue, while raising transfers and subsidies. The ongoing overhaul of social protection to provide a minimum guaranteed income also adds a risk to the government's plans. Given its optimistic GDP and revenue forecast, deficit targets may prove overly confident.

In 2017, for the first time since 2008, both general government and public debt as a share of GDP declined. This came largely on the back of stalled loan disbursements for public sector construction, resulting from the new government revising previously budgeted projects as well as from technical problems. The expected imminent resumption of these projects is likely to impact debt levels in 2019 and 2020. Rising interest payments, sustained primary budget deficits and fundraising for post-2020 rollover needs may cause a more significant rise in debt over the forecast horizon than projected by the government.

Graph II.29.2: **The former Yugoslav Republic of Macedonia - Public finances**

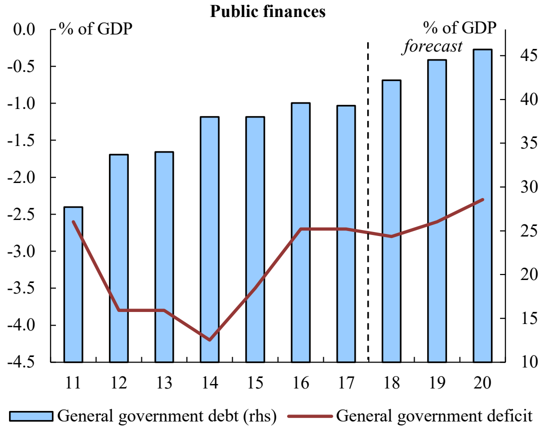


Table II.29.1:
Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	2017		Annual percentage change						
bn MKD	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	619.8	100.0	2.9	3.9	2.9	0.0	**2.1**	**2.8**	**3.1**
Private Consumption	412.2	66.5	3.0	4.4	3.1	2.9	**2.9**	**2.9**	**3.1**
Public Consumption	96.6	15.6	1.4	3.9	1.9	-1.5	**1.1**	**1.3**	**1.3**
Gross fixed capital formation	136.1	22.0	3.9	10.5	9.6	-4.5	**-3.5**	**5.5**	**8.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	341.6	55.1	6.5	8.5	8.1	9.2	**11.2**	**9.7**	**9.7**
Imports (goods and services)	426.7	68.8	6.5	9.9	11.6	7.3	**7.9**	**8.6**	**9.3**
GNI (GDP deflator)	593.7	95.8	2.9	2.5	2.1	-0.3	**1.9**	**2.8**	**3.1**
Contribution to GDP growth: Domestic demand			3.5	6.2	4.7	0.6	**1.3**	**3.3**	**4.0**
Inventories			0.5	0.1	1.7	-0.4	**0.1**	**0.0**	**0.0**
Net exports			-1.0	-2.4	-3.6	-0.2	**0.7**	**-0.5**	**-0.9**
Employment			1.6	2.3	2.5	2.4	**2.2**	**2.2**	**2.1**
Unemployment rate (a)			32.9	27.9	23.7	22.4	**21.3**	**20.6**	**20.1**
Compensation of employees / head			2.5	1.9	-1.7	0.7	**0.5**	**1.6**	**3.2**
Unit labour costs whole economy			1.2	0.4	-2.1	3.1	**0.5**	**1.0**	**2.1**
Real unit labour cost			-1.7	-1.6	-6.0	-0.4	**-0.9**	**-1.4**	**0.0**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.1	2.0	4.1	3.5	**1.5**	**2.4**	**2.1**
Harmonised index of consumer prices			-	-0.3	-0.2	1.3	**1.6**	**2.0**	**2.1**
Terms of trade goods			0.6	3.7	8.1	1.6	**-0.1**	**-0.1**	**-0.1**
Trade balance (goods) (c)			-22.0	-20.2	-19.5	-17.9	**-17.7**	**-18.3**	**-19.1**
Current-account balance (c)			-4.4	-2.0	-2.7	-1.3	**-0.7**	**-0.9**	**-1.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-3.5	-2.7	-2.8	**-2.8**	**-2.6**	**-2.3**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			32.8	38.0	39.6	39.3	**42.2**	**44.5**	**45.7**

(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.

30. MONTENEGRO

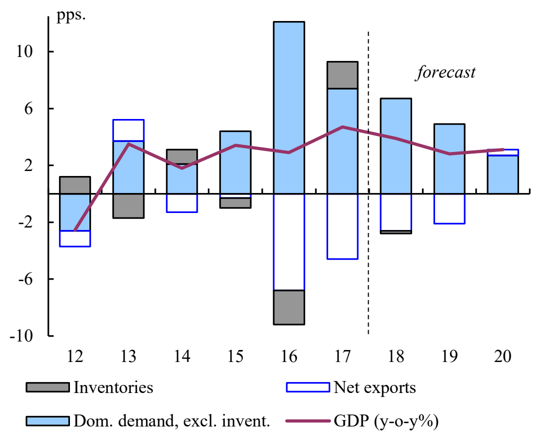
A rebalancing of growth drivers on the horizon

Over the forecast horizon, the composition of growth is expected to be altered by the completion of two important infrastructure projects which are set to lead to a significant deceleration of investment. At the same time, the resulting contraction of construction-related imports, along with capacity-increasing projects in the export sector, are expected to turn the contribution of net exports to growth positive, compensating for the projected slowdown in domestic demand.

Growth expectations revised upwards

In the first half of 2018, the economy continued to grow at a robust pace (4.7% y-o-y), driven by a sustained surge in public and private investment. In spite of stagnating wages, households' consumption recovered in the second quarter of 2018, supported by stronger bank lending and tourism. Public consumption also supported growth in the first half of 2018, driven by an increase in government expenditure on goods and services. Despite favourable export performance, imports also grew fast, leading to a negative contribution of net exports to GDP.

Graph II.30.1: **Montenegro - GDP growth and contributions**



Limited impact on growth from the completion of large investment projects

The expected completion of two important infrastructures, namely the interconnection power cable with Italy and the first section of the Bar-Boljare highway between 2019 and 2020, are set to dampen investment, and therefore its contribution to GDP growth. At the same time, investment-related imports are forecast to decline as these large projects are completed. Moreover, new investments in the production of aluminium as well as in new renewable energy plants (wind and solar), are projected to reinforce export capacity. In addition, the undersea interconnection cable with Italy will help boost electricity exports. Overall, the reduction of imports and new production capacities are set to reverse the negative contribution of net exports in 2020. Private and public consumption are forecast to remain subdued in 2019 as a result of announced fiscal consolidation measures aimed at curbing public employment and wage growth. This trend could however reverse to some extent in the run-up to the general election due in October 2020. Overall, GDP growth is forecast to slow down in 2019, and to slightly rebound in 2020.

There are, however, some downside risks to the growth outlook. The growth contribution from exports of services could moderate as some tourists might return to other Mediterranean destinations like Turkey, Egypt or Tunisia. In addition, a possible slowdown in world trade, stemming from tensions between the US and its trade partners, could hinder exports of the local metal industry.

Moderating inflationary pressures

The increase of VAT and excise duties at the beginning of 2018 had a lasting impact on two key drivers of inflation: tobacco and fuels, accounting together for more than one percentage point of the overall increase in the consumer price index. Average inflation peaked at 3.9% y-o-y in March, easing thereafter in spite of strong seasonal demand during the summer tourism season for food, restaurants and accommodation services. Overall, annual inflation is estimated to average around 3% in 2018, and is forecast to decline slightly afterwards, so long as wage growth remains contained.

Gradual improvement in the labour market

Notwithstanding seasonal fluctuations, the unemployment rate further improved in the second quarter to 14.7%, down from 15.3% a year before. Unemployment is expected to continue the regular seasonal pattern, further declining in the third quarter during the summer tourism season, to rebound again in the last quarter. So far, the outlook is for a gradual improvement of the labour market. However, the implementation of the public administration reform may have some negative but temporary effects on unemployment. The expected downsizing in the public sector, estimated at some three thousand jobs until the end of 2020; is equivalent to 1.3% of total employed persons in the country.

A turning point for public finances

In 2017, the government adopted a series of reforms to strengthen the budget and to stabilise public debt over the medium term. The reform package included, among others, the increase in 2018 of VAT rates and excise duties, as well as a new debt management strategy. Consequently, and thanks also to strong economic growth, the budget deficit contracted significantly in the first seven months of 2018. Revenues increased substantially, boosted by VAT receipts, income taxes and social security contributions. However, by the end of 2018, the budget deficit is expected to exceed the government's full-year target of 2.2% of GDP, since capital spending has so far underperformed compared to the plan, but could pick-up once the annual highway costs are fully accounted for at the end of the year. Moreover, additional expenditure for severance payments related to the reorganisation of the public administration could also weigh on the budget balance. In 2020, once the highway works are completed, the budget is expected to swing to a significant surplus. However, possible cost overruns and delays remain important downside risks. Moreover, additional public expenditure pressures may materialise in the context of the general elections to be held in 2020.

Public debt is expected to peak in 2018 due to two major financial operations: an emission of Eurobonds; and a credit arrangement with commercial banks to finance current liabilities and to form a reserve to reduce medium-term refinancing risks. The impact from tighter global financing conditions is expected to be rather limited, as a significant part of public debt was issued on concessional terms or fixed interest rates with long maturities. Overall, the public debt-to-GDP ratio should be put on a downward path as of 2019 thanks to fast nominal GDP growth and the conclusion of the debt-financed highway section.

Table II.30.1:
Main features of country forecast - MONTENEGRO

	2017			Annual percentage change					
mio EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	4299.1	100.0	-	3.4	2.9	4.7	**3.9**	**2.8**	**3.1**
Private Consumption	3215.5	74.8	-	2.2	5.4	3.9	**2.1**	**1.6**	**1.8**
Public Consumption	792.2	18.4	-	1.9	0.8	-1.4	**1.6**	**1.7**	**1.9**
Gross fixed capital formation	1157.4	26.9	-	11.9	38.4	18.7	**17.7**	**11.2**	**3.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1765.0	41.1	-	5.7	5.9	1.8	**7.5**	**2.6**	**3.4**
Imports (goods and services)	2772.9	64.5	-	4.4	15.3	8.4	**8.8**	**4.8**	**1.5**
GNI (GDP deflator)	-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth: Domestic demand			-	4.4	12.1	7.4	**6.7**	**4.9**	**2.7**
Inventories			-	-0.7	-2.4	1.9	**-0.2**	**0.0**	**0.0**
Net exports			-	-0.3	-6.8	-4.6	**-2.6**	**-2.1**	**0.4**
Employment			-	2.5	1.7	3.4	**2.0**	**1.6**	**1.8**
Unemployment rate (a)			-	17.6	17.7	16.1	**15.5**	**14.9**	**14.6**
Compensation of employees / head			-	0.8	3.7	3.0	**1.4**	**1.9**	**2.2**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	-	-	-	**-**	**-**	**-**
Consumer-price index			-	1.4	0.1	2.8	**2.9**	**2.5**	**1.9**
Terms of trade of goods			-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)			-	-40.0	-41.9	-43.3	**-44.6**	**-45.2**	**-43.6**
Current-account balance (c)			-	-11.0	-16.2	-16.1	**-16.5**	**-17.4**	**-14.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-8.3	-3.6	-5.5	**-2.7**	**-1.6**	**2.4**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	62.3	64.4	63.7	**70.0**	**67.8**	**62.7**

(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.

31. SERBIA

Forging ahead

Economic growth shifted up a gear to nearly 5% (y-o-y) in the first half of 2018. The outlook appears strong and growth should remain vibrant despite the forecast slight moderation. Investment is expected to be robust and domestic consumption to receive a further boost from rising employment and income. Financing conditions and fiscal policy are forecast to be supportive of growth. Strong domestic demand and worsening terms of trade, however, are set to push up inflation and external imbalances.

Growth shifts up a gear

GDP growth shifted up a gear in the first half of 2018, approaching nearly 5% (y-o-y). Domestic demand was very strong, supported by rising private and public consumption, but also by changes in inventories and double-digit investment growth. On the supply side, growth was sustained across all sectors. Construction activity grew by more than 20%, reflecting both base effects and the ongoing pickup in investment, while a good agricultural season boosted the sector to double-digit growth. External trade dynamics also were strong, although growth of both exports and imports has eased. High domestic demand took a toll on external imbalances and the merchandise trade deficit widened. The increase in the current account deficit was contained only due to a positive but likely temporary spike in worker's remittances and lower investment income outflows.

Short-term indicators have sent mixed signals about economic activity in the third quarter of this year. On one side, the growth of domestic consumption is likely to have strengthened further, as retail trade expanded strongly in July and August. However, industrial production entered a soft patch, falling 4.3% (y-o-y) in August.

Domestic demand to set the tune

Economic growth is forecast to moderate slightly but to remain vibrant. Domestic demand, in particular, should continue being strong and is expected to level out in 2019 and 2020, determining the pace of economic expansion. After a long period of restraint, consumers have regained confidence, which, together with benign labour market conditions and growing incomes and transfers, is forecast to support higher household consumption growth. With fiscal performance on a more sustainable footing, public consumption should also provide steady support for growth.

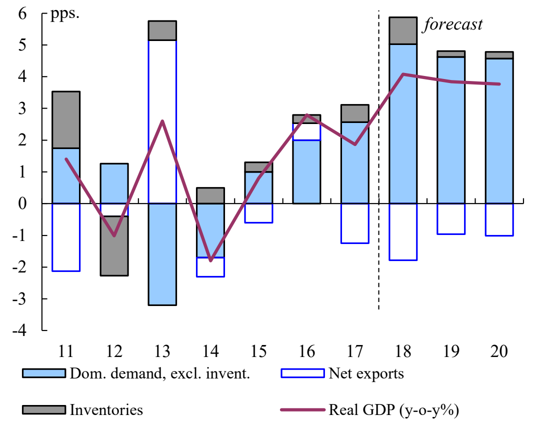
Investment surprised on the upside in the first half of 2018. Due to base effects, however, it is expected to moderate over the forecast horizon. Export growth should slow down towards the end of the period as external demand, particularly from the EU, weakens.

The growing economy is expected to stimulate further employment gains and unemployment is forecast to fall to its lowest level in decades. These conditions, in conjunction with negative terms of trade developments, are forecast to push inflation up slightly, closer towards the midpoint (3%) of the central bank's target band. The same factors are also set to contribute to the expected widening of external imbalances.

Risks are broadly balanced

There are upside risks to investment and export performance as financing conditions remain supportive, fiscal space for public investment has increased, and a number of large FDI projects are in the pipeline.

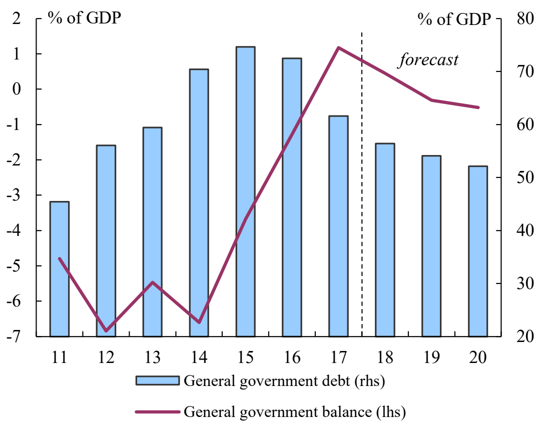
Graph II.31.1: **Serbia - Real GDP growth and contributions**



On the other side, a significant slowdown or halt to major structural reforms could have a negative impact on investor confidence. In addition, the forecast scenario could be easily derailed by large external shocks coming from international trade or geopolitical tensions.

The forecast has not taken into account the latest revision of Serbia's 2015-17 annual national accounts data. The revision lifted real and nominal GDP and changed all GDP components but remained incomplete as it did not cover quarterly profiles or data in base year prices.

Graph II.31.2: **Serbia - Public finances**



Remaining fiscally strong

Serbia's acute fiscal challenges are now in the past and 2018 is projected to end with another general government budget surplus. This strength has allowed the government to start unwinding temporary pension cuts, which were introduced at the height of the crisis.

Part of the fiscal space in 2019 is planned to be used to increase public wages and boost capital expenditure. While the budgetary stance is projected to be supportive of growth, the overall budget deficit is nevertheless forecast to remain close to balance. This would ensure further reduction of government debt to levels approaching 50% of GDP by the end of 2020.

The good fiscal performance is expected to be further supported by the implementation of long-standing reforms of the tax and public administration, and by completing the restructuring and privatisation of major state-owned enterprises. These and other key structural reforms, including strengthening of the system of fiscal rules, are also at the centre of Serbia's new agreement with the IMF.

Table II.31.1:

Main features of country forecast - SERBIA

		2017			Annual percentage change					
		bn RSD Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		4464.6	100.0	-	0.8	2.8	1.9	**4.1**	**3.8**	**3.8**
Private Consumption		3209.8	71.9	-	0.5	1.0	1.8	**3.3**	**3.7**	**3.6**
Public Consumption		710.6	15.9	-	-1.5	2.2	1.0	**3.7**	**3.5**	**3.5**
Gross fixed capital formation		824.0	18.5	-	5.6	5.1	6.2	**11.3**	**7.4**	**7.3**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		2341.7	52.4	-	10.2	12.0	9.8	**8.5**	**7.9**	**7.2**
Imports (goods and services)		2735.0	61.3	-	9.3	9.0	10.7	**10.2**	**8.2**	**7.6**
GNI (GDP deflator)		4154.1	93.0	-	-0.2	2.1	0.5	**4.6**	**3.4**	**3.8**
Contribution to GDP growth:	Domestic demand			-	1.0	2.0	2.6	**5.0**	**4.6**	**4.6**
	Inventories			-	0.4	0.3	0.5	**0.8**	**0.2**	**0.2**
	Net exports			-	-0.6	0.5	-1.2	**-1.8**	**-1.0**	**-1.0**
Employment				-	0.6	5.6	2.8	**1.5**	**1.3**	**1.2**
Unemployment rate (a)				-	17.7	15.3	13.6	**13.1**	**12.0**	**10.9**
Compensation of employees / head				-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				-	2.7	2.5	2.8	**2.3**	**2.9**	**3.0**
Consumer-price index				-	1.4	1.1	3.2	**2.1**	**2.9**	**3.0**
Terms of trade goods				-	3.5	2.8	-1.7	**0.3**	**-0.5**	**0.0**
Trade balance (goods) (c)				-	-11.9	-10.0	-11.4	**-11.8**	**-12.5**	**-12.9**
Current-account balance (c)				-	-4.7	-4.0	-6.2	**-5.9**	**-7.4**	**-7.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-3.7	-1.3	1.2	**0.4**	**-0.3**	**-0.5**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	74.6	72.5	61.6	**56.4**	**54.1**	**52.1**

(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.

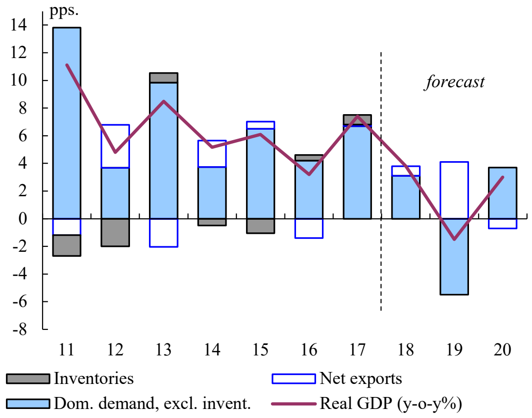
32. TURKEY
Risks materialising

The high economic growth of recent years came with sizable risks that are now materialising. Turkey's economy is expected to go through a recession in the second half of 2018 and early 2019 before it returns to growth as net trade picks up, confidence improves, and private consumption recovers. Turkish economic growth is expected to be less credit-fuelled following the recession. The transition to this more sustainable economic growth comes with sizable risks as a consequence of the vulnerabilities that built up over the years.

Vulnerabilities exposed

Economic growth in Turkey was high until the start of the third quarter of 2018 but there are increasing signs that the economy has fallen into a recession as a result of the rapid deterioration in external conditions. Vulnerabilities had built up over the years such as a high current account deficit, increasing foreign liabilities (both in foreign and domestic currency), high and increasing inflation, stubbornly high unemployment, and a deteriorating business climate. The change in investor sentiment towards emerging market economies together with rising interest rates in developed markets and policy uncertainty triggered by political developments brought these vulnerabilities to the tipping point, with the Turkish lira falling some 35% against the euro since the beginning of the year.

Graph II.32.1: **Turkey - Real GDP growth and contributions**



Credit crunch leading to a recession

The credit-fuelled economy has suffered from a strong deterioration in credit conditions with interest rates rising and real credit supply shrinking at the same time. The supply of credit is expected to stay weak until mid-2019 as bank stocks have fallen, companies are starting to slip on loan repayments, and the real value of assets is being eroded by high inflation. Turkey's economy also has large external financing needs.

The corporate sector is by far the most exposed to the changes in financing conditions. Investment in the construction sector, which has been an important growth driver in recent years, will see the biggest impact, as large infrastructure projects have been put on hold by the government. Housing construction will suffer as households are finding it increasingly difficult to finance house purchases and over-development in recent years means that many properties risk being either sold at heavy discounts or not sold at all. In the manufacturing sector, the investment that was needed to address historically high capacity utilisation rates is now likely to be postponed. Exports are expected to compensate for part of the drop in domestic demand and to provide some support to the balance sheets of indebted companies. The non-construction corporate sector is expected to start recovering in 2019, as it adapts to the new, more stringent financing conditions and tighter credit supply. The financing conditions and credit supply are expected to normalise in 2019 below levels prevailing up to the lira crash. This leads to investment growth gradually picking up in 2019 in the manufacturing sector and in 2020 in the construction sector.

Consumers are less exposed to changes in foreign financing conditions than corporates in Turkey. Still, in the short run the deteriorating credit conditions and depreciation of the lira affect consumer demand, as evidenced by the recent sharp drop in car sales. High inflation (25% in September) and the drop in consumer confidence to the lowest level since the 2008 crisis are putting further pressure on private consumption. After this initial shock, however, private consumption is expected to pick up again with consumer confidence returning, support to disposable income through increases of (minimum) wages and through debt burdens partly being inflated away. The labour market is expected to improve towards the latter part of 2019 mostly on the back of a rebound in external and private consumption demand.

Transition risks

The forecast assumes appropriate policy action and a smooth transition to a more sustainable growth path with lower credit growth, in particular to the construction sector. The risks of an uncontrolled unwinding of imbalances, however, are sizable and the functioning of the market economy is under pressure as a consequence of policy makers interfering in the price-setting process. There is also a risk that that monetary policy will not be sufficiently tight to bring down inflation, impeding competitiveness and private demand. Another risk is a deterioration of banks' balance sheets to a level necessitating bail-out as a consequence of increasing non-performing loans, high inflation and difficulties with external funding of the domestic savings gap.

Inflation firmly into double digits

The sharp depreciation of the Turkish lira raises the inflation rate further from already elevated levels. Inflation is forecast to reach 17.5% on average this year before levelling off as both exchange rate and demand pressure subside. Lowering inflation permanently, however, has become increasingly costly because of the confidence lost in monetary policy, increasing inflation expectations, and the indexation of minimum wages. The inflation rate is, thus, expected to register double digits in the coming two years.

The fiscal anchor and its price

The government's vow to adopt some fiscal tightening has helped to restore a degree of investor confidence in public finances and in policy making more generally. To maintain this anchor, however, the government has little option but to continue with a pro-cyclical fiscal policy stance as the economy enters a recession. Moreover, the government's focus on expenditure cuts implies that it chooses the fiscal policy channel with the highest multiplier. The benefit of this will be to limit the risk premium that investors demand on Turkish government bonds. All in all, while fiscal policy is likely to help win back some confidence, it will be a drag on economic growth in 2019.

Table II.32.1:

Main features of country forecast - TURKEY

	2017			Annual percentage change						
	bn TRY Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	3106.5	100.0	4.5	6.1	3.2	7.4	**3.8**	**-1.5**	**3.0**
Private Consumption	1834.2	59.0	4.1	5.4	3.7	6.1	**2.3**	**-3.7**	**3.2**
Public Consumption	450.5	14.5	4.7	3.9	9.5	5.0	**5.3**	**2.8**	**2.9**
Gross fixed capital formation	931.9	30.0	7.0	9.3	2.2	7.8	**3.2**	**-12.1**	**5.1**
of which: equipment	323.1	10.4	4.6	18.5	1.2	-0.2	**6.1**	**-12.3**	**5.2**
Exports (goods and services)	770.6	24.8	5.9	4.3	-1.9	11.9	**5.5**	**5.1**	**3.4**
Imports (goods and services)	910.8	29.3	6.3	1.7	3.7	10.3	**2.2**	**-6.9**	**5.1**
GNI (GDP deflator)	3066.1	98.7	4.5	5.8	3.2	7.2	**3.8**	**-1.2**	**2.8**
Contribution to GDP growth: Domestic demand			5.1	6.5	4.2	6.7	**3.1**	**-5.5**	**3.6**
Inventories			0.1	-1.1	0.4	0.6	**-0.1**	**0.2**	**-0.1**
Net exports			-0.3	0.5	-1.3	0.1	**0.7**	**2.7**	**-0.3**
Employment			1.1	2.7	2.2	3.9	**3.0**	**0.2**	**2.6**
Unemployment rate (a)			9.0	10.3	10.9	10.9	**10.1**	**12.8**	**12.7**
Compensation of employees / head			19.8	12.8	20.2	14.6	**17.5**	**13.7**	**12.8**
Unit labour costs whole economy			15.9	9.1	19.1	10.8	**16.6**	**15.7**	**12.3**
Real unit labour cost			-1.6	1.2	10.2	-0.1	**1.4**	**0.4**	**-0.7**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			17.9	7.8	8.1	10.8	**14.9**	**15.3**	**13.1**
Consumer-price index			19.6	7.7	7.8	11.1	**16.7**	**15.4**	**12.4**
Terms of trade goods			-0.6	1.0	4.9	-1.3	**-1.9**	**-1.1**	**0.0**
Trade balance (goods) (c)			-6.2	-5.3	-5.3	-6.5	**-7.9**	**-5.0**	**-5.0**
Current-account balance (c)			-3.9	-3.7	-3.8	-5.6	**-6.8**	**-2.9**	**-3.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-3.8	-3.9	-5.6	**-6.8**	**-2.9**	**-3.4**
General government balance (c)			-	1.3	-2.3	-2.3	**-2.5**	**-1.9**	**-2.2**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	27.5	29.4	28.3	**31.2**	**31.9**	**30.5**

(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.

33. ALBANIA

Growth set to continue at a solid pace

Economic growth is expected to remain solid, driven mainly by private consumption. It is, however forecast to soften in 2019 as electricity production is unlikely to continue at the exceptional level of early 2018. The strengthening Albanian currency is likely to weigh on export growth. The high level of public debt as a share of GDP is forecast to continue its gradual decline.

Favourable weather drives strong expansion early 2018

The upturn of the Albanian economy continued in the first half of 2018 with annual GDP growth exceeding 4% (y-o-y) as very favourable weather conditions pushed agricultural and hydroelectricity production in addition to a good tourist season. On the demand side, private consumption strengthened its solid growth to 3.2% (y-o-y) over the first half of 2018, being the main growth driver, whereas government consumption shrank by 0.6% (y-o-y) in the same period. Exports were supported by solid external demand in particular for commodities. GDP growth is expected to soften in 2019 and 2020 to 3.9%, mainly on account of lower electricity production and the completion of two large energy projects.

Growing employment and increasing wages continue supporting domestic demand

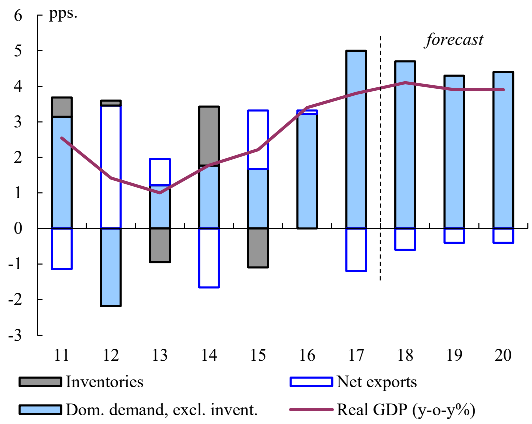
Household spending is expected to remain the main driver of growth, still benefitting from favourable financial conditions, moderate inflation and from growing employment in combination with moderate wage growth. Employment was 5% higher early 2018 than one year earlier and solid job creation is set to continue, bringing down the unemployment rate (15-64 years) to below 11% by 2020. In line with fiscal consolidation, public consumption is set to remain constrained with an average growth of 2.5% over 2018-2020. On the investment side, public investment is planned to grow 5% annually, and the government is hoping to mobilise private investment into a number of infrastructure projects. Private investment is set to be driven by FDI into tourism, health and education facilities and into renewable energy.

Decelerating exports and imports lower the trade deficit only slightly

Electricity exports and higher oil prices are boosting exports value in 2018. At the same time, robust domestic demand and the stronger lek are holding up imports growth. The contribution of net exports to growth is set to be still slightly negative, albeit less than in 2017. The recent real appreciation of the Albanian currency weighs on price competitiveness and the export industries' margins, but a negative effect on exports is likely to appear only in 2019 when new investment decisions and contracts will be made.

In 2019 and 2020, export growth is forecast to decelerate partly on account of the lagged appreciation effect, but mainly because of lower oil and electricity exports. Import growth, which has been driven by some large energy projects in recent years, is expected to slow down further in 2019 as these projects near completion. The current account deficit is set to continue narrowing over the forecast horizon to 6% of GDP supported by a slightly improving trade deficit, the currency appreciation, and increased transfers, in particular remittances and official transfers.

Graph II.33.1: **Albania - Real GDP growth and contributions**



Monetary policy set to remain accommodative

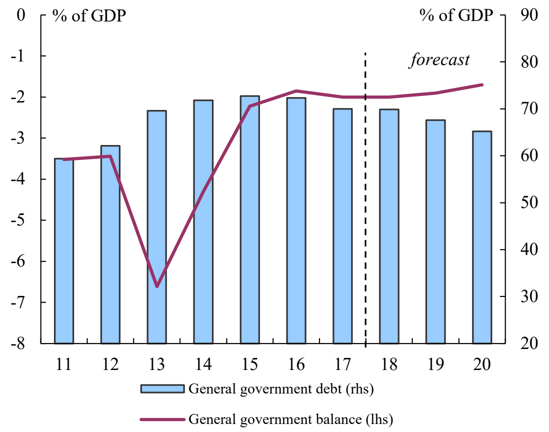
The monetary easing has been enhanced with the Bank of Albania reducing its policy interest rate further by 0.25 pps to the record low of 1% in June. It has also stated that the monetary stimulus will not weaken before the 2019-Q2. This is explained by lower-than-expected inflation, which has edged up to 2.2% (y-o-y) by mid-2018 but still undershoots the 3% target. Recently, the marked appreciation of the Albanian lek against the euro has weighed on the inflation rate. The central bank halted the pace of the appreciation in mid-2018 with euro purchases. Though, inflation is likely to pick up only moderately over the forecast horizon.

The public debt ratio continues its gradual decline

The fiscal deficit in 2018 is set to remain within the 2.0% of GDP target. The government's current fiscal strategy envisages a decline of the deficit to 1.7 % and 1.2 % of GDP for 2019 and 2020, respectively and for the public debt-to-GDP ratio a fall from 70% at the end of 2017 to 63.5% at the end of 2020. This entails containing expenditure growth to around 5% and increasing tax revenue (by up to 6.5% and 7.5% annually) and higher social insurance contributions. Slower-than-expected tax revenue growth, not yet quantified contingent fiscal liabilities and ad-hoc social expenditure items constitute a negative risk to this projection.

Public financing conditions improved further and markets confirmed Albania's positive development in October 2018 when a 500 million EUR 7-year Eurobond achieved a 3.55% interest rate, 2.2 points below the last 5-year issuance in 2015.

Graph II.33.2: **Albania - Public finances**



Slowing down of reforms and public debt reduction pose downside risks to the outlook

A slower than announced reduction of public debt would undermine financial markets' new confidence and put infrastructure investments at risk which are key for sustaining growth and energy supplies. A slowdown of reforms could dampen the private demand while exports could suffer from lower than projected growth of Albania's major trade partner Italy.

Table II.33.1:

Main features of country forecast - ALBANIA

		2017			Annual percentage change					
	bn ALL	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		1552.9	100.0	5.1	2.2	3.4	3.8	**4.1**	**3.9**	**3.9**
Private Consumption		1254.1	80.8	4.9	1.2	2.3	3.8	**4.0**	**3.7**	**3.7**
Public Consumption		177.9	11.5	1.8	-1.1	4.7	2.7	**2.4**	**2.7**	**2.6**
Gross fixed capital formation		386.5	24.9	7.6	3.5	3.3	6.5	**4.9**	**4.1**	**4.6**
of which: equipment		-	-	9.1	-	-	-	**-**	**-**	**-**
Exports (goods and services)		489.5	31.5	14.4	1.0	11.3	8.9	**4.5**	**4.3**	**5.1**
Imports (goods and services)		723.0	46.6	8.9	-2.9	6.9	8.2	**4.4**	**3.8**	**4.5**
GNI (GDP deflator)		1556.6	100.2	5.0	2.5	3.8	2.4	**3.9**	**3.8**	**3.9**
Contribution to GDP growth:	Domestic demand			6.1	1.7	3.2	5.0	**4.7**	**4.3**	**4.4**
	Inventories			0.1	-1.1	0.1	0.0	**0.0**	**0.0**	**0.0**
	Net exports			-1.1	1.6	0.0	-1.2	**-0.6**	**-0.4**	**-0.4**
Employment				-	4.8	6.5	3.3	**1.7**	**0.6**	**1.3**
Unemployment rate (a)				-	17.1	15.2	13.7	**12.7**	**11.1**	**10.6**
Compensation of employees / head				-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	100.0	100.0	100.0	**100.0**	**100.0**	**100.0**
GDP deflator				3.1	0.6	-0.5	1.4	**3.8**	**2.4**	**2.3**
Harmonised index of consumer prices				-	1.9	1.3	2.0	**2.3**	**2.6**	**2.8**
Terms of trade goods				-1.0	0.5	-2.0	6.5	**0.6**	**0.0**	**0.0**
Trade balance (goods) (c)				-24.5	-22.4	-24.2	-24.4	**-21.3**	**-20.8**	**-20.6**
Current-account balance (c)				-9.4	-16.1	-15.2	-14.8	**-6.3**	**-6.4**	**-6.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-16.1	-15.2	-14.8	**-7.8**	**-7.6**	**-8.6**
General government balance (c)				-	-4.4	-1.7	-2.0	**-2.0**	**-1.9**	**-1.7**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				58.8	72.7	72.3	70.1	**69.9**	**67.6**	**65.2**

(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.

Other non-EU Countries

34. THE UNITED STATES OF AMERICA
Buoyant near-term outlook but downside risks are mounting

Burgeoning fiscal stimulus, against the backdrop of already-strong momentum and a tightening labour market, is set to push US GDP growth to 2.9% and 2.6% in 2018 and 2019, respectively. In 2020, growth is expected to moderate towards 2% in line with the fading support provided by macroeconomic policies. The outlook is subject to significant downside risks related to overheating, a sharp tightening in financial conditions, adverse trade policy shifts and an abrupt contraction of fiscal policy in 2020.

Economic momentum set to remain robust

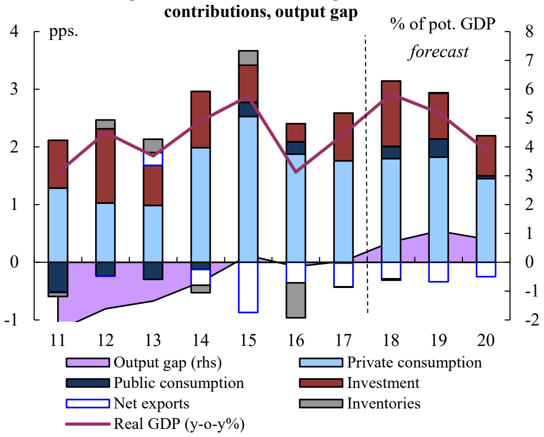
The US economy gathered momentum during the first half of 2018, with real GDP growth accelerating to 1% (q-o-q) in 2018-Q2 (from 0.5% q-o-q in 2018-Q1). This reflects strong consumer spending due to high sentiment and a strong labour market, as well as the initial impact of personal income tax cuts. Business fixed investment also remains strong following corporate income tax cuts and wider incentives to increase capital spending. Somewhat unexpectedly, net exports have also made a significant positive contribution to growth throughout the first half of 2018, although this may reflect a temporary frontloading of foreign demand in anticipation of trade tariffs in some sectors and is expected to unwind in the remainder of 2018.

Going forward, the impulse provided by the fiscal stimulus should continue to carry the US economy above its potential. The direct impact of the announced trade tariffs on real activity is expected to be limited in the near term given the economy's buoyant underlying momentum. Overall, the US economy is expected to grow by 2.9% in 2018 and 2.6% in 2019, before moderating to around 2% in 2020 in line with the gradual tightening of monetary policy and the fading support from the fiscal stimulus.

Fiscal stimulus drives labour market tightening

Employment growth continued to strengthen in 2018, pushing the unemployment rate below 4% for the first time during this cycle and drawing further workers from inactivity. The labour market is expected to tighten further as tax cuts across personal and corporate incomes as well as agreed increases in defence and non-defence spending underpin a robust outlook for consumer spending business fixed investment, and government consumption over the course of 2018 and 2019. Recent rises in oil prices also underpin a stronger outlook for the energy sector. As the growth impulse from the tax cuts is expected to fade towards the end of the forecast horizon, employment growth is forecast to slow, albeit sustaining the unemployment rate at 3.5% in 2020.

Graph II.34.1: **US - Real GDP growth and contributions, output gap**



Monetary policy to contain price pressures…

Inflationary pressures have continued building on the back of rising energy and housing costs. Core inflation has hit the Federal Reserve's 2% target for the first time since 2012 and wage growth has picked up, but without any signs of sharp acceleration as yet. Upward price and wage pressures are set to remain in place as fiscal stimulus pushes output beyond potential, underpinning further tightening in monetary policy throughout the forecast horizon. It is anticipated that gradual rises in the federal funds rate – reaching a neutral level already during the course of 2019, before turning slightly contractionary thereafter – will be sufficient to prevent a large overheating of the economy.

…but path for fiscal policy highly uncertain.

The budgetary impact of the fiscal stimulus is heavily frontloaded as falling revenues lead to a sizeable deterioration in the fiscal position already in 2018. In this regard, the general government deficit is forecast to rise to 5¾% and 6% of GDP in 2018 and 2019, respectively. In 2020, the US fiscal policy will go from very expansionary to very contractionary unless the Congress finds an agreement to avoid the fiscal cliff. In this regard, the upcoming midterm elections will have a major bearing on the outlook for federal government spending in future years. This forecast assumes a continuation of the expenditure ceilings from earlier years implying a broadly growth neutral fiscal stance in 2020. In tandem with the fading growth impulse from the tax cuts and the gradually rising interest rates, the macroeconomic policy stance will likely become markedly less supportive towards the end of the forecast horizon.

US dollar strengthening, widening imbalances

The steady progression of monetary policy normalisation is set to feed through to tighter financing conditions. In recent weeks, the yield on 10-year US Treasuries has risen above 3% and the US dollar has appreciated once again (overall by around 6% in nominal effective terms since the beginning of 2018). A strong US dollar, combined with the robust outlook for domestic demand, is set to place pressure on external imbalances. The current account deficit, although having narrowed due to temporary factors so far in 2018, is expected to grow, reaching almost 3% of GDP in 2020.

Downside risks are mounting

Downside risks related to the overheating of the economy and trade protectionism remain prominent and interconnected. A fiscal expansion at this late stage in the cycle could result in a sharp rise in wages and prices that requires a more aggressive tightening of monetary policy. This would weigh on domestic demand, including the housing sector in the US, and potentially lead to re-pricing of financial market risks which could expose vulnerabilities in some highly leveraged companies. The fiscal stimulus is also set to increase the general government debt level, aggravating the existing concerns regarding fiscal sustainability and limiting the policy space to respond to future downturns. Moreover, trade tensions with China have continued to escalate and any further adverse developments – reinforced by the expected deterioration of the US trade balance – could add inflationary pressures and also lead to sharp monetary policy tightening. In 2020, the outlook remains highly uncertain as an abrupt contraction of fiscal policy could lead to a sharper deceleration of the economy.

Table II.34.1:

Main features of country forecast - USA

		2017			Annual percentage change					
		bn USD Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		19485.4	100.0	2.1	2.9	1.6	2.2	**2.9**	**2.6**	**1.9**
Private Consumption		13321.4	68.4	2.4	3.7	2.7	2.5	**2.6**	**2.6**	**2.1**
Public Consumption		2731.3	14.0	1.1	1.7	1.5	-0.1	**1.5**	**2.3**	**0.4**
Gross fixed capital formation		3985.7	20.5	2.1	3.3	1.7	4.0	**5.4**	**3.7**	**3.2**
of which: equipment		1291.4	6.6	4.4	2.8	-1.1	5.9	**6.8**	**3.9**	**3.4**
Exports (goods and services)		2350.2	12.1	4.3	0.6	-0.1	3.0	**4.0**	**2.8**	**2.1**
Imports (goods and services)		2928.5	15.0	4.1	5.5	1.9	4.6	**4.5**	**3.9**	**2.8**
GNI (GDP deflator)		19729.1	101.3	2.3	2.7	1.5	2.3	**3.0**	**2.6**	**1.8**
Contribution to GDP growth:	Domestic demand			2.3	3.4	2.4	2.5	**3.1**	**2.9**	**2.2**
	Inventories			0.0	0.3	-0.5	0.0	**0.0**	**0.0**	**0.0**
	Net exports			-0.1	-0.8	-0.3	-0.3	**-0.2**	**-0.3**	**-0.2**
Employment				-	1.7	1.7	1.3	**1.5**	**1.2**	**0.7**
Unemployment rate (a)				6.2	5.3	4.9	4.4	**3.9**	**3.5**	**3.5**
Compensation of employees / f.t.e.				3.1	3.2	1.0	1.9	**2.9**	**3.2**	**3.4**
Unit labour costs whole economy				1.6	1.9	1.1	0.9	**1.6**	**1.7**	**2.1**
Real unit labour cost				-0.4	0.9	0.0	-1.0	**-0.6**	**-0.5**	**0.1**
Saving rate of households (b)				10.4	11.6	10.5	11.1	**11.5**	**11.8**	**11.5**
GDP deflator				2.0	1.1	1.1	1.9	**2.2**	**2.2**	**2.0**
Consumer-price index				-	0.1	1.3	2.1	**2.5**	**2.4**	**2.2**
Terms of trade goods				-0.5	2.7	0.5	0.6	**0.8**	**0.4**	**0.0**
Trade balance (goods) (c)				-4.8	-4.4	-4.2	-4.3	**-4.4**	**-4.4**	**-4.5**
Current-account balance (c)				-3.4	-2.2	-2.3	-2.3	**-2.4**	**-2.6**	**-2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.4	-2.2	-2.3	-2.3	**-2.4**	**-2.6**	**-2.8**
General government balance (c)				-5.5	-4.2	-4.9	-4.0	**-5.8**	**-6.0**	**-6.0**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				75.6	104.7	106.7	105.2	**105.8**	**107.3**	**109.6**

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

(*) Employment data from the BLS household survey.

35. JAPAN

Growth slows as fiscal consolidation goes ahead

Real GDP growth is set to remain stable in 2019 supported by continued monetary accommodation, tight labour market conditions, and front-loaded demand ahead of the October 2019 consumption tax hike. In 2020 the pace of growth is expected to decelerate reflecting near-term volatility in the wake of planned fiscal consolidation.

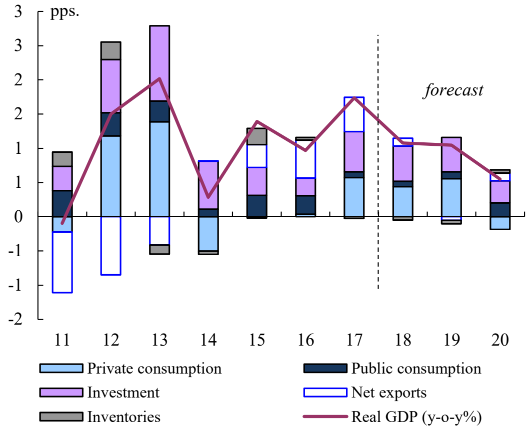
Slowdown after continued stable growth

GDP growth is expected at 1.1% in 2018 and should remain stable in 2019 reflecting tight labour market conditions and accommodative monetary policy. In 2020 the pace of growth is expected to decelerate to 0.5% on the back of retrenchment in domestic demand following planned fiscal consolidation. After eight consecutive quarters of output expansion, near-term growth turned more volatile over 2018-H1, with real GDP growth of 0.7% (q-o-q) in Q2, rebounding from -0.2% (q-o-q) in Q1. Private non-residential (business) investment and private consumption were the main growth drivers in Q2, with private residential investment and net exports weighing on growth. Leading indicators point to deceleration in Q3. In August industrial production rebounded more weakly than expected after three m-o-m contractions, and in September business sentiment declined for the third straight quarter. Consumer confidence has been on a moderate downtrend since January, but consumption activity has remained rather resilient so far despite adverse weather conditions over the summer. On the positive side, core machinery orders, a leading indicator for business investment, recorded strong growth in July and August, and the new-job-offers-to-applicant ratio hovers at the highest levels ever.

Heightened near-term volatility expected

Near-term growth is expected to remain stable over the coming quarters, and turn more volatile in 2019-H2 reflecting front-loaded expenditure ahead of planned fiscal consolidation. Labour market conditions should remain very tight, with the unemployment rate at well below 3% over the forecast horizon reflecting sustained labour demand amid increasingly severe labour supply shortages. Private consumption is set to grow at a stable pace over the coming quarters, accelerate in the run-up to the October 2019 consumption tax hike, and contract immediately thereafter. A robust labour market and loose financial conditions should underpin gradual private consumption recovery in the wake of the tax hike. Investment conditions should remain broadly favourable domestically, reflecting continued monetary accommodation and capital deepening stemming from labour shortages. Planned fiscal consolidation is however expected to entail heightened volatility also in private investment components over the second half of 2019, with near-term contraction in the fourth quarter. Solid labour market performance, extended monetary support and construction investment associated to the 2020 Tokyo Olympics should buttress investment recovery in 2020.

Graph II.35.1: **Japan - Real GDP growth and contributions**



Export performance is expected to decline gradually over the forecast period reflecting deceleration in global and regional trade growth. Import dynamics should turn increasingly volatile in 2019 reflecting fiscally-induced front-loaded demand, and stage a gradual recovery thereafter in line with domestic demand. Net exports are expected to remain broadly neutral, with increased monetary policy divergence and the Tokyo 2020 Olympics underpinning a slightly positive contribution towards the end of the forecast horizon.

Planned fiscal consolidation goes ahead

Fiscal consolidation has made steady progress in recent years, with the primary balance estimated to have narrowed to around 3.0% of GDP in 2017, down from 7.0% in 2013. At the same time Japan's new medium-term fiscal plan postponed the target year to achieve a primary balance from FY 2020 to FY 2025. In the absence of new structural fiscal measures, the plan assumes that real and nominal GDP growth are lifted to and sustained at around 2% and 3% respectively, which would entail additional structural efforts to lift potential growth. Over the forecast period fiscal performance should continue improving on the back of resilient economic activity and the implementation of the planned October 2019 increase in the consumption tax rate from 8% to 10%, with the primary balance expected to gradually narrow to around 2% of GDP.

Continued monetary accommodation

In July the Bank of Japan allowed for additional flexibility in the 10-year yield around the benchmark 0% level, and provided forward guidance to maintain interest rates at currently low levels for an extended period of time. Monetary policy is expected to remain accommodative throughout the forecast horizon in line with the Bank of Japan's forward guidance. With the Bank of Japan's share of Japanese government securities having expanded to 35.8% of outstanding government debt in September 2018 and rising, policy deliberations around eventual Quantitative and Qualitative Easing exit will warrant close monitoring.

Risks

The balance of risks has gradually shifted to the downside, in particular on the external front. Further heightening of global trade tensions remains an important risk reflecting exposure to the Chinese and US economies – Japan's main export destinations – and integration into Asian supply chains. Disorderly tightening of global financial conditions may trigger safe haven flows towards yen-denominated assets, with detrimental exchange rate effects. Domestically, upside risks may entail stronger than expected wage growth stemming from increasingly tight labour market conditions in conjunction with implementation of equal-pay-for-equal-work reform, while additional offsetting fiscal measures may mitigate the near-term growth and volatility impact of planned fiscal consolidation.

Table II.35.1:

Main features of country forecast - JAPAN

		2017			Annual percentage change					
	bn JPY	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		546608.3	100.0	0.8	1.4	1.0	1.7	**1.1**	**1.0**	**0.5**
Private Consumption		303335.7	55.5	0.9	0.0	0.1	1.0	**0.8**	**1.0**	**-0.3**
Public Consumption		107291.4	19.6	1.7	1.5	1.3	0.4	**0.4**	**0.5**	**1.0**
Gross fixed capital formation		131180.4	24.0	-0.6	1.7	1.1	2.5	**2.2**	**2.1**	**1.3**
of which: equipment		-	-	0.9	2.9	1.6	-	**-**	**-**	**-**
Exports (goods and services)		96859.9	17.7	4.4	2.9	1.7	6.7	**4.1**	**2.6**	**2.2**
Imports (goods and services)		91733.1	16.8	3.5	0.8	-1.6	3.4	**3.3**	**2.8**	**1.6**
GNI (GDP deflator)		566563.8	103.7	0.9	1.6	0.5	2.0	**1.3**	**1.1**	**0.6**
Contribution to GDP growth:	Domestic demand			0.7	0.7	0.6	1.2	**1.0**	**1.1**	**0.3**
	Inventories			0.0	0.3	-0.2	-0.1	**-0.1**	**-0.1**	**0.1**
	Net exports			0.2	0.4	0.6	0.6	**0.2**	**0.0**	**0.1**
Employment				-0.1	0.4	1.0	1.0	**1.8**	**0.5**	**0.2**
Unemployment rate (a)				4.5	3.4	3.1	2.8	**2.7**	**2.6**	**2.5**
Compensation of employees / head				-0.7	0.5	1.2	0.8	**0.3**	**1.2**	**1.1**
Unit labour costs whole economy				-1.6	-0.4	1.1	0.0	**1.0**	**0.7**	**0.7**
Real unit labour cost				-0.6	-2.5	0.9	0.3	**0.8**	**-0.1**	**-0.2**
Saving rate of households (b)				11.0	7.6	9.0	9.8	**10.9**	**11.0**	**11.9**
GDP deflator				-0.9	2.1	0.3	-0.2	**0.2**	**0.7**	**0.9**
Consumer-price index				-0.1	0.8	-0.1	0.5	**0.8**	**1.0**	**1.3**
Terms of trade goods				-3.2	11.5	7.4	-4.2	**0.4**	**-0.6**	**-0.6**
Trade balance (goods) (c)				1.3	-0.2	1.0	0.5	**0.6**	**0.4**	**0.4**
Current-account balance (c)				2.7	3.1	3.8	4.3	**4.7**	**4.7**	**4.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				2.6	3.0	3.7	4.1	**4.5**	**4.5**	**4.5**
General government balance (c)				-6.5	-3.6	-3.4	-3.7	**-3.3**	**-3.1**	**-2.8**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				184.2	231.3	235.6	235.9	**236.2**	**235.2**	**234.5**

(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.

36. CHINA

Solid growth but key structural challenges remain

China's growth performance remained fairly strong in the first half of 2018 but China is expected to decelerate going forward amid moderating consumption growth, weaker export growth and a slowdown in the property sector. The impact of trade tariffs imposed by the US is likely to be mitigated by domestic policy easing and weaker currency but associated downside risks to the outlook are increasing.

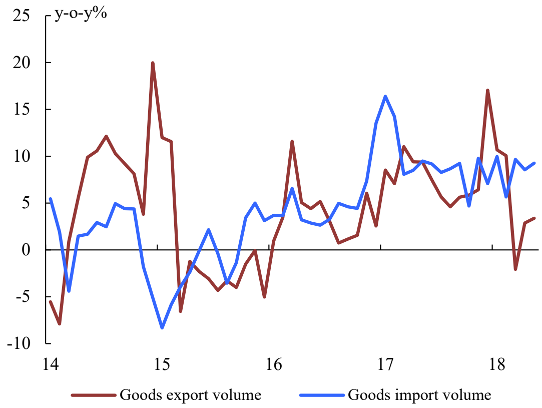
GDP grew strongly in 2017 and early 2018

China grew surprisingly strongly in 2017 and early 2018, with growth of 6.9% in 2017, 6.8% in 2018 Q1 and 6.7% in 2018 Q2. The economy slowed to in Q3 to 6.5% and recent high frequency data confirm some loss of momentum, but growth for 2018 is expected to be fairly healthy at 6.6%. Growth in 2019 and 2020 is forecast to fall slightly more than anticipated in past forecasts, with some impact from trade disputes, but with any slowdown softened by policy easing. In sum, growth is projected to fall to 6.2% in 2019 and 5.9% in 2020. Risks to the outlook however are elevated, with increased constraints on Chinese domestic policy, the possibility of further deterioration on the trade front, and the potential for weaker domestic demand if the housing market slows more than expected.

China's strong growth in 2017 was down to a combination of external and domestic factors. Global and regional trade picked up sharply, with China's net exports adding 0.6 pps. to GDP in 2017. Consumption also remained very buoyant, adding 4 pps. to growth while investment grew somewhat less rapidly than in previous years. Positive momentum carried over into early 2018 but with a marked shift in the composition of spending towards domestic demand. Consumption proved very strong in 2018-H1, adding over 5 pps. to growth. Net exports turned negative (-0.6 pps.) as strong import growth outpaced exports. Private investment picked up in early 2018 and the real estate sector remained very buoyant, despite widespread expectations that the current property market cycle was running out of steam.

This solid growth performance was accompanied by a stabilisation of China's corporate debt-to-GDP ratio in 2017 at around 165%. This was due in large part to a substantial spike in the GDP deflator, rather than much slower credit growth. But policies to clamp down on the financial sector did prove effective, with a sharp reduction in lending by non-bank financial intermediaries, with only limited effect on growth.

Graph II.36.1: **China - growth in goods trade (3-month average)**



Source: General Administration of Customs of China.

Recent data has been softer, but with no sharp slowdown evident

Recent months have seen some softening in some high frequency data, including retail sales and fixed asset investment. Export growth has also proved more tepid than in 2017. But other indicators remain buoyant, including PMIs. Growth is expected to moderate somewhat in 2018-H2, but not dramatically.

Looking ahead, China faces a number of growth-dampening factors. Firstly, the growth of household consumption is unlikely to maintain the unusually high pace of early 2018 as households incomes are growing no faster than GDP. Secondly, the current forecast factors in the impact of trade tariffs imposed on USD 250 billion worth of Chinese exports to the US, including the expected increase in the tariff rate from 10% currently to 25% as of January 2019. Further increases in tariffs also cannot be excluded. Thirdly, the current property cycle has been unusually extended, with some slowing expected already in 2018. Slower growth in this sector is therefore anticipated in 2019 and 2020 amid significant downside risks.

Policy easing has started, but faces constraints

China has already instituted some policy easing, with several cuts in required reserve ratios for banks, some targeted credit measures, and tax cuts for the corporate sector. Nevertheless, China faces a number of policy constraints. Much looser monetary policy would put pressure on the RMB which has already fallen sharply this year. With rising US rates a further loosening would risk igniting capital outflows, forcing China to choose between further reserve depletion and a more uncontrolled float. Fiscal loosening is a more flexible option, and fiscal support may come in part via some reversal of the wind-down in state investment and infrastructure spending seen in 2017. But this in turn risks a return to rising leverage ratios and would cut across needed structural reforms in the state sector. Further fiscal measures are therefore expected to be data dependent and targeted, with larger stimulus likely only if clear signs of a sharp slowdown emerge.

Risks are elevated and policy dependent

The trade outlook is highly uncertain. Export growth moderated in 2018, in part reflecting the outperformance in 2017, but there is little evidence so far of direct impact from current trade disputes. However, as tariffs gain some traction, a gradual impact on export growth is to be expected, and the additional US tariff hikes in January 2019 are set to have a material impact. The weakening of the RMB in recent months can however be expected to provide some support for exports and to help moderate import growth.

Downside risks exist for consumption, which has been surprisingly buoyant for several years, driven by a falling savings rate and higher borrowing. Household debt levels remain low by developed economy standards, but are no longer low by emerging market standards. Finally, risks exist linked to the property market. Real estate investment remains a major driver of overall investment and has partly compensated for weak investment in other sectors over the past 2 years. A housing downturn would provide a further major challenge to current growth objectives. Private investment has been weak for some time, but there are some signs in 2018 of a revival in manufacturing and this is an upside risk. In the heavy industrial sectors, where state firms are more present, profits have increased sharply due to capacity control measures and this could also spur some expansion. A more aggressive return to state led-infrastructure spending is likely should the broader outlook worsen noticeably.

Table II.36.1:

Main features of country forecast - CHINA

	2017		Annual percentage change						
	bn CNY Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	81203.8	100.0	9.5	6.9	6.7	6.9	**6.6**	**6.2**	**5.9**
Consumption	43545.3	53.6	-	-	-	-	**-**	**-**	**-**
Gross fixed capital formation	34644.1	42.7	-	-	-	-	**-**	**-**	**-**
of which: equipment			-	-	-	-	**-**	**-**	**-**
Change in stocks as % of GDP			-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	18348.2	22.6	16.1	-2.2	1.1	9.3	**4.0**	**3.4**	**3.1**
Final demand			-	-	-	-	**-**	**-**	**-**
Imports (goods and services)	16752.4	20.6	15.6	-0.5	4.7	7.1	**6.6**	**5.2**	**4.2**
GNI (GDP deflator)	-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth : Domestic demand			-	-	-	-	**-**	**-**	**-**
Inventories			-	-	-	-	**-**	**-**	**-**
Net exports			-	-	-	-	**-**	**-**	**-**
Employment			-	-	-	-	**-**	**-**	**-**
Unemployment (a)			4.0	4.1	4.0	3.9	**-**	**-**	**-**
Compensation of employees/head			-	-	-	-	**-**	**-**	**-**
Unit labour costs			-	-	-	-	**-**	**-**	**-**
Real unit labour costs			-	-	-	-	**-**	**-**	**-**
Saving rate of households			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.6	1.1	0.0	1.9	**2.3**	**2.2**	**2.3**
Private consumption deflator			-	-	-	-	**-**	**-**	**-**
Index of consumer prices (c)			2.1	1.4	2.0	1.6	**-**	**-**	**-**
Merchandise trade balance (b)			3.5	5.1	4.4	4.0	**2.8**	**2.5**	**2.3**
Current-account balance (b)			4.0	2.7	1.8	1.4	**0.2**	**-0.2**	**-0.4**
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

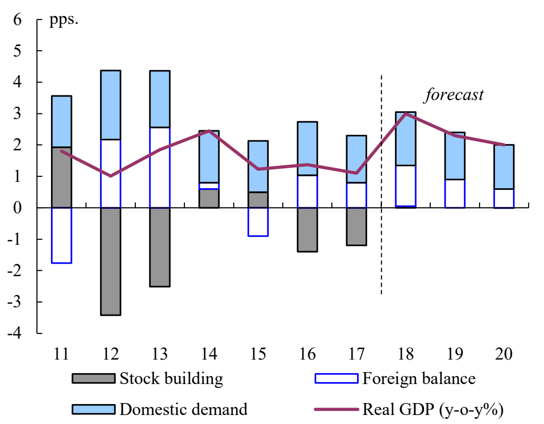
Sound outlook amid still-elevated risks

EFTA countries are currently enjoying strong growth, benefitting from a broadly supportive external environment and solid domestic demand. At this relatively late stage in the cycle, labour markets have continued to tighten and capacity constraints are becoming binding, prompting some signs of inflationary pressures, and a gradual removal of policy supports is anticipated, even as external risks remain elevated.

Switzerland

Output growth remained strong in the first half of 2018, benefiting from strong external and domestic demand. However, during this period, the sources of growth shifted from the export oriented sector and from services, to domestic demand. This pattern was re-enforced by special factors, such as the 2018 football world championship, which due to the Swiss residence of the key organiser, the FIFA, resulted in a significant boost of value added in the Swiss service sector. Overall, real GDP decelerated, from 1.0% growth (q-o-q) in the first three months, to 0.7% (q-o-q) during April-June. Inflation accelerated during the year, reaching 0.9% during the first nine months of 2018, reflecting increasing oil prices but also delayed effects of the Swiss franc's depreciation during mid-2018. The federal government has recorded a small surplus in the first half of the year, which is in line with the still strong position in the business cycle and the statutory debt brake.

Graph II.37.1: **Switzerland - Real GDP growth and contributions**



Going forward, real GDP growth is forecast to reach about 3% in 2018 and to slow down towards 2% by 2020, which however will still be above the 10-year average growth (about 1½% annually). The main factors for the deceleration are related to a declining stimulus from external demand, but also lower growth of disposable income due to moderate wage growth and accelerating inflation, but also the effect of capacity constraints.

Net exports are likely to remain an important source of growth, partly as important export markets for machinery, chemistry and precision tools are expected to register solid growth. Investment in equipment is expected to be another important driver of growth, as due to the currently high capacity utilisation, companies are expected to expand their production capacities. Furthermore, the currently low interest rate level supports the financing of fixed investment and construction. This growth supportive monetary stance is expected to remain in place during the forecasting period. Private consumption is set to expand slightly on the back of gradual improvement in the labour market. As underlying price pressures remain weak, inflation is projected to continue at around 1 % over the forecast period. The underlying strong growth will help to keep public sector accounts close to balance. This forecast does not incorporate any assumption for future reforms of corporate taxation and the pension system following their rejection in a referendum in 2017.

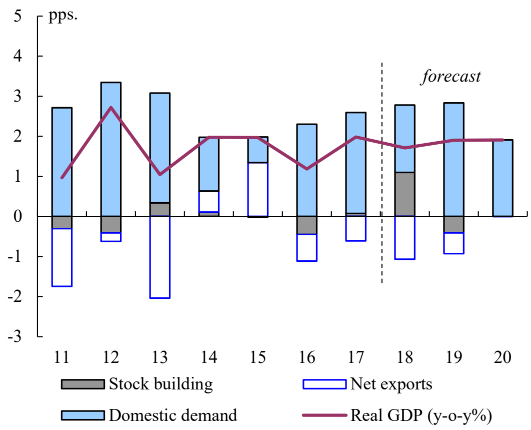
Risks to the outlook are tilted to the downside and mainly related to the external environment. Geopolitical turbulences and renewed volatility in financial markets could lead to safe haven capital inflows which would put an upward pressure on the exchange rate. Further downside risk relates to the uncertain global trade outlook.

Norway

Real GDP growth in Norway accelerated to 0.4% (q-o-q) in 2018-Q2 (from 0.2% q-o-q in 2018-Q1), underpinned by a robust labour market as registered unemployment fell further to pre-commodity price downturn levels and wage growth is accelerating; while higher oil prices and rebounding fixed investment in the energy sector have offset weakness in residential construction.

Going forward, these dynamics are set to remain in place throughout the forecast horizon, and present a broadly benign outlook: sentiment indicators remain elevated and surveys point to continued solid employment growth; while the bright outlook for mainland demand and continued rises in energy prices provide the basis for further strengthening business fixed investment. As a corollary to robust domestic demand, however, net exports are expected to place substantial drag on growth in the near term. Overall, real GDP growth is forecast at 1¾% in 2018, before accelerating modestly to under 2% in both 2019 and 2020.

Graph II.37.2: **Norway - Real GDP growth and contributions**



A number of estimates point to the economy already performing broadly at potential, while tightening labour market conditions are beginning to place sustained upward pressure on wage growth and core inflation (at 1.9% y-o-y in September) has steadily gathered momentum over recent months. As a result, Norges Bank raised its key policy rate by 25 basis points (to 0.75%) at its September meeting, while also signalling that further tightening is anticipated already in the near term. Monetary policy accommodation therefore, while remaining highly supportive at the current juncture, is set to be gradually removed in the coming years, with this complementing the shift in fiscal policy towards a neutral stance.

Recent budgetary proposals anticipate a neutral fiscal impulse in 2019, resulting in a stable non-oil structural balance (at 7.5% of mainland GDP) and spending of oil revenues equivalent to 2.7% of the sovereign wealth fund (Government Pension Fund Global). This remains well within the parameters set by the fiscal rules, as well as providing for modest growth in public spending and a slight fall in the general corporate tax rate to 22% (from 23% at present). In the absence of materialising risks, it is assumed that a similarly prudent fiscal stance will be adopted in 2020 also.

Residential investment underwent a marked contraction in the first half of 2018, reflecting earlier modest price declines. Although house price growth has turned positive once again in year-on-year terms, a recovery in residential fixed investment is expected to be only gradual given several concurrent headwinds, including: modest population growth; previously-introduced macro-prudential measures; and the expected gradual rise in interest rates.

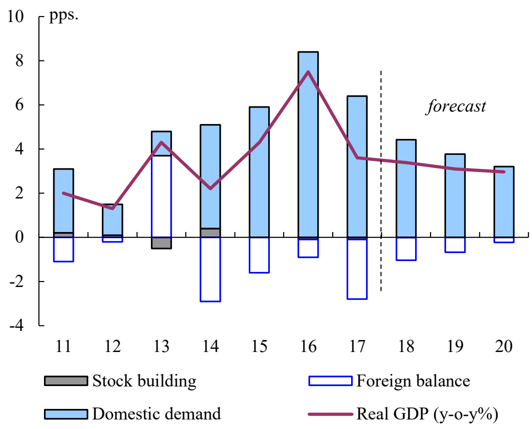
Domestic risks to the outlook stem primarily from uncertainties facing the property market and, in the context of high household debt levels (over 100% of GDP), the potential for a sharp reversal in prices following large appreciation in earlier years. Nonetheless, the moderation in price growth over the past year has constrained a further build-up of debt levels and financial stability concerns are offset by high profitability and capital adequacy levels. Concerning the external environment, energy prices present upside and downside risks; while a shift towards protectionism among Norway's main trading partners would weigh materially on growth.

Iceland

Following deceleration towards the end of 2017, GDP growth has rebounded to 5.5% (y-o-y) in the first half of 2018. Positive impetus came from private consumption and housing investment while the growth of exports decelerated to 0.2% (y-o-y) in the second quarter, driven by the slowdown of tourism exports. The pace of economic expansion is projected to moderate in the second half of the year in line with decelerating growth of tourist arrivals and contracting business investment, following the completion of large energy intensive projects.

Going forward a more sustainable pace of GDP growth is projected over the forecast horizon. The historically strong krona weighs on exports of tourism and manufactured goods while the expansion of housing investment is set to decelerate given an increasing supply of new houses. Private investment is projected to remain weak. Growth will be supported by investment in public infrastructure and robust private consumption on the back of increasing wages and immigration.

Graph II.37.3: **Iceland - Real GDP growth and contributions**



The rate of unemployment stood at 3.6% in Q2 which is slightly above (0.2 percentage points) the same quarter of 2017. The inflow of foreign workers has remained strong, with net migration reaching 1.7% of the population in the first half of the year. Given strong labour supply and decelerating GDP growth, unemployment is forecast to increase moderately in 2019-20.

Inflation has accelerated in the course of 2018 reaching 2.5% on average in January-September, driven by higher prices of petrol, housing and some services, in particular airfares. As the inflation-dampening effect of the krona's past appreciation is fading, rising wages are likely to support inflation over the coming years.

The 2019 budget proposal expects increases of funds allocated to healthcare, social affairs, housing benefits and infrastructure. On the revenue side the draft budget envisages the reform of the tax system, which is set to reduce the tax burden on lower-income groups and increase the reference limits for child benefits. Taking into account the proposed measures, the fiscal surplus is set to decline in 2019.

The balance of risks is tilted to the downside. Key domestic risk relates to potentially large wage increases resulting from the ongoing collective bargaining which would damage competitiveness and fuel inflation. External risks stem from global trade tensions which could hurt aluminium export prices.

Table II.37.1:

Main features of country forecast - EFTA

	Iceland				Norway				Switzerland			
(Annual percentage change)	**2017**	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**
GDP	4.0	**3.4**	**3.1**	**3.0**	2.0	**1.7**	**1.9**	**1.9**	1.1	**3.0**	**2.3**	**2.0**
Private Consumption	7.9	**5.4**	**4.0**	**3.4**	2.2	**2.3**	**1.8**	**1.6**	1.2	**1.5**	**1.3**	**1.2**
Public Consumption	3.1	**2.5**	**2.0**	**1.9**	2.5	**1.9**	**1.5**	**1.6**	1.0	**1.2**	**0.5**	**0.8**
Gross fixed capital formation	9.5	**5.2**	**5.5**	**4.5**	3.6	**0.8**	**6.7**	**3.1**	3.1	**3.0**	**3.0**	**2.9**
of which: equipment	-	**-**	**-**	**-**	8.7	**4.7**	**5.6**	**3.5**	3.2	**3.6**	**1.7**	**1.9**
Exports (good and services)	5.5	**3.6**	**3.2**	**3.2**	-0.2	**0.7**	**3.3**	**2.6**	-0.9	**4.4**	**4.2**	**3.9**
Imports (goods and services)	12.5	**6.4**	**5.0**	**3.9**	1.6	**4.0**	**5.0**	**2.7**	-2.5	**3.0**	**3.5**	**3.7**
GNI (GDP deflator)	2.1	**3.4**	**3.1**	**3.0**	2.1	**1.8**	**2.0**	**1.9**	1.0	**3.0**	**2.3**	**2.0**
Contribution to GDP growth: Domestic demand	6.6	**4.4**	**3.8**	**3.2**	2.5	**1.7**	**2.8**	**1.9**	1.5	**1.7**	**1.5**	**1.4**
Inventories	-0.1	**0.0**	**0.0**	**0.0**	0.1	**1.1**	**-0.4**	**0.0**	-1.2	**0.0**	**0.0**	**0.0**
Net exports	-2.6	**-1.0**	**-0.7**	**-0.2**	-0.6	**-1.1**	**-0.5**	**0.0**	0.8	**1.3**	**0.9**	**0.6**
Employment	1.9	**1.8**	**1.4**	**1.2**	1.1	**1.0**	**0.7**	**0.7**	0.9	**1.5**	**1.1**	**0.8**
Unemployment rate (a)	3.0	**2.9**	**3.1**	**3.3**	4.0	**3.4**	**3.2**	**3.1**	4.8	**4.4**	**4.2**	**4.1**
Compensation of employee/head	7.8	**6.0**	**4.2**	**4.4**	2.0	**2.6**	**3.2**	**3.3**	0.2	**2.5**	**2.0**	**1.4**
Unit labour cost whole economy	5.7	**4.4**	**2.5**	**2.6**	1.1	**1.8**	**2.0**	**2.0**	0.0	**1.0**	**0.7**	**0.2**
Real unit labour cost	5.2	**2.3**	**0.0**	**0.3**	-2.7	**-1.1**	**-0.8**	**-0.5**	-0.4	**0.4**	**0.2**	**0.1**
Saving rate of households (b)	:	**:**	**:**	**:**	11.3	**11.6**	**12.6**	**12.7**	:	**:**	**:**	**:**
GDP deflator	0.5	**2.1**	**2.5**	**2.3**	3.9	**3.0**	**2.8**	**2.6**	0.4	**0.6**	**0.5**	**0.1**
Harmonised index of consumer prices	-	**-**	**-**	**-**	1.9	**3.0**	**2.3**	**2.0**	0.6	**1.0**	**0.7**	**0.7**
Terms of trade goods	-0.3	**-0.3**	**-0.3**	**-0.1**	9.1	**3.2**	**1.7**	**0.0**	-1.7	**-0.2**	**0.0**	**0.0**
Trade balance (goods) (c)	-6.3	**-7.0**	**-7.7**	**-8.0**	4.7	**4.8**	**4.9**	**4.9**	7.5	**8.6**	**9.2**	**9.5**
Current account balance (c)	3.3	**1.8**	**1.3**	**1.0**	6.3	**5.9**	**5.9**	**6.0**	9.2	**10.4**	**11.0**	**11.4**
Net lending (+) or borrowing (-) vis-a-vis ROW	3.3	**1.8**	**1.3**	**0.9**	6.2	**5.9**	**5.9**	**5.9**	8.9	**9.5**	**10.0**	**10.4**
General government balance (c)	0.0	**1.3**	**1.0**	**0.9**	5.1	**5.1**	**5.0**	**5.0**	1.3	**0.3**	**0.2**	**0.0**
General government gross debt (c)	42.5	**41.0**	**38.8**	**36.9**	33.4	**31.8**	**30.4**	**28.8**	33.4	**32.0**	**30.9**	**30.2**

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

38. RUSSIAN FEDERATION

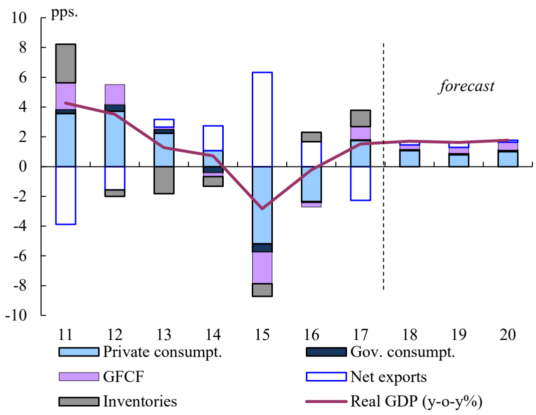
Higher oil revenues and public investments support growth

The economic recovery has been progressing gradually as authorities were pursuing tight monetary and fiscal policies and using the more benign external environment to rebuild buffers and increase resilience to macroeconomic shocks. This is likely to change going forward, as fiscal and structural reforms are being introduced and the government is more likely to use the current oil price surge to boost public spending and economic activity.

Recovery in the oil market buoys growth

Economic activity in Russia rebounded marginally after a weak end of 2017, with real GDP growth rising from 0.9% (y-o-y) in 2017-Q4 to 1.9% (y-o-y) in 2018-Q2. Domestic demand edged down as recent bouts of US sanctions undermined investor confidence and investments, though private consumption remained resilient driven by rising disposable incomes and increasing credit supply.

Graph II.38.1: **Russia - Real GDP growth and contributions**



Going forward, higher oil prices are set to boost domestic demand. At the same time increasing oil output and depreciating currency should support foreign trade, though increased uncertainty and higher financing costs related to the deteriorating geopolitical situation and ongoing turmoil in emerging markets are likely to undermine the scale of the recovery. All in all, real GDP is forecast to increase by 1.7% in 2018 and growth is expected to edge down to 1.6% in 2019, reflecting an increased tax burden, subdued productivity growth and growing disintegration from global value chains and financial markets. Economic activity is set to rebound towards the end of the forecast horizon, with real GDP growth accelerating to 1.8% in 2020, reflecting higher infrastructure spending and a positive, albeit marginal, pension-reform-driven improvement in the potential growth.

Public spending boosts investments

Higher consumption taxes, rising retirement age and limited increases in pensions and public sector wages are likely to dent private consumption outlook, despite rising real wages in the private sector. Higher corporate credit growth is likely to support private investment outlays, though increased uncertainty related to the sanctions and declining global investors' risk appetite cloud the outlook. However, significant public investments into transport and energy infrastructure are likely to materialise in the second half of 2019 and thereafter boosting overall investment growth rates.

On the external side, import growth is likely to decelerate rapidly from double digit growth in 2017 reflecting much weaker currency, before recovering somewhat in the outer year of the projection amid a pick-up in public investments. Export growth is set to remain robust as oil production cuts agreed with OPEC have been relaxed and oil and gas production is booming. All-in-all, the contribution of external trade to real GDP growth is forecast to turn marginally positive over the forecast horizon.

Rapid fiscal consolidation is over

Headline inflation increased to 3.4% in September 2018, driven by rebounding food prices and weakening currency. Going forward, inflation is expected to pick up to around 5% in 2019 on the back of VAT rate hike, weaker currency and increasing inflation expectations, before subsiding to the central bank target of 4% in 2020. Heightened uncertainty about sanctions, elevated inflation expectations and a planned increase in the VAT rate prompted the central bank in September 2018 to raise the key policy rate by 25 bps to 7.5%.

On the fiscal side, higher oil and gas revenues are set to result in an improvement from a deficit of 1.5% of GDP in 2017 to a surplus of 1.8% of GDP in 2018. Rapid fiscal consolidation is likely to end in the outer years of the forecast horizon as additional spending into infrastructure, human capital and social support kicks in in 2019. Higher expenditures are projected to be partly funded by increased VAT rates and some relaxation of the fiscal rule allowing for higher market borrowing. The increase in the pension age to 65/60 for men/women should also bring some fiscal savings already in 2019. All in all, the fiscal balance is likely to remain in surplus of around 1.5% of GDP towards the end of the forecast horizon.

Current account surpluses boom amid higher oil and gas revenues

Current account surplus is set to improve significantly from 2.2% of GDP in 2017 to 5.6% of GDP in 2018 amid increasing oil and gas exports, booming oil prices and higher exports of other commodities (e.g. wheat, metals). It is set to gradually shrink over the forecast horizon to 4.9% of GDP in 2020, as a pick-up in public investments is expected to support imports.

Structural reform agenda progresses but major challenges are still unaddressed

Despite the recent rise in the retirement age and the announced increases in infrastructure and human capital spending, which should boost potential growth, the prospects of a significant acceleration in long-term growth are bleak. They are impeded by rapidly aging population, shrinking labour force, extreme geographical and social inequalities limiting the size of the domestic market, increasing reach of the State, heavy concentration in many sectors and a policy aimed at decoupling from the external world.

Global risks remain at the front

Risks to the forecast are broadly balanced. High geopolitical uncertainty and the prospect of further intensification of economic sanctions remain key downside risks to the outlook. In addition, domestic financial conditions might be affected by the stronger USD and outflows of foreign capital if the ongoing turmoil in emerging markets deepens. The major risks on the upside relate to higher oil prices and higher-than-assumed fiscal multipliers from the announced public investment spending surge.

Table II.38.1:

Main features of country forecast - RUSSIA

		2017			Annual percentage change					
		bn RUB Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		92719.5	100.0	4.6	-2.8	-0.2	1.5	**1.7**	**1.6**	**1.8**
Private Consumption		47472.4	51.2	6.8	-9.7	-4.5	3.4	**2.1**	**1.6**	**2.0**
Public Consumption		16189.2	17.5	1.4	-3.1	-0.5	0.4	**0.5**	**0.6**	**0.6**
Gross fixed capital formation		18570.3	20.0	7.8	-10.4	-1.4	4.3	**1.5**	**2.0**	**2.7**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		23885.3	25.8	5.5	3.7	3.1	5.1	**5.2**	**4.0**	**4.0**
Imports (goods and services)		19115.2	20.6	10.5	-25.8	-3.8	17.4	**5.4**	**4.0**	**4.7**
GNI (GDP deflator)		91012.7	98.2	4.7	-2.2	-0.3	2.4	**1.8**	**1.7**	**1.8**
Contribution to GDP growth:	Domestic demand			5.1	-7.9	-2.7	2.7	**1.5**	**1.3**	**1.6**
	Inventories			0.3	-0.8	0.6	1.1	**0.0**	**0.0**	**0.0**
	Net exports			-0.7	6.3	1.7	-2.3	**0.2**	**0.3**	**0.1**
Employment				1.3	1.1	-2.1	0.1	**0.1**	**0.1**	**0.1**
Unemployment rate (a)				7.6	3.9	5.7	5.4	**5.2**	**4.9**	**4.6**
Compensation of employees / head				-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				17.8	8.2	3.6	6.1	**6.3**	**4.2**	**3.6**
Consumer-price index				-	15.5	7.1	3.7	**3.0**	**5.0**	**4.0**
Terms of trade goods				5.3	-24.0	-18.2	12.0	**10.9**	**-2.4**	**-0.5**
Trade balance (goods) (c)				12.1	10.7	7.0	7.2	**10.3**	**10.0**	**9.7**
Current-account balance (c)				7.4	4.9	2.0	2.2	**5.6**	**5.2**	**4.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				7.3	4.9	2.0	2.2	**5.6**	**5.2**	**4.9**
General government balance (c)				-	-1.8	-3.3	-1.5	**1.8**	**1.7**	**1.5**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				24.7	15.9	16.3	15.3	**14.3**	**14.4**	**15.0**

(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.

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Directorate-General for Economic and Financial Affairs
Unit A3: Economic situation, forecasts, business and consumer surveys
European Commission
B-1049 Brussels
E-mail: ecfin-forecasts@ec.europa.eu

Statistical Annex

European Economic Forecast – Autumn 2018

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Table 1: Gross domestic product, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	2.1	2.5	0.5	1.3	1.7	1.5	1.7	**1.5**	**1.5**	**1.4**	*1.8*	*1.7*
Germany	1.2	2.0	0.6	2.2	1.7	2.2	2.2	**1.7**	**1.8**	**1.7**	*2.3*	*2.1*
Estonia	5.8	5.5	0.0	2.9	1.9	3.5	4.9	**3.5**	**2.8**	**2.6**	*3.7*	*2.8*
Ireland	6.8	3.6	0.4	8.8	25.1	5.0	7.2	**7.8**	**4.5**	**3.8**	*5.7*	*4.1*
Greece	4.2	2.8	-5.9	0.7	-0.4	-0.2	1.5	**2.0**	**2.0**	**2.0**	*1.9*	*2.3*
Spain	4.0	3.2	-1.8	1.4	3.6	3.2	3.0	**2.6**	**2.2**	**2.0**	*2.9*	*2.4*
France	2.3	1.9	0.4	1.0	1.1	1.2	2.2	**1.7**	**1.6**	**1.6**	*2.0*	*1.8*
Italy	1.5	1.0	-1.6	0.1	0.9	1.1	1.6	**1.1**	**1.2**	**1.3**	*1.5*	*1.2*
Cyprus	4.2	4.7	-1.8	-1.3	2.0	4.8	4.2	**3.9**	**3.5**	**2.9**	*3.6*	*3.3*
Latvia	6.0	7.3	-1.4	1.9	3.0	2.1	4.6	**4.1**	**3.2**	**2.9**	*3.3*	*3.3*
Lithuania	5.2	7.0	-0.3	3.5	2.0	2.4	4.1	**3.4**	**2.8**	**2.5**	*3.1*	*2.7*
Luxembourg	4.9	3.8	1.2	4.3	3.9	2.4	1.5	**3.1**	**3.0**	**2.7**	*3.7*	*3.5*
Malta	3.3	2.7	1.9	8.2	9.5	5.2	6.7	**5.4**	**4.9**	**4.4**	*5.8*	*5.1*
Netherlands	2.4	2.7	-0.4	1.4	2.0	2.2	2.9	**2.8**	**2.4**	**1.8**	*3.0*	*2.6*
Austria	2.2	2.7	0.3	0.7	1.1	2.0	2.6	**2.7**	**2.0**	**1.8**	*2.8*	*2.2*
Portugal	1.9	1.4	-1.6	0.9	1.8	1.9	2.8	**2.2**	**1.8**	**1.7**	*2.3*	*2.0*
Slovenia	3.8	4.8	-2.0	3.0	2.3	3.1	4.9	**4.3**	**3.3**	**3.0**	*4.7*	*3.6*
Slovakia	2.8	7.4	1.1	2.8	4.2	3.1	3.2	**4.0**	**4.1**	**3.5**	*4.0*	*4.2*
Finland	3.3	3.3	-1.1	-0.6	0.1	2.5	2.8	**2.9**	**2.2**	**1.9**	*2.5*	*2.3*
Euro area	2.1	2.1	-0.4	1.4	2.1	1.9	2.4	**2.1**	**1.9**	**1.7**	*2.3*	*2.0*
Bulgaria	2.1	6.8	0.0	1.8	3.5	3.9	3.8	**3.5**	**3.7**	**3.6**	*3.8*	*3.7*
Czech Republic	2.8	5.3	-0.4	2.7	5.3	2.5	4.3	**3.0**	**2.9**	**2.6**	*3.4*	*3.1*
Denmark	1.7	1.9	-0.1	1.6	1.6	2.0	2.3	**1.2**	**1.8**	**1.6**	*1.8*	*1.9*
Croatia	3.4	4.0	-2.4	-0.1	2.4	3.5	2.9	**2.8**	**2.8**	**2.6**	*2.8*	*2.7*
Hungary	3.9	2.9	-0.8	4.2	3.5	2.3	4.1	**4.3**	**3.4**	**2.6**	*4.0*	*3.2*
Poland	3.2	5.2	2.9	3.3	3.8	3.1	4.8	**4.8**	**3.7**	**3.3**	*4.3*	*3.7*
Romania	3.6	7.1	-0.3	3.4	3.9	4.8	7.3	**3.6**	**3.8**	**3.6**	*4.5*	*3.9*
Sweden	3.0	2.9	0.8	2.6	4.5	2.7	2.1	**2.4**	**1.8**	**1.8**	*2.6*	*2.0*
EU27	2.2	2.3	-0.3	1.6	2.3	2.1	2.6	**2.2**	**2.0**	**1.9**	*2.5*	*2.2*
United Kingdom	3.1	2.0	0.5	2.9	2.3	1.8	1.7	**1.3**	**1.2**	**1.2**	*1.5*	*1.2*
EU28	2.3	2.3	-0.1	1.8	2.3	2.0	2.4	**2.1**	**1.9**	**1.8**	*2.3*	*2.0*
USA	2.9	2.4	1.1	2.5	2.9	1.6	2.2	**2.9**	**2.6**	**1.9**	*2.9*	*2.7*
Japan	0.9	1.2	0.4	0.4	1.4	1.0	1.7	**1.1**	**1.0**	**0.5**	*1.3*	*1.1*

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2018-20) 22.10.2018

	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4	2020/1	2020/2	2020/3	2020/4
Belgium	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.4	0.3	0.3
Germany	0.4	0.5	0.2	0.5	0.6	0.5	0.5	0.4	0.3	0.3	0.3	0.3
Estonia	0.2	1.4	0.7	0.5	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Ireland	-0.4	2.5	1.9	1.3	0.7	0.7	0.8	0.9	0.9	0.9	1.1	1.1
Greece	0.9	0.2	:	:	:	:	:	:	:	:	:	:
Spain	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
France	0.2	0.2	0.4	0.5	0.4	0.4	0.4	0.5	0.3	0.3	0.3	0.4
Italy	0.3	0.2	0.0	0.2	0.3	0.3	0.4	0.4	0.3	0.2	0.3	0.2
Cyprus	1.0	0.8	:	:	:	:	:	:	:	:	:	:
Latvia	1.4	1.0	0.1	1.1	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Lithuania	1.0	0.9	0.2	0.5	0.8	0.8	0.8	0.7	0.6	0.6	0.5	0.5
Luxembourg	1.9	:	:	:	:	:	:	:	:	:	:	:
Malta	0.9	1.9	:	:	:	:	:	:	:	:	:	:
Netherlands	0.6	0.8	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4
Austria	0.9	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.3
Portugal	0.4	0.6	0.4	0.5	0.5	0.5	0.4	0.5	0.4	0.4	0.4	0.5
Slovenia	0.5	0.8	1.2	1.0	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Slovakia	1.0	1.1	1.0	1.0	1.1	1.1	0.9	0.9	0.9	0.9	0.8	0.8
Finland	1.2	0.3	0.9	0.9	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Euro area	0.4	0.4	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.3	0.3
Bulgaria	0.9	0.8	1.0	1.1	0.9	0.8	0.9	0.9	0.8	1.0	1.0	0.9
Czech Republic	0.5	0.7	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.5
Denmark	0.4	0.2	0.8	0.8	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Croatia	0.8	1.1	0.6	0.7	0.7	0.6	0.6	0.8	0.7	0.6	0.6	0.6
Hungary	1.2	1.0	0.7	0.7	0.8	0.9	1.1	1.4	0.2	0.3	0.4	0.5
Poland	1.6	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.8	0.8
Romania	0.1	1.4	1.0	1.0	0.7	1.0	0.8	0.9	0.9	1.0	0.8	1.0
Sweden	0.5	0.8	0.3	0.4	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.3
EU27	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
United Kingdom	0.1	0.4	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
EU28	0.4	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.4	0.4	0.4	0.4
USA	0.5	1.0	0.8	0.5	0.6	0.7	0.7	0.5	0.4	0.4	0.4	0.4
Japan	-0.2	0.7	0.1	0.5	0.4	0.3	0.7	-1.8	0.5	0.6	0.7	0.8

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2018-20) 22.10.2018

	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4	2020/1	2020/2	2020/3	2020/4
Belgium	1.5	1.4	1.7	1.5	1.6	1.6	1.5	1.4	1.4	1.4	1.4	1.4
Germany	2.0	1.9	1.5	1.5	1.7	1.7	2.0	1.9	1.6	1.4	1.2	1.0
Estonia	3.6	3.7	4.2	2.7	3.3	2.7	2.6	2.7	2.6	2.5	2.5	2.6
Ireland	10.2	9.1	6.7	5.4	6.7	4.8	3.6	3.2	3.4	3.6	3.9	4.1
Greece	2.5	1.8	:	:	:	:	:	:	:	:	:	:
Spain	2.8	2.5	2.4	2.3	2.3	2.2	2.1	1.9	1.9	1.9	2.0	2.0
France	2.2	1.7	1.4	1.2	1.4	1.7	1.7	1.7	1.6	1.6	1.5	1.3
Italy	1.3	1.2	0.8	0.7	0.7	0.9	1.3	1.6	1.5	1.3	1.2	0.9
Cyprus	4.1	3.9	:	:	:	:	:	:	:	:	:	:
Latvia	4.8	4.4	3.3	3.7	3.1	2.8	3.6	3.2	3.1	3.0	2.9	2.9
Lithuania	3.7	3.8	3.3	2.6	2.5	2.4	3.1	3.2	2.9	2.7	2.3	2.1
Luxembourg	5.1	:	:	:	:	:	:	:	:	:	:	:
Malta	4.7	5.7	:	:	:	:	:	:	:	:	:	:
Netherlands	3.1	3.0	2.9	2.6	2.6	2.4	2.3	2.3	2.1	1.8	1.7	1.6
Austria	3.1	2.9	2.7	2.2	1.8	2.0	2.0	2.0	2.0	1.9	1.7	1.5
Portugal	2.2	2.4	2.2	1.9	2.0	1.9	1.9	1.9	1.8	1.7	1.6	1.6
Slovenia	4.9	4.3	4.6	3.6	3.8	3.7	3.1	2.7	2.8	2.9	3.0	3.1
Slovakia	3.8	3.9	4.0	4.1	4.2	4.2	4.1	3.9	3.7	3.5	3.4	3.4
Finland	2.7	2.5	3.2	3.3	2.7	2.7	2.1	1.6	1.6	1.8	2.0	2.1
Euro area	2.4	2.2	1.9	1.7	1.8	1.8	1.9	1.9	1.8	1.6	1.5	1.4
Bulgaria	3.5	3.4	3.5	3.8	3.8	3.8	3.7	3.5	3.4	3.6	3.7	3.7
Czech Republic	4.1	2.4	2.7	2.7	3.0	3.0	2.9	2.9	2.8	2.7	2.5	2.3
Denmark	-0.7	0.6	2.4	2.3	2.3	2.3	1.8	1.2	1.3	1.5	1.6	1.8
Croatia	2.6	2.8	2.7	3.2	3.1	2.6	2.6	2.7	2.7	2.6	2.5	2.4
Hungary	4.8	4.7	4.3	3.6	3.1	3.0	3.4	4.2	3.6	3.1	2.3	1.4
Poland	5.0	5.0	4.5	4.5	3.8	3.7	3.7	3.6	3.4	3.4	3.2	3.2
Romania	4.3	4.2	2.9	3.5	4.1	3.7	3.5	3.4	3.6	3.5	3.6	3.6
Sweden	2.8	2.4	2.3	2.0	1.8	1.4	1.5	1.3	1.4	1.4	1.5	1.6
EU27	2.5	2.3	2.0	1.9	2.0	2.0	2.0	2.0	1.9	1.8	1.7	1.5
United Kingdom	1.1	1.2	1.4	1.3	1.5	1.3	1.0	1.0	1.1	1.1	1.2	1.2
EU28	2.3	2.1	1.9	1.8	1.9	1.9	1.9	1.8	1.7	1.7	1.6	1.5
USA	2.6	2.9	3.0	3.0	3.0	2.6	2.4	2.4	2.3	2.0	1.8	1.7
Japan	1.1	1.3	0.8	1.1	1.7	1.2	1.8	-0.5	-0.3	0.0	0.0	2.6

Table 4: Gross domestic product per capita (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.8	1.8	-0.2	0.8	1.2	1.0	1.2	**1.0**	**1.0**	**0.9**	*1.3*	*1.2*
Germany	1.2	2.2	0.6	1.8	0.9	1.4	1.8	**1.4**	**1.6**	**1.4**	*2.0*	*1.8*
Estonia	6.1	6.1	0.2	3.2	2.1	3.3	4.9	**3.2**	**2.7**	**2.5**	*3.7*	*2.8*
Ireland	5.2	1.1	-0.2	8.0	24.0	3.8	6.0	**6.7**	**3.6**	**2.9**	*4.6*	*3.1*
Greece	3.8	2.5	-5.7	1.4	0.2	0.2	1.6	**2.6**	**2.6**	**2.6**	*2.4*	*2.9*
Spain	3.0	1.4	-2.1	1.7	3.7	3.1	2.8	**2.3**	**1.7**	**1.5**	*2.5*	*1.9*
France	1.6	1.2	-0.1	0.5	0.7	0.8	1.8	**1.2**	**1.2**	**1.2**	*1.5*	*1.4*
Italy	1.3	0.4	-2.0	-0.1	1.0	1.3	1.7	**1.2**	**1.2**	**1.3**	*1.5*	*1.2*
Cyprus	3.1	2.8	-3.6	-0.2	2.5	4.3	3.3	**3.3**	**2.8**	**2.3**	*3.0*	*2.6*
Latvia	7.1	8.4	0.2	2.8	3.9	3.0	5.8	**5.0**	**4.0**	**3.7**	*4.2*	*4.2*
Lithuania	6.0	8.5	1.3	4.4	3.0	3.7	5.8	**4.5**	**3.7**	**3.5**	*4.4*	*3.8*
Luxembourg	3.6	2.1	-1.0	1.9	1.9	-0.2	-0.6	**0.6**	**0.7**	**0.4**	*1.4*	*1.2*
Malta	2.6	2.1	1.1	6.0	6.9	2.8	3.8	**2.9**	**3.2**	**2.8**	*3.7*	*3.3*
Netherlands	1.7	2.4	-0.8	1.0	1.5	1.6	2.3	**2.3**	**1.9**	**1.4**	*2.4*	*2.1*
Austria	1.8	2.2	-0.1	-0.1	0.1	0.8	1.9	**1.7**	**1.0**	**0.9**	*2.2*	*1.7*
Portugal	1.3	1.2	-1.4	1.4	2.2	2.2	3.0	**2.3**	**1.9**	**1.8**	*2.4*	*2.1*
Slovenia	3.7	4.6	-2.4	2.8	2.2	3.0	4.8	**4.3**	**3.3**	**2.9**	*4.6*	*3.5*
Slovakia	2.9	7.3	1.0	2.6	4.1	3.0	3.0	**3.9**	**4.0**	**3.4**	*3.9*	*4.1*
Finland	3.0	2.9	-1.5	-1.1	-0.2	2.2	2.6	**2.5**	**1.8**	**1.6**	*2.1*	*1.9*
Euro area	1.7	1.6	-0.7	1.2	1.8	1.6	2.1	**1.8**	**1.6**	**1.5**	*2.1*	*1.8*
Bulgaria	3.2	7.3	1.0	2.4	4.1	4.7	4.6	**4.0**	**4.0**	**3.9**	*4.2*	*4.0*
Czech Republic	3.0	4.8	-0.6	2.6	5.1	2.2	4.0	**2.7**	**2.8**	**2.4**	*3.1*	*3.0*
Denmark	1.3	1.5	-0.6	1.1	0.9	1.1	1.6	**0.6**	**1.3**	**1.1**	*1.2*	*1.4*
Croatia	3.0	4.0	-2.2	0.3	3.3	4.3	3.6	**3.4**	**3.3**	**3.1**	*3.4*	*3.2*
Hungary	4.2	3.1	-0.5	4.5	3.8	2.6	4.4	**4.5**	**3.6**	**2.8**	*4.3*	*3.5*
Poland	3.2	5.3	2.7	3.4	3.9	3.1	4.8	**4.8**	**3.7**	**3.3**	*4.3*	*3.7*
Romania	4.5	8.2	0.3	3.8	4.4	5.4	7.6	**4.4**	**4.4**	**4.2**	*5.0*	*5.1*
Sweden	2.8	2.3	0.0	1.6	3.4	1.4	0.7	**0.7**	**0.8**	**0.8**	*1.2*	*0.9*
EU27	2.0	2.0	-0.4	1.4	2.1	1.8	2.4	**2.0**	**1.8**	**1.7**	*2.3*	*2.0*
United Kingdom	2.7	1.3	-0.2	2.2	1.5	1.0	1.1	**0.7**	**0.6**	**0.6**	*0.9*	*0.6*
EU28	2.1	1.9	-0.4	1.5	2.0	1.7	2.2	**1.8**	**1.6**	**1.5**	*2.1*	*1.8*
USA	1.8	1.4	0.3	1.7	2.1	0.8	1.5	**2.1**	**1.9**	**1.2**	*2.1*	*2.0*
Japan	0.8	1.1	0.4	0.5	1.5	1.1	1.9	**1.3**	**1.3**	**0.9**	*1.5*	*1.3*

Table 5: Domestic demand, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.3	2.8	0.4	2.0	1.6	2.1	1.1	**1.2**	**1.5**	**1.6**	*1.8*	*1.8*
Germany	0.6	1.1	0.5	1.6	1.6	3.0	2.0	**1.9**	**2.3**	**2.0**	*2.1*	*2.1*
Estonia	6.7	5.9	-1.0	3.2	1.1	4.6	4.2	**3.6**	**3.1**	**2.7**	*3.6*	*2.7*
Ireland	6.5	4.2	-2.5	8.4	14.6	22.6	-13.3	**0.4**	**4.0**	**3.2**	*4.2*	*3.6*
Greece	4.6	3.0	-7.7	0.9	-1.3	0.5	1.6	**0.5**	**2.1**	**1.9**	*1.8*	*2.2*
Spain	4.5	3.7	-3.6	2.0	4.0	2.4	3.0	**2.8**	**2.2**	**1.9**	*2.7*	*2.2*
France	2.5	2.3	0.4	1.5	1.5	1.7	2.0	**1.2**	**1.6**	**1.6**	*1.8*	*1.8*
Italy	1.9	0.8	-2.3	0.2	1.5	1.5	1.3	**1.4**	**1.2**	**1.3**	*1.5*	*1.2*
Cyprus	4.9	7.2	-4.5	-1.8	3.9	6.1	8.3	**4.7**	**4.6**	**3.5**	*5.2*	*4.5*
Latvia	6.0	8.2	-3.1	-1.0	2.4	2.1	6.2	**5.7**	**3.3**	**3.2**	*5.0*	*3.4*
Lithuania	4.9	9.4	-3.4	3.4	6.8	2.2	2.9	**4.3**	**3.7**	**3.1**	*3.9*	*3.3*
Luxembourg	4.1	3.2	1.8	5.8	0.8	3.6	2.5	**3.5**	**3.2**	**2.9**	*2.7*	*2.6*
Malta	3.1	2.9	0.8	2.9	16.1	0.3	-1.2	**6.8**	**6.1**	**4.9**	*6.9*	*5.2*
Netherlands	2.3	2.3	-1.0	0.1	6.9	-0.7	2.2	**3.2**	**2.6**	**1.9**	*3.1*	*2.8*
Austria	1.5	2.1	0.3	0.5	1.2	2.2	2.5	**2.1**	**1.7**	**1.5**	*2.0*	*1.6*
Portugal	1.7	1.7	-3.4	2.2	2.7	2.0	3.0	**2.4**	**2.2**	**2.1**	*2.3*	*2.1*
Slovenia	3.7	4.7	-3.8	1.7	1.9	2.9	3.9	**3.9**	**3.6**	**3.7**	*5.0*	*4.9*
Slovakia	1.2	6.8	-1.2	3.5	6.0	1.2	2.6	**4.2**	**2.8**	**2.7**	*3.6*	*3.6*
Finland	2.6	3.1	-0.4	-0.1	1.3	3.1	1.6	**2.5**	**1.9**	**1.6**	*1.9*	*1.8*
Euro area	2.0	2.0	-1.0	1.3	2.4	2.4	1.7	**1.8**	**2.0**	**1.8**	*2.1*	*2.0*
Bulgaria	6.9	9.5	-2.9	3.2	3.3	1.6	4.8	**6.4**	**4.8**	**4.1**	*5.4*	*4.6*
Czech Republic	3.3	4.1	-1.3	3.4	5.9	1.1	3.5	**3.4**	**3.2**	**2.5**	*3.9*	*3.4*
Denmark	1.0	2.9	-0.6	1.9	1.3	2.4	2.1	**3.1**	**1.5**	**1.9**	*2.0*	*2.2*
Croatia	3.8	4.8	-3.9	-1.4	2.2	3.8	3.6	**3.7**	**3.6**	**3.5**	*3.7*	*3.4*
Hungary	4.4	1.5	-2.3	5.4	2.1	1.0	6.8	**5.8**	**4.3**	**2.0**	*6.0*	*4.3*
Poland	2.3	6.1	1.4	4.8	3.3	2.3	4.9	**4.9**	**3.9**	**3.7**	*4.8*	*3.6*
Romania	4.4	11.2	-2.4	3.7	5.3	5.1	7.9	**4.8**	**4.2**	**3.9**	*4.9*	*4.3*
Sweden	2.3	2.8	1.1	2.9	4.2	3.2	2.7	**2.5**	**1.7**	**1.8**	*2.4*	*1.8*
EU27	2.1	2.3	-0.9	1.6	2.5	2.4	2.0	**2.1**	**2.1**	**2.0**	*2.3*	*2.1*
United Kingdom	3.5	1.9	0.2	3.2	2.3	2.4	1.2	**1.0**	**1.1**	**1.2**	*1.3*	*1.1*
EU28	2.4	2.2	-0.7	1.9	2.5	2.4	1.9	**2.0**	**2.0**	**1.8**	*2.2*	*2.0*
USA	3.4	2.1	0.9	2.6	3.6	1.7	2.5	**3.0**	**2.8**	**2.1**	*3.2*	*2.9*
Japan	0.7	0.5	0.7	0.4	1.0	0.4	1.2	**1.0**	**1.2**	**0.4**	*1.1*	*1.1*

Table 6: Final demand, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	2.6	3.6	0.9	3.5	2.5	4.6	2.9	**2.3**	**2.3**	**2.2**	*3.3*	*3.0*
Germany	1.9	3.1	1.0	2.6	2.8	2.8	2.9	**2.2**	**2.5**	**2.4**	*3.4*	*2.8*
Estonia	5.1	8.1	1.8	3.1	0.0	4.9	3.9	**4.0**	**3.5**	**3.1**	*3.9*	*3.3*
Ireland	8.8	4.3	0.4	11.9	28.8	11.1	-0.9	**4.0**	**4.3**	**3.8**	*5.2*	*4.2*
Greece	4.9	3.8	-6.7	2.5	-0.2	-0.1	2.8	**2.4**	**3.0**	**2.5**	*2.8*	*2.8*
Spain	4.7	3.7	-2.4	2.6	4.1	3.1	3.6	**2.8**	**2.5**	**2.3**	*3.3*	*2.9*
France	2.9	2.6	0.6	1.9	2.2	1.6	2.6	**1.7**	**2.0**	**2.0**	*2.4*	*2.4*
Italy	1.9	1.5	-1.8	0.8	2.2	1.7	2.3	**1.5**	**1.7**	**1.8**	*2.2*	*1.9*
Cyprus	3.4	5.6	-2.7	0.5	4.4	5.5	7.4	**5.3**	**3.5**	**2.8**	*4.1*	*3.5*
Latvia	5.7	9.2	-0.9	1.6	2.6	3.0	6.2	**4.9**	**3.3**	**3.1**	*4.5*	*3.4*
Lithuania	6.0	9.8	1.0	3.3	4.1	3.0	7.5	**4.7**	**3.9**	**3.4**	*4.6*	*3.8*
Luxembourg	6.4	6.8	1.9	13.6	4.2	3.8	-0.9	**3.3**	**2.8**	**2.4**	*3.8*	*3.5*
Malta	2.8	6.6	2.2	3.1	8.3	2.6	1.9	**3.5**	**3.5**	**3.1**	*3.9*	*3.7*
Netherlands	3.3	3.6	0.4	2.2	7.1	0.4	3.7	**3.1**	**3.1**	**2.6**	*4.3*	*3.6*
Austria	2.8	3.5	0.5	1.4	2.0	2.4	3.3	**3.0**	**2.4**	**2.1**	*3.2*	*2.6*
Portugal	2.2	2.3	-1.8	2.8	3.7	2.7	4.4	**3.3**	**2.9**	**2.6**	*3.7*	*3.1*
Slovenia	4.6	7.0	-2.1	3.4	3.3	4.5	7.1	**5.9**	**4.9**	**3.9**	*6.5*	*5.6*
Slovakia	4.3	10.0	1.5	3.7	6.0	3.3	4.2	**4.8**	**5.4**	**4.9**	*5.3*	*5.8*
Finland	3.6	4.7	-1.0	-0.8	1.2	3.3	3.1	**3.0**	**2.4**	**2.2**	*2.9*	*2.6*
Euro area	2.8	3.1	-0.2	2.4	3.7	2.6	2.8	**2.3**	**2.5**	**2.3**	*3.2*	*2.8*
Bulgaria	3.7	10.2	-0.5	3.2	4.3	4.1	5.2	**4.0**	**4.1**	**3.8**	*5.2*	*4.7*
Czech Republic	4.7	8.1	0.6	5.8	5.9	2.6	5.0	**3.9**	**3.4**	**2.9**	*4.3*	*4.0*
Denmark	2.5	3.8	-0.2	2.4	1.7	2.6	2.9	**2.2**	**1.9**	**1.9**	*2.5*	*2.5*
Croatia	5.0	4.6	-3.0	0.9	4.4	4.4	4.6	**3.9**	**3.8**	**3.7**	*4.0*	*3.8*
Hungary	6.9	6.6	-0.6	7.2	4.5	3.0	5.7	**6.4**	**5.1**	**3.7**	*6.5*	*5.4*
Poland	3.5	6.9	2.5	5.4	4.7	4.5	6.5	**5.4**	**4.6**	**4.0**	*5.7*	*4.5*
Romania	6.6	10.4	0.1	4.9	5.1	8.3	8.4	**5.2**	**4.9**	**4.6**	*5.6*	*5.0*
Sweden	3.1	4.0	0.8	3.6	4.7	3.2	2.9	**2.8**	**2.2**	**2.2**	*3.1*	*2.4*
EU27	2.9	3.4	-0.1	2.7	3.8	2.8	3.1	**2.6**	**2.6**	**2.4**	*3.4*	*2.9*
United Kingdom	3.5	2.5	0.5	3.0	2.7	2.1	2.2	**1.3**	**1.5**	**1.4**	*1.8*	*1.5*
EU28	3.0	3.3	0.0	2.7	3.6	2.7	3.0	**2.4**	**2.5**	**2.3**	*3.2*	*2.7*
USA	3.2	2.7	1.2	2.8	3.2	1.5	2.5	**3.1**	**2.8**	**2.1**	*3.3*	*3.1*
Japan	1.1	1.5	0.5	1.6	1.3	0.6	2.0	**1.4**	**1.4**	**0.7**	*1.6*	*1.4*

Table 7: Private consumption expenditure, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.3	1.6	1.0	0.6	0.9	1.7	1.1	**0.9**	**1.4**	**1.6**	*1.7*	*1.8*
Germany	1.1	0.7	0.8	1.0	1.7	2.1	1.8	**1.6**	**2.1**	**1.7**	*1.8*	*1.9*
Estonia	6.6	6.6	-1.4	3.2	4.4	4.4	2.6	**4.1**	**3.4**	**2.7**	*3.8*	*2.7*
Ireland	6.2	4.8	-1.5	2.2	3.6	4.1	1.6	**3.1**	**2.9**	**2.7**	*2.5*	*2.4*
Greece	3.8	3.5	-5.8	0.6	-0.2	0.0	0.9	**0.8**	**0.4**	**0.7**	*0.5*	*0.9*
Spain	3.7	2.9	-2.5	1.5	3.0	2.9	2.5	**2.3**	**1.8**	**1.4**	*2.3*	*1.9*
France	2.6	1.9	0.6	0.8	1.5	2.1	1.0	**1.1**	**1.6**	**1.6**	*1.4*	*1.6*
Italy	1.3	0.8	-1.4	0.3	1.9	1.3	1.5	**1.0**	**1.1**	**1.1**	*1.2*	*1.2*
Cyprus	5.0	6.6	-2.2	1.0	2.4	4.5	4.1	**4.2**	**3.8**	**3.1**	*3.4*	*2.9*
Latvia	5.0	8.1	-0.8	1.4	2.5	1.4	4.1	**4.5**	**4.0**	**4.0**	*4.7*	*3.6*
Lithuania	6.7	9.5	-2.1	4.0	4.0	5.0	3.3	**4.2**	**3.9**	**3.3**	*3.4*	*3.3*
Luxembourg	4.2	1.4	1.8	4.1	3.2	1.7	3.0	**3.7**	**3.5**	**2.7**	*2.7*	*2.3*
Malta	3.8	1.6	1.2	2.3	5.0	2.6	3.7	**5.2**	**3.8**	**3.6**	*4.0*	*3.7*
Netherlands	2.5	0.9	-0.8	0.4	2.0	1.1	1.9	**2.8**	**2.2**	**1.9**	*2.0*	*2.2*
Austria	1.8	1.7	0.7	0.3	0.4	1.4	1.4	**1.8**	**1.6**	**1.5**	*1.6*	*1.4*
Portugal	2.2	1.9	-2.1	2.3	2.3	2.4	2.3	**2.3**	**2.0**	**1.8**	*2.0*	*1.8*
Slovenia	3.1	3.0	-0.9	1.9	2.3	3.9	1.9	**2.2**	**2.9**	**3.1**	*4.1*	*4.1*
Slovakia	3.1	6.1	-0.4	1.4	2.2	2.9	3.5	**2.9**	**3.2**	**3.0**	*3.6*	*3.6*
Finland	3.0	3.3	0.6	0.8	1.7	2.0	1.3	**2.4**	**2.1**	**1.4**	*1.8*	*1.8*
Euro area	2.0	1.6	-0.4	0.9	1.8	2.0	1.6	**1.6**	**1.8**	**1.6**	*1.7*	*1.7*
Bulgaria	7.0	8.3	-0.2	2.7	4.5	3.6	4.5	**6.5**	**4.3**	**3.8**	*4.9*	*4.5*
Czech Republic	3.0	3.5	0.0	1.8	3.7	3.6	4.3	**3.7**	**3.3**	**2.5**	*3.9*	*3.1*
Denmark	0.7	2.7	-0.3	0.9	1.6	2.1	1.6	**2.3**	**2.2**	**2.3**	*2.0*	*2.2*
Croatia	3.2	3.7	-2.7	-1.6	1.1	3.5	3.6	**3.8**	**3.6**	**3.3**	*3.1*	*2.9*
Hungary	6.1	1.3	-2.2	2.8	3.9	4.0	4.8	**5.2**	**3.3**	**3.2**	*4.9*	*3.3*
Poland	3.2	4.6	2.1	2.4	3.0	3.9	4.9	**4.5**	**3.8**	**3.4**	*4.1*	*3.4*
Romania	4.1	11.9	-1.7	4.7	6.0	7.9	10.1	**4.6**	**4.6**	**4.0**	*4.9*	*4.2*
Sweden	3.0	2.4	1.7	2.1	3.1	2.9	2.2	**2.4**	**2.3**	**2.1**	*2.3*	*2.2*
EU27	2.1	1.8	-0.3	1.1	2.0	2.2	2.0	**1.9**	**2.0**	**1.8**	*2.0*	*1.9*
United Kingdom	4.1	2.0	0.1	2.0	2.6	3.1	1.8	**1.4**	**1.3**	**1.3**	*1.2*	*1.2*
EU28	2.5	1.9	-0.2	1.2	2.1	2.4	1.9	**1.8**	**1.9**	**1.7**	*1.8*	*1.8*
USA	3.7	2.5	1.1	2.9	3.7	2.7	2.5	**2.6**	**2.6**	**2.1**	*3.0*	*2.8*
Japan	1.3	0.7	1.1	-0.9	0.0	0.1	1.0	**0.8**	**1.0**	**-0.3**	*1.0*	*1.1*

Table 8: Government consumption expenditure, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	2.1	1.6	1.0	0.6	0.6	-0.2	0.6	**0.7**	**1.0**	**1.3**	*0.2*	*1.0*
Germany	1.0	1.1	1.5	1.6	2.9	4.0	1.6	**1.3**	**2.3**	**1.7**	*1.6*	*1.6*
Estonia	1.4	4.5	0.7	1.9	3.0	2.2	0.6	**0.3**	**0.9**	**0.7**	*1.4*	*1.0*
Ireland	6.8	3.8	-2.5	3.9	1.9	3.5	3.7	**4.3**	**4.3**	**1.4**	*4.4*	*1.9*
Greece	3.5	3.6	-4.4	-1.4	1.6	-0.7	-0.4	**1.2**	**0.2**	**0.3**	*1.2*	*0.4*
Spain	4.2	5.8	-0.3	-0.3	2.0	1.0	1.9	**1.9**	**1.7**	**1.5**	*1.9*	*1.3*
France	1.6	1.5	1.6	1.3	1.0	1.4	1.3	**1.2**	**1.2**	**1.1**	*1.1*	*1.3*
Italy	2.3	0.5	-0.5	-0.7	-0.6	0.3	-0.1	**0.0**	**0.3**	**0.4**	*0.1*	*0.2*
Cyprus	4.1	3.4	0.0	-7.5	-0.5	-0.8	3.1	**1.7**	**4.1**	**2.4**	*1.5*	*3.3*
Latvia	1.9	3.7	-2.9	1.9	1.9	3.9	4.1	**4.0**	**1.8**	**1.8**	*3.0*	*1.5*
Lithuania	0.5	2.4	-0.6	0.3	0.2	-0.1	-0.4	**0.7**	**0.7**	**0.6**	*1.6*	*1.5*
Luxembourg	5.5	2.6	2.6	1.9	2.8	2.5	3.1	**3.4**	**2.7**	**3.4**	*3.2*	*3.4*
Malta	2.3	3.2	1.3	6.6	3.7	-2.8	2.8	**15.7**	**9.0**	**6.9**	*19.8*	*6.9*
Netherlands	3.4	3.0	0.8	0.6	-0.1	1.3	1.1	**2.0**	**2.8**	**1.7**	*3.1*	*2.6*
Austria	1.0	2.4	0.7	0.8	0.8	1.8	1.5	**1.2**	**0.8**	**0.8**	*1.4*	*1.3*
Portugal	3.1	1.3	-1.6	-0.5	1.3	0.8	0.2	**0.9**	**0.7**	**0.5**	*0.7*	*0.3*
Slovenia	3.4	3.1	-0.6	-1.2	2.4	2.7	0.5	**2.7**	**1.6**	**1.4**	*2.5*	*2.5*
Slovakia	2.4	3.9	1.2	5.2	5.4	1.6	1.7	**2.2**	**1.4**	**1.6**	*1.6*	*2.0*
Finland	1.8	1.5	0.6	-0.5	0.2	1.8	-0.5	**2.2**	**2.2**	**2.2**	*0.3*	*0.3*
Euro area	2.0	1.9	0.6	0.7	1.3	1.8	1.2	**1.3**	**1.6**	**1.3**	*1.4*	*1.3*
Bulgaria	1.0	2.3	-0.7	0.2	1.3	2.2	3.7	**3.9**	**5.2**	**4.3**	*3.7*	*3.0*
Czech Republic	3.8	0.3	0.1	1.1	1.9	2.7	1.3	**2.7**	**2.1**	**1.9**	*1.9*	*2.1*
Denmark	2.1	1.9	0.9	1.9	1.1	0.3	0.6	**0.5**	**0.5**	**0.4**	*0.7*	*0.9*
Croatia	0.5	3.4	0.2	1.8	-1.0	0.7	2.7	**2.7**	**1.8**	**2.0**	*3.1*	*2.2*
Hungary	3.3	0.5	0.8	5.2	1.3	0.7	1.3	**1.7**	**0.4**	**0.3**	*0.2*	*1.8*
Poland	4.1	4.0	1.4	4.3	2.3	1.9	3.5	**3.6**	**3.2**	**3.7**	*3.7*	*3.1*
Romania	3.1	-0.6	0.2	3.5	-0.3	2.2	-0.5	**2.0**	**1.5**	**1.4**	*1.7*	*1.3*
Sweden	0.8	0.7	1.4	1.5	2.4	3.6	0.0	**1.1**	**0.9**	**0.9**	*1.4*	*0.8*
EU27	2.0	1.9	0.7	1.0	1.4	1.9	1.2	**1.4**	**1.6**	**1.3**	*1.4*	*1.4*
United Kingdom	3.8	2.6	0.5	2.2	1.4	0.8	-0.1	**0.5**	**0.9**	**1.1**	*1.0*	*0.8*
EU28	2.3	2.0	0.6	1.1	1.4	1.7	1.0	**1.2**	**1.5**	**1.3**	*1.4*	*1.3*
USA	2.7	1.5	-0.5	-0.8	1.7	1.5	-0.1	**1.5**	**2.3**	**0.4**	*1.4*	*2.1*
Japan	3.1	0.6	1.8	0.5	1.5	1.3	0.4	**0.4**	**0.5**	**1.0**	*0.3*	*0.7*

Table 9: Total investment, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.0	5.1	-1.0	5.8	2.7	3.8	1.8	**2.6**	**2.3**	**2.0**	*4.0*	*2.7*
Germany	-0.6	2.7	-0.1	3.9	1.6	3.5	2.9	**3.1**	**2.9**	**3.2**	*3.2*	*3.1*
Estonia	9.8	7.5	-1.1	-2.6	-7.6	2.9	12.5	**2.6**	**4.6**	**4.2**	*4.4*	*4.3*
Ireland	7.6	4.0	-4.6	18.4	51.1	51.4	-31.0	**-7.3**	**5.7**	**5.1**	*6.5*	*6.0*
Greece	6.0	3.1	-17.3	-4.7	0.7	4.7	9.1	**-2.1**	**14.6**	**9.6**	*10.3*	*12.1*
Spain	6.8	4.0	-8.3	4.7	6.7	2.9	4.8	**5.4**	**3.9**	**3.3**	*4.6*	*3.9*
France	3.5	3.3	-1.2	0.0	1.0	2.8	4.5	**2.7**	**2.3**	**2.1**	*3.7*	*2.8*
Italy	3.5	1.1	-5.7	-2.3	2.1	3.5	4.3	**3.7**	**2.0**	**3.1**	*4.8*	*2.4*
Cyprus	5.2	9.7	-13.3	-19.0	13.8	41.8	26.8	**8.3**	**7.5**	**5.3**	*13.4*	*9.8*
Latvia	10.3	14.7	-6.5	0.1	-0.5	-8.4	13.1	**11.2**	**2.8**	**2.2**	*7.9*	*4.8*
Lithuania	4.6	12.6	-4.5	5.8	4.9	0.3	6.8	**7.3**	**5.3**	**4.4**	*7.3*	*4.7*
Luxembourg	4.2	6.4	2.1	9.5	-9.9	10.4	4.0	**3.4**	**3.2**	**2.7**	*2.4*	*2.2*
Malta	4.4	2.8	-0.8	6.8	56.8	1.7	-7.3	**1.6**	**8.2**	**5.7**	*4.3*	*7.2*
Netherlands	1.5	4.3	-3.8	-2.4	29.0	-7.3	6.1	**5.4**	**3.8**	**2.3**	*5.2*	*4.4*
Austria	1.3	1.7	-0.2	-0.4	2.3	4.3	3.9	**3.4**	**2.5**	**2.1**	*3.7*	*2.4*
Portugal	0.0	0.6	-8.7	2.3	5.8	2.3	9.2	**4.4**	**4.7**	**5.1**	*5.7*	*5.3*
Slovenia	4.7	7.6	-9.6	1.0	-1.6	-3.7	10.7	**9.0**	**7.5**	**7.4**	*10.1*	*9.3*
Slovakia	-3.3	8.0	-2.4	3.0	21.9	-9.4	3.4	**12.4**	**2.2**	**3.0**	*6.5*	*5.2*
Finland	2.4	3.8	-3.0	-2.6	0.7	8.5	4.0	**4.1**	**2.2**	**1.8**	*3.9*	*3.2*
Euro area	2.4	3.0	-3.3	1.7	4.9	4.0	2.6	**3.3**	**3.0**	**3.0**	*4.2*	*3.4*
Bulgaria	14.9	17.6	-7.9	3.4	2.7	-6.6	3.2	**9.0**	**6.8**	**5.2**	*8.7*	*6.8*
Czech Republic	3.0	6.4	-2.8	3.9	10.2	-3.1	3.3	**7.8**	**3.7**	**3.2**	*5.4*	*4.8*
Denmark	1.3	4.1	-2.6	3.1	3.1	6.0	4.5	**8.2**	**1.4**	**2.6**	*3.8*	*4.1*
Croatia	7.0	7.1	-7.1	-2.8	3.8	6.5	3.8	**4.1**	**5.4**	**5.8**	*6.2*	*6.0*
Hungary	4.9	3.4	-2.7	12.3	4.7	-11.7	18.2	**12.5**	**9.4**	**1.0**	*12.5*	*8.8*
Poland	-1.5	11.6	0.6	10.0	6.1	-8.2	3.9	**6.2**	**5.7**	**4.9**	*8.7*	*5.3*
Romania	6.5	22.0	-7.9	3.3	7.5	-0.2	4.7	**4.6**	**5.6**	**5.9**	*7.4*	*6.9*
Sweden	3.1	5.7	-0.5	5.4	6.7	4.2	6.1	**3.5**	**2.0**	**2.1**	*3.7*	*1.9*
EU27	2.4	3.7	-3.1	2.3	5.1	3.2	3.0	**3.7**	**3.2**	**3.0**	*4.5*	*3.5*
United Kingdom	1.9	2.1	-0.5	7.2	3.4	2.3	3.3	**-0.1**	**0.9**	**0.9**	*2.1*	*1.1*
EU28	2.3	3.5	-2.8	2.9	4.8	3.1	3.1	**3.2**	**2.9**	**2.8**	*4.2*	*3.2*
USA	3.3	1.9	0.7	4.9	3.3	1.7	4.0	**5.4**	**3.7**	**3.2**	*5.0*	*4.1*
Japan	-1.6	-0.5	-0.4	3.1	1.7	1.1	2.5	**2.2**	**2.1**	**1.3**	*1.7*	*1.8*

Table 10: Investment in construction, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	-1.2	4.8	0.5	2.7	-1.8	3.4	1.6	**2.0**	**1.9**	**2.0**	*2.4*	*2.1*
Germany	-3.0	-0.8	1.4	2.2	-1.4	3.8	2.9	**2.9**	**2.8**	**3.1**	*1.7*	*2.9*
Estonia	7.9	10.1	-2.9	-6.1	-1.1	-0.2	4.2	**6.4**	**2.7**	**3.0**	*3.9*	*1.8*
Ireland	6.9	3.2	-14.6	10.0	7.3	18.2	16.0	**12.0**	**10.8**	**9.2**	*15.3*	*13.7*
Greece	4.1	0.5	-16.2	-25.4	-9.9	29.2	0.4	**4.9**	**10.5**	**10.9**	*7.5*	*10.0*
Spain	7.7	3.0	-11.8	4.2	3.6	1.1	4.6	**5.8**	**4.2**	**3.4**	*4.8*	*4.1*
France	3.5	3.0	-1.9	-1.7	-1.3	0.8	4.1	**1.6**	**1.4**	**1.6**	*2.5*	*2.4*
Italy	4.4	0.4	-6.9	-6.6	-0.7	0.9	1.6	**1.4**	**2.6**	**4.4**	*2.3*	*1.9*
Cyprus	4.1	9.6	-16.1	-12.8	-2.6	21.7	24.8	**13.3**	**12.3**	**7.8**	*30.4*	*17.8*
Latvia	15.3	13.1	-6.2	10.2	-0.2	-21.1	15.6	**19.1**	**2.6**	**1.6**	*8.6*	*5.5*
Lithuania	2.2	11.9	-7.1	8.4	0.1	-6.4	4.8	**5.5**	**4.1**	**3.1**	*5.4*	*4.1*
Luxembourg	6.5	2.9	-1.2	7.8	-4.6	8.2	-4.2	**3.4**	**3.2**	**2.7**	*3.5*	*2.2*
Malta	:	0.7	-3.2	4.3	52.5	-13.7	22.6	**:**	**:**	**:**	*:*	*:*
Netherlands	1.3	3.8	-7.4	1.1	11.4	10.9	6.0	**5.9**	**3.7**	**2.2**	*5.4*	*4.2*
Austria	-0.1	0.4	-2.0	0.3	0.1	0.4	3.5	**2.7**	**1.8**	**1.6**	*2.0*	*1.6*
Portugal	-0.2	-2.5	-10.8	-3.7	5.1	-1.5	8.3	**3.2**	**3.6**	**3.8**	*5.5*	*4.2*
Slovenia	3.5	6.6	-14.3	9.8	-5.5	-13.6	9.8	**11.8**	**9.8**	**9.5**	*11.7*	*11.5*
Slovakia	-4.8	9.7	-4.0	-7.2	29.0	-17.5	10.2	**20.9**	**1.7**	**3.1**	*7.9*	*5.2*
Finland	2.7	4.1	-2.7	-3.8	1.5	10.0	5.1	**3.3**	**1.5**	**0.3**	*3.4*	*1.9*
Euro area	:	1.7	-4.5	-0.5	0.4	2.8	3.8	**3.3**	**2.8**	**3.0**	*3.2*	*3.2*
Bulgaria	8.5	25.0	-7.4	-4.1	-3.8	-2.7	-3.2	**8.9**	**4.5**	**2.9**	*5.6*	*4.5*
Czech Republic	0.5	3.1	-3.5	1.0	9.7	-6.9	3.3	**8.4**	**2.9**	**2.6**	*5.6*	*4.7*
Denmark	1.1	2.4	-4.5	4.1	3.9	5.2	5.6	**6.0**	**4.1**	**3.2**	*3.8*	*4.4*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	3.1	1.5	-5.2	10.5	6.4	-22.1	27.5	**18.5**	**13.6**	**-2.2**	*15.1*	*7.4*
Poland	-1.5	10.0	1.9	8.9	2.2	-10.2	3.3	**8.8**	**6.2**	**5.4**	*11.1*	*6.0*
Romania	5.1	25.6	-10.0	10.2	20.9	7.4	3.6	**2.9**	**5.3**	**6.8**	*10.3*	*9.2*
Sweden	4.5	5.7	-2.1	9.4	8.6	7.7	8.1	**2.6**	**-0.7**	**0.8**	*2.2*	*-0.5*
EU27	1.8	2.4	-4.3	0.5	1.3	2.2	4.2	**3.7**	**3.0**	**3.0**	*3.7*	*3.3*
United Kingdom	1.6	1.2	-1.0	5.7	5.1	2.9	6.3	**-0.9**	**1.0**	**1.1**	*2.2*	*1.2*
EU28	1.8	2.2	-3.9	1.2	1.8	2.3	4.5	**3.1**	**2.7**	**2.7**	*3.4*	*3.0*
USA	1.9	-2.0	-3.1	5.5	3.6	1.0	2.3	**3.2**	**2.1**	**1.4**	*2.3*	*2.1*
Japan	-4.2	-4.7	0.7	1.6	0.3	1.3	:	**:**	**:**	**:**	*:*	*:*

Table 11: Investment in equipment, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	2.2	5.7	-4.5	7.1	4.4	11.4	0.6	**3.8**	**2.8**	**2.2**	*5.6*	*3.6*
Germany	1.2	6.8	-2.7	5.9	4.1	2.2	3.7	**4.7**	**2.9**	**3.3**	*5.7*	*3.4*
Estonia	11.9	3.4	0.3	1.7	-16.1	5.4	27.7	**-2.0**	**7.0**	**5.8**	*5.8*	*7.3*
Ireland	5.1	6.2	4.7	21.6	-2.9	24.2	-11.2	**15.7**	**3.4**	**4.1**	*4.0*	*3.3*
Greece	9.7	7.0	-21.5	29.3	7.3	-11.4	22.2	**-9.4**	**18.5**	**9.5**	*11.8*	*13.4*
Spain	3.7	6.1	-4.4	5.9	11.9	5.2	6.0	**6.0**	**4.1**	**3.7**	*5.0*	*4.3*
France	3.8	3.1	-2.3	2.1	4.1	7.4	3.4	**3.0**	**3.2**	**2.7**	*4.7*	*3.2*
Italy	2.2	2.2	-6.2	1.9	4.6	6.6	8.8	**9.7**	**2.6**	**2.0**	*9.1*	*3.1*
Cyprus	6.9	10.3	-13.6	-37.0	52.1	107.9	28.0	**4.5**	**3.5**	**3.2**	*1.5*	*3.0*
Latvia	6.7	18.4	-9.6	-10.9	-1.3	11.1	8.2	**5.0**	**3.0**	**3.0**	*7.0*	*4.0*
Lithuania	7.0	12.1	-1.1	-0.2	13.4	8.9	8.6	**9.5**	**6.7**	**5.5**	*9.5*	*5.2*
Luxembourg	-0.9	15.2	6.4	9.6	-19.1	15.8	14.8	**3.4**	**3.4**	**2.6**	*0.5*	*2.4*
Malta	:	3.1	-0.1	1.7	85.5	15.4	-34.7	**:**	**:**	**:**	*:*	*:*
Netherlands	1.3	5.1	-3.4	0.4	14.2	4.8	8.5	**6.0**	**4.2**	**2.3**	*6.1*	*5.2*
Austria	1.3	2.6	-0.8	-1.4	3.9	10.6	4.6	**4.6**	**3.2**	**2.4**	*6.2*	*3.5*
Portugal	-1.2	5.4	-8.9	13.3	10.4	7.5	13.5	**7.0**	**7.8**	**8.5**	*7.7*	*8.5*
Slovenia	7.0	8.8	-6.5	-8.5	3.9	7.3	12.1	**8.2**	**6.6**	**6.5**	*11.0*	*9.0*
Slovakia	-1.6	6.7	-1.2	20.3	16.9	-1.3	-1.4	**3.9**	**3.2**	**2.9**	*5.3*	*5.2*
Finland	-0.7	4.6	-2.9	-1.6	4.6	13.7	6.6	**6.8**	**4.0**	**5.0**	*6.1*	*6.5*
Euro area	:	5.0	-3.9	4.6	5.6	5.8	5.0	**5.5**	**3.5**	**3.1**	*6.1*	*3.9*
Bulgaria	22.6	12.8	-10.1	13.9	9.8	-14.9	4.3	**9.9**	**9.3**	**7.5**	*12.4*	*9.3*
Czech Republic	5.5	9.4	-2.8	6.4	9.3	-2.5	3.2	**8.0**	**4.5**	**4.1**	*6.1*	*5.8*
Denmark	0.4	5.1	-1.8	-0.1	1.1	3.0	8.1	**14.5**	**-3.0**	**2.0**	*4.2*	*4.4*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	6.2	5.0	-1.8	21.5	1.5	2.5	13.8	**8.5**	**5.6**	**5.0**	*12.6*	*12.3*
Poland	-2.0	14.3	-1.5	11.2	12.1	-7.6	4.4	**4.0**	**5.4**	**4.6**	*6.9*	*5.1*
Romania	8.7	18.8	-5.6	-6.3	-3.9	-8.9	5.0	**8.5**	**6.5**	**5.5**	*5.0*	*5.0*
Sweden	2.8	7.9	0.1	-1.1	5.1	5.3	5.8	**4.7**	**4.3**	**3.6**	*5.7*	*3.8*
EU27	2.4	5.7	-3.6	4.5	5.6	4.5	5.1	**5.8**	**3.6**	**3.3**	*6.2*	*4.2*
United Kingdom	2.0	2.2	-0.9	16.2	5.2	2.0	-2.6	**-3.2**	**0.4**	**1.0**	*0.3*	*1.0*
EU28	2.3	5.3	-3.4	5.7	5.6	4.2	4.2	**4.9**	**3.3**	**3.1**	*5.6*	*3.9*
USA	3.6	5.8	3.7	5.6	2.8	-1.1	5.9	**6.8**	**3.9**	**3.4**	*8.7*	*5.0*
Japan	-0.1	3.9	-1.7	5.0	2.9	1.6	:	**:**	**:**	**:**	*:*	*:*

Table 12: Public investment (as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	2.3	2.1	2.4	2.3	2.3	2.2	2.2	**2.4**	**2.5**	**2.5**	*2.4*	*2.5*
Germany	2.2	2.0	2.3	2.1	2.1	2.2	2.2	**2.4**	**2.4**	**2.5**	*2.2*	*2.3*
Estonia	5.0	5.3	5.6	5.0	5.2	4.5	5.4	**5.6**	**5.4**	**5.0**	*5.9*	*5.7*
Ireland	3.8	4.2	2.7	2.2	1.8	1.9	1.8	**2.1**	**2.4**	**2.3**	*2.1*	*2.4*
Greece	5.5	5.3	3.6	3.7	3.8	3.5	4.4	**3.5**	**4.1**	**4.1**	*4.0*	*4.2*
Spain	3.9	4.3	3.6	2.1	2.5	1.9	2.0	**2.2**	**2.0**	**2.0**	*2.2*	*2.1*
France	3.9	4.0	4.1	3.7	3.4	3.4	3.4	**3.4**	**3.5**	**3.6**	*3.4*	*3.5*
Italy	2.8	3.0	2.8	2.3	2.2	2.1	2.0	**1.9**	**1.9**	**2.0**	*2.0*	*2.0*
Cyprus	3.4	3.5	3.5	2.1	2.2	2.5	2.7	**2.8**	**2.9**	**2.9**	*2.8*	*2.9*
Latvia	2.0	4.6	4.8	4.5	4.8	3.6	4.4	**4.8**	**4.7**	**4.7**	*4.5*	*4.6*
Lithuania	2.7	4.5	4.4	3.5	3.7	3.0	3.2	**3.3**	**3.4**	**3.5**	*3.3*	*3.3*
Luxembourg	4.5	4.1	4.1	3.7	3.9	3.9	4.1	**4.1**	**4.0**	**4.0**	*4.0*	*4.1*
Malta	4.1	3.7	2.7	3.6	4.2	2.5	2.3	**2.5**	**2.8**	**3.1**	*2.7*	*3.0*
Netherlands	4.0	3.9	4.0	3.5	3.6	3.5	3.4	**3.5**	**3.6**	**3.5**	*3.6*	*3.6*
Austria	2.6	2.9	3.1	3.0	3.0	3.0	3.1	**3.1**	**3.0**	**3.1**	*3.0*	*3.0*
Portugal	4.7	3.8	3.5	2.0	2.2	1.5	1.8	**2.0**	**2.3**	**2.6**	*2.2*	*2.3*
Slovenia	3.8	4.2	4.5	5.1	4.7	3.1	3.1	**3.2**	**3.6**	**3.9**	*3.1*	*3.5*
Slovakia	3.7	3.3	3.6	4.0	6.3	3.2	3.2	**3.6**	**3.6**	**3.6**	*3.0*	*2.8*
Finland	3.7	3.6	3.9	4.2	3.9	4.1	4.1	**4.0**	**3.8**	**3.7**	*3.8*	*3.6*
Euro area	3.2	3.2	3.2	2.7	2.7	2.6	2.6	**2.7**	**2.7**	**2.8**	*2.6*	*2.7*
Bulgaria	3.7	4.4	4.1	5.2	6.6	2.6	2.2	**3.3**	**3.8**	**3.9**	*2.9*	*3.5*
Czech Republic	4.9	5.1	4.7	4.1	5.1	3.3	3.4	**3.8**	**3.9**	**3.9**	*3.6*	*3.7*
Denmark	2.8	2.9	3.4	3.9	3.6	3.8	3.5	**3.5**	**3.5**	**3.4**	*3.5*	*3.4*
Croatia		6.0	4.0	3.6	3.2	3.2	2.7	**2.7**	**2.7**	**2.9**	*2.7*	*2.8*
Hungary	3.9	4.1	3.7	5.3	6.6	3.1	4.5	**5.8**	**6.3**	**6.3**	*5.5*	*5.8*
Poland	2.7	3.9	5.1	4.7	4.5	3.3	3.8	**4.5**	**4.9**	**5.1**	*4.4*	*4.5*
Romania	2.9	4.7	5.3	4.4	5.3	3.6	2.6	**2.8**	**2.8**	**2.9**	*2.9*	*3.1*
Sweden	4.2	4.1	4.5	4.4	4.2	4.4	4.6	**4.7**	**4.8**	**4.8**	*4.6*	*4.6*
EU27	3.2	3.3	3.4	2.9	3.0	2.7	2.8	**2.9**	**2.9**	**3.0**	*2.8*	*2.9*
United Kingdom	1.9	2.7	2.9	2.8	2.7	2.6	2.6	**2.7**	**2.7**	**3.0**	*2.6*	*2.7*
EU28		3.2	3.3	2.9	2.9	2.7	2.7	**2.8**	**2.9**	**3.0**	*2.8*	*2.9*
USA	3.7	3.8	3.8	3.2	3.1	3.1	3.3	**3.3**	**3.3**	**3.3**	*3.2*	*3.2*
Japan	5.4	3.8	3.7	3.9	3.7	3.6	3.7	**3.6**	**3.6**	**3.6**	*3.6*	*3.5*

Table 13: Potential GDP, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	2.3	1.9	1.1	1.0	1.2	1.3	1.4	**1.5**	**1.3**	**1.3**	*1.4*	*1.4*
Germany	1.4	1.3	1.0	1.7	1.8	1.6	1.6	**1.9**	**2.1**	**2.0**	*1.9*	*1.9*
Estonia	4.8	5.0	0.8	2.7	2.9	2.7	3.3	**3.2**	**3.3**	**2.9**	*2.9*	*2.8*
Ireland	7.3	3.8	0.8	4.5	23.9	6.2	8.0	**7.6**	**3.9**	**3.5**	*4.4*	*4.4*
Greece	4.2	2.5	-1.8	-2.2	-1.9	-1.5	-1.0	**-0.8**	**-0.3**	**0.0**	*-0.7*	*-0.2*
Spain	3.5	3.4	0.2	0.0	0.4	0.7	1.0	**1.2**	**1.4**	**1.5**	*1.2*	*1.4*
France	1.9	1.7	1.0	1.0	1.0	1.1	1.2	**1.2**	**1.2**	**1.3**	*1.2*	*1.3*
Italy	1.3	0.8	-0.3	-0.1	-0.1	-0.2	0.3	**0.5**	**0.6**	**0.8**	*0.4*	*0.5*
Cyprus	3.6	3.8	1.1	-2.0	-1.0	0.8	1.8	**2.1**	**2.2**	**2.2**	*2.0*	*2.3*
Latvia	6.2	6.6	-0.5 :	1.5	2.3	2.3	3.0	**3.4**	**3.6**	**3.7**	*3.2*	*3.4*
Lithuania	6.1	6.0	1.0 :	2.0	2.0	1.9	2.6	**3.2**	**3.6**	**3.5**	*3.1*	*3.2*
Luxembourg	4.8	3.7	2.0	2.6	1.9	2.1	2.5	**2.6**	**2.7**	**2.8**	*2.7*	*2.8*
Malta	2.9	2.5	2.7	5.0	7.3	6.9	6.8	**6.1**	**5.4**	**5.2**	*6.2*	*5.8*
Netherlands	2.9	1.8	0.7	0.6	1.4	1.4	1.7	**1.9**	**1.8**	**1.8**	*2.0*	*1.9*
Austria	2.4	2.1	0.9	1.0	1.3	1.4	1.8	**2.0**	**2.0**	**2.1**	*2.0*	*2.0*
Portugal	2.6	0.9	-0.6	-0.1	0.4	0.8	1.4	**1.6**	**1.7**	**1.6**	*1.6*	*1.7*
Slovenia	3.5	3.6	0.6	0.7	1.0	1.4	2.1	**2.7**	**3.1**	**3.4**	*2.7*	*3.0*
Slovakia	3.9	5.5	3.0	2.0	2.9	2.3	2.7	**3.4**	**3.6**	**3.6**	*3.3*	*3.6*
Finland	3.9	2.3	0.1	0.1	0.4	1.1	1.5	**1.8**	**1.8**	**1.6**	*1.5*	*1.6*
Euro area	2.1	1.8	0.6	0.8	1.4	1.1	1.4	**1.6**	**1.6**	**1.6**	*1.5*	*1.5*
Bulgaria	2.5	5.8	1.1	2.5	3.2	2.8	3.2	**3.4**	**3.4**	**3.2**	*3.5*	*3.6*
Czech Republic	2.2	4.4	1.0	2.1	2.9	2.7	2.9	**2.9**	**2.8**	**2.7**	*3.1*	*3.0*
Denmark	2.0	1.4	0.7	0.9	1.2	1.4	1.5	**1.6**	**1.6**	**1.6**	*1.8*	*1.8*
Croatia		2.8	-0.5	0.3	0.7	1.6	1.7	**1.8**	**2.1**	**2.4**	*1.4*	*1.9*
Hungary	3.7	2.6	0.1	2.1	2.4	2.1	2.8	**3.2**	**3.4**	**3.1**	*3.2*	*3.3*
Poland	4.5	3.7	3.7	3.1	3.2	2.9	3.2	**3.5**	**3.7**	**3.8**	*3.6*	*3.7*
Romania	2.3	5.9	2.0	2.5	3.4	3.6	4.5	**4.6**	**4.1**	**4.1**	*4.3*	*4.2*
Sweden	3.1	2.5	1.5	2.0	2.3	2.3	2.3	**2.4**	**2.1**	**2.0**	*2.6*	*2.3*
EU27		1.9	0.7	1.0	1.6	1.3	1.6	**1.7**	**1.7**	**1.8**	*1.7*	*1.7*
United Kingdom	3.1	2.1	0.9	1.4	1.5	1.5	1.6	**1.5**	**1.4**	**1.4**	*1.6*	*1.6*
EU28		2.0	0.8	1.1	1.5	1.3	1.6	**1.7**	**1.7**	**1.7**	*1.7*	*1.7*
USA	3.2	2.3	1.3	1.8	1.9	2.0	2.0	**2.2**	**2.2**	**2.2**	*2.3*	*2.4*
Japan				:	:	:	:	**:**	**:**	**:**	*:*	*:*

Table 14: Output gap relative to potential GDP [1] (deviation of actual output from potential output as % of potential GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	0.3	1.4	-0.7	-0.9	-0.4	-0.2	0.0	**0.1**	**0.3**	**0.4**	*0.1*	*0.4*
Germany	0.4	0.1	-1.2	-0.2	-0.3	0.3	0.8	**0.6**	**0.4**	**0.0**	*0.4*	*0.6*
Estonia	-0.4	7.7	-3.0	1.3	0.4	1.2	2.7	**3.0**	**2.6**	**2.3**	*2.9*	*2.8*
Ireland	3.0	1.6	-2.9	0.8	1.9	0.7	0.0	**0.2**	**0.8**	**1.1**	*0.7*	*0.4*
Greece	1.5	3.6	-9.5	-13.3	-12.0	-10.8	-8.6	**-6.0**	**-3.8**	**-1.9**	*-5.2*	*-2.8*
Spain	2.6	2.2	-6.0	-7.5	-4.5	-2.2	-0.4	**1.0**	**1.8**	**2.2**	*1.4*	*2.3*
France	1.2	1.9	-1.4	-1.5	-1.4	-1.3	-0.3	**0.1**	**0.5**	**0.8**	*0.1*	*0.6*
Italy	1.1	1.6	-3.1	-4.6	-3.6	-2.3	-1.0	**-0.3**	**0.3**	**0.8**	*-0.1*	*0.5*
Cyprus	1.4	4.8	-3.1	-8.3	-5.5	-1.8	0.5	**2.3**	**3.5**	**4.3**	*2.3*	*3.3*
Latvia	-1.0	5.8	-6.5 :	-0.3	0.4	0.2	1.8	**2.4**	**2.1**	**1.3**	*2.1*	*2.0*
Lithuania	-2.9	4.8	-5.6 :	0.7	0.7	1.1	2.7	**2.8**	**2.0**	**1.1**	*2.7*	*2.2*
Luxembourg	2.9	0.8	-3.8	-1.8	0.1	0.4	-0.5	**0.0**	**0.3**	**0.2**	*0.3*	*0.9*
Malta	0.9	0.6	-2.0	1.2	3.3	1.6	1.5	**0.9**	**0.4**	**-0.4**	*1.0*	*0.3*
Netherlands	0.5	0.0	-2.4	-2.4	-1.9	-1.1	0.1	**1.0**	**1.6**	**1.6**	*1.1*	*1.8*
Austria	0.3	0.6	-0.9	-1.2	-1.3	-0.7	0.1	**0.8**	**0.8**	**0.5**	*0.6*	*0.7*
Portugal	1.3	-0.1	-2.2	-3.1	-1.7	-0.7	0.7	**1.2**	**1.4**	**1.5**	*1.0*	*1.3*
Slovenia	0.4	4.1	-4.2	-4.5	-3.2	-1.6	1.1	**2.7**	**3.0**	**2.5**	*3.4*	*4.1*
Slovakia	-2.4	3.0	-2.0	-2.3	-1.0	-0.3	0.2	**0.7**	**1.3**	**1.2**	*0.6*	*1.2*
Finland	0.8	1.6	-2.4	-3.2	-3.4	-2.0	-0.8	**0.3**	**0.6**	**0.9**	*0.3*	*1.0*
Euro area	1.0	1.2	-2.5	-2.6	-2.0	-1.2	-0.2	**0.3**	**0.6**	**0.8**	*0.4*	*0.9*
Bulgaria	-3.4	2.3	-0.8	-1.8	-1.5	-0.5	0.1	**0.3**	**0.6**	**1.0**	*0.4*	*0.5*
Czech Republic	-0.5	3.5	-1.8	-2.4	-0.2	-0.3	1.0	**1.1**	**1.2**	**1.0**	*1.2*	*1.4*
Denmark	1.0	2.2	-3.1	-2.0	-1.6	-1.0	-0.2	**-0.6**	**-0.4**	**-0.5**	*-0.7*	*-0.6*
Croatia		3.6	-2.7	-4.2	-2.5	-0.7	0.6	**1.6**	**2.3**	**2.5**	*2.3*	*3.1*
Hungary	-0.4	2.4	-3.6	-0.9	0.3	0.4	1.7	**2.8**	**2.9**	**2.4**	*2.4*	*2.3*
Poland	-2.3	-0.4	0.5	-1.4	-0.8	-0.7	0.9	**2.1**	**2.1**	**1.6**	*1.5*	*1.5*
Romania	-2.4	6.6	-3.7	-2.7	-2.2	-1.1	1.5	**0.5**	**0.2**	**-0.3**	*1.4*	*1.1*
Sweden	-0.1	1.3	-2.5	-2.0	0.1	0.5	0.3	**0.3**	**0.0**	**-0.2**	*0.1*	*-0.3*
EU27		1.3	-2.4	-2.5	-1.8	-1.0	-0.1	**0.4**	**0.7**	**0.7**	*0.4*	*0.8*
United Kingdom	0.6	1.0	-3.3	-0.4	0.4	0.7	0.9	**0.8**	**0.5**	**0.3**	*0.7*	*0.4*
EU28		1.3	-2.5	-2.2	-1.5	-0.8	0.1	**0.5**	**0.6**	**0.7**	*0.5*	*0.8*
USA	0.5	0.8	-2.4	-0.7	0.2	-0.1	0.0	**0.7**	**1.1**	**0.8**	*0.5*	*0.9*
Japan				:	:	:	:	**:**	**:**	**:**	*:*	*:*

[1] When comparing output gaps between the successive forecasts it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

Table 15: Deflator of gross domestic product (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.7	2.1	1.5	0.7	1.0	1.8	1.7	**2.2**	**1.9**	**1.8**	*1.6*	*1.7*
Germany	0.7	0.9	1.4	1.8	2.0	1.4	1.5	**1.8**	**2.0**	**1.9**	*1.7*	*1.8*
Estonia	5.4	7.7	2.8	3.0	1.0	1.5	3.9	**4.2**	**3.6**	**2.9**	*3.5*	*3.0*
Ireland	5.5	1.6	-1.2	-0.2	7.4	-0.8	0.4	**1.7**	**1.9**	**2.1**	*0.6*	*1.3*
Greece	3.1	3.3	0.3	-1.8	-0.3	-0.2	0.6	**0.5**	**1.1**	**1.2**	*0.9*	*1.3*
Spain	3.6	3.5	0.2	-0.2	0.5	0.3	1.2	**1.4**	**1.6**	**1.7**	*1.4*	*1.6*
France	1.5	2.1	0.8	0.6	1.1	0.2	0.7	**0.9**	**1.4**	**1.5**	*1.1*	*1.5*
Italy	2.6	2.2	1.3	1.0	0.9	1.1	0.5	**1.3**	**1.3**	**1.4**	*1.4*	*1.3*
Cyprus	2.9	3.3	0.9	-1.6	-1.2	-0.6	1.5	**2.1**	**1.3**	**1.7**	*1.5*	*1.7*
Latvia	3.5	12.4	0.1	1.8	0.0	0.9	3.2	**3.7**	**2.1**	**2.7**	*2.6*	*2.8*
Lithuania	-0.2	6.9	1.6	1.0	0.3	1.4	4.3	**2.6**	**3.7**	**3.6**	*2.7*	*2.3*
Luxembourg	2.5	3.9	2.8	2.7	-0.4	0.9	2.2	**2.0**	**1.8**	**1.7**	*1.4*	*1.5*
Malta	2.4	2.5	2.5	2.4	2.7	1.6	2.6	**2.2**	**2.2**	**2.1**	*2.0*	*2.1*
Netherlands	3.0	2.0	0.8	0.3	0.8	0.5	1.2	**2.0**	**2.4**	**2.0**	*1.7*	*2.1*
Austria	1.2	2.1	1.7	2.2	2.2	1.4	1.3	**1.6**	**1.9**	**1.8**	*1.7*	*1.7*
Portugal	3.6	2.7	0.7	0.8	2.0	1.8	1.5	**1.4**	**1.5**	**1.5**	*1.3*	*1.4*
Slovenia	6.8	3.1	1.1	0.8	1.0	0.8	1.6	**2.2**	**2.6**	**2.5**	*2.6*	*2.7*
Slovakia	6.2	3.0	0.5	-0.2	-0.2	-0.5	1.2	**2.6**	**2.7**	**2.6**	*2.7*	*2.5*
Finland	1.4	1.7	2.1	1.7	1.9	0.6	0.8	**0.9**	**1.6**	**2.0**	*1.5*	*1.6*
Euro area	1.9	2.0	1.0	0.9	1.4	0.8	1.1	**1.5**	**1.7**	**1.7**	*1.5*	*1.6*
Bulgaria	4.5	7.6	2.4	0.5	2.2	2.2	3.4	**2.6**	**2.4**	**2.2**	*2.2*	*2.3*
Czech Republic	2.7	2.0	0.8	2.5	1.2	1.3	1.5	**1.6**	**2.3**	**2.0**	*2.7*	*1.5*
Denmark	2.2	2.7	1.5	1.0	0.7	0.0	1.7	**1.1**	**1.6**	**2.0**	*1.3*	*1.9*
Croatia	4.0	4.2	1.5	0.0	0.0	-0.1	1.1	**2.3**	**1.7**	**1.6**	*2.1*	*1.9*
Hungary	8.6	4.3	3.0	3.4	1.9	0.9	3.8	**3.7**	**3.3**	**3.0**	*2.8*	*3.0*
Poland	3.6	3.4	2.3	0.5	0.8	0.3	2.0	**1.1**	**2.4**	**2.5**	*1.7*	*2.4*
Romania	34.9	13.9	3.7	1.7	2.6	2.5	4.6	**6.5**	**3.8**	**3.5**	*5.2*	*4.0*
Sweden	1.7	1.8	1.3	1.8	2.1	1.6	2.2	**2.5**	**2.0**	**1.8**	*2.1*	*2.3*
EU27	2.2	2.2	1.1	1.0	1.4	0.8	1.3	**1.6**	**1.8**	**1.8**	*1.6*	*1.7*
United Kingdom	1.7	2.7	1.7	1.7	0.4	2.1	2.0	**1.9**	**1.6**	**2.0**	*2.0*	*1.6*
EU28	2.1	2.3	1.2	1.1	1.3	1.1	1.4	**1.6**	**1.8**	**1.8**	*1.7*	*1.7*
USA	1.9	2.7	1.5	1.9	1.1	1.1	1.9	**2.2**	**2.2**	**2.0**	*2.0*	*2.1*
Japan	-1.4	-0.9	-1.1	1.7	2.1	0.3	-0.2	**0.2**	**0.7**	**0.9**	*0.8*	*0.7*

Table 16: Price deflator of private consumption (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.8	2.9	1.4	0.5	0.7	1.7	1.8	**2.2**	**2.1**	**1.6**	*1.7*	*1.3*
Germany	1.2	1.4	1.2	0.9	0.6	0.7	1.6	**1.8**	**1.9**	**1.6**	*1.6*	*1.8*
Estonia	3.9	6.1	3.2	1.0	-0.1	0.9	3.7	**3.6**	**3.4**	**2.5**	*3.0*	*2.6*
Ireland	4.2	2.1	-0.9	1.2	0.4	0.8	1.3	**1.3**	**1.4**	**1.5**	*1.2*	*1.3*
Greece	2.7	3.5	1.1	-2.5	-1.7	-0.8	0.6	**0.3**	**1.2**	**0.9**	*0.5*	*1.2*
Spain	3.1	3.5	1.4	0.2	-0.2	0.0	1.6	**1.8**	**1.7**	**1.5**	*1.5*	*1.4*
France	1.3	2.2	0.7	0.1	0.3	-0.1	1.3	**1.8**	**1.7**	**1.6**	*1.6*	*1.4*
Italy	2.7	2.5	1.6	0.3	0.2	0.2	1.1	**1.3**	**1.5**	**1.4**	*1.2*	*1.4*
Cyprus	1.6	3.4	1.5	-0.8	-1.6	-1.4	0.9	**0.9**	**1.3**	**1.4**	*0.9*	*1.3*
Latvia	3.7	10.3	0.6	1.7	-1.0	1.1	3.1	**2.7**	**2.7**	**2.4**	*2.7*	*2.6*
Lithuania	-0.5	4.7	2.8	0.1	-0.9	0.9	3.3	**2.6**	**2.5**	**2.5**	*2.7*	*2.2*
Luxembourg	2.1	2.7	1.5	0.5	-0.1	0.4	1.6	**1.6**	**2.0**	**1.9**	*1.2*	*1.7*
Malta	1.6	2.7	2.0	0.4	1.7	0.6	1.0	**0.9**	**1.4**	**1.6**	*1.6*	*1.8*
Netherlands	2.8	2.0	1.1	0.9	0.2	0.6	1.6	**1.7**	**2.5**	**1.9**	*1.8*	*2.4*
Austria	1.4	2.2	1.9	2.0	1.5	1.4	1.7	**2.1**	**2.1**	**2.0**	*2.1*	*1.9*
Portugal	3.4	3.2	0.8	0.3	0.9	1.0	1.2	**1.5**	**1.5**	**1.6**	*1.4*	*1.5*
Slovenia	6.8	3.4	1.6	-0.1	-0.6	-0.5	1.7	**2.5**	**2.5**	**2.4**	*1.9*	*2.5*
Slovakia	6.6	4.4	1.9	-0.1	-0.1	-0.3	1.4	**2.6**	**2.6**	**2.4**	*2.2*	*1.9*
Finland	2.0	1.6	2.4	1.3	0.3	0.7	1.1	**1.1**	**1.4**	**1.7**	*1.3*	*1.6*
Euro area	2.0	2.3	1.2	0.5	0.3	0.4	1.4	**1.7**	**1.8**	**1.6**	*1.5*	*1.6*
Bulgaria	3.4	5.5	1.5	0.0	1.2	-0.1	2.3	**2.6**	**2.0**	**1.8**	*1.8*	*1.8*
Czech Republic	2.1	2.7	1.2	0.6	0.1	0.5	2.4	**2.4**	**2.2**	**1.8**	*2.1*	*1.8*
Denmark	2.0	1.9	1.8	0.6	0.7	0.5	1.3	**1.2**	**1.7**	**2.0**	*1.2*	*1.7*
Croatia	3.7	3.5	2.5	-0.5	-0.5	-1.2	1.0	**1.6**	**1.5**	**1.4**	*1.4*	*1.5*
Hungary	8.1	4.9	3.9	0.9	-0.2	-0.2	2.6	**3.0**	**3.3**	**3.0**	*2.3*	*3.0*
Poland	4.6	2.9	2.7	-0.1	-1.1	-0.4	2.1	**1.5**	**2.3**	**2.4**	*1.5*	*2.5*
Romania	30.2	8.3	4.3	1.1	1.0	0.7	2.0	**3.5**	**3.4**	**3.0**	*4.2*	*3.4*
Sweden	1.5	1.5	1.3	1.1	0.9	1.0	1.7	**1.7**	**1.7**	**1.8**	*1.9*	*2.1*
EU27	2.3	2.4	1.4	0.5	0.3	0.4	1.5	**1.7**	**1.9**	**1.7**	*1.6*	*1.7*
United Kingdom	0.7	2.5	2.2	1.9	0.5	1.5	2.1	**1.9**	**1.5**	**2.1**	*2.0*	*1.5*
EU28	1.9	2.4	1.5	0.7	0.3	0.6	1.6	**1.8**	**1.8**	**1.7**	*1.7*	*1.7*
USA	1.8	2.7	1.5	1.5	0.2	1.1	1.8	**2.1**	**2.2**	**2.0**	*1.9*	*2.0*
Japan	-1.0	-0.2	-1.0	2.0	0.4	-0.5	0.1	**0.0**	**0.6**	**0.7**	*0.5*	*0.9*

Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1999-2020) 22.10.2018

		5-year averages							Autumn 2018 forecast		*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.9	2.6	1.9	0.5	0.6	1.8	2.2	**2.3**	**2.1**	**1.6**	*1.6*	*1.6*
Germany	1.3	2.1	1.5	0.8	0.1	0.4	1.7	**1.8**	**1.9**	**1.6**	*1.6*	*1.8*
Estonia	3.5	5.8	3.1	0.5	0.1	0.8	3.7	**3.5**	**3.3**	**2.5**	*2.9*	*2.5*
Ireland	4.1	2.6	0.1	0.3	0.0	-0.2	0.3	**0.7**	**1.2**	**1.4**	*0.8*	*1.1*
Greece	3.2	3.4	1.9	-1.4	-1.1	0.0	1.1	**0.8**	**1.2**	**1.0**	*0.5*	*1.2*
Spain	3.0	3.4	1.8	-0.2	-0.6	-0.3	2.0	**1.8**	**1.7**	**1.5**	*1.4*	*1.4*
France	1.7	2.2	1.5	0.6	0.1	0.3	1.2	**2.1**	**1.7**	**1.6**	*1.7*	*1.4*
Italy	2.4	2.4	2.0	0.2	0.1	-0.1	1.3	**1.3**	**1.5**	**1.4**	*1.2*	*1.4*
Cyprus	2.9	2.5	1.9	-0.3	-1.5	-1.2	0.7	**0.8**	**1.3**	**1.4**	*0.7*	*1.2*
Latvia	2.4	9.0	1.7	0.7	0.2	0.1	2.9	**2.7**	**2.7**	**2.4**	*2.7*	*2.6*
Lithuania	0.7	4.9	2.8	0.2	-0.7	0.7	3.7	**2.6**	**2.2**	**2.1**	*2.7*	*2.3*
Luxembourg	2.4	3.3	2.2	0.7	0.1	0.0	2.1	**2.0**	**2.0**	**1.8**	*1.5*	*1.7*
Malta	2.5	2.6	2.1	0.8	1.2	0.9	1.3	**1.8**	**1.9**	**2.0**	*1.6*	*1.8*
Netherlands	3.1	1.7	2.0	0.3	0.2	0.1	1.3	**1.6**	**2.5**	**1.7**	*1.6*	*2.2*
Austria	1.6	2.2	2.1	1.5	0.8	1.0	2.2	**2.1**	**2.1**	**2.0**	*2.1*	*1.9*
Portugal	3.3	2.6	1.5	-0.2	0.5	0.6	1.6	**1.5**	**1.6**	**1.6**	*1.2*	*1.6*
Slovenia	7.4	3.6	1.9	0.4	-0.8	-0.2	1.6	**2.0**	**2.3**	**2.2**	*1.9*	*2.0*
Slovakia	8.3	4.1	2.2	-0.1	-0.3	-0.5	1.4	**2.6**	**2.6**	**2.4**	*2.4*	*2.1*
Finland	2.0	1.5	2.4	1.2	-0.2	0.4	0.8	**1.2**	**1.6**	**1.8**	*1.4*	*1.7*
Euro area	2.0	2.4	1.7	0.4	0.0	0.2	1.5	**1.8**	**1.8**	**1.6**	*1.5*	*1.6*
Bulgaria	5.7	7.8	2.3	-1.6	-1.1	-1.3	1.2	**2.6**	**2.0**	**1.8**	*1.8*	*1.8*
Czech Republic	2.3	3.1	1.8	0.4	0.3	0.6	2.4	**2.1**	**2.2**	**1.8**	*2.1*	*1.8*
Denmark	2.3	2.0	1.8	0.4	0.2	0.0	1.1	**0.8**	**1.5**	**1.7**	*0.8*	*1.4*
Croatia	3.5	3.4	2.2	0.2	-0.3	-0.6	1.3	**1.6**	**1.5**	**1.4**	*1.4*	*1.5*
Hungary	7.8	5.7	4.0	0.0	0.1	0.4	2.4	**3.0**	**3.3**	**3.0**	*2.3*	*3.0*
Poland	5.0	2.8	3.0	0.1	-0.7	-0.2	1.6	**1.2**	**2.6**	**2.7**	*1.3*	*2.5*
Romania	32.7	8.1	4.8	1.4	-0.4	-1.1	1.1	**4.3**	**3.5**	**3.3**	*4.2*	*3.4*
Sweden	1.8	1.7	1.3	0.2	0.7	1.1	1.9	**2.1**	**1.9**	**1.6**	*1.9*	*1.7*
EU27	2.9	2.7	1.9	0.4	0.0	0.2	1.6	**1.8**	**1.9**	**1.7**	*1.6*	*1.7*
United Kingdom	1.2	2.3	3.1	1.5	0.0	0.7	2.7	**2.6**	**2.0**	**1.9**	*2.5*	*1.9*
EU28	2.7	2.6	2.1	0.5	0.0	0.3	1.7	**2.0**	**2.0**	**1.8**	*1.7*	*1.8*
USA	2.5	3.2	1.6	1.6	0.1	1.3	2.1	**2.5**	**2.4**	**2.2**	*2.2*	*2.2*
Japan	-0.6	0.3	-0.4	2.8	0.8	-0.1	0.5	**0.8**	**1.0**	**1.3**	*1.0*	*1.1*

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2018-20) 22.10.2018

	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4	2020/1	2020/2	2020/3	2020/4
Belgium	1.6	2.2	2.7	2.6	2.7	2.4	2.0	1.4	1.2	1.7	1.5	1.8
Germany	1.3	1.9	2.1	2.1	2.3	2.0	1.7	1.5	1.5	1.6	1.6	1.7
Estonia	3.2	3.3	3.5	3.8	3.8	4.1	2.6	2.6	2.5	2.5	2.5	2.5
Ireland	0.5	0.4	1.0	1.0	1.2	1.1	1.2	1.2	1.2	1.3	1.4	1.5
Greece	0.3	0.7	0.9	1.4	1.2	1.1	1.3	1.3	1.2	1.1	1.0	0.9
Spain	1.1	1.8	2.3	2.0	2.2	1.9	1.5	1.3	1.3	1.4	1.5	1.6
France	1.5	2.1	2.6	2.3	2.0	1.7	1.6	1.6	1.6	1.5	1.6	1.6
Italy	0.9	1.0	1.7	1.7	1.6	1.8	1.5	1.3	1.3	1.3	1.4	1.4
Cyprus	-0.8	0.8	1.6	1.4	1.5	1.3	1.3	1.3	1.3	1.4	1.5	1.5
Latvia	2.0	2.4	2.9	3.2	3.0	2.8	2.5	2.5	2.4	2.4	2.4	2.4
Lithuania	3.1	2.5	2.2	2.6	2.1	2.2	2.2	2.2	2.1	2.1	2.1	2.1
Luxembourg	1.2	1.9	2.5	2.5	2.5	2.1	1.9	1.7	1.7	1.8	1.8	1.8
Malta	1.3	1.7	2.4	1.8	2.0	1.9	2.0	1.9	2.0	1.9	2.0	2.0
Netherlands	1.3	1.5	1.8	2.0	2.6	2.6	2.4	2.4	1.7	1.7	1.7	1.7
Austria	2.0	2.1	2.2	2.1	2.1	2.0	2.1	2.1	2.0	2.0	1.9	1.9
Portugal	0.9	1.2	1.8	1.9	1.7	1.6	1.6	1.5	1.5	1.6	1.7	1.7
Slovenia	1.5	2.1	2.1	2.3	2.3	2.2	2.4	2.2	2.2	2.1	2.2	2.1
Slovakia	2.4	2.9	2.7	2.5	2.6	2.6	2.7	2.4	2.4	2.4	2.4	2.3
Finland	0.8	1.0	1.4	1.6	1.9	1.7	1.5	1.3	1.6	1.9	2.0	2.0
Euro area	1.3	1.7	2.1	2.0	2.1	1.9	1.7	1.5	1.5	1.5	1.6	1.6
Bulgaria	1.6	2.4	3.6	2.9	2.7	2.2	1.5	1.7	1.7	1.7	1.8	1.8
Czech Republic	1.7	2.1	2.3	2.4	2.4	2.2	2.1	2.1	2.0	1.9	1.8	1.7
Denmark	0.5	0.9	0.7	1.0	1.3	1.4	1.7	1.7	1.6	1.7	1.7	1.8
Croatia	1.1	1.8	2.0	1.6	1.7	1.4	1.5	1.4	1.1	1.4	1.6	1.5
Hungary	2.0	2.8	3.5	3.6	3.9	3.6	2.9	2.7	3.2	3.1	2.8	2.8
Poland	1.0	1.1	1.4	1.3	2.1	2.6	2.8	2.7	2.6	2.6	2.7	2.7
Romania	3.7	4.5	4.6	4.3	3.9	3.7	3.3	3.3	3.3	3.3	3.3	3.3
Sweden	1.7	2.0	2.2	2.4	2.3	2.0	1.7	1.7	1.5	1.6	1.7	1.6
EU27	1.3	1.7	2.1	2.1	2.1	2.0	1.8	1.6	1.6	1.6	1.7	1.7
United Kingdom	2.7	2.4	2.5	2.6	2.4	2.1	1.8	1.9	1.8	1.8	2.0	2.0
EU28	1.5	1.8	2.2	2.2	2.2	2.0	1.8	1.7	1.6	1.7	1.7	1.8
USA	2.3	2.6	2.6	2.3	2.1	2.3	2.5	2.6	2.5	2.3	2.2	2.0
Japan	1.3	0.6	0.8	0.4	0.3	0.8	0.7	2.0	2.0	1.6	1.4	0.3

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	0.5	2.9	0.9	-2.7	-3.7	-2.6	2.4	**1.3**	**2.0**	**1.2**	*1.0*	*1.2*
Germany	0.0	0.6	0.8	-0.5	0.9	-1.0	1.5	**0.9**	**1.1**	**0.6**	*0.7*	*0.7*
Estonia	2.0	4.4	1.3	-1.4	-1.7	0.0	4.0	**2.4**	**1.4**	**1.4**	*1.9*	*1.4*
Ireland	-0.6	0.6	-0.5	-0.3	9.9	-4.0	-2.0	**-1.4**	**0.4**	**0.5**	*1.0*	*1.2*
Greece	2.4	3.3	2.6	-3.1	-11.5	-5.5	7.3	**4.2**	**0.4**	**1.1**	*-0.2*	*0.4*
Spain	0.9	2.8	1.1	-2.0	0.7	-1.5	3.3	**1.2**	**1.7**	**0.5**	*0.9*	*1.0*
France	-1.0	2.0	0.3	-1.0	0.6	-2.0	1.3	**0.3**	**1.5**	**1.1**	*-0.3*	*-0.3*
Italy	1.5	2.1	1.1	-0.3	-0.4	-0.8	1.8	**1.9**	**2.1**	**1.0**	*1.0*	*1.3*
Cyprus	2.0	3.2	1.7	1.3	0.8	-0.9	0.4	**0.9**	**1.2**	**1.8**	*0.9*	*1.3*
Latvia	1.6	11.0	3.1	-1.4	0.2	-2.7	4.2	**3.2**	**1.2**	**1.5**	*2.0*	*2.0*
Lithuania	0.1	8.6	1.4	-2.8	-6.5	-3.1	4.7	**2.5**	**2.3**	**2.1**	*2.3*	*1.5*
Luxembourg	0.0	5.2	1.3	-2.2	-2.0	-1.0	4.0	**1.4**	**1.5**	**0.7**	*0.8*	*1.1*
Malta	3.0	1.1	1.0	0.0	0.3	-4.9	7.3	**5.5**	**3.0**	**3.0**	*1.3*	*1.3*
Netherlands	-0.2	2.8	0.9	-2.6	-2.6	-3.6	3.7	**2.4**	**1.4**	**1.2**	*0.6*	*0.5*
Austria	0.2	1.9	0.8	-0.9	-1.0	-1.1	1.8	**1.2**	**0.5**	**0.5**	*1.4*	*1.3*
Portugal	0.5	2.3	0.8	-1.9	-2.6	-2.9	3.3	**1.9**	**1.6**	**1.2**	*1.3*	*1.5*
Slovenia	5.1	2.2	0.8	-0.4	-0.6	-2.1	2.6	**2.3**	**1.8**	**1.2**	*0.8*	*0.9*
Slovakia	4.5	1.5	0.0	-3.6	-1.3	-1.7	2.2	**2.2**	**2.1**	**2.0**	*1.7*	*1.9*
Finland	-2.1	0.5	0.1	-0.9	-1.8	-3.0	3.7	**2.6**	**2.2**	**2.2**	*1.5*	*1.5*
Euro area	0.1	1.7	0.7	-1.2	0.0	-1.9	2.0	**1.2**	**1.4**	**0.9**	*0.7*	*0.8*
Bulgaria	-5.7	14.7	0.7	-2.2	-2.3	-2.4	7.7	**1.8**	**1.8**	**1.8**	*1.8*	*1.8*
Czech Republic	-0.5	-1.3	0.9	3.8	-1.4	-2.8	-0.6	**-0.8**	**0.6**	**1.5**	*-2.0*	*0.6*
Denmark	1.4	3.5	1.3	-1.3	1.5	-1.5	1.0	**0.1**	**1.4**	**1.3**	*-0.4*	*1.0*
Croatia	5.1	4.3	1.7	-1.7	-2.3	-3.1	1.2	**1.6**	**1.5**	**1.3**	*1.6*	*1.8*
Hungary	2.0	-0.1	2.1	1.2	-0.3	-1.0	1.7	**2.7**	**1.9**	**1.5**	*1.4*	*1.5*
Poland	4.1	1.8	5.1	0.0	1.6	0.3	1.4	**1.3**	**1.9**	**2.0**	*1.8*	*1.7*
Romania	31.6	7.4	3.4	-1.1	-0.3	-8.9	3.6	**4.3**	**3.2**	**3.1**	*4.0*	*3.4*
Sweden	-0.6	2.2	-1.2	2.1	1.6	-1.6	4.1	**5.5**	**2.4**	**1.2**	*4.0*	*2.2*
EU27	0.4	1.8	0.9	-0.9	0.1	-1.9	2.0	**1.3**	**1.5**	**1.0**	*0.9*	*0.9*
United Kingdom	0.1	3.4	2.8	-4.9	-8.3	5.7	6.2	**3.2**	**2.3**	**1.1**	*2.9*	*1.0*
EU28	0.3	1.9	1.1	-1.2	-0.6	-1.2	2.3	**1.5**	**1.5**	**1.0**	*1.0*	*0.9*
USA	-0.1	3.8	0.7	-1.0	-7.2	-3.8	3.0	**4.2**	**1.8**	**1.2**	*2.8*	*1.5*
Japan	-3.5	0.1	-1.6	2.8	0.8	-8.7	4.3	**1.4**	**1.0**	**1.0**	*1.4*	*1.0*

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.4	4.0	1.2	-2.9	-5.4	-3.1	3.9	**1.1**	**2.0**	**0.8**	*1.0*	*0.9*
Germany	-0.1	1.8	0.4	-2.2	-2.2	-3.2	3.1	**1.7**	**1.1**	**0.6**	*1.3*	*1.0*
Estonia	0.3	3.2	1.9	-1.9	-2.0	-1.1	3.1	**2.0**	**1.4**	**1.4**	*1.5*	*1.5*
Ireland	-1.0	1.7	-0.6	5.2	1.8	-6.2	3.5	**-1.5**	**0.4**	**0.5**	*2.0*	*1.5*
Greece	2.8	3.5	2.5	-4.2	-12.0	-3.3	6.1	**3.8**	**1.4**	**0.9**	*-0.5*	*0.4*
Spain	1.0	3.4	1.6	-1.5	-1.4	-1.6	4.1	**2.8**	**2.3**	**0.6**	*2.2*	*1.0*
France	-0.8	2.4	0.5	-2.7	-3.6	-2.9	2.7	**2.2**	**1.7**	**0.6**	*0.4*	*-1.1*
Italy	1.9	4.3	1.0	-3.7	-4.3	-4.3	4.1	**2.6**	**2.2**	**0.8**	*0.9*	*1.0*
Cyprus	1.6	3.6	1.8	-4.3	-2.4	-0.5	0.1	**0.1**	**1.4**	**1.0**	*0.3*	*0.9*
Latvia	3.2	9.0	2.9	-0.5	-2.1	-6.0	3.3	**2.0**	**2.5**	**1.3**	*3.0*	*2.0*
Lithuania	-2.0	6.1	2.7	-3.6	-8.7	-5.3	4.1	**3.0**	**2.1**	**1.2**	*2.5*	*1.7*
Luxembourg	1.0	3.6	0.9	-4.1	1.1	-5.7	3.6	**0.9**	**1.8**	**0.7**	*2.2*	*0.6*
Malta	1.8	1.1	0.6	-4.5	-0.2	-1.5	2.0	**2.6**	**2.0**	**2.0**	*1.6*	*1.5*
Netherlands	-0.8	2.9	1.4	-2.6	-5.0	-4.5	4.2	**2.2**	**1.3**	**1.2**	*0.8*	*0.4*
Austria	-0.2	2.8	1.2	-1.9	-2.6	-1.8	3.2	**2.0**	**0.6**	**0.6**	*1.9*	*1.5*
Portugal	0.7	3.1	-0.1	-3.0	-5.2	-3.9	4.3	**2.2**	**1.4**	**1.0**	*1.3*	*1.5*
Slovenia	5.0	3.3	1.4	-1.5	-1.9	-2.9	3.3	**2.9**	**2.0**	**1.0**	*0.2*	*0.8*
Slovakia	4.4	2.4	1.0	-3.8	-1.1	-1.3	3.0	**2.4**	**2.4**	**2.1**	*1.3*	*1.3*
Finland	-1.1	3.1	0.6	-2.5	-6.5	-3.4	4.4	**3.9**	**1.6**	**1.1**	*2.3*	*1.8*
Euro area	0.3	2.8	0.9	-2.4	-3.3	-3.3	3.5	**2.0**	**1.5**	**0.8**	*1.2*	*0.7*
Bulgaria	2.5	9.5	0.6	-2.9	-2.9	-6.0	7.5	**1.7**	**1.4**	**1.4**	*1.7*	*1.4*
Czech Republic	-0.5	-0.3	1.1	2.0	-1.9	-3.8	0.7	**-0.4**	**0.2**	**1.0**	*-3.1*	*0.9*
Denmark	0.3	2.5	0.6	-2.0	0.3	-2.8	1.6	**0.7**	**1.7**	**1.2**	*-0.6*	*0.9*
Croatia	3.8	2.5	1.6	-0.9	-1.2	-2.5	2.6	**0.9**	**1.6**	**1.0**	*1.2*	*1.6*
Hungary	3.0	1.1	2.2	0.1	-1.1	-2.5	1.7	**3.6**	**2.6**	**1.5**	*2.0*	*1.6*
Poland	5.6	0.8	4.8	-2.2	-1.3	-0.3	1.3	**2.5**	**1.8**	**1.8**	*1.6*	*1.7*
Romania	30.0	1.8	3.6	-1.9	-1.3	-7.3	4.9	**3.5**	**3.8**	**3.5**	*4.0*	*3.1*
Sweden	1.0	2.8	-1.3	1.2	-0.1	-2.2	4.7	**6.2**	**2.7**	**1.3**	*4.9*	*1.7*
EU27	0.7	2.7	1.0	-2.1	-3.0	-3.2	3.3	**2.1**	**1.6**	**0.9**	*1.2*	*0.8*
United Kingdom	-0.6	3.5	2.4	-4.4	-6.7	2.8	5.8	**2.8**	**1.9**	**0.2**	*2.0*	*0.1*
EU28	0.5	2.8	1.2	-2.4	-3.4	-2.4	3.6	**2.2**	**1.7**	**0.9**	*1.3*	*0.8*
USA	0.5	5.8	-0.2	-1.4	-9.6	-4.2	2.4	**3.4**	**1.4**	**1.2**	*2.3*	*1.5*
Japan	-1.6	7.7	-0.5	3.6	-9.6	-15.0	8.8	**1.0**	**1.6**	**1.6**	*1.0*	*1.6*

Table 21: Terms of trade of goods (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	-0.8	-1.0	-0.4	0.2	1.8	0.5	-1.4	**0.2**	**0.0**	**0.4**	*0.0*	*0.3*
Germany	0.1	-1.1	0.4	1.7	3.1	2.3	-1.6	**-0.8**	**0.0**	**0.0**	*-0.5*	*-0.3*
Estonia	1.7	1.1	-0.6	0.5	0.2	1.0	0.9	**0.4**	**0.0**	**0.0**	*0.4*	*-0.1*
Ireland	0.4	-1.0	0.0	-5.2	8.0	2.3	-5.3	**0.1**	**0.0**	**0.0**	*-1.0*	*-0.3*
Greece	-0.4	-0.2	0.1	1.1	0.6	-2.3	1.2	**0.4**	**-1.0**	**0.2**	*0.3*	*0.0*
Spain	-0.1	-0.6	-0.4	-0.5	2.1	0.1	-0.8	**-1.6**	**-0.6**	**-0.1**	*-1.3*	*0.0*
France	-0.2	-0.4	-0.2	1.7	4.4	1.0	-1.4	**-1.9**	**-0.2**	**0.5**	*-0.7*	*0.7*
Italy	-0.4	-2.1	0.1	3.5	4.2	3.6	-2.2	**-0.7**	**-0.1**	**0.2**	*0.1*	*0.3*
Cyprus	0.4	-0.4	-0.1	5.9	3.2	-0.4	0.4	**0.8**	**-0.2**	**0.8**	*0.6*	*0.4*
Latvia	-1.5	1.8	0.2	-0.9	2.4	3.5	0.9	**1.2**	**-1.3**	**0.2**	*-1.0*	*0.0*
Lithuania	2.2	2.4	-1.3	0.8	2.5	2.4	0.5	**-0.5**	**0.2**	**0.9**	*-0.2*	*-0.2*
Luxembourg	-1.0	1.6	0.4	2.0	-3.1	5.0	0.4	**0.5**	**-0.3**	**0.0**	*-1.4*	*0.5*
Malta	1.2	0.1	0.3	4.7	0.5	-3.4	5.2	**2.8**	**1.0**	**1.0**	*-0.3*	*-0.2*
Netherlands	0.6	-0.2	-0.5	0.0	2.4	1.0	-0.5	**0.2**	**0.1**	**0.0**	*-0.1*	*0.1*
Austria	0.4	-0.8	-0.4	1.0	1.7	0.7	-1.4	**-0.8**	**-0.1**	**-0.1**	*-0.5*	*-0.2*
Portugal	-0.2	-0.8	0.9	1.2	2.7	1.0	-0.9	**-0.3**	**0.2**	**0.2**	*0.0*	*0.0*
Slovenia	0.1	-1.1	-0.6	1.1	1.3	0.8	-0.6	**-0.6**	**-0.2**	**0.2**	*0.6*	*0.1*
Slovakia	0.1	-0.9	-1.0	0.2	-0.2	-0.4	-0.8	**-0.2**	**-0.3**	**-0.1**	*0.4*	*0.6*
Finland	-1.0	-2.5	-0.5	1.7	5.0	0.4	-0.6	**-1.2**	**0.6**	**1.1**	*-0.8*	*-0.3*
Euro area	-0.1	-1.1	-0.1	1.2	3.4	1.5	-1.5	**-0.8**	**-0.2**	**0.1**	*-0.4*	*0.1*
Bulgaria	-8.0	4.8	0.1	0.7	0.6	3.9	0.3	**0.1**	**0.4**	**0.4**	*0.1*	*0.4*
Czech Republic	-0.1	-1.0	-0.2	1.8	0.5	1.0	-1.4	**-0.4**	**0.3**	**0.5**	*1.1*	*-0.3*
Denmark	1.0	1.0	0.7	0.7	1.2	1.4	-0.6	**-0.6**	**-0.3**	**0.1**	*0.2*	*0.1*
Croatia	1.2	1.8	0.1	-0.9	-1.2	-0.6	-1.3	**0.7**	**-0.1**	**0.3**	*0.4*	*0.2*
Hungary	-1.0	-1.2	-0.1	1.1	0.8	1.5	0.0	**-0.8**	**-0.7**	**0.0**	*-0.6*	*-0.1*
Poland	-1.5	1.0	0.3	2.2	2.9	0.6	0.1	**-1.2**	**0.1**	**0.2**	*0.1*	*0.0*
Romania	1.2	5.4	-0.2	0.8	1.0	-1.7	-1.2	**0.8**	**-0.6**	**-0.4**	*0.0*	*0.3*
Sweden	-1.6	-0.7	0.1	0.9	1.7	0.7	-0.6	**-0.7**	**-0.3**	**-0.2**	*-0.9*	*0.5*
EU27	-0.3	-0.9	-0.1	1.2	3.1	1.4	-1.4	**-0.8**	**-0.1**	**0.1**	*-0.4*	*0.1*
United Kingdom	0.7	-0.1	0.4	-0.5	-1.7	2.8	0.4	**0.4**	**0.4**	**0.9**	*0.9*	*0.9*
EU28	-0.2	-0.8	0.0	1.0	2.4	1.8	-1.1	**-0.7**	**-0.1**	**0.2**	*-0.3*	*0.2*
USA	-0.6	-2.0	1.0	0.4	2.7	0.5	0.6	**0.8**	**0.4**	**0.0**	*0.5*	*0.0*
Japan	-1.9	-7.1	-1.2	-0.7	11.5	7.4	-4.2	**0.4**	**-0.6**	**-0.6**	*0.4*	*-0.6*

Table 22: Total population (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	0.3	0.6	0.8	0.5	0.5	0.5	0.5	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*
Germany	0.0	-0.2	0.0	0.4	0.9	0.8	0.4	**0.3**	**0.2**	**0.2**	*0.3*	*0.2*
Estonia	-0.3	-0.5	-0.3	-0.3	-0.2	0.2	0.0	**0.3**	**0.1**	**0.1**	*0.0*	*0.0*
Ireland	1.5	2.4	0.5	0.7	0.9	1.1	1.1	**1.0**	**0.9**	**0.9**	*1.0*	*0.9*
Greece	0.4	0.3	-0.2	-0.7	-0.7	-0.4	-0.1	**-0.5**	**-0.5**	**-0.6**	*-0.5*	*-0.5*
Spain	1.0	1.7	0.3	-0.3	-0.1	0.1	0.2	**0.3**	**0.4**	**0.5**	*0.3*	*0.4*
France	0.7	0.7	0.5	0.5	0.4	0.4	0.4	**0.4**	**0.4**	**0.4**	*0.4*	*0.4*
Italy	0.2	0.6	0.5	0.2	-0.1	-0.2	-0.1	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*
Cyprus	1.1	1.8	1.9	-1.1	-0.6	0.5	0.9	**0.6**	**0.7**	**0.6**	*0.6*	*0.7*
Latvia	-1.0	-1.0	-1.6	-0.9	-0.8	-0.9	-1.1	**-0.9**	**-0.8**	**-0.7**	*-0.9*	*-0.9*
Lithuania	-0.8	-1.3	-1.6	-0.9	-0.9	-1.3	-1.6	**-1.1**	**-0.9**	**-0.9**	*-1.2*	*-1.0*
Luxembourg	1.2	1.6	2.2	2.4	2.0	2.6	2.2	**2.5**	**2.4**	**2.2**	*2.3*	*2.2*
Malta	0.7	0.5	0.8	2.1	2.4	2.3	2.8	**2.5**	**1.6**	**1.5**	*2.0*	*1.8*
Netherlands	0.7	0.3	0.4	0.4	0.4	0.6	0.6	**0.5**	**0.4**	**0.4**	*0.5*	*0.4*
Austria	0.4	0.5	0.4	0.8	1.0	1.3	0.6	**1.0**	**0.9**	**0.8**	*0.6*	*0.5*
Portugal	0.6	0.2	-0.2	-0.5	-0.4	-0.3	-0.2	**-0.1**	**0.0**	**-0.1**	*-0.1*	*0.0*
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	0.2	**0.4**	**0.4**	**0.4**	*0.4*	*0.4*
Euro area	0.4	0.5	0.3	0.2	0.3	0.3	0.2	**0.3**	**0.3**	**0.3**	*0.2*	*0.2*
Bulgaria	-1.1	-0.5	-1.0	-0.6	-0.6	-0.7	-0.7	**-0.4**	**-0.3**	**-0.3**	*-0.4*	*-0.3*
Czech Republic	-0.2	0.4	0.2	0.1	0.2	0.2	0.2	**0.3**	**0.1**	**0.1**	*0.3*	*0.1*
Denmark	0.3	0.4	0.4	0.5	0.7	0.8	0.7	**0.6**	**0.5**	**0.5**	*0.6*	*0.5*
Croatia	0.4	0.0	-0.3	-0.4	-0.9	-0.7	-0.7	**-0.6**	**-0.5**	**-0.5**	*-0.6*	*-0.5*
Hungary	-0.3	-0.2	-0.3	-0.3	-0.2	-0.3	-0.3	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*
Poland	0.0	0.0	0.2	0.0	-0.1	-0.1	0.0	**0.0**	**0.0**	**-0.1**	*0.0*	*-0.1*
Romania	-0.8	-1.0	-0.5	-0.4	-0.5	-0.6	-0.3	**-0.8**	**-0.6**	**-0.6**	*-0.5*	*-1.1*
Sweden	0.2	0.6	0.8	1.0	1.1	1.3	1.4	**1.7**	**0.9**	**1.0**	*1.3*	*1.0*
EU27	0.2	0.3	0.2	0.2	0.2	0.2	0.2	**0.2**	**0.2**	**0.2**	*0.2*	*0.1*
United Kingdom	0.4	0.7	0.7	0.8	0.8	0.8	0.6	**0.6**	**0.6**	**0.6**	*0.6*	*0.6*
EU28	0.2	0.4	0.3	0.2	0.3	0.3	0.2	**0.3**	**0.2**	**0.2**	*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	0.1	0.1	0.0	-0.1	-0.1	-0.2	-0.2	**-0.2**	**-0.2**	**-0.3**	*-0.2*	*-0.2*

Table 23: Total employment (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	0.9	1.4	0.4	0.4	0.9	1.3	1.4	**1.0**	**0.7**	**0.6**	*1.2*	*1.0*
Germany	0.4	0.8	0.7	0.8	0.9	1.3	1.4	**1.3**	**0.8**	**0.7**	*1.0*	*0.7*
Estonia	-0.2	1.3	-1.1	0.8	2.9	0.3	2.7	**0.8**	**0.3**	**-0.1**	*0.6*	*0.3*
Ireland	3.5	3.3	-2.3	2.7	3.5	3.8	2.9	**3.1**	**2.6**	**2.0**	*2.2*	*1.8*
Greece	0.9	1.6	-3.8	0.9	0.7	0.5	1.5	**1.8**	**1.6**	**1.2**	*1.7*	*1.8*
Spain	3.7	2.7	-3.9	1.0	3.3	3.0	2.9	**2.4**	**1.7**	**1.5**	*2.6*	*2.3*
France	1.5	0.9	-0.1	0.3	0.3	0.8	1.0	**0.5**	**0.7**	**0.8**	*0.8*	*0.9*
Italy	1.1	0.6	-1.5	0.2	0.7	1.3	0.9	**1.0**	**1.0**	**0.9**	*0.8*	*0.7*
Cyprus	2.3	3.5	-1.7	-1.8	1.5	4.6	3.8	**3.9**	**2.8**	**2.3**	*2.8*	*2.8*
Latvia	-0.3	2.0	-3.1	-1.4	1.4	-0.3	0.0	**1.5**	**0.3**	**0.1**	*0.4*	*0.2*
Lithuania	-0.9	0.0	-1.9	2.0	1.3	2.0	-0.5	**-0.4**	**-0.5**	**-0.5**	*-0.4*	*-0.4*
Luxembourg	4.1	3.6	2.0	2.6	2.6	3.0	3.4	**3.6**	**3.3**	**2.8**	*3.6*	*3.1*
Malta	0.2	1.6	2.2	5.1	3.9	4.2	5.2	**5.0**	**3.6**	**3.4**	*3.9*	*3.4*
Netherlands	0.9	1.3	-0.6	-0.1	1.0	1.4	2.2	**2.1**	**1.4**	**0.8**	*2.3*	*1.6*
Austria	0.7	1.5	0.6	1.0	0.6	1.3	1.7	**1.8**	**1.1**	**0.8**	*1.5*	*1.2*
Portugal	1.0	-0.1	-2.6	1.4	1.4	1.6	3.3	**2.2**	**1.3**	**0.8**	*2.1*	*1.3*
Slovenia	1.0	1.5	-1.5	0.4	1.3	1.8	2.9	**3.0**	**2.5**	**1.7**	*2.3*	*1.5*
Slovakia	-0.5	1.8	-0.5	1.4	2.0	2.4	2.2	**1.7**	**1.0**	**0.6**	*1.4*	*1.2*
Finland	1.5	1.7	-0.3	-0.5	-0.1	0.5	1.2	**2.2**	**1.1**	**0.9**	*1.0*	*0.6*
Euro area	1.2	1.2	-0.9	0.6	1.1	1.5	1.6	**1.4**	**1.0**	**0.9**	*1.3*	*1.1*
Bulgaria	-0.9	2.8	-2.1	0.4	0.4	0.5	1.8	**0.5**	**0.3**	**0.2**	*1.1*	*0.4*
Czech Republic	-0.7	1.5	-0.5	0.6	1.4	1.6	1.6	**1.6**	**0.3**	**0.0**	*0.7*	*0.2*
Denmark	0.3	1.3	-1.3	0.9	1.4	1.6	1.6	**1.7**	**1.1**	**0.8**	*1.2*	*0.9*
Croatia	0.5	2.1	-2.9	2.7	1.2	0.3	2.2	**2.3**	**2.0**	**1.3**	*1.7*	*1.5*
Hungary	0.7	-0.5	-0.5	4.8	2.4	3.1	2.0	**0.9**	**0.5**	**0.1**	*0.9*	*0.5*
Poland	-2.4	3.0	-0.3	1.7	1.5	0.6	1.4	**0.7**	**0.3**	**0.1**	*0.8*	*0.3*
Romania	-2.7	-0.4	-1.7	0.8	-1.3	-1.1	2.8	**0.2**	**-0.3**	**0.1**	*0.9*	*0.1*
Sweden	1.2	0.9	0.5	1.4	1.5	1.9	2.3	**1.7**	**0.9**	**0.7**	*1.6*	*1.3*
EU27	0.6	1.2	-0.9	0.9	1.1	1.3	1.7	**1.3**	**0.9**	**0.7**	*1.2*	*0.9*
United Kingdom	1.0	1.0	0.3	2.4	1.7	1.4	1.0	**0.8**	**0.4**	**0.3**	*0.5*	*0.4*
EU28	0.6	1.2	-0.7	1.1	1.2	1.3	1.6	**1.2**	**0.8**	**0.7**	*1.1*	*0.9*
USA	0.9	1.1	-0.2	1.6	1.7	1.7	1.3	**1.5**	**1.2**	**0.7**	*1.4*	*0.9*
Japan	-0.7	0.5	-0.3	0.6	0.4	1.0	1.0	**1.8**	**0.5**	**0.2**	*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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	7.5	7.9	7.9	8.5	8.5	7.8	7.1	**6.4**	**6.1**	**5.9**	*6.4*	*6.0*
Germany	8.5	9.5	6.2	5.0	4.6	4.1	3.8	**3.5**	**3.2**	**3.0**	*3.6*	*3.5*
Estonia	12.1	6.8	12.2	7.4	6.2	6.8	5.8	**5.7**	**6.0**	**6.0**	*6.0*	*6.3*
Ireland	4.8	5.2	14.4	11.9	10.0	8.4	6.7	**5.6**	**5.1**	**4.9**	*5.4*	*4.9*
Greece	10.8	9.2	18.4	26.5	24.9	23.6	21.5	**19.6**	**18.2**	**16.9**	*20.1*	*18.4*
Spain	11.8	9.6	22.0	24.5	22.1	19.6	17.2	**15.6**	**14.4**	**13.3**	*15.3*	*13.8*
France	8.6	8.4	9.5	10.3	10.4	10.1	9.4	**9.0**	**8.8**	**8.4**	*8.9*	*8.3*
Italy	9.4	7.1	9.5	12.7	11.9	11.7	11.2	**10.7**	**10.4**	**10.0**	*10.8*	*10.6*
Cyprus	4.3	4.4	9.5	16.1	15.0	13.0	11.1	**8.2**	**6.3**	**4.8**	*9.0*	*7.1*
Latvia	13.2	8.5	16.0	10.8	9.9	9.6	8.7	**7.3**	**6.7**	**6.5**	*8.2*	*7.6*
Lithuania	14.9	7.0	14.4	10.7	9.1	7.9	7.1	**6.5**	**6.3**	**6.3**	*6.8*	*6.7*
Luxembourg	2.6	4.7	5.1	6.0	6.5	6.3	5.6	**5.3**	**5.2**	**5.2**	*5.3*	*5.2*
Malta	7.7	7.2	7.0	6.3	5.9	5.2	4.6	**3.9**	**4.0**	**4.0**	*4.0*	*4.0*
Netherlands	3.9	4.9	5.5	7.4	6.9	6.0	4.9	**3.9**	**3.6**	**3.6**	*3.8*	*3.5*
Austria	4.3	5.1	5.0	5.6	5.7	6.0	5.5	**4.8**	**4.6**	**4.4**	*5.2*	*5.0*
Portugal	5.9	8.7	13.6	14.1	12.6	11.2	9.0	**7.1**	**6.3**	**5.9**	*7.7*	*6.8*
Slovenia	6.7	5.6	8.1	9.7	9.0	8.0	6.6	**5.6**	**5.3**	**5.1**	*5.6*	*5.4*
Slovakia	18.3	13.8	13.7	13.2	11.5	9.7	8.1	**6.9**	**6.3**	**6.0**	*7.1*	*6.3*
Finland	9.4	7.6	8.1	8.7	9.4	8.8	8.6	**7.8**	**7.2**	**6.9**	*8.4*	*8.3*
Euro area	8.9	8.4	10.7	11.6	10.9	10.0	9.1	**8.4**	**7.9**	**7.5**	*8.4*	*7.9*
Bulgaria	16.0	8.7	10.7	11.4	9.2	7.6	6.2	**6.0**	**5.8**	**5.7**	*5.5*	*5.3*
Czech Republic	8.1	6.6	6.9	6.1	5.1	4.0	2.9	**2.4**	**2.5**	**2.6**	*2.4*	*2.4*
Denmark	4.8	4.3	7.1	6.6	6.2	6.2	5.7	**5.2**	**4.9**	**4.7**	*5.5*	*5.2*
Croatia		11.4	13.6	17.2	16.1	13.4	11.1	**9.1**	**7.6**	**6.6**	*9.6*	*8.5*
Hungary	6.0	7.2	10.7	7.7	6.8	5.1	4.2	**3.6**	**3.3**	**3.2**	*3.7*	*3.6*
Poland	17.5	13.5	9.6	9.0	7.5	6.2	4.9	**3.3**	**2.9**	**2.8**	*4.1*	*3.9*
Romania	7.6	6.9	6.9	6.8	6.8	5.9	4.9	**4.3**	**4.2**	**4.1**	*4.5*	*4.4*
Sweden	6.6	6.9	8.1	7.9	7.4	6.9	6.7	**6.3**	**6.2**	**6.2**	*6.3*	*6.3*
EU27		8.6	10.3	10.9	10.0	9.1	8.2	**7.4**	**7.0**	**6.6**	*6.9*	*6.5*
United Kingdom	5.3	5.2	7.8	6.1	5.3	4.8	4.4	**4.3**	**4.5**	**4.7**	*4.4*	*4.6*
EU28		8.1	9.9	10.2	9.4	8.6	7.6	**6.9**	**6.6**	**6.3**	*7.1*	*6.7*
USA	4.9	5.1	8.7	6.2	5.3	4.9	4.4	**3.9**	**3.5**	**3.5**	*4.0*	*3.5*
Japan	5.0	4.2	4.6	3.6	3.4	3.1	2.8	**2.7**	**2.6**	**2.5**	*2.7*	*2.6*

[1] Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	3.0	2.9	2.3	0.9	0.0	0.5	1.9	**2.2**	**2.0**	**2.1**	*2.0*	*2.2*
Germany	1.4	0.9	2.0	2.8	2.7	2.2	2.6	**2.9**	**3.0**	**3.0**	*3.1*	*3.1*
Estonia	10.3	14.6	2.6	6.5	3.3	6.3	6.9	**7.0**	**6.0**	**5.6**	*6.5*	*5.8*
Ireland	6.5	4.9	-0.5	0.6	2.6	2.1	0.9	**2.7**	**3.0**	**3.4**	*2.5*	*2.7*
Greece	7.1	4.8	-2.7	-2.0	-2.4	-0.9	0.5	**0.9**	**1.3**	**2.0**	*0.8*	*1.3*
Spain	3.1	4.5	1.4	0.1	0.8	-0.5	0.3	**1.0**	**2.4**	**1.7**	*1.1*	*1.6*
France	2.5	2.9	2.2	1.3	1.0	0.8	1.9	**2.3**	**0.4**	**2.2**	*2.3*	*0.3*
Italy	3.1	3.0	1.5	0.0	1.0	0.3	0.2	**1.8**	**0.9**	**1.0**	*2.1*	*1.0*
Cyprus	5.4	3.6	0.9	-3.5	-1.3	-1.1	0.7	**1.5**	**2.2**	**2.2**	*1.4*	*2.0*
Latvia	7.7	23.1	-0.7	8.6	7.7	7.3	8.0	**7.1**	**5.8**	**5.8**	*7.8*	*5.8*
Lithuania	4.6	14.9	1.1	4.7	5.9	6.7	8.7	**8.2**	**7.7**	**6.0**	*6.6*	*6.0*
Luxembourg	3.7	3.8	1.9	3.5	1.6	0.9	3.3	**2.2**	**2.6**	**2.3**	*2.6*	*2.2*
Malta	5.1	3.3	2.8	1.6	5.0	2.8	1.7	**2.3**	**3.2**	**3.1**	*3.4*	*3.3*
Netherlands	4.5	2.6	2.1	1.7	-0.2	1.2	1.1	**2.4**	**3.1**	**3.5**	*2.7*	*3.3*
Austria	1.9	2.7	1.9	1.9	1.9	2.4	1.5	**2.5**	**2.6**	**2.4**	*2.5*	*2.5*
Portugal	4.5	3.1	0.6	-1.8	0.4	1.7	1.6	**1.8**	**2.1**	**2.1**	*1.8*	*2.0*
Slovenia	9.3	6.5	1.4	1.3	1.3	3.0	3.2	**3.3**	**3.3**	**3.4**	*3.9*	*4.8*
Slovakia	8.5	8.1	3.0	1.8	3.5	2.1	5.2	**5.0**	**6.4**	**6.2**	*5.4*	*5.7*
Finland	3.0	3.6	2.4	1.0	1.4	1.1	-1.2	**1.4**	**2.2**	**2.4**	*1.5*	*2.2*
Euro area	2.6	2.6	1.9	1.3	1.3	1.1	1.6	**2.3**	**2.0**	**2.4**	*2.4*	*1.9*
Bulgaria	8.0	10.2	8.3	5.6	5.6	5.8	10.5	**8.0**	**7.6**	**6.3**	*7.6*	*7.0*
Czech Republic	7.5	5.6	1.4	2.6	3.0	4.0	6.4	**8.0**	**7.8**	**5.6**	*6.8*	*6.2*
Denmark	3.7	3.5	2.2	1.5	1.8	1.3	1.1	**2.2**	**2.5**	**2.8**	*2.2*	*2.8*
Croatia	6.9	4.8	0.9	-5.2	0.4	1.3	-1.1	**2.0**	**1.7**	**1.5**	*1.1*	*1.4*
Hungary	12.1	7.3	1.4	0.6	-1.5	4.4	6.2	**8.1**	**6.6**	**6.2**	*7.4*	*5.6*
Poland	7.7	4.1	4.5	2.2	1.7	5.1	6.0	**6.1**	**7.0**	**7.4**	*6.8*	*7.4*
Romania	40.7	19.3	2.6	6.9	1.9	15.0	11.1	**13.0**	**6.7**	**6.7**	*8.7*	*6.7*
Sweden	4.3	3.9	2.6	2.2	2.7	2.5	2.0	**2.7**	**2.7**	**2.5**	*2.7*	*2.4*
EU27	3.5	2.7	2.0	1.3	1.3	1.5	1.9	**2.7**	**2.5**	**2.8**	*2.8*	*2.4*
United Kingdom	4.7	4.0	2.2	0.6	1.1	2.9	3.1	**3.0**	**3.1**	**3.2**	*2.9*	*2.9*
EU28	3.7	2.9	2.1	1.2	1.3	1.7	2.1	**2.7**	**2.6**	**2.8**	*2.8*	*2.5*
USA	:	3.6	1.9	2.9	3.2	1.0	1.9	**2.9**	**3.2**	**3.4**	*3.3*	*4.2*
Japan	-1.2	-0.4	-0.8	0.8	0.5	1.2	0.8	**0.3**	**1.2**	**1.1**	*1.1*	*0.7*

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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.2	0.0	0.8	0.4	-0.6	-1.2	0.1	**0.0**	**-0.1**	**0.5**	*0.3*	*0.9*
Germany	0.2	-0.5	0.8	1.9	2.1	1.5	1.0	**1.1**	**1.1**	**1.3**	*1.5*	*1.2*
Estonia	6.2	8.0	-0.6	5.5	3.4	5.3	3.1	**3.3**	**2.5**	**3.1**	*3.3*	*3.1*
Ireland	2.2	2.7	0.4	-0.6	2.2	1.3	-0.4	**1.3**	**1.6**	**1.8**	*1.2*	*1.4*
Greece	4.3	1.3	-3.7	0.5	-0.7	-0.2	0.0	**0.6**	**0.1**	**1.1**	*0.3*	*0.1*
Spain	0.0	1.0	0.0	-0.1	1.0	-0.5	-1.3	**-0.8**	**0.6**	**0.2**	*-0.4*	*0.2*
France	1.2	0.6	1.5	1.2	0.7	0.9	0.6	**0.6**	**-1.3**	**0.6**	*0.7*	*-1.1*
Italy	0.4	0.5	0.0	-0.3	0.8	0.0	-0.9	**0.4**	**-0.6**	**-0.4**	*0.9*	*-0.4*
Cyprus	3.7	0.2	-0.6	-2.8	0.4	0.3	-0.1	**0.7**	**0.9**	**0.8**	*0.5*	*0.7*
Latvia	3.8	11.5	-1.3	6.8	8.9	6.1	4.7	**4.3**	**3.0**	**3.3**	*5.0*	*3.2*
Lithuania	5.1	9.8	-1.6	4.6	6.8	5.8	5.1	**5.4**	**5.1**	**3.4**	*3.8*	*3.7*
Luxembourg	1.6	1.1	0.5	3.0	1.7	0.5	1.7	**0.6**	**0.5**	**0.4**	*1.3*	*0.5*
Malta	3.4	0.6	0.8	1.1	3.2	2.2	0.7	**1.4**	**1.8**	**1.5**	*1.7*	*1.5*
Netherlands	1.7	0.6	0.9	0.8	-0.4	0.7	-0.5	**0.7**	**0.6**	**1.6**	*1.0*	*0.9*
Austria	0.5	0.5	0.0	-0.2	0.4	1.0	-0.3	**0.4**	**0.5**	**0.4**	*0.4*	*0.6*
Portugal	1.0	-0.1	-0.2	-2.1	-0.5	0.7	0.3	**0.3**	**0.6**	**0.5**	*0.4*	*0.5*
Slovenia	2.3	2.9	-0.2	1.3	1.9	3.6	1.4	**0.8**	**0.8**	**1.0**	*1.9*	*2.3*
Slovakia	1.7	3.6	1.1	1.9	3.6	2.4	3.7	**2.4**	**3.7**	**3.8**	*3.1*	*3.7*
Finland	1.0	2.0	0.0	-0.4	1.2	0.4	-2.2	**0.3**	**0.8**	**0.7**	*0.2*	*0.7*
Euro area	0.7	0.3	0.7	0.8	1.0	0.7	0.1	**0.6**	**0.2**	**0.8**	*0.9*	*0.3*
Bulgaria	4.5	4.5	6.7	5.6	4.4	5.9	8.0	**5.2**	**5.4**	**4.4**	*5.7*	*5.0*
Czech Republic	5.3	2.8	0.2	2.0	2.9	3.4	3.9	**5.5**	**5.5**	**3.8**	*4.6*	*4.3*
Denmark	1.6	1.6	0.3	0.9	1.1	0.8	-0.1	**1.0**	**0.8**	**0.7**	*0.9*	*1.1*
Croatia	3.1	1.3	-1.5	-4.8	0.9	2.5	-2.0	**0.3**	**0.2**	**0.1**	*-0.3*	*-0.1*
Hungary	3.6	2.3	-2.4	-0.2	-1.3	4.6	3.6	**5.0**	**3.2**	**3.1**	*5.0*	*2.5*
Poland	2.9	1.2	1.7	2.3	2.9	5.5	3.8	**4.5**	**4.5**	**4.9**	*5.3*	*4.8*
Romania	8.1	10.1	-1.6	5.7	1.0	14.1	8.9	**9.1**	**3.1**	**3.6**	*4.3*	*3.2*
Sweden	2.8	2.3	1.3	1.1	1.8	1.5	0.3	**1.0**	**1.0**	**0.6**	*0.8*	*0.3*
EU27	1.2	0.3	0.7	0.8	1.0	1.1	0.4	**1.0**	**0.6**	**1.1**	*1.2*	*0.7*
United Kingdom	4.0	1.5	0.0	-1.3	0.6	1.4	0.9	**1.1**	**1.6**	**1.0**	*0.9*	*1.4*
EU28	1.7	0.5	0.6	0.4	1.0	1.1	0.4	**1.0**	**0.8**	**1.1**	*1.1*	*0.8*
USA	:	0.9	0.4	1.4	2.9	-0.1	0.1	**0.8**	**0.9**	**1.3**	*1.3*	*2.2*
Japan	-0.2	-0.2	0.2	-1.2	0.1	1.7	0.6	**0.3**	**0.6**	**0.4**	*0.6*	*-0.2*

[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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.2	1.1	0.1	0.8	0.8	0.2	0.3	**0.5**	**0.8**	**0.8**	*0.6*	*0.7*
Germany	0.8	1.1	-0.1	1.3	0.8	0.9	0.7	**0.4**	**1.0**	**1.0**	*1.3*	*1.4*
Estonia	6.1	4.1	1.3	2.1	-0.9	3.2	2.1	**2.7**	**2.5**	**2.7**	*3.1*	*2.4*
Ireland	3.2	0.2	2.9	6.0	20.9	1.2	4.2	**4.6**	**1.9**	**1.7**	*3.4*	*2.2*
Greece	3.2	1.2	-2.2	-0.2	-1.2	-0.7	0.0	**0.2**	**0.4**	**0.8**	*0.2*	*0.5*
Spain	0.3	0.5	2.2	0.3	0.3	0.1	0.1	**0.2**	**0.4**	**0.5**	*0.2*	*0.1*
France	0.7	1.1	0.5	0.6	0.8	0.4	1.2	**1.1**	**1.0**	**0.8**	*1.2*	*0.9*
Italy	0.4	0.4	-0.1	-0.1	0.3	-0.2	0.6	**0.1**	**0.2**	**0.4**	*0.6*	*0.5*
Cyprus	1.9	1.1	-0.1	0.5	0.5	0.2	0.4	**0.0**	**0.7**	**0.6**	*0.8*	*0.5*
Latvia	6.3	5.3	2.0	3.3	1.5	2.4	4.7	**2.6**	**2.9**	**2.9**	*2.9*	*3.1*
Lithuania	6.2	7.0	1.7	1.5	0.7	0.4	4.7	**3.8**	**3.3**	**3.0**	*3.5*	*3.1*
Luxembourg	0.8	0.1	-0.8	1.7	1.3	-0.6	-1.8	**-0.5**	**-0.2**	**-0.1**	*0.1*	*0.4*
Malta	3.1	1.1	-0.3	2.9	5.4	1.0	1.4	**0.4**	**1.3**	**1.0**	*1.8*	*1.6*
Netherlands	1.5	1.4	0.2	1.6	0.9	0.8	0.6	**0.7**	**0.9**	**1.0**	*0.7*	*1.0*
Austria	1.4	1.2	-0.3	-0.3	0.5	0.7	0.8	**0.9**	**0.9**	**1.0**	*1.3*	*1.0*
Portugal	0.9	1.4	1.0	-0.5	0.4	0.3	-0.5	**0.0**	**0.5**	**0.9**	*0.2*	*0.8*
Slovenia	2.8	3.3	-0.5	2.5	1.0	1.2	1.9	**1.3**	**0.8**	**1.2**	*2.4*	*2.1*
Slovakia	3.4	5.5	1.6	1.3	2.2	0.7	1.0	**2.3**	**3.1**	**2.9**	*2.6*	*2.9*
Finland	1.8	1.6	-0.7	-0.2	0.3	2.0	1.6	**0.6**	**1.1**	**1.1**	*1.5*	*1.7*
Euro area	0.9	1.0	0.5	0.8	1.0	0.5	0.8	**0.6**	**0.8**	**0.9**	*1.0*	*1.0*
Bulgaria	3.0	3.8	2.2	1.5	3.1	3.4	2.0	**3.0**	**3.4**	**3.4**	*2.7*	*3.3*
Czech Republic	3.5	3.8	0.0	2.2	3.8	0.8	2.7	**1.4**	**2.7**	**2.5**	*2.6*	*2.9*
Denmark	1.3	0.5	1.1	0.7	0.2	0.4	0.7	**-0.5**	**0.7**	**0.8**	*0.6*	*1.0*
Croatia	2.9	1.9	0.5	-2.7	1.1	3.2	0.7	**0.5**	**0.8**	**1.2**	*1.1*	*1.1*
Hungary	3.2	3.4	-0.3	-0.6	1.1	-0.7	2.1	**3.4**	**3.0**	**2.5**	*3.1*	*2.7*
Poland	5.7	2.2	3.2	1.6	2.3	2.5	3.4	**4.1**	**3.4**	**3.2**	*3.5*	*3.4*
Romania	6.5	7.6	1.5	2.6	5.2	6.0	4.3	**3.3**	**4.0**	**3.5**	*3.6*	*3.9*
Sweden	1.8	2.0	0.4	1.2	2.9	0.8	-0.2	**0.7**	**0.9**	**1.1**	*1.0*	*0.7*
EU27	1.6	1.1	0.6	0.7	1.2	0.8	0.9	**0.9**	**1.1**	**1.1**	*1.2*	*1.2*
United Kingdom	2.0	1.1	0.2	0.6	0.6	0.4	0.7	**0.5**	**0.7**	**0.9**	*1.0*	*0.8*
EU28	1.7	1.1	0.6	0.7	1.1	0.7	0.8	**0.9**	**1.1**	**1.1**	*1.2*	*1.2*
USA	1.9	1.3	1.3	0.8	1.2	-0.1	1.0	**1.3**	**1.4**	**1.2**	*1.5*	*1.9*
Japan	1.6	0.6	0.6	-0.2	0.9	0.0	0.7	**-0.7**	**0.5**	**0.3**	*0.7*	*0.6*

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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.8	1.8	2.1	0.1	-0.8	0.3	1.6	**1.7**	**1.2**	**1.3**	*1.5*	*1.5*
Germany	0.7	-0.2	2.2	1.4	1.9	1.3	1.8	**2.5**	**2.0**	**2.0**	*1.7*	*1.7*
Estonia	4.0	10.1	1.3	4.3	4.3	3.0	4.7	**4.2**	**3.4**	**2.8**	*3.3*	*3.3*
Ireland	3.2	4.7	-3.3	-5.1	-15.2	0.9	-3.2	**-1.8**	**1.1**	**1.6**	*-0.9*	*0.5*
Greece	3.8	3.5	-0.5	-1.8	-1.3	-0.3	0.6	**0.6**	**0.9**	**1.2**	*0.6*	*0.8*
Spain	2.8	4.0	-0.8	-0.2	0.5	-0.6	0.2	**0.9**	**1.9**	**1.2**	*0.8*	*1.5*
France	1.8	1.8	1.7	0.7	0.3	0.4	0.6	**1.2**	**-0.6**	**1.4**	*1.1*	*-0.6*
Italy	2.7	2.6	1.7	0.1	0.7	0.4	-0.4	**1.6**	**0.8**	**0.6**	*1.5*	*0.5*
Cyprus	3.4	2.4	1.0	-4.0	-1.7	-1.4	0.4	**1.5**	**1.5**	**1.6**	*0.6*	*1.4*
Latvia	1.3	16.9	-2.7	5.2	6.1	4.8	3.1	**4.4**	**2.8**	**2.9**	*4.8*	*2.6*
Lithuania	-1.6	7.4	-0.6	3.2	5.1	6.4	3.8	**4.2**	**4.2**	**2.9**	*3.0*	*2.8*
Luxembourg	2.9	3.6	2.7	1.8	0.3	1.5	5.2	**2.7**	**2.8**	**2.4**	*2.5*	*1.9*
Malta	1.9	2.2	3.1	-1.2	-0.4	1.8	0.2	**1.9**	**1.9**	**2.1**	*1.5*	*1.6*
Netherlands	3.0	1.2	1.9	0.1	-1.2	0.5	0.5	**1.7**	**2.2**	**2.5**	*2.0*	*2.3*
Austria	0.5	1.4	2.3	2.2	1.4	1.6	0.6	**1.6**	**1.7**	**1.4**	*1.2*	*1.6*
Portugal	3.6	1.6	-0.4	-1.3	0.0	1.4	2.1	**1.8**	**1.6**	**1.2**	*1.5*	*1.2*
Slovenia	6.3	3.0	1.9	-1.2	0.3	1.8	1.3	**2.0**	**2.5**	**2.2**	*1.5*	*2.7*
Slovakia	4.9	2.4	1.4	0.5	1.3	1.3	4.2	**2.7**	**3.2**	**3.3**	*2.7*	*2.7*
Finland	1.2	1.9	3.1	1.1	1.2	-0.9	-2.7	**0.8**	**1.1**	**1.3**	*0.0*	*0.5*
Euro area	1.9	1.7	1.4	0.5	0.5	0.6	0.7	**1.6**	**1.2**	**1.5**	*1.4*	*1.0*
Bulgaria	4.8	6.1	5.9	4.1	2.5	2.3	8.4	**4.8**	**4.0**	**2.8**	*4.8*	*3.6*
Czech Republic	3.9	1.7	1.4	0.4	-0.8	3.1	3.6	**6.5**	**5.0**	**3.0**	*4.1*	*3.2*
Denmark	2.3	3.0	1.0	0.8	1.6	0.9	0.5	**2.7**	**1.8**	**2.0**	*1.6*	*1.8*
Croatia	3.9	2.8	0.4	-2.6	-0.8	-1.8	-1.8	**1.5**	**0.9**	**0.2**	*0.0*	*0.3*
Hungary	8.6	3.7	1.7	1.2	-2.6	5.2	4.1	**4.5**	**3.5**	**3.6**	*4.2*	*2.8*
Poland	1.8	1.9	1.3	0.6	-0.6	2.5	2.5	**1.9**	**3.5**	**4.1**	*3.2*	*3.9*
Romania	32.1	10.9	1.1	4.2	-3.1	8.5	6.5	**9.3**	**2.5**	**3.0**	*4.9*	*2.7*
Sweden	2.5	1.8	2.3	1.0	-0.2	1.7	2.2	**2.0**	**1.8**	**1.3**	*1.7*	*1.8*
EU27	:	:	:	:	:	:	:	**:**	**:**	**:**	*1.6*	*1.2*
United Kingdom	2.6	2.9	2.0	0.0	0.5	2.5	2.4	**2.5**	**2.3**	**2.3**	*1.9*	*2.1*
EU28	2.2	2.1	1.5	0.5	0.4	1.2	1.2	**2.0**	**1.5**	**1.8**	*1.6*	*1.3*
USA	:	2.3	0.6	2.1	1.9	1.1	0.9	**1.6**	**1.7**	**2.1**	*1.8*	*2.3*
Japan	-2.8	-1.0	-1.5	1.1	-0.4	1.1	0.0	**1.0**	**0.7**	**0.7**	*0.4*	*0.1*

[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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	2018	2019
Belgium	0.1	-0.3	0.6	-0.6	-1.8	-1.5	0.0	-0.5	-0.7	-0.5	-0.1	-0.2
Germany	-0.1	-1.1	0.7	-0.3	-0.1	-0.1	0.3	0.7	0.0	0.1	0.0	-0.2
Estonia	-1.3	2.2	-1.5	1.3	3.2	1.5	0.8	0.0	-0.2	-0.1	-0.2	0.3
Ireland	-2.2	3.0	-2.1	-4.8	-21.0	1.7	-3.6	-3.5	-0.7	-0.4	-1.5	-0.8
Greece	0.6	0.2	-0.8	0.0	-0.9	0.0	0.0	0.1	-0.2	-0.1	-0.3	-0.5
Spain	-0.8	0.5	-1.0	0.0	0.0	-0.9	-1.0	-0.5	0.3	-0.5	-0.5	-0.1
France	0.2	-0.3	0.9	0.1	-0.9	0.2	0.0	0.2	-1.9	-0.1	0.0	-2.1
Italy	0.1	0.3	0.4	-0.9	-0.2	-0.7	-0.9	0.4	-0.5	-0.8	0.1	-0.8
Cyprus	0.5	-0.9	0.1	-2.4	-0.5	-0.8	-1.2	-0.6	0.2	-0.1	-0.9	-0.3
Latvia	-2.1	4.0	-2.7	3.3	6.1	3.9	0.0	0.7	0.7	0.2	2.1	-0.2
Lithuania	-1.4	0.4	-2.2	2.1	4.7	4.9	-0.5	1.6	0.6	-0.7	0.3	0.5
Luxembourg	0.4	-0.3	-0.1	-0.9	0.7	0.6	3.0	0.7	0.9	0.7	1.0	0.4
Malta	-0.4	-0.3	0.5	-3.6	-3.0	0.2	-2.3	-0.3	-0.3	-0.1	-0.5	-0.5
Netherlands	0.0	-0.8	1.0	-0.1	-1.9	0.0	-0.7	-0.3	-0.2	0.5	0.3	0.2
Austria	-0.7	-0.6	0.6	0.0	-0.7	0.2	-0.6	0.0	-0.2	-0.5	-0.5	-0.1
Portugal	-0.1	-1.1	-1.1	-2.0	-2.0	-0.3	0.5	0.4	0.1	-0.4	0.2	-0.1
Slovenia	-0.5	-0.1	0.7	-2.0	-0.7	1.0	-0.3	-0.2	-0.1	-0.3	-1.0	0.0
Slovakia	-1.2	-0.6	0.9	0.7	1.4	1.8	2.9	0.1	0.5	0.7	0.0	0.1
Finland	-0.2	0.3	1.0	-0.6	-0.7	-1.5	-3.5	-0.1	-0.5	-0.7	-1.4	-1.1
Euro area	-0.2	-0.4	0.4	-0.4	-1.0	-0.2	-0.3	0.1	-0.5	-0.2	-0.1	-0.6
Bulgaria	0.3	-1.4	3.5	3.6	0.2	0.1	4.8	2.2	1.6	0.6	2.6	1.3
Czech Republic	1.2	-0.3	0.6	-2.0	-2.0	1.8	2.1	4.8	2.6	0.9	1.4	1.6
Denmark	0.1	0.3	-0.5	-0.3	0.9	0.9	-1.2	1.6	0.2	0.0	0.2	-0.1
Croatia	-0.1	-1.3	-1.1	-2.6	-0.8	-1.8	-2.8	-0.8	-0.8	-1.3	-2.1	-1.6
Hungary	0.0	-0.5	-1.2	-2.1	-4.4	4.3	0.2	0.8	0.2	0.6	1.4	-0.3
Poland	-1.7	-1.5	-1.0	0.1	-1.3	2.2	0.6	0.8	1.0	1.5	1.5	1.4
Romania	-2.1	-2.7	-2.5	2.4	-5.6	5.9	1.8	2.7	-1.2	-0.5	-0.2	-1.3
Sweden	0.8	0.0	0.9	-0.7	-2.2	0.0	0.0	-0.5	-0.2	-0.4	-0.4	-0.6
EU27	-0.3	-0.6	0.3	-0.4	-1.3	-0.2	-0.3	0.2	-0.5	-0.2	-0.1	-0.6
United Kingdom	0.9	0.2	0.3	-1.7	0.1	0.4	0.3	0.6	0.7	0.3	-0.1	0.5
EU28	-0.1	-0.5	0.3	-0.7	-1.1	-0.1	-0.2	0.2	-0.3	-0.1	-0.1	-0.4
USA	:	-0.4	-0.9	0.2	0.9	0.0	-1.0	-0.6	-0.5	0.1	-0.2	0.3
Japan	-1.5	-0.1	-0.4	-0.7	-2.5	0.9	0.3	0.8	-0.1	-0.2	-0.4	-0.7

[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 (1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	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	25.6291	25.7958	25.7958	25.3382	25.3163
Denmark	7.4405	7.4515	7.4492	7.4548	7.4587	7.4452	7.4386	7.4526	7.4597	7.4597	7.4470	7.4470
Croatia	7.5375	7.3567	7.4337	7.6344	7.6137	7.5333	7.4634	7.4178	7.4174	7.4174	7.4275	7.4240
Hungary	253.1959	253.3676	284.2605	308.7061	309.9956	311.4379	309.2316	319.1296	324.1480	324.1480	311.3572	311.4520
Poland	4.0329	3.9483	4.1650	4.1843	4.1841	4.3632	4.2568	4.2621	4.3032	4.3032	4.1853	4.1869
Romania	2.6218	3.6431	4.3139	4.4437	4.4454	4.4904	4.5683	4.6558	4.6672	4.6672	4.6584	4.6593
Sweden	8.9586	9.3053	9.3084	9.0985	9.3535	9.4689	9.6347	10.2799	10.4011	10.4011	10.2460	10.3346
EU27				:	:	:	:	:	:	:	:	:
United Kingdom	0.6422	0.7050	0.8554	0.8061	0.7258	0.8195	0.8763	0.8827	0.8786	0.8786	0.8731	0.8698
EU28				:	:	:	:	:	:	:	:	:
USA	0.9924	1.3170	1.3451	1.3285	1.1095	1.1069	1.1290	1.1841	1.1527	1.1527	1.2312	1.2319
Japan	115.7016	146.2032	117.9377	140.3061	134.3140	120.1967	126.6090	130.7409	130.1000	130.1000	132.1974	131.9010

Table 31: Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	1.0	0.8	-0.2	1.2	-2.9	2.1	1.2	**2.4**	**0.2**	**0.0**	*2.4*	*0.1*
Germany	1.5	1.0	-0.4	1.7	-3.9	2.4	1.4	**3.2**	**0.3**	**0.0**	*3.1*	*0.1*
Estonia	3.7	0.8	0.0	4.3	2.7	2.3	-0.2	**3.5**	**0.6**	**0.0**	*3.8*	*0.4*
Ireland	0.7	1.8	-0.6	0.3	-6.5	2.1	2.0	**2.9**	**-0.5**	**0.0**	*3.4*	*0.0*
Greece	3.0	0.8	0.3	3.1	-1.5	2.5	1.9	**4.6**	**1.2**	**0.0**	*4.3*	*0.3*
Spain	1.3	0.8	-0.1	1.2	-2.9	2.2	1.3	**2.7**	**0.3**	**0.0**	*2.5*	*0.1*
France	1.1	1.0	-0.4	1.2	-3.8	2.1	1.4	**2.9**	**0.3**	**0.0**	*2.7*	*0.1*
Italy	1.7	1.0	-0.3	1.7	-3.3	2.1	1.4	**3.3**	**0.4**	**0.0**	*3.2*	*0.1*
Cyprus	3.3	0.9	-0.2	0.7	-4.2	2.3	1.4	**3.0**	**0.3**	**0.0**	*2.5*	*0.1*
Latvia	3.7	-1.3	0.5	4.5	3.7	3.0	-0.6	**3.7**	**0.9**	**0.0**	*3.5*	*0.4*
Lithuania	11.2	0.6	0.6	5.3	5.4	3.3	-1.2	**4.0**	**0.8**	**0.0**	*4.4*	*0.5*
Luxembourg	0.6	0.5	-0.1	1.0	-2.0	1.5	0.8	**1.7**	**0.2**	**0.0**	*1.7*	*0.1*
Malta	0.9	1.5	-0.9	1.2	-5.1	1.5	1.8	**2.7**	**0.2**	**0.0**	*2.7*	*0.0*
Netherlands	0.9	0.8	-0.2	0.9	-2.7	2.1	1.2	**2.2**	**0.2**	**0.0**	*2.0*	*0.1*
Austria	1.2	0.5	-0.1	1.6	-2.0	1.6	0.7	**2.3**	**0.2**	**0.0**	*2.3*	*0.1*
Portugal	0.7	0.7	-0.2	0.8	-2.7	1.8	1.0	**2.0**	**0.2**	**0.0**	*1.9*	*0.1*
Slovenia	-2.7	-0.3	0.4	2.2	0.2	1.7	0.1	**2.3**	**0.6**	**0.0**	*2.0*	*0.2*
Slovakia	0.1	5.9	1.1	1.6	-0.8	1.9	0.4	**1.8**	**0.4**	**0.0**	*1.5*	*0.1*
Finland	2.3	1.0	-0.3	3.2	-1.0	2.3	0.7	**3.6**	**0.4**	**0.0**	*3.8*	*0.2*
Euro area	2.7	1.9	-0.6	2.5	-6.0	4.1	2.1	**5.3**	**0.6**	**0.0**	*4.9*	*0.2*
Bulgaria	5.9	0.6	0.6	2.7	-0.8	2.4	1.9	**4.6**	**1.6**	**0.0**	*3.4*	*0.2*
Czech Republic	4.2	5.2	-0.6	-4.3	0.0	2.8	3.3	**4.8**	**-0.3**	**0.0**	*5.8*	*0.2*
Denmark	1.1	0.9	-0.5	1.9	-2.5	2.2	1.3	**2.8**	**0.1**	**0.0**	*2.8*	*0.1*
Croatia	1.6	1.4	-0.8	2.0	0.7	3.0	1.2	**3.6**	**0.7**	**0.0**	*3.1*	*0.3*
Hungary	0.5	0.4	-3.0	-2.2	-1.2	1.2	1.3	**-1.0**	**-1.1**	**0.0**	*1.2*	*0.1*
Poland	-0.5	5.1	-3.4	2.5	-0.3	-2.3	3.2	**2.2**	**-0.5**	**0.0**	*4.0*	*0.1*
Romania	-21.5	1.0	-3.2	1.6	-0.7	1.0	-0.7	**1.1**	**0.6**	**0.0**	*0.5*	*0.2*
Sweden	0.7	0.0	1.7	-3.2	-5.1	1.0	-0.7	**-3.9**	**-1.1**	**0.0**	*-3.5*	*-0.8*
EU27	3.4	2.4	-1.8	4.7	-4.4	1.1	0.8	**7.2**	**0.9**	**0.0**	*7.3*	*0.3*
United Kingdom	0.3	-1.6	-2.1	6.9	6.0	-10.1	-5.6	**2.4**	**0.5**	**0.0**	*3.8*	*0.5*
EU28	3.5	2.4	-1.8	4.6	-5.6	1.3	1.0	**6.9**	**0.8**	**0.0**	*7.1*	*0.3*
USA	0.8	-3.8	0.6	3.3	15.1	4.7	-0.3	**-0.8**	**2.5**	**0.0**	*-4.4*	*-0.1*
Japan	2.9	-0.5	1.1	-7.0	-5.7	15.0	-3.3	**0.5**	**0.5**	**0.0**	*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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	-0.4	0.0	0.5	-0.9	-1.6	-1.1	0.4	**-0.5**	**-0.6**	:	*-0.3*	*0.0*
Germany	-1.9	-2.5	0.7	0.4	1.3	-0.3	0.7	**0.3**	**0.1**	:	*0.0*	*0.1*
Estonia	1.9	6.9	-0.3	2.8	3.1	1.2	3.4	**1.8**	**1.2**	:	*1.4*	*1.5*
Ireland	1.2	2.7	-4.6	-6.0	-15.9	-0.5	-4.4	**-3.7**	**-0.6**	:	*-2.5*	*-1.1*
Greece	-0.1	1.0	-2.5	-3.8	-2.8	-3.5	-1.2	**-3.1**	**-2.4**	:	*-2.1*	*-1.6*
Spain	0.3	2.0	-2.4	-1.2	-0.2	-2.3	-1.1	**-1.4**	**0.1**	:	*-1.0*	*0.1*
France	-0.5	-0.2	0.3	-0.3	-0.5	-1.1	-0.5	**-1.0**	**-2.6**	:	*-0.6*	*-2.4*
Italy	0.2	0.6	0.2	-1.1	-0.2	-1.3	-1.8	**-0.7**	**-1.2**	:	*-0.3*	*-1.2*
Cyprus	0.3	0.0	-0.2	-4.6	-2.2	-2.8	-0.8	**-0.5**	**-0.4**	:	*-1.0*	*-0.2*
Latvia	-0.8	13.8	-4.1	3.7	4.9	2.5	1.4	**1.7**	**0.2**	:	*2.5*	*0.5*
Lithuania	-4.1	4.1	-1.9	1.7	3.9	4.2	2.1	**1.5**	**1.8**	:	*0.7*	*0.7*
Luxembourg	0.9	1.8	1.0	0.8	-0.3	0.3	4.0	**0.6**	**1.1**	:	*0.8*	*0.5*
Malta	0.2	0.5	1.7	-2.1	-1.1	0.4	-0.8	**-0.1**	**0.3**	:	*-0.1*	*0.3*
Netherlands	0.9	-0.6	0.2	-0.9	-1.9	-1.0	-0.9	**-0.5**	**0.4**	:	*0.3*	*0.8*
Austria	-1.8	-0.3	0.6	1.1	0.6	0.1	-0.8	**-0.8**	**-0.3**	:	*-0.6*	*-0.1*
Portugal	1.4	-0.7	-1.5	-2.0	-0.7	0.4	1.0	**-0.1**	**-0.2**	:	*0.0*	*-0.3*
Slovenia	3.8	1.1	0.1	-2.2	-0.4	0.1	-0.1	**-0.5**	**0.4**	:	*-0.4*	*1.0*
Slovakia	2.4	0.8	-0.3	-0.6	0.6	-0.5	2.5	**0.1**	**1.0**	:	*0.6*	*0.8*
Finland	-1.1	-0.2	1.5	-0.1	0.3	-2.6	-4.1	**-1.5**	**-0.9**	:	*-1.8*	*-1.2*
Euro area	-1.3	-1.0	0.1	-1.1	-0.7	-1.8	-0.7	**-1.1**	**-1.2**	:	*-0.7*	*-0.9*
Bulgaria	-0.3	3.4	4.0	2.4	1.4	-0.7	6.5	**1.2**	**1.1**	:	*2.2*	*1.4*
Czech Republic	1.7	0.2	-0.4	-0.7	-1.7	1.4	2.0	**4.0**	**2.9**	:	*2.1*	*1.4*
Denmark	0.4	1.0	-0.7	-0.4	0.8	-0.5	-0.8	**0.6**	**-0.1**	:	*-0.2*	*0.1*
Croatia	1.2	0.8	-1.4	-3.7	-1.6	-3.6	-3.1	**-1.1**	**-1.2**	:	*-2.0*	*-1.5*
Hungary	6.1	1.9	0.0	0.0	-3.4	3.3	2.4	**1.8**	**1.3**	:	*2.1*	*0.9*
Poland	-0.3	0.0	-0.5	-0.6	-1.5	0.8	1.0	**-0.7**	**1.3**	:	*1.2*	*2.1*
Romania	27.6	8.5	-0.9	2.7	-4.1	6.3	4.9	**6.4**	**0.1**	:	*2.7*	*0.8*
Sweden	0.3	-0.4	0.5	-0.2	-1.1	0.4	1.2	**-0.1**	**-0.1**	:	*0.0*	*0.1*
EU27	-1.0	-0.4	0.2	-1.7	-1.6	-1.6	0.3	**-0.8**	**-1.1**	:	*-0.3*	*-0.6*
United Kingdom	0.5	0.9	0.8	-0.8	0.2	1.2	1.5	**0.6**	**0.6**	:	*0.3*	*0.6*
EU28	-1.0	-0.4	0.2	-1.8	-1.7	-1.6	0.2	**-0.8**	**-1.1**	:	*-0.4*	*-0.7*
USA	-0.7	0.3	-1.0	0.9	0.9	-0.2	-0.2	**-0.3**	**-0.1**	:	*0.4*	*0.9*
Japan	-4.8	-3.2	-2.9	-0.3	-1.6	-0.1	-0.9	**-0.6**	**-0.9**	:	*-1.1*	*-1.6*

[1] 37 countries: EU-28, 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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	0.2	0.8	-0.5	0.2	-3.2	2.9	1.6	**2.4**	**0.1**	:	*1.9*	*-0.3*
Germany	-0.6	0.0	-1.2	0.8	-4.9	1.7	1.1	**2.7**	**-0.2**	:	*2.5*	*-0.2*
Estonia	1.8	2.9	0.2	2.6	0.2	1.6	1.4	**4.8**	**1.4**	:	*4.5*	*0.6*
Ireland	2.4	1.8	-2.6	-0.7	-7.0	1.0	0.3	**1.3**	**-1.5**	:	*2.2*	*-0.8*
Greece	0.5	0.5	-0.7	-0.6	-4.5	1.2	0.7	**2.4**	**-0.5**	:	*1.9*	*-1.3*
Spain	1.4	1.4	-0.6	-0.4	-4.5	0.8	1.4	**2.2**	**-0.3**	:	*1.8*	*-0.6*
France	-0.1	0.3	-1.2	0.4	-4.6	1.4	0.6	**2.7**	**-0.3**	:	*2.4*	*-0.6*
Italy	0.7	0.3	-0.7	0.3	-4.3	0.9	0.6	**2.2**	**-0.6**	:	*2.2*	*-0.7*
Cyprus	1.1	0.5	-0.8	-0.7	-6.4	-0.1	0.2	**1.6**	**-0.6**	:	*1.3*	*-0.7*
Latvia	1.3	3.6	-1.0	2.8	0.7	1.3	-0.2	**4.0**	**0.8**	:	*3.8*	*0.5*
Lithuania	4.5	1.2	0.1	2.7	0.5	2.0	0.1	**4.3**	**0.1**	:	*4.7*	*0.2*
Luxembourg	0.6	1.2	0.0	0.6	-2.6	0.8	1.1	**1.6**	**0.0**	:	*1.3*	*-0.1*
Malta	1.1	1.5	-1.1	0.7	-4.7	1.5	1.3	**2.4**	**-0.1**	:	*2.4*	*-0.1*
Netherlands	1.5	-0.3	-0.3	0.0	-3.3	1.3	0.6	**1.6**	**0.5**	:	*1.6*	*0.3*
Austria	-0.3	-0.2	-0.3	1.7	-2.2	1.7	1.0	**2.2**	**0.0**	:	*2.4*	*-0.1*
Portugal	1.5	0.5	-0.9	-0.5	-2.8	1.7	0.7	**1.3**	**-0.4**	:	*1.2*	*-0.3*
Slovenia	0.5	0.0	-0.2	1.1	-2.0	0.5	-0.4	**2.1**	**0.4**	:	*1.9*	*0.0*
Slovakia	4.9	7.0	0.9	0.2	-2.2	0.6	-0.2	**2.3**	**0.7**	:	*1.9*	*0.1*
Finland	0.5	-0.8	-0.5	2.4	-3.0	1.3	-0.5	**2.5**	**-0.4**	:	*3.0*	*-0.2*
Euro area	0.5	0.7	-1.7	0.7	-7.5	2.7	1.3	**4.3**	**-0.3**	:	*3.9*	*-0.6*
Bulgaria	3.6	4.4	0.0	-0.9	-3.5	-0.3	0.7	**4.0**	**0.4**	:	*2.5*	*-0.5*
Czech Republic	2.9	5.4	-1.1	-5.2	-0.8	2.6	3.8	**4.7**	**-0.4**	:	*5.9*	*-0.1*
Denmark	0.7	0.2	-0.9	0.8	-3.3	1.1	0.5	**1.3**	**-0.6**	:	*1.6*	*-0.5*
Croatia	0.2	1.4	-1.2	0.4	-1.4	1.2	0.4	**2.8**	**-0.4**	:	*2.3*	*-0.5*
Hungary	4.7	3.0	-1.6	-3.6	-2.2	0.8	1.7	**-0.4**	**-0.3**	:	*1.3*	*1.0*
Poland	0.6	4.7	-2.9	1.0	-2.4	-3.5	2.8	**1.1**	**-0.4**	:	*3.1*	*0.5*
Romania	-0.8	5.6	-1.1	1.3	-2.5	-1.2	-1.7	**2.8**	**1.5**	:	*2.5*	*1.2*
Sweden	-0.5	-1.1	0.8	-4.5	-5.5	0.9	-0.7	**-4.0**	**-1.5**	:	*-3.5*	*-1.2*
EU27	0.3	0.9	-2.7	2.3	-6.9	-0.9	0.0	**6.1**	**-0.3**	:	*6.3*	*-0.5*
United Kingdom	-1.3	-2.1	-1.1	7.0	5.1	-10.5	-4.7	**2.8**	**0.3**	:	*4.4*	*0.4*
EU28	0.3	0.9	-2.8	2.2	-7.9	-0.6	0.3	**5.8**	**-0.3**	:	*6.1*	*-0.5*
USA	0.3	-3.2	0.0	2.3	12.2	3.5	-1.0	**-0.7**	**2.5**	:	*-4.5*	*-0.1*
Japan	0.0	-3.3	-1.8	-6.2	-6.0	13.2	-4.7	**-0.9**	**-0.8**	:	*-1.0*	*-0.8*

[1] 42 countries: EU-28, TR, CH, NO, US, CA, JP, AU, MX, NZ, KO, CN, HK, 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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	49.7	49.5	54.7	55.3	53.7	53.0	52.2	**52.0**	**51.8**	**52.0**	*51.8*	*51.8*
Germany	46.9	44.7	45.7	44.0	43.7	43.9	43.9	**43.8**	**43.9**	**44.0**	*43.8*	*43.5*
Estonia	36.6	35.1	40.3	37.8	39.6	39.5	39.3	**39.4**	**39.4**	**39.4**	*40.4*	*40.4*
Ireland	32.7	35.6	48.2	37.4	28.9	27.5	26.3	**25.1**	**24.7**	**24.0**	*25.4*	*25.0*
Greece	46.2	47.2	55.7	50.2	53.5	48.9	47.3	**47.6**	**46.2**	**45.3**	*48.6*	*47.4*
Spain	38.9	39.1	46.2	44.8	43.7	42.2	41.0	**41.1**	**40.9**	**40.8**	*40.7*	*40.0*
France	52.4	53.0	56.9	57.2	56.8	56.7	56.5	**56.2**	**55.4**	**54.1**	*56.0*	*55.1*
Italy	47.1	47.2	50.5	50.9	50.3	49.1	48.7	**48.1**	**48.8**	**48.6**	*48.0*	*47.6*
Cyprus	36.3	38.5	42.1	48.8	40.6	38.0	37.5	**37.2**	**37.0**	**36.8**	*37.6*	*37.3*
Latvia	36.3	35.3	41.2	38.1	38.2	37.0	37.8	**37.7**	**37.3**	**37.1**	*38.8*	*38.4*
Lithuania	37.2	35.2	40.3	34.6	34.9	34.1	33.1	**34.3**	**34.9**	**35.0**	*33.3*	*33.6*
Luxembourg	40.1	40.9	43.8	42.0	42.0	41.9	43.1	**43.5**	**43.8**	**44.4**	*43.1*	*43.3*
Malta	42.1	42.1	41.8	41.3	40.1	37.1	36.2	**37.7**	**37.5**	**37.9**	*37.3*	*36.8*
Netherlands	43.3	42.8	47.1	45.7	44.6	43.6	42.5	**42.4**	**42.3**	**42.3**	*42.6*	*42.4*
Austria	51.4	50.9	52.1	52.4	51.1	50.3	49.2	**48.7**	**48.0**	**47.6**	*48.5*	*47.9*
Portugal	43.7	45.6	50.1	51.8	48.2	44.8	45.7	**44.0**	**43.9**	**43.7**	*44.1*	*43.5*
Slovenia	46.1	44.1	51.1	49.9	47.7	45.3	43.2	**42.2**	**41.8**	**41.1**	*41.8*	*41.5*
Slovakia	45.9	37.9	41.8	42.0	45.1	41.5	40.2	**39.9**	**39.3**	**38.7**	*39.5*	*38.3*
Finland	48.8	48.4	55.5	58.1	57.1	55.9	54.0	**52.9**	**52.1**	**51.4**	*52.6*	*51.5*
Euro area	47.0	46.3	50.0	49.1	48.3	47.5	47.0	**46.7**	**46.5**	**46.1**	*46.6*	*46.1*
Bulgaria	40.4	36.8	36.3	43.1	40.5	35.1	35.1	**36.1**	**37.7**	**37.6**	*35.8*	*35.8*
Czech Republic	43.9	41.4	43.6	42.4	41.7	39.5	39.0	**40.4**	**40.8**	**40.7**	*38.9*	*39.5*
Denmark	53.4	50.8	56.7	55.2	54.8	53.6	51.9	**51.9**	**52.1**	**51.2**	*51.9*	*51.6*
Croatia		46.6	48.0	48.1	48.3	46.9	45.0	**44.9**	**44.1**	**43.8**	*45.1*	*44.6*
Hungary	48.5	49.6	49.4	49.5	50.1	46.8	46.9	**47.3**	**46.6**	**46.3**	*47.1*	*47.1*
Poland	44.3	44.0	44.0	42.4	41.7	41.1	41.1	**41.6**	**41.9**	**42.2**	*41.7*	*41.9*
Romania	36.3	35.3	38.4	35.4	36.2	34.9	33.6	**35.1**	**35.1**	**36.3**	*34.3*	*34.9*
Sweden	54.0	51.0	51.4	51.1	49.6	49.7	49.3	**49.1**	**48.9**	**48.8**	*48.9*	*48.4*
EU27	47.1	46.4	49.7	48.8	48.0	47.2	46.6	**46.4**	**46.3**	**45.9**	*46.3*	*45.8*
United Kingdom	36.7	41.5	46.1	43.0	42.2	41.4	40.9	**40.5**	**40.3**	**40.3**	*40.6*	*40.4*
EU28		45.5	49.2	47.9	46.9	46.3	45.8	**45.5**	**45.4**	**45.1**	*45.4*	*45.0*
USA	35.2	37.2	41.2	37.9	37.4	37.7	37.7	**37.6**	**37.9**	**38.0**	*37.9*	*38.2*
Japan			40.5	40.2	39.3	39.1	39.3	**39.0**	**38.8**	**38.9**	*38.8*	*38.3*

Table 35: Total revenue, general government (as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	49.3	48.8	50.6	52.2	51.3	50.6	51.3	**51.0**	**50.7**	**50.6**	*50.7*	*50.4*
Germany	44.5	42.9	44.0	44.5	44.5	44.8	45.0	**45.3**	**45.1**	**45.0**	*45.0*	*44.9*
Estonia	36.4	36.4	40.1	38.5	39.7	39.1	38.9	**39.9**	**39.8**	**39.6**	*40.4*	*40.7*
Ireland	34.3	35.4	33.6	33.8	27.0	27.0	26.0	**25.0**	**24.6**	**24.2**	*25.2*	*24.9*
Greece	40.4	39.7	44.0	46.6	47.9	49.5	48.1	**48.3**	**46.8**	**46.0**	*49.0*	*47.6*
Spain	38.1	39.3	36.7	38.9	38.5	37.7	37.9	**38.4**	**38.8**	**38.8**	*38.1*	*38.1*
France	50.1	49.9	51.3	53.3	53.2	53.2	53.8	**53.6**	**52.7**	**52.4**	*53.7*	*52.4*
Italy	44.3	44.2	46.7	47.9	47.7	46.5	46.4	**46.2**	**45.9**	**45.5**	*46.4*	*45.9*
Cyprus	32.6	37.9	36.7	39.8	39.3	38.3	39.3	**40.0**	**40.1**	**39.7**	*39.6*	*39.6*
Latvia	33.8	34.0	36.3	36.6	36.9	37.0	37.2	**36.8**	**36.4**	**36.4**	*37.7*	*37.2*
Lithuania	34.7	34.0	34.1	34.0	34.6	34.4	33.6	**34.9**	**35.3**	**35.1**	*33.8*	*33.9*
Luxembourg	43.6	42.6	43.9	43.3	43.3	43.6	44.5	**44.8**	**45.0**	**45.2**	*44.0*	*43.9*
Malta	35.5	39.0	39.0	39.5	39.1	38.0	39.7	**39.0**	**38.6**	**38.6**	*38.4*	*38.1*
Netherlands	42.5	42.4	42.8	43.6	42.6	43.6	43.7	**43.4**	**43.4**	**43.3**	*43.4*	*43.4*
Austria	49.6	48.3	48.9	49.7	50.1	48.7	48.4	**48.3**	**48.0**	**47.8**	*48.0*	*47.8*
Portugal	39.9	40.9	42.3	44.6	43.8	42.8	42.7	**43.3**	**43.3**	**43.4**	*43.2*	*42.9*
Slovenia	43.0	42.9	43.7	44.4	44.9	43.4	43.2	**42.7**	**42.2**	**41.3**	*42.3*	*41.8*
Slovakia	38.6	35.3	36.5	39.3	42.5	39.2	39.4	**39.3**	**38.9**	**38.6**	*38.6*	*38.0*
Finland	52.9	52.0	53.3	54.9	54.4	54.2	53.3	**52.2**	**51.9**	**51.3**	*51.9*	*51.3*
Euro area	45.0	44.3	45.3	46.7	46.2	46.0	46.1	**46.0**	**45.7**	**45.5**	*46.0*	*45.5*
Bulgaria	40.2	38.2	34.3	37.7	38.8	35.3	36.2	**37.0**	**38.3**	**38.2**	*36.4*	*36.4*
Czech Republic	38.9	39.4	40.1	40.3	41.1	40.2	40.5	**41.8**	**41.5**	**41.3**	*40.3*	*40.4*
Denmark	54.1	54.9	54.2	56.4	53.3	53.2	53.0	**52.1**	**52.0**	**51.8**	*51.8*	*51.6*
Croatia		43.0	41.9	42.9	44.8	46.0	45.8	**45.1**	**44.4**	**43.9**	*45.8*	*45.4*
Hungary	42.9	43.1	45.5	46.9	48.2	45.1	44.7	**44.9**	**44.7**	**44.5**	*44.7*	*45.0*
Poland	40.2	40.4	38.6	38.7	39.0	38.9	39.7	**40.7**	**41.0**	**41.2**	*40.3*	*40.5*
Romania	33.1	32.9	32.9	34.2	35.5	31.9	30.7	**31.8**	**31.8**	**31.7**	*30.9*	*31.1*
Sweden	54.5	52.9	50.7	49.5	49.8	50.8	50.9	**50.2**	**49.9**	**49.6**	*49.7*	*49.3*
EU27	45.2	44.5	45.2	46.4	46.0	45.8	45.8	**45.8**	**45.5**	**45.3**	*45.6*	*45.2*
United Kingdom	36.2	38.1	38.0	37.6	38.0	38.5	39.1	**39.2**	**39.3**	**39.3**	*38.7*	*38.8*
EU28		43.4	44.2	45.0	44.6	44.6	44.8	**44.8**	**44.6**	**44.4**	*44.6*	*44.2*
USA	33.0	32.5	31.3	33.1	33.2	32.7	33.7	**31.8**	**32.0**	**32.0**	*32.5*	*32.3*
Japan			31.7	34.8	35.7	35.7	35.6	**35.7**	**35.7**	**36.1**	*35.5*	*35.6*

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	-0.4	-0.7	-4.2	-3.1	-2.5	-2.4	-0.9	**-1.0**	**-1.1**	**-1.3**	*-1.1*	*-1.3*
Germany	-2.4	-1.8	-1.7	0.6	0.8	0.9	1.0	**1.6**	**1.2**	**1.1**	*1.2*	*1.4*
Estonia	-0.2	1.3	-0.3	0.7	0.1	-0.3	-0.4	**0.5**	**0.5**	**0.2**	*0.0*	*0.3*
Ireland	1.6	-0.2	-14.6	-3.6	-1.9	-0.5	-0.2	**-0.1**	**-0.1**	**0.2**	*-0.2*	*-0.2*
Greece	-5.8	-7.6	-11.7	-3.6	-5.6	0.5	0.8	**0.6**	**0.6**	**0.6**	*0.4*	*0.2*
Spain	-0.7	0.2	-9.5	-6.0	-5.3	-4.5	-3.1	**-2.7**	**-2.1**	**-1.9**	*-2.6*	*-1.9*
France	-2.3	-3.1	-5.7	-3.9	-3.6	-3.5	-2.7	**-2.6**	**-2.8**	**-1.7**	*-2.3*	*-2.8*
Italy	-2.8	-3.0	-3.8	-3.0	-2.6	-2.5	-2.4	**-1.9**	**-2.9**	**-3.1**	*-1.7*	*-1.7*
Cyprus	-3.6	-0.6	-5.3	-9.0	-1.3	0.3	1.8	**2.8**	**3.0**	**2.9**	*2.0*	*2.2*
Latvia	-2.4	-1.3	-4.9	-1.5	-1.4	0.1	-0.6	**-0.8**	**-1.0**	**-0.7**	*-1.1*	*-1.2*
Lithuania	-2.5	-1.2	-6.1	-0.6	-0.3	0.3	0.5	**0.6**	**0.4**	**0.1**	*0.5*	*0.3*
Luxembourg	3.6	1.6	0.1	1.3	1.3	1.6	1.4	**1.3**	**1.2**	**0.9**	*0.9*	*0.7*
Malta	-6.6	-3.2	-2.8	-1.7	-1.0	0.9	3.5	**1.3**	**1.2**	**0.7**	*1.1*	*1.3*
Netherlands	-0.9	-0.4	-4.3	-2.2	-2.0	0.0	1.2	**1.1**	**1.1**	**1.0**	*0.7*	*0.9*
Austria	-1.8	-2.5	-3.3	-2.7	-1.0	-1.6	-0.8	**-0.3**	**0.0**	**0.1**	*-0.5*	*-0.2*
Portugal	-3.8	-4.7	-7.8	-7.2	-4.4	-2.0	-3.0	**-0.7**	**-0.6**	**-0.2**	*-0.9*	*-0.6*
Slovenia	-3.1	-1.2	-7.4	-5.5	-2.8	-1.9	0.1	**0.5**	**0.4**	**0.2**	*0.5*	*0.4*
Slovakia	-7.3	-2.6	-5.3	-2.7	-2.6	-2.2	-0.8	**-0.6**	**-0.3**	**-0.1**	*-0.9*	*-0.3*
Finland	4.0	3.6	-2.2	-3.2	-2.8	-1.7	-0.7	**-0.8**	**-0.2**	**-0.1**	*-0.7*	*-0.2*
Euro area	-2.0	-2.0	-4.7	-2.5	-2.0	-1.6	-1.0	**-0.6**	**-0.8**	**-0.7**	*-0.7*	*-0.6*
Bulgaria	-0.2	1.5	-2.0	-5.4	-1.7	0.2	1.1	**0.8**	**0.6**	**0.6**	*0.6*	*0.6*
Czech Republic	-5.1	-2.0	-3.5	-2.1	-0.6	0.7	1.5	**1.4**	**0.8**	**0.7**	*1.4*	*0.8*
Denmark	0.7	4.0	-2.5	1.1	-1.5	-0.4	1.1	**0.2**	**-0.1**	**0.6**	*-0.1*	*0.0*
Croatia		-3.5	-6.1	-5.1	-3.4	-0.9	0.9	**0.2**	**0.4**	**0.1**	*0.7*	*0.8*
Hungary	-5.6	-6.5	-3.9	-2.6	-1.9	-1.6	-2.2	**-2.4**	**-1.9**	**-1.8**	*-2.4*	*-2.1*
Poland	-4.2	-3.6	-5.4	-3.7	-2.7	-2.2	-1.4	**-0.9**	**-0.9**	**-1.0**	*-1.4*	*-1.4*
Romania	-3.1	-2.4	-5.5	-1.3	-0.7	-2.9	-2.9	**-3.3**	**-3.4**	**-4.7**	*-3.4*	*-3.8*
Sweden	0.5	1.9	-0.7	-1.6	0.2	1.1	1.6	**1.1**	**0.9**	**0.8**	*0.8*	*0.9*
EU27	-2.0	-1.8	-4.5	-2.4	-1.9	-1.4	-0.8	**-0.6**	**-0.8**	**-0.6**	*-0.6*	*-0.6*
United Kingdom	-0.6	-3.4	-8.1	-5.4	-4.2	-2.9	-1.8	**-1.3**	**-1.0**	**-1.0**	*-1.9*	*-1.6*
EU28		-2.1	-5.0	-2.9	-2.3	-1.7	-1.0	**-0.7**	**-0.8**	**-0.7**	*-0.8*	*-0.8*
USA	-2.2	-4.6	-9.9	-4.8	-4.2	-4.9	-4.0	**-5.8**	**-6.0**	**-6.0**	*-5.3*	*-5.9*
Japan			-8.8	-5.4	-3.6	-3.4	-3.7	**-3.3**	**-3.1**	**-2.8**	*-3.2*	*-2.7*

Table 37: Interest expenditure, general government (as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	6.3	4.2	3.6	3.3	3.0	2.8	2.5	**2.4**	**2.2**	**2.1**	*2.3*	*2.2*
Germany	3.0	2.7	2.4	1.6	1.4	1.2	1.0	**0.9**	**0.9**	**0.8**	*1.0*	*1.0*
Estonia	0.3	0.2	0.1	0.1	0.1	0.1	0.0	**0.0**	**0.0**	**0.0**	*0.1*	*0.1*
Ireland	1.7	1.1	3.3	3.9	2.6	2.3	2.0	**1.6**	**1.4**	**1.3**	*1.7*	*1.7*
Greece	6.2	4.6	5.5	3.9	3.5	3.2	3.1	**3.2**	**3.5**	**3.4**	*3.3*	*3.5*
Spain	2.9	1.7	2.5	3.5	3.1	2.8	2.6	**2.4**	**2.3**	**2.2**	*2.4*	*2.4*
France	3.0	2.7	2.5	2.2	2.0	1.9	1.9	**1.9**	**1.8**	**1.8**	*1.7*	*1.6*
Italy	5.8	4.7	4.7	4.6	4.1	3.9	3.8	**3.7**	**3.8**	**3.9**	*3.6*	*3.5*
Cyprus	3.1	2.9	2.6	3.2	3.2	2.8	2.6	**2.7**	**2.4**	**2.2**	*3.0*	*2.8*
Latvia	0.8	0.5	1.6 :	1.4	1.3	1.0	0.9	**0.8**	**0.7**	**0.7**	*0.8*	*0.7*
Lithuania	1.4	0.7	1.7 :	1.6	1.5	1.3	1.1	**0.9**	**0.9**	**0.7**	*0.8*	*0.8*
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	1.8	**1.6**	**1.5**	**1.3**	*1.6*	*1.5*
Netherlands	3.0	2.1	1.8	1.5	1.3	1.2	1.0	**0.8**	**0.7**	**0.7**	*0.8*	*0.7*
Austria	3.4	3.1	2.8	2.4	2.3	2.1	1.8	**1.6**	**1.5**	**1.4**	*1.6*	*1.5*
Portugal	2.9	2.8	4.0	4.9	4.6	4.2	3.8	**3.5**	**3.3**	**3.2**	*3.5*	*3.4*
Slovenia	2.2	1.4	1.9	3.2	3.2	3.0	2.5	**2.0**	**1.7**	**1.6**	*2.0*	*1.7*
Slovakia	3.4	1.6	1.6	1.9	1.7	1.6	1.4	**1.3**	**1.2**	**1.1**	*1.3*	*1.2*
Finland	2.4	1.5	1.3	1.2	1.2	1.1	1.0	**0.9**	**0.8**	**0.8**	*0.9*	*0.9*
Euro area	3.6	2.9	2.9	2.6	2.3	2.1	2.0	**1.9**	**1.8**	**1.8**	*1.8*	*1.8*
Bulgaria	3.3	1.3	0.7	0.9	0.9	0.9	0.8	**0.7**	**0.7**	**0.6**	*0.7*	*0.7*
Czech Republic	0.9	1.1	1.3	1.3	1.1	0.9	0.7	**0.7**	**0.8**	**0.8**	*0.7*	*0.7*
Denmark	3.4	1.9	1.9	1.5	1.6	1.4	1.1	**1.0**	**0.9**	**0.9**	*1.1*	*1.0*
Croatia		1.9	2.8	3.4	3.5	3.1	2.7	**2.4**	**2.3**	**2.2**	*2.5*	*2.4*
Hungary	4.9	4.1	4.4	4.0	3.5	3.2	2.8	**2.5**	**2.4**	**2.4**	*2.6*	*2.5*
Poland	3.0	2.4	2.5	2.0	1.8	1.7	1.6	**1.5**	**1.4**	**1.4**	*1.5*	*1.5*
Romania	3.3	1.0	1.6	1.7	1.6	1.5	1.3	**1.4**	**1.4**	**1.5**	*1.4*	*1.4*
Sweden	2.9	1.7	1.0	0.7	0.4	0.4	0.4	**0.3**	**0.3**	**0.3**	*0.3*	*0.2*
EU27	3.6	2.8	2.8	2.5	2.2	2.0	1.9	**1.8**	**1.7**	**1.7**	*1.7*	*1.7*
United Kingdom	2.2	2.0	2.7	2.7	2.3	2.4	2.7	**2.5**	**2.4**	**2.3**	*2.6*	*2.5*
EU28		2.7	2.8	2.5	2.2	2.1	2.0	**1.9**	**1.8**	**1.8**	*1.9*	*1.8*
USA	3.7	3.4	3.7	3.5	3.3	3.5	3.5	**3.7**	**3.9**	**4.1**	*3.8*	*4.0*
Japan	2.7	1.8	2.0	1.9	1.8	1.8	1.9	**1.9**	**1.8**	**1.7**	*1.9*	*1.9*

Table 38: Primary balance, general government [1] (as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	5.8	3.5	-0.6	0.2	0.6	0.4	1.6	**1.4**	**1.2**	**0.8**	*1.2*	*0.8*
Germany	0.6	0.9	0.7	2.2	2.2	2.1	2.1	**2.5**	**2.0**	**1.9**	*2.2*	*2.3*
Estonia	0.1	1.5	-0.1	0.8	0.2	-0.3	-0.3	**0.6**	**0.5**	**0.2**	*0.0*	*0.4*
Ireland	3.3	0.9	-11.2	0.3	0.7	1.7	1.7	**1.5**	**1.3**	**1.6**	*1.5*	*1.5*
Greece	0.4	-2.9	-6.3	0.3	-2.1	3.7	3.9	**3.9**	**4.1**	**4.0**	*3.7*	*3.7*
Spain	2.1	1.9	-7.0	-2.5	-2.2	-1.7	-0.5	**-0.3**	**0.1**	**0.2**	*-0.2*	*0.4*
France	0.7	-0.3	-3.1	-1.7	-1.6	-1.7	-0.8	**-0.8**	**-0.9**	**0.1**	*-0.6*	*-1.1*
Italy	3.0	1.6	0.9	1.5	1.5	1.4	1.4	**1.7**	**1.0**	**0.8**	*1.9*	*1.7*
Cyprus	-0.6	2.3	-2.7	-5.8	1.9	3.1	4.3	**5.5**	**5.5**	**5.2**	*5.0*	*5.1*
Latvia	-1.6	-0.8	-3.3 :	-0.1	0.0	1.1	0.3	**-0.1**	**-0.2**	**0.0**	*-0.3*	*-0.4*
Lithuania	-1.1	-0.4	-4.4 :	1.0	1.3	1.6	1.6	**1.5**	**1.2**	**0.8**	*1.3*	*1.2*
Luxembourg	3.9	1.9	0.6	1.7	1.7	2.0	1.7	**1.7**	**1.6**	**1.2**	*1.3*	*1.0*
Malta	-2.7	0.4	0.3	1.0	1.4	3.1	5.4	**2.9**	**2.6**	**2.0**	*2.7*	*2.8*
Netherlands	2.1	1.7	-2.6	-0.7	-0.7	1.2	2.2	**1.9**	**1.8**	**1.6**	*1.6*	*1.7*
Austria	1.7	0.5	-0.5	-0.3	1.3	0.5	1.0	**1.3**	**1.5**	**1.6**	*1.2*	*1.3*
Portugal	-0.9	-1.9	-3.8	-2.3	0.2	2.2	0.9	**2.7**	**2.7**	**3.0**	*2.7*	*2.8*
Slovenia	-0.9	0.2	-5.5	-2.3	0.4	1.1	2.6	**2.4**	**2.1**	**1.8**	*2.5*	*2.0*
Slovakia	-3.9	-1.0	-3.7	-0.8	-0.8	-0.6	0.6	**0.7**	**0.8**	**0.9**	*0.4*	*0.9*
Finland	6.4	5.1	-0.8	-2.0	-1.6	-0.6	0.3	**0.1**	**0.6**	**0.7**	*0.2*	*0.7*
Euro area	1.6	0.9	-1.8	0.1	0.3	0.6	1.0	**1.2**	**1.0**	**1.1**	*1.2*	*1.1*
Bulgaria	3.1	2.8	-1.2	-4.6	-0.7	1.1	1.9	**1.5**	**1.3**	**1.2**	*1.3*	*1.3*
Czech Republic	-4.1	-1.0	-2.2	-0.8	0.5	1.6	2.3	**2.1**	**1.5**	**1.4**	*2.1*	*1.6*
Denmark	4.2	5.9	-0.6	2.6	0.1	0.9	2.2	**1.2**	**0.8**	**1.5**	*1.0*	*1.0*
Croatia		-1.6	-3.4	-1.7	0.0	2.1	3.5	**2.7**	**2.6**	**2.2**	*3.3*	*3.2*
Hungary	-0.7	-2.4	0.5	1.4	1.6	1.6	0.6	**0.1**	**0.5**	**0.6**	*0.1*	*0.3*
Poland	-1.2	-1.2	-2.9	-1.7	-0.9	-0.5	0.2	**0.6**	**0.6**	**0.4**	*0.1*	*0.1*
Romania	0.1	-1.4	-3.8	0.4	0.9	-1.4	-1.5	**-1.9**	**-1.9**	**-3.2**	*-2.0*	*-2.4*
Sweden	3.5	3.6	0.4	-0.9	0.6	1.5	1.9	**1.3**	**1.2**	**1.2**	*1.1*	*1.1*
EU27	1.6	1.0	-1.7	0.1	0.3	0.6	1.0	**1.2**	**0.9**	**1.0**	*1.1*	*1.1*
United Kingdom	1.6	-1.3	-5.4	-2.7	-1.9	-0.5	0.9	**1.2**	**1.4**	**1.4**	*0.6*	*0.9*
EU28	1.6	0.6	-2.3	-0.4	-0.1	0.4	1.0	**1.2**	**1.0**	**1.1**	*1.0*	*1.0*
USA	1.5	-1.2	-6.2	-1.3	-0.9	-1.4	-0.5	**-2.1**	**-2.1**	**-1.9**	*-1.5*	*-1.8*
Japan	2.7	-1.0	-6.8	-3.5	-1.7	-1.7	-1.8	**-1.5**	**-1.4**	**-1.0**	*-1.3*	*-0.8*

[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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	2018	2019
Belgium	-0.6	-1.6	-3.7	-2.5	-2.2	-2.3	-0.9	**-1.1**	**-1.2**	**-1.6**	*-1.2*	*-1.6*
Germany	-2.6	-1.8	-1.1	0.7	1.0	0.8	0.6	**1.2**	**1.0**	**1.1**	*1.0*	*1.0*
Estonia	0.0	-2.1	1.1	0.1	-0.1	-0.8	-1.6	**-0.8**	**-0.7**	**-0.9**	*-1.3*	*-0.9*
Ireland	0.1	-1.1	-13.1	-4.1	-2.9	-0.9	-0.2	**-0.2**	**-0.5**	**-0.3**	*-0.6*	*-0.4*
Greece	-6.6	-9.3	-7.1	2.8	0.2	5.8	4.9	**3.6**	**2.5**	**1.5**	*3.0*	*1.6*
Spain	-2.1	-1.0	-6.3	-1.9	-2.8	-3.3	-2.9	**-3.2**	**-3.1**	**-3.1**	*-3.3*	*-3.2*
France	-3.0	-4.2	-4.8	-3.0	-2.8	-2.8	-2.5	**-2.7**	**-3.1**	**-2.2**	*-2.4*	*-3.1*
Italy	-3.4	-3.9	-2.2	-0.6	-0.7	-1.3	-1.9	**-1.8**	**-3.0**	**-3.5**	*-1.6*	*-2.0*
Cyprus	-4.4	-3.1	-3.7	-4.6	1.6	1.3	1.5	**1.7**	**1.2**	**0.7**	*0.8*	*0.5*
Latvia	-2.0	-3.5	-2.4	-1.4	-1.5	0.0	-1.2	**-1.8**	**-1.7**	**-1.2**	*-1.9*	*-1.9*
Lithuania	-1.3	-3.2	-3.8	-0.9	-0.5	-0.2	-0.6	**-0.6**	**-0.5**	**-0.4**	*-0.6*	*-0.6*
Luxembourg	2.3	1.3	1.8	2.1	1.3	1.4	1.6	**1.3**	**1.1**	**0.8**	*0.8*	*0.3*
Malta	-6.9	-3.4	-1.9	-2.3	-2.5	0.2	2.8	**0.9**	**1.0**	**0.9**	*0.7*	*1.2*
Netherlands	-1.2	-0.4	-2.8	-0.6	-0.8	0.7	1.2	**0.4**	**0.1**	**0.0**	*0.0*	*-0.2*
Austria	-1.9	-2.9	-2.7	-2.1	-0.3	-1.2	-0.8	**-0.8**	**-0.4**	**-0.2**	*-0.8*	*-0.6*
Portugal	-4.4	-4.7	-6.7	-5.6	-3.5	-1.6	-3.3	**-1.4**	**-1.3**	**-1.0**	*-1.4*	*-1.3*
Slovenia	-3.3	-3.1	-5.4	-3.4	-1.3	-1.2	-0.5	**-0.8**	**-1.0**	**-1.0**	*-1.1*	*-1.6*
Slovakia	-6.4	-3.8	-4.5	-1.8	-2.2	-2.1	-0.9	**-0.8**	**-0.8**	**-0.6**	*-1.2*	*-0.8*
Finland	3.6	2.7	-0.8	-1.4	-0.8	-0.5	-0.2	**-0.9**	**-0.5**	**-0.7**	*-0.9*	*-0.8*
Euro area	-2.6	-2.7	-3.4	-1.1	-1.0	-1.0	-0.9	**-0.8**	**-1.2**	**-1.1**	*-0.9*	*-1.1*
Bulgaria	0.9	0.8	-1.7	-4.9	-1.2	0.3	1.1	**0.7**	**0.4**	**0.3**	*0.5*	*0.5*
Czech Republic	-4.9	-3.6	-2.7	-1.0	-0.5	0.9	1.1	**0.9**	**0.2**	**0.2**	*0.9*	*0.2*
Denmark	0.1	2.7	-0.6	2.4	-0.5	0.2	1.2	**0.5**	**0.2**	**0.8**	*0.3*	*0.3*
Croatia		-5.2	-4.9	-3.2	-2.3	-0.6	0.6	**-0.5**	**-0.7**	**-1.1**	*-0.3*	*-0.6*
Hungary	-5.4	-7.6	-2.1	-2.2	-2.0	-1.8	-3.1	**-3.8**	**-3.3**	**-3.0**	*-3.6*	*-3.3*
Poland	-3.0	-3.4	-5.7	-3.0	-2.3	-1.9	-1.9	**-2.0**	**-2.0**	**-1.8**	*-2.2*	*-2.2*
Romania	-2.3	-4.6	-4.2	-0.3	0.1	-2.5	-3.4	**-3.5**	**-3.4**	**-4.6**	*-3.9*	*-4.2*
Sweden	0.6	1.1	0.8	-0.4	0.1	0.8	1.4	**0.9**	**0.9**	**1.0**	*0.7*	*1.0*
EU27	-2.4	-2.5	-3.2	-1.1	-1.0	-0.9	-0.8	**-0.8**	**-1.1**	**-1.1**	*-0.9*	*-1.1*
United Kingdom	-0.9	-3.9	-6.1	-5.2	-4.5	-3.4	-2.3	**-1.8**	**-1.3**	**-1.1**	*-2.4*	*-1.9*
EU28		-2.8	-3.7	-1.8	-1.6	-1.3	-1.0	**-1.0**	**-1.2**	**-1.1**	*-1.1*	*-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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	2018	2019
Belgium	5.6	2.7	-0.2	0.7	0.8	0.6	1.6	**1.3**	**1.0**	**0.5**	*1.1*	*0.6*
Germany	0.4	0.9	1.3	2.3	2.3	1.9	1.6	**2.2**	**1.8**	**1.9**	*2.0*	*2.0*
Estonia	0.3	-1.9	1.2	0.2	0.0	-0.8	-1.5	**-0.8**	**-0.6**	**-0.8**	*-1.2*	*-0.9*
Ireland	1.7	0.0	-9.7	-0.2	-0.3	1.4	1.7	**1.4**	**0.9**	**1.0**	*1.1*	*1.3*
Greece	-0.3	-4.7	-1.7	6.8	3.7	8.9	8.1	**6.8**	**6.0**	**4.9**	*6.2*	*5.0*
Spain	0.8	0.7	-3.8	1.6	0.3	-0.5	-0.3	**-0.8**	**-0.8**	**-1.0**	*-0.9*	*-0.8*
France	-0.1	-1.5	-2.3	-0.8	-0.8	-0.9	-0.6	**-0.8**	**-1.2**	**-0.4**	*-0.7*	*-1.5*
Italy	2.4	0.7	2.5	4.0	3.4	2.6	1.9	**1.9**	**0.8**	**0.4**	*1.9*	*1.4*
Cyprus	-1.3	-0.2	-1.1	-1.5	4.7	4.0	4.1	**4.3**	**3.6**	**2.9**	*3.8*	*3.3*
Latvia	-1.2	-3.0	-0.8	0.0	-0.2	1.0	-0.3	**-1.0**	**-1.0**	**-0.5**	*-1.1*	*-1.2*
Lithuania	0.1	-2.4	-2.1	0.7	1.0	1.1	0.5	**0.4**	**0.4**	**0.3**	*0.2*	*0.3*
Luxembourg	2.6	1.6	2.3	2.6	1.6	1.8	1.9	**1.7**	**1.4**	**1.1**	*1.1*	*0.6*
Malta	-3.1	0.2	1.2	0.4	-0.1	2.3	4.7	**2.5**	**2.5**	**2.2**	*2.3*	*2.7*
Netherlands	1.8	1.7	-1.0	0.9	0.5	1.9	2.2	**1.2**	**0.8**	**0.6**	*0.8*	*0.5*
Austria	1.5	0.2	0.1	0.4	2.0	0.9	1.0	**0.8**	**1.0**	**1.3**	*0.8*	*0.9*
Portugal	-1.5	-1.9	-2.7	-0.7	1.0	2.5	0.5	**2.1**	**2.0**	**2.3**	*2.1*	*2.1*
Slovenia	-1.1	-1.8	-3.5	-0.1	1.9	1.8	2.0	**1.1**	**0.7**	**0.6**	*0.9*	*0.1*
Slovakia	-2.9	-2.2	-3.0	0.1	-0.4	-0.5	0.5	**0.4**	**0.3**	**0.5**	*0.1*	*0.4*
Finland	6.0	4.2	0.5	-0.2	0.4	0.5	0.8	**0.0**	**0.3**	**0.2**	*0.0*	*0.1*
Euro area	1.1	0.2	-0.5	1.5	1.3	1.2	1.1	**1.0**	**0.6**	**0.7**	*0.9*	*0.7*
Bulgaria	4.1	2.1	-1.0	-4.0	-0.3	1.2	1.9	**1.4**	**1.1**	**0.9**	*1.2*	*1.1*
Czech Republic	-3.9	-2.5	-1.4	0.3	0.5	1.8	1.9	**1.7**	**1.0**	**1.0**	*1.6*	*1.0*
Denmark	3.5	4.6	1.3	3.8	1.1	1.6	2.3	**1.6**	**1.1**	**1.7**	*1.4*	*1.4*
Croatia		-3.3	-2.1	0.2	1.2	2.5	3.3	**1.9**	**1.6**	**1.0**	*2.2*	*1.7*
Hungary	-0.5	-3.6	2.2	1.8	1.5	1.4	-0.3	**-1.3**	**-0.9**	**-0.6**	*-1.0*	*-0.8*
Poland	0.0	-1.0	-3.2	-1.0	-0.5	-0.2	-0.3	**-0.5**	**-0.5**	**-0.4**	*-0.7*	*-0.7*
Romania	1.0	-3.7	-2.6	1.3	1.7	-1.0	-2.0	**-2.0**	**-2.0**	**-3.1**	*-2.4*	*-2.7*
Sweden	3.5	2.8	1.8	0.3	0.5	1.2	1.7	**1.2**	**1.2**	**1.3**	*1.0*	*1.3*
EU27	1.1	0.3	-0.5	1.4	1.2	1.1	1.1	**0.9**	**0.6**	**0.6**	*0.8*	*0.6*
United Kingdom	1.2	-1.9	-3.4	-2.5	-2.2	-0.9	0.4	**0.7**	**1.1**	**1.2**	*0.2*	*0.6*
EU28	1.1	-0.1	-0.9	0.7	0.6	0.8	0.9	**0.9**	**0.7**	**0.7**	*0.7*	*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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	2018	2019
Belgium		:		-2.9	-2.3	-2.3	-1.4	**-1.3**	**-1.3**	**-1.7**	*-1.4*	*-1.7*
Germany		:		1.0	1.0	0.7	0.8	**1.4**	**1.0**	**1.1**	*1.2*	*1.0*
Estonia		:		0.2	0.2	-0.7	-1.6	**-0.8**	**-0.7**	**-0.9**	*-1.3*	*-0.9*
Ireland		:		-4.0	-2.1	-1.0	-0.2	**-0.2**	**-0.5**	**-0.3**	*-0.6*	*-0.4*
Greece		:		2.9	2.8	5.1	4.6	**4.0**	**2.3**	**1.5**	*2.5*	*1.6*
Spain		:		-1.5	-2.5	-3.3	-2.9	**-3.1**	**-3.1**	**-3.1**	*-3.3*	*-3.2*
France		:		-3.0	-2.7	-2.7	-2.4	**-2.5**	**-2.3**	**-2.2**	*-2.1*	*-3.1*
Italy	-4.5	:	-2.5	-0.8	-0.5	-1.5	-1.8	**-1.8**	**-3.0**	**-3.5**	*-1.7*	*-2.0*
Cyprus		:		3.8	2.4	1.3	1.5	**1.7**	**1.2**	**0.7**	*0.8*	*0.5*
Latvia		:		-1.4	-1.5	0.0	-1.2	**-1.8**	**-1.7**	**-1.2**	*-1.9*	*-1.9*
Lithuania		:		-1.3	-0.7	-0.4	-0.7	**-0.6**	**-0.5**	**-0.4**	*-0.7*	*-0.6*
Luxembourg		:		2.1	1.1	1.4	1.6	**1.3**	**1.1**	**0.8**	*0.8*	*0.3*
Malta		:		-2.6	-2.6	0.3	3.1	**0.9**	**0.9**	**0.9**	*0.6*	*1.1*
Netherlands		:		-0.5	-0.8	0.5	0.7	**0.3**	**-0.3**	**-0.1**	*-0.1*	*-0.3*
Austria		:		-0.6	0.0	-1.1	-0.8	**-0.8**	**-0.4**	**-0.2**	*-0.8*	*-0.6*
Portugal		:	-6.1	-1.8	-2.3	-2.1	-1.3	**-0.9**	**-0.9**	**-1.0**	*-1.1*	*-1.1*
Slovenia		:		-2.0	-1.3	-1.0	-0.4	**-0.8**	**-1.0**	**-1.0**	*-1.1*	*-1.5*
Slovakia		:		-2.1	-2.2	-2.1	-0.9	**-0.8**	**-0.8**	**-0.6**	*-1.2*	*-0.8*
Finland		:		-1.5	-0.8	-0.5	-0.2	**-0.8**	**-0.6**	**-0.7**	*-0.8*	*-0.9*
Euro area		:		-0.9	-0.9	-1.0	-0.8	**-0.7**	**-1.0**	**-1.1**	*-0.8*	*-1.1*
Bulgaria		:		-1.7	-1.2	0.3	1.1	**0.7**	**0.4**	**0.3**	*0.5*	*0.5*
Czech Republic		:		-0.7	-0.6	0.9	1.1	**0.9**	**0.2**	**0.2**	*0.9*	*0.2*
Denmark		:		-0.8	-1.9	0.1	1.2	**0.5**	**0.9**	**0.8**	*0.3*	*0.9*
Croatia		:		-3.4	-2.3	-0.7	0.7	**-0.5**	**-0.7**	**-1.1**	*-0.3*	*-0.6*
Hungary		:		-2.0	-2.0	-1.8	-3.4	**-3.8**	**-3.3**	**-3.0**	*-3.6*	*-3.3*
Poland		:		-2.8	-2.2	-1.9	-1.9	**-2.0**	**-2.0**	**-1.8**	*-2.2*	*-2.2*
Romania		:		-0.4	-0.2	-2.2	-3.4	**-3.3**	**-3.4**	**-4.6**	*-3.8*	*-4.2*
Sweden		:		-0.4	0.1	0.8	1.4	**0.9**	**0.9**	**1.0**	*0.7*	*1.0*
EU27		:		-1.0	-0.9	-0.9	-0.8	**-0.7**	**-1.0**	**-1.1**	*-0.8*	*-1.1*
United Kingdom		:		-5.1	-4.5	-3.4	-2.3	**-1.8**	**-1.3**	**-1.1**	*-2.4*	*-1.9*
EU28		:		-1.6	-1.5	-1.3	-1.0	**-0.9**	**-1.0**	**-1.1**	*-1.0*	*-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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	2018	2019
Belgium	107.3	92.4	102.3	107.6	106.5	106.1	103.4	**101.4**	**99.8**	**98.7**	*101.5*	*100.2*
Germany	59.8	65.4	77.9	74.5	70.8	67.9	63.9	**60.1**	**56.7**	**53.7**	*60.2*	*56.3*
Estonia	5.5	4.4	7.9	10.5	9.9	9.2	8.7	**8.0**	**7.6**	**7.5**	*8.8*	*8.4*
Ireland	35.3	28.8	99.6	104.1	76.8	73.4	68.4	**63.9**	**61.1**	**56.0**	*65.6*	*63.2*
Greece	103.4	105.3	156.4	178.9	175.9	178.5	176.1	**182.5**	**174.9**	**167.4**	*177.8*	*170.3*
Spain	54.4	40.3	72.7	100.4	99.3	99.0	98.1	**96.9**	**96.2**	**95.4**	*97.6*	*95.9*
France	60.5	66.2	88.0	94.9	95.6	98.2	98.5	**98.7**	**98.5**	**97.2**	*96.4*	*96.0*
Italy	104.4	101.4	119.4	131.8	131.6	131.4	131.2	**131.1**	**131.0**	**131.1**	*130.7*	*129.7*
Cyprus	58.5	57.4	72.1	108.0	108.0	105.5	96.1	**105.0**	**98.4**	**91.0**	*105.7*	*99.5*
Latvia	13.0	12.2	41.1	40.9	36.8	40.3	40.0	**37.1**	**35.5**	**35.7**	*37.0*	*37.3*
Lithuania	22.3	16.8	36.0	40.5	42.6	39.9	39.4	**34.8**	**37.9**	**37.6**	*36.0*	*38.2*
Luxembourg	7.3	9.0	20.0	22.7	22.2	20.7	23.0	**21.4**	**20.8**	**20.6**	*22.6*	*22.5*
Malta	64.1	66.3	68.3	63.7	58.6	56.3	50.9	**47.9**	**44.8**	**42.1**	*47.1*	*43.4*
Netherlands	51.6	48.6	62.3	67.9	64.6	61.9	57.0	**53.2**	**49.6**	**46.9**	*53.5*	*50.1*
Austria	66.4	67.0	81.6	84.0	84.8	83.0	78.3	**74.5**	**71.0**	**67.8**	*74.8*	*71.7*
Portugal	53.9	67.7	109.3	130.6	128.8	129.2	124.8	**121.5**	**119.2**	**116.8**	*122.5*	*119.5*
Slovenia	25.9	24.8	48.8	80.4	82.6	78.7	74.1	**70.2**	**66.3**	**62.6**	*69.3*	*65.1*
Slovakia	45.9	32.9	45.6	53.5	52.2	51.8	50.9	**48.8**	**46.4**	**44.2**	*49.0*	*46.6*
Finland	42.1	37.5	49.5	60.2	63.6	63.0	61.3	**59.8**	**58.5**	**57.5**	*60.4*	*59.6*
Euro area	68.2	67.8	87.4	94.2	92.1	91.2	88.9	**86.9**	**84.9**	**82.8**	*86.5*	*84.1*
Bulgaria	61.4	22.6	15.6	27.1	26.2	29.6	25.6	**23.3**	**21.3**	**19.5**	*23.3*	*21.4*
Czech Republic	21.9	28.0	40.0	42.2	40.0	36.8	34.7	**33.2**	**32.1**	**31.2**	*32.7*	*31.8*
Denmark		34.8	43.6	44.3	39.9	37.9	36.1	**33.3**	**32.2**	**30.5**	*33.6*	*32.3*
Croatia		39.3	63.8	84.0	83.7	80.2	77.5	**73.5**	**70.1**	**68.2**	*73.7*	*69.7*
Hungary	56.0	64.1	78.8	76.6	76.6	75.9	73.3	**72.9**	**70.3**	**68.6**	*73.3*	*71.0*
Poland	40.2	45.8	53.2	50.4	51.3	54.2	50.6	**49.2**	**48.3**	**47.4**	*49.6*	*49.1*
Romania	23.1	14.2	32.1	39.2	37.8	37.3	35.1	**35.1**	**35.9**	**38.2**	*35.3*	*36.4*
Sweden	52.9	43.8	39.3	45.5	44.2	42.4	40.8	**37.8**	**35.5**	**33.5**	*38.0*	*35.5*
EU27	65.5	64.3	81.8	87.8	85.8	85.0	82.6	**80.6**	**78.6**	**76.7**	*80.2*	*78.0*
United Kingdom	36.2	42.1	77.8	87.0	87.9	87.9	87.4	**86.0**	**84.5**	**82.6**	*86.3*	*85.3*
EU28		60.2	81.4	88.1	86.0	84.9	83.2	**81.4**	**79.5**	**77.6**	*81.2*	*79.1*

Table 43: Gross national saving (as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	27.0	27.4	24.2	23.1	22.9	23.7	25.5	**25.9**	**25.9**	**25.9**	*25.4*	*25.6*
Germany	21.8	25.3	25.8	27.3	28.1	28.3	28.3	**28.3**	**28.2**	**28.2**	*27.9*	*27.9*
Estonia	22.7	23.9	25.5	27.6	26.6	26.1	28.7	**29.1**	**29.0**	**29.1**	*27.2*	*27.4*
Ireland	24.0	23.6	16.3	24.2	30.2	34.7	34.1	**34.8**	**35.1**	**35.4**	*36.4*	*36.5*
Greece	16.6	12.7	6.8	9.8	10.3	10.9	11.5	**11.9**	**13.4**	**15.1**	*12.4*	*13.5*
Spain	22.9	22.0	19.7	20.4	21.5	22.6	23.0	**23.1**	**23.3**	**23.8**	*23.2*	*23.8*
France	23.5	23.2	21.4	21.5	22.3	21.9	22.8	**22.9**	**23.0**	**23.3**	*21.5*	*21.9*
Italy	20.6	20.2	17.5	18.9	18.7	20.0	20.4	**20.6**	**20.8**	**21.1**	*20.3*	*20.6*
Cyprus	17.1	15.6	11.5	7.7	12.2	11.5	11.9	**12.7**	**12.5**	**12.8**	*13.3*	*14.0*
Latvia	18.9	20.7	23.6	21.2	21.9	21.9	23.0	**23.4**	**23.2**	**23.1**	*19.7*	*20.2*
Lithuania	13.7	16.1	17.9	23.0	18.6	17.0	18.7	**17.9**	**18.3**	**18.8**	*15.9*	*15.7*
Luxembourg	29.7	27.9	19.7	19.0	21.0	21.1	23.3	**23.1**	**22.6**	**22.1**	*20.1*	*19.6*
Malta	16.4	16.6	18.8	26.7	31.2	31.8	33.7	**32.0**	**31.8**	**31.5**	*33.7*	*33.8*
Netherlands	27.4	27.3	28.0	27.4	28.8	28.5	31.2	**31.2**	**30.8**	**30.4**	*30.4*	*30.5*
Austria	24.9	27.1	25.6	26.0	25.7	26.9	27.4	**27.6**	**27.9**	**28.2**	*27.5*	*27.8*
Portugal	17.9	13.1	12.7	15.0	14.9	15.9	17.1	**17.3**	**17.5**	**18.0**	*17.4*	*17.9*
Slovenia	24.8	27.1	21.7	25.4	23.8	24.2	27.3	**28.6**	**29.1**	**29.7**	*26.8*	*26.6*
Slovakia	23.5	21.5	20.1	23.0	22.3	21.8	22.3	**23.4**	**24.1**	**24.6**	*23.4*	*24.0*
Finland	29.6	28.5	21.7	19.6	20.0	21.3	22.9	**23.2**	**23.4**	**23.7**	*23.3*	*24.0*
Euro area	22.7	23.3	21.9	22.9	23.7	24.2	24.9	**25.1**	**25.1**	**25.4**	*24.5*	*24.8*
Bulgaria	16.0	14.7	21.9	21.6	21.8	24.5	28.2	**26.7**	**25.7**	**26.4**	*23.0*	*22.8*
Czech Republic	26.5	26.3	22.9	24.7	26.4	26.1	26.1	**25.0**	**24.8**	**25.0**	*26.8*	*26.4*
Denmark	24.2	26.5	25.2	29.0	28.8	28.3	29.0	**28.6**	**28.6**	**28.5**	*29.0*	*29.1*
Croatia	19.5	23.0	20.0	20.8	24.6	23.3	25.0	**23.5**	**23.4**	**23.6**	*23.7*	*23.4*
Hungary	19.3	17.4	21.6	24.8	25.3	26.2	25.7	**26.0**	**26.7**	**26.6**	*26.1*	*26.9*
Poland	18.2	17.0	17.5	19.0	20.7	19.8	19.9	**19.8**	**19.8**	**19.7**	*20.6*	*20.6*
Romania	15.1	15.2	22.2	24.5	24.3	21.7	21.3	**21.5**	**21.3**	**21.5**	*21.0*	*21.2*
Sweden	27.5	31.0	28.4	28.2	28.9	28.8	29.3	**29.6**	**29.5**	**29.3**	*30.1*	*30.2*
EU27	22.8	23.3	22.0	23.2	24.0	24.4	25.0	**25.1**	**25.1**	**25.3**	*24.7*	*24.9*
United Kingdom	15.9	14.6	12.1	12.3	12.3	12.0	13.4	**13.6**	**13.7**	**13.8**	*13.7*	*14.0*
EU28	21.5	21.8	20.6	21.4	21.9	22.4	23.2	**23.3**	**23.4**	**23.6**	*23.0*	*23.3*
USA	19.4	17.6	16.7	20.3	20.1	18.6	18.9	**18.6**	**18.6**	**18.5**	*17.4*	*17.4*
Japan	28.6	28.3	24.2	24.7	27.1	27.4	28.2	**28.8**	**29.1**	**29.7**	*28.8*	*28.9*

Table 44: Gross saving, private sector (as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	24.6	25.2	25.0	23.1	22.7	23.8	24.1	**24.4**	**24.6**	**24.9**	*24.1*	*24.5*
Germany	21.3	24.1	24.3	24.0	24.7	24.7	24.1	**23.6**	**23.9**	**24.0**	*23.6*	*23.7*
Estonia	17.8	17.4	21.5	22.1	21.7	21.8	24.0	**23.6**	**23.9**	**24.6**	*21.8*	*22.0*
Ireland	18.7	19.9	22.2	25.4	29.2	33.3	32.3	**32.6**	**32.6**	**32.7**	*34.4*	*34.2*
Greece	16.9	16.0	13.1	11.1	10.6	8.3	8.6	**9.2**	**10.6**	**12.1**	*8.8*	*10.0*
Spain	19.0	16.7	23.8	24.0	24.1	24.8	23.9	**23.4**	**23.4**	**23.6**	*23.4*	*23.6*
France	21.3	21.5	21.9	20.8	21.6	21.2	21.1	**21.4**	**21.7**	**20.9**	*19.5*	*20.5*
Italy	19.6	19.0	17.7	18.7	17.6	19.6	19.1	**19.5**	**20.5**	**21.2**	*18.9*	*19.1*
Cyprus	16.7	13.0	12.7	5.3	10.0	8.3	7.3	**6.9**	**6.3**	**6.8**	*8.5*	*8.7*
Latvia	17.7	17.4	24.2	19.6	20.0	18.9	19.3	**20.4**	**20.6**	**20.2**	*17.1*	*18.0*
Lithuania	12.3	13.3	20.5	21.6	16.3	14.0	15.3	**14.5**	**15.1**	**15.8**	*12.4*	*12.2*
Luxembourg	21.2	21.0	14.4	13.3	15.3	14.7	17.1	**16.9**	**16.6**	**16.4**	*14.4*	*14.2*
Malta	18.5	17.7	19.7	26.3	29.9	28.3	27.9	**27.8**	**27.9**	**27.8**	*29.2*	*29.3*
Netherlands	24.0	23.9	27.8	25.9	27.2	24.9	26.6	**26.6**	**26.0**	**25.8**	*26.0*	*25.7*
Austria	22.7	24.9	24.6	23.5	22.6	24.9	24.5	**24.1**	**24.2**	**24.4**	*24.3*	*24.3*
Portugal	17.6	14.4	17.2	17.0	15.9	16.5	16.1	**15.6**	**15.8**	**15.9**	*16.1*	*16.4*
Slovenia	22.8	23.6	22.3	24.9	22.6	22.9	24.0	**24.8**	**25.7**	**26.0**	*23.5*	*23.3*
Slovakia	23.0	20.2	22.0	22.7	20.1	20.8	20.0	**20.7**	**21.3**	**21.7**	*21.6*	*22.0*
Finland	21.9	21.5	20.0	18.6	18.8	19.1	19.9	**20.1**	**19.9**	**20.0**	*20.5*	*20.9*
Euro area	20.9	21.3	22.3	22.0	22.4	22.7	22.5	**22.4**	**22.8**	**22.8**	*21.9*	*22.3*
Bulgaria	12.1	8.7	21.0	20.8	20.5	21.0	25.1	**23.0**	**22.1**	**22.6**	*20.0*	*19.5*
Czech Republic	23.3	21.9	21.6	22.6	23.0	22.0	21.1	**19.8**	**20.1**	**20.5**	*21.8*	*21.8*
Denmark	20.7	19.6	23.6	22.9	25.5	24.6	24.5	**24.8**	**24.6**	**24.6**	*25.4*	*25.3*
Croatia		18.9	20.5	21.0	23.6	20.0	20.7	**19.6**	**19.7**	**19.9**	*19.8*	*19.4*
Hungary	18.7	18.9	22.0	23.0	21.7	22.9	22.4	**21.9**	**22.0**	**21.4**	*22.6*	*22.7*
Poland	19.1	16.4	18.5	18.8	19.5	18.8	17.7	**16.4**	**16.1**	**15.9**	*18.1*	*18.3*
Romania	14.1	11.9	22.4	22.3	21.3	20.9	22.3	**22.8**	**22.9**	**24.2**	*22.2*	*22.9*
Sweden	22.8	24.9	24.6	25.2	24.4	23.2	23.2	**23.9**	**23.7**	**23.6**	*24.8*	*24.8*
EU27	20.8	21.1	22.3	22.0	22.4	22.6	22.4	**22.3**	**22.5**	**22.6**	*22.0*	*22.3*
United Kingdom	14.1	14.8	16.4	14.7	13.4	12.0	12.2	**11.9**	**11.7**	**11.5**	*12.6*	*12.5*
EU28		20.0	21.4	20.8	20.8	20.9	20.8	**20.7**	**20.9**	**20.9**	*20.5*	*20.8*
USA	18.1	18.3	22.5	21.9	21.4	20.5	20.8	**21.1**	**21.3**	**21.3**	*19.5*	*20.1*
Japan	28.7	28.3	28.4	25.9	27.3	27.7	28.5	**28.9**	**29.0**	**29.1**	*28.8*	*28.5*

Table 45: Saving rate of households (1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	16.5	15.5	14.3	12.5	11.8	11.3	11.5	**11.7**	**11.0**	**10.7**	*10.7*	*11.2*
Germany	15.7	16.5	16.5	16.8	17.0	17.2	17.3	**17.2**	**17.2**	**17.2**	*17.4*	*17.4*
Estonia	2.9	-0.2	10.1	10.7	10.9	10.4	11.6	**10.8**	**10.8**	**11.6**	*11.8*	*12.5*
Ireland	5.6	7.9	10.2	7.3	6.8	6.7	8.6	**8.4**	**8.3**	**8.2**	*6.9*	*6.9*
Greece	7.1	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Spain	10.6	8.4	10.5	9.3	8.7	7.8	5.5	**4.5**	**5.1**	**5.2**	*5.5*	*5.6*
France	13.9	14.2	15.2	14.3	13.8	13.6	13.9	**14.2**	**14.0**	**13.9**	*13.8*	*13.9*
Italy	14.2	14.4	11.2	11.3	10.6	10.5	9.6	**9.7**	**10.0**	**9.9**	*9.7*	*9.9*
Cyprus	6.4	8.6	4.8	-6.3	-5.0	-2.3	-6.5	**-7.2**	**-8.3**	**-8.7**	*-4.2*	*-4.1*
Latvia	0.0	3.0	1.5	-1.9	1.8	2.7	3.2	**5.4**	**6.0**	**6.8**	*3.2*	*3.1*
Lithuania	4.2	2.5	4.3	0.2	0.4	0.2	-1.5	**-2.9**	**-1.9**	**-2.3**	*-5.1*	*-5.6*
Luxembourg	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Malta	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Netherlands	10.7	9.9	14.5	16.3	15.9	16.3	15.4	**14.9**	**14.7**	**14.6**	*12.7*	*12.5*
Austria	15.3	16.3	14.3	12.8	12.4	13.2	12.4	**12.1**	**12.0**	**12.0**	*12.4*	*12.6*
Portugal	10.7	8.2	8.5	5.2	5.3	5.0	4.7	**4.6**	**4.7**	**4.6**	*6.1*	*6.3*
Slovenia	12.6	15.3	12.5	12.4	12.4	13.0	13.9	**13.7**	**13.7**	**13.0**	*11.3*	*10.7*
Slovakia	9.4	6.3	6.7	7.2	8.7	8.7	8.2	**7.3**	**7.5**	**7.3**	*6.8*	*6.0*
Finland	9.4	7.6	8.9	7.2	6.9	6.1	5.7	**6.3**	**6.5**	**6.5**	*5.9*	*6.2*
Euro area	13.3	12.9	12.9	12.5	12.5	12.2	12.0	**11.9**	**11.9**	**11.9**	*11.8*	*11.9*
Bulgaria	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Czech Republic	11.2	11.4	11.9	11.8	12.0	11.6	9.5	**9.9**	**10.7**	**10.8**	*10.1*	*9.8*
Denmark	6.1	5.0	7.9	4.2	10.7	10.8	11.6	**12.3**	**12.3**	**12.3**	*11.7*	*11.6*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	11.2	11.1	11.5	12.9	11.2	12.8	12.1	**10.4**	**10.2**	**10.0**	*9.7*	*8.6*
Poland	12.4	5.0	3.2	2.3	2.3	4.2	1.2	**0.9**	**0.7**	**0.9**	*1.8*	*1.4*
Romania	-3.5	-8.5	3.4	-0.4	-4.3	-0.7	-1.0	**-0.5**	**-2.2**	**-1.4**	*9.1*	*7.7*
Sweden	8.8	10.9	15.7	18.8	17.5	18.5	17.6	**17.9**	**17.2**	**16.6**	*18.4*	*17.6*
EU27				:	:	:	:	**:**	**:**	**:**	*11.9*	*11.9*
United Kingdom	8.5	7.8	9.7	8.6	9.4	6.7	4.5	**4.0**	**4.5**	**4.7**	*5.0*	*5.5*
EU28	11.9	11.2	11.8	11.0	11.0	10.8	9.9	**9.7**	**9.8**	**9.8**	*10.3*	*10.3*
USA	9.8	9.6	11.6	11.3	11.6	10.5	11.1	**11.5**	**11.8**	**11.5**	*9.4*	*9.5*
Japan	13.9	10.1	9.7	6.6	7.6	9.0	9.8	**10.9**	**11.0**	**11.9**	*10.2*	*9.6*

Table 46: Gross saving, general government (as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	2.5	2.2	-0.7	0.0	0.2	-0.1	1.4	**1.4**	**1.4**	**1.1**	*1.2*	*1.0*
Germany	0.5	1.2	1.6	3.3	3.4	3.7	4.2	**4.8**	**4.3**	**4.2**	*4.2*	*4.2*
Estonia	4.8	6.5	4.0	5.5	4.9	4.2	4.7	**5.4**	**5.1**	**4.6**	*5.4*	*5.4*
Ireland	5.3	3.7	-5.9	-1.2	0.9	1.4	1.8	**2.2**	**2.4**	**2.7**	*2.0*	*2.3*
Greece	-0.2	-3.4	-6.3	-1.3	-0.3	2.6	2.9	**2.6**	**2.9**	**3.0**	*3.6*	*3.6*
Spain	3.8	5.3	-4.1	-3.5	-2.6	-2.2	-0.9	**-0.3**	**0.0**	**0.2**	*-0.2*	*0.2*
France	2.2	1.7	-0.5	0.7	0.7	0.7	1.7	**1.5**	**1.2**	**2.4**	*2.0*	*1.4*
Italy	1.0	1.2	-0.2	0.3	1.1	0.5	1.2	**1.1**	**0.2**	**-0.1**	*1.4*	*1.4*
Cyprus	0.4	2.6	-1.2	2.4	2.1	3.2	4.6	**5.8**	**6.1**	**6.0**	*4.9*	*5.3*
Latvia	1.2	3.3	-0.6	1.6	1.9	3.0	3.7	**3.0**	**2.7**	**2.8**	*2.6*	*2.3*
Lithuania	1.3	2.8	-2.6	1.4	2.3	3.0	3.4	**3.3**	**3.2**	**3.0**	*3.5*	*3.5*
Luxembourg	8.6	6.9	5.3	5.7	5.7	6.4	6.2	**6.2**	**6.1**	**5.7**	*5.7*	*5.4*
Malta	-2.1	-1.1	-0.9	0.4	1.3	3.6	5.8	**4.3**	**3.9**	**3.7**	*4.5*	*4.4*
Netherlands	3.4	3.4	0.2	1.5	1.6	3.6	4.6	**4.7**	**4.8**	**4.6**	*4.4*	*4.7*
Austria	2.2	2.2	1.0	2.5	3.1	2.0	3.0	**3.5**	**3.7**	**3.8**	*3.2*	*3.5*
Portugal	0.3	-1.3	-4.4	-2.0	-0.9	-0.6	1.0	**1.7**	**1.8**	**2.1**	*1.3*	*1.5*
Slovenia	1.9	3.5	-0.6	0.5	1.2	1.3	3.4	**3.8**	**3.5**	**3.7**	*3.2*	*3.3*
Slovakia	0.5	1.3	-1.9	0.3	2.1	1.0	2.3	**2.6**	**2.7**	**2.9**	*1.9*	*2.0*
Finland	7.7	7.1	1.7	1.0	1.1	2.2	3.0	**3.1**	**3.5**	**3.8**	*2.8*	*3.1*
Euro area	1.8	2.0	-0.4	1.0	1.3	1.5	2.4	**2.6**	**2.4**	**2.6**	*2.6*	*2.5*
Bulgaria	3.9	6.0	0.9	0.8	1.3	3.4	3.2	**3.8**	**3.6**	**3.7**	*3.0*	*3.3*
Czech Republic	3.1	4.4	1.3	2.1	3.4	4.1	5.0	**5.2**	**4.6**	**4.5**	*5.0*	*4.6*
Denmark	3.5	6.9	1.6	6.1	3.3	3.7	4.5	**3.8**	**3.9**	**3.9**	*3.6*	*3.9*
Croatia		4.1	-0.5	-0.3	1.0	3.3	4.3	**3.9**	**3.7**	**3.6**	*3.9*	*4.0*
Hungary	0.6	-1.5	-0.4	1.8	3.6	3.3	3.3	**4.1**	**4.7**	**5.2**	*3.5*	*4.2*
Poland	-0.9	0.7	-1.0	0.2	1.1	0.9	2.3	**3.4**	**3.7**	**3.7**	*2.5*	*2.4*
Romania	1.0	3.3	-0.2	2.2	3.0	0.7	-1.0	**-1.3**	**-1.6**	**-2.7**	*-1.2*	*-1.7*
Sweden	4.7	6.0	3.8	2.9	4.4	5.6	6.1	**5.8**	**5.8**	**5.7**	*5.4*	*5.5*
EU27	1.9	2.3	-0.2	1.2	1.6	1.8	2.6	**2.8**	**2.6**	**2.7**	*2.7*	*2.7*
United Kingdom	1.8	-0.2	-4.3	-2.3	-1.1	0.0	1.2	**1.7**	**2.0**	**2.3**	*1.1*	*1.4*
EU28		1.8	-0.8	0.6	1.1	1.5	2.4	**2.6**	**2.5**	**2.7**	*2.5*	*2.5*
USA	1.3	-0.7	-5.7	-1.6	-1.3	-1.9	-1.9	**-2.5**	**-2.7**	**-2.7**	*-2.1*	*-2.6*
Japan	-0.2	0.0	-4.1	-1.2	-0.2	-0.3	-0.4	**-0.1**	**0.1**	**0.5**	*0.0*	*0.4*

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	4.5	4.8	1.5	5.2	3.5	7.6	5.0	**3.4**	**3.2**	**2.9**	*5.0*	*4.4*
Germany	6.1	8.3	2.1	4.7	5.3	2.3	4.6	**2.8**	**2.9**	**3.0**	*5.9*	*4.1*
Estonia	2.4	11.9	5.7	2.8	-1.4	5.2	3.5	**4.6**	**3.9**	**3.7**	*4.2*	*4.0*
Ireland	10.9	4.5	3.2	14.6	39.3	4.4	7.8	**6.1**	**4.5**	**4.1**	*5.8*	*4.6*
Greece	7.0	8.1	-2.6	7.7	3.1	-1.8	6.8	**8.4**	**5.7**	**4.4**	*5.7*	*4.6*
Spain	5.3	3.6	2.0	4.3	4.2	5.2	5.2	**2.6**	**3.3**	**3.4**	*5.0*	*4.7*
France	4.3	3.7	1.6	3.3	4.6	1.5	4.5	**3.4**	**3.4**	**3.2**	*4.7*	*4.4*
Italy	1.8	4.1	-0.1	2.7	4.4	2.1	5.7	**1.6**	**3.4**	**3.2**	*4.5*	*4.2*
Cyprus	1.2	2.7	0.9	4.3	5.2	4.6	6.0	**6.2**	**1.7**	**1.7**	*2.3*	*1.9*
Latvia	5.0	11.9	4.2	6.0	3.1	4.4	6.2	**3.6**	**3.3**	**3.0**	*3.7*	*3.4*
Lithuania	8.5	10.6	8.1	3.3	0.9	4.0	13.6	**5.2**	**4.1**	**3.7**	*5.5*	*4.4*
Luxembourg	7.7	8.6	1.9	16.4	5.3	3.8	-1.9	**3.2**	**2.7**	**2.2**	*4.1*	*3.7*
Malta	3.1	9.7	3.1	3.3	3.7	4.2	3.8	**1.5**	**1.9**	**1.9**	*2.0*	*2.7*
Netherlands	5.0	5.6	2.2	4.5	7.4	1.7	5.3	**3.0**	**3.6**	**3.3**	*5.5*	*4.4*
Austria	6.0	6.5	0.9	2.9	3.5	2.7	4.7	**4.6**	**3.7**	**3.0**	*5.2*	*4.3*
Portugal	4.1	4.8	3.1	4.3	6.1	4.4	7.8	**5.5**	**4.3**	**3.6**	*6.8*	*5.5*
Slovenia	6.5	11.2	0.4	5.7	5.0	6.4	10.7	**8.1**	**6.2**	**4.2**	*8.1*	*6.5*
Slovakia	10.7	14.6	4.7	3.9	6.0	5.5	5.9	**5.4**	**8.0**	**7.0**	*7.1*	*7.9*
Finland	6.0	8.3	-2.4	-2.7	0.9	4.0	7.5	**4.2**	**3.9**	**3.6**	*5.4*	*4.8*
Euro area	5.1	5.9	1.7	4.7	6.5	3.0	5.2	**3.3**	**3.5**	**3.3**	*5.4*	*4.4*
Bulgaria	-4.4	12.4	4.3	3.1	5.7	8.1	5.8	**0.7**	**2.9**	**3.4**	*5.0*	*4.8*
Czech Republic	7.7	15.2	3.4	8.7	6.0	4.3	6.7	**4.4**	**3.7**	**3.4**	*4.8*	*4.7*
Denmark	6.0	5.7	0.6	3.1	2.3	2.8	4.4	**0.6**	**2.7**	**1.9**	*3.3*	*3.0*
Croatia	9.0	4.1	-0.8	6.0	9.4	5.6	6.4	**4.3**	**4.2**	**4.1**	*4.8*	*4.6*
Hungary	11.3	14.6	1.5	9.1	7.2	5.1	4.7	**7.1**	**6.0**	**5.6**	*7.0*	*6.5*
Poland	8.2	9.4	4.9	6.7	7.7	8.8	9.5	**6.1**	**5.8**	**4.6**	*7.3*	*6.2*
Romania	14.7	7.5	8.3	8.0	4.6	16.0	9.7	**6.3**	**6.5**	**6.1**	*7.5*	*6.8*
Sweden	4.9	6.5	0.4	5.3	5.7	3.0	3.2	**3.4**	**3.2**	**3.0**	*4.7*	*3.7*
EU27	5.3	6.4	1.8	5.0	6.4	3.5	5.3	**3.5**	**3.6**	**3.4**	*5.4*	*4.5*
United Kingdom	3.7	4.9	1.2	2.3	4.4	1.0	5.7	**2.1**	**2.9**	**2.0**	*3.6*	*2.9*
EU28	5.1	6.2	1.7	4.7	6.2	3.2	5.4	**3.4**	**3.6**	**3.2**	*5.2*	*4.3*
USA	1.5	8.1	3.3	4.3	0.6	-0.1	3.0	**4.0**	**2.8**	**2.1**	*4.5*	*4.3*
Japan	4.8	8.3	-0.8	9.3	2.9	1.7	6.7	**4.1**	**2.6**	**2.2**	*4.8*	*2.8*

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			*Spring 2018 forecast*	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	3.5	5.3	1.4	6.2	3.4	8.5	4.3	**3.1**	**3.3**	**3.1**	*5.0*	*4.5*
Germany	4.6	6.6	2.4	3.7	5.6	4.1	4.8	**3.3**	**4.2**	**4.1**	*6.1*	*4.6*
Estonia	5.3	11.6	3.7	3.3	-1.7	5.5	3.6	**4.7**	**4.4**	**3.9**	*4.1*	*4.1*
Ireland	9.8	5.9	0.3	14.6	33.2	18.5	-9.4	**-0.3**	**4.1**	**3.8**	*4.6*	*4.4*
Greece	7.6	6.9	-9.2	7.7	0.4	0.3	7.1	**3.6**	**6.1**	**3.9**	*5.5*	*4.4*
Spain	7.2	5.5	-4.2	6.6	5.4	2.9	5.6	**3.5**	**3.5**	**3.2**	*4.7*	*4.5*
France	5.4	5.0	1.4	4.9	5.9	3.0	4.0	**1.8**	**3.3**	**3.1**	*3.9*	*4.1*
Italy	3.7	3.4	-2.4	3.2	6.8	3.6	5.2	**2.6**	**3.7**	**3.5**	*4.9*	*4.5*
Cyprus	2.1	7.3	-4.2	3.6	8.4	6.6	12.2	**7.3**	**3.5**	**2.7**	*4.8*	*3.7*
Latvia	5.3	12.5	-0.2	1.2	2.1	4.4	8.9	**6.3**	**3.4**	**3.3**	*6.4*	*3.6*
Lithuania	7.5	14.6	2.7	3.1	6.8	3.8	12.0	**6.5**	**5.2**	**4.4**	*6.5*	*5.2*
Luxembourg	7.7	9.1	2.3	19.5	4.3	4.5	-2.2	**3.3**	**2.6**	**2.2**	*3.8*	*3.5*
Malta	3.2	9.9	2.5	-0.2	7.4	0.7	-1.9	**1.9**	**2.3**	**1.9**	*2.3*	*2.5*
Netherlands	5.1	5.3	1.7	3.3	14.5	-2.0	4.9	**3.4**	**4.1**	**3.7**	*6.0*	*5.0*
Austria	4.6	5.1	1.2	3.0	3.6	3.4	5.1	**3.4**	**3.3**	**2.6**	*3.9*	*3.4*
Portugal	3.0	5.0	-2.2	7.8	8.5	4.7	8.1	**6.0**	**5.2**	**4.4**	*6.9*	*5.6*
Slovenia	6.1	10.8	-2.2	4.1	4.7	6.6	10.3	**8.0**	**6.9**	**5.2**	*8.9*	*8.4*
Slovakia	6.9	13.7	2.0	4.8	8.0	3.4	5.3	**5.7**	**6.8**	**6.3**	*6.8*	*7.6*
Finland	5.7	8.3	-0.8	-1.3	3.2	5.6	3.5	**3.2**	**3.1**	**2.8**	*3.9*	*3.6*
Euro area	5.1	5.7	0.4	4.9	7.6	4.2	3.9	**3.0**	**3.9**	**3.6**	*5.2*	*4.5*
Bulgaria	7.7	16.6	-1.2	5.2	5.4	4.5	7.5	**4.8**	**4.6**	**4.2**	*7.4*	*6.2*
Czech Republic	8.7	13.1	2.3	10.1	6.8	2.8	6.0	**5.1**	**4.0**	**3.4**	*5.6*	*5.1*
Denmark	4.7	8.6	-0.2	3.9	1.9	3.8	4.3	**4.2**	**2.2**	**2.5**	*3.9*	*3.7*
Croatia	8.9	5.7	-4.5	3.1	9.2	6.2	8.1	**6.2**	**5.9**	**6.0**	*6.6*	*6.0*
Hungary	11.9	12.0	-0.2	11.0	5.8	3.9	7.7	**9.0**	**7.1**	**5.1**	*9.5*	*8.0*
Poland	4.5	11.5	1.5	10.0	6.6	7.6	10.0	**6.5**	**6.4**	**5.4**	*8.4*	*6.3*
Romania	14.4	17.7	1.0	8.7	8.0	16.5	11.2	**9.1**	**7.4**	**6.7**	*8.2*	*7.4*
Sweden	3.4	6.6	0.9	6.3	5.2	4.3	4.8	**3.7**	**3.2**	**3.1**	*4.3*	*3.5*
EU27	5.2	6.4	0.4	5.4	7.3	4.4	4.4	**3.4**	**4.1**	**3.7**	*5.4*	*4.7*
United Kingdom	6.1	3.8	1.1	3.8	5.5	3.3	3.2	**1.1**	**2.8**	**2.2**	*2.7*	*2.2*
EU28	5.4	6.1	0.5	5.2	7.1	4.3	4.2	**3.2**	**3.9**	**3.6**	*5.1*	*4.4*
USA	5.8	4.9	1.6	5.1	5.5	1.9	4.6	**4.5**	**3.9**	**2.8**	*6.5*	*5.2*
Japan	3.6	4.3	1.6	8.3	0.8	-1.6	3.4	**3.3**	**2.8**	**1.6**	*2.8*	*2.8*

Table 49: Merchandise trade balance¹ (fob-fob, as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	3.3	1.8	-0.8	-0.8	0.0	0.0	0.1	**0.4**	**0.2**	**0.2**	*0.9*	*0.9*
Germany	4.7	7.1	6.5	7.8	8.6	8.5	8.1	**7.5**	**7.1**	**6.8**	*8.2*	*7.9*
Estonia	-16.7	-15.6	-4.4	-5.0	-4.3	-3.5	-3.5	**-3.6**	**-3.9**	**-4.1**	*-3.9*	*-4.3*
Ireland	24.7	17.5	22.3	20.9	43.2	38.8	36.6	**36.4**	**35.7**	**35.0**	*35.0*	*34.3*
Greece	-15.3	-16.8	-12.2	-10.8	-9.1	-9.3	-10.3	**-9.4**	**-10.2**	**-10.2**	*-10.7*	*-10.8*
Spain	-5.5	-7.8	-3.3	-2.1	-2.0	-1.4	-1.9	**-2.3**	**-2.4**	**-2.3**	*-2.3*	*-2.3*
France	0.5	-1.2	-2.2	-1.9	-1.1	-1.3	-1.8	**-2.0**	**-2.1**	**-1.9**	*-1.7*	*-1.5*
Italy	1.1	-0.1	0.2	2.9	3.1	3.4	3.2	**2.8**	**2.7**	**2.8**	*3.3*	*3.4*
Cyprus	-24.8	-26.1	-19.8	-16.0	-16.7	-21.0	-24.3	**-22.8**	**-23.8**	**-24.0**	*-25.0*	*-25.7*
Latvia	-17.2	-21.5	-10.6	-10.1	-9.0	-7.5	-8.5	**-8.7**	**-9.3**	**-9.3**	*-10.7*	*-10.4*
Lithuania	-10.9	-13.0	-4.6	-2.6	-5.3	-4.6	-4.6	**-5.9**	**-6.5**	**-6.3**	*-6.0*	*-6.7*
Luxembourg	-9.9	-6.8	-1.5	2.9	0.1	1.2	1.2	**1.2**	**1.2**	**1.2**	*-0.9*	*-0.7*
Malta	-13.7	-17.4	-16.3	-13.4	-20.1	-18.2	-12.0	**-11.7**	**-11.5**	**-11.3**	*-14.4*	*-14.5*
Netherlands	6.6	8.4	8.6	9.5	9.5	9.3	9.6	**9.2**	**9.1**	**8.9**	*12.1*	*11.8*
Austria	-0.7	0.4	-0.5	0.3	0.7	0.5	0.3	**0.6**	**0.9**	**1.1**	*0.6*	*0.8*
Portugal	-11.3	-11.5	-7.5	-4.7	-4.5	-4.3	-5.4	**-6.0**	**-6.5**	**-6.9**	*-5.5*	*-5.8*
Slovenia	-4.0	-4.1	-0.8	2.9	3.8	3.8	3.6	**3.4**	**3.2**	**2.4**	*3.4*	*2.0*
Slovakia	-8.0	-4.2	1.1	3.4	1.3	2.3	2.0	**1.8**	**2.9**	**3.5**	*3.4*	*4.3*
Finland	8.9	6.6	2.6	0.7	0.8	0.2	0.8	**0.8**	**1.1**	**1.6**	*1.2*	*1.4*
Euro area	1.5	1.0	1.5	2.8	4.0	3.9	3.6	**3.3**	**3.2**	**3.1**	*3.8*	*3.8*
Euro area, adjusted²	0.7	0.3	0.9	2.4	3.3	3.4	3.0	**2.7**	**2.6**	**2.6**	*3.1*	*3.1*
Bulgaria	-15.5	-23.3	-9.0	-6.5	-5.8	-2.0	-1.5	**-4.6**	**-4.8**	**-5.0**	*-5.8*	*-6.4*
Czech Republic	-7.0	-0.1	2.4	5.1	4.1	5.4	5.0	**4.3**	**4.2**	**4.4**	*4.8*	*4.3*
Denmark	4.9	2.3	4.5	4.5	5.2	5.6	5.7	**4.1**	**4.1**	**3.9**	*5.6*	*5.4*
Croatia		-21.4	-14.6	-15.0	-15.6	-15.7	-16.6	**-16.7**	**-17.3**	**-18.0**	*-17.1*	*-17.5*
Hungary	-6.6	-2.2	2.9	2.0	3.7	4.1	1.5	**0.3**	**-0.7**	**-0.3**	*0.3*	*-0.5*
Poland	-4.9	-3.9	-2.2	-0.8	0.5	0.7	0.2	**-0.7**	**-1.1**	**-1.5**	*-0.4*	*-0.6*
Romania	-5.8	-11.8	-6.5	-4.3	-4.9	-5.5	-6.3	**-6.7**	**-7.4**	**-8.0**	*-6.6*	*-6.9*
Sweden	7.5	6.8	3.9	3.1	3.0	2.2	2.4	**2.1**	**2.1**	**2.0**	*2.8*	*3.1*
United Kingdom	-3.6	-5.3	-6.1	-6.6	-6.2	-6.7	-6.7	**-6.4**	**-6.3**	**-6.2**	*-6.3*	*-6.0*
EU	0.5	-0.2	0.2	1.1	1.9	1.9	1.7	**1.5**	**1.3**	**1.3**	*1.9*	*1.9*
EU, adjusted²	-0.5	-1.1	-0.4	0.3	1.0	1.1	0.9	**0.6**	**0.5**	**0.5**	*0.9*	*1.0*
USA	-4.3	-5.9	-4.5	-4.4	-4.4	-4.2	-4.3	**-4.4**	**-4.4**	**-4.5**	*-4.6*	*-4.8*
Japan	2.3	2.2	0.1	-2.0	-0.2	1.0	0.5	**0.6**	**0.4**	**0.4**	*0.8*	*0.8*

¹ See note 7 on concepts and sources.

² See note 8 on concepts and sources.

Table 50: Current-account balance¹ (as a percentage of GDP, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	4.9	3.4	1.5	-0.3	-0.8	-0.4	0.9	**1.2**	**1.1**	**1.1**	*0.5*	*0.6*
Germany	0.0	5.5	6.3	7.6	8.9	8.7	8.2	**7.8**	**7.3**	**6.9**	*7.9*	*7.6*
Estonia	-8.4	-11.8	0.9	0.8	1.8	1.8	3.3	**3.5**	**3.2**	**3.2**	*3.0*	*2.9*
Ireland	0.4	-4.3	-1.9	1.1	4.4	-4.2	8.5	**11.7**	**11.6**	**11.4**	*11.9*	*11.5*
Greece	-8.9	-12.4	-8.1	-2.1	0.1	-0.6	-1.0	**-0.2**	**-0.2**	**0.3**	*-0.4*	*-0.5*
Spain	-3.8	-8.2	-2.1	1.0	1.1	2.2	1.9	**1.2**	**1.0**	**1.1**	*1.5*	*1.6*
France	1.8	0.0	-0.9	-1.2	-0.4	-0.8	-0.6	**-0.6**	**-0.7**	**-0.5**	*-2.9*	*-2.7*
Italy	-0.1	-1.4	-1.5	1.9	1.4	2.5	2.7	**2.6**	**2.5**	**2.5**	*2.6*	*2.6*
Cyprus	-2.7	-8.9	-7.5	-4.7	-2.0	-5.1	-8.4	**-8.2**	**-9.3**	**-9.5**	*-9.0*	*-9.7*
Latvia	-7.9	-16.1	0.2	-1.7	-0.5	1.4	0.7	**0.0**	**-0.4**	**-0.4**	*-2.9*	*-2.9*
Lithuania	-6.7	-10.5	-0.3	4.0	-2.0	-0.7	0.9	**-0.8**	**-0.8**	**-0.6**	*-2.3*	*-2.9*
Luxembourg	8.2	8.0	1.3	-1.0	1.9	2.0	4.4	**4.2**	**3.8**	**3.3**	*3.0*	*2.8*
Malta	-3.9	-4.2	-1.4	8.8	4.5	7.0	13.8	**12.3**	**11.2**	**10.6**	*11.5*	*11.3*
Netherlands	5.4	5.8	8.3	9.5	6.3	8.1	10.5	**10.1**	**9.5**	**9.1**	*9.8*	*9.5*
Austria	-0.1	2.9	2.3	2.5	1.9	2.6	2.1	**2.0**	**2.2**	**2.4**	*2.5*	*2.8*
Portugal	-9.2	-10.5	-5.4	-0.3	-0.9	0.1	0.2	**0.0**	**-0.1**	**-0.1**	*0.6*	*0.6*
Slovenia	-2.3	-3.4	0.6	5.8	4.5	5.4	7.1	**7.5**	**7.1**	**6.7**	*6.6*	*5.2*
Slovakia	-5.5	-7.1	-2.3	1.0	-2.3	-1.2	-0.2	**0.0**	**1.2**	**2.1**	*0.8*	*1.4*
Finland	7.0	4.0	-0.3	-1.3	-0.8	-0.6	0.6	**0.7**	**1.1**	**1.6**	*1.0*	*1.4*
Euro area	0.2	0.3	1.4	3.0	3.3	3.5	4.0	**3.8**	**3.6**	**3.6**	*3.4*	*3.4*
Euro area, adjusted²	-0.3	-0.2	0.7	2.5	2.9	3.2	3.2	**3.1**	**2.9**	**2.9**	*3.4*	*3.4*
Bulgaria	-4.5	-16.2	-1.3	0.2	0.6	5.3	8.2	**5.9**	**4.6**	**5.1**	*1.4*	*0.8*
Czech Republic	-3.8	-4.0	-3.4	-1.2	-1.5	0.1	0.3	**-0.5**	**-0.5**	**-0.1**	*0.3*	*-0.3*
Denmark	2.7	3.0	6.1	8.9	8.8	7.3	7.8	**6.1**	**6.2**	**6.1**	*7.6*	*7.4*
Croatia	-3.9	-6.3	-1.0	2.0	4.6	2.5	4.1	**2.5**	**2.0**	**1.8**	*2.8*	*2.1*
Hungary	-7.2	-8.0	1.2	1.5	2.7	6.2	3.0	**1.2**	**0.0**	**0.3**	*1.2*	*0.9*
Poland	-3.4	-5.3	-3.4	-1.4	0.2	0.2	0.2	**-0.6**	**-0.9**	**-1.3**	*0.3*	*0.0*
Romania	-4.1	-10.3	-3.6	-0.1	-0.8	-1.7	-3.1	**-3.7**	**-4.2**	**-4.5**	*-3.6*	*-3.9*
Sweden	5.3	7.7	5.8	4.7	4.6	4.2	3.6	**3.2**	**3.0**	**2.9**	*4.1*	*4.4*
United Kingdom	-2.3	-3.0	-3.6	-4.9	-4.9	-5.2	-3.7	**-3.3**	**-3.2**	**-3.0**	*-3.5*	*-3.0*
EU	-0.2	-0.4	0.6	1.7	1.8	2.0	2.6	**2.5**	**2.3**	**2.3**	*2.2*	*2.2*
EU, adjusted²	-0.9	-1.2	0.1	0.9	0.9	1.4	1.2	**1.1**	**1.0**	**1.0**	*1.4*	*1.5*
USA	-3.9	-5.3	-2.6	-2.1	-2.2	-2.3	-2.3	**-2.4**	**-2.6**	**-2.8**	*-2.7*	*-2.9*
Japan	2.6	3.8	2.1	0.8	3.1	3.8	4.3	**4.7**	**4.7**	**4.7**	*4.6*	*4.6*

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, 1999-2020) 22.10.2018

	5-year averages							Autumn 2018 forecast			Spring 2018 forecast	
	1999-03	2004-08	2009-13	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	4.8	3.2	1.6	-0.5	-0.7	-0.3	1.0	**1.2**	**1.2**	**1.2**	*0.7*	*0.9*
Germany	0.0	5.4	6.3	7.6	8.9	8.6	8.0	**7.6**	**7.3**	**6.9**	*7.8*	*7.5*
Estonia	-8.0	-10.6	4.2	1.9	3.9	2.8	4.2	**4.9**	**4.7**	**4.6**	*4.6*	*4.7*
Ireland	1.0	-4.2	-1.9	-2.4	3.9	-5.7	-1.1	**3.5**	**3.8**	**4.1**	*3.3*	*3.4*
Greece	-7.5	-10.6	-6.4	-0.1	2.5	1.0	0.1	**1.0**	**1.0**	**1.4**	*1.5*	*1.3*
Spain	-2.9	-7.6	-1.6	1.5	1.7	2.4	2.2	**1.5**	**1.3**	**1.4**	*1.7*	*1.9*
France	1.7	0.0	-0.9	-1.3	-0.5	-0.8	-0.6	**-0.5**	**-0.5**	**-0.5**	*-3.0*	*-2.9*
Italy	0.0	-1.3	-1.5	2.0	1.7	2.3	2.7	**2.5**	**2.4**	**2.4**	*2.6*	*2.6*
Cyprus	-2.4	-8.3	-7.1	-4.7	-1.7	-4.9	-8.2	**-8.1**	**-9.3**	**-9.5**	*-8.6*	*-9.3*
Latvia	-7.5	-14.8	2.5	1.5	2.3	2.4	1.5	**1.8**	**1.7**	**1.9**	*-1.5*	*-0.8*
Lithuania	-6.5	-9.1	3.2	6.6	1.0	0.7	2.1	**0.6**	**0.6**	**0.7**	*-1.1*	*-1.8*
Luxembourg	7.9	7.3	0.0	-0.3	0.5	-1.0	3.2	**3.1**	**2.9**	**2.6**	*3.7*	*3.4*
Malta	-3.6	-2.4	0.2	10.5	6.2	7.4	14.3	**12.9**	**12.0**	**11.5**	*12.0*	*11.8*
Netherlands	5.3	5.8	7.8	9.3	5.8	7.9	10.4	**9.8**	**9.2**	**8.8**	*9.5*	*9.1*
Austria	-0.2	2.8	2.3	2.4	1.3	2.5	2.0	**1.8**	**2.0**	**2.3**	*2.0*	*2.2*
Portugal	-7.4	-9.1	-3.9	1.0	0.3	1.0	1.1	**0.9**	**0.8**	**0.8**	*1.5*	*1.5*
Slovenia	-2.5	-3.4	1.1	6.0	5.6	4.6	6.3	**7.0**	**7.4**	**6.9**	*7.1*	*6.1*
Slovakia	-6.0	-6.8	-0.9	1.9	-0.2	-1.4	-0.8	**0.2**	**1.6**	**2.5**	*0.6*	*1.5*
Finland	7.1	4.1	-0.2	-1.2	-0.7	-0.6	0.7	**0.6**	**1.0**	**1.1**	*1.1*	*1.5*
Euro area	0.4	0.4	1.5	3.1	3.5	3.4	3.7	**3.6**	**3.5**	**3.4**	*3.2*	*3.1*
Euro area, adjusted[2]	-0.1	0.0	0.8	2.6	3.0	3.2	2.9	**2.9**	**2.7**	**2.7**	*3.2*	*3.1*
Bulgaria	-4.5	-15.9	0.1	2.4	3.9	7.3	9.2	**7.1**	**5.9**	**6.5**	*3.2*	*2.7*
Czech Republic	-3.6	-3.7	-1.6	0.5	1.3	0.6	0.8	**0.0**	**0.0**	**0.5**	*0.8*	*0.2*
Denmark	2.9	3.0	6.2	8.7	8.5	7.3	7.9	**6.2**	**6.3**	**6.2**	*7.6*	*7.6*
Croatia	-3.9	-6.3	-0.9	2.4	5.3	4.0	4.7	**3.4**	**3.2**	**3.2**	*3.9*	*3.5*
Hungary	-7.1	-7.3	3.6	5.2	7.4	6.2	4.3	**3.2**	**2.4**	**2.3**	*4.1*	*3.8*
Poland	-3.4	-4.7	-1.5	0.4	2.6	1.4	1.4	**0.5**	**0.3**	**0.0**	*1.5*	*1.5*
Romania	-3.8	-9.8	-2.6	2.5	1.6	0.8	-1.6	**-2.1**	**-2.5**	**-2.9**	*-2.1*	*-2.1*
Sweden	5.0	7.6	5.6	4.6	4.4	4.2	3.6	**3.1**	**2.8**	**2.6**	*4.0*	*4.3*
United Kingdom	-2.3	-3.1	-3.6	-5.0	-5.0	-5.3	-3.8	**-3.4**	**-3.3**	**-3.1**	*-3.6*	*-3.2*
EU	-0.1	-0.3	0.8	1.8	2.1	2.0	2.5	**2.4**	**2.3**	**2.2**	*2.1*	*2.2*
EU, adjusted[2]	-0.8	-1.1	0.2	1.1	1.1	1.4	1.1	**1.0**	**0.9**	**0.9**	*1.4*	*1.4*
USA	-3.9	-5.3	-2.6	-2.1	-2.2	-2.3	-2.3	**-2.4**	**-2.6**	**-2.8**	*-2.7*	*-2.9*
Japan	2.4	3.7	2.1	0.7	3.0	3.7	4.1	**4.5**	**4.5**	**4.5**	*4.4*	*4.4*

[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, 2011-20) 22.10.2018

								Autumn 2018 forecast			Spring 2018 forecast	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
Belgium	0.9	5.9	4.6	-1.1	-3.1	-1.6	3.9	**5.3**	**5.3**	**5.3**	*2.3*	*3.0*
Germany	167.3	197.0	189.7	224.0	271.6	274.4	268.9	**263.9**	**257.3**	**251.4**	*267.0*	*267.7*
Estonia	0.2	-0.3	0.1	0.2	0.4	0.4	0.8	**0.9**	**0.9**	**0.9**	*0.7*	*0.8*
Ireland	-2.8	-5.9	2.8	2.1	11.6	-11.4	24.9	**37.8**	**39.7**	**41.5**	*37.3*	*38.1*
Greece	-21.3	-8.3	-4.1	-3.7	0.2	-1.1	-1.8	**-0.4**	**-0.4**	**0.6**	*-0.7*	*-0.9*
Spain	-35.3	-4.6	15.0	10.3	11.4	24.1	22.4	**14.6**	**12.5**	**14.2**	*18.0*	*20.0*
France	-24.3	-24.2	-20.8	-26.4	-9.8	-17.5	-14.1	**-13.8**	**-15.9**	**-11.9**	*-68.7*	*-66.3*
Italy	-49.3	-5.8	15.3	30.4	23.6	41.4	46.9	**45.2**	**44.4**	**45.8**	*46.8*	*47.5*
Cyprus	-0.8	-1.1	-1.0	-0.8	-0.4	-0.9	-1.6	**-1.7**	**-2.0**	**-2.2**	*-1.8*	*-2.1*
Latvia	-0.6	-0.8	-0.6	-0.4	-0.1	0.3	0.2	**0.0**	**-0.1**	**-0.1**	*-0.8*	*-0.9*
Lithuania	-1.2	-0.3	0.5	1.5	-0.8	-0.3	0.4	**-0.4**	**-0.4**	**-0.3**	*-1.0*	*-1.4*
Luxembourg	1.0	0.0	-0.6	-0.5	1.0	1.0	2.4	**2.4**	**2.3**	**2.1**	*1.8*	*1.7*
Malta	0.0	0.1	0.2	0.7	0.4	0.7	1.5	**1.5**	**1.4**	**1.4**	*1.4*	*1.4*
Netherlands	56.2	66.9	66.5	63.9	43.5	57.1	77.2	**77.8**	**77.3**	**76.3**	*75.0*	*76.7*
Austria	6.7	6.1	6.1	8.2	6.4	9.3	7.6	**7.8**	**8.9**	**10.1**	*9.5*	*11.1*
Portugal	-9.6	-3.4	1.3	-0.4	-1.6	0.3	0.4	**0.1**	**-0.1**	**-0.3**	*1.2*	*1.3*
Slovenia	-0.1	0.6	1.2	2.2	1.7	2.2	3.1	**3.4**	**3.5**	**3.5**	*3.1*	*2.6*
Slovakia	-3.9	0.3	1.1	0.7	-1.8	-1.0	-0.2	**0.0**	**1.2**	**2.1**	*0.7*	*1.4*
Finland	-2.9	-3.8	-3.8	-2.7	-1.7	-1.4	1.4	**1.7**	**2.6**	**3.9**	*2.3*	*3.4*
Euro area	80.1	218.2	273.4	308.2	352.5	376.2	444.4	**446.1**	**438.5**	**444.4**	*394.0*	*405.2*
Euro area, adjusted[2]	-8.9	134.9	226.4	256.2	308.8	346.6	355.1	**356.8**	**349.2**	**355.1**	*392.1*	*403.3*
Bulgaria	0.2	-0.1	0.9	0.1	0.3	2.6	4.2	**3.3**	**2.7**	**3.2**	*0.7*	*0.4*
Czech Republic	-7.6	-3.6	-1.7	-1.9	-2.6	0.2	0.6	**-0.9**	**-1.1**	**-0.2**	*0.7*	*-0.8*
Denmark	16.3	16.0	20.1	23.7	24.0	20.3	22.6	**17.9**	**19.1**	**19.2**	*22.7*	*22.9*
Croatia	-0.3	0.2	0.4	0.9	2.0	1.2	2.0	**1.3**	**1.1**	**1.0**	*1.4*	*1.1*
Hungary	0.9	1.8	3.8	1.6	3.0	7.1	3.7	**1.6**	**0.0**	**0.5**	*1.6*	*1.2*
Poland	-18.1	-12.8	-2.0	-5.6	0.8	0.8	1.1	**-3.0**	**-4.6**	**-6.9**	*1.3*	*0.2*
Romania	-5.8	-5.6	-0.9	-0.2	-1.3	-2.9	-5.8	**-7.6**	**-9.1**	**-10.6**	*-7.3*	*-8.6*
Sweden	20.8	23.5	22.2	20.5	20.5	19.7	17.2	**15.0**	**14.6**	**14.3**	*19.4*	*21.5*
United Kingdom	-37.1	-78.7	-106.8	-112.8	-128.4	-125.4	-87.3	**-79.7**	**-78.5**	**-76.0**	*-85.1*	*-75.8*
EU	49.5	158.8	209.5	234.5	270.9	299.6	402.7	**393.9**	**382.6**	**388.8**	*349.5*	*367.4*
EU, adjusted[2]	-29.0	76.4	137.8	130.5	137.0	202.3	183.2	**174.4**	**163.1**	**169.4**	*230.2*	*248.2*
USA	-320.2	-332.2	-262.6	-274.9	-367.5	-391.1	-397.8	**-416.0**	**-476.0**	**-542.7**	*-449.1*	*-502.1*
Japan	93.7	46.5	34.4	27.9	122.1	170.7	184.2	**199.3**	**202.0**	**207.8**	*195.1*	*199.2*

[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, 2011-20) 22.10.2018

								Autumn 2018 forecast			Spring 2018 forecast	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2018	2019
Belgium	5.6	1.0	2.5	4.5	5.2	2.6	4.6	**3.5**	**3.8**	**3.6**	*5.0*	*4.4*
Germany	6.5	1.4	3.0	3.7	3.4	3.3	5.2	**4.1**	**3.9**	**3.6**	*5.2*	*4.6*
Estonia	8.8	3.4	2.2	1.7	1.6	3.5	5.8	**4.2**	**3.7**	**3.5**	*5.0*	*4.2*
Ireland	5.1	2.3	3.3	4.7	4.1	2.6	4.3	**3.4**	**3.8**	**3.4**	*4.9*	*4.3*
Greece	4.9	2.9	3.4	3.8	3.5	2.8	4.9	**3.6**	**3.5**	**3.7**	*5.1*	*4.5*
Spain	5.1	1.5	3.3	4.0	4.1	2.6	4.4	**3.4**	**3.6**	**3.5**	*4.9*	*4.4*
France	5.5	1.4	3.0	4.6	3.7	2.8	4.5	**3.8**	**3.8**	**3.6**	*5.1*	*4.4*
Italy	6.5	1.7	3.5	3.4	3.1	3.1	4.8	**3.9**	**3.8**	**3.6**	*5.2*	*4.6*
Cyprus	8.0	8.2	8.0	1.2	-5.7	-2.5	6.7	**4.2**	**3.9**	**3.7**	*5.4*	*4.5*
Latvia	10.8	5.0	3.7	1.9	-0.3	2.8	6.7	**4.6**	**4.1**	**3.8**	*5.3*	*4.6*
Lithuania	10.6	3.8	1.9	1.2	-1.1	2.9	6.5	**4.6**	**4.0**	**3.8**	*5.6*	*4.6*
Luxembourg	4.3	2.6	3.4	6.1	7.1	4.0	2.4	**2.1**	**3.7**	**3.5**	*4.5*	*4.1*
Malta	3.9	3.6	4.3	5.3	4.8	2.9	3.3	**2.9**	**3.6**	**3.4**	*4.6*	*4.0*
Netherlands	6.0	0.5	2.3	4.7	5.0	4.7	4.1	**3.4**	**3.8**	**3.6**	*5.0*	*4.4*
Austria	6.5	0.9	3.6	3.4	4.2	3.5	5.1	**4.0**	**4.3**	**4.0**	*5.8*	*4.9*
Portugal	4.2	0.3	2.4	5.0	4.5	2.0	3.9	**3.3**	**3.7**	**3.4**	*4.8*	*4.3*
Slovenia	6.0	-0.2	2.3	3.7	4.1	4.1	6.0	**4.5**	**4.5**	**4.2**	*5.8*	*5.0*
Slovakia	6.6	0.2	2.1	4.8	4.2	4.1	6.2	**4.6**	**4.3**	**3.9**	*5.9*	*5.0*
Finland	8.3	3.0	2.9	3.2	1.2	2.8	5.5	**4.2**	**3.9**	**3.7**	*5.2*	*4.5*
Euro area (b)	6.0	1.4	3.0	4.1	3.9	3.2	4.7	**3.8**	**3.9**	**3.6**	*5.1*	*4.5*
Bulgaria	5.7	0.6	3.2	3.6	2.6	3.9	6.3	**4.4**	**3.8**	**4.3**	*5.8*	*5.1*
Czech Republic	7.0	0.5	2.7	3.8	4.1	3.8	5.6	**4.3**	**4.3**	**4.1**	*5.8*	*5.0*
Denmark	6.1	2.3	3.0	4.8	3.8	3.1	4.7	**3.9**	**4.0**	**3.6**	*4.9*	*4.3*
Croatia	4.5	1.0	3.2	4.1	4.5	3.7	5.5	**4.1**	**4.5**	**4.1**	*5.7*	*5.0*
Hungary	6.7	0.7	2.7	4.0	4.3	4.3	5.9	**4.4**	**4.3**	**4.1**	*5.7*	*4.9*
Poland	6.9	1.2	2.4	3.5	3.7	3.5	5.3	**4.0**	**4.0**	**3.8**	*5.4*	*4.7*
Romania	5.6	0.4	2.5	3.9	3.8	3.1	5.3	**3.9**	**3.8**	**3.8**	*5.5*	*4.8*
Sweden	6.1	2.4	3.1	3.8	3.3	3.4	4.4	**3.8**	**3.9**	**3.4**	*4.7*	*4.2*
United Kingdom	5.7	2.1	3.5	4.4	4.7	3.0	3.7	**3.7**	**3.9**	**3.6**	*5.0*	*4.6*
EU (b)	6.0	1.4	3.0	4.1	4.0	3.3	4.7	**3.8**	**3.9**	**3.6**	*5.1*	*4.5*
USA	7.4	4.0	3.6	4.1	2.9	2.0	4.6	**4.1**	**3.8**	**3.6**	*4.4*	*4.0*
Japan	8.6	4.0	4.1	3.8	2.4	3.3	6.6	**5.1**	**4.5**	**3.9**	*5.4*	*4.8*

(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, 2011-20) 22.10.2018

								Autumn 2018 forecast			Spring 2018 forecast	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2018	2019
Belgium	1.0	-0.7	-1.6	0.6	-1.6	4.9	0.4	**-0.1**	**-0.6**	**-0.7**	*0.0*	*0.0*
Germany	1.7	1.5	-1.3	0.9	1.8	-1.0	-0.5	**-1.2**	**-0.9**	**-0.5**	*0.7*	*-0.5*
Estonia	14.2	1.4	0.6	1.2	-3.0	1.7	-2.1	**0.3**	**0.2**	**0.2**	*-0.8*	*-0.2*
Ireland	-1.8	-3.1	-0.4	9.4	33.9	1.7	3.3	**2.6**	**0.7**	**0.7**	*0.8*	*0.3*
Greece	-4.6	-1.7	-1.8	3.8	-0.4	-4.5	1.8	**4.7**	**2.1**	**0.6**	*0.6*	*0.1*
Spain	2.2	-0.4	1.0	0.3	0.1	2.5	0.8	**-0.8**	**-0.4**	**-0.1**	*0.0*	*0.3*
France	0.8	1.4	-0.8	-1.2	0.9	-1.2	0.0	**-0.4**	**-0.5**	**-0.4**	*-0.4*	*-0.1*
Italy	-1.2	0.7	-2.7	-0.7	1.2	-1.0	0.9	**-2.2**	**-0.4**	**-0.4**	*-0.7*	*-0.4*
Cyprus	-2.1	-10.1	-5.5	3.1	11.5	7.3	-0.6	**1.9**	**-2.1**	**-1.9**	*-3.0*	*-2.5*
Latvia	1.1	4.6	-2.5	4.0	3.4	1.6	-0.4	**-1.0**	**-0.8**	**-0.8**	*-1.5*	*-1.1*
Lithuania	4.4	8.3	7.9	2.1	2.0	1.1	6.7	**0.6**	**0.1**	**-0.1**	*-0.1*	*-0.1*
Luxembourg	-0.3	0.1	1.8	9.7	-1.7	-0.1	-4.2	**1.1**	**-1.0**	**-1.2**	*-0.4*	*-0.3*
Malta	-2.2	3.2	-3.3	-1.9	-1.0	1.2	0.5	**-1.4**	**-1.6**	**-1.4**	*-2.5*	*-1.2*
Netherlands	-0.8	2.8	0.2	-0.2	2.3	-2.9	1.2	**-0.4**	**-0.2**	**-0.3**	*0.5*	*0.0*
Austria	-0.5	0.5	-2.8	-0.5	-0.6	-0.8	-0.5	**0.6**	**-0.5**	**-1.0**	*-0.5*	*-0.6*
Portugal	2.7	3.1	4.4	-0.7	1.6	2.3	3.7	**2.1**	**0.6**	**0.1**	*2.0*	*1.1*
Slovenia	0.8	0.7	0.8	2.0	0.9	2.3	4.5	**3.4**	**1.7**	**0.0**	*2.1*	*1.4*
Slovakia	5.1	9.1	4.5	-0.9	1.7	1.4	-0.3	**0.7**	**3.5**	**3.0**	*1.1*	*2.8*
Finland	-5.9	-1.7	-1.8	-5.7	-0.2	1.2	1.9	**0.0**	**0.0**	**-0.1**	*0.2*	*0.3*
Euro area (b)	0.5	1.0	-0.8	0.6	2.5	-0.2	0.4	**-0.4**	**-0.4**	**-0.3**	*0.2*	*-0.1*
Bulgaria	6.5	1.4	6.2	-0.5	3.1	4.0	-0.5	**-3.6**	**-0.9**	**-0.8**	*-0.7*	*-0.3*
Czech Republic	2.1	3.8	-2.5	4.7	1.9	0.5	1.1	**0.1**	**-0.6**	**-0.7**	*-1.0*	*-0.3*
Denmark	1.1	-1.1	-1.3	-1.6	-1.4	-0.2	-0.3	**-3.1**	**-1.3**	**-1.6**	*-1.5*	*-1.2*
Croatia	-2.1	-1.2	-0.1	1.8	4.7	1.9	0.8	**0.2**	**-0.3**	**0.0**	*-0.9*	*-0.4*
Hungary	-0.1	-2.5	1.5	4.9	2.8	0.8	-1.1	**2.5**	**1.6**	**1.4**	*1.2*	*1.5*
Poland	0.9	3.4	3.6	3.1	3.8	5.2	4.0	**2.0**	**1.7**	**0.8**	*1.7*	*1.4*
Romania	6.2	0.7	17.3	4.0	0.7	12.5	4.2	**2.3**	**2.6**	**2.2**	*1.9*	*1.8*
Sweden	0.0	-1.4	-3.7	1.4	2.3	-0.4	-1.1	**-0.4**	**-0.6**	**-0.4**	*-0.1*	*-0.5*
United Kingdom	0.7	-0.8	-1.9	-2.0	-0.2	-1.9	1.9	**-1.6**	**-1.0**	**-1.6**	*-1.3*	*-1.6*
EU (b)	0.6	0.8	-0.7	0.6	2.2	-0.1	0.7	**-0.4**	**-0.3**	**-0.4**	*0.1*	*-0.2*
USA	-0.2	-0.6	0.0	0.1	-2.3	-2.1	-1.5	**-0.1**	**-1.0**	**-1.4**	*0.0*	*0.3*
Japan	-8.2	-3.9	-3.2	5.3	0.6	-1.5	0.2	**-0.9**	**-1.9**	**-1.7**	*-0.6*	*-1.9*

(a) Index for exports of goods and services divided by an index for growth of markets. (b) Intra- and extra-EU trade.

Table 55: **World GDP, volume (percentage change on preceding year, 2013-20)** 22.10.2018

							Autumn 2018 forecast			Spring 2018 forecast	
	(a)	2013	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
EU	16.5	0.3	1.8	2.3	2.0	2.4	**2.1**	**1.9**	**1.8**	*2.3*	*2.0*
Euro area	11.5	-0.2	1.4	2.1	1.9	2.4	**2.1**	**1.9**	**1.7**	*2.3*	*2.0*
Belgium	0.4	0.2	1.3	1.7	1.5	1.7	**1.5**	**1.5**	**1.4**	*1.8*	*1.7*
Bulgaria	0.1	0.5	1.8	3.5	3.9	3.8	**3.5**	**3.7**	**3.6**	*3.8*	*3.7*
Czech Republic	0.3	-0.5	2.7	5.3	2.5	4.3	**3.0**	**2.9**	**2.6**	*3.4*	*3.1*
Denmark	0.2	0.9	1.6	1.6	2.0	2.3	**1.2**	**1.8**	**1.6**	*1.8*	*1.9*
Germany	3.3	0.5	2.2	1.7	2.2	2.2	**1.7**	**1.8**	**1.7**	*2.3*	*2.1*
Estonia	0.0	1.9	2.9	1.9	3.5	4.9	**3.5**	**2.8**	**2.6**	*3.7*	*2.8*
Ireland	0.3	1.3	8.8	25.1	5.0	7.2	**7.8**	**4.5**	**3.8**	*5.7*	*4.1*
Greece	0.2	-3.2	0.7	-0.4	-0.2	1.5	**2.0**	**2.0**	**2.0**	*1.9*	*2.3*
Spain	1.4	-1.7	1.4	3.6	3.2	3.0	**2.6**	**2.2**	**2.0**	*2.9*	*2.4*
France	2.2	0.6	1.0	1.1	1.2	2.2	**1.7**	**1.6**	**1.6**	*2.0*	*1.8*
Croatia	0.1	-0.5	-0.1	2.4	3.5	2.9	**2.8**	**2.8**	**2.6**	*2.8*	*2.7*
Italy	1.8	-1.7	0.1	0.9	1.1	1.6	**1.1**	**1.2**	**1.3**	*1.5*	*1.2*
Cyprus	0.0	-5.8	-1.3	2.0	4.8	4.2	**3.9**	**3.5**	**2.9**	*3.6*	*3.3*
Latvia	0.0	2.4	1.9	3.0	2.1	4.6	**4.1**	**3.2**	**2.9**	*3.3*	*3.3*
Lithuania	0.1	3.5	3.5	2.0	2.4	4.1	**3.4**	**2.8**	**2.5**	*3.1*	*2.7*
Luxembourg	0.0	3.7	4.3	3.9	2.4	1.5	**3.1**	**3.0**	**2.7**	*3.7*	*3.5*
Hungary	0.2	2.1	4.2	3.5	2.3	4.1	**4.3**	**3.4**	**2.6**	*4.0*	*3.2*
Malta	0.0	4.6	8.2	9.5	5.2	6.7	**5.4**	**4.9**	**4.4**	*5.8*	*5.1*
Netherlands	0.7	-0.1	1.4	2.0	2.2	2.9	**2.8**	**2.4**	**1.8**	*3.0*	*2.6*
Austria	0.3	0.0	0.7	1.1	2.0	2.6	**2.7**	**2.0**	**1.8**	*2.8*	*2.2*
Poland	0.9	1.4	3.3	3.8	3.1	4.8	**4.8**	**3.7**	**3.3**	*4.3*	*3.7*
Portugal	0.2	-1.1	0.9	1.8	1.9	2.8	**2.2**	**1.8**	**1.7**	*2.3*	*2.0*
Romania	0.4	3.5	3.4	3.9	4.8	7.3	**3.6**	**3.8**	**3.6**	*4.5*	*3.9*
Slovenia	0.1	-1.1	3.0	2.3	3.1	4.9	**4.3**	**3.3**	**3.0**	*4.7*	*3.6*
Slovakia	0.1	1.5	2.8	4.2	3.1	3.2	**4.0**	**4.1**	**3.5**	*4.0*	*4.2*
Finland	0.2	-0.8	-0.6	0.1	2.5	2.8	**2.9**	**2.2**	**1.9**	*2.5*	*2.3*
Sweden	0.4	1.2	2.6	4.5	2.7	2.1	**2.4**	**1.8**	**1.8**	*2.6*	*2.0*
United Kingdom	2.3	2.0	2.9	2.3	1.8	1.7	**1.3**	**1.2**	**1.2**	*1.5*	*1.2*
Candidate Countries	1.9	7.9	4.7	5.7	3.2	7.0	**3.8**	**-1.1**	**3.1**	*4.6*	*4.2*
- Turkey	1.7	8.5	5.2	6.1	3.2	7.4	**3.8**	**-1.5**	**3.0**	*4.7*	*4.2*
- The former Yugoslav Republic of Macedonia	0.0	2.9	3.6	3.9	2.9	0.0	**2.1**	**2.8**	**3.1**	*3.1*	*3.3*
- Montenegro	0.0	3.5	1.8	3.4	2.9	4.7	**3.9**	**2.8**	**3.1**	*3.0*	*2.9*
- Serbia	0.1	2.6	-1.8	0.8	2.8	1.9	**4.1**	**3.8**	**3.8**	*3.3*	*3.5*
- Albania	0.0	1.0	1.8	2.2	3.4	3.8	**4.1**	**3.9**	**3.9**	*3.6*	*3.9*
Potential Candidates	0.1	2.5	0.8	4.1	3.6	3.6	**3.0**	**3.2**	**3.3**	*3.3*	*3.3*
USA	15.3	1.8	2.5	2.9	1.6	2.2	**2.9**	**2.6**	**1.9**	*2.9*	*2.7*
Canada	1.4	2.5	2.9	1.0	1.4	3.0	**2.1**	**2.0**	**1.9**	*2.2*	*2.0*
Japan	4.3	2.0	0.4	1.4	1.0	1.7	**1.1**	**1.0**	**0.5**	*1.3*	*1.1*
Korea	1.6	2.9	3.3	2.8	2.9	3.1	**2.8**	**2.7**	**2.5**	*2.8*	*2.7*
Norway	0.3	1.0	2.0	2.0	1.2	2.0	**1.7**	**1.9**	**1.9**	*1.7*	*2.0*
Switzerland	0.4	1.9	2.4	1.2	1.4	1.1	**3.0**	**2.3**	**2.0**	*2.3*	*1.9*
Iceland	0.0	4.1	2.1	4.5	7.4	4.0	**3.4**	**3.1**	**3.0**	*3.1*	*2.9*
Australia	1.0	2.2	2.5	2.5	2.6	2.2	**2.9**	**2.7**	**2.7**	*2.8*	*2.7*
New Zealand	0.1	2.2	3.6	3.6	4.0	2.8	**2.8**	**2.7**	**2.6**	*2.9*	*2.6*
Advanced economies	44.5	1.6	2.2	2.5	1.9	2.6	**2.4**	**2.1**	**1.9**	*2.6*	*2.4*
CIS	4.5	2.1	1.0	-2.3	0.4	2.1	**2.3**	**2.2**	**2.3**	*2.3*	*2.3*
- Russia	3.2	1.3	0.7	-2.8	-0.2	1.5	**1.7**	**1.6**	**1.8**	*1.7*	*1.6*
- Other CIS	1.3	4.2	1.7	-1.1	1.8	3.6	**3.8**	**3.5**	**3.5**	*3.8*	*3.8*
MENA	6.7	3.3	2.9	1.9	3.9	2.2	**2.2**	**2.2**	**2.4**	*3.2*	*3.4*
Emerging and developing Asia	33.2	6.7	6.6	6.6	6.6	6.4	**6.5**	**6.2**	**6.1**	*6.5*	*6.3*
- China	18.2	7.8	7.3	6.9	6.7	6.9	**6.6**	**6.2**	**5.9**	*6.6*	*6.3*
- India	7.4	6.1	7.0	7.6	7.9	6.2	**7.4**	**7.5**	**7.5**	*7.4*	*7.6*
- Indonesia	2.5	5.6	5.0	4.9	5.0	5.1	**5.2**	**5.1**	**5.0**	*5.2*	*5.3*
Latin America	7.7	3.0	1.3	0.2	-0.9	1.2	**1.0**	**1.7**	**2.3**	*2.2*	*2.7*
- Brazil	2.5	3.0	0.5	-3.5	-3.5	1.0	**1.1**	**1.9**	**2.3**	*2.4*	*2.6*
- Mexico	1.9	1.4	2.8	3.3	2.9	2.0	**2.1**	**2.5**	**2.4**	*2.3*	*2.7*
Sub-Saharan Africa	3.1	5.1	5.0	3.4	1.3	2.8	**3.1**	**3.6**	**3.8**	*3.4*	*3.6*
Emerging and developing economies	55.5	5.1	4.6	4.0	4.3	4.5	**4.7**	**4.7**	**4.7**	*5.0*	*5.0*
World	100.0	3.4	3.5	3.3	3.2	3.7	**3.7**	**3.5**	**3.5**	*3.9*	*3.9*
World excluding EU	83.5	4.1	3.8	3.5	3.4	3.9	**4.0**	**3.8**	**3.8**	*4.2*	*4.2*
World excluding euro area	88.5	4.0	3.8	3.5	3.3	3.8	**3.9**	**3.7**	**3.7**	*4.1*	*4.1*

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2017.

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2013-20) 22.10.2018

							Autumn 2018 forecast			*Spring 2018 forecast*	
	(a)	2013	2014	2015	2016	2017	2018	2019	2020	*2018*	*2019*
EU (b)	35.3	2.3	4.7	6.2	3.2	5.4	**3.4**	**3.6**	**3.2**	*5.2*	*4.3*
Euro area (b)	26.6	2.2	4.7	6.5	3.0	5.2	**3.3**	**3.5**	**3.3**	*5.4*	*4.4*
Candidate Countries	1.1	2.5	7.9	4.8	-0.4	11.6	**5.9**	**5.4**	**4.0**	*6.5*	*5.0*
- Turkey	0.9	1.1	8.2	4.3	-1.9	11.9	**5.5**	**5.1**	**3.4**	*6.1*	*4.5*
- The former Yugoslav Republic of Macedonia	0.0	6.1	16.5	8.5	8.1	9.2	**11.2**	**9.7**	**9.7**	*8.4*	*7.8*
- Montenegro	0.0	-1.3	-0.7	5.7	5.9	1.8	**7.5**	**2.6**	**3.4**	*4.7*	*3.4*
- Serbia	0.1	21.3	5.7	10.2	12.0	9.8	**8.5**	**7.9**	**7.2**	*9.7*	*8.8*
- Albania	0.0	1.6	1.2	1.0	11.3	8.9	**4.5**	**4.3**	**5.1**	*9.0*	*8.0*
USA	10.5	3.6	4.3	0.6	-0.1	3.0	**4.0**	**2.8**	**2.1**	*4.5*	*4.3*
Canada	2.3	2.7	5.9	3.5	1.0	1.1	**3.5**	**4.1**	**2.9**	*2.9*	*3.7*
Japan	3.8	0.8	9.3	2.9	1.7	6.7	**4.1**	**2.6**	**2.2**	*4.8*	*2.8*
Korea	3.0	4.3	2.0	-0.1	2.6	1.9	**3.5**	**3.3**	**3.0**	*3.1*	*3.8*
Norway	0.6	-1.7	3.1	4.7	1.1	-0.2	**0.7**	**3.3**	**2.6**	*2.3*	*3.3*
Switzerland	2.0	15.2	-6.2	2.4	6.5	-0.9	**4.4**	**4.2**	**3.9**	*4.2*	*3.9*
Iceland	0.1	6.7	3.2	9.1	10.9	5.5	**3.6**	**3.2**	**3.2**	*4.5*	*4.2*
Australia	1.3	5.8	6.9	6.5	6.8	3.5	**4.6**	**4.9**	**4.8**	*5.3*	*5.2*
New Zealand	0.2	0.8	3.1	7.0	1.6	2.4	**2.9**	**3.1**	**3.1**	*3.7*	*3.4*
Advanced economies	67.4	3.2	4.2	4.0	2.2	4.6	**3.7**	**3.5**	**3.0**	*4.8*	*4.1*
CIS	2.8	0.8	-0.5	0.7	1.2	5.4	**6.6**	**4.1**	**4.1**	*5.9*	*4.3*
- Russia	1.8	4.6	0.5	3.7	3.1	5.1	**5.2**	**4.0**	**4.0**	*4.6*	*4.2*
- Other CIS	0.9	-6.1	-2.3	-5.1	-2.7	6.1	**9.5**	**4.3**	**4.3**	*8.4*	*4.4*
MENA	5.6	3.4	2.4	5.6	5.1	0.4	**2.5**	**2.7**	**3.1**	*2.7*	*3.4*
Emerging and developing Asia	17.7	7.0	4.1	-1.5	2.7	9.8	**4.9**	**4.5**	**4.2**	*5.1*	*4.6*
- China	10.8	8.8	4.3	-2.2	1.1	9.3	**4.0**	**3.4**	**3.1**	*4.6*	*3.7*
- India	2.2	5.0	3.5	-5.2	6.8	9.6	**6.9**	**6.8**	**6.8**	*6.9*	*6.8*
- Indonesia	0.9	-0.2	-2.2	-6.1	1.2	12.6	**5.1**	**5.5**	**6.0**	*6.3*	*6.1*
Latin America	5.1	1.4	1.7	4.5	3.0	3.9	**3.9**	**4.2**	**4.1**	*4.1*	*4.4*
- Brazil	1.1	2.7	-0.3	8.1	3.7	10.8	**2.2**	**4.5**	**4.8**	*4.5*	*4.6*
- Mexico	1.9	1.4	7.0	8.4	3.5	3.8	**6.9**	**4.4**	**4.0**	*4.6*	*4.8*
Sub-Saharan Africa	1.4	5.8	1.6	2.9	-1.7	2.0	**2.6**	**4.4**	**4.3**	*3.9*	*4.2*
Emerging and developing economies	32.6	4.5	2.7	1.3	2.8	6.6	**4.4**	**4.0**	**4.0**	*4.6*	*4.3*
World	100.0	3.7	3.7	3.1	2.4	5.2	**3.9**	**3.7**	**3.3**	*4.7*	*4.2*
World excluding EU	64.7	4.4	3.2	1.5	2.0	5.2	**4.2**	**3.7**	**3.4**	*4.4*	*4.1*
World excluding euro area	73.4	4.2	3.3	1.9	2.2	5.3	**4.1**	**3.7**	**3.4**	*4.5*	*4.1*

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2017.

(b) Intra- and extra-EU trade.

Table 57: Export shares in EU trade (goods only - 2017) 22.10.2018

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	64.0	46.3	2.1	7.7	1.2	7.3	3.9	3.3	2.3	4.5	2.4	1.4
Euro area	64.0	45.7	2.0	7.7	1.2	6.8	4.0	3.4	2.2	4.7	2.6	1.4
Belgium	74.2	58.8	1.3	5.6	0.7	3.9	2.0	4.0	1.1	3.7	1.4	2.2
Bulgaria	65.8	46.8	13.1	1.9	0.3	2.0	2.8	3.0	4.4	5.5	0.6	0.7
Czech Republic	83.0	64.5	1.8	2.6	0.5	3.2	1.5	1.2	3.0	2.1	0.7	0.5
Denmark	62.4	38.9	1.1	8.4	1.8	11.0	4.6	2.9	1.4	3.0	2.5	0.8
Germany	58.3	36.4	2.2	9.3	1.4	8.4	6.6	3.8	2.5	3.8	2.7	1.0
Estonia	74.3	47.3	1.7	3.5	0.6	6.6	1.6	1.8	7.2	1.5	0.6	0.7
Ireland	53.2	36.1	0.6	23.9	3.8	8.1	2.3	2.0	0.8	2.6	1.9	0.7
Greece	55.6	38.2	13.3	4.9	0.3	3.4	1.0	2.0	2.6	13.8	1.7	1.3
Spain	66.3	52.1	2.4	4.8	1.1	4.6	2.0	2.2	1.3	7.7	6.1	1.5
France	58.9	45.8	1.7	8.0	1.5	7.1	4.5	4.7	1.7	6.8	2.8	2.2
Croatia	72.4	60.0	10.7	3.8	0.5	2.6	0.9	0.9	3.1	4.0	0.7	0.4
Italy	54.8	39.9	3.4	9.0	1.4	9.5	3.3	3.5	2.9	7.7	3.3	1.2
Cyprus	52.5	32.8	0.4	1.2	0.0	3.9	1.8	10.9	2.1	25.1	0.3	1.6
Latvia	71.4	49.0	1.5	1.9	0.4	4.1	1.2	1.3	12.5	4.5	0.6	0.6
Lithuania	65.6	43.1	1.0	4.5	0.8	4.9	0.6	1.4	18.0	2.1	0.5	0.6
Luxembourg	84.1	72.3	1.1	2.8	0.4	3.5	1.6	1.6	1.3	2.2	0.8	0.7
Hungary	78.8	56.2	3.2	4.1	0.8	2.8	2.2	1.0	3.9	1.5	1.4	0.4
Malta	39.2	28.7	0.9	5.1	3.3	13.3	6.6	10.1	0.8	17.6	1.1	2.1
Netherlands	78.4	59.9	1.0	3.4	0.6	4.2	1.9	2.8	1.2	2.9	1.8	1.7
Austria	70.4	51.7	1.7	6.6	0.9	7.8	2.8	2.6	2.6	2.4	1.7	0.6
Poland	79.6	56.7	2.1	2.5	0.4	3.7	1.3	1.2	5.3	1.7	1.4	0.7
Portugal	71.9	60.5	1.1	5.6	0.4	3.4	2.4	0.8	0.8	4.3	3.1	6.1
Romania	72.3	52.7	6.0	2.7	0.5	3.0	1.6	1.1	4.8	6.2	1.1	0.7
Slovenia	78.5	53.8	5.8	2.0	0.2	2.9	1.1	1.1	4.8	2.8	0.5	0.3
Slovakia	84.2	46.3	1.9	2.6	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	5.2	4.2	6.2	3.1	2.7	1.0
Sweden	60.9	41.3	1.3	7.1	1.2	12.6	4.3	3.8	1.8	3.5	2.2	1.2
United Kingdom	46.8	41.1	1.6	13.9	1.4	14.4	5.6	5.1	1.5	6.1	2.0	1.7

Table 58: World imports of goods and services, volume (percentage change on preceding year, 2013-20) 22.10.2018

							Autumn 2018 forecast			Spring 2018 forecast	
	(a)	2013	2014	2015	2016	2017	2018	2019	2020	2018	2019
EU (b)	33.5	1.8	5.2	7.1	4.3	4.2	**3.2**	**3.9**	**3.6**	*5.1*	*4.4*
Euro area (b)	24.8	1.5	4.9	7.6	4.2	3.9	**3.0**	**3.9**	**3.6**	*5.2*	*4.5*
Candidate Countries	1.3	7.4	0.5	2.5	4.5	10.2	**3.2**	**-4.7**	**5.4**	*6.9*	*6.6*
- Turkey	1.1	8.0	-0.4	1.7	3.7	10.3	**2.2**	**-6.9**	**5.1**	*6.7*	*6.5*
- The former Yugoslav Republic of Macedonia	0.0	2.2	14.1	9.9	11.6	7.3	**7.9**	**8.6**	**9.3**	*7.9*	*7.4*
- Montenegro	0.0	-3.1	1.6	4.4	15.3	8.4	**8.8**	**4.8**	**1.5**	*4.1*	*2.1*
- Serbia	0.1	5.0	5.6	9.3	9.0	10.7	**10.2**	**8.2**	**7.6**	*9.4*	*7.6*
- Albania	0.0	-0.6	4.3	-2.9	6.9	8.2	**4.4**	**3.8**	**4.5**	*6.7*	*7.0*
USA	13.5	1.5	5.1	5.5	1.9	4.6	**4.5**	**3.9**	**2.8**	*6.5*	*5.2*
Canada	2.5	1.7	2.3	0.7	-1.0	3.6	**4.6**	**2.7**	**2.3**	*4.0*	*2.6*
Japan	3.8	3.3	8.3	0.8	-1.6	3.4	**3.3**	**2.8**	**1.6**	*2.8*	*2.8*
Korea	2.7	1.7	1.5	2.1	4.7	7.0	**3.2**	**3.0**	**2.6**	*3.2*	*3.4*
Norway	0.6	5.0	2.4	1.6	3.3	1.6	**4.0**	**5.0**	**2.7**	*2.9*	*3.2*
Switzerland	1.7	13.5	-7.7	4.7	6.0	-2.5	**3.0**	**3.5**	**3.7**	*3.7*	*3.5*
Iceland	0.0	0.1	9.8	13.8	14.5	12.5	**6.4**	**5.0**	**3.9**	*6.8*	*5.6*
Australia	1.3	-2.0	-1.4	1.9	0.2	7.8	**4.1**	**3.8**	**4.0**	*4.3*	*4.0*
New Zealand	0.2	6.2	7.9	3.8	3.2	6.7	**5.2**	**3.3**	**3.1**	*4.1*	*3.3*
Advanced economies	67.8	2.6	4.1	5.0	2.8	4.4	**3.7**	**3.6**	**3.2**	*5.0*	*4.3*
CIS	2.5	1.8	-8.1	-20.7	-2.4	12.5	**6.2**	**4.3**	**4.6**	*6.7*	*5.5*
- Russia	1.5	3.6	-7.3	-25.8	-3.8	17.4	**5.4**	**4.0**	**4.7**	*7.5*	*6.4*
- Other CIS	1.0	-1.0	-9.4	-11.9	-0.6	5.5	**7.5**	**4.8**	**4.3**	*5.4*	*4.2*
MENA	5.5	7.7	8.0	-1.6	-1.1	0.4	**3.6**	**3.0**	**2.7**	*4.2*	*3.8*
Emerging and developing Asia	17.3	6.4	6.0	0.4	4.7	9.0	**6.6**	**5.8**	**5.1**	*5.8*	*5.2*
- China	10.2	10.6	7.8	-0.5	4.7	7.1	**6.6**	**5.2**	**4.2**	*5.3*	*4.2*
- India	2.6	-3.7	5.3	0.5	4.1	12.9	**7.3**	**7.4**	**7.2**	*7.3*	*7.4*
- Indonesia	0.8	1.4	-1.6	-8.1	2.5	8.7	**5.5**	**5.9**	**6.2**	*6.0*	*6.2*
Latin America	5.4	3.3	0.4	-1.6	-2.1	4.8	**3.5**	**3.0**	**4.0**	*4.1*	*4.3*
- Brazil	1.0	8.4	-0.1	-13.5	-8.2	3.5	**3.7**	**3.8**	**4.3**	*5.2*	*5.0*
- Mexico	2.1	2.1	5.9	5.9	2.9	6.5	**5.9**	**5.0**	**4.6**	*4.5*	*4.7*
Sub-Saharan Africa	1.6	2.6	7.6	2.2	-9.5	-0.1	**4.9**	**4.7**	**4.6**	*4.4*	*4.4*
Emerging and developing economies	32.2	5.3	4.0	-2.1	1.1	6.5	**5.5**	**4.7**	**4.5**	*5.3*	*4.8*
World	100.0	3.5	4.1	2.6	2.2	5.1	**4.3**	**4.0**	**3.6**	*5.1*	*4.5*
World excluding EU	66.5	4.3	3.5	0.5	1.2	5.5	**4.8**	**4.0**	**3.7**	*5.1*	*4.5*
World excluding euro area	75.2	4.1	3.8	1.0	1.6	5.5	**4.7**	**4.0**	**3.6**	*5.1*	*4.4*

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2017.

(b) Intra- and extra-EU trade.

Table 59: Import shares in EU trade (goods only - 2017) 22.10.2018

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	64.4	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, 2012-20) 22.10.2018

	2012	2013	2014	2015	2016	2017	Autumn 2018 forecast 2018	2019	2020	Spring 2018 forecast 2018	2019
EU	84.2	181.7	201.7	310.1	319.8	300.5	280.7	255.6	260.1	367.4	385.2
EU, adjusted[1]	-36.7	50.4	62.9	159.8	184.1	148.4	121.3	100.4	104.9	185.1	202.8
Euro area	244.3	341.5	381.0	464.0	471.0	455.0	457.0	440.1	451.2	538.7	557.0
Euro area, adjusted[1]	160.1	277.8	322.0	389.2	409.8	373.4	371.5	356.9	367.9	440.7	458.9
Candidate Countries	-77.6	-89.6	-73.8	-56.2	-56.8	-67.5	-72.6	-49.4	-56.2	-102.4	-113.9
USA	-779.8	-737.2	-776.6	-793.0	-778.3	-842.7	-892.0	-947.7	-999.9	-939.8	-1018.2
Japan	-53.6	-89.9	-99.1	-7.3	50.9	24.5	27.8	21.4	19.2	43.8	42.0
Norway	69.0	60.9	49.8	24.5	10.7	18.9	20.6	21.7	22.7	17.8	18.9
Switzerland	40.2	53.7	55.5	53.6	49.5	51.2	61.2	65.8	69.7	59.3	62.0
Iceland	0.1	0.1	-0.1	-0.3	-0.8	-1.5	-1.8	-2.0	-2.1	-1.8	-2.0
Advanced economies	-586.4	-434.3	-433.3	-245.4	-174.3	-264.9	-326.3	-362.3	-389.3	-319.5	-359.4
CIS	224.5	207.3	227.7	151.1	82.4	114.1	178.6	174.2	175.3	145.6	140.5
- Russia	192.8	183.6	186.8	145.8	89.9	114.6	164.9	160.3	164.0	131.0	130.8
MENA	661.7	589.9	452.8	123.7	87.6	180.7	336.3	367.3	358.8	280.9	238.6
Asia	136.8	216.3	336.3	483.8	427.4	367.8	204.3	142.6	120.5	257.6	262.8
- China	311.6	359.0	435.0	576.2	488.9	476.1	374.5	344.0	344.0	399.1	422.6
Latin America	45.3	10.4	-9.7	-45.4	11.0	35.1	31.6	38.2	36.6	20.4	21.0
Sub-Saharan Africa	71.6	63.2	28.6	-32.8	-10.6	17.0	35.9	39.3	35.5	16.2	7.9
Emerging and developing economies	1139.9	1087.0	1035.7	680.4	597.8	714.7	786.7	761.6	726.7	720.7	670.9
World	553.5	652.8	602.3	435.1	423.6	449.8	460.4	399.3	337.4	401.2	311.5

[1] See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2012-20) 22.10.2018

	2012	2013	2014	2015	2016	2017	Autumn 2018 forecast 2018	2019	2020	Spring 2018 forecast 2018	2019
EU	204.0	278.2	311.6	300.6	331.6	454.7	466.4	441.0	448.2	430.3	452.6
EU, adjusted[1]	98.1	183.0	173.4	152.0	223.9	206.9	206.5	188.0	195.2	283.5	305.7
Euro area	280.3	363.2	409.5	391.1	416.4	501.7	528.3	505.5	512.3	485.0	499.1
Euro area, adjusted[1]	173.4	300.7	340.3	342.6	383.7	400.9	422.5	402.5	409.4	482.8	496.9
Candidate Countries	-56.0	-69.2	-49.3	-36.2	-37.5	-52.9	-55.5	-26.0	-34.1	-58.9	-62.9
USA	-426.8	-348.8	-365.2	-407.8	-432.9	-449.1	-492.6	-548.7	-625.6	-553.0	-618.5
Japan	59.7	45.7	37.1	135.5	189.0	208.0	236.0	232.8	239.5	240.2	245.4
Norway	64.0	54.0	53.0	30.8	17.0	25.1	25.5	26.3	27.5	21.2	22.8
Switzerland	70.0	79.9	62.2	76.0	63.0	62.3	73.9	78.9	83.7	69.3	73.9
Iceland	-0.6	0.9	0.7	0.9	1.6	0.8	0.5	0.3	0.3	0.6	0.6
Advanced economies	-74.1	114.3	166.7	228.2	283.7	396.6	387.9	351.8	304.4	276.6	267.2
CIS	63.3	16.3	53.7	51.6	2.0	22.5	76.9	69.8	69.9	38.4	33.9
- Russia	68.5	32.1	53.5	66.3	25.6	34.9	88.9	82.9	82.0	49.7	44.5
MENA	461.2	374.1	235.8	-74.1	-80.7	11.3	92.6	102.1	79.0	50.4	21.0
Asia	126.5	92.9	229.4	311.7	233.8	169.7	-7.5	-91.1	-126.5	50.1	44.2
- China	215.4	148.2	236.0	304.2	202.2	164.9	32.6	-26.0	-56.0	79.6	83.9
Latin America	-135.5	-161.6	-183.2	-172.0	-95.1	-82.5	-104.0	-118.8	-137.8	-118.3	-134.2
Sub-Saharan Africa	-11.0	-23.2	-49.6	-79.3	-42.5	-26.3	-28.8	-32.5	-38.9	-27.5	-36.7
Emerging and developing economies	504.6	298.5	286.0	37.8	17.5	94.8	29.2	-70.4	-154.4	-6.8	-71.8
World	430.5	412.8	452.7	266.0	301.2	491.4	417.1	281.4	150.0	269.8	195.4

[1] See note 8 on concepts and sources.

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 2018, 2019 and 2020 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 and Developing asia :

All countries in that region except the ones included in the Advanced economies and the Asian MENA countries.

Latin America :

All countries in that region.

Sub-Saharan Africa :

All countries in that region except the African MENA countries.

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