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European Economic Forecast

Spring 2017

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EUROPEAN ECONOMY

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European Commission
Directorate-General for Economic and Financial Affairs

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Institutional Paper 053

ABBREVIATIONS

Countries and regions

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

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

Economic variables and institutions

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

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

Other abbreviations

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

Graphs/Tables/Units

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

Currencies

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

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FOREWORD

As the recovery is about to enter a fifth year, confidence has picked up, and the upswing has widened to most EU countries. The momentum of the global economy is increasing again after a very weak year, and policy uncertainty in Europe may be gradually removed. While growth is firm amid continued support from macroeconomic policies, there is so far no sign of an acceleration. Indeed, the very high level of confidence indicators contrasts with more subdued hard data. Higher energy inflation is set to dampen private consumption growth. And some weaknesses and vulnerabilities resulting from the crisis persist.

In spite of the positive growth momentum, the economic recovery in the euro area remains incomplete. While private consumption has revived, investment is still relatively weak, held back by modest sales expectations, ongoing deleveraging and uncertainty. Weak investment dampens demand in the near term but also affects potential growth by weighing down on the capital stock and productivity growth. Combined with high savings by households as well as firms in some Member States, the investment weakness also drives the euro area's current account surplus of more than 3% of GDP. Suffering as it is from low profitability, the banking sector in a number of countries may not be in a good position to accompany a more substantial pick-up of investment demand once it occurs. In some Member States, the potential for negative feedback loops between weak banks and the sovereign is also still in place.

The labour market is still far from equilibrium. Unemployment has been falling but remains high, and hours per worker have not recovered. 15.5 million workers in the euro area are unemployed, and the longer unemployment lasts the likelier it is to have a permanent impact on both the concerned workers and the economy's growth potential. The still substantial slack in the labour market, including in some countries with low headline unemployment rates, as well as sluggish productivity growth have so far prevented wage growth from picking up more strongly. The outlook for wages has now moved centre-stage for the sustainability of the recovery. As a determinant of disposable incomes, it will be important for the pace of private consumption growth, so far the main growth driver. As a cost factor, it will affect the speed at which inflation normalises. Stubbornly low core inflation confirms that the recent, largely temporary uptick in inflation is not yet self-sustained. Relative wage growth and inflation across countries may support the completion of the adjustment within the euro area. For this to happen, a degree of dispersion in wage growth is required. It should continue to underpin competitiveness in former deficit countries while faster wage growth is desirable in surplus countries. In all countries, productivity-enhancing reforms are key for sustained wage growth in the future.

In light of the persistent crisis legacy and remaining vulnerabilities, the recovery is not yet sufficiently self-sustained to consider a withdrawal of supportive macroeconomic policies. These need to be flanked by targeted public investment, and by re-prioritising growth-friendly public expenditures. The fiscal stance at euro area level needs to be consistent while respecting the fiscal rules. Conditions for private investment need to be further improved, in line with all three pillars of the European Investment Plan. The cleaning-up of the banking sector has to be completed, including through ambitious actions at national and European level to tackle non-performing loans. As this forecast goes to press, the tide of populist ideas in Europe may have turned. However, the sentiment of being at the losing end of technological innovation and globalisation that feeds populism is not gone. It will only fade if economic and structural policies determinedly contribute to closing this divide by moving to a more inclusive growth model. Key to attaining this is what we have dubbed *structural reforms 2.0*, including activation of the unemployed, lifelong learning of workers, education of the young and policies to counter the drifting apart of incomes. The Commission's reflection paper on the social dimension of Europe of 27 April and the forthcoming reflection papers on EMU and globalisation set the stage for a debate on the way forward.

Marco Buti
Director General Economic and Financial Affairs

OVERVIEW: STEADY GROWTH RATES AHEAD

The euro area economy enters fifth year of expansion

The policy-supported economic recovery is continuing…

The European economy is performing well despite a number of challenges. The economic expansion has continued into 2017, thereby completing four years of moderate, uninterrupted GDP growth. Concerns about elevated uncertainty are giving way to improving economic sentiment although this has yet to be reflected in hard economic indicators. Recent data show economic growth continuing at a steady pace, supported by macroeconomic policies, robust job creation, strong confidence, a gradual improvement in world trade, and the euro's relatively low exchange rate.

…but for the upswing to be sustained, investment and wages need to rise more strongly.

But the conditions for an acceleration of economic activity are not yet present, as investment and wages are still constrained by lingering legacies of the crisis. Wage growth remains constrained by the continued presence of slack in the labour market. Hence, healthy net job creation is unlikely to fully offset the negative impact of temporarily rising inflation on household purchasing power. At the same time, investment is still dampened by the high level of public and private debt and the fact that banks and companies still need to adjust their balance sheets. Even if policy uncertainty continues to fade with the completion of elections in a number of EU countries, its impact on investment is set to dissipate only very gradually. Overall, after 1.8% in 2016, euro area GDP growth is set to remain fairly steady at 1.7% in 2017 and 1.8% in 2018.

Table 1:

Overview - the spring 2017 forecast

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2016	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
Belgium	1.2	1.5	1.7	1.8	2.3	1.5	7.8	7.6	7.4	1.2	1.5	1.7	-2.6	-1.9	-2.0
Germany	1.9	1.6	1.9	0.4	1.7	1.4	4.1	4.0	3.9	8.5	8.0	7.6	0.8	0.5	0.3
Estonia	1.6	2.3	2.8	0.8	3.3	2.9	6.8	7.7	8.6	2.0	1.1	1.2	0.3	-0.3	-0.5
Ireland	5.2	4.0	3.6	-0.2	0.6	1.2	7.9	6.4	5.9	4.7	4.8	5.0	-0.6	-0.5	-0.3
Greece	0.0	2.1	2.5	0.0	1.2	1.1	23.6	22.8	21.6	-0.5	-0.5	-0.3	0.7	-1.2	0.6
Spain	3.2	2.8	2.4	-0.3	2.0	1.4	19.6	17.6	15.9	1.9	1.6	1.6	-4.5	-3.2	-2.6
France	1.2	1.4	1.7	0.3	1.4	1.3	10.1	9.9	9.6	-2.3	-2.4	-2.5	-3.4	-3.0	-3.2
Italy	0.9	0.9	1.1	-0.1	1.5	1.3	11.7	11.5	11.3	2.6	1.9	1.7	-2.4	-2.2	-2.3
Cyprus	2.8	2.5	2.3	-1.2	1.2	1.1	13.1	11.7	10.6	-5.7	-5.9	-6.3	0.4	0.2	0.7
Latvia	2.0	3.2	3.5	0.1	2.2	2.0	9.6	9.2	8.7	1.9	-0.9	-2.6	0.0	-0.8	-1.8
Lithuania	2.3	2.9	3.1	0.7	2.8	2.0	7.9	7.6	7.2	-1.1	-2.0	-1.9	0.3	-0.4	-0.2
Luxembourg	4.2	4.3	4.4	0.0	2.4	1.8	6.3	6.1	6.0	4.7	4.5	5.0	1.6	0.2	0.3
Malta	5.0	4.6	4.4	0.9	1.6	1.8	4.7	4.9	4.9	7.9	6.5	9.0	1.0	0.5	0.8
Netherlands	2.2	2.1	1.8	0.1	1.6	1.3	6.0	4.9	4.4	7.9	7.4	7.1	0.4	0.5	0.8
Austria	1.5	1.7	1.7	1.0	1.8	1.6	6.0	5.9	5.9	2.1	2.0	2.2	-1.6	-1.3	-1.0
Portugal	1.4	1.8	1.6	0.6	1.4	1.5	11.2	9.9	9.2	0.5	0.5	0.5	-2.0	-1.8	-1.9
Slovenia	2.5	3.3	3.1	-0.2	1.5	1.8	8.0	7.2	6.3	7.0	6.2	5.8	-1.8	-1.4	-1.2
Slovakia	3.3	3.0	3.6	-0.5	1.4	1.6	9.7	8.6	7.6	0.2	0.1	0.4	-1.7	-1.3	-0.6
Finland	1.4	1.3	1.7	0.4	1.0	1.2	8.8	8.6	8.2	-1.3	-1.8	-1.6	-1.9	-2.2	-1.8
Euro area	**1.8**	**1.7**	**1.8**	**0.2**	**1.6**	**1.3**	**10.0**	**9.4**	**8.9**	**3.4**	**3.0**	**2.9**	**-1.5**	**-1.4**	**-1.3**
Bulgaria	3.4	2.9	2.8	-1.3	1.3	1.5	7.6	7.0	6.4	4.2	2.4	1.8	0.0	-0.4	-0.3
Czech Republic	2.4	2.6	2.7	0.6	2.5	2.0	4.0	3.5	3.5	0.3	0.0	-0.2	0.6	0.3	0.1
Denmark	1.3	1.7	1.8	0.0	1.4	1.7	6.2	5.8	5.7	8.1	7.8	7.7	-0.9	-1.3	-0.9
Croatia	2.9	2.9	2.6	-0.6	1.6	1.5	13.3	11.6	9.7	2.6	2.9	1.3	-0.8	-1.1	-0.9
Hungary	2.0	3.6	3.5	0.4	2.9	3.2	5.1	4.1	3.9	5.0	3.5	2.8	-1.8	-2.3	-2.4
Poland	2.7	3.5	3.2	-0.2	1.8	2.1	6.2	5.2	4.4	0.2	-0.6	-1.2	-2.4	-2.9	-2.9
Romania	4.8	4.3	3.7	-1.1	1.1	3.0	5.9	5.4	5.3	-2.4	-2.8	-2.9	-3.0	-3.5	-3.7
Sweden	3.3	2.6	2.2	1.1	1.4	1.4	6.9	6.6	6.6	4.9	5.2	5.4	0.9	0.4	0.7
United Kingdom	1.8	1.8	1.3	0.7	2.6	2.6	4.8	5.0	5.4	-4.4	-3.9	-3.2	-3.0	-3.0	-2.3
EU	**1.9**	**1.9**	**1.9**	**0.3**	**1.8**	**1.7**	**8.5**	**8.0**	**7.7**	**2.1**	**1.9**	**1.9**	**-1.7**	**-1.6**	**-1.5**
USA	1.6	2.2	2.3	1.3	2.2	2.3	4.9	4.6	4.5	-2.5	-2.8	-3.3	-4.8	-4.7	-5.2
Japan	1.0	1.2	0.6	-0.1	0.4	1.0	3.1	3.1	3.0	3.9	4.1	4.2	-3.7	-4.2	-3.6
China	6.7	6.6	6.3	:	:	:	:	:	:	:	:	:	:	:	:
World	**3.0**	**3.4**	**3.6**	:	:	:	:	:	:	:	:	:	:	:	:

A synchronised pick-up in emerging markets and advanced economies...

Global economic momentum gathered pace in late 2016 and early 2017 in a relatively well synchronised way across advanced economies and emerging markets. Global growth (excluding the EU) is projected to pick up gradually from a seven-year low of 3.2% in 2016 to 3.7% in 2017 and 3.9% in 2018. This improvement should be largely driven by a firming, though still fragile, recovery in emerging markets over the course of this year and next, supported by a gradual increase in commodity prices, the expected return to positive growth in Brazil and Russia, resilient near-term growth in China, and recovering demand from advanced economies.

Growth in advanced economies outside the EU is expected to rise slightly above 2% in 2017 and to stabilise at this pace in 2018. The US growth outlook remains largely unchanged compared to the winter, at around 2¼% in both years. With the US economy performing close to potential and only limited remaining slack, the boost to growth assumed from the new administration's fiscal stimulus promises is likely to be relatively modest. Many observers have now scaled back their initial expectations regarding the overall size and timing of this stimulus, while the uncertainty surrounding the administration's economic policy plans remains high.

...triggers a rebound in world trade.

Reflecting firming global growth, world trade has also been rebounding strongly since the second half of last year. After having grown by a meagre 0.8% in 2016, world imports of goods and services (excluding the EU) are projected to increase by 3.1% in 2017 and 3.8% in 2018, which is marginally stronger than expected back in the winter. This bounce-back also reflects the expected rebound of import elasticity, which is underpinned by the projected cyclical pick-up in import-intensive investment in advanced economies and the gradual fading of various factors that weighed on trade in 2016.

Financial markets eventually turned more cautious...

Despite the relatively robust momentum of the global economy, the strong optimism which has reigned over financial markets since the autumn has been waning since early March. In the US, the strong upward momentum of equities faded as investors reassessed their expectations of the new administration's fiscal stimulus plans. In Europe, by contrast, equity prices have continued to rise, supported by improving economic conditions and sentiment. The general increase in bond yields that had been underway since autumn reversed in March following the decline in global risk appetite, the downward revision of inflation expectations, and the growing expectations of a more gradual pace of monetary policy tightening in the US. German bund yields also fell back, whereas the sovereign bond spreads of some euro area Member States widened somewhat amid heightened political risks.

...amid a further increase in monetary policy divergence...

Monetary policy divergence between the euro area and the US increased further after the US Federal Reserve raised the target range for its policy rate in March while the ECB kept its monetary policy unchanged. Meanwhile, since the beginning of the year, the euro-dollar exchange rate has moved without a clear direction amid uncertainty surrounding both US policy plans and the outcomes of elections in a number of euro area Member States.

...and a continuation of monetary policy pass-through to the euro area banking sector.

Overall, bank lending rates have remained at low levels since the beginning of the year amid somewhat higher corporate bond yields. Bank lending in the euro area as a whole is expected to expand further due to increasing demand and the fact that the lending capacity of banks generally has improved by strengthening their capital positions and reducing the risk on their balance sheets. The economic cycle is thus expected to be accompanied by supportive funding conditions from both banks and market sources. However, in some

Member States, the banking sectors still face balance sheet constraints and low profitability which may limit their capacity to accompany a more substantial pick-up of investment demand once it occurs.

Domestic demand is expected to slow somewhat as consumption moderates...

Private consumption has been the main growth driver over the past few years, growing at its fastest rate in 10 years in 2016. Over recent months, continued improvements in the labour market situation have fuelled consumer confidence, suggesting that the short-term outlook remains favourable. Employment growth is expected to continue at a robust pace over the forecast horizon. Private consumption growth, however, is forecast to moderate this year, as the temporary rise in consumer inflation is set to eat into the purchasing power of households, while saving rates remain almost unchanged. Private consumption should pick up again slightly next year as inflation recedes.

Last year, government consumption expenditure was temporarily boosted by spending related to security and asylum-seekers in some Member States. It is projected to slow down this year and to grow at an unchanged pace next year under a no-policy-change assumption.

...and investment holds steady rather than picking up markedly.

The underlying investment momentum in the euro area, abstracting from very volatile Irish data, slightly strengthened at the end of last year. As the recovery progresses, investment determinants are indeed becoming more promising: global demand is picking-up, capacity utilisation rates are above average and corporate profitability is increasing. Financing conditions are very favourable and policy efforts to support investment have been strengthened e.g. with the Investment Plan for Europe and tax incentives in several Member States. However, in spite of this generally good framework, investment growth is not expected to rise markedly over the forecast horizon, as policy uncertainty, the modest medium to long-term demand outlook, and remaining deleveraging needs, continue to weigh on investment decisions.

The contribution of net exports to growth should turn neutral

The gradual recovery in world trade and a continued adjustment of relative unit labour costs should spur euro area exports in line with their external markets. Given the strengthening final demand, import growth is expected to slightly outpace export growth. The contribution of net exports to euro area GDP growth is thus likely to turn neutral this year and next. The current account surplus of the euro area is set to recede gradually over the forecast horizon from its peak of 3.4% of GDP in 2016, as the earlier positive effects of the euro's depreciation and of the low oil price fade away and the investment-savings balance improves somewhat.

Job creation is likely to ease but remains robust...

Employment in the euro area grew by 1.4% in 2016, its best performance in eight years. Over this year and next, employment creation should continue benefitting from growing domestic demand, relatively moderate wage growth, as well as past structural reforms and specific policy measures in certain countries. While the upward trend in part-time work should also continue feeding net job creation, the still high share of involuntary part-time work continues to reflect slack in the labour market. In the euro area, employment is projected to carry on expanding at a solid pace of over 1%, although some loss of momentum is expected. In the EU, this trend is expected to be more pronounced, as employment growth is forecast to fall from 1.3% in 2016 to 0.9% this year and next. With job creation significantly outpacing labour force growth, unemployment rates in both the euro area and the EU are set to continue declining. In 2018, the unemployment rate is expected to fall to its lowest level since 2008 in both areas, but this would still be above pre-crisis levels.

...while underlying price pressures remain muted...

Inflation has risen significantly in recent months, mainly driven by the temporary positive impact of energy base-effects and the recovery of oil prices. Core inflation, which excludes volatile energy and unprocessed food prices, by contrast, has remained broadly stable at a level substantially below its pre-crisis average. Headline inflation is expected to have peaked in the first quarter of 2017 and is forecast to gradually recede as oil prices are assumed to remain almost flat over the forecast horizon and the temporary impact of their past increase fades away. Euro area headline inflation should continue to be largely driven by energy prices and base effects, rather than by a durable and self-sustained momentum. It is forecast to rise from 0.2% in 2016 to 1.6% in 2017 and to slow down to 1.3% next year, as the modest expected pick-up in core inflation should not completely offset the fading impact of energy prices.

...as wage growth remains constrained.

The pick-up of core inflation is set to be conditional on an intensification of cost pressures. But wage growth, which has been constrained so far by the prolonged period of low inflation, weak productivity growth and labour market slack, is only expected to pick up somewhat over the forecast horizon.

Public finances are set to continue improving...

The euro area's general government deficit-to-GDP and gross debt-to-GDP ratios are projected to continue declining over the forecast horizon, albeit at a slower pace than in previous years. Under a no-policy-change assumption the deficit-to-GDP ratio is expected to fall to 1.3% in 2018, while the gross debt-to-GDP ratio is forecast at 89.0% of GDP. The reduction in the deficit-to-GDP ratio is set to be mainly driven by lower interest payments, one-off and temporary measures and wage bill moderation in the public sector. Automatic stabilisers are also expected to play a role, as the ongoing economic recovery and falling unemployment should reduce expenditure on social transfers as a percentage of GDP. The reduction of the debt-to-GDP ratio should find its roots both in primary surpluses and in a progressively more favourable snowball effect, driven by modest but steady real GDP growth, the uptick in inflation, and reduced average interest rates.

...while macroeconomic policies should remain supportive...

The euro area's fiscal policy stance, measured by changes to the fiscal structural balance, is expected to stay broadly neutral over the forecast horizon under a no-policy-change assumption. Monetary conditions in the euro area are expected to remain accommodative, as the continued implementation of the set of monetary policy measures introduced in recent years, and the gradual increase in long-term inflation expectations, should keep real long-term financing costs in negative territory, despite the assumption of a gradual and modest rise in the nominal long-term interest rate.

...and risks appear more balanced, but still on the downside.

The risks surrounding the economic outlook and the still-fragile global recovery appear more balanced than in the winter but are still tilted to the downside. Whereas there are both upside and downside risks associated with the eventual package of US fiscal stimulus, its interplay with the pace of monetary policy normalisation, as well as any major shift in US trade policy could trigger downside risks for financial market stability, emerging markets and global growth. Geopolitical tensions in the Middle East and East Asia have been mounting in recent months, partially reinforcing vulnerabilities in emerging market economies, whilst the long standing risk of a disorderly adjustment in China remains.

On the domestic side, political uncertainty could continue to abate over the coming months as elections are completed, which could lead to stronger domestic demand. Domestic demand could also turn out higher than expected if the stronger economic momentum suggested by the current high levels of confidence indicators actually materialises. By contrast, investment could end up being lower than expected if banking fragilities continue, or if uncertainty persists as a result of difficult negotiations over UK withdrawal from the EU.

PART I

EA and EU outlook

STEADY GROWTH RATES AHEAD

The euro area economy enters fifth year of expansion

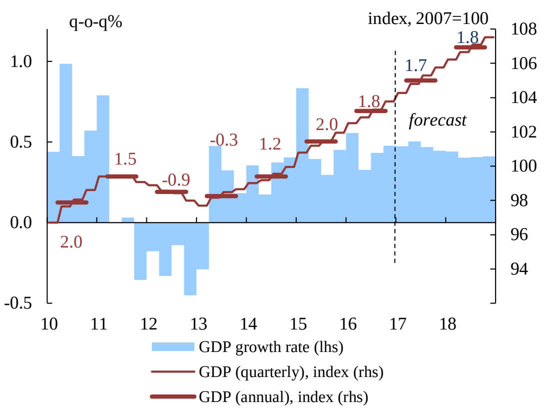
The European economy continues to grow at a steady pace despite numerous political uncertainties and challenges. For two years, GDP growth has been steady, employment growth has been healthy and unemployment has been receding gradually. In what has been a context of depressed global activity, private consumption has been the main driver of growth, fuelled in recent quarters by very accommodative monetary policies and the very low price of oil. The economic expansion has continued into 2017. Elevated uncertainty seems to have started giving way to improved economic sentiment, but this has yet to be reflected in hard economic indicators. Constraints to growth remain both in the short run (related to the lingering effects of past crises) and in the medium run (as cyclical weakness also reduces potential growth and productivity growth remains very sluggish).

Over the forecast horizon, economic growth should continue at similar pace, benefitting from the very accommodative monetary policy, a broadly neutral fiscal stance (assuming no policy change), stronger confidence, the gradual recovery in global activity and resilient domestic drivers such as robust job creation. However, growth is not expected to strengthen much further as it remains burdened by legacies from the crisis such as high indebtedness and fragile banking sectors in some Member States, high policy uncertainty, low productivity growth and subdued wage growth.

GDP growth is expected to remain fairly steady in the euro area, at 1.7% in 2017 and 1.8% in 2018. Private consumption is set to remain the main growth driver, benefitting from robust employment, though it is set to slow down as the temporary pick-up in inflation eats into purchasing power. The strength of private consumption is also expected to be constrained by subdued wage developments. Investment growth seems to have slightly strengthened at the end of 2016 but is not expected to rise markedly over the forecast horizon as uncertainty and deleveraging pressures continue to weigh on investment decisions, despite better financing conditions. The pick-up in global growth should raise foreign demand for euro area exports, which should also help lift investment. Unemployment in the euro area is forecast to fall further to 8.9% in 2018. Headline inflation is expected to have peaked in the first quarter of 2017 and is set to gradually slow down to 1.6% in 2017 and 1.3% in 2018, as the temporary impact of energy inflation fades away. Core inflation remains stubbornly low and is only expected to increase slightly to 1.3% in 2018.

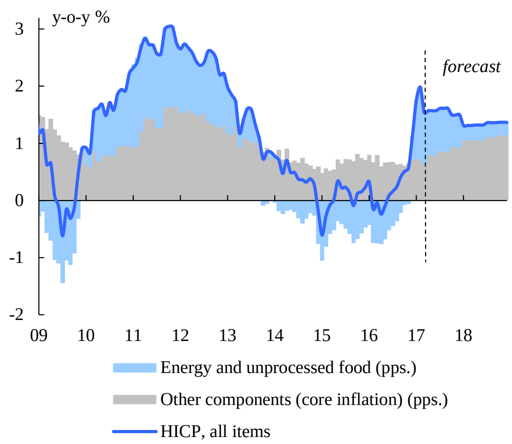
Risks seem to be more balanced than in the winter but are still tilted to the downside. Whereas domestic downside risks seemed predominant in the winter, external downside risks now seem greater. On the external side, policy uncertainty and risks to the global outlook remain elevated. They relate to the uncertainty about economic and trade policies of the US as well as increased geopolitical tensions. These risks come on top of long-standing concerns such as the risk of a disorderly adjustment in China and vulnerabilities in other emerging market economies. Domestically, the gradual fading of political uncertainty following elections in some EU Member States could lead to some upside risks, as higher confidence could strengthen domestic demand. But the uncertainty related to the process of the UK leaving the EU continues to pose non-negligible downside risks. Bank fragilities in the euro area remain a concern even though the banking sector is now in better shape than a few years ago. Risks to the inflation outlook are broadly balanced.

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



Graph I.1:

Graph I.2: **Inflation breakdown, euro area**



1. PUTTING THE FORECAST INTO PERSPECTIVE: THE IMPACT OF UNCERTAINTY

Over the last decade, economic developments in the euro area have been affected by large adverse shocks that were accompanied by economic and policy uncertainty. These include the global economic and financial crisis, the sovereign debt crisis, the slowdown in world trade and tensions in the banking sector. In recent years, a number of other events have also led to uncertainty: geopolitical tensions, the Brexit vote, potential shifts in major policy areas under the new US administration (see Box I.1), as well as political uncertainty in some large Member States. Investment in the euro area has been subdued for an extended period of time and elevated uncertainty has often been cited as an important determinant, alongside weak fundamentals (weak actual and potential demand, bank, household and corporate deleveraging). (1)

Understanding uncertainty and its macroeconomic impact is key to assessing the economic outlook under these circumstances. However, at the current juncture, a number of widely-used indicators of 'uncertainty' are showing conflicting signals. For example, the indicator of 'policy uncertainty' derived from newspaper articles recently hit a record high, while financial market volatility has remained low.

Uncertainty is likely to reduce investment and consumption

Although there is no single, widely accepted definition or measure of uncertainty, it is commonly agreed that an increase in uncertainty, especially about things that are perceived as likely to have an irreversible negative impact on overall economic activity, can alter the decisions of private agents. Economic theory suggests that uncertainty induces precautionary savings by consumers and 'wait-and-see' behaviour by firms, resulting in lower consumption, investment and employment. (2) Asset prices in turn usually decline, while their volatility increases. The financial sector typically responds to uncertainty by scaling down credit and increasing risk premia. (3)

Economic agents use available information to form an opinion about future prospects. Uncertainty implies a situation when economic agents cannot reasonably assess the likelihood of future states and are conscious about this limitation. This can be because of temporal lack of necessary information (about the state of the economy) but also general lack of knowledge about the functioning of the economy. Uncertainty is a different concept to risk, which is a situation when agents are able to assign probabilities to possible future states. (4) Given that agents are usually risk averse, it is however not entirely easy to distinguish between risk and uncertainty in practice. As far as uncertainly is having an impact on economic agents' behaviour, it should be reflected in the baseline forecast, while risks surrounding the economic outlook are typically summarised in a fan chart which depicts the probabilities associated with various GDP growth outcomes over the forecast horizon (see Section I.9).

It is also important to distinguish between the level of uncertainty (which can be represented by the probability distribution of forthcoming macroeconomic data) and a genuine uncertainty shock (second moment shock), which affects the range of future outcomes (i.e. a change in the width of the probability distribution). Therefore, while some level of uncertainty always surrounds the decisions of economic agents, forecasting becomes more difficult when the level of uncertainty abruptly increases. This situation has recurred often recently, particularly in relation to closely fought elections and referenda where the

(1) Balta, N., I. Valdes Fernandez and E. Ruscher (2003). 'Assessing the impact of uncertainty on consumption and investment'. *Quarterly Report on the Euro Area* 12(2), pp. 7-16. ECB (2016). 'The impact of uncertainty on activity in the euro area'. *ECB Economic Bulletin*, Issue 8.

(2) In case of consumption, this applies mainly to durable goods. See for example: Caballero, R. (1990). 'Consumption puzzles and precautionary savings'. *Journal of Monetary Economics*, 25(1), 113-136, Romer, Ch. D. (1990). 'The great crash and the onset of the great depression'. *Quarterly Journal of Economics*, 105(3), pp. 597-624. Investment in turn involves fixed costs, therefore it is usually perceived as irreversible. Investment opportunities can be seen as real options and the uncertainty increases the value of the option to wait now and invest later. See for example: Bernanke, B. (1993). 'Irreversibility, uncertainty and cyclical investment'. *Quarterly Journal of Economics*, 98(1), pp. 85-106.

(3) There are different channels transmitting the uncertainty shocks via financial sector to overall macroeconomy: (i) financial intermediaries find it more difficult to evaluate the riskiness of debtors and their projects, (ii) financial intermediaries are facing problems with external financing, and (iii) subjects with weaker balance sheets are facing credit rationing.

(4) Knight, F. (1921). *'Risk, uncertainty and profit'*. New York: Hart, Schaffner and Marx.

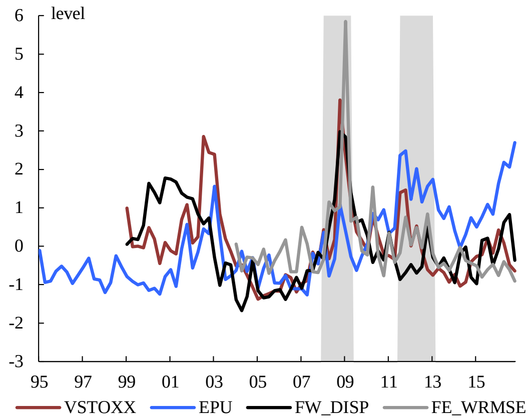
possibility of surprise outcomes that could lead to unclear or abrupt changes in policy, seemed high.

Uncertainty or uncertainties?

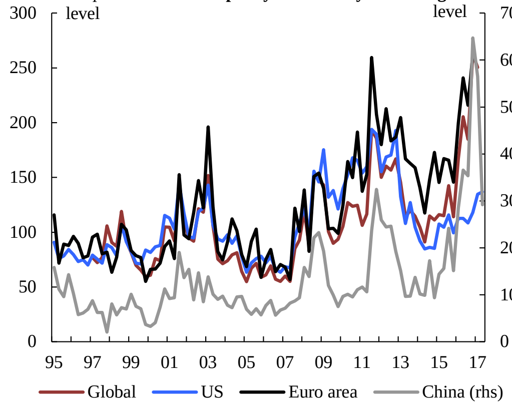
An important feature of uncertainty is that it cannot be observed directly and, therefore, must be proxied by other variables. While the theoretical definition of uncertainty is rather straightforward, there is a certain ambiguity in the empirical literature about its concrete treatment. Namely, whether there are different types of uncertainty that have different effects on individual agents and the overall economy, or whether there is a single concept of uncertainty that can be only imperfectly proxied by various indicators.

apparent that these uncertainty measures usually coincide in peaks and are countercyclical, i.e. they are high during recessions and vice-versa. One notable feature is the recent dispersion between economic policy uncertainty and other uncertainty measures. While economic policy uncertainty recently attained a historical maximum, the other indicators, particularly stock market uncertainty, stand at low values. Moreover, elevated economic policy uncertainty in recent quarters was not exclusive for the euro area but applied to other regions as well (see Graph I.4). In face of these contrasting messages it is important to assess empirically the impact of these different types of uncertainty on economic activity in the euro area using data since the start of EMU.

Graph I.3: **Different measures of uncertainty in the euro area**



Graph I.4: **Economic policy uncertainty across regions**



Source: Baker and Bloom at www.PolicyUncertainty.com

As each uncertainty indicator has advantages and pitfalls, there is no single widely accepted measure of uncertainty. [5] Graph I.3 presents selected measures of uncertainty for the euro area over the two last decades. Periods of recession are highlighted. The chart shows the development of stock market uncertainty (VSTOXX), economic policy uncertainty (EPU), uncertainty derived from the Commission Business and Consumer Survey (FW_DISP), and macroeconomic uncertainty measured using forecast errors of Commission macroeconomic forecasts (FE_WRMS). [6] It is

The economic impact of uncertainty

It is commonly accepted that there is a negative relationship between uncertainty and economic growth. Graph I.5, which compares a common factor of different uncertainty measures for the euro area and economic activity (measured by yearly change in real GDP and investment), clearly confirms this pattern. On the other hand, the causality between the two is not yet firmly established. Indeed, it might be that high uncertainty is detrimental to real economic

(5) Some of these measures are available in real time and can be, therefore, used as forward-looking. Others can be computed only when the actual realization becomes available and are therefore rather backward-looking.

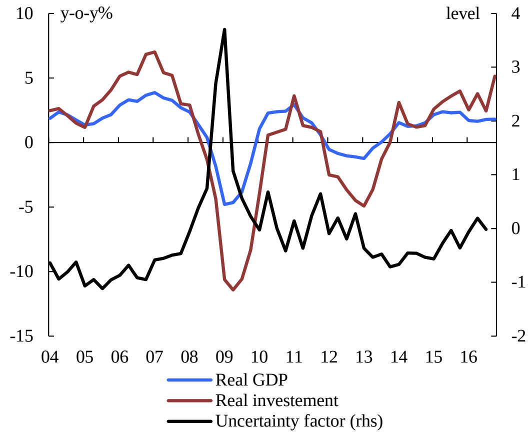
(6) VSTOXX indices are based on EURO STOXX 50 real time options prices and are designed to reflect the market expectations of near-term up to long-term volatility by measuring the square root of the implied variance across all options of a given time to expiration. EPU is based on newspaper coverage of policy-related economic uncertainty, namely the frequency of newspaper articled containing defined keywords (see Baker et al., 2016, op. cit). FW-DISP is based on the dispersion of 22 (monthly and quarterly) forward-looking questions (covering both businesses and consumers) contained in the EU BCS (see Girardi and Reuter, 2016, op. cit). FE_WRMS is the weighted root-mean square error related to the Commission forecast. Namely, for each quarter the root-mean square error is calculated among different vintages of the Commission forecast. Moreover, it is assumed that the closer is the publication date of the vintage to the given quarter, the measured forecast error should have bigger weight in the root-mean square error since it captures uncertainty more. The four types of uncertainty measures are described in detail in the Box.

developments but also that subdued economic growth can increase the uncertainty of agents about the future. Several studies have used econometric techniques, typically vector auto-regressions (VAR), to understand the effect of unexpected uncertainty shocks on the real economy. Most studies so far have been based on data from the US. Their main finding is that real economic activity drops after an unexpected uncertainty shock, which is possibly followed by activity overshooting once uncertainty is resolved. (7) However, the relationship between uncertainty and economic activity seems to be rather nonlinear, as it tends to be stronger during recessions, periods of high financial stress and when the zero lower bound of monetary policy is binding. (8) Consequently, some studies have argued that uncertainty is a symptom of economic downturns rather than its cause. (9) Moreover, uncertainty shocks often coincide with other types of shocks, such as financial shocks, and it seems that these two shocks reinforce each other. (10)

Uncertainty has an important international dimension. Some studies document that uncertainty shocks originating in large economies can propagate across borders but also that large uncertainty shocks are international in nature. (11)

Spikes in uncertainty seem to affect international capital flows (12) and the response to uncertainty shocks tends to differ among countries. Emerging economies (with less developed financial markets) tend to experience more persistent downturns. (13)

Graph I.5: **Uncertainty and real economic developments, euro area**



The empirical evidence available for the euro area is still rather limited. Existing studies confirm the detrimental effect of uncertainty shocks on the real economy but put in doubt the idea of a subsequent activity overshooting, i.e. the rebound in real activity following its initial decline after an uncertainty shock. (14) This would imply permanent effects from such shocks. The evidence mostly focuses on output or investment while much less is known about the impact of uncertainty on consumption. (15)

While there is broad agreement that uncertainty indeed negatively affects economic activity, the quantification of the impact is not straightforward. Most studies examine large one-off uncertainty shocks, the occurrence of which may be rare (in particular when it is implicitly assumed that different indicators of uncertainty peak simultaneously). As most uncertainty indicators for the euro area are not particularly high at the moment, it is difficult to say on the basis of earlier studies if a sizeable negative impact of uncertainty should currently be at play. However, economic policy uncertainty has been high for an extended

(7) Bloom, N. (2009), op. cit. estimates (using firm-level data) that US industrial production is reduced by approximately 1% in response to uncertainty shocks. Jurado et al., op. cit. finds no evidence of overshooting in economic activity.

(8) Kose, M. A. and M. Terrones (2012). 'How Does Uncertainty Affect Economic Performance?', Box 1.3 in *IMF World Economic Outlook,* October, 49-53. Alessandri, P. and H. Mumtaz (2014). 'Financial regimes and uncertainty shocks'. *School of Economics and Finance, Queen Mary University of London Working Paper* 729. Caggiano, G., E. Castelnuovo and N. Groshenny (2014). 'Uncertainty shocks and unemployment, dynamics in U.S. recessions'. *Journal of Monetary Economics*, 67, pp. 78–92. Caggiano, G., E. Castelnuovo and G. Pellegrino (2017). 'Estimating the real effects of uncertainty shocks at the zero lower bound', *Bank of Finland Research Discussion Paper* 6/2017.

(9) Bachman et al., op. cit. Cesa-Bianchi, A., M. Pesaran, A. Rebucci (2014). 'Uncertainty and economic activity: a global perspective'. *Inter-American Development Bank Woking Paper* 86257.

(10) Gilchrist, S., J. W. Sim, E. Zakrajšek (2014). 'Uncertainty, financial frictions, and investment dynamics'. *NBER Working Paper* 20038.

(11) Colombo, V. (2013). 'Economic policy uncertainty in the US: Does it matter for the Euro area?'. *Economics Letters*, 121(1), pp 39-42. Kamber, G., Ö. Karagedikli, M. Ryan (2016). 'International spill-overs of uncertainty shocks: Evidence from a FAVAR'. *Australian National University, CEMA Working Paper* 61/2016. Klößner, S. and R. Sekkel (2014). 'International spillovers of policy uncertainty'. *Economics Letters*, 124(3), pp 508-512. Davis, S.J. (2016). 'An index of global economic policy uncertainty'. *NBER Working Paper* 22740.

(12) Gourio, F., M. Siemer and A. Verdelhan (2015). 'Uncertainty and international capital flows'. Mimeo.

(13) Carrière-Swallow, Y. and L.F. Céspedes (2013). 'The impact of uncertainty shocks in emerging economies'. *Journal of International Economics*, 90(2), pp. 316-325.

(14) Girardi and Reuter, op. cit. Meinen, P. and O. Röhe (2017). 'On measuring uncertainty and its impact on investment: Cross-country evidence from the euro area.' *European Economic Review*, 92, pp. 161-179.

(15) Balta et al., op. cit.

period of time and the analysis in Box I.1 suggests that this might have a negative and persistent impact both on investment and consumption.

Box I.1 presents an empirical analysis of the impact of uncertainty on GDP, investment and consumption in the euro area. Uncertainty is generally found to affect investment more strongly than consumption. Examining the impact of different uncertainty indicators separately suggests a different pattern for economic policy uncertainty than for the other indicators. In particular, EPU has a more sizeable impact on consumption. This could imply that the economic policy uncertainty indicator measures dimensions of uncertainty that are distinct from the others. When, by contrast, the different indicators are aggregated to a common factor, such a ‘generalised’ uncertainty shock has a larger and faster impact on activity. Finally, a prolonged period of uncertainty depresses real variables more strongly and takes longer to dissipate. Such a more persistent impact on demand might indirectly affect the supply side by affecting the capital stock and increasing structural unemployment.

In conclusion, the analysis using different uncertainty indicators confirms that uncertainty can have a large impact on investment but that its effect on consumption is somewhat less. It is doubtful whether the economy spontaneously recovers the implied output loss, as evidence of subsequent overshooting remains weak. Permanent damage may occur if investment decisions that were postponed due to uncertainty are then cancelled altogether, or if their delayed implementation crowds out other investment later. In other words, the combination of uncertainty with persistent economic weakness, particularly in investment, makes it more likely that cyclical downturns could turn into a permanent loss of output. This tends to reinforce the concerns about hysteresis in the EU.

Even if policy uncertainty continues fading in the coming months on the back of election outcomes in the EU its impact would dissipate only gradually since, according to the different estimations, the impact of uncertainty shocks takes three to seven quarters to peak.

2. EXTERNAL ENVIRONMENT

Global growth appears to have bottomed out in 2016 and is set to gradually recover in 2017 and 2018 driven largely by emerging markets and some firming in advanced economies. Global activity, including trade and industrial production, strengthened markedly in recent months. The pick-up in momentum looks relatively well synchronised in both advanced economies and emerging markets. At the same time, the outlook remains subject to risks, linked above all to uncertainties surrounding US policies. Expectations of fiscal stimulus in the US have lifted business and household sentiment, which could provide a stronger-than-expected boost to the economy in the near term. However, the expected stimulus package could fall short of expectations and lead to a backlash in sentiment and financial markets. A more pronounced – and potentially generalised – move towards more protectionism and inward-looking policies is one of the greatest risks to the firming of global growth. Geopolitical risks in the Middle East and East Asia have increased in recent months. This comes on top of long-standing, medium-term risks associated with the required economic transition and correction of large accumulated imbalances in China (see Section I.10).

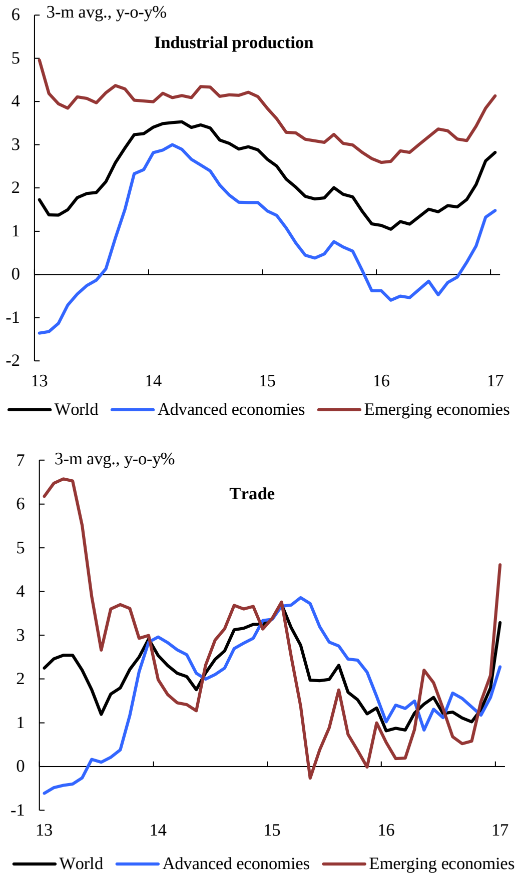
Global economic momentum picking up but outlook remains fragile

The momentum in the global economy gathered pace in late 2016 and early 2017. A broad-based rebound in investment in the second half of 2016 helped to boost manufacturing and trade in a synchronous way across advanced economies and emerging markets (see Graph I.6). Business sentiment has improved substantially since autumn 2016, bringing global manufacturing and composite PMIs to multi-year highs, in both advanced economies and emerging markets (see Graph I.7). This suggests that the relatively strong momentum of the global economy in early 2017 bodes well for the expansion of global GDP in the first half of the year and the projected firming of growth in 2017 and 2018.

Global GDP growth rebounded visibly in the second half of 2016 after a soft patch in late 2015 and early 2016 (see Graph I.7). These improvements were largely driven by the US, China and a host of other advanced and emerging economies (Canada, Singapore, Hong Kong and

Mexico). Among emerging markets, growth disappointed in Brazil and South Africa, where outright GDP contractions were posted in the fourth quarter of 2016.

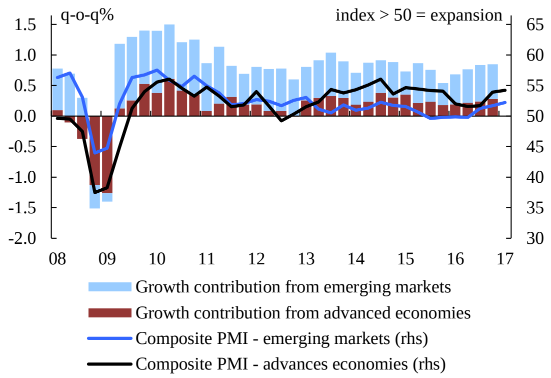
Graph I.6: **Volume of world trade and industrial production**



Source: CPB

Overall in 2016, global growth (excluding the EU) is expected to have reached 3.2%, its weakest since 2009. It is, however, projected to pick up over the forecast horizon to 3.7% in 2017 and 3.9% in 2018, driven largely by a recovery in emerging markets (in 2017 and 2018) and some firming in advanced economies (2017). Growth in advanced economies (excluding the EU) is expected to rise above 2% in 2017 and 2018, reflecting the fading of earlier drags, some support from fiscal policy, a stronger near-term outlook for China and the general pick-up in global trade and activity, as well as anticipations of fiscal stimulus in the US. Growth in emerging economies remains fragile after five years of decline but seems finally to have bottomed out and is expected to firm over the forecast horizon, supported by a gradual increase in commodity prices, the expected return to positive growth in the most distressed economies (Brazil and Russia) and recovering demand from advanced economies.

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



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

Outlook for advanced economies improving but uncertainties remain pronounced

The economic outlook across advanced economies remains unchanged from the winter 2017 forecast, with the anticipated firming of growth broadly confirmed by recent developments as well as leading indicators.

The US economy rebounded strongly in the second half of 2016, despite some renewed moderation in the final quarter and in early 2017. The US economy entered its 31st quarter of expansion at or close to full employment, with the buoyant labour market and rising wages supporting private consumption. However, the policy plans of the new US administration have greatly increased economic uncertainty. Expectations of a strong pro-business agenda (stimulus, tax reform, de-regulation) helped boost confidence, but this has yet to make itself felt in hard data and financial markets seem to have turned more cautious in the last couple of months. Rising confidence and stimulus could support growth in the near-term, but given the advanced stage of the cycle, may also lead to overheating and faster tightening of monetary policy. Other potential policy shifts (trade, immigration) could be disruptive and entail downside risks, both in the near and medium term.

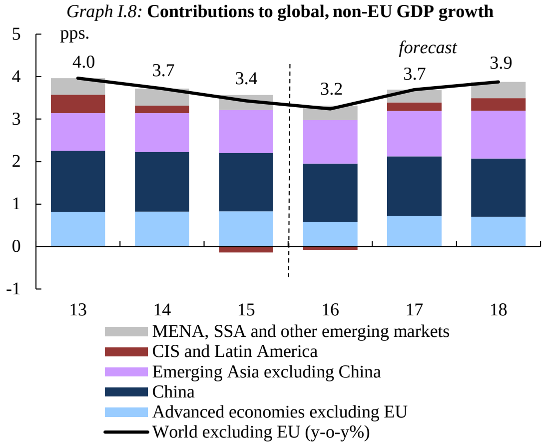
Table I.1:

International environment

(Annual percentage change)	(a)	2013	2014	2015	Spring 2017 forecast 2016	2017	2018	*Winter 2017 forecast 2016*	*2017*	*2018*
					Real GDP growth					
USA	15.7	1.7	2.4	2.6	**1.6**	**2.2**	**2.3**	*1.6*	*2.3*	*2.2*
Japan	4.5	2.0	0.3	1.2	**1.0**	**1.2**	**0.6**	*0.9*	*1.0*	*0.5*
Emerging and developing Asia	31.5	6.7	6.5	6.5	**6.4**	**6.4**	**6.3**	*6.3*	*6.2*	*6.2*
- China	17.1	7.8	7.3	6.9	**6.7**	**6.6**	**6.3**	*6.7*	*6.4*	*6.2*
- India	7.0	6.2	6.9	7.5	**7.1**	**7.2**	**7.5**	*6.9*	*7.1*	*7.5*
Latin America	8.2	2.9	1.1	-0.1	**-1.0**	**1.2**	**2.1**	*-0.7*	*1.4*	*2.1*
- Brazil	2.8	3.0	0.5	-3.8	**-3.6**	**0.5**	**1.8**	*-3.4*	*0.6*	*1.7*
MENA	6.8	1.9	2.3	2.4	**3.3**	**2.3**	**2.9**	*2.7*	*2.8*	*3.3*
CIS	4.6	2.1	1.0	-2.3	**0.3**	**1.6**	**2.0**	*-0.1*	*1.3*	*1.7*
- Russia	3.3	1.3	0.7	-2.8	**-0.2**	**1.2**	**1.4**	*-0.6*	*0.8*	*1.1*
Sub-Saharan Africa	3.2	5.1	4.9	3.4	**1.2**	**2.6**	**3.4**	*1.6*	*3.1*	*3.9*
Candidate Countries	1.8	7.9	4.7	5.7	**2.9**	**3.0**	**3.3**	*2.3*	*2.8*	*3.2*
World (incl.EU)	100.0	3.3	3.4	3.2	**3.0**	**3.4**	**3.6**	*3.0*	*3.4*	*3.6*
					World merchandise trade volumes					
World trade		3.6	3.7	2.8	**2.0**	**3.4**	**3.8**	*1.8*	*3.1*	*3.6*
Extra EU export market growth		4.5	2.9	1.3	**1.6**	**3.1**	**3.3**	*1.4*	*2.7*	*3.2*

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

Graph I.8: **Contributions to global, non-EU GDP growth**



While policy uncertainty remains high in the US, recent months saw expectations about the fiscal package generally scaled down and pushed back in time. This forecast is based on the assumption that a fiscal stimulus of 1% of GDP would be implemented in 2018 that would provide a modest boost to growth. Overall, the US growth outlook remains largely unchanged, at around 2¼% in 2017 and 2018, surrounded by important, largely policy-related downside risks. Box I.2 discusses other scenarios concerning the fiscal stimulus package and their implications for the economies of the US, euro area and the rest of the world.

The outlook across other advanced economies has improved in recent months, with modest upward revisions made to 2016 having positive carryover effects in some countries (Canada, Norway, Hong Kong, Singapore). In Japan, GDP growth is set to rise to 1.2% in 2017 due to firmer external demand and a rise in public investment, before moderating again as the growth impulse from fiscal stimulus diminishes.

Growth in emerging markets firmer but patchy

After a protracted slowdown, aggregate GDP growth in emerging markets is set to recover mildly in 2017 and 2018, supported by a gradual increase in commodity prices, the return to growth in Brazil and Russia, better growth prospects in advanced economies, and more resilient near-term growth in China. Expectations of firming momentum have so far been confirmed by recent high-frequency data. After the initial negative reaction to the results of the US election, the perception of financial markets towards emerging economies also began to shift at the start of 2017, with both equity markets and emerging market currencies posting strong growth. Portfolio inflows into emerging markets also rebounded strongly in the first months of 2017, although FDI and other financial flows are expected to remain subdued amid elevated global uncertainty.

While the recovery in emerging markets appears broad-based overall, there are large differences in growth performance. Emerging Asia is projected to continue growing strongly at around 6%, supported by somewhat stronger demand from China and advanced economies, particularly the

US. Following a recession in 2015 and 2016, growth prospects for Latin America are set to improve thanks to the gradual recovery in Brazil and Argentina, even though growth is expected to have remained weak by historical standards. Firming oil prices and stronger domestic demand have lifted prospects for Russia and the CIS region. In contrast, several countries in the Middle East and North Africa continue to struggle due to oil production cuts and the persistent need for fiscal adjustment. Sub-Saharan Africa is expected to start recovering from the dismal performance in 2016, but growth is projected to remain subdued with large intra-regional differences.

While emerging markets finally seem to be on the way to recovery, significant risks remain. They are related to domestic political instability and persistent imbalances in several countries, to policy uncertainty in the US and, especially in the medium-term, to a sharper slowdown in China.

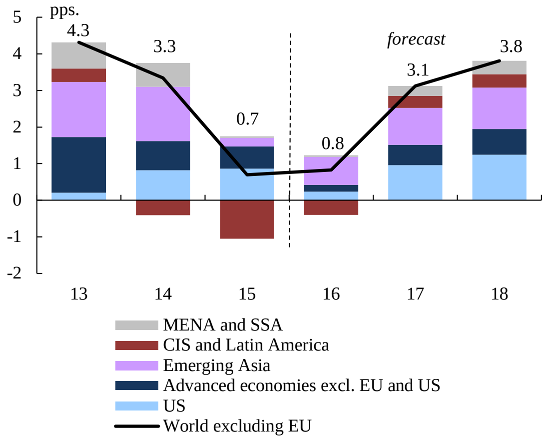
Momentum in global trade firming in early 2017...

Following an exceptionally weak first half of 2016, world trade flows rebounded strongly in the second half, benefitting from the pick-up in global demand, including in investment, and rising commodity prices. The rebound was driven by emerging Asia and China in particular, as well as the US. Robust growth continued in early 2017, with CPB world trade volumes accelerating to 2.7% (3m-o-3m) in January and February, the strongest since 2010. Available indicators suggest that the strong momentum is likely to be maintained in the near term. The WTO's World Trade Outlook Indicator (WTOI) rose from 100.9 in the final quarter of 2016 to 102 in the first quarter of 2017, indicating a firming expansion in early 2017. [16]

...consistent with expectations of a gradual recovery in world trade.

The stronger momentum in early 2017 is consistent with the expected pick-up in world trade over 2017 and 2018. Growth in non-EU world imports is projected to improve from 0.8% in 2016 to 3.1% in 2017 and 3.8% in 2018, driven largely by the US, other advanced economies, the CIS and Latin America (see Graph I.9). This reflects predominately firming global growth, but also an expected rebound of the import elasticity from 0.3/0.4 in 2015 and 2016 to 0.8/0.9 in 2017 and 2018. This should be underpinned by the projected cyclical strengthening in advanced economies and a related pick-up in import-intensive investment, combined with the gradual fading of temporary factors that weighed on trade in 2016 (contraction in commodity-related investment, second-round effects of severe terms-of-trade shocks in commodity exporters, and one-off factors such as wildfires in Canada). Despite the recovery, the import elasticity is still expected to remain well below historical averages [17], confirming the structural nature of part of the slowdown in global trade in recent years.

Graph I.9: **Contributions to world-excluding-EU import growth**



Global recovery to be supported by a stabilisation of commodity prices

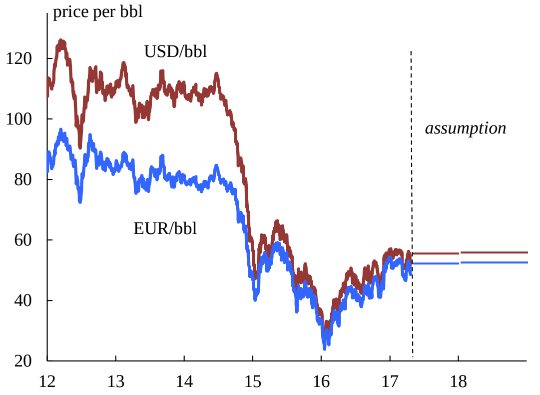
OPEC-backed production cuts are providing some support for oil prices but the market remains volatile, with the overhang of inventories diminishing only slowly and an increase in output from US shale producers acting as a drag on prices. Brent prices are fluctuating in a range of 50-56 USD/bbl, closely following news on production curbs and changes in global stocks. While a possible extension of production cuts in OPEC countries will only be decided in May, current futures prices suggest that the price of oil should remain fairly stable over the forecast period.

(16) WTOI is a leading indicator of world trade, designed to provide advance "real time" information on the trajectory of merchandise trade. It combines several trade-related indices into a single composite indicator to measure short-run performance against medium-run trends. A reading of 100 indicates trade growth in line with trend, while readings greater or less than 100 suggest above or below trend growth.

(17) Import elasticity was about 2 over the period 1995-2008 for both World and World excluding the EU.

Global oil supply stood at 96.5 bbl/day in February, which is below the International Energy Agency (IEA) projection for 2017-Q1 global consumption of 96.7 million bbl/day, implying slightly declining inventories. The IEA's projection for global oil demand growth in 2017 is 1.4%, which is below the 1.6% increase recorded in 2016. Assumptions for Brent prices have been revised slightly downwards to an average of 55.5 USD/bbl in 2017 and 55.9 USD/bbl in 2018, 1.6% lower than in the winter 2017 forecast (see Graph I.10).

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



Source: ICE

The prices of other commodities are set to recover in 2017 but this trend is unlikely to continue in 2018. The strong rebound of metal prices in 2017 is being driven by ongoing rebalancing, mine closures and policy measures in some producer countries. However, China's re-orientation to more consumption-led growth, together with environmental considerations, is likely to curb demand for metals in the medium term. A modest recovery of food prices is linked to the increase in some cereal prices, while sufficient stocks and a positive outlook for this year's production should dampen price dynamics in 2018.

3. FINANCIAL MARKETS

Global financial markets remained robust but turned more cautious. Notwithstanding the pick-up in global GDP growth, the optimism which has reigned over markets since autumn last year, driven by factors such as the prospect of economic stimulus and tax cuts in the US, has been waning since early March. Equity investors seem to have lowered their expectations about the ability of the new US administration to deliver on its promises. Mounting geopolitical tensions have also made investors somewhat more cautious. Meanwhile, for major economic regions, macroeconomic data releases came in strongly and global monetary policy remained very accommodative. Over the last couple of weeks, investors' increased caution and a downward revision of inflation expectations has halted and even reversed the increase in global interest rates that had been in evidence since autumn last year. Equity prices in the EU continued to move higher, supported by improving economic conditions and sentiment. In the US, equity markets ran out of steam as investors reassessed the expected scale of fiscal stimulus and its potential impact.

Monetary policy divergence widened further...

Monetary policy divergence between the euro area and the US widened further after the US Federal Reserve raised the target range for its policy rate by 25 bps. to 0.75%-1.00% in March 2017. This was the third policy rate hike since the US central bank started a gradual normalisation of its monetary policy in December 2015. US monetary policymakers expect two more interest rates hikes of 25 bps. each in the remainder of 2017 amid further economic expansion and improving labour market conditions. They also expect three additional interest rate hikes of 25 bps. each next year. However, financial markets have continued to price in a less pronounced tightening pace of US monetary policy than that expected by the Federal Reserve.

The ECB, by contrast, has kept its monetary policy unchanged since the winter 2017 forecast. In line with its previous monetary policy announcements, the ECB purchased assets under its asset purchase programme at a slower pace of EUR 60 bn a month in April 2017. In March 2017, the ECB also conducted its fourth and last targeted longer-term refinancing operation (TLTRO) of the second series of TLTROs announced in March 2016. With around EUR 234 bn allotted in this operation, the take-up exceeded the expectations of many analysts and market participants. It resulted in a substantial increase in the total amount lent to euro area credit institutions through refinancing operations, which reached around EUR 780 bn at the end of March 2017 and can potentially be used to increase bank lending to the real economy. The ECB Governing Council confirmed its expectation that key ECB interest rates would remain at present [18] or lower levels for an extended period of time, and well past the horizon of net asset purchases in order to preserve the very favourable financing conditions that are necessary to secure a sustained convergence of inflation rates towards levels below, but close to, 2% over the medium term. [19]

Monetary policy has remained generally accommodative in EU Member States outside the euro area despite growing evidence of higher price pressures. The Czech National Bank (CNB) decided on 6 April 2017 to end its exchange rate commitment [20] as it considered that the conditions for sustainable fulfilment of its 2% inflation target in the future had been met. The exit from the exchange rate commitment was considered by the CNB as the first step towards a gradual moderation of the expansionary nature of monetary conditions in the Czech economy. In the UK, the Bank of England's Monetary Policy Committee (MPC) maintained its policy rate at the record low of 0.25% as well as the stock of purchased UK government bonds at GBP 435 billion. At the same time, the Bank of England decided that it would continue to purchase up to GBP 10 billion a month of sterling non-financial investment-grade corporate bonds. While the inflation rate has risen above the Bank of England's 2% target in recent months, the bank continued to judge the current monetary policy as appropriate. [21]

…while the euro moved sideways.

Although the euro has remained broadly unchanged in nominal effective terms since the beginning of this year, the euro has recorded more substantial changes against other major currencies amid persistent uncertainty surrounding the policy plans of the US administration and the results of elections in a number of euro area Member States. Thus, the euro-dollar exchange rate has moved within a 1.04-1.09 range without a clear direction since the beginning of the year. After having fluctuated within a 0.84-0.88 range against the pound sterling since the beginning of this year, the euro weakened to below 84 pence per euro after the announcement of snap elections in the UK on 8 June by Prime Minister Teresa May. The Czech koruna appreciated only moderately against the euro following the Czech central bank's decision to end its exchange rate commitment.

Meanwhile, global financial markets have turned more cautious

Until early 2017, global financial markets had been signalling growing optimism for some time, buoyed by the prospect of economic stimulus and tax cuts in the US, upbeat macroeconomic data releases across the globe, strong corporate earnings, and the contained pick-up in inflation. Institutional investor optimism about the global economy reached its highest level since 2011. However, since March, risk-aversion has come back and volatility in stock markets has picked up.

In global bond markets, the rise in yields underway since autumn last year came to a halt in March and moved into reverse, as risk appetite declined and investors began expecting a slower pace of monetary policy normalisation in the US. 10-year US Treasury yields dropped back to around 2.30%. 10-year German Bund yields reached 0.49% in March, but have fallen back since to around 0.35%. Sovereign bond spreads of other euro-area countries widened somewhat amid heightened political risks in some Member States (see Graph I.11). Euro-area corporate bond spreads over German bunds have remained largely unchanged, supported by the ECB's asset purchases.

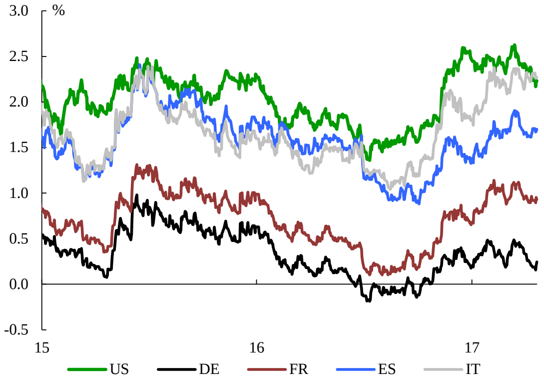
(18) Key ECB policy rates have stood at historically low levels since March 2016 when the ECB Governing Council decided to set the deposit facility rate at -0.40%, the main refinancing rate at +0.00% and the marginal lending facility rate at +0.25%.

(19) While March 2017 ECB staff macroeconomic projections for inflation were revised slightly up for 2017-2018 period, with inflation foreseen to hover around 1.7% over the 2017-2019 horizon, these projections are conditional on the full implementation of the already announced monetary policy measures.

(20) The CNB's exchange rate commitment aimed at keeping the exchange rate of the koruna close to CZK 27 per euro.

(21) The bank's Monetary Policy Committee considered that it remained appropriate to seek to return inflation to the target over a somewhat longer period than usually as according to its remit the Committee must balance, in exceptional circumstances, the trade-off between the speed with which it intends to return inflation to the target and the support that monetary policy provides to jobs and activity.

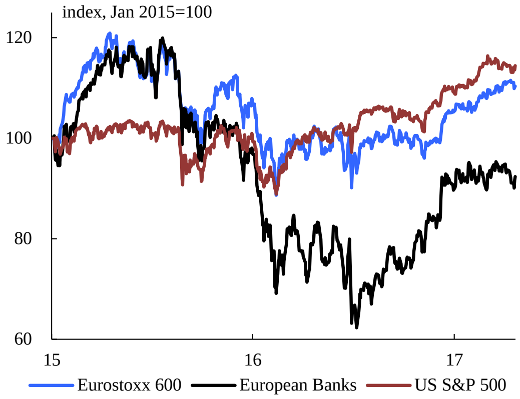
Graph I.11: **Benchmark 10-year government bond yields, selected Member States**



Source: Bloomberg

Over the last few months, European stock market indices have continued to strengthen and outperform other major advanced economies, supported by the economic recovery, bullish sentiment towards European equities and a normalising inflation outlook. Banking shares, however, have underperformed the broad market (see Graph I.12) amid a flattening yield curve

Graph I.12: **European financial stocks by sector**



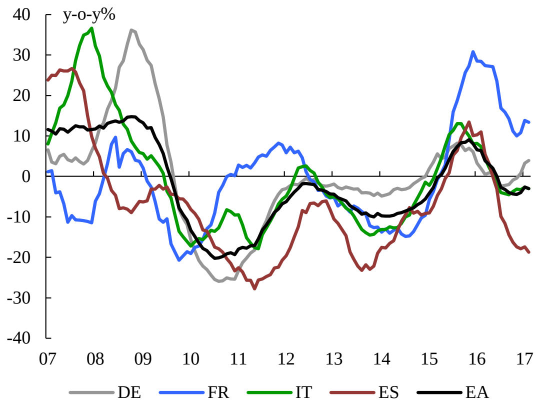
Source: Bloomberg

The transmission of the accommodative monetary policy of the ECB through the euro area banking system is ongoing…

Bank lending to households and non-financial corporations in the euro area continued to support the economy as banks lowered the rates they charge customers for loans. While lending rates fell throughout the euro area, differences among Member States may account for the uneven recovery in lending growth. At the euro-area level, net lending flows to the private non-financial sector remained positive over the last couple of months resulting in a +2.3% annual growth rate in February 2017. Such a nominal growth rate should still be considered as moderate, as it remains lower than nominal GDP growth for most countries, suggesting that the ratio of bank credit to GDP is not rising.

Declining interest rates have contributed to increased bank lending activity as shown by rising business volumes. Enterprises and households are taking advantage of improved price conditions by taking new loans or getting a reset of interest rates at lower levels. This activity was particularly buoyant one year ago (end 2015-early 2016) (see Graph I.13) and took place in most euro-area countries. Compared to last year, such activity has decreased somewhat as the pace of interest rate decreases has slowed, leading NFCs and households to perceive fewer opportunities.

Graph I.13: **Loans to NFCs - business volumes**



Source: ECB

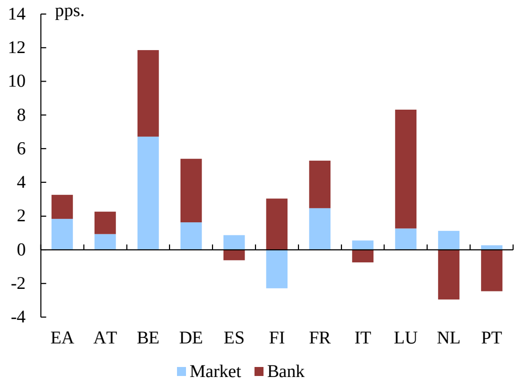
The latest results from bank lending surveys confirm these positive trends in bank lending. The ECB's latest bank lending survey (BLS), released in April 2017, points to easing credit standards and rising demand for all loan categories in the first quarter of 2017. Competitive pressure was the main driver for easing credit standards, while the low general level of interest rates, favourable housing market prospects, inventories, and working capital, were important positive contributors to loan demand. For 2017-Q2, banks covered by the BLS expect a slight net tightening of credit standards for loans to enterprises and unchanged credit standards for loans to households. Surveyed banks confirm the ongoing transmission of the ECB's monetary policy. According to euro area banks, the ECB's expanded Asset Purchase Programme has helped ease credit terms and conditions while the ECB's negative deposit facility rate, while having a negative impact on banks' net interest income, continues to have a positive impact on lending volumes.

Lending is expected to expand further as the banking sector's lending capacity improves and demand for loans rises along with the supportive economic cycle. Banks have further strengthened their capital positions and reduced the risk on their balance sheets while the ECB's policies should continue to support banks with attractive funding conditions. However, in Member States where the banking sector still faces high levels of non-performing loans, credit supply could remain constrained, as these banks still face balance sheet constraints and funding pressures. [22]

...while NFCs turn equally towards markets for external funding.

Market funding continued to expand in the euro area. The monthly net issuance of corporate bonds and equity has remained positive over the last few months. Historically, market funding has partly made up for the weakness in bank lending during crisis periods, cushioning somewhat the funding cycle which is traditionally bank-based in the euro area. Since 2015 though, both bank lending and market funding have been growing and contributing equally to the overall debt funding of NFCs. In countries where bank lending has not been supportive (Spain, Italy, Portugal, the Netherlands) corporates have been turning to markets over the last year (see Graph I.14).

Graph I.14: **Decomposition of NFC debt funding growth (y-o-y%) latest 12 available months**



Source: ECB

With supportive conditions for both banks and market funding, corporates can be expected to make increased use of external funding to take advantage of the economic cycle.

4. GDP AND ITS COMPONENTS

The European economy is performing well despite the political uncertainties and challenges it continues to face. The economic expansion has continued into 2017, thereby completing a period of four years of uninterrupted GDP growth. Concerns about elevated uncertainty are giving way to improving economic sentiment but this has yet to show up in hard economic indicators. Recent information on the European economy shows growth continuing, despite lingering policy uncertainty (see Section I.1) but the conditions for a (strong) acceleration of economic activity are not yet present.

Economic growth is continuing, supported by economic policy...

The expansion of economic activity is benefitting from a supportive policy environment. Monetary policy which has rekindled credit growth, remains very accommodative and is having an impact on the real economy. The overall fiscal policy stance in the euro area, as measured by changes in the structural balance, has become broadly neutral.

Meanwhile, support from other factors is diminishing. Oil prices have partially rebounded and the external value of the euro has not fallen further this year. Nevertheless, oil prices are still relatively low and the external value of the euro is lower than a few years ago. At the end of 2016, the nominal effective exchange rate of the euro stood at its lowest level in almost 15 years, providing support to the price competitiveness of euro area companies.

...but still dampened by crises legacies.

The European economy's continued growth is helping to heal the scars of the crisis. Economic activity and private consumption have already surpassed pre-crisis levels, helping to create new jobs. Nevertheless, growth is expected to remain dampened by legacies of the crisis, including high private and public debt, the large amount of non-performing loans, high unemployment in several Member States, and the remaining need for balance sheet adjustment in several sectors.

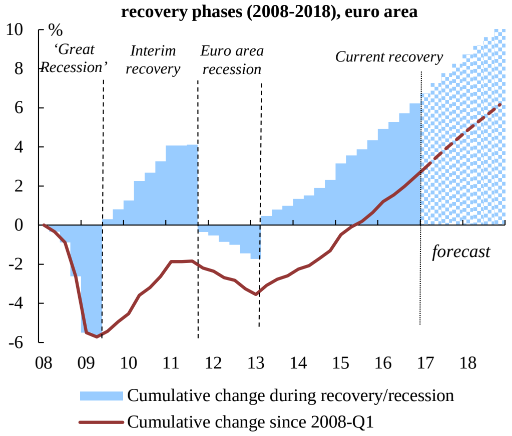
(22) See Berti, K. Engelen, C. and Vasicek B. (2016). 'A macroeconomic perspective on non-performing loans (NPLs)'. *Quarterly Report on the Euro Area* 16(1), pp. 7-21.

Table I.2:
Composition of growth - euro area

(Real annual percentage change)

	2015		2011	2012	2013	2014	2015	2016	2017	2018
	bn Euro Curr. prices	% GDP	Real percentage change					Spring 2017 forecast		
Private consumption	5743.2	54.9	0.0	-1.1	-0.6	0.8	1.8	**2.0**	**1.5**	**1.6**
Public consumption	2164.6	20.7	-0.1	-0.3	0.3	0.6	1.3	**1.9**	**1.5**	**1.5**
Gross fixed capital formation	2066.0	19.8	1.6	-3.5	-2.5	1.5	3.2	**3.7**	**2.9**	**3.5**
Change in stocks as % of GDP	14.7	0.1	0.8	-0.2	0.0	0.3	0.1	**0.0**	**0.0**	**0.0**
Exports of goods and services	4831.6	46.2	6.5	2.7	2.1	4.4	6.5	**2.9**	**3.8**	**4.1**
Final demand	14820.0	141.7	2.3	-0.9	0.2	2.2	3.3	**2.4**	**2.4**	**2.7**
Imports of goods and services	4357.6	41.7	4.4	-0.8	1.4	4.9	6.5	**4.0**	**4.2**	**4.6**
GDP	10460.7	100.0	1.5	-0.9	-0.3	1.2	2.0	**1.8**	**1.7**	**1.8**
GNI	10470.9	100.1	1.6	-0.9	-0.3	1.0	1.7	**1.8**	**1.7**	**1.8**
p.m. GDP EU	14715.4	140.7	1.7	-0.5	0.2	1.6	2.2	**1.9**	**1.9**	**1.9**
			Contribution to change in GDP							
Private consumption			0.0	-0.6	-0.3	0.4	1.0	**1.1**	**0.8**	**0.9**
Public consumption			0.0	-0.1	0.1	0.1	0.3	**0.4**	**0.3**	**0.3**
Investment			0.3	-0.7	-0.5	0.3	0.6	**0.7**	**0.6**	**0.7**
Inventories			0.4	-0.9	0.2	0.3	-0.1	**-0.1**	**0.0**	**0.0**
Exports			2.5	1.1	0.9	2.0	2.9	**1.3**	**1.8**	**1.9**
Final demand			3.2	-1.2	0.3	3.2	4.7	**3.4**	**3.5**	**3.8**
Imports			-1.7	0.3	-0.6	-2.0	-2.7	**-1.7**	**-1.7**	**-2.0**
Net exports			0.9	1.4	0.4	0.0	0.2	**-0.3**	**0.0**	**0.0**

Graph I.15: **Real GDP during the recession and recovery phases (2008-2018), euro area**



Euro area GDP growth in 2017-Q1 looks to have been steady...

The euro area economy ended 2016 in a relatively solid state, with GDP growth coming in at 0.5% (q-o-q) in 2016-Q4 (0.4% in 2016-Q3), which brought the average GDP growth for 2016 to 1.8% (2.0% in 2015). As already emphasised in previous forecasts, the euro area aggregate is affected by anomalous data from Ireland, which makes up about 2.5% of euro area GDP. The statistical re-classification of some activities by multinational firms has resulted in relatively large ups and downs in quarterly data that are visible also in annual growth rates of euro area aggregates. In the euro area excluding Ireland, real GDP in 2016 was up by 1.7% (1.6% in 2015) and by 0.4% (q-o-q) in 2016-Q4, i.e. the slight slowing in 2016 turns into a mild acceleration.

The euro area economy looks to have got off to a solid start in 2017, likely growing at the same pace as in the previous quarter.

...consistent with continued strong readings of survey indicators...

'Soft' data have been relatively strong in recent months, suggesting that households and companies are shrugging off uncertainty. Among the sentiment indicators that have had a spectacular run is the Commission's Economic Sentiment Indicator (ESI), which was in the first quarter running above its long-run average and at its highest level since early 2011. The optimism of survey respondents can be associated with forward-looking components of the ESI such as production expectations and order books.

The latest Purchasing Managers' Index (PMI) readings also point to strengthening euro area GDP growth in the first and second quarters of 2017, as they reached six-year highs in the euro area (see Graph I.16). The Composite PMI gained 2.3 points in the first four months in 2017, to stand at 56.7 in April (Flash Eurozone PMI). Over the months, improvements were shared by the manufacturing PMI (up to 56.8 in April) and the services PMI (up to 56.2 in April).

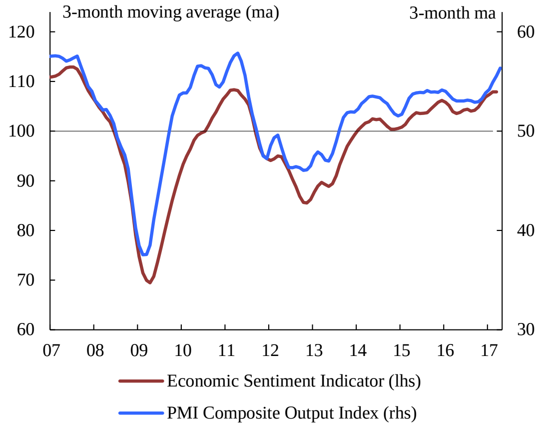
Table I.3:

Composition of growth - EU

(Real annual percentage change)

	2015			2011	2012	2013	2014	2015	Spring 2017 forecast 2016	2017	2018
	bn Euro	Curr. prices	% GDP	Real percentage change							
Private consumption		8283.4	56.3	0.1	-0.5	-0.1	1.2	2.1	**2.3**	**1.7**	**1.6**
Public consumption		3020.4	20.5	-0.1	0.0	0.4	1.0	1.4	**1.7**	**1.5**	**1.3**
Gross fixed capital formation		2872.6	19.5	1.9	-2.5	-1.5	2.7	3.6	**2.6**	**2.7**	**3.2**
Change in stocks as % of GDP		28.6	0.2	0.7	0.0	0.1	0.4	0.2	**0.2**	**0.2**	**0.2**
Exports of goods and services		6466.2	43.9	6.6	2.4	2.2	4.4	6.4	**3.1**	**4.0**	**4.1**
Final demand		20671.1	140.5	2.3	-0.4	0.6	2.6	3.4	**2.4**	**2.5**	**2.6**
Imports of goods and services		5958.3	40.5	4.3	-0.2	1.7	5.0	6.3	**4.0**	**4.2**	**4.3**
GDP		14715.4	100.0	1.7	-0.5	0.2	1.6	2.2	**1.9**	**1.9**	**1.9**
GNI		14669.8	99.7	1.7	-0.6	0.2	1.4	2.0	**2.0**	**2.0**	**1.9**
p.m. GDP euro area		10460.7	71.1	1.5	-0.9	-0.3	1.2	2.0	**1.8**	**1.7**	**1.8**
				Contribution to change in GDP							
Private consumption				0.0	-0.3	-0.1	0.7	1.2	**1.3**	**1.0**	**0.9**
Public consumption				0.0	0.0	0.1	0.2	0.3	**0.4**	**0.3**	**0.3**
Investment				0.4	-0.5	-0.3	0.5	0.7	**0.5**	**0.5**	**0.6**
Inventories				0.4	-0.7	0.3	0.4	-0.1	**0.0**	**0.0**	**0.0**
Exports				2.5	1.0	0.9	1.9	2.8	**1.4**	**1.8**	**1.9**
Final demand				3.2	-0.5	0.9	3.6	4.8	**3.4**	**3.6**	**3.7**
Imports				-1.6	0.1	-0.7	-2.0	-2.5	**-1.6**	**-1.7**	**-1.8**
Net exports				0.9	1.0	0.2	-0.1	0.2	**-0.3**	**0.1**	**0.0**

Graph I.16: **Economic Sentiment Indicator and PMI Composite Output Index, euro area**



For the past quarters, these readings of survey indicators have suggested a higher growth rate of economic activity than actually observed. The observation that confidence has remained largely immune to political uncertainty could at first glance be interpreted as a reflection of strong underlying economic conditions. However, this could also be explained by consumers and enterprises having adapted their views after the financial and economic crises to a new level of economic activity considered as 'normal'. [23]

[23] See European Commission (DG ECFIN) (2016). 'A new modesty? Level shifts in survey data and the decreasing trend of 'normal' growth'. European Economic Forecast – Winter 2017, *Institutional Paper*, 048, Box I.2, pp. 52-54.

...but less so with the weak readings of hard data.

In contrast to survey data, high-frequency 'hard' data have been more mixed in recent months, suggesting a less spectacular first quarter. Industrial production in the euro area rose in January (0.3% m-o-m), but these gains were almost fully erased in February (-0.3%). By contrast, the decline in construction output in the euro area in January (-2.4%) was more than offset by the strong increase in February (6.9% m-o-m), which lifted the average in the first two months 1.1% above the average in 2016-Q4. Retail sales were on average in January-February 2017 only 0.2% higher than in 2016-Q4.

Steady pace of growth in 2017 and in 2018

Over the forecast horizon, growth should continue benefitting from the resilience of domestic drivers, from supportive economic policies (very accommodative monetary policy and broadly neutral fiscal policy stance), strong confidence, a gradual improvement in world trade and the euro's relatively low exchange rate. Constraints to growth are expected to remain in place both in the short run (related to lingering crisis effects) and in the medium term (as cyclical weakness also reduces potential growth). Policy uncertainty, while remaining at a high level, seems to have diminished recently after elections were held in some Member States. However, its impact on economic growth should only dissipate gradually (see Section I.1).

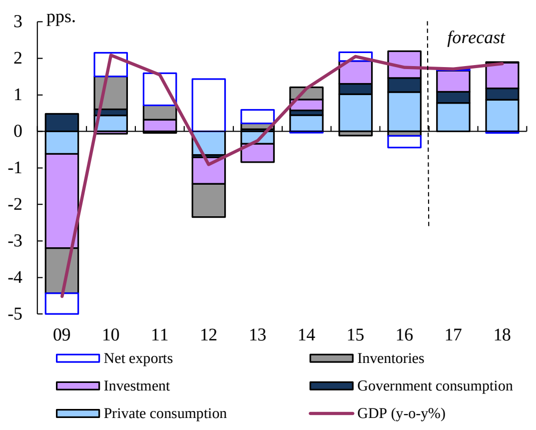
Real GDP growth in the euro area is expected to remain fairly steady, at 1.7% in 2017 (after 1.8% in 2016) and 1.8% in 2018. In the EU, real GDP growth is projected to remain stable at 1.9% this year and next. In both the euro area and the EU, economic growth is expected to exceed potential for the fifth year running in 2018, indicating a full closing of the output gap in both areas in that year.

Across the larger economies in 2017 and in 2018, Spain, the Netherlands, Poland and Sweden are expected to be economic outperformers with real GDP growth rates above the EU average, whereas Germany, Italy, and France are set to grow at or below average. In 2017, all Member States except Italy (0.9%) are projected to grow at 1.0% or more.

The expansion is driven by domestic demand

In 2016, economic growth in the euro area was almost entirely driven by domestic demand, with private consumption making the largest contribution (1.1 pps.), followed by investment (0.7 pps.) and public consumption (0.4 pps.), while net exports lowered GDP growth (-0.3 pps.). In 2017 and 2018, this pattern is projected to remain roughly in place for domestic demand components with a marginally lower contribution expected from consumption, and a roughly unchanged contribution from investment, while the contribution of net exports is set to turn neutral (see Graph I.17). Box I.3 provides a model-based illustration of the main drivers of growth in 2017.

Graph I.17: **Real GDP growth and its components, euro area**



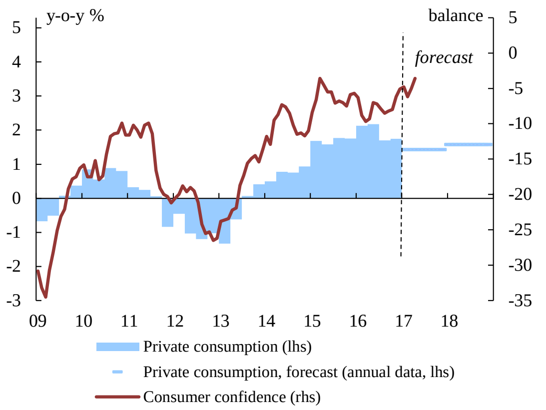
Private consumption gained some momentum…

Private consumption has been strengthening throughout the economic expansion and accelerated in 2016 in the euro area to 2.0%, which is the highest growth rate since 2006. Consumer spending got support from growing real incomes as employment increased robustly, while the windfall from lower oil prices gradually faded. In 2016-Q4, private consumption inched up, growing by 0.5% q-o-q in both the euro area and the EU.

…with the short-term outlook looking favourable…

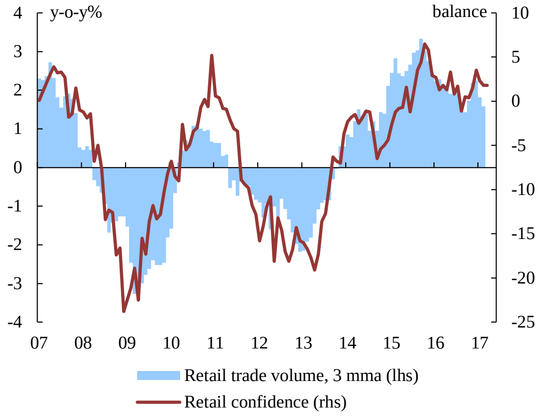
The short-term outlook for private consumption looks favourable from the viewpoint of European consumers, according to recent European Commission surveys. After dropping in February, consumer confidence recovered in March and April. In April, the Commission's flash estimate of the Consumer Confidence Indicator increased markedly in the euro area (by 1.4 points to 3.6) and, to a somewhat lesser extent, in the EU (by 0.8 points to 3.4) compared to March. This uptick follows increases in the first quarter (from -6.4 in 2016-Q4 to -5.3 in the euro area and from -5.8 to -4.7 in the EU) (see Graph I.18). Continued improvements in the labour market situation have reduced unemployment fears and optimism about the general economic situation has increased. By contrast, the Commission's Retail Trade Confidence Indicator slightly decreased in the euro area and the EU in the first quarter compared to the previous quarter.

Graph I.18: **Private consumption and consumer confidence, euro area**



Hard data are consistent with the continuation of strong private consumption growth in the short term. Retail sales resumed expansion in January and February in the euro area. They were on average in January-February 2017 only 0.2% higher than in 2016-Q4 and 1.7% above the level recorded in the corresponding months in 2016 (see Graph I.19). This implies that retail sales maintained their upward momentum, which pushed them in February to their highest level in the history of the series. New passenger car registrations in euro-area Member States were in the first quarter of 2017 about 3.4% higher than in the previous quarter (3.2% in the EU). Loans to euro area households for consumption continued to expand stronger than loans for any other purpose, recording in the euro area in February an annual increase of 4.1%.

Graph I.19: **Retail trade volumes and retail confidence, euro area**



...and the outlook in 2017 and 2018 depending on wage developments.

Looking forward, the strength of private consumption depends on the extent to which the negative impact of rising inflation on real disposable incomes will be offset by income gains and further improvements in the labour market situation. While a still rather job-rich recovery (see Section I.6) increases the number of wage earners and supports aggregate disposable incomes and private consumption, a wage-poor recovery (see Box I.4) is less promising in terms of private consumption growth. Real wage growth per employee is projected to remain constrained in 2017 and 2018.

As a result of subdued wage developments, the expected further increase in compensation of employees to annual rates over 3% depends largely on employment growth. In addition to the positive impact of employment growth, rising non-labour incomes are also expected to push household nominal disposable income. However, the rebound in consumer prices in 2017 is set to lower the growth of real disposable income from about 2% in 2015-2016 to about 1% in 2017. Despite a projected small decline in the household saving rate (from 12.4% in 2016 to 12.2% in 2017), private consumption growth is expected to slow in 2017 to 1.5% (from 2.0% in 2016). In 2018, real disposable income is expected to pick up to about 1.7%, on the back of an acceleration in compensation of employees and lower inflation. This is expected to lead to slightly higher private consumption growth in 2018 (1.6%).

Public consumption continues to grow steadily

Government consumption expenditure was more supportive to economic growth last year than in any other year since the 2008-2009 recession (0.4 pps. in the euro area and in the EU in 2016, compared to 0.5 pps. in 2008 and 2009). Additional public spending for security-related measures and to host and integrate asylum seekers continued contributing to this growth, particularly in some Member States. In 2016-Q4, government consumption growth rose to 0.5% in the euro area (compared to 0.1% in the third quarter) and to 0.3% in the EU (from 0.1%), resulting in a larger positive contribution to GDP growth.

For the year 2017, government consumption is projected to grow at a slower pace of 1.5% in both the euro area and the EU. In 2018, public consumption growth is projected to remain fairly stable in the euro area but to slow down to 1.3% in the EU. The forecast for 2018, 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.

Investment picked up in 2016-Q4...

In the first years of the post-crisis expansion, the relatively low growth of gross fixed capital formation (investment) was a matter of concern. Investment as a percentage of GDP remained below both the somewhat distorted levels just prior to the crisis, but also below long-term averages. As the recovery progressed, investment determinants became more favourable and policy efforts to support investment were strengthened. For instance, financing conditions had become very favourable thanks to very accommodative monetary policies in Europe and the growth outlook improved. But the rebound in investment remained muted and the recovery therefore continued to look incomplete.

In 2016, investment accounted for 20.1% of GDP in the euro area (19.7% in the EU). This is the highest share since the start of the recovery but still about 2pps. below the average between 2000 and 2005. In 2016-Q4, this share of GDP stood at 20.6% in the euro area (20.0% in the EU). This mirrors the slight strengthening in the euro area that has recently been suggested by national account data (from 3.2% in 2015 to 3.7% in 2016), while the production of capital goods grew only modestly.

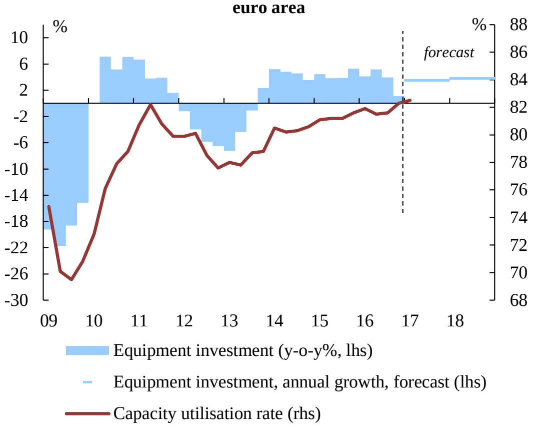
Investment, while remaining very volatile, strengthened markedly in 2016-Q4, growing by 3.3% in the euro area (up from -0.2% in the third quarter). Higher quarterly growth rates have not been recorded in both areas since 1996-Q2 when aggregates were pushed by exceptional figures from Germany (8.0% q-o-q). However, at the current juncture, as in preceding quarters, the euro area and EU aggregates were substantially affected by outstanding Irish data, where investment expanded by 85.7% in 2016-Q4 and by 45.4% in 2016 (see section II.7 Ireland). In the euro area excluding Ireland, investment grew by 0.7% (q-o-q) in 2016-Q4 and by 2.6% in 2016.

...and conditions for further increases in equipment investment are in place...

Regarding the outlook for equipment investment, key economic fundamentals look solid but uncertainty remains high for investors. Among the fundamentals are very favourable financing conditions, increasing corporate profitability, a brightening economic outlook, particularly for exports, and upbeat business sentiment. The high rate of capacity utilisation in manufacturing also suggests a growing obsolescence of the capital stock, which could trigger replacement investment after years of subdued investment. More generally, political support comes from an array of tax incentives in several Member States and from the Investment Plan for Europe with its substantial number of approved projects. The positive impact of these factors is somewhat mitigated by elevated policy uncertainty to which investment is the most vulnerable (see Section I.1) but also by the impact of adverse demographic trends, low public infrastructure investment, and a modest medium to long-term demand outlook. In some Member States, the need for further deleveraging and a high stock of non-performing loans may continue to hinder credit growth.

Overall, equipment investment is expected to grow at around the same pace as last year. In the euro area, the expansion is projected at 3.5% in 2017 and at 3.8% in 2018 (in the EU at 3.1% and 3.6% respectively) (see Graph I.20). The slightly lower rate of expansion in the EU is partly attributable to the expected shrinking of equipment investment in the UK, where uncertainty and the maturing of the cycle are expected to take their toll in 2017 and, though to a lesser extent, in 2018.

Graph I.20: **Equipment investment and capacity utilisation, euro area**



...whereas construction investment is set to accelerate in 2017 and 2018...

The construction sector was severely hit by the economic and financial crises and only really started to recover last year. The pick-up is reflected in greater confidence in construction sector surveys such as the Commission’s Construction Confidence Indicator, which reached a post-crisis high in the first quarter of this year (-11.0 in the euro area, -9.2 in the EU). Hard data are moving along with soft survey data. Construction output has continued increasing but still remains well below pre-crisis levels. The annual rate of growth in loans for house purchases in February increased further to 2.9%, the highest rate since November 2011. House prices rose by 4.1% in the euro area and by 4.7% in the EU in the fourth quarter of 2016 compared with the same quarter in 2015, which are the highest rates since 2007-2008. All this bodes well for future residential construction investment.

In 2017 and in 2018, construction investment is projected to remain buoyant, as low mortgage rates and rising household incomes favour housing investment while other construction investments should also benefit from the broad favourable conditions mentioned above. Overall, construction investment is expected to expand in the euro area by 2.8% in 2017 (up from 2.5% in 2016) and by 3.5% in 2018.

…contributing to moderate investment growth in 2017 and 2018.

All in all, total investment is projected to increase in the euro area by 2.9% in 2017 and 3.5% in 2018 (2.7% and 3.2% respectively in the EU). Differences between euro area aggregates with and without Ireland are expected to level off (less than ±0.2 pps.).

After having turned negative in 2016…

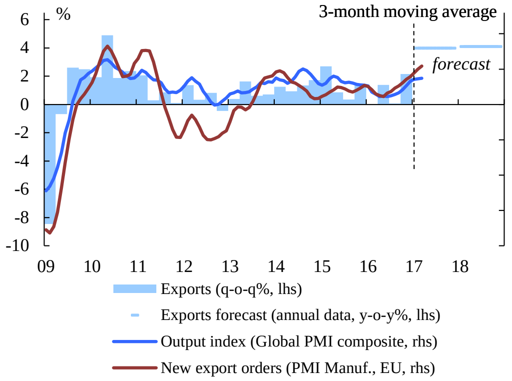
In 2016, the weak growth in global activity and trade weighed on the euro area's foreign trade. The growth rates of the euro area's imports and exports of goods and services were markedly lower than in 2015, particularly in the first three quarters. A factor that helped to cushion the impact of a weak external environment on total euro-area import and export volumes has been the resilience of intra-euro area trade. However, taken together, the net contribution of trade to real GDP growth turned negative in the euro area and in the EU (from +0.2 pps. in 2015 to -0.3 pps. in 2016 in both areas).

…the growth contribution of net exports is projected to become more neutral.

In contrast to last year, the projected rebound in global economic activity and the gradual resumption of world trade growth bode well for the trade outlook.

On the export side, the rebound in global activity and the strengthening of global trade support the expectation of rising export volumes (see Graph I.21). This view is supported by the assessment of order books in the Commission's manufacturing survey, which improved in the first quarter of 2017 in the euro area (from -11.0 in 2016-Q3 and -8.4 in 2016-Q4 to -5.4) and in the EU (from -11.8 and -9.4 to -5.6). The aforementioned improvement in the export-oriented manufacturing PMI in the first quarter of the year is in line with this development. All in all, euro area export growth is set to increase in 2017 from 2.9% to 3.8% (from 3.1% to 4.0% in the EU) and to rise slightly further again in 2018 to 4.1% (also 4.1% in the EU). The price competitiveness of the euro area is expected to be preserved over the forecast horizon, which reflects a continued adjustment of relative unit labour costs, albeit at a slower pace, together with the technical assumptions on nominal effective exchange rates. As a result, export growth is expected to be broadly in line with growth in external markets, with non-price factors set to play a greater role in determining export volumes.

Graph I.21: **Global demand, EU exports and new export orders**



Source: EC, Markit Group Limited

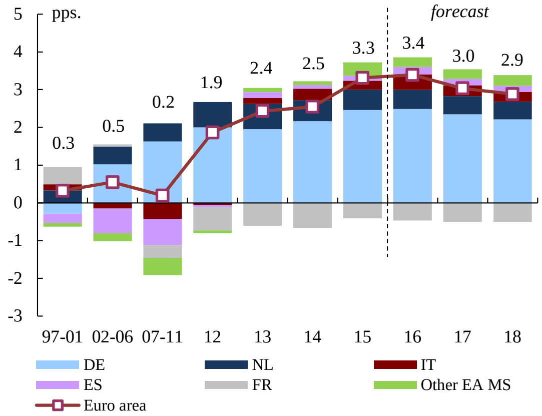
On the import side, rising domestic demand is set to remain an important determinant behind the strong expansion in the import of goods and services. In the near term, imports are expected to follow a similar pattern to that of exports, given the high import content of many export goods. Imports of goods and services are expected to accelerate in the euro area to 4.2% (4.2% in the EU) in 2017 and to 4.6% (4.3%) in 2018.

The contribution of net trade to economic growth in both the euro area is expected to become neutral in 2017 and 2018. For the EU, the net trade contribution is expected to be slightly positive in 2017 and nil in 2018. In the light of heightened uncertainty concerning the future trading relations between the UK and the EU and increasing protectionist pressures in several sectors, this outlook is surrounded by large downside risks.

5. THE CURRENT ACCOUNT

The euro area's current account surplus has grown steadily over the last few years. Key contributors to this strengthening were low commodity prices, gains in price competitiveness as a result of the low external value of the euro, and subdued momentum of domestic demand amid high corporate and household saving. However, as commodity prices slowly recover, the external value of the euro remains broadly unchanged and investment growth firms, the euro area's current account surplus is expected to recede from its peak of 3.4% of GDP last year (see Graph I.22). The decrease in the surplus is set to be largely driven by the merchandise trade balance which is forecast to deteriorate in most Member States.

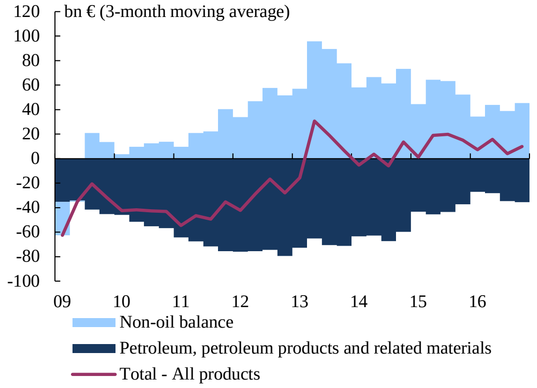
Graph I.22: **Current account, euro area (contributions by Member States)**



Current account surplus rose to a record high in 2016...

Depressed commodity prices, especially low oil prices, a lower external value of the euro and moderated domestic demand have been the key factors driving the increase in the merchandise trade surplus since mid-2014. Plunging oil prices mainly affected nominal imports through a shrinking of the EU's oil trade deficit (see Graph I.23). In parallel, the non-oil trade surplus decreased, as weak global economic activity and global trade weighed on the merchandise export growth of the euro area, especially last year. Altogether, the merchandise trade surplus remained stable at 4.2% of GDP in the euro area in 2016. Meanwhile, the current account surplus increased further from 3.3% of GDP in 2015 to 3.4% in 2016 on the back of a higher surplus of primary income, given the decrease in the deficit in Italy (which turned into surplus) and in Ireland in 2016.

Graph I.23: **Oil and non-oil balance for Extra-EU trade**



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

...but it is set to recede...

The current account surplus of the euro area is set to recede gradually over the forecast horizon despite the expected strengthening of global economic activity and demand in the euro area's trading partners. This reduction is expected to be mainly driven by a decrease in the merchandise trade surplus, as oil prices slowly recover and the earlier positive effects of the euro depreciation fade away. Also, due to the rise in import prices caused by the rebound in commodity prices and a broadly stable external value of the euro, the euro area's terms of trade are projected to worsen in 2017 for the first time since 2012. Finally, in line with strengthening final demand, imports are expected to rise this year and next and are set to be more dynamic than export growth. As a result, the current account surplus of the euro area is projected to gradually decrease to 3.0% in 2017 and 2.9% in 2018. The adjusted current account surplus in the euro area is expected to fall from 3.3% of GDP last year to 3.0% and 2.8% of GDP in the euro area in 2017 and 2018 respectively.

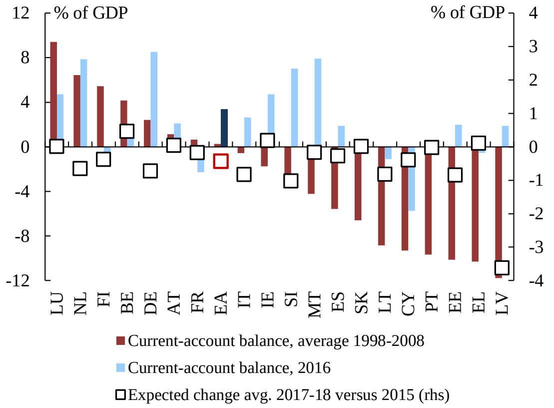
...while cross-country differences persist.

Since 2008, large current account adjustments have taken place in euro area countries with sizeable deficits, while the surpluses of other countries have proven to be rather persistent. [24] Looking ahead, current account surpluses are expected in the majority of euro area countries. Member States (Germany, Luxembourg and the Netherlands) which have had historically high current account surpluses are expected to continue

[24] For a detailed discussion of past developments, see European Commission (2016), '2017 European Semester: Alert Mechanism Report'.

exhibiting large surpluses this year and next, though marginally decreasing. Other countries (e.g. Slovenia, Malta, Spain and more recently Portugal) that have built up surpluses over the last few years are projected to see their current account balance stabilise or slightly decline (see Graph I.24). However, some euro area economies (e.g. Lithuania, Cyprus and Latvia) that recorded large deficits between 1998 and 2008 are set to experience deteriorating current account balances once again, after almost a decade of rebalancing.

Graph I.24: **Current-account balances, euro area and Member States**

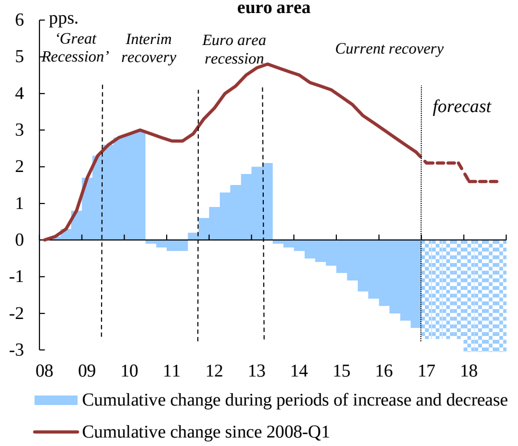


Overall, the current account adjustment that had started after the economic and financial crises in a number of Member States, notably those with large negative imbalances, is expected to slow down or even reverse in the case of Latvia, further delaying a more balanced current account structure.

6. THE LABOUR MARKET

Labour market conditions continued to improve in 2016, exhibiting rising employment, and falling unemployment rates. Despite these improvements, unemployment rates have not yet returned to their pre-crisis levels. Working hours per employee and underemployment indicators - such as involuntary part-time or discouraged workers – also suggest that a non-negligible labour market slack remains. Labour market conditions should continue to improve over the forecast horizon, albeit at a slightly slower pace than in the period between 2014 and 2016. This means that the unemployment rate should continue to decline up to 2018, while remaining above its pre-crisis level of respectively 7.5% in the euro area and 7% in the EU in 2008 (see Graph I.25).

Graph I.25: **Unemployment rate (2008-2018), euro area**

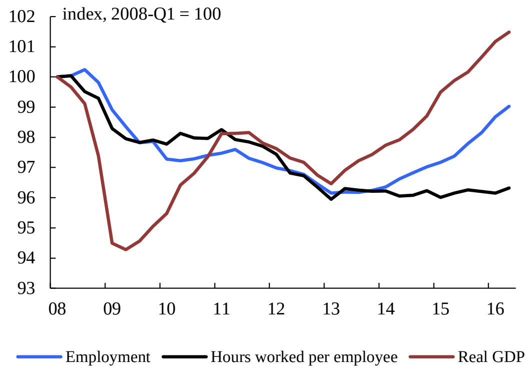


Labour market conditions improved further in 2016…

Employment has been rising uninterruptedly for more than three years, growing at a somewhat stronger rate than economic growth would normally suggest. In the euro area and the EU, employment grew by 1.4% and 1.3% respectively in 2016, the best performance in the last eight years.

Since mid-2013, net job creation has benefited from the ongoing economic expansion, modest wage growth, structural reforms and specific policy measures in some countries. The stronger responsiveness of employment to economic growth seen since the recovery started seems to be continuing. [25]

Graph I.26: **Employment, hours worked/employee and real GDP, euro area**



(25) The factors having supported this trend were highlighted in the latest two European Economic forecasts, e.g. DG ECFIN (2017), European Economic Forecast – Winter, *European Economy*, 048.

Table I.4:

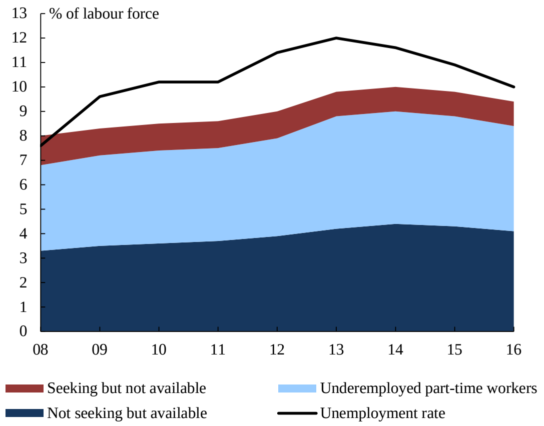
Labour market outlook - euro area and EU

(Annual percentage change)	Euro area							EU						
	Spring 2017 forecast				*Winter 2017 forecast*			Spring 2017 forecast				*Winter 2017 forecast*		
	2015	2016	2017	2018	2016	2017	2018	2015	2016	2017	2018	2016	2017	2018
Population of working age (15-64)	0.2	**0.3**	**0.4**	**0.2**	*0.4*	*0.4*	*0.2*	0.1	**0.3**	**0.3**	**0.2**	*0.3*	*0.3*	*0.2*
Labour force	0.2	**0.5**	**0.5**	**0.5**	*0.4*	*0.5*	*0.4*	0.2	**0.4**	**0.4**	**0.5**	*0.3*	*0.4*	*0.4*
Employment	1.1	**1.4**	**1.2**	**1.1**	*1.3*	*1.0*	*1.0*	1.2	**1.3**	**0.9**	**0.9**	*1.3*	*0.8*	*0.8*
Employment (change in million)	1.6	**2.0**	**1.7**	**1.7**	*1.9*	*1.4*	*1.5*	2.6	**2.8**	**2.1**	**2.0**	*2.8*	*1.8*	*1.8*
Unemployment (levels in millions)	17.5	**16.2**	**15.3**	**14.6**	*16.2*	*15.5*	*14.7*	22.9	**20.9**	**19.8**	**18.9**	*20.9*	*20.1*	*19.2*
Unemployment rate (% of labour force)	10.9	**10.0**	**9.4**	**8.9**	*10.0*	*9.6*	*9.1*	9.4	**8.5**	**8.0**	**7.7**	*8.5*	*8.1*	*7.8*
Labour productivity, whole economy	0.9	**0.3**	**0.6**	**0.7**	*0.4*	*0.7*	*0.8*	1.0	**0.6**	**0.9**	**1.0**	*0.6*	*0.9*	*1.0*
Employment rate (a)	59.5	**60.1**	**60.6**	**61.1**	*60.1*	*60.4*	*60.9*	59.8	**60.4**	**60.8**	**61.1**	*60.3*	*60.7*	*61.0*

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

Nevertheless, the level of hours worked has shown little sign of catching up and remains well below its pre-crisis level in both the euro area and the EU (see Graph I.26). Hours worked per employee have remained broadly flat in recent years. In the euro area, the number of hours stood in 2016-Q4 at around 4% below their pre-crisis level. The shift in the composition of labour towards sectors with a higher share of part-time contracts, such as services may explain some of this. Broad measures of underemployment [26], notably the share of involuntary part-time work – which has risen continuously since 2008 – also suggest that despite the recent improvements in the headline unemployment figure, significant slack remains in the labour market (see Graph I.27).

Graph I.27: **Underemployment and potential labour force, euro area**



[26] A broad measure of the unemployment slack would take into account the underemployed (part-time employees willing to work more hours), the potential additional labour force (persons seeking work but not available and persons available to work but not seeking) in addition to the usual "headline" unemployment rate.

...and the unemployment rate reached an 8-year low at the beginning of 2017.

The unemployment rate has been falling steadily over the last three years, mainly as a result of net job creation. By February 2017, the unemployment rate had fallen to 9.5% of the labour force in the euro area and to 8.0% in the EU, which are the lowest levels since May 2009 and January 2009 respectively.

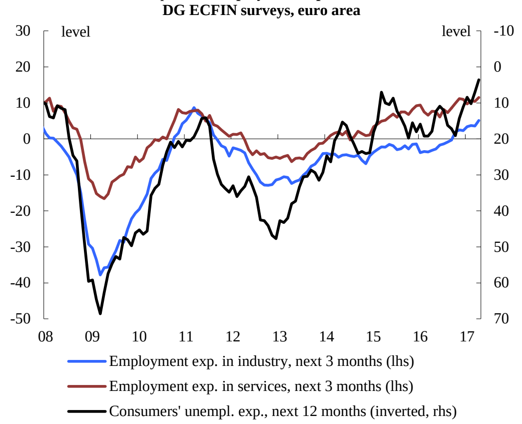
Unemployment rates have continued to fall for all categories of workers. In February 2017, the youth unemployment rate stood at 19.4% in the euro area and 17.3% in the EU, their lowest since the beginning of 2009 and end 2008 respectively. Despite remaining far from their pre-crisis level, *long-term unemployment* continued to fall albeit gradually over the course of 2016 as did *very long-term unemployment* (people unemployed for two years or more), following the ongoing recovery in labour markets with a lag (see Graph I.28).

Graph I.28: **Labour Market indicators, euro area**

Employment growth to remain dynamic over the forecast horizon...

In the short-term, the Commission's survey data on employment expectations continue to point to further net job creation (see Graph I.29). The hiring intentions of firms remain well above their long-term averages in all sectors in both the euro area and the EU, suggesting continuous job creation in the first months of 2017. Employment expectations in the first quarter of 2017 improved in the euro area's industry and construction sectors and remained at high levels in the services and retail trade sectors. In line with this, the employment component of the euro area's Flash Composite PMI rose to its highest level for almost a decade in April, signalling strong employment growth in the first and second quarters of this year. Also, consumers' unemployment fears decreased slightly in the first quarter of 2017 to very low levels.

Graph I.29: **Employment expectations, DG ECFIN surveys, euro area**



Labour market conditions are projected to improve further over this year and next, albeit gradually losing some momentum. Employment creation should continue to benefit from growing domestic-demand, still relatively moderate wage growth, as well as structural reforms and specific policy measures in certain countries. The expected increase in part-time working should also continue benefitting job creation, even if partly counterbalanced by the slow recovery of hours worked.

All in all, headcount employment is expected to continue expanding at a solid pace in 2017 and 2018. In the euro area, employment growth is expected to be 1.2% in 2017 and 1.1% in 2018. In the EU, it should decelerate to 0.9% in both 2017 and 2018 after 1.3% in 2016, reflecting a strong slowdown in job creation in the UK and Poland.

...and trigger a further decline in the number of unemployed.

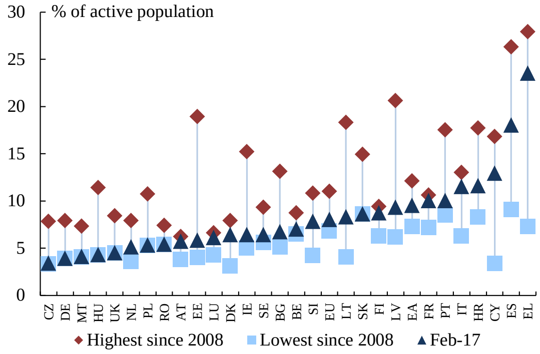
Labour force developments should continue shaping unemployment changes over the forecast horizon. The labour force is expected to go on growing by 0.5% per year in the euro area in 2017 and 2018 (0.4% in the EU in 2017 and 0.5% in 2018). This increase primarily reflects higher participation rates for women and seniors in line with long-term trends, the positive effects from refugees gradually entering the labour force, particularly in the main destination countries, as well as the effects of an improved labour market situation (the 'encouraged worker effect'). With job creation increasing more than twice as quickly as the labour force, unemployment should continue to fall in both the euro area and the EU. In 2018, the unemployment rate is forecast to fall to 8.9% in the euro area and 7.7% in the EU, their lowest levels since 2008.

The Non-Accelerating Wage Rate of Unemployment (NAWRU), a measure of spare capacity in the labour market, is expected to continue its gradual decline over the forecast horizon. Labour productivity growth (output per person employed) is expected to have reached a trough in 2016 and should very gradually recover in 2017 and 2018 in line with the pro-cyclicality of labour productivity. Labour productivity growth is expected to grow from a sluggish 0.3% in the euro area in 2016 (0.6% in the EU) to 0.7% in the euro area in 2018 (1.0% in the EU), still well below the pre-crisis levels (1.1% in the euro area and 1.6% in the EU between 1997 and 2007).

Labour market disparities among Member States to continue receding slowly

Labour market conditions and performances have continued to differ substantially across Member States, though these disparities are decreasing. In 2016, unemployment fell in all but two EU Member States (Estonia and Austria) while it remained flat in Denmark. The reduction was stronger in the former 'stressed countries' where unemployment skyrocketed during the crisis, and more limited in countries where unemployment was already low and labour markets have begun to tighten. This explains the continued reduction in the dispersion of unemployment rates across EU countries (see Graph I.30).

Graph I.30: **Unemployment rates dispersion, EU, EA and Member States, 2018 and highest and lowest since 2008**



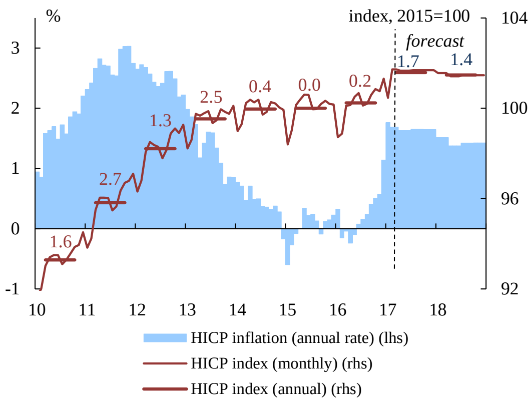
Note:EE, EL, HU and UK data from Jan. 2017, IE, NL and SE data from Mar. 2017.

Reflecting continued economic growth and job creation, unemployment is projected to fall in almost all euro-area countries over the forecast horizon but to remain elevated in the former ‘stressed countries’. Among the euro-area Member States, unemployment rates are expected to range from 3.9% in Germany to 21.6% in Greece in 2018.

7. INFLATION AND WAGES

Consumer price inflation, measured by annual changes in the Harmonised Index of Consumer Prices (HICP) has risen significantly in recent months, driven by the positive impact of energy base-effects following the recovery of oil prices from their low levels in 2016. Nevertheless, headline inflation is expected to have peaked in the first quarter of 2017 and to gradually recede as the temporary impact of energy inflation fades away.

Graph I.31: **HICP, euro area**



Figures next to horizontal bars are annual inflation rates.

In parallel, there are no signs yet of a durable and self-sustained normalisation of inflation. Core inflation (excluding energy and unprocessed food) has shown very few signs of picking up so far. This subdued level of core inflation may partly reflect the lagged negative impact of a prolonged period of low inflation, but it also reflects economic slack and continued weak pressures from domestic demand.

HICP inflation is expected to have peaked in the first quarter of 2017…

HICP inflation in the euro area has been on the rise for the past quarters, up from 0.3% y-o-y in 2016-Q3, 0.7% in 2016-Q4 to 1.8% in 2017-Q1. This strong increase has been mainly driven by energy inflation and, to a lesser extent, food inflation. The significant increase in oil prices during autumn 2016 – and induced base effects – contributed to the strong rise in the energy component of HICP, which returned to positive territory at the end of last year, reaching 8.3% y-o-y on average in 2017-Q1 in the euro area. Unprocessed food inflation also increased significantly at the start of the year, from 1.1% in 2016-Q4 to 4.0% in 2017-Q1.

Core inflation has remained stable in recent quarters at around 0.8%-0.9%, showing no signs of pick-up, as services and non-energy industrial goods inflation remained stable and processed food inflation increased only slightly.

In February 2017, headline HICP inflation reached its highest level since January 2013, at 2.0% (y-o-y). It then fell to 1.5% in March, mainly reflecting lower oil prices and a normalisation of food inflation. HICP excluding unprocessed food and energy, also fell in March, to 0.8% from 0.9% in February. This was due to the late Easter this year, the effect of which should reverse in April. Core inflation, which has remained broadly stable since autumn 2016, still stands substantially below its pre-crisis average.

…while signs of pipeline pressure remain weak…

In recent quarters, inflation has also picked up outside the euro area. Global reflation was supported by the recent recovery of commodity prices and producer prices. Also outside the EU, core inflation is expected to rise gradually on the back of tightening labour markets and lower manufacturing overcapacity.

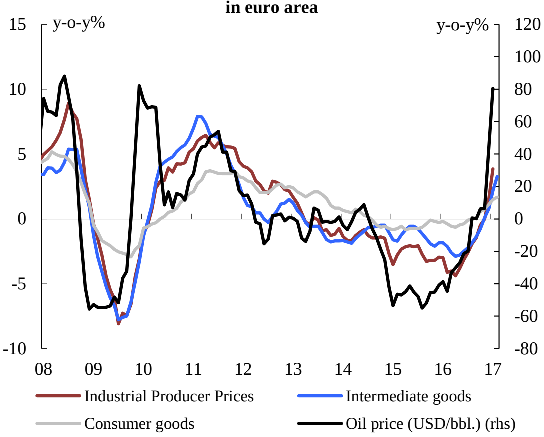
Table I.5:

Inflation outlook - euro area and EU

(Annual percentage change)	Euro area							EU						
	Spring 2017 forecast				*Winter 2017 forecast*			Spring 2017 forecast				*Winter 2017 forecast*		
	2015	2016	2017	2018	2016	2017	2018	2015	2016	2017	2018	2016	2017	2018
Private consumption deflator	0.1	**0.4**	**1.6**	**1.3**	*0.4*	*1.6*	*1.4*	0.2	**0.5**	**1.8**	**1.6**	*0.5*	*1.8*	*1.7*
GDP deflator	1.1	**0.9**	**1.1**	**1.4**	*1.0*	*1.3*	*1.4*	1.1	**1.0**	**1.3**	**1.6**	*1.0*	*1.5*	*1.6*
HICP	0.0	**0.2**	**1.6**	**1.3**	*0.2*	*1.7*	*1.4*	0.0	**0.3**	**1.8**	**1.7**	*0.3*	*1.8*	*1.7*
Compensation per employee	1.1	**1.3**	**1.8**	**2.1**	*1.2*	*1.8*	*2.1*	1.2	**1.7**	**2.2**	**2.4**	*1.7*	*2.2*	*2.4*
Unit labour costs	0.3	**0.9**	**1.2**	**1.4**	*0.8*	*1.1*	*1.3*	0.3	**1.3**	**1.3**	**1.5**	*1.1*	*1.3*	*1.4*
Import prices of goods	-3.5	**-3.4**	**4.0**	**1.1**	*-3.4*	*2.7*	*1.4*	-3.6	**-2.3**	**4.1**	**1.5**	*-2.5*	*3.0*	*1.5*

After a long period of continuous decline, import inflation finally turned slightly positive in November 2016 (+0.1%), on the back of increasing oil prices, global reflation and, to a lesser extent, the impact of the slight depreciation in the euro's nominal effective exchange rate. Since then, import inflation has continued to rise. This turnaround was mostly felt in intermediate goods while import prices of consumer goods remained less reactive (see Graph I.32).

Graph I.32: **Oil prices and selected producer price indexes in euro area**



Signs of sound upward pipeline pressures, however, remain weak. While domestic producer price inflation has increased markedly over the past year, this was mainly driven by a strong increase in producer prices for intermediate goods. Although this increase is likely to have positive second-round effects along the production chain, domestic producer price inflation for consumer goods increased only slightly to 1.7% (y-o-y) in February. This disconnect between domestic producer prices for intermediate goods driven by rising commodity prices and domestic producer prices for consumer goods constrained by strong global competition is likely to have negative impacts on company profit margins over the short term.

...and weak core inflation does not offset the fading impact of energy prices.

Headline inflation is expected to increase sharply in 2017 as a whole. Nevertheless, inflation is likely to have peaked in 2017-Q1 and should decrease gradually as base effects from the past increase in oil prices fade away. Energy inflation is projected to decrease strongly over the course of 2017 (from 8.3% in 2017-Q1 down to 3.8% in 2017-Q4) and to stabilise in 2018 at about 1.0% as oil prices are assumed to remain almost flat over the forecast horizon. Unprocessed food inflation is also expected to contribute positively to headline inflation.

The projected profile of a gradual decline in HICP inflation over 2017 followed by a stable period in 2018 reflects the lagged and slow pick-up in core inflation, particularly in services. Core inflation is expected to increase only very slightly from 0.8% in the first quarter of this year to 1.4% by the end of 2018 as wage growth finally picks up.

The increase in oil prices is expected to have an impact on energy-intensive components like transports, or on global producer prices. This in turn could exert positive second-round pressures on prices for non-energy industrial goods. According to the ECFIN's Business and Consumer Surveys, manufacturers' selling price expectations are also up.

So far, services inflation has been prevented from rising by low wage growth in the euro area that reached 1.6% in the fourth quarter of 2016, unchanged compared to the third quarter (see Box I.3 for a description of factors driving wage developments). The combination of low inflation, significant remaining slack in the labour market [27], weak productivity growth and the

(27) See European Commission (DG ECFIN) (2016). "Putting the forecast into perspective: How persistent are crisis

Table I.6:
Inflation outlook - euro area

(Annual percentage change)	Euro area						
	Spring 2017 forecast				Winter 2017 forecast		
	2015	2016	2017	2018	2016	2017	2018
HICP	0.0	**0.2**	**1.6**	**1.3**	*0.2*	*1.7*	*1.4*
Non-energy industrial goods	0.3	**0.4**	**0.5**	**0.9**	*0.4*	*0.6*	*1.0*
Energy	-6.8	**-5.1**	**6.1**	**1.0**	*-5.1*	*6.3*	*1.5*
Processed food (incl. alcohol and tobacco)	0.6	**0.6**	**1.1**	**1.7**	*0.6*	*1.3*	*1.7*
Unprocessed food	1.6	**1.4**	**2.9**	**1.9**	*1.4*	*1.6*	*1.7*
Services	1.2	**1.1**	**1.3**	**1.5**	*1.1*	*1.3*	*1.6*
HICP excl. energy and unprocessed food	0.8	**0.8**	**1.0**	**1.3**	*0.8*	*1.1*	*1.4*

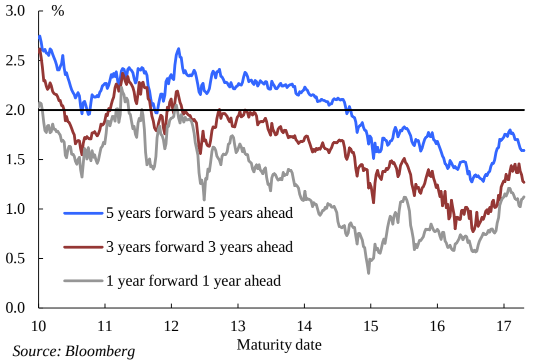
impact of labour market reforms in several Member States, is likely to have prevented a more sustained increase of wage growth. In 2017 and 2018, compensation per employee is expected to grow by 1.8% and 2.1% respectively. The temporary rise in HICP inflation will have a negative impact on real compensation per employee, growing only 0.3% and 0.7% this year and next.

Inflation expectations rebounded before declining slightly since February

Market-based measures of inflation expectations have decreased somewhat in recent months after having recovered from the lows reached during summer 2016. While short-term measures remained broadly stable compared to their February levels, medium- and long-term measures stand on average around 15 bps. lower than in winter. At the cut-off date of this forecast, inflation-linked swap rates at the one-year forward one-year ahead horizon stood at 1.1% (see Graph I.33). Swap rates at the three-year forward three-year ahead horizon imply an average inflation of 1.3%. On a longer horizon, the widely watched five-year forward five-year ahead indicator suggests inflation of 1.6%, still below the ECB's definition of price stability in the medium term.

Survey-based measures of inflation expectations have also risen since autumn. The monthly mean of market forecasters calculated by Consensus Economics stood in April at 1.6% for 2017, slightly up from 1.4% in January, and unchanged at 1.4% for 2018. The ECB's March 2017 Survey of Professional Forecasters includes inflation forecast means of 1.4% for 2017 and 1.5% for 2018, up from respectively 1.2% and 1.4% in the 2016-Q4 exercise. The longer-term inflation expectations (for 2020) stood unchanged at 1.8%. According to the Commission's surveys, selling price expectations in the retail and services sectors remained above or close to their long-term average in recent months. In line with this, the euro-area PMI indices for input prices and selling prices have accelerated at their quickest pace since 2011.

Graph I.33: **Inflation expectations derived from implied forward inflation-linked swap rates**



Source: Bloomberg

The inflation outlook remains broadly unchanged...

The impact of energy inflation on HICP inflation is expected to decline gradually over the forecast horizon as oil prices are assumed to remain flat. Core inflation is expected to start picking up in the next quarters and should take over as the main driver of headline inflation at the beginning of 2018. Wage developments, which should remain subdued due to opposing forces, will be a key determinant. On the one hand, employment gaps in euro-area Member States are narrowing and service inflation remains quite responsive to wage developments. On the other hand, factors such as rising part-time or temporary contracts prevent a further acceleration of wages and underlying price pressures (see also Box I.3).

Overall, in 2017, HICP inflation is expected to rise significantly to 1.6% (up from 0.2% in 2016) as

effects in the euro area?". European Economic Forecast – Winter 2017, *Institutional Paper* 048, pp. 10-14.

energy base effects play fully, mostly towards the beginning of the year. In 2018, HICP inflation is projected to slow down to 1.3% as the rise in core inflation is tempered by the fading impact of energy prices.

...and inflation differentials are expected to continue narrowing.

Aggregate HICP inflation rates continue to mask substantial differences across euro area Member States. In 2016, HICP inflation rates ranged from -1.2% in Cyprus to 1.8% in Belgium. In 2017, inflation rates are expected to turn positive in all euro area Member States. In 2018, except Estonia, all euro area Member States are expected to have inflation rates between 1% and 2%.

The dispersion (measured by the interquartile range) of core inflation [28] rates across euro-area Member States decreased somewhat between 2015 and 2016. Over the past six months, average core inflation has been below the euro-area average in eight Member States (including Greece, Ireland, Italy, Portugal and Spain), where pre-crisis core inflation rates (average calculated over the period 2000-2007) had exceeded the euro-area average by far. At the same time, Austria, Belgium and Germany, which had recorded below euro area average core inflation over the period 2000-2007, posted significantly higher rates over the past six months.

Based on core inflation forecasts across Member States, the adjustment process is expected to continue by and large in 2017. However, it should slow markedly in 2018 as the projected pick-up in core inflation for vulnerable Member States, e.g. Greece, Italy, Portugal or Spain, should be significantly stronger than e.g. in Germany.

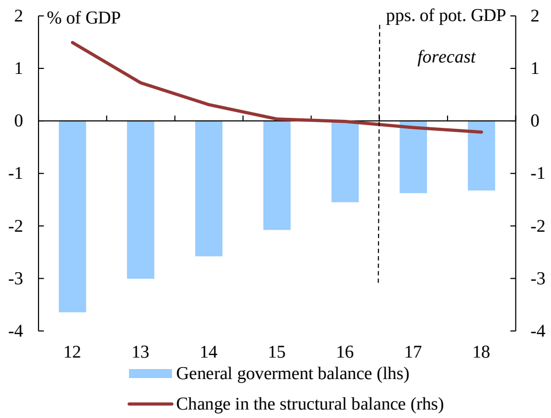
8. PUBLIC FINANCES

The general government deficit-to-GDP and gross debt-to-GDP ratios in the euro area continued to decline in 2016, on the back of the ongoing economic expansion and historically low interest rates. Over the forecast horizon, both the government deficit and debt ratio are projected to continue declining.

Continued though slower government deficit reduction in 2017-2018

In 2016, the aggregate general government deficit fell to 1.5% of GDP in the euro area and to 1.7% in the EU, respectively 0.6 pps. and 0.7 pps. of GDP lower than in 2015. It is expected to continue declining in both areas this year and next, albeit at a slower pace than in previous years, falling to 1.3% of GDP in the euro area and 1.5% in the EU in 2018, under a no-policy-change assumption (see Graph I.34) (see Table I.7).

Graph I.34: **Budgetary developments, euro area**



The performance of individual Member States is expected to be heterogeneous. Over the forecast horizon, improvements in the fiscal balance are expected in half of the Member States, most prominently in Spain and Slovakia (although these two countries would still witness fiscal deficits), while deteriorations of the fiscal balance are expected in the other half of the Member States, most prominently in Latvia and Luxemburg (the latter country would still witness a fiscal surplus). In 2016, the general government deficit exceeded 3% of GDP threshold in Spain, France and Romania. Deficits larger than the 3% of GDP are projected in Spain in 2017, in Romania in 2017 and 2018, and in France in 2018, based on a no-policy-change assumption.

The reduction in the deficit-to-GDP ratio is expected to be mainly driven by lower interest payments, an improved cyclical component, as well as one-off and temporary measures [29] (see

[28] Cross-country differences in headline inflation rates are heavily influenced by differences in the individual weights attributed to volatile items such as energy and unprocessed food, ranging from more than 20% in Latvia, Slovakia and Spain to slightly below 13% in Austria (17% for the euro area). Core inflation rates might thus prove to be a more stable metric to assess the underlying strength of the ongoing price adjustment process across the euro area.

[29] Examples of typical one-offs include: tax amnesty and announced changes in tax legislation; permanent or

Table I.7:

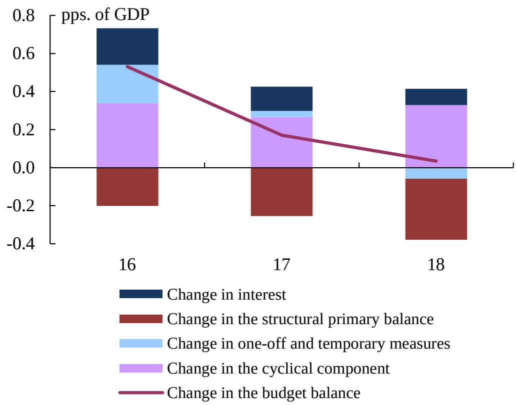
General Government budgetary position - euro area and EU

(% of GDP)	Euro area							EU						
	Spring 2017 forecast				*Winter 2017 forecast*			Spring 2017 forecast				*Winter 2017 forecast*		
	2015	2016	2017	2018	*2016*	*2017*	*2018*	2015	2016	2017	2018	*2016*	*2017*	*2018*
Total receipts (1)	46.4	**46.2**	**46.2**	**46.0**	*46.3*	*46.2*	*46.0*	44.9	**44.9**	**44.8**	**44.7**	*44.8*	*44.8*	*44.7*
Total expenditure (2)	48.5	**47.7**	**47.6**	**47.3**	*47.9*	*47.6*	*47.4*	47.2	**46.6**	**46.4**	**46.1**	*46.7*	*46.5*	*46.3*
Actual balance (3) = (1)-(2)	-2.1	**-1.5**	**-1.4**	**-1.3**	*-1.7*	*-1.4*	*-1.4*	-2.4	**-1.7**	**-1.6**	**-1.5**	*-1.9*	*-1.7*	*-1.6*
Interest expenditure (4)	2.4	**2.2**	**2.1**	**2.0**	*2.2*	*2.1*	*2.0*	2.3	**2.1**	**2.0**	**2.0**	*2.1*	*2.0*	*2.0*
Primary balance (5) = (3)+(4)	0.3	**0.7**	**0.7**	**0.7**	*0.5*	*0.6*	*0.6*	-0.1	**0.4**	**0.4**	**0.5**	*0.3*	*0.4*	*0.4*
Cyclically-adjusted budget balance	-1.2	**-1.0**	**-1.1**	**-1.3**	*-1.1*	*-1.2*	*-1.4*	-1.7	**-1.3**	**-1.5**	**-1.5**	*-1.5*	*-1.5*	*-1.6*
Cyclically-adjusted primary balance	1.2	**1.2**	**1.0**	**0.6**	*1.1*	*0.9*	*0.6*	0.6	**0.8**	**0.6**	**0.4**	*0.6*	*0.5*	*0.4*
Structural budget balance	-1.0	**-1.0**	**-1.1**	**-1.3**	*-1.1*	*-1.2*	*-1.4*	-1.6	**-1.3**	**-1.5**	**-1.5**	*-1.5*	*-1.6*	*-1.6*
Change in structural budget balance	0.0	**0.0**	**-0.1**	**-0.2**	*-0.1*	*-0.1*	*-0.2*	0.1	**0.3**	**-0.2**	**0.0**	*0.1*	*0.0*	*0.0*
Gross debt	92.5	**91.3**	**90.3**	**89.0**	*91.5*	*90.4*	*89.2*	86.5	**85.1**	**84.8**	**83.6**	*85.1*	*84.8*	*83.6*

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

Graph I.35).[30] While the headline balance is expected to improve slightly between 2016 and 2018, the structural deficit[31] is expected to increase slightly in each year. This increase[32] is explained by developments in the structural primary balance, which excludes interest expenditure, indicating that the departure from the strong fiscal consolidation efforts undertaken in previous years continues. The overall structural balance continues to benefit from a positive impact related to the reduction in interest expenditure, although this effect is expected to fade over the forecast horizon (see also Section I.9).[33]

Graph I.35: **Breakdown of the change in the aggregate general government deficit, euro area**



Expenditure driving headline deficit developments...

The slowdown in the reduction in the aggregate general government deficit-to-GDP ratio over the forecast horizon is set to come from a slower decline in the general government expenditure-to-GDP ratio, both in the euro area and the EU (see Graph I.36 for the aggregate euro area).

The government expenditure-to-GDP ratio in the euro area is expected to continue declining over the forecast horizon from 47.7% in 2016 to 47.3% in 2018, but at a slower pace than in previous years, under a no-policy-change assumption. This decline reflects lower interest expenditure and the operation of automatic stabilisers, as the ongoing economic recovery and improving labour market reduces social transfers.

exceptional changes in the timing of recurrent taxation and expenditure; sales of non-financial assets; and short term emergency costs.

(30) For an explanation of the EU methodology for adjusting the budget balance for the business cycle, see Mourre, G., C. Astarita and S. Princen (2014). 'Adjusting the budget balance for the business cycle: the EU methodology'. European Commission, *European Economy*, Economic Papers 536.

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

(32) The evolution of the structural balance can be broken down into the change in interest expenditure and the change in the structural primary balance.

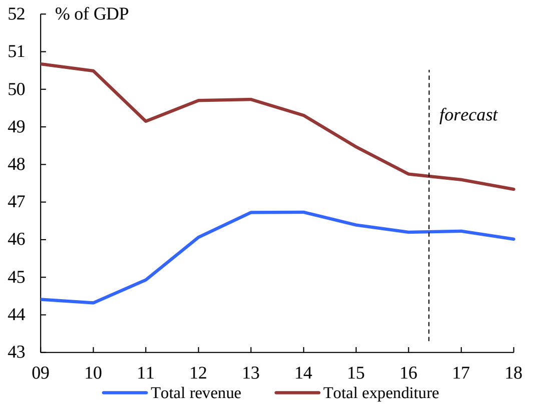
(33) An increase in the average maturity of debt has also been associated with a reduction in the long-term interest rate. See, Beetsma, R., M. Giuliodori, and I., Sakalauskaite (2016). 'Long-term interest rates and public debt maturity'. *Economica*, April 2016.

Table I.8:
Euro area debt dynamics

	Average 2004-11	2012	2013	2014	2015	2016	2017	2018
General government gross debt ratio[1] (% of GDP)	**73.4**	**91.4**	**93.7**	**94.3**	**92.5**	**91.3**	**90.3**	**89.0**
Change in the ratio	2.3	4.6	2.2	0.6	-1.9	-1.1	-1.0	-1.3
Contributions to the change in the ratio:								
1. Primary balance	**0.4**	**0.6**	**0.2**	**-0.1**	**-0.3**	**-0.7**	**-0.7**	**-0.7**
2. Snowball effect[2]	**0.9**	**2.7**	**1.9**	**0.7**	**-0.6**	**-0.2**	**-0.5**	**-0.9**
Of which:								
Interest expenditure	2.9	3.0	2.8	2.7	2.4	2.2	2.1	2.0
Growth effect	-0.8	0.8	0.2	-1.1	-1.9	-1.6	-1.6	-1.6
Inflation effect	-1.1	-1.2	-1.2	-0.8	-1.0	-0.8	-1.0	-1.2
3. Stock-flow adjustment	**1.0**	**1.3**	**0.1**	**0.0**	**-1.0**	**-0.3**	**0.2**	**0.2**

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

Graph I.36: **General government revenue and expenditure, euro area**



The public investment-to-GDP ratio for the euro area as a whole is set to edge up from 2.6% in 2016 to 2.7% in 2018, after having fallen every year since the crisis from an average of around 3.2% of GDP between 2000 and 2007. In some Member States, positive contributions to public investment growth are expected as projects from the new programming period of EU funding break ground. Also, the Investment Plan for Europe should have a positive impact on public investment over the forecast horizon. Increases in public investment would boost domestic demand and have positive spillover effects on other Member States.

The government revenue-to-GDP ratio is also expected to decline in 2017 and 2018, although to a lesser extent than the government expenditure ratio. The revenue-to-GDP ratio in the euro area is set to continue its gradual decrease from its peak of 46.7% in 2014 to 46.0% in 2018, under a no-policy change assumption.

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

The general government debt-to-GDP ratio continued its downward trend (since 2014) to 91.3% in the euro area in 2016 (85.1% in the EU), and is projected to continue declining gradually in 2017 and 2018. It is forecast to reach 90.3% in 2017 (84.8% in the EU) and 89.0% in 2018 (83.6% in the EU). Debt reduction between 2016 and 2018 finds its roots both in primary surpluses and in a progressively more favourable snowball effect, driven by modest but steady real GDP growth, the expected uptick in inflation, and reduced average interest rates (see Tables I.7 and I.8). Debt is expected to exceed 100% of GDP in four Member States (Belgium, Greece, Italy and Portugal) over the forecast horizon, as well as in Cyprus in 2016 and 2017. Debt ratios are expected to decline in a vast majority of Member States and decreases of more than 4 pps. are forecast in nine, including Germany and the Netherlands in particular. Some increases are nevertheless projected, notably in France, Luxembourg, Finland, Poland and Romania.

9. MACROECONOMIC POLICIES IN THE EURO AREA

Monetary conditions in the euro area are expected to remain accommodative. Based on our standard assumptions,[34] money market rates are set to increase slightly in 2017 and 2018 but should remain overall very favourable in real terms, in part supported by a renewed gradual increase in long-term inflation expectations that should keep real long-term financing costs in negative territory.

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

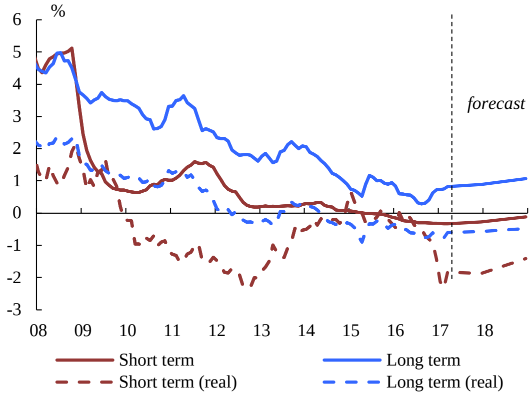
As regards the fiscal policy stance, as measured by the change in the structural budget balance, it turned broadly neutral in 2015 and is expected to stay broadly neutral over the forecast horizon under a no-policy-change assumption.

Monetary conditions are expected to remain accommodative

The continued implementation of the set of monetary policy measures introduced in recent years is expected to keep financing conditions loose. Nominal long-term rates have increased slightly since the beginning of the year and are expected to continue to trend up modestly. However, the ECB's asset purchases under the Expanded Asset Purchase Programme which are foreseen to last until at least December 2017 should ensure that nominal long-term rates stay low, also supported by the ECB's policy of reinvesting the proceeds from maturing securities. At the same time, the effects of the negative deposit facility rate on money markets and lending conditions should be reinforced by the growing excess liquidity generated through the asset purchases. Indeed, in the money market, the overnight rate (EONIA) has continued to trade slightly above the ECB's deposit facility rate in recent months, reflecting the high and still-growing excess liquidity in the banking system. Similarly, the three-month Euribor stayed at record low levels in the first months of 2017.

In real terms, short-term rates continued to fall deeper into negative territory in early 2017 on account of the strong temporary pick-up in inflation (see Graph I.37), before rebounding somewhat in March due to a drop in the annual inflation rate. [35] Real long-term interest rates derived from inflation and interest rate swaps, which have been negative since mid-2014 and which declined for most of 2016, have increased marginally since the turn of the year due to both a slight increase in nominal rates and lower longer-term inflation expectations.

Graph I.37: **Euro area interest rates**



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

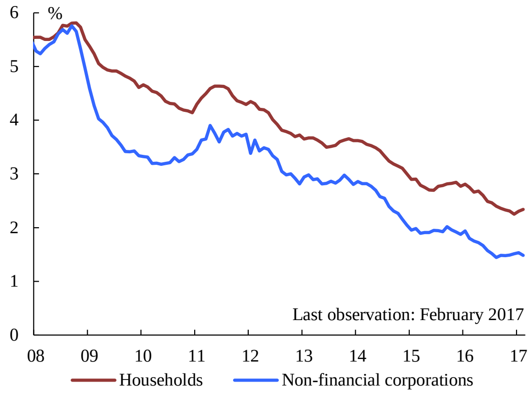
Looking ahead, in line with the ECB Governing Council's forward guidance on interest rates, overnight rates are assumed to remain close to current levels over the forecast horizon, as suggested by EONIA forward rates. As inflation is expected to decrease somewhat in 2018, this should altogether lead to a slight increase in real short-term interest rates, which nonetheless are expected to remain clearly in negative territory. At the same time, forward rates suggest a continued gradual rise in nominal long-term rates over the forecast horizon, which should also translate into marginally higher real long-term rates, as long-term inflation expectations do not increase at the same pace.

The transmission of these developments to the nominal financing conditions in the non-financial private sector is captured by the composite credit cost indicators (CCCI) [36] for non-financial corporations and households (see Graph I.38). While credit costs increased somewhat for households since the beginning of the year on account of slightly higher rates on housing loans, the CCCI decreased marginally for non-financial corporations, reflecting an increase in corporate sector bond yields that was more than offset by lower bank lending rates, particularly for short-term loans.

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

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

Graph I.38: **Composite credit cost indicators, euro area**

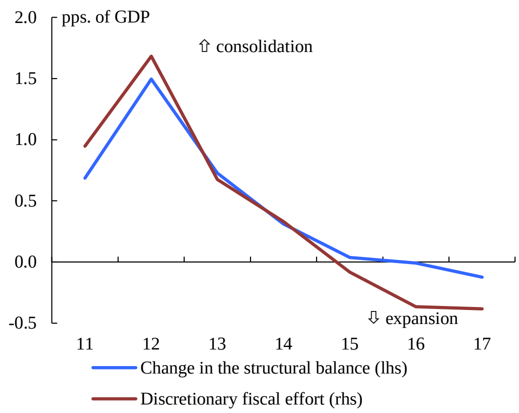


Sources: ECB, Bloomberg, own calculations

Fiscal policy is no longer restrictive

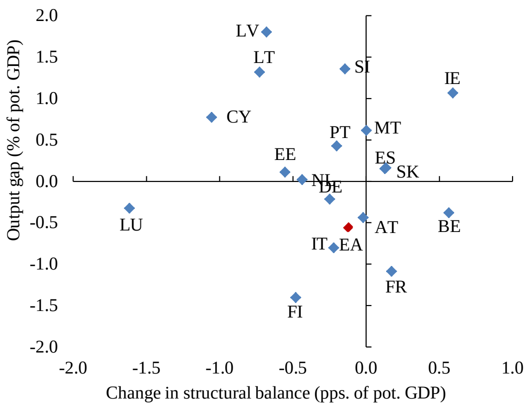
Following the strong consolidation achieved during the crisis period, the fiscal stance in the euro area, as measured by the change in the structural budget balance, has been neutral since 2015 and is expected to remain broadly so over the forecast horizon (see Graph I.39). The discretionary fiscal effort, which is an alternative measure of the size of discretionary fiscal policy (computed by adding up discretionary measures on the revenue side and by measuring the gap between potential growth and expenditure growth on the expenditure side) signals a similar pattern (see Graph I.39). [37]

Graph I.39: **Change in the structural balance and the discretionary fiscal effort, euro area**



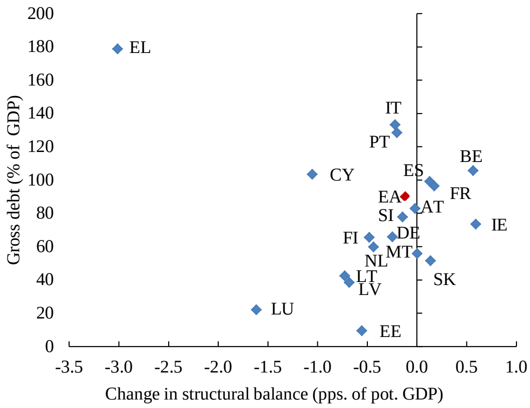
The picture varies significantly across Member States. The changes in the structural balance expected in 2017 are widely dispersed (see Graph I.40), with the projected changes largely uncorrelated to economic conditions as measured by the level of the output gap. This applies also in Member States in which the output gap has been negative for several years.

Graph I.40: **Change in the structural balance vs output gap, 2017**



At the same time, there is not always a relation between the expected fiscal effort (in terms of the change in the structural balance) and the debt-to-GDP ratio (see for instance Graph I.41 for 2017). Many countries with higher gross debt-to-GDP ratios are expected to make larger fiscal efforts than other countries, in a context in which fiscal efforts overall are eased compared to previous years as indicated above. Given that debt ratios are still high in many Member States and that growth is expected to remain moderate, there remains a risk that the reversal in the current low dynamic of interest rates could weigh on the budget balance and interrupt the debt decrease via a less favourable snowball effect.

Graph I.41: **Change in the structural balance vs government debt, 2017**

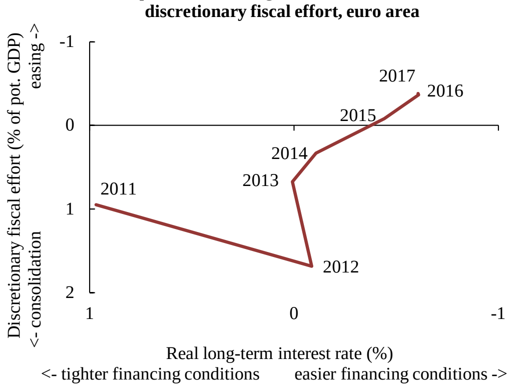


The policy mix in the euro area in 2017 reflects the interplay between financing conditions and fiscal policy (see Graph I.42). It should be assessed in

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

the context of a gradual global recovery and diminishing uncertainty (although remaining at high levels), as well as the persistent crisis impact and the slack that remains in the economy even after 15 quarters of economic growth. On the monetary side, the additional measures taken by the ECB since the end of 2014 have exerted a significant downward pressure on nominal long-term rates in recent years. However, monetary easing was only partially transmitted to real rates as long-term inflation expectations also declined over the same period and only started to pick up towards the end of 2016. For 2017, average real long-term rates (derived from the 10-year swap rate deflated by inflation expectations) are expected to stay broadly unchanged compared to the average of the previous year, as the gradual increase in nominal rates is largely compensated by a pickup in inflation expectations. As mentioned above, these monetary developments accompany a less restrictive fiscal policy stance.

Graph I.42: **Real long term interest rates and discretionary fiscal effort, euro area**



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

10. RISKS

The risks to the baseline forecast seem more balanced than in the winter but are still tilted to the downside. Whereas domestic downside risks seemed predominant in the winter, external downside risks now seem greater.

On the external side, policy uncertainty and risks to the global outlook remain elevated and linked above all to the US policy stance. Uncertainties about the eventual scale, composition and timing of fiscal stimulus (and other pro-business policy changes) in the US entail both upside and downside risks for the current global growth outlook (see Box I.2). Moreover, these policy shifts would inter-play with the pace of monetary policy normalisation in the US. Faster-than-currently expected monetary tightening in the US and associated monetary policy divergence across advanced economies could have important spill-overs in terms of capital flows, financial market stability and financial conditions, with particular risks for many emerging markets that have accumulated large unhedged USD liabilities. Finally, any major shift in the new US administration's stance towards more protectionism would weigh significantly on global growth and could halt the still-fragile global recovery. Geopolitical risks in the Middle East and East Asia have increased in recent months. These risks come on top of (and partially reinforce) long-standing concerns, including risks of a disorderly adjustment in China, and vulnerabilities in other emerging market economies.

On the domestic side, policy uncertainty, though still high, has begun to diminish with the success of mainstream parties in recent elections. This gradual reduction in political uncertainty might continue over the coming quarters and lead to some upside risks as higher confidence could result in stronger domestic demand, particularly investment. The uncertainty related to the process of the UK leaving the EU, however, remains and continues to pose a downside risk to the UK and, to a lesser extent, euro-area economies. The UK government invoked Article 50 on 29 March 2017 and while the UK economy has so far shown resilience, uncertainty about the outcome of the exit negotiations is expected to remain high.

The baseline forecast pencils in a cautious reading of sentiment indicators. Domestic demand could turn out higher than expected if the stronger economic momentum suggested by the current high levels of confidence indicators actually materialises.

Banking fragilities remain a concern. The low profitability of European banks is still a structural problem, namely in the face of structural challenges posed by a low interest rate environment and low nominal growth. The specific problem of NPLs is just one aspect contributing to low profitability, the others being inadequate business models, high operating costs and overbanked markets. Even though the banking sector is now in better shape than a few years ago, it could still act as a brake on the economic recovery once investment demand picks up.

Investment remains rather weak in the EU and the euro area and forecasting its dynamics is challenging. The baseline scenario contains a moderate increase, but the actual outcome could go in either direction. The lifting of some of the policy uncertainty as well as the implementation of the Investment Plan for Europe could have a stronger-than-expected impact on investment. By contrast, investment could turn out to be lower than expected on the back of persistent uncertainty (e.g. related to difficult negotiations on the UK withdrawal from the EU) or continued banking fragilities.

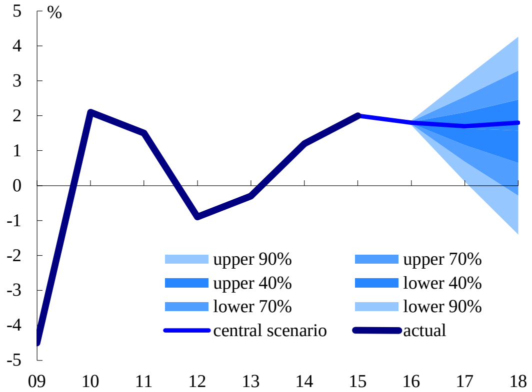
Risks, while still on the downside, appear more balanced

Overall, the uncertainty around the growth projections has diminished since winter. This can be seen in the fan chart (see Graph I.43) which depicts the probabilities associated with various outcomes for euro-area GDP growth over the forecast horizon. The darkest area indicates the most likely development. While lower uncertainty leads to a narrowing of the confidence bands for given probabilities, the dominance of the downside risks can still be seen in the asymmetry of these bands, though to a lesser degree than in winter.

Risks to the inflation outlook remain balanced

Risks to the inflation outlook remain balanced. Upside risks mainly stem from the external side and in particular from oil prices. Although oil futures suggest rather stable prices this year and next, several uncertainties surrounding the extension of the current OPEC agreement or the production level of oil in the US could push oil prices upwards, and fuel higher inflation. Downside risks are more linked to domestic developments. In particular, a longer-than-expected impact from the past period of protracted low inflation and structural reforms could delay the modest expected pick-up in wages, and keep weighing negatively on underlying price pressures over the forecast horizon.

Graph I.43: **Euro area GDP forecast - Uncertainty linked to the balance of risks**



Box I.1: The economic impact of uncertainty assessed with a BVAR model

This box underpins the assessment of the impact of uncertainty in section I.1 using model estimations. It first presents the concept of uncertainty as well as different indicators, including those derived from Commission datasets. The impact of uncertainty on economic activity in the euro area is then analysed using an econometric model.

If there are different types of uncertainty, their impact should be assessed separately. If there is only a single uncertainty, it is more useful to combine various uncertainty indicators into a single measure. Below, both approaches are followed, but the fundamental lack of knowledge about the nature of uncertainty is not solved.

Four main classes of uncertainty indicators have been proposed in the literature. Firstly, *financial market indicators*, such as the implied or historical volatility of stock market returns [(1)], sometimes including volatility in exchange rates and sovereign bond markets. While such measures are available in real time and at high frequency [(2)], changes in financial market volatility may be related to changes in overall market sentiment or investor risk aversion, rather than uncertainty itself [(3)]. Uncertainty as perceived by financial markets may also not be fully representative of other parts of the economy. Secondly, *news-based indicators*, or 'Economic policy uncertainty' rely on the frequency of key words in selected newspapers [(4)]. As in the previous case, it is questionable if a measure based on articles in selected newspapers is fully representative. Moreover, due to the fact that the concept of uncertainty has become popular in recent years, it might be that the frequency of the key words has increased and that the values of such indicators might not be entirely comparable across time. Finally, this measure does not distinguish between domestic or foreign sources of uncertainty.

Thirdly, *survey-based indicators* assess the dispersion of answers (regarding expectations for the future) in surveys such as the Commission's Business and Consumer Survey (BCS). This measure tracks responses of households and non-financial corporations, whose decision about consumption and investment are closely linked to overall economic developments [(5)]. However, the heterogeneity among firms and consumers, as well as differences in the information they possess can cause divergence in opinion across the business cycle irrespective of the subjectively perceived uncertainty [(6)].

And finally, *macroeconomic data sets and forecasts* are used to infer uncertainty following two approaches. The first rely on the dispersion of forecast (or alternatively on the dispersion of forecast errors) of individual macroeconomic variables by professional forecasters (e.g. consensus forecasts). Representativeness could be an issue here as well and (like in the survey-based measures) the dispersion can reflect different information available to the forecasters rather than true uncertainty [(7)]. The second approach attempts to identify moments when the economy becomes less predictable [(8)]. Uncertainty here is proxied by the unforecastable component of a large set of macroeconomic variables.

(1) Bloom, N. (2009). 'The impact of uncertainty shocks'. *Econometrica*, 77(3), pp. 623-85.

(2) The implied volatility, which unlike the historical volatility is a forward-looking measure, is based on some option pricing model. Options with the same maturity needed for its calculation are available only for large euro area countries.

(3) Baker, S.R. and N. Bloom (2013). 'Does uncertainty reduce growth? Using disasters as natural experiments'. NBER Working Paper 19475. address endogeneity between stock developments and business cycle using natural catastrophes and terrorist attacks as an exogenous instrument for the former.

(4) Baker, S.R., S.J. David and N. Bloom (2016). 'Measuring economic policy uncertainty'. *Quarterly Journal of Economics*, 131(4), pp. 1593-1636. The measure is currently available only for five largest euro area countries.

(5) Bachmann, R., S. Elstner and E. R. Sims (2013). 'Uncertainty and economic activity: evidence from business survey data.' *American Economic Journal: Macroeconomics*, 5(2), pp. 217-49.

(6) Girardi, A. and A. Reuter (2017). 'New uncertainty measures for the euro area using survey data'. *Oxford Economic Papers*, 69 (1), pp. 278-300.

(7) Rossi, B. and T. Sekhposyan (2015). 'Macroeconomic uncertainty indices based on nowcast and forecast error distributions.' *The American Economic Review*, 105(5), pp. 650-55.

(8) Dovern, J. (2015). 'A multivariate analysis of forecast disagreement: Confronting models of disagreement with survey data'. *European Economic Review*, 80, pp. 16-35. Jurado, K., S.C. Ludvigson and S. Ng (2015). 'Measuring uncertainty'. *The American Economic Review*, 105(3), pp. 1177-1216.

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Box (continued)

The economic impact of uncertainty using BVAR model

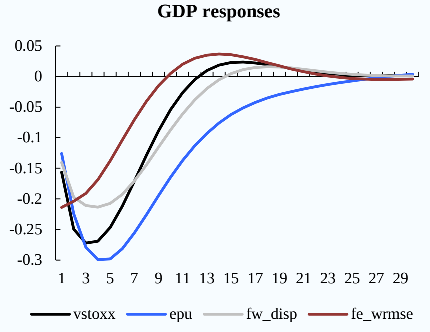
A Bayesian Vector Autoregression (BVAR) model is estimated on quarterly data for 1999-2016 [9]. It uses four alternative measures of uncertainty corresponding to the categories [10]: Financial-market volatility (VSTOXX), economic policy uncertainty (EPU), survey-based uncertainty (FW_DISP) and forecast errors (FE_WRMSE). The baseline model then includes 6 variables (alongside with constant term and linear trend to control for nonstationarity of some variables): stock prices, the economic survey indicator (ESI), the respective uncertainty measure, short-term interest rates (EONIA), log HICP and log GDP, consumption or inflation, respectively. The model is estimated with two lags (based on lag-length selection criteria). The results show generalised impulse-response functions (that are invariant to the ordering of variables in the BVAR) on one-off shock to uncertainty measures. Graph 1 documents the impact of uncertainty shocks on GDP, investment and consumption in the euro area using impulse-response functions from the estimated model. The bootstrapped confidence intervals are not reported because too many lines would make the graph unreadable.

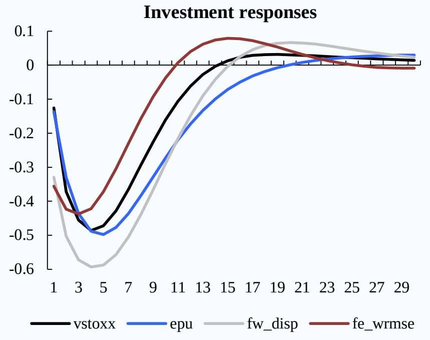
The estimations suggest:

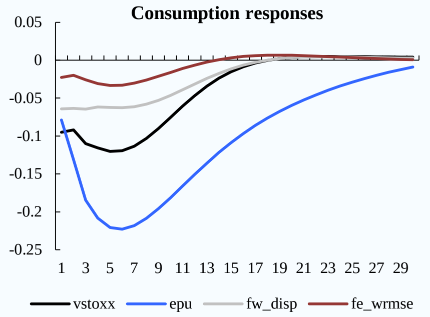
(i) An unexpected spike in uncertainty (of about one standard deviation of the relevant uncertainty indicator) has a negative impact on economic activity in the euro area with the impact increasing until around five quarters after the uncertainty shock.

(ii) While the persistence of responses differs slightly across uncertainty measures, the impact of an uncertainty shock takes around three years (12 quarters) to fully dissipate. There is little evidence of a subsequent overshooting of economic activity, thus confirming other results that suggest that uncertainly shocks imply a permanent output loss [11].

Graph 1: **Impact of uncertainty on the euro area GDP, consumption and investment**







(iii) The impact of uncertainty on overall output seems to be driven mainly by a decline of investment, most notably when the survey-based uncertainty measure (FW_DISP) is used.

(9) Shorter in some specification due to the data availability. The BVAR is employed to correct for a rather lower number of observations by imposing prior beliefs about the parameters of the model. More specifically, the common Minnesota/Litterman priors are applied.

(10) The concrete variables are described in Section I.1., footnote 6.

(11) The confidence intervals are not included not to clutter the graphs. However, they clearly suggest that while decline in economic activity following an uncertainty shocks is statistically significant for all the indicators, the subsequent overshooting is not.

(Continued on the next page)

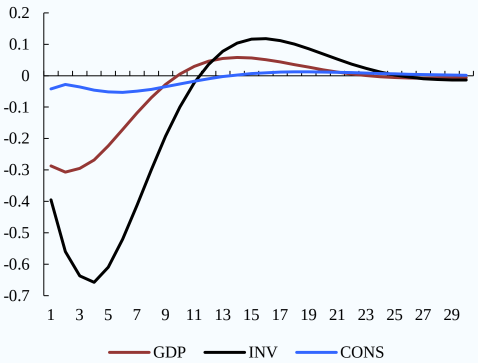
Box (continued)

Most indicators of uncertainty do not affect consumption in a significant manner. By contrast, the response of consumption is notable only when the economic policy uncertainty (EPU) indicator is used. This could suggest that EPU captures a dimension of uncertainty that is different from the uncertainty measured by the other indicators.

(iv) The decline of economic activity reaches around 0.25% in the case of GDP and 0.5% in the case of investment compared to the baseline following a standard uncertainty shock (one deviation). As it will be shown below (see Graphs 2 and 3), the impact can be even reinforced in case of generalised uncertainty or in the case of a very persistent uncertainty shock.

(v) Based on variance decomposition analysis, the uncertainty shocks could explain 30% of the variability of GDP and investment, and around 15% of the variability of consumption (after 12 quarters). That means that almost one third of the dynamics of GDP and investment may be driven by uncertainty shocks.

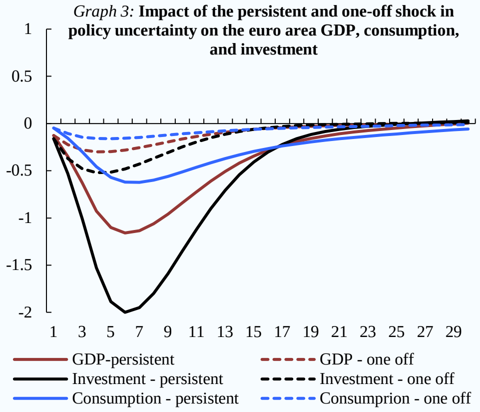
Graph 2: **Responses to uncertainty factor**



The previous analysis implicitly assumed that different measures of uncertainty represent different types of uncertainty. In terms of policy usefulness, it is indeed important to understand what type of uncertainty (or what type of uncertainty proxy) matters most for real economic developments. However, one can also reasonably assume that different measures of uncertainty represent noisy proxies of the same concept of uncertainty. [12]

Consequently, factor analysis was applied to these four alternative measures of uncertainty to identify potential commonalities. The analysis revealed that a single common factor, representing an overall level of uncertainty in the economy (irrespective of its source), is able to explain a large share of the variability present in the series [13].

Graph 3: **Impact of the persistent and one-off shock in policy uncertainty on the euro area GDP, consumption, and investment**



The results tracking the impact of uncertainty using this common factor are presented in Graph 2. The decline of investment is deeper in this case but there is some indication of subsequent overshooting. The stronger response of investment seems to be related to the fact that the common factor represents rather extreme cases of uncertainty, when spikes coincided for most of the indicators. By contrast, it is interesting to note that the response of consumption is very muted. This could be explained by consumption smoothing, for example when even large uncertainty shocks affect purchases of some durable goods but not the overall consumption basket. This reflects that in general consumption is much less volatile than investment, and, therefore, is likely to be less affected by diverse shocks.

(12) Haddow, A., Ch. Hare, J. Hooley and T. Shakir (2013). "Macroeconomic uncertainty: what is it, how can we measure it and why does it matter?" *Bank of England Quarterly Bulletin* 2013 Q2. ECB (2016), op. cit.

(13) Principal factor method is used with number of factors determined by minimum average partial. Most measures are highly correlated with the estimated common factor (i.e. have relatively high factor loading) with the exception of the EPU reflecting its low correlation with the other measures.

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Box (continued)

A potential limitation of this empirical approach is its focus on one-off uncertainty shocks. However, as recent experience suggests, numerous (mainly policy) uncertainty-generating events can occur sequentially resulting in a prolonged period of uncertainty.

To study the impact of such a prolonged period of uncertainty, a persistent shock to uncertainty was assumed. More specifically, a new uncertainty shock is assumed to occur every quarter for a year keeping uncertainty at a high level. This is inspired by developments in recent quarters, such as the UK's vote to leave the EU, which was followed by the US election campaign and the policy uncertainty in its aftermath, constitutional changes in Italy that were rejected by referendum, and elections lined up in several large EU economies.

Graph 3 summarizes the impact of a persistent versus a one-off shock in uncertainty, measured by policy uncertainty, on investment, consumption and GDP. Such a persistent shock unsurprisingly depresses all the three macroeconomic variables substantially more than in the case of an isolated shock. Investment is still the most affected and could decline up to 2%. Persistent uncertainty shocks also represent a danger of a long-term impact on the productive capacity of the economy as a sustained decline in investments affects the capital stock, slows down total factor productivity growth and increases the risks of hysteresis on the labour market with a more significant decay of existing (human, knowledge and physical) capital.

Box I.2: US macroeconomic policies and spillovers to the euro area

Uncertainties regarding future policy mix remain

Following the outcome of the US presidential elections in November 2016 there was a marked upturn in consumer and business sentiment, while financial markets also picked up in anticipation of a potential fiscal stimulus, substantive tax reform and other pro-growth elements of the new administration's policy agenda.

Six months after the elections, the administration's stance across a wide range of policy areas still remains subject to significant uncertainties. With respect to potential changes in the macroeconomic policy mix, initial expectations regarding the overall size of a fiscal stimulus have been scaled back, while its composition appears increasingly likely to comprise tax cuts rather than spending increases. Moreover, in terms of timing, the complexity of the legislative and budgetary process implies that any major fiscal or tax proposals are now unlikely to take effect during 2017.

Considerable policy uncertainty thus still surrounds this forecast round. A technical assumption has therefore been included in the baseline forecast for the US: a fiscal stimulus package amounting to 1% of GDP implemented in 2018 which is expected to provide a modest boost to growth. (1)

This box goes further in discussing in more detail the likely impact of a range of fiscal stimulus scenarios on the US macroeconomic policy mix and growth outlook, as well as spillovers to the global and EU economy. It also presents simulations using the European Commission's QUEST model which, in addition to determining the quantitative impacts, provides insights into the channels via which spillovers are likely to emerge.

Current cyclical position of the US economy

The degree of remaining slack in the US economy is an important determinant of the impact of a fiscal stimulus. Following its recovery from the financial crisis, the economy's current expansion is now in its eighth year and the labour market appears to be closing in on full employment. Indeed, the unemployment rate remains at post-crisis lows of around 4½%, labour market participation has recovered modestly (against a strong secular downward trend), and employment growth has retained solid momentum in early-2017.

Price and wage pressures have continued to build gradually, with core inflation steadily approaching the Federal Reserve's 2% target. The combination of solid growth and rising prices has underpinned the continuation of monetary policy normalisation in December 2016 and March 2017 (cumulative 50 basis point rate increase), with further interest rate rises expected in the near term.

Overall, in abrupt contrast to the immediate post-crisis period, this points to an economy which is broadly performing at potential and with only limited remaining slack. (2) As such, the growth effect of fiscal stimulus is likely to be relatively modest at this stage, while at the same time potentially generating upward pressure on prices, interest rates and the US dollar. In this constellation, a deterioration in net exports and tighter financing conditions would counteract to a large extent the demand-stimulus provided by an expansionary fiscal stance.

Qualitative assessment of stimulus and risks

Overall, even at the cycle's current advanced stage, it is reasonable to anticipate that a fiscal stimulus would still have a positive impact on US growth, which would also generate positive spillovers elsewhere. Nonetheless, and particularly given the role of the US in global trade and capital flows, as well as broader global economic trends (recovery across emerging markets, upturn in commodity prices), it should be noted that fiscal stimulus would also entail wider risks. These risks are not calibrated within the model's parameters and, if realised, would have potentially significant adverse spillovers to the global economy.

Principal among these risks is the upward pressure which stimulus is expected to exert on inflation and, as a consequence, on the ongoing process of monetary policy normalisation. A faster-than-expected tightening of monetary policy and higher yields on US debt may prompt a rotation of demand away from emerging market assets and, in the process, generate a potentially disruptive reversal of capital flows, downward pressure on

(1) This is revised down from a technical assumption of 1.3% of GDP (implemented over 2017-18) that was included in the Winter Forecast.

(2) DG-ECFIN's estimates point to a neutral output gap for 2016 (0.0 pps.), with this expected to turn positive in the coming years as output grows slightly above potential. This contrasts with an estimated negative output gap of -3.5 pps. in 2009.

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Box (continued)

emerging markets' (EMEs) currencies and turbulence across financial markets.

A tighter monetary policy stance combined with increased domestic demand is also likely to add further to US dollar (USD) appreciation. On the one hand, these dynamics should stimulate US import growth and provide positive spillovers to the global economy. However, large USD appreciation may also generate balance sheet pressures for economies with high levels of unhedged USD-denominated debt.

Table 1:
USD denominated debt in emerging markets (gross)

	2016-Q3	
	Trillion USD	y-o-y % change
Total emerging market economies, of which:	3.6	0.6
Africa and Middle East	0.6	15.7
Emerging Asia and Pacific	1.6	-4.3
Emerging Europe	0.5	-5.2
Latin America and Caribbean	0.9	4.4

Source: Bank for International Settlements (BIS)

Finally, in the context of sustained political attention being directed towards US bilateral trade relationships, fiscal stimulus is likely to contribute to a further widening in the US trade and current account deficits. Aside from more general concerns regarding global imbalances, there is a risk that these dynamics generate additional momentum for protectionist measures which would entail negative consequences for both US and global growth. In that vein, adverse spillovers for the wider global economy stemming from each of the risks outlined are likely to further reduce the already-modest positive impacts of stimulus on the US economy.

Range of fiscal stimulus scenarios

In light of the continued uncertainty surrounding a potential fiscal stimulus package in the US, the baseline forecast continues to incorporate a technical assumption (1% of GDP implemented in 2018), while two additional scenarios have been simulated covering the period 2018-2022:

Scenario 1 (2.0% of GDP): an exclusively tax-based stimulus package, with two-thirds directed to corporate income taxes and one-third to personal income taxes. (3)

Scenario 2 (2.5% of GDP): a stimulus package of 2.0% of GDP comprised of tax cuts for corporate and personal incomes (two-thirds and one-third, respectively), plus an additional 0.5% of GDP in public infrastructure spending. (4)

For the purposes of the model all stimulus measures are implemented in the first quarter of 2018, and it is assumed that these measures are deficit-financed (i.e. no offsetting measures are implemented elsewhere). Monetary policy is also assumed to follow the Taylor rule, implying that interest rates are responsive to the upward price pressures generated by stimulus.

Impact of stimulus on the US economy

The dynamics underpinning the US economy's response to fiscal stimulus are highly similar under each scenario, with the model's results varying primarily due to the scale of the stimulus. Overall, tax cuts contribute to a pick-up in domestic demand, added to further by increased public investment in Scenario 2. However, this is somewhat offset by higher interest rates (driven by rising prices) and the drag produced by falling external demand (driven by US dollar appreciation). Across each scenario there is a positive, albeit moderate, impact on the aggregate US economy. This is consistent with the advanced stage of the current cycle and implied low fiscal multipliers.

Table 2:
Impact of stimulus on US GDP*

	2018	2019	2020	2021	2022
Scenario 1 (2.0% of GDP)	0.3	0.5	0.6	0.7	0.8
Scenario 2 (2.5% of GDP)	0.6	0.8	0.9	1.1	1.2

* Deviations from steady-state.

Initially, lower personal income taxes provide a modest boost to private consumption. Meanwhile, falling corporate income taxes generate a much larger increase in business fixed investment, while higher infrastructure spending generates similar dynamics on the public side. (5) This is augmented by a further modest tightening of labour market conditions which, due to the fact that labour market is already close to full employment, is principally driven by higher wage growth rather than increased employment.

(3) On 26 April the administration released its proposals for tax reform, including substantial reductions in statutory rates for both personal and corporate incomes. These proposals are set to undergo further examination over the coming months.

(4) Proposals for increasing infrastructure investment also include tax-based incentives for private investors, although there are concerns regarding their potential for only limited additionality.

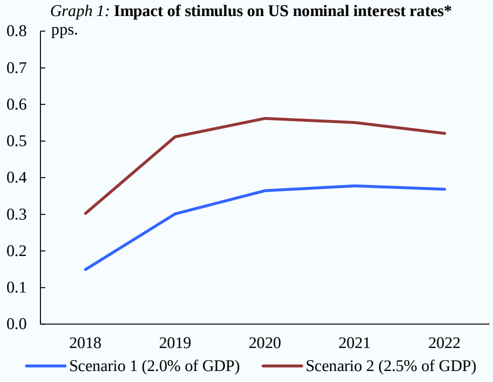
(5) Increased public investment under Scenario 2 results in some crowding out of private investment in the form of higher interest rates, with private investment thus marginally lower than in Scenario 1. However, economic growth at the aggregate level is higher.

(Continued on the next page)

Box (continued)

The price level also rises in response to higher domestic demand and wage growth, in turn generating upward pressure on interest rates. The resulting tightening of financing conditions dampens growth in domestic private consumption and investment, with the scale of this effect increasing in tandem with the size of the stimulus package assumed.

Graph 1: **Impact of stimulus on US nominal interest rates***



** Deviations from steady-state.*

On the external side, increased domestic demand and the anticipation of higher interest rates drives USD appreciation of over 1% in nominal effective terms, before reversing in subsequent years as import demand rises. This has material impacts on the competitiveness of US exports, and the contraction in export volumes remains persistent throughout the horizon. In addition, lower prices (in USD terms) and increased domestic demand support growth in imports, ensuring a decline in net exports which weighs on GDP growth.

In line with the deterioration in the competitiveness of US exports and the rise in import demand from the stimulus package, the trade and current account balance deteriorate slightly in each scenario. This occurs primarily during the latter years of the horizon as, for the purposes of the trade and current account balance, initially the price effects of USD appreciation offset the deterioration in net export volumes. The initial USD appreciation reverses in subsequent years, resulting in a modest widening of the US trade (0.3 pps.) and current account (0.1 pps.) deficits by 2022.

In terms of fiscal dynamics, stimulus also produces a persistent deterioration in the US fiscal balance across each scenario, resulting in a material rise in the debt-to-GDP ratio (8.2-10.0% of GDP) by 2022 relative to the baseline. This adds to pre-existing concerns regarding the medium- and longer-term fiscal sustainability in the US.

Spillovers to euro area and global economy

Given the relatively modest impacts on overall US GDP growth, spillovers to the euro area and the global economy (in terms of economic growth) are expected to be similarly modest. The principal channels through which spillovers emerge are: (i) the positive impacts of increased US import demand; and (ii) higher import prices in the euro area and global economy (also due to USD appreciation) which weigh on private consumption and investment. As noted, however, the model captures solely the impact of fiscal stimulus on headline economic growth and its subcomponents, rather than the wider impacts on, for example, capital flows, balance sheets or confidence. These spillovers (both positive and negative) may be pronounced and their impacts could have significant effects on economic growth also.

In the case of the euro area, the euro's depreciation against the US dollar and increased US import demand provides a small boost to export growth throughout the horizon. However, this is offset by the weight which higher import prices exert on domestic demand via weaker private consumption and investment growth. Overall, depending on the scenario analysed, there is either a neutral or small positive impact to euro area GDP growth initially, turning marginally negative in future years due to higher inflation weighing on domestic demand.

The rest of the world (ROW) responds to fiscal stimulus in a highly similar manner. USD appreciation provides a modest impetus to exports, while higher import prices exert downward pressure on domestic demand components. Fundamentally, however, as ROW is less open to trade than the euro area, these effects are somewhat less pronounced, and the aggregate results find a neutral net effect in each scenario.

Table 3:
Impact of stimulus on euro area and RoW GDP*

		2018	2019	2020	2021	2022
Scenario 1 (2.0% of GDP)	EA	0.0	-0.1	-0.1	-0.1	-0.1
	RoW	0.0	0.0	0.0	0.0	0.0
Scenario 2 (2.5% of GDP)	EA	0.1	0.0	-0.1	-0.1	-0.1
	RoW	0.0	0.0	0.0	0.0	0.0

* Deviations from steady-state.

Conclusion and wider policy context

It is important to note that the results presented are illustrative and serve to show the dynamics via which a fiscal stimulus package is expected to impact on the US economy and elsewhere. Overall, as anticipated, the impacts on US economic growth are expected to be positive but limited, resulting in

(Continued on the next page)

Box (continued)

only marginal spillovers for the remainder of the global economy. Of course, this also reflects the relatively moderate size of the stimulus package simulated, particularly when compared with initial post-election expectations and the administration's recently presented tax reform proposals. A larger fiscal stimulus than considered here would entail larger impacts on US economic growth. Equally, however, a potentially difficult budgetary negotiation process could result in stimulus which is more moderate. (6)

(6) Simulations carried out by the World Bank find that the cumulative increase in US GDP after two years from lowering corporate income taxes from 35% to 15% amounts to 0.9-1.3 pps.; and, separately, lowering average personal income taxes by 2.5% would raise GDP by 0.4-0.6 pps. The IMF estimates that a fiscal stimulus package of 2% of GDP over 2018-19 would raise GDP by 0.5-1.0% by 2021, depending on whether these measures were directed towards high or low productivity areas.

Beyond the effects captured by the model, there could be significant spillovers emerging via financial (rising US interest rates, reversal of capital flows), foreign exchange (balance sheet stresses) or trade policy (rising protectionism) channels. These risks coincide with wider economic trends globally following a prolonged period of weakness, and their materialisation would present significant headwinds to the present tentative recovery.

Box I.3: Main drivers of growth in 2017 - shock decomposition from an estimated model

This box uses an estimated, multi-region, structural macro model [1] in order to provide a model-based quantification of the main drivers of real GDP growth in the euro area, in 2017. The model has been estimated on historical quarterly data for the period from 1999-Q1 to 2016-Q4 and extended with forecast data from the European Commission's Spring 2017 forecast for the set of available variables.

The use of a structural macroeconomic model makes it possible to analyse the specific shocks that drive short- and medium-term deviations from the long-run trend of real GDP growth. The decomposition provided in this box takes the European Commission's forecast as an input and recovers the factors that explain it in a model-consistent way. Hence, the analysis presents the exogenous factors ('shocks') that provide a model-consistent interpretation of the forecast.

The advantage of decomposing economic dynamics with an estimated structural macroeconomic model is that such models use all the information provided by the dataset. In particular, the size of the various domestic and foreign demand and supply shocks (including financial, saving, and productivity shocks) is determined by the ability of these shocks to fit not only GDP, but also the other variables (including investment, consumption, the exchange rate, and employment) and the correlations between them (e.g. correlations between GDP and inflation, employment and wages, or GDP and the trade balance).

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

Not all estimated shocks can be interpreted directly as indicating fundamental 'causes' within a model of tractable size. For instance, changes in financial risk premia and financing costs that affect interest-sensitive demand, such as investment, and the exchange rate, can emanate from various behavioural and structural sources that are not analysed in more detail in the model, such as changes in (subjective) risk perception, financial frictions, or non-standard monetary policies (including quantitative easing). The simplified structure of the multi-region macro model and most other dynamic macroeconomic models alone does not identify the specific events behind the shock in such cases. The interpretation of shocks is easier for fiscal and standard monetary policy, where decisions are directly observed at the macro level.

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

Based on the estimated model, Table 1 presents a decomposition of euro area real GDP growth in 2017, as projected by the European Commission's forecast (1.7%) into its principal drivers. The table summarises the large number of shocks into main groups of supply- and demand-side drivers and separates the contribution of past and future shocks. The first column ('historical') shows the contribution of shocks that occurred up to 2016-Q4 to the outlook for euro area GDP growth in 2017, a contribution that is due to the persistence in the transmission channels embodied in the model. The second column ('forecast') shows the contribution of shocks in 2017, i.e. over the forecast horizon. Shocks over the forecast horizon are additional changes in exogenous variables that the model requires to fit the forecast given the historical data and the estimated historical shocks. The contribution of past shocks and additional shocks over the forecast horizon combines to give the total impact of the various supply and demand factors that is shown in the third column. Shocks that are not listed separately in one of the groups of supply- and demand-side drivers are included into the 'others' group.

The long-run trend component (1.4%) in Table 1, is the growth rate that would prevail if the euro area economy were to grow at the average growth rates of total factor productivity (TFP) and the working-age population as observed over the period since 1999. Real GDP growth is forecast to exceed trend growth by 0.3 percentage points (pps.) in 2017 due to positive factors that outweigh negative ones.

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

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Box (continued)

Table 1 shows that demand-side factors dominate the picture and explain the positive deviation of the forecast from trend GDP growth. The supply-side contributions, on the contrary, are smaller in size and negative. The overall impact of past demand-side developments ('historical') on the deviation of GDP growth from trend is largely positive (0.7 pps.). Model-implied demand shocks over the forecast horizon ('forecast') contribute to stronger growth, but to a lesser extent.

Table 1:
Shock decomposition for real GDP growth in 2017

	Historical	Forecast	Total
Supply:			
Long-run trend			1.4
TFP	-0.1	0.0	-0.1
Labour & goods market adjustment	0.0	-0.1	-0.1
Oil	-0.1	0.0	-0.1
Demand:			
Domestic:			
Consumption	0.0	0.4	0.4
Investment	0.1	0.1	0.2
Fiscal spending	-0.1	0.1	0.0
Monetary policy	0.1	0.0	0.1
Foreign:			
World demand and int. trade	0.6	-0.4	0.2
Country risk premium	0.0	-0.1	-0.1
Others			-0.2
Real GDP growth (from forecast)			1.7

Note: The contributions of historical shocks and shocks over the forecast horizon do not at up to total in some cases due to rounding to the first digit.

Regarding the supply side, negative productivity (TFP) developments in recent years still hold growth down in 2017 (-0.1 pps.) according to Table 1. TFP trend growth has recovered from a low of 0.4 pps. in the first years after the crisis to 0.5 pps. but is still 0.1 pps. below the sample average. Furthermore, the recent recovery in oil prices, which raises firms' production costs and lowers real disposable household income, affects growth negatively in 2017, despite the absence of significant further oil price increases in the external assumptions for the 2017 forecast.

Deducting the impact of lower TFP on 2017 GDP growth from the long-term trend growth (1.4%) gives a growth rate of 1.3%, which is only 0.1 pps. above the current-vintage estimate for euro area potential output growth in 2017. The remaining difference can be explained by below average capital contribution due to a decline in the investment rate relative to pre-crisis levels.

Supply-side developments in labour and goods markets play only a small, but negative role (-0.1 pps.), which the model attributes to negative short-term demand effects of sluggish wage growth as projected over the forecast horizon. The historical component of product market factors, by contrast, makes a slightly positive (0.1 pps.) contribution to growth. This positive contribution is associated with GDP deflator growth below unit labour cost growth, which the model interprets as a decline in the price mark-up.

As mentioned above, demand-side factors are more important for explaining the deviation of the GDP forecast from long-term trend growth according to the model. The positive factors are predominantly domestic. A relatively stable saving rate keeps the contribution of historical consumption shocks small. This continues in 2017 and the decline in the saving rate of households in the ECFIN forecast can only be met by a positive shock to consumption in 2017. This contributes positively to GDP growth.

Investment growth in the forecast for 2017 is above the long-term average. According to the model, a strong supportive element is the improvement of investment specific factors, visible in the model by a decline in the model-consistent investment premium as the gap between the required return on investment and the risk-free interest rate. This wedge, which captures factors such as higher investment risk and financing costs, peaked in 2013 and has come down continuously since, but still remains above pre-crisis levels. According to the model, the Commission's forecast for investment implies a stronger decline of the wedge, compared to the recent trend, increasing the contribution of investment to growth by 0.1 pps. in 2017. The improvement in investment conditions incorporated in the forecast reflects the forecast narrative of gradually fading crisis legacies and diminishing political uncertainty in the euro area. As such, the investment forecast is also subject to downside risks.

While a negative growth contribution of 0.1 pps. is recorded for historical shocks to fiscal policy, the slight discretionary fiscal expansion that is embedded in the fiscal forecast for 2017 adds 0.1 pps. to GDP growth. The underlying definition of fiscal impulse in the estimated model corresponds to the fiscal impulse as measured by the primary government balance.

The model assigns a total positive contribution of 0.1 pps. to monetary policy shocks. This is to a large extent a carryover of the implied persistence in interest rate setting captured in the model. Although inflation is picking up and the output gap is gradually narrowing, short-term policy rates are expected to remain low over the forecast horizon, reflecting the forward guidance given by the ECB

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Box (continued)

to keep interest rates low. This contributes to higher growth.

It should be noted that the impact of unconventional monetary policy is not captured by the monetary policy shock in Table 1, which relates only to short-term interest rates and the Taylor rule (an approximation of the responsiveness of interest rates set by the central bank to changes in inflation, output or other economic conditions). Quantitative easing (QE), as an unconventional monetary policy instrument, actually contributes positively to the consumption (less saving), investment (lower long-term rates and capital costs) and exchange rate (lower yield on euro assets and euro depreciation for given short-term rates) components in Table 1.

World demand and trade have a modest positive net contribution to GDP growth in the euro area. The model distinguished demand and supply factors behind the pick-up in world growth. The demand side leads to positive momentum from the recovery of the world economy (‘historical’ contribution of 0.6 pps.). In 2017, the impact of more attractive investment opportunities in the rest of the world dominates in the model, and this leads to capital outflows from the euro area.

Medium-term effects of the US dollar’s appreciation against the euro in 2014-2015 dampen GDP growth (-0.1 pps.) in 2017. The estimated model attributes part of the euro depreciation to a preference shift towards US dollar assets (country risk premium). The associated outflow of capital from the euro area lowers investment and GDP in the medium term, following an initially positive impact through improved competitiveness. Matching the exchange rate assumption in the forecast for 2017 does not require additional portfolio reallocation that would be large enough to significantly affect the outlook for GDP growth.

In sum, the overall contribution of the listed supply and demand factors to projected real GDP growth in 2017 is positive (0.4 pps.) and dominated by private consumption and investment growth. Investment growth in the forecast is based on a substantial improvement in investment conditions over the forecast horizon according to the model. The aggregate impact of foreign shocks is positive but small, whereas supply-side factors affect the projection on the downside.

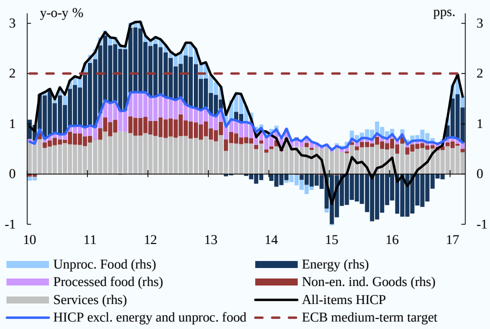
Box I.4: Inflation: between temporary effects and slow trends

In recent months, headline inflation has picked up strongly, while core inflation (consumer prices excluding energy and unprocessed food) has remained stable at a subdued level. This box examines the mainly temporary factors that have led to the uptick in inflation, as measured by the Harmonised Index of Consumer Prices (HICP) before turning to a more in-depth discussion of prospective drivers of core inflation. The role of base effects for the near-term inflation outlook is also highlighted.

Over recent months, euro area headline inflation rose rapidly due to temporary factors...

The rapid acceleration of euro area headline inflation – climbing to a three-year high in February 2017 (2.0%) before falling back to 1.5% in March – can mostly be traced to energy prices. As oil prices averaged about 55 USD/bbl. during the first quarter of 2017 (about 34 USD/bbl. in 2016-Q1) the contribution of the energy component to the inflation rate averaged about 0.8 pps. in 2017-Q1, compared to zero percentage points the preceding quarter. The effect of the recent rise in oil prices on energy inflation was compounded by base effects related to the fall in oil prices in 2015-Q4 and 2016-Q1. Moreover, unusual weather patterns around the Mediterranean in January and February caused fruit and vegetable prices to soar. Unprocessed food prices rose by 5.2% in February – their most since March 2002 – and contributed on average a rather large 0.3 pps. to headline inflation in 2017-Q1 (see Graph 1).

Graph 1: **Euro-area HICP inflation and its composition**



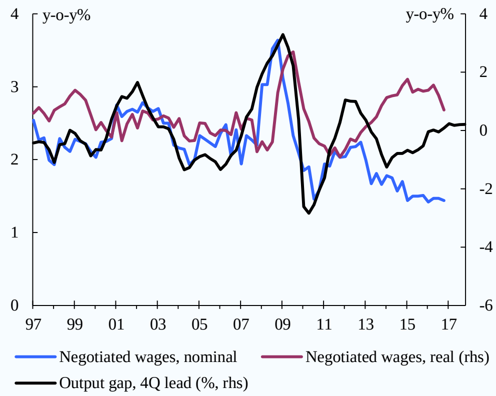
...whereas underlying inflationary pressures have remained rather low and stable since mid-2014.

At the same time, euro area core inflation, defined as HICP inflation excluding energy and unprocessed food, has remained broadly stable at about 0.8% for more than a year. A disaggregation underlines the absence of any dynamics in all major sub-components of core inflation. Services inflation, which accounts for more than half of the core inflation index, has been stable at about 1.2% since mid-2016. Non-energy industrial goods inflation has been broadly unchanged at around 0.3% since August 2016 despite a slight depreciation of the euro in nominal-effective terms. The pick-up in processed food price inflation, which started towards the end of last year has been very moderate (0.9% in 2017-Q1 compared to 0.7% in 2016-Q4).

Nominal wage growth well below past trends

The euro area economy has been on a steady recovery with most measures of economic slack, e.g. the output and unemployment gaps narrowing and a high level of capacity utilisation in industry and the services sector. Nevertheless, domestic cost pressures have remained modest since 2015. The annual growth of negotiated wages in the euro area averaged 1.5% in 2016, i.e. stable compared to 2015 but below the average annual growth rate of 2.4% reached during the 10 years preceding the crisis (1999-2008). The annual growth rate of compensation per employee did not show any clear dynamics during the year, either. The past relationship between euro area nominal wage growth and the output gap thus seems to have weakened, as the relatively high correlation which existed between the level of the output gap (with a four quarter lead) and annual nominal wage growth until about mid-2014, does not seem to apply as strongly in the current upswing. (see Graph 2)

Graph 2: **Euro-area output gap and wage growth**



In fact, weak annual labour productivity growth, which also is the corollary of relatively strong employment growth, particularly in rather low

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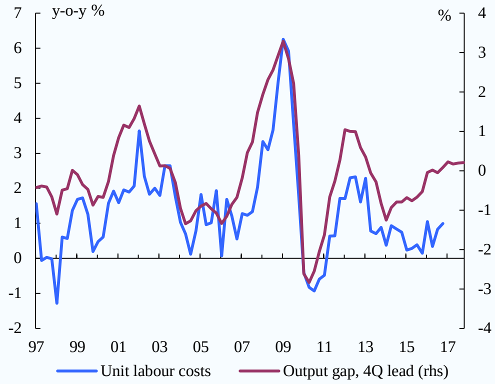
Box (continued)

productivity sectors (e.g. trade, business services or transportation) over recent years [(1)], may explain part of the ‘decoupling’ between nominal wage growth and the output gap. This is underlined by a stronger correlation between the output gap and unit labour costs also since mid-2014 (see Graph 3).

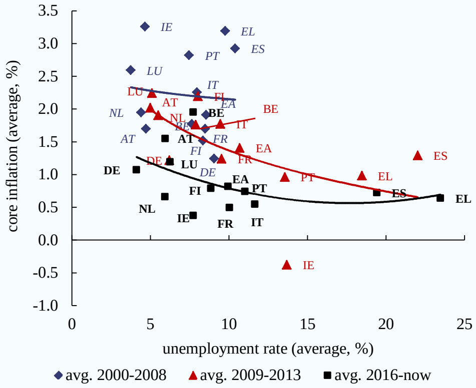
Graph 3: **Euro-area output gap and unit labour costs**



In real terms, the recent wedge between wage growth and the output gap has been less marked. This reduction in the wedge – once wages are adjusted for inflation – suggests that inflation expectations play a key role in explaining low nominal wage growth. Workers’ inflation expectations for the wage formation process seem to have adapted to the current low inflation environment. [(2)] This argument is supported by the continuous downwards shift of classical Phillips curve relationships over different time periods (see Graph 4).

Regarding slow wage growth, other factors, which are more difficult to assess quantitatively, could be at play as well, including some compensation for downward nominal wage rigidities at the height of the crisis (wages did not fall as much as they could have given the drop in output), the abolition of wage-indexation schemes, or more fundamental changes to the labour market and wage-setting behaviour. [(3)] A number of them have been mentioned recently in the economic debate: i) employees now attaching a higher importance to job security than to rapid wage growth, ii) a loss of power and importance of trade unions, or iii) a rise in the number of firm-level wage agreements compared to previously predominant collective bargaining. In some Member States, muted nominal wage growth may also reflect the impact of global value chains, where the risk of outsourcing of specific sectors or of standardised tasks keeps a lid on wage demands. One cannot exclude either that, due to the legacy of the recent global recession and the euro area debt crisis, slack in the labour market is larger than suggested by output gap measures for the entire economy. For example, hours worked have not recovered since the double-dip recession, the share of discouraged workers has increased with the protracted crisis, and the share of part-time employment remains high compared to the pre-crisis period. [(4)] This situation also implies that in the short- to medium-term, wage and price pressures stemming from the labour market should remain limited given the sizeable potential labour supply that could be tapped as the economy recovers.

Graph 4: **Phillips curves for different time horizons**



As regards additional pipeline pressures, rising import prices could support higher headline inflation somewhat in the short- to medium-term, given the registered price increases in imported energy-related products and other industrial raw materials. If the increasing divergence in the US monetary policy stance vis-à-vis the euro area were to lead to a depreciation of the euro against the US dollar, it could pave the way for further increases in import price inflation. However, as underlined by earlier Commission analyses [(5)], the rate of pass-through from a euro depreciation in nominal effective terms to headline and core inflation rates is very small. Given the rather stable outlook for oil

(1) ECB, “What is behind the recent rebound in euro area employment?”, *Economic Bulletin*, Issue 8 / 2015.

(2) “Monetary policy and the economic recovery in the euro area”, speech by Mario Draghi, President of the ECB, at The ECB and Its Watchers XVIII Conference, Frankfurt am Main, 6 April 2017.

(3) European Commission, “Labour Market and Wage Developments in Europe”, Annual Review 2016.

(4) European Commission, European Economic Forecast – Winter 2017, *Institutional Paper* 48.

(5) European Commission, “Member State vulnerability to changes in the euro exchange rate”, *Quarterly Report on the Euro Area*, October 2014, Vol. 13, No. 3, pp. 27–33.

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Box (continued)

prices over the forecast horizon inferred from Brent futures markets, direct inflation pressures are likely to be limited as well. That said, research finds that a 10% increase in oil prices tends to raise euro area inflation by up to 0.4 pps. over five years. [6] Internal Commission estimates also show that the indirect effect of changes in energy prices on core inflation occurs with a lag of between three to four quarters and mostly passes via items of services inflation (e.g. transport, package holidays) and processed food. Overall, the effect is relatively small (0.04 pps.) based on an oil-price shock of 10%.

With muted upstream price pressures, headline inflation is expected to decelerate again

In light of subdued upstream price pressures and fading temporary phenomena (e.g. impact of higher energy prices, unusual weather conditions), euro area headline inflation is forecast to decelerate again somewhat over the remainder of this year and early 2018. Such a profile is broadly corroborated by a more structural approach for the euro area inflation outlook based on Phillips-curve estimates, which confirms the quarterly profile of the spring forecast, suggesting that headline inflation should peak in 2017-Q1 and decelerate gradually until mid-2018. [7]

The impact of so-called 'base effects' on the outlook for inflation in 2017 and 2018 should not be underestimated. Base effects occur when the change in the annual inflation rate can be attributed to an atypical movement one year ago, such as sudden and significant changes in energy prices, changes in tax rates or calendar effects (e.g. the timing of Easter). [8] Base effects illustrate by how much the change in the year-on-year inflation rate is influenced by the dropping out of an atypical factor. Although base effects are not actual inflation projections (they do not reflect changes in inflation trends), they are highly important for accurate short-term forecasting as they mechanically affect the inflation forecast and thus provide useful information for monthly or quarterly profiles.

The graphic representation for the euro area (Graph 5) emphasises that the inflation profile for 2017 will be influenced by large and fluctuating base effects for all major HICP components. Following a strong positive contribution at the beginning of 2017, energy base effects are expected to fade and even turn negative over the course of Q2, before picking up again in the summer months. In Q4 and around the turn of the year 2017-2018, energy base effects are expected to have a dampening impact on headline inflation, shaving off a total of about 0.7 pps. between October 2017 and February 2018. Headline base effects follow

(6) European Commission, European Economic Forecast – Winter 2015, *European Economy*, 1/2015.

(7) DG ECFIN's Phillips-curve model is a hybrid New-Keynesian Phillips curve augmented with oil price changes (a description of the model can be found in the Quarterly Report on the Euro Area, "Analysing euro-area inflation using the Phillips curve", published in June 2014). The latest estimates build on (i) the path of oil price futures as of end-April 2017, (ii) a fixed EUR/USD exchange rate of 1.08 over the horizon 2017-2018, (iii) the 2017 Q2 ECB Survey of Professional Forecasters (SPF) and (iv) levels of inflation swap forwards as of end-April 2017. Projections are based on a gradual closing of the output gap by the end of the forecast period.

(8) Inflation π, defined as the annual rate of change in price level P of the underlying index, can be approximated by equation 1:
$\pi_t = (\ln P_t - \ln P_{t-12}) * 100$
Changes in the annual inflation rate from one month to the next thus equal equation 2:
$\pi_t - \pi_{t-1} = [(\ln P_t - \ln P_{t-12}) - (\ln P_{t-1} - \ln P_{t-13})] * 100,$
which after rearranging yields equation 3:
$\pi_t = \pi_{t-1} + \mu_t - \mu_{t-12}$.
μ denotes the month-on-month rate of change in months t and t-12, respectively. To operationalise the concept of base effects, the month-on-month inflation rate μ can be decomposed into equation 4:
$\mu_t = \mu_M + \delta_t \Leftrightarrow \delta_t = \mu_t - \mu_M$
where μ_M is the "typical" month-on-month inflation rate common to all periods (e.g. a long-term average) and δ_t a deviation which is specific to month t.
After rearranging, the combination of equations 3 and 4, equation 5 yields:
$\pi_t = \pi_{t-1} + \delta_t - \delta_{t-12}$
The annual inflation rate in month t (π_t) is thus influenced by the month-specific deviation a year ago (δ_{t-12}) which drops out when moving from period t to t+1 but sets the scene for π_t irrespective of any other factors at play. δ_{t-12} is thus the "base effect" in period t.
Here, the base effect δ_t is calculated as the difference of the actual monthly rate of change 12 months earlier, μ_{t-12}, and the average monthly change of the seasonally-adjusted price index (headline, core, energy or unprocessed food price inflation) over the available data range (February 1996 – March 2017), i.e. μ_M.

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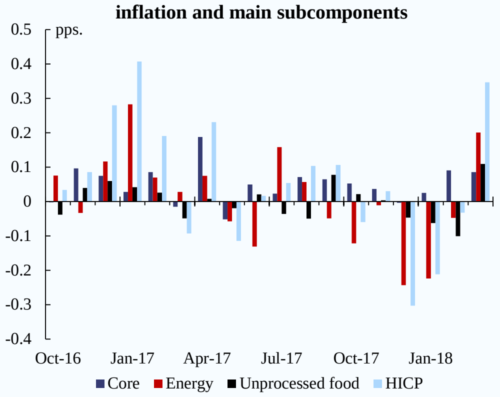
Box (continued)

closely the path set out by base effects in the energy sub-component. In April 2017, HICP headline and core inflation are expected to also experience a positive base effect of almost 0.2 pps. due to the late timing of the Easter holiday.

In sum, near-term inflation dynamics will continue to be largely driven by energy prices and base effects, rather than by a durable and self-sustained momentum. The projected gradual increase of core inflation will depend on an intensification of cost pressures. The forecast of a pick-up of wage growth within the forecast horizon, in particular, is conditioned on a further reduction of labour-market slack as well as a normalisation of inflation expectations.

Graph 5: **Estimated base effects for headline inflation and main subcomponents**



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 25 April 2017. The forecast incorporates validated public finance data as published in Eurostat's news release 67/2017 of 24 April 2017.

External assumptions

This forecast is based on a set of external assumptions, reflecting market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 7 and 20 April) were used for exchange and interest rates, and for oil prices.

Exchange and interest rates

The technical assumption regarding exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to an implied average USD/EUR rate of 1.06 in 2017 and 2018. The average JPY/EUR is 117.82 in 2017 and 116.73 in 2018.

Interest-rate assumptions are market-based. Short-term interest rates for the euro area are derived from futures contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States are calculated using implicit forward swap rates, corrected for the current spread between the interest rate and swap rate. In cases where no market instrument is available, the fixed spread vis-à-vis the euro area interest rate is taken for both short- and long-term rates. As a result, short-term interest rates are assumed to be -0.3% in 2017 and -0.2% in 2018 in the euro area. Long-term euro area interest rates are assumed to be 0.3% in 2017, and 0.4% in 2018.

Commodity prices

Commodity price assumptions are also, as far as possible, based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 55.50 USD/bbl in 2017, and 55.93 USD/bbl in 2018. This would correspond to an oil price of 52.12 EUR/bbl in 2017, and 52.53 EUR/bbl in 2018.

Budgetary data and forecasts

Data up to 2016 are based on data notified by Member States to the European Commission before 1 April and validated by Eurostat on 24 April 2017.

Eurostat is expressing a reservation on the quality of the data reported by Luxembourg in relation to the sector classification of hospitals, as well as a number of technical issues such as the recording of receivables and payables, the size of statistical discrepancies in the EDP tables and the unavailability of data for local government. Eurostat will investigate these issues with the Luxembourgish statistical authorities.

Eurostat is maintaining the reservation on the quality of the data reported by Belgium in relation to the sector classification of hospitals. Eurostat considers that, in line with ESA 2010, government controlled hospitals in Belgium should be classified inside government. This is currently not the case. A future reclassification will most likely result in a limited increase in government debt.

Eurostat is maintaining the reservation on the quality of the data reported by Hungary in relation to the sector classification of Eximbank (Hungarian Export-Import Bank plc). Eurostat considers that Eximbank should be reclassified inside the general government sector which will result in an increase in government debt. Moreover, Eurostat is discussing with the Hungarian statistical authorities the possible rerouting of operations carried out by the Hungarian National Bank and its Foundations, deemed to be undertaken on behalf of government, as well as the reclassification inside the general government sector of certain entities (such as National Resolution Fund, National Deposit Insurance Fund and all their subsidiaries, MARK Hungarian Restructuring and Debt Management plc).

Eurostat is withdrawing the reservations on the quality of the data reported by Cyprus in relation to a series of technical issues which had not been clarified in a satisfactory manner during the October 2016 data assessment.

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

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Box (continued)

For 2017, the budgets adopted by the national parliaments and all other measures credibly announced and specified in sufficient details are taken into consideration. For 2018, the public finance forecast is made under the 'no-policy-change' assumption, which extrapolates past revenue and expenditure trends and relationships in a way that is consistent with past policy orientations. This may also include the adoption of a limited number of working assumptions, especially to deal with possible structural breaks.

EU and euro area aggregates for general government debt in the forecast years 2017-18 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans, including those made through the European Financial Stability Facility). To ensure consistency in the time series, historical data are also published on the same basis. For 2016, this implies an aggregate debt-to-GDP ratio which is somewhat higher than the consolidated general government debt ratio published by Eurostat in its news release 67/2017 of 24 April 2017 (by 2.1 pps. in the EA19 and by 1.6 pps. in the EU).

ESA 2010

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

Calendar effects on GDP growth and output gaps

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

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

PART II

Prospects by individual economy

Member States

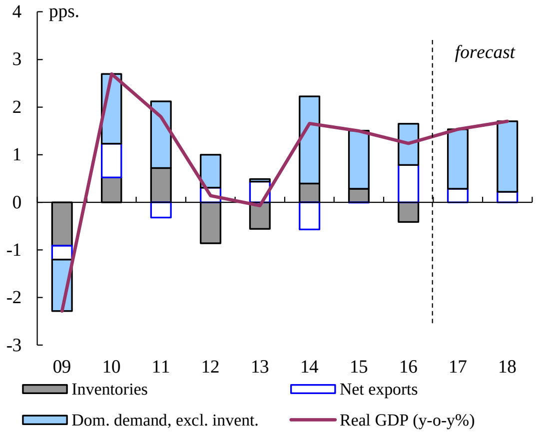
1. BELGIUM

Domestic demand drives sustained growth

Economic growth is expected to strengthen in 2017 (1.5%) and 2018 (1.7%), from 1.2% in 2016, on the back of an improved labour market and investment climate. Overall, benign external conditions, including the monetary policy stance and the pickup in world trade, should support steady growth and lower unemployment (below 7.5% in 2018). Inflation peaked at 3.0% in 2017-Q1 and is expected to average 2.3% in 2017 and 1.5% in 2018. The fiscal deficit is expected to fall below 2.0% of GDP in 2017.

Economic growth rose to an annualised 1.5% in 2017-Q1 (from 1.2% in 2016-Q4), in line with progress in expectations, business climate, and leading indicators. Improved labour market conditions, both real wage and employment growth, and a favourable investment climate are paving the way for domestic demand to further support growth. Risks to the outlook are mainly external and include the impact of the uncertainty related to the process of the UK leaving the EU, acting as net lenders for the rest of the economy in 2017, with limited improvement taking place in 2018.

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



Wage increases to accompany employment growth in 2017

Previous competitiveness gains, achieved via significant and prolonged wage restraints, are expected to continue supporting employment growth of close to 1% in both 2017 and 2018. As a result, unemployment in Belgium is projected to fall below 7.5% in 2018.

Real wage gains are expected to remain limited in 2017. Together with slight tax increases, households' real disposable income growth in 2017 is likely to be low. Consequently, private consumption growth is expected to come from a further drop in the overall household savings rate. As a result, households are expected to cease

Private investment to remain robust

The business and investment climate is expected to remain supportive throughout 2017 and should continue into 2018. The positive external environment is also expected to remain in place, including a supportive monetary policy stance characterised by low interest rates and non-standard policy measures. Moreover, measures taken by the Belgian authorities to improve overall competitiveness should continue to benefit the overall economy, particularly the corporate sector, keeping total investment above 23% of GDP in 2017 and 2018.

Belgium's relative specialisation in goods which face significant international competition will continue to present a limitation for exporters to retain their market shares in 2017 and 2018, compared to the import growth in its main trading partners. Moreover, although the UK's Article 50 TEU notification has so far not led to any observable impact on Belgian exports, some weakening is expected over the forecast horizon.

Inflation to condition the overall policy stance

The high rate of inflation observed in 2017-Q1 (HICP at 2.9%) was the result of a number of factors that widened the inflation differential between Belgium and the euro area. These include the particularities of how fossil fuel prices feed into retail energy prices in Belgium, administrative measures, and the lack of competition in several business and professional services sectors.

By the last quarter of 2018, inflation in Belgium is expected to slip back to 1.3%, in line with the levels of 2015-Q4.

Debt to fall as deficit narrows

The general government deficit crept up from 2.5% of GDP in 2015 to 2.6% in 2016. The expenditure-to-GDP ratio decreased by 0.6 pps. thanks to the further decline in interest costs and limited growth for government consumption, notwithstanding higher spending on security and asylum seekers. Public sector wage growth was kept in check despite cost-of-living adjustments. Lower overall spending, however, did not prevent a widening of the deficit, as the revenue-to-GDP ratio fell by 0.7 pps. Taxes on labour income and social contributions were reduced in 2016. Higher taxes on consumption and financial income were planned to partly offset these tax cuts. However, several discretionary measures fell notably short of government targets. Despite the higher nominal deficit, the structural balance improved slightly in 2016, mainly because of higher one-off expenditures in comparison to 2015.

The headline balance is expected to narrow to 1.9% of GDP in 2017. Lower interest expenditure is projected to contribute 0.2 pps. of GDP to the overall deficit reduction. Primary expenditure growth should be limited by the fading of temporary spending linked to refugees and security. In addition, measures to limit the growth of health care spending and the welfare adjustment of social benefits should contribute to a decrease in the expenditure-to-GDP ratio of 0.6 pps. compared to 2016. The revenue-to-GDP ratio is projected to remain broadly stable in 2017. The main measures included in the forecast are a further increase in the financial withholding tax, higher indirect taxation on tobacco and energy, a levy on company fuel cards, the extension of the stock market transaction tax, the new system of fiscal regularisation, and the additional impact of a kilometre charging for trucks. The structural balance is projected to improve by about ½ pps. of GDP in 2017.

In 2018, the deficit is set to increase slightly under a no-policy-change assumption, to 2% of GDP. The structural balance should deteriorate by around ¼ pps. of GDP given further tax cuts.

Public debt stabilised at around 106% of GDP in 2016. Debt is expected to decline towards 105% of GDP by 2018. While the primary surplus and the reverse snowball effect bring down debt, upward stock-flow adjustments soften these dynamics. [38]

(38) Projections do not include the partial divestment from BNP Paribas, which would reduce debt by around 0.5 pps. of GDP, provided proceeds are fully used for debt reduction.

Table II.1.1:

Main features of country forecast - BELGIUM

	2015		Annual percentage change						
	bn EUR Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	410.4	100.0	1.9	-0.1	1.7	1.5	**1.2**	**1.5**	**1.7**
Private Consumption	210.2	51.2	1.4	0.7	0.6	1.1	**0.7**	**1.4**	**1.4**
Public Consumption	98.1	23.9	1.6	0.1	1.4	0.5	**0.2**	**0.2**	**0.4**
Gross fixed capital formation	94.4	23.0	2.2	-1.5	5.1	2.4	**2.1**	**2.1**	**3.0**
of which: equipment	31.2	7.6	1.9	-1.4	8.5	0.7	**2.4**	**2.1**	**3.4**
Exports (goods and services)	340.3	82.9	4.3	0.8	5.1	4.3	**6.1**	**3.8**	**3.7**
Imports (goods and services)	333.4	81.3	4.1	0.3	5.9	4.3	**5.3**	**3.6**	**3.6**
GNI (GDP deflator)	410.5	100.0	1.9	-0.8	0.5	1.0	**1.0**	**1.5**	**1.8**
Contribution to GDP growth: Domestic demand			1.6	0.1	1.8	1.2	**0.9**	**1.3**	**1.5**
Inventories			0.1	-0.6	0.4	0.3	**-0.4**	**0.0**	**0.0**
Net exports			0.3	0.4	-0.6	0.0	**0.8**	**0.3**	**0.2**
Employment			1.0	-0.3	0.4	0.9	**1.3**	**0.9**	**0.9**
Unemployment rate (a)			7.9	8.4	8.5	8.5	**7.8**	**7.6**	**7.4**
Compensation of employees / head			2.6	2.5	1.0	0.0	**0.1**	**2.0**	**1.7**
Unit labour costs whole economy			1.7	2.2	-0.2	-0.5	**0.2**	**1.3**	**0.9**
Real unit labour cost			0.0	1.0	-0.8	-1.4	**-1.4**	**-0.5**	**-0.7**
Saving rate of households (b)			15.8	12.3	12.1	11.7	**12.2**	**11.2**	**11.5**
GDP deflator			1.8	1.2	0.7	0.9	**1.6**	**1.8**	**1.6**
Harmonised index of consumer prices			2.1	1.2	0.5	0.6	**1.8**	**2.3**	**1.5**
Terms of trade goods			-0.6	0.4	1.0	1.8	**1.4**	**-0.2**	**0.0**
Trade balance (goods) (c)			1.7	-0.7	-0.7	0.3	**1.5**	**1.5**	**1.6**
Current-account balance (c)			3.5	1.1	-0.1	0.2	**1.2**	**1.5**	**1.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.5	1.0	-0.4	0.2	**1.3**	**1.7**	**1.8**
General government balance (c)			-1.7	-3.1	-3.1	-2.5	**-2.6**	**-1.9**	**-2.0**
Cyclically-adjusted budget balance (d)			-1.9	-2.1	-2.5	-2.2	**-2.3**	**-1.7**	**-1.9**
Structural budget balance (d)			-	-2.8	-2.8	-2.3	**-2.2**	**-1.6**	**-2.0**
General government gross debt (c)			102.9	105.6	106.7	106.0	**105.9**	**105.6**	**105.1**

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

2. BULGARIA

A balanced budget amid robust growth

Real GDP is expected to grow by 2.9% in 2017 and is forecast to marginally decline in 2018. Domestic demand continues to be the main growth driver over the forecast horizon. Inflation is forecast to turn positive in 2017. Unemployment is expected to continue decreasing in the coming years. A balanced budget was achieved in 2016 mainly due to higher tax revenues and reduced public investment, but a deficit of 0.4% of GDP is forecast in 2017. Risks to the growth outlook are broadly balanced.

Strong domestic demand growth

Real GDP growth remained robust in 2016 at 3.4%, driven by buoyant net exports and private consumption. In contrast, investment growth was significantly negative at -4% in 2016, mainly due to a low absorption of EU funds. Inventories contributed a sizable 1 pp. to growth in 2016.

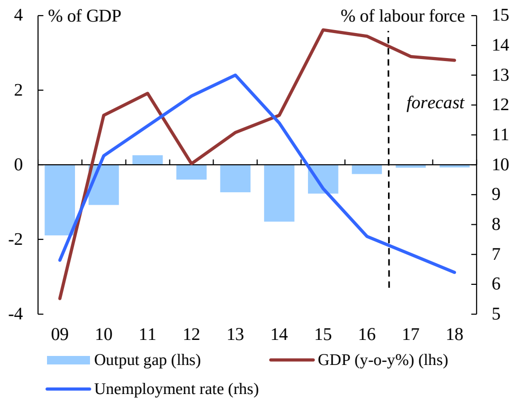
In 2017, real GDP growth is projected to reach 2.9%, as in the winter forecast, and then slightly taper off to 2.8% in 2018. Domestic demand is expected to be the main growth engine, driven in particular by private consumption and investment following the acceleration in EU funds absorption under the 2014-2020 EU programming period. Strong growth has led to a narrowing of the negative output gap in 2016, which is projected at -0.1% in 2017.

Risks to the growth outlook are broadly balanced. As a domestic downside risk, a significantly slower than expected implementation of EU funds could dent investment and growth. Given the openness of the economy, weaker import demand from the main trading partners, especially in Europe, and surging oil prices would pose external downside risks. On the upside, stronger-than-expected consumer confidence and faster progress with reforms could lift real growth rates.

Strong but declining current account balance

Driven by stable demand from its EU trading partners, as well as strong tourism due to favourable geopolitical factors, Bulgaria's exports continued to perform well in 2016. As a result, the current account balance reached 4.2% of GDP in 2016. It is projected to steadily fall to 2.4% in 2017 and 1.8% in 2018, as strong domestic demand and the expected rise in energy prices fuel import growth. In addition, the primary balance is projected to deteriorate in 2017 and 2018, driven by higher dividend payments.

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



Inflation to turn positive in 2017

Bulgaria has experienced deflation since 2013. Following negative annual HIPC inflation also in 2016, inflation is expected to reach 1.3% in 2017 due to strong domestic demand, higher administrative prices for utilities and recovering energy prices.

Unemployment and labour market conditions continue to improve

Employment is projected to rise by 0.6% in 2017 and 2018, mainly supported by the recovery in domestic demand. The gradual increase in employment, together with an expected stagnation in the labour force are likely to reduce the unemployment rate to 7% in 2017.

Balanced budget achieved in 2016

Fiscal consolidation continued at a faster-than-planned pace, outperforming budgetary targets. Following a deficit of 1.6% of GDP in 2015, the general government budget is estimated to have balanced in 2016. In structural terms, this corresponds to an adjustment of 1.5 pps. of GDP.

Fiscal consolidation in 2016 was the result of both revenue increases and expenditure reductions. Public revenue was better than expected as a result of improved tax collection and of revenue enhancing measures such as increases in the rates of excise duties for liquid heating fuels. The good performance of tax revenue partly offset the lower revenue from EU funds. On the expenditure side, the gradual transition to the new cycle of EU fund programming is reflected in lower-than-expected capital and current spending.

The general government deficit is forecast at 0.4% of GDP in 2017. On the revenue side, a positive contribution is expected from the increase in social security contributions, which kicked in at the start of this year, and the expected recovery in the use of EU funds. Total expenditure, however, is projected to grow by a higher rate than revenue, mainly as a result of increases in the public wage bill and public investment. Under a no-policy-change assumption, a headline deficit of 0.3% of GDP is forecast in 2018. The structural deficit is forecast to remain below ½% of GDP in both 2017 and 2018.

General government debt is estimated to have reached 29.5% of GDP in 2016 due to a temporary increase in cash buffers, which will partly cover debt repayments in 2017. As a result of this prefinancing and the continuous primary surplus, general government debt is forecast to decline in 2017 and to reach 26% of GDP in 2018.

Downside risks to public finances stem from the contingent liabilities of state-owned enterprises (SOEs). An additional positive impact could be expected from ongoing efforts to improve tax collection. The fiscal forecast is subject to uncertainties related to the programme of the newly elected government, which has not been finalised yet.

Table II.2.1:

Main features of country forecast - BULGARIA

	2015		Annual percentage change						
bn BGN	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	88.6	100.0	3.0	0.9	1.3	3.6	**3.4**	**2.9**	**2.8**
Private Consumption	55.4	62.5	3.5	-2.5	2.7	4.5	**2.1**	**2.7**	**2.7**
Public Consumption	14.3	16.1	2.9	0.6	0.1	1.4	**0.6**	**2.0**	**2.2**
Gross fixed capital formation	18.6	21.0	12.4	0.3	3.4	2.7	**-4.0**	**4.3**	**3.8**
of which: equipment	8.1	9.2	-	1.2	13.9	9.8	**-2.0**	**6.0**	**4.0**
Exports (goods and services)	56.8	64.1	2.3	9.6	3.1	5.7	**5.7**	**4.6**	**4.8**
Imports (goods and services)	56.6	64.0	6.5	4.3	5.2	5.4	**2.8**	**4.7**	**4.9**
GNI (GDP deflator)	86.8	98.0	3.8	0.0	2.7	2.4	**4.6**	**1.9**	**2.3**
Contribution to GDP growth: Domestic demand			4.7	-1.5	2.5	3.6	**0.6**	**2.8**	**2.7**
Inventories			0.5	-0.8	0.2	-0.1	**1.0**	**0.0**	**0.0**
Net exports			-2.2	3.1	-1.3	0.1	**1.8**	**0.1**	**0.1**
Employment			-0.3	-0.4	0.4	0.4	**0.5**	**0.6**	**0.6**
Unemployment rate (a)			11.7	13.0	11.4	9.2	**7.6**	**7.0**	**6.4**
Compensation of employees / head			27.6	8.8	5.6	5.6	**3.1**	**4.9**	**4.5**
Unit labour costs whole economy			23.5	7.4	4.6	2.3	**0.2**	**2.6**	**2.3**
Real unit labour cost			0.2	8.2	4.1	0.1	**-0.9**	**1.6**	**0.8**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			23.3	-0.7	0.5	2.2	**1.1**	**1.0**	**1.5**
Harmonised index of consumer prices			-	0.4	-1.6	-1.1	**-1.3**	**1.3**	**1.5**
Terms of trade goods			1.0	-0.8	0.7	0.6	**1.4**	**-1.0**	**0.2**
Trade balance (goods) (c)			-13.7	-7.0	-6.5	-5.8	**-3.6**	**-4.2**	**-4.2**
Current-account balance (c)			-6.1	1.2	0.0	0.4	**4.2**	**2.4**	**1.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.7	2.3	2.2	2.4	**6.1**	**4.1**	**3.4**
General government balance (c)			-0.1	-0.4	-5.5	-1.6	**0.0**	**-0.4**	**-0.3**
Cyclically-adjusted budget balance (d)			-0.1	-0.1	-5.0	-1.4	**0.1**	**-0.4**	**-0.3**
Structural budget balance (d)			-	-0.1	-1.8	-1.4	**0.1**	**-0.4**	**-0.3**
General government gross debt (c)			40.5	17.0	27.0	26.0	**29.5**	**26.8**	**26.0**

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

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

3. THE CZECH REPUBLIC

Strong labour market and steady GDP growth

The economy of the Czech Republic continues to grow at a steady pace, while inflation has returned to target after three subdued years. The labour market is strong, but employment growth is likely to slow markedly after 2017. The abandonment of the exchange rate policy by the central bank raises risks but is unlikely to have a material short-term impact on the economy. The headline surplus in 2016 reached 0.6% of GDP but the surplus is expected to decline in 2017 and 2018.

Stable growth ahead

The economy of the Czech Republic is forecast to grow by 2.6% in 2017, slightly above the 2.4% rate in 2016 and somewhat above its estimated long-term potential. In 2017, the main contribution to GDP growth is expected to come from domestic demand. Private consumption growth of 2.4% is likely to act as a key driver, supported by a booming labour market and buoyant consumer confidence. While rising inflation will dent real incomes, the impact on spending is expected to be partly counteracted by a fall in the household saving rate. Gross fixed capital formation is forecast to rise by 3.5%, following a decrease of similar magnitude in 2016. While private investment is expected to continue growing steadily, public investment is likely to rise again following its earlier contraction.

As external demand improves further, net exports are forecast to provide a mildly positive contribution to GDP growth in 2017, and are likely to be tempered by the import-boosting revival of investment. In 2018, GDP growth is forecast to reach 2.7%, with domestic demand remaining buoyant and the contribution from net exports narrowing towards zero. Risks to the outlook are mainly linked to the uncertainty surrounding public investment projects and the timing of EU funds absorption.

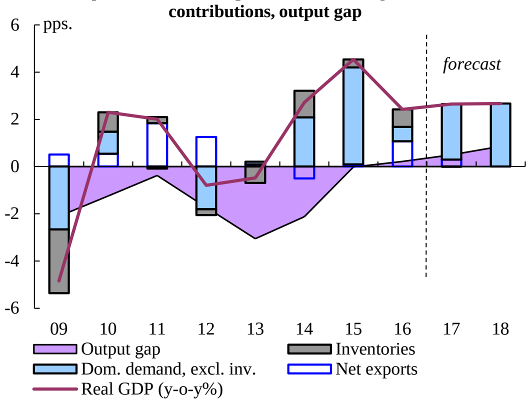
Inflation is back on track

Inflation is forecast at 2.5% in 2017, up from 0.6% in 2016, representing a structural break following three years of barely positive inflation rates. The HICP rate continued to surprise on the upside at 2.5% in the first quarter of 2017, propelled by strong price rises for fresh food. Inflation is expected to moderate somewhat this year and next, and is forecast to average 2.0% over 2018. The main contributions to inflation are expected from services prices, propped up by a tightening labour market. Food prices are expected to show only limited increase but should continue to contribute positively to inflation over the forecast horizon. Administered prices are forecast to have a negligible contribution in 2017.

Free-floating of Czech koruna after more than 3 years

The Czech National Bank removed the koruna floor versus the euro on 6 April 2017. Market reactions so far have been limited to a minimal appreciation of the koruna, which in itself would have a limited impact on the economy in the short term. As the policy change was widely anticipated, economic agents – such as exporting firms – are expected to have prepared for the event and hedged their exposure to currency risk. Nonetheless the new exchange rate regime increases uncertainty.

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



Labour market nearing its limits

Employment growth is forecast to slow to 0.3% in 2017 and eventually 0% in 2018. The slowdown from 1.8% in 2016 is driven by demographic constraints, as the population of working age is expected to shrink slightly in both years. The unemployment rate is forecast to decrease only marginally, from 4% in 2016 to 3.5% in both 2017 and 2018. The number of vacancies has remained high and there are reports of skill shortages. Hence, it is possible that employment and unemployment levels have reached or are close to their limit. The tight labour market is likely to support further wage growth acceleration. Nominal wages per employee are forecast to grow by more than 4.5% in 2017 and 2018, amid higher pay rises to some professions in the public sector.

Government balance to remain positive

The general government balance turned positive in 2016, reaching 0.6% of GDP, an improvement of more than 1 pp. compared to 2015. This surplus was underpinned by a robust tax intake, with revenues from both direct and indirect taxes recording growth of more than 5%. A fall in public investment of 33% year-on-year further contributed to the surplus. The investment drop took place from a particularly high level of EU co-financed investment in 2015, coupled with a sluggish roll-out of investment projects at the beginning of the new programming period in 2016.

The headline balance suprlus is forecast to decline to 0.3% of GDP in 2017. This reflects the effect of a rebound of co-financing for EU-funded projects. The expenditure side is negatively impacted by a slight increase in pensions in line with rising inflation. Interest expenditure is forecast to continue decreasing, albeit less markedly than in 2016. Tax revenues are expected to be bolstered by the phasing-in of anti-tax evasion measures on the other hand, but lowered by declining, excise duties on mineral oils and on tobacco products.

On the back of an increase in social outlays the headline government balance is expected to narrow slightly to 0.1% of GDP in 2018. This is partially offset on the revenue side, which is supported by tax-rich growth in the context of a positive macroeconomic outlook.

The structural balance is estimated to have improved by 1¼ pps. in 2016. A structural worsening throughout 2017 and 2018 is expected to lead to a structural balance of around -¼% of GDP by the end of the forecast horizon. The debt-to-GDP ratio declined to 37.2% in 2016, which was supported by solid economic growth and a fiscal surplus. General government debt is forecast to remain on a firm downward path, declining to 36.2% of GDP in 2017 and 35.6% in 2018.

Table II.3.1:

Main features of country forecast - CZECH REPUBLIC

	2015		Annual percentage change						
bn CZK	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	4554.6	100.0	2.3	-0.5	2.7	4.5	**2.4**	**2.6**	**2.7**
Private Consumption	2139.7	47.0	2.1	0.5	1.8	3.0	**2.9**	**2.4**	**2.6**
Public Consumption	889.7	19.5	1.3	2.5	1.1	2.0	**1.2**	**2.0**	**1.9**
Gross fixed capital formation	1198.1	26.3	1.7	-2.5	3.9	9.0	**-3.7**	**3.5**	**4.2**
of which: equipment	542.3	11.9	3.6	0.3	6.4	8.5	**-3.1**	**3.6**	**4.5**
Exports (goods and services)	3778.3	83.0	9.2	0.2	8.7	7.7	**4.3**	**4.5**	**4.8**
Imports (goods and services)	3499.1	76.8	8.2	0.1	10.1	8.2	**3.2**	**4.5**	**5.2**
GNI (GDP deflator)	4255.2	93.4	2.0	-0.2	1.9	4.7	**3.1**	**2.7**	**2.7**
Contribution to GDP growth:	Domestic demand		1.8	0.1	2.1	4.1	**0.6**	**2.3**	**2.7**
	Inventories		-0.1	-0.7	1.1	0.3	**0.7**	**0.0**	**0.0**
	Net exports		0.6	0.1	-0.5	0.1	**1.1**	**0.3**	**0.0**
Employment			-0.1	0.3	0.6	1.4	**1.8**	**0.3**	**0.0**
Unemployment rate (a)			7.0	7.0	6.1	5.1	**4.0**	**3.5**	**3.5**
Compensation of employees / head			5.7	-0.3	2.6	2.6	**3.9**	**4.6**	**4.6**
Unit labour costs whole economy			3.2	0.5	0.4	-0.5	**3.3**	**2.2**	**1.9**
Real unit labour cost			0.4	-0.9	-2.0	-1.5	**2.2**	**0.5**	**0.2**
Saving rate of households (b)			11.5	10.9	11.8	11.8	**12.1**	**11.7**	**11.5**
GDP deflator			2.8	1.4	2.5	1.0	**1.1**	**1.6**	**1.7**
Harmonised index of consumer prices			3.2	1.4	0.4	0.3	**0.6**	**2.5**	**2.0**
Terms of trade goods			-0.2	1.5	1.8	0.5	**0.9**	**-0.6**	**0.0**
Trade balance (goods) (c)			-2.6	4.1	5.1	4.5	**5.3**	**5.0**	**4.8**
Current-account balance (c)			-3.9	-1.1	-1.2	-1.2	**0.3**	**0.0**	**-0.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.2	1.1	0.5	1.9	**0.8**	**0.5**	**0.3**
General government balance (c)			-3.8	-1.2	-1.9	-0.6	**0.6**	**0.3**	**0.1**
Cyclically-adjusted budget balance (d)			-4.0	0.1	-1.0	-0.6	**0.5**	**0.0**	**-0.2**
Structural budget balance (d)			-	0.2	-0.8	-0.6	**0.5**	**0.0**	**-0.2**
General government gross debt (c)			27.0	44.9	42.2	40.3	**37.2**	**36.2**	**35.6**

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

4. DENMARK

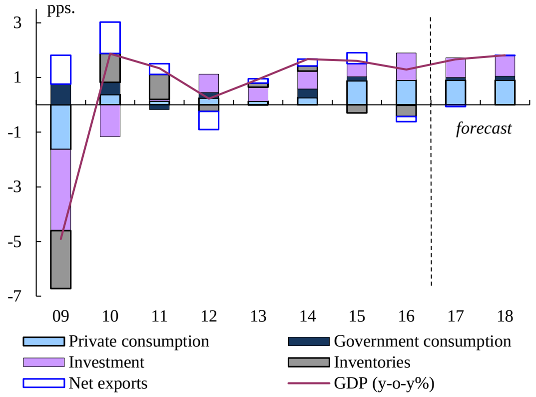
Domestic demand set to drive economic growth

Economic growth is forecast to strengthen this year and next, supported by robust private consumption and dynamic investment. Employment growth is expected to remain strong and unemployment to fall further despite a growing labour force. Inflation is set to pick up as energy and service prices rise. The general government deficit is projected to remain moderate.

Gradual strengthening of GDP ahead

Economic growth in Denmark is gaining pace. Real GDP expanded by 1.3% in 2016 and is expected to accelerate to 1.7% in 2017 and 1.8% in 2018. Domestic demand is forecast to remain the driver of economic growth, underpinned by robust private consumption and business investment. The contribution of net trade to GDP growth is projected to be marginally negative.

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



Private consumption remains the main driver

Private consumption expanded at a rate of 1.9% in 2016 and is projected to grow at a similar pace over the forecast horizon, supported by strong employment growth, steadily rising disposable income and low interest rates. In addition, the financial wealth and home equity of households has been increasing, supporting consumer confidence. The household saving rate is expected to decrease slightly from high levels despite growing pension savings. Government consumption is projected to expand at a modest pace of 0.4% in 2017 and 0.6% in 2018.

Business investment is boosting economic growth

Residential investment rebounded in 2016, expanding by 11% on the back of dynamically rising housing prices, particularly in the main urban areas. With housing price increases expected to moderate in the coming years, housing investment is also set to grow more moderately by around 6% in 2017 and 2018. Machinery and equipment investment is expected to expand by about 4% per annum over the forecast horizon as the overall recovery consolidates and a growing need for capacity expansion emerges.

Foreign trade rebounds

Trade performance was sluggish in the first half of 2016, partly due to the weakness of sea freight. Nevertheless, both exports and imports picked up in the second half of 2016 as world trade gained momentum. The outlook points to robust trade performance over the forecast horizon. The current account surplus declined in 2016 to 8.1% of GDP (-1.1 pps. from 2015), due to reductions in the primary income balance and the external balance of goods and services. The current account balance is expected to fall gradually as business investment increases and the economic recovery strengthens.

Labour market remains robust

Employment growth was strong in 2016, expanding at a rate of 1.7%. However, the unemployment rate remained stable at 6.2% due to the growing labour force. The private sector, particularly the services and construction sectors, has been the main driver of employment growth since 2013. By contrast, employment in the public sector has been declining gradually. Over the forecast horizon, employment growth is expected to outpace the expansion of the labour force resulting in a gradual decline of the unemployment rate to 5.8% in 2017 and 5.7% in 2018. Despite indications of growing labour shortages in several sectors, wages are expected to accelerate only in line with projected productivity developments.

Inflation picks up

Growth in consumer prices has been very weak in recent years due to the steep fall in oil prices. Consumer prices (HICP) were flat in 2016 but they are expected rise to 1.4% in 2017 and 1.7% in

2018. This pick-up is supported by both the increase in prices of energy prices and wage growth.

Risks to the outlook are broadly balanced

Upside risks are primarily related to domestic factors. Private consumption could turn out higher if economic uncertainties wane and households scale back saving. Business investment has been subdued for an extended period and the savings surplus in the corporate sector remains high, which could provide support for stronger business investment. Negative risks to the forecast are primarily related to external factors, particularly the economic policies of some major economies.

Stable public finances

The general government deficit reached 0.9% of GDP in 2016, slightly better than previously expected due to higher revenues from the pension yield tax. Public consumption is expected to grow moderately, while public investment is projected to slightly decrease in 2018. The general government deficit is projected to rise slightly to 1.3% of GDP in 2017 before falling to 0.9% of GDP in 2018.

Favourable nominal GDP growth developments, low interest rates and the modest general government deficit pave the way for a further reduction in the general government debt-to-GDP ratio, which is expected to decrease from 37.8% in 2016 to 36.0% in 2018.

Table II.4.1:

Main features of country forecast - DENMARK

	2015			Annual percentage change						
bn DKK	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	2027.2	100.0	1.3	0.9	1.7	1.6	**1.3**	**1.7**	**1.8**
Private Consumption	955.9	47.2	1.3	0.3	0.5	1.9	**1.9**	**1.9**	**1.9**
Public Consumption	520.8	25.7	1.8	-0.1	1.2	0.6	**-0.1**	**0.4**	**0.6**
Gross fixed capital formation	389.9	19.2	1.7	2.7	3.5	2.5	**5.2**	**3.6**	**3.7**
of which: equipment	118.3	5.8	1.8	10.6	2.7	-0.5	**4.6**	**3.9**	**3.8**
Exports (goods and services)	1119.5	55.2	4.2	1.6	3.6	1.8	**1.7**	**3.3**	**3.9**
Imports (goods and services)	969.5	47.8	5.0	1.5	3.6	1.3	**2.4**	**4.0**	**4.4**
GNI (GDP deflator)	2095.1	103.4	1.6	1.8	2.1	1.3	**0.6**	**1.7**	**1.8**
Contribution to GDP growth: Domestic demand			1.4	0.7	1.1	1.4	**1.9**	**1.7**	**1.8**
Inventories			0.0	0.1	0.3	-0.2	**-0.4**	**0.0**	**0.0**
Net exports			-0.1	0.2	0.3	0.4	**-0.2**	**-0.1**	**0.0**
Employment			0.3	0.0	1.0	1.3	**1.7**	**1.1**	**0.9**
Unemployment rate (a)			5.3	7.0	6.6	6.2	**6.2**	**5.8**	**5.7**
Compensation of employees / head			3.3	1.6	1.5	1.5	**1.6**	**2.3**	**2.7**
Unit labour costs whole economy			2.2	0.6	0.8	1.1	**2.0**	**1.7**	**1.8**
Real unit labour cost			0.0	-0.3	0.1	0.2	**1.6**	**0.1**	**0.1**
Saving rate of households (b)			5.9	8.8	5.2	10.5	**11.7**	**11.5**	**11.3**
GDP deflator			2.2	0.9	0.8	0.9	**0.4**	**1.6**	**1.7**
Harmonised index of consumer prices			2.0	0.5	0.4	0.2	**0.0**	**1.4**	**1.7**
Terms of trade goods			0.6	1.4	1.0	1.7	**3.2**	**0.1**	**0.0**
Trade balance (goods) (c)			3.0	3.7	3.5	4.2	**5.0**	**5.2**	**5.2**
Current-account balance (c)			3.6	7.8	8.9	9.2	**8.1**	**7.8**	**7.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.7	7.7	8.7	8.8	**8.1**	**7.4**	**7.4**
General government balance (c)			0.7	-1.0	1.4	-1.3	**-0.9**	**-1.3**	**-0.9**
Cyclically-adjusted budget balance (d)			0.2	0.6	2.6	-0.4	**0.0**	**-0.4**	**-0.1**
Structural budget balance (d)			-	-0.9	-0.5	-1.8	**0.0**	**-0.4**	**-0.1**
General government gross debt (c)			-	44.0	44.0	39.6	**37.8**	**36.7**	**36.0**

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

5. GERMANY

Firming growth supported by consumption

Supported by robust employment, consumption, construction and exports, Germany's growth momentum is expected to remain strong. The general government budget is set to remain in surplus and the gross debt-to-GDP ratio to further decline. Policy uncertainty, including the trade policies of major trading partners, represents a downside risk to the growth forecast.

Strong start to 2017

After solid growth in late 2016 (0.4% q-o-q in 2016-Q4), available indicators suggest that economic activity strengthened further in the first quarter of 2017 and higher growth momentum is likely to continue in the coming quarters. Survey indicators for industry and construction improved further in early 2017. Consumer confidence recovered from a short-lived slump in February, as inflation started to moderate in March. Improving global growth, the strong labour market, favourable financing conditions, construction activity, and further public expenditure increases are expected to sustain the rate of economic growth. Overall, real GDP is expected to increase by 1.6% in 2017, slightly less than in 2016 only because of fewer working days, and by 1.9% in 2018.

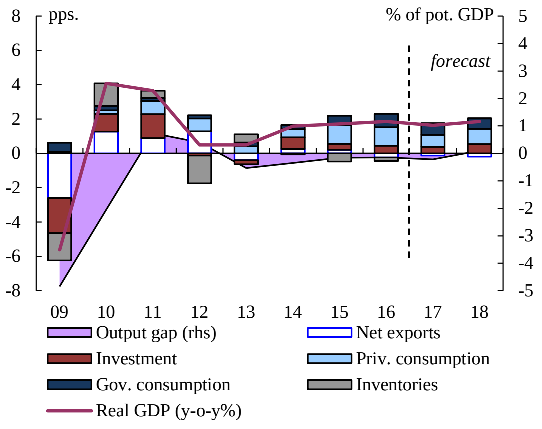
Employment and consumption growth to remain resilient

Data for employment growth in 2016 were revised upwards compared to the initial estimates, pointing to less slack in the labour market than originally estimated. Net job creation is expected to continue, bringing the labour market closer to full employment. The integration into the workforce of the refugees that have been arriving since 2015 will be staggered over a number of years and is not expected to significantly affect employment dynamics over the forecast horizon. In 2016, refugees accounted for less than 0.1 pps. of employment growth and for 0.15 pps. of the unemployment rate. With energy prices rising again, real household consumption is forecast to slow down somewhat but to remain resilient, thanks to the continued rise in employment and despite modest real wage growth. The latter may eventually be supported by the tightening labour market while remaining moderate over the forecast horizon. The household saving rate is expected to remain high. Also, government consumption growth is expected to remain relatively strong, linked to the refugee related expenditures.

Investment dynamics set to pick up

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

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



Current-account surplus to decline

Domestic demand growth strengthened in 2016 and imports increased more than exports. With the slowing down of the improvement in its terms of trade, the widening of Germany's current account surplus came to a halt. Exports are forecast to pick up again as foreign demand increases and to be an important driver of economic activity and investment. Together with strong domestic demand, this should also lead to stronger import growth due to the significant import content of exports. Overall, net exports are expected to detract slightly from growth over 2017 and 2018. In addition, the positive terms of trade benefits from low oil prices are set to dissipate. As a result, Germany's trade surplus should start to gradually decline relative to GDP.

Headline and core inflation to pick up

With the increase in oil prices, headline inflation is projected to pick up in 2017 (1.7%). Firming domestic demand and wage growth should contribute to rising core inflation in both 2017 and 2018 from the low levels (of around 1.0%) observed throughout most of 2015-16.

Budget surpluses to remain but decrease

The revenue ratio is expected to stay flat over 2017-2018, constrained by some adjustments to the personal income tax tariff. At the same time, the current expenditure ratio is set to grow, as increasing social transfers more than offset the effect of declining interest expenditure. Public investment expenditure is expected to continue increasing.

Overall, the budget surplus is expected to decrease over the forecast horizon. The structural surplus is projected to decrease to around 0.6% of GDP in 2017 and around 0.3% of GDP in 2018. The gross debt-to-GDP ratio is set to decrease substantially from 68.3% in 2016 to around 63% in 2018, driven by budget surpluses and favourable macroeconomic developments.

Graph II.5.2: **Germany - General government budget balance and gross debt**

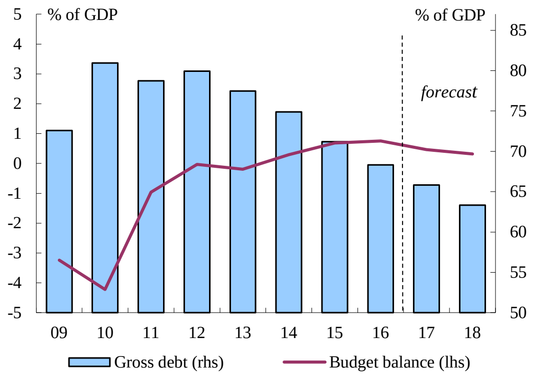


Table II.5.1:

Main features of country forecast - GERMANY

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	3032.8	100.0	1.4	0.5	1.6	1.7	**1.9**	**1.6**	**1.9**
Private Consumption	1636.0	53.9	0.9	0.7	0.9	2.0	**2.0**	**1.3**	**1.7**
Public Consumption	583.7	19.2	1.2	1.2	1.2	2.7	**4.0**	**3.2**	**3.0**
Gross fixed capital formation	603.8	19.9	1.0	-1.1	3.4	1.7	**2.3**	**1.9**	**2.7**
of which: equipment	200.2	6.6	2.7	-2.1	5.5	3.7	**1.1**	**1.4**	**2.8**
Exports (goods and services)	1418.8	46.8	6.3	1.9	4.1	5.2	**2.6**	**3.7**	**3.9**
Imports (goods and services)	1189.3	39.2	5.2	3.1	4.0	5.5	**3.7**	**4.8**	**5.0**
GNI (GDP deflator)	3098.8	102.2	1.5	0.5	1.4	1.7	**1.7**	**1.6**	**1.8**
Contribution to GDP growth:	Domestic demand		0.9	0.4	1.4	2.0	**2.3**	**1.7**	**2.0**
	Inventories		-0.1	0.5	-0.1	-0.5	**-0.2**	**0.0**	**0.0**
	Net exports		0.5	-0.4	0.3	0.2	**-0.2**	**-0.1**	**-0.2**
Employment			0.6	0.6	0.8	0.9	**1.2**	**1.0**	**1.0**
Unemployment rate (a)			8.4	5.2	5.0	4.6	**4.1**	**4.0**	**3.9**
Compensation of employees / head			1.3	1.8	2.8	2.4	**2.3**	**2.5**	**2.6**
Unit labour costs whole economy			0.6	1.9	2.0	1.6	**1.7**	**1.9**	**1.7**
Real unit labour cost			-0.3	0.0	0.2	-0.3	**0.2**	**0.5**	**0.1**
Saving rate of households (b)			16.2	16.3	16.7	17.0	**17.3**	**17.2**	**17.1**
GDP deflator			0.9	2.0	1.8	2.0	**1.4**	**1.4**	**1.6**
Harmonised index of consumer prices			1.6	1.6	0.8	0.1	**0.4**	**1.7**	**1.4**
Terms of trade goods			-0.3	1.8	1.7	3.1	**2.3**	**-1.4**	**0.1**
Trade balance (goods) (c)			5.7	7.5	7.7	8.7	**8.8**	**8.3**	**8.0**
Current-account balance (c)			3.2	6.9	7.5	8.5	**8.5**	**8.0**	**7.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.2	6.8	7.5	8.4	**8.5**	**8.0**	**7.5**
General government balance (c)			-2.2	-0.2	0.3	0.7	**0.8**	**0.5**	**0.3**
Cyclically-adjusted budget balance (d)			-2.0	0.1	0.5	0.8	**0.8**	**0.6**	**0.3**
Structural budget balance (d)			-	0.1	0.8	0.8	**0.8**	**0.6**	**0.3**
General government gross debt (c)			66.0	77.5	74.9	71.2	**68.3**	**65.8**	**63.3**

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

6. ESTONIA

Strong growth underpins catching-up

Positive investment and net exports are set to raise GDP growth from 1.6% in 2016 to 2.3% in 2017 and 2.8% in 2018. Unemployment is on the rise as reforms encourage disability pensioners to re-enter the labour market. Global food and energy prices and a significant increase in excise duties are driving up inflation. The fiscal position is projected to turn into a deficit over the forecast horizon, reflecting the loosening of fiscal policy through increased investment.

Domestic demand as the main growth driver

Improving upon 1.6% growth in 2016, Estonia's real GDP is forecast to grow by 2.3% in 2017 and 2.8% in 2018, as investment and exports growth gain momentum. In particular, domestic demand is projected to grow, as businesses start investing again and EU funds are put to use. Healthy export growth is expected to continue, thanks to higher demand from Estonia's main trading partners. Although slowing down, private consumption growth is set to remain relatively strong, as overall disposable income should keep rising at a fast pace despite inflation. Overall, domestic demand is expected to remain the main growth contributor, although increasingly driven by investment rather than by private consumption.

Recovering investment is set to lift growth

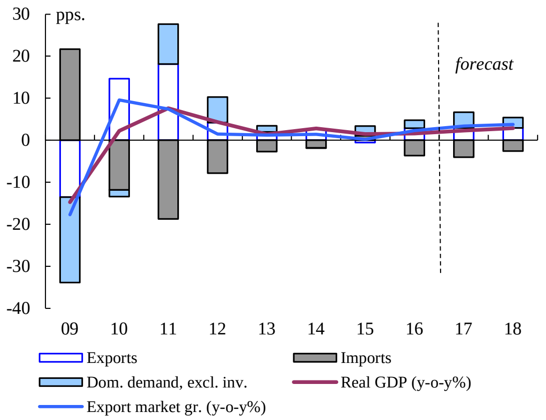
Business confidence has been increasing, supported by the upward global trend of external demand, improving business investment prospects. In particular, the rebound in export prices is expected to support the turnover growth of enterprises, closing the gap between wage growth and productivity growth, restoring profits and thereby investment. In parallel, public investment is forecast to rebound, as the flow of investment projects related to EU funds starts to pick up. Headline investment figures in 2017 are influenced by a large purchase of ferries. The latter is mirrored by imports and, thereby, neutral on Estonia's overall output.

Conversely, although wage growth remains strong, real disposable income growth is expected to slow, particularly in 2017 as a result of tax hikes and rising inflation. This limits private consumption growth. Furthermore, the high private investment growth in construction, which is reflected in the strong growth of credit, is set to slow down over the forecast horizon. Private consumption is expected to pick up again in 2018 with the reduction of the tax wedge for low wage earners.

Strengthening demand in trading partners supports exports

External demand, especially from Sweden, Germany and the other two Baltic States, is expected to strengthen, and demand from Finland and Russia is gradually recovering. Even though price levels are set to remain largely below peak levels, the recent increases in oil prices will support the recovery of Estonia's shale oil sector and its related exports. The services export surplus is expected to remain broadly stable, ensuring that the external balance of goods and services will remain positive over the forecast period.

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



Unemployment and employment both to rise

In spite of a declining working age population, mostly due to negative natural change, labour supply and employment are expected to increase over the forecast horizon. Higher wages and an increase in the effective pension age have already raised the labour market participation rate to a historically high level and this is projected to further increase over the forecast horizon. Labour supply is supported by a turnaround in migration, leading to net immigration (mostly from Estonians returning from abroad) and the introduction of the 'work-ability' reform in mid-2016. As a result, unemployment is projected to increase from about

6.8% in 2016 to about 8.6% in 2018. Wages are projected to continue growing relatively rapidly at over 5% in 2017 and 2018.

Energy, food and excises duties drive inflation

HICP inflation jumped to over 3% in the first months of 2017, driven by global food and energy prices. Also, a significant rise in excise duties on fuels, alcohol, tobacco and sweetened drinks is estimated to raise inflation by almost 1.0 pp. in both 2017 and 2018. Inflation is projected to reach 3.3% in 2017 and to abate to 2.9% in 2018 as global commodity prices stabilise.

An expansionary fiscal stance

The general government recorded a surplus of 0.3% of GDP in 2016. In 2017, public finances are set to turn into a deficit of 0.3% of GDP, driven by expenditure increases, especially by surging public investment, both EU- and domestically-funded. For 2018, the government plans for a further fiscal loosening via an investment programme costing 0.5% of GDP. The government also plans for a multitude of new expenditure programmes in healthcare, education, social funding and in financing local governments, amounting to about 1% of GDP, which should be fully offset by an array of tax increases. The current forecast takes account of all these new fiscal measures, as they are sufficiently detailed in the governments' 2017 stability programme. Overall, the headline fiscal deficit is projected to decline to 0.5% of GDP in 2018. In structural terms, the fiscal deficit is estimated at ⅓% of GDP in 2017 and ¾% in 2018. Public debt is expected to remain under 10% of GDP. Main negative risks to this fiscal projection pertain to the yield estimates of the various new tax measures.

Table 2.1.1:

Main features of country forecast - ESTONIA

		2015		Annual percentage change						
		bn EUR Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		20.3	100.0	4.4	1.4	2.8	1.4	**1.6**	**2.3**	**2.8**
Private Consumption		10.6	52.4	4.5	3.8	3.3	4.7	**4.1**	**2.6**	**3.8**
Public Consumption		4.1	20.3	1.9	1.9	2.7	3.4	**1.0**	**1.8**	**1.9**
Gross fixed capital formation		4.8	23.7	7.6	-2.8	-8.1	-3.3	**-2.8**	**9.3**	**0.1**
of which: equipment		1.8	8.6	8.7	17.0	-11.6	-12.4	**-0.2**	**13.8**	**-7.1**
Exports (goods and services)		16.1	79.3	8.3	2.3	3.1	-0.6	**3.6**	**3.7**	**3.7**
Imports (goods and services)		15.2	75.1	8.8	3.2	2.2	-1.4	**4.9**	**5.4**	**3.5**
GNI (GDP deflator)		19.8	97.9	4.1	3.2	2.4	2.1	**1.7**	**1.9**	**3.0**
Contribution to GDP growth:	Domestic demand			5.4	1.5	0.0	2.3	**1.9**	**3.8**	**2.5**
	Inventories			0.2	0.0	2.5	-1.6	**0.6**	**-0.6**	**-0.1**
	Net exports			-1.0	-0.8	0.8	0.6	**-0.8**	**-1.1**	**0.3**
Employment				-0.3	1.2	0.8	2.9	**0.3**	**0.3**	**0.2**
Unemployment rate (a)				10.4	8.6	7.4	6.2	**6.8**	**7.7**	**8.6**
Compensation of employees / head				10.2	4.6	4.2	5.7	**5.7**	**5.5**	**5.6**
Unit labour costs whole economy				5.3	4.5	2.2	7.2	**4.3**	**3.4**	**2.8**
Real unit labour cost				-0.5	0.6	0.4	6.1	**2.6**	**-0.2**	**-0.5**
Saving rate of households (b)				4.3	6.2	9.4	8.8	**9.4**	**9.9**	**10.6**
GDP deflator				5.9	3.9	1.7	1.0	**1.7**	**3.6**	**3.3**
Harmonised index of consumer prices				4.8	3.2	0.5	0.1	**0.8**	**3.3**	**2.9**
Terms of trade goods				0.8	0.8	0.0	0.1	**1.1**	**0.2**	**0.0**
Trade balance (goods) (c)				-14.0	-5.2	-5.1	-4.3	**-4.3**	**-5.6**	**-5.3**
Current-account balance (c)				-7.5	-0.2	1.0	2.1	**2.0**	**1.1**	**1.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.0	2.4	2.1	4.2	**2.9**	**3.1**	**3.3**
General government balance (c)				0.4	-0.2	0.7	0.1	**0.3**	**-0.3**	**-0.5**
Cyclically-adjusted budget balance (d)				-0.2	-0.8	-0.2	-0.4	**0.1**	**-0.3**	**-0.7**
Structural budget balance (d)				-	-0.6	-0.1	-0.1	**0.2**	**-0.3**	**-0.7**
General government gross debt (c)				5.8	10.2	10.7	10.1	**9.5**	**9.5**	**9.6**

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

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

7. IRELAND
Strong growth against external headwinds

GDP is forecast to expand robustly over the forecast horizon, but the pace will moderate. Improving labour market conditions are expected to support domestic demand. However, the practices of multinationals in the country, which can have large statistical effects, continue to create some unpredictability. Public finances are projected to improve but risks to the fiscal outlook remain.

GDP has performed better than expected

In 2016, real GDP grew by 5.2%, well above the euro area average. GDP accelerated in the second half of the year despite heightened economic and political uncertainties that emerged over the same period. However, some of the impressive headline figures are still heavily distorted by the activities of multinational enterprises in the country. Nevertheless, domestic activity appears to have been strong, driven by positive developments in the labour market, consumption and construction investment. Growth of underlying domestic demand, which strips out the volatile investment in intangible assets and aircraft, is forecast to remain strong around 3.5% in the medium term.

Domestic demand and jobs to underpin the economic activity

The labour market's better-than-expected performance, combined with continued robust wage growth and improving household balance-sheets are expected to support consumption in 2017-2018. The unemployment rate is forecast to fall to 5.9% in 2018 and employment trends to remain positive as well. Consumer sentiment has improved again after declining in the second half of 2016, while retail sales remain strong.

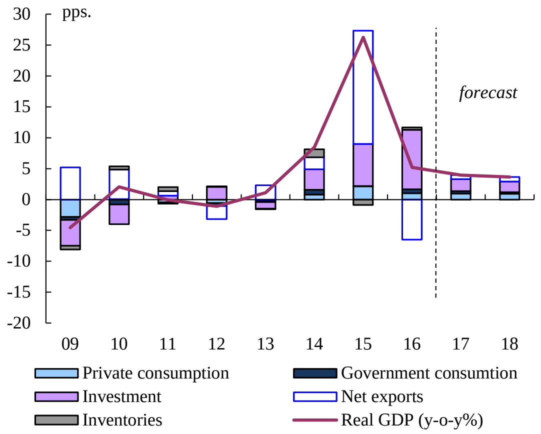
Residential property is projected to remain an important driver of the real domestic investment activity over the forecast horizon, supported by government policies. The headline investment figures should be interpreted with caution as total investment experienced another surge in 2016, of which investment in equipment and intangible assets (such as intellectual property rights) accounted for approximately 80%. [39]

Subdued inflation is expected to support consumption in the medium term. Consumer prices (HICP) rose slightly in early 2017 due to rising energy prices. However, this effect is projected to wear off over the coming months as oil prices are expected to moderate. Nevertheless, inflation should continue to recover slowly due to upward pressure from the services sector including rapidly increasing residential rents, related to the limited supply of residential property.

Trade developments remain highly exposed to the activities of multinationals

Imports increased sharply in 2016, particularly in the last quarter, on the back of large imports of intellectual property services. Export growth slowed last year partly due to the fall in sterling and the decline in 'contract manufacturing' by multinationals. Consequently, net exports had a negative impact on GDP growth in 2016. They are expected to contribute marginally to GDP growth in 2017 and 2018, as exports are projected to increase in line with global trade.

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



Risks to the macroeconomic outlook remain elevated

Considerable uncertainty surrounds the final outcome of negotiations between the UK and the EU, as well as potential changes to US tax and trade policies, to which Ireland is highly exposed. The activities of multinationals could impact GDP growth in either direction.

(39) 2016 split data for machinery and equipment and intangible assets have not been published by the Central Statistical Office (CSO) due to confidentiality restrictions.

Public finances further recovering

In 2016, the general government deficit fell to 0.6% of GDP. Taking into account one-off factors [40], the underlying deficit was 0.7% of GDP, an improvement of 0.4 pps. on the previous year's underlying position. The improvement echoed the sustained pace of Ireland's economic growth. Tax revenues, including social security contributions, increased by 4.9%, driven by the strong performance of corporate tax and excise duty. These gains were partly off-set by the reduction in non-tax revenues. [41] Government expenditure, excluding one-offs, also increased compared to the previous year, notably public pay (+2.8%), intermediate consumption (+5.3%) and public investment (+12.7%). Savings on interest debt, due to relatively low interest rates, eased deficit reduction.

[40] Headline deficit figures are distorted by significant one-off transactions. These mainly relate to the deficit-increasing restructuring of a state owned bank's capital base in 2015 (0.8 % of GDP) and the deficit-reducing EFSF pre-paid margin repayment in 2016 (0.2 % of GDP).

[41] The fall is primarily due to the gradual decline in bank guarantee fees, interest and Central Bank income directly attributable to financial crisis measures, as well as lower dividends from state-owned companies.

External risks could hamper fiscal progress

Despite the expansionary measures in Budget 2017 of around 0.5% of GDP in tax cuts and spending increases, the deficit is projected to fall slightly to 0.5% of GDP in 2017. Projections are based on the expectation of relatively robust increases in tax revenue and buoyant current primary expenditure amid public wage pressures.

Based on a no-policy change assumption, the deficit is expected to gradually decline to 0.3% of GDP in 2018. Risks to the fiscal forecast are on the downside, mainly reflecting policy uncertainty and risks to the global economic outlook.

The structural deficit is estimated to have slightly improved in 2016 to about 1¾% of GDP and further narrowing to around 1% and ⅓% of GDP in 2017 and 2018 respectively. Gross general government debt fell to 75.4% of GDP in 2016, down from 78.7% of GDP the year earlier. It is projected to further decline to 73.5% and 72.7% of GDP in 2017 and 2018 respectively, contingent on moderate yet robust GDP growth and the realisation of primary budget surpluses.

Table II.7.1:

Main features of country forecast - IRELAND

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	255.8	100.0	4.2	1.1	8.5	26.3	**5.2**	**4.0**	**3.6**
Private Consumption	87.3	34.1	3.8	-0.3	1.8	5.0	**3.0**	**2.8**	**2.7**
Public Consumption	32.1	12.5	3.5	-1.3	4.5	0.3	**5.0**	**3.2**	**2.3**
Gross fixed capital formation	54.2	21.2	4.1	-5.7	18.3	32.9	**45.4**	**6.7**	**5.6**
of which: equipment	16.4	6.4	7.4	-6.3	24.2	3.0	**4.2***	**7.5**	**6.5**
Exports (goods and services)	317.2	124.0	8.2	3.1	14.4	34.4	**2.4**	**3.9**	**4.3**
Imports (goods and services)	236.0	92.2	7.9	1.1	15.3	21.7	**10.3**	**4.1**	**4.6**
GNI (GDP deflator)	203.9	79.7	3.4	5.1	8.7	18.2	**9.0**	**4.2**	**3.9**
Contribution to GDP growth: Domestic demand			3.3	-1.5	4.9	8.9	**11.3**	**3.3**	**2.9**
Inventories			0.0	-0.1	1.3	-0.8	**0.4**	**0.0**	**0.0**
Net exports			1.2	2.3	1.9	18.3	**-6.5**	**0.6**	**0.7**
Employment			2.1	2.5	1.7	2.5	**2.7**	**2.6**	**2.1**
Unemployment rate (a)			7.5	13.1	11.3	9.4	**7.9**	**6.4**	**5.9**
Compensation of employees / head			3.9	1.4	1.8	2.8	**2.9**	**3.0**	**2.5**
Unit labour costs whole economy			1.8	2.8	-4.5	-16.5	**0.5**	**1.6**	**0.9**
Real unit labour cost			-0.7	1.4	-3.4	-20.4	**1.8**	**0.4**	**-0.3**
Saving rate of households (b)			-	10.3	10.9	10.7	**10.5**	**10.4**	**10.3**
GDP deflator			2.6	1.4	-1.2	4.9	**-1.2**	**1.2**	**1.3**
Harmonised index of consumer prices			2.3	0.5	0.3	0.0	**-0.2**	**0.6**	**1.2**
Terms of trade goods			0.5	0.9	-5.6	8.3	**-0.8**	**-0.1**	**-0.1**
Trade balance (goods) (c)			21.7	19.1	21.1	43.2	**38.7**	**38.0**	**37.3**
Current-account balance (c)			-1.7	2.1	1.7	10.2	**4.7**	**4.8**	**5.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.3	1.6	-1.8	9.7	**2.6**	**4.6**	**4.8**
General government balance (c)			-3.5	-5.7	-3.7	-2.0	**-0.6**	**-0.5**	**-0.3**
Cyclically-adjusted budget balance (d)			-3.7	-3.4	-3.9	-2.8	**-1.5**	**-1.1**	**-0.3**
Structural budget balance (d)			-	-3.8	-3.8	-2.0	**-1.7**	**-1.1**	**-0.3**
General government gross debt (c)			50.7	119.5	105.3	78.7	**75.4**	**73.5**	**72.7**

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

* Estimated. The CSO suppressed 2016 data on investment in intangibles and machinery and equipment for confidentiality reasons.

8. GREECE

Recovery ahead and better-than-expected fiscal performance

After a setback in the fourth quarter of 2016, the recovery is expected to restart this year. However, the recovery looks set to remain moderate due to the delays in the closure of the second review of the ESM programme. Improving consumer and investor sentiment is expected to be the fundamental driver of growth in the near term. Public finances strongly outperformed the 2016 fiscal target and the outlook remains positive.

Weak Q4 growth led to stagnation in 2016

After a strong performance in 2016-Q3, Greece's GDP contracted by 1.2% (q-o-q) in 2016-Q4 in seasonally-adjusted terms, which corresponds to a y-o-y decrease of 1.1%. This was driven by a sharp decline in public consumption, and a moderation in net exports, while private consumption and gross fixed capital investment remained resilient compared to the previous quarter. Overall, GDP growth in 2016 as whole was stagnant, resulting from divergent processes. While private consumption grew steadily most of the year, contributing by 1.0 pp. to the annual growth rate, this was offset by the negative contribution of government consumption and net exports of -0.4 pps. and -0.5 pps. respectively. Gross fixed capital formation had no significant growth contribution. Short-term indicators available for 2017 underpin the view that the recovery is fragile and crucially dependent on the closure of the 2nd review.

Recovery to return this year

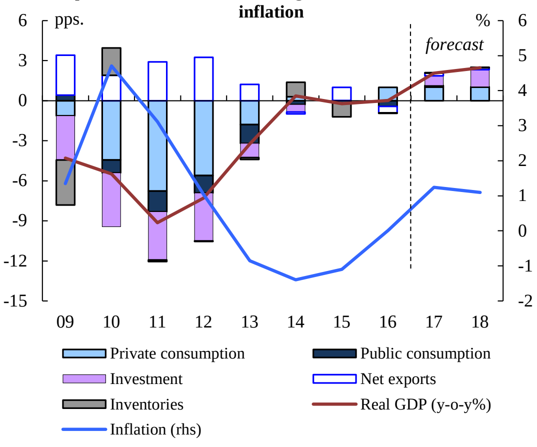
Real GDP is expected to grow 2.1% in 2017 and 2.5% in 2018, revised down compared to the 2017 winter forecast. Firstly, the poor economic performance of 2016-Q4 implies a much lower carry-over effect to 2017; secondly, the return of investor and consumer confidence is set to be delayed as the 2nd review was not completed in Q1. Based on its observed resilience, private consumption is expected to be the main driver of growth in 2017, supported by the increase in employment. Assuming that the 2nd review will close in the first half of the year, the business climate is expected to improve, leading to the return of investment. However, the constraints of the financial system to finance investment will ease only gradually, dampening the increase in gross fixed capital formation.

As Greece's tourism sector is experiencing increased demand, services' exports are set to gain momentum in the coming years. Although investment and consumer demand will deteriorate the goods balance, the improvement in the services balance will more than compensate for this, thus net exports are projected to contribute positively to growth in both 2017 and 2018.

The labour market remained on an improving trajectory for the last two years. Employment grew by 1.3% in 2016. Unemployment declined to 23.6% on average in 2016, and is expected to moderate further as the recovery accelerates.

2017 is expected to see the return of inflation. The increase in energy prices and the hike in excise duties on selected products are expected to push up headline inflation. Core inflation, however, should only increase gradually, along with the recovery of domestic demand and wage increases.

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



Risks mainly relate to uncertainties over the completion of the second review of the ESM programme and external factors such as international and regional geopolitical and economic tensions.

Ambitious reforms augur well for the achievement of fiscal targets

Greece reached a general government surplus of 0.7% of GDP in 2016 and significantly – by about

3½% of GDP – over-performed the primary surplus target of 0.5% of GDP for 2016 according to the ESM programme definition. [42] The composition of the fiscal adjustment was broadly balanced in 2016. Revenues were bolstered by a dynamic growth in underlying tax bases but also by several one-off factors related to clearing tax liabilities from previous years, higher claims on EU funds and stock-piling effects in view of the 2017 hike in the tobacco tax. Primary expenditure decreased largely due to exceptionally low military deliveries and a gradual completion of the motorways concession project but also due to continued rationalisation of intermediate consumption and staff salaries.

Greece is projected to achieve the primary balance targets of its programme both this year and next (1.75% of GDP in 2017 and 3.5% of GDP in 2018). This takes into account the fiscal package adopted in the context of the 1st review, which is projected to yield 3% of GDP through 2018 and the measures agreed under the 2nd review aimed to partly offset the national roll-out of the Social Solidarity Income scheme. It does not, however, take into account the ongoing revenue administration reforms and is consistent with cautious assumptions on the absorption of EU funds, which implies considerable upside risks. Downside risks include the possibility that the fiscal reforms could yield less than expected due to incomplete implementation and the effects of a further delay in the completion of the second review of the ESM programme.

Overall, the general government balance is expected to reach -1.2% of GDP in 2017 before improving to 0.6% of GDP in 2018. In structural terms, given the still-large output gap, the general government balance is forecast to reach 2½% of GDP in 2017 and 3.1% of GDP in 2018.

Greece’s debt-to-GDP ratio increased from 177.4% in 2015 to 179.0% in 2016. The increase in the debt ratio was related to positive stock-flow adjustment due to elevated cash deposits and reduction in accounts payable (arrears clearance) which was partially offset by the fiscal surplus in 2016. The debt-to-GDP ratio is projected to remain broadly stable in 2017 as the arrears clearance programme will continue. In 2018 the fiscal surplus and the stronger GDP growth are expected to put the debt-to-GDP ratio on a declining path.

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

Table II.8.1:

Main features of country forecast - GREECE

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	175.7	100.0	1.0	-3.2	0.4	-0.2	**0.0**	**2.1**	**2.5**
Private Consumption	122.8	69.9	1.1	-2.6	0.4	-0.2	**1.4**	**1.4**	**1.4**
Public Consumption	35.3	20.1	1.2	-6.4	-1.4	0.0	**-2.1**	**0.5**	**0.1**
Gross fixed capital formation	20.3	11.5	-1.1	-8.4	-4.6	-0.2	**0.1**	**6.3**	**10.8**
of which: equipment	8.3	4.7	0.6	-4.5	21.0	-1.5	**-0.6**	**9.5**	**13.2**
Exports (goods and services)	56.1	31.9	5.3	1.5	7.8	3.4	**-2.0**	**3.8**	**4.2**
Imports (goods and services)	55.8	31.8	3.1	-2.4	7.6	0.3	**-0.4**	**3.0**	**3.8**
GNI (GDP deflator)	176.3	100.3	0.9	-4.0	0.7	-0.1	**-0.2**	**2.1**	**2.4**
Contribution to GDP growth:	Domestic demand		1.1	-4.3	-0.6	-0.2	**0.5**	**1.8**	**2.3**
	Inventories		-0.1	-0.1	1.1	-1.0	**0.0**	**0.0**	**0.0**
	Net exports		0.1	1.2	-0.2	1.0	**-0.5**	**0.2**	**0.1**
Employment			0.0	-2.6	0.0	0.5	**1.3**	**1.4**	**1.7**
Unemployment rate (a)			11.6	27.5	26.5	24.9	**23.6**	**22.8**	**21.6**
Compensation of employees / head			4.5	-7.5	-2.1	-2.9	**0.8**	**1.5**	**2.1**
Unit labour costs whole economy			3.5	-6.9	-2.4	-2.2	**2.1**	**0.9**	**1.3**
Real unit labour cost			0.5	-4.6	-0.6	-1.2	**2.0**	**-0.3**	**0.2**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.9	-2.4	-1.8	-1.0	**0.1**	**1.2**	**1.2**
Harmonised index of consumer prices			3.3	-0.9	-1.4	-1.1	**0.0**	**1.2**	**1.1**
Terms of trade goods			-0.3	1.7	0.9	0.6	**-2.2**	**0.2**	**0.1**
Trade balance (goods) (c)			-14.7	-9.8	-10.8	-9.1	**-9.3**	**-9.7**	**-9.7**
Current-account balance (c)			-9.7	-2.2	-2.6	0.0	**-0.5**	**-0.5**	**-0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-8.1	0.2	-0.6	2.1	**1.4**	**1.4**	**1.5**
General government balance (c)			-7.8	-13.1	-3.7	-5.9	**0.7**	**-1.2**	**0.6**
Cyclically-adjusted budget balance (d)			-7.9	-6.1	2.3	-0.6	**5.5**	**2.5**	**3.1**
Structural budget balance (d)			-	2.4	2.4	3.4	**5.5**	**2.5**	**3.1**
General government gross debt (c)			115.3	177.4	179.7	177.4	**179.0**	**178.8**	**174.6**

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

9. SPAIN

Strong, balanced economic growth

Economic activity continues to exceed expectations, underpinned by a more balanced growth pattern than before the crisis. Growth is set to ease, driven by the expected slowdown in private consumption, despite the projected rebound in investment and the positive external outlook. Unemployment is set to continue declining, and inflation is expected to pick up as core inflation recovers. Thanks to the positive macroeconomic outlook and the impact of mainly corporate taxation measures, the budget deficit and the public debt ratio are expected to continue declining.

The recovery continues

Now in its fourth year of expansion, Spain continues to grow faster than the euro area average, and the volume of GDP is expected to surpass its pre-crisis peak this year. Hard and soft indicators suggest that growth gathered further pace in the first quarter of this year. A more balanced growth pattern than in the pre-crisis years is supporting the strong recovery, with net exports having a positive contribution to growth despite the strength of final demand. Nevertheless, domestic demand remains the main engine of growth, supported by strong job creation.

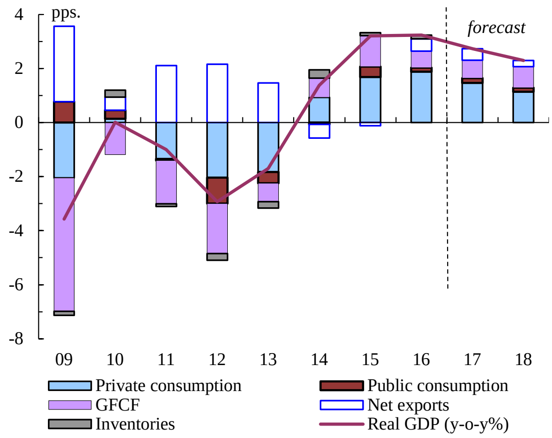
Improved outlook for 2017 and 2018, but deceleration still expected

Strong activity in the first quarter has led to an upward revision of the growth forecast for 2017 and 2018 compared to the Commission's winter 2017 forecast. However, growth is still expected to ease over this year and the next, to an annual average of 2.8% in 2017 and 2.4% in 2018. Private consumption is expected to remain the main driver of growth, but to slow down as job creation eases and other factors that supported household disposable income gains in recent years, such as the decline in oil prices, gradually abate. After weak growth in the second half of 2016, investment is expected to rebound in 2017 and 2018, driven by the gradual recovery of construction investment. Equipment investment, by contrast, is forecast to moderate in line with final demand.

Net exports are set to contribute to growth

The contribution of the external sector to growth turned positive in 2016, as exports recorded sizeable gains in market shares and import growth remained contained despite the strength of final demand. Exports are expected to accelerate in 2017, as Spain continues to record strong gains in export market shares and its trading partners recover. However, export growth is expected to moderate in 2018, despite faster growth in Spain's export markets, as gains in market shares slow down. Imports are also expected to rebound in 2017 and moderate somewhat in 2018, in line with final demand. As imports are expected to continue growing more slowly than exports, net trade should make a positive contribution to growth throughout the forecast horizon. After widening in 2016, Spain's current-account surplus is forecast to decline in 2017 and 2018, as a consequence of worsening terms of trade. However, this decline is mostly offset by an improving capital account, and Spain's net external lending position is expected to remain broadly stable.

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



Inflation projected to pick up

Oil price developments are set to continue dominating consumer price inflation in the short term. Headline inflation is forecast to turn positive, rising from -0.3% in 2016 to 2.0% in 2017 before decreasing to 1.4% in 2018, as the base effects of energy price increases fade away in the second half of 2017. Core inflation is projected to gradually recover over the forecast horizon, as wages pick up, the output gap closes, and second round effects from energy price increases are passed-through into consumer prices.

Unemployment is expected to decline further

Administrative data suggest that the pace of job creation in the first quarter of the year picked up after a slowdown in the second half of 2016. Although employment growth is set to ease over the forecast period, it is projected to remain strong, allowing for further reductions in the unemployment rate, which is expected to fall below 16% by 2018, the lowest level since 2009. Wage growth is projected to pick up moderately this year, and, combined with low productivity gains, should lead to increases in nominal unit labour costs over the forecast horizon. Cost-competitiveness gains vis-à-vis the euro area are expected to continue, though slowing down.

Strong growth continues to reduce the deficit

Spain's general government deficit narrowed to 4.5% of GDP in 2016, a reduction of 0.6 pps. of GDP compared to 2015. Thanks to measures adopted in the autumn to strengthen corporate tax revenues, the final quarter of the year yielded more than half of the total deficit reduction achieved during 2016.

In 2017, the forecast incorporates a number of additional measures adopted by parliament in December 2016. These consist primarily of base-broadening measures in the field of corporate taxation, but also of increases in excise duties on alcohol and tobacco as well as a broadening of the base for social contributions. Previous improvements in financing conditions imply that interest expenditure is set to continue decreasing. In combination with the positive macroeconomic outlook, which should support tax revenues and reduce expenditure on unemployment benefits, the deficit is expected to narrow to 3.2% of GDP in 2017. In 2018, at unchanged policies, it is expected to narrow further to 2.6% of GDP on the back of the cyclical recovery. Risks to the fiscal outlook mainly relate to contingent liabilities and uncertainty regarding the impact of recent tax measures.

After deteriorating significantly in 2015, Spain's structural deficit is expected to have widened further by some 1% of GDP in 2016. It is set to improve marginally in 2017 before stabilising in 2018. Over the forecast horizon, the general government debt ratio is expected to decrease slightly to 98.5% of GDP, as a result of relatively strong nominal GDP growth more than offsetting the budget deficit.

Table II.9.1:

Main features of country forecast - SPAIN

	2015			Annual percentage change						
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		1075.6	100.0	2.2	-1.7	1.4	3.2	**3.2**	**2.8**	**2.4**
Private Consumption		625.0	58.1	1.9	-3.1	1.6	2.9	**3.2**	**2.5**	**2.0**
Public Consumption		208.5	19.4	3.5	-2.1	-0.3	2.0	**0.8**	**0.9**	**0.8**
Gross fixed capital formation		212.1	19.7	1.8	-3.4	3.8	6.0	**3.1**	**3.4**	**3.9**
of which: equipment		72.7	6.8	2.9	5.0	8.3	8.9	**5.0**	**3.9**	**3.7**
Exports (goods and services)		356.9	33.2	4.5	4.3	4.2	4.9	**4.4**	**5.7**	**4.8**
Imports (goods and services)		330.5	30.7	4.2	-0.5	6.5	5.6	**3.3**	**4.8**	**4.4**
GNI (GDP deflator)		1074.9	99.9	2.2	-1.5	1.6	3.5	**3.4**	**2.8**	**2.3**
Contribution to GDP growth:	Domestic demand			2.3	-2.9	1.6	3.2	**2.6**	**2.3**	**2.1**
	Inventories			0.0	-0.2	0.3	0.1	**0.1**	**0.0**	**0.0**
	Net exports			0.0	1.5	-0.5	-0.1	**0.5**	**0.4**	**0.3**
Employment				1.3	-3.4	1.1	3.0	**2.9**	**2.3**	**2.1**
Unemployment rate (a)				14.1	26.1	24.5	22.1	**19.6**	**17.6**	**15.9**
Compensation of employees / f.t.e.				3.0	1.4	0.0	0.4	**0.0**	**1.0**	**1.3**
Unit labour costs whole economy				2.1	-0.4	-0.3	0.2	**-0.4**	**0.5**	**1.0**
Real unit labour cost				-0.4	-0.7	0.0	-0.3	**-0.7**	**-0.5**	**-0.4**
Saving rate of households (b)				10.2	9.6	9.0	8.2	**7.7**	**7.2**	**7.4**
GDP deflator				2.6	0.4	-0.3	0.5	**0.3**	**1.1**	**1.4**
Harmonised index of consumer prices				2.7	1.5	-0.2	-0.6	**-0.3**	**2.0**	**1.4**
Terms of trade goods				-0.2	0.6	-0.5	2.0	**0.3**	**-2.0**	**-0.4**
Trade balance (goods) (c)				-5.5	-1.4	-2.2	-2.0	**-1.6**	**-1.9**	**-1.9**
Current-account balance (c)				-4.6	1.5	1.0	1.3	**1.9**	**1.6**	**1.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.9	2.1	1.5	2.0	**2.0**	**1.9**	**1.9**
General government balance (c)				-3.1	-7.0	-6.0	-5.1	**-4.5**	**-3.2**	**-2.6**
Cyclically-adjusted budget balance (d)				-3.2	-2.3	-2.1	-2.7	**-3.6**	**-3.3**	**-3.4**
Structural budget balance (d)				-	-1.9	-1.7	-2.5	**-3.5**	**-3.4**	**-3.4**
General government gross debt (c)				54.3	95.5	100.4	99.8	**99.4**	**99.2**	**98.5**

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

10. FRANCE

The gradual recovery of exports lifts growth prospects

Economic activity in France is forecast to gently accelerate, as a pick-up in world trade helps strengthen exports after a weak 2016. Rising headline inflation, however, is expected to dampen private consumption growth by eating into the purchasing power of households. Unemployment is set to continue its gradual decline. The general government deficit is expected to fall from 3.4% of GDP in 2016 to 3.0% in 2017.

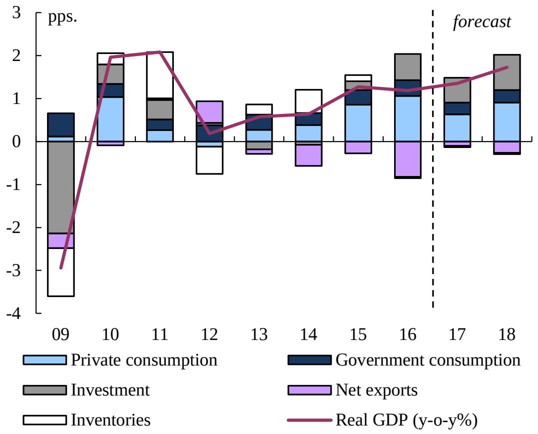
France's economic performance was broadly stable in 2016, with GDP growth easing to 1.2% after 1.3% in 2015. Despite strong domestic demand, growth was curbed by several temporary factors which mainly affected exports: strikes in refineries, bad weather conditions hitting crops, and terrorist attacks weighing on tourism.

GDP growth expected to firm

Economic sentiment improved sharply in recent months, with several confidence indicators reaching their highest levels in six years. Although temporary factors have hampered growth in the first quarter, economic activity is expected to firm over the coming quarters.

As a result, GDP growth is expected to reach 1.4% for 2017 as a whole and 1.7% in 2018.

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



Consumption set to decelerate while investment is expected to remain dynamic

Domestic demand is set to decelerate in 2017. In particular, private consumption growth is expected to decline in line with household purchasing power, as nominal wages increase less than headline inflation.

Investment growth is expected to remain dynamic in 2017 and 2018. On the one hand, non-construction investment is forecast to moderate somewhat, in particular after the end of the over-amortisation scheme on 14 April 2017, a fiscal incentive for firms to invest. On the other hand, construction investment is forecast to continue gaining momentum.

Exports expected to gradually recover

After weak growth in 2016, exports are expected to gradually recover in 2017 and 2018, in line with growth in French export markets. Meanwhile, imports are forecast to moderate somewhat in 2017 due to the deceleration of domestic demand. A less negative contribution from net exports is thus expected to help lift growth prospects.

Unemployment set to continue its gradual decline while inflation moderates

Employment growth is forecast to increase further, supported by the ongoing economic recovery and by policy measures to foster job creation by reducing the labour tax wedge (the Tax Credit for Competitiveness and Employment, the Responsibility and Solidarity Pact, and the Hiring Subsidy). As a result, unemployment in France is set to decline to 9.9% in 2017 and 9.6% in 2018.

Headline inflation rose markedly at the beginning of 2017, although core inflation remained subdued. Inflation is expected to moderate somewhat in the coming quarters, as the strong positive contribution from energy prices fades out and domestic price pressures increase only gradually. Overall, inflation is forecast at 1.4% in 2017 and 1.3% in 2018.

The current forecast is complicated by the timing of the French presidential and general elections. The projections are based on the usual no-policy-change assumption and the cut-off date for taking new information into account was 25 April.

Public deficit at around 3% of GDP in 2017

The headline deficit was 3.4% of GDP in 2016, down from 3.6% in 2015. This is 0.1 pps. of GDP worse than in the winter forecast. The difference is explained by lower-than-expected results by the State and social security, which is partly offset by the surpluses registered by local governments, whose operating expenditures slowed down.

The government deficit is expected to decrease further to 3.0% of GDP in 2017. Revenues are set to pick up mainly due to higher nominal GDP growth and the increase in green taxes, in spite of the negative base effect associated to the above-mentioned lower-than-expected revenues in 2016. Public expenditure net of tax credits is expected to increase by 1.9%, mainly as a result of higher spending on education, security and employment, higher wages for civil servants following the end of the wage freeze in 2016, the increase in the healthcare spending ceiling (*ONDAM*) compared to 2016 and the projected rise in public investment. The forecast includes the expected yield of the recent agreement on the unemployment benefit scheme UNEDIC. Higher inflation should add additional stress on expenditure ceilings. In this regard, the State expenditure ceiling (*norme de l'État*), which has been reduced by EUR 1.7 bn. compared to the budget act, seems now more difficult to be respected and represents a risk to the forecast. Moreover, the planned recapitalisation of the state-owned company AREVA with a public capital injection of EUR 4.5 bn. entails an additional negative risk for the 2017 deficit amounting to 0.1% of GDP. The structural balance is projected to improve by around ¼ pps. in 2017.

At unchanged policies, the deficit is forecast to rise again to 3.2% of GDP in 2018. The revenue-to-GDP ratio is projected to decline by 0.3 pps. due to the corporate income tax cut and the finalisation of some temporary revenue measures in 2017. The expenditure-to-GDP ratio is set to decline only slightly. Although spending growth is expected to remain moderate, primary current expenditure net of tax credits in volume terms is projected to accelerate with respect to the average of the period 2013-2017. Public investment is projected to gain momentum and interest payments are set to start increasing after some years on a declining path. The structural balance is projected to deteriorate by close to ½ pps. in 2018. The debt-to-GDP ratio is forecast to keep rising at a moderate pace, from 96.0% in 2016 to 96.7% in 2018.

Table II.10.1:

Main features of country forecast - FRANCE

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	2181.1	100.0	1.7	0.6	0.6	1.3	**1.2**	**1.4**	**1.7**
Private Consumption	1201.5	55.1	1.9	0.5	0.7	1.5	**1.9**	**1.2**	**1.6**
Public Consumption	521.8	23.9	1.4	1.5	1.2	1.4	**1.5**	**1.2**	**1.2**
Gross fixed capital formation	469.2	21.5	2.2	-0.8	-0.3	1.0	**2.8**	**2.6**	**3.7**
of which: equipment	103.2	4.7	2.6	-3.5	2.0	2.3	**5.5**	**3.2**	**4.1**
Exports (goods and services)	654.9	30.0	4.1	1.9	3.3	6.1	**1.2**	**3.2**	**4.2**
Imports (goods and services)	685.0	31.4	4.8	2.1	4.7	6.6	**3.7**	**3.3**	**4.7**
GNI (GDP deflator)	2216.5	101.6	1.7	0.6	0.6	1.6	**1.2**	**1.4**	**1.7**
Contribution to GDP growth: Domestic demand			1.8	0.4	0.6	1.4	**2.0**	**1.5**	**2.0**
Inventories			0.1	0.2	0.5	0.1	**0.0**	**0.0**	**0.0**
Net exports			-0.1	-0.1	-0.5	-0.3	**-0.8**	**-0.1**	**-0.3**
Employment			0.7	0.1	0.2	0.4	**0.5**	**0.8**	**1.0**
Unemployment rate (a)			9.0	10.3	10.3	10.4	**10.1**	**9.9**	**9.6**
Compensation of employees / f.t.e.			2.5	1.6	1.2	1.1	**1.3**	**1.5**	**1.8**
Unit labour costs whole economy			1.6	1.1	0.8	0.2	**0.7**	**1.0**	**1.1**
Real unit labour cost			0.1	0.3	0.3	-0.4	**-0.2**	**0.1**	**-0.2**
Saving rate of households (b)			15.1	14.0	14.1	14.1	**14.2**	**14.0**	**14.1**
GDP deflator			1.5	0.8	0.5	0.6	**0.8**	**0.9**	**1.3**
Harmonised index of consumer prices			1.7	1.0	0.6	0.1	**0.3**	**1.4**	**1.3**
Terms of trade goods			-0.2	1.3	1.6	3.8	**1.9**	**-0.4**	**0.7**
Trade balance (goods) (c)			-0.5	-2.0	-1.7	-1.0	**-1.2**	**-1.3**	**-1.3**
Current-account balance (c)			0.1	-2.9	-3.2	-2.0	**-2.3**	**-2.4**	**-2.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			0.1	-2.8	-3.2	-2.0	**-2.2**	**-2.4**	**-2.4**
General government balance (c)			-3.5	-4.0	-3.9	-3.6	**-3.4**	**-3.0**	**-3.2**
Cyclically-adjusted budget balance (d)			-3.9	-3.2	-2.9	-2.7	**-2.6**	**-2.4**	**-2.8**
Structural budget balance (d)			-	-3.4	-2.9	-2.7	**-2.5**	**-2.3**	**-2.8**
General government gross debt (c)			68.0	92.3	94.9	95.6	**96.0**	**96.4**	**96.7**

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

11. CROATIA

Growth set to remain strong, but risks widen

The economic recovery is set to remain strong and broad-based. The troubles facing Croatia's largest private company, Agrokor, are expected to weigh on growth, but real GDP is still projected to expand by a solid 2.9% this year and slightly decelerate thereafter. Unemployment is projected to continue falling, although at a slower pace, as the labour force shrinks more moderately. After another record reduction in 2016, the general government deficit is projected to increase mildly, but with output growing well above potential, the structural balance is set to deteriorate significantly.

Pace of expansion expected to have weakened in the beginning of the year

In the fourth quarter of 2016, real GDP increased by a higher-than-expected 3.5% (y-o-y), resulting in an annual growth of 2.9%. In the first quarter of 2017, retail and tourism remained strong, and confidence was at a record high. Industrial production, however, deteriorated somewhat – particularly in the consumer goods segment. This was possibly related to the distressed food-processing and retail group Agrokor – Croatia's largest employer – which faced severe difficulties in (re)financing its liabilities earlier this year.

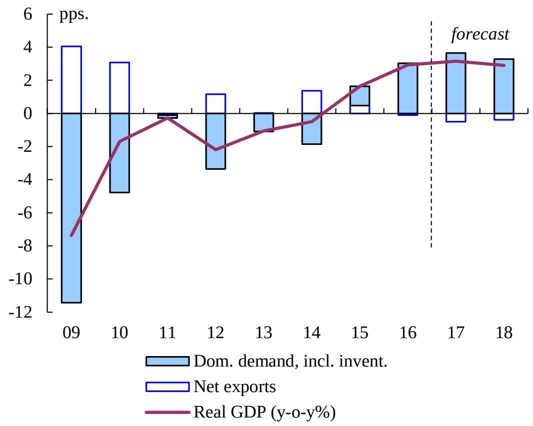
Growth expected to remain robust over the forecast horizon

The continuity of Agrokor's operations should be ensured by the recently activated measures on emergency receivership in systematically important companies. Disruptions experienced in the first part of the year may hold back consumption and especially investment, as well as affect confidence. These difficulties notwithstanding, the positive trends registered in 2016 are set to continue. The personal income tax reform, coupled with further gains in employment and real wages, should sustain the acceleration of private consumption. After a solid rebound already last year, investment is expected to continue rising.

Croatian firms are expected to further improve their export market shares, with exports of goods expanding above 6%. As the tourist season appears to progressively extend beyond the traditional summer months and investment in the sector intensifies, exports of services are also expected to remain strong, although short of the record growth rates registered over the last two years. Strong domestic and external demand are nevertheless set to sustain import growth above that of exports.

This, coupled with the rebound in energy prices, is projected to lead to a deterioration of the balance of trade in 2017. Conversely, reduced repatriated earnings in the banking sector, due to the ongoing provisioning and possible write-offs of irrecoverable loans related to the Agrokor crisis, are expected to improve the traditionally negative income balance and thus the overall current account surplus, which is expected to increase to 2.9% of GDP.

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



In 2018 export growth is projected to slow down further. Whereas private consumption is set to decelerate to around 3%, fixed capital formation is projected to further accelerate – underpinned by strong public sector investment. On the whole, GDP growth is set to remain strong and broad-based at about 2.6%.

Upcoming wage hikes and higher energy prices drive up inflation

Sustained economic growth is projected to boost employment growth, while the labour force is set to keep shrinking, although at a more moderate pace than in 2016. As a result, the unemployment rate is projected to decrease more mildly, but still fall below 10% by the end of 2018. The tightening labour market and wage increases in the public sector are set to push labour costs up by 2.5% in both 2017 and 2018. As wages grow and energy prices rebound, inflation is expected to hit 1.6% in

2017 before subsiding slightly thereafter, as the effects of higher energy prices fade.

Risks to the forecast have turned more negative. The forthcoming restructuring of Agrokor could have stronger-than-expected spillover effects on the economy, also through weakening economic sentiment. Unusually long queues at land border crossings might negatively affect the tourism sector, where revenues are estimated at around 20% of GDP. Upside risks relate to continued gains in export market shares, both in terms of goods and services.

Public finances continue to surprise positively

In 2016, the general government deficit was notified to have sharply decreased to 0.8% of GDP, from 3.4% the year before. Revenues benefited from the acceleration of growth, especially through household consumption, employment and corporate profits. Additionally, primary expenditure growth was contained well below nominal GDP growth.

The headline deficit is projected to increase in 2017 to 1.1% of GDP, mostly due to the impact of the tax reform, but improve again in 2018.

In 2017, revenue is expected to grow largely in line with nominal GDP. Growth in VAT revenue and social contributions is expected to be strong, driven by rising personal consumption and employment growth. The direct negative effect of the tax reform is estimated at 0.6% of GDP in 2017 and 0.2% in 2018, mainly through personal income taxation. The impact, however, is expected to be partially offset by strong growth. At the same time, the Agrokor crisis is expected to weigh on revenue from corporate income taxation. The expenditure side is projected to grow more strongly, with compensation of employees set to increase on the back of wage hikes; while interest expenditure is expected to decrease again due to the favourable refinancing environment.

Following a strong improvement in 2016, the structural balance is forecast to deteriorate in 2017, and again in 2018. The debt ratio is set to continue declining to 79.4% by 2018.

Table II.11.1:

Main features of country forecast - CROATIA

	2015		Annual percentage change						
bn HRK	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	333.8	100.0	2.1	-1.1	-0.5	1.6	**2.9**	**2.9**	**2.6**
Private Consumption	196.2	58.8	2.0	-1.8	-1.6	1.2	**3.3**	**3.2**	**2.8**
Public Consumption	65.8	19.7	1.6	0.3	-0.8	-0.3	**1.7**	**2.3**	**1.4**
Gross fixed capital formation	65.1	19.5	3.5	1.4	-2.8	1.6	**4.6**	**5.2**	**5.7**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	166.8	50.0	4.0	3.1	7.6	10.0	**6.7**	**5.2**	**4.6**
Imports (goods and services)	157.7	47.2	3.7	3.1	4.5	9.4	**7.3**	**6.6**	**5.7**
GNI (GDP deflator)	331.7	99.4	1.9	0.2	-1.8	3.7	**0.0**	**4.4**	**1.2**
Contribution to GDP growth: Domestic demand			2.5	-0.7	-1.7	1.0	**3.2**	**3.3**	**3.1**
Inventories			0.0	-0.3	-0.2	0.2	**-0.1**	**0.0**	**0.0**
Net exports			-0.3	0.0	1.4	0.5	**-0.1**	**-0.5**	**-0.5**
Employment			-0.2	-2.7	2.7	1.5	**0.7**	**1.9**	**1.5**
Unemployment rate (a)			-	17.4	17.2	16.1	**13.3**	**11.6**	**9.7**
Compensation of employees / head			6.3	-0.6	-5.4	-0.3	**1.2**	**2.5**	**2.5**
Unit labour costs whole economy			3.9	-2.3	-2.4	-0.5	**-0.9**	**1.5**	**1.4**
Real unit labour cost			0.0	-3.0	-2.4	-0.6	**-0.8**	**0.2**	**-0.3**
Saving rate of households (b)			-	10.5	12.8	12.0	**10.8**	**10.4**	**9.8**
GDP deflator			3.9	0.8	0.0	0.1	**-0.1**	**1.4**	**1.6**
Harmonised index of consumer prices			-	2.3	0.2	-0.3	**-0.6**	**1.6**	**1.5**
Terms of trade goods			1.3	-1.6	-0.9	-0.8	**-0.7**	**0.0**	**0.5**
Trade balance (goods) (c)			-19.0	-15.1	-14.8	-15.2	**-15.5**	**-16.5**	**-17.1**
Current-account balance (c)			-4.4	1.6	1.1	5.0	**2.6**	**2.9**	**1.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.4	1.6	1.1	5.7	**3.7**	**4.2**	**2.5**
General government balance (c)			-	-5.3	-5.4	-3.4	**-0.8**	**-1.1**	**-0.9**
Cyclically-adjusted budget balance (d)			-	-3.6	-3.4	-2.0	**-0.2**	**-1.6**	**-2.1**
Structural budget balance (d)			-	-3.4	-3.5	-2.0	**-0.3**	**-1.7**	**-2.1**
General government gross debt (c)			-	82.2	86.6	86.7	**84.2**	**81.9**	**79.4**

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

12. ITALY

External demand and investment support modest recovery

Italy's economy is set to continue expanding by about 1% in 2017 and 2018, driven by stronger external demand and the recovery of investment. Equipment investment, in particular, should benefit from the extension of tax incentives and the accommodative monetary policy stance. Private consumption growth is projected to slow in 2017, due to the impact of slower employment growth and higher inflation on real disposable income. The general government deficit is expected to slightly decline in 2017, while the debt-to-GDP ratio is set to broadly stabilise over the forecast horizon.

Economic activity continued to expand in 2016

The recent modest economic recovery continued in 2016, when real GDP increased by 0.9% (up from 0.8% in 2015). The expansion of domestic demand was the main driver of growth. Equipment investment recorded a sizeable increase, supported by the accommodative monetary policy stance and by tax incentives. After eight years of contraction, construction investment rose only moderately, as the sector is still affected by financing constraints, and public investment declined. Private consumption continued to grow faster than real GDP mainly thanks to solid job creation, sustained by the implementation of labour market reforms and the reduction in the labour tax wedge. Exports and imports both decelerated compared with 2015, mirroring developments in global trade.

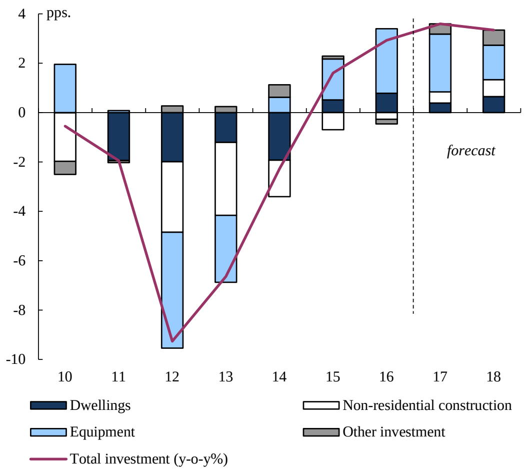
Exports and investment are supporting growth

In 2017, real GDP is projected to grow by 0.9%. Exports are set to accelerate, broadly in line with external demand developments. In turn, strong export growth should sustain the ongoing recovery in equipment investment. The latter is also expected to benefit from low real interest rates, the extension of tax incentives adopted with the 2017 budget, and the self-financing capacity of more profitable exporting firms. Construction investment is set to accelerate slightly, also thanks to more resources earmarked for public investment, a higher absorption of EU funds and the impact of the Investment Plan for Europe. However, financing constraints are likely to remain in place for the construction sector and SMEs. Private consumption growth is projected to almost halve in 2017 compared with 2015-2016, as higher inflation and slower employment growth weigh on household real disposable income.

In 2018, real GDP growth is set to increase slightly (by 1.1%) thanks to stronger exports, sustained investment dynamics, and more buoyant private consumption, which is also due to moderately rising wages. The acceleration in export and investment growth is expected to trigger higher imports, implying that net exports will detract slightly from real GDP growth in both 2017 and 2018. This, together with higher imported energy prices, is set to lead to a gradual reduction in the current account surplus over the forecast horizon.

Political uncertainty and the slow adjustment in the banking sector represent downside risks to Italy's growth prospects. By contrast, the currently high confidence in manufacturing might imply stronger external demand than assumed in the forecast.

Graph II.12.1: **Italy - Investment growth and contributions**



The unemployment rate declines marginally

After positive performances in 2015 and 2016, when employment was supported by a temporary reduction in social contributions, employment is expected to grow at a pace more consistent with economic developments in 2017 and 2018. Partly as a result of higher labour force participation, the unemployment rate is projected to remain above 11% over the forecast horizon. The sizeable slack remaining in the labour market is expected to contain wage pressures over the forecast horizon, with nominal unit labour costs rising by around 1% on average over 2017 and 2018.

Headline inflation picks up

In the first quarter of 2017, headline annual HICP inflation rose to around 1.3%, following three years of near-zero inflation. Higher energy and unprocessed food prices are projected to lead to average annual inflation at 1.5% in 2017 and 1.3% in 2018. Core inflation was 0.6% in the first quarter of 2017 but it is expected to gradually accelerate over the forecast horizon on the back of moderate wage rises and a recovery in profit margins.

A small deficit reduction in 2017

The general government deficit turned out at 2.4% of GDP in 2016, down from 2.7% in 2015, also thanks to lower interest expenditure. Current primary expenditure increased by 1.7% in nominal terms, also due to some exceptional transactions. Revenues remained broadly stable, implying a lower tax burden. This was mainly due to the lower labour tax wedge and the abrogation of the property tax on primary residences.

In 2017, the deficit is set to decline slightly to 2.2% of GDP. Current primary expenditure is expected to increase by around 1.5% in nominal terms, also due to additional resources earmarked in the 2017 budget for pensions. However, past pension reforms and moderate increases in public wages and healthcare expenditure are still assumed to curb expenditure dynamics. The budget also supports public and private investment. Additional consolidation measures adopted in April, mainly to enhance tax compliance, are expected to maintain the tax burden stable despite the reduction in the corporate income tax rate to 24% from 27.5%.

In 2018, under a no-policy-change assumption, the deficit is forecast to slightly increase to 2.3% of GDP, also due to a lower tax burden. The 2017 budget includes measures with a deficit-increasing impact in 2018, such as the introduction of a flat tax on small firms' entrepreneurial income (IRI). The structural balance is set to slightly deteriorate both in 2017 and in 2018.

The general government debt-to-GDP ratio rose to 132.6% in 2016, mainly due to an increase in the liquidity buffer. A further slight increase is expected in 2017, also due to the additional resources earmarked for the public support to the banking sector and retail investors. The debt-to-GDP ratio is forecast to decline to 132.5% in 2018, under a no-policy-change assumption.

Table II.12.1:

Main features of country forecast - ITALY

		2015		Annual percentage change						
bn EUR		Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		1645.4	100.0	0.6	-1.7	0.1	0.8	**0.9**	**0.9**	**1.1**
Private Consumption		1001.0	60.8	0.8	-2.5	0.3	1.6	**1.4**	**0.8**	**1.0**
Public Consumption		311.6	18.9	0.8	-0.3	-0.7	-0.7	**0.6**	**0.2**	**0.0**
Gross fixed capital formation		276.5	16.8	0.3	-6.6	-2.3	1.6	**2.9**	**3.6**	**3.3**
of which: equipment		96.9	5.9	0.7	-8.2	1.9	4.9	**7.5**	**6.4**	**3.7**
Exports (goods and services)		493.9	30.0	2.2	0.7	2.7	4.4	**2.4**	**3.4**	**3.6**
Imports (goods and services)		446.0	27.1	2.7	-2.4	3.2	6.8	**2.9**	**4.5**	**4.7**
GNI (GDP deflator)		1636.3	99.4	0.6	-1.8	0.3	0.2	**1.6**	**0.9**	**1.1**
Contribution to GDP growth:	Domestic demand			0.7	-2.8	-0.4	1.1	**1.4**	**1.1**	**1.2**
	Inventories			0.0	0.2	0.6	0.2	**-0.5**	**0.0**	**0.1**
	Net exports			0.0	0.9	-0.1	-0.5	**-0.1**	**-0.2**	**-0.2**
Employment				0.3	-2.4	0.2	1.0	**1.4**	**0.7**	**0.8**
Unemployment rate (a)				8.7	12.1	12.7	11.9	**11.7**	**11.5**	**11.3**
Compensation of employees / f.t.e.				2.5	1.3	0.0	0.2	**0.3**	**0.9**	**1.6**
Unit labour costs whole economy				2.2	0.6	0.1	0.4	**0.8**	**0.6**	**1.3**
Real unit labour cost				0.0	-0.6	-0.9	-0.2	**0.0**	**-0.2**	**0.0**
Saving rate of households (b)				13.8	11.0	11.2	10.5	**10.6**	**10.4**	**10.4**
GDP deflator				2.2	1.2	1.0	0.7	**0.8**	**0.8**	**1.2**
Harmonised index of consumer prices				2.3	1.2	0.2	0.1	**-0.1**	**1.5**	**1.3**
Terms of trade goods				-0.6	1.8	3.5	4.1	**3.2**	**-2.4**	**0.1**
Trade balance (goods) (c)				0.6	2.2	2.9	3.1	**3.6**	**2.9**	**2.8**
Current-account balance (c)				-0.8	1.0	1.9	1.4	**2.6**	**1.9**	**1.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.6	0.9	2.1	1.6	**2.5**	**1.8**	**1.6**
General government balance (c)				-3.2	-2.9	-3.0	-2.7	**-2.4**	**-2.2**	**-2.3**
Cyclically-adjusted budget balance (d)				-3.2	-0.7	-1.0	-1.2	**-1.5**	**-1.8**	**-2.3**
Structural budget balance (d)				-3.9	-0.9	-1.2	-1.0	**-1.7**	**-2.0**	**-2.2**
General government gross debt (c)				107.6	129.0	131.8	132.1	**132.6**	**133.1**	**132.5**

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

13. CYPRUS

Solid growth accompanied by fiscal loosening ahead

Supported by robust employment, consumption and investment, Cyprus' economy has enjoyed a broad-based recovery and is forecast to post solid growth over the forecast horizon. Employment growth is expected to remain strong and unemployment to fall further. The general government budget position in 2016 turned out better than anticipated and some loosening of fiscal policy is expected.

Robust growth becoming more broad-based

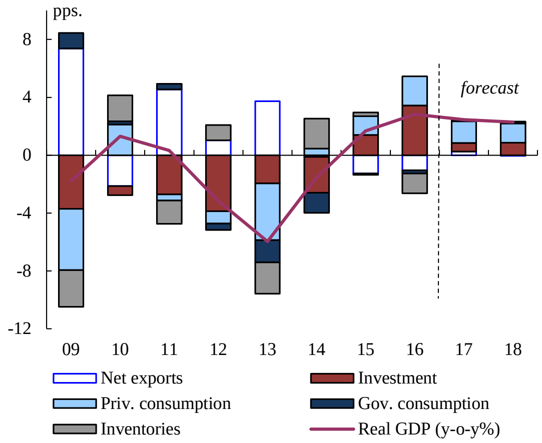
The economy of Cyprus expanded by 2.8% in real terms in 2016, driven by private consumption and investment. Private consumption was supported by falling prices, increasing employment and rising disposable income. Investment surprised on the upside, surging by 26%, with a few very sizable acquisitions of transport equipment adding to the gradual revival of investment in the real economy. These transport equipment acquisitions also had a major impact on goods imports, which increased by nearly 11%. As a result, the overall contribution to growth from net exports was negative despite strong exports. Exports particularly benefitted from the record-high tourism season (revenues from tourism exceeded 13% of GDP in 2016).

In 2017, real GDP growth is forecast at 2.5%, mainly driven by domestic demand. Private consumption is expected to be the engine of growth, fuelled by demand pent up during the crisis years and significant increase in employment in 2016. Purchasing power, however, is expected to see some erosion as inflation returns to positive territory. Some support for growth is set to come from government consumption, which is expected to start growing after five years of contraction, and net exports.

Investment in Cyprus suffered a sharp fall during the crisis and is forecast to gradually recover towards its long-term average. The clear upward trend in investment in housing and other construction, observed in 2016, is expected to continue as a real estate market picks up. While there is large uncertainty surrounding the investment outlook, the gradual easing of bank lending conditions, increasing foreign direct investment and improving confidence in the economy are expected to sustain the positive investment momentum.

In 2018, real growth is forecast to further ease to 2.3%. The main drivers are expected to be private and public consumption as well as investment. As unit labour costs are forecast to rise, the contribution of net exports is expected to become neutral.

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



Unemployment expected to fall further while inflation turns positive

Employment increased by 2.7% in 2016, with gains across all sectors. With the ongoing recovery, job creation is expected to continue in the coming years. The unemployment rate fell to 13.1% in 2016, as discouraged workers started returning to the active labour force, and is expected to gradually decline to 10.6% in 2018.

Annual HICP inflation is projected to amount to 1.2% in 2017 and 1.1% in 2018. The inflationary pressure in 2017 is forecast to stem from higher energy prices, while core inflation is expected to be marginally positive. In 2018, domestic price pressures are set to intensify along with the economic recovery.

Risks to the outlook are on the upside in the short term, with early indications pointing to a strong tourism season in 2017 amid ongoing flows from Russia and with limited impact so far from the depreciation of the pound sterling on tourists from the UK. Over the medium-term, the risks are balanced. Rising domestic confidence and the EU economic recovery could spur growth more than expected, but competition from other tourist destinations could turn out stiffer than expected.

Expansionary fiscal policy

The government's fiscal performance in 2016 exceeded expectations again. The headline general government position registered a surplus of 0.4% of GDP, whilst the general government primary balance reached a surplus of 3.0% of GDP, one of the highest in the euro area and up by 0.3 pps. compared to the previous year (excluding one-off measures in relation to the recapitalisation of the banking sector in 2015). This was due to a sizeable increase of VAT and social security revenues as a result of a strong tourism season and positive labour market developments; and the continued reduction in intermediate consumption, compensation of employees and interest expenditure.

In 2017, the general government headline deficit is forecast to ease marginally to 0.2% of GDP and the primary surplus to 2.7% of GDP. Total expenditures are expected to diminish by 1.0 pp. of GDP, mostly led by interest expenditure. Government gross fixed capital formation is also expected to fall due to a combination of recurrent and one-off expenditure items. Total revenues are expected to fall by 1.1 pps. of GDP due to a combination of new fiscal policy measures and the full year impact of the 2016 measures, such as the abolishment of the immovable property tax and the expiration of a special payroll contribution levied in response to the crisis. The implementation of the new place-of-supply rules regarding VAT for e-commerce services is also expected to have a negative impact on government revenue in 2017.

In 2018, the expected improvement in the general government headline balance is largely driven by the improving economic outlook and a decrease in interest expenditure.

The structural balance is expected to deteriorate over the forecast horizon due to the projected fiscal loosening. Public debt reached 107.8% of GDP in 2016 and is expected to be on a declining path afterwards, falling below 100% of GDP in 2018. The decline in the debt-to-GDP ratio over the forecast period is mainly due to the expectation that high primary surpluses will continue, as well as favourable debt dynamics due to positive nominal growth.

Table II.13.1:

Main features of country forecast - CYPRUS

	2015		Annual percentage change						
mio EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	17637.2	100.0	2.8	-6.0	-1.5	1.7	**2.8**	**2.5**	**2.3**
Private Consumption	12254.5	69.5	3.4	-5.9	0.7	1.9	**2.9**	**2.1**	**1.9**
Public Consumption	2772.2	15.7	4.5	-8.2	-7.9	-0.6	**-1.4**	**0.7**	**0.8**
Gross fixed capital formation	2340.9	13.3	0.4	-12.9	-17.5	12.0	**25.9**	**3.4**	**4.9**
of which: equipment	807.0	4.6	-0.5	-16.3	-34.8	94.1	**81.3**	**0.0**	**5.1**
Exports (goods and services)	10797.1	61.2	1.7	2.1	4.2	0.0	**3.6**	**3.3**	**3.2**
Imports (goods and services)	10738.1	60.9	1.9	-4.8	4.6	2.1	**5.3**	**2.9**	**3.2**
GNI (GDP deflator)	17574.7	99.6	2.7	-7.5	-0.6	5.2	**0.4**	**2.5**	**2.3**
Contribution to GDP growth:	Domestic demand		3.0	-7.4	-3.4	2.6	**5.2**	**2.2**	**2.3**
	Inventories		0.0	-2.2	2.1	0.3	**-1.4**	**0.0**	**0.0**
	Net exports		-0.2	3.7	-0.1	-1.3	**-1.0**	**0.3**	**0.0**
Employment			1.8	-5.9	-1.8	1.9	**2.7**	**2.3**	**1.9**
Unemployment rate (a)			5.4	15.9	16.1	15.0	**13.1**	**11.7**	**10.6**
Compensation of employees / head			3.9	-5.4	-3.8	-1.1	**-0.6**	**0.7**	**1.1**
Unit labour costs whole economy			2.8	-5.4	-4.0	-0.9	**-0.7**	**0.6**	**0.8**
Real unit labour cost			0.0	-4.4	-2.6	0.4	**0.6**	**-0.2**	**-0.1**
Saving rate of households (b)			6.8	-3.3	-7.9	-5.7	**-4.5**	**-2.6**	**-1.2**
GDP deflator			2.8	-1.0	-1.5	-1.3	**-1.3**	**0.8**	**0.9**
Harmonised index of consumer prices			2.6	0.4	-0.3	-1.5	**-1.2**	**1.2**	**1.1**
Terms of trade of goods			0.1	0.2	7.1	3.2	**-0.4**	**0.2**	**-0.5**
Trade balance (goods) (c)			-24.1	-16.2	-16.0	-18.0	**-21.2**	**-22.2**	**-22.9**
Current-account balance (c)			-8.5	-4.9	-4.4	-3.0	**-5.7**	**-5.9**	**-6.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-8.2	-3.5	-4.4	-2.7	**-5.2**	**-5.3**	**-5.8**
General government balance (c)			-3.2	-5.1	-8.8	-1.2	**0.4**	**0.2**	**0.7**
Cyclically-adjusted budget balance (d)			-	-1.5	-5.5	0.5	**0.8**	**-0.2**	**-0.4**
Structural budget balance (d)			-	-0.8	3.0	1.4	**0.9**	**-0.2**	**-0.4**
General government gross debt (c)			58.4	102.2	107.1	107.5	**107.8**	**103.4**	**99.8**

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

14. LATVIA

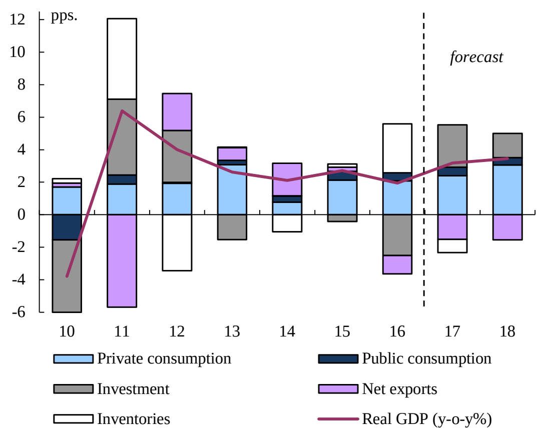
Growth rebound driven by domestic demand

Latvia's economic growth in 2016 (2.0%) suffered from a drop in investment but is expected to exceed 3% over the forecast horizon due to the upturn in the EU financing cycle and an increase in household purchasing power. Despite some tightening, the labour market should benefit from this pick-up and unemployment should inch down. Combined with energy price pressures, the surge in domestic demand is set to fuel inflation. Government borrowing is set to increase from a balanced position in 2016 to a deficit of 1.7% of GDP in 2018 through higher capital spending and tax cutting measures.

Growth is set to rebound

With the resumption of EU-funded projects and continued consumption growth, Latvia's GDP is expected to accelerate to 3.2% in 2017 and 3.5% in 2018 after 'just' 2.0% in 2016. Last year, the economy suffered from weak investment, primarily in construction, related to the trough in the EU-funds cycle. GDP growth, however, was supported by private consumption. Risks over the forecast horizon are somewhat tilted to the downside and related to both the timeliness of the investment upturn and external demand.

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



Investment is set to soar in 2017, consumption in 2018

In 2017, investment is expected to pick-up markedly, in line with the use of the EU-funds and the renewal of the Air Baltic fleet. The former is expected to support economic growth and the recovery of the construction sector. The latter is mirrored by imports and is neutral on domestic activity. In 2018, private consumption is expected to accelerate, supported by a marked increase in the national minimum wage (from EUR 380 to EUR 430 per month) and a planned decrease in personal income tax rates.

Temporary factors weigh on the external position

The acceleration of domestic demand in Latvia is expected to be reflected in imports and weigh on the trade balance. In addition, the renewal of the Air Baltic fleet will raise imports over the forecast horizon. Finally, with the rise in oil prices, price differentials between imports and exports are expected to further widen the trade deficit. These developments directly impact the current account, which is expected to turn to a deficit over the forecast horizon.

Gradual decline in unemployment

Unemployment is expected to decline to 8.7% by 2018, somewhat faster than in recent years but in line with economic activity. In 2016, the unemployment rate edged down from 9.9% to 9.6%. Net emigration is expected to fade out only gradually, which means that demographic trends will continue to weigh on the labour market.

Inflation rebound

As oil prices rise again on international markets and domestic demand strengthens, inflation in Latvia is expected to rebound to reach 2.3% in 2017 before levelling off at 2% in 2018. In 2016, inflation remained subdued at 0.1%, limited by the drop in energy prices.

Tax cuts drive fiscal expansion in 2018

The general government reached a balanced position in 2016. The tax rich composition of growth in terms of wages and consumption, together with revenue increasing measures, contributed to solid tax revenues. Positive revenue surprises from corporate income tax and excise on fuels was further supported by a one-off receipt of confiscated illicit funds (0.2% of GDP). Expenditure growth was limited by a 21%

contraction in capital spending and underspending on goods and services, while social and wage expenditure exceeded the plans.

A government deficit of 0.8% of GDP is projected in 2017, as the expenditure savings in 2016 are not expected to be repeated. Tax revenue is expected to benefit from both the better-than-expected outturn in 2016 and a more positive economic outlook for 2017. Moreover, revenue-increasing measures, in particular the increase in the micro enterprise tax rate (0.2% of GDP) should increase the tax revenue share of GDP. Expenditure growth is driven by the pick-up in capital spending and further growth in public sector wages and contribution-based benefits.

In 2018, the government deficit is projected to further increase to 1.8% of GDP as a result of the tax reform with an estimated deficit-increasing effect of 1.1% of GDP. The key measures include a personal income tax cut from 23% to 20%, an increase in the income-differentiated basic allowance, an introduction of 0% corporate income tax rate for reinvested profits and the alignment of capital tax rates at 20%. The deficit forecast accounts for the higher consumption and economic activity generated by the reform. Expenditure growth is supported by a further increase in capital spending, accelerating public wage growth and a further expansion in social benefits, also in view of the planned increase in the national minimum wage. The structural deficit is expected to widen from ¾% of GDP in 2016 to 2½% of GDP in 2018, following the nominal deficit path.

The government debt-to-GDP ratio stood at 40% of GDP in 2016 and is expected to fall to 36% by 2018 largely by decreasing the large cash reserves accumulated in 2016.

Table II.14.1:

Main features of country forecast - LATVIA

	2015		Annual percentage change						
mio EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	24368.3	100.0	4.5	2.6	2.1	2.7	**2.0**	**3.2**	**3.5**
Private Consumption	14863.9	61.0	3.9	5.0	1.3	3.5	**3.4**	**3.9**	**4.9**
Public Consumption	4394.5	18.0	1.7	1.6	2.1	3.1	**2.7**	**3.0**	**2.5**
Gross fixed capital formation	5242.2	21.5	8.4	-6.0	0.1	-1.8	**-11.7**	**14.2**	**7.3**
of which: equipment	1962.2	8.1	8.9	-5.4	-10.9	-0.6	**-1.1**	**18.0**	**9.0**
Exports (goods and services)	14360.7	58.9	7.6	1.1	3.9	2.6	**2.8**	**3.4**	**3.6**
Imports (goods and services)	14636.3	60.1	6.7	-0.2	0.5	2.1	**4.6**	**6.1**	**6.1**
GNI (GDP deflator)	24310.0	99.8	4.4	3.1	2.2	2.6	**2.5**	**2.5**	**3.5**
Contribution to GDP growth: Domestic demand			5.3	1.8	1.2	2.2	**0.1**	**5.5**	**5.0**
Inventories			0.1	0.0	-1.1	0.2	**3.0**	**-0.8**	**0.0**
Net exports			-0.7	0.8	2.0	0.3	**-1.1**	**-1.5**	**-1.5**
Employment			-0.5	2.3	-1.4	1.3	**-0.1**	**0.3**	**0.5**
Unemployment rate (a)			12.9	11.9	10.8	9.9	**9.6**	**9.2**	**8.7**
Compensation of employees / head			9.6	5.5	8.6	6.9	**6.9**	**6.0**	**6.8**
Unit labour costs whole economy			4.4	5.1	4.9	5.4	**4.8**	**3.1**	**3.7**
Real unit labour cost			-0.9	3.6	3.3	5.0	**4.0**	**0.0**	**1.0**
Saving rate of households (b)			1.6	-4.5	-3.5	-2.2	**0.6**	**0.2**	**0.1**
GDP deflator			5.4	1.5	1.6	0.4	**0.7**	**3.1**	**2.7**
Harmonised index of consumer prices			4.8	0.0	0.7	0.2	**0.1**	**2.2**	**2.0**
Terms of trade of goods			-0.3	1.3	-0.9	2.4	**5.3**	**-0.9**	**-1.0**
Trade balance (goods) (c)			-16.8	-11.1	-9.3	-8.4	**-7.0**	**-8.9**	**-10.5**
Current-account balance (c)			-8.3	-2.1	-2.0	-0.8	**1.9**	**-0.9**	**-2.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.2	0.4	1.2	2.0	**3.7**	**0.9**	**-0.7**
General government balance (c)			-2.5	-1.0	-1.6	-1.3	**0.0**	**-0.8**	**-1.8**
Cyclically-adjusted budget balance (d)			-2.4	-0.9	-1.8	-1.7	**-0.6**	**-1.4**	**-2.4**
Structural budget balance (d)			-	-0.9	-1.4	-1.7	**-0.8**	**-1.4**	**-2.4**
General government gross debt (c)			19.7	39.0	40.9	36.5	**40.1**	**38.5**	**36.0**

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

15. LITHUANIA

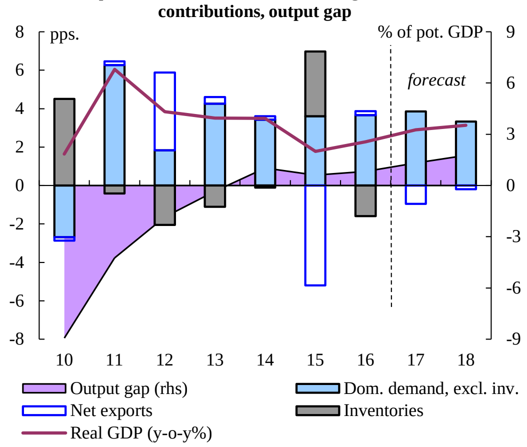
Improving growth outlook for both domestic and external demand

A recovery in EU funds-driven investment and exports are set to power GDP growth up to 2.9% in 2017 and 3.1% in 2018. At the same time, rising inflation is expected to take a toll on private consumption by dampening real disposable income growth. Employment is expected to continue growing but should slow as the labour supply approaches its limit. The general government surplus is set to swing into deficit in 2017and 2018 due to the short-term costs of structural reforms.

2016 ended on a positive note

GDP growth reached 2.3% in 2016 on the back of an especially strong fourth quarter. Overall, private consumption carried growth in 2016, driven by strong wage and employment growth and subdued inflation. Investment declined slightly as the economy weathered a temporary decline in EU-funded projects, although investment dynamics turned around in the fourth quarter. As expected, export growth in 2016 recovered to a solid 2.9% thanks to particularly strong growth in service exports. Meanwhile, import growth was subdued, mainly reflecting weak investment. Inflation increased somewhat on the back of rising food and service prices.

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



Recovering investment and exports set to boost growth over the forecast horizon

GDP growth is forecast to rise to 2.9% in 2017 and 3.1% in 2018, as solid investment and export growth are set to complement strong private consumption growth. Rising inflation will lower real disposable income growth and hence weigh on household consumption. Strong wage growth and expanding employment are nevertheless expected to ensure that private consumption continues to grow at a solid pace. A gradual roll-out of EU funded projects should ensure strong investment growth in both 2017 and 2018. Solid growth in mortgage credit suggests that investment should gain further momentum.

Export growth is expected to pick up over the forecast horizon, as the improving economic outlook in both the EU and Russia are set to boost demand in Lithuania's main export markets. In addition, the positive momentum gained by service exports in 2016 is expected to continue in 2017 and 2018. Rapidly rising unit labour costs, however, may make it more difficult to gain market share. Import growth is expected to recover in step with investment and exports in 2017. Overall, net exports are expected to subtract from growth in 2017 but should turn broadly neutral in 2018.

Risks to the forecast are balanced, as potential downsides from political uncertainty are countered by cautious optimism of a stronger-than-expected recovery of the EU economy.

The labour market finds some slack as older workers delay retirement

In 2016, employment grew by 2%, up from what was already a strong growth of 1.3% in 2015. In response to the strong demand for labour, the labour force expanded, as a rapidly increasing number of older workers chose to remain in the labour market past retirement age. As a result, the unemployment rate decreased to 7.9% - low by historical standards, but with some room left to decrease further still. In 2017, both employment and the labour force are expected to continue to grow, albeit at a slower pace than in recent years. The unemployment rate is forecast to decline in line with employment growth, falling to 7.6% in 2017 and 7.2% in 2018.

Inflation set to spike in 2017 and to remain strong thereafter

HICP inflation is set to reach 2.8% in 2017 before slowing down again in 2018. A substantial but short-lived surge in energy prices combined with excise and VAT increases are set to drive inflation up in 2017 before slowing down in 2018. Core inflation, however, is expected to remain elevated due to solid wage growth and the economy nearing its full capacity.

Tax-rich growth drives fiscal improvement

Lithuania's 0.2% of GDP general government deficit in 2015 changed to a surplus of 0.3% in 2016, as the buoyant labour market led to a strong collection of payroll taxes and overall expenditures were lower than planned. These developments offset the loss of revenues due to an increase in non-taxable incomes, as well as higher spending on pensions and public wages.

The general government surplus is set to revert to a deficit of 0.4% of GDP in 2017. This deficit is mostly explained by the costs of structural reforms related to labour market and pensions (0.5% of GDP). Furthermore, some new discretionary fiscal measures, in particular an increase in public wages and pensions, are set to increase expenditure, while a further increase in the non-taxable income threshold is set to add to tax revenue losses. On the positive side, a set of tax increases and efforts to improve tax compliance are expected to offset part of the revenues losses. In addition, the boost in revenues from tax-rich economic growth is expected to cover the higher spending on public wages and pensions.

Assuming continued expenditure restraint, the general government deficit is forecast to fall to 0.2% of GDP in 2018.

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

Lithuania's structural deficit is estimated to have fallen to around ¼% of GDP in 2016 but is expected to get closer to 1% of GDP in 2017 due to the costs of structural reforms. It is expected to edge above 1% of GDP in 2018.

General government debt fell from 42.7% of GDP in 2015 to 40.2% in 2016. In 2017, the debt ratio is forecast to increase to 42.4% of GDP due to the end-of-year pre-financing of forthcoming bond redemptions, but should fall back to 38.9% in 2018.

Table II.15.1:

Main features of country forecast - LITHUANIA

		2015			Annual percentage change					
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		37.3	100.0	4.5	3.5	3.5	1.8	**2.3**	**2.9**	**3.1**
Private Consumption		23.6	63.2	4.7	4.3	4.3	4.1	**5.6**	**3.8**	**3.4**
Public Consumption		6.6	17.6	1.3	0.7	0.3	0.9	**1.3**	**1.4**	**1.3**
Gross fixed capital formation		7.2	19.3	6.0	8.3	3.7	4.7	**-0.5**	**6.0**	**4.5**
of which: equipment		2.3	6.2	7.9	12.5	0.5	6.0	**6.8**	**6.1**	**4.0**
Exports (goods and services)		28.3	75.9	9.5	9.6	3.5	-0.4	**2.9**	**3.5**	**3.7**
Imports (goods and services)		28.6	76.5	9.1	9.3	3.3	6.2	**2.6**	**4.9**	**4.0**
GNI (GDP deflator)		35.8	96.0	4.3	4.0	4.9	-1.0	**2.1**	**3.1**	**3.3**
Contribution to GDP growth:	Domestic demand			4.9	4.3	3.4	3.6	**3.7**	**3.8**	**3.3**
	Inventories			0.2	-1.1	-0.1	3.4	**-1.6**	**0.0**	**0.0**
	Net exports			-0.4	0.3	0.2	-5.2	**0.2**	**-1.0**	**-0.2**
Employment				-1.0	1.3	2.0	1.3	**2.0**	**0.6**	**0.5**
Unemployment rate (a)				11.9	11.8	10.7	9.1	**7.9**	**7.6**	**7.2**
Compensation of employees / head				8.3	5.4	4.7	5.3	**5.0**	**5.1**	**5.6**
Unit labour costs whole economy				2.6	3.1	3.2	4.8	**4.7**	**2.8**	**2.9**
Real unit labour cost				-0.7	1.7	2.2	4.6	**3.5**	**-0.1**	**0.4**
Saving rate of households (b)				3.9	2.1	-0.6	-1.9	**-4.1**	**-4.8**	**-4.7**
GDP deflator				3.4	1.4	1.0	0.2	**1.2**	**2.9**	**2.5**
Harmonised index of consumer prices				3.5	1.2	0.2	-0.7	**0.7**	**2.8**	**2.0**
Terms of trade goods				1.0	0.0	0.6	3.2	**2.4**	**0.0**	**0.0**
Trade balance (goods) (c)				-10.4	-2.6	-2.6	-5.3	**-4.3**	**-5.6**	**-5.9**
Current-account balance (c)				-6.9	1.4	3.8	-2.2	**-1.1**	**-2.0**	**-1.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.5	4.5	6.5	0.8	**-0.1**	**-1.4**	**-1.0**
General government balance (c)				-3.8	-2.6	-0.7	-0.2	**0.3**	**-0.4**	**-0.2**
Cyclically-adjusted budget balance (d)				-3.7	-2.5	-1.1	-0.5	**-0.1**	**-0.9**	**-0.9**
Structural budget balance (d)				-	-2.1	-1.5	-0.6	**-0.2**	**-0.9**	**-1.1**
General government gross debt (c)				23.0	38.7	40.5	42.7	**40.2**	**42.4**	**38.9**

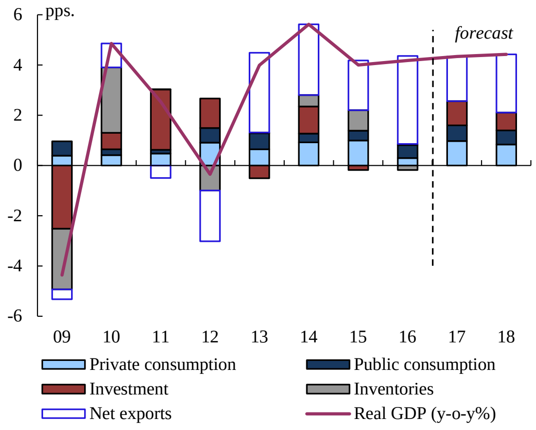
(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

16. LUXEMBOURG
Strong broad-based growth

Luxembourg's economy is expected to grow above 4% in 2017 and 2018. The recovery of oil prices along with additional domestic factors, are expected to keep inflation close to 2%. Employment growth will remain solid, with growth of resident employment accelerating, while unemployment is expected to fall further. Public finances are projected to remain sound in spite of the tax-decreasing reform.

In the last quarter of 2016, economic activity continued to show strong momentum supported by a steady improvement in net exports of services, in particular in the financial area and a recovery of domestic demand. Over 2016 as a whole, Luxembourg's economy growth is estimated to have slightly accelerated to 4.2% after 4.0% in 2015.

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



Solid growth ahead

In 2017, all indicators bode well for the strong momentum to continue. In particular, a rebound in domestic demand is projected to kick in and contribute to a more balanced growth. Notably, private consumption is projected to surge in line with the significant improvement in households' disposable income. Specifically, households' purchasing power is going to benefit from the reduction in tax payments as induced by the tax reform and from the implementation of the automatic indexation of wages, both of which took effect at the start of the year. While employment prospects remain positive, households are expected to consume a large share of this additional income. In turn, this favourable economic outlook is projected to foster investment growth. Equipment investment is expected to recover on the back of the positive environment, historically high levels of capacity utilisation and the still accommodative credit stance. At the same time, construction investment is estimated to remain robust over the forecast period, supported by both private housing investment and the engaged public investment plans, including the execution of large infrastructure projects. Contribution to growth from net exports is projected to remain substantial even if a slight drop is expected, partly due to the large import-content of investment. All in all, GDP growth is foreseen to accelerate slightly to 4.3% in 2017.

In 2018, economic growth is projected to slightly accelerate to 4.4%, supported by the recovery of the external environment, especially in the euro area, offsetting the projected slowdown in domestic demand, as the impact of the tax reform on consumption fades away.

Job creation remains robust

In 2016 employment growth accelerated to 3.0% from 2.6% in 2015. The buoyant economic environment will support job creation, which is projected to remain robust both in 2017 and 2018. While employment growth of non-residents remains higher than residents', a steady acceleration of resident employment growth is taking place, helping to curb the unemployment rate, which peaked at 6.5% in 2015, and is forecast to gradually fall throughout the forecast horizon and set at 6.0% in 2018.

Sustained inflation upturn

Headline HICP inflation was zero on average in 2016, strongly affected by oil prices, which bottomed out at the beginning of last year. Their subsequent surge gave a hefty spur on inflation as from the first quarter of 2017, which is foreseen to linger over the year. In addition, second round effects from the concurrent wage indexation, are expected to add some pressure on prices along the forecasts horizon. Accordingly, core inflation is projected to gradually increase to 1.3% in 2017 and to hit 1.9% in 2018 overshooting headline inflation.

Public finances remain sound

In 2016, the general government balance recorded a surplus of 1.6% of GDP. The subdued evolution of inflation-linked outlays combined with the incremental impact of saving measures adopted with the 2015 budget helped to contain expenditure, in spite of a high level of public investment maintained by the authorities.

In 2017, the general government balance is expected to shrink to a small surplus of 0.2% of GDP. Growth of government expenditure is expected to accelerate after the triggering of the automatic indexation of wages as a large part of its outlays is linked to inflation. Public investment is projected to further expand while the wage bill will grow faster as for the impact of the implementation of the recent wage agreement in the public sector.

At the same time, revenues will suffer after the tax reform that took effect at the beginning of the year. Amongst other things the reform repealed the temporary budgetary levy introduced in 2015 and it revised the tax brackets to become less progressive for lower income, while two new tax brackets for high revenues were introduced. In addition, tax credits related to house purchases were increased. Moreover, the corporate income tax rate was reduced to 19% from 21% and a more favourable tax treatment for small enterprises introduced. All in all, the reform is expected to shave revenues by an estimated 0.8% of GDP. Finally, additional revenues, equivalent to 0.3% of GDP, will be lost, due to the decline from 30% to 15% in the share of VAT revenues held by Luxembourg on e-commerce related transactions. Based on a no-policy change assumption, the surplus of the general government balance is projected to slightly improve in 2018.

The general government's structural surplus, mirroring the drop in the headline balance and in the light of the closing of the output gap towards the end of the forecast period, is expected to substantially diminish in 2017 and 2018, remaining however in positive territory.

Luxembourg's debt-to-GDP ratio decreased to 20.0% in 2016. In spite of a regular primary surplus, it is set to increase to 22.3 % over the forecast horizon, as the surplus of the social security sector cannot be used to finance the deficit of the central government, which has then to be financed with debt issuance.

Table II.16.1:

Main features of country forecast - LUXEMBOURG

	2015		Annual percentage change						
mio EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	52339.7	100.0	3.6	4.0	5.6	4.0	**4.2**	**4.3**	**4.4**
Private Consumption	15658.9	29.9	2.5	2.0	2.9	3.3	**1.0**	**3.3**	**2.9**
Public Consumption	8643.2	16.5	3.5	3.6	2.0	2.4	**3.2**	**3.9**	**3.4**
Gross fixed capital formation	9503.2	18.2	4.9	-2.5	5.6	-0.9	**0.2**	**5.4**	**4.0**
of which: equipment	3238.1	6.2	8.4	-10.5	6.4	-17.4	**-14.4**	**6.1**	**4.0**
Exports (goods and services)	118870.6	227.1	6.7	6.1	11.8	11.1	**4.9**	**5.6**	**5.9**
Imports (goods and services)	100710.0	192.4	7.2	5.2	12.5	12.1	**4.0**	**5.7**	**5.8**
GNI (GDP deflator)	34461.8	65.8	2.0	0.2	5.9	1.6	**2.7**	**3.8**	**4.5**
Contribution to GDP growth: Domestic demand			2.5	0.8	2.3	1.2	**0.9**	**2.6**	**2.1**
Inventories			0.0	0.0	0.5	0.8	**-0.2**	**0.0**	**0.0**
Net exports			1.1	3.2	2.8	2.0	**3.5**	**1.8**	**2.3**
Employment			3.4	1.8	2.6	2.6	**3.0**	**3.1**	**3.1**
Unemployment rate (a)			3.8	5.9	6.0	6.5	**6.3**	**6.1**	**6.0**
Compensation of employees / head			3.0	2.7	2.1	1.7	**0.4**	**3.0**	**1.9**
Unit labour costs whole economy			2.8	0.5	-0.8	0.3	**-0.7**	**1.8**	**0.6**
Real unit labour cost			0.2	-0.9	-2.4	-0.4	**-0.1**	**-0.6**	**-1.7**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.6	1.5	1.6	0.7	**-0.6**	**2.4**	**2.3**
Harmonised index of consumer prices			2.5	1.7	0.7	0.1	**0.0**	**2.4**	**1.8**
Terms of trade of goods			0.1	-1.3	0.3	0.3	**0.3**	**0.0**	**-0.1**
Trade balance (goods) (c)			-6.9	-0.1	1.5	2.7	**3.9**	**3.7**	**3.6**
Current-account balance (c)			8.7	5.5	5.0	5.1	**4.7**	**4.5**	**5.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			8.3	3.8	2.9	4.0	**3.4**	**5.0**	**5.5**
General government balance (c)			2.0	1.0	1.4	1.4	**1.6**	**0.2**	**0.3**
Cyclically-adjusted budget balance (d)			1.9	3.0	2.5	2.3	**2.0**	**0.4**	**0.1**
Structural budget balance (d)			-	3.0	2.5	2.2	**2.0**	**0.4**	**0.1**
General government gross debt (c)			10.7	23.4	22.4	21.6	**20.0**	**22.0**	**22.3**

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

17. HUNGARY

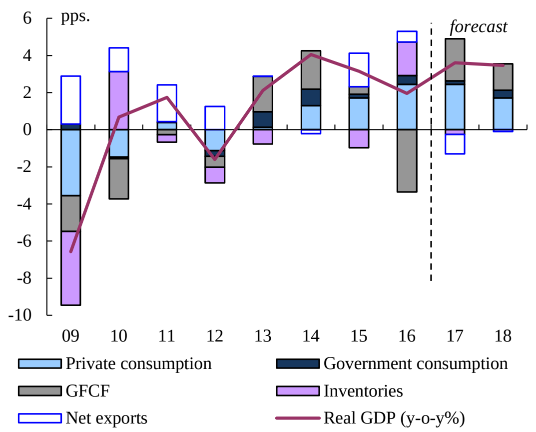
High private consumption and rebounding investment

Economic growth slowed in 2016 but is forecast to pick up again, driven by private consumption and rebounding investment. The labour market is becoming increasingly tight and price pressures are expected to increase over the forecast horizon. The fiscal stance is expected to loosen.

Investment drop slowed GDP growth in 2016

In 2016, real GDP growth slowed to 2.0%, from 3.1% in 2015. The decline was due to the lower absorption of EU funds at the end of the 2007-2013 Multiannual Financial Framework. As a result, investment contracted by 15.5% in 2016. Consequently, the contribution of domestic demand to GDP growth was negative, despite remarkably strong private consumption. The latter increased by 5.0% on the back of high wage and employment growth. The trade surplus increased to over 10% of GDP in 2016 from 8.9% in 2015. At the same time, the combined current and capital account surplus is estimated to have declined to 6.0% of GDP in 2016, reflecting the fall in EU transfers. Accumulation of inventories played a significant role in real GDP growth in 2016.

Graph II.17.1: **Hungary - Real GDP growth and contributions**



Investment and consumption are set to drive economic growth in 2017 and 2018

Real GDP growth is projected to rise to 3.6% in 2017 and 3.5% in 2018. Investment is expected to pick up sharply as EU-funded and public investment in infrastructure increase. In addition, the manufacturing sector is expected to benefit from capacity upgrades. Household consumption is forecast to grow at a fast pace, driven by dynamic wage growth, an upturn in bank lending to households and the continuation of positive labour market developments. As a result, domestic demand is set to become the main contributor to economic growth. From 2017, it is expected to be supported by a government-initiated package comprising a multi-annual cut in social security contributions, a minimum wage increase and corporate income tax cuts.

The large trade surplus is forecast to decrease as higher domestic demand boosts imports and higher wage costs are expected to moderate export dynamics. Nevertheless, export growth is forecast to remain strong, supported by planned improvements in manufacturing capacities, mainly in the automotive sector. A decrease in external financing capacity is expected to moderate as the inflow of EU transfers rebounds from 2017 onwards.

Domestic risks to the forecast are broadly balanced. On the upside, the adjustment of firms to higher wages and of workers to increased skill requirements may be smoother than expected in the baseline. On the downside, the pass-through of wage increases to domestic prices may be higher and faster, which could trigger a monetary policy reaction.

Employment growth is set to slow while inflation rises rapidly

The unemployment rate fell to 5.1% in 2016. The employment rate has increased significantly since the recovery started in 2013, while activity rates have been steadily increasing since 2008. Employment reached a historically high level in 2016, supported partly by the public work scheme. Private sector job creation has also been strong. However, national employment growth is set to slow over the forecast horizon as the labour market tightens and skill mismatches increase.

High domestic demand is projected to push inflation up to 2.9% in 2017. In 2018, inflation is expected to overshoot the 3% target of the central bank.

The general government deficit rebounds

In 2016, the general government deficit reached 1.8% of GDP, increasing somewhat compared to the 1.6% deficit in the previous year. The fiscal balance benefited particularly from the strong growth of wage-related tax receipts, temporary revenues and declining interest outlays. Expenditure on both EU-funded and domestic investment shrank significantly. However, these deficit-reducing effects were offset by spending increases, most notably on the public wage bill and capital transfers.

The headline deficit is forecast to rise to 2.3% of GDP in 2017. This reflects the impact of considerable tax cuts and expenditure increasing measures. While public investment is forecast to fall below the budgeted amount, the unspent appropriations are expected to be partly reallocated for current spending. Based on a no-policy-change assumption, the deficit is projected to increase slightly to 2.4 % of GDP in 2018. The forecast takes into account further cuts in social security contributions and counterbalancing further decreases in social payments and interest spending.

Overall, the risks to the 2017 forecast are to the upside, pointing towards a lower deficit. Spending on investment may turn out lower than projected due to delays in implementation and the related savings may not be fully spent. At the same time, the accumulating carry-overs of expenditure commitments are likely to pose a negative risk for the 2018 deficit outcome and further years.

Hungary's structural balance is estimated to have worsened only slightly in 2016 from -1½% to around -2% of GDP. Thereafter it is expected to deteriorate sharply reaching about -3¾% by 2018, due to a widening positive output gap. The debt-to-GDP ratio decreased from 74.7% to 74.1% by the end of 2016. Afterwards, it is projected to decline at a faster rate, approaching 71% by 2018 thanks to the forecast acceleration in nominal GDP growth.

Table II.17.1:

Main features of country forecast - HUNGARY

		2015		Annual percentage change						
	bn HUF	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		33999.0	100.0	2.2	2.1	4.0	3.1	**2.0**	**3.6**	**3.5**
Private Consumption		16775.0	49.3	2.0	0.3	2.5	3.4	**5.0**	**4.8**	**3.3**
Public Consumption		6811.7	20.0	1.1	4.1	4.5	1.0	**0.1**	**0.9**	**2.0**
Gross fixed capital formation		7366.9	21.7	2.4	9.8	9.9	1.9	**-15.5**	**12.8**	**7.2**
of which: equipment		3077.7	9.1	4.7	2.6	20.5	2.2	**-7.8**	**4.0**	**7.0**
Exports (goods and services)		30846.2	90.7	10.5	4.2	9.8	7.7	**5.8**	**5.0**	**5.8**
Imports (goods and services)		27816.7	81.8	9.8	4.5	10.9	6.1	**5.7**	**6.8**	**6.5**
GNI (GDP deflator)		32404.2	95.3	2.2	3.6	2.4	2.6	**3.4**	**4.5**	**2.8**
Contribution to GDP growth:	Domestic demand			2.0	2.9	4.3	2.3	**-0.4**	**4.9**	**3.5**
	Inventories			-0.2	-0.8	0.0	-1.0	**1.8**	**-0.3**	**0.0**
	Net exports			0.5	0.0	-0.2	1.8	**0.6**	**-1.0**	**-0.1**
Employment				-0.1	1.1	4.8	2.3	**2.2**	**0.6**	**0.3**
Unemployment rate (a)				8.0	10.2	7.7	6.8	**5.1**	**4.1**	**3.9**
Compensation of employees / head				8.4	1.6	1.3	1.5	**5.3**	**7.1**	**6.3**
Unit labour costs whole economy				6.0	0.6	2.1	0.6	**5.5**	**4.0**	**3.1**
Real unit labour cost				-0.7	-2.3	-1.2	-1.1	**4.5**	**1.1**	**-0.2**
Saving rate of households (b)				10.2	9.8	10.9	9.6	**9.7**	**9.2**	**7.0**
GDP deflator				6.8	2.9	3.4	1.7	**1.0**	**2.9**	**3.3**
Harmonised index of consumer prices				7.3	1.7	0.0	0.1	**0.4**	**2.9**	**3.2**
Terms of trade goods				-0.6	0.8	1.0	0.8	**1.8**	**-1.0**	**-0.4**
Trade balance (goods) (c)				-2.9	3.3	2.3	4.0	**4.7**	**2.8**	**2.0**
Current-account balance (c)				-5.3	3.8	2.0	3.1	**5.0**	**3.5**	**2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.5	7.4	5.8	7.8	**6.0**	**5.9**	**5.4**
General government balance (c)				-5.6	-2.6	-2.1	-1.6	**-1.8**	**-2.3**	**-2.4**
Cyclically-adjusted budget balance (d)				-5.6	-1.1	-1.6	-1.6	**-2.0**	**-3.0**	**-3.7**
Structural budget balance (d)				-	-1.2	-1.9	-1.6	**-1.9**	**-3.4**	**-3.7**
General government gross debt (c)				64.9	76.6	75.7	74.7	**74.1**	**72.6**	**71.2**

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

18. MALTA

Solid growth continues

Following exceptional growth rates in 2014 and 2015, and strong growth in 2016, real GDP growth is forecast to remain robust both this year and next. The labour market is performing well, with unemployment set to remain at record lows. The budget balance swung into surplus in 2016, which, thanks to strong revenue growth, is expected to remain.

Malta's economy performed better than expected in 2016. Read GDP growth expanded by 5% following upward data revisions for the first three quarters and a particularly strong final quarter of the year. Growth was driven primarily by services exports, in particular gaming and professional services. Private consumption expenditure also drove growth, fuelled by gains in disposable income and declining unemployment. Following extraordinarily high growth in 2014 and 2015, investment contracted slightly but remains well above the historical average.

Real GDP growth to remain robust

Real GDP growth is set to ease somewhat over the forecast horizon to robust rates of 4.6% in 2017 and 4.4% in 2018. With labour market conditions forecast to remain favourable, private consumption is projected to continue growing strongly over the forecast horizon. Despite a gradual increase in public investment and strengthening residential construction, gross fixed capital formation is forecast to remain modest, reflecting the expiration of one-off equipment investments. Net exports are projected to continue to contribute to growth, in particular due to the expansion of services exports, while goods exports are expected to remain subdued. Exports of services are being given a boost by the proceeds from the government's citizenship programme. As a result, the current account surplus is projected to continue to rise gradually over the forecast horizon.

Favourable labour market conditions continue

The trend of rising labour market participation and employment, in particular among women, is projected to continue over the forecast horizon. This is expected to feed continued strong employment growth averaging 2.9% in 2017-2018, while the unemployment rate stabilises at just below 5%. In line with the supportive macroeconomic conditions, wage growth is forecast to strengthen somewhat, while rising productivity, keeps unit labour costs increases contained.

Price inflation gradually increases

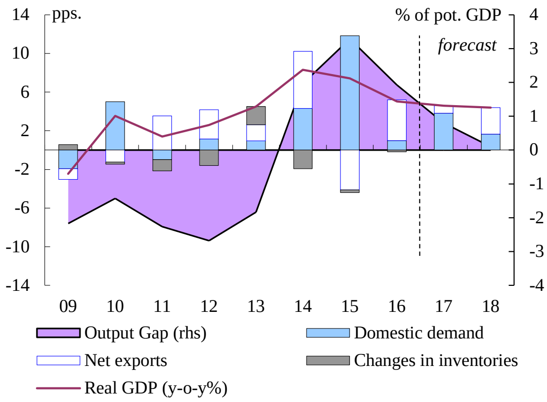
Annual HICP inflation is projected to gradually increase over the forecast horizon, in line with rising international commodity prices as well as growing domestic incomes. A rebound in fuel prices is expected to be the main driver behind the increase in HICP inflation in 2017. A further increase in fuel prices, accompanied by a pick-up in price growth in services is projected to push up inflation in 2018. Thus, HICP inflation is forecast to remain below 2% over the forecast horizon, rising above the euro-area average in 2018.

Risks to the macroeconomic projections are broad-based. On the domestic front, strong economic growth could spur private consumption and investment further, albeit somewhat offset by increased uncertainty due to the announced elections. The launching of the Malta Development Bank could provide an additional boost to investment. The decision to increase the minimum wage may support private consumption further, although the impact on GDP growth could be offset by higher costs for employers. The negotiations between the UK and the EU, which are still shrouded in considerable uncertainty, may also be set to impact Malta's growth prospects.

Government balance turned positive in 2016…

In 2016, the government balance turned positive, registering a surplus of 1% of GDP, up from a deficit of 1.3% in 2015. This better-than-expected outcome is explained by the high growth rate of current revenue. In particular, income tax revenues increased substantially due to both favourable labour market conditions and high corporate profits. In addition, higher-than-expected proceeds from Malta's citizenship programme (1.7% of GDP) contributed to the fiscal surplus. Current expenditure continued to increase but at a slower pace than in previous years. This was despite increases in public sector wages and intermediate consumption, which included costs associated with Malta's presidency of the EU. Finally, despite a sharp decline in the absorption of EU funds as a result of the start of a new programming period, and a lower capital injection into the national airline, net capital expenditure increased by 0.3 pps. of GDP.

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



...and is expected to remain positive over the forecast horizon.

In 2017, the fiscal surplus is expected to decline to 0.5% of GDP. In line with robust GDP growth and a strong labour market performance, tax revenues are expected to continue growing. Yet, following lower proceeds from the citizenship scheme, overall current revenue growth is expected to slow down. Current expenditure growth is projected to strengthen, mainly resulting from higher outlays for public wages related to the renewal of the public sector wage agreement and costs associated with Malta's presidency of the EU. By contrast, interest expenditure is set to marginally decrease. Net public investment is forecast to remain broadly unchanged as the implementation of investment projects co-financed by the EU and by the revenues received from the citizenship scheme seems to lag behind. In 2018, under a no-policy-change assumption, the budget surplus is projected to improve further to 0.8% of GDP. The structural balance is estimated to have improved in 2016 by 3 pps., reaching a surplus of 0.4% of GDP. It is projected to remain positive in 2017 and 2018, thanks to a swift closure of the positive output gap. The government debt-to-GDP ratio, which fell below the 60% threshold in 2016, is forecast to decline further to 52.5% in 2018.

Risks to the fiscal outlook are balanced as higher current expenditure, related to the recently-called early elections and slippages in budgetary execution, may be compensated by higher proceeds from the citizenship programme.

Table II.18.1:

Main features of country forecast - MALTA

		2015					Annual percentage change			
		mio EUR Curr. prices	**% GDP**	**97-12**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
GDP		9275.8	100.0	2.7	4.5	8.3	7.4	**5.0**	**4.6**	**4.4**
Private Consumption		4652.0	50.2	2.2	2.3	2.8	5.2	**3.8**	**3.5**	**3.3**
Public Consumption		1690.3	18.2	1.8	-0.3	6.5	3.8	**-3.1**	**11.8**	**4.1**
Gross fixed capital formation		2291.1	24.7	1.4	-1.7	8.8	48.8	**-1.3**	**0.5**	**-3.0**
of which: equipment		1242.7	13.4	-	-4.5	15.2	117.6	**0.3**	**-**	**-**
Exports (goods and services)		13356.1	144.0	5.7	1.4	5.3	4.1	**4.0**	**3.6**	**4.5**
Imports (goods and services)		12629.8	136.2	4.9	0.4	1.6	7.5	**1.1**	**3.4**	**2.8**
GNI (GDP deflator)		8898.2	95.9	2.4	3.8	8.6	8.0	**3.2**	**5.0**	**4.8**
Contribution to GDP growth:	Domestic demand			2.1	1.0	4.3	11.9	**1.0**	**3.9**	**1.7**
	Inventories			-0.2	1.8	-1.9	-0.2	**-0.2**	**0.0**	**0.0**
	Net exports			0.8	1.6	5.8	-4.3	**4.3**	**0.7**	**2.8**
Employment				1.0	3.7	5.1	3.8	**3.7**	**3.0**	**2.8**
Unemployment rate (a)				6.8	6.4	5.8	5.4	**4.7**	**4.9**	**4.9**
Compensation of employees / head				3.8	2.0	1.5	3.3	**2.4**	**3.0**	**3.1**
Unit labour costs whole economy				2.2	1.3	-1.4	-0.2	**1.1**	**1.4**	**1.5**
Real unit labour cost				-0.2	-0.7	-3.4	-2.5	**-0.5**	**-0.2**	**-0.3**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				2.4	2.0	2.0	2.4	**1.6**	**1.6**	**1.8**
Harmonised index of consumer prices				2.7	1.0	0.8	1.2	**0.9**	**1.6**	**1.8**
Terms of trade of goods				0.2	1.7	6.6	1.4	**1.2**	**1.1**	**0.3**
Trade balance (goods) (c)				-16.2	-13.6	-12.3	-19.4	**-18.4**	**-19.1**	**-18.5**
Current-account balance (c)				-3.9	2.8	9.7	5.3	**7.9**	**6.5**	**9.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.8	4.6	11.3	7.1	**8.7**	**8.1**	**10.5**
General government balance (c)				-4.9	-2.6	-2.0	-1.3	**1.0**	**0.5**	**0.8**
Cyclically-adjusted budget balance (d)				-4.8	-1.7	-2.7	-2.5	**0.3**	**0.2**	**0.7**
Structural budget balance (d)				-	-1.8	-3.2	-2.6	**0.4**	**0.4**	**0.7**
General government gross debt (c)				64.0	68.7	64.3	60.6	**58.3**	**55.8**	**52.5**

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

19. THE NETHERLANDS

Positive economic conditions to continue

The Dutch economy is set to show robust growth in 2017, building on the good performance of 2016. A mild slowdown is expected for 2018. Labour market conditions are expected to continue improving, driving unemployment down to 4.4% in 2018. HICP inflation is expected to pick up due to base effects in energy prices and tightness in the economy. Public finances improved markedly in 2016, swinging to a surplus that is set to widen over the forecast horizon. The debt-to-GDP ratio is projected to drop below 60% this year.

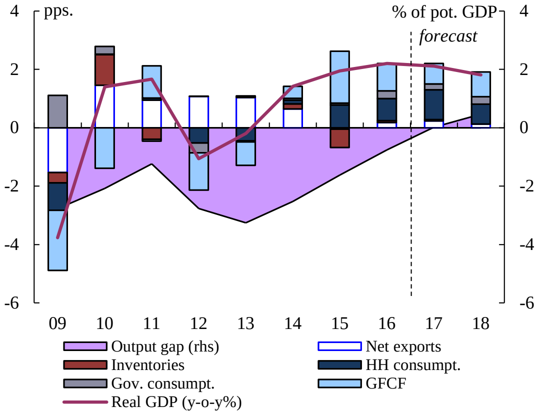
Robust economic expansion to continue

The Dutch economy showed robust economic performance in 2016 with annual growth reaching 2.2%. In 2017, the expansion is set to continue at an almost similar speed, after which economic growth is expected to slow down to 1.8% in 2018. Over the forecast horizon, private consumption is expected to be the main contributor to GDP growth, supported by household real disposable income growth driven by steady increases in wages and employment. Higher pension contributions and inflation should only have a mild dampening effect. Rising housing prices provide a further boost to consumption via wealth effects. Private consumption growth is also temporarily supported by a substantial tax stimulus, which improves the income position of households. In 2018, consumption growth is expected to slow down, as the impact of these tax measures fades out. Nonetheless, the outlook for private consumption remains bright given the above mentioned increase in labour income.

As residential investment slows, equipment investment picks-up

Investment growth was particularly high in the first phase of the economic expansion, as the housing market recovered from its trough in 2013. The volume of residential investment, roughly one fifth of total investment, increased by double digits in 2016 but is currently slowing down to more sustainable levels, limiting overall investment growth. Equipment investment growth has been more erratic, having been heavily influenced by incidental factors such as a reduction in the tax incentives for investment in environment friendly cars in 2016, which spurred investment in 2015 in anticipation of these changes and drove down investment growth in 2016. Equipment investment is expected to gradually increase as capacity utilisation rates are rising and the demand for replacement investment is likely to recover in line with the economy's performance and outlook. However, as the import content of capital goods is relatively high, the short-term growth contribution will be relatively weak. Public investment is likely to grow by roughly 1% on average in 2017 and 2018, after seven years of decline.

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



Net exports firm, but projected to slow

Net exports were relatively strong in the fourth quarter of 2016. Export performance in the first months of 2017 was also relatively high, with export growth at a six-year peak in February. However, the growth contribution of net exports is set to decline, as the relatively strong growth of domestic demand fuels imports. Price indicators also point to a decline in export performance, as unit labour costs are set to increase due to the combination of increasing wage growth (including non-wage labour costs, such as pension and health care contributions) and relatively weak productivity growth. All in all, the contribution of net exports to GDP growth is expected to be only marginally positive in 2017 and 2018.

A tightening labour market

Total employment passed its pre-crisis peak level in 2016, although the participation rate remains below pre-crisis levels due to a larger working age population. Job creation accelerated towards the end of 2016 and the outlook remains positive as labour market indicators such as vacancies or employer hiring expectations do not show any signs of slowing down. The strong overall performance of the labour market means that unemployment is expected to continue to fall to 4.4% of the labour force in 2018.

Wages and prices set to increase

While wage growth remained subdued in the two latest years, a tightening of the labour market is expected to be accompanied by some albeit moderate pick-up of real wage growth. Strong base effects from energy prices are projected to drive up headline inflation from just 0.1% in 2016 to 1.6% in 2017, limiting real wage growth in this year. In 2018, HICP inflation is projected to decline to 1.3%, as energy base effects fade away. Positive pressure on prices comes from the closure of the output gap. Services prices in particular are projected to pick up as the economy strengthens and wage growth accelerates. Non-energy industrial goods, which after services are the second largest category in the HICP, are projected to provide only a relatively small contribution to overall HICP inflation, as these price developments depend to a larger extent on global factors.

Structural budget surpluses ahead

The budgetary situation has improved markedly. After a headline deficit of 2.1% of GDP in 2015, the Netherlands achieved a surplus of 0.4% of GDP in 2016, mainly driven by strong growth in tax revenues and social security contributions, which more than made up for significantly lower gas revenues. In line with the overall positive growth outlook, the budget surplus is projected to improve further to 0.5% and 0.8% of GDP in 2017 and 2018 respectively. In structural terms, the budgetary position is expected to remain positive over the forecast horizon. The general government debt is forecast to fall below the 60% of GDP threshold in 2017, with 59.8% of GDP, and to continue to decline to 57.2% of GDP in 2018. The current outlook for 2018 is based on a no-policy-change scenario. Policy uncertainty stems from the ongoing coalition negotiations, following the general elections in March, and the end of the current multi-annual expenditure ceilings in 2017.

Table II.19.1:

Main features of country forecast - NETHERLANDS

	2015			Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	676.5	100.0	2.0	-0.2	1.4	2.0	**2.2**	**2.1**	**1.8**
Private Consumption	301.8	44.6	1.4	-1.0	0.3	1.8	**1.7**	**2.3**	**1.5**
Public Consumption	171.4	25.3	2.8	-0.1	0.3	0.2	**1.0**	**0.8**	**1.0**
Gross fixed capital formation	131.4	19.4	1.4	-4.3	2.3	9.9	**4.8**	**3.5**	**4.2**
of which: equipment	38.0	5.6	2.5	-6.1	-0.2	13.4	**1.1**	**3.3**	**4.5**
Exports (goods and services)	557.9	82.5	4.9	2.1	4.5	5.0	**3.4**	**3.6**	**3.8**
Imports (goods and services)	485.0	71.7	4.9	1.0	4.2	5.8	**3.7**	**3.8**	**4.2**
GNI (GDP deflator)	674.1	99.6	2.0	-0.8	-0.2	1.8	**1.1**	**2.5**	**1.8**
Contribution to GDP growth: Domestic demand			1.7	-1.3	0.6	2.6	**2.0**	**1.9**	**1.8**
Inventories			0.0	0.1	0.2	-0.6	**0.1**	**0.0**	**0.0**
Net exports			0.3	1.0	0.6	0.0	**0.2**	**0.2**	**0.1**
Employment			0.9	-1.2	-0.3	1.0	**1.7**	**1.7**	**1.3**
Unemployment rate (a)			4.7	7.3	7.4	6.9	**6.0**	**4.9**	**4.4**
Compensation of employees / f.t.e.			3.1	2.2	1.6	0.4	**1.3**	**2.8**	**2.8**
Unit labour costs whole economy			2.0	1.2	-0.1	-0.6	**0.8**	**2.4**	**2.3**
Real unit labour cost			0.0	-0.2	-0.2	-0.7	**0.0**	**1.5**	**1.0**
Saving rate of households (b)			13.1	14.1	13.1	12.7	**12.3**	**12.2**	**12.1**
GDP deflator			2.1	1.4	0.1	0.1	**0.8**	**0.9**	**1.2**
Harmonised index of consumer prices			2.2	2.6	0.3	0.2	**0.1**	**1.6**	**1.3**
Terms of trade goods			0.2	0.5	0.1	1.3	**1.3**	**-1.6**	**-0.5**
Trade balance (goods) (c)			8.7	11.5	11.5	11.3	**11.3**	**10.7**	**10.4**
Current-account balance (c)			6.8	10.2	8.5	8.5	**7.9**	**7.4**	**7.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			6.6	10.0	8.4	3.5	**7.6**	**6.7**	**6.6**
General government balance (c)			-1.6	-2.4	-2.3	-2.1	**0.4**	**0.5**	**0.8**
Cyclically-adjusted budget balance (d)			-1.3	-0.3	-0.6	-1.0	**0.9**	**0.5**	**0.5**
Structural budget balance (d)			-	-0.9	-0.5	-1.0	**0.7**	**0.2**	**0.4**
General government gross debt (c)			54.5	67.7	67.9	65.2	**62.3**	**59.8**	**57.2**

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

20. AUSTRIA

Favourable growth dynamics

Austria's economic growth is expected to strengthen slightly in 2017 and to expand at the same pace in 2018. Positive business and consumer sentiment indicators suggest that domestic demand should remain the main growth driver. Exports are projected to increase robustly as world trade strengthens, turning the contribution of foreign trade to GDP growth positive. Government revenues fell last year as a result of income tax reforms but are expected to gradually recover as the economy improves.

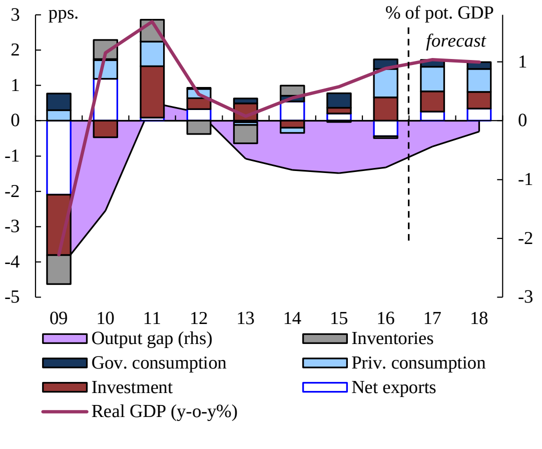
Solid economic growth in 2016

With real GDP growth of 1.5%, Austria has reached a turning point, leaving behind a period of subdued growth. The success of last year's tax reform was reflected in the significant pick-up of equipment investment and private consumption, which became the main growth drivers of the economy. Stronger investment led to higher imports, which together with weaker-than-expected exports, resulted in net exports detracting from GDP growth.

Pick-up in economic activity to continue

Positive business and consumer sentiment indicators point to continued strong growth in the first half of 2017. GDP growth is expected to climb to 1.7% this year and to continue at this level in 2018. Private consumption and investment are set to remain the main growth drivers, although at a slightly decreasing rate, as the effects of the tax reform fade. After relatively weak growth of 1.7% in 2016, exports are expected to rise by over 3.2% thanks to the favourable outlook for world trade.

Graph II.20.1: **Austria - Real GDP growth and contributions, output gap**



With imports growing slower than exports, net trade is set to contribute positively to GDP growth in both 2017 and 2018.

Construction investment is expected to stabilise over the forecast horizon, even though housing investment remains subdued despite fairly favourable factors such as rising house prices and rents, low financing and mortgage costs and rising demand.

Strong labour market stops the rise in unemployment

Employment growth in Austria remains strong, compensating for the growth in the labour force due to migration. After having peaked at 6.0% in 2016, the unemployment rate is expected to stabilise at 5.9% in 2017 and 2018, partly because of fewer refugees entering the labour market. Ongoing measures to improve the labour market participation of women and older workers are also expected to contribute to lower unemployment.

Inflation

The rise in oil prices since the middle of 2016 is expected to push HICP inflation up to 1.8% in 2017 and 1.6% in 2018. Core inflation is set to marginally increase from 1.5% in 2016 to 1.6% in 2017 and 1.7% in 2018. As wage increases in Austria are less dynamic compared to other euro area countries, the positive gap between the Austrian inflation rate and the euro area average is expected to close only gradually.

Public finances to gradually recover after the 2016 tax reform

As a consequence of the 2016 tax reform, the government headline balance worsened from -1.1% of GDP in 2015 to -1.6% of GDP in 2016. Revenues from household income taxation fell by 8%, mainly due to the reorganisation of tax brackets. On the other side, revenues from corporate taxation, value added taxes and social security contributions continued to grow at a good pace. Government expenditure decreased as a percentage of GDP from 51.7% to 51.1%, thanks to the strong decline in interest expenditure and the fading out of costs for bank support. These factors were partly offset by higher government consumption and social spending, partly due to the assistance and integration of asylum seekers.

In 2017, the government headline balance is expected to improve to -1.3% of GDP thanks to stronger economic growth. Rising employment and wages are projected to sustain the gradual recovery of revenues from household income taxes and the positive trend in social security contributions. Stronger exports and growing private consumption should support revenues from corporate profit taxes. Private consumption is also set to support revenues from production and imports, more than offsetting the legislated cuts in employer contributions to the Family Burden Equalisation Fund (*Familienlastenausgleichsfonds*). Government expenditure is projected to slightly decline as a percentage of GDP, with expenditure for asylum seekers expected to remain broadly constant in absolute terms. There is some chance for additional revenues in 2017 from measures against tax fraud, which yielded only part of the expected revenues in 2016. In 2018, the positive economic outlook is expected to further support the headline balance, which should reach -1.0% of GDP. Expenditure for asylum seekers is forecast to gradually decline, while revenues from income and wealth are expected to increasingly benefit from the fiscal drag. The government 'work programme' announced at the beginning of 2017 is not yet sufficiently specified to be considered in the projections, but its implementation represents a downward risk for public finances.

Thus, after deteriorating in 2016 due to the income tax reform, the structural balance is expected to remain broadly stable in 2017 and to slightly improve in 2018. Government debt peaked in 2015 at 85.5% of GDP, decreased to 84.6% of GDP in 2016 and is expected to further decline in 2017 and 2018.

Table II.20.1:

Main features of country forecast - AUSTRIA

		2015			Annual percentage change					
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		339.9	100.0	2.0	0.1	0.6	1.0	**1.5**	**1.7**	**1.7**
Private Consumption		179.1	52.7	1.5	-0.1	-0.3	0.0	**1.5**	**1.3**	**1.2**
Public Consumption		67.7	19.9	1.6	0.7	0.8	2.1	**1.3**	**1.0**	**0.9**
Gross fixed capital formation		76.8	22.6	1.0	2.2	-0.9	0.7	**2.9**	**2.5**	**2.1**
of which: equipment		25.3	7.5	1.3	2.4	-1.0	3.6	**6.4**	**3.8**	**2.5**
Exports (goods and services)		180.3	53.1	5.3	0.5	2.3	3.6	**1.7**	**3.2**	**3.1**
Imports (goods and services)		166.7	49.1	4.2	0.7	1.3	3.4	**2.8**	**3.0**	**2.7**
GNI (GDP deflator)		338.0	99.5	2.0	0.3	0.6	0.2	**1.5**	**1.7**	**1.6**
Contribution to GDP growth:	Domestic demand			1.4	0.6	-0.2	0.6	**1.7**	**1.5**	**1.3**
	Inventories			0.1	-0.5	0.3	0.0	**-0.1**	**0.0**	**0.0**
	Net exports			0.5	0.0	0.5	0.2	**-0.4**	**0.3**	**0.3**
Employment				-	0.3	0.9	0.6	**1.3**	**1.0**	**0.9**
Unemployment rate (a)				4.7	5.4	5.6	5.7	**6.0**	**5.9**	**5.9**
Compensation of employees / f.t.e.				2.1	2.1	1.9	1.9	**1.3**	**1.9**	**1.9**
Unit labour costs whole economy				1.1	2.3	2.1	1.5	**1.2**	**1.1**	**1.1**
Real unit labour cost				-0.4	0.8	0.4	-0.3	**-0.2**	**-0.2**	**-0.3**
Saving rate of households (b)				15.3	12.6	12.6	13.0	**13.8**	**13.2**	**12.7**
GDP deflator				1.5	1.6	1.8	1.9	**1.3**	**1.4**	**1.5**
Harmonised index of consumer prices				1.8	2.1	1.5	0.8	**1.0**	**1.8**	**1.6**
Terms of trade goods				-0.4	-0.1	0.5	1.8	**1.1**	**-0.7**	**-0.3**
Trade balance (goods) (c)				-0.6	-0.5	0.2	0.6	**0.4**	**0.2**	**0.3**
Current-account balance (c)				1.2	1.6	2.6	2.5	**2.1**	**2.0**	**2.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				1.1	1.5	2.4	2.0	**2.1**	**2.0**	**2.2**
General government balance (c)				-2.6	-1.4	-2.7	-1.1	**-1.6**	**-1.3**	**-1.0**
Cyclically-adjusted budget balance (d)				-2.6	-1.0	-2.3	-0.6	**-1.1**	**-1.1**	**-0.9**
Structural budget balance (d)				-	-1.2	-0.8	-0.3	**-1.0**	**-1.1**	**-0.9**
General government gross debt (c)				70.0	81.3	84.4	85.5	**84.6**	**82.8**	**81.2**

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

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

21. POLAND

Investment recovery and private consumption set to fuel growth

The continuation of solid growth in private consumption, together with a recovery in investment, is forecast to lead to faster economic growth in 2017 and 2018. The labour market has performed well so far but is expected to tighten with labour supply negatively affected by a lowering of the statutory retirement age. The headline and structural fiscal deficits are set to increase, reflecting higher public investment and social expenditures.

Growth is expected to strengthen in 2017

Real GDP growth is expected to rebound to 3.5% in 2017, before slowing slightly to 3.2% in 2018, with domestic demand remaining the key driver of the economy. Specifically, private consumption is forecast to increase strongly in 2017, driven by robust wage growth and the delayed effects of higher social transfers, before moderating in 2018. The expected trends differ between public and private investment. Public investment is projected to quickly recover from its slump in 2016 and remain strong into 2018 as EU funds are put to use and local governments prepare for the 2018 elections. Private investment is forecast to recover only gradually, with higher growth rates in 2018. Solid domestic demand and exports, as well as high capacity utilisation rates, robust corporate profits and low interest rates are all expected to support investment. By contrast, elevated uncertainty is likely to discourage investment decisions.

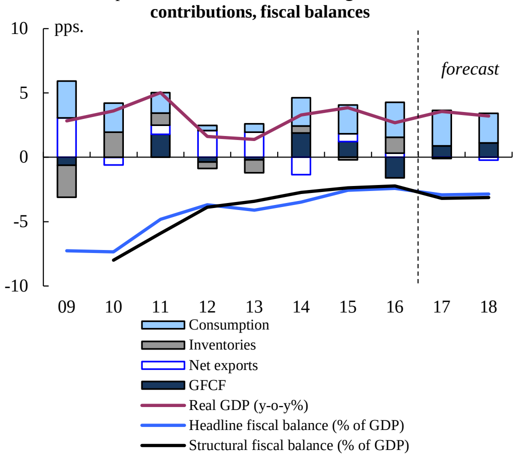
Exports are projected to continue rising strongly in both 2017 and 2018, driven by higher external demand. At the same time, recovering investment, robust private consumption and a somewhat stronger zloty are set to boost import demand. As a result, the net growth contribution of the external sector is expected to be slightly negative in 2017 and 2018.

Labour market tightening further

In 2017 and 2018, the labour force is projected to continue shrinking. This results from the combination of a gradually falling working age population, a significant lowering of the statutory retirement age in October 2017 and some other recent policy measures that may discourage labour force participation, particularly of low-skilled people. Labour supply constraints are expected to lead to total employment growth slowing in 2017 before coming to a halt in 2018. As a result, the unemployment rate is set to fall to a new record low, reaching 4.4% in 2018.

The tightening of the labour market is expected to lead to faster nominal wage growth, above 5% in 2018. One important factor preventing an even stronger wage acceleration is high and increasing labour immigration that is only partially reflected in employment statistics.

Graph II.21.1: **Poland - Real GDP growth and contributions, fiscal balances**



Gradual pick up in core inflation

Inflation increased strongly at the turn of 2016 and 2017, driven by unprocessed food and energy prices. As these price increases subside, annual HICP inflation is projected to broadly stabilise averaging 1.8% in 2017 and 2.1% in 2018. Meanwhile, faster wage growth is projected to fuel a gradual increase in core inflation, excluding energy and unprocessed food prices, reaching 1.2% in 2017 and 2.0% in 2018.

Broadly-balanced risks

Key downside risks to the growth forecast include a possible worsening of business confidence which may weigh on private investment decisions. Public infrastructure investment may face labour supply constraints in some sectors. On the upside, more people than currently projected could stay in the labour force, leading to an improvement in the growth potential of the economy.

Government deficit to increase in 2017

The headline general government deficit narrowed to 2.4% of GDP in 2016, its lowest level since 2007. This resulted mainly from a substantial drop in public investment and to a lesser extent from improved tax collection. Simultaneously, social transfers increased significantly, reflecting an introduction of a universal child benefit in the second quarter of 2016. The previous forecast for 2016 included a one-off revenue of 0.5% of GDP from the sale of mobile internet frequencies. Following new guidance from Eurostat, this was ultimately classified as a rent spread over 15 years.

In 2017, the headline fiscal deficit is projected to widen to 2.9% of GDP. It is set to be driven by a strong rebound in public investment and to a lesser extent by the costs related to the child benefit, and the lowering of the statutory retirement age. These additional expenditure items are projected to be partly offset by a two-year extension of the application of higher VAT rates and increased revenue from social contributions. Additionally, improving tax collection resulting to some extent from several measures implemented in 2016 and 2017, mainly in the area of taxes on production and imports, is also projected to partially offset the increased expenditure. The 2017 fiscal deficit may turn out to be lower, particularly if the tax tightening measures yield better results than currently assumed.

Under a no-policy-change assumption, Poland's headline general government deficit is expected to stay at 2.9% of GDP in 2018. Both expenditure and revenue as a share of GDP are set to remain broadly stable, despite the increasing costs of the lowering of the statutory retirement age.

The structural deficit narrowed to 2¼% of GDP in 2016, its lowest level since 2010. However, against the background of strong real GDP growth and an increasing headline deficit, the structural deficit is forecast to widen significantly to 3¼% of GDP in 2017 and 3% of GDP in 2018.

The general government debt-to-GDP ratio is set to increase from 54.4% at the end of 2016 to around 55% at the end of the forecast horizon. However, the debt projections for Poland are subject to significant uncertainty due to the high, although slowly declining, share of sovereign debt denominated in foreign currencies.

Table II.21.1:

Main features of country forecast - POLAND

	2015		Annual percentage change						
bn PLN	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	1799.3	100.0	4.1	1.4	3.3	3.8	**2.7**	**3.5**	**3.2**
Private Consumption	1051.5	58.4	3.8	0.3	2.4	3.0	**3.8**	**3.9**	**3.1**
Public Consumption	323.8	18.0	3.1	2.5	4.1	2.4	**2.8**	**2.8**	**2.8**
Gross fixed capital formation	361.5	20.1	5.4	-1.1	10.0	6.1	**-7.9**	**4.9**	**6.1**
of which: equipment	136.5	7.6	5.2	4.6	11.2	5.3	**4.0**	**4.3**	**5.5**
Exports (goods and services)	891.1	49.5	8.3	6.1	6.7	7.7	**9.0**	**7.7**	**6.6**
Imports (goods and services)	835.4	46.4	7.7	1.7	10.0	6.6	**8.9**	**8.5**	**7.4**
GNI (GDP deflator)	1732.9	96.3	3.9	1.8	2.9	3.9	**2.6**	**3.5**	**3.1**
Contribution to GDP growth: Domestic demand			4.1	0.4	4.1	3.4	**1.2**	**3.6**	**3.4**
Inventories			0.0	-1.0	0.5	-0.1	**1.2**	**0.0**	**0.0**
Net exports			0.0	1.9	-1.3	0.6	**0.3**	**-0.1**	**-0.2**
Employment			0.2	-0.1	1.7	1.5	**0.6**	**0.4**	**0.0**
Unemployment rate (a)			13.4	10.3	9.0	7.5	**6.2**	**5.2**	**4.4**
Compensation of employees / head			7.1	1.7	2.2	1.1	**3.6**	**4.3**	**5.1**
Unit labour costs whole economy			3.0	0.2	0.6	-1.1	**1.5**	**1.1**	**1.8**
Real unit labour cost			-1.2	-0.1	0.1	-1.9	**1.3**	**-0.2**	**-0.2**
Saving rate of households (b)			8.2	2.5	2.1	1.8	**3.8**	**2.8**	**2.6**
GDP deflator			4.4	0.3	0.5	0.8	**0.2**	**1.4**	**2.0**
Harmonised index of consumer prices			4.9	0.8	0.1	-0.7	**-0.2**	**1.8**	**2.1**
Terms of trade goods			-0.2	1.7	2.2	2.9	**-1.4**	**-0.9**	**-0.1**
Trade balance (goods) (c)			-4.3	-0.1	-0.8	0.5	**0.5**	**-0.5**	**-1.0**
Current-account balance (c)			-4.1	-0.5	-1.4	0.1	**0.2**	**-0.6**	**-1.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.5	1.5	0.3	2.4	**1.8**	**1.0**	**0.6**
General government balance (c)			-4.4	-4.1	-3.5	-2.6	**-2.4**	**-2.9**	**-2.9**
Cyclically-adjusted budget balance (d)			-4.4	-3.4	-2.9	-2.4	**-2.3**	**-3.1**	**-3.1**
Structural budget balance (d)			-	-3.4	-2.7	-2.4	**-2.2**	**-3.2**	**-3.1**
General government gross debt (c)			45.1	55.7	50.2	51.1	**54.4**	**54.6**	**55.4**

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

22. PORTUGAL

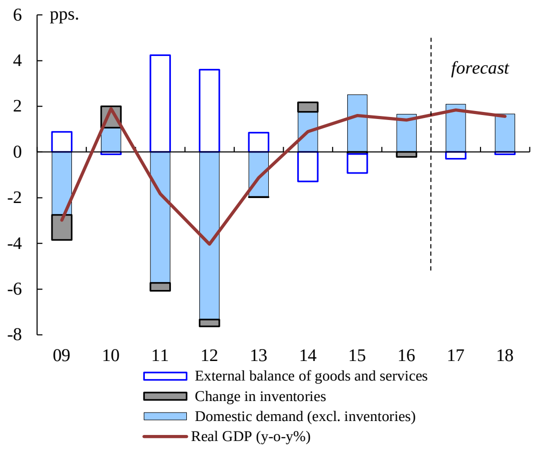
Growth momentum gains pace

Following a strong performance in the second half of 2016, Portugal's economic growth is set to rise further in 2017 before easing off in 2018. The labour market is also expected to improve with unemployment falling from 11.2% in 2016 to 9.2% in 2018. After turning out at 2.0% of GDP in 2016 the general government deficit is set to remain below 2% over the forecast horizon.

Investment rebound to support growth

Economic growth picked up in the second half of 2016 supported by private consumption and exports. Investment also improved towards the end of 2016 mainly helped by construction. Overall, GDP increased by 1.4% in 2016 and the positive carryover is expected to improve the growth rate to 1.8% in 2017 before slowing to 1.6% in 2018. The risks to the forecast remain tilted to the downside, as the banking system is still facing challenges and the economy's vulnerability to external developments is high.

Graph II.22.1: **Portugal - Real GDP growth and contributions**



The Commission's Economic Sentiment Indicator (ESI) continued to improve in the first quarter of 2017 reaching a nine-year high. However, most of the recent short-term indicators, as well as the pick-up in inflation, suggest that private consumption growth could slow down. Nevertheless, consumer spending is expected to remain strong in 2017 supported by the minimum wage increase and robust employment growth. Private consumption growth is expected to moderate afterwards, in line with weaker job creation and a gradual rebound of a historically low saving rate. There is a mixed picture as regards short-term investment indicators: cement sales continue to accelerate, while a slowdown in capital goods imports points to a weaker growth in equipment investment. Construction investment is therefore projected to rise, particularly in 2017, due to a strong recovery in public investment and a gradual increase in private property developments. Investment in machinery and equipment is also set to expand gradually, driven by an increase in capacity utilisation, improved profit margins and a modest recovery in bank lending. In spite of some positive signs in banks' capital positions, a robust recovery in lending is still not expected.

Foreign trade accelerates

Both exports and imports rose more than expected towards the end of 2016 and strengthened further at the beginning of 2017. Some slowdown is expected in the second half of the year due mostly to base effects affecting the annualised growth rates. Foreign tourism inflows surged to nearly 7% of GDP in 2016 and are projected to remain strong, although capacity constraints are likely to weaken slightly the growth rate in the peak summer season. Exports of goods are also benefiting from higher demand in main trading partners. Imports, however, are set to rise even faster than exports due to the projected investment rebound. Overall, the contribution of net exports to growth is expected to be slightly negative over the forecast horizon. The current account surplus is set to stabilise at around 0.5% of GDP, as the slight deterioration in the balance of goods and services is likely to be offset by better performance in primary and secondary income.

Labour market keeps improving

The labour market is undergoing a broad-based improvement, underpinned by sound employment growth and labour force stabilisation. Apart from tourism, job creation is also supported by the recent rebound in construction. However, job creation is projected to weaken gradually over the forecast horizon amid rising wage pressures. Accordingly, unemployment is forecast to drop from 11.2% in 2016 to 9.9% in 2017 and 9.2% in 2018 while unit labour costs are set to increase modestly and broadly in line with the trend in major trading partners.

Inflation to stabilise at around 1.5%

Consumer price inflation is forecast to reach 1.4% in 2017, mainly driven by the rebound in energy prices. The steep rise of 7.1% in house prices in 2016 is also set to exert some lagged upward pressure on rents and accommodation services. Both headline and core inflation are expected to edge up to around 1.5% in 2018 as energy price increases are assumed to slow down while wage dynamics are likely to push up the price of non-tradable goods and services.

Public finances benefitting from the recovery, one-offs and expenditure containment

The general government deficit turned out at 2.0% of GDP in 2016. Lower than budgeted revenue collection has been partially offset by additional revenues (0.25% of GDP) from the extraordinary tax debt settlement scheme PERES and overall containment of expenditure, in particular due to lower public investment. The general government deficit net of one-offs reached 2.3% of GDP and the structural balance improved by a quarter of a percentage point of GDP in 2016.

The headline deficit is projected to decrease to 1.8% of GDP in 2017, mainly due to a one-off operation (the recovery of a guarantee to BPP bank worth 0.25% of GDP), the continued economic recovery and the accommodative monetary policy. Due to the limited volume of fiscal consolidation measures, the structural balance is expected to slightly deteriorate by 0.2% of GDP in 2017. Under a no-policy change assumption, the headline deficit is set to deteriorate slightly to 1.9% of GDP in 2018. In the absence of sufficiently specified consolidation measures, the structural balance is expected to continue to slightly deteriorate. Risks to the fiscal outlook are tilted to the downside, linked to the uncertainties surrounding the macroeconomic outlook and the potential deficit-increasing impact of banking support measures.

Portugal’s gross public debt-to-GDP ratio rose slightly to 130.4% in 2016, mainly due to higher issuance of government debt for the ongoing recapitalisation of the state-owned bank CGD. The ratio is forecast to decline to 128.5% in 2017 and to 126.2% in 2018, due to primary budget surpluses and continued economic growth.

Table II.22.1:

Main features of country forecast - PORTUGAL

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	179.5	100.0	1.1	-1.1	0.9	1.6	**1.4**	**1.8**	**1.6**
Private Consumption	117.8	65.6	1.2	-1.2	2.3	2.6	**2.3**	**1.9**	**1.3**
Public Consumption	32.6	18.2	1.6	-2.0	-0.5	0.7	**0.5**	**0.4**	**0.5**
Gross fixed capital formation	27.4	15.3	-0.8	-5.1	2.3	4.5	**-0.1**	**5.4**	**4.7**
of which: equipment	8.9	5.0	0.1	8.1	13.3	9.7	**3.7**	**6.0**	**7.7**
Exports (goods and services)	72.8	40.6	4.3	7.0	4.3	6.1	**4.4**	**4.4**	**4.2**
Imports (goods and services)	71.5	39.8	3.0	4.7	7.8	8.2	**4.4**	**5.2**	**4.5**
GNI (GDP deflator)	174.4	97.1	1.0	0.0	0.5	0.4	**2.2**	**2.2**	**1.7**
Contribution to GDP growth: Domestic demand			1.0	-2.0	1.7	2.6	**1.6**	**2.1**	**1.7**
Inventories			0.0	0.0	0.4	-0.1	**-0.2**	**0.0**	**0.0**
Net exports			0.1	0.9	-1.3	-0.8	**0.0**	**-0.3**	**-0.1**
Employment			0.0	-2.9	1.4	1.4	**1.6**	**1.4**	**0.9**
Unemployment rate (a)			8.6	16.4	14.1	12.6	**11.2**	**9.9**	**9.2**
Compensation of employees / head			3.0	3.6	-1.8	-0.3	**1.4**	**1.5**	**1.5**
Unit labour costs whole economy			1.8	1.8	-1.3	-0.5	**1.6**	**1.0**	**0.9**
Real unit labour cost			-0.6	-0.5	-2.0	-2.5	**0.0**	**-0.3**	**-0.6**
Saving rate of households (b)			9.5	7.8	5.2	4.5	**4.4**	**4.2**	**4.6**
GDP deflator			2.5	2.3	0.8	2.1	**1.6**	**1.4**	**1.4**
Harmonised index of consumer prices			2.5	0.4	-0.2	0.5	**0.6**	**1.4**	**1.5**
Terms of trade goods			0.0	1.7	1.2	3.2	**0.6**	**-0.3**	**0.0**
Trade balance (goods) (c)			-10.4	-4.0	-4.7	-4.3	**-4.0**	**-4.5**	**-4.7**
Current-account balance (c)			-8.8	0.7	-0.3	-0.8	**0.5**	**0.5**	**0.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.1	2.3	1.0	0.3	**1.5**	**1.4**	**1.5**
General government balance (c)			-5.3	-4.8	-7.2	-4.4	**-2.0**	**-1.8**	**-1.9**
Cyclically-adjusted budget balance (d)			-5.3	-2.6	-5.6	-3.5	**-1.7**	**-2.0**	**-2.4**
Structural budget balance (d)			-	-2.9	-1.7	-2.3	**-2.0**	**-2.2**	**-2.4**
General government gross debt (c)			70.8	129.0	130.6	129.0	**130.4**	**128.5**	**126.2**

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

23. ROMANIA

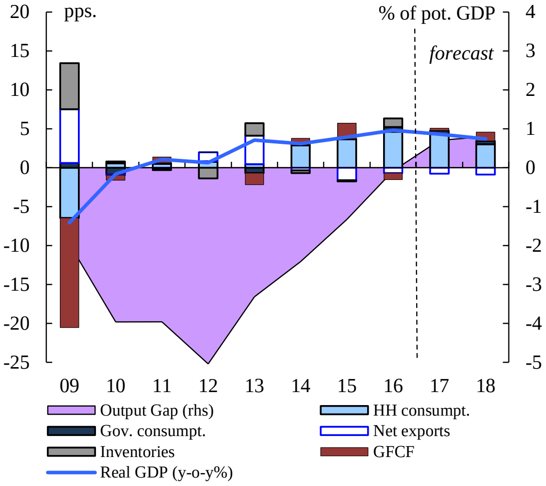
Growth momentum maintained amid fiscal deterioration

Real GDP growth is projected to remain strong, on the back of fiscal easing and wage increases. Unemployment fell significantly in 2016 and is expected to remain at a low level in 2017 and 2018. With a positive output gap, inflation is set to pick up. The budget deficit is projected to continue increasing due to tax cuts and higher public spending. The draft unified wage law poses a significant downward risk to the fiscal forecast.

Growth is accelerating

In 2016, GDP growth rose to an eight-year high of 4.8%, driven mainly by consumption, which was boosted by pro-cyclical fiscal policy and wage hikes. Private consumption, which rose to a nine-year high, and a notable increase in inventories contributed strongly to growth. Investment, by contrast, contracted as public investment fell due to a slow uptake of new projects financed by EU funds under the 2014-2020 programming period. The contribution to growth from net exports was also negative, on the back of strong consumption growth, as import growth outpaced that of exports.

Graph II.23.1: **Romania - Output gap and contributions to real GDP growth**



Consumption to remain the main growth driver

The output gap closed in 2016 and growth is projected to remain above potential in 2017-2018. The additional fiscal stimulus planned in 2017 is projected to continue to boost domestic demand but growth is forecast to slow as the transitory effects of the fiscal impulse wear out. Accordingly, growth is expected to remain consumption driven, boosted by tax cuts and increases in public wages and pensions. Investment is forecast to make a modest contribution to growth as the implementation of projects financed from EU funds gradually picks-up.

The current account is widening

Romania's current account deficit is estimated to have deteriorated significantly in 2016 on the back of strong consumption which boosted the goods trade deficit. The current account deficit is forecast to continue widening due to strong domestic demand and import growth. Export growth is expected to remain moderate, in line with GDP growth in main trading partners and because of an erosion of competitiveness as wages increase ahead of productivity gains.

The labour market is tightening further

The labour market continued to improve in 2016 on the back of strong real GDP growth. Unemployment dropped to a historical low in 2016. Low unemployment, combined with a shrinking labour force and persistent skills shortages, led to a tighter labour market and economy-wide wage increases. Total employment decreased in 2016 as the decline in self-employment more than offset the increasing number of employees. Total employment is set to grow at a moderate pace in 2017 and 2018, driven by strong growth, while the unemployment rate is projected to continue declining.

The growth of compensation per employee accelerated in 2016. The minimum wage was increased from February 2017, 16% above the previous level, set in May 2016. In addition, public sector wages were increased by 15% in the health and education sectors from January 2017 and by 20% in local administration from February 2017. Accordingly, wages rose ahead of labour productivity, leading to rising unit labour costs.

Inflation to pick up

The impact on headline inflation of successive VAT reductions and low imported inflation has so far outweighed the upward pressures on prices from the surge in domestic demand and higher wages. However, inflation is set to gradually increase and re-enter the central bank's target band (2.5%±1 pp.) due to robust domestic demand, additional wage hikes in a tight labour market and additional fiscal stimulus. Annual average inflation is therefore forecast to turn positive in 2017 (1.1%) and increase further to 3.0% in 2018.

The main risk to the outlook is the possibility of further fiscal stimulus, which may boost domestic demand in the short-run, but at the expense of the sustainability of public finances. The delay or absence of structural reforms to support competiveness gains may have a downward effect on export growth and in turn worsen further the external balance.

The fiscal stance remains expansionary

In 2016, the general government deficit rose to 3.0% of GDP, from 0.8% of GDP in 2015. Tax cuts, particularly the four percentage point cut in the standard VAT rate, had a negative effect on tax revenues. On the expenditure side, public wages rose considerably.

In 2017, the general government deficit is projected to further deteriorate to 3.5% of GDP. The standard VAT rate was cut by an additional one percentage point and the extra excise duty on fuel and the special construction tax were abolished. The 2017 budget contains large increases of public wages and social benefits, including an additional pension increase of 9%, on top of the standard indexation, which is scheduled for July 2017. The deficit is projected to further widen to 3.7% of GDP in 2018.

As a consequence of fiscal easing, Romania's structural deficit is forecast to increase from around half a percent of GDP in 2015 to around 2½% in 2016 and 4% in 2018. Despite strong GDP growth, the debt-to-GDP ratio is thus projected to rise from 38% of GDP in 2015 to 40.9% in 2018

The draft unified wage law poses a significant risk to the fiscal forecast, with a potential impact on the general government balance of up to -2% of GDP in 2018. Its final form and schedule was not known at the cut-off date of this forecast.

Table II.23.1:

Main features of country forecast - ROMANIA

		2015			Annual percentage change					
	bn RON	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		711.1	100.0	2.5	3.5	3.1	3.9	**4.8**	**4.3**	**3.7**
Private Consumption		440.5	61.9	4.5	0.7	4.7	6.0	**7.4**	**6.9**	**4.7**
Public Consumption		97.5	13.7	0.3	-4.6	0.8	0.1	**4.5**	**3.7**	**3.0**
Gross fixed capital formation		176.1	24.8	5.2	-5.4	3.2	8.3	**-3.3**	**1.3**	**5.2**
of which: equipment		74.5	10.5	6.2	4.8	-5.1	9.0	**1.5**	**1.0**	**6.9**
Exports (goods and services)		292.3	41.1	8.7	19.7	8.0	5.4	**8.3**	**6.9**	**6.2**
Imports (goods and services)		296.7	41.7	10.9	8.8	8.7	9.2	**9.8**	**8.6**	**7.9**
GNI (GDP deflator)		697.5	98.1	2.5	3.0	4.0	3.0	**3.8**	**4.7**	**3.8**
Contribution to GDP growth:	Domestic demand			4.6	-1.7	3.8	5.7	**4.4**	**5.1**	**4.6**
	Inventories			-0.2	1.6	-0.3	-0.2	**1.1**	**0.0**	**0.0**
	Net exports			-1.8	3.6	-0.3	-1.6	**-0.7**	**-0.8**	**-0.9**
Employment				-1.6	-0.9	0.8	-0.9	**-0.9**	**0.1**	**0.4**
Unemployment rate (a)				7.0	7.1	6.8	6.8	**5.9**	**5.4**	**5.3**
Compensation of employees / head				27.9	3.8	6.7	0.9	**10.3**	**9.5**	**6.5**
Unit labour costs whole economy				22.8	-0.6	4.3	-3.8	**4.2**	**5.0**	**3.1**
Real unit labour cost				-1.6	-3.9	2.6	-6.0	**2.0**	**3.4**	**0.2**
Saving rate of households (b)				-5.5	13.3	14.5	15.5	**15.7**	**15.3**	**14.9**
GDP deflator				24.9	3.4	1.7	2.4	**2.2**	**1.5**	**2.8**
Harmonised index of consumer prices				23.6	3.2	1.4	-0.4	**-1.1**	**1.1**	**3.0**
Terms of trade goods				3.1	0.8	0.8	3.2	**0.5**	**-0.7**	**0.8**
Trade balance (goods) (c)				-8.0	-4.0	-4.3	-4.9	**-5.5**	**-6.7**	**-7.3**
Current-account balance (c)				-6.5	-0.6	-0.1	-0.6	**-2.4**	**-2.8**	**-2.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.0	1.5	2.5	1.8	**-1.5**	**-1.3**	**-0.8**
General government balance (c)				-3.8	-2.1	-1.4	-0.8	**-3.0**	**-3.5**	**-3.7**
Cyclically-adjusted budget balance (d)				-3.8	-1.0	-0.5	-0.3	**-3.0**	**-3.8**	**-3.9**
Structural budget balance (d)				-	-1.0	-0.6	-0.6	**-2.6**	**-3.9**	**-4.0**
General government gross debt (c)				21.5	37.8	39.4	38.0	**37.6**	**39.3**	**40.9**

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

24. SLOVENIA

Investment and consumption driving growth

Economic growth is strengthening, driven by private consumption and investment. Labour market conditions are improving, as unemployment decreases and the employment rate increases. Demand for labour is driving up the compensation of employees, supporting domestic demand. In line with the positive macroeconomic outlook, the general government deficit and debt are expected to continue to decline over the forecast horizon.

Solid growth in 2016

Real GDP grew by 2.5% in 2016, up from 2.3% in 2015. Growth was driven by rising consumption and exports, but held back by decreasing public investment, which resulted from a slow start of the new programming period of EU funds. Nevertheless, investment in machinery and equipment increased by 10.8%, recovering from a low level. Private consumption, backed by rising employment, wages and consumer confidence, was the main driver of GDP growth. Exports continued to grow at a robust rate, but their net contribution to GDP growth was dampened by rising imports.

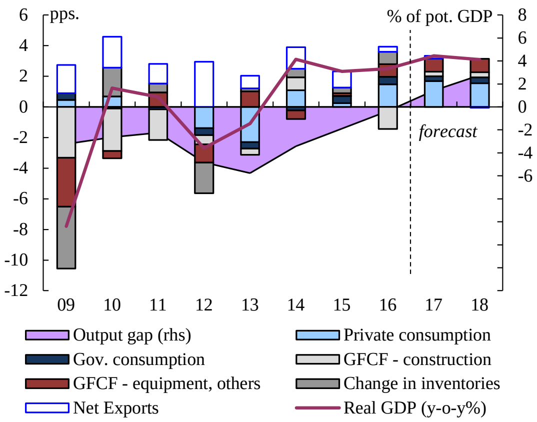
Domestic demand driving growth in 2017-18

Real GDP growth is forecast to reach 3.3% in 2017 and 3.1% in 2018. The year 2017 began with improving consumer sentiment, increasing retail sales and further decreases in unemployment. The fiscal stance is projected to be accommodative. These factors are expected to keep private consumption growth at a rate comparable to that of 2016. Both private and public investment are also projected to positively contribute to growth. Issuance of building permits and construction activity indicators point to a revival in the construction of dwellings. The banking sector has recovered from its previous difficulties and is becoming better capitalised. Therefore, access to credit has improved for households and non-financial companies, further supporting investment. Domestic demand is forecast to be the main growth driver in 2017 and 2018.

Exports are forecast to grow by 5.8% in 2017 and by 5.4% in 2018, driven by increasing demand from trading partners and continued gains in market share. However, due to increased consumer spending and investment, the contribution of net exports to growth is expected to be close to zero in 2017 and 2018. Slovenia's terms of trade are expected to worsen over the forecast horizon, due to rising energy prices. Therefore, the record-high current account surplus reached in 2016 (7%) is also expected to moderate in both 2017 and 2018.

Risks to the growth outlook are tilted to the upside. Upside risks are primarily domestic, as improving sentiment, better access to credit and positive decisions regarding some large investment projects under consideration could increase investment more than expected. The risks to the downside are mainly external and relate to the future development of energy and raw materials prices.

Graph II.24.1: **Slovenia - Real GDP growth and contributions, output gap**



Wages and inflation expected to rise

Increasing exports, consumption and investment are expected to boost the demand for labour in the economy. The unemployment rate is expected to decline to 6.3% in 2018, approaching the natural rate of unemployment and strengthening wage pressures. The compensation of employees is forecast to increase above its 2016 growth rate of 2.2% over the forecast years.

HICP inflation picked up in the first quarter of 2017, driven by an increase in service and energy prices. As energy prices weigh heavily in Slovenia's consumer basket, energy price increases are expected to be an important driver of inflation. Wage increases are also expected to drive up core inflation over the forecast horizon.

The Government balance continues to gradually improve

The general government deficit decreased from 2.9% of GDP in 2015 to 1.8% of GDP in 2016, mainly due to higher-than-expected current revenues and a large decline in public investment following the end of the 2007-2013 EU funding period.

After a 34% plunge in 2016, public investment is planned to increase gradually in the coming years, growing around 8% in 2017. This, combined with buoyant tax revenues and social contributions, is expected to result in a further decline of the government deficit to 1.4% of GDP in 2017. Nonetheless, the compensation of public employees and social transfers are projected to rise further.

In 2018, under a no-policy-change assumption, the general government deficit is expected to decrease to 1.2% of GDP, mainly due to economic growth and improved labour market conditions, while public investment is expected to pick up in line with the dynamics of the current EU financial programming period.

The main downside risks to public finances over the forecast horizon stem from expenditure pressures from public wages and pensions, uncertainties regarding the fiscal implications of the activities of the Bank Asset Management Company and possible one-off expenditures from ongoing court cases, for instance from the case of the Slovenian Farmland and Forest Fund.

In structural terms, Slovenia's fiscal position improved in 2016 and is expected to worsen in 2017 and 2018. The deterioration of the structural balance relates to the large change in the output gap, which is projected to turn positive in 2017.

The debt-to-GDP ratio peaked at 83.1% in 2015. Supported by the economic recovery and a reduction in precautionary cash buffers, public debt is forecast to decline continuously to 75.5% in 2018.

Table II.24.1:

Main features of country forecast - SLOVENIA

	2015				Annual percentage change					
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		38.6	100.0	2.6	-1.1	3.1	2.3	**2.5**	**3.3**	**3.1**
Private Consumption		20.1	52.1	2.2	-4.0	2.0	0.5	**2.8**	**3.2**	**3.0**
Public Consumption		7.2	18.7	2.4	-2.1	-1.2	2.5	**2.6**	**1.7**	**2.0**
Gross fixed capital formation		7.5	19.5	1.6	3.2	1.4	1.0	**-3.1**	**6.3**	**6.4**
of which: equipment		2.8	7.2	3.7	12.6	-7.5	2.4	**10.8**	**10.6**	**10.5**
Exports (goods and services)		30.1	77.9	6.6	3.1	5.7	5.6	**5.9**	**5.8**	**5.4**
Imports (goods and services)		26.5	68.8	5.7	2.1	4.2	4.6	**6.2**	**6.4**	**6.1**
GNI (GDP deflator)		37.7	97.7	2.5	-0.9	3.6	0.1	**3.7**	**3.2**	**3.1**
Contribution to GDP growth:	Domestic demand			2.2	-2.1	1.2	0.9	**1.4**	**3.2**	**3.1**
	Inventories			0.0	0.2	0.6	0.4	**0.8**	**0.0**	**0.0**
	Net exports			0.5	0.8	1.4	1.1	**0.3**	**0.2**	**-0.1**
Employment				0.2	-1.1	0.4	1.1	**2.0**	**1.9**	**1.6**
Unemployment rate (a)				6.6	10.1	9.7	9.0	**8.0**	**7.2**	**6.3**
Compensation of employees / head				6.6	0.5	1.3	1.4	**2.2**	**2.7**	**3.4**
Unit labour costs whole economy				4.1	0.4	-1.3	0.3	**1.7**	**1.3**	**1.9**
Real unit labour cost				-0.2	-0.4	-2.1	-0.7	**1.1**	**-0.2**	**0.1**
Saving rate of households (b)				13.7	13.4	13.3	14.8	**14.6**	**14.0**	**13.5**
GDP deflator				4.3	0.9	0.8	1.0	**0.6**	**1.5**	**1.8**
Harmonised index of consumer prices				4.9	1.9	0.4	-0.8	**-0.2**	**1.5**	**1.8**
Terms of trade goods				-0.5	0.8	1.1	1.3	**0.8**	**-0.5**	**0.0**
Trade balance (goods) (c)				-3.4	0.8	2.9	3.9	**3.9**	**3.4**	**3.0**
Current-account balance (c)				-1.8	3.6	6.2	5.4	**7.0**	**6.2**	**5.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-1.7	4.1	6.6	6.4	**6.1**	**6.4**	**6.3**
General government balance (c)				-3.0	-15.1	-5.4	-2.9	**-1.8**	**-1.4**	**-1.2**
Cyclically-adjusted budget balance (d)				-	-12.4	-3.8	-2.1	**-1.7**	**-2.0**	**-2.4**
Structural budget balance (d)				-	-1.9	-2.7	-2.0	**-1.7**	**-1.8**	**-2.3**
General government gross debt (c)				29.5	71.0	80.9	83.1	**79.7**	**77.8**	**75.5**

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

25. SLOVAKIA

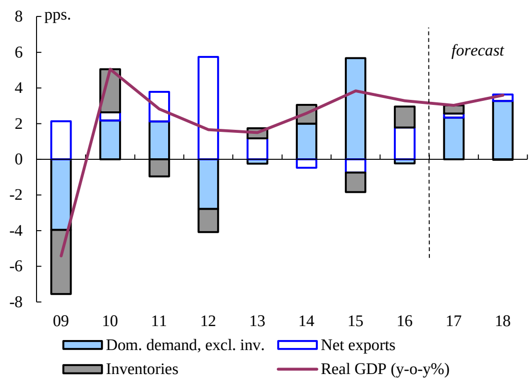
Economic growth driven by robust household consumption

Slovakia's economy is set to remain on a solid growth path, with household consumption becoming the main driver of growth. Investment likely bottomed out in late 2016 and a gradual recovery is expected in 2017. Falling unemployment is expected to put upward pressure on nominal wage growth, especially in light of reported labour shortages in some regions and sectors. Buoyant household spending should also contribute to consumer price inflation. The government deficit is projected to decrease steadily.

Household consumption takes the lead

GDP growth in Slovakia is projected to maintain a solid pace of 3% in 2017 and to pick up to 3.6% in 2018, with household spending making the largest contribution to growth in both years. Underpinning the firming trend in household spending are employment gains achieved during the recent years of strong economic growth, as well as solid increases in real wages in a low-inflation environment. Further improvements in labour market conditions are set to buttress household budgets in 2017 against rising consumer prices and their depressing effect on real disposable income. Given historically low interest rates and a favourable economic climate, the saving rate of households is projected to fall in 2017, further contributing to solid household spending growth of around 3% per year over the forecast horizon.

Graph II.25.1: **Slovakia - Real GDP growth and contributions**



Investment set to recover gradually

Overall investment declined throughout 2016, amounting to a 9.3% fall for the year as a whole after an exceptionally strong 2015. This cyclical investment pattern was linked to the transition between the programming periods of EU funds which affected both public and private investment. The sharp drop in total investment in 2016 suggests that EU-funded projects were a substantial driver of investment activities in Slovakia, with calls for projects under the new founding period somewhat lagging behind. Total investment is set to recover in 2017 and to accelerate thereafter, driven by private investment in the automotive industry and large infrastructure projects such as the Bratislava ring road. Net trade is likely to make a positive contribution to growth in both years despite a rise in imports for investment purposes. Exports are expected to accelerate in 2018, partly on the back of rising car production in new and upgraded facilities.

The labour market tightens further

Unemployment fell to 9.7% in 2016. In view of the positive outlook for economic growth, unemployment is set to drop below 8% in 2018, accompanied by a gradual rise in the activity rate. Increasingly cited labour shortages in certain regions and sectors suggest a continued tightening of the labour market, which is unlikely to be fully offset by rising labour market participation or accelerating inflows of foreign workers. The shrinking pool of skilled labourers is likely to exert pressure on nominal wage growth, especially in conditions of revived inflation. With already agreed wage increases for 2017 exceeding 6% in some large enterprises, nominal wages are projected to rise by 4% overall in 2017 and to accelerate further thereafter.

Consumer prices recover

Consumer prices are expected to recover in 2017, with the headline inflation rate anticipated to reach 1.4% in 2017, driven mainly by accelerating prices of food and services. Energy prices, meanwhile, continue to depress inflation this year due to a reduction in administrated electricity and gas prices. While the inflation outlook is clouded by transitory factors, including hikes in unprocessed food prices related to poor weather and a methodological change in the pricing of second-hand cars, headline inflation is likely to hold broadly steady at 1.6% in 2018.

Revenue-based consolidation continues

The general government headline deficit in 2016 declined by 1 pp. to 1.7% of GDP. The main drivers of this improvement were robust growth of tax revenues, which were 1.4% of GDP higher than in 2015, higher dividends, and a slump in public investment reflecting a slower drawdown of EU funds. The consolidation effort is projected to slow in 2017, with the headline deficit declining to 1.3% of GDP. A favourable economic environment together with a series of adopted measures, including a higher levy on regulated businesses, higher ceilings on social contributions and their removal on healthcare contributions, are expected to translate into strong tax revenue growth. Meanwhile, the lowering of the corporate income tax rate to 21% and an increase in lump-sum deductions for the self-employed will prevent revenues from growing even faster. The government expenditure ratio is expected to remain stable at around 41½% of GDP.

For 2018, the combined effect on revenues of a new 7% tax on dividends and the scrapping of healthcare contributions currently paid on dividends, is expected to be positive. The abolition of the minimum corporate income tax and an ad-hoc pension increase for those who retired before 2004 will, on the other hand, slow the consolidation effort. Assuming no other changes in policies, the deficit is projected to decline to 0.6% of GDP in 2018, supported by expenditure restraint and buoyant tax revenues from robust economic activity. Negative risks in 2017 stem from potentially higher-than-budgeted spending by local governments after achieving large surpluses in 2016, and from possible financial operations relating to the state healthcare insurance company.

The structural balance is projected to continue improving following its decline to 1.5% of GDP in 2016. With the output gap projected to turn positive in 2018, the decline in the structural balance will be slower than for the headline deficit. The debt-to-GDP ratio is projected to gradually fall under 50% of GDP in 2018 as the deficit shrinks and nominal GDP growth accelerates.

Table II.25.1:

Main features of country forecast - SLOVAKIA

	2015		Annual percentage change						
	bn EUR Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	78.7	100.0	4.0	1.5	2.6	3.8	**3.3**	**3.0**	**3.6**
Private Consumption	43.2	54.9	3.6	-0.8	1.4	2.2	**2.9**	**3.1**	**2.9**
Public Consumption	15.3	19.5	2.6	2.2	5.3	5.4	**1.6**	**2.4**	**2.5**
Gross fixed capital formation	18.1	23.0	2.0	-0.9	1.2	16.9	**-9.3**	**0.9**	**5.8**
of which: equipment	8.2	10.4	3.5	-9.4	12.1	12.4	**-4.4**	**1.2**	**5.8**
Exports (goods and services)	73.6	93.5	9.3	6.7	3.7	7.0	**4.8**	**6.5**	**7.0**
Imports (goods and services)	71.7	91.1	7.2	5.6	4.4	8.1	**2.9**	**6.6**	**6.8**
GNI (GDP deflator)	77.4	98.4	3.8	2.5	1.7	4.0	**3.4**	**3.1**	**3.7**
Contribution to GDP growth: Domestic demand			3.2	-0.2	2.0	5.7	**-0.2**	**2.3**	**3.3**
Inventories			-0.2	0.6	1.1	-1.1	**1.2**	**0.5**	**0.0**
Net exports			1.1	1.2	-0.5	-0.7	**1.8**	**0.2**	**0.4**
Employment			0.2	-0.8	1.4	2.0	**2.4**	**1.4**	**1.3**
Unemployment rate (a)			14.9	14.2	13.2	11.5	**9.7**	**8.6**	**7.6**
Compensation of employees / head			7.6	2.6	1.8	3.1	**1.8**	**4.0**	**4.7**
Unit labour costs whole economy			3.6	0.3	0.7	1.3	**0.9**	**2.3**	**2.4**
Real unit labour cost			0.0	-0.2	0.9	1.5	**1.3**	**1.6**	**0.9**
Saving rate of households (b)			8.3	5.9	7.2	8.8	**9.2**	**8.7**	**9.0**
GDP deflator			3.6	0.5	-0.2	-0.2	**-0.4**	**0.8**	**1.5**
Harmonised index of consumer prices			5.2	1.5	-0.1	-0.3	**-0.5**	**1.4**	**1.6**
Terms of trade goods			-0.6	-0.5	0.2	-0.2	**-0.3**	**-0.8**	**0.0**
Trade balance (goods) (c)			-5.1	3.7	3.4	2.3	**3.0**	**2.5**	**2.7**
Current-account balance (c)			-5.9	1.5	0.6	0.1	**0.2**	**0.1**	**0.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.7	3.1	1.6	2.2	**0.7**	**1.0**	**1.9**
General government balance (c)			-5.3	-2.7	-2.7	-2.7	**-1.7**	**-1.3**	**-0.6**
Cyclically-adjusted budget balance (d)			-5.4	-1.6	-1.8	-2.3	**-1.5**	**-1.4**	**-0.9**
Structural budget balance (d)			-	-1.6	-2.1	-2.3	**-1.5**	**-1.4**	**-0.9**
General government gross debt (c)			39.6	54.7	53.6	52.5	**51.9**	**51.5**	**49.8**

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

26. FINLAND

Moderate growth continues

The Finnish economy is expected to grow steadily over the forecast horizon at an annual rate similar to the one achieved in 2016. Private consumption and investment are expected to remain the main growth drivers and exports are expected to pick up due to the strengthening of global demand and improved competitiveness. The public deficit decreased in 2016 and the increase in the debt-to-GDP ratio came to a halt. In 2017, the deficit is projected to temporarily worsen slightly before improving again in 2018. The debt ratio is projected to increase in 2017 and 2018.

Economic recovery firms up

Real GDP growth accelerated to 1.4% in 2016, after just 0.3% in 2015, driven mainly by private consumption and construction investment. Construction investment benefitted from the rapid increase in the demand for new housing (9.1%) and increased non-residential construction (7.3%). Private consumption grew faster than real disposable income on the back of high consumer confidence and a substantial decline in the household saving rate. Net exports weighed more heavily on growth in 2016, as modest export growth was more than offset by the rise in imports, the latter being fuelled by consumption and investment.

The economy is expected to continue to grow at a similar pace in 2017 and 2018, by 1.3% and 1.7% respectively. Growth in private consumption is forecast to moderate temporarily in 2017, due to a wage freeze and slow employment growth, before increasing in 2018. However, the household saving rate is expected to stay on a historically low level. After an exceptional rate of 5.2% growth in 2016, investment is forecast to continue growing by around 3% in both 2017 and 2018, supported by a favourable interest rate environment and above-average manufacturing confidence.

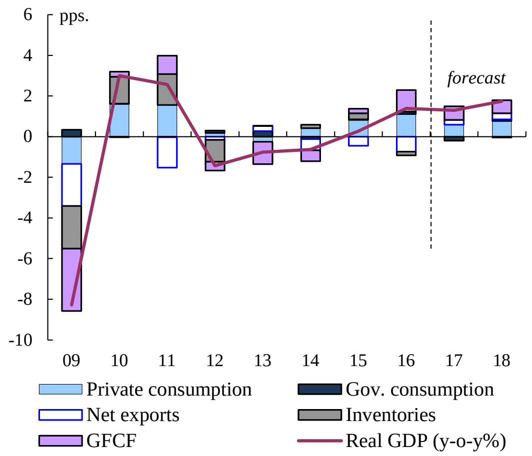
Exports are expected to pick up gradually as foreign demand increases and competitiveness improves following the implementation of the Competitiveness Pact. Despite this acceleration in exports, a loss in Finland's market shares is expected, as global demand is forecast to grow faster. Import growth is expected to slow down in 2017 as consumption eases but should pick up again in 2018. As a consequence, Finland's current account balance is forecast to remain broadly unchanged as the surplus in goods is offset by the deficit in services.

Inflation and employment are rising slowly

Despite some wage pressures following the wage freeze in 2017, wage growth in 2018 is expected to remain below productivity growth, thereby improving cost competitiveness. As a result of this, inflation is forecast to remain low over the forecast horizon. An expected modest rise in energy prices and subdued wage growth is expected to keep inflation in the 1.0-1.5% range.

In the labour market, employment growth is set to continue, supported by rising investment and growth in exports. The unemployment rate is forecast to decrease to 8.2% in 2018.

Graph II.26.1: **Finland - Real GDP growth and contributions**



Risks to the outlook are balanced

Risks to the forecast are broadly balanced. On the upside, investment may surprise positively and exporters are well positioned to benefit from any faster-than-expected recovery of the Russian economy. On the downside, overall uncertainty related to the external environment and the outcome of the upcoming sectorial wage negotiations could weigh on the growth of exports. These risks to the macroeconomic outlook would also have repercussions on public finances.

After a positive surprise, the debt ratio continues to grow in 2017

Finland's general government finances improved more strongly than projected in 2016. The debt-to-GDP ratio declined slightly, mainly due to the use of cash buffers by the state treasury. The general government balance turned out somewhat less negative than expected at -1.9% of GDP. The improved economic situation, higher contributions to unemployment insurance and lower government wage costs were behind the smaller deficit.

In 2017, the deficit is projected to increase to 2.2% of GDP. This is driven by cuts in personal income tax and in employers' health insurance contributions, which put the growth of revenues on hold for a year. The revenue loss caused by these measures (0.6% of GDP) outweighs the impact of the expenditure cuts (about 0.5% of GDP) which were decided in the government's fiscal plan and within the Competitiveness Pact. In 2018, accelerating economic growth is projected to increase revenues and to curb expenditure growth. Also the consolidation measures of the government's fiscal plan are expected to help bring the deficit down to 1.8% of GDP. The gross government debt-to-GDP ratio is projected to increase to 65.5% in 2017 and to continue to rise just above 66% of GDP in in 2018. At the moment, risks to the fiscal outlook are considered broadly balanced.

In 2017 and 2018, GDP growth in Finland is expected to be above its estimated potential growth rate, which implies a narrowing negative output gap. Given the expected swings in the headline balance, the structural balance is projected to worsen by about ½ pps. of GDP in 2017, and remain broadly flat thereafter.

Table II.26.1:

Main features of country forecast - FINLAND

	2015			Annual percentage change						
	bn EUR Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	209.5	100.0	2.5	-0.8	-0.6	0.3	**1.4**	**1.3**	**1.7**
Private Consumption	115.8	55.3	2.7	-0.5	0.8	1.5	**2.0**	**1.1**	**1.4**
Public Consumption	51.1	24.4	1.5	1.1	-0.5	0.1	**0.5**	**-0.8**	**0.3**
Gross fixed capital formation	42.9	20.5	2.6	-4.9	-2.6	1.1	**5.2**	**3.1**	**2.9**
of which: equipment	9.9	4.7	2.1	-8.7	-1.6	5.8	**5.7**	**2.6**	**3.2**
Exports (goods and services)	77.2	36.8	5.0	1.1	-2.7	2.0	**0.5**	**2.3**	**3.3**
Imports (goods and services)	77.8	37.1	5.3	0.5	-1.3	3.1	**2.5**	**1.6**	**2.4**
GNI (GDP deflator)	211.3	100.8	2.7	-0.9	-0.1	0.2	**1.6**	**1.2**	**1.7**
Contribution to GDP growth: Domestic demand			2.2	-1.1	-0.3	1.1	**2.3**	**1.1**	**1.5**
Inventories			0.1	0.0	0.2	0.3	**-0.2**	**0.0**	**0.0**
Net exports			0.3	0.3	-0.5	-0.4	**-0.7**	**0.2**	**0.3**
Employment			1.2	-0.7	-0.5	-0.3	**0.6**	**0.5**	**0.7**
Unemployment rate (a)			8.9	8.2	8.7	9.4	**8.8**	**8.6**	**8.2**
Compensation of employees / head			3.1	1.3	1.0	1.6	**1.0**	**-0.8**	**1.5**
Unit labour costs whole economy			1.9	1.4	1.1	1.0	**0.2**	**-1.5**	**0.5**
Real unit labour cost			0.1	-1.1	-0.6	-0.7	**-0.6**	**-2.0**	**-0.8**
Saving rate of households (b)			8.7	8.6	7.2	6.7	**5.5**	**5.5**	**5.6**
GDP deflator			1.8	2.6	1.7	1.7	**0.8**	**0.5**	**1.2**
Harmonised index of consumer prices			1.9	2.2	1.2	-0.2	**0.4**	**1.0**	**1.2**
Terms of trade goods			-1.4	0.8	1.7	4.1	**-0.5**	**-2.2**	**0.1**
Trade balance (goods) (c)			5.5	0.1	0.7	1.1	**0.3**	**-0.1**	**0.2**
Current-account balance (c)			4.1	-1.9	-1.3	-0.7	**-1.3**	**-1.8**	**-1.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			4.1	-1.8	-1.2	-0.7	**-1.3**	**-1.7**	**-1.6**
General government balance (c)			1.9	-2.6	-3.2	-2.7	**-1.9**	**-2.2**	**-1.8**
Cyclically-adjusted budget balance (d)			1.7	-1.3	-1.5	-1.2	**-0.9**	**-1.3**	**-1.5**
Structural budget balance (d)			-	-1.2	-1.6	-1.1	**-0.9**	**-1.3**	**-1.4**
General government gross debt (c)			43.0	56.5	60.2	63.7	**63.6**	**65.5**	**66.2**

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

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

27. SWEDEN

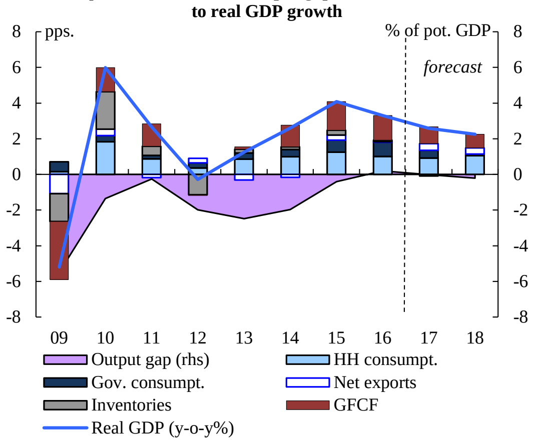
Robust growth and sound public finances continue

Economic growth in Sweden is expected to remain robust and broad-based but to moderate somewhat in 2017 and 2018. Domestic demand, the main growth driver in 2016, is set to slow while net exports are expected to provide some support to growth in 2017 and 2018. The unemployment rate is forecast to level off at 6.6% in 2017 and 2018. Inflation is set to stay below the Riksbank's target of 2%. The general government balance is expected to remain in surplus.

Broad-based growth

Sweden's economy grew by a robust 3.3% in 2016. Gradually waning domestic demand growth along with an improving external balance of goods and services are expected to provide broad-based support to economic activity. Real GDP is therefore expected to expand by 2.6% in 2017 and 2.2% in 2018.

Graph II.27.1: **Sweden - Output gap and contributions to real GDP growth**



Domestic demand is back to its historical average

Employment grew strongly in 2016 while wage increases remained moderate. Since inflation picked up slightly, these developments dampened real disposable income growth. Similar conditions are expected in 2017 with private consumption set to grow by only 2.1%. In 2018, a decline in the saving rate from elevated levels is expected to provide some support to private consumption growth.

Public consumption growth is expected to slow markedly from 1.7% in 2017 to 0.3% in 2018. This is largely a reflection of cost control measures in the compensation payments from central to local authorities for accommodating refugees. However, local authorities are expected to undertake additional investments in infrastructure in response to demographic challenges, i.e. an ageing population and the high number of young migrants that arrived in recent years.

The number of newly built homes reached a 30-year peak in 2016. While housing investment is set to remain strong, growth will slow to 9.5% in 2017 and 3.7% in 2018. At the same time, the strengthening of the global business cycle should spur external demand for machinery and equipment, sectors in which Sweden is relatively specialised. This is expected to trigger additional investment by Swedish companies. Overall, investment is expected to increase at a slowing pace from 2016 to 2018.

Improving exports

As a small open economy, Sweden is benefitting from the gradual recovery in the external environment. Services and goods exports, particularly automotive products, machinery, equipment and basic metals, rose at faster pace in the fourth quarter of 2016. This momentum is expected to continue with exports projected to grow by 3.9% in 2017 (even faster than demand growth in Sweden's main export markets, implying market share gains), and by 3.8% in 2018. Since import growth is forecast to slow in line with domestic demand, net exports should contribute positively to growth in 2017 and 2018.

Unemployment is levelling off

The labour market continued to improve quite significantly in 2016, with employment growing by 1.7% and the unemployment rate falling to 6.9%. Job-to-job mobility increased, indicating a strained labour market and difficulties in finding the needed skills among the pool of unemployed. While good prospects for further employment growth are expected to remain in view of sustained economic growth, the unemployment rate is set to stay broadly stable at 6.6% in 2017 and 2018 due to the expansion of the labour force.

Inflation still below 2%

The pick-up in inflation in the first quarter of this year was driven mainly by temporary factors such as higher commodity prices and imported inflation from the lagged effect of the Swedish krona's depreciation in 2016. Rising cost pressures due to high capacity utilisation rates and tighter labour market conditions are expected to gradually kick in. The wage bargaining negotiations with industry ended with an agreement for a 6.5% wage increase over three years. Deviations from this agreement in other sectors are unlikely this year. Overall, HICP inflation is projected to rise from 1.1% in 2016 to 1.4% in 2017 and 2018.

Risks are broadly balanced

On the positive side, the economy may benefit in the medium term from a successful integration of migrants into the labour market. On the downside, any correction to Sweden's housing market could dampen business confidence, household consumption and construction investment.

Sustained budget surpluses

Public finances improved significantly in 2016 and the general government achieved a surplus of 0.9% of GDP. Robust economic growth and high VAT returns linked to both the booming housing sector and a new regulation making it easier to collect tax payments helped to expand the surplus. The general government balance is expected to remain healthy in 2017, reaching a surplus of 0.4% of GDP. Strong corporate tax payments and higher taxes on capital gains are expected to contribute to this sound position. Lower welfare spending related to the integration of refugees and higher income tax payments are set to be the main drivers behind the increase in the general government surplus to 0.7% of GDP in 2018. The structural surplus is projected to decline in 2017 but should stay well above the medium-term budgetary objective of a structural deficit of 1.0% of GDP over the forecast horizon. Sweden's debt-to-GDP ratio is set to decrease from 41.6% in 2016 to 37.0% in 2018.

Table II.27.1:

Main features of country forecast - SWEDEN

		2015				Annual percentage change				
	bn SEK	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		4181.1	100.0	2.5	1.2	2.6	4.1	**3.3**	**2.6**	**2.2**
Private Consumption		1884.2	45.1	2.5	1.9	2.1	2.7	**2.2**	**2.1**	**2.4**
Public Consumption		1086.4	26.0	1.0	1.3	1.5	2.5	**3.1**	**1.7**	**0.3**
Gross fixed capital formation		988.7	23.6	3.1	0.6	5.5	7.0	**5.9**	**3.9**	**3.1**
of which: equipment		305.5	7.3	4.1	0.1	-1.1	6.2	**4.0**	**3.9**	**4.2**
Exports (goods and services)		1906.2	45.6	5.1	-0.8	5.3	5.6	**3.4**	**3.9**	**3.8**
Imports (goods and services)		1707.7	40.8	4.9	-0.1	6.3	5.5	**3.7**	**3.5**	**3.4**
GNI (GDP deflator)		4245.2	101.5	2.7	1.1	2.5	3.4	**3.4**	**2.5**	**2.2**
Contribution to GDP growth:	Domestic demand			2.1	1.3	2.6	3.5	**3.2**	**2.3**	**1.9**
	Inventories			0.0	0.2	0.2	0.3	**0.1**	**-0.1**	**0.0**
	Net exports			0.4	-0.3	-0.2	0.3	**0.0**	**0.4**	**0.4**
Employment				0.8	1.0	1.4	1.5	**1.7**	**1.5**	**1.2**
Unemployment rate (a)				7.3	8.0	7.9	7.4	**6.9**	**6.6**	**6.6**
Compensation of employees / head				3.5	1.9	2.2	3.5	**2.5**	**2.5**	**2.6**
Unit labour costs whole economy				1.8	1.7	1.0	0.9	**0.9**	**1.4**	**1.5**
Real unit labour cost				0.2	0.6	-0.7	-1.1	**-0.5**	**-0.9**	**-0.4**
Saving rate of households (b)				10.7	17.7	18.3	18.6	**18.5**	**18.5**	**18.0**
GDP deflator				1.6	1.1	1.8	2.0	**1.4**	**2.3**	**2.0**
Harmonised index of consumer prices				1.6	0.4	0.2	0.7	**1.1**	**1.4**	**1.4**
Terms of trade goods				-0.8	0.5	0.9	1.9	**0.4**	**0.2**	**-0.1**
Trade balance (goods) (c)				6.5	3.2	3.1	3.0	**2.6**	**2.8**	**2.8**
Current-account balance (c)				6.2	5.1	4.8	4.7	**4.9**	**5.2**	**5.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.0	4.9	4.7	4.5	**4.9**	**5.1**	**5.3**
General government balance (c)				0.6	-1.4	-1.5	0.3	**0.9**	**0.4**	**0.7**
Cyclically-adjusted budget balance (d)				0.8	0.1	-0.4	0.5	**0.8**	**0.4**	**0.8**
Structural budget balance (d)				-	0.1	-0.4	0.5	**0.8**	**0.4**	**0.8**
General government gross debt (c)				48.2	40.4	45.2	43.9	**41.6**	**39.1**	**37.0**

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

28. THE UNITED KINGDOM

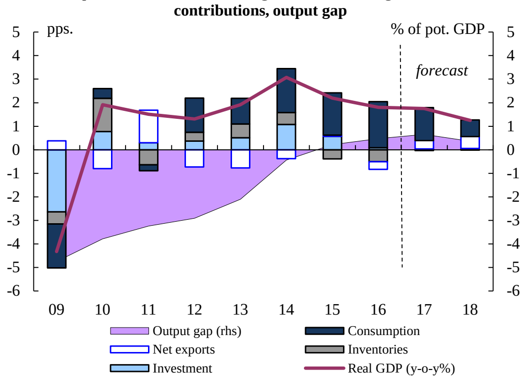
Growth to moderate and inflation set to continue to rise

Growth remained resilient in the second half of 2016 but is expected to soften throughout 2017 and 2018. Private consumption growth is projected to slacken as real household disposable income is squeezed due to prices rising faster than nominal wages. Business investment is forecast to stagnate as companies react to uncertainty. However, net exports are projected to support growth, reflecting the impact of the depreciation of sterling. The labour market is expected to remain resilient while inflation is forecast to rise further.

Domestic demand drove growth in 2016

After rising by 2.2% in 2015, GDP growth moderated to 1.8% in 2016, supported by strong growth in the second half of the year. A brisk rise of 2.8% in private consumption, the highest increase since 2007, was the main determinant of GDP growth, contributing 1.8 pps. to growth. By contrast, business investment rose only marginally while net exports detracted from growth by 0.3 pps.. Growth remained unbalanced across sectors in 2016; it was strongest in the services sector, which expanded by 2.9%, while industrial production grew by 1.2%.

Graph II.28.1: **The United Kingdom - Real GDP growth and contributions, output gap**



Growth set to ease in 2017 and 2018

Although annual growth is projected to remain unchanged in 2017, at 1.8%, the expected weakening in the quarterly rates of growth is more marked – from 0.7% in 2016-Q4 to 0.3% in most quarters of 2017. The waning profile of quarterly growth reflects fading household consumption growth and stagnant business investment.

Household consumption growth has outstripped that of GDP recently, buoyed by rising household disposable income, rapid growth in unsecured credit and a decline in the saving ratio. However, private consumption growth is forecast to fall below GDP growth in 2018. Given the high weight of household consumption in GDP, this slowdown is expected to have a strong influence on overall growth.

Growth in real household disposable income is forecast to fall in 2017 and 2018, with ongoing modest growth in nominal wages offset by higher inflation. Households are, nevertheless, expected to support consumption by further reducing savings. The saving rate, which is already low, is projected to decline further, from 5.2% in 2016 to 4.2% and 3.8% in 2017 and 2018 respectively. Households' lack of willingness, or ability, to continue to rundown savings to maintain consumption is a downside risk to the forecast.

Business investment is forecast to increase only slightly in 2017 and 2018. Measures of investment intentions from recent surveys are soft and businesses are expected to defer investments in the face of uncertainty relating to the negotiations regarding the UK's withdrawal from the EU. The response of businesses to the negotiations is difficult to predict and represents both an upside and downside risk to the forecast.

In contrast to the weakening of domestic demand, the contribution of net exports to GDP growth is expected to rise significantly, reaching 0.4 pps. in 2017 and 0.5 pps. in 2018. The sharp depreciation of sterling in 2016 should boost exports amid a strengthening growth outlook for the euro area and the US. The fall in sterling should dampen import growth and this effect is likely to be amplified by waning growth in domestic demand. The current account deficit is projected to decline from 4.4% of GDP in 2016 to 3.2% in 2018.

Resilience in the labour market but inflation continues to rise

Despite the expected slowing of real GDP growth, the labour market is expected to remain firm. At the same time, and despite historically low rates of unemployment and rising inflation, nominal increases in compensation of employees are forecast to remain modest at somewhat above 2% in 2017 and 2018, less than in 2016. Although employment growth is projected to weaken, the unemployment rate is projected to rise only modestly – from 4.8% in 2016 to 5.0% and 5.4% in 2017 and 2018 respectively. Real unit labour costs are projected to fall in 2017 and 2018.

Inflation is projected to continue to rise, reaching 2.6% in both 2017 and 2018 – above the Bank of England's target of 2%. The upward momentum in inflation is driven by a sharp rise in import prices reflecting the recent depreciation of sterling.

General government deficit falls below 3%

The general government deficit is expected to have fallen to 2.7% of GDP in the 2016-17 fiscal year, compared to 4.0% in 2015-16. This significant improvement is partly due to a temporary boost to revenues arising from a number of factors, including higher-than-expected dividend taxation receipts ahead of a dividend tax rise in April 2017. The improvement also reflects ongoing moderation in expenditure growth, with the public sector wage bill and social spending both having grown below the rate of nominal GDP growth. In contrast, there was a substantial rise in interest payments, reflecting higher interest payments on inflation-linked bonds and an increase in bond yields. The structural deficit is expected to have fallen to 3.0% of GDP in 2016-17, from 4.1% in 2015-16.

The general government deficit is forecast to rise slightly in 2017-18, mainly due to the fading of temporary boosts to revenue growth in 2016-17. The deficit is then expected to resume a declining trend in 2018-19, driven by ongoing expenditure-focused fiscal consolidation. This will be partly offset, however, by additional expenditure on social care, as announced in the recent budget. The structural deficit is expected to reach 3.1% of GDP in 2017-18 and 2.2% of GDP in 2018-19. Risks to these projections are to the upside, with possible higher-than-expected inflation pushing up interest payments and current expenditure. The government debt ratio is projected to fall to 86.1% of GDP in 2018-19, after peaking at 88.0% in 2016-17.

Table II.28.1:
General government projections on a financial-year basis

ESA10	Actual		Forecast		
	2014-15	2015-16	2016-17	2017-18	2018-19
General government balance~	-5.1	-4.0	**-2.7**	**-2.8**	**-2.0**
Structural budget balance	-4.8	-4.1	**-3.0**	**-3.1**	**-2.2**
General government gross debt	87.2	87.6	**88.0**	**87.1**	**86.1**

~APF transfers included

Table II.28.2:
Main features of country forecast - UNITED KINGDOM

	2015			Annual percentage change						
	bn GBP	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		1872.7	100.0	2.0	1.9	3.1	2.2	**1.8**	**1.8**	**1.3**
Private Consumption		1214.7	64.9	2.4	1.6	2.2	2.4	**2.8**	**1.8**	**0.9**
Public Consumption		362.8	19.4	2.3	0.3	2.3	1.3	**0.8**	**1.2**	**0.7**
Gross fixed capital formation		317.1	16.9	1.1	3.2	6.7	3.4	**0.5**	**0.2**	**0.3**
of which: equipment		74.9	4.0	0.7	2.5	6.8	4.7	**1.7**	**-0.8**	**0.3**
Exports (goods and services)		517.4	27.6	3.6	1.1	1.5	6.1	**1.8**	**3.4**	**3.0**
Imports (goods and services)		547.2	29.2	4.3	3.4	2.5	5.5	**2.8**	**2.0**	**1.2**
GNI (GDP deflator)		1847.0	98.6	2.0	1.4	2.3	2.1	**2.0**	**2.5**	**1.7**
Contribution to GDP growth:	Domestic demand			2.2	1.6	2.9	2.4	**2.1**	**1.4**	**0.8**
	Inventories			0.0	0.6	0.5	-0.4	**-0.5**	**0.0**	**0.0**
	Net exports			-0.2	-0.8	-0.4	0.0	**-0.3**	**0.4**	**0.5**
Employment				0.8	1.2	2.4	1.8	**1.4**	**0.6**	**0.4**
Unemployment rate (a)				6.0	7.6	6.1	5.3	**4.8**	**5.0**	**5.4**
Compensation of employees / head				4.0	2.1	0.7	1.1	**2.8**	**2.4**	**2.4**
Unit labour costs whole economy				2.8	1.4	0.0	0.7	**2.4**	**1.2**	**1.5**
Real unit labour cost				0.7	-0.5	-1.6	0.1	**0.7**	**-0.4**	**-0.3**
Saving rate of households (b)				8.4	6.7	6.8	6.5	**5.2**	**4.2**	**3.8**
GDP deflator				2.0	1.9	1.6	0.6	**1.7**	**1.6**	**1.9**
Harmonised index of consumer prices				2.1	2.6	1.5	0.0	**0.7**	**2.6**	**2.6**
Terms of trade goods				0.0	1.4	-0.4	-1.5	**2.3**	**-1.9**	**-0.8**
Trade balance (goods) (c)				-4.6	-6.9	-6.7	-6.4	**-6.9**	**-7.4**	**-7.3**
Current-account balance (c)				-2.1	-4.4	-4.7	-4.3	**-4.4**	**-3.9**	**-3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.1	-4.4	-4.7	-4.3	**-4.5**	**-3.9**	**-3.2**
General government balance (c)				-3.6	-5.6	-5.7	-4.3	**-3.0**	**-3.0**	**-2.3**
Cyclically-adjusted budget balance (d)				-3.4	-4.3	-5.4	-4.5	**-3.2**	**-3.4**	**-2.6**
Structural budget balance (d)				-	-4.4	-5.3	-4.5	**-3.2**	**-3.4**	**-2.6**
General government gross debt (c)				49.2	86.2	88.1	89.0	**89.3**	**88.6**	**87.9**

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

Candidate Countries

29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Economic recovery increasingly jeopardised by political constraints

GDP growth slowed down significantly in 2016 as investment tumbled. The economic fundamentals for strengthening domestic demand and exports remain sound. However, downside risks to the positive outlook stem from the enduring political crisis as institutional capacities for implementing structural reforms are impeded, and debt stabilisation remains elusive in the face of sustained fiscal deficits and borrowing needs of public enterprises.

Economic expansion slows down in 2016 as investors await end to political stalemate

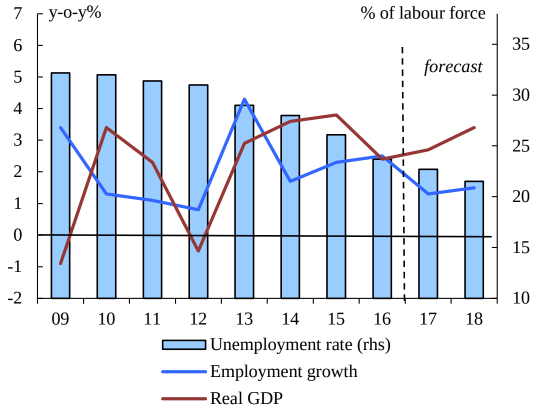
Hit by a deteriorating investment climate, GDP growth decelerated markedly in 2016, to 2.4%, from 3.8% in 2015, according to first estimates. The expansion was driven by private consumption and exports. Total investment declined by 4.3% as business confidence was dampened by the protracted political crisis, which also constrained the government's ability to implement public infrastructure projects. The external balance made a small positive contribution to the output expansion in spite of accelerated import growth. Fuelled by an extension of government-sponsored programs, job creation remained dynamic. The unemployment rate dropped further amidst a decline in the labour force.

Solid fundamentals for domestic demand and external sector drive balanced recovery

Real GDP growth is expected to pick up again this year and next, accelerating to 2.9% in 2017 and further to 3.2% in 2018. The economy is likely to benefit from firming domestic demand and robust export growth. Employment is likely to strengthen further, based to a large extent on public sector programmes, yet at a slower pace given the heightened uncertainty in the business environment. Disposable income is projected to increase, with solid, but more subdued growth in real net wages, and firming inflows of private transfers, once the political situation normalises. Export growth would remain buoyant, carried by established foreign investors that step up production in recently expanded capacities. Import growth is likely to remain more subdued, as plans for new production capacities are put on hold. The merchandise trade balance is set to improve further, driving the expected narrowing in the current account deficit, which would remain covered by inflows of foreign direct investment.

With firming prices for imported energy and raw materials feeding into food and household costs, consumer prices are expected to rise, albeit moderately. The conditions for an expansion of corporate credit are positive, if investor confidence is restored and banks' liquidity remains ample.

Graph II.29.1: **The former Yugoslav Republic of Macedonia - Labour market**



Downside risks to the forecast prevail

These projections depend on a solution to the political crisis, which negatively affects household and consumer confidence, and limits the government's ability to implement much-needed structural reforms and execute budgeted capital expenditure. Investment and private consumption may be further impeded by lower inflows of foreign direct investment and private transfers. The economic expansion is increasingly conditional on the production of established foreign companies (almost half of all exports originated from there in 2016), while spill-over effects to domestic companies remain limited. This constitutes a risk to the sustainability of high growth rates.

Fiscal policy sets over-optimistic deficit targets

At 2.6% of GDP, the general government deficit remained largely below the revised target (4.0%) in 2016, as the government heavily restrained capital spending. This was partly in response to legal restrictions on public investment as elections were scheduled. This year and next, fiscal policy is expected to continue supporting domestic demand, as the medium-term strategy foresees further increases in social transfers and a considerable pipeline of infrastructure projects to be executed until 2019, while no increase in taxation is projected. As there is widespread consensus on these priorities, no significant fiscal restraint compared to current projections is expected in case of a new government. To reach the targeted deficit levels of 3.0% (2017) and 2.6% (2018) of GDP given planned spending increases, the government expects a significant rise in public revenue, based on robust economic growth. However, the envisaged revenue increases are optimistic in view of the 2016 outcome, possibly putting at risk again the implementation of capital projects as mid-year budget rebalancing may become necessary.

Mounting fiscal risks are jeopardising debt stabilisation

Hence, reaching the fiscal targets remains uncertain as long as the government does not define concrete measures in support of consolidation. Moreover, as state-owned companies borrow to execute public infrastructure projects, the financing needs of the public sector, may become more difficult to satisfy and may necessitate higher transfers from the government budget. The government already faces (moderately) rising interest costs. These dynamics could feed into sustained fiscal deficits, driving a further rise in general government and public debt. On the positive side, the structure of public debt has improved, mitigating rollover and foreign exchange risks. The need to finance much-needed infrastructure and to refinance looming repayments, while stabilising debt levels will remain a major challenge.

Graph II.29.2: **The former Yugoslav Republic of Macedonia - Public finances**

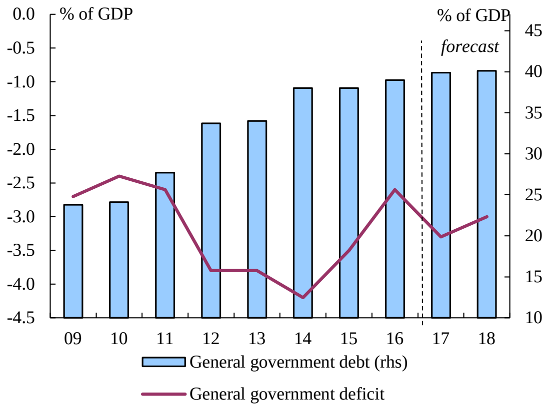


Table II.29.1:

Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	2015			Annual percentage change					
bn MKD	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	558.2	100.0	2.8	2.9	3.6	3.8	**2.4**	**2.9**	**3.2**
Private Consumption	382.1	68.5	3.1	1.9	2.2	3.7	**4.2**	**2.7**	**2.6**
Public Consumption	93.1	16.7	1.2	0.5	3.0	2.1	**1.6**	**1.7**	**1.7**
Gross fixed capital formation	129.1	23.1	3.0	3.5	4.0	3.6	**-4.6**	**3.5**	**4.3**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	272.4	48.8	7.4	6.1	16.5	6.7	**11.5**	**10.2**	**8.7**
Imports (goods and services)	363.0	65.0	7.5	2.2	14.1	5.2	**7.6**	**6.7**	**6.4**
GNI (GDP deflator)	540.6	96.8	-	2.7	4.2	2.5	**1.2**	**2.9**	**3.2**
Contribution to GDP growth: Domestic demand			3.4	2.3	3.0	3.8	**2.0**	**2.8**	**2.9**
Inventories			0.6	-0.7	2.1	0.2	**-0.3**	**-0.6**	**0.0**
Net exports			-1.2	1.3	-1.5	-0.2	**0.6**	**0.7**	**0.3**
Employment			-	4.3	1.7	2.3	**2.5**	**1.8**	**1.9**
Unemployment rate (a)			33.7	29.0	28.0	26.1	**23.7**	**22.4**	**20.9**
Compensation of employees / head			-	-4.2	8.4	1.2	**-0.2**	**1.1**	**1.6**
Unit labour costs whole economy			-	-2.8	6.4	-0.3	**-0.1**	**0.0**	**0.3**
Real unit labour cost			-	-7.0	4.9	-2.1	**-6.0**	**-3.6**	**-3.6**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.0	4.5	1.4	1.9	**6.3**	**3.7**	**4.0**
Consumer-price index			2.5	2.8	-0.3	-0.3	**-0.2**	**0.8**	**2.3**
Terms of trade goods			-	-0.8	4.8	2.7	**-3.2**	**-0.1**	**-0.1**
Trade balance (goods) (c)			-20.6	-22.8	-21.7	-20.2	**-19.3**	**-17.5**	**-16.7**
Current-account balance (c)			-5.3	-1.6	-0.5	-2.1	**-3.1**	**-2.2**	**-1.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-3.8	-4.2	-3.5	**-2.6**	**-3.2**	**-3.0**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	34.0	38.0	38.0	**39.0**	**41.0**	**40.8**

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

30. MONTENEGRO

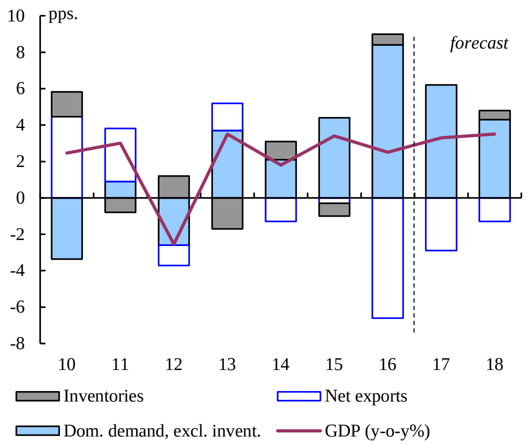
Steady growth dampened by imports

The economy entered into a robust investment cycle. However, the growth profile is set to remain moderate due to the negative contribution of investment-related imports. Moreover, fiscal tightening to redress recent increases in public wages and social spending is also projected to be a drag on growth. At the same time, large public investment spending keeps budget deficits high and the public debt ratio on an upward trajectory.

After a weak start into the year, the economy accelerated in the second half of 2016

In the fourth quarter, real GDP recorded 3.4% (y-o-y), up from 2.4% in the third and 1.4% in the second quarter. In the last quarter of 2016, growth was driven by a robust expansion of private consumption supported by hikes in public sector wages and social benefits, and strong bank lending to households. Government consumption grew by 1.6% (y-o-y) in the fourth quarter; while gross fixed capital formation surged by 29% (y-o-y). However, net exports' contribution to growth remained largely negative and growing fast in the wake of investments, while exports increased at a substantially slower pace. Overall, real GDP grew by 2.5% in 2016, down from a 3.2% growth in 2015.

Graph II.30.1: **Montenegro - GDP growth and contributions**

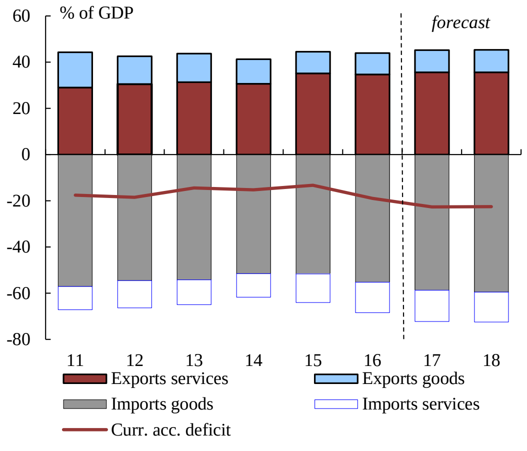


The investment-driven growth dynamic is expected to continue in 2017 and 2018, as the construction of a highway and some major tourism resorts will continue during this period. However, the need for fiscal consolidation to contain the rapid expansion of public debt is projected to slow down both private and public consumption in 2017. Concretely, the fiscal measures introduced at the end of 2016 (e.g. the increase of fuel excises, the reduction of social benefits for mothers and of public sector wages) will dampen consumption in 2017. Moreover, bank lending is expected to remain subdued during the forecast period as some credit institutions' balance sheets still remain burdened by non-performing loans.

Construction-related imports keep fuelling the trade deficit

In 2016, the current account deficit widened to 18.9% of GDP compared to 13.3% a year earlier. The deficit was driven by a broadening gap in merchandise trade as imports surged, including import of construction-related services which reduced – for the first time since 2008 – the surplus of the services balance. High trade deficits are expected to continue in 2017 and 2018. However, the completion of some new tourism, electricity and metal production facilities during this period could moderate the expansion of the external deficit by reducing the need for imports, and by increasing exports capacities.

Graph II.30.2: **Montenegro - Trade dynamics**



Employment growth was dampened by the withdrawal of women from the labour market

Investment works boosted employment in construction, which accounted for one out five new jobs created in 2016. However, a substantial number of women left the labour force in 2016 after qualifying for a new lifetime benefit (analogous to a pension), while others, previously inactive, registered for the first time in the employment agency as job seekers, increasing the active (but unemployed) active population ratio. As a result, employment recorded in 2016 a modest growth of 1.6% (y-o-y) while the unemployment rate increased marginally, to 17.8%. Job creation is forecast to accelerate in 2017 on the back of increasing construction activity and tourism, leading to some reduction in the unemployment rate. At the same time, the negative effect of the mothers benefit scheme on labour market participation of women is set to fade.

Rebound of import and excise-driven inflation

A rebound in international oil prices at the end of 2016, followed by an increase of fuel excises in early 2017, drove a sharp acceleration of transport prices. Moreover, prices for fruit, vegetables and dairy products have also added to inflationary pressures, while in April 2017 there was a further increase of excises on cigarettes. As a result, the consumer price index for 2017 has been revised upwards in this forecast, and prices are expected to stabilise in 2018 as base-year effects fade.

Persistence of high budget deficits and debt

In 2016, the general government deficit was, at 3.6% of GDP, lower than the original target of 7.3% due to the fact that public capital spending turned out to be substantially lower than planned. However, higher expenditure on transfers, social spending, public sector wages, and some unplanned repayment of previous years' liabilities have kept fiscal pressure high. At the beginning of 2017, excise and corporate income tax collection recorded some improvement, but both budget revenue and expenditure remained below the plan.

So long as the highway works continue, the budget deficit is projected to be high and the public debt ratio is expected to increase further. Financing risks appear limited in the short-term since the funding for the highway is secured to a large extent by a loan to be repaid as of 2021, after a six-year grace period. The new government's fiscal strategy is still under preparation, and it is expected to include some new consolidation measures. However, under the no-policy-change assumption, these are not included in the present forecast.

Table II.30.1:

Main features of country forecast - MONTENEGRO

		2015		Annual percentage change						
	mio EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		3624.7	100.0	-	3.5	1.8	3.4	**2.5**	**3.3**	**3.5**
Private Consumption		2871.9	79.2	-	1.6	2.9	2.2	**2.7**	**1.6**	**2.1**
Public Consumption		701.5	19.4	-	1.3	1.4	1.9	**1.0**	**-1.0**	**0.0**
Gross fixed capital formation		736.3	20.3	-	10.7	-2.5	11.9	**29.9**	**19.9**	**8.9**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		1539.2	42.5	-	-1.3	-0.7	5.7	**4.1**	**2.9**	**3.0**
Imports (goods and services)		2213.6	61.1	-	-3.1	1.6	4.4	**13.6**	**6.2**	**3.8**
GNI (GDP deflator)		-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth:	Domestic demand			-	3.7	2.1	4.4	**8.4**	**6.2**	**4.3**
	Inventories			-	-1.7	1.0	-0.7	**0.6**	**0.0**	**0.5**
	Net exports			-	1.5	-1.3	-0.3	**-6.6**	**-2.9**	**-1.3**
Employment				-	1.1	7.1	2.4	**1.6**	**2.2**	**2.7**
Unemployment rate (a)				-	19.5	17.9	17.6	**17.8**	**17.5**	**17.3**
Compensation of employees / head				-	-2.0	6.1	0.9	**3.4**	**1.5**	**1.9**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				-	-	-	-	**-**	**-**	**-**
Consumer-price index				-	1.8	-0.5	1.4	**0.1**	**2.6**	**2.1**
Terms of trade of goods				-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)				-	-39.5	-39.8	-40.4	**-44.6**	**-47.0**	**-47.1**
Current-account balance (c)				-	-14.5	-15.2	-13.3	**-18.9**	**-22.6**	**-22.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-4.6	-2.9	-8.4	**-3.6**	**-5.8**	**-5.1**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	57.6	54.8	61.2	**67.4**	**71.1**	**75.8**

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

31. SERBIA

Robust revenue growth to support further budget deficit reduction

Domestic demand is picking up, boosting imports and government revenues. Economic growth is forecast to strengthen mainly on the back of strong private consumption, while exports and investment are projected to remain robust. As a result, and also due to negative terms of trade, external imbalances are expected to widen. The budget balance is forecast to outperform targets and turn to a small surplus in 2018.

The economy surpassed its pre-crisis peak

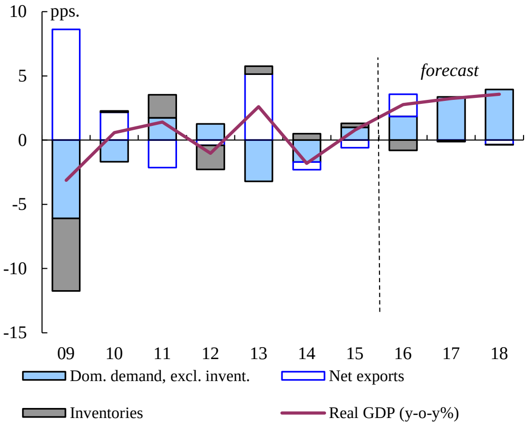
GDP growth increased to 2.8% last year – its fastest pace since 2008. It was supported mainly by a continuously strong expansion of exports and a modest increase in domestic demand. Household final consumption trended upwards, although its growth remained moderate despite an ongoing labour market recovery and vibrant consumer lending. Supported by higher government spending on goods and services, public consumption growth picked up as well. Although expanding vigorously in 2016 as a whole, investment disappointed in the last quarter of the year when it grew by just 2.6% (y-o-y) and was accompanied by a sizeable negative contribution of changes in inventories. On the supply side, economic growth was broad-based as almost all sectors expanded.

High frequency indicators signal a continuation of the economic expansion. Industrial activity remained strong in the last quarter of 2016 but slowed down in early 2017, influenced by adverse weather conditions and base effects. Domestic and external trade remained robust and imports growth increased, indicating a pick-up in domestic demand.

Private consumption growth to sustain the momentum in the economy

Economic growth is forecast to accelerate and to be increasingly driven by private consumption. Continued gains in employment and higher income, in particular in the private sector, together with increasing consumer lending and the preservation of the overall macroeconomic stability should underpin the envisaged strong rebound in household consumption. Investment growth is expected to remain broadly unchanged, benefitting from FDI inflows and higher government capital expenditure. Nevertheless, the level of gross fixed capital formation would remain rather low at below 20% of GDP. Public consumption is likely to contribute positively to growth as government employment stabilises and expenditure on goods and services increases. Driven by rising demand in the EU, Serbia's main export market, exports are forecast to remain robust. They are likely to be supported by incoming foreign direct investment in tradable sectors and productivity gains as a result of domestic reforms. Strong demand is set to push imports up, resulting in a negative contribution to growth from net exports over the forecast horizon.

Graph II.31.1: **Serbia - Real GDP growth and contributions**



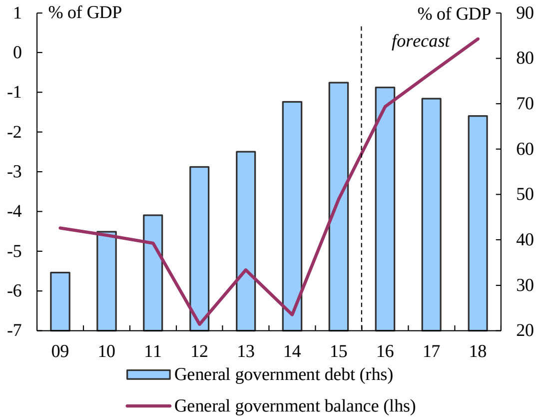
Moderate price pressures and widening external imbalances

The surge in domestic demand and higher international oil prices are forecast to lift consumer prices. However, price pressures are likely to be contained in the short term as administered price adjustments stay limited and the central bank remains vigilant against excessive exchange rate movement. On the back of robust investment and consumption demand the current account deficit is expected to start widening again. However, it is forecast to remain fully covered by FDI inflows.

Uncertainties are high

The economy remains exposed to international capital flow reversals, divergences in monetary policies of major central banks, and fluctuations in commodity prices. In addition, geopolitical tensions, including in the neighbouring region, are non-negligible and could undermine investment and export demand. Domestically, risks relate mainly to the pace of the envisaged continuation of growth-friendly structural reforms and to maintaining a proper policy mix in the growth phase of the business cycle.

Graph II.31.2: **Serbia - Public finances**



Budget surplus is within reach

Following a marked reduction in 2015, the general government deficit was cut significantly again to 1.4% of GDP in 2016. The outcome outperformed by far initial and revised targets and was mainly due to stronger revenue growth. Favourable macroeconomic developments, improved tax collection, and unplanned one-off receipts contributed to this, while expenditure remained largely under control.

Although the fiscal stance is expected to be less restrictive, the general government deficit is forecast to continue shrinking, outperforming the government's targets. The good revenue performance has continued in early 2017 and is likely to contribute to the further reduction of the deficit this year. Under the no-policy-change assumption the general government balance is projected to post even a small surplus in 2018. At this pace of fiscal consolidation government debt is forecast to decline steadily and fall under 70% of GDP in 2018. Fiscal risks, however, remain high as spending pressures mount and gains in revenue collection are not yet sufficiently institutionalised. Refinancing needs and interest payments are significant. Debt dynamics and servicing are sensitive to exchange rate fluctuation, while fiscally important structural reforms remain unfinished and are a persistent source of uncertainty.

Table II.31.1:

Main features of country forecast - SERBIA

	2015		Annual percentage change						
bn RSD	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	4043.5	100.0	-	2.6	-1.8	0.8	**2.8**	**3.2**	**3.6**
Private Consumption	3019.7	74.7	-	-0.6	-1.3	0.5	**0.8**	**2.6**	**3.3**
Public Consumption	655.9	16.2	-	-1.1	-0.6	-1.5	**2.3**	**2.5**	**2.5**
Gross fixed capital formation	715.5	17.7	-	-12.0	-3.6	5.6	**4.9**	**5.8**	**6.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1887.2	46.7	-	21.3	5.7	10.2	**11.9**	**7.9**	**7.3**
Imports (goods and services)	2281.6	56.4	-	5.0	5.6	9.3	**6.8**	**7.0**	**6.9**
GNI (GDP deflator)	3842.4	95.0	-	1.8	-1.7	-0.2	**2.0**	**2.9**	**3.4**
Contribution to GDP growth: Domestic demand			-	-3.2	-1.7	1.0	**1.8**	**3.4**	**3.9**
Inventories			-	0.6	0.5	0.4	**-0.8**	**0.0**	**0.0**
Net exports			-	5.2	-0.6	-0.6	**1.7**	**-0.1**	**-0.3**
Employment			-	3.7	10.8	0.6	**5.6**	**1.5**	**1.7**
Unemployment rate (a)			-	22.1	19.2	17.7	**15.3**	**13.1**	**11.0**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	5.4	2.7	2.7	**1.1**	**2.4**	**3.1**
Consumer-price index			-	7.8	2.1	1.4	**1.1**	**3.4**	**3.5**
Terms of trade goods			-	-2.3	0.4	3.5	**1.5**	**-1.0**	**-0.5**
Trade balance (goods) (c)			-	-11.6	-12.3	-11.9	**-9.9**	**-10.6**	**-11.1**
Current-account balance (c)			-	-6.1	-6.0	-4.7	**-3.8**	**-4.3**	**-4.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-5.3	-6.6	-3.7	**-1.4**	**-0.5**	**0.3**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	59.4	70.4	74.6	**73.6**	**71.1**	**67.3**

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

32. TURKEY

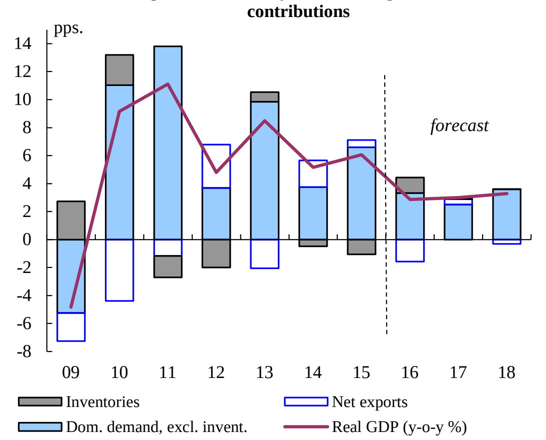
Slow recovery ahead amidst high inflation

The strong loss in momentum that the Turkish economy experienced during 2016 is expected to reverse only gradually as uncertainty recedes during the year. Supported first by net trade, momentum is set to improve towards the end of the year as domestic demand benefits from improvements in monetary conditions and in confidence.

Strong loss in momentum to be reversed gradually

Political and policy uncertainty following the attempted *coup d'etat* aggravated the deteriorating business environment with the loss in momentum deepening during 2016 before rebounding in the fourth quarter when real GDP increased by 3.5% y-o-y, according to Turkstat's revised methodology. Together with significantly revised figures for the second and third quarter, 2016 growth is estimated to have been 2.9%, significantly lower than the year before (6.1%) and with a sizable contribution from inventories.

Graph II.32.1: **Turkey - Real GDP growth and contributions**



The latest figures are an example of the opposing forces that are currently at play in the Turkish economy. Confidence indicators, unemployment and inflation appear to a certain degree detached from the national accounts figures. While industrial and consumer confidence have been on a declining trend over the past four years and hovered around historical lows, industrial output recorded a solid 7.2% y-o-y growth and household consumption spurred ahead by 5.7% y-o-y in the final quarter of 2016.

Notwithstanding the positive development in household consumption in the last quarter of 2016, the fundamentals for a broad-based recovery should only come into place in the second half of this year. Such a gradual recovery of household consumption is consistent with the continued slide in retail sales in the first two months of 2017. Moreover, unemployment is still on an upward trend, the value added in the services sector was limited in 2016-Q4 and consumer sentiment has posted only limited improvements. Consumer sentiment very likely benefited from the VAT rate reductions on durable goods and labour demand stimulus such as the reduction of social security contributions by companies.

The demand stimulus, the lira's strong depreciation and measures to stimulate loan growth have also contributed to halt the declining trend in corporate confidence. The expected reduction in political and policy uncertainty this year is foreseen to lead to a broadening recovery of confidence. The impact of which is expected to be most visible in 2018.

All in all, foreign trade and public spending are expected to first drive the Turkish economy this year. This is foreseen to be followed by a recovery in confidence leading to reinvigorated investment and household consumption. Employment growth is foreseen to strengthen over the course of 2018, adding to the positive cyclical developments and further broadening of the recovery. Despite high growth of both loans and non-performing loans, Turkish banks continue to have relatively sound headline risk metrics, a positive factor that should support domestic investment in the period ahead.

Inflation untamed?

Inflation has increased from high single-digits registered over the past five years to low double-digits in the first quarter of 2017 in large part owing to the depreciation of the lira, increased energy prices, temporary factors and entrenched expectations of high inflation. These elements will continue to keep inflation high, although temporary factors are expected to recede later this year. High inflation has already hollowed out in part the real increase of disposable income stemming from nominal wage hikes at the beginning of 2016. At the same time, it has also limited the loss in competitiveness vis-à-vis major foreign competitors.

Solid public finances to act as a buffer

Using part of the fiscal pace available, the government embarked in 2016 on an expansionary path that is set to continue in 2017 and offsets part of the slump in private final demand (excluding inventories). Under the new national accounting methodology the budget deficit will continue to register lower numbers than under the old system of national accounts. The difference between the deficit on an accrual and cash basis amounted to nearly 2% of GDP in 2015 (last year for which government statistics are available). Still, the underlying dynamics are expected to help a further decline in the debt figures. Over the forecast period, fiscal stimulus is expected to become less important as private domestic demand takes over.

Domestic and external financial risks rising

There are both positive and negative risks to the outlook. On the positive side, remaining fiscal space can continue to be used in case of lower than expected developments in private domestic demand. Net foreign trade might get a greater impetus from the depreciation of the lira and tourists could return to the country more quickly than currently foreseen under a more benign geopolitical environment. Reduced domestic uncertainty and a further easing of financial conditions could have higher than foreseen spill overs to confidence and demand growth. The young and growing population could also be absorbed more quickly than currently foreseen with a larger increase in the participation rate than in the current scenario.

Downside risks include high inflation and high unemployment, which would risk bringing Turkey close to stagflation. High increases in non-performing loans and the external vulnerabilities built up over the years would further add to the risk. Finally, the strong build-up of debt by non-financial corporations may raise the concerns over debt sustainability in the corporate sector. Non-financial corporations have seen their liabilities surge from 30% of GDP in 2007 to over 60% in 2015 with about 45% of this borrowing in foreign currency.

Table II.32.1:

Main features of country forecast - TURKEY

	2015			Annual percentage change						
	bn TRY	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP		2337.5	100.0	4.3	8.5	5.2	6.1	**2.9**	**3.0**	**3.3**
Private Consumption		1411.9	60.4	4.0	7.9	3.0	5.5	**2.3**	**1.9**	**3.0**
Public Consumption		324.4	13.9	4.8	8.0	3.1	4.1	**7.3**	**5.9**	**5.8**
Gross fixed capital formation		694.7	29.7	6.5	13.8	5.1	9.2	**3.0**	**1.6**	**3.1**
of which: equipment		263.0	11.3	-	8.1	3.9	18.4	**6.3**	**2.2**	**7.6**
Exports (goods and services)		545.4	23.3	7.2	1.1	8.2	4.2	**-2.4**	**4.1**	**4.2**
Imports (goods and services)		606.8	26.0	7.3	8.0	-0.4	1.7	**3.9**	**2.0**	**4.7**
GNI (GDP deflator)		2307.0	98.7	4.4	8.2	5.2	5.7	**3.9**	**3.0**	**3.3**
Contribution to GDP growth:	Domestic demand			4.9	9.9	3.7	6.5	**3.3**	**2.5**	**3.6**
	Inventories			-0.1	0.3	-0.6	-1.1	**1.0**	**0.1**	**0.0**
	Net exports			-0.3	-1.8	1.8	0.5	**-1.4**	**0.4**	**-0.2**
Employment				1.0	2.8	1.6	2.6	**1.0**	**1.1**	**2.7**
Unemployment rate (a)				8.6	8.8	9.9	10.3	**11.8**	**13.6**	**14.1**
Compensation of employees / head				27.5	10.3	14.8	12.8	**20.5**	**13.0**	**9.2**
Unit labour costs whole economy				23.4	4.5	10.9	9.2	**18.3**	**10.9**	**8.5**
Real unit labour cost				-1.8	-1.6	3.2	1.3	**9.7**	**0.7**	**-0.3**
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				25.8	6.3	7.4	7.8	**7.8**	**10.2**	**8.9**
Consumer-price index				27.8	7.5	8.9	7.7	**7.8**	**11.1**	**8.6**
Terms of trade goods				-0.7	4.1	1.3	-0.3	**-0.3**	**-1.3**	**-0.1**
Trade balance (goods) (c)				-6.0	-8.2	-6.5	-7.0	**-7.8**	**-8.5**	**-8.2**
Current-account balance (c)				-3.2	-6.7	-4.7	-3.8	**-4.1**	**-4.4**	**-4.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-6.7	-4.7	-3.8	**-4.1**	**-4.4**	**-4.3**
General government balance (c)				-	0.1	0.1	1.3	**-0.9**	**-1.6**	**-1.4**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	31.3	28.6	27.5	**28.3**	**26.5**	**24.9**

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

33. ALBANIA

Output is accelerating on the back of stronger domestic demand

Economic activity continues to accelerate as household spending picks up while investment remains at a relatively high level. Foreign trade has revived and is set to expand at a decent pace. Inflation is projected to rise slowly towards the official target. An accommodative monetary policy supports household borrowing, but lending to the corporate sector remains constrained by the high level of non-performing loans. The fiscal policy stance is expected to slowly reduce public debt as a share of GDP.

Growth has picked up

The Albanian economy advanced 3.5% in 2016, which was the third consecutive year with strengthening GDP growth. All components of domestic demand provided a positive contribution to output expansion, but gross fixed capital formation remained the main driver, benefitting from large foreign direct investments in the energy sector. Both private and public consumption recovered following weak performances in the preceding year. Exports of services accelerated to a growth rate of almost 20% which to a large part was the result of a strong tourism season. Some of this was offset by a continuing decline in goods exports related to weak raw material prices. Imports of goods and services expanded at a rate commensurate to final demand.

Monetary policy continues to provide support

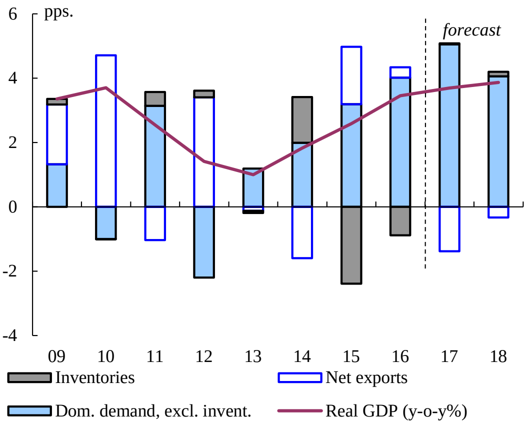
Domestic demand is expected to continue receiving support from an accommodative monetary policy. The Bank of Albania has kept its policy interest rate unchanged at the record low level of 1.25% since May 2016 and has stated that the intensity of the monetary stimulus is unlikely to be reduced before the fourth quarter of 2017. It projects headline inflation to return to the 3% target in the course of 2018 from 2.1% in March 2017. The uptick in inflation since mid-2016 is mainly the result of higher food and energy prices. Underlying price pressures have remained subdued.

With low financing costs and an easing of credit standards for the household sector, lending growth to households has picked up. However, bank lending to the non-financial business sector has remained sluggish as it is still constrained by a sizeable overhang of non-performing loans (NPLs) on bank balance sheets. The ratio of NPLs to total gross loans has trended down over the four months to February 2017 when it stood at 18.0%, suggesting that corporate lending may ease up gradually.

Private domestic demand is set to remain solid

Household spending is not only benefitting from favourable financial conditions, but also from a marked improvement of labour market conditions. Employment was up by a strong 6.1% in 2016, reducing the unemployment rate (15-64 years) to 15.6% which is the lowest annual rate since 2012. A 10% wage hike was implemented in large parts of the public sector in March 2017. Rising employment and higher wages are expected to continue supporting household spending over the forecast horizon.

Graph II.33.1: **Albania - Real GDP growth and contributions**



Investment activity is projected to remain strong, on the back of two large on-going projects in the energy sector which require additional foreign direct investments, particularly in 2017. Investments in the extraction sector are expected to stabilise over the forecasting horizon in view of higher commodity prices compared to 2016.

Net exports expected to weaken

The strong performance of services exports in 2016 resulted in a positive contribution to GDP growth from net exports. Over the forecasting period, overall export growth is expected to remain somewhat above the growth rate in Albania's export markets, but clearly below the extraordinary performance in 2016. Higher commodity prices are expected to support goods exports, but on the other hand the recent real appreciation of the Albanian currency has reduced price competitiveness. Import growth is projected to remain relatively high, reflecting domestic demand. Overall, these projections result in a negative contribution to growth from the external sector, particularly in 2017. The current account deficit fell to just below 10% of GDP last year, but is projected to be running slightly higher over the next two years.

Stronger GDP growth, but downside risks

GDP growth is projected to strengthen slightly in the forecasting period, but the balance of risks is tilted to the downside. In particular, the political crisis surrounding the parliamentary election, scheduled for June 2017, may eventually dampen consumption and investment. In addition, credit recovery may take longer than expected and the still elevated level of sovereign debt provides little room for countercyclical policies in case of need. On the upside, the implementation of structural reforms, such as the recently started comprehensive overhaul of the justice system, could improve the business environment and, eventually, the economy's growth potential.

Moderate fiscal deficits projected to lower the public debt ratio

The general government deficit in 2016 amounted to 1.8% of GDP which was significantly smaller than planned due to a broad-based under-execution of expenditures. The forecast projects that the fiscal deficit will be close to 2% of GDP over the forecast period based on the 2017 budget and the government's current fiscal strategy. A deficit of this magnitude implies a declining trajectory for the public debt ratio on the basis of the forecast's projection for nominal GDP. In 2016, the debt ratio already declined by 0.7 pps. to 72.0% after having risen for six consecutive years.

The fiscal projection is associated with a number of risks, which include: (1) the current fiscal policy stance may be relaxed in the context of the upcoming elections; (2) the IMF's Extended Fund Facility Arrangement for Albania was concluded in February 2017, removing an important anchor of the government's fiscal consolidation strategy; (3) remaining weaknesses in public finance management pose a challenge for the execution of public budgets according to plan.

Table II.33.1:

Main features of country forecast - ALBANIA

	2015		Annual percentage change						
bn ALL	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	1434.7	100.0	4.7	1.0	1.8	2.6	**3.5**	**3.7**	**3.9**
Private Consumption	1161.2	80.9	3.0	1.8	3.0	0.9	**2.5**	**2.8**	**3.2**
Public Consumption	160.7	11.2	-0.2	2.9	6.4	-0.3	**2.1**	**4.3**	**2.5**
Gross fixed capital formation	377.5	26.3	7.3	-2.0	-4.0	10.3	**7.1**	**9.0**	**4.7**
of which: equipment	-	-	6.4	-	-	-	**-**	**-**	**-**
Exports (goods and services)	391.1	27.3	15.8	-12.3	1.8	1.1	**12.8**	**5.6**	**6.4**
Imports (goods and services)	638.7	44.5	9.8	-7.8	4.6	-3.1	**7.4**	**6.7**	**4.9**
GNI (GDP deflator)	1420.9	99.0	4.5	2.0	0.4	2.8	**4.0**	**3.7**	**3.9**
Contribution to GDP growth: Domestic demand			4.9	1.2	2.0	3.3	**4.2**	**5.3**	**4.2**
Inventories			1.0	-0.2	1.4	-2.5	**-0.9**	**-0.1**	**0.1**
Net exports			-1.2	0.0	-1.6	1.8	**0.2**	**-1.4**	**-0.4**
Employment			-0.5	-9.7	1.6	4.9	**6.1**	**4.5**	**4.5**
Unemployment rate (a)			-	16.4	17.9	17.5	**15.6**	**14.7**	**13.8**
Compensation of employees / head			-	12.2	1.6	-2.0	**1.8**	**5.3**	**3.3**
Unit labour costs whole economy			-	0.3	1.4	0.3	**4.4**	**6.1**	**4.0**
Real unit labour cost			-	0.0	0.0	0.0	**4.7**	**3.1**	**1.3**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			4.1	0.3	1.4	0.3	**-0.3**	**2.9**	**2.7**
Harmonised index of consumer prices			-	1.9	1.6	1.9	**1.3**	**2.2**	**2.6**
Terms of trade goods			-1.8	1.6	1.5	0.1	**-1.6**	**-0.1**	**0.5**
Trade balance (goods) (c)			-24.0	-20.6	-22.2	-22.4	**-24.1**	**-25.2**	**-25.1**
Current-account balance (c)			-	-10.9	-12.9	-10.7	**-9.6**	**-10.9**	**-10.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-11.4	-13.8	-12.0	**-9.0**	**-10.2**	**-9.7**
General government balance (c)			-	-5.0	-5.2	-4.1	**-1.8**	**-2.0**	**-1.9**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	70.4	72.1	72.7	**72.0**	**69.5**	**67.0**

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

Other non-EU Countries

34. THE UNITED STATES OF AMERICA
Maturing cycle amid high policy uncertainty

US economic growth is forecast to pick up from 1.6% in 2016 to around 2¼% in 2017 and 2018, amid increasing signs of a maturing cycle and rising policy uncertainty. While the assumed fiscal stimulus of the new administration may provide some boost to growth over the forecast horizon, other potential policy shifts, e.g. on trade and immigration, generate substantial risks to the outlook.

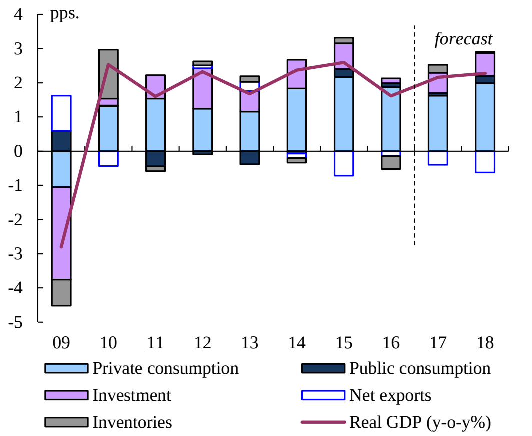
Solid growth amidst a maturing cycle

Early 2017 saw the US recovery entering its 31st quarter with clearer signs of a maturing cycle. The economy rebounded strongly in the second half of 2016 from the temporary soft patch in the first half (due to the correction in energy investment and inventories). The labour market remains buoyant, and the economy seems to be operating at or close to full employment. Inflationary pressures are on the rise, but solid real income growth continues to support private consumption. Against this background, policy plans of the new US administration have greatly increased economic uncertainty. Expectations of a strong pro-business agenda (stimulus, tax reform, deregulation) have helped boost confidence, but this is not yet borne out by hard data. Rising confidence and stimulus could support growth in the near-term, but given the advanced stage of the cycle, may also lead to overheating and faster tightening of monetary policy. Other potential policy shifts (trade, immigration) could turn out disruptive and thus entail downside risks, both in the near and medium term.

Stimulus likely to be smaller than previously expected

Six months after the elections concrete policy plans of the Trump administration are still subject to uncertainty. Compared to initial announcements, expectations of a fiscal stimulus have been scaled down considerably and pushed back in time. The level of ambition of the announced tax reform may also be more limited than initially thought and its implementation delayed until 2018, reflecting the political complexity of the legislative process. Likewise, the administration's Budget Blueprint and a lack of political momentum around the infrastructure investment bill would suggest no major increase in federal spending in the near term. Consequently, this forecast assumes a smaller fiscal package of just around 1% of GDP, implemented only from 2018, and composed exclusively of tax cuts (predominantly to corporate income). The already advanced stage of the US cycle is expected to keep the multipliers low, with the reaction of monetary policy and dollar appreciation likely offsetting some of the benign effects.

Graph II.34.1: **US - Real GDP growth and contributions**



The trend of gradually firming wage and price pressures, visible throughout 2016, is set for a further upgrade. Consumer price inflation is expected to rise from 1.3% in 2016 to 2.2% in 2017 and to 2.3% in 2018.

With consistently strong net job creation in 2016 and early 2017 the US economy appears to be at or very close to full employment. The unemployment rate fell to 4.5% in March, the pre-crisis level, even as participation in the labour force continued to inch up (since mid-2015) outweighing the secular demographic trend. The tightening labour market has already produced higher wage pressures that are expected to accelerate further in 2017 and 2018

These pressures are likely to trigger a faster normalisation of US monetary policy. As widely anticipated, the Fed raised its policy interest rate in March 2017 for the third time in this cycle (to 0.75-1.0%), and broadly upheld its projections for its future path and the outlook for the economy. Fed expectations now suggest two more hikes in 2017 and three in 2018.

Domestic demand to remain growth driver

The solid labour market, rising wages and the assumed cut in personal income taxes (from 2018) are expected to boost private consumption to 2.8% in 2018. Business investment is also set for a recovery, boosted by higher oil prices (2017) and the assumption of lower corporate taxes (2018). At the same time, rising interest rates are expected to partially offset these effects, by moderating the rebound in capital expenditures and demand for housing. Robust domestic demand together with the strong dollar are set to contribute to an increase in the current account deficit (to 3.3% of GDP in 2018) and the widening of the negative contribution from net exports to economic growth (to -0.5 pps).

On the whole, GDP growth is forecast to increase from 1.6% in 2016 to around 2¼% in the 2017-18 period. Compared to the winter forecast, a 0.1 pps. downward revision in 2017 was offset by a commensurate upward revision in 2018, reflecting the assumed delay in implementation of the fiscal stimulus.

Fiscal deficit and debt set to deteriorate...

Assumed tax cuts of around 1% of GDP will impact materially the fiscal outlook from 2018 onward. The general government deficit is thus forecast to widen to around 5% of GDP by 2018 and debt levels are expected to reach almost 110% of GDP by 2018.

...while other risks have increased.

The principal downside risk facing the US economy is a potential shift of economic policy, including on trade and immigration, towards a more protectionist stance, implying significant losses for the US and global economy. There is also a growing risk of a backlash in sentiment should fiscal stimulus or other pro-growth policies fail to materialise or be significantly delayed. Increasing risks are also related to upcoming fiscal negotiations (current and next year's federal budget, debt ceiling) which could turn disruptive and weigh heavily on sentiment. On the upside, the size and composition of the fiscal package and other growth-enhancing measures could still be greater than currently assumed.

Table II.34.1:

Main features of country forecast - USA

	2015		Annual percentage change						
	bn USD Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	18036.6	100.0	2.4	1.7	2.4	2.6	**1.6**	**2.2**	**2.3**
Private Consumption	12283.7	68.1	2.7	1.5	2.9	3.2	**2.7**	**2.4**	**2.8**
Public Consumption	2604.9	14.4	1.5	-2.4	-0.7	1.6	**0.8**	**0.6**	**1.5**
Gross fixed capital formation	3576.6	19.8	2.2	3.0	4.2	3.7	**0.7**	**3.1**	**3.3**
of which: equipment	1217.5	6.8	4.5	3.2	4.6	3.0	**-2.3**	**1.7**	**3.1**
Exports (goods and services)	2264.3	12.6	4.4	3.5	4.3	0.1	**0.4**	**3.0**	**3.5**
Imports (goods and services)	2786.3	15.4	5.0	1.1	4.4	4.6	**1.2**	**4.8**	**6.1**
GNI (GDP deflator)	18242.3	101.1	2.6	1.7	2.3	2.3	**1.5**	**2.2**	**2.3**
Contribution to GDP growth: Domestic demand			2.6	1.2	2.7	3.1	**2.1**	**2.4**	**2.8**
Inventories			0.0	0.2	-0.1	0.2	**-0.4**	**0.2**	**0.0**
Net exports			-0.2	0.3	-0.1	-0.7	**-0.1**	**-0.3**	**-0.5**
Employment			-	1.0	1.6	1.7	**1.7**	**1.1**	**0.7**
Unemployment rate (a)			6.0	7.4	6.2	5.3	**4.9**	**4.6**	**4.5**
Compensation of employees / f.t.e.			3.4	1.5	2.8	3.0	**2.3**	**3.5**	**4.0**
Unit labour costs whole economy			1.7	0.8	2.0	2.0	**2.4**	**2.3**	**2.3**
Real unit labour cost			-0.2	-0.8	0.2	1.0	**1.1**	**0.4**	**0.1**
Saving rate of households (b)			10.4	10.6	11.2	11.4	**11.9**	**11.8**	**12.0**
GDP deflator			2.0	1.6	1.8	1.1	**1.3**	**1.9**	**2.2**
Consumer-price index			2.4	1.5	1.6	0.1	**1.3**	**2.2**	**2.3**
Terms of trade goods			-0.4	0.7	-0.2	2.3	**0.1**	**-0.6**	**-0.4**
Trade balance (goods) (c)			-4.6	-4.4	-4.5	-4.4	**-4.1**	**-4.5**	**-4.8**
Current-account balance (c)			-3.5	-2.2	-2.3	-2.6	**-2.5**	**-2.8**	**-3.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.4	-2.2	-2.3	-2.6	**-2.5**	**-2.8**	**-3.3**
General government balance (c)			-5.0	-5.4	-4.8	-4.2	**-4.8**	**-4.7**	**-5.2**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			70.0	104.6	104.6	105.2	**107.4**	**107.8**	**108.7**

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

(*) Employment data from the BLS household survey.

35. JAPAN

Continued moderate expansion

Supportive macroeconomic policies and firming external demand are set to underpin the growth momentum in 2017, and entail a modest acceleration in the pace of growth. Economic performance is expected to weaken in 2018 as the effects from past fiscal stimuli wane.

Pick-up in growth followed by deceleration

Continued implementation of Abenomics aiming at reflating the economy and achieving stronger growth has generated a positive impact, but real GDP and inflation targets remain ambitious. Real GDP growth is projected to pick up to 1.2% in 2017 on the back of the ongoing recovery in global demand, continued support from monetary policy, and expansionary fiscal policy. In 2018 the pace of expansion is expected to slow to 0.6% as waning fiscal stimulus is expected to dampen domestic demand. In the absence of more forceful structural reform supply-side constraints in terms of labour market rigidities and adverse population dynamics will continue weighing on potential growth over the medium term.

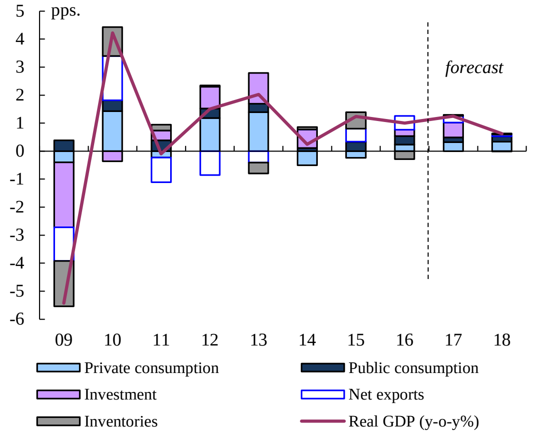
The near-term growth momentum has firmed

The economy grew for four consecutive quarters in 2016, supported by continued recovery in domestic demand and a pick-up in external demand in 2016-H2. Overall growth for the year came in at 1.0%, with domestic demand and net exports contributing 0.5 pps each. Leading indicators point to a stable growth momentum. Industrial production has been on a steady upward trend since 2016-Q1. Production plans, upward trending manufacturing PMI and rising business sentiment suggest a positive outlook, and continued expansion in the manufacturing sector. The tertiary activity index has been on a modest recovery trend, and rising PMI and sentiment indicators point to continued expansion ahead also in the services sector.

Continued recovery in consumption and investment

Private consumption growth turned positive in 2016 after two years of negative growth. Further moderate expansion is expected going forward, but no major acceleration. Consumer sentiment has picked up steadily, reflecting favourable labour market dynamics. The unemployment rate fell to below 3% in early 2017, and the new job openings-to-applicants ratio has been rising steadily since 2009 to above 2. These very tight labour market conditions are bound to remain, reflecting rising labour supply bottlenecks and moderate employment creation. However wage dynamics are likely to be restrained on the back of entrenched duality between regular and non-regular workers, and modest gains expected in annual wage setting negotiations, as confirmed by preliminary shuntō data for 2017. Subdued wage growth and unfavourable demographic dynamics should entail only a mild expansion in private consumption over the forecast horizon.

Graph II.35.1: **Japan - Real GDP growth and contributions**



Gross fixed capital formation is set to underpin growth in 2017, and come to a halt in 2018 as fiscal stimulus expires and the decline in public investment weighs on growth. Recovery in business sentiment and a steady upward trend in machinery orders point to a stable expansion in private non-residential investment in 2017, whilst the pace of growth should decline in 2018 reflecting weak growth prospects from negative population dynamics. Favourable labour market and financing conditions will support private residential investment, but the pace of growth should gradually decelerate on the back of demographic decline.

Supportive macroeconomic policies

Headline CPI inflation has been rising gradually (reaching 0.3% y-o-y in February 2017), but survey- and market-based inflation expectations remain subdued. Rising commodity prices and currency depreciation stemming from monetary policy divergence among advanced economies imply further moderate inflationary pressures which should however remain moderate. Headline CPI inflation is expected to remain well below the Bank of Japan's 2% target, which should warrant continued accommodative monetary policy over the near term in line with the Bank of Japan's commitment to a protracted easing cycle until CPI inflation exceeds the 2% target in a stable manner.

Fiscal consolidation has progressed at a stronger pace since 2013, spurred by stronger nominal GDP growth and higher revenues from the 2014 increase in the consumption tax rate. As a result the general government deficit has narrowed from 7.6% of GDP in 2013 to 3.7% in 2015, and is estimated to have remained at the same level in 2016. Looking ahead, fiscal policy should underpin near-term growth and turn expansionary in 2017 as the deficit is expected to widen to above 4% of GDP, before declining to around 3.5% in 2018 as fiscal stimulus expires.

External demand is strengthening

After very subdued growth in the first half of 2016, export volumes recovered steadily over the second half of the year driven by broad-based demand from the US, Asia and the EU. Looking ahead, the ongoing recovery in global trade and output and the real exchange rate depreciation are expected to support export demand. After declining by 1.7% in 2016, import volumes should also recover moderately as domestic and external demand firm up, resulting in a modest growth contribution from net exports over the forecast horizon.

Risks

External downside risks have become more prominent. Heightened geopolitical tensions in the East Asian region may weigh on business sentiment, and on regional trade and investment activity. At the same time there is lingering uncertainty about trans-pacific trade relations, and possible repercussions for regional trade dynamics. These heightened external risks may entail negative domestic spillovers in terms of weaker wage and investment dynamics.

Table II.35.1:

Main features of country forecast - JAPAN

	2015		Annual percentage change						
bn JPY	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	530465.7	100.0	0.6	2.0	0.3	1.2	**1.0**	**1.2**	**0.6**
Private Consumption	300081.6	56.6	0.8	2.4	-0.9	-0.4	**0.4**	**0.6**	**0.6**
Public Consumption	105335.3	19.9	1.8	1.5	0.5	1.6	**1.5**	**0.9**	**0.9**
Gross fixed capital formation	124226.2	23.4	-1.4	4.9	2.9	0.0	**1.0**	**2.3**	**0.0**
of which: equipment	40361.2	7.6	0.4	-1.0	4.5	-2.8	**-**	**-**	**-**
Exports (goods and services)	93566.3	17.6	4.3	0.8	9.3	3.0	**1.2**	**2.8**	**1.1**
Imports (goods and services)	95280.0	18.0	2.3	3.3	8.3	0.1	**-1.7**	**1.3**	**0.7**
GNI (GDP deflator)	550883.8	103.8	0.7	2.7	0.6	1.4	**0.4**	**1.3**	**0.6**
Contribution to GDP growth:	Domestic demand		0.4	2.8	0.3	0.1	**0.8**	**1.0**	**0.5**
	Inventories		0.0	-0.4	0.1	0.6	**-0.3**	**0.0**	**0.0**
	Net exports		0.3	-0.4	0.0	0.5	**0.5**	**0.3**	**0.1**
Employment			-0.3	0.6	0.6	0.4	**0.8**	**0.3**	**0.2**
Unemployment rate (a)			4.5	4.0	3.6	3.4	**3.1**	**3.1**	**3.0**
Compensation of employees / head			-0.6	-0.1	1.1	0.7	**0.1**	**0.7**	**0.5**
Unit labour costs whole economy			-1.5	-1.5	1.4	-0.1	**-0.1**	**-0.2**	**0.1**
Real unit labour cost			-0.5	-1.2	-0.4	-2.1	**-0.4**	**-0.4**	**-0.4**
Saving rate of households (b)			12.4	7.1	6.6	7.5	**8.6**	**8.8**	**8.6**
GDP deflator			-1.0	-0.3	1.7	2.0	**0.3**	**0.2**	**0.4**
Consumer-price index			-0.1	0.3	2.8	0.8	**-0.1**	**0.4**	**1.0**
Terms of trade goods			-3.1	-1.4	-0.7	11.2	**5.9**	**-0.9**	**0.0**
Trade balance (goods) (c)			1.9	-1.7	-2.0	-0.1	**0.9**	**0.9**	**0.9**
Current-account balance (c)			2.9	0.9	0.8	3.2	**3.9**	**4.1**	**4.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.8	0.7	0.7	3.1	**3.9**	**4.1**	**4.2**
General government balance (c)			-6.6	-7.6	-5.4	-3.5	**-3.7**	**-4.2**	**-3.6**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			170.2	232.8	236.1	238.0	**238.6**	**239.4**	**240.5**

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

36. CHINA

A benign short term outlook, but imbalances continue to rise

The pick-up in momentum seen in the second half of 2016 has been sustained into early 2017. Growth in 2017 and 2018 is nevertheless still expected to be slightly below that in 2016. Short term risks remain balanced, but both rapid credit growth and high levels of corporate debt continue to pose medium term risks unless addressed via policy reforms.

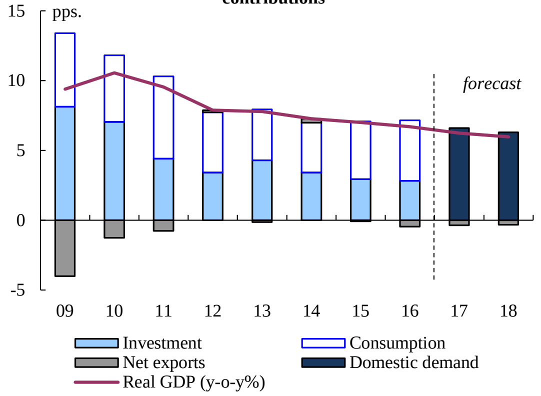
Growth in early 2017 surprises on the upside

China grew by 6.9% (y-o-y) in 2017-Q1, a little more strongly than expected. This compares to 6.7% growth in 2016. High frequency indicators have also maintained solid momentum in recent months while trade volumes have picked up in line with broader trends in trade in Asia. China is now forecast to grow by 6.6% in 2017 and 6.3% in 2018. Risks to the short term outlook remain balanced, with domestic investment and trade being the major uncertainties, particularly given potential tensions in US-China relations. Despite the relatively benign short term outlook, risks linked to rapid growth of corporate leverage remain a significant concern, but are not expected to precipitate a major adjustment over the forecast horizon. [43]

Rebalancing of demand makes some headway, but concerns remain

The composition of growth in 2017-Q1 was also consistent with continued rebalancing on the demand side of the economy away from excessively high levels of investment and towards more consumption-driven growth. The contribution of consumption was 5.3 pps. (compared to 4.3 pps. for 2016 as a whole) while investment contributed just 1.3 pps. (2.8 pps. in 2016) and net exports made a positive contribution of 0.3 pps. (-0.5 pps. in 2016), the first positive contribution to growth since late 2015. The composition of investment demand also showed some signs of rebalancing, with a slower pace of growth in state-led investment, though it continues to grow somewhat faster than private investment. Public investment sourced via state enterprises (SoEs) and local government makes a substantial contribution to overall investment (around 40%) and is closely linked to the rapid growth in local authority borrowing and particularly the sharp rise in corporate leverage in the SoE sector, which has risen by around 70 percentage points since 2010.

Graph II.36.1: **China - Real GDP growth and contributions**



Momentum to be maintained in the short run, underpinned by supportive policies

High frequency indicators paint a positive short-term picture, with PMIs in both manufacturing and services well into expansionary territory. Monthly industrial production and fixed asset investment are showing modest upticks in growth rates, while trade volumes are picking up. Private investment remains tepid, with the exception of the real estate sector where fixed asset investment expanded at the fastest pace in two years in the first two months of 2017. Fiscal policy is expected to remain modestly expansionary, though the precise assessment of the fiscal stance is hampered by inadequate data, as central government data do not capture fiscal stimulus sourced through SoEs or local government. Monetary policy headline rates have now remained unchanged since 2015-Q4. But in recent months the Chinese central bank has started to tighten a number of money market rates (repo rates), most likely reflecting reduced concerns over the short term outlook, and some desire to moderate the still fast pace of credit growth, which is expanding at

[43] See Box I.1 in the EC 2017 Winter Forecast for a discussion on the adjustment challenges posed by China's rapid growth in corporate leverage and high investment rates.

roughly twice the pace of nominal GDP growth. CPI inflation accelerated to 2.0% (y-o-y) in 2016 (1.4% in 2015) and is likely to edge up further in 2017 as higher commodity prices and the weakening of the RMB exchange rate during 2016 add to inflationary pressures. The large capital outflows seen in 2015 and 2016 appear to have abated in recent months. This reduces downward pressure on the RMB, which is now expected to remain broadly stable in real terms.

Trade volumes are picking up noticeably

China's imports and exports of goods were tepid in 2016, both growing by around 2.5% in volume terms. Overall import volumes were boosted by rapid growth of services imports, while service exports fell marginally. Goods exports did pick-up somewhat in 2016-H2 after a very weak 2016-H1, helped by depreciation of the RMB, which fell by 7% in real effective terms during the year. Looking ahead, export volumes should continue to improve slowly, supported both by the weaker currency and accelerating growth in trading partners. Import volumes are expected to grow a little more slowly than in 2016, reflecting the impact of a weaker RMB on domestic demand. As a whole, net exports are expected to make a small negative contribution to overall growth in 2017.

Short term risks remain balanced

Short term risks to the forecast are balanced. It remains unclear to what extent the current slowdown in private investment, seen throughout 2015 and into 2016 reflects short term cyclical factors or more fundamental structural constraints. A significant rebound in (non-real estate) private investment is an upside risk to the forecast, though a sharp acceleration would likely be met with some further gradual tightening of monetary policy and some scaling back of existing public investment stimulus. Although house prices have cooled notably over the last 12 months, real estate investment activity has picked up and risks of a generalised sharp downturn in real estate appear low. On the external front, trade volumes could respond more positively than forecast to the lower RMB real effective exchange rate, particularly given the broader recovery in regional trade volumes and some prospect of faster growth in the EU and US feeding into export demand. However, overshadowing the forecast is the evolution of US-China trade relations, where a shift towards greater protectionism could imply a significant negative shock to China's external trade flows. Finally, despite the relatively buoyant short term outlook, the continued growth in China's corporate leverage remains a significant medium term risk.

Table II.36.1:

Main features of country forecast - CHINA

	2015		Annual percentage change						
	bn CNY Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	69630.0	100.0	9.8	7.8	7.3	6.9	**6.7**	**6.6**	**6.3**
Consumption	35952.0	51.6	55.1	-	-	-	-	-	-
Gross fixed capital formation	30196.0	43.4	38.7	-	-	-	-	-	-
of which: equipment			-	-	-	-	-	-	-
Change in stocks as % of GDP			-	-	-	-	-	-	-
Exports (goods and services)	15141.0	21.7	26.0	8.8	6.9	-1.8	**1.8**	**3.1**	**3.4**
Final demand			-	-	-	-	-	-	-
Imports (goods and services)	12740.0	18.3	22.0	10.6	8.7	0.6	**5.1**	**4.6**	**4.7**
GNI (GDP deflator)	-	-	-	-	-	-	-	-	-
Contribution to GDP growth : Domestic demand			-	-	-	-	-	-	-
Inventories			-	-	-	-	-	-	-
Net exports			-	-	-	-	-	-	-
Employment			-	-	-	-	-	-	-
Unemployment (a)			4.0	4.1	4.1	4.1	-	-	-
Compensation of employees/head			-	-	-	-	-	-	-
Unit labour costs			-	-	-	-	-	-	-
Real unit labour costs			-	-	-	-	-	-	-
Saving rate of households			-	-	-	-	-	-	-
GDP deflator			3.4	2.4	1.2	0.4	**1.0**	**1.0**	**1.5**
Private consumption deflator			-	-	-	-	-	-	-
Index of consumer prices (c)			1.9	2.6	2.0	1.4	-	-	-
Merchandise trade balance (b)			4.1	3.7	4.1	5.1	**5.3**	**4.8**	**4.7**
Current-account balance (b)			4.1	1.5	2.6	3.0	**2.8**	**1.9**	**1.6**
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

Growth underpinned by solid domestic demand

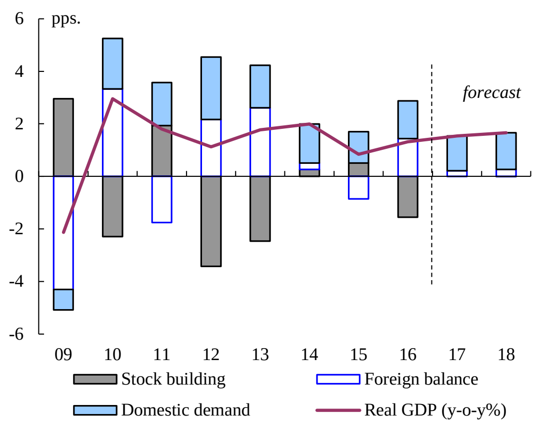
Growth prospects in Switzerland and Norway are converging towards relatively modest levels of around 1.5% over the course of the forecast horizon, with growth largely stemming from solid domestic demand. In Iceland, meanwhile, growth prospects remain robust but are expected to moderate somewhat from the exceptionally high levels experienced over recent years.

Switzerland

Due to weak economic activity in the second half of the year, full-year GDP growth came in at 1.3% in 2016. Growth was driven by the exceptionally strong performance of exports (4.5%), government consumption (1.9%) and investment in transport equipment (4.1%). However, despite the temporary fillip to disposable income stemming from negative inflation, private consumption remained sluggish at 1.2% due to stagnation in the labour market. Gross fixed capital formation expanded by 2.4%, mainly due to the commencement of previously planned public investment projects.

A moderate expansion is projected over the course of 2017 and 2018. Domestic demand is set to support growth over the forecast horizon on the back of a recovering labour market and immigration-led population growth, while wage growth remains weak. In the first quarter of 2017 consumers and business confidence indicators were optimistic with the strongest positive contributions coming from construction, private consumption and financial services. Fixed investment growth is set to normalise to 1.7% in 2017 and rise to 2.0% in 2018 supported by both construction and equipment investment.

Graph II.37.1: **Switzerland - Real GDP growth and contributions**



The exceptional performance of Swiss exports in 2016 was driven by strong growth in chemical and pharmaceutical industries which are set to continue underpinning growth over the forecast period. Export recovery across other industries such as metals, precision tools, watches and jewellery is likely to proceed more gradually as activity picks up across advanced economies (especially in the EU) and emerging markets.

In 2016, Switzerland underwent a second year of negative inflation, driven by low energy prices and slowly fading effects of past currency appreciation. The expected recovery in 2017 is in line with the projected increase of oil prices, but no broad inflationary pressure is projected for 2018.

Employment growth is likely to remain moderate and occur mainly in services sectors such education, social and health care; while internationally exposed sectors will remain under adjustment pressure due to a strong Swiss franc.

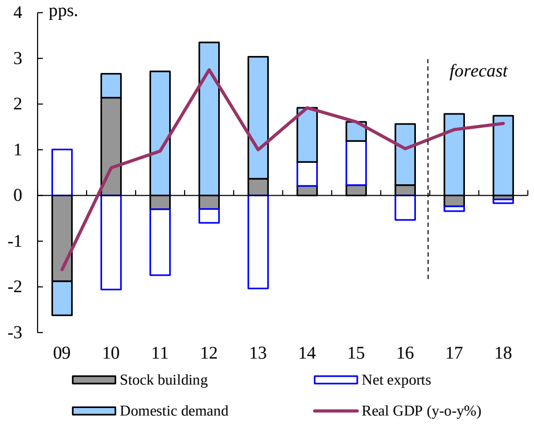
Due to windfall tax revenues and negative interest rates, the general government recorded a small fiscal surplus in 2016 as required by Switzerland's fiscal rule. In place since 2003, the "debt brake" rule requires that the federal government budget be in structural balance ex-ante and that any ex-post overruns be made up by running structural surpluses in subsequent years. The agreement on pension reform and partial VAT reform, aiming to expand the tax base, are set to support moderate surpluses during 2017-18.

The Swiss economy remains vulnerable to external political uncertainties which imply risks of safe-haven capital inflows and upward pressure on the exchange rate. Further external risks relate to protectionist trends amid the extensive integration of Swiss exporters into global value chains. Domestic risks stem from a possible slowdown in the construction sector which is now in the process of consolidating.

Norway

Norway's growth outturn for 2016 was better than anticipated, with full-year GDP growth coming in at 1.0%. However, the principal factor behind this positive outturn was a sharp 1.5% (q-o-q) contraction in imports in 2016-Q4 due to lower oil- and shipping-related imports. Elsewhere, domestic demand components and exports performed in line with expectations. As a result, while the outlook and anticipated drivers of growth are largely unchanged from the previous forecast round, the better-than-expected outturn in 2016-Q4 leads to carryover impacts on future years, resulting in upward revisions to GDP growth in 2017 (0.2 pps.) and 2018 (0.1 pps.) compared to the winter 2017 forecast.

Graph II.37.2: **Norway - Real GDP growth and contributions**



The economy has already shown signs of steady recovery from declining oil prices throughout the course of 2016, with energy-related investment turning positive for the first time in three years in 2016-Q4. These dynamics are expected to remain in place over the forecast horizon, as rising oil prices provide support to investment in extraction and related industries; while increased activity is also set to lead to rising investment across other sectors. In addition, the strong performance of the construction sector is expected to be sustained further by robust house price growth.

Labour market conditions are expected to stabilise in 2017 in line with rising output, with this providing some minor support to private consumption. Real wage growth, which contracted in 2016 due to higher inflation resulting from the Norwegian krone's (NOK) depreciation and lower wage agreements, is forecast to turn positive again over the forecast horizon due to an expected moderation in inflation.

Concerning the macroeconomic policy mix, core inflation has already fallen below Norge's Banks 2.5% target. However, no further reductions in interest rates are expected at this stage due to continued concerns regarding monetary policy's interplay with house price increases. Fiscal policy, which so far has been proactive in offsetting the current slowdown, is expected to play a less supportive role going forward as the economy gradually recovers. Recent legislation to limit spending of the sovereign wealth fund to 3% of GDP annually further supports the expectation that fiscal stimulus will become a less important driver of growth, with public consumption growth moderating as a result.

External demand is forecast to recover in line with improving growth prospects among key trading partners. However, the recovery in domestic demand and a stabilising currency is expected to place upward pressure on imports, resulting in a negative net contribution from net exports throughout the forecast horizon.

The principal domestic risk to the outlook remains the housing market and the potential for correction following an extended period of elevated house price growth and already-high high debt levels among Norwegian households. On the external side, the potential for lower exports due to political uncertainties (including those related to the UK's withdrawal from the EU) remains pronounced.

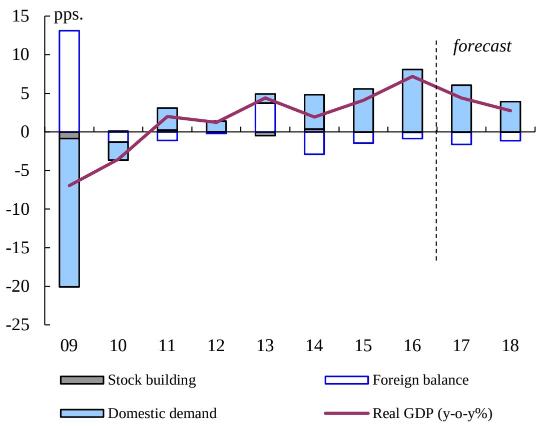
Iceland

Real GDP growth in Iceland accelerated to 7.2% in 2016, with the principal impetus coming from investment (22.7% y-o-y) and private consumption (6.9% y-o-y). These dynamics were underpinned by higher wages, a strong tourist season and a corresponding pick-up in tourism-related construction expenditure. Strong employment growth also contributed to a substantial rise in the import of foreign labour, while the unemployment rate (3.1%) fell further towards pre-crisis levels.

Following the exceptional performance in 2016, GDP growth should moderate in the remainder of the forecast period. Private consumption is expected to remain the key driver of growth due to further wage increases resulting from wage agreements concluded in 2015, as well as lower than expected inflation. Continued employment growth and strong demand generated by tourism are expected to provide further support.

Investment is set to moderate as its composition shifts from the large fishing industry and silicon-related projects towards construction of new residential and tourism capacities. Due to stronger domestic demand, Iceland's goods trade deficit increased to 4.2% of GDP in 2016 and is expected to widen further over the coming period.

Graph II.37.3: **Iceland - Real GDP growth and contributions**



Despite the nearly full liberalisation of capital flows in early 2017, the expected depreciation of the exchange rate (following an appreciation by 16% in 2016) has not materialised so far, thus contributing to lower import prices and overall inflation (1.8% in 2017-Q1). Nonetheless, inflation is forecast to rise on the back of rising wages and tourism demand. Monetary policy will likely remain tight to ensure medium-term price stability. Labour supply will continue to rely on foreign workers, particularly as domestic employment rates are already high.

The government's fiscal surplus amounted to 17.2% of GDP in 2017, resulting from a tax imposed on all withdrawn financial claims following the lifting of capital controls. This revenue was largely used for debt reduction and produced a 21 pps. fall in the public debt-to-GDP ratio. This downward trend is expected to continue as the general government is likely to maintain largely balanced public sector accounts while nominal GDP increases further. New one-off revenue gains due to privatisation of currently state-owned banks could contribute to faster debt reduction than currently forecast.

The economy is showing signs of overheating (rising wages, limited labour supply, rising house prices) and this could present challenges over the near- and medium-term. In addition, large capital inflows to the financial sector could increase the sector's volatility due to sudden swings in capital flows. Upside risks include the potentially favourable impacts on the medium-term outlook from the new, more liberal capital account regime.

Table II.37.1:

Main features of country forecast - EFTA

	Iceland				Norway				Switzerland			
(Annual percentage change)	**2015**	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**
GDP	4.1	**7.2**	**4.4**	**2.8**	1.6	**1.0**	**1.4**	**1.6**	0.8	**1.3**	**1.5**	**1.7**
Private Consumption	4.3	**6.9**	**5.9**	**4.3**	2.1	**1.6**	**1.7**	**1.8**	1.1	**1.2**	**1.3**	**1.4**
Public Consumption	1.0	**1.5**	**1.2**	**1.3**	2.1	**2.3**	**1.7**	**1.5**	2.2	**1.9**	**1.7**	**1.5**
Gross fixed capital formation	17.8	**22.7**	**13.6**	**6.4**	-3.8	**0.5**	**2.5**	**2.3**	1.6	**2.4**	**1.7**	**2.0**
of which: equipment	-	**-**	**-**	**-**	-0.4	**3.0**	**1.9**	**2.4**	1.6	**4.1**	**0.8**	**2.5**
Exports (good and services)	9.2	**11.1**	**5.7**	**4.4**	3.7	**-1.2**	**1.3**	**2.0**	2.3	**4.5**	**2.4**	**3.4**
Imports (goods and services)	13.5	**14.7**	**10.3**	**7.8**	1.6	**0.3**	**1.7**	**2.3**	4.5	**2.7**	**2.6**	**3.8**
GNI (GDP deflator)	5.4	**10.0**	**4.4**	**2.8**	2.9	**1.4**	**1.2**	**1.4**	2.2	**1.3**	**1.5**	**1.7**
Contribution to GDP growth: Domestic demand	5.6	**8.1**	**6.0**	**3.9**	0.4	**1.3**	**1.8**	**1.7**	1.2	**1.4**	**1.3**	**1.4**
Inventories	0.0	**-0.1**	**0.0**	**0.0**	0.2	**0.2**	**-0.2**	**-0.1**	0.5	**-1.6**	**0.0**	**0.0**
Net exports	-1.5	**-0.8**	**-1.6**	**-1.2**	1.0	**-0.5**	**-0.1**	**-0.1**	-0.9	**1.4**	**0.2**	**0.3**
Employment	3.4	**3.8**	**2.1**	**2.0**	0.3	**-0.1**	**0.3**	**0.8**	1.5	**0.1**	**0.3**	**0.5**
Unemployment rate (a)	4.2	**3.1**	**3.0**	**3.1**	4.2	**4.6**	**4.0**	**3.6**	4.6	**4.6**	**4.5**	**4.3**
Compensation of employee/head	6.1	**7.9**	**9.5**	**4.3**	2.7	**1.7**	**2.1**	**2.4**	-0.9	**0.5**	**0.5**	**0.4**
Unit labour cost whole economy	5.4	**4.4**	**7.1**	**3.5**	1.3	**0.6**	**1.0**	**1.6**	-0.2	**-0.8**	**-0.8**	**-0.7**
Real unit labour cost	-0.6	**2.4**	**3.2**	**-1.3**	3.7	**1.8**	**-1.0**	**-0.3**	0.4	**-0.2**	**-1.1**	**-1.0**
Saving rate of households (b)	:	:	:	:	15.9	**16.1**	**13.8**	**12.8**	24.4	**23.9**	**23.7**	**23.8**
GDP deflator	6.0	**2.0**	**3.8**	**4.9**	-2.3	**-1.2**	**1.9**	**1.9**	-0.6	**-0.6**	**0.3**	**0.3**
Harmonised index of consumer prices	0.0	**0.8**	**2.6**	**3.3**	2.0	**3.9**	**2.1**	**2.0**	-0.8	**-0.5**	**0.3**	**0.2**
Terms of trade goods	10.6	**-2.4**	**0.5**	**-0.1**	-15.5	**-11.9**	**0.4**	**0.3**	1.2	**0.1**	**-0.1**	**0.0**
Trade balance (goods) (c)	-1.6	**-4.2**	**-5.4**	**-6.3**	6.6	**3.5**	**3.6**	**3.6**	8.0	**8.7**	**9.1**	**9.3**
Current account balance (c)	5.5	**8.0**	**5.2**	**3.9**	8.7	**4.9**	**4.6**	**4.3**	11.7	**12.7**	**12.6**	**12.9**
Net lending (+) or borrowing (-) vis-a-vis ROW	5.4	**7.9**	**5.1**	**3.8**	8.6	**4.9**	**4.5**	**4.2**	9.5	**11.7**	**11.7**	**12.0**
General government balance (c)	-0.8	**17.2**	**0.7**	**0.4**	6.0	**3.1**	**3.6**	**4.0**	1.1	**0.2**	**0.4**	**0.5**
General government gross debt (c)	67.3	**46.2**	**41.9**	**38.5**	31.8	**32.2**	**32.5**	**30.8**	35.3	**34.8**	**33.8**	**32.7**

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

38. RUSSIAN FEDERATION

Slowly emerging from the doldrums

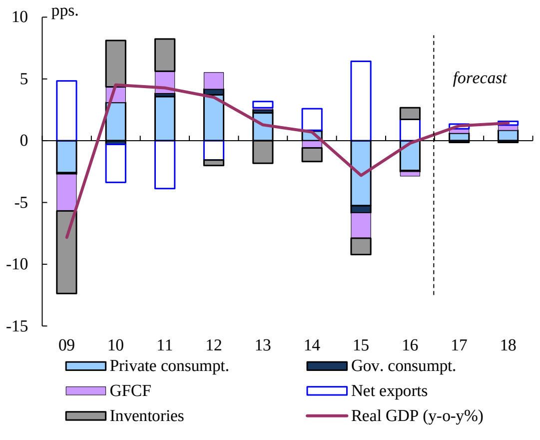
The economic situation in Russia has been gradually improving, as domestic demand has bottomed out amid a strengthening currency and falling inflation. The rebound is set to firm over the forecast horizon, driven by oil price stabilisation, albeit at a moderate pace, as fiscal consolidation and structural barriers are likely to limit the scale of the upswing.

Economic activity recovers moderately

The recovery in Russia has been taking hold throughout 2016, with real GDP growth moving into positive territory in the last quarter of the year. The rebound has resulted from a bottoming-out of domestic demand and strengthening exports, both driven by the recovering oil prices.

Going forward, increasing private consumption is set to fuel growth, as the appreciating currency limits inflation and boosts real incomes. The recovery in the global economy and stabilising oil prices are expected to lift exports and business confidence, while falling inflation allows for some monetary easing. However, fiscal consolidation is expected to proceed, despite risks of expenditure increase related to the electoral cycle. Overall, GDP growth is estimated at -0.2% in 2016, and should accelerate to 1.2% and 1.4% in 2017 and 2018, respectively.

Graph II.38.1: **Russia - Real GDP growth and contributions**



Domestic demand picks up

Short-term indicators indicate that the recovery is firming, driven by the stabilising oil prices and improving confidence. Real wage growth is expected to accelerate gradually as inflationary pressures subside. After a slump of 15% over 2015-2016, private consumption is set to recover amid improving consumer sentiment, increasing real wages and indexation of pension payments that are expected to boost real disposable incomes. The scale of this pick-up is likely to be constrained by the continued increase of savings, driven by high real interest rates, and weak consumer credit growth.

Lower inflation, gradually increasing demand throughout the economy and increasing profitability of the corporate sector are expected to boost business confidence and support fixed investment, despite limited supply of corporate credit and its relatively high costs.

Stabilising oil prices and gradual recovery among trading partners should also provide some support to export growth, while import demand is set to accelerate reflecting the scale of pent-up demand for imported goods and an appreciating currency. All in all, the contribution of net exports is set to be marginally positive throughout the forecast horizon.

Diversification of the economy and medium term growth are hindered by structural factors

The economy's reliance on the oil and gas sector remains significant, despite the authorities' programme of import substitution and the past currency depreciation. Revival of the non-extractive industries and diversification towards new export destinations (China, rest of Asia) was, however, hindered by structural obstacles including a poor investment climate, high financing costs, labour market rigidities and weak competition in key sectors of the economy. These barriers limit medium-term growth prospects, as well.

Fiscal policy expected to be a drag on growth

The sharp increase in the budget deficit to 3.7% of GDP in 2016, amid rapid decline in oil-related revenues and shrinking value of the reserve funds triggered budgetary consolidation. Introduction of a temporary fiscal rule is likely to allow for a gradual replenishment of the reserves, but it should not have a direct impact on the size of the deficit. Budgetary plans set out fiscal consolidation at the federal level amounting to 1.0 pp. of GDP annually until 2019, though their implementation is subject to uncertainties, in particular given the need to sustain expenditure on social transfers during the electoral cycle. In light of this, consolidation is anticipated to be somewhat less ambitious, with the general government deficit falling by 0.7 pps. and 0.6 pps. of GDP in 2017 and 2018, respectively.

Falling inflation enables a gradual easing of monetary policy

Inflation has fallen below 5% in the beginning of 2017 from double digit figures in 2015/2016, reflecting an appreciating currency, subdued domestic demand and the recent reduction in inflation expectations. However, rising producer prices, increases in excise duties and rebounding domestic demand are major risks to further disinflation, constraining the space for rapid monetary policy easing. Therefore, the monetary policy of the Central Bank of Russia's (CBR), which has committed to achieving a 4% inflation target by end-2017, remains cautious with the recent cuts of the headline interest rate by 75 basis points, to 9.25%.

Current account surplus increases

The current account surplus has fallen to 1.9% of GDP in 2016, as a result of lower commodity revenues. It is forecast to pick up to almost 4% of GDP towards the end of the forecast horizon. The improvement is driven mainly by a terms-of-trade improvement and stronger commodities exports.

Risks are broadly balanced

Key sources of uncertainty are linked with oil price dynamics and geopolitical tensions and represent the primary downside risk to this forecast: while a stronger recovery of consumer confidence and higher social spending before the presidential elections in 2018 are the major upside risks.

Table II.38.1:

Main features of country forecast - RUSSIA

	2015		Annual percentage change							
bn RUB	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	81197.1	100.0	4.2	1.3	0.7	-2.8	**-0.2**	**1.2**	**1.4**
Private Consumption	43536.8	53.6	6.4	4.3	1.5	-9.8	**-4.5**	**1.1**	**1.6**
Public Consumption	15197.2	18.7	1.3	1.4	0.2	-3.1	**-0.5**	**-0.7**	**-0.8**
Gross fixed capital formation	16636.8	20.5	6.3	0.8	-3.0	-9.9	**-1.8**	**1.7**	**2.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	23914.1	29.5	5.2	4.6	0.6	3.7	**3.1**	**3.3**	**3.6**
Imports (goods and services)	17278.1	21.3	9.4	3.6	-7.6	-25.8	**-3.8**	**2.3**	**3.4**
GNI (GDP deflator)	79048.0	97.4	4.1	0.8	1.0	-2.2	**-0.2**	**1.2**	**1.4**
Contribution to GDP growth:	Domestic demand		4.7	2.7	0.3	-7.9	**-2.9**	**0.8**	**1.1**
	Inventories		0.1	-1.8	-1.1	-1.3	**0.9**	**0.0**	**0.0**
	Net exports		-0.6	0.5	1.7	6.4	**1.7**	**0.4**	**0.3**
Employment			-	-0.2	0.2	-0.7	**-0.3**	**-0.2**	**-0.1**
Unemployment rate (a)			-	5.5	5.2	5.6	**5.7**	**5.7**	**5.6**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			19.0	4.8	9.0	7.2	**2.0**	**6.6**	**3.9**
Consumer-price index			-	6.8	7.8	15.5	**7.2**	**4.4**	**4.0**
Terms of trade goods			5.1	-6.6	-4.5	-23.4	**-19.2**	**12.2**	**-0.2**
Trade balance (goods) (c)			11.7	8.2	9.3	10.8	**7.3**	**8.8**	**8.9**
Current-account balance (c)			7.2	1.4	2.8	4.9	**1.9**	**3.6**	**3.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			7.3	1.4	2.8	4.9	**1.9**	**3.6**	**3.7**
General government balance (c)			-	-0.2	-1.0	-2.7	**-3.7**	**-3.0**	**-2.4**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	13.1	15.9	16.3	**16.7**	**16.2**	**16.5**

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

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Statistical Annex

European Economic Forecast – Spring 2017

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Table 1: Gross domestic product, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	2.3	2.5	0.6	-0.1	1.7	1.5	**1.2**	**1.5**	**1.7**	*1.2*	*1.4*	*1.6*
Germany	1.7	1.6	0.7	0.5	1.6	1.7	**1.9**	**1.6**	**1.9**	*1.9*	*1.6*	*1.8*
Estonia	5.2	8.2	-1.5	1.4	2.8	1.4	**1.6**	**2.3**	**2.8**	*1.1*	*2.2*	*2.6*
Ireland	8.1	5.2	-1.6	1.1	8.5	26.3	**5.2**	**4.0**	**3.6**	*4.3*	*3.4*	*3.3*
Greece	3.8	4.1	-5.4	-3.2	0.4	-0.2	**0.0**	**2.1**	**2.5**	*0.3*	*2.7*	*3.1*
Spain	4.2	3.6	-1.3	-1.7	1.4	3.2	**3.2**	**2.8**	**2.4**	*3.2*	*2.3*	*2.1*
France	2.8	2.0	0.3	0.6	0.6	1.3	**1.2**	**1.4**	**1.7**	*1.2*	*1.4*	*1.7*
Italy	1.8	1.2	-1.5	-1.7	0.1	0.8	**0.9**	**0.9**	**1.1**	*0.9*	*0.9*	*1.1*
Cyprus	4.6	4.0	0.1	-6.0	-1.5	1.7	**2.8**	**2.5**	**2.3**	*2.8*	*2.5*	*2.3*
Latvia	5.6	9.9	-2.5	2.6	2.1	2.7	**2.0**	**3.2**	**3.5**	*1.6*	*2.8*	*3.0*
Lithuania	4.6	8.6	-0.4	3.5	3.5	1.8	**2.3**	**2.9**	**3.1**	*2.2*	*2.9*	*2.8*
Luxembourg	5.8	4.4	0.2	4.0	5.6	4.0	**4.2**	**4.3**	**4.4**	*3.8*	*4.0*	*3.9*
Malta	3.5	2.5	1.7	4.5	8.3	7.4	**5.0**	**4.6**	**4.4**	*4.0*	*3.7*	*3.7*
Netherlands	3.2	2.3	0.0	-0.2	1.4	2.0	**2.2**	**2.1**	**1.8**	*2.1*	*2.0*	*1.8*
Austria	2.7	2.5	0.6	0.1	0.6	1.0	**1.5**	**1.7**	**1.7**	*1.5*	*1.6*	*1.6*
Portugal	3.0	1.1	-1.4	-1.1	0.9	1.6	**1.4**	**1.8**	**1.6**	*1.3*	*1.6*	*1.5*
Slovenia	3.9	4.7	-1.1	-1.1	3.1	2.3	**2.5**	**3.3**	**3.1**	*2.5*	*3.0*	*3.0*
Slovakia	2.6	7.3	1.9	1.5	2.6	3.8	**3.3**	**3.0**	**3.6**	*3.3*	*2.9*	*3.6*
Finland	3.9	3.6	-0.8	-0.8	-0.6	0.3	**1.4**	**1.3**	**1.7**	*1.5*	*1.2*	*1.5*
Euro area	2.6	2.2	-0.3	-0.3	1.2	2.0	**1.8**	**1.7**	**1.8**	*1.7*	*1.6*	*1.8*
Bulgaria	2.2	6.6	1.1	0.9	1.3	3.6	**3.4**	**2.9**	**2.8**	*3.3*	*2.9*	*2.8*
Czech Republic	2.0	5.5	0.2	-0.5	2.7	4.5	**2.4**	**2.6**	**2.7**	*2.4*	*2.6*	*2.7*
Denmark	2.0	2.0	-0.4	0.9	1.7	1.6	**1.3**	**1.7**	**1.8**	*1.0*	*1.5*	*1.8*
Croatia	2.7	4.7	-2.0	-1.1	-0.5	1.6	**2.9**	**2.9**	**2.6**	*2.8*	*3.1*	*2.5*
Hungary	4.0	3.5	-1.0	2.1	4.0	3.1	**2.0**	**3.6**	**3.5**	*1.9*	*3.5*	*3.2*
Poland	3.4	5.1	3.5	1.4	3.3	3.8	**2.7**	**3.5**	**3.2**	*2.8*	*3.2*	*3.1*
Romania	2.1	6.6	0.3	3.5	3.1	3.9	**4.8**	**4.3**	**3.7**	*4.9*	*4.4*	*3.7*
Sweden	3.4	3.5	0.5	1.2	2.6	4.1	**3.3**	**2.6**	**2.2**	*3.3*	*2.4*	*2.1*
United Kingdom	3.1	2.8	-0.1	1.9	3.1	2.2	**1.8**	**1.8**	**1.3**	*2.0*	*1.5*	*1.2*
EU	2.7	2.5	-0.1	0.2	1.6	2.2	**1.9**	**1.9**	**1.9**	*1.9*	*1.8*	*1.8*
USA	3.2	2.9	0.6	1.7	2.4	2.6	**1.6**	**2.2**	**2.3**	*1.6*	*2.3*	*2.2*
Japan	0.4	1.7	-0.2	2.0	0.3	1.2	**1.0**	**1.2**	**0.6**	*0.9*	*1.0*	*0.5*

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2016-18) 25.4.2017

	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4
Belgium	0.1	0.5	0.2	0.5	0.5	0.3	0.4	0.4	0.5	0.4	0.4	0.4
Germany	0.7	0.5	0.1	0.4	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Estonia	-0.3	0.8	0.5	1.9	-0.7	0.7	0.7	0.8	0.6	0.7	0.7	0.7
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	0.8	0.8	0.7	0.7	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6
France	0.6	-0.1	0.2	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.5
Italy	0.4	0.1	0.3	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.3	0.2
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	0.2	0.6	0.3	1.1	0.4	1.7	1.1	0.8	0.8	0.8	0.8	0.8
Lithuania	0.4	0.7	0.5	1.4	0.5	0.6	0.6	0.7	0.8	0.9	0.9	0.9
Luxembourg	0.0	1.2	1.0	1.3	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.7	0.7	0.8	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.4
Austria	0.6	0.1	0.6	0.6	0.5	0.4	0.3	0.3	0.5	0.4	0.4	0.4
Portugal	0.2	0.2	0.9	0.7	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Slovenia	0.6	0.7	1.0	1.2	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Slovakia	0.6	0.8	0.7	0.8	0.8	0.8	0.8	0.9	1.1	1.0	0.9	0.9
Finland	0.7	-0.2	0.5	0.1	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Euro area	0.6	0.3	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Bulgaria	0.8	0.9	0.7	0.9	0.6	0.7	0.8	0.8	0.7	0.7	0.7	0.7
Czech Republic	0.4	0.9	0.2	0.4	0.8	0.8	0.8	0.7	0.7	0.6	0.5	0.5
Denmark	0.8	0.4	0.6	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Croatia	0.8	0.9	1.2	0.6	1.2	-0.3	0.7	0.7	0.7	0.7	0.7	0.7
Hungary	-0.3	1.0	0.3	0.4	1.2	1.2	1.2	0.7	0.8	0.8	0.8	0.8
Poland	0.0	1.0	0.4	1.7	0.5	0.6	0.7	0.7	0.8	0.8	1.0	0.9
Romania	1.3	1.6	0.6	1.4	0.7	1.0	1.4	1.4	0.4	0.7	1.3	0.4
Sweden	0.3	0.6	0.3	1.0	0.8	0.4	0.2	0.3	0.8	0.7	0.7	0.7
United Kingdom	0.2	0.6	0.5	0.7	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3
EU	0.5	0.4	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
USA	0.2	0.4	0.9	0.5	0.4	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Japan	0.5	0.5	0.3	0.3	0.4	0.3	0.3	0.1	0.1	0.1	0.2	0.1

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2016-18) 25.4.2017

	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4
Belgium	1.3	1.2	1.3	1.2	1.6	1.4	1.6	1.5	1.6	1.7	1.7	1.7
Germany	1.8	1.8	1.7	1.8	1.6	1.7	2.1	2.3	2.1	2.0	1.8	1.6
Estonia	1.5	0.9	1.8	2.8	2.4	2.4	2.7	1.6	2.9	2.9	2.9	2.8
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	3.4	3.4	3.2	3.0	3.0	2.8	2.7	2.6	2.4	2.3	2.3	2.4
France	1.2	1.1	0.9	1.1	0.9	1.5	1.8	1.8	1.8	1.7	1.6	1.7
Italy	1.1	0.8	1.0	1.0	0.8	1.0	1.1	1.2	1.1	1.0	0.9	0.9
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	1.5	1.0	0.5	2.2	2.4	3.5	4.3	4.0	4.4	3.5	3.2	3.2
Lithuania	1.9	2.0	1.8	3.0	3.1	3.0	3.1	2.4	2.7	3.0	3.2	3.5
Luxembourg	3.3	4.5	5.4	3.6	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	1.2	1.9	2.5	2.9	2.7	2.5	2.1	1.9	1.9	1.8	1.9	1.9
Austria	1.4	1.2	1.6	1.8	1.7	2.1	1.7	1.4	1.5	1.6	1.7	1.9
Portugal	1.0	0.9	1.7	2.0	2.2	2.3	1.7	1.4	1.4	1.5	1.6	1.7
Slovenia	2.0	2.1	2.9	3.6	3.7	3.6	3.3	2.8	2.9	3.0	3.2	3.3
Slovakia	3.6	3.5	3.1	2.9	3.1	3.1	3.2	3.3	3.6	3.8	3.9	3.9
Finland	1.9	0.8	1.7	1.2	0.9	1.4	1.3	1.6	1.6	1.7	1.8	1.9
Euro area	1.7	1.6	1.8	1.8	1.6	1.8	1.9	1.9	1.9	1.8	1.7	1.7
Bulgaria	3.4	3.6	3.4	3.4	3.2	3.0	3.0	2.9	3.0	3.0	3.0	2.9
Czech Republic	3.0	2.6	1.8	1.9	2.3	2.3	2.9	3.1	3.1	2.8	2.5	2.3
Denmark	0.8	0.6	1.5	2.3	1.9	1.8	1.6	1.5	1.6	1.7	1.9	2.0
Croatia	2.3	2.1	2.7	3.5	3.9	2.8	2.3	2.4	1.9	2.9	2.9	2.9
Hungary	1.3	2.3	2.0	1.5	3.0	3.2	4.1	4.4	4.0	3.6	3.3	3.3
Poland	2.8	3.2	2.3	3.1	3.5	3.1	3.4	2.5	2.8	3.1	3.4	3.5
Romania	4.1	5.8	4.4	4.9	4.3	3.6	4.5	4.6	4.3	4.0	3.9	2.9
Sweden	4.0	3.5	2.5	2.3	2.8	2.6	2.5	1.7	1.7	2.0	2.5	3.0
United Kingdom	1.6	1.7	2.0	1.9	2.3	2.1	1.9	1.6	1.3	1.3	1.3	1.2
EU	1.8	1.8	1.9	1.9	1.9	1.9	2.0	1.9	1.9	1.8	1.8	1.8
USA	1.6	1.3	1.7	2.0	2.1	2.4	2.1	2.2	2.4	2.3	2.3	2.3
Japan	0.4	0.9	1.1	1.6	1.5	1.2	1.2	1.0	0.8	0.6	0.6	0.5

Table 4: Gross domestic product per capita (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	2.0	1.9	-0.2	-0.5	1.2	1.0	**0.7**	**0.7**	**1.2**	*0.6*	*0.8*	*1.1*
Germany	1.7	1.8	0.8	0.2	1.2	0.8	**0.9**	**0.8**	**1.4**	*0.9*	*0.8*	*1.2*
Estonia	5.5	8.9	-1.3	1.8	3.2	1.6	**1.4**	**2.2**	**2.8**	*1.1*	*2.2*	*2.6*
Ireland	6.6	2.8	-2.5	0.8	8.2	25.5	**3.6**	**2.9**	**2.6**	*3.4*	*2.4*	*2.4*
Greece	3.3	3.8	-5.4	-2.5	1.0	0.4	**0.4**	**2.1**	**2.5**	*0.3*	*2.7*	*3.1*
Spain	3.5	1.8	-1.9	-1.3	1.7	3.3	**3.1**	**2.7**	**2.3**	*3.4*	*2.4*	*2.2*
France	2.2	1.3	-0.2	0.1	0.2	0.9	**0.9**	**0.9**	**1.3**	*0.7*	*0.9*	*1.3*
Italy	1.7	0.6	-2.0	-2.2	-0.1	0.9	**1.1**	**1.0**	**1.1**	*0.8*	*0.6*	*0.9*
Cyprus	3.4	2.4	-2.3	-5.7	-0.4	2.3	**2.2**	**2.4**	**1.7**	*3.1*	*2.3*	*1.9*
Latvia	6.7	10.9	-1.0	3.7	3.1	3.6	**2.8**	**3.8**	**4.0**	*2.3*	*3.4*	*3.5*
Lithuania	5.4	10.0	1.1	4.6	4.4	2.7	**3.6**	**4.3**	**4.9**	*3.4*	*4.1*	*3.8*
Luxembourg	4.5	2.8	-1.8	1.4	3.2	2.0	**1.6**	**2.1**	**2.2**	*2.0*	*2.1*	*1.9*
Malta	2.8	2.0	1.0	3.5	7.3	6.3	**3.9**	**3.6**	**3.4**	*3.1*	*2.9*	*2.9*
Netherlands	2.5	2.0	-0.5	-0.5	1.0	1.5	**1.6**	**1.5**	**1.3**	*1.5*	*1.3*	*1.2*
Austria	2.4	2.0	0.3	-0.5	-0.1	0.0	**0.2**	**0.9**	**1.0**	*0.7*	*1.1*	*1.1*
Portugal	2.4	0.9	-1.3	-0.6	1.4	2.0	**1.7**	**2.0**	**1.7**	*1.8*	*2.1*	*2.0*
Slovenia	3.8	4.5	-1.5	-1.2	3.0	2.2	**2.4**	**3.2**	**3.0**	*2.3*	*2.8*	*2.9*
Slovakia	2.6	7.2	1.8	1.4	2.5	3.8	**3.1**	**3.0**	**3.5**	*3.3*	*2.9*	*3.6*
Finland	3.7	3.2	-1.2	-1.2	-1.1	-0.1	**1.1**	**0.9**	**1.4**	*1.1*	*0.8*	*1.1*
Euro area	2.2	1.6	-0.6	-0.5	1.0	1.8	**1.4**	**1.4**	**1.6**	*1.3*	*1.3*	*1.5*
Bulgaria	3.4	7.4	1.7	1.4	1.9	4.0	**4.1**	**3.6**	**3.4**	*3.9*	*3.6*	*3.5*
Czech Republic	2.2	5.2	-0.1	-0.5	2.6	4.4	**2.2**	**2.4**	**2.4**	*2.2*	*2.5*	*2.6*
Denmark	1.7	1.7	-0.9	0.5	1.1	0.9	**0.5**	**0.9**	**1.1**	*0.2*	*0.9*	*1.2*
Croatia	3.9	4.7	-1.7	-0.8	-0.1	2.1	**3.5**	**3.7**	**3.3**	*4.0*	*3.4*	*2.7*
Hungary	4.2	3.7	-0.7	2.4	4.3	3.4	**2.2**	**3.8**	**3.6**	*2.0*	*3.7*	*3.4*
Poland	3.4	5.1	3.2	1.5	3.3	3.9	**2.8**	**3.5**	**3.2**	*2.8*	*3.2*	*3.2*
Romania	2.9	7.4	1.1	3.9	3.5	4.4	**5.1**	**5.2**	**4.4**	*5.7*	*4.9*	*4.4*
Sweden	3.2	3.0	-0.3	0.4	1.6	3.0	**2.0**	**1.2**	**1.1**	*2.1*	*1.0*	*0.5*
United Kingdom	2.7	2.1	-0.8	1.3	2.3	1.4	**1.1**	**1.0**	**0.5**	*1.2*	*0.8*	*0.5*
EU	2.5	2.1	-0.4	0.0	1.4	1.9	**1.5**	**1.5**	**1.6**	*1.5*	*1.4*	*1.5*
USA	2.1	1.9	-0.2	1.0	1.6	1.9	**0.9**	**1.5**	**1.5**	*0.9*	*1.5*	*1.5*
Japan	0.2	1.6	-0.2	2.2	0.5	1.3	**1.1**	**1.3**	**0.7**	*1.1*	*1.1*	*0.6*

Table 5: Domestic demand, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.7	2.5	0.8	-0.5	2.3	1.5	**0.5**	**1.3**	**1.5**	*0.4*	*1.1*	*1.5*
Germany	1.0	0.9	0.6	0.9	1.4	1.6	**2.3**	**1.9**	**2.2**	*2.2*	*2.0*	*2.1*
Estonia	5.8	10.2	-3.2	1.5	2.5	0.7	**2.6**	**3.3**	**2.4**	*2.2*	*3.0*	*3.1*
Ireland	7.5	6.0	-3.0	-1.9	7.7	9.9	**17.1**	**4.3**	**3.7**	*4.2*	*3.3*	*3.2*
Greece	4.5	4.6	-7.0	-4.3	0.5	-1.2	**0.5**	**1.8**	**2.3**	*0.7*	*2.5*	*2.9*
Spain	4.9	4.6	-3.0	-3.2	1.9	3.4	**2.9**	**2.4**	**2.2**	*2.9*	*2.1*	*2.0*
France	3.0	2.4	0.3	0.7	1.1	1.5	**2.0**	**1.4**	**1.9**	*2.0*	*1.4*	*2.0*
Italy	2.3	1.2	-2.0	-2.6	0.2	1.4	**1.0**	**1.1**	**1.4**	*1.0*	*1.1*	*1.4*
Cyprus	4.0	5.6	-0.6	-9.4	-1.4	2.9	**3.9**	**2.2**	**2.3**	*2.0*	*2.5*	*2.1*
Latvia	6.1	12.7	-5.2	1.8	0.1	2.4	**3.0**	**4.7**	**4.9**	*2.6*	*3.7*	*3.8*
Lithuania	4.4	10.9	-3.4	3.2	3.4	7.1	**2.1**	**3.9**	**3.3**	*1.9*	*4.1*	*2.6*
Luxembourg	4.5	3.2	2.1	1.2	4.2	3.1	**1.0**	**4.0**	**3.3**	*2.3*	*3.7*	*2.7*
Malta	1.3	3.8	0.8	3.0	2.6	13.2	**0.9**	**4.3**	**1.9**	*2.7*	*3.6*	*3.6*
Netherlands	3.3	1.9	-0.4	-1.4	0.9	2.2	**2.3**	**2.2**	**2.0**	*2.3*	*2.3*	*2.1*
Austria	1.6	2.3	0.6	0.0	0.1	0.6	**1.8**	**1.5**	**1.4**	*1.9*	*1.4*	*1.2*
Portugal	3.5	1.1	-2.8	-2.0	2.2	2.5	**1.5**	**2.1**	**1.7**	*1.3*	*1.7*	*1.5*
Slovenia	3.7	5.0	-2.8	-2.0	1.8	1.4	**2.4**	**3.5**	**3.5**	*1.9*	*3.2*	*3.4*
Slovakia	2.1	5.6	-0.1	0.3	3.2	4.7	**0.9**	**2.9**	**3.3**	*1.5*	*2.8*	*3.4*
Finland	3.1	3.6	0.0	-1.1	-0.1	1.4	**2.1**	**1.0**	**1.4**	*1.7*	*1.0*	*1.2*
Euro area	2.5	2.2	-0.8	-0.7	1.2	1.9	**2.2**	**1.8**	**2.0**	*1.9*	*1.7*	*2.0*
Bulgaria	8.2	9.8	-1.1	-2.2	2.7	3.4	**1.6**	**2.9**	**2.8**	*2.1*	*2.8*	*2.9*
Czech Republic	2.2	4.4	-0.8	-0.6	3.4	4.7	**1.4**	**2.5**	**2.9**	*1.7*	*2.4*	*2.6*
Denmark	1.5	3.1	-0.8	0.8	1.5	1.3	**1.6**	**1.9**	**2.0**	*1.6*	*1.7*	*2.0*
Croatia	2.0	5.4	-3.2	-1.1	-1.9	1.2	**3.1**	**3.5**	**3.2**	*3.3*	*3.3*	*3.2*
Hungary	4.7	2.6	-2.7	2.3	4.6	1.4	**1.5**	**5.2**	**3.9**	*1.1*	*5.0*	*3.7*
Poland	3.0	5.5	2.6	-0.6	4.7	3.3	**2.4**	**3.7**	**3.5**	*2.9*	*3.3*	*3.3*
Romania	3.2	11.3	-1.1	-0.1	3.4	5.5	**5.5**	**5.0**	**4.5**	*7.5*	*6.2*	*4.6*
Sweden	2.9	3.2	0.8	1.6	2.9	4.0	**3.5**	**2.3**	**2.0**	*3.8*	*2.4*	*1.9*
United Kingdom	3.9	3.0	-0.5	2.1	3.4	1.9	**1.5**	**1.4**	**0.7**	*2.1*	*1.6*	*0.6*
EU	2.8	2.6	-0.7	-0.1	1.8	2.1	**2.1**	**1.9**	**1.9**	*2.1*	*1.9*	*1.8*
USA	3.8	2.9	0.2	1.3	2.5	3.2	**1.7**	**2.3**	**2.7**	*1.7*	*2.4*	*2.7*
Japan	0.2	1.0	0.0	2.4	0.4	0.7	**0.5**	**1.0**	**0.5**	*0.7*	*1.0*	*0.5*

Table 6: Final demand, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	3.1	3.4	1.3	0.1	3.5	2.8	**3.0**	**2.5**	**2.6**	*2.8*	*2.4*	*2.8*
Germany	2.4	3.0	1.1	1.2	2.3	2.8	**2.4**	**2.5**	**2.8**	*2.3*	*2.3*	*2.5*
Estonia	4.8	11.5	0.3	1.9	2.8	0.1	**3.1**	**3.5**	**3.0**	*2.9*	*3.1*	*3.2*
Ireland	11.6	5.5	-0.3	0.9	11.6	24.2	**7.6**	**4.0**	**4.1**	*3.0*	*3.7*	*3.8*
Greece	5.0	5.0	-6.1	-3.0	2.1	-0.1	**-0.1**	**2.3**	**2.7**	*0.7*	*2.8*	*3.3*
Spain	5.2	4.6	-2.2	-1.4	2.5	3.8	**3.2**	**3.2**	**2.8**	*3.2*	*2.6*	*2.6*
France	3.7	2.6	0.5	0.9	1.6	2.5	**1.8**	**1.8**	**2.5**	*1.8*	*1.8*	*2.5*
Italy	2.4	1.9	-1.8	-1.9	0.8	2.0	**1.3**	**1.7**	**1.9**	*1.1*	*1.5*	*1.8*
Cyprus	3.7	4.2	-0.3	-5.5	0.7	1.8	**3.8**	**2.6**	**2.6**	*3.7*	*3.3*	*2.8*
Latvia	5.8	12.6	-2.4	1.5	1.5	2.5	**2.9**	**4.2**	**4.4**	*2.4*	*3.3*	*3.6*
Lithuania	5.4	10.6	1.0	6.1	3.4	3.7	**2.4**	**3.7**	**3.5**	*2.2*	*3.8*	*3.1*
Luxembourg	7.7	6.5	2.0	4.7	9.8	9.1	**4.1**	**5.3**	**5.4**	*3.5*	*4.5*	*4.4*
Malta	2.8	4.9	4.4	2.0	4.3	7.5	**2.8**	**3.9**	**3.5**	*2.0*	*3.6*	*3.7*
Netherlands	4.3	3.5	0.7	0.3	2.6	3.5	**2.8**	**2.9**	**2.9**	*2.8*	*2.8*	*2.6*
Austria	3.3	3.5	0.8	0.2	0.9	1.6	**1.7**	**2.1**	**2.0**	*2.2*	*2.0*	*1.9*
Portugal	3.8	2.0	-1.7	0.5	2.8	3.6	**2.3**	**2.8**	**2.4**	*2.1*	*2.4*	*2.3*
Slovenia	4.9	7.1	-1.4	0.2	3.5	3.3	**4.0**	**4.6**	**4.4**	*4.0*	*3.7*	*4.0*
Slovakia	3.5	10.3	1.8	3.4	3.4	5.8	**2.8**	**4.7**	**5.2**	*2.8*	*4.0*	*5.0*
Finland	4.6	4.5	-0.4	-0.4	-0.8	1.5	**1.7**	**1.4**	**1.9**	*1.5*	*1.2*	*1.8*
Euro area	3.5	3.2	-0.1	0.2	2.2	3.3	**2.4**	**2.4**	**2.7**	*2.2*	*2.3*	*2.5*
Bulgaria	2.8	10.7	0.2	2.2	2.8	4.3	**3.2**	**3.6**	**3.6**	*3.3*	*3.4*	*3.5*
Czech Republic	3.9	8.5	1.3	-0.3	5.8	6.1	**2.8**	**3.4**	**3.8**	*2.4*	*3.3*	*3.4*
Denmark	3.2	3.6	-0.1	1.1	2.3	1.5	**1.7**	**2.4**	**2.7**	*1.1*	*2.1*	*2.5*
Croatia	3.1	5.5	-2.7	0.2	1.0	4.0	**4.3**	**4.1**	**3.7**	*3.9*	*3.8*	*3.6*
Hungary	7.7	7.2	-0.5	3.2	7.1	4.5	**3.6**	**5.1**	**4.9**	*3.9*	*5.0*	*4.8*
Poland	4.0	6.8	3.3	1.5	5.4	4.7	**4.6**	**5.1**	**4.6**	*4.4*	*4.2*	*4.4*
Romania	5.1	11.0	0.0	5.1	4.7	5.5	**6.3**	**5.6**	**5.0**	*6.7*	*5.8*	*4.8*
Sweden	3.8	4.4	0.8	0.8	3.6	4.5	**3.4**	**2.8**	**2.6**	*3.5*	*2.7*	*2.5*
United Kingdom	3.9	3.4	-0.3	1.9	2.9	2.8	**1.6**	**1.8**	**1.2**	*2.0*	*2.0*	*1.2*
EU	3.6	3.5	0.0	0.6	2.6	3.4	**2.4**	**2.5**	**2.6**	*2.3*	*2.4*	*2.5*
USA	3.6	3.3	0.6	1.6	2.7	2.9	**1.6**	**2.4**	**2.8**	*1.5*	*2.4*	*2.8*
Japan	0.5	2.0	-0.1	2.2	1.6	1.0	**0.6**	**1.3**	**0.6**	*0.6*	*1.0*	*0.6*

Table 7: Private consumption expenditure, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.7	1.3	1.2	0.7	0.6	1.1	**0.7**	**1.4**	**1.4**	*0.7*	*1.4*	*1.5*
Germany	1.3	0.6	0.8	0.7	0.9	2.0	**2.0**	**1.3**	**1.7**	*2.0*	*1.6*	*1.7*
Estonia	5.8	9.5	-3.0	3.8	3.3	4.7	**4.1**	**2.6**	**3.8**	*4.0*	*3.4*	*2.8*
Ireland	7.2	5.4	-1.6	-0.3	1.8	5.0	**3.0**	**2.8**	**2.7**	*2.7*	*2.5*	*2.5*
Greece	3.9	3.6	-4.6	-2.6	0.4	-0.2	**1.4**	**1.4**	**1.4**	*0.6*	*1.6*	*1.6*
Spain	4.1	3.5	-2.0	-3.1	1.6	2.9	**3.2**	**2.5**	**2.0**	*3.0*	*2.1*	*1.8*
France	3.2	2.1	0.5	0.5	0.7	1.5	**1.9**	**1.2**	**1.6**	*1.9*	*1.2*	*1.6*
Italy	1.8	1.1	-1.1	-2.5	0.3	1.6	**1.4**	**0.8**	**1.0**	*1.4*	*0.9*	*1.2*
Cyprus	4.5	5.6	0.5	-5.9	0.7	1.9	**2.9**	**2.1**	**1.9**	*3.0*	*1.8*	*1.4*
Latvia	3.6	11.6	-3.3	5.0	1.3	3.5	**3.4**	**3.9**	**4.9**	*3.6*	*3.9*	*3.9*
Lithuania	5.4	11.1	-2.2	4.3	4.3	4.1	**5.6**	**3.8**	**3.4**	*5.3*	*4.0*	*2.6*
Luxembourg	4.1	1.6	1.6	2.0	2.9	3.3	**1.0**	**3.3**	**2.9**	*1.7*	*3.3*	*2.4*
Malta	3.4	2.5	0.8	2.3	2.8	5.2	**3.8**	**3.5**	**3.3**	*3.6*	*2.8*	*2.7*
Netherlands	3.7	0.5	-0.4	-1.0	0.3	1.8	**1.7**	**2.3**	**1.5**	*1.6*	*2.0*	*1.9*
Austria	2.1	1.9	0.8	-0.1	-0.3	0.0	**1.5**	**1.3**	**1.2**	*1.3*	*1.2*	*1.1*
Portugal	3.2	1.6	-1.6	-1.2	2.3	2.6	**2.3**	**1.9**	**1.3**	*2.1*	*1.6*	*1.2*
Slovenia	3.0	3.2	0.4	-4.0	2.0	0.5	**2.8**	**3.2**	**3.0**	*2.7*	*3.2*	*2.9*
Slovakia	3.8	5.4	1.0	-0.8	1.4	2.2	**2.9**	**3.1**	**2.9**	*2.7*	*2.9*	*2.8*
Finland	3.1	3.7	1.1	-0.5	0.8	1.5	**2.0**	**1.1**	**1.4**	*2.0*	*1.2*	*1.3*
Euro area	2.4	1.7	-0.2	-0.6	0.8	1.8	**2.0**	**1.5**	**1.6**	*1.9*	*1.5*	*1.6*
Bulgaria	5.3	8.9	1.0	-2.5	2.7	4.5	**2.1**	**2.7**	**2.7**	*3.2*	*2.9*	*2.8*
Czech Republic	1.9	3.9	0.5	0.5	1.8	3.0	**2.9**	**2.4**	**2.6**	*2.6*	*2.4*	*2.4*
Denmark	0.9	2.9	-0.3	0.3	0.5	1.9	**1.9**	**1.9**	**1.9**	*1.8*	*1.7*	*2.0*
Croatia	2.2	4.3	-2.1	-1.8	-1.6	1.2	**3.3**	**3.2**	**2.8**	*3.0*	*3.4*	*3.0*
Hungary	5.4	3.1	-2.4	0.3	2.5	3.4	**5.0**	**4.8**	**3.3**	*5.0*	*4.8*	*3.9*
Poland	3.8	3.6	3.4	0.3	2.4	3.0	**3.8**	**3.9**	**3.1**	*3.6*	*3.9*	*2.9*
Romania	3.6	12.2	-0.2	0.7	4.7	6.0	**7.4**	**6.9**	**4.7**	*9.0*	*6.7*	*4.2*
Sweden	3.2	2.9	1.4	1.9	2.1	2.7	**2.2**	**2.1**	**2.4**	*2.3*	*2.6*	*2.4*
United Kingdom	4.1	2.9	-0.4	1.6	2.2	2.4	**2.8**	**1.8**	**0.9**	*2.8*	*1.9*	*0.9*
EU	2.8	2.2	-0.2	-0.1	1.2	2.1	**2.3**	**1.7**	**1.6**	*2.3*	*1.8*	*1.6*
USA	4.2	3.2	0.7	1.5	2.9	3.2	**2.7**	**2.4**	**2.8**	*2.7*	*2.5*	*2.8*
Japan	1.0	1.0	0.5	2.4	-0.9	-0.4	**0.4**	**0.6**	**0.6**	*0.3*	*0.6*	*0.6*

Table 8: Government consumption expenditure, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	2.2	1.3	1.5	0.1	1.4	0.5	**0.2**	**0.2**	**0.4**	*0.0*	*-0.2*	*0.3*
Germany	1.3	0.5	1.9	1.2	1.2	2.7	**4.0**	**3.2**	**3.0**	*4.2*	*3.0*	*2.8*
Estonia	1.0	4.4	1.1	1.9	2.7	3.4	**1.0**	**1.8**	**1.9**	*1.5*	*1.9*	*1.6*
Ireland	7.7	4.2	-1.9	-1.3	4.5	0.3	**5.0**	**3.2**	**2.3**	*5.4*	*2.4*	*2.0*
Greece	3.5	4.7	-3.6	-6.4	-1.4	0.0	**-2.1**	**0.5**	**0.1**	*-0.6*	*0.2*	*0.0*
Spain	3.9	5.6	1.2	-2.1	-0.3	2.0	**0.8**	**0.9**	**0.8**	*1.3*	*0.9*	*0.8*
France	1.1	1.7	1.5	1.5	1.2	1.4	**1.5**	**1.2**	**1.2**	*1.6*	*1.2*	*1.2*
Italy	2.2	0.6	-0.3	-0.3	-0.7	-0.7	**0.6**	**0.2**	**0.0**	*0.6*	*0.2*	*0.4*
Cyprus	4.1	5.4	2.6	-8.2	-7.9	-0.6	**-1.4**	**0.7**	**0.8**	*0.3*	*0.7*	*0.8*
Latvia	3.5	4.1	-2.8	1.6	2.1	3.1	**2.7**	**3.0**	**2.5**	*1.7*	*3.0*	*2.5*
Lithuania	0.8	3.0	-0.7	0.7	0.3	0.9	**1.3**	**1.4**	**1.3**	*1.1*	*2.2*	*2.1*
Luxembourg	5.2	3.2	2.1	3.6	2.0	2.4	**3.2**	**3.9**	**3.4**	*4.0*	*3.9*	*3.4*
Malta	0.9	1.4	3.8	-0.3	6.5	3.8	**-3.1**	**11.8**	**4.1**	*3.2*	*7.5*	*6.2*
Netherlands	3.6	3.3	1.5	-0.1	0.3	0.2	**1.0**	**0.8**	**1.0**	*0.8*	*0.9*	*1.1*
Austria	1.4	1.9	1.3	0.7	0.8	2.1	**1.3**	**1.0**	**0.9**	*1.8*	*1.0*	*0.8*
Portugal	4.1	1.5	-1.1	-2.0	-0.5	0.7	**0.5**	**0.4**	**0.5**	*0.6*	*0.4*	*0.5*
Slovenia	3.6	2.6	0.7	-2.1	-1.2	2.5	**2.6**	**1.7**	**2.0**	*2.3*	*1.5*	*1.9*
Slovakia	2.5	3.8	2.0	2.2	5.3	5.4	**1.6**	**2.4**	**2.5**	*2.9*	*2.9*	*3.0*
Finland	1.9	1.4	0.7	1.1	-0.5	0.1	**0.5**	**-0.8**	**0.3**	*-0.1*	*-0.8*	*0.1*
Euro area	2.0	1.8	1.0	0.3	0.6	1.3	**1.9**	**1.5**	**1.5**	*2.0*	*1.4*	*1.4*
Bulgaria	8.2	3.5	-0.4	0.6	0.1	1.4	**0.6**	**2.0**	**2.2**	*1.1*	*2.0*	*2.3*
Czech Republic	2.2	1.1	0.1	2.5	1.1	2.0	**1.2**	**2.0**	**1.9**	*2.2*	*2.6*	*2.0*
Denmark	2.7	1.3	1.6	-0.1	1.2	0.6	**-0.1**	**0.4**	**0.6**	*1.3*	*0.7*	*0.8*
Croatia	0.8	4.0	-0.3	0.3	-0.8	-0.3	**1.7**	**2.3**	**1.4**	*1.4*	*1.0*	*1.0*
Hungary	2.4	0.9	0.6	4.1	4.5	1.0	**0.1**	**0.9**	**2.0**	*2.0*	*1.0*	*2.0*
Poland	3.8	3.8	1.7	2.5	4.1	2.4	**2.8**	**2.8**	**2.8**	*3.7*	*2.4*	*2.5*
Romania	-0.2	-0.1	1.2	-4.6	0.8	0.1	**4.5**	**3.7**	**3.0**	*4.5*	*3.5*	*3.0*
Sweden	1.4	0.6	1.4	1.3	1.5	2.5	**3.1**	**1.7**	**0.3**	*3.4*	*1.9*	*0.3*
United Kingdom	3.7	2.7	1.1	0.3	2.3	1.3	**0.8**	**1.2**	**0.7**	*1.0*	*0.7*	*0.4*
EU	2.3	1.9	1.0	0.4	1.0	1.4	**1.7**	**1.5**	**1.3**	*1.9*	*1.4*	*1.3*
USA	2.7	1.3	0.5	-2.4	-0.7	1.6	**0.8**	**0.6**	**1.5**	*0.8*	*1.1*	*1.6*
Japan	2.9	1.0	1.5	1.5	0.5	1.6	**1.5**	**0.9**	**0.9**	*1.5*	*0.7*	*0.7*

Table 9: Total investment, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.5	4.6	-0.3	-1.5	5.1	2.4	**2.1**	**2.1**	**3.0**	*2.3*	*2.3*	*2.9*
Germany	0.4	2.2	0.5	-1.1	3.4	1.7	**2.3**	**1.9**	**2.7**	*2.5*	*2.1*	*2.5*
Estonia	10.7	14.2	-4.1	-2.8	-8.1	-3.3	**-2.8**	**9.3**	**0.1**	*-2.2*	*4.4*	*4.7*
Ireland	8.7	8.2	-6.3	-5.7	18.3	32.9	**45.4**	**6.7**	**5.6**	*5.0*	*6.4*	*5.0*
Greece	7.3	7.6	-17.1	-8.4	-4.6	-0.2	**0.1**	**6.3**	**10.8**	*4.0*	*12.0*	*14.2*
Spain	7.5	6.3	-8.4	-3.4	3.8	6.0	**3.1**	**3.4**	**3.9**	*3.7*	*3.4*	*3.8*
France	4.4	3.5	-0.9	-0.8	-0.3	1.0	**2.8**	**2.6**	**3.7**	*2.8*	*3.1*	*4.1*
Italy	4.4	1.6	-5.0	-6.6	-2.3	1.6	**2.9**	**3.6**	**3.3**	*1.9*	*2.4*	*3.1*
Cyprus	1.6	8.1	-8.6	-12.9	-17.5	12.0	**25.9**	**3.4**	**4.9**	*8.3*	*7.4*	*6.3*
Latvia	16.1	19.2	-7.2	-6.0	0.1	-1.8	**-11.7**	**14.2**	**7.3**	*-22.0*	*13.0*	*4.9*
Lithuania	5.9	16.6	-6.8	8.3	3.7	4.7	**-0.5**	**6.0**	**4.5**	*-1.2*	*6.0*	*3.0*
Luxembourg	6.2	4.2	4.1	-2.5	5.6	-0.9	**0.2**	**5.4**	**4.0**	*1.9*	*4.2*	*2.7*
Malta	-2.1	11.1	-3.0	-1.7	8.8	48.8	**-1.3**	**0.5**	**-3.0**	*-2.0*	*2.0*	*3.1*
Netherlands	2.7	3.0	-2.6	-4.3	2.3	9.9	**4.8**	**3.5**	**4.2**	*6.4*	*4.0*	*3.5*
Austria	1.2	2.1	-0.1	2.2	-0.9	0.7	**2.9**	**2.5**	**2.1**	*3.6*	*2.4*	*2.0*
Portugal	3.8	-1.0	-7.7	-5.1	2.3	4.5	**-0.1**	**5.4**	**4.7**	*-1.5*	*3.8*	*4.2*
Slovenia	5.1	7.3	-8.9	3.2	1.4	1.0	**-3.1**	**6.3**	**6.4**	*-4.5*	*5.3*	*6.4*
Slovakia	-1.2	7.0	-1.9	-0.9	1.2	16.9	**-9.3**	**0.9**	**5.8**	*-7.3*	*2.1*	*5.4*
Finland	3.9	4.4	-2.0	-4.9	-2.6	1.1	**5.2**	**3.1**	**2.9**	*3.4*	*2.0*	*2.5*
Euro area	3.3	3.4	-2.9	-2.5	1.5	3.2	**3.7**	**2.9**	**3.5**	*2.8*	*2.9*	*3.4*
Bulgaria	18.2	15.8	-4.3	0.3	3.4	2.7	**-4.0**	**4.3**	**3.8**	*-0.5*	*3.2*	*3.6*
Czech Republic	2.4	6.2	-1.8	-2.5	3.9	9.0	**-3.7**	**3.5**	**4.2**	*-1.6*	*2.5*	*3.3*
Denmark	2.3	5.0	-3.6	2.7	3.5	2.5	**5.2**	**3.6**	**3.7**	*3.7*	*3.0*	*3.6*
Croatia	3.0	9.8	-5.7	1.4	-2.8	1.6	**4.6**	**5.2**	**5.7**	*4.2*	*5.2*	*5.8*
Hungary	7.1	3.4	-4.3	9.8	9.9	1.9	**-15.5**	**12.8**	**7.2**	*-9.6*	*10.0*	*5.0*
Poland	0.9	10.0	2.5	-1.1	10.0	6.1	**-7.9**	**4.9**	**6.1**	*-5.5*	*2.7*	*5.3*
Romania	3.4	20.4	-5.6	-5.4	3.2	8.3	**-3.3**	**1.3**	**5.2**	*5.5*	*6.2*	*6.3*
Sweden	4.2	6.1	-0.5	0.6	5.5	7.0	**5.9**	**3.9**	**3.1**	*6.6*	*3.5*	*2.9*
United Kingdom	3.1	3.5	-2.8	3.2	6.7	3.4	**0.5**	**0.2**	**0.3**	*1.0*	*1.6*	*0.2*
EU	3.2	3.9	-2.8	-1.5	2.7	3.6	**2.6**	**2.7**	**3.2**	*2.3*	*2.9*	*3.1*
USA	4.2	3.2	-1.6	3.0	4.2	3.7	**0.7**	**3.1**	**3.3**	*0.8*	*3.3*	*3.0*
Japan	-2.3	0.2	-2.1	4.9	2.9	0.0	**1.0**	**2.3**	**0.0**	*1.0*	*2.3*	*0.0*

Table 10: Investment in construction, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	-1.6	4.8	1.2	-2.3	2.3	1.4	**4.3**	**2.1**	**2.5**	*4.3*	*1.8*	*2.9*
Germany	-2.6	-1.1	1.5	-1.1	1.9	0.3	**3.0**	**2.3**	**2.7**	*3.1*	*2.7*	*2.6*
Estonia	8.6	14.6	-5.5	-15.1	-6.4	2.8	**-7.8**	**6.2**	**4.1**	*-3.0*	*4.7*	*4.2*
Ireland	7.1	7.0	-18.3	12.4	9.5	7.7	**13.7**	**17.2**	**14.4**	*16.0*	*12.6*	*10.0*
Greece	3.9	6.6	-16.1	-12.9	-19.0	0.0	**0.6**	**2.2**	**8.6**	*7.3*	*8.9*	*14.5*
Spain	8.0	5.7	-11.2	-8.6	1.2	4.9	**1.9**	**3.0**	**3.9**	*2.4*	*3.0*	*3.6*
France	3.7	4.0	-2.1	-0.8	-2.3	-0.8	**1.4**	**2.5**	**3.7**	*1.2*	*2.6*	*3.7*
Italy	4.0	1.6	-6.0	-8.0	-6.6	-0.4	**1.1**	**1.8**	**2.9**	*0.7*	*1.0*	*2.4*
Cyprus	1.6	12.4	-10.7	-18.5	-12.8	-2.9	**8.8**	**7.8**	**4.7**	*6.9*	*7.1*	*6.8*
Latvia	18.9	19.8	-6.8	-10.3	10.2	-3.6	**-17.6**	**12.6**	**6.2**	*-31.2*	*19.9*	*6.1*
Lithuania	2.8	15.9	-8.4	8.0	4.6	3.6	**-3.1**	**6.4**	**5.0**	*-4.9*	*6.5*	*3.0*
Luxembourg	8.6	1.9	-0.2	5.4	5.9	9.6	**5.3**	**5.1**	**3.9**	*3.5*	*3.5*	*3.2*
Malta	:	4.4	-4.6	-2.0	0.8	13.7	**-7.6**	**:**	**:**	*:*	*:*	*:*
Netherlands	2.4	2.4	-5.5	-6.2	2.4	11.3	**9.0**	**4.6**	**4.2**	*8.0*	*4.6*	*3.1*
Austria	-1.0	1.3	-1.6	-0.9	-0.1	-1.2	**1.3**	**1.5**	**1.3**	*1.6*	*1.5*	*1.3*
Portugal	3.4	-3.4	-9.3	-12.1	-3.7	4.1	**-2.3**	**6.2**	**3.6**	*-3.8*	*1.8*	*2.4*
Slovenia	2.9	5.7	-11.8	-4.6	9.6	0.1	**-15.8**	**4.1**	**4.4**	*-16.8*	*4.2*	*4.4*
Slovakia	-1.7	9.1	-5.6	4.7	-4.2	22.9	**-15.2**	**-1.0**	**5.8**	*-13.4*	*0.1*	*5.4*
Finland	4.7	4.9	-2.3	-3.8	-3.8	2.0	**8.2**	**3.8**	**3.0**	*6.2*	*2.6*	*2.9*
Euro area	:	2.7	-4.3	-3.5	-0.9	1.4	**2.5**	**2.8**	**3.5**	*2.4*	*2.8*	*3.2*
Bulgaria	:	17.9	0.1	-0.5	-4.1	-3.8	**-6.2**	**2.7**	**3.3**	*-1.1*	*1.4*	*3.4*
Czech Republic	-1.9	4.8	-2.8	-4.9	1.0	11.2	**-8.4**	**3.1**	**3.9**	*-6.2*	*2.0*	*3.6*
Denmark	0.8	4.9	-5.8	-1.0	5.2	3.2	**6.9**	**3.9**	**3.9**	*4.2*	*2.5*	*4.2*
Croatia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Hungary	4.9	0.2	-6.8	11.2	10.5	1.4	**-25.1**	**24.5**	**7.2**	*-11.4*	*11.4*	*5.9*
Poland	0.6	8.6	4.5	-4.8	8.9	6.5	**-12.7**	**5.2**	**6.7**	*-8.5*	*2.5*	*5.7*
Romania	2.8	22.1	-3.5	-15.0	10.1	7.8	**-8.5**	**1.4**	**3.2**	*2.6*	*5.0*	*5.7*
Sweden	5.0	6.6	-2.4	-1.3	9.4	8.3	**10.3**	**5.7**	**2.9**	*8.8*	*4.4*	*3.1*
United Kingdom	3.0	4.2	-4.5	3.4	8.1	3.6	**-0.1**	**0.3**	**0.3**	*0.6*	*1.8*	*0.2*
EU	2.1	3.3	-4.1	-2.7	1.2	2.3	**1.3**	**2.7**	**3.1**	*1.7*	*2.7*	*3.0*
USA	2.4	0.4	-5.6	3.4	5.2	4.3	**1.1**	**4.1**	**3.5**	*1.1*	*4.6*	*3.2*
Japan	-4.0	-4.3	-2.7	10.9	1.6	-0.5	**:**	**:**	**:**	*:*	*:*	*:*

Table 11: Investment in equipment, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	3.8	4.4	-3.9	-1.4	8.5	0.7	**2.4**	**2.1**	**3.4**	*2.4*	*2.9*	*3.0*
Germany	3.3	6.2	-1.8	-2.1	5.5	3.7	**1.1**	**1.4**	**2.8**	*1.7*	*1.2*	*2.7*
Estonia	13.0	13.8	-4.2	17.0	-11.6	-12.4	**-0.2**	**13.8**	**-7.1**	*-6.0*	*3.0*	*4.6*
Ireland	6.9	13.9	0.7	-6.3	24.2	3.0	**4.2**	**7.5**	**6.5**	*1.3*	*6.0*	*5.0*
Greece	14.5	9.5	-20.6	-4.5	21.0	-1.5	**-0.6**	**9.5**	**13.2**	*1.8*	*13.4*	*15.2*
Spain	6.0	7.3	-5.8	5.0	8.3	8.9	**5.0**	**3.9**	**3.7**	*5.9*	*4.0*	*3.8*
France	6.0	2.7	-1.0	-3.5	2.0	2.3	**5.5**	**3.2**	**4.1**	*6.0*	*4.1*	*5.0*
Italy	4.6	2.4	-5.4	-8.2	1.9	4.9	**7.5**	**6.4**	**3.7**	*4.8*	*4.6*	*3.7*
Cyprus	2.6	-1.1	-6.0	-16.3	-34.8	94.1	**81.3**	**0.0**	**5.1**	*13.7*	*7.0*	*6.0*
Latvia	14.2	22.0	-9.3	-5.4	-10.9	-0.6	**-1.1**	**18.0**	**9.0**	*-11.7*	*7.1*	*3.4*
Lithuania	9.2	18.1	-7.0	12.5	0.5	6.0	**6.8**	**6.1**	**4.0**	*8.0*	*6.1*	*3.0*
Luxembourg	2.8	9.0	11.1	-10.5	6.4	-17.4	**-14.4**	**6.1**	**4.0**	*1.1*	*5.4*	*2.1*
Malta	:	26.8	-4.8	-4.5	15.2	117.6	**0.3**	**:**	**:**	*:*	*:*	*:*
Netherlands	2.1	3.9	-0.2	-6.1	-0.2	13.4	**1.1**	**3.3**	**4.5**	*6.6*	*4.6*	*3.6*
Austria	1.6	2.6	-0.1	2.4	-1.0	3.6	**6.4**	**3.8**	**2.5**	*7.0*	*3.5*	*2.5*
Portugal	3.6	3.2	-9.4	8.1	13.3	9.7	**3.7**	**6.0**	**7.7**	*2.6*	*7.9*	*7.8*
Slovenia	8.2	10.3	-8.2	12.6	-7.5	2.4	**10.8**	**10.6**	**10.5**	*8.3*	*8.0*	*10.5*
Slovakia	0.2	4.3	2.9	-9.4	12.1	12.4	**-4.4**	**1.2**	**5.8**	*-2.0*	*3.3*	*5.4*
Finland	0.8	4.1	-0.5	-8.7	-1.6	5.8	**5.7**	**2.6**	**3.2**	*0.6*	*1.5*	*2.6*
Euro area	:	4.9	-3.2	-2.7	4.6	4.7	**3.7**	**3.5**	**3.8**	*3.8*	*3.4*	*3.8*
Bulgaria	:	14.8	-9.7	1.2	13.9	9.8	**-2.0**	**6.0**	**4.0**	*-0.5*	*5.0*	*3.5*
Czech Republic	6.5	7.6	-1.6	0.3	6.4	8.5	**-3.1**	**3.6**	**4.5**	*0.1*	*3.0*	*3.5*
Denmark	3.1	5.8	-5.0	10.6	2.7	-0.5	**4.6**	**3.9**	**3.8**	*3.2*	*4.1*	*3.4*
Croatia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Hungary	8.2	7.0	-2.7	2.6	20.5	2.2	**-7.8**	**4.0**	**7.0**	*-7.8*	*8.0*	*4.0*
Poland	1.1	12.0	-0.4	4.6	11.2	5.3	**4.0**	**4.3**	**5.5**	*-1.0*	*3.2*	*4.9*
Romania	4.2	19.7	-5.8	4.8	-5.1	9.0	**1.5**	**1.0**	**6.9**	*8.5*	*7.5*	*6.9*
Sweden	3.7	8.1	0.9	0.1	-1.1	6.2	**4.0**	**3.9**	**4.2**	*4.9*	*2.4*	*2.3*
United Kingdom	2.2	2.1	-2.4	2.5	6.8	4.7	**1.7**	**-0.8**	**0.3**	*2.3*	*2.0*	*0.2*
EU	4.0	5.2	-2.9	-1.3	4.8	4.8	**3.1**	**3.1**	**3.6**	*3.3*	*3.4*	*3.5*
USA	5.1	6.5	1.0	3.2	4.6	3.0	**-2.3**	**1.7**	**3.1**	*-2.2*	*1.4*	*2.6*
Japan	-2.5	5.2	-2.0	-1.0	4.5	-2.8	**:**	**:**	**:**	*:*	*:*	*:*

Table 12: Public investment (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	2.3	2.1	2.3	2.4	2.4	2.4	**2.3**	**2.4**	**2.5**	*2.4*	*2.3*	*2.4*
Germany	2.3	2.0	2.2	2.2	2.1	2.1	**2.1**	**2.2**	**2.3**	*2.2*	*2.2*	*2.3*
Estonia	5.0	5.1	5.7	5.6	5.1	5.4	**4.7**	**5.1**	**5.4**	*4.4*	*5.0*	*5.0*
Ireland	3.5	3.8	3.3	2.0	2.2	1.7	**1.8**	**1.9**	**2.0**	*1.7*	*1.8*	*2.0*
Greece	5.3	5.3	4.0	3.4	3.7	3.9	**3.1**	**3.6**	**3.1**	*4.0*	*3.8*	*3.5*
Spain	3.8	4.2	4.1	2.2	2.1	2.5	**1.9**	**2.2**	**2.2**	*2.1*	*2.1*	*2.1*
France	3.8	3.9	4.1	4.0	3.7	3.5	**3.4**	**3.4**	**3.5**	*3.4*	*3.4*	*3.5*
Italy	2.8	3.0	2.9	2.4	2.3	2.2	**2.1**	**2.1**	**2.2**	*2.2*	*2.2*	*2.2*
Cyprus	3.2	3.5	3.5	2.0	1.8	1.9	**2.5**	**2.3**	**2.3**	*2.0*	*2.0*	*2.0*
Latvia	1.8	4.1	4.9	4.4	4.5	4.6	**3.5**	**3.8**	**4.0**	*3.2*	*3.6*	*3.8*
Lithuania	2.6	4.0	4.7	3.7	3.6	3.6	**2.9**	**3.0**	**3.1**	*3.4*	*3.5*	*3.6*
Luxembourg	4.4	4.3	4.2	3.5	3.6	3.7	**3.8**	**3.8**	**3.7**	*4.2*	*4.1*	*4.1*
Malta	4.1	4.1	2.6	2.9	3.6	4.3	**2.5**	**2.6**	**2.8**	*2.5*	*2.5*	*2.6*
Netherlands	3.8	3.9	4.0	3.6	3.5	3.6	**3.4**	**3.3**	**3.3**	*3.4*	*3.3*	*3.3*
Austria	2.7	2.7	3.2	3.1	3.0	3.0	**3.0**	**3.0**	**2.9**	*2.9*	*2.9*	*2.9*
Portugal	4.9	3.9	3.8	2.2	2.0	2.3	**1.5**	**2.0**	**2.1**	*1.8*	*2.2*	*2.2*
Slovenia	3.8	4.1	4.6	4.4	5.1	4.7	**3.0**	**3.1**	**3.3**	*2.7*	*2.8*	*2.8*
Slovakia	4.0	3.3	3.6	3.3	4.0	6.3	**3.2**	**3.3**	**3.3**	*3.3*	*3.7*	*3.7*
Finland	3.7	3.7	3.8	4.2	4.2	3.9	**3.9**	**3.9**	**3.9**	*4.0*	*4.0*	*4.0*
Euro area	3.1	3.2	3.3	2.8	2.7	2.7	**2.6**	**2.6**	**2.7**	*2.6*	*2.6*	*2.7*
Bulgaria	3.8	4.0	4.4	4.0	5.2	6.6	**2.8**	**4.0**	**4.2**	*3.9*	*4.7*	*4.7*
Czech Republic	3.9	5.3	4.8	3.7	4.1	5.2	**3.4**	**3.7**	**4.0**	*3.7*	*3.8*	*3.9*
Denmark	2.8	2.8	3.3	3.7	3.9	3.6	**3.7**	**3.6**	**3.6**	*3.6*	*3.6*	*3.5*
Croatia		6.3	4.5	3.7	3.6	3.1	**3.2**	**3.3**	**3.5**	*3.6*	*3.8*	*4.0*
Hungary	3.9	4.2	3.5	4.4	5.4	6.6	**3.1**	**4.5**	**5.6**	*3.3*	*5.5*	*5.9*
Poland	2.8	3.5	5.2	4.1	4.5	4.4	**3.3**	**4.0**	**4.0**	*3.7*	*3.9*	*4.1*
Romania	2.6	4.1	5.7	4.5	4.3	5.2	**3.6**	**3.5**	**3.9**	*3.4*	*3.7*	*3.9*
Sweden	4.2	4.1	4.5	4.5	4.4	4.2	**4.4**	**4.5**	**4.5**	*4.2*	*4.3*	*4.3*
United Kingdom	1.8	2.5	3.0	2.6	2.8	2.7	**2.6**	**2.6**	**2.6**	*2.6*	*2.6*	*2.6*
EU		3.1	3.4	3.0	2.9	2.9	**2.7**	**2.8**	**2.8**	*2.8*	*2.8*	*2.8*
USA	3.6	3.8	4.0	3.3	3.2	3.2	**3.1**	**3.1**	**3.1**	*3.2*	*3.1*	*3.1*
Japan	5.0	3.8	3.7	3.9	3.9	3.7	**3.5**	**3.5**	**3.4**	*3.6*	*3.8*	*3.7*

Table 13: **Potential GDP, volume (percentage change on preceding year, 1998-2018)** 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	2.4	1.9	1.3	0.8	0.9	1.1	**1.3**	**1.3**	**1.3**	*1.3*	*1.4*	*1.3*
Germany	1.5	1.3	1.0	1.4	1.4	1.5	**1.8**	**1.7**	**1.5**	*1.9*	*1.7*	*1.6*
Estonia	4.5	5.7	0.8	1.9	2.2	2.4	**2.3**	**2.5**	**2.3**	*2.2*	*2.4*	*2.4*
Ireland	8.1	4.5	0.1	1.7	3.3	24.7	**5.0**	**4.7**	**4.6**	*3.5*	*4.0*	*3.9*
Greece	3.9	3.1	-1.2	-2.7	-2.1	-1.7	**-1.4**	**-0.4**	**-0.1**	*-1.0*	*-0.5*	*-0.2*
Spain	3.2	3.6	0.9	-0.7	-0.2	0.2	**0.4**	**0.8**	**0.9**	*0.5*	*0.6*	*0.8*
France	2.0	1.7	1.1	0.9	1.0	1.0	**1.1**	**1.2**	**1.2**	*1.1*	*1.2*	*1.3*
Italy	1.6	1.0	-0.4	-0.4	-0.3	-0.2	**-0.3**	**0.0**	**0.3**	*-0.3*	*0.1*	*0.3*
Cyprus		3.3	1.7	-1.9	-2.4	-1.5	**0.3**	**0.8**	**1.1**	*-0.1*	*0.4*	*0.7*
Latvia	5.8	7.6	-0.2	0.8	1.5	2.1	**1.4**	**3.0**	**3.7**	*1.2*	*2.6*	*3.2*
Lithuania	6.1	6.1	1.7	1.9	2.1	2.2	**2.1**	**2.4**	**2.7**	*1.9*	*2.3*	*2.5*
Luxembourg	4.8	3.9	2.5	2.8	3.4	3.4	**3.0**	**3.7**	**3.7**	*3.0*	*3.3*	*3.4*
Malta	3.1	2.5	2.5	3.7	4.6	6.4	**6.1**	**5.6**	**4.8**	*5.4*	*5.0*	*4.7*
Netherlands	3.2	1.8	0.9	0.3	0.7	1.0	**1.3**	**1.3**	**1.4**	*1.3*	*1.3*	*1.4*
Austria	2.5	2.1	1.0	0.9	0.8	1.0	**1.4**	**1.4**	**1.4**	*1.3*	*1.3*	*1.4*
Portugal	3.0	1.0	-0.2	-1.0	-0.4	0.0	**0.4**	**0.8**	**1.0**	*0.4*	*0.7*	*0.9*
Slovenia		3.5	1.1	-0.1	0.6	0.8	**1.0**	**1.6**	**1.9**	*1.0*	*1.3*	*1.6*
Slovakia	4.0	5.2	3.7	2.2	2.0	2.7	**2.4**	**2.5**	**2.9**	*2.5*	*2.7*	*3.1*
Finland	4.0	2.6	0.4	-0.1	0.0	0.2	**0.4**	**0.9**	**0.8**	*0.4*	*0.8*	*0.8*
Euro area		1.8	0.7	0.5	0.7	1.2	**1.1**	**1.2**	**1.2**	*1.1*	*1.2*	*1.2*
Bulgaria	2.8	5.9	1.8	1.2	2.1	2.8	**2.9**	**2.7**	**2.8**	*2.8*	*2.8*	*2.8*
Czech Republic	1.8	4.3	1.7	0.9	1.7	2.3	**2.2**	**2.4**	**2.3**	*2.3*	*2.3*	*2.4*
Denmark	2.0	1.4	1.0	0.8	0.9	1.2	**1.2**	**1.7**	**1.7**	*1.2*	*1.5*	*1.6*
Croatia		3.3	-0.2	-0.3	0.2	0.3	**1.1**	**0.5**	**1.2**	*1.3*	*0.7*	*1.0*
Hungary	3.5	3.0	0.3	1.1	1.9	2.1	**1.9**	**2.3**	**2.4**	*2.0*	*2.3*	*2.4*
Poland	4.9	3.6	4.0	3.0	3.0	3.0	**2.7**	**2.9**	**3.0**	*2.7*	*2.8*	*2.9*
Romania	1.9	5.4	2.5	1.7	2.1	2.8	**3.5**	**3.5**	**3.6**	*3.6*	*3.8*	*3.9*
Sweden	3.2	2.6	1.5	1.7	2.1	2.5	**2.7**	**2.8**	**2.5**	*2.6*	*2.5*	*2.6*
United Kingdom	3.1	2.4	1.0	1.1	1.3	1.5	**1.5**	**1.6**	**1.5**	*1.6*	*1.6*	*1.6*
EU		2.1	0.9	0.7	0.9	1.4	**1.3**	**1.4**	**1.4**	*1.3*	*1.4*	*1.4*
USA	3.4	2.3	1.1	1.6	1.9	2.1	**2.1**	**2.1**	**2.2**	*2.1*	*2.1*	*2.1*
Japan				:	:	:	**:**	**:**	**:**	*:*	*:*	*:*

Table 14: **Output gap relative to potential GDP [1] (deviation of actual output from potential output as % of potential GDP, 1998-2018)** 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	0.6	1.0	-0.1	-1.6	-0.9	-0.5	**-0.6**	**-0.4**	**0.0**	*-0.5*	*-0.5*	*-0.2*
Germany	0.7	-0.8	-0.8	-0.5	-0.3	-0.2	**-0.1**	**-0.2**	**0.1**	*-0.1*	*-0.1*	*0.1*
Estonia	-1.3	7.6	-1.8	1.3	2.0	1.0	**0.3**	**0.1**	**0.6**	*0.1*	*-0.1*	*0.1*
Ireland	2.1	2.2	-2.5	-4.4	0.4	1.6	**1.8**	**1.1**	**0.1**	*1.9*	*1.4*	*0.8*
Greece	1.5	3.8	-4.3	-14.5	-12.4	-11.1	**-9.8**	**-7.6**	**-5.2**	*-9.8*	*-6.9*	*-3.8*
Spain	2.2	2.7	-3.9	-8.7	-7.3	-4.5	**-1.8**	**0.2**	**1.6**	*-1.6*	*0.0*	*1.3*
France	1.2	1.9	-0.6	-1.4	-1.7	-1.4	**-1.3**	**-1.1**	**-0.6**	*-1.3*	*-1.1*	*-0.6*
Italy	1.1	1.1	-1.8	-4.2	-3.8	-2.8	**-1.7**	**-0.8**	**0.0**	*-1.6*	*-0.8*	*0.0*
Cyprus	0.4	2.8	0.7	-7.1	-6.3	-3.3	**-0.8**	**0.8**	**2.0**	*-1.1*	*1.0*	*2.6*
Latvia	-0.5	5.4	-5.6	-0.2	0.5	1.1	**1.6**	**1.8**	**1.6**	*1.4*	*1.6*	*1.4*
Lithuania	-1.8	4.0	-3.9	-0.3	1.0	0.6	**0.8**	**1.3**	**1.8**	*1.0*	*1.6*	*1.9*
Luxembourg	3.0	1.3	-3.2	-4.7	-2.6	-2.1	**-1.0**	**-0.3**	**0.3**	*-1.3*	*-0.6*	*-0.1*
Malta	0.5	0.6	-1.2	-1.9	1.6	2.6	**1.6**	**0.6**	**0.2**	*1.9*	*0.7*	*-0.2*
Netherlands	1.1	-0.8	-1.4	-3.3	-2.5	-1.6	**-0.8**	**0.0**	**0.5**	*-0.8*	*-0.2*	*0.2*
Austria	0.7	0.0	-0.3	-0.6	-0.8	-0.9	**-0.8**	**-0.4**	**-0.2**	*-0.7*	*-0.4*	*-0.3*
Portugal	2.2	-0.4	-1.3	-4.4	-3.2	-1.6	**-0.6**	**0.4**	**1.0**	*-0.7*	*0.2*	*0.9*
Slovenia	-0.1	2.7	-1.2	-5.6	-3.3	-1.8	**-0.4**	**1.4**	**2.5**	*-0.3*	*1.3*	*2.7*
Slovakia	-1.6	1.3	0.3	-2.8	-2.3	-1.2	**-0.3**	**0.2**	**0.8**	*-0.3*	*-0.1*	*0.4*
Finland	1.5	0.8	-1.1	-2.3	-2.9	-2.7	**-1.8**	**-1.4**	**-0.5**	*-1.7*	*-1.3*	*-0.6*
Euro area	1.1	0.9	-1.4	-3.0	-2.5	-1.7	**-1.1**	**-0.6**	**0.0**	*-1.0*	*-0.6*	*0.0*
Bulgaria	-1.1	1.3	0.2	-0.7	-1.5	-0.8	**-0.2**	**-0.1**	**-0.1**	*-0.2*	*-0.1*	*-0.1*
Czech Republic	-1.0	2.7	-0.2	-3.1	-2.1	0.0	**0.2**	**0.5**	**0.9**	*0.2*	*0.5*	*0.8*
Denmark	1.7	2.9	-1.8	-2.6	-1.9	-1.5	**-1.4**	**-1.4**	**-1.3**	*-1.6*	*-1.6*	*-1.4*
Croatia		2.3	-0.3	-3.7	-4.4	-3.0	**-1.3**	**1.0**	**2.5**	*-1.1*	*1.3*	*2.8*
Hungary	-0.5	2.7	-2.3	-2.9	-0.9	0.1	**0.2**	**1.4**	**2.5**	*0.2*	*1.4*	*2.2*
Poland	-0.6	-1.4	1.6	-1.3	-1.1	-0.3	**-0.3**	**0.4**	**0.5**	*-0.2*	*0.2*	*0.4*
Romania	-3.4	4.5	-1.5	-3.3	-2.4	-1.3	**-0.1**	**0.7**	**0.8**	*0.0*	*0.6*	*0.4*
Sweden	0.2	1.0	-1.6	-2.5	-2.0	-0.4	**0.2**	**0.0**	**-0.2**	*0.4*	*0.3*	*-0.2*
United Kingdom	0.6	1.4	-2.9	-2.1	-0.4	0.2	**0.5**	**0.7**	**0.4**	*0.6*	*0.6*	*0.2*
EU		1.0	-1.6	-2.8	-2.1	-1.3	**-0.7**	**-0.3**	**0.1**	*-0.7*	*-0.3*	*0.1*
USA	0.4	0.9	-1.5	-0.5	-0.1	0.4	**0.0**	**0.0**	**0.2**	*0.1*	*0.3*	*0.4*
Japan				:	:	:	**:**	**:**	**:**	*:*	*:*	*:*

[1] When comparing output gaps between the spring and the winter forecast it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

Table 15: Deflator of gross domestic product (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.6	2.1	1.8	1.2	0.7	0.9	**1.6**	**1.8**	**1.6**	*1.6*	*1.7*	*1.8*
Germany	0.6	1.0	1.2	2.0	1.8	2.0	**1.4**	**1.4**	**1.6**	*1.4*	*1.8*	*1.6*
Estonia	6.1	7.1	3.6	3.9	1.7	1.0	**1.7**	**3.6**	**3.3**	*2.4*	*3.1*	*3.0*
Ireland	5.8	2.4	-0.7	1.4	-1.2	4.9	**-1.2**	**1.2**	**1.3**	*-0.3*	*1.2*	*1.2*
Greece	3.4	3.1	1.6	-2.4	-1.8	-1.0	**0.1**	**1.2**	**1.2**	*0.0*	*1.3*	*1.2*
Spain	3.3	3.9	0.5	0.4	-0.3	0.5	**0.3**	**1.1**	**1.4**	*0.4*	*1.4*	*1.6*
France	1.4	2.0	1.1	0.8	0.5	0.6	**0.8**	**0.9**	**1.3**	*0.8*	*0.9*	*1.2*
Italy	2.5	2.4	1.5	1.2	1.0	0.7	**0.8**	**0.8**	**1.2**	*0.9*	*0.9*	*1.1*
Cyprus	2.6	3.9	2.1	-1.0	-1.5	-1.3	**-1.3**	**0.8**	**0.9**	*-1.0*	*1.0*	*1.2*
Latvia	3.5	11.0	2.0	1.5	1.6	0.4	**0.7**	**3.1**	**2.7**	*0.6*	*1.5*	*2.6*
Lithuania	0.7	4.8	3.3	1.4	1.0	0.2	**1.2**	**2.9**	**2.5**	*1.7*	*2.1*	*2.3*
Luxembourg	1.6	3.7	3.2	1.5	1.6	0.7	**-0.6**	**2.4**	**2.3**	*1.6*	*1.8*	*2.2*
Malta	2.3	2.4	2.8	2.0	2.0	2.4	**1.6**	**1.6**	**1.8**	*1.7*	*2.1*	*2.4*
Netherlands	3.0	2.0	1.1	1.4	0.1	0.1	**0.8**	**0.9**	**1.2**	*0.5*	*0.8*	*0.8*
Austria	1.0	2.0	1.7	1.6	1.8	1.9	**1.3**	**1.4**	**1.5**	*1.7*	*1.4*	*1.6*
Portugal	3.7	3.1	0.6	2.3	0.8	2.1	**1.6**	**1.4**	**1.4**	*1.5*	*1.4*	*1.4*
Slovenia	7.1	3.4	1.6	0.9	0.8	1.0	**0.6**	**1.5**	**1.8**	*1.4*	*1.0*	*1.9*
Slovakia	6.1	3.5	1.0	0.5	-0.2	-0.2	**-0.4**	**0.8**	**1.5**	*-0.2*	*0.9*	*1.5*
Finland	2.0	1.1	2.2	2.6	1.7	1.7	**0.8**	**0.5**	**1.2**	*0.9*	*1.0*	*0.9*
Euro area	1.8	2.1	1.2	1.2	0.9	1.1	**0.9**	**1.1**	**1.4**	*1.0*	*1.3*	*1.4*
Bulgaria	10.0	6.4	4.1	-0.7	0.5	2.2	**1.1**	**1.0**	**1.5**	*-0.4*	*1.0*	*1.4*
Czech Republic	4.4	1.9	0.9	1.4	2.5	1.0	**1.1**	**1.6**	**1.7**	*1.1*	*1.2*	*1.6*
Denmark	2.2	2.2	2.2	0.9	0.8	0.9	**0.4**	**1.6**	**1.7**	*0.0*	*1.4*	*1.8*
Croatia	4.8	3.9	2.5	0.8	0.0	0.1	**-0.1**	**1.4**	**1.6**	*0.7*	*0.9*	*1.8*
Hungary	10.2	4.3	3.4	2.9	3.4	1.7	**1.0**	**2.9**	**3.3**	*2.3*	*2.8*	*3.2*
Poland	5.6	2.7	3.0	0.3	0.5	0.8	**0.2**	**1.4**	**2.0**	*0.7*	*1.6*	*2.1*
Romania	39.9	14.8	7.0	3.4	1.7	2.4	**2.2**	**1.5**	**2.8**	*1.7*	*2.3*	*2.5*
Sweden	1.5	1.5	1.8	1.1	1.8	2.0	**1.4**	**2.3**	**2.0**	*2.4*	*2.3*	*2.2*
United Kingdom	1.4	2.6	1.9	1.9	1.6	0.6	**1.7**	**1.6**	**1.9**	*1.1*	*1.9*	*2.6*
EU	2.0	2.3	1.5	1.3	1.0	1.1	**1.0**	**1.3**	**1.6**	*1.0*	*1.5*	*1.6*
USA	1.7	2.7	1.6	1.6	1.8	1.1	**1.3**	**1.9**	**2.2**	*1.3*	*2.0*	*2.4*
Japan	-1.1	-1.1	-1.2	-0.3	1.7	2.0	**0.3**	**0.2**	**0.4**	*0.2*	*-0.1*	*0.5*

Table 16: Price deflator of private consumption (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.7	2.5	1.9	0.8	0.7	0.3	**1.5**	**2.0**	**1.3**	*1.7*	*1.6*	*1.8*
Germany	0.9	1.4	1.3	1.0	1.0	0.6	**0.6**	**1.7**	**1.3**	*0.6*	*1.9*	*1.5*
Estonia	4.9	4.8	4.2	2.7	0.5	0.0	**0.8**	**3.4**	**2.9**	*0.9*	*2.8*	*2.9*
Ireland	4.2	2.6	-1.0	1.6	1.5	0.6	**1.0**	**1.1**	**1.2**	*1.5*	*1.1*	*1.2*
Greece	3.2	3.1	2.3	-1.8	-2.6	-1.6	**-0.5**	**1.2**	**1.1**	*0.0*	*1.3*	*1.0*
Spain	2.8	3.4	1.9	1.0	0.2	-0.2	**-0.2**	**1.7**	**1.4**	*-0.1*	*1.9*	*1.7*
France	1.0	2.0	1.1	0.7	0.1	-0.2	**0.1**	**1.3**	**1.3**	*0.1*	*1.4*	*1.3*
Italy	2.5	2.5	1.9	1.2	0.3	0.0	**0.0**	**1.5**	**1.3**	*-0.1*	*1.4*	*1.3*
Cyprus	2.3	3.1	2.5	0.0	-0.5	-1.7	**-1.1**	**1.1**	**1.2**	*-0.9*	*1.2*	*1.1*
Latvia	3.7	8.7	3.1	0.3	1.7	-0.6	**0.9**	**3.3**	**3.0**	*0.8*	*2.5*	*2.5*
Lithuania	0.9	2.2	4.7	1.0	0.1	-0.9	**0.9**	**2.8**	**2.0**	*0.7*	*2.1*	*1.9*
Luxembourg	1.9	2.5	1.8	1.7	0.4	-0.5	**0.2**	**2.3**	**1.8**	*0.0*	*1.6*	*2.1*
Malta	2.0	2.2	2.5	1.0	0.1	1.2	**0.4**	**1.6**	**1.8**	*0.9*	*1.6*	*1.8*
Netherlands	2.7	2.0	1.1	2.4	0.8	0.0	**0.9**	**1.5**	**1.5**	*0.7*	*1.2*	*1.3*
Austria	1.2	2.1	2.0	2.2	2.1	1.4	**1.3**	**1.8**	**1.6**	*1.1*	*1.8*	*1.6*
Portugal	3.2	3.3	1.2	0.8	0.3	0.7	**1.1**	**1.5**	**1.5**	*1.1*	*1.5*	*1.5*
Slovenia	7.1	3.4	2.2	0.8	0.0	-0.7	**-0.5**	**1.5**	**1.7**	*0.1*	*1.5*	*2.2*
Slovakia	6.5	4.8	2.6	1.3	-0.1	-0.1	**-0.3**	**1.3**	**1.4**	*-0.5*	*0.8*	*1.4*
Finland	2.1	1.1	2.5	2.5	1.3	0.4	**0.6**	**1.0**	**1.2**	*0.5*	*1.4*	*1.1*
Euro area	1.8	2.2	1.5	1.1	0.5	0.1	**0.4**	**1.6**	**1.3**	*0.4*	*1.6*	*1.4*
Bulgaria	7.1	4.3	3.3	-2.6	0.0	1.2	**-0.4**	**1.3**	**1.0**	*-1.3*	*0.8*	*1.0*
Czech Republic	3.8	1.8	1.9	0.8	0.6	0.1	**0.6**	**2.5**	**2.0**	*0.6*	*2.0*	*1.8*
Denmark	2.1	1.6	2.3	0.8	0.8	0.6	**0.5**	**1.2**	**1.6**	*0.3*	*1.1*	*1.5*
Croatia	4.5	2.8	3.2	1.9	-0.5	-0.5	**-1.2**	**1.6**	**1.5**	*-0.6*	*1.7*	*1.6*
Hungary	10.0	4.6	4.7	1.8	1.0	-0.3	**0.2**	**2.9**	**3.0**	*0.0*	*2.2*	*3.1*
Poland	6.6	2.2	3.5	0.4	-0.1	-1.1	**-0.6**	**1.7**	**1.9**	*-0.2*	*2.0*	*2.1*
Romania	36.3	8.7	6.1	2.6	1.2	0.9	**-0.5**	**1.4**	**2.5**	*-0.6*	*0.9*	*1.9*
Sweden	1.3	1.2	1.8	0.7	1.1	1.0	**1.0**	**1.3**	**1.5**	*1.1*	*1.6*	*2.0*
United Kingdom	0.8	1.9	2.5	2.3	1.7	0.3	**1.1**	**2.6**	**2.6**	*1.0*	*2.7*	*2.8*
EU	1.9	2.2	1.9	1.3	0.7	0.2	**0.5**	**1.8**	**1.6**	*0.5*	*1.8*	*1.7*
USA	1.6	2.5	1.8	1.3	1.5	0.4	**1.0**	**2.0**	**2.2**	*1.1*	*2.2*	*2.5*
Japan	-0.8	-0.5	-0.8	-0.1	2.0	0.4	**-0.4**	**0.2**	**0.4**	*-0.5*	*-0.3*	*0.3*

Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			Winter 2017 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	1.7	2.0	2.6	1.2	0.5	0.6	1.8	2.3	1.5	1.8	2.0	1.8
Germany	1.2	1.8	1.7	1.6	0.8	0.1	0.4	1.7	1.4	0.4	1.9	1.5
Estonia	5.0	3.9	4.6	3.2	0.5	0.1	0.8	3.3	2.9	0.8	2.8	2.8
Ireland	3.7	2.8	0.6	0.5	0.3	0.0	-0.2	0.6	1.2	-0.2	0.9	1.0
Greece	3.4	3.3	2.9	-0.9	-1.4	-1.1	0.0	1.2	1.1	0.0	1.3	1.0
Spain	2.8	3.2	2.3	1.5	-0.2	-0.6	-0.3	2.0	1.4	-0.3	1.9	1.7
France	1.4	2.0	1.9	1.0	0.6	0.1	0.3	1.4	1.3	0.3	1.5	1.3
Italy	2.2	2.3	2.4	1.2	0.2	0.1	-0.1	1.5	1.3	-0.1	1.4	1.3
Cyprus	2.6	2.5	2.7	0.4	-0.3	-1.5	-1.2	1.2	1.1	-1.2	1.2	1.1
Latvia	2.7	6.5	4.8	0.0	0.7	0.2	0.1	2.2	2.0	0.1	1.9	2.0
Lithuania	2.0	2.5	4.7	1.2	0.2	-0.7	0.7	2.8	2.0	0.7	2.1	1.9
Luxembourg	2.0	3.0	2.7	1.7	0.7	0.1	0.0	2.4	1.8	0.0	2.0	2.1
Malta	2.8	2.1	2.9	1.0	0.8	1.2	0.9	1.6	1.8	0.9	1.6	1.8
Netherlands	3.0	1.7	1.9	2.6	0.3	0.2	0.1	1.6	1.3	0.1	1.4	1.4
Austria	1.5	1.9	2.3	2.1	1.5	0.8	1.0	1.8	1.6	1.0	1.8	1.6
Portugal	3.1	2.7	1.9	0.4	-0.2	0.5	0.6	1.4	1.5	0.6	1.3	1.4
Slovenia	7.8	3.6	2.7	1.9	0.4	-0.8	-0.2	1.5	1.8	-0.2	1.1	2.3
Slovakia	8.0	5.0	2.7	1.5	-0.1	-0.3	-0.5	1.4	1.6	-0.5	0.9	1.4
Finland	2.1	1.0	2.7	2.2	1.2	-0.2	0.4	1.0	1.2	0.4	1.5	1.2
Euro area	1.9	2.2	2.1	1.3	0.4	0.0	0.2	1.6	1.3	0.2	1.7	1.4
Bulgaria	8.9	5.9	4.6	0.4	-1.6	-1.1	-1.3	1.3	1.5	-1.3	0.8	1.2
Czech Republic	4.3	1.8	2.8	1.4	0.4	0.3	0.6	2.5	2.0	0.6	2.0	1.8
Denmark	2.2	1.6	2.4	0.5	0.4	0.2	0.0	1.4	1.7	0.0	1.4	1.6
Croatia		2.7	2.9	2.3	0.2	-0.3	-0.6	1.6	1.5	-0.6	1.7	1.6
Hungary	9.7	5.4	4.9	1.7	0.0	0.1	0.4	2.9	3.2	0.4	2.2	3.1
Poland	7.3	2.1	3.7	0.8	0.1	-0.7	-0.2	1.8	2.1	-0.2	2.0	2.1
Romania	41.5	9.5	5.8	3.2	1.4	-0.4	-1.1	1.1	3.0	-1.1	1.6	2.9
Sweden	1.5	1.5	1.9	0.4	0.2	0.7	1.1	1.4	1.4	1.1	1.7	1.8
United Kingdom	1.2	1.9	3.3	2.6	1.5	0.0	0.7	2.6	2.6	0.7	2.5	2.6
EU	3.4	2.3	2.5	1.5	0.5	0.0	0.3	1.8	1.7	0.3	1.8	1.7
USA		2.9	2.1	1.5	1.6	0.1	1.3	2.2	2.3	1.3	2.4	2.5
Japan	-0.4	0.0	-0.2	0.3	2.8	0.8	-0.1	0.4	1.0	-0.1	0.4	0.6

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2016-18) 25.4.2017

	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4	2018/1	2018/2	2018/3	2018/4
Belgium	1.5	1.6	1.9	2.0	3.0	2.1	2.3	1.9	1.7	1.4	1.5	1.3
Germany	0.1	0.0	0.4	1.0	1.9	1.5	1.7	1.6	1.3	1.4	1.4	1.4
Estonia	0.3	0.1	1.2	1.6	3.1	3.4	3.3	3.4	2.9	2.9	2.9	2.9
Ireland	-0.2	-0.1	-0.2	-0.3	0.4	0.3	1.0	0.9	1.3	1.2	1.1	1.2
Greece	-0.2	-0.1	0.2	0.2	1.5	0.8	1.5	1.2	1.1	1.1	1.1	1.1
Spain	-0.8	-1.0	-0.3	0.8	2.7	2.1	1.9	1.4	1.4	1.4	1.4	1.5
France	0.0	0.1	0.4	0.7	1.5	1.4	1.4	1.4	1.2	1.2	1.3	1.3
Italy	0.0	-0.4	0.0	0.2	1.3	1.6	1.6	1.5	1.3	1.3	1.3	1.2
Cyprus	-1.8	-2.0	-0.5	-0.6	1.2	1.2	1.3	1.1	1.0	1.0	1.1	1.3
Latvia	-0.5	-0.7	0.2	1.5	3.1	2.0	2.9	2.2	2.2	2.0	1.9	1.9
Lithuania	0.7	0.4	0.4	1.2	3.0	2.9	2.8	2.6	2.0	2.0	2.0	2.1
Luxembourg	-0.2	-0.5	-0.1	1.0	2.6	2.5	2.4	2.1	1.8	1.8	1.8	1.9
Malta	0.9	0.9	1.0	0.8	1.3	1.5	1.7	1.9	1.8	1.8	1.9	1.7
Netherlands	0.4	-0.2	-0.2	0.5	1.3	1.7	1.5	1.8	1.2	1.1	1.3	1.5
Austria	1.0	0.6	0.8	1.5	2.2	1.7	1.7	1.6	1.5	1.6	1.6	1.6
Portugal	0.4	0.5	0.7	0.8	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5
Slovenia	-0.9	-0.4	0.0	0.7	2.0	1.5	1.5	1.0	1.3	1.4	2.1	2.4
Slovakia	-0.5	-0.6	-0.7	-0.1	1.0	1.2	1.8	1.8	1.5	1.6	1.6	1.6
Finland	0.0	0.3	0.5	0.8	1.1	1.0	1.0	0.9	1.1	1.2	1.2	1.4
Euro area	0.0	-0.1	0.3	0.7	1.8	1.6	1.6	1.5	1.3	1.3	1.4	1.4
Bulgaria	-1.1	-2.3	-1.1	-0.8	0.8	1.2	1.5	1.8	1.7	1.7	1.4	1.3
Czech Republic	0.5	0.2	0.6	1.5	2.5	2.5	2.4	2.4	2.2	2.0	1.8	1.8
Denmark	0.1	-0.1	-0.1	0.2	0.8	1.3	1.6	1.7	1.6	1.6	1.7	1.8
Croatia	-0.5	-1.1	-1.1	0.2	1.1	1.5	1.8	1.9	1.7	1.6	1.5	1.4
Hungary	0.4	0.0	0.1	1.3	2.6	2.5	3.4	3.4	2.8	3.3	3.3	3.3
Poland	-0.3	-0.4	-0.5	0.4	1.7	1.7	2.0	1.9	1.7	2.0	2.2	2.4
Romania	-2.0	-2.1	-0.1	-0.1	0.4	0.9	1.1	1.8	2.5	2.8	3.1	3.6
Sweden	1.1	1.0	1.1	1.4	1.6	1.4	1.3	1.3	1.4	1.3	1.5	1.4
United Kingdom	0.3	0.3	0.8	1.2	2.2	2.5	2.8	3.1	2.9	2.8	2.6	2.3
EU	0.0	-0.1	0.3	0.8	1.8	1.7	1.8	1.8	1.7	1.7	1.7	1.6
USA	1.1	1.1	1.1	1.8	2.6	2.3	2.2	1.8	1.7	2.1	2.5	3.0
Japan	0.0	-0.3	-0.5	0.3	0.3	0.2	0.7	0.5	1.1	1.1	1.0	0.9

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	0.7	1.8	1.5	-0.6	-1.4	-3.3	-2.4	2.9	1.4	-3.2	2.8	1.4
Germany	0.1	0.2	1.1	-0.7	-0.5	0.8	-1.0	2.3	1.1	-1.0	1.7	1.6
Estonia	2.5	3.2	2.6	-0.1	-1.7	-1.8	-0.1	4.3	1.7	-1.2	4.5	2.0
Ireland	1.1	-1.0	0.5	-2.8	-0.2	9.9	-3.6	1.2	1.2	-2.0	0.5	0.8
Greece	3.1	2.1	4.1	-1.9	-3.1	-11.5	-5.0	6.8	1.3	-7.8	6.9	1.5
Spain	1.2	2.1	1.8	-1.2	-2.2	0.5	-1.6	2.0	1.2	-1.9	1.4	1.2
France	-0.9	0.8	1.1	-0.5	-1.2	-0.6	-1.5	2.7	0.1	-1.8	1.4	0.0
Italy	1.9	1.4	1.8	-0.6	-0.3	-0.5	-1.1	3.2	1.3	-1.0	2.4	1.1
Cyprus	1.5	3.5	1.8	2.1	1.3	0.8	-0.9	2.4	1.1	-0.9	4.5	1.1
Latvia	0.1	11.0	4.3	1.8	-1.4	0.2	-2.5	5.0	1.5	-1.9	2.3	2.0
Lithuania	-1.1	5.3	4.6	-1.9	-3.2	-5.3	-3.0	6.0	2.0	-8.0	5.0	2.0
Luxembourg	-0.2	4.0	2.9	-1.9	-0.1	-2.4	0.3	3.9	1.1	-2.0	1.9	1.6
Malta	3.0	1.3	1.8	-3.9	-2.6	1.7	-1.0	6.5	1.5	0.2	4.9	1.5
Netherlands	-0.3	1.6	2.2	-1.4	-2.6	-3.9	-3.3	3.8	2.0	-4.8	2.0	2.0
Austria	0.3	1.4	1.3	-0.9	-0.9	-1.0	-1.2	1.2	1.0	-0.8	0.8	1.1
Portugal	1.1	1.3	1.6	-1.6	-1.9	-2.1	-3.2	2.6	1.4	-3.3	2.8	1.7
Slovenia	5.2	2.4	1.2	-1.2	-0.4	-0.6	-1.9	3.0	1.2	-2.9	1.3	1.1
Slovakia	3.1	1.6	0.6	-2.2	-3.6	-1.3	-1.7	1.1	1.3	-0.5	0.8	1.0
Finland	-2.0	0.2	-0.1	-1.8	-0.9	-1.8	-3.1	5.3	1.5	-3.0	3.1	1.8
Euro area	0.3	0.9	1.4	-0.9	-1.2	-0.3	-1.8	2.7	1.2	-2.0	1.8	1.3
Bulgaria	4.5	12.0	3.8	-3.6	-2.2	-2.3	-3.5	1.5	2.0	-2.5	1.5	2.0
Czech Republic	0.1	-0.2	-0.4	1.6	3.8	-1.5	-4.5	2.2	1.0	-3.5	2.0	1.4
Denmark	0.9	2.2	2.5	-0.5	0.1	1.5	-0.2	3.2	1.2	0.0	1.6	2.3
Croatia	5.2	3.4	3.1	-2.0	-1.7	-2.3	-3.1	2.9	2.9	-2.5	1.4	1.8
Hungary	4.6	-0.2	2.2	-0.1	1.0	-0.3	-0.8	2.0	1.8	-0.9	0.3	0.4
Poland	5.2	3.4	4.6	0.5	0.0	1.6	-0.3	1.6	1.9	-0.5	1.5	1.9
Romania	33.2	6.6	8.5	-5.8	-1.1	0.4	-0.9	4.1	2.9	0.1	4.0	2.8
Sweden	-0.4	0.8	0.2	-3.2	2.1	1.2	-1.9	4.7	1.5	0.5	3.6	1.5
United Kingdom	-1.7	1.0	5.0	1.2	-4.7	-8.4	5.8	4.0	2.9	3.0	3.6	2.7
EU	0.3	1.0	1.9	-0.7	-1.1	-0.9	-1.1	2.8	1.4	-1.4	2.0	1.5
USA	-0.8	3.2	2.1	-0.7	-0.9	-6.8	-3.5	1.4	0.6	-3.5	1.6	0.7
Japan	-2.6	0.2	-4.4	10.4	2.8	0.7	-8.9	6.5	1.0	-9.5	1.8	1.8

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.1	2.4	2.3	-1.0	-2.4	-5.0	-3.8	3.1	1.4	-3.5	3.2	1.5
Germany	-0.2	0.6	1.4	-2.4	-2.2	-2.2	-3.3	3.8	1.0	-3.3	2.1	1.7
Estonia	1.2	1.5	3.2	-0.8	-1.7	-1.9	-1.1	4.1	1.7	-2.7	4.3	1.9
Ireland	-1.5	0.5	0.1	-3.6	5.7	1.5	-2.9	1.3	1.3	-1.8	-0.2	0.2
Greece	3.5	2.5	4.4	-3.6	-4.0	-12.0	-2.9	6.6	1.2	-3.6	6.9	1.6
Spain	0.9	2.0	3.0	-1.9	-1.7	-1.6	-1.9	4.1	1.6	-2.2	2.4	1.5
France	-1.0	1.1	1.7	-1.8	-2.8	-4.3	-3.4	3.1	-0.6	-3.4	2.6	-0.5
Italy	1.7	2.8	2.7	-2.3	-3.7	-4.5	-4.2	5.7	1.2	-3.7	4.5	1.5
Cyprus	1.8	2.9	2.1	1.9	-5.4	-2.4	-0.5	2.2	1.6	-4.6	4.2	1.2
Latvia	1.4	8.5	4.7	0.5	-0.5	-2.1	-7.4	6.0	2.5	-5.0	4.5	2.3
Lithuania	-2.5	3.8	5.0	-1.9	-3.8	-8.3	-5.3	6.0	2.0	-8.0	5.5	2.1
Luxembourg	1.3	2.4	2.1	-0.7	-0.4	-2.7	0.0	3.9	1.2	-2.2	2.2	1.4
Malta	2.7	0.8	1.8	-5.5	-8.6	0.2	-2.2	5.3	1.2	-1.2	5.0	1.5
Netherlands	-1.0	1.5	2.9	-1.9	-2.7	-5.1	-4.5	5.5	2.5	-5.3	3.0	3.0
Austria	0.1	1.7	2.2	-0.8	-1.4	-2.7	-2.3	1.9	1.3	-1.7	1.6	1.3
Portugal	0.8	1.6	1.6	-3.2	-3.0	-5.1	-3.8	3.0	1.4	-3.8	3.0	1.6
Slovenia	4.9	3.1	2.4	-2.0	-1.5	-1.9	-2.7	3.5	1.2	-4.7	2.4	1.4
Slovakia	3.6	2.2	1.9	-1.7	-3.8	-1.1	-1.3	1.9	1.3	-0.4	0.9	1.1
Finland	-1.8	2.9	1.3	-2.6	-2.5	-5.7	-2.6	7.7	1.4	-3.9	4.9	1.7
Euro area	0.1	1.5	2.1	-2.0	-2.4	-3.5	-3.4	4.0	1.1	-3.4	2.7	1.4
Bulgaria	6.2	6.8	3.5	-2.8	-2.9	-2.9	-4.8	2.5	1.8	-3.0	2.0	1.8
Czech Republic	-0.6	0.3	0.5	0.0	2.0	-2.0	-5.4	2.8	1.0	-4.5	2.6	1.4
Denmark	0.1	1.4	2.2	-1.8	-0.9	-0.2	-3.3	3.1	1.2	-3.0	1.9	2.0
Croatia	3.9	1.6	2.5	-0.4	-0.9	-1.5	-2.4	2.9	2.4	-2.9	3.4	1.8
Hungary	5.2	0.8	2.8	-0.9	0.1	-1.1	-2.5	3.0	2.2	-2.6	0.2	0.2
Poland	5.7	2.6	5.1	-1.2	-2.2	-1.3	1.2	2.5	2.0	-2.0	2.3	2.0
Romania	29.4	1.9	7.6	-6.5	-1.9	-2.8	-1.5	4.8	2.1	-1.7	2.1	1.2
Sweden	1.4	1.4	0.3	-3.7	1.2	-0.7	-2.3	4.5	1.6	-1.5	3.5	1.6
United Kingdom	-1.7	1.0	5.0	-0.1	-4.4	-7.0	3.4	6.0	3.7	3.0	5.4	2.6
EU	0.2	1.5	2.6	-1.8	-2.3	-3.6	-2.3	4.1	1.5	-2.5	3.0	1.5
USA	-1.1	4.5	2.7	-1.3	-0.6	-8.9	-3.6	2.1	1.0	-3.6	2.2	1.6
Japan	-2.3	5.9	-1.3	11.9	3.6	-9.5	-14.0	7.5	1.0	-13.5	1.3	1.5

Table 21: Terms of trade of goods (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	-0.5	-0.6	-0.8	0.4	1.0	1.8	**1.4**	**-0.2**	**0.0**	*0.3*	*-0.3*	*-0.1*
Germany	0.3	-0.4	-0.3	1.8	1.7	3.1	**2.3**	**-1.4**	**0.1**	*2.4*	*-0.5*	*0.0*
Estonia	1.2	1.6	-0.6	0.8	0.0	0.1	**1.1**	**0.2**	**0.0**	*1.5*	*0.2*	*0.1*
Ireland	2.7	-1.6	0.4	0.9	-5.6	8.3	**-0.8**	**-0.1**	**-0.1**	*-0.2*	*0.7*	*0.6*
Greece	-0.4	-0.3	-0.3	1.7	0.9	0.6	**-2.2**	**0.2**	**0.1**	*-4.4*	*0.0*	*-0.1*
Spain	0.3	0.1	-1.2	0.6	-0.5	2.0	**0.3**	**-2.0**	**-0.4**	*0.3*	*-1.0*	*-0.3*
France	0.0	-0.3	-0.6	1.3	1.6	3.8	**1.9**	**-0.4**	**0.7**	*1.7*	*-1.2*	*0.5*
Italy	0.2	-1.4	-0.9	1.8	3.5	4.1	**3.2**	**-2.4**	**0.1**	*2.8*	*-2.1*	*-0.4*
Cyprus	-0.3	0.6	-0.2	0.2	7.1	3.2	**-0.4**	**0.2**	**-0.5**	*3.9*	*0.3*	*-0.1*
Latvia	-1.3	2.3	-0.4	1.3	-0.9	2.4	**5.3**	**-0.9**	**-1.0**	*3.3*	*-2.1*	*-0.3*
Lithuania	1.5	1.4	-0.4	0.0	0.6	3.2	**2.4**	**0.0**	**0.0**	*0.0*	*-0.5*	*-0.1*
Luxembourg	-1.4	1.6	0.8	-1.3	0.3	0.3	**0.3**	**0.0**	**-0.1**	*0.2*	*-0.3*	*0.2*
Malta	0.2	0.5	0.0	1.7	6.6	1.4	**1.2**	**1.1**	**0.3**	*1.4*	*-0.1*	*0.0*
Netherlands	0.8	0.1	-0.6	0.5	0.1	1.3	**1.3**	**-1.6**	**-0.5**	*0.5*	*-1.0*	*-1.0*
Austria	0.2	-0.3	-0.8	-0.1	0.5	1.8	**1.1**	**-0.7**	**-0.3**	*0.9*	*-0.8*	*-0.2*
Portugal	0.3	-0.3	-0.1	1.7	1.2	3.2	**0.6**	**-0.3**	**0.0**	*0.5*	*-0.2*	*0.1*
Slovenia	0.2	-0.7	-1.1	0.8	1.1	1.3	**0.8**	**-0.5**	**0.0**	*1.9*	*-1.1*	*-0.3*
Slovakia	-0.5	-0.6	-1.3	-0.5	0.2	-0.2	**-0.3**	**-0.8**	**0.0**	*-0.1*	*-0.1*	*-0.1*
Finland	-0.2	-2.6	-1.3	0.8	1.7	4.1	**-0.5**	**-2.2**	**0.1**	*0.9*	*-1.7*	*0.1*
Euro area	0.2	-0.6	-0.7	1.2	1.2	3.2	**1.6**	**-1.3**	**0.1**	*1.5*	*-0.9*	*-0.1*
Bulgaria	-1.7	4.9	0.3	-0.8	0.7	0.6	**1.4**	**-1.0**	**0.2**	*0.5*	*-0.5*	*0.2*
Czech Republic	0.7	-0.5	-0.9	1.5	1.8	0.5	**0.9**	**-0.6**	**0.0**	*1.0*	*-0.6*	*0.0*
Denmark	0.8	0.8	0.4	1.4	1.0	1.7	**3.2**	**0.1**	**0.0**	*3.1*	*-0.3*	*0.3*
Croatia	1.2	1.8	0.6	-1.6	-0.9	-0.8	**-0.7**	**0.0**	**0.5**	*0.4*	*-1.9*	*0.0*
Hungary	-0.6	-1.0	-0.6	0.8	1.0	0.8	**1.8**	**-1.0**	**-0.4**	*1.7*	*0.1*	*0.2*
Poland	-0.5	0.8	-0.4	1.7	2.2	2.9	**-1.4**	**-0.9**	**-0.1**	*1.5*	*-0.8*	*-0.1*
Romania	2.9	4.6	0.8	0.8	0.8	3.2	**0.5**	**-0.7**	**0.8**	*1.9*	*1.8*	*1.6*
Sweden	-1.7	-0.6	-0.1	0.5	0.9	1.9	**0.4**	**0.2**	**-0.1**	*2.1*	*0.1*	*-0.1*
United Kingdom	0.0	0.0	0.0	1.4	-0.4	-1.5	**2.3**	**-1.9**	**-0.8**	*0.0*	*-1.7*	*0.1*
EU	0.0	-0.4	-0.6	1.3	1.0	2.3	**1.8**	**-1.1**	**-0.1**	*1.6*	*-0.7*	*-0.1*
USA	0.3	-1.2	-0.6	0.7	-0.2	2.3	**0.1**	**-0.6**	**-0.4**	*0.1*	*-0.7*	*-0.9*
Japan	-0.3	-5.4	-3.2	-1.4	-0.7	11.2	**5.9**	**-0.9**	**0.0**	*4.6*	*0.5*	*0.3*

Table 22: Total population (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	0.3	0.6	0.8	0.5	0.5	0.5	**0.5**	**0.8**	**0.5**	*0.6*	*0.5*	*0.5*
Germany	0.0	-0.1	-0.1	0.3	0.4	0.9	**1.0**	**0.8**	**0.5**	*1.0*	*0.8*	*0.6*
Estonia	-0.3	-0.6	-0.3	-0.4	-0.3	-0.2	**0.2**	**0.1**	**0.0**	*0.0*	*0.0*	*0.0*
Ireland	1.4	2.3	0.9	0.3	0.3	0.6	**1.6**	**1.1**	**1.0**	*0.9*	*1.0*	*0.9*
Greece	0.4	0.3	0.0	-0.7	-0.7	-0.7	**-0.3**	**0.0**	**0.0**	*0.0*	*0.0*	*0.0*
Spain	0.7	1.8	0.7	-0.4	-0.3	-0.1	**0.1**	**0.0**	**0.1**	*-0.1*	*-0.1*	*-0.1*
France	0.6	0.7	0.5	0.5	0.5	0.4	**0.3**	**0.5**	**0.4**	*0.5*	*0.5*	*0.4*
Italy	0.1	0.6	0.5	0.5	0.2	-0.1	**-0.2**	**-0.1**	**0.0**	*0.0*	*0.3*	*0.3*
Cyprus	1.1	1.6	2.4	-0.2	-1.1	-0.6	**0.6**	**0.0**	**0.6**	*-0.3*	*0.2*	*0.4*
Latvia	-1.0	-1.0	-1.6	-1.0	-0.9	-0.8	**-0.8**	**-0.6**	**-0.5**	*-0.7*	*-0.6*	*-0.5*
Lithuania	-0.8	-1.3	-1.6	-1.0	-0.9	-0.9	**-1.3**	**-1.4**	**-1.7**	*-1.2*	*-1.1*	*-1.0*
Luxembourg	1.2	1.5	2.0	2.6	2.4	2.0	**2.5**	**2.2**	**2.2**	*1.8*	*1.9*	*2.0*
Malta	0.7	0.5	0.6	0.9	1.0	1.1	**1.1**	**1.0**	**1.0**	*0.9*	*0.8*	*0.8*
Netherlands	0.7	0.3	0.5	0.3	0.4	0.4	**0.6**	**0.6**	**0.5**	*0.6*	*0.6*	*0.5*
Austria	0.3	0.5	0.3	0.6	0.8	1.0	**1.3**	**0.8**	**0.7**	*0.8*	*0.5*	*0.5*
Portugal	0.6	0.2	-0.1	-0.5	-0.5	-0.4	**-0.3**	**-0.2**	**-0.1**	*-0.4*	*-0.4*	*-0.4*
Slovenia	0.1	0.2	0.4	0.1	0.1	0.1	**0.1**	**0.1**	**0.1**	*0.1*	*0.1*	*0.1*
Slovakia	0.0	0.1	0.0	0.1	0.1	0.1	**0.2**	**0.1**	**0.0**	*0.0*	*0.0*	*0.0*
Finland	0.2	0.3	0.5	0.5	0.4	0.3	**0.3**	**0.4**	**0.4**	*0.4*	*0.4*	*0.4*
Euro area	0.3	0.5	0.3	0.2	0.2	0.3	**0.4**	**0.4**	**0.3**	*0.4*	*0.4*	*0.3*
Bulgaria	-1.2	-0.8	-0.6	-0.6	-0.6	-0.4	**-0.6**	**-0.7**	**-0.6**	*-0.6*	*-0.6*	*-0.6*
Czech Republic	-0.2	0.2	0.4	0.0	0.1	0.2	**0.2**	**0.2**	**0.3**	*0.2*	*0.1*	*0.1*
Denmark	0.3	0.3	0.5	0.4	0.5	0.7	**0.8**	**0.8**	**0.7**	*0.8*	*0.6*	*0.6*
Croatia	-1.2	0.0	-0.2	-0.3	-0.4	-0.5	**-0.6**	**-0.8**	**-0.6**	*-1.2*	*-0.2*	*-0.2*
Hungary	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	**-0.2**	**-0.2**	**-0.1**	*-0.1*	*-0.1*	*-0.2*
Poland	0.0	-0.1	0.2	-0.1	0.0	-0.1	**-0.1**	**0.0**	**0.0**	*0.0*	*0.0*	*-0.1*
Romania	-0.8	-0.7	-0.8	-0.4	-0.4	-0.5	**-0.3**	**-0.9**	**-0.6**	*-0.7*	*-0.5*	*-0.6*
Sweden	0.2	0.5	0.8	0.9	1.0	1.1	**1.3**	**1.4**	**1.1**	*1.2*	*1.4*	*1.6*
United Kingdom	0.4	0.6	0.8	0.6	0.8	0.8	**0.7**	**0.7**	**0.7**	*0.8*	*0.7*	*0.7*
EU	0.2	0.4	0.3	0.2	0.2	0.3	**0.3**	**0.3**	**0.3**	*0.3*	*0.3*	*0.3*
USA	1.1	0.9	0.8	0.7	0.7	0.7	**0.7**	**0.7**	**0.8**	*0.7*	*0.7*	*0.7*
Japan	0.2	0.1	0.0	-0.2	-0.1	-0.1	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.1*	*-0.1*

Table 23: Total employment (percentage change on preceding year, 1998-2018) 25.4.2017

		5-year averages						Spring 2017 forecast			*Winter 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.3	1.0	0.8	-0.3	0.4	0.9	**1.3**	**0.9**	**0.9**	*1.3*	*0.9*	*0.9*
Germany	0.9	0.4	0.8	0.6	0.8	0.9	**1.2**	**1.0**	**1.0**	*1.0*	*0.8*	*0.7*
Estonia	-1.0	1.8	-1.4	1.2	0.8	2.9	**0.3**	**0.3**	**0.2**	*0.8*	*0.1*	*0.2*
Ireland	4.8	3.8	-2.7	2.5	1.7	2.5	**2.7**	**2.6**	**2.1**	*2.5*	*2.1*	*1.8*
Greece	1.5	1.6	-3.0	-2.6	0.0	0.5	**1.3**	**1.4**	**1.7**	*2.2*	*2.1*	*2.2*
Spain	3.9	3.2	-3.2	-3.4	1.1	3.0	**2.9**	**2.3**	**2.1**	*2.9*	*2.0*	*1.7*
France	1.8	0.7	-0.1	0.1	0.2	0.4	**0.5**	**0.8**	**1.0**	*0.8*	*0.6*	*0.9*
Italy	1.1	0.8	-1.0	-2.4	0.2	1.0	**1.4**	**0.7**	**0.8**	*1.2*	*0.7*	*0.8*
Cyprus	1.9	3.5	0.2	-5.9	-1.8	1.9	**2.7**	**2.3**	**1.9**	*2.7*	*2.2*	*1.8*
Latvia	-0.5	2.3	-3.8	2.3	-1.4	1.3	**-0.1**	**0.3**	**0.5**	*-0.2*	*0.3*	*0.5*
Lithuania	-1.5	0.7	-2.4	1.3	2.0	1.3	**2.0**	**0.6**	**0.5**	*1.8*	*0.5*	*0.1*
Luxembourg	4.6	3.0	2.6	1.8	2.6	2.6	**3.0**	**3.1**	**3.1**	*3.0*	*2.9*	*2.7*
Malta	0.3	1.0	2.0	3.7	5.1	3.8	**3.7**	**3.0**	**2.8**	*3.0*	*2.8*	*2.6*
Netherlands	1.6	0.7	0.0	-1.2	-0.3	1.0	**1.7**	**1.7**	**1.3**	*1.4*	*1.4*	*1.3*
Austria	0.8	1.2	1.0	0.3	0.9	0.6	**1.3**	**1.0**	**0.9**	*0.9*	*0.8*	*0.7*
Portugal	1.7	-0.3	-2.0	-2.9	1.4	1.4	**1.6**	**1.4**	**0.9**	*1.3*	*0.8*	*0.6*
Slovenia	1.0	0.9	-0.8	-1.1	0.4	1.1	**2.0**	**1.9**	**1.6**	*1.2*	*1.1*	*1.1*
Slovakia	-0.9	1.3	0.3	-0.8	1.4	2.0	**2.4**	**1.4**	**1.3**	*2.6*	*1.4*	*1.6*
Finland	1.8	1.2	0.3	-0.7	-0.5	-0.3	**0.6**	**0.5**	**0.7**	*0.4*	*0.5*	*0.6*
Euro area	1.5	1.0	-0.6	-0.8	0.6	1.1	**1.4**	**1.2**	**1.1**	*1.3*	*1.0*	*1.0*
Bulgaria	-1.7	3.0	-1.6	-0.4	0.4	0.4	**0.5**	**0.6**	**0.6**	*1.1*	*0.5*	*0.2*
Czech Republic	-0.9	0.9	-0.1	0.3	0.6	1.4	**1.8**	**0.3**	**0.0**	*1.4*	*0.1*	*0.1*
Denmark	0.8	0.9	-1.0	0.0	1.0	1.3	**1.7**	**1.1**	**0.9**	*1.5*	*1.0*	*0.9*
Croatia	1.9	2.3	-1.6	-2.7	2.7	1.5	**0.7**	**1.9**	**1.5**	*1.9*	*2.1*	*1.6*
Hungary	1.0	-0.1	-1.1	1.1	4.8	2.3	**2.2**	**0.6**	**0.3**	*1.9*	*0.5*	*0.3*
Poland	-1.9	2.0	0.4	-0.1	1.7	1.5	**0.6**	**0.4**	**0.0**	*0.9*	*0.3*	*0.0*
Romania	-3.2	-0.4	-1.6	-0.9	0.8	-0.9	**-0.9**	**0.1**	**0.4**	*-0.4*	*0.3*	*0.4*
Sweden	1.7	0.6	0.5	1.0	1.4	1.5	**1.7**	**1.5**	**1.2**	*1.9*	*1.4*	*1.2*
United Kingdom	1.0	1.0	0.2	1.2	2.4	1.8	**1.4**	**0.6**	**0.4**	*1.3*	*0.5*	*0.3*
EU	0.8	1.0	-0.4	-0.4	1.0	1.2	**1.3**	**0.9**	**0.9**	*1.3*	*0.8*	*0.8*
USA	1.0	1.3	-0.5	1.0	1.6	1.7	**1.7**	**1.1**	**0.7**	*1.7*	*1.0*	*0.7*
Japan	-0.9	0.5	-0.5	0.6	0.6	0.4	**0.8**	**0.3**	**0.2**	*0.8*	*0.3*	*0.2*

Table 24: Unemployment rate [1] (number of unemployed as a percentage of total labour force, 1998-2018) 25.4.2017

		5-year averages						Spring 2017 forecast			*Winter 2017 forecast*	
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	7.8	8.2	7.6	8.4	8.5	8.5	**7.8**	**7.6**	**7.4**	*8.0*	*7.8*	*7.6*
Germany	8.5	10.0	6.6	5.2	5.0	4.6	**4.1**	**4.0**	**3.9**	*4.1*	*4.1*	*4.1*
Estonia	11.9	7.8	11.6	8.6	7.4	6.2	**6.8**	**7.7**	**8.6**	*6.9*	*7.9*	*8.7*
Ireland	5.2	4.5	12.3	13.1	11.3	9.4	**7.9**	**6.4**	**5.9**	*8.0*	*7.0*	*6.7*
Greece	11.1	9.5	14.5	27.5	26.5	24.9	**23.6**	**22.8**	**21.6**	*23.4*	*22.0*	*20.3*
Spain	12.8	9.7	19.1	26.1	24.5	22.1	**19.6**	**17.6**	**15.9**	*19.6*	*17.7*	*16.0*
France	8.9	8.6	9.0	10.3	10.3	10.4	**10.1**	**9.9**	**9.6**	*10.0*	*9.9*	*9.6*
Italy	9.9	7.4	8.4	12.1	12.7	11.9	**11.7**	**11.5**	**11.3**	*11.7*	*11.6*	*11.4*
Cyprus	4.5	4.5	7.0	15.9	16.1	15.0	**13.1**	**11.7**	**10.6**	*13.3*	*12.0*	*11.0*
Latvia	13.7	9.3	15.2	11.9	10.8	9.9	**9.6**	**9.2**	**8.7**	*9.7*	*9.5*	*9.0*
Lithuania	15.1	8.3	13.2	11.8	10.7	9.1	**7.9**	**7.6**	**7.2**	*8.0*	*7.5*	*7.1*
Luxembourg	2.4	4.4	4.9	5.9	6.0	6.5	**6.3**	**6.1**	**6.0**	*6.3*	*6.2*	*6.2*
Malta	6.9	7.0	6.5	6.4	5.8	5.4	**4.7**	**4.9**	**4.9**	*4.8*	*4.9*	*4.9*
Netherlands	4.0	5.1	4.8	7.3	7.4	6.9	**6.0**	**4.9**	**4.4**	*6.0*	*5.2*	*4.7*
Austria	4.2	5.2	4.7	5.4	5.6	5.7	**6.0**	**5.9**	**5.9**	*6.0*	*6.1*	*6.2*
Portugal	5.6	8.4	12.0	16.4	14.1	12.6	**11.2**	**9.9**	**9.2**	*11.2*	*10.1*	*9.4*
Slovenia	6.8	6.1	6.9	10.1	9.7	9.0	**8.0**	**7.2**	**6.3**	*7.9*	*7.0*	*6.2*
Slovakia	17.3	15.4	12.8	14.2	13.2	11.5	**9.7**	**8.6**	**7.6**	*9.7*	*9.0*	*7.9*
Finland	9.9	8.2	7.7	8.2	8.7	9.4	**8.8**	**8.6**	**8.2**	*8.8*	*8.6*	*8.3*
Euro area	9.2	8.7	9.8	12.0	11.6	10.9	**10.0**	**9.4**	**8.9**	*10.0*	*9.6*	*9.1*
Bulgaria	15.5	10.4	9.3	13.0	11.4	9.2	**7.6**	**7.0**	**6.4**	*7.7*	*7.1*	*6.8*
Czech Republic	7.9	7.3	6.4	7.0	6.1	5.1	**4.0**	**3.5**	**3.5**	*4.0*	*3.9*	*3.8*
Denmark	4.7	4.7	6.4	7.0	6.6	6.2	**6.2**	**5.8**	**5.7**	*6.2*	*5.9*	*5.7*
Croatia		12.5	11.8	17.4	17.2	16.1	**13.3**	**11.6**	**9.7**	*12.8*	*10.8*	*9.3*
Hungary	6.6	6.8	10.2	10.2	7.7	6.8	**5.1**	**4.1**	**3.9**	*5.2*	*4.8*	*4.5*
Poland	15.6	16.1	8.9	10.3	9.0	7.5	**6.2**	**5.2**	**4.4**	*6.3*	*5.6*	*4.7*
Romania	7.3	7.3	6.6	7.1	6.8	6.8	**5.9**	**5.4**	**5.3**	*6.0*	*5.7*	*5.6*
Sweden	6.5	7.0	7.8	8.0	7.9	7.4	**6.9**	**6.6**	**6.6**	*6.9*	*6.5*	*6.4*
United Kingdom	5.5	5.0	7.4	7.6	6.1	5.3	**4.8**	**5.0**	**5.4**	*4.9*	*5.2*	*5.6*
EU		8.6	9.2	10.9	10.2	9.4	**8.5**	**8.0**	**7.7**	*8.5*	*8.1*	*7.8*
USA	4.6	5.2	8.3	7.4	6.2	5.3	**4.9**	**4.6**	**4.5**	*4.9*	*4.6*	*4.5*
Japan	4.8	4.5	4.6	4.0	3.6	3.4	**3.1**	**3.1**	**3.0**	*3.1*	*3.1*	*3.0*

[1] Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	2.9	2.5	2.5	2.5	1.0	0.0	**0.1**	**2.0**	**1.7**	*0.1*	*2.0*	*1.9*
Germany	1.3	0.8	2.1	1.8	2.8	2.4	**2.3**	**2.5**	**2.6**	*2.3*	*2.7*	*2.8*
Estonia	10.8	14.7	3.4	4.6	4.2	5.7	**5.7**	**5.5**	**5.6**	*6.2*	*5.1*	*5.0*
Ireland	6.0	5.4	0.0	1.4	1.8	2.8	**2.9**	**3.0**	**2.5**	*2.9*	*2.5*	*2.1*
Greece	6.8	5.6	-0.5	-7.5	-2.1	-2.9	**0.8**	**1.5**	**2.1**	*0.2*	*1.0*	*2.0*
Spain	2.8	3.8	2.5	1.4	0.0	0.4	**0.0**	**1.0**	**1.3**	*0.5*	*1.4*	*1.6*
France	2.3	3.0	2.5	1.6	1.2	1.1	**1.3**	**1.5**	**1.8**	*0.9*	*1.5*	*1.9*
Italy	2.1	3.2	2.0	1.3	0.0	0.2	**0.3**	**0.9**	**1.6**	*0.0*	*0.8*	*1.5*
Cyprus	4.4	4.5	2.6	-5.4	-3.8	-1.1	**-0.6**	**0.7**	**1.1**	*0.1*	*0.9*	*1.5*
Latvia	7.1	21.9	1.5	5.5	8.6	6.9	**6.9**	**6.0**	**6.8**	*4.8*	*5.3*	*5.5*
Lithuania	5.8	13.9	2.8	5.4	4.7	5.3	**5.0**	**5.1**	**5.6**	*5.5*	*6.1*	*6.3*
Luxembourg	3.6	3.5	2.0	2.7	2.1	1.7	**0.4**	**3.0**	**1.9**	*0.4*	*3.1*	*2.4*
Malta	4.4	3.7	3.2	2.0	1.5	3.3	**2.4**	**3.0**	**3.1**	*3.0*	*2.9*	*2.8*
Netherlands	4.4	2.7	2.4	2.2	1.6	0.4	**1.3**	**2.8**	**2.8**	*2.3*	*2.6*	*2.4*
Austria	2.1	2.4	2.1	2.1	1.9	1.9	**1.3**	**1.9**	**1.9**	*1.4*	*1.6*	*1.7*
Portugal	4.9	3.3	0.4	3.6	-1.8	-0.3	**1.4**	**1.5**	**1.5**	*1.4*	*1.2*	*1.2*
Slovenia	9.4	6.6	2.7	0.5	1.3	1.4	**2.2**	**2.7**	**3.4**	*2.0*	*2.2*	*3.6*
Slovakia	8.8	8.4	3.8	2.6	1.8	3.1	**1.8**	**4.0**	**4.7**	*1.5*	*3.8*	*4.2*
Finland	3.5	3.2	3.0	1.3	1.0	1.6	**1.0**	**-0.8**	**1.5**	*1.2*	*-0.8*	*1.2*
Euro area	2.4	2.5	2.3	1.6	1.3	1.1	**1.3**	**1.8**	**2.1**	*1.2*	*1.8*	*2.1*
Bulgaria	17.5	7.7	9.8	8.8	5.6	5.6	**3.1**	**4.9**	**4.5**	*3.8*	*4.8*	*5.1*
Czech Republic	7.7	6.3	2.3	-0.3	2.6	2.6	**3.9**	**4.6**	**4.6**	*3.5*	*4.5*	*4.6*
Denmark	3.8	3.5	2.6	1.6	1.5	1.5	**1.6**	**2.3**	**2.7**	*1.9*	*2.2*	*2.7*
Croatia	6.2	5.6	2.0	-0.6	-5.4	-0.3	**1.2**	**2.5**	**2.5**	*1.7*	*2.4*	*2.5*
Hungary	12.7	7.9	2.3	1.6	1.3	1.5	**5.3**	**7.1**	**6.3**	*5.0*	*6.1*	*5.6*
Poland	10.1	2.8	5.9	1.7	2.2	1.1	**3.6**	**4.3**	**5.1**	*3.9*	*4.7*	*5.3*
Romania	51.3	19.5	6.7	3.8	6.7	0.9	**10.3**	**9.5**	**6.5**	*8.4*	*7.8*	*6.0*
Sweden	3.2	3.9	3.0	1.9	2.2	3.5	**2.5**	**2.5**	**2.6**	*3.1*	*3.3*	*3.1*
United Kingdom	5.1	4.9	1.8	2.1	0.7	1.1	**2.8**	**2.4**	**2.4**	*2.3*	*2.4*	*2.4*
EU	3.7	3.0	2.3	1.7	1.2	1.2	**1.7**	**2.2**	**2.4**	*1.7*	*2.2*	*2.4*
USA	:	3.7	2.1	1.5	2.8	3.0	**2.3**	**3.5**	**4.0**	*2.3*	*3.6*	*4.9*
Japan	-1.2	-0.4	-0.6	-0.1	1.1	0.7	**0.1**	**0.7**	**0.5**	*0.1*	*0.7*	*0.8*

Table 26: Real compensation of employees per head [1] (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.2	0.0	0.6	1.6	0.3	-0.3	**-1.4**	**0.0**	**0.4**	*-1.6*	*0.4*	*0.1*
Germany	0.4	-0.6	0.7	0.7	1.8	1.8	**1.6**	**0.8**	**1.3**	*1.7*	*0.7*	*1.2*
Estonia	5.7	9.4	-0.8	1.9	3.7	5.7	**4.9**	**2.0**	**2.6**	*5.2*	*2.3*	*2.0*
Ireland	1.7	2.8	1.0	-0.2	0.4	2.2	**1.9**	**1.8**	**1.3**	*1.3*	*1.4*	*0.9*
Greece	3.5	2.4	-2.7	-5.8	0.5	-1.3	**1.3**	**0.3**	**1.0**	*0.2*	*-0.3*	*1.0*
Spain	0.0	0.4	0.6	0.3	-0.2	0.6	**0.2**	**-0.7**	**-0.1**	*0.6*	*-0.5*	*-0.1*
France	1.3	1.0	1.3	0.9	1.1	1.3	**1.2**	**0.2**	**0.5**	*0.8*	*0.1*	*0.6*
Italy	-0.5	0.7	0.1	0.1	-0.3	0.2	**0.3**	**-0.7**	**0.3**	*0.0*	*-0.6*	*0.2*
Cyprus	2.0	1.4	0.1	-5.4	-3.4	0.6	**0.5**	**-0.4**	**-0.1**	*1.0*	*-0.3*	*0.4*
Latvia	3.2	12.1	-1.6	5.2	6.8	7.6	**5.9**	**2.7**	**3.7**	*4.0*	*2.7*	*2.9*
Lithuania	4.8	11.4	-1.9	4.3	4.6	6.3	**4.1**	**2.2**	**3.5**	*4.8*	*3.9*	*4.3*
Luxembourg	1.7	0.9	0.3	0.9	1.7	2.2	**0.3**	**0.6**	**0.1**	*0.4*	*1.4*	*0.3*
Malta	2.4	1.5	0.6	1.0	1.4	2.1	**2.0**	**1.4**	**1.3**	*2.1*	*1.2*	*1.0*
Netherlands	1.7	0.7	1.2	-0.2	0.8	0.4	**0.4**	**1.3**	**1.3**	*1.6*	*1.4*	*1.1*
Austria	0.9	0.3	0.2	0.0	-0.3	0.5	**0.0**	**0.1**	**0.3**	*0.3*	*-0.2*	*0.1*
Portugal	1.7	-0.1	-0.8	2.8	-2.1	-1.0	**0.3**	**0.0**	**0.0**	*0.2*	*-0.3*	*-0.3*
Slovenia	2.2	3.1	0.5	-0.3	1.3	2.1	**2.8**	**1.2**	**1.7**	*1.9*	*0.7*	*1.4*
Slovakia	2.2	3.4	1.2	1.2	1.9	3.2	**2.1**	**2.7**	**3.3**	*2.1*	*2.9*	*2.7*
Finland	1.3	2.1	0.4	-1.1	-0.4	1.2	**0.4**	**-1.7**	**0.3**	*0.7*	*-2.1*	*0.1*
Euro area	0.6	0.3	0.7	0.6	0.8	1.0	**0.9**	**0.3**	**0.7**	*0.9*	*0.2*	*0.7*
Bulgaria	9.7	3.2	6.3	11.7	5.6	4.4	**3.6**	**3.6**	**3.5**	*5.2*	*4.0*	*4.1*
Czech Republic	3.7	4.4	0.3	-1.1	2.0	2.5	**3.3**	**2.0**	**2.6**	*2.8*	*2.4*	*2.8*
Denmark	1.7	1.8	0.4	0.8	0.7	0.8	**1.1**	**1.1**	**1.1**	*1.6*	*1.1*	*1.2*
Croatia	1.7	2.7	-1.2	-2.4	-5.0	0.2	**2.5**	**0.9**	**1.0**	*2.4*	*0.7*	*0.8*
Hungary	2.5	3.2	-2.3	-0.2	0.4	1.8	**5.1**	**4.1**	**3.2**	*5.0*	*3.9*	*2.4*
Poland	3.3	0.6	2.3	1.3	2.3	2.3	**4.2**	**2.5**	**3.1**	*4.1*	*2.6*	*3.1*
Romania	11.0	9.9	0.5	1.1	5.4	0.0	**10.8**	**7.9**	**3.9**	*9.1*	*6.9*	*4.0*
Sweden	1.9	2.6	1.1	1.2	1.1	2.4	**1.5**	**1.2**	**1.1**	*2.0*	*1.6*	*1.1*
United Kingdom	4.3	2.9	-0.7	-0.2	-1.0	0.8	**1.7**	**-0.2**	**-0.2**	*1.3*	*-0.2*	*-0.4*
EU	1.8	0.8	0.5	0.4	0.4	1.0	**1.2**	**0.4**	**0.8**	*1.2*	*0.4*	*0.7*
USA	:	1.2	0.3	0.2	1.3	2.6	**1.3**	**1.5**	**1.7**	*1.2*	*1.4*	*2.3*
Japan	-0.4	0.1	0.2	0.0	-0.9	0.3	**0.5**	**0.5**	**0.1**	*0.6*	*1.0*	*0.6*

[1] Deflated by the price deflator of private consumption.

Table 27: Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.1	1.4	-0.2	0.3	1.2	0.6	**-0.1**	**0.6**	**0.8**	*-0.1*	*0.5*	*0.7*
Germany	0.8	1.3	-0.2	-0.1	0.8	0.8	**0.6**	**0.6**	**0.9**	*0.9*	*0.8*	*1.1*
Estonia	6.2	6.3	0.1	0.2	2.0	-1.4	**1.3**	**2.0**	**2.7**	*0.3*	*2.1*	*2.4*
Ireland	3.2	1.3	1.2	-1.4	6.7	23.2	**2.4**	**1.3**	**1.5**	*1.7*	*1.3*	*1.5*
Greece	2.3	2.4	-2.4	-0.6	0.3	-0.7	**-1.3**	**0.7**	**0.7**	*-1.9*	*0.6*	*0.9*
Spain	0.2	0.4	2.0	1.8	0.3	0.2	**0.4**	**0.5**	**0.3**	*0.3*	*0.3*	*0.4*
France	0.9	1.3	0.4	0.5	0.4	0.9	**0.7**	**0.6**	**0.7**	*0.4*	*0.8*	*0.8*
Italy	0.6	0.5	-0.4	0.7	-0.1	-0.2	**-0.5**	**0.2**	**0.3**	*-0.3*	*0.3*	*0.3*
Cyprus	2.6	0.5	-0.1	0.0	0.2	-0.2	**0.1**	**0.1**	**0.3**	*0.1*	*0.3*	*0.5*
Latvia	6.2	7.4	1.5	0.3	3.5	1.4	**2.0**	**2.8**	**3.0**	*1.9*	*2.5*	*2.5*
Lithuania	6.3	7.9	2.1	2.1	1.5	0.5	**0.3**	**2.2**	**2.6**	*0.4*	*2.4*	*2.6*
Luxembourg	1.1	1.3	-2.3	2.1	3.0	1.4	**1.1**	**1.2**	**1.3**	*0.8*	*1.0*	*1.2*
Malta	3.2	1.5	-0.3	0.8	3.0	3.5	**1.3**	**1.6**	**1.6**	*1.0*	*0.9*	*1.1*
Netherlands	1.5	1.6	0.0	1.0	1.7	1.0	**0.5**	**0.4**	**0.5**	*0.6*	*0.6*	*0.5*
Austria	1.9	1.3	-0.3	-0.2	-0.3	0.3	**0.1**	**0.7**	**0.8**	*0.6*	*0.8*	*0.9*
Portugal	1.3	1.5	0.6	1.8	-0.5	0.2	**-0.2**	**0.4**	**0.7**	*0.1*	*0.8*	*0.9*
Slovenia	2.8	3.8	-0.3	0.0	2.7	1.2	**0.5**	**1.4**	**1.5**	*1.2*	*1.9*	*1.9*
Slovakia	3.5	5.9	1.6	2.3	1.1	1.8	**0.9**	**1.6**	**2.3**	*0.7*	*1.5*	*2.0*
Finland	2.1	2.3	-1.0	0.0	-0.2	0.6	**0.8**	**0.8**	**1.1**	*1.1*	*0.6*	*0.9*
Euro area	1.0	1.1	0.3	0.5	0.6	0.9	**0.3**	**0.6**	**0.7**	*0.4*	*0.7*	*0.8*
Bulgaria	3.9	3.5	2.7	1.3	1.0	3.3	**2.9**	**2.3**	**2.2**	*2.2*	*2.5*	*2.7*
Czech Republic	2.9	4.6	0.3	-0.8	2.2	3.1	**0.6**	**2.4**	**2.7**	*1.0*	*2.5*	*2.6*
Denmark	1.2	1.1	0.6	1.0	0.7	0.3	**-0.4**	**0.6**	**0.9**	*-0.5*	*0.4*	*0.9*
Croatia	0.8	2.4	-0.3	1.7	-3.1	0.1	**2.2**	**0.9**	**1.1**	*0.9*	*1.0*	*0.9*
Hungary	2.9	3.6	0.1	1.0	-0.7	0.9	**-0.2**	**3.0**	**3.1**	*0.0*	*3.0*	*2.9*
Poland	5.4	3.1	3.0	1.5	1.5	2.3	**2.1**	**3.1**	**3.2**	*1.8*	*2.8*	*3.2*
Romania	5.6	7.1	2.0	4.4	2.3	4.9	**5.8**	**4.2**	**3.3**	*5.3*	*4.1*	*3.3*
Sweden	1.7	2.9	0.0	0.3	1.2	2.5	**1.6**	**1.1**	**1.0**	*1.3*	*1.0*	*0.9*
United Kingdom	2.0	1.8	-0.3	0.7	0.7	0.4	**0.4**	**1.2**	**0.8**	*0.8*	*1.0*	*0.9*
EU	1.8	1.4	0.3	0.6	0.6	1.0	**0.6**	**0.9**	**1.0**	*0.6*	*0.9*	*1.0*
USA	2.1	1.5	1.1	0.7	0.8	0.9	**-0.1**	**1.2**	**1.6**	*-0.1*	*1.3*	*1.5*
Japan	1.3	1.2	0.3	1.4	-0.3	0.9	**0.2**	**0.9**	**0.4**	*0.1*	*0.7*	*0.3*

Table 28: Unit labour costs, whole economy [1] (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	1.8	1.1	2.7	2.2	-0.2	-0.5	**0.2**	**1.3**	**0.9**	*0.2*	*1.5*	*1.2*
Germany	0.5	-0.5	2.2	1.9	2.0	1.6	**1.7**	**1.9**	**1.7**	*1.5*	*1.8*	*1.7*
Estonia	4.3	7.9	3.4	4.5	2.2	7.2	**4.3**	**3.4**	**2.8**	*5.9*	*3.0*	*2.5*
Ireland	2.8	4.1	-1.1	2.8	-4.5	-16.5	**0.5**	**1.6**	**0.9**	*1.1*	*1.3*	*0.6*
Greece	4.4	3.1	2.0	-6.9	-2.4	-2.2	**2.1**	**0.9**	**1.3**	*2.1*	*0.4*	*1.1*
Spain	2.6	3.4	0.4	-0.4	-0.3	0.2	**-0.4**	**0.5**	**1.0**	*0.2*	*1.1*	*1.2*
France	1.4	1.7	2.1	1.1	0.8	0.2	**0.7**	**1.0**	**1.1**	*0.5*	*0.7*	*1.1*
Italy	1.4	2.7	2.4	0.6	0.1	0.4	**0.8**	**0.6**	**1.3**	*0.3*	*0.5*	*1.2*
Cyprus	1.7	4.0	2.7	-5.4	-4.0	-0.9	**-0.7**	**0.6**	**0.8**	*0.0*	*0.6*	*0.9*
Latvia	0.9	13.4	0.0	5.1	4.9	5.4	**4.8**	**3.1**	**3.7**	*2.9*	*2.7*	*2.9*
Lithuania	-0.4	5.5	0.6	3.1	3.2	4.8	**4.7**	**2.8**	**2.9**	*5.1*	*3.7*	*3.6*
Luxembourg	2.5	2.2	4.4	0.5	-0.8	0.3	**-0.7**	**1.8**	**0.6**	*-0.3*	*2.0*	*1.1*
Malta	1.2	2.2	3.5	1.3	-1.4	-0.2	**1.1**	**1.4**	**1.5**	*2.0*	*2.0*	*1.7*
Netherlands	2.9	1.1	2.4	1.2	-0.1	-0.6	**0.8**	**2.4**	**2.3**	*1.6*	*2.0*	*1.9*
Austria	0.2	1.1	2.5	2.3	2.1	1.5	**1.2**	**1.1**	**1.1**	*0.8*	*0.8*	*0.8*
Portugal	3.6	1.8	-0.2	1.8	-1.3	-0.5	**1.6**	**1.0**	**0.9**	*1.3*	*0.4*	*0.3*
Slovenia	6.4	2.7	3.0	0.4	-1.3	0.3	**1.7**	**1.3**	**1.9**	*0.7*	*0.3*	*1.7*
Slovakia	5.2	2.3	2.2	0.3	0.7	1.3	**0.9**	**2.3**	**2.4**	*0.8*	*2.3*	*2.1*
Finland	1.4	0.9	4.0	1.4	1.1	1.0	**0.2**	**-1.5**	**0.5**	*0.1*	*-1.4*	*0.3*
Euro area	1.4	1.5	2.0	1.1	0.7	0.3	**0.9**	**1.2**	**1.4**	*0.8*	*1.1*	*1.3*
Bulgaria	13.1	4.0	6.9	7.4	4.6	2.3	**0.2**	**2.6**	**2.3**	*1.6*	*2.3*	*2.4*
Czech Republic	4.6	1.7	1.9	0.5	0.4	-0.5	**3.3**	**2.2**	**1.9**	*2.5*	*2.0*	*2.0*
Denmark	2.5	2.3	2.0	0.6	0.8	1.1	**2.0**	**1.7**	**1.8**	*2.4*	*1.8*	*1.7*
Croatia	5.4	3.1	2.2	-2.3	-2.4	-0.5	**-0.9**	**1.5**	**1.4**	*0.9*	*1.4*	*1.5*
Hungary	9.4	4.1	2.2	0.6	2.1	0.6	**5.5**	**4.0**	**3.1**	*5.1*	*3.0*	*2.6*
Poland	4.5	-0.3	2.8	0.2	0.6	-1.1	**1.5**	**1.1**	**1.8**	*2.0*	*1.8*	*2.1*
Romania	43.3	11.6	4.6	-0.6	4.3	-3.8	**4.2**	**5.0**	**3.1**	*2.9*	*3.6*	*2.6*
Sweden	1.5	0.9	3.0	1.7	1.0	0.9	**0.9**	**1.4**	**1.5**	*1.7*	*2.3*	*2.2*
United Kingdom	3.0	3.0	2.1	1.4	0.0	0.7	**2.4**	**1.2**	**1.5**	*1.6*	*1.4*	*1.5*
EU	2.1	1.8	2.1	1.1	0.6	0.3	**1.3**	**1.3**	**1.5**	*1.1*	*1.3*	*1.4*
USA	:	2.2	1.0	0.8	2.0	2.0	**2.4**	**2.3**	**2.3**	*2.5*	*2.3*	*3.3*
Japan	-2.5	-1.6	-0.9	-1.5	1.4	-0.1	**-0.1**	**-0.2**	**0.1**	*0.0*	*0.0*	*0.5*

[1] Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

Table 29: Real unit labour costs [1] (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	0.1	-1.0	0.9	1.0	-0.8	-1.4	**-1.4**	**-0.5**	**-0.7**	*-1.4*	*-0.1*	*-0.6*
Germany	-0.2	-1.5	1.0	0.0	0.2	-0.3	**0.2**	**0.5**	**0.1**	*0.0*	*0.0*	*0.0*
Estonia	-1.7	0.8	-0.2	0.6	0.4	6.1	**2.6**	**-0.2**	**-0.5**	*3.4*	*-0.1*	*-0.5*
Ireland	-2.9	1.6	-0.5	1.4	-3.4	-20.4	**1.8**	**0.4**	**-0.3**	*1.4*	*0.0*	*-0.6*
Greece	1.0	0.0	0.4	-4.6	-0.6	-1.2	**2.0**	**-0.3**	**0.2**	*2.0*	*-0.9*	*0.0*
Spain	-0.7	-0.4	-0.1	-0.7	0.0	-0.3	**-0.7**	**-0.5**	**-0.4**	*-0.3*	*-0.3*	*-0.4*
France	0.0	-0.4	1.0	0.3	0.3	-0.4	**-0.2**	**0.1**	**-0.2**	*-0.4*	*-0.2*	*-0.2*
Italy	-1.0	0.3	0.9	-0.6	-0.9	-0.2	**0.0**	**-0.2**	**0.0**	*-0.6*	*-0.4*	*0.1*
Cyprus	-0.8	0.1	0.6	-4.4	-2.6	0.4	**0.6**	**-0.2**	**-0.1**	*1.0*	*-0.4*	*-0.3*
Latvia	-2.5	2.2	-1.9	3.6	3.3	5.0	**4.0**	**0.0**	**1.0**	*2.3*	*1.2*	*0.3*
Lithuania	-1.1	0.7	-2.5	1.7	2.2	4.6	**3.5**	**-0.1**	**0.4**	*3.3*	*1.5*	*1.2*
Luxembourg	0.9	-1.4	1.1	-0.9	-2.4	-0.4	**-0.1**	**-0.6**	**-1.7**	*-1.9*	*0.2*	*-1.0*
Malta	-1.1	-0.2	0.7	-0.7	-3.4	-2.5	**-0.5**	**-0.2**	**-0.3**	*0.3*	*-0.1*	*-0.6*
Netherlands	-0.1	-0.9	1.4	-0.2	-0.2	-0.7	**0.0**	**1.5**	**1.0**	*1.1*	*1.2*	*1.1*
Austria	-0.8	-0.9	0.8	0.8	0.4	-0.3	**-0.2**	**-0.2**	**-0.3**	*-0.9*	*-0.5*	*-0.7*
Portugal	-0.1	-1.3	-0.8	-0.5	-2.0	-2.5	**0.0**	**-0.3**	**-0.6**	*-0.2*	*-0.9*	*-1.1*
Slovenia	-0.7	-0.7	1.4	-0.4	-2.1	-0.7	**1.1**	**-0.2**	**0.1**	*-0.7*	*-0.7*	*-0.2*
Slovakia	-0.9	-1.1	1.2	-0.2	0.9	1.5	**1.3**	**1.6**	**0.9**	*1.1*	*1.3*	*0.6*
Finland	-0.6	-0.2	1.8	-1.1	-0.6	-0.7	**-0.6**	**-2.0**	**-0.8**	*-0.8*	*-2.3*	*-0.6*
Euro area	-0.4	-0.7	0.8	-0.1	-0.2	-0.9	**0.0**	**0.1**	**0.0**	*-0.1*	*-0.1*	*0.0*
Bulgaria	2.8	-2.3	2.6	8.2	4.1	0.1	**-0.9**	**1.6**	**0.8**	*2.0*	*1.3*	*0.9*
Czech Republic	0.2	-0.2	1.0	-0.9	-2.0	-1.5	**2.2**	**0.5**	**0.2**	*1.3*	*0.7*	*0.4*
Denmark	0.4	0.1	-0.2	-0.3	0.1	0.2	**1.6**	**0.1**	**0.1**	*2.4*	*0.4*	*-0.1*
Croatia	0.5	-0.8	-0.2	-3.0	-2.4	-0.6	**-0.8**	**0.2**	**-0.3**	*0.2*	*0.6*	*-0.3*
Hungary	-0.7	-0.2	-1.1	-2.3	-1.2	-1.1	**4.5**	**1.1**	**-0.2**	*2.7*	*0.2*	*-0.5*
Poland	-1.1	-2.9	-0.2	-0.1	0.1	-1.9	**1.3**	**-0.2**	**-0.2**	*1.3*	*0.2*	*0.0*
Romania	2.4	-2.7	-2.2	-3.9	2.6	-6.0	**2.0**	**3.4**	**0.2**	*1.3*	*1.2*	*0.1*
Sweden	0.0	-0.6	1.2	0.6	-0.7	-1.1	**-0.5**	**-0.9**	**-0.4**	*-0.6*	*0.0*	*-0.1*
United Kingdom	1.6	0.4	0.2	-0.5	-1.6	0.1	**0.7**	**-0.4**	**-0.3**	*0.5*	*-0.4*	*-1.0*
EU	-0.2	-0.7	0.6	-0.3	-0.5	-0.9	**0.1**	**0.0**	**-0.1**	*0.0*	*-0.2*	*-0.2*
USA	:	-0.6	-0.6	-0.8	0.2	1.0	**1.1**	**0.4**	**0.1**	*1.1*	*0.2*	*0.9*
Japan	-1.5	-0.6	0.3	-1.2	-0.4	-2.1	**-0.4**	**-0.4**	**-0.4**	*-0.2*	*0.1*	*0.0*

[1] Nominal unit labour costs divided by GDP price deflator.

Table 30: Nominal bilateral exchange rates against Ecu/euro (1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Germany	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Estonia	15.6669	15.6466	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Ireland	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Greece	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Spain	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
France	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Italy	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Cyprus	0.5767	0.5802	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Latvia	0.5972	0.6797	0.7041	0.7015	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Lithuania	3.8971	3.4528	3.4528	3.4528	3.4528	:	**:**	**:**	**:**	*:*	*:*	*:*
Luxembourg	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Malta	0.4154	0.4285	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Austria	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Portugal	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Slovenia	206.1982	238.3482	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Slovakia	42.4519	38.2238	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Finland	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Euro area		:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Bulgaria	1.9549	1.9539	1.9558	1.9558	1.9558	1.9558	**1.9558**	**1.9558**	**1.9558**	*1.9558*	*1.9558*	*1.9558*
Czech Republic	34.6809	29.9252	25.2808	25.9797	27.5359	27.2792	**27.0343**	**26.7858**	**26.7018**	*27.0343*	*27.0217*	*27.0217*
Denmark	7.4542	7.4464	7.4488	7.4579	7.4548	7.4587	**7.4452**	**7.4369**	**7.4374**	*7.4452*	*7.4362*	*7.4363*
Croatia	7.4493	7.4257	7.3627	7.5786	7.6344	7.6137	**7.5333**	**7.4440**	**7.4362**	*7.5333*	*7.5119*	*7.5099*
Hungary	250.5868	253.7888	275.1883	296.8730	308.7061	309.9956	**311.4379**	**311.3709**	**312.1860**	*311.4379*	*309.2626*	*309.3000*
Poland	3.9363	4.1258	4.0279	4.1975	4.1843	4.1841	**4.3632**	**4.2609**	**4.2410**	*4.3632*	*4.3649*	*4.3644*
Romania	2.0705	3.6576	4.1666	4.4190	4.4437	4.4454	**4.4904**	**4.5214**	**4.5210**	*4.4904*	*4.4984*	*4.4981*
Sweden	8.9170	9.2071	9.5011	8.6515	9.0985	9.3535	**9.4689**	**9.5710**	**9.5930**	*9.4689*	*9.5001*	*9.4986*
United Kingdom	0.6391	0.6841	0.8448	0.8493	0.8061	0.7258	**0.8195**	**0.8505**	**0.8471**	*0.8195*	*0.8626*	*0.8627*
EU				:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
USA	0.9903	1.2490	1.3736	1.3281	1.3285	1.1095	**1.1069**	**1.0648**	**1.0647**	*1.1069*	*1.0677*	*1.0683*
Japan	118.7904	141.9066	122.4959	129.6627	140.3061	134.3140	**120.1967**	**117.8240**	**116.7300**	*120.2*	*121.9*	*121.9*

Table 31: Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	-0.1	1.4	-0.2	2.4	0.6	-3.0	**1.3**	**0.0**	**-0.1**	*1.3*	*0.5*	*0.0*
Germany	0.0	1.8	-0.6	3.2	1.0	-3.9	**1.4**	**-0.2**	**-0.1**	*1.4*	*0.5*	*0.0*
Estonia	0.1	1.1	-0.3	1.5	1.5	-0.8	**1.2**	**0.2**	**0.0**	*1.2*	*0.5*	*0.0*
Ireland	-1.9	2.5	-0.4	3.1	0.0	-6.2	**2.0**	**-0.4**	**-0.1**	*2.0*	*0.2*	*0.0*
Greece	-0.1	1.3	0.1	3.1	2.1	-2.1	**2.1**	**1.7**	**-0.1**	*2.1*	*2.5*	*0.0*
Spain	0.0	1.3	-0.1	2.3	0.7	-3.0	**1.5**	**0.1**	**-0.1**	*1.5*	*0.7*	*0.0*
France	-0.1	1.7	-0.5	3.1	0.8	-3.7	**1.1**	**-0.2**	**-0.1**	*1.1*	*0.4*	*0.0*
Italy	0.2	1.7	-0.4	2.9	1.1	-3.7	**1.2**	**0.0**	**-0.1**	*1.2*	*0.6*	*0.0*
Cyprus	0.9	1.2	0.0	2.8	0.3	-4.0	**2.1**	**0.2**	**-0.1**	*2.1*	*0.9*	*0.0*
Latvia	2.2	-2.9	0.1	1.1	0.9	-1.2	**1.3**	**0.2**	**-0.1**	*1.3*	*0.7*	*0.0*
Lithuania	6.2	1.3	0.0	1.8	0.9	-1.9	**1.4**	**0.1**	**-0.1**	*1.4*	*0.6*	*0.0*
Luxembourg	-0.1	0.8	0.0	1.8	0.6	-2.0	**1.0**	**0.1**	**-0.1**	*1.0*	*0.5*	*0.0*
Malta	0.3	1.7	-0.8	2.6	0.7	-2.6	**1.0**	**0.1**	**-0.1**	*1.0*	*0.6*	*0.0*
Netherlands	-0.1	1.1	-0.1	2.0	0.5	-2.7	**1.4**	**0.1**	**-0.1**	*1.4*	*0.5*	*0.0*
Austria	0.2	1.0	-0.3	2.0	0.8	-2.4	**0.8**	**-0.2**	**-0.1**	*0.8*	*0.3*	*0.0*
Portugal	-0.5	1.1	-0.1	1.7	0.4	-2.6	**1.1**	**0.0**	**-0.1**	*1.1*	*0.4*	*0.0*
Slovenia	-3.9	-0.6	0.1	1.4	0.8	-1.4	**0.7**	**0.0**	**-0.1**	*0.7*	*0.4*	*0.0*
Slovakia	-2.2	5.3	2.5	1.2	0.7	-1.3	**1.3**	**0.1**	**-0.1**	*1.3*	*0.6*	*0.0*
Finland	-0.3	1.7	-0.6	3.1	1.6	-2.9	**1.1**	**-0.2**	**-0.1**	*1.1*	*0.3*	*0.0*
Euro area	-0.1	3.5	-0.8	5.9	2.1	-6.8	**2.3**	**-0.1**	**-0.2**	*2.3*	*1.2*	*0.0*
Bulgaria	3.6	1.2	0.5	2.2	1.7	-1.5	**1.4**	**1.2**	**-0.1**	*1.4*	*1.8*	*0.0*
Czech Republic	3.5	2.7	2.0	-1.8	-5.2	-0.8	**2.1**	**1.0**	**0.2**	*2.1*	*0.6*	*0.0*
Denmark	-0.2	1.4	-0.5	2.6	1.4	-2.8	**1.6**	**-0.1**	**-0.1**	*1.6*	*0.3*	*0.0*
Croatia	-0.7	1.0	-0.6	1.0	0.2	-1.5	**1.9**	**1.5**	**0.0**	*1.9*	*1.0*	*0.0*
Hungary	-2.3	0.0	-2.7	-1.1	-3.1	-2.0	**0.5**	**0.2**	**-0.3**	*0.5*	*1.3*	*0.0*
Poland	-0.6	1.0	-2.1	1.4	1.1	-1.7	**-3.0**	**2.8**	**0.4**	*-3.0*	*0.6*	*0.0*
Romania	-22.3	-0.3	-5.4	2.8	0.6	-1.7	**0.3**	**0.0**	**-0.1**	*0.3*	*1.1*	*0.0*
Sweden	-1.4	1.6	0.7	3.6	-3.8	-5.2	**0.2**	**-1.5**	**-0.3**	*0.2*	*-0.3*	*0.0*
United Kingdom	1.7	0.3	-4.3	-1.7	6.7	6.6	**-11.1**	**-4.6**	**0.3**	*-11.1*	*-5.6*	*0.0*
EU	0.7	5.3	-3.2	8.0	4.6	-7.3	**-1.3**	**-1.2**	**-0.1**	*-1.3*	*0.0*	*0.0*
USA	3.1	-4.7	-0.5	2.8	3.6	17.2	**3.0**	**2.8**	**-0.4**	*3.0*	*5.1*	*0.0*
Japan	1.5	-2.6	8.4	-18.4	-6.7	-3.3	**13.2**	**0.1**	**0.9**	*13.2*	*-2.7*	*0.0*

[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, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	-0.3	-0.4	0.6	1.0	-1.3	-1.3	**-1.4**	**-0.3**	**-0.8**	*-1.3*	*0.1*	*-0.6*
Germany	-2.2	-2.4	0.2	0.9	0.9	1.0	**-0.1**	**0.3**	**0.1**	*-0.1*	*0.4*	*-0.1*
Estonia	2.0	5.7	0.9	2.8	0.6	5.8	**2.4**	**1.9**	**1.0**	*4.0*	*1.5*	*0.6*
Ireland	0.7	2.3	-2.9	1.7	-5.5	-17.3	**-1.1**	**0.1**	**-0.7**	*-0.3*	*-0.3*	*-1.2*
Greece	0.2	0.9	-0.7	-8.1	-4.4	-3.7	**-1.1**	**-1.7**	**-1.0**	*-1.0*	*-1.6*	*-1.4*
Spain	0.1	1.7	-1.6	-1.6	-1.4	-0.6	**-2.1**	**-1.1**	**-0.6**	*-1.4*	*-0.3*	*-0.5*
France	-1.0	0.0	0.1	0.0	-0.3	-0.6	**-1.0**	**-0.6**	**-0.6**	*-1.1*	*-0.9*	*-0.7*
Italy	-1.3	1.0	0.3	-0.5	-1.3	-0.5	**-1.1**	**-1.1**	**-0.4**	*-1.4*	*-1.0*	*-0.7*
Cyprus	-2.2	1.8	0.6	-4.9	-4.5	-1.3	**-2.6**	**-0.9**	**-0.9**	*-1.7*	*-0.7*	*-0.8*
Latvia	-1.5	11.2	-2.2	3.6	3.4	4.1	**2.6**	**1.3**	**1.8**	*0.6*	*0.9*	*0.9*
Lithuania	-3.3	3.0	-1.6	1.5	1.7	3.6	**2.6**	**1.0**	**1.0**	*3.1*	*2.0*	*1.6*
Luxembourg	0.6	0.6	2.1	-0.7	-1.9	-0.3	**-2.2**	**0.2**	**-1.0**	*-1.7*	*0.6*	*-0.6*
Malta	-0.6	0.8	1.7	0.1	-2.4	-0.8	**-0.5**	**-0.1**	**-0.1**	*0.6*	*0.6*	*0.0*
Netherlands	0.8	-0.4	0.3	-0.1	-1.2	-1.4	**-0.8**	**0.8**	**0.7**	*0.2*	*0.5*	*0.2*
Austria	-2.1	-0.3	0.3	1.2	0.9	0.8	**-0.5**	**-0.5**	**-0.6**	*-0.7*	*-0.7*	*-0.9*
Portugal	1.6	-0.2	-1.9	0.9	-2.1	-1.1	**0.4**	**-0.4**	**-0.7**	*0.1*	*-1.0*	*-1.4*
Slovenia	3.9	1.1	0.7	-0.6	-2.5	-0.5	**0.1**	**-0.4**	**0.1**	*-0.9*	*-1.2*	*0.0*
Slovakia	2.5	1.0	-0.1	-1.0	-0.6	0.6	**-1.0**	**0.6**	**0.6**	*-0.9*	*0.6*	*0.3*
Finland	-1.0	-0.8	1.8	0.1	-0.2	-0.1	**-1.6**	**-3.1**	**-1.3**	*-1.6*	*-3.0*	*-1.6*
Euro area	-2.3	-1.0	0.0	0.4	-1.0	-1.1	**-1.6**	**-0.5**	**-0.5**	*-1.4*	*-0.5*	*-0.9*
Bulgaria	6.7	1.5	4.1	6.6	2.8	1.4	**-2.7**	**0.2**	**0.1**	*-1.1*	*0.4*	*0.1*
Czech Republic	2.3	0.5	-0.3	-0.8	-0.9	-1.3	**1.5**	**0.4**	**0.2**	*0.8*	*0.4*	*0.2*
Denmark	0.6	0.8	-0.2	-0.7	-0.4	0.3	**0.4**	**0.2**	**0.2**	*0.9*	*0.3*	*-0.1*
Croatia	2.6	1.3	-0.1	-3.4	-3.6	-1.4	**-2.9**	**-0.2**	**-0.4**	*-0.9*	*-0.1*	*-0.3*
Hungary	6.9	2.7	-0.1	-0.6	0.7	-0.1	**3.6**	**2.1**	**1.3**	*3.3*	*1.4*	*0.8*
Poland	2.2	-1.8	0.5	-1.1	-0.7	-2.1	**-0.4**	**-0.7**	**0.0**	*0.3*	*0.1*	*0.2*
Romania	38.2	9.5	2.0	-1.9	2.8	-4.8	**1.9**	**3.0**	**1.1**	*0.8*	*1.9*	*0.6*
Sweden	-0.9	-0.9	0.6	0.2	-0.3	0.0	**-0.7**	**0.0**	**-0.1**	*0.1*	*0.9*	*0.4*
United Kingdom	0.9	1.4	0.2	0.3	-1.0	0.3	**1.0**	**-0.3**	**0.0**	*0.3*	*0.1*	*-0.2*
EU	-2.0	-0.3	0.2	0.2	-1.8	-1.9	**-1.7**	**-0.8**	**-0.6**	*-1.6*	*-0.4*	*-1.2*
USA	-0.5	0.4	-1.0	-0.3	0.6	0.9	**1.1**	**1.0**	**0.7**	*1.4*	*1.0*	*1.6*
Japan	-4.7	-3.6	-2.8	-2.7	0.0	-1.4	**-1.7**	**-1.9**	**-1.7**	*-1.6*	*-1.6*	*-1.6*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Table 33: Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (USD) (% change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	-0.5	0.9	0.3	3.5	-0.8	-4.3	**-0.2**	**-0.3**	**-0.8**	*-0.1*	*0.6*	*-0.6*
Germany	-2.3	-0.7	-0.4	4.1	2.0	-2.9	**1.4**	**0.2**	**-0.1**	*1.3*	*0.9*	*-0.1*
Estonia	2.1	6.8	0.6	4.3	2.1	5.0	**3.6**	**2.2**	**1.0**	*5.2*	*2.0*	*0.6*
Ireland	-1.2	4.8	-3.2	4.8	-5.5	-22.4	**0.9**	**-0.3**	**-0.8**	*1.7*	*0.0*	*-1.2*
Greece	0.1	2.2	-0.6	-5.3	-2.4	-5.8	**0.9**	**0.0**	**-1.1**	*1.1*	*0.8*	*-1.4*
Spain	0.1	3.0	-1.7	0.7	-0.7	-3.5	**-0.7**	**-0.9**	**-0.7**	*0.0*	*0.4*	*-0.5*
France	-1.0	1.6	-0.3	3.1	0.5	-4.3	**0.1**	**-0.8**	**-0.7**	*0.0*	*-0.4*	*-0.7*
Italy	-1.2	2.7	-0.1	2.4	-0.2	-4.1	**0.1**	**-1.2**	**-0.6**	*-0.2*	*-0.4*	*-0.7*
Cyprus	-1.3	3.0	0.6	-2.3	-4.2	-5.2	**-0.5**	**-0.6**	**-1.0**	*0.3*	*0.1*	*-0.8*
Latvia	0.7	8.0	-2.1	4.7	4.3	2.9	**3.9**	**1.5**	**1.7**	*2.0*	*1.6*	*0.9*
Lithuania	2.7	4.3	-1.6	3.3	2.6	1.6	**4.0**	**1.1**	**0.9**	*4.5*	*2.6*	*1.6*
Luxembourg	0.5	1.4	2.1	1.0	-1.3	-2.4	**-1.3**	**0.3**	**-1.1**	*-0.7*	*1.1*	*-0.6*
Malta	-0.3	2.5	0.9	2.8	-1.7	-3.4	**0.5**	**0.0**	**-0.2**	*1.6*	*1.2*	*0.0*
Netherlands	0.8	0.7	0.2	1.9	-0.7	-4.0	**0.6**	**0.9**	**0.6**	*1.6*	*1.1*	*0.2*
Austria	-1.8	0.7	0.0	3.2	1.7	-1.7	**0.3**	**-0.7**	**-0.7**	*0.1*	*-0.5*	*-0.9*
Portugal	1.0	0.9	-2.1	2.6	-1.7	-3.7	**1.5**	**-0.4**	**-0.7**	*1.2*	*-0.6*	*-1.4*
Slovenia	-0.2	0.5	0.7	0.7	-1.7	-1.9	**0.8**	**-0.4**	**0.1**	*-0.1*	*-0.8*	*0.0*
Slovakia	0.3	6.4	2.4	0.3	0.1	-0.8	**0.3**	**0.7**	**0.6**	*0.4*	*1.2*	*0.3*
Finland	-1.3	0.9	1.2	3.2	1.3	-3.0	**-0.5**	**-3.3**	**-1.3**	*-0.6*	*-2.7*	*-1.6*
Euro area	-2.4	2.5	-0.8	6.3	1.1	-7.8	**0.7**	**-0.6**	**-0.7**	*0.9*	*0.7*	*-0.8*
Bulgaria	10.5	2.7	4.6	9.0	4.6	-0.2	**-1.3**	**1.4**	**0.0**	*0.3*	*2.2*	*0.2*
Czech Republic	5.9	3.2	1.7	-2.6	-6.1	-2.1	**3.6**	**1.5**	**0.4**	*2.9*	*0.9*	*0.2*
Denmark	0.4	2.2	-0.8	1.9	1.0	-2.5	**2.0**	**0.1**	**0.1**	*2.5*	*0.6*	*-0.1*
Croatia	1.9	2.3	-0.8	-2.5	-3.4	-2.9	**-1.0**	**1.3**	**-0.4**	*1.0*	*0.9*	*-0.3*
Hungary	4.4	2.7	-2.8	-1.7	-2.5	-2.1	**4.1**	**2.3**	**0.9**	*3.9*	*2.7*	*0.8*
Poland	1.6	-0.8	-1.6	0.2	0.4	-3.8	**-3.5**	**2.1**	**0.4**	*-2.7*	*0.8*	*0.3*
Romania	7.4	9.2	-3.6	0.9	3.4	-6.5	**2.2**	**3.0**	**1.1**	*1.1*	*3.0*	*0.6*
Sweden	-2.3	0.7	1.3	3.8	-4.0	-5.2	**-0.5**	**-1.5**	**-0.4**	*0.4*	*0.5*	*0.4*
United Kingdom	2.6	1.7	-4.1	-1.5	5.6	7.0	**-10.2**	**-4.9**	**0.4**	*-10.9*	*-5.5*	*-0.2*
EU	-1.3	5.0	-3.0	8.3	2.7	-9.0	**-3.0**	**-2.0**	**-0.8**	*-2.8*	*-0.4*	*-1.1*
USA	2.7	-4.3	-1.5	2.5	4.3	18.3	**4.1**	**3.8**	**0.3**	*4.4*	*6.1*	*1.6*
Japan	-3.3	-6.1	5.4	-20.6	-6.7	-4.7	**11.3**	**-1.8**	**-0.8**	*11.5*	*-4.3*	*-1.6*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Table 34: Total expenditure, general government (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	49.7	49.6	53.6	55.9	55.1	53.9	**53.3**	**52.7**	**52.1**	*53.6*	*52.9*	*52.5*
Germany	46.9	45.6	45.5	44.7	44.4	44.0	**44.3**	**44.6**	**44.7**	*44.3*	*44.4*	*44.5*
Estonia	37.5	34.2	40.6	38.5	38.5	40.4	**40.4**	**41.1**	**42.0**	*40.5*	*41.3*	*41.2*
Ireland	33.0	33.8	48.4	39.9	37.8	29.5	**28.0**	**27.4**	**26.8**	*27.9*	*27.6*	*27.3*
Greece	45.9	46.4	53.4	62.3	50.6	54.2	**49.0**	**49.6**	**47.3**	*51.2*	*49.8*	*47.0*
Spain	39.4	38.5	45.3	45.6	44.9	43.8	**42.4**	**41.5**	**40.9**	*42.7*	*41.6*	*41.1*
France	51.8	52.6	55.8	57.0	57.1	56.7	**56.2**	**56.0**	**55.9**	*56.5*	*56.2*	*56.2*
Italy	47.1	47.1	49.8	51.0	50.9	50.5	**49.6**	**49.5**	**49.2**	*49.4*	*49.1*	*49.1*
Cyprus	34.8	38.7	41.1	41.6	48.4	40.4	**38.9**	**37.9**	**37.5**	*38.3*	*37.8*	*37.3*
Latvia	37.2	34.5	40.5	36.9	37.5	37.0	**36.3**	**37.3**	**37.5**	*36.0*	*38.1*	*38.5*
Lithuania	38.7	34.3	40.8	35.6	34.8	35.1	**34.2**	**34.3**	**34.0**	*35.0*	*35.5*	*35.7*
Luxembourg	39.7	41.7	43.1	43.3	41.8	41.3	**41.2**	**40.9**	**40.2**	*41.6*	*41.6*	*41.1*
Malta	41.3	42.7	41.9	42.0	41.5	41.2	**38.1**	**37.9**	**37.3**	*38.7*	*38.4*	*37.7*
Netherlands	43.3	43.2	46.8	46.3	46.2	45.3	**43.6**	**43.9**	**43.4**	*44.5*	*44.1*	*43.8*
Austria	51.6	51.4	52.1	51.2	52.7	51.7	**51.1**	**50.7**	**50.4**	*50.6*	*50.3*	*49.8*
Portugal	43.1	45.6	49.2	49.9	51.8	48.3	**45.1**	**45.0**	**44.6**	*46.2*	*46.1*	*45.7*
Slovenia	46.0	44.5	48.0	60.3	50.1	48.1	**45.5**	**44.8**	**44.0**	*45.2*	*44.6*	*43.5*
Slovakia	47.0	38.5	40.9	41.4	42.0	45.6	**41.6**	**41.6**	**41.3**	*41.9*	*41.8*	*41.0*
Finland	49.4	48.6	53.7	57.5	58.1	57.0	**56.1**	**55.5**	**54.6**	*57.0*	*56.5*	*56.2*
Euro area	46.9	46.4	49.3	49.7	49.3	48.5	**47.7**	**47.6**	**47.3**	*47.9*	*47.6*	*47.4*
Bulgaria	39.1	37.1	36.2	37.6	42.1	40.7	**35.5**	**36.8**	**36.9**	*37.1*	*38.1*	*38.3*
Czech Republic	42.0	42.6	42.9	42.6	42.2	42.1	**39.9**	**40.2**	**40.5**	*40.0*	*40.3*	*40.1*
Denmark	53.7	51.5	55.6	55.8	55.3	54.8	**53.6**	**53.3**	**52.3**	*54.2*	*53.5*	*52.4*
Croatia		46.0	47.1	48.0	48.5	48.6	**48.4**	**48.6**	**48.4**	*46.1*	*45.7*	*45.1*
Hungary	48.9	49.8	49.4	49.3	49.0	50.0	**47.5**	**47.9**	**47.8**	*46.7*	*47.2*	*46.8*
Poland	44.1	44.2	44.3	42.6	42.3	41.6	**41.3**	**42.0**	**42.1**	*41.2*	*42.2*	*42.6*
Romania	36.8	34.6	39.1	35.4	34.9	35.8	**34.7**	**34.1**	**35.2**	*34.1*	*34.9*	*35.6*
Sweden	55.0	52.2	51.4	52.4	51.5	50.2	**50.0**	**50.0**	**49.4**	*49.7*	*49.9*	*49.6*
United Kingdom	36.4	40.7	46.7	44.7	43.7	42.9	**42.1**	**41.8**	**41.3**	*42.3*	*42.0*	*41.5*
EU		45.5	48.7	48.7	48.1	47.2	**46.6**	**46.4**	**46.1**	*46.7*	*46.5*	*46.3*
USA	34.7	36.5	41.4	38.7	38.1	37.7	**37.9**	**37.8**	**37.9**	*38.0*	*37.9*	*38.1*
Japan	37.7	35.5	39.6	40.8	40.2	39.4	**39.3**	**39.5**	**39.0**	*39.2*	*39.5*	*39.3*

Table 35: Total revenue, general government (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	49.4	48.7	49.9	52.7	52.0	51.4	**50.7**	**50.8**	**50.2**	*50.6*	*50.8*	*50.2*
Germany	44.8	43.0	43.8	44.5	44.7	44.7	**45.1**	**45.1**	**45.0**	*44.9*	*44.9*	*44.9*
Estonia	36.8	36.4	39.9	38.4	39.1	40.5	**40.7**	**40.8**	**41.5**	*40.6*	*40.8*	*41.0*
Ireland	35.0	35.1	33.7	34.1	34.1	27.6	**27.5**	**26.9**	**26.6**	*27.0*	*26.9*	*26.7*
Greece	40.4	39.3	42.3	49.1	46.9	48.3	**49.7**	**48.4**	**47.9**	*50.1*	*48.8*	*47.7*
Spain	38.2	39.5	36.3	38.6	38.9	38.6	**37.9**	**38.3**	**38.3**	*38.0*	*38.2*	*38.2*
France	49.8	49.5	50.4	52.9	53.2	53.1	**52.8**	**53.0**	**52.7**	*53.2*	*53.3*	*53.1*
Italy	44.6	43.9	46.0	48.1	47.9	47.8	**47.1**	**47.2**	**46.9**	*47.1*	*46.8*	*46.5*
Cyprus	31.6	36.8	37.0	36.5	39.6	39.2	**39.2**	**38.1**	**38.1**	*38.3*	*37.6*	*37.7*
Latvia	35.1	33.7	35.2	35.9	35.9	35.8	**36.4**	**36.5**	**35.8**	*36.0*	*37.2*	*37.4*
Lithuania	35.8	33.4	34.5	33.0	34.1	34.9	**34.5**	**34.0**	**33.8**	*34.5*	*34.7*	*35.0*
Luxembourg	43.9	42.7	43.6	44.3	43.2	42.7	**42.7**	**41.1**	**40.4**	*43.2*	*41.8*	*41.3*
Malta	34.7	38.5	38.6	39.4	39.5	39.9	**39.1**	**38.3**	**38.1**	*38.0*	*37.8*	*37.1*
Netherlands	43.0	42.3	43.1	43.9	43.9	43.2	**44.0**	**44.4**	**44.2**	*44.4*	*44.3*	*44.1*
Austria	49.7	48.7	48.8	49.9	50.0	50.6	**49.5**	**49.4**	**49.4**	*49.2*	*49.1*	*48.9*
Portugal	39.4	40.7	41.6	45.1	44.6	44.0	**43.1**	**43.2**	**42.7**	*44.0*	*44.1*	*43.5*
Slovenia	42.9	43.0	43.3	45.2	44.7	45.2	**43.6**	**43.4**	**42.9**	*43.2*	*42.9*	*42.1*
Slovakia	39.2	35.8	35.7	38.7	39.3	42.8	**40.0**	**40.3**	**40.8**	*39.6*	*40.4*	*40.4*
Finland	53.3	51.9	52.8	54.9	54.9	54.2	**54.2**	**53.3**	**52.9**	*54.8*	*54.2*	*54.4*
Euro area	45.1	44.3	44.8	46.7	46.7	46.4	**46.2**	**46.2**	**46.0**	*46.3*	*46.2*	*46.0*
Bulgaria	39.2	38.2	34.6	37.2	36.6	39.0	**35.5**	**36.3**	**36.6**	*36.7*	*37.6*	*37.9*
Czech Republic	37.4	39.6	39.1	41.4	40.3	41.4	**40.5**	**40.5**	**40.6**	*40.3*	*40.4*	*40.3*
Denmark	54.4	54.8	54.0	54.8	56.7	53.5	**52.7**	**52.0**	**51.4**	*52.7*	*51.9*	*51.5*
Croatia		42.1	41.5	42.6	43.1	45.2	**47.6**	**47.5**	**47.4**	*44.3*	*43.6*	*43.3*
Hungary	43.2	42.7	45.3	46.8	46.9	48.5	**45.6**	**45.6**	**45.3**	*44.9*	*44.8*	*44.3*
Poland	40.3	40.1	39.0	38.5	38.8	39.0	**38.8**	**39.1**	**39.3**	*39.0*	*39.3*	*39.6*
Romania	33.2	32.9	32.9	33.3	33.5	35.0	**31.7**	**30.6**	**31.5**	*31.3*	*31.3*	*31.7*
Sweden	55.9	53.4	51.4	51.0	50.0	50.5	**50.9**	**50.4**	**50.1**	*50.2*	*49.7*	*49.8*
United Kingdom	36.5	37.7	38.6	39.1	38.1	38.5	**39.1**	**38.8**	**39.0**	*39.0*	*39.2*	*39.0*
EU		43.3	43.9	45.4	45.1	44.9	**44.9**	**44.8**	**44.7**	*44.8*	*44.8*	*44.7*
USA	33.5	32.1	31.2	33.4	33.3	33.5	**33.2**	**33.1**	**32.7**	*33.2*	*32.8*	*32.3*
Japan	30.2	30.8	31.5	33.1	34.8	35.9	**35.6**	**35.3**	**35.4**	*35.6*	*35.5*	*35.5*

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	-0.3	-0.9	-3.8	-3.1	-3.1	-2.5	**-2.6**	**-1.9**	**-2.0**	*-2.9*	*-2.2*	*-2.3*
Germany	-2.1	-2.6	-1.7	-0.2	0.3	0.7	**0.8**	**0.5**	**0.3**	*0.6*	*0.4*	*0.4*
Estonia	-0.7	2.2	-0.8	-0.2	0.7	0.1	**0.3**	**-0.3**	**-0.5**	*0.1*	*-0.5*	*-0.2*
Ireland	2.0	1.3	-14.7	-5.7	-3.7	-2.0	**-0.6**	**-0.5**	**-0.3**	*-0.9*	*-0.6*	*-0.6*
Greece	-5.5	-7.1	-11.1	-13.1	-3.7	-5.9	**0.7**	**-1.2**	**0.6**	*-1.1*	*-1.1*	*0.7*
Spain	-1.3	1.0	-9.0	-7.0	-6.0	-5.1	**-4.5**	**-3.2**	**-2.6**	*-4.7*	*-3.5*	*-2.9*
France	-2.0	-3.1	-5.4	-4.0	-3.9	-3.6	**-3.4**	**-3.0**	**-3.2**	*-3.3*	*-2.9*	*-3.1*
Italy	-2.5	-3.3	-3.8	-2.9	-3.0	-2.7	**-2.4**	**-2.2**	**-2.3**	*-2.3*	*-2.4*	*-2.6*
Cyprus	-3.2	-1.9	-4.1	-5.1	-8.8	-1.2	**0.4**	**0.2**	**0.7**	*0.0*	*-0.2*	*0.4*
Latvia	-2.1	-0.8	-5.3	-1.0	-1.6	-1.3	**0.0**	**-0.8**	**-1.8**	*0.0*	*-1.0*	*-1.0*
Lithuania	-2.9	-0.8	-6.2	-2.6	-0.7	-0.2	**0.3**	**-0.4**	**-0.2**	*-0.5*	*-0.7*	*-0.7*
Luxembourg	4.2	1.0	0.6	1.0	1.4	1.4	**1.6**	**0.2**	**0.3**	*1.6*	*0.2*	*0.3*
Malta	-6.6	-4.2	-3.4	-2.6	-2.0	-1.3	**1.0**	**0.5**	**0.8**	*-0.7*	*-0.6*	*-0.6*
Netherlands	-0.2	-0.9	-3.7	-2.4	-2.3	-2.1	**0.4**	**0.5**	**0.8**	*-0.1*	*0.2*	*0.3*
Austria	-1.9	-2.6	-3.2	-1.4	-2.7	-1.1	**-1.6**	**-1.3**	**-1.0**	*-1.4*	*-1.2*	*-0.9*
Portugal	-3.8	-4.8	-7.6	-4.8	-7.2	-4.4	**-2.0**	**-1.8**	**-1.9**	*-2.3*	*-2.0*	*-2.2*
Slovenia	-3.0	-1.4	-4.7	-15.1	-5.4	-2.9	**-1.8**	**-1.4**	**-1.2**	*-2.0*	*-1.7*	*-1.4*
Slovakia	-7.8	-2.7	-5.3	-2.7	-2.7	-2.7	**-1.7**	**-1.3**	**-0.6**	*-2.2*	*-1.4*	*-0.6*
Finland	3.8	3.3	-0.8	-2.6	-3.2	-2.7	**-1.9**	**-2.2**	**-1.8**	*-2.2*	*-2.3*	*-1.8*
Euro area	-1.8	-2.2	-4.5	-3.0	-2.6	-2.1	**-1.5**	**-1.4**	**-1.3**	*-1.7*	*-1.4*	*-1.4*
Bulgaria	0.1	1.1	-1.6	-0.4	-5.5	-1.6	**0.0**	**-0.4**	**-0.3**	*-0.4*	*-0.5*	*-0.3*
Czech Republic	-4.6	-3.0	-3.7	-1.2	-1.9	-0.6	**0.6**	**0.3**	**0.1**	*0.3*	*0.1*	*0.2*
Denmark	0.7	3.4	-1.6	-1.0	1.4	-1.3	**-0.9**	**-1.3**	**-0.9**	*-1.6*	*-1.6*	*-0.9*
Croatia		-3.9	-5.6	-5.3	-5.4	-3.4	**-0.8**	**-1.1**	**-0.9**	*-1.8*	*-2.1*	*-1.8*
Hungary	-5.7	-7.1	-4.1	-2.6	-2.1	-1.6	**-1.8**	**-2.3**	**-2.4**	*-1.8*	*-2.4*	*-2.5*
Poland	-3.8	-4.1	-5.3	-4.1	-3.5	-2.6	**-2.4**	**-2.9**	**-2.9**	*-2.3*	*-2.9*	*-3.0*
Romania	-3.5	-1.7	-6.2	-2.1	-1.4	-0.8	**-3.0**	**-3.5**	**-3.7**	*-2.8*	*-3.6*	*-3.9*
Sweden	1.0	1.2	0.0	-1.4	-1.5	0.3	**0.9**	**0.4**	**0.7**	*0.5*	*-0.2*	*0.2*
United Kingdom	0.1	-3.0	-8.1	-5.6	-5.7	-4.3	**-3.0**	**-3.0**	**-2.3**	*-3.4*	*-2.8*	*-2.5*
EU		-2.2	-4.9	-3.3	-3.0	-2.4	**-1.7**	**-1.6**	**-1.5**	*-1.9*	*-1.7*	*-1.6*
USA	-1.1	-4.4	-10.2	-5.4	-4.8	-4.2	**-4.8**	**-4.7**	**-5.2**	*-4.8*	*-5.1*	*-5.7*
Japan	-7.5	-4.7	-8.1	-7.6	-5.4	-3.5	**-3.7**	**-4.2**	**-3.6**	*-3.7*	*-4.0*	*-3.8*

Table 37: Interest expenditure, general government (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	6.7	4.5	3.7	3.3	3.3	3.0	**2.9**	**2.6**	**2.4**	*2.6*	*2.4*	*2.3*
Germany	3.1	2.8	2.5	2.0	1.8	1.6	**1.4**	**1.2**	**1.1**	*1.4*	*1.2*	*1.1*
Estonia	0.3	0.2	0.2	0.1	0.1	0.1	**0.1**	**0.1**	**0.1**	*0.1*	*0.1*	*0.1*
Ireland	2.1	1.1	2.7	4.3	3.9	2.7	**2.3**	**2.2**	**2.0**	*2.3*	*2.2*	*2.0*
Greece	6.8	4.7	5.6	4.0	4.0	3.6	**3.2**	**3.2**	**3.3**	*3.4*	*3.3*	*3.0*
Spain	3.2	1.8	2.1	3.5	3.5	3.1	**2.8**	**2.6**	**2.5**	*2.8*	*2.7*	*2.5*
France	2.9	2.6	2.6	2.3	2.2	2.0	**1.9**	**1.8**	**1.8**	*1.9*	*1.8*	*1.8*
Italy	6.4	4.7	4.7	4.8	4.6	4.1	**4.0**	**3.9**	**3.8**	*3.9*	*3.9*	*3.8*
Cyprus	3.0	3.0	2.5	3.3	2.8	2.9	**2.6**	**2.4**	**2.4**	*2.6*	*2.3*	*2.3*
Latvia	0.8	0.5	1.4	1.5	1.4	1.3	**1.1**	**1.1**	**1.0**	*1.2*	*1.1*	*1.0*
Lithuania	1.4	0.9	1.5	1.8	1.6	1.5	**1.4**	**1.2**	**1.2**	*1.5*	*1.4*	*1.4*
Luxembourg	0.4	0.3	0.4	0.5	0.4	0.3	**0.3**	**0.3**	**0.3**	*0.4*	*0.4*	*0.4*
Malta	3.7	3.6	3.2	2.9	2.7	2.5	**2.2**	**2.0**	**1.9**	*2.2*	*2.0*	*1.9*
Netherlands	3.4	2.2	1.8	1.5	1.4	1.3	**1.1**	**1.0**	**0.9**	*1.1*	*1.0*	*1.0*
Austria	3.5	3.1	2.9	2.6	2.5	2.4	**2.1**	**2.0**	**1.9**	*2.2*	*2.1*	*2.1*
Portugal	3.0	2.7	3.6	4.9	4.9	4.6	**4.2**	**4.2**	**4.1**	*4.3*	*4.4*	*4.3*
Slovenia	2.3	1.5	1.6	2.6	3.3	3.3	**3.2**	**3.0**	**2.8**	*2.8*	*2.6*	*2.4*
Slovakia	3.5	1.8	1.5	1.9	1.9	1.8	**1.7**	**1.4**	**1.3**	*1.5*	*1.4*	*1.3*
Finland	2.7	1.6	1.4	1.3	1.2	1.2	**1.1**	**1.0**	**1.0**	*1.1*	*1.1*	*1.0*
Euro area	3.8	3.0	2.9	2.8	2.7	2.4	**2.2**	**2.1**	**2.0**	*2.2*	*2.1*	*2.0*
Bulgaria	3.6	1.6	0.8	0.7	0.9	0.9	**0.8**	**0.8**	**0.8**	*0.9*	*1.0*	*1.0*
Czech Republic	1.0	1.1	1.3	1.3	1.3	1.1	**0.9**	**0.9**	**0.8**	*0.9*	*0.9*	*0.8*
Denmark	3.8	2.1	1.8	1.7	1.5	1.6	**1.3**	**1.0**	**0.9**	*1.5*	*1.1*	*1.0*
Croatia		1.9	2.7	3.2	3.5	3.6	**3.3**	**3.0**	**2.8**	*3.4*	*3.4*	*3.2*
Hungary	5.5	4.1	4.3	4.5	4.0	3.5	**3.2**	**2.9**	**2.7**	*3.2*	*2.8*	*2.6*
Poland	3.2	2.5	2.4	2.5	1.9	1.8	**1.7**	**1.7**	**1.6**	*1.7*	*1.6*	*1.6*
Romania	3.8	1.2	1.4	1.8	1.6	1.6	**1.5**	**1.6**	**1.6**	*1.6*	*1.6*	*1.7*
Sweden	3.4	1.8	1.2	0.8	0.7	0.5	**0.4**	**0.5**	**0.6**	*0.4*	*0.4*	*0.5*
United Kingdom	2.4	2.0	2.6	2.9	2.7	2.3	**2.5**	**2.5**	**2.5**	*2.5*	*2.5*	*2.6*
EU		2.7	2.7	2.7	2.5	2.3	**2.1**	**2.0**	**2.0**	*2.1*	*2.0*	*2.0*
USA	3.9	3.4	3.7	3.6	3.5	3.4	**3.5**	**3.8**	**4.1**	*3.5*	*3.8*	*4.2*
Japan	2.9	1.8	2.0	2.0	1.9	1.8	**2.0**	**2.0**	**2.0**	*2.0*	*2.0*	*2.0*

Table 38: Primary balance, general government [1] (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	6.4	3.7	0.0	0.2	0.2	0.5	**0.2**	**0.7**	**0.5**	*-0.3*	*0.2*	*0.0*
Germany	1.0	0.2	0.8	1.8	2.1	2.2	**2.1**	**1.7**	**1.4**	*2.0*	*1.6*	*1.4*
Estonia	-0.4	2.4	-0.6	-0.1	0.8	0.2	**0.3**	**-0.2**	**-0.4**	*0.2*	*-0.4*	*-0.1*
Ireland	4.1	2.4	-12.0	-1.4	0.2	0.7	**1.7**	**1.6**	**1.8**	*1.4*	*1.6*	*1.5*
Greece	1.3	-2.4	-5.5	-9.1	0.3	-2.3	**3.9**	**2.0**	**3.9**	*2.3*	*2.2*	*3.7*
Spain	2.0	2.8	-6.9	-3.5	-2.5	-2.0	**-1.7**	**-0.6**	**-0.1**	*-1.9*	*-0.8*	*-0.3*
France	1.0	-0.4	-2.9	-1.8	-1.8	-1.6	**-1.5**	**-1.2**	**-1.4**	*-1.5*	*-1.1*	*-1.3*
Italy	3.9	1.4	0.9	1.9	1.6	1.5	**1.5**	**1.7**	**1.5**	*1.7*	*1.5*	*1.2*
Cyprus	-0.3	1.1	-1.7	-1.8	-6.0	1.7	**3.0**	**2.6**	**3.0**	*2.5*	*2.2*	*2.7*
Latvia	-1.4	-0.3	-3.8	0.5	-0.1	0.1	**1.1**	**0.3**	**-0.8**	*1.2*	*0.1*	*0.0*
Lithuania	-1.5	0.0	-4.7	-0.9	0.9	1.3	**1.6**	**0.9**	**1.0**	*1.0*	*0.7*	*0.7*
Luxembourg	4.6	1.3	1.0	1.5	1.8	1.8	**1.9**	**0.5**	**0.6**	*2.0*	*0.5*	*0.6*
Malta	-2.9	-0.5	-0.2	0.3	0.8	1.2	**3.2**	**2.5**	**2.7**	*1.5*	*1.4*	*1.3*
Netherlands	3.2	1.2	-1.8	-0.9	-0.8	-0.8	**1.5**	**1.5**	**1.7**	*1.0*	*1.2*	*1.3*
Austria	1.6	0.5	-0.3	1.2	-0.3	1.3	**0.5**	**0.7**	**0.9**	*0.8*	*0.9*	*1.2*
Portugal	-0.8	-2.1	-3.9	0.0	-2.3	0.2	**2.2**	**2.4**	**2.2**	*2.1*	*2.5*	*2.2*
Slovenia	-0.8	0.1	-3.1	-12.5	-2.1	0.4	**1.4**	**1.6**	**1.6**	*0.8*	*0.9*	*1.0*
Slovakia	-4.3	-0.9	-3.8	-0.8	-0.8	-1.0	**0.0**	**0.1**	**0.8**	*-0.7*	*0.0*	*0.7*
Finland	6.6	4.9	0.5	-1.4	-1.9	-1.6	**-0.9**	**-1.1**	**-0.8**	*-1.1*	*-1.2*	*-0.8*
Euro area	2.1	0.8	-1.6	-0.2	0.1	0.3	**0.7**	**0.7**	**0.7**	*0.5*	*0.6*	*0.6*
Bulgaria	3.7	2.7	-0.8	0.4	-4.6	-0.7	**0.8**	**0.4**	**0.5**	*0.5*	*0.5*	*0.6*
Czech Republic	-3.7	-2.0	-2.5	0.1	-0.6	0.4	**1.5**	**1.1**	**0.9**	*1.2*	*1.0*	*1.0*
Denmark	4.5	5.5	0.2	0.7	2.9	0.2	**0.4**	**-0.3**	**0.0**	*-0.1*	*-0.5*	*0.1*
Croatia		-2.0	-3.0	-2.1	-1.9	0.2	**2.4**	**1.9**	**1.8**	*1.6*	*1.2*	*1.4*
Hungary	-0.2	-3.1	0.2	2.0	1.9	2.0	**1.3**	**0.6**	**0.2**	*1.4*	*0.5*	*0.1*
Poland	-0.6	-1.6	-2.9	-1.6	-1.5	-0.8	**-0.7**	**-1.3**	**-1.2**	*-0.6*	*-1.3*	*-1.4*
Romania	0.2	-0.5	-4.8	-0.3	0.3	0.9	**-1.5**	**-2.0**	**-2.0**	*-1.2*	*-2.0*	*-2.2*
Sweden	4.4	3.0	1.2	-0.6	-0.9	0.7	**1.3**	**0.9**	**1.3**	*0.9*	*0.2*	*0.7*
United Kingdom	2.5	-1.0	-5.5	-2.7	-3.0	-2.0	**-0.5**	**-0.5**	**0.1**	*-0.9*	*-0.3*	*0.0*
EU	2.1	0.5	-2.1	-0.6	-0.4	-0.1	**0.4**	**0.4**	**0.5**	*0.3*	*0.4*	*0.4*
USA	2.8	-1.0	-6.5	-1.7	-1.3	-0.8	**-1.3**	**-1.0**	**-1.1**	*-1.3*	*-1.3*	*-1.5*
Japan	-4.6	-2.8	-6.1	-5.7	-3.5	-1.7	**-1.6**	**-2.2**	**-1.6**	*-1.6*	*-2.0*	*-1.8*

[1] Net lending/borrowing excluding interest expenditure.

Table 39: Cyclically-adjusted net lending (+) or net borrowing (-), general government[1] (as a percentage of potential GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	-0.6	-1.5	-3.7	-2.1	-2.5	-2.2	**-2.3**	**-1.7**	**-1.9**	*-2.6*	*-1.9*	*-2.2*
Germany	-2.5	-2.2	-1.3	0.1	0.5	0.8	**0.8**	**0.6**	**0.3**	*0.7*	*0.5*	*0.3*
Estonia	-0.1	-1.2	0.0	-0.8	-0.2	-0.4	**0.1**	**-0.3**	**-0.7**	*0.1*	*-0.4*	*-0.2*
Ireland	0.9	0.1	-13.4	-3.4	-3.9	-2.8	**-1.5**	**-1.1**	**-0.3**	*-1.9*	*-1.4*	*-1.0*
Greece	-6.2	-8.9	-9.1	-6.1	2.3	-0.6	**5.5**	**2.5**	**3.1**	*3.7*	*2.3*	*2.6*
Spain	-2.4	-0.5	-6.9	-2.3	-2.1	-2.7	**-3.6**	**-3.3**	**-3.4**	*-3.8*	*-3.5*	*-3.6*
France	-2.7	-4.2	-5.0	-3.2	-2.9	-2.7	**-2.6**	**-2.4**	**-2.8**	*-2.6*	*-2.3*	*-2.7*
Italy	-3.1	-3.9	-2.8	-0.7	-1.0	-1.2	**-1.5**	**-1.8**	**-2.3**	*-1.4*	*-1.9*	*-2.6*
Cyprus	-3.4	-3.4	-4.5	-1.5	-5.5	0.5	**0.8**	**-0.2**	**-0.4**	*0.5*	*-0.7*	*-0.9*
Latvia	-1.9	-2.9	-3.1	-0.9	-1.8	-1.7	**-0.6**	**-1.4**	**-2.4**	*-0.5*	*-1.6*	*-1.6*
Lithuania	-2.1	-2.5	-4.6	-2.5	-1.1	-0.5	**-0.1**	**-0.9**	**-0.9**	*-0.9*	*-1.4*	*-1.5*
Luxembourg	2.8	0.4	2.0	3.0	2.5	2.3	**2.0**	**0.4**	**0.1**	*2.2*	*0.4*	*0.3*
Malta	-6.8	-4.4	-2.8	-1.7	-2.7	-2.5	**0.3**	**0.2**	**0.7**	*-1.6*	*-0.9*	*-0.5*
Netherlands	-1.0	-0.4	-2.8	-0.3	-0.6	-1.0	**0.9**	**0.5**	**0.5**	*0.4*	*0.3*	*0.2*
Austria	-2.3	-2.6	-3.1	-1.0	-2.3	-0.6	**-1.1**	**-1.1**	**-0.9**	*-1.0*	*-1.0*	*-0.7*
Portugal	-4.9	-4.6	-6.9	-2.6	-5.6	-3.5	**-1.7**	**-2.0**	**-2.4**	*-1.9*	*-2.1*	*-2.6*
Slovenia	-3.0	-2.7	-4.1	-12.4	-3.8	-2.1	**-1.7**	**-2.0**	**-2.4**	*-1.9*	*-2.3*	*-2.7*
Slovakia	-7.2	-3.2	-5.4	-1.6	-1.8	-2.3	**-1.5**	**-1.4**	**-0.9**	*-2.1*	*-1.3*	*-0.8*
Finland	3.0	2.8	-0.2	-1.3	-1.5	-1.2	**-0.9**	**-1.3**	**-1.5**	*-1.2*	*-1.5*	*-1.4*
Euro area	-2.4	-2.6	-3.7	-1.4	-1.3	-1.2	**-1.0**	**-1.1**	**-1.3**	*-1.1*	*-1.2*	*-1.4*
Bulgaria	0.5	0.7	-1.6	-0.1	-5.0	-1.4	**0.1**	**-0.4**	**-0.3**	*-0.3*	*-0.5*	*-0.3*
Czech Republic	-4.2	-4.2	-3.6	0.1	-1.0	-0.6	**0.5**	**0.0**	**-0.2**	*0.2*	*-0.1*	*-0.1*
Denmark	-0.4	1.6	-0.5	0.6	2.6	-0.4	**0.0**	**-0.4**	**-0.1**	*-0.6*	*-0.6*	*0.0*
Croatia		-5.0	-5.5	-3.6	-3.4	-2.0	**-0.2**	**-1.6**	**-2.1**	*-1.3*	*-2.7*	*-3.2*
Hungary	-5.4	-8.5	-3.0	-1.1	-1.6	-1.6	**-2.0**	**-3.0**	**-3.7**	*-1.9*	*-3.0*	*-3.6*
Poland	-3.5	-3.4	-6.2	-3.4	-2.9	-2.4	**-2.3**	**-3.1**	**-3.1**	*-2.2*	*-3.1*	*-3.3*
Romania	-2.4	-3.2	-5.7	-1.0	-0.5	-0.3	**-3.0**	**-3.8**	**-3.9**	*-2.8*	*-3.8*	*-4.0*
Sweden	0.8	0.7	1.0	0.1	-0.4	0.5	**0.8**	**0.4**	**0.8**	*0.3*	*-0.3*	*0.3*
United Kingdom	-0.3	-3.8	-6.4	-4.3	-5.4	-4.5	**-3.2**	**-3.4**	**-2.6**	*-3.7*	*-3.2*	*-2.6*
EU		-2.8	-4.0	-1.8	-1.9	-1.7	**-1.3**	**-1.5**	**-1.5**	*-1.5*	*-1.5*	*-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, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	6.0	3.1	0.0	1.2	0.8	0.9	**0.6**	**1.0**	**0.5**	*0.0*	*0.5*	*0.1*
Germany	0.6	0.6	1.2	2.1	2.3	2.3	**2.2**	**1.8**	**1.3**	*2.0*	*1.7*	*1.4*
Estonia	0.2	-1.0	0.2	-0.6	-0.1	-0.3	**0.2**	**-0.2**	**-0.7**	*0.2*	*-0.3*	*-0.1*
Ireland	3.0	1.2	-10.7	0.9	0.0	-0.1	**0.8**	**1.1**	**1.7**	*0.4*	*0.8*	*1.1*
Greece	0.6	-4.3	-3.5	-2.1	6.3	3.0	**8.7**	**5.7**	**6.4**	*7.0*	*5.5*	*5.5*
Spain	0.8	1.4	-4.7	1.2	1.4	0.4	**-0.8**	**-0.7**	**-1.0**	*-1.0*	*-0.8*	*-1.1*
France	0.2	-1.6	-2.5	-0.9	-0.7	-0.7	**-0.7**	**-0.6**	**-1.0**	*-0.7*	*-0.5*	*-0.9*
Italy	3.3	0.8	1.9	4.2	3.6	3.0	**2.4**	**2.1**	**1.5**	*2.6*	*2.0*	*1.2*
Cyprus	-0.5	-0.4	-2.0	1.9	-2.7	3.4	**3.4**	**2.2**	**2.0**	*3.1*	*1.7*	*1.4*
Latvia	-1.2	-2.4	-1.7	0.5	-0.3	-0.3	**0.5**	**-0.4**	**-1.4**	*0.7*	*-0.5*	*-0.6*
Lithuania	-0.7	-1.6	-3.1	-0.7	0.5	1.1	**1.3**	**0.3**	**0.3**	*0.6*	*0.0*	*-0.1*
Luxembourg	3.3	0.7	2.4	3.6	3.0	2.7	**2.3**	**0.7**	**0.4**	*2.6*	*0.8*	*0.7*
Malta	-3.2	-0.8	0.4	1.1	0.1	0.0	**2.5**	**2.2**	**2.6**	*0.6*	*1.1*	*1.4*
Netherlands	2.4	1.7	-1.0	1.2	0.8	0.2	**2.0**	**1.5**	**1.4**	*1.5*	*1.3*	*1.2*
Austria	1.2	0.5	-0.2	1.6	0.2	1.8	**1.0**	**0.9**	**1.0**	*1.2*	*1.1*	*1.4*
Portugal	-1.9	-1.9	-3.3	2.2	-0.7	1.0	**2.5**	**2.2**	**1.7**	*2.4*	*2.3*	*1.7*
Slovenia	-0.7	-1.2	-2.6	-9.9	-0.5	1.2	**1.5**	**1.0**	**0.4**	*0.9*	*0.3*	*-0.3*
Slovakia	-3.7	-1.4	-3.9	0.3	0.1	-0.5	**0.1**	**0.0**	**0.4**	*-0.6*	*0.1*	*0.6*
Finland	5.7	4.4	1.2	0.0	-0.3	0.0	**0.2**	**-0.3**	**-0.5**	*-0.1*	*-0.5*	*-0.4*
Euro area	1.4	0.3	-0.8	1.4	1.4	1.2	**1.2**	**1.0**	**0.6**	*1.1*	*0.9*	*0.6*
Bulgaria	4.0	2.3	-0.9	0.6	-4.1	-0.5	**0.9**	**0.4**	**0.5**	*0.6*	*0.5*	*0.6*
Czech Republic	-3.3	-3.2	-2.4	1.4	0.3	0.4	**1.4**	**0.9**	**0.6**	*1.1*	*0.8*	*0.7*
Denmark	3.4	3.8	1.3	2.3	4.1	1.1	**1.3**	**0.6**	**0.8**	*0.9*	*0.5*	*0.9*
Croatia		-3.1	-2.8	-0.4	0.1	1.6	**3.0**	**1.4**	**0.7**	*2.1*	*0.6*	*0.1*
Hungary	0.1	-4.4	1.3	3.4	2.4	1.9	**1.2**	**-0.2**	**-1.0**	*1.3*	*-0.2*	*-1.0*
Poland	-0.3	-0.9	-3.7	-0.9	-1.0	-0.7	**-0.6**	**-1.5**	**-1.5**	*-0.5*	*-1.4*	*-1.6*
Romania	1.4	-2.0	-4.3	0.8	1.1	1.3	**-1.5**	**-2.2**	**-2.3**	*-1.2*	*-2.2*	*-2.3*
Sweden	4.3	2.5	2.2	0.9	0.3	1.0	**1.2**	**0.9**	**1.4**	*0.6*	*0.1*	*0.8*
United Kingdom	2.2	-1.9	-3.8	-1.5	-2.7	-2.1	**-0.8**	**-0.9**	**-0.1**	*-1.3*	*-0.7*	*-0.1*
EU	1.6	-0.1	-1.3	0.9	0.7	0.6	**0.8**	**0.6**	**0.4**	*0.6*	*0.5*	*0.4*

[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, 1998-2018)** 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium		:		-2.8	-2.8	-2.3	**-2.2**	**-1.6**	**-2.0**	*-2.5*	*-2.0*	*-2.2*
Germany		:		0.1	0.8	0.8	**0.8**	**0.6**	**0.3**	*0.7*	*0.4*	*0.3*
Estonia		:		-0.6	-0.1	-0.1	**0.2**	**-0.3**	**-0.7**	*0.2*	*-0.4*	*-0.2*
Ireland		:		-3.8	-3.8	-2.0	**-1.7**	**-1.1**	**-0.3**	*-1.9*	*-1.4*	*-1.0*
Greece		:		2.4	2.4	3.4	**5.5**	**2.5**	**3.1**	*3.7*	*2.3*	*2.6*
Spain		:		-1.9	-1.7	-2.5	**-3.5**	**-3.4**	**-3.4**	*-3.8*	*-3.6*	*-3.6*
France		:		-3.4	-2.9	-2.7	**-2.5**	**-2.3**	**-2.8**	*-2.5*	*-2.3*	*-2.7*
Italy	-4.0	:	-3.1	-0.9	-1.2	-1.0	**-1.7**	**-2.0**	**-2.2**	*-1.6*	*-2.0*	*-2.5*
Cyprus		:		-0.8	3.0	1.4	**0.9**	**-0.2**	**-0.4**	*0.6*	*-0.7*	*-0.9*
Latvia		:		-0.9	-1.4	-1.7	**-0.8**	**-1.4**	**-2.4**	*-0.7*	*-1.6*	*-1.6*
Lithuania		:		-2.1	-1.5	-0.6	**-0.2**	**-0.9**	**-1.1**	*-1.0*	*-1.4*	*-1.5*
Luxembourg		:		3.0	2.5	2.2	**2.0**	**0.4**	**0.1**	*2.2*	*0.4*	*0.3*
Malta		:		-1.8	-3.2	-2.6	**0.4**	**0.4**	**0.7**	*-1.4*	*-0.7*	*-0.5*
Netherlands		:		-0.9	-0.5	-1.0	**0.7**	**0.2**	**0.4**	*0.2*	*0.0*	*0.1*
Austria		:		-1.2	-0.8	-0.3	**-1.0**	**-1.1**	**-0.9**	*-0.9*	*-0.8*	*-0.7*
Portugal		:	-6.3 :	-2.9	-1.7	-2.3	**-2.0**	**-2.2**	**-2.4**	*-2.2*	*-2.3*	*-2.6*
Slovenia		:		-1.9	-2.7	-2.0	**-1.7**	**-1.8**	**-2.3**	*-1.9*	*-2.1*	*-2.6*
Slovakia		:		-1.6	-2.1	-2.3	**-1.5**	**-1.4**	**-0.9**	*-2.1*	*-1.3*	*-0.8*
Finland		:		-1.2	-1.6	-1.1	**-0.9**	**-1.3**	**-1.4**	*-1.2*	*-1.5*	*-1.4*
Euro area		:		-1.3	-1.0	-1.0	**-1.0**	**-1.1**	**-1.3**	*-1.1*	*-1.2*	*-1.4*
Bulgaria		:		-0.1	-1.8	-1.4	**0.1**	**-0.4**	**-0.3**	*-0.3*	*-0.5*	*-0.3*
Czech Republic		:		0.2	-0.8	-0.6	**0.5**	**0.0**	**-0.2**	*0.2*	*-0.1*	*-0.1*
Denmark		:	-0.2	-0.9	-0.5	-1.8	**0.0**	**-0.4**	**-0.1**	*-0.6*	*-0.6*	*0.0*
Croatia		:		-3.4	-3.5	-2.0	**-0.3**	**-1.7**	**-2.1**	*-1.4*	*-2.8*	*-3.2*
Hungary		:		-1.2	-1.9	-1.6	**-1.9**	**-3.4**	**-3.7**	*-2.2*	*-3.4*	*-3.6*
Poland		:		-3.4	-2.7	-2.4	**-2.2**	**-3.2**	**-3.1**	*-2.6*	*-3.1*	*-3.3*
Romania		:		-1.0	-0.6	-0.6	**-2.6**	**-3.9**	**-4.0**	*-2.5*	*-3.9*	*-4.0*
Sweden		:		0.1	-0.4	0.5	**0.8**	**0.4**	**0.8**	*0.3*	*-0.3*	*0.3*
United Kingdom		:		-4.4	-5.3	-4.5	**-3.2**	**-3.4**	**-2.6**	*-3.7*	*-3.2*	*-2.6*
EU		:		-1.8	-1.8	-1.6	**-1.3**	**-1.5**	**-1.5**	*-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, 1998-2018)** 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	110.7	94.1	99.7	105.6	106.7	106.0	**105.9**	**105.6**	**105.1**	*106.8*	*106.5*	*106.1*
Germany	59.1	65.0	75.5	77.5	74.9	71.2	**68.3**	**65.8**	**63.3**	*68.2*	*65.5*	*62.9*
Estonia	5.6	4.7	6.8	10.2	10.7	10.1	**9.5**	**9.5**	**9.6**	*9.9*	*10.1*	*10.0*
Ireland	39.6	26.3	83.9	119.5	105.3	78.7	**75.4**	**73.5**	**72.7**	*75.1*	*73.6*	*72.6*
Greece	102.6	103.7	142.8	177.4	179.7	177.4	**179.0**	**178.8**	**174.6**	*179.7*	*177.2*	*170.6*
Spain	57.4	41.9	61.5	95.5	100.4	99.8	**99.4**	**99.2**	**98.5**	*99.7*	*100.0*	*99.7*
France	59.6	65.1	80.7	92.3	94.9	95.6	**96.0**	**96.4**	**96.7**	*96.4*	*96.7*	*97.0*
Italy	106.4	101.0	114.0	129.0	131.8	132.1	**132.6**	**133.1**	**132.5**	*132.8*	*133.3*	*133.2*
Cyprus	56.1	60.4	59.7	102.2	107.1	107.5	**107.8**	**103.4**	**99.8**	*107.4*	*103.2*	*99.6*
Latvia	12.1	11.7	37.3	39.0	40.9	36.5	**40.1**	**38.5**	**36.0**	*39.4*	*36.5*	*35.0*
Lithuania	21.6	18.0	31.1	38.7	40.5	42.7	**40.2**	**42.4**	**38.9**	*40.8*	*43.5*	*39.6*
Luxembourg	6.9	7.4	18.2	23.4	22.4	21.6	**20.0**	**22.0**	**22.3**	*21.0*	*23.1*	*23.5*
Malta	60.6	67.6	67.3	68.7	64.3	60.6	**58.3**	**55.8**	**52.5**	*59.6*	*58.0*	*55.6*
Netherlands	54.2	47.3	59.8	67.7	67.9	65.2	**62.3**	**59.8**	**57.2**	*62.2*	*60.2*	*58.3*
Austria	65.8	66.4	79.3	81.3	84.4	85.5	**84.6**	**82.8**	**81.2**	*83.5*	*81.3*	*79.3*
Portugal	52.6	65.1	97.8 :	129.0	130.6	129.0	**130.4**	**128.5**	**126.2**	*130.5*	*128.9*	*127.1*
Slovenia	25.1	25.7	39.1	71.0	80.9	83.1	**79.7**	**77.8**	**75.5**	*80.9*	*78.9*	*76.7*
Slovakia	44.3	35.5	40.4	54.7	53.6	52.5	**51.9**	**51.5**	**49.8**	*52.1*	*51.8*	*50.0*
Finland	42.9	39.5	44.8	56.5	60.2	63.7	**63.6**	**65.5**	**66.2**	*63.7*	*65.6*	*66.5*
Euro area	68.9	67.6	81.9	93.7	94.3	92.5	**91.3**	**90.3**	**89.0**	*91.5*	*90.4*	*89.2*
Bulgaria	66.6	28.8	14.8	17.0	27.0	26.0	**29.5**	**26.8**	**26.0**	*29.0*	*27.3*	*26.0*
Czech Republic	19.0	28.1	37.0	44.9	42.2	40.3	**37.2**	**36.2**	**35.6**	*37.8*	*36.7*	*35.6*
Denmark		37.3	41.4	44.0	44.0	39.6	**37.8**	**36.7**	**36.0**	*38.3*	*37.8*	*36.9*
Croatia		39.3	56.5	82.2	86.6	86.7	**84.2**	**81.9**	**79.4**	*84.1*	*83.0*	*81.3*
Hungary	56.3	61.3	77.8	76.6	75.7	74.7	**74.1**	**72.6**	**71.2**	*73.5*	*72.3*	*71.2*
Poland	38.6	45.8	51.3	55.7	50.2	51.1	**54.4**	**54.6**	**55.4**	*53.6*	*54.5*	*55.8*
Romania	22.2	16.1	27.5	37.8	39.4	38.0	**37.6**	**39.3**	**40.9**	*39.1*	*40.5*	*42.3*
Sweden	56.3	46.0	38.4	40.4	45.2	43.9	**41.6**	**39.1**	**37.0**	*41.0*	*39.3*	*37.6*
United Kingdom	37.7	39.6	71.5	86.2	88.1	89.0	**89.3**	**88.6**	**87.9**	*88.6*	*88.1*	*87.0*
EU		60.1	75.8	87.4	88.4	86.5	**85.1**	**84.8**	**83.6**	*85.1*	*84.8*	*83.6*

Table 43: Gross national saving (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	27.1	27.3	25.0	23.3	23.0	23.4	23.6	23.9	24.5	23.7	24.1	24.3
Germany	22.1	24.3	25.9	26.3	27.3	27.7	27.6	27.3	27.1	27.7	27.4	27.3
Estonia	22.5	24.0	24.5	27.4	26.9	25.3	24.2	24.2	23.6	22.9	22.7	22.8
Ireland	24.1	24.9	16.3	22.0	24.6	31.8	34.6	35.3	36.1	31.1	31.4	31.6
Greece	17.0	14.2	6.7	9.4	9.3	9.9	10.0	10.7	12.0	10.2	11.5	13.4
Spain	22.6	22.7	19.7	20.2	20.4	21.4	22.3	22.3	22.6	22.1	22.3	22.6
France	23.4	22.4	20.7	19.5	19.3	20.4	20.5	20.6	20.9	20.6	20.6	20.9
Italy	20.8	20.5	17.7	17.9	18.9	18.8	19.6	19.5	19.8	19.6	19.4	19.5
Cyprus	18.7	7.1	13.3	8.3	7.9	11.5	9.8	10.0	10.1	10.1	10.4	11.0
Latvia	17.8	20.5	23.7	21.8	21.2	21.3	21.2	20.2	19.2	19.6	17.5	17.0
Lithuania	13.2	16.2	16.6	20.7	22.5	17.7	14.7	14.5	15.0	15.8	15.2	15.5
Luxembourg	31.5	29.6	25.4	24.1	23.8	24.0	22.8	22.7	23.0	24.3	23.9	24.6
Malta	16.4	15.8	18.4	21.0	26.2	29.1	30.2	28.4	29.3	27.9	28.3	29.0
Netherlands	28.1	29.1	28.3	28.5	27.0	27.8	27.6	27.5	27.6	28.0	27.9	28.0
Austria	24.8	26.4	26.2	25.4	26.0	25.9	25.4	25.5	25.8	26.0	26.0	26.3
Portugal	18.7	14.1	11.9	15.4	15.0	14.7	15.4	16.0	16.4	15.1	15.6	16.2
Slovenia	25.0	26.8	22.8	23.3	26.0	25.4	26.7	26.5	26.7	25.4	25.1	25.3
Slovakia	24.7	20.9	20.0	22.5	22.3	23.3	22.3	22.2	22.7	23.2	23.1	23.6
Finland	29.6	28.4	23.3	19.5	19.6	20.0	20.2	20.4	20.9	20.4	20.8	21.2
Euro area	22.9	23.1	21.8	22.0	22.5	23.2	23.5	23.4	23.7	23.5	23.4	23.6
Bulgaria	17.5	15.1	19.8	22.5	21.4	21.5	24.5	23.0	22.6	23.3	22.2	21.6
Czech Republic	27.3	26.1	23.4	23.6	24.6	26.1	26.5	26.3	26.3	26.1	25.7	25.7
Denmark	24.4	26.2	25.1	27.4	28.9	28.9	28.2	28.3	28.6	27.3	27.4	27.7
Croatia	18.7	22.7	20.6	20.7	19.6	23.8	21.5	22.3	21.3	22.1	21.6	21.8
Hungary	20.5	17.2	20.2	24.9	24.9	24.8	24.1	23.7	24.4	25.0	24.3	24.1
Poland	19.1	16.8	17.4	18.5	19.0	20.6	20.0	19.4	19.4	20.0	19.2	19.2
Romania	14.5	15.0	21.2	24.9	24.5	24.4	22.6	21.6	21.6	22.9	22.5	22.7
Sweden	26.9	30.2	29.5	27.6	28.2	28.9	29.7	30.2	30.6	29.8	29.8	30.0
United Kingdom	16.8	16.0	13.1	12.3	12.7	13.1	13.5	13.7	14.3	12.5	12.4	12.9
EU	21.8	21.9	20.7	20.8	21.1	21.7	22.1	22.1	22.4	21.9	21.9	22.1
USA	20.0	17.8	15.6	18.3	19.2	19.1	17.1	17.0	16.8	17.0	16.9	16.5
Japan	29.4	28.4	24.9	24.1	24.7	27.0	27.3	27.7	27.8	27.3	27.7	27.7

Table 44: Gross saving, private sector (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	24.5	25.2	25.4	23.1	22.9	23.2	23.7	23.4	23.9	24.1	23.8	24.1
Germany	21.3	23.8	24.2	23.7	24.1	24.4	24.2	24.0	23.9	24.4	24.3	24.1
Estonia	18.0	17.0	20.6	22.9	21.3	20.3	19.4	19.6	19.0	18.2	18.1	17.9
Ireland	18.7	20.3	21.7	25.9	25.9	31.0	33.4	33.7	34.1	30.0	30.0	30.0
Greece	17.3	16.8	14.0	9.7	10.5	10.2	7.2	8.8	9.1	8.6	10.0	10.4
Spain	19.3	16.8	22.7	24.2	23.9	24.0	24.4	23.4	23.0	24.6	23.8	23.5
France	20.8	21.0	21.0	18.6	18.6	19.8	19.8	19.5	19.9	20.0	19.7	20.1
Italy	19.7	19.6	17.7	17.8	18.6	17.6	19.0	18.7	18.7	18.9	18.7	18.8
Cyprus	18.3	5.9	13.4	10.9	5.7	9.5	6.7	7.4	7.1	7.6	7.8	7.9
Latvia	16.4	17.1	24.7	19.6	19.4	19.5	18.6	18.2	18.3	17.5	16.3	16.2
Lithuania	12.2	13.3	18.9	20.7	21.1	15.5	11.9	11.9	12.4	13.6	13.5	13.9
Luxembourg	22.4	23.1	19.6	18.8	18.2	18.3	16.8	18.1	18.4	18.0	19.1	19.7
Malta	19.3	16.7	19.8	21.5	26.0	28.1	26.5	25.4	26.0	26.1	26.6	27.5
Netherlands	24.6	26.4	27.6	27.5	25.7	26.2	23.9	23.3	23.3	24.5	24.2	24.4
Austria	22.6	24.4	25.0	23.3	23.5	22.8	23.4	23.4	23.5	23.8	23.7	23.7
Portugal	18.1	15.5	15.9	18.2	17.0	15.5	16.0	16.0	16.3	15.9	15.9	16.3
Slovenia	22.9	23.6	22.6	23.5	25.6	24.3	25.3	24.8	24.9	24.6	24.0	23.9
Slovakia	24.1	19.8	21.6	22.6	22.0	21.4	20.7	20.6	21.1	21.4	20.6	20.3
Finland	21.9	21.6	20.4	18.1	18.6	18.8	18.3	18.8	18.9	18.6	19.0	18.9
Euro area	20.9	21.4	22.0	21.4	21.5	21.9	22.0	21.7	21.8	22.1	21.9	22.0
Bulgaria	13.2	9.8	18.0	20.7	20.6	20.3	21.2	19.9	19.5	20.5	19.2	18.7
Czech Republic	24.1	22.2	22.0	21.2	22.6	22.7	22.6	22.4	22.3	22.3	21.9	21.8
Denmark	20.9	20.2	22.8	24.3	22.8	25.9	25.2	25.3	25.4	24.6	24.9	24.7
Croatia		18.8	20.2	21.5	20.4	23.5	19.0	20.1	18.8	20.6	20.4	20.2
Hungary	19.5	19.0	20.8	24.2	23.1	21.4	20.7	21.1	21.2	22.5	21.3	21.0
Poland	19.6	17.0	17.9	19.1	18.8	19.5	19.1	18.5	18.6	19.3	18.8	19.0
Romania	14.2	11.3	21.2	22.9	22.5	21.4	22.0	22.2	22.5	21.9	22.9	23.4
Sweden	21.9	24.9	25.1	24.7	25.3	24.4	24.3	25.2	25.3	25.1	25.6	25.5
United Kingdom	14.5	16.1	17.2	15.0	15.3	14.3	13.5	13.7	13.7	12.8	12.3	12.6
EU		20.3	21.2	20.6	20.6	20.6	20.7	20.6	20.6	20.7	20.5	20.6
USA	17.8	18.4	21.5	20.3	20.8	20.4	18.9	18.7	19.0	18.8	19.0	19.2
Japan	29.3	28.9	28.5	27.1	25.9	27.3	27.6	28.3	28.1	27.5	27.9	28.0

Table 45: Saving rate of households (1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			Winter 2017 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	16.5	15.4	15.1	12.3	12.1	11.7	**12.2**	**11.2**	**11.5**	*12.6*	*12.2*	*12.2*
Germany	15.6	16.3	16.7	16.3	16.7	17.0	**17.3**	**17.2**	**17.1**	*17.1*	*17.0*	*17.0*
Estonia	4.6	-2.2	9.8	6.2	9.4	8.8	**9.4**	**9.9**	**10.6**	*9.9*	*9.9*	*10.6*
Ireland		7.7	11.6	10.3	10.9	10.7	**10.5**	**10.4**	**10.3**	*9.8*	*9.7*	*9.6*
Greece	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Spain	10.6	9.1	10.2	9.6	9.0	8.2	**7.7**	**7.2**	**7.4**	*8.3*	*8.3*	*8.2*
France	15.0	14.8	15.2	14.0	14.1	14.1	**14.2**	**14.0**	**14.1**	*14.2*	*14.0*	*14.1*
Italy	14.3	14.5	11.8	11.0	11.2	10.5	**10.6**	**10.4**	**10.4**	*11.0*	*11.1*	*11.5*
Cyprus	6.0	8.2	6.1	-3.3	-7.9	-5.7	**-4.5**	**-2.6**	**-1.2**	*-3.7*	*-2.3*	*-0.8*
Latvia	-0.7	1.2	4.4	-4.5	-3.5	-2.2	**0.6**	**0.2**	**0.1**	*-1.5*	*-1.5*	*-1.6*
Lithuania	5.1	3.1	3.7	2.1	-0.6	-1.9	**-4.1**	**-4.8**	**-4.7**	*-2.4*	*-1.8*	*-0.5*
Luxembourg	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Malta	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	13.3	12.2	13.1	14.1	13.1	12.7	**12.3**	**12.2**	**12.1**	*12.8*	*12.5*	*12.4*
Austria	15.3	15.6	15.0	12.6	12.6	13.0	**13.8**	**13.2**	**12.7**	*14.0*	*13.1*	*12.3*
Portugal	11.2	8.8	8.3	7.8	5.2	4.5	**4.4**	**4.2**	**4.6**	*4.1*	*3.7*	*3.6*
Slovenia	12.9	14.8	13.4	13.4	13.3	14.8	**14.6**	**14.0**	**13.5**	*15.1*	*13.7*	*12.7*
Slovakia	10.5	6.5	6.7	5.9	7.2	8.8	**9.2**	**8.7**	**9.0**	*9.6*	*8.7*	*8.6*
Finland	9.3	8.0	8.7	8.6	7.2	6.7	**5.5**	**5.5**	**5.6**	*6.1*	*5.1*	*4.4*
Euro area		13.5	13.2	12.5	12.5	12.3	**12.4**	**12.2**	**12.2**	*12.5*	*12.4*	*12.4*
Bulgaria	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Czech Republic	11.2	11.2	11.9	10.9	11.8	11.8	**12.1**	**11.7**	**11.5**	*11.6*	*11.3*	*11.2*
Denmark	5.1	6.1	7.1	8.8	5.2	10.5	**11.7**	**11.5**	**11.3**	*11.4*	*12.7*	*12.0*
Croatia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Hungary	11.7	9.0	8.6	9.8	10.9	9.6	**9.7**	**9.2**	**7.0**	*14.2*	*8.2*	*5.5*
Poland	13.7	6.4	3.4	2.5	2.1	1.8	**3.8**	**2.8**	**2.6**	*3.1*	*2.3*	*2.1*
Romania	-2.5	-11.1	-6.5	13.3	14.5	15.5	**15.7**	**15.3**	**14.9**	*16.7*	*18.7*	*21.1*
Sweden	7.7	9.8	15.6	17.7	18.3	18.6	**18.5**	**18.5**	**18.0**	*19.0*	*18.8*	*18.4*
United Kingdom	9.1	7.0	8.6	6.7	6.8	6.5	**5.2**	**4.2**	**3.8**	*5.5*	*4.3*	*3.7*
EU		11.5	11.6	10.8	10.3	10.1	**10.1**	**9.8**	**9.7**	*10.3*	*10.0*	*9.9*
USA	10.0	9.5	11.7	10.6	11.2	11.4	**11.9**	**11.8**	**12.0**	*11.9*	*11.6*	*11.6*
Japan	15.3	10.5	10.2	7.1	6.6	7.5	**8.6**	**8.8**	**8.6**	*8.7*	*9.4*	*9.5*

Table 46: Gross saving, general government (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			Winter 2017 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	2.6	2.1	-0.4	0.1	0.0	0.2	**-0.2**	**0.5**	**0.6**	*-0.4*	*0.3*	*0.2*
Germany	0.9	0.5	1.7	2.7	3.2	3.3	**3.4**	**3.3**	**3.3**	*3.4*	*3.1*	*3.2*
Estonia	4.5	7.0	4.0	4.5	5.6	5.0	**4.8**	**4.5**	**4.5**	*4.7*	*4.6*	*4.9*
Ireland	5.4	4.7	-5.3	-3.9	-1.3	0.9	**1.3**	**1.6**	**2.0**	*1.1*	*1.4*	*1.6*
Greece	-0.3	-2.6	-7.2	-0.3	-1.3	-0.3	**2.8**	**1.8**	**2.9**	*1.5*	*1.5*	*3.0*
Spain	3.3	5.9	-3.1	-4.0	-3.5	-2.7	**-2.2**	**-1.0**	**-0.4**	*-2.5*	*-1.5*	*-0.9*
France	2.5	1.4	-0.4	0.8	0.7	0.6	**0.7**	**1.0**	**0.9**	*0.5*	*0.9*	*0.9*
Italy	1.1	0.8	0.0	0.1	0.3	1.1	**0.6**	**0.8**	**1.1**	*0.7*	*0.7*	*0.8*
Cyprus	0.4	1.1	-0.1	-2.6	2.3	2.0	**3.1**	**2.6**	**3.0**	*2.5*	*2.6*	*3.1*
Latvia	1.4	3.5	-1.0	2.3	1.8	1.9	**2.5**	**2.0**	**0.9**	*2.1*	*1.2*	*0.9*
Lithuania	1.1	2.9	-2.3	0.0	1.4	2.3	**2.9**	**2.6**	**2.6**	*2.2*	*1.7*	*1.6*
Luxembourg	9.0	6.6	5.8	5.3	5.6	5.7	**5.9**	**4.6**	**4.6**	*6.4*	*4.8*	*4.9*
Malta	-2.8	-1.0	-1.4	-0.5	0.2	1.0	**3.7**	**3.0**	**3.4**	*1.8*	*1.7*	*1.5*
Netherlands	3.5	2.7	0.7	1.0	1.3	1.5	**3.7**	**4.2**	**4.3**	*3.6*	*3.7*	*3.6*
Austria	2.2	2.0	1.1	2.1	2.5	3.0	**2.0**	**2.1**	**2.4**	*2.2*	*2.3*	*2.5*
Portugal	0.7	-1.3	-4.0	-2.8	-2.0	-0.8	**-0.6**	**-0.1**	**0.2**	*-0.8*	*-0.3*	*-0.1*
Slovenia	2.1	3.2	0.2	-0.2	0.4	1.2	**1.5**	**1.7**	**1.8**	*0.8*	*1.1*	*1.3*
Slovakia	0.7	1.2	-1.6	-0.1	0.3	2.0	**1.6**	**1.6**	**1.7**	*1.8*	*2.5*	*3.3*
Finland	7.7	6.8	3.0	1.4	1.0	1.2	**1.9**	**1.6**	**2.0**	*1.8*	*1.7*	*2.3*
Euro area	2.0	1.7	-0.2	0.6	0.9	1.3	**1.5**	**1.7**	**1.9**	*1.4*	*1.5*	*1.7*
Bulgaria	4.4	5.4	1.8	1.8	0.8	1.3	**3.3**	**3.1**	**3.2**	*2.8*	*3.0*	*3.0*
Czech Republic	3.3	3.9	1.4	2.4	2.1	3.4	**3.9**	**3.9**	**4.0**	*3.8*	*3.8*	*3.9*
Denmark	3.5	6.0	2.3	3.1	6.1	3.1	**3.0**	**3.0**	**3.1**	*2.7*	*2.5*	*2.9*
Croatia		3.8	0.4	-0.7	-0.7	0.3	**2.5**	**2.2**	**2.5**	*1.6*	*1.3*	*1.6*
Hungary	1.0	-1.9	-0.6	0.7	1.7	3.5	**3.3**	**2.6**	**3.2**	*2.6*	*3.0*	*3.2*
Poland	-0.5	-0.1	-0.5	-0.6	0.2	1.1	**0.9**	**1.0**	**0.8**	*0.7*	*0.4*	*0.2*
Romania	0.3	3.7	0.0	2.1	2.1	2.9	**0.7**	**-0.6**	**-0.9**	*1.0*	*-0.4*	*-0.8*
Sweden	5.0	5.3	4.4	2.9	2.9	4.5	**5.4**	**5.0**	**5.3**	*4.7*	*4.2*	*4.5*
United Kingdom	2.3	-0.1	-4.1	-2.7	-2.5	-1.3	**0.0**	**0.0**	**0.6**	*-0.4*	*0.1*	*0.3*
EU		1.6	-0.5	0.2	0.5	1.0	**1.4**	**1.6**	**1.8**	*1.2*	*1.4*	*1.6*
USA	2.2	-0.6	-5.9	-2.1	-1.6	-1.2	**-1.7**	**-1.7**	**-2.2**	*-1.8*	*-2.0*	*-2.7*
Japan	0.0	-0.5	-3.6	-3.0	-1.2	-0.2	**-0.3**	**-0.6**	**-0.3**	*-0.2*	*-0.2*	*-0.2*

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	5.1	4.7	2.0	0.8	5.1	4.3	**6.1**	**3.8**	**3.7**	*5.5*	*3.9*	*4.3*
Germany	7.3	8.3	2.2	1.9	4.1	5.2	**2.6**	**3.7**	**3.9**	*2.5*	*2.9*	*3.2*
Estonia	3.0	13.8	5.4	2.3	3.1	-0.6	**3.6**	**3.7**	**3.7**	*3.7*	*3.1*	*3.4*
Ireland	15.8	5.0	2.3	3.1	14.4	34.4	**2.4**	**3.9**	**4.3**	*2.3*	*3.8*	*4.2*
Greece	8.1	7.2	-2.2	1.5	7.8	3.4	**-2.0**	**3.8**	**4.2**	*0.7*	*3.9*	*4.7*
Spain	6.3	4.5	0.9	4.3	4.2	4.9	**4.4**	**5.7**	**4.8**	*4.3*	*4.0*	*4.3*
France	6.1	3.2	1.2	1.9	3.3	6.1	**1.2**	**3.2**	**4.2**	*1.0*	*3.1*	*4.0*
Italy	2.6	4.5	-0.9	0.7	2.7	4.4	**2.4**	**3.4**	**3.6**	*1.5*	*3.0*	*3.2*
Cyprus	3.1	1.8	0.5	2.1	4.2	0.0	**3.6**	**3.3**	**3.2**	*6.5*	*4.6*	*3.8*
Latvia	5.1	12.3	4.5	1.1	3.9	2.6	**2.8**	**3.4**	**3.6**	*2.0*	*2.6*	*3.1*
Lithuania	7.5	9.8	8.7	9.6	3.5	-0.4	**2.9**	**3.5**	**3.7**	*2.6*	*3.4*	*3.7*
Luxembourg	9.6	8.0	1.9	6.1	11.8	11.1	**4.9**	**5.6**	**5.9**	*3.8*	*4.7*	*4.9*
Malta	4.8	5.8	6.8	1.4	5.3	4.1	**4.0**	**3.6**	**4.5**	*1.5*	*3.7*	*3.9*
Netherlands	6.0	5.7	2.1	2.1	4.5	5.0	**3.4**	**3.6**	**3.8**	*3.3*	*3.4*	*3.2*
Austria	7.5	6.1	1.3	0.5	2.3	3.6	**1.7**	**3.2**	**3.1**	*2.7*	*2.9*	*3.1*
Portugal	5.0	5.5	1.6	7.0	4.3	6.1	**4.4**	**4.4**	**4.2**	*3.9*	*4.1*	*4.2*
Slovenia	7.4	11.0	0.6	3.1	5.7	5.6	**5.9**	**5.8**	**5.4**	*6.4*	*4.3*	*4.7*
Slovakia	6.4	17.9	4.0	6.7	3.7	7.0	**4.8**	**6.5**	**7.0**	*4.1*	*5.1*	*6.6*
Finland	8.1	6.6	-1.4	1.1	-2.7	2.0	**0.5**	**2.3**	**3.3**	*0.8*	*2.0*	*3.3*
Euro area	6.4	5.9	1.5	2.1	4.4	6.5	**2.9**	**3.8**	**4.1**	*2.7*	*3.3*	*3.7*
Bulgaria	-9.1	13.2	2.9	9.6	3.1	5.7	**5.7**	**4.6**	**4.8**	*5.1*	*4.4*	*4.5*
Czech Republic	7.9	16.2	4.2	0.2	8.7	7.7	**4.3**	**4.5**	**4.8**	*3.3*	*4.5*	*4.4*
Denmark	7.1	4.6	1.0	1.6	3.6	1.8	**1.7**	**3.3**	**3.9**	*0.2*	*2.7*	*3.3*
Croatia	6.7	6.1	-1.3	3.1	7.6	10.0	**6.7**	**5.2**	**4.6**	*4.9*	*4.7*	*4.3*
Hungary	13.2	14.4	2.0	4.2	9.8	7.7	**5.8**	**5.0**	**5.8**	*6.7*	*5.0*	*5.9*
Poland	8.3	10.8	5.1	6.1	6.7	7.7	**9.0**	**7.7**	**6.6**	*7.3*	*6.0*	*6.4*
Romania	12.3	9.8	3.6	19.7	8.0	5.4	**8.3**	**6.9**	**6.2**	*4.7*	*5.0*	*5.4*
Sweden	5.9	6.9	0.9	-0.8	5.3	5.6	**3.4**	**3.9**	**3.8**	*2.8*	*3.6*	*3.8*
United Kingdom	4.0	5.3	0.8	1.1	1.5	6.1	**1.8**	**3.4**	**3.0**	*1.7*	*3.5*	*2.9*
EU	6.1	6.2	1.6	2.2	4.4	6.4	**3.1**	**4.0**	**4.1**	*2.8*	*3.5*	*3.8*
USA	1.1	7.2	3.6	3.5	4.3	0.1	**0.4**	**3.0**	**3.5**	*0.4*	*2.1*	*3.4*
Japan	2.4	10.0	-0.6	0.8	9.3	3.0	**1.2**	**2.8**	**1.1**	*0.2*	*1.0*	*1.0*

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	4.2	4.9	2.3	0.3	5.9	4.3	**5.3**	**3.6**	**3.6**	*4.7*	*3.6*	*4.3*
Germany	5.3	7.3	2.2	3.1	4.0	5.5	**3.7**	**4.8**	**5.0**	*3.4*	*4.1*	*4.3*
Estonia	5.1	16.1	2.0	3.2	2.2	-1.4	**4.9**	**5.4**	**3.5**	*5.4*	*4.3*	*4.1*
Ireland	15.8	6.0	0.8	1.1	15.3	21.7	**10.3**	**4.1**	**4.6**	*1.5*	*4.0*	*4.5*
Greece	9.7	8.2	-8.5	-2.4	7.6	0.3	**-0.4**	**3.0**	**3.8**	*1.5*	*3.2*	*4.2*
Spain	8.8	7.9	-5.2	-0.5	6.5	5.6	**3.3**	**4.8**	**4.4**	*3.2*	*3.5*	*4.3*
France	7.6	4.9	1.3	2.1	4.7	6.6	**3.7**	**3.3**	**4.7**	*3.7*	*3.1*	*4.8*
Italy	5.2	4.4	-2.7	-2.4	3.2	6.8	**2.9**	**4.5**	**4.7**	*2.1*	*3.9*	*4.3*
Cyprus	2.3	4.7	-0.9	-4.8	4.6	2.1	**5.3**	**2.9**	**3.2**	*5.1*	*4.7*	*3.6*
Latvia	6.2	17.6	-2.5	-0.2	0.5	2.1	**4.6**	**6.1**	**6.1**	*3.6*	*4.1*	*4.5*
Lithuania	6.9	14.0	3.1	9.3	3.3	6.2	**2.6**	**4.9**	**4.0**	*2.2*	*5.1*	*3.5*
Luxembourg	9.5	8.2	3.1	5.2	12.5	12.1	**4.0**	**5.7**	**5.8**	*3.3*	*4.7*	*4.7*
Malta	2.8	7.0	6.3	0.4	1.6	7.5	**1.1**	**3.4**	**2.8**	*0.5*	*3.6*	*3.7*
Netherlands	6.4	5.5	1.9	1.0	4.2	5.8	**3.7**	**3.8**	**4.2**	*3.8*	*3.9*	*3.8*
Austria	5.0	5.7	1.3	0.7	1.3	3.4	**2.8**	**3.0**	**2.7**	*3.7*	*2.8*	*2.6*
Portugal	5.9	4.4	-2.6	4.7	7.8	8.2	**4.4**	**5.2**	**4.5**	*3.9*	*4.3*	*4.3*
Slovenia	6.8	11.3	-1.9	2.1	4.2	4.6	**6.2**	**6.4**	**6.1**	*6.1*	*4.9*	*5.5*
Slovakia	5.0	14.6	1.6	5.6	4.4	8.1	**2.9**	**6.6**	**6.8**	*2.2*	*5.1*	*6.5*
Finland	6.6	7.5	0.6	0.5	-1.3	3.1	**2.5**	**1.6**	**2.4**	*1.3*	*1.5*	*2.5*
Euro area	6.5	6.3	0.4	1.4	4.9	6.5	**4.0**	**4.2**	**4.6**	*3.3*	*3.8*	*4.3*
Bulgaria	4.2	18.8	-1.1	4.3	5.2	5.4	**2.8**	**4.7**	**4.9**	*3.2*	*4.3*	*4.6*
Czech Republic	8.1	14.2	2.9	0.1	10.1	8.2	**3.2**	**4.5**	**5.2**	*2.5*	*4.4*	*4.4*
Denmark	6.4	7.3	0.5	1.5	3.6	1.3	**2.4**	**4.0**	**4.4**	*1.3*	*3.4*	*3.9*
Croatia	4.1	7.3	-4.3	3.1	4.5	9.4	**7.3**	**6.6**	**5.7**	*6.1*	*5.2*	*5.8*
Hungary	14.5	12.7	0.1	4.5	10.9	6.1	**5.7**	**6.8**	**6.5**	*6.4*	*6.8*	*6.7*
Poland	6.1	11.5	3.0	1.7	10.0	6.6	**8.9**	**8.5**	**7.4**	*7.9*	*6.4*	*6.9*
Romania	13.5	21.1	-0.7	8.8	8.7	9.2	**9.8**	**8.6**	**7.9**	*10.9*	*9.2*	*7.3*
Sweden	4.9	6.6	1.6	-0.1	6.3	5.5	**3.7**	**3.5**	**3.4**	*3.9*	*3.7*	*3.5*
United Kingdom	7.2	4.9	0.0	3.4	2.5	5.5	**2.8**	**2.0**	**1.2**	*2.8*	*3.0*	*1.1*
EU	6.7	6.6	0.4	1.7	5.0	6.3	**4.0**	**4.2**	**4.3**	*3.5*	*3.9*	*4.1*
USA	7.0	6.2	0.4	1.1	4.4	4.6	**1.2**	**4.8**	**6.1**	*1.1*	*4.8*	*6.3*
Japan	1.4	4.9	1.0	3.3	8.3	0.1	**-1.7**	**1.3**	**0.7**	*-2.0*	*0.9*	*0.7*

Table 49: Merchandise trade balance[1] (fob-fob, as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			Winter 2017 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	2.9	2.9	-0.9	-0.7	-0.7	0.3	1.5	1.5	1.6	0.5	0.3	0.4
Germany	4.2	6.8	6.5	7.5	7.7	8.7	8.8	8.3	8.0	8.9	8.4	8.2
Estonia	-17.4	-16.7	-6.0	-5.2	-5.1	-4.3	-4.3	-5.6	-5.3	-4.1	-4.9	-5.3
Ireland	25.0	18.6	22.0	19.1	21.1	43.2	38.7	38.0	37.3	40.9	40.5	40.6
Greece	-14.8	-16.3	-13.9	-9.8	-10.8	-9.1	-9.3	-9.7	-9.7	-9.0	-9.5	-9.5
Spain		-7.3	-4.6	-1.4	-2.2	-2.0	-1.6	-1.9	-1.9	-1.5	-1.7	-1.9
France	0.8	-0.7	-2.2	-2.0	-1.7	-1.0	-1.2	-1.3	-1.3	-1.3	-1.5	-1.6
Italy	1.5	0.1	-0.3	2.2	2.9	3.1	3.6	2.9	2.8	3.5	3.0	2.7
Cyprus	-24.7	-24.6	-22.6	-16.2	-16.0	-18.0	-21.2	-22.2	-22.9	-18.7	-20.8	-21.2
Latvia	-16.7	-22.0	-11.8	-11.1	-9.3	-8.4	-7.0	-8.9	-10.5	-7.4	-9.3	-10.2
Lithuania			-6.7	-2.6	-2.6	-5.3	-4.3	-5.6	-5.9	-5.3	-7.0	-7.0
Luxembourg		-7.3	-2.1	-0.1	1.5	2.7	3.9	3.7	3.6	3.5	3.0	3.0
Malta	-14.7	-15.7	-17.6	-13.6	-12.3	-19.4	-18.4	-19.1	-18.5	-18.0	-18.6	-18.7
Netherlands	7.3	9.4	9.8	11.5	11.5	11.3	11.3	10.7	10.4	10.9	10.4	9.7
Austria	-1.2	0.3	-0.6	-0.5	0.2	0.6	0.4	0.2	0.3	0.4	0.1	0.2
Portugal	-11.6	-10.7	-9.3	-4.0	-4.7	-4.3	-4.0	-4.5	-4.7	-4.1	-4.5	-4.6
Slovenia	-4.5	-3.5	-2.1	0.8	2.9	3.9	3.9	3.4	3.0	4.9	4.1	3.5
Slovakia	-9.8	-4.5	-0.1	3.7	3.4	2.3	3.0	2.5	2.7	3.1	2.4	2.4
Finland	9.3	5.4	1.1	0.1	0.7	1.1	0.3	-0.1	0.2	1.1	0.9	1.1
Euro area	1.7	1.3	1.1	2.7	3.0	4.2	4.2	3.8	3.7	4.2	3.9	3.7
Euro area, adjusted[2]		0.5	0.4	2.1	2.4	3.3	3.5	3.1	3.0	3.4	3.1	2.9
Bulgaria				-7.0	-6.5	-5.8	-3.6	-4.2	-4.2	-4.7	-5.1	-5.4
Czech Republic	-7.1	-1.2	1.6	4.1	5.1	4.5	5.3	5.0	4.8	5.5	5.3	5.4
Denmark	3.5	2.2	3.1	3.7	3.5	4.2	5.0	5.2	5.2	4.8	4.8	4.8
Croatia		-21.5	-16.1	-15.1	-14.8	-15.2	-15.5	-16.5	-17.1	-15.2	-16.4	-17.2
Hungary	-7.0	-3.1	2.0	3.3	2.3	4.0	4.7	2.8	2.0	5.5	4.3	3.9
Poland	-5.9	-3.2	-3.5	-0.1	-0.8	0.5	0.5	-0.5	-1.0	0.9	0.4	0.1
Romania	-5.6	-10.4	-8.4	-4.0	-4.3	-4.9	-5.5	-6.7	-7.3	-6.2	-7.3	-7.7
Sweden	7.7	7.1	4.3	3.2	3.1	3.0	2.6	2.8	2.8	3.1	3.0	3.1
United Kingdom	-3.2	-5.1	-6.1	-6.9	-6.7	-6.4	-6.9	-7.4	-7.3	-7.4	-8.2	-7.9
EU	0.7	0.1	-0.1	1.1	1.2	2.0	2.1	1.8	1.6	2.1	1.7	1.6
EU, adjusted[2]		-0.8	-0.9	0.3	0.3	0.9	1.2	0.8	0.7	1.1	0.7	0.6
USA	-3.8	-5.7	-4.7	-4.4	-4.5	-4.4	-4.1	-4.5	-4.8	-4.1	-4.5	-4.9
Japan	2.4	2.4	0.6	-1.7	-2.0	-0.1	0.9	0.9	0.9	0.7	0.9	1.0

[1] See note 7 on concepts and sources.

Table 50: Current-account balance[1] (as a percentage of GDP, 1998-2018) 25.4.2017

	5-year averages						Spring 2017 forecast			Winter 2017 forecast		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	4.7	4.2	1.5	1.1	-0.1	0.2	1.2	1.5	1.7	1.0	1.2	1.3
Germany	-0.4	4.6	6.1	6.9	7.5	8.5	8.5	8.0	7.6	8.7	8.3	8.0
Estonia	-7.9	-12.6	-0.9	-0.2	1.0	2.1	2.0	1.1	1.2	0.6	0.3	0.0
Ireland	0.4	-3.0	-3.3	2.1	1.7	10.2	4.7	4.8	5.0	9.6	9.5	9.3
Greece	-8.1	-11.4	-10.8	-2.2	-2.6	0.0	-0.5	-0.5	-0.3	-0.7	-0.7	-0.6
Spain	-3.3	-7.2	-4.2	1.5	1.0	1.3	1.9	1.6	1.6	1.8	1.7	1.6
France	1.9	-0.1	-2.0	-2.9	-3.2	-2.0	-2.3	-2.4	-2.5	-2.3	-2.6	-2.7
Italy	0.4	-1.0	-2.3	1.0	1.9	1.4	2.6	1.9	1.7	2.7	2.1	1.8
Cyprus	-1.6	-15.8	-8.9	-4.9	-4.4	-3.0	-5.7	-5.9	-6.3	-1.6	-2.1	-2.3
Latvia	-8.1	-15.3	-1.9	-2.1	-2.0	-0.8	1.9	-0.9	-2.6	-0.1	-2.5	-3.3
Lithuania	-7.6	-9.3	-3.2	1.4	3.8	-2.2	-1.1	-2.0	-1.9	-1.6	-2.9	-2.6
Luxembourg	9.4	9.8	6.7	5.5	5.0	5.1	4.7	4.5	5.0	5.3	4.9	5.8
Malta	-4.5	-4.6	-2.2	2.8	9.7	5.3	7.9	6.5	9.0	5.0	5.3	6.0
Netherlands	5.2	7.9	7.6	10.2	8.5	8.5	7.9	7.4	7.1	8.0	7.4	7.1
Austria	-0.6	2.2	2.6	1.6	2.6	2.5	2.1	2.0	2.2	2.4	2.2	2.4
Portugal	-9.3	-9.4	-8.1	0.7	-0.3	-0.8	0.5	0.5	0.5	0.3	0.4	0.6
Slovenia	-2.2	-2.5	-0.9	3.6	6.2	5.4	7.0	6.2	5.8	6.3	5.5	5.0
Slovakia	-6.1	-7.1	-4.0	1.5	0.6	0.1	0.2	0.1	0.4	1.2	1.2	1.5
Finland	7.1	4.4	0.6	-1.9	-1.3	-0.7	-1.3	-1.8	-1.6	-0.5	-0.6	-0.5
Euro area	0.3	0.5	0.5	2.4	2.5	3.3	3.4	3.0	2.9	3.6	3.2	3.1
Euro area, adjusted[2]		0.2	0.0	2.2	2.5	3.2	3.3	3.0	2.8	3.3	2.9	2.8
Bulgaria	-2.3	-12.8	-6.5	1.2	0.0	0.4	4.2	2.4	1.8	2.6	1.4	0.8
Czech Republic	-3.2	-3.9	-4.2	-1.1	-1.2	-1.2	0.3	0.0	-0.2	-0.2	-0.5	-0.4
Denmark	2.6	3.4	5.2	7.8	8.9	9.2	8.1	7.8	7.7	7.3	7.0	7.0
Croatia	-3.5	-5.9	-2.9	1.6	1.1	5.0	2.6	2.9	1.3	2.8	1.8	1.3
Hungary	-6.9	-8.3	-0.9	3.8	2.0	3.1	5.0	3.5	2.8	5.4	3.7	3.2
Poland	-3.7	-4.3	-4.6	-0.5	-1.4	0.1	0.2	-0.6	-1.2	0.2	-0.4	-0.8
Romania	-4.4	-9.2	-5.9	-0.6	-0.1	-0.6	-2.4	-2.8	-2.9	-2.2	-2.9	-3.1
Sweden	4.8	7.7	6.5	5.1	4.8	4.7	4.9	5.2	5.4	4.8	4.8	4.9
United Kingdom	-1.8	-1.9	-2.9	-4.4	-4.7	-4.3	-4.4	-3.9	-3.2	-5.0	-4.8	-3.9
EU	-0.1	0.0	0.0	1.4	1.4	1.9	2.1	1.9	1.9	2.1	1.9	1.9
EU, adjusted[2]		-0.7	-0.5	1.1	1.0	1.2	1.7	1.6	1.5	1.3	1.1	1.1
USA	-3.5	-5.2	-3.2	-2.2	-2.3	-2.6	-2.5	-2.8	-3.3	-2.5	-3.0	-3.5
Japan	2.5	3.8	2.5	0.9	0.8	3.2	3.9	4.1	4.2	3.9	4.1	4.2

[1] See note 7 on concepts and sources.

Table 51: **Net lending (+) or net borrowing (-) of the nation[1] (as a percentage of GDP, 1998-2018)** 25.4.2017

	5-year averages						Spring 2017 forecast			*Winter 2017 forecast*		
	1998-02	2003-07	2008-12	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	4.6	4.2	1.5	1.0	-0.4	0.2	**1.3**	**1.7**	**1.8**	*1.0*	*1.3*	*1.4*
Germany	-0.5	4.6	6.0	6.8	7.5	8.4	**8.5**	**8.0**	**7.5**	*8.7*	*8.3*	*8.0*
Estonia	-7.5	-11.5	2.1	2.4	2.1	4.2	**2.9**	**3.1**	**3.3**	*2.0*	*1.9*	*1.6*
Ireland	1.1	-2.8	-3.2	1.6	-1.8	9.7	**2.6**	**4.6**	**4.8**	*10.0*	*9.9*	*9.7*
Greece	-6.5	-9.8	-9.2	0.2	-0.6	2.1	**1.4**	**1.4**	**1.5**	*1.3*	*1.1*	*1.2*
Spain	-2.3	-6.4	-3.8	2.1	1.5	2.0	**2.0**	**1.9**	**1.9**	*2.5*	*2.2*	*2.0*
France	1.9	-0.2	-2.0	-2.8	-3.2	-2.0	**-2.2**	**-2.4**	**-2.4**	*-2.1*	*-2.4*	*-2.4*
Italy	0.5	-0.9	-2.2	0.9	2.1	1.6	**2.5**	**1.8**	**1.6**	*2.9*	*2.4*	*1.9*
Cyprus	-1.4	-15.2	-8.7	-3.5	-4.4	-2.7	**-5.2**	**-5.3**	**-5.8**	*-1.3*	*-1.8*	*-1.9*
Latvia	-7.8	-14.1	0.3	0.4	1.2	2.0	**3.7**	**0.9**	**-0.7**	*1.8*	*-0.3*	*-0.8*
Lithuania	-7.6	-8.1	0.0	4.5	6.5	0.8	**-0.1**	**-1.4**	**-1.0**	*-0.5*	*-1.3*	*-0.8*
Luxembourg	9.0	9.7	5.9	3.8	2.9	4.0	**3.4**	**5.0**	**5.5**	*5.8*	*5.5*	*6.4*
Malta	-4.1	-2.8	-0.8	4.6	11.3	7.1	**8.7**	**8.1**	**10.5**	*6.7*	*6.9*	*7.4*
Netherlands	5.1	7.6	7.3	10.0	8.4	3.5	**7.6**	**6.7**	**6.6**	*7.7*	*7.2*	*7.0*
Austria	-0.8	2.1	2.5	1.5	2.4	2.0	**2.1**	**2.0**	**2.2**	*2.3*	*2.0*	*2.3*
Portugal	-7.5	-7.9	-6.7	2.3	1.0	0.3	**1.5**	**1.4**	**1.5**	*1.3*	*1.5*	*1.7*
Slovenia	-2.3	-2.7	-0.3	4.1	6.6	6.4	**6.1**	**6.4**	**6.3**	*6.5*	*5.8*	*5.5*
Slovakia	-6.6	-7.0	-2.7	3.1	1.6	2.2	**0.7**	**1.0**	**1.9**	*1.1*	*1.5*	*1.8*
Finland	7.1	4.5	0.7	-1.8	-1.2	-0.7	**-1.3**	**-1.7**	**-1.6**	*-0.4*	*-0.4*	*-0.4*
Euro area	0.4	0.6	0.6	2.6	2.6	3.1	**3.4**	**3.1**	**2.9**	*3.8*	*3.5*	*3.3*
Euro area, adjusted[2]		0.3	0.1	2.3	2.5	3.0	**3.3**	**3.0**	**2.9**	*3.5*	*3.2*	*3.0*
Bulgaria	-2.3	-12.7	-5.5	2.3	2.2	2.4	**6.1**	**4.1**	**3.4**	*0.9*	*-0.1*	*-0.6*
Czech Republic	-3.0	-3.8	-2.6	1.1	0.5	1.9	**0.8**	**0.5**	**0.3**	*1.5*	*1.2*	*1.2*
Denmark	2.7	3.4	5.2	7.7	8.7	8.8	**8.1**	**7.4**	**7.4**	*6.9*	*6.7*	*6.7*
Croatia	-3.5	-5.9	-2.9	1.6	1.1	5.7	**3.7**	**4.2**	**2.5**	*3.8*	*2.9*	*2.4*
Hungary	-6.8	-7.9	1.0	7.4	5.8	7.8	**6.0**	**5.9**	**5.4**	*7.0*	*6.5*	*6.6*
Poland	-3.7	-3.9	-3.1	1.5	0.3	2.4	**1.8**	**1.0**	**0.6**	*2.1*	*1.7*	*1.7*
Romania	-4.1	-8.6	-5.3	1.5	2.5	1.8	**-1.5**	**-1.3**	**-0.8**	*-1.5*	*-1.5*	*-1.3*
Sweden	4.5	7.5	6.4	4.9	4.7	4.5	**4.9**	**5.1**	**5.3**	*4.5*	*4.5*	*4.6*
United Kingdom	-1.8	-1.9	-2.9	-4.4	-4.7	-4.3	**-4.5**	**-3.9**	**-3.2**	*-5.1*	*-4.9*	*-4.0*
EU	0.0	0.1	0.1	1.6	1.5	2.0	**2.2**	**2.0**	**2.0**	*2.3*	*2.2*	*2.2*
EU, adjusted[2]		-0.6	-0.4	1.3	1.2	1.2	**1.8**	**1.7**	**1.7**	*1.5*	*1.4*	*1.4*
USA	-3.5	-5.2	-3.2	-2.2	-2.3	-2.6	**-2.5**	**-2.8**	**-3.3**	*-2.5*	*-3.0*	*-3.5*
Japan	2.3	3.7	2.5	0.7	0.7	3.1	**3.9**	**4.1**	**4.2**	*3.8*	*4.0*	*4.1*

[1] See note 7 on concepts and sources.

Table 52: **Current-account balance[1] (in billions of euro, 2010-18)** 25.4.2017

							Spring 2017 forecast			*Winter 2017 forecast*		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
Belgium	13.5	0.9	5.9	4.2	-0.5	0.7	**4.9**	**6.6**	**7.8**	*4.1*	*5.4*	*5.7*
Germany	148.2	167.3	197.0	194.0	219.3	257.1	**267.1**	**259.2**	**252.9**	*272.4*	*267.7*	*267.7*
Estonia	0.3	0.2	-0.3	0.0	0.2	0.4	**0.4**	**0.2**	**0.3**	*0.1*	*0.1*	*0.0*
Ireland	-2.0	-2.8	-4.6	3.8	3.2	26.2	**12.5**	**13.4**	**14.8**	*25.7*	*26.6*	*27.1*
Greece	-25.6	-21.3	-8.1	-4.0	-4.6	0.0	**-0.9**	**-0.9**	**-0.6**	*-1.2*	*-1.3*	*-1.1*
Spain	-42.0	-35.3	-4.6	15.0	10.4	14.3	**20.9**	**19.0**	**18.8**	*19.6*	*19.3*	*19.7*
France	-34.9	-46.0	-61.2	-60.4	-68.3	-42.9	**-50.5**	**-55.5**	**-57.6**	*-52.0*	*-59.3*	*-63.4*
Italy	-54.8	-49.3	-5.8	15.4	30.5	23.7	**44.0**	**32.2**	**29.9**	*45.8*	*35.8*	*31.1*
Cyprus	-2.2	-0.8	-1.2	-0.9	-0.8	-0.5	**-1.0**	**-1.1**	**-1.2**	*-0.3*	*-0.4*	*-0.4*
Latvia	0.4	-0.6	-0.8	-0.5	-0.5	-0.2	**0.5**	**-0.2**	**-0.7**	*0.0*	*-0.6*	*-0.9*
Lithuania	-0.1	-1.2	-0.3	0.5	1.4	-0.8	**-0.4**	**-0.8**	**-0.8**	*-0.6*	*-1.2*	*-1.1*
Luxembourg	2.7	2.6	2.6	2.6	2.5	2.7	**2.6**	**2.6**	**3.1**	*2.9*	*2.8*	*3.5*
Malta	-0.3	0.0	0.1	0.2	0.8	0.5	**0.8**	**0.7**	**1.0**	*0.5*	*0.6*	*0.7*
Netherlands	48.3	56.9	65.6	66.7	56.5	57.4	**54.9**	**52.8**	**52.5**	*55.8*	*52.7*	*51.8*
Austria	9.3	5.8	5.4	5.2	8.4	8.4	**7.3**	**7.3**	**8.3**	*8.6*	*8.1*	*9.0*
Portugal	-18.5	-9.6	-3.4	1.3	-0.4	-1.4	**1.0**	**0.9**	**1.0**	*0.5*	*0.8*	*1.2*
Slovenia	-0.2	0.0	0.8	1.3	2.3	2.1	**2.8**	**2.6**	**2.5**	*2.5*	*2.3*	*2.2*
Slovakia	-3.2	-3.9	0.3	1.1	0.5	0.1	**0.2**	**0.1**	**0.3**	*1.0*	*1.0*	*1.3*
Finland	2.7	-2.9	-3.8	-3.8	-2.7	-1.5	**-2.8**	**-3.8**	**-3.6**	*-1.0*	*-1.3*	*-1.2*
Euro area	41.5	59.9	183.5	241.7	258.2	346.2	**364.0**	**335.1**	**328.6**	*384.2*	*358.9*	*352.8*
Euro area, adjusted[2]	0.3	-0.6	137.7	219.3	250.1	336.4	**359.4**	**330.5**	**324.0**	*350.9*	*325.7*	*319.5*
Bulgaria	-0.7	0.2	-0.4	0.5	0.0	0.2	**2.0**	**1.2**	**0.9**	*1.2*	*0.7*	*0.4*
Czech Republic	-8.1	-7.6	-3.6	-1.7	-1.9	-2.0	**0.5**	**0.0**	**-0.5**	*-0.3*	*-0.9*	*-0.8*
Denmark	16.0	16.3	16.0	20.1	23.6	24.9	**22.5**	**22.3**	**22.9**	*20.1*	*20.0*	*20.5*
Croatia	-0.4	-0.3	0.2	0.7	0.5	2.2	**1.2**	**1.4**	**0.6**	*1.3*	*0.9*	*0.6*
Hungary	0.3	0.9	1.8	3.9	2.1	3.4	**5.6**	**4.2**	**3.6**	*6.1*	*4.5*	*4.2*
Poland	-17.5	-18.1	-12.8	-2.0	-5.6	0.6	**0.8**	**-2.9**	**-5.8**	*0.8*	*-2.0*	*-3.6*
Romania	-5.7	-5.8	-5.6	-0.9	-0.2	-1.0	**-4.1**	**-5.0**	**-5.5**	*-3.8*	*-5.3*	*-5.9*
Sweden	24.6	21.3	24.1	22.2	20.9	20.9	**22.8**	**25.0**	**27.0**	*22.4*	*23.4*	*25.1*
United Kingdom	-50.2	-33.5	-75.8	-90.0	-105.4	-110.5	**-103.1**	**-91.4**	**-77.0**	*-117.9*	*-111.4*	*-94.0*
EU	-0.4	33.3	127.4	194.5	192.1	284.8	**312.2**	**289.8**	**295.0**	*314.2*	*288.8*	*299.4*
EU, adjusted[2]	-42.2	-29.7	81.4	148.7	139.0	175.5	**258.5**	**236.2**	**241.3**	*192.8*	*167.4*	*178.0*
USA	-333.4	-330.7	-347.5	-275.9	-295.1	-417.3	**-426.0**	**-516.8**	**-624.6**	*-418.3*	*-536.3*	*-669.9*
Japan	166.8	93.7	46.5	34.4	28.6	124.5	**175.1**	**191.6**	**199.2**	*173.9*	*180.4*	*187.9*

[1] See note 7 on concepts and sources.

Table 53: Export markets (a) (percentage change on preceding year, 2010-18) 25.4.2017

							Spring 2017 forecast			Winter 2017 forecast		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	10.3	5.0	1.1	1.3	3.8	4.6	2.8	3.8	4.3	2.7	3.6	4.1
Germany	10.5	5.2	1.2	1.7	3.1	3.1	2.8	3.8	4.2	2.7	3.7	4.1
Estonia	9.6	7.4	1.5	1.2	1.4	0.2	2.2	3.4	3.7	2.0	3.1	3.5
Ireland	10.7	4.6	1.3	1.9	3.2	3.8	2.4	3.5	4.1	2.2	3.4	4.1
Greece	10.4	4.9	1.1	2.1	2.8	2.5	2.3	3.6	4.1	2.4	3.4	4.1
Spain	9.8	4.2	0.5	1.9	3.3	4.0	2.4	3.6	4.1	2.3	3.3	3.9
France	10.3	4.9	1.0	1.9	3.8	3.8	2.4	3.7	4.1	2.3	3.5	4.0
Italy	9.9	5.4	1.6	2.1	3.0	3.2	2.7	3.8	4.2	2.6	3.6	4.1
Cyprus	8.1	7.4	1.3	3.5	0.8	-6.3	-0.9	3.2	3.6	0.1	2.6	3.4
Latvia	12.5	10.4	3.9	2.7	1.6	-0.5	2.0	3.9	3.8	2.1	3.6	3.6
Lithuania	11.2	9.8	3.5	1.6	0.6	-2.3	2.1	4.4	4.3	2.2	3.6	3.9
Luxembourg	10.1	4.2	0.4	1.6	5.3	5.8	3.2	3.5	4.1	2.0	3.2	4.2
Malta	10.3	4.4	0.8	2.2	6.1	3.7	1.7	2.5	3.3	1.4	2.3	3.3
Netherlands	10.4	5.2	0.9	1.5	4.2	4.6	3.5	3.9	4.2	2.9	3.7	4.0
Austria	11.3	5.9	1.1	1.7	3.3	4.1	3.0	4.4	4.7	2.9	4.0	4.3
Portugal	9.7	3.9	-0.3	1.8	4.1	4.7	2.3	3.8	4.2	2.2	3.4	4.1
Slovenia	9.8	5.5	0.4	1.0	3.3	3.6	3.6	4.6	4.8	3.5	4.1	4.5
Slovakia	11.7	6.2	0.8	1.3	4.7	4.5	3.6	4.7	4.8	3.7	4.3	4.4
Finland	11.9	7.7	2.7	2.2	2.7	0.4	2.2	3.7	4.0	2.1	3.5	3.8
Euro area (b)	10.4	5.1	1.1	1.7	3.5	3.6	2.8	3.8	4.2	2.6	3.6	4.0
Bulgaria	9.4	5.6	0.0	1.6	3.4	1.7	3.1	4.2	4.6	3.3	4.1	4.4
Czech Republic	11.2	5.9	1.3	1.5	3.5	3.8	3.3	4.6	4.8	3.3	4.1	4.4
Denmark	11.4	5.4	1.5	1.7	4.0	3.7	2.5	3.7	4.1	2.5	3.6	4.0
Croatia	10.4	5.3	-0.4	1.4	3.2	3.6	3.1	4.4	4.5	3.2	3.8	4.2
Hungary	11.0	6.1	1.3	1.4	3.7	4.0	3.4	4.6	4.8	3.3	4.1	4.4
Poland	11.4	6.2	1.7	1.4	3.0	3.2	3.0	4.2	4.4	2.8	3.8	4.0
Romania	10.2	5.4	0.7	1.5	3.2	3.5	2.9	4.1	4.5	2.9	3.8	4.2
Sweden	9.7	5.0	1.7	2.0	3.1	2.6	2.4	3.4	3.9	2.2	3.3	3.7
United Kingdom	10.5	5.0	1.4	1.9	3.5	3.5	2.5	3.7	4.4	2.1	3.6	4.3
EU (b)	10.5	5.2	1.2	1.7	3.5	3.6	2.8	3.8	4.2	2.6	3.6	4.1
USA	13.1	6.6	3.3	3.3	3.4	2.2	1.1	2.8	3.3	0.9	2.9	3.2
Japan	14.8	7.0	3.4	3.3	3.3	1.5	1.8	3.5	4.1	1.6	3.4	4.0

(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.

Table 54: Export performance (a) (percentage change on preceding year, 2010-18) 25.4.2017

							Spring 2017 forecast			Winter 2017 forecast		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
Belgium	0.0	1.6	0.7	-0.4	1.2	-0.3	3.2	0.0	-0.6	2.7	0.2	0.2
Germany	3.7	2.9	1.6	0.2	0.9	2.0	-0.1	-0.1	-0.3	-0.2	-0.7	-0.8
Estonia	13.2	15.6	3.3	1.0	1.7	-0.8	1.3	0.3	0.0	1.7	0.0	-0.1
Ireland	-4.4	-1.6	1.0	1.1	10.9	29.5	0.0	0.3	0.2	0.1	0.4	0.1
Greece	-5.0	-4.6	0.0	-0.6	4.8	0.8	-4.2	0.2	0.1	-1.7	0.4	0.6
Spain	-0.3	3.1	0.5	2.3	0.9	0.9	1.9	2.1	0.7	2.0	0.6	0.3
France	-1.2	1.9	1.6	0.0	-0.4	2.2	-1.2	-0.5	0.1	-1.2	-0.4	0.1
Italy	1.7	-0.2	0.8	-1.3	-0.3	1.1	-0.2	-0.4	-0.6	-1.1	-0.6	-0.8
Cyprus	-3.4	-1.6	-4.0	-1.4	3.5	6.7	4.6	0.1	-0.4	6.4	2.0	0.4
Latvia	0.8	1.5	5.6	-1.6	2.3	3.1	0.8	-0.5	-0.2	-0.2	-0.9	-0.4
Lithuania	7.0	4.6	8.4	7.9	2.8	1.9	0.8	-0.9	-0.6	0.4	-0.2	-0.1
Luxembourg	0.2	-0.1	2.3	4.4	6.2	5.0	1.7	2.0	1.7	1.8	1.4	0.7
Malta	-3.1	-2.3	6.4	-0.7	-0.8	0.4	2.3	1.1	1.2	0.1	1.3	0.5
Netherlands	0.1	-0.8	2.9	0.6	0.3	0.4	-0.1	-0.3	-0.4	0.4	-0.3	-0.8
Austria	2.3	0.1	0.5	-1.1	-1.0	-0.5	-1.2	-1.1	-1.5	-0.2	-1.0	-1.2
Portugal	-0.2	3.0	3.7	5.1	0.2	1.3	2.0	0.6	0.0	1.7	0.7	0.2
Slovenia	0.3	1.3	0.2	2.0	2.3	1.9	2.2	1.2	0.6	2.8	0.2	0.2
Slovakia	3.6	5.5	8.4	5.3	-1.0	2.4	1.1	1.8	2.1	0.4	0.8	2.1
Finland	-5.1	-5.3	-1.4	-1.1	-5.3	1.6	-1.7	-1.4	-0.6	-1.3	-1.4	-0.5
Euro area (b)	0.8	1.4	1.6	0.4	0.9	2.7	0.1	0.0	-0.1	0.1	-0.3	-0.3
Bulgaria	1.5	6.6	2.1	7.9	-0.3	3.9	2.5	0.4	0.2	1.8	0.3	0.2
Czech Republic	3.3	3.1	2.9	-1.3	5.0	3.7	0.9	-0.1	0.0	0.0	0.4	0.0
Denmark	-7.6	1.7	-0.3	-0.1	-0.4	-1.8	-0.7	-0.3	-0.2	-2.2	-0.8	-0.7
Croatia	-3.8	-2.9	0.3	1.7	4.3	6.3	3.5	0.8	0.0	1.7	0.8	0.1
Hungary	0.3	0.4	-3.1	2.7	5.9	3.5	2.3	0.4	1.0	3.3	0.8	1.5
Poland	1.5	1.6	2.9	4.6	3.5	4.4	5.9	3.4	2.1	4.4	2.1	2.3
Romania	4.6	6.2	0.3	17.9	4.7	1.8	5.3	2.7	1.6	1.7	1.2	1.1
Sweden	2.0	1.0	-0.7	-2.7	2.1	3.0	1.0	0.5	-0.1	0.6	0.3	0.0
United Kingdom	-4.3	0.8	-0.8	-0.8	-2.0	2.5	-0.7	-0.3	-1.3	-0.4	-0.1	-1.3
EU (b)	0.2	1.3	1.2	0.5	0.9	2.7	0.4	0.2	-0.1	0.2	-0.1	-0.3
USA	-1.1	0.2	0.1	0.2	0.9	-2.0	-0.8	0.2	0.2	-0.5	-0.7	0.1
Japan	8.8	-6.8	-3.4	-2.4	5.8	1.5	-0.6	-0.7	-2.9	-1.3	-2.3	-2.9

(a) Index for exports of goods and services divided by an index for growth of markets.

Table 55: **World GDP, volume (percentage change on preceding year, 2012-18)** **25.4.2017**

						Spring 2017 forecast			Winter 2017 forecast		
	(a)	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
EU	16.9	-0.5	0.2	1.6	2.2	**1.9**	**1.9**	**1.9**	*1.9*	*1.8*	*1.8*
Euro area	11.8	-0.9	-0.3	1.2	2.0	**1.8**	**1.7**	**1.8**	*1.7*	*1.6*	*1.8*
Belgium	0.4	0.1	-0.1	1.7	1.5	**1.2**	**1.5**	**1.7**	*1.2*	*1.4*	*1.6*
Bulgaria	0.1	0.0	0.9	1.3	3.6	**3.4**	**2.9**	**2.8**	*3.3*	*2.9*	*2.8*
Czech Republic	0.3	-0.8	-0.5	2.7	4.5	**2.4**	**2.6**	**2.7**	*2.4*	*2.6*	*2.7*
Denmark	0.2	0.2	0.9	1.7	1.6	**1.3**	**1.7**	**1.8**	*1.0*	*1.5*	*1.8*
Germany	3.4	0.5	0.5	1.6	1.7	**1.9**	**1.6**	**1.9**	*1.9*	*1.6*	*1.8*
Estonia	0.0	4.3	1.4	2.8	1.4	**1.6**	**2.3**	**2.8**	*1.1*	*2.2*	*2.6*
Ireland	0.3	-1.1	1.1	8.5	26.3	**5.2**	**4.0**	**3.6**	*4.3*	*3.4*	*3.3*
Greece	0.2	-7.3	-3.2	0.4	-0.2	**0.0**	**2.1**	**2.5**	*0.3*	*2.7*	*3.1*
Spain	1.4	-2.9	-1.7	1.4	3.2	**3.2**	**2.8**	**2.4**	*3.2*	*2.3*	*2.1*
France	2.3	0.2	0.6	0.6	1.3	**1.2**	**1.4**	**1.7**	*1.2*	*1.4*	*1.7*
Croatia	0.1	-2.2	-1.1	-0.5	1.6	**2.9**	**2.9**	**2.6**	*2.8*	*3.1*	*2.5*
Italy	1.9	-2.8	-1.7	0.1	0.8	**0.9**	**0.9**	**1.1**	*0.9*	*0.9*	*1.1*
Cyprus	0.0	-3.2	-6.0	-1.5	1.7	**2.8**	**2.5**	**2.3**	*2.8*	*2.5*	*2.3*
Latvia	0.0	4.0	2.6	2.1	2.7	**2.0**	**3.2**	**3.5**	*1.6*	*2.8*	*3.0*
Lithuania	0.1	3.8	3.5	3.5	1.8	**2.3**	**2.9**	**3.1**	*2.2*	*2.9*	*2.8*
Luxembourg	0.1	-0.4	4.0	5.6	4.0	**4.2**	**4.3**	**4.4**	*3.8*	*4.0*	*3.9*
Hungary	0.2	-1.6	2.1	4.0	3.1	**2.0**	**3.6**	**3.5**	*1.9*	*3.5*	*3.2*
Malta	0.0	2.6	4.5	8.3	7.4	**5.0**	**4.6**	**4.4**	*4.0*	*3.7*	*3.7*
Netherlands	0.7	-1.1	-0.2	1.4	2.0	**2.2**	**2.1**	**1.8**	*2.1*	*2.0*	*1.8*
Austria	0.4	0.7	0.1	0.6	1.0	**1.5**	**1.7**	**1.7**	*1.5*	*1.6*	*1.6*
Poland	0.9	1.6	1.4	3.3	3.8	**2.7**	**3.5**	**3.2**	*2.8*	*3.2*	*3.1*
Portugal	0.3	-4.0	-1.1	0.9	1.6	**1.4**	**1.8**	**1.6**	*1.3*	*1.6*	*1.5*
Romania	0.4	0.6	3.5	3.1	3.9	**4.8**	**4.3**	**3.7**	*4.9*	*4.4*	*3.7*
Slovenia	0.1	-2.7	-1.1	3.1	2.3	**2.5**	**3.3**	**3.1**	*2.5*	*3.0*	*3.0*
Slovakia	0.1	1.7	1.5	2.6	3.8	**3.3**	**3.0**	**3.6**	*3.3*	*2.9*	*3.6*
Finland	0.2	-1.4	-0.8	-0.6	0.3	**1.4**	**1.3**	**1.7**	*1.5*	*1.2*	*1.5*
Sweden	0.4	-0.3	1.2	2.6	4.1	**3.3**	**2.6**	**2.2**	*3.3*	*2.4*	*2.1*
United Kingdom	2.4	1.3	1.9	3.1	2.2	**1.8**	**1.8**	**1.3**	*2.0*	*1.5*	*1.2*
Candidate Countries	1.8	4.3	7.9	4.7	5.7	**2.9**	**3.0**	**3.3**	*2.3*	*2.8*	*3.2*
- Turkey	1.7	4.8	8.5	5.2	6.1	**2.9**	**3.0**	**3.3**	*2.2*	*2.8*	*3.2*
- The former Yugoslav Republic of Macedonia	0.0	-0.5	2.9	3.6	3.8	**2.4**	**2.9**	**3.2**	*2.1*	*3.2*	*3.6*
- Montenegro	0.0	-2.7	3.5	1.8	3.4	**2.5**	**3.3**	**3.5**	*2.6*	*3.7*	*3.1*
- Serbia	0.1	-1.0	2.6	-1.8	0.8	**2.8**	**3.2**	**3.6**	*2.8*	*3.0*	*3.3*
- Albania	0.0	1.4	1.0	1.8	2.6	**3.5**	**3.7**	**3.9**	*3.3*	*3.5*	*3.6*
Potential Candidates	0.1	0.9	2.2	0.4	3.3	**2.5**	**2.8**	**3.0**	*3.1*	*3.5*	*3.5*
USA	15.7	2.2	1.7	2.4	2.6	**1.6**	**2.2**	**2.3**	*1.6*	*2.3*	*2.2*
Canada	1.4	1.7	2.5	2.6	0.9	**1.4**	**2.2**	**2.1**	*1.3*	*2.0*	*2.1*
Japan	4.5	1.5	2.0	0.3	1.2	**1.0**	**1.2**	**0.6**	*0.9*	*1.0*	*0.5*
Korea	1.6	2.3	2.9	3.3	2.8	**2.7**	**2.5**	**2.6**	*2.6*	*2.4*	*2.6*
Norway	0.3	2.7	1.0	1.9	1.6	**1.0**	**1.4**	**1.6**	*0.7*	*1.2*	*1.5*
Switzerland	0.4	1.0	1.8	2.0	0.8	**1.3**	**1.5**	**1.7**	*1.3*	*1.5*	*1.7*
Iceland	0.0	1.2	4.4	1.9	4.1	**7.2**	**4.4**	**2.8**	*5.5*	*4.2*	*2.5*
Australia	1.0	3.6	2.1	2.8	2.4	**2.5**	**2.7**	**2.7**	*2.6*	*2.7*	*2.8*
New Zealand	0.1	2.5	2.1	2.8	3.1	**3.1**	**3.0**	**2.8**	*3.0*	*2.8*	*2.7*
Advanced economies	45.5	1.2	1.5	2.1	2.4	**1.8**	**2.1**	**2.0**	*1.7*	*2.0*	*2.0*
CIS	4.6	3.5	2.1	1.0	-2.3	**0.3**	**1.6**	**2.0**	*-0.1*	*1.3*	*1.7*
- Russia	3.3	3.5	1.3	0.7	-2.8	**-0.2**	**1.2**	**1.4**	*-0.6*	*0.8*	*1.1*
- Other CIS	1.3	3.5	4.1	1.7	-0.9	**1.7**	**2.5**	**3.3**	*0.9*	*2.3*	*3.0*
MENA	6.8	4.1	1.9	2.3	2.4	**3.3**	**2.3**	**2.9**	*2.7*	*2.8*	*3.3*
Emerging and developing Asia	31.5	6.9	6.7	6.5	6.5	**6.4**	**6.4**	**6.3**	*6.3*	*6.2*	*6.2*
- China	17.1	7.9	7.8	7.3	6.9	**6.7**	**6.6**	**6.3**	*6.7*	*6.4*	*6.2*
- India	7.0	5.2	6.2	6.9	7.5	**7.1**	**7.2**	**7.5**	*6.9*	*7.1*	*7.5*
- Indonesia	2.5	6.0	5.6	5.0	4.9	**5.0**	**5.0**	**5.1**	*5.0*	*5.0*	*5.1*
Latin America	8.2	3.0	2.9	1.1	-0.1	**-1.0**	**1.2**	**2.1**	*-0.7*	*1.4*	*2.1*
- Brazil	2.8	1.9	3.0	0.5	-3.8	**-3.6**	**0.5**	**1.8**	*-3.4*	*0.6*	*1.7*
- Mexico	1.9	4.0	1.4	2.3	2.6	**2.3**	**1.7**	**2.1**	*2.1*	*1.7*	*2.1*
Sub-Saharan Africa	3.2	4.1	5.1	4.9	3.4	**1.2**	**2.6**	**3.4**	*1.6*	*3.1*	*3.9*
Emerging and developing economies	54.5	5.4	4.9	4.5	4.0	**4.1**	**4.5**	**4.8**	*4.0*	*4.5*	*4.8*
World	100.0	3.4	3.3	3.4	3.2	**3.0**	**3.4**	**3.6**	*3.0*	*3.4*	*3.6*
World excluding EU	83.1	4.2	4.0	3.7	3.4	**3.2**	**3.7**	**3.9**	*3.2*	*3.7*	*3.9*
World excluding euro area	88.2	4.0	3.8	3.7	3.4	**3.2**	**3.6**	**3.8**	*3.1*	*3.6*	*3.8*

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

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2012-18) 25.4.2017

						Spring 2017 forecast			*Winter 2017 forecast*		
	(a)	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
EU (b)	34.4	2.4	2.2	4.4	6.4	**3.1**	**4.0**	**4.1**	*2.8*	*3.5*	*3.8*
Euro area (b)	25.7	2.7	2.1	4.4	6.5	**2.9**	**3.8**	**4.1**	*2.7*	*3.3*	*3.7*
Candidate Countries	1.1	13.1	2.2	8.0	4.7	**-0.7**	**4.6**	**4.6**	*-0.8*	*3.9*	*4.4*
- Turkey	1.0	14.9	1.1	8.2	4.2	**-2.4**	**4.1**	**4.2**	*-2.3*	*3.5*	*4.0*
- The former Yugoslav Republic of Macedonia	0.0	2.0	6.1	16.5	6.7	**11.5**	**10.2**	**8.7**	*10.9*	*7.7*	*6.9*
- Montenegro	0.0	-0.3	-1.3	-0.7	5.7	**4.1**	**2.9**	**3.0**	*4.3*	*3.1*	*3.2*
- Serbia	0.1	0.8	21.3	5.7	10.2	**11.9**	**7.9**	**7.3**	*10.9*	*7.0*	*6.7*
- Albania	0.0	-0.6	-12.3	1.8	1.1	**12.8**	**5.6**	**6.4**	*10.7*	*5.5*	*6.2*
USA	10.9	3.4	3.5	4.3	0.1	**0.4**	**3.0**	**3.5**	*0.4*	*2.1*	*3.4*
Canada	2.4	2.6	2.7	5.8	3.4	**1.2**	**3.6**	**3.6**	*1.2*	*3.5*	*3.6*
Japan	3.7	-0.1	0.8	9.3	3.0	**1.2**	**2.8**	**1.1**	*0.2*	*1.0*	*1.0*
Korea	3.1	5.1	4.3	2.0	-0.1	**2.2**	**3.6**	**3.5**	*2.2*	*2.8*	*3.5*
Norway	0.7	1.4	-1.7	3.1	3.7	**-1.2**	**1.3**	**2.0**	*-1.3*	*1.7*	*1.9*
Switzerland	2.0	1.1	15.3	-6.2	2.3	**4.5**	**2.4**	**3.4**	*3.7*	*3.2*	*3.6*
Iceland	0.0	3.6	6.7	3.2	9.2	**11.1**	**5.7**	**4.4**	*10.0*	*4.5*	*4.5*
Australia	1.1	5.7	5.8	6.9	6.0	**3.2**	**4.4**	**4.4**	*3.8*	*4.8*	*4.4*
New Zealand	0.2	1.9	0.8	3.0	6.9	**3.6**	**3.6**	**3.6**	*3.2*	*3.2*	*3.2*
Advanced economies	66.7	2.7	3.3	4.2	4.0	**2.2**	**3.4**	**3.6**	*1.9*	*2.9*	*3.3*
CIS	2.8	2.4	1.1	-0.5	-1.3	**1.0**	**5.1**	**4.0**	*-0.2*	*3.0*	*3.3*
- Russia	1.9	1.4	4.6	0.6	3.7	**3.1**	**3.3**	**3.6**	*0.9*	*2.5*	*2.8*
- Other CIS	1.0	4.2	-5.3	-2.6	-11.1	**-3.2**	**8.3**	**4.8**	*-2.2*	*3.7*	*4.3*
MENA	5.7	8.0	2.7	-1.1	4.8	**4.2**	**2.4**	**3.0**	*3.4*	*3.3*	*3.5*
Emerging and developing Asia	18.1	4.5	7.2	4.3	-1.1	**1.9**	**3.3**	**3.7**	*1.9*	*3.2*	*3.6*
- China	11.7	5.9	8.8	4.3	-2.2	**1.8**	**3.1**	**3.4**	*2.0*	*3.1*	*3.4*
- India	2.1	0.7	5.0	3.9	-4.4	**2.3**	**3.3**	**3.9**	*2.0*	*3.2*	*3.8*
- Indonesia	0.8	1.8	3.3	1.9	0.4	**-1.7**	**2.9**	**3.9**	*-1.7*	*2.9*	*3.9*
Latin America	5.1	2.9	2.5	1.7	4.8	**1.2**	**3.2**	**3.6**	*1.5*	*2.5*	*3.1*
- Brazil	1.1	-0.3	2.8	-0.8	6.3	**1.7**	**2.6**	**3.4**	*3.5*	*2.0*	*3.1*
- Mexico	1.9	5.8	2.4	7.0	10.3	**1.3**	**4.1**	**3.8**	*0.3*	*2.7*	*2.9*
Sub-Saharan Africa	1.5	-0.8	4.8	0.7	2.8	**-0.9**	**4.1**	**3.9**	*0.7*	*3.1*	*3.7*
Emerging and developing economies	33.3	4.4	4.6	2.0	1.1	**2.0**	**3.3**	**3.6**	*1.9*	*3.1*	*3.5*
World	100.0	3.2	3.7	3.4	3.0	**2.1**	**3.4**	**3.6**	*1.9*	*2.9*	*3.4*
World excluding EU	65.6	3.7	4.5	2.9	1.3	**1.6**	**3.1**	**3.3**	*1.4*	*2.7*	*3.2*
World excluding euro area	74.3	3.4	4.3	3.1	1.8	**1.8**	**3.2**	**3.4**	*1.6*	*2.8*	*3.3*

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2015.

Table 57: Export shares in EU trade (goods only - 2015) 25.4.2017

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	63.1	45.9	2.0	7.9	1.3	7.5	3.7	3.1	2.2	5.0	2.6	1.7
Euro area	63.0	45.2	1.9	7.9	1.3	7.0	3.8	3.2	2.1	5.2	2.8	1.8
Belgium	73.4	58.2	1.2	5.7	0.8	4.0	1.9	3.8	1.0	4.1	1.5	2.7
Bulgaria	65.3	47.6	12.6	2.1	0.3	2.1	2.8	2.8	4.4	6.2	0.6	0.9
Czech Republic	82.6	64.8	1.7	2.6	0.5	3.4	1.5	1.2	2.8	2.4	0.7	0.6
Denmark	61.7	38.5	1.0	8.6	2.0	11.2	4.4	2.7	1.4	3.3	2.7	1.0
Germany	57.6	36.2	2.0	9.6	1.5	8.7	6.4	3.5	2.4	4.2	2.9	1.3
Estonia	73.9	46.7	1.6	3.6	0.7	7.0	1.5	1.7	6.8	1.7	0.6	0.8
Ireland	51.9	35.0	0.6	24.5	4.1	8.4	2.2	1.9	0.7	2.9	2.0	0.9
Greece	54.2	37.5	12.5	5.1	0.3	3.5	1.0	1.9	2.6	15.3	1.8	1.7
Spain	65.0	51.2	2.2	4.9	1.2	4.7	1.9	2.0	1.2	8.5	6.5	1.8
France	57.9	45.0	1.6	8.1	1.6	7.3	4.3	4.4	1.6	7.4	3.0	2.7
Croatia	72.1	60.1	9.9	4.0	0.5	2.7	0.9	0.8	3.0	4.5	0.8	0.5
Italy	53.7	39.4	3.2	9.2	1.5	9.8	3.1	3.3	2.7	8.5	3.6	1.5
Cyprus	51.2	32.4	0.4	1.2	0.0	3.9	1.7	9.9	2.0	27.4	0.4	2.0
Latvia	70.8	48.5	1.5	2.0	0.4	4.3	1.1	1.2	12.0	5.1	0.7	0.8
Lithuania	65.2	43.1	1.0	4.7	0.9	5.1	0.5	1.3	17.7	2.4	0.6	0.7
Luxembourg	83.4	71.8	1.1	3.0	0.4	3.7	1.5	1.5	1.2	2.5	0.9	0.9
Hungary	78.3	56.7	3.0	4.3	0.9	2.9	2.2	1.0	3.9	1.7	1.5	0.4
Malta	38.4	28.1	0.8	5.2	3.5	13.2	6.2	9.1	0.8	19.2	1.2	2.5
Netherlands	77.6	59.3	1.0	3.5	0.6	4.4	1.8	2.6	1.2	3.2	2.0	2.2
Austria	69.6	51.6	1.6	6.8	1.0	8.2	2.7	2.4	2.5	2.7	1.9	0.7
Poland	79.2	56.5	2.0	2.6	0.4	3.8	1.2	1.2	5.1	1.9	1.6	0.9
Portugal	70.3	59.3	1.0	5.6	0.5	3.5	2.2	0.7	0.7	4.7	3.4	7.3
Romania	71.8	52.6	5.6	2.8	0.6	3.0	1.6	1.0	4.7	6.8	1.2	0.9
Slovenia	78.5	54.5	5.4	2.1	0.2	3.0	1.0	1.0	4.6	3.2	0.6	0.4
Slovakia	84.0	46.8	1.8	2.7	0.1	3.0	2.3	0.4	3.3	1.6	0.5	0.3
Finland	58.6	38.2	1.6	6.9	2.1	8.3	5.0	3.9	5.8	3.5	3.0	1.2
Sweden	60.0	40.7	1.2	7.3	1.3	13.0	4.2	3.5	1.7	3.9	2.4	1.5
United Kingdom	46.0	40.6	1.5	14.1	1.5	14.8	5.2	4.6	1.4	6.6	2.1	2.1

Table 58: World imports of goods and services, volume (percentage change on preceding year, 2012-18) 25.4.2017

						Spring 2017 forecast			Winter 2017 forecast		
	(a)	2012	2013	2014	2015	2016	2017	2018	*2016*	*2017*	*2018*
EU (b)	32.6	-0.2	1.7	5.0	6.3	**4.0**	**4.2**	**4.3**	*3.5*	*3.9*	*4.1*
Euro area (b)	23.8	-0.8	1.4	4.9	6.5	**4.0**	**4.2**	**4.6**	*3.3*	*3.8*	*4.3*
Candidate Countries	1.3	0.7	7.2	0.5	2.3	**4.4**	**2.7**	**4.9**	*5.5*	*4.3*	*4.9*
- Turkey	1.1	0.7	8.0	-0.4	1.7	**3.9**	**2.0**	**4.7**	*5.0*	*4.0*	*4.7*
- The former Yugoslav Republic of Macedonia	0.0	8.2	2.2	14.1	5.2	**7.6**	**6.7**	**6.4**	*8.1*	*5.8*	*5.1*
- Montenegro	0.0	0.6	-3.1	1.6	4.4	**13.6**	**6.2**	**3.8**	*15.0*	*6.1*	*4.5*
- Serbia	0.1	1.4	5.0	5.6	9.3	**6.8**	**7.0**	**6.9**	*7.5*	*6.0*	*6.3*
- Albania	0.0	-6.6	-7.8	4.6	-3.1	**7.4**	**6.7**	**4.9**	*9.8*	*6.9*	*5.1*
USA	13.7	2.2	1.1	4.4	4.6	**1.2**	**4.8**	**6.1**	*1.1*	*4.8*	*6.3*
Canada	2.6	3.6	1.6	2.2	0.3	**-1.0**	**1.1**	**2.5**	*-0.3*	*2.8*	*2.7*
Japan	3.9	5.4	3.3	8.3	0.1	**-1.7**	**1.3**	**0.7**	*-2.0*	*0.9*	*0.7*
Korea	2.7	2.4	1.7	1.5	2.1	**1.7**	**3.4**	**2.8**	*1.9*	*2.6*	*2.8*
Norway	0.6	3.1	4.9	2.4	1.6	**0.3**	**1.7**	**2.3**	*1.0*	*2.4*	*2.5*
Switzerland	1.7	-2.6	13.5	-7.8	4.5	**2.7**	**2.6**	**3.8**	*3.5*	*3.4*	*3.8*
Iceland	0.0	4.6	0.1	9.8	13.5	**14.7**	**10.3**	**7.8**	*17.1*	*6.6*	*7.8*
Australia	1.3	5.5	-2.2	-1.1	2.0	**1.6**	**1.7**	**2.4**	*1.6*	*1.9*	*2.4*
New Zealand	0.2	2.8	6.2	7.9	3.7	**1.9**	**2.4**	**2.8**	*2.0*	*2.8*	*2.8*
Advanced economies	67.2	1.3	2.5	4.1	4.6	**2.4**	**3.6**	**4.1**	*2.1*	*3.5*	*4.0*
CIS	2.4	9.6	1.5	-8.4	-21.2	**-3.3**	**3.6**	**3.2**	*-3.1*	*1.8*	*2.1*
- Russia	1.4	9.7	3.6	-7.6	-25.8	**-3.8**	**2.3**	**3.4**	*-4.6*	*1.5*	*1.9*
- Other CIS	1.0	9.5	-1.7	-9.6	-13.5	**-2.6**	**5.3**	**2.9**	*-1.0*	*2.2*	*2.4*
MENA	5.9	8.9	7.7	5.8	0.0	**0.9**	**1.8**	**2.9**	*0.9*	*1.8*	*3.0*
Emerging and developing Asia	16.8	5.6	6.4	6.1	0.9	**3.1**	**4.0**	**4.4**	*2.4*	*3.5*	*4.0*
- China	10.1	6.6	10.6	7.8	-0.5	**5.1**	**4.6**	**4.7**	*4.1*	*3.9*	*4.1*
- India	2.4	1.4	-3.5	6.1	2.0	**-1.2**	**2.1**	**3.5**	*-1.6*	*2.1*	*3.5*
- Indonesia	0.8	14.2	1.2	-1.3	-6.2	**-2.3**	**2.8**	**3.9**	*-2.0*	*2.8*	*3.9*
Latin America	5.8	5.0	3.3	0.2	-1.3	**-3.3**	**2.6**	**3.1**	*-2.5*	*2.2*	*2.9*
- Brazil	1.2	0.4	7.0	-1.0	-14.2	**-9.6**	**3.2**	**3.6**	*-9.4*	*2.7*	*3.3*
- Mexico	2.1	5.5	2.6	6.0	8.6	**0.4**	**2.6**	**3.3**	*0.7*	*2.8*	*3.2*
Sub-Saharan Africa	1.9	3.3	3.6	6.7	1.7	**-0.9**	**3.1**	**4.1**	*-0.2*	*3.1*	*4.1*
Emerging and developing economies	32.8	6.3	5.4	3.5	-1.6	**0.9**	**3.3**	**3.8**	*0.7*	*2.8*	*3.5*
World	100.0	2.8	3.5	3.9	2.5	**1.9**	**3.5**	**4.0**	*1.7*	*3.3*	*3.8*
World excluding EU	67.4	4.4	4.3	3.3	0.7	**0.8**	**3.1**	**3.8**	*0.8*	*3.0*	*3.7*
World excluding euro area	76.2	4.1	4.1	3.6	1.3	**1.2**	**3.2**	**3.8**	*1.2*	*3.1*	*3.7*

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2015.

Table 59: Import shares in EU trade (goods only - 2015) 25.4.2017

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	64.3	49.5	1.5	5.3	1.3	6.3	7.2	4.1	4.0	2.6	1.9	1.5
Euro area	63.9	48.5	1.4	5.3	1.3	6.0	6.9	4.1	4.2	3.1	2.2	1.6
Belgium	63.9	53.4	1.0	9.1	1.9	5.1	4.4	5.1	2.3	2.8	2.4	2.0
Bulgaria	66.5	46.8	8.2	1.0	0.3	2.3	3.7	1.7	12.5	1.8	1.4	0.6
Czech Republic	78.7	61.0	0.9	1.5	0.8	3.8	7.3	2.2	4.2	0.3	0.2	0.1
Denmark	70.9	48.3	1.1	2.6	0.5	9.2	7.3	3.4	2.2	0.6	1.6	0.7
Germany	66.6	45.4	1.7	4.8	1.5	7.4	7.0	4.3	3.4	1.0	1.5	0.9
Estonia	76.6	54.7	0.6	1.6	0.4	2.6	5.3	1.4	10.8	0.2	0.4	0.1
Ireland	68.0	30.1	0.6	13.3	1.8	5.3	4.0	3.3	0.5	0.7	1.8	0.8
Greece	53.9	41.1	4.1	1.5	0.5	5.2	6.8	2.9	10.8	12.1	1.3	0.7
Spain	61.5	50.2	1.7	3.5	0.8	3.8	7.1	4.0	2.0	6.9	5.0	3.6
France	69.6	58.6	1.1	5.5	0.9	5.4	5.0	3.3	2.1	4.1	1.3	1.7
Croatia	78.3	61.2	4.0	1.3	0.2	2.5	3.9	1.3	5.7	1.6	0.9	0.3
Italy	58.9	46.6	2.5	3.9	0.9	5.5	7.2	3.9	7.1	5.7	2.4	1.9
Cyprus	70.7	54.4	0.4	1.0	2.3	2.5	6.1	5.2	3.7	6.8	1.0	0.2
Latvia	63.9	46.7	0.7	1.1	0.2	2.0	4.0	1.6	25.8	0.3	0.2	0.1
Lithuania	66.7	45.2	0.9	1.7	0.2	3.2	3.8	0.9	20.5	1.0	0.5	0.5
Luxembourg	74.8	70.9	0.2	7.2	1.5	2.0	10.8	0.8	0.1	0.2	2.2	0.2
Hungary	76.9	58.5	1.6	1.9	1.5	3.4	6.2	2.4	4.9	0.7	0.5	0.1
Malta	40.5	32.4	2.9	3.0	2.0	16.0	11.8	8.4	11.8	3.0	0.2	0.4
Netherlands	47.0	35.9	0.7	8.0	2.3	6.8	13.1	6.5	6.3	3.1	3.8	2.4
Austria	79.2	65.1	1.2	2.6	0.7	6.8	2.7	2.6	2.3	1.3	0.5	0.2
Poland	72.6	59.1	1.3	1.8	0.7	3.7	7.2	2.3	7.8	0.8	1.4	0.4
Portugal	75.9	68.5	0.8	1.5	0.5	2.5	3.7	2.3	2.8	3.1	2.8	4.0
Romania	77.1	55.1	4.9	1.1	0.5	2.2	4.6	1.3	6.4	0.9	0.8	0.4
Slovenia	72.4	54.8	5.7	1.4	0.3	6.4	6.4	2.4	0.9	1.8	1.8	0.4
Slovakia	80.0	44.2	1.1	0.6	0.4	6.1	4.0	1.6	5.9	0.2	0.1	0.0
Finland	71.5	44.1	0.5	2.5	0.5	4.5	4.7	1.6	11.6	0.4	1.6	0.7
Sweden	72.5	52.5	1.0	2.8	1.1	8.8	5.7	2.9	2.7	0.5	1.2	0.8
United Kingdom	54.7	47.7	1.7	9.1	1.6	10.0	9.7	5.8	1.6	2.5	1.7	1.7

Table 60: World merchandise trade balances (fob-fob, in billions of US dollar, 2011-18) 25.4.2017

						Spring 2017 forecast			Winter 2017 forecast		
	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
EU	-35.9	86.2	189.9	214.9	323.1	350.2	284.0	273.4	342.0	276.7	268.4
EU, adjusted[1]	-155.8	-43.2	48.5	62.5	154.8	193.1	132.9	122.3	173.8	114.4	106.0
Euro area	118.3	253.5	354.9	397.9	481.8	504.4	451.9	451.9	504.0	456.3	450.2
Euro area, adjusted[1]	29.7	160.1	275.3	320.1	388.5	415.2	366.0	366.1	409.4	365.0	358.9
Candidate Countries	-102.7	-77.3	-89.6	-73.8	-70.9	-77.6	-79.2	-85.3	-53.1	-47.9	-54.3
USA	-778.0	-778.7	-736.8	-775.5	-788.7	-765.9	-861.2	-974.1	-765.5	-874.5	-999.8
Japan	-4.1	-53.6	-89.9	-99.1	-5.2	44.9	44.4	47.6	36.6	41.0	45.6
Norway	66.8	69.0	60.9	49.8	25.5	13.0	13.4	14.0	23.4	23.5	24.6
Switzerland	29.5	40.2	53.7	55.5	53.6	57.6	60.2	62.4	55.0	55.2	57.8
Advanced economies	-679.1	-607.3	-449.4	-444.2	-268.5	-180.1	-326.1	-435.8	-177.6	-349.2	-473.0
CIS	239.6	220.4	200.5	223.4	150.4	84.4	143.6	153.2	104.2	147.4	156.8
- Russia	198.8	192.8	183.6	189.3	143.2	90.0	138.1	147.1	115.0	150.0	159.5
MENA	617.8	655.8	592.4	467.4	137.4	84.7	178.8	182.0	57.7	167.1	174.0
Emerging and developing Asia	123.9	137.0	218.1	337.6	475.8	510.5	468.5	501.8	545.8	522.5	562.1
- China	228.7	311.6	359.0	435.0	567.0	589.4	561.8	601.5	608.5	603.9	650.6
Latin America	67.6	35.5	4.8	-16.8	-56.6	-19.9	-0.1	-4.1	-27.5	-15.1	-19.1
Sub-Saharan Africa	93.8	71.1	63.6	27.5	-32.2	-47.5	-39.4	-46.1	-43.7	-36.4	-44.1
Emerging and developing economies	1142.6	1119.8	1079.5	1039.1	674.8	612.2	751.3	786.7	636.5	785.4	829.7
World	463.5	512.5	630.0	594.8	406.3	432.1	425.2	350.8	458.9	436.3	356.7

[1] See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2011-18) 25.4.2017

						Spring 2017 forecast			Winter 2017 forecast		
	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
EU	46.3	163.7	258.3	255.2	316.0	345.5	308.6	314.1	347.7	308.3	319.8
EU, adjusted[1]	-41.4	104.6	197.4	184.6	194.7	286.1	251.5	257.0	213.4	178.8	190.2
Euro area	83.4	235.8	321.0	343.0	384.1	402.9	356.8	349.8	425.3	383.2	376.9
Euro area, adjusted[1]	-0.8	177.0	291.3	332.2	373.3	397.8	351.9	345.0	388.5	347.7	341.4
Candidate Countries	-82.0	-55.0	-68.5	-48.7	-35.9	-38.7	-39.5	-42.8	-41.9	-32.0	-39.9
USA	-460.4	-446.5	-366.4	-392.1	-463.0	-471.5	-550.3	-665.0	-463.0	-572.6	-715.6
Japan	130.5	59.7	45.7	38.0	138.2	193.9	204.0	212.1	192.4	192.6	200.8
Norway	61.6	63.4	53.5	55.0	33.5	18.1	17.2	16.5	23.7	22.6	21.9
Switzerland	56.9	73.1	85.1	68.9	78.4	83.5	83.1	87.0	77.8	78.0	82.7
Advanced economies	-213.1	-126.8	84.5	98.3	197.4	241.4	146.3	58.1	263.7	114.9	-3.3
CIS	106.6	63.6	16.8	55.3	47.4	-2.1	37.5	43.7	7.2	29.8	40.9
- Russia	96.6	68.5	32.1	56.0	64.3	23.0	57.0	60.9	23.5	43.7	49.4
MENA	414.9	423.6	360.6	206.9	-104.5	-88.9	-24.4	-20.5	-126.5	-63.6	-61.0
Emerging and developing Asia	118.4	126.4	92.9	270.8	337.9	326.2	233.2	203.8	347.4	277.4	260.7
- China	136.1	215.4	148.2	277.4	330.6	309.2	223.8	199.3	333.1	276.5	265.8
Latin America	-116.0	-140.4	-163.5	-189.6	-181.1	-110.8	-114.5	-129.5	-121.6	-123.6	-134.1
Sub-Saharan Africa	3.4	-11.4	-21.7	-50.2	-77.3	-44.9	-45.8	-45.1	-52.2	-48.9	-50.9
Emerging and developing economies	527.4	461.7	285.1	293.3	22.3	79.6	86.1	52.4	54.3	71.1	55.6
World	314.3	334.9	369.6	391.7	219.8	320.9	232.3	110.5	318.0	186.0	52.3

[1] See note 8 on concepts and sources.

Table 62: Primary commodity prices (in US dollar, percentage change on preceding year, 2011-2018) 25.4.2017

STIC Classification						Spring 2017 forecast			Winter 2017 forecast		
	2011	2012	2013	2014	2015	2016	2017	2018	2016	2017	2018
Food	13.1	0.2	3.2	-3.7	-15.7	-2.6	3.1	-0.2	-2.8	-1.0	-0.3
Basic materials	22.0	-15.9	-4.8	-4.7	-18.7	-0.5	12.9	-1.7	-1.0	5.9	-1.5
- of which:											
Agricultures non-food	32.5	-15.9	-4.7	3.8	-14.3	2.9	6.0	-1.0	2.2	3.5	-1.0
- of which:											
Wood and pulp	9.0	-5.8	1.2	2.6	-3.7	-3.0	-4.4	-0.2	-2.9	-3.9	-0.2
Minerals and metals	15.2	-15.8	-4.9	-11.1	-22.5	-3.9	20.1	-2.4	-4.2	8.3	-2.0
Fuel products	38.0	1.3	-2.9	-7.9	-45.0	-17.4	18.5	-0.5	-17.4	23.9	0.7
- of which:											
Crude petroleum	38.3	0.8	-2.7	-8.3	-46.5	-16.2	24.0	0.8	-16.2	25.9	0.8
Primary Commodities											
- Total excluding fuels	18.5	-9.7	-1.4	-4.3	-17.4	-1.5	8.5	-1.1	-1.8	2.8	-1.0
- Total including fuels	34.5	-0.4	-2.7	-7.4	-41.0	-14.1	16.1	-0.7	-14.2	18.9	0.3
Crude petroleum - price per barrel											
Brent (usd)	110.9	111.8	108.8	99.7	53.4	44.8	55.5	55.9	44.8	56.4	56.9
Brent (euro)	79.7	87.0	81.9	75.1	48.1	40.4	52.1	52.5	40.4	52.8	53.2

Note on concepts and sources

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts in Winter, Spring and Autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the candidate countries, the European Union as a whole, the euro area and the international environment.

2. Data for 2016, 2017, and 2018 are forecasts. The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of Accounts (ESA 2010). US national accounts are based on SNA 2008, whilst the Japanese accounts use SNA 1993.

3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.

4. In Tables 17 and 18, the data are based on the national index for USA and Japan.

5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.

6. Employment data used in tables 23-29 and 32-33 are based on full-time-equivalents (FTEs), where available. Currently, Spain, France, Italy, and the Netherlands report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.

7. Source: National Accounts (ESA 2010), except for US current-account in tables 50, 52, and 61 (Balance of Payments). Discrepancies with balance of payments statistics may arise due to methodological differences and revision schedules.

8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 49 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading toerestimation 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 2016.

9. Geographical zones are defined as follows :

Euro area :
EA19 (BE, DE, EE, IE, EL, ES, FR, IT, CY, LV, LT, LU, MT, NL, AT, PT, SI, SK, and FI)

European Union :
EU28 (EA19, BG, CZ, DK, HR, HU, PL, RO, SE, and UK).

Candidate countries :
Turkey, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Albania.

Potential candidates :
Bosnia-Herzegovina and Kosovo.

Advanced economies :
EU, candidate countries, USA, Canada, Japan, Korea, Hong Kong, Singapore, Taiwan, Norway, Switzerland, Iceland, Australia and New Zealand.

MENA (Middle East and Northern Africa) :
Algeria, Tunisia, Morocco, Egypt, Israel, Jordan, Lebanon, Iraq, Iran, Yemen, Saudi Arabia, Bahrain, Oman, United Arab Emirates, Kuwait, and Qatar.

Emerging ad Developing asia :
All countries in that region except the ones included in the Advanced economies and the Asian MENA countries.

Latin America :
All countries in that region.

Sub-Saharan Africa :
All countries in that region except the African MENA countries.

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