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European Economic Forecast

Autumn 2015

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European Commission
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EUROPEAN ECONOMY Institutional Paper 011

ABBREVIATIONS

Countries and regions

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

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

Economic variables and institutions

ESI	Economic Sentiment Indicator
GDP	Gross Domestic Product
GNI	Gross National Income
HICP	Harmonised Index of Consumer Prices
PMI	Purchasing Managers' Index
TFP	Total Factor Productivity
VAT	Value-Added Tax

CPB	Centraal Planbureau
ECB	European Central Bank
Fed	Federal Reserve, US
IMF	International Monetary Fund

OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries

Other abbreviations

APP	Asset purchase programme
FDI	Foreign Direct Investment
NFC	Non-Financial Corporations
SME	Small and medium-sized enterprises

Graphs/Tables/Units

bbl	Barrel
bn	Billion
bps	Basis points
lhs	Left hand scale
pp. / pps.	Percentage point / points
pts	Points
Q	Quarter
q-o-q%	Quarter-on-quarter percentage change
rhs	Right hand scale
y-o-y%	Year-on-year percentage change

Currencies

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

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FOREWORD

The euro area economy is headed for a continued, moderate recovery amid more challenging global conditions. Domestic demand is currently supported by a convergence of tailwinds, but its underlying dynamics remain slow. Investment is set to accelerate, but less than in past recoveries and in other advanced economies, as subdued demand expectations, economic and policy uncertainty and, in some Member States, corporate deleveraging pressures and high levels of non-performing loans persist. In the first half of this year, gross domestic product in the EU as a whole grew slightly faster than expected, supported by low oil prices, a relatively low euro exchange rate and easy financing conditions. Oil prices are now expected to remain at low levels for an extended period. The related increase in real disposable income has already boosted private consumption, which remains the main driver for growth. With the euro's trade-weighted exchange rate more than 6% lower this year than in 2014, euro area export growth surpassed expectations in the first half of 2015, despite the world trade slowdown. The combination of quantitative easing and credit easing by the ECB has reduced financing costs and attenuated financial fragmentation. Annual credit growth in the euro area has now turned positive also for non-financial corporations. The broadly neutral stance of fiscal policy, which is expected to be maintained over the forecast horizon, is helping to stabilise economic activity.

At the same time, emerging market economies have slowed down considerably, with some going through deep recessions. A combination of intertwined factors is responsible for this, including economic readjustment and slower growth in China and the sharp fall of many commodity prices. Financial-market volatility, the expectation of higher US interest rates, heightened risk aversion and geopolitical tensions are also taking a toll on emerging markets' growth. Slow global trade growth should dampen euro area exports in the coming quarters. Low commodity prices are leading to a significant redistribution between producers and importers. Moreover they have pushed headline inflation close to zero in many advanced economies and have affected inflation expectations. Widespread political instability and war, in particular in the Middle East and Africa, have resulted in the largest ever recorded number of displaced people worldwide. As perspectives for returning home to safety any time soon have faded, many are now seeking asylum in the EU. It is beyond the scope of this forecast to examine the social or societal implications of the arrival of large numbers of asylum seekers, but the forecast does attempt a first assessment of the immediate growth impact of the additional fiscal expenditure to cater for asylum seekers and the potential and more gradual impact from an increase in the labour force. The analysis shows that, if managed properly, the inflow of refugees will have a small favourable effect on growth in the short and medium term. This will crucially depend on policies to integrate accepted refugees in the labour market.

Given the fading impetus from tailwinds, the continued drag from legacies of the crisis, such as deleveraging pressures and weaknesses in banking sectors in some Member States, and the weaker global economy, growth in 2016 and 2017 is set to remain modest. Moreover, a number of developments could result in lower-than-expected growth, such as a further deterioration of world trade, larger-than-expected spillovers from the slowdown in emerging markets, or contagion via financial markets. In this context, macroeconomic policies need to continue supporting the recovery by underpinning the rotation from external to domestic demand, notably investment. This requires supportive fiscal policies in full respect of fiscal rules, combined with a more growth-friendly composition of public finances. Macroeconomic policies need to be accompanied by structural reforms to improve the efficiency of labour- and product markets and increase growth potential. Progress is also required on boosting investment and completing the Economic and Monetary Union in line with the Five Presidents' Report as proposed by the Commission in the EMU package of 21 October.

Marco Buti

Director General
Economic and Financial Affairs

OVERVIEW

A gradual and timid recovery continues amid more challenging global conditions

The economic recovery of the euro area and the EU is now entering its third year and is forecast to continue. Although subdued compared to past experiences, the present recovery has so far proven resilient to temporary bouts of uncertainty. The slowdown in emerging market economies and the recent sharp fall in global trade growth, however, are set to take their toll, and downside risks related to the external environment have increased.

Euro area recovery supported by tailwinds

As expected, the recovery in the euro area has been supported this year by a conjunction of positive factors including low oil prices, a relatively weak external value of the euro, and policy support, in particular the ECB's very accommodative monetary policy and a broadly neutral fiscal stance. These tailwinds have visibly stimulated private consumption and exports but the pace of economic growth overall remains relatively muted considering the strength of these factors. Investment activity, in particular, is still lagging despite favourable financing conditions due to economic and policy uncertainty. In some Member States, deleveraging pressures still linger.

Emerging market slowdown puts the brakes on world trade

While economic growth should still benefit from these tailwinds, their strength is expected to fade and the euro area and EU economy now face headwinds from the slowdown in emerging market economies (EMEs), increased global uncertainty, and persistent geopolitical tensions. The euro's past depreciation has so far helped to sustain euro area exports but the sharp

Table 1:

Overview - the autumn 2015 forecast

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Belgium	1.3	1.3	1.7	0.6	1.7	1.5	8.6	8.4	7.9	1.8	2.0	1.9	-2.7	-2.6	-2.3
Germany	1.7	1.9	1.9	0.2	1.0	1.7	4.7	4.9	5.2	8.7	8.6	8.4	0.9	0.5	0.4
Estonia	1.9	2.6	2.6	0.1	1.8	2.9	6.5	6.5	7.6	1.6	1.2	-0.1	0.2	0.2	0.1
Ireland	6.0	4.5	3.5	0.3	1.4	1.6	9.5	8.7	7.9	5.9	5.7	4.7	-2.2	-1.5	-1.5
Greece	-1.4	-1.3	2.7	-1.0	1.0	0.9	25.7	25.8	24.4	-1.0	-0.3	0.1	-4.6	-3.6	-2.2
Spain	3.1	2.7	2.4	-0.5	0.7	1.2	22.3	20.5	19.0	1.4	1.3	1.4	-4.7	-3.6	-2.6
France	1.1	1.4	1.7	0.1	0.9	1.3	10.4	10.4	10.2	-1.3	-1.6	-2.2	-3.8	-3.4	-3.3
Italy	0.9	1.5	1.4	0.2	1.0	1.9	12.2	11.8	11.6	2.2	1.9	1.9	-2.6	-2.3	-1.6
Cyprus	1.2	1.4	2.0	-1.6	0.6	1.3	15.6	14.6	13.3	-3.5	-3.2	-3.0	-0.7	0.1	0.3
Latvia	2.4	3.0	3.3	0.2	1.4	2.1	10.1	9.5	8.8	-1.8	-1.9	-2.2	-1.5	-1.2	-1.1
Lithuania	1.7	2.9	3.4	-0.8	0.6	2.2	9.4	8.6	8.1	-0.8	0.2	-0.3	-1.1	-1.3	-0.4
Luxembourg	3.1	3.2	3.0	0.3	1.7	1.7	5.9	5.8	5.8	4.3	4.0	3.7	0.0	0.5	0.5
Malta	4.3	3.6	3.1	1.1	1.8	2.2	5.8	5.7	5.8	2.0	3.8	4.2	-1.7	-1.2	-1.1
Netherlands	2.0	2.1	2.3	0.2	1.2	1.5	6.9	6.6	6.3	10.5	10.4	9.6	-2.1	-1.5	-1.2
Austria	0.6	1.5	1.4	0.9	1.8	2.0	6.1	6.1	6.0	2.6	2.6	2.8	-1.9	-1.6	-1.3
Portugal	1.7	1.7	1.8	0.5	1.1	1.3	12.6	11.7	10.8	0.5	0.5	0.3	-3.0	-2.9	-2.5
Slovenia	2.6	1.9	2.5	-0.6	0.8	1.4	9.4	9.2	8.7	7.0	7.5	7.2	-2.9	-2.4	-2.0
Slovakia	3.2	2.9	3.3	-0.2	1.0	1.6	11.6	10.5	9.6	0.0	-1.2	-0.3	-2.7	-2.4	-2.0
Finland	0.3	0.7	1.1	-0.2	0.6	1.5	9.6	9.5	9.4	-1.1	-1.0	-0.9	-3.2	-2.7	-2.3
Euro area	**1.6**	**1.8**	**1.9**	**0.1**	**1.0**	**1.6**	**11.0**	**10.6**	**10.3**	**3.7**	**3.6**	**3.4**	**-2.0**	**-1.8**	**-1.5**
Bulgaria	1.7	1.5	2.0	-0.8	0.7	1.1	10.1	9.4	8.8	1.4	1.3	0.9	-2.8	-2.7	-2.7
Czech Republic	4.3	2.2	2.7	0.4	1.0	1.6	5.2	5.0	4.8	-2.5	-2.4	-2.1	-1.9	-1.3	-1.1
Denmark	1.6	2.0	1.8	0.4	1.5	1.9	6.1	5.8	5.5	7.0	6.9	6.5	-3.3	-2.5	-1.7
Croatia	1.1	1.4	1.7	-0.1	0.9	1.7	16.2	15.6	14.7	4.4	2.9	3.2	-4.9	-4.7	-4.1
Hungary	2.9	2.2	2.5	0.1	1.9	2.5	7.1	6.7	6.2	4.3	5.5	6.1	-2.3	-2.1	-2.0
Poland	3.5	3.5	3.5	-0.6	1.4	1.9	7.6	7.2	6.8	-0.5	-0.9	-1.5	-2.8	-2.8	-2.8
Romania	3.5	4.1	3.6	-0.4	-0.3	2.3	6.7	6.6	6.5	-0.8	-1.9	-2.6	-1.2	-2.8	-3.7
Sweden	3.0	2.8	2.7	0.8	1.5	1.7	7.7	7.7	7.4	5.9	5.9	5.8	-1.4	-1.3	-1.2
United Kingdom	2.5	2.4	2.2	0.1	1.5	1.7	5.4	5.4	5.5	-4.3	-3.9	-3.4	-4.4	-3.0	-1.9
EU	**1.9**	**2.0**	**2.1**	**0.0**	**1.1**	**1.6**	**9.5**	**9.2**	**8.9**	**2.2**	**2.2**	**2.0**	**-2.5**	**-2.0**	**-1.6**
USA	2.6	2.8	2.7	0.2	2.1	2.3	5.3	4.8	4.6	-2.3	-2.4	-2.7	-4.0	-3.5	-3.2
Japan	0.7	1.1	0.5	0.8	0.7	1.8	3.4	3.3	3.3	2.3	2.8	3.1	-6.6	-5.7	-5.1
China	6.8	6.5	6.2	:	:	:	:	:	:	:	:	:	:	:	:
World	**3.1**	**3.5**	**3.7**	:	:	:	:	:	:	:	:	:	:	:	:

fall in global trade growth is likely to weigh on foreign demand and investment in the coming quarters.

As tailwinds gradually fade, other factors should drive growth...

The growth outlook for the euro area is thus likely to remain modest over the forecast horizon. As the tailwinds fade, other factors will come to play a larger role in driving economic growth in 2016 and 2017. Monetary policy is set to remain highly accommodative and fiscal policy to remain broadly neutral. Credit constraints are clearly receding and market funding will continue to play an increasing role in supporting investment, which should progressively become a stronger driver of GDP growth. Deleveraging pressures and a high share of non-performing loans remain in some Member States and unemployment remains high in the euro area as a whole. However, progress in overcoming these legacies of the crisis should increasingly support growth. The strengthening of global economic activity from next year on is likely to be gradual and should support European exports, but less than expected in spring. In some Member States, the fruits of recent structural reforms will become increasingly tangible but in the euro area as a whole, and some core countries, structural reforms implemented so far have not been enough to significantly increase growth potential. Eventually, the increased inflow of asylum seekers into the EU should result in additional government spending in several Member States, adding to aggregate demand.

...while differences in cyclical positions and the legacy of the crisis partly explain why growth is lower in the euro area than the EU.

Real GDP in the euro area is projected to grow by 1.6% in 2015 and to pick up to 1.8% in 2016 and 1.9% in 2017. In the EU, GDP growth is forecast to rise from 1.9% in 2015 to 2.0% in 2016 and 2.1% in 2017. This implies somewhat stronger growth in the Member States not belonging to the euro area, which reflects renewed catching-up in some Central and Eastern-European Member States, but also the more advanced cyclical position of the UK and strong growth in Poland and Sweden. Non-euro area countries seem to be less affected by legacies of the crisis such as unemployment and deleveraging pressures and this is reflected in their somewhat higher investment rates.

Global GDP growth set to fall to its slowest pace since 2009...

The outlook for global GDP growth and world trade has deteriorated considerably since the spring, mainly due to a broad-based and deeper downturn in EMEs and a sharper and more disruptive adjustment in China.

Given the difficulties in steering a reorientation of growth drivers in China from investment and debt towards consumption, a macro-financial adjustment process that has become increasingly complex, real GDP growth in China is expected to slow down somewhat more than before. Economic growth in China is now projected to slow from 6.8% in 2015 to 6.2% in 2017. This relatively benign ‘soft landing’ scenario assumes that the current rebalancing of the economy will continue without a sharp correction, and rests on the capacity of the Chinese authorities to boost demand if growth moves too far away from the official target. However, the changing composition of growth in China means that trade has been marked down much more significantly than economic activity, a trend that is already having a visible impact on other EMEs.

Moreover, low oil and commodity prices are weighing on the growth performance of commodity exporters this year and next. Prospects that the gradual normalisation of US monetary policy could be accompanied by a reversal of capital flows, also underpin the current weakness in EMEs. Geopolitical tensions, domestic political instability, and increasing domestic imbalances are also expected to continue looming over their growth outlook across the forecast horizon.

The downturn in growth across EMEs is however expected to bottom out this year, with a gradual, moderate recovery setting in from 2016, assuming a stabilisation of commodity prices, a gradual cyclical recovery in some countries, and progress with structural adjustments and reforms in others.

...as the recovery in advanced economies cannot offset weakness in EMEs...

As the gradual recovery in advanced economies is not powerful enough to offset a sharp slowdown in EMEs and oil-exporting countries, global growth (excluding the EU) is expected to slow from 3.7% in 2014 to 3.3% this year, before strengthening gradually to 3.8% in 2016 and 4.0% in 2017. The economic recovery in the US is expected to continue at a robust pace, supported by low energy prices, a waning fiscal drag, and a monetary policy that is still supportive. However, due to a disappointing first quarter and the impact of the US dollar's appreciation, growth momentum this year now looks somewhat weaker than it did in the spring and GDP growth is now expected to hover between 2.6% and 2.8% over the forecast horizon. In Japan, a further contraction in private consumption is set to dampen growth prospects this year. Growth is expected to pick up next year, as a result of favourable investment conditions and front-loaded demand in anticipation of fiscal consolidation measures, but is projected to fall back again in 2017 when these measures are implemented.

... while world trade is expected to gradually recover.

The slowdown in EMEs, and in particular, the contraction in import demand in China, Russia and Brazil, is expected to lead to a sharp fall in global trade growth, from 3.4% in 2014 to 2.6% this year, and to trigger a decline in the elasticity of global imports with respect to global GDP. As trade bottoms out in China and bounces back in other EMEs (particularly Russia, Latin America, the Middle East and North Africa), and as a result of modest increases in advanced economies, world trade growth is projected to recover to 3.7% in 2016 and 4.4% in 2017. This should in turn underpin an acceleration in EU export markets in both years.

Financial conditions remain favourable...

The deterioration of the global growth outlook and persistent uncertainty about the timing and pace at which the US Federal Reserve may start raising interest rates have triggered an upsurge in market volatility in recent months and a tightening of financial conditions in several parts of the world. Even though financial markets in the euro area and the EU have been caught up in this turmoil and have suffered from tensions related to Greece, overall financial conditions remain favourable. Sovereign bond spreads widened in the euro area amid discussions on Greece, but contagion in the periphery proved rather limited and short-lived, due also to support by the ECB's expanded Asset Purchase Programme (APP).

...on the back of an accommodative policy stance.

The combination of quantitative easing and credit easing by the ECB has successfully kept financing costs and yields at low levels and thereby helped to reduce financial fragmentation and cross-country differences. Annual loan growth in the euro area has now turned positive for non-financial corporations. In the euro area, the additional liquidity arising from the ECB's asset purchase programme has also improved banks' willingness to lend and surveys suggest that euro area banks will continue to ease their credit standards. This positive trend is supported by lower refinancing costs for banks, which suggests an improvement in the transmission of the ECB's accommodative monetary policy throughout the euro area banking system.

Elsewhere in the EU, central banks have also kept their monetary policy rates at historically low levels amid renewed declines in inflation.

The recovery is widespread across Member States...

Tailwinds are supporting economic growth in all Member States, albeit to different degrees. Domestic demand growth is strengthening in most euro area Member States this year, while it is weakening in most non-euro area countries. In 2016 and 2017, economic activity should be on the rise in all Member States with an acceleration expected in 2017 in most of them. Growth differences result from country-specific structural features such as differences in balance-sheet adjustment, deleveraging in the private sector and catching-up in some Member States. Other factors include different cyclical positions, differences in the pass-through of lower oil prices, different degrees of exposure to China's rebalancing and differences in the price elasticity of exports.

...and driven by the strengthening of domestic demand...

Private consumption has been fuelling the pick-up in domestic demand and is expected to maintain its growth momentum in the near term, supported by a continued rise in nominal incomes and the positive impact on purchasing power of lower energy prices, which may not yet have been fully passed through. Overall in 2015, improved labour market conditions and the increased scope for household spending, as a result of higher real wages, should generate steady consumption growth in the euro area and even more so in the EU as a whole. In 2016 and 2017, private consumption growth should continue to be supported by improving labour market conditions, further gains in non-labour income, and consumer price inflation which will still be relatively low (as oil prices are now assumed to rebound later and less than expected in spring). However, as the rate of inflation normalises, real disposable incomes should grow more slowly than this year. Private consumption is nevertheless expected to decelerate only slightly over the forecast horizon because household saving rates are expected to decline somewhat. This is partly due to the likely decrease in precautionary savings on the back of improving labour market conditions, but also because to the discouraging impact that an extended period of low interest rates is likely to have on savings.

...on the back of the tentative recovery in investment...

Investment is forecast to strengthen gradually over the forecast horizon, but less than in past recoveries. This is a result of subdued demand expectations, economic and policy uncertainty associated with developments in the external environment, geopolitical concerns and, in some Member States, the persistence of corporate deleveraging pressures and credit supply constraints. After having fallen rather steadily since the recession in 2008-2009, the adjustment of construction investment is expected to come to an end this year, which should allow construction investment to gather pace in 2016 and 2017. Support should mainly come from the relatively strong growth in household real disposable income, low mortgage rates, and a return to rising house prices. However, since these factors will continue to be partially offset in some Member States by high levels of household debt and remaining sluggishness in the non-residential construction sector, the rebound in construction investment should be moderate. Equipment investment is supported by improved profit margins, on the back of low energy prices, and low financing costs. It should increasingly benefit from a brighter demand outlook and a need to modernise the capital stock. Lower growth momentum outside the EU, however, will likely prevent equipment investment from becoming more dynamic in 2016 but stronger growth is expected in 2017 with the pick-up in global demand. Even though corporate deleveraging should have become a softer constraint for equipment investment than in the years immediately following the recent economic and financial crisis, it is expected to continue holding back investment in some Member States.

...while net exports should contribute little to growth.

So far, weak growth in emerging markets has not significantly hit euro area export growth. On the back of the euro's past depreciation and the decline in relative unit labour costs, this should lead euro area exports to gain market share, even more so than EU exports as whole. However, euro area exports cannot be expected to remain immune to global headwinds. Besides, the weakness of currencies in emerging markets, particularly commodity exporters, strengthens the nominal effective exchange rate of the euro, as well as other EU Member State currencies. Export growth is thus expected to ease next year and to pick up moderately in 2017, in line with the projected strengthening of global trade. On the back of recovering domestic demand, the profile of import growth is projected to be similar to that of exports, so the contribution of net exports to GDP growth is expected to be broadly neutral.

The current account surplus is expected to recede...

The current account surplus of the euro area is set to increase further this year as a result of the shrinking deficit in the oil trade balance, improvements in the terms of trade, and because domestic demand remains subdued. Improvements in deficit countries and further strengthening in most surplus countries will contribute to this rise. The current account surplus, however, is expected to peak, as a rebound in oil prices and a deterioration in the terms of trade should eventually result in a slight decline. Nonetheless, the current account surplus will remain at historically high levels close to 3% of GDP.

...and lower oil prices result in very low inflation.

After a brief rebound in the second quarter, inflation in the euro area dropped below zero in September due to the renewed plunge in energy and commodity prices and the recent strengthening of the euro, which made imports cheaper. The non-energy components of inflation, however, are starting to show rising inflationary pressures, slowly reflecting the strengthening of private consumption. Prices are also set to experience upward pressure once oil and other commodities recover and upward base effects from the energy component kick in. In addition, stronger wage growth and domestic demand, and the narrowing of the output gap, are set to add steam to the underlying pressures building. Annual HICP inflation is expected to rise from 0.1% in the euro area this year to 1.0 % next year and 1.6% in 2017.

The fiscal stance remains broadly neutral in the euro area...

The fiscal outlook continues to improve, supported mainly by the cyclical strengthening of economic activity and to a lesser extent, by the further reduction in interest expenditure resulting from the non-standard monetary policy measures of the ECB. This year, the deficit-to-GDP ratio in the euro area and the EU is projected to decline to 2.0% and 2.5% respectively. Government deficit ratios are then expected to continue declining in 2016 and 2017 to reach 1.5% in the euro area and 1.6% in the EU. Following the substantial fiscal adjustment achieved over the past few years, the aggregate fiscal policy stance is expected to be broadly neutral in 2015 in both the euro area and the EU. Next year, the fiscal stance is projected to remain broadly neutral for the euro area, while limited fiscal consolidation is still forecast in the EU. In 2017, the structural balance is expected to remain broadly unchanged in both areas. The debt-to-GDP ratio in the euro area and the EU is forecast to decline as of this year from the peak reached in 2014, to reach 91.3% and 85.8% respectively in 2017.

...while progress in reducing unemployment is limited...

Labour market conditions continue to make slow but steady improvements in line with rising economic activity. The unemployment rate however, is declining only gradually and disparities across Member States remains substantial. As the recovery strengthens, business confidence improves and wage growth remains restrained, more jobs will be created. Hard-hit countries which have implemented labour market reforms should see further gains in employment growth. In the euro area, employment is expected to grow by 0.9 % this year and next and to pick up to 1% in 2017. In the EU, employment is set to increase by 1.0% this year and 0.9% in 2016 and 2017. However, the pace of economic growth and job creation looks unlikely to reduce unemployment rates to below pre-crisis levels. The rather modest decline in unemployment also reflects a more rapid increase in the labour force. In 2017, unemployment is expected to reach 10.3% in the euro area and 8.9% in the EU.

...and the outlook is subject to downside risks, particularly external ones.

Overall, the uncertainty surrounding the economic outlook shows few signs of abating. Heightened global risks, including persistent geopolitical tensions and a shallower-than-forecast rebound in inflation have recently added a new layer of uncertainty.

The impact of the weakness in some EMEs could turn out to be larger than envisaged. In particular a ‘hard landing’ in China would be a substantial risk to the continuation of the global recovery and the dynamics of global trade. The expected normalisation of US monetary policy could prove more negative than expected for EMEs, while surprises in this normalisation process could be one of a number of possible triggers for volatility in financial markets and abrupt shifts in asset valuation. Should these downside risks materialise, they would become a larger impediment to investment spending and economic activity than currently expected.

On the domestic side, risks related to the integrity of the euro area have receded recently, thanks to the political agreement on Greece. Meanwhile, the legacy of the crisis may continue to weigh more heavily on investment activity than expected.

On the upside, a stronger-than-expected revival in global growth dynamics and world trade could push demand for European exports more than expected. A more favourable impact from already-implemented and future structural reforms, or the Investment Plan for Europe, could also provide additional impetus to economic growth. Should a larger-than-expected number of refugees enter the EU and in turn join the EU labour force faster than expected, this would boost demand and the labour supply.

PART I

EA and EU outlook

MODERATE RECOVERY AMID HEADWINDS

Euro area supported by favourable financing conditions

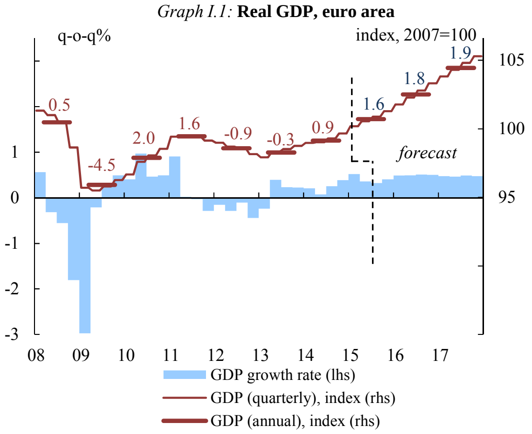
The economic recovery of the euro area and the EU continues at a moderate pace, supported by tailwinds such as low oil prices, a relatively weak euro, non-standard monetary policy measures (including quantitative easing by the ECB) and a broadly neutral fiscal stance. These factors have so far been strong enough to compensate for new headwinds coming from weaker global economic conditions, most notably in China and other emerging market economies, weaker global trade, and higher uncertainty. But downside risks have clearly increased, in particular on the external side.

The latest data point to a sustained, albeit moderate economic recovery in the coming quarters. Helped by rising real gross disposable income and some improvements in labour markets, private consumption should remain the main engine of economic growth. Investment is expected to gradually strengthen, supported by favourable financing conditions and the gradual strengthening of domestic demand. The benefits of structural reforms implemented in recent years should also become more evident. The deterioration of the external environment is expected to lower demand for exports, though in the euro area, depreciation has so far partly compensated for this. GDP growth in 2015 is forecast at 1.6% in the euro area and at 1.9% in the EU. Over the course of 2016 and 2017, domestic demand should benefit as deleveraging needs subside and policies remain supportive. Some countries should also see a positive economic impact from rising immigration. Global activity and world trade are expected to pick up gradually in 2016 and 2017 resulting in higher demand for European exports. As the boost from supportive tailwinds such as low oil prices fades, these factors are expected to come to the fore and keep the euro area economy on its growth path (Graph I.1) with GDP growth at 1.8% in 2016 and by 1.9% 2017. The EU economy as a whole is expected to grow by 2.0% and 2.1% over the same period.

Labour market conditions are expected to improve further, supported by the continuing recovery and, in some Member States, by labour market reforms. HICP inflation in the short term is expected to remain very low because of the renewed fall in commodity prices (Graph I.2). Later, however, upward base effects from the energy component together with a moderate turnaround in oil prices should kick in. Overall, external and domestic price pressures are expected to remain moderate over the forecast horizon, and inflation in the euro area is forecast to fall to 0.1% in 2015 (EU 0.0%), before moving up gradually over the forecast horizon to 1.0% in 2016 (EU 1.1%) and 1.6% in 2017 (EU 1.6%).

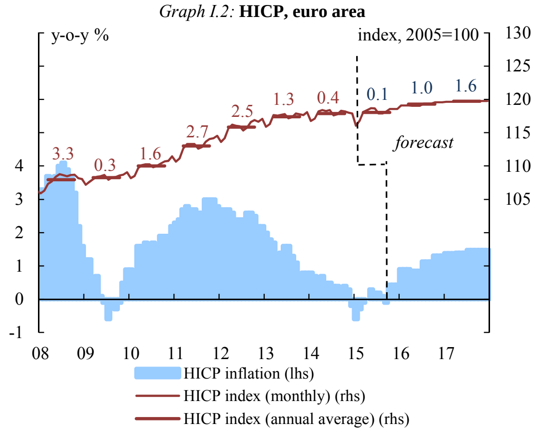
All in all, the outlook is for moderate but increasing output growth and for subdued but gradually increasing inflation. Risks to the growth outlook remain elevated and have moved towards the downside because increases in external risks (e.g. a 'hard landing' in China) exceed the reduction of internal risks (e.g. Greece). Risks to the inflation outlook appear broadly balanced.

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



Figures above horizontal bars are annual growth rates.

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



Figures above horizontal bars are annual growth rates.

1. PUTTING THE AUTUMN FORECAST INTO PERSPECTIVE: DEMOGRAPHIC FACTORS AND THE EU OUTLOOK

The recent sharp increase in the number of asylum seekers has shifted attention to the economic impact of demographic factors. While population projections and demographic change (e.g. ageing) have always been in the focus of medium- to long-term projections, they have featured less prominently in business cycle forecasts. However, demographic ageing can impact the near-term outlook by affecting e.g. demand expectations or the composition of GDP. Migration in turn has become the main determinant of short-term variations in population already since the 1990s. Unanticipated population variations can contribute significantly to GDP forecast errors. Improving forecasters' understanding of demographic factors is therefore worthwhile. This section summarises how demographic factors affect short-term macroeconomic forecasts. An analysis of the current arrival of large numbers of asylum-seekers is conducted separately (see Box I.1).

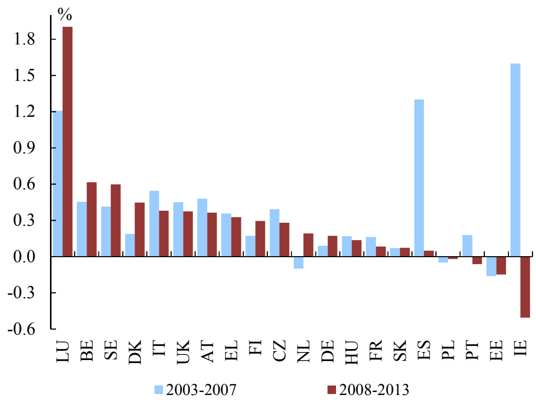
Demography affects the near-term outlook...

Few macroeconomic forecasts highlight underlying demographic assumptions or discuss the role of demographic factors. Only the coverage of employment usually makes reference to labour force developments and/or participation rates due to their close link to population developments and projections.

Why do demographic factors not feature more prominently in forecasts? One reason might be the perception of demographic change (e.g. ageing, population growth) as a medium or long-term trend with little variability and therefore little explanatory power for short-term fluctuations. [1] But even with small changes in demographic factors, the anticipation of changes in long-term trends by rational agents could immediately impact on economic decisions and activity. The near-term outlook is therefore directly linked to long-term trends.

The more economic integration raises the mobility of production factors, the more important cross-border population mobility, in particular within an economic and monetary union. In past decades short-term changes to population growth in the Member States have been increasingly determined by net migration (see Graph I.3). In some countries (e.g. Spain and Ireland) differences between pre-crisis and post-crisis contributions of net migration to population growth hint to an important role of intra-EU labour mobility in coping with asymmetric shocks.

Graph I.3: **Population growth attributed to net migration, 2003-07 and 2008-13**



...through ageing...

The population is rapidly ageing in the euro area (Graph I.4), which precipitates economic change in various dimensions. Eurostat expects the working age population to decline at an annual average rate of 0.4% over the coming four decades. Ageing impacts on the fiscal balance via spending on pensions, health care and residential care. [2] But age structure effects are also affecting private consumption, for instance via spending and saving patterns of pensioners, and total investment, for instance via the impact on residential construction, education investment, or, more generally, via expected total demand. [3] Different age groups could also have different productivity levels, reflecting the age profile of wages. [4] Financial

(1) The use of demographic variables in panel growth regression might have supported this perception. See e.g. IMF, 'How will demographic change affect the global economy?', *World Economic Outlook*, September 2004.

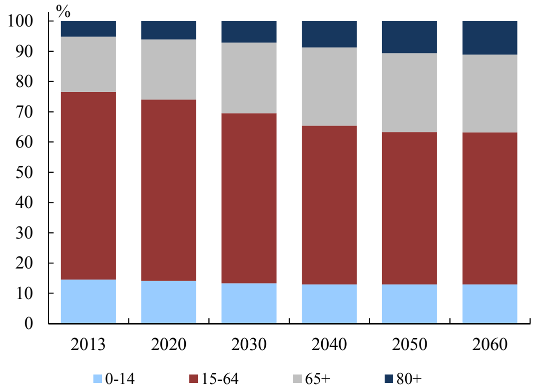
(2) See e.g. European Commission (DG ECFIN), The 2015 Ageing Report, *European Economy*, 2015, No. 3, and OECD, Fiscal implications of aging: projections of age-related spending, *OECD Economic Outlook*, 2001, No. 69, pp. 145–67.

(3) See L. Sheiner, The determinants of the macroeconomic implications of aging, *American Economic Review*, May 2014, Vol. 104, No. 5, pp. 218–223; and A. Börsch-Supan, K. Härtl and A. Ludwig, Aging in Europe: reforms, international diversification, and behavioral reactions, *American Economic Review*, 2014, Vol. 104, No. 5, pp. 224–29.

(4) See J. Feyrer, Demographics and productivity, *Review of Economics and Statistics*, 2007, Vol. 89, No. 1, pp. 100–09.

markets could be affected by downward pressure on equity prices (e.g. house prices) in response to the liquidation of assets by pensioners. And demographic ageing could contribute to a prolonged period of very low economic growth (cf. the debate on secular stagnation) via lowering the natural interest rate. [5] Overall elements of change interact in complex ways.

Graph I.4: **Age structure, euro area, EUROPOP2013 projections for 2013-2060**



Empirical studies have confirmed demographic structures as important determinants of private consumption and housing investment.[6] Panel data analysis and model simulations have given indications of the size of age structure effects. Using the multi-country INGENUE model, the IMF has estimated that in advanced economies demographic change could reduce the growth of annual real GDP per capita by 2050 by half a percentage point as compared to a scenario with the unchanged demographic structure of the year 2000. [7] However, the inertia of the demographic structure for a given population is such that it has been difficult to identify the impact in the very short term, especially to distinguish them from other low frequency trends that dominate economic time series.

...and population growth...

Population growth has a natural component, which depends on factors such as fertility and life expectancy, and a net migration component. Migration occurs for different motives such as taking up work in the destination country, family reunification [8], seeking asylum, retirement, or (extended) holiday trips. Economic migration notably includes labour mobility across EU Member States.

There is a rich literature on the determinants of labour mobility in Europe. The standard framework of all types of economic migration looks at supply-push and demand-pull determinants. [9] Actual and expected wages and employment differentials between countries are usually assessed as being main push (for the country of origin) and pull (for the destination country) factors. Other factors include migrants' costs such as separation from family, job search costs or travel costs due to geographical distance. Moreover, the existence of networks of earlier migrants to the destination country could favour a decision to migrate. Another viewpoint has been that migration decisions reflect some kind of risk sharing within geographically spread extended families.

...which is largely determined by migration.

The creation of a single market in the European Union meant the freedoms of mobility for capital and labour alongside free trade in goods and services. A European labour market with intra-EU labour mobility is supposed to allow dealing with national skill and other labour shortages, reducing unemployment and offsetting the effects of a declining working age population in some Member States. However, in practice, the obstacles to labour movements proved to be more severe than those to capital movements. They included skill mismatches, linguistic barriers, and the cross-border recognition of educational and professional qualifications as well as restrictive practices in some Member States. In 2002, only 1.5% of all workers in the EU lived in another Member State than they were born. By 2014, this share had increased to 3.5%, capturing the impact of the EU

(5) See J. F. Jimeno, Long-lasting consequences of the European crisis, *ECB Working Paper Series* no. 1832, July 2015.

(6) See R. C. Fair and K. M. Dominguez, Effects of the changing U.S. age distribution on macroeconomic equations, *American Economic Review*, 1991, Vol. 81, No. 5, pp. 1276-1294.

(7) IMF, *World Economic Outlook*, September 2004. The INGENUE model does not allow for the possibility of labour mobility between countries.

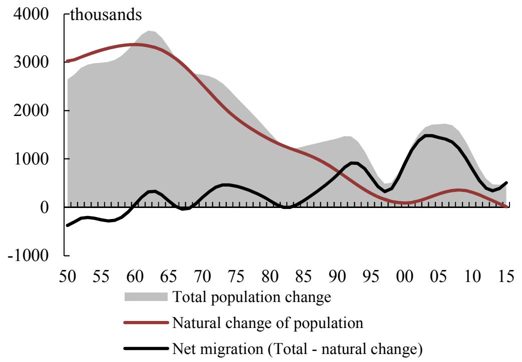
(8) About 35% of all migration into OECD countries is attributed to family reunification; see OECD, *International Migration Outlook 2015*, p. 11.

(9) M. P. Todaro, 'A model of labor migration and urban unemployment in less developed countries', *American Economic Review*, 1969, Vol. 59, No. 1, pp. 138–48.

enlargement in 2004 that triggered some mobility from new to old Member States. [10]

Looking beyond intra-EU migration, the share of persons living in EU countries without having the citizenship of that country is larger than that of EU citizens living in another EU country and has increased in the past decade. This is reflected in the large role of net migration in population change at the aggregate level (see Graph I.5).

Graph I.5: **Population change in the EU28, 1950-2015**



Source: United Nations, World Population Prospects

Labour mobility acts as an adjustment mechanism in the euro area

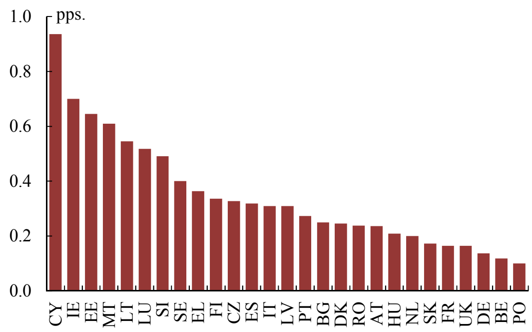
Within the euro area, labour mobility plays a particular role. The optimal currency area (OCA) literature has stressed the importance of the full mobility of production factors, including labour, for adjusting to asymmetric shocks. The differentiated impact of the economic and financial crisis in 2008-09 provided a test to what extent labour mobility could cushion the impact of the crisis.

The empirical analysis is complicated by the fact that several reasons can be behind the flows of labour between Member States. Assuming that all such mobility were due to migration for employment purposes (i.e. an upper-bound estimate), an OECD study found that up to a quarter of an asymmetric labour shock would be absorbed by migration within one year. A Commission study also showed that cross-border labour mobility absorbs about a quarter of an asymmetric shock within one year and about 60% after ten years; and it found the responsiveness to have grown over time, becoming almost twice as important after EMU completion. [11] The rise in the role of labour mobility for cross-border labour migration has been confirmed in the analysis of European cross-region labour migration. [12]

Population projections are important for the accuracy of EU forecasts...

Since forecasting population developments in the short run is less dependent on gradually changing mortality and fertility rates, net migration is crucial for high forecast accuracy. A closer look at the accuracy of the Commission's autumn forecasts for developments in the subsequent year, can give an indication of the role of population forecast errors. A comparison of the forecast accuracy of real GDP growth and of the growth of real GDP per capita provides information about the accuracy of population forecasts. An analysis of the mean absolute forecast errors in the Commission's forecasts, points for the years 2004-14 to some dispersion across Member States (Graph I.6) with lower forecast accuracy especially in some of those economies with a relatively high contribution of net migration to total population growth (Graph I.3).

Graph I.6: **Short-term population forecasts and GDP forecast accuracy, 2004-2014**



The chart displays the difference between the mean absolute errors of autumn forecasts in year t-1 for GDP growth and GDP-per-capita growth in t as compared to realisations published in the spring forecast in t+1.

Overall, the evidence from the last decade shows mixed forecast accuracy for population projections

(10) For an overview see M. Barslund and M. Busse, Too much or too little labour mobility? State of play and policy issues, *Intereconomics*, 2014, Vol. 49, No. 3, pp. 116–23.

(11) Studies presented evidence that an asymmetric increase in labour demand in one Member State would permanently raise employment, on the back of a decrease in domestic unemployment, a higher domestic activity rate, and increased immigration; see e.g. A. Arpaia et al., 'Labour mobility and labour market adjustment in the EU', *European Economy Economic Paper* no. 539, Dec. 2014; and J. Jauer et al., Migration as an adjustment mechanism in the crisis? A comparison of Europe and the United States, *OECD Social, Employment and Migration Working Papers*, No. 155, January 2014.

(12) R. C. M. Beyer and F. Smets, 'Labour market adjustments in Europe and the US: How different?', *ECB Working Papers Series* no. 1767, March 2015.

even if only growth rate projections are looked at. Absolute numbers in many cases appear further from the mark, since census results usually lead to revisions of population estimates for previous years as well.

...but forecasting population change is challenging.

Projections of the natural component of population growth have become quite reliable as methods have been improved over centuries. However, in past years forecasting net migration into the EU has become more important for total population projections and thereby for macroeconomic forecasting. As regards economic migration into the EU, information about developments in push and pull factors can be exploited, taking into account legal migration barriers. However, evaluations of out-of-sample forecasting accuracy of migration models pointed to substantial limitations. [13]

In conclusion, for the European outlook, assessing the short term dimension of demographic factors should deserve priority. Deriving inferences and providing illustrative simulations (see Box I.1) are first steps in this direction.

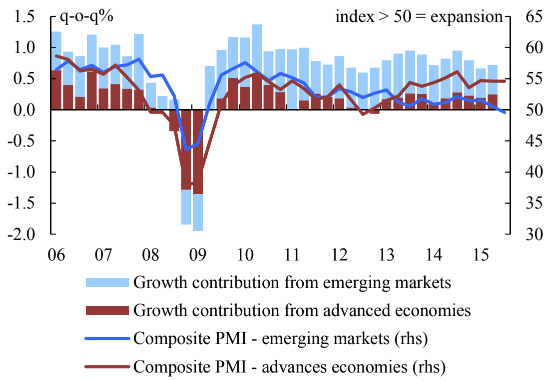
2. THE EXTERNAL ENVIRONMENT

The outlook for global GDP growth and world trade has deteriorated considerably in recent months, mainly on the back of a broad-based and deep downturn in emerging markets and signs of a sharper and more disruptive adjustment in China (see Box I.2). Global GDP and trade this year are heading for their weakest expansion since 2009, as the gradual recovery in advanced economies looks insufficient to offset the sharper slowdown in emerging economies and oil-exporting countries. After a brief rebound in spring, oil prices have slipped again since summer and are now assumed to remain at much lower levels over the forecast horizon than assumed in the spring forecast. [14] The downturn in emerging markets as a whole, is still expected to bottom out in 2015 amid stabilising commodity prices and some progress with cyclical and structural adjustments in a number of countries.

A smaller contribution to global growth from emerging market economies...

The outlook for global growth and world trade has weakened considerably, especially for emerging market economies. Most data released since the spring have come in weak and below expectations. Global growth slowed to 0.7% q-o-q in the first two quarters of 2015 (based on 87% of world GDP), down from 0.8% and 1.0% in 2014-Q4 and 2014-Q3 respectively. The contribution from emerging markets to global growth fell below 0.5 pps. in the first half of 2015, the lowest since 2009 (see Graph I.7).

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



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

The shift in the engines of the global economy from emerging to advanced economies is also reflected in the readings of business confidence indicators (global Purchasing Managers' Indices (PMIs)). While PMIs in advanced economies have remained firmly in expansionary territory throughout 2015, average PMIs in emerging markets have lingered below 50 since June (for the first time since mid-2013) signalling a contraction in economic activity. All in all, global growth (excluding the EU) is now expected to slow to 3.3% in 2015 (from 3.7% in 2014), before strengthening gradually to 3.8% in 2016 and 4.0% in 2017.

[13] See e.g. H. Brücker and B. Siliverstovs, 'On the estimation and forecasting of international migration: how relevant is heterogeneity across countries?', *Empirical Economics*, 2006, Vol. 31, No. 3, pp. 735–54.

[14] See European Commission (DG ECFIN), European Economic Forecast – Spring 2015, *European Economy*, 2015, No. 2.

Table I.1:

International environment

(Annual percentage change)					Autumn 2015 forecast			*Spring 2015 forecast*	
	(a)	2012	2013	2014	2015	2016	2017	*2015*	*2016*
					Real GDP growth				
USA	15.9	2.2	1.5	2.4	**2.6**	**2.8**	**2.7**	*3.1*	*3.0*
Japan	4.4	1.7	1.6	-0.1	**0.7**	**1.1**	**0.5**	*1.1*	*1.4*
Asia (excl.Japan)	34.1	7.0	6.5	6.3	**5.9**	**5.9**	**5.8**	*6.4*	*6.5*
- China	16.6	9.6	8.0	7.4	**6.8**	**6.5**	**6.2**	*7.0*	*6.8*
- India	6.8	4.9	6.9	7.1	**7.2**	**7.4**	**7.5**	*7.6*	*7.9*
Latin America	8.6	3.1	2.9	1.2	**0.4**	**1.2**	**2.0**	*1.0*	*2.3*
- Brazil	3.0	1.8	2.7	0.1	**-2.6**	**-0.5**	**1.2**	*-0.9*	*1.3*
MENA	6.8	3.3	1.7	2.5	**2.8**	**3.3**	**3.8**	*3.0*	*3.7*
CIS	4.7	3.5	2.1	0.9	**-3.0**	**0.4**	**1.8**	*-2.7*	*0.9*
- Russia	3.3	3.4	1.3	0.6	**-3.7**	**-0.5**	**1.0**	*-3.5*	*0.2*
Sub-Saharan Africa	3.2	4.4	5.0	4.9	**4.4**	**4.3**	**4.8**	*4.8*	*5.0*
Candidate Countries	1.5	1.8	4.0	2.6	**2.9**	**3.1**	**3.4**	*3.0*	*3.5*
World (incl.EU)	100.0	3.5	3.2	3.3	**3.1**	**3.5**	**3.7**	*3.5*	*3.9*
					World merchandise trade volumes				
World import growth		2.8	3.0	3.3	**2.3**	**3.6**	**4.5**	*3.8*	*5.1*
Extra EU export market growth		2.9	4.0	3.2	**1.8**	**3.5**	**4.1**	*3.9*	*4.8*

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2014.

...with the outlook for China making headlines...

Among emerging market economies, the rebalancing of the Chinese economy away from investment- and debt-driven growth seems to be associated with sharper and more disruptive adjustments in economic activity and financial markets. Official figures for real GDP still recorded growth of 7.0% in the first half of this year and 6.9% in the third quarter (flash estimate), in line with the annual growth target. However, this apparent stability masks major adjustments in the economy that are part of its rebalancing towards more consumption and services-driven growth, particularly a sharp slowdown in investment growth and a correction in real estate markets.

High-frequency leading indicators, notably manufacturing PMIs, point to a sharp slow-down in industry in China. Trade volumes have fallen in the first half of the year, with the CNY value of merchandise imports down by 15% compared with the same period in 2014. Increased financial market volatility, evidenced by the bursting of the Chinese equity bubble over the summer and the surprise reversal in the trend appreciation of the CNY, also underscore the risks of a sharper adjustment of the Chinese economy.

Given the difficulties in steering an increasingly complex macro-financial adjustment process, real GDP growth in China looks set to slow down somewhat more than previously expected. This should still lead to a 'soft landing' scenario, provided the structural adjustment is relatively smooth. Significantly, given recent evidence of the ongoing process of transition away from import-intensive investment and manufacturing, trade has been marked down much more.

...but other emerging market economies slowing more markedly...

Emerging market economies as a whole are going through a broad-based and much sharper-than-previously expected downturn, on the back of weaker demand from China and the unwinding of external and domestic factors. (15) Lower oil and commodity prices are weighing on the performance of commodity exporters this year and next. (16) Also, the recent sharp correction in the Chinese stock market triggered a sell-off of

(15) The weakness in emerging market economies predated events in China in July and August, see Deutsche Bundesbank, 'Slowdown in growth in the emerging market economies', *Monthly Report*, July 2015, Vol. 67, No. 7, pp. 15–31.

(16) For a detailed analysis, e.g. IMF, 'Where are commodity exporters headed? Output growth in the aftermath of the commodity boom', in *World Economic Outlook*, October 2015, ch. 2, pp. 65–104.

emerging market equities, capital outflows and a depreciation of many emerging markets currencies.

Other external factors underpinning the current weakness include geopolitical tensions, the end of a long period of rising commodity prices, and the prospect of a gradual normalisation of monetary policy in the US. Moreover, some emerging markets are also at risk from domestic vulnerabilities including political instability, increasing imbalances, cyclical adjustments and unresolved structural problems. These factors will continue to affect the growth outlook for emerging economies over the forecast horizon. It is still expected that the downturn for emerging markets as a whole, which has been going on for more than four years, will bottom out in 2015 and a gradual, moderate recovery will set in from 2016. This reflects the assumed stabilisation of commodity prices, a gradual cyclical recovery in some countries, and progress with structural adjustments and reforms in others. Nevertheless, emerging market economies are likely to continue facing important headwinds and downside risks, associated mainly with continued financial market volatility and, in some cases, concerns about financial stability.

...and the recovery in advanced economies continuing at lower gear...

In advanced economies, the recovery is set to continue, though at a slightly weaker pace than expected in spring. This reflects lower growth in commodity exporting countries, hit by the further decline in commodity prices, unexpected weakness in the first half of 2015 in some economies, and a broad-based sluggishness in demand for exports.

After a disappointing performance at the beginning of the year, partly due to temporary factors, economic activity in the US rebounded in the second quarter, thanks mainly to consumption, and is set to gather momentum in the second half of this year. Economic growth is expected to continue at a robust pace in 2016 and 2017, supported by a waning fiscal drag and still-accommodative monetary policy. However, policy uncertainty is clearly on the rise, largely due to the upcoming normalisation of US monetary policy and difficult negotiations on the debt ceiling and the budget. Due to the weak first quarter and given the impact of the strong dollar, the 2015 GDP forecast for the US has been revised down to 2.6% from 3.1% in spring. At 2.8%, growth in 2016 is also expected to be somewhat lower than in the spring (3.0%). A marginal slowing to 2.7% is expected for 2017.

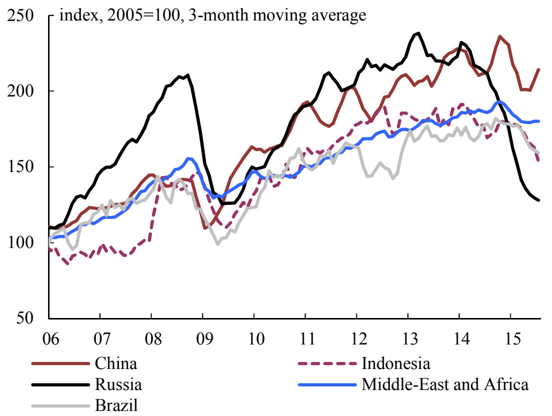
In Japan, economic activity contracted in the second quarter of 2015 amid lower private consumption, lowering the GDP growth expected this year to 0.7%. Economic growth, however, looks set to firm up at 1.1% in 2016, underpinned by front-loaded demand in anticipation of fiscal consolidation measures and favourable investment conditions. Growth in 2017, by contrast, is expected to decline to 0.5% in the wake of a consumption tax hike planned for the second quarter.

The outlook for most other advanced economies including Canada, Australia and EFTA countries is now weaker than in spring, mainly reflecting the impact from lower commodity prices for commodity exporters and falling demand from China.

...contributing to continuing weakness in global trade...

Global merchandise trade flows declined in the first half of 2015, largely because of a massive contraction in China's imports and exports in the beginning of the year (see Graph I.8).

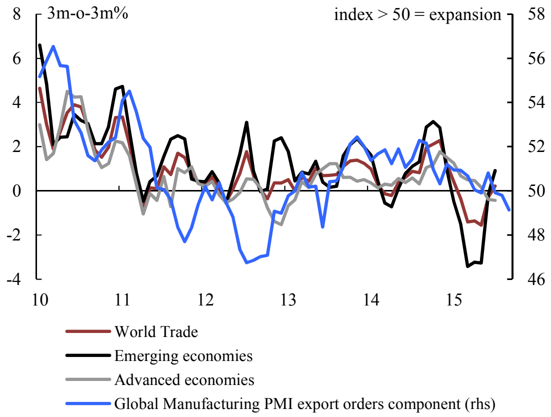
Graph I.8: **Import volumes, selected countries and regions (CPB index)**



The slump in Chinese trade reflects the combined effects of slower overall growth and a shift in growth from investment, which tends to be import intensive, to consumption and services. Both China's imports of capital goods (machinery and equipment) and commodities (oil and metals), have fallen sharply.

Plummeting import demand from China, weakness in commodity-exporting regions, coupled with home-grown vulnerability in several emerging markets (particularly Russia and Brazil) are set to pull global trade growth in 2015 down to its weakest pace since 2009 (see Graph I.9).

Graph I.9: **World trade volume and Global manufacturing PMI, new export orders component**



However, world trade is expected to recover moderately, as it follows the expected pick-up in real GDP growth. Against this background, China's merchandise trade volumes are expected to contract by 3% in 2015, record flat growth in 2016 and rise modestly in 2017, reflecting a relatively smooth structural adjustment over the remainder of the forecast horizon.

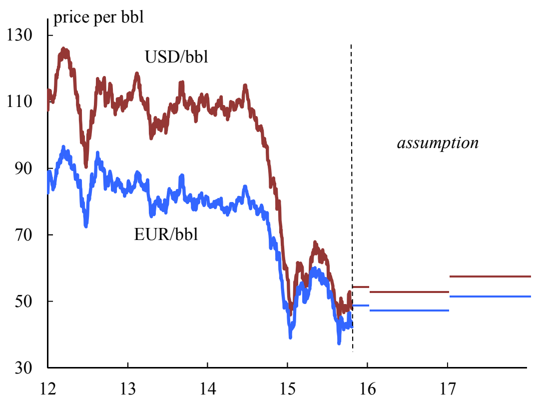
The moderate recovery in global trade should also be supported by a bounce-back in other emerging markets, particularly Russia, Latin America, the Middle East and North Africa and a modest increase in trade in advanced economies. This reflects a combination of factors, including the gradual recovery in commodity prices projected for 2016 and 2017, progress with cyclical and structural adjustments in a number of emerging markets, and the bottoming-out of the growth outlook for Russia and the CIS in 2015.

While the elasticity of global imports with respect to global GDP has consistently stayed at or below 1.0 since 2012, it is now expected to fall in 2015 before recovering somewhat in 2016 and in 2017. All these factors should lift global trade growth from 2.6% this year to around 3.7% in 2016 and 4.5% in 2017, which is considerably weaker than expected back in the spring.

...and the outlook for subdued commodity price developments.

After rebounding to about USD 60/bbl in spring, Brent spot prices slipped further to USD 48/bbl in September (see Graph I.10). This development was mainly driven by abundant supply and the strong US dollar. Despite falling oil prices and decelerating non-OPEC output growth, global supply has continued to increase. In 2016, the oil market is expected to remain oversupplied. Global oil demand growth has also been revised upwards for this year as consumers in developed economies respond with increased demand to lower oil prices. The high growth rate is unlikely to be sustained in 2016 and beyond, as oil usage in advanced economies should resume its structural decline next year and global growth in oil demand is expected to depend more on emerging market economies. With China's GDP expansion slowing and its energy intensity in decline, growth in oil usage is likely to be moderate in the coming years, which should help underpin low oil prices over the forecast horizon.

Graph I.10: **Brent oil spot prices, USD and euro**



Source: ICE

Given the further decline in oil prices during the summer, assumptions for Brent oil prices this year and next have been revised down and prices are expected to remain subdued in 2017. Uncertainty around this technical projection for the oil price remains high in the short and medium run, due to geopolitical tensions, possible changes in OPEC's strategy, possible additions to global supply from Iran, and the break-even prices for different oil producers.

Prices for most other commodities fell sharply in the first nine months of 2015. Metal prices are assumed to fall on average by 20% in 2015, owing to ample supply and less dynamic industrial performance in China, which is the world's largest metals consumer. After four consecutive years of falling prices, the outlook for most metal prices is a modest bottoming-out in 2016-17.

Prices for most agricultural commodities have also been on a downward trend in 2015. Owing to a good harvest and comfortable level of stocks, most food prices, particularly grains and soya beans, are expected to decline substantially in 2015 before stabilising in 2016 and rebounding in 2017 on the back of higher energy costs.

Downside risks still dominate

The balance of risks to the global outlook remains tilted to the downside**.** Downside risks related to China have become more accentuated lately, reflecting concerns about the capacity of Chinese authorities to smoothly manage the transition to more consumption-driven growth and to avoid a sharp slowdown. While a ‘hard landing’ in China is not part of the baseline scenario, downside risks remain significant also because corporate and local government debt levels remain high, raising concerns over financial stability (see Box X.2).

Emerging markets are still vulnerable to a sharp reversal in capital flows, financial market volatility linked to the gradual normalisation of monetary policy in the US, heightened market volatility in China and, in some cases, high corporate balance-sheet exposure to USD-denominated debt. Emerging markets are also exposed to the risks of a stronger and more protracted negative impact from the fall in commodity prices and sharper currency movements, including the appreciation of the dollar.

Geopolitical risks remain elevated particularly with respect to the Russia/Ukraine context, where economic performance has already deteriorated sharply, and in the MENA region.

3. FINANCIAL MARKETS

Downward revisions to global growth, in particular in emerging markets, and the continued uncertainty about the timing and the pace of monetary policy normalisation in the US, have triggered an upsurge in volatility in several market segments and resulted in a tightening of financial conditions in several parts of the world. In the EU, financial markets have also been caught in this turmoil and have also suffered temporarily from increased uncertainty. Nevertheless, overall financial conditions remain favourable, against the background of an accommodative monetary policy stance.

The euro has been volatile…

The euro has been volatile in recent months amid disappointing global growth, a sharp slowdown in global trade, and financial market jitters, linked to developments in major emerging economies and uncertainty surrounding the normalisation of US monetary policy.

In nominal effective terms, the euro has strengthened since April, mostly on the account of a significant weakening in the currencies of major emerging economies (e.g. Turkey, Mexico, Brazil, Russia and other commodity exporters (e.g. Norway, Australia, and Canada). The Chinese currency (CNY) depreciated by more than 4% against the euro between August and the end of September following the change in the USD/CNY fixing mechanism by the Chinese central bank on 11 August. More generally, emerging economies' currencies have come under selling pressures in recent months amid increasing signs of a slowdown in their economic activity. At the same time, the euro has shown no clear trend against its major peers, fluctuating for instance vis-à-vis the US dollar below 1.16 and vis-à-vis the pound sterling below 0.75. The euro has weakened somewhat against the yen since the beginning of June in an environment characterised by heightened risk aversion.

…while monetary policies in Europe remained very accommodative.

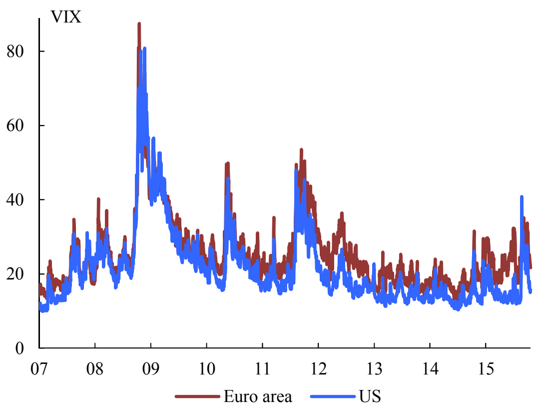
The ECB's monetary policy stance has remained accommodative amid the implementation of its unconventional monetary policy measures, which includes Targeted Longer-Term Refinancing Operations (TLTRO) and an extended Asset Purchase Programme (APP). Under its current APP, the ECB conducts monthly asset purchases of EUR 60bn. Purchases are intended to run until the end of September 2016, or beyond, if necessary, and, in any case, until medium term inflation is back on track towards a rate that is close to, but below, 2%. In order to ensure smooth implementation of the current programme of bond purchases (Public Sector Purchase Programme (PSPP)) looking forward, the ECB also announced on 3 September 2015 an increase in the issue share limit from 25% to 33%, thus aligning it to the issuer share limit. The ECB Governing Council also signalled its readiness to adapt the parameters of its current programme of asset purchases, if necessary.

The Bank of England has moved closer to a normalisation of its monetary policy, amid tighter labour market conditions and rising house prices. At the same time, other central banks in the EU have kept their monetary policy rates at historically low levels amid renewed declines in inflation rates, which have been mostly driven by lower energy prices. For instance, Sweden's central bank cut its repo rate by 10 basis points to -0.35% in early July 2015 and extended its government bond buying programme by SEK 45 billion (about EUR 4.8 billion), starting in September.

Financial markets have faced several headwinds

From May until early-summer, the negotiations between Greece and its creditors weighed on financial market sentiment in Europe, depressing risk appetite and increasing risk premia. Market tensions reached a peak early-July after the referendum, which followed the introduction of capital controls and bank holidays. EU markets had a respite after a new programme for Greece was agreed. However, in August, financial markets suffered again as a result of rising concerns about the impact of emerging market turmoil on the global growth outlook. The sudden and abrupt reassessment of risks by investors on a global scale resulted in sharp price declines in riskier assets such as equities and high-yield bonds.

Graph I.11: **Stock market volatility**



Source: Bloomberg

Stock markets have been particularly volatile (see Graph I.11). Despite strong corporate earnings and an improving macroeconomic outlook, European stock markets significantly underperformed their US peers between May and early July. Although they recovered over the summer, subsequent concerns about emerging markets dragged European equities back down.

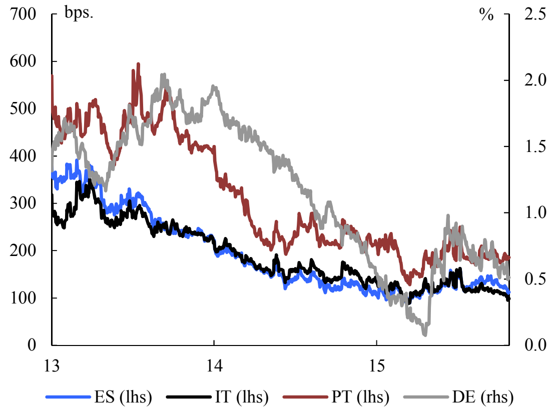
Sovereign benchmark bond yields remain low...

On the back of moderate but improving macroeconomic fundamentals, and a re-pricing of inflation expectations, German 10-year Bund yields rose strongly between May and early June, from their record lows earlier this year. However, safe-haven buying over the summer and concerns about global economic growth since then have driven benchmark yields back down.

...whereas euro area peripheral sovereign bond spreads remained tight amid global risk-aversion.

Concerns about Greece pushed sovereign bond spreads wider but the contagion in the periphery was rather contained and short-lived, at least in part because of the ECB's asset purchase programme. Portuguese, Spanish and Italian sovereign bond spreads widened by some 50-75 bps between May and early July and 5-year sovereign CDS spreads in these countries rose by some 30-60 bps. In line with an overall improvement in investor sentiment, bond and CDS spreads narrowed again after a political agreement on Greece was reached. In August, some upward pressure on spreads was again evident as markets turned more risk-averse (see Graph I.12).

Graph I.12: **German 10-year government-bond yields and sovereign bond spreads for selected Member States**

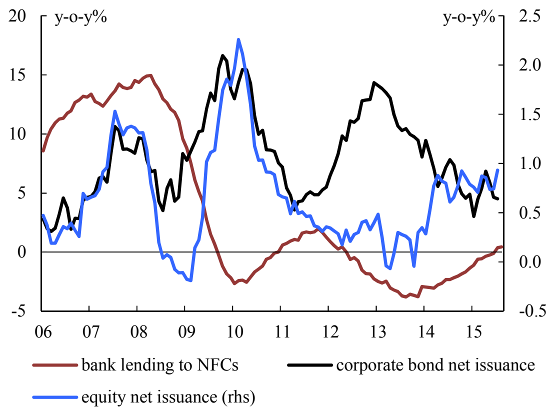


Bank lending continues to recover...

Net lending flows to households and non-financial corporations (NFCs) have been positive since the spring forecast leading to a rise in the annual growth rate of loans to the private sector (see

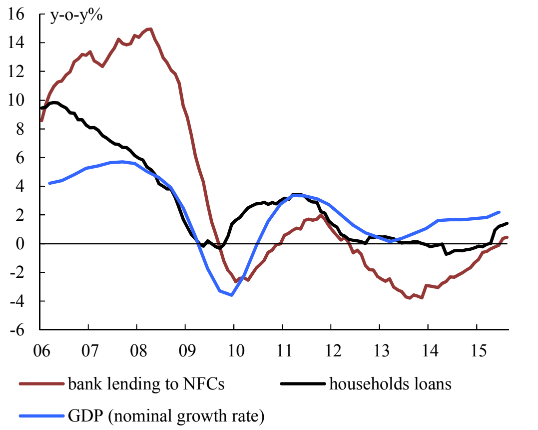
Graph I.13). This trend was supported by the continued fall in financing costs for banks in the euro area, particularly in peripheral countries, which suggests an improvement in the transmission of the ECB's monetary policy throughout the euro area banking system.

Graph I.13: **NFCs' external funding - bank vs market funding, euro area**



The October 2015 Bank Lending Survey,[17] points to further improvements in euro area credit supply conditions for enterprises in the third quarter. Credit standards on loans to households for house purchase tightened slightly, but eased on consumer credit and other lending to households. Meanwhile, banks reported a continued increase in loan demand from both enterprises and households.

Graph I.14: **Economic and credit cycles for NFCs, euro area**



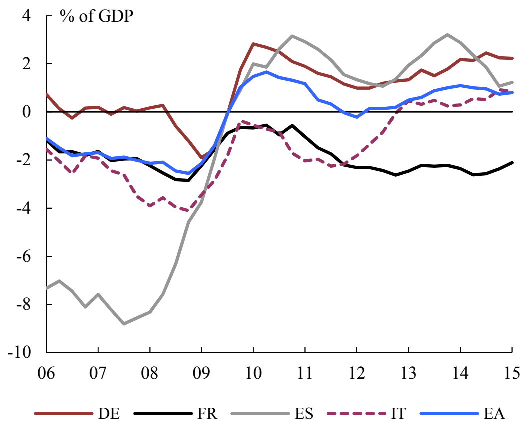
The cycle of lending to households has picked up suddenly since April, restoring somewhat the positive correlation with GDP that was lost over the last year (see Graph I.14). Meanwhile annual growth in lending to non-financial companies continues to rise, along with the economic cycle, while in parallel market funding is gaining importance for corporate funding (see Box I.3). In addition, survey-based signs suggest that euro area banks will continue to ease credit standards.

...while market funding remains strong.

Euro area non-financial corporations continued to record financial surpluses, indicating that there is further room to finance domestic investments with internal funds. In peripheral countries, the positive net savings of companies has usually been used to deleverage by paying back debt, while in surplus countries such as Germany, corporate savings have facilitated foreign investment. Corporate savings display an anti-cyclical behaviour, rising in a downturn and vice versa.

The current economic cyclical upturn has already started to lower the level of corporate surpluses in Europe (see Graph I.15). This trend may accelerate in the future if the economic recovery is accompanied by a more significant rise in investment.

Graph I.15: **NFC's net lending (+) /net borrowing (-)**

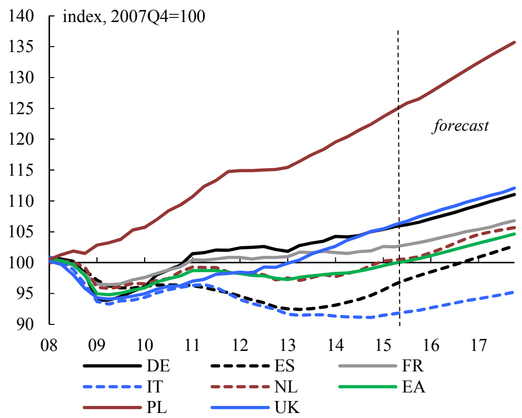


(17) ECB, *Bank Lending Survey*, October 2015, pp. 4–5.

4. GDP AND ITS COMPONENTS

Now in its third year, the economic recovery in the euro area and the EU is continuing at a moderate pace. While the years immediately following the crisis were dominated by the impact of legacies such as deleveraging and specific structural weaknesses in the euro area, [18] this situation changed at the start of the year. In the wake of the sharp decline in oil prices in the second half of last year and a more aggressive monetary easing in the euro area since the beginning of the year, economic growth has strengthened, raising activity in more countries above pre-crisis levels (see Graph I.16).

Graph I.16: **Real GDP 2008-15, euro area and selected Member States**



Although the aforementioned obstacles to growth have not yet been fully overcome, [19] the outlook for economic growth looks more favourable than in previous years.

Tailwinds have changed the pattern of the recovery...

As expected, the recovery is receiving support by a number of tailwinds such as low oil prices, a weak external value of the euro, very accommodative monetary policies. [20] With these tailwinds already in place for some time, a first assessment of their impact has become feasible.

The *decline in oil prices* between mid-last year and the beginning of this year (see Graph I.10) has massively lowered energy costs for companies and private households, raising corporate profit margins and bolstering real disposable incomes. [21] So far there are no hints that the effect has been weaker due to the low-inflation environment that did not leave space for lower nominal interest rates. While the full impact on global growth is not yet visible, the expected impact on economic growth in Europe has broadly materialised as forecast in spring.

The *depreciation of the euro*, which started already in March 2014, got another push when the decision on quantitative easing in the euro area was taken in January 2015. Although it is difficult to single out the impact of the exchange rate, as expected in spring, the depreciation has impacted positively on foreign demand for exports and has helped euro area exporters to grab market share. With the euro's external value remaining lower than it was a year ago, this tailwind is expected to continue supporting the recovery in the euro area.

Monetary policy decisions have kept funding costs and yields at low levels, which has alleviated costs for companies, governments, and private debtors. [22] As expected in spring, in the euro area, the additional liquidity arising from the ECB's expanded Asset Purchase Programme has also had a positive impact on banks willingness to lend (see Graph I.17). Between April and September, which is the period already covered by the ECB's Bank Lending Surveys, banks have even transformed more of the liquidity from asset sales to loans to non-financial corporations and to households (for other purposes than house purchases) than expected in April, and they expect to further increase this activity over the next six months. Quantitative easing has also helped to reduce financial market fragmentation and thereby reduced cross-country differences. Much of the impact of the January decision on quantitative easing came immediately via the exchange rate channel, as the euro depreciated vis-à-vis the currencies of trading partners.

(18) See European Commission, European Economic Forecast – Autumn 2014, *European Economy*, 2014, No. 7, Section I.1.

(19) The interaction of the crisis legacy with long-run trends may even prolong this process, see J.F. Jimeno, 'Long-lasting consequences of the European crisis', *ECB Working Paper Series* no. 1832, July 2015.

(20) See European Commission, European Economic Forecast – Spring 2015, *European Economy*, 2015, No. 2, pp. 21–23.

(21) See European Commission, European Economic Forecast – Winter 2015, *European Economy*, 2015, No. 1, Section I.1.

(22) See European Commission, European Economic Forecast – Spring 2015, *European Economy* 2015, No. 2, Section I.1.

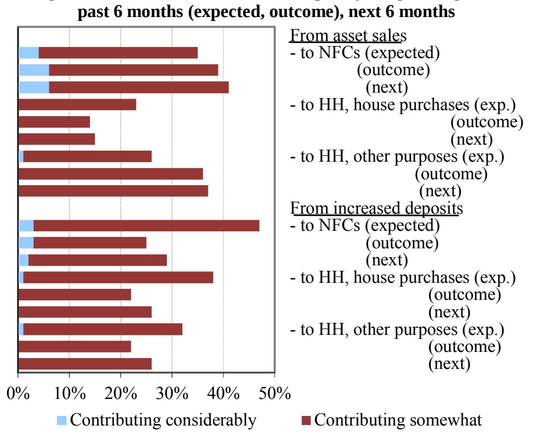
Table I.2:

Composition of growth - Euro area

(Real annual percentage change)

	2014			2010	2011	2012	2013	2014	2015	2016	2017
	bn Euro	Curr. prices	% GDP	Real percentage change					Autumn 2015 forecast		
Private consumption		5627.7	55.7	0.8	0.0	-1.2	-0.7	0.8	**1.7**	**1.7**	**1.5**
Public consumption		2131.3	21.1	0.8	-0.1	-0.2	0.2	0.9	**1.0**	**0.8**	**1.1**
Gross fixed capital formation		1984.6	19.6	-0.3	1.6	-3.3	-2.6	1.3	**2.3**	**3.0**	**4.4**
Change in stocks as % of GDP		-8.9	-0.1	0.3	0.8	-0.2	-0.1	-0.1	**-0.3**	**-0.2**	**-0.2**
Exports of goods and services		4522.3	44.7	11.3	6.5	2.6	2.1	4.1	**5.2**	**4.3**	**5.0**
Final demand		14257.1	141.0	4.0	2.4	-0.9	0.2	1.9	**2.7**	**2.7**	**3.0**
Imports of goods and services		4146.7	41.0	10.0	4.3	-1.0	1.3	4.5	**5.4**	**4.8**	**5.7**
GDP		10108.3	100.0	2.1	1.6	-0.9	-0.3	0.9	**1.6**	**1.8**	**1.9**
GNI		10176.5	100.7	2.3	1.7	-0.8	-0.3	1.0	**1.6**	**1.7**	**1.9**
p.m. GDP EU		13955.6	126.6	2.1	1.8	-0.5	0.2	1.4	**1.9**	**2.0**	**2.1**
				Contribution to change in GDP							
Private consumption				0.4	0.0	-0.7	-0.4	0.4	**1.0**	**0.9**	**0.8**
Public consumption				0.2	0.0	-0.1	0.0	0.2	**0.2**	**0.2**	**0.2**
Investment				-0.1	0.3	-0.7	-0.5	0.3	**0.4**	**0.6**	**0.9**
Inventories				0.9	0.4	-0.9	0.2	0.0	**-0.2**	**0.1**	**0.0**
Exports				4.0	2.5	1.1	0.9	1.8	**2.3**	**2.0**	**2.4**
Final demand				5.4	3.2	-1.3	0.2	2.7	**3.8**	**3.8**	**4.3**
Imports (minus)				3.3	1.6	-0.4	0.5	1.8	**2.2**	**2.0**	**2.4**
Net exports				0.6	0.9	1.5	0.4	0.0	**0.1**	**0.0**	**0.0**

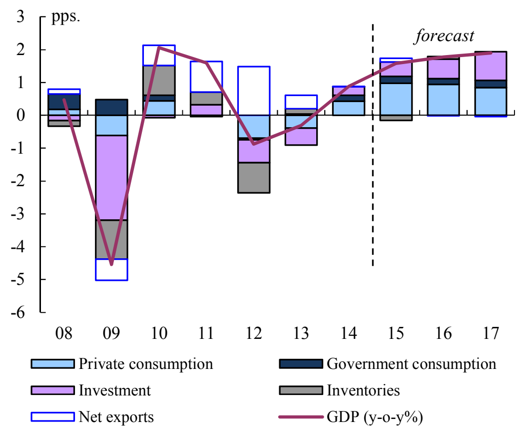
Graph I.17: **Banks' use of additional liquidity for granting loans, past 6 months (expected, outcome), next 6 months**



Source: ECB Bank Lending Surveys, April and October 2015

As compared to the initial recovery in the years 2009-2011 and the early phases of the current upturn in 2013-2014, at the current juncture, the recovery is less reliant on growth momentum outside Europe, in emerging markets and other advance economies. This is particularly important given that global trade is slowing, growth in some emerging economies is diminishing and trade is becoming less elastic with respect to output. It reflects the importance of domestic demand growth drivers in the euro area (see Graph I.18). And the recovery has so far proven to be more resilient to temporary increases in uncertainty than expected in spring.

Graph I.18: **GDP growth and its components, euro area**



...but only marginally increased its pace.

While these features of the current recovery are widely seen as supporting the growth outlook, the pace of the recovery looks unimpressive given the powerful tailwinds. This view is supported by comparisons with previous recoveries.[23] Nevertheless, sustained by the strong tailwinds, the

[23] See E. Ruscher and B. Vašíček, 'The euro area recovery in perspective', *Quarterly Report on the Euro Area* (European Commission – DG ECFIN), 2015, Vol. 14, No. 3, pp. 6–18.

Table I.3:

Composition of growth - EU

(Real annual percentage change)

	2014			2010	2011	2012	2013	2014	Autumn 2015 forecast 2015	2016	2017
	bn Euro	Curr. prices	% GDP	Real percentage change							
Private consumption		7868.1	56.8	0.7	0.2	-0.6	-0.1	1.3	**2.1**	**2.0**	**1.8**
Public consumption		2898.3	20.9	0.7	-0.1	0.1	0.3	1.2	**1.3**	**0.8**	**1.0**
Gross fixed capital formation		2692.2	19.4	0.1	1.9	-2.5	-1.7	2.6	**2.9**	**3.5**	**4.4**
Change in stocks as % of GDP		13.7	0.1	0.3	0.7	-0.1	0.1	0.1	**-0.1**	**0.0**	**0.0**
Exports of goods and services		6004.9	43.1	10.7	6.6	2.3	2.2	4.1	**4.8**	**4.3**	**5.0**
Final demand		19477.0	140.4	4.0	2.4	-0.4	0.6	2.3	**2.8**	**2.8**	**3.0**
Imports of goods and services		5616.6	40.4	9.8	4.2	-0.4	1.6	4.7	**5.0**	**4.9**	**5.5**
GDP		13955.6	100.0	2.1	1.8	-0.5	0.2	1.4	**1.9**	**2.0**	**2.1**
GNI		13969.6	100.1	2.4	1.8	-0.6	0.1	1.3	**1.9**	**2.0**	**2.1**
p.m. GDP euro area		10108.3	68.4	2.1	1.6	-0.9	-0.3	0.9	**1.6**	**1.8**	**1.9**
				Contribution to change in GDP							
Private consumption				0.4	0.1	-0.3	-0.1	0.7	**1.2**	**1.2**	**1.0**
Public consumption				0.2	0.0	0.0	0.1	0.2	**0.3**	**0.2**	**0.2**
Investment				0.0	0.4	-0.5	-0.3	0.5	**0.6**	**0.7**	**0.9**
Inventories				1.1	0.4	-0.8	0.2	0.0	**-0.2**	**0.1**	**0.0**
Exports				3.7	2.5	0.9	0.9	1.8	**2.1**	**1.9**	**2.3**
Final demand				5.4	3.3	-0.6	0.9	3.2	**3.9**	**4.0**	**4.3**
Imports (minus)				3.3	1.6	-0.1	0.6	1.9	**2.0**	**2.0**	**2.3**
Net exports				0.4	1.0	1.1	0.3	-0.1	**0.1**	**-0.1**	**0.0**

euro area economy has surpassed pre-crisis levels of economic activity.

Moderate economic growth in the first half of the year…

In the first half of 2015, economic growth in the euro area and the EU marginally exceeded expectations. Domestic demand remained the main growth driver, mainly thanks to private consumption but also to a lesser extent to investment. With increasing real gross disposable income and some improvements in the labour market, private consumption continued to grow at a sustained pace. Investment growth in the first half of the year was stronger than in the second half of last year, mainly supported by favourable financing conditions and the strengthening domestic demand.

Real GDP growth in the second quarter of 2015 increased for the ninth consecutive quarter in both the euro area and the EU, but the pace in both areas was slightly lower than in the first quarter (0.4% q-o-q after 0.5%).

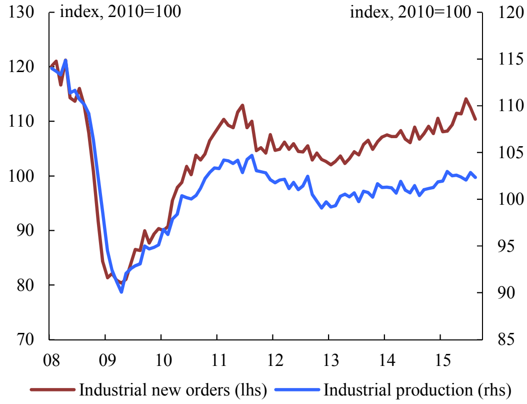
…should continue in the near term…

Looking ahead, the tailwinds examined are expected to remain in place but encounter resistance from external headwinds, notably the slowdown in China (see Box I.2) and other emerging market economies. The weakness of currencies in emerging markets, notably in commodity exporting countries, worsens the price competitiveness of euro area firms. Also the increased uncertainty about the start and profile of monetary policy normalisation in the US has raised global uncertainty.

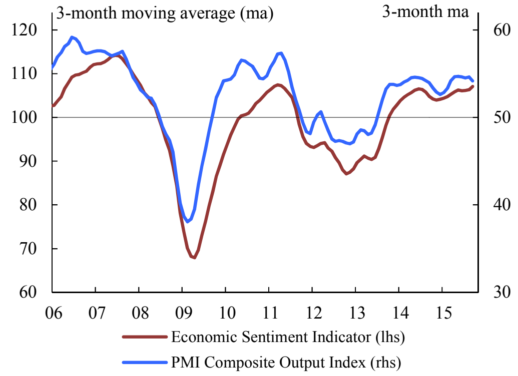
In the near term, the fiscal impact of coping with the increase in migration into the EU is expected to raise public consumption.

Regarding the overall impact of these new growth determinants, the first hard data for the third quarter gives favourable results. In July and August, industrial production in the euro area was on average 0.3% higher than the average in the second quarter (0.1% in the EU) and about 2% higher than in the corresponding months a year ago (see Graph I.19). The ECB's index of new industrial orders in the euro area rose substantially in the first half of the year and points to further expansion. Retail sales in August increased to their highest level since 2008. On average, retail sales grew by 0.6% between July and August compared to the second quarter in the euro area and by 0.5% in the EU.

Graph I.19: **Industrial new orders and industrial production, euro area**



Graph I.20: **Economic Sentiment Indicator and PMI Composite Output Index, EU**



Source: EC, Markit Group Limited

Survey-based measures of activity and sentiment were on balance a touch stronger in the third quarter than in the second, suggesting that economic growth has held up quite well. In September, the Commission's Economic Sentiment Indicator (ESI) stood at its highest level since mid-2011 in both areas (see Graph I.20). The euro area composite output Purchasing Managers' Index (PMI) stayed at 53.9 in the third quarter, indicating similar expansion of economic activity as in the second quarter. For the EU, the index was on average 0.4 points lower in the third quarter at 54.2, but also well above the no-change threshold of 50 points. The October release of the OECD's Composite Leading Indicator showed stable growth momentum in the euro area up to August (latest data).

While positive sentiment and confidence should be a spur to domestic demand components, foreign demand will suffer from the influence of developments in some emerging market economies. The weaker assessment of export order book levels in the Commission's manufacturing confidence indicator and in the Manufacturing PMI (-0.7 points to 52.0 in the euro area, -0.6 to 51.7 in the EU) may reflect the deterioration in the outlook for the external environment and global trade. Overall, the latest data point to a steady pace of growth throughout the rest of the year. In 2015, real GDP is projected to grow by 1.6% in the euro area (see Graph I.1) and by 1.8% in the EU (see Graph I.21). This implies slightly stronger growth in the Member States not belonging to the euro area (see Graph I.22), which reflects the renewed catching-up in some of the new Member States, but also the more advanced cyclical position of the UK and strong growth in Poland.

...before new factors take over from tailwinds...

The life expectancy of the tailwinds described is limited and cannot be expected to push economic growth over the whole forecast horizon. Even if the oil price, the relatively low external value of the euro or the very accommodative policy stance remain in place, they cannot continue to provide the same stimulus as when they first showed up. However, as the recovery progresses, other factors should assume a larger role in driving economic growth in the euro area and the EU, particularly as some adverse factors, such as high unemployment, insufficiently implemented structural reforms, and geopolitical tensions continue weighing on economic growth. (see Box. I.4)

On the external side, in 2016 and 2017 the projected strengthening of global economic activity and global trade should support foreign demand for euro area and EU exports although less than expected in spring. On the domestic side, there are several developments that could assume a greater role in driving growth. This includes the fruits of already implemented structural reforms, which should be growth-enhancing.

Moreover, progress in overcoming the legacies of the crisis, particularly deleveraging, should be increasingly growth-supportive, as constraints on companies, households, and the government sector loosen. Non-financial corporates should increasingly benefit from Banking Union [24], but also from the fruits of adjustment processes. A further easing of credit conditions, as indicated in

[24] See C. M. Buch, T. Körner and B. Weigert, 'Towards deeper financial integration in Europe: What the Banking Union can contribute', *Credit and Capital Markets*, 2015, Vol. 48, No. 1, pp. 11–49.

the ECB Bank Lending Survey, should help investment growth gain momentum over the forecast horizon. Private households are lowering their debt, which affects the linkage between disposable incomes and private consumption and household investment. In several Member States the recovery of house prices supplements this development as does the improvement in labour market conditions. Governments in several Member States face positive news regarding the consolidation of public finances, supported by the lasting recovery, which allows for a less restrictive fiscal stance than in previous years.

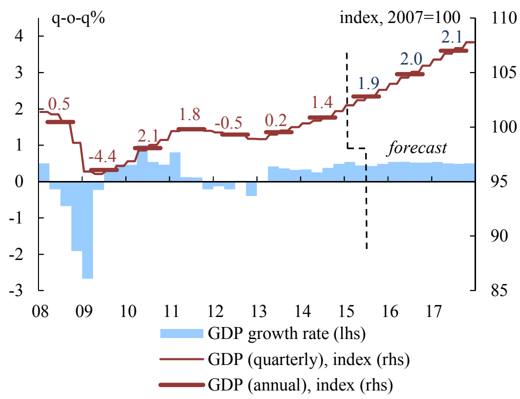
The inflow of asylum seekers into the EU, which has substantially increased this year, should result in additional government spending in several Member States. Over the forecast horizon, the expected rise in the labour force could also translate into additional employment, once refugees with a sufficient degree of skills enter the labour market and participate in economic activity. By how much these developments affect the outlook for the euro area and the EU is difficult to estimate (see Box I.1).

Additional support of economic growth could also be provided by a higher quality of growth drivers. This could come through different channels, such as more growth-friendly public spending and taxation, [25] which is a key part of the growth agenda for Europe. Moreover, a better quality of investment, for instance as a result of the careful monitoring of investment projects in the context of the Investment Plan for Europe, could raise both the quantity of production inputs (e.g. capital), but also total factor productivity (TFP), [26] the slowdown in which predated the crisis. Policies addressing the observed increase in income inequality [27] could result in a more growth-friendly composition of incomes and strengthen private consumption. [28]

...allowing for slightly faster economic growth over the forecast horizon.

Overall, real GDP is projected to grow by 1.8% in the euro area (see Graph I.1) and by 2.0% in the EU in 2016 (see Graph I.21), which is slightly slower than forecast in the spring, mainly due to the slowing down of growth in emerging market economies. Accordingly, the main contribution to growth should come from domestic demand, whereas the contribution of net exports declines and even becomes slightly negative in the EU. An uptick of economic growth is expected in 2017, to 1.9% in the euro area and to 2.1% in the EU.

Graph I.21: **Real GDP, EU**



Figures above horizontal bars are annual growth rates.

The difference between economic growth in the euro area and the EU is mainly the result of strong growth performance in the UK, Poland and Sweden, which are expected to grow at rates above 2% in each of the forecast years, resulting in 2015-2017 in growth rates of 2½% and more in the Member States not belonging to the euro area (see Graph I.22).

Over the forecast horizon, potential output growth is set to edge up to about 1% in the euro area and to almost 1½% in the EU, still clearly below pre-crisis levels. Thus, over the whole forecast horizon, economic growth is projected to remain above potential. The strength of the economic expansion will be sufficiently strong in the EU to start closing the output gap towards the end of 2017.

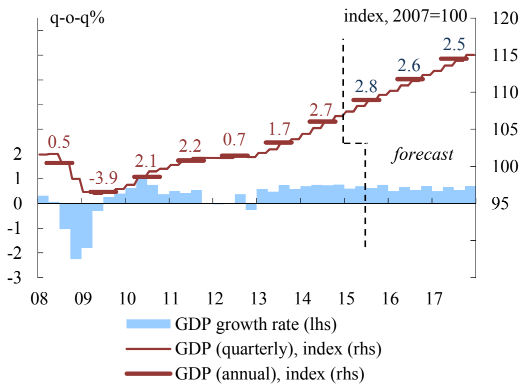
(25) See e.g. S. Barrios and A. Schaechter, A., 'The quality of public finances and economic growth', *European Economy Economic Papers* no. 337. September 2008.

(26) See e.g. P. Praet, 'Structural reforms and long-run growth in the euro area', *43rd Economic Conference of Österreichische Nationalbank*, Vienna, 15 June 2015.

(27) See T. Bönke and C. Schröder, 'European-wide inequality in times of the financial crisis', *DIW Discussion Paper* no. 1482, April 2015.

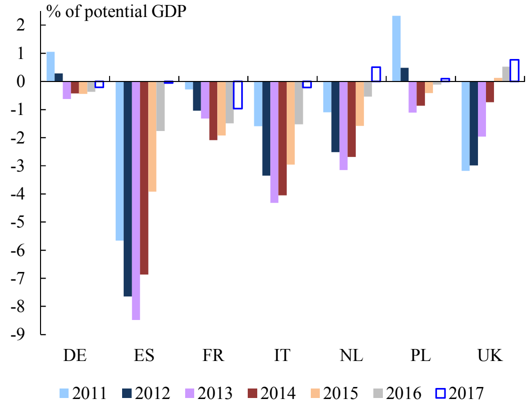
(28) On the impact of inequality on consumption see e.g. A. B. Atkinson, 'Inequality – What can be done?', Cambridge AM and London: Harvard University Press, 2015, in particular pp. 33-37 and the references therein. On the relevance for cyclical phases see e.g. G. De Giorgi and L. Gambetti, 'Business cycle fluctuations and the distribution of consumption', *Federal Reserve Bank of New York Staff Reports* no. 716, March 2015.

Graph I.22: **Real GDP, EU without euro area**



Figures above horizontal bars are annual growth rates.

Graph I.23: **Cross-country differences in the output gap, largest Member States, 2011-17**



The current widespread recovery across the euro area and the EU…

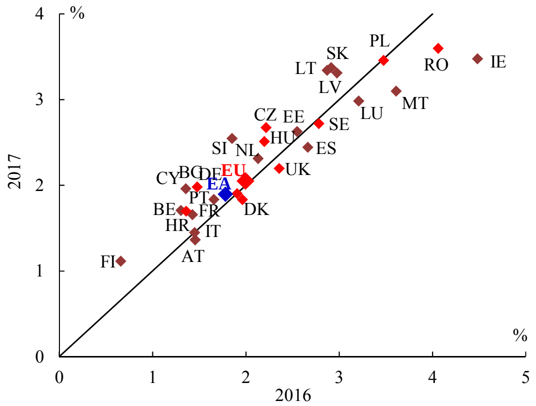
The most recent data for GDP growth suggest that the recovery in the EU has continued to broaden and that the output gap in many Member States narrowed last year. In fact, tailwinds are supporting economic growth in all Member States, but to a different extent. From a cross-country perspective, this year, most euro area Member States should see stronger domestic demand and, all but Luxembourg, should also see stronger private consumption. Most non-euro area Member States, by contrast, are expected to see domestic demand weakening.

Supported by labour market reforms that have reduced labour costs, GDP growth in *Spain* this year*,* is expected to more than double, placing it in the lead as the fastest growing of the euro area's large economies *The Netherlands* and *Germany*, which are both expected to grow faster than the euro area average, are next. Among the euro area's biggest economies, growth in *France* and *Italy* is expected to remain below average. Outside the euro area, solid growth in *Poland* is expected to continue at an almost unchanged pace. In the *UK,* growth is expected to remain robust but the appreciation of sterling has hit manufacturing and brought economic growth down from its peak last year, reflecting the more advanced cyclical position of the country (see Graph I.23).

…is expected to continue over the forecast horizon…

In 2016 and 2017, economic activity should be on the rise in all countries, with an acceleration expected for 2017 in most Member States (see Graph I.24). Growth differences result from country-specific structural features (e.g. differences in balance-sheet adjustment, deleveraging in the private sector, catching-up in some Member States), different cyclical positions (e.g. between countries inside and outside the euro area), differences in export price elasticities, and, more recently, differences in the pass-through of lower oil prices and the exposure to the rebalancing in China.

Graph I.24: **Real GDP growth in 2016 and 2017, EU and Member States (excl. EL)**

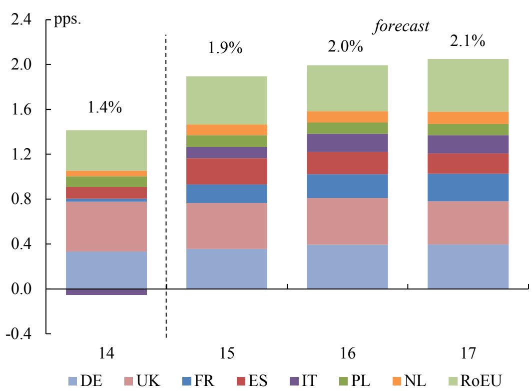


Among the largest Member States, in 2016 and 2017, economic growth should again exceed the EU average in Poland, Spain, the UK and the Netherlands, whereas it should be close to the average in Germany and somewhat below average in France and Italy.

In *Spain* (growth of 2.7% in 2016 and 2.4% in 2017), economic growth is set to decelerate over the forecast horizon but to remain relatively high, underpinned by still robust, though less intense, job creation, easy financing conditions, high consumer and business confidence and low oil prices. In *the Netherlands* the forecast growth rate of 2.1% in 2016 is marked by an important policy stimulus. In *Germany*, economic growth is projected to continue to be supported by favourable labour market and financing conditions underpinning domestic demand, leading to GDP growth of 1.9% in both 2016 and in 2017. In *France* GDP growth is expected to increase slightly to 1.4% in 2016 and 1.7% in 2017, driven initially by strong private consumption and followed by a recovery in investment. In *Italy*, the recovery is expected to strengthen to 1.5% in 2016 and 1.4% in 2017, as oil prices remain low and domestic demand growth resumes.

Outside the euro area, in *Poland,* robust and stable growth is forecast to continue at 3.5%, driven by domestic demand and with rising exports to the EU more than offsetting negative developments in the Russian and Ukrainian markets. Economic growth in the *UK* is expected to follow a gentle downward trajectory to 2.4% in 2016 and 2.2% in 2017, driven by domestic demand, in particular, robust growth in private consumption. The relatively strong growth forecast in the largest economies implies that they remain the main contributors to real GDP growth in the EU (see Graph I.25). Among the other Member States, the largest growth contribution is expected from *Sweden* with GDP growth of 2.8% in 2016 and 2.7% in 2017.

Graph I.25: **EU real GDP growth, contributions by Member States**



...including a rebound in former or current programme countries.

Signs of improvement are also expected in most of the euro area Member States that either have or have had adjustment programmes. After this year's strong surge of economic growth in *Ireland,* GDP is expected to grow by an average of 4.0% over 2016 and 2017, and remain employment-rich. In *Portugal*, where GDP is expected to grow 1.7% in 2016 and 1.8% in 2017, the economic recovery should firm with domestic demand continuing to be the main driver, and with the drag from net exports diminishing over the forecast horizon. After three years of recession, in *Cyprus* economic growth is expected to gradually gain momentum, reaching 1.4% in 2016 and 2.0% in 2017, supported by the ongoing deleveraging of the private sector and accelerating investment activity, whereas the rebound in the first half of this year had been primarily driven by private demand, the euro's depreciation and low energy prices. After slipping back into recession in 2015, the downturn in *Greece* is expected to continue into 2016 with GDP falling by 1.3%. The economy, however, should start recovering in the second half of the year, supported by a rebound in confidence, the stabilisation of the financial sector, and the consequent re-launching of investment and privatisation projects, so growth should reach 2.7% in 2017.

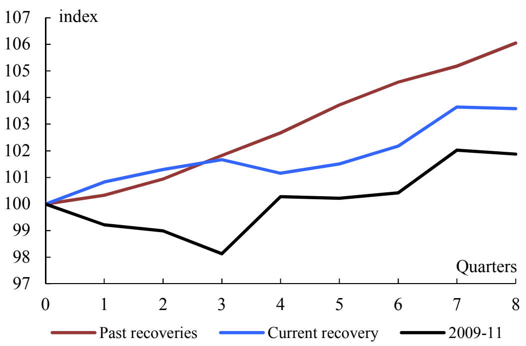
Meanwhile, economic performance is expected to remain sluggish in other countries, including *Finland*, which has been severely affected by EU-Russia sanctions and where real GDP growth of 0.7% in 2016 and 1.1% in 2017 is expected. Also negatively affected are the *Baltic economies*, where growth should rebound markedly in 2016 and 2017, following a slowdown this year. In some countries, the particular pattern of EU fund disbursements has led to a growth acceleration this year that should not be expected to be sustained next year.

Investment surprising on the upside but remaining subdued...

Investment activity remains subdued despite the firming of the recovery. However, investment growth exceeded expectations in the first half of 2015. Support came from very favourable financing conditions, low oil prices and the improved demand outlook as the recovery continued. But the pace of expansion in the first quarter (1.4% q-o-q in the euro area and the EU) did not continue into the second quarter when investment declined in both areas (-0.5% in the euro area, -0.1% in the EU). The developments in quarterly investment data also highlight the volatile nature of investment.

In comparison to past recoveries, the pace of the investment recovery remains rather weak (see Graph I.26). [29] This continues to reflect the legacy of the crisis, particularly deleveraging, EU-specific factors [30] and possibly slowing economic growth outside the EU. In 2014, not even the investment level of 2011, which had still been below pre-crisis levels, had been reached in the euro area and the EU. The euro area investment-to-GDP ratio stood in the second quarter at 19.8% (19.7% in the EU), which was markedly below its 1998-2007 average of 22.1%.

Graph I.26: **Comparison of past and current recoveries - Total investment, euro area**

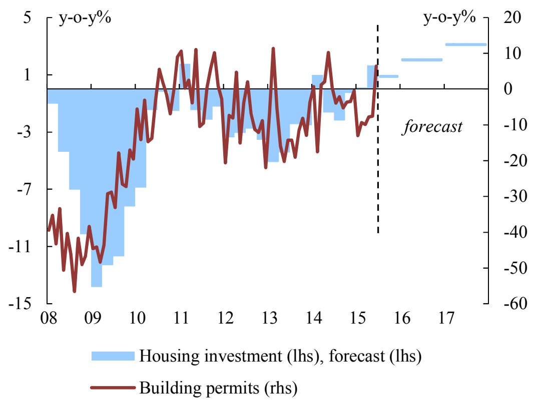


Note: Past recoveries included are those from the mid-1970s, early-1980s and early-1990s.

...as construction investment remained weak...

After having fallen rather steadily in recent years, the adjustment period of construction investment is expected to come to an end this year. However, recent hard data still point to a continued fall in construction investment. The sector's output has in August (3m-on-3m) fallen by 0.9% in the euro area and by 1.0% in the EU. In the first half of 2015, the number of building permits in the euro area (see Graph I.27) was still 6.5% lower than in the first half of 2014. However, at 1.2% above the second half of 2014, this is still a positive sign.

Graph I.27: **Housing investment and building permits, euro area**



Note: Forecast figures relate to overall construction investment

The Commission's surveys show that construction sector confidence increased in the third quarter compared to the second in both the euro area and the EU. In the euro area, confidence remained below its long-term average but managers showed more optimism about the evolution of their current order books and about employment prospects in their sector. This is in line with the support that construction activity should receive from the relatively strong growth in households' real disposable incomes and from financing conditions, which are very favourable given the support of very accommodative monetary policies. This is directly visible in the expansion of loans for house purchases, which rose at an annual rate of 1.6% in July and August in the euro area. Further evidence of progress in the construction sector's adjustment can be seen in house prices, which broadly rose across the euro area in the second quarter of this year after a prolonged period of depressed prices.

In 2015, investment in construction is expected to grow by 0.7% in the euro area and by 1.1% in the EU.

...but should rebound modestly over the forecast horizon.

The recovery in construction investment is expected to gather pace in 2016 and 2017, as the need for adjustment in that sector gradually fades.

GDP growth, and rising real disposable incomes, house prices, and low mortgage rates, should stimulate residential construction. These factors, however, will continue to be partially

(29) For analyses see N. Balta, 'Investment dynamics in the euro area since the crisis', *Quarterly Report on the Euro Area* (European Commission — DG ECFIN), 2015, Vol. 14, No 1, pp. 35–43; B. Barkbu et al., 'Investment in the euro area: why has it been weak?', *IMF Working Paper* no 2015/32, February 2015; and R. Banerjee, J. Kearns, and M. Lombardi, '(Why) Is investment weak?', *BIS Quarterly Review*, March 2015, pp. 67–82; and ECB, 'The current weakness in euro area investment compared with past crisis episodes', *Monthly Bulletin*, December 2014, Box 4, pp. 65–68.

(30) See European Commission, European Economic Forecast – Autumn 2014, *European Economy*, 2014, No. 7, pp. 8–12.

counterbalanced in some Member States where households are still heavily indebted. The positive impact of lower mortgage rates on the affordability of house purchases should be to some extent mitigated by the increase in house prices, which is associated with very low interest rates. Demographic factors (e.g. ageing) are expected to exert a negative impact on residential construction activity, partly offset by the increased demand for housing that is associated with higher migration into the EU.

The performance of the non-residential construction sector, however, is expected to be less buoyant, which should weigh on the overall growth contribution of the construction sector.

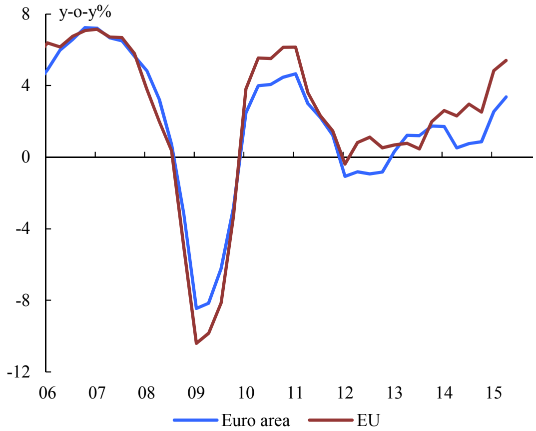
All in all, construction investment is expected to increase by 2.0% and 3.4% in the euro area in 2016 and 2017 respectively, and by 2.4% and 3.7% in the EU.

As the decline in construction activity differed across Member States, so too will its recovery. This is related to structural features, but also reflects the past performance of the construction sector and the current pace of the economic recovery. The rebound should be particularly visible in economies that experienced a pre-crisis housing boom, but were then hard hit by the financial crisis (e.g. Ireland, Spain, and the UK) or that are among the faster growing economies in the EU in the post-crisis period (e.g. Germany and Sweden). Ongoing adjustments will continue in 2016 in a number of countries (Greece, France, Slovenia, and Slovakia in the euro area, and Bulgaria, the Czech Republic, and Hungary in the rest of the EU), while in 2017, construction investment is expected to rise in all countries.

The rebound in equipment investment remains slow...

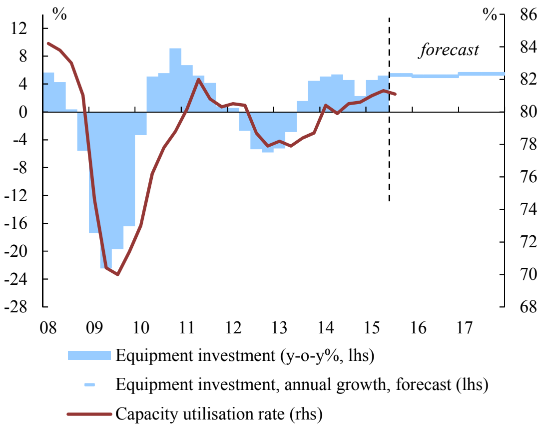
In the first half of the year, equipment investment rose across the euro area and the EU, but at a slower rate than in typical past recoveries. At the current juncture, rising investment is supported by strengthening domestic demand and improved profit margins (see Graph I.28), on the back of lower energy prices and lower funding costs. These positive factors, however, are somewhat offset by a number of negative ones such as elevated uncertainty [31] as well as ongoing corporate deleveraging and remaining credit supply constraints in some Member States.

Graph I.28: **Profit growth, euro area and EU**



Economic indicators covering the first months of the third quarter suggest a continuation of the subdued upturn in equipment investment. As regards hard data, in July and August, the average industrial production of capital goods was 0.4% higher in the euro area than on average in the second quarter (EU 0.1%). Capacity utilisation rates have so far failed to show clear signs of acceleration. At around 81% in the third quarter (July survey), they stood close to their long-term averages in both the euro area and the EU (see Graph I.29).

Graph I.29: **Equipment investment and capacity utilisation, EU**



The Commission's surveys showed substantial increases in confidence in the third quarter. In both the euro area and the EU, sentiment indicators

(31) The latest calculations of a new version of the Economic Policy Uncertainty index (EPU) show the substantial increase in uncertainty during the events in Greece in July 2015; see S. R. Baker, N. Bloom and S. J. Davis, 'Measuring economic policy uncertainty', *NBER Working Paper* no. 21633, October 2015.

brightened in all business sectors (industry, services, retail, and construction) compared to the second quarter. By contrast, the manufacturing and services PMIs in both areas either stagnated or declined marginally in the third quarter after reaching multiyear highs in the previous quarter. This reflected the deterioration in the external environment that has started weighing on euro area and EU manufacturers' assessments of their export order books.

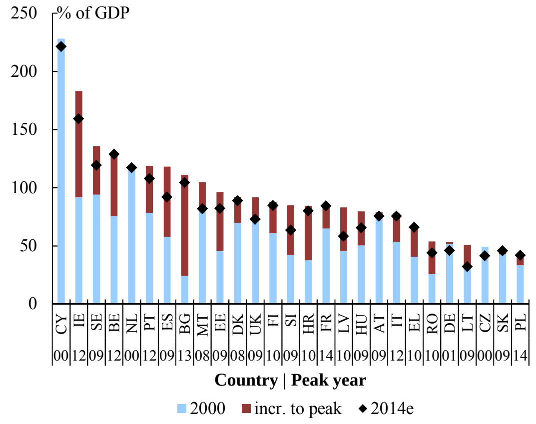
Overall, confidence levels remain high, while the factors that underlie investment decisions continue to be supportive, although somewhat restrained by the deterioration in the external environment. Against this background, in 2015, equipment investment is expected to accelerate in the euro area to 4.6% and in the EU, to 5.4%.

...with some acceleration expected in 2017 ...

Over the forecast horizon, the delayed modernisation of the capital stock, as suggested by the long-lasting fall of the investment-to-GDP ratio, could motivate companies to increase equipment investment.

However, deleveraging by NFCs is expected to continue weighing on investment. In the early post-crisis years, with asset prices having fallen sharply, companies had started paying down debt and were reluctant to borrow almost regardless of the prevailing interest rate, illustrating how high debt ratios had substantially weakened the credit channel of monetary policy transmission. Since the end of the crisis, deleveraging has been associated with a sharp decline in the investment-to-GDP ratio. Active deleveraging, by paying down debt, has been accompanied by passive deleveraging, via changes in the economic environment that raise the denominator in deleveraging indicators (e.g. debt-to-GDP ratio). In many Member States, the debt of NFCs, as a proportion of GDP, has declined, giving a rough indication of past deleveraging (see Graph I.30). On aggregate, in the euro area the leverage of NFCs, in terms of debt to equity, has continued falling in 2015 and is now back to pre-crisis levels.[32] As a result, deleveraging now appears to be a softer constraint for equipment investment.

Graph I.30: **NFC debt, consolidated**



Source: Eurostat. LU is not included due to specificities regarding the drivers of corporate indebtedness. The earliest observation is 2000, except for IE, SI, HR (all 2001), PL (2003), MT, LV, LT (all 2004). The 2014 value, when not available, is estimated from quarterly data.

Low financing costs and an improved demand outlook should support equipment investment over the forecast horizon. However, in 2016, the link between equipment investment and extra-EU exports is expected to become more important, since a lower growth momentum outside the EU and lower export growth look set to prevent a more dynamic rise in equipment investment. Overall, equipment investment in the euro area is expected to maintain the same momentum as in 2015 in the euro area and to decelerate in the EU. With global growth rebounding in 2017, the export-related dampening factor should lose importance. In line with accelerating economic activity, this should allow for stronger equipment investment growth.

All in all, investment in equipment is expected to increase in the euro area by 4.6% in 2016 and by 5.7% in 2017, and by 5,1% and 5.6% respectively in the EU.

...turning total investment into an important contributor to GDP growth.

Overall, investment in the euro area is expected to rise by 2.3% in 2015 (EU 2.9%), 3.0% in 2016 (3.5%) and 4.4% in 2017 (EU 4.4%). The Investment Plan for Europe is expected to support the strengthening of investment gradually as it starts funding more and more projects.

[32] Leverage of non-financial companies (measured as debt to equity) continued falling into 2015 and has already returned to pre-crisis levels, see ECB, September 2015 ECB staff macroeconomic projections for the euro area, 3 September 2015. For a detailed analysis see European Commission, 'Private sector deleveraging: where do we stand?', *Quarterly Report on the Euro Area*, (European Commission – DG ECFIN), 2014, Vol. 13, No. 3, pp. 7–19.

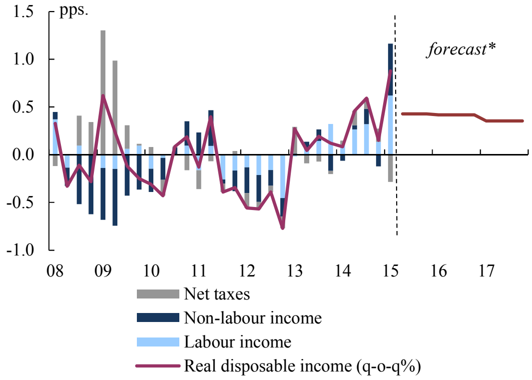
Total investment had already begun to contribute positively to economic growth in the euro area and the EU in 2014. The projected pace of acceleration keeps this contribution almost unchanged in 2016, but implies a markedly higher contribution in 2017, when investment should contribute to growth as much as private consumption in the euro area and only slightly less in the EU. A sufficient increase in investment is a necessary condition for a recovery's sustainability, which otherwise would depend on temporary or purely cyclical factors.

Private consumption has been the main driver of economic growth...

Private consumption has been the key factor in the recovery's recent strength. Between mid-2014 and mid-2015, private consumption expanded by 1.5% in the euro area and by 1.9% in the EU. This pace exceeded that of GDP, which was up by 1.1% in the euro area and 1.6% in the EU. During that period, private consumption's 0.8 pps. contribution to GDP growth in the euro area (EU 1.1 pps.) was its highest since the first half of 2008 and indicates that private consumption has been leading the pick-up in domestic demand. The first two quarters of 2015 confirmed these findings.

The key factors supporting private consumption growth have increased real disposable incomes due to higher nominal incomes and gains in purchasing power due to relatively low inflation. Wage increases and a higher number of wage earners, as well as higher non-labour incomes, pushed nominal incomes, whereas exceptionally low consumer price inflation strengthened the purchasing power of households and resulted in a further uptick in real disposable incomes (see Graph I.31). Rebounding house and financial asset prices added private wealth gains to these positive factors.

Graph I.31: **Real gross disposable income and its components, euro area**



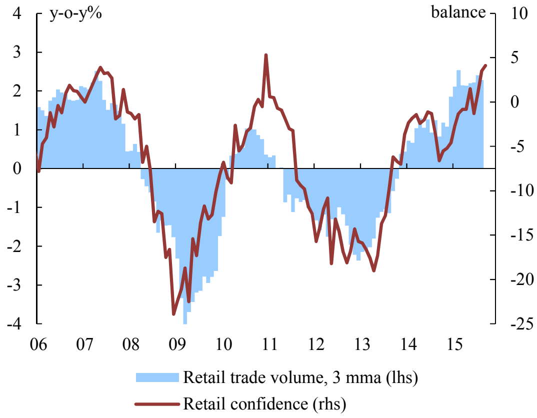
* Forecast numbers are de-annualised annual figures

...is expected to keep its growth momentum in the near term...

Recent evidence supports the favourable outlook for private consumption, as do expectations of further increases in nominal incomes, lower energy prices and lower consumer inflation. Moreover, the fall in energy prices may not have been fully passed through in previous quarters.

Economic indicator readings also support the outlook for stronger private consumption growth in the near term. For instance, the increase in retail sales in August (to their highest level in more than seven years) hints at consumer spending growth in the third quarter of 2015 (see Graph I.32). Also, new passenger car registrations rose in September at an annual rate of 9.8% in both the euro area and the EU, which exceeded the growth rate in the first eight months. In line with this, the annual growth rate of loans to households continued to rise in July and August.

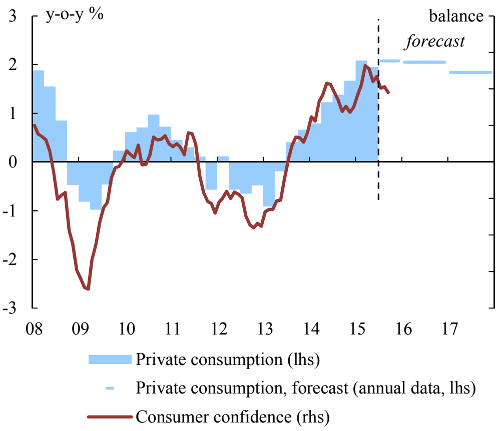
Graph I.32: **Retail trade volumes and retail confidence, euro area**



Survey data give somewhat more mixed signals. The Commission's Consumer Confidence indicator, while remaining above its long-term average, declined in both the euro area and the EU in the third quarter of 2015 compared to the previous quarter. This mainly reflected higher unemployment fears, which are especially pronounced in Germany, Austria and Sweden, as well as a more pessimistic assessment of the past and expected future general economic situation. However, many consumers appear more confident about making major purchases in the third quarter. In line with hard data, retail confidence has increased strongly in the euro area and the EU in the third quarter compared to the second.

Overall in 2015, improved labour market conditions and the increase in households' scope for spending pave the way for an acceleration in consumption growth to 1.7% and 2.1% in the euro area and the EU respectively (see Graph I.33).

Graph I.33: **Private consumption and consumer confidence, EU**



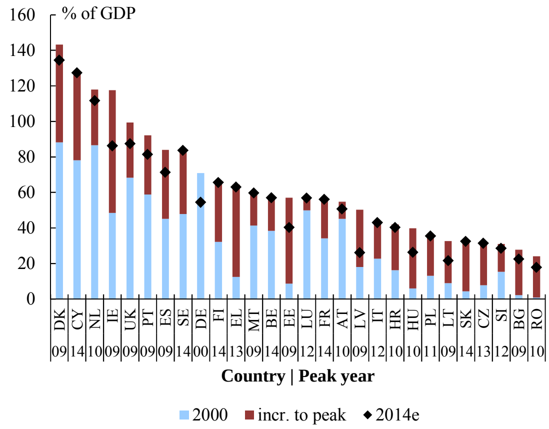
...and moderate only somewhat over the forecast horizon.

Over the forecast horizon, the expansion of private consumption should remain underpinned by improving labour market conditions, notably the favourable impact of rising wage growth on the back of increasing employment, further gains in non-labour incomes (profit and property-related income), and inflation, which is still low and expected to increase only gradually once oil prices pick up.

Household saving rates are also expected to decline slightly over the forecast horizon. This should reflect some unwinding of savings that resulted from consumption smoothing when lower energy prices led to windfall gains, but also the discouraging impact of an extended period of low interest rates on savings, which could trigger durable goods purchases. The ongoing improvement in labour market conditions could also be expected to lower precautionary savings and have a dampening effect on the saving rates.[33] These factors, however, will be partially offset by the ongoing need of many households to deleverage.

Households have made progress on deleveraging during the economic recovery,[34] but over indebtedness remains an issue in several Member States, where it limits the impact favourable financing conditions for households. For years, deleveraging needs have been an obstacle to consumption growth in some countries, but recently there has been some encouraging news in that regard. This also reflects increases in financial wealth from rising bond and equity prices and the resulting reduction in the net financial debt of the private sector, even if gross debt remains unchanged (see Graph I.34).

Graph I.34: **Household debt, consolidated**



Source: Eurostat. The peak of the debt-to-GDP ratio is indicated on the horizontal axis. The earliest observation is 2000, except for IE, SI, HR (all 2001), PL (2003), MT, LV, LT (all 2004). The 2014 value, when not available, is estimated from quarterly data.

Lower deleveraging needs could imply an increase in spending relative to income. However, any assessment of debt levels and thus deleveraging needs is complicated by significant national

(33) See also ECB, ‘Factors behind recent household saving patterns in the euro area’, *Economic Bulletin* (ECB), 2015, No. 2, Box 4, pp. 45–47.

(34) Households have made progress in reducing their indebtedness with the net worth of households continuing to increase; see ECB, September 2015 ECB staff macroeconomic projections for the euro area, 3 September 2015.

differences in factors such as equilibrium house prices, tax systems, preferences for rent or ownership, and demography.

While lower deleveraging needs in some Member States could support private consumption in 2016 and 2017, in others, the ongoing need to reduce private debt should remain an important factor preventing stronger consumption growth.

All these factors suggest a continuation of the expansion with some moderation at the end of the forecast horizon, mainly due to the negative impact of the uptick in inflation on real disposable incomes. All in all, private consumption is expected to increase by 1.7% and 1.5% in the euro area in 2016 and 2017 respectively, and by 2.0% and 1.8% in the EU.

Public consumption expected to contribute moderately to growth

Government consumption continued to support growth in the first half of the year in both the euro area and the EU, expanding much more than expected. In the euro area, government consumption grew 0.6% and 0.3% q-o-q in the first and second quarters of the year, compared to 0.6% and 0.4% in the EU as a whole. For the year 2015, government consumption is projected to grow by 1.0% in the euro area and by 1.3% in the EU. Additional public spending to host and integrate asylum seekers is contributing to this growth, particularly in some countries.

Further out, public consumption growth is projected to remain rather stable over the forecast horizon. It is expected to grow by 0.8% and 1.1% in the euro area in 2016 and 2017 respectively and by 0.8% and 1.0% in the EU. In 2017, it is expected to contract in three Member States (Greece, Finland and the UK). The forecast for 2017, however, rests on a no-policy change assumption, according to which consolidation measures are only factored into the forecast if they have been adopted and presented to national parliaments, or if they have been sufficiently specified.

Exports defying external weakness for now…

In the first half of the year, the slowing of global economic growth, mainly in emerging market economies and the weakness of global trade affected exports from the euro area and the EU negatively, but the weak euro mitigated the dampening effect of weaker foreign demand. While external demand usually tends to be more decisive for export performance than price competitiveness, [35] the recent development of exports showed the importance of the exchange rate for many euro area exporters. [36] For other exporters, gains in price competitiveness were less important, as their export competitiveness depends more on non-price factors or their integration into global value chains. Accordingly, the exposure of extra-EU exports to exchange rate fluctuations differs across Member States. Moreover, in some Member States, exports to other EU members are more significant than exports outside the EU, which reduces the impact of weaker demand growth from outside the EU.

…but will not remain immune over the forecast horizon…

In the short term, euro area exports should continue benefitting from the weak euro. Nevertheless, they cannot be expected to remain immune to global headwinds. So far, weak growth in emerging markets has not resulted in a downshift in total euro area export growth. This should lead to gains in export market shares in 2015 in the wake of the past depreciation of the euro. However, some of the impact of weaker trade growth may be still to come. This seems to be confirmed by the assessment of export order books in both the Commission's manufacturing survey and in the PMI, which worsened in the third quarter of 2015, compared to the previous quarter in both the euro area and the EU.

The rebalancing of growth in China should also affect Member States to different degrees, depending on their relative importance and structure. Indirect trade impacts should also be moderate, given the limited exposure of the EU economy to emerging markets other than China (see Box I.2).

Meanwhile, export growth to Russia, in particular in some Member States with close links to Russia,

[35] On the impact of euro exchange rate developments on trade see Box I.2 ('Impact of euro exchange rate movements') in European Commission, European Economic Forecast – Winter 2015, *European Economy*, 2015, No. 1, pp. 50–52.

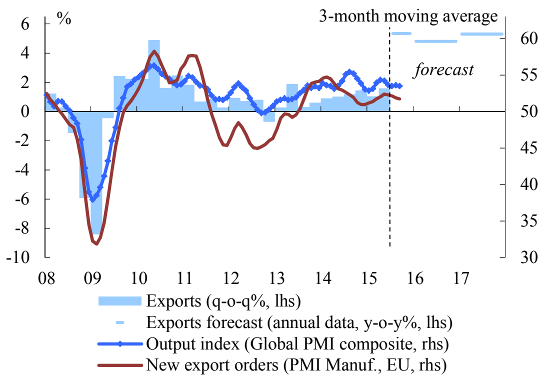
[36] See e.g. IMF, 'Exchange rates and trade flows: disconnected?', in *World Economic Outlook*, October 2015, chapter 3, pp. 105–42; P. Ollivaud, E. Rusticelli and C. Schwellnus, 'The changing role of the exchange rate for macroeconomic adjustment', *OECD Economics Department Working Papers* no. 1190, March 2015..

will continue to suffer from the downturn in Russia, sanctions against Russia and counter-sanctions against the EU. Due to the technical assumption about the continuation of tensions and sanctions until the end of January 2016, this effect will persist for some time.

In late 2016 and 2017, foreign demand is expected to strengthen as economic activity gradually rebounds in most emerging market economies. However, with growth in these countries likely to be lower than in previous years and with global trade's elasticity to growth lower than in the past, the rebound in foreign demand for EU exports looks likely to remain rather moderate. Moreover, in some Member States export growth could be negatively affected by increasing domestic demand pressure, which reduces companies' ability to respond to external demand increases and thereby results in a lower responsiveness to the rebound in foreign demand than in previous post-crisis years. [37]

All in all, despite the deceleration expected in the second half of the year, exports are expected to grow by 5.2% in the euro area in 2015 and by 4.8% in the EU, on the back of the strong carry-over effect from the first half of the year. Reflecting the slowing global growth momentum, exports should grow in 2016 at lower pace of 4.3% in both areas, before accelerating in 2017 to 5.0% in both areas (see Graph I.35).

Graph I.35: **Global demand, EU exports and new export orders**



Source: EC, Markit Group Limited

[37] For some empirical evidence see P. Soares Esteves and A. Rua, 'Is there a role for domestic demand pressure on export performance?', *Empirical Economics*, 2015, Vol. 49, No. 4, pp. 1173–89.

...while imports develop in line with strengthening domestic demand.

In parallel, and in line with the strengthening recovery of domestic demand, imports also grew strongly in the first half of the year. The high import content of many export goods, implies that the expected slowing of export growth should also dampen import growth.

All in all, imports are expected to grow by 5.4% in the euro area in 2015 and by 5.0% in the EU, on the back of the strong carry-over effect from the first half of the year. Over the forecast horizon, the profile of import growth should be similar to that of export growth, with a slight slowing in 2016 (4.8% in the euro area, 4.9% in the EU) and, reflecting the rebound in global economic activity, world trade, and a further strengthening of domestic demand, an acceleration in 2017 (5.7% in the euro area, 5.5% in the EU).

The almost parallel development of exports and imports limits the scope for a more meaningful contribution of net exports to GDP growth. In the first half of the year, net exports had contributed positively to economic growth, but for the whole year the contributions should be only marginal (0.1 pps. in both areas). Over the forecast horizon, net exports are expected to continue making a broadly neutral contribution to real GDP growth in the euro area.

5. THE CURRENT ACCOUNT

The adjusted current account surplus [38] in the euro area has been increasing quite steadily over the past few years, moving almost in parallel with the surplus in the merchandise trade balance. This mainly reflected weak domestic demand in the euro area and higher foreign demand for European exports due to higher global growth. The aggregate surplus hides substantial differences in current account developments at the Member State level.

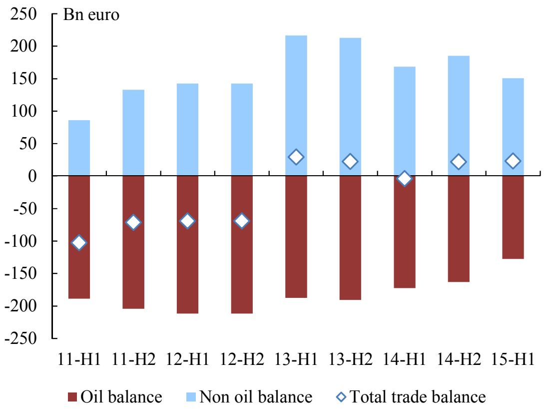
A further widening of the trade surplus due to weak domestic demand and lower oil prices...

The increased trade surplus reflects relatively weak growth of import demand and improving competitiveness of European companies. Since mid-last year, the decline in major commodity

[38] On the adjustment for reporting errors in intra euro-area and intra-EU balances, see note 8 on concepts and sources in the Statistical Annex of this document.

prices, notably oil, has become another important factor behind the widening of the surplus. Although the impact of lower dollar-denominated Brent oil prices was somewhat mitigated by the lower euro exchange rate, the deficit in the oil trade balance shrank markedly (see Graph I.36). This trend was only partly mitigated by higher imports due to the gradual strengthening of domestic demand in the EU.

Graph I.36: **Oil and non-oil extra-EU trade balances**



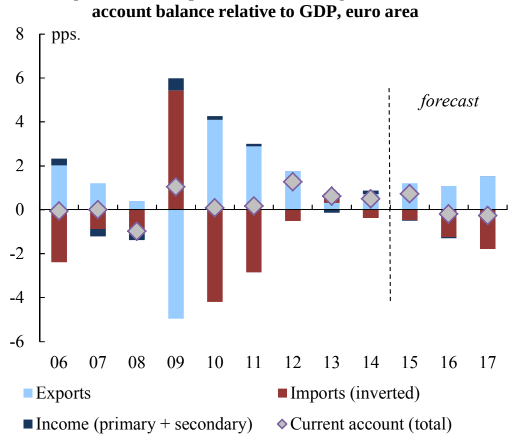
Apart from developments in domestic demand and in commodity prices, the rising surplus mirrors developments in the price competitiveness of EU companies. The oil price impact on import prices was negative, so the EU's terms of trade improved. As a consequence of improved terms of trade, the export performance in the euro area and in the EU improved. And the continued fall of relative unit labour costs that is expected in 2015 in the euro area and in the EU, implies a further improvement in price competitiveness. The real effective exchange rates of the euro area and of the EU fell sharply in the first half of the year and are expected to record in 2015 a decline of 6.7% and 7.1% respectively.

Assuming that oil prices rebound only marginally in the second half of the year, oil should be the dominant influence on the trade balance for the year as a whole. In 2015 the adjusted trade surplus is expected to rise from 2.5% to 3.3% of GDP in the euro area and from about 0.3% to 1.0% in the EU. Once oil prices rise further, domestic demand strengthens and export growth slows, the trade balance surpluses of the euro area and the EU should stop widening and eventually decline slightly in 2017.

...should be followed by a marginal deterioration in extra-EU balances...

The euro area's current account surplus has increased since 2009, when the sharp decline in import and export volumes resulted in exceptional changes of the current account balances. In the years since, changes in the adjusted current account surplus were mainly driven by the increase in exports of goods and services (as a percent of GDP), which exceeded the increase in imports (see Graph I.37).

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



The expected slowing of euro area export growth and the continued strength of import growth are set to lower the surplus of the adjusted current account balance over the forecast horizon. The surplus is expected to follow the trade balance, which implies a further increase from 2.4% of GDP in 2014 to 3.1% in 2015 in the euro area. Although the marginal decline in 2016 (to 3.0%) should continue in 2017 (to 2.8%), the current account surplus is expected to remain at a historically high level.

...while cross-country diversity should persist after a period of rebalancing.

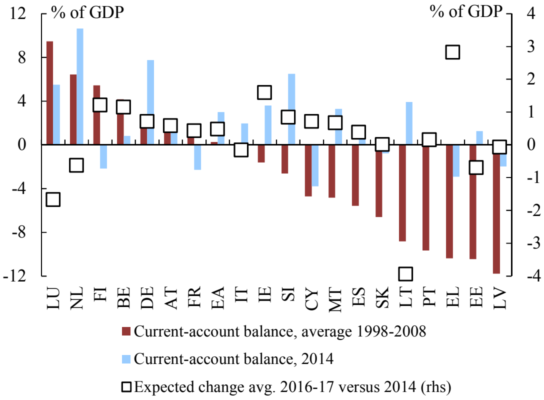
The high adjusted current account surplus in the euro area concedes an asymmetric adjustment.

In vulnerable Member States, improvements in competitiveness have helped to reduce deficits and contribute to rebalancing in these countries. Many of them turned a large deficit into a surplus, which also comprised a smaller deficit or higher surplus in the country's extra-euro area or extra-EU balances. [39] The most recent current account data

[39] A more detailed analysis had been presented in Box I.3 ('Rebalancing in the euro area: an update') in European

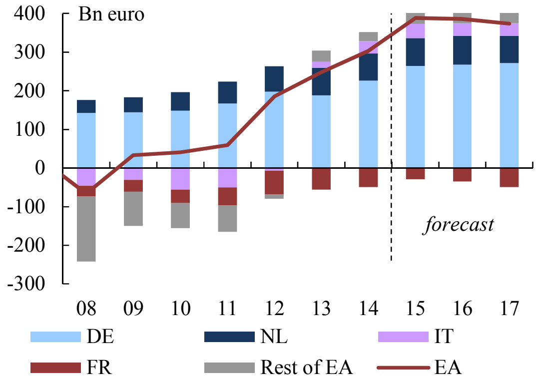
confirm a continuation of this process (see Graph I.38). In 2015, current account balances should improve in all euro area economies that had recorded high external sector deficits in the late 2000s (Spain, Latvia, Portugal, Greece, and Italy). In Portugal and Greece, the current account surplus is expected to increase further next year, whereas in the other three countries, a small decline is expected in both 2016 and 2017.

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



In countries with already high current account surpluses the lower deficit in the oil balance, continued relatively weak domestic demand, and sustained price competitiveness in the wake of the euro depreciation delayed the adjustment process towards a more balanced current account.

Graph I.39: **Country decomposition of euro area's current account**



Particularly in Germany and in the Netherlands, current account surpluses are expected to remain over the forecast horizon at higher levels than in the last years, with only small declines in 2016 and 2017. Therefore, these countries' position as main contributors to the adjusted euro area current account surplus is expected to remain unchanged (see Graph I.39).

Commission, European Economic Forecast – Spring 2015, *European Economy*, 2015, No 2, pp. 51–54; see also ECB, 'Recent current account developments in euro area countries with large pre-crisis deficits', *Economic Bulletin* (ECB), 2015, No. 4, Box 4, pp. 43–45.

6. THE LABOUR MARKET

Labour market conditions continue to improve slowly but steadily. While employment in the euro area and the EU is rising slightly faster than in the early phases of the recovery, the unemployment rate is declining only gradually, and there are substantial differences among Member States. As the moderate economic recovery continues and gains some momentum over the forecast horizon, labour market conditions should improve further. However, the pace of economic growth and job creation looks insufficient to reduce unemployment rates below pre-crisis levels. The decline could be slowed further, or even temporarily reverted in some Member States, should the increase in the labour force associated with the acceptance of asylum seekers in the EU be more substantial than currently envisaged.

Labour market conditions have improved gradually...

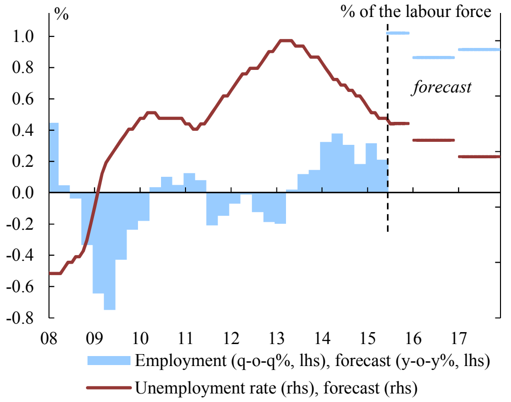
Since the start of the recovery in 2013, employment has been picking up more quickly and more powerfully in response to output developments than historical elasticities of employment to overall activity would have suggested. In 2014, the labour market continued to create jobs at a reasonable rate of about 0.7% in the euro area and 1.1% in the EU, whereas the number of self-employed continued shrinking in the euro area (-0.5%) but rising in the EU (0.3%), driven by an increase of 5.7% in the UK. In the first half of 2015, employment growth continued unabated. In the second quarter, employment grew 0.3% (q-o-q) in the euro area and 0.2% in the EU (see Graph I.40). Compared to the same quarter in 2014, employment was 0.8% higher in the euro area and 0.9% higher in the EU. These changes reflect, among other things, past wage moderation and recent labour market reforms.

Table I.4:
Labour market outlook - euro area and EU

(Annual percentage change)	Euro area				Spring 2015 forecast		EU				Spring 2015 forecast	
	2014	2015	2016	2017	2015	2016	2014	2015	2016	2017	2015	2016
Population of working age (15-64)	0.0	0.2	0.3	0.2	0.1	0.1	0.1	0.2	0.3	0.2	0.1	0.1
Labour force	0.1	0.2	0.4	0.6	0.3	0.4	0.3	0.3	0.5	0.6	0.4	0.5
Employment	0.6	0.9	0.9	1.0	0.9	1.1	1.0	1.0	0.9	0.9	0.9	1.0
Employment (change in million)	0.9	1.3	1.3	1.5	1.3	1.6	2.2	2.2	1.9	2.1	2.1	2.2
Unemployment (levels in millions)	18.6	17.7	17.2	16.7	17.7	16.9	24.8	23.2	22.6	21.9	23.5	22.5
Unemployment rate (% of labour force)	11.6	11.0	10.6	10.3	11.0	10.5	10.2	9.5	9.2	8.9	9.6	9.2
Labour productivity, whole economy	0.3	0.7	0.9	0.9	0.6	0.8	0.3	0.9	1.1	1.1	0.8	1.1
Employment rate (a)	58.8	59.2	59.6	60.0	59.1	59.6	59.0	59.5	59.8	60.2	59.4	59.9

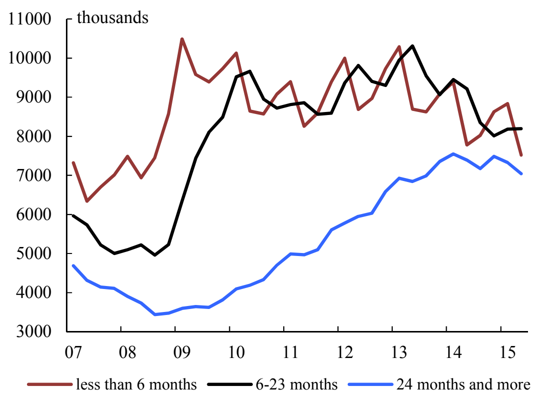
(a) Employment as a precentage of population of working age. Definition according to structural indicators.
See also note 6 in the Statistical Annex

Graph I.40: **Employment growth and unemployment rate, EU**



Forecast figures are annual data.

Graph I.41: **Unemployment by duration, EU**



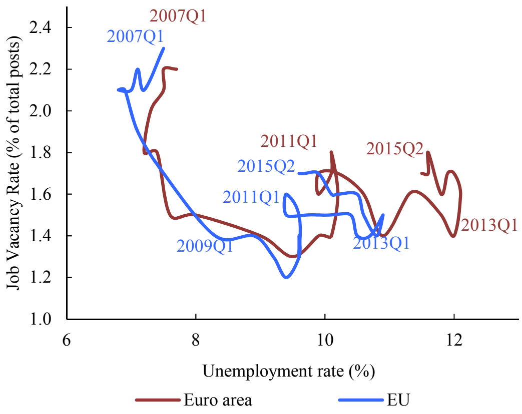
The unemployment rate, which had started to decline in mid-2013, continues to recede gradually, but remains above pre-crisis levels. The decline reflects the combination of rising employment and a growing labour force with participation rates having moved up (added-worker effect). In August 2015, the unemployment rate in the euro area stood unchanged at 11.0% (EU 9.5%). The overall improvements in labour market conditions also lowered unemployment among two of the most severely affected groups: young people and the long-term unemployed. The youth unemployment rate fell in both the euro area (22.3%, down from 23.6% in August 2014) and in the EU (20.4%, down from 21.9%) and the proportion of the long-term unemployed in the overall unemployment rate fell to 51.1% in the euro area and to 48.2% in the EU (see Graph I.41).

High youth unemployment and high long-term unemployment can lead to skill erosion and have a detrimental impact on structural unemployment and potential output growth in the medium-term. Hints on developments in the structural unemployment rate can be found in information on matching efficiency. The observed outward shift in the Beveridge curves of the EU and euro area suggest that matching efficiency had been declining until recently. The curves, which depict the negative relationship between the unemployment rate and the vacancy rate, show that up to mid-2015 there were more unemployed workers for a given level of vacancies than before the crisis (see Graph I.42). To some extent, this can be related to structural changes in labour demand, e.g. due to shrinking construction output, that affect the search effectiveness of workers. [40] The inward shift observed during the recovery period signals the increased ability of the labour

[40] See M. W. L. Elsby, R. Michaels and D. Ratner, 'The Beveridge curve: a survey', *Journal of Economic Literature*, 2015, Vol. 53, No. 3, pp. 571–630. They discuss increases in unemployment duration as another source of potential heterogeneity that shifts the curve.

market to match unemployed workers to firm vacancies.

Graph I.42: **Beveridge curve, euro area and EU**



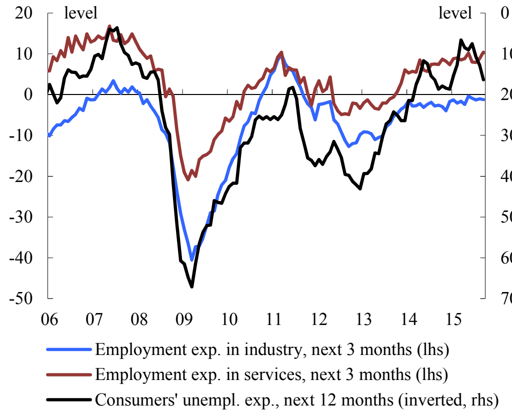
...and employment should grow further in the near term...

The current pace of the economic recovery in the EU does not allow for rapid absorption of excess capacities. Improvements in the labour market are therefore expected to remain gradual in the near term.

Survey results indicate that employers should continue creating jobs at about the same pace as in the past. However, recent consumer surveys suggest that expectations that the labour market will continue to improve smoothly have become more uncertain, particularly in countries with a large inflow of refugees. The composite PMI employment index, which contains information about actual employment growth in the manufacturing and services sectors, remained elevated through September in the euro area, pointing to a continuation of employment growth at current pace.

According to the Commission's surveys, in the third quarter, euro area companies revised up their employment expectations (see Graph I.43) in services, retail and construction, but revised them down in industry. In the EU as a whole, changes in employment expectations in the third quarter were almost negligible. This contrasts with substantial increases in consumers' unemployment fears in both the euro area and the EU. The September readings marked new highs for 2015 in half of the Member States.

Graph I.43: **Employment expectations, DG ECFIN surveys, EU**



For 2015, employment is forecast to grow by 0.9% in the euro area and 1.0% in the EU. This should allow for a further decline in the annual unemployment rate of 0.6 pps. in the euro area (to 11.0%) and by 0.7 pps. in the EU (to 9.5%).

...whereas the further decline in unemployment rates should be limited over the forecast horizon...

With GDP growth and business confidence increasing, job creation should pick up, particularly where supported by labour market reforms and moderate wage increases. Stressed countries and Italy are expected to see particular improvement. Employment is forecast to expand in 2016 by 0.9% in both the euro area and the EU and in 2017 by 1.0% in the euro area and 0.9% in the EU (see Graph I.44). This expansion of employment is the counterpart to the narrowing of the negative output gap in both areas and thus broadly compatible with Okun's law that links GDP growth to changes in employment. [41]

The outlook for the unemployment rate is less clear cut. Although higher net migration into the EU should lead to an increase in the labour force, which employment growth may not be able to absorb fast enough in some Member States, the impact of recent migration trends should be modest. Unemployment in 2016 is expected to decline by 0.3 pps. in both the euro area and the

[41] For a discussion see Box I.3 ('Recent unemployment developments: a swift reaction to economic recovery') in European Commission, European Economic Forecast – Winter 2015, *European Economy*, 2015, No 1, pp. 53–55; and the investigation into forecast practices in L. Ball, J. Tovar Jalles and P. Loungani, 'Do forecasters believe in Okun's law? An assessment of unemployment and output forecasts', *International Journal of Forecasting*, 2015, Vol. 31, No. 1, pp. 176–84.

EU to 10.6% and 9.2% respectively. As the economy strengthens further in 2017, unemployment should fall to 10.3% in the euro area and 8.9% in the EU.

Graph I.44: **Employment growth and GDP growth in the EU**

...with lasting disparity across Member States.

Unemployment rates differ greatly among Member States and labour mobility within the EU has done little to foster convergence, because labour markets remained highly disaggregated. [42] More recently, the geographically broad-based recovery has improved labour market conditions in most Member States by raising employment (employment increased in all but four Member States in 2014) and lowering unemployment (in all but nine).

While the continuation of the recovery is expected to create new jobs in all large Member States, different projections for the labour force result in different implications for national unemployment rates. In *Germany*, employment growth should regain momentum with rising economic activity, but the labour market integration of refugees is expected to create some comparatively low upward pressure on the unemployment rate. In *France*, despite some supportive policy measures, employers are expected to prioritise productivity improvement before creating new jobs, so the unemployment rate is only expected to improve towards the end of the forecast horizon. In *Italy*, employment is projected to continue increasing as the recovery gathers strength, but the decline in the unemployment rate is expected to be gradual due to growth in the labour force. In *Spain*, further wage moderation and slow unit labour cost growth should continue to support robust job creation and further reductions in the unemployment rate, albeit at a slightly decelerating rate. In *the Netherlands*, economic growth driven by domestic demand should prove favourable for employment, contributing to a further decline in the unemployment rate in each of the forecast years. In the *UK*, the labour market should remain robust, with employment growth slowing slightly over the forecast horizon and the unemployment rate stabilising at the current level. In *Poland*, employment growth is expected to slow somewhat over the forecast horizon, reflecting adverse demographic trends and stagnating labour force participation, which should lower unemployment.

Overall, the strongest decreases in unemployment rates this year are expected in countries that have implemented labour market reforms (e.g. *Portugal*, *Spain*) while in other countries like *Germany*, where the unemployment rate has already been rather low, and *France*, job creation is either slowing down or being postponed. In 2016 and 2017, unemployment trends are expected to converge somewhat as the most significant reductions are expected in countries with the highest rates (e.g. *Spain*, *Portugal*, *Cyprus*) and unemployment is expected to decrease less quickly or even increase in Member States where unemployment rates are already low (e.g. *Germany*, *UK*, *Austria*).

7. INFLATION

After rising between January and May this year, inflation in the euro area (see Graph I.2) and the EU (see Graph I.45) dropped below zero in September. The main culprit was the decline in energy prices. Stripping them from the aggregated index, the underlying picture that emerges now differs from the spring, in that the other components of inflation show a slow increase in line with improving domestic demand. As domestic demand solidifies further, the recovery in domestic prices should become more apparent.

However, the outlook for inflation is complicated by slowing growth in China and several other emerging market economies. Signs of overcapacity and excessive leverage in the corporate sector in these countries risk putting further downward pressure on international producer prices and eventually retail prices. In fact, the global and sustained decline in industrial producer prices, especially in Asia, has not abated since spring and

[42] See also the analysis in Section I.1 of this chapter.

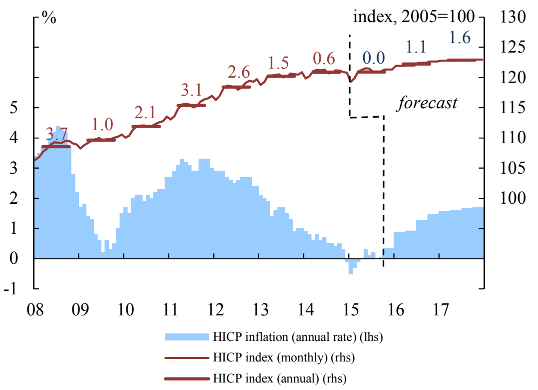
Table I.5:

Inflation outlook - euro area and EU

(Annual percentage change)	Euro area				Spring 2015 forecast		EU				Spring 2015 forecast	
	2014	2015	2016	2017	2015	2016	2014	2015	2016	2017	2015	2016
Private consumption deflator	0.5	0.2	1.1	1.6	*0.2*	*1.4*	0.7	0.2	1.2	1.7	*0.3*	*1.5*
GDP deflator	0.9	1.1	1.2	1.5	*0.9*	*1.5*	1.1	1.1	1.3	1.6	*1.0*	*1.5*
HICP	0.4	0.1	1.0	1.6	*0.1*	*1.5*	0.6	0.0	1.1	1.6	*0.1*	*1.5*
Compensation per employee	1.4	1.4	1.6	2.0	*1.3*	*1.5*	1.1	1.7	2.0	2.5	*1.6*	*1.8*
Unit labour costs	1.1	0.7	0.7	1.1	*0.7*	*0.6*	0.8	0.9	0.9	1.4	*0.8*	*0.8*
Import prices of goods	-2.5	-2.6	0.6	1.7	*-1.5*	*1.3*	-2.4	-2.3	0.4	1.6	*-1.5*	*1.4*

prospects of an immediate recovery in pricing power are not evident.

Graph I.45: **HICP, EU**



Figures above bars are annual growth rates

A return to weak inflation rates...

HICP inflation in the euro area was consistently negative in the first quarter of 2015 but returned quickly into positive territory in the second quarter, earlier than previously expected. Indeed inflation recovered to 0.3% in May –its peak so far this year– from -0.6% in January (see Graph I.38). Much of this variation is explained by the strong shifts in energy prices, but another important factor behind the recovery in headline inflation was food prices, which jumped in the second quarter, partly as a result of positive base effects from last year. Headline inflation in the euro area averaged 0.2% in the second quarter, up from -0.3% in the first. In the EU, prices broadly followed similar dynamics, but second quarter inflation averaged slightly lower at 0.1%, dragged down mainly by Poland, where there has been pronounced weakness, and UK, where prices have been flat.

Euro area inflation in the third quarter declined from 0.2% in July to -0.1 in September, driven by the drop in the energy component, which fell from -5.6% to -8.9% over the same period so that the rate in September almost matched its low in January. Nonetheless, concerns about deflation have been diminishing because other components are starting to show upward pressures. Food prices (including alcohol and tobacco) rose by 1.4% in September, their highest level this year. Non-energy industrial goods inflation averaged 0.4% in the third quarter, up from 0.2% in the second. Likewise, services inflation remained roughly stable overall in the third quarter (average of 1.2%) rising slightly from the second quarter (1.1%).

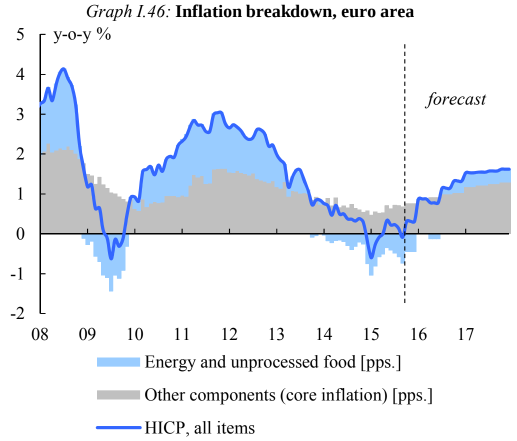
...but core inflation is increasing slowly.

Core inflation (all items excluding energy and unprocessed food) in the euro area stood at 0.9% in the third quarter, up from 0.6% and 0.8% in the first and second quarter, respectively. These increases came on the back of a slow uptick in both services inflation and non-energy industrial goods inflation. The turnaround of non-energy industrial goods prices in the second and third quarter was supported by increased demand for non-food consumer products and – with a lagged effect – the depreciation of the euro (see Graph I.46). In the EU, core inflation was likewise at 0.8% in the third quarter, up from 0.7% in the second. Services inflation in the EU (at 1.4% in the third quarter) stood higher than in the euro area (1.2%), propped up by the UK's relatively high services inflation (2.3%).

The weakness of core inflation in the euro area largely reflects still the negative output gap which has yet to close since the crisis. Labour cost developments, an important element in the price of services, were also muted in line with weak demand and also due to an adjustment in wages in a number of euro area Member States that was needed in order to regain their competitiveness. Moreover, lower oil prices have an indirect effect on core inflation through items such as transportation services. Until the first quarter of

2015, core inflation was still declining and appeared to have become decoupled from the improvement in economic activity. At 0.9%, core inflation in the euro area is still considerably below its historical average. However, given that is slowly reflecting the increase in domestic demand, especially the strengthening of private consumption, concerns of a prolonged period of falling prices have diminished.

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



External and producer prices on the decline...

External price pressures continued to weaken in 2015 with no recent sign of abatement. The renewed decline in global commodity prices is driving this further drop in import prices. However, slowing growth in emerging markets may have accelerated this decline. Moreover, the recent strengthening of the euro against its trading partners may also have already contributed to the recent sharp drops in import prices in the euro area.[43] All these factors signal that price pressures are still low along global supply chains as well as in the euro area. On the whole, import prices (measured by the deflator of goods imports) fell again in 2014 by around 2.5% in the euro area. Latest data of industrial import prices show a steep decline of almost 5% in August.

In 2015, available information and the assumed path for global commodity prices suggest that goods import prices for the whole economy are set to drop further, by around 2½% in the euro area. In 2016, import prices are expected to turn around slightly and increase by around ½% in both regions, consistent with the assumptions of a mild recovery in commodity prices. As the expected global recovery takes hold, the import price deflator is expected to reach around 1½ % in 2017 in both regions.

Annual industrial producer price inflation was negative throughout 2014 and was still negative in August 2015. Producer price declines actually intensified in this August (-2.6% in the euro area) driven lower by energy prices. The declines in intermediate and non-durable consumer goods were also strong in the third quarter. On the other hand, consumer durable goods and capital goods inflation were positive and held relatively stable in the second and third quarters reflecting narrowing output gaps as domestic demand picks up. The strong declines in producer prices in the third quarter in China and other emerging markets, especially in Asia, suggest further downward pressures along global supply chains at least until the end of the year, and further declines would present downside risks to the inflation outlook (see Graph I.47).

Graph I.47: **Industrial producer prices, euro area and China**

...but the recovery in employment, wages and house prices limit deflation risks.

While low energy prices and weak producer prices have exerted downward pressures on inflation, wage growth has remained clearly positive in the euro area. Wages and salaries grew at an average rate of about 2% in the first half of 2015 in the euro area and by around 0.3 pps. higher in the EU, as wage growth is significant in a number of non-euro area countries. The growth in compensation per employee is projected to remain at 1.4% in the euro area and increase to 1.7% in the EU in 2015.

Coupled with steady wage growth and lower energy prices, rising disposable incomes and consumption should increasingly stoke price

[43] On the pass-through see ECB, 'Monitoring the exchange rate pass-through to HICP inflation', *Economic Bulletin* (ECB), 2015, No. 4, Box 4, pp. 46–48.

pressures, even if the pass-through of labour costs to prices may have fallen. [44] In 2016 and 2017, growth in compensation per employee is expected to increase to 1.6% and 2.0%, respectively, in the euro area. In the EU, it is expected to increase to 2.0% and 2.5%, markedly above the inflation rate. With labour productivity projected to accelerate slightly in both regions, unit labour cost growth is expected to remain subdued and to edge up slightly in 2017, but remain moderate compared to its average over the past decade.

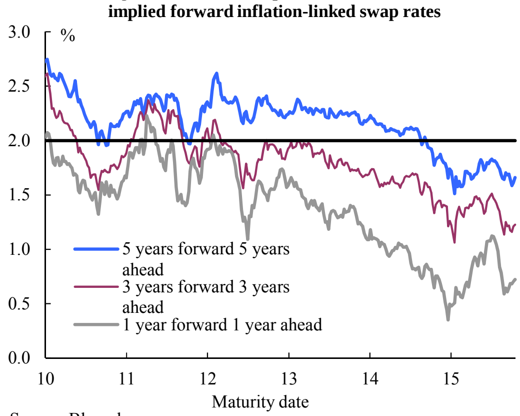
Meanwhile, house prices in 2015 have clearly turned the corner, which is consistent with an underlying improvement in the economy and domestic price pressures. It is also a reflection of improved credit flow throughout the economy, which has been stimulated by the very accommodative monetary policy stance. In the second quarter of 2015, house prices rose at annual rates of 1.1% and 2.3% in the euro area and the EU. Higher house prices improve the net wealth of households, significantly for those with mortgages, while lowering the risk of mortgage default and non-performing loans in the banking sector.

Different measures of inflation expectations point in different directions...

Market-based measures of inflation expectations staged a recovery after the ECB announced its expanded Asset Purchase Programme (APP) in January 2015, but the renewed fall in oil prices, especially in July and August, erased a good part of the gains registered since early this year. After peaking in July, short- and longer-term inflation expectations implied by financial markets declined again in the third quarter. In October, they stabilised somewhat and stood marginally above the lowest-levels seen in January, signalling low but positive inflation in the next few years. For the short term, inflation-linked swap rates at the one-year-forward-one-year-ahead horizon stood at 0.7% at the cut-off date. Swap rates at the three-year-forward-three-year-ahead horizon would imply an average inflation rate of 1.2%. On a longer horizon, the widely watched five-year-forward-five-year-ahead indicator suggests inflation of 1.7% (see Graph I.48).

[44] Such evidence has been presented for the US economy, see E. V. Peneva and J. B. Rudd, ‘The passthrough of labor costs to price inflation’, *Finance and Economics Discussion Series* (Federal Reserve Board) 2015-042, May.

Graph I.48: **Inflation expectations derived from implied forward inflation-linked swap rates**



Source: Bloomberg

According to the Commission’s surveys, selling price expectations in the manufacturing sector tumbled in the third quarter – with a slight majority of companies expecting a price decline - although not to the same extent as the January lows. However, a rather different signal came from the services sector and among consumers where price expectations have increased somewhat since spring and remained relatively stable with a small net positive balance of respondents. Survey-based measures of inflation expectations, such as Consensus Economics' forecast means of HICP inflation in the euro area in 2015 and 2016, have been successively revised down between June and October to 0.1% and 1.1%, respectively. Forecasters taking part in the ECB’s Survey of Professional Forecasters in the third quarter revised their inflation expectations upwards for 2015 (by 0.1 pps. to 0.2%) and for 2016 (by 0.1 pps. to 1.3%), but left expectations unchanged for 2017 (1.6%). Their long-term outlook was also revised higher by 0.1 pps. to 1.9%, implying that inflation rates will gradually return to levels close to 2%. However the survey took place before the renewed decline in oil prices.

On the whole, survey-based measures of inflation expectations have held relatively well compared to market-based measures. This could be interpreted as evidence that respondents did not recognise changes in the inflation process and continue with their historical practice of giving more weight to recent inflation data). [45] Market-based measures exhibit more sensitivity to oil price changes than survey-based measures of long-term inflation expectations like the ECB's Survey of Professional Forecasters, and recent declines in swap-based

[45] See B. Trehan, ‘Survey measures of expected inflation and the inflation process’, *Journal of Money, Credit and Banking*, Vol. 47, No 1, February 2015, pp. 207–222.

measures could therefore be attributed to this factor. For example, the downward movement in the 5yr-5yr swap rate moved in parallel with oil prices since mid-2014. Moreover, lower swap-based measures could also be due to the existence of negative inflation risk premia, [46] i.e. inflation swap rates and break-even inflation rates are lower than expected inflation rates, reflecting the market participants' view that their inflation outlook is surrounded by a higher likelihood for lower rather than higher inflation outcomes.

...but still in line with inflation gradually moving up over the forecast horizon.

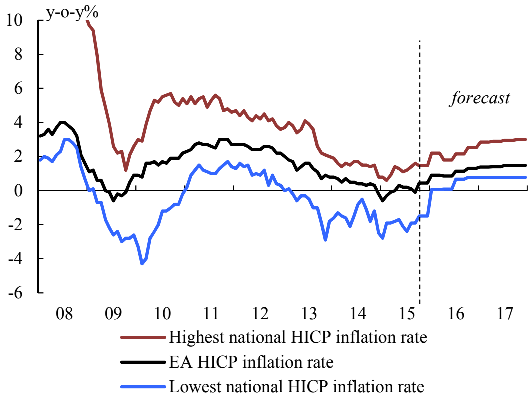
In 2015, the remaining slack in the economy, lower oil prices and especially the assumed path of commodity prices explain the downward revision in the inflation outlook compared to spring. Despite the steep decline in energy prices in the second half of 2014, energy prices in the third quarter of 2015 were below the price levels registered in the same quarter of last year and the assumed path of oil prices will result in negative technical base effects in the HICP energy component until the end of the year. [47] The slight increase in the euro against the dollar since spring will also depress oil prices in euro terms. Overall, inflation rates are projected to be slightly above zero in the fourth quarter of 2015 in the euro area.

In 2016, base effects due to oil prices should be moderate but will likely alternate from positive in January to negative again until summer, based on the assumed path of oil prices. [48] On the other hand, the strengthening dynamics of services and retail prices should have a clearer impact on inflation. Stronger wage growth and domestic demand are set to feed into increasing underlying price pressures but external price pressures are set to remain weak given the very gradual increase in both energy and non-energy commodity prices assumed. Moreover, the scale of the decline in external producer prices is complicated by the weakness and excessive leverage in the corporate sectors of a number of emerging market economies, which should limit imported price increases. Inflation is projected to increase to 1.0% in the euro area (Graph I.2) and to 1.1% in the EU (Graph I.45) in 2016. In the fourth quarter of 2017, inflation is then expected to be higher at 1.6% both in the euro area and in the EU.

Low inflation even in countries that register relatively high economic growth

Aggregate HICP inflation rates mask substantial differences between Member States, though these differences are much lower than in most previous years (see Graph I.49). In 2015, HICP inflation rates in the Member States are expected to range from -1.6% in Cyprus to 1.1% in Malta. These ranges are projected to narrow in 2016 (ranging from -0.3% in Romania to 1.9% in Hungary) and in 2017 (from 0.9% in Greece to 2.9% in Estonia).

Graph I.49: **Inflation dispersion, current euro area Member States**



* HICP in 2008 >17% in LV

Among the seven largest Member States, rates should vary in 2015 by 0.8 pps. (from -0.6% in Poland to 0.2% in Germany, Italy, and the Netherlands), in 2016 by 0.8 pps. (from 0.7% in Spain to 1.5% in the UK), and in 2017 by 0.7 pps. (from 1.2% in Spain to 1.9% in Italy and in Poland). The difference in rates reflect several factors including GDP growth, wage growth pressures, convergence in price levels, and the different impact of exchange rate and commodity price movements, which depend on the composition of national HICPs and industrial structures.

Another factor behind inflation differences are relative price adjustments within the euro area. In several stressed countries, external re-balancing required increases in price competitiveness that

(46) See ECB, 'Inflation risk premia in market-based measures of inflation expectations', *ECB Monthly Bulletin*, July 2014, pp. 34–36 (Box 4).

(47) For more detail on calculating and interpreting base effects see ECB, 'Base effects and their impact on HICP inflation in early 2005', *ECB Monthly Bulletin*, January 2005, pp. 31-33 (Box 3), and ECB, 'Base effects from the volatile components of the HICP and their impact on inflation in 2014', *ECB Monthly Bulletin*, February 2014, Box 6, pp. 51–53.

(48) For an exposition of base effects in 2016 see L.Vilmi, 'Inflation developments in the euro area – an update', *Quarterly Report on the Euro Area* (European Commission – DG ECFIN), 2015, Vol. 14, No. 3, pp. 29–33.

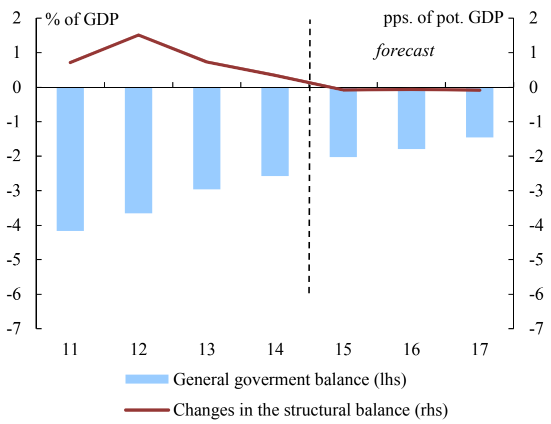
had to be achieved through a relative adjustment of prices, which is more difficult in times of low inflation. The relative price adjustment is reflected in inflation dispersion, especially within the euro area but also across Member States.

8. PUBLIC FINANCES

General government deficits set on a declining path...

The outlook for public finances continues to be favourable in the euro area and the EU, mainly on the back of the continuing economic recovery and lower interest expenditure resulting from the non-standard monetary policy measures initiated by the ECB (see Graph I.50). In 2015, the aggregate general government deficit is projected to decline to 2.0% of GDP in the euro area and 2.5% in the EU. The general government deficit is expected to continue declining in 2016 to 1.8% in the euro area and 2.0% of GDP in the EU. Under a no-policy-change assumption, the general government deficit is set to narrow further in 2017, to 1.5% and 1.6% of GDP in the euro area and the EU, respectively.

Graph I.50: **Budgetary developments, euro area**

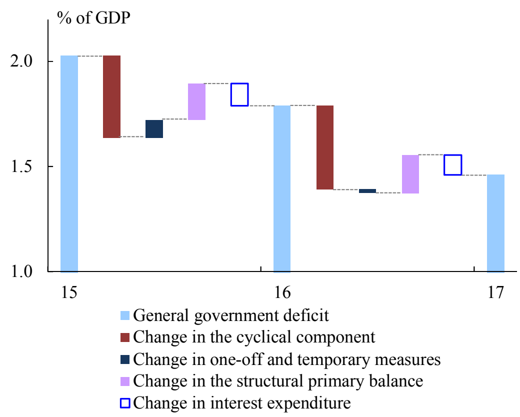


...while structural balances remain broadly stable.

Following substantial fiscal adjustment over the last few years, the fiscal policy stance as measured by the change in the structural balance, i.e. the general government budget balance corrected for cyclical factors, one-offs and other temporary measures, is expected to be broadly neutral in 2015 in both the euro area and the EU. Next year, the structural balance is foreseen to remain roughly stable in the euro area, while limited fiscal consolidation is forecast in the EU. The difference between both areas is due to the improvement in the structural balance in some Member States outside the euro area, in particular the United Kingdom, Denmark, the Czech Republic, Poland and Bulgaria. Looking ahead into 2017, under a no-policy-change assumption, the structural balance is expected to remain broadly unchanged in both areas.

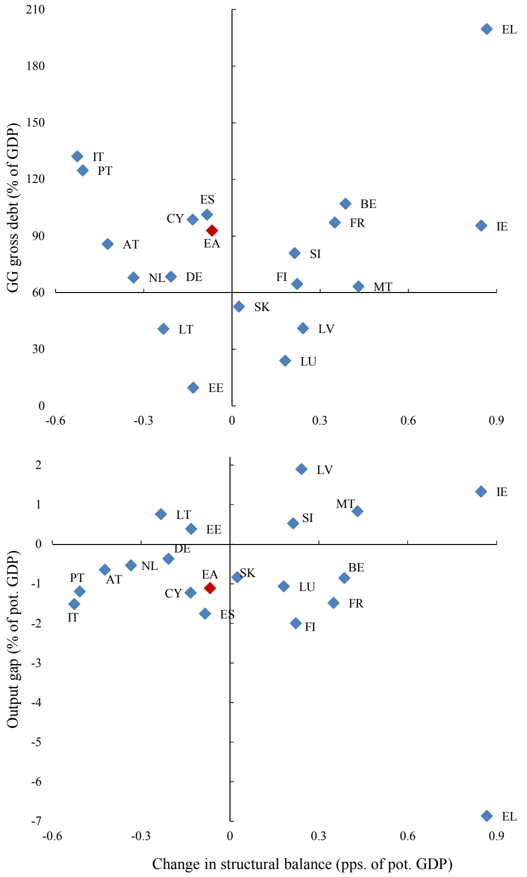
In the euro area in particular, the economic recovery and lower interest expenditure are set to contribute 0.4% and 0.1% of GDP, respectively, to the overall improvement in the general government deficit-to-GDP ratio in 2016 compared to the previous year (see Graph I.51). However, these deficit-reducing effects are projected to be partially offset by a deterioration in the structural primary balance by 0.2% of GDP. In 2017, under a no-policy-change assumption, the positive contributions to the change in the general government deficit stemming from the euro area economic cycle and the lower interest expenditure component as well as the negative effect from the worsening of the structural primary balance are set to remain roughly unchanged.

Graph I.51: **Breakdown of the change in the general government deficit in the euro area, 2015-17**



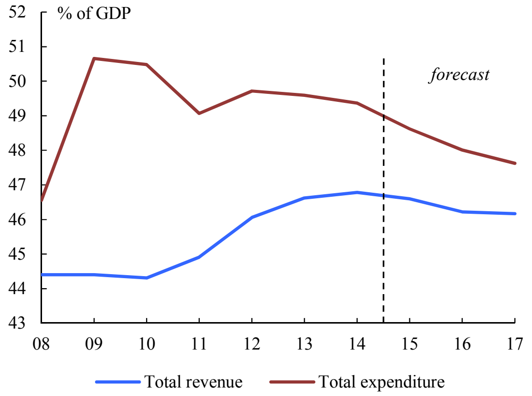
The broadly neutral fiscal policy stance in the euro area on aggregate should support the economic recovery in 2016, although the aggregate figure masks considerable differences among countries. A loosening in the fiscal stance is expected in seven of the Member States where negative output gaps are expected to remain in 2016, while additional fiscal consolidation is projected in the remaining six. In turn, among the Member States where real GDP is expected to be above potential in 2016, the structural balance is expected to deteriorate in two countries, while a restrictive fiscal policy stance is envisaged in the other four (see Graph I.52).

Graph I.52: **Fiscal stance in 2016 – structural balance vs. debt ratio and output gap, euro area and Member States**



deficit over the forecast horizon is set to be driven mainly by lower government expenditure in both the euro area and the EU (see Graph I.53). This is projected to be partially offset by a reduction in government revenue, notably stemming from a lower tax burden on labour income. This could already signal a gradual rebalancing towards a more growth-friendly composition of public finances which could support the growth momentum over the forecast horizon, but also the employment outlook.

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



The expenditure-to-GDP ratio in the euro area is expected to decline steadily over the forecast horizon from 48.6% in 2015 to 47.6% in 2017, on account of the operation of automatic stabilisers, such as lower social transfers, as the economic recovery progresses, cost-containment in public wages, and lower interest expenditure as a result of the accommodative monetary policy environment. However, this expenditure reduction is expected to be partly offset by additional budgetary costs associated with the arrival of a substantial number of asylum seekers in some Member States. Although the composition of government spending could be effective in boosting economic growth,

As regards sustainability needs, although Member States with a higher general government gross debt ratio are in general expected to strengthen their fiscal effort, this is not always the case (see Graph I.52).

Expenditure-driven fiscal consolidation...

The reduction in the aggregate general government

Table I.6:

General Government budgetary position - euro area and EU

(% of GDP)	Euro area				*Spring 2015 forecast*		EU				*Spring 2015 forecast*	
	2014	2015	2016	2017	*2015*	*2016*	2014	2015	2016	2017	*2015*	*2016*
Total receipts (1)	46.8	46.6	46.2	46.2	*46.6*	*46.2*	45.2	44.9	44.6	44.5	*45.0*	*44.6*
Total expenditure (2)	49.4	48.6	48.0	47.6	*48.6*	*48.0*	48.2	47.4	46.6	46.1	*47.4*	*46.7*
Actual balance (3) = (1)-(2)	-2.6	-2.0	-1.8	-1.5	*-2.0*	*-1.7*	-3.0	-2.5	-2.0	-1.6	*-2.5*	*-2.0*
Interest expenditure (4)	2.7	2.4	2.3	2.2	*2.5*	*2.4*	2.5	2.3	2.2	2.1	*2.4*	*2.3*
Primary balance (5) = (3)+(4)	0.1	0.4	0.5	0.8	*0.4*	*0.7*	-0.5	-0.1	0.2	0.5	*-0.1*	*0.3*
Cyclically-adjusted budget balance (a)	-1.2	-1.0	-1.2	-1.3	*-0.9*	*-1.1*	-1.8	-1.7	-1.6	-1.5	*-1.6*	*-1.6*
Cyclically-adjusted primary balance (a)	1.4	1.4	1.1	1.0	*1.6*	*1.3*	0.7	0.6	0.6	0.6	*0.8*	*0.7*
Structural budget balance (a)	-1.0	-1.1	-1.2	-1.2	*-0.9*	*-1.1*	-1.7	-1.8	-1.6	-1.5	*-1.6*	*-1.6*
Change in structural budget balance (a)	0.3	-0.1	-0.1	-0.1	*0.0*	*-0.2*	0.1	-0.1	0.2	0.1	*0.0*	*0.0*
Gross debt	94.5	94.0	92.9	91.3	*94.0*	*92.5*	88.6	87.8	87.1	85.8	*88.0*	*86.9*

(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.

Table I.7:
Euro-area debt dynamics

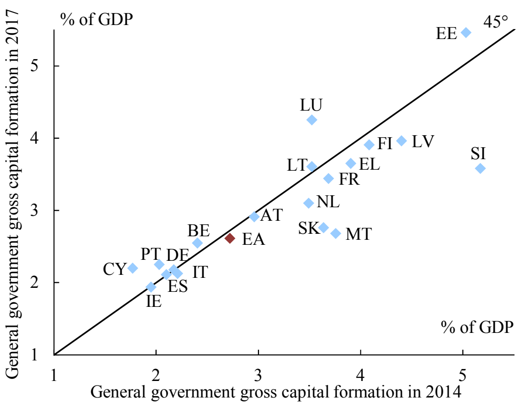
	Average 2004-11	2012	2013	2014	2015	2016	2017
General government gross debt ratio[1] (% of GDP)	**73.3**	**91.3**	**93.4**	**94.5**	**94.0**	**92.9**	**91.3**
Change in the ratio	2.2	4.6	2.1	1.1	-0.5	-1.1	-1.6
Contributions to the change in the ratio:							
1. Primary balance	**0.3**	**0.6**	**0.2**	**-0.1**	**-0.4**	**-0.5**	**-0.8**
2. "Snow-ball" effect[2]	**0.6**	**2.7**	**1.9**	**1.0**	**0.0**	**-0.4**	**-0.8**
Of which:							
Interest expenditure	2.9	3.0	2.8	2.7	2.4	2.3	2.2
Growth effect	-2.0	0.8	0.3	-0.8	-1.5	-1.6	-1.7
Inflation effect	-0.4	-1.1	-1.2	-0.8	-1.0	-1.1	-1.3
3. Stock-flow adjustment	**1.2**	**1.3**	**0.0**	**0.1**	**0.0**	**-0.1**	**0.0**

[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.

the public investment-to-GDP ratio is forecast to increase over the forecast horizon in only eight euro area Member States (see Graph I.54) and to fall slightly further in the euro area as a whole.

Graph I.54: **General government gross capital formation, euro area and Member States**



The revenue-to-GDP ratio in the euro area peaked at 46.8% in 2014 and is set to gradually decrease up to 2016 to 46.2% and to remain at that level in 2017, under a no-policy-change assumption. The estimated decrease reflects a declining weight of social contributions and taxes on labour income in 2015-2017 in the government revenue component, amid recent reforms introduced in a number of Member States to reduce the tax wedge on labour.

...and gradually diminishing debt ratios.

The aggregate general government debt-to-GDP ratio is forecast to decline from the peaks reached in 2014 of 94.5% in the euro area and 88.6% in the EU. In the euro area, the decrease in the public debt ratio over the forecast horizon is projected to be slightly stronger than in the EU, with the general government debt falling to 94.0% of GDP in 2015 and, under the no-policy-change assumption, gradually to 91.3% of GDP in 2017. In particular, the debt-reducing contributions of the higher primary surplus and stronger nominal GDP growth – underpinned by both higher real GDP growth and inflation – are expected to fully offset the still sizeable, yet gradually diminishing, interest burden on the high debt overhang (see Table I.7). In the EU, the general government debt-to-GDP ratio is forecast to decline to 87.8% in 2015 and, assuming no policy changes, to 85.8% in 2017.

9. RISKS

The uncertainty surrounding the outlook shows few signs of abating. Heightened global risks and a shallower-than-forecast rebound in inflation have recently added a new layer of uncertainty. Thus, the probability distribution surrounding the central scenario of the autumn forecast looks different from the spring.

External downside risks have increased ...

On the downside, the impact of the weakness in some emerging market economies could turn out to be larger than envisaged. In particular a 'hard landing' in China would create substantial risks for the continuation of the global recovery and the dynamics of global trade. However, the expected impact from monetary policy normalisation in the US (mainly the pace of the tightening) could have an even more negative impact on emerging market economies and thereby on the Member States than envisaged in the central scenario.

Any further weakness and uncertainty in the global economy could negatively affect the growth outlook via trade (e.g. lower demand for European exports via higher long-term interest rates in destination countries) and financial linkages (e.g. via financial market spillovers that raise the funding costs for companies, households, and governments). Surprises in the normalisation process of US interest rates could be one of a number of possible triggers that endanger stability in financial markets and result in abrupt asset valuation shifts. This could add to volatility that might already have a more negative impact on economic activity than expected in the central scenario.

Geopolitical tensions are keeping uncertainty at high levels and could become a larger impediment to investment spending than currently expected. Moreover, the difficulty of arriving at EU solutions in key policy areas such as migration, other remaining uncertainty, e.g. about the referendum on EU membership in the UK, or a re-lapsing into crisis in Greece, could weigh more heavily on investment decisions and thus on economic growth.

On the domestic side, legacy of the crisis may continue to weigh more heavily on investment activity than expected, for example through persistent deleveraging needs in the corporate sector and non-performing loans on bank balance sheets which inhibit credit supply. Also on the downside, the public perception of the increased number of refugees could impact negatively on economic confidence (e.g. increased unemployment fears among the native population) and thereby lower the growth momentum of private consumption.

The impact of Volkswagen's manipulation of car emissions testing could have a negative impact on car sales, manufacturing output and real GDP growth in some Member States, notably Germany.

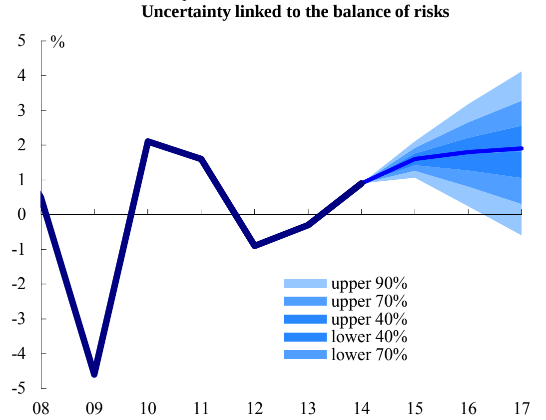
...whereas migration into the EU features among the upward risks.

On the upside, a stronger-than expected revival in global growth dynamics and world trade could push demand for European exports more than expected and result in stronger growth dynamics. A more favourable impact from already implemented and future structural reforms, or the Investment Plan for Europe, could provide an additional push to economic growth. Although lower-than-assumed oil prices would in principle be an upside risk to economic growth, their benefit might in practice prove less than in the past because they would most likely occur in response to the materialisation of downside risks such weaker global demand, caused perhaps by a 'hard landing' in China and contagion to other emerging market economies. A smoother-than-expected transition of refugees to employment or a larger-than-expected number of refugees constitute upside risks to the short-term growth outlook.

Overall the balance of risks to growth moves to the downside...

The balance of risks to the growth outlook has moved to the downside in recent months as the outlook for the global economy has deteriorated. This is visible in asymmetric confidence intervals in the fan chart (see Graph I.55), which depicts the probabilities associated with various outcomes for euro area economic growth over the forecast horizon and shows the most likely development in the darkest area.

Graph I.55: **Euro area GDP forecast - Uncertainty linked to the balance of risks**



...while risks to the inflation outlook are balanced.

Some of the previously identified downside risks to inflation, such as lower-than-assumed oil prices, have materialised and entered the central scenario. Further increases in global uncertainty and risk aversion could result in safe haven flows into EU currencies which would appreciate and lower external price pressures more than currently expected. Weaker-than-expected external developments could lower pressures and inflation, but the opposite would happen if the external environment developed more favourably than expected. Further downside risks relate to lower wage and price setting due to a de-anchoring of inflation expectations or increased price competition thanks to structural reforms.

Technical assumptions for commodity prices and exchange rates remain a source of upside and downside risks. For instance, renewed financial market turmoil could strengthen the role of the euro as a safe haven currency which could result in an appreciation of the euro, creating downward inflationary pressures.

Overall, after the downward revision incorporated in the central scenario in autumn, the risks to the inflation outlook are broadly balanced.

Box I.1: A first assessment of the macroeconomic impact of the refugee influx

Europe is facing an unprecedented influx of asylum seekers, which has put considerable strain on several EU countries. The arrival of large numbers of asylum seekers mirrors global developments where the number of persons displaced by war, conflict or persecution reached a high of nearly 60 million in 2014 according to the UN refugee agency [(1)], up by more than 8 million compared to 2013. Syria is by now the largest country of origin with 7.6 million persons internally displaced and 3.9 million refugees at the end of 2014, followed by Afghanistan (2.6 million refugees) and Somalia (1.1 million refugees).

Against this backdrop, the number of refugees, displaced persons and other migrants that have made their way to Europe rose by almost 50% in 2014. A further, sharp increase has occurred in the first three quarters of this year, though there is considerable uncertainty as to the exact number and composition of persons arriving. According to Frontex, the EU border agency, more than 710,000 migrants entered the EU in the first three quarters of 2015 (up from 282,000 in total in 2014). A vast majority of them arrived in three countries: Greece, Hungary and Italy; receiving 350,000, 204,000 and 129,000 persons, respectively, by end September. These numbers refer to a broad group of people containing both potential asylum seekers as well as other types of migrants (note that the data refer to irregular crossing of borders). [(2)] Focusing on asylum seekers alone, more than 1.2 million persons have applied for asylum in the EU since the start of 2014.

Differences among available data sets are sizeable and reflect differences in definitions and coverage, double-counting (e.g. of irregular migrants applying for asylum in several Member States) or under-counting (related to unreported irregular border crossings). Although considerable efforts have been made to complement data from Eurostat by reviewing data from different international institutions, as well as EU and Member States' agencies, data availability and reliability remain a source of uncertainty when trying to assess the macroeconomic impact of these flows at the current juncture.

The sharp rise in the arrival of asylum seekers has put considerable strains on several Member States, both *transit* and *destination* countries [(3)], that have seen their capacity to receive them tested, sometimes amid political and social tensions. However, it should be noted that an inflow of about one million persons into the EU in 2015 [(4)] as a whole would correspond to just 0.2% of the total population. This is markedly less than e.g. the increase in foreign-born population by more than 6 million persons (or 15%) in Spain alone between 1995-2008. The number also pales when compared to Syria's neighbouring countries. [(5)] Depending on how the situation in Syria and its neighbouring countries develops (as well as other parts of MENA, South Asia and Africa), a sustained further rise in the influx of migrants cannot be excluded.

This forecast contains a first assessment of the impact of the larger-than-expected inflows of asylum seekers on the economies of the EU. It is based on the flows up until the third quarter of this year whilst applying a technical assumption for the remainder of the forecast period of a sustained high level (basically keeping the inflows at the level of 2015-Q3 until end of 2016 unless domestic sources provide more well-founded estimates). For 2017, a gradual normalisation of the flows and the recognition rate are assumed (see tables 1 and 2 for the data used for the countries most affected). Overall, an additional 3 million persons is assumed to arrive in the EU over the forecast period. This

(1) UNHCR (2015) annual Global Trends Report: World at War, June.

(2) Note that the term *asylum seeker* is not equal to *refugee* or *migrant*. Under EU law, an asylum-seeker has applied for asylum and is awaiting a decision. If successful, the individual obtains international protection (i.e. either a refugee status or a subsidiary protection status). In this text, the term refugee is used for all "beneficiaries of international protection". The more general term migrant covers third-country nationals establishing their usual residence in an EU Member State for a period that is, or is expected to be, at least 12 months. It therefore includes refugees, labour migrants as well as family-unification migrants. Unsuccessful asylum seekers who do not leave the host county are considered irregular migrants just as those who cross borders illegally.

(3) *Transit country* refers to the country/countries through which migration flows (whether regular or irregular) move through, from the *country of origin* in order to enter the *country of destination*. It should be noted that some Member States may be both a transit and a destination country.

(4) Also with a substantial period of 2015 behind us, the uncertainty surrounding the influx thus far and its future development is substantial. Based on border crossing in the most recent period, it cannot be excluded that the technical assumption of an inflow of 1 million persons in 2015 will prove too low.

(5) Turkey hosts more than 2 million Syrians by end Sep. according to UNHCR estimates while Syrian refugees make up about 20% of the population of Lebanon by now (and almost 8% of that of Jordan).

(Continued on the next page)

Box (continued)

corresponds to an increase in the population of 0.4% after taking into account that some asylum seekers will not qualify for international protection.

Full economic impact cannot be measured at this stage

Short-term impact via higher public spending…

The impact is expected to differ across the EU. This reflects not only differences in the size of the flows, but importantly whether the asylum seekers transit or stay (and if the latter, for how long); are granted asylum or rejected (and the extent that those who are rejected stay irregularly); and differences in the legal provisions to access the labour market. The impact will also be affected by the economic structure of the Member State and its work force; characteristics of the refugees (e.g. the extent they complement or substitute the native work force in terms of age and skills) and lastly of the host countries' capacity to integrate those that will be granted international protection status.

Table 1:
Refugee inflows for main transit countries

	Italy		Greece		Hungary[1]	
	2014	2015	2014	2015	2014	2015
Non-EU national arrivals	170,000	165,000	40,000	500,000	20,000	250,000
Asylum applicants	65,000	83,000	7,500	12,000	40,000	300,000
Total decisions	35,000	52,000	13,000	10,000	5,000	3,500
Positive decisions	20,000	25,000	2,000	5,000	500	500
Recognition rate	57%	48%	15%	50%	10%	14%
Population ('000)	60,783	60,796	10,927	10,812	9,877	9,849
Asylum applicants (% of population)	0.11%	0.14%	0.07%	0.11%	0.40%	3.05%
Refugees (% of populaton)	0.03%	0.04%	0.02%	0.05%	0.01%	0.01%

Sources: Irregular border crossings for 2014 in Italy (referred to arrivals by sea) and Greece are based on UNHCR data; irregular border crossings in Hungary are based on FRONTEX data; estimations for 2015 irregular border crossings are based on technical assumptions. Remaining data for 2014 from ESTAT, 2015 data derived applying technical assumptions on ESTAT data.
Notes: According to FRONTEX, in the second half of September, Croatia has emerged to be a relevant transit country with an estimated 97,000 people crossing its border. However, the effects are not yet visible in the number of asylum applications submitted within the country.
[1] The number of asylum applications for 2015 in Hungary is bigger than the number of non-EU arrivals for the same year as it includes applications submitted in previous years and applications made by non-reported irregular border crossings. The majority of applications submitted in Hungary are not reviewed within the country as typically applicants moved to other EU MSs.

For Member States that are to a large extent *transit countries*, additional public spending typically relates to rescue operations, border protection (esp. if managing an external EU border), registration of asylum seekers and the short-term provision of food, healthcare and shelter. For *destination countries*, spending also includes elements like social housing, (language) training and education. [6]

The extent to which this additional spending will affect a country's budget balance depends on the use of contributions by e.g. the EU's Asylum, Migration and Integration Fund' [7], or the European Structural and Investment Funds and to which extent other revenues and expenditures are adapted. If net spending is increased, the additional public consumption and investment raises GDP growth (albeit less than proportionally, assuming a fiscal multiplier below 1). For destination countries, an additional impact on growth can come via a larger labour force, although with a certain lag as processing asylum applications, integration, recognition of qualifications, training etc. usually take time.

…is moderate, albeit more pronounced for some countries.

While unevenly distributed across countries, the estimated additional public expenditure related to the arrival of asylum seekers is limited for most EU Member States. For the most affected transit countries, the currently-estimated effect on the headline balance amounts to a maximum of 0.2% of GDP in 2015, broadly stabilising in 2016. For destination countries, the impact amounts to a maximum of 0.2% of GDP in 2015, with a small further increase in some countries in 2016. In Sweden, which has among the highest share of refugees as a percentage of the population in the EU, the impact on the headline balance is expected to be closer to 0.5% of GDP this year. The corresponding positive effects on growth would be somewhat smaller.

In the medium to long term, labour-market integration matters most

Literature on the economic impact of migration in the medium term is rich and often focuses on the EU and the US as receiving countries. Studies from the International Organisation for Migration (IOM)

(6) Besides support during the reception period for the larger group of asylum seekers, some integration-related spending may affect destination countries also beyond the forecast horizon.

(7) AMIF is a substantial funding instrument to support efforts made at the EU and Member State level to manage the refugee influx within the 'European Agenda on Migration'. Support is also given to third countries, e.g. via more financial resources for UNHCR and the World Food Programme. Overall, an additional funding of EUR 9.2 billion have been allocated to address the refugee crisis over 2015-16.

(Continued on the next page)

Box (continued)

Table 2:

Refugee inflows for main destination countries

	EU 28		Germany		Sweden		France		UK		Austria		Belgium		Netherlands	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Asylum applicants	550,000	1,200,000	170,000	430,000	75,000	165,000	60,000	60,000	32,000	40,000	25,000	46,000	15,000	38,000	22,000	40,000
Total decisions	357,000	550,000	130,000	250,000	53,000	60,000	68,000	73,000	26,000	40,000	n.a.	n.a.	20,000	20,000	19,000	22,000
Positive decisions	160,000	275,000	58,500	137,500	30,000	34,000	15,000	16,000	10,000	13,000	2,300	10,000	8,000	10,000	13,000	15,000
Recognition rate	45%	50%	45%	55%	57%	57%	22%	22%	38%	33%	-	-	40%	50%	68%	68%
Population ('000)	506,881	508,191	80,767	81,174	9,645	9,747	65,836	66,352	64,351	64,767	8,507	8,585	11,204	11,258	16,829	16,901
Asylum applicants (% of population)	0.11%	0.24%	0.21%	0.53%	0.78%	1.69%	0.09%	0.09%	0.05%	0.06%	0.29%	0.54%	0.13%	0.34%	0.13%	0.24%
Refugees (% of populaton)	0.03%	0.05%	0.07%	0.17%	0.31%	0.35%	0.02%	0.02%	0.02%	0.02%	0.03%	0.12%	0.07%	0.09%	0.08%	0.09%

Sources: ESTAT and national bodies [for DE, German Ministry of Economics and BAMF; for SE, Swedish Migration Agency (between 140,000 and 190,000 of asylum applications forecasted for 2015); for BE, CGVS; for UK, Home Office; for NL and AT, national governments]. Figures for 2015 are from national bodies' forecasts or estimations derived through technical assumptions and based on ESTAT data or national databases. For France and UK, the number of decisions in 2015 is higher than number of applications received probably due to pending applications from 2014 reviewed in 2015.

Notes: Recognition rate is the ratio between positive decisions and total decisions. Total decisions and positive decisions include only First instance decision as Final decision figure is not available for 2015.
For DE, estimations for 2015, based on EASY system and BAMF: 1 million arrivals, 800,000 newregistrations to residents' 'registration offices', 700,000 net population inflows, around 430,000 applications.
EU 28 number for asylum applicants is not the sum of single MS figures as applicants in transit countries might also apply in other destination countries (e.g. asylum applications in Hungary).

and the OECD, among others, typically point to a small impact on growth and public finances in the medium term, which can be positive when migrants are well integrated into host country labour markets. For example, the fiscal impact of cumulative waves of migration has been close to zero in the OECD on average over the past 50 years (rarely exceeding +/-0.5%). [8] However, the fiscal impact tends to vary according to the category of migrants, with labour migrants generally having the largest positive impact (see also section I.1).

Thus in the medium to long run, budgetary positions can improve. Research indicates that non-EU migrants typically receive less in individual benefits than they contribute in taxes and social contributions. Employment is usually the single most important determinant of a migrant's net fiscal contribution. For Member States with an ageing population and shrinking workforce, migration can alter the age distribution in a way that may strengthen fiscal sustainability [9] – yet, if the human potential is not used well, the inflow can also weaken fiscal sustainability. Moreover, while migration flows can partly offset unfavourable demographic developments, earlier studies have shown that immigration could not on its own solve the problems linked to ageing in the EU. [10]

Turning to the functioning of labour markets, migrants can improve the adjustment capacity to regional differences or shocks by taking on jobs in sectors where natives may be unwilling to work and by being more responsive than natives to regional differences in economic opportunities. Immigration can also contribute to an increase in human capital going beyond the purely quantitative impact of an increase in the labour force, but that depends crucially on education and skill levels, which in turn are critical to determining the degree of substitution or complementarity between immigrant and native workers. Past experiences have shown that the impact on wages and employment can be negative for some groups of native workers, typically among the low-skilled. [11] At the same time, literature shows a positive distributional effect on native workers that complement the immigrant workforce. Overall, immigration appears to have no obvious or little impact on native unemployment levels.

Applying such results in the current situation needs to be done with care, however. Refugees are a diverse group and may, moreover, not have the same profile (country of origin, age, gender, education and skillset) as the wider group of migrants considered in earlier studies. Reliable data on the education level of the people in the current migration wave are still scarce, but information gleaned so far suggests it may be comparatively low. [12] Refugees are more likely than labour migrants to work below their qualification level (partly because of language problems and partly because prior qualifications and experiences

(8) OECD Migration Policy Debates, May 2014: Is migration good for the economy?

(9) The World Bank noted in its Global Monitoring Report 2015/16 how *"migration can help countries to adjust to uneven demographic change… and that the global economic dividends they can bring can be considerable"*.

(10) See, for example, the 2015 Ageing Report at http://ec.europa.eu/economy_finance/publications/european_economy/2015/ee3_en.htm.

(11) See, inter alia, http://wol.iza.org/articles/do-immigrant-workers-depress-the-wages-of-native-workers and http://wol.iza.org/articles/do-migrants-take-the-jobs-of-native-workers.

(12) See, for example, IAB, *'Asyl- und Flüchtlingsmigration in die EU und nach Deutschland.'* Aktuelle Berichte 8/2015, IAB, *'Flüchtlinge und andere Migranten am deutschen Arbeitsmarkt: Der Stand im September 2015.'* Aktuelle Berichte, 14/2015.

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Box (continued)

obtained outside the host country are sometimes undervalued, according to some studies). [13] While wages tend to catch up over time, they generally start from a very low level for refugees. Lastly, the employment rate of refugees is inclined to catch up to those of other migrants over time, albeit stopping short of reaching the ones of labour migrants. [14] Labour-market outcomes thus crucially depend on how quickly and how well refugees are integrated.

Stylised scenarios for a tentative impact 'guesstimate'

In view of the significant uncertainties in estimating the current inflows in terms of size and composition during 2015-17 (let alone future ones), this assessment of their economic impact will need to be updated and refined as more information becomes available.

To serve as an illustration of the possible medium-term impact, simulations have been carried out using DG ECFIN's global macroeconomic model QUEST for the EU as a whole and for Germany (which is receiving the largest number of asylum seekers). They serve to see how a 'shock' to the population, with different assumptions on skill levels as regards the newly arrived [15], may affect growth, public finances and labour markets.

These simulations are based on a number of technical assumptions, such as an expected additional increase in the EU population of 1 million people this year, 1.5 million in 2016 and about half a million in 2017. Assuming that some asylum applications are rejected, this corresponds to an increase in the population of 0.4% at most. It is thereafter assumed to gradually revert to inflow levels seen in recent years. Using round figures should facilitate a scaling up (or down) of the results as more information becomes available, providing better estimates on inflows.

Other assumptions underlying the simulations concern recognition (of refugee status) and labour-force participation rates, where the recognition rate is assumed to be 50% [16] and about ¾ of the accepted applicants are assumed to be of working age. As a result, this implies an increase in the EU labour force of about 0.1% by the end of 2015 and by 0.3% in both 2016 and 2017. Lastly, the fiscal cost [17] is expected to have a full impact on budgetary balances, implying higher deficits (or lower surpluses) and debt levels, for illustrative purposes.

The impact from higher public spending and a larger labour force with a skillset similar to the existing one in the EU is expected to:

– contribute to a small increase in the level of GDP this year and next, compared to a baseline scenario, rising to about ¼% by 2017. This however is less than the rise in the underlying population, implying a small, negative impact on GDP per capita throughout the period; and

– strengthening the outlook for employment (which is expected to improve gradually to about 0.3% more employed persons by 2017), in part from a wage response. [18]

Table 3:
Combined effects of increase in spending and labour force - skillset as natives*

	2015	2016	2017	2018	2019	2020
GDP	0.09	0.21	0.26	0.27	0.26	0.26
GDP per capita	-0.11	-0.15	-0.06	-0.05	-0.06	-0.06
Employment	0.06	0.22	0.30	0.31	0.31	0.31
Current account % GDP	-0.01	-0.02	-0.03	-0.03	-0.03	-0.03
Real.wages	-0.08	-0.20	-0.25	-0.22	-0.18	-0.16
Gov Debt (% of GDP)	-0.05	-0.08	-0.03	0.01	0.01	-0.02
Gov balance (% of GDP)	0.00	-0.04	-0.04	0.00	0.03	0.05

* Level difference compared to base-line scenario

(13) For a further discussion see, for example, the "*qualifications of immigrants and their value in the labour market: a comparison of Europe and the US*", in OECD/European Union, 2014, Matching Economic Migration with Labour Market Needs.

(14) OECD Migration Policy Debates, Sep. 2015: Is this humanitarian migration crisis different?

(15) To understand the importance of skill distribution, two extreme cases are considered. In one scenario, migrants are assumed to have a skill distribution that is proportional to the existing one within the EU (high). With the limited information available so far suggesting a lower skill level than the native population, in a second scenario (low), all migrants are assumed to be low skilled.

(16) The increase in the recognition rate compared to 2014 reflects, above all, a composition effect with a higher share of e.g. Syrian migrants.

(17) The fiscal spending is assumed to evolve in line with migrant flows and to amount to 30% of GDP per capita per migrant, on average. This is based on cost estimates of around EUR 12,000 per migrant in the case of Germany. It is moreover assumed to be partly government consumption and partly targeted transfers to liquidity-constrained consumers.

(18) In the model, a fall in wages compared to baseline brings the labour market back into equilibrium. This is partly reflecting a composition effect as earlier studies point to relatively low wages for refugees when entering the labour market. By contrast, empirical studies show mixed results on whether immigration lowers the wages of native workers primarily reflecting the degree of substitution or complementarity (see also section I.1).

(Continued on the next page)

Box (continued)

The impact on public finances is very limited according to this simulation, based on the assumed temporary nature of the additional expenditure.

Turning to the second simulation where the increase in the labour force is based on low-skilled workers, the positive impact on growth is more limited. GDP is in this case expected to be close to 0.2% higher in the medium term (see table 4). The difference on the employment outlook is less pronounced, which partly reflects how the model predicts stronger downward pressure on real wages further out.

Table 4:

Combined effects of increase in spending and labour force - lowskilled*

	2015	2016	2017	2018	2019	2020
GDP	0.06	0.14	0.18	0.17	0.17	0.17
GDP per capita	-0.14	-0.22	-0.14	-0.14	-0.15	-0.15
Employment	0.04	0.18	0.25	0.28	0.29	0.29
Current account % GDP	0.00	-0.01	-0.02	-0.03	-0.03	-0.02
Real.wages	-0.02	-0.12	-0.18	-0.20	-0.20	-0.20
Gov Debt (% of GDP)	-0.03	-0.02	0.06	0.14	0.19	0.21
Gov balance (% of GDP)	-0.02	-0.07	-0.08	-0.05	-0.02	0.00

* Level difference compared to base-line scenario

In order to illustrate how an individual EU country could be more affected by large inflows, a similar set of simulations have been undertaken for Germany. (19) The scenario where the newly-arrived are assumed to have the same skill set as the native population points to an increase in GDP of about 0.2% this year, rising to 0.4% in 2016 and about 0.7% higher than a baseline scenario by 2020.

Table 5:

Combined effects of increase in spending and labour force for Germany - skillset as natives*

	2015	2016	2017	2018	2019	2020
GDP	0.16	0.43	0.56	0.67	0.71	0.72
GDP per capita	-0.69	-0.60	-0.51	-0.43	-0.34	-0.30
Employment	0.20	0.56	0.77	0.92	0.99	1.00
Current account % GDP	-0.03	-0.08	-0.11	-0.12	-0.11	-0.10
Real.wages	-0.23	-0.51	-0.61	-0.63	-0.60	-0.56
Gov Debt (% of GDP)	-0.01	0.17	0.42	0.63	0.81	0.90
Gov balance (% of GDP)	-0.10	-0.25	-0.22	-0.21	-0.13	-0.05

* Level difference compared to base-line scenario

Should the influx consist of low-skilled workers only; the impact on growth is reduced to 0.4-0.5% in the medium term. The model impact is primarily driven by the larger labour force in both simulations. As a result, employment is set to increase by about 1% in 2020 in both scenarios, reflecting also stronger downward pressure on real wages.

Table 6:

Combined effects of increase in spending and labour force for Germany - lowskilled*

	2015	2016	2017	2018	2019	2020
GDP	0.12	0.31	0.38	0.46	0.47	0.47
GDP per capita	-0.73	-0.72	-0.69	-0.65	-0.58	-0.55
Employment	0.19	0.52	0.72	0.87	0.94	0.96
Current account % GDP	-0.02	-0.06	-0.08	-0.10	-0.10	-0.09
Real.wages	-0.13	-0.37	-0.55	-0.64	-0.68	-0.69
Gov Debt (% of GDP)	-0.01	0.16	0.45	0.72	0.98	1.16
Gov balance (% of GDP)	-0.11	-0.27	-0.27	-0.27	-0.21	-0.15

* Level difference compared to base-line scenario

Summing up and notwithstanding the unprecedented migration flows into the EU during this year and next, the economic impact is expected to be relatively small in the medium term, raising the level of GDP by 0.2-0.3% above the baseline by 2020. As illustrated in the simulations for Germany, the impact may be more significant for certain countries (and for destination countries more than transit ones looking beyond the immediate time horizon).

Recalling the substantial uncertainty surrounding the assumptions underpinning these stylised simulations; should the technical assumptions of an inflow of 3 million people over the forecast period prove too high, the model results yield relatively linear results. Assuming a lower influx of 2 million over 2015-17, the impact on GDP could be expected to be around 0.1-0.2% higher (than a baseline scenario).

There is considerable uncertainty surrounding the numbers involved and these estimates also depend on assumptions about skills and integration patterns which may differ from those in previous studies. As a result, these studies may provide only a partial guide to assessing the current situation and the margin of error in this estimate may be higher than usual, both on the positive and the negative side.

(19) The *net* population assumptions for Germany are 700,000 this year, 530,000 in 2016 and 255,000 in 2017. Taking into account that some asylum applications are rejected, this corresponds to an increase in the population of 1.8% in total.

Box I.2: Spill-overs from the slowdown in China on the EU economy- channels of contagion

Rebalancing in China

Growth in China has slowed from over 10% in 2010 to 7.3% in 2014 and is expected to slow further as China moves away from an excessively investment-dependent growth model. Concerns over the pace of the slowdown and the risk of a 'hard landing' have heightened in recent months amid the collapse of the equity bubble in Chinese markets in July, China's weak trade data in the first half of 2015, and a growing awareness of the practical difficulties of engineering a smooth rebalancing of the Chinese economy. Changes to the Chinese yuan (CNY) currency regime in August, which were made to align exchange rate movements closer to market forces, were read by many as a signal that the Chinese authorities were increasingly concerned by domestic economic weakness, leading to turbulence in global financial markets. The aim of this box is to examine the various channels of influence through which slower growth in China affects the EU. The box also considers contagion from a sharper slowdown in China than currently envisaged in the central scenario (see forecast text for China, Part II, Chapter 36).

The potential spillovers of slower Chinese growth are complex and inter-linked. Apart from direct trade and financial linkages between the EU and China, there are indirect channels operating via countries heavily exposed to China. Vulnerable emerging markets and commodity producers may face a combination of lower export demand and low commodity prices and may see some downward adjustment in their exchange rates as global capital flows respond to the shifting environment. Given the fragile state of the global economy, in which recovery from the 2008-09 financial crisis remains tepid, there is a potential for more abrupt adustments in asset prices and global risk premia should sentiment about the global outlook worsen significantly.

Direct trade channel

China is the EU's largest trade partner, but only the second largest source of export demand, with China taking some 3.6% of total EU goods exports. While trade exposure to China remains limited, EU exports to China have grown twice as fast as the total EU exports over the past five years. At the same time, there are important differences among member states. Exports growth to China has been particularly strong in Latvia, Lithuania, Portugal, Bulgaria and the UK.

As shown in Graph 1, trade exposure to China is currently highest in Germany, the UK, Finland and France.

Graph 1: **Exports to China as a share of total exports**

To quantify the direct trade impact of slower Chinese growth on the EU as a whole, a version of DG ECFIN's QUEST III model is used, which includes both tradable and non-tradable sectors and five country blocks: China, the euro area, other EU countries, the EU's other emerging market trading partners (i.e. Brazil, Russia, India, South Korea, Turkey, Mexico, Middle East and Northern Africa) and the rest of the world. [(1)] The analysis assumes that monetary policy in advanced economies does not react to lower import demand from China and emerging market economies and the resulting lower price pressures by reducing interest rates. A slowdown in Chinese GDP growth of 1 pp. relative to the central scenario was simulated for 2016, with a further drop of 1 pp. in 2017. Results for the euro area are a reduction in output by 0.2 % in 2016 and 0.3 % in 2017 (0.1 % and 0.3 % for remaining EU countries). [(2) (3)]

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(1) Details on the QUEST III model and its use for policy analysis are available at http://ec.europa.eu/economy_finance/research/macroeconomic_models_en.htm.

(2) The slowdown in China is modelled as a mixture of a slowdown in investment and consumption demand, which exerts negative pressure on domestic prices leading to a real depreciation of the CNY with respect to China's trading partners.

(3) This scenario leads to a reduction in output in emerging markets of 0.2% in 2016 and 0.4% in 2017.

(Continued on the next page)

Box (continued)

The results obtained for the EU as a whole are broadly in line with those produced in similar exercises by other institutions [4]. These results suggest that the direct growth spillover from a slowdown in China is modest due to the relatively limited trade exposure of the EU economy to China. The model captures trade linkages and international financial flows to the extent that they are related to the real economy. It abstracts from modelling financial risks through the banking system, the effects of commodity prices and potential additional effects of contagion. Furthermore, the simulation does not capture shifts in the composition and level of import demand induced by China's rebalancing of the economy towards more consumption-led growth and the related downsizing of manufacturing and construction sectors.

Direct financial channel

Concerns about exposure to Chinese credit risk have been increasing as China has experienced a large and rapid increase in its total debt-to-GDP ratio since the financial crisis. [5] Direct European financial ties with China are nevertheless relatively limited, partly due to the remaining restrictions on cross-border financial transactions, investments and banking activities in China (see Graph 2). As a consequence, the direct impact on Europe via financial channels of slower Chinese growth are likely to be small. European Banks have relatively low direct exposure to China. Furthermore company disclosures by the largest European banks show moderate exposure to China, both in terms of outstanding exposures compared to balance sheet size and as a share of total revenues. [6] Exposure via FDI is also slight, with FDI stocks in China making up only 2% of total EU external FDI.

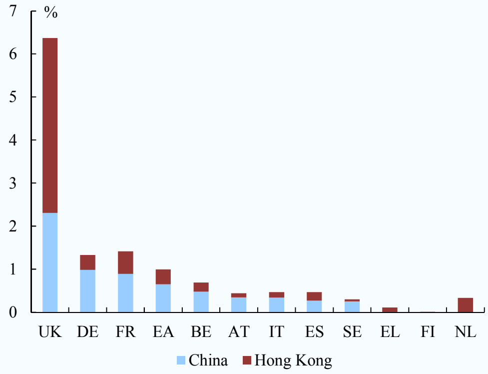
Despite this apparent limited exposure to China, European financial markets recently experienced high volatility linked to negative news on the Chinese economy and China's equity market turmoil in July/August.

(4) E.g. OECD Interim Economic Outlook, September 2015. http://www.oecd.org/eco/outlook/Interim%20EO%20handout%20Sep%202015.pdf.

(5) Private sector borrowing expanded from 116% of GDP in 2007 to 237% in 2014. Non-financial firms increased their indebtedness significantly, with debt rising from the equivalent of 72% of GDP to 125% over the period (McKinsey Global Institute, MGI Country Debt database).

(6) Company financial reports.

Graph 2: **Financial Claims on China and Hong Kong for selected EU countries (% of total foreign claims)**



The commodity price channel

China is an important source of world demand for commodities, in particularly for energy commodities and metals. [7] The recent slump in Chinese demand for commodities is already having a profound impact on commodity prices, in particular on metals (e.g. iron ore price has declined by nearly a third from its peak in 2011). As regards oil price developments, China's role remains relatively modest as China currently accounts for only about 11% of world oil consumption. The direct impact of low commodity prices on the EU economy is rather positive as it raises corporate profits and household incomes. The fall in commodity prices has already added strong downward pressure on inflation in the EU but the effects are expected to fade in 2016. While a more pronounced slowdown in China's growth and its shift towards consumption-led growth could exercise further downward pressure on commodity prices (mainly metals), it is likely that the main downward adjustment in many commodity prices has already occured.

Indirect impacts via other emerging markets

A feature of China's trade in 2015 has been a sharp deceleration of imports that is decoupled from headline growth rates and shows a particularly steep fall in imports from emerging markets and commodity producers (e.g. Brazil, Australia, South Africa, Peru, Chile, Russia). Nevertheless, the indirect impact on Europe via reduced demand for EU exports from affected emerging markets is expected to be rather modest given the limited trade

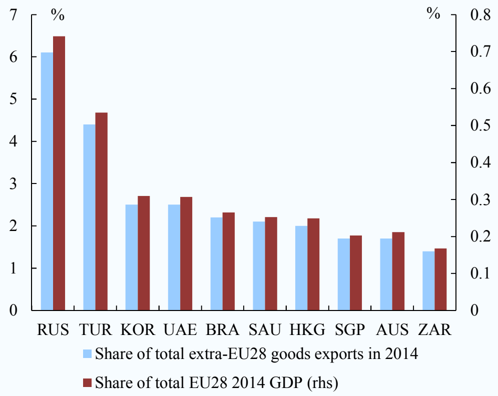
(7) China's metal and energy consumption tripled during 2000-14. China currently accounts for almost 50% of world metal consumption and 50% of world coal consumption.

(Continued on the next page)

Box (continued)

exposures. Graph 3 shows main emerging export markets for EU28 goods [8] which (with the exception of Turkey) have at the same time strong trade links with China.

Graph 3: **Selected export markets for EU28 goods**



Among the selected countries, EU exports appear particularly vulnerable to a further slowdown in Russia, Turkey, South Korea and the United Arab Emirates as these markets represented 15% of total extra-EU goods exports and almost 2% of EU GDP in 2014. Exports to the selected group of emerging markets represent the largest share of extra-EU exports (over 50%) for the Baltic countries and Central Europe (due to their close trade links with Russia).

The current widespread slowdown in emerging markets, however, cannot be attributed solely to China. Many other factors are at play including unresolved structural problems, tightening financial conditions and political instability, which add to domestic vulnerabilities. Concerns about emerging market growth prospects have already led to significant adjustments in exchange rates, credit markets and volatility levels in 2015. In the context of the normalisation of monetary policy in the US, some emerging market economies are also particularly exposed to the risk of capital outflows and high corporate balance sheet exposure to USD-denominated debt. Slower Chinese growth intensifies these domestic pressures, and could trigger a rise in corporate defaults, increasing deleveraging pressures and financial market volatility.

European banks have more significant claims on counterparties in developing countries than in China. Euro area banks claims on these countries stand at almost 10% of their total foreign claims, of which exposures to Asian developing countries constitute 1.8%. [9] Therefore, if other developing nations are severely hit by problems in China there could be spillover effects affecting European banks.

Exchange rate adjustments

In contrast to most other emerging market currencies, the CNY real exchange rate has appreciated sharply over the past 12 months, pulled up by the peg to the US dollar. In early August the Chinese authorities announced changes to the CNY exchange rate regime, intended to allow the level of the CNY to more closely reflect market forces. From 11 August to end-September, the CNY depreciated by about 5% against the euro. The scope for the CNY to fall further is not straightforward to assess, as it hinges upon the Chinese central bank's determination to defend the currency's central parity vis-à-vis the US dollar. The central bank has already heavily intervened in recent months to stabilise expectations.

The Chinese CNY has an important signalling role not only for other Asian currencies but also potentially beyond, e.g. Latin America or commodity exporters like Australia or oil-producing Gulf states. The effect on the euro exchange rate could therefore be amplified if emerging market currencies came under additional pressure due to contagion from weaker-than-expected Chinese growth.

Commission estimates regarding exchange rate effects on the euro-area in general suggest that a 10% appreciation of the euro in nominal effective terms would lead to around 0.5 pps. lower inflation and growth in the first year ([10]). The impact will vary by member state. For example, France and Germany have significantly larger nominal effective exchange rate weights for the Chinese CNY whereas China has a significantly smaller share in the Baltics, Ireland, Slovakia and the Netherlands.

(8) The selected countries are Russia (RUS, 8%), Turkey (TUR, 1.8%), South Korea (KOR, 25%), United Arab Emirates (UAE, 7.7%), Brazil (BRA, 20%), Saudi Arabia (SAU, 14%), Hong Kong (HKG, 54%), Singapore (SGP, 13%), Australia (AUS, 34%) and South Africa (ZAR, 10%). Numbers in brackets represent China's share in the countries' total exports. Australia, Singapore and South Korea are not emerging economies but have close trade links with China.

(9) BIS Consolidated Banking Statistics; on an ultimate risk basis.

(10) China's weight in the euro's broad nominal effective exchange rate (NEER42) is about 15%.

(Continued on the next page)

Box (continued)

Risks linked to financial contagion and economic sentiment

While slower Chinese growth may have limited direct effects on any single economy taken in isolation, the synchronisation of this effect across many smaller economies may lead to unexpectedly large adjustments at either regional or global level. For example, many smaller economies in the Asian region are highly exposed to a severe downturn in the Chinese credit cycle, which could affect the European financial system through indirect channels. More broadly, concerns over Chinese growth prospects may dove-tail with a broader reassessment by markets of emerging market growth prospects. The current global context is one in which global growth is tepid, interest rates remain low, balance sheets are fragile, and advanced economy stock market valuations are stretched. Financial markets may therefore find it difficult to find appropriate 'anchor points'.

A sharper-than-expected slowdown in China could therefore lead to an abrupt adjustment in global asset markets, as investor risk aversion adjusts. Lower global growth prospects could also have a direct impact on sentiment, hampering a recovery in investment.

Conclusions

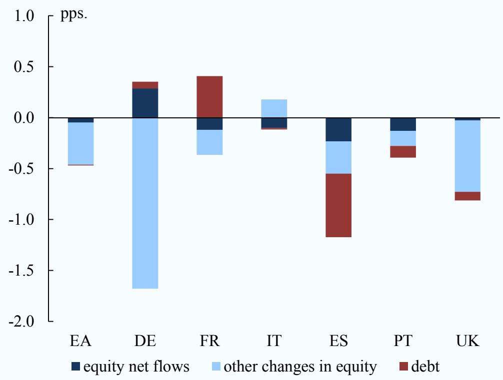
Direct and indirect trade impacts from a sharper-than-expected slowdown in China would not be sufficient to derail a recovery in the EU, though the impact would differ greatly among member states, depending on the scale and structure of trade linkages. Direct financial linkages are limited by the relatively closed nature of Chinese financial markets. However, concerns over Chinese growth prospects and spill-overs to emerging markets could lead to increased financial market volatility and risk aversion with knock-on effects on the EU economy. Lower commodity and oil prices are supportive of EU recovery, but a weaker CNY and additional downward pressure on emerging market currencies more generally would tend to push up the euro's exchange rate. A more pronounced slowdown in China and emerging markets could therefore pose downside risks to both growth and inflation in the EU going forward, posing additional challenges for ongoing deleveraging.

Box I.3: The role of equity in financing the economy

The financial crisis revealed shortcomings of the EU financial system that are impeding economic growth. It seems to overly rely on financing intermediated through banks while at the same time the European banking sector has been adjusting towards less lending to the private sector [1]. Stronger capital markets in Europe and in particular the development of equity financing could overcome some funding constraints stemming from overreliance on banking, address the issue of over indebtedness of parts of the EU corporate sector and provide for a better risk transfer and risk sharing across Member States. A favourable development in equity markets seems therefore key in providing the necessary boost to the current cyclical upturn of the European economy. After focuses on corporate lending and private sector deleveraging in the previous forecasts, this box analyses the EU equity markets and assesses the implications for the corporate funding structures.

A higher share of funding through equity could be an important mean to reduce EU corporates' debt overhang, which has been considered a crucial legacy of the financial crisis and motivated a need to deleverage and to improve shock resilience. Corporate deleveraging in the EU has so far mainly occurred through corporates' retaining profits either used to repay debt or to increase the equity basis. Active deleveraging through debt reduction entails a reduction in assets available to the corporate and possibly a cutback of investment with adverse feedback effects on both corporates' earnings capacity and aggregate demand. [2] The alternative of deleveraging via debt reduction is to increase the corporate equity base. Such funding mean would maintain the advantage of strengthening the corporate financial structure, i.e. improving loss absorbency and credit risk.

Graph 1: **Contribution to NFCs deleveraging (debt to equity, 2009-15)**



When calculating debt-equity ratios for the non-financial corporate (NFCs) sector from the national accounts, it emerges that debt-to-equity has fallen from a historical peak of almost 1.4 in 2009 to 0.9 early 2015 in the euro area. The contribution to this 0.5 fall in leverage is shared between the rise in equity and the fall in debt instruments (bonds and bank loans) (see Graph 1). Overall in the euro area, the rise in equity valuation is the main contributor to the decline in the debt-to-equity ratio. Graph 1 also documents significant cross-country differences in the EU since the crisis with essentially corporates in southern economies having recourse to debt reduction to strengthen their corporate financial structure.

While the market value of corporates' equity has increased, the low contribution to deleveraging from equity transactions suggests that they made little use of their potential to tap equity markets to fund investments. [3] Indeed, transactions data show that corporate funding structures have changed gradually in the euro area from non-market funding to market sources for both debt and equity. Between 2012 and 2014 bond issuance came as substitute to bank lending in response to the sharp contraction in bank lending. Over the same period, substitution via equity issuance has hardly been noticeable. Unlisted equity emerged as the main funding source for corporates, but trended downwards. Since mid-2014 a transition towards marketable instruments is also taking place for

(1) See Box 1.2 ('Corporate lending prospects in the euro area Member States') in European Commission (DG ECFIN), Spring 2015 forecast, *European Economy*, 2015, No. 2, pp. 47-50.

(2) For a review of the literature on the link between corporate debt and investment and empirical estimates with European corporations, see Ş. Kalemli-Özcan, L. Laeven and D. Moreno, Debt overhang, rollover risk and investment in Europe, paper presented at ECFIN conference "The Post-Crisis Slump", September 2015: http://ec.europa.eu/economy_finance/events/2015/20151001_post_crisis_slump/index_en.htm.

(3) It is common to see debt-to-equity ratios vary closely with fluctuations in stock prices while corporations do little in terms of flows, debt or equity issuance, to counteract this mechanistic effect. See Welch, I., 'Capital Structure and Stock Returns', *Journal of Political Economy*, 2004, Vol. 112, No. 1, pp. 106-132.

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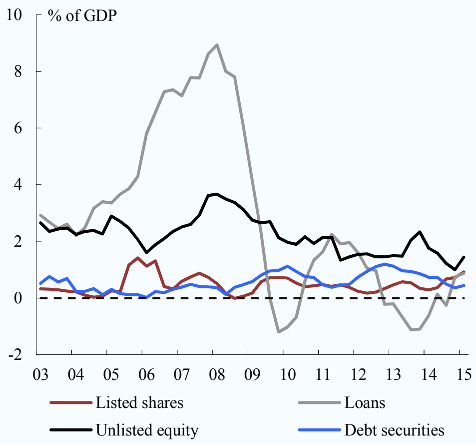
Box (continued)

equity as funding through listed shares is picking up (see Graph 2).

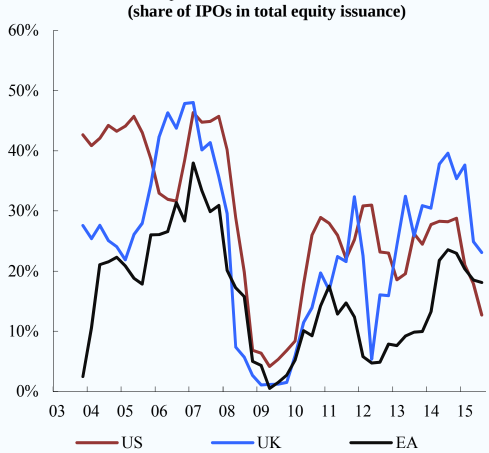
Graph 2: **Corporate funding flows (euro area, net yearly flows)**



One key element in the expansion of equity markets is the proportion of corporations that become listed for the first time. The relative importance of initial public offerings (IPOs) has historically been lower in the euro area compared with the US or the UK, though data over the last few months shows a higher ratio in the euro area than in the US. Nevertheless, established corporates account for the clear majority of new issuance.

The share of initial public offerings (IPOs) in total new issuance is varying with the economic cycle (see Graph 3). Hence, better economic prospects seemed to encourage corporates to start equity issuance, possibly thanks to pro-cyclicality of appetite by investors for less liquid and more risky assets that have high potential return.

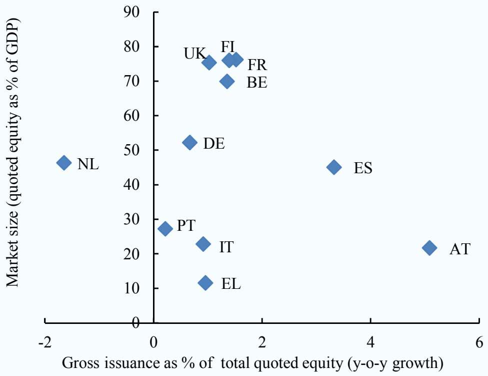
Graph 3: **IPO vs Established firms (share of IPOs in total equity issuance)**



Source: Dealogic

Equity issuance varies widely across euro area countries and is hardly correlated with market capitalisation of listed corporates (see Graph 4). That is, equity issuance was neither strong in countries in which corporates had an already large share of listed shares on their balance sheet (UK, France and Finland) nor in those with a large scope to catch up (Greece, Italy, Portugal). Strong issuance activity in Spain relative to France, Germany and the Netherlands suggest that the usual distinction between vulnerable and non-vulnerable Member States provides no good explanation in the current juncture.

Graph 4: **Size and growth rate of stock markets in selected EU countries (2015-Q1)**



The causes of cross-country differences in the size of listed equity markets are numerous. For example, corporations in Italy and Portugal are overall smaller and/or operating in sectors where corporations are less often listed. The calculations in Table 1[(4)] show the role of the economic structure such as corporate size and sectoral composition in explaining differences in the use of listed equity across selected EU Member States. For this exercise, the fraction of corporates with listed shares [(5)] across some EU Member States is compared with a simulated ratio that shows how high this ratio would have been in a country if the fraction of listed corporates had been as high as in the euro area in each sector and each size class. It turned out that corporate size and sectoral composition explain 1.5 pps of the low use of listed equity in Italy and 2.1 pps in Portugal (difference to EA value). The calculations suggest that Germany should have a somewhat higher equity ratio than these two structural factors indicate. The difference between the actual and simulated value gives an estimate of differences in corporates' financial

(4) The sum of the differences due to economic and financial structures amount to the difference between the respective country and the EA.

(5) Measured as the share of operating revenues of listed corporates in all corporates' operating revenues.

(Continued on the next page)

Box (continued)

behaviour i.e. on corporates' decision to get listed or remain unlisted. Such financial parameters appear to explain to a large degree the relatively more developed equity markets in France and the UK.

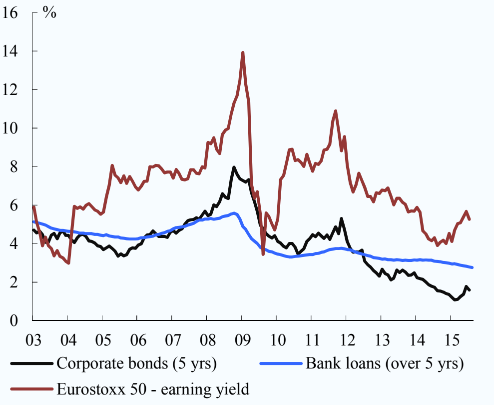
Table 1:
Cross-country differences in the use of listed equity

	EA	DE	FR	IT	ES	PT	UK
% of operating revenues by listed corporates in total coporates' operating revenues (1)	15.7	15.2	21.1	13.8	15.2	14.3	23.4
(1) if all countries had the euro area financial structure i.e. the same proportion of listed corporations for each size/sector	15.7	16.7	16.1	14.1	17.5	13.6	20.0
Differences due to economic structure		1.0	0.5	-1.5	1.8	-2.1	4.3
Differences due to financial structures		-1.5	5.0	-0.4	-2.2	0.7	3.4

Source: ORBIS, EC calculations

Equity is considered as the most expensive capital form in the pecking-order of financial instruments. [(6)] Since balance sheet adjustment in the banking system made bank loans more expensive, corporate bond issuance became relatively more attractive than bank loans as witnessed by the rising issuance of bonds by corporates. The costs of equity are proxied by the earning yield in Graph 5, which is the inverse price-earnings ratio. While the price component can be read from share price quotes, here the Eurostoxx50, the earnings component is based on analysts' forecasts usually of earnings one year ahead. The latter is the most volatile component of this earning yield. [(7)]

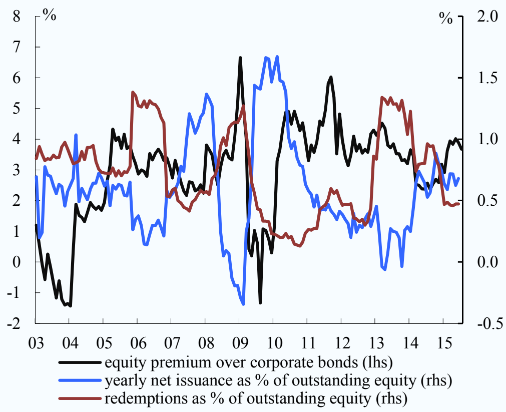
Graph 5: **Cost of corporate funding, euro area**



Though the equity yield has been much higher than the interest on bank loans and corporate bonds, the comparison is somewhat misleading because equity does not have to be repaid unlike debt. To understand the attractiveness of equity funding, it is therefore more informative to look at how the equity premium, i.e. the difference of the earning yield over the corporate bond yield, has changed over time. Whereas the earnings yield has been on a downward trend since 2012 and on average been lower since then before the financial crisis, the picture is less clear cut for the equity premium. The latter has only been marginally lower since 2012 than before the financial crisis 2005-08 (see Graph 6). Overall, although the correlation between equity premium and net issuance of quoted shares is not perfect, there is a clear influence of the relative price. [(8)] Especially, when the equity premium is either at a local peak (2005, 2008, 2011) or local trough (2004, 2007, 2009, 2014), net issuance tends to be low or high.

Redemptions play an important role in making net issuance correlate with any proxy of equity costs. [(9)] Corporations bought back their own shares when the equity premium was high or during periods of rapid declines in corporate bond yields such as in 2013. Conversely, corporations slowed down share buybacks when the earnings premium was low such as in 2007 or during periods of low and uncertain earnings such as during the second half of 2009 and 2010.

Graph 6: **Equity premium and net issuance, euro area**



Both structural and cyclical factors may explain why corporates substituted bank loans by corporate

(6) See S. Myers and N. Majluf, 'Corporate financing and investment decisions when corporates have information that investors do not have', *Journal of Financial Economics*, 1984, Vol. 13, No. 2, pp.187–221.

(7) For a discussion of different measures of the cost of equity, see ECB, 'Valuing stock markets and the equity premium', *ECB Monthly Bulletin*, November 2008, pp. 87-98.

(8) See M. Baker and J. Wurgler, 'Market timing and capital structure', *Journal of Finance*, 2002, Vol. 57, No. 1, pp. 1-32.

(9) Gross issuances are much flatter and hence display a weaker correlation with the price index.

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Box (continued)

bonds and less so by issuing quoted stocks. [10] First, equity issuance entails a change in ownership structure whereas debt issuance does not. Managers and incumbent stock holders may be reluctant to widen the investor base. Second, differences in corporate financial structures are heavily influenced by differences in the tax treatment of funding instruments which is biased in favour of debt in most EU countries. Third, issuance costs, especially for first time issuers, are high for equity because investors request transparency. It is therefore understandable that long-established corporates tap the stock market, while initial public offerings by non-quoted corporates lag and smaller corporates may consider issuing costs as prohibitive. Fourth, since equity allows participation in the upside potential whereas bonds do not, investors may prefer holding bonds in a low growth environment as the likelihood that the upside potential materialises is low.

Conclusion

Over the last few years, corporate funding structures have been changing in the euro area as witnessed by a shift from bank lending to market funding thereby reducing the vulnerability to balance sheet adjustment in the banking system. Market instruments and especially listed equity takes a central role in US corporate external funding. According to some recent studies, this contributed to initiating a much swifter economic rebound in the US than in the EU. [11]

Compared to the use of corporate bonds as a funding tool, equity issuance has been considerably weaker in the EU economy and the upturn is still recent. It has been supported by declining costs of equity, which are however more pronounced in absolute terms than relative to the costs of bond issuance. At the current juncture, more equity funding and higher equity prices improve debt-to-equity ratios and thereby alleviate pressures on corporates to deleverage via debt reduction. However, equity prices have a cyclical behaviour and therefore do not ensure long-term stability for debt-to-equity ratios. The current substitution in terms of flows from debt to equity provides a more robust indicator for the strengthening in the corporate financial structure.

(10) There is wide literature attempting to explain the capital structure of corporates with little consensus overall. Alternative theories such as trade-off and the pecking order were developed after Modigliani & Miller's capital structure irrelevance theory. For Europe, see P. Gaud, M. Hoesli and A. Bender, "Debt-equity choice in Europe", *International Review of Financial Analysis* 16, 2007, Vol 16, No. 3, pp. 201-222.

(11) See J. Allard and R. Blavy, Market phoenixes and banking ducks. Are recoveries faster in market-based financial systems? *IMF Working Paper* No. 213, 2011; T. Grjebine, U. Szczerbowicz and F. Tripier, Corporate debt structure and economic recoveries, *CEPII Working Paper*, No. 19, 2014.

Box I.4: Main drivers of growth in 2016

Economic growth in the euro area this year has been supported by strong tailwind factors, including exchange rate depreciation, low oil prices and quantitative easing (QE) by the ECB. The impact of these factors on the GDP *growth rate* in 2016, however, is projected to subside, and other factors are expected to come into play. This box provides a rough quantification of the different factors affecting growth in 2016 based on simulations with the Commission's QUEST model and a growth accounting exercise with a new estimated macro model. It should be noted that these decompositions are derived from models and are not necessarily identical with the impact of the same factors in the forecast, which is based on expert judgement.

Table 1:

Euro area GDP growth decomposition

	2016
Euro area GDP growth	1.8
. Potential output growth	1.0
. Natural closing of output gap	0.3
. Oil price decline	0.2
. QE	0.1
. Euro appreciation	-0.1
. Lower growth emerging markets	-0.2
. Fiscal impact of asylum seekers	0.1
. Other factors	0.4

Table 1 shows the GDP growth decomposition based on the QUEST model. The euro area's potential GDP growth is calculated at 1.0% in 2016, according to the agreed EU methodology. Output growth, however, is expected to be boosted beyond this by a number of positive shocks. Output gaps are set to gradually narrow through automatic stabilising mechanisms, including price and wage adjustments. Based on historical estimates of the average closing speed of output gaps, this is expected to add 0.3 pps. to growth in 2016. However, this estimate is surrounded by large uncertainties, as it is based on average *past* speeds of output gap closures, and may be overly optimistic at the current juncture given that financial markets are still somewhat impaired and that some deleveraging is expected to continue.

Oil prices have fallen significantly since 2014 and this has been an important stimulus to growth in 2015. Oil prices have continued to fall in the second half of this year and the assumption is that the rebound in 2016 will be moderate and gradual, resulting in an average price for the year that will be slightly lower than in 2015. Lower oil prices boost household disposable income and reduce costs for firms. This factor is expected to raise GDP growth in 2016 by 0.2 pps.

Quantitative easing (QE), which the ECB embarked upon earlier in 2015, affects euro area growth in the simulations through a lower term premium, higher demand for riskier assets and via the exchange rate of the euro. Although the main growth effect will take place in 2015, the direct impact of QE on funding costs is expected to boost growth by another 0.1 pps. in 2016. Given the forecast on accelerating investment growth, this may be an underestimate of the impact of QE on growth.

However, a set of negative shocks are set to weigh on the euro area's growth outlook in 2016. While the euro depreciated strongly in the first half of 2015, this has been partly reversed since the spring, and the technical assumption is of a 1.8% appreciation in the nominal effective exchange rate in 2016. According to the model, euro's appreciation should lower growth by approximately 0.1 pps. in 2016.

An additional negative factor is the slowdown in emerging markets. The slowdown in growth in China, and other emerging markets, is expected to have a mildly negative impact on growth in the euro area next year, estimated at 0.2 pps. It should be noted that the estimated spillover effect includes the impact on trade as well as the depreciation of the CNY, which could lead to some double counting of the euro appreciation described above. As the slowdown has not been restricted to China but has in some cases been even more severe in other emerging markets, spillovers across countries may even amplify the overall impact. However, the impact has been muted by the beneficial effects from the fall in commodity prices (see below).

The large numbers of asylum seekers arriving in the EU is leading to higher government spending for shelter and food and increases in the labour supply. Although this has obvious detrimental effects on budget balances, the expected increase in government spending is set to have a positive impact on the growth outlook and should boost GDP growth by 0.1 pps. This assumes no offsetting reductions in other spending components, and is based on preliminary estimates of the inflow and costs per migrant.

Other factors contribute +0.4 pps. to growth. On the upside, there is the impact of lower commodity

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Box (continued)

prices on emerging markets, which could partly offset the negative impact of the slowdown in activity. Also, the positive second-year effects of the euro's depreciation up until mid-2015, which work through only with a delay, could still add to growth in 2016. In addition, the forecast also suggests a positive contribution of the labour market to growth. On the downside, there are continuing deleveraging pressures, geopolitical tensions and elevated uncertainty over the global outlook and further negative effects from the extension of the sanctions on Russia.

Shock decomposition from an estimated model

The analysis above is based on a detailed calibrated model which captures many transmission channels. This is compared to the results from a simpler but estimated model, fitted over historical data from 1999-Q1 to 2014-Q4, [1] which is extended with forecast data and which allows for a full decomposition of GDP growth into the underlying shocks. It should be noted that in this decomposition, not all shocks are directly interpretable, as in the case of the QUEST model. For example, the estimated reduction of the investment risk premium in 2016 could be due to various sources (including QE) and the model cannot really identify a specific source. One advantage of this methodology is that it uses all information in the dataset. For example, the size of the investment risk premium shock is selected in such a way that it fits not only the movement of GDP but especially also the movement of investment and other variables.

Table 2 shows the shock decomposition for 2016 from the estimated model. The deterministic trend component shows the attainable long-run growth rate if the euro area economy were to grow with the average growth rate of total factor productivity (TFP) and population of working age as observed over the period 1999 to 2014, which is 1.4%. Can the higher-than-average growth in 2016 be interpreted as a structural improvement of supply side conditions? In 2016, there is a slight negative contribution from TFP, which suggests that despite improved capacity utilisation, TFP growth remains subdued. Price and wage developments provide conflicting interpretations. Moderate wage growth with higher productivity growth and declining unemployment is interpreted by the model as a structural adjustment of wages in the euro area labour market which contributes towards an increase in employment growth. However, this positive contribution is partly offset by a negative growth contribution of price mark-ups. This is implied by the GDP deflator rising more strongly than nominal unit labour cost over the forecast horizon.

Table 2:

Shock decomposition from an estimated model

	2016
Supply:	
Det. Trend	1.4
TFP	-0.1
Labour market/wages	0.5
Goods market mark up	-0.1
Demand:	
Foreign:	
RoW+US income	0.3
Exchange rate	-0.2
Domestic:	
Investment	-0.2
Consumption	0.0
Others	0.2
GDP (from forecast)	1.8

On the demand side, one can distinguish foreign and domestic factors. The contribution from growth in the rest of the world on euro area's GDP growth remains positive in 2016, which is consistent with gradually accelerating growth in the rest of the world. However, because of downward growth revisions for emerging economies, the rest of the world is contributing less to euro area's GDP growth than foreseen in the spring exercise. If one takes into account the negative contribution from the effective euro appreciation in 2016, the rest of the world contributes very little to growth in the euro area in 2016.

Although the largest domestic demand impulse is expected to come from investment, the model nevertheless regards the contribution of investment to growth as subdued, in comparison to the long-term average. This is consistent with a still low investment-to-GDP ratio. The low level of investment is captured by an above average risk premium, which peaked in 2009 and 2012 but is declining since then and continues to decline over the forecast horizon, leading to an acceleration of investment. These developments reflect improved financing conditions, partly due to QE measures. The contribution of private consumption to GDP is close to its long-term average and therefore appears as neutral, consistent with the fact that private consumption and real GDP grow at roughly equal rates.

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

Box I.5: Some technical elements behind the forecast

The cut-off date for taking new information into account in this European Economic Forecast was 22 October. The forecast incorporates validated public finance data as published in Eurostat's News Release 186/2015 of 21 October 2015.

External assumptions

This forecast is based on a set of external assumptions, reflecting market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 5 and 16 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 1.12 in 2015, and 1.13 in 2016 and 2017. The average JPY/EUR is 134.99 in 2015 and 135.67 in 2016 and 2017.

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 0.0% on average in 2015, -0.1% in 2016, and 0.0% in 2017 in the euro area. Long-term euro area interest rates are assumed to be 0.5% on average in 2015, 0.7% in 2016, and 0.9% in 2017.

Commodity prices

Commodity price assumptions are also, as far as possible, based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 54.8 USD/bbl in 2015, 54.2 USD/bbl in 2016, and 58.8 USD/bbl in 2017. This would correspond to an oil price of 49.0 EUR/bbl in 2015, 47.9 EUR/bbl in 2016, and 51.9 EUR/bbl in 2017.

Budgetary data

Data up to 2014 are based on data notified by Member States to the European Commission on 1 October and validated by Eurostat on 21 October 2015.

Eurostat is expressing a reservation on the quality of the data reported by Austria in relation to an insufficient adherence to the accrual rules of recording of expenditure and revenue, as required in ESA2010, notably at the budgetary central government level ("Bund"). Currently, a significant number of transactions are recorded on a cash basis in national accounts. This situation creates uncertainty on the quality of the figures and the risk that data will be revised in the April 2016 EDP exercise.

Eurostat is withdrawing the reservation on the quality of the data expressed in Eurostat's News Release of 21 April 2015 in relation to the sector classification of the Deposit Insurance Fund and to the impact on the government deficit of the fund's repayment of the guaranteed deposits in the Corporate Commercial Bank. Following an analysis by Eurostat in cooperation with the Bulgarian statistical authorities, the Deposit Insurance Fund has now been reclassified inside general government, leading to an increase in the deficit of 2.6 bn BGN and a decrease in the debt by 0.13 bn BGN in 2014.

Eurostat is withdrawing the reservation on the quality of the government deficit data for 2014 expressed in Eurostat's News Release of 21 April 2015, due to uncertainties of the statistical impact of the capitalisation of Novo Banco in 2014 for an amount of 4.9 bn euro. The deficit of Portugal for 2014 has been increased by that amount, as the sale of Novo Banco did not occur within one year after the capitalisation.

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

For the forecast, measures in support of financial stability have been recorded in line with the Eurostat Decision of 15 July 2009. [1] Unless reported otherwise by the Member State concerned, capital injections known in sufficient detail have been included in the forecast as financial

(1) Eurostat News Release N° 103/2009.

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Box (continued)

transactions, *i.e.* increasing the debt, but not the deficit. State guarantees on bank liabilities and deposits are not included as government expenditure, unless there is evidence that they have been called on at the time the forecast was finalised. Note, however, that loans granted to banks by the government, or by other entities classified in the government sector, usually add to government debt.

For 2016, budgets adopted or presented to national parliaments and all other measures known in sufficient detail are taken into consideration. In particular, the Draft Budgetary Plans submitted by euro-area Member States on 15 October are also reflected in this forecast. For 2017, the 'no-policy-change' assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

European aggregates for general government debt in the forecast years 2015-17 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans). To ensure consistency in the time series, historical data are also published on the same basis. For 2014, this implies a debt-to-GDP ratio in the euro area (EA19) which is 2.4 pps. (1.8 pps. in the EU) higher than the consolidated general government debt ratio published by Eurostat in its news release 186/2015 of 21 October 2015. General government debt projections for individual Member States in 2015-17 include the impact of guarantees to the EFSF, [2] bilateral loans to other Member States, and the participation in the capital of the ESM as planned on the cut-off date of the forecast (subject to approval).

ESA 2010

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

Calendar effects on GDP growth and output gaps

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

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

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(2) In line with the Eurostat decision of 27 January 2011 on the statistical recording of operations undertaken by the European Financial Stability Facility, see http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-27012011-AP/EN/2-27012011-AP-EN.PDF.

PART II

Prospects by individual economy

Member States

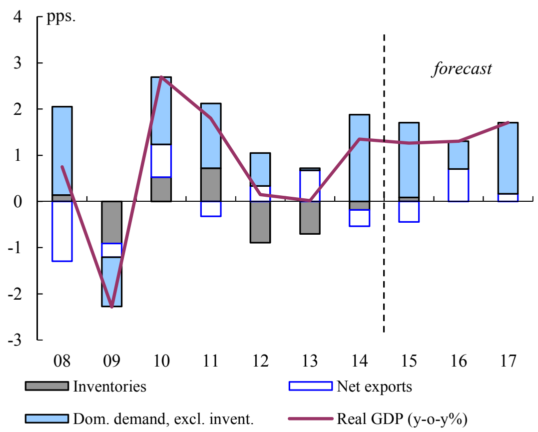
1. BELGIUM

Ongoing modest growth

Growth is expected to continue at a modest pace of 1.3% in 2015 and 2016 and then pick up to 1.7% in 2017, as companies start reaping the benefits of improved competitiveness, and wage dynamics and employment growth support household spending. Belgium's public finances are expected to improve modestly over the forecast horizon.

International commodity prices, the exchange rate and financing conditions have provided some impetus to the Belgian economy in 2015. GDP is forecast to grow 1.3% this year, thanks largely to consumer spending. Even though the latter is not expected to be such a force in 2016, the economy is projected to continue growing by 1.3% on the back of net exports. Momentum is not expected to build until 2017 when several factors that are currently restraining domestic demand are set to disappear. As activity becomes more broad based, GDP is expected to grow by 1.7% in 2017, its highest rate in many years. Risks to the outlook are tilted to the upside in case domestic demand would remain more buoyant in the near future.

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



Consumption to shift to a lower gear in 2016

Despite tight ceilings on nominal wage increases, private consumption has proven resilient in recent quarters as consumers appear to be saving less so as to smooth consumption. Rising employment is also supporting private consumption, as are income tax cuts. Finally, low inflation has limited the erosion of purchasing power. But rising inflation is catching up with consumers, limiting real income gains. Therefore, consumption is expected to grow by just 0.7% in 2016 compared to 2% in 2015. As wage growth picks up again in 2017, prospects for consumption follow suit. A continuation of the measured labour market improvement also provides support as the unemployment rate is expected to fall from a high of 8.6% in 2015 to 7.9% in 2017.

Robust medium-term outlook for investment

Several large one-off transactions in 2014-15 and their correction in 2016 significantly distort business investment statistics. A similar effect is visible in Belgium's trade figures (including the growth contribution by net exports), as these investments consist of imported goods and services. In 2017, investment is forecast to grow by 3.7% on the back of both the public and the private sector. The latter's contribution mirrors the fact that Belgian companies are well-positioned to tap into the gradual improvement of international trade. Lower commodity prices and modest labour cost increases are feeding strong improvements in profit margins. High capacity utilisation rates, favourable lending conditions and improving cost competitiveness, support the translation of higher margins into more investment in equipment.

Terms of trade strengthen external position

Belgium's improving competitiveness also comes to the fore in the strength of net exports, which add to growth in both 2016 and 2017. Strong terms of trade gains for goods are projected to shift the trade balance into surplus territory in 2015 for the first time since 2007 and to remain there in coming years with the current account expected to register a surplus of around 2% of GDP.

Inflation has been rising gradually since January and is forecast at 0.6% this year and to climb to 1.7% next year, as the effect of lower international commodity prices fades. The reversal of the cut in the VAT rate on electricity and increases for other energy price components also push up inflation.

Limited improvement to the general government balance

The general government deficit is expected to decrease from 3.1% of GDP in 2014 to 2.7% in

2015. On the revenue side, wage moderation constrains the growth of personal income taxes and social contributions. The revenue-to-GDP ratio is also negatively affected by an expected drop in dividend revenue. In contrast, corporate income tax revenues receive a boost from the lower reference rate for notional interest deduction. One-off revenues are expected to have a positive impact of 0.3% of GDP on the government balance in 2015. This includes an additional impact from the 2013 tax regularisation, the anticipative taxation of pension savings, and an extension of the temporary regime for the taxation of liquidation capital gains.

Current expenditure is expected to grow only modestly, due to low inflation, the non-indexation of government wages and social benefits, as well as sizeable consolidation measures. Furthermore, interest expenditure is projected to fall by 0.2% of GDP thanks to the decline in market interest rates. After a large one-off tax reimbursement in 2014, capital expenditure is expected to drop sharply in 2015. All in all, the structural balance is estimated to improve by about ¼% of GDP in 2015.

In 2016, the headline deficit is projected to reach 2.6% of GDP. The revenue-to-GDP ratio is expected to decline due to the drop in one-off revenues and planned cuts in personal income taxation and social contributions. This drop in revenues is more than offset by a further fall in the expenditure-to-GDP ratio, due to the additional impact of consolidation measures. Government wages and social benefits are expected to be indexed in the last quarter of 2016. Interest expenditure is also projected to decline further, while a one-off contribution to the EU budget (linked to the retroactive implementation of the 2014 Own Resources Decision) has a negative impact of 0.1% of GDP on the government balance. As a result, the structural balance is expected to improve by about ½%of GDP in 2016. Under the usual no-policy-change assumption, the general government deficit is projected to decline to 2.3% of GDP in 2017, thanks to better cyclical conditions. Large regional construction plans and the investment cycle of local governments are expected to boost public investment in 2017.

The public debt is expected to remain stable at 106.7% of GDP in 2015, also thanks to downward stock-flow adjustments, such as debt issuances above nominal value. In 2016, debt is projected to slightly rise again, while in 2017 projected nominal GDP growth becomes strong enough to put the debt on a downward path.

Table II.1.1:

Main features of country forecast - BELGIUM

	2014		Annual percentage change						
	bn EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	400.6	100.0	2.0	0.2	0.0	1.3	**1.3**	**1.3**	**1.7**
Private Consumption	207.1	51.7	1.5	0.6	0.9	0.4	**2.0**	**0.7**	**1.0**
Public Consumption	97.8	24.4	1.6	1.5	-0.1	0.6	**0.3**	**0.4**	**0.7**
Gross fixed capital formation	93.3	23.3	2.3	0.2	-1.7	7.0	**2.1**	**0.5**	**3.7**
of which: equipment	31.7	7.9	2.3	-4.7	-0.1	10.4	**1.9**	**2.5**	**4.2**
Exports (goods and services)	336.4	84.0	4.5	1.8	1.6	5.4	**3.6**	**4.5**	**5.3**
Imports (goods and services)	332.8	83.1	4.3	1.4	0.8	5.9	**4.1**	**3.8**	**5.2**
GNI (GDP deflator)	406.7	101.5	1.9	1.6	-0.8	1.4	**1.2**	**1.2**	**1.6**
Contribution to GDP growth:	Domestic demand		1.6	0.7	0.0	1.9	**1.6**	**0.6**	**1.5**
	Inventories		0.1	-0.9	-0.7	-0.2	**0.1**	**0.0**	**0.0**
	Net exports		0.2	0.3	0.7	-0.4	**-0.4**	**0.7**	**0.2**
Employment			1.0	0.4	-0.4	0.3	**0.6**	**0.7**	**0.9**
Unemployment rate (a)			8.1	7.6	8.4	8.5	**8.6**	**8.4**	**7.9**
Compensation of employees / head			2.6	3.2	2.6	0.9	**0.5**	**0.3**	**1.6**
Unit labour costs whole economy			1.5	3.4	2.2	-0.1	**-0.2**	**-0.3**	**0.7**
Real unit labour cost			-0.1	1.4	0.8	-0.7	**-1.2**	**-1.3**	**-0.5**
Saving rate of households (b)			16.1	13.5	12.3	12.6	**11.9**	**11.7**	**11.6**
GDP deflator			1.7	2.0	1.3	0.7	**1.1**	**1.0**	**1.2**
Harmonised index of consumer prices			2.0	2.6	1.2	0.5	**0.6**	**1.7**	**1.5**
Terms of trade goods			-0.7	0.2	0.4	0.4	**3.1**	**-0.3**	**-0.5**
Trade balance (goods) (c)			1.9	-1.3	-0.7	-0.5	**1.3**	**1.3**	**0.9**
Current-account balance (c)			3.7	1.4	1.0	0.8	**1.8**	**2.0**	**1.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.6	2.1	0.9	0.6	**1.7**	**1.9**	**1.8**
General government balance (c)			-1.6	-4.1	-2.9	-3.1	**-2.7**	**-2.6**	**-2.3**
Cyclically-adjusted budget balance (d)			-1.9	-3.8	-2.1	-2.5	**-2.2**	**-2.1**	**-2.1**
Structural budget balance (d)			-	-3.4	-2.7	-2.8	**-2.5**	**-2.1**	**-2.2**
General government gross debt (c)			104.3	104.1	105.1	106.7	**106.7**	**107.1**	**106.1**

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

2. BULGARIA

Moderate growth and gradual rebalancing

Bulgaria's economy is set to grow 1.7 % in 2015, mainly driven by exports and falling oil prices, before returning to 1.5 % in 2016, as growth-supporting factors including absorption of EU funds lose strength. GDP growth in 2017, however, is expected to pick up to 2.0% as domestic demand strengthens. The headline budget deficit is expected to decline to 2.8% in 2015 and to 2.7% in 2016-17.

Exports holding up growth

Bulgaria's real GDP growth has been revised downwards in 2014 to 1.5%. After having increased by 0.6% and 0.5% q-o-q in the first and second quarter of 2015, mainly due to a remarkable rise in net exports, growth is expected to moderate in the second half of the year. Indicators, such as industrial production and retail trade, provide limited evidence of a more dynamic performance in the short term. Overall, real GDP growth is projected to reach 1.7% in 2015, supported by both exports and public investment, while private consumption is expected remain more tepid. Growth is expected to moderate to 1.5% in 2016, before picking up to 2.0% in 2017.

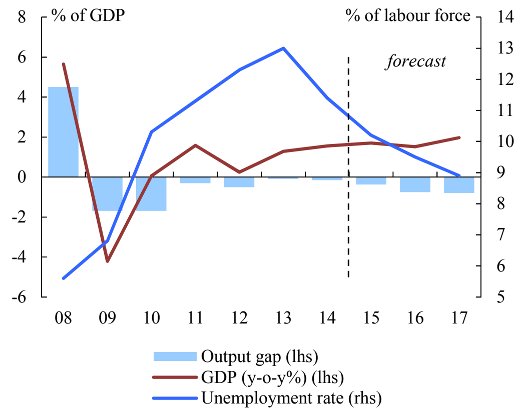
Domestic demand is projected to weaken

While the recovery in real GDP growth in 2015 is expected to be primarily driven by net exports, domestic demand also contributes positively. After benefitting from low inflation and the fall in fuel prices towards the end of 2014, limited wage growth and a more restrictive fiscal stance weaken the outlook for private consumption in 2015. The pace of private consumption growth is expected to moderately strengthen from 0.7% this year to 1.4% in 2016 and 1.7% in 2017. Despite favourable financing conditions and increasing capacity utilisation in the manufacturing sector moving towards its historic average, the softening of private consumption is set to hold back investment in 2015-16. In addition, limited foreign capital inflows, an unsupportive business environment and decreased risk appetite are set to weigh on investment over the forecast horizon. Public investment is expected to weaken in 2016, as the implementation of projects co-financed by the EU slows, and to resume its growth in 2017.

Net exports make a positive contribution

Exports are projected to outpace imports over the forecast horizon, supported by higher demand from the EU, leading to a positive contribution of net exports to economic growth. Exporting industries are also expected to continue benefitting from the depreciated euro, to which the national currency is pegged, given that a sizeable portion of Bulgarian exports go to non-euro area countries. However, the contribution of net exports to growth is forecast to decline in 2017 as the recovery in domestic demand gathers pace. As a result, Bulgaria's current account surplus is projected to decline from 1.4% of GDP in 2015 to 0.9% by 2017.

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



Overall, risks to the growth outlook seem balanced. On the positive side, the stronger exports and gains in employment could fuel investment and private consumption growth more than expected. Low interest rates and oil prices could also provide stronger-than-projected support to some economic sectors. Although net exports are expected to make a positive contribution to real output growth over the forecast horizon, increased geopolitical uncertainties and a slowdown in main trading partners would pose a downside risk due to the high degree of openness of the economy.

Labour market conditions to improve, inflation to bottom out in 2016

Employment further improved in the first half of 2015, mainly in the agriculture and construction sectors. Mostly supported by export-oriented industries, the growth in employment is projected to remain unchanged in 2015 and 2016 and to marginally increase to 0.5% in 2017. This together with the expected decrease in the labour force due to aging of the population is likely to further reduce the unemployment rate to 9.4% in 2016 and 8.8% in 2017.

Inflation declined to -0.9% on an annual basis in September 2015 and is forecast to rise only gradually in 2016 as the effect from the decline in commodity prices tapers off. At the same time, the quantitative easing of the ECB, the depreciation of the euro and tighter labour market conditions are expected to partly offset this downward trend and to exert some upward pressure. After the increase in electricity prices for households in October 2014, the overall effect of administered prices is expected to be neutral over the forecast horizon. The annual HICP inflation rate is projected to ease to -0.8% in 2015 before turning positive again in 2016. As the economy's output gap remains negative, inflation is set to stay low at about 1% in 2017.

Public finances set to improve

The general government deficit reached 5.8% of GDP in 2014, as a result of weaker-than-expected revenues as well as sizeable support to the financial sector. The general government deficit is estimated to fall to 2.8% of GDP in 2015, mostly on account of no additional financial support measures and better indirect tax revenues following the adopted tax collection measures. On the other hand, savings in the wage bill and the purchase of goods and services seem more than offset by increases in pensions and interest expenditure.

Going forward, under the usual no-policy-change assumption, the headline deficit is forecast to improve only marginally to 2.7% of GDP in 2016 and remain unchanged in 2017. Public investment is projected to decrease from its peak in 2015 due to an expected slowdown in the implementation of EU projects at the start of the new programming period. In view of the adopted pension reform, both revenue and expenditures are forecast to increase (by 0.2% of GDP in 2017), but declining unemployment should limit the growth in social transfers over 2016-17. Bulgaria's structural deficit is projected to be around 2½% of GDP over 2015-17, reflecting a negative output gap. With a still-sizeable budget deficit, the public debt-to GDP ratio is expected to increase from 27% in 2014 to 33.6% by 2017.

Table II.2.1:

Main features of country forecast - BULGARIA

	2014		Annual percentage change						
bn BGN	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	83.6	100.0	3.0	0.2	1.3	1.5	**1.7**	**1.5**	**2.0**
Private Consumption	52.6	63.0	3.3	3.3	-1.4	2.7	**0.7**	**1.4**	**1.7**
Public Consumption	13.8	16.5	0.6	-0.5	2.2	0.1	**0.1**	**1.2**	**1.3**
Gross fixed capital formation	17.7	21.1	6.9	1.8	0.3	3.4	**0.2**	**-2.4**	**1.7**
of which: equipment	7.4	8.8	-	-5.5	1.2	13.9	**0.1**	**2.0**	**3.0**
Exports (goods and services)	54.4	65.1	4.1	0.8	9.2	-0.1	**5.9**	**4.3**	**4.6**
Imports (goods and services)	55.2	66.0	6.3	4.5	4.9	1.5	**4.0**	**3.0**	**4.1**
GNI (GDP deflator)	81.9	98.0	2.6	2.3	1.3	3.4	**0.8**	**1.1**	**1.7**
Contribution to GDP growth: Domestic demand			3.9	2.4	-0.5	2.5	**0.5**	**0.6**	**1.6**
Inventories			0.4	0.2	-0.8	0.2	**0.0**	**0.0**	**0.0**
Net exports			-1.2	-2.3	2.6	-1.1	**1.2**	**0.9**	**0.4**
Employment			0.0	-2.5	-0.4	0.4	**0.3**	**0.3**	**0.5**
Unemployment rate (a)			12.1	12.3	13.0	11.4	**10.1**	**9.4**	**8.8**
Compensation of employees / head			31.4	7.7	8.8	1.5	**2.1**	**2.9**	**2.9**
Unit labour costs whole economy			27.6	4.8	7.0	0.3	**0.7**	**1.7**	**1.4**
Real unit labour cost			-0.3	3.2	7.8	-0.1	**-0.3**	**0.9**	**0.7**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			28.0	1.6	-0.7	0.4	**1.0**	**0.8**	**0.7**
Harmonised index of consumer prices			-	2.4	0.4	-1.6	**-0.8**	**0.7**	**1.1**
Terms of trade goods			0.2	-3.5	-0.8	0.7	**0.8**	**-0.2**	**-0.8**
Trade balance (goods) (c)			-12.0	-9.7	-7.0	-6.5	**-4.8**	**-4.1**	**-4.4**
Current-account balance (c)			-6.8	-3.0	-0.5	0.7	**1.4**	**1.3**	**0.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.5	-1.8	0.8	2.1	**2.7**	**2.5**	**2.0**
General government balance (c)			-0.7	-0.6	-0.8	-5.8	**-2.8**	**-2.7**	**-2.7**
Cyclically-adjusted budget balance (d)			-0.9	-0.5	-0.8	-5.7	**-2.6**	**-2.4**	**-2.4**
Structural budget balance (d)			-	-0.5	-0.8	-2.5	**-2.6**	**-2.4**	**-2.4**
General government gross debt (c)			-	17.6	18.0	27.0	**31.8**	**32.8**	**33.6**

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

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

3. THE CZECH REPUBLIC

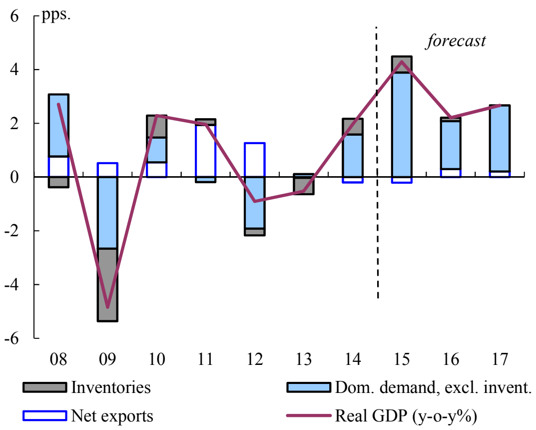
Growth to spike in 2015

The Czech Republic's economy is expected to grow strongly in 2015, driven primarily by domestic demand. Public investment is a major factor, as the Czech authorities attempt to maximise their drawings of EU funds as the previous programming period comes to an end. Weaker public investment in 2016 is forecast to weigh on activity but GDP growth is expected to pick up in 2017. The headline government deficit is expected to fall in both 2016 and 2017.

Growth in 2015 driven by temporary factors

The Czech Republic is expected to achieve real GDP growth of 4.3% in 2015, more than twice the rate of 2.0% that it achieved in 2014. This acceleration is partly driven by temporary factors, in particular strong public investment in the first half of the year, due to increased drawing of funds available under the previous programming period of EU funding, which is expected to continue for the rest of the year. A large contribution to growth from inventories is also expected, at least in part, as a result of legislative changes related to pre-stocking of tobacco products. Private consumption growth is expected to accelerate amid rising disposable incomes and low inflation. Net exports, however, are forecast to detract from growth, partly because of the high import intensity of investment. Lower-than-expected public investment poses a downside risk to growth in 2015.

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



Lower growth in 2016

The fading of temporary growth impulses, particularly the expected drop in public investment, should bring real GDP growth in 2016 down to 2.2%. Underlying domestic demand factors are expected to remain healthy, however, with sustained growth in household consumption. While the recent slowdown in world trade growth is expected to weigh on exports, the contribution of net exports is forecast to be positive, reflecting the slowdown in import growth. GDP growth is forecast to accelerate to 2.7% in 2017, amid continued strong internal demand and a sustained positive contribution from net exports. The main risk to the forecast in both 2016 and 2017 stems from the external environment, with the possibility that a sharper-than-expected slowdown in global trade would impact negatively on the highly-open Czech economy.

Tight labour market conditions

Strong GDP growth in the first half of 2015 was accompanied by a large rise in employment, which grew by 1.4% on an annualised basis in the second quarter, as tight labour market conditions drew more workers into the labour force. The unemployment rate has fallen over the course of the year to 5.0% in August. Further growth in employment is forecast to be limited by a projected fall in the working-age population over the forecast horizon, although the participation rate is expected to maintain its recent rising trend thanks to greater participation by female and older workers. The unemployment rate is also forecast to fall further, reaching 4.8% in 2017. While tight labour market conditions have not yet given rise to significant nominal wage increases, compensation per employee is forecast to grow by 2.9% this year, 3.8% in 2016 and 4.0% in 2017.

Low inflation dynamics in the short term

HICP inflation is forecast to average 0.4% in 2015, the same as in 2014. Recent falls in commodity prices are likely to contribute to weak inflation dynamics during the first half of 2016; for the year as a whole, consumer prices are forecast to rise by 1.0%. However, rising disposable income and the emergence of a positive output gap are forecast to put upward pressure on domestic prices over the forecast horizon and the inflation rate is expected to move back towards the Czech National Bank's target of 2% by the end of 2017.

Structural balance to deteriorate in 2015

The 2014 general government deficit has been revised slightly downwards by 0.1 pps. to 1.9% of GDP, improved by updated data on tax revenues and an overall positive impact of the reclassification of public hospitals into the general government sector. In 2015, the nominal deficit is forecast to remain stable at 1.9% of GDP. Total revenues are expected to be negatively affected by the reintroduction of tax credits for working pensioners and a third, lower VAT rate. The decline is partially offset by higher expected revenues from excise duties on tobacco. Total expenditure is forecast to be driven by government co-financing on investment, mainly due to higher absorption of EU funds. A higher public sector wage bill is expected to contribute to stronger government consumption and increased indexation of pensions should increase social outlays.

The projected improvement in the headline general government deficit to 1.3% of GDP in 2016 is mainly driven by the expected sharp decrease in investment spending, related to the likely slowdown of EU funding in the beginning of the new programming period. By contrast, planned pension increases and a rising public sector wage bill are expected to result in increased expenditure. On the revenue side, new measures to fight tax evasion are likely to contribute to an improvement in the headline deficit. Revenue flows from yet-to-be-adopted measures, such as the proposed introduction of electronic sales records, are not included in the forecast.

Assuming no further changes in government policy, the nominal deficit is forecast to decline further to 1.1% of GDP in 2017 on the back of an improving economic situation.

Despite the stability of the headline deficit in 2015, the structural deficit is forecast to deteriorate markedly by more than 1 pp., in part due to the swift closing of the output gap. In 2016, the structural balance should improve alongside the declining deficit. The debt-to-GDP ratio is forecast to fall by 1.7 pps. to 41.0% in 2015 due to better liquidity management, and to further decline in 2017. Risks to the fiscal forecast are broadly balanced and mirror macroeconomic uncertainties regarding public investment, while downside risks also stem from the uncertain implementation of proposed tax avoidance measures.

Table II.3.1:

Main features of country forecast - CZECH REPUBLIC

	2014		Annual percentage change						
bn CZK	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	4260.9	100.0	2.7	-0.9	-0.5	2.0	**4.3**	**2.2**	**2.7**
Private Consumption	2070.5	48.6	2.7	-1.5	0.7	1.5	**3.0**	**2.8**	**2.6**
Public Consumption	828.2	19.4	1.3	-1.8	2.3	1.8	**2.8**	**2.2**	**1.9**
Gross fixed capital formation	1065.5	25.0	2.6	-3.2	-2.7	2.0	**7.6**	**0.0**	**3.3**
of which: equipment	480.5	11.3	4.9	-6.1	-0.2	3.8	**6.0**	**3.0**	**4.0**
Exports (goods and services)	3571.4	83.8	9.1	4.3	0.0	8.9	**6.7**	**5.8**	**6.0**
Imports (goods and services)	3285.1	77.1	8.7	2.7	0.1	9.8	**7.5**	**5.9**	**6.2**
GNI (GDP deflator)	3926.6	92.2	2.2	0.5	-0.3	0.0	**4.2**	**2.3**	**2.9**
Contribution to GDP growth:	Domestic demand		2.4	-1.9	0.1	1.6	**3.9**	**1.8**	**2.5**
	Inventories		0.0	-0.2	-0.6	0.6	**0.6**	**0.1**	**0.0**
	Net exports		0.3	1.3	0.0	-0.2	**-0.2**	**0.3**	**0.2**
Employment			-0.1	0.4	0.3	0.6	**1.3**	**0.2**	**0.1**
Unemployment rate (a)			6.9	7.0	7.0	6.1	**5.2**	**5.0**	**4.8**
Compensation of employees / head			6.6	1.7	-0.3	1.5	**2.9**	**3.8**	**4.0**
Unit labour costs whole economy			3.8	3.1	0.6	0.1	**-0.1**	**1.7**	**1.4**
Real unit labour cost			0.5	1.7	-0.8	-2.3	**-0.8**	**0.7**	**0.0**
Saving rate of households (b)			11.6	11.3	10.8	10.9	**10.9**	**10.8**	**10.7**
GDP deflator			3.3	1.4	1.4	2.5	**0.7**	**1.0**	**1.4**
Harmonised index of consumer prices			3.6	3.5	1.4	0.4	**0.4**	**1.0**	**1.6**
Terms of trade goods			0.0	-0.6	1.5	2.1	**-0.1**	**0.1**	**0.2**
Trade balance (goods) (c)			-3.4	3.1	4.1	5.4	**5.0**	**5.2**	**5.4**
Current-account balance (c)			-4.1	-2.2	-1.1	-2.0	**-2.5**	**-2.4**	**-2.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.6	-1.1	1.1	-0.2	**0.0**	**-0.7**	**-0.5**
General government balance (c)			-3.7	-4.0	-1.3	-1.9	**-1.9**	**-1.3**	**-1.1**
Cyclically-adjusted budget balance (d)			-	-3.2	0.0	-1.0	**-2.0**	**-1.5**	**-1.4**
Structural budget balance (d)			-	-1.5	0.1	-0.8	**-2.0**	**-1.4**	**-1.4**
General government gross debt (c)			25.0	44.7	45.2	42.7	**41.0**	**41.0**	**40.5**

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

4. DENMARK

Recovery has taken hold

The recovery of the Danish economy has taken hold and is expected to continue over the coming two years. GDP growth has been positive in the last eight quarters, as economic activity has been supported by strong tailwinds, such as the drop in oil prices, low interest rates and a weak effective exchange rate. The improvement of labour market conditions continues, with positive employment growth and a gradual decline in unemployment. In 2015, the general government deficit is expected to exceed the 3% of GDP Treaty reference value – before improving over 2016-17.

The recovery is strengthening

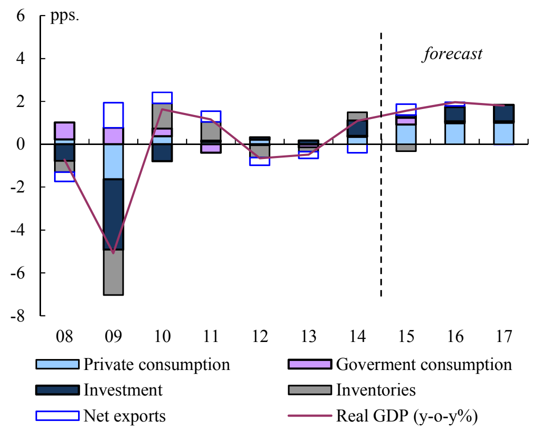
The recovery of the Danish economy has continued, with GDP increasing in the last eight consecutive quarters. On an annual basis, GDP growth is expected at 1.6% in 2015, with positive growth contributions from both domestic demand and net exports, as exports are expected to grow faster than imports. In 2016-17, the recovery is expected to gather more steam, with GDP growth rates of 2.0% and 1.8% respectively.

Over the last year, private consumption has become an important driver of GDP growth. Private consumption has been supported by rising real disposable incomes, due to the increase in employment, wage growth and low inflation. The sharp increase in the household savings rate in 2015 reflects the fact that the savings rate, especially in 2014, has been artificially low due to high tax payments linked to the restructuring of existing capital pension funds. The asset position of households has improved partly due to a rise in house prices since mid-2012. The level of consumer confidence remains consistent with continued growth in private consumption, but has decreased somewhat over the last six months, after reaching a historically high level this spring.

The investment rate in the business sector is currently at a low level, partly because of idle capacity after the recession. Investment growth is expected to be relatively weak in 2015, but over the forecast horizon, business investment is expected to pick up as the overall recovery becomes more firmly established and capacity utilisation improves. Public investment, meanwhile, is expected to gradually fall after reaching a historically high level in 2014. The current savings rate in the corporate sector is high, supporting the potential of a pick-up in business investment.

Exports grew less than expected in the first half of 2015, due largely to a drop in service exports. Exports are projected to pick up gradually over the next two years, supported by increased growth in the most important Danish export markets, improved competitiveness — as measured by relative unit labour costs — and a marked decline in the effective exchange rate registered in the first half of the year.

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



Unemployment has remained stable

The unemployment rate, which has been on a declining trend since spring 2012, has flattened out in the first three quarters of the year, at just above 6.0% of the labour force. The continued recovery of the economy should, however, further lower unemployment, down to a level of 5.5% in 2017. Employment is expected to grow by 0.9% in 2015, driven by the private sector, and is set to increase further by 1.0% both in 2016 and 2017.

Inflation expected to pick up

Inflation, which was 0.3% in September 2015, has been dragged down by a drop in energy prices. Core inflation, by contrast, has increased over the last year, reaching 1.1% in September. HICP inflation is expected to pick up as the effect from the decline in energy prices tapers off and the economic recovery strengthens. HICP inflation is forecast at just 0.4% in 2015, but is expected to increase to 1.5% in 2016 and 1.9% in 2017.

Deterioration of the fiscal balance

In 2014, the general government balance showed a surplus of 1.5% of GDP. The general government budget balance was boosted by extraordinarily high pension yield tax revenues and a capital pension taxation measure that has generated significant windfalls in the years 2013 to 2015.

In 2015, the fiscal balance is expected to deteriorate sharply to a deficit of 3.3% of GDP. The deterioration is primarily linked to volatile items on the revenue side, as a drop in revenues from the before-mentioned one-off measure (decreasing by an estimated 2.5 pps. of GDP), from the pension yield tax, as well as a drop in revenues from oil and gas activities in the North Sea are expected to be the main contributors to the worsening of the budget balance.

In 2015, the fiscal balance is also dragged down by an extraordinary appreciation of tax arrears, linked to errors in an electronic tax collection system (EFI). The losses have been estimated at 5 bn DKK (0.25% of GDP) in each of the years 2013 to 2015. These numbers may, however, be revised at a later stage, as the impact from these errors is still being investigated on this forecast's cut-off date of 22 October 2015.

In 2016 and 2017, the general government budget balance is expected to improve to a deficit of 2.5% and 1.7% of GDP respectively, as the economic activity improves. The estimate for 2017 is based on a no-policy-change assumption.

The sharp decline in the volatile revenue items also leads to a deterioration of the structural balance. Going from an estimated surplus of ½% of GDP in 2014, the structural balance is expected to turn into a deficit of around 2¼% of GDP in 2015, and thereafter to improve to a deficit of around 1½% and 1% of GDP in 2016 and 2017 respectively.

The general government gross debt level, which stood at 45.1% of GDP in 2014, is expected to decrease to 40.2% in 2015 and thereafter to decrease gradually, reaching 38.3% in 2017. The significant reduction in debt in 2015 reflects a temporary suspension of government bond issuance that was put in place from January to October 2015 in order to dampen the appreciation pressure on the Danish krone.

Table II.4.1:

Main features of country forecast - DENMARK

		2014		Annual percentage change						
	bn DKK	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		1921.5	100.0	1.4	-0.7	-0.5	1.1	**1.6**	**2.0**	**1.8**
Private Consumption		933.4	48.6	1.4	0.4	0.0	0.7	**1.9**	**2.0**	**2.1**
Public Consumption		511.1	26.6	1.9	-0.2	-0.5	0.2	**1.2**	**0.3**	**0.3**
Gross fixed capital formation		359.1	18.7	1.8	0.6	0.9	4.0	**0.7**	**3.7**	**4.1**
of which: equipment		108.0	5.6	0.8	11.2	7.2	4.6	**1.8**	**5.5**	**5.7**
Exports (goods and services)		1031.1	53.7	4.3	0.1	0.8	2.6	**1.1**	**4.4**	**3.9**
Imports (goods and services)		928.3	48.3	4.9	0.9	1.5	3.8	**0.2**	**4.7**	**4.4**
GNI (GDP deflator)		1976.8	102.9	1.6	-0.5	0.8	0.4	**1.6**	**2.0**	**1.9**
Contribution to GDP growth:	Domestic demand			1.5	0.3	0.0	1.1	**1.4**	**1.7**	**1.8**
	Inventories			0.0	-0.6	-0.2	0.4	**-0.3**	**0.0**	**0.0**
	Net exports			0.0	-0.4	-0.3	-0.4	**0.5**	**0.2**	**0.0**
Employment				0.4	-0.3	0.0	0.8	**0.9**	**1.0**	**1.0**
Unemployment rate (a)				5.2	7.5	7.0	6.6	**6.1**	**5.8**	**5.5**
Compensation of employees / head				3.5	1.5	1.3	1.6	**1.5**	**2.1**	**2.3**
Unit labour costs whole economy				2.4	1.9	1.9	1.3	**0.8**	**1.1**	**1.5**
Real unit labour cost				0.2	-0.6	0.3	0.5	**-0.6**	**-0.4**	**-0.2**
Saving rate of households (b)				5.7	7.1	6.7	2.0	**10.1**	**9.0**	**7.3**
GDP deflator				2.2	2.5	1.5	0.8	**1.4**	**1.5**	**1.6**
Harmonised index of consumer prices				2.0	2.4	0.5	0.3	**0.4**	**1.5**	**1.9**
Terms of trade goods				0.8	0.6	1.7	0.4	**0.7**	**-0.5**	**-0.6**
Trade balance (goods) (c)				2.8	2.8	2.8	2.1	**2.4**	**2.0**	**1.5**
Current-account balance (c)				3.2	5.6	7.2	6.3	**7.0**	**6.9**	**6.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.2	5.6	7.2	6.3	**6.8**	**6.8**	**6.5**
General government balance (c)				0.8	-3.6	-1.3	1.5	**-3.3**	**-2.5**	**-1.7**
Cyclically-adjusted budget balance (d)				0.2	-1.5	1.3	3.8	**-1.5**	**-1.3**	**-1.0**
Structural budget balance (d)				-	0.0	-0.2	0.6	**-2.3**	**-1.4**	**-1.0**
General government gross debt (c)				-	45.6	45.0	45.1	**40.2**	**39.3**	**38.3**

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

5. GERMANY

Steady growth ahead

In spite of recent headwinds from weaker export demand in emerging markets, Germany's economic growth continues to be supported by favourable labour market and financing conditions underpinning domestic demand. The renewed decline in oil prices and additional public spending to accommodate refugees should provide further stimulus, while the Volkswagen scandal entails downside risks. Despite the costs related to the inflow of refugees, the general government budget is set to remain in surplus.

Broadly stable economic growth

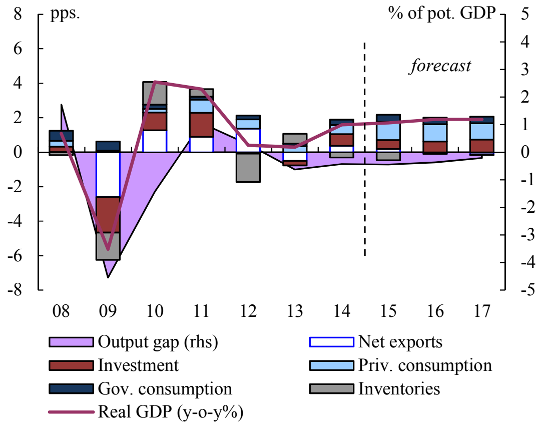
Germany's quarter-on-quarter real GDP growth rate increased slightly from 0.3% in the first quarter of 2015 to 0.4% in the second quarter in seasonal and working-day adjusted terms. Domestic and external drivers of growth alternated in the first half of the year with marked consumption and private investment in the first and strong net exports in the second quarter.

Economic activity is likely to have increased moderately in the third quarter. Employment, retail sales and survey data indicate that the services sector was the main driver of growth over the summer. By contrast, industrial production stagnated in July/August, partly due to the dampening effect of the holiday season. The upward trend of industry orders and the optimism of firms – albeit subdued – point toward steady growth in the fourth quarter. The robust labour market, favourable financing conditions and additional public spending to host and integrate unusually large numbers of asylum seekers will contribute to growth. Overall, real GDP is expected to increase by 1.7% in 2015 and 1.9% in 2016 and 2017.

Marked consumption growth

Employment growth is forecast to slowly regain momentum along with rising economic activity. Asylum seekers could gradually become available for the labour market. However, labour market integration may be limited over the next two years, which may put upward pressure on the overall comparatively low unemployment rate. The renewed decline in energy prices has further widened the financial scope of households. Slower negotiated wage increases may be largely offset by the introduction of the general minimum wage this year but their impact should be felt more strongly next year. Private consumption is nonetheless expected to grow markedly thanks to high employment, high net immigration, and low interest rates.

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



Continued recovery of business investment

Private investment slightly declined in the second quarter of 2015. This reflects some correction after the boost in equipment and construction investment in the previous quarter on the back of mild weather conditions. Rising domestic capital goods orders, as well as improving sales expectations, support the projection of a continued recovery in corporate investment. Possible spillovers from Volkswagen's manipulation of diesel engine emission tests to other sectors via production chains or confidence effects could create downside risks to corporate investment. Housing investment is expected to moderate its growth only slowly, also due to the additional boost from very high net immigration. Public sector investment is projected to gain some momentum following a decline in the first half of the year, while remaining at a relatively low level.

Trade surplus continues to rise

Strong exports in the first two quarters together with markedly improving terms of trade are forecast to raise the current-account surplus again this year to 8.7%. Going forward, exports may rise less dynamically given the fading boost of the euro's depreciation and impaired foreign demand growth due to weakening emerging markets. Domestic demand should broadly uphold import growth.

Low inflation to continue for some time

The dampening effect of lower oil prices on energy prices is expected to last until late 2016. Spillover effects on other consumer prices together with decelerating unit labour costs in 2015 and 2016 may reduce core inflation. HICP inflation is projected at 0.2% in 2015 and 1.0% in 2016 before accelerating to 1.7% in 2017.

Structural budget surplus despite refugee costs

The general government budget surplus is forecast to rise from 0.3% of GDP in 2014 to 0.9% of GDP in 2015. The increase can be ascribed mainly to one-off factors. Tax reimbursements due to court rulings reduced the budget surplus in 2014, while proceeds from the auction of broadcast spectrum will raise it in 2015. Also, despite higher spending on pensions, growth of current expenditure is forecast to remain slightly behind revenue growth in 2015, thanks also to lower interest spending.

In 2016, increases in the minimum income tax allowance and in child allowances are projected to slow down revenue growth slightly, while expenditure growth is expected to accelerate somewhat, also due to strong pension increases.

Moreover, the accommodation of refugees will raise social spending over the forecast horizon, while additional funds provided for infrastructure investment as well as for social housing in view of the strong immigration flows should gradually increase public sector investment.

Overall, headline and structural budget balances are expected to decline but to remain in sizeable surplus over the forecast horizon. As a result, the gross debt-to-GDP ratio is set to decrease rapidly, from 75.0% in 2014 to 65.5% in 2017.

Graph II.5.2: **Germany - Current account balance**

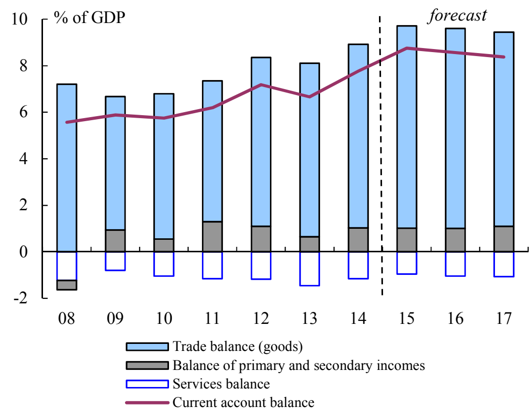


Table II.5.1:

Main features of country forecast - GERMANY

	2014			Annual percentage change					
bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	2915.7	100.0	1.4	0.4	0.3	1.6	**1.7**	**1.9**	**1.9**
Private Consumption	1592.2	54.6	0.9	1.0	0.6	0.9	**1.9**	**1.9**	**1.8**
Public Consumption	564.0	19.3	1.3	1.3	0.8	1.7	**2.1**	**2.0**	**2.0**
Gross fixed capital formation	585.1	20.1	1.0	-0.4	-1.3	3.5	**2.6**	**3.1**	**3.6**
of which: equipment	189.8	6.5	3.0	-2.6	-2.3	4.5	**4.6**	**3.5**	**4.5**
Exports (goods and services)	1333.2	45.7	6.5	2.8	1.6	4.0	**5.8**	**4.3**	**5.1**
Imports (goods and services)	1136.8	39.0	5.5	-0.3	3.1	3.7	**6.4**	**5.3**	**6.3**
GNI (GDP deflator)	2982.4	102.3	1.6	0.3	0.1	1.7	**1.7**	**1.9**	**1.9**
Contribution to GDP growth: Domestic demand			1.0	0.7	0.2	1.5	**2.0**	**2.0**	**2.1**
Inventories			0.0	-1.6	0.6	-0.3	**-0.5**	**0.0**	**0.0**
Net exports			0.5	1.4	-0.5	0.4	**0.2**	**-0.1**	**-0.1**
Employment			0.6	1.2	0.6	0.9	**0.5**	**0.6**	**0.8**
Unemployment rate (a)			8.7	5.4	5.2	5.0	**4.7**	**4.9**	**5.2**
Compensation of employees / head			1.2	2.5	1.8	2.6	**2.9**	**2.7**	**3.2**
Unit labour costs whole economy			0.4	3.3	2.2	1.9	**1.6**	**1.4**	**2.1**
Real unit labour cost			-0.4	1.8	0.1	0.2	**-0.3**	**-0.2**	**0.4**
Saving rate of households (b)			16.2	16.4	16.4	16.8	**16.9**	**16.8**	**16.7**
GDP deflator			0.8	1.5	2.1	1.7	**1.9**	**1.6**	**1.8**
Harmonised index of consumer prices			1.5	2.1	1.6	0.8	**0.2**	**1.0**	**1.7**
Terms of trade goods			-0.2	-0.4	1.9	1.8	**3.0**	**0.3**	**0.0**
Trade balance (goods) (c)			5.4	7.3	7.5	7.9	**8.7**	**8.6**	**8.4**
Current-account balance (c)			2.7	7.2	6.7	7.8	**8.7**	**8.6**	**8.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.7	7.2	6.7	7.8	**8.8**	**8.6**	**8.4**
General government balance (c)			-2.4	-0.1	-0.1	0.3	**0.9**	**0.5**	**0.4**
Cyclically-adjusted budget balance (d)			-2.2	-0.2	0.2	0.5	**1.1**	**0.7**	**0.6**
Structural budget balance (d)			-	-0.1	0.3	0.8	**0.9**	**0.7**	**0.6**
General government gross debt (c)			64.6	79.7	77.4	74.9	**71.4**	**68.5**	**65.6**

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

6. ESTONIA

Steady, stable growth

Estonia's economy is forecast to grow by 1.9% in 2015 and then by 2.6% in both 2016 and 2017, as external demand and investment slowly pick up. Unemployment, however, is set to surge from late-2016, as new measures entice work-disability pensioners back to the labour market. The consumption-driven nature of GDP growth is expected to bolster the fiscal surplus.

Moderate growth in 2015 despite negative base effects

Estonia's real GDP growth is forecast to grow by 1.9% in 2015, slightly less than expected in the spring 2015 forecast. However, this takes place against the background of a significant upward revision of the growth rate for 2014 from 2.1% to 2.9%, as exports of services grew faster than initially estimated. In the first half of 2015, real GDP growth slowed to 1.7% (y-o-y). Private consumption contributed the most, supported by strong wage increases, income tax cuts and low consumer price inflation. Following the completion of major investment projects in the energy sector in 2013 and 2014, investment activity disappointed, especially in transport and ICT equipment. After building up in 2014, inventories started contracting. Net exports contributed to growth, as Estonian exporters have had some success diversifying away from Russia and because low investment levels have depressed import demand.

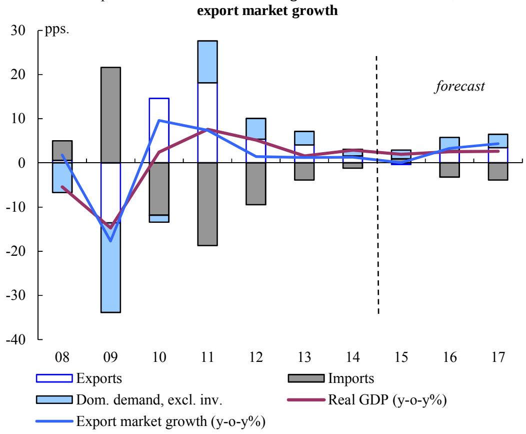
Private consumption loses some momentum

Real GDP growth is expected to rise to 2.6% in 2016, supported by positive base effects in the first half of 2015 and to remain at that level in 2017 as the global outlook improves only slowly. Private consumption is projected to decelerate over the forecast horizon as real income growth slows amid rising inflation, but investment is expected to become a stronger growth driver.

Financing conditions remain favourable

Bank lending is set to increase as financing conditions remain relatively favourable. Macro-prudential regulations that entered into force in March 2015 are not expected to tighten credit supply, as they are already broadly met by banks' internal credit rules. Investment, especially in equipment, is forecast to rebound in 2016 and 2017 supported by growing demand from the euro area and the effort of businesses to replace increasingly expensive workers with equipment. Public investment is projected to gradually start growing again over the course of 2016-17, after disbursements of EU funding under the new programming period begin. Favourable financing terms and higher incomes can be expected to produce an uptick in household investment over the forecast horizon.

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



Current account remains in surplus

After strong exports of electrical equipment and transport services in 2014, overall exports are likely to decline in 2015, especially amid lower demand from Russia since the rouble depreciation. However, a reorientation of goods exports towards EU trading partners is set to ensure a positive external balance of goods and services throughout the forecast period.

Upside risks to the forecast could stem from a de-escalation of the tensions in Ukraine, which could help to restore trade flows with neighbouring Russia and inflows of foreign direct investment.

Legislative changes impact labour market data

As the obligation for entrepreneurs to register their workforce was tightened in mid-2014, employment growth is expected to reach 1.1% in 2015 (up from 0.8% in 2014). In parallel, emigration, although abating, and low birth rates are reducing Estonia's working-age population. Overall, this trend is expected to decrease the unemployment rate to around 6.5% in 2016, down from 7.4% in 2014. Wage growth has exceeded productivity growth over the last two years, resulting in rising unit labour costs, especially in non-tradable sectors.

Wage growth is expected to remain below 6% over the forecast period, as public sector wage policy foresees wage moderation at the central government. As the work capacity reform expected for mid-2016 is expected to induce significant numbers of pensioners to re-enter the labour market, the unemployment rate is set to rise again in 2017. Participation in the labour force is already high, at close to 70%, and could even exceed this level in 2017.

Inflation expected to pick up

Annual inflation turned negative in mid-2014 and is forecast to only stay slightly above zero in 2015 reflecting steep declines in international energy prices, in particular crude oil, which outweighs the impact of the euro's depreciation. Inflation is expected to be pushed up to 1.8% in 2016 and 2.9% in 2017 as commodity prices begin a timid ascent, excise taxes and administrative prices are increased, and a continued strong wage growth add to inflationary pressures.

Fiscal surpluses are supported by the tax-rich composition of GDP growth

The general government achieved a surplus of 0.7% of GDP in 2014. Tax revenues are expected to remain strong in 2015 on account of rapid growth in wages and private consumption, of measures to improve tax compliance and in view of extraordinary government revenues from corporate income tax. Nevertheless, in 2015 the fiscal surplus is expected to slip to 0.2% of GDP, as expenditure growth is set to exceed revenue growth due to increased social spending and investment. Also, income tax rates were cut by 1 pp. in 2015. Taking into account the already legislated tax changes (essentially shifting taxes from labour to consumption), public finances are expected to remain in slight surplus in 2016 and in 2017. In structural terms, the fiscal position is expected to remain in a small surplus in 2015 and 2016, but to turn into a small deficit in 2017 due to the widening of a positive output gap. Estonia's very low public debt is expected to fall further from 10.4% of GDP in 2014 to about 9% of GDP in 2017.

Table II.6.1:

Main features of country forecast - ESTONIA

	2014		Annual percentage change						
	bn EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	20.0	100.0	4.4	5.2	1.6	2.9	**1.9**	**2.6**	**2.6**
Private Consumption	10.2	50.9	5.0	4.4	3.8	3.5	**5.2**	**3.2**	**2.8**
Public Consumption	3.8	19.2	1.4	3.6	1.5	3.0	**1.4**	**1.5**	**2.0**
Gross fixed capital formation	5.0	25.2	8.0	6.7	3.2	-3.1	**-3.9**	**4.1**	**4.9**
of which: equipment	2.1	10.6	8.4	31.2	8.3	-5.9	**-14.0**	**4.0**	**4.9**
Exports (goods and services)	16.7	83.9	8.2	6.2	4.7	1.8	**-0.4**	**3.5**	**4.3**
Imports (goods and services)	16.1	80.5	8.7	11.7	4.5	1.4	**-1.2**	**4.2**	**5.0**
GNI (GDP deflator)	19.5	97.7	4.1	6.4	3.6	2.6	**1.7**	**2.6**	**1.7**
Contribution to GDP growth: Domestic demand			5.7	4.7	3.0	1.5	**1.9**	**3.0**	**3.0**
Inventories			0.1	2.9	-1.1	2.5	**-0.6**	**0.0**	**0.0**
Net exports			-1.0	-4.1	0.2	0.4	**0.6**	**-0.4**	**-0.4**
Employment			-0.5	1.6	1.2	0.8	**1.1**	**-0.6**	**-0.1**
Unemployment rate (a)			10.4	10.0	8.6	7.4	**6.5**	**6.5**	**7.6**
Compensation of employees / head			11.5	6.9	5.8	5.9	**4.9**	**5.5**	**5.4**
Unit labour costs whole economy			6.2	3.3	5.5	3.7	**4.1**	**2.3**	**2.6**
Real unit labour cost			-0.8	0.6	1.5	1.7	**3.1**	**-0.2**	**-0.6**
Saving rate of households (b)			4.3	6.5	8.8	8.0	**9.0**	**8.7**	**7.4**
GDP deflator			7.1	2.7	4.0	2.0	**0.9**	**2.5**	**3.2**
Harmonised index of consumer prices			5.7	4.2	3.2	0.5	**0.1**	**1.8**	**2.9**
Terms of trade goods			0.7	-1.7	0.6	0.0	**-0.3**	**0.1**	**0.2**
Trade balance (goods) (c)			-14.9	-6.6	-4.7	-5.0	**-4.5**	**-4.7**	**-5.0**
Current-account balance (c)			-8.2	-2.3	0.4	1.3	**1.6**	**1.2**	**-0.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.9	1.1	3.1	2.3	**2.9**	**2.5**	**1.4**
General government balance (c)			0.4	-0.3	-0.1	0.7	**0.2**	**0.2**	**0.1**
Cyclically-adjusted budget balance (d)			-0.1	-1.0	-0.6	0.2	**0.0**	**0.1**	**-0.2**
Structural budget balance (d)			-	-0.1	-0.4	0.3	**0.3**	**0.2**	**-0.2**
General government gross debt (c)			-	9.5	9.9	10.4	**10.0**	**9.6**	**9.2**

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

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

7. IRELAND

Exceptionally strong rebound after years of successful adjustment

Ireland's recovery appears resilient to weaker global growth. Domestic demand and exports, including from indigenous firms, have rebounded, bringing about record GDP growth. As a result, the government deficit continues to decline and the debt-to-GDP ratio is forecast to fall below 100% already this year. Although deleveraging continues, private and public debt levels remain high, creating vulnerabilities to potential shocks or interest rate increases.

The Irish economy surged in the first half of 2015 setting the ground for record growth. National statistics suggest that real GDP grew by 7.0% compared to the same period last year. These quarterly estimates point to an annual average growth rate of 6% or higher but should be read with some caution given their typical volatility. The strong recovery, which was initially driven by net exports, is now firmly based on domestic demand across economic sectors. From 2016, GDP growth is set to converge towards more sustainable rates. Supply constraints, for instance in housing or infrastructure, may become more pressing as the country returns to positive net migration.

Investment is playing a central role in Ireland's recovery, catching-up to its long-run average. In spite of high volatility – driven by aircraft leasing and cross-border transfers of intellectual property by a few multinationals – core investment is set to remain strong in 2016 and 2017. Public investment, still well below the EU average, is expected to increase moderately, broadly in line with a multiannual plan recently presented by the government. The anticipated pick-up in construction, needed to meet housing demand, is being delayed by supply constraints that are proving difficult to address.

Ireland has turned a corner as regards the impact of deleveraging on consumption

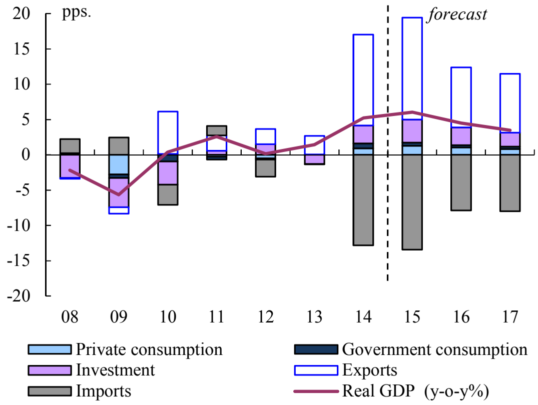
Deleveraging needs remain high for households but pent-up demand and demand from younger households with rising incomes and significantly less leverage mean that private consumption is once again adding to GDP growth, without significant credit expansion. As wages and job creation progress further, private consumption is set to increase in 2016 and 2017, albeit at lower rates as demand for durable goods normalises.

Export growth is being driven not just by foreign multinationals but by indigenous companies too. Helped by the weak euro and improved access to financing, Irish SMEs are exporting more this year. While exports have experienced another level shift due to the activities of multinationals, strong imports are set to compensate net trade, as last year. In 2016 and 2017, net exports are forecast to grow at rates closer to fundamentals.

The recovery continues to be employment-rich

The unemployment rate is projected to reach 7.9% in 2017, as the moderation in employment growth relative to GDP is expected to continue — coupled with the uncertain outlook for the construction sector, and the expected growth in working-age population and likely increase in labour market participation. Consumer price inflation is expected to be close to zero in 2015 but to recover in 2016 and 2017, driven by wages and later energy prices. House prices are expected to moderate on account of a number of factors including the limits introduced on loan-to-value and loan-to-income ratios for mortgages.

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



Risks to the forecast are on the upside for 2015 and more balanced later on. If quarterly national accounts estimates for the first half of the year are confirmed in full, Ireland could be looking at a real GDP growth rate well in excess of 6% in 2015. For 2016 and 2017, domestic dynamics could prove stronger than forecast while the external environment could deteriorate if the slowdown in China affects global trade more widely and supresses demand for Irish exports. High levels of debt continue to leave Ireland vulnerable to potential increases in interest rates in 2016-17. As part of the no-policy-change assumption, the United Kingdom is assumed to remain in the EU.

Public finances continue to improve, as the economy powers ahead

The general government deficit is forecast to drop to 2.2% of GDP in 2015, down from 3.9% in 2014, posting a significant improvement compared to our spring forecast of 2.8% of GDP. This reflects better-than-expected tax revenues, lifted by domestic demand, and mild expenditure dynamics.

In 2015, government revenues are likely to exceed expectations by a significant margin. Cash returns increased by 5.8% y-o-y in the first three quarters, 0.8% of GDP above target, largely due to corporate tax receipts, which were up by 44% from 2014. Expenditure remained broadly on target in the same period, despite renewed slippages on healthcare and social protection, which were offset by other savings. However, in light of the sizeable revenue windfalls, the government recently announced additional spending of around 0.7% of GDP for the last quarter of 2015.

Ireland's 2016 Draft Budgetary Plan includes new tax cuts and expenditure increases worth around EUR 1.5 billion. Thanks to the robust growth outlook, the general government deficit is still expected to improve to around 1.5% of GDP. Unless further measures are taken, the deficit is set to remain unchanged in 2017. Downside risks to the forecast mainly relate to external factors whereas internal demand is likely to provide further support.

The structural deficit is expected to narrow only marginally this year — from 3¼% of GDP in 2014 to 3% of GDP in 2015 — before reaching close to 2% of GDP in 2016.

Gross general government debt is projected to continue falling, from 107.5% of GDP in 2014, to 93.7% in 2017. This marked improvement results from the combined effect of robust economic growth, the primary surpluses in the general government balance and certain debt management operations — including the further cancellation of floating rate bonds in the context of the liquidation of the Irish Banking Resolution Corporation.

Table II.7.1:

Main features of country forecast - IRELAND

		2014		Annual percentage change						
	bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		189.0	100.0	5.1	0.2	1.4	5.2	**6.0**	**4.5**	**3.5**
Private Consumption		83.8	44.3	4.4	-1.0	0.1	2.1	**2.9**	**2.5**	**2.0**
Public Consumption		32.4	17.2	3.8	-1.2	0.0	4.0	**2.6**	**1.9**	**2.2**
Gross fixed capital formation		36.5	19.3	4.3	8.6	-6.6	14.3	**16.8**	**11.9**	**8.8**
of which: equipment		14.2	7.5	6.7	10.3	-8.1	27.2	**17.0**	**14.0**	**11.0**
Exports (goods and services)		215.0	113.7	8.7	2.1	2.5	12.1	**12.7**	**7.0**	**6.7**
Imports (goods and services)		180.3	95.4	8.0	2.9	0.0	14.7	**14.1**	**7.7**	**7.6**
GNI (GDP deflator)		163.9	86.7	4.4	0.6	4.6	6.9	**7.9**	**4.1**	**2.7**
Contribution to GDP growth:	Domestic demand			3.7	0.8	-1.2	4.1	**5.0**	**3.9**	**3.2**
	Inventories			0.0	-0.2	0.2	0.5	**0.0**	**0.0**	**0.0**
	Net exports			1.6	-0.2	2.7	0.1	**1.1**	**0.6**	**0.3**
Employment				2.3	-0.6	2.4	1.7	**2.0**	**1.5**	**1.4**
Unemployment rate (a)				7.3	14.7	13.1	11.3	**9.5**	**8.7**	**7.9**
Compensation of employees / head				4.1	0.0	-0.7	1.8	**3.2**	**2.2**	**2.2**
Unit labour costs whole economy				1.3	-0.8	0.2	-1.6	**-0.8**	**-0.7**	**0.1**
Real unit labour cost				-0.9	-1.1	-1.0	-1.7	**-2.7**	**-2.5**	**-1.2**
Saving rate of households (b)				-	12.9	12.7	13.4	**6.1**	**5.2**	**4.7**
GDP deflator				2.2	0.4	1.2	0.1	**2.0**	**1.9**	**1.3**
Harmonised index of consumer prices				2.3	1.9	0.5	0.3	**0.3**	**1.4**	**1.6**
Terms of trade goods				0.2	-6.4	0.3	-1.3	**0.4**	**0.3**	**-0.1**
Trade balance (goods) (c)				21.5	21.5	19.5	22.4	**28.0**	**28.7**	**29.5**
Current-account balance (c)				-1.1	-1.5	3.1	3.6	**5.9**	**5.7**	**4.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.7	-1.5	3.2	3.7	**6.2**	**6.0**	**4.9**
General government balance (c)				-3.0	-8.0	-5.7	-3.9	**-2.2**	**-1.5**	**-1.5**
Cyclically-adjusted budget balance (d)				-3.4	-6.4	-3.9	-3.3	**-2.9**	**-2.2**	**-1.6**
Structural budget balance (d)				-	-6.4	-4.3	-3.2	**-3.0**	**-2.1**	**-1.6**
General government gross debt (c)				47.6	120.2	120.0	107.5	**99.8**	**95.4**	**93.7**

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

8. GREECE

Uncertainty reverses economic recovery

The Greek economy is projected to slip back into recession in 2015 after a period of heightened uncertainty culminated in a bank holiday and introduction of capital controls. The latter is set to have lasting effects on the economy, expected to remain in recession in 2016. The implementation of the new ESM programme will enable a rebound in confidence and investment that is set to support positive growth and the reduction in the general government deficit to below 3% of GDP in 2017.

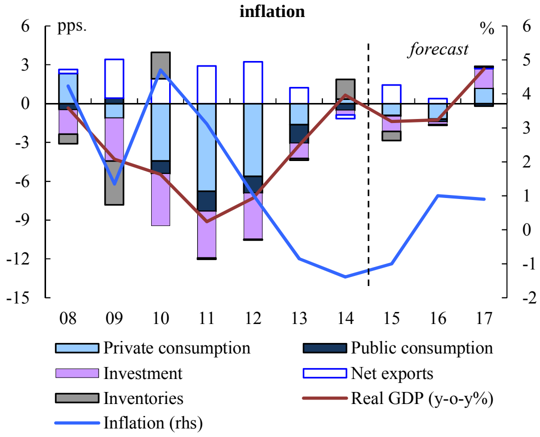
Back into recession

The Greek economy built up positive momentum in 2014. However, the unsuccessful conclusion of the 2nd Adjustment Programme, the referendum called in June 2015, the ensuing bank holiday and the introduction of capital controls raised uncertainty and deteriorated the growth outlook. Confidence suffered, reflected in the Economic Sentiment Indicator (ESI) and the Purchasing Managers Index (PMI), the latter plummeting to historically low levels in July and August 2015.

Despite the uncertainty, real GDP grew by 1.0% in the first half of 2015. This unexpected outcome most likely reflects consumers advancing spending amid fears of depositors suffering losses. It also reflects a fall in imports, as trade credit tightened significantly, and is set to impact on production with a lag. Available hard data seem not to fully reflect the turmoil at the beginning of the summer and the impact of capital controls. The fiscal drag, expected to weigh negatively on disposable income in the second half of the year as the deadline for tax payment was back-loaded, the standstill of investment and the poor availability of credit are set to take a heavy toll on economic activity. On the positive side, the tourism sector performed exceptionally well for the second year in a row. Despite a drop in goods exports, net trade is projected to contribute positively to growth, due to the larger drop in imports. Overall, the Greek economy is forecast to contract by 1.4% in 2015.

Recovery is expected in the course of 2016, supported by a rebound in confidence, the stabilisation of the financial sector following the banks' recapitalisation expected at the end of 2015, and the consequent re-launching of investment and privatisation projects. Nevertheless, the economy is projected to contract by 1.3% in 2016 amid negative carryover effects from 2015. In 2017, GDP growth is set to gather speed and is projected at 2.7% as implemented structural reforms strengthen aggregate demand.

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



The projected improvement in Greece's current account deficit in 2015 is due to the decrease in imports, while it is expected to turn into surplus in the forecast horizon as past and ongoing structural reforms create new opportunities.

The decreasing trend of unemployment, followed since the peak in 2013, is expected to be interrupted in 2015 and 2016, before resuming in 2017. Compensation per employee is projected to decline further in 2015, before starting to rise again in 2016. HICP inflation is expected to be negative in 2015, as the impact of lower oil prices and the weak demand outweigh the impact of VAT reforms raising many items to the standard rate. Inflation is expected to start increasing from 2016 onwards in line with the economic recovery.

Upside risks to the growth outlook are related to the public sector settling arrears and the full absorption of EU structural funds by the end of the year. On the downside, failure to adequately recapitalise the banking sector within the agreed timeframe or to fully deliver on the reform programme would undermine growth prospects.

Adjusted fiscal dynamics with swift action

The prolonged uncertainty and the turnaround in the economic cycle also had a negative impact on public finances in the first half of 2015, especially on revenues, which led to a revision of fiscal targets. The fiscal policy measures agreed with the authorities in the 3rd adjustment programme that were partly implemented already in July and August 2015 are expected to yield savings of over 1% of GDP in the second half of 2015 and up to 4% of GDP cumulatively through 2017. With this significant fiscal consolidation, the primary balance is projected to record a small deficit in 2015 (0.25% of GDP) before returning to surplus in 2016 (0.5% of GDP). Moreover, the Greek government has committed to legislating in autumn 2015 an additional fiscal package to ensure a primary surplus of 1.75% of GDP in 2017. Based on this primary balance path, the headline deficit is projected to fall from 4.6% of GDP in 2015 to 2.2% of GDP in 2017. Downside risks include increased spending due to the marked migration inflows whose impact is still being assessed.

The fiscal projections do not include (i) the return of SMP and ANFA profits to the Greek Government, reflecting the Eurogroup statement of 27 June 2015 to suspend these transfers, and (ii) the forthcoming recapitalisation of the Greek banking sector, that will have a substantial but temporary negative impact on the general government balance, which cannot be determined before the operations take place. The full bank recapitalisation envelope of up to 25 billion euros (14% of GDP) envisaged in the ESM programme has been included into the public debt figures starting in 2015, although it remains to be seen if all funds need to be drawn.

The general government debt-to-GDP ratio is expected to peak in 2016 at 199.7% before declining in 2017 to 195.6%. A favourable interest rate outlook, better cash management and the back-loaded amortisation schedule for European Financial Stability Facility (EFSF) loans will keep medium-term interest payments and gross financing needs low despite the high stock of debt.

Graph II.8.2: **Greece - General Government Revenue, Expenditure and Deficit**

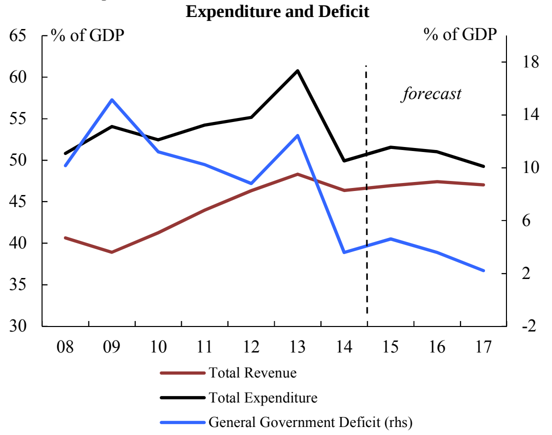


Table II.8.1:

Main features of country forecast - GREECE

	2014			Annual percentage change						
	bn EUR Curr. prices	% GDP		96-11	2012	2013	2014	2015	2016	2017
GDP	177.6	100.0		1.6	-7.3	-3.2	0.7	**-1.4**	**-1.3**	**2.7**
Private Consumption	125.0	70.4		1.8	-8.0	-2.3	0.5	**-1.3**	**-1.7**	**1.7**
Public Consumption	35.4	19.9		1.9	-6.0	-6.5	-2.6	**-0.2**	**-1.0**	**-0.9**
Gross fixed capital formation	20.6	11.6		1.1	-23.5	-9.4	-2.8	**-10.2**	**-2.0**	**14.7**
of which: equipment	8.7	4.9		4.9	-36.5	-0.6	18.7	**-9.3**	**-3.0**	**15.0**
Exports (goods and services)	58.0	32.7		5.5	1.2	2.2	7.5	**0.1**	**1.2**	**4.1**
Imports (goods and services)	62.6	35.2		4.3	-9.1	-1.9	7.7	**-4.0**	**0.0**	**3.7**
GNI (GDP deflator)	177.5	100.0		1.3	-4.1	-3.8	0.7	**-1.1**	**-1.1**	**2.9**
Contribution to GDP growth:	Domestic demand			2.0	-10.5	-4.3	-0.6	**-2.1**	**-1.6**	**2.5**
	Inventories			-0.1	0.0	-0.1	1.5	**-0.7**	**-0.1**	**0.1**
	Net exports			-0.2	3.2	1.2	-0.3	**1.4**	**0.4**	**0.1**
Employment				0.3	-6.3	-3.6	0.1	**0.4**	**-0.6**	**2.0**
Unemployment rate (a)				10.7	24.5	27.5	26.5	**25.7**	**25.8**	**24.4**
Compensation of employees / head				5.3	-3.0	-7.0	-2.1	**-2.0**	**0.1**	**0.8**
Unit labour costs whole economy				4.0	-2.0	-7.4	-2.6	**-0.2**	**0.8**	**0.1**
Real unit labour cost				0.5	-1.6	-5.0	-0.4	**0.9**	**0.2**	**-0.6**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				3.4	-0.4	-2.5	-2.2	**-1.1**	**0.6**	**0.7**
Harmonised index of consumer prices				3.7	1.0	-0.9	-1.4	**-1.0**	**1.0**	**0.9**
Terms of trade goods				-0.2	-0.2	1.7	0.9	**-3.3**	**-0.8**	**0.0**
Trade balance (goods) (c)				-14.8	-10.9	-10.5	-11.7	**-10.7**	**-11.2**	**-11.3**
Current-account balance (c)				-9.7	-4.3	-2.1	-2.9	**-1.0**	**-0.3**	**0.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-8.1	-2.5	0.5	-1.1	**1.0**	**1.7**	**2.0**
General government balance (c)				-	-8.8	-12.4	-3.6	**-4.6**	**-3.6**	**-2.2**
Cyclically-adjusted budget balance (d)				-	-2.7	-6.5	0.8	**-0.8**	**-0.3**	**-1.0**
Structural budget balance (d)				-	-0.4	2.0	0.6	**-1.1**	**-0.3**	**-1.0**
General government gross debt (c)				-	159.4	177.0	178.6	**194.8**	**199.7**	**195.6**

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

9. SPAIN

Growth to ease but job creation remains robust

After a strong start of the year, economic growth is set to ease but remain robust, underpinned by sustained job creation, improved financing conditions, high confidence and low oil prices. Net exports are expected to become broadly neutral for growth. The general government deficit is expected to narrow as a result of the economic recovery.

Smooth deceleration ahead

After a strong start to the year, the pace of economic growth in Spain is expected to begin easing in the third quarter. Notwithstanding the envisaged deceleration, growth is set to remain robust over the forecast horizon, backed by broadly positive labour market developments, improved access to credit for both firms and households and enhanced confidence, while low oil prices are set to continue to provide a powerful tailwind. The drag on domestic demand from private sector deleveraging is expected to ease over the forecast horizon, while the current account is forecast to remain in surplus.

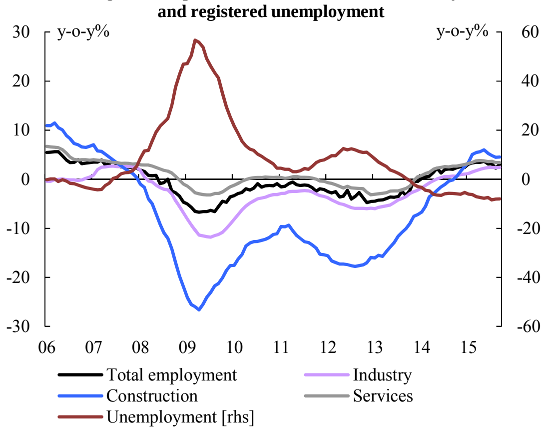
Accordingly, GDP is now forecast to expand by 3.1%, 2.7% and 2.4% in 2015, 2016 and 2017, respectively, mainly driven by domestic demand. By the end of the forecast horizon, the gap of real economic output to its 2008 peak will have closed.

According to hard and soft data on economic activity, private consumption growth slowed down slightly in the third quarter of 2015. This smooth deceleration is forecast to continue as employment growth softens. Despite this, private consumption is set to remain the main driver of growth throughout the forecast period, supported by low inflation, the recent reduction in the personal income tax and a steadily improving labour market. Still, the increase in gross disposable incomes leaves scope for the households' saving rate to increase over the forecast horizon and their leverage levels to continue to fall.

Despite a slight deceleration, broadly positive demand prospects, supportive financing conditions and the projected rebound in exports are expected to continue supporting equipment investment over the forecast horizon, also helped by persistently low oil prices. Construction, including residential investment, is forecast to pick up in 2015 and gain momentum in 2016. By contrast, public investment is set to contribute only modestly to the increase in total construction investment.

Exports are expected to progressively gather steam, fuelled by continued improvements in competitiveness and recovering growth in Spain's main export markets. Import growth, by contrast, is forecast to remain broadly stable over the forecast horizon. As a result, net exports are set to prove slightly negative for growth in 2015 and broadly neutral thereafter. In turn, the current account surplus is set to widen to 1.4% of GDP in 2015 and to remain around this level until 2017, thanks to favourable terms of trade and the reduction of the deficit in the balance of primary incomes and current transfers. Net external lending is expected to remain at around 1.8% of GDP over the forecast period.

Graph II.9.1:**Spain - Affiliates to the social security and registered unemployment**



Inflation is expected to remain negative in the short term, standing at -0.5% in 2015 as a whole, mainly because of the fall in oil prices. In 2016 and 2017, however, inflation is forecast to rise, but remain at low levels, as there remains slack in the economy.

Employment growth to moderate

Job creation continued to rise during the first half of 2015, while the labour force registered a small expansion, leading to a decline in the unemployment rate to 22.4% in the second quarter of 2015. Ongoing wage moderation resulting in only modest increases in nominal unit labour costs continues to support robust, though decelerating, job creation, allowing for a further reduction in unemployment. By 2017, the unemployment rate is forecast to fall to 19.0%.

Deficit reduction driven by the recovery

Supported by strong economic growth and the positive effect of improved financing conditions, Spain's public finances have continued to improve in 2015. After reaching 5.9% of GDP in 2014, 0.1 pp. higher than previously reported as a result of a downward revision of nominal GDP levels, the general government deficit narrowed by a further 0.5 pps. in the first half of 2015 compared to the same period last year. Monthly data for July for all government levels except local government and tax revenue data from the national Tax Authority until August indicate that the deficit continued to shrink in the 2015-Q3, driven by strong revenue growth. In particular, taxes on production and imports are growing at a fast pace, as domestic demand is growing briskly. Despite cuts in personal income taxes, taxes on income and wealth are expected to hold up well, helped by an expected strong increase in corporate tax revenues.

Going forward, the reduction of the general government deficit is set to continue relying to a large extent on the positive macroeconomic outlook, which is set to support tax revenues and to keep social transfers in check. In particular, while pension expenditures are forecast to continue rising, falling unemployment should limit the growth of social transfers in the near future. Previous improvements in financing conditions and the decelerating public debt ratio imply that interest expenditure continues to fall. Overall, Spain's general government deficit is expected to fall to 4.7% of GDP in 2015 and to narrow to 3.6% in 2016 and by a further percentage point in 2017. The downward revision of the 2014 nominal GDP level contributes to a 0.1 pp higher deficit-to-GDP ratio in all forecast years. In addition, the reduction of the 2015 deficit is held back by 0.1 pps. of GDP following an expected reclassification of public investment at the regional level, previously recorded as private investment. Risks to this deficit forecast stem from the degree of expenditure restraint, primarily at regional government level.

Spain's structural deficit is expected to remain broadly stable at 2½% of GDP over the forecast period. Thanks to a narrowing deficit and stronger nominal GDP growth, the public debt-to-GDP ratio is expected to peak in 2016 at 101.3% before falling back to 100.4% in 2017.

Table II.9.1:

Main features of country forecast - SPAIN

	2014		Annual percentage change						
	bn EUR Curr. prices	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP	1041.2	100.0	2.6	-2.6	-1.7	1.4	**3.1**	**2.7**	**2.4**
Private Consumption	606.8	58.3	2.3	-3.5	-3.1	1.2	**3.4**	**2.7**	**2.1**
Public Consumption	202.4	19.4	3.9	-4.5	-2.8	0.0	**0.8**	**0.2**	**0.6**
Gross fixed capital formation	204.1	19.6	2.5	-7.1	-2.5	3.5	**6.3**	**5.4**	**4.8**
of which: equipment	66.6	6.4	3.9	-8.5	4.0	10.6	**9.6**	**8.2**	**6.2**
Exports (goods and services)	338.8	32.5	5.1	1.1	4.3	5.1	**4.9**	**5.3**	**5.4**
Imports (goods and services)	312.9	30.1	5.1	-6.2	-0.3	6.4	**6.1**	**5.8**	**5.5**
GNI (GDP deflator)	1036.9	99.6	2.5	-1.6	-1.4	1.4	**3.2**	**2.5**	**2.6**
Contribution to GDP growth: Domestic demand			2.7	-4.5	-2.8	1.3	**3.4**	**2.7**	**2.3**
Inventories			0.0	-0.3	-0.2	0.2	**0.0**	**0.0**	**0.0**
Net exports			-0.1	2.1	1.4	-0.2	**-0.2**	**0.0**	**0.1**
Employment			1.7	-4.4	-3.3	1.2	**2.8**	**2.5**	**2.0**
Unemployment rate (a)			13.8	24.8	26.1	24.5	**22.3**	**20.5**	**19.0**
Compensation of employees / f.t.e.			3.3	-1.1	1.6	-0.7	**0.7**	**0.6**	**1.3**
Unit labour costs whole economy			2.5	-2.9	-0.1	-0.9	**0.4**	**0.5**	**0.9**
Real unit labour cost			-0.3	-3.0	-0.6	-0.5	**-0.2**	**-0.6**	**-0.2**
Saving rate of households (b)			10.6	8.8	10.0	9.6	**10.2**	**10.6**	**11.0**
GDP deflator			2.8	0.0	0.6	-0.4	**0.5**	**1.0**	**1.1**
Harmonised index of consumer prices			2.8	2.4	1.5	-0.2	**-0.5**	**0.7**	**1.2**
Terms of trade goods			-0.1	-1.1	0.9	-1.0	**3.3**	**0.7**	**-0.2**
Trade balance (goods) (c)			-5.5	-2.8	-1.4	-2.2	**-2.0**	**-2.2**	**-2.5**
Current-account balance (c)			-4.6	-0.4	1.5	1.0	**1.4**	**1.3**	**1.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.9	0.1	2.2	1.6	**1.8**	**1.7**	**1.8**
General government balance (c)			-2.8	-10.4	-6.9	-5.9	**-4.7**	**-3.6**	**-2.6**
Cyclically-adjusted budget balance (d)			-3.0	-6.3	-2.3	-2.2	**-2.6**	**-2.7**	**-2.6**
Structural budget balance (d)			-	-3.3	-1.9	-1.8	**-2.5**	**-2.6**	**-2.6**
General government gross debt (c)			53.0	85.4	93.7	99.3	**100.8**	**101.3**	**100.4**

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

10. FRANCE

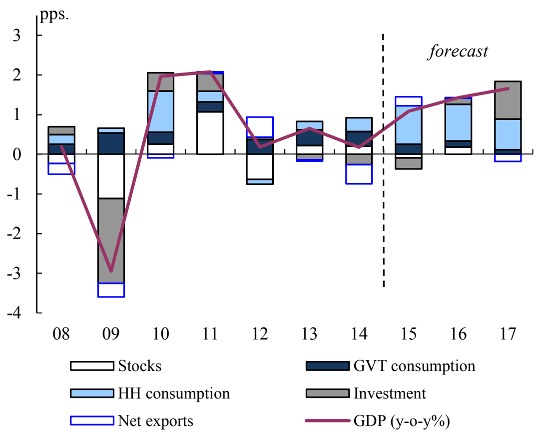
Economic recovery slowly gaining ground

France's economy is expected to slightly accelerate over the forecast horizon, driven initially by strong private consumption and then by a recovery in investment, while net exports would detract from growth again. Unemployment, however, looks unlikely to improve until 2017. The government's headline budget deficit is expected to fall to 3.8% of GDP in 2015 and to continue decreasing to 3.4% of GDP in 2016 as growth gently picks up.

Subdued activity followed by a slow recovery

GDP growth rebounded strongly at the beginning of this year, boosted by temporary tailwinds (lower energy prices, euro depreciation) supporting consumption and exports, but then stagnated in the second quarter. Recent indicators suggest a timid recovery driven by the usual growth engine of the French economy: private consumption. Its dynamism should be enough to sustain growth in 2016, but momentum may fade in 2017 as tailwinds peter out. In parallel, investment is projected to gradually gain momentum from the second half of next year, once business confidence is fully restored and backed by higher profit margins. The small positive contribution of net exports to growth is not expected to last beyond 2015. Overall, GDP is expected to grow by 1.1% this year, and to gently accelerate to 1.4% and 1.7% in 2016 and 2017.

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



Domestic demand underpins GDP growth

Private consumption is expected to remain the main growth driver in 2016, supported by rising household disposable income, positive consumer sentiment and lower household savings. Household real income is also expected to be supported by lower energy costs, very low inflation, sustained wage growth and modest improvements in employment. However, private consumption is projected to decelerate somewhat in 2017, as the boost from lower energy prices wears off.

The recent improvement in corporate profit margins resulting from the fall in oil prices and policies to reduce labour costs are unlikely to be enough to boost equipment investment in the short term, as the improvement in business confidence remains limited. A more substantial recovery in total investment is thus only expected to take shape during the second half of 2016, once aggregate demand growth firms and construction investment returns to positive territory.

External sector to drag growth again

After the significant but short-lived impulse provided by the depreciation of the euro in 2015, the positive contribution of external trade to GDP growth is projected to fade away. Exports are set to remain strong, as demand from major trading partners should partially offset the diminishing stimulus of the euro's depreciation. However, with the gradual acceleration in domestic demand, imports are expected to expand.

Labour market remains weak, inflation slowly picks up

Due to the slow recovery, the labour cost reductions associated with the *Crédit d'Impôt pour la Compétitivité et l'Emploi* and the *Responsibility and Solidarity Pact* - which both aim to encourage more job-rich growth - are likely to have a slow and limited impact on the labour market. As employers focus on restoring lost productivity before creating jobs, the unemployment rate is expected to decline only from 2017.

HICP rates have been in decline again since July because of lower energy prices, but core inflation remains well above zero. Inflation is expected to slowly increase again from 2016, as energy prices flatten and the rebound in domestic demand puts upward pressure on consumer prices.

Risks to the outlook are tilted to the downside

A weaker aggregate demand - domestic or external - could dampen the assumed improvement in French entrepreneurs' confidence and investment, and jeopardise the economic recovery.

Expenditure growth is gradually reduced

The improving macroeconomic outlook should result in a decrease in the general government deficit from 3.9% of GDP in 2014 to 3.8% in 2015. However, due to a lower amount of discretionary measures than in 2014 and to tax elasticities which remain low, current revenues as a share of GDP should decrease somewhat. Taking into account recent developments in interest rates and the expenditure cuts planned for 2015, total public expenditure (net of one-offs) is expected to increase by 1.6% compared to 1.7% in 2014.

France's headline deficit in 2016 is set to decrease further to 3.4% of GDP. The rebound in inflation and the higher tax content of GDP growth are set to support revenue growth despite the tax cuts for households and further reductions in employers' social security contributions planned as part of the *Responsibility and Solidarity Pact*. Revenues should grow in line with GDP as tax elasticities normalise. Meanwhile, the 2016 total public expenditure (net of one-offs) should grow by 1.2%, continuing its downward trend as the government is further reining in spending growth. Downside risks for the deficit are linked to the stricter expenditure norm of the State, which becomes more difficult to respect, and investment by local authorities that could turn out stronger than expected. Overall, the structural balance is estimated to improve by about 0.1 pps. in 2015 and 0.3 pps. in 2016, as the amount of discretionary measures is largely offset by tax cuts.

The headline deficit is set to decline to 3.3% of GDP in 2017. Under the usual no-policy-change assumption, measures that are sufficiently specified have been incorporated in the forecast. The revenue-to-GDP ratio should decline somewhat as the tax cuts for companies planned under the RSP would not be fully offset by more dynamic revenue growth. Spending under the norms for the state and in the health care sector should evolve in line with recent trends. Further expenditure-reducing measures amounting to 0.2% of GDP related to local authorities and pension reforms have also been taken into account. The public debt-to-GDP ratio should further increase, albeit at a slower pace, to 97.4% by 2017.

Table II.10.1:

Main features of country forecast - FRANCE

	2014		Annual percentage change						
	bn EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	2132.4	100.0	1.8	0.2	0.7	0.2	**1.1**	**1.4**	**1.7**
Private Consumption	1183.3	55.5	2.0	-0.2	0.4	0.6	**1.7**	**1.7**	**1.4**
Public Consumption	515.9	24.2	1.5	1.6	1.7	1.5	**1.1**	**0.7**	**0.5**
Gross fixed capital formation	462.5	21.7	2.3	0.2	-0.6	-1.2	**-1.3**	**0.7**	**4.5**
of which: equipment	100.8	4.7	2.6	2.1	-1.5	1.2	**1.1**	**2.2**	**5.7**
Exports (goods and services)	611.8	28.7	4.2	2.5	1.7	2.4	**6.1**	**4.6**	**5.5**
Imports (goods and services)	651.1	30.5	4.9	0.7	1.7	3.8	**5.0**	**4.4**	**5.9**
GNI (GDP deflator)	2174.5	102.0	1.9	-0.7	0.8	0.6	**1.1**	**1.4**	**1.6**
Contribution to GDP growth:	Domestic demand		1.9	0.3	0.5	0.5	**1.0**	**1.2**	**1.8**
	Inventories		0.0	-0.6	0.2	0.2	**-0.1**	**0.2**	**0.0**
	Net exports		-0.1	0.5	0.0	-0.5	**0.2**	**0.0**	**-0.2**
Employment			0.7	0.1	0.0	0.3	**0.3**	**0.5**	**0.8**
Unemployment rate (a)			9.0	9.8	10.3	10.3	**10.4**	**10.4**	**10.2**
Compensation of employees / f.t.e.			2.5	2.4	1.6	1.4	**0.8**	**1.3**	**1.5**
Unit labour costs whole economy			1.5	2.3	0.9	1.5	**0.1**	**0.4**	**0.7**
Real unit labour cost			0.0	1.1	0.2	0.9	**-0.8**	**-0.5**	**-0.3**
Saving rate of households (b)			15.0	14.7	14.3	14.8	**14.5**	**13.9**	**13.6**
GDP deflator			1.5	1.2	0.8	0.6	**0.9**	**0.9**	**0.9**
Harmonised index of consumer prices			1.7	2.2	1.0	0.6	**0.1**	**0.9**	**1.3**
Terms of trade goods			-0.3	-0.3	1.3	1.8	**3.2**	**-0.9**	**-1.4**
Trade balance (goods) (c)			-0.3	-2.5	-1.8	-1.5	**-0.4**	**-0.6**	**-1.0**
Current-account balance (c)			0.4	-2.9	-2.6	-2.3	**-1.3**	**-1.6**	**-2.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			0.4	-3.1	-2.6	-2.3	**-1.1**	**-1.1**	**-1.7**
General government balance (c)			-3.4	-4.8	-4.1	-3.9	**-3.8**	**-3.4**	**-3.3**
Cyclically-adjusted budget balance (d)			-3.8	-4.2	-3.4	-2.8	**-2.7**	**-2.5**	**-2.6**
Structural budget balance (d)			-	-4.3	-3.5	-2.8	**-2.7**	**-2.4**	**-2.6**
General government gross debt (c)			66.2	89.6	92.3	95.6	**96.5**	**97.1**	**97.4**

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

11. CROATIA

Returning to growth, but risks remain

After six years of recession, Croatia's economy is finally set to start growing again in 2015, by 1.1%, as the contraction in domestic demand comes to a halt and exports continue to grow buoyantly. Growth is forecast to accelerate and reach 1.7% in 2017, on the back of greater absorption of EU funds. General government gross debt, however, is also growing and is expected to hit 92.9% of GDP by the end of the forecast horizon, as the general government deficit remains high.

Activity picks up in 2015 on the back of strong exports and a rebound in consumption

In the first and second quarters of 2015, Croatia's economy grew by 0.2% and 0.7% (q-o-q), respectively. Growth in goods exports continued to be buoyant, signalling that Croatia is benefiting from improved external demand from its trading partners. Domestic demand also contributed positively to growth, as lower energy prices and a reduction in personal income tax boosted private consumption. However, real economic output in the second quarter of 2015 was still around 12% smaller than it was in the same quarter of 2008.

A good tourist season is set to contribute positively to GDP growth in the third quarter, but uncertainties ahead of the elections are likely to slow down activity towards the end of the year. Annual GDP growth in 2015 as a whole is expected to reach 1.1%.

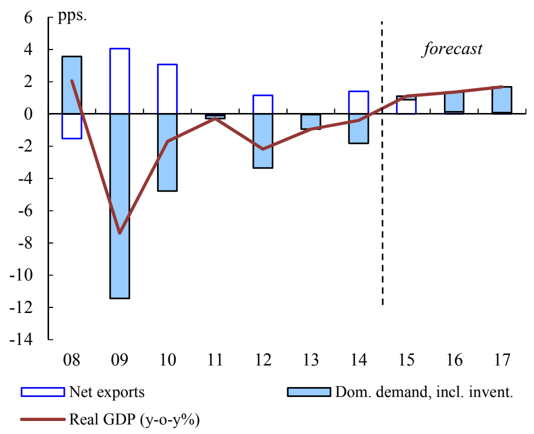
The recent decision to convert CHF mortgage loans into euros is likely to have a minor positive impact on consumption, as households still face pressures to reduce their debt levels. Banks' losses are set to result in an imputed negative flow of reinvested earnings, pushing the current account surplus to above 4% of GDP in 2015, while a negative impact is expected on public finances.

The recovery is forecast to strengthen over the next two years, but there are downside risks

The slowdown in emerging markets is expected to have only a limited and indirect effect on the Croatian economy. The growth in goods exports is forecast to slow somewhat in 2016 and 2017, but remain at a solid 4.9% and 5.6%, respectively, on the back of strengthening trade ties with EU markets and an improved growth outlook in Croatia's key trading partners. Exports of services are also projected to contribute positively, though at a slower pace than in 2015. As imports are also set to rise, the overall contribution of external demand to growth is forecast to decline by 2017 but remain positive.

By contrast, the positive contribution to growth of domestic demand should strengthen in 2016 and further increase in 2017. Households are expected to resume spending slowly. Despite growing deposits from the private sector, credit conditions to both households and firms remain tight, while private investment is still hampered by relatively high debt levels. The rebound in investment is therefore likely to be driven by the public sector, via an enhanced absorption of EU funds. In the absence of a fully-fledged budget for 2016, real government consumption is forecast to expand mildly. Overall, the economy is set to grow at a rate of 1.4% in 2016, further accelerating to 1.7% in 2017.

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



Unemployment is expected to fall to 14.7% by 2017. With the labour force projected to stabilise after 2015, the contraction of the unemployment rate is expected to be driven by an increase in employment.

Following negative inflation in 2015, price dynamics in 2016 are expected to remain subdued, at around 0.9% due to the muted recovery in energy and commodity prices and the slack conditions still prevailing in product and labour markets. HICP inflation is expected to pick up to 1.7% in 2017 as energy prices recover.

Risks to these growth projections are skewed to the downside, as fiscal consolidation measures for 2016 and 2017 still need to be specified and banks' losses due to the CHF conversion could hamper the capacity of the banking system to finance the recovery.

Windfall revenues improve the deficit in 2015

Although inflation is low, the improving macroeconomic situation has started to lend support to the public finances. On account of expanding tax bases, but also containment of expenditure growth, the general government deficit in 2015 is projected to improve to 4.9% of GDP, down from 5.6% in the previous year. General government revenues are expected to grow by 2.8%, which is the highest rate since Croatia's protracted recession began in 2008. Overall, fiscal policy measures are expected to have a neutral impact on the revenue side as the additional revenue from increased excise duties and taxes on interest earned from savings will be largely offset by higher deductions in personal income taxation. Growth in primary expenditures is expected to remain contained in the aggregate, although in some areas, including social benefits and the public wage bill, the budget revision adopted in September 2015 reflects an easing of the consolidation effort. Based on currently available information, the conversion of CHF loans is expected to start negatively affecting revenues from corporate income taxation of banks in 2015, although its main impact (around 0.2% of GDP) is likely to be recorded in 2016.

The general government deficit is projected to decrease to 4.7% of GDP in 2016 and 4.1% of GDP in 2017. In addition to the impact of the conversion of CHF loans, the projection for 2016 revenues factors in deficit-improving changes to the taxation of reinvested earnings for companies and a residual effect of the excise tax hike adopted in 2015. In view of the upcoming general elections, the authorities adopted a temporary budget for the first quarter of 2016, which is based on the proportional part of the 2015 budget.

The structural balance is estimated to improve by about ½ pp. in 2015 before deteriorating by a similar amount in 2016 (under a no-policy-change assumption). The general government debt-to-GDP ratio is projected to continue rising from 89.2% in 2015 to 92.9% in 2017.

Table II.11.1:

Main features of country forecast - CROATIA

	2014			Annual percentage change						
bn HRK	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	328.9	100.0	2.6	-2.2	-0.9	-0.4	**1.1**	**1.4**	**1.7**
Private Consumption	198.1	60.2	2.3	-3.0	-1.2	-0.7	**0.8**	**1.1**	**1.4**
Public Consumption	65.1	19.8	1.5	-1.0	0.5	-1.9	**0.3**	**0.6**	**1.1**
Gross fixed capital formation	61.1	18.6	5.6	-3.3	-1.0	-4.0	**0.8**	**2.4**	**3.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	150.4	45.7	5.0	-0.1	3.0	6.3	**8.8**	**4.1**	**4.5**
Imports (goods and services)	143.5	43.6	4.6	-3.0	3.2	3.0	**7.2**	**4.1**	**4.6**
GNI (GDP deflator)	318.9	97.0	2.4	-2.6	0.3	-1.6	**3.7**	**-1.0**	**1.7**
Contribution to GDP growth: Domestic demand			3.0	-2.7	-0.8	-1.6	**0.7**	**1.2**	**1.6**
Inventories			0.0	-0.7	-0.1	-0.2	**-0.5**	**0.0**	**0.0**
Net exports			-0.3	1.2	0.0	1.4	**0.9**	**0.1**	**0.1**
Employment			-	-3.6	-2.6	2.7(e)	**0.6**	**0.7**	**1.2**
Unemployment rate (a)			12.8	16.0	17.3	17.3	**16.2**	**15.6**	**14.7**
Compensation of employees / head			-	0.2	-0.7	-5.3	**0.9**	**1.5**	**2.0**
Unit labour costs whole economy			-	-1.3	-2.4	-2.4	**0.4**	**0.9**	**1.5**
Real unit labour cost			-	-2.8	-3.2	-2.4	**0.1**	**-0.3**	**0.0**
Saving rate of households (b)			-	12.0	9.5	8.0	**10.4**	**9.0**	**8.3**
GDP deflator			4.1	1.6	0.9	0.0	**0.3**	**1.1**	**1.5**
Harmonised index of consumer prices			3.3	3.4	2.3	0.2	**-0.1**	**0.9**	**1.7**
Terms of trade goods			1.4	-0.4	-1.5	-0.8	**-0.7**	**0.3**	**-0.2**
Trade balance (goods) (c)			-19.1	-14.3	-15.1	-14.4	**-14.5**	**-14.3**	**-14.6**
Current-account balance (c)			-4.6	0.0	0.1	0.6	**4.4**	**2.9**	**3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.6	0.0	0.1	0.4	**4.2**	**3.4**	**3.7**
General government balance (c)			-	-5.3	-5.4	-5.6	**-4.9**	**-4.7**	**-4.1**
Cyclically-adjusted budget balance (d)			-	-4.1	-3.8	-3.9	**-3.6**	**-3.9**	**-3.9**
Structural budget balance (d)			-	-4.1	-3.6	-3.9	**-3.5**	**-3.8**	**-3.9**
General government gross debt (c)			-	69.2	80.8	85.1	**89.2**	**91.7**	**92.9**

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP. (e) break in the time series.

12. ITALY

Moving towards more self-sustaining growth

The cyclical recovery of the Italian economy started in 2015 and it is expected to strengthen in 2016 and 2017 as oil prices remain low and domestic demand warms up. Inflation is forecast to rise very gradually as labour cost pressures remain limited. In 2016, the government structural balance is expected to deteriorate while the debt-to-GDP ratio declines slightly.

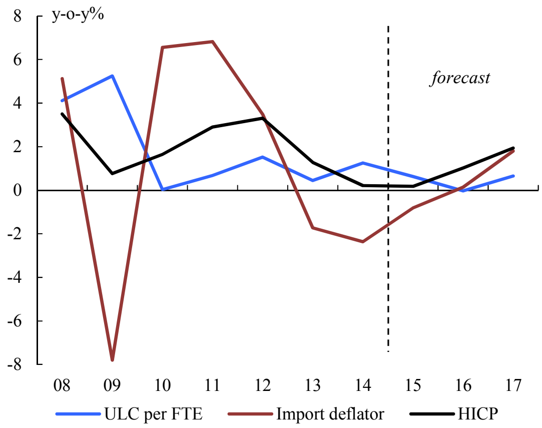
The cyclical recovery is set to strengthen...

In the first half of 2015, Italy's economy started a recovery supported by positive external factors including weaker euro and lower oil prices. Real GDP is anticipated to grow by 0.9% in 2015 (after contracting by 0.4% in 2014) as recent indicators point to further expansion in the second half of the year despite the global trade slowdown. Financing conditions are gradually improving as shown by the yearly increase in the stock of credit to households and manufacturing firms in recent months. The contraction of credit to firms in other sectors has also markedly slowed down since the start of the year. In 2016, real GDP is expected to increase by 1.5 % driven by domestic demand. Low inflation, employment growth and tax cuts are set to support real disposable income and thus private consumption. While the recovery in construction is expected to be gradual, new equipment investment is set to pick-up as demand strengthens, spare capacity wanes and profit margins increase. Although non-performing loans still burden bank balance sheets, credit conditions are set to normalise in 2016 as monetary policy remains accommodative and credit is channelled to more productive firms. Moreover, sound non-financial corporations are in a position to self-finance investments as they have been net lenders in the economy since 2012 and deleveraging needs diminish. Economic expansion is set to continue in 2017 at 1.4% as higher imports compensate for higher external demand and investment. The current-account surplus is set to decline from 2.2% of GDP in 2015 to 1.9% of GDP in 2016-17 with the expected increase in savings more than offset by higher investment. A further slowdown in global demand poses however downside risks.

...and employment to increase...

A three-year social contribution exemption for new permanent hires made in 2015 supported the increase in headcount employment seen in the first half of the year. This is set to continue over the rest of 2015. The 2016 Draft Budgetary Plan (DBP) extends this scheme to new permanent hires made in 2016, but with partial exemption (40%). As recovery gathers strength, employment is thus projected to continue increasing in 2016 and 2017, but more in working hours than in headcount terms. The unemployment rate is set to decline only gradually over the forecast horizon, also because previously discouraged people are expected to join the labour force. Upward pressure on labour costs is projected to remain limited also thanks to cuts to the labour tax wedge. Moreover, the increases in real wages realised over recent years are expected to be discounted in future bargaining rounds. Low wage dynamics and improving labour productivity lead to slight increases in nominal unit labour costs.

Graph II.12.1: **Italy - HICP inflation and its main determinants**



...while inflation remains low.

In 2015, HICP inflation is forecast to stabilise at 0.2% as a fall in imported energy prices is offset by a moderately positive core inflation (0.8%). HICP inflation is expected to rise to 1.0% in 2016 and to accelerate to 1.9% in 2017 also due to a new increase in VAT (standard rate by 2 pps. and reduced rate by 3 pps.) foreseen in the DBP to achieve the budgetary targets in that year, unless alternative compensatory measures are found. A similar pattern is anticipated for core inflation (0.9% in 2016 and 1.7% in 2017), driven by very limited wage pressures and some recovery in profit margins after their squeeze during the crisis.

The headline government deficit declines

In 2015, the deficit is projected to decline to 2.6% of GDP (from 3.0% in 2014), supported by a further drop in interest expenditure and a marginally higher primary surplus stemming from positive economic growth. Primary expenditure is set to continue rising at a slow pace. More specifically, current primary expenditure is projected to increase by less than 1% y-o-y in nominal terms, thanks to the expenditure cuts legislated in the 2015 Stability Law and the ongoing wage freeze. However, this is partially offset by the additional spending related to the tax credit to low-wage employees, the extension of unemployment benefits, and new hiring in the education system. Outlays related to the migrant influx are estimated by the government at around 0.2% of GDP, marginally higher than in 2014 and more than twice as in the years 2011-13. Regarding capital expenditure, public investment is set to stabilise after five years of significant contraction. Capital transfers are expected to increase relative to 2014 also due to one-off outlays (around EUR 2 bn.) related to the Constitutional Court ruling about the full de-indexation of higher pensions over 2012 and 2013. On the revenue side, the better economic outlook implies positive developments for personal and corporate income tax revenues. However, the reduction in the labour tax wedge is expected to affect intakes from the regional tax on economic activities (IRAP) and social contributions. Overall, annual revenue increases are projected to be in line with nominal GDP growth. In 2015, the structural balance is set to improve slightly relative to 2014. In 2016, after incorporating the expected impact of the DBP, the deficit is projected to narrow only slightly (to 2.3% of GDP vs. 2.2% in the DBP) despite the positive growth outlook. This results in a deterioration of the structural balance of around ½ pps. of GDP. On the expenditure side, the additional net savings in the DBP are forecast to curb the dynamics of primary expenditure, which is set to nearly stabilise in nominal terms. On the revenue side, taxation is forecast to increase much less than nominal GDP as a result of the reduction in the labour tax wedge and property taxation. As a result, the tax burden is set to fall by nearly 1 pp. of GDP relative to 2015. In 2017, the headline deficit is projected to continue declining (to 1.6% of GDP) based on a no-policy-change assumption. The government debt-to-GDP ratio is set to decrease in 2016 and 2017, thanks to higher nominal growth and primary surplus.

Table II.12.1:
Main features of country forecast - ITALY

	2014		Annual percentage change						
	bn EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	1613.9	100.0	0.9	-2.8	-1.7	-0.4	**0.9**	**1.5**	**1.4**
Private Consumption	986.3	61.1	1.1	-3.9	-2.7	0.4	**0.8**	**1.4**	**0.7**
Public Consumption	315.3	19.5	1.0	-1.4	-0.3	-0.7	**0.0**	**0.1**	**1.0**
Gross fixed capital formation	268.1	16.6	1.1	-9.3	-6.6	-3.5	**1.2**	**4.0**	**4.8**
of which: equipment	87.4	5.4	1.7	-13.6	-7.3	-2.9	**4.5**	**6.5**	**7.3**
Exports (goods and services)	477.2	29.6	2.2	2.3	0.8	3.1	**4.4**	**3.3**	**4.5**
Imports (goods and services)	428.4	26.5	3.2	-8.1	-2.5	2.9	**5.0**	**4.8**	**5.0**
GNI (GDP deflator)	1613.4	100.0	0.9	-2.7	-1.8	-0.2	**0.9**	**1.5**	**1.4**
Contribution to GDP growth: Domestic demand			1.0	-4.5	-2.9	-0.5	**0.7**	**1.5**	**1.4**
Inventories			0.0	-1.2	0.3	-0.1	**0.2**	**0.2**	**0.0**
Net exports			-0.2	2.9	0.9	0.1	**0.0**	**-0.3**	**0.0**
Employment			0.4	-1.4	-2.5	0.2	**1.0**	**1.0**	**1.0**
Unemployment rate (a)			8.8	10.7	12.1	12.7	**12.2**	**11.8**	**11.6**
Compensation of employees / f.t.e.			2.9	0.4	1.5	0.6	**0.5**	**0.4**	**1.1**
Unit labour costs whole economy			2.4	1.9	0.7	1.3	**0.6**	**0.0**	**0.7**
Real unit labour cost			0.1	0.5	-0.6	0.4	**0.2**	**-1.0**	**-1.1**
Saving rate of households (b)			14.5	9.4	11.3	10.8	**11.0**	**11.1**	**11.3**
GDP deflator			2.4	1.4	1.3	0.9	**0.4**	**1.0**	**1.8**
Harmonised index of consumer prices			2.3	3.3	1.3	0.2	**0.2**	**1.0**	**1.9**
Terms of trade goods			-0.4	-1.4	1.7	3.0	**2.4**	**0.5**	**0.0**
Trade balance (goods) (c)			0.8	1.0	2.2	3.0	**3.2**	**2.9**	**2.9**
Current-account balance (c)			-0.6	-0.4	0.9	2.0	**2.2**	**1.9**	**1.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.5	-0.2	1.0	2.2	**2.5**	**2.3**	**2.1**
General government balance (c)			-3.4	-3.0	-2.9	-3.0	**-2.6**	**-2.3**	**-1.6**
Cyclically-adjusted budget balance (d)			-3.5	-1.2	-0.6	-0.9	**-1.0**	**-1.5**	**-1.5**
Structural budget balance (d)			-	-1.3	-0.9	-1.1	**-1.0**	**-1.5**	**-1.4**
General government gross debt (c)			107.1	123.2	128.8	132.3	**133.0**	**132.2**	**130.0**

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

13. CYPRUS

Private domestic demand pulls Cyprus out of recession

After three years of recession, Cyprus' economy grew in the first half of this year, driven by stronger private demand and supported by the euro's depreciation and low energy prices. Real GDP growth in 2015 is expected to reach 1.2%, while unemployment is forecast to ease somewhat. Growth is forecast to gather strength and reach 2.0% by 2017, while public finances should also improve.

Cyprus has emerged from recession

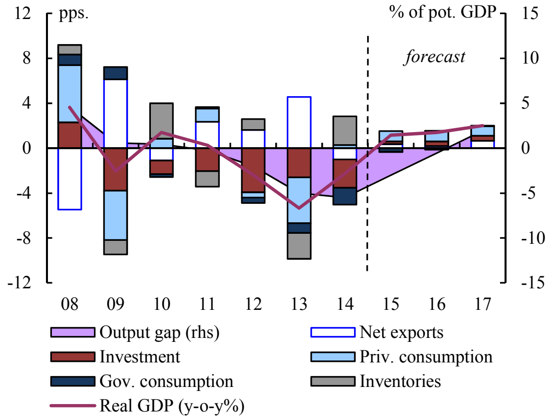
Cyprus' economy expanded in the first and second quarters of 2015 after spending three years in recession. The recovery was primarily driven by rising private consumption amid negative inflation. Growth also benefited from a slower pace of public spending cuts. Investment growth turned positive, but this was mainly driven by new ship registrations and the positive impact on growth was offset by higher imports. Exports are gathering momentum with help from the euro's exchange rate and the flourishing tourism sector. However, lower export demand, particularly from Greece caused exports to decline in the first half of 2015. With imports rising at the same time, net trade has detracted from growth.

Employment has picked up and the unemployment rate started to decline in the first half of 2015, from around 16%. Compensation per employee continues to adjust to the slack in the labour market, and in combination with resuming productivity growth, unit labour costs continue to improve. During the recession, the pass-through of lower unit labour costs on domestic prices weakened as companies increased their profit margins. Nevertheless, HICP inflation has remained negative, largely due to additional downward pressure stemming from falling energy prices. HICP inflation in July was -2.4% and -1.9% in September.

Growth is forecast to rebound in 2015...

Although economic sentiment and other short-term indicators weakened somewhat in the third quarter and suggest some weakness in the second half of the year, real GDP growth is to grow by 1.2% for 2015 as a whole. Growth is primarily being driven by domestic demand but the labour market is also forecast to improve. Job creation is expected to rise while unemployment is expected to ease. Labour costs should also continue to decline, albeit at a slower pace than in 2014.

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



...and gain further strength in 2016 and 2017...

In 2016 and 2017, economic growth in Cyprus is expected to gradually gain momentum and reach 2.0% in 2017. As the support from low inflation and the effects from the past depreciation of the euro gradually begin to fade in 2016, the ongoing deleveraging in the private sector and acceleration of investment activity should support a return to more balanced growth. With unemployment still high and inflation expectations still subdued, wage developments are expected to begin warming up slowly in 2016 and 2017. However, given that profit margins are set to remain high, companies should have the capacity to absorb some of this expected increase in unit labour costs, taking some of the pressure off prices.

...with risks to the outlook broadly balanced.

On the upside, the renewed weakness in energy prices and effects of the euro's past depreciation could support consumption and exports more than expected. On the downside, the recent turmoil in main trading partners and the sanctions against Russia could weigh more on activity than forecast. In the financial sector, slow reduction of the high level of non-performing loans could lead to a more prolonged period of tight credit conditions, which would dampen the recovery over the forecast period.

Public finances set to improve further

The primary balance for the general government is forecast to reach a surplus of 2.1% of GDP in 2015, corresponding to a headline deficit of 0.7% of GDP. Net of the one-off effect from banking recapitalisation in 2014, this implies a worsening of the primary balance by 0.5 pps. of GDP compared to last year. This largely reflects factors beyond the control of the government which could affect revenues, such as the new location rules regarding VAT for e-commerce services, the loss of revenue linked to the financing of the national resolution fund, and the decrease in dividend income from the Central Bank of Cyprus (CBC). On the expenditure side, the 2015 projected outcome is adversely affected by costs associated with the closure of Cyprus Airways and the introduction of the new guaranteed minimum income scheme. Overall, the total impact is unlikely to be great as spending control in general has been tight.

The general government primary surplus is expected to increase to 2.6% of GDP in 2016 and to remain broadly unchanged in 2017, largely driven by the improving economic outlook, and in spite of the kick-in of expenditure items that had been frozen during the programme, such as increases in wages and pensions. The projections also account for dividend income from the CBC. [49]

The worsening of the 2015 structural balance to about ½% of GDP from 2% of GDP in 2014 is mainly driven by the deterioration of the general government balance (net of the one-off effect from banking recapitalisation in 2014), while the output gap is narrowing. In 2016-17, the structural balance is expected to worsen further, despite an improving general government balance, due to the shift of the output gap to positive territory in 2017.

Cyprus' debt-to-GDP ratio peaked in 2014 and is projected to start declining this year from about 107% to about 95% in 2017.

[49] To be distributed in line with the CBC's duties under the Treaties (on the European Union and the Functioning of the European Union) and the ESCB and ECB Statute.

Table II.13.1:

Main features of country forecast - CYPRUS

	2014			Annual percentage change						
mio EUR	Curr. prices	% GDP		96-11	2012	2013	2014	2015	2016	2017
GDP	17393.7	100.0		3.1	-2.4	-5.9	-2.5	**1.2**	**1.4**	**2.0**
Private Consumption	12244.2	70.4		3.9	-0.8	-5.9	0.6	**1.3**	**1.3**	**1.2**
Public Consumption	2741.6	15.8		4.8	-3.7	-4.1	-9.0	**-2.1**	**-0.9**	**0.2**
Gross fixed capital formation	2003.7	11.5		1.7	-20.5	-15.2	-18.0	**2.2**	**3.6**	**4.0**
of which: equipment	382.3	2.2		0.5	-26.1	-15.1	-43.5	**8.0**	**4.4**	**5.0**
Exports (goods and services)	10437.5	60.0		2.1	-1.1	1.8	-0.5	**1.2**	**1.3**	**2.9**
Imports (goods and services)	10316.9	59.3		2.4	-4.4	-3.0	2.0	**0.6**	**1.1**	**1.8**
GNI (GDP deflator)	16859.4	96.9		3.5	-5.7	-6.3	-2.2	**0.8**	**1.1**	**2.1**
Contribution to GDP growth:	Domestic demand			3.5	-5.1	-7.0	-3.7	**0.8**	**1.2**	**1.3**
	Inventories			-0.2	0.8	-1.4	2.7	**0.0**	**0.0**	**0.0**
	Net exports			-0.2	1.9	2.6	-1.4	**0.4**	**0.2**	**0.6**
Employment				1.8	-4.2	-5.2	-1.9	**0.2**	**1.2**	**1.6**
Unemployment rate (a)				4.5	11.9	15.9	16.1	**15.6**	**14.6**	**13.3**
Compensation of employees / head				3.8	-0.8	-6.0	-4.6	**-0.7**	**1.1**	**2.3**
Unit labour costs whole economy				2.4	-2.6	-5.3	-4.0	**-1.7**	**0.9**	**1.9**
Real unit labour cost				-0.3	-4.6	-4.0	-2.8	**-0.5**	**0.2**	**1.0**
Saving rate of households (b)				9.2	1.9	-7.6	-1.3	**-4.7**	**-2.7**	**-0.1**
GDP deflator				2.8	2.1	-1.4	-1.2	**-1.3**	**0.7**	**0.9**
Harmonised index of consumer prices				-	3.1	0.4	-0.3	**-1.6**	**0.6**	**1.3**
Terms of trade of goods				0.0	-0.9	0.2	7.1	**3.3**	**3.5**	**0.8**
Trade balance (goods) (c)				-24.6	-18.0	-16.3	-16.2	**-15.0**	**-14.1**	**-14.1**
Current-account balance (c)				-5.5	-5.1	-3.8	-3.8	**-3.5**	**-3.2**	**-3.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.3	-5.0	-2.4	-3.6	**-4.2**	**-3.6**	**-3.4**
General government balance (c)				-3.0	-5.8	-4.9	-8.9	**-0.7**	**0.1**	**0.3**
Cyclically-adjusted budget balance (d)				-	-4.8	-2.0	-5.6	**1.2**	**0.7**	**-0.4**
Structural budget balance (d)				-	-5.0	-1.7	2.0	**0.4**	**0.2**	**-0.7**
General government gross debt (c)				56.9	79.3	102.5	108.2	**106.7**	**98.7**	**94.6**

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

14. LATVIA

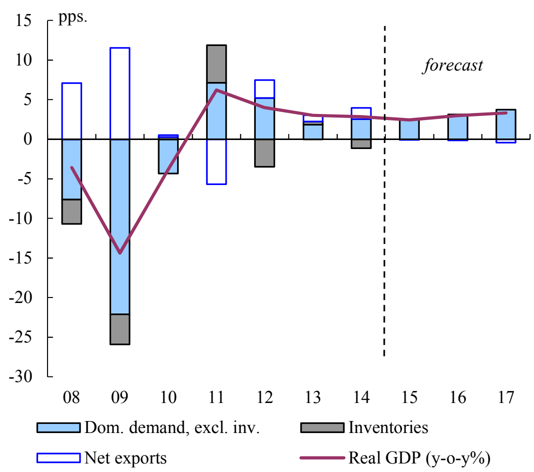
Growth set to improve despite challenges

Latvia's economy has performed slightly better than expected so far this year but the outlook for 2016 and 2017 is still clouded by the volatile external environment. Growth is nevertheless expected to improve in 2016 and 2017 while unemployment is set to fall further amid rising labour supply constraints.

Growth still facing external risks

Latvia's economy grew 2.3% y-o-y in the first half of 2015. Strong performance in the second quarter of the year suggests that the outlook for the year as a whole could turn out better than expected although the volatile external environment and weak investor sentiment continue to weigh on the economy. Growth is projected to increase from 2.4% in 2015 to 3% in 2016 and 3.3% in 2017 as domestic demand improves and impact of lower demand from Russia declines. However, risks are still tilted to the downside due to a highly uncertain external environment.

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



Domestic demand keeps rising

Domestic demand is projected to be the main growth driver over the forecast horizon. Private consumption is supported by steadily rising income growth and cheaper energy although household saving is also on the rise despite record-low interest rates. Investment growth is expected to gradually pick up from a low level, supported by a more active use of EU funds under the new programming period and a nascent recovery in bank lending. Although the process of deleveraging is still ongoing, recent indicators point to a modest rebound in new loans.

Exports undergo substantial readjustment

External trade is projected to be broadly neutral to growth in net terms. However, the negative impact from the steep drop in Russian demand has triggered a substantial readjustment in products and markets. Overall, Latvia's export sector has exceeded expectations in 2015 by finding new markets and expanding in those not affected by Russian sanctions. The weakening of the euro has also helped exporters to expand outside the euro area. However, important sectors such as international transportation and tourism remain exposed to external risks. In addition, the continued rise in unit labour costs will constrain exporters from making further market share gains in 2016 and 2017.

Labour market facing supply constraints

Unemployment is projected to decrease from 10.8% in 2014 to 8.8% in 2017. However, this masks growing labour supply constraints linked to a dwindling working-age population. This is related to a combination of emigration and Latvia's ageing population. Consequently, wages are projected to continue rising at a fast rate amid very weak employment growth and a moderate drop in the labour force. Wage dynamics are thus pushing up unit labour costs at the expense of corporate profit margins. At an aggregated level, the share of net profits to gross value added has dropped over the last few years, but remained slightly above the EU average.

Inflation set to pick up

Low commodity prices, in particular crude oil, are set to keep inflation low at 0.2% in 2015. The expected dynamism of wage growth and the flattening of the energy indices should gradually push inflation up to 1.4% in 2016 and 2.1% in 2017. Core inflation is projected to increase slightly faster to 1.7% and 2.3% respectively.

Declining government deficit and debt ratio

The general government deficit is estimated at 1.5% of GDP in 2015. A slight worsening in the deficit ratio since the spring forecast (by 0.1% of GDP) is related to a higher-than-planned demand for social benefits.

The draft budgetary plan for 2016 presents measures with a net-deficit-reducing effect of 0.4% of GDP. The revenue measures are expected to yield 0.8% of GDP and are focussed on making personal income taxation more progressive. Expenditure-increasing measures amount to 0.4% of GDP with most of the new financing devoted to external and internal security and lower amounts to health and education. Also, the on-going shift of social security contributions to private pension schemes will reduce government revenue in 2016.

Latvia's fiscal deficit is projected at 1.2% of GDP in 2016. Current revenue growth is expected to broadly follow GDP growth, including the effect of different revenue measures. The main expenditure growth drivers are linked to budget measures that foresee stronger growth in wages and purchases for defence and internal security forces. Social spending will continue to increase driven by the growing number of pensioners and higher contribution-based benefit rates, despite the expected decline in unemployment. Capital spending is expected to slow down in 2016 given some delays with projects financed under the new EU budget framework. The government deficit is projected at 1.1% of GDP in 2017 on a no-policy change basis. The structural deficit is set to decline from about 2% of GDP in 2015 to about 1¾% in 2017, while the positive output gap is estimated to remain broadly unchanged.

Risks to the fiscal forecast are related to the government's ability to deliver on the revenue measures, unexpected spending pressures and overruns, as well as the uncertain growth outlook.

The public debt-to-GDP ratio is projected to briefly increase to 41% at end-2016, due to a planned accumulation of financial resources ahead of a large bond repayment early in 2017. The underlying downward trend in the debt ratio is underpinned by nominal GDP growth more than offsetting the government's net borrowing.

Table II.14.1:

Main features of country forecast - LATVIA

	2014		Annual percentage change						
mio EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	23693.9	100.0	4.4	4.0	3.0	2.8	**2.4**	**3.0**	**3.3**
Private Consumption	14430.4	60.9	4.0	3.2	5.1	2.6	**3.1**	**3.7**	**3.9**
Public Consumption	4146.5	17.5	1.3	0.3	1.6	4.9	**3.0**	**2.0**	**2.0**
Gross fixed capital formation	5371.6	22.7	9.6	14.4	-6.0	0.3	**0.5**	**2.3**	**4.5**
of which: equipment	2062.6	8.7	10.8	12.0	-5.4	-4.5	**-**	**-**	**-**
Exports (goods and services)	14031.7	59.2	8.1	9.8	1.1	3.1	**1.3**	**2.6**	**3.4**
Imports (goods and services)	14561.7	61.5	7.9	5.4	-0.1	0.8	**1.4**	**2.8**	**4.0**
GNI (GDP deflator)	23654.0	99.8	4.3	3.3	3.5	2.9	**2.3**	**2.9**	**3.3**
Contribution to GDP growth: Domestic demand			5.4	5.2	1.8	2.6	**2.5**	**3.1**	**3.7**
Inventories			0.2	-3.5	0.4	-1.1	**0.0**	**0.0**	**0.0**
Net exports			-1.1	2.3	0.8	1.4	**-0.1**	**-0.1**	**-0.4**
Employment			-0.7	1.4	2.3	-1.4	**0.2**	**0.4**	**1.0**
Unemployment rate (a)			13.2	15.0	11.9	10.8	**10.1**	**9.5**	**8.8**
Compensation of employees / head			10.8	6.1	5.0	9.1	**5.2**	**5.2**	**5.5**
Unit labour costs whole economy			5.4	3.5	4.3	4.7	**2.9**	**2.6**	**3.1**
Real unit labour cost			-0.5	0.0	3.0	3.4	**1.8**	**0.5**	**0.7**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			6.0	3.6	1.3	1.2	**1.1**	**2.0**	**2.4**
Harmonised index of consumer prices			-	2.3	0.0	0.7	**0.2**	**1.4**	**2.1**
Terms of trade of goods			-0.5	-3.7	1.3	-0.8	**0.0**	**0.0**	**0.0**
Trade balance (goods) (c)			-17.1	-12.1	-11.2	-9.6	**-9.4**	**-9.2**	**-9.4**
Current-account balance (c)			-8.5	-3.5	-2.1	-2.0	**-1.8**	**-1.9**	**-2.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.6	-0.5	0.4	1.2	**1.2**	**0.8**	**0.5**
General government balance (c)			-2.4	-0.8	-0.9	-1.5	**-1.5**	**-1.2**	**-1.1**
Cyclically-adjusted budget balance (d)			-	0.0	-0.9	-2.1	**-2.1**	**-1.9**	**-1.8**
Structural budget balance (d)			-	0.0	-0.9	-1.8	**-2.1**	**-1.9**	**-1.8**
General government gross debt (c)			18.0	41.4	39.1	40.6	**38.3**	**41.1**	**37.6**

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

15. LITHUANIA

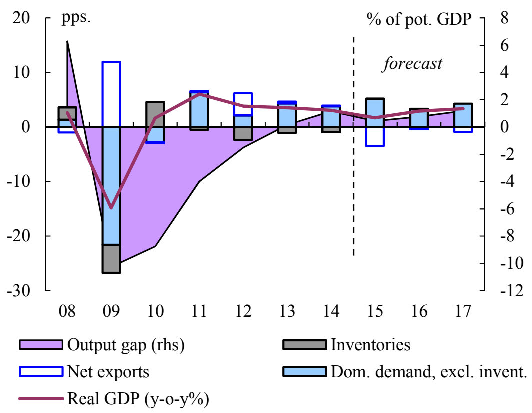
Domestic demand powers growth but external factors weigh

Overall, growth this year is set to be subdued, as a major fall in exports to Russia dampens the effect of strong domestic demand. Growth should pick up in 2016 and 2017 as exports recover and higher wages add fuel to domestic demand. Inflation is forecast to remain low, while the improvement in public finances will pause until 2017.

Growth falters in 2015 as exports to Russia take a hit...

Lithuania's economy grew just 1.4% in the first half of 2015, considerably less than expected. While domestic demand growth was stronger than in 2014, overall growth was hit by a significant drop in exports to Russia. As a result, growth for 2015 is forecast at 1.7%. Strong real wage growth resulting from a tight labour market and subdued inflation should support private consumption while investment will continue to grow strongly as disbursements form the EU's structural funds pick up. Meanwhile, export growth is expected to see a minor lift in the fourth quarter of 2015 as the impact of Russia's embargo fades.

Graph II.15.1: **Lithuania - Real GDP growth and contributions, output gap**



...but is set to pick up supported by domestic demand and exports.

Real GDP growth is forecast to accelerate to 2.9% and 3.4% in 2016 and 2017, respectively. Rising nominal wages are expected to support strong growth in private consumption, which is set to remain the main growth driver. A decline in disbursements from the EU's structural funds as a result of the changeover to the new programming period is set to slow investment growth in 2016. Investment, however, is forecast to rebound in 2017 as the new programming period gathers pace and companies are expected to invest as production capacities are exhausted.

Export growth is forecast to improve in 2016 as the impact of the Russian crisis fades and demand from the EU strengthens. By 2017, Lithuania should have redirected most of the exports lost in 2015 to other markets. However, as imports are set to grow faster than exports based on the high import content of domestic demand, net exports are expected to be a drag on real GDP growth in 2016 and 2017, albeit to a lesser extent than in 2015.

Strong job creation is expected to bring the unemployment rate down to 9.4% in 2015. While employment growth is seen slowing in 2016 and 2017, unemployment should continue to decline as negative demographic developments combined with net emigration are set to shrink the labour force. This tightening of the labour market is set to fuel strong wage growth over the forecast horizon.

Risks to the forecast are tilted slightly to the downside. The recession in Russia could turn out more severe than expected, while a prolongation of ban on food imports would impact exports in 2016.

Inflation to remain subdued in 2016 before picking up in 2017

Falling energy prices and declining food prices are expected to push average annual HICP inflation into negative territory in 2015 at -0.8%. Rising wages will put upward pressure on consumer prices; however, with energy prices expected to decline further, inflation is predicted to remain subdued in 2016, before accelerating in 2017.

Credit growth continues to disappoint

The growth in real wages should boost mortgage lending but corporate credit growth is expected to stay modest during the forecast horizon as banks remain cautious.

Fiscal improvement on hold

In 2015, the general government deficit is forecast to increase to 1.1% of GDP from 0.7% a year before. Higher social spending and an increase in defence expenditure were not covered by new revenue measures. In addition, one-off factors are set to have no positive impact on the deficit as in 2014. The surplus coming from the deposit insurance (0.3 pps.) is to be offset by expenditures to compensate public wage cuts considered unlawful by the constitutional court. 2015 tax revenues are expected to be close to the government's plan despite lower-than-expected nominal GDP growth because tax rich domestic consumption is growing strongly.

For 2016, the general government deficit is set to increase to 1.3% of GDP. Strong domestic demand, buoyant wage growth and a couple of small tax increases should support revenue growth. This is expected to be insufficient to offset an increase in non-taxable incomes, pensions and some public wages.

Assuming no policy changes, the general government deficit is forecast to fall to 0.4% of GDP in 2017, mainly on the back of robust economic growth and the limited increase in expenditure expected.

Risks to the public finance forecast are tilted to the downside, particularly in 2016 due to the electoral cycle.

Lithuania's structural deficit is expected to decrease to about 1¼% of GDP in 2015 and to increase to about 1½% of GDP in 2016 due to the additional expenditure measures, before decreasing to about ¾%of GDP in 2017.

General government debt is set to increase from 40.7% of GDP in 2014 to 42.9% in 2015, due to the pre-financing of bond redemptions and higher-than-usual pre-financing of EU-funded expenditures. In 2016, debt is forecast to fall to 40.8% of GDP, while in 2017 it is expected to increase again to 42.5% due to the end of year pre-financing of forthcoming bond redemptions.

Table II.15.1:

Main features of country forecast - LITHUANIA

	2014			Annual percentage change						
	bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		36.4	100.0	4.6	3.8	3.5	3.0	**1.7**	**2.9**	**3.4**
Private Consumption		22.9	62.8	4.9	3.6	4.3	4.1	**4.9**	**4.0**	**3.8**
Public Consumption		6.2	16.9	1.2	1.3	1.0	1.3	**1.3**	**1.4**	**2.0**
Gross fixed capital formation		6.9	18.9	7.4	-1.8	8.3	5.4	**9.8**	**2.4**	**7.0**
of which: equipment		2.3	6.2	10.6	2.1	12.5	3.0	**8.0**	**-8.3**	**11.2**
Exports (goods and services)		29.6	81.2	10.3	12.2	9.6	3.0	**2.4**	**2.8**	**3.9**
Imports (goods and services)		28.9	79.3	10.5	6.6	9.3	2.9	**6.8**	**3.4**	**5.1**
GNI (GDP deflator)		36.0	98.8	4.3	4.5	4.0	4.5	**1.1**	**3.3**	**3.7**
Contribution to GDP growth:	Domestic demand			5.3	2.1	4.3	3.8	**5.1**	**3.3**	**4.3**
	Inventories			0.4	-2.3	-1.1	-0.9	**0.0**	**0.0**	**0.0**
	Net exports			-0.9	4.0	0.3	0.2	**-3.5**	**-0.4**	**-0.9**
Employment				-1.0	1.8	1.3	2.0	**1.5**	**0.2**	**0.1**
Unemployment rate (a)				11.5	13.4	11.8	10.7	**9.4**	**8.6**	**8.1**
Compensation of employees / head				9.9	4.2	5.4	3.9	**4.5**	**5.0**	**5.1**
Unit labour costs whole economy				4.1	2.2	3.1	2.8	**4.3**	**2.3**	**1.8**
Real unit labour cost				-0.3	-0.5	1.8	1.6	**4.8**	**1.7**	**-1.7**
Saving rate of households (b)				3.9	1.6	1.8	0.1	**-**	**-**	**-**
GDP deflator				4.3	2.7	1.3	1.2	**-0.5**	**0.5**	**3.5**
Harmonised index of consumer prices				4.7	3.2	1.2	0.2	**-0.8**	**0.6**	**2.2**
Terms of trade goods				1.3	-0.9	0.0	0.6	**2.7**	**0.6**	**-0.5**
Trade balance (goods) (c)				-10.9	-3.3	-2.6	-2.6	**-4.2**	**-4.3**	**-5.6**
Current-account balance (c)				-7.3	-0.9	1.4	3.9	**-0.8**	**0.2**	**-0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.2	1.9	4.5	6.6	**0.9**	**1.6**	**1.3**
General government balance (c)				-3.8	-3.1	-2.6	-0.7	**-1.1**	**-1.3**	**-0.4**
Cyclically-adjusted budget balance (d)				-	-2.5	-2.7	-1.1	**-1.2**	**-1.6**	**-0.9**
Structural budget balance (d)				-	-2.6	-2.3	-1.4	**-1.2**	**-1.4**	**-0.9**
General government gross debt (c)				21.5	39.8	38.8	40.7	**42.9**	**40.8**	**42.5**

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

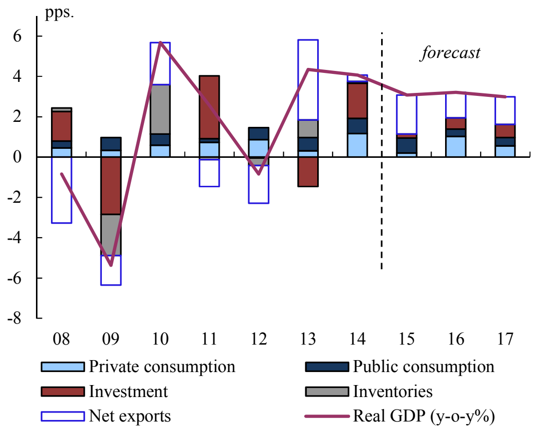
16. LUXEMBOURG

From buoyant to balanced growth

Luxembourg's economic output increased by 4.1% last year, but it is expected to ease to 3.1 % this year and pick up slightly to 3.2% in 2016. While growth currently is being supported by strong net exports associated with the dynamic financial sector, a more balanced composition is projected for the coming years. As robust job creation mostly favours non-resident workers, the unemployment rate is expected to decline only marginally in 2015 and 2016. In spite of a drop in VAT revenues, public finances are projected to remain in balance.

In the first half of 2015, real GDP grew on average by 4.2 % (y-o-y), as low oil prices, favourable financial conditions and exchange rate depreciation provided tailwinds to private consumption and investment. Public consumption and exports of service, mostly financial, expanded at a rapid pace, while improving terms of trade limited import growth to some extent.

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



Overall performance of the financial sector progressed

The contribution to growth of the financial sector, traditionally Luxembourg's main growth engine, furthered strengthened. After its adjustment to new regulatory financial standards, profitability recovered, although not equally across the sector. While the investment fund industry gained momentum, improvements in the more traditional banking sector were limited by the low interest rate environment, which also affected the insurance sector, especially the life insurers. The economy as a whole benefitted from this renewed strength of the financial sector.

Looking forward, the recent turbulence in financial markets and less favourable prospects for growth in emerging economies are expected to slow down the pace of economic expansion, starting already in the second half of this year. Overall, GDP is forecast to increase by a still healthy 3.1% in 2015. In 2016 and 2017, under the assumption of a less supportive external environment but a slightly more robust domestic demand, output growth will remain stable around 3%.

Growth supported by all components

Anticipation effects at the end of last year, related to the legislated increase in VAT rates dampened private consumption at the beginning of 2015. Positive employment prospects and low price pressures are expected to support household purchasing power and private consumption in 2015. This holds also in 2016 when wage indexation should offset a less dynamic labour market.

Investment, mostly in construction, is projected to remain robust over the forecast period, supported by the execution of large public infrastructure projects. By contrast, in spite of accommodative credit conditions, equipment investment is expected to remain subdued, as capacity utilisation remains low.

The contribution of net exports to growth is expected to be strong in 2015. As global economic conditions gradually become less favourable, domestic demand and net exports will make similar contributions to growth in the outer years of the forecast horizon.

Job creation remains high

Employment growth accelerated to 2.6% in the first part of the year from 2.5% in 2014, with job creation being dynamic in all economic sectors, and it is set to decline to 2.3% in 2017. The unemployment rate is expected to decline to 5.9% in 2015 and only to 5.8% in 2016 as non-residents are likely to benefit more from the new jobs.

Inflation set to remain low, in spite of the increase in VAT rates

Headline inflation is projected to further slow to 0.3% in 2015, from 0.7% in 2014, driven by lower oil and other commodity prices, meaning that automatic wage indexation will only be triggered in the first quarter of 2016. The impact of the planned rise in VAT rates is visible, however, in core inflation, which is expected to increase to 2.0% in 2015 after 1.6% in the previous year. In 2016 and 2017, inflation is projected to bounce back, supported by the quantitative easing programme of the ECB and the gradual recovery of oil prices.

The government balance weakens in 2015

The general government surplus is expected to fall from 1.4% of GDP in 2014 to a balanced budget in 2015, mostly because of an expected fall in VAT revenues from e-commerce estimated at around 1½% of GDP that will be only partially compensated by revenue raising measures in the budget of around ½% of GDP. Moreover, higher-than-expected revenues from the subscription tax levied on net assets of investment funds will only partially compensate for a shortfall in revenues from excises on fuel and tobacco. On the expenditure side, in line with a surge in public investment, intermediate consumption is projected to increase at a faster pace. Apart from costs related to Luxembourg's EU Presidency, the public wage bill is also being driven up by the implementation of a public-sector wide agreement.

The incremental effect of measures adopted with the 2015 budget should further strengthen government finances and lead to a larger surplus in 2016 and 2017, even if in the latter year improvements will be limited given that Luxembourg's share of e-VAT revenues will be further reduced from 30% to 15%.

The surplus of the government's structural balance is expected to narrow by 1½% of GDP in 2015 and to slightly improve in 2016 and to stabilise at that level in 2017.

The debt-to-GDP ratio is set to slightly increase from 23% in 2014 to 23.5% at the end of the forecast horizon.

Table II.16.1:

Main features of country forecast - LUXEMBOURG

	2014		Annual percentage change						
mio EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	48897.5	100.0	3.8	-0.8	4.3	4.1	**3.1**	**3.2**	**3.0**
Private Consumption	15263.9	31.2	2.8	2.7	0.9	3.7	**0.7**	**3.3**	**1.8**
Public Consumption	8345.0	17.1	3.7	3.6	3.9	4.5	**4.3**	**2.1**	**2.3**
Gross fixed capital formation	9092.7	18.6	5.0	-0.3	-7.2	9.9	**1.1**	**3.0**	**3.5**
of which: equipment	3629.9	7.4	6.5	23.6	-14.7	18.3	**-4.2**	**1.0**	**3.5**
Exports (goods and services)	99393.0	203.3	6.6	0.2	6.9	6.8	**4.9**	**4.6**	**4.8**
Imports (goods and services)	83555.9	170.9	7.1	1.5	5.7	8.0	**4.7**	**4.7**	**4.9**
GNI (GDP deflator)	32726.6	66.9	2.5	-0.9	-1.7	5.9	**-0.8**	**3.1**	**2.7**
Contribution to GDP growth:	Domestic demand		2.7	1.4	-0.5	3.7	**1.1**	**1.9**	**1.6**
	Inventories		0.1	-0.4	0.9	0.1	**0.0**	**0.0**	**0.0**
	Net exports		1.0	-1.9	4.0	0.3	**1.9**	**1.3**	**1.4**
Employment			3.4	2.4	1.8	2.5	**2.6**	**2.5**	**2.3**
Unemployment rate (a)			3.7	5.1	5.9	6.0	**5.9**	**5.8**	**5.8**
Compensation of employees / head			3.0	1.6	3.6	2.9	**1.0**	**2.6**	**2.2**
Unit labour costs whole economy			2.7	4.9	1.2	1.4	**0.5**	**1.9**	**1.5**
Real unit labour cost			0.2	0.8	-1.2	0.4	**0.8**	**0.3**	**-0.5**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.4	4.1	2.4	1.0	**-0.2**	**1.6**	**2.0**
Harmonised index of consumer prices			2.4	2.9	1.7	0.7	**0.3**	**1.7**	**1.7**
Terms of trade of goods			0.1	0.1	0.1	0.6	**-0.2**	**-0.2**	**0.5**
Trade balance (goods) (c)			-7.9	-3.6	-0.7	-0.6	**-1.6**	**-1.6**	**-1.5**
Current-account balance (c)			9.2	6.1	5.7	5.5	**4.3**	**4.0**	**3.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	5.2	4.0	3.5	**4.4**	**4.2**	**3.9**
General government balance (c)			2.1	0.2	0.7	1.4	**0.0**	**0.5**	**0.5**
Cyclically-adjusted budget balance (d)			1.9	2.5	2.1	2.3	**0.7**	**0.9**	**0.9**
Structural budget balance (d)			-	2.5	2.1	2.1	**0.7**	**0.9**	**0.9**
General government gross debt (c)			9.4	22.1	23.4	23.0	**22.3**	**23.9**	**23.5**

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

17. HUNGARY

Towards a more balanced recovery

Hungary's economy grew by 3.7% in 2014 but real GDP growth in 2015 and 2016 is expected to be a more sustainable 2.9 % and 2.2% respectively, as the boost from previously supportive factors, such as EU funds, lose strength. Growth in 2017, however, should rebound as investment picks up. Hungary's public finances are expected to continue improving.

GDP growth strongly linked to EU fund absorption

After growing at the exceptional rate of 3.7% in 2014, real GDP growth in Hungary is expected to ease to 2.9% and 2.2% in 2015 and 2016 respectively, before picking up again in 2017 to 2.5%. Growth figures over this forecast horizon are heavily influenced by Hungary's absorption of EU funds, which helped propel investment growth to 11.2% in 2014 and which, after a timid increase this year, may lead to temporarily negative figures in 2016. From 2017, funds from the current programming period of EU funding will start to positively affect investment again.

Private consumption and the external sector are both expected to drive growth over the forecast horizon. Household final expenditure has been growing during the first half of 2015 by around 3%, supported by household real disposable income, which is also growing strongly thanks to low inflation and high nominal wage growth. Households have also benefited from one-off measures, including a reimbursement from banks for so-called illegitimate interest and exchange rate changes. The 1 pp. cut in the flat personal income tax rate to be introduced in January 2016 will have a similar effect. The good performance of the labour market should also further support consumption.

Net exports, which are rising both because of higher exports linked to new investments in the automotive sector and because of lower imports stemming from the decline in EU funds, are also expected to positively contribute to GDP growth. The current account surplus is expected to increase further throughout the forecast horizon, in line with the widening of the trade surplus.

Unemployment should continue to fall while inflation gradually picks up

The unemployment rate is decreasing and forecast to continue declining steadily towards 6% in 2017, thanks to the economy's continued growth. Both the employment rate and the activity rate are expected to keep improving. Employment gains stem mainly from the dynamism of the private sector but also from the further extension of public work programmes.

Inflation was negative in the first quarter of 2015 but turned positive in the second quarter. Overall, HICP inflation for the year is expected to be around zero. Looking ahead, the inflation figure for 2016, close to 2%, would turn out to be lower than previously anticipated due to lower-than-expected oil prices, subdued imported inflation, low food prices, and regulated energy price cuts. As the output gap closes, inflationary pressures from the real economy will drive up inflation to 2.5% in 2017, reaching the central bank's target of 3% only at the end of the year.

Overall, risks are to the downside

An escalation of the Volkswagen crisis could affect Hungarian production negatively in the longer run. The slowdown in China and other emerging market economies could also have indirect negative effects on Hungary through Germany. Hungary's agricultural sector so far in 2015 contributes negatively to growth and this could be a negative risk for the second half of 2015. On the other hand, the slow phasing-out of subsidised loans to SMEs and the full implementation of planned financial sector policies could improve lending conditions and help growth. Because of the switch of household mortgage loans denominated in foreign currencies to HUF loans, households may be tempted to reduce precautionary savings, which might further strengthen consumption growth. The arrival of asylum seekers does not fundamentally affect the country's macroeconomic outlook.

The headline deficit is forecast to gradually decrease

The 2015 general government deficit is projected to reach 2.3 % of GDP, from 2.5% in the previous year. The fiscal outlook has improved due to the robust dynamics of tax revenues and declining interest outlays. These favourable developments are expected to be only partly offset by extra spending (related among other things to the surge in the number of asylum seekers) and the shortfall in two sector-specific levies following the Commission's suspension decision.

Based on the already adopted budget, the 2016 deficit is projected at 2.1 % of GDP. This forecast incorporates tax cuts amounting to 0.7% of GDP and some new spending commitments as well. The deficit-increasing effect of these new fiscal policy measures is expected to be more than compensated by favourable base effects, decreasing interest outlays, savings in the domestic co-financing of EU-funded projects, as well as by contained expenditure on social payments and operating costs. At the same time, the primary balance is estimated to remain unchanged. It is assumed that the special reserve (0.2% of GDP) will not be spent.

Based on a no-policy-change assumption, the deficit is projected to decrease slightly to 2% of GDP in 2017. The deficit improvement would be driven by further expenditure decreases on interest payments, pensions and the domestic co-financing of EU-funded projects. However, this is expected to be largely offset by the effect of the already announced fiscal policy measures (including tax cuts) and the phasing out of one-off revenues from agricultural land sales.

Regarding risks, the net cost of EU-funded projects could turn out to be higher than planned in 2015 and 2016 with a negative outcome of pending financial corrections. In addition, the tight operating budgets for healthcare and education sectors carry significant implementation risks. On the positive side, the receipts from land sales could well exceed the budgeted amount for 2016, and some revenues might be realised this year.

Hungary's structural budget balance is expected to remain broadly stable at around 2½% over the forecast horizon, despite a temporary increase in 2016 (¼ pps.). Hungary's debt-to-GDP ratio is projected to decrease only moderately by less than 0.5 pps. to 75.8% this year, mainly due to expected delays in the receipt of EU funds. Thereafter, the pace of debt reduction is expected to accelerate and public debt to decline to 72.6% of GDP by the end of the forecast horizon, mirroring also the increasing rate of nominal GDP growth.

Table II.17.1:

Main features of country forecast - HUNGARY

	2014		Annual percentage change						
bn HUF	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	32179.7	100.0	2.3	-1.7	1.9	3.7	**2.9**	**2.2**	**2.5**
Private Consumption	16191.0	50.3	2.0	-2.2	0.3	1.8	**3.2**	**3.1**	**3.0**
Public Consumption	6502.2	20.2	1.0	-1.5	2.4	2.9	**0.1**	**-0.3**	**1.0**
Gross fixed capital formation	6971.3	21.7	2.9	-4.4	7.3	11.2	**2.2**	**-3.2**	**2.5**
of which: equipment	2900.0	9.0	5.0	3.5	3.1	17.0	**3.0**	**-3.2**	**2.0**
Exports (goods and services)	28721.7	89.3	11.3	-1.8	6.4	7.6	**7.9**	**7.7**	**8.0**
Imports (goods and services)	26383.3	82.0	10.5	-3.5	6.3	8.5	**7.5**	**6.8**	**8.6**
GNI (GDP deflator)	30756.8	95.6	2.2	-1.1	3.4	2.0	**4.1**	**2.3**	**3.1**
Contribution to GDP growth: Domestic demand			2.1	-2.3	2.1	3.8	**2.1**	**0.8**	**2.2**
Inventories			-0.2	-0.6	-0.7	0.0	**-0.1**	**0.0**	**0.0**
Net exports			0.4	1.3	0.5	-0.2	**0.9**	**1.4**	**0.3**
Employment			0.0	0.1	0.9	3.1	**1.8**	**1.1**	**1.2**
Unemployment rate (a)			7.9	11.0	10.2	7.7	**7.1**	**6.7**	**6.2**
Compensation of employees / head			9.5	2.1	1.8	0.9	**3.4**	**3.2**	**3.1**
Unit labour costs whole economy			7.0	4.0	0.9	0.3	**2.2**	**2.1**	**1.8**
Real unit labour cost			-0.7	0.5	-2.2	-2.9	**0.5**	**-0.3**	**-1.0**
Saving rate of households (b)			10.9	8.2	9.3	10.2	**10.5**	**10.3**	**10.0**
GDP deflator			7.9	3.5	3.1	3.2	**1.7**	**2.4**	**2.9**
Harmonised index of consumer prices			8.4	5.7	1.7	0.0	**0.1**	**1.9**	**2.5**
Terms of trade goods			-0.7	-1.2	0.5	1.0	**1.0**	**0.5**	**0.2**
Trade balance (goods) (c)			-3.4	2.9	3.4	2.5	**3.5**	**4.6**	**4.5**
Current-account balance (c)			-5.6	1.6	3.9	2.2	**4.3**	**5.5**	**6.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.0	4.1	7.5	6.0	**8.1**	**6.5**	**7.7**
General government balance (c)			-5.8	-2.3	-2.5	-2.5	**-2.3**	**-2.1**	**-2.0**
Cyclically-adjusted budget balance (d)			-	-0.7	-1.4	-2.2	**-2.4**	**-2.3**	**-2.3**
Structural budget balance (d)			-	-1.4	-1.5	-2.5	**-2.3**	**-2.6**	**-2.3**
General government gross debt (c)			64.6	78.3	76.8	76.2	**75.8**	**74.5**	**72.6**

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

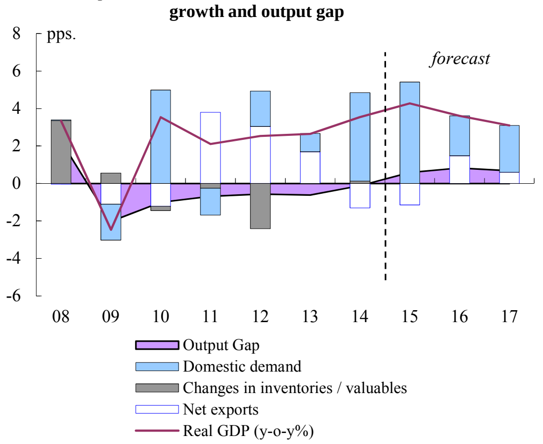
18. MALTA

Investment gives new impetus to growth

Exceptional investment in 2015 is expected to lead to a peak in Malta's GDP growth, which is set to moderate over the forecast horizon, but to remain above its long-term average. Public finances are expected to benefit from the favourable macroeconomic conditions and unemployment is expected to stay at low levels.

Malta's economy is forecast to grow by a brisk 4.3% in 2015, its highest growth rate in the past decade. The increase comes mainly from a boost in investment, particularly equipment investment, which is related to the construction of a new power plant. Private consumption is also forecast to contribute significantly to growth, as real disposable incomes are rising as a result of robust employment growth, growing wages and low inflation. The contribution of the public sector to growth is also projected to be positive, albeit less so than in 2014. Net exports, however, are likely to prove a drag as domestic demand growth is leading to higher imports and export growth for goods has been weak. Nevertheless, Malta's current account balance is expected to remain in surplus.

Graph II.18.1: **Malta - Contributions to real GDP growth and output gap**



Some moderation going forward

Real GDP growth is forecast to moderate to 3.6% in 2016 and further to 3.1% in 2017, but still remain higher than its long-term average. The expected moderation stems from the completion of the large-scale energy investment projects, scheduled by 2016, and the expiration of the previous programming period of EU funding. Private consumption is projected to remain robust, contributing over 1 pp. per year to growth over the forecast horizon, while the government's fiscal stance is to remain accommodative.

The composition of growth is thus projected to become more broad-based. As demand for capital goods slows down, oil prices remain subdued and exports gradually recover, in line with rising demand from trade partners, the contribution of net exports is forecast to turn positive again in 2016.

This forecast is subject to upside risks coming from domestic demand. In particular, the materialisation of additional infrastructure projects, including ones related to the Investment Plan for Europe, could boost investment in the outer years of the forecast horizon. Even though banks' lending standards are not expected to relax notably, the setting up of a development bank could ease access to finance of SMEs, also leading to more investment. Additional upside risks are linked to competitiveness gains coming from the ongoing energy sector reforms, which are expected to improve efficiency in energy generation and distribution. At the same time, downside risks are mainly related to export performance, particularly due to uncertainties regarding the recovery of the electronics sector.

Unemployment projected to remain low while inflation picks up

Employment growth is projected to moderate somewhat in 2016 and 2017, but it is set to remain robust and thus help to keep the unemployment rate at low levels. The low unemployment rate can be expected to exert some upward pressure on wages. The growth in unit labour costs is projected to accelerate, but to remain moderate as productivity is also rising.

HICP inflation is forecast to return to above 2% by 2017 on the back of an increase in energy inflation, in particular due to the expiration of the low base effect after the strong decline in oil prices in 2015 and the cutting of electricity tariffs for households. Price growth in services is also projected to accelerate, in line with gains in households' disposable income. Growth in food prices is forecast to pick up in 2017, contributing to the acceleration of overall inflation.

Budget deficit to improve further

In 2015 the general government deficit is projected to decrease further to 1.7% of GDP, from 2.1% of GDP in 2014. Current revenue growth is expected to benefit from the positive outlook for the labour market and consumer demand as well as the proceeds associated with the citizenship programme (0.9% of GDP) while the negative impact on VAT revenues coming from changes to EU rules on electronically-supplied services is expected to be muted. Current expenditure, including the measures introduced in the 2015 budget, is expected to decrease by 0.4 pps. of GDP on the back of lower expenditure on social transfers and interest. Net investment, including projects co-financed by EU funds, is set to remain at levels close to 2014, while subsidies to investment are likely increase on the back of the further capital injection into Air Malta (0.5% of GDP).

In 2016 the general government deficit is forecast to decrease further to 1.2% of GDP. Despite the increase in excise duty on various products, current revenue is envisaged to grow less than nominal GDP because of the lowering in income tax for low income earners, the phasing out of the eco-contribution and the high base effect for other current revenue. Current expenditure is expected to continue growing due also to the measures introduced with the 2016 Budget, among others, the upward adjustment of the minimum contributory pension and the partial funding of the cost of home care for elderly. Public investment is projected to decrease, thanks to the phasing out of the capital injection to the national airline, while the sharp decline in the absorption of EU funds is partially compensated by national funds. In 2017, under a no-policy-change assumption, the headline deficit is expected to decline further to 1.1% of GDP, helped by the favourable macroeconomic outlook.

The structural deficit ratio is estimated to have remained broadly stable in 2014. It is projected to improve by ¼ pps. of GDP in 2015 and further by ½ pps. of GDP in 2016, while only a marginal improvement is expected in 2017.

From 68.3% of GDP in 2014, the debt ratio is projected to fall further in 2015 to 65.9% of GDP, also thanks to the expected repayment of some tax arrears from the public energy utility corporation. It is expected to follow a downward path and to reach 61% of GDP by 2017.

Table II.18.1:

Main features of country forecast - MALTA

	2014		Annual percentage change						
	mio EUR Curr. prices	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP	7941.3	100.0	2.8	2.5	2.6	3.5	**4.3**	**3.6**	**3.1**
Private Consumption	4361.8	54.9	2.7	-0.2	1.9	2.9	**3.2**	**2.9**	**2.2**
Public Consumption	1611.7	20.3	2.0	6.3	0.2	7.5	**2.1**	**4.0**	**5.5**
Gross fixed capital formation	1499.2	18.9	0.6	4.5	-0.7	9.1	**17.1**	**-1.0**	**1.1**
of which: equipment	551.7	6.9	-	-8.8	4.8	0.9	**-**	**-**	**-**
Exports (goods and services)	11864.8	149.4	4.8	7.0	-0.2	-0.3	**-1.1**	**3.9**	**4.5**
Imports (goods and services)	11360.0	143.0	4.1	5.2	-1.2	0.6	**-0.3**	**3.0**	**4.3**
GNI (GDP deflator)	7588.0	95.6	2.6	1.3	1.8	4.3	**4.6**	**3.9**	**3.3**
Contribution to GDP growth: Domestic demand			2.2	1.9	1.0	4.7	**5.4**	**2.2**	**2.5**
Inventories			0.0	-2.4	0.0	0.1	**0.0**	**0.0**	**0.0**
Net exports			0.7	2.9	1.6	-1.3	**-1.1**	**1.4**	**0.5**
Employment			0.9	2.3	4.2	4.5	**2.4**	**2.0**	**1.5**
Unemployment rate (a)			6.7	6.3	6.4	5.9	**5.8**	**5.7**	**5.8**
Compensation of employees / head			3.8	3.9	0.4	0.3	**2.4**	**2.9**	**3.0**
Unit labour costs whole economy			1.9	3.6	2.0	1.2	**0.6**	**1.3**	**1.4**
Real unit labour cost			-0.4	1.6	0.1	-0.6	**-1.6**	**-1.2**	**-1.1**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.4	2.0	1.9	1.8	**2.3**	**2.5**	**2.5**
Harmonised index of consumer prices			-	3.2	1.0	0.8	**1.1**	**1.8**	**2.2**
Terms of trade of goods			0.3	-2.1	2.5	1.7	**1.7**	**1.5**	**0.0**
Trade balance (goods) (c)			-16.7	-14.2	-13.4	-12.8	**-15.0**	**-13.5**	**-12.7**
Current-account balance (c)			-5.2	1.4	3.2	3.3	**2.0**	**3.8**	**4.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.2	3.3	4.9	5.0	**3.6**	**5.3**	**5.7**
General government balance (c)			-5.1	-3.6	-2.6	-2.1	**-1.7**	**-1.2**	**-1.1**
Cyclically-adjusted budget balance (d)			-5.2	-3.3	-2.4	-2.1	**-2.0**	**-1.6**	**-1.4**
Structural budget balance (d)			-	-3.6	-2.5	-2.4	**-2.1**	**-1.7**	**-1.5**
General government gross debt (c)			62.1	67.6	69.6	68.3	**65.9**	**63.2**	**61.0**

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

19. THE NETHERLANDS

Self-sustained growth ahead

The Dutch economy performed well in the first half of 2015 thanks to a strong rebound in investment activity, particularly for construction, and rising consumption. The stage is thus set for a domestic demand-led recovery despite temporary headwinds from adverse global economic developments. The headline budget deficit is set to improve from 2.1% of GDP this year, to 1.5% and 1.2% of GDP in 2016 and 2017.

Economic recovery in 2015: so far so good

In the first half of 2015, the economy of the Netherlands grew at the fairly brisk pace of 2.4%, compared with the same period the year before. A surge in investment accounted for much of the expansion, partly driven by a recovering housing market. This was particularly evident in the 30% y-o-y surge in the volume of residential investment. Investment in construction (+15%) and equipment (+10%) was also buoyant. More upbeat economic sentiment supported household consumption, which has grown steadily in recent quarters, after having been depressed for a long period of time.

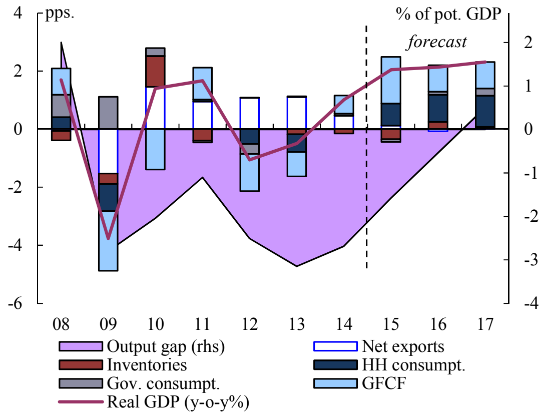
Weaker growth in the second half of 2015

Forward-looking economic indicators for the Netherlands are flashing green. Economic sentiment, as measured by the European Commission's business and consumer surveys, stands at a post-crisis high, while capacity utilisation rates have been increasing and Purchasing Managers' Index (PMI) readings point to further expansion. Nevertheless, the open character of the Dutch economy leaves it strongly exposed to global economic developments. Although the direct trade impact of the current slowdown in emerging economies is expected to be relatively limited, adverse effects stemming from supply chain linkages to German industry constitute a risk. Also, large foreign investments in emerging economies, including China, may put Dutch corporate income streams at risk. These global developments are expected to have a negative impact on the Dutch economy, leading to a more subdued growth outlook for the second half of 2015.

Domestic demand boosting growth

The outlook for 2016 is marked by an important policy stimulus. The government has announced a set of tax cuts aiming to lower the tax wedge, with a positive impulse of €5bn (0.7% of GDP) to gross disposable income. This stimulus is likely to positively affect consumption and - to a more limited extent - employment growth, with the favourable impact on spending likely to materialise gradually as households remain initially cautious. Accordingly, consumption growth is expected to start accelerating in the second half of 2016. The household saving rate is expected to increase slightly at first, as disposable income gains are initially used to shore up overstretched financial positions, before declining in 2017 as consumption growth increases. This relatively favourable consumption outlook also reflects continued employment and wage growth.

Graph II.19.1: **The Netherlands - Real GDP growth and contributions**



A virtuous cycle of self-sustaining economic growth, increasing labour productivity and low real interest rates should support continued investment growth, albeit at a significantly lower rate than in 2015, as housing investment is expected to moderate. Increasing domestic demand, together with a weaker outlook for world trade means that net exports are likely to cease making a significant positive contribution to GDP growth over the forecast horizon.

Sustained private sector employment growth

The Dutch economy has now recovered its pre-crisis output level. However, GDP per capita is still 2.8% below 2008 levels and there are still 130,000 people fewer in work than before the crisis. In the first two quarters of 2015, employment continued to rise, albeit at a slower speed than in the second half of 2014. With growing labour supply, the unemployment rate declined from 7.2% in January 2015 to 6.8% in September 2015. With domestic demand-driven growth proving especially favourable for employment growth, the unemployment rate is expected to decline further to 6.6% in 2016 and 6.3% in 2017.

HICP inflation expected to pick up

In the third quarter of 2015, headline HICP inflation stood at 0.6% y-o-y. Core inflation rose to above 1% in the second and third quarters, in part due to services inflation being pushed up by faster wage growth. Energy and food prices continued to act as a drag on headline inflation. In the near term, inflation is expected to pick up, supported by positive base effects from previous energy price falls as well as rising core inflation rates. HICP inflation is forecast to rise to 1.2% in 2016 and 1.5% in 2017.

Government finances: sound but low buffers

In 2015, the nominal budget deficit is expected to reach 2.1% of GDP, some 0.3 pps. better than in 2014 as lower expenditure on social benefits and transfers support the headline balance. However, the decline in the deficit is slowed by the government's decision to lower the production of natural gas from 2015 onwards. In 2016, revenue growth is limited by the announced package of tax cuts worth 0.7% of GDP. Nevertheless, over the forecast horizon, the deficit is forecast to continue to narrow, driven by declining social spending in 2016 and robust growth of the tax base in 2017. The structural budget balance is expected to deteriorate by about ½ pps. of GDP in 2015 and by about a further ¼ pps. of GDP in 2016, partly due to the impact of lower revenues from natural gas and the policy stimulus in 2016, which imply a comparatively low revenue-intensity of the recovery. Government debt is expected to decline over the forecast horizon by 1.5 pps. of GDP, as the budget deficit narrows and nominal GDP growth increases. Risks to the fiscal outlook stem from possible further reductions in natural gas production and larger-than-budgeted costs for supporting refugees.

Table II.19.1:

Main features of country forecast - NETHERLANDS

		2014		Annual percentage change						
	bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		662.8	100.0	2.3	-1.1	-0.5	1.0	**2.0**	**2.1**	**2.3**
Private Consumption		296.1	44.7	1.8	-1.2	-1.4	0.0	**1.7**	**2.1**	**2.4**
Public Consumption		171.2	25.8	2.8	-1.3	0.1	0.3	**-0.3**	**0.4**	**1.0**
Gross fixed capital formation		120.4	18.2	2.1	-6.3	-4.4	3.5	**8.8**	**4.7**	**4.6**
of which: equipment		34.1	5.1	3.4	-5.0	-4.0	0.9	**7.7**	**5.4**	**4.6**
Exports (goods and services)		549.4	82.9	4.9	3.8	2.1	4.0	**4.6**	**4.1**	**4.5**
Imports (goods and services)		473.8	71.5	5.1	2.7	0.9	4.0	**5.2**	**4.8**	**5.2**
GNI (GDP deflator)		671.1	101.3	2.3	-0.8	-0.6	0.3	**1.9**	**2.0**	**2.2**
Contribution to GDP growth:	Domestic demand			2.0	-2.1	-1.4	0.7	**2.3**	**2.0**	**2.2**
	Inventories			0.0	0.0	-0.2	-0.1	**-0.4**	**0.2**	**0.1**
	Net exports			0.2	1.1	1.1	0.5	**0.1**	**-0.1**	**0.0**
Employment				1.0	-0.6	-0.8	-0.3	**1.2**	**1.1**	**1.1**
Unemployment rate (a)				4.9	5.8	7.3	7.4	**6.9**	**6.6**	**6.3**
Compensation of employees / f.t.e.				3.1	2.5	1.8	2.2	**0.8**	**1.7**	**1.9**
Unit labour costs whole economy				1.9	2.9	1.5	0.8	**-0.1**	**0.7**	**0.7**
Real unit labour cost				-0.1	1.5	0.1	0.0	**-0.9**	**-0.8**	**-0.7**
Saving rate of households (b)				13.2	13.8	14.2	14.8	**15.7**	**16.1**	**14.6**
GDP deflator				2.0	1.4	1.4	0.8	**0.9**	**1.5**	**1.4**
Harmonised index of consumer prices				2.1	2.8	2.6	0.3	**0.2**	**1.2**	**1.5**
Terms of trade goods				0.2	-0.2	0.7	0.9	**1.5**	**-0.2**	**-0.6**
Trade balance (goods) (c)				8.4	11.0	11.8	12.0	**12.1**	**11.7**	**11.3**
Current-account balance (c)				6.6	10.2	11.0	10.6	**10.5**	**10.4**	**9.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.3	9.2	10.7	10.7	**10.6**	**10.7**	**9.9**
General government balance (c)				-1.4	-3.9	-2.4	-2.4	**-2.1**	**-1.5**	**-1.2**
Cyclically-adjusted budget balance (d)				-1.2	-2.3	-0.4	-0.6	**-1.1**	**-1.1**	**-1.5**
Structural budget balance (d)				-	-2.3	-0.9	-0.5	**-1.1**	**-1.4**	**-1.5**
General government gross debt (c)				54.5	66.4	67.9	68.2	**68.6**	**67.9**	**66.9**

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

20. AUSTRIA

Brightening economic prospects raise cautious hopes

Economic growth in Austria is expected to be steady but slow in 2015 and signs of gathering momentum point tentatively towards an acceleration in 2016 and 2017. Increased immigration is expected to trigger a rise in public expenditure that should give a small push to economic growth. The financing of the income tax reform represents a downside risk for the coming budgetary year.

Continuing slow economic development

Austria's economic growth was slow and steady in the first half of the year. Activity across all sectors of the economy rose but only weakly. Domestic demand was underpinned by public expenditure whereas private consumption growth remained low and investment declined slightly. Although foreign trade was hit by a noticeable decline in exports to China and Russia, net exports remained positive as imports decreased amid weak domestic demand.

Cautious brightening of economic outlook

In the third and fourth quarters of 2015, economic activity is expected to continue at the same slow rhythm leading to a projected annual real GDP growth of 0.6%.

In 2016 and 2017, however, growth is expected to pick up more than double, to 1.5% and 1.4%, respectively. The main drivers behind this projected acceleration are the rise in household incomes expected as a result of tax cuts and higher housing investment activities. Public expenditure growth will likely be limited by the need for measures to finance the income tax reform.

With economies slowing down in Asia and in emerging markets, Austria's export industry is expected to face a more challenging economic environment for the next few years. Although exports are expected to grow at a good rate, market share losses and declining price competitiveness are likely to continue. Imports are expected to grow alongside the gradual acceleration of domestic demand so that overall, net foreign trade will only make a small contribution to GDP growth.

Investment activity has been sluggish in 2015 but is expected to pick up in the coming years as low interest rates and low oil prices help maintain a favourable climate for investment and business development. Growing demand in the housing sector, as well as in general, should provide an impulse for investment in construction and equipment.

Private consumption is expected to increase noticeably from 2016 onwards when the impact of planned tax reforms fully unfolds and starts to support household disposable incomes. However, it remains to be seen to what extent uncertainties about the economic outlook might lead households to increase savings.

Marginal impact from immigration expected

The increased inflow of migrants to Austria witnessed in 2015 is expected to continue for some time and will have marginal positive effects on GDP through higher consumption and additional government expenditure. However, migration is not projected to have a significant short-term impact on employment, as only a very small proportion of the arriving migrants is expected to enter the labour market over the forecast horizon. The effects of limiting early retirement contribute to a quasi-stable labour force. Overall, the unemployment rate is expected to remain stable around 6.1% with a slight tendency to decline.

Positive and stable inflation despite cheaper energy prices

Energy prices will continue to have a dampening effect on overall price levels, but HICP inflation remains stable and positive due to price increases in renting and hospitality (hotels, restaurants) services. After reaching 0.9% in 2015, overall inflation is forecast to increase to 1.8% in 2016 and 2.0% in 2017 reflecting the brighter prospects for domestic demand growth in the coming years.

Financial sector costs, tax reform and refugees add pressure to the fiscal outlook

The general government deficit was revised up to 2.7% of GDP in 2014 due to an update of 0.4% of GDP of the independent evaluation of impaired assets of the former Hypo Alpe Adria Bank, held by the special wind-down vehicle HETA. The deficit is forecast to decline to 1.9% of GDP in 2015. While this year's weak cyclical conditions negatively affect public finances by lowering indirect tax revenue, income and wealth taxes remain quite buoyant and revenue from social contributions has been consistent. The issues surrounding the wind-down of Hypo Alpe Adria are expected to continue weighing on the fiscal outcome in 2015. In July, the Constitutional Court repealed the special law on HETA imposing a haircut on some subordinated debt holders. The Austrian government had already earmarked the necessary repayment funds in anticipation of the decision. In contrast, the settlement with Bavaria amounting to EUR 1.2 bn will add to debt but is not expected to have a deficit increasing impact if recorded as a prefunding of the outcome of HETA's liquidation.

The government deficit is projected to decline to 1.6% in 2016 and 1.3% in 2017 assuming no policy change. This forecast rests significantly on the effectiveness of measures to finance the tax reform announced by the government, which could disappoint. The planned reduction of the tax burden on labour would amount to 1.2% of GDP in 2016 and an additional 0.3% of GDP in 2017. At the same time, the government is likely to incur some additional costs (an official estimate of EUR 0.5 bn or 0.14% of GDP relative to 2015) related to a surge in asylum seekers.

The structural deficit decreased marginally in 2014 to around ¾% of GDP and a slight decrease is expected for 2015 as well. Austria's budgetary position in 2016, however, could deteriorate due to the large tax expenditure related to the tax reform and possible shortfalls in expected compensating revenues and savings.

In 2014, gross general government debt increased to 84.2% of GDP due to the inclusion in the government's accounts of HETA's assets worth about 4.3% of GDP. Similarly, in 2015, the public sector had to book illiquid assets of Kommunalkredit worth about 2% of GDP, which contributed to the debt increase to 86.6% of GDP. In 2016 and 2017, public debt is projected to decline to 85.7% and 84.3% of GDP respectively.

Table II.20.1:

Main features of country forecast - AUSTRIA

	2014		Annual percentage change						
	bn EUR Curr. prices	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP	329.3	100.0	2.1	0.8	0.3	0.4	**0.6**	**1.5**	**1.4**
Private Consumption	177.3	53.9	1.7	0.6	0.1	0.0	**0.3**	**1.0**	**1.0**
Public Consumption	65.6	19.9	1.7	0.2	0.6	0.8	**0.8**	**0.5**	**0.6**
Gross fixed capital formation	73.6	22.4	1.2	1.3	-0.3	-0.2	**-0.1**	**2.6**	**2.7**
of which: equipment	24.1	7.3	1.8	0.7	-0.1	1.3	**1.5**	**4.2**	**4.0**
Exports (goods and services)	175.3	53.2	5.5	1.7	0.8	2.1	**1.2**	**3.7**	**3.6**
Imports (goods and services)	163.0	49.5	4.4	1.1	0.0	1.3	**1.0**	**3.6**	**3.7**
GNI (GDP deflator)	327.2	99.4	2.1	0.5	0.5	-0.6	**0.6**	**1.4**	**1.3**
Contribution to GDP growth: Domestic demand			1.5	0.6	0.1	0.1	**0.3**	**1.2**	**1.3**
Inventories			0.0	-0.4	-0.5	-0.3	**0.1**	**0.0**	**0.0**
Net exports			0.5	0.3	0.4	0.5	**0.2**	**0.3**	**0.1**
Employment			0.9	1.1	0.5	0.9	**0.7**	**0.8**	**0.8**
Unemployment rate (a)			4.7	4.9	5.4	5.6	**6.1**	**6.1**	**6.0**
Compensation of employees / f.t.e.			2.0	2.7	2.2	1.7	**1.8**	**1.8**	**1.8**
Unit labour costs whole economy			0.9	3.0	2.3	2.3	**1.9**	**1.1**	**1.2**
Real unit labour cost			-0.5	1.0	0.8	0.6	**0.4**	**-0.4**	**-0.6**
Saving rate of households (b)			15.5	14.5	12.9	13.3	**14.0**	**14.6**	**14.1**
GDP deflator			1.5	2.0	1.5	1.6	**1.5**	**1.5**	**1.8**
Harmonised index of consumer prices			1.8	2.6	2.1	1.5	**0.9**	**1.8**	**2.0**
Terms of trade goods			-0.4	-0.7	-0.1	0.9	**1.3**	**-0.3**	**0.1**
Trade balance (goods) (c)			-0.8	-1.0	-0.3	0.5	**1.0**	**1.0**	**1.1**
Current-account balance (c)			0.9	1.7	2.1	2.1	**2.6**	**2.6**	**2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			0.8	1.5	2.0	2.0	**2.5**	**2.6**	**2.9**
General government balance (c)			-2.7	-2.2	-1.3	-2.7	**-1.9**	**-1.6**	**-1.3**
Cyclically-adjusted budget balance (d)			-2.6	-2.2	-1.0	-2.2	**-1.2**	**-1.2**	**-1.1**
Structural budget balance (d)			-	-1.8	-1.2	-0.7	**-0.6**	**-1.0**	**-1.1**
General government gross debt (c)			68.9	81.6	80.8	84.2	**86.6**	**85.7**	**84.3**

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

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

21. POLAND

Growth still on a firm footing

Economic growth in Poland is expected to remain robust and stable, driven by domestic demand. Private consumption should benefit from the strong labour market. Deflation is expected to come to an end this year, but price pressures are set to remain subdued. The government deficit is projected to remain narrowly below 3.0% of GDP over the forecast horizon.

Solid and stable growth continues

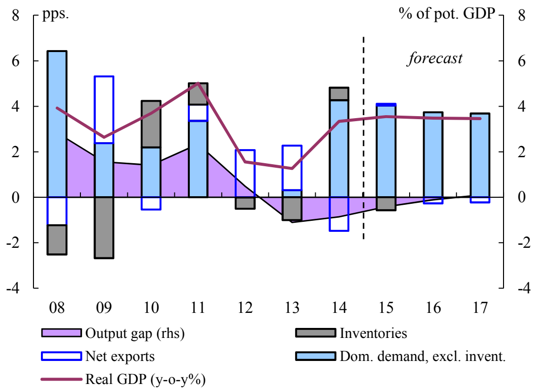
In the first half of 2015, the Polish economy continued to follow the solid growth path observed over the past two years, growing at the remarkably stable rate of between 0.7% and 1.0% (q-o-q). The expansion was driven by domestic demand, especially private consumption, which is growing thanks to sizeable employment gains and real wage increases. Robust export growth to other EU countries has more than compensated for negative developments in the Russian and Ukrainian markets.

Poland's real GDP is projected to grow by 3.5% (y-o-y) over the forecast horizon. Private consumption should continue to gain from further improvements in household disposable income and financial conditions as employment and wages continue to rise and interest rates remain low. In 2016-17, investment is forecast to expand at rates well above GDP growth, although lower than in 2015, as firms remain cautious about the future demand outlook and the ongoing transition to the new programming period of EU funding temporarily weighs on private and public investment.

Supported by the weak złoty, contained production costs and the expected improvement in external demand in 2016 and 2017, exports should continue to record strong growth. However, rising domestic demand and the high import content of Polish exports is projected to fuel import growth so that the contribution of net exports to real GDP growth in 2016 and 2017 is forecast to be marginally negative.

While remaining solid, employment growth is expected to slow somewhat over the forecast horizon as a result of demographic trends and stagnating labour force participation rates. Employment growth is set to be driven by rising numbers of employees, while the number of self-employed may slightly decline, a positive trend given strong labour market segmentation between permanent workers and those on non-regular contracts. The unemployment rate is set to decline to 6.8% in 2017, slightly below the historical low observed in 2008. Falling unemployment coupled with a closing output gap is expected to accelerate wage growth over the forecast horizon.

Graph II.21.1: **Poland - Real GDP growth and contributions, output gap**



The risks to the macroeconomic forecast are balanced. On the downside, any worsening of the Russia-Ukraine crisis and a further slowdown in other emerging markets would weigh on net exports. Uncertainty is also attached to economic policy initiatives that may be implemented following the parliamentary elections of 25 October (after the cut-off date of the forecast). On the upside, with the elections over, private investment could pick up stronger than assumed.

Inflation to turn positive

Consumer prices have been falling since mid-2014 as a result of lower energy and food prices. The impact of this summer's drought on food prices in 2015 is set to be limited. Price pressures are expected to remain subdued over the forecast horizon for several reasons: the negative output gap is set to close only gradually, wage growth is projected to remain broadly in line with productivity gains and import prices are likely to recover only modestly from 2016 onwards. Overall, inflation is projected to turn positive by the end of 2015. Consumer prices are forecast to rise by 1.4% in 2016 and 1.9% in 2017, still below the central bank's inflation target of 2.5%.

General government deficit set to remain below 3% of GDP by a narrow margin

The general government deficit is projected to improve from 3.3% of GDP in 2014 to 2.8% of GDP in 2015 and to remain at that level over the forecast horizon.

A planned sale of high-speed mobile internet frequencies (digital dividend of around 0.5% of GDP) is the main driver of the expected improvement of the deficit in 2015. Also of note, an increase in social contributions retained by the general government following the partial reversal of the 1999 systemic pension reform enacted at the end of 2013 is set to offset a sizeable shortfall in VAT revenues. Apart from consumer price deflation and a legislative shift of VAT collection from some large taxpayers by one month, weak VAT revenues in 2015 seem to be caused by collection and compliance issues.

In 2016, taking into account the one-off effect of the digital dividend accruing in 2015, the projected deficit of 2.8 % of GDP would constitute an improvement on 2015. The expected fall in consumer prices in 2015 is forecast to curb pension expenditures in 2016 as they are indexed to previous year's inflation.

In 2017, under a no-policy-change assumption, the general government deficit is set to remain unchanged at 2.8% of GDP, despite robust economic growth. A scheduled lapse of the temporary increase of VAT rates introduced in 2011 is set to have a negative effect on tax revenues.

The structural deficit is estimated to somewhat deteriorate over the forecast horizon, from around 2½ % of GDP in 2014 to just below 3% of GDP in 2017.

At this particular juncture, the fiscal projections are surrounded by some uncertainty regarding the implications of the parliamentary elections for economic policy-making.

The general government debt-to-GDP ratio is set to increase over the forecast horizon, from 50.4 % in 2014 to 53.5 % in 2017. The projected debt figures are, however, subject to considerable uncertainty because of the potential impact of exchange rate fluctuations on the relatively high share of Poland's sovereign debt denominated in foreign currencies.

Table II.21.1:

Main features of country forecast - POLAND

		2014		Annual percentage change						
		bn PLN Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		1719.1	100.0	4.4	1.6	1.3	3.3	**3.5**	**3.5**	**3.5**
Private Consumption		1033.1	60.1	4.3	0.7	0.2	2.5	**3.4**	**3.4**	**3.5**
Public Consumption		315.6	18.4	3.4	-0.4	2.2	4.9	**4.1**	**3.1**	**2.6**
Gross fixed capital formation		337.5	19.6	6.7	-1.8	-1.1	9.8	**6.5**	**5.5**	**5.5**
of which: equipment		124.4	7.2	7.2	-5.0	5.5	-0.9	**7.1**	**5.5**	**5.5**
Exports (goods and services)		815.6	47.4	8.7	4.6	6.1	6.4	**5.6**	**5.8**	**6.1**
Imports (goods and services)		793.6	46.2	9.3	-0.3	1.7	10.0	**5.6**	**6.6**	**6.8**
GNI (GDP deflator)		1661.0	96.6	4.4	1.7	1.1	3.6	**3.9**	**3.4**	**3.4**
Contribution to GDP growth:	Domestic demand			4.7	0.0	0.3	4.3	**4.0**	**3.7**	**3.7**
	Inventories			0.0	-0.5	-1.0	0.5	**-0.6**	**0.0**	**0.0**
	Net exports			-0.3	2.1	1.9	-1.5	**0.1**	**-0.3**	**-0.2**
Employment				0.3	0.1	-0.1	1.7	**1.0**	**0.6**	**0.6**
Unemployment rate (a)				13.5	10.1	10.3	9.0	**7.6**	**7.2**	**6.8**
Compensation of employees / head				8.4	3.6	1.7	1.6	**2.6**	**3.4**	**4.1**
Unit labour costs whole economy				4.2	2.1	0.3	0.0	**0.0**	**0.5**	**1.2**
Real unit labour cost				-1.0	-0.3	-0.1	-0.4	**0.2**	**-0.8**	**-0.3**
Saving rate of households (b)				9.0	1.8	3.0	3.4	**3.7**	**2.6**	**1.2**
GDP deflator				5.3	2.4	0.4	0.4	**-0.1**	**1.3**	**1.5**
Harmonised index of consumer prices				-	3.7	0.8	0.1	**-0.6**	**1.4**	**1.9**
Terms of trade goods				-0.4	-1.3	1.7	2.2	**1.0**	**0.0**	**-0.5**
Trade balance (goods) (c)				-4.4	-2.1	-0.1	-0.8	**-0.3**	**-0.5**	**-1.0**
Current-account balance (c)				-4.0	-3.2	-0.9	-1.1	**-0.5**	**-0.9**	**-1.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.5	-1.1	1.0	1.0	**1.7**	**0.8**	**0.3**
General government balance (c)				-4.5	-3.7	-4.0	-3.3	**-2.8**	**-2.8**	**-2.8**
Cyclically-adjusted budget balance (d)				-4.5	-3.9	-3.4	-2.9	**-2.6**	**-2.8**	**-2.9**
Structural budget balance (d)				-	-4.0	-3.4	-2.6	**-3.0**	**-2.6**	**-2.9**
General government gross debt (c)				44.5	54.0	55.9	50.4	**51.4**	**52.4**	**53.5**

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

22. PORTUGAL

Domestic demand robust but high debt still weighs on growth

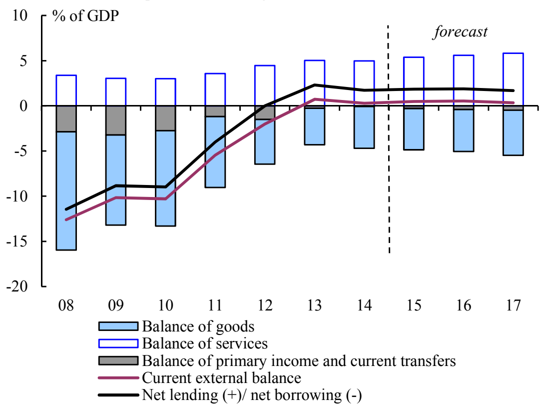
Portugal's economic recovery continues to consolidate, driven primarily by domestic demand, with diminishing help from external demand. While the general government deficit is expected to reach 3.0% in 2015, the structural deficit is forecast to increase in 2015 and, under the no-policy-change assumption, also in 2016.

Economic recovery consolidates

Evidence of Portugal's economic recovery was reinforced in the first half of 2015 when real GDP grew by 1.6% y-o-y. Domestic demand continued to be the main contributor to output growth (2.6% y-o-y). Strong export growth of 7.2% y-o-y was however outpaced by even stronger imports (+9.5%), so the overall contribution of net trade to GDP growth in the first half of 2015 was negative. Recent short-run indicators point to a deceleration of economic growth in the third quarter of 2015. While the Commission's Economic Sentiment Indicator (ESI) and consumer confidence stood at high levels in September, weaker retail indicators and a slower pace of employment creation indicate an incipient slowdown of private consumption growth. Looking ahead, private consumption is expected to grow by 2.6% in 2015 and at a more moderate pace in 2016 and 2017 due to persistent pressures on households to reduce their debt.

Gross fixed capital formation is projected to decelerate in the second half of 2015, as capacity utilisation has stabilised near its historical average and construction indicators weakened over the summer. Nonetheless, due to the strong performance in the first quarter, investment is expected to show strong annual growth of 5.6% in 2015. Deteriorating external demand prospects and continued deleveraging are expected to weigh on the investment outlook for 2016. However, in 2017, private investment should pick up again as uncertainty in global markets and deleveraging needs are projected to diminish. Export market share gains and positive sentiment in the euro area helped exports in the first half of 2015. Going forward, the weaker global trade outlook and a gradual decline in export market share gains will likely weigh on export growth. After a sharp expansion over the first half of 2015 partly due to one-off factors, imports are forecast to develop in line with final demand elasticities. As a result, the contribution of net trade to growth is forecast to remain negative throughout the forecast horizon. The high import content of Portugal's exports is complicating the economy's external adjustment, particularly in the context of buoyant domestic demand. However, the current-account surplus is set to increase slightly to around 0.5% of GDP in 2015 and 2016, mainly due to increases in the terms of trade, and then to decline to 0.3% in 2017, as the latter effect fades. Overall, real GDP is projected to expand by 1.7% in 2015 and 2016 and slightly accelerate to 1.8% in 2017. Risks to the short-term macroeconomic outlook are tilted to the downside. Ineffective implementation of policies to reduce the burden of private sector debt could prolong active deleveraging. In addition, an extended period of political uncertainty could dampen business and consumer confidence.

Graph II.22.1: **Portugal - External transactions**



Labour market and inflation outlook improve

Job creation gathered steam in the first half of 2015 when employment expanded by 1.3% y-o-y. With the labour force shrinking further by 0.7% y-o-y in the same period due to negative demographic developments, the unemployment rate declined to 13.0%. Employment expansion is expected to decelerate in the second half of 2015 and subsequently to stabilise at annual rates of 0.7% in 2017. As a result, the unemployment rate is forecast to gradually decrease to 10.8% in 2017. HICP inflation was 0.9% in September, mainly driven by food, beverages, tobacco and communication process. The effect of lower oil prices was largely compensated by the euro's depreciation and the impact of the introduction of new green taxes. Therefore, HICP inflation is expected to be positive at 0.5% in 2015 and to gradually increase to 1.3% in 2017.

Public finances benefitting from the recovery

The general government headline deficit for 2014 has been revised upwards from 4.5% to 7.2% of GDP, mainly due to the revised statistical recording of the capitalisation of Novo Banco as a capital transfer (a one-off operation worth 2.8% of GDP). With the revised total of one-offs now amounting to 3.8% of GDP, the new headline deficit excluding one-offs reached 3.4% in 2014.

In 2015, the headline deficit is expected to decline to 3.0% of GDP. The slight improvement relative to the spring forecast is mainly the result of the improved macroeconomic outlook. In particular, revenue from indirect taxes is projected to further increase due to higher private consumption, while unemployment expenditure is set to be lower-than-expected thanks to the improving labour market. Part of the gains from strong revenue collection and lower social transfers are also expected to be used to cover some increases in other expenditure lines, in particular compensation of employees. The structural deficit is forecast to deteriorate by some ½ pps. of GDP in 2015, as the reduction of the headline deficit is based on cyclical factors rather than on additional structural measures.

On the basis of the no-policy change assumption, due to the absence of a fully-fledged Draft Budgetary Plan for 2016 at the cut-off date of 22 October 2015, the headline deficit is forecast to fall to 2.9% of GDP in 2016. The structural deficit is forecast to further deteriorate by about ½ pp. of GDP in 2016. In 2017, the headline deficit is projected to decrease to 2.5% of GDP in line with GDP growth, while in the absence of new consolidation measures the structural balance is expected to remain broadly unchanged. Risks to the fiscal outlook are tilted to the downside as a result of risks to the macroeconomic outlook, possible spending slippages and the still outstanding political agreement on consolidation measures for 2016 and 2017. Having reached 130.2% of GDP at the end of 2014, the gross public debt-to-GDP ratio is now expected to fall to 128.2% by end-2015, 124.7% by end-2016, and 121.3% by the end of 2017, thanks to the improving economy, primary budget surpluses and debt-reducing operations. The slower-than-expected decrease of the public debt ratio in 2015 is due to the postponement of the Novo Banco sale (now expected for 2016) and other statistical revisions.

Table II.22.1:

Main features of country forecast - PORTUGAL

		2014		Annual percentage change						
		bn EUR Curr. prices	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP		173.4	100.0	1.6	-4.0	-1.1	0.9	**1.7**	**1.7**	**1.8**
Private Consumption		114.4	65.9	1.8	-5.5	-1.2	2.2	**2.6**	**1.7**	**1.8**
Public Consumption		32.2	18.5	2.0	-3.3	-2.0	-0.5	**0.5**	**0.3**	**0.4**
Gross fixed capital formation		25.8	14.9	0.6	-16.6	-5.1	2.8	**5.6**	**3.9**	**5.5**
of which: equipment		8.0	4.6	1.8	-17.0	8.1	15.3	**13.5**	**8.5**	**10.8**
Exports (goods and services)		69.5	40.0	4.4	3.4	7.0	3.9	**5.3**	**4.8**	**5.3**
Imports (goods and services)		68.8	39.7	3.8	-6.3	4.7	7.2	**6.7**	**5.3**	**6.1**
GNI (GDP deflator)		171.1	98.7	1.4	-4.5	0.0	0.9	**1.6**	**1.6**	**1.8**
Contribution to GDP growth:	Domestic demand			1.7	-7.3	-2.0	1.8	**2.6**	**1.8**	**2.1**
	Inventories			0.0	-0.3	0.0	0.3	**-0.3**	**0.0**	**0.0**
	Net exports			-0.1	3.6	0.9	-1.2	**-0.5**	**-0.1**	**-0.3**
Employment				0.3	-4.1	-2.9	1.4	**1.1**	**0.8**	**0.7**
Unemployment rate (a)				8.1	15.8	16.4	14.1	**12.6**	**11.7**	**10.8**
Compensation of employees / head				3.6	-3.1	3.6	-1.4	**0.4**	**1.2**	**1.3**
Unit labour costs whole economy				2.3	-3.2	1.8	-0.9	**-0.2**	**0.3**	**0.2**
Real unit labour cost				-0.4	-2.8	-0.5	-1.8	**-1.5**	**-1.0**	**-1.3**
Saving rate of households (b)				9.8	7.7	7.8	5.9	**5.1**	**5.8**	**5.9**
GDP deflator				2.7	-0.4	2.3	1.0	**1.3**	**1.4**	**1.5**
Harmonised index of consumer prices				2.5	2.8	0.4	-0.2	**0.5**	**1.1**	**1.3**
Terms of trade goods				-0.3	0.7	1.7	1.3	**2.1**	**0.8**	**0.5**
Trade balance (goods) (c)				-10.6	-5.0	-4.0	-4.6	**-4.6**	**-4.6**	**-5.0**
Current-account balance (c)				-8.9	-2.0	0.7	0.3	**0.5**	**0.5**	**0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.3	0.0	2.3	1.7	**1.9**	**1.9**	**1.7**
General government balance (c)				-5.2	-5.7	-4.8	-7.2	**-3.0**	**-2.9**	**-2.5**
Cyclically-adjusted budget balance (d)				-5.3	-3.2	-2.2	-5.2	**-1.8**	**-2.3**	**-2.4**
Structural budget balance (d)				-	-3.1	-2.5	-1.4	**-1.8**	**-2.3**	**-2.4**
General government gross debt (c)				66.6	126.2	129.0	130.2	**128.2**	**124.7**	**121.3**

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

23. ROMANIA

Fiscal easing boosts growth but puts consolidation at risk

Economic growth is forecast to accelerate this year and next and to remain strong in 2017, as fiscal stimulus spurs domestic demand at the price of a rising fiscal deficit. Inflation is expected to remain negative until mid-2016, but should recover rapidly in 2017. The labour market is projected to improve.

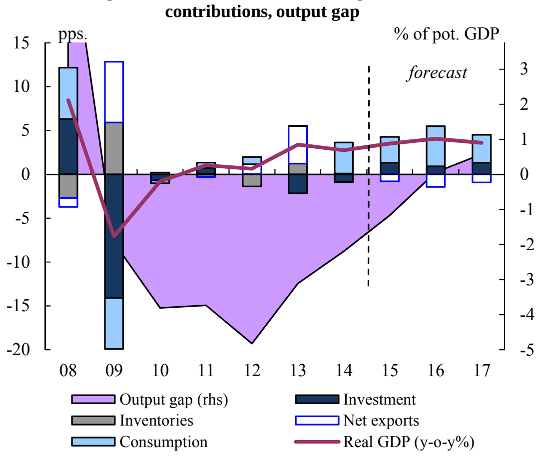
Robust domestic demand fuels growth in 2015

Romania's economy grew by 3.8% y-o-y in the first half of 2015, fuelled by strong private consumption and booming private investment. Real household disposable income is increasing, buoyed by wage growth and deflation, sustaining private consumption's momentum. Agriculture was hit by drought and is expected to be a drag on growth in 2015. Real GDP is thus forecast to grow by 3.5% in 2015. The current-account deficit is projected to expand slightly to 0.8% of GDP in 2015 due to a larger trade deficit.

Fiscal stimuli to induce post-crisis growth peak

With a tight labour market and deflation, the 4 pps. cut in the standard VAT rate is expected to push private consumption to a post-crisis peak in 2016 and fuel real GDP growth of 4.1%. Private consumption growth is forecast to moderate in 2017 as the impact of VAT cuts fades and inflation picks up. GDP growth is nevertheless expected to remain above potential at 3.6% in 2017.

Graph II.23.1: **Romania - Real GDP growth and contributions, output gap**



Private investment is forecast to continue growing, driven by the recovery of housing construction and supported by lower borrowing costs, new tax incentives and robust economic-growth prospects. Public investment is set to grow in 2015, the last absorption year of the 2007-2013 programming period of EU funding, but is likely to underperform compared to the initial 2015 budget. It is projected to decline in 2016, as EU funds' absorption drops, before picking up again in 2017.

The contribution of net exports to growth is foreseen to remain negative in 2015-17, as rising domestic consumption lifts demand for imports. Exports slow in line with global trade, but recover with investment in 2017. Romania's current-account deficit is forecast to widen to 1.9% of GDP in 2016 and 2.6% of GDP in 2017.

Inflation to bottom out in mid-2016

Annual average inflation is forecast to reach -0.4% in 2015 owing to the cut of the VAT rate for food in June, low energy prices, and low inflation in the EU. As the impact of the VAT cut for food wears out by mid-2016, strong domestic demand is expected to push inflation back to positive territory. However, the reduction of the standard VAT rate by 4 pps. in 2016 will work in the opposite direction, resulting in an annual average inflation of -0.3%. Despite an additional 1 pp. VAT cut in 2017, inflation is forecast to reach 2.3% on annual average. Possible increases of minimum and public wages tilt the risks to the upside in 2016 and 2017.

Downside risks to the growth forecast stem mainly from a potentially stronger impact of the global trade slowdown. Upside risks are related to a better-than-expected absorption of EU funds and a higher multiplier effect from the fiscal stimulus.

Tightening labour market

Unemployment in Romania fell to 6.8% in the first half of 2015 and is expected to decrease to 6.5% by 2017. Employment is projected to grow continuously over the forecast period, in line with economic growth. The solid wage growth in 2015 is likely to persist in 2016 and 2017 as the labour market tightens. However, labour productivity is still projected to grow more than 3% per year, helping to contain unit labour cost increases. Envisaged, but not yet legislated, minimum-wage increases are not included in this forecast.

Unfolding fiscal easing

The 2015 deficit is expected to stay within the 1.5% of GDP target. On the revenue side, an over-performance of ¼% of GDP is expected, despite the cut in the VAT rate for food products and of the special constructions tax, which were not in the 2015 budget. All important tax categories are likely to contribute to higher revenues than anticipated in the original budget, which reflects both strong economic growth and enhanced tax compliance. On the expenditure side, savings stem from low public investment and the smaller co-financing of EU-funded projects compared with the budget. These are expected to offset the doubling of child benefits as of mid-2015 and the significant increases of the remuneration in the health-care and education sectors.

From 2016 onwards, the deficit is on an increasing path. Under the no-policy-change assumption, the headline ESA deficit is expected to increase to 2.8% of GDP in 2016 on account of the amendments to the fiscal code with a deficit-increasing impact of 1.1% of GDP already in 2016. In particular, the standard VAT rate is set to fall from 24% to 20% as of 1 January 2016. In addition, various expenditure increasing measures were adopted, such as wage increases for teachers. The forecast does not take into account the reduction of the tax on dividends from 16% to 5% already in 2016 , which was decided after the cut-off date of the forecast, and the likely further increases of the minimum wage.

Assuming no policy changes, the headline deficit is projected to increase to well above 3% of GDP in 2017. The main impact stems from the new fiscal code, which implies tax cuts of around 1¼% of GDP in 2017. In particular, it contains an additional cut in the standard VAT rate from 20% to 19% and the abolition of the extra excise duty on fuel and of the special construction tax.

The structural deficit is forecast to increase from around 1% of GDP in 2015 to close to 4% in 2017 as a consequence of the fiscal easing and the closing of the output gap in 2016-17. Romania's debt-to-GDP ratio is projected to rise from 39.4% in 2015 to 42.8% in 2017.

Developments in public sector wages represent a key risk to the deficit outlook. The government is working on a new Unified Wage Law which could substantially increase wages to all categories of public sector employees.

Table II.23.1:

Main features of country forecast - ROMANIA

	2014		Annual percentage change						
	bn RON Curr. prices	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP	666.6	100.0	2.7	0.6	3.5	2.8	**3.5**	**4.1**	**3.6**
Private Consumption	418.1	62.7	4.9	1.2	0.7	6.2	**4.3**	**6.7**	**4.4**
Public Consumption	94.5	14.2	0.1	0.4	-4.6	5.0	**1.9**	**2.9**	**2.8**
Gross fixed capital formation	146.6	22.0	5.7	0.1	-5.4	-7.2	**6.2**	**3.9**	**6.0**
of which: equipment	67.2	10.1	6.8	-2.7	4.8	-2.0	**6.0**	**5.0**	**5.8**
Exports (goods and services)	274.2	41.1	9.0	1.0	19.7	8.1	**6.2**	**5.0**	**5.6**
Imports (goods and services)	273.6	41.0	11.6	-1.8	8.8	7.4	**8.1**	**8.3**	**7.5**
GNI (GDP deflator)	654.6	98.2	2.7	0.2	2.8	3.0	**3.6**	**4.1**	**3.7**
Contribution to GDP growth: Domestic demand			5.0	0.9	-1.7	2.7	**4.3**	**5.5**	**4.5**
Inventories			-0.2	-1.4	1.6	-0.1	**0.0**	**0.0**	**0.0**
Net exports			-2.0	1.1	3.6	0.2	**-0.8**	**-1.4**	**-0.9**
Employment			-1.5	-4.8	-0.9	1.1	**0.3**	**0.4**	**0.5**
Unemployment rate (a)			6.9	6.8	7.1	6.8	**6.7**	**6.6**	**6.5**
Compensation of employees / head			30.6	9.4	3.0	1.9	**4.4**	**5.7**	**6.2**
Unit labour costs whole economy			25.2	3.5	-1.3	0.2	**1.2**	**1.9**	**3.0**
Real unit labour cost			-1.6	-1.2	-4.6	-1.5	**-0.2**	**0.7**	**0.5**
Saving rate of households (b)			-3.7	-14.6	-9.8	-16.5	**-14.7**	**-14.6**	**-14.6**
GDP deflator			27.4	4.7	3.4	1.8	**1.4**	**1.2**	**2.6**
Harmonised index of consumer prices			25.9	3.4	3.2	1.4	**-0.4**	**-0.3**	**2.3**
Terms of trade goods			3.3	-3.4	0.4	0.8	**0.6**	**0.7**	**0.3**
Trade balance (goods) (c)			-8.0	-5.8	-5.5	-3.8	**-4.4**	**-5.5**	**-6.3**
Current-account balance (c)			-6.6	-4.3	-0.8	-0.4	**-0.8**	**-1.9**	**-2.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.3	-2.9	1.4	2.3	**1.7**	**0.4**	**-0.5**
General government balance (c)			-3.8	-3.2	-2.2	-1.4	**-1.2**	**-2.8**	**-3.7**
Cyclically-adjusted budget balance (d)			-4.1	-1.5	-1.1	-0.6	**-0.8**	**-2.7**	**-3.8**
Structural budget balance (d)			-	-2.0	-1.1	-0.6	**-0.8**	**-2.7**	**-3.8**
General government gross debt (c)			19.9	37.4	38.0	39.9	**39.4**	**40.9**	**42.8**

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

24. SLOVENIA

Solid growth ahead, driven by domestic demand

Slovenia's economy grew a strong 3.0% in 2014 and is expected to grow 2.6% in 2015. Economic growth is projected to maintain its momentum driven by rising exports and increasing domestic demand. Public finances are projected to gradually improve due to the better macroeconomic outlook.

Solid growth in 2015

In 2014, Slovenia's economy rebounded strongly with real GDP growth of 3%. The positive momentum continued in the first half of 2015 when the economy expanded by 2.7% y-o-y, due to rising exports and a recovery in domestic demand. Private consumption grew strongly in the first half of the year, boosted by an improving labour market, rising consumer confidence and persistent low inflation. In 2015, real GDP is forecast to grow by 2.6%. While exports are set to remain a key growth driver, the contribution of private consumption to growth is set to rise as a result of the recovering labour market. The investment in infrastructure projects co-funded by the EU will also contribute positively to growth this year.

Private consumption set to drive growth in 2016 and 2017

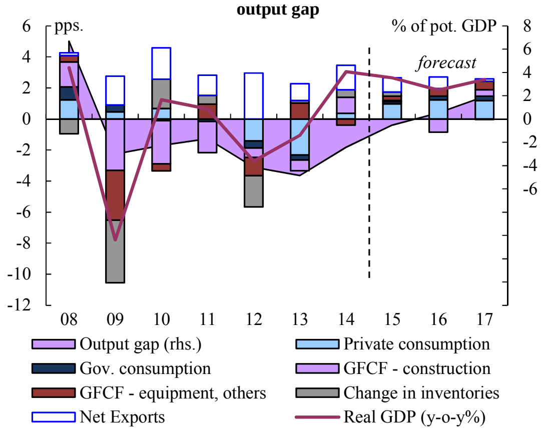
Growth in private consumption is set to accelerate in 2016 driven by employment growth, increasing wages, recovering housing market and increased household confidence. These effects are expected to lead to a gradual decline in the saving rate of households, which is currently above the historical average. Some wage pressure is expected to emerge in 2017 as the economy is forecast to keep growing above the estimated potential. Public consumption is expected to increase in both 2016 and in 2017 under the usual no-policy-change assumption.

Public investment is forecast to decrease markedly in 2016, returning to 2013 levels after exceptional growth in 2014 and 2015. This reduction in public investment is due to the end of the programming period of EU funding and contributes significantly to the forecast deceleration in GDP growth to 1.9% in 2016, before accelerating again to 2.5% in 2017. Private investment is expected to pick up as capacity utilisation levels remain above their historical average, deleveraging pressures are progressively easing and business sentiment is improving.

Although exports continue their impressive growth, the contribution of net exports to growth is expected to decrease progressively, as rising domestic demand fuels imports. The current account surplus is projected to remain high as the deleveraging in the corporate sector continues (albeit at a slower pace). However, the tradable sector supported by favourable financing conditions should be less affected by this process.

Risks to the growth forecast are tilted to the downside, as events in the external environment and potentially slower absorption of EU funding than currently anticipated could hamper growth. In addition, stronger-than-forecast wage growth could have an adverse effect on external competitiveness in the medium term.

Graph II.24.1: **Slovenia - Real GDP growth and contributions, output gap**



Unemployment to fall further and wages to rise

Labour market trends are projected to remain favourable in 2015 with employment rising by 0.6% and unemployment falling to 9.4%. Further improvement in both indicators is forecast for 2016-17. Public wage pressure and the closing of the output gap in 2016 would also imply increased pressure on private wages.

Inflation in 2015 has so far surprised on the downside and is now estimated at -0.6%, mainly due to the dampening effect of falling energy prices. With a gradual increase in household spending and a slow increase in oil prices, inflation is expected to remain subdued. HICP is forecast at 0.8% in 2016 and at 1.4% in 2017, when rising nominal unit labour costs are expected to drive core inflation.

Improving government balance

In 2014, the general government deficit stood at 5% of GDP, partially impacted by one-off measures pertaining to the financial sector restructuring and a court ruling. In 2015, the deficit is projected to decline to 2.9%, mainly due to the continued implementation of consolidation measures adopted in recent years and the expiration of several one-offs. For 2016, a continued decline in the deficit to 2.4% of GDP is envisaged due to a strong pick-up in domestic demand resulting in a more tax-rich recovery and a sharp decline in public investment. This forecast takes into account the draft budgetary plan, which includes several measures to contain public expenditure while easing some of the constraints on public sector pay.

In 2017, under the usual no-policy-change assumption the deficit is expected to decline further to 2.0% of GDP mainly due to economic growth significantly above potential. Overall risks to the public finances over the forecast horizon are tilted to the downside as the costs pertaining to refugees could be considerably higher than estimated by the government. Furthermore, the activities of the Bank Asset Management Company (BAMC) in the workout of its loan book may have a greater impact on public finances than currently anticipated.

In structural terms, Slovenia's fiscal position is expected to improve marginally in 2015 and 2016 before deteriorating considerably by almost ½ pps. of GDP in 2017. This deterioration in 2017 is due to the change in the output gap, which is projected to turn positive in 2016.

The debt-to-GDP ratio continued to increase in 2015 and is projected to reach 84.2% by year-end. This increase is largely driven by the continued accumulation of cash buffers due to favourable market conditions. Debt is expected to fall to 80.9% and 78.3% of GDP in 2016 and 2017 respectively, supported by the economic recovery and a reduction in the cash buffers.

Table II.24.1:

Main features of country forecast - SLOVENIA

	2014		Annual percentage change						
bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	37.3	100.0	3.0	-2.7	-1.1	3.0	**2.6**	**1.9**	**2.5**
Private Consumption	19.9	53.3	2.6	-2.5	-4.1	0.7	**1.8**	**2.3**	**2.3**
Public Consumption	7.1	19.1	2.8	-2.3	-1.5	-0.1	**0.7**	**1.3**	**1.5**
Gross fixed capital formation	7.3	19.6	2.7	-8.8	1.7	3.2	**1.9**	**-1.8**	**5.1**
of which: equipment	2.8	7.4	5.0	-12.2	12.6	-4.5	**3.6**	**5.9**	**6.2**
Exports (goods and services)	28.5	76.5	6.7	0.6	3.1	5.8	**4.6**	**4.7**	**5.5**
Imports (goods and services)	25.6	68.7	6.1	-3.7	1.7	4.0	**3.8**	**4.2**	**6.1**
GNI (GDP deflator)	37.2	99.8	2.9	-2.6	-0.9	3.5	**2.5**	**1.8**	**2.5**
Contribution to GDP growth: Domestic demand			2.7	-3.7	-2.3	1.0	**1.5**	**1.1**	**2.4**
Inventories			0.0	-2.0	0.2	0.5	**0.3**	**0.0**	**0.0**
Net exports			0.3	3.0	1.1	1.6	**0.9**	**0.7**	**0.1**
Employment			0.2	-0.9	-1.4	0.6	**0.6**	**0.5**	**0.7**
Unemployment rate (a)			6.5	8.9	10.1	9.7	**9.4**	**9.2**	**8.7**
Compensation of employees / head			7.5	-1.0	0.6	1.1	**0.8**	**1.8**	**2.6**
Unit labour costs whole economy			4.5	0.8	0.2	-1.3	**-1.2**	**0.4**	**0.8**
Real unit labour cost			-0.4	0.6	-0.6	-2.1	**-1.7**	**-1.0**	**-1.0**
Saving rate of households (b)			13.7	10.9	13.4	14.1	**13.4**	**12.4**	**11.3**
GDP deflator			5.0	0.3	0.8	0.8	**0.5**	**1.4**	**1.8**
Harmonised index of consumer prices			5.3	2.8	1.9	0.4	**-0.6**	**0.8**	**1.4**
Terms of trade goods			-0.3	-1.3	0.8	1.1	**0.9**	**0.2**	**-0.1**
Trade balance (goods) (c)			-3.8	0.1	1.1	3.3	**4.1**	**4.5**	**4.2**
Current-account balance (c)			-2.0	2.1	3.9	6.5	**7.0**	**7.5**	**7.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-2.0	2.6	4.5	7.0	**8.9**	**8.3**	**7.9**
General government balance (c)			-2.8	-4.1	-15.0	-5.0	**-2.9**	**-2.4**	**-2.0**
Cyclically-adjusted budget balance (d)			-	-2.2	-12.7	-3.9	**-2.7**	**-2.6**	**-2.9**
Structural budget balance (d)			-	-2.1	-2.2	-2.7	**-2.7**	**-2.5**	**-2.9**
General government gross debt (c)			27.4	53.7	70.8	80.8	**84.2**	**80.9**	**78.3**

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

25. SLOVAKIA

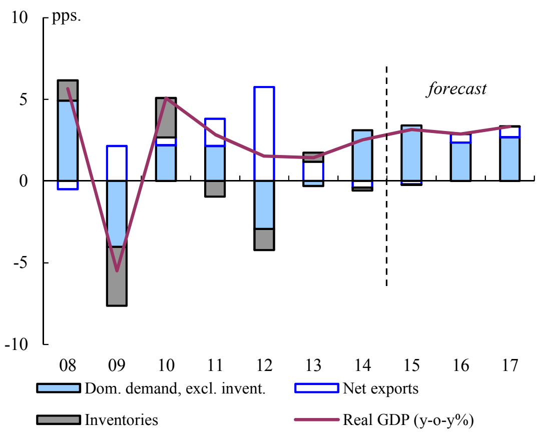
Strong domestic demand drives economic expansion

Economic growth has accelerated in 2015, driven by a substantial pickup in public investment and robust household consumption. Unemployment is projected to recede gradually from the high levels of recent years. Deflationary pressures remain in 2015, but prices are expected to recover thereafter.

Economic recovery continues...

Booming investment, supported by intensified drawing on residual EU funding available under the 2007-2013 programming period, is driving growth in Slovakia's economy this year. Real GDP is projected to grow by 3.2% in 2015, by 2.9% in 2016 and then 3.3% in 2017. Although investment growth will tail off after the exceptional boost from the last programming period, it will largely be offset by stronger private consumption and net exports. The latter are anticipated to contribute positively to GDP growth from 2016 and to strengthen in 2017. The labour market situation is expected to further improve over the coming years, in line with the growing economy. Inflation is expected to remain negative this year, dragged down by falling energy prices but it should turn positive and gradually accelerate over the forecast horizon.

Graph II.25.1: **Slovakia - Real GDP growth and contributions**



...driven by buoyant domestic demand...

Household consumption recovered significantly in 2014 on the back of surging real disposable income. This development should continue in 2015, as the labour market strengthens and the economy benefits from lower energy prices. Private consumption could also be supported by a series of labour market reforms that have taken effect in 2015, including a rise in the minimum wage and a reduction in the social contributions paid by low-income workers. Household consumption is thus expected to rise by 2.2% in 2015, accelerating to around 3% in 2016.

Investment activity was strong in the first half of 2015, driven by an intensified drawing of EU funds and expansion in the automotive industry. Fixed investment is projected to grow by 7.5% for the year as a whole. Looking ahead, investment growth is expected to continue at a slower pace, as the use of EU funds in 2016 returns to more normal levels. Meanwhile, private investment growth is expected to remain broadly stable.

...while external demand falters in 2016.

Imports are expected to grow faster than exports in 2015, driven by buoyant public investment activity. The observed weakening in emerging markets is expected to prevent Slovak exports from accelerating in 2016, although a pickup thereafter should push exports beyond imports. Weaker exports of products related to the Volkswagen crisis are a possible downward risk to the forecast over the whole forecast horizon. At the same time, plans for new foreign investment (Jaguar Land Rover deal) could boost private investment in 2016 and 2017. Overall, the risks to the forecast are balanced.

Unemployment steadily receding

Employment gains were strong throughout 2014, and labour market conditions are expected to further improve in line with the pickup in economic activity. Unemployment fell to 13.2% in 2014 and is expected to continue falling over the coming years to less than 10% in 2017. The measures introduced in 2015 should also add momentum to the labour market recovery.

Inflation remains subdued

Inflation declined sharply in 2014 and is projected to remain below zero this year, mainly due to falling energy prices. Core inflation, however, remains positive. HICP growth is set to turn positive in 2016, driven by robust domestic demand and solid wage growth. The anticipated recovery in energy prices will contribute to a pickup in headline inflation thereafter.

Robust revenue growth supports public finances

The general government deficit for 2014 was revised slightly downwards by 0.1 pps. to 2.8% of GDP as the impact of higher estimated tax revenues outweighed an upward revision of financial corrections related to projects financed with EU funds. In 2015, the deficit is projected to decline only marginally to 2.7% of GDP. Tax collection is expected to exceed expectations thanks to improving corporate profitability and the continued success of measures to fight tax avoidance. However, higher spending by local governments, additional spending on healthcare, and higher-than-planned corrections related to the financing of EU funds are expected to lead to an overshooting of the deficit target of 2.5% of GDP.

For 2016, the forecast includes reimbursements to households due to lower gas prices (part of the 'first social package') and measures adopted under the 'second social package', including the reduction of the VAT rate on basic foodstuffs from 20% to 10% and subsidies for home insulation and school field trips. These measures should amount to some 0.3% of GDP. Government investment financed from national sources is set to decline. The deficit is expected to reach 2.4% of GDP as spending on goods and services is set to decline only marginally, while the public wage bill is projected to continue growing and healthcare spending is expected to increase in line with previous years. The already announced 'third social package', which is to be detailed in December, represents the main risk to the forecast in 2016. Other negative risks stem from up-front costs for the planned PPP project of the Bratislava ring. Assuming no changes in policies, the deficit in 2017 is projected to decline to 2.0% of GDP, reflecting the acceleration in economic activity.

With the output gap closing, the headline deficit decreasing at a slow pace and taking into account significant one-off expenditure stemming from financial corrections to EU funds in 2014 and 2015, the structural deficit is expected to remain unchanged in 2015 before declining marginally in 2016. [50] Slovakia's debt-to-GDP ratio is projected to decline to about 52% by 2017.

[50] Preliminary assessment based on currently available information; calculation of the structural balance is subject to potential revisions of the one-offs in the future.

Table II.25.1:

Main features of country forecast - SLOVAKIA

	2014		Annual percentage change						
	bn EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	75.6	100.0	4.3	1.5	1.4	2.5	**3.2**	**2.9**	**3.3**
Private Consumption	42.7	56.6	4.2	-0.4	-0.8	2.3	**2.2**	**2.9**	**3.0**
Public Consumption	14.2	18.8	3.4	-2.6	2.2	5.9	**3.1**	**1.3**	**2.6**
Gross fixed capital formation	15.8	20.9	4.1	-9.2	-1.1	3.5	**7.5**	**2.2**	**2.3**
of which: equipment	7.7	10.2	5.6	-10.9	-9.4	17.0	**11.5**	**4.4**	**3.4**
Exports (goods and services)	69.4	91.9	8.6	9.3	6.2	3.6	**5.1**	**4.6**	**5.9**
Imports (goods and services)	66.6	88.2	8.1	2.5	5.1	4.3	**5.5**	**4.2**	**5.4**
GNI (GDP deflator)	73.1	96.8	4.1	3.1	1.8	1.0	**3.1**	**2.8**	**3.3**
Contribution to GDP growth: Domestic demand			4.2	-2.9	-0.3	3.1	**3.4**	**2.4**	**2.7**
Inventories			0.1	-1.3	0.6	-0.2	**0.0**	**0.0**	**0.0**
Net exports			0.1	5.7	1.2	-0.4	**-0.2**	**0.5**	**0.7**
Employment			0.3	0.1	-0.8	1.4	**1.8**	**1.2**	**1.0**
Unemployment rate (a)			14.8	14.0	14.2	13.2	**11.6**	**10.5**	**9.6**
Compensation of employees / head			8.2	2.6	2.6	1.8	**2.1**	**2.9**	**3.1**
Unit labour costs whole economy			4.0	1.1	0.3	0.7	**0.7**	**1.3**	**0.8**
Real unit labour cost			0.2	-0.2	-0.2	0.9	**0.6**	**0.2**	**-0.6**
Saving rate of households (b)			9.0	7.1	8.3	9.3	**9.1**	**9.0**	**9.0**
GDP deflator			3.8	1.3	0.5	-0.2	**0.2**	**1.1**	**1.4**
Harmonised index of consumer prices			5.3	3.7	1.5	-0.1	**-0.2**	**1.0**	**1.6**
Terms of trade goods			-0.8	-1.3	-0.5	0.0	**0.0**	**0.0**	**0.0**
Trade balance (goods) (c)			-6.0	3.1	3.7	3.4	**2.8**	**3.0**	**3.2**
Current-account balance (c)			-6.5	0.2	0.7	-0.8	**0.0**	**-1.2**	**-0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.4	1.8	2.2	0.2	**-0.2**	**-1.3**	**-0.7**
General government balance (c)			-5.6	-4.2	-2.6	-2.8	**-2.7**	**-2.4**	**-2.0**
Cyclically-adjusted budget balance (d)			-	-3.5	-1.7	-2.0	**-2.3**	**-2.1**	**-2.0**
Structural budget balance (d)			-	-3.6	-1.7	-2.1	**-2.1**	**-2.0**	**-2.0**
General government gross debt (c)			38.1	51.9	54.6	53.5	**52.7**	**52.6**	**52.2**

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

26. FINLAND

Growth tepid amid weakening external environment

After a three-year recession, Finland's economy started growing again in the first half of 2015 and growth is expected to strengthen in 2016 as investment picks up. The government aims to bring the public deficit below 3% of GDP in 2016, but public debt continues to rise.

A gradual recovery

Economic activity continued to decline until end-2014, providing a weak starting point for 2015. However, growth turned slightly positive in the first half of the year. In the second quarter real GDP increased by 0.2% (q-o-q) and was slightly above the previous year's level. Economic indicators suggest that the economy has continued to grow gradually also in the third quarter. As growth is expected to remain gradual, the forecast for annual GDP growth in 2015 has been kept unchanged since the Spring forecast at 0.3%. In 2016, real GDP is expected to grow by 0.7% and by 1.1% in 2017.

Construction expected to support real growth

Both confidence indicators and hard data point to rising construction activity. This could also support manufacturing industries as construction industries use a high share of domestic intermediate goods. However, given the overall weakness of domestic demand and competitiveness challenges in export markets, a clear turn to growth in manufacturing is not expected in the short run. The largest sector, private services, has continued to grow throughout this year. Service sector growth is expected to accelerate slightly on the back of increasing demand for expert services, such as IT services.

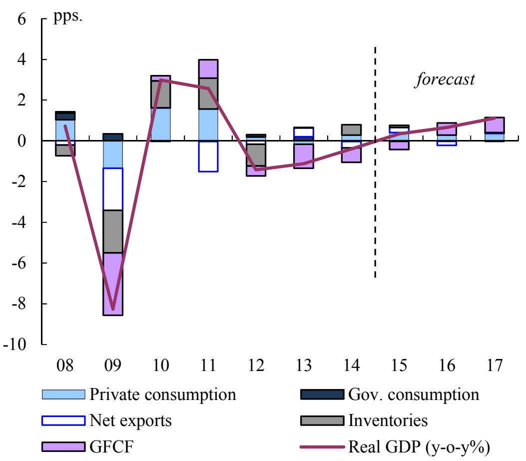
Domestic demand is increasing but external demand remains muted

Private consumption growth is expected to accelerate temporarily in 2015 on the back of an increase in household real disposable income. In addition, earlier this year, some of the banks offered households a temporary 12-month mortgage repayment holiday. This campaign is estimated to have released roughly 0.3% of nominal GDP extra cash for consumption in 2015. In 2016 and 2017, the favourable factors, low inflation and repayment holidays, are expected to fade away while low wage increases and an only gradual improvement in the labour market are muting private consumption growth.

While in 2015 real investment has continued to decline, in 2016 and 2017 investment is projected to increase and drive the growth of domestic demand. Increasing construction is boosted by the revival of residential as well as public investment. Although investment is expected to return to growth in 2016, the low capacity-utilisation rate indicates remaining spare production capacity, which holds back investment growth.

Finland's trade balance has improved significantly this year, by nearly 1% of GDP, due largely to lower oil prices. Beyond the rapid price movements, goods exports have been increasing especially to the euro area. In 2016 and 2017, accelerating growth in export markets is expected to stimulate real exports, but growth rates are expected to remain low. In 2016, the contribution of net exports to GDP growth is expected to be negative, as increased domestic demand would also accelerate imports.

Graph II.26.1: **Finland - Real GDP growth and contributions**



Inflation low in 2015, relative ULC improving

Labour productivity has started to rise. In 2015, employment continues to decline and employers are expected to remain cautious in hiring new personnel to secure positive productivity growth in 2016 and 2017. Unemployment is expected to reach 9.6% this year and to remain elevated thereafter.

Inflation has fallen to below zero, due to falling oil prices as well as food price campaigns, while inflation in services seems stickier. In 2016, inflation is expected to accelerate to close to 1%. Wages and salaries are projected to rise according to the general wage agreement in 2015-16. The agreement would result in a roughly 1% wage increase per year. The forecast does not yet include proposed measures that would lower wage costs as of 2017. Therefore, wage inflation is assumed to stay rather constant.

The wage-productivity path in this forecast implies slowly increasing nominal unit labour costs, whereas compared to competitor countries, relative unit labour costs are expected to decline. Over the forecast horizon, the corporate sector operating profits increase slightly faster than labour costs as the wage bill grows slowly, raw material and import prices decline while export prices are expected to increase. As a result, the companies' profit margins are expected to recover gradually over the forecast horizon.

Deficit gradually decreasing, but public debt continues to increase

The budget deficit amounted to 3.3% in 2014 and is expected to marginally decline to 3.2% in 2015. For 2016, the government has announced a package of expenditure cuts that should reduce the headline deficit to 2.7% of GDP. These measures include freezing index-linked expenditure increases, savings on development cooperation, health, education and business-support expenditures. On the revenue side, while taxes on lower incomes will be reduced, indirect taxation will be increased. As a result, the government expenditure-to-GDP ratio is expected to decline for the first time in years. In 2017, the deficit is expected to fall to 2.3% on account of the already-approved fiscal consolidation measures. These include additional expenditure cuts presented in the government's fiscal plan.

The structural balance is expected to be about 1½% of GDP in 2015 and to improve by about ¼ pps. of GDP in 2016, but it is projected to remain unchanged in 2017 from previous year. Given the only slowly improving budget balance and sluggishly increasing nominal GDP, Finland's gross government debt-to-GDP ratio is set to increase to 62.5% in 2015, to 64.5% in 2016 and reach 65.7% in 2017.

Table II.26.1:

Main features of country forecast - FINLAND

	2014			Annual percentage change						
	bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		205.2	100.0	2.8	-1.4	-1.1	-0.4	**0.3**	**0.7**	**1.1**
Private Consumption		113.6	55.4	2.9	0.3	-0.3	0.5	**0.7**	**0.5**	**0.6**
Public Consumption		50.9	24.8	1.6	0.5	0.8	-0.2	**-0.1**	**-0.1**	**-0.1**
Gross fixed capital formation		41.6	20.3	3.3	-2.2	-5.2	-3.3	**-2.0**	**3.1**	**3.6**
of which: equipment		9.5	4.6	2.1	10.2	-8.6	-0.2	**-0.9**	**4.7**	**4.1**
Exports (goods and services)		77.8	37.9	5.2	1.2	1.1	-0.7	**-0.1**	**2.3**	**3.8**
Imports (goods and services)		79.4	38.7	5.6	1.6	0.0	0.0	**-0.7**	**2.8**	**3.7**
GNI (GDP deflator)		205.0	99.9	3.0	-1.4	-1.3	-0.9	**0.4**	**0.7**	**1.1**
Contribution to GDP growth:	Domestic demand			2.5	-0.2	-1.1	-0.5	**0.0**	**0.9**	**1.1**
	Inventories			0.1	-1.1	0.0	0.5	**0.1**	**0.0**	**0.0**
	Net exports			0.3	-0.2	0.4	-0.3	**0.2**	**-0.2**	**0.1**
Employment				1.3	0.9	-0.7	-0.8	**-0.4**	**0.3**	**0.6**
Unemployment rate (a)				9.3	7.7	8.2	8.7	**9.6**	**9.5**	**9.4**
Compensation of employees / head				3.1	2.8	1.3	1.4	**1.2**	**1.3**	**1.1**
Unit labour costs whole economy				1.6	5.2	1.8	0.9	**0.4**	**0.9**	**0.6**
Real unit labour cost				0.0	2.2	-0.8	-0.7	**-0.9**	**-0.3**	**-0.6**
Saving rate of households (b)				8.7	7.8	8.4	7.1	**7.1**	**7.2**	**6.9**
GDP deflator				1.6	3.0	2.6	1.6	**1.3**	**1.2**	**1.3**
Harmonised index of consumer prices				1.8	3.2	2.2	1.2	**-0.2**	**0.6**	**1.5**
Terms of trade goods				-1.3	-1.3	0.4	1.1	**2.8**	**0.3**	**-0.4**
Trade balance (goods) (c)				6.1	-0.4	0.1	0.5	**1.3**	**1.3**	**1.2**
Current-account balance (c)				4.4	-1.9	-1.8	-2.2	**-1.1**	**-1.0**	**-0.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				4.5	-1.8	-1.7	-2.1	**-1.0**	**-1.0**	**-1.0**
General government balance (c)				1.8	-2.1	-2.5	-3.3	**-3.2**	**-2.7**	**-2.3**
Cyclically-adjusted budget balance (d)				1.6	-1.2	-1.1	-1.7	**-1.7**	**-1.5**	**-1.5**
Structural budget balance (d)				-	-1.1	-1.0	-1.8	**-1.7**	**-1.5**	**-1.5**
General government gross debt (c)				43.1	52.9	55.6	59.3	**62.5**	**64.5**	**65.7**

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

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

27. SWEDEN

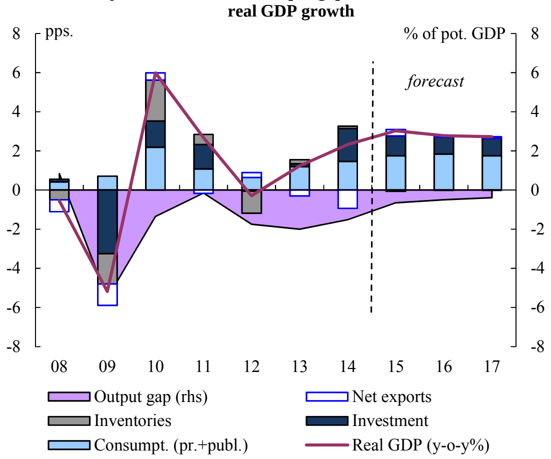
Domestic demand sustaining high growth

Sweden's economy is expected to enjoy robust GDP growth over the forecast horizon, mainly thanks to strong domestic demand. Unemployment, however, is likely to decline only gradually, as dynamic employment growth is partly offset by an increase in the labour force.

Strong growth boosted by net trade

Sweden's real GDP is forecast to increase by 3.0% in 2015, significantly faster than last year's 2.3% and above the potential growth rate of the economy. While domestic demand is expected to remain the main growth driver, rebounding exports are set to provide an additional impetus in 2015 thanks to a stronger-than-expected economic recovery in the EU. Despite the continued strength of domestic demand, real GDP growth is expected to fall slightly to 2.8% in 2016 and 2.7% in 2017 as imports start outpacing exports. The output gap is forecast to gradually close in the coming years.

Graph II.27.1: **Sweden - Output gap and contributions to real GDP growth**



Consumption growth set to remain strong

Strong employment growth and steadily rising disposable incomes combined with low interest rates is set to provide continued support for private consumption over the forecast horizon. The forthcoming compulsory amortisation requirement of new mortgage loans is expected to have only a marginal impact on household consumption in the next few years. Government consumption is also forecast to expand above its long-term average in the coming years due to an ageing population, increased spending on education and a surge in the number of asylum seekers. The forecast uses the latest official migrate estimates of the Swedish Migration Agency from October 2015.

Changing composition of investment

Investment is forecast to continue growing at a steady pace although somewhat lower than in 2014, which was boosted by an exceptional rebound in housing investment and a large one-off R&D investment. The composition of investment is also projected to change as housing and construction investment are likely to gradually slow down as a result of dissipating base effects. Following two years of negative growth, equipment investment is expected to gain momentum from 2015 in light of expanding capacity utilisation and a need for replacement investments.

Dynamically expanding services exports

While overall export growth is projected to develop in line with growth in Sweden's main trading partners, the composition is set to be geared more and more towards services. Following a high rise in 2014 related to a one-off R&D investment, import growth is set to be driven by solid domestic demand. As a result, net trade is forecast to provide an additional growth impetus of 0.3 pps. in 2015, while only contributing marginally to growth in 2016 and 2017. In line with rising exports, industrial production has also started to recover this year after years of stagnation.

Slight decline of unemployment

Employment is projected to expand at a rather strong pace, reflecting the relative strength of the economic recovery and buoyant labour supply, supported by the high inflow of migrants in recent years. At the same time, unemployment is forecast to only gradually decrease from 7.7% in 2015 to 7.4% in 2017, as dynamic employment growth is offset by a strong increase in the labour force and the functioning of the labour market is hindered by a widening skills and geographical mismatch in the short term. Wage increases so far remained moderate and this trend is expected to continue in 2016 and 2017.

Inflation to increase

Inflation picked up over the course of 2015, from the very low levels seen in the two previous years. This is linked to the depreciation of the krona as well as a pick-up in domestic demand. For 2016 and 2017, the inflation rate is expected to increase further, supported by accommodative monetary policies and consumption growth. Furthermore, tax increases announced in the budget are expected to raise inflation by 0.3% in 2016. As a result, HICP inflation is forecast to gradually rise from 0.8% in 2015 to 1.5% in 2016 and to 1.7% in 2017.

Balanced risks

Downside risks to the forecast are related to weaker growth in emerging markets, which could negatively impact economic developments in Sweden's main trading partners and undermine business confidence. House prices have been growing at an elevated pace since mid-2013, far above disposable income growth. A correction in house prices could dampen household consumption and housing investment. Risks on the upside are related to financially strong households that could sustain higher consumption as employment grows, economic uncertainties wane and given the historically high saving rate. The arrival of a large number of asylum seekers could lead to higher government consumption in the short term, while successful integration into the labour market could provide additional impetus for economic growth in the medium term.

Gradually improving public finances

Sweden's general government deficit is forecast to gradually improve from 1.7% of GDP in 2014 to 1.4% of GDP in 2015 and to 1.3% of GDP in 2016 and 1.2% of GDP in 2017 under a no-policy-change assumption, while the output gap gradually closes. As a result, the structural deficit is projected to stay around 1.0% of GDP over the forecast period. The main negative risks to the budget are related to higher costs associated with migration, integration and sickness leave benefits. General government debt rose to 44.9% of GDP in 2014, due to the increasing budget deficit and the weakening of the krona, but is expected to gradually decrease.

Table II.27.1:

Main features of country forecast - SWEDEN

	2014		Annual percentage change						
bn SEK	**Curr. prices**	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP	3918.1	100.0	2.6	-0.3	1.2	2.3	**3.0**	**2.8**	**2.7**
Private Consumption	1811.9	46.2	2.6	0.8	1.9	2.2	**2.3**	**2.5**	**2.6**
Public Consumption	1031.0	26.3	0.9	1.1	1.3	1.6	**2.6**	**2.6**	**2.2**
Gross fixed capital formation	922.2	23.5	3.5	-0.2	0.6	7.6	**4.3**	**3.6**	**3.7**
of which: equipment	280.5	7.2	4.7	2.8	0.1	-0.1	**1.7**	**3.1**	**3.7**
Exports (goods and services)	1743.7	44.5	5.3	1.0	-0.8	3.5	**3.6**	**3.9**	**4.4**
Imports (goods and services)	1600.5	40.8	5.0	0.5	-0.1	6.3	**3.1**	**4.1**	**4.7**
GNI (GDP deflator)	4054.1	103.5	2.9	0.0	1.0	2.8	**3.0**	**2.7**	**2.7**
Contribution to GDP growth: Domestic demand			2.2	0.6	1.3	3.1	**2.8**	**2.7**	**2.6**
Inventories			0.0	-1.1	0.2	0.1	**-0.1**	**0.0**	**0.0**
Net exports			0.4	0.3	-0.3	-0.9	**0.3**	**0.1**	**0.1**
Employment			0.7	0.7	1.0	1.4	**1.3**	**1.6**	**1.6**
Unemployment rate (a)			7.4	8.0	8.0	7.9	**7.7**	**7.7**	**7.4**
Compensation of employees / head			3.8	3.1	1.9	2.2	**2.7**	**2.8**	**2.9**
Unit labour costs whole economy			1.8	4.1	1.7	1.2	**1.0**	**1.6**	**1.8**
Real unit labour cost			0.2	3.0	0.6	-0.3	**-0.9**	**-0.2**	**-0.1**
Saving rate of households (b)			9.9	17.9	17.6	17.8	**18.2**	**18.2**	**18.1**
GDP deflator			1.6	1.1	1.1	1.6	**1.9**	**1.8**	**1.8**
Harmonised index of consumer prices			1.6	0.9	0.4	0.2	**0.8**	**1.5**	**1.7**
Terms of trade goods			-0.8	0.2	0.5	1.0	**0.4**	**0.2**	**0.0**
Trade balance (goods) (c)			6.8	3.7	3.2	2.9	**3.1**	**3.1**	**3.0**
Current-account balance (c)			6.1	6.5	5.8	5.4	**5.9**	**5.9**	**5.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			5.9	6.3	5.5	5.3	**5.8**	**5.7**	**5.7**
General government balance (c)			0.5	-0.9	-1.4	-1.7	**-1.4**	**-1.3**	**-1.2**
Cyclically-adjusted budget balance (d)			0.7	0.1	-0.2	-0.8	**-1.0**	**-1.0**	**-0.9**
Structural budget balance (d)			-	0.1	-0.2	-0.8	**-1.0**	**-1.0**	**-0.9**
General government gross debt (c)			49.8	37.2	39.8	44.9	**44.7**	**44.0**	**43.3**

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

28. THE UNITED KINGDOM

Growth to moderate while inflation picks up

Growth is expected to moderate in 2015 and settle on a gentle downward trajectory in 2016 and 2017 as the output gap closes and becomes positive. The economy is projected to continue to be driven by domestic demand, in particular, robust growth in private consumption. Inflation is expected to trough in 2015 but rise modestly in 2016 and 2017 to approach the Bank of England's inflation target. The labour market is projected to remain firm as the rate of increase in employment slows but productivity rises.

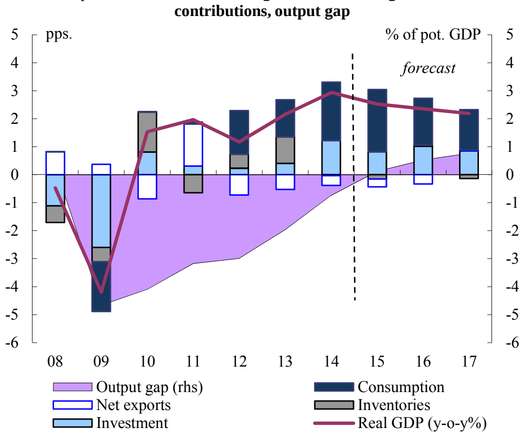
Strong growth in 2015

The economy is expected to increase by 2.5% in 2015, driven by buoyant private consumption, which is projected to rise by 2.9%, supported by continued growth in real household disposable income, itself fuelled by rising real employee compensation, increases in employment and negligible inflation. Business investment is also forecast to contribute to growth and increase at just under twice the rate of GDP.

However, growth remains unbalanced. Domestic demand continues to rise rapidly but net exports continue to detract from growth, despite a slackening in imports in the first half of the year and a notably sharp rise in exports in the second quarter of 2015.

Despite a weakening in some forward and partial indicators of activity, such as purchasing managers' indices and industrial production data, other indicators, such as retail sales, indicate only a modest softening of growth in the third quarter from 0.7% in the second quarter.

Graph II.28.1: **The United Kingdom - Real GDP growth and contributions, output gap**



Pace of growth to abate in 2016 and 2017

Growth is projected to decline gently to 2.4% in 2016 and 2.2% in 2017 as the output gap closes and becomes positive.

The rate of increase in consumption is expected to wane as the boost to household disposable income from very low inflation in 2015 fades. However, faster rises in wages and modest employment increases should sustain consumption. An upside risk to the forecast is that, should households maintain saving at the 2014 saving ratio, consumption would rise by more than projected.

A step-up in business investment in 2016 is projected, from 4.9% in 2015 to 5.9%, reflecting sturdy tailwinds including: strong corporate balance sheets, rising profits, low borrowing costs, a pick-up in credit and sustained increases in demand. However, downside risks to the forecast include the possibility that heightened uncertainty may cause businesses to delay investment plans.

Net exports are projected to detract from growth in 2016 and 2017. Exports have been weak in recent years, reflecting sluggish conditions in some major trading partners but this could change as conditions in these major trading partners improve. Nevertheless, adverse developments in emerging market economies may limit the extent of the pick-up. Imports are projected to increase and growth is projected to rise along with strong domestic demand in 2014 and 2015. The current account deficit is projected to decline as the trade deficit improves and the incomes deficit falls.

Labour market remains robust but unemployment flattens

The unemployment rate is expected to trough in 2015 at 5.4% and remain at around that rate in 2016 and 2017. Employment growth is projected to slow to 1% and 0.7% in 2016 and 2017 respectively. Firms' employment intentions remain resilient and vacancies are at their highest levels in 15 years. Unit labour costs are projected to rise, but remain contained, as the rise in real wages only modestly outstrips rising productivity. A downside risk is that productivity remains at current low levels while employment cools, which could jeopardise continued healthy GDP growth.

Inflation to rise in 2016 and 2017

Inflation is negligible and is expected to rise by only 0.1% in 2015 reflecting the impact of a number of factors including: a significant reduction in retail energy prices such as fuel, electricity and gas, the appreciation of sterling, subdued labour market pressures and a compression of margins in the supermarket sector.

However, inflation is projected to rise to 1.5% in 2016, and 1.7% in 2016 reflecting: a 'base effect' from the fading impact of previous reductions in energy prices, strengthening wages growth and the closure of the output gap as remaining slack in the economy is absorbed.

Budget deficit still falling

The additional summer budget in July, following elections, maintained the fiscal consolidation stance. There was a slight tightening in fiscal policy in the financial year 2015-16 mainly due to spending cuts of 0.1% of GDP and consolidation amounting to 0.3% of GDP in the 2016-17. The main spending measures include large reductions in projected welfare expenditure and public sector pay restraint. The main revenue measures set out in the budget include a further increase in the personal income tax allowance, a fall in the corporate tax rate, a permanent increase in the annual investment allowance, and a phasing out of the bank levy with a replacement tax on banking sector profits.

The headline deficit is forecast to fall to 3.9% of GDP in 2015-16, to 2.4% of GDP in 2016-17 and further to 1.5% of GDP in 2017-18. The debt-to-GDP ratio is estimated to have peaked in 2014-15 at 87.5%. This ratio starts to decline from 2015-16 as the government sells off assets, including its stake in the banking sector and the student loan book. The government aims to achieve a budget surplus in 2019-20.

Table II.28.2:

General government projections on a financial-year basis

ESA10	Actual		Forecast		
	2013-14	2014-15	2015-16	2016-17	2017-18
General government balance~	-5.9	-5.1	**-3.9**	**-2.4**	**-1.5**
Structural budget balance	-4.9	-4.7	**-4.0**	**-2.7**	**-1.9**
General government gross debt	86.7	87.5	**87.4**	**86.7**	**85.3**

~APF transfers included

Table II.28.1:

Main features of country forecast - UNITED KINGDOM

	2014			Annual percentage change						
	bn GBP Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	1816.4	100.0	2.1	1.2	2.2	2.9	**2.5**	**2.4**	**2.2**
Private Consumption	1175.7	64.7	2.6	1.8	1.9	2.6	**2.9**	**2.6**	**2.3**
Public Consumption	357.3	19.7	2.0	1.8	0.5	1.9	**1.8**	**0.0**	**-0.2**
Gross fixed capital formation	306.1	16.9	1.2	1.5	2.6	7.5	**4.9**	**5.9**	**4.8**
of which: equipment	67.2	3.7	1.7	3.0	-2.8	7.1	**12.8**	**9.4**	**5.9**
Exports (goods and services)	515.2	28.4	4.0	0.7	1.2	1.8	**2.2**	**3.1**	**4.1**
Imports (goods and services)	549.7	30.3	4.7	2.9	2.8	2.8	**3.0**	**4.0**	**3.8**
GNI (GDP deflator)	1783.3	98.2	2.2	0.0	1.1	2.1	**2.4**	**2.6**	**2.4**
Contribution to GDP growth: Domestic demand			2.3	1.8	1.7	3.3	**3.0**	**2.7**	**2.3**
Inventories			-0.1	0.5	0.9	0.0	**-0.1**	**0.0**	**-0.1**
Net exports			-0.2	-0.7	-0.5	-0.3	**-0.3**	**-0.3**	**0.0**
Employment			0.8	1.1	1.2	2.3	**1.7**	**1.0**	**0.7**
Unemployment rate (a)			6.0	7.9	7.6	6.1	**5.4**	**5.4**	**5.5**
Compensation of employees / head			4.0	1.6	1.5	0.5	**2.8**	**3.3**	**3.7**
Unit labour costs whole economy			2.7	1.5	0.5	-0.1	**2.0**	**1.9**	**2.2**
Real unit labour cost			0.2	-0.1	-1.5	-1.8	**0.7**	**0.2**	**0.2**
Saving rate of households (b)			9.0	8.7	6.3	4.9	**5.8**	**5.5**	**5.6**
GDP deflator			2.5	1.6	2.0	1.7	**1.3**	**1.7**	**2.0**
Harmonised index of consumer prices			2.1	2.8	2.6	1.5	**0.1**	**1.5**	**1.7**
Terms of trade goods			0.2	-0.3	1.0	-0.2	**3.1**	**1.0**	**0.5**
Trade balance (goods) (c)			-4.4	-6.4	-6.6	-6.8	**-5.9**	**-5.8**	**-5.7**
Current-account balance (c)			-1.9	-3.3	-4.5	-5.1	**-4.3**	**-3.9**	**-3.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.9	-3.3	-4.5	-5.2	**-4.5**	**-4.0**	**-3.5**
General government balance (c)			-3.5	-8.3	-5.7	-5.7	**-4.4**	**-3.0**	**-1.9**
Cyclically-adjusted budget balance (d)			-3.4	-6.6	-4.5	-5.3	**-4.5**	**-3.3**	**-2.4**
Structural budget balance (d)			-	-6.6	-4.5	-5.2	**-4.5**	**-3.3**	**-2.4**
General government gross debt (c)			48.2	85.3	86.2	88.2	**88.3**	**88.0**	**86.9**

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

Candidate Countries

29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Uncertainties moderate prospects of broader-based GDP growth

Domestic and external uncertainties have impacted negatively on investment activity, leading to a slowdown in GDP growth in the first half of the year. On the back of strong FDI-driven export growth, the foreign balance contributed positively to output growth. Going forward, domestic demand, spurred by household spending and public infrastructure spending, is likely to remain the sole growth driver. Overall, the economy is projected to expand at a more moderate pace than anticipated earlier.

GDP growth slows down in 2015 as uncertainties restrain investment...

The deterioration in the domestic political climate in the first half of the year, and the uncertain situation in Greece left their mark on investors' confidence in the first half of the year. After GDP expanded solidly in the first quarter (3.2% y-o-y), growth slowed down in the second quarter (2.6%), on the back of a decline in gross capital formation (7.6% y-o-y). Industrial production has disappointed so far this year, given weak performance in manufacturing which accounts for over three quarters of industry structure. Government investment spending also dropped, in annual terms, yet new investment from abroad had risen by 4% y-o-y in the first seven months. Household consumption posted further gains in the first half of the year, at some 2%, with real net wages continuing their steady increase, benefitting from the deflationary environment as well as from solid nominal wage growth. Public consumption has increased strongly since spring, partly a result of the domestic crisis, with the government raising public wages and purchases of goods and services, but also on account of a rise in transfer spending ahead of an election year. A hike in exports from new FDI plants provided an important push to growth, while import volume growth moderated, mainly due to lower energy prices, and in spite of a rise in imported machinery, equipment and raw material for the FDI. Overall, net exports made a positive contribution to growth in the first half.

...yet domestic demand is likely to remain the sole growth driver.

This year and next, in spite of continued strong outlays for public infrastructure investment, gross fixed capital formation is unlikely to reach the impressive growth rate of 2014. Yet, with a renewed boost to the construction industry over the summer, an increase in annual growth of imported investment goods, and a hike in government capital expenditure, investment spending is expected to remain robust on average for the full year 2015 and beyond. Private consumption is expected to hold up well, supported by robust expansion of household credit, and by solid fundamentals bolstering disposable income, such as steady private transfers from abroad, and further expected improvement, though incremental, in the labour market. Annual employment growth may accelerate somewhat further, as job creation in the industrial zones is expected to remain solid over the forecast horizon, with several new FDI plants starting production in 2016. New employment is also supported by the recent increase in public subsidised employment schemes. Private consumption growth is aided by the benign price environment. Deflation is likely to come to an end, and consumer prices would be firming up somewhat over the forecast horizon. This reflects some expected strengthening in external demand as well as a stabilisation in global commodities and food prices.

Net exports are likely to remain a small drag on GDP growth, notwithstanding expectations for further robust export growth, in particular due to the increase in FDI production capacities. Import demand in relation with public and foreign direct investment, as well as consumer goods imports, are projected to remain buoyant. Uncertainties arising from the outlook in major trade partner countries, as well as a possible setback in expected FDI inflows pose downward risks to this scenario.

Concerns about fiscal consolidation and debt sustainability are growing

The authorities remain committed to achieving a general government budget deficit below 3% of GDP by 2017, coinciding with the entry into force of the planned constitutional debt and deficit ceiling. However, the government's medium-term fiscal strategy seems overly optimistic in the light of recent developments. The revised budget for 2015 foresees a marked increase in expenditure on public consumption as well as transfer payments, and raises the target for the 2015 fiscal deficit. The draft budget for 2016, an election year, which provides for an increase in total expenditure by almost 5%, in nominal terms, foresees additional increases in pensions, social transfers and public wages. In both years, the general government deficit is likely to turn out higher than anticipated earlier. With an ambitious schedule of public infrastructure works ahead, financing needs of the government and of state enterprises, in particular the Public Enterprise for State Roads (PESR), are likely to remain high. Moreover, the efficiency of collecting public revenue remains low – the revenue upturn of the first half of 2015 was due to an annual increase in profit tax income resulting from the recent removal of exemptions for reinvested profits. This is unlikely to be repeated in size in future years. Hence, in the short-to medium term, the fiscal stimulus from increased current expenditure and from robust capital spending is likely to continue, yet making it difficult for the government to adhere to its consolidation path. Deficits are also driving general government debt levels which are projected to rise above 40% of GDP over the forecast horizon.

Overall, public debt levels, which include government-guaranteed debt of state-owned enterprises may even exceed 50% of GDP. This is on account of the continued financing needs for large-scale public infrastructure projects managed outside the government budget.

Graph II.29.1: **The former Yugoslav Republic of Macedonia - Public finances**

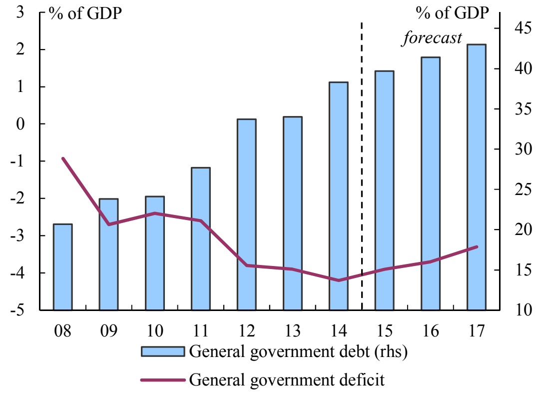


Table II.29.1:

Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	2014		Annual percentage change						
	bn MKD Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	518.1	100.0	2.9	-0.5	2.7	3.8	**3.2**	**3.5**	**3.5**
Private Consumption	367.3	70.9	3.3	1.2	2.1	2.3	**2.4**	**2.5**	**2.5**
Public Consumption	88.6	17.1	1.1	2.4	2.5	-1.2	**2.7**	**2.8**	**2.5**
Gross fixed capital formation	97.7	18.9	-	6.5	-16.6	13.5	**6.0**	**8.4**	**7.8**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	251.5	48.5	6.3	2.0	-2.7	17.0	**7.9**	**7.9**	**8.3**
Imports (goods and services)	342.3	66.1	6.3	8.2	-10.0	14.5	**6.3**	**6.4**	**6.6**
GNI (GDP deflator)	502.9	97.1	-	-0.1	2.7	3.8	**2.8**	**3.3**	**3.5**
Contribution to GDP growth: Domestic demand			-	2.8	-1.9	3.9	**3.3**	**3.8**	**3.7**
Inventories			-	1.2	-0.9	1.3	**0.3**	**0.0**	**0.0**
Net exports			-0.9	-4.5	5.5	-1.5	**-0.3**	**-0.3**	**-0.2**
Employment			-	0.8	4.3	1.7	**2.1**	**2.3**	**2.3**
Unemployment rate (a)			33.8	31.0	29.0	28.0	**27.0**	**25.7**	**24.5**
Compensation of employees / head			-	-0.1	-1.3	1.8	**1.3**	**1.8**	**2.3**
Unit labour costs whole economy			-	1.2	0.3	-0.3	**0.2**	**0.5**	**1.1**
Real unit labour cost			-	0.2	-4.2	0.3	**0.1**	**-0.3**	**-0.3**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.1	1.0	4.7	-0.6	**0.1**	**0.8**	**1.4**
Consumer-price index			2.5	3.3	2.8	-0.3	**0.2**	**1.0**	**1.7**
Terms of trade goods			-	3.3	-0.8	1.1	**0.0**	**0.0**	**-0.1**
Trade balance (goods) (c)			-19.4	-26.5	-22.8	-22.0	**-21.6**	**-21.4**	**-21.3**
Current-account balance (c)			-5.6	-3.0	-1.8	-1.4	**-1.9**	**-2.0**	**-2.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-3.8	-3.9	-4.2	**-3.9**	**-3.7**	**-3.3**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	33.7	34.0	38.3	**39.7**	**41.4**	**43.0**

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

30. MONTENEGRO

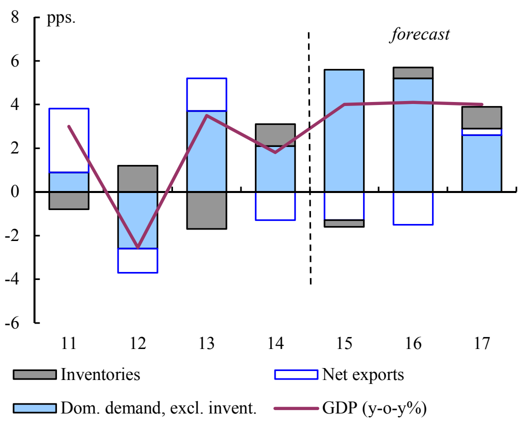
Strengthening the growth potential

An investment-driven growth is taking hold in Montenegro, as construction works on highway, tourism, and energy infrastructures are set to gain pace in 2016, strengthening the growth potential of the country. At the same time, the construction of the highway will drain the fiscal space for the next few years and might require compensating fiscal consolidation measures. Main risks appear from weakening external demand, and falling commodity prices for metals and electricity exports.

Investment driven growth

In the second quarter of 2015, Montenegro's economy expanded by 3.4% y-o-y in real terms, up from 3.2% growth in the previous quarter. Growth has been driven by a surge in capital investments. However, the recovery of private consumption has remained subdued, reflecting stagnant wages and pensions. The contribution from government consumption to growth remained negative, contracting by 4.8% y-o-y due to ongoing fiscal consolidation to make space for capital spending.

Graph II.30.1: **Montenegro - GDP growth and contributions**



Strong growth in tourism in the third quarter and the start of the main works on the motorway and two large tourism resorts in the last quarter of 2015 pave the way for an upward revision of the growth rate (at around 4%) for 2015. Investments are set to further accelerate in 2016, with the works on the highway and tourism resorts gaining further pace. The main risk for 2016 growth appears from weakening external demand and falling commodity prices for Montenegrin main exports: metals and electricity.

Towards the end of the forecast period, the growth of investment is likely to slow down, in line with the completion of major projects concerning the tourism sector, the interconnecting electricity link with Italy, and the possible overhaul of the steel and aluminium industries. At the same time, investments are expected to gradually improve the country's exports performance.

External imbalances remain substantial

The expected increase in capital formation and the small diversification of Montenegro's economy will be reflected in a broadening trade deficit in 2016. Moreover, it may prove very difficult to increase the number of tourists (and hence the balance of services surplus) before the finalisation of new hotel capacities in 2017. Also, the foreseen growth in the number of foreign workers is likely to increase income and transfers outflows, further deteriorating the current account deficit. However, some marginal relief may be expected in 2017 due to the relatively fast pace of growth of the economy (i.e. denominator effect) combined with the price recovery for aluminium (Montenegro's main commodity export), and the opening of the new electricity link with Italy.

Growth continues supporting job creation

In the second quarter of 2015, the number of employed increased by 3.4% y-o-y while those unemployed declined by 1.8%. As a result, the unemployment rate fell to 17.7%. We foresee this trend continuing in the coming years in line with the pace of investments, including the participation of a larger number of foreign workers.

Yet, despite the expected increase of the labour force, the prospects for real wage growth remain limited over the forecast horizon, as growing inflation would offset nominal income gains. After a short deflationary period in the first two months of 2015, prices started to increase with the gradual expiration of low base effect from food prices, and may pick up moderately in 2016 and 2017 as the base effect from fuel prices might be reinforced by hikes in administered prices of electricity.

The public debt and deficit will be basically driven by the financing of the highway

Montenegro's budget performance in the first eight months of 2015 was largely determined by a surge in public investments in line with the 2015-17 medium-term fiscal framework. At the same time, budget revenue increased marginally while current spending remained slightly below the plan. As a result, the budget deficit reached 5.4% of GDP, and the public debt 60.3%, driven by transport investments. The forecast projects the general government deficit to improve slightly in 2016 as well as in 2017, under the assumption that the total cost of the highway would be spread in four equal annuities, and present budget revenue and spending trends are maintained beyond 2015. Meanwhile, the public debt would gradually grow in the next years in line with subsequent withdrawals of tranches from the motorway loan.

According to Montenegro's fiscal rules, projects of national importance endorsed by the parliament (such as the highway) are excluded from the calculation of the deficit. Therefore, net of the cost of the motorway, the debt and deficit levels are to remain within the 3% and 60% thresholds prescribed by the fiscal rules.

Downside fiscal risks concern, in particular, possible cost overruns of the highway, or an increase in budget spending before the general elections foreseen for spring 2016. The highway USD-denominated loan exchange rate risk seems low as -so far- a stronger dollar supports the loan's purchasing capacity, and the government might consider taking exchange rate insurance.

Graph II.30.2: **Baseline fiscal scenario**

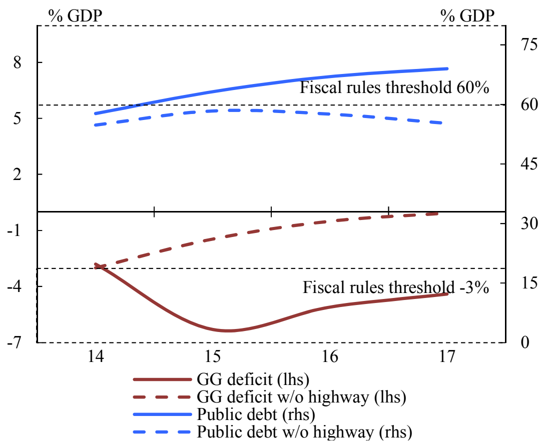


Table II.30.1:

Main features of country forecast - MONTENEGRO

	2014		Annual percentage change						
	mio EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	3457.9	100.0	-	-2.7	3.5	1.8	**4.0**	**4.1**	**4.0**
Private Consumption	2774.8	80.2	-	-3.9	1.6	2.9	**1.9**	**2.4**	**2.0**
Public Consumption	669.9	19.4	-	3.0	1.3	1.4	**0.4**	**1.9**	**1.6**
Gross fixed capital formation	657.1	19.0	-	-2.4	10.7	-2.5	**21.5**	**13.5**	**3.5**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1388.1	40.1	-	-0.3	-1.3	-0.7	**2.1**	**1.8**	**3.4**
Imports (goods and services)	2074.2	60.0	-	0.6	-3.1	1.6	**3.6**	**3.8**	**1.7**
GNI (GDP deflator)	-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth: Domestic demand			-	-3.0	3.7	2.1	**5.6**	**5.2**	**2.6**
Inventories			-	0.9	-1.7	1.0	**-0.3**	**0.5**	**1.0**
Net exports			-	-0.6	1.5	-1.3	**-1.3**	**-1.5**	**0.3**
Employment			-	2.2	1.1	3.1	**1.6**	**1.5**	**1.9**
Unemployment rate (a)			-	19.8	19.5	18.2	**17.7**	**17.1**	**16.7**
Compensation of employees / head			-	0.9	-2.0	-1.5	**1.1**	**2.0**	**2.1**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	5.8	-6.2	-1.3	**-3.5**	**-2.9**	**-2.4**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	-	-	-	**-**	**-**	**-**
Consumer-price index			-	4.3	1.8	-0.5	**1.6**	**2.3**	**2.5**
Terms of trade of goods			-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)			-	-43.7	-39.5	-39.8	**-39.6**	**-39.2**	**-37.4**
Current-account balance (c)			-	-18.5	-14.5	-15.2	**-16.0**	**-16.7**	**-16.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-6.0	-5.2	-2.8	**-6.3**	**-5.1**	**-4.4**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	53.4	57.5	54.8	**61.3**	**63.9**	**65.7**

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

31. SERBIA

Growing investments to support economic recovery

The economy is slowly emerging from recession. Domestic demand, in particular investments, is foreseen to increasingly drive growth. However, risks have gone up lately due to a less benign external environment and an uncertain pace of economic reforms. Despite impressive progress in 2015, budget deficits remain high and government debt is set to increase above 80% of GDP by 2017.

Recovery is under way

The economy is slowly emerging from recession, supported by base effects, low international primary commodity prices, and robust foreign demand. Real GDP growth turned positive in the second quarter, as gross fixed capital formation gathered speed, albeit from a low level. Exports performed steadily, growing by 8.7% in the same quarter, while imports were subdued, after a flamboyant growth in the beginning of the year. Despite improving labour market indicators, reduced fiscal transfers and declining real wages contributed to a fall in households' consumption.

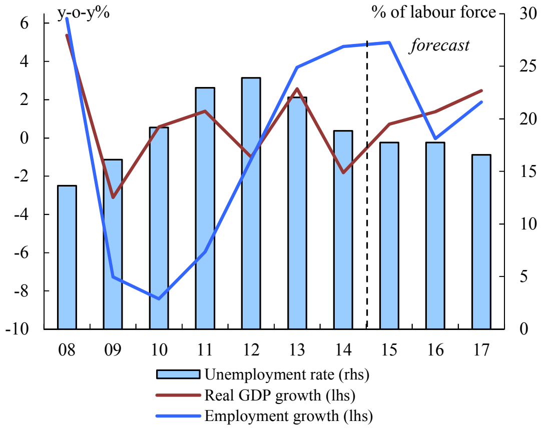
High frequency indicators point at a continuation of good economic performance in the second half of the year. Industrial production kept growing at double digit rates y-o-y in July and August, still largely driven by energy and mining. In addition, manufacturing grew steadily and, since April, growth in retail trade turnover has also been positive.

Domestic demand increasingly to drive growth

Domestic demand, which had turned out stronger than expected in the first half of 2015, is foreseen to increasingly drive growth. Investments are forecast to increase strongly not only due to base effects – they are still about a quarter below their pre-crisis level – but mainly as a result of reforms implemented over the last two years to improve the business environment and stabilise the economy. In addition, higher government capital spending would further support investment recovery. The new investment cycle is envisaged to underpin employment creation and support a revival of private consumption which, after four years of decline, is seen levelling off next year, before picking up in 2017. Only public consumption is forecast to remain a drag on growth during most of the forecast horizon. However, it is foreseen to decline much less as of next year, after the estimated significant drop in 2015, and as fiscal consolidation loses steam.

Rising domestic demand, in particular of investments, is expected to sustain a steady increase of imports. However, exports growth is likely to outpace the one of imports, underpinned by productivity gains and further expansion of the domestic production base. Nevertheless, following a very good performance in 2015, net exports' contribution to growth is foreseen to decrease strongly due to a weaker agricultural season and the slowdown in emerging markets.

Graph II.31.1: **Serbia - Labour market**

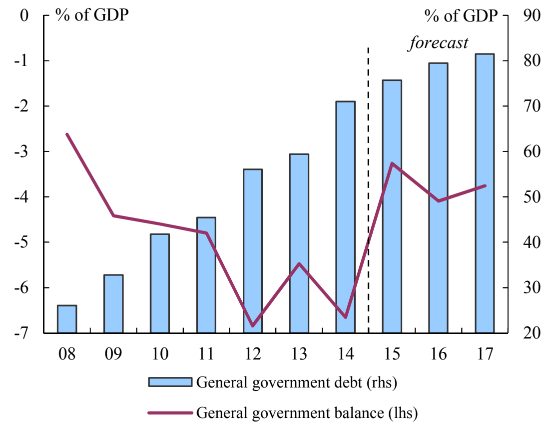


Recent increases in employment were largely driven by successful efforts to reduce informalities and most of the new jobs went into low productivity sectors as retail trade and agriculture. As the economy recovers and the labour market becomes more dynamic, job creation is foreseen to offset potential job losses resulting from reforms in the public sector. However, the unemployment rate would remain very high. Annual inflation, on the other hand, is forecast to accelerate in line with rising domestic demand but to still remain on the low end of the central bank target band, as exchange rate dynamics continues to contribute to price stability.

Uncertainties are clouding growth prospects

Serbia's economy has gone through three recessions in five years and GDP still remains around its pre-crisis level. Despite being less dependent on consumer spending, the economy is now more vulnerable to external shocks as exports have increased by close to 50% since 2009. Risks to the growth profile have gone up lately and are increasingly coming not only from the uncertain pace of reforming state-owned enterprises and public administration but from a less benign external environment as well. In addition, the foreseen strong recovery of investment depends on continuation of structural reforms and on success of ongoing efforts to address the very high burden of non-performing loans.

Graph II.31.2: **Serbia - Public finances**



Impressive fiscal consolidation in 2015 but important questions on the way ahead

The budget deficit fell sharply in 2015 and by the end of August stood at a third of its level observed in the same period of the previous year and far below the target. Considerable savings have been made from the cuts in pensions and public sector salaries implemented last year. In addition, better revenue collection, in particular due to some excise duties and non-tax revenue – a large part of which one-offs – underpinned the very good budget performance. Fiscal consolidation measures are estimated to result in 2% of GDP structural adjustment for the year as whole.

However, sustaining the good budgetary results would require sustained efforts. Although next year's budget and the medium-term fiscal strategy have not been defined yet, fiscal consolidation remains a priority. Absent further measures, the budget would be under pressure due to the expiration of one-off revenue, rising interest payments, and higher capital expenditure. Thus, in a no policy change scenario, the budget deficit is forecast to remain high, keeping government debt on an upward trajectory, climbing to above 80% of GDP by the end of the forecast period.

Table II.31.1:

Main features of country forecast - SERBIA

	2014			Annual percentage change					
bn RSD	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	3878.0	100.0	-	-1.0	2.6	-1.8	**0.7**	**1.4**	**2.5**
Private Consumption	2955.3	76.2	-	-2.0	-0.6	-1.3	**-1.0**	**0.0**	**1.3**
Public Consumption	704.1	18.2	-	1.9	-1.1	0.1	**-3.1**	**-0.8**	**0.0**
Gross fixed capital formation	665.6	17.2	-	13.2	-12.0	-2.7	**8.1**	**7.8**	**7.9**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1719.3	44.3	-	0.8	21.3	3.9	**8.1**	**3.9**	**5.3**
Imports (goods and services)	2104.4	54.3	-	1.4	5.0	3.3	**5.4**	**3.2**	**4.6**
GNI (GDP deflator)	3720.6	95.9	-	-0.4	1.8	-1.7	**0.3**	**1.4**	**2.2**
Contribution to GDP growth: Domestic demand			-	1.2	-3.2	-1.4	**0.0**	**1.3**	**2.6**
Inventories			-	-1.9	0.6	-0.3	**0.0**	**0.0**	**0.0**
Net exports			-	-0.4	5.2	-0.1	**0.6**	**0.0**	**-0.1**
Employment			-	-1.1	3.7	4.8	**5.0**	**0.0**	**1.9**
Unemployment rate (a)			-	23.9	22.1	18.9	**17.7**	**17.7**	**16.6**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	6.3	5.4	1.9	**1.5**	**3.2**	**3.8**
Consumer-price index			-	7.3	7.8	2.1	**1.6**	**3.3**	**4.0**
Terms of trade goods			-	2.3	-2.3	3.2	**0.6**	**0.0**	**0.0**
Trade balance (goods) (c)			-	-17.1	-11.6	-11.3	**-11.0**	**-10.9**	**-10.9**
Current-account balance (c)			-	-11.6	-6.1	-6.0	**-4.7**	**-4.5**	**-4.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-6.8	-5.5	-6.7	**-3.3**	**-4.1**	**-3.8**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	56.1	59.4	71.0	**75.7**	**79.4**	**81.4**

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

32. TURKEY

Moderate growth continues despite difficult circumstances

The lower oil price has supported private domestic demand in recent quarters, but exports have declined. Rapidly rising food prices and the pass-through from currency depreciation have kept inflation in high single digits. Although the lira depreciation will support exports, the current account deficit is expected to remain around 6% of GDP. Political uncertainty and the worsening security situation, domestically and in the region, are significant downside risks to growth.

Domestic demand returns as driver of growth

The Turkish economy continued to expand at a moderate rate in the first half of 2015 with real GDP up by 3.1% on a year-on-year basis. There was a pronounced shift towards domestic-demand driven growth compared to the previous year when net exports contributed most to output growth. Consumer spending accelerated to 5.1%, supported by a lower oil price and easy financial conditions. Private investment even mustered 6.9% growth after having been close to stagnation for two years. Net exports subtracted 1.2 percentage points from GDP growth in the first six months of 2015. This was based on a combination of stronger import growth (+2.7%) and weaker exports (-1.6%). One important reason was that the lower oil price curbed demand for Turkish exports from oil-producing countries, Iraq and Russia in particular.

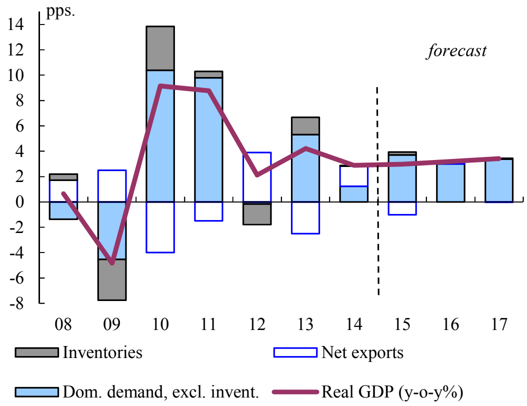
Recent economic data suggest slower economic growth in the second half of 2015. Consumer spending, in particular, seems to be cooling off and consumer confidence fell to a long-time low in September against the background of continued political uncertainty with new elections in early November, a worsening security situation both inside Turkey and in neighbouring Syria, and the global financial turbulence in July/August.

Currency depreciation will support exports

The forecast projects that the external sector's drag on output growth in the current year will be replaced by a small positive growth contribution in 2016. This is based on the lira's 16% real effective depreciation between January and September 2015. The associated gain in international competitiveness for Turkish goods and services will support the economy – at least temporarily.

On the domestic demand side, consumer spending growth is projected to slow down in the near term as the boost from the lower oil price is fading and the unstable security situation and political uncertainty will take their toll. In spite of the difficult non-economic circumstances, gross fixed capital formation is projected to continue growing at a moderate rate, supported by the improved international competitiveness of Turkish business and a pent-up need for replacement investment after an extended period with little or no growth in capital spending. While household borrowing appears to have been curbed by macro-prudential measures, non-financial corporations increasingly seem to take advantage of the easy financial conditions.

Graph II.32.1: **Turkey - Real GDP growth and contributions**



Moderate growth expected to continue

In spite of the current slowdown of domestic demand growth, GDP growth should still be able to register 3.0% for 2015 as a whole. In 2016, improving net exports are projected to outweigh the deceleration of domestic demand, resulting in annual GDP growth of 3.2%. Assuming a stabilisation in consumer and business sentiment, domestic demand is projected to re-accelerate gradually, pushing GDP growth up to 3.4% in 2017. One downside risk to this growth forecast is the possibility of a renewed sell-off in Turkish financial assets when the Federal Reserve starts raising its policy rate. This might result in a significant tightening of Turkish monetary policy with negative repercussions for domestic demand. Other significant downside risks are a continuation of political uncertainty, escalating domestic violence, and further worsening of the security situation in the region.

Monetary policy remains accommodative

Inflation has continued to run at an elevated level in 2015. In the course of the third quarter, headline inflation ticked up to almost 8% and core inflation was even slightly higher. Food prices and exchange-rate pass-through have offset the disinflationary effect from a lower oil price. In the first nine months of the year, the Turkish lira has depreciated by 16.5% against the euro and by 23.3% against the US dollar. In spite of overshooting the official 5% inflation target by a wide margin, the central bank has kept its main interest rate – the one-week repo rate – at 7.5%, unchanged since February. The forecast projects consumer price inflation to remain in the 7%-8% range as ingrained inflation expectations are allowed to persist.

Rising unemployment and a large current account deficit

Employment growth is expected to run somewhat below output growth consistent with relatively slow trend growth in labour productivity in recent years. The unemployment rate is projected to rise to 11.5% in 2017 for the labour force aged 15-64 years, based on the assumption that the labour force will increase at around the trend growth rate in recent years.

Turkey's large current account deficit narrowed to 5.8% of GDP in 2014, much helped by lower imports of non-monetary gold. In 2015, the oil price decline is reducing the deficit in dollar terms, but it is projected to change little as a share of GDP. In the following two years, the deficit is projected to widen to more than 6% of GDP again.

Public finances remain stable and sustainable

Based on the available budget realisation data for the central government, the general government deficit is forecast to narrow to 1.4% of GDP in 2015. Expenditures needed to cope with the current security challenges, are projected to increase the deficit temporarily next year.

General government's debt-to-GDP ratio has increased somewhat in 2015 due to the lira's recent depreciation. The downward trend in the debt ratio is projected to resume in 2016.

Table II.32.1:

Main features of country forecast - TURKEY

	2014		Annual percentage change						
bn TRY	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	1747.4	100.0	4.2	2.1	4.2	2.9	**3.0**	**3.2**	**3.4**
Private Consumption	1203.9	68.9	4.4	-0.5	5.1	1.4	**3.6**	**2.4**	**2.9**
Public Consumption	268.2	15.3	4.5	6.1	6.5	4.7	**4.8**	**5.0**	**4.8**
Gross fixed capital formation	351.7	20.1	5.5	-2.7	4.4	-1.3	**3.0**	**3.2**	**3.5**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	484.7	27.7	7.1	18.3	-0.3	6.8	**-1.2**	**5.3**	**6.0**
Imports (goods and services)	562.4	32.2	8.1	-0.5	9.0	-0.2	**2.5**	**4.0**	**5.3**
GNI (GDP deflator)	1720.7	98.5	4.3	2.4	3.9	2.8	**3.6**	**3.1**	**3.3**
Contribution to GDP growth: Domestic demand			4.9	-0.2	5.3	1.3	**3.7**	**3.0**	**3.4**
Inventories			0.0	-1.6	1.4	0.0	**0.2**	**0.1**	**0.1**
Net exports			-0.5	3.9	-2.5	1.6	**-1.0**	**0.1**	**0.0**
Employment			1.0	3.1	2.8	1.6	**2.2**	**2.5**	**2.7**
Unemployment rate (a)			8.5	8.3	8.9	10.1	**10.8**	**11.2**	**11.5**
Compensation of employees / head			31.3	12.8	10.9	10.7	**9.2**	**9.4**	**9.4**
Unit labour costs whole economy			27.2	13.8	9.4	9.3	**8.3**	**8.7**	**8.7**
Real unit labour cost			-1.8	6.5	3.1	0.9	**2.4**	**1.5**	**1.5**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			29.7	6.9	6.2	8.3	**5.8**	**7.0**	**7.0**
Consumer-price index			-	8.9	7.5	8.9	**7.4**	**7.7**	**7.5**
Terms of trade goods			-0.9	-3.1	3.7	1.3	**1.0**	**-1.5**	**-0.8**
Trade balance (goods) (c)			-6.2	-8.1	-9.4	-7.7	**-8.2**	**-8.3**	**-8.3**
Current-account balance (c)			-3.1	-6.1	-7.8	-5.8	**-5.9**	**-6.2**	**-6.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-6.1	-7.8	-5.8	**-5.9**	**-6.2**	**-6.3**
General government balance (c)			-	-0.3	-1.6	-1.5	**-1.4**	**-1.7**	**-1.4**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	36.2	36.1	33.5	**34.3**	**33.4**	**32.3**

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

33. ALBANIA

Investment revival brightens economic outlook

Economic activity is expected to strengthen gradually, driven by a revival in the investment cycle. Consumer spending is projected to pick up progressively as soon as uncertainties related to government reform plans and the Greek economic situation fade. Monetary accommodation and fiscal consolidation are set to continue, and the public debt ratio is forecast to start declining as from 2016.

Investment and net exports drove growth in the first half of 2015

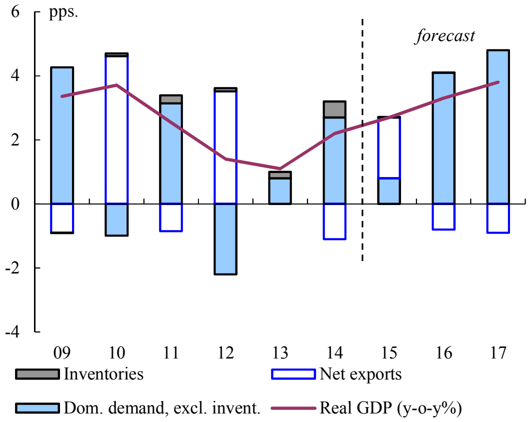
Preliminary estimates indicate that economic growth was 2.6% in the first half of 2015 on a year-on-year basis, driven in particular by a 15.9% surge in gross fixed capital formation. On the other hand, household consumption decreased by 2.3% year-on-year as successful government efforts to improve payment discipline for electricity reduced disposable incomes, while increased uncertainty created in part by the latest bout of Greece's economic turmoil induced precautionary saving behaviour. The volume of exports overall remained flat whereas real imports fell by more than 9% year-on-year in the first six months, reflecting in particular the reduced need for electricity imports and lower travel spending by outbound tourists. General government final consumption expenditure also fell, by 1% year-on-year.

Private investment is expected to remain strong despite weak business lending...

The rebound in investment, following three consecutive years of contraction during which it fell by more than 10% from its pre-crisis level, is projected to continue. Business confidence and capacity utilisation rates have been improving lately, and financing conditions continue to benefit from a record-low policy rate of 2% which has resulted in lending interest rates close to their historical minima. However, business loans have remained weak, which is partly explained by banks' risk aversion and their tight lending standards amid a more than 20% share of non-performing loans. At the same time, demand for business loans also remains low as the clearance of government arrears, started in 2014 and now practically complete, has improved business sector liquidity and enables an increased reliance on own funds to finance investment. Foreign savings are also increasingly tapped to fund investment, principally in the form of FDI inflows which are projected to remain high, driven by the expected scaling up of some major energy-sector projects and improvements in the business environment.

In addition, the authorities envisage further measures to promote loan restructuring and facilitate collateral execution, which are expected to ease supply-side credit constraints and contribute to a gradual revival of lending.

Graph II.33.1: **Albania - Real GDP growth and contributions**



...but consumer spending is weighed down by uncertainties.

Low inflation, determined by the still negative output gap and weak import prices, as well as continuing employment gains and growth in household credit should normally underpin a steady increase in household consumption expenditure. At the same time, the government's recently announced measures to fight widespread informality in the economy are impacting on consumer confidence, which is likely to remain volatile until the economy adjusts to the new realities. Therefore, household spending is likely to pick up only to the extent that the events prompting higher precautionary saving recede in importance.

Another source of risk is the situation in Greece, which is home to a large number of Albanian migrants representing a substantial, although gradually falling, share of the remittances to

Albania. Should their situation deteriorate more than expected and should rising remittances from elsewhere not compensate for this, the decrease in this particular source of income might also negatively affect household consumption.

High external deficit, mostly financed by FDI

Higher domestic saving will likely contribute to a narrowing of the current account deficit this year, even as investment is also rising. The projected increase in household consumption, along with a continuing surge in private investment, is however expected to lead to a higher external deficit in the years to come, which is forecast to remain to a large extent financed by net FDI inflows.

Budget revenues disappoint but fiscal consolidation remains central to the government's plans

In the first half of 2015, tax revenue fell short of target by 7.4%, mainly due to overoptimistic assumptions about revenue growth, lower-than-expected inflation, and the fall in oil prices that affected royalties to the government from oil producers.

This prompted a budget revision in July when revenue targets were lowered by 3.9%, but thanks to substantial savings on interest payments and a 6.9% cut in capital expenditure, the overall deficit target was left unchanged at 4% of GDP (which includes repayment of arrears worth 1.4% of GDP).

The authorities do not plan further major tax increases at this stage, but would rather rely on expenditure restraint to achieve their goal of putting the public debt ratio on a downward path as from 2016. The phasing out of payments linked to arrears clearance and the diminished need for electricity-sector subsidies in the wake of recent reforms to this sector will certainly prove helpful in this respect. Tax revenues had a tendency of undershooting expectations in the past, but the recently announced measures to combat informality, the likely effects of which are not yet included in the government's medium-term plans, holds out the prospect of broadening the tax base and therefore represents an upside risk for the budget. Overall, the momentum for fiscal consolidation, anchored also in Albania's current IMF arrangement, remains strong.

Table II.33.1:

Main features of country forecast - ALBANIA

	2014				Annual percentage change					
	bn ALL	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		1393.5	100.0	-	1.4	1.1	2.2	**2.7**	**3.3**	**3.8**
Private Consumption		1106.5	79.4	-	0.1	1.4	3.4	**-1.8**	**2.1**	**2.9**
Public Consumption		156.0	11.2	-	0.1	2.9	7.3	**-1.0**	**1.6**	**1.8**
Gross fixed capital formation		345.1	24.8	-	-7.9	-2.1	-2.9	**9.4**	**8.7**	**8.4**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		393.7	28.3	-	-0.6	7.9	-17.9	**0.7**	**5.5**	**5.8**
Imports (goods and services)		658.5	47.3	-	-6.6	5.0	-9.9	**-3.6**	**5.2**	**5.6**
GNI (GDP deflator)		1376.5	98.8	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth:	Domestic demand			-	-2.2	0.8	2.7	**0.8**	**4.1**	**4.8**
	Inventories			-	0.1	0.2	0.5	**0.0**	**0.0**	**0.0**
	Net exports			-	3.5	0.0	-1.1	**1.9**	**-0.8**	**-0.9**
Employment				0.1	-2.7	-9.7	1.6	**1.7**	**1.9**	**2.3**
Unemployment rate (a)				-	13.8	16.4	17.9	**17.5**	**16.9**	**15.8**
Compensation of employees / head				-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				-	1.0	0.2	1.0	**0.7**	**2.2**	**2.5**
Harmonised index of consumer prices				-	2.0	1.9	1.6	**2.0**	**2.3**	**2.7**
Terms of trade goods				-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)				-	-20.9	-17.9	-22.2	**-21.9**	**-22.3**	**-22.7**
Current-account balance (c)				-	-10.2	-10.7	-13.0	**-11.0**	**-11.3**	**-11.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-3.4	-5.0	-5.2	**-3.9**	**-3.0**	**-2.1**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	62.1	69.6	71.6	**72.4**	**72.0**	**70.3**

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

Other non-EU Countries

34. THE UNITED STATES OF AMERICA

Robust growth amid increasing policy uncertainty

The US economy is expected to continue its broad-based recovery in the forecast horizon, with the support of low energy prices, easing fiscal drag, but amid increasing policy uncertainty. Due to the weaker outturn in the first half of the year and the impact of the strong dollar, the forecast for 2015 is revised down to 2.6% from 3.1% in spring. Growth momentum will remain similarly robust in 2016 and 2017, with real GDP projected to expand by 2.8% and 2.7%, respectively.

Sustained recovery

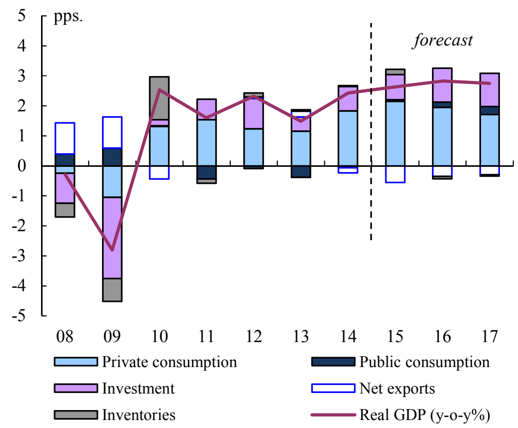
The US economy maintains solid growth momentum despite a disappointing beginning of the year, which was partly due to temporary factors. The rebound in the second quarter was broad-based, with private consumption, investment and government spending contributing solidly to growth. In the forecast horizon growth is expected to be supported by private consumption, investment, and a gradually recovering government spending. Net exports are set to be a drag, reflecting the strengthening dollar and the deteriorating external environment. Policy environment will likely remain supportive, though uncertainty builds up around upcoming key fiscal and monetary policy decisions.

Robust consumption and investment

Private consumption, accounting for 70% of US GDP, remains strong, boosted by solid income gains, record-low unemployment and energy prices, and household confidence hitting new highs despite the recent stock market correction. Spending is set to contribute strongly to growth in the forecast horizon, with expansion this year expected at 3.2%, a 10-year high, to moderate somewhat in 2016 and 2017. This will be underpinned by the gradually falling household savings rate and continuously low energy prices.

Likewise, investment is expected to remain buoyant in the forecast horizon. A temporary slowing in the energy sector is set to be more than offset by a stronger rebound in other sectors, where a positive energy-price supply shock interacts with solid domestic demand, and still conducive financing conditions. Construction posted strong gains in 2015 and is expected to advance its recovery in the forecast horizon. Pent-up demand for new homes should unfold gradually, in line with the acceleration in household formation, supported by secure employment prospects, largely healed balance sheets and still favourable financing conditions.

Graph II.34.1: **US - Real GDP growth and contributions**



Labour market recovery moderates

The labour market showed strong improvements in the year to July, but lost steam in August. The monthly pace of non-farm job growth slowed to 140,000 on average in August and September (from roughly 250,000 in the 12 months to July), with outright contraction in manufacturing and mining likely linked to weak exports and the shrinking shale energy sector. The unemployment rate continued to inch lower, down to 5.1% in August, the pre-crisis low, and around its natural rate. However, this decline occurred amidst a steadily falling labour participation rate, which hit a new low in September (62.4%) indicating that the cyclical upturn of the labour market proves insufficient to counter the adverse demographic trend. While solid job growth should bring the unemployment rate down to 4.6% in 2017, it is expected to moderate somewhat compared to previous years, reflecting a maturing cycle and a more difficult external environment.

Price and wage pressures to pick up slowly

Despite marked improvements in the labour market, wage and price growth remains subdued. Nominal wage growth has been stagnant at around 2% y-o-y in the past 3 years, surprisingly weak given the largely healed labour market and the stage of the cycle. Still in the course of the forecast horizon (2016-17) both price and wage pressures are expected to pick up, as the effect of the falling energy prices wanes, and the unemployment gap gradually turns positive.

Deteriorating net exports

The outlook for net exports has weakened further as the impact of the strong dollar is now exacerbated by the deteriorating external environment. The dollar appreciated by 18% against its major trade partners in real terms since mid-2014 (including by 4.5% in the third quarter of 2015). In parallel, demand for imports in some of US key export markets (Canada, China, Japan) weakened sharply in the course of the year. As a consequence, merchandise export volumes rose by a mere 0.9% y-o-y in the second quarter, the least since 2009, and net exports are now expected to subtract 0.6 pps from growth in 2015 (compared to 0.4 pps in Spring), and 0.3 pps in both 2016 and 2017.

Supportive policy mix despite increased policy uncertainty

Fiscal policy is set to ease considerably over the next couple of years, with government spending expected to contribute positively to growth in the forecast horizon, for the first time since 2010. However, political uncertainty is likely to remain high in the autumn. Congress will need to raise the debt ceiling by early November in order to avoid default on debt, and subsequently approve the federal budget to avert a government shutdown.

The process of normalisation of monetary policy is likely to advance in the forecast horizon, though the timing of the first interest rate hike remains uncertain. The Federal Reserve held rates steady during its much-anticipated September meeting, citing uncertainty regarding the global economic outlook. Weaker labour market data, a global slowdown and the prospects of a political standoff over the budget and the debt limit, adds to the complexity faced by the Federal Reserve.

Domestic risks are largely related to the potential for a disruptive political stand-off over fiscal decisions this autumn (debt ceiling, federal budget) that would weigh on the outlook in the short term. Moreover, the nearing normalisation of monetary policy could lead to increased volatility in financial markets that may negatively affect confidence, investment and spending.

Table II.34.1:

Main features of country forecast - USA

	2014		Annual percentage change						
bn USD	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	17348.1	100.0	2.5	2.2	1.5	2.4	**2.6**	**2.8**	**2.7**
Private Consumption	11865.9	68.4	2.9	1.5	1.7	2.7	**3.2**	**2.9**	**2.5**
Public Consumption	2556.3	14.7	1.6	-0.9	-2.5	-0.5	**0.4**	**1.3**	**1.9**
Gross fixed capital formation	3378.7	19.5	2.3	6.3	2.4	4.1	**4.1**	**5.5**	**5.3**
of which: equipment	1180.3	6.8	4.5	8.8	2.2	5.0	**1.8**	**4.5**	**6.2**
Exports (goods and services)	2341.9	13.5	4.7	3.4	2.8	3.4	**1.7**	**3.6**	**3.9**
Imports (goods and services)	2871.9	16.6	5.4	2.2	1.1	3.8	**5.1**	**5.0**	**4.9**
GNI (GDP deflator)	17611.2	101.5	2.6	2.1	1.5	2.4	**2.4**	**3.0**	**2.8**
Contribution to GDP growth: Domestic demand			2.7	2.0	1.2	2.6	**3.0**	**3.2**	**3.1**
Inventories			0.0	0.1	0.1	0.0	**0.1**	**-0.1**	**0.0**
Net exports			-0.2	0.1	0.2	-0.2	**-0.6**	**-0.3**	**-0.3**
Employment			0.7	1.8	1.0	1.6	**1.7**	**1.2**	**1.3**
Unemployment rate (a)			5.8	8.1	7.4	6.2	**5.3**	**4.8**	**4.6**
Compensation of employees / f.t.e.			3.5	2.2	1.5	2.8	**1.9**	**3.3**	**3.7**
Unit labour costs whole economy			1.7	1.7	1.0	1.9	**1.1**	**1.7**	**2.3**
Real unit labour cost			-0.3	-0.1	-0.7	0.3	**0.0**	**-0.3**	**0.1**
Saving rate of households (b)			10.3	12.9	10.3	10.4	**9.2**	**8.2**	**7.7**
GDP deflator			2.0	1.8	1.6	1.6	**1.1**	**2.0**	**2.1**
Consumer-price index			2.5	2.1	1.5	1.6	**0.2**	**2.1**	**2.3**
Terms of trade goods			-0.4	-0.2	0.6	-0.2	**2.2**	**-0.5**	**-1.3**
Trade balance (goods) (c)			-4.4	-4.8	-4.4	-4.4	**-4.2**	**-4.4**	**-4.7**
Current-account balance (c)			-3.7	-2.9	-2.4	-2.3	**-2.3**	**-2.4**	**-2.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.7	-2.9	-2.4	-2.3	**-2.3**	**-2.4**	**-2.7**
General government balance (c)			-4.7	-8.8	-5.3	-4.9	**-4.0**	**-3.5**	**-3.2**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			67.9	102.4	104.1	105.2	**105.3**	**104.4**	**104.1**

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

(*) Employment data from the BLS household survey.

35. JAPAN

Volatile growth ahead

In 2015 a still modest recovery in domestic demand, a weaker external outlook, and a lower carryover from the second quarter contraction is set to entail subdued growth. In 2016 and 2017, output growth is set to remain volatile, and largely driven by planned fiscal consolidation.

Real GDP growth for 2015 has been revised down to 0.7% to reflect the lower carryover from the unexpected contraction in 2015-Q2, and weaker domestic and external factors. Economic growth is set to pick up at 1.1% in 2016, supported by a surge in demand ahead of the planned consumption tax hike, and favourable investment conditions. In 2017, falling consumption in the wake of the tax hike in 2017-Q2 will entail lower growth, projected to slow down to 0.5%.

Near-term growth has turned increasingly volatile...

After growth of 1.1% q-o-q in 2015-Q1, spurred by a large contribution from inventories, in Q2 real GDP surprised to the downside with a 0.3% contraction. Private consumption has only partly recovered since the April 2014 tax hike and declined 0.7% q-o-q in Q2. Exports fell 4.4% q-o-q on the back of weaker demand from key Asian partners, in particular China, whilst continued currency depreciation has failed to underpin consistent export growth. Gross fixed capital formation remained stagnant in Q2, partly supported by growth in public investment, whilst private investment declined.

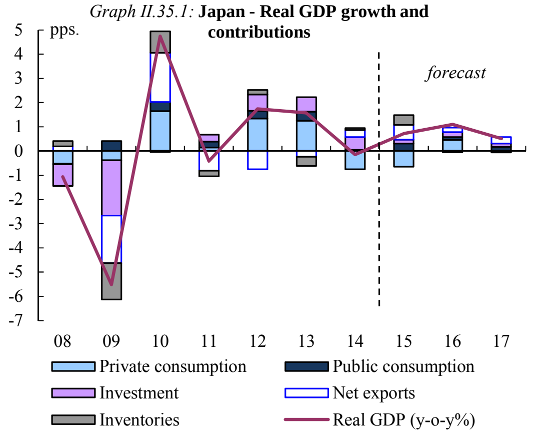
...whilst economic indicators point to challenges ahead

Year-to-date industrial production has been on average lower than the 2014 level, and has declined m-o-m in July and August. September's composite PMI declined 3.3% m-o-m, with the reading for new export orders falling by 7.4% m-o-m, the steepest drop since February 2013, suggesting continued weakness stretching into the third quarter and more challenging external conditions weighing on the growth outlook. Confidence indicators remain on a moderately improving trend for consumers, whilst the outlook for businesses has recently deteriorated, also on the back of weaker demand from emerging economies.

Moderate increase in domestic demand...

Real household expenditure appears to be recovering after declining over the first half of the year, but remains volatile overall. The unemployment rate was stable at 3.3% in August, and the ratio of new job openings-to-applicants – at its highest level since 1992 – points to steady labour demand. Labour market conditions are set to remain tight on the back of shrinking labour supply and job creation from resilient corporate activity. At the same time real wage growth has recently turned positive, and is expected to increase only modestly in the near term. Persistent labour duality and low mobility continue hampering a strong and steady pick-up in nominal wages, whilst the planned tax hike will pull real wage growth into negative territory again over the forecast horizon. Despite an uptick in real spending in recent months, private consumption is set to remain volatile. In 2016 consumption expenditure will gather momentum on the back of rising front-loaded demand ahead of the planned tax hike, whilst the subsequent contraction will weigh on growth in 2017. Overall, the underlying consumption trend is projected to remain sluggish reflecting subdued wage dynamics and adverse demographic factors.

Graph II.35.1: **Japan - Real GDP growth and contributions**



Private non-residential (business) investment declined 0.7% q-o-q in the second quarter, with leading indicators pointing to a mild recovery ahead. Business investment should remain on a moderate long-term upward trend, supported by stronger profits, improvements in the corporate and tax environment as a result of structural reform efforts, and loose financing conditions underpinned by accommodative monetary policy.

Private residential investment bottomed out in 2014-Q4 from the post-April-2014-tax-hike slump. Going forward, it is expected to continue recovering at an accelerated pace up to 2017-Q1, supported by favourable employment dynamics and financing conditions, before pulling back sharply in the wake of the next consumption tax hike. Public investment should continue declining over the near term as the impact from past stimulus wanes.

...but weaker demand from emerging economies.

Slowing demand from emerging Asian economies weighed on export performance in 2015-Q2, and leading indicators point to continued weakness in Q3. The steady rebalancing of the Chinese economy is set to entail a diminished capacity to rely on export-led growth over the medium term, but overall external demand is projected to improve moderately over the forecast horizon underpinned by positive net effects from lower oil prices, improved external competitiveness, resilient growth in advanced economies, and gradual recovery of demand from the broad Asian region.

Risks

Risks to the outlook include weaker-than-expected income growth weighing on the household sector and private consumption, also resulting in a stronger pullback following the 2017 tax hike.

Fiscal consolidation is projected to go ahead and the general government deficit gradually reduced on the back of steady revenue growth and contained expenditure growth. However weaker-than-expected output growth over the near term may entail a slippage in planned consolidation measures, and the risk of negative confidence effects possibly triggering tighter financing conditions.

On the external side, the export sector remains exposed to the risk of stronger-than-expected economic downturns in emerging and commodity-exporting economies – in particular China and ASEAN countries – with possible negative repercussions on business confidence and investment decisions.

Table II.35.1:

Main features of country forecast - JAPAN

	2014		Annual percentage change						
	bn JPY Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	487596.8	100.0	0.7	1.7	1.6	-0.1	**0.7**	**1.1**	**0.5**
Private Consumption	295495.9	60.6	0.8	2.3	2.1	-1.3	**-0.7**	**0.8**	**-0.1**
Public Consumption	100718.5	20.7	1.9	1.7	1.9	0.2	**1.0**	**0.7**	**0.9**
Gross fixed capital formation	108998.4	22.4	-1.3	3.4	3.2	2.6	**0.5**	**0.9**	**0.7**
of which: equipment	-	-	0.6	3.5	2.4	-	**-**	**-**	**-**
Exports (goods and services)	86431.5	17.7	4.4	-0.2	1.2	8.4	**2.6**	**3.8**	**3.5**
Imports (goods and services)	101721.7	20.9	2.8	5.3	3.1	7.4	**0.8**	**3.1**	**2.7**
GNI (GDP deflator)	507305.7	104.0	0.9	1.8	2.1	0.3	**1.1**	**1.2**	**0.5**
Contribution to GDP growth: Domestic demand			0.5	2.4	2.3	-0.2	**-0.1**	**0.8**	**0.3**
Inventories			0.0	0.2	-0.4	0.1	**0.5**	**0.2**	**0.1**
Net exports			0.3	-0.9	-0.3	0.0	**0.3**	**0.1**	**0.1**
Employment			-0.3	0.0	0.6	0.6	**0.3**	**0.1**	**0.1**
Unemployment rate (a)			4.5	4.3	4.0	3.6	**3.4**	**3.3**	**3.3**
Compensation of employees / head			-0.8	-0.2	0.1	0.2	**0.7**	**1.2**	**0.6**
Unit labour costs whole economy			-1.8	-1.9	-0.9	0.9	**0.4**	**0.2**	**0.3**
Real unit labour cost			-0.6	-0.9	-0.3	-0.7	**-1.3**	**-1.0**	**-1.3**
Saving rate of households (b)			10.9	7.7	6.4	6.3	**7.5**	**7.1**	**6.6**
GDP deflator			-1.1	-0.9	-0.6	1.7	**1.6**	**1.3**	**1.6**
Consumer-price index			-0.1	0.0	0.4	2.7	**0.8**	**0.7**	**1.8**
Terms of trade goods			-3.1	-1.9	-2.2	-1.3	**4.8**	**1.5**	**0.7**
Trade balance (goods) (c)			1.9	-1.2	-2.2	-2.5	**-1.4**	**-1.1**	**-0.9**
Current-account balance (c)			3.0	1.0	0.7	0.5	**2.3**	**2.8**	**3.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.9	1.0	0.5	0.5	**2.2**	**2.7**	**3.0**
General government balance (c)			-6.1	-8.7	-8.5	-7.5	**-6.6**	**-5.7**	**-5.1**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			167.7	236.6	242.6	246.4	**247.4**	**247.4**	**247.5**

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

36. CHINA

Controlled slowdown continues, but trade adjusts sharply

China's growth rate has been remarkably steady through 2015, with buoyant consumption and growth in the services sector offsetting a sharp slowdown in investment activity, particularly in the real estate sector. The economy appears to be undergoing substantial structural adjustment, as evidenced by the sharp adjustment in level and composition of imports. Growth is expected to continue to slow gradually over the forecast period, with risks tilted to the downside.

China's economy grew at 7.3% in 2014, and headline growth has remained relatively steady in 2015, coming in at 7% in both Q1 and Q2, before dipping marginally to 6.9% in Q3. This solid performance comes despite much slower growth of fixed asset investment and particularly real estate investment, weighed down by an overhang of unsold stock following the bursting of a real estate bubble in 2014. Industrial production growth rates have also slowed notably since the end of 2014. By contrast, retail sales grew steadily throughout 2015 at over 10% in real terms. Manufacturing PMI indicators also held up well in the early part of the year before dipping below 50 in July and August. Service sector PMIs remain well above 50. The most surprising development in 2015 has been the pronounced weakness in China's goods trade, particularly on the import side, which has proved much weaker than would normally be expected given the headline growth rate.

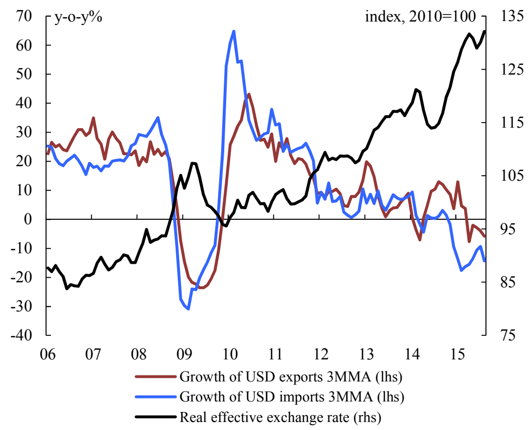
The growth forecast for China has been marked down marginally to 6.8% in 2015, followed by 6.5% in 2016 and 6.2% in 2017. This remains a relatively benign scenario for growth, and assumes that the current rebalancing of the economy will continue without a sharp correction or 'hard landing', with China retaining the fiscal capacity to boost demand if growth moves too far from the official target for 2015 of 'around 7%'. Forecasts for imports and exports of goods have however been revised down substantially. Goods imports in particular appear to be seeing a step-adjustment as China's composition of demand shifts away from import-dependent investment and construction-related expenditure.

Turbulence in the financial sector

Real economy developments were overshadowed over the summer by a steep decline in Chinese equity indices, reversing the similarly rapid rise seen in the first half of the year. The direct macro-economic effect of the bursting of this stock market bubble is however expected to be small, given the low share of equity in household wealth.

In addition, in early August the Chinese central bank announced changes to the daily 'fix' for the RMB against the US dollar, stating the intention to allow the exchange rate to more closely reflect market pressures in future. The Chinese central bank, nevertheless, intervened subsequently to prevent a sharp decline in the RMB exchange rate, leading to a substantial loss of foreign exchange reserves in August/September. These developments heightened uncertainty about the state of the domestic economy and the likely future direction of policy.

Graph II.36.1: **China - Foreign trade**



Steady monetary policy, flexible fiscal policy

Monetary policy has been eased gradually since late 2014, with cuts in headline policy interest rates and required reserve ratios and targeted liquidity injections to allow for easier lending conditions in specific sectors. However, real interest rates have moved relatively little due to declining inflation, and further monetary easing is likely to be measured so as to maintain downward pressure on credit growth, which remains above the growth rate of nominal GDP. Fiscal policy has already responded flexibly in response to the weakness in investment spending seen in the first half of 2015, with infrastructure projects being advanced or allocated additional resources, and steps taken to allow for a smooth rollover of local government debt. The lagged effect of these measures will support activity through 2015 and into 2016. Prospects for the exchange rate and trade dynamics remain uncertain. The rapid rise in the US dollar in 2015 has pulled up the real exchange rate of the RMB quite sharply, with the RMB rising by 12 over the 12 months to August in REER terms. The prospect of further dollar strength as US monetary policy normalises may explain the move by the Chinese central bank to partially 'decouple' the RMB from the US dollar in August by loosening the quasi-peg between the currencies.

Trade remains a puzzle

The weakness in China's goods trade in 2015 has been surprising. Goods exports were down 1% cumulatively year-on-year to end August (in USD value terms), while goods imports saw a fall of around 14% in value terms (-4% in volume terms). Weak exports can be explained by the subdued nature of global demand and rapid rise in the RMB real exchange rate, which has put the export sector under significant stress. Given the sluggish outlook for global growth and the strength of the RMB, we expect only a modest rebound in exports in 2016. The sharp drop in imports has a clear regional pattern, with commodity producers and emerging markets showing a steeper fall than imports from developed economies. Services imports, by contrast, are growing rapidly, at above 10%. The fall in goods import demand reflects the influence of several factors including: the slowdown in real estate leading to lower construction material imports, a broader restructuring of the Chinese economy away from import-intensive investment demand, and reduced imports for reprocessing (due to weak export demand). However, the abruptness of the decline in imports in 2015 remains surprising, and it is unclear how much of a step break this implies for China's trade position. Our forecast foresees flat growth in goods imports in 2016, followed by a modest uptick in 2017.

Risks to domestic growth are tilted to the downside

Risks to the growth outlook include a further worsening of the outlook for investment and a possible interaction of slower growth, low inflation and financial fragility in the banking sector. It is also unclear how long the robust performance of consumption can remain decoupled from the investment slowdown. On the trade side, risks to the outlook are more balanced, with scope for both imports and exports to rebound from their unusually low levels of growth this year.

Table II.36.1:

Main features of country forecast - CHINA

	2014		Annual percentage change						
	bn CNY Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	640796.0	100.0	9.2	7.7	7.7	7.3	**6.8**	**6.5**	**6.2**
Consumption	328311.0	51.2	-	-	-	-	**-**	**-**	**-**
Gross fixed capital formation	283018.0	44.2	-	-	-	-	**-**	**-**	**-**
of which : equipment			-	-	-	-	**-**	**-**	**-**
Change in stocks as % of GDP			-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	15222.0	2.4		5.9	9.0	5.8	**3.0**	**4.0**	**5.0**
Final demand			-	-	-	-	**-**	**-**	**-**
Imports (goods and services)	13476.0	2.1		6.9	11.2	7.0	**-0.7**	**1.9**	**4.5**
GNI (GDP deflator)	-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth : Domestic demand			-	-	-	-	**-**	**-**	**-**
Inventories			-	-	-	-	**-**	**-**	**-**
Net exports			-	-	-	-	**-**	**-**	**-**
Employment			-	-	-	-	**-**	**-**	**-**
Unemployment (a)			4.0	4.1	4.1	4.1			
Compensation of employees/head			-	-	-	-	**-**	**-**	**-**
Unit labour costs			-	-	-	-	**-**	**-**	**-**
Real unit labour costs			-	-	-	-	**-**	**-**	**-**
Saving rate of households			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.8	3.2	2.4	1.2	**1.6**	**1.6**	**1.6**
Private consumption deflator			-	-	-	-	**-**	**-**	**-**
Index of consumer prices (c)			3.5	2.6	2.6	2.0	**-**	**-**	**-**
Merchandise trade balance (b)			4.5	3.7	3.8	4.2	**6.3**	**6.6**	**6.5**
Current-account balance (b)			4.7	2.5	1.6	2.1	**4.0**	**4.2**	**4.0**
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
Tide turning

Moderation followed the year-end bonus as was expected this spring for Norway and Switzerland. These EFTA countries have narrowly avoided a technical recession in the first two quarters of this year but are expected to see growth strengthen only well into the next year. The Swiss economy was significantly affected by the SNB abandoning the exchange rate floor of the CHF vis-à-vis the euro. The Norwegian economy starts to feel the impact of a persistently lower oil price. Iceland is likely to continue to benefit from booming tourism, related construction and foreign investment in the country's resource industries.

Switzerland

On 15 January, the SNB abandoned the peg of the Swiss Franc to the euro which had been the "cornerstone of its monetary policy" since 2011. This exchange rate shock added to prior weaknesses in price competitiveness, reliance on niche export markets (including commodity trading) and quality of foreign labour inflows, and overheating domestic demand.

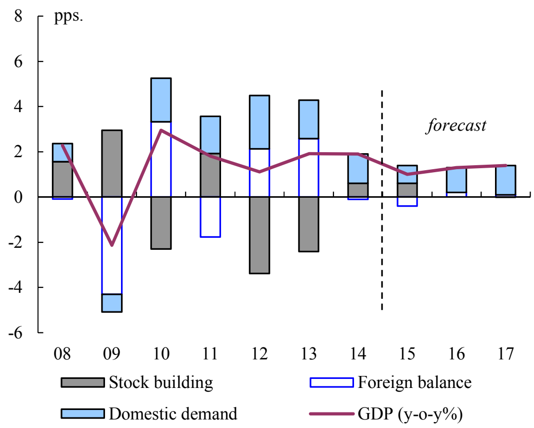
The Swiss economy shrank by 0.2% (q-o-q) in the first quarter (1.1% y-o-y) and grew by 0.2% (q-o-q) in the second quarter (1.3% y-o-y). In spite of the strong appreciation of the Franc in the first half year, net exports contributed to GDP growth in the second quarter. However, this was due to a sharper contraction in imports (-11.3% q-o-q) than in exports (-6.3% q-o-q).

The weak figure for imports is confirmed in domestic demand which also contracted in the second quarter (-1.2% q-o-q) although this was in particular due to a large swing in inventories. However, trade figures are highly volatile since the introduction of ESA2010 (non-monetary gold is now included in trade).

The Swiss economy did not enter a recession in the first two quarters and it is not expected to do so in the second half of the year either. That, however, will be a close call. A weak development is expected for household consumption as both employment and wages are under pressure in the context of the appreciating Swiss franc and consumers become more pessimistic about the economic prospects. Economic growth is expected to gradually recover in 2016 and this trend will continue in 2017, mostly driven by a gradual strengthening of domestic demand. Although private consumption is expected to kick in only in the second half of next year, gross fixed capital formation will be boosted next year by one-off factors like the acquisition of airplanes.

The appreciated Swiss franc will not only impact the composition of domestic demand, but also, and more importantly, the export performance. The overall competitive position has come under pressure since the Great Recession. Real wages have grown about twenty percent more in the last six years than labour productivity. This increases the vulnerability of Swiss export performance to global economic developments. At the same time, some important export products like pharmaceuticals and watches have shown a remarkable price inelasticity and some large exporters are insulated as they use few inputs priced in Swiss Francs.

Graph II.37.1: **Switzerland - Real GDP growth and contributions**



The competitive position is not the only risk to the Swiss economy. Turbulence in European and other foreign financial markets could lead to a strengthening of safe haven capital inflows and thus to a further exchange rate appreciation with risks to financial and monetary stability. While monetary policy is expected to remain expansionary, there will be pressure for more accommodative public finances.

Norway

The Norwegian economy has seen a strong loss in momentum this year after several relatively good years. Most of the tide turning can be explained by external developments although low interest rates and increasing property prices also boosted domestic demand. As a consequence, risks have built up in the Norwegian economy: high valuations in the property market with particular exposure to this for young households, a high reservation wage as a consequence of the relatively high uptake of relatively expensive disability scheme instead of unemployment insurance, very high household indebtedness, low price competitiveness and low productivity gains in the past years, and, finally, a risk to the sustainability of public finances through the large claim on social security by migrants.

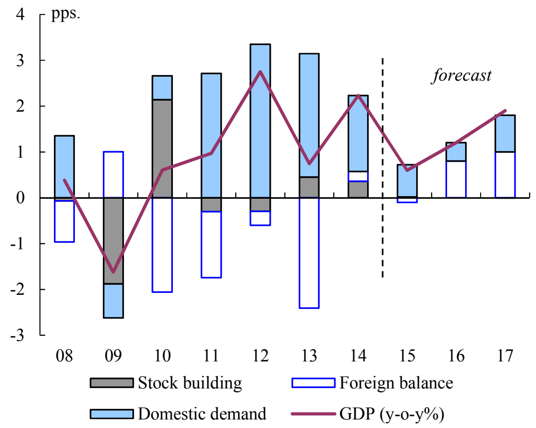
The lower oil and gas prices have started to feed into the mainland non-oil economy. The Norwegian economy shrank by 0.1% q-o-q in the second quarter after growing by 0.1% q-o-q in the first quarter of 2015. Net exports and investment were the demand components that put a drag on the economy in the first half of the year. Their deterioration is directly related to the oil price development and is foreseen to affect the economy also in the coming quarters.

The decrease registered in manufacturing output in the second quarter shows the impact of the reduction in investment by the hydrocarbon industry following the sharp drop in oil prices. The deteriorating situation in the manufacturing sector is also reflected in the PMI for the manufacturing sector that went from its year-high of 51.9 in February to 43.7 in August and was at 47.3 at the end of September. At the current projection for oil prices, the downward pressure on activity in the mainland economy from investments in the oil sector is expected to continue.

Off-shore investment, which accounts for more than one quarter of total investment, is expected to decline by 12% (y-o-y) in 2015, according to a survey by the Norwegian statistical office. Increased public investment will reduce but cannot fully offset its impact on total investment. A modest recovery is expected in the course of 2016.

Private consumption was the countervailing force to the slowdown in investment last year. It continued to grow in the first half of 2015 according to national account figures. However, there are signs that private consumption will also cool in the coming quarters. Consumer confidence has fallen rather sharply in the past quarters from 18.6 in 2014-Q3 to -4.1 in 2015-Q3. This is likely a consequence of a rise in the unemployment rate since the summer of 2014 and a general uncertainty about the economic outlook. Moreover, risks to the highly-leveraged and highly-priced real estate market increase because of the deteriorating outlook.

Graph II.37.2: **Norway - Real GDP growth and contributions**



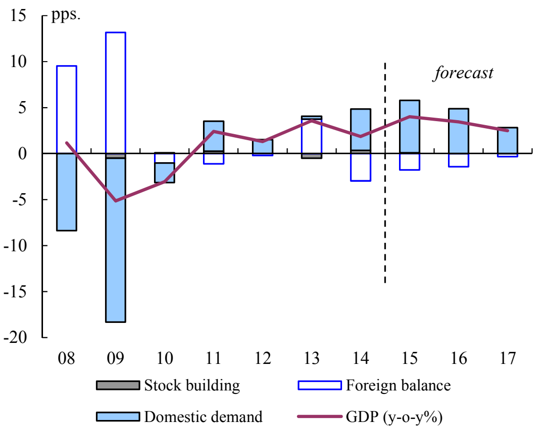
In contrast to the drop in export value related to the oil price, the traditional export sector is doing relatively well thanks to the weaker Krone, but it still has to overcome an erosion of its price competitiveness. Norway's real effective exchange rate on the basis of unit labour costs has appreciated strongly during the past two decades as a consequence of high wage growth and low labour productivity growth. Although the high wage growth is mostly confined to oil and oil related sectors, productivity growth in non-oil tradable sectors has also slowed. Supported predominantly by stronger growth in relevant world trade and a gradual increase in the oil price, the economy is expected to grow by 1.1% in 2016 and 1.9% in 2017.

Iceland

The economy currently benefits from a couple of growth supportive factors: a continued boom in tourism, boosting foreign exchange revenues, income and employment; foreign investment in resource-related industries; tourism-related con-struction activities; and increased disposable income, benefitting among others from low inflation. However, the recent nominal wage increases by around 7% are likely to increase price pressures and to dampen employment growth.

Strong investment, consumption and exports resulted in real GDP growth by 5.2% in the first half of 2015. Employment rose by 3%, bringing unemployment further down to 3.8% in September. A strengthening exchange rate and low import prices have helped to keep average inflation low, at 1.5% during the first nine months of the year. After an annual deficit of 0.1% of GDP in 2014, the budget deficit stood at 0.8% of GDP in mid-2015, as higher spending for public wages more than offset the solid revenues performance.

Graph II.37.3: **Iceland - Real GDP growth and contributions**



The high import content of investment and private consumption led to a deterioration in Iceland's external balance, reducing the surplus to 1.2% of GDP in mid-2015 (from 3.6% end of 2014).

Key factors for output growth in 2016-17 will be tourism, investment and private consumption. Investment will remain strong reflecting tourism-related construction, capital renewal in the fishing and tourism industry and silicon related investment projects. Exports are projected to benefit from a flourishing tourism sector. The recent wage agreements are likely to dampen employment growth, but to support the increase in the labour force, partly from abroad. Thus, unemployment will drop at a slower pace.

In 2015, inflation is likely to remain below the Central Bank target of 2.5%, benefitting from low import prices and the effective ISK appreciation by about 3%. In 2016 and 2017, the recent wage agreements could push inflation again above the Central Bank target. Stronger domestic demand will lead to a widening of the trade deficit, while the services balance will continue to benefit from expanding tourism. Overall, the current account balance is forecast to deteriorate in 2016-17.

The government's fiscal target for 2015 of largely balanced accounts is in line with the current growth outlook. Exceptional one-off revenues related to the planned lifting of capital controls could lead to substantial revenues in late 2015 and early 2016. If those funds are used primarily for lowering the debt burden, the debt ratio could drop close to 50% of GDP by end 2017.

Table II.37.1:

Main features of country forecast - EFTA

	Iceland				Norway				Switzerland			
(Annual percentage change)	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
GDP	1.8	4.0	3.2	2.5	2.2	0.6	1.1	1.9	1.9	1.0	1.3	1.4
Private Consumption	3.1	4.0	3.5	3.0	2.0	1.2	0.7	1.1	1.3	0.6	0.9	1.2
Public Consumption	1.8	1.7	1.5	1.3	2.7	2.5	2.3	2.2	1.3	1.4	1.6	1.6
Gross fixed capital formation	15.4	18.0	15.0	8.0	0.6	-1.7	-2.0	-0.7	2.1	1.5	1.9	1.9
of which: equipment	9.9	23.0	18.0	9.0	-0.5	0.7	1.4	0.9	0.4	1.3	1.9	0.8
Exports (good and services)	3.1	8.2	5.2	4.5	2.7	0.5	3.6	5.2	-6.9	-1.4	2.5	2.6
Imports (goods and services)	9.8	12.5	9.4	6.9	1.9	1.0	2.0	3.3	-8.1	-0.8	2.8	3.0
GNI (GDP deflator)	1.2	4.0	3.7	2.6	2.2	0.6	1.1	1.9	1.9	1.0	1.3	1.4
Contribution to GDP growth: Domestic demand	4.4	5.5	4.9	3.5	1.5	0.6	0.3	0.8	1.3	0.8	1.1	1.3
Inventories	0.4	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.6	0.6	0.0	0.0
Net exports	-3.0	-1.5	-1.8	-1.0	0.5	-0.1	0.8	1.1	-0.1	-0.4	0.2	0.1
Employment	1.6	3.5	1.5	1.0	1.3	0.1	-0.2	0.9	1.5	0.8	0.1	0.2
Unemployment rate (a)	5.0	4.7	4.5	4.3	3.4	3.4	4.5	4.6	4.6	5.2	5.7	6.6
Compensation of employee/head	5.6	7.3	6.2	5.5	3.5	-0.3	0.2	0.3	1.9	-1.5	-0.3	2.2
Unit labour cost whole economy	5.3	6.8	4.5	4.0	2.5	-0.8	-1.2	-0.6	1.5	-1.7	-1.5	1.0
Real unit labour cost	1.3	4.2	1.2	0.7	2.1	-3.0	-4.5	-3.4	2.2	-0.7	-2.0	0.0
Saving rate of households (b)	1.4	6.5	7.5	7.7	17.4	15.7	14.9	14.8	26.1	26.1	25.9	26.1
GDP deflator	4.0	2.5	3.3	3.3	0.4	2.3	3.4	2.9	-0.7	-1.1	0.5	1.0
Harmonised index of consumer prices	1.0	1.8	3.2	3.5	1.9	2.2	2.8	2.4	0.0	-1.0	0.4	1.0
Terms of trade goods	4.1	3.0	1.0	0.0	-7.8	2.0	1.9	2.0	0.2	1.7	-0.1	-0.1
Trade balance (goods) (c)	-0.5	-1.9	-3.7	-4.9	9.5	9.5	10.6	11.7	7.7	7.3	7.2	7.0
Current account balance (c)	3.4	2.4	1.1	0.1	8.7	8.7	9.9	11.2	11.5	10.9	11.0	11.0
Net lending (+) or borrowing (-) vis-a-vis ROW	-	-	-	-	8.6	8.6	9.8	11.2	10.9	10.2	10.3	10.3
General government balance (c)	-0.1	-0.5	0.0	0.0	9.1	8.3	7.7	7.5	-0.2	-0.4	-0.7	-0.5
General government gross debt (c)	81.4	62.0	55.0	50.0	26.4	27.4	28.5	29.8	36.5	36.9	36.9	36.6

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

38. RUSSIAN FEDERATION

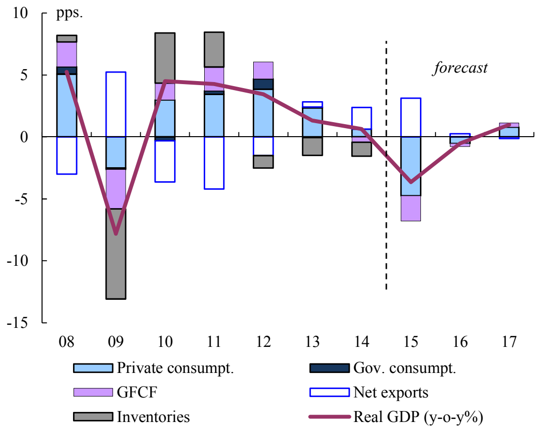
Recession amidst low oil price and sanctions; worsened outlook

Russia moved into a deep recession in 2015 amid the combined effect of the oil price fall and economic sanctions. Negative growth is expected to continue in 2016 following the extension of sanctions and the renewed fall in the oil price. As pre-existing structural bottlenecks are not likely to be addressed through comprehensive reform efforts, a return to only modest growth is forecast in 2017.

Recession deepened amidst lower oil prices and sanctions...

Pre-existing structural bottlenecks (mainly the excessive reliance on the energy sector and low investments) have compounded with the collapse in oil prices and economic sanctions, leading to a sharp economic slow-down since the end of 2014.

Graph II.38.1: **Russia - Real GDP growth and contributions**



Real GDP is forecast to fall into negative territory in 2015 (-3.7%) due to a sharp contraction of private consumption and falling investment on the back of elevated borrowing costs, weak economic confidence and rising inflation.

The fall in GDP deepened in 2015-Q2 (-4.6% y-o-y, following a 2.2% decline y-o-y in 2015-Q1) reflecting a broad-based contraction in several key indicators (e.g. retail sales, industrial production and investment). Negative growth, albeit less severe, is expected to continue in 2016 based on the recent extension of sanctions until early 2016, a further decline in oil prices and lingering vulnerability to market turbulence, as witnessed by renewed rouble depreciation during the summer. A return to modest positive growth is expected only in 2017, amid a rebound in oil prices and subsiding geo-political tensions. Still, the lack of structural reform momentum and the increasing weight of the state in the economy are expected to prevent a more sustained recovery.

...reflecting a slump in consumption and investment.

Investment is expected to fall sharply in 2015 reflecting constrained access to Western capital markets amid sanctions, elevated borrowing costs and a deteriorated business environment.

Private consumption, previously the main growth driver, is expected to fall nearly as much as investment, reflecting a slump in real wages amid high inflation caused by rouble depreciation and the ban on Western food imports. Moreover, fiscal consolidation pressures limit the room to introduce offsetting measures, as suggested by the recent public wage freeze and reduced pensions' indexation. In this context, consumption growth is expected to remain slightly negative in 2016, before recovering somewhat in 2017 amid a gradual return to growth and moderating inflation.

Export growth is expected to turn negative in 2015, as structural bottlenecks and falling investment prevent Russian firms from reaping the benefit of a weaker rouble. Constrained access to foreign capital, reduced bank lending and deteriorated economic confidence weigh on the economy's export potential and largely offset anti-crisis measures by the government. Still, energy-related exports exhibit a certain degree of resilience. Exports are set to recover somewhat in 2016 and 2017 given the gradual easing of geopolitical tensions as well as increasing external demand. Imports are set to collapse in 2015 (-20% approximately), on the back of the large fall in domestic demand, sharp rouble depreciation and the embargo on Western food imports.

A relatively resilient labour market

A moderate employment contraction is expected in 2015, followed by some further downward adjustment in 2016 and 2017, as the recession will result in only limited job losses and labour market withdrawals. Similarly, unemployment is set to increase only slightly in 2015 and remain relatively stable in 2016 and 2017. These trends relate to the well-established feature of the Russian labour market to adjust mainly through wages.

High inflation expected to moderate

The rouble came under renewed pressure over the summer amid a further oil price fall, approaching the record lows of end-2014. Together with the extension of the embargo on food imports until August 2016, this led to additional pressures on inflation, which remained at 15.8% in August. However, given the sharp reduction in domestic demand and the very weak and gradual economic recovery, inflation is set to moderate to average annual rates of 8% and 6% in 2016 and 2017, respectively, though still far from the Central Bank of Russia's (CBR) medium-term target of 4%.

A protracted phase of monetary easing during the first half of 2015, with five consecutive cuts of the key policy rate (from 17% to 11%), was interrupted in September amid renewed concerns over market turbulence and inflationary pressures. CBR's objective to bring foreign-exchange reserves back to the level of mid-2007 (USD 500 bn) testifies of lingering concerns of vulnerabilities to additional shocks.

After deteriorating sharply in 2015, the fiscal position will improve only gradually

The fiscal balance is set to worsen sharply in 2015, amid decreasing revenues, recapitalisation of banks and corporates and some investment expenditure front-loading, with the Reserve Fund being substantially tapped to cover the deficit. Based on the current draft budget, the balance will only slightly improve in 2016 amid increased taxation for the oil and gas sector, whereas (although no detailed plans were yet presented) larger deficit reduction is expected in 2017 to adjust to a prolonged period of low oil price and contain the depletion of fiscal buffers. The decision to temporarily abandon multi-year budgeting reflects greater economic uncertainty/volatility, whereas the suspension of the fiscal rule basing expenditure trends on historical oil prices supports fiscal consolidation amid the oil price collapse.

Risks to the outlook

Downside risks to the outlook are related to protracted geo-political tensions over Ukraine, which might result in further extension of sanctions beyond early 2016.

Table II.38.1:

Main features of country forecast - RUSSIA

	2014			Annual percentage change						
	bn RUB Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	72015.6	100.0	3.8	3.4	1.3	0.6	**-3.7**	**-0.5**	**1.0**
Private Consumption	38031.8	52.8	5.6	7.9	4.7	1.2	**-9.0**	**-1.0**	**1.5**
Public Consumption	13961.5	19.4	1.4	4.6	0.5	-0.1	**0.0**	**0.1**	**0.0**
Gross fixed capital formation	13998.6	19.4	4.4	6.7	-0.2	-2.0	**-10.5**	**-1.5**	**2.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	21427.9	29.8	5.4	1.4	4.2	-0.1	**-4.7**	**1.0**	**2.5**
Imports (goods and services)	16322.1	22.7	8.9	8.8	3.7	-7.9	**-20.0**	**0.3**	**4.0**
GNI (GDP deflator)	69466.6	96.5	3.6	3.2	0.9	0.9	**-3.3**	**-0.3**	**1.2**
Contribution to GDP growth: Domestic demand			4.0	6.0	2.4	0.2	**-6.8**	**-0.8**	**1.1**
Inventories			0.2	-1.0	-1.4	-1.1	**0.0**	**0.0**	**0.0**
Net exports			-0.5	-1.5	0.4	1.7	**3.1**	**0.2**	**-0.1**
Employment			-	0.4	0.6	0.3	**-0.6**	**-0.3**	**-0.2**
Unemployment rate (a)			-	5.6	5.5	5.1	**5.4**	**5.5**	**5.5**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			21.2	7.5	5.9	7.2	**9.4**	**7.0**	**6.0**
Consumer-price index			-	5.1	6.8	7.8	**15.6**	**8.0**	**6.0**
Terms of trade goods			5.1	3.0	-6.7	-4.0	**-14.4**	**-1.0**	**-1.0**
Trade balance (goods) (c)			12.3	9.7	8.7	9.8	**10.6**	**10.1**	**9.4**
Current-account balance (c)			7.5	3.5	1.6	3.1	**4.9**	**4.7**	**4.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			6.7	3.3	1.6	3.1	**4.8**	**4.6**	**4.1**
General government balance (c)			-	2.0	0.2	0.3	**-2.2**	**-2.0**	**-0.8**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	12.7	13.9	17.9	**19.9**	**21.7**	**22.2**

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

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Directorate-General for Economic and Financial Affairs
Unit A4: 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 2015

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Table 1: Gross domestic product, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	2.9	1.8	1.4	1.8	0.2	0.0	1.3	1.3	1.3	1.7	1.1	1.5
Germany	1.9	0.6	1.2	3.7	0.4	0.3	1.6	1.7	1.9	1.9	1.9	2.0
Estonia	6.1	7.1	-0.4	7.6	5.2	1.6	2.9	1.9	2.6	2.6	2.3	2.9
Ireland	10.1	5.3	0.8	2.6	0.2	1.4	5.2	6.0	4.5	3.5	3.6	3.5
Greece	3.7	3.8	-0.3	-9.1	-7.3	-3.2	0.7	-1.4	-1.3	2.7	0.5	2.9
Spain	4.1	3.4	1.1	-1.0	-2.6	-1.7	1.4	3.1	2.7	2.4	2.8	2.6
France	2.9	1.7	0.8	2.1	0.2	0.7	0.2	1.1	1.4	1.7	1.1	1.7
Italy	2.0	0.9	-0.3	0.6	-2.8	-1.7	-0.4	0.9	1.5	1.4	0.6	1.4
Cyprus	3.9	3.6	2.5	0.4	-2.4	-5.9	-2.5	1.2	1.4	2.0	-0.5	1.4
Latvia	5.2	8.2	-0.5	6.2	4.0	3.0	2.8	2.4	3.0	3.3	2.3	3.2
Lithuania	4.7	7.6	1.2	6.0	3.8	3.5	3.0	1.7	2.9	3.4	2.8	3.3
Luxembourg	6.1	3.0	2.5	2.6	-0.8	4.3	4.1	3.1	3.2	3.0	3.4	3.5
Malta	4.5	2.1	2.0	2.1	2.5	2.6	3.5	4.3	3.6	3.1	3.6	3.2
Netherlands	4.3	1.3	1.3	1.7	-1.1	-0.5	1.0	2.0	2.1	2.3	1.6	1.7
Austria	3.0	1.7	1.3	2.8	0.8	0.3	0.4	0.6	1.5	1.4	0.8	1.5
Portugal	4.1	0.9	0.6	-1.8	-4.0	-1.1	0.9	1.7	1.7	1.8	1.6	1.8
Slovenia	4.3	3.6	1.7	0.6	-2.7	-1.1	3.0	2.6	1.9	2.5	2.3	2.1
Slovakia	3.5	5.0	4.8	2.8	1.5	1.4	2.5	3.2	2.9	3.3	3.0	3.4
Finland	5.1	2.6	0.8	2.6	-1.4	-1.1	-0.4	0.3	0.7	1.1	0.3	1.0
Euro area	2.8	1.5	0.8	1.6	-0.9	-0.3	0.9	1.6	1.8	1.9	1.5	1.9
Bulgaria	0.4	5.8	3.1	1.6	0.2	1.3	1.5	1.7	1.5	2.0	1.0	1.3
Czech Republic	1.8	3.9	2.4	2.0	-0.9	-0.5	2.0	4.3	2.2	2.7	2.5	2.6
Denmark	3.0	1.3	0.0	1.2	-0.7	-0.5	1.1	1.6	2.0	1.8	1.8	2.1
Croatia	3.4	4.5	0.5	-0.3	-2.2	-0.9	-0.4	1.1	1.4	1.7	0.3	1.2
Hungary	3.0	4.3	-0.2	1.8	-1.7	1.9	3.7	2.9	2.2	2.5	2.8	2.2
Poland	5.3	3.1	4.7	5.0	1.6	1.3	3.3	3.5	3.5	3.5	3.3	3.4
Romania	-0.3	5.8	2.9	1.1	0.6	3.5	2.8	3.5	4.1	3.6	2.8	3.3
Sweden	3.6	2.6	1.6	2.7	-0.3	1.2	2.3	3.0	2.8	2.7	2.5	2.8
United Kingdom	3.2	2.8	0.4	2.0	1.2	2.2	2.9	2.5	2.4	2.2	2.6	2.4
EU	2.9	1.9	0.9	1.8	-0.5	0.2	1.4	1.9	2.0	2.1	1.8	2.1
USA	4.3	2.5	0.8	1.6	2.2	1.5	2.4	2.6	2.8	2.7	3.1	3.0
Japan	0.8	1.2	0.3	-0.5	1.7	1.6	-0.1	0.7	1.1	0.5	1.1	1.4

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2015-17) 22.10.2015

	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4
Belgium	0.4	0.4	0.3	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.5	0.5
Germany	0.3	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Estonia	-0.6	0.7	0.6	0.6	0.8	0.8	0.8	0.8	0.6	0.6	0.6	0.6
Ireland	2.1	1.9	:	:	:	:	:	:	:	:	:	:
Greece	0.1	0.9	:	:	:	:	:	:	:	:	:	:
Spain	0.9	1.0	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
France	0.7	0.0	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Italy	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.4	0.4	0.4
Cyprus	1.2	0.5	:	:	:	:	:	:	:	:	:	:
Latvia	0.4	1.2	0.4	0.6	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Lithuania	0.7	0.4	0.9	0.6	0.7	0.8	0.6	0.7	0.8	0.8	0.7	0.8
Luxembourg	-0.3	-0.9	1.5	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.8	0.8
Malta	0.8	1.1	:	:	:	:	:	:	:	:	:	:
Netherlands	0.6	0.2	0.2	0.3	0.6	0.7	0.8	0.8	0.6	0.4	0.3	0.3
Austria	0.7	0.1	0.2	0.1	0.4	0.6	0.5	0.5	0.3	0.3	0.3	0.3
Portugal	0.5	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Slovenia	0.7	0.7	0.7	0.6	0.1	0.5	0.5	0.6	0.5	0.7	0.8	0.6
Slovakia	0.8	0.8	1.0	1.1	0.4	0.5	0.7	0.7	0.8	1.0	1.1	0.8
Finland	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Euro area	0.5	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Bulgaria	0.6	0.5	0.3	0.4	0.4	0.3	0.4	0.6	0.4	0.6	0.5	0.6
Czech Republic	2.5	1.1	0.1	0.6	0.0	1.1	0.9	0.7	0.6	0.6	0.5	0.5
Denmark	0.6	0.2	0.2	0.4	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4
Croatia	0.2	0.7	0.3	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Hungary	0.7	0.5	0.9	1.1	0.3	0.4	0.4	0.5	0.7	0.7	0.8	0.6
Poland	1.0	0.9	0.9	0.6	0.9	0.9	1.0	1.0	0.8	0.8	0.8	0.8
Romania	1.4	0.1	-0.1	1.2	1.7	1.1	0.9	0.7	1.1	0.7	0.9	1.0
Sweden	0.6	1.1	0.3	0.5	0.7	0.8	0.8	0.8	0.7	0.6	0.6	0.6
United Kingdom	0.4	0.7	0.5	0.7	0.5	0.6	0.5	0.6	0.5	0.5	0.4	0.6
EU	0.5	0.4	0.4	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.5	0.5
USA	0.2	1.0	0.5	0.8	0.6	0.7	0.7	0.7	0.6	0.7	0.7	0.7
Japan	1.1	-0.3	0.2	0.3	0.2	0.4	0.5	0.4	1.2	-2.0	0.2	0.2

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2015-17) 22.10.2015

	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4
Belgium	1.0	1.3	1.3	1.4	1.2	1.2	1.2	1.4	1.6	1.7	1.7	1.8
Germany	1.1	1.6	1.7	1.5	1.6	1.7	1.9	2.0	2.1	2.1	2.1	2.1
Estonia	1.6	1.9	2.2	1.3	2.7	2.8	3.0	3.1	3.0	2.8	2.6	2.4
Ireland	6.6	7.3	:	:	:	:	:	:	:	:	:	:
Greece	0.6	1.6	:	:	:	:	:	:	:	:	:	:
Spain	2.7	3.1	3.4	3.4	3.1	2.7	2.5	2.4	2.4	2.4	2.4	2.4
France	0.9	1.1	1.1	1.3	1.0	1.5	1.6	1.7	1.7	1.6	1.7	1.7
Italy	0.1	0.6	1.0	1.3	1.3	1.4	1.6	1.7	1.6	1.5	1.5	1.4
Cyprus	0.1	0.8	:	:	:	:	:	:	:	:	:	:
Latvia	2.0	2.7	2.6	2.6	3.1	2.6	3.1	3.4	3.4	3.5	3.6	3.6
Lithuania	1.4	1.4	2.2	2.7	2.6	3.0	2.8	2.8	2.9	3.0	3.1	3.2
Luxembourg	5.3	3.1	3.1	1.0	2.2	3.9	3.2	3.2	3.1	3.0	2.9	3.0
Malta	4.5	4.8	:	:	:	:	:	:	:	:	:	:
Netherlands	2.6	2.2	2.0	1.4	1.4	1.9	2.5	2.9	2.9	2.6	2.1	1.7
Austria	0.3	0.7	0.8	1.2	0.9	1.3	1.6	1.9	1.8	1.5	1.3	1.2
Portugal	1.6	1.6	1.8	1.9	1.8	1.7	1.7	1.6	1.7	1.8	1.9	2.0
Slovenia	2.9	2.5	2.4	2.7	2.1	1.9	1.8	1.8	2.2	2.5	2.7	2.7
Slovakia	2.9	3.1	3.4	3.8	3.4	3.0	2.7	2.3	2.7	3.2	3.6	3.8
Finland	0.0	0.0	0.3	0.6	0.8	0.8	0.7	0.7	0.8	1.0	1.1	1.3
Euro area	1.2	1.5	1.6	1.7	1.6	1.7	1.9	2.0	2.0	2.0	1.9	1.9
Bulgaria	2.3	2.2	2.0	1.8	1.6	1.3	1.5	1.7	1.8	2.1	2.2	2.2
Czech Republic	4.1	4.6	4.2	4.3	1.8	1.8	2.6	2.7	3.3	2.8	2.4	2.2
Denmark	1.8	1.8	1.3	1.4	1.4	1.9	2.3	2.3	2.1	1.8	1.7	1.6
Croatia	0.2	1.4	1.4	1.5	1.5	1.2	1.2	1.5	1.6	1.6	1.7	1.9
Hungary	3.2	2.5	2.8	3.1	2.7	2.7	2.2	1.6	2.0	2.3	2.7	2.9
Poland	3.4	3.6	3.6	3.4	3.2	3.3	3.4	3.8	3.7	3.6	3.5	3.3
Romania	3.8	3.8	2.4	2.7	3.0	4.0	5.0	4.5	3.9	3.5	3.4	3.7
Sweden	2.8	3.3	3.2	2.5	2.6	2.3	2.9	3.2	3.1	2.9	2.7	2.5
United Kingdom	2.7	2.4	2.3	2.3	2.4	2.4	2.3	2.2	2.2	2.0	2.0	2.0
EU	1.7	1.9	1.9	1.9	1.8	1.9	2.1	2.2	2.2	2.1	2.0	2.0
USA	2.9	2.7	2.2	2.5	3.0	2.7	2.9	2.7	2.7	2.7	2.7	2.8
Japan	-0.8	0.9	1.3	1.3	0.4	1.1	1.4	1.5	2.5	0.0	-0.2	-0.4

Table 4: Gross domestic product per capita (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	2.7	1.4	0.6	0.9	-0.5	-0.4	0.9	**0.6**	**0.7**	**1.3**	*0.6*	*1.0*
Germany	1.8	0.5	1.4	3.6	0.2	0.1	1.3	**0.8**	**1.3**	**1.6**	*1.5*	*1.8*
Estonia	6.8	7.8	0.0	7.9	5.5	2.0	3.3	**2.3**	**2.9**	**3.0**	*2.7*	*3.3*
Ireland	8.9	3.4	-1.0	2.2	-0.1	1.2	4.9	**5.4**	**3.4**	**2.6**	*2.8*	*2.6*
Greece	3.2	3.5	-0.6	-9.0	-6.8	-2.5	1.0	**-1.4**	**-1.3**	**2.7**	*0.5*	*2.9*
Spain	3.7	1.9	-0.2	-1.4	-2.7	-1.3	1.6	**3.3**	**2.8**	**2.6**	*3.0*	*2.7*
France	2.4	0.9	0.2	1.6	-0.3	0.2	-0.3	**0.6**	**0.9**	**1.2**	*0.6*	*1.2*
Italy	2.0	0.5	-0.9	0.2	-3.3	-2.2	-0.7	**0.7**	**1.1**	**1.2**	*0.3*	*1.1*
Cyprus	2.6	2.3	0.1	-2.1	-3.9	-5.7	-1.4	**0.8**	**1.0**	**1.6**	*-0.9*	*1.0*
Latvia	6.2	9.4	0.9	8.2	5.3	4.1	3.8	**3.3**	**3.7**	**3.8**	*3.0*	*3.8*
Lithuania	5.4	8.7	2.6	8.5	5.2	4.6	4.0	**2.7**	**4.0**	**4.1**	*3.3*	*3.6*
Luxembourg	4.8	1.7	0.7	0.2	-3.1	1.7	1.6	**1.0**	**1.0**	**0.9**	*1.1*	*1.2*
Malta	3.9	1.4	1.5	1.7	1.8	1.7	2.6	**3.3**	**2.9**	**2.6**	*3.4*	*3.0*
Netherlands	3.7	0.8	0.9	1.2	-1.4	-0.8	0.6	**1.6**	**1.7**	**1.9**	*1.2*	*1.3*
Austria	2.9	1.2	1.0	2.5	0.3	-0.3	-0.4	**-0.4**	**0.8**	**0.8**	*0.2*	*0.8*
Portugal	3.5	0.5	0.5	-1.7	-3.6	-0.6	1.5	**2.3**	**2.2**	**2.3**	*2.2*	*2.4*
Slovenia	4.3	3.5	1.2	0.5	-2.9	-1.2	2.9	**2.5**	**1.7**	**2.4**	*2.2*	*2.0*
Slovakia	3.4	5.0	4.6	3.4	1.4	1.3	2.4	**3.1**	**2.9**	**3.3**	*3.0*	*3.4*
Finland	4.8	2.3	0.4	2.1	-1.9	-1.6	-0.8	**-0.1**	**0.2**	**0.7**	*-0.1*	*0.6*
Euro area	2.5	1.0	0.4	1.3	-1.1	-0.5	0.7	**1.2**	**1.4**	**1.6**	*1.2*	*1.7*
Bulgaria	0.9	7.0	3.6	4.2	0.8	1.8	2.1	**2.4**	**2.2**	**2.7**	*1.7*	*2.0*
Czech Republic	1.9	4.0	1.9	2.2	-1.0	-0.5	1.8	**4.1**	**2.0**	**2.5**	*2.3*	*2.4*
Denmark	2.6	1.0	-0.4	0.7	-1.0	-0.9	0.6	**1.0**	**1.5**	**1.4**	*1.4*	*1.7*
Croatia	4.4	5.0	0.5	0.0	-1.9	-0.7	0.2	**1.3**	**1.6**	**1.9**	*0.5*	*1.4*
Hungary	3.3	4.5	0.0	2.0	-1.2	2.2	4.0	**3.1**	**2.4**	**2.7**	*3.0*	*2.4*
Poland	5.3	3.1	4.5	5.0	1.5	1.3	3.4	**3.5**	**3.5**	**3.5**	*3.3*	*3.4*
Romania	0.0	6.8	4.0	1.6	1.1	3.9	3.0	**3.7**	**4.2**	**3.8**	*3.0*	*3.5*
Sweden	3.5	2.3	0.8	1.9	-1.0	0.4	1.3	**0.9**	**1.3**	**1.0**	*1.3*	*1.5*
United Kingdom	2.9	2.3	-0.4	1.1	0.5	1.5	2.2	**1.8**	**1.4**	**1.4**	*1.9*	*1.8*
EU	2.7	1.6	0.5	1.5	-0.7	0.0	1.1	**1.5**	**1.6**	**1.8**	*1.5*	*1.8*
USA	3.1	1.6	-0.2	0.8	1.5	0.7	1.7	**1.8**	**2.1**	**2.0**	*2.3*	*2.2*
Japan	0.6	1.1	0.3	-0.3	2.0	1.8	0.1	**0.9**	**1.3**	**0.7**	*1.3*	*1.6*

Table 5: Domestic demand, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	2.6	1.4	1.5	2.2	-0.2	-0.7	1.7	**1.7**	**0.6**	**1.6**	*0.7*	*1.2*
Germany	1.7	-0.4	1.1	2.9	-1.0	0.8	1.3	**1.6**	**2.2**	**2.2**	*2.2*	*2.2*
Estonia	7.2	9.0	-1.6	8.7	8.0	2.0	4.1	**1.4**	**3.0**	**3.1**	*3.2*	*3.5*
Ireland	8.9	5.9	-1.3	0.9	0.6	-1.1	5.7	**6.1**	**4.8**	**3.9**	*3.6*	*3.9*
Greece	4.3	3.6	-0.3	-11.1	-9.9	-4.2	0.9	**-2.7**	**-1.6**	**2.5**	*-0.1*	*2.4*
Spain	4.5	4.2	0.4	-3.1	-4.7	-3.1	1.6	**3.5**	**2.8**	**2.4**	*3.3*	*2.8*
France	2.9	1.9	1.1	2.0	-0.3	0.7	0.6	**0.8**	**1.4**	**1.8**	*0.9*	*1.7*
Italy	2.5	1.1	-0.1	-0.6	-5.7	-2.7	-0.6	**0.9**	**1.8**	**1.5**	*0.3*	*1.3*
Cyprus	3.2	4.4	3.7	-3.3	-4.1	-8.4	-1.0	**0.8**	**1.2**	**1.4**	*-0.4*	*1.1*
Latvia	5.4	9.6	-2.2	11.7	1.6	2.2	1.4	**2.5**	**3.1**	**3.7**	*2.5*	*3.6*
Lithuania	5.9	8.8	-0.1	5.7	-0.2	3.2	2.9	**5.2**	**3.4**	**4.3**	*3.7*	*4.3*
Luxembourg	5.9	2.9	1.8	5.7	1.5	0.5	5.6	**1.7**	**2.9**	**2.4**	*2.5*	*2.9*
Malta	3.6	1.3	2.1	-1.7	-0.5	1.0	5.2	**5.8**	**2.3**	**2.7**	*6.1*	*3.6*
Netherlands	4.5	1.0	1.3	0.8	-2.3	-1.8	0.6	**2.2**	**2.5**	**2.6**	*1.6*	*1.8*
Austria	2.3	1.3	1.0	2.9	0.3	-0.4	-0.2	**0.4**	**1.3**	**1.3**	*0.7*	*1.4*
Portugal	5.0	0.7	0.5	-5.7	-7.3	-2.0	2.2	**2.3**	**1.8**	**2.1**	*1.4*	*1.7*
Slovenia	4.6	3.0	1.1	-0.7	-5.8	-2.2	1.6	**1.9**	**1.2**	**2.7**	*1.0*	*1.2*
Slovakia	4.3	5.2	3.2	1.2	-4.2	0.3	3.1	**3.5**	**2.4**	**2.8**	*2.9*	*3.0*
Finland	4.2	2.8	0.9	4.0	-1.2	-1.1	0.0	**0.1**	**0.9**	**1.1**	*0.1*	*0.8*
Euro area	2.8	1.4	0.7	0.7	-2.4	-0.7	0.9	**1.5**	**1.9**	**2.0**	*1.5*	*1.9*
Bulgaria	1.2	8.2	2.1	0.2	2.5	-1.3	2.7	**0.5**	**0.6**	**1.6**	*0.3*	*0.5*
Czech Republic	2.1	3.6	1.9	0.0	-2.3	-0.5	2.3	**4.8**	**2.0**	**2.6**	*2.9*	*2.4*
Denmark	2.7	1.9	0.2	0.7	-0.3	-0.2	1.6	**1.1**	**1.9**	**2.0**	*1.7*	*1.9*
Croatia	2.8	5.9	-0.2	-0.2	-3.3	-0.9	-1.8	**0.2**	**1.3**	**1.7**	*-0.3*	*0.8*
Hungary	3.6	4.1	-1.9	-0.2	-3.1	1.5	4.2	**2.2**	**0.9**	**2.5**	*2.6*	*1.1*
Poland	6.5	2.3	5.1	4.2	-0.5	-0.7	4.9	**3.5**	**3.8**	**3.7**	*4.2*	*3.8*
Romania	0.8	8.1	4.2	1.1	-0.5	-0.1	2.6	**4.3**	**5.5**	**4.5**	*3.0*	*3.7*
Sweden	3.1	1.8	2.0	3.0	-0.6	1.6	3.4	**2.8**	**2.8**	**2.8**	*2.7*	*2.8*
United Kingdom	3.8	3.2	0.2	-0.2	2.3	2.6	3.2	**2.8**	**2.7**	**2.1**	*2.8*	*2.5*
EU	3.0	1.9	0.8	0.7	-1.5	-0.1	1.5	**1.9**	**2.1**	**2.2**	*1.9*	*2.1*
USA	4.9	2.9	0.3	1.6	2.1	1.2	2.5	**3.0**	**3.2**	**3.0**	*3.3*	*3.3*
Japan	0.6	0.8	-0.1	0.4	2.6	1.9	-0.1	**-0.1**	**0.8**	**0.3**	*0.2*	*1.0*

Table 6: Final demand, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	4.4	2.2	1.9	4.2	0.7	0.4	3.4	**2.6**	**2.4**	**3.3**	*2.1*	*3.3*
Germany	3.2	1.2	2.0	4.6	0.2	1.1	2.2	**3.0**	**2.9**	**3.2**	*3.0*	*3.4*
Estonia	6.9	9.8	0.8	15.6	7.2	3.3	3.0	**0.5**	**3.2**	**3.6**	*2.8*	*3.9*
Ireland	13.1	5.9	1.4	1.6	1.5	0.9	9.4	**10.0**	**6.1**	**5.6**	*4.8*	*4.8*
Greece	5.8	3.4	-0.2	-9.2	-7.7	-2.9	2.4	**-2.1**	**-1.0**	**2.9**	*0.9*	*3.0*
Spain	5.6	4.0	0.7	-1.0	-3.4	-1.4	2.5	**3.8**	**3.4**	**3.2**	*3.8*	*3.6*
France	4.0	2.0	1.1	3.0	0.3	0.9	1.0	**2.0**	**2.1**	**2.7**	*1.7*	*2.6*
Italy	2.8	1.2	0.0	0.6	-4.0	-1.9	0.2	**1.7**	**2.2**	**2.2**	*1.1*	*2.2*
Cyprus	3.8	2.7	2.8	-0.9	-3.1	-4.9	-0.8	**1.0**	**1.2**	**1.9**	*-0.4*	*1.3*
Latvia	6.2	9.9	-0.3	11.8	4.5	1.8	2.0	**2.0**	**2.9**	**3.6**	*2.5*	*4.0*
Lithuania	6.6	10.8	2.2	9.3	5.0	6.1	3.0	**3.9**	**3.1**	**4.1**	*3.4*	*5.2*
Luxembourg	8.6	4.5	3.6	5.5	0.6	5.2	6.5	**4.1**	**4.2**	**4.2**	*4.0*	*4.7*
Malta	3.5	1.0	6.8	0.7	4.1	0.3	1.8	**1.6**	**3.2**	**3.8**	*5.2*	*3.2*
Netherlands	6.1	2.0	2.0	2.4	0.5	0.1	2.3	**3.4**	**3.2**	**3.5**	*2.8*	*3.4*
Austria	4.0	2.5	1.5	3.9	0.8	0.0	0.6	**0.7**	**2.1**	**2.1**	*1.2*	*2.3*
Portugal	5.4	1.1	1.1	-2.9	-4.7	0.5	2.7	**3.2**	**2.7**	**3.1**	*2.5*	*3.0*
Slovenia	5.4	4.9	2.4	2.3	-3.1	0.1	3.4	**3.1**	**2.8**	**4.0**	*2.9*	*3.1*
Slovakia	4.3	8.4	4.7	5.8	2.0	3.2	3.3	**4.3**	**3.5**	**4.3**	*3.5*	*4.3*
Finland	6.2	3.1	1.1	3.4	-0.6	-0.5	-0.2	**0.0**	**1.2**	**1.8**	*0.5*	*1.7*
Euro area	4.1	2.1	1.3	2.4	-0.9	0.2	1.9	**2.7**	**2.7**	**3.0**	*2.4*	*3.1*
Bulgaria	0.3	8.6	3.4	4.1	1.9	2.7	1.5	**2.6**	**2.1**	**2.8**	*1.4*	*2.0*
Czech Republic	3.8	6.8	3.7	3.8	0.5	-0.3	5.3	**5.7**	**3.8**	**4.3**	*4.7*	*4.6*
Denmark	4.0	2.4	0.7	3.0	-0.1	0.2	2.0	**1.1**	**2.8**	**2.7**	*2.2*	*2.9*
Croatia	4.0	6.2	-0.1	0.5	-2.4	0.3	0.6	**3.0**	**2.2**	**2.6**	*1.0*	*2.1*
Hungary	7.9	6.4	2.2	2.9	-2.5	3.9	5.8	**5.0**	**4.3**	**5.3**	*4.9*	*4.3*
Poland	7.5	3.4	5.8	5.2	1.0	1.4	5.4	**4.2**	**4.5**	**4.5**	*4.9*	*4.7*
Romania	2.7	9.1	4.3	3.6	-0.1	5.1	4.1	**4.9**	**5.3**	**4.8**	*3.9*	*4.3*
Sweden	4.9	2.7	2.0	4.0	-0.1	0.8	3.4	**3.0**	**3.2**	**3.3**	*3.1*	*3.6*
United Kingdom	4.3	3.4	0.5	1.1	1.9	2.3	2.9	**2.7**	**2.8**	**2.6**	*2.6*	*2.6*
EU	4.2	2.5	1.3	2.4	-0.4	0.6	2.3	**2.8**	**2.8**	**3.0**	*2.6*	*3.1*
USA	5.1	2.8	0.7	2.1	2.2	1.4	2.6	**2.8**	**3.2**	**3.1**	*3.3*	*3.4*
Japan	1.1	1.4	0.3	0.3	2.2	1.8	1.1	**0.3**	**1.2**	**0.8**	*1.2*	*1.8*

Table 7: Private consumption expenditure, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	2.3	0.9	1.6	0.3	0.6	0.9	0.4	**2.0**	**0.7**	**1.0**	*1.2*	*0.9*
Germany	1.6	0.4	0.5	1.3	1.0	0.6	0.9	**1.9**	**1.9**	**1.8**	*2.4*	*1.8*
Estonia	7.8	8.4	-0.5	3.7	4.4	3.8	3.5	**5.2**	**3.2**	**2.8**	*4.8*	*4.3*
Ireland	8.3	4.4	1.5	-0.5	-1.0	0.1	2.1	**2.9**	**2.5**	**2.0**	*2.1*	*1.9*
Greece	3.6	4.0	0.4	-9.7	-8.0	-2.3	0.5	**-1.3**	**-1.7**	**1.7**	*0.6*	*2.4*
Spain	3.8	3.4	0.6	-2.4	-3.5	-3.1	1.2	**3.4**	**2.7**	**2.1**	*3.5*	*2.8*
France	2.7	2.1	1.4	0.5	-0.2	0.4	0.6	**1.7**	**1.7**	**1.4**	*1.6*	*1.5*
Italy	2.5	0.8	0.2	0.0	-3.9	-2.7	0.4	**0.8**	**1.4**	**0.7**	*0.6*	*0.6*
Cyprus	4.4	4.2	3.7	0.5	-0.8	-5.9	0.6	**1.3**	**1.3**	**1.2**	*0.2*	*1.1*
Latvia	3.4	7.9	0.9	3.0	3.2	5.1	2.6	**3.1**	**3.7**	**3.9**	*3.3*	*3.9*
Lithuania	5.7	8.8	0.3	4.6	3.6	4.3	4.1	**4.9**	**4.0**	**3.8**	*3.8*	*4.3*
Luxembourg	4.2	2.3	1.9	2.2	2.7	0.9	3.7	**0.7**	**3.3**	**1.8**	*2.4*	*2.7*
Malta	4.9	2.1	1.0	3.0	-0.2	1.9	2.9	**3.2**	**2.9**	**2.2**	*3.0*	*2.7*
Netherlands	4.8	0.9	0.1	0.2	-1.2	-1.4	0.0	**1.7**	**2.1**	**2.4**	*1.6*	*1.7*
Austria	2.3	1.7	1.1	1.3	0.6	0.1	0.0	**0.3**	**1.0**	**1.0**	*0.6*	*1.0*
Portugal	4.1	1.2	1.1	-3.6	-5.5	-1.2	2.2	**2.6**	**1.7**	**1.8**	*2.0*	*1.6*
Slovenia	3.3	2.7	2.4	0.0	-2.5	-4.1	0.7	**1.8**	**2.3**	**2.3**	*0.7*	*1.3*
Slovakia	4.9	4.9	3.8	-0.6	-0.4	-0.8	2.3	**2.2**	**2.9**	**3.0**	*2.4*	*2.7*
Finland	3.5	3.3	2.0	2.9	0.3	-0.3	0.5	**0.7**	**0.5**	**0.6**	*0.4*	*0.6*
Euro area	2.6	1.5	0.8	0.0	-1.2	-0.7	0.8	**1.7**	**1.7**	**1.5**	*1.8*	*1.6*
Bulgaria	-0.7	7.4	3.9	1.0	3.3	-1.4	2.7	**0.7**	**1.4**	**1.7**	*1.0*	*1.5*
Czech Republic	2.8	3.4	2.2	0.3	-1.5	0.7	1.5	**3.0**	**2.8**	**2.6**	*2.1*	*2.3*
Denmark	1.6	2.3	0.5	0.2	0.4	0.0	0.7	**1.9**	**2.0**	**2.1**	*1.8*	*2.1*
Croatia	2.4	4.8	0.3	0.3	-3.0	-1.2	-0.7	**0.8**	**1.1**	**1.4**	*0.1*	*0.5*
Hungary	2.8	5.2	-1.7	0.8	-2.2	0.3	1.8	**3.2**	**3.1**	**3.0**	*3.0*	*2.7*
Poland	5.8	2.8	4.6	3.1	0.7	0.2	2.5	**3.4**	**3.4**	**3.5**	*3.4*	*3.6*
Romania	1.2	9.9	4.6	0.8	1.2	0.7	6.2	**4.3**	**6.7**	**4.4**	*3.5*	*3.8*
Sweden	3.4	2.2	2.2	1.9	0.8	1.9	2.2	**2.3**	**2.5**	**2.6**	*2.6*	*2.6*
United Kingdom	4.7	3.6	0.2	0.1	1.8	1.9	2.6	**2.9**	**2.6**	**2.3**	*2.6*	*2.6*
EU	3.0	2.1	0.8	0.2	-0.6	-0.1	1.3	**2.1**	**2.0**	**1.8**	*2.1*	*1.9*
USA	4.6	3.1	1.0	2.3	1.5	1.7	2.7	**3.2**	**2.9**	**2.5**	*3.2*	*3.0*
Japan	0.8	1.2	0.6	0.3	2.3	2.1	-1.3	**-0.7**	**0.8**	**-0.1**	*0.2*	*1.2*

Table 8: Government consumption expenditure, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	1.9	1.5	1.6	1.3	1.5	-0.1	0.6	**0.3**	**0.4**	**0.7**	*0.1*	*0.4*
Germany	1.6	0.4	2.0	0.9	1.3	0.8	1.7	**2.1**	**2.0**	**2.0**	*1.6*	*1.4*
Estonia	-1.6	3.3	2.5	1.3	3.6	1.5	3.0	**1.4**	**1.5**	**2.0**	*2.2*	*2.0*
Ireland	6.3	5.2	1.1	-2.2	-1.2	0.0	4.0	**2.6**	**1.9**	**2.2**	*1.7*	*2.9*
Greece	2.3	3.7	1.5	-7.0	-6.0	-6.5	-2.6	**-0.2**	**-1.0**	**-0.9**	*-0.6*	*-0.3*
Spain	3.1	4.9	4.5	-0.3	-4.5	-2.8	0.0	**0.8**	**0.2**	**0.6**	*0.4*	*0.3*
France	1.2	1.7	1.6	1.0	1.6	1.7	1.5	**1.1**	**0.7**	**0.5**	*0.8*	*0.8*
Italy	1.4	1.7	0.4	-1.8	-1.4	-0.3	-0.7	**0.0**	**0.1**	**1.0**	*-0.5*	*0.7*
Cyprus	6.8	4.4	4.0	1.3	-3.7	-4.1	-9.0	**-2.1**	**-0.9**	**0.2**	*-0.9*	*-0.8*
Latvia	1.3	4.0	-1.6	3.0	0.3	1.6	4.9	**3.0**	**2.0**	**2.0**	*2.2*	*2.0*
Lithuania	0.9	2.9	-0.1	0.2	1.3	1.0	1.3	**1.3**	**1.4**	**2.0**	*2.3*	*2.4*
Luxembourg	4.8	4.5	2.3	1.1	3.6	3.9	4.5	**4.3**	**2.1**	**2.3**	*2.9*	*2.9*
Malta	1.5	1.0	3.1	3.8	6.3	0.2	7.5	**2.1**	**4.0**	**5.5**	*1.5*	*3.7*
Netherlands	2.3	2.6	4.2	-0.2	-1.3	0.1	0.3	**-0.3**	**0.4**	**1.0**	*-0.5*	*0.0*
Austria	2.1	1.1	2.2	0.0	0.2	0.6	0.8	**0.8**	**0.5**	**0.6**	*1.1*	*0.6*
Portugal	4.0	2.7	0.4	-3.8	-3.3	-2.0	-0.5	**0.5**	**0.3**	**0.4**	*-0.3*	*0.2*
Slovenia	3.8	2.8	2.4	-0.7	-2.3	-1.5	-0.1	**0.7**	**1.3**	**1.5**	*-1.5*	*2.0*
Slovakia	3.1	3.4	4.8	-1.7	-2.6	2.2	5.9	**3.1**	**1.3**	**2.6**	*2.4*	*2.8*
Finland	2.1	1.9	1.1	-0.1	0.5	0.8	-0.2	**-0.1**	**-0.1**	**-0.1**	*0.1*	*0.1*
Euro area	1.8	1.8	2.0	-0.1	-0.2	0.2	0.9	**1.0**	**0.8**	**1.1**	*0.6*	*0.8*
Bulgaria	-0.9	3.7	-1.3	1.9	-0.5	2.2	0.1	**0.1**	**1.2**	**1.3**	*0.1*	*1.1*
Czech Republic	0.6	3.3	1.1	-3.0	-1.8	2.3	1.8	**2.8**	**2.2**	**1.9**	*2.2*	*1.7*
Denmark	2.6	1.4	2.3	-1.4	-0.2	-0.5	0.2	**1.2**	**0.3**	**0.3**	*0.9*	*0.2*
Croatia	0.6	2.0	2.3	-0.3	-1.0	0.5	-1.9	**0.3**	**0.6**	**1.1**	*0.0*	*0.9*
Hungary	-0.2	3.9	-0.3	0.2	-1.5	2.4	2.9	**0.1**	**-0.3**	**1.0**	*0.9*	*-0.5*
Poland	3.7	3.4	4.1	-1.8	-0.4	2.2	4.9	**4.1**	**3.1**	**2.6**	*4.2*	*3.3*
Romania	1.1	-0.9	0.1	0.6	0.4	-4.6	5.0	**1.9**	**2.9**	**2.8**	*0.7*	*2.5*
Sweden	0.8	0.6	1.4	0.8	1.1	1.3	1.6	**2.6**	**2.6**	**2.2**	*1.8*	*1.7*
United Kingdom	1.6	3.5	1.4	0.1	1.8	0.5	1.9	**1.8**	**0.0**	**-0.2**	*0.4*	*-0.2*
EU	1.8	2.1	1.9	-0.1	0.1	0.3	1.2	**1.3**	**0.8**	**1.0**	*0.8*	*0.8*
USA	1.7	2.3	1.8	-2.7	-0.9	-2.5	-0.5	**0.4**	**1.3**	**1.9**	*0.9*	*1.3*
Japan	2.6	2.2	1.0	1.2	1.7	1.9	0.2	**1.0**	**0.7**	**0.9**	*0.5*	*-0.2*

Table 9: Total investment, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	3.6	2.3	0.5	4.2	0.2	-1.7	7.0	**2.1**	**0.5**	**3.7**	*0.0*	*2.7*
Germany	2.2	-1.8	1.5	7.2	-0.4	-1.3	3.5	**2.6**	**3.1**	**3.6**	*2.1*	*4.4*
Estonia	11.9	14.8	-6.2	34.4	6.7	3.2	-3.1	**-3.9**	**4.1**	**4.9**	*1.0*	*3.2*
Ireland	12.9	9.1	-7.8	3.2	8.6	-6.6	14.3	**16.8**	**11.9**	**8.8**	*9.8*	*9.9*
Greece	8.9	1.8	-2.3	-20.5	-23.5	-9.4	-2.8	**-10.2**	**-2.0**	**14.7**	*-3.1*	*7.2*
Spain	7.1	5.8	-3.2	-6.9	-7.1	-2.5	3.5	**6.3**	**5.4**	**4.8**	*5.5*	*5.1*
France	4.4	1.9	0.5	2.1	0.2	-0.6	-1.2	**-1.3**	**0.7**	**4.5**	*-0.6*	*3.0*
Italy	3.7	2.1	-1.9	-1.9	-9.3	-6.6	-3.5	**1.2**	**4.0**	**4.8**	*1.1*	*4.1*
Cyprus	-0.6	5.1	3.1	-9.3	-20.5	-15.2	-18.0	**2.2**	**3.6**	**4.0**	*-3.6*	*3.6*
Latvia	20.8	14.6	-7.3	24.1	14.4	-6.0	0.3	**0.5**	**2.3**	**4.5**	*0.5*	*4.4*
Lithuania	10.1	13.0	-2.7	20.1	-1.8	8.3	5.4	**9.8**	**2.4**	**7.0**	*4.3*	*5.8*
Luxembourg	7.4	3.1	2.3	17.2	-0.3	-7.2	9.9	**1.1**	**3.0**	**3.5**	*2.4*	*3.0*
Malta	0.6	3.4	1.9	-18.3	4.5	-0.7	9.1	**17.1**	**-1.0**	**1.1**	*19.9*	*5.6*
Netherlands	6.2	-0.5	0.2	5.6	-6.3	-4.4	3.5	**8.8**	**4.7**	**4.6**	*4.5*	*4.2*
Austria	3.1	0.1	-0.5	6.7	1.3	-0.3	-0.2	**-0.1**	**2.6**	**2.7**	*0.9*	*3.2*
Portugal	8.2	-1.9	-1.2	-12.5	-16.6	-5.1	2.8	**5.6**	**3.9**	**5.5**	*3.5*	*4.0*
Slovenia	8.7	3.4	-2.2	-4.9	-8.8	1.7	3.2	**1.9**	**-1.8**	**5.1**	*4.3*	*0.3*
Slovakia	3.8	5.9	1.0	12.7	-9.2	-1.1	3.5	**7.5**	**2.2**	**2.3**	*4.6*	*3.7*
Finland	8.4	1.9	-0.2	4.1	-2.2	-5.2	-3.3	**-2.0**	**3.1**	**3.6**	*-1.0*	*2.5*
Euro area	4.2	1.3	-0.6	1.6	-3.3	-2.6	1.3	**2.3**	**3.0**	**4.4**	*1.7*	*4.0*
Bulgaria	6.4	16.1	1.1	-4.4	1.8	0.3	3.4	**0.2**	**-2.4**	**1.7**	*-1.7*	*-2.9*
Czech Republic	1.7	4.0	2.3	1.1	-3.2	-2.7	2.0	**7.6**	**0.0**	**3.3**	*5.0*	*2.5*
Denmark	6.0	1.5	-1.6	0.3	0.6	0.9	4.0	**0.7**	**3.7**	**4.1**	*2.7*	*3.7*
Croatia	10.0	10.3	-1.3	-2.7	-3.3	-1.0	-4.0	**0.8**	**2.4**	**3.0**	*-1.8*	*1.6*
Hungary	7.7	4.6	-2.5	-1.3	-4.4	7.3	11.2	**2.2**	**-3.2**	**2.5**	*4.6*	*-1.0*
Poland	12.8	-0.3	7.4	8.8	-1.8	-1.1	9.8	**6.5**	**5.5**	**5.5**	*6.9*	*5.0*
Romania	1.4	10.7	5.7	2.9	0.1	-5.4	-7.2	**6.2**	**3.9**	**6.0**	*3.2*	*4.2*
Sweden	5.6	2.7	1.8	5.7	-0.2	0.6	7.6	**4.3**	**3.6**	**3.7**	*4.1*	*4.5*
United Kingdom	3.2	2.0	-1.6	2.0	1.5	2.6	7.5	**4.9**	**5.9**	**4.8**	*5.6*	*5.5*
EU	4.2	1.6	-0.4	1.9	-2.5	-1.7	2.6	**2.9**	**3.5**	**4.4**	*2.6*	*4.2*
USA	7.7	2.6	-3.3	3.7	6.3	2.4	4.1	**4.1**	**5.5**	**5.3**	*5.6*	*5.9*
Japan	-0.6	-1.1	-2.7	1.4	3.4	3.2	2.6	**0.5**	**0.9**	**0.7**	*-0.1*	*1.7*

Table 10: Investment in construction, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	0.3	1.7	1.4	4.3	3.4	-4.0	4.1	**1.7**	**1.8**	**3.2**	*1.7*	*2.5*
Germany	-1.4	-4.1	0.7	8.1	0.5	-1.1	2.9	**1.3**	**2.4**	**2.6**	*2.3*	*3.1*
Estonia	10.3	16.4	-8.2	33.0	-6.6	-2.8	-2.4	**3.6**	**4.1**	**4.7**	*1.8*	*1.3*
Ireland	12.7	7.8	-14.7	-15.1	-1.3	12.4	9.7	**9.3**	**10.4**	**9.5**	*9.4*	*8.5*
Greece	5.3	1.2	-5.6	-16.8	-16.3	-16.1	-16.4	**-9.2**	**-0.8**	**15.7**	*-7.9*	*6.3*
Spain	5.5	6.6	-4.9	-11.7	-8.3	-7.1	-0.2	**5.3**	**4.2**	**4.5**	*4.3*	*3.9*
France	2.8	2.4	-0.3	1.8	-1.7	-0.9	-3.1	**-4.0**	**-0.9**	**3.3**	*-2.5*	*1.3*
Italy	1.9	3.2	-2.9	-3.7	-9.3	-7.4	-5.0	**-0.5**	**2.2**	**3.1**	*-0.6*	*2.8*
Cyprus	0.0	8.3	0.4	-8.9	-18.3	-21.0	-12.8	**-1.2**	**1.4**	**1.7**	*-3.2*	*2.8*
Latvia	15.0	16.7	-6.4	14.0	20.0	-10.3	3.8	**:**	**:**	**:**	*:*	*:*
Lithuania	2.9	11.3	-2.7	14.5	-4.4	8.0	7.9	**10.8**	**8.0**	**5.0**	*5.2*	*5.0*
Luxembourg	5.5	2.7	1.6	9.9	-9.5	-1.0	5.1	**4.9**	**4.6**	**3.8**	*4.8*	*3.2*
Malta	:	8.0	-2.8	-24.1	16.7	-4.9	17.6	**:**	**:**	**:**	*:*	*:*
Netherlands	4.0	-0.3	-1.5	1.6	-10.6	-6.6	4.3	**11.1**	**5.2**	**4.5**	*4.0*	*3.6*
Austria	0.8	-0.4	-2.4	2.7	2.2	-2.1	-1.0	**-0.8**	**1.8**	**2.0**	*0.5*	*2.4*
Portugal	6.9	-2.5	-4.1	-10.3	-20.0	-12.1	-3.0	**3.4**	**2.4**	**3.3**	*1.5*	*1.7*
Slovenia	8.1	1.5	-3.5	-18.2	-6.5	-7.8	12.1	**1.1**	**-9.3**	**5.2**	*6.9*	*-5.0*
Slovakia	4.3	1.7	1.2	5.5	-8.8	4.1	-3.9	**4.0**	**-0.6**	**1.5**	*1.8*	*0.9*
Finland	9.2	2.0	0.0	5.1	-5.6	-4.4	-4.5	**-0.3**	**3.6**	**4.0**	*-1.1*	*2.2*
Euro area	:	1.3	-1.9	-0.2	-4.2	-3.5	-0.5	**0.7**	**2.0**	**3.4**	*0.9*	*2.7*
Bulgaria	:	11.8	8.1	-20.6	9.5	-0.5	-4.1	**0.3**	**-6.0**	**0.2**	*-1.8*	*-8.6*
Czech Republic	-3.6	3.7	0.9	-3.8	-3.2	-5.0	2.2	**10.8**	**-3.3**	**3.7**	*6.0*	*1.2*
Denmark	5.5	1.9	-5.4	8.0	-6.8	-1.8	5.2	**0.0**	**1.7**	**2.3**	*1.9*	*1.7*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	3.1	5.7	-5.3	-7.8	-8.4	10.9	11.0	**1.3**	**-3.2**	**3.2**	*4.5*	*-1.4*
Poland	10.8	-0.3	7.8	8.3	-0.8	-5.5	17.3	**6.2**	**5.6**	**5.6**	*6.3*	*4.2*
Romania	-3.4	10.8	8.7	-4.3	15.2	-15.0	-2.9	**6.4**	**2.7**	**6.3**	*3.7*	*4.0*
Sweden	1.6	4.7	1.5	1.1	-0.3	-1.3	15.1	**7.7**	**4.5**	**3.5**	*6.6*	*3.8*
United Kingdom	5.2	2.3	-3.3	3.6	0.1	4.9	9.1	**-0.1**	**3.7**	**4.3**	*5.9*	*5.6*
EU	2.3	1.6	-1.8	0.4	-3.2	-2.5	1.9	**1.1**	**2.4**	**3.7**	*2.1*	*3.2*
USA	4.8	1.7	-8.0	-1.1	6.9	2.6	3.6	**5.8**	**6.2**	**4.8**	*5.7*	*5.4*
Japan	-3.0	-4.6	-3.9	-0.4	2.9	3.8	:	**:**	**:**	**:**	*:*	*:*

Table 11: Investment in equipment, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	7.1	1.5	-1.6	3.5	-4.7	-0.1	10.4	**1.9**	**2.5**	**4.2**	*-2.9*	*3.4*
Germany	7.2	-0.2	1.6	6.8	-2.6	-2.3	4.5	**4.6**	**3.5**	**4.5**	*2.1*	*6.2*
Estonia	14.1	12.7	-6.2	41.5	31.2	8.3	-5.9	**-14.0**	**4.0**	**4.9**	*0.3*	*5.3*
Ireland	13.7	7.8	-2.1	14.4	10.3	-8.1	27.2	**17.0**	**14.0**	**11.0**	*10.0*	*11.0*
Greece	18.6	2.2	2.0	-25.2	-36.5	-0.6	18.7	**-9.3**	**-3.0**	**15.0**	*2.7*	*8.0*
Spain	10.7	3.3	-1.5	0.8	-8.5	4.0	10.6	**9.6**	**8.2**	**6.2**	*8.8*	*7.9*
France	7.8	0.3	0.2	1.4	2.1	-1.5	1.2	**1.1**	**2.2**	**5.7**	*0.7*	*5.2*
Italy	5.4	1.1	-1.0	0.2	-13.6	-7.3	-2.9	**4.5**	**6.5**	**7.3**	*3.0*	*5.4*
Cyprus	-1.1	-1.7	8.4	-16.4	-26.1	-15.1	-43.5	**8.0**	**4.4**	**5.0**	*-3.2*	*4.4*
Latvia	27.2	13.4	-10.6	45.5	12.0	-5.4	-4.5	**:**	**:**	**:**	*:*	*:*
Lithuania	18.8	16.8	-6.4	36.4	2.1	12.5	3.0	**8.0**	**-8.3**	**11.2**	*2.7*	*7.3*
Luxembourg	7.2	5.4	2.9	29.3	23.6	-14.7	18.3	**-4.2**	**1.0**	**3.5**	*-0.5*	*3.1*
Malta	:	-3.1	4.5	-17.2	-8.8	4.8	0.9	**:**	**:**	**:**	*:*	*:*
Netherlands	8.3	-2.2	1.8	17.0	-5.0	-4.0	0.9	**7.7**	**5.4**	**4.6**	*5.2*	*5.6*
Austria	4.7	-0.6	-0.3	10.1	0.7	-0.1	1.3	**1.5**	**4.2**	**4.0**	*1.4*	*5.2*
Portugal	12.0	-1.9	1.7	-23.5	-17.0	8.1	15.3	**13.5**	**8.5**	**10.8**	*7.6*	*8.5*
Slovenia	10.9	6.0	-3.2	13.7	-12.2	12.6	-4.5	**3.6**	**5.9**	**6.2**	*2.6*	*5.9*
Slovakia	3.0	9.9	-0.8	34.5	-10.9	-9.4	17.0	**11.5**	**4.4**	**3.4**	*8.3*	*6.7*
Finland	5.6	1.1	-2.0	11.5	10.2	-8.6	-0.2	**-0.9**	**4.7**	**4.1**	*-1.5*	*4.8*
Euro area	:	0.8	0.1	3.9	-4.9	-2.4	4.1	**4.6**	**4.6**	**5.7**	*2.9*	*6.0*
Bulgaria	:	21.2	-8.3	26.7	-5.5	1.2	13.9	**0.1**	**2.0**	**3.0**	*-1.5*	*4.5*
Czech Republic	6.8	4.2	4.1	4.2	-6.1	-0.2	3.8	**6.0**	**3.0**	**4.0**	*4.9*	*4.2*
Denmark	5.1	-0.1	-1.0	-6.3	11.2	7.2	4.6	**1.8**	**5.5**	**5.7**	*3.7*	*5.5*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	13.2	2.9	-0.8	6.4	3.5	3.1	17.0	**3.0**	**-3.2**	**2.0**	*4.5*	*1.0*
Poland	14.7	-0.1	6.4	11.7	-5.0	5.5	-0.9	**7.1**	**5.5**	**5.5**	*7.0*	*6.0*
Romania	6.0	11.8	0.4	19.6	-2.7	4.8	-2.0	**6.0**	**5.0**	**5.8**	*4.0*	*4.9*
Sweden	8.0	2.9	1.9	12.4	2.8	0.1	-0.1	**1.7**	**3.1**	**3.7**	*1.3*	*4.5*
United Kingdom	6.2	0.1	-0.7	-0.9	3.0	-2.8	7.1	**12.8**	**9.4**	**5.9**	*4.8*	*5.2*
EU	7.5	1.0	0.3	4.2	-3.6	-1.6	4.1	**5.4**	**5.1**	**5.6**	*3.3*	*5.7*
USA	10.3	2.5	-0.3	10.3	8.8	2.2	5.0	**1.8**	**4.5**	**6.2**	*5.6*	*6.6*
Japan	1.5	2.0	-2.2	4.4	3.5	2.4	:	**:**	**:**	**:**	*:*	*:*

Table 12: Public investment (as a percentage of GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	2.3	2.1	2.1	2.4	2.5	2.4	2.4	**2.4**	**2.4**	**2.5**	*2.3*	*2.3*
Germany	2.4	2.1	2.1	2.3	2.3	2.2	2.2	**2.1**	**2.1**	**2.2**	*2.2*	*2.2*
Estonia	4.8	4.9	5.7	4.9	6.2	5.5	5.0	**5.6**	**5.5**	**5.5**	*5.3*	*5.0*
Ireland	2.9	3.8	4.1	2.4	2.1	1.8	2.0	**2.0**	**2.0**	**1.9**	*2.0*	*2.1*
Greece	:	:	5.1	2.4	2.5	3.4	3.9	**4.0**	**3.8**	**3.6**	*3.6*	*3.5*
Spain	3.7	4.0	4.7	3.7	2.5	2.2	2.1	**2.3**	**2.1**	**2.1**	*2.0*	*1.9*
France	3.9	3.9	4.0	4.0	4.1	4.0	3.7	**3.5**	**3.5**	**3.4**	*3.3*	*3.1*
Italy	2.8	2.9	3.0	2.8	2.6	2.4	2.2	**2.2**	**2.2**	**2.1**	*2.1*	*2.1*
Cyprus	3.9	3.6	3.5	3.7	2.6	2.0	1.8	**1.9**	**2.1**	**2.2**	*1.8*	*2.0*
Latvia	2.0	2.6	5.1	5.0	4.9	4.4	4.4	**4.3**	**3.7**	**4.0**	*4.0*	*3.7*
Lithuania	2.4	3.1	4.9	4.7	4.0	3.7	3.5	**3.9**	**3.6**	**3.6**	*3.5*	*3.5*
Luxembourg	4.0	4.6	4.0	4.2	4.1	3.5	3.5	**3.9**	**4.1**	**4.3**	*4.2*	*4.1*
Malta	4.0	4.1	3.0	2.8	3.2	2.8	3.8	**3.9**	**2.6**	**2.7**	*3.8*	*2.7*
Netherlands	3.7	4.0	4.0	4.0	3.7	3.6	3.5	**3.3**	**3.1**	**3.1**	*3.5*	*3.4*
Austria	3.0	2.5	3.1	3.0	2.9	3.0	3.0	**3.0**	**2.9**	**2.9**	*2.9*	*2.9*
Portugal	5.0	4.5	3.9	3.5	2.5	2.2	2.0	**2.1**	**2.0**	**2.3**	*2.3*	*2.2*
Slovenia	3.8	3.8	4.7	4.1	4.1	4.4	5.2	**5.6**	**3.7**	**3.6**	*5.5*	*4.2*
Slovakia	4.6	3.5	3.5	3.7	3.0	3.1	3.6	**4.3**	**2.8**	**2.8**	*4.1*	*3.0*
Finland	4.0	3.7	3.6	3.8	4.0	4.1	4.1	**3.9**	**3.9**	**3.9**	*4.1*	*4.1*
Euro area	:	:	3.4	3.1	2.9	2.8	2.7	**2.7**	**2.6**	**2.6**	*2.6*	*2.5*
Bulgaria	2.7	3.5	4.9	3.4	3.4	4.1	5.2	**5.4**	**4.7**	**4.7**	*4.8*	*4.0*
Czech Republic	4.3	4.9	4.9	4.5	4.2	3.7	4.2	**5.2**	**4.1**	**4.2**	*4.5*	*3.8*
Denmark	2.8	2.8	3.1	3.3	3.9	3.7	3.9	**3.7**	**3.5**	**3.4**	*3.8*	*3.7*
Croatia	:	6.0	5.2	3.5	3.5	3.7	3.7	**3.6**	**3.7**	**3.6**	*3.4*	*3.5*
Hungary	3.1	4.2	4.0	3.4	3.7	4.4	5.5	**5.3**	**4.4**	**4.2**	*4.9*	*3.4*
Poland	2.9	2.9	4.8	5.8	4.7	4.1	4.5	**4.4**	**4.4**	**4.6**	*4.6*	*4.5*
Romania	2.7	3.0	6.0	5.4	4.8	4.5	4.3	**4.9**	**3.7**	**3.6**	*4.3*	*4.0*
Sweden	4.4	4.2	4.3	4.4	4.6	4.5	4.5	**4.4**	**4.4**	**4.4**	*4.5*	*4.4*
United Kingdom	1.8	2.1	3.0	3.0	2.8	2.6	2.7	**2.7**	**2.7**	**2.7**	*2.8*	*2.8*
EU	:	:	3.4	3.3	3.1	3.0	2.9	**2.9**	**2.8**	**2.8**	*2.9*	*2.8*
USA	3.6	3.8	4.0	3.9	3.6	3.3	3.2	**3.4**	**3.3**	**3.3**	*3.3*	*3.3*
Japan	5.6	4.3	3.2	3.1	3.1	3.5	3.7	**3.6**	**3.4**	**3.5**	*3.4*	*3.0*

Table 13: Potential GDP, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	2.4	2.1	1.6	1.4	1.0	0.8	1.0	**1.2**	**1.2**	**1.2**	*0.9*	*1.0*
Germany	1.6	1.4	1.0	1.1	1.2	1.2	1.4	**1.7**	**1.8**	**1.7**	*1.6*	*1.6*
Estonia	3.9	5.5	2.4	1.8	1.9	2.4	2.6	**2.7**	**2.7**	**2.3**	*2.6*	*2.5*
Ireland	8.9	5.9	1.9	0.5	1.1	1.7	2.8	**3.7**	**4.4**	**4.5**	*2.8*	*3.6*
Greece	3.5	3.9	0.4	-3.1	-3.6	-3.5	-2.9	**-2.7**	**-2.4**	**-1.9**	*-2.6*	*-2.2*
Spain	2.8	3.5	2.5	0.4	-0.5	-0.8	-0.4	**0.0**	**0.4**	**0.7**	*0.0*	*0.5*
France	2.0	1.8	1.4	1.0	0.9	0.9	0.9	**1.0**	**1.1**	**1.2**	*1.0*	*1.1*
Italy	1.7	1.3	0.2	0.0	-1.1	-0.8	-0.7	**-0.3**	**0.0**	**0.2**	*-0.2*	*-0.1*
Cyprus	:	3.5	2.7	1.0	-0.5	-2.3	-1.9	**-1.6**	**-1.1**	**-0.7**	*-1.8*	*-1.3*
Latvia	:	7.1	3.1	-1.2	0.3	0.8	1.5	**2.2**	**2.7**	**3.4**	*2.2*	*2.9*
Lithuania	:	5.9	3.8	0.8	1.2	1.8	2.0	**2.4**	**2.6**	**2.9**	*3.0*	*3.3*
Luxembourg	4.6	4.3	2.8	2.3	2.5	2.1	2.9	**2.6**	**2.7**	**2.8**	*2.1*	*2.3*
Malta	3.6	2.5	2.3	1.8	2.4	2.7	3.0	**3.6**	**3.4**	**3.3**	*3.6*	*3.6*
Netherlands	3.5	2.2	1.4	0.7	0.4	0.2	0.5	**0.9**	**1.1**	**1.3**	*0.6*	*0.8*
Austria	2.5	2.2	1.4	0.9	0.9	0.9	0.9	**0.8**	**0.9**	**1.0**	*0.8*	*1.0*
Portugal	3.3	1.8	0.5	-0.5	-1.2	-0.9	-0.4	**0.1**	**0.5**	**0.8**	*-0.4*	*0.0*
Slovenia	:	3.3	2.5	0.1	-0.2	-0.3	0.5	**0.7**	**0.8**	**1.1**	*0.8*	*0.9*
Slovakia	:	4.4	4.8	3.4	2.5	2.1	2.0	**2.4**	**2.5**	**2.7**	*2.5*	*2.7*
Finland	3.8	3.2	1.3	0.2	0.0	-0.1	-0.1	**-0.1**	**0.1**	**0.5**	*0.1*	*0.1*
Euro area	:	2.0	1.2	0.7	0.3	0.3	0.5	**0.8**	**1.0**	**1.1**	*0.8*	*0.9*
Bulgaria	1.5	5.2	3.6	0.2	0.4	0.9	1.7	**1.9**	**1.9**	**2.0**	*1.9*	*1.8*
Czech Republic	:	3.4	3.2	1.1	0.5	0.6	1.3	**2.0**	**2.0**	**2.2**	*1.4*	*1.5*
Denmark	2.4	1.5	1.2	0.4	0.3	0.3	0.5	**0.7**	**1.0**	**1.1**	*0.8*	*1.1*
Croatia	:	:	1.2	-0.4	-0.6	-0.3	-0.2	**0.3**	**0.2**	**0.5**	*0.0*	*0.1*
Hungary	:	3.5	1.1	-0.2	0.1	0.9	1.9	**2.1**	**2.1**	**2.3**	*1.9*	*2.1*
Poland	5.1	3.8	3.9	4.1	3.4	2.9	3.1	**3.1**	**3.2**	**3.2**	*3.3*	*3.3*
Romania	1.5	3.8	4.6	1.0	1.8	1.7	1.8	**2.4**	**2.8**	**3.1**	*2.4*	*2.6*
Sweden	2.8	3.0	1.9	1.4	1.3	1.5	1.8	**2.1**	**2.6**	**2.6**	*2.0*	*2.2*
United Kingdom	3.0	2.8	1.5	1.0	1.0	1.1	1.7	**1.6**	**1.9**	**2.0**	*1.5*	*1.7*
EU	:	:	1.4	0.8	0.5	0.6	0.8	**1.1**	**1.3**	**1.4**	*1.0*	*1.2*
USA	3.7	2.6	1.5	1.1	1.5	1.6	1.8	**2.1**	**2.4**	**2.6**	*2.6*	*2.8*
Japan	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*

Table 14: Output gap relative to potential GDP ¹ (deviation of actual output from potential output as % of potential GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	0.4	0.2	0.8	0.2	-0.6	-1.3	-1.0	**-0.9**	**-0.9**	**-0.4**	*-1.1*	*-0.7*
Germany	0.0	-0.8	-0.5	1.1	0.3	-0.6	-0.4	**-0.4**	**-0.4**	**-0.2**	*-0.7*	*-0.2*
Estonia	-3.8	3.4	3.5	-1.4	1.8	1.0	1.2	**0.5**	**0.4**	**0.7**	*1.0*	*1.3*
Ireland	2.1	1.2	0.0	-2.2	-3.0	-3.3	-1.1	**1.2**	**1.3**	**0.3**	*0.9*	*0.8*
Greece	0.7	0.7	2.0	-9.1	-12.6	-12.3	-9.1	**-7.9**	**-6.9**	**-2.6**	*-6.4*	*-1.6*
Spain	0.0	2.7	0.0	-5.7	-7.6	-8.5	-6.9	**-3.9**	**-1.8**	**-0.1**	*-3.8*	*-1.8*
France	-0.3	1.8	0.8	-0.2	-1.0	-1.2	-1.9	**-1.8**	**-1.5**	**-1.0**	*-2.3*	*-1.7*
Italy	0.6	0.9	-0.3	-1.6	-3.3	-4.3	-4.0	**-2.9**	**-1.5**	**-0.2**	*-3.5*	*-2.0*
Cyprus	:	1.0	2.8	-0.1	-2.0	-5.7	-6.3	**-3.6**	**-1.2**	**1.4**	*-3.9*	*-1.3*
Latvia	:	1.1	-0.2	-5.6	-2.1	0.1	1.5	**1.7**	**1.9**	**1.8**	*1.4*	*1.6*
Lithuania	:	-0.2	0.3	-4.0	-1.5	0.2	1.2	**0.4**	**0.8**	**1.2**	*0.4*	*0.4*
Luxembourg	0.8	1.1	-0.3	-2.0	-5.2	-3.1	-2.0	**-1.5**	**-1.1**	**-0.9**	*-1.4*	*-0.2*
Malta	-0.1	0.3	0.1	-0.7	-0.6	-0.6	-0.1	**0.6**	**0.8**	**0.7**	*0.4*	*0.0*
Netherlands	0.5	-1.1	-0.1	-1.1	-2.5	-3.1	-2.7	**-1.6**	**-0.5**	**0.5**	*-2.1*	*-1.1*
Austria	0.2	-0.5	0.1	0.3	0.1	-0.4	-0.9	**-1.2**	**-0.6**	**-0.3**	*-1.3*	*-0.9*
Portugal	1.9	0.0	-0.5	-2.1	-4.9	-5.1	-3.9	**-2.3**	**-1.2**	**-0.2**	*-3.1*	*-1.4*
Slovenia	:	0.7	2.4	-1.7	-4.1	-4.9	-2.4	**-0.5**	**0.5**	**1.9**	*-1.2*	*-0.1*
Slovakia	:	-1.9	2.9	-0.9	-1.8	-2.4	-1.9	**-1.2**	**-0.8**	**-0.2**	*-2.5*	*-1.8*
Finland	0.7	0.0	0.5	-0.2	-1.6	-2.6	-2.9	**-2.5**	**-2.0**	**-1.4**	*-2.7*	*-1.9*
Euro area	:	0.5	0.1	-1.1	-2.3	-2.9	-2.6	**-1.8**	**-1.1**	**-0.4**	*-2.1*	*-1.1*
Bulgaria	1.5	0.3	1.3	-0.3	-0.5	-0.1	-0.2	**-0.4**	**-0.8**	**-0.8**	*-0.8*	*-1.4*
Czech Republic	-1.2	0.7	2.4	-0.3	-1.7	-2.8	-2.2	**0.1**	**0.3**	**0.8**	*-0.9*	*0.2*
Denmark	1.9	1.4	0.5	-2.5	-3.4	-4.2	-3.6	**-2.8**	**-1.9**	**-1.2**	*-2.8*	*-1.9*
Croatia	:	0.2	3.2	-1.2	-2.7	-3.3	-3.5	**-2.8**	**-1.7**	**-0.5**	*-3.2*	*-2.1*
Hungary	:	1.2	0.4	-1.4	-3.2	-2.3	-0.6	**0.2**	**0.3**	**0.5**	*0.2*	*0.4*
Poland	1.5	-3.3	1.8	2.3	0.5	-1.1	-0.9	**-0.4**	**-0.1**	**0.1**	*-0.6*	*-0.6*
Romania	-1.6	1.6	2.6	-3.8	-4.9	-3.3	-2.3	**-1.3**	**0.0**	**0.5**	*-0.9*	*-0.3*
Sweden	-0.5	-0.4	-0.1	-0.2	-1.7	-2.0	-1.5	**-0.7**	**-0.5**	**-0.4**	*-0.8*	*-0.3*
United Kingdom	0.4	0.7	-0.9	-3.2	-3.0	-2.0	-0.7	**0.1**	**0.5**	**0.8**	*0.0*	*0.7*
EU	:	0.5	0.0	-1.3	-2.3	-2.7	-2.2	**-1.4**	**-0.8**	**-0.2**	*-1.7*	*-0.8*
USA	0.5	0.0	-0.4	-1.6	-0.8	-1.0	-0.4	**0.1**	**0.5**	**0.7**	*0.1*	*0.3*
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, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	1.1	2.0	1.8	2.0	2.0	1.3	0.7	**1.1**	**1.0**	**1.2**	*1.1*	*1.1*
Germany	0.3	1.1	1.1	1.1	1.5	2.1	1.7	**1.9**	**1.6**	**1.8**	*1.7*	*2.0*
Estonia	10.6	5.3	5.9	5.3	2.7	4.0	2.0	**0.9**	**2.5**	**3.2**	*1.7*	*2.8*
Ireland	4.1	3.9	-1.2	2.0	0.4	1.2	0.1	**2.0**	**1.9**	**1.3**	*2.2*	*1.5*
Greece	4.9	3.1	2.9	0.8	-0.4	-2.5	-2.2	**-1.1**	**0.6**	**0.7**	*-1.2*	*0.7*
Spain	2.9	4.0	2.0	0.0	0.0	0.6	-0.4	**0.5**	**1.0**	**1.1**	*0.2*	*0.8*
France	1.0	1.9	1.7	0.9	1.2	0.8	0.6	**0.9**	**0.9**	**0.9**	*1.0*	*1.0*
Italy	2.6	2.8	1.8	1.5	1.4	1.3	0.9	**0.4**	**1.0**	**1.8**	*0.5*	*1.5*
Cyprus	2.6	3.2	2.8	1.8	2.1	-1.4	-1.2	**-1.3**	**0.7**	**0.9**	*-0.2*	*0.7*
Latvia	5.6	6.0	6.2	6.4	3.6	1.3	1.2	**1.1**	**2.0**	**2.4**	*1.6*	*1.9*
Lithuania	6.5	1.7	4.7	5.2	2.7	1.3	1.2	**-0.5**	**0.5**	**3.5**	*1.7*	*2.3*
Luxembourg	1.6	2.1	3.3	4.2	4.1	2.4	1.0	**-0.2**	**1.6**	**2.0**	*0.2*	*1.7*
Malta	1.7	2.4	3.0	2.3	2.0	1.9	1.8	**2.3**	**2.5**	**2.5**	*1.4*	*1.8*
Netherlands	2.2	2.6	1.7	0.1	1.4	1.4	0.8	**0.9**	**1.5**	**1.4**	*-0.4*	*1.9*
Austria	0.8	1.7	1.8	1.9	2.0	1.5	1.6	**1.5**	**1.5**	**1.8**	*0.9*	*1.6*
Portugal	3.4	3.4	1.9	-0.3	-0.4	2.3	1.0	**1.3**	**1.4**	**1.5**	*1.3*	*1.4*
Slovenia	7.8	5.3	2.6	1.1	0.3	0.8	0.8	**0.5**	**1.4**	**1.8**	*0.3*	*1.1*
Slovakia	6.2	4.5	1.2	1.6	1.3	0.5	-0.2	**0.2**	**1.1**	**1.4**	*0.1*	*1.3*
Finland	1.5	1.2	1.8	2.6	3.0	2.6	1.6	**1.3**	**1.2**	**1.3**	*1.2*	*1.4*
Euro area	1.5	2.2	1.6	1.1	1.2	1.3	0.9	**1.1**	**1.2**	**1.5**	*0.9*	*1.5*
Bulgaria	95.1	4.8	6.2	6.9	1.6	-0.7	0.4	**1.0**	**0.8**	**0.7**	*0.4*	*0.6*
Czech Republic	6.6	2.5	1.5	-0.2	1.4	1.4	2.5	**0.7**	**1.0**	**1.4**	*1.8*	*1.6*
Denmark	2.0	2.3	2.5	0.8	2.5	1.5	0.8	**1.4**	**1.5**	**1.6**	*1.0*	*1.6*
Croatia	5.4	3.8	3.5	1.7	1.6	0.9	0.0	**0.3**	**1.1**	**1.5**	*0.0*	*1.2*
Hungary	14.6	6.5	4.0	2.2	3.5	3.1	3.2	**1.7**	**2.4**	**2.9**	*2.7*	*2.8*
Poland	10.9	2.5	3.1	3.2	2.4	0.4	0.4	**-0.1**	**1.3**	**1.5**	*0.4*	*1.0*
Romania	60.8	22.0	9.7	4.7	4.7	3.4	1.8	**1.4**	**1.2**	**2.6**	*1.3*	*1.7*
Sweden	1.2	1.4	2.3	1.2	1.1	1.1	1.6	**1.9**	**1.8**	**1.8**	*1.6*	*1.6*
United Kingdom	2.3	2.4	2.8	2.1	1.6	2.0	1.7	**1.3**	**1.7**	**2.0**	*1.5*	*1.7*
EU	2.3	2.4	2.0	1.3	1.4	1.4	1.1	**1.1**	**1.3**	**1.6**	*1.0*	*1.5*
USA	1.7	2.4	1.9	2.1	1.8	1.6	1.6	**1.1**	**2.0**	**2.1**	*1.6*	*2.2*
Japan	-0.5	-1.4	-1.2	-1.9	-0.9	-0.6	1.7	**1.6**	**1.3**	**1.6**	*0.3*	*0.8*

Table 16: Price deflator of private consumption (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	1.4	2.0	2.1	3.0	2.0	1.1	0.6	**0.2**	**1.2**	**1.3**	*0.4*	*1.2*
Germany	0.8	1.5	1.2	2.0	1.6	1.2	1.0	**0.5**	**1.2**	**1.8**	*0.4*	*1.6*
Estonia	9.5	4.1	5.0	5.7	3.4	3.0	0.8	**0.2**	**2.1**	**3.1**	*0.2*	*1.9*
Ireland	3.5	3.3	-0.4	1.8	0.6	1.6	1.7	**1.6**	**1.5**	**1.5**	*1.5*	*1.6*
Greece	4.6	2.8	3.2	2.2	0.4	-2.0	-2.7	**-1.0**	**1.0**	**0.9**	*-1.5*	*0.5*
Spain	2.7	3.3	2.3	2.4	2.4	1.0	0.3	**-0.5**	**0.7**	**1.2**	*-0.5*	*1.1*
France	0.9	1.7	1.3	1.8	1.4	0.8	0.0	**0.1**	**0.9**	**1.3**	*0.0*	*1.0*
Italy	2.7	2.6	1.8	2.9	2.7	1.2	0.3	**0.2**	**1.0**	**1.9**	*0.3*	*1.8*
Cyprus	2.3	2.6	2.8	3.1	3.0	-0.1	-1.3	**-1.7**	**0.3**	**1.3**	*-1.2*	*0.9*
Latvia	6.4	5.9	5.5	6.1	3.3	0.2	0.5	**0.3**	**1.5**	**2.1**	*0.5*	*2.1*
Lithuania	5.8	0.5	5.4	4.1	3.1	1.0	0.1	**-0.8**	**0.6**	**2.2**	*-0.4*	*1.7*
Luxembourg	2.2	2.1	1.7	2.5	1.7	1.3	0.7	**0.9**	**1.9**	**1.5**	*0.9*	*1.9*
Malta	2.2	2.4	2.3	2.4	2.5	1.2	0.0	**0.8**	**1.8**	**2.2**	*1.3*	*1.9*
Netherlands	2.1	2.3	1.4	2.1	1.5	2.3	1.3	**0.4**	**1.3**	**1.5**	*0.5*	*1.2*
Austria	1.1	1.8	1.8	3.2	2.4	2.1	2.0	**1.0**	**1.8**	**1.9**	*0.8*	*1.9*
Portugal	2.9	3.4	1.9	1.7	1.8	0.8	0.6	**0.5**	**1.1**	**1.3**	*0.2*	*1.3*
Slovenia	7.9	5.1	2.9	1.8	1.4	0.8	0.0	**-0.6**	**0.8**	**1.4**	*0.1*	*1.7*
Slovakia	6.5	5.0	2.6	3.9	3.4	1.3	-0.1	**-0.2**	**1.2**	**1.5**	*-0.2*	*1.4*
Finland	1.8	1.3	2.0	3.2	2.8	2.3	1.6	**0.4**	**0.9**	**1.3**	*0.2*	*1.3*
Euro area	1.7	2.1	1.6	2.3	1.9	1.1	0.5	**0.2**	**1.1**	**1.6**	*0.2*	*1.4*
Bulgaria	100.7	3.9	4.0	4.5	3.6	-2.5	-0.1	**-0.5**	**0.8**	**1.0**	*0.3*	*0.9*
Czech Republic	6.1	1.8	2.2	1.6	2.2	0.9	0.5	**0.3**	**1.0**	**1.6**	*0.3*	*1.4*
Denmark	1.9	1.7	2.1	2.4	2.6	1.0	0.7	**0.6**	**1.6**	**1.8**	*0.6*	*1.6*
Croatia	4.8	2.9	3.3	2.4	3.2	1.9	-0.4	**0.0**	**0.8**	**1.5**	*-0.3*	*1.1*
Hungary	14.9	5.7	4.7	3.7	6.3	2.1	1.0	**0.5**	**2.0**	**2.5**	*0.9*	*2.5*
Poland	11.9	2.6	2.7	4.9	3.4	0.4	-0.1	**-0.6**	**1.4**	**1.9**	*-0.4*	*1.1*
Romania	58.3	17.7	6.1	4.2	4.5	2.6	1.3	**0.6**	**-0.1**	**1.8**	*0.5*	*1.1*
Sweden	1.1	1.4	1.9	1.7	0.5	0.7	0.7	**1.2**	**1.5**	**1.7**	*1.1*	*1.3*
United Kingdom	1.8	1.5	3.2	3.7	1.8	2.3	1.5	**0.3**	**1.5**	**1.9**	*0.6*	*1.8*
EU	2.5	2.1	2.0	2.6	2.0	1.3	0.7	**0.2**	**1.2**	**1.7**	*0.3*	*1.5*
USA	1.7	2.1	2.0	2.5	1.9	1.4	1.4	**0.4**	**2.1**	**2.3**	*0.5*	*2.2*
Japan	-0.1	-1.0	-1.0	-0.8	-0.9	-0.3	2.0	**0.8**	**1.2**	**1.5**	*0.6*	*0.9*

Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	1.6	2.0	2.2	3.4	2.6	1.2	0.5	**0.6**	**1.7**	**1.5**	*0.3*	*1.3*
Germany	1.1	1.6	1.6	2.5	2.1	1.6	0.8	**0.2**	**1.0**	**1.7**	*0.3*	*1.8*
Estonia	9.0	3.5	4.9	5.1	4.2	3.2	0.5	**0.1**	**1.8**	**2.9**	*0.2*	*1.9*
Ireland	2.7	3.4	1.1	1.2	1.9	0.5	0.3	**0.3**	**1.4**	**1.6**	*0.4*	*1.5*
Greece	4.6	3.5	3.3	3.1	1.0	-0.9	-1.4	**-1.0**	**1.0**	**0.9**	*-1.5*	*0.8*
Spain	2.6	3.2	2.5	3.1	2.4	1.5	-0.2	**-0.5**	**0.7**	**1.2**	*-0.6*	*1.1*
France	1.3	2.0	1.7	2.3	2.2	1.0	0.6	**0.1**	**0.9**	**1.3**	*0.0*	*1.0*
Italy	2.4	2.4	2.0	2.9	3.3	1.3	0.2	**0.2**	**1.0**	**1.9**	*0.2*	*1.8*
Cyprus	:	2.5	2.3	3.5	3.1	0.4	-0.3	**-1.6**	**0.6**	**1.3**	*-0.8*	*0.9*
Latvia	:	4.1	6.8	4.2	2.3	0.0	0.7	**0.2**	**1.4**	**2.1**	*0.7*	*2.2*
Lithuania	8.6	0.9	5.2	4.1	3.2	1.2	0.2	**-0.8**	**0.6**	**2.2**	*-0.4*	*1.7*
Luxembourg	1.7	2.8	2.5	3.7	2.9	1.7	0.7	**0.3**	**1.7**	**1.7**	*0.8*	*2.1*
Malta	:	2.5	2.4	2.5	3.2	1.0	0.8	**1.1**	**1.8**	**2.2**	*1.3*	*1.9*
Netherlands	1.9	2.8	1.5	2.5	2.8	2.6	0.3	**0.2**	**1.2**	**1.5**	*0.2*	*1.3*
Austria	1.2	1.9	1.8	3.6	2.6	2.1	1.5	**0.9**	**1.8**	**2.0**	*0.8*	*1.9*
Portugal	2.4	3.2	1.7	3.6	2.8	0.4	-0.2	**0.5**	**1.1**	**1.3**	*0.2*	*1.3*
Slovenia	8.2	5.6	3.0	2.1	2.8	1.9	0.4	**-0.6**	**0.8**	**1.4**	*0.1*	*1.7*
Slovakia	8.2	5.9	2.3	4.1	3.7	1.5	-0.1	**-0.2**	**1.0**	**1.6**	*-0.2*	*1.4*
Finland	1.6	1.4	2.0	3.3	3.2	2.2	1.2	**-0.2**	**0.6**	**1.5**	*0.2*	*1.3*
Euro area	:	2.2	1.9	2.7	2.5	1.3	0.4	**0.1**	**1.0**	**1.6**	*0.1*	*1.5*
Bulgaria	:	5.5	6.5	3.4	2.4	0.4	-1.6	**-0.8**	**0.7**	**1.1**	*-0.5*	*1.0*
Czech Republic	6.5	2.0	2.6	2.1	3.5	1.4	0.4	**0.4**	**1.0**	**1.6**	*0.2*	*1.4*
Denmark	2.0	1.9	2.1	2.7	2.4	0.5	0.3	**0.4**	**1.5**	**1.9**	*0.6*	*1.7*
Croatia	4.3	2.9	3.0	2.2	3.4	2.3	0.2	**-0.1**	**0.9**	**1.7**	*0.1*	*1.3*
Hungary	15.2	5.9	5.3	3.9	5.7	1.7	0.0	**0.1**	**1.9**	**2.5**	*0.0*	*2.5*
Poland	:	2.7	2.9	3.9	3.7	0.8	0.1	**-0.6**	**1.4**	**1.9**	*-0.4*	*1.1*
Romania	68.8	18.6	6.2	5.8	3.4	3.2	1.4	**-0.4**	**-0.3**	**2.3**	*0.2*	*0.9*
Sweden	1.1	1.8	2.1	1.4	0.9	0.4	0.2	**0.8**	**1.5**	**1.7**	*0.7*	*1.6*
United Kingdom	1.6	1.5	2.7	4.5	2.8	2.6	1.5	**0.1**	**1.5**	**1.7**	*0.4*	*1.6*
EU	:	2.5	2.3	3.1	2.6	1.5	0.6	**0.0**	**1.1**	**1.6**	*0.1*	*1.5*
USA	:	2.5	2.2	3.1	2.1	1.5	1.6	**0.2**	**2.1**	**2.3**	*0.4*	*2.2*
Japan	0.3	-0.4	-0.1	-0.3	0.0	0.4	2.7	**0.8**	**0.7**	**1.8**	*0.5*	*0.9*

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2015-17) 22.10.2015

	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4
Belgium	-0.4	0.7	0.8	1.5	2.0	1.7	1.8	1.5	1.4	1.5	1.5	1.6
Germany	-0.1	0.4	0.0	0.4	0.9	0.6	1.1	1.4	1.6	1.6	1.7	1.7
Estonia	-0.3	0.4	0.0	0.1	1.7	1.2	1.8	2.5	2.8	2.9	2.9	3.0
Ireland	-0.3	0.1	0.1	1.2	2.0	1.3	1.3	1.1	1.3	1.5	1.8	1.9
Greece	-2.2	-1.4	-0.8	0.3	1.4	1.3	0.6	0.8	0.9	0.9	0.9	0.9
Spain	-1.1	-0.3	-0.6	-0.1	0.6	0.3	0.8	1.1	1.2	1.2	1.2	1.3
France	-0.2	0.3	0.1	0.0	0.6	0.9	1.1	1.1	1.3	1.3	1.3	1.3
Italy	-0.1	0.1	0.3	0.4	0.8	0.7	1.2	1.4	1.9	1.9	1.9	2.0
Cyprus	-0.9	-1.8	-2.0	-1.5	0.1	0.1	1.0	1.1	1.2	1.3	1.3	1.4
Latvia	0.1	0.8	-0.1	0.2	0.9	1.4	1.7	1.7	1.9	2.0	2.2	2.3
Lithuania	-1.3	-0.3	-0.9	-0.8	0.0	0.6	0.9	1.0	1.7	2.0	2.3	2.6
Luxembourg	-0.5	0.3	0.0	1.5	2.2	1.4	1.8	1.5	1.4	1.5	1.8	2.0
Malta	0.6	1.2	1.3	1.3	1.6	1.8	1.9	1.9	2.2	2.2	2.2	2.2
Netherlands	-0.4	0.4	0.6	0.3	1.1	0.9	1.3	1.6	1.5	1.5	1.5	1.5
Austria	0.6	1.0	0.9	1.3	1.7	1.5	1.9	2.1	2.0	2.0	1.9	1.9
Portugal	0.0	0.7	0.6	0.5	1.0	1.1	1.1	1.2	1.3	1.3	1.3	1.3
Slovenia	-0.5	-0.8	-0.7	-0.5	0.5	0.6	1.0	1.2	1.3	1.3	1.4	1.5
Slovakia	-0.5	-0.1	-0.3	0.0	0.7	0.9	1.2	1.4	1.4	1.5	1.7	1.7
Finland	-0.1	0.0	-0.3	-0.3	0.3	0.5	0.7	1.0	1.3	1.4	1.6	1.8
Euro area	-0.3	0.2	0.1	0.3	0.9	0.8	1.1	1.3	1.5	1.5	1.6	1.6
Bulgaria	-1.8	-0.6	-0.9	0.0	0.5	0.6	0.8	1.0	1.0	1.1	1.2	1.2
Czech Republic	0.0	0.7	0.3	0.5	0.6	0.9	1.1	1.3	1.4	1.5	1.7	1.9
Denmark	0.0	0.4	0.4	0.7	1.3	1.4	1.7	1.8	1.9	2.0	1.9	1.8
Croatia	-0.3	0.0	-0.3	0.2	0.6	0.6	1.2	1.3	1.5	1.6	1.8	2.0
Hungary	-0.9	0.4	0.2	0.8	1.9	1.6	1.9	1.7	2.5	2.3	2.7	2.5
Poland	-1.2	-0.7	-0.5	-0.2	1.0	1.2	1.4	1.9	1.9	1.9	1.9	1.9
Romania	0.5	0.4	-1.5	-1.1	-2.3	-1.3	0.9	1.3	1.9	2.2	2.3	2.7
Sweden	0.6	0.6	0.8	1.1	1.4	1.4	1.5	1.6	1.7	1.7	1.7	1.7
United Kingdom	0.1	0.0	0.0	0.5	0.9	1.4	1.7	1.8	1.6	1.6	1.8	1.9
EU	-0.2	0.1	0.1	0.3	0.9	0.9	1.3	1.5	1.6	1.6	1.7	1.7
USA	-0.1	0.0	0.1	0.8	2.2	2.0	2.1	2.2	2.2	2.2	2.3	2.3
Japan	2.3	0.5	0.1	0.3	0.8	0.4	0.7	1.2	1.0	2.2	2.1	1.9

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1996-2017) — 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	0.6	0.7	1.2	4.5	1.6	-0.6	-1.5	**-1.4**	**0.6**	**1.1**	*0.1*	*1.4*
Germany	0.2	-0.2	0.5	3.1	1.5	-0.6	-0.5	**0.7**	**0.1**	**1.4**	*0.3*	*1.2*
Estonia	5.6	1.8	3.6	4.6	0.6	-0.1	-1.8	**-1.2**	**0.5**	**1.9**	*-0.7*	*1.8*
Ireland	2.4	-1.7	-0.8	-0.4	4.2	-1.4	-1.2	**1.8**	**1.6**	**0.9**	*3.0*	*1.0*
Greece	3.7	1.6	2.7	8.8	4.7	-2.0	-3.1	**-9.8**	**2.7**	**2.0**	*-1.5*	*0.3*
Spain	2.2	0.7	1.6	4.8	2.5	-1.6	-2.6	**0.9**	**1.2**	**1.3**	*0.6*	*0.9*
France	0.4	-0.7	0.9	3.7	1.5	-0.5	-1.4	**0.7**	**0.9**	**1.1**	*0.1*	*1.0*
Italy	1.2	1.1	1.5	4.2	1.9	-0.5	-0.4	**-0.2**	**0.4**	**1.8**	*1.3*	*1.7*
Cyprus	2.2	2.0	3.2	1.4	0.6	2.1	1.3	**-1.0**	**2.2**	**2.6**	*-1.2*	*1.3*
Latvia	0.5	7.4	5.7	12.1	3.8	1.8	-1.4	**-1.0**	**-0.3**	**1.5**	*-1.7*	*1.5*
Lithuania	3.0	1.4	3.3	13.5	3.6	-1.9	-3.2	**-5.0**	**0.1**	**3.0**	*-2.1*	*1.2*
Luxembourg	0.3	1.6	3.3	6.4	2.7	-0.5	-1.4	**-0.3**	**-0.1**	**2.1**	*0.1*	*0.8*
Malta	5.4	-1.9	2.4	10.4	-4.3	-3.1	-4.2	**4.8**	**1.0**	**2.0**	*4.0*	*3.2*
Netherlands	1.0	0.0	1.4	6.2	3.0	-0.8	-2.2	**-2.5**	**0.8**	**1.4**	*-2.0*	*2.0*
Austria	0.6	0.5	1.3	3.7	0.9	-1.0	-0.8	**-0.2**	**0.7**	**1.2**	*-1.0*	*0.7*
Portugal	1.1	0.1	1.3	5.8	1.7	-1.6	-1.4	**0.3**	**0.6**	**1.8**	*1.4*	*2.0*
Slovenia	6.3	3.7	1.2	4.6	0.7	-1.2	-0.4	**0.8**	**0.4**	**1.4**	*0.8*	*1.2*
Slovakia	3.9	2.3	0.1	3.9	0.8	-2.2	-3.8	**-2.0**	**0.0**	**0.0**	*-2.0*	*0.0*
Finland	-1.4	-1.4	-0.6	5.1	0.7	-1.8	-1.4	**-1.5**	**1.3**	**3.1**	*-1.5*	*1.5*
Euro area	0.8	0.0	0.9	4.1	1.9	-0.8	-1.2	**-0.1**	**0.6**	**1.4**	*0.1*	*1.3*
Bulgaria	94.2	2.2	9.1	12.1	0.2	-3.6	-2.2	**-0.2**	**-0.2**	**1.1**	*-0.8*	*0.8*
Czech Republic	3.7	-1.4	-1.5	0.8	3.2	1.6	4.0	**-1.2**	**-0.5**	**1.2**	*-0.6*	*0.8*
Denmark	1.3	1.2	2.3	5.0	3.1	-0.5	-0.2	**0.4**	**1.7**	**1.8**	*-0.2*	*1.7*
Croatia	6.8	1.3	2.7	11.0	2.5	-1.8	-1.7	**-1.3**	**1.0**	**1.5**	*-0.2*	*0.8*
Hungary	11.8	-1.1	1.3	3.3	3.0	-0.1	1.0	**-0.9**	**0.0**	**1.3**	*-2.0*	*1.3*
Poland	7.8	3.6	3.4	7.4	4.4	0.5	0.0	**0.0**	**1.5**	**1.5**	*0.0*	*1.5*
Romania	54.2	14.6	7.6	7.9	3.8	-5.8	-1.0	**1.0**	**1.5**	**1.5**	*1.0*	*2.0*
Sweden	-1.6	-0.2	1.9	-1.6	-1.7	-3.2	2.1	**4.9**	**0.7**	**1.3**	*3.0*	*1.6*
United Kingdom	-1.9	0.3	3.9	6.8	-0.4	1.2	-4.7	**0.0**	**0.5**	**1.5**	*0.4*	*1.5*
EU	1.2	0.2	1.4	4.2	1.8	-0.7	-1.2	**0.0**	**0.6**	**1.4**	*0.1*	*1.3*
USA	-1.6	1.6	1.9	7.6	0.4	-0.5	-0.7	**-6.4**	**-0.5**	**1.3**	*-2.6*	*0.4*
Japan	-1.6	-0.6	-2.5	-2.1	-2.1	9.6	2.7	**2.2**	**2.4**	**2.6**	*3.4*	*2.2*

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1996-2017) — 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	1.6	1.1	1.7	6.7	1.4	-1.0	-1.9	**-4.4**	**0.9**	**1.6**	*-0.6*	*1.4*
Germany	0.9	-0.7	0.4	6.1	1.9	-2.5	-2.3	**-2.2**	**-0.2**	**1.4**	*-2.0*	*1.1*
Estonia	5.9	-0.3	3.1	5.4	2.4	-0.7	-1.8	**-0.9**	**0.4**	**1.7**	*-1.0*	*1.7*
Ireland	0.7	-2.3	0.9	-0.5	11.4	-1.7	0.1	**1.4**	**1.3**	**1.0**	*2.8*	*0.9*
Greece	3.9	2.0	3.1	7.4	4.9	-3.6	-4.0	**-6.7**	**3.5**	**2.0**	*-0.9*	*-0.1*
Spain	2.5	-0.1	1.6	9.5	3.6	-2.6	-1.6	**-2.3**	**0.5**	**1.5**	*-2.1*	*1.2*
France	1.0	-0.8	0.8	6.7	1.9	-1.8	-3.2	**-2.4**	**1.9**	**2.5**	*-2.9*	*1.8*
Italy	1.3	1.2	2.0	7.9	3.3	-2.2	-3.3	**-2.5**	**-0.1**	**1.8**	*0.8*	*2.6*
Cyprus	2.7	2.1	2.0	3.4	1.5	1.9	-5.5	**-4.2**	**-1.3**	**1.8**	*-2.3*	*1.7*
Latvia	4.5	6.8	5.0	6.0	7.8	0.5	-0.5	**-1.0**	**-0.3**	**1.5**	*-2.4*	*2.1*
Lithuania	-0.1	-0.7	4.1	14.2	4.6	-1.9	-3.8	**-7.5**	**-0.5**	**3.5**	*-4.1*	*0.9*
Luxembourg	2.2	1.4	1.5	5.8	2.7	-0.6	-2.0	**-0.1**	**0.1**	**1.6**	*0.4*	*0.8*
Malta	4.6	-0.7	1.0	10.5	-2.2	-5.4	-5.8	**3.0**	**-0.5**	**2.0**	*5.5*	*3.1*
Netherlands	0.6	-0.8	1.7	8.1	3.2	-1.6	-3.1	**-3.8**	**1.0**	**2.0**	*-1.2*	*0.8*
Austria	1.2	0.2	1.7	6.3	1.7	-0.9	-1.7	**-1.5**	**1.0**	**1.1**	*-1.5*	*1.0*
Portugal	1.9	0.2	0.8	8.2	1.0	-3.2	-2.7	**-1.8**	**-0.2**	**1.3**	*-1.2*	*1.6*
Slovenia	6.5	3.6	1.7	6.3	2.0	-2.0	-1.5	**-0.1**	**0.2**	**1.5**	*1.1*	*1.9*
Slovakia	4.8	2.5	1.4	5.5	2.2	-1.7	-3.8	**-2.0**	**0.0**	**0.0**	*-2.0*	*0.0*
Finland	-0.1	-0.4	0.8	7.4	2.0	-2.2	-2.5	**-4.2**	**1.0**	**3.5**	*-4.2*	*1.5*
Euro area	1.3	-0.1	1.3	7.0	2.6	-2.0	-2.5	**-2.6**	**0.6**	**1.7**	*-1.5*	*1.3*
Bulgaria	101.7	2.5	4.8	9.0	3.8	-2.8	-2.9	**-1.0**	**0.0**	**1.9**	*-0.5*	*1.4*
Czech Republic	3.0	-2.0	-0.8	2.9	3.8	0.0	1.9	**-1.1**	**-0.6**	**1.0**	*-2.2*	*0.4*
Denmark	0.3	0.3	1.3	7.0	2.5	-2.1	-0.6	**-0.3**	**2.2**	**2.4**	*-0.3*	*2.2*
Croatia	4.5	0.8	1.8	6.3	2.9	-0.3	-0.9	**-0.6**	**0.7**	**1.8**	*0.0*	*1.0*
Hungary	12.7	-0.5	1.6	5.0	4.3	-0.6	0.1	**-1.9**	**-0.5**	**1.0**	*-3.5*	*0.8*
Poland	9.8	3.2	2.8	9.5	5.8	-1.2	-2.2	**-1.0**	**1.5**	**2.0**	*-2.0*	*1.8*
Romania	48.6	12.6	2.9	6.0	7.5	-6.2	-1.9	**0.4**	**0.8**	**1.2**	*1.0*	*1.5*
Sweden	-0.1	1.1	1.6	-0.3	-1.9	-3.7	1.1	**4.5**	**0.5**	**1.3**	*3.0*	*1.6*
United Kingdom	-2.2	-0.4	4.0	8.0	-0.1	0.2	-4.4	**-3.0**	**-0.5**	**1.0**	*-2.5*	*1.7*
EU	1.6	0.0	1.7	6.8	2.4	-1.7	-2.4	**-2.3**	**0.4**	**1.6**	*-1.5*	*1.4*
USA	-1.5	1.9	2.4	8.8	0.6	-1.1	-0.5	**-8.4**	**-0.1**	**2.6**	*-7.2*	*0.5*
Japan	0.3	2.6	0.8	7.3	-0.2	12.1	4.1	**-2.5**	**0.9**	**1.9**	*2.1*	*1.9*

Table 21: Terms of trade of goods (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	-1.0	-0.4	-0.5	-2.0	0.2	0.4	0.4	**3.1**	**-0.3**	**-0.5**	*0.7*	*0.0*
Germany	-0.7	0.5	0.0	-2.9	-0.4	1.9	1.8	**3.0**	**0.3**	**0.0**	*2.4*	*0.2*
Estonia	-0.2	2.1	0.4	-0.7	-1.7	0.6	0.0	**-0.3**	**0.1**	**0.2**	*0.3*	*0.1*
Ireland	1.7	0.6	-1.7	0.1	-6.4	0.3	-1.3	**0.4**	**0.3**	**-0.1**	*0.2*	*0.1*
Greece	-0.1	-0.4	-0.4	1.3	-0.2	1.7	0.9	**-3.3**	**-0.8**	**0.0**	*-0.6*	*0.4*
Spain	-0.2	0.8	0.0	-4.3	-1.1	0.9	-1.0	**3.3**	**0.7**	**-0.2**	*2.8*	*-0.3*
France	-0.5	0.1	0.1	-2.8	-0.3	1.3	1.8	**3.2**	**-0.9**	**-1.4**	*3.0*	*-0.7*
Italy	-0.1	-0.2	-0.4	-3.4	-1.4	1.7	3.0	**2.4**	**0.5**	**0.0**	*0.5*	*-0.8*
Cyprus	-0.5	-0.1	1.1	-1.9	-0.9	0.2	7.1	**3.3**	**3.5**	**0.8**	*1.2*	*-0.4*
Latvia	-3.8	0.5	0.6	5.8	-3.7	1.3	-0.8	**0.0**	**0.0**	**0.0**	*0.7*	*-0.6*
Lithuania	3.1	2.0	-0.7	-0.6	-0.9	0.0	0.6	**2.7**	**0.6**	**-0.5**	*2.1*	*0.3*
Luxembourg	-1.8	0.3	1.8	0.6	0.1	0.1	0.6	**-0.2**	**-0.2**	**0.5**	*-0.3*	*0.0*
Malta	0.8	-1.2	1.3	-0.1	-2.1	2.5	1.7	**1.7**	**1.5**	**0.0**	*-1.4*	*0.1*
Netherlands	0.4	0.8	-0.2	-1.7	-0.2	0.7	0.9	**1.5**	**-0.2**	**-0.6**	*-0.8*	*1.2*
Austria	-0.6	0.3	-0.4	-2.5	-0.7	-0.1	0.9	**1.3**	**-0.3**	**0.1**	*0.5*	*-0.3*
Portugal	-0.8	-0.1	0.5	-2.2	0.7	1.7	1.3	**2.1**	**0.8**	**0.5**	*2.6*	*0.4*
Slovenia	-0.2	0.1	-0.5	-1.6	-1.3	0.8	1.1	**0.9**	**0.2**	**-0.1**	*-0.2*	*-0.7*
Slovakia	-0.8	-0.2	-1.3	-1.5	-1.3	-0.5	0.0	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*
Finland	-1.3	-1.0	-1.4	-2.1	-1.3	0.4	1.1	**2.8**	**0.3**	**-0.4**	*2.8*	*0.0*
Euro area	-0.4	0.2	-0.3	-2.7	-0.6	1.2	1.3	**2.5**	**0.0**	**-0.4**	*1.6*	*0.0*
Bulgaria	-3.8	-0.3	4.1	2.9	-3.5	-0.8	0.7	**0.8**	**-0.2**	**-0.8**	*-0.4*	*-0.6*
Czech Republic	0.6	0.6	-0.7	-2.0	-0.6	1.5	2.1	**-0.1**	**0.1**	**0.2**	*1.6*	*0.4*
Denmark	0.9	0.9	1.0	-1.8	0.6	1.7	0.4	**0.7**	**-0.5**	**-0.6**	*0.1*	*-0.5*
Croatia	2.2	0.5	0.9	4.3	-0.4	-1.5	-0.8	**-0.7**	**0.3**	**-0.2**	*-0.2*	*-0.2*
Hungary	-0.8	-0.7	-0.3	-1.6	-1.2	0.5	1.0	**1.0**	**0.5**	**0.2**	*1.6*	*0.5*
Poland	-1.8	0.4	0.5	-1.9	-1.3	1.7	2.2	**1.0**	**0.0**	**-0.5**	*2.0*	*-0.2*
Romania	3.8	1.8	4.5	1.8	-3.4	0.4	0.8	**0.6**	**0.7**	**0.3**	*0.0*	*0.5*
Sweden	-1.5	-1.3	0.3	-1.3	0.2	0.5	1.0	**0.4**	**0.2**	**0.0**	*0.0*	*0.0*
United Kingdom	0.2	0.7	-0.2	-1.1	-0.3	1.0	-0.2	**3.1**	**1.0**	**0.5**	*3.0*	*-0.2*
EU	-0.3	0.2	-0.1	-2.3	-0.8	1.3	1.1	**1.9**	**0.2**	**-0.2**	*1.2*	*-0.1*
USA	-0.1	-0.4	-0.5	-1.1	-0.2	0.6	-0.2	**2.2**	**-0.5**	**-1.3**	*4.9*	*-0.1*
Japan	-1.9	-3.1	-3.2	-8.8	-1.9	-2.2	-1.3	**4.8**	**1.5**	**0.7**	*1.3*	*0.3*

Table 22: Total population (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	0.2	0.4	0.8	0.9	0.7	0.5	0.5	**0.7**	**0.6**	**0.4**	*0.4*	*0.4*
Germany	0.1	0.1	-0.2	0.0	0.2	0.2	0.3	**0.9**	**0.6**	**0.3**	*0.3*	*0.2*
Estonia	-0.6	-0.6	-0.4	-0.3	-0.3	-0.4	-0.3	**-0.4**	**-0.4**	**-0.4**	*-0.4*	*-0.4*
Ireland	1.1	1.8	1.9	0.4	0.3	0.3	0.3	**0.6**	**1.0**	**0.9**	*0.7*	*0.9*
Greece	0.5	0.3	0.2	-0.1	-0.5	-0.7	-0.4	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*
Spain	0.4	1.5	1.3	0.4	0.1	-0.4	-0.3	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.1*
France	0.5	0.7	0.6	0.5	0.5	0.4	0.4	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*
Italy	0.0	0.4	0.6	0.4	0.5	0.5	0.2	**0.2**	**0.3**	**0.3**	*0.3*	*0.3*
Cyprus	1.3	1.3	2.3	2.6	1.5	-0.2	-1.1	**0.4**	**0.4**	**0.4**	*0.4*	*0.4*
Latvia	-1.0	-1.1	-1.3	-1.8	-1.2	-1.0	-0.9	**-0.8**	**-0.7**	**-0.5**	*-0.7*	*-0.6*
Lithuania	-0.7	-1.0	-1.4	-2.2	-1.3	-1.0	-1.0	**-1.0**	**-1.0**	**-0.7**	*-0.4*	*-0.3*
Luxembourg	1.3	1.3	1.7	2.3	2.3	2.6	2.4	**2.1**	**2.2**	**2.1**	*2.3*	*2.2*
Malta	0.6	0.7	0.5	0.4	0.8	0.9	1.0	**0.9**	**0.7**	**0.5**	*0.2*	*0.2*
Netherlands	0.6	0.5	0.4	0.5	0.4	0.3	0.4	**0.4**	**0.4**	**0.4**	*0.4*	*0.4*
Austria	0.2	0.5	0.3	0.3	0.5	0.6	0.8	**1.0**	**0.6**	**0.5**	*0.6*	*0.6*
Portugal	0.5	0.4	0.1	-0.1	-0.4	-0.5	-0.5	**-0.5**	**-0.5**	**-0.5**	*-0.5*	*-0.5*
Slovenia	0.0	0.1	0.5	0.2	0.2	0.1	0.1	**0.2**	**0.2**	**0.2**	*0.1*	*0.2*
Slovakia	0.1	-0.1	0.2	-0.6	0.2	0.1	0.1	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*
Finland	0.3	0.3	0.4	0.5	0.5	0.5	0.4	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*
Euro area	0.3	0.5	0.4	0.3	0.2	0.2	0.2	**0.4**	**0.3**	**0.2**	*0.3*	*0.2*
Bulgaria	-0.6	-1.1	-0.5	-2.5	-0.6	-0.5	-0.5	**-0.7**	**-0.7**	**-0.7**	*-0.7*	*-0.7*
Czech Republic	-0.1	-0.1	0.5	-0.2	0.1	0.0	0.1	**0.2**	**0.2**	**0.2**	*0.2*	*0.2*
Denmark	0.4	0.3	0.5	0.4	0.4	0.4	0.5	**0.6**	**0.5**	**0.4**	*0.4*	*0.3*
Croatia	-1.0	-0.5	-0.1	-0.3	-0.3	-0.3	-0.6	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*
Hungary	-0.2	-0.2	-0.2	-0.3	-0.5	-0.3	-0.3	**-0.2**	**-0.2**	**-0.1**	*-0.2*	*-0.1*
Poland	0.0	0.0	0.2	0.0	0.0	-0.1	0.0	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*
Romania	-0.2	-1.0	-1.0	-0.5	-0.4	-0.4	-0.2	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*
Sweden	0.1	0.4	0.8	0.8	0.7	0.9	1.0	**2.1**	**1.5**	**1.7**	*1.2*	*1.3*
United Kingdom	0.3	0.5	0.8	0.8	0.7	0.6	0.8	**0.7**	**0.9**	**0.8**	*0.6*	*0.6*
EU	0.2	0.3	0.4	0.2	0.2	0.2	0.2	**0.4**	**0.4**	**0.3**	*0.3*	*0.2*
USA	1.2	0.9	0.9	0.8	0.7	0.7	0.7	**0.7**	**0.7**	**0.8**	*0.8*	*0.8*
Japan	0.2	0.1	0.0	-0.2	-0.2	-0.2	-0.2	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*

Table 23: Total employment (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	1.2	0.7	1.0	1.4	0.4	-0.4	0.3	**0.6**	**0.7**	**0.9**	*0.4*	*0.7*
Germany	1.0	-0.3	0.8	1.4	1.2	0.6	0.9	**0.5**	**0.6**	**0.8**	*0.7*	*0.7*
Estonia	-1.6	0.9	-2.1	6.5	1.6	1.2	0.8	**1.1**	**-0.6**	**-0.1**	*0.6*	*-0.3*
Ireland	5.7	3.0	-0.7	-1.8	-0.6	2.4	1.7	**2.0**	**1.5**	**1.4**	*1.6*	*1.5*
Greece	0.8	1.5	0.3	-6.9	-6.3	-3.6	0.1	**0.4**	**-0.6**	**2.0**	*0.5*	*2.9*
Spain	3.7	3.1	-0.3	-2.6	-4.4	-3.3	1.2	**2.8**	**2.5**	**2.0**	*2.7*	*2.5*
France	1.4	0.7	0.3	0.5	0.1	0.0	0.3	**0.3**	**0.5**	**0.8**	*0.5*	*1.0*
Italy	0.8	0.8	-0.3	0.1	-1.4	-2.5	0.2	**1.0**	**1.0**	**1.0**	*0.6*	*0.8*
Cyprus	1.2	3.1	1.3	0.5	-4.2	-5.2	-1.9	**0.2**	**1.2**	**1.6**	*-0.4*	*1.2*
Latvia	-0.6	1.0	-2.5	1.5	1.4	2.3	-1.4	**0.2**	**0.4**	**1.0**	*0.2*	*0.5*
Lithuania	-1.1	0.3	-2.5	0.5	1.8	1.3	2.0	**1.5**	**0.2**	**0.1**	*1.2*	*1.2*
Luxembourg	4.1	3.1	3.2	2.9	2.4	1.8	2.5	**2.6**	**2.5**	**2.3**	*2.5*	*2.3*
Malta	0.2	0.7	1.6	2.8	2.3	4.2	4.5	**2.4**	**2.0**	**1.5**	*2.4*	*2.4*
Netherlands	2.5	0.0	1.0	0.6	-0.6	-0.8	-0.3	**1.2**	**1.1**	**1.1**	*0.9*	*1.1*
Austria	0.9	0.6	1.2	1.6	1.1	0.5	0.9	**0.7**	**0.8**	**0.8**	*0.6*	*0.8*
Portugal	2.2	0.0	-0.7	-1.9	-4.1	-2.9	1.4	**1.1**	**0.8**	**0.7**	*0.6*	*0.7*
Slovenia	-0.2	0.3	0.7	-1.7	-0.9	-1.4	0.6	**0.6**	**0.5**	**0.7**	*0.5*	*0.5*
Slovakia	-0.8	0.6	0.8	1.8	0.1	-0.8	1.4	**1.8**	**1.2**	**1.0**	*1.3*	*1.5*
Finland	2.3	1.0	0.6	1.3	0.9	-0.7	-0.8	**-0.4**	**0.3**	**0.6**	*0.2*	*0.4*
Euro area	1.4	0.7	0.3	0.1	-0.7	-0.8	0.6	**0.9**	**0.9**	**1.0**	*0.9*	*1.1*
Bulgaria	-1.6	1.5	0.7	-2.2	-2.5	-0.4	0.4	**0.3**	**0.3**	**0.5**	*0.2*	*0.3*
Czech Republic	-1.0	0.3	0.6	-0.3	0.4	0.3	0.6	**1.3**	**0.2**	**0.1**	*0.4*	*0.3*
Denmark	1.0	0.2	0.1	-0.1	-0.3	0.0	0.8	**0.9**	**1.0**	**1.0**	*0.8*	*0.9*
Croatia	:	1.5	0.9	-3.9	-3.6	-2.6	2.7	**0.6**	**0.7**	**1.2**	*0.0*	*0.5*
Hungary	1.1	-0.3	-0.8	0.0	0.1	0.9	3.1	**1.8**	**1.1**	**1.2**	*1.9*	*1.2*
Poland	-0.3	-0.6	1.8	0.6	0.1	-0.1	1.7	**1.0**	**0.6**	**0.6**	*0.7*	*0.6*
Romania	-1.5	-2.9	-0.2	-0.8	-4.8	-0.9	1.1	**0.3**	**0.4**	**0.5**	*1.2*	*1.4*
Sweden	0.8	0.2	0.7	2.1	0.7	1.0	1.4	**1.3**	**1.6**	**1.6**	*1.2*	*1.2*
United Kingdom	1.3	1.0	0.3	0.5	1.1	1.2	2.3	**1.7**	**1.0**	**0.7**	*1.2*	*0.8*
EU	:	0.5	0.4	0.1	-0.6	-0.4	1.0	**1.0**	**0.9**	**0.9**	*0.9*	*1.0*
USA	1.8	0.7	-0.3	0.6	1.8	1.0	1.6	**1.7**	**1.2**	**1.3**	*2.5*	*1.9*
Japan	-0.5	0.0	-0.3	-0.2	0.0	0.6	0.6	**0.3**	**0.1**	**0.1**	*0.2*	*0.1*

Table 24: Unemployment rate [1] (number of unemployed as a percentage of total labour force, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	8.7	7.8	7.8	7.2	7.6	8.4	8.5	**8.6**	**8.4**	**7.9**	*8.4*	*8.1*
Germany	8.9	9.5	8.1	5.8	5.4	5.2	5.0	**4.7**	**4.9**	**5.2**	*4.6*	*4.4*
Estonia	10.9	10.5	9.2	12.3	10.0	8.6	7.4	**6.5**	**6.5**	**7.6**	*6.2*	*5.8*
Ireland	7.8	4.4	8.3	14.7	14.7	13.1	11.3	**9.5**	**8.7**	**7.9**	*9.6*	*9.2*
Greece	10.7	10.3	9.5	17.9	24.5	27.5	26.5	**25.7**	**25.8**	**24.4**	*25.6*	*23.2*
Spain	16.0	10.8	13.2	21.4	24.8	26.1	24.5	**22.3**	**20.5**	**19.0**	*22.4*	*20.5*
France	10.0	8.4	8.5	9.2	9.8	10.3	10.3	**10.4**	**10.4**	**10.2**	*10.3*	*10.0*
Italy	10.9	8.3	7.1	8.4	10.7	12.1	12.7	**12.2**	**11.8**	**11.6**	*12.4*	*12.4*
Cyprus	3.6	4.3	4.8	7.9	11.9	15.9	16.1	**15.6**	**14.6**	**13.3**	*16.2*	*15.2*
Latvia	15.7	11.9	11.6	16.2	15.0	11.9	10.8	**10.1**	**9.5**	**8.8**	*10.4*	*9.4*
Lithuania	11.7	12.6	9.5	15.4	13.4	11.8	10.7	**9.4**	**8.6**	**8.1**	*9.9*	*9.1*
Luxembourg	2.6	3.6	4.7	4.8	5.1	5.9	6.0	**5.9**	**5.8**	**5.8**	*5.7*	*5.4*
Malta	6.3	7.4	6.6	6.4	6.3	6.4	5.9	**5.8**	**5.7**	**5.8**	*5.9*	*5.9*
Netherlands	5.4	4.6	4.5	5.0	5.8	7.3	7.4	**6.9**	**6.6**	**6.3**	*7.1*	*6.9*
Austria	4.4	4.9	4.9	4.6	4.9	5.4	5.6	**6.1**	**6.1**	**6.0**	*5.8*	*5.7*
Portugal	6.4	7.1	9.9	12.9	15.8	16.4	14.1	**12.6**	**11.7**	**10.8**	*13.4*	*12.6*
Slovenia	7.0	6.4	5.7	8.2	8.9	10.1	9.7	**9.4**	**9.2**	**8.7**	*9.4*	*9.2*
Slovakia	14.4	18.2	12.2	13.7	14.0	14.2	13.2	**11.6**	**10.5**	**9.6**	*12.1*	*10.8*
Finland	11.7	8.9	7.5	7.8	7.7	8.2	8.7	**9.6**	**9.5**	**9.4**	*9.1*	*9.0*
Euro area	:	8.8	8.6	10.1	11.4	12.0	11.6	**11.0**	**10.6**	**10.3**	*11.0*	*10.5*
Bulgaria	14.2	14.7	7.7	11.3	12.3	13.0	11.4	**10.1**	**9.4**	**8.8**	*10.4*	*9.8*
Czech Republic	6.6	7.9	6.2	6.7	7.0	7.0	6.1	**5.2**	**5.0**	**4.8**	*5.6*	*5.5*
Denmark	5.2	5.0	4.9	7.6	7.5	7.0	6.6	**6.1**	**5.8**	**5.5**	*6.2*	*5.9*
Croatia	13.4	14.4	10.2	13.7	16.0	17.3	17.3	**16.2**	**15.6**	**14.7**	*17.0*	*16.6*
Hungary	8.2	6.1	8.8	11.0	11.0	10.2	7.7	**7.1**	**6.7**	**6.2**	*6.8*	*6.0*
Poland	12.5	19.0	9.7	9.7	10.1	10.3	9.0	**7.6**	**7.2**	**6.8**	*8.4*	*7.9*
Romania	6.3	7.7	6.5	7.2	6.8	7.1	6.8	**6.7**	**6.6**	**6.5**	*6.6*	*6.4*
Sweden	8.0	6.7	7.3	7.8	8.0	8.0	7.9	**7.7**	**7.7**	**7.4**	*7.7*	*7.6*
United Kingdom	6.4	4.9	6.3	8.1	7.9	7.6	6.1	**5.4**	**5.4**	**5.5**	*5.4*	*5.3*
EU	:	9.0	8.2	9.7	10.5	10.9	10.2	**9.5**	**9.2**	**8.9**	*9.6*	*9.2*
USA	4.6	5.4	6.8	8.9	8.1	7.4	6.2	**5.3**	**4.8**	**4.6**	*5.4*	*5.0*
Japan	4.1	5.0	4.4	4.6	4.3	4.0	3.6	**3.4**	**3.3**	**3.3**	*3.6*	*3.5*

[1] Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	2.3	2.6	2.6	3.1	3.2	2.6	0.9	**0.5**	**0.3**	**1.6**	*0.5*	*0.5*
Germany	1.0	1.0	1.3	3.0	2.5	1.8	2.6	**2.9**	**2.7**	**3.2**	*3.0*	*2.7*
Estonia	16.3	10.9	9.7	0.8	6.9	5.8	5.9	**4.9**	**5.5**	**5.4**	*5.1*	*5.7*
Ireland	5.2	6.1	1.6	1.2	0.0	-0.7	1.8	**3.2**	**2.2**	**2.2**	*3.2*	*2.8*
Greece	8.1	7.3	2.5	-3.8	-3.0	-7.0	-2.1	**-2.0**	**0.1**	**0.8**	*0.1*	*1.7*
Spain	2.6	3.5	4.2	0.7	-1.1	1.6	-0.7	**0.7**	**0.6**	**1.3**	*0.3*	*0.4*
France	2.0	2.9	2.7	2.5	2.4	1.6	1.4	**0.8**	**1.3**	**1.5**	*0.5*	*0.9*
Italy	2.9	3.4	2.7	1.1	0.4	1.5	0.6	**0.5**	**0.4**	**1.1**	*0.5*	*0.6*
Cyprus	4.7	4.1	2.9	2.5	-0.8	-6.0	-4.6	**-0.7**	**1.1**	**2.3**	*-0.3*	*1.1*
Latvia	11.9	12.0	9.8	3.7	6.1	5.0	9.1	**5.2**	**5.2**	**5.5**	*5.2*	*4.8*
Lithuania	14.1	9.3	7.3	6.3	4.2	5.4	3.9	**4.5**	**5.0**	**5.1**	*4.6*	*4.7*
Luxembourg	2.9	3.3	3.0	2.0	1.6	3.6	2.9	**1.0**	**2.6**	**2.2**	*1.7*	*2.3*
Malta	4.1	3.8	3.4	3.5	3.9	0.4	0.3	**2.4**	**2.9**	**3.0**	*2.0*	*2.0*
Netherlands	3.5	3.3	2.5	2.4	2.5	1.8	2.2	**0.8**	**1.7**	**1.9**	*0.7*	*1.5*
Austria	1.8	1.9	2.4	2.0	2.7	2.2	1.7	**1.8**	**1.8**	**1.8**	*1.5*	*1.4*
Portugal	5.8	3.8	2.5	-1.8	-3.1	3.6	-1.4	**0.4**	**1.2**	**1.3**	*0.5*	*1.1*
Slovenia	10.6	8.3	4.9	1.5	-1.0	0.6	1.1	**0.8**	**1.8**	**2.6**	*1.6*	*1.9*
Slovakia	11.9	7.9	6.2	2.0	2.6	2.6	1.8	**2.1**	**2.9**	**3.1**	*2.4*	*3.2*
Finland	3.2	2.9	3.0	3.6	2.8	1.3	1.4	**1.2**	**1.3**	**1.1**	*1.0*	*0.9*
Euro area	2.2	2.6	2.5	2.1	1.8	1.7	1.4	**1.4**	**1.6**	**2.0**	*1.3*	*1.5*
Bulgaria	98.2	7.8	10.7	6.8	7.7	8.8	1.5	**2.1**	**2.9**	**2.9**	*1.8*	*2.5*
Czech Republic	9.9	7.1	3.8	2.8	1.7	-0.3	1.5	**2.9**	**3.8**	**4.0**	*3.1*	*3.2*
Denmark	3.7	3.6	3.5	1.4	1.5	1.3	1.6	**1.5**	**2.1**	**2.3**	*2.0*	*2.2*
Croatia	:	5.4	3.3	4.3	0.2	-0.7	-5.3	**0.9**	**1.5**	**2.0**	*-1.4*	*1.5*
Hungary	15.9	11.1	3.3	3.1	2.1	1.8	0.9	**3.4**	**3.2**	**3.1**	*4.9*	*3.0*
Poland	17.1	3.5	5.9	5.3	3.6	1.7	1.6	**2.6**	**3.4**	**4.1**	*2.0*	*3.3*
Romania	66.5	27.6	11.4	-4.1	9.4	3.0	1.9	**4.4**	**5.7**	**6.2**	*2.5*	*2.8*
Sweden	4.3	3.7	3.4	3.2	3.1	1.9	2.2	**2.7**	**2.8**	**2.9**	*2.3*	*2.5*
United Kingdom	4.9	4.2	3.5	1.1	1.6	1.5	0.5	**2.8**	**3.3**	**3.7**	*2.4*	*2.8*
EU	3.6	3.2	2.8	2.0	1.9	1.6	1.1	**1.7**	**2.0**	**2.5**	*1.6*	*1.8*
USA	:	3.2	2.6	3.0	2.2	1.5	2.8	**1.9**	**3.3**	**3.7**	*2.6*	*3.7*
Japan	-0.1	-1.5	-1.1	0.6	-0.2	0.1	0.2	**0.7**	**1.2**	**0.6**	*0.7*	*1.0*

Table 26: Real compensation of employees per head [1] (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	0.9	0.6	0.5	0.1	1.2	1.5	0.4	**0.3**	**-0.9**	**0.3**	*0.0*	*-0.7*
Germany	0.2	-0.4	0.2	0.9	0.9	0.6	1.7	**2.3**	**1.5**	**1.4**	*2.6*	*1.1*
Estonia	6.2	6.5	4.5	-4.6	3.4	2.7	5.0	**4.7**	**3.3**	**2.2**	*4.9*	*3.7*
Ireland	1.7	2.6	2.0	-0.5	-0.7	-2.3	0.0	**1.5**	**0.7**	**0.7**	*1.7*	*1.2*
Greece	3.3	4.5	-0.7	-5.9	-3.5	-5.1	0.6	**-1.0**	**-0.9**	**-0.1**	*1.7*	*1.2*
Spain	-0.1	0.2	1.8	-1.7	-3.4	0.6	-0.9	**1.2**	**-0.1**	**0.1**	*0.9*	*-0.7*
France	1.1	1.2	1.3	0.7	0.9	0.8	1.4	**0.7**	**0.4**	**0.2**	*0.5*	*-0.1*
Italy	0.2	0.8	0.9	-1.7	-2.2	0.3	0.4	**0.3**	**-0.6**	**-0.8**	*0.1*	*-1.2*
Cyprus	2.4	1.4	0.1	-0.6	-3.7	-5.9	-3.3	**1.1**	**0.8**	**0.9**	*0.9*	*0.2*
Latvia	5.2	5.8	4.0	-2.3	2.7	4.8	8.6	**5.0**	**3.6**	**3.3**	*4.6*	*2.6*
Lithuania	7.8	8.8	1.8	2.1	1.1	4.3	3.7	**5.4**	**4.4**	**2.8**	*5.0*	*2.9*
Luxembourg	0.7	1.2	1.2	-0.5	-0.1	2.4	2.3	**0.1**	**0.7**	**0.7**	*0.8*	*0.4*
Malta	1.9	1.4	1.1	1.0	1.4	-0.7	0.3	**1.6**	**1.1**	**0.7**	*0.6*	*0.1*
Netherlands	1.3	1.0	1.0	0.3	1.0	-0.4	0.8	**0.4**	**0.4**	**0.4**	*0.2*	*0.3*
Austria	0.7	0.0	0.6	-1.1	0.3	0.1	-0.3	**0.8**	**0.0**	**-0.1**	*0.7*	*-0.5*
Portugal	2.8	0.3	0.6	-3.5	-4.9	2.8	-2.0	**0.0**	**0.1**	**-0.1**	*0.3*	*-0.2*
Slovenia	2.5	3.1	2.0	-0.2	-2.3	-0.2	1.1	**1.4**	**0.9**	**1.2**	*1.6*	*0.2*
Slovakia	5.0	2.7	3.6	-1.8	-0.8	1.2	1.9	**2.3**	**1.7**	**1.6**	*2.6*	*1.7*
Finland	1.4	1.6	1.1	0.4	0.0	-1.0	-0.2	**0.7**	**0.4**	**-0.2**	*0.8*	*-0.4*
Euro area	0.6	0.4	0.9	-0.2	-0.1	0.5	0.8	**1.1**	**0.5**	**0.4**	*1.2*	*0.1*
Bulgaria	-1.2	3.7	6.4	2.1	4.0	11.7	1.6	**2.6**	**2.0**	**1.9**	*1.5*	*1.6*
Czech Republic	3.5	5.2	1.5	1.2	-0.5	-1.1	1.0	**2.6**	**2.7**	**2.3**	*2.7*	*1.7*
Denmark	1.7	1.9	1.3	-0.9	-1.1	0.3	0.9	**0.9**	**0.4**	**0.5**	*1.4*	*0.6*
Croatia	:	2.4	0.0	1.9	-2.9	-2.5	-5.0	**0.9**	**0.7**	**0.5**	*-1.1*	*0.4*
Hungary	0.9	5.1	-1.4	-0.6	-3.9	-0.3	-0.2	**2.9**	**1.2**	**0.6**	*3.9*	*0.5*
Poland	4.6	0.9	3.0	0.4	0.2	1.3	1.7	**3.3**	**2.0**	**2.2**	*2.5*	*2.1*
Romania	5.2	8.4	5.0	-7.9	4.7	0.4	0.6	**3.9**	**5.8**	**4.3**	*1.9*	*1.6*
Sweden	3.2	2.2	1.5	1.5	2.5	1.2	1.4	**1.4**	**1.3**	**1.1**	*1.3*	*1.2*
United Kingdom	3.1	2.7	0.3	-2.5	-0.2	-0.8	-1.0	**2.5**	**1.7**	**1.8**	*1.7*	*1.0*
EU	1.1	1.0	0.8	-0.6	-0.1	0.3	0.4	**1.5**	**0.9**	**0.8**	*1.3*	*0.3*
USA	:	1.0	0.7	0.6	0.3	0.1	1.3	**1.5**	**1.3**	**1.4**	*2.1*	*1.5*
Japan	0.0	-0.5	-0.1	1.4	0.7	0.4	-1.7	**-0.1**	**0.0**	**-0.9**	*0.1*	*0.1*

[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, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	1.7	1.1	0.4	0.4	-0.2	0.4	1.0	**0.7**	**0.6**	**0.8**	*0.6*	*0.8*
Germany	0.9	0.9	0.4	2.3	-0.7	-0.3	0.7	**1.2**	**1.3**	**1.1**	*1.1*	*1.3*
Estonia	7.8	6.1	1.9	1.0	3.5	0.3	2.1	**0.8**	**3.2**	**2.8**	*1.6*	*3.2*
Ireland	4.1	2.2	1.6	4.4	0.7	-0.9	3.4	**4.0**	**2.9**	**2.1**	*2.0*	*2.0*
Greece	2.9	2.3	-0.6	-2.4	-1.1	0.4	0.5	**-1.8**	**-0.7**	**0.7**	*0.0*	*0.0*
Spain	0.4	0.3	1.5	1.6	1.9	1.6	0.2	**0.3**	**0.1**	**0.4**	*0.1*	*0.1*
France	1.5	0.9	0.5	1.5	0.1	0.7	-0.1	**0.7**	**0.9**	**0.9**	*0.6*	*0.7*
Italy	1.2	0.2	0.0	0.5	-1.5	0.7	-0.7	**-0.2**	**0.4**	**0.4**	*0.0*	*0.6*
Cyprus	2.6	0.5	1.1	0.0	1.8	-0.7	-0.6	**1.1**	**0.2**	**0.4**	*-0.1*	*0.2*
Latvia	5.8	7.2	2.4	4.6	2.5	0.7	4.2	**2.3**	**2.6**	**2.3**	*2.0*	*2.6*
Lithuania	5.9	7.3	3.9	5.5	2.0	2.2	1.0	**0.2**	**2.7**	**3.2**	*1.6*	*2.1*
Luxembourg	1.9	-0.1	-0.7	-0.4	-3.2	2.5	1.5	**0.5**	**0.7**	**0.7**	*0.9*	*1.1*
Malta	4.3	1.4	0.4	-0.7	0.3	-1.5	-1.0	**1.8**	**1.6**	**1.5**	*1.1*	*0.8*
Netherlands	1.8	1.4	0.3	1.0	-0.4	0.3	1.3	**0.9**	**1.0**	**1.2**	*0.7*	*0.6*
Austria	2.1	1.1	0.1	1.2	-0.3	-0.1	-0.5	**-0.1**	**0.7**	**0.6**	*0.2*	*0.6*
Portugal	1.9	0.9	1.3	0.1	0.1	1.8	-0.5	**0.7**	**0.9**	**1.1**	*1.0*	*1.1*
Slovenia	4.4	3.3	1.0	2.4	-1.8	0.3	2.5	**2.0**	**1.3**	**1.8**	*1.8*	*1.6*
Slovakia	4.4	4.3	4.0	1.0	1.5	2.2	1.1	**1.3**	**1.6**	**2.3**	*1.7*	*1.9*
Finland	2.7	1.6	0.2	1.3	-2.3	-0.4	0.4	**0.7**	**0.4**	**0.5**	*0.2*	*0.6*
Euro area	1.4	0.8	0.6	1.5	-0.2	0.5	0.3	**0.7**	**0.9**	**0.9**	*0.6*	*0.8*
Bulgaria	2.0	4.2	2.5	3.9	2.8	1.7	1.2	**1.4**	**1.1**	**1.5**	*0.8*	*1.0*
Czech Republic	2.8	3.7	1.9	2.2	-1.3	-0.8	1.4	**3.0**	**2.1**	**2.6**	*2.1*	*2.3*
Denmark	2.0	1.2	0.0	1.2	-0.4	-0.5	0.3	**0.7**	**1.0**	**0.8**	*1.0*	*1.2*
Croatia	:	3.0	-0.4	3.7	1.5	1.7	-3.0	**0.5**	**0.6**	**0.5**	*0.3*	*0.7*
Hungary	1.9	4.6	0.6	1.7	-1.8	0.9	0.6	**1.1**	**1.1**	**1.3**	*0.9*	*1.0*
Poland	5.7	3.8	2.9	4.4	1.4	1.3	1.6	**2.6**	**2.9**	**2.9**	*2.5*	*2.7*
Romania	1.3	9.0	3.2	1.9	5.7	4.4	1.7	**3.2**	**3.7**	**3.1**	*1.6*	*1.8*
Sweden	2.7	2.4	0.9	0.5	-1.0	0.3	0.9	**1.7**	**1.2**	**1.1**	*1.3*	*1.6*
United Kingdom	1.9	1.8	0.1	1.5	0.1	1.0	0.7	**0.8**	**1.4**	**1.5**	*1.3*	*1.6*
EU	:	1.4	0.5	1.7	0.1	0.6	0.3	**0.9**	**1.1**	**1.1**	*0.8*	*1.1*
USA	2.5	1.8	1.1	1.0	0.4	0.5	0.8	**0.8**	**1.6**	**1.4**	*0.6*	*1.1*
Japan	1.3	1.2	0.7	-0.3	1.7	1.0	-0.7	**0.4**	**1.0**	**0.4**	*0.9*	*1.3*

Table 28: Unit labour costs, whole economy [1] (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	0.7	1.5	2.3	2.7	3.4	2.2	-0.1	**-0.2**	**-0.3**	**0.7**	*-0.2*	*-0.3*
Germany	0.1	0.2	1.0	0.7	3.3	2.2	1.9	**1.6**	**1.4**	**2.1**	*1.8*	*1.4*
Estonia	7.9	4.5	7.7	-0.2	3.3	5.5	3.7	**4.1**	**2.3**	**2.6**	*3.4*	*2.4*
Ireland	1.1	3.7	0.0	-3.1	-0.8	0.2	-1.6	**-0.8**	**-0.7**	**0.1**	*1.2*	*0.9*
Greece	5.0	4.9	3.1	-1.4	-2.0	-7.4	-2.6	**-0.2**	**0.8**	**0.1**	*0.1*	*1.7*
Spain	2.2	3.2	2.7	-0.9	-2.9	-0.1	-0.9	**0.4**	**0.5**	**0.9**	*0.3*	*0.3*
France	0.5	2.0	2.2	1.0	2.3	0.9	1.5	**0.1**	**0.4**	**0.7**	*-0.1*	*0.3*
Italy	1.6	3.2	2.7	0.7	1.9	0.7	1.3	**0.6**	**0.0**	**0.7**	*0.5*	*0.0*
Cyprus	2.0	3.5	1.8	2.5	-2.6	-5.3	-4.0	**-1.7**	**0.9**	**1.9**	*-0.2*	*0.9*
Latvia	5.8	4.5	7.3	-0.9	3.5	4.3	4.7	**2.9**	**2.6**	**3.1**	*3.1*	*2.1*
Lithuania	7.7	1.9	3.3	0.8	2.2	3.1	2.8	**4.3**	**2.3**	**1.8**	*3.0*	*2.6*
Luxembourg	1.0	3.4	3.7	2.3	4.9	1.2	1.4	**0.5**	**1.9**	**1.5**	*0.8*	*1.2*
Malta	-0.2	2.4	3.0	4.2	3.6	2.0	1.2	**0.6**	**1.3**	**1.4**	*0.8*	*1.2*
Netherlands	1.6	1.9	2.2	1.3	2.9	1.5	0.8	**-0.1**	**0.7**	**0.7**	*0.0*	*0.9*
Austria	-0.2	0.8	2.3	0.8	3.0	2.3	2.3	**1.9**	**1.1**	**1.2**	*1.3*	*0.7*
Portugal	3.8	2.9	1.2	-2.0	-3.2	1.8	-0.9	**-0.2**	**0.3**	**0.2**	*-0.5*	*0.0*
Slovenia	5.9	4.9	3.8	-0.8	0.8	0.2	-1.3	**-1.2**	**0.4**	**0.8**	*-0.2*	*0.2*
Slovakia	7.2	3.4	2.2	1.0	1.1	0.3	0.7	**0.7**	**1.3**	**0.8**	*0.6*	*1.2*
Finland	0.5	1.3	2.8	2.3	5.2	1.8	0.9	**0.4**	**0.9**	**0.6**	*0.8*	*0.3*
Euro area	1.0	1.9	2.0	0.6	1.9	1.1	1.1	**0.7**	**0.7**	**1.1**	*0.7*	*0.6*
Bulgaria	94.3	3.4	8.0	2.8	4.8	7.0	0.3	**0.7**	**1.7**	**1.4**	*1.0*	*1.5*
Czech Republic	6.9	3.3	1.8	0.6	3.1	0.6	0.1	**-0.1**	**1.7**	**1.4**	*0.9*	*0.8*
Denmark	1.7	2.4	3.4	0.2	1.9	1.9	1.3	**0.8**	**1.1**	**1.5**	*0.9*	*0.9*
Croatia	:	2.3	3.7	0.6	-1.3	-2.4	-2.4	**0.4**	**0.9**	**1.5**	*-1.7*	*0.8*
Hungary	13.8	6.2	2.6	1.4	4.0	0.9	0.3	**2.2**	**2.1**	**1.8**	*3.9*	*2.0*
Poland	10.8	-0.3	2.9	0.9	2.1	0.3	0.0	**0.0**	**0.5**	**1.2**	*-0.5*	*0.5*
Romania	64.4	17.1	8.0	-5.8	3.5	-1.3	0.2	**1.2**	**1.9**	**3.0**	*0.9*	*1.0*
Sweden	1.5	1.2	2.5	2.6	4.1	1.7	1.2	**1.0**	**1.6**	**1.8**	*1.0*	*0.9*
United Kingdom	2.9	2.4	3.4	-0.3	1.5	0.5	-0.1	**2.0**	**1.9**	**2.2**	*1.0*	*1.2*
EU	:	2.0	2.4	0.4	1.9	1.0	0.8	**0.9**	**0.9**	**1.4**	*0.8*	*0.8*
USA	:	1.3	1.5	2.0	1.7	1.0	1.9	**1.1**	**1.7**	**2.3**	*2.0*	*2.6*
Japan	-1.4	-2.7	-1.7	0.8	-1.9	-0.9	0.9	**0.4**	**0.2**	**0.3**	*-0.2*	*-0.3*

[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, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	-0.5	-0.5	0.4	0.7	1.4	0.8	-0.7	**-1.2**	**-1.3**	**-0.5**	*-1.3*	*-1.3*
Germany	-0.1	-0.9	-0.1	-0.4	1.8	0.1	0.2	**-0.3**	**-0.2**	**0.4**	*0.1*	*-0.6*
Estonia	-2.4	-0.8	1.7	-5.1	0.6	1.5	1.7	**3.1**	**-0.2**	**-0.6**	*1.7*	*-0.4*
Ireland	-2.9	-0.2	1.2	-5.0	-1.1	-1.0	-1.7	**-2.7**	**-2.5**	**-1.2**	*-0.9*	*-0.7*
Greece	0.1	1.8	0.2	-2.2	-1.6	-5.0	-0.4	**0.9**	**0.2**	**-0.6**	*1.4*	*1.0*
Spain	-0.6	-0.8	0.7	-0.9	-3.0	-0.6	-0.5	**-0.2**	**-0.6**	**-0.2**	*0.1*	*-0.5*
France	-0.5	0.1	0.5	0.0	1.1	0.2	0.9	**-0.8**	**-0.5**	**-0.3**	*-1.1*	*-0.7*
Italy	-1.0	0.4	0.9	-0.8	0.5	-0.6	0.4	**0.2**	**-1.0**	**-1.1**	*-0.1*	*-1.5*
Cyprus	-0.5	0.3	-1.0	0.7	-4.6	-4.0	-2.8	**-0.5**	**0.2**	**1.0**	*0.0*	*0.3*
Latvia	0.2	-1.4	1.0	-6.9	0.0	3.0	3.4	**1.8**	**0.5**	**0.7**	*1.5*	*0.2*
Lithuania	1.1	0.2	-1.3	-4.2	-0.5	1.8	1.6	**4.8**	**1.7**	**-1.7**	*1.2*	*0.3*
Luxembourg	-0.6	1.3	0.4	-1.7	0.8	-1.2	0.4	**0.8**	**0.3**	**-0.5**	*0.6*	*-0.5*
Malta	-1.9	0.0	0.0	1.9	1.6	0.1	-0.6	**-1.6**	**-1.2**	**-1.1**	*-0.6*	*-0.7*
Netherlands	-0.5	-0.7	0.5	1.2	1.5	0.1	0.0	**-0.9**	**-0.8**	**-0.7**	*0.5*	*-1.0*
Austria	-1.1	-0.9	0.5	-1.1	1.0	0.8	0.6	**0.4**	**-0.4**	**-0.6**	*0.4*	*-0.8*
Portugal	0.4	-0.5	-0.7	-1.7	-2.8	-0.5	-1.8	**-1.5**	**-1.0**	**-1.3**	*-1.8*	*-1.4*
Slovenia	-1.8	-0.4	1.2	-1.9	0.6	-0.6	-2.1	**-1.7**	**-1.0**	**-1.0**	*-0.5*	*-0.9*
Slovakia	1.0	-1.1	0.9	-0.7	-0.2	-0.2	0.9	**0.6**	**0.2**	**-0.6**	*0.5*	*-0.1*
Finland	-1.0	0.1	1.0	-0.3	2.2	-0.8	-0.7	**-0.9**	**-0.3**	**-0.6**	*-0.4*	*-1.1*
Euro area	-0.6	-0.5	0.4	-0.5	0.7	-0.1	0.2	**-0.4**	**-0.5**	**-0.3**	*-0.2*	*-0.8*
Bulgaria	-0.4	-1.4	1.7	-3.8	3.2	7.8	-0.1	**-0.3**	**0.9**	**0.7**	*0.7*	*0.9*
Czech Republic	0.3	0.8	0.4	0.8	1.7	-0.8	-2.3	**-0.8**	**0.7**	**0.0**	*-0.8*	*-0.8*
Denmark	-0.3	0.1	0.9	-0.6	-0.6	0.3	0.5	**-0.6**	**-0.4**	**-0.2**	*0.0*	*-0.6*
Croatia	:	-1.4	0.2	-1.1	-2.8	-3.2	-2.4	**0.1**	**-0.3**	**0.0**	*-1.8*	*-0.5*
Hungary	-0.7	-0.2	-1.4	-0.8	0.5	-2.2	-2.9	**0.5**	**-0.3**	**-1.0**	*1.2*	*-0.8*
Poland	-0.1	-2.7	-0.2	-2.3	-0.3	-0.1	-0.4	**0.2**	**-0.8**	**-0.3**	*-0.9*	*-0.5*
Romania	2.3	-4.0	-1.6	-10.1	-1.2	-4.6	-1.5	**-0.2**	**0.7**	**0.5**	*-0.4*	*-0.7*
Sweden	0.4	-0.2	0.2	1.4	3.0	0.6	-0.3	**-0.9**	**-0.2**	**-0.1**	*-0.5*	*-0.7*
United Kingdom	0.7	0.0	0.6	-2.4	-0.1	-1.5	-1.8	**0.7**	**0.2**	**0.2**	*-0.4*	*-0.5*
EU	:	-0.6	0.3	-1.0	0.4	-0.4	-0.3	**-0.3**	**-0.4**	**-0.3**	*-0.3*	*-0.8*
USA	:	-1.0	-0.4	-0.1	-0.1	-0.7	0.3	**0.0**	**-0.3**	**0.1**	*0.4*	*0.3*
Japan	-0.9	-1.3	-0.6	2.7	-0.9	-0.3	-0.7	**-1.3**	**-1.0**	**-1.3**	*-0.5*	*-1.1*

[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 (1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Germany	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Estonia	15.6055	15.6466	15.6466	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Ireland	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Greece	321.6052	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Spain	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
France	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Italy	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Cyprus	0.5813	0.5788	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Latvia	0.6408	0.6286	0.7027	0.7063	0.6973	0.7015	:	**:**	**:**	**:**	*:*	*:*
Lithuania	4.4118	3.4800	3.4528	3.4528	3.4528	3.4528	3.4528	**:**	**:**	**:**	*:*	*:*
Luxembourg	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Malta	0.4320	0.4192	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Netherlands	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Austria	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Portugal	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Slovenia	187.9596	231.2923	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Slovakia	40.6603	41.2208	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Finland	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Euro area	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Bulgaria	1.6008	1.9511	1.9558	1.9558	1.9558	1.9558	1.9558	**1.9558**	**1.9558**	**1.9558**	*1.9558*	*1.9558*
Czech Republic	35.7840	31.6782	26.5545	24.5898	25.1491	25.9797	27.5359	**27.2916**	**27.1073**	**27.1073**	*27.4785*	*27.4305*
Denmark	7.4463	7.4410	7.4519	7.4506	7.4437	7.4579	7.4548	**7.4588**	**7.4608**	**7.4608**	*7.4644*	*7.4689*
Croatia	7.2456	7.4722	7.3030	7.4390	7.5217	7.5786	7.6344	**7.6134**	**7.6211**	**7.6211**	*7.6127*	*7.5902*
Hungary	231.7594	250.5756	264.5870	279.3726	289.2494	296.8730	308.7061	**309.6938**	**311.3910**	**311.3910**	*300.9196*	*298.3510*
Poland	3.8580	4.0958	3.9028	4.1206	4.1847	4.1975	4.1843	**4.1769**	**4.2342**	**4.2342**	*4.0673*	*4.0266*
Romania	1.1657	3.4309	3.7992	4.2391	4.4593	4.4190	4.4437	**4.4349**	**4.4162**	**4.4162**	*4.4214*	*4.4116*
Sweden	8.6669	9.1894	9.6552	9.0298	8.7041	8.6515	9.0985	**9.3535**	**9.3015**	**9.3015**	*9.3398*	*9.3272*
United Kingdom	0.6901	0.6610	0.7822	0.8679	0.8109	0.8493	0.8061	**0.7304**	**0.7398**	**0.7398**	*0.7285*	*0.7237*
EU	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
USA	1.1029	1.0921	1.3635	1.3920	1.2848	1.3281	1.3285	**1.1190**	**1.1330**	**1.1330**	*1.0845*	*1.0710*
Japan	128.4734	125.8020	141.2594	110.9586	102.4919	129.6627	140.3061	**134.9940**	**135.6740**	**135.6740**	*129.7269*	*128.3030*

Table 31: Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	-1.7	1.5	0.4	0.3	-1.9	2.4	0.7	**-2.8**	**0.7**	**0.0**	*-3.9*	*-0.3*
Germany	-1.5	2.0	0.3	0.1	-2.3	3.2	1.1	**-3.6**	**1.0**	**0.0**	*-5.0*	*-0.4*
Estonia	-0.8	1.3	0.4	-0.5	-1.7	1.5	1.5	**-1.0**	**0.6**	**0.0**	*-1.9*	*-0.2*
Ireland	-1.5	2.5	0.9	0.8	-3.6	3.1	0.1	**-5.6**	**0.9**	**0.0**	*-7.0*	*-0.5*
Greece	0.3	2.2	0.6	1.0	-1.7	3.1	2.1	**-1.9**	**1.5**	**0.0**	*-3.8*	*-0.2*
Spain	-1.1	1.6	0.5	0.4	-1.9	2.3	0.8	**-2.7**	**0.8**	**0.0**	*-3.9*	*-0.3*
France	-1.0	1.8	0.4	0.2	-2.4	3.1	1.0	**-3.4**	**0.9**	**0.0**	*-4.7*	*-0.4*
Italy	1.9	2.1	0.3	0.4	-2.1	2.9	1.1	**-3.4**	**1.0**	**0.0**	*-4.9*	*-0.4*
Cyprus	6.3	2.0	0.5	0.2	-2.1	2.8	0.5	**-3.2**	**0.8**	**0.0**	*-4.3*	*-0.3*
Latvia	4.3	-3.2	0.0	0.4	0.1	1.1	1.0	**-1.1**	**0.7**	**0.0**	*-2.2*	*-0.3*
Lithuania	8.8	3.1	0.3	0.4	-1.3	1.8	0.8	**-1.6**	**0.7**	**0.0**	*-2.5*	*-0.3*
Luxembourg	-1.4	0.9	0.4	0.0	-1.5	1.8	0.7	**-2.1**	**0.7**	**0.0**	*-3.0*	*-0.2*
Malta	0.0	1.3	0.4	0.3	-2.1	2.6	0.8	**-2.5**	**0.9**	**0.0**	*-3.6*	*-0.3*
Netherlands	-1.5	1.3	0.5	0.2	-1.8	2.0	0.5	**-2.5**	**0.6**	**0.0**	*-3.4*	*-0.3*
Austria	-0.4	1.1	0.2	-0.1	-1.3	2.0	0.9	**-2.3**	**0.6**	**0.0**	*-3.3*	*-0.3*
Portugal	-1.1	1.1	0.4	0.3	-1.5	1.7	0.4	**-2.4**	**0.6**	**0.0**	*-3.2*	*-0.3*
Slovenia	-5.0	-2.2	0.2	0.4	-0.6	1.4	0.8	**-1.3**	**0.5**	**0.0**	*-2.0*	*-0.2*
Slovakia	-0.6	2.4	5.3	0.2	-0.4	1.2	0.8	**-1.2**	**0.5**	**0.0**	*-1.9*	*-0.2*
Finland	-1.8	2.0	0.3	-0.1	-2.6	3.1	1.6	**-2.7**	**0.9**	**0.0**	*-4.2*	*-0.4*
Euro area	-1.7	4.0	0.9	0.5	-4.4	5.9	2.1	**-6.3**	**1.8**	**0.0**	*-8.7*	*-0.7*
Bulgaria	-44.1	3.0	0.7	1.3	-0.7	2.2	1.8	**-1.2**	**1.1**	**0.0**	*-2.7*	*-0.2*
Czech Republic	0.4	4.5	3.6	3.1	-3.2	-1.8	-5.2	**-0.8**	**1.2**	**0.0**	*-2.3*	*-0.1*
Denmark	-1.3	1.7	0.4	-0.4	-2.6	2.6	1.5	**-2.6**	**0.8**	**0.0**	*-4.0*	*-0.5*
Croatia	-1.5	1.8	0.5	-1.6	-2.2	1.0	0.2	**-1.5**	**0.5**	**0.0**	*-2.5*	*0.1*
Hungary	-7.8	2.0	-1.8	-1.0	-4.4	-1.1	-3.1	**-1.9**	**0.0**	**0.0**	*0.2*	*0.6*
Poland	-4.2	0.8	0.4	-2.8	-2.8	1.4	1.1	**-1.5**	**-0.8**	**0.0**	*0.5*	*0.8*
Romania	-31.9	-9.6	-2.5	0.4	-5.9	2.8	0.7	**-1.2**	**1.3**	**0.0**	*-2.1*	*0.0*
Sweden	1.1	0.0	-0.2	5.9	1.2	3.6	-3.8	**-5.1**	**1.6**	**0.0**	*-6.3*	*-0.2*
United Kingdom	5.5	-0.2	-4.5	-0.9	4.4	-1.7	6.9	**6.7**	**-0.4**	**0.0**	*5.3*	*0.3*
EU	-0.7	5.4	-0.6	1.1	-5.2	8.0	4.6	**-6.8**	**2.6**	**0.0**	*-10.7*	*-0.8*
USA	5.2	-2.7	-1.4	-5.3	4.1	2.8	3.8	**16.6**	**1.0**	**0.0**	*16.2*	*0.6*
Japan	0.7	-3.1	4.0	5.9	3.3	-18.4	-6.6	**-3.2**	**1.1**	**0.0**	*-1.8*	*0.4*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Table 32: Relative unit labour costs, to rest of a group[1] of industrialised countries (nat. curr) (percentage change over preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	:	-0.2	0.2	1.9	1.2	0.9	-1.3	**-1.1**	**-1.3**	**:**	*-1.1*	*-1.3*
Germany	:	-1.9	-1.4	-0.2	1.3	1.1	0.8	**0.8**	**0.5**	**:**	*1.0*	*0.5*
Estonia	:	2.6	4.9	-1.4	0.2	3.6	2.2	**2.9**	**1.0**	**:**	*2.1*	*1.2*
Ireland	:	2.1	-2.0	-4.1	-2.6	-0.9	-2.6	**-1.6**	**-1.7**	**:**	*0.3*	*-0.2*
Greece	:	2.0	0.3	-1.9	-4.5	-9.0	-4.3	**-1.8**	**-1.0**	**:**	*-1.5*	*-0.1*
Spain	:	1.1	0.5	-1.5	-4.9	-1.3	-2.1	**-0.5**	**-0.5**	**:**	*-0.6*	*-0.7*
France	:	0.1	0.0	0.2	0.4	-0.2	0.4	**-0.9**	**-0.6**	**:**	*-1.1*	*-0.8*
Italy	:	1.3	0.6	0.0	-0.1	-0.5	0.1	**-0.3**	**-1.2**	**:**	*-0.6*	*-1.1*
Cyprus	:	0.9	-0.8	2.3	-3.6	-4.8	-4.4	**-2.5**	**-0.2**	**:**	*-1.1*	*-0.3*
Latvia	:	2.7	4.5	-1.8	0.8	2.6	3.2	**1.6**	**1.3**	**:**	*1.7*	*0.8*
Lithuania	:	-0.2	0.5	0.0	-0.5	1.4	1.3	**3.1**	**1.0**	**:**	*1.7*	*1.4*
Luxembourg	:	1.7	1.4	1.5	2.4	-0.2	0.1	**-0.3**	**0.9**	**:**	*-0.2*	*0.3*
Malta	:	1.0	1.2	3.5	1.9	0.8	0.0	**-0.5**	**0.1**	**:**	*-0.3*	*0.0*
Netherlands	:	0.3	0.1	0.5	0.7	0.1	-0.4	**-1.0**	**-0.3**	**:**	*-1.0*	*-0.1*
Austria	:	-1.0	0.2	0.1	0.7	1.0	1.1	**1.0**	**0.1**	**:**	*0.3*	*-0.3*
Portugal	:	0.9	-1.1	-2.4	-4.4	0.8	-1.7	**-1.0**	**-0.6**	**:**	*-1.4*	*-0.9*
Slovenia	:	2.9	1.5	-1.4	-1.5	-1.0	-2.4	**-2.2**	**-0.6**	**:**	*-1.1*	*-0.8*
Slovakia	:	1.6	0.0	0.3	-1.5	-1.0	-0.5	**-0.2**	**0.2**	**:**	*-0.4*	*0.2*
Finland	:	-0.4	0.5	1.2	2.8	0.3	-0.4	**-0.5**	**-0.2**	**:**	*-0.3*	*-0.9*
Euro area	:	-0.4	-0.6	-0.1	0.3	0.3	-0.2	**-0.4**	**-0.7**	**:**	*-0.3*	*-0.6*
Bulgaria	:	-0.4	5.1	3.0	2.1	5.9	-1.2	**-0.7**	**0.1**	**:**	*-0.5*	*-0.1*
Czech Republic	:	1.8	-0.2	-0.2	0.6	-0.9	-1.1	**-1.1**	**0.6**	**:**	*-0.2*	*-0.2*
Denmark	:	0.9	1.2	-1.0	-0.5	0.4	0.0	**-0.1**	**0.1**	**:**	*-0.2*	*-0.2*
Croatia	:	0.1	1.4	-0.1	-3.7	-3.7	-3.7	**-0.6**	**-0.2**	**:**	*-2.9*	*-0.3*
Hungary	:	4.4	0.3	0.9	1.5	-0.5	-1.0	**1.2**	**0.9**	**:**	*2.8*	*0.9*
Poland	:	-2.0	0.7	0.2	-0.5	-1.1	-1.3	**-1.1**	**-0.7**	**:**	*-1.7*	*-0.6*
Romania	:	14.0	5.3	-6.3	0.7	-2.9	-1.3	**-0.1**	**0.6**	**:**	*-0.4*	*-0.3*
Sweden	:	-0.5	0.0	1.4	1.7	0.1	-0.1	**0.2**	**0.8**	**:**	*-0.1*	*-0.3*
United Kingdom	:	0.7	1.5	-1.4	-0.4	-0.7	-1.3	**1.2**	**1.0**	**:**	*0.1*	*0.1*
EU	:	0.1	0.3	-0.6	0.3	-0.2	-1.2	**-0.4**	**-0.6**	**:**	*-0.7*	*-1.0*
USA	:	-0.4	-0.5	0.7	0.1	-0.1	1.0	**0.3**	**1.1**	**:**	*1.4*	*2.0*
Japan	:	-4.3	-3.9	-0.6	-3.8	-2.0	-0.3	**-0.4**	**-0.9**	**:**	*-1.4*	*-1.6*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 33: **Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (USD) (% change on preceding year, 1996-2017)** 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	**2001-05**	**2006-10**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	***2015***	***2016***
Belgium	:	1.3	0.6	2.2	-0.7	3.3	-0.7	**-3.9**	**-0.6**	**:**	*-5.0*	*-1.6*
Germany	:	0.0	-1.1	-0.1	-1.0	4.3	1.9	**-2.7**	**1.4**	**:**	*-4.0*	*0.1*
Estonia	:	4.0	5.3	-1.8	-1.5	5.2	3.7	**1.9**	**1.6**	**:**	*0.1*	*1.0*
Ireland	:	4.6	-1.2	-3.4	-6.2	2.1	-2.5	**-7.2**	**-0.8**	**:**	*-6.7*	*-0.7*
Greece	:	4.3	0.9	-0.9	-6.1	-6.2	-2.2	**-3.7**	**0.4**	**:**	*-5.2*	*-0.3*
Spain	:	2.7	1.0	-1.1	-6.6	1.0	-1.3	**-3.2**	**0.3**	**:**	*-4.5*	*-1.0*
France	:	2.0	0.5	0.5	-1.9	2.8	1.4	**-4.2**	**0.2**	**:**	*-5.8*	*-1.2*
Italy	:	3.4	0.9	0.4	-2.3	2.4	1.2	**-3.7**	**-0.2**	**:**	*-5.4*	*-1.5*
Cyprus	:	3.0	-0.4	2.5	-5.6	-2.1	-3.9	**-5.7**	**0.6**	**:**	*-5.3*	*-0.6*
Latvia	:	-0.6	4.5	-1.4	0.9	3.7	4.2	**0.4**	**2.0**	**:**	*-0.5*	*0.5*
Lithuania	:	2.9	0.8	0.4	-1.8	3.2	2.2	**1.5**	**1.7**	**:**	*-0.9*	*1.1*
Luxembourg	:	2.6	1.8	1.6	0.9	1.6	0.7	**-2.4**	**1.6**	**:**	*-3.2*	*0.0*
Malta	:	2.3	1.6	3.9	-0.2	3.4	0.8	**-2.9**	**1.0**	**:**	*-3.9*	*-0.2*
Netherlands	:	1.6	0.6	0.7	-1.1	2.2	0.2	**-3.5**	**0.3**	**:**	*-4.4*	*-0.4*
Austria	:	0.1	0.4	0.0	-0.6	3.0	1.9	**-1.4**	**0.7**	**:**	*-3.1*	*-0.5*
Portugal	:	2.0	-0.7	-2.1	-5.8	2.5	-1.3	**-3.4**	**0.0**	**:**	*-4.5*	*-1.1*
Slovenia	:	0.7	1.6	-1.1	-2.1	0.4	-1.6	**-3.5**	**-0.1**	**:**	*-3.2*	*-1.0*
Slovakia	:	4.1	5.3	0.5	-1.8	0.2	0.3	**-1.4**	**0.6**	**:**	*-2.4*	*0.0*
Finland	:	1.6	0.9	1.1	0.1	3.4	1.2	**-3.2**	**0.7**	**:**	*-4.5*	*-1.3*
Euro area	:	3.5	0.3	0.4	-4.1	6.2	1.9	**-6.7**	**1.1**	**:**	*-9.1*	*-1.3*
Bulgaria	:	2.6	5.8	4.4	1.4	8.3	0.6	**-2.0**	**1.2**	**:**	*-3.1*	*-0.3*
Czech Republic	:	6.4	3.3	2.9	-2.6	-2.6	-6.3	**-1.9**	**1.8**	**:**	*-2.5*	*-0.3*
Denmark	:	2.6	1.6	-1.5	-3.0	3.1	1.5	**-2.7**	**0.9**	**:**	*-4.1*	*-0.6*
Croatia	:	1.9	1.9	-1.7	-5.8	-2.7	-3.5	**-2.2**	**0.3**	**:**	*-5.3*	*-0.2*
Hungary	:	6.5	-1.5	0.0	-3.0	-1.6	-4.0	**-0.7**	**0.9**	**:**	*3.0*	*1.5*
Poland	:	-1.2	1.1	-2.7	-3.2	0.2	-0.2	**-2.5**	**-1.5**	**:**	*-1.2*	*0.2*
Romania	:	3.0	2.6	-5.9	-5.2	-0.1	-0.6	**-1.3**	**1.9**	**:**	*-2.5*	*-0.3*
Sweden	:	-0.5	-0.2	7.4	2.9	3.6	-3.8	**-4.9**	**2.4**	**:**	*-6.4*	*-0.5*
United Kingdom	:	0.5	-3.1	-2.3	4.0	-2.5	5.5	**8.0**	**0.5**	**:**	*5.4*	*0.4*
EU	:	5.5	-0.3	0.5	-4.9	7.8	3.3	**-7.1**	**1.9**	**:**	*-11.3*	*-1.8*
USA	:	-3.1	-2.0	-4.7	4.2	2.7	4.8	**16.9**	**2.1**	**:**	*17.7*	*2.6*
Japan	:	-7.3	0.0	5.2	-0.6	-20.0	-7.0	**-3.7**	**0.2**	**:**	*-3.2*	*-1.2*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 34: **Total expenditure, general government (as a percentage of GDP, 1996-2017)** 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	**2001-05**	**2006-10**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	***2015***	***2016***
Belgium	50.7	50.0	50.9	54.4	55.8	55.6	55.1	**54.3**	**53.9**	**53.6**	*53.3*	*52.6*
Germany	47.4	46.9	45.2	44.7	44.4	44.5	44.3	**43.5**	**43.8**	**44.0**	*43.7*	*43.5*
Estonia	38.6	34.9	38.8	37.4	39.1	38.3	38.0	**39.9**	**39.7**	**39.8**	*40.2*	*39.8*
Ireland	35.0	33.0	44.9	45.5	41.8	39.7	38.2	**36.2**	**34.3**	**33.7**	*37.2*	*36.8*
Greece	:	:	49.9	54.2	55.2	60.8	49.9	**51.6**	**51.0**	**49.3**	*50.2*	*47.9*
Spain	40.9	38.5	41.9	45.6	48.0	45.1	44.5	**43.4**	**42.3**	**41.3**	*42.4*	*41.4*
France	52.7	52.3	54.2	55.9	56.8	57.0	57.5	**57.2**	**56.8**	**56.4**	*56.9*	*56.5*
Italy	48.5	47.1	48.6	49.1	50.8	51.0	51.2	**50.8**	**49.6**	**48.9**	*50.6*	*49.9*
Cyprus	33.9	38.2	39.9	42.5	41.9	41.4	49.3	**40.3**	**39.0**	**38.6**	*40.7*	*39.6*
Latvia	37.3	34.5	39.1	39.0	36.9	36.8	37.1	**36.4**	**35.7**	**35.6**	*36.1*	*35.6*
Lithuania	41.6	34.8	39.0	42.5	36.1	35.6	34.8	**35.7**	**35.8**	**34.4**	*33.9*	*33.4*
Luxembourg	38.4	41.0	40.9	43.3	44.6	43.3	42.4	**43.6**	**43.4**	**43.1**	*44.4*	*43.8*
Malta	41.4	42.6	41.8	40.9	42.5	42.6	44.0	**44.0**	**41.6**	**41.3**	*44.3*	*42.4*
Netherlands	44.3	43.5	45.1	47.0	47.1	46.4	46.2	**44.7**	**43.3**	**42.7**	*46.5*	*45.7*
Austria	52.2	51.4	51.2	50.8	51.1	50.9	52.7	**52.1**	**51.2**	**50.7**	*52.0*	*51.2*
Portugal	42.7	45.2	47.4	50.0	48.5	49.9	51.7	**47.9**	**47.1**	**46.6**	*48.0*	*47.2*
Slovenia	45.0	45.8	45.6	50.0	48.6	60.3	49.8	**47.7**	**45.8**	**44.4**	*47.7*	*46.2*
Slovakia	49.4	41.4	39.5	40.5	40.1	41.0	41.6	**42.7**	**39.8**	**40.2**	*42.4*	*40.1*
Finland	53.4	48.8	50.6	54.4	56.1	57.6	58.3	**58.1**	**58.1**	**57.9**	*58.9*	*58.7*
Euro area	:	:	47.8	49.1	49.7	49.6	49.4	**48.6**	**48.0**	**47.6**	*48.6*	*48.0*
Bulgaria	37.8	38.6	36.8	34.1	34.7	37.6	42.1	**39.5**	**38.9**	**39.0**	*39.3*	*39.1*
Czech Republic	41.1	43.9	41.5	42.9	44.5	42.6	42.6	**42.9**	**41.8**	**41.5**	*42.0*	*40.8*
Denmark	55.3	52.8	52.8	56.8	58.8	57.1	56.9	**55.8**	**54.1**	**53.1**	*56.3*	*54.9*
Croatia	:	46.4	45.8	48.8	47.1	47.8	48.2	**48.0**	**47.9**	**47.5**	*48.3*	*48.6*
Hungary	49.5	49.1	50.2	49.7	48.6	49.5	49.9	**49.4**	**46.3**	**45.6**	*49.2*	*46.0*
Poland	45.6	44.8	44.6	43.6	42.6	42.4	42.1	**41.9**	**41.6**	**41.6**	*41.7*	*41.3*
Romania	36.1	34.2	38.5	39.1	36.5	35.2	34.9	**36.6**	**34.1**	**33.9**	*34.7*	*34.3*
Sweden	57.6	53.4	51.1	50.5	51.7	52.4	51.8	**51.4**	**51.3**	**51.3**	*52.7*	*52.3*
United Kingdom	38.5	41.1	46.1	46.9	46.8	44.9	43.9	**42.8**	**41.6**	**40.6**	*43.2*	*41.9*
EU	:	:	47.5	48.6	49.0	48.6	48.2	**47.4**	**46.6**	**46.2**	*47.4*	*46.7*
USA	34.8	36.1	39.7	41.8	40.0	38.7	38.0	**37.6**	**37.5**	**37.3**	*37.6*	*37.3*
Japan	38.0	37.4	38.3	41.8	41.8	42.3	42.7	**42.3**	**41.8**	**41.9**	*42.4*	*41.8*

Table 35: Total revenue, general government (as a percentage of GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	49.2	49.1	48.8	50.3	51.6	52.7	52.0	51.6	51.3	51.3	50.7	50.2
Germany	45.5	43.2	43.4	43.8	44.4	44.4	44.6	44.4	44.3	44.4	44.3	44.0
Estonia	38.1	36.1	39.0	38.6	38.8	38.1	38.7	40.1	40.0	39.9	39.9	39.6
Ireland	37.1	33.8	34.9	33.0	33.8	34.0	34.4	34.0	32.8	32.2	34.4	33.9
Greece	:	:	40.1	44.0	46.3	48.3	46.4	46.9	47.4	47.0	48.1	45.8
Spain	38.0	38.4	37.8	36.2	37.5	38.2	38.6	38.7	38.7	38.7	37.9	37.8
France	50.2	49.3	49.8	50.8	52.0	52.9	53.6	53.4	53.3	53.1	53.1	53.1
Italy	45.3	43.6	45.2	45.6	47.8	48.1	48.2	48.2	47.3	47.3	48.0	47.9
Cyprus	30.4	34.6	38.5	36.8	36.1	36.5	40.4	39.6	39.1	38.8	39.6	39.4
Latvia	36.2	33.0	34.5	35.6	36.1	35.9	35.6	34.9	34.6	34.5	34.7	34.0
Lithuania	36.8	33.1	34.9	33.5	33.0	32.9	34.1	34.6	34.5	34.0	32.4	32.5
Luxembourg	41.9	42.6	42.5	43.8	44.7	44.0	43.8	43.6	43.9	43.6	44.4	44.1
Malta	34.1	37.0	38.7	38.3	38.9	40.0	41.9	42.3	40.4	40.2	42.5	40.9
Netherlands	44.0	42.1	43.1	42.7	43.2	44.0	43.9	42.6	41.8	41.5	44.8	44.5
Austria	49.4	49.2	48.2	48.3	48.9	49.6	50.0	50.2	49.7	49.4	50.0	49.1
Portugal	38.9	40.2	41.0	42.6	42.9	45.1	44.5	44.9	44.2	44.1	45.0	44.4
Slovenia	42.6	43.3	42.7	43.4	44.4	45.3	44.8	44.8	43.4	42.5	44.8	43.4
Slovakia	41.3	36.9	34.8	36.4	36.0	38.4	38.9	39.9	37.4	38.2	39.6	37.5
Finland	54.5	52.0	52.2	53.3	54.0	55.0	54.9	54.9	55.4	55.6	55.6	55.5
Euro area	:	:	44.5	44.9	46.1	46.6	46.8	46.6	46.2	46.2	46.6	46.2
Bulgaria	36.2	39.1	36.3	32.1	34.0	36.9	36.3	36.7	36.2	36.4	36.4	36.2
Czech Republic	37.5	39.1	38.5	40.2	40.5	41.3	40.6	41.0	40.4	40.4	40.0	39.3
Denmark	55.0	54.4	54.3	54.8	55.2	55.8	58.4	52.5	51.7	51.4	54.8	52.3
Croatia	:	42.7	41.8	41.0	41.7	42.5	42.6	43.1	43.2	43.4	42.7	42.9
Hungary	44.3	42.3	44.7	44.3	46.3	47.0	47.4	47.1	44.2	43.6	46.7	43.8
Poland	41.9	39.9	39.8	38.8	38.9	38.4	38.8	39.1	38.8	38.7	38.9	38.7
Romania	32.0	32.3	33.2	33.7	33.3	33.0	33.5	35.4	31.4	30.2	33.1	30.8
Sweden	57.7	53.6	52.5	50.5	50.7	51.0	50.1	49.9	50.1	50.1	51.2	51.3
United Kingdom	37.6	38.6	39.8	39.2	38.4	39.2	38.2	38.4	38.6	38.7	38.7	38.8
EU	:	:	43.8	44.0	44.8	45.3	45.2	44.9	44.6	44.5	45.0	44.6
USA	34.0	31.8	32.1	31.2	31.2	33.4	33.1	33.6	33.9	34.1	33.4	33.5
Japan	31.3	31.0	33.8	33.0	33.1	33.9	35.2	35.7	36.1	36.8	35.3	35.3

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	-1.5	-0.9	-2.0	-4.1	-4.1	-2.9	-3.1	-2.7	-2.6	-2.3	-2.6	-2.4
Germany	-2.0	-3.7	-1.8	-1.0	-0.1	-0.1	0.3	0.9	0.5	0.4	0.6	0.5
Estonia	-0.5	1.2	0.2	1.2	-0.3	-0.1	0.7	0.2	0.2	0.1	-0.2	-0.1
Ireland	2.1	0.8	-10.0	-12.5	-8.0	-5.7	-3.9	-2.2	-1.5	-1.5	-2.8	-2.9
Greece	:	:	-9.8	-10.2	-8.8	-12.4	-3.6	-4.6	-3.6	-2.2	-2.1	-2.2
Spain	-2.9	0.0	-4.1	-9.5	-10.4	-6.9	-5.9	-4.7	-3.6	-2.6	-4.5	-3.5
France	-2.6	-3.0	-4.4	-5.1	-4.8	-4.1	-3.9	-3.8	-3.4	-3.3	-3.8	-3.5
Italy	-3.2	-3.5	-3.5	-3.5	-3.0	-2.9	-3.0	-2.6	-2.3	-1.6	-2.6	-2.0
Cyprus	-3.6	-3.6	-1.4	-5.7	-5.8	-4.9	-8.9	-0.7	0.1	0.3	-1.1	-0.1
Latvia	-1.1	-1.4	-4.6	-3.4	-0.8	-0.9	-1.5	-1.5	-1.2	-1.1	-1.4	-1.6
Lithuania	-4.8	-1.7	-4.0	-8.9	-3.1	-2.6	-0.7	-1.1	-1.3	-0.4	-1.5	-0.9
Luxembourg	3.5	1.6	1.5	0.5	0.2	0.7	1.4	0.0	0.5	0.5	0.0	0.3
Malta	-7.2	-5.5	-3.1	-2.6	-3.6	-2.6	-2.1	-1.7	-1.2	-1.1	-1.8	-1.5
Netherlands	-0.3	-1.5	-2.0	-4.3	-3.9	-2.4	-2.4	-2.1	-1.5	-1.2	-1.7	-1.2
Austria	-2.8	-2.2	-3.0	-2.6	-2.2	-1.3	-2.7	-1.9	-1.6	-1.3	-2.0	-2.0
Portugal	-3.8	-5.0	-6.4	-7.4	-5.7	-4.8	-7.2	-3.0	-2.9	-2.5	-3.1	-2.8
Slovenia	-2.5	-2.4	-2.8	-6.6	-4.1	-15.0	-5.0	-2.9	-2.4	-2.0	-2.9	-2.8
Slovakia	-8.1	-4.5	-4.6	-4.1	-4.2	-2.6	-2.8	-2.7	-2.4	-2.0	-2.7	-2.5
Finland	1.1	3.3	1.6	-1.0	-2.1	-2.5	-3.3	-3.2	-2.7	-2.3	-3.3	-3.2
Euro area	:	:	-3.3	-4.2	-3.7	-3.0	-2.6	-2.0	-1.8	-1.5	-2.0	-1.7
Bulgaria	-1.7	0.5	-0.5	-2.0	-0.6	-0.8	-5.8	-2.8	-2.7	-2.7	-2.9	-2.9
Czech Republic	-3.6	-4.8	-3.0	-2.7	-4.0	-1.3	-1.9	-1.9	-1.3	-1.1	-2.0	-1.5
Denmark	-0.3	1.6	1.5	-2.1	-3.6	-1.3	1.5	-3.3	-2.5	-1.7	-1.5	-2.6
Croatia	:	-3.8	-4.0	-7.8	-5.3	-5.4	-5.6	-4.9	-4.7	-4.1	-5.6	-5.7
Hungary	-5.1	-6.8	-5.4	-5.5	-2.3	-2.5	-2.5	-2.3	-2.1	-2.0	-2.5	-2.2
Poland	-3.7	-5.0	-4.8	-4.9	-3.7	-4.0	-3.3	-2.8	-2.8	-2.8	-2.8	-2.6
Romania	-4.0	-1.9	-5.3	-5.4	-3.2	-2.2	-1.4	-1.2	-2.8	-3.7	-1.6	-3.5
Sweden	0.0	0.2	1.3	-0.1	-0.9	-1.4	-1.7	-1.4	-1.3	-1.2	-1.5	-1.0
United Kingdom	-0.9	-2.4	-6.3	-7.7	-8.3	-5.7	-5.7	-4.4	-3.0	-1.9	-4.5	-3.1
EU	:	:	-3.6	-4.5	-4.3	-3.3	-3.0	-2.5	-2.0	-1.6	-2.5	-2.0
USA	-0.8	-4.3	-7.6	-10.6	-8.8	-5.3	-4.9	-4.0	-3.5	-3.2	-4.2	-3.8
Japan	-6.7	-6.4	-4.5	-8.8	-8.7	-8.5	-7.5	-6.6	-5.7	-5.1	-7.1	-6.5

Table 37: Interest expenditure, general government (as a percentage of GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	7.4	5.4	3.9	3.6	3.6	3.3	3.1	**2.9**	**2.8**	**2.7**	*2.8*	*2.7*
Germany	3.2	2.9	2.6	2.5	2.3	2.0	1.8	**1.5**	**1.4**	**1.4**	*1.6*	*1.5*
Estonia	0.4	0.2	0.2	0.1	0.1	0.1	0.1	**0.1**	**0.1**	**0.1**	*0.1*	*0.1*
Ireland	3.1	1.2	1.7	3.4	4.1	4.3	4.0	**3.3**	**3.0**	**3.0**	*3.6*	*3.5*
Greece	:	:	4.9	7.3	5.1	4.0	3.9	**4.4**	**4.1**	**4.0**	*4.2*	*3.9*
Spain	4.0	2.3	1.7	2.5	3.0	3.4	3.4	**3.1**	**3.0**	**2.8**	*3.1*	*3.0*
France	3.1	2.8	2.5	2.6	2.6	2.3	2.2	**2.0**	**2.1**	**2.1**	*2.1*	*2.1*
Italy	8.1	5.1	4.6	4.7	5.2	4.8	4.6	**4.3**	**4.1**	**3.9**	*4.3*	*4.2*
Cyprus	2.7	3.1	2.6	2.2	2.9	3.1	2.9	**2.8**	**2.5**	**2.3**	*2.9*	*2.7*
Latvia	0.9	0.7	0.9	1.8	1.6	1.5	1.4	**1.3**	**1.2**	**1.1**	*1.2*	*1.2*
Lithuania	1.2	1.1	1.0	1.8	2.0	1.8	1.6	**1.6**	**1.6**	**1.5**	*1.4*	*1.4*
Luxembourg	0.5	0.3	0.3	0.5	0.5	0.4	0.4	**0.4**	**0.4**	**0.4**	*0.4*	*0.3*
Malta	3.0	3.7	3.4	3.1	3.0	2.9	2.9	**2.7**	**2.4**	**2.3**	*2.7*	*2.6*
Netherlands	4.1	2.5	2.0	1.8	1.6	1.5	1.4	**1.3**	**1.2**	**1.1**	*1.4*	*1.3*
Austria	3.6	3.3	3.1	2.8	2.7	2.6	2.5	**2.4**	**2.2**	**2.2**	*2.3*	*2.3*
Portugal	3.6	2.7	2.9	4.3	4.9	4.9	4.9	**4.9**	**4.5**	**4.3**	*4.9*	*4.5*
Slovenia	2.2	1.9	1.3	1.9	2.0	2.6	3.2	**3.0**	**2.9**	**2.6**	*3.1*	*2.9*
Slovakia	2.9	2.7	1.4	1.5	1.8	1.9	1.9	**1.6**	**1.6**	**1.5**	*1.6*	*1.6*
Finland	3.4	1.9	1.4	1.4	1.4	1.3	1.2	**1.2**	**1.1**	**1.1**	*1.2*	*1.2*
Euro area	:	:	2.8	3.0	3.0	2.8	2.7	**2.4**	**2.3**	**2.2**	*2.5*	*2.4*
Bulgaria	7.4	2.4	0.9	0.7	0.8	0.7	0.9	**1.0**	**1.0**	**1.1**	*1.0*	*1.0*
Czech Republic	1.0	1.0	1.1	1.3	1.4	1.3	1.3	**1.2**	**1.2**	**1.1**	*1.2*	*1.2*
Denmark	4.6	2.8	1.7	2.0	1.8	1.7	1.5	**1.5**	**1.2**	**1.2**	*1.5*	*1.3*
Croatia	:	1.8	2.1	3.0	3.4	3.5	3.5	**3.6**	**3.7**	**3.7**	*3.7*	*3.7*
Hungary	7.3	4.2	4.1	4.2	4.6	4.5	4.0	**3.5**	**3.3**	**3.1**	*3.6*	*3.4*
Poland	3.8	2.8	2.3	2.5	2.7	2.5	1.9	**1.8**	**1.7**	**1.6**	*1.8*	*1.6*
Romania	3.8	2.0	1.0	1.6	1.8	1.7	1.7	**1.6**	**1.5**	**1.5**	*1.6*	*1.6*
Sweden	4.3	2.2	1.4	1.1	0.9	0.8	0.7	**0.6**	**0.6**	**0.6**	*0.7*	*0.7*
United Kingdom	3.1	2.0	2.3	3.2	2.9	2.9	2.7	**2.4**	**2.4**	**2.3**	*2.7*	*2.6*
EU	:	:	2.6	2.9	2.9	2.7	2.5	**2.3**	**2.2**	**2.1**	*2.4*	*2.3*
USA	4.5	3.4	3.6	3.9	3.8	3.6	3.5	**3.7**	**4.1**	**4.1**	*3.5*	*3.5*
Japan	3.3	2.1	1.9	2.1	2.1	2.1	2.0	**1.9**	**1.9**	**1.8**	*2.0*	*1.9*

Table 38: Primary balance, general government [1] (as a percentage of GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	5.9	4.5	1.9	-0.5	-0.6	0.4	0.0	**0.2**	**0.2**	**0.4**	*0.2*	*0.3*
Germany	1.3	-0.8	0.8	1.5	2.2	1.9	2.1	**2.4**	**1.9**	**1.8**	*2.2*	*2.0*
Estonia	0.0	1.4	0.4	1.3	-0.1	0.0	0.8	**0.3**	**0.3**	**0.2**	*-0.1*	*0.0*
Ireland	5.2	2.0	-8.4	-9.1	-4.0	-1.4	0.1	**1.1**	**1.5**	**1.5**	*0.7*	*0.6*
Greece	:	:	-4.9	-3.0	-3.7	-8.4	0.4	**-0.3**	**0.5**	**1.8**	*2.1*	*1.8*
Spain	1.1	2.3	-2.5	-7.0	-7.5	-3.5	-2.5	**-1.6**	**-0.6**	**0.1**	*-1.4*	*-0.6*
France	0.6	-0.3	-1.9	-2.5	-2.2	-1.8	-1.8	**-1.8**	**-1.4**	**-1.2**	*-1.7*	*-1.3*
Italy	5.0	1.6	1.1	1.2	2.2	1.9	1.6	**1.7**	**1.8**	**2.3**	*1.7*	*2.3*
Cyprus	-0.9	-0.5	1.1	-3.5	-2.9	-1.8	-6.0	**2.1**	**2.6**	**2.6**	*1.7*	*2.6*
Latvia	-0.2	-0.7	-3.7	-1.6	0.8	0.6	-0.1	**-0.2**	**0.0**	**0.1**	*-0.2*	*-0.4*
Lithuania	-3.6	-0.5	-3.0	-7.1	-1.2	-0.9	0.9	**0.6**	**0.3**	**1.1**	*0.0*	*0.5*
Luxembourg	3.9	1.8	1.9	1.0	0.6	1.1	1.8	**0.4**	**0.9**	**0.9**	*0.3*	*0.6*
Malta	-4.2	-1.8	0.3	0.6	-0.6	0.3	0.8	**1.0**	**1.2**	**1.2**	*0.9*	*1.1*
Netherlands	3.8	1.0	0.0	-2.5	-2.2	-0.9	-0.9	**-0.8**	**-0.3**	**-0.1**	*-0.3*	*0.1*
Austria	0.8	1.1	0.1	0.2	0.5	1.3	-0.2	**0.5**	**0.7**	**0.9**	*0.3*	*0.3*
Portugal	-0.3	-2.3	-3.5	-3.1	-0.8	0.0	-2.3	**2.0**	**1.6**	**1.8**	*1.8*	*1.7*
Slovenia	-0.2	-0.5	-1.5	-4.7	-2.1	-12.4	-1.9	**0.0**	**0.5**	**0.6**	*0.2*	*0.2*
Slovakia	-5.1	-1.7	-3.3	-2.6	-2.4	-0.8	-0.9	**-1.1**	**-0.8**	**-0.5**	*-1.1*	*-1.0*
Finland	4.6	5.2	3.0	0.4	-0.7	-1.3	-2.1	**-2.0**	**-1.5**	**-1.2**	*-2.1*	*-2.1*
Euro area	2.1	0.6	-0.5	-1.2	-0.6	-0.2	0.1	**0.4**	**0.5**	**0.8**	*0.4*	*0.7*
Bulgaria	5.7	2.9	0.4	-1.3	0.2	0.0	-4.9	**-1.8**	**-1.7**	**-1.6**	*-2.0*	*-1.9*
Czech Republic	-2.6	-3.7	-1.9	-1.4	-2.5	0.1	-0.6	**-0.7**	**-0.2**	**0.1**	*-0.8*	*-0.3*
Denmark	4.3	4.4	3.3	-0.1	-1.8	0.5	3.1	**-1.8**	**-1.2**	**-0.5**	*-0.1*	*-1.3*
Croatia	:	-2.0	-1.9	-4.7	-2.0	-1.9	-2.1	**-1.3**	**-1.0**	**-0.4**	*-1.9*	*-2.0*
Hungary	2.2	-2.6	-1.3	-1.3	2.3	2.0	1.5	**1.2**	**1.2**	**1.1**	*1.1*	*1.2*
Poland	0.1	-2.1	-2.5	-2.3	-1.0	-1.5	-1.4	**-1.0**	**-1.2**	**-1.3**	*-1.0*	*-1.0*
Romania	-0.2	0.2	-4.3	-3.8	-1.4	-0.4	0.3	**0.4**	**-1.2**	**-2.2**	*0.0*	*-1.9*
Sweden	4.4	2.4	2.8	1.0	0.0	-0.6	-1.0	**-0.8**	**-0.6**	**-0.6**	*-0.8*	*-0.3*
United Kingdom	2.2	-0.4	-4.0	-4.5	-5.4	-2.8	-3.0	**-2.0**	**-0.6**	**0.4**	*-1.8*	*-0.5*
EU	2.1	0.4	-1.0	-1.6	-1.4	-0.6	-0.5	**-0.1**	**0.2**	**0.5**	*-0.1*	*0.3*
USA	3.7	-0.9	-4.1	-6.7	-5.0	-1.7	-1.4	**-0.3**	**0.6**	**0.9**	*-0.7*	*-0.3*
Japan	-3.5	-4.3	-2.5	-6.7	-6.6	-6.4	-5.5	**-4.7**	**-3.9**	**-3.3**	*-5.1*	*-4.5*

[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, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	2015	2016
Belgium	-1.7	-1.0	-2.5	-4.2	-3.8	-2.1	-2.5	-2.2	-2.1	-2.1	-1.9	-2.0
Germany	-2.0	-3.2	-1.5	-1.5	-0.2	0.2	0.5	1.1	0.7	0.6	1.0	0.6
Estonia	1.2	-0.3	-1.4	1.8	-1.0	-0.6	0.2	0.0	0.1	-0.2	-0.7	-0.8
Ireland	1.0	0.2	-10.0	-11.4	-6.4	-3.9	-3.3	-2.9	-2.2	-1.6	-3.3	-3.3
Greece	:	:	-10.8	-5.8	-2.7	-6.5	0.8	-0.8	-0.3	-1.0	1.0	-1.4
Spain	-2.9	-1.5	-4.1	-6.4	-6.3	-2.3	-2.2	-2.6	-2.7	-2.6	-2.5	-2.6
France	-2.4	-4.1	-4.9	-5.0	-4.2	-3.4	-2.8	-2.7	-2.5	-2.6	-2.4	-2.4
Italy	-3.5	-4.0	-3.3	-2.6	-1.2	-0.6	-0.9	-1.0	-1.5	-1.5	-0.7	-0.9
Cyprus	:	-4.1	-2.9	-5.7	-4.8	-2.0	-5.6	1.2	0.7	-0.4	0.9	0.5
Latvia	:	-1.9	-4.5	-1.3	0.0	-0.9	-2.1	-2.1	-1.9	-1.8	-1.9	-2.2
Lithuania	:	-1.6	-4.1	-7.3	-2.5	-2.7	-1.1	-1.2	-1.6	-0.9	-1.7	-1.0
Luxembourg	3.1	1.1	1.7	1.4	2.5	2.1	2.3	0.7	0.9	0.9	0.6	0.4
Malta	-7.2	-5.7	-3.1	-2.3	-3.3	-2.4	-2.1	-2.0	-1.6	-1.4	-2.0	-1.5
Netherlands	-0.7	-0.8	-1.9	-3.6	-2.3	-0.4	-0.6	-1.1	-1.1	-1.5	-0.3	-0.4
Austria	-3.0	-1.9	-3.0	-2.7	-2.2	-1.0	-2.2	-1.2	-1.2	-1.1	-1.3	-1.5
Portugal	-4.8	-5.0	-6.2	-6.3	-3.2	-2.2	-5.2	-1.8	-2.3	-2.4	-1.5	-2.1
Slovenia	:	-2.8	-4.0	-5.8	-2.2	-12.7	-3.9	-2.7	-2.6	-2.9	-2.3	-2.7
Slovakia	:	-3.7	-5.8	-3.7	-3.5	-1.7	-2.0	-2.3	-2.1	-2.0	-1.8	-1.8
Finland	0.8	3.2	1.3	-0.9	-1.2	-1.1	-1.7	-1.7	-1.5	-1.5	-1.8	-2.2
Euro area	:	:	-3.4	-3.6	-2.5	-1.4	-1.2	-1.0	-1.2	-1.3	-0.9	-1.1
Bulgaria	-2.1	0.4	-0.9	-1.9	-0.5	-0.8	-5.7	-2.6	-2.4	-2.4	-2.7	-2.5
Czech Republic	-3.1	-5.1	-4.0	-2.6	-3.2	0.0	-1.0	-2.0	-1.5	-1.4	-1.6	-1.6
Denmark	-1.5	0.8	1.2	-0.5	-1.5	1.3	3.8	-1.5	-1.3	-1.0	0.2	-1.4
Croatia	:	-3.9	-5.5	-7.2	-4.1	-3.8	-3.9	-3.6	-3.9	-3.9	-4.1	-4.7
Hungary	:	-7.4	-5.6	-4.8	-0.7	-1.4	-2.2	-2.4	-2.3	-2.3	-2.6	-2.4
Poland	-4.5	-3.2	-5.7	-6.1	-3.9	-3.4	-2.9	-2.6	-2.8	-2.9	-2.4	-2.3
Romania	-3.5	-2.4	-6.2	-4.1	-1.5	-1.1	-0.6	-0.8	-2.7	-3.8	-1.3	-3.4
Sweden	0.4	0.4	1.4	0.0	0.1	-0.2	-0.8	-1.0	-1.0	-0.9	-1.0	-0.8
United Kingdom	-1.1	-2.8	-5.8	-5.8	-6.6	-4.5	-5.3	-4.5	-3.3	-2.4	-4.5	-3.5
EU	:	:	-3.6	-3.8	-3.0	-1.9	-1.8	-1.7	-1.6	-1.5	-1.6	-1.6

[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, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	2015	2016
Belgium	5.7	4.4	1.4	-0.6	-0.2	1.2	0.6	0.7	0.7	0.6	0.9	0.7
Germany	1.3	-0.3	1.1	1.0	2.0	2.2	2.3	2.6	2.1	1.9	2.6	2.1
Estonia	1.6	-0.1	-1.2	1.9	-0.9	-0.5	0.3	0.1	0.1	-0.1	-0.6	-0.6
Ireland	4.1	1.4	-8.4	-8.0	-2.4	0.4	0.7	0.4	0.8	1.3	0.2	0.2
Greece	:	:	-5.9	1.4	2.4	-2.5	4.7	3.6	3.8	3.0	5.2	2.5
Spain	1.1	0.9	-2.4	-4.0	-3.4	1.0	1.2	0.5	0.3	0.2	0.6	0.4
France	0.8	-1.3	-2.3	-2.4	-1.7	-1.1	-0.6	-0.7	-0.5	-0.6	-0.3	-0.3
Italy	4.6	1.1	1.3	2.0	4.0	4.2	3.8	3.3	2.6	2.5	3.6	3.3
Cyprus	:	-1.0	-0.3	-3.5	-1.9	1.2	-2.7	4.0	3.2	1.9	3.8	3.3
Latvia	:	-1.1	-3.6	0.5	1.6	0.5	-0.7	-0.8	-0.7	-0.6	-0.7	-1.0
Lithuania	:	-0.5	-3.1	-5.4	-0.5	-0.9	0.4	0.4	0.0	0.6	-0.2	0.3
Luxembourg	3.5	1.3	2.0	1.9	3.0	2.5	2.7	1.1	1.3	1.3	0.9	0.7
Malta	-4.2	-2.0	0.2	0.9	-0.3	0.6	0.8	0.7	0.9	0.9	0.7	1.1
Netherlands	3.4	1.7	0.1	-1.8	-0.6	1.2	0.8	0.3	0.1	-0.4	1.0	0.9
Austria	0.7	1.4	0.0	0.1	0.5	1.6	0.3	1.2	1.0	1.0	1.1	0.8
Portugal	-1.2	-2.3	-3.2	-2.0	1.7	2.6	-0.3	3.1	2.2	1.9	3.4	2.4
Slovenia	:	-0.8	-2.7	-3.9	-0.1	-10.1	-0.7	0.3	0.3	-0.3	0.8	0.2
Slovakia	:	-1.0	-4.4	-2.2	-1.7	0.2	-0.1	-0.7	-0.5	-0.4	-0.1	-0.3
Finland	4.2	5.2	2.7	0.5	0.2	0.2	-0.4	-0.6	-0.4	-0.4	-0.5	-1.0
Euro area	2.0	0.3	-0.6	-0.6	0.5	1.4	1.4	1.4	1.1	1.0	1.6	1.3
Bulgaria	5.3	2.8	0.0	-1.2	0.3	0.0	-4.8	-1.6	-1.4	-1.3	-1.7	-1.5
Czech Republic	-2.1	-4.0	-2.9	-1.3	-1.8	1.3	0.3	-0.8	-0.3	-0.3	-0.4	-0.4
Denmark	3.1	3.5	3.0	1.5	0.4	3.1	5.3	0.0	-0.1	0.2	1.7	-0.2
Croatia	:	-2.1	-3.4	-4.2	-0.7	-0.3	-0.5	0.0	-0.2	-0.1	-0.4	-1.0
Hungary	:	-3.2	-1.5	-0.6	3.9	3.2	1.8	1.1	1.0	0.9	1.0	1.0
Poland	-0.7	-0.4	-3.4	-3.5	-1.3	-0.9	-0.9	-0.8	-1.1	-1.3	-0.7	-0.7
Romania	0.3	-0.4	-5.2	-2.5	0.3	0.7	1.1	0.8	-1.2	-2.3	0.3	-1.8
Sweden	4.7	2.6	2.8	1.1	1.0	0.6	-0.1	-0.4	-0.3	-0.3	-0.3	-0.1
United Kingdom	1.9	-0.8	-3.5	-2.6	-3.7	-1.6	-2.6	-2.0	-0.9	-0.1	-1.8	-0.9
EU	2.0	0.1	-1.0	-1.0	-0.2	0.8	0.7	0.6	0.6	0.6	0.8	0.7

[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, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	2015	2016
Belgium	:	:	:	-4.0	-3.4	-2.7	-2.8	**-2.5**	**-2.1**	**-2.2**	*-2.3*	*-2.1*
Germany	:	:	:	-1.3	-0.1	0.3	0.8	**0.9**	**0.7**	**0.6**	*1.0*	*0.7*
Estonia	:	:	:	0.3	-0.1	-0.4	0.3	**0.3**	**0.2**	**-0.2**	*-0.4*	*-0.7*
Ireland	:	:	:	-7.5	-6.4	-4.3	-3.2	**-3.0**	**-2.1**	**-1.6**	*-3.6*	*-3.3*
Greece	:	:	:	-6.4	-0.4	2.0	0.6	**-1.1**	**-0.3**	**-1.0**	*-1.4*	*-2.3*
Spain	:	:	:	-6.2	-3.3	-1.9	-1.8	**-2.5**	**-2.6**	**-2.6**	*-2.4*	*-2.6*
France	:	:	:	-5.1	-4.3	-3.5	-2.8	**-2.7**	**-2.4**	**-2.6**	*-2.3*	*-2.3*
Italy	:	:	-3.5	-3.3	-1.3	-0.9	-1.1	**-1.0**	**-1.5**	**-1.4**	*-0.7*	*-0.8*
Cyprus	:	:	:	-5.5	-5.0	-1.7	2.0	**0.4**	**0.2**	**-0.7**	*0.4*	*0.0*
Latvia	:	:	:	-1.3	0.0	-0.9	-1.8	**-2.1**	**-1.9**	**-1.8**	*-1.9*	*-2.2*
Lithuania	:	:	:	-3.6	-2.6	-2.3	-1.4	**-1.2**	**-1.4**	**-0.9**	*-1.9*	*-1.2*
Luxembourg	:	:	:	1.4	2.5	2.1	2.1	**0.7**	**0.9**	**0.9**	*0.6*	*0.4*
Malta	:	:	:	-2.8	-3.6	-2.5	-2.4	**-2.1**	**-1.7**	**-1.5**	*-2.1*	*-1.6*
Netherlands	:	:	:	-3.6	-2.3	-0.9	-0.5	**-1.1**	**-1.4**	**-1.5**	*-0.3*	*-0.4*
Austria	:	:	:	-2.5	-1.8	-1.2	-0.7	**-0.6**	**-1.0**	**-1.1**	*-0.8*	*-1.4*
Portugal	:	:	-5.6	-6.2	-3.1	-2.5	-1.4	**-1.8**	**-2.3**	**-2.4**	*-1.5*	*-2.1*
Slovenia	:	:	:	-4.8	-2.1	-2.2	-2.7	**-2.7**	**-2.5**	**-2.9**	*-2.4*	*-2.9*
Slovakia	:	:	:	-4.1	-3.6	-1.7	-2.1	**-2.1**	**-2.0**	**-2.0**	*-1.9*	*-1.8*
Finland	:	:	:	-0.9	-1.1	-1.0	-1.8	**-1.7**	**-1.5**	**-1.5**	*-1.8*	*-2.2*
Euro area	:	:	:	-3.6	-2.1	-1.4	-1.0	**-1.1**	**-1.2**	**-1.2**	*-0.9*	*-1.1*
Bulgaria	:	:	:	-1.9	-0.5	-0.8	-2.5	**-2.6**	**-2.4**	**-2.4**	*-2.6*	*-2.5*
Czech Republic	:	:	:	-2.6	-1.5	0.1	-0.8	**-2.0**	**-1.4**	**-1.4**	*-1.6*	*-1.6*
Denmark	:	:	1.2	-0.5	0.0	-0.2	0.6	**-2.3**	**-1.4**	**-1.0**	*-0.5*	*-1.4*
Croatia	:	:	:	-7.2	-4.1	-3.6	-3.9	**-3.5**	**-3.8**	**-3.9**	*-4.2*	*-4.7*
Hungary	:	:	:	-4.5	-1.4	-1.5	-2.5	**-2.3**	**-2.6**	**-2.3**	*-2.5*	*-2.4*
Poland	:	:	:	-6.1	-4.0	-3.4	-2.6	**-3.0**	**-2.6**	**-2.9**	*-2.5*	*-2.3*
Romania	:	:	:	-3.0	-2.0	-1.1	-0.6	**-0.8**	**-2.7**	**-3.8**	*-1.3*	*-3.4*
Sweden	:	:	:	0.0	0.1	-0.2	-0.8	**-1.0**	**-1.0**	**-0.9**	*-1.0*	*-0.9*
United Kingdom	:	:	:	-5.8	-6.6	-4.5	-5.2	**-4.5**	**-3.3**	**-2.4**	*-4.5*	*-3.5*
EU	:	:	:	-3.8	-2.7	-1.8	-1.7	**-1.8**	**-1.6**	**-1.5**	*-1.6*	*-1.6*

[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, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	2015	2016
Belgium	118.5	100.9	93.9	102.2	104.1	105.1	106.7	**106.7**	**107.1**	**106.1**	*106.5*	*106.4*
Germany	59.0	62.3	69.7	78.4	79.7	77.4	74.9	**71.4**	**68.5**	**65.6**	*71.5*	*68.2*
Estonia	:	5.1	5.2	5.9	9.5	9.9	10.4	**10.0**	**9.6**	**9.2**	*10.3*	*9.8*
Ireland	53.1	29.6	47.7	109.3	120.2	120.0	107.5	**99.8**	**95.4**	**93.7**	*107.1*	*103.8*
Greece	:	:	117.8	172.0	159.4	177.0	178.6	**194.8**	**199.7**	**195.6**	*180.2*	*173.5*
Spain	62.3	48.1	45.3	69.5	85.4	93.7	99.3	**100.8**	**101.3**	**100.4**	*100.4*	*101.4*
France	60.1	63.1	71.5	85.2	89.6	92.3	95.6	**96.5**	**97.1**	**97.4**	*96.4*	*97.0*
Italy	111.1	101.8	106.5	116.4	123.2	128.8	132.3	**133.0**	**132.2**	**130.0**	*133.1*	*130.6*
Cyprus	53.5	61.6	53.7	65.8	79.3	102.5	108.2	**106.7**	**98.7**	**94.6**	*106.7*	*108.4*
Latvia	11.4	13.4	24.2	42.8	41.4	39.1	40.6	**38.3**	**41.1**	**37.6**	*37.3*	*40.4*
Lithuania	18.4	20.3	22.6	37.2	39.8	38.8	40.7	**42.9**	**40.8**	**42.5**	*41.7*	*37.3*
Luxembourg	7.2	6.5	12.7	19.2	22.1	23.4	23.0	**22.3**	**23.9**	**23.5**	*24.9*	*25.3*
Malta	51.9	68.0	65.0	69.8	67.6	69.6	68.3	**65.9**	**63.2**	**61.0**	*67.2*	*65.4*
Netherlands	61.8	48.9	51.4	61.7	66.4	67.9	68.2	**68.6**	**67.9**	**66.9**	*69.9*	*68.9*
Austria	65.4	66.3	72.5	82.2	81.6	80.8	84.2	**86.6**	**85.7**	**84.3**	*87.0*	*85.8*
Portugal	53.6	59.5	77.8	111.4	126.2	129.0	130.2	**128.2**	**124.7**	**121.3**	*124.4*	*123.0*
Slovenia	23.2	26.6	28.6	46.4	53.7	70.8	80.8	**84.2**	**80.9**	**78.3**	*81.5*	*81.7*
Slovakia	38.8	41.5	33.1	43.3	51.9	54.6	53.5	**52.7**	**52.6**	**52.2**	*53.4*	*53.5*
Finland	48.2	41.3	38.7	48.5	52.9	55.6	59.3	**62.5**	**64.5**	**65.7**	*62.6*	*64.8*
Euro area	:	:	72.6	86.7	91.3	93.4	94.5	**94.0**	**92.9**	**91.3**	*94.0*	*92.5*
Bulgaria	:	44.4	15.9	15.3	17.6	18.0	27.0	**31.8**	**32.8**	**33.6**	*29.8*	*31.2*
Czech Republic	14.0	26.7	31.3	39.9	44.7	45.2	42.7	**41.0**	**41.0**	**40.5**	*41.5*	*41.6*
Denmark	:	45.1	35.1	46.4	45.6	45.0	45.1	**40.2**	**39.3**	**38.3**	*39.5*	*39.2*
Croatia	:	38.1	43.8	63.7	69.2	80.8	85.1	**89.2**	**91.7**	**92.9**	*90.5*	*93.9*
Hungary	61.7	56.7	72.1	80.8	78.3	76.8	76.2	**75.8**	**74.5**	**72.6**	*75.0*	*73.5*
Poland	39.7	43.5	48.2	54.4	54.0	55.9	50.4	**51.4**	**52.4**	**53.5**	*50.9*	*50.8*
Romania	17.2	21.2	18.3	34.2	37.4	38.0	39.9	**39.4**	**40.9**	**42.8**	*40.1*	*42.4*
Sweden	63.5	49.3	39.3	36.9	37.2	39.8	44.9	**44.7**	**44.0**	**43.3**	*44.2*	*43.4*
United Kingdom	43.8	38.2	56.0	81.8	85.3	86.2	88.2	**88.3**	**88.0**	**86.9**	*89.9*	*90.1*
EU	:	:	66.2	81.6	85.2	87.3	88.6	**87.8**	**87.1**	**85.8**	*88.0*	*86.9*

Table 43: Gross national saving (as a percentage of GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	26.9	26.8	26.4	24.1	24.6	23.1	23.8	**24.0**	**24.1**	**24.6**	*23.8*	*24.3*
Germany	22.2	22.4	25.8	27.3	26.4	26.0	27.1	**27.6**	**27.8**	**27.8**	*26.7*	*27.0*
Estonia	21.7	22.8	23.3	26.6	27.8	28.2	27.8	**25.9**	**25.8**	**24.9**	*25.3*	*25.2*
Ireland	24.2	24.4	19.9	17.2	18.1	21.5	23.8	**27.8**	**29.0**	**29.3**	*25.1*	*25.9*
Greece	18.6	15.5	8.9	4.7	8.5	9.3	9.3	**9.2**	**9.8**	**11.4**	*8.6*	*9.4*
Spain	22.1	23.0	20.9	18.6	19.8	20.6	20.8	**21.8**	**22.2**	**22.8**	*21.2*	*21.5*
France	22.8	22.4	21.6	21.0	19.7	19.7	19.9	**20.1**	**20.1**	**20.4**	*20.6*	*20.8*
Italy	21.2	20.5	18.9	17.4	17.4	18.0	18.3	**18.8**	**19.3**	**19.9**	*19.0*	*19.7*
Cyprus	20.2	18.0	14.1	15.1	10.9	9.4	9.8	**9.6**	**10.2**	**10.7**	*7.8*	*7.7*
Latvia	15.0	21.1	22.5	22.1	22.6	22.0	21.9	**21.6**	**21.2**	**21.1**	*21.3*	*20.8*
Lithuania	12.9	15.7	16.4	18.1	18.3	20.6	22.2	**16.6**	**16.6**	**18.3**	*18.8*	*18.6*
Luxembourg	31.3	31.4	28.0	26.7	26.1	24.0	24.8	**23.5**	**23.2**	**22.9**	*21.0*	*21.1*
Malta	16.9	15.2	16.6	16.9	19.2	20.3	21.7	**23.2**	**23.9**	**24.1**	*22.2*	*22.3*
Netherlands	28.7	27.8	28.9	29.4	29.4	29.1	28.8	**29.3**	**30.0**	**29.7**	*28.0*	*28.8*
Austria	24.3	25.5	26.8	26.1	25.7	25.5	24.6	**25.0**	**25.2**	**25.5**	*25.0*	*25.2*
Portugal	19.7	16.0	11.6	13.1	13.7	15.4	15.4	**15.7**	**15.9**	**16.2**	*15.9*	*16.5*
Slovenia	24.5	25.6	25.7	21.6	20.9	23.2	26.3	**27.0**	**26.9**	**27.0**	*25.8*	*25.7*
Slovakia	25.9	21.8	20.6	19.6	21.2	21.7	20.2	**21.7**	**20.3**	**20.8**	*22.7*	*21.6*
Finland	27.1	29.1	26.4	22.0	20.6	19.3	18.4	**19.0**	**19.6**	**20.1**	*19.2*	*19.8*
Euro area	22.8	22.6	22.6	22.2	22.0	22.1	22.5	**23.1**	**23.4**	**23.7**	*22.7*	*23.1*
Bulgaria	15.5	16.6	13.5	20.0	19.1	20.9	22.1	**22.9**	**22.0**	**21.7**	*22.2*	*21.2*
Czech Republic	28.1	25.9	24.9	22.5	24.1	23.6	23.3	**24.2**	**23.9**	**24.2**	*25.9*	*26.3*
Denmark	23.5	25.5	25.5	25.2	24.6	26.0	25.8	**25.8**	**26.2**	**26.4**	*25.8*	*26.2*
Croatia	17.3	21.7	21.8	20.0	19.2	18.9	18.4	**21.7**	**20.4**	**20.9**	*19.3*	*20.4*
Hungary	21.3	18.1	18.8	21.3	21.1	24.6	24.4	**25.5**	**25.7**	**26.3**	*27.3*	*27.4*
Poland	19.5	16.5	17.4	17.5	17.8	18.1	19.1	**19.8**	**19.7**	**19.5**	*18.9*	*18.8*
Romania	14.1	17.3	20.4	23.5	22.6	24.7	22.6	**23.1**	**22.7**	**22.9**	*22.7*	*22.8*
Sweden	25.6	28.1	31.1	29.9	29.1	28.3	29.2	**29.8**	**30.0**	**30.0**	*29.4*	*29.6*
United Kingdom	17.8	17.1	14.7	14.5	13.0	12.4	12.4	**13.2**	**14.2**	**14.9**	*13.2*	*14.4*
EU	22.0	21.7	21.5	21.2	20.7	20.8	21.1	**21.5**	**21.9**	**22.3**	*21.2*	*21.7*
USA	20.4	17.5	15.6	15.0	17.0	17.4	18.0	**17.9**	**18.0**	**18.2**	*18.0*	*18.2*
Japan	28.9	25.9	25.4	22.2	21.9	21.8	22.4	**24.3**	**24.6**	**25.0**	*22.9*	*23.3*

Table 44: Gross saving, private sector (as a percentage of GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	25.4	24.6	25.7	24.5	24.8	23.0	23.9	**23.9**	**23.8**	**24.0**	*23.7*	*23.9*
Germany	21.4	22.8	24.3	25.1	23.5	23.2	23.8	**24.3**	**24.7**	**24.8**	*23.6*	*24.0*
Estonia	17.0	16.7	18.0	22.5	22.9	23.7	22.2	**20.4**	**20.4**	**19.7**	*20.5*	*20.5*
Ireland	19.5	20.1	20.9	23.1	23.5	25.5	25.5	**27.9**	**28.5**	**28.7**	*25.6*	*26.3*
Greece	:	:	14.8	13.2	12.9	9.7	10.4	**11.6**	**11.0**	**11.1**	*8.6*	*9.3*
Spain	20.4	18.3	19.4	23.2	23.4	24.6	24.3	**24.2**	**23.8**	**23.4**	*23.5*	*22.9*
France	20.7	21.1	21.1	21.2	19.6	18.8	19.2	**19.7**	**19.5**	**19.7**	*20.0*	*20.1*
Italy	21.0	20.2	18.1	17.7	16.8	18.0	18.1	**18.2**	**18.8**	**18.7**	*18.6*	*18.7*
Cyprus	19.4	17.9	11.1	16.3	12.9	10.9	6.7	**6.9**	**6.9**	**7.1**	*5.5*	*4.6*
Latvia	13.4	19.0	22.1	21.2	20.1	19.8	20.1	**20.0**	**19.7**	**19.2**	*20.1*	*19.9*
Lithuania	11.4	13.8	16.5	20.3	19.3	20.5	20.9	**13.9**	**14.0**	**15.3**	*16.7*	*15.9*
Luxembourg	23.1	24.5	21.3	21.0	20.8	18.7	19.2	**18.7**	**17.8**	**17.3**	*16.1*	*15.9*
Malta	20.6	16.8	17.6	17.8	20.5	20.9	21.5	**22.4**	**22.8**	**23.4**	*21.6*	*22.1*
Netherlands	25.7	25.3	26.7	29.6	29.3	28.1	27.6	**28.1**	**28.4**	**27.9**	*26.2*	*26.7*
Austria	22.7	23.3	25.5	24.8	23.8	23.5	22.2	**22.7**	**23.0**	**23.2**	*23.0*	*23.6*
Portugal	18.9	17.2	14.2	17.2	17.8	18.2	17.5	**17.0**	**17.3**	**17.0**	*17.2*	*17.6*
Slovenia	21.9	23.3	23.6	22.9	21.0	23.4	25.8	**26.2**	**26.1**	**25.9**	*25.0*	*25.1*
Slovakia	24.4	21.2	21.3	20.4	22.7	21.8	20.1	**19.8**	**19.8**	**19.7**	*21.3*	*21.1*
Finland	21.6	22.2	21.3	19.3	18.8	17.9	17.6	**18.2**	**18.3**	**18.4**	*18.4*	*18.9*
Euro area	:	:	21.6	22.4	21.5	21.4	21.7	**22.0**	**22.2**	**22.2**	*21.6*	*21.8*
Bulgaria	14.1	12.3	9.6	19.5	17.3	19.5	21.7	**22.2**	**21.3**	**21.0**	*22.3*	*21.4*
Czech Republic	24.1	22.7	22.5	21.0	21.9	21.3	21.2	**21.7**	**21.0**	**21.0**	*24.0*	*24.0*
Denmark	20.7	21.3	20.8	23.5	22.7	23.2	19.9	**25.3**	**25.0**	**24.6**	*23.5*	*25.0*
Croatia	:	18.2	19.1	21.5	20.6	19.6	19.3	**22.2**	**20.8**	**20.8**	*20.4*	*21.6*
Hungary	20.6	18.9	19.8	22.7	20.2	23.9	22.9	**23.5**	**23.6**	**23.9**	*25.5*	*26.0*
Poland	19.5	18.0	17.2	17.9	17.8	18.8	19.0	**19.5**	**18.9**	**18.8**	*18.3*	*17.9*
Romania	14.6	14.7	19.3	21.7	20.8	22.0	19.2	**18.8**	**21.1**	**22.3**	*19.5*	*21.6*
Sweden	21.2	23.8	25.4	25.4	25.6	25.3	26.4	**26.8**	**26.7**	**26.7**	*26.3*	*25.9*
United Kingdom	16.3	16.7	17.0	18.6	17.4	15.1	15.0	**14.4**	**13.9**	**13.6**	*14.5*	*14.4*
EU	:	:	20.8	21.8	20.9	20.6	20.6	**20.8**	**20.8**	**20.7**	*20.5*	*20.6*
USA	17.9	18.1	19.0	21.4	22.1	19.4	19.7	**18.9**	**19.0**	**18.9**	*19.0*	*18.8*
Japan	27.4	27.4	27.4	27.5	26.8	26.0	25.4	**26.5**	**26.3**	**25.9**	*25.9*	*26.1*

Table 45: Saving rate of households (1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	2015	2016
Belgium	16.7	16.0	16.1	13.6	13.5	12.3	12.6	11.9	11.7	11.6	13.9	13.4
Germany	15.8	16.0	16.7	16.5	16.4	16.4	16.8	16.9	16.8	16.7	16.6	16.3
Estonia	8.4	-1.3	4.8	9.3	6.5	8.8	8.0	9.0	8.7	7.4	12.7	12.1
Ireland	:	7.8	11.6	11.8	12.9	12.7	13.4	6.1	5.2	4.7	13.0	12.4
Greece	11.5	:	:	:	:	:	:	:	:	:	:	:
Spain	12.0	10.5	9.1	10.8	8.8	10.0	9.6	10.2	10.6	11.0	10.2	10.3
France	14.9	15.2	15.0	15.2	14.7	14.3	14.8	14.5	13.9	13.6	14.9	14.6
Italy	16.4	14.7	13.2	10.7	9.4	11.3	10.8	11.0	11.1	11.3	11.5	11.8
Cyprus	9.5	9.9	8.3	9.1	1.9	-7.6	-1.3	-4.7	-2.7	-0.1	-6.6	-5.6
Latvia	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	3.6	4.8	3.0	4.8	1.6	1.8	0.1	:	:	:	:	:
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	14.4	13.3	12.1	13.1	13.8	14.2	14.8	15.7	16.1	14.6	15.2	16.3
Austria	16.1	14.6	16.2	13.3	14.5	12.9	13.3	14.0	14.6	14.1	13.4	14.1
Portugal	11.2	10.2	8.3	7.5	7.7	7.8	5.9	5.1	5.8	5.9	6.5	7.5
Slovenia	12.0	14.1	15.2	12.7	10.9	13.4	14.1	13.4	12.4	11.3	13.5	13.2
Slovakia	12.4	7.6	7.2	8.1	7.1	8.3	9.3	9.1	9.0	9.0	8.6	8.5
Finland	8.9	9.0	8.2	8.1	7.8	8.4	7.1	7.1	7.2	6.9	8.5	8.4
Euro area	:	14.2	13.6	13.0	12.7	12.9	12.7	12.8	12.7	12.6	13.7	13.7
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	11.6	10.9	12.4	11.1	11.3	10.8	10.9	10.9	10.8	10.7	9.9	9.6
Denmark	3.4	6.8	6.4	7.8	7.1	6.7	2.0	10.1	9.0	7.3	8.9	10.8
Croatia	:	:	:	:	:	:	:	:	:	:	:	:
Hungary	14.8	9.3	8.9	9.7	8.2	9.3	10.2	10.5	10.3	10.0	9.8	9.3
Poland	13.8	9.7	4.9	1.8	1.8	3.0	3.4	3.7	2.6	1.2	-0.3	-1.3
Romania	2.8	-6.9	-6.1	-8.8	-14.6	-9.8	-16.5	-14.7	-14.6	-14.6	-10.3	-10.6
Sweden	5.7	9.5	13.3	15.4	17.9	17.6	17.8	18.2	18.2	18.1	18.4	18.1
United Kingdom	10.0	8.9	8.2	9.1	8.7	6.3	4.9	5.8	5.5	5.6	6.0	5.8
EU	:	12.3	11.5	11.5	11.2	11.0	10.4	10.7	10.5	10.4	10.9	10.8
USA	10.3	9.8	10.5	11.5	12.9	10.3	10.4	9.2	8.2	7.7	10.3	10.0
Japan	15.2	9.6	8.3	9.0	7.7	6.4	6.3	7.5	7.1	6.6	6.4	5.9

Table 46: Gross saving, general government (as a percentage of GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	2015	2016
Belgium	1.5	2.2	0.7	-0.4	-0.2	0.2	0.0	0.2	0.3	0.6	0.1	0.4
Germany	0.9	-0.4	1.5	2.2	2.9	2.8	3.2	3.3	3.1	3.0	3.1	3.0
Estonia	4.6	6.1	5.3	4.1	4.9	4.5	5.6	5.5	5.5	5.2	4.8	4.7
Ireland	4.7	4.3	-1.0	-5.9	-5.4	-4.0	-1.7	-0.1	0.5	0.6	-0.5	-0.4
Greece	:	:	-6.0	-8.5	-4.5	-0.3	-1.1	-2.4	-1.1	0.3	0.0	0.2
Spain	1.7	4.7	1.5	-4.6	-3.7	-4.0	-3.5	-2.5	-1.6	-0.6	-2.4	-1.4
France	2.1	1.4	0.5	-0.3	0.1	0.8	0.6	0.4	0.6	0.8	0.5	0.7
Italy	0.2	0.3	0.8	-0.4	0.6	0.1	0.1	0.6	0.5	1.2	0.4	1.0
Cyprus	0.8	0.1	3.0	-1.2	-2.0	-1.5	3.0	2.8	3.3	3.6	2.3	3.1
Latvia	1.6	2.2	0.4	0.9	2.6	2.2	1.8	1.6	1.5	1.9	1.2	0.9
Lithuania	1.6	1.9	-0.1	-2.3	-1.0	0.0	1.4	2.7	2.6	3.1	2.0	2.7
Luxembourg	8.2	6.9	6.8	5.7	5.2	5.2	5.7	4.8	5.4	5.6	4.9	5.2
Malta	-3.8	-1.7	-1.0	-0.9	-1.4	-0.6	0.2	0.8	1.1	0.8	0.6	0.2
Netherlands	3.0	2.5	2.1	-0.2	0.1	1.0	1.2	1.3	1.6	1.8	1.9	2.1
Austria	1.6	2.3	1.3	1.3	1.9	2.1	2.4	2.3	2.1	2.2	2.0	1.6
Portugal	0.8	-1.1	-2.6	-4.1	-4.2	-2.8	-2.0	-1.3	-1.4	-0.7	-1.3	-1.1
Slovenia	2.6	2.3	2.1	-1.3	-0.2	-0.2	0.4	0.8	0.8	1.1	0.8	0.6
Slovakia	1.6	0.6	-0.8	-0.9	-1.5	-0.1	0.1	1.9	0.5	1.2	1.5	0.6
Finland	5.5	6.9	5.2	2.8	1.8	1.4	0.8	0.7	1.2	1.7	0.8	0.9
Euro area	:	:	1.0	-0.3	0.4	0.6	0.9	1.1	1.2	1.5	1.1	1.3
Bulgaria	1.3	4.3	3.9	0.5	1.7	1.4	0.4	0.8	0.7	0.7	-0.2	-0.3
Czech Republic	4.0	3.3	2.4	1.5	2.2	2.4	2.1	2.5	2.9	3.2	1.9	2.2
Denmark	2.8	4.2	4.7	1.7	1.9	2.8	5.9	0.5	1.2	1.8	2.3	1.2
Croatia	:	3.6	2.7	-1.5	-1.3	-0.7	-0.9	-0.5	-0.4	0.1	-1.1	-1.2
Hungary	0.6	-0.9	-1.1	-1.4	0.9	0.7	1.5	2.0	2.1	2.4	1.7	1.4
Poland	-0.1	-1.4	0.1	-0.3	0.0	-0.7	0.2	0.3	0.9	0.7	0.6	0.9
Romania	-0.5	2.6	1.1	1.7	1.7	2.8	3.4	4.3	1.5	0.6	3.2	1.2
Sweden	4.3	4.3	5.6	4.4	3.5	3.0	2.8	3.1	3.3	3.3	3.2	3.6
United Kingdom	1.4	0.4	-2.4	-4.2	-4.5	-2.7	-2.6	-1.2	0.3	1.3	-1.4	0.0
EU	:	:	0.6	-0.6	-0.2	0.3	0.5	0.8	1.1	1.5	0.7	1.1
USA	2.5	-0.6	-3.4	-6.4	-5.1	-2.0	-1.7	-1.1	-1.0	-0.8	-0.9	-0.6
Japan	1.5	-1.4	-2.0	-5.3	-5.0	-4.2	-3.0	-2.3	-1.7	-1.0	-2.9	-2.7

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	2015	2016
Belgium	7.2	3.3	2.5	6.7	1.8	1.6	5.4	3.6	4.5	5.3	3.9	5.7
Germany	8.9	5.9	4.2	8.3	2.8	1.6	4.0	5.8	4.3	5.1	4.7	5.6
Estonia	6.4	11.1	4.2	24.2	6.2	4.7	1.8	-0.4	3.5	4.3	2.2	4.5
Ireland	17.6	5.9	4.3	2.1	2.1	2.5	12.1	12.7	7.0	6.7	5.6	5.4
Greece	15.3	2.4	0.6	0.0	1.2	2.2	7.5	0.1	1.2	4.1	4.1	5.1
Spain	10.2	2.9	1.9	7.4	1.1	4.3	5.1	4.9	5.3	5.4	5.5	6.2
France	8.6	2.5	1.1	6.9	2.5	1.7	2.4	6.1	4.6	5.5	4.7	5.9
Italy	4.0	1.6	0.4	5.2	2.3	0.8	3.1	4.4	3.3	4.5	3.8	4.9
Cyprus	4.6	0.2	1.1	4.1	-1.1	1.8	-0.5	1.2	1.3	2.9	-0.3	1.5
Latvia	8.5	10.8	4.3	12.0	9.8	1.1	3.1	1.3	2.6	3.4	2.6	4.6
Lithuania	8.4	15.4	6.4	14.9	12.2	9.6	3.0	2.4	2.8	3.9	3.1	6.4
Luxembourg	10.3	5.3	4.4	5.4	0.2	6.9	6.8	4.9	4.6	4.8	4.4	5.3
Malta	3.9	0.8	10.6	2.3	7.0	-0.2	-0.3	-1.1	3.9	4.5	4.6	3.0
Netherlands	8.4	3.6	3.0	4.4	3.8	2.1	4.0	4.6	4.1	4.5	4.1	5.0
Austria	8.6	5.1	2.7	6.0	1.7	0.8	2.1	1.2	3.7	3.6	2.1	3.9
Portugal	6.7	2.7	3.4	7.0	3.4	7.0	3.9	5.3	4.8	5.3	5.3	6.1
Slovenia	7.3	8.5	4.4	6.9	0.6	3.1	5.8	4.6	4.7	5.5	5.2	5.3
Slovakia	4.6	13.8	6.9	12.0	9.3	6.2	3.6	5.1	4.6	5.9	4.2	5.6
Finland	11.2	3.8	1.7	2.0	1.2	1.1	-0.7	-0.1	2.3	3.8	1.7	3.9
Euro area	8.4	4.0	2.7	6.5	2.6	2.1	4.1	5.2	4.3	5.0	4.4	5.4
Bulgaria	-4.8	9.8	6.4	11.5	0.8	9.2	-0.1	5.9	4.3	4.6	3.1	4.0
Czech Republic	7.9	13.0	6.5	9.3	4.3	0.0	8.9	6.7	5.8	6.0	6.6	7.0
Denmark	7.4	3.4	1.6	7.3	0.1	0.8	2.6	1.1	4.4	3.9	3.2	4.6
Croatia	8.4	7.2	0.1	2.2	-0.1	3.0	6.3	8.8	4.1	4.5	3.7	4.6
Hungary	16.8	10.3	7.9	6.6	-1.8	6.4	7.6	7.9	7.7	8.0	7.3	7.5
Poland	11.4	7.2	7.6	7.9	4.6	6.1	6.4	5.6	5.8	6.1	6.3	6.7
Romania	10.0	11.9	4.7	11.9	1.0	19.7	8.1	6.2	5.0	5.6	6.0	5.9
Sweden	9.1	4.6	2.1	6.1	1.0	-0.8	3.5	3.6	3.9	4.4	4.1	5.3
United Kingdom	6.1	4.0	1.6	5.8	0.7	1.2	1.8	2.2	3.1	4.1	1.7	2.9
EU	8.2	4.3	2.8	6.6	2.3	2.2	4.1	4.8	4.3	5.0	4.2	5.2
USA	6.7	1.9	5.2	6.9	3.4	2.8	3.4	1.7	3.6	3.9	3.2	3.8
Japan	5.6	5.9	2.8	-0.4	-0.2	1.2	8.4	2.6	3.8	3.5	6.8	5.6

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	2015	2016
Belgium	7.0	2.8	2.7	7.3	1.4	0.8	5.9	4.1	3.8	5.2	3.5	5.5
Germany	8.4	3.5	4.3	7.0	-0.3	3.1	3.7	6.4	5.3	6.3	5.9	6.7
Estonia	7.1	14.5	1.5	27.2	11.7	4.5	1.4	-1.2	4.2	5.0	3.4	5.3
Ireland	17.7	5.9	2.9	-1.5	2.9	0.0	14.7	14.1	7.7	7.6	6.0	6.1
Greece	14.2	2.0	0.4	-9.4	-9.1	-1.9	7.7	-4.0	0.0	3.7	2.0	3.6
Spain	11.5	6.0	-0.6	-0.8	-6.2	-0.3	6.4	6.1	5.8	5.5	7.2	7.1
France	8.8	3.5	2.2	6.3	0.7	1.7	3.8	5.0	4.4	5.9	3.8	5.8
Italy	6.4	2.4	1.4	0.5	-8.1	-2.5	2.9	5.0	4.8	5.0	3.0	5.0
Cyprus	3.6	1.4	3.5	-3.1	-4.4	-3.0	2.0	0.6	1.1	1.8	-0.2	1.0
Latvia	8.5	13.4	-0.5	22.0	5.4	-0.1	0.8	1.4	2.8	4.0	2.9	5.4
Lithuania	10.2	17.0	3.9	14.2	6.6	9.3	2.9	6.8	3.4	5.1	4.2	7.7
Luxembourg	11.0	5.8	4.4	7.5	1.5	5.7	8.0	4.7	4.7	4.9	4.3	5.5
Malta	2.9	0.1	10.6	-0.2	5.2	-1.2	0.6	-0.3	3.0	4.3	6.3	3.2
Netherlands	9.3	3.3	3.2	3.5	2.7	0.9	4.0	5.2	4.8	5.2	4.3	5.5
Austria	6.3	4.5	2.1	6.2	1.1	0.0	1.3	1.0	3.6	3.7	2.1	4.0
Portugal	9.1	2.0	2.4	-5.8	-6.3	4.7	7.2	6.7	5.3	6.1	4.7	5.8
Slovenia	7.8	7.3	3.4	5.0	-3.7	1.7	4.0	3.8	4.2	6.1	3.8	4.5
Slovakia	5.7	13.8	4.8	9.6	2.5	5.1	4.3	5.5	4.2	5.4	4.1	5.2
Finland	9.3	5.8	1.8	6.0	1.6	0.0	0.0	-0.7	2.8	3.7	1.1	3.5
Euro area	8.7	3.8	2.6	4.3	-1.0	1.3	4.5	5.4	4.8	5.7	4.6	5.9
Bulgaria	0.2	14.7	4.0	8.5	4.5	4.9	1.5	4.0	3.0	4.1	2.0	3.0
Czech Republic	8.4	12.5	5.8	6.7	2.7	0.1	9.8	7.5	5.9	6.2	7.5	7.2
Denmark	7.1	5.1	2.2	7.1	0.9	1.5	3.8	0.2	4.7	4.4	3.1	4.4
Croatia	5.6	10.3	-1.5	2.5	-3.0	3.2	3.0	7.2	4.1	4.6	2.4	4.0
Hungary	17.9	9.8	5.6	4.5	-3.5	6.3	8.5	7.5	6.8	8.6	7.5	6.8
Poland	16.4	4.2	8.4	5.8	-0.3	1.7	10.0	5.6	6.6	6.8	8.5	7.7
Romania	11.2	17.1	7.1	10.2	-1.8	8.8	7.4	8.1	8.3	7.5	6.5	6.8
Sweden	8.7	2.8	3.2	7.3	0.5	-0.1	6.3	3.1	4.1	4.7	4.7	5.6
United Kingdom	9.0	5.2	1.0	0.6	2.9	2.8	2.8	3.0	4.0	3.8	2.7	3.2
EU	8.9	4.3	2.7	4.2	-0.4	1.6	4.7	5.0	4.9	5.5	4.6	5.6
USA	11.4	4.5	0.6	5.5	2.2	1.1	3.8	5.1	5.0	4.9	5.1	5.3
Japan	4.3	3.4	0.1	5.9	5.3	3.1	7.4	0.8	3.1	2.7	3.9	4.5

Table 49: Merchandise trade balance¹ (fob-fob, as a percentage of GDP, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	2.3	3.5	0.5	-1.5	-1.3	-0.7	-0.5	**1.3**	**1.3**	**0.9**	*0.6*	*0.7*
Germany	3.3	6.1	6.8	6.0	7.3	7.5	7.9	**8.7**	**8.6**	**8.4**	*8.6*	*8.6*
Estonia	-19.9	-16.7	-10.8	-2.1	-6.6	-4.7	-5.0	**-4.5**	**-4.7**	**-5.0**	*-5.7*	*-6.1*
Ireland	:	23.3	18.9	23.7	21.5	19.5	22.4	**28.0**	**28.7**	**29.5**	*25.5*	*24.8*
Greece	:	-15.5	-16.2	-12.5	-10.9	-10.5	-11.7	**-10.7**	**-11.2**	**-11.3**	*-11.9*	*-11.7*
Spain	:	-6.1	-6.7	-4.2	-2.8	-1.4	-2.2	**-2.0**	**-2.2**	**-2.5**	*-1.7*	*-1.8*
France	1.3	0.1	-1.7	-2.9	-2.5	-1.8	-1.5	**-0.4**	**-0.6**	**-1.0**	*-0.7*	*-1.0*
Italy	2.5	0.7	-0.4	-1.1	1.0	2.2	3.0	**3.2**	**2.9**	**2.9**	*3.5*	*3.3*
Cyprus	-24.5	-24.1	-25.9	-20.3	-18.0	-16.3	-16.2	**-15.0**	**-14.1**	**-14.1**	*-16.9*	*-16.9*
Latvia	-16.0	-19.5	-16.7	-12.4	-12.1	-11.2	-9.6	**-9.4**	**-9.2**	**-9.4**	*-9.6*	*-10.3*
Lithuania	:	:	-10.5	-6.6	-3.3	-2.6	-2.6	**-4.2**	**-4.3**	**-5.6**	*-3.3*	*-3.9*
Luxembourg	:	-9.4	-3.7	-2.7	-3.6	-0.7	-0.6	**-1.6**	**-1.6**	**-1.5**	*5.1*	*4.9*
Malta	-18.7	-13.1	-18.3	-16.6	-14.2	-13.4	-12.8	**-15.0**	**-13.5**	**-12.7**	*-16.3*	*-17.3*
Netherlands	6.6	8.7	9.5	10.1	11.0	11.8	12.0	**12.1**	**11.7**	**11.3**	*11.7*	*12.7*
Austria	-2.3	0.0	0.0	-1.2	-1.0	-0.3	0.5	**1.0**	**1.0**	**1.1**	*0.4*	*0.4*
Portugal	-10.5	-10.8	-11.1	-7.9	-5.0	-4.0	-4.6	**-4.6**	**-4.6**	**-5.0**	*-3.4*	*-3.4*
Slovenia	-5.5	-3.1	-3.1	-1.9	0.1	1.1	3.3	**4.1**	**4.5**	**4.2**	*4.9*	*5.4*
Slovakia	-9.6	-7.5	-2.2	-0.6	3.1	3.7	3.4	**2.8**	**3.0**	**3.2**	*4.0*	*4.5*
Finland	9.3	7.1	3.2	-0.8	-0.4	0.1	0.5	**1.3**	**1.3**	**1.2**	*1.3*	*1.5*
Euro area	1.8	1.8	0.9	0.9	2.0	2.7	3.1	**3.9**	**3.8**	**3.5**	*3.8*	*3.7*
Euro area, adjusted²	:	0.7	0.3	0.4	1.3	2.1	2.5	**3.3**	**3.2**	**3.0**	*3.8*	*3.7*
Bulgaria	-0.1	-18.8	-18.6	-4.7	-9.7	-7.0	-6.5	**-4.8**	**-4.1**	**-4.4**	*-7.6*	*-7.5*
Czech Republic	-7.9	-4.2	0.8	1.9	3.1	4.1	5.4	**5.0**	**5.2**	**5.4**	*6.2*	*6.7*
Denmark	3.3	3.7	1.5	3.1	2.8	2.8	2.1	**2.4**	**2.0**	**1.5**	*1.9*	*1.6*
Croatia	:	:	-19.0	-14.3	-14.3	-15.1	-14.4	**-14.5**	**-14.3**	**-14.6**	*-14.5*	*-15.0*
Hungary	-7.1	-4.7	0.3	2.8	2.9	3.4	2.5	**3.5**	**4.6**	**4.5**	*3.8*	*4.8*
Poland	-6.3	-3.1	-4.0	-3.5	-2.1	-0.1	-0.8	**-0.3**	**-0.5**	**-1.0**	*-0.6*	*-1.2*
Romania	-5.5	-7.8	-11.1	-6.7	-5.8	-5.5	-3.8	**-4.4**	**-5.5**	**-6.3**	*-4.2*	*-4.4*
Sweden	7.9	7.5	5.6	3.4	3.7	3.2	2.9	**3.1**	**3.1**	**3.0**	*3.1*	*3.1*
United Kingdom	:	-4.6	-6.0	-5.8	-6.4	-6.6	-6.8	**-5.9**	**-5.8**	**-5.7**	*-6.2*	*-6.4*
EU	1.1	0.6	-0.4	-0.2	0.5	1.1	1.2	**1.8**	**1.8**	**1.6**	*1.7*	*1.6*
EU, adjusted²	:	-0.4	-1.2	-0.9	-0.3	0.3	0.3	**1.0**	**0.9**	**0.8**	*0.8*	*0.7*
USA	-3.0	-5.0	-5.2	-5.0	-4.8	-4.4	-4.4	**-4.2**	**-4.4**	**-4.7**	*-3.9*	*-4.0*
Japan	2.5	2.2	1.5	-0.3	-1.2	-2.2	-2.5	**-1.4**	**-1.1**	**-0.9**	*-2.0*	*-1.8*

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, 1996-2017) 22.10.2015

	5-year averages							Autumn 2015 forecast			Spring 2015 forecast	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	4.3	4.7	2.7	0.1	1.4	1.0	0.8	**1.8**	**2.0**	**1.9**	*2.1*	*2.2*
Germany	-1.0	2.4	6.0	6.2	7.2	6.7	7.8	**8.7**	**8.6**	**8.4**	*7.9*	*7.7*
Estonia	-8.4	-10.9	-7.1	1.5	-2.3	0.4	1.3	**1.6**	**1.2**	**-0.1**	*-0.3*	*-0.5*
Ireland	1.5	-0.5	-4.3	-1.2	-1.5	3.1	3.6	**5.9**	**5.7**	**4.7**	*5.7*	*5.3*
Greece	-5.6	-9.6	-13.8	-10.4	-4.3	-2.1	-2.9	**-1.0**	**-0.3**	**0.1**	*-1.6*	*-1.3*
Spain	-1.9	-5.0	-7.2	-3.3	-0.4	1.5	1.0	**1.4**	**1.3**	**1.4**	*1.2*	*1.0*
France	2.2	0.7	-1.3	-2.2	-2.9	-2.6	-2.3	**-1.3**	**-1.6**	**-2.2**	*-0.9*	*-1.2*
Italy	1.5	-0.5	-2.2	-3.1	-0.4	0.9	2.0	**2.2**	**1.9**	**1.9**	*2.2*	*2.2*
Cyprus	-2.5	-3.5	-10.9	-3.8	-5.1	-3.8	-3.8	**-3.5**	**-3.2**	**-3.0**	*-3.9*	*-4.2*
Latvia	-7.8	-9.9	-9.1	-3.1	-3.5	-2.1	-2.0	**-1.8**	**-1.9**	**-2.2**	*-2.3*	*-3.0*
Lithuania	-9.3	-6.2	-7.3	-3.8	-0.9	1.4	3.9	**-0.8**	**0.2**	**-0.3**	*-0.2*	*-1.0*
Luxembourg	9.9	9.5	8.3	6.2	6.1	5.7	5.5	**4.3**	**4.0**	**3.7**	*4.6*	*4.6*
Malta	-7.6	-3.6	-5.1	-2.5	1.4	3.2	3.3	**2.0**	**3.8**	**4.2**	*0.6*	*0.4*
Netherlands	5.5	6.4	7.3	8.8	10.2	11.0	10.6	**10.5**	**10.4**	**9.6**	*9.0*	*9.4*
Austria	-1.9	1.3	3.1	1.9	1.7	2.1	2.1	**2.6**	**2.6**	**2.8**	*2.4*	*2.4*
Portugal	-7.7	-9.1	-10.7	-5.5	-2.0	0.7	0.3	**0.5**	**0.5**	**0.3**	*1.2*	*1.4*
Slovenia	-2.5	-1.5	-2.5	-0.1	2.1	3.9	6.5	**7.0**	**7.5**	**7.2**	*5.4*	*5.6*
Slovakia	-6.8	-7.2	-5.7	-5.5	0.2	0.7	-0.8	**0.0**	**-1.2**	**-0.3**	*1.8*	*0.7*
Finland	5.5	6.0	2.9	-1.5	-1.9	-1.8	-2.2	**-1.1**	**-1.0**	**-0.9**	*-0.7*	*-0.4*
Euro area	0.5	0.5	0.1	0.6	1.9	2.5	3.0	**3.7**	**3.6**	**3.4**	*3.5*	*3.4*
Euro area, adjusted²	:	0.0	-0.2	0.2	1.3	2.0	2.4	**3.1**	**3.0**	**2.8**	*3.5*	*3.4*
Bulgaria	2.2	-6.4	-17.2	-1.6	-3.0	-0.5	0.7	**1.4**	**1.3**	**0.9**	*1.3*	*1.2*
Czech Republic	-3.7	-4.0	-4.5	-4.5	-2.2	-1.1	-2.0	**-2.5**	**-2.4**	**-2.1**	*0.4*	*0.7*
Denmark	1.9	3.8	3.3	5.7	5.6	7.2	6.3	**7.0**	**6.9**	**6.5**	*6.1*	*6.2*
Croatia	-4.5	-4.5	-5.6	-0.6	0.0	0.1	0.6	**4.4**	**2.9**	**3.2**	*2.0*	*3.0*
Hungary	-5.9	-7.8	-4.4	0.8	1.6	3.9	2.2	**4.3**	**5.5**	**6.1**	*5.5*	*6.2*
Poland	-3.7	-3.0	-5.0	-4.9	-3.2	-0.9	-1.1	**-0.5**	**-0.9**	**-1.5**	*-1.8*	*-2.2*
Romania	-5.7	-5.9	-8.8	-4.4	-4.3	-0.8	-0.4	**-0.8**	**-1.9**	**-2.6**	*-0.8*	*-1.0*
Sweden	4.3	6.2	7.9	6.0	6.5	5.8	5.4	**5.9**	**5.9**	**5.8**	*5.8*	*5.6*
United Kingdom	-1.2	-1.8	-2.9	-1.7	-3.3	-4.5	-5.1	**-4.3**	**-3.9**	**-3.4**	*-4.9*	*-4.1*
EU	0.2	0.1	-0.4	0.3	1.0	1.5	1.6	**2.2**	**2.2**	**2.0**	*1.9*	*1.9*
EU, adjusted²	:	-0.6	-1.1	-0.2	0.6	1.0	0.9	**1.5**	**1.5**	**1.4**	*1.5*	*1.6*
USA	-2.4	-4.6	-4.2	-3.1	-2.9	-2.4	-2.3	**-2.3**	**-2.4**	**-2.7**	*-2.2*	*-2.4*
Japan	2.4	3.1	3.7	2.0	1.0	0.7	0.5	**2.3**	**2.8**	**3.1**	*1.4*	*1.7*

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, 1996-2017)** 22.10.2015

	5-year averages							Autumn 2015 forecast			*Spring 2015 forecast*	
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	4.3	4.6	2.5	0.0	2.1	0.9	0.6	**1.7**	**1.9**	**1.8**	*2.1*	*2.1*
Germany	-1.0	2.4	5.9	6.0	7.2	6.7	7.8	**8.8**	**8.6**	**8.4**	*8.0*	*7.8*
Estonia	-7.9	-10.3	-4.8	5.4	1.1	3.1	2.3	**2.9**	**2.5**	**1.4**	*0.5*	*0.2*
Ireland	2.5	-0.1	-4.3	-1.0	-1.5	3.2	3.7	**6.2**	**6.0**	**4.9**	*5.3*	*4.9*
Greece	-4.0	-8.3	-12.0	-8.4	-2.5	0.5	-1.1	**1.0**	**1.7**	**2.0**	*0.3*	*0.5*
Spain	-1.0	-4.1	-6.7	-2.9	0.1	2.2	1.6	**1.8**	**1.7**	**1.8**	*1.6*	*1.4*
France	2.2	0.6	-1.3	-2.2	-3.1	-2.6	-2.3	**-1.1**	**-1.1**	**-1.7**	*-0.8*	*-1.0*
Italy	1.7	-0.4	-2.2	-3.0	-0.2	1.0	2.2	**2.5**	**2.3**	**2.1**	*2.4*	*2.4*
Cyprus	-2.5	-3.1	-10.8	-3.6	-5.0	-2.4	-3.6	**-4.2**	**-3.6**	**-3.4**	*-4.7*	*-4.8*
Latvia	-7.6	-9.2	-7.3	-1.0	-0.5	0.4	1.2	**1.2**	**0.8**	**0.5**	*2.5*	*1.6*
Lithuania	-9.3	-5.7	-4.6	-0.6	1.9	4.5	6.6	**0.9**	**1.6**	**1.3**	*1.8*	*0.9*
Luxembourg	:	9.5	7.7	5.8	5.2	4.0	3.5	**4.4**	**4.2**	**3.9**	*4.8*	*4.9*
Malta	-6.9	-2.6	-3.6	-1.3	3.3	4.9	5.0	**3.6**	**5.3**	**5.7**	*2.3*	*1.9*
Netherlands	5.3	6.5	6.9	8.6	9.2	10.7	10.7	**10.6**	**10.7**	**9.9**	*9.1*	*9.6*
Austria	-2.0	1.2	3.0	1.8	1.5	2.0	2.0	**2.5**	**2.6**	**2.9**	*2.4*	*2.4*
Portugal	-5.7	-7.3	-9.6	-4.0	0.0	2.3	1.7	**1.9**	**1.9**	**1.7**	*2.6*	*2.8*
Slovenia	-2.5	-1.7	-2.1	0.3	2.6	4.5	7.0	**8.9**	**8.3**	**7.9**	*7.4*	*6.8*
Slovakia	-7.1	-7.7	-4.9	-3.8	1.8	2.2	0.2	**-0.2**	**-1.3**	**-0.7**	*2.6*	*1.5*
Finland	5.6	6.1	2.9	-1.4	-1.8	-1.7	-2.1	**-1.0**	**-1.0**	**-1.0**	*-0.6*	*-0.3*
Euro area	:	0.7	0.2	0.7	2.0	2.7	3.2	**4.0**	**3.9**	**3.7**	*3.7*	*3.6*
Euro area, adjusted[2]	:	0.1	-0.1	0.3	1.4	2.1	2.6	**3.4**	**3.3**	**3.1**	*3.7*	*3.6*
Bulgaria	2.2	-6.1	-16.9	-0.5	-1.8	0.8	2.1	**2.7**	**2.5**	**2.0**	*2.6*	*2.5*
Czech Republic	-3.7	-3.8	-3.3	-2.8	-1.1	1.1	-0.2	**0.0**	**-0.7**	**-0.5**	*2.3*	*2.0*
Denmark	2.1	3.8	3.3	6.1	5.6	7.2	6.3	**6.8**	**6.8**	**6.5**	*7.0*	*5.3*
Croatia	-4.5	-4.5	-5.6	-0.6	0.0	0.1	0.4	**4.2**	**3.4**	**3.7**	*1.8*	*2.8*
Hungary	-5.9	-7.6	-3.2	3.1	4.1	7.5	6.0	**8.1**	**6.5**	**7.7**	*8.6*	*7.8*
Poland	-3.7	-2.9	-4.0	-3.1	-1.1	1.0	1.0	**1.7**	**0.8**	**0.3**	*0.9*	*-0.1*
Romania	-5.5	-5.4	-8.5	-3.8	-2.9	1.4	2.3	**1.7**	**0.4**	**-0.5**	*1.6*	*1.4*
Sweden	3.9	6.1	7.6	5.9	6.3	5.5	5.3	**5.8**	**5.7**	**5.7**	*5.7*	*5.4*
United Kingdom	-1.1	-1.8	-2.9	-1.7	-3.3	-4.5	-5.2	**-4.5**	**-4.0**	**-3.5**	*-4.8*	*-4.0*
EU	:	0.2	-0.3	0.4	1.2	1.7	1.9	**2.5**	**2.4**	**2.3**	*2.2*	*2.2*
EU, adjusted[2]	:	-0.5	-1.0	-0.1	0.8	1.3	1.2	**1.8**	**1.8**	**1.7**	*1.8*	*1.8*
USA	-2.4	-4.6	-4.2	-3.1	-2.9	-2.4	-2.3	**-2.3**	**-2.4**	**-2.7**	*-2.2*	*-2.4*
Japan	2.1	3.0	3.6	2.0	1.0	0.5	0.5	**2.2**	**2.7**	**3.0**	*1.3*	*1.6*

[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, 2008-17)** 22.10.2015

								Autumn 2015 forecast			*Spring 2015 forecast*	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	4.9	3.4	13.0	0.4	5.5	3.9	3.2	**7.3**	**8.3**	**8.4**	*8.5*	*9.4*
Germany	142.6	144.6	148.2	167.3	197.8	187.8	226.2	**264.4**	**267.8**	**271.8**	*238.4*	*241.9*
Estonia	-1.5	0.4	0.3	0.3	-0.4	0.1	0.3	**0.3**	**0.3**	**0.0**	*-0.1*	*-0.1*
Ireland	-10.8	-7.0	-1.3	-2.0	-2.7	5.6	6.8	**12.1**	**12.5**	**10.7**	*11.2*	*11.0*
Greece	-39.0	-30.2	-26.0	-21.5	-8.3	-3.8	-5.2	**-1.7**	**-0.5**	**0.2**	*-2.9*	*-2.4*
Spain	-102.9	-46.5	-42.0	-35.3	-4.6	15.2	10.3	**15.2**	**14.7**	**16.5**	*12.8*	*11.0*
France	-27.6	-31.2	-34.9	-46.0	-61.2	-56.0	-49.0	**-28.7**	**-34.9**	**-49.5**	*-18.9*	*-26.1*
Italy	-46.3	-30.4	-55.7	-50.4	-7.0	15.3	31.7	**36.4**	**32.4**	**32.5**	*36.5*	*36.6*
Cyprus	-2.8	-2.1	-1.8	-0.7	-1.0	-0.7	-0.7	**-0.6**	**-0.6**	**-0.5**	*-0.7*	*-0.8*
Latvia	-3.1	1.5	0.4	-0.6	-0.8	-0.5	-0.5	**-0.4**	**-0.5**	**-0.6**	*-0.6*	*-0.8*
Lithuania	-4.3	0.6	-0.1	-1.2	-0.3	0.5	1.4	**-0.3**	**0.1**	**-0.1**	*-0.1*	*-0.4*
Luxembourg	2.9	2.7	2.7	2.6	2.6	2.6	2.7	**2.2**	**2.1**	**2.0**	*2.2*	*2.4*
Malta	-0.1	-0.4	-0.3	-0.2	0.1	0.2	0.3	**0.2**	**0.3**	**0.4**	*0.1*	*0.0*
Netherlands	33.3	38.5	48.3	56.9	65.6	71.8	70.6	**71.7**	**73.9**	**70.4**	*59.7*	*64.8*
Austria	12.0	5.9	9.3	5.8	5.3	6.8	7.0	**8.8**	**9.1**	**9.9**	*8.1*	*8.2*
Portugal	-22.5	-17.7	-18.5	-9.6	-3.4	1.3	0.5	**0.9**	**1.0**	**0.7**	*2.2*	*2.6*
Slovenia	-2.0	-0.3	-0.2	0.0	0.8	1.4	2.4	**2.7**	**3.0**	**3.0**	*2.1*	*2.2*
Slovakia	-4.3	-2.2	-3.2	-3.9	0.2	0.5	-0.6	**0.0**	**-1.0**	**-0.3**	*1.4*	*0.6*
Finland	5.3	3.7	2.7	-2.9	-3.8	-3.6	-4.5	**-2.3**	**-2.1**	**-2.0**	*-1.4*	*-0.8*
Euro area	-66.2	33.3	40.8	58.9	184.5	248.4	303.0	**388.1**	**385.9**	**373.3**	*358.5*	*359.3*
Euro area, adjusted[2]	-131.0	5.7	27.6	23.9	124.3	193.9	241.0	**326.2**	**323.9**	**311.3**	*358.6*	*359.7*
Bulgaria	-9.2	-4.3	-1.7	-0.7	-1.2	-0.2	0.3	**0.6**	**0.6**	**0.4**	*0.6*	*0.5*
Czech Republic	-8.0	-5.7	-8.1	-7.4	-3.5	-1.8	-3.1	**-4.1**	**-4.0**	**-3.8**	*0.6*	*1.2*
Denmark	6.4	7.6	13.8	14.1	14.1	18.2	16.2	**18.5**	**19.0**	**18.6**	*16.2*	*16.9*
Croatia	-4.2	-2.2	-0.4	-0.3	0.0	0.0	0.2	**1.9**	**1.3**	**1.5**	*0.9*	*1.3*
Hungary	-7.4	-0.8	0.3	0.8	1.6	4.0	2.3	**4.6**	**6.2**	**7.3**	*6.2*	*7.4*
Poland	-23.5	-10.4	-18.8	-18.6	-12.3	-3.7	-4.6	**-2.0**	**-3.8**	**-6.8**	*-7.9*	*-10.2*
Romania	-17.6	-4.9	-5.7	-5.8	-5.7	-1.2	-0.6	**-1.2**	**-3.2**	**-4.6**	*-1.2*	*-1.7*
Sweden	30.1	20.8	24.6	24.5	27.4	25.2	23.4	**25.9**	**27.2**	**28.1**	*25.3*	*25.4*
United Kingdom	-69.3	-50.7	-50.7	-31.6	-67.5	-91.7	-115.2	**-112.2**	**-103.8**	**-94.4**	*-126.3*	*-110.9*
EU	-168.8	-17.2	-6.0	33.9	137.4	197.3	221.9	**320.1**	**325.4**	**319.6**	*272.8*	*289.2*
EU, adjusted[2]	-277.0	-74.5	-54.8	-31.5	79.2	138.2	127.7	**225.9**	**231.2**	**225.4**	*218.7*	*235.1*
USA	-470.2	-273.8	-336.3	-345.9	-364.4	-298.0	-301.9	**-374.1**	**-400.9**	**-464.5**	*-370.0*	*-432.0*
Japan	109.3	105.4	153.9	86.1	47.1	24.9	19.0	**85.0**	**104.5**	**117.9**	*52.6*	*65.3*

[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, 2008-17) 22.10.2015

								Autumn 2015 forecast			*Spring 2015 forecast*	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	2.1	-10.6	10.3	5.0	1.1	1.3	3.7	**4.0**	**4.4**	**5.2**	*4.2*	*5.5*
Germany	2.2	-11.7	10.5	5.2	1.2	1.7	3.1	**2.5**	**4.0**	**4.9**	*3.5*	*5.4*
Estonia	1.8	-17.7	9.6	7.4	1.5	1.2	1.3	**0.0**	**3.3**	**4.4**	*4.1*	*5.6*
Ireland	1.2	-11.5	10.7	4.6	1.3	1.9	3.0	**3.1**	**4.3**	**4.8**	*4.4*	*5.1*
Greece	1.7	-12.4	10.4	4.9	1.1	2.1	2.5	**2.3**	**4.2**	**4.9**	*3.6*	*5.1*
Spain	1.9	-10.6	9.8	4.2	0.5	1.9	3.1	**3.4**	**4.1**	**5.1**	*2.1*	*4.7*
France	1.8	-11.1	10.3	4.9	1.0	1.9	3.5	**3.4**	**4.2**	**5.0**	*4.3*	*4.9*
Italy	2.7	-11.0	9.9	5.4	1.6	2.1	2.8	**2.8**	**4.1**	**5.0**	*3.6*	*5.0*
Cyprus	2.2	-13.6	8.1	7.4	1.3	3.5	-0.2	**-4.5**	**3.1**	**4.5**	*3.6*	*5.2*
Latvia	3.8	-17.0	12.5	10.4	3.9	2.7	1.4	**-0.1**	**3.6**	**4.8**	*4.3*	*5.4*
Lithuania	2.5	-16.6	11.2	9.8	3.5	1.6	0.4	**-1.5**	**3.7**	**4.8**	*3.9*	*5.1*
Luxembourg	1.6	-11.2	10.1	4.2	0.4	1.6	4.9	**4.6**	**4.6**	**5.2**	*3.8*	*5.3*
Malta	1.8	-11.7	10.3	4.4	0.8	2.2	4.6	**3.2**	**3.8**	**4.8**	*1.8*	*4.6*
Netherlands	2.3	-11.2	10.4	5.2	0.9	1.5	4.0	**4.2**	**4.4**	**5.4**	*2.3*	*5.1*
Austria	2.8	-11.5	11.3	5.9	1.1	1.7	3.2	**3.8**	**4.6**	**5.5**	*1.4*	*4.7*
Portugal	0.9	-12.6	9.7	3.9	-0.3	1.8	3.6	**4.0**	**4.4**	**5.1**	*4.3*	*5.2*
Slovenia	2.7	-13.1	9.8	5.5	0.4	1.0	3.1	**3.4**	**4.5**	**5.4**	*4.2*	*5.6*
Slovakia	3.2	-12.3	11.7	6.2	0.8	1.3	4.7	**4.3**	**4.9**	**5.8**	*4.0*	*5.1*
Finland	3.6	-12.2	11.9	7.7	2.7	2.2	2.4	**0.6**	**3.7**	**4.7**	*4.2*	*5.5*
Euro area (b)	2.2	-11.3	10.4	5.1	1.1	1.7	3.3	**3.2**	**4.2**	**5.1**	*4.3*	*5.6*
Bulgaria	2.4	-12.8	9.4	5.6	0.0	1.6	3.1	**2.2**	**4.2**	**5.4**	*3.6*	*5.5*
Czech Republic	3.2	-12.3	11.2	5.9	1.3	1.5	3.4	**3.7**	**4.5**	**5.6**	*4.5*	*5.7*
Denmark	2.4	-11.4	11.4	5.4	1.5	1.7	3.8	**3.1**	**4.1**	**4.9**	*3.7*	*5.4*
Croatia	1.5	-12.7	10.4	5.3	-0.4	1.4	3.0	**3.0**	**4.4**	**5.2**	*3.6*	*5.3*
Hungary	3.5	-12.5	11.0	6.1	1.3	1.4	3.5	**3.8**	**4.6**	**5.4**	*4.7*	*5.9*
Poland	3.5	-12.4	11.4	6.2	1.7	1.4	2.9	**3.1**	**4.4**	**5.4**	*3.6*	*4.8*
Romania	1.7	-12.4	10.2	5.4	0.7	1.5	3.1	**3.3**	**4.4**	**5.4**	*3.1*	*4.9*
Sweden	2.3	-11.9	9.7	5.0	1.7	2.0	3.1	**2.4**	**3.8**	**4.7**	*4.3*	*5.3*
United Kingdom	1.6	-11.1	10.5	5.0	1.4	1.9	3.1	**3.3**	**4.3**	**5.0**	*3.4*	*4.7*
EU (b)	2.2	-11.5	10.5	5.2	1.2	1.7	3.3	**3.2**	**4.2**	**5.1**	*4.1*	*5.1*
USA	3.5	-11.2	13.1	6.6	3.3	3.3	3.2	**1.9**	**3.1**	**4.0**	*3.9*	*5.3*
Japan	3.7	-9.0	14.8	7.0	3.4	3.3	3.4	**1.6**	**3.1**	**4.2**	*4.0*	*5.3*

(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, 2008-17) 22.10.2015

								Autumn 2015 forecast			*Spring 2015 forecast*	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
Belgium	-0.4	1.3	0.0	1.6	0.7	0.3	1.6	**-0.4**	**0.1**	**0.0**	*-0.3*	*0.2*
Germany	-0.3	-2.9	3.7	2.9	1.5	-0.1	0.9	**3.3**	**0.3**	**0.2**	*1.1*	*0.5*
Estonia	-0.9	-3.2	13.2	15.6	4.7	3.5	0.5	**-0.5**	**0.2**	**-0.1**	*0.2*	*-0.2*
Ireland	-1.3	11.8	-3.9	-2.4	0.8	0.5	8.8	**9.4**	**2.6**	**1.9**	*1.2*	*0.4*
Greece	1.7	-7.0	-5.0	-4.6	0.0	0.0	4.9	**-2.2**	**-2.8**	**-0.7**	*0.5*	*0.1*
Spain	-2.7	-0.5	-0.3	3.1	0.5	2.4	1.9	**1.4**	**1.1**	**0.3**	*1.8*	*1.0*
France	-1.4	-0.2	-1.2	1.9	1.6	-0.3	-1.1	**2.6**	**0.4**	**0.5**	*0.4*	*0.5*
Italy	-5.6	-7.9	1.7	-0.2	0.8	-1.2	0.3	**1.5**	**-0.7**	**-0.5**	*0.0*	*-0.4*
Cyprus	-2.8	10.8	-3.5	-3.0	-2.4	-1.7	-0.3	**6.0**	**-1.7**	**-1.5**	*-2.1*	*-2.9*
Latvia	-1.4	5.0	0.8	1.5	5.6	-1.6	1.7	**1.4**	**-1.0**	**-1.3**	*0.3*	*-0.5*
Lithuania	10.6	4.6	7.0	4.6	8.4	7.9	2.6	**3.9**	**-0.8**	**-0.9**	*1.7*	*1.7*
Luxembourg	4.3	-0.9	-1.6	1.2	-0.2	5.2	1.8	**0.3**	**0.0**	**-0.4**	*0.1*	*0.1*
Malta	17.3	12.8	-3.1	-2.1	6.2	-2.3	-4.7	**-4.1**	**0.1**	**-0.3**	*0.5*	*-2.1*
Netherlands	-0.5	2.6	0.1	-0.8	2.9	0.6	0.1	**0.4**	**-0.3**	**-0.8**	*-0.2*	*-0.5*
Austria	-0.5	-4.0	2.3	0.1	0.6	-0.9	-1.1	**-2.4**	**-0.8**	**-1.9**	*-2.1*	*-1.6*
Portugal	-1.2	2.7	-0.2	3.0	3.7	5.1	0.3	**1.3**	**0.4**	**0.2**	*0.7*	*0.4*
Slovenia	1.4	-4.0	0.3	1.3	0.2	2.0	2.6	**1.1**	**0.2**	**0.1**	*1.6*	*0.0*
Slovakia	-0.2	-5.1	3.6	5.5	8.4	4.8	-1.1	**0.7**	**-0.3**	**0.1**	*-0.4*	*-0.2*
Finland	2.9	-9.0	-5.1	-5.3	-1.4	-1.1	-3.1	**-0.6**	**-1.3**	**-0.8**	*-1.3*	*-0.9*
Euro area (b)	-1.1	-1.5	0.8	1.3	1.5	0.4	0.8	**1.9**	**0.1**	**0.0**	*0.4*	*0.1*
Bulgaria	0.1	1.2	7.1	5.6	0.8	7.5	-3.1	**3.6**	**0.1**	**-0.8**	*-0.4*	*-1.3*
Czech Republic	1.0	2.8	3.3	3.2	2.9	-1.4	5.3	**2.9**	**1.2**	**0.4**	*2.5*	*1.3*
Denmark	0.8	2.2	-8.5	1.8	-1.3	-0.9	-1.1	**-1.9**	**0.4**	**-0.9**	*-1.2*	*-0.5*
Croatia	-0.7	-1.6	-3.8	-2.9	0.3	1.6	3.2	**5.6**	**-0.3**	**-0.7**	*-0.2*	*-0.5*
Hungary	3.3	1.2	0.3	0.4	-3.1	4.9	3.9	**4.0**	**2.9**	**2.4**	*3.0*	*1.8*
Poland	3.4	7.0	1.3	1.6	2.9	4.6	3.4	**2.4**	**1.3**	**0.7**	*2.6*	*1.2*
Romania	-4.8	8.1	4.6	6.2	0.3	17.9	4.9	**2.8**	**0.6**	**0.2**	*2.2*	*0.4*
Sweden	-0.3	-2.9	2.0	1.0	-0.7	-2.7	0.3	**1.2**	**0.1**	**-0.2**	*0.5*	*0.5*
United Kingdom	-0.3	2.6	-4.3	0.8	-0.6	-0.7	-1.2	**-1.0**	**-1.2**	**-0.8**	*-2.5*	*-2.3*
EU (b)	-0.7	-0.5	0.2	1.3	1.1	0.5	0.8	**1.6**	**0.1**	**-0.1**	*0.3*	*-0.1*
USA	2.2	2.7	-1.1	0.2	0.1	-0.5	0.2	**-0.2**	**0.5**	**-0.1**	*-0.2*	*-0.9*
Japan	-2.2	-16.7	8.7	-6.9	-3.5	-2.0	4.9	**1.0**	**0.7**	**-0.6**	*2.6*	*0.5*

(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, 2010-17)** 22.10.2015

							Autumn 2015 forecast			*Spring 2015 forecast*	
	(a)	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
EU	17.1	2.1	1.8	-0.5	0.2	1.4	**1.9**	**2.0**	**2.1**	*1.8*	*2.1*
Euro area	12.1	2.1	1.6	-0.9	-0.3	0.9	**1.6**	**1.8**	**1.9**	*1.5*	*1.9*
Belgium	0.4	2.7	1.8	0.2	0.0	1.3	**1.3**	**1.3**	**1.7**	*1.1*	*1.5*
Bulgaria	0.1	0.1	1.6	0.2	1.3	1.5	**1.7**	**1.5**	**2.0**	*1.0*	*1.3*
Czech Republic	0.3	2.3	2.0	-0.9	-0.5	2.0	**4.3**	**2.2**	**2.7**	*2.5*	*2.6*
Denmark	0.2	1.6	1.2	-0.7	-0.5	1.1	**1.6**	**2.0**	**1.8**	*1.8*	*2.1*
Germany	3.4	4.1	3.7	0.4	0.3	1.6	**1.7**	**1.9**	**1.9**	*1.9*	*2.0*
Estonia	0.0	2.5	7.6	5.2	1.6	2.9	**1.9**	**2.6**	**2.6**	*2.3*	*2.9*
Ireland	0.2	0.4	2.6	0.2	1.4	5.2	**6.0**	**4.5**	**3.5**	*3.6*	*3.5*
Greece	0.3	-5.5	-9.1	-7.3	-3.2	0.7	**-1.4**	**-1.3**	**2.7**	*0.5*	*2.9*
Spain	1.4	0.0	-1.0	-2.6	-1.7	1.4	**3.1**	**2.7**	**2.4**	*2.8*	*2.6*
France	2.4	2.0	2.1	0.2	0.7	0.2	**1.1**	**1.4**	**1.7**	*1.1*	*1.7*
Croatia	0.1	-1.7	-0.3	-2.2	-0.9	-0.4	**1.1**	**1.4**	**1.7**	*0.3*	*1.2*
Italy	2.0	1.7	0.6	-2.8	-1.7	-0.4	**0.9**	**1.5**	**1.4**	*0.6*	*1.4*
Cyprus	0.0	1.4	0.4	-2.4	-5.9	-2.5	**1.2**	**1.4**	**2.0**	*-0.5*	*1.4*
Latvia	0.0	-3.8	6.2	4.0	3.0	2.8	**2.4**	**3.0**	**3.3**	*2.3*	*3.2*
Lithuania	0.1	1.6	6.0	3.8	3.5	3.0	**1.7**	**2.9**	**3.4**	*2.8*	*3.3*
Luxembourg	0.0	5.7	2.6	-0.8	4.3	4.1	**3.1**	**3.2**	**3.0**	*3.4*	*3.5*
Hungary	0.2	0.7	1.8	-1.7	1.9	3.7	**2.9**	**2.2**	**2.5**	*2.8*	*2.2*
Malta	0.0	3.5	2.1	2.5	2.6	3.5	**4.3**	**3.6**	**3.1**	*3.6*	*3.2*
Netherlands	0.7	1.4	1.7	-1.1	-0.5	1.0	**2.0**	**2.1**	**2.3**	*1.6*	*1.7*
Austria	0.4	1.9	2.8	0.8	0.3	0.4	**0.6**	**1.5**	**1.4**	*0.8*	*1.5*
Poland	0.9	3.7	5.0	1.6	1.3	3.3	**3.5**	**3.5**	**3.5**	*3.3*	*3.4*
Portugal	0.3	1.9	-1.8	-4.0	-1.1	0.9	**1.7**	**1.7**	**1.8**	*1.6*	*1.8*
Romania	0.4	-0.8	1.1	0.6	3.5	2.8	**3.5**	**4.1**	**3.6**	*2.8*	*3.3*
Slovenia	0.1	1.2	0.6	-2.7	-1.1	3.0	**2.6**	**1.9**	**2.5**	*2.3*	*2.1*
Slovakia	0.1	5.1	2.8	1.5	1.4	2.5	**3.2**	**2.9**	**3.3**	*3.0*	*3.4*
Finland	0.2	3.0	2.6	-1.4	-1.1	-0.4	**0.3**	**0.7**	**1.1**	*0.3*	*1.0*
Sweden	0.4	6.0	2.7	-0.3	1.2	2.3	**3.0**	**2.8**	**2.7**	*2.5*	*2.8*
United Kingdom	2.4	1.5	2.0	1.2	2.2	2.9	**2.5**	**2.4**	**2.2**	*2.6*	*2.4*
Candidate Countries	1.5	8.3	8.0	1.8	4.0	2.6	**2.9**	**3.1**	**3.4**	*3.0*	*3.5*
- Turkey	1.4	9.2	8.8	2.1	4.2	2.9	**3.0**	**3.2**	**3.4**	*3.2*	*3.7*
- The former Yugoslav Republic of Macedonia	0.0	3.4	2.3	-0.5	2.7	3.8	**3.2**	**3.5**	**3.5**	*3.8*	*3.9*
- Montenegro	0.0	:	3.2	-2.7	3.5	1.8	**4.0**	**4.1**	**4.0**	*3.3*	*3.9*
- Serbia	0.1	0.6	1.4	-1.0	2.6	-1.8	**0.7**	**1.4**	**2.5**	*-0.1*	*1.2*
- Albania	0.0	3.7	2.5	1.4	1.1	2.2	**2.7**	**3.3**	**3.8**	*3.0*	*3.6*
Potential Candidates	0.1	1.9	1.9	-0.1	2.8	1.0	**2.7**	**3.1**	**3.5**	*2.7*	*3.1*
USA	15.9	2.5	1.6	2.2	1.5	2.4	**2.6**	**2.8**	**2.7**	*3.1*	*3.0*
Japan	4.4	4.7	-0.5	1.7	1.6	-0.1	**0.7**	**1.1**	**0.5**	*1.1*	*1.4*
Canada	1.5	3.4	3.0	1.9	2.0	2.5	**1.2**	**2.5**	**2.7**	*2.0*	*2.1*
Norway	0.3	0.6	1.0	2.7	0.7	2.2	**0.6**	**1.1**	**1.9**	*1.5*	*1.6*
Switzerland	0.4	3.0	1.8	1.1	1.8	1.9	**1.0**	**1.3**	**1.4**	*1.2*	*1.3*
Iceland	0.0	-3.6	2.0	1.2	3.9	1.8	**4.0**	**3.2**	**2.5**	*2.8*	*2.5*
Australia	1.0	2.3	2.7	3.6	2.1	2.7	**2.2**	**2.5**	**2.8**	*2.8*	*3.0*
New Zealand	0.1	1.6	1.8	2.4	2.2	3.2	**2.5**	**2.5**	**2.5**	*3.0*	*2.7*
Advanced economies	42.4	2.7	1.7	1.1	1.1	1.8	**2.0**	**2.3**	**2.3**	*2.3*	*2.5*
CIS	4.7	5.0	4.8	3.5	2.1	0.9	**-3.0**	**0.4**	**1.8**	*-2.7*	*0.9*
- Russia	3.3	4.5	4.3	3.4	1.3	0.6	**-3.7**	**-0.5**	**1.0**	*-3.5*	*0.2*
- Other CIS	1.4	6.2	6.0	3.5	4.1	1.5	**-1.5**	**2.7**	**3.7**	*-0.8*	*2.5*
MENA	6.8	5.4	2.9	3.3	1.7	2.5	**2.8**	**3.3**	**3.8**	*3.0*	*3.7*
Asia	34.1	9.8	7.7	7.0	6.5	6.3	**5.9**	**5.9**	**5.8**	*6.4*	*6.5*
- China	16.6	10.6	10.3	9.6	8.0	7.4	**6.8**	**6.5**	**6.2**	*7.0*	*6.8*
- India	6.8	11.0	7.9	4.9	6.9	7.1	**7.2**	**7.4**	**7.5**	*7.6*	*7.9*
- Hong Kong	0.4	6.8	4.8	1.7	3.1	2.5	**2.3**	**2.4**	**2.6**	*2.8*	*3.1*
- Korea	1.6	6.5	3.7	2.3	3.0	3.3	**2.5**	**2.9**	**3.1**	*3.3*	*3.4*
- Indonesia	2.5	6.4	6.2	6.0	5.6	5.0	**4.8**	**5.1**	**5.4**	*5.5*	*5.7*
Latin America	8.6	6.0	4.8	3.1	2.9	1.2	**0.4**	**1.2**	**2.0**	*1.0*	*2.3*
- Brazil	3.0	7.5	3.9	1.8	2.7	0.1	**-2.6**	**-0.5**	**1.2**	*-0.9*	*1.3*
- Mexico	2.0	5.2	3.9	4.0	1.4	2.1	**2.4**	**2.8**	**3.0**	*2.7*	*3.4*
Sub-Saharan Africa	3.2	5.8	4.4	4.4	5.0	4.9	**4.4**	**4.3**	**4.8**	*4.8*	*5.0*
Emerging and developing economies	57.6	7.9	6.2	5.4	4.9	4.5	**3.9**	**4.4**	**4.7**	*4.4*	*5.0*
World	100.0	5.5	4.1	3.5	3.2	3.3	**3.1**	**3.5**	**3.7**	*3.5*	*3.9*
World excluding EU	82.9	6.3	4.7	4.4	3.9	3.7	**3.3**	**3.8**	**4.0**	*3.8*	*4.3*
World excluding euro area	87.9	6.0	4.6	4.1	3.7	3.7	**3.3**	**3.8**	**3.9**	*3.8*	*4.2*

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2014.

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2010-17) 22.10.2015

							Autumn 2015 forecast			*Spring 2015 forecast*	
	(a)	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
EU (b)	34.5	10.7	6.6	2.3	2.2	4.1	**4.8**	**4.3**	**5.0**	*4.2*	*5.2*
Euro area (b)	25.9	11.3	6.5	2.6	2.1	4.1	**5.2**	**4.3**	**5.0**	*4.4*	*5.4*
Candidate Countries	1.1	4.6	6.6	16.0	1.2	6.2	**-0.2**	**5.2**	**6.0**	*3.5*	*4.7*
- Turkey	1.0	3.4	6.5	18.3	-0.3	6.8	**-1.2**	**5.3**	**6.0**	*3.2*	*4.5*
- The former Yugoslav Republic of Macedonia	0.0	:	16.1	2.0	-2.7	17.0	**7.9**	**7.9**	**8.3**	*8.8*	*9.9*
- Montenegro	0.0	:	14.6	-0.3	-1.3	-0.7	**2.1**	**1.8**	**3.4**	*1.2*	*2.0*
- Serbia	0.1	15.0	5.0	0.8	21.3	3.9	**8.1**	**3.9**	**5.3**	*4.7*	*4.9*
- Albania	0.0	16.8	7.4	-0.6	7.9	-17.9	**0.7**	**5.5**	**5.8**	*6.7*	*7.8*
USA	10.1	11.9	6.9	3.4	2.8	3.4	**1.7**	**3.6**	**3.9**	*3.2*	*3.8*
Japan	3.5	24.8	-0.4	-0.2	1.2	8.4	**2.6**	**3.8**	**3.5**	*6.8*	*5.6*
Canada	2.4	6.9	4.6	2.6	2.0	5.4	**2.4**	**4.3**	**4.6**	*5.6*	*5.7*
Norway	0.8	0.7	-0.8	1.4	-3.0	2.7	**0.5**	**3.6**	**5.2**	*2.9*	*3.3*
Switzerland	1.9	12.8	4.9	1.1	15.2	-6.9	**-1.4**	**2.5**	**2.6**	*-1.3*	*2.4*
Iceland	0.0	1.0	3.4	3.6	6.7	3.1	**8.2**	**5.2**	**4.5**	*4.7*	*5.5*
Australia	1.3	5.5	0.0	5.8	6.1	6.8	**5.5**	**5.1**	**4.9**	*5.3*	*5.8*
New Zealand	0.2	3.5	2.2	1.8	1.0	0.6	**4.4**	**2.4**	**2.6**	*3.0*	*2.5*
Advanced economies	56.0	11.3	5.7	2.6	2.7	3.9	**3.6**	**4.1**	**4.6**	*4.0*	*4.8*
CIS	3.7	8.2	4.3	2.3	1.5	-1.3	**-6.8**	**1.9**	**3.7**	*-2.9*	*1.4*
- Russia	2.4	7.0	0.3	1.4	4.2	-0.1	**-4.7**	**1.0**	**2.5**	*-2.0*	*1.0*
- Other CIS	1.2	10.5	12.1	3.9	-3.4	-3.6	**-10.9**	**3.6**	**5.8**	*-4.7*	*2.1*
MENA	7.1	5.2	-3.4	0.3	2.7	1.1	**2.7**	**3.9**	**4.9**	*3.3*	*4.4*
- Asia	26.1	20.3	8.7	3.9	5.9	4.5	**2.2**	**3.5**	**4.1**	*5.2*	*5.7*
- China	10.7	27.7	10.3	7.0	8.7	6.4	**3.0**	**4.0**	**5.0**	*5.5*	*5.5*
- India	2.1	25.3	10.6	1.1	4.5	6.6	**1.5**	**4.0**	**4.9**	*7.2*	*8.2*
- Hong Kong	2.5	16.8	3.9	1.9	6.2	0.9	**1.0**	**2.1**	**2.4**	*2.8*	*5.2*
- Korea	3.1	12.7	15.1	5.1	4.3	2.8	**1.7**	**3.9**	**3.7**	*4.0*	*4.5*
Indonesia	0.9	2.7	5.8	2.9	2.7	2.0	**2.0**	**3.1**	**4.4**	*5.1*	*5.2*
Latin America	5.4	8.9	6.5	2.5	1.8	1.7	**3.7**	**3.0**	**3.7**	*3.0*	*3.9*
- Brazil	1.1	11.6	5.0	0.1	2.3	-1.0	**7.9**	**0.6**	**3.0**	*-0.4*	*2.7*
- Mexico	1.8	20.5	8.2	5.8	2.2	7.3	**7.1**	**5.8**	**5.0**	*6.1*	*6.3*
Sub-Saharan Africa	1.8	4.9	-1.0	1.0	3.7	2.1	**2.9**	**3.7**	**5.0**	*4.0*	*5.4*
Emerging and developing economies	44.0	14.7	5.7	2.8	4.3	3.0	**1.8**	**3.4**	**4.2**	*4.0*	*5.0*
World	100.0	12.7	5.7	2.7	3.4	3.5	**2.8**	**3.8**	**4.4**	*4.0*	*4.9*
World excluding EU	65.5	13.9	5.2	2.9	4.0	3.2	**1.8**	**3.5**	**4.1**	*3.9*	*4.8*
World excluding euro area	74.1	13.2	5.4	2.7	3.9	3.3	**2.0**	**3.6**	**4.2**	*3.9*	*4.8*

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2014.

(b) Intra- and extra-EU trade.

Table 57: Export shares in EU trade (goods only - 2014) 22.10.2015

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	65.2	48.3	2.0	6.2	1.3	5.3	3.5	4.6	3.1	4.6	2.6	1.6
Euro area	65.1	47.8	1.9	6.3	1.3	4.8	3.7	4.5	3.0	4.8	2.9	1.7
Belgium	74.5	60.8	1.2	4.7	0.8	2.6	2.1	5.1	1.4	3.9	1.7	2.1
Bulgaria	62.8	47.3	13.0	1.6	0.3	1.5	3.2	3.3	5.2	7.3	0.5	1.2
Czech Republic	82.3	64.5	1.9	2.3	0.5	2.5	1.5	1.6	4.4	1.8	0.7	0.5
Denmark	66.1	39.5	0.9	6.4	2.0	8.7	3.3	4.4	2.2	2.7	2.5	0.8
Germany	59.9	38.8	2.1	7.5	1.5	6.2	6.3	5.0	3.6	3.6	3.0	1.2
Estonia	74.6	48.8	1.6	2.5	0.7	5.2	1.1	2.0	9.8	1.1	0.8	0.5
Ireland	57.5	38.0	0.6	21.7	2.4	7.5	2.5	2.6	0.9	1.9	1.6	0.7
Greece	51.0	35.0	19.1	3.3	0.4	1.6	1.6	2.9	2.9	15.0	1.2	0.9
Spain	66.0	53.1	2.2	3.8	1.2	3.5	2.0	2.7	1.8	8.1	6.6	2.0
France	60.1	47.5	1.5	7.0	1.9	4.6	3.8	6.3	2.2	6.9	3.1	2.7
Croatia	69.7	58.4	10.1	3.7	0.6	2.8	0.9	0.9	4.2	5.1	0.7	1.1
Italy	54.5	40.6	3.4	7.4	1.8	6.7	3.1	5.4	3.5	8.9	3.9	1.4
Cyprus	52.1	33.0	0.2	1.7	0.5	1.2	1.4	22.8	3.2	14.6	0.8	1.3
Latvia	70.8	49.9	1.3	1.6	0.5	3.4	0.8	1.9	15.0	3.8	0.4	0.5
Lithuania	63.8	42.5	0.6	4.5	0.3	3.6	0.5	1.2	22.0	2.9	0.3	0.4
Luxembourg	83.3	73.3	1.5	2.9	0.4	3.7	1.4	2.0	1.4	2.0	0.9	0.6
Hungary	79.1	56.8	2.9	2.9	0.6	1.7	2.0	1.5	5.0	2.3	1.3	0.7
Malta	44.4	35.0	1.2	3.4	4.4	2.3	9.5	21.3	1.4	9.6	1.4	1.1
Netherlands	79.5	62.5	0.9	3.2	0.7	2.7	1.7	3.2	1.6	2.9	1.8	1.8
Austria	72.6	54.9	1.5	5.1	1.0	5.6	2.6	3.1	3.6	2.5	1.9	0.6
Poland	78.6	55.6	2.1	2.2	0.4	2.8	1.2	1.5	8.0	1.6	1.0	0.6
Portugal	70.1	60.4	1.0	4.5	0.5	2.3	1.9	1.4	0.9	4.6	3.5	9.4
Romania	69.9	51.5	6.6	2.2	0.7	1.6	1.5	2.3	6.3	6.7	1.4	0.9
Slovenia	77.9	55.3	5.1	1.7	0.2	2.1	0.9	1.5	6.1	3.5	0.6	0.3
Slovakia	85.5	45.7	2.1	1.5	0.2	2.1	2.5	0.5	4.1	0.9	0.4	0.2
Finland	56.8	33.9	1.5	6.3	1.9	6.6	5.3	5.5	8.6	3.3	3.1	1.1
Sweden	61.4	42.6	1.3	5.6	1.4	11.8	3.9	4.4	2.3	4.0	2.7	1.2
United Kingdom	51.7	45.7	1.5	10.5	1.3	11.0	3.2	8.4	1.8	6.2	2.2	2.2

Table 58: World imports of goods and services, volume (percentage change on preceding year, 2010-17) 22.10.2015

							Autumn 2015 forecast			*Spring 2015 forecast*	
	(a)	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*
EU (b)	33.4	9.8	4.2	-0.4	1.6	4.7	**5.0**	**4.9**	**5.5**	*4.6*	*5.6*
Euro area (b)	24.6	10.0	4.3	-1.0	1.3	4.5	**5.4**	**4.8**	**5.7**	*4.6*	*5.9*
Candidate Countries	1.3	18.2	10.3	-0.3	8.1	0.2	**2.7**	**4.0**	**5.2**	*3.7*	*5.5*
- Turkey	1.1	20.7	10.9	-0.5	9.0	-0.2	**2.5**	**4.0**	**5.3**	*3.5*	*5.5*
- The former Yugoslav Republic of Macedonia	0.0	:	8.0	8.2	-10.0	14.5	**6.3**	**6.4**	**6.6**	*6.5*	*7.8*
- Montenegro	0.0	:	0.3	0.6	-3.1	1.6	**3.6**	**3.8**	**1.7**	*6.1*	*4.9*
- Serbia	0.1	4.4	7.9	1.4	5.0	3.3	**5.4**	**3.2**	**4.6**	*2.4*	*3.2*
- Albania	0.0	0.6	6.1	-6.6	5.0	-9.9	**-3.6**	**5.2**	**5.6**	*7.6*	*8.1*
USA	12.8	12.7	5.5	2.2	1.1	3.8	**5.1**	**5.0**	**4.9**	*5.1*	*5.3*
Japan	4.3	11.1	5.9	5.3	3.1	7.4	**0.8**	**3.1**	**2.7**	*3.9*	*4.5*
Canada	2.6	13.6	5.7	3.7	1.3	1.7	**1.2**	**2.0**	**2.4**	*3.3*	*3.4*
Norway	0.7	8.3	4.0	3.1	4.3	1.9	**1.0**	**2.0**	**3.3**	*1.7*	*2.9*
Switzerland	1.7	8.1	9.2	-2.6	13.4	-8.1	**-0.8**	**2.8**	**3.0**	*-1.1*	*2.6*
Iceland	0.0	4.4	6.8	4.6	0.2	9.8	**12.5**	**9.4**	**6.9**	*8.3*	*7.9*
Australia	1.4	15.2	11.0	6.3	-1.8	-1.7	**-1.0**	**0.6**	**1.9**	*-2.9*	*1.5*
New Zealand	0.2	10.8	7.0	2.8	6.1	7.0	**4.1**	**2.2**	**2.4**	*4.0*	*3.5*
Advanced economies	58.3	10.8	5.1	0.9	2.0	3.8	**4.1**	**4.4**	**4.8**	*4.2*	*5.1*
CIS	3.1	18.2	18.7	9.5	2.5	-8.9	**-17.0**	**1.1**	**3.7**	*-8.9*	*1.4*
- Russia	1.9	25.8	20.3	8.8	3.7	-7.9	**-20.0**	**0.3**	**4.0**	*-10.0*	*0.5*
- Other CIS	1.2	7.3	16.3	10.5	0.6	-10.6	**-12.1**	**2.1**	**3.3**	*-7.1*	*2.9*
MENA	5.8	2.5	-0.7	6.8	3.8	4.4	**3.5**	**3.8**	**5.4**	*5.2*	*6.4*
- Asia	25.2	18.6	8.9	4.8	5.3	4.6	**0.7**	**2.6**	**3.9**	*4.8*	*5.4*
- China	9.8	20.4	12.0	8.2	10.8	7.1	**-0.7**	**1.9**	**4.5**	*4.4*	*5.3*
- India	2.4	13.7	8.6	1.6	-3.7	9.6	**1.5**	**3.2**	**4.8**	*4.6*	*6.7*
- Hong Kong	2.8	17.4	4.6	2.9	6.6	1.1	**1.2**	**2.0**	**2.2**	*3.2*	*5.1*
- Korea	2.9	17.3	14.3	2.4	1.6	2.0	**1.7**	**3.2**	**3.6**	*3.3*	*4.3*
Indonesia	0.9	17.8	15.4	15.5	0.3	-1.0	**1.0**	**3.2**	**4.3**	*3.7*	*4.4*
Latin America	5.9	20.4	11.7	4.5	2.8	0.3	**-1.2**	**0.8**	**3.2**	*0.1*	*3.5*
- Brazil	1.4	31.4	10.5	0.2	7.2	-1.0	**-9.3**	**-1.8**	**1.6**	*-3.8*	*1.1*
- Mexico	1.9	20.5	8.1	5.5	2.5	6.2	**4.1**	**4.7**	**5.0**	*4.3*	*6.5*
Sub-Saharan Africa	1.6	4.3	10.5	11.5	3.9	-0.6	**3.3**	**3.6**	**4.6**	*5.7*	*6.3*
Emerging and developing economies	41.7	15.6	8.8	5.7	4.4	2.6	**-0.4**	**2.5**	**4.1**	*3.2*	*5.0*
World	100.0	12.6	6.5	2.8	3.0	3.3	**2.3**	**3.6**	**4.5**	*3.8*	*5.1*
World excluding EU	66.6	14.3	7.8	4.5	3.7	2.7	**0.9**	**3.0**	**4.0**	*3.4*	*4.9*
World excluding euro area	75.4	13.7	7.3	4.2	3.6	3.0	**1.2**	**3.2**	**4.1**	*3.5*	*4.8*

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2014.

(b) Intra- and extra-EU trade.

Table 59: Import shares in EU trade (goods only - 2014) 22.10.2015

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	64.0	49.6	1.3	4.2	1.2	5.1	6.1	4.7	5.9	3.5	2.2	1.8
Euro area	63.3	48.6	1.3	4.3	1.3	4.7	5.9	4.7	6.1	4.1	2.5	1.9
Belgium	67.8	57.2	0.8	7.3	1.7	3.9	3.8	5.3	2.6	3.2	2.1	1.4
Bulgaria	63.4	45.0	8.1	0.9	0.2	1.6	3.3	1.9	17.1	1.1	1.7	0.6
Czech Republic	78.4	61.8	0.9	1.4	1.0	1.8	5.4	4.0	6.6	0.3	0.2	0.2
Denmark	72.4	48.7	1.1	2.2	0.4	8.4	6.0	4.0	1.7	1.2	1.6	1.1
Germany	66.8	47.0	1.5	3.9	1.6	6.5	6.2	4.6	4.7	1.5	1.6	1.1
Estonia	75.0	53.9	0.7	1.1	0.8	1.6	4.6	2.2	13.2	0.2	0.2	0.3
Ireland	72.5	28.2	0.5	9.6	1.5	4.6	3.8	3.7	0.5	0.9	1.9	0.5
Greece	49.1	38.3	3.3	1.1	0.3	1.9	5.0	4.7	17.4	15.4	1.5	0.4
Spain	57.0	47.5	1.5	3.1	0.7	2.8	5.7	4.2	3.6	9.8	7.2	4.6
France	69.8	58.8	1.0	4.4	0.9	4.3	4.4	3.8	3.0	5.1	1.3	1.9
Croatia	69.2	54.8	3.8	1.7	0.4	1.7	6.7	2.3	10.9	1.1	1.7	0.4
Italy	57.1	46.2	2.3	3.2	0.7	4.2	6.1	4.5	9.6	7.8	2.5	2.1
Cyprus	60.7	49.6	0.4	1.0	1.7	1.5	6.3	5.0	11.7	11.1	0.4	0.1
Latvia	61.0	45.5	0.5	1.3	0.1	1.5	3.9	2.0	28.7	0.3	0.6	0.0
Lithuania	59.4	40.1	0.9	1.8	0.1	1.6	3.7	1.2	30.0	0.4	0.7	0.1
Luxembourg	80.6	76.8	0.2	7.5	0.6	1.3	6.5	1.6	0.1	0.2	1.5	0.0
Hungary	73.6	56.7	1.2	1.5	1.2	1.0	6.4	4.0	9.4	0.5	1.1	0.1
Malta	42.2	33.3	4.5	3.1	1.1	2.7	11.8	11.9	18.3	3.8	0.2	0.5
Netherlands	46.1	34.4	0.6	6.6	2.2	5.4	10.8	7.1	9.6	4.0	4.7	2.8
Austria	80.5	66.6	1.1	2.0	0.5	5.1	2.3	2.9	3.1	1.3	0.3	0.9
Poland	72.4	58.5	1.0	1.6	0.7	2.1	5.8	3.4	11.7	0.3	0.7	0.3
Portugal	72.1	65.5	0.7	1.2	0.4	1.8	2.8	2.4	3.3	4.2	2.5	8.4
Romania	76.4	54.0	4.5	1.1	0.4	1.4	3.8	2.1	8.1	0.9	1.0	0.2
Slovenia	74.5	57.8	5.1	1.4	0.4	1.8	5.1	6.1	1.6	1.8	2.0	0.3
Slovakia	77.0	42.6	1.0	0.4	0.5	0.8	4.0	6.3	9.8	0.2	0.1	0.0
Finland	64.3	38.3	0.4	2.6	0.5	3.3	5.1	2.8	18.2	0.4	1.7	0.8
Sweden	72.0	51.5	0.8	2.7	0.9	8.4	4.8	3.4	3.9	0.5	1.3	1.3
United Kingdom	55.8	48.2	1.4	6.5	1.6	9.5	8.3	6.4	2.5	3.3	2.2	2.6

Table 60: World merchandise trade balances (fob-fob, in billions of US dollar, 2009-17) 22.10.2015

							Autumn 2015 forecast			Spring 2015 forecast	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2015	2016
EU	0.9	-28.9	-37.1	90.4	196.5	227.3	296.8	300.6	276.0	263.4	257.6
EU, adjusted[1]	-123.5	-149.1	-169.4	-54.3	48.0	60.5	156.3	158.3	133.8	118.8	114.9
Euro area	139.6	122.5	117.3	253.5	359.3	416.3	451.3	459.3	444.4	421.6	426.4
Euro area, adjusted[1]	79.2	55.1	49.0	160.3	280.4	334.4	382.3	389.4	374.6	422.9	428.1
Candidate Countries	-39.8	-69.1	-102.5	-77.4	-89.0	-73.5	-67.0	-70.4	-77.3	-56.7	-63.9
USA	-525.2	-670.3	-778.0	-778.7	-739.0	-767.5	-763.4	-821.8	-920.7	-702.5	-768.4
Japan	43.2	91.0	-20.3	-72.9	-109.3	-116.8	-59.9	-48.0	-39.6	-83.0	-77.7
Norway	45.1	49.3	66.8	69.0	57.7	47.7	38.6	43.8	50.8	40.2	41.7
Switzerland	11.8	34.2	29.5	40.2	53.7	54.0	48.7	48.8	48.7	60.0	59.8
Iceland	0.4	0.5	0.3	0.1	0.1	-0.1	-0.3	-0.7	-0.9	-0.4	-0.7
Advanced economies	-476.2	-589.3	-816.2	-752.5	-630.9	-623.0	-548.2	-582.9	-687.9	-442.6	-483.6
CIS	121.0	175.1	241.8	224.8	199.4	217.3	120.3	117.2	120.1	110.9	117.4
- Russia	111.0	151.9	198.6	194.1	183.0	184.8	133.0	130.5	129.7	127.3	135.1
MENA	206.2	352.1	587.0	599.0	584.1	509.5	118.3	115.4	151.0	196.2	239.2
Asia	306.1	267.9	168.9	179.8	305.1	433.1	798.6	873.2	900.6	619.9	633.1
- China	243.5	246.4	228.7	311.6	359.0	435.0	690.7	769.7	818.5	559.5	610.6
Latin America	52.1	52.1	75.0	45.9	14.7	-0.2	33.7	51.4	23.8	27.7	12.1
Sub-Saharan Africa	44.5	81.8	96.8	77.2	124.7	109.1	43.4	45.6	54.4	-2.7	5.6
Emerging and developing economies	729.9	929.0	1169.5	1126.6	1228.0	1268.8	1114.3	1202.7	1249.8	951.9	1007.4
World	253.7	339.7	353.3	374.1	597.1	645.8	566.1	619.8	562.0	509.4	523.8

[1] See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2009-17) 22.10.2015

							Autumn 2015 forecast			Spring 2015 forecast	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2015	2016
EU	-24.1	-8.0	47.2	176.6	262.0	294.7	358.2	368.7	362.1	295.9	309.8
EU, adjusted[1]	-103.9	-72.7	-43.8	101.8	183.6	169.6	252.8	262.0	255.4	237.1	251.8
Euro area	46.5	54.1	82.0	237.1	329.9	402.5	434.3	437.2	422.9	388.8	384.8
Euro area, adjusted[1]	7.9	36.6	33.2	159.7	257.6	320.2	365.0	367.0	352.7	388.9	385.3
Candidate Countries	-17.8	-51.2	-84.2	-55.2	-69.2	-51.8	-45.0	-48.3	-54.4	-36.2	-44.8
USA	-381.9	-445.9	-481.5	-468.2	-395.8	-401.1	-418.6	-454.2	-526.3	-401.3	-462.6
Japan	147.0	204.0	119.8	60.5	33.1	25.3	95.1	118.4	133.5	57.0	70.0
Norway	41.3	46.8	61.6	63.4	52.4	43.5	35.2	41.0	48.7	38.0	39.7
Switzerland	43.2	88.3	56.9	72.9	81.9	81.0	72.9	74.4	76.3	108.3	109.4
Iceland	-1.2	-0.9	-0.8	-0.6	0.9	0.6	0.4	0.2	0.0	0.3	0.1
Advanced economies	-285.9	-271.6	-378.2	-285.6	-145.3	-92.4	-28.1	-4.1	-60.6	5.3	-8.7
CIS	41.1	72.7	104.3	65.2	15.9	56.1	45.7	44.4	45.0	28.7	30.0
- Russia	48.7	71.0	93.7	69.4	33.8	58.8	61.2	60.4	56.7	39.5	41.5
MENA	62.8	183.8	420.2	423.9	348.9	237.7	39.1	-67.7	-57.2	164.9	134.1
Asia	376.6	332.4	211.7	223.4	228.2	357.8	737.2	777.4	770.4	697.4	716.2
- China	243.3	237.8	136.1	215.4	148.2	219.7	446.5	490.5	502.1	408.8	446.4
Latin America	-29.1	-64.6	-80.7	-105.9	-161.5	-162.4	-75.3	-60.2	-89.7	-84.3	-101.5
Sub-Saharan Africa	-21.7	-0.7	-2.5	-24.3	-35.0	-48.3	-63.4	-59.3	-56.8	-45.2	-51.3
Emerging and developing economies	429.6	523.6	652.9	582.3	396.5	440.9	683.2	634.6	611.8	761.4	727.6
World	143.8	252.0	274.8	296.7	251.2	348.5	655.2	630.5	551.2	766.7	718.8

[1] See note 8 on concepts and sources.

Table 62: Primary commodity prices (in US dollar, percentage change on preceding year, 2009-17) 22.10.2015

STIC Classification							Autumn 2015 forecast			Spring 2015 forecast	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2015	2016
Food	-12.5	9.8	13.1	0.2	3.2	-3.7	-14.7	1.2	1.4	-8.4	5.4
Basic materials	-22.2	40.1	22.0	-15.9	-4.8	-4.7	-17.0	-0.6	1.1	-7.8	4.0
- of which:											
Agricultures non-food	-17.0	31.1	32.5	-15.9	-4.7	3.8	-13.5	-3.0	-0.1	-5.6	0.2
- of which:											
Wood and pulp	-10.3	6.2	9.0	-5.8	1.2	2.6	-4.1	1.1	1.6	-1.5	0.9
Minerals and metals	-25.7	46.6	15.2	-15.8	-4.9	-11.1	-20.0	1.7	2.2	-9.7	7.3
Fuel products	-36.7	26.3	38.0	1.3	-2.9	-7.9	-43.4	-1.0	7.6	-37.2	10.2
- of which:											
Crude petroleum	-36.9	28.8	38.3	0.8	-2.7	-8.3	-45.0	-1.1	8.4	-40.4	11.1
Primary Commodities											
- Total excluding fuels	-18.0	26.2	18.5	-9.7	-1.4	-4.3	-16.0	0.2	1.2	-8.1	4.6
- Total including fuels	-34.0	26.3	34.5	-0.4	-2.7	-7.4	-39.3	-0.8	6.3	-32.9	9.1
Crude petroleum - price per barrel											
Brent (usd)	62.3	80.2	110.9	111.8	108.8	99.7	54.8	54.2	58.8	59.4	66.0
Brent (euro)	44.6	60.5	79.7	87.0	81.9	75.1	49.0	47.9	51.9	54.8	61.7

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 2015, 2016 and 2017 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, and for EU Member States and aggregates prior to 1996.

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, the Netherlands and Austria report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.

7. Source: National Accounts (ESA 2010). Discrepancies with balance of payments statistics may arise due to methodological differences and revision schedules.

8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates.Tables 49 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2012.

9. Geographical zones are defined as follows :

Euro area :
EA19 (BE, DE, EE, IE, EL, ES, FR, IT, CY, LV, LT, LU, MT, NL, AT, PT, SI, SK, and FI).

European Union :
EU28 (EA19, BG, CZ, DK, HR, HU, PL, RO, SE, and UK).

Candidate countries :
Turkey, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Albania.

Potential candidates :
Bosnia-Herzegovina and Kosovo.

Advanced economies :
EU, candidate countries, USA, Japan, Canada, Norway, Switzerland, Iceland, Australia, and New Zealand.

MENA (Middle East and Northern Africa) :
Algeria, Tunisia, Morocco, Egypt, Israel, Jordan, Lebanon, Syria, Iraq, Iran, Yemen, Saudi Arabia, Bahrain, Oman, United Arab Emirates, Kuwait, and Qatar.

Asia :
All countries in that region except Japan 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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