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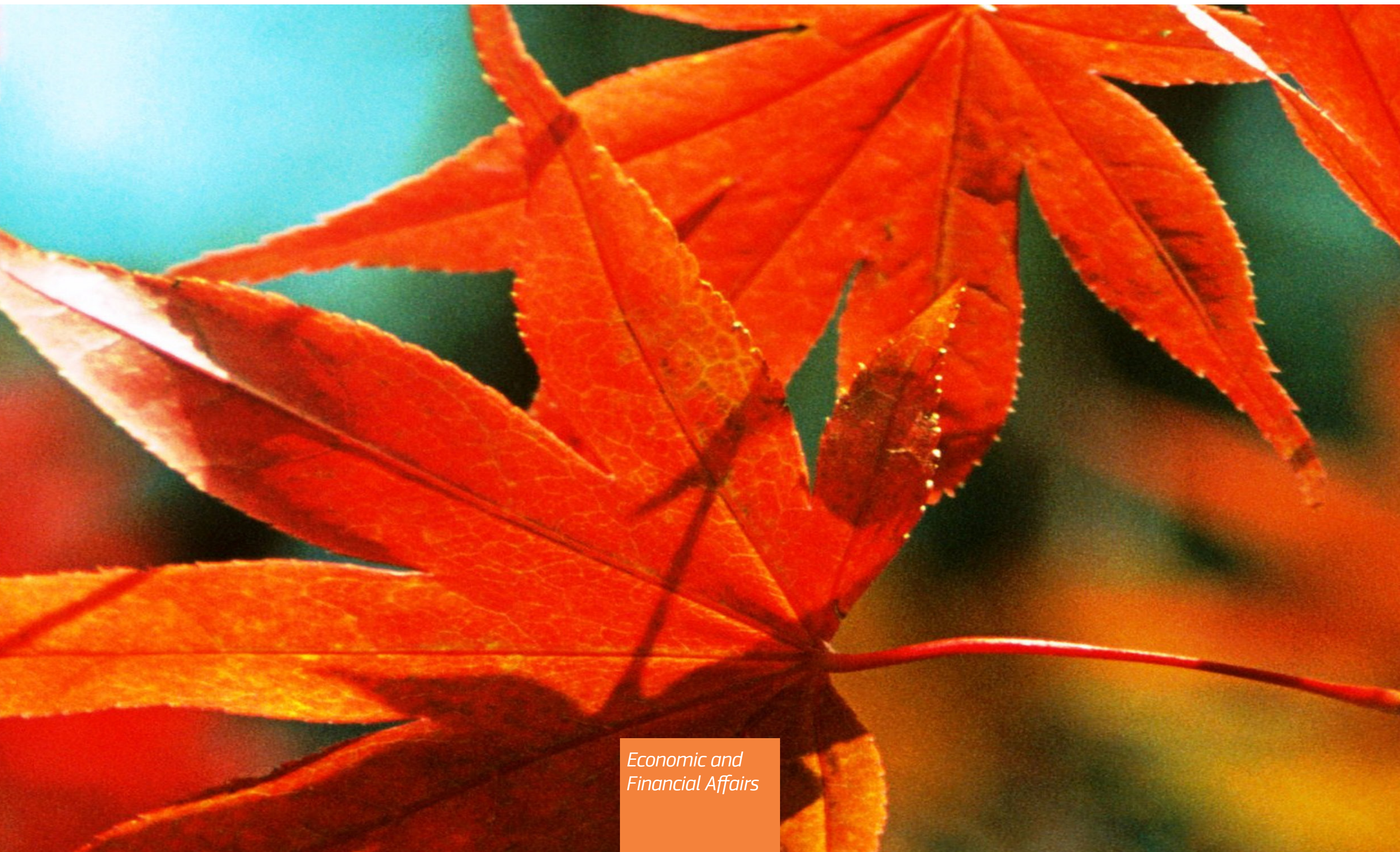
European Economic Forecast

Autumn 2014

EUROPEAN ECONOMY 7|2014



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European Commission

Directorate-General for Economic and Financial Affairs

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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

BRICS	Brazil, Russia, India, China and South Africa
CEE	Central and Eastern Europe
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

BCS	Business and Consumer Surveys
CDS	Credit Default Swaps
EDP	Excessive Deficit Procedure
ESI	Economic Sentiment Indicator
Euribor	European Interbank Offered Rate
GDP	Gross Domestic Product
GNI	Gross National Income
HICP	Harmonised Index of Consumer Prices
Libor	London Interbank Offered Rate

NAWRU	Non-Accelerating Wage Rate of Unemployment
PMI	Purchasing Managers' Index
REER	Real Effective Exchange Rate
SGP	Stability and Growth Pact
VAT	Value-Added Tax

CPB	Centraal Planbureau, the Netherlands Bureau for Economic Policy Analysis
ECB	European Central Bank
EIB	European Investment Bank
EFSF	European Financial Stability Facility
EMU	Economic and Monetary Union
ESM	European Stability Mechanism
FOMC	Federal Open Market Committee, US
Fed	Federal Reserve, US
IMF	International Monetary Fund
OBR	Office for Budget Responsibility, UK
OECD	Organisation for Economic Cooperation and Development
WTO	World Trade Organisation

Other abbreviations

AQR	Asset Quality Review
BLS	Bank Lending Survey
CFCI	Composite Financing Cost Indicator
DSGE	Dynamic stochastic general equilibrium [model]
FDI	Foreign Direct Investment
FLS	Funding for Lending Scheme, UK
FY	Financial year
JPA	Job Protection Plan, Hungary
LFS	Labour Force Survey
LTRO	Longer-Term Refinancing Operation
MRO	Main Refinancing Operations
NFC	Non-Financial Corporations
OMT	Outright Monetary Transactions
SME	Small and medium-sized enterprises
SMP	Securities Market Programme, ECB
QUEST	Quarterly Estimation and Simulation Tool, DG ECFIN's DSGE model

Graphs/Tables/Units

a.a.	Annual average
bbl	Barrel
bn	Billion
bps	Basis points
lhs	Left hand scale
pp. / pps.	Percentage point / points
pts	Points
Q	Quarter
q-o-q%	Quarter-on-quarter percentage change
rhs	Right hand scale
SAAR	Seasonally-Adjusted Annual Rate
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
LTL	Lithuanian litas
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
TRY	Turkish lira
USD	US dollar

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EDITORIAL

After just a year of moderate growth, the momentum of the EU economy began to slow in spring 2014. In the second half of this year, GDP growth in the EU is set to be very modest, while in the euro area it will almost stagnate. Among the largest euro area Member States, we see growth increasing in Spain where unemployment remains very high, growth coming to a stop in Germany after a very strong first quarter, protracted stagnation in France, and contraction in Italy. Financial markets have adjusted sharply in recent weeks as the prospect of more modest growth, not just in Europe but globally, has ended a period of yield hunting and risk compression.

The slowdown in Europe has occurred as the legacy of the global financial and economic crisis lingers on in the form of deleveraging pressures and incomplete internal and external adjustment. A weakness of potential growth that was already visible in low productivity gains in the pre-crisis years has been exacerbated by the contraction in capital formation and the increase of structural unemployment since 2008. In the first half of 2014, a slowdown of GDP growth among the EU's major trading partners and the rapidly deteriorating geopolitical situation, have affected the EU through slower-than-expected export growth and negative confidence effects. With the observed slowdown of activity, slack in the EU economy remains large and is weighing on inflation, which is also being dragged down by tumbling energy and food prices.

Over the course of next year, however, growth should gradually rise before picking up further still in 2016. The main causes of the current weakness are set to fade very gradually, as private debt is brought down, the repair of the banking sector progresses further with the help of the ECB's comprehensive assessment, the transmission of ample monetary policy to the real economy improves, already-implemented structural reforms feed through, and geopolitical tensions diminish. But despite this moderate growth, unemployment will still be high at the end of the forecast horizon and the euro area is still projected to have spare capacity in 2016.

The new European Commission under President Juncker is taking office amid economic headwinds. The dual challenge for economic policy consists in strengthening short-term economic dynamics and raising the economy's growth potential for the medium term. Meeting these challenges requires articulated impulses from monetary and fiscal policies while at the same time addressing long-standing structural weaknesses. The ECB's recent decisions should improve the supply of credit to the real economy. On the fiscal side, there is well-identified scope for a more growth-friendly orientation of given expenditure that could both improve growth in the short run and lift the medium-term growth potential. Moreover, fiscal space, where it exists, can and should be used to support demand, in particular by stimulating investment, which would also support growth in the longer term. The Commission will contribute to this effort by mobilising public funds at EU level to stimulate private investment in the real economy. Finally, the recent fall in business and consumer confidence and the volatility in financial markets also reflect lack of progress with the conception and implementation of structural reforms needed to improve the functioning of product markets and to boost job creation. What needs to be done has been identified, not least in the EU recommendations to Member States adopted last summer. Implementation and results is what counts now.

Marco Buti

Director General

Economic and Financial Affairs

OVERVIEW

The recovery is struggling to gain momentum ...

As the vast majority of EU economies returned to growth over the course of last year, expectations were raised that Europe's economic recovery was becoming more broadly based and self-sustaining. In the first half of this year, however, GDP growth struggled to gather momentum, leaving the recovery not only subdued but also fragile. With confidence indicators declining since mid-year and now back to where they were at the end of 2013, and hard data pointing to very weak activity for the rest of the year, it is becoming harder to see the dent in the recovery as the result of temporary factors only.

GDP growth forecasts have therefore been revised down to reflect not only the materialisation of some of the risks identified in spring, but also a reassessment of the underlying dynamics of domestic demand, particularly investment, which has failed so far to emerge as a strong engine of growth. Annual GDP growth in the EU this year is now projected to be 1.3%, while growth in the euro area is expected to be 0.8%.

Economic activity, however, should gradually strengthen over the course of 2015 and accelerate further in 2016, as the legacies of the crisis fade away, structural reforms start to bear fruit, labour markets improve and more supportive policies and financing conditions are in place. Against this

Table 1:
Overview - the autumn 2014 forecast

	Real GDP				Inflation				Unemployment rate			
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
Belgium	0.3	0.9	0.9	1.1	1.2	0.6	0.9	1.3	8.4	8.5	8.4	8.2
Germany	0.1	1.3	1.1	1.8	1.6	0.9	1.2	1.6	5.3	5.1	5.1	4.8
Estonia	1.6	1.9	2.0	2.7	3.2	0.7	1.6	2.2	8.6	7.8	7.1	6.3
Ireland	0.2	4.6	3.6	3.7	0.5	0.4	0.9	1.4	13.1	11.1	9.6	8.5
Greece	-3.3	0.6	2.9	3.7	-0.9	-1.0	0.3	1.1	27.5	26.8	25.0	22.0
Spain	-1.2	1.2	1.7	2.2	1.5	-0.1	0.5	1.2	26.1	24.8	23.5	22.2
France	0.3	0.3	0.7	1.5	1.0	0.6	0.7	1.1	10.3	10.4	10.4	10.2
Italy	-1.9	-0.4	0.6	1.1	1.3	0.2	0.5	2.0	12.2	12.6	12.6	12.4
Cyprus	-5.4	-2.8	0.4	1.6	0.4	-0.2	0.7	1.2	15.9	16.2	15.8	14.8
Latvia	4.2	2.6	2.9	3.6	0.0	0.8	1.8	2.5	11.9	11.0	10.2	9.2
Lithuania	3.3	2.7	3.1	3.4	1.2	0.3	1.3	1.9	11.8	11.2	10.4	9.5
Luxembourg	2.0	3.0	2.4	2.9	1.7	1.0	2.1	1.9	5.9	6.1	6.2	6.1
Malta	2.5	3.0	2.9	2.7	1.0	0.7	1.5	2.0	6.4	6.1	6.1	6.2
Netherlands	-0.7	0.9	1.4	1.7	2.6	0.4	0.8	1.1	6.7	6.9	6.8	6.7
Austria	0.2	0.7	1.2	1.5	2.1	1.5	1.7	1.8	4.9	5.3	5.4	5.0
Portugal	-1.4	0.9	1.3	1.7	0.4	0.0	0.6	0.9	16.4	14.5	13.6	12.8
Slovenia	-1.0	2.4	1.7	2.5	1.9	0.4	1.0	1.5	10.1	9.8	9.2	8.4
Slovakia	1.4	2.4	2.5	3.3	1.5	-0.1	0.7	1.4	14.2	13.4	12.8	12.1
Finland	-1.2	-0.4	0.6	1.1	2.2	1.2	1.3	1.6	8.2	8.6	8.5	8.3
Euro area	**-0.5**	**0.8**	**1.1**	**1.7**	**1.4**	**0.5**	**0.8**	**1.5**	**11.9**	**11.6**	**11.3**	**10.8**
Bulgaria	1.1	1.2	0.6	1.0	0.4	-1.4	0.4	1.0	13.0	12.0	11.4	11.0
Czech Republic	-0.7	2.5	2.7	2.7	1.4	0.5	1.4	1.8	7.0	6.3	6.2	6.1
Denmark	-0.1	0.8	1.7	2.0	0.5	0.4	1.1	1.7	7.0	6.7	6.6	6.4
Croatia	-0.9	-0.7	0.2	1.1	2.3	0.2	0.6	1.1	17.3	17.7	17.7	17.3
Hungary	1.5	3.2	2.5	2.0	1.7	0.1	2.5	3.0	10.2	8.0	7.8	7.8
Poland	1.7	3.0	2.8	3.3	0.8	0.2	1.1	1.9	10.3	9.5	9.3	8.8
Romania	3.5	2.0	2.4	2.8	3.2	1.5	2.1	2.7	7.3	7.0	6.9	6.7
Sweden	1.5	2.0	2.4	2.7	0.4	0.2	1.2	1.5	8.0	7.9	7.8	7.6
United Kingdom	1.7	3.1	2.7	2.5	2.6	1.5	1.6	1.9	7.5	6.2	5.7	5.5
EU	**0.0**	**1.3**	**1.5**	**2.0**	**1.5**	**0.6**	**1.0**	**1.6**	**10.8**	**10.3**	**10.0**	**9.5**
USA	2.2	2.2	3.1	3.2	1.5	1.8	2.0	2.3	7.4	6.3	5.8	5.4
Japan	1.5	1.1	1.0	1.0	0.4	2.8	1.6	1.4	4.0	3.8	3.8	3.8
China	7.6	7.3	7.1	6.9	2.6	2.4	2.4	:	:	:	:	:
World	**3.1**	**3.3**	**3.8**	**4.1**	:	:	:	:	:	:	:	:

background, growth in the EU is forecast to rise to 1.5% in 2015 and then increase modestly to 2.0% in 2016, while in the euro area, growth is forecast to reach 1.1% and then 1.7%. Domestic demand is expected to be the major driver of growth over the forecast horizon. To the extent that the strengthening of the economic recovery has been postponed, inflation has continued to decline, triggered also by falling energy and food prices. The forecast for inflation in the EU has been trimmed for this year and next.

... while world trade slowed.

Global GDP growth in the first half of the year turned out considerably lower than expected, mainly due to weakness in some advanced and emerging economies but also to rising geopolitical tensions in Ukraine and the Middle East.

A steady recovery is nonetheless expected in non-European advanced economies, as some of the factors that held back growth in the first half of 2014 will probably prove temporary. Notably, in the US, strong momentum in the economy will be supported by lower fiscal drag and the continuation of accommodative monetary policies. The growth outlook for emerging market economies is supported by relative resilience in emerging Asia, although a gradual deceleration of activity is likely in China. Global growth this year is now expected at 3.3 %, increasing to 3.8 % in 2015 and 4.1 % in 2016.

Mirroring the evolution of global growth, world trade weakened significantly earlier this year, revealing a steep contraction of trade flows in emerging markets. Despite a pick up since the summer, the forecast for trade growth has been revised down, reflecting also a reassessment of trade intensity to growth. World import growth is expected to reach 3.0 % in 2014, 4.6 % in 2015 and 5.5 % in 2016. Brent oil prices have sharply decreased since the spring, triggered by weak demand in the OECD and China, ample supply and market confidence in OPEC's capacity to balance any disruption stemming from geopolitical conflicts. The impact of lower commodity prices on inflation in the euro area, however, should be softened by the currency's depreciation.

The euro area is lagging behind ...

The EU's recovery appears particularly weak, not only in comparison to other advanced economies but to historical examples of post-financial crisis recoveries as well, even though these too were typically slow and fragile. Trend GDP growth, which was already relatively slow before the crisis as a result of low productivity gains, has fallen further due to low investment and high structural unemployment. In the euro area in particular, growth continues to be held back by deleveraging pressures, incomplete adjustment of macroeconomic imbalances as well as disappointment over the pace of structural and institutional reform. The legacy of the crisis is affecting Member States to different degrees but spillovers through trade and confidence are large.

Among the largest Member States, growth in *Germany* has halted, but is expected to gradually pick up again on the back of a robust labour market and strengthening external demand, while corporate investment is projected to resume only hesitantly. The *French* economy is expected to register only very slow growth in 2015 amid a subdued pace of private consumption and still contracting investment. In *Italy*, GDP growth is projected to turn positive early next year, as growing external demand is set to drive a still fragile recovery. In *Spain*, GDP growth is projected to increase, supported in particular by rising employment and easier financing conditions. Growth in *the Netherlands* is expected to firm as private consumption picks up again on the back of increasing employment and the gradually recovering housing market. Outside the euro area, the *United Kingdom* is set to register robust growth, as both investment and consumption expand at a fast pace. Growth in *Poland* has moderated on the back of weaker external demand, but private consumption is set to support a still healthy expansion. Most of the euro-area Member States that had or have adjustment programmes are now catching up. Growth in *Ireland* and *Greece* is expected to be substantially above the EU average next year, and close to it in *Portugal*. In *Cyprus*, a modest recovery is expected to begin in 2015. While faster growth in these countries has to be seen against the backdrop of the large output losses during the crisis, it nonetheless points to significant progress in the adjustment. Finally, in most of the Member States that joined the EU a decade or less ago, output is growing faster as the process of real convergence continues.

… but positive factors should favour a self-sustaining recovery …

Over the forecast horizon, domestic demand should increasingly benefit from the very accommodative stance of monetary policy, low financing costs, more favourable credit supply conditions, decreasing deleveraging needs, and the broadly neutral stance of fiscal policy in the EU. Private investment should gradually recover, benefitting also from progress with balance-sheet adjustments, improving demand prospects, and catching-up effects, though it will initially be held back by spare capacities, which remain ample. Equipment investment should accelerate mainly in 2016, spurred by accelerating output, while construction investment is set to recover steadily but more moderately. Rising real disposable incomes, low mortgage rates, and improved access to credit should support residential investment, although less so in countries where housing markets are still adjusting.

Private consumption is set to expand moderately in 2015 and 2016, supported by low commodity prices and rising incomes, as the labour market gradually improves. Moreover, despite lower inflation, consumers are not expected to postpone major purchases but to spend most of the projected increase in their real disposable income. In some countries where deleveraging needs remain significant, households may continue to increase their savings. As in the spring, public consumption is expected to contribute marginally to growth.

…since net exports will contribute little to growth.

The expected acceleration of global trade and the depreciation of the euro should both support EU exports. However, the increased import intensity of EU exports will limit the benefit of depreciation on trade, while imports are also set to rise as domestic demand slowly firms. Net exports are thus likely to contribute only marginally to GDP growth over the forecast horizon.

Financial conditions are increasingly supportive …

Monetary policy in the euro area has become more accommodative since mid-2014 and some Member States outside the euro area have also cut interest rates. Following the ECB's decisions, short-term money-market rates have declined to close to (or below) zero and longer-term rates have shifted down even more than in the US. This is also a reflection of mixed economic data and of the slight decline in long-term inflation expectations. Bond spreads in vulnerable Member States have, overall, continued to tighten, and corporate bond yields have followed sovereign yields down. These benign developments are starting to translate into decreasing financial fragmentation and lower financing costs for firms. The bank credit cycle for non-financial corporates is expected to turn positive next year. This improvement should benefit SMEs along with ECB policies targeting improved monetary policy transmission. Meanwhile, corporations are expected to fund investments with internal resources to a greater extent than in past economic cycles, especially in countries where the level of non-performing loans and corporate indebtedness are highest. Investor sentiment towards euro area banks has continued to strengthen amid further progress in bank balance sheet repair and an improved macro-financial environment. The recent correction in global and European financial markets reflects investors' growing concerns about the economic outlook. Benign financial market conditions and investment in risky assets can quickly reverse.

... and the fiscal stance remains neutral.

The deficit–to-GDP ratio in both the EU and the euro area are set to decrease further this year, albeit more slowly than in 2013, to respectively 3.0 % and 2.6 %. Government deficits are forecast to continue falling over the next two years, helped by strengthening economic activity. The fiscal policy stance is expected to be close to neutral in 2014 and 2015, as the fiscal effort, measured in terms of changes to the structural balance, should be broadly nil in both years. The debt-to-GDP ratios of the EU and the euro area are expected to peak next year at 88.3 % and 94.8 % respectively (under the ESA 2010 definition).

Labour markets are slowly improving ...

Recovery of the labour market in the EU is progressing but remains subdued, in line with the weakness of economic activity. Differences across Member States remain sizable but have started narrowing, thanks to improvements in stressed countries. The current pace of economic activity does not allow for rapid and massive absorption of excess capacities. Employment growth in 2014 is thus expected to be limited at 0.4 % in the euro area and 0.7 % in the EU; about the same as projected last spring. Supported by the economic recovery and the moderation shown in past wage increases, employment in 2015 is set to increase by 0.5 % in the euro area and 0.6 % in the EU before its growth gaining speed in 2016 to 0.9 % and 0.8 % respectively. As a result, the unemployment rate should fall slowly to 9.5 % in the EU and 10.8 % in the euro area in 2016, which is still above pre-crisis levels.

...and inflation is persistently low.

The disinflationary trend across EU Member States has continued this year, driven by lower commodity prices, especially for energy and food, the weaker-than-expected economic environment, and the euro's earlier appreciation. The slack in the labour market and economic agents' low expectations of future price developments have acted as a drag on wage developments, while producer prices have also been pulled down by spare capacities due to weak demand. Some Member States also experience very low, or negative, inflation rates as part of their inevitable adjustment process. In the near term, weak output and weak commodity prices should continue to dampen inflation over the rest of 2014. As economic activity gradually strengthens and wages rise, however, inflation should increase, also fuelled by the waning impact of low energy prices and slightly higher import prices due to the depreciation of the euro. HICP inflation in the euro area is now forecast to be 0.5 % this year, but to rise to 0.8 % in 2015 and 1.5 % in 2016. For the EU, inflation is seen at 0.6 % this year and then at 1.0 % in 2015 and 1.6 % in 2016.

External risks have increased

Even though the risk of higher geopolitical tensions has materialised since spring, risks to the growth outlook remain tilted to the downside. In particular, increased tensions with Russia, or intensified conflicts in the MENA region could hurt growth. Also, widespread and abrupt corrections in financial markets could occur as the US attempts to normalise its monetary policy, or because of increased global risk aversion. Further disappointment about the pace of implementation of reforms in the EU would also hurt the growth outlook.

Risks to the growth and the inflation outlook are closely linked. Downside risks to inflation stem mainly from weaker-than-expected domestic demand, a prolonged period of falling energy and commodity prices, and a de-anchoring of inflation expectations. Lower-than-expected inflation could have potentially serious effects on economic activity by making relative price adjustments more challenging and deleveraging more difficult. The risk of outright deflation, in the sense of a broad-based and self-perpetuating fall in prices across the euro area, however, still appears low. By contrast, should the recovery be faster-than-expected or oil prices higher than assumed, HICP inflation in the EU could turn out higher than forecast.

Upside risks to the growth outlook are fewer and include the possibility of stronger than expected increase in foreign demand, a faster-than-expected recovery of investment and employment. Sentiment and growth could also rebound more strongly.

PART I

EA and EU outlook

SLOW RECOVERY WITH VERY LOW INFLATION

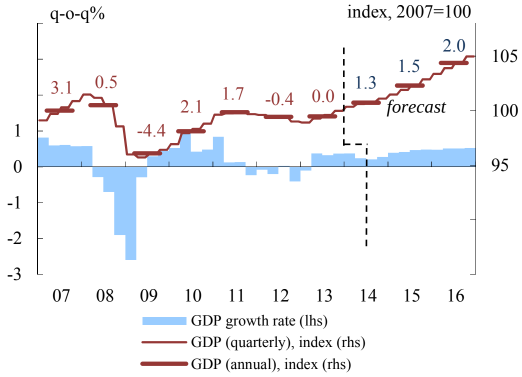
The EU economy is struggling to shake off its lethargy. Since the crisis struck, most Member States have been unable to generate or sustain strong economic momentum. While the recovery from such a deep crisis had been expected to be very subdued, the persistence of weak growth dynamics suggests that the EU's current predicament is particular.

In the first half of this year, Europe's particular challenges, in tandem with increased geopolitical tensions and a loss of momentum in global output and trade growth, slowed economic activity more than expected. In the euro area the tentative recovery almost came to a halt in the second quarter. While some of this weakness can be chalked up to statistical repercussions of extraordinary weather-related gains in the first quarter, underlying momentum appears to have lost steam. Recent indicator readings suggest slow growth in the EU and quasi-stagnation in the euro area will continue in the second half of the year, which implies annual GDP growth of 1.3% in the EU and 0.8% in the euro area. This weakness is expected to extend into early 2015, after which positive factors, such as improving labour market conditions, rising disposable incomes, improved financing conditions, diminishing financial fragmentation and lower deleveraging needs, should lift growth for the year to 1.5% in the EU and 1.1% in the euro area. Over time, a healthier banking sector, stronger growth in the rest of the world and the benefits of recently implemented structural reforms should raise the EU's growth rate in 2016 to 2.0% and the euro area's to 1.7% (Graph I.1).

Weak economic growth has so far limited the labour market's recovery. Job creation has been moderate and unemployment rates have fallen only slightly. Since economic growth is expected to gain momentum gradually, more meaningful labour market improvements should become visible towards the end of the forecast horizon. Falling energy and food prices, but also the substantial slack in the economy, have contributed to a further decrease in HICP inflation. Although economic growth looks set to remain weak over the coming quarters, the fading impact of the fall in energy prices, slightly higher import prices due to the depreciation of the euro, and upticks in wages should gradually raise inflation (Graph I.2). As a result this year's inflation rates of 0.6% in the EU and 0.5% in the euro area should mark a trough, with inflation expected to rise to 1.0% and 0.8%, respectively in 2015 and then 1.6% and 1.5% in 2016.

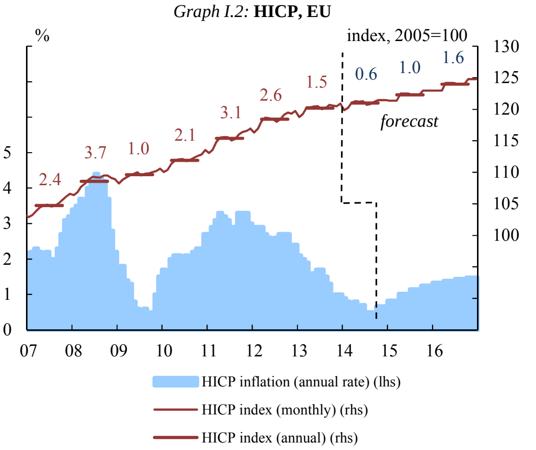
Downside risks continue to outweigh upside risks to the growth outlook, but the composition of risks has changed with geopolitical risks having become more relevant. While some downside risks to the inflation outlook appear to be more acute than previously assessed, others have partly materialised and been incorporated into the central scenario so that overall, the risks to the inflation outlook remain balanced.

Graph I.1: **Real GDP, EU**



Figures above horizontal bars are annual growth rates.

Graph I.2: **HICP, EU**



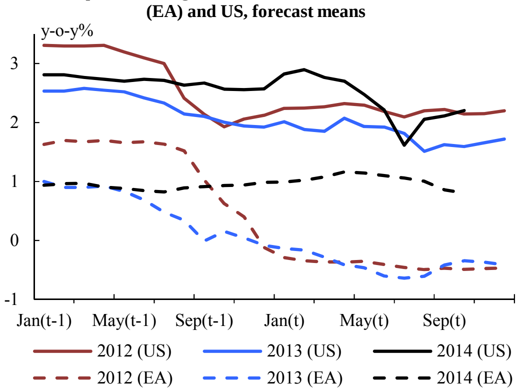
1. EU RECOVERY TO REMAIN SUBDUED FOR LONGER THAN EXPECTED

According to the autumn forecast, the recovery in the EU economy will continue, but remain subdued, with economic growth too low to make a substantial dent in unemployment. The source of low growth can be traced both to the global crisis and EU-specific factors. The recovery after the 2008-09 recession was in many countries weaker than usual recoveries. But the current sluggishness in the EU is even more pronounced than most analysts had expected. This points to the role of EU and euro-area specific factors. Such factors include for instance the repair of the banking sector and deleveraging, incomplete reforms, and the sovereign debt crisis. Their impact becomes visible in a comparison of contributions to GDP growth in the US and the euro area during the recovery years. Factors weighing in the euro area on private investment (e.g. less favourable financing conditions, more elevated uncertainty) and consumption (e.g. weaker labour market, larger remaining household deleveraging pressures) are making the recovery more subdued, lowering actual and potential growth. With these factors gradually fading over the forecast horizon, growth prospects are set to improve.

The recovery is remaining weak in the EU…

In the first half of 2014, the recovery in the EU and the euro area has continued, but its pace was slower than most forecasters had expected in spring. To some extent the weakness can be attributed to the negative impact of increased geopolitical tensions. But more generally, the question arises as to whether the growth dynamics following the Great Recession of 2008-09 have been weaker than initially expected and how this affects the outlook for economic growth. One way of assessing whether recovery expectations were met, is looking at market forecasts and how they have evolved over time. An analysis of market forecasts for GDP growth in the US and the euro area in the last two years and this year shows that forecasts in the beginning had been on the high side and were then mostly revised down successively. For instance, the forecast of euro area GDP growth in 2012 started in January 2011 at above 1½% and was then revised down to about -½% in December 2012 (see Graph I.3). As compared to forecasts for the last two years, the euro area forecast for 2014 has been relatively stable, showing only some small downward revisions in the last months. Taking all six forecast series together, there is evidence of an overestimation of growth dynamics in both constituencies. This invites a closer look at the sources of the protracted weakness of growth following the Great Recession, and the currently relatively weak growth momentum in the EU.

Graph I.3: **GDP growth forecasts 2012-14, euro area (EA) and US, forecast means**



Source: Consensus Economics, own calculations

…and continues to reflect the depth of the Great Recession…

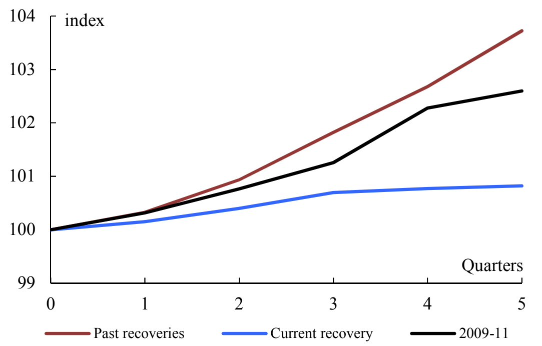
The expectation that recoveries following deep financial crises are more subdued than recoveries following normal recessions has accompanied economic analysis and forecasting almost since the start of the economic and financial crisis in the US economy in mid-2007.[1] Estimates about the duration of the recovery have been frequently updated. Recent estimates suggest that it would take about 6½ years (median) or eight years (mean) to return to the pre-crisis income level in the wake of a deep economic and financial crisis.[2] In fact, the recovery from the recession in 2008-09 has been slower than any other recovery in the post-World War II period on both sides of the Atlantic. But in principle, the subdued pace of the recovery in the EU economy would still be compatible with results of empirical studies on post-crises recoveries.

(1) See C. M. Reinhart and K. S. Rogoff, This Time is Different: Eight Centuries of Financial Folly, Princeton: Princeton University Press, 2009. Using a different definition of the recovery, Bordo and Haubrich claim that the hypothesis does not hold for the US (M.D. Bordo and J. G. Haubrich, Deep recessions, fast recoveries, and financial crises: evidence from the American record, *NBER Working Paper* no. 18194, June 2012).

(2) See C. M. Reinhart and K. S. Rogoff, Recovery from financial crisis: evidence from 100 episodes, *American Economic Review: Papers & Proceedings*, May 2014, Vol. 104, No. 5, pp. 50-55.

However, doubts as to whether the depth of the recession could fully explain the subdued pace of the recovery in the EU economy emerged already in 2010 when it became obvious that the recovery was proceeding at different speeds across regions and countries.(3) Initially the differences were often attributed to different exposures to the crisis, different exposures to the immediate world trade collapse, and to different policy responses. The explanation of the EU's recovery pattern became more challenging after the start of the sovereign-debt crisis in 2011(4) led to the recession of 2011-13. This gave more prominence to feedback loops between sovereigns, the banking sector and households, which interacted with negative growth factors emanating from the 2008-09 crisis.(5) Following the end of the 'double-dip' recession in spring 2013, the recovery has again been very modest (Graph I.4).(6) Taking these episodes together, in the EU and in the euro area, the period of weak economic growth is now already in its seventh year.

Graph I.4: **Comparison of past and current recoveries - GDP, euro area**

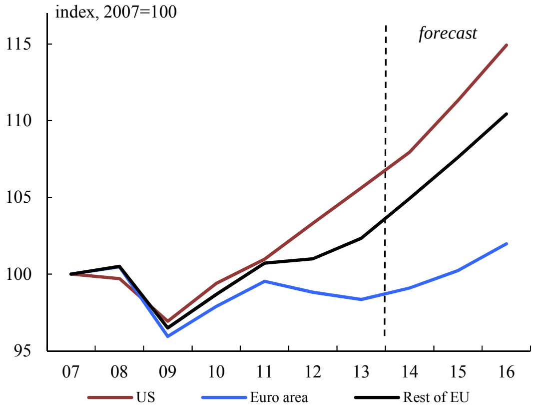


Note: Past recoveries included are those from the mid-1970s, early-1980s and early-1990s.

...but also EU and euro-area specific factors...

The longer the recovery in the EU remains weak, the less convincing becomes the argument that this is the typical pattern to be expected following a deep financial and monetary crisis like the one of 2008-09. Obviously, one argument could be that the shock in the EU, in particular in the euro area, was much bigger than the average of shocks looked at in studies of previous crises. But countries outside the euro area, including some with large exposure to the economic and financial crisis, as for instance the US, are often perceived as having recovered faster and/or performing stronger (Chart I.5).(7)

Graph I.5: **Real GDP**



The comparison with non-EU economies raises the question to what extent '*home-grown*' factors are contributing to the weakness of economic activity in the EU, and the euro area in particular. While some of these factors had already weighed on economic growth in the EU before the crisis, others have emerged only after the start of the global and economic crisis.(8) Such factors could include, for instance, a weaker-than-usual EU starting position, the EU's policy response to the crisis, the legacy of the euro area sovereign debt crisis (e.g. in terms of financial fragmentation as well as banking sector-sovereign links), still unfinished work to improve the EU's EMU architecture (including banking union), incomplete intra-EU adjustment processes, and the unfinished reform agenda in several Member States.

(3) On the multi-speed recovery, see: *European Economic Forecast* – Spring 2011 ("European recovery maintains momentum amid new risks"), May 2011, pp. 7-9.

(4) On feedback loops, see: *European Economic Forecast* – Autumn 2011 ("A recovery in distress"), pp. 11-15.

(5) On post-crises recovery patterns, see: *European Economic Forecast* – Spring 2012 ("From recession towards a slow recovery"), pp. 11-14.

(6) The weakness of the recovery has been interpreted as a continuation of the recession by the CEPR's Business Cycle Dating Committee (CEPR, Eurozone mired in recession pause, *VoxEU online*, 17 June 2014).

(7) Already in 2013, GDP in the US exceeded the pre-crisis level of 2008 (5.9%), whereas in the EU (-1.1%) and the euro area (-2.2%) it was still lower. The same applies to investment in the US (-1.4%), in the EU (-13.8%) and in the euro area (-15.4%). According to Commission estimates, in 2013 the output gap in the US was substantially narrower than in the euro area; it was wider according to IMF (*World Economic Outlook*, October 2014 database) and OECD (*Economic Outlook*, June 2014).

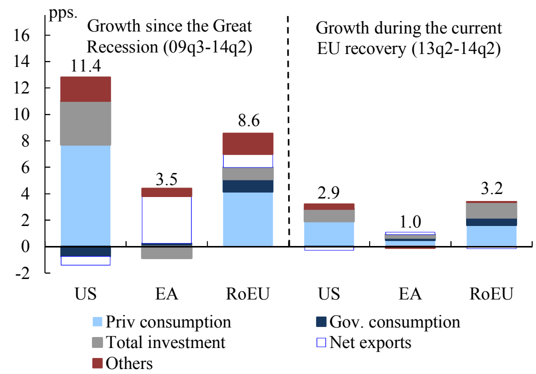
(8) The factors weighing on economic growth in the EU and in Member States already before the Great Recession of 2008-09 were in the centre of several growth comparisons between the EU and the US, see e.g. B. van Ark, M. O'Mahony and M. P. Timmer, The productivity gap between Europe and the United States: trends and causes, *Journal of Economic Perspectives*, Winter 2008, Vol. 22, No. 1, pp. 25-44.

Obviously, the impact of these factors will differ substantially between countries and contribute thereby to macroeconomic differences within the EU (see Section 4). [9] At the aggregate level, the EU specific additional factors could tend to slow the pace of the recovery further and thus delay full recovery. [10]

…explaining the 'recovery gap' of the EU economy…

Comparing the recovery in the euro area and other countries or regions is a challenging exercise due to the manifold determinants that play a role, including different policy responses to the Great Recession and to developments thereafter.[11] A more direct approach of explaining differences in GDP growth since the trough of the 2008-09 recession involves looking at GDP components, identifying differences and the potential causes. A closer look at the composition of post-crisis growth shows that GDP in the euro area was mainly driven by external demand (net exports) whereas the rest of the EU and the US had a major contribution from private consumption and, mainly in the case of the US, from total investment (Graph I.6).

Graph I.6: **Post-crisis GDP growth, contributions, in the US, euro area and rest of the EU**



Figures on top of the bars indicate total GDP growth (in %).

Investment rebounded stronger in the US and the UK than in the euro area. This could reflect cyclical factors, mainly a more favourable economic outlook. However, the long-standing and broad-based increase in equity prices during the recovery years seems to suggest that investors have been rather optimistic about the future growth of corporate profits, which should be a positive factor for investment. But there are also structural features that played a role and remain in place over the forecast horizon. These include among others some aspects of funding conditions, the indebtedness of non-financial corporations, and uncertainty. Additional reasons for differences are related to developments in construction investment after the sharp fall in house prices and construction activity during the Great Recession.[12]

Bank reliance versus market-based funding. One of the determinants of investment is the access to credit. Here the euro area with its heavy reliance on bank-financing felt a stronger impact of banks' ongoing balance sheet repair. Companies in the US and the UK used their options of market funding, whereas non-bank financing only increased gradually in the euro area. Banks in the euro area were affected by the sovereign debt crisis, which also had spill-overs from banks in stressed countries to banks in other countries. This weighed on bank behaviour in the euro area, contributed to funding constraints, and provided, apart from differences in the amount and composition of monetary accommodation, an explanation of the more subdued development of lending in the euro area.

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(9) In a similar way, the recovery has varied among US States. As compared to the trough in the second quarter of 2009, in the fourth quarter in 2013, real GDP was 22.0% higher in the five best performing States, but only 2.9% in the five worst performing States, which differs markedly from the averages in the US (10.1%) and in the seven largest US States (10.7%).

(10) Reinhart and Rogoff (2014) point to historical evidence of crises with "twin or triplet crisis scenario" that could explain longer recovery periods (ibid, p. 52). Eichengreen claims that, the longer the crisis in the Eurozone drags on, the more it looks like the ‚Lost Decade' in Latin America in the 1980s" (B. Eichengreen, The Eurozone crisis: Phoenix Miracle of Lost Decade?, *Journal of Macroeconomics*, March 2014, 39-B, pp. 288-308).

(11) It would go beyond the scope of this section to discuss policy effects in detail. Moreover, the jury seems to be still out for an assessment as to whether polices supported or hindered the recovery. For instance, Taylor concludes with respect to the pace of the US recovery "economic troubles in recent years have been associated with, and indeed caused by, a shift in economic policy" (J.B. Taylor, The role of policy in the Great Recession and the weak recovery, *American Economic Review: Papers & Proceedings*, May 2014, Vol. 104, No. 5, pp. 61-66).

(12) For an in-depth analysis of non-residential construction investment, see Box I.2 in: *European Economic Forecast – Winter 2013* ("Gradually overcoming headwinds"), February 2013, pp. 18-21.

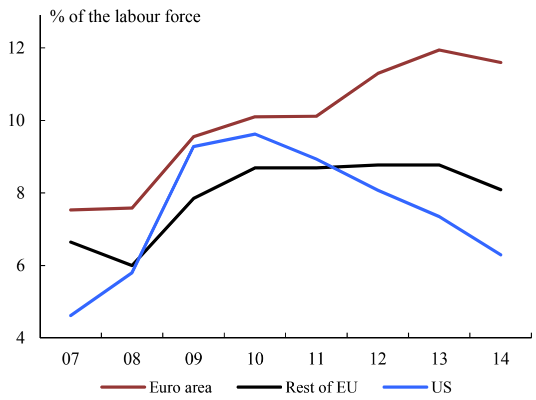
Corporate indebtedness and deleveraging. As regards balance-sheet adjustment of non-financial corporates, empirical analyses point to debt having been almost flat in the euro area since the Great Recession.[13] There is also evidence that US corporations have cut debt more than those in the euro area. This has been supported by positive profitability trends providing companies in the US with the internal funds necessary for adjustment of balance sheets.[14] Delayed deleveraging in Europe can be expected to weigh on investment activity and thus to explain partly the gap between the contributions to GDP growth in the euro area and in the US.

Uncertainty. Economic policy uncertainty brought distortions to investment activity in the euro area during and in the wake of sovereign debt problems in 2011-12. Investors, but also households seemed to have postponed spending activity to 'wait and see' (see also Box 1). More recently, overall uncertainty about the economic situation has come to the fore. The longer the period of weak economic growth momentum lasts, the more current economic activity appears to be affected by the economic outlook.[15]

Private consumption rebounded differently in the euro area, the rest of the EU and the US. While it ticked up only gradually in the euro area, the rebound was rather strong in the US and the rest of the EU, in particular in the UK. Looking at the determinants of household spending, one might think that households in the euro area received less fiscal stimulus, but this hypothesis is not supported by public finance data about consolidation efforts. Instead, responses to changes in the wealth-to-income ratio (e.g. deleveraging), and uncertainty about future incomes appear to have played a major role.

Households' uncertainty about future income. Periods of rising unemployment usually increase households' income uncertainty, result in a more cautious attitude toward consumption expenditures and could motivate precautionary savings, which mitigate the decline of savings introduced by households that want to smooth their consumption in times of lower incomes. In that respect, the larger and longer-lasting increase in the unemployment rate in the euro area as compared to the rest of the EU and the US (Graph I.7) could contribute to the explanation of relatively modest private consumption growth. Developments in the savings rate of households are compatible with this argument as the rate in the euro area fell in 2010, but remained thereafter almost unchanged in a very narrow range whereas the saving rate was always lower in the rest of the EU and in the US, where the decline continued since 2009 in all but one year.

Graph I.7: **Unemployment rate, euro area, rest of the EU and US, 2007-14**



Households' indebtedness and deleveraging. The collapse of house prices and other elements of the crisis had rendered household in many countries with a too high debt. Deleveraging included cutting consumption expenditures. Empirical analysis suggests that household deleveraging has progressed faster in the US and the UK than in the euro area countries. [16] This could explain why private consumption has already been rebounding stronger in the US and the UK as evident from the larger contribution of private consumption of post-crisis GDP growth (Graph I.6).

At least, the indebtedness of private households is not only a cyclical but also a structural factor, which implies that changes will take some time and thus have a limited impact on the recovery over the forecast horizon (see also Box I.2).

Government consumption has moderately increased between the end of the Great Recession in the second quarter of 2009 and the second quarter of this year in both the euro area and the rest of the EU, but fallen in the US. This

(13) See L. Buttiglione, P. R. Lane, L. Reichlin and V. Reinhart, Deleveraging? What deleveraging?, *Geneva Reports on the World Economy* no. 16, CEPR: London, September 2014.

(14) For a detailed analysis see P. Nikolov, Corporate balance sheet adjustment in the euro area and the United States, *Quarterly Report on the Euro Area* (European Commission), April 2014 Vol. 13, No. 1, pp. 40-46.

(15) See also IMF, *World Economic Outlook* – October 2014.

(16) See IMF, *Global Financial Stability Report* – October 2014, p. 8.

discrepancy is expected to hold if the forecast years are added, resulting in an overall increase in 2010-16 in the euro area and in the rest of the EU, but still a decline in the US. Notwithstanding the endogeneity of government consumption as a GDP component, the comparison suggests that the timing, the composition and its impact (multipliers) have in the medium term been more important for the recovery performance than the sheer increase in government consumption.

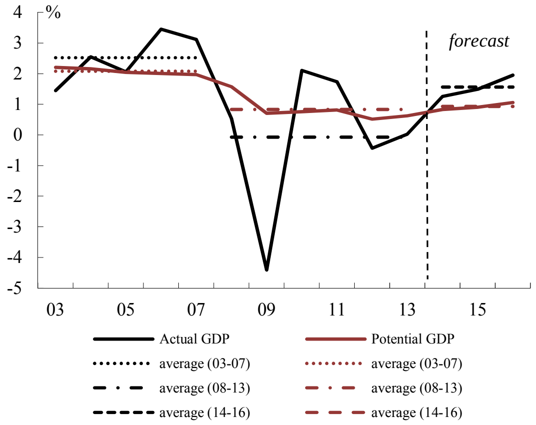
Foreign trade and contributions from ***net exports*** have mainly supported the euro area during the post-crisis years. While the higher degree of openness in the EU compared to the US makes its Member States more vulnerable to abrupt changes in world trade flows, the strong rebound in global trade in the wake of the Great Recession made this component the strongest growth driver. While this is clearly visible in the contributions of net exports to GDP growth during the whole period since 2009, the observation does not hold for the current recovery that started in the second quarter of last year and only benefitted marginally from net exports (see Graph I.6).

...that impacts negatively on medium-term growth prospects.

As many of the factors behind the weak recovery in the EU economy are expected to diminish only very gradually, a continuation of protracted low growth is expected over the forecast horizon. Thus, despite its protracted nature the current weakness of demand should be largely temporary. The expected continuation of the subdued recovery includes a revival of gross fixed capital formation that helps raising potential GDP growth over the average growth rate observed since the start of the crisis in 2008, but below the average rate recorded before the crisis (Graph I.8).[17]

[17] For an in-depth analysis of the impact of the crisis on potential output see the Box I.1 ("The impact of the crisis on potential output: Is the 2009 assessment still valid?") in: *European Economic Forecast* – Spring 2013 ("Adjustment continues"), May 2013, pp. 11-13.

Graph I.8: **Potential and actual GDP growth, EU, 2003-16**



In other words, neither a lasting shortfall of domestic demand (or ‘secular stagnation’) [18], nor a very low expansion of potential output are elements of the central scenario of the forecast.

2. THE EXTERNAL ENVIRONMENT

The outlook for the rest of the world has diverged even more since the spring and is characterised by substantial heterogeneity across countries and regions. The forecast for world GDP growth in 2014 has been marked down considerably reflecting carry-over effects from the sharp contraction of the US economy in the first quarter and of Japan's in the second quarter, coupled with rising geopolitical tensions in Ukraine and the Middle East, and a weakening of the growth momentum in some emerging economies, notably in Latin America. Over the forecast horizon, world GDP growth is expected to pick up moderately, thanks to a steady recovery in advanced economies (particularly the US), as some of the factors holding back growth in 2014 are likely to have been only temporary. An altogether stable growth outlook for emerging market economies is supported by the relative resilience of emerging Asia, partly due to continued policy support. Moreover, geopolitical tensions are assumed to gradually ease over the course of 2015.

Global growth turned out considerably weaker than expected in the first half of 2014, mainly due to weakness in some advanced economies and rising geopolitical tensions (Graph I.9). The dip in world GDP growth in the first quarter to just 0.6%

[18] See L. Summers, Reflections on the „New Secular Stagnation Hypothesis“, in C, Teulings and R. Baldwin, eds., Secular stagnations: Facts, causes, and cures, London: CEPR, 2014, pp. 27-38.

Table I.1:

International environment

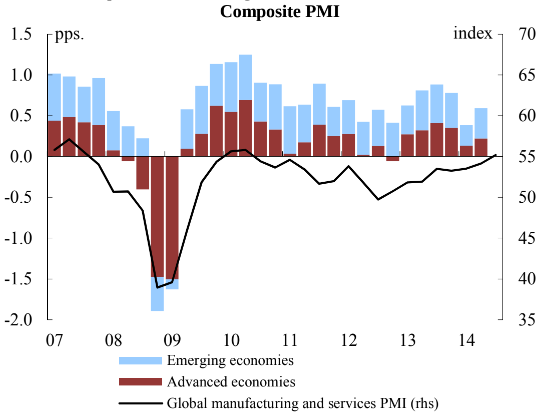
(Annual percentage change)					Autumn 2014 forecast			*Spring 2014 forecast*	
	(a)	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Real GDP growth									
USA	16.5	1.6	2.3	2.2	**2.2**	**3.1**	**3.2**	*2.8*	*3.2*
Japan	4.6	-0.5	1.5	1.5	**1.1**	**1.0**	**1.0**	*1.5*	*1.3*
Asia (excl.Japan)	32.9	7.4	6.2	6.1	**6.1**	**6.3**	**6.4**	*6.0*	*6.1*
- China	15.8	9.4	7.8	7.6	**7.3**	**7.1**	**6.9**	*7.2*	*7.0*
- India	6.6	7.9	4.9	4.7	**5.8**	**6.4**	**6.9**	*4.7*	*5.4*
Latin America	8.7	4.5	3.0	2.7	**1.4**	**2.4**	**3.2**	*2.9*	*3.4*
- Brazil	3.0	2.7	1.0	2.5	**0.2**	**1.4**	**2.6**	*2.6*	*2.9*
MENA	7.0	1.0	4.5	1.6	**2.4**	**4.1**	**4.6**	*3.1*	*3.7*
CIS	4.9	4.8	3.5	0.9	**0.3**	**0.8**	**1.9**	*1.2*	*2.6*
- Russia	3.4	4.3	3.4	1.3	**0.3**	**0.3**	**1.2**	*1.0*	*2.0*
Sub-Saharan Africa	3.1	4.3	4.4	4.9	**5.2**	**5.8**	**5.9**	*5.3*	*5.5*
Candidate Countries	1.6	8.0	1.9	4.0	**2.6**	**3.1**	**3.5**	*2.5*	*3.2*
World (incl.EU)	100.0	3.9	3.3	3.1	**3.3**	**3.8**	**4.1**	*3.5*	*3.8*
World merchandise trade volumes									
World import growth		5.9	2.7	2.7	**3.0**	**4.6**	**5.5**	*4.4*	*5.7*
Extra EU export market growth		6.5	3.5	3.3	**3.2**	**5.0**	**5.6**	*5.2*	*5.9*

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2013.

q-o-q (down from 0.8% at the end of 2013) largely reflected a sharp contraction in the US driven by bad weather and inventory adjustment. The subsequent bounce-back in the second quarter (to 0.8% q-o-q) was dampened by a much sharper-than-expected decline in Japan, following the consumption tax hike in April. Growth in emerging economies as a whole remained remarkably steady in the first half of 2014. However, this apparent stability masks considerable divergence in performance, as the overall resilience in emerging Asia largely offset the negative impact of geopolitical tensions on growth in Russia and the rest of the CIS and a slowing growth momentum in parts of Latin America.

Leading indicators suggest that global growth should start to firm. Business confidence has improved significantly in recent months, with the Global Composite PMI reaching in the third quarter of 2014 its highest average level since the second quarter of 2010. Global GDP is expected to continue to expand at solid rates over the remainder of the year, but the drag from the weak first half, coupled with some regional weaknesses, will pull down average growth rates for 2014 relative to the spring forecast. Global output is now expected to expand by 3.3% in 2014 and to accelerate at rates of 3.8% in 2015 and 4.1% in 2016.

Graph I.9: **Growth in global GDP and Markit Global Composite PMI**



Sources: Global Insight, Markit Group Limited

Global trade growth remains subdued...

World trade weakened significantly in early 2014. The volume of world imports fell by nearly 2% from January through May, reflecting a steep contraction in trade flows in emerging markets, the sharpest seen since 2009. The slump was most pronounced in emerging Asia, where Chinese import demand slowed down considerably. A similar pattern was observed in other emerging markets affected by the Russia-Ukraine crisis and the early-year financial turmoil following the sudden depreciation of the Argentine peso. Against this background, trade in advanced economies, and the EU in particular, held up relatively well, posting positive import growth in the first two quarters of 2014.

While world trade volumes picked up again in June and July (latest available data), the forecast for trade growth is being revised down significantly. This partly reflects the statistical effect of the pronounced early-year weakness, but also a reassessment of the projected rebound in the trade intensity of growth due to a lower growth path envisaged for some emerging market economies, most notably China, and the ensuing weakness in the trade-intensive investment. World import growth is now expected to reach 3.0% in 2014, 4.6% in 2015 and 5.5% in 2016.

...with momentum in advanced economies remaining firm...

Among advanced economies, the momentum in the US remains particularly strong. The economy rebounded briskly in the second quarter of 2014 from the temporary weakness in the beginning of the year. Lower fiscal drag and accommodative monetary policy should underpin accelerating output. Private consumption is expected to firm thanks to an improving labour market and lower deleveraging pressures, while both business and residential investment are set to accelerate on the back of attractive financing conditions and improving confidence.

In Japan, real GDP growth in the first quarter was broadly in line with the Spring Forecast, but GDP declined sharply in the second quarter following April's consumption tax increase (-1.8% q-o-q). The Japanese economy is now expected to grow by 1.1% in 2014, with a further slight moderation in 2015 and 2016 on the back of waning monetary stimulus, continued fiscal consolidation and only gradual structural reforms.

...and heterogeneity among emerging economies increasing.

Growth in emerging markets in 2014 is expected to slow marginally relative to 2013, reflecting a downward revision of around ¼ pp. compared to the Spring Forecast. However, the situation has become increasingly varied across regions and countries. Rising geopolitical tensions have been taking their toll on the growth outlook especially in Russia and the CIS, as well as MENA countries. Also the growth prospects for Latin America have worsened considerably, as the boom driven by high commodity prices and domestic demand is coming to an end. At the same time, the outlook for emerging Asia remains more resilient or has even improved for some countries reflecting the continuation of supportive macroeconomic policies or the prospect of more ambitious structural reforms. However, very weak import growth in the first half of 2014, also suggest that domestic demand in a number of emerging market economies remains sluggish.

In Latin America, recent data from Brazil and Mexico have been weaker than expected, and the forecast for Brazil has been marked down significantly, although a gradual pick-up is expected over the forecast horizon. The outlook for China remains one of gradual slowing of economic growth, coupled with a gradual rebalancing of the economy away from its over-reliance on investment. Yet, recent weakness in high frequency indicators and the ongoing slowdown in the property market highlight the risks posed by China's domestic imbalances.

While commodity prices continue moderating...

Compared to the spring forecast the assumptions for Brent prices have been revised down to 102.6 USD/bbl. in 2014, 91.0 USD/bbl. in 2015 and 92.8 USD/bbl. in 2016. This implies lower oil prices over the forecast horizon compared to their average level in 2013. The revision is less important when expressed in euro because of the currency's depreciation vis-à-vis the US dollar. Brent prices have continued moderating since June 2014, falling close to 85 USD/bbl. in October. This moderation of crude prices was supported by demand weakness in the OECD and China, ample supply on the back of rising output in the US, stable production by OPEC, and markets' confidence in the cartel's capacity to balance supply disruptions that could emerge as a result of the conflicts in Iraq, Libya and Ukraine.

The projections for other commodity markets have been revised down since spring. Owing to an improved outlook for supply, main food prices, including cereals and soybeans, are expected to decline moderately in 2014-16. The prices of most metals have been on a declining trend in 2014 due to abundant supply and weak demand conditions. A modest recovery of metal prices is expected in 2015-16 supported by increasing demand in both advanced and emerging countries.

...risks to the global outlook remain elevated.

Risks for the global outlook remain skewed to the downside. The recent escalation of geopolitical tensions in several parts of the world, and in particular in Eastern Ukraine, have become a key risk that could have larger-than-projected effects not only on world trade and energy prices but also on consumer and investor confidence. A sharper than expected increase in long-term interest rates in the US and greater financial market volatility as interest rates normalise in some advanced economies could lead to a more pronounced tightening of financing conditions. Despite their individual differences, emerging markets as a group remain exposed to global headwinds, in particular the tightening of financial conditions linked with rising interest rates in the US, weaker commodity prices, a sharper-than-expected slowdown in Chinese growth and political tensions in some regions. Significant concerns remain over the outlook for China, given high debt levels, the weakening property market, and the potential limits of policy led stimulus to prop up growth in the face of structural imbalances.

3. FINANCIAL MARKETS IN EUROPE

Expected divergence of monetary conditions across major economies...

The monetary policies of major world economies are expansionary and interest rates are low, but since spring monetary policy divergence has increasingly become a topic. While in the US the Fed's tapering has continued with an announced end of asset purchases in October, very accommodative policies continue in Japan and monetary policy in the euro area has become even more accommodative. While markets expect central banks in the euro area and Japan to maintain very accommodative monetary policies for an extended period of time, central banks in the US and UK are expected to raise interest rates earlier, implying that market expectations about monetary policy trajectories have diverged further. In several other EU Member States, policy rate cuts have been observed since mid-2014 (e.g. Denmark, Hungary, Poland, Romania, and Sweden) and/or are expected by markets, in some cases as a ripple effect from measures taken in the euro area.

...with more accommodative policy in the euro area...

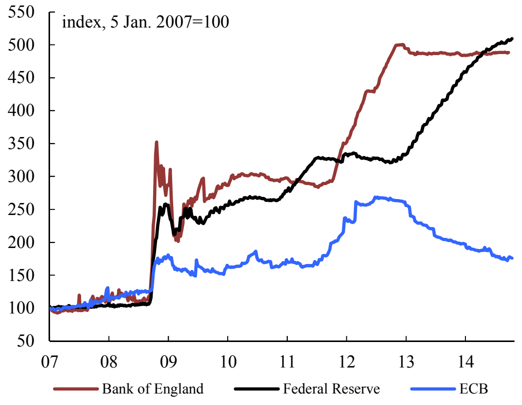
In the euro area, the ECB has taken a number of measures in recent months to provide additional monetary policy accommodation and further enhance the functioning of the monetary policy transmission mechanism, against a background of weakening growth momentum and the subdued outlook for inflation, which started to weigh on long-term inflation expectations.

- The main elements of the first package, announced in June, were cuts in key policy interest rates (including, for the first time, negative interest rates on banks' excess reserves) and the launch of a scheme of six Targeted Long-Term Refinancing Operations (TLTRO) with fixed rates and maturities of up to four years. The central bank also announced further liquidity-enhancing measures such as the extension of the fixed-rate-full-allotment procedure for standard refinancing operations at least until the end of 2016.

- The second package, announced in September, comprised further cuts in key policy interest rates (by 10 basis points), bringing them to their effective lower bound, and the announcement of the Asset-Backed Securities Purchase Program (ABSPP) and the Covered Bond Purchase Program (CBPP3).

Both packages aim to reinforce each other in activation of the main channels of transmission that are typically associated with unconventional monetary policies (i.e. direct pass-through effect, portfolio rebalancing channel, support of forward guidance). Together, these measures should have a sizeable impact on the Eurosystem's balance sheet, which has increased less than central bank balance sheets in the US and the UK. Moreover, prior to the new measures' impact, the size has recently declined on the back of repayments of three-year LTROs (see Graph I.10). Furthermore, the ECB has signalled its readiness to use additional unconventional instruments within its mandate should it become necessary to further address the risk of a long period of low inflation.

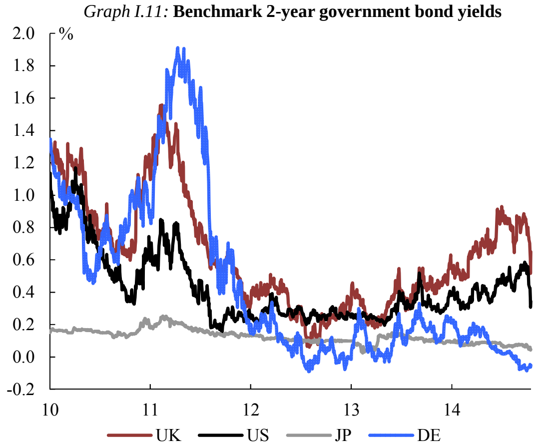
Graph I.10: **Central bank balance sheets, euro area, UK and US**



...financial market conditions in the euro area are continuing to ease

Following the decisions of the ECB Governing Council, short-term money-market rates in the euro area declined to close to (or below) zero and longer-term rates shifted down as well. The downward trend in euro area government bond yields and spreads reflected not only the impact of monetary policy measures, but also mixed economic data and a decline in long-term inflation expectations. In particular, as of late June increased geopolitical uncertainties added further downward pressure on sovereign bond yields. Amid an episode of market jitters related to investors' worries about the global economic outlook, German 10-year Bund yields dropped to a low of 0.70% in mid-October, while the two-year Bund yields have been below zero since mid-August (see Graph I.11).

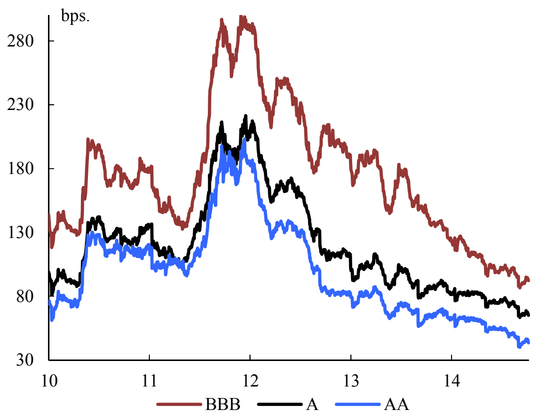
Graph I.11: **Benchmark 2-year government bond yields**



Short-term yields of some other Member States also went into negative territory. At the same time, spreads in periphery countries have on the whole continued to narrow despite recent market jitters in some countries, particularly Greece. In the US, 10-year sovereign yields also fell, amid more favourable macroeconomic data and the prospect of an end of bond purchases by the Federal Reserve, but markedly less than in the euro area.

Corporate bond yields have fallen almost in parallel with sovereign yields (see Graph I.12). Meanwhile, issuance of lower-rated debt by European corporates has been buoyant, backed by strong investor demand. EU stock markets have had a more volatile journey, amid mounting geopolitical tensions and mixed economic data. Volatility in equity and lower-rated corporate debt markets has picked up recently, driven by economic growth concerns.

Graph I.12: **Corporate bond spreads, 5-year maturity, euro area**



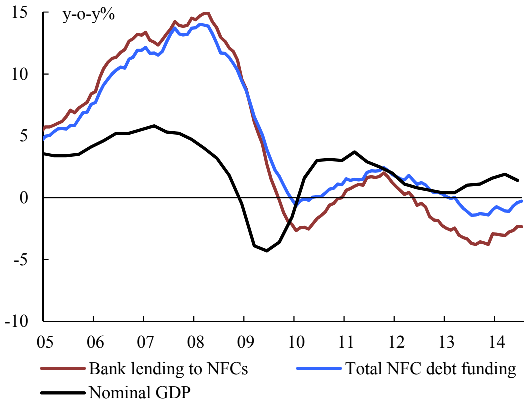
As banks prepared for the ECB's comprehensive assessment...

Investor sentiment towards euro area banks has continued to strengthen amid further progress in bank balance sheet repair and an improved macro-financial environment. EU banks have increased their capital levels in recent years, thereby increasing their resilience to market conditions. So far in 2014, the build-up of capital buffers in anticipation of the ECB's comprehensive assessment and the EBA Stress Test has exceeded EUR 100 bn. Bank funding has improved further in the euro area with declining cross-country interest rate differentials in both market and deposit-based funding. This suggests receding market fragmentation. However, risks for the European banking sector persist as banks remain vulnerable to a potential asset-price reversal in global markets, particularly via their exposures to compressed bond market premia.

...bank lending continued declining, albeit at a slower pace...

The current slowdown in the contraction of bank lending to the private sector is compatible with the occurrence of a turning point in euro area loan dynamics in the second quarter of the year. The annual growth rate of loans to the private sector stood in August at -0.9% (adjusted for loan sales and securitisation), thus lower than in the preceding months (e.g. in April the rate stood at -1.6%). Meanwhile, market funding via net issuance of debt securities by non-financial corporations (NFCs) continued to be buoyant (increasing 8.0% y-o-y in August from 6.2% in April), almost offsetting the weakness in bank lending and bringing the overall growth rate of debt funding to non-financial corporates close to zero. These figures signal an ongoing transition towards market financing, mainly by larger corporations with access to bond markets. At the same time those corporations traditionally dependent on bank finance, mainly SMEs, continue to see falling lending volumes (Graph I.13).

Graph I.13: **Economic and credit cycles for non-financial corporations, euro area**

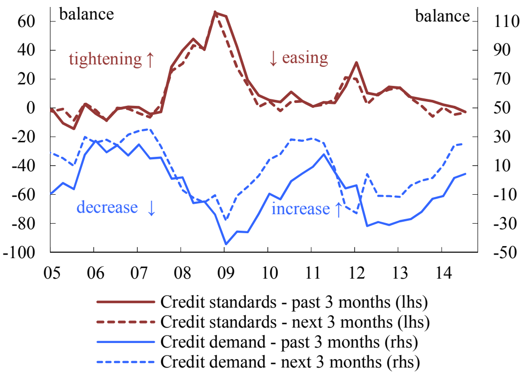


Narrowing interest rate differentials across euro-area countries suggest that supply constraints have somewhat receded in a number of countries. Still subdued demand for bank loans currently seems to play a more important role in the weakness of credit flows to NFCs. Corporations continue to resort extensively to internal funds for their investments as evidenced by still very high self-funding ratios, particularly in stressed Member States and in Germany. The relatively high rate of corporate savings suggests that the corporate sector as a whole may have sufficient internal funds to increase its low level of investment but that it refrains from doing so due for instance to the uncertainty of economic prospects.

...whereas the latest ECB Bank Lending Survey suggests an improved outlook

The July 2014 ECB Bank Lending Survey bodes well for the demand for bank loans as demand was reported to have risen for all types of loans. For NFCs financing needs related to fixed investment had a positive contribution to loan demand for the first time since the second quarter of 2011. For the third quarter of 2014, banks expected stronger demand, particularly coming from NFCs (see Graph I.14). On the supply side, the survey signalled a net easing of credit standards for enterprises for the first time since the second quarter of 2007, whereas banks continued to ease credit standards in net terms for loans to households.

*Graph I.14:***Net changes in credit standards and credit demand for loans to non-financial corporations, euro area**



Historical trends show that the credit cycle for NFCs tend to lag the economic cycle by several quarters. Based on this relationship, the bank credit cycle for NFCs is expected to turn positive next year. This improvement should benefit SMEs on the back of ECB policies targeting improved monetary policy transmission and increased volumes of bank lending to SMEs. Market funding may continue to grow in importance but overall, external funding is expected to remain relatively weaker compared with the usual cyclical patterns. Corporations are expected to fund investments internally on a larger scale than in past economic cycles, especially in countries where corporate indebtedness is highest and most distressed.

Risks to the assumption of benign financial market conditions underlying this forecast are mainly related to the current pricing of risky assets. Financial market valuations up to autumn appear to be based on the scenario of an increasing or at least constant momentum of the EU economic recovery, a continuation of fiscal, structural and bank reform, ample monetary conditions in the EU, a smooth transition towards less expansionary monetary policy in the US and the absence of new political risks. Thus, valuations are highly susceptible to news about the outlook for the EU economy.

4. GDP AND ITS COMPONENTS

Meagre GDP growth in the first half of 2014…

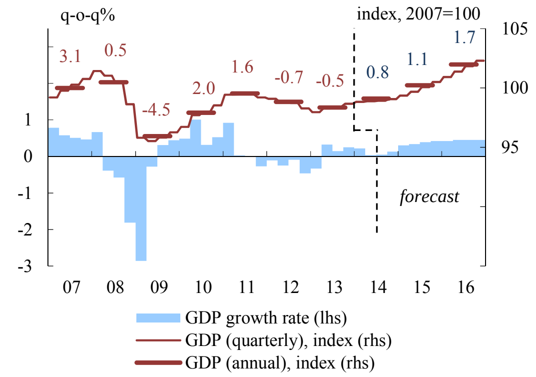
The fragile recovery that had started in the EU and in the euro area [19] in the second quarter of last year continues, but it struggled to gather momentum in the first half of this year. While semi-annual growth in the EU remained almost unchanged at 0.7%, the euro area recorded a slightly increased pace of 0.5% (up from 0.4% in the second half of 2013), both below previous forecasts. This is a difference with the previous recovery that gained more growth momentum over time (applied to the equivalent period, semi-annual growth increased in the EU from 0.9% to 1.5% and in the euro area from 0.8% to 1.4%).

After emerging from recession, most Member States have up to mid-2014 been unable to generate strong economic momentum. At the aggregate EU level, the current recovery has comprised five quarters of moderate expansion up to mid-2014, totalling GDP growth of 1.7%. Reflecting a only modest growth in several large Member States, the euro area only achieved total GDP growth of 1.1% in these five quarters. In both areas the rebound in the first five quarters of the recovery was weaker than the rebound of the recovery that started in the third quarter of 2009 and lifted GDP in both the EU and the euro area by 2.7%. The difference between both rebounds could be seen as evidence of factors hampering economic growth in the EU, which add to those already observed in the wake of the Great Recession between end-2007 and mid-2009.

…with uneven distribution over quarters…

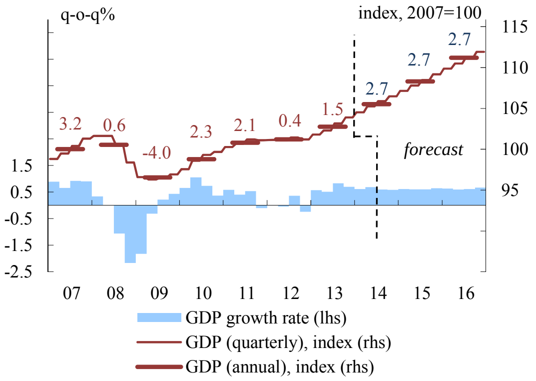
The meagre economic growth in the first half of the year (see Graphs I.1, I.15, and I.16) was unevenly distributed across the first two quarters, reflecting the impact of temporary factors such as extremely mild winter weather in the first quarter (supporting construction activity, but weighing on energy production) and calendar effects (e.g. Easter holidays in the second quarter), which were not eliminated by seasonal and working-day adjustment.

Graph I.15: **Real GDP, euro**



Figures above horizontal bars are annual growth rates.

Graph I.16: **Real GDP, rest of the EU**



Figures above horizontal bars are annual growth rates.

In both the EU and the euro area GDP growth slowed by 0.2 pp. in the second quarter to 0.2% (q-o-q) and 0.1% respectively. While some Member States reported robust output expansion in the second quarter and others succeeded in further catching up, dismal performances from three of the largest economies were responsible for weak economic growth in the euro area as a whole. In the second quarter of this year, Germany's GDP contracted by 0.2% q-o-q after growing by 0.7% in the first quarter, pulled down by the unwinding of weather-related factors in the first quarter. Italy extended its period without positive growth rates, which had already started in the second quarter of 2011 (-0.2%, following stagnation in the first quarter of this year). Activity in France meanwhile stagnated for a second consecutive quarter. Developments in these three countries contrasted in the second quarter with upturns in the UK

(19) Reflecting the upcoming entry of Lithuania in the euro area in January 2015, euro area aggregates include for the first time 19 countries (both for historical data and autumn forecast figures, but not spring forecast figures). Lithuania has a weight of about 0.3% in the euro-area aggregate.

Table I.2:

Composition of growth - EU

(Real annual percentage change)								Autumn 2014 forecast		
	2013		2009	2010	2011	2012	2013	2014	2015	2016
	bn Euro Curr. prices	% GDP	Real percentage change							
Private consumption	7709.5	57.0	-1.5	0.8	0.3	-0.7	-0.1	**1.1**	**1.4**	**1.6**
Public consumption	2838.8	21.0	2.2	0.7	-0.2	0.2	0.4	**0.8**	**0.4**	**0.8**
Gross fixed capital formation	2605.6	19.3	-12.1	0.1	2.1	-2.5	-1.6	**2.0**	**2.9**	**4.5**
Change in stocks as % of GDP	1.5	0.0	-0.8	0.3	0.7	0.1	0.0	**0.1**	**0.1**	**0.1**
Exports of goods and services	5801.2	42.9	-11.9	10.5	6.6	2.2	2.1	**2.9**	**3.9**	**5.0**
Final demand	18956.9	140.3	-6.4	4.0	2.5	-0.4	0.4	**1.8**	**2.2**	**2.9**
Imports of goods and services	5452.4	40.3	-11.7	9.7	4.3	-0.4	1.3	**3.1**	**4.0**	**5.3**
GDP	13529.8	100.0	-4.4	2.1	1.7	-0.4	0.0	**1.3**	**1.5**	**2.0**
GNI	13547.6	100.1	-4.1	2.4	1.8	-0.5	-0.1	**1.1**	**1.5**	**1.9**
p.m. GDP euro area	9939.4	68.6	-4.5	2.0	1.6	-0.7	-0.5	**0.8**	**1.1**	**1.7**
			Contribution to change in GDP							
Private consumption			-0.8	0.5	0.2	-0.4	-0.1	**0.6**	**0.8**	**0.9**
Public consumption			0.4	0.2	0.0	0.0	0.1	**0.2**	**0.1**	**0.2**
Investment			-2.7	0.0	0.4	-0.5	-0.3	**0.4**	**0.6**	**0.9**
Inventories			-1.2	1.0	0.3	-0.6	-0.1	**0.1**	**0.0**	**0.0**
Exports			-4.7	3.7	2.6	0.9	0.9	**1.2**	**1.7**	**2.2**
Final demand			-8.9	5.4	3.4	-0.6	0.6	**2.5**	**3.1**	**4.1**
Imports (minus)			-4.6	3.3	1.6	-0.2	0.5	**1.2**	**1.6**	**2.2**
Net exports			-0.1	0.4	0.9	1.1	0.4	**0.0**	**0.1**	**0.0**

(0.9%), the Netherlands (0.7%), Poland (0.6%) and Spain (0.6%). Among smaller economies (see also Table 2 in the Statistical Annex), quarter-on-quarter growth rates varied between -0.9% (Romania) and 1.1% (Estonia).

...and a limited contribution from domestic demand

The breakdown of GDP shows that lacklustre economic growth in the EU has been mostly due to the sluggishness of domestic demand, in particular of gross fixed capital formation. Investment failed to accelerate and even declined in the second quarter, following four quarters of expansion. Private investment (business and households) has been persistently weak, held back by the need to deleverage in a context of low inflation and low demand expectations, whereas funding conditions have improved in a number of countries. By contrast, private consumption has continued to recover, in line with slightly improving disposable income on the back of higher (nominal) labour incomes and lower consumer price inflation. Net exports were slightly supportive to growth in the euro area but neutral in the EU.

The GDP breakdown at the Member State level reveals substantial differences. In the first two quarters of this year, in terms of GDP growth rates and the main components there were no clear signs that the recovery is becoming regionally more balanced. While some stressed countries saw domestic demand becoming the main driver of growth (e.g. Spain, Portugal, Ireland), others benefitted mainly from the contribution of net exports (e.g. Italy). Also across core countries, no common growth pattern was identifiable. While in France most GDP components, if at all, contributed only marginally, in Germany domestic demand expanded moderately amid high quarterly volatility. In the Netherlands, exports remained an important engine of growth as incidental factors dragged down domestic demand.

Looking at the euro area as a whole, only moderate growth is expected over the forecast horizon, whereas in other EU Member States, economic growth is expected to be much stronger, reflecting the strong growth performance of the UK and Poland, but also the renewed catching-up process in some of the new Member States.

Weak economic activity in the near term...

The latest readings of survey indicators point to a loss of cyclical growth momentum in the second half of the year. After moving in a relatively narrow range of less than two points in the first six months of the year (following an increase by about 15 points since autumn 2012), the Commission's Economic Sentiment Indicator (ESI) decreased in

Table I.3:

Composition of growth - euro area

(Real annual percentage change)

	2013							Autumn 2014 forecast		
	bn Euro Curr. prices	% GDP	2009	2010	2011	2012	2013	2014	2015	2016
			Real percentage change							
Private consumption	5566.6	56.0	-1.1	0.8	0.2	-1.3	-0.6	**0.7**	**1.1**	**1.4**
Public consumption	2095.9	21.1	2.3	0.8	-0.2	-0.2	0.2	**0.6**	**0.3**	**0.8**
Gross fixed capital formation	1946.8	19.6	-11.4	-0.5	1.7	-3.2	-2.5	**0.6**	**1.7**	**3.9**
Change in stocks as % of GDP	-11.6	-0.1	-0.7	0.3	0.7	0.0	-0.1	**0.0**	**-0.1**	**0.0**
Exports of goods and services	4373.0	44.0	-12.7	11.1	6.6	2.5	2.1	**3.1**	**3.9**	**5.0**
Final demand	13970.7	140.6	-6.5	4.0	2.4	-0.8	0.0	**1.5**	**1.9**	**2.8**
Imports of goods and services	4043.4	40.7	-11.5	9.8	4.4	-1.0	1.2	**3.2**	**3.9**	**5.5**
GDP	9939.4	100.0	-4.5	2.0	1.6	-0.7	-0.5	**0.8**	**1.1**	**1.7**
GNI	9985.4	100.5	-4.1	2.2	1.7	-0.5	-0.6	**0.6**	**1.1**	**1.7**
p.m. GDP EU	13529.8	123.2	-4.4	2.1	1.7	-0.4	0.0	**1.3**	**1.5**	**2.0**
			Contribution to change in GDP							
Private consumption			-0.6	0.5	0.1	-0.7	-0.4	**0.4**	**0.6**	**0.8**
Public consumption			0.5	0.2	0.0	0.0	0.0	**0.1**	**0.1**	**0.2**
Investment			-2.6	-0.1	0.4	-0.7	-0.5	**0.1**	**0.3**	**0.8**
Inventories			-1.2	0.9	0.3	-0.7	-0.1	**0.1**	**-0.1**	**0.0**
Exports			-5.1	3.9	2.6	1.0	0.9	**1.4**	**1.7**	**2.3**
Final demand			-9.0	5.3	3.3	-1.1	0.0	**2.1**	**2.7**	**4.0**
Imports (minus)			-4.5	3.3	1.7	-0.4	0.5	**1.3**	**1.6**	**2.3**
Net exports			-0.6	0.6	0.9	1.4	0.4	**0.1**	**0.2**	**0.0**

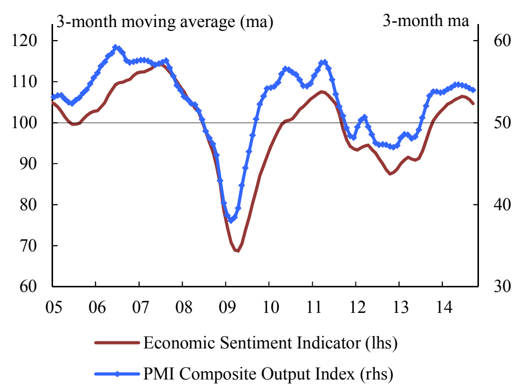
the third quarter, ending a year of quarterly improvements, both in the EU and the euro area.

In September, the ESI in the euro area was back to its the lowest level since November last year, standing marginally below its long-term average. For the EU, the ESI in September has also fallen to the lowest level since November, but remained clearly above its long-term average, mainly on account of high readings in the UK (Graph I.17).

Among sectors covered by surveys only construction continued to display rising confidence, albeit still at relatively low levels. Confidence in manufacturing fell, which could be associated with the sluggishness of the global economy and the mounting geopolitical tensions over the summer. Production expectations in the manufacturing sector also fell in the three months to September both in the EU and the euro area, suggesting that production will most likely remain sluggish in the last quarter of this year. The services and retail sectors with their strong domestic focus appeared to be less affected by global developments, but also saw falling confidence.

While overall readings remain above the no-change-threshold in both the EU and the euro area, declines in the Composite PMIs were observed in August and September (in the euro area to 52.3, the lowest reading in the past nine months), signalling that output is lurching closer towards stagnation. In the manufacturing sector, the PMI eased quite substantially in the nine months to September (by 3.7 points) and at 50.3, now stands close to the level registered around mid-2013. In the services sector, the PMI points to an increase in economic momentum in the third quarter. While the slowdown in manufacturing was relatively broad-based across countries, the composite PMIs pointed to persistent heterogeneity.

Graph I.17: **Economic Sentiment Indicator and PMI Composite Output Index, EU**



Monthly hard data for the third quarter of the year also point to weak developments. In the EU and the euro area, industrial production in July and August was on average marginally lower than in the two preceding months and slightly lower than in each of the three quarters before. The lack of momentum is in line with the signals given by survey indicators and also points to already very modest economic activity in the third quarter.

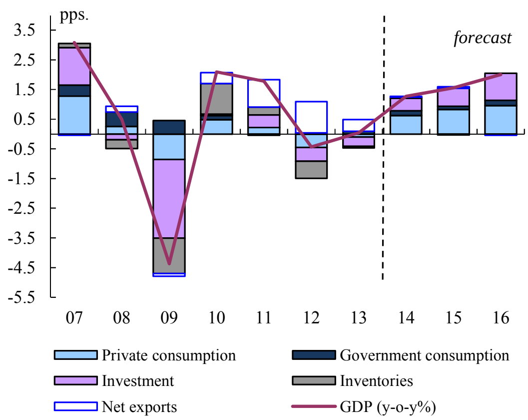
The quarterly patterns of GDP growth in the second half of the year are expected to be less erratic as the impact of previously distorting factors fades away and further holiday effects visible in monthly data (e.g. on economic activity in Germany) are offsetting each other within the third quarter. Thus the expected relative weakness of economic activity should be visible in both the third and the fourth quarter, resulting in a further slowing of growth in the second half of the year as compared to the first, in both the EU and the euro area. In the latter, this forecast implies near stagnation in the last two quarters of the year. Against this background, the forecast for annual GDP growth in 2014 is 0.8% in the euro area and 1.3% in the EU.

...followed by some uptick over the course of 2015...

The outlook for early 2015 is for a slow pace of economic growth, still reflecting the impact of heightened geopolitical concerns, the complex and protracted economic and institutional adjustments in the aftermath of the economic, financial and sovereign-debt crises, high unemployment and low capacity utilisation.

Over time, the brakes that continue to hold back domestic demand are expected to release somewhat (Graph I.18). Demand should then increasingly benefit from the very accommodative monetary policy stance and low financing costs, more favourable and homogeneous credit supply conditions, and the broadly neutral fiscal stance. Private consumption is set to enjoy the support of low commodity prices and rising incomes, as the labour market gradually improves. Gross fixed capital formation should also benefit from a reduced need for balance-sheet adjustments and from catching-up effects following years of subdued activity, though it will initially still be held back by ample spare capacities. As regards exports, the expected acceleration of global trade together with the depreciation of the euro's effective exchange rate, should benefit EU products, pushing production and activity up to meet expected foreign demand.

Graph I.18: **Real GDP growth and its components, EU**



Overall, in 2015, annual GDP growth in the EU is expected to increase to 1.5% and to 1.1% in the euro area. The annual growth forecasts include a positive working-day effect as several public holidays (e.g. May 1, August 15, and November 1) will fall over the weekend, thereby increasing the number of working days in most countries as compared to this year.

…and more solid economic growth in 2016.

Starting in 2015, the lagged impact of recent policy actions should begin to feed through to domestic demand. This includes the impact of monetary policy measures in the EU (e.g. the decisions mentioned in Section 3), the banking sector's follow-up to the comprehensive assessment, and the beneficial effect of structural reforms [20] undertaken in the recent past.

In 2016, with further strengthening domestic and foreign demand and the continuation of very accommodative monetary policy associated with low financing costs, economic activity should gain momentum. Slightly improving labour market conditions, a broadly neutral fiscal stance under the no-policy-change assumption, and diminishing deleveraging needs for households and companies add to these positive factors even if, in several Member States, balance sheet repair and deleveraging will have to continue (see Box I.2).

[20] J. Varga, W. Roeger and J. in 't Veld, Growth effects of structural reforms in Southern Europe: The case of Greece, Italy, Spain and Portugal, *European Economy Economic Papers* no. 511, December 2013. By contrast, Eggertsson, Ferrero and Raffo argue that structural reforms do not improve output during crisis, but may even entail near-term contractionary effects – a result that can be associated with the absence of physical capital in their DSGE model (G. Eggertsson, A. Ferrero, and A. Raffo, Can structural reforms help Europe?, *Journal of Monetary Economics*, January 2014, Vol. 61, pp. 2-22).

Moreover, the lagged impact of already implemented measures, including structural reforms, will be felt more strongly towards the end of the forecast horizon.

With these drivers of economic growth in place, the outlook for the EU economy for 2016 is rather favourable. Annual GDP growth is expected to increase to 2.0% in the EU and 1.7% in the euro area. Thus, over the whole forecast horizon, economic growth is projected to remain above potential. However, the strength of the cyclical recovery will not be sufficient to markedly narrow the output gap in the euro area, which will likely remain significantly negative at the end of the forecast horizon.

Cross-country growth differences persist...

A closer inspection of developments in economic activity at the level of the Member States shows that not only the EU has last year turned the corner from recession to a weak recovery, but also a vast majority of Member States. Last year this development had been hidden in the annual GDP growth rates due to the large carry-over from the beginning of the year, but in 2014 the upturn is visible as only four countries (Croatia, Cyprus, Finland, and Italy) will exhibit negative annual growth.

In the first half of 2014, temporary factors added to the cross-country diversity. While several one-off factors pushed activities in some countries in the first quarter and pulled it down in the second, other were either not that much affected or even showed opposite profiles. Among these factors were holiday-related effects and weather effects that were not eliminated by seasonal and working-day adjustment. Especially the unwinding of these effects in the second quarter pushed German growth rates into negative territory (-0.2% q-o-q), whereas the opposite impact was observed in the Netherlands. There the lower energy production dampened economic activity in the first quarter, followed by a rebound of activity in the second quarter.

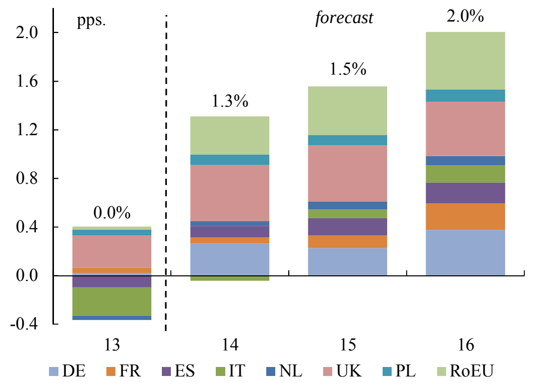
...and are forecast to diminish only slowly.

In the near term substantial differences in economic performance are expected to persist. The German economy is expected to stay close to stagnation in the third and fourth quarter; France is expected to start exhibiting moderate growth again, whereas economic activity in Spain should continue expanding albeit at a slower pace than in the second quarter. Italy's economy is expected to fall back into technical recession in the third quarter and to continue shrinking in the fourth quarter. The other three large economies (the Netherlands, Poland and the UK) are expected to continue growing though at lower rates than in the second quarter. Among the smaller countries, only Croatia is expected to return to technical recession. Some of the formerly stressed countries (e.g. Ireland, Portugal, and Slovenia) are projected to succeed in proceeding with their recoveries and economic growth in some of the New Member States (e.g. Czech Republic, Hungary, Romania) is expected to exceed the EU average allowing them to catch up further. This diversity of development within the current year is mirrored in a broad range of annual growth rates, which spans between -2.8% (Cyprus) and 4.6% (Ireland).

Looking ahead, the continuation of the subdued recovery in the EU economy should include all economies. In both 2015 and 2016, all Member States are forecast to enjoy a simultaneous expansion of economic activity for the first time in ten years. The relatively moderate start into the next year implies that the gains in terms of annual GDP growth will remain limited in most countries and some of the currently fast growing countries are even projected to suffer small setbacks in 2015 (e.g. Ireland, Germany, Slovenia, Bulgaria, the UK). The brighter outlook for the EU economy in 2016 is reflected in an acceleration of economic activity in all but four Member States (Malta, Czech Republic, Hungary, and the UK).

Looking at total economic growth in years 2014-16, among the largest Member States Poland (9.4%), the UK (8.4%) and Spain (5.3%) are expected to outperform the EU average of 4.8%, whereas Germany (4.3%) and the Netherlands (4.0%) outperform the euro area average (3.7%), and France (2.6%) and Italy (1.4%) are trailing both averages. Among the smaller Member States, the strongest performance is expected in Ireland (12.4%), Lithuania (9.5%), Latvia (9.3%), Malta (8.9%), Luxembourg (8.5%), Slovakia (8.4%), the Czech Republic (8.2%), and Hungary (7.9%). Putting weights to the country forecasts allows assessing the contributions of Member States to GDP growth in the EU (Graph I.19). The analysis of country contributions during the three forecast years shows that contributions by the seven largest Member States should account for about three quarters of economic growth in the EU, which is also roughly their weight in GDP in the EU. The largest contributions are expected to come from the UK (1.4 pps.) and Germany (0.9 pp.).

Graph I.19: **Real GDP growth, EU, contributions by Member States**

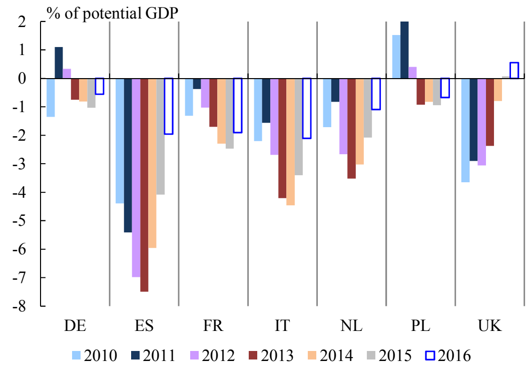


Relating the growth performance to estimated developments in potential output allows assessing the cyclical situation (Graph I.20). Among the Member States the cyclical positions continue to differ a lot. The UK is the only of the seven largest Member States that is expected to fully close the output gap over the forecast horizon. Among the largest economies, Germany and Poland are expected to have relatively narrow output gaps, whereas a substantial output gap is estimated in Spain and Italy, where a steady narrowing is projected over the forecast horizon. Germany, France and Italy are expected to face a widening output gap this year. However, gaps that look narrow in a cross-country comparison can substantial for the individual country in historical perspective.

Rebound in gross fixed capital formation gradually interrupted...

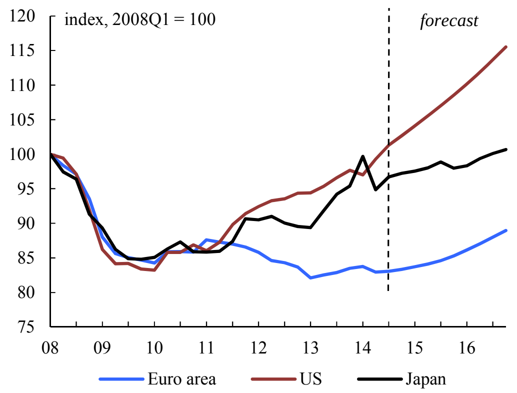
Accelerating investment is indispensable for any economic recovery. The relative weakness of gross fixed capital formation (total investment) has been a key factor responsible for the recent period of subdued economic growth. The weakness reflects low demand growth, low levels of capacity utilisation, heightened economic and policy uncertainty, and, in some countries, corporate deleveraging and financing constraints. In historical perspective, the relatively weak rebound in gross fixed capital formation is visible in the investment-to-GDP ratio that was between 2010 and 2013 in the EU (19.9%) and the euro area (20.2%) on average about 2 pps. lower than in the decade before the crisis (21.5% and 22.1% between 1998 and 2007, respectively). Obviously, a comparison of total investment in the year before the crisis (2007) and developments in subsequent years points to larger movements as the base year then includes the boom in construction investment in some Member States (see e.g. Graph I.21).

Graph I.20: **Cross-country differences in the output gap, largest Member States, 2010-16**



In the near term, a moderate rebound in total investment is expected that comprises modest growth in equipment and construction. This outlook is supported by survey results such as the still positive assessment of total and export order books in the EU and the euro area and by production expectations in the third quarter, which continue to exceed their long-term averages. In construction, gains in real disposable income and more favourable financing conditions should provide support for a resumption of growth.

Graph I.21: **Gross fixed capital formation (euro area, US, and Japan)**

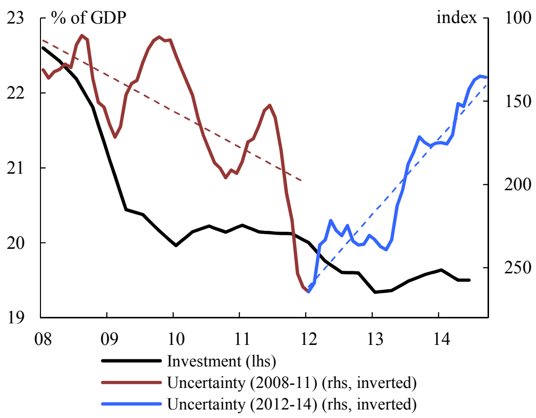


However, with capacity utilisation in manufacturing below the long-term average in both the EU and the euro area, according to the latest Commission surveys, total investment growth should remain rather muted in the second half of the year.

...and a further pick-up is expected towards the end of the forecast horizon...

Looking further ahead, cyclical factors (e.g. demand prospects, capacity utilisation) should gain importance as drags from the legacy of the initial global crisis (e.g. corporate balance-sheet repair) and EU-specific factors (e.g. financial fragmentation and impaired monetary transmission, possible funding constraints in the run-up to banking union, policy uncertainty) gradually recede. Recent developments in the European Economic Policy Uncertainty Index give an example for this expected change in the role of determinants of gross fixed capital formation. The smoothened index (6-month average) has fallen in the past two years, but the investment-to-GDP ratio has yet failed to pick up in the EU (Graph I.22) raising doubts whether the previously observed relationship between policy uncertainty and investment still holds. [21]

Graph I.22: **Investment and policy uncertainty, EU**

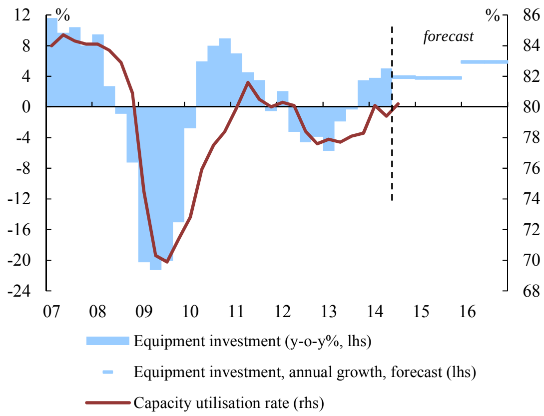


Source: Eurostat and Baker, Bloom and Davis at www.PolicyUncertainty.com

Overall, with demand prospects improving, supported also by the external environment, investment is expected to pick up more meaningfully, with substantial differences across different types of investment.

Equipment investment, which accounts overall for roughly 30% of total investment particularly affected by weak expectations of demand relative to existing capacity and to uncertainty surrounding the assessment of investment projects. Cost and availability of external finance have been additional impediments in some Member States. The projected gradual pick-up of demand, including from abroad, should raise incentives to carry out investment in 2015. Improvements in the external funding situation, and the continued availability of internal funding, which should keep growing as profits and margins increase along with the economy, should also support investment spending. On the negative side, the adverse impact of lower trend growth and further corporate balance sheet restructuring (corporate deleveraging) in some Member States will continue dampening investment. All in all, equipment investment in the euro area is set to grow 2.4% in 2014, 3.0% in 2015, and 5.9% in 2016 when accelerating output should spur growth in investment (see Graph I.23). In the EU, growth rates are projected to be slightly higher at respectively 3.7%, 3.6% and 6.0% in the forecast years.

Graph I.23: **Equipment investment and capacity utilisation, EU**



Construction investment, which constitutes about half of total investment, is set to shrink in 2014 in the euro area and to expand only slightly in the EU as a result of booming residential investment in the UK. This is due to the slow start to the year but also the moderate outlook for the near term. Leading indicators such as building permits increased in the first half of 2014 in both the EU and the euro area offsetting declines observed in the second half of last year. However, permits stand at less than half the pre-crisis level and are still substantially lower than in 2010 (-14% in the EU, -23% in the euro area). Average construction output in July and August remained almost unchanged from the average in the first half of the year in the EU, but was 0.9% higher in the euro area, strongly driven by the expansion of

(21) Doubts about causality had already been raised several times, among others by Bloom, one of the creators of the index (N. Bloom, Fluctuations in uncertainty, *Journal of Economic Perspectives*, Spring 2014, Vol. 28, No. 2, pp. 153-176).

construction output in Spain, which was up 24% (y-o-y) in the second quarter of this year. Construction confidence has increased steadily over recent months, with the most pronounced gains in Spain. Further out, increased real disposable income, low mortgage rates amid the full pass-through of lower financing costs and improved access to credit for private households should support residential investment. However, ongoing housing market adjustments continue to weigh on residential investment in some Member States (particularly France, Italy and to a lesser extent Spain). Non-residential construction should benefit from higher equipment investment and corporates getting easier access to funding. This should be reflected in a moderate expansion in 2015 and some acceleration in 2016.

Government investment, which accounts for about 15% of total investment, fell in 2013 in both the EU and the euro area, driven by declines in six of the seven largest Member States (all except France). Given the need for continued consolidation in the EU, only relatively small increases that likely will be too small to offset the decline in 2013, are expected. Among the largest Member States, Germany, Poland and the UK are expected to record increases in 2015 and 2016, whereas steadily falling public fixed investment is projected in France and Italy. Reflecting developments during the forecast years, a further overall fall is expected for the euro area as a whole. This suggests limited support of public infrastructure investment for the transition to stronger growth. [22] In that regard, Commission plans [23] for additional infrastructure investment at the EU level would, if implemented, provide for an additional boost for total investment growth.

...without reaching historical investment ratios.

Overall, after declining for two years, total gross fixed capital formation in the euro area should expand over the forecast horizon by 0.6% in 2014, 1.7% in 2015 and 3.9% in 2016 in the euro area, and, over the same period, by 2.0%, 2.9% and 4.5% in the EU. Although significant, the expected expansion starts from a very low base and will likely prove insufficient to bring investment-to-GDP ratios in the EU and the euro area back to the pre-crisis level, which had been blown up by the construction boom.

Private consumption, so far the only durable contributor to economic growth...

As the largest component of GDP in the EU, private consumption is a crucial determinant of the vigour and sustainability of the economic recovery. Private consumption increased slightly in the first two quarters of 2014, thanks to increases in real disposable incomes and despite the negative impact of ongoing deleveraging, in some countries. Consecutive quarterly increases since spring last year have made private consumption the only GDP component that has continuously made positive contributions to economic growth throughout the current recovery (see Graph I.24).

Until mid-2014, one of the key elements supporting the recovery in private consumption was the increase in consumer confidence. However, the near-term outlook for private consumption has become increasingly clouded by the deterioration of consumer confidence, which in September had fallen for four consecutive months (although it remained above its long-term average in the EU and the euro area). This mainly reflects a deteriorated assessment of the general economic situation expected for the next 12 months, which might be linked to increased geopolitical tensions, and increased unemployment fears, whereas intentions for households' major purchases have remained relatively stable in recent months. Meanwhile, the Commission's retail trade confidence indicator has fallen in the EU and the euro area over the last four and three months, respectively, with the sharpest drop this year observed in September. The Retail PMI has also fallen sharply recently, signalling a contraction of retail sales.

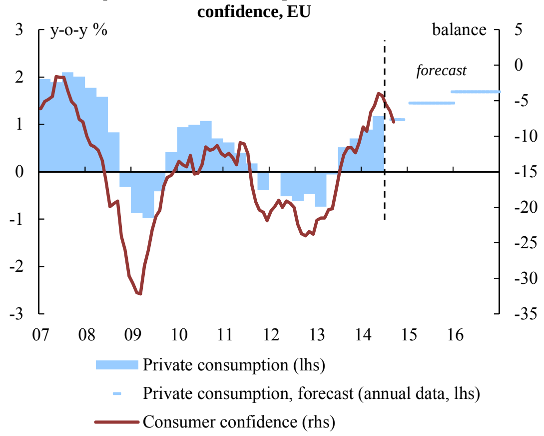
Looking at the hard indicators available for the third quarter, private consumption should continue growing at a moderate pace. In the three months to August compared to the March to May period, the volume of retail trade increased 0.6 % in both the EU and the euro area (in the second quarter of 2014, 0.6% q-o-q in the EU and 0.3% in the euro area). Euro-area passenger car registrations continued to post increases in the three months to

(22) According to IMF estimates, public investment shocks have statistically significant and long-lasting effects on output in advanced economies; see A. Abiad et al., Is it time for an infrastructure push? The macroeconomic effects of public investment, in: *IMF World Economic Outlook* – October 2014, chapter 3.

(23) This includes the Juncker plan for raising investment (pp. 3-4); See J.-C. Juncker, A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change, Political Guidelines for the next European Commission, Strasbourg, 15 July 2014.

September (up 4.1% from the corresponding three months in 2013), indicating that households' spending continued growing in the third quarter.

Graph I.24: **Private consumption and consumer confidence, EU**



...should expand moderately in 2015-16 supported by EU-wide factors...

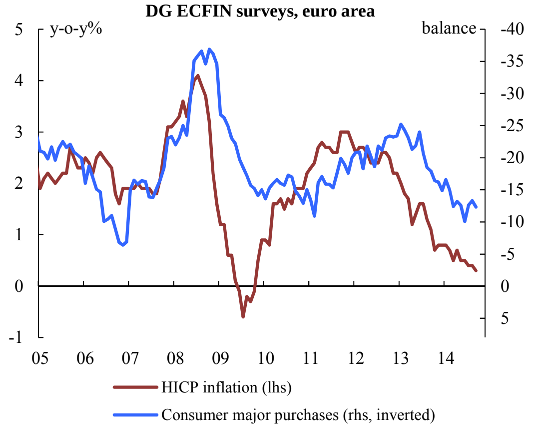
Further out, consumer spending is expected to increase gradually, closely in line with households' disposable incomes. Real disposable incomes are set to resume expanding in 2014 and maintain a steady momentum over 2015-16. Nominal income is expected to be underpinned by modest employment gains and nominal wage growth as well as a rising contribution from other personal income (profit-and property related income) and less fiscal pressure. Moreover, the moderate improvements in the labour-market situation are expected not only to increase the number of wage earners, but also to lower income uncertainty, which affects consumers' decisions about buying durables like cars and furniture (and also real estate properties).

Real income growth is also supported by low consumer price inflation (notably commodity prices). There is no evidence yet that low or, in some cases, negative, HICP inflation has had a negative impact on consumption expenditures.[24]

Empirical studies on the impact of low or negative inflation rates do not suggest that consumers will delay spending; some studies even find higher consumption, as consumers do not simply extrapolate price declines. Supportive evidence is also found in a comparison of developments in households' intentions to conduct major purchases and in consumer price inflation (see Graph I.25).

Finally, further deleveraging needs in some Member States notwithstanding, households' net worth is expected to improve as debt gradually reduces and house prices rise.[25]

Graph I.25: **Inflation and households' major purchases, DG ECFIN surveys, euro area**



All in all, real private consumption in the euro area is expected to expand by 0.7% in 2014 and rise further to 1.1% and 1.4% in 2015 and 2016. In the EU, private consumption should grow by 1.1% in 2014 before accelerating to 1.4% in 2015 and 1.6% in 2016.

...but with cross-country differences due to idiosyncratic features.

Developments in private consumption at the aggregate level continue to mask substantial differences between countries. High levels of

(24) Based on the analysis inflation-output linkages in a panel of 17 countries spanning over more than 100 years, Atkeson and Kehoe conclude that "the data suggest that deflation is not closely related to depression". For a more recent overview see Borio and Filardo (2014). Klodt and Hartmann (2014) present microeconomic evidence that deflation is not causing lower consumption spending. See Atkeson, A. and P. J. Kehoe, Deflation and depression: Is there an empirical link?, *NBER Working Paper* no. 10268, January 2004; Borio, C. and A. J. Filardo, Back to the future? Assessing the deflation record, *BIS Working Paper* no. 152, March 2014. Klodt, H. and A. Hartmann, Deflation und Konsumstau: Mikroökonomische Evidenz, *Kiel Working Paper* no. 1935, July 2014.

(25) The wealth effect of asset prices and the rebound in house prices in the euro area is however expected to remain negligible, which marks a substantial difference from recovery patterns outside the euro area, particularly in the UK and the US. See e.g. C. Kerdraini, How important is wealth for explaining household consumption over the recent crisis?, *OECD Economics Department Working Paper* no. 869, 2011.

household debt in some economies, such as Spain, Portugal and the Netherlands, will prompt continued deleveraging in the household sector, further limiting the pace of spending growth.

Among the largest Member States, household consumption is expected to continue growing strongly in the UK and Poland and to rise subsequently above pre-crisis growth rates in Germany. In Spain, the Netherlands and Italy, household spending should no longer shrink, but households are expected to remain cautious and to continue increasing their savings during 2015-16 (on average) in line with still important deleveraging needs.

Public consumption expected to grow slower than GDP

Government consumption expanded strongly in the first two quarters of 2014, clearly exceeding GDP growth. In the EU, the growth rate fell from 0.5% q-o-q in the first quarter (0.7% in the euro area) to 0.4% in the second quarter (0.2% in the euro area). As important consolidation needs remain in some large Member States this year, aggregate public consumption is expected to grow 0.6% in the euro area and 0.8% in the EU, less than GDP in both areas. In thirteen Member States lower growth rates are expected than last year.

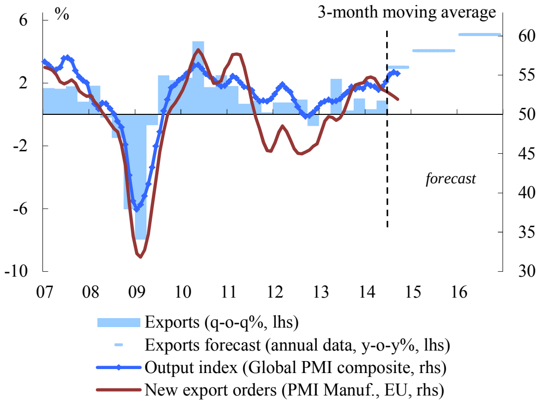
In 2015 and 2016, public consumption is expected to continue increasing modestly. Next year, the number of Member States with shrinking public consumption is expected to increase from seven (six in the euro area) to eight (seven), while ten (seven) Member States are expected to see higher growth than this year. In 2016, under the no-policy change assumption, public consumption should fall only in three economics (Greece, Spain, Cyprus), but, at the aggregate level, make the largest contribution to GDP growth since the recession in 2008-09 (see also Section 8). However, the forecast for the acceleration in public consumption in 2016 is based on a no-policy-change assumption, according to which fiscal measures are only factored in if they have been adopted by national parliaments or are known in sufficient detail.

Foreign trade volumes expected to rebound in the near term…

In the first half of 2014, export volume (goods and services) growth slowed to 1.4% (from 2.1%) in the euro area and 1.3% (from 1.9%) in the EU as compared to the second half of 2013. This reflects the evolution of foreign demand including the soft patch in global trade, but partly also a lagged impact of the earlier appreciation of the euro. In parallel, import growth slowed to 1.4% (from 2.3%) in the euro area and 1.2% (from 2.4%) in the EU, because of the weakness of investment and other domestic demand components.

In the second half of the year, recent indicators signal a further, but modest, expansion of exports. The assessment of export order books in the Commission's manufacturing survey remained in the third quarter in the EU and in the euro area above its long-term average. Moreover, the July data for world trade developments indicated a rebound in merchandise exports of the euro area (Graph I.26). Similarly, the PMI component for new export orders in the manufacturing sector remained above the expansionary threshold but declined recently. Ongoing geopolitical uncertainties could have played a role in the recent deterioration in the assessment of order books.

Graph I.26: **Global demand, EU exports and new export orders**



Tensions with Russia over the conflict in Ukraine have led to the imposition of financial and trade sanctions by the EU, the US and Japan and to countermeasures by Russia. The direct trade impact differs across Member States, but is limited for the EU as a whole. However, the uncertainties generated by the tensions appear to have had an impact on business and consumer confidence, and dampened domestic demand in 2014. It is assumed in this forecast that sanctions with limited duration will expire in 2015, and that the impact of the tensions will gradually ease thereafter.

The recent depreciation of the euro tends to increase price competitiveness of euro area firms and should gradually also support exports. However, the increasing integration of EU Member States in international supply chains and, more generally, the increased import intensity of exports limit the impact of exchange rate changes on trade flows, in particular in Member States with a high degree of openness.[26] Moreover, the observed increase in the estimated foreign value-added in extra-EU exports (from 16½% in 2000 to about 21% in 2011) can be expected to imply a lower employment impact for a given trade volume and an unchanged domestic value-added in extra-EU imports (6.0% in 2000, 5.7% in 2011).[27]

In 2014 as a whole, exports are set to grow 3.1% in the euro area and 2.9% in the EU. The short-term prospects for EU imports mirror modest growth in domestic demand and exports. With increasing growth momentum and stronger domestic demand, import volumes are set to grow in 2014 by about 3% in the EU and the euro area

...and to accelerate as world trade growth gains traction.

Further ahead, EU exports are projected to gain more momentum, reflecting the gradually strengthening of external demand and some favourable impact from the recent fall in the external value of the euro. Moreover, past favourable cost-competitiveness developments in a number of countries should continue to support their export performances. Nevertheless, EU and euro area companies are expected to lose export market shares in 2015 and 2016. Among the largest economies the loss of market shares is most pronounced in Italy and the UK, whereas Spain and Germany are expected to gain market shares in each of the forecast years. Forecasts of export performance mainly reflect developments in competitive positions, but they also depend on the composition (e.g. exports of intermediates within global value chains) and the destination of trade, which may have shifted on the back of the observed lower trade intensity of global growth (see Section 2).

Overall, with global output accelerating in 2015 and 2016, exports are expected to grow 3.9% and 5.0% in both the EU and the euro area. Import volumes are expected to accelerate to 3.9% in 2015 and 5.5% in 2016 in the euro area, and in the EU to 4.0% and 5.3% respectively.

The contribution of net exports to GDP growth has been relatively small and volatile over recent quarters. With export and import volumes growing almost at the same speed over the forecast horizon, net exports should contribute only marginally to GDP growth over the forecast horizon.

5. THE CURRENT ACCOUNT

Current account balances have moved asymmetrically in the last years. While large current account surpluses have in some countries persisted, some vulnerable Member States have made progress in external rebalancing. Over the last three years they have seen their current account deficits shrink or even turn to surplus. As the impact of this adjustment has not been offset by adjustment in creditor economies, the current-account surpluses of the EU and the euro area reached new highs last year. Although part of the recent gains are likely to reverse once the recovery of domestic demand gains more traction, current account surpluses are expected to remain roughly stable over the forecast horizon.

The widening of the current-account surplus in 2013...

Current account surpluses have been the norm in EU and the euro area since the end of the Great Recession. Last year, the surplus-to-GDP ratio increased to new highs in both areas, however, this was more the result of weak domestic demand, which resulted in lower imports and investment, rather than strong exports or saving. Vulnerable countries accounted for most of the increase in the surplus, with both export growth (e.g. via cost and non-cost competitiveness gains) and the import side (through a structural stagnation in demand) working in the same direction. [28]

(26) See for instance the study for Belgium by Amiti, Itskhoki and Konings and the literature surveyed by them. Estimates of the integration of all euro-area Member States into global supply chains are provided by Amador, Cappariello and Stehrer (2014). See M. Amiti, O. Itskhoki and J. Konings, Importers, exporters, and exchange rate disconnect, *American Economic Review*, July 2014, Vol. 104, No. 7, pp. 1942-78; J. Amador, R. Cappariello and R. Stehrer, Global value chains: a view from the euro area, *Banco de Portugal Working Paper* no. 14/12, September 2014.

(27) For details, ibid p. 8.

(28) See also Box I.3 ("The cyclical component of current-account balances") in: *European Economic Forecast* – Winter 2014 ("Recovery gaining ground"), February 2014,

In the euro area, net debtor countries have particularly improved their current account balances since 2007, e.g. in Cyprus, Greece, Slovenia, Ireland, Spain and Portugal. The comparison of developments in overall current balances (see also Table 50 in the Statistical Annex) and cyclically-adjusted current account balances allows distinguishing structural and cyclical components of these improvements (see Table I.4). In Greece and Slovenia, more than half of the reduction in the current account balance between 2007 and 2013 is estimated to be attributable to cyclical factors. By contrast, according to estimates the bulk of rebalancing in the other vulnerable countries was associated with improvements in the cyclically-adjusted balances and can therefore be considered as non-cyclical, and be expected to be more durable.

At the same time, little adjustment has been observed in creditor countries with persistent surpluses, e.g. in the Netherlands and Germany. Germany's current account surplus has even increased in cyclically-adjusted terms since 2007. During the global financial crisis and/or thereafter also countries outside the euro area that had high deficits before, recorded improved current-account balances, mainly on account of improvements in trade balances (e.g. Bulgaria, Romania, the three Baltic economies). [29]

...is followed by stabilisation in 2014 on account of reversals in some countries.

In 2014, the recovery appears to coincide with a slight deterioration in the current account balances of some of the vulnerable countries. Current accounts balances are expected to worsen in Spain and Greece. In the case of Spain, the deterioration is partly due to improving business cycle conditions leading to a strong rise in imports of goods, while exports decelerated somewhat.

Table I.4:
Current account and cyclically adjusted current account

(% of GDP)	Current account balance (bold) *Cyclically djusted balances (italics)*				
	Δ 07-13	2013	2014	2015	2016
Belgium	**-5.4**	**-1.5**	**-0.3**	**-0.5**	**-0.7**
	-4.6	*-1.0*	*0.4*	*0.1*	*-0.4*
Germany	**-0.1**	**6.9**	**7.1**	**7.1**	**6.7**
	1.6	*7.7*	*7.8*	*7.6*	*7.2*
Estonia	**14.6**	**-0.9**	**-2.8**	**-3.1**	**-3.7**
	8.2	*3.4*	*1.2*	*0.1*	*-0.8*
Ireland	**9.9**	**3.8**	**5.5**	**5.5**	**5.3**
	7.3	*3.1*	*7.5*	*7.9*	*7.0*
Greece	**13.1**	**-2.7**	**-2.8**	**-2.5**	**-2.2**
	5.8	*-8.7*	*-7.2*	*-4.6*	*-1.9*
Spain	**11.1**	**1.5**	**0.5**	**0.7**	**0.9**
	8.4	*-0.8*	*-1.2*	*-0.3*	*0.6*
France	**-0.9**	**-2.0**	**-1.9**	**-1.9**	**-2.2**
	-1.1	*-1.9*	*-2.2*	*-2.4*	*-2.7*
Italy	**2.4**	**1.0**	**1.4**	**1.5**	**1.7**
	1.7	*0.0*	*0.4*	*0.8*	*1.3*
Cyprus	**9.6**	**-1.3**	**-1.2**	**-0.6**	**0.0**
	7.4	*-2.0*	*-3.1*	*-2.1*	*-0.6*
Latvia	**18.9**	**-2.2**	**-2.2**	**-2.3**	**-2.8**
	13.2	*-0.7*	*0.2*	*0.5*	*0.3*
Lithuania	**16.2**	**1.6**	**0.8**	**-0.4**	**-1.4**
	12.7	*3.1*	*3.0*	*2.5*	*1.7*
Luxembourg	**-5.3**	**5.2**	**5.2**	**5.2**	**5.8**
	-8.7	*3.0*	*5.6*	*5.5*	*5.9*
Malta	**7.0**	**3.1**	**2.5**	**2.5**	**3.9**
	13.0	*7.3*	*7.3*	*7.1*	*7.9*
Netherlands	**1.1**	**8.5**	**7.8**	**7.7**	**7.7**
	0.2	*6.7*	*6.5*	*7.2*	*7.7*
Austria	**-1.0**	**2.3**	**2.4**	**2.7**	**2.8**
	0.7	*3.1*	*2.9*	*3.2*	*3.2*
Portugal	**9.8**	**-0.3**	**-0.2**	**0.1**	**0.3**
	8.4	*-2.4*	*-1.6*	*-0.7*	*0.0*
Slovenia	**8.8**	**4.8**	**6.2**	**6.1**	**5.9**
	2.0	*1.9*	*5.7*	*6.7*	*7.7*
Slovakia	**6.3**	**0.8**	**0.5**	**0.2**	**0.3**
	-2.3	*-1.1*	*-1.5*	*-2.1*	*-2.1*
Finland	**-6.1**	**-2.0**	**-1.9**	**-1.7**	**-1.4**
	-7.4	*-2.9*	*-2.9*	*-2.3*	*-1.7*
Euro area	**2.1**	**2.4**	**2.5**	**2.6**	**2.5**
Bulgaria	**26.7**	**2.2**	**2.1**	**2.3**	**1.9**
	28.2	*5.1*	*4.8*	*3.7*	*1.8*
Czech Republic	**2.5**	**-2.2**	**-1.3**	**-0.9**	**-0.4**
	-1.8	*-3.7*	*-1.6*	*0.0*	*1.1*
Denmark	**5.5**	**6.9**	**6.2**	**6.1**	**6.2**
	3.4	*5.2*	*4.6*	*4.9*	*5.4*
Croatia	**7.3**	**0.4**	**0.3**	**1.6**	**1.8**
	4.1	*-0.3*	*-0.5*	*1.0*	*1.5*
Hungary	**11.4**	**4.2**	**4.3**	**4.3**	**4.3**
	11.1	*3.4*	*5.8*	*6.6*	*6.2*
Poland	**5.1**	**-1.4**	**-2.0**	**-2.4**	**-2.8**
	5.5	*-0.8*	*-1.3*	*-1.9*	*-2.3*
Romania	**12.7**	**-1.4**	**-1.2**	**-1.4**	**-1.5**
	10.6	*-1.1*	*-0.7*	*-0.7*	*-0.7*
Sweden	**-2.5**	**6.5**	**5.7**	**5.4**	**5.1**
	-2.4	*6.5*	*5.9*	*5.6*	*5.5*
United Kingdom	**-1.5**	**-4.2**	**-4.0**	**-3.7**	**-3.2**
	-1.7	*-4.7*	*-3.6*	*-3.1*	*-2.6*
EU28	**1.9**	**1.4**	**1.4**	**1.5**	**1.5**

Source : European Commission estimates

In Spain and Greece, this year's deterioration in current account balances is expected to be temporary. Overall, export growth in the vulnerable countries is expected to lead the improvement in cyclically-adjusted current account balances. By contrast, current account balances are projected to remain broadly stable over the forecast horizon in the aforementioned creditor countries.

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pp. 35-38, and ECB, To what extent has the current account adjustment in the stressed euro area countries been cyclical or structural?, *ECB Monthly Bulletin*, January 2014, pp. 47-50 (Box 5), and T. Tressel et al., Adjustment in euro area deficit countries: progress, challenges, and policies, *IMF Staff Discussion Note* 14/7, July 2014, and IMF, *World Economic Outlook* – October 2014, pp. 125-126.

(29) For an analysis see ECB, Current account adjustment in the EU Member States of Central and Eastern Europe, *ECB Monthly Bulletin*, February 2014, pp. 15-18 (Box 2).

Overall, the current-account balance of the EU and the euro area is forecast to be almost 1½% and 2½% of GDP respectively in 2014. This represents a slowdown in the strengthening of the surplus compared to the past two years. The current account balance is then expected to remain broadly stable in 2015 and 2016 in the EU and in the euro area.

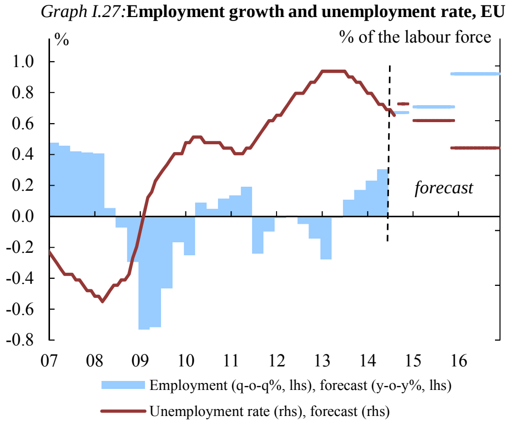
6. LABOUR MARKET CONDITIONS

Typically, after recessions, labour market improvements follow the rebound of economic activity after some time, which implies that the outlook for employment in the EU should be moderately positive. However, the strength of economic growth is expected to remain insufficient for a marked improvement. Thus, the number of unemployed is not expected to decline substantially over the forecast horizon.

Labour market conditions are strengthening…

The labour market recovery in the EU is progressing, but it remains subdued and the situation is very different across Member States. In recent quarters, labour market conditions in the EU and euro area have improved modestly in line with the weak economic recovery.

Graph I.27: **Employment growth and unemployment rate, EU**

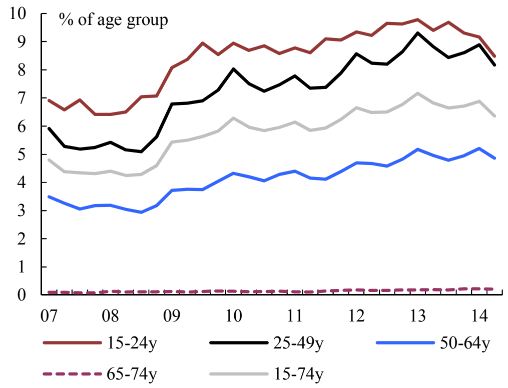


Forecast figures are annual data.

In the second quarter, employment growth continued at a slightly higher pace than in preceding quarters (see Graph I.27). This lifted the annual rate of employment growth to 0.4% in the euro area and 0.7% in the EU. Meanwhile, unemployment rates continued to follow the moderate downward trend that they had started after stabilising towards the last quarter of last year. Compared to the peaks reached in the first half of 2013, unemployment in the EU and euro area fell by 0.8 pp in the EU and by 0.5 pp respectively in the year to August, but the average unemployment rate remains high compared to the history of the series.

Youth unemployment remains at historically high levels, although it has recently slightly declined. The number of unemployed persons aged 15 to 24 as a percentage of the labour force of the same age stood in August at 21.7% in the EU and 23.3% in the euro area, clearly exceeding pre-crisis levels. The number of young unemployed as a percentage of the population of the same age has steadily increased up to the end of last year and exceeds the corresponding rates of other age groups (Graph I.28). The aggregate indicators of youth unemployment hide a lot of diversity across countries.

Graph I.28: **Unemployment by age group, EU**



Another indication of poor labour-market functioning is the continued rise in the rate of long-term unemployment (Graph I.29). The number of persons with unemployment duration of more than 24 months has almost steadily increased since the beginning of the crisis in 2008 and not yet benefitted from the slight improvements that are visible for other unemployment durations. This increase in long-term unemployment risks lowering matching efficiency in the period ahead.[30]

(30) For empirical evidence see A. Arpaia, A. Kiss and A. Turrini, Is unemployment structural or cyclical? Main features of job matching in the EU after the crisis, *European Economy, Economic Papers* no. 527, September 2014.

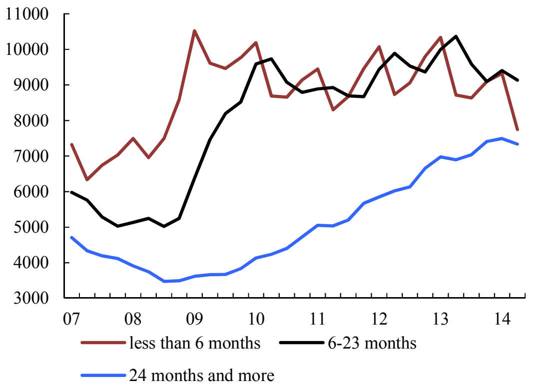
Table I.5:

Labour market outlook - euro area and EU

(Annual percentage change)	Euro area				Spring 2014 forecast		EU				Spring 2014 forecast	
	2013	2014	2015	2016	2014	2015	2013	2014	2015	2016	2014	2015
Population of working age (15-64)	0.2	0.2	0.0	0.0	*0.1*	*0.1*	0.1	0.1	0.0	0.0	*0.1*	*0.1*
Labour force	-0.1	0.0	0.2	0.3	*0.1*	*0.2*	0.1	0.1	0.3	0.4	*0.2*	*0.3*
Employment	-0.8	0.4	0.5	0.9	*0.4*	*0.7*	-0.4	0.7	0.6	0.8	*0.6*	*0.7*
Employment (change in million)	-0.8	0.4	0.5	0.9	*0.3*	*0.7*	-0.4	0.7	0.6	0.8	*0.5*	*0.7*
Unemployment (levels in millions)	19.3	18.8	18.3	17.5	*18.9*	*18.2*	26.3	25.1	24.4	23.4	*25.7*	*24.8*
Unemployment rate (% of labour force)	11.9	11.6	11.3	10.8	*11.8*	*11.4*	10.8	10.3	10.0	9.5	*10.5*	*10.1*
Labour productivity, whole economy	0.3	0.4	0.6	0.9	*0.9*	*1.0*	0.4	0.6	0.9	1.1	*1.0*	*1.2*
Employment rate (a)	58.3	58.4	58.7	59.2	*57.9*	*58.3*	58.5	58.8	59.1	59.6	*58.3*	*58.7*

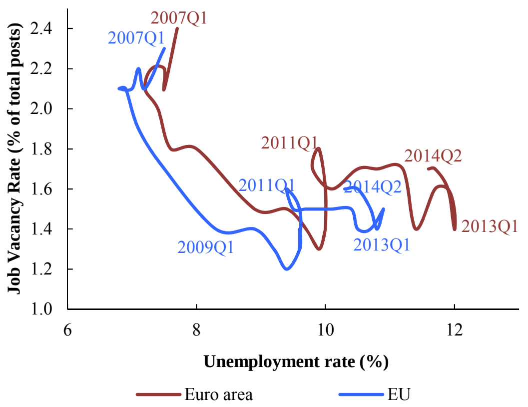
(a) As a percentage of population of working age. Definition according to structural indicators.
See also note 6 in the Statistical Annex

Graph I.29: **Unemployment, unemployed by duration, EU**



The past decline in match efficiency is visible in the observed outward shift of the euro area's Beveridge curve (which shows the negative relationship between the unemployment rate and the vacancy rate), which reveals that there are more unemployed workers for a given level of vacancies (see Graph I.30). However, the shift also indicates that the number of laid off workers declined more than one would have expected based on its pre-crisis co-movements with the unemployment-to-vacancy ratio. The outward shift of the euro-area Beveridge curve masks inward shifts in some Member States such as Germany.[31] To some extent the lower match efficiency can be explained by sectoral adjustment processes, which had been triggered by the Great Recession and that implies that idle workers are seeking employment in sectors or locations different from those where jobs are available.[32]

Graph I.30: **Beveridge curve, euro area and EU**



Remarkably, in both the EU and the euro area, the unemployment rate reduction began already in the second quarter of the recovery that started in 2013, whereas in the 2009-11 recovery the decline started only in the fifth quarter. This response was relatively quick in comparison to the lagged responses observed in previous recoveries. Usually, working hours of underutilised employees are increased during the early phases of a recovery, followed by recruitments and increases in the headcount. But unemployment rates were (still) relatively high at the beginning of the recession of 2011-13 and, with the exception of stressed countries, employment did not fall markedly any further. In particular downward adjustment of hours might have been so small that in the current recovery less time elapsed between the return of economic growth and headcount adjustment.

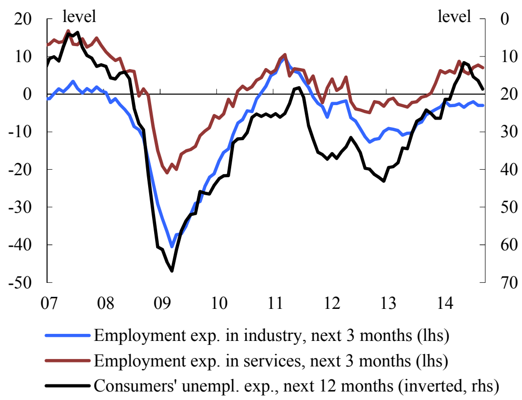
(31) See e.g. ECB, The impact of the economic crisis on euro area labour markets, *ECB Monthly Bulletin*, October 2014, pp. 49-68. For more information on seven other Member States see also B. Hobijn and A. Şahin, Beveridge curve shifts across countries since the Great Recession, *IMF Economic Review*, December 2013, Vol. 61, No. 4, pp. 566-600.

(32) Similar arguments have been shown to hold for the US economy; see A. Şahin et al., Mismatch unemployment, *American Economic Review*, November 2014, Vol. 104, No. 11, pp. 3529-64.

...with timid near-term improvements...

In the near term, survey data suggest a stabilisation in labour market conditions. After having been on a strong upward trend since the second quarter of 2013, employment expectations in all sectors (industry, services and construction) have fallen since spring (Graph I.31). In the EU, hiring intentions currently stand above their long-term average in all sectors covered by the surveys, while in the euro area they remain below the long-term average in the services and construction sectors. As regards consumers' unemployment fears, they have been steadily increasing since May in both the EU and euro area. Both households and businesses seem to have become less optimistic since spring, possibly as a result of the sluggish recovery and the still uncertain outlook. Meanwhile, the employment component of the euro-area PMI has fallen since April and dipping below the no-change-threshold in July.

Graph I.31: **Employment expectations, DG ECFIN surveys, EU**



The current pace of economic activity does not allow for a rapid and massive absorption of excess capacities. The expected slowdown of output growth in the second half of the year implies that improvements in the labour market are likely to remain limited. Moreover, inflation may be lower than anticipated by companies when agreeing on wage settlements, which could exert a negative impact on their willingness to employ. Overall, in 2014, employment gains are expected to remain modest at 0.7% in the EU and at 0.4% in the euro area, while the unemployment rate is set to decrease to 10.3% in the EU and to 11.6% in the euro area (see Table I.5).

...but more sizeable improvements expected in 2015-16...

The recovery of economic activity is expected to have a more visible positive impact on employment in 2015 and even more so in 2016. Besides, reforms in the labour market and past moderate wage increases will also support job creation over the forecast horizon.[33] On the negative side, the still low levels of hours worked compared to the pre-crisis period, could act as a drag on the employment outlook. In 2015, employment is expected to grow 0.6% in the EU and 0.5% in the euro area, before accelerating to almost 1% in both areas in 2016. This uptick in employment growth follows the narrowing of the (negative) output gap in both areas and is thus broadly compatible with Okun's law, which quantifies the relationship between changes in output and the change in the unemployment rate.

The labour force is expected to grow moderately over the forecast horizon, mirroring the entrance of certain segments of the population in the labour force as a result of the improved situation in the labour market, as well as the impact of migration flows. The activity rate is also expected to increase slightly. Labour productivity (output per person employed) is expected to increase gradually over the forecast horizon, reflecting the economic recovery and the lagged response of employment to developments in activity. In 2016, it is set to reach respectively 1.1% and 0.9% in the EU and the euro area respectively.

The unemployment rate in the EU and the euro area is expected to decline slowly over the forecast horizon, to 9.5% and 10.8% respectively in 2016. This remains, however, still above pre-crisis levels by 1.3 pps. in the EU and by 2.2 pps. in the euro area (compared to the period 2004-08). The overall slow decline in unemployment rates reflects cyclical factors such as the sluggishness of the recovery, but also the persistence of high structural unemployment. The latter is reflected in the rise of the NAWRU (Non Accelerating Wage Rate of Unemployment), which according to the Commission staff estimates has been steadily increasing since 2009 in both the EU and the euro area. It is expected to continue rising in the euro

(33) After a time lag, reforms in the labour market tend to be followed by improved activity rates and lower unemployment, see A. Turrini et al., A decade of labour market reforms in the EU: Insights from the LABREF database, *European Economy, Economic Papers* no. 522, July 2014.

area over the forecast horizon, though more moderately than during the crisis period and to stabilise in the EU.

…amid narrowing cross-country differences.

Labour market conditions and performances continue to differ substantially across EU countries but these divergences seem to have begun narrowing this year. Unemployment rates in a number of Member States worst affected by the crises, such as Ireland, Portugal, Spain and Greece were considerably below their cyclical peaks in August. Unemployment in Ireland and Portugal was down 3.1 pps., while in Spain and Greece, unemployment was down 1.2 pps. and 1.1 pps. respectively. The reduction has been more limited in countries with the lower cyclical peaks such as Austria -0.3 pp. or Germany -0.5 pp.. Thus, unemployment in the euro area as a whole has fallen mainly because of declines in the most stressed countries. Looking ahead, labour market differences are expected to continue narrowing over the forecast horizon, although they will nonetheless remain large. Unemployment rates are expected to range from 4.8% in Germany to about 22% in Greece and Spain in 2016.

7. INFLATION DEVELOPMENTS

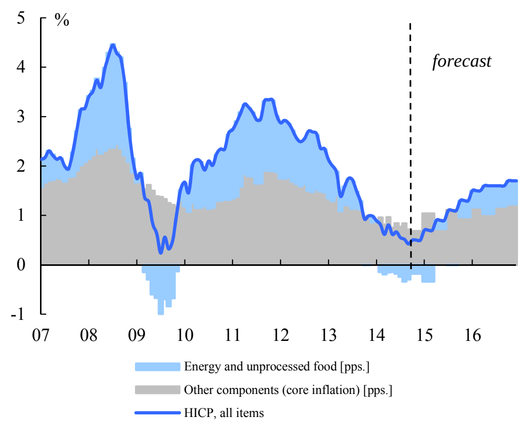
The trend towards lower inflation across EU Member States has continued in autumn, guided by lower commodity prices and remaining economic slack. The outlook of a gradual pick-up in HICP inflation rests on a gradual narrowing of the output gap and a gradually easing of the dampening influence of external factors.

A confluence of factors is keeping inflation very low…

The EU economy's disinflationary slide has continued in 2014. HICP inflation continued to fall in the first three quarters to 0.5% in the EU and 0.4% in the euro area. The persistence of low inflation in Europe can be explained by a mix of global factors and the weak economic environment. The decline in global commodity prices, especially energy and food prices had a significant impact in driving headline inflation lower. The impact of lower commodity prices was magnified by the appreciation of the euro against the US dollar earlier this year. The depreciation since May did not neutralise the stronger fall in commodity prices over the summer. The remaining slack in the economy and weak domestic demand have kept underlying price pressures low, a fact also reflected in the prices of services and non-energy industrial goods.

Core inflation (all items excluding energy and unprocessed food) was on a gradual decline from 2012 up to the third quarter of 2014, but with only marginal changes in 2014 in both the EU (Graph I.32) and the euro area. The low level of core inflation basically reflects historically low services inflation due to weak demand and contained wage pressures but also steadily declining non-energy industrial goods inflation, which can be attributed to low input prices and declining import prices. In the third quarter of 2014, core inflation stood at 1.0% in the EU and 0.8% in the euro area, with services inflation at 1.4% and 1.2% and inflation of non-energy industrial goods close to zero in both regions.

Graph I.32: **Inflation breakdown, EU**



Disaggregated HICP data show that the decline in food prices has increased in 2014 with food price inflation standing at -0.9% in the EU and -0.8% in the euro area in the third quarter. However, there is no clear evidence that the decline is mainly caused as a result of the Russian import ban on imports of food products from the EU. The Member States hit most directly by the ban are those with the highest weights of the products concerned in their HICP basket. A potential decrease in food prices is therefore likely to vary across countries and depends on the extent to which food exports can be diverted, although diverting them to other Member States would only matter for the regional distribution of the impact on HICP inflation.

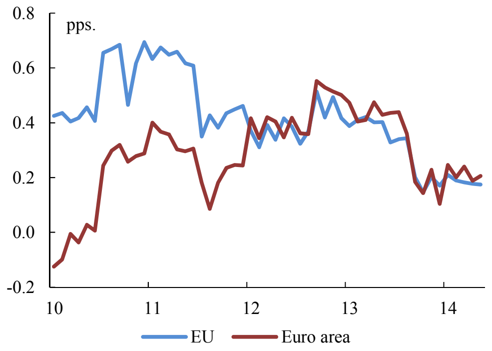
Table I.6:

Inflation outlook - euro area and EU

(Annual percentage change)	Euro area				Spring 2014 forecast		EU				Spring 2014 forecast	
	2013	2014	2015	2016	2014	2015	2013	2014	2015	2016	2014	2015
Private consumption deflator	1.1	0.6	1.0	1.5	*0.9*	*1.3*	1.3	0.7	1.1	1.6	*1.1*	*1.5*
GDP deflator	1.3	0.9	1.1	1.6	*1.2*	*1.3*	1.4	1.0	1.3	1.7	*1.3*	*1.5*
HICP	1.4	0.5	0.8	1.5	*0.8*	*1.2*	1.5	0.6	1.0	1.6	*1.0*	*1.5*
Compensation per employee	1.8	1.5	1.6	1.7	*1.6*	*1.9*	1.9	1.7	1.9	2.1	*1.8*	*2.2*
Unit labour costs	1.4	1.1	0.9	0.8	*0.7*	*0.8*	1.4	1.1	1.0	1.0	*0.8*	*0.9*
Import prices of goods	-2.0	-1.8	0.8	1.3	*-1.0*	*0.8*	-1.7	-1.3	0.8	1.2	*-0.7*	*0.8*

Up to 0.2 pp. of the current rate of annual HICP inflation in the EU and in the euro area can be attributed to changes in taxes as a comparison unveils between headline inflation and Eurostat's estimate of HICP inflation at constant tax rates (Graph I.33). As compared to estimates for 2012-13 the impact has been lower in the first half of 2014.

Graph I.33: **Tax impact on HICP inflation rate, EU and euro area**



The tax impact is the difference between annual HICP inflation and inflation at constant taxes (Source: Eurostat)

...including low external and producer price pressures...

Lower global commodity prices together with the appreciation of the euro drove external price pressures substantially down in 2013. Import prices (measured by the deflator of imports of goods) fell 1.7% in the EU and 2.0% in the euro area in 2013, but the decline of the euro and its assumed path will neutralise to an extent the impact of lower global commodity prices in 2014. Import prices are expected to fall in 2014 as a whole but to increase by more than ¾% in 2015 and 1¼% in 2016, consistent with the assumption of a lower external value of the euro.

Subdued price pressures are also evident at the producer level. Falling producer prices in 2014 have reflected lower energy and non-energy commodity prices but also weak demand, which is also the reason for the relatively low rate of capacity utilisation in the manufacturing sector. In August, the annual rate of producer price inflation stood at -1.5% in the EU and -1.4% in the euro area, as prices for energy and intermediate goods are falling, while prices of durable consumer goods are increasing by around 1%, hinting at recovering prices in the final stages of the production chain.

...on the back of slowly recovering labour costs.

The slack in the labour market, as mainly seen in high unemployment, and, in some Member States, the need to regain competitiveness weaken wage pressures and the spending power of consumers, and thus do not encourage prices to rise. Growth in compensation per employee slowed in the EU to 1.9% and in the euro area to 1.8% in 2013. In 2014, the growth rate is expected to fall to 1.7% in the EU, and to 1.5% in the euro area thereby still exceeding labour productivity growth of 0.6% and 0.4% respectively. As a result, unit labour costs should increase 1.1% in both regions and thus less than in the two previous years. Unit labour costs are expected to moderate slightly in 2015 and 2016 as higher wage increases are neutralised by higher labour productivity growth (see Table I.6).

The period of low inflation is expected to continue...

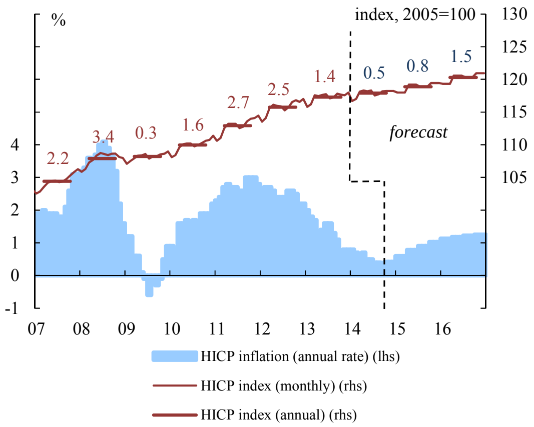
Expectations of future price developments play a major role in the price-setting and wage-bargaining behaviour of economic agents and thus are crucial in explaining overall HICP inflation. Expectations may be influenced by the current low readings of headline inflation. Short- and medium-term inflation expectations have continued to decline in 2014, signalling low but positive inflation developments in the years ahead. Inflation-linked swap rates at the one-year-forward-one-year-ahead horizon dropped below 1% in June and fell further to around 0.7% in mid-October. At the three years-forward-three-years-ahead horizon, in mid-October they would imply an average inflation rate of 1.3% (taken at face value). Consumers' inflation expectations in both the EU and the euro area have also continued to fall, reaching their lowest levels in almost four years, indicating low inflation in the short term. Long-term inflation expectations based on inflation-linked swap rates (five-year-forward five-year-ahead) fell to 1.8% in the first half of October, increasing concerns about a possible de-anchoring of inflation expectations.

As regards the near term, the recent declines in survey indicators (retail sector's selling price expectations, consumers' price expectations) suggest low inflation rates for the rest of the year. The remaining slack in the economy, the assumed path of commodity prices, and also the delayed pass-through of declines in previous months will continue to dampen the inflation outlook for the remainder of 2014. While the weak recovery should limit price increases, the dampening influence of external factors is expected to gradually ease over the forecast horizon.

In 2015, the assumed lower external value of the euro and, in 2016, a gradual increase in non-energy commodity prices should result in higher external price pressures with a pass-through to consumer prices. However, due to the subdued pace of the recovery in most Member States, a large amount of slack is expected to remain and changes in the relationship between economic slack and inflation, for instance as a result of structural reforms in labour or product markets, are expected to remain rather limited.[34] The expected smooth upward trend also reflects some kind of inflation persistence related to less frequent price adjustments by firms in a low-inflation environment. Overall, this should result in a moderate rise of inflation to 1.3% in the EU and 1.1% in the euro area in the final quarter of 2015 (see Graphs I.2 and I.34).

[34] For a more detailed discussion see ECB, The Phillips curve relationship in the euro area, *ECB Monthly Bulletin*, July 2014, pp. 99-114.

Graph I.34: **HICP, euro area**

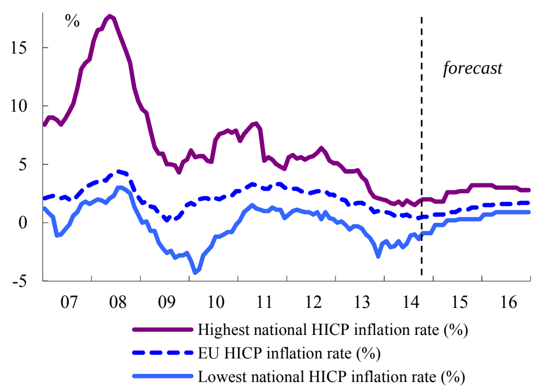


In 2016, the stronger economic activity should result in higher wage growth feeding into higher pipeline pressures and finally into consumer prices. In particular it is also envisaged that services inflation will contribute more to headline inflation amid a more dynamic domestic environment. Nonetheless, headline inflation is projected to remain below 2% in both regions until the end of 2016.

...with pronounced cross-country differences.

The HICP aggregate hides inflation differentials across EU Member States. This year, HICP inflation rates in the Member States are expected to range from -1.4% in Bulgaria to 1.5% in Austria, Romania and the UK. The overall decline in inflation rates has already brought a narrowing of the gap between the highest and lowest inflation rates both in the EU (Graph I.35) and in the euro area. This trend is expected to continue over the forecast horizon.

Graph I.35: **Inflation dispersion of EU Member States - HICP inflation rates**



In some Member States, quarterly inflation rates fell below zero in 2014. Such price adjustments

Table I.7:

General Government budgetary position - euro area and EU

(% of GDP)	Euro area				Spring 2014 forecast		EU				Spring 2014 forecast	
	2013	2014	2015	2016	*2014*	*2015*	2013	2014	2015	2016	*2014*	*2015*
Total receipts (1)	46.5	46.7	46.7	46.4	*46.7*	*46.5*	45.3	45.2	45.0	44.8	*45.8*	*45.2*
Total expenditure (2)	49.4	49.3	49.0	48.5	*49.2*	*48.7*	48.5	48.2	47.8	47.1	*48.4*	*47.7*
Actual balance (3) = (1)-(2)	-2.9	-2.6	-2.4	-2.1	*-2.5*	*-2.3*	-3.2	-3.0	-2.7	-2.3	*-2.6*	*-2.5*
Interest expenditure (4)	2.8	2.7	2.7	2.6	*2.9*	*2.9*	2.7	2.6	2.5	2.5	*2.7*	*2.7*
Primary balance (5) = (3)+(4)	-0.1	0.1	0.3	0.5	*0.4*	*0.6*	-0.5	-0.5	-0.2	0.2	*0.2*	*0.2*
Cyclically-adjusted budget balance	-1.3	-1.1	-1.1	-1.4	*-1.1*	*-1.3*	-1.7	-1.8	-1.8	-1.8	*-1.4*	*-1.8*
Cyclically-adjusted primary balance	1.5	1.6	1.5	1.3	*1.8*	*1.6*	1.0	0.8	0.8	0.7	*1.4*	*1.0*
Structural budget balance	-1.2	-1.1	-1.1	-1.3	*-1.1*	*-1.2*	-1.7	-1.8	-1.8	-1.8	*-1.7*	*-1.7*
Change in structural budget balance	0.9	0.1	0.0	-0.2	*0.1*	*-0.1*	1.0	-0.1	0.0	0.0	*0.1*	*0.0*
Gross debt	93.1	94.5	94.8	93.8	*96.0*	*95.4*	87.1	88.1	88.3	87.6	*89.5*	*89.2*

The structural budget balance is the cyclically-adjusted budget balance net of one-off and other temporary measures estimated by the European Commission. Gross debt is non-consolidated (see Box I.4).

should help restore international competitiveness vis-à-vis trading partners especially for those countries undergoing a deep economic adjustment. Low inflation can support GDP growth by increasing real disposable incomes, which can in turn boost consumption. However, too prolonged a period of low inflation also increases the real value of both private and public debt and can raise real interest rates. This makes deleveraging more difficult and may eventually impact negatively on investment and consumption especially in those countries with high debt ratios. Finally, very low inflation across the euro area could make the necessary relative price adjustment within the region more challenging for the vulnerable Member States.

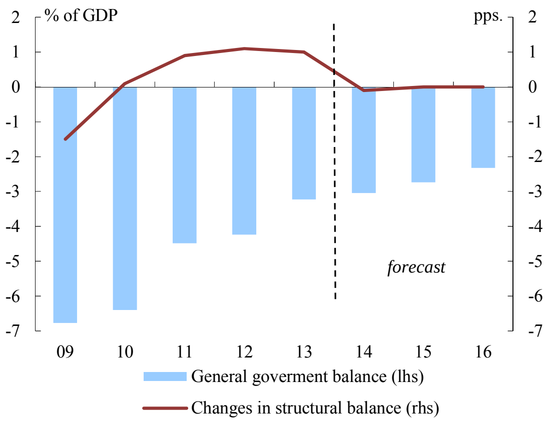
8. PUBLIC FINANCES IN THE EU

Headline deficits continue to fall…

Public finances are expected to continue improving over the forecast horizon, confirming the sizable consolidation efforts made since 2010 in both the EU and the euro area. The general government deficit is projected to decrease further in 2014, albeit at a more moderate pace than in 2013. The headline deficits are set to decline by 0.2 pp. and 0.3 pp. in the EU and the euro area, to 3.0% and 2.6% of GDP respectively. [35] As a result, benefiting from the consolidation measures undertaken by Member States, the EU headline deficit will be brought within the Treaty reference value of 3% of GDP for the first time since 2008.

Headline deficits are forecast to continue declining over the next two years, supported by the expected gradual strengthening of economic activity. In 2015, the headline deficit is thus projected to be reduced to 2.7% in the EU and 2.4% in the euro area. Under a no-policy-change assumption, general government deficits are projected to decline to 2.3% and 2.1% of GDP in the EU and the euro area in 2016 (Graph I.36).

Graph I.36: **Budgetary developments, EU**



[35] The upward revision of the EU general government headline deficit in 2014 from the spring forecast partly reflects the revised impact of the pension reform in Poland in 2014, stemming from the methodological transition from ESA 95 to ESA 2010. Whereas under ESA 95, the transfers of private pension funds' assets are treated as revenue, and therefore are deficit-decreasing – yielding an impact of 9.2% of GDP in 2014, and 0.2% of GDP in 2015 –, under ESA 2010 they are deficit-neutral. As a result in 2014, the changeover from ESA 95 to ESA 2010 leads in this particular case to a downward revision of 0.3% of GDP in the general government deficit in the EU. However, it is worth noting that under ESA 2010 the transfers of pension funds' assets are still projected to have a decreasing effect on the debt-to-GDP ratio in Poland.

Table I.8:
Euro-area debt dynamics

	average 2004-09	2010	2011	2012	2013	2014	2015	2016
Gross debt ratio[1] (% of GDP)	**69.2**	**83.8**	**86.4**	**90.8**	**93.1**	**94.5**	**94.8**	**93.8**
Change in the ratio	1.5	5.7	2.6	4.5	2.3	1.4	0.3	-1.0
Contributions to the change in the ratio:								
1. Primary balance	**-0.3**	**3.4**	**1.2**	**0.6**	**0.1**	**-0.1**	**-0.3**	**-0.5**
2. "Snow-ball" effect[2]	**0.8**	**-1.1**	**0.8**	**2.5**	**2.0**	**1.2**	**0.6**	**-0.4**
Of which:								
Interest expenditure	2.9	2.7	3.0	3.0	2.8	2.7	2.7	2.6
Growth effect	-0.9	-9.1	-1.3	0.6	0.4	-0.7	-1.0	-1.6
Inflation effect	-1.2	5.3	-0.9	-1.1	-1.2	-0.8	-1.0	-1.5
3. Stock-flow adjustment	**1.0**	**2.8**	**0.7**	**1.3**	**0.1**	**0.3**	**0.0**	**0.0**

1 End of period.

2 The "snow-ball effect" captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

…but structural deficits are projected to remain broadly unchanged in 2014 and 2015.

Following the sizeable fiscal consolidation measures undertaken by most Member States between 2011 and 2013, the fiscal policy stance is expected to be broadly neutral in 2014. The structural deficit, i.e. the general government deficit corrected for cyclical factors, one-offs and other temporary measures, after having significantly declined in both areas in 2013 (by around 1 pp. of GDP) is set to remain broadly stable in the current year and in 2015.

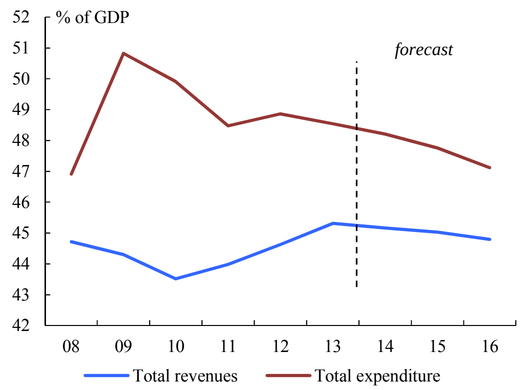
From revenue to expenditure-driven fiscal consolidation

In the EU as whole, fiscal consolidation in 2014 is forecast to be essentially driven by a reduction in government expenditure, with the expenditure ratio expected reaching 48.2% (Graph I.37). A milder decrease in the expenditure-to-GDP ratio is expected in the euro area (to 49.3%). (36)

For the euro area, projected improvement of the general government deficit in 2014 is – as in previous years – expected to come largely from higher indirect tax revenues, which stem from the expected acceleration of private consumption. As a result the revenue-to-GDP ratio in 2014 is forecast to increase slightly to 46.7%. By contrast, in the EU, the revenue-to-GDP ratio is projected to decrease in 2014 for the first time since 2010, reaching 45.2%.

(36) It is worth noting that the transition from the ESA 95 to the ESA 2010 methodology will impact on public finances aggregates. This change is expected to lead overall to downward shifts in both the revenue-to-GDP and the expenditure-to-GDP ratios.

Graph I.37: **General government revenues and expenditure, EU**



In 2015, the revenue-to-GDP ratio is projected to slightly decrease further in the EU and to stabilise in the euro area. While in both the EU and the euro area revenue from net social contributions is set to decrease, possibly linked to the implementation of tax wedge reforms, in the euro area this is expected to be compensated by a slight increase in revenue from taxes on income and wealth. Only at the end of the forecast horizon, is the ratio projected to decrease in both areas. Regarding government spending, the strengthening in economic activity is likely to induce a reduction in expenditure related to automatic stabilisers, alongside cost-containment in public wages and intermediate consumption in both the EU and the euro area as of 2015.

Public debt ratio reaching a peak in 2015

The debt-to-GDP ratio is set to continue increasing in 2014, albeit at a slower pace compared to the previous years, reaching 88.1% and 94.5% in the EU and the euro area respectively (see the Table

I.8). The combined debt-reducing effects of nominal growth and the primary balance are projected to be stronger than in previous years. But they are expected to be more than compensated by the impact of stock-flow adjustments and interest payments. As a result, the general government debt-to-GDP ratio is set to remain on an upward path. In 2015, the debt-to-GDP ratio is forecast to peak at 88.3% and 94.8% in the EU and the euro area respectively, as the debt-decreasing effects from the expected continued increase in the primary balance, combined with a strengthening of economic growth, should be offset by interest expenditure. In 2016, the debt-to-GDP ratio should decline in both areas.

9. RISKS

The composition of risks to the growth outlook has changed with geopolitical risks having become more relevant, but downside risks continue to outweigh upside risks. While some downside risks to the inflation outlook appear to be more acute than previously assessed, others have partly materialised and entered the central scenario so that overall the risks appear to remain balanced.

Risks to the growth outlook remain distinctly on the downside…

Developments in the EU economy remain shadowed by major risks. Since spring, risks surrounding the growth outlook have shifted in nature. External risks have come to the fore, even more than already expected in spring.

Downside risks relate to the external environment, financial markets, and progress with reforms in the EU economy.

- The *geo-political environment* has worsened this year, although the effects appear contained so far. A new cycle of sanctions and counter-sanctions between the EU, the US and others and Russia could pose a larger roadblock to European growth prospects than currently envisaged in the forecast, including a more negative impact on domestic demand via deteriorating confidence in the EU. Sanctions could also remain effective for longer than currently assumed. Stronger negative effects on EU growth could also emerge from further intensified conflicts in the MENA region (including Iraq and Syria) and/or their impact on oil prices.

- Delayed or only partial implementation of *structural, fiscal and institutional reforms* by Member States or the EU level would be detrimental for European growth and could increase heterogeneity across Member States. In particular, without further improvements in the labour market or a rising threat of unemployment, private consumption – the largest component of GDP in the EU – may be at a risk of stalling.

- Concerns of a build-up of excessive leverage and under-pricing of credit risk have been highlighted by recent financial-market volatility. *Widespread, abrupt and disorderly corrections in financial markets,* either in response to the normalisation of monetary policy in the US or increased global risk aversion could reduce the outlook for global growth and delay the healing of financial frictions in the EU.

- Economic growth could also be slowed by *financial market tensions* following the asset quality review and stress tests, or renewed concerns about the debt sustainability of a Member State.

- *Lower-than-expected inflation* could have potentially serious knock-on implications on economic activity by making deleveraging more difficult and harming investment and private consumption.

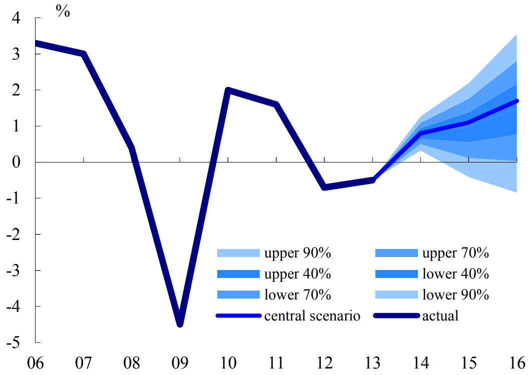
Moreover, over the medium term, against a background of already weak economic momentum, any further materialisation of downside risks could push the EU economy onto a lower trajectory of trend growth.

Upside risks to the growth outlook feature less prominently than downside risks. They include positive shocks to EU exports originating from a stronger-than-expected acceleration of global output and/or global trade (e.g. due to a higher-than-assumed trade intensity of global growth) or a stronger-than-assumed depreciation of EU currencies (including the euro), a faster-than-expected revival of investment expansion, for instance in response to recent measures of monetary accommodation, stronger-than-expected improvements in access to credit in the wake of the

ECB's comprehensive assessment of the largest EU banks, and a quicker-than-expected recovery in labour markets that supports disposable incomes and thereby domestic demand, for instance in response to successful structural reforms. Sentiment and growth could also rebound strongly if the conflict in Ukraine eases.

Overall, risks to the growth outlook remains tilted to the downside. This is visualised in the fan chart (Graph I.38) that depicts the probabilities associated with various outcomes for euro-area economic growth over the forecast horizon. While the darkest area indicates the most likely development, the shaded areas represent the different probabilities of future economic growth within the growth ranges given on the y-axis. Since the balance of risks to economic growth is assessed as clearly tilted to the downside, the fan chart remains skewed towards the bottom.

Graph I.38: **Euro area GDP forecasts - Uncertainty linked to the balance of risks**



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

Risks to the inflation outlook have changed since spring, but their balance is considered to be roughly even. By now some of the formerly mentioned downside risks have already partly materialised (e.g. a further decline in short-term inflation expectations) and thus entered the central scenario, whereas other risks have become more acute than previously assessed, mostly on account of the past decline in HICP inflation.

Downside risks relate to the sluggishness of economic activity in the EU, global factors, and implications of the past disinflationary trend. Weaker-than-expected domestic demand remains a major downside risk to the inflation outlook. Weaker-than-forecast global growth could prolong the period of falling energy and commodity prices, which would reduce import prices. Downside risks are associated with a de-anchoring of inflation expectations that could trigger additional deflationary pressures, including the risk that disinflationary expectations take hold. These risks, if materialising, would result in lower inflation rates than included in the central scenario.

The possibility of periods of lower-than-expected inflation has to be separated from the scenario of outright deflation. The risk of a long period of very low inflation remains in place, but the materialisation of outright deflation is rather unlikely.

On the *upside*, a faster-than-expected recovery, or substantially higher oil prices, for instance originating from a stronger-than-expected rebound of global growth or continued unrest or military actions in oil-exporting countries, could push HICP inflation in the EU beyond the forecast levels.

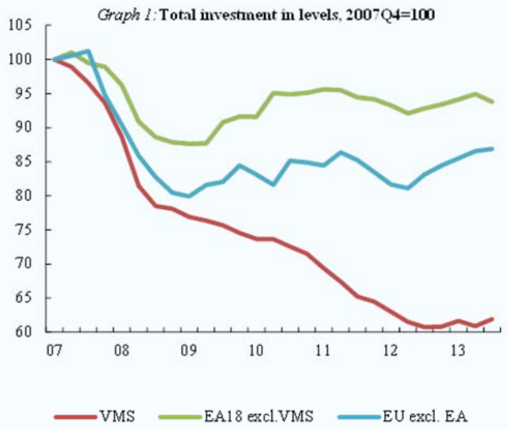
...but risks have become increasingly intertwined

Risks to the growth and inflation outlook remain closely linked to each other. Lower economic growth would reduce inflation pressure, while lower inflation would have the potential of making deleveraging more difficult, which could weigh on investment and consumption decisions and thereby negatively on the growth and inflation outlook.

Box I.1: Drivers and implications of the weakness of investment in the EU

Weak investment has been a primary reason for the weakness of the recovery.

Although financial crises are usually associated with prolonged periods of weak investment, the contraction in capital formation observed in the EU since 2008 has been particularly severe, both in historical terms and in comparison to other advanced economies. This box discusses the respective role of weak growth (accelerator effect), deleveraging, rebalancing, financial factors and uncertainty in explaining the current weakness of investment.



Whereas GDP and private consumption in the EU were in 2014Q2 roughly at the same level as in 2007Q4, total investment was still almost 18% below. [1] The fall in investment has not been an exclusive feature of Vulnerable Member States (VMS), [2] but also of euro area core and non-euro area countries (Graph 1). Although it could be argued that in some countries, pre-crisis investment levels fuelled by credit booms were unsustainable, current levels of investment are also low when the average over the 1995-2007 period is used as a benchmark. In particular, the investment-to-GDP ratio was in 2013 more than 2 pps. below its average for the 1995-2007 period for the EU as a whole.

(1) The figures presented in this box have been calculated using the ESA 1995 methodology due to non-availability of the breakdown in investment in ESA2010.

(2) Vulnerable Member States are those euro-area countries that entered the crisis with large external and internal imbalances, and have been subject to tensions in the sovereign debt markets, namely, Ireland, Greece, Spain, Italy, Cyprus, Slovenia, and Portugal.

Weakness in investment has also been broad-based across institutional sectors (i.e. public, household, and non-financial corporations) and types of investment (i.e. both residential and non-residential).

Weak cyclical demand conditions cannot fully explain the weakness of investment.

Economic theory suggests that weak growth is one of the main factors behind the weak evolution of investment, through the traditional accelerator effect. [3] However, empirical work finds that weak growth alone cannot fully explain the weakness in private investment experienced in the EU since the crisis, particularly since 2010. [4] Indeed, some authors have identified an 'investment gap' in the euro area since the crisis. The size of this gap varies depending on the methodology and the benchmark used to define it, although, in some instances, it has been estimated to be substantial. [5]

Survey-based evidence for the business sector identifies 'insufficient demand' as the most important factor constraining growth in the EU at present. [6] In addition, capacity utilisation remains below its long-term average in most Member States as well as in the EU as whole. These factors suggest that there is a strong cyclical element behind the weakness in internal demand, which has taken a heavy toll on investment.

However, there is also a structural dimension to weak capital formation, as lower medium-term growth prospects also reduce the need to invest. Since 2007, not only lower contribution from capital, but also lower Total Factor Productivity and employment growth (the latter partly due to adverse demographic trends), have reduced potential growth and therefore the need to expand capacity and invest in the medium term (Graph 2).

(3) Chirinko, R. (1993), "Business fixed investment spending: modelling strategies, empirical results, and policy implications", *Journal of Economic Literature*, Vol.31, No.4, pp.1875–1911.

(4) IMF (2014), "Investment in the euro area, why has it been weak?" IMF Country Report No. 14/199.

(5) IMF (2014) op. cit.; G. Baldi et al. (2014), "Weak investment dampens Europe's Growth", *DIW Economic Bulletin*, DIW Berlin, German Institute for Economic Research, Vol. 4(7), pp. 8-21.

(6) DG ECFIN Business and Consumer Surveys

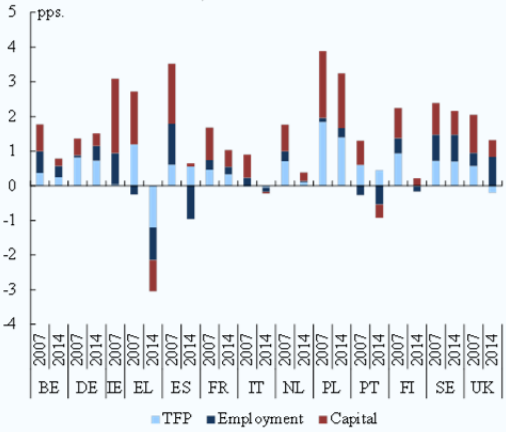
(Continued on the next page)

Box (continued)

Dealing with the legacy of the crisis

The global and sovereign crises have triggered the unwinding of the large macroeconomic imbalances that accumulated before the crisis. In some Member States, this has translated into a consolidation of private and public sector balance sheets, a sectoral reallocation of resources from non-tradable to tradable sectors, as well as a process of financial fragmentation in the euro area. All these factors have taken a heavy toll on investment.

Graph 2: **Contributions to potential growth, 2007 and 2014, selected EU countries**



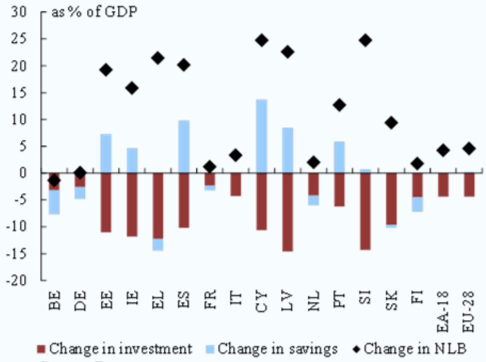
Deleveraging will continue to weigh on investment over the medium term

For deleveraging to take place, economic agents need to increase their net lending position (NLB), either through an increase in gross savings, or a decrease in gross investment. In the EU, the impact of private sector deleveraging on investment has been substantial. This impact has been particularly large in some euro area countries (Graph 3).

Corporate balance sheet adjustment has taken place, to different degrees, in most Member States, both through a combination of increased savings and reduced investment. By contrast, household deleveraging has taken place mainly through a reduction of investment (mostly residential).

Deleveraging forces are expected to remain an important drag on investment over the medium term, as private sector deleveraging needs are still large (see box 2). It is estimated that in VMS,corporations and households may still need to cut their debt-to-GDP ratios by at least 30 pps..[7]After a brief phase of counter-cyclical expansion in the early stages of the crisis, public investment has weakened significantly since the sovereign crisis. Short-term budgetary pressures have in many Member States led to a myopic slash of public investment in order to achieve savings. In the years to come, a more neutral fiscal stance and greater attention to the composition of public expenditure and its effect on growth, should prevent fiscal consolidation processes to be a significant drag on public investment in the EU.

Graph 3: **Change in Net Lending and Borrowing (NLB) of private sector, 2007-14**



Source: Eurostat

Internal rebalancing will continue to have a negative impact on overall investment

The pre-crisis period was also characterised in capital misallocation and overinvestment in the non-tradable sector in some VMS. In the first place, capital did not flow to those countries where its productivity was highest during the pre-crisis years. Graph 4 shows that in some VMS (e.g. Spain and Greece), the capital stock grew faster than in countries where the productivity of capital was higher. This phenomenon was more pronounced in those Member States that were part of the euro area at the time (in blue), as shown by the negative correlation between growth of the capital stock and the productivity of capital. By contrast, in non-euro area countries, growth of the capital stock was better aligned with productivity developments (in red).

And in the second place, in some VMS capital did not flow to the most productive sectors, but instead, investment mainly took place in those sectors

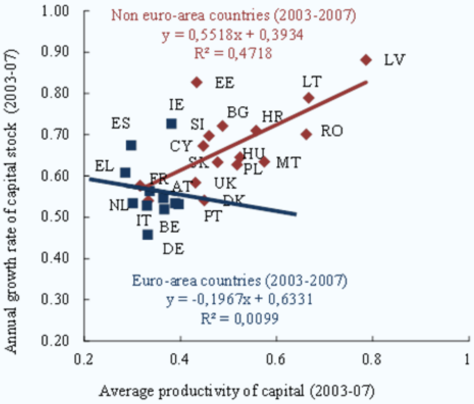
(7) "Private Sector Deleveraging: Where do we stand?"; *Quarterly Report on the Euro Area*, Vol. 13, Issue 3, October 2014, European Commission.

(Continued on the next page)

Box (continued)

where profitability was higher.[8] This feature resulted in a fast growth of the non-tradable sectors of the economy, and it was not limited to residential construction, as illustrated by the fast growth of real activity in market services in some VMS when compared to manufacturing (Graph 5).[9] Such trend was not visible in the rest of the euro area. However, since 2009, this trend has been partly reversed, as internal rebalancing in VMS is gradually taking place, and activity and resources are being shifted from the non-tradable to the tradable sector.

Graph 4: Average productivity of capital and growth of the capital stock, 2003-07



Over the medium term, as the sectoral rebalancing process advances, activity in the non-tradable sector in VMS is expected to remain weak, weighing on overall investment.

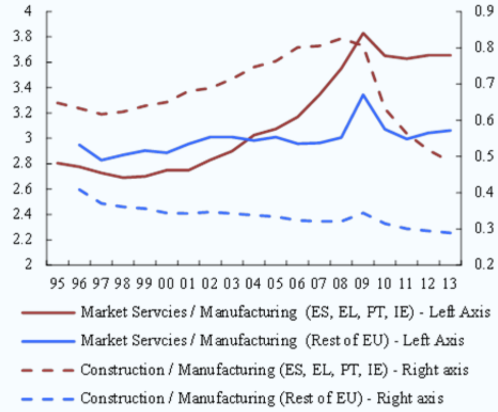
Financial factors continue to weigh on investment, particularly in VMS

The sovereign debt crisis also led to a process of financial fragmentation in the euro area which resulted in large cross-country differences both in terms of financing costs and lending volumes. Although fragmentation has been declining since its peak in 2012, financing costs remain high in some VMS, especially for SMEs.

(8) "Catching-up processes in the euro area", *Quarterly Report on the Euro Area*, Vol.12, Issue 1, April 2013, European Commission.

(9) Market services comprise the ISIC categories G-K, and include activities such as wholesale and retail trade (G), hotels and restaurants (H); transport, storage and communications (I); financial intermediation (J); and, real estate, renting and business activities (K)

Graph 5: Ratio of GVA in market services and construction to GVA in manufacturing, 1995-2013



The financial crisis has also exposed the vulnerabilities of the EU corporate sector's excessive reliance on bank lending, and has showed the need to complement bank loans with other non-bank sources of finance, such as shares, bonds, or shadow banking. This is particularly true for SMEs and infrastructure projects.

Over the medium term, financial fragmentation is expected to gradually ease further, as the Banking Union takes shape with harmonised banking supervision and resolution rules. Nevertheless, differences in financing conditions across Member States are unlikely to converge to pre-crisis levels, as these conditions are now more likely to reflect better country differences in economic environment and creditworthiness.

Uncertainty has receded, but continues to hamper investment

Uncertainty can have an impact on investment by giving agents an incentive to postpone or cancel their decisions until more information is available, and by increasing the equity risk premium, resulting in higher costs of external financing.[10]

Empirical studies have identified periods where increases in uncertainty coincided with declines in

(10) Pastor, L and Veronesi, P (2013), "Political Uncertainty and Risk premia", Journal of Financial Economics 110, 525-545; Gilchrist, S., J. Sim and E. Zakrajsek, (2011), "Uncertainty, financial frictions and investment dynamics", Society for Economic Dynamics, 2010 Meeting papers, WP 1285.

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Box (continued)

investment. [11] Uncertainty also induces firms to raise cash holdings and issue less debt. [12] This is in line with the current situation in some euro area countries, where corporations hold high cash reserves and maintain very high self-funding ratios (close to one for the aggregate euro area and above one in most Vulnerable Member States).

Widely used indicators of uncertainty, such as measures of financial volatility, or the 'Economic Policy Uncertainty Index' [13] have fallen from their peaks in 2012 or early 2013, but they remain elevated and above their pre-crisis levels. Moreover, the continuation of subdued economic growth in the EU could suggest that in particular uncertainty about demand prospects also remains elevated.

Over the medium term, uncertainty is expected to decrease gradually as the recovery gains traction. However, it is unlikely that uncertainty will return to its pre-crisis levels in the short term, given that: i) downside risks to the growth outlook remain high; and, ii) markets may have doubts about the pace and nature of reform in some Member States.

(11) See for instance Baker, S., N. Bloom and S. Davies (2013), 'Measuring economic policy uncertainty', Chicago Booth Research Paper No. 13-02; "Assessing the impact of uncertainty on consumption and investment", *Quarterly Report on the Euro Area*, Vol. 12, Issue 2, June 2013, European Commission.
(12) Gulen, Huseyin, and Ion Mihai (2013), "Policy Uncertainty and corporate Investment", Krannert School of Management, Purdue University WP, WP series.
(13) Baker, Bloom and Davies (2013); op. cit.,

Conclusion

Investment has been both one of the main casualties of the financial and sovereign crises in the EU, and one of the main causes of the sluggish recovery. Weak investment has been broad based across sectors and countries.Some of the factors that have depressed investment in the EU since the crisis (financial factors, uncertainty) are likely to subside over the medium term, whereas others (deleveraging, sectoral reallocation) are likely to be more protracted. In particular, there is also an important medium-term dimension to investment weakness, as the fall in potential growth observed since the crisis has reduced the need to expand productive capacity over the medium-term.

The persistent weakness of investment has two noteworthy implications for the EU economy. First, differences in investment rates across Member States are one of the main drivers of the historically high differences in cyclical conditions. [14] A high level of cyclical differences complicates macroeconomic management in a monetary union. And second, sustained periods of weak investment also have important medium-term implications, as slower capital accumulation depresses potential growth.

(14) "Growth differences between EA Member States since the crisis", *Quarterly Report on the Euro Area*, Vol.13, Issue 2, June 2014, European Commission.

Box I.2: **Private sector deleveraging: outlook and implications for the forecast**

The balance sheet repair process of the private sector, at present taking place in many EU Member States, is one of the key factors shaping the current economic outlook. [1] The intensity, the horizon and the effects of this process will differ from one country to another, reflecting the degree of excessive indebtedness as well as the broader credit market conditions which drive the private sector's ability and readiness to carry debt.

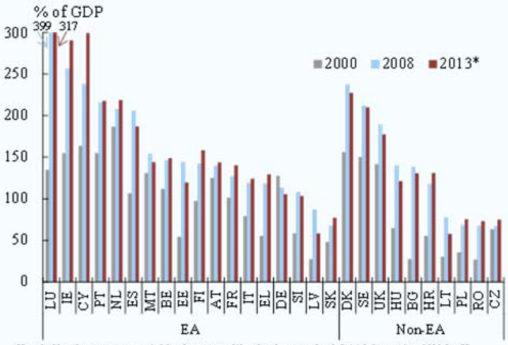
The objective of this box is to *i) take stock* of the adjustment achieved in household and corporate debt, *ii) estimate* remaining deleveraging needs and gauge through what channels and at what speed they are likely to materialise over the forecast horizon and *iii) understand* the effect of this adjustment on economic activity. It is found that private-sector deleveraging needs remain high in a number of Member States, and in some of them pressure is substantial to deleverage fast. Private-sector deleveraging is expected to hold back growth in the EU still in the years to come, with sizeable differences across Member States.

Where do we stand?

The deleveraging process in the non-financial private sector is under way, as household and corporate debt-to-GDP ratios have peaked and started declining in a large majority of EU Member States. However, taking 2008 as a reference year, reduction of private indebtedness can only be seen in a dozen of EU countries and, more importantly, in most cases the extent of the adjustment is only a fraction of the pre-crisis increase (see graph 1). Germany stands out as the only Member State having significantly deleveraged throughout the 2000s, and having continued to do so in the most recent period.

The comparison against the 2008 levels conceals some more recent deleveraging activity, as most countries' household and corporate indebtedness peaked at a later date. Notable corporate debt reduction relative to the peak has for example occurred in Latvia, Sweden, Denmark, Lithuania, or Spain. Firms' indebtedness in Ireland continued increasing through 2012, then reversed sharply in 2013. As regards households, significant household deleveraging has been observed, among others, in Ireland, the Baltic States and the UK.

Graph 1: **Private non-financial sector indebtedness**



Household and corporate sector indebtedness, consolidated at the sector level. Initial observation: 2001 for SI, HR and IE, 2004 for MT, 2006 for LU.
2013* estimated from 2013Q4 data, except for CY, BG, RO, LU, HR where the 2012 figure is presented.
Source: Eurostat, own calculations

Negative credit flows have so far been the main driver of the cumulative reduction in debt/GDP ratios, leading to knock-on effects on economic activity and asset markets (European Commission, 2014). This *active deleveraging* effort has faced headwinds from low nominal GDP growth for instance in Ireland, Estonia, or Spain. Greece is the only EU country where negative credit flows haven't succeeded in reducing total private debt/GDP, owing to a sharp contraction in nominal GDP. Examples of *passive deleveraging* (through moderate positive net credit flows at a rate below the nominal GDP growth) in the recent past include the UK, Estonia and Austria.

The range of remaining potential deleveraging needs is estimated using two estimation methods. [2] The first method defines a sustainable level of indebtedness by estimating debt that is consistent with households' and firms' assets corrected for valuation effects. The second method is based on the typical extent of deleveraging in past episodes,

(1) Several recent publications have contributed to the debate on deleveraging. See European Commission (2014), "Private sector deleveraging: where do we stand?", *Quarterly report on the euro area*, vol. 12(3) for a review of the progress so far and of the remaining needs; European Central Bank (2014), "Deleveraging patterns in the euro area corporate sector", *ECB Monthly Bulletin*, February 2014 dealing with the corporate sector; and Bornhorst, F. and M. Ruiz-Arranz (2013), "Indebtedness and Deleveraging in the euro area", 2013 Article IV Consultation on euro area policies: Selected Issues Paper, Chapter 3, *IMF Country Report* 13/232 looking at both deleveraging needs and expected outcomes from a historical perspective.

(2) See European Commission (2014) for more details. Alternative estimation methods could be envisaged; see for instance Albuquerque, B., U. Baumann, and G. Krustev (2014), "Has US Household Deleveraging Ended? A Model-Based Estimate of Equilibrium Debt", ECB Working Paper 1643.

(Continued on the next page)

Box (continued)

and is a function of the preceding debt increase. [3] These general estimates are then interpreted together with two other factors, namely the distribution of debt across households and cross-border lending of corporate groups. This preliminary analysis suggests total private sector deleveraging needs of 30% of GDP or more in Greece, Cyprus, Spain, Ireland, Portugal, Bulgaria and Sweden. Needs between 20% and 30% of GDP were identified in Croatia, Denmark, the Netherlands, and the UK. Estonia, Italy, Hungary and Slovenia could face needs of 10% to 20% of GDP. Deleveraging needs in other countries are considered more moderate.

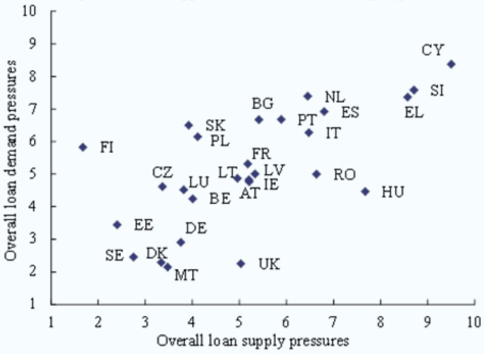
These deleveraging needs do not necessarily imply the same deleveraging patterns to be expected going forward (active vs. passive deleveraging, the horizon of adjustment, any over- or under-shooting etc.). For this reason the state of credit demand and supply is discussed next as a main determinant of developments in the near future.

Deleveraging outlook

Credit demand and supply conditions are the main drivers of deleveraging *pressures, i.e.* the factor driving the speed of deleveraging as well as the degree of active deleveraging to be expected. [4]

Synthetic indicators of credit demand and supply pressures presented in graph 2 suggest that high pressures for active deleveraging over a relatively short horizon can be expected to continue in the coming years in Cyprus, Greece and Slovenia. Furthermore, Spain, Portugal, Italy, and Bulgaria are also likely to face elevated deleveraging pressures leading to active and rather rapid reduction of indebtedness. The Netherlands are also likely to continue to experience pressures for active deleveraging. However, owing to the fact that deleveraging needs are located only in the household sector, these pressures could abate if broader economic conditions improve and the housing market bottoms out. Ireland appears to be more advanced in the process of credit market normalisation. The relatively lower pressures from credit demand and supply conditions in Sweden, Denmark, Estonia and the UK suggest a gradual and smoother adjustment of private indebtedness, mostly driven by nominal growth of the economy in the medium term. The indebtedness gaps presented in the previous section may not get fully closed even at a longer horizon.

Graph 2: **Credit supply and demand deleveraging pressures**



Aggregate indicators calculated based on Cuerpo et al. (2014).
Source: Own calculations.

Expected effect on economic activity

This section provides a model-based assessment of the impact of private sector deleveraging on economic activity. For this purpose, the Commission's macroeconomic model QUEST is used to simulate a joint household and corporate sector deleveraging and to gauge its effects on main macroeconomic aggregates. [5] In the stylised case presented, the simulated economy is a euro area Member State characterised by a relatively high degree of real and nominal rigidities (affecting labour and product markets), a high initial private debt-to-GDP ratio, a relatively low degree of openness, and little pressures on public finances (allowing the public indebtedness to compensate partially the effects of private deleveraging).

The simulations are based on a reduction of the private sector's debt-to-GDP ratio by 10 pp. over a ten-year horizon, of which about 2/3 occur in the household sector and 1/3 in the corporate sector. The trigger of households' deleveraging is modelled

(3) The approach is based on the overview of historical deleveraging episodes by Bornhorst and Ruiz-Arranz (2013).

(4) C. Cuerpo, Drumond, I., Lendvai, J., Pontuch, P., and Raciborski, R. (2014), "Private sector deleveraging in Europe", *Economic Modelling*, forthcoming. The article proposes synthetic indicators based on variables that predominantly influence or reflect either credit supply or demand conditions. Credit supply-related indicators are variables reflecting financial soundness and lending survey data. Credit demand proxies cover sentiment, unemployment, house prices, and lending survey data. Variables are aggregated in composite indicators using average ranking of Member States on each variable, i.e. the indicators are by construction of a relative nature.

(5) QUEST is an open economy new-Keynesian dynamic stochastic general equilibrium model. For more details see Cuerpo et al. (2014). Compared to the version of QUEST used in that article, this analysis uses a version which allows for explicit modelling of indebtedness also in the non-financial corporate sector.

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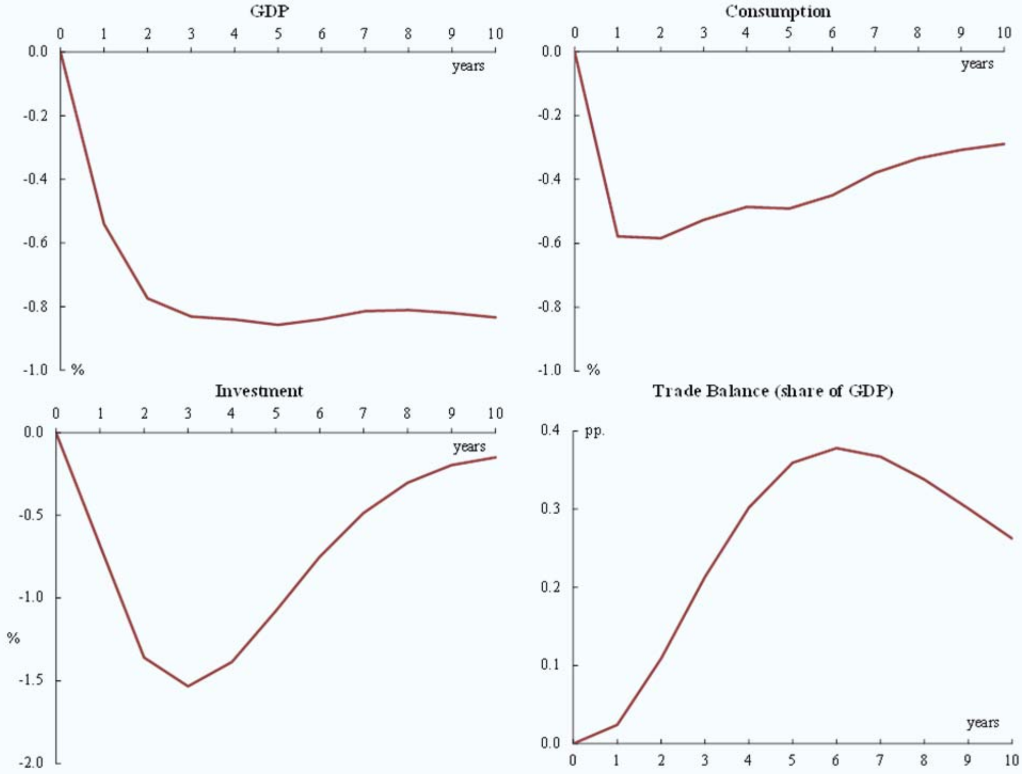
Box (continued)

Graph 3: **Simulated response to a reduction in private debt to GDP by 10**



The simulation shows the effects of a deleveraging shock corresponding to a 10 pp. reduction in private debt-to-GDP over 10 years, on a euro area economy with high initial private indebtedness, a high degree of labour and product market rigidities, and low openness.
Source: Own calculations.

through a combination of (i) a drop in bank credit availability due to a reduction in the loan-to-value (LTV) ratio, and (ii) a fall in house prices simulated as a positive shock to the risk premium on housing investment leading to a real fall in house prices by 5%. Deleveraging in the corporate sector is triggered in the model by an LTV shock on corporate lending. We assume that the reduction in household and corporate debt translates by one-half into a reduction in the economy's net foreign debt (i.e. an improvement in the net asset position). (6)

The simulated results in graph 3 suggest that deleveraging by firms and households leads to a significant fall in output that persists while the deleveraging is ongoing (the trough, reached after 5 years, is almost 0.9% below the initial level). The consumption trough at -0.6% is reached faster, with a slow gradual recovery observed afterwards. Investment in the trough is down by 1.5%, but almost fully recovers after ten years. Finally, the maximum improvement in the trade balance as a share of GDP (+0.4 pp.) is reached after 6 years, as cost competitiveness improvements gradually kick in. Up to first-order approximation, a larger deleveraging shock may be expected to have a proportionally larger effect on the variables of interest. An analysis of households' and firms' contribution to these effects suggests that corporate deleveraging has relatively less impact on output over the simulated horizon. In part it is due to a smaller proportion of corporate deleveraging in the deleveraging mix. Moreover, the simulations also show that public indebtedness as a share of GDP increases during private deleveraging (graph not presented).

In order to relate these simulated effects of private deleveraging to specific EU countries, one should interpret them qualitatively depending on individual countries' differences with respect to the simulated economy's characteristics. The level of credit market deleveraging pressures, measured by the indicators of credit demand and supply (see previous section), determine both the horizon and

(6) This assumption can reflect two alternative situations: either domestic households are directly indebted to foreign lenders, or domestic lenders are forced to reinvest in foreign assets because of a lack of domestic investment opportunities.

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Box (continued)

the extent by which deleveraging will rely on negative credit flows (rather than on *passive deleveraging* via nominal GDP growth). The split of deleveraging needs between household and corporate sectors can be used to gauge the risks of short-term and long-term effects on output and productivity. [7] Table 1 summarizes these main characteristics.

Table 1:
Qualitative factors affecting the response to deleveraging

Private deleveraging needs	Country	Credit market deleveraging pressures	Split households/ NFCs (%)	Excessive Deficit Procedure	Euro area membership	Reaction to deleveraging compared to Benchmark
At least 30% of GDP	EL	H	60 / 40	Yes	Yes	**Higher**
	CY	H	40 / 60	Yes	Yes	Higher
	ES	M	50 / 50	Yes	Yes	**Higher**
	IE	M	40 / 60	Yes	Yes	Similar
	PT	M	30 / 70	Yes	Yes	**Higher**
	BG	M	20 / 80	No	No	Lower
	SE	L	60 / 40	No	No	**Lower**
20% to 30%	HR	M	30 / 70	Yes	No	Similar
	NL	M	100 / 0	No	Yes	**Lower**
	DK	L	100 / 0	No	No	Lower
	UK	L	80 / 20	No	No	**Lower**
10% to 20%	EE	L	60/ 40	No	Yes	Lower
	IT	M	40 / 60	No	Yes	**Similar**
	HU	M	60 / 40	No	No	Lower
	SI	M/H	30 / 70	Yes	Yes	**Similar**
10%	Simulation	H	66 / 33	No	Yes	Benchmark

The urgency of deleveraging is assessed using the indicators of credit supply and demand deleveraging pressures. Excessive Deficit Procedure status as of September 2014.
Source: Own calculations.

Other structural characteristics were also taken into account when appreciating the relevance of the simulation results for a specific country (as presented in the last column of the table). For example, sensitivity analysis using the QUEST model suggests that the flexibility of product and labour markets in part mitigates the adverse effects of deleveraging, by improving the adjustment capacity of the economy and the swiftness of rebalancing of its productive capacities. The flip side of higher flexibility is that it can lead to a stronger short-term contraction in consumption. Next, openness is an important factor controlling how easily competitiveness gains can be converted into output increases. The extent of simultaneous fiscal consolidation needs is another important factor to be taken into account. This variable is highly relevant given that in our simulations public finances can partly cushion the fallout in private demand. Finally, euro area membership is a relevant characteristic, given that it implies whether nominal exchange rate is an additional source for improving competitiveness during the adjustment period.

The qualitative assessment of these additional factors points to a possible stronger reaction of economic activity to a given deleveraging shock, compared to what the simulations may suggest, in four Member States with highest deleveraging needs (Greece, Cyprus, Spain and Portugal). Besides high credit market pressures (forcing deleveraging to occur through negative credit flows and over a relatively short period), these economies generally have limited albeit improving product and labour market flexibility, [8] low openness and need to consolidate simultaneously their public finances. [9] One should recall that the stronger reaction to deleveraging is for a given deleveraging shock, while on top of this the deleveraging needs in these countries are at least three times as high as in the simulated benchmark. On the other hand, one should note that the deleveraging process in these countries (as well as in Ireland and Slovenia) has already been underway for several quarters. The simulations thus suggest that some of the adverse effect on GDP growth has already occurred, but also that the recovery of economic activity will be held back significantly.

By contrast, Sweden (in the highest needs category), as well as the Netherlands, Denmark, the UK, and Estonia, are likely to see a less severe impact on their economies than what the simulations would imply. These countries generally benefit from lower product and labour market rigidities, and/or higher openness and, most importantly, are likely to face less fiscal consolidation pressures. Bulgaria and Hungary share some of these mitigating features, but the impact of deleveraging may be subject to uncertainties in their case, given continuing credit market fragilities.

Conclusion

Given the extent of the deleveraging needs and the estimated impact of deleveraging on main macroeconomic aggregates, the effects of this process on economic activity in the EU is likely to remain significant over the forecast horizon. The continuing pressures among vulnerable countries for active reduction of private indebtedness over a

(7) Where deleveraging takes mostly place through firms cutting investment the medium-term impact will be largest.

(8) See for instance European Commission (2014), "*Market Reforms at Work in Italy, Spain, Portugal and Greece*", European Economy 5, and European Commission (2013), "*Labour market developments in Europe*", European Economy 6.

(9) It is important to note that there likely is heterogeneity within the "Higher" category, as the relative importance of credit market pressures, economic flexibility, openness, and fiscal flexibility, could lead to a more granular split.

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Box (continued)

relatively short horizon, coupled with their current fragile economic and social fundamentals, suggest that further adjustment will be challenging. Given the low inflation context in the EU, the contribution of nominal growth to the adjustment process is likely to remain limited. The simulations suggest that, although some of the effects on the level of activity have already occurred, deleveraging is likely to continue holding back the pace of recovery, in particular if the bulk of the adjustment occurs through credit flows, rather than by also directly addressing outstanding stocks.

Box I.3: The impact of unanticipated disinflation on debt

A prolonged period of low inflation could make it more challenging for governments to reduce their public debt-to-GDP ratios. The very low level of inflation in the euro area is thus a matter of particular concern. [1] This box presents simple simulations of the impact of a disinflationary shock on the evolution of the debt-to-GDP ratio in EU countries. Such a shock affects the debt-to-GDP ratio through the combination of (i) an immediate, mechanical reduction of nominal GDP compared to the baseline (denominator effect) and (ii) the fact that the implicit nominal interest rate on the stock of debt does not adjust immediately to changes in the inflation rate. The adjustment of the implicit interest rate is thus crucial: only a disinflation shock that is not reflected in nominal interest rates (*i.e.* that is unanticipated) results in a higher debt ratio by amplifying the so-called 'snowball effect'. [2] As a result, the debt-to-GDP ratio increases, at least temporarily.

Public debt dynamics are affected by budgetary policy, the evolution of short- and long-term interest rates and the behaviour of markets. Behind the evolution of the debt ratio lies the stock of debt, the deficit (split between primary balance and interest expenditure), the stock-flow adjustment, and the dynamics of nominal GDP (split between real GDP growth and inflation).

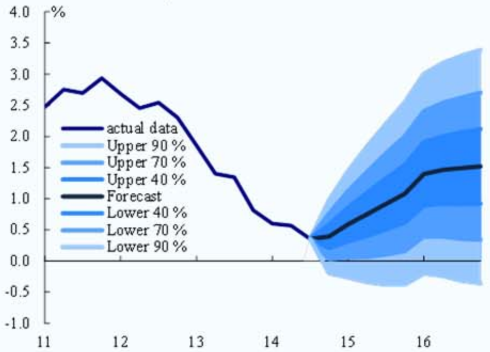
In practice, a disinflation shock impacts the debt ratio only progressively, depending on how quickly interest rates adjust to the lower inflation and on the structure of the outstanding debt stock in terms of maturity and indexation to inflation. The debt burden as a share of GDP tends to increase mechanically following a disinflation shock, before returning to the pre-shock path when real interest rates adjust downwards (provided that there are no lower bounds to nominal interest rates).

The likelihood of very low inflation over the forecast horizon

HICP inflation in the euro area has turned out lower than expected over the past year, driven largely by unexpectedly low prices for energy and unprocessed food, but also by persistent slack in the economy. Over the forecast period, consumer-price inflation is expected to gradually increase. Inflation could however turn out lower than forecast, although the risks to the inflation outlook appear to remain balanced overall.

To assess the probability of a lower-than-forecast inflation scenario, confidence intervals using a Phillips curve are constructed and applied to the baseline inflation forecast. [3]

Graph 1: **Euro-area inflation forecast Uncertainty linked to the historical variance**



Source: Eurostat, Own calculations

Graph 1 shows the resulting fan chart with 40%, 70% and 90% confidence intervals around the autumn forecast baseline. The probability of inflation staying more than 0.5 pp. below the baseline forecast over the next two years as assumed in the simulations below, *i.e.* an inflation rate of below 1.0% in the last quarter of 2016, is above 30%. Such a scenario could occur, for example, if oil prices were to decline unexpectedly by 10% and the euro area's negative output gap was 0.3 p.p. larger than expected. These figures indicate that, while inflation is likely to pick up over the forecast horizon, a scenario in which inflation would be significantly below the baseline by the end of 2016 cannot be excluded. The graph also shows that persistently negative inflation rates would occur only in case of a very severe shock to the forecast assumptions.

(1) See *e.g.* Akitoby et al. (2014), "Inflation and Public Debt Reversals in the G7 Countries", *IMF working paper* 14/96.

(2) The snowball-effect refers to the spontaneous increase of the debt-to-GDP ratio linked to the spread between the implicit interest rate on the stock of debt (*i.e.* interest payments on the previous year's debt as a percentage of the current year's debt) and GDP growth.

(3) The probability distribution around the baseline, based on historical volatilities, is computed according to an open-economy New Keynesian Phillips curve in which inflation is explained by inflation expectations, the output gap and oil prices in euro terms. For further details on the construction of the fan chart and its caveats, see 'Analysing euro-area inflation using the Phillips curve', *Quarterly Report on the Euro Area* Vol. 13, Issue 2, June 2014.

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Box (continued)

Simulation: The impact of permanently low inflation on the debt ratio

The impact of a protracted period of low inflation on the evolution of debt ratios in EU Member States is analysed using the European Commission's Debt Sustainability Monitor (DSM) model. (4) The scenario is based on a technical assumption of an inflation rate that is 0.5 p.p. lower than in the DSM baseline no-fiscal policy change scenario, over a 10-year projection horizon (2015-25). (5)

The debt dynamic displayed in the simulations can be summarized as:

$$\Delta d_t = d_{t-1} \cdot \left(\frac{i_t - y_t - \pi_t}{1 + y_t + \pi_t} \right) - pb_t + sfa_t$$

where Δd_t is the change in debt ratio, d_{t-1} is the stock of past debt expressed as a percentage of GDP, y_t is real GDP growth, π_t is inflation, pb_t is the primary balance ratio and sfa the stock-flow adjustment ratio.

The change in the debt ratio will depend on two elements: first, the change stemming from the difference between the nominal implicit interest rate and nominal growth (the 'snowball effect'); second, the size of the primary balance and stock flow adjustments.

In the context of the simulation, a negative shock on inflation will impact the debt-to-GDP ratio through the increase of the snowball effect (interest rates do not adjust to inflation). Table 1 shows that a scenario of protracted disinflation would lead to a higher debt ratio by at least 5 pp. of GDP for Belgium, Ireland, Spain, France, Croatia, Italy, and Portugal. A focus on countries displaying some of the strongest impacts from low inflation shows that the evolution of the debt ratio in a low inflation environment can be very different across countries. In Belgium, for example, low inflation amplifies the projected upward trend in the debt ratio via its stronger snowball effect. In the case of Italy, on the other hand, low inflation translates in a debt ratio that is decreasing at a lower rate, under the key assumption that the country maintains, even in a low inflation environment, a primary surplus that is large enough to keep the debt ratio on a declining path, thus countering the worsened growth rate-interest rate differential.

Table 1:

Gross public debt as % of GDP

	2014	2025		Extra change in protracted disinflation scenario relative to baseline scenario (B-A)
		A. BASELINE scenario	B. SCENARIO of PROTRACTED DISINFLATION	
BE	105.8	115.8	121.8	6.0
BG	25.3	63.6	65.9	2.3
CZ	44.4	52.3	54.9	2.6
DK	44.1	37.7	40.0	2.3
DE	74.5	53.0	56.5	3.5
EE	9.9	18.4	19.1	0.7
IE	110.5	104.3	110.0	5.7
ES	98.1	94.1	99.5	5.4
FR	95.5	107.7	113.4	5.7
HR	81.7	112.1	118.0	5.8
IT	132.2	107.6	114.5	7.0
LV	40.3	25.8	27.4	1.5
LT	41.3	42.5	44.8	2.3
LU	23.0	27.5	28.6	1.1
HU	76.9	63.5	67.6	4.1
MT	71.0	67.0	70.6	3.6
NL	69.7	67.9	71.5	3.6
AT	87.0	77.1	81.5	4.4
PL	49.1	55.4	58.2	2.8
PT	127.7	107.4	114.2	6.8
RO	39.4	49.8	52.2	2.4
SI	82.2	82.1	85.5	3.4
SK	54.1	45.3	47.8	2.5
FI	59.8	74.7	78.2	3.6
SE	40.3	40.3	42.4	2.2
UK	89.0	100.7	105.6	4.9

(4) For the methodology see European Commission (2014) "Assessing Public Debt Sustainability in EU Member States: A Guide", *European Economy Occasional Paper* 200/Sept 2014. Note that the model simulations presented here assume that inflation remains permanently lower over the projection horizon (not only lower during the forecast horizon).

(5) In the low-inflation scenario, the implicit nominal interest rate – computed as an average between the short-term and the long-term interest rates – remains at its baseline value with an increase in the real interest rate over the 10-year projection period. The real GDP growth is also assumed to stay at its baseline path. This scenario is extreme as central banks could counteract the decline in inflation, effectively limiting the increase in real interest rates. The results therefore present an upper bound on the effects on debt.

Box I.4: The changeover to ESA 2010 in the current forecast

The autumn 2014 economic forecast is the first prepared under the new, legally binding framework for national accounts statistics the 'ESA 2010' (European System of Accounts). (1)

New statistical standards

After several years of preparation, all EU Member States began applying ESA 2010 in September 2014. It replaces the old framework of ESA 1995 and improves the international comparability of European accounts by bringing them in line with the latest worldwide standard on national accounting, the 2008 System of National Accounts (SNA), which has been already implemented by countries such as the US, Australia and Canada (although not yet Japan).

Such periodic updates to statistical standards (2) are done in order to adapt accounting frameworks to the changing dynamics of economic activity and new methodological developments. They also aim to respond to the need for more timely and complete data for economic policy and administrative purposes.

Changes related to ESA 2010

The changes in ESA 2010 are important but do not imply a fundamental departure from ESA 95. The most significant conceptual change is that research and development spending is now being recorded as investment rather than as current expenditure, in order to recognize the growing importance of R&D as an intangible asset. This increases the level of GDP reported for most countries by shifting private sector R&D from intermediate consumption to investment and by adding depreciation on government R&D assets to government sector value added. The impact of this change on annual GDP growth, however, tends to be small.

Other prominent, but less sizable changes, include the recognition of military weapon systems as fixed assets, improvements to measuring the output of banks and insurance services, a modified treatment of counting small tools used in production as either investment or intermediate consumption and certain changes to the recording of exports and imports. (3)

In addition, the new methodology also introduces a number of changes concerning government finance statistics. A central change in this respect concerns the criteria used to determine the scope of the general government sector, which by clarifying the notion of control, adding qualitative criteria to the 'market/non-market test' and slightly modifying the scope of production cost for the quantitative 'market/non-market test' may lead to the reclassification of entities into or, less likely, outside the general government sector. Other main changes are a change in the recording of lump sums paid to government in relation to transfers of pension funds; and the removal of an adjustment made for net interest flows associated with swaps and forward rate agreements.

Statistical improvements unrelated to ESA 2010

In addition to implementing the conceptual changes of ESA 2010 and in line with regular national accounts revision practices, most National Statistical Institutes have also revised other aspects of their national accounts. The main changes are:

- The integration of newly available data sources into the accounts. For example, many Member States have carried out benchmark revisions in which they incorporated into their national accounts the results from major new sources such as the 2011 population and housing censuses. Such revisions can generate a significant (positive or negative) impact on GDP and other national accounts indicators. In several cases these exceed the numerical impact from changes purely related to ESA 2010 methodology. The two most prominent cases in this respect are Cyprus and the Netherlands (see graph 1).
- A better and more harmonised measurement of items which should have been already included in the old accounts under ESA 95, but where

(1) Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union.

(2) In parallel to the implementation of SNA/ESA, countries are also updating their balance of payments statistics to the 6th edition of the Balance of Payments and International Investment Position Manual (BPM6). For further information on BPM6 see https://www.ecb.europa.eu/stats/external/bpm6/html/index.en.html

(3) For a complete overview see Eurostat's 'Manual on the changes between ESA95 and ESA 2010' available at: http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_code=KS-GQ-14-002

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Box (continued)

Eurostat had expressed reservations[4] on Member States' calculations done so far. This concerns in particular the measurement of certain illegal activities (notably related to prostitution, the production and trafficking of drugs and the smuggling of alcohol and tobacco). Given that statistical coverage in the recording of these activities had varied between countries and in order to increase consistency, Member States were required to comply from September 2014 with commonly agreed methodological guidelines. The numerical impact of these changes is limited.

Quantitative GDP impact

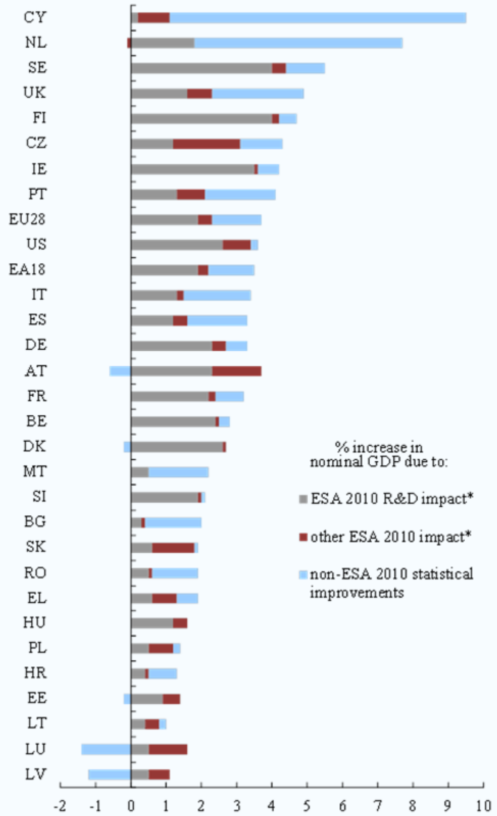
On average, the ESA-related and unrelated revision changes increase the level of current price GDP by 3.7% for the EU28 (3.5% for the euro area) in 2010. Of this, 2.3 pps. are due to the new ESA 2010 methodology (2.2 pps. for the euro area). In both areas the capitalisation of R&D contributed 1.9% to GDP increase, the capitalisation of military weapon systems around 0.1%, and other methodological changes accounting for the remaining increase due to new ESA 2010 concepts. Statistical improvements unrelated to ESA 2010 contributed to an average increase of EU GDP by 1.4% (1.3 % for the euro area), with around 0.4% due to improvements to the measurement of illegal activities and the remaining 1% due to other changes. Across Member States, there is considerable variation in the GDP impact, both with respect to the overall size of revisions and their underlying causes (see graph 1).

GDP revisions of similar magnitude have also been applied to other reporting years, meaning in particular that in terms of GDP growth, the revision does not materially alter the pattern of economic performance. Average annual GDP volume growth rates over the years 1997 to 2003 changed by only +/- 0.1 pps. for both the EU and the euro area. The overall impact on GDP has hence been a level shift rather than a new growth path.

Changes to other national accounts indicators

In addition to GDP, the ESA 2010 revision also implies changes to other national accounts aggregates. One notable example is gross fixed capital formation and investment-to-GDP ratios which increase substantially in many countries due to the revision. On average (taken over the period 2000-2013), total gross fixed capital formation for the EU-28 sees an upward level shift of around 12%. The overwhelming part of that shift is due to the capitalisation of R&D, with the inclusion of military weapons and changes to the recording of small tools having a much smaller effect.

Graph 1: **Revisions to the level of GDP in 2010**



Sources: Eurostat, U.S. Bureau of Economic Analysis
* Impact for U.S. related to SNA 2008
Note: DK 2008 data. U.S. 2012 data.

Another example is exports and imports which no longer include the full value of goods sent abroad for processing if the goods do not change ownership. Instead, ESA 2010 only records the export/import of services related to the processing activities. This reduces the level and composition of exports and imports, but does not significantly affect the overall current account balance.

Effect on public deficit and debt figures

The changeover to ESA 2010 also affects government finance indicators, used for fiscal surveillance. This is particularly the case for government deficit and debt-to-GDP ratios which may be affected both by changes in the denominator (GDP) or in the numerator (deficit and debt).

(4) In the context of the verification of GNI data used for EU own resource purposes.

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Box (continued)

Changes to the level of government deficit and/or debt result mainly from revised rules on classifying institutional units inside or outside the government sector, changes to the treatment of interest payments from interest rate swap arrangements and forward rate agreements, changes in the recording of lump sum payments received by government in exchange for taking over pension liabilities of public corporations, and clearer guidance on the treatment of government proceeds from mobile phone and other licenses to use a natural resource.

Overall, the impact of the denominator effect tends to be somewhat bigger than the impact of changes to the numerator, leading to improved deficit and debt ratios compared to the ESA 95 series. The size and direction of the revision impact on these ratios, however, varies significantly not only between countries, but also from one year to another. [5]

For the EU as a whole, the consolidated debt ratio in 2013 was revised by -1.8 pps. from 87.1% according to ESA 95 in the April 2014 EDP notification to 85.4% according to ESA 2010 in the October 2014 notification.

The revision impact on the level of debt in the denominator accounted for +1.2 pps. of this change (of which 1.0 pp. due to ESA 2010 and 0.2 pp. due to other statistical improvements) and the revision of GDP for -3.0 pps.

The EU deficit ratio in 2013, on the other hand, changed only slightly by +0.1 pp., from -3.3% under ESA 95 to -3.2% under ESA 2010. The revision impact on the deficit level in the denominator accounted for 0.0 pp. of this change (of which –0.1 pp. due ESA 2010 and +0.1 due to other statistical improvements) and the revision of GDP for +0.1 pp.

Effects on forecast results

The impact of the changeover to ESA 2010 and other statistical improvements in national accounts data on the projected growth of headline GDP in the both the EU and the euro area is minor. In most cases it is not clearly visible in the rounded forecast figures. This is also in line with the changes to historic annual real GDP growth figures which - in contrast to the changes in the level of GDP - have been moderate at the aggregate level in the EU and the euro area, but also in most of the EU countries.

(5) For a full overview and concrete results see Eurostat special note "Revisions to government deficit and debt of EU Member States for 2010-2013", available at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Revisions-gov-deficit-debt-2010-2013.pdf

Box I.5: Some technical elements behind the forecast

The cut-off date for taking new information into account in this European Economic Forecast was 22 October. There was an exception made for Italy (cut-off date of 27 October) in order to take into account additional information on the draft budgetary plan. The forecast incorporates validated public finance data as published in Eurostat's News Release 158/2014 of 21 October 2014.

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 6 and 17 October) were used for exchange and interest rates, and for oil prices.

Exchange and interest rates

The technical assumption as regards exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to an implied average USD/EUR rate of 1.33 in 2014, and 1.27 in 2015 and 2016. The average JPY/EUR is 138.68 in 2014 and 136.29 in 2015 and 2016.

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 0.2% on average in 2014, 0.1% in 2015, and 0.2% in 2016 in the euro area. Long-term euro area interest rates are assumed to be 1.2% on average in 2014, 1.0% in 2015, and 1.2% in 2016.

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 102.6 USD/bbl in 2014, 91.0 USD/bbl in 2015, and 92.8 USD/bbl in 2016. This would correspond to an oil price of 76.9 EUR/bbl in 2014, 71.6 EUR/bbl in 2015, and 73.0 EUR/bbl in 2016.

Budgetary data

Data up to 2013 are based on data notified by Member States to the European Commission on 1 October and validated by Eurostat on 21 October 2014.

Eurostat is withdrawing the reservation on the quality of the government deficit data reported by the Netherlands, which had been expressed in Eurostat's News Release of 23 April 2014, due to uncertainties on the statistical impact of the government interventions relating to the nationalisation and restructuring of SNS Reaal in 2013. The size of the impact has been clarified with the Dutch statistical authorities.

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

For the forecast, measures in support of financial stability have been recorded in line with the Eurostat Decision of 15 July 2009. [1] Unless reported otherwise by the Member State concerned, capital injections known in sufficient detail have been included in the forecast as financial transactions, *i.e.* increasing the debt, but not the deficit. State guarantees on bank liabilities and deposits are not included as government expenditure, unless there is evidence that they have been called on at the time the forecast was finalised. Note, however, that loans granted to banks by the government, or by other entities classified in the government sector, usually add to government debt.

For 2015 budgets adopted or presented to national parliaments and all other measures known in sufficient detail are taken into consideration. In particular, the Draft Budgetary Plans submitted by euro area Member States on 15 October are also reflected in this forecast. For 2016, the 'no-policy-change' assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

European aggregates for general government debt in the forecast years 2014-16 are published on a non-consolidated basis (i.e. not corrected for

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

(Continued on the next page)

Box (continued)

intergovernmental loans). To ensure consistency in the time series, historical data are also published on the same basis. For 2013, this implies a debt-to-GDP ratio in the euro area (EA18) which is 2.4 pps. (1.7 pps. in the EU) higher than the consolidated general government debt ratio published by Eurostat in its news release 158/2014 of 21 October 2014. General government debt projections for individual Member States in 2014-16 include the impact of guarantees to the EFSF, [2] bilateral loans to other Member States, and the participation in the capital of the ESM as planned on the cut-off date of the forecast (subject to approval).

ESA 2010

The current forecast is based on the ESA 2010 system of national accounts where available. This is the case for annual historical data for all Member States, the EU and the euro area aggregates and for quarterly historical data (GDP and main GDP components) for 21 Member States as well as for the EU and the euro area aggregates. Quarterly data for BE, EL, ES, CY, SK, HU, and PL are still based on the ESA 95 system of national accounts, as not yet provided in ESA 2010 by the National Statistical Institutes.

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 pp.). 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.

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

PART II

Prospects by individual economy

Member States

1. BELGIUM

Headwinds to recovery

Both the performance and the outlook of the Belgian economy have deteriorated in recent months. GDP growth is now forecast to remain below 1% in 2014 and 2015, with slightly higher growth in 2016. The main constraints to the outlook relate to domestic demand, in particular private and public consumption. Belgium's fiscal deficit is forecast at around 2.8% of GDP in both 2015 and 2016.

The pick-up in economic activity that started in the second half of last year, has stalled since spring. The weak growth seen in Q2-2014 is projected to have continued, with leading indicators such as industrial production providing scant evidence of more dynamic performance in the short-term. Annual growth is expected to arrive at 0.9% in both 2014 and 2015. At 1.1%, economic growth would be faintly higher in 2016.

Household consumption to lose ground given modest income growth

Spending by Belgian households is set to grow by 1.2% in 2014. However, consumer spending is not expected to maintain this growth pace in coming years. The tightening of the fiscal stance entails a series of small measures that dampen the outlook for consumer spending in 2015. Income growth of around 1% in 2014-16 reflects, on the one hand, low inflation and, on the other hand, government measures to restrain nominal wage growth in order to regain cost competitiveness. Labour market dynamics are expected to improve only slowly over the forecast horizon amid subdued economic activity. The unemployment rate is projected to fall from a ten-year peak of 8.5% in 2014 to 8.2% in 2016 as job creation in the private sector is largely absorbed by substantial reductions in public employment and the increase in the labour force.

Investment held back by domestic and external demand pressures

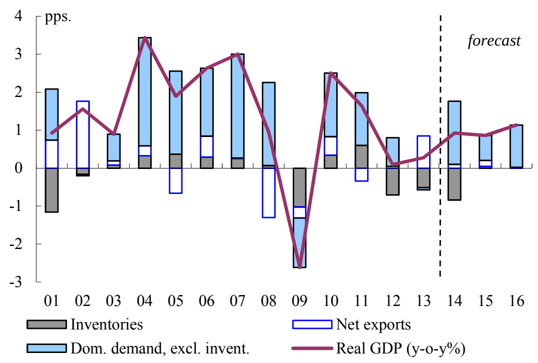
The robust projection for investment growth in 2014 (+3.6%) is greatly influenced by large one-off purchases. While capacity utilisation has been approaching its historic average and financing conditions are favourable, the softening of domestic demand and the deteriorated export outlook are set to hold back new equipment investment in the near term. As a consequence, 2015 should see more modest growth, also because the improvement in construction activity is slow-moving.

In the second half of this year, the economic slowdown in the euro area and in particular among major trading partners is anticipated to dampen external demand, while hesitant domestic activity restrains import growth. Exports, however, should accelerate as foreign demand strengthens over the forecast horizon. All in all, the contribution to overall activity from net trade is forecast to remain positive in 2014-15 and turn neutral in 2016.

Weak inflation reflects low import prices and transitory tax effects

Headline inflation has been on a downward trajectory, falling back to 0.4% in Q3-2014. Negative price developments for energy and, more recently, unprocessed food items, are the fundamental drivers of this trend. As such, low inflation is mostly imported and core inflation remains well above 1%. The recent reduction of VAT on household electricity bills, adds to downward price dynamics for energy carriers, though this effect will fade over the course of 2015. At 0.9% in 2015 and 1.3% in 2016, inflation is projected to remain moderate, in line with passive economic activity and stagnant wage growth.

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



Flat outlook for government balance

The outlook for the 2014 general government deficit worsened substantially since the spring forecast, from 2.6% of GDP to 3.0%. Statistical reclassifications have had a negative impact of around 0.3 pp., while tax revenues have suffered from the economic slowdown. On the other hand, one-off measures, such as a tax amnesty, had a positive impact of 0.4 pp. As a result, the structural balance is projected to be broadly stable in 2014.

In 2015, the headline deficit is expected to improve by 0.2 pp. of GDP. This projection includes almost 1% of GDP of new measures announced by the federal and the regional/community governments, mostly of a structural nature. Main measures include cuts in the wage bill and administrative expenditure of the federal and sub-federal governments, a lower growth norm for health care expenditure, tighter criteria for social benefits and a postponement of the previously announced reduction in social security contributions, which is offset by an increase in income tax deductions for workers. Lastly, the temporary suspension of wage indexation, both in the public as well as the private sector, has a slightly positive budgetary impact, with savings on the wage bill and social benefits more than offsetting the impact on tax revenues. Furthermore, the decline in interest rates contributes to the improvement by around 0.2 pp. of GDP. On the other hand, the government balance is negatively impacted by the evolution of one-off revenues (-0.2 pp. of GDP), a decline in dividend income and financial sector guarantee fees (-0.1 pp. of GDP), and dynamic upward trends in social spending (+0.3 pp. of GDP), in particular pension expenditure. The cyclical impact on the deficit remains broadly unchanged between 2014 and 2015, while the structural balance improves by almost ½% of GDP.

In 2016, under the usual no-policy-change assumption, the headline deficit remains stable at 2.8% of GDP. The structural balance is not projected to improve further, despite the additional positive impact of sufficiently specified new measures of around 0.2% of GDP.

General government debt has been substantially revised upwards since the spring 2014 forecast, mainly due to the reclassification of a number of corporations into the government sector. Furthermore, the debt ratio is forecast to rise from 104.5% of GDP at the end of 2013 to almost 106% of GDP at the end of this year. Over the forecast horizon, the projected low nominal GDP growth is insufficient to offset the impact of further deficit accumulation and stock-flow adjustments on the debt ratio. As a consequence, it is expected to rise further to over 107% of GDP.

Table II.1.1:

Main features of country forecast - BELGIUM

	2013			Annual percentage change					
bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	395.3	100.0	2.0	1.6	0.1	0.3	**0.9**	**0.9**	**1.1**
Private Consumption	204.0	51.6	1.6	0.6	0.8	0.3	**1.2**	**1.0**	**0.8**
Public Consumption	96.5	24.4	1.7	0.8	1.4	1.1	**0.9**	**-0.3**	**0.7**
Gross fixed capital formation	88.0	22.3	2.5	4.0	0.0	-2.2	**3.6**	**0.9**	**2.3**
of which: equipment	27.4	6.9	2.7	2.6	-3.0	-5.8	**9.2**	**0.5**	**3.3**
Exports (goods and services)	327.1	82.8	4.3	6.6	1.9	2.9	**3.0**	**2.9**	**4.2**
Imports (goods and services)	321.8	81.4	4.2	7.2	1.9	1.8	**2.9**	**2.8**	**4.2**
GNI (GDP deflator)	391.3	99.0	2.0	0.9	0.8	-2.5	**1.8**	**0.9**	**1.2**
Contribution to GDP growth:	Domestic demand		1.8	1.4	0.8	-0.1	**1.7**	**0.7**	**1.1**
	Inventories		0.0	0.6	-0.7	-0.5	**-0.8**	**0.0**	**0.0**
	Net exports		0.2	-0.3	0.1	0.8	**0.1**	**0.2**	**0.0**
Employment			1.0	1.4	0.3	-0.3	**0.2**	**0.4**	**0.6**
Unemployment rate (a)			8.2	7.2	7.6	8.4	**8.5**	**8.4**	**8.2**
Compensation of employees / head			2.4	3.0	3.4	2.6	**0.6**	**0.5**	**0.3**
Unit labour costs whole economy			1.5	2.8	3.6	2.0	**-0.1**	**0.0**	**-0.2**
Real unit labour cost			-0.2	0.6	1.5	0.5	**-0.8**	**-0.6**	**-1.3**
Saving rate of households (b)			17.0	14.7	13.9	13.5	**13.4**	**13.3**	**13.3**
GDP deflator			1.7	2.2	2.1	1.5	**0.8**	**0.6**	**1.1**
Harmonised index of consumer prices			1.9	3.4	2.6	1.2	**0.6**	**0.9**	**1.3**
Terms of trade goods			-0.6	-1.8	0.2	0.4	**0.4**	**-0.1**	**-0.1**
Trade balance (goods) (c)			2.2	-1.5	-1.5	-0.7	**-0.5**	**-0.5**	**-0.6**
Current-account balance (c)			3.7	0.3	0.6	-1.5	**-0.3**	**-0.5**	**-0.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.6	0.2	1.3	-1.5	**-0.1**	**-0.5**	**-0.7**
General government balance (c)			-1.7	-3.9	-4.1	-2.9	**-3.0**	**-2.8**	**-2.8**
Cyclically-adjusted budget balance (c)			-1.9	-3.8	-3.6	-2.1	**-2.3**	**-2.1**	**-2.3**
Structural budget balance (c)			-	-3.6	-3.1	-2.7	**-2.6**	**-2.2**	**-2.3**
General government gross debt (c)			106.2	102.1	104.0	104.5	**105.8**	**107.3**	**107.8**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

2. BULGARIA

Subdued growth amid rising uncertainty

Real GDP growth is expected to remain muted, falling from 1.2% in 2014 to 0.6% in 2015 and 1% in 2016 as domestic demand weakens. After a deflationary period in 2014, inflation is set to only slowly pick up to 1% by 2016. Following a sizeable fiscal deterioration in 2014, the general government deficit is projected to remain above 3% of GDP over the forecast horizon.

Headwinds slowing growth

Downside risks have materialised since the spring forecast. A less dynamic external environment is weighing on exports. In June, confidence in the domestic segment of the banking sector received a setback, when a bank run led to the fourth largest bank closing leaving no access to deposits for at least five months. Irregularities in banking practices have also surfaced. This forecast assumes an orderly unfolding of the banking situation, with domestic banks considerably tightening credit standards, thereby depressing investment by firms. Survey indicators already indicate a significant deceleration of activity over the rest of 2014, leading to an average GDP growth rate of 1.2% for the year as a whole. These headwinds are expected to continue, resulting in real GDP growth of 0.6% in 2015 and 1% in 2016.

Consumption and investment outlook subdued

Private consumption was supported in the first half of 2014 by the sharp increase in households' real disposable income driven by high dynamics of public sector wages and pensions as well as deflation. Recent monthly consumer confidence and retail data, however, suggest that private consumption will lose momentum by 2015. Similarly, gross fixed capital formation is mainly driven by buoyant government investment spending on the back of accelerated absorption of EU funds in 2014. However, as the current programming period is coming to an end, EU funded investment is set to decline significantly in the coming years. In turn, private investment is seen to contract further in 2014-15, mirroring the on-going deleveraging process in the economy and low profit expectations amid increased uncertainty. Overall, investment is projected to decline in both 2015 and 2016.

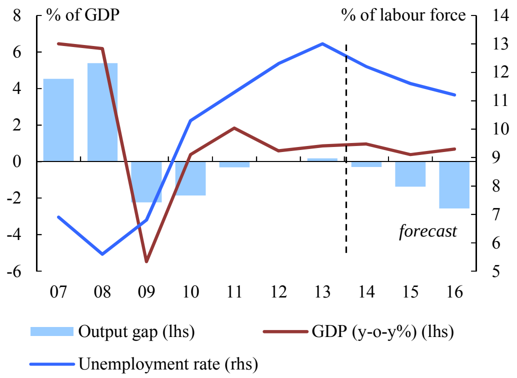
Export growth to resume…

Despite a slowdown in the first half of 2014, exports are set to resume growing at a moderate pace in 2015-16, sustained by the mild recovery in both the EU and non-EU trade partners. On the back of a further slowdown in domestic demand, the contribution of net trade to overall economic growth is projected to turn positive in 2015, while the current-account surplus is seen stable at about 2% of GDP by 2016.

…but labour market to remain frail.

Manufacturing and construction continued to shed labour, but the overall labour market outcome in 2014 is supported by temporary employment in the volatile agricultural sector. Slow economic growth is set to result in small declines in employment over 2014-15, followed by only modest gains in 2016. Nevertheless, combined with a continued decline in the labour force due to negative demographic trends, this brings the unemployment rate from a peak of 13% in 2013 to 11% by 2016.

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



Downside risks prevail

Risks still appear tilted to the downside. On the domestic front, accelerating confidence deterioration in the banking sector and a more protracted period of disruptions to credit intermediation alongside tighter credit conditions pose considerable risks. A more prolonged weakness of business and consumer confidence together with the still fragile labour market could lead to a reduction of domestic demand further eroding confidence in the economy. On the external front, the country's dependence on Russian gas imports could become a further burden to growth should supplies be disrupted.

Strong deflation in 2014, turning to low inflation

Bulgaria has been experiencing deflation since mid-2013, and prices this year are expected to decline by an average -1.4%. This has been caused by a coincidence of falling global energy prices, significant administrative cuts to electricity and healthcare prices, and declining food prices due to a good harvest. Also, core inflation has turned strongly negative, reflecting overall weak domestic demand. Some of these deflationary factors are temporary in nature and their base effects will fade over the second half of 2014. Moreover, the Bulgarian government has decided to increase electricity prices by 10% as of October 2014 and tobacco excise will be hiked in 2015. Aggregate HICP is forecast to pick up only modestly in 2015 to 0.4% and 1% in 2016.

Significant budgetary weakening in 2014, with no improvement in 2015-16

The general government deficit is projected to deteriorate from 1.2% in 2013 to 3.6% of GDP in 2014. This is significantly more than planned in the original 2014 budget. This projection includes the 2014 budget update proposal of the care-taker government made in September, which also reveals a significant expenditure increase. Also, VAT, excises and some non-tax revenues have underperformed over 2014. Under a no-policy-change assumption, the general government deficit is set to weaken further to 3.7% of GDP in 2015 and to 3.8% in 2016, in line with the projected sluggish evolution in tax bases. The current projection does not include assumptions about measures in the upcoming 2015 budget. In structural terms, the deficit is estimated to deteriorate by over 2 pps. of GDP in 2014 and to stay broadly flat in 2015-16. The general government gross debt is forecast to increase rapidly from 18.3% of GDP in 2013 to about 25% in 2014, reflecting not only the financing of the current year's fiscal deficit, but also the roll-over of a large bond maturing in January 2015 and the existing liquidity scheme for the stabilisation of the financial sector. The forecast does not include any potential further debt issuances to support the financial sector. The debt ratio is forecast to amount to slightly above 30% of GDP in 2016.

Table II.2.1:
Main features of country forecast - BULGARIA

	2013		Annual percentage change						
	bn BGN Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	80.3	100.0	2.2	2.0	0.5	1.1	**1.2**	**0.6**	**1.0**
Private Consumption	50.2	62.6	2.9	1.8	3.9	-2.3	**1.1**	**0.6**	**1.3**
Public Consumption	13.3	16.5	-0.2	1.8	-1.0	2.8	**2.1**	**0.6**	**1.0**
Gross fixed capital formation	17.1	21.3	12.0	-6.6	4.2	-0.1	**1.7**	**-2.3**	**-2.8**
of which: equipment	7.3	9.1	-	24.5	1.0	0.4	**1.8**	**-2.4**	**4.5**
Exports (goods and services)	54.9	68.4	-	12.3	0.1	9.2	**1.4**	**3.0**	**3.7**
Imports (goods and services)	55.4	69.0	-	8.5	4.5	4.9	**1.7**	**2.0**	**2.9**
GNI (GDP deflator)	78.7	98.1	-	0.6	2.1	0.8	**0.9**	**0.5**	**0.8**
Contribution to GDP growth: Domestic demand			3.9	-0.1	3.1	-1.1	**1.4**	**0.0**	**0.4**
Inventories			0.6	0.2	0.1	-0.5	**0.0**	**0.0**	**0.0**
Net exports			-	1.9	-2.8	2.6	**-0.2**	**0.7**	**0.6**
Employment			-	-2.2	-2.5	-0.4	**-0.3**	**-0.2**	**0.3**
Unemployment rate (a)			12.2	11.3	12.3	13.0	**12.0**	**11.4**	**11.0**
Compensation of employees / head			-	6.8	7.7	8.8	**2.0**	**1.6**	**3.2**
Unit labour costs whole economy			-	2.4	4.5	7.2	**0.5**	**0.8**	**2.5**
Real unit labour cost			-	-4.3	2.9	8.0	**0.9**	**0.4**	**1.9**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			32.2	7.0	1.6	-0.8	**-0.4**	**0.4**	**0.6**
Harmonised index of consumer prices			-	3.4	2.4	0.4	**-1.4**	**0.4**	**1.0**
Terms of trade goods			-	2.9	-3.5	-0.8	**-0.6**	**-0.5**	**-1.0**
Trade balance (goods) (c)			-11.2	-4.8	-9.9	-7.2	**-7.6**	**-7.4**	**-7.7**
Current-account balance (c)			-4.8	1.5	-0.7	2.2	**2.1**	**2.3**	**1.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.7	2.7	0.5	3.5	**3.6**	**3.7**	**3.2**
General government balance (c)			-1.0	-2.0	-0.5	-1.2	**-3.6**	**-3.7**	**-3.8**
Cyclically-adjusted budget balance (c)			-	-2.0	-0.5	-1.3	**-3.6**	**-3.4**	**-3.3**
Structural budget balance (c)			-	-2.0	-0.5	-1.3	**-3.4**	**-3.4**	**-3.3**
General government gross debt (c)			-	15.7	18.0	18.3	**25.3**	**26.8**	**30.2**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

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

3. THE CZECH REPUBLIC

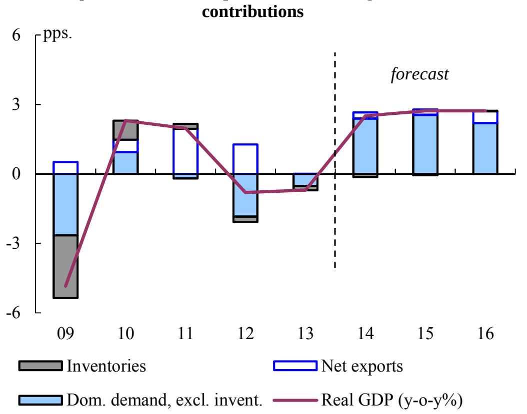
The recovery is strengthening and broadening

Recent data suggest that the economic recovery in the Czech Republic is strengthening and broadening and growth is expected to pick up further next year. Investment and household consumption have been the most important sources of growth this year and domestic demand is projected to remain the main driver going forward. Net exports are also expected to contribute positively. The general government deficit is projected to remain below 3% of GDP.

Strengthening broad-based recovery

Following several quarters of contraction, the Czech economy started to recover during the second half of 2013. The recovery strengthened during the first half of this year, with all components of GDP (excluding inventories) contributing positively. Recent soft indicators and high-frequency data suggest that this broad-based recovery will continue in the third quarter, despite a slowdown in the country's main trading partners and geopolitical tensions. Domestic demand has rebounded strongly in recent quarters and is expected to be the key driver of growth over the forecast horizon. Overall, real GDP is forecast to grow by 2.5% in 2014 and to strengthen slightly to 2.7% in both 2015 and 2016.

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



Household consumption rebounds

After declining in 2012, household consumption started to recover in 2013 and continued expanding during the first half of 2014. Growth is expected to reach 1.7% in 2014. The main driver has been a strong rebound in real disposable income, which declined in 2013. Growth of household consumption is expected to strengthen further in 2015 and 2016, reflecting an improvement in the labour market as well as an easing of the tax burden.

Unemployment has been falling in recent months and is projected to reach 6.2% next year.

Surge in investment activity

Investment has recovered since mid-2013 following generally weak readings since the onset of the financial crisis. The rebound of private investment has been driven by the improved domestic environment, a pickup in foreign industrial orders, and an improvement in construction activity. Public investment has also contributed positively, with the government increasing its use of available EU funds. Overall, gross fixed capital formation is expected to grow by 4.3% in 2014 and moderate somewhat over the forecast horizon, with EU-backed public investment falling off in 2016.

Net exports make a positive contribution

While the recovery in real GDP growth in 2014 is expected to be primarily driven by domestic demand, net exports also contribute positively. Strong growth in new orders from abroad, aided by last year's intervention by the Czech National Bank to weaken the koruna, has helped support export growth over the course of the year and is projected to surpass 8%. The impact on net exports has been muted due to a strengthening of import growth, driven by improved domestic demand. Net exports are expected to make a positive contribution to real GDP growth over the forecast horizon, although a slowdown in main trading partners would pose a downside risk due to the high degree of openness of the economy.

Inflation expected to increase

The HICP inflation rate is expected to remain low throughout 2014, despite the maintenance of an exchange rate floor by the Czech National Bank and an extension of this policy to 2016. Low inflation this year is partly explained by a fall in regulated energy prices at the start of 2014. The impact of regulated prices and taxes is expected to be broadly neutral in 2015 and headline inflation should begin to rise due to increased domestic demand, rising nominal wages and the impact of the weaker exchange rate. Inflation is projected to be close to the central bank's target of 2% in 2016.

Fiscal loosening in 2014 and 2015

The general government balance improved significantly to -1.3% of GDP in 2013 on the back of continued consolidation efforts. The structural balance turned positive for the first time in more than a decade.

A slight deterioration of the general government deficit to 1.4% of GDP in 2014 is driven mainly by increasing government consumption and a rebound in public investment after several years of negative growth. Public consumption is expected to be boosted by a relatively strong increase in healthcare expenditure while public investment activity is set to be supported by higher absorption of EU funds. On the revenue side, indirect tax receipts will be positively affected mainly by a hike in excise duties on tobacco. The one-off sale of licences to mobile operators increased government revenues by 0.2% of GDP. Overall, the structural balance is projected to deteriorate by 0.9 pp. to -0.7% of GDP in the context of a narrowing output gap.

The forecast for 2015 implies loosening of fiscal policy, based on information from the draft budget. The general government deficit is expected to increase to 2.1% of GDP with the structural balance deteriorating by 1 pp. to -1.7% of GDP. Growth in government consumption should strengthen further on the back of the planned increase in public sector wages by 3.5% and an additional increase in healthcare expenditure. Other envisaged discretionary measures included in the forecast are also mostly deficit-increasing and include the introduction of a second reduced VAT rate of 10% for selected products, higher indexation of pensions and higher tax credits for families with children and for working pensioners. The forecast also includes military expenditure related to the lease of fighter jets amounting to 0.2% of GDP.

The fiscal stance is expected to turn broadly neutral in 2016, based on a no-policy-change assumption. The projected fall in the headline general government deficit to 1.7% of GDP is mainly due to improved economic environment. The debt-to-GDP ratio is expected to stabilise at around 45% by 2016.

Table 2.1.1:
Main features of country forecast - CZECH REPUBLIC

	2013			Annual percentage change						
bn CZK	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	4086.3	100.0	2.9	2.0	-0.8	-0.7	**2.5**	**2.7**	**2.7**
Private Consumption	2026.5	49.6	2.9	0.2	-1.8	0.4	**1.7**	**1.9**	**2.0**
Public Consumption	802.0	19.6	1.5	-2.9	-1.0	2.3	**2.1**	**2.4**	**1.7**
Gross fixed capital formation	1019.1	24.9	3.8	1.1	-2.9	-4.4	**4.6**	**4.5**	**3.4**
of which: equipment	444.8	10.9	5.2	4.2	-6.1	-2.1	**5.4**	**4.9**	**4.0**
Exports (goods and services)	3154.7	77.2	9.7	9.3	4.1	0.3	**8.3**	**5.3**	**6.0**
Imports (goods and services)	2919.3	71.4	9.7	6.7	2.4	0.3	**8.6**	**5.4**	**5.9**
GNI (GDP deflator)	3797.9	92.9	2.4	1.8	0.7	-1.5	**2.4**	**2.7**	**2.7**
Contribution to GDP growth: Domestic demand			2.9	-0.2	-1.8	-0.5	**2.4**	**2.6**	**2.2**
Inventories			0.0	0.2	-0.2	-0.2	**-0.1**	**-0.1**	**0.0**
Net exports			0.0	1.9	1.3	0.0	**0.3**	**0.2**	**0.5**
Employment			0.0	-0.3	0.4	0.4	**0.4**	**0.3**	**0.3**
Unemployment rate (a)			6.7	6.7	7.0	7.0	**6.3**	**6.2**	**6.1**
Compensation of employees / head			7.3	2.8	1.4	-0.6	**3.0**	**3.3**	**3.4**
Unit labour costs whole economy			4.2	0.6	2.6	0.5	**0.8**	**0.9**	**1.0**
Real unit labour cost			0.4	0.8	1.1	-1.2	**-0.7**	**-0.5**	**-0.7**
Saving rate of households (b)			11.7	11.1	11.3	9.7	**10.0**	**10.2**	**10.2**
GDP deflator			3.8	-0.2	1.4	1.7	**1.6**	**1.4**	**1.8**
Harmonised index of consumer prices			-	2.1	3.5	1.4	**0.5**	**1.4**	**1.8**
Terms of trade goods			0.2	-2.0	-0.6	1.4	**1.1**	**0.1**	**0.3**
Trade balance (goods) (c)			-4.0	1.9	3.1	4.0	**5.0**	**5.2**	**5.6**
Current-account balance (c)			-4.0	-4.6	-2.2	-2.2	**-1.3**	**-0.9**	**-0.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.6	-2.9	-1.2	0.0	**0.9**	**1.5**	**1.8**
General government balance (c)			-4.3	-2.9	-4.0	-1.3	**-1.4**	**-2.1**	**-1.7**
Cyclically-adjusted budget balance (c)			-	-2.6	-3.2	0.0	**-0.5**	**-1.7**	**-1.7**
Structural budget balance (c)			-	-2.6	-1.4	0.2	**-0.7**	**-1.7**	**-1.7**
General government gross debt (c)			23.3	41.0	45.5	45.7	**44.4**	**44.7**	**45.2**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

4. DENMARK

Uneven recovery expected to strengthen

Indicators are pointing to continued, albeit fragile and moderate, growth in the Danish economy. Unemployment has been steadily declining since the end of 2012, while the housing market has generally seen rising prices since late 2011. Together with an improvement in confidence and income growth, the conditions are, therefore, in place for a pick-up in private consumption, after a standstill in recent years. GDP is expected to grow by 0.8% in 2014, 1.7% in 2015, and 2.0% in 2016, while the general government deficit is projected to remain below 3% of GDP.

Recovery expected to take hold

GDP fell by 0.1% in 2013, as a result of weak domestic demand growth and a negative contribution from net exports. In the first half of 2014, GDP has increased by 0.9% compared to the corresponding period one year before.

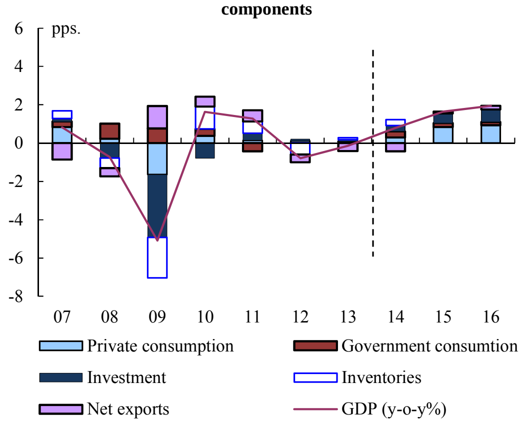
In recent years, GDP growth has been negatively influenced by a trend decline in North Sea oil and gas production, which has reduced annual GDP growth by close to half a percentage point. This drag is unrelated to the current business cycle conditions and has a limited impact on the broader economy, for example due to the sector's low share of total employment. When correcting for this downward pressure on GDP growth, a picture of a somewhat stronger recovery emerges. Based on the latest official projections, production in the North Sea is expected to decrease at a significantly slower pace from 2014 and the drag on GDP growth is, therefore, expected to abate.

The economic conditions are in place for a pick-up in domestic demand, as household disposable income is supported by low interest rates, wage growth and improved labour market conditions. The conditions in the housing market have improved, but the recovery still appears to be fragile, with large regional differences and a low level of sales. House prices have generally increased over the last two years, adding support to households' balance sheets and confidence.

GDP growth is forecast to increase from 0.8% in 2014 to 1.7% in 2015 and 2.0% in 2016. Compared to the spring forecast, GDP growth has been revised downwards both in 2014 and 2015. For 2014 this partly reflects the revision of the national accounts and the implementation of ESA2010, which has had an impact on historical data and on the carry-over to the current year, but also due to lower than expected growth in the beginning of this year. Also, the weakness of external demand foreseen in the second half of 2014, in particular due to the slow recovery of the EU economy, has contributed to the revision for 2014 and 2015.

While domestic demand is expected to be the sole driver of growth in 2014, a small positive contribution from net exports is expected in 2015 and 2016.

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



The labour market has performed well in recent years

The labour market has performed better than expected during the weak recovery of the Danish economy. This can partly be explained by the mentioned before drag on the economy from the decline in production of oil and gas, which is camouflaging a somewhat stronger recovery in the private sector economy.

Unemployment has been edging downwards since spring 2012, falling from 7.9% in May 2012 to 6.7% in August 2014. This trend is expected to continue, with the average annual unemployment rate projected to reach 6.4% in 2016. Employment is expected to increase by 0.7% in 2014, 0.5% in 2015 and 0.9% in 2016, reflecting the pick-up in economic activity.

Risks are broadly balanced

The risks to the macroeconomic outlook remain broadly balanced. As a small and open economy, Denmark is highly dependent on developments abroad, in particular in its neighbouring countries, such as Germany and Sweden. In addition, there are positive risks related to a possible release of pent-up demand in private consumption and in business investments.

Stable fiscal outlook

Overall, Denmark's fiscal outlook is expected to remain stable. After reaching 0.7% of GDP in 2013, the general government deficit is expected to be at 1% in 2014, again supported by revenues from a one-off measure related to capital pension taxation.

Compared to 2014, the budget deficit is expected to deteriorate somewhat in 2015, and attain 2.3% of GDP. However, the estimated deficit in 2015 has improved compared to the spring forecast as the capital pension measure, mentioned above, has recently been extended by one year (to the end of 2015) and now pension assets in the so-called LD pension fund are also subject to favourable taxation in 2015. These measures are expected to boost the fiscal balance by ¾% of GDP.

In 2016, when the economic recovery is anticipated to have broadened, the general government deficit is forecast to decrease to 2.0% of GDP. The estimate for 2016 is based on a no-policy-change assumption.

The structural balance is expected to deteriorate from a surplus of 0.2% of GDP in 2013 to a deficit of 1.2% of GDP in 2015. The structural balance has been revised downward significantly in 2015 compared to the spring forecast, mainly due to a revised estimate of the output gap, implying that the assessed negative impact on the headline deficit from the economy's cyclical position is lower than in the spring forecast.

The general government gross debt level is expected to remain stable and close to 45% of GDP over the forecast horizon.

Table II.4.1:

Main features of country forecast - DENMARK

		2013		Annual percentage change						
	bn DKK	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		1891.0	100.0	1.6	1.3	-0.8	-0.1	**0.8**	**1.7**	**2.0**
Private Consumption		923.1	48.8	1.5	0.3	0.2	0.1	**0.7**	**1.7**	**1.9**
Public Consumption		506.7	26.8	2.1	-1.6	0.0	0.1	**1.2**	**0.6**	**0.5**
Gross fixed capital formation		347.6	18.4	2.4	2.1	0.5	0.6	**1.9**	**3.0**	**3.8**
of which: equipment		102.5	5.4	1.9	-4.0	7.6	7.5	**3.3**	**4.9**	**5.8**
Exports (goods and services)		1025.7	54.2	4.0	7.3	-0.1	1.2	**1.1**	**3.7**	**4.4**
Imports (goods and services)		919.8	48.6	4.9	7.0	0.7	2.2	**2.1**	**3.7**	**4.3**
GNI (GDP deflator)		1951.6	103.2	1.8	1.8	-0.4	0.5	**0.6**	**1.5**	**2.1**
Contribution to GDP growth:	Domestic demand			1.7	0.1	0.2	0.2	**1.0**	**1.6**	**1.8**
	Inventories			0.0	0.6	-0.6	0.1	**0.1**	**-0.1**	**0.0**
	Net exports			-0.1	0.6	-0.4	-0.4	**-0.4**	**0.2**	**0.2**
Employment				0.4	-0.1	-0.3	0.1	**0.7**	**0.5**	**0.9**
Unemployment rate (a)				5.1	7.6	7.5	7.0	**6.7**	**6.6**	**6.4**
Compensation of employees / head				3.6	1.4	1.4	1.1	**1.6**	**2.0**	**2.2**
Unit labour costs whole economy				2.4	0.0	1.9	1.4	**1.5**	**0.8**	**1.1**
Real unit labour cost				0.2	-0.6	-0.5	-0.2	**0.3**	**-0.5**	**-0.4**
Saving rate of households (b)				5.7	7.4	6.3	6.1	**6.4**	**8.2**	**7.7**
GDP deflator				2.2	0.6	2.5	1.6	**1.2**	**1.3**	**1.5**
Harmonised index of consumer prices				2.0	2.7	2.4	0.5	**0.4**	**1.1**	**1.7**
Terms of trade goods				0.9	-1.3	0.7	1.7	**0.3**	**-0.1**	**-0.5**
Trade balance (goods) (c)				2.9	3.1	2.7	2.6	**2.3**	**2.1**	**1.7**
Current-account balance (c)				2.9	5.7	5.8	6.9	**6.2**	**6.1**	**6.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.0	6.1	5.8	6.9	**6.5**	**6.6**	**7.0**
General government balance (c)				0.7	-2.1	-3.9	-0.7	**-1.0**	**-2.3**	**-2.0**
Cyclically-adjusted budget balance (c)				0.0	-0.6	-1.7	1.7	**1.3**	**-0.5**	**-0.7**
Structural budget balance (c)				-	-0.6	-0.1	0.2	**-0.2**	**-1.2**	**-0.7**
General government gross debt (c)				48.3	46.4	45.6	45.0	**44.1**	**45.1**	**45.6**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

5. GERMANY

Disappointing growth but improvement in sight

Germany's economy is expected to broadly stagnate over the second half of this year but economic growth is set to resume gradually with the support of a robust labour market, favourable financing conditions, and improving external demand. A recovery in corporate investment has been interrupted and is expected to resume only hesitantly. The general government budget is forecast to remain broadly balanced and the gross debt-to-GDP ratio to decrease.

Weak activity to be followed by gradually improving growth

Real GDP declined by 0.2% (q-o-q, seasonally and working-day adjusted) in the second quarter of 2014, after a strong rise of 0.7% in the previous quarter. The decline reflects some correction after the weather-related boost in construction in winter, a contraction of private equipment investment, and weak international trade. Domestic demand was the main contributor to growth in the first two quarters, while net external trade was a drag.

Economic activity may remain weak until the first half of 2015. For Q3-2014, stagnation is expected as positive signs from the service sectors, notably from employment, retail sales and surveys, are being largely offset by adverse signals from production. The continued decline in industry orders and the strong worsening of firms' business expectations suggest further weakness. Real GDP is projected to grow by a moderate 1.3% in 2014. On the back of a robust labour market, favourable financing conditions and an improving external environment, growth is forecast to gradually regain momentum over the course of 2015. GDP is expected to increase by 1.1% in 2015 and by 1.8% in 2016, helped by more working days.

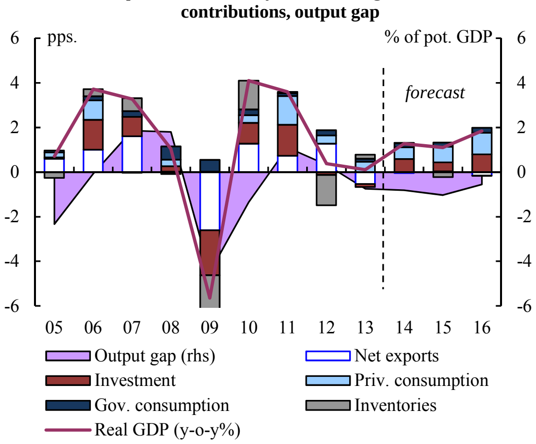
Robust labour market and consumption

Firms and employees are likely to use the scope of working time arrangements to mitigate the impact of weak activity on employment. The new general minimum wage should have a positive impact on labour income despite some negative employment effects. Solid private consumption growth is also supported by low interest rates, high net migration and accelerated real wage growth on the back of low inflation. This can also be seen in households' high income expectations and propensity to buy.

Investment upswing interrupted

Private equipment investment declined in the second quarter this year, interrupting a recovery that had started in 2013. Geopolitical tensions and concerns about economic developments in important trading partners may have triggered a wait-and-see attitude among firms. The subdued near-term outlook for investment is underpinned by declining domestic capital goods orders and a marked negative output gap. However, as domestic and external demand pick up, geopolitical and other external uncertainty decreases and favourable financing conditions hold, corporate investment should resume its recovery in 2015, reflecting in particular pent up replacement investment and investment in new product lines. Housing investment is projected to moderate its rapid pace of expansion.

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



Export growth curbed by external environment

Export growth is expected to remain moderate. Firms' export expectations have deteriorated and small and medium-sized industrial orders from abroad have continued their quarterly decline. But export growth should rise in the medium-term, in line with increasing demand growth in trading partners. As investment picks up and private consumption grows, higher demand for imports will turn the impact of net exports on GDP growth negative and lead to a limited narrowing of the current account surplus.

Moderately rising inflation

Declining commodity prices will continue to limit consumer price pressure in 2015, even though rising labour costs should support core inflation. Still, price pressures are expected to remain limited given the sizable output gap. Overall, consumer prices are forecast to rise by 0.9% in 2014, 1.2% in 2015 and by 1.6% in 2016.

Balanced budgets and a broadly neutral fiscal stance

A general government budget surplus of 0.2% of GDP is projected for 2014 after a positive balance of 0.1% in 2013. Tax revenue growth should accelerate somewhat as economic growth recovers, despite a further increase in the minimum income tax allowance in 2014. In 2015, a rise in the long-term care contribution rate of 0.3 pp. will be largely offset by lower pension and health insurance contribution rates.

In turn, higher pension increases, new benefits for certain groups of pensioners, extended long-term care services, wage increases in the public sector, a flood disaster recovery fund, a new childcare allowance, and additional spending on transport infrastructure, urban development, research, and international aid will contribute to a somewhat higher expenditure growth.

Overall, based on the measures included in the draft budgetary plan for 2015 and a no-policy-change assumption for 2016, the general government budget is forecast to remain broadly balanced over the forecast horizon, resulting in a decreasing gross debt-to-GDP ratio. The on-going winding up of 'bad banks' could further reduce the debt stock. The structural balance is projected to remain broadly unchanged.

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

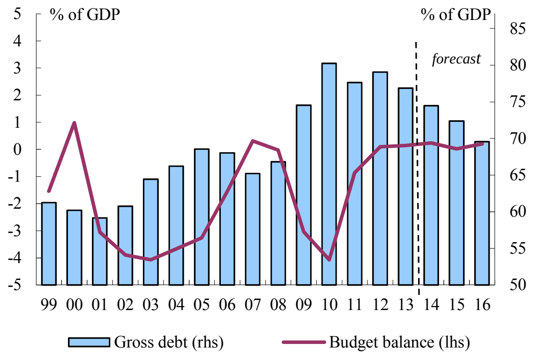


Table II.5.1:
Main features of country forecast - GERMANY

	2013			Annual percentage change					
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	2809.5	100.0	1.3	3.6	0.4	0.1	**1.3**	**1.1**	**1.8**
Private Consumption	1571.5	55.9	0.9	2.3	0.7	0.8	**1.0**	**1.3**	**1.8**
Public Consumption	541.2	19.3	1.4	0.7	1.2	0.7	**1.0**	**1.0**	**1.1**
Gross fixed capital formation	554.0	19.7	0.5	7.2	-0.7	-0.7	**2.9**	**2.0**	**3.9**
of which: equipment	176.1	6.3	2.8	5.8	-2.9	-2.7	**3.2**	**2.5**	**6.1**
Exports (goods and services)	1280.1	45.6	6.4	8.0	2.8	1.6	**3.3**	**4.2**	**5.4**
Imports (goods and services)	1116.9	39.8	5.5	7.2	0.0	3.1	**3.9**	**4.8**	**6.6**
GNI (GDP deflator)	2881.9	102.6	1.4	4.1	0.4	0.1	**0.9**	**1.0**	**1.7**
Contribution to GDP growth: Domestic demand			0.9	2.8	0.5	0.4	**1.3**	**1.3**	**2.0**
Inventories			0.0	0.1	-1.4	0.2	**0.0**	**-0.2**	**0.0**
Net exports			0.4	0.7	1.3	-0.5	**0.0**	**0.0**	**-0.2**
Employment			0.5	1.3	1.1	0.6	**0.8**	**0.4**	**0.6**
Unemployment rate (a)			8.9	5.9	5.5	5.3	**5.1**	**5.1**	**4.8**
Compensation of employees / head			1.3	2.9	2.5	1.9	**2.8**	**3.3**	**3.0**
Unit labour costs whole economy			0.5	0.6	3.3	2.4	**2.3**	**2.5**	**1.8**
Real unit labour cost			-0.3	-0.5	1.8	0.3	**0.3**	**0.8**	**-0.1**
Saving rate of households (b)			16.2	16.5	16.5	16.3	**16.5**	**16.4**	**16.3**
GDP deflator			0.9	1.1	1.5	2.1	**1.9**	**1.8**	**1.9**
Harmonised index of consumer prices			-	2.5	2.1	1.6	**0.9**	**1.2**	**1.6**
Terms of trade goods			0.0	-2.9	-0.5	1.9	**1.8**	**0.4**	**-0.1**
Trade balance (goods) (c)			5.2	6.0	7.2	7.4	**7.4**	**7.5**	**7.3**
Current-account balance (c)			2.3	6.2	7.2	6.9	**7.1**	**7.1**	**6.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.3	6.1	7.3	7.0	**7.1**	**7.1**	**6.8**
General government balance (c)			-2.8	-0.9	0.1	0.1	**0.2**	**0.0**	**0.2**
Cyclically-adjusted budget balance (c)			-2.6	-1.5	-0.1	0.6	**0.7**	**0.6**	**0.5**
Structural budget balance (c)			-	-1.3	0.0	0.6	**0.7**	**0.6**	**0.5**
General government gross debt (c)			62.9	77.6	79.0	76.9	**74.5**	**72.4**	**69.6**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

6. ESTONIA

Recovery slowed by rising uncertainties

Real GDP growth is expected to stabilise at around 2% in 2014 and 2015, affected by regional tensions, but to reach 2.7% in 2016 as external demand gradually recovers. Unemployment in Estonia continues to decline, as does the debt-to-GDP ratio, which is forecast to fall below 10%.

External factors dampen outlook for 2014 and 2015...

As geopolitical uncertainties continue and external demand remains weak, GDP growth will be limited to 1.9% and 2.0% in 2014 and 2015 respectively, but is expected to reach 2.7% in 2016 as the global outlook improves. In the first half of 2014 real GDP growth slowed to 1.4% from 1.6% in 2013. Domestic demand remained the main growth driver, while export growth almost stalled. Private consumption was led by strong wage income growth, higher pensions and decelerating consumer price inflation. Investment activity was supported by large public transport equipment purchases in Q1 and strong housing investment, which benefitted from marked construction price adjustment. Due to weak export performance, corporate investments are focused mostly on increasing efficiency.

...as investment activity remains weak...

Corporate investment is expected to suffer from remaining excess capacity and uncertainties related to the export outlook in 2014 and 2015, but the impact of these factors is expected to fade out in 2016 and equipment investment to accelerate to 8%. Housing investment is projected to pick up in coming quarters as suppressed real estate developments start recovering. Public investment is expected to gradually pick up only in 2015, after disbursements under the EU's development fund programmes resume.

...while wage growth still behind vigorous consumption.

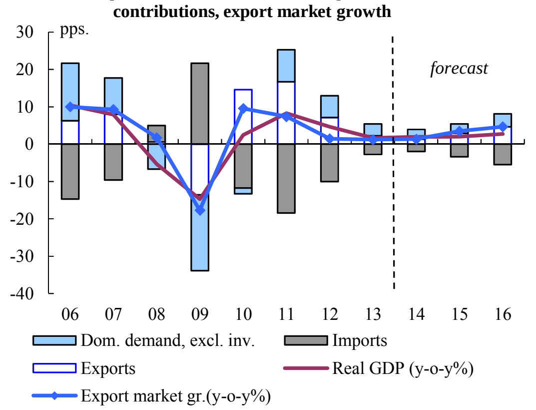
Consumption growth is forecast to remain vigorous, supported by strong real income growth, helped by income tax cuts and rising family benefits in 2015. After decreasing in 2014 along with output growth, nominal wage growth is expected to remain around 6% in 2016. Real wage growth is forecast to remain around 4%, due to the recovery in external demand from mid-2015, a 10% increase in the minimum wage in 2015, and unemployment hovering around its natural rate. Household borrowing is projected to increase only moderately despite very low interest rates, as banks will remain cautious about the private sector's relatively high level of indebtedness.

Trade surplus continues shrinking

Net exports contributed negatively to growth in the first half of 2014 reflecting persistently weak demand in Estonia's main trading partners. The trend is expected to continue, with Estonia's trade balance turning slightly negative in 2016 as domestic demand, especially investment, gathers pace.

Downside risks to the forecast could stem from a further escalation of the Ukrainian crisis affecting both trade flows with neighbouring Russia and inflows of direct investment.

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



Unemployment further declines...

Labour supply constraints are increasing, as Estonia's working age population, particularly in its 19-35 age category, contracts due to very low birth rates and high emigration. This trend is expected to reduce the unemployment rate to 6.3% in 2016 down from 8.6% in 2013 and to exert upwards pressure on wages. Labour force participation remains high at close to 70%, and is not expected to change over the forecast horizon.

...while inflation takes a pause.

HICP inflation fell to 0.9% in the first half of 2014, as global mineral and oil prices markedly declined and trade sanctions related to the crisis in Ukraine pulled domestic food prices downwards. At the same time, warm weather and easier access to cheaper regional energy networks lowered electricity prices. The projected decline in global commodity prices next year will be partly offset by a depreciating exchange rate against the US dollar. Moreover, further excise tax and administrative price increases and persistently high, although moderating, wage growth, are set to push inflation back to around 1.6% in 2015 and 2.2% in 2016.

A widening budget deficit

The general government balance is forecast to show a small deficit of 0.4% of GDP in 2014, benefitting from solid growth in the consumption and labour tax bases. Moreover, tax revenue collection has been positively affected by the closure of tax fraud schemes which more than offsets the postponement of the VAT enhancing measures by a couple of months to end-2014.

In 2015, the deficit is projected to widen to 0.6% of GDP as a result of deficit-increasing measures included in the draft budget. The public wage bill is expected to grow by more than 5%. Additional social transfers are directed to households, as child benefits are roughly set to double and pensions are planned to increase by 5.9%. Moreover, across-the board tax relief for labour and capital enter into force in January 2015. These measures are expected to be partially compensated by additional dividend distribution from state-owned enterprises, further increases in indirect taxes and by cutting expenditure on non-priority areas, e.g. roads. Assuming no change in policy, the government deficit is forecast to remain broadly unchanged in 2016.

In structural terms, the fiscal position is forecast to improve by 0.4 pp. of GDP in 2014 and by another 0.1 pp. of GDP in 2015. In 2016, on a no-policy-change assumption, it is expected to remain broadly unchanged. The debt-to-GDP ratio is expected to fall to 9.9% in 2014 and to remain below 10% thereafter, as nominal deficits of the central government should be financed from accumulated financial assets.

Table II.6.1:

Main features of country forecast - ESTONIA

		2013		Annual percentage change						
		bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		18.7	100.0	4.5	8.3	4.7	1.6	**1.9**	**2.0**	**2.7**
Private Consumption		9.6	51.5	5.1	2.5	5.1	3.8	**3.6**	**3.4**	**3.7**
Public Consumption		3.6	19.1	2.3	1.7	3.3	2.8	**1.2**	**1.6**	**1.3**
Gross fixed capital formation		5.1	27.3	6.3	33.0	10.4	2.5	**2.0**	**2.1**	**4.7**
of which: equipment		2.2	12.0	-	42.2	34.1	5.3	**3.8**	**3.2**	**8.0**
Exports (goods and services)		16.1	86.1	9.1	22.2	8.3	2.6	**1.5**	**3.4**	**5.5**
Imports (goods and services)		16.0	85.2	9.4	26.8	12.2	3.1	**2.3**	**4.1**	**6.5**
GNI (GDP deflator)		18.3	97.5	4.2	8.3	5.9	3.2	**0.7**	**2.1**	**2.9**
Contribution to GDP growth:	Domestic demand			5.4	8.6	5.9	3.2	**2.6**	**2.6**	**3.5**
	Inventories			0.2	3.5	-1.3	-2.2	**0.0**	**-0.1**	**0.1**
	Net exports			-1.0	-1.7	-2.9	-0.5	**-0.7**	**-0.6**	**-0.8**
Employment				-1.4	6.5	1.6	1.2	**-0.2**	**-0.3**	**-0.2**
Unemployment rate (a)				10.2	12.3	10.0	8.6	**7.8**	**7.1**	**6.3**
Compensation of employees / head				14.1	0.8	6.5	7.2	**5.2**	**5.2**	**6.2**
Unit labour costs whole economy				7.7	-0.8	3.4	6.8	**3.0**	**2.9**	**3.1**
Real unit labour cost				-0.6	-3.7	0.7	2.2	**1.3**	**0.5**	**0.3**
Saving rate of households (b)				1.9	10.3	9.1	9.0	**9.0**	**9.8**	**9.6**
GDP deflator				8.4	3.0	2.7	4.5	**1.6**	**2.4**	**2.9**
Harmonised index of consumer prices				-	5.1	4.2	3.2	**0.7**	**1.6**	**2.2**
Terms of trade goods				0.3	-2.0	-1.8	0.8	**0.1**	**0.1**	**0.1**
Trade balance (goods) (c)				-15.5	-4.5	-7.4	-5.7	**-5.5**	**-5.8**	**-6.2**
Current-account balance (c)				-8.4	-0.8	-3.3	-0.9	**-2.8**	**-3.1**	**-3.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.4	3.3	0.2	1.8	**-0.4**	**-0.7**	**-1.3**
General government balance (c)				-	1.0	-0.3	-0.5	**-0.4**	**-0.6**	**-0.5**
Cyclically-adjusted budget balance (c)				-	1.3	-1.3	-1.3	**-1.0**	**-0.9**	**-0.8**
Structural budget balance (c)				-	-0.2	-0.4	-1.1	**-0.8**	**-0.7**	**-0.7**
General government gross debt (c)				-	6.0	9.7	10.1	**9.9**	**9.6**	**9.5**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

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

7. IRELAND

Ireland decouples as growth picks up sharply

Ireland is decoupling from the euro area, as its recovery broadens and gathers firm momentum. This robust and faster-than-expected expansion should bolster government revenues and facilitate a reduction of the deficit.

Broad momentum is now well established

National accounts data for the second quarter of 2014 took observers by surprise, displaying significant momentum across the board. Real GDP was up 5.8 % y-o-y in the first half, with the turning point for the Irish economy likely having occurred in the latter part of 2013. The recovery is being fuelled by strong goods exports, some of which likely resulted from temporary factors (export activities with a deferred impact on the import side) that will not be sustained.

The latest national accounts data and high frequency indicators suggest that domestic demand is also gathering steam. Business and consumer confidence increased in 2014. Retail sales are on a firm upward trend and private consumption growth (year-on-year) turned positive for the first time since 2012 in the first quarter of 2014. Although starting from a very low base, gross fixed capital formation grew a sharp 11.3 % y-o-y in the first half of 2014, a clear sign of emerging business confidence, including among SMEs.

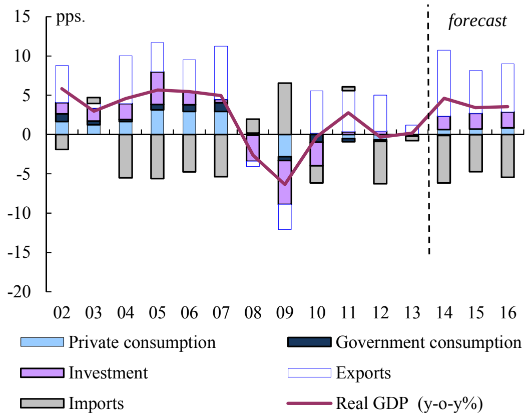
Employment growth has persisted in 2014, with the fall in the standardised unemployment rate continuing apace from a peak of 15.1 % in February 2012 to 11.1 % in September 2014.

Decoupling is set to continue

The business cycle is decoupling from that of the euro-area, with Ireland benefiting from its strong trade links with the more dynamic UK and US markets. Net exports and the recovery in domestic demand are likely to fuel real GDP growth of 4.6 % in 2014. Sustained growth is set to continue in 2015 and 2016 at around 3.6 %, with some stimulus provided by tax cuts and expenditure increasing measures in 2015.

The unemployment rate should fall further but remain above 8 % over the forecast horizon, putting a lid on wage demands. Inflation is expected to increase moderately, deviating little from euro area levels. This should preserve recent competitiveness gains and support export growth. Imports should also rise with domestic demand and the current account surplus is expected to stabilise at around 5.5 % of GDP.

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



Employment and wage growth should facilitate the household deleveraging process and foster private consumption growth, but high levels of indebtedness are likely to make the recovery of household spending gradual. In turn, gross fixed capital formation is expected to grow strongly after years of historically low levels of investment, including in construction, where supply now lags well below demand. Although gross credit to SMEs remains subdued, there is survey-based evidence that access to finance is improving, with new government initiatives being established.

The risks to the forecast are balanced. On the upside, the construction sector could provide additional momentum if supply constraints are swiftly resolved, and the drag of deleveraging might ease faster than expected if consumer confidence remains high and the savings rate eases from its recent historic highs. On the downside, low growth in the euro area is the main risk to the medium-term sustainability of the recovery and decoupling may generate policy challenges.

Buoyant tax revenues help deficit reduction

In 2014, the general government deficit is forecast at 3.7 % of GDP, down from 5.7 % of GDP in

2013, a significant improvement compared with the Commission services' 2014 spring forecast of 4.8 % of GDP. The expected improvement reflects a combination of factors, notably the stronger-than-expected recovery, some windfall revenues beyond the growth surprise and expenditure restraint.

Tax revenues increased by 7.4 % y-o-y in the first three quarters of 2014 and are expected to exceed the government's yearly target by 0.6 % of GDP. Personal income tax and VAT have been more buoyant than suggested by the improved macro-economic outlook. Temporary effects (0.3% of GDP) known already at the time of the Commission services' 2014 spring forecast, such as increased dividends and higher Central Bank income also contributed to the deficit outlook. In addition, since the last forecast, interest expenditure declined due to the favourable market environment by close to 0.2% of GDP, and primary expenditures have been in line with targets except in the health care sector, where overruns are once again significant (around 0.2 % of GDP). Finally, the transition to ESA 2010, including a higher GDP level, is estimated to improve the 2014 budget balance by around 0.5 % of GDP.

The improved position for 2014 is also expected to boost the outlook in 2015 and beyond. In spite of various tax cuts and expenditure increases in the 2015 budget of around 0.5 % of GDP, the general government deficit is expected to improve further to 2.9 % of GDP next year on foot of the projected economic recovery coupled with a broadly stable level of total government expenditure. Under a no-policy-change assumption, the deficit is forecast at 3.0 % of GDP in 2016. Risks around this projection mainly relate to the sustainability of recent macroeconomic developments. The structural deficit is forecast to decrease to 3.3 % of GDP in 2015 from 3.8 % of GDP in 2014 and is projected to remain stable in 2016.

Gross public debt is projected to fall to 106 % of GDP in 2016, down from 123.3 % in 2013. This marked improvement largely reflects the accounting treatment of gross debt related to the Irish Banking Resolution Corporation (IBRC). With the transition from ESA 95 to ESA 2010, IBRC became part of general government. However, the liquidation of IBRC initiated in early 2013 is projected to reverse the effect of its inclusion in the general government perimeter on the debt level.

Table II.7.1:
Main features of country forecast - IRELAND

		2013		Annual percentage change						
		bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		174.8	100.0	5.1	2.8	-0.3	0.2	**4.6**	**3.6**	**3.7**
Private Consumption		78.7	45.0	4.6	-1.1	-1.4	-0.4	**1.4**	**2.0**	**2.0**
Public Consumption		30.6	17.5	4.0	-2.2	-1.3	0.0	**1.5**	**-0.5**	**1.8**
Gross fixed capital formation		26.5	15.2	4.7	-2.2	5.2	-2.8	**9.3**	**12.3**	**9.5**
of which: equipment		6.8	3.9	4.8	2.1	-2.5	1.8	**11.5**	**13.0**	**8.5**
Exports (goods and services)		184.1	105.3	9.2	5.5	4.7	1.1	**8.0**	**5.3**	**5.6**
Imports (goods and services)		147.7	84.5	8.3	-0.6	6.9	0.6	**7.3**	**5.6**	**6.1**
GNI (GDP deflator)		148.7	85.1	4.4	-0.6	1.2	3.2	**5.1**	**3.5**	**3.5**
Contribution to GDP growth:	Domestic demand			4.0	-1.3	-0.1	-0.6	**2.3**	**2.8**	**2.8**
	Inventories			0.0	0.7	-0.3	0.4	**0.0**	**0.0**	**0.0**
	Net exports			1.7	5.7	-0.8	0.6	**2.3**	**0.8**	**0.8**
Employment				2.7	-1.8	-0.6	2.4	**2.0**	**2.2**	**2.2**
Unemployment rate (a)				7.2	14.7	14.7	13.1	**11.1**	**9.6**	**8.5**
Compensation of employees / head				4.4	1.2	0.8	2.0	**-1.3**	**0.8**	**2.1**
Unit labour costs whole economy				1.9	-3.2	0.5	4.2	**-3.8**	**-0.6**	**0.7**
Real unit labour cost				-0.7	-4.1	-0.8	3.2	**-4.3**	**-1.5**	**-0.7**
Saving rate of households (b)				-	11.2	10.2	9.4	**8.4**	**8.2**	**8.3**
GDP deflator				2.7	0.9	1.3	1.0	**0.5**	**0.9**	**1.4**
Harmonised index of consumer prices				2.4	1.2	1.9	0.5	**0.4**	**0.9**	**1.4**
Terms of trade goods				0.0	-6.2	-0.7	0.5	**-1.4**	**-0.1**	**-0.5**
Trade balance (goods) (c)				21.2	25.3	24.5	20.7	**21.0**	**19.8**	**18.6**
Current-account balance (c)				-1.3	0.1	0.9	3.8	**5.5**	**5.5**	**5.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.8	0.2	0.9	3.8	**6.3**	**6.0**	**5.7**
General government balance (c)				-2.4	-12.6	-8.0	-5.7	**-3.7**	**-2.9**	**-3.0**
Cyclically-adjusted budget balance (c)				-2.7	-12.0	-7.1	-4.4	**-3.5**	**-3.2**	**-3.3**
Structural budget balance (c)				-	-8.0	-7.1	-4.8	**-3.8**	**-3.3**	**-3.3**
General government gross debt (c)				45.9	111.1	121.7	123.3	**110.5**	**109.4**	**106.0**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

8. GREECE

The economy finally rebounds

After six years of recession, 2014 is expected to be the turning point for Greece. The country's long-awaited recovery is driven by private consumption and net exports. Its magnitude also depends on the effects that policy uncertainty may have on investment. [37]

Returning to growth

The Greek economy is expected to return to growth in 2014. Following a weaker than expected first half, GDP growth in seasonally-adjusted terms became positive in the second quarter this year, and a strong third quarter figure is expected.

After strengthening throughout 2014, the Economic Sentiment Indicator and the Purchasing Managers' Index began to weaken towards the end of the summer. The persistently tight credit conditions and slow absorption of EU and EIB funds continue to be a significant constraint on the recovery of investment. However, private consumption is expected to rebound fast and exports to continue performing strongly owing to the tourism and shipping sectors. Greece's economy is projected to grow by 0.6% in real terms this year.

The recovery is projected to gain strength next year. However, uncertainty over policy implementation looks set to continue weighing on investment decisions in the first half of 2015. Private consumption growth is supported by low inflation expectations, increases in disposable income and the use of precautionary savings held outside the banking system during the crisis. Exports are projected to surge in 2015, supported by the euro's depreciation and gains in competitiveness and quality of the business environment. As a result, real GDP is forecast to pick up markedly to 2.9% in 2015.

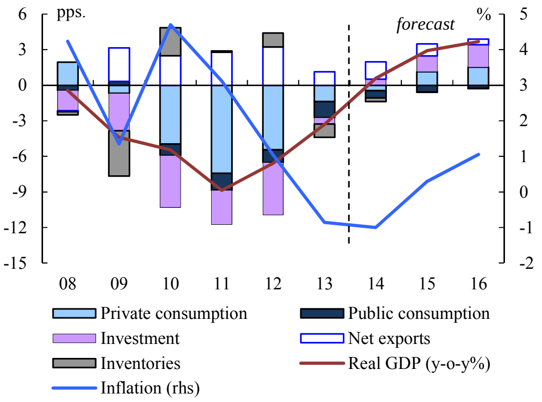
In 2016, real GDP is projected to continue expanding by 3.7%, as investment gains momentum and the economy begins to reap the benefits of ongoing structural reforms.

Greece's current-account deficit is projected to reach 2.8% of GDP in 2014 and then improve to 2.5% in 2015 and 2.2% in 2016, as exports pick up with the recovery and benefit from reforms.

Unemployment is expected to drop to 26.8% in 2014 reflecting the creation of new jobs and the effect of employment support programmes. A relatively strong fall in unemployment to 25.0% in 2015 and 22.0% in 2016 can be expected thanks to the pick-up in investment, the continuation of employment programmes, and ongoing structural reforms bearing fruit.

Consumer prices are expected to fall moderately by 1.0% in 2014, reflecting falling unit labour costs and the implementation of product market reforms, notably to remove distortions and increase competition in the retail, health and energy sectors. As the economic recovery gains pace, prices are expected to increase by 0.3% in 2015 and 1.1% in 2016.

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



Uncertainty a major risk

Greece's GDP growth could turn out weaker than forecast if uncertainty on policy implementation has a stronger-than-projected effect on confidence and investment, or if geopolitical events have a bigger-than-expected impact in the region. On the upside, exports may exceed expectations and investors' confidence could pick up owing, in particular to the successful processing of non-performing loans and to the positive results of the

(37) Note that updated forecasts will be released in the forthcoming Compliance Report on the 2nd Economic Adjustment Programme of Greece. These will be based on quarterly ESA 2010 for Greece which will be available for the first time in the course of November 2014.

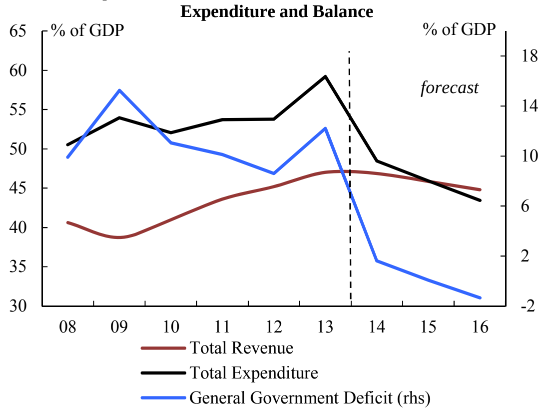
Asset Quality Review and stress tests. Overall, the balance of risks points to the downside since uncertainty is significant for the next few months.

The budgetary situation is improving

The general government headline balance deteriorated to 12.2% of GDP in 2013, from 8.6% of GDP in 2012 mainly because of the temporary costs of bank recapitalisations which amounted to 10.4% of GDP in 2013 and 2.9% in 2012. However, the underlying fiscal situation improved significantly last year.
In 2014, the headline deficit is projected to fall to 1.6% of GDP, given the one-off nature of banking support costs in 2013 and continued budgetary improvements such as a major income tax reform and expenditure consolidation. This forecast assumes that, as in recent years, the government exerts close controls on spending towards the end of the year to ensure that its 1.5% of GDP primary surplus target for 2014 is met.

The projections for 2015 and 2016 assume that Greece will meet the 3.0% and 4.5% of GDP primary surplus targets of its programme as a result of the fiscal-structural reforms under Greece's programme and the improved economic environment. Accordingly, Greece would record a headline general government surplus of 1.3% of GDP in 2016. The fiscal adjustment and the structural reforms during the past years have improved significantly the Greece structural fiscal balance and turned it into a sizeable surplus.

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



The government's debt-to-GDP ratio is expected to stabilise this year, before declining markedly in 2015 and beyond, as the primary surplus continues to improve and economic growth continues. Minor bank recapitalisation needs following the stress tests are expected to result in lower borrowing from the EFSF reducing the debt ratio accordingly.

Table II.8.1:
Main features of country forecast - GREECE

		2013		Annual percentage change						
		bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		182.4	100.0	2.4	-8.9	-6.6	-3.3	**0.6**	**2.9**	**3.7**
Private Consumption		129.9	71.2	2.6	-10.6	-7.8	-2.0	**-0.6**	**1.6**	**2.2**
Public Consumption		36.5	20.0	2.9	-6.6	-5.0	-6.5	**-3.1**	**-2.9**	**-1.4**
Gross fixed capital formation		20.5	11.2	2.4	-16.8	-28.7	-4.6	**4.5**	**11.7**	**15.0**
of which: equipment		7.9	4.4	7.3	-22.8	-29.2	-4.4	**9.0**	**13.5**	**17.0**
Exports (goods and services)		55.1	30.2	5.7	0.0	1.2	2.1	**5.3**	**5.4**	**4.9**
Imports (goods and services)		60.6	33.2	5.5	-9.0	-9.1	-1.6	**0.4**	**2.1**	**3.4**
GNI (GDP deflator)		182.3	99.9	2.1	-9.0	-3.0	-4.2	**-0.3**	**2.1**	**3.6**
Contribution to GDP growth:	Domestic demand			2.9	-11.8	-11.0	-3.3	**-0.6**	**1.9**	**3.2**
	Inventories			0.0	0.1	1.2	-1.1	**-0.3**	**0.0**	**0.0**
	Net exports			-0.5	2.8	3.2	1.1	**1.5**	**1.0**	**0.5**
Employment				0.8	-6.9	-7.8	-3.8	**0.6**	**2.6**	**4.0**
Unemployment rate (a)				10.1	17.9	24.5	27.5	**26.8**	**25.0**	**22.0**
Compensation of employees / head				6.3	-2.3	-2.0	-7.1	**-1.5**	**0.1**	**1.7**
Unit labour costs whole economy				4.6	-0.2	-3.3	-7.6	**-1.5**	**-0.3**	**2.0**
Real unit labour cost				0.6	-0.9	-3.4	-4.9	**0.0**	**-0.7**	**0.9**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				4.0	0.8	0.1	-2.8	**-1.5**	**0.5**	**1.1**
Harmonised index of consumer prices				4.1	3.1	1.0	-0.9	**-1.0**	**0.3**	**1.1**
Terms of trade goods				-0.1	1.5	-0.2	1.6	**-0.6**	**0.4**	**0.4**
Trade balance (goods) (c)				-14.8	-12.6	-10.9	-10.6	**-10.8**	**-10.1**	**-9.7**
Current-account balance (c)				-9.4	-10.5	-4.3	-2.7	**-2.8**	**-2.5**	**-2.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.9	-8.6	-1.9	1.0	**-1.1**	**-0.7**	**-0.5**
General government balance (c)				-	-10.1	-8.6	-12.2	**-1.6**	**-0.1**	**1.3**
Cyclically-adjusted budget balance (c)				-	-5.1	-2.0	-5.6	**3.6**	**3.0**	**1.8**
Structural budget balance (c)				-	-5.7	0.1	3.1	**2.0**	**1.6**	**1.0**
General government gross debt (c)				-	171.3	156.9	174.9	**175.5**	**168.8**	**157.8**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

9. SPAIN

GDP and employment growth expected to firm

After a temporary slowdown in the second half of 2014, GDP growth is projected to increase in 2015 and 2016, supported in particular by rising employment and easier financing conditions. With domestic demand becoming the main driver of growth, the external surplus is expected to narrow significantly in 2014 relative to 2013 and then to expand slightly in 2015 and 2016. Unit labour cost growth is expected to turn moderately positive, still allowing a further recovery in international competitiveness. Unemployment is expected to continue declining. Spain's general government deficit is set to narrow in 2014 and 2015.

The economic recovery in Spain gained steam over the first half of 2014. Although a modest deceleration is expected for the second half of the year, the recovery is foreseen to regain momentum thereafter amidst improved confidence, a loosening of financing conditions and better labour market prospects. The correction of the external imbalance, however, is likely to slow down and high private and public debt levels imply that deleveraging pressures will continue to weigh on growth.

Domestic demand drives growth

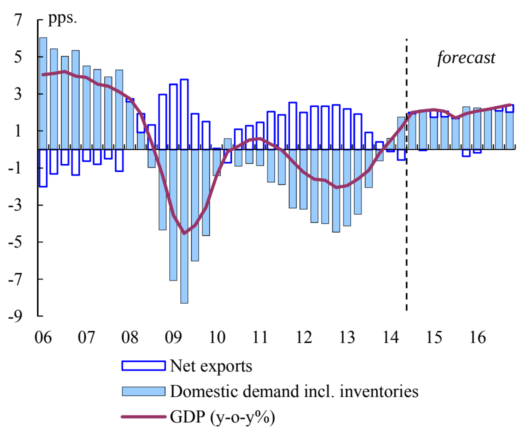
GDP expanded by 0.6% q-o-q in the second quarter of 2014, after 0.4% in the first quarter. Economic activity is expected to decelerate somewhat during the second half of the year, leading to an average GDP growth rate of 1.2% for 2014 as a whole. Growth is set to come mainly from domestic demand but the external sector should turn neutral, after having been a drag in the first two quarters. Net exports are seen contributing only slightly to growth in 2015 and 2016. The GDP growth rate is projected at 1.7 % in 2015 and 2.2 % in 2016, under a no-policy-change assumption.

Activity and confidence indicators suggest that private consumption is set to decelerate in the second half of 2014. It is however forecast to accelerate progressively thereafter, backed by positive employment growth and growing real gross disposable income, the latter also helped by very low or even negative inflation in the very short term. The household's saving rate, by contrast, is projected to decline due to lower precautionary savings and households' leverage ratios are set to fall further as GDP and disposable income expand.

Overall positive demand prospects, easing financing conditions and the projected rebound in exports are expected to underpin investment in equipment, despite ongoing balance-sheet correction by NFCs. The adjustment in construction appears to be close to its inflection point and some modest pick-up is expected, in particular for residential investment.

Following a sharp deceleration in the second half of 2013 and the first half of 2014, exports are set to gain momentum, backed by on-going improvements in price and non-price competitiveness and some recovery in Spain's main export markets. At the same time, imports are forecast to accelerate as final demand grows and as a result of the high import content of equipment investment and Spain's exports. The current account surplus is thus forecast to shrink to 0.5% of GDP in 2014 and to improve slightly thereafter. Net external lending is expected to fall in 2014 to 1.0% of GDP, before rising to 1.5% of GDP by 2016.

Graph II.9.1: **Spain - Contributions to growth**



Inflation is projected to remain negative in the near term, with average inflation over 2014 of -0.1%. In 2015 and 2016 inflation is expected to turn positive again but to remain very moderate as the output gap will still be negative and energy prices are projected to fall.

Employment on the rise

Having peaked at 26.9% in the first quarter of 2013, the unemployment rate has since declined to 24.5% in the second quarter of 2014. Employment creation accelerated in the first half of 2014, while the labour force continued to contract. These positive trends in employment are expected to intensify over the forecast horizon, helped by continued wage moderation and only modest increases in nominal unit labour costs. With the labour force contraction expected to fade progressively, unemployment is forecast to fall to 22.2% in 2016.

Downside risks to the growth forecast are not negligible. They are mainly related to the external sector, should in particular the recovery in the euro area be slower than expected.

Recovery to aid ongoing deficit reductions

Recent data indicates that fiscal consolidation is continuing in 2014, with the general government deficit in the first half of the year reaching 3.4% of GDP, 0.3 pp. lower than last year (net of bank recapitalisations). All in all, the deficit for the year as a whole is expected to narrow to around 5.6% of GDP, down from 6.3% of GDP in 2013, net of bank recapitalisations in both years.

In 2015, an improvement in the economic outlook and ongoing savings resulting from previously enacted reforms are expected to more than offset the announced tax cuts and some relaxation of the public sector's hiring policy. Taking the 2015 budget into account, the government deficit is expected to fall to around 4.6% of GDP.

While interest and pension expenditures are forecast to continue rising, falling unemployment and the application of a new pension indexation formula should keep the growth of social transfers in check over the forecast horizon. The headline deficit is expected to narrow further to 3.9% of GDP in 2016, based on a no-policy-change assumption.

Spain's structural deficit should remain basically flat at 2⅓% of GDP until 2015, before widening to 2¾% in 2016. Still sizable budget deficits and low nominal GDP growth are expected to push the public debt ratio above 100% in 2015 and to 102.1% in 2016.

Table II.9.1:

Main features of country forecast - SPAIN

	2013		Annual percentage change						
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	1049.2	100.0	2.8	-0.6	-2.1	-1.2	**1.2**	**1.7**	**2.2**
Private Consumption	610.3	58.2	2.5	-2.0	-2.9	-2.3	**2.0**	**2.0**	**2.2**
Public Consumption	204.2	19.5	4.1	-0.3	-3.7	-2.9	**0.4**	**-1.4**	**-0.4**
Gross fixed capital formation	194.3	18.5	3.1	-5.4	-7.0	-5.1	**1.1**	**4.2**	**5.0**
of which: equipment	60.0	5.7	4.3	5.5	-3.9	2.2	**8.8**	**7.1**	**8.3**
Exports (goods and services)	349.1	33.3	5.2	7.4	1.2	4.3	**3.8**	**4.9**	**5.8**
Imports (goods and services)	324.4	30.9	5.8	-0.8	-6.3	-0.5	**4.8**	**5.1**	**6.0**
GNI (GDP deflator)	1041.9	99.3	2.8	-0.9	-1.2	-1.1	**0.8**	**1.9**	**2.4**
Contribution to GDP growth: Domestic demand			3.1	-2.6	-3.9	-3.0	**1.4**	**1.6**	**2.1**
Inventories			0.0	-0.1	-0.4	0.3	**0.0**	**0.0**	**0.0**
Net exports			-0.3	2.2	2.3	1.5	**-0.2**	**0.0**	**0.0**
Employment			2.0	-2.6	-4.4	-3.3	**0.7**	**1.1**	**1.5**
Unemployment rate (a)			13.8	21.4	24.8	26.1	**24.8**	**23.5**	**22.2**
Compensation of employees / f.t.e.			3.5	0.9	-0.6	1.7	**0.5**	**0.9**	**1.1**
Unit labour costs whole economy			2.7	-1.1	-3.0	-0.4	**-0.1**	**0.3**	**0.4**
Real unit labour cost			-0.3	-1.2	-3.2	-1.1	**0.2**	**-0.8**	**-1.1**
Saving rate of households (b)			11.2	11.7	9.0	11.2	**10.4**	**10.5**	**10.7**
GDP deflator			3.1	0.1	0.2	0.7	**-0.3**	**1.0**	**1.5**
Harmonised index of consumer prices			2.9	3.1	2.4	1.5	**-0.1**	**0.5**	**1.2**
Terms of trade goods			0.3	-3.5	-2.3	0.5	**-0.9**	**0.7**	**0.8**
Trade balance (goods) (c)			-5.2	-4.1	-2.4	-1.1	**-0.6**	**-0.4**	**-0.2**
Current-account balance (c)			-4.5	-3.3	-0.4	1.5	**0.5**	**0.7**	**0.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.7	-2.9	0.1	2.1	**1.0**	**1.2**	**1.5**
General government balance (c)			-2.6	-9.4	-10.3	-6.8	**-5.6**	**-4.6**	**-3.9**
Cyclically-adjusted budget balance (c)			-3.0	-6.5	-6.6	-2.8	**-2.4**	**-2.4**	**-2.8**
Structural budget balance (c)			-	-6.3	-3.6	-2.3	**-2.2**	**-2.3**	**-2.8**
General government gross debt (c)			52.5	69.2	84.4	92.1	**98.1**	**101.2**	**102.1**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

10. FRANCE

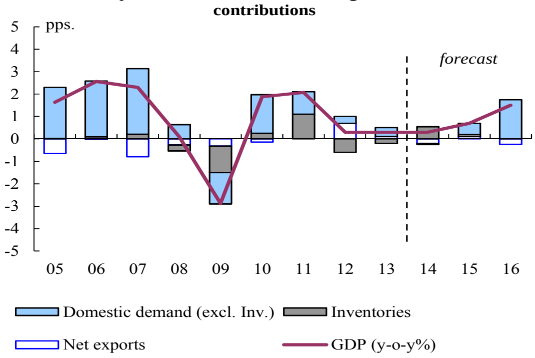
Weak growth, low inflation and a rising deficit

France's economic growth is forecast to remain low in 2014 and 2015 as a result of restrained domestic demand and a still subdued export performance, and to accelerate from 2016 as domestic demand gains momentum. Despite significant expenditure cuts, France's general government deficit and its debt-to-GDP ratio are expected to continue rising.

Growth set to remain weak

France's economy stagnated during the first half of 2014, as investment fell, private consumption remained flat and exports grew weakly. Economic growth has been stagnating since mid-2011 and the latest short-term indicators do not suggest that a firm recovery is imminent. Investment is not expected to gain momentum before 2016, while international trade looks unlikely to provide a boost to activity over the forecast horizon. Thus, despite a slowdown in fiscal consolidation, only moderate GDP growth of 0.7 % and 1.5 % in 2015 and 2016 is forecast, driven by an acceleration in private consumption.

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



Supportive consumers, reluctant entrepreneurs

Private consumption, the traditional growth driver of the French economy, is expected to gradually pick up over the forecast horizon, as real wages grow, helped by a slight increase in employment, low inflation and tax cuts for low income households. However, as households are not expected to dip significantly into their savings, the contribution of private consumption to GDP growth would remain limited.

Despite favourable credit conditions and the recent clarification of the government's economic strategy, business confidence will likely remain weak due to low production expectations. The tax credit for competitiveness and employment (CICE) and additional cuts in social security contributions planned under the Responsibility and Solidarity Pact will improve firm's profit margins, but the positive effect on investment will only materialise with a lag, from 2016 onwards.

Little improvement in export performance

Although exports are projected to accelerate from 2015, reflecting the expected rebound in world demand and some positive impact of the recent euro depreciation, French firms are unlikely to benefit fully from these opportunities. Indeed, competitiveness-enhancing reforms undertaken so far are expected to only reduce the pace of losses in export market shares in the medium term, but not reverse them. As a result, net trade is expected to weigh on GDP growth in 2016, as the expected pick-up in domestic demand causes imports to rise.

Weak labour market conditions, low inflation

In spite of subdued growth, employment is expected to increase slightly, supported in the near term by subsidised job schemes, particularly in the public sector. Over the whole forecast period, job creation in the private sector should be increasingly sustained by the enhanced flexibility stemming from the 2013 labour market reform and the labour cost reductions of the CICE and the Responsibility and Solidarity Pact. However, these improvements in the labour market will not be sufficient to absorb the trend increase in the labour force, so unemployment will remain high.

Falling energy prices and weak activity have offset the impact on prices of the VAT reshuffling introduced in January 2014. Inflation is only set to rise marginally over the forecast horizon, reaching 1.1% in 2016 on the back of inflationary pressures generated by the recent euro depreciation and a gradual closure of the output gap.

Risks tilted to the downside

A further drop in economic confidence could postpone the expected pick-up in private consumption and in investment and act as a drag on France's already fragile recovery. On the other hand, a more forceful implementation of structural reforms could boost further activity.

Government deficit to continue rising

The general government deficit in 2013 stood at 4.1% of GDP, 0.2 pp. below the level notified in spring. However, the headline deficit is expected to increase to 4.4% of GDP in 2014, compared to 3.9% in the spring forecast, notably on the back of downward revisions in nominal growth.

Current public revenue growth is expected to slow to 1.8% this year, despite significant measures including a reshuffling of VAT rates and a doubling of the exceptional corporate income tax paid by large companies. This is notably due to low inflation, which is set to weigh on tax bases and revenues. On the expenditure side, savings are expected from the continuation of a public sector wage freeze, the impact of pension reforms, and lower expenditure at the local level in line with the electoral cycle. These savings, however, are outweighed by the expansion of the CICE, which under ESA 2010 rules will cost the state EUR 10.8 billion (0.5% of GDP). Excluding the impact of tax credits, public expenditures are expected to increase by only 1.4%.

The government balance is expected to continue deteriorating in 2015 to 4.5% of GDP. This is largely due to still modest GDP growth and to discretionary measures, such as a further increase in the cost of the CICE, measures to lower the cost of labour, and reductions in the personal income tax for low income households. The government has announced that expenditure savings of EUR 21 billion (1.0% of GDP) would be implemented in 2015. However, some of these measures, representing close to EUR 2 billion, remain insufficiently specified to be incorporated into the forecast. The additional package complementing the draft budget for 2015, announced late October, was also not included in the forecast due to a lack of details on the measures at the cut-off date.

Overall, the structural balance is expected to improve in 2014, and to stabilise in 2015. Under a no-policy-change assumption, the deficit in 2016 is set to hit 4.7% of GDP as discretionary measures for that year remain mostly unspecified.

The increase in the headline deficit and the low nominal GDP growth are expected to lead to a continuous increase in the government debt ratio to 99.8% of GDP in 2016.

Table II.10.1:

Main features of country forecast - FRANCE

		2013		Annual percentage change						
	bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		2113.7	100.0	1.8	2.1	0.3	0.3	**0.3**	**0.7**	**1.5**
Private Consumption		1169.9	55.3	2.1	0.5	-0.4	0.2	**0.2**	**1.1**	**1.4**
Public Consumption		509.9	24.1	1.4	1.0	1.7	2.0	**1.4**	**0.9**	**1.3**
Gross fixed capital formation		466.9	22.1	2.2	2.1	0.3	-1.0	**-2.1**	**-1.2**	**3.5**
of which: equipment		100.4	4.7	2.8	1.4	0.9	-1.4	**-0.5**	**0.0**	**4.8**
Exports (goods and services)		597.8	28.3	4.3	6.9	1.1	2.2	**2.3**	**3.9**	**5.3**
Imports (goods and services)		629.1	29.8	5.0	6.3	-1.3	1.7	**2.7**	**3.4**	**5.9**
GNI (GDP deflator)		2150.4	101.7	1.9	2.3	-0.4	0.5	**0.3**	**0.7**	**1.5**
Contribution to GDP growth:	Domestic demand			1.9	1.0	0.3	0.4	**-0.1**	**0.5**	**1.8**
	Inventories			0.0	1.1	-0.6	-0.2	**0.5**	**0.1**	**0.0**
	Net exports			-0.1	0.0	0.7	0.1	**-0.2**	**0.1**	**-0.2**
Employment				0.7	0.5	-0.1	-0.2	**0.1**	**0.3**	**0.6**
Unemployment rate (a)				9.7	9.2	9.8	10.3	**10.4**	**10.4**	**10.2**
Compensation of employees / f.t.e.				2.5	2.5	2.3	1.6	**1.4**	**0.9**	**1.0**
Unit labour costs whole economy				1.5	0.9	1.8	1.1	**1.2**	**0.4**	**0.1**
Real unit labour cost				0.0	-0.1	0.6	0.3	**0.5**	**-0.4**	**-1.2**
Saving rate of households (b)				15.1	15.2	14.9	14.7	**15.3**	**15.2**	**15.2**
GDP deflator				1.5	0.9	1.2	0.8	**0.7**	**0.8**	**1.3**
Harmonised index of consumer prices				1.7	2.3	2.2	1.0	**0.6**	**0.7**	**1.1**
Terms of trade goods				-0.1	-2.8	-0.4	1.5	**0.8**	**-0.1**	**0.1**
Trade balance (goods) (c)				0.0	-2.9	-2.4	-1.9	**-1.9**	**-1.9**	**-2.1**
Current-account balance (c)				0.5	-2.2	-2.5	-2.0	**-1.9**	**-1.9**	**-2.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				0.5	-2.2	-2.7	-2.0	**-1.9**	**-1.7**	**-1.9**
General government balance (c)				-3.4	-5.1	-4.9	-4.1	**-4.4**	**-4.5**	**-4.7**
Cyclically-adjusted budget balance (c)				-3.8	-4.9	-4.2	-3.1	**-3.1**	**-3.0**	**-3.5**
Structural budget balance (c)				-	-5.0	-4.3	-3.3	**-3.0**	**-2.9**	**-3.4**
General government gross debt (c)				64.1	85.0	89.2	92.2	**95.5**	**98.1**	**99.8**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

11. CROATIA

Still mired in recession with significant fiscal challenges

After six years in recession, Croatia is expected to have only marginally positive growth in 2015, thanks to a positive contribution of external demand, while a rebound in investment should spur growth in 2016. After almost zero inflation this year, prices should increase again in 2015 and 2016. Growth risks remain predominantly negative as a result of uncertainty regarding the effectiveness of the ongoing structural reforms and the continuing need for fiscal consolidation and private sector deleveraging.

2014 is set to be Croatia's sixth consecutive year of recession

In 2014 real GDP is forecast to contract by 0.7%, and unemployment to rise from 17.3% to 17.7%. Against a background of large accumulated external and internal imbalances in a context of weak business environment and labour market performance, all components of internal demand are set to detract from growth. External demand is expected to make a positive contribution, on account of a strong rebound in export of goods and to a lesser extent services following EU accession. However, the repatriation of earnings and the payment of the contribution to the EU budget are expected to keep the current account surplus at only 0.3% of GDP. HICP inflation is set to fall from 2.3% in 2013 to 0.2% in 2014, as a result of weak internal demand and falling import prices.

A pick-up in growth is only forecast for 2016

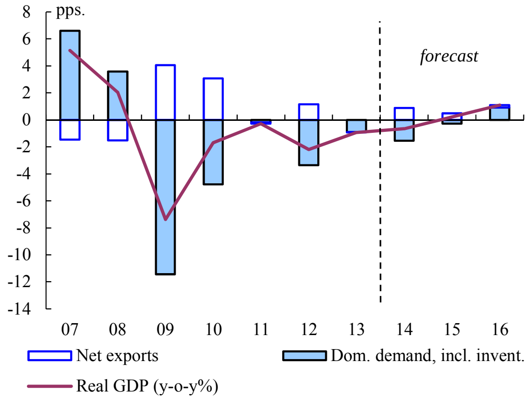
Real GDP growth in 2015 is forecast to be just above zero. The contraction in internal demand is set to abate, while the positive contribution of external demand is forecast to decrease. In 2016, a rebound in investment is expected to push growth more firmly into positive territory.

Compensation of employees (per head) is expected to decelerate to about 1.5% in both 2015 and 2016. The moderate rate of growth in compensation is driven by continuing employment losses in 2015 (-1%) and the fading effect of higher social security contribution introduced in early 2014. Employment growth is forecast to return to marginally positive in 2016. The unemployment rate is set to stagnate in 2015 at 17.7% as a decline in active population offsets lower employment, and to decline slightly to 17.3% in 2016 as the recovery becomes firmer.

Household consumption is set to contract further in 2015, reflecting the negative dynamics of households' disposable income, before recovering somewhat in 2016. Investment spending is also set to detract from growth in 2015, although a few delayed large-scale investment projects could start being implemented already in the second half of the year. Taking into account the necessary phasing-in, the bulk of the positive impact of EU structural and investments funds is expected to show up only in 2016.

Croatia's external sector is set to be the only driver of growth also in 2015. After the strong post-accession increase, exports of good are expected to rise at a lower but still robust pace 4.3%, while revenues from tourism are set to further rebound to 3.0%. The progressive improvement of the external environment and the recovery of trade links with older trading partners (following the entry into force of bilateral trade agreements between the EU and some CEFTA countries) are expected to further boost the export of goods and services in 2016. Despite a pick-up in imports, in line with the dynamics of final demand, the progressive turnaround in the balance of transfers from and to the EU is set to consolidate the current account surplus over the forecast horizon.

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



HICP inflation is forecast to reach 0.6% in 2015, on the back of higher import prices and increasing service prices, and to reach slightly above 1% as consumption picks up.

Risks to these growth projections are tilted to the downside due to domestic policy uncertainty, notably related to the fiscal consolidation process and delays in the ongoing structural reform process.

Revenue shortfalls and extraordinary expenditures hamper budget deficit reduction

At the cut-off date of this forecast, neither the supplementary 2014 budget nor the draft 2015 budget had been adopted by the government. Under the customary no-policy-change assumption, despite being announced in broad terms by authorities, the 2015 reform in personal income and deposit's interest taxation have not been included in the forecast, due to the lack of sufficient details on their implementation.

The general government deficit is forecast to stand at 5.6% of GDP in 2014 (compared to 5.2% of GDP in 2013), on the back of low VAT revenue collection, partly explained by the weak dynamics of the tax base. Expenditure appears to be evolving mostly in line with the authorities' plans, but additional outlays from flood-related reconstruction costs are materialising in the second half of 2014. In the absence of further measures, the budget deficit is set to narrow marginally to 5.5% of GDP in 2015 and remain around the same level in 2016, in spite of the forecast moderate pick in growth. The structural deficit is expected to reach some 3.9% of GDP in 2014, and to deteriorate in 2015 and 2016.

Croatia's debt profile has been strongly affected by the inclusion under the new accounting rules of two major state-owned enterprises, which have increased the debt-to-GDP ratio in the period 2008-2013 on average by 7.8 pps. The general government debt is expected to increase from 75.7% of GDP in 2013 to 81.7% of GDP in 2014, mainly as result of the widening budget deficit and also reflecting a pre-financing operation planned before the end of the year. In 2015 and 2016 the debt-to-GDP ratio is expected to increase to 84.9% and 89.0% of GDP as a result of the underlying deficit trends.

Negative fiscal risks are still present, including from the accumulation of arrears in the health sector and possible additional expenditure slippages in some other sectors, such as education or transport.

Table II.11.1:

Main features of country forecast - CROATIA

	2013		Annual percentage change						
	bn HRK Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	330.1	100.0	-	-0.3	-2.2	-0.9	**-0.7**	**0.2**	**1.1**
Private Consumption	200.2	60.6	-	0.3	-3.0	-1.2	**-0.4**	**-0.2**	**0.6**
Public Consumption	66.1	20.0	-	-0.3	-1.0	0.5	**-2.5**	**-0.5**	**0.6**
Gross fixed capital formation	63.7	19.3	-	-2.7	-3.3	-1.0	**-4.1**	**-0.1**	**2.5**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	141.8	42.9	-	2.2	-0.1	3.0	**5.4**	**3.6**	**4.8**
Imports (goods and services)	140.2	42.5	-	2.5	-3.0	3.2	**3.4**	**2.6**	**4.5**
GNI (GDP deflator)	321.8	97.5	-	-0.2	-2.4	-0.5	**-1.1**	**0.6**	**1.1**
Contribution to GDP growth: Domestic demand			-	-0.4	-2.7	-0.8	**-1.6**	**-0.2**	**0.9**
Inventories			-	0.3	-0.7	-0.1	**0.0**	**0.0**	**0.0**
Net exports			-	-0.1	1.2	0.0	**0.9**	**0.5**	**0.2**
Employment			-	-2.3	-3.9	-1.0	**-1.4**	**-0.5**	**0.5**
Unemployment rate (a)			-	13.9	16.1	17.3	**17.7**	**17.7**	**17.3**
Compensation of employees / head			-	1.8	1.3	1.5	**1.8**	**1.4**	**1.5**
Unit labour costs whole economy			-	-0.3	-0.5	1.5	**1.1**	**0.7**	**0.9**
Real unit labour cost			-	-1.9	-2.0	0.6	**0.5**	**0.0**	**0.2**
Saving rate of households (b)			-	9.3	10.6	9.4	**9.4**	**9.4**	**9.4**
GDP deflator			-	1.7	1.6	0.9	**0.5**	**0.6**	**0.7**
Harmonised index of consumer prices			3.4	2.2	3.4	2.3	**0.2**	**0.6**	**1.1**
Terms of trade goods			-	4.3	-0.4	-1.5	**-0.3**	**-0.2**	**-1.0**
Trade balance (goods) (c)			-19.2	-14.3	-14.3	-15.1	**-15.0**	**-15.4**	**-16.3**
Current-account balance (c)			-4.7	-0.6	0.1	0.4	**0.3**	**1.6**	**1.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.7	-0.6	0.1	0.4	**0.2**	**1.8**	**2.4**
General government balance (c)			-	-7.7	-5.6	-5.2	**-5.6**	**-5.5**	**-5.6**
Cyclically-adjusted budget balance (c)			-	-7.1	-4.4	-3.8	**-4.0**	**-4.1**	**-4.7**
Structural budget balance (c)			-	-7.1	-4.4	-3.6	**-3.9**	**-4.1**	**-4.7**
General government gross debt (c)			-	59.9	64.4	75.7	**81.7**	**84.9**	**89.0**

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

12. ITALY

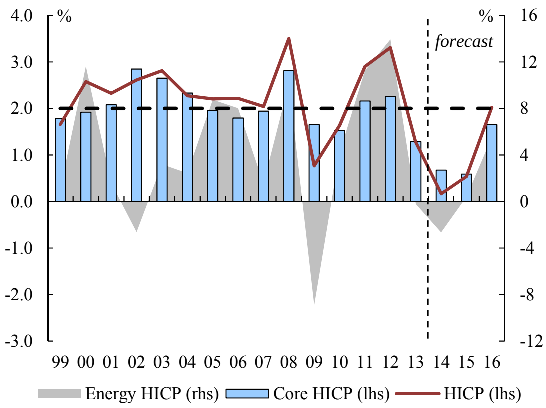
Improving external demand to drive a tepid recovery

After a further contraction of economic output in 2014, accelerating external demand is expected to drive a fragile recovery in 2015. Inflation is set to remain low but slightly positive in 2015 fuelled by higher import prices. The government deficit is projected at 3% of GDP in 2014 and to decrease to 2.7% in 2015, with a broadly unchanged structural position over the two years.

Real GDP continues to contract in 2014 and recovers only mildly afterwards

In the first half of 2014, real GDP continued to decline on a yearly basis. As global trade lost momentum, Italy's exports did not trigger the anticipated recovery in equipment investment. Moreover, constructions contracted further due to persistently tight financing conditions. By contrast, private consumption has been slowly recovering since mid-2013, also thanks to a halt in labour shedding. Still, the recent softening in confidence suggests that economic activity remains weak in the second half of the year. As a result, real GDP is forecast to decline by 0.4% in 2014.

Graph II.12.1: **Italy HICP inflation and components**



The completion of the ECB's comprehensive assessment is expected to reduce uncertainty in financial markets and help restart the flow of credit to the economy in 2015. Still, the revival of both supply and demand of corporate credit will ultimately be driven by economic recovery expectations. This forecast expects a mild recovery to start in 2015 and strengthen in 2016, driven by improving external demand and a lower exchange rate. Higher exports are set to boost equipment investment while construction is expected to recover only at a later stage. Consumption is expected to benefit from the income support measures in the draft budget. As domestic demand recovers, imports are forecast to rise but at a slower pace than exports, letting the current-account surplus continue increasing.

Downside risks to the real GDP forecast are related to further delays in the external demand revival. In addition, higher real interest rates would increase deleveraging pressures on the corporate and public sectors, in turn weighing on investment. On the positive side, growth prospects could benefit from a successful implementation of the reform process.

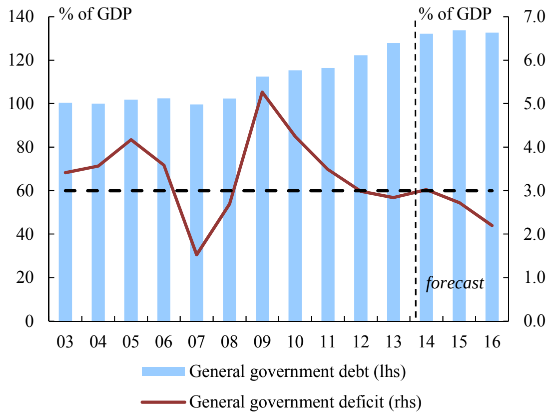
Depressed activity is reflected in historically high levels of unemployment and low inflation

A recovery in per capita hours worked is forecast to precede the uptake in headcount employment, given the recorded large decrease in hours worked in recent years. The anticipated mild headcount employment gains combined with slowly increasing labour force participation result in unemployment rates remaining at historically high levels, with possible hysteresis effects. Labour cost pressure is forecast to abate due to persistently high unemployment and low inflation expectations, but also thanks to the labour tax cuts included in the draft budget. This, together with some improvement in labour productivity, results in decelerating unit labour costs. Yearly HICP inflation turned negative in the third quarter of 2014 driven by declining energy prices but also weak aggregate demand. Further low readings are expected in the final months of the year as oil prices continue falling. In 2015, higher import prices and some recovery in consumption are forecast to sustain the rise in prices. In 2016, the no-policy change forecast incorporates the hike in VAT rates that is enshrined in the draft budget law to safeguard the achievement of the fiscal targets. This measure may still be replaced by others of an equivalent budgetary impact.

The government deficit at 3% of GDP in 2014

The government deficit is forecast to increase to 3% of GDP in 2014. A 0.1 pp. of GDP decline in interest expenditure resulting from lower yields only partially offsets the expected erosion of the primary surplus. Primary expenditure is projected to increase in nominal terms by 1% year-on-year, also driven by support measures to low-wage employees, while the recognition of sizeable tax credits of banks related to past losses (Deferred Tax Assets) weighs on capital expenditure. Revenues are expected to increase marginally relative to 2013, thanks to higher intakes from VAT and property taxation that compensate for a fall in corporate income taxes. In 2015, after incorporating the draft budget and the additional measures announced on 27 October, the deficit is projected at 2.7% of GDP, again supported by declining interest expenditure. In nominal terms, primary expenditure is set to rise slightly. The planned expenditure savings affect both capital and current expenditure, but the latter is set to increase mainly driven by the confirmation of the income support measure and the extended coverage of unemployment benefits, while public wages remain frozen. Despite a further cut to the labour tax wedge, tax revenues are set to increase mainly due to a recovery in corporate income taxes and higher withholding taxes on financial income. In 2016, under the no-policy change assumption, the deficit is forecast to narrow to 2.2% of GDP. The VAT hike is set to contribute to the expected rise in the primary balance. The structural balance is set to broadly stabilise in 2014 and 2015.

Graph II.12.2: **Italy - Public finances**



The 2013 debt-to-GDP ratio has been revised downward by 4.7 pps., to 127.9%, due to the switch to ESA2010. The expected primary surplus is still insufficient to curb the growth of the debt ratio in 2014, due to flat nominal growth and the settlement of trade debt arrears. The debt ratio is set to peak in 2015, despite privatisation proceeds of 0.5% of GDP, and decline in 2016 thanks to the higher nominal growth and primary surplus.

Table II.12.1:

Main features of country forecast - ITALY

	2013			Annual percentage change					
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	1618.9	100.0	1.0	0.6	-2.3	-1.9	**-0.4**	**0.6**	**1.1**
Private Consumption	979.4	60.5	1.2	0.0	-4.0	-2.8	**0.2**	**0.4**	**0.0**
Public Consumption	314.8	19.4	0.9	-1.8	-1.5	-0.7	**-0.9**	**-0.3**	**0.9**
Gross fixed capital formation	288.6	17.8	1.6	-1.9	-7.4	-5.4	**-2.5**	**1.4**	**3.1**
of which: equipment	93.8	5.8	2.4	0.2	-11.3	-4.8	**-2.1**	**2.7**	**5.4**
Exports (goods and services)	462.3	28.6	2.6	5.2	2.0	0.6	**1.5**	**3.4**	**4.2**
Imports (goods and services)	425.4	26.3	3.8	0.5	-8.0	-2.7	**1.3**	**2.7**	**3.5**
GNI (GDP deflator)	1616.1	99.8	1.1	0.5	-2.2	-1.9	**-0.3**	**0.6**	**1.1**
Contribution to GDP growth: Domestic demand			1.2	-0.8	-4.2	-2.9	**-0.5**	**0.4**	**0.7**
Inventories			0.0	0.2	-0.9	0.0	**0.1**	**0.0**	**0.1**
Net exports			-0.2	1.2	2.8	0.9	**0.1**	**0.3**	**0.3**
Employment			0.4	0.1	-0.9	-1.7	**-0.4**	**0.2**	**0.6**
Unemployment rate (a)			9.0	8.4	10.7	12.2	**12.6**	**12.6**	**12.4**
Compensation of employees / f.t.e.			3.1	1.1	0.9	1.2	**0.8**	**0.6**	**1.0**
Unit labour costs whole economy			2.5	0.7	2.3	1.4	**0.8**	**0.2**	**0.5**
Real unit labour cost			-0.1	-0.8	0.6	0.0	**0.4**	**-0.3**	**-1.0**
Saving rate of households (b)			15.1	10.6	10.4	11.7	**11.8**	**12.3**	**12.6**
GDP deflator			2.6	1.5	1.6	1.4	**0.4**	**0.5**	**1.5**
Harmonised index of consumer prices			2.5	2.9	3.3	1.3	**0.2**	**0.5**	**2.0**
Terms of trade goods			-0.3	-3.4	-1.4	2.0	**2.2**	**-0.3**	**-0.1**
Trade balance (goods) (c)			1.1	-1.1	1.0	2.3	**2.8**	**3.0**	**3.2**
Current-account balance (c)			-0.3	-3.1	-0.5	1.0	**1.5**	**1.5**	**1.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.2	-3.0	-0.2	1.0	**1.6**	**1.7**	**1.9**
General government balance (c)			-3.6	-3.5	-3.0	-2.8	**-3.0**	**-2.7**	**-2.2**
Cyclically-adjusted budget balance (c)			-3.8	-2.6	-1.5	-0.6	**-0.6**	**-0.9**	**-1.1**
Structural budget balance (c)			-	-3.3	-1.6	-0.8	**-0.9**	**-0.8**	**-1.0**
General government gross debt (c)			107.1	116.4	122.2	127.9	**132.2**	**133.8**	**132.7**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

13. CYPRUS

Adjustment continues as the economy nears a trough

The recession in Cyprus has been milder than anticipated this year and a modest economic recovery is expected to begin in 2015 and strengthen in 2016. Public finances are forecast to improve significantly, as a result of the government's efforts and the improvement in the economy. Reflecting weak domestic cost pressure, inflation will be close to zero in 2014, but should increase gradually.

Recession continued in the first half of 2014, but milder than anticipated…

Economic activity continued to decline in the first half of 2014, falling by 3.0% compared to the first half of last year. Although significant, the contraction has proved milder than anticipated in the Spring forecast, as all demand components exceeded expectations (except for public consumption). That said, increasingly high unemployment, wage cuts, and tight credit conditions continued to weigh on domestic demand. Import contraction decelerated in the first half of 2014 (partly related to large import of transport equipment) and net trade contributed negatively to growth.

After a sharp decline at the beginning this year due to subdued domestic cost pressures and falling wages, HICP inflation returned to positive territory in the second half of the year, mainly due to increasing prices of goods and services consumed by tourists. The labour market is showing signs of stabilisation. Unemployment dropped below 16% in the first half of 2014, although this is partly because of a contraction of the labour force.

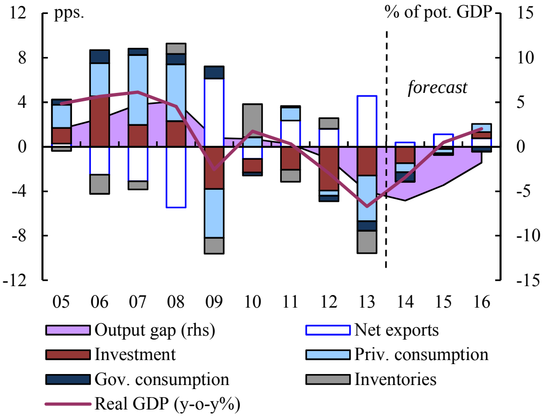
…the contraction is expected to further moderate in the second half of 2014…

Modest improvement in business and consumer confidence indicators and most available hard indicators, such as tourist arrivals and retail sales, suggest that the contraction in the second half of 2014 will be smaller than in the first part of the year. While domestic demand is expected to decline further, a positive contribution to growth is expected from net trade. As a result, real GDP is forecast to contract by 2.8% for 2014 as a whole, substantially less than previously anticipated. Unemployment is expected to average 16.2% for 2014 as a whole, following a further increase in the second half of 2014. Moderate inflation in the second half of 2014 should offset the sharp decline in the first half, leaving HICP inflation close to zero for 2014 as a whole.

…leading to a modest recovery in 2015.

In 2015 and 2016, the economy is expected to gradually regain momentum, mainly driven by net export. Private consumption will remain subdued, reflecting weak wage growth and deleveraging from indebted borrowers. While the restoration of a sound and well-capitalised banking sector should gradually remove impediments to growth and allow for a gradual easing of the tight credit conditions, recovery is initially expected to remain largely credit-less and led by less leveraged sectors such as professional business services, and sectors with more solid turnover, such as tourism. Supported by improved competitiveness and a gradual increase in global demand, export growth is expected to be relatively strong and to become the main driver of growth in 2015-2016. In line with the expected recovery, unemployment should gradually decline, while HICP inflation is forecast to increase modestly.

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



Downside risks prevail

Risks are tilted to the downside. On the domestic front, a more protracted period of tight credit conditions, as well as a deeper and more prolonged period of deleveraging, could weigh on domestic demand. On the external front, sanctions against Russia could hurt growth to a larger extent than expected, both through the depreciation of the

Russian rouble and through possible disruptions in the flow of tourists.

Strong fiscal adjustment continues

In 2014, the general government headline and primary balance are projected to improve sharply by about 2% of GDP, despite the on-going recession. Revenue is expected to increase compared to 2013, driven by consolidation measures particularly on social contributions and taxes on production and imports, high dividends from the Central Bank of Cyprus and improved tax collection. Together, these factors should more than offset the negative impact of slowing economic activity on the collection of taxes on income and wealth. Total expenditure is expected to remain on a decreasing path, despite an adverse impact due to called government guarantees. This largely reflects tight expenditure control, measures under Cyprus' economic adjustment programme to reduce the public sector wage bill, and a moderation of early retirements in the public sector, which reduced the cost of lump-sum pension payments.

The general government deficit is expected to stabilise in 2015 and to decrease significantly in 2016, as better economic conditions should have a positive impact on revenues. Further consolidation efforts needed under the economic adjustment programme should support these developments. The projections include dividend income from the Central Bank of Cyprus (CBC) expected to amount to about 0.6% of GDP in both 2015 and 2016, to be distributed in line with the CBC's duties under the Treaties (on the European Union and the Functioning of the European Union) and the ESCB and ECB Statute.

Cyprus' debt-to-GDP ratio is expected to peak in 2015 at about 115% and to decline afterwards, supported by the economic recovery and the fiscal performance. Compared to the previous forecast, the debt-to-GDP ratio is positively affected by the upward revision of nominal GDP by about 10% due to the transition to ESA2010 and other statistical benchmark revisions.

Table II.13.1:

Main features of country forecast - CYPRUS

	2013			Annual percentage change					
mio EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	18118.9	100.0	3.7	0.3	-2.4	-5.4	**-2.8**	**0.4**	**1.6**
Private Consumption	12312.5	68.0	5.2	1.8	-0.7	-6.0	**-1.2**	**-0.5**	**1.1**
Public Consumption	3160.2	17.4	4.0	0.7	-2.7	-4.9	**-4.7**	**-0.9**	**-2.5**
Gross fixed capital formation	2432.0	13.4	2.3	-9.4	-20.7	-17.1	**-11.1**	**-1.6**	**4.5**
of which: equipment	784.9	4.3	1.5	-16.4	-26.1	-10.8	**-1.5**	**2.5**	**4.4**
Exports (goods and services)	9209.9	50.8	2.4	4.2	-1.7	-5.0	**0.3**	**2.0**	**2.6**
Imports (goods and services)	8759.7	48.3	3.1	-0.6	-4.6	-13.6	**-0.5**	**-0.1**	**1.3**
GNI (GDP deflator)	17563.4	96.9	3.8	5.5	-6.3	-5.7	**-2.4**	**0.0**	**1.5**
Contribution to GDP growth: Domestic demand			4.3	-1.0	-4.9	-7.9	**-3.1**	**-0.7**	**0.9**
Inventories			-0.2	-1.1	1.0	-2.0	**0.0**	**0.0**	**0.0**
Net exports			-0.4	2.3	1.6	4.5	**0.4**	**1.1**	**0.8**
Employment			-	0.5	-4.2	-5.2	**-1.8**	**0.2**	**1.3**
Unemployment rate (a)			4.1	7.9	11.9	15.9	**16.2**	**15.8**	**14.8**
Compensation of employees / head			-	2.5	-0.8	-6.0	**-4.6**	**0.2**	**1.2**
Unit labour costs whole economy			-	2.7	-2.6	-5.9	**-3.7**	**0.0**	**0.9**
Real unit labour cost			-	0.7	-4.6	-4.6	**-2.0**	**-0.8**	**-0.5**
Saving rate of households (b)			11.2	11.5	7.2	3.7	**2.9**	**1.8**	**2.3**
GDP deflator			2.7	2.0	2.0	-1.4	**-1.7**	**0.8**	**1.3**
Harmonised index of consumer prices			-	3.5	3.1	0.4	**-0.2**	**0.7**	**1.2**
Terms of trade of goods			-	-1.5	-1.3	0.7	**-0.9**	**-0.3**	**0.0**
Trade balance (goods) (c)			-25.3	-23.2	-20.8	-17.7	**-18.8**	**-18.6**	**-18.5**
Current-account balance (c)			-5.3	-3.0	-5.5	-1.3	**-1.2**	**-0.6**	**0.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.2	-2.8	-5.4	0.0	**-2.1**	**-1.2**	**-0.6**
General government balance (c)			-2.8	-5.8	-5.8	-4.9	**-3.0**	**-3.0**	**-1.4**
Cyclically-adjusted budget balance (c)			-	-5.9	-5.1	-2.3	**0.2**	**-0.8**	**-0.5**
Structural budget balance (c)			-	-5.7	-5.5	-2.1	**-0.8**	**-1.3**	**-1.0**
General government gross debt (c)			55.8	66.0	79.5	102.2	**107.5**	**115.2**	**111.6**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

14. LATVIA

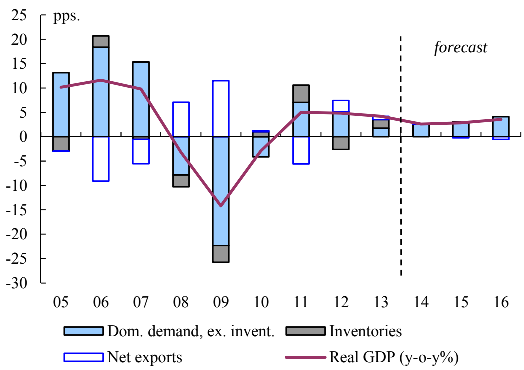
Economic growth buffeted by external turmoil

Economic growth in Latvia this year is slowing down, as developments between Russia and Ukraine have hurt business and consumer confidence. Slower growth will weaken the country's fiscal position somewhat in 2014, but growth is forecast to pick up again in 2015 and 2016, although the economy will remain highly sensitive to external risks.

Growth outlook weakens

Economic growth slowed to 2.5% y-o-y in the first half of 2014 from 4.2% in 2013 reflecting the negative fallout from the conflict between Russia and Ukraine that has offset an initial positive momentum from the euro adoption. Retail trade statistics point to some rebound in the third quarter of 2014 but the short-term growth outlook remains adversely affected by external risks and deteriorating business expectations. Growth is therefore projected to be relatively weak at 2.6% in 2014 and 2.9% in 2015 as compared to 3.8% and 4.1% in the spring forecast. In 2016, growth is forecast to reach 3.6%, as the negative impact of geopolitical tensions is expected to peter out. The growth pattern is, however, highly sensitive to external developments, where the risks are tilted to the downside.

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



Confidence effects curb demand

Although the cycle of sanctions and countersanctions with Russia has so far had little direct impact on Latvian exporters, the indirect impact through business and consumer confidence has been substantial, effecting all demand components. On the supply side, construction was the main growth driver in the first half of 2014, while the industrial sector was in a standstill, due mainly to suspended production in some metal processing companies, including the country's largest steelmaker Liepajas Metalurgs. Possible resumption of production at Liepajas Metalurgs towards the end of 2014 represents a positive risk to the growth forecast for 2015, although the impact would be mostly on export and import volumes and to a much lesser extent on value-added growth.

Unemployment continues its decline

Unemployment fell to an average of 11.3% in the first half of 2014 from 12.2% a year earlier. Employment grew only marginally for the same period amid further contraction in the labour force due to population ageing and emigration. The annual average unemployment rate is projected to drop steadily to around 9% in 2016 amid some increase in job creation. There are also signs of structural improvements on the labour market, as the share of long-term unemployed (one year or more) dropped to around 40% in the first half of 2014 from just over 50% a year earlier. Wages increased by 7% over the same period, pushed by a 12% hike in the minimum wage at the beginning of 2014, posing some risks to labour cost competitiveness in the context of an unstable external environment.

Commodity markets contain inflation

Low energy and food prices have kept consumer price inflation (HICP) below expectations so far this year, while services performed in line with the spring forecast. The Russian food embargo is expected to maintain some downward pressure on the Baltic market for a while. Nevertheless, Latvia's inflation is forecast to rebound from 0.8% in 2014 to 1.8% in 2015 due to the forthcoming deregulation of household electricity prices at the beginning of 2015. A further upturn in consumer prices is forecast for 2016 when economic growth is expected to pick up. Non-tradable items, in particular services, are forecast to keep Latvia's inflation above the EU average as incomes are also forecast to rise at a higher rate.

Public finances face headwinds

The general government deficit is estimated at 1.1% of GDP in 2014. Tax revenue was broadly as planned for the first three quarters of the year, but some softening is expected towards the end of this year. Overall expenditure is under control, while higher capital and social spending is offset by lower spending in other areas, including on interest expenditure.

Following elections in October, the new government will present the budget for 2015 later than usual in the year and an updated Draft Budgetary Plan will be submitted to the Commission. Under a no-policy-change assumption, the general government deficit is projected at 1.2% of GDP in 2015 and declining to 0.9% of GDP in 2016. The tax revenue to GDP ratio is set to decrease as the personal income tax rate will be reduced from 24% in 2014 to 23% in 2015 and 22% in 2016. In addition, the share of social security contributions diverted to private pension funds will increase from 4% in 2014 to 5% in 2015 and then to 6% in 2016. A decline in non-tax revenues is related to lower dividend payments from state-owned enterprises as a higher share of profits will be retained for business investment. On the expenditure side, pension indexation, increasing family benefits per child and electricity cost assistance to vulnerable households will all contribute to an increase in social benefits. Public sector wage increases are expected to match those in the private sector in view of the government's initiative to reduce the pay gap especially for skilled specialists. However, the increase in the public sector pay bill is expected to be restrained by more streamlined public services, also in view of the declining population. Latvia's structural deficit is forecast to deteriorate from 1% of GDP in 2013 to 1.5% in 2014 and 1.6% in 2015, due to both the widening of the positive output gap and the weakening of the nominal fiscal position.

The gross government debt level is projected to reach 40% of GDP by the end of 2014, including reserves accumulated for a large repayment of EU financial support due in 2015. Following this repayment, Latvia's debt should decline over the following years, helped by GDP growth which should outpace the government's net borrowing.

Table II.14.1:

Main features of country forecast - LATVIA

	2013			Annual percentage change						
mio EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	23221.9	100.0	4.0	5.0	4.8	4.2	**2.6**	**2.9**	**3.6**
Private Consumption	14375.8	61.9	-	2.9	3.0	6.2	**3.6**	**4.0**	**4.5**
Public Consumption	3776.3	16.3	-	3.1	0.4	-4.2	**1.2**	**1.0**	**1.0**
Gross fixed capital formation	5401.1	23.3	-	24.2	14.5	-5.2	**0.5**	**1.9**	**5.0**
of which: equipment	1873.7	8.1	-	45.5	12.0	-16.9	**-**	**-**	**-**
Exports (goods and services)	13799.9	59.4	-	12.0	9.8	1.5	**1.5**	**3.3**	**4.8**
Imports (goods and services)	14536.4	62.6	-	22.0	5.4	0.3	**1.4**	**3.5**	**5.4**
GNI (GDP deflator)	23138.6	99.6	4.1	3.7	4.2	4.5	**2.4**	**2.7**	**3.5**
Contribution to GDP growth: Domestic demand			-	7.1	5.2	1.7	**2.5**	**3.1**	**4.1**
Inventories			-	3.5	-2.6	1.8	**0.0**	**0.0**	**0.0**
Net exports			-	-5.6	2.3	0.7	**0.1**	**-0.2**	**-0.5**
Employment			-1.5	1.5	1.4	2.3	**0.3**	**0.5**	**1.1**
Unemployment rate (a)			13.4	16.2	15.0	11.9	**11.0**	**10.2**	**9.2**
Compensation of employees / head			11.2	3.7	6.1	9.4	**6.2**	**4.6**	**5.0**
Unit labour costs whole economy			5.3	0.2	2.7	7.3	**3.8**	**2.2**	**2.5**
Real unit labour cost			-1.1	-5.8	-0.9	6.2	**2.2**	**0.1**	**-0.1**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			6.5	6.4	3.6	1.1	**1.6**	**2.2**	**2.6**
Harmonised index of consumer prices			-	4.2	2.3	0.0	**0.8**	**1.8**	**2.5**
Terms of trade of goods			-	5.8	-3.7	1.3	**-0.2**	**0.0**	**0.0**
Trade balance (goods) (c)			-17.2	-12.4	-12.0	-10.9	**-10.5**	**-10.6**	**-10.9**
Current-account balance (c)			-8.5	-3.1	-3.5	-2.2	**-2.2**	**-2.3**	**-2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.7	-1.0	-0.5	0.2	**0.3**	**0.1**	**-0.3**
General government balance (c)			-2.3	-3.4	-0.8	-0.9	**-1.1**	**-1.2**	**-0.9**
Cyclically-adjusted budget balance (c)			-	-1.1	-0.1	-1.0	**-1.5**	**-1.6**	**-1.5**
Structural budget balance (c)			-	-1.1	-0.1	-1.0	**-1.5**	**-1.6**	**-1.5**
General government gross debt (c)			16.2	42.7	40.9	38.2	**40.3**	**36.3**	**35.1**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

15. LITHUANIA

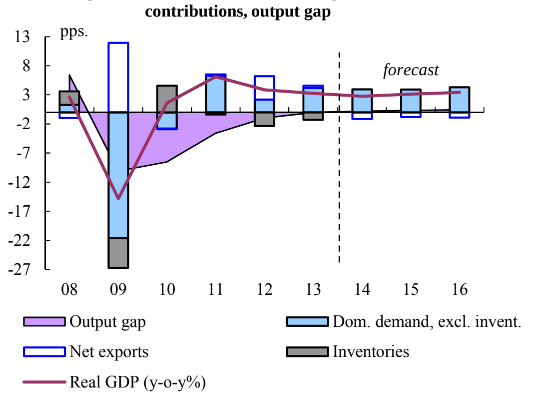
Headwind from the east slows down economic growth

Domestic demand is set to sustain robust growth in Lithuania, but Russian sanctions are expected to crimp exports and dampen consumer and investor sentiment, resulting in lower growth. Unemployment is forecast to decline, while inflation is set to remain low.

Domestic demand boosted growth in 2014, but sanctions are set to have a negative impact

In the first half of 2014, real GDP expanded by 3.1% compared to the same period last year, driven by strong domestic demand. In particular, private consumption picked up on the back of growing employment and real wages, in turn having a positive impact on private investment. However, geopolitical tensions stemming from the Russia-Ukraine events have dampened consumer and business sentiment as well as exports. As a consequence, real GDP growth is set to decrease in the second half of the year, resulting in an overall growth rate of 2.7% in 2014 as a whole.

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



Growth path remains intact in 2015 and 2016, but downside risks remain

Looking ahead, real GDP is forecast to grow by 3.1% in 2015 and 3.4% in 2016. Although geopolitical uncertainty will likely to dampen private consumption and investment in early 2015, this effect is expected to peter out over the year. Private consumption is set to remain the main growth engine over the forecast horizon as wage growth and low inflation are expected to support household disposable income. Private investment is expected to pick up in the second half of 2015 as companies' capacity utilisation is well above its historical peak and credit conditions are expected to improve, while EU co-financed projects will support public investment over the forecast horizon.

Net exports are expected to weigh on real GDP growth over the forecast horizon. In 2014, exports, already weak because of declines in the fertiliser and refined petroleum product industries, received a further setback due to sanctions imposed by Russia on agricultural products. In 2015 and 2016, however, exports are set to recover, but imports are forecast to accelerate as well due to robust domestic demand. The surplus of the current account is forecast to decline to 0.8% in 2014 before turning into a deficit in 2015 and deteriorating further in 2016.

The unemployment rate is set to continue declining, from 11.2% in 2014 to 9.5% in 2016. This improvement is forecast to support nominal wage and unit labour cost growth and sustain an increase in real disposable incomes over the forecast horizon.

Risks to the growth forecast are tilted to the downside. An escalation of the Russia-Ukraine crisis and a further economic slowdown in the EU could have a particularly dampening effect on economic growth by hurting exports and business sentiment and leading to higher energy prices.

Inflation surprised on the downside in 2014 but is set to pick up slightly in 2015 and 2016

HICP 12-month average rate of inflation slowed to 0.3% in September 2014, due to weak energy and food price developments. It is forecast to remain at this level until early 2015, when a slight pick-up is expected, also due to a small one-off effect from the euro changeover due to rounding effects and administrative costs at business level. Inflation in the service sector is likely to rise on the back of sustained wage growth, while energy and food inflation are set to remain subdued. Overall, HICP inflation is forecast to stand at 0.3% in 2014, 1.3% in 2015, and 1.9% in 2016.

Credit growth remains feeble

Private sector deposits have continued to grow robustly in 2014 but credit overall has remained flat despite a pick-up in mortgage lending and consumer credit. So far, most enterprises have been able to finance new investments with their own resources, while banks have focused on profitable and less risky projects. Towards the end of the forecast horizon, it is expected that credit demand will pick up and lending standards will ease as economic conditions become more favourable.

Fiscal consolidation is advancing

In 2014, the general government deficit is forecast to decrease to 1.2% of GDP, from 2.6% in 2013. Tax revenues look broadly in line with budget plan this year, while expenditure is set to be higher than expected in spring as a result of the law on pension compensation, which was enacted following a Constitutional Court ruling in 2012 and is expected to generate an increment in expenditure of 0.7% of GDP. At the same time, the deposit insurance fund has been reclassified as belonging to the general government sector under the ESA 2010 standards. This resulted in an upward revision of the general government deficit in 2013 due to payments to insured depositors following bankruptcies of credit institutions, while in 2014 the fund is set to contribute positively to the deficit, with an expected impact of 1.3% of GDP.

In 2015, the general government deficit is forecast to reach 1.4% of GDP. Tax revenues are set to improve on the back of continued economic growth. Although parliament has not yet approved the 2015 budget, it can be expected that defence spending and social spending will increase by 0.3 pp. and 0.2 pp. of GDP respectively.

Under a no-policy-change assumption, the general government deficit is set to reach 0.8% of GDP in 2016.

The structural deficit is estimated to decrease from 2.2% of GDP in 2013 to 1.8% in 2014. It is set fall further to 1.6% in 2015 and to 1.1% of GDP in 2016.

General government debt is expected to increase from 39.0% of GDP in 2013 to 41.3% in 2014 and 41.6% in 2015, due to pre-financing bond redemptions, and fall back to 41.3% in 2016.

Table II.15.1:

Main features of country forecast - LITHUANIA

	2013		Annual percentage change						
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	35.0	100.0	4.4	6.1	3.8	3.3	**2.7**	**3.1**	**3.4**
Private Consumption	22.0	62.8	-	4.6	3.6	4.2	**3.9**	**4.0**	**4.3**
Public Consumption	5.9	16.8	-	0.3	1.2	1.8	**2.3**	**1.9**	**2.3**
Gross fixed capital formation	6.4	18.2	6.9	19.4	-1.6	7.0	**6.2**	**5.8**	**6.1**
of which: equipment	2.1	6.1	-	38.1	-4.5	21.8	**4.0**	**7.2**	**8.0**
Exports (goods and services)	29.4	84.1	-	14.9	12.2	9.4	**-0.2**	**5.4**	**6.6**
Imports (goods and services)	29.0	82.8	-	14.2	6.6	9.0	**1.2**	**6.5**	**7.7**
GNI (GDP deflator)	34.0	97.3	-	4.2	4.5	3.6	**5.2**	**2.7**	**3.2**
Contribution to GDP growth: Domestic demand			-	6.3	2.2	4.2	**3.9**	**3.9**	**4.3**
Inventories			-	-0.4	-2.4	-1.3	**0.0**	**0.0**	**0.0**
Net exports			-	0.2	4.0	0.4	**-1.2**	**-0.8**	**-0.9**
Employment			-1.2	0.5	1.8	1.3	**0.6**	**1.2**	**1.3**
Unemployment rate (a)			11.0	15.4	13.4	11.8	**11.2**	**10.4**	**9.5**
Compensation of employees / head			13.1	6.3	4.2	5.0	**3.6**	**4.9**	**5.2**
Unit labour costs whole economy			7.0	0.7	2.2	3.0	**1.5**	**3.0**	**3.1**
Real unit labour cost			0.5	-4.2	-0.5	1.4	**0.6**	**1.4**	**0.9**
Saving rate of households (b)			2.6	4.2	0.9	-	**-**	**-**	**-**
GDP deflator			6.4	5.2	2.7	1.6	**0.8**	**1.6**	**2.1**
Harmonised index of consumer prices			-	4.1	3.2	1.2	**0.3**	**1.3**	**1.9**
Terms of trade goods			-	0.1	-0.4	1.9	**-0.2**	**-0.1**	**0.0**
Trade balance (goods) (c)			-10.7	-6.6	-3.3	-2.6	**-4.0**	**-4.8**	**-5.6**
Current-account balance (c)			-7.6	-3.7	-0.9	1.6	**0.8**	**-0.4**	**-1.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.7	-0.5	2.1	4.5	**4.4**	**2.0**	**0.7**
General government balance (c)			-	-9.0	-3.2	-2.6	**-1.2**	**-1.4**	**-0.8**
Cyclically-adjusted budget balance (c)			-	-7.5	-2.7	-2.6	**-1.2**	**-1.5**	**-1.0**
Structural budget balance (c)			-	-3.8	-2.8	-2.2	**-1.8**	**-1.6**	**-1.1**
General government gross debt (c)			-	37.3	39.9	39.0	**41.3**	**41.6**	**41.3**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

16. LUXEMBOURG

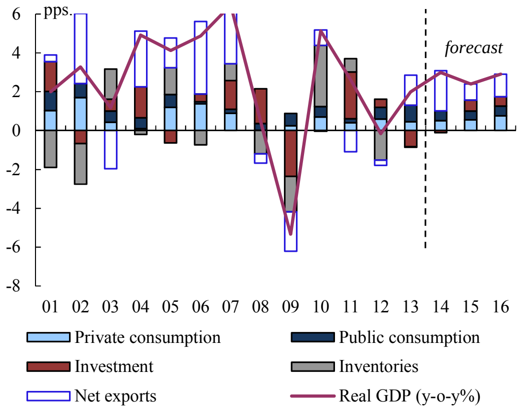
Sustained growth but slightly weaker public finances

Economic output in Luxembourg is projected to continue growing strongly this year but growth in the second half is expected to be lower, although job creation remains rather robust. Inflation is expected to rebound in 2015 because of a planned increase in VAT rates but public finances surplus turn into deficit, as windfall revenues that compensated for expenditure overruns in the past gradually fade away.

Growth continues to increase

Real GDP grew, in quarterly terms, by 1.7% and 0.7% in the first two quarters of the year, respectively, adding to the economic recovery that had already started in the second quarter of last year. This positive outcome was driven by strong domestic demand, notably investment, as well as net exports. However, the worsening of overall economic sentiment since May points to a less favourable outlook for the second half of the year. Overall, GDP is expected to grow by 3% in 2014. Meanwhile, job creation accelerated to 2.2% in the first half of the year, compared to 1.7% in the same period of 2013, a high rate but still insufficient to bring down unemployment given the sustained upward trend of active labour population.

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



Due to the general economic slowdown and to necessary adjustments in the financial sector in response to new regulatory financial standards, output expansion is estimated to slow to 2.4% in 2015, before accelerating again to 2.9% in 2016.

On the supply side, the upswing of the construction and manufacturing sectors continued early in 2014, while the contribution to growth by the financial sector is expected to remain broadly stable. Luxembourg's financial sector is changing direction, looking for new customers and markets. However, although expectations look promising in the medium term, recent regulatory changes may dent the sector's growth potential in the short-term.

On the demand side, investment growth is projected to recover in 2015 and 2016, although it will be spread unevenly among economic sectors. While public investment is expected to surge by more than 10% in 2015 due to the implementation of sizeable projects, private firms' investment is set to remain subdued, in view of low capacity utilisation and weak external demand. Meanwhile, protracted low interest rates should continue to support investments by households.

Persistently weak inflation and good employment prospects should boost households' purchasing power and underpin consumption in 2014, notably in the last quarter of the year in anticipation of a 2 pps. increase in VAT rates starting in 2015. Private consumption should then grow by nearly 2% in 2014 and 2015 and accelerate further in 2016 along with the economic upturn.

The contribution of net exports to growth is set to decline in 2015 on the back of subdued external demand and a rebound of imports, although it should remain positive. Conversely, in 2016, external trade is expected to gain ground as global economic conditions gradually improve.

Challenging outlook for the financial sector

A prolonged slowdown in the euro area represents a particularly relevant downside risk for Luxembourg's economy. On the domestic side, the main challenge relates to the financial sector's capacity to quickly and successfully adapt to changes in the regulatory environment.

Lower inflation and solid job creation

Receding energy and non-processed food prices along with a moderation in regulated prices have driven inflation down to 1.0% in 2014 from to 1.7% in 2013. HICP is expected to bounce back to around 2.0% in 2015, partly in response to the VAT hike, and to then level out in 2016.

Job creation performed strongly in the first half of 2014, although a more recent uptake in partial employment is indicative of less favourable business conditions. Labour market prospects are nevertheless set to remain positive and yearly employment growth to be about 2.1% over the forecast horizon on the back of a solid economic outlook. The unemployment rate is expected to only slightly decrease in 2016 to 6.1% after peaking at 6.2% in 2015, partly reflecting a slow but sustained increase in structural unemployment.

Public finances weaken in 2015

In 2014, the general government surplus is set to decline to 0.2% of GDP from 0.6% in 2013. In spite of consolidation measures, worth 0.4% of GDP, the increase in public spending is expected to outweigh revenue growth, as public investment has risen and VAT revenues have been less dynamic than initially projected.

In 2015, public finances will be strongly marked by the VAT revenue shortfall, estimated at around 1.5 % of GDP, due to the change in EU regulation on e-commerce. The consolidation measures included in the Draft Budget, amounting to slightly above 1% of GDP, are expected to only partially offset the fiscal loss. The headline balance is thus projected to turn into a deficit of 0.4% of GDP. On the revenue side, the above-mentioned 2 pps. hike in standard VAT rates, worth 0.5% of GDP, has been confirmed. Alongside, additional revenues (0.3% of GDP) will be raised through the introduction of a new education contribution levied on personal income. The rest of the consolidation package is focused on the expenditure side, with savings amounting to around 0.4% of GDP reflected in the forecast. Finally, the forecast includes stronger public investment. In 2016, under a no-policy-change assumption, the deficit is expected to widen to 0.6% of GDP. The shift to automatic exchange of information among EU tax authorities is expected to reduce revenues by around 0.1% of GDP for that year.

The structural fiscal balance is estimated to narrow from a surplus of 1¼% of GDP in 2014 to a surplus of ½% of GDP in 2015 and to weaken further in 2016. The debt-to-GDP ratio is estimated to drop in 2014 to 23%, before surging to above 25% in 2016, mainly reflecting the fact that the surplus in the social contribution sector cannot be used to finance the central government deficit position.

Table II.16.1:

Main features of country forecast - LUXEMBOURG

	2013				Annual percentage change					
	mio EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		45288.1	100.0	3.7	2.6	-0.2	2.0	**3.0**	**2.4**	**2.9**
Private Consumption		14067.3	31.1	2.7	1.2	1.9	1.5	**1.7**	**1.8**	**2.5**
Public Consumption		7826.4	17.3	3.9	1.2	3.7	5.0	**2.9**	**2.6**	**3.0**
Gross fixed capital formation		7725.5	17.1	3.3	14.4	2.4	-4.5	**-0.6**	**3.4**	**2.8**
of which: equipment		3123.6	6.9	4.1	23.9	19.4	-7.1	**-3.0**	**-2.0**	**4.1**
Exports (goods and services)		92080.4	203.3	6.5	5.0	2.9	5.6	**2.4**	**4.0**	**4.9**
Imports (goods and services)		76137.6	168.1	6.7	6.9	3.8	5.8	**1.7**	**4.4**	**5.2**
GNI (GDP deflator)		28763.1	63.5	2.6	3.0	-1.5	0.1	**2.2**	**2.6**	**3.4**
Contribution to GDP growth:	Domestic demand			2.4	3.0	1.6	0.5	**0.9**	**1.6**	**1.7**
	Inventories			0.1	0.7	-1.5	0.0	**0.0**	**0.0**	**0.0**
	Net exports			1.2	-1.1	-0.3	1.5	**2.1**	**0.8**	**1.2**
Employment				3.4	2.9	2.4	2.0	**2.3**	**2.1**	**2.2**
Unemployment rate (a)				3.6	4.8	5.1	5.9	**6.1**	**6.2**	**6.1**
Compensation of employees / head				2.9	2.1	1.5	3.6	**1.9**	**3.0**	**3.0**
Unit labour costs whole economy				2.7	2.4	4.2	3.6	**1.2**	**2.7**	**2.3**
Real unit labour cost				0.3	-2.4	0.7	2.2	**-0.6**	**0.1**	**-0.7**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				2.3	5.0	3.5	1.4	**1.9**	**2.6**	**3.0**
Harmonised index of consumer prices				-	3.7	2.9	1.7	**1.0**	**2.1**	**1.9**
Terms of trade of goods				0.0	2.5	-1.3	-0.2	**1.3**	**0.3**	**0.7**
Trade balance (goods) (c)				-7.9	0.4	2.0	5.0	**7.6**	**7.3**	**7.4**
Current-account balance (c)				9.7	6.5	5.7	5.2	**5.2**	**5.2**	**5.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	6.2	5.2	4.7	**5.1**	**5.3**	**5.9**
General government balance (c)				2.2	0.3	0.1	0.6	**0.2**	**-0.4**	**-0.6**
Cyclically-adjusted budget balance (c)				2.1	0.8	1.5	2.0	**1.1**	**0.4**	**-0.1**
Structural budget balance (c)				-	0.8	1.5	2.0	**1.1**	**0.4**	**-0.1**
General government gross debt (c)				8.7	18.5	21.4	23.6	**23.0**	**24.3**	**25.4**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

17. HUNGARY

Strong growth set to moderate

Hungary's GDP is set to grow robustly by around 3.2% this year but to slow to 2.5% in 2015 and 2% in 2016. Unemployment is expected to stabilise below 8% and inflation to bounce back gradually to 3% over the forecast horizon, while the government deficit is projected to fall from nearly 3% of GDP this year to 2.5% in 2016.

Better-than -expected GDP but weaker growth dynamics ahead

In the first half of this year, Hungary's GDP grew by 3.8% (y-o-y), beating expectations thanks to both domestic demand, which contributed 3.6 pps. to output growth and net exports, which contributed the rest. While household consumption grew by 2%, gross fixed capital formation surprised with an outstanding 16.8% increase. The surge in both public and private investment was partly supported by one-off factors, such as accelerated absorption of EU funds and the central bank's Funding for Growth Scheme of subsidised loans to SMEs.

High frequency data, from construction, retail sales and recently industrial production, point to a decrease in GDP growth in the second half of the year. For the year as a whole, however, GDP growth is forecast to remain strong at 3.2%. The slowdown in growth is projected to continue throughout the forecast horizon as the impact of the above-mentioned one-off boosts fade away and economic activity evolves more in line with fundamentals. GDP is set to expand by 2.5% in 2015 and by 2% in 2016. Domestic demand is expected to remain the main driver of economic growth, but with a shift from investments to private consumption. New mortgage rules are expected to elevate real disposable incomes as banks will have to reimburse revenues that legally considered to have been unfairly collected. Export growth is forecast to decrease slightly due to lower demand from major trade partners. Meanwhile imports are expected to grow, fuelled by private consumption.

Unemployment should continue falling while inflation gradually picks up

In H1 2014, unemployment decreased to a low of 8.2% and it is forecast to stabilise below 8%. Employment is expected to keep on growing and so will the activity rate. On top of private sector job creation, employment should also be supported from extensive public works. At the same time, wage dynamics in the private sector should remain moderate, but as inflation is low, real wages are projected to increase faster throughout the forecast horizon.

Consumer prices in the first nine months of 2014 remained broadly unchanged due to subdued imported inflation, low food prices, regulated energy price cuts and declining inflation expectations. As these effects diminish and the weaker exchange rate passes through to prices, inflation is expected to resume, reaching 2.5% in 2015 and, as the output gap closes, 3% in 2016.

More risks on the downside

Given the country's relatively high proportion of foreign currency-denominated debt, Hungary is exposed to possible monetary tightening by major central banks. This could result in higher risk premia and depreciate the Forint, which in turn would weaken the private sector's balance sheet. With the persistence of subdued external inflation, the weakening of external demand could lead to lower growth and lower inflation. Moreover, Hungary could be severely affected if the Russia-Ukraine crisis deepens, through both the real economy and financial channels. A positive risk can arise if private consumption dynamics are more in line with the projected path of real disposable income growth (i.e. lower precautionary attitude in savings). Finally, growth could be higher if normal lending is restored faster than assumed as a confidence effect stemming from the current strong investment growth.

Gradually improving public accounts

The 2014 general government deficit is projected to reach the official target of -2.9% of GDP, from -2.4% in the previous year. While the switch to ESA2010 and other statistical revisions deteriorated the headline figure by 0.2% of GDP, the underlying budgetary position has improved since the spring forecast. This is due to the significantly better revenue outlook as well as to the expenditure freezes announced in July. These developments are just partly offset by expenditure slippages and the assumed financial corrections of EU funds. The forecast assumes a partial spending of the extraordinary reserve (some two-thirds out of the budgeted 0.3% of GDP).

The 2015 deficit is expected to improve slightly to 2.8% of GDP, which is based on a no-policy-change assumption as the draft budget was not released by the cut-off date of the forecast. The pick-up of private consumption growth, public wage restraints and declining public investment after the election year should all have a deficit lowering effect. However, this is anticipated to be largely offset by the drop-out of factors just temporarily containing the deficit in the previous year, most importantly the one-off receipts from the sale of telecom spectrum licenses. It is assumed that 0.2% of GDP out of the extraordinary reserve will be spent.

In 2016, the deficit is projected to decrease to 2.5% of GDP, assuming no-policy-change and also that the extraordinary reserve will not be used. With the economic slowdown, public spending increasing below the rate of nominal GDP will only marginally improve the deficit. Moreover, expenditures covered by EU funds are expected to fall by 1.8% of GDP, negatively affecting tax receipts.

The risks appear overall balanced to the projected deficit path. On the positive side, the new system of on-line cash registers could generate higher revenues than currently estimated (0.3% of GDP).On the negative side, implementation risks are emerging for the planned public wage freezes in 2015 and beyond. Further uncertainties stem from the balance of local governments, as well as from the timing and magnitude of the potential financial corrections of EU funds.

The structural balance is forecast to deteriorate considerably in 2014 to -2.7% of GDP, and then to broadly stabilise at this level. The debt-to-GDP ratio is forecast to decrease by 0.4 pps. in 2014 as the negative impact of the weakening exchange rate and the corporate takeovers are expected to be largely offset by additional stock-flow operations. In 2015, the further decline is contained by the need to provide domestic advance payments for the closing of EU co-financed projects. The ratio is to decline more rapidly in 2016.

Table 2.1.1:

Main features of country forecast - HUNGARY

	2013			Annual percentage change					
bn HUF	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	29846.3	100.0	2.3	1.8	-1.5	1.5	**3.2**	**2.5**	**2.0**
Private Consumption	15725.2	52.7	-	0.8	-1.9	-0.1	**2.1**	**2.6**	**2.0**
Public Consumption	5937.8	19.9	0.6	0.0	-1.3	3.2	**0.7**	**0.2**	**0.1**
Gross fixed capital formation	5949.2	19.9	2.7	-2.2	-4.2	5.2	**12.7**	**3.1**	**2.5**
of which: equipment	2563.6	8.6	-	7.1	3.5	4.7	**9.8**	**2.4**	**2.0**
Exports (goods and services)	26491.9	88.8	13.6	6.6	-1.5	5.9	**6.5**	**6.0**	**5.9**
Imports (goods and services)	24225.5	81.2	11.6	4.5	-3.3	5.9	**7.0**	**6.0**	**6.1**
GNI (GDP deflator)	28980.6	97.1	2.0	1.7	-0.9	3.0	**3.3**	**2.3**	**2.0**
Contribution to GDP growth: Domestic demand			1.6	0.0	-2.1	1.6	**3.8**	**2.1**	**1.6**
Inventories			0.0	-0.2	-0.7	-0.5	**-0.7**	**0.0**	**0.0**
Net exports			0.7	2.0	1.4	0.4	**0.1**	**0.5**	**0.3**
Employment			-	0.0	0.1	0.8	**3.3**	**0.5**	**0.4**
Unemployment rate (a)			7.8	10.9	10.9	10.2	**8.0**	**7.8**	**7.8**
Compensation of employees / head			-	3.4	1.8	1.5	**3.9**	**3.9**	**3.2**
Unit labour costs whole economy			-	1.6	3.5	0.8	**4.0**	**1.9**	**1.6**
Real unit labour cost			-	-0.6	0.1	-2.1	**2.3**	**-0.7**	**-1.4**
Saving rate of households (b)			12.8	12.2	10.2	10.6	**10.7**	**10.4**	**10.3**
GDP deflator			9.3	2.2	3.4	3.0	**1.7**	**2.5**	**3.0**
Harmonised index of consumer prices			-	3.9	5.7	1.7	**0.1**	**2.5**	**3.0**
Terms of trade goods			-	-1.6	-1.2	0.8	**0.4**	**0.2**	**0.2**
Trade balance (goods) (c)			-4.0	2.8	3.0	3.5	**3.6**	**3.7**	**3.9**
Current-account balance (c)			-5.9	0.8	1.7	4.2	**4.3**	**4.3**	**4.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.4	3.2	4.3	7.8	**8.3**	**7.9**	**7.7**
General government balance (c)			-6.0	-5.5	-2.3	-2.4	**-2.9**	**-2.8**	**-2.5**
Cyclically-adjusted budget balance (c)			-	-4.4	-0.6	-1.2	**-2.5**	**-2.9**	**-2.6**
Structural budget balance (c)			-	-4.2	-1.3	-1.3	**-2.7**	**-2.8**	**-2.6**
General government gross debt (c)			65.0	81.0	78.5	77.3	**76.9**	**76.4**	**75.2**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

18. MALTA

Smooth sailing in choppy waters

Economic activity in Malta continued to outperform the weak growth in the EU in the first half of 2014. A strong rebound in investment is projected to boost growth to 3% in 2014, before moderating somewhat over the forecast horizon. The budget deficit is projected to gradually decline over the forecast horizon, while the government debt is forecast to remain stable.

Growth in first half of 2014 higher than anticipated…

The Maltese economy continued expanding at a robust rate in the first half of 2014. Annual real GDP growth surprised positively and reached 3.2%, up from 2.5% for 2013 as a whole. Growth was driven by buoyant domestic demand, particularly thanks to investment and public spending. Net exports also contributed positively as a drop in exports, driven by a further contraction in the electrical machinery industry, was more than offset by a decline in imports.

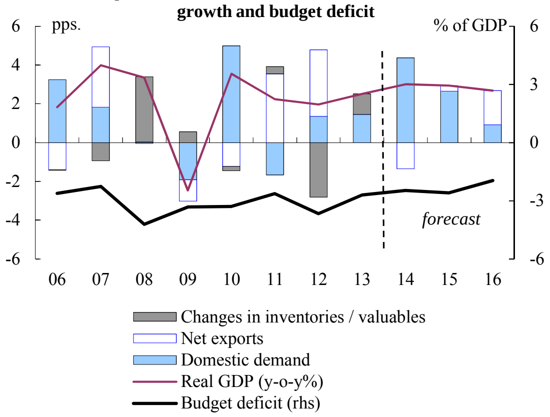
…and is expected to remain strong over the forecast horizon.

Overall, real GDP growth is projected to reach 3% in 2014 and moderate gradually to 2.9% in 2015 and 2.7% in 2016. Large scale energy projects, including the construction of a power plant in 2014-15 are expected to be a major driver of growth over the forecast horizon. Improving business sentiment and the absorption of EU funds, as projects funded under the 2007-13 financial framework are coming to an end, are expected to provide a further boost. Private investment in equipment and machinery is set to benefit from improving financing conditions, reflected in a gradual decline in interest rates, but bank credit standards for the construction sector are not expected to loosen notably.

The strong investment profile is expected to impact Malta's external trade figures over the forecast horizon due to the high import content of investment. Net exports are forecast to contribute negatively to growth in 2014, as the growth in imports is seen to pick up and outpace the relatively weak exports in the second half of the year. The expiration of the major energy-related projects in 2015 should result in a moderation of imports, while the upturn in global demand and especially the recovery of the electronics industry is projected to boost exports.

Favourable labour market developments and growing disposable income, also related to the lowering of electricity tariffs in 2014, are forecast to spur private consumption over the forecast horizon. At the same time, after peaking in 2014, the contribution of public consumption to growth is projected to moderate.

Graph II.18.1: **Malta - Contributions to Real GDP growth and budget deficit**



Risks are mainly concentrated around the investment outlook. Slippages in the energy projects would shift the growth profile forward, while the improvement in investor sentiment and the foreign investment in the energy sector could provide a further boost in 2015-16. The depreciation of the euro could boost demand for Maltese exports from outside the EU.

Price inflation is projected to pick-up

HICP inflation was low in the first nine months of 2014 because of the reduction in electricity tariffs for households in April and very moderate increases in food prices. Overall, HICP is projected to average 0.7% in 2014 as a whole before gradually picking up to 2% in 2016. This increase is expected to come mainly from a stabilisation in energy prices and a normalisation in food prices inflation. The expected lowering of electricity tariffs for industry in 2015 is projected to keep input costs contained and, in turn, services inflation stable, thereby offsetting upward pressure from households' growing disposable income.

Deficit under control despite growing spending

The general government deficit is expected to improve marginally in 2014 to 2.5% of GDP, from 2.7% in the previous year. Current revenues are projected to increase thanks to the favourable macroeconomic outlook as well as to the revenue increasing measures included in the 2014 budget, namely increases in indirect taxation, a new programme to grant Maltese citizenship to foreign individuals and families and the introduction of a new tax regime for rental income. In addition, in July, a new scheme intended to enable taxpayers to adjust past irregular declarations of income was launched. Despite the restrictions on recruitment envisaged by the 2014 budget, employment in the public sector has increased due to the temporary nationalization of the transport system as well as higher recruitments mainly in the health and education sectors. Therefore current expenditure is expected to increase, also due to higher than expected subsidies to the transport sector as well as intermediate consumption. Net capital expenditure is expected to fall due to a lower capital injection into Air Malta, compared to the one in 2013.

In 2015, under the no-policy-change assumption, as the 2015 budget was not presented before the cut-off date of the forecast, the deficit is expected to increase marginally to 2.6% of GDP, also due to a further capital injection into Air Malta, higher than the previous year one (0.5% of GDP).

In 2016, using the no-policy-change assumption, the deficit is expected to decline to 2.0% of GDP, thanks to a favourable growth outlook and to the expiration of the public support for Air Malta. After having decreased by more than 1 pp. of GDP in 2013, the structural deficit is projected to stabilise in 2014 and to deteriorate marginally in 2015. In 2016, the structural deficit is expected to improve by ½ pp. of GDP.

The general government debt-to-GDP ratio increased to 69.8% in 2013, also on account of a debt-increasing stock-flow adjustment. Despite the expected repayment of some tax arrears from Enemalta (the public energy utility corporation), the debt ratio is projected to continue increasing in 2014 thanks also to a higher cash buffer at the end of the year, before moderating somewhat by 2016.

Table II.18.1:

Main features of country forecast - MALTA

		2013			Annual percentage change					
	mio EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		7510.1	100.0	3.1	2.2	2.0	2.5	**3.0**	**2.9**	**2.7**
Private Consumption		4237.1	56.4	-	2.5	0.5	1.7	**2.0**	**2.4**	**2.6**
Public Consumption		1487.6	19.8	-	2.9	6.2	0.5	**5.7**	**0.3**	**3.8**
Gross fixed capital formation		1314.1	17.5	-	-17.1	-0.8	2.2	**12.0**	**6.6**	**-6.5**
of which: equipment		499.1	6.6	-	-17.0	-13.6	7.1	**-**	**-**	**-**
Exports (goods and services)		11614.3	154.7	-	1.8	6.3	-1.6	**1.0**	**4.6**	**5.3**
Imports (goods and services)		11184.3	148.9	-	-0.5	4.2	-1.7	**2.0**	**4.5**	**4.2**
GNI (GDP deflator)		7170.1	95.5	2.7	2.9	0.8	2.7	**3.2**	**3.1**	**2.9**
Contribution to GDP growth:	Domestic demand			-	-1.7	1.4	1.4	**4.3**	**2.6**	**1.0**
	Inventories			-	0.4	-2.7	1.1	**0.2**	**0.1**	**-0.1**
	Net exports			-	3.5	3.3	0.0	**-1.5**	**0.3**	**1.8**
Employment				1.0	2.8	2.3	3.8	**2.3**	**1.8**	**1.6**
Unemployment rate (a)				6.6	6.4	6.3	6.4	**6.1**	**6.1**	**6.2**
Compensation of employees / head				4.1	3.5	4.0	-0.4	**3.4**	**2.5**	**2.5**
Unit labour costs whole economy				2.0	4.1	4.3	0.9	**2.7**	**1.4**	**1.3**
Real unit labour cost				-0.5	1.8	2.1	-1.1	**1.4**	**-0.2**	**-0.7**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				2.5	2.2	2.1	2.1	**1.3**	**1.6**	**2.0**
Harmonised index of consumer prices				-	2.5	3.2	1.0	**0.7**	**1.5**	**2.0**
Terms of trade of goods				-	-0.5	-2.3	0.4	**0.2**	**-0.2**	**0.0**
Trade balance (goods) (c)				-17.0	-17.0	-14.6	-13.7	**-15.2**	**-15.5**	**-14.3**
Current-account balance (c)				-6.2	-1.8	3.0	3.1	**2.5**	**2.5**	**3.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.2	-0.7	4.8	4.9	**4.3**	**4.3**	**5.8**
General government balance (c)				-5.2	-2.6	-3.7	-2.7	**-2.5**	**-2.6**	**-2.0**
Cyclically-adjusted budget balance (c)				-5.2	-2.6	-3.5	-2.6	**-2.5**	**-2.7**	**-2.2**
Structural budget balance (c)				-	-3.1	-3.8	-2.7	**-2.7**	**-2.9**	**-2.4**
General government gross debt (c)				59.9	69.8	67.9	69.8	**71.0**	**71.0**	**69.8**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

19. THE NETHERLANDS

Turning the corner?

After some promising signs in the second half of 2013, the economic recovery of the Netherlands has wavered in 2014 and the outlook remains fragile. Nevertheless, real GDP growth this year is expected to reach 0.9% and rise to 1.4% in 2015, supported by positive developments in the housing and labour markets. The general government deficit is expected to continue declining.

Volatile growth in the early stages of an upturn

The second half of 2013 was a turning point for the Dutch economy. Soft indicators signalled a sharp improvement, which was confirmed particularly in the business sector, where investment grew significantly. At the same time, private consumption picked up, with housing market developments supporting the return to more sound domestic economic fundamentals. Growth swings in Q1 2014 appear to have been mainly the outcome of incidental factors, such as low gas consumption due to the relatively warm winter. The sizeable drop in investment at the beginning of 2014 was related to a surge in company car purchases at the end of 2013, driven by the expiry of favourable tax arrangements.

A shift to domestic demand supports the hesitant recovery

Building on positive developments since the second half of 2013, domestic demand is expected to contribute modestly to economic growth this year and to take over as the main driver of growth in the years ahead. At the same time, the recent pause in the improvement of soft indicators seems to suggest a fragile and moderate pick-up over the short to medium term.

After two consecutive years of significant contraction, private consumption is forecast to stabilise in 2014 and to pick up over 2015 and 2016. Following several years of negative developments, real disposable income is expected to increase in 2014, supported by real wage increases (in particular for government employees as of 2015), lower taxes on labour, and lower pension and health care premia. In addition, a gradually recovering housing market, buttressed by measures targeted at wealth-constrained households reduces pressures on savings.

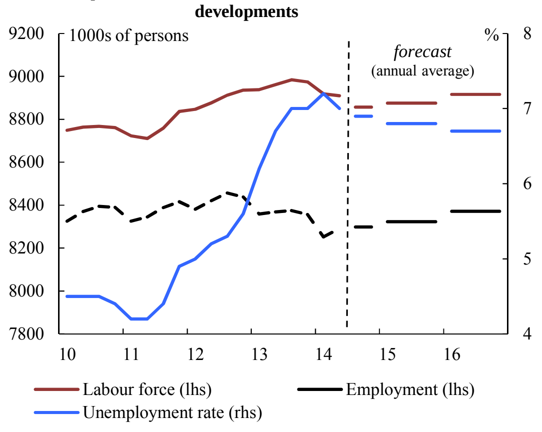
Investment is expected to evolve in line with economic growth, accelerating industrial production, and a capacity utilisation ratio that although still below its long-term average, is rising.

As domestic demand takes hold, imports should also rise. As a result, the contribution of net exports to growth will likely decline, as Dutch exports are expected to grow broadly in line with the recovery in world trade.

Unemployment stabilises, inflation remains muted

Since mid-2013, the unemployment rate has been relatively stable, hovering around 7%, although it did increase slightly in the first quarter of this year. In recent months, however, the unemployment rate has started to fall, more than anticipated, although this is partly due to a decline in the labour force. The unemployment rate is forecast to average at 6.9% for 2014 and to gradually decline over the forecast horizon. The employment outlook remains weak in the short term, as labour markets tend to respond slowly to changes in the business cycle.

Graph II.19.1: **The Netherlands - Labour market developments**



HICP inflation is very low, hovering around 0.3%. In line with trends in import prices, moderate real wage gains and the very gradual pickup in domestic demand over the forecast horizon, inflation is expected to reach 0.4% this year and to record only modest increases thereafter to 0.8% in 2015 and 1.1% in 2016. In the short run, the rebound in domestic demand is unlikely to raise inflationary pressures, given the scale of excess capacity.

Downside risks persist

The biggest risk to the macroeconomic scenario stems from the possibility that adverse global developments could spill over to the very open economy of the Netherlands, unsettling its home-grown recovery. If business confidence deteriorates, investment would suffer and the labour market's recovery may be more drawn out, constraining gains in disposable income and thus in consumption. Moreover, the household debt overhang may continue to weigh on growth more heavily than assumed.

Deficit set to decline further

In 2014, the general government deficit is expected to rise slightly to 2.5% of GDP, from 2.3% in 2013. Although one-off measures of around 0.6% of GDP improved the deficit in 2013, no such measures are planned in 2014. Non-gas government revenues are foreseen to increase in line with the improving economy, and structural savings of around 0.1% of GDP should be realised in the health care sector in 2014. Despite the declining fiscal consolidation efforts, the headline government deficit is expected to decrease further, to respectively 2.1% and 1.8% of GDP in 2015 and 2016, on the back of improvement in economic activity. The forecast takes into account the measures detailed in the draft budget for 2015 as well as the measures announced in the multi-annual budget agreement (*'Regeerakkoord'*). As domestic demand recovers, growth becomes more tax-rich; in addition, savings from the planned decentralisation of social security and long-term care are also expected.

Following an improvement of 1.6% of GDP in 2013, the structural balance is expected to marginally improve in 2014 and to deteriorate by 0.3% of GDP in 2015. The gross government debt ratio is forecast to further increase in 2015, before declining again to 69.9% in 2016. Risks to the fiscal forecast largely mirror macroeconomic uncertainties but also stem from some of the fiscal measures in 2014 (notably the temporary tax reduction on accrued severance payments) and from the planned expenditure savings in 2015.

Table II.19.1:

Main features of country forecast - NETHERLANDS

	2013				Annual percentage change					
	bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		642.9	100.0	2.3	1.7	-1.6	-0.7	**0.9**	**1.4**	**1.7**
Private Consumption		289.6	45.0	1.9	0.2	-1.4	-1.6	**0.0**	**1.1**	**1.7**
Public Consumption		169.3	26.3	3.0	-0.2	-1.6	-0.3	**-0.5**	**0.1**	**0.1**
Gross fixed capital formation		117.3	18.2	2.3	5.6	-6.0	-4.0	**2.1**	**3.3**	**4.3**
of which: equipment		34.4	5.4	3.4	17.0	-3.4	-3.0	**1.2**	**3.6**	**4.1**
Exports (goods and services)		533.2	82.9	5.1	4.4	3.3	2.0	**3.4**	**3.3**	**4.6**
Imports (goods and services)		466.8	72.6	5.4	3.5	2.8	0.8	**3.0**	**3.4**	**5.2**
GNI (GDP deflator)		644.2	100.2	2.3	1.1	-0.4	-1.7	**0.4**	**1.4**	**1.6**
Contribution to GDP growth:	Domestic demand			2.2	1.1	-2.3	-1.5	**0.3**	**1.1**	**1.6**
	Inventories			0.0	-0.4	0.1	-0.3	**-0.1**	**0.0**	**0.0**
	Net exports			0.1	0.9	0.6	1.1	**0.7**	**0.3**	**0.1**
Employment				1.1	0.6	-0.6	-1.4	**-0.9**	**0.1**	**0.6**
Unemployment rate (a)				4.3	4.4	5.3	6.7	**6.9**	**6.8**	**6.7**
Compensation of employees / f.t.e.				3.0	2.4	2.6	2.3	**2.6**	**0.6**	**1.8**
Unit labour costs whole economy				1.9	1.3	3.6	1.6	**0.7**	**-0.7**	**0.8**
Real unit labour cost				-0.3	1.2	2.3	0.5	**0.7**	**-1.9**	**-1.1**
Saving rate of households (b)				14.5	13.3	13.5	14.7	**15.9**	**15.6**	**15.7**
GDP deflator				2.2	0.1	1.3	1.1	**0.0**	**1.2**	**1.9**
Harmonised index of consumer prices				2.0	2.5	2.8	2.6	**0.4**	**0.8**	**1.1**
Terms of trade goods				0.5	-1.7	-0.5	0.6	**-0.4**	**0.2**	**0.8**
Trade balance (goods) (c)				7.9	10.1	10.7	11.6	**11.5**	**11.8**	**12.2**
Current-account balance (c)				6.0	7.1	8.8	8.5	**7.8**	**7.7**	**7.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				5.7	6.8	7.8	7.9	**7.1**	**7.5**	**7.8**
General government balance (c)				-1.7	-4.3	-4.0	-2.3	**-2.5**	**-2.1**	**-1.8**
Cyclically-adjusted budget balance (c)				-1.6	-3.8	-2.2	0.0	**-0.5**	**-0.8**	**-1.1**
Structural budget balance (c)				-	-3.8	-2.2	-0.6	**-0.5**	**-0.8**	**-1.1**
General government gross debt (c)				55.5	61.3	66.5	68.6	**69.7**	**70.3**	**69.9**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

20. AUSTRIA

Going through another soft patch

Economic growth in Austria failed to live up to expectations in the first half of the year, as exports weakened amid a less favourable external environment. Nevertheless, the domestic economy seems well prepared to support a reinvigoration of growth over 2015-16 when foreign demand picks up again. The government's deficit looks set to decline in 2015 after widening substantially in 2014 due to financial sector repair.

The recovery has paused again...

The confidence rally of late 2013 stalled in the first half of 2014 and Austria's recovery lost pace. The brisker growth momentum of the last two quarters of 2013 (0.4% and 0.3% respectively) halved on account of export growth, which though positive, was much weaker as a result of the deteriorating external environment. Domestic demand was buttressed by public consumption, while private consumption growth was anaemic and fixed capital formation remained, on the whole, stagnant. On the supply side, traditional activity drivers like manufacturing, construction and retail provided no or even a negative contribution to growth.

...but still in good shape to resume.

No strong acceleration of growth is expected in the third and fourth quarter of 2014 and thus GDP growth for the year is expected to be around 0.7%, mainly on account of strong carryover from last year. Business and consumer sentiment indicators for the third quarter indicate another soft patch extending over the remainder of this year and possibly the beginning of next one.

Nevertheless, the economy should be well set for a recovery over the next two years. In 2015 and 2016, GDP growth is forecast to strengthen to 1.2% and 1.5% respectively, somewhat below earlier projections. Domestic demand is expected to benefit from a number of supporting factors and to contribute to the bulk of the increase in GDP.

The low interest rate environment remains supportive of investment, although capacity utilisation rates indicate some degree of slack. In addition, companies' assessments of capacity with respect to their order books has tended to decline, indicating ripening renewal needs after 2-3 years of lukewarm investment. Consequently, a rebound in equipment investment can be expected. Low interest rates should also favour housing demand, which, together with rising house prices in recent years, should revive construction activity over the coming years.

Even if adversely affected by the developments in the first half of 2014, the evolution of foreign demand over the forecast horizon should be to the advantage of Austrian exporters, which are still benefiting from improving productivity and from their strong integration in international production chains. The improving outlook for exports should in turn help restart investment growth. With both exports and imports picking up, net exports will cede their key role for boosting growth but continue to contribute positively.

A stable labour market

Employment growth has accelerated to 1.1% year-on -year, despite sluggish economic activity in the first half of 2014, driven by job creation in services. While employment expectations of businesses indicate a forthcoming deceleration of this dynamic, with GDP growth firming up, employment growth should remain positive in 2015 and another uptick is projected in 2016. Unemployment may, however, be slow to decline, as labour supply is likely to keep increasing on account of migration.

Inflation positive and stable

Consumer price inflation hovered around 1.5 in January-September 2014 reflecting a mild disinflationary impact from energy prices. The momentum in the remaining components, in particular hospitality and recreation services, has continued due to unabated demand in these sectors, thus steering clear of deflation. These trends are expected to remain in place over the forecast horizon, especially as demand strengthens. Thus inflation is likely to stay around or above 1.7% in 2015 and 2016.

Government deficit to decrease in 2015 after substantial widening due to financial sector repair

The general government headline deficit is expected to increase to 2.9% of GDP in 2014, mostly due to the impact of the establishment of an Asset Management Company (AMC) for Hypo Alpe Adria, which is currently estimated to amount to 1.2% of GDP in 2014.

The deterioration in the macroeconomic outlook, coming from lower external demand and lower investment, is expected to have a limited impact on public finances in 2014. It will materialise mostly through an increase in social transfers, while revenue growth is forecast to show a much stronger dynamic than GDP growth, as revenue remains supported by resilient tax bases for both household taxation and indirect taxes.

Austria's headline deficit is projected to decrease to 1.8% of GDP in 2015 and shrink further to 1.1% of GDP in 2016 under a no-policy change assumption, in light of the improving macroeconomic outlook. The reduction of the deficit in 2015 is partly due to the vanishing effect of the large one-off cost for financial sector repair that took place in 2014. Nevertheless, this effect is projected to be partially offset by further government intervention in the financial sector in 2015.

The structural balance is expected to improve marginally in each year of the forecast horizon, arriving at -0.7% of GDP in 2016, signalling a broadly neutral fiscal stance.

The implementation of ESA 2010 led to an increase in the debt level, with this impact amounting to 6% of GDP in 2013. According to the new methodology, the current level of Austria's debt incorporates the balance sheets of several public and semi-private companies, such as the national railways operator, KA Finanz and many public hospitals, which were previously recorded outside the general government sector. In addition, the general government debt is forecast to increase substantially in 2014 due to the inclusion of the balance sheet of Hypo Alpe Adria's AMC. The overall effect of this operation accounts for 5.5% of GDP. The debt-to-GDP ratio is projected to gradually decrease to 84% of GDP in 2016.

Table II.20.1:
Main features of country forecast - AUSTRIA

	2013			Annual percentage change						
	bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		322.6	100.0	2.0	3.1	0.9	0.2	**0.7**	**1.2**	**1.5**
Private Consumption		173.8	53.9	1.7	0.7	0.6	-0.1	**0.4**	**0.6**	**0.8**
Public Consumption		64.0	19.8	1.8	0.1	0.4	0.7	**1.6**	**0.9**	**0.8**
Gross fixed capital formation		71.6	22.2	0.8	6.8	0.5	-1.5	**0.5**	**2.0**	**3.2**
of which: equipment		23.1	7.2	1.2	9.8	-0.6	-1.5	**-1.1**	**3.1**	**5.1**
Exports (goods and services)		172.5	53.5	5.5	6.6	1.3	1.4	**2.2**	**3.2**	**4.7**
Imports (goods and services)		161.0	49.9	4.3	6.4	0.7	-0.3	**2.4**	**2.9**	**4.8**
GNI (GDP deflator)		322.3	99.9	2.1	2.6	1.4	-0.8	**0.8**	**1.3**	**1.5**
Contribution to GDP growth:	Domestic demand			1.5	1.9	0.5	-0.3	**0.7**	**0.9**	**1.3**
	Inventories			0.1	0.6	-0.2	-0.7	**0.0**	**0.0**	**0.0**
	Net exports			0.5	0.3	0.3	0.9	**0.0**	**0.3**	**0.2**
Employment				0.5	1.4	1.3	0.7	**0.9**	**0.6**	**1.0**
Unemployment rate (a)				4.3	4.2	4.3	4.9	**5.3**	**5.4**	**5.0**
Compensation of employees / f.t.e.				2.4	2.4	2.6	2.1	**2.0**	**2.1**	**2.0**
Unit labour costs whole economy				0.9	0.8	3.1	2.6	**2.2**	**1.5**	**1.5**
Real unit labour cost				-0.5	-1.0	1.2	1.1	**0.7**	**-0.1**	**-0.1**
Saving rate of households (b)				15.9	13.3	14.4	12.8	**13.0**	**13.6**	**14.1**
GDP deflator				1.5	1.8	1.9	1.5	**1.5**	**1.6**	**1.6**
Harmonised index of consumer prices				1.6	3.6	2.6	2.1	**1.5**	**1.7**	**1.8**
Terms of trade goods				-0.2	-2.3	-0.8	0.2	**0.1**	**-0.1**	**-0.1**
Trade balance (goods) (c)				-0.9	-1.2	-1.0	-0.2	**-0.1**	**0.0**	**-0.1**
Current-account balance (c)				0.6	2.1	2.6	2.3	**2.4**	**2.7**	**2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				0.5	2.0	2.4	2.2	**2.3**	**2.6**	**2.8**
General government balance (c)				-2.9	-2.6	-2.3	-1.5	**-2.9**	**-1.8**	**-1.1**
Cyclically-adjusted budget balance (c)				-2.8	-2.7	-2.3	-1.1	**-2.3**	**-1.3**	**-0.7**
Structural budget balance (c)				-	-2.5	-1.8	-1.3	**-1.1**	**-1.0**	**-0.7**
General government gross debt (c)				68.1	82.1	81.7	81.2	**87.0**	**86.1**	**84.0**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

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

21. POLAND

Economic activity hits a soft patch

Economic growth in Poland is expected to moderate over the rest of the year, as weaker demand in the euro area and the situation in Ukraine dampen exports, before strengthening again in the outer year of the forecast horizon. Public finances are projected to improve gradually.

A robust recovery in early 2014...

In the first half of 2014 real GDP grew by 3.4% compared to the same period a year earlier, mainly on account of stronger domestic demand. In particular, private consumption gained momentum, as consumer confidence improved, employment increased and real wages rose. Stronger external demand and lower financing costs also fuelled a rebound in corporate investment which has been anaemic in recent years.

...is projected to slow down temporarily in the second half of the year

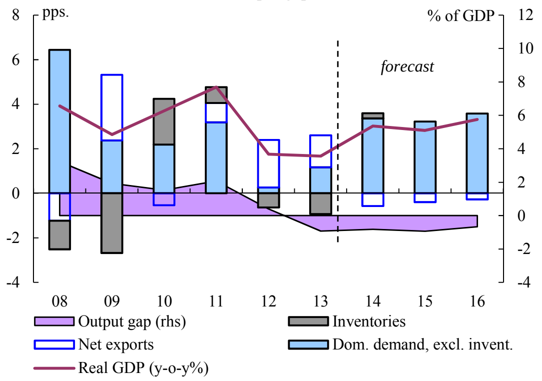
Polish exports are set to weaken in the remainder of 2014 amid tensions beyond Poland's Eastern borders and, more importantly, due to weak external demand, especially in the euro area. As a result, private investment expenditure is projected to weaken too. However, the slowdown in export growth and investment is expected to be temporary as the negative impact on the Polish economy from the Ukraine/Russia conflict is assumed to peter out in 2015. Private consumption is set to remain resilient on the back of growing real wages and further improvements in the labour market situation.

The ongoing recovery of credit growth, coupled with declining financing costs, is expected to provide additional support to private investment expenditure over the forecast horizon. Public investment is set to gather pace in 2015 as new projects financed by EU funds are being rolled out. Economic activity is expected to accelerate somewhat in 2016, in line with a broader recovery of external demand. Real GDP growth is forecast to average 3% in 2014, to ease marginally to 2.8% in 2015 before bouncing back up to 3.3% in 2016.

The annual contribution of net exports to real GDP growth is forecast to remain negative as domestic demand for foreign goods and services accelerates more than exports. Against this backdrop, the current-account deficit is expected to increase to 2.8% of GDP in 2016, up from 2% in 2014.

Poland's labour market is expected to benefit from the solid pace of economic activity over the forecast horizon. The unemployment rate is set to decline from 9.5% in 2014 to 8.8% in 2016. This improvement is set to sustain nominal wage growth and, in turn, an increase in real disposable income.

Graph II.21.1: **Poland - Real GDP growth and contributions, output gap**



The risks to the economic forecast are broadly balanced. On the upside, a stronger depreciation of the Polish Złoty in the wake of interest rate moves by the National Bank of Poland would further boost exports and support import substitution. On the downside, an escalation of the Ukraine/Russia crisis could weigh on economic activity by further hurting exports and business confidence and by increasing energy prices.

Supply side factors curb inflation in the short run

Very low external inflationary pressure coupled with the effect of a good domestic harvest on food prices are forecast to drive average HICP inflation down to 0.2% in 2014. Inflation is set to pick up moderately to 1.1% in 2015, on the back of the assumed recovery in energy prices and positive base effect of food prices. Resilient private consumption and growing employment are poised to contribute positively. A further increase of inflation to 1.9% is forecast in 2016, fuelled by higher import prices and a sustained improvement in domestic demand.

Public finances set to improve gradually

Poland's general government deficit is projected to decrease to 3.4% of GDP in 2014, down from 4% of GDP in 2013, largely due to the projected expansion of aggregate economic activity and stronger-than-expected tax revenues. Moreover, the partial reversal of the previous systemic pension reform is set to increase social contributions retained by the general government. The expenditure side also contributes to the expected reduction of deficit in 2014, in particular due to limited growth of public investment and a partial freeze of public wages. Expenditure savings, however, will be partially offset by the costs of a legislated extension of maternity leave and other increases in social spending.

The general government deficit is forecast to reduce further to 2.9% of GDP in 2015, as government revenues are expected to continue to improve on the back of the projected pace of economic growth. On the expenditure side, some new measures increasing social spending (including higher indexation of low-income pensions and a tax credit for families with children) will partially offset other expenditure savings, in particular the partial freeze of public wages. In 2016, under a no-policy change assumption, the general government deficit is projected to improve marginally compared to 2015. Risks around this projection mainly relate to the macroeconomic outlook. The structural deficit is estimated to gradually improve over the forecast horizon, from 3.5% of GDP in 2013 to 2.5% of GDP in 2016.

Thanks to a large transfer of pension fund assets linked to the partial reversal of the systemic pension reform, the general government debt-to-GDP ratio is set to fall from 55.7% in 2013 to 49.1% in 2014. It is set to amount to 50.1% in 2016. The projected debt figures are, however, subject to considerable uncertainty because of the potential impact of exchange rate fluctuations on the relatively high share of Poland’s sovereign debt denominated in foreign currencies.

Table II.21.1:

Main features of country forecast - POLAND

	2013		Annual percentage change						
	bn PLN Curr. prices	**% GDP**	**95-10**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
GDP	1662.1	100.0	4.5	4.8	1.8	1.7	**3.0**	**2.8**	**3.3**
Private Consumption	1012.0	60.9	4.4	2.9	0.9	1.0	**2.5**	**2.7**	**3.0**
Public Consumption	301.6	18.1	3.2	-2.3	0.2	2.1	**2.1**	**2.6**	**2.8**
Gross fixed capital formation	312.8	18.8	7.1	9.3	-1.5	0.9	**7.7**	**5.7**	**6.3**
of which: equipment	109.2	6.6	-	11.6	-3.9	5.0	**9.2**	**6.5**	**7.8**
Exports (goods and services)	766.3	46.1	9.6	7.9	4.3	5.0	**3.9**	**3.9**	**5.7**
Imports (goods and services)	735.0	44.2	10.4	5.5	-0.6	1.8	**5.3**	**4.9**	**6.4**
GNI (GDP deflator)	1593.7	95.9	4.3	4.4	1.6	1.8	**3.1**	**2.8**	**3.3**
Contribution to GDP growth: Domestic demand			4.8	3.2	0.3	1.2	**3.4**	**3.2**	**3.6**
Inventories			0.1	0.7	-0.6	-0.9	**0.2**	**0.0**	**0.0**
Net exports			-0.4	0.9	2.1	1.4	**-0.6**	**-0.4**	**-0.3**
Employment			0.3	0.6	0.1	-0.1	**1.0**	**0.2**	**0.4**
Unemployment rate (a)			13.7	9.7	10.1	10.3	**9.5**	**9.3**	**8.8**
Compensation of employees / head			9.9	5.1	3.5	2.7	**3.0**	**3.8**	**4.2**
Unit labour costs whole economy			5.5	0.9	1.8	1.0	**1.0**	**1.2**	**1.3**
Real unit labour cost			-1.2	-2.2	-0.4	-0.2	**0.8**	**0.2**	**-0.6**
Saving rate of households (b)			10.7	2.1	4.8	3.7	**2.8**	**3.5**	**4.0**
GDP deflator			6.8	3.2	2.2	1.2	**0.2**	**1.0**	**1.9**
Harmonised index of consumer prices			-	3.9	3.7	0.8	**0.2**	**1.1**	**1.9**
Terms of trade goods			-0.7	-1.9	-1.4	1.8	**0.0**	**-0.2**	**0.0**
Trade balance (goods) (c)			-4.1	-3.5	-2.1	-0.3	**-0.8**	**-1.2**	**-1.5**
Current-account balance (c)			-3.6	-5.0	-3.8	-1.4	**-2.0**	**-2.4**	**-2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.2	-3.3	-2.1	1.1	**0.4**	**0.0**	**-0.6**
General government balance (c)			-	-4.9	-3.7	-4.0	**-3.4**	**-2.9**	**-2.8**
Cyclically-adjusted budget balance (c)			-	-6.0	-4.0	-3.5	**-3.0**	**-2.4**	**-2.5**
Structural budget balance (c)			-	-6.0	-4.0	-3.5	**-2.9**	**-2.5**	**-2.5**
General government gross debt (c)			-	54.8	54.4	55.7	**49.1**	**50.2**	**50.1**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

22. PORTUGAL

As external demand falters, domestic demand takes over

Portugal's economic recovery is facing headwinds from slowing external demand. As a result, growth will increasingly come from private consumption. A return to a domestic demand-driven growth model could put the reduction of external imbalances at risk.

A moderate recovery continues

Portugal's real GDP increased by 0.3% q-o-q in the second quarter of 2014, mainly driven by domestic demand and only partly offsetting the decline in the first quarter by 0.4% q-o-q which was due to one-off factors. Private consumption posted solid growth of 1.9% y-o-y in the first half of the year, in line with improved confidence and favourable employment developments. However, the strong private spending momentum is expected to wane over the forecast period amid continued deleveraging pressure on household balance sheets and more subdued disposable income growth.

A resilient performance of machinery and equipment investment more than compensated for the weaker-than-expected construction activity in the first semester of 2014 and is expected to stabilise fixed investment in the second semester of this year. Gross fixes investment is projected to grow by around 2% in 2014, and it should benefit from stronger demand, low interest rates and the need to renew capital stocks in the outer years.

Exports are losing momentum due to weakening external demand while robust private consumption is boosting imports, further weighing on the contribution of net exports to growth. The current account balance is projected to recover marginally this year, mainly due to tourism. In 2015 and 2016, however, the current account is expected to move to a small surplus on the back of a rebound of external demand.

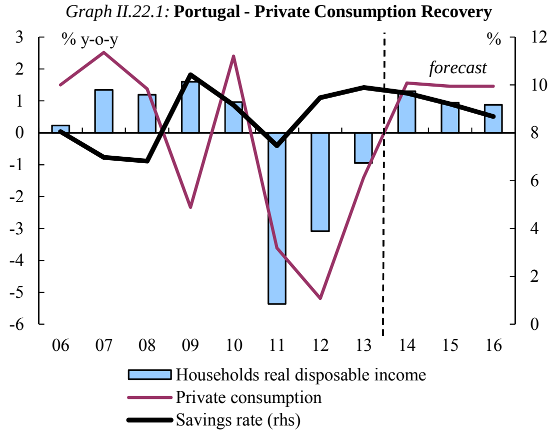
As a result, domestic demand is expected to become the main driver of growth while net exports are forecast to contribute negatively to economic growth in 2014 but gradually improve over the forecast period. Real GDP is projected to grow by 0.9% in 2014 and accelerate to 1.3% in 2015 and 1.7% in 2016.

Labour market has improved and inflationary pressures remain weak

Portugal's labour market continues to improve with employment growth of around 2% y-o-y in the first semester of 2014, and the unemployment rate falling to 14.0% in August 2014, down by 2 pps. since last year. However, recent employment gains seem to some extent be related to successful active labour market policies and thereby overstate labour market dynamics. Therefore, total employment is forecast to expand by 1.6% in 2014 and by 0.8% in 2015 and 2016. Combined with a projected average annual decline of the labour force by 0.4%, the unemployment rate is set to decline from 14.5% in 2014 to 12.8 % in 2016.

HICP was flat in September, but the increase in minimum wage as of October 2014 is set to contain deflationary risks. For 2014 as a whole, HICP is expected to remain flat, and to increase by 0.6% in 2015 and 0.9% in 2016.

Graph II.22.1: **Portugal - Private Consumption Recovery**



Downside risks to the economic outlook

Risks to the economic outlook remain tilted to the downside. Portugal's export performance is still heavily dependent on the economic environment in Europe. The private sector is highly indebted and continued deleveraging pressure could further dampen economic growth. Sovereign bond yields are currently relatively low as a result of global monetary policies and a return of investor confidence. However, a reversal of global monetary policy trends, or a weakening of structural reform and fiscal consolidation efforts, could lead to a rise in risk premia.

Fading consolidation effort

The 2014 general government headline deficit is forecast at 4.9% of GDP, including costs of financing operations to state-owned enterprises and the write-off of non-performing loans of BPN Crédito. Budget execution is characterised by strong revenue collection, especially of indirect taxes and better-than-expected performance of social security on the back of the economic recovery, a more effective fight against tax fraud and easing tensions in the labour market. The second Supplementary Budget 2014 plans to use these revenues to replace the expenditure cuts overturned by the Constitutional Court in the summer as well as to cover some slippages in other expenditure lines.

Based on the measures included in the 2015 draft budgetary plan, the budget deficit is forecast at 3.3% of GDP next year, markedly higher than the 2.7% of GDP planned by the Portuguese government. The improvement in the fiscal balance will be supported by further economic recovery as well as well as a consolidation package which is roughly equally split between revenue increases and expenditure savings and includes some small-scale one-off operations. At the same time, the budget allows for increases in most expenditure items, which partially offset the deficit-reducing impact of increasing revenues and of the consolidation measures. The higher deficit forecast compared with the plans of the Portuguese government is mainly due to more cautious assumptions about revenue collection next year.

These projections are consistent with a cumulated improvement in the structural balance of about ½% of GDP over 2013 to 2015.

Portugal's government debt-to-GDP ratio stood at 128.0% at the end of 2013 and is projected to start declining in the second half of this year as the economy recovers and the government makes use of accumulated cash reserves and other debt-reducing operations.

Risks to the fiscal outlook are tilted to the downside and are related to the economic outlook, budgetary implementation risks and the possibility of another Constitutional Court ruling overturning some policies. In addition, the 2014 headline deficit could turn out significantly higher than expected should the costs of the resolution of Banco Espírito Santo (amounting to 2.8% of GDP) also be considered deficit-increasing by the statistical authorities.

Table II.22.1:

Main features of country forecast - PORTUGAL

	2013			Annual percentage change					
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	171.2	100.0	1.9	-1.8	-3.3	-1.4	**0.9**	**1.3**	**1.7**
Private Consumption	110.7	64.7	2.1	-3.6	-5.2	-1.4	**1.6**	**1.5**	**1.5**
Public Consumption	32.4	19.0	2.3	-3.8	-4.3	-1.9	**-0.4**	**-0.3**	**0.2**
Gross fixed capital formation	25.9	15.1	1.7	-12.5	-15.0	-6.3	**1.9**	**2.4**	**2.8**
of which: equipment	7.5	4.4	3.7	-23.5	-12.3	6.9	**13.0**	**7.0**	**6.5**
Exports (goods and services)	67.2	39.3	4.8	7.0	3.1	6.4	**3.6**	**4.6**	**5.6**
Imports (goods and services)	65.5	38.3	4.8	-5.8	-6.6	3.6	**4.5**	**4.7**	**5.0**
GNI (GDP deflator)	167.5	97.8	1.6	-0.4	-4.2	-0.6	**0.9**	**1.3**	**1.7**
Contribution to GDP growth: Domestic demand			2.3	-5.7	-7.0	-2.3	**1.2**	**1.3**	**1.4**
Inventories			0.0	-0.4	0.1	-0.1	**0.0**	**0.0**	**0.0**
Net exports			-0.4	4.3	3.6	1.0	**-0.3**	**0.0**	**0.3**
Employment			0.4	-1.9	-4.1	-2.9	**1.6**	**0.8**	**0.8**
Unemployment rate (a)			7.4	12.9	15.8	16.4	**14.5**	**13.6**	**12.8**
Compensation of employees / head			4.4	-1.8	-2.1	3.5	**-0.4**	**0.9**	**0.9**
Unit labour costs whole economy			2.9	-2.0	-2.9	1.9	**0.3**	**0.4**	**0.0**
Real unit labour cost			-0.2	-1.7	-2.5	-0.4	**-0.8**	**-1.0**	**-1.5**
Saving rate of households (b)			10.1	7.5	9.5	9.9	**9.7**	**9.3**	**8.7**
GDP deflator			3.1	-0.3	-0.4	2.3	**1.1**	**1.4**	**1.5**
Harmonised index of consumer prices			2.5	3.6	2.8	0.4	**0.0**	**0.6**	**0.9**
Terms of trade goods			0.0	-2.2	0.3	1.6	**1.0**	**0.6**	**-0.1**
Trade balance (goods) (c)			-10.6	-7.9	-4.9	-4.0	**-4.1**	**-4.2**	**-4.1**
Current-account balance (c)			-8.8	-5.6	-2.6	-0.3	**-0.2**	**0.1**	**0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.1	-4.1	-0.6	1.3	**1.4**	**1.7**	**1.9**
General government balance (c)			-5.1	-7.4	-5.5	-4.9	**-4.9**	**-3.3**	**-2.8**
Cyclically-adjusted budget balance (c)			-5.4	-5.5	-2.4	-1.6	**-2.4**	**-1.6**	**-2.0**
Structural budget balance (c)			-	-5.4	-2.3	-1.9	**-1.3**	**-1.7**	**-2.0**
General government gross debt (c)			63.3	111.1	124.8	128.0	**127.7**	**125.1**	**123.7**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

23. ROMANIA

Investment plunge weighs on the economy in 2014

Economic growth is expected to recover following a dent in 2014 induced by a drop in investment. Inflation should slowly pick up after a sharp decrease in 2014. The fiscal consolidation path is forecast to be reversed in 2015.

Private consumption and exports support growth in 2014

The pace of real GDP growth slowed down from 3.5% in 2013 to 2.4% y-o-y in the first half of 2014, largely due to a strong deceleration in the second quarter (1.2% y-o-y). Private consumption and net exports were the main drivers of growth while investments continued to contribute negatively (gross fixed capital formation dropped by 11.1% y-o-y in the first half of 2014). As a result, GDP growth in 2014 is projected at 2.0%. In the second half of 2014, improved confidence and higher real disposable income are expected to support consumption. Investment growth is projected to regain momentum, sustained by both private and public investments.

Growth to rise over 2015-16

Against a background of a subdued economic scenario in the euro area, growth in Romania is nevertheless forecast to gradually pick up and stay above potential at 2.4% in 2015 and 2.8% in 2016. Private consumption is projected to remain resilient, supported by increasing real disposable income on account of still dynamic growth of wages, low inflation and declining interest rates. Credit growth, which has been contracting for the last two years, is expected to marginally improve based on the recent recovery in local currency lending, eased credit conditions and an expected slowdown in the deleveraging process. The increase of investor confidence, together with a tax exemption for reinvested profits (as of July 2014) and a cut in social-security contributions (from 1 October 2014) are likely to provide additional resources for businesses to boost investment.

Exports of goods and services rose strongly in the first half of 2014, outpacing expectations with a yearly growth of 12.8% while imports were up by 10.6%. The positive growth contribution of net exports is set to fade in H2 2014 and to turn negative over 2015-16 as import growth slightly outpaces export growth, due to stronger domestic demand. Exports are forecast to remain resilient despite subdued activity in the euro area.

Sharply decelerating inflation in 2014

Inflation remained subdued in the first half of 2014, reaching a record low in June (HICP was 0.9% y-o-y) but picked up marginally in recent months. The low inflation can largely be attributed to temporary supply-side shocks including the VAT cut for bread, an appreciation of the leu, and persisting subdued inflation in the euro area. Inflation is now expected to average 1.5% in 2014, lower than projected in spring, on account of the prospects for a good harvest, delays in gas price liberalisation, lower global energy prices, and lower inflation expectations. It is forecast to reach an annual average of 2.1% in 2015 and 2.7% in 2016 due to the recovery in domestic demand, to the base effects from low food prices in 2014 and to the on-going convergence of prices towards the EU average.

Broadly balanced macroeconomic risks

Downside risks include faster-than-expected deleveraging by households and financial institutions and the impact of a further deterioration in geo-political tensions hurting confidence and the main trading partners' economic outlook. Upside risks comprise higher investment thanks to better-than-expected absorption of EU funds and stronger domestic demand induced by fiscal slippages in connection with this year's presidential elections. Risks to the inflation outlook are balanced over the forecast horizon.

Labour market remains weak

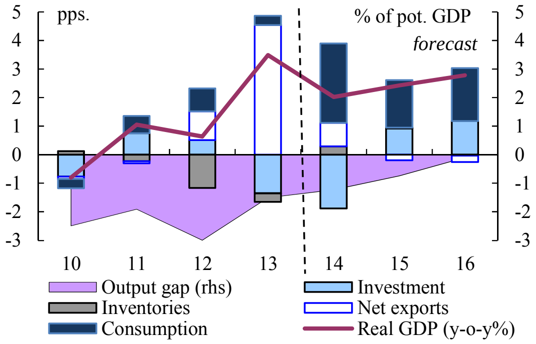
Labour market developments remained subdued in the first half of 2014. The number of employees was unchanged, while overall employment further decreased by 1% y-o-y due to a fall in the number of self-employed. For the full year, overall employment growth is expected to stay marginally below its 2013 level. In 2015 and 2016, employment is forecast to gradually recover, supported by stronger growth. Unemployment declined from 7.3% in December 2013 to 7% in July 2014, and it is expected to stabilise over the forecast horizon. Growth in nominal compensation per employee, which stood at around 9% in 2013, is set to fall somewhat in 2014 and 2015.

Budget deficit to increase in 2015

In 2014, the deficit is projected to fall to 2.1% of GDP, from 2.2% of GDP in 2013. On the revenue side, an increase in excise duties on fuels and a broadening of the basis for property taxation counterbalanced subdued growth from VAT receipts and lower social-security contributions following a rate cut of 5 pps., which took effect on 1 October 2014. On the expenditure side, EU funds absorption and domestic capital expenditure have been significantly below expectations, but should pick up in the last quarter of the year.

For 2015, Romania's deficit is projected to increase to 2.8% of GDP under a no-policy-change assumption. No draft for the 2015 budget has been brought forward by the cut-off date of this forecast. The forecast includes the full-year impact of the cut in social-security contributions that should lead to net loss of revenue of around 0.8% of GDP over the course of 2015. A reduction in the rate of the property tax on special constructions by 0.5 pp is expected to lead to a further loss in revenues of around 0.1% of GDP. According to the law, excise rates are expected to be reduced in 2015. Expenditures should decline somewhat, also on account of slightly lower public investments.

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



For 2016, the headline deficit is expected to decrease to 2.5% of GDP, as revenues improve in line with improving growth prospects, again under a no-policy-change assumption. In structural terms, the deficit is forecast to deteriorate from 1¾% of GDP in 2014 to about 2½% of GDP in 2015-16. Government debt should increase from 37.9% of GDP in 2013 to 41.1% in 2015.

Table II.23.1:

Main features of country forecast - ROMANIA

	2013		Annual percentage change						
bn RON	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	639.3	100.0	3.0	1.1	0.6	3.5	**2.0**	**2.4**	**2.8**
Private Consumption	397.1	62.1	5.5	0.8	1.2	0.9	**3.8**	**2.3**	**2.4**
Public Consumption	93.7	14.7	0.4	0.6	0.4	-1.6	**4.5**	**1.6**	**2.0**
Gross fixed capital formation	158.1	24.7	5.0	2.9	1.9	-4.9	**-7.4**	**4.4**	**5.5**
of which: equipment	53.6	8.4	5.9	19.6	-2.1	-3.8	**-7.5**	**4.8**	**6.3**
Exports (goods and services)	265.0	41.4	8.0	11.9	1.0	21.5	**8.9**	**5.1**	**6.0**
Imports (goods and services)	270.5	42.3	11.7	10.2	-1.5	8.2	**6.8**	**5.5**	**6.5**
GNI (GDP deflator)	623.6	97.6	3.0	1.0	0.2	2.8	**1.6**	**2.5**	**2.9**
Contribution to GDP growth: Domestic demand			5.3	1.4	1.8	-1.3	**1.2**	**2.6**	**3.0**
Inventories			-0.2	-0.2	-1.7	0.0	**0.0**	**0.0**	**0.0**
Net exports			-2.2	-0.1	1.0	4.5	**0.8**	**-0.2**	**-0.2**
Employment			-1.8	-0.8	2.5	-1.2	**-0.1**	**0.3**	**0.5**
Unemployment rate (a)			6.5	7.4	7.0	7.3	**7.0**	**6.9**	**6.7**
Compensation of employees / head			34.5	-4.1	0.8	9.2	**5.5**	**4.9**	**5.6**
Unit labour costs whole economy			28.2	-5.8	2.7	4.2	**3.4**	**2.7**	**3.2**
Real unit labour cost			-1.0	-10.1	-2.2	0.6	**0.2**	**0.1**	**0.6**
Saving rate of households (b)			-2.9	-7.0	-11.7	-10.8	**-11.9**	**-10.4**	**-10.1**
GDP deflator			29.5	4.7	4.9	3.5	**3.2**	**2.7**	**2.6**
Harmonised index of consumer prices			-	5.8	3.4	3.2	**1.5**	**2.1**	**2.7**
Terms of trade goods			2.7	1.8	-3.4	-1.1	**-0.5**	**-0.3**	**0.3**
Trade balance (goods) (c)			-7.9	-6.7	-5.8	-2.6	**-2.5**	**-2.8**	**-3.0**
Current-account balance (c)			-6.6	-4.7	-4.7	-1.4	**-1.2**	**-1.4**	**-1.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.1	-4.2	-3.3	0.9	**1.1**	**1.0**	**0.9**
General government balance (c)			-3.6	-5.5	-3.0	-2.2	**-2.1**	**-2.8**	**-2.5**
Cyclically-adjusted budget balance (c)			-	-4.7	-1.9	-1.7	**-1.7**	**-2.5**	**-2.4**
Structural budget balance (c)			-	-3.6	-2.5	-1.7	**-1.7**	**-2.5**	**-2.4**
General government gross debt (c)			18.1	34.2	37.3	37.9	**39.4**	**40.4**	**41.1**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

24. SLOVENIA

Recovery gathers pace fuelled by exports and investment

The Slovenian economy exited recession in 2013, paving the way for an expected GDP growth of 2.4% in 2014 before moderating to 1.7% in 2015. Growth has become broad based, driven by net exports and exceptionally strong infrastructure investment. Bank recapitalisations continue to weigh on the general government budget in 2014 but this is expected to decline over the forecast horizon. Public debt is expected to peak at 82.9% of GDP in 2015 before embarking on a downward path.

Quarterly growth gathering momentum

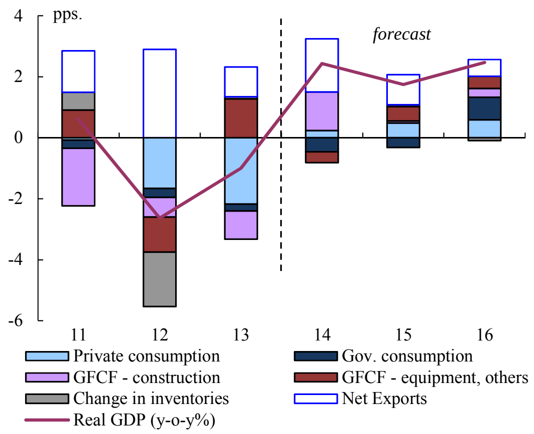
After exiting recession in 2013, the Slovenian economy grew by 2.5% y-o-y in the first half of 2014. Growth has become more broad-based, with improvements on both the external and domestic sides. Slovenia has been increasing its export market shares, particularly for goods, since 2013 and net exports have remained the largest contributor to economic growth in the first half of this year. Investment was another significant contributor to growth, driven by EU-funded infrastructure projects, while investment in equipment fell further. For the first time since 2010, household consumption has ceased declining and is now essentially flat.

Solid growth ahead with some deceleration in 2015

Real GDP is forecast to grow by a robust 2.4% in 2014 as a whole on the back of further improvements in exports and investment. Yet the growth rate is expected to decelerate to 1.7% in 2015, mainly because of a slowdown in growth of EU-funded infrastructure investment. Capacity utilisation above its historical average and increased profitability are expected to boost private investment from the end of 2014 onwards and contribute to a renewed acceleration in GDP growth to 2.5% in 2016.

The ongoing deleveraging process is expected to continue hampering domestic demand, but less strongly than in previous years. While credit to households is expected to resume modest growth, corporates will continue to deleverage, although at a much slower pace than in previous years. Import growth is projected to closely follow export dynamics due to the high import content of exports. However, as the recovery in domestic demand picks up towards the end of the forecast horizon, import growth is expected to gather pace. As a result, after increasing further this year, Slovenia's current-account surplus is expected to decrease marginally over 2015 and 2016 also because of deteriorating terms of trade.

Graph II.24.1: **Slovenia - Real GDP growth and contributions**



Downside risks to the growth outlook are lower growth in public investment expenditure than anticipated and the external environment. In particular, exports in 2015 and 2016 could suffer from weakening activity in some of Slovenia's main export partners in the Balkans and Commonwealth of Independent States (CIS). Upside risks include a further depreciation of the euro, which would boost Slovenia's exports.

Stable labour market and low inflation

Unemployment peaked at 10.2% in February 2014 and is expected to continue declining over the forecast horizon. Private sector wages are expected to continue rising moderately but the continued containment of public sector wages in 2014 and 2015 will help restrain overall wage dynamics.

This, combined with a recovery in productivity this year, implies that overall unit labour costs are set to fall by 1.2% in 2014 and then remain stable, supporting external competitiveness.

Given the downward trend in prices for raw materials and energy, HICP inflation is forecast to decline to historically low levels in 2014 and to increase only marginally in 2015 and 2016, mainly on the back of slowly rising oil prices and the expected recovery of domestic demand.

Fiscal deficit expected to decline

The general government deficit increased to 14.6% of GDP in 2013, of which 10.1% of GDP was related to bank recapitalisations. The deficit is forecast at 4.4% of GDP in 2014, including 0.9% of GDP for financial support to Abanka and Banka Celje. Excluding bank recapitalisations, the key expenditure drivers are a significant increase in gross fixed capital formation, mainly EU funded projects and higher interest expenditure, as the benefits of lower interest rates have been more than offset by the large increase in debt.

For 2015, the general government deficit is forecast to stand at 2.9% of GDP. The government has targeted significant expenditure savings, mainly through the reform of subsidies and the prolongation of measures to reduce the public sector pay bill. These measures have been reflected in the forecast. The deadline for the recapitalisation of Gorenjska Banka was extended until end-2014 and the state may have to provide capital if private sources cannot be found. In July 2014, the European Court of Human Rights in Strasbourg ruled that Slovenia has to repay deposit holders of Ljubljanska Banka within one year of the ruling. The potential fiscal impact on the general government deficit of the two issues above is unclear and not incorporated in the forecast.

In 2016, under a no-policy-change assumption the general government deficit is expected to decline further to 2.7% of GDP. This improvement is driven by the expected increase in tax receipts due to the improved economic environment.

In structural terms, the fiscal position is forecast to deteriorate by 0.7 pp. in 2014 before improving by 0.3 pp. in 2015. In 2016, the structural balance is expected to deteriorate by 0.6pp. General government debt is projected to peak in 2015 at 82.9% before declining to below 81% in 2016 due to an expected reduction in precautionary cash balances and a modest primary surplus.

Table II.24.1:
Main features of country forecast - SLOVENIA

	2013			Annual percentage change						
	bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		36.1	100.0	3.2	0.6	-2.6	-1.0	**2.4**	**1.7**	**2.5**
Private Consumption		19.6	54.1	3.2	-0.1	-3.0	-3.9	**0.4**	**0.9**	**1.1**
Public Consumption		7.4	20.4	3.0	-1.3	-1.5	-1.1	**-2.3**	**-1.7**	**4.1**
Gross fixed capital formation		7.1	19.7	4.0	-4.6	-8.9	1.9	**4.6**	**2.7**	**3.3**
of which: equipment		3.0	8.4	5.3	13.3	-11.9	17.9	**-5.0**	**4.0**	**4.5**
Exports (goods and services)		27.0	74.7	6.4	7.0	0.3	2.6	**5.1**	**4.5**	**5.3**
Imports (goods and services)		24.8	68.7	6.5	5.0	-3.9	1.4	**3.0**	**3.5**	**5.1**
GNI (GDP deflator)		35.9	99.3	3.1	0.7	-2.5	-1.0	**2.2**	**1.6**	**2.4**
Contribution to GDP growth:		Domestic demand		3.3	-1.3	-3.7	-2.0	**0.7**	**0.7**	**2.0**
		Inventories		0.1	0.6	-1.8	0.1	**0.0**	**0.1**	**-0.1**
		Net exports		-0.1	1.4	2.9	1.0	**1.7**	**1.0**	**0.5**
Employment				-	-1.6	-0.8	-1.5	**0.4**	**0.6**	**0.9**
Unemployment rate (a)				6.4	8.2	8.9	10.1	**9.8**	**9.2**	**8.4**
Compensation of employees / head				-	1.6	-1.2	1.9	**0.8**	**1.3**	**1.9**
Unit labour costs whole economy				-	-0.7	0.6	1.4	**-1.2**	**0.2**	**0.4**
Real unit labour cost				-	-1.8	0.3	0.0	**-1.2**	**-0.1**	**-0.4**
Saving rate of households (b)				13.8	13.1	11.4	14.4	**14.4**	**13.7**	**14.1**
GDP deflator				6.3	1.2	0.3	1.4	**0.0**	**0.3**	**0.8**
Harmonised index of consumer prices				-	2.1	2.8	1.9	**0.4**	**1.0**	**1.5**
Terms of trade goods				0.0	-1.6	-1.2	1.0	**-0.2**	**-0.9**	**-0.6**
Trade balance (goods) (c)				-4.0	-1.8	0.2	1.2	**3.2**	**3.9**	**4.1**
Current-account balance (c)				-2.0	0.9	3.0	4.8	**6.2**	**6.1**	**5.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.1	0.9	3.1	4.8	**6.9**	**6.8**	**6.7**
General government balance (c)				-3.0	-6.2	-3.7	-14.6	**-4.4**	**-2.9**	**-2.7**
Cyclically-adjusted budget balance (c)				-	-5.4	-1.8	-12.3	**-3.1**	**-2.2**	**-2.7**
Structural budget balance (c)				-	-4.5	-1.8	-1.8	**-2.5**	**-2.2**	**-2.8**
General government gross debt (c)				25.6	46.2	53.4	70.4	**82.2**	**82.9**	**80.6**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

25. SLOVAKIA

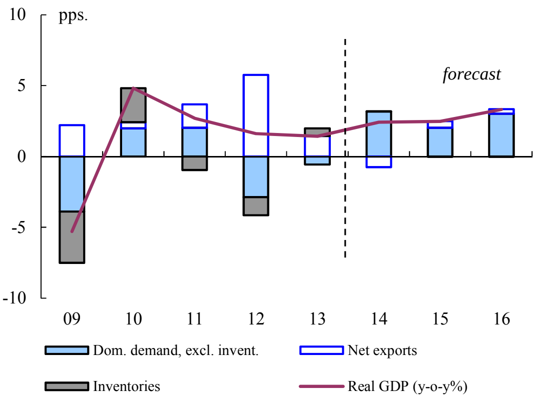
Domestic demand taking the lead

After a slowdown in 2013, Slovakia's economy has gathered pace, driven by a recovery in consumption and investment. This strength in domestic demand should support real GDP growth, gradually decreasing unemployment. Inflation, which abated markedly in 2014, is expected to rise slowly over the forecast horizon. Following the significant achievements of recent years, fiscal consolidation is expected to resume in 2015 after a temporary expansion in 2014.

Growth improves in 2014...

After a slowdown in 2013 due to stagnating domestic demand and a deceleration of exports, Slovakia's economy picked up in the first half of 2014 on the back of rising consumption and investment. Growth is projected to continue at a similar pace for the rest of the year, with real GDP expanding by 2.4% in 2014 as a whole. The growth rate is forecast to slightly increase to 2.5% in 2015 and to rise to 3.3% in 2016. Domestic demand has become the main contributor to growth in 2014 and is expected to keep driving the economy over the forecast horizon. Linked to increased economic activity, the labour market also registered a turnaround in recent quarters.

Graph II.25.1: **Slovakia - Real GDP growth and contributions**



...driven by a recovery in domestic demand.

After three consecutive years of decline, private consumption, which rebounded strongly in the first two quarters of 2014 thanks to growing real disposable income and an amelioration of consumer confidence, is expected to increase by 2.8% over the year as a whole. Household consumption is projected to further increase in 2015 and 2016, reflecting a gradual improvement in labour market conditions.

Gross fixed capital formation grew strongly in the first half of 2014, mainly due to the expansion of equipment investment. In the second quarter of the year, however, investment in residential and non-residential construction also showed strong growth, suggesting a broader recovery is underway. Overall, gross fixed capital formation is projected to increase by 4.1% and further growth is expected in 2015 and 2016. In particular, investment in residential construction is likely to rise given improving business sentiment in the construction sector and increasing demand for housing loans.

Exports, by contrast, dropped sharply in the second quarter of 2014, mainly because of slow GDP growth in Slovakia's main trading partners. Exports are still expected to increase for the year as a whole, albeit at a slower pace compared to previous years. In 2014, imports are projected to grow faster than exports due to the strong recovery in private consumption. In the following years, however, imports are projected to grow more in line with exports, reflecting the high import intensity of Slovakia's exports.

Labour market shows signs of improvement

While unemployment in Slovakia remains at elevated levels, the first half of 2014 saw a steady fall in the unemployment rate. Over the forecast horizon, labour market conditions are expected to improve gradually as the economy recovers. The unemployment rate is projected to be 13.4% in 2014 and to then fall to 12.8% in 2015 and to 12.1% in 2016.

Inflation set to rise slowly

Inflation dropped markedly in 2014, driven mainly by falling energy and industrial goods prices. Import prices have decreased continuously since the third quarter of 2013, exerting downward pressure on inflation. HICP inflation is forecast to be -0.1% this year and to slowly rise to 0.7% in 2015 and to 1.4% in 2016.

Fiscal improvement slows down despite strong growth in tax revenues

The general government deficit for 2013 was revised downwards by 0.2 pps. to 2.6% of GDP. The fiscal balance in 2014 is expected to worsen to 3% of GDP despite much stronger-than-budgeted growth in tax revenue, the freeze of state budget expenditures since May due to the activation of the first stage of the national debt brake and lower co-financing of investment financed through EU funds. Factors such as lower-than-budgeted revenue from dividends, higher health-care expenditure and higher spending of local governments and universities will increase the deficit. Uncertainties that could negatively affect the final deficit outcome stem principally from the statistical treatment of proceeds from the sale of mobile phone frequency licences and the application of financial corrections related to the projects financed with EU funds.

The deficit is projected to decline to 2.6% of GDP in 2015, on the back of tax-rich growth as well as measures such as changes to depreciation rules, new legislation to limit transfer pricing practices and extending compulsory use of cash registers. The impact of these measures is, however, partly off-set by other deficit-increasing measures, such as the introduction of partial tax-deductibility of R&D expenditure, the reduction of the tax wedge for low-paid workers, and expected increases in teachers' salaries. Due to the revision of the 2013 general government debt-to-GDP ratio, the second stage of the national debt brake (pertaining to 2015) is no longer expected to apply and hence savings on government expenditure in the 2015-17 draft budget are only partially taken into account in the forecast. Assuming no further changes in government policies, in 2016 the deficit is forecast to decline further to 2.3% of GDP on the back of an improving economic situation.

After deteriorating in 2014, the structural balance is set to improve again in 2015 and 2016. Assuming substantial drawdowns of the cash reserves in 2014 and use of the expected privatisation proceeds for debt reduction in 2015, the general government debt is projected to be 54.1% of GDP in 2014 and remain below 55% of GDP in the final two years of the forecast.

Table II.25.1:

Main features of country forecast - SLOVAKIA

	2013			Annual percentage change						
	bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		73.6	100.0	4.5	2.7	1.6	1.4	**2.4**	**2.5**	**3.3**
Private Consumption		41.7	56.7	4.6	-0.7	-0.4	-0.7	**2.8**	**2.3**	**3.1**
Public Consumption		13.3	18.1	3.6	-2.1	-2.0	2.4	**4.2**	**1.2**	**1.9**
Gross fixed capital formation		15.0	20.4	3.4	12.7	-9.3	-2.7	**4.1**	**2.5**	**4.3**
of which: equipment		7.3	9.9	3.1	36.5	-12.3	-2.6	**6.2**	**3.3**	**5.6**
Exports (goods and services)		68.4	93.0	8.1	12.0	9.3	5.2	**4.6**	**4.4**	**5.6**
Imports (goods and services)		65.1	88.4	8.2	9.7	2.6	3.8	**5.7**	**4.0**	**5.5**
GNI (GDP deflator)		72.1	98.0	4.4	3.1	1.5	1.5	**2.4**	**2.4**	**3.4**
Contribution to GDP growth:	Domestic demand			4.3	2.0	-2.9	-0.6	**3.2**	**2.0**	**3.0**
	Inventories			0.5	-1.0	-1.3	0.5	**0.0**	**0.0**	**0.0**
	Net exports			-0.2	1.7	5.8	1.4	**-0.7**	**0.5**	**0.3**
Employment				-	1.8	0.1	-0.8	**0.8**	**0.7**	**0.6**
Unemployment rate (a)				14.8	13.7	14.0	14.2	**13.4**	**12.8**	**12.1**
Compensation of employees / head				-	2.0	2.6	2.6	**3.5**	**2.2**	**3.0**
Unit labour costs whole economy				-	1.1	1.0	0.3	**1.9**	**0.4**	**0.3**
Real unit labour cost				-	-0.6	-0.2	-0.2	**2.0**	**-0.1**	**-1.0**
Saving rate of households (b)				9.1	8.5	7.2	8.5	**6.9**	**7.0**	**7.0**
GDP deflator				4.3	1.6	1.3	0.5	**-0.1**	**0.5**	**1.3**
Harmonised index of consumer prices				-	4.1	3.7	1.5	**-0.1**	**0.7**	**1.4**
Terms of trade goods				-0.6	-1.3	-1.2	-0.5	**0.0**	**0.0**	**0.0**
Trade balance (goods) (c)				-6.1	-0.6	3.1	4.3	**3.3**	**3.7**	**4.1**
Current-account balance (c)				-6.0	-3.8	0.3	0.8	**0.5**	**0.2**	**0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.0	-2.2	1.8	2.3	**1.2**	**0.5**	**0.5**
General government balance (c)				-5.6	-4.1	-4.2	-2.6	**-3.0**	**-2.6**	**-2.3**
Cyclically-adjusted budget balance (c)				-	-3.7	-3.3	-1.4	**-1.7**	**-1.3**	**-1.1**
Structural budget balance (c)				-	-4.1	-3.4	-1.4	**-2.1**	**-1.3**	**-1.1**
General government gross debt (c)				36.8	43.5	52.1	54.6	**54.1**	**54.9**	**54.7**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

26. FINLAND

Domestic factors restraining growth

Economic activity in Finland is set to contract for the third year in a row this year and resume to only modest growth in 2015. Partly as a consequence, public finances remain under pressure. While the nominal deficit is projected to decline, the structural deficit will remain elevated.

Economic recovery postponed

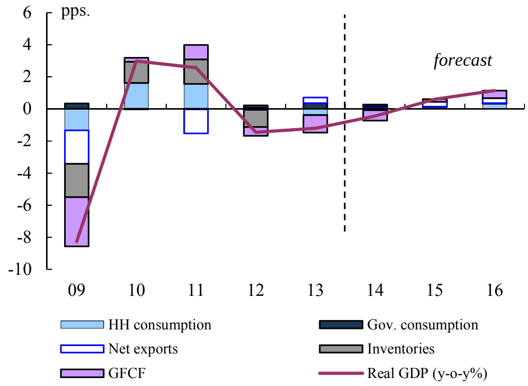
Finland has been in recession since 2012 and real GDP is now expected to contract again this year by 0.4% as negative risks related to geopolitical tensions have materialised and economic activity in the main trading partners is falling short of expectations. The Finnish economy is expected to gradually benefit from the tepid economic recovery in the EU and increasing activity in the rest of the world in 2015-16. Domestic demand, by contrast, will make only a weak contribution to growth, especially as households' real disposable income growth remains subdued. In addition, growth is expected to remain weak due to low investment, a declining working age population, and difficulties in translating high R&D expenditure and good fundamentals into profitable innovations.

Economic growth disappointed in the first quarter this year, but economic activity increased in Finland in the second quarter. Recent data, including confidence indicators, point to continued weakness in the second half of 2014. The outlook appears particularly subdued in domestically oriented sectors like construction and private services. The outlook is less negative in manufacturing, but downsizing of forest and electronics industries and weak investment in new production capacity in recent years continue to act as a drag on growth of value added in manufacturing.

Net exports to provide support

For 2014, Finnish exports to the EU are forecast to increase broadly in line with the region's mildly expanding economic activity, while exports to the rest of the world are expected to fall. The slowdown of the Russian economy has been weighing on exports since mid-2013, and the EU's sanctions and the import ban of food by Russia are set to weigh further on Finnish exports. In 2015 and 2016, exports are expected to recover, as investment and activity increase in the main export markets. Still, the loss of export market shares is expected to continue, as Finnish companies continue to struggle to launch and export innovative products. With slow domestic demand growth this year and next, imports are expected to grow less than exports, resulting in a positive contribution to growth from net exports. The trade balance of goods and services is expected to slowly improve over the forecast horizon. External developments continue to the most significant risks for the forecast.

Graph II.26.1: **Finland - Real GDP growth and contributions**



A weak domestic economy

The labour market situation is gradually worsening. According to the labour force survey, the trend unemployment rate has increased from 8.4% at the end of 2013 to 8.7% in September 2014. However, the number of registered unemployed exceeds the survey based unemployment measure, confirming that there is a larger pool of jobless people who want to work but are not actively seeking a job or are not immediately available for work. The labour market is expected to recover in 2015-16, but with a lag with respect to economic activity due to skills mismatches and firms' efforts to increase productivity.

Domestic demand is estimated to decrease further in 2014, but to grow in 2015 and 2016. As wage growth is set to be moderate over the forecast horizon, developments in employment will be crucial for household income generation. Although inflation has slowed down this year and is forecast to remain low, households' real disposable income is barely rising this year, and its growth is expected to accelerate only mildly next year as employment increases. Therefore, private consumption growth is set to remain muted in 2015 and 2016. Households are also expected to remain cautious in investing in new dwellings. Corporate investment is being held back by the weak economic outlook and low capacity utilisation rates. Overall, financing conditions have remained favourable but financial market indicators suggest that small companies are finding it more difficult than their larger peers.

Fiscal situation worsening

General government net borrowing is on a rising trend. The nominal public deficit in 2013 stood at 2.4% of GDP, and is forecast to increase to 2.9% of GDP in 2014.

In spring 2014, the government had agreed on structural reforms and additional fiscal consolidation measures for 2015 budget that were expected to bring down the deficit significantly. Over the summer, some of the measures were cancelled or postponed and growth prospects have deteriorated. In particular, the previously announced freeze of income tax brackets will be postponed until 2016, tax deductions have been offered to families with children, and sugar tax increases have been reduced. Taking these developments into account in the forecast, the 2015 deficit is forecast to decline to 2.6% of GDP, a smaller improvement than estimated in spring. In 2016, based on the no policy change assumption, the deficit should decline further to 2.3% of GDP. Over the forecast horizon, public consumption and investments are expected to increase very modestly. Public sector revenues from property income are forecast to grow slowly, weighing particularly on the revenues of pension funds.

In 2014, the structural deficit is projected to reach about 1.1% of GDP, worsening by 0.4 pps. compared to 2013. The structural balance is not forecast to improve in 2015 and would further weaken in 2016.

General government gross debt is expected to reach 59.8% of GDP in 2014 and 61.7% in 2015. The debt level is expected to increase further in 2016 to 62.4% of GDP.

Table II.26.1:

Main features of country forecast - FINLAND

	2013			Annual percentage change						
	bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		201.3	100.0	2.9	2.6	-1.5	-1.2	**-0.4**	**0.6**	**1.1**
Private Consumption		111.0	55.2	3.0	2.9	0.1	-0.7	**-0.1**	**0.2**	**0.6**
Public Consumption		50.2	24.9	1.8	-0.1	0.7	1.5	**0.2**	**0.1**	**0.1**
Gross fixed capital formation		42.6	21.2	3.8	4.1	-2.5	-4.8	**-3.0**	**0.9**	**2.3**
of which: equipment		9.9	4.9	2.9	11.5	10.6	-3.2	**-5.2**	**1.5**	**4.0**
Exports (goods and services)		76.9	38.2	5.7	2.0	1.2	-1.7	**0.2**	**1.9**	**3.2**
Imports (goods and services)		78.8	39.1	5.7	6.0	1.3	-2.5	**-0.1**	**1.1**	**2.3**
GNI (GDP deflator)		201.9	100.3	3.3	1.7	-1.4	-1.4	**-0.5**	**0.6**	**1.1**
Contribution to GDP growth:	Domestic demand			2.7	2.4	-0.3	-1.1	**-0.7**	**0.3**	**0.8**
	Inventories			0.0	1.5	-1.1	0.0	**0.1**	**0.0**	**0.0**
	Net exports			0.4	-1.5	-0.1	0.3	**0.1**	**0.3**	**0.3**
Employment				1.3	1.3	0.9	-1.5	**-0.6**	**0.2**	**0.6**
Unemployment rate (a)				9.8	7.8	7.7	8.2	**8.6**	**8.5**	**8.3**
Compensation of employees / head				3.1	3.6	2.8	2.0	**1.6**	**1.5**	**1.6**
Unit labour costs whole economy				1.5	2.3	5.2	1.7	**1.4**	**1.1**	**1.1**
Real unit labour cost				-0.1	-0.3	2.5	-0.6	**0.1**	**-0.3**	**-0.6**
Saving rate of households (b)				8.8	8.1	7.7	7.9	**8.3**	**8.6**	**8.4**
GDP deflator				1.7	2.6	2.6	2.4	**1.4**	**1.4**	**1.7**
Harmonised index of consumer prices				1.6	3.3	3.2	2.2	**1.2**	**1.3**	**1.6**
Terms of trade goods				-0.8	-2.1	-1.8	0.4	**0.3**	**0.0**	**0.0**
Trade balance (goods) (c)				6.7	-0.8	-0.4	-0.2	**-0.1**	**0.1**	**0.3**
Current-account balance (c)				4.7	-1.5	-1.9	-2.0	**-1.9**	**-1.7**	**-1.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				4.8	-1.4	-1.8	-1.9	**-1.9**	**-1.6**	**-1.4**
General government balance (c)				1.5	-1.0	-2.1	-2.4	**-2.9**	**-2.6**	**-2.3**
Cyclically-adjusted budget balance (c)				1.5	-0.9	-1.1	-0.8	**-1.1**	**-1.1**	**-1.3**
Structural budget balance (c)				-	-0.8	-1.1	-0.7	**-1.1**	**-1.1**	**-1.3**
General government gross debt (c)				43.5	48.5	53.0	56.0	**59.8**	**61.7**	**62.4**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

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

27. SWEDEN

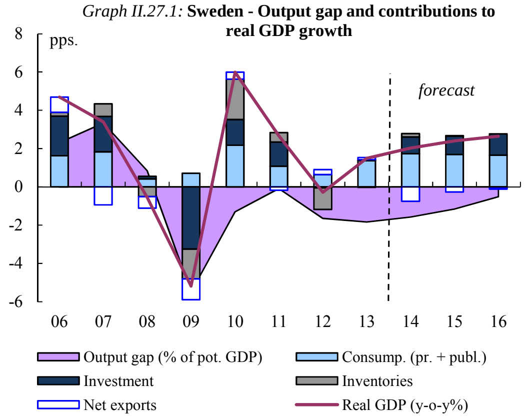
Domestic resilience despite weak foreign demand

Sweden's GDP is forecast to grow less strongly than previously expected because of weaker global demand, rising imports and weak manufacturing investment, but should still remain solid, thanks to strong consumption and construction. Downside risks are increasing and becoming more apparent.

Gradual acceleration of growth ahead

Economic growth is expected to accelerate from 1.5% in 2013 to 2.0% 2014. This year's progress will likely be weaker than expected as deteriorating conditions abroad hinder exports and weigh on investment by businesses. By contrast, the domestic engines of growth, consumption and construction are performing strongly and are expected to sustain growth in the coming years. Economic sentiment indicators continue to stay at high levels but have recently levelled off, indicating a lack of additional impetus that could substantially boost economic growth in the short term. As external demand starts to gradually normalise and increase from next year, Sweden's GDP growth is expected to further accelerate to 2.4% in 2015 and 2.7% in 2016.

Graph II.27.1: **Sweden - Output gap and contributions to real GDP growth**



Consumption growth remains strong

Similarly to previous years, consumption will remain the main driver of growth. Household consumption is projected to remain strong over the forecast horizon due to low interest rates, steadily growing disposable incomes and strong employment growth. Government consumption is expected to grow at a higher pace than previously projected due to increased social spending (mainly related to migration and ageing).

According to the most recent forecast of the Swedish Statistical Office (SCB), the population of Sweden will increase faster than previously foreseen mainly due to a large inflow of asylum seekers. Labour supply continues to increase swiftly due to demographics and government policies. Despite fairly strong employment growth deriving mainly from services and from the public sector, unemployment will remain sticky around 8%, and will only gradually decline from 2016 onwards, when population growth is projected to moderate. In the medium term, weak labour market integration of those without adequate skills could slow the decline in unemployment.

Rebounding construction investment

Despite declining manufacturing investment, overall gross fixed capital formation has been growing so far in 2014 thanks to high public investments and rebounding construction. Low capacity utilisation and fragile external developments will continue to mute manufacturing investments, while construction is projected to rise robustly on account of strong fundamentals (growing population, reinvigorated growth of house prices and significant housing shortage in major cities).

Net exports will remain a drag

Weak net exports have been the main drag on growth in the first half of 2014. While exports grew at a rate of 2.2%, import growth accelerated to 3.7% as robust consumption translated into strong imports of durable consumer goods. In 2015 and 2016, the difference between export and import growth is likely to decline as external demand picks up. Nevertheless, net trade is expected to continue to detract from GDP growth in the coming years.

More apparent negative risks

Risks have been multiplying and have become more apparent primarily on the negative side. Domestically, an abrupt correction of high and rising house prices could dampen household consumption. Households could reduce their consumption spending if disposable income turns out weaker. From the external side, the deteriorating economic outlook for the euro area countries and further escalation of the Ukrainian crisis could further negatively impact business confidence in Sweden and its main trading partners.

Moderate increase of inflation

Due to declining inflation expectations, the Riksbank cut its repo rate further than expected, from 0.75% to 0.25% in July 2014. This has also prompted a fall of the SEK against the main currencies. HICP inflation is expected to increase moderately next year from 0.2% in 2014 to 1.2% in 2015, helped by a weaker currency and tax increases, as well as expectations about higher mortgage interest rates. It is then expected to accelerate only slightly to 1.5% in 2016.

Deteriorating public finances

The general government deficit is forecast to deteriorate to 2.4% in 2014 from a deficit of 1.3% in 2013. This is due on the revenue side to weaker capital tax revenues and lower dividends from state owned companies in 2014. Expenditures related to sick leave and to migration increased more than expected notably due to a rise in asylum seekers. Furthermore, the transition to ESA2010 has increased slightly the level of net borrowing this year.

Following the general elections in September 2014, the new government will present the budget for 2015 later than usual in the year. Under the customary no-policy-change assumption, stronger economic growth is projected to be sufficient to reduce the budget deficit to 1.8% in 2015 and to 1.2% in 2016.

As the 2014 budget was expansionary, using the fiscal space available to boost the economic recovery, the structural deficit will reach 1.5% of GDP in 2014 but is projected to decrease from 2015.

The level of general government debt in 2013 has decreased from 40.6% to 38.6% of GDP with the transition to ESA2010. General government debt is expected to peak in 2014 at a level of 40.3% of GDP, and to decrease from 2015 onwards as economic growth picks up.

Table II.27.1:
Main features of country forecast - SWEDEN

	2013			Annual percentage change						
	bn SEK	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		3776.0	100.0	2.7	2.7	-0.3	1.5	**2.0**	**2.4**	**2.7**
Private Consumption		1763.7	46.7	2.5	1.9	0.8	2.1	**2.9**	**2.8**	**2.8**
Public Consumption		989.8	26.2	0.9	0.8	1.1	1.6	**1.4**	**1.4**	**1.2**
Gross fixed capital formation		836.3	22.1	3.6	5.7	-0.2	-0.1	**3.9**	**4.3**	**4.9**
of which: equipment		281.2	7.4	4.9	12.4	2.8	2.2	**-0.8**	**2.2**	**4.4**
Exports (goods and services)		1653.5	43.8	5.6	6.1	1.0	-0.5	**2.2**	**3.9**	**4.7**
Imports (goods and services)		1467.7	38.9	5.0	7.3	0.5	-0.8	**4.5**	**4.9**	**5.3**
GNI (GDP deflator)		3904.0	103.4	3.0	2.8	0.0	1.8	**1.9**	**2.3**	**2.5**
Contribution to GDP growth:		Domestic demand		2.2	2.3	0.6	1.3	**2.6**	**2.7**	**2.8**
		Inventories		0.0	0.5	-1.1	0.1	**0.2**	**0.0**	**-0.1**
		Net exports		0.5	-0.2	0.3	0.1	**-0.8**	**-0.3**	**-0.1**
Employment				0.6	2.1	0.7	1.0	**1.2**	**1.3**	**1.3**
Unemployment rate (a)				7.4	7.8	8.0	8.0	**7.9**	**7.8**	**7.6**
Compensation of employees / head				3.7	3.2	3.1	1.6	**2.6**	**2.8**	**2.9**
Unit labour costs whole economy				1.6	2.6	4.1	1.1	**1.8**	**1.7**	**1.6**
Real unit labour cost				-0.1	1.4	3.0	0.2	**0.5**	**-0.1**	**-0.4**
Saving rate of households (b)				9.5	15.3	17.7	17.8	**18.3**	**17.8**	**17.4**
GDP deflator				1.8	1.2	1.1	1.0	**1.3**	**1.8**	**2.0**
Harmonised index of consumer prices				1.7	1.4	0.9	0.4	**0.2**	**1.2**	**1.5**
Terms of trade goods				-0.7	-1.3	0.2	0.6	**-0.2**	**0.0**	**0.0**
Trade balance (goods) (c)				7.0	3.4	3.7	3.7	**2.9**	**2.5**	**2.3**
Current-account balance (c)				5.9	5.9	6.3	6.5	**5.7**	**5.4**	**5.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				5.7	5.7	6.2	6.3	**5.4**	**5.1**	**4.8**
General government balance (c)				0.0	-0.1	-0.9	-1.3	**-2.4**	**-1.8**	**-1.2**
Cyclically-adjusted budget balance (c)				0.3	0.0	0.0	-0.3	**-1.5**	**-1.1**	**-0.9**
Structural budget balance (c)				-	0.0	0.0	-0.3	**-1.5**	**-1.1**	**-1.0**
General government gross debt (c)				51.9	36.1	36.4	38.6	**40.3**	**40.1**	**39.4**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

28. THE UNITED KINGDOM

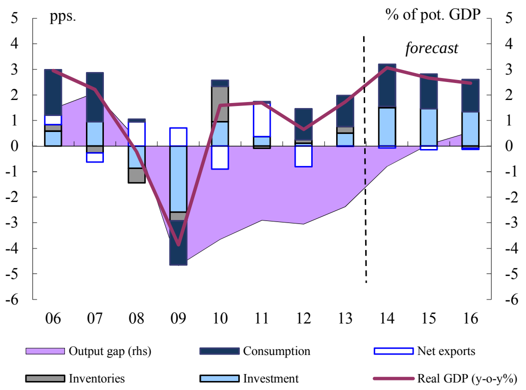
Robust growth and low inflation projected to continue

The strong growth enjoyed in the first half of 2014 is expected to continue, driven by private consumption and investment, although net exports are projected to detract from growth. Unemployment is expected to continue to fall while inflation is projected to remain below 2%. The budget deficit is forecast to decline to 3.4% of GDP by 2016 and the government debt to GDP ratio is expected to continue to edge up.

Brisk growth in the first half of 2014

Growth has been buoyant so far in 2014, at 0.7% and 0.9% in Q1 and Q2, respectively, taking growth from 1.7% in 2013 to 3.2% in the year to Q2 2014. Growth was driven by domestic demand with both household consumption and gross fixed capital formation contributing strongly. The notable contribution to growth of gross fixed capital formation indicates a continuation of the broadening of growth to the business sector. Net exports also contributed to growth.

Graph II.28.1: **The United Kindom - Output gap and contributions to real GDP growth**



Momentum expected to continue

Indicators of activity published recently, for example, PMIs and other indicators of output by sector, suggest that growth will continue in the second half of 2014 at similar rates to those in the first half of the year. Momentum is expected to continue in 2015 and 2016 with growth projected at 2.7% and 2.5%, respectively.

Private consumption to underpin growth

Robust private consumption is expected to remain the main contributor to growth, supported by rising disposable income, positive consumer sentiment, and moderate household saving. Although compensation of employees per head is set to rise only modestly, further employment growth should continue to boost aggregate disposable income. However, continued subdued wages growth and/or a desire by households to increase savings further than projected are downward risks to this outlook. Private consumption is projected to increase by around 2% in each of the forecast years.

Gross fixed capital formation to boost growth

Growth in gross fixed capital formation is projected to pick up firmly from 3.2% in 2013 to between 7% and 10% per year between 2014 and 2016. Robust growth in investment is supported by low borrowing costs, easing credit supply, strong demand, lower uncertainty and strong corporate balance sheets. Such factors are expected to continue over the forecast period as investment responds to the acceleration in demand. Investment in the construction sector is also expected to be strong, reflecting rises in the supply of new houses and improvements to the quality of existing homes.

Net exports remain subdued

Net exports are expected to be a headwind to growth. Although export growth is expected to increase, the appreciation of sterling since early 2013, and the euro area's continued relative weakness, may dampen export growth. Imports unexpectedly fell in H1 2014 but are expected to pick up in response to strong domestic demand. As a result, net exports are projected to detract from growth over the forecast horizon.

Labour market resilience continues

The labour market is set to continue to perform strongly as both labour supply and labour demand continue to rise while wages remain modest. The reduction in the unemployment rate, which is expected to fall to 6.2% in 2014, is expected to continue although at a slower pace. An increase in employee compensation is projected as the labour market tightens, while growth in unit labour costs remains low. Labour productivity is forecast to rise modestly but to remain below its peak in 2008.

Although less pronounced than in the spring forecast, the 'puzzle' of continued low productivity in the face of a strong upswing in GDP remains.

Inflation below target

Inflation has been low in 2014 so far, rising by 1.2% in the year to September. Inflation is expected to remain subdued as a result of modest wage growth, the appreciation of sterling, falling energy prices and pressure on retailers' margins, particularly in the supermarket sector. As a result, inflation is projected to rise only gently from 1.5% in 2014 to 1.9% in 2016 and remain below the Bank of England's target of 2%.

Consolidation proceeding

Revisions as part of the implementation of ESA10 affect the historical profile of the fiscal aggregates with the largest changes in the 2012-13 deficit relating to the treatment of the Royal Mail pension fund transfer, 3G and 4G spectrum receipts, and the inclusion of Network Rail inside the general government sector, along with methodological improvements from the UK statistical office.

The government's fiscal consolidation programme remains in place. However, tax receipts in 2014 have been weaker than expected possibly due to low wage growth, increased employment in relatively lower paid jobs and self-employment, or potentially a timing issue relating to the reduction in the top rate of personal income tax in 2013.

The general government deficit is forecast at 5.2% of GDP in 2014-15, falling to 4.2% of GDP in 2015-16 and 3.2% of GDP in 2016-17. This is based on a no-policy change assumption and reflects tax revenues that are forecast to increase from their current levels and a continuation of public spending restraint. This implies a structural adjustment of 1.4% of GDP between 2014-15 and 2016-17. The general government debt ratio has been revised downward; however, it is expected to continue to increase to 88.7% by 2016-17.

Table II.28.2:
General government projections on a financial-year basis

ESA95	Actual		Forecast		
	2012-13	2013-14	2014-15	2015-16	2016-17
General government balance~	-7.6	-5.9	**-5.2**	**-4.2**	**-3.2**
Structural budget balance	-6.0	-5.0	-5.2	-4.6	-3.8
General government gross debt	85.4	87.8	**88.0**	**88.3**	**88.7**

~APF transfers included

Table II.28.2:
Main features of country forecast - UNITED KINGDOM

	2013			Annual percentage change					
	bn GBP Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	1713.3	100.0	2.4	1.6	0.7	1.7	**3.1**	**2.7**	**2.5**
Private Consumption	1110.8	64.8	2.9	0.1	1.1	1.6	**2.2**	**2.0**	**1.9**
Public Consumption	346.8	20.2	2.2	0.0	2.3	0.7	**1.1**	**0.4**	**0.4**
Gross fixed capital formation	281.5	16.4	2.2	2.3	0.7	3.2	**9.1**	**8.4**	**7.3**
of which: equipment	68.8	4.0	2.2	-1.0	2.8	3.7	**14.2**	**6.9**	**7.0**
Exports (goods and services)	511.3	29.8	4.3	5.6	0.7	0.5	**-0.6**	**3.3**	**4.3**
Imports (goods and services)	543.4	31.7	5.1	1.0	3.1	0.5	**-0.3**	**3.7**	**4.3**
GNI (GDP deflator)	1700.2	99.2	2.6	1.7	-0.8	1.3	**3.0**	**2.7**	**2.6**
Contribution to GDP growth:	Domestic demand		2.7	0.4	1.3	1.7	**3.1**	**2.8**	**2.6**
	Inventories		0.0	-0.1	0.1	0.3	**0.1**	**0.0**	**-0.1**
	Net exports		-0.3	1.3	-0.8	0.0	**-0.1**	**-0.1**	**-0.1**
Employment			0.8	0.5	1.2	1.3	**2.1**	**1.3**	**1.1**
Unemployment rate (a)			6.1	8.0	7.9	7.5	**6.2**	**5.7**	**5.5**
Compensation of employees / head			4.3	0.8	1.8	2.0	**1.6**	**2.3**	**2.7**
Unit labour costs whole economy			2.6	-0.3	2.4	1.5	**0.6**	**0.9**	**1.2**
Real unit labour cost			0.3	-2.4	0.7	-0.2	**-1.2**	**-0.8**	**-0.5**
Saving rate of households (b)			9.0	8.6	8.0	6.4	**7.2**	**7.6**	**7.9**
GDP deflator			2.2	2.1	1.7	1.7	**1.9**	**1.7**	**1.8**
Harmonised index of consumer prices			2.0	4.5	2.8	2.6	**1.5**	**1.6**	**1.9**
Terms of trade goods			0.1	-1.4	0.0	0.7	**1.3**	**1.3**	**0.5**
Trade balance (goods) (c)			-4.1	-6.0	-6.6	-6.4	**-6.2**	**-6.1**	**-6.0**
Current-account balance (c)			-1.9	-1.7	-3.7	-4.2	**-4.0**	**-3.7**	**-3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-1.8	-1.6	-3.7	-4.2	**-4.0**	**-3.7**	**-3.3**
General government balance (c)			-3.3	-7.6	-8.3	-5.8	**-5.4**	**-4.4**	**-3.4**
Cyclically-adjusted budget balance (c)			-3.4	-5.8	-6.5	-4.4	**-5.0**	**-4.5**	**-3.7**
Structural budget balance (c)			-	-5.8	-6.5	-4.4	**-5.0**	**-4.5**	**-3.7**
General government gross debt (c)			46.2	81.9	85.8	87.2	**89.0**	**89.5**	**89.9**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

Candidate Countries

29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Broader-based acceleration of growth

The economic recovery is progressing, driven by a further strengthening of domestic demand, in particular public and foreign direct investment, and a dynamic export activity. Private consumption is expected to remain resilient, bolstered by further gradual employment gains. Given limited efforts in fiscal consolidation, and large financing needs of public infrastructure projects, public debt is likely to increase further.

Domestic demand strengthens in the first half…

In the first half of 2014, real GDP increased by some 3.9% y-o-y, after (revised) 2.7% annual growth in 2013. Growth drivers shifted decisively from the external sector to domestic demand. After a disappointing performance in 2013, investment activity rebounded in the first quarter, spurred by public infrastructure expenditure and by the establishment of new foreign companies. However, it was almost flat in the second quarter, and construction activity, after a buoyant first quarter, stagnated, far from attaining the 32% annual growth rate of 2013. Manufacturing output, driven by the food and clothing industry, and by new investments in the motor vehicles industry, proved resilient, rising by 4.3% y-o-y in the first eight months. Net exports contributed negatively to growth, with import volumes, largely investment-related, rising by 8.1%, outbalancing the impressive 13.3% rise in exports.

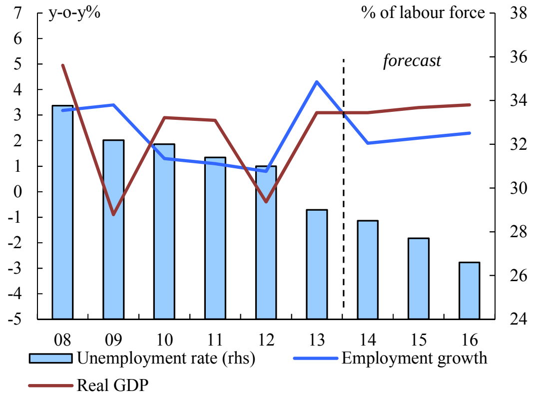
…and is set to become the main growth driver.

Looking forward, domestic demand is likely to strengthen further, and become the sole contributor to the economy's growth. Household consumption is supported by the continued benign inflationary environment -lower prices for food and imported commodities contributed to the economy's drift into deflation in the first half of 2014. As of spring, price dynamics, and an increase in nominal wages, have been lifting real net wages. Rises in public wages and pensions, the expected acceleration in employment growth, the robust remittances from abroad, and further strong public capital spending will bolster private consumption and investment, aided by further strengthening credit growth.

Structural challenges impede job creation

The labour market situation remains tense, as structural problems, such as deficiencies in the education and training system, hamper the positive transmission of the cyclical upswing on employment. While the overall unemployment rate posted further marginal declines, driven by both, a reduction in the number of unemployed and an increase in the labour force, the rate for young workers rose further in the first half of 2014. Employment in manufacturing, which accounts for about one fifth of the total, remained robust in the first half of the year, bolstering job creation in industry which attained some 7% y-o-y.

Graph II.29.1: **The former Yugoslav Republic of Macedonia - Labour market**



Over the forecast period, further employment gains are expected, stemming from the strong investment dynamics, and from the start, or extension of production by a number of foreign firms, with labour cost increasing only moderately.

External imbalances remain contained…

Supported by a narrowing merchandise trade deficit, and strong inflows of private transfers, the current account balance improved. In the four quarters to June, it stood at 1.5% of GDP, compared to 1.8%, on average, in 2013. Spurred by a 5mn Eurobond issue in July, foreign reserves have increased sharply. At the same time, this operation also raised the level of public sector external debt, by some 32% compared to the end of 2013, bringing overall gross external debt up by 5pp to 68% of GDP. This will be slightly reversed in the coming years as the government redeems a previous Eurobond as well as IMF loans.

…but imports will prove a drag on growth.

Looking ahead, import growth is set to accelerate significantly in 2014, on account of investment-related needs stemming from public infrastructure projects and from new foreign direct investment. In the following two years, the dynamic export activity is expected to progressively outpace import growth, as new foreign companies start production, and the negative contribution of net exports to GDP growth would level off.

Fiscal consolidation stands on shaky ground…

Front-loaded, pre-election transfer and subsidy payments weighed heavily on public expenditure during the first half of 2014. Tax revenue remained below the level of the previous year. The government subsequently raised the general government deficit target by 4pp to 3.8% of GDP, complicating compliance with the medium-term fiscal strategy, which foresees expenditure-based consolidation to lower the deficit to 2.6% by 2016. In the absence of concrete consolidation measures, and given further projected rises in entitlement and public infrastructure spending, as well as uncertain revenue prospects, deficit reductions over the forecast horizon are likely to remain modest.

…and debt levels are likely to increase further.

Driven by the primary deficits, general government debt, which stood at 34% of GDP at the end of 2013, is projected to rise further by some 7pp over the horizon. This increase is likely to be outpaced by the rise of overall public debt, given the financing needs for public infrastructure projects which are largely operated by state-owned enterprises. While these investments are likely to raise growth potential, their financing via state-guaranteed loans entails fiscal risks due to the related rise in government contingent liabilities.

Graph II.29.2: **The former Yugoslav Republic of Macedonia - Public finances**

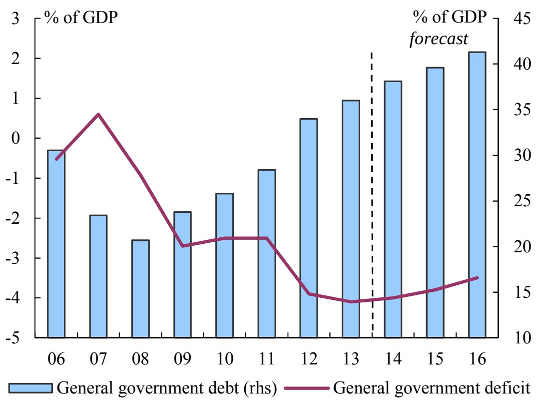


Table II.29.1:

Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

		2013			Annual percentage change					
	bn MKD	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		499.6	100.0	2.5	2.3	-0.5	2.7	**3.3**	**3.4**	**3.6**
Private Consumption		359.2	71.9	-	2.9	-3.0	3.6	**3.0**	**2.6**	**2.4**
Public Consumption		88.5	17.7	-	0.6	-1.4	-3.7	**1.5**	**1.3**	**1.1**
Gross fixed capital formation		117.4	23.5	-	12.4	20.0	-8.9	**8.6**	**9.6**	**9.1**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		218.7	43.8	-	10.5	0.0	3.8	**8.2**	**8.5**	**8.9**
Imports (goods and services)		309.3	61.9	-	10.4	4.0	-1.6	**8.1**	**8.0**	**7.5**
GNI (GDP deflator)		486.9	97.5	-	2.0	-0.6	3.1	**3.3**	**3.4**	**3.6**
Contribution to GDP growth:	Domestic demand			-	4.6	1.6	-0.1	**4.5**	**4.5**	**4.2**
	Inventories			-	-0.5	1.0	0.0	**0.2**	**0.2**	**0.2**
	Net exports			-	-1.9	-3.0	2.8	**-1.4**	**-1.3**	**-0.8**
Employment				-	1.1	0.8	4.3	**1.9**	**2.1**	**2.3**
Unemployment rate (a)				-	31.4	31.0	29.0	**28.5**	**27.7**	**26.6**
Compensation of employees / head				-	-3.9	2.0	1.2	**2.0**	**2.5**	**3.0**
Unit labour costs whole economy				-	-5.0	3.3	2.8	**0.7**	**1.2**	**1.7**
Real unit labour cost				-	-8.3	1.3	-1.3	**0.4**	**0.4**	**0.6**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				4.5	3.5	2.0	4.2	**0.3**	**0.8**	**1.1**
Consumer-price index				3.2	3.9	3.3	2.8	**0.7**	**1.2**	**1.7**
Terms of trade goods				-	4.4	4.6	0.2	**0.0**	**0.4**	**-0.1**
Trade balance (goods) (c)				-16.6	-22.1	-22.4	-18.4	**-19.1**	**-19.6**	**-19.8**
Current-account balance (c)				-6.0	-2.5	-3.0	-1.8	**-3.3**	**-4.0**	**-4.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-2.6	-3.9	-4.1	**-4.0**	**-3.8**	**-3.5**
Cyclically-adjusted budget balance (c)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	28.4	28.6	34.0	**40.2**	**41.7**	**43.5**

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

30. ICELAND

Resilient growth, driven by tourism, investment and private consumption

Economic activity is expected to increase by 2¼% in 2014 and to accelerate further to around 2¾% and 2½% in 2015 and 2016, supported by tourism, private investment, strengthened disposable income, and pent up private consumption. However, strong domestic demand could lead to widening external imbalances, creating pressure on the exchange rate and domestic price stability.

Resilient growth, in particular in the second quarter of 2014

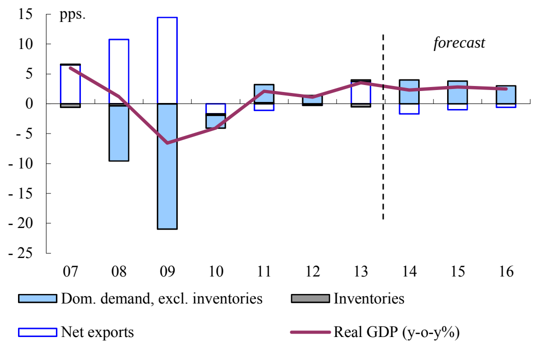
Year-on-year output growth was 0.4% in the first half of the year, reflecting a drop by 1.3% in the first quarter and an increase by 2.4% in the second quarter. The main reason for the weak performance in the first quarter had been high imports, driven by equipment investment and private consumption, but also a reduction in inventory. In the second quarter, private consumption and exports rose year-on-year by 4.2% and 3.4% respectively, while imports rose by 7.2%. Overall, private consumption and tourism have been the main drivers of growth. The former benefits from low inflation, supporting real wage growth and the government's household debt relief programme. The rather weak growth of commodity exports is more than offset by strong service exports, in particular tourism, registering record high inflows.

The labour market situation continued to improve, with employment increasing by some 2%. However, job creation took mainly place in low-skilled and low wage sectors, partly reflecting the expansion of tourism. In June, the seasonally-not-adjusted unemployment rate had declined to 3.1%, compared to 4% a year before.

In 2015-16, domestic demand will be the main driver of growth

Key determinants for Iceland's growth performance in 2015-16 will be tourism, private investment as well as private consumption, benefitting from lower inflation and government measures to boost disposable income, such as the announced household debt relief programme, which is planned to be implemented over a 4 year period. Some long-planned private investment projects in the energy and maritime sectors and additional, largely tourism-related construction could further boost domestic demand. However, the existence of capital controls is likely to impede Iceland's attractiveness for incoming FDI. Total exports are projected to benefit from a flourishing tourism sector. However, higher imports due to stronger domestic demand will largely offset the positive effects of higher tourism revenues.

Graph II.30.1: **Iceland - Real GDP growth and contributions**



The labour market situation is likely to maintain its positive trend

Thanks to strong growth and new employment opportunities in tourism and construction, labour market conditions are expected to improve further. Annual average unemployment thus could drop below 4½% by 2016. However, most new jobs are likely to be in lower wage segments. Addressing long-term unemployment will remain an important challenge.

The recent moderate wage agreements, declining import prices, in particular lower oil prices and a strengthening exchange rate have helped to contain inflationary pressures, declining from 5.2% in 2012 to 3.9% in 2013. In 2014, inflation is likely to be slightly below the Central Bank's target of 2.5%. However, the strong growth could lead to a rise in inflation to around 3% by 2016.

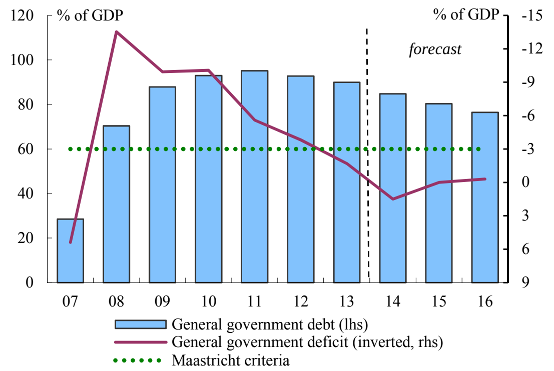
Strong domestic demand will lead to a widening of external imbalances

As a result of stronger domestic demand, the surplus in trade in goods will turn into a deficit during the forecast period, while the services balance is expected to continue benefitting further from expanding tourism. Overall, the current account is likely to deteriorate over the forecast period, which could create pressure on the exchange rate and price stability.

Reducing public debt remains a challenge

The general government deficit dropped from 3.7% of GDP in 2012 to 1.7% in 2013. During the first half of 2014, a one-off dividend payment of a state-owned bank and strong performance of direct taxes resulted in a general government surplus of 1.2% of the estimated end-year GDP. For the whole year, the forecast expects a surplus of about 1½% of GDP. The government's fiscal target for 2015 of a balanced budget is well in line with the underlying economic growth projection. However, plans to lower direct taxes might result in a slight deterioration in the fiscal balance in 2016, towards –¼% of GDP. Substantial primary surpluses (of more than 4% of GDP) will help to reduce the general government debt-to-GDP ratio well below 80% by 2016. Government plans to sell state assets in order to lower the public debt burden could lead to a faster than projected reduction in the debt ratio.

Graph II.30.2: **Iceland - Public finances**



Uncertainties and risks stemming from the 2008 crisis are not overcome yet

Settling still existing claims towards banks in insolvency could lead to substantial current-account outflows. Lifting capital controls thus still remains a major challenge. Furthermore, higher imports as a result of strong domestic demand could create additional pressure on external accounts, the exchange rate and domestic price stability.

Table II.30.1:
Main features of country forecast - ICELAND

	2013			Annual percentage change					
	bn ISK Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	1873.0	100.0	3.3	2.1	1.1	3.5	**2.3**	**2.8**	**2.5**
Private Consumption	986.5	52.7	3.0	2.5	2.0	0.8	**4.0**	**3.9**	**3.0**
Public Consumption	455.7	24.3	2.7	0.2	-1.2	0.8	**1.0**	**0.7**	**0.5**
Gross fixed capital formation	282.7	15.1	1.3	11.6	4.3	-2.2	**11.0**	**9.5**	**7.5**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1043.7	55.7	4.8	3.4	3.9	6.9	**3.5**	**4.0**	**4.7**
Imports (goods and services)	887.7	47.4	3.5	6.8	4.9	0.4	**7.8**	**6.7**	**6.5**
GNI (GDP deflator)	1838.4	98.2	2.4	6.4	4.6	12.4	**1.2**	**2.2**	**1.9**
Contribution to GDP growth: Domestic demand			3.1	3.0	1.4	0.3	**4.0**	**3.8**	**3.0**
Inventories			0.0	0.2	-0.1	-0.5	**0.0**	**0.0**	**0.0**
Net exports			0.3	-1.1	-0.2	3.7	**-1.7**	**-1.0**	**-0.6**
Employment			1.2	0.0	1.1	3.3	**1.9**	**1.5**	**1.2**
Unemployment rate (a)			3.6	7.1	6.1	5.4	**5.0**	**4.6**	**4.3**
Compensation of employees / head			-	8.2	5.6	5.2	**4.1**	**4.4**	**4.6**
Unit labour costs whole economy			-	6.0	5.6	5.0	**3.7**	**3.1**	**3.3**
Real unit labour cost			-	3.2	2.4	2.9	**1.9**	**0.4**	**0.4**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			4.9	2.7	3.1	2.1	**1.8**	**2.8**	**2.9**
Consumer-price index			-	4.0	5.2	3.9	**2.3**	**2.8**	**3.0**
Terms of trade goods			-0.7	-5.5	-7.6	-4.5	**0.4**	**0.2**	**0.4**
Trade balance (goods) (c)			-3.6	1.3	0.0	0.4	**-0.9**	**-2.3**	**-3.3**
Current-account balance (c)			-8.6	-5.2	-4.2	5.6	**2.6**	**1.2**	**0.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-5.6	-3.7	-1.7	**1.5**	**0.0**	**-0.3**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	95.1	92.8	89.9	**84.8**	**80.3**	**76.4**

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

31. MONTENEGRO

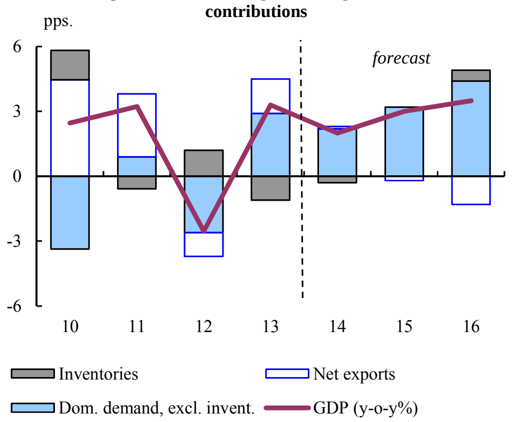
A delayed investment agenda

Growth decelerated markedly in the first half of 2014, reflecting a sharp decline of exports but also the adjournment of some key major investment projects. Driven by domestic demand, economic activity is expected to regain some strength as of 2015, while budget performance, already better than planned, would further improve.

Growth deceleration after the recovery

GDP growth slowed markedly from 1.5% y-o-y in the first quarter to 0.3% in the second. Construction, retail and real estate sectors contributed positively to GDP growth in the first half of the year. However, industrial production contracted sharply in the second quarter, reflecting to a large extent high base effect in utilities output.

Graph II.31.1: **Montenegro - GDP growth and contributions**



Some growth of industrial production is expected in the last quarter of 2014 following the renovation of a steel factory and higher aluminium prices in US dollars, the restart of construction after the summer break as well as some growth in the number of tourism in the late season. Yet, all these factors might prove insufficient to offset the weak performance of economic activity recorded in the second quarter. As a result, annual average growth for 2014 is unlikely to reach more than 2%. For the outer years, an acceleration of growth is projected, driven by domestic demand.

Credit constraints persist

So far, credit activity remains constrained by tight credit conditions and high risk premia, stirred up -among others- by the high level of non-performing loans. A continuation of sluggish credit growth is foreseen in the coming years too. Yet, while deleveraging of domestic companies continues, households' credit growth remains in positive territory, providing some support to the recovery of private consumption.

Adjourned investments to materialise later

The 2014 forecast has been revised downwards following delays –by one year at least– in the construction of the highway, of the thermal plant and of some large tourist resorts. Some minor preparatory works on the highway could start soon, but not to gain momentum before mid-2015. The new power plants projects are on hold waiting the conclusion of a new partnership agreement between the majority owners of the electric power company. Two large tourism resorts (Lustica and Plavi Horizon) could resume their development in 2015. The renovated steel mill is expected to restart by end of 2014 and to increase production gradually in the next two years, while the situation of the aluminium factory KAP remains uncertain, with some production likely to be maintained.

Labour market dynamics are likely to improve

The labour market is likely to benefit from the announced investment projects. However, it is still difficult to accurately assess the full impact from the increased labour demand. Demand would be met by a mix of foreign workers and local ones, including some unemployed workers registered in the employment agency. While weak labour market dynamics resulted in a decline of wages, some pay increases may be expected as a result of higher labour demand in 2015 and 2016, as well as growing pressure from public sector trade unions.

Inflation will remain on the low side

In the first eight months of 2014, the price level continued to be lower than a year before. Moreover, the annual review of electricity prices this summer had but a minor impact on consumer prices. However, a gradual recovery of domestic demand could bring inflation to some 2% by the end of 2016.

Risks to the external position

In 2013, the current-account deficit narrowed markedly thanks to a decline in imports. However, exports are expected to decrease in 2014, partly due to a base-effect from electricity trade, partly as the expansionary dynamics of tourism revenues is likely to lose momentum. Over the forecast horizon, once the construction of the highway and other investments go into full swing, imports of construction material as well as related services are expected to rise, and net factor income to decline as the share of the foreign workforce grows. Consequently, the current-account deficit –largely financed by net FDI inflows and other investments like foreign loans– could widen again.

Geopolitical risks could also impact both the external position and growth. So far, the tensions over the situation in Ukraine have had no significant impact on the economy. The number of Russian tourists increased further in 2014, while investment (particularly in real estate) remained stable. However, a prolongation could have important effects on the Montenegrin economy.

Tightening fiscal policy

In the first eight months of 2014, the central government budget deficit declined to 0.9% of GDP, down from 3.9% a year ago. The improved budget performance resulted from higher revenues in taxes and social security contributions, but also from considerably lower than planned capital spending due to the postponement of the highway construction. Furthermore, the disbursement of due state guarantees declined markedly to EUR 10 million in the first eight months of 2014, compared to EUR 103 million in the same period in a year earlier. Budget performance is projected to further improve over the forecast horizon since the implementation of new fiscal rules as of the 2015 budget should help to refrain fiscal slippages and the current "crisis" rates for VAT and personal income tax are assumed to remain in place. In June 2014, the public debt reached 57.5% of GDP, and it could increase close to 60% of GDP –the new fiscal rules limit– by the end of 2016, when public borrowing for the construction of the highway gains momentum. However, a close to balanced budget should reduce additional borrowing needs for deficit financing.

Table II.31.1:

Main features of country forecast - MONTENEGRO

	2013			Annual percentage change					
mio EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	3327.1	100.0	-	3.0	-2.5	3.3	**2.0**	**3.0**	**3.5**
Private Consumption	2719.3	81.7	-	4.2	-3.2	1.1	**1.1**	**1.6**	**2.1**
Public Consumption	638.8	19.2	-	-1.6	3.1	1.3	**1.0**	**1.5**	**2.2**
Gross fixed capital formation	630.7	19.0	-	-10.3	-3.3	8.8	**5.8**	**8.3**	**11.1**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1371.2	41.2	-	14.1	-1.2	-1.3	**-1.0**	**1.7**	**3.7**
Imports (goods and services)	2098.9	63.1	-	3.1	-0.5	-3.1	**-0.7**	**1.5**	**4.6**
GNI (GDP deflator)	3444.9	103.5	-	3.7	-0.5	5.1	**4.3**	**0.6**	**4.8**
Contribution to GDP growth: Domestic demand			-	0.9	-2.6	2.9	**2.2**	**3.2**	**4.4**
Inventories			-	-0.8	1.2	-1.1	**-0.3**	**0.0**	**0.5**
Net exports			-	2.9	-0.2	1.6	**0.1**	**-0.2**	**-1.3**
Employment			-	-6.4	2.8	0.1	**1.5**	**1.8**	**2.0**
Unemployment rate (a)			-	19.7	19.6	19.5	**19.3**	**18.6**	**17.0**
Compensation of employees / head			-	-6.6	2.2	0.4	**-1.2**	**0.7**	**3.4**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-16.1	7.9	-4.8	**0.5**	**0.4**	**2.3**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	-	-	-	**-**	**-**	**-**
Consumer-price index			-	3.1	4.1	2.2	**-0.2**	**0.8**	**2.1**
Terms of trade of goods			-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)			-	-40.4	-44.1	-41.0	**-41.0**	**-41.3**	**-43.0**
Current-account balance (c)			-	-17.7	-18.7	-14.6	**-14.2**	**-13.8**	**-14.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-5.4	-6.1	-4.6	**-1.4**	**0.0**	**0.3**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	45.9	54.0	58.1	**58.9**	**58.6**	**59.4**

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

32. SERBIA
Fiscal hurdles

Impacted by heavy floods, the economy is likely to have entered into another recession in 2014. It is expected to recover only slowly as exports, the main driver of growth, are losing steam and confidence is still hampered by uncertainty regarding the scope and pace of structural reforms and fiscal consolidation efforts. Rising government indebtedness is set to remain a major policy challenge.

Floods have seriously undermined growth prospect in 2014, leading to another recession

Impacted by heavy floods in the spring, the economy is likely to have entered into a recession. Real GDP fell by 1.1% y-o-y in the second quarter, following stagnation in the first. High-frequency indicators point at a continuing worsening of economic activity in the summer. Industrial activity, especially in sectors heavily damaged by the floods, as mining and energy, strongly deteriorated. Industrial production fell by an average of 11.8% y-o-y over the months of June-August. Manufacturing dropped as well, led by a steep decline in the production of motor vehicles.

Exports performance worsened as well. After a very strong growth last year, exports deteriorated rapidly and even fell in euro terms in July and August. Although part of their drop was due to floods-related disruptions, a weaker than expected external environment has also sapped their strength.

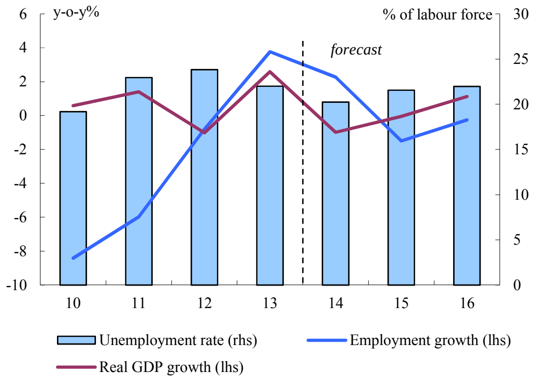
A protracted recovery

The potential for strong export growth seems largely exhausted and the envisaged rebound in investments, which has failed to materialise this year, will most likely be slower and less vigorous than previously expected. Coupled with plans to reduce public spending and generally weak labour market prospects, the economic recovery is expected to be protracted. In addition, effects from the floods are likely to spill over in 2015, further undermining economic activity.

The recently announced cuts in pensions and public sector wages would constrain both private and public consumption growth rates, which are foreseen to remain negative throughout the forecast horizon. A high level of non-performing loans, tight lending conditions and limited credit demand are likely to lead to a largely credit-less and slow pick-up in investment activity. On the upside, however, several big infrastructure projects in the transport and energy sectors have been announced that could support investment, should they materialise.

Despite some improvements in labour market indicators in the first half of 2014, legal employment gains remained limited due to weak economic performance. The expected restructuring of state-owned enterprises and the continuation of a partial government employment freeze are likely to unwind some of the recent labour market improvements in the next two years and unemployment is set to remain very high.

Graph II.32.1: **Serbia - Labour market**



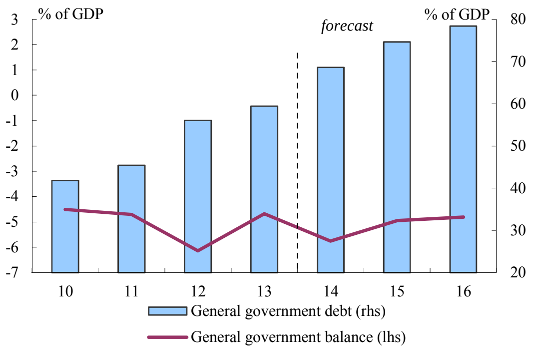
Uncertainty still prevailing

The forecast scenario is subject to a number of uncertainties, among which the pace of implementation of the domestic reform agenda, including the completion of restructuring of state-owned enterprises and advancing the announced public administration reform, and fiscal consolidation efforts remain key. In addition, the unstable external environment represents a clear risk to the overall growth scenario and to exports and investments' performance, in particular.

Inflation is expected to be more subdued and stable than in recent years as weak domestic demand is projected to remain a major disinflationary factor. However, inflation remains inherently volatile and inflationary pressures could easily re-emerge, depending on the outcome of fiscal consolidation efforts and the evolution of external imbalances which have continuously narrowed up to now.

To consolidate or not...

Graph II.32.2: **Serbia - Public finances**



After years of partial consolidation efforts and high budget deficits, the growing government indebtedness is set to remain a key policy challenge, as debt is seen approaching 80% of GDP by the end of the forecast horizon (the ratio would have been even higher if not for the recently revised national account data, which lead to an increase of the 2013 nominal GDP by 8.2%). The expenditure reductions in the context of the announced 2014 budget rebalancing, which is likely to include limited pension and wage cuts, are expected to be insufficient to stabilise government debt and the budget deficit is projected to stay very high. The underlying budget deficit would be even higher, as significant expenditure, like those related to the servicing of called guarantees, is still recorded below the line.

While there is still no clarity on the outline of the 2015 budget and the medium-term fiscal strategy, expenditure pressures are foreseen to remain elevated due to growing interest payments but also due to short-term commitments related to the restructuring of state-owned enterprises, like severance payments, unemployment benefits and the assumption by the state of some of the companies' obligations. Completing the restructuring process by the end of 2015, as envisaged, improving the performance of large state-owned companies, and taking steps to reform the public administration are seen as key tests of authorities' commitment to improve the efficiency of the public sector and to reduce expenditure in a sustainable way, even if these reforms are expected to bring their full effect only in the medium-term.

Table II.32.1:

Main features of country forecast - SERBIA

	2013			Annual percentage change					
	bn RSD Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	3876.4	100.0	-	1.4	-1.0	2.6	**-1.0**	**0.0**	**1.1**
Private Consumption	2918.8	75.3	-	0.9	-2.0	-0.6	**-1.1**	**-1.9**	**-0.5**
Public Consumption	688.6	17.8	-	0.9	1.9	-1.1	**-1.5**	**-4.7**	**-0.9**
Gross fixed capital formation	678.6	17.5	-	4.6	13.2	-10.6	**0.9**	**3.9**	**5.2**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1597.1	41.2	-	5.0	0.8	21.3	**4.0**	**3.9**	**4.9**
Imports (goods and services)	2012.2	51.9	-	7.9	1.4	8.5	**2.5**	**0.4**	**2.7**
GNI (GDP deflator)	3716.6	95.9	-	1.4	-2.4	1.9	**-1.5**	**-0.8**	**0.6**
Contribution to GDP growth: Domestic demand			-	1.8	1.2	-2.9	**-1.0**	**-1.6**	**0.3**
Inventories			-	1.8	-1.9	2.2	**-0.4**	**0.1**	**0.0**
Net exports			-	-2.1	-0.4	3.3	**0.3**	**1.5**	**0.8**
Employment			-	-6.0	-1.1	3.7	**2.3**	**-1.5**	**-0.3**
Unemployment rate (a)			-	23.0	23.9	22.1	**20.2**	**21.6**	**22.0**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	9.6	6.3	5.4	**2.5**	**2.2**	**3.1**
Consumer-price index			-	11.1	7.3	7.8	**2.2**	**3.5**	**4.4**
Terms of trade goods			-	1.6	2.3	1.5	**1.5**	**0.0**	**0.0**
Trade balance (goods) (c)			-	-15.8	-17.1	-11.6	**-11.4**	**-10.4**	**-10.0**
Current-account balance (c)			-	-8.3	-11.1	-5.6	**-5.4**	**-4.8**	**-4.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-4.7	-6.1	-4.7	**-5.8**	**-4.9**	**-4.8**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	45.4	56.1	59.4	**68.6**	**74.6**	**78.4**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

33. TURKEY

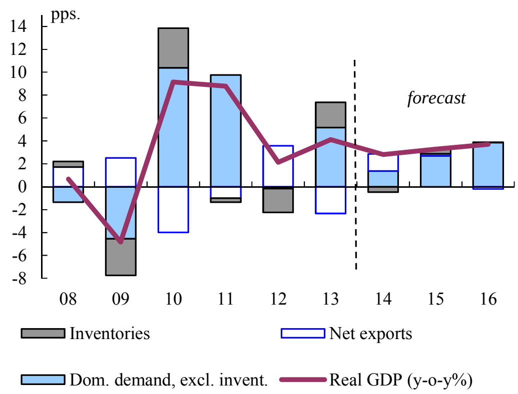
Geopolitical tensions a risk to growth

After a strong first quarter, economic activity has decelerated sharply. Stagnating export markets and armed conflicts in neighbouring Syria and Iraq have put a damper on Turkey's economy while real appreciation has lowered its international competitiveness again. Underlying conditions suggest that growth will return to potential relatively slowly over the forecast period. Both inflation and the current account deficit will remain elevated although lower energy prices will lead to some correction.

Slowdown in the second quarter of 2014

The Turkish economy expanded at a surprisingly fast rate at the beginning of the year, but slowed down sharply in the second quarter. GDP contracted on a quarter-on-quarter basis and the year-on-year growth rate fell to 2.1% from 4.7% in the first quarter. Private domestic demand had already started to decline in the first quarter following the tightening of financial conditions and macro-prudential measures to rein in consumer borrowing. This was compounded by a retrenchment in public spending in the second quarter from a previous expansion. At the same time, exports turned from strong growth to mild contraction, reflecting some weakening of demand in major export markets and the civil war in Iraq. Imports, too, exerted a drag on GDP growth by shifting from decline in the first quarter to expansion in the second. Monthly data suggest that economic activity has remained sluggish in the third quarter.

Graph II.33.1: **Turkey- Real GDP growth and contributions**



Another switch in monetary policy

When Turkey's financial markets and the lira were under strong downward pressure in January 2014, the central bank raised the overnight lending rate from 7.75% to 12% and hiked the one-week repo rate from 4.5% to 10%. It also declared that monetary policy would be kept tight until there was a significant improvement in the inflation outlook. In the spring, when the downward pressure on the currency subsided and the risk premium on Turkish assets fell, the central bank eased monetary policy again in spite of headline inflation rising above 9%. The one-week repo rate was cut by a combined 175 basis points between May and July and the overnight lending rate by 75 basis points in August. Subsequently, real interest rates are close to zero.

Rebalancing towards external demand proves short-lived

The lira's depreciation had improved the international price competitiveness of Turkish goods and services up to January. Over the following eight months, however, the Turkish lira appreciated by 7.5% in real effective terms, reversing last winter's gains in international competitiveness and lowering the outlook for export growth. While the projected contribution from net exports to GDP growth will remain strong for the current year, it has been reduced significantly for 2015 compared to the spring forecast.

On the domestic side, private consumption is projected to recover slowly, but gradually, from the contraction in the first half of 2014. Consumer loan growth has declined to a level well below its average of recent years, but should benefit from the recent easing of monetary policy. Although real wages continue to increase, employment growth has weakened since the spring and consumer confidence has declined. Business fixed investment has been very weak for some time although commercial loan growth has remained relatively robust. Considering the prospects for consumer and export demand, favourable financing conditions and a PMI reading just above 50, it is projected that gross fixed capital formation will be on a moderate growth path over the forecast period.

Slowly rising growth coupled with slightly lower inflation

In 2014, Turkey's economy is projected to grow 2.8%, but this is almost exclusively because of the strong first quarter. Growth in the second half of the year is expected to be very modest. It is worth noting that annual growth is reduced significantly by inventory adjustments. In 2015, growth is expected to increase to 3.3% as domestic demand recovers gradually. This trend is expected to continue in 2016 with growth reaching potential. One downside risk to this forecast is the possibility of a renewed sell-off in Turkish financial assets as US monetary policy normalises. Another risk is the chaotic situation in neighbouring Iraq and Syria with a possible spill-over to Turkey itself.

Employment growth is expected to run just below GDP growth, reflecting a reduced trend growth rate for labour productivity. Given the strong structural increase of the labour force, annual average unemployment is projected to rise above 10% of the labour force aged 15-64 years. Headline inflation will fall from the current level of 9% as a consequence of lower energy prices. Inflation is, however, projected to remain above the central bank's 5%-target considering the current monetary policy stance and entrenched expectations that inflation will run above target.

The external deficit is narrowing significantly in 2014 which, to a large extent, is the result of a normalisation of Turkey's foreign trade in gold, particularly lower imports of non-monetary gold. Lower prices for imported oil and gas will reduce the deficit further in the following two years.

Public finances remain stable

The fiscal deficit of general government was held in check in 2013 by surging revenues which were partly the result of earlier changes to indirect taxation and the social security system. The forecast projects that the deficit will widen in 2014 due to much slower revenue growth. Some narrowing of the deficit is expected over the next two years when economic activity and revenue growth pick up again. Regarding public debt, last year's lira depreciation increased the book value of foreign currency debt and halted a downward trend in the debt-to-GDP ratio. On the basis of the current projections for fiscal deficit and GDP, the debt ratio will resume the previous trend.

Table II.33.1:
Main features of country forecast - TURKEY

	2013			Annual percentage change						
bn TRY	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	1565.2	100.0	4.2	8.8	2.1	4.1	**2.8**	**3.3**	**3.7**
Private Consumption	1109.4	70.9	4.2	7.7	-0.5	5.1	**1.6**	**2.3**	**3.5**
Public Consumption	235.6	15.1	4.6	4.7	6.1	6.2	**4.9**	**4.6**	**5.0**
Gross fixed capital formation	318.1	20.3	4.9	18.0	-2.7	4.2	**-1.8**	**2.5**	**4.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	401.4	25.6	7.1	6.5	18.3	-0.3	**5.3**	**4.7**	**5.0**
Imports (goods and services)	504.1	32.2	9.2	10.9	-0.5	9.0	**-1.0**	**3.7**	**5.5**
GNI (GDP deflator)	1547.4	98.9	4.2	8.7	2.2	3.9	**2.7**	**3.2**	**3.8**
Contribution to GDP growth:	Domestic demand		4.7	14.2	-0.2	7.5	**2.0**	**3.9**	**5.6**
	Inventories		0.2	-3.9	-1.5	-1.0	**-0.7**	**-0.8**	**-1.6**
	Net exports		-0.5	-1.5	3.9	-2.5	**1.5**	**0.1**	**-0.3**
Employment			0.8	6.6	3.1	2.8	**4.0**	**3.0**	**3.2**
Unemployment rate (a)			7.0	9.0	8.3	8.9	**9.6**	**10.1**	**10.2**
Compensation of employees / head			35.7	-2.1	11.8	10.4	**11.1**	**10.5**	**10.0**
Unit labour costs whole economy			31.3	-4.1	12.8	9.0	**12.4**	**10.2**	**9.5**
Real unit labour cost			-2.0	-11.6	5.5	2.7	**4.6**	**2.5**	**2.5**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			34.2	8.6	6.9	6.1	**7.5**	**7.5**	**6.9**
Consumer-price index			-	6.5	8.9	7.5	**9.0**	**7.5**	**7.1**
Terms of trade goods			-1.0	-2.9	-3.1	3.6	**0.1**	**1.6**	**0.9**
Trade balance (goods) (c)			-5.7	-11.3	-8.1	-9.4	**-8.2**	**-7.4**	**-7.2**
Current-account balance (c)			-2.6	-9.7	-6.2	-7.9	**-6.1**	**-5.3**	**-5.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-9.7	-6.2	-7.9	**-6.1**	**-5.3**	**-5.1**
General government balance (c)			-	-1.2	-1.8	-1.8	**-2.1**	**-2.0**	**-1.8**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	39.9	36.2	36.3	**35.3**	**34.2**	**33.2**

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

34. ALBANIA

Domestic demand to support gradual growth revival

The deceleration of growth seen over the last three years is expected to give way to a gradual strengthening of economic activity. A pick-up in bank lending, an ambitious public arrears clearance programme and planned large FDI projects are forecast to support investment. Private consumption is also expected to grow amid slightly declining unemployment. On the other hand, fiscal consolidation needs and an expected reacceleration of import growth mean that the government and external sectors are likely to be a drag on growth in the years to come.

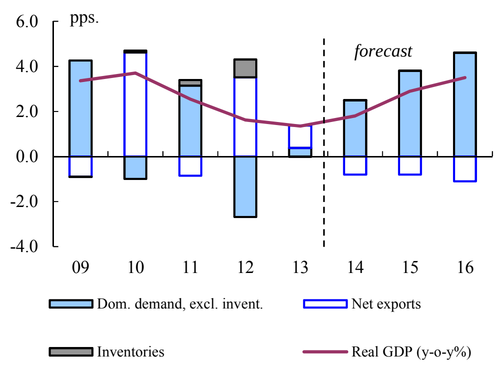
Net exports sustained modest growth in 2013

GDP growth decelerated to an estimated 1.4% in 2013, its slowest pace since 1997. The main driver of the slowdown was sluggish domestic demand, as both private consumption and investment were adversely affected by weak confidence and anaemic lending. Uncertainty, partly related to the high level of unpaid government obligations towards businesses, has been slow to dissipate, even if the repayment of arrears started in March this year. Net exports maintained their positive contribution in 2013 as a result of depressed imports and good export performance.

Private domestic demand to take over as main growth engine

In the first half of 2014, economic growth was still weak at 0.5% y-o-y, to a large extent reflecting a high base effect from the pre-election period last year, especially in the construction sector, but survey indicators point to a broader-based recovery of private domestic demand in the second quarter.

Graph II.34.1: **Albania - Real GDP growth and contributions**



This sets the stage for an expected gradual economic recovery alongside a rebalancing from net exports to private investment and consumption.

GDP growth is forecast to speed up from 1.8% in 2014 to 3.5% in 2016, and with the gradual closing of the output gap, inflation is expected to move closer towards the middle of the central bank's target range of 2%-4%.

Growth in the short term should get support from a bold programme to tackle arrears, backed by the IMF and the World Bank. The front-loaded payment of accumulated government liabilities, worth as much as 5.3% of GDP, over three years is expected to lift growth by injecting liquidity into companies. Tackling this long-standing issue should also boost business confidence and thus contribute to a turnaround in private investment, which has been the biggest drag on growth in recent years. In addition, two large projects in the energy sector are expected to boost FDI inflows.

Household spending is also forecast to pick up amid improving confidence, easing financial conditions and modest gains in employment.

Bank lending on the mend

The weak cyclical position of the economy and the resulting deceleration in inflation prompted Bank of Albania to embark on a series of cuts in the policy rate, which now stands at an historic low of 2.5%. The transmission of this monetary policy stimulus to the economy, long constrained by high risk premia applied by banks and low levels of crediting, has recently gained some traction and contributed to an across-the-board improvement in lending. Improved credit terms were reflected in lower interest rates, while the stock of outstanding loans started to increase in annual terms in July (+0.5%) and in August (+2.2%), reversing the downtrend started in July 2013.

On the other hand, the level of non-performing loans in the banking sector remains stubbornly high at more than 24%, despite regulatory efforts to clean bank balance sheets. Still, the banking sector remains well-capitalised and liquid, and continued loose monetary policy is expected to support a further easing of financial conditions.

Labour market and external imbalances to persist

Despite a pick-up in growth, high unemployment in Albania is expected to decline only modestly. However, labour market statistics still suffer from shortcomings and might underestimate the true level of joblessness, making forecasts particularly challenging.

Albania's large current account deficit reflects a narrow production base and weak competitiveness. Its recent reduction came as a result of both cyclically subdued imports as well as relatively good export performance. Potential for further increases in crude oil production as well as an expected pick-up in foreign sales of other traditional products, textiles and footwear, should help sustain high growth in merchandise exports. However, imports are likely to gather speed along with stronger investments, leading to a widening of the current account shortfall in the period until 2016. FDI inflows should finance most of the deficit, averting balance-of-payment pressures.

Fiscal consolidation on the agenda

The economic slowdown as well as weaknesses in revenue collection, have taken their toll on the budget, which posted persistently large deficits in the past six years. After recognising government arrears, public debt relative to GDP now exceeds 70%, a high level by regional standards. In order to lower refinancing risks and rebuild fiscal space, the government raised taxes in 2014 and stepped up efforts to improve collection, with noticeable results. Net of arrears clearance expenses (worth 2.5% of GDP in 2014, 1.3% in 2015 and 1.2% in 2016) the budget deficit is expected to fall considerably over the forecast horizon from its level in 2013, and the public debt-to-GDP ratio is forecast to peak in 2014. However, significant fiscal risks stem from an unreformed energy sector, where the government acts as financer of last resort, and from the obligation for the state to pay compensation to former property owners, unless the modalities for compensation are adjusted.

Table II.34.1:

Main features of country forecast - ALBANIA

	2013			Annual percentage change					
	bn ALL Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	1372.5	100.0	-	2.5	1.6	1.4	**1.8**	**2.9**	**3.5**
Private Consumption	1054.0	76.8	-	1.8	0.7	0.5	**2.0**	**2.7**	**3.1**
Public Consumption	147.4	10.7	-	0.7	0.5	0.4	**-0.1**	**0.0**	**0.2**
Gross fixed capital formation	347.9	25.3	-	5.9	-11.3	-0.1	**3.9**	**6.6**	**8.4**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	472.4	34.4	-	7.4	-0.6	6.2	**7.0**	**7.2**	**8.5**
Imports (goods and services)	706.4	51.5	-	6.1	-6.6	2.1	**6.2**	**6.5**	**7.7**
GNI (GDP deflator)	1364.1	99.4	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth: Domestic demand			-	3.1	-2.7	0.4	**2.5**	**3.8**	**4.6**
Inventories			-	0.3	0.8	0.0	**0.0**	**0.0**	**0.0**
Net exports			-	-0.8	3.5	1.0	**-0.8**	**-0.8**	**-1.1**
Employment			-	-0.7	-10.6	-0.8	**0.3**	**1.4**	**1.9**
Unemployment rate (a)			-	10.9	14.3	15.2	**17.5**	**16.3**	**15.5**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	2.3	1.0	1.4	**1.6**	**2.2**	**2.3**
Harmonised index of consumer prices			-	3.4	2.0	1.9	**1.9**	**2.5**	**2.6**
Terms of trade goods			-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)			-	-24.2	-20.8	-17.4	**-17.8**	**-18.4**	**-19.0**
Current-account balance (c)			-	-13.2	-10.2	-10.5	**-11.1**	**-11.8**	**-12.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-3.5	-3.3	-4.8	**-5.3**	**-3.6**	**-2.7**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	59.4	62.0	69.7	**70.9**	**70.6**	**69.3**

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

Other non-EU Countries

35. THE UNITED STATES OF AMERICA

Broad-based recovery gaining ground

After a weak start to the year, the US economy has rebounded strongly and looks set to enjoy a broad-based, self-sustaining recovery supported by a gradually waning fiscal drag, supportive monetary policy, a strengthening labour market, improved private balance sheets, and increasing business investment. Real GDP growth is expected to reach 2.2% in 2014 and then climb to 3.1% and 3.2% in 2015 and 2016.

Broad-based recovery proceeds despite early-year weakness

Following a sharp, largely weather-related, contraction in the first quarter, the US economy rebounded briskly in the second quarter and a broad-based recovery is expected to continue in the second half of the year and then in 2015 and 2016. Considerably lower fiscal drag and the continuation of accommodative monetary policies will boost activity over the forecast horizon. Private consumption is expected to firm thanks to an improving labour market and lower deleveraging pressures, while both business and residential investment are set to accelerate on the back of attractive financing conditions and improving confidence.

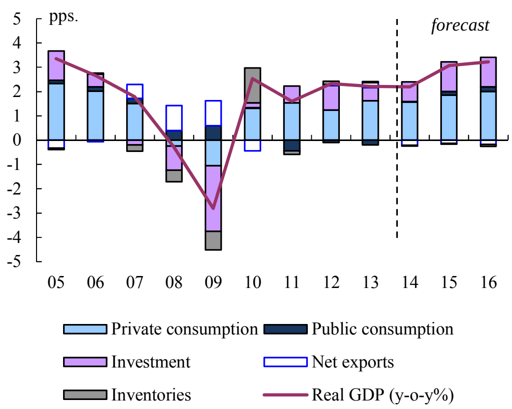
After contracting by 0.5% q-o-q in the first quarter due to severe weather and heavy de-stocking, real GDP expanded by 1.1% in the second quarter, and the momentum remains strong in the second half of the year. However, the sharp first quarter contraction implies a marked downward revision to the projected annual real GDP growth in 2014 to 2.2%, due to negative carryover effects. The outlook for 2015 remains largely unchanged with real GDP expected to grow by 3.1% and to strengthen marginally to 3.2% in 2016.

Rebounding investment

Business investment rebounded in the second quarter following the weak first quarter, and leading indicators (e.g. capital goods orders, PMIs) suggest solid expansion in the remainder of the year. Further ahead, business investment is expected to continue strengthening, boosted by the pent-up need to rebuild capital stocks amid firming domestic and foreign demand, still conducive financing conditions and record-high corporate profits.

Construction investment equally firmed up after the weakness at the turn of the year, which reflected the impact of rising mortgage rates exacerbated by harsh weather conditions. Residential investment is expected to accelerate over the forecast horizon, driven by a normalisation of very subdued household formation rates in the recent past. But expansion rates are not likely to reach pre-crisis double-digit rates, largely due to the slowing of US population growth and a trend shift towards multi-family housing. Over the forecast horizon, residential investment will also be restrained by the gradual rise in mortgage rates and tighter-than-pre-crisis lending conditions. Consequently, the share of residential construction in GDP is expected to rise moderately, but remain well below its pre-crisis peak of 6.5% (in 2005) in the medium term.

Graph II.35.1: **US - Real GDP growth and contributions**



Private consumption is expected to strengthen over the forecast horizon, as labour market and household balance sheets continue to improve thanks to falling indebtedness and rising equity and home prices. Government spending is expected to rebound gradually after a four year contraction, and to grow slightly from 2015 onwards. Exports will gradually accelerate benefitting from the projected rebound in global trade in 2015 and 2016, while imports will rise in line with firming domestic demand. However, the gradually declining dependency on energy imports should prevent current account deficits from widening above 3% of GDP, markedly lower than in the run-up to the crisis.

Buoyant labour market gradually translates into price and wage pressures

Buoyant job creation since early 2014, combined with the gradual decline in the participation rate, brought the unemployment rate down to below 6%. Non-farm employment grew by an impressive 227,000 on average in the first 9 months of 2014, the best 9-monthly result since 2006. These improvements, however, have occurred amid a steady decline in the participation rate, which hit a 37-year low in September 2014, signalling that the cyclical inflow into the labour force remains too weak to offset the secular demographic trend. As the economy strengthens job creation is expected to remain strong, bringing the unemployment rate down to 5.4% in 2016, around the natural rate. In the latter part of the forecast horizon, a cyclical expansion of the labour force will prevent more decisive declines in the unemployment rate.

Despite the recovery in the labour market, inflation remains well below the 2% target and wage growth has not shown any signs of acceleration over the last two years. However, both price and wage pressures are expected to pick up gradually as the negative output gap closes in 2015 and turns positive in 2016. Consumer prices and wages are expected to accelerate gradually to over 2% and 3%, respectively, by the end of 2016.

Activity will be supported by accommodative monetary policy and easing fiscal drag

Gauging the amount of slack in the labour market remains the key challenge faced by the Federal Reserve. While the current asset purchase programme is expected to end by November, the Fed's forward guidance continues to assure that interest rates are likely to be kept at the current near-zero level for a "considerable time after the asset purchase program ends". Therefore, given the continued absence of major price/wage pressures and the cautious stance of the Fed, monetary policy is expected to remain supportive throughout the forecast horizon.

Fiscal consolidation eased sharply in 2014 and will continue falling gradually over the course of the forecast horizon. Lower deficits will translate into gradually declining debt levels, which are expected to start falling from 2015 to reach 104.4% of GDP in 2016.

Table II.35.1:

Main features of country forecast - USA

	2013		Annual percentage change						
	bn USD Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	16768.1	100.0	2.5	1.6	2.3	2.2	**2.2**	**3.1**	**3.2**
Private Consumption	11484.3	68.5	2.9	2.3	1.8	2.4	**2.3**	**2.7**	**3.0**
Public Consumption	2547.6	15.2	1.8	-2.7	-0.6	-1.3	**0.1**	**1.0**	**1.2**
Gross fixed capital formation	3170.2	18.9	2.4	3.7	5.3	2.7	**4.2**	**6.2**	**6.0**
of which: equipment	1091.8	6.5	4.3	9.6	6.3	2.3	**3.8**	**6.6**	**6.9**
Exports (goods and services)	2262.2	13.5	5.0	6.9	3.3	3.0	**3.4**	**5.5**	**5.6**
Imports (goods and services)	2770.4	16.5	5.7	5.5	2.3	1.1	**4.2**	**5.3**	**5.7**
GNI (GDP deflator)	16992.4	101.3	2.7	1.8	2.1	2.2	**2.0**	**3.0**	**3.2**
Contribution to GDP growth:	Domestic demand		2.8	1.8	2.1	1.9	**2.4**	**3.2**	**3.4**
	Inventories		0.0	-0.1	0.1	0.1	**0.0**	**0.0**	**0.0**
	Net exports		-0.2	0.0	0.0	0.2	**-0.2**	**-0.1**	**-0.2**
Employment			0.6	1.0	1.8	1.9	**2.4**	**2.5**	**2.6**
Unemployment rate (a)			5.6	8.9	8.1	7.4	**6.3**	**5.8**	**5.4**
Compensation of employees / f.t.e.			3.6	2.6	2.2	0.7	**1.6**	**2.7**	**3.3**
Unit labour costs whole economy			1.7	1.9	1.6	0.3	**1.7**	**2.1**	**2.6**
Real unit labour cost			-0.3	-0.1	-0.1	-1.2	**0.2**	**0.1**	**0.3**
Saving rate of households (b)			10.3	11.5	12.5	10.4	**10.1**	**10.0**	**9.9**
GDP deflator			2.0	2.1	1.8	1.5	**1.5**	**2.1**	**2.3**
Consumer-price index			2.4	3.1	2.1	1.5	**1.8**	**2.0**	**2.3**
Terms of trade goods			-0.4	-1.1	-0.1	0.6	**-0.3**	**-0.4**	**-0.4**
Trade balance (goods) (c)			-4.2	-5.0	-4.8	-4.4	**-4.5**	**-4.5**	**-4.6**
Current-account balance (c)			-3.6	-3.1	-3.0	-2.5	**-2.6**	**-2.7**	**-2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.6	-3.1	-2.9	-2.5	**-2.6**	**-2.7**	**-2.8**
General government balance (c)			-4.3	-10.6	-8.9	-5.6	**-4.9**	**-4.3**	**-3.9**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			66.0	99.1	102.9	104.7	**105.1**	**104.6**	**104.4**

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

(*) Employment data from the BLS household survey.

36. JAPAN

Lower growth ahead

Real GDP growth is set to slow in 2014 as a sharper-than-expected decline following April's consumption tax hike weighs on growth. In 2015 the growth rate is expected to decline marginally, and remain at the same level in 2016 on the back of ongoing fiscal consolidation, negative real wage growth weighing on private consumption, and waning monetary and fiscal stimulus.

Near-term growth weaker than expected

Economic growth stalled in the first half of the year as the post-consumption-tax-hike contraction in Q2 turned out sharper than expected. Weak private consumption and gross fixed capital formation dragged on growth, whilst the positive contribution from net exports was due to falling imports. A rebound is expected over the second half of 2014, but leading indicators point to a feeble growth momentum. Industrial production has been on a steady downward trend since Q1, suggesting that solid growth in the first quarter was mainly due to strong pre-tax-hike demand.

Private consumption is squeezed by sluggish wage growth and ongoing fiscal consolidation…

Real private consumption rebounded weakly from its post-tax-hike decline, and remains below last year's average. Labour market conditions appear tight on the surface, but underlying employment and wage dynamics do not support a strong rebound in private consumption. The unemployment rate (3.5% in August) reached its lowest level since 1997, largely because of workers – in particular women – leaving the labour force after strong demand in Q1 waned, whilst new jobs created are mainly part-time or temporary.

Nominal wage growth remains sluggish overall and below CPI inflation on average, which is likely to dampen the rebound in private consumption in the second half of the year. Private consumption is expected to remain volatile in 2015 in anticipation of the next consumption tax hike currently planned for October. But overall continued negative real wage growth is expected to keep downward pressure on household consumption.

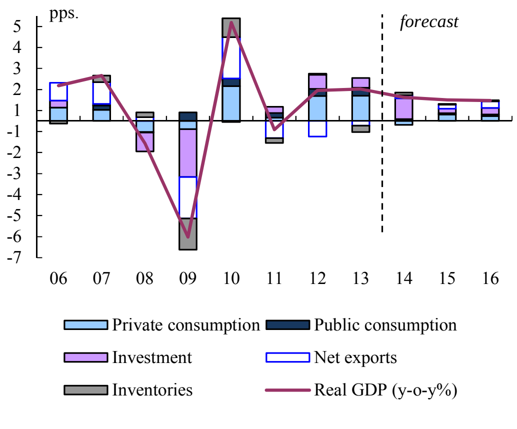
…but investment conditions remain largely favourable

Gross fixed capital formation is expected to increase moderately throughout the forecast horizon. Public investment should level off in the near term, and gradually scale back to the pre-Abenomics level as fiscal consolidation progresses. With very low or even slightly negative real interest rates, investment conditions are very favourable, and should remain broadly so. Private non-residential (business) investment is expected to gradually respond to these continued loose financing conditions, as well as stronger corporate profits and the perspective of a more favourable tax environment ahead. However business investment growth will be dampened by persistent cash hoarding in the form of high corporate savings. Private residential investment should slowly recover from the post-consumption-tax-hike slump, but may remain volatile in view of further tax changes.

Net exports contribute to growth

Exports are expected to gradually respond to sustained currency weakness and a more favourable external environment, in particular strengthening US demand and resilient growth in Asia. Imports are likely to remain volatile in the near term due to the tax hike scheduled for October 2015, even though the gradual and partial reactivation of nuclear power capacity may at least to some extent ease fossil fuel imports. Overall net exports are expected to turn positive again and progressively increase.

Graph II.36.1: **JP - Real GDP growth and contributions**



Inflation below target

Whilst labour markets will remain tight, continued duality between regular and non-regular workers and corporate reticence to consistently raise basic salaries are set to maintain downward pressure on wages. Subdued nominal wage growth, mild inflationary dynamics and successive consumption tax hikes will entail negative real wage growth.

CPI inflation has recently levelled off as cost-push pressures began to dissipate. Headline inflation (including the tax hike effect) stood at 3.3% y-o-y in August, whilst core inflation (excluding fresh food and energy) came in at 2.2% y-o-y. CPI inflation will plateau in the near-term as base effects from last year's currency depreciation wane. Weak wage growth will not contribute to stronger domestic-driven inflation dynamics. CPI inflation (including the tax hike effect) is expected to remain slightly below 3% in 2014, and stay below 2% both in 2015 and in 2016. Monetary policy will remain broadly supportive and accommodative over the forecast period.

Fiscal consolidation to progress further

Based on the assumption that the October 2015 consumption tax hike will go ahead, steady revenue growth is going to contribute to halving the primary deficit over the forecast horizon, and reducing the pace of growth of the debt-to-GDP ratio. Some uncertainty remains, however, concerning the October 2015 consumption tax hike and planned cuts in the corporate tax rate, representing a downside risk to the fiscal outlook. On the expenditure side, additional spending pressures may materialise over the forecast horizon in the form of public investment in preparation for the 2020 Olympics.

Risks

Risks are tilted to the downside and mainly domestic. Weaker than expected wage growth would dent private consumption and weaken reflationary efforts. Uncertainty surrounding fiscal consolidation and structural reform may compound subdued prospects for domestic growth and dampen corporate and investors' sentiment despite favourable financing conditions. On the external side, exports remain vulnerable to a sharper-than-expected slowdown in China or lower-than-expected EU growth.

Table II.36.1:

Main features of country forecast - JAPAN

	2013			Annual percentage change						
	bn JPY	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		478075.5	100.0	0.9	-0.5	1.5	1.5	**1.1**	**1.0**	**1.0**
Private Consumption		292747.7	61.2	0.9	0.3	2.0	2.0	**-0.3**	**0.5**	**0.4**
Public Consumption		98397.9	20.6	2.1	1.2	1.7	2.0	**0.5**	**0.3**	**0.4**
Gross fixed capital formation		103750.8	21.7	-1.3	1.4	3.4	2.6	**4.9**	**1.1**	**1.5**
of which: equipment		-	-	1.0	3.4	-	-	**-**	**-**	**-**
Exports (goods and services)		77575.8	16.2	4.7	-0.4	-0.2	1.6	**6.8**	**4.0**	**4.0**
Imports (goods and services)		90779.9	19.0	3.1	5.9	5.3	3.4	**6.5**	**3.3**	**2.5**
GNI (GDP deflator)		495693.4	103.7	1.0	0.0	1.5	2.0	**1.3**	**1.2**	**1.1**
Contribution to GDP growth:	Domestic demand			0.6	0.7	2.3	2.2	**0.9**	**0.6**	**0.7**
	Inventories			0.0	-0.2	0.1	-0.3	**0.3**	**0.3**	**0.1**
	Net exports			0.3	-0.9	-0.9	-0.3	**-0.1**	**0.0**	**0.2**
Employment				-0.3	-0.2	0.0	0.4	**0.5**	**0.3**	**0.3**
Unemployment rate (a)				4.4	4.6	4.3	4.0	**3.8**	**3.8**	**3.8**
Compensation of employees / head				-0.7	0.6	-0.1	0.0	**0.7**	**0.8**	**0.5**
Unit labour costs whole economy				-1.8	0.8	-1.6	-1.1	**0.1**	**0.1**	**-0.1**
Real unit labour cost				-0.7	2.7	-0.6	-0.5	**-1.0**	**-0.8**	**-1.0**
Saving rate of households (b)				11.5	9.0	7.8	6.2	**5.5**	**4.3**	**3.5**
GDP deflator				-1.0	-1.9	-0.9	-0.6	**1.1**	**0.8**	**0.9**
Consumer-price index				-0.1	-0.3	0.0	0.4	**2.8**	**1.6**	**1.4**
Terms of trade goods				-2.7	-8.8	-1.9	-1.5	**-0.5**	**0.5**	**0.4**
Trade balance (goods) (c)				2.1	-0.3	-1.2	-1.9	**-2.1**	**-2.0**	**-1.7**
Current-account balance (c)				3.0	2.0	1.0	0.8	**0.6**	**0.8**	**1.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				2.9	2.0	1.0	0.6	**0.5**	**0.8**	**1.2**
General government balance (c)				-5.8	-8.8	-8.7	-8.8	**-7.5**	**-6.4**	**-5.4**
Cyclically-adjusted budget balance (c)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				159.3	229.8	237.3	244.0	**246.1**	**248.0**	**248.8**

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

37. CHINA

Gradual adjustment towards more balanced growth

The first quarter of 2014 saw a clear weakening of growth and a sharp deterioration in the property sector, but the Chinese economy held up well into the second and third quarter, following a round of small scale stimulus measures, and a rebound in exports. Growth is expected to moderate over the forecast horizon as structural factors increasingly weigh on activity. However, uncertainty remains about the economy's underlying momentum, and a sharper short-term adjustment cannot be ruled out.

Stimulus buttresses growth after faltering start to New Year

China's economic growth decelerated in Q1-2014 to 7.4% y-o-y. Although this was only a modest step down from the 7.7% recorded for 2013, the slowdown in Q1 was accompanied by a string of worsening high frequency indicators, a marked deterioration in the property sector and very weak export performance (-5% y-o-y). Following a series of small-scale stimulus measures which helped buttress investment spending, growth subsequently stabilised in Q2 before edging down a little further in Q3 to 7.3%, despite a strong rebound in exports from May onwards.

Recent high frequency indicators also provide a mixed picture of the domestic economy. August registered the worst monthly report for industrial production since 2008, but retail sales have held up well in recent months. The property market continues to look fragile, with floor space completed and under construction both very weak, but some signs of bottoming out in starts for residential buildings. Survey indicators have been relatively stable, with PMIs moving in a fairly narrow range just above 50. Inflation remains low (below 3%) and relatively stable.

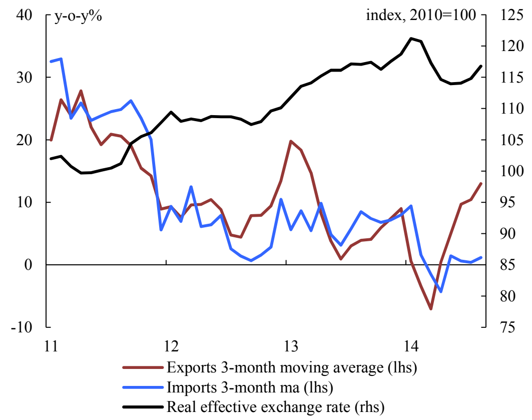
The forecast for 2014 is for growth of 7.3%, moderating to 7.1% in 2015 and 6.9% in 2016. This forecast is predicated on a controlled slowdown in the real estate sector, together with a managed adjustment to lower trend growth, reflecting a degree of successful "rebalancing" of the Chinese economy.

Fiscal and monetary policy are expected to remain accommodative

Monetary policy turned more accommodative in early 2014, in response to the early year weakness in activity. Although official policy lending rates remain unchanged, interbank rates have now edged down to below 3%, around 1 pp. lower than the average seen through 2013. In February the People's Bank of China widened the RMB intervention band around the daily rate to 2%. Following a long period of gradual appreciation that saw a rise in the real effective exchange rate (REER) of almost 20% between January 2011 and January 2014, the currency reversed direction between January and August 2014, falling by around 5% in REER terms and 1-2% against the US dollar. Fiscal policy has also been loosened, with an acceleration of local government projects, though this activity remains outside the central government balance sheet and the scale of adjustment is hard to assess.

Given the tepid first half of the year, it is expected that both monetary and fiscal policy will remain accommodative and that the Chinese government will continue to use targeted stimulus measures to keep growth within reach of the official target for 2014 of 7.5%.

Graph II.37.1: **China - Foreign trade**



Slower growth as investment adjusts

Private consumption is expected to grow steadily, underpinned by continued growth in real wages and low inflation, which raises real household income from deposit holdings. Wealth effects from falling house prices are likely to be limited and localised. Investment remains the most dominant component of GDP at close to 50%, of which around 1/4 is directly related to the real estate sector. Real estate investment slumped during late 2013 and early 2014, and may have further to adjust. However, medium term fundamentals (urbanization, income growth) remain strong, and a loosening of controls on the property sector will dampen downward pressure in the short run. Other investment has also slowed, though less dramatically. Looking ahead to 2015 and 2016, we expect investment growth to continue to follow this pattern, continuing to moderate as falling returns exert a greater drag on China's economy, but underpinned by further policy stimulus should activity weaken significantly.

After steady growth in both exports and imports in 2012 and 2013, imports have virtually stagnated so far in 2014, most likely reflecting weakening investment activity and a related fall in commodity imports. Import growth is expected to remain subdued, though stronger on the service side, and with some possible bounce-back of imports for export-trade processing. The sharp pick-up in exports since May was driven mainly by rising demand from advanced economies, including the US and the EU. Given the weak outlook for the EU, this may be a difficult trend to sustain, suggesting that export growth could also slow in coming months. An offsetting factor could be faster growth of exports to the US, particularly given the halt in the rise of the RMB exchange rate versus the US dollar. The current account balance is expected to widen slightly over the forecast horizon, moving back towards 2.5% of GDP.

Risks remain elevated

The major risk factors are closely linked to China's domestic imbalances, particularly over-reliance on investment spending and the high weight of property related investment in GDP. The associated build-up of local government and corporate debt has been large by historical standards, with a significant proportion financed by the shadow banking system, and the quality of the underlying assets is variable. While a gradual rebalancing towards higher consumption and lower levels of (higher quality) investment is warranted, a sharper-than-expected slowdown in investment, or a significant worsening of outlook for the property market would not only have a direct impact on domestic demand, but could also place highly leveraged corporates and developers under pressure, with potential knock-on risks for the financial system.

Table II.37.1:
Main features of country forecast - CHINA

		2013		Annual percentage change						
	bn CNY	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		58667.3	100.0	9.9	9.3	7.7	7.8	**7.3**	**7.1**	**6.9**
Consumption		21218.8	36.2	-	-	-	-	-	-	-
Gross fixed capital formation		26907.5	45.9	-	-	-	-	-	-	-
of which : equipment		-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP		-	-	-	-	-	-	-	-	-
Exports (goods and services)		14579.4	24.9	17.0	10.3	7.0	8.7	**4.1**	**6.0**	**7.0**
Final demand		-	-	-	-	-	-	-	-	-
Imports (goods and services)		13164.2	22.4	14.8	12.0	8.0	10.8	**3.6**	**6.3**	**7.3**
GNI (GDP deflator)		-	-	-	-	-	-	-	-	-
Contribution to GDP growth :	Domestic demand			-	-	-	-	-	-	-
	Inventories			-	-	-	-	-	-	-
	Net exports			-	-	-	-	-	-	-
Employment				-	-	-	-	-	-	-
Unemployment (a)				3.6	4.1	4.1	4.1	-	-	-
Compensation of employees/head				-	-	-	-	-	-	-
Unit labour costs				-	-	-	-	-	-	-
Real unit labour costs				-	-	-	-	-	-	-
Saving rate of households				-	-	-	-	-	-	-
GDP deflator				3.9	7.8	2.0	1.7	**3.0**	**3.0**	**3.0**
Private consumption deflator				-	-	-	-	-	-	-
Index of consumer prices (c)				3.0	5.4	2.6	2.6	-	-	-
Merchandise trade balance (b)				4.4	3.4	3.8	3.7	**3.4**	**3.7**	**3.8**
Current-account balance (b)				4.0	1.9	2.6	1.9	**2.5**	**2.8**	**2.8**
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.

38. EFTA

Economic outlook less bright

The EFTA region's economic outlook is revised downwards. The Swiss economy did not grow in the second quarter which was contrary to expectations. The Norwegian economy did record solid growth but the outlook for the off-shore sector has deteriorated which will feed into domestic demand.

Although the EFTA region is far from homogeneous, the EFTA economies showed a remarkable resilience with respect to the EU economy. Common factors are their high economic integration with the European Union, the key role of private consumption for economic growth, the importance of the EU as a supply of labour, easy monetary conditions in response to a safe haven effect and the ability to tap into new markets.

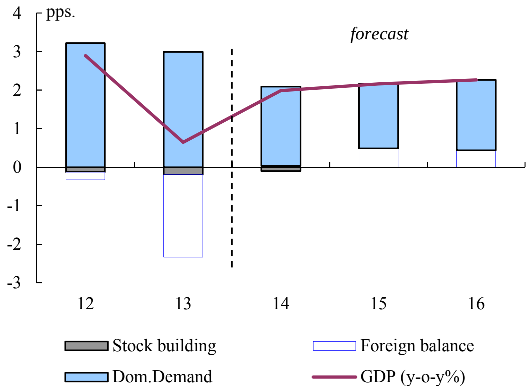
Another important commonality is the uncertainty about the potential growth rate in these countries. Private consumption has been a driving force of economic growth supported by low unemployment and contained consumer price inflation. Still, prices have risen strongly in the housing market. The price level of actual individual consumption, which is much higher in both Switzerland and Norway than in the EU, has a bearing on immigration incentives. In Norway, the price level of consumption is twice the level in the three most important home counties of EU immigrants, and in Switzerland it is 50% above. Moreover, the reservation wage of foreign labour is linked to the purchasing power in the home country of rights acquired in the host country.

Economic outlook for Norway

Economic growth had a strong reading in the second quarter even if the off-shore economy did not grow. The strong reading was fully accounted for by the mainland economy that grew 1.2% quarter-on-quarter. Growth in the mainland economy was broad-based. The manufacturing sector posted strong growth and private consumption continued it solid expansion. Among the most positive signals in the second quarter was the growth of exports outside the petroleum sector. These exports of traditional goods grew by 3.5% quarter-on-quarter.

Key to future developments will be the developments in the petroleum sector and the effects this will have on the broader economy. The uncertainty around this impact is exemplified by the spread between the most positive and negative forecasts in the market. An official survey indicated that investments are expected to peak this year. They are expected to decline by one fifth next year and it is not unlikely they will retreat further in the following years. Adding to this is the recent decline in oil prices that make investments less profitable and worsens Norway's terms of trade.

Graph II.38.1: **Norway - Real GDP growth and contributions**

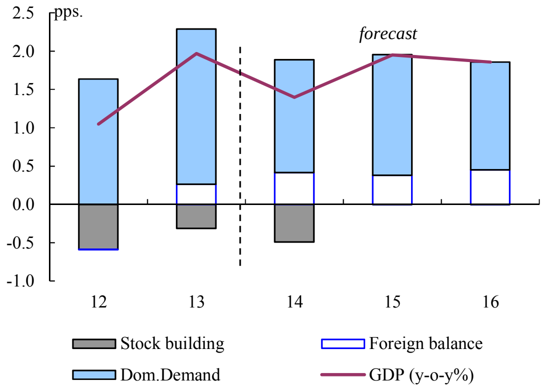


If the planned reduction in investment materialises, domestic demand growth would come under pressure first through its effect on upstream companies in the supply chain for the petroleum sector. The question is then to which extent this will influence private consumption through confidence effects; possibly in combination with the effect tightened financial regulation has on house prices. The government has room to support the Norwegian economy under the existing budget rules. The budget surplus is foreseen to remain highly comfortable in the coming years while public debt as a percentage of GDP remains low compared to other European countries.

Economic outlook for Switzerland

GDP registered no growth in the second quarter contrary to expectations. The weakness was broadly spread in the domestic economy with net exports also contributing negatively. Domestic demand contributed only marginally which was still an improvement over the first quarter when domestic demand did not contribute at all to GDP growth.

Graph II.38.2: **Switzerland - Real GDP growth and contributions**



The expectations are that economic growth will pick up in the third and fourth quarter so that on annual basis GDP growth of 1.4% can be registered. Still, uncertainties remain as an important driver of growth is expected to be the export sector while the growth in export markets is becoming increasingly uncertain. Moreover, the referendum against mass immigration may limit Switzerland's possibility to profit from foreign labour, which has been an important contributing force to the Swiss economic success and resilience. Uncertainty about the openness of the Swiss economy could well impact the investment decisions of, in particular multinational, companies. Investment has already been a relatively weak driver of economic growth in the past years.

Private consumption has been an important pillar of economic growth in the past years. It has been supported by high employment, high wages and a wealth effect coming from rising house prices. The deflation that Switzerland experienced over the past years has not hurt consumptive demand or economic growth but rather bolstered real wages. Inflation is expected to be moderately positive over the forecast horizon.

Table II.38.1:
Main features of country forecast - EFTA

	Norway					Switzerland				
(Annual percentage change)	**2012**	**2013**	**2014**	**2015**	**2016**	**2012**	**2013**	**2014**	**2015**	**2016**
GDP	2.9	0.6	2.0	2.2	2.3	1.0	2.0	1.4	2.0	1.9
Private Consumption	3.0	2.1	2.2	2.0	1.7	2.4	2.3	1.7	1.7	1.6
Public Consumption	1.8	1.8	1.9	1.8	2.5	3.2	3.0	2.6	2.3	2.4
Gross fixed capital formation	8.3	8.4	3.3	1.9	2.6	-0.4	1.8	1.1	1.5	1.1
of which: equipment	-	-	-	-	-	1.7	3.5	1.1	1.5	2.1
Exports (good and services)	1.1	-3.3	3.3	4.0	4.0	2.5	2.0	2.7	3.3	3.3
Imports (goods and services)	2.3	2.9	4.4	3.8	4.0	3.1	1.8	2.3	3.3	3.1
GNI (GDP deflator)	4.0	0.2	2.0	2.2	2.3	3.5	4.0	-0.5	2.0	1.9
Contribution to GDP growth: Domestic demand	3.2	3.0	2.1	1.7	1.8	1.6	2.0	1.5	1.6	1.4
Inventories	-0.1	-0.2	-0.1	0.0	0.0	-0.6	-0.3	-0.5	0.0	0.0
Net exports	-0.2	-2.1	0.0	0.5	0.4	0.0	0.3	0.4	0.4	0.5
Employment	2.2	1.2	1.7	0.8	0.9	1.5	1.3	1.0	1.2	0.4
Unemployment rate (a)	3.1	3.4	2.9	3.1	3.2	4.2	4.4	4.3	3.9	3.9
Compensation of employee/head	4.1	4.2	2.4	2.2	2.3	1.0	0.4	1.0	1.0	1.2
Unit labour cost whole economy	3.4	4.8	2.1	0.9	0.9	1.5	-0.3	0.6	0.3	-0.2
Real unit labour cost	0.6	1.9	0.0	-1.2	-1.3	1.4	-0.2	0.1	-0.9	-1.6
Saving rate of households (b)	15.0	16.6	17.1	17.2	17.8	21.5	20.8	20.5	20.4	20.0
GDP deflator	2.8	2.9	2.1	2.1	2.2	0.1	0.0	0.5	1.2	1.5
Harmonized index of consumer prices	0.4	2.0	2.1	1.9	1.9	-0.7	0.1	0.7	1.3	1.6
Terms of trade goods	2.2	-0.5	0.5	0.0	0.0	-0.4	-0.1	0.0	-0.1	-0.1
Trade balance (goods) (c)	13.8	11.6	11.9	12.0	12.1	2.6	2.5	2.8	2.9	3.0
Current account balance (c)	14.3	11.1	11.2	11.4	11.4	11.5	13.5	11.7	11.9	12.1
Net lending (+) or borrowing (-) vis-a-vis ROW	14.3	11.0	11.2	11.3	11.4	12.6	15.0	11.5	11.7	12.0
General government balance (c)	13.9	10.9	10.6	10.0	9.1	0.3	0.1	0.7	0.8	0.5
Cyclically adjusted budget balance (c)	-	-	-	-	-	-	-	-	-	-
Structural budget balance (c)	-	-	-	-	-	-	-	-	-	-
General government gross debt (c)	29.4	29.7	27.8	26.6	26.2	35.1	35.2	33.9	32.1	30.5

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

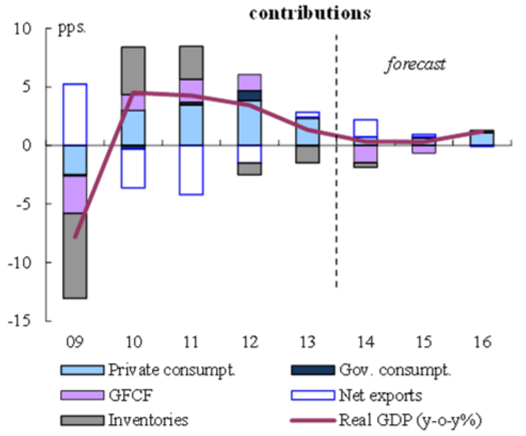
39. RUSSIAN FEDERATION
Heading towards stagnation

Geo-political tensions over the situation in Ukraine, including sanctions, have exacerbated existing structural bottlenecks linked to an exhausted growth model largely centred on the export of natural resources. This is taking a heavy toll on the growth outlook: Russia is expected to move to near-stagnation both in 2014 and 2015 before gradually recovering in 2016. This reflects a slump in investment and decelerating consumption, while inflationary pressures remain significant.

Sharp slowdown amidst geopolitical tensions…

Economic growth in Russia had been on a declining trend for some time as the growth model based on the export of natural resources ran out of steam, diversification of the economy made only little progress and investment stalled. These trends are exacerbated by the fall-out from geopolitical tensions, including sanctions, which disrupt trade and financial flows, undermine confidence and take a heavy toll on investment and consumption.

Graph II.39.1: **Russia - Real GDP growth and contributions**



Real GDP is expected to sharply slow down to near-stagnation in 2014 as the geo-political tensions over Ukraine have intensified in the course of the year, culminating in economic sanctions against Russia imposed by the EU, the US and a number of other countries. Economic activity showed some resilience in the first half of the year, helped by exports. However, rising geopolitical tensions and the related political and economic uncertainty already triggered a sharp contraction of investment and a deceleration of private consumption in the second quarter, on the back of rising capital outflows and rising borrowing costs.

Geopolitical tensions are set to drag down growth well into 2015. A gradual recovery of the Russian economy may be expected only in 2016, albeit still below the growth rates observed in previous years, as structural bottlenecks are increasingly weighing on potential output growth.

…reflecting a slump in investment and decelerating consumption

After a small rebound in the second half of 2013, a major slump in investment is expected for 2014 (and has already started to materialise in the first half of the year), followed by a smaller contraction in 2015. This reflects a largely deteriorated investment climate in connection with rising uncertainty over the duration of geo-political tensions, major capital outflows and rising financing costs for Russian banks and corporations. This is further aggravated by the effect of recent sanctions, which effectively prevent access to Western capital markets for some main Russian companies (in the banking, defence and oil sectors).

Private consumption growth, which has been a major growth driver in recent years, is also expected to slow down in 2014 and to remain subdued in 2015, before picking up moderately in 2016. This is due to increasing pressures on real disposable incomes, as households face higher debt servicing costs, rising inflation levels and a slowdown of wage growth.

Exports are expected to decelerate in 2014 and to pick up moderately in 2015 and 2016 in line with the anticipated recovery in main export markets and provided that geopolitical tensions ease in the course of 2015. A sharp slump of imports is expected for 2014, on the back of slower domestic demand, a weaker exchange rate and the Russian ban on certain food imports. Exports are overall more resilient than imports since sales of Russian oil and gas have been largely unaffected by the geopolitical tensions.

Still tight labour market

A moderate contraction in employment is expected mainly due to a continuing decline in working age population. Employment losses triggered by the current growth slowdown are set to remain limited given a very tight labour market and attempts to shift towards import substitution. However, unemployment is set to increase moderately in 2015 and 2016, reflecting the sharp slowdown in output growth.

High inflation and rouble depreciation

Geopolitical tensions in the course of 2014 led to substantial rouble depreciation to record lows. Inflation also picked-up sharply and is expected to reach 7.5% on average in 2014, mainly as a result of rouble depreciation and restrictions on food imports. The Central Bank of Russia (CBR) has tightened monetary policy substantially by raising its key rate in three steps throughout 2014 from 5.5% to 8% and carried out large scale foreign exchange intervention in the first half of the year, in an attempt to soften the impact of capital outflows and to halt the rouble depreciation.

Inflation is set to remain elevated in 2015, in connection with protracted geopolitical tensions and structural bottlenecks on the supply side, and to subside only gradually to 6% in 2016.

A weakening fiscal outlook

The general government balance is set to slightly improve in 2014 as the depreciating rouble will boost oil-related revenues amidst relatively strong oil price in the first half of the year. The fiscal balance is expected to deteriorate in 2015 and 2016 due to weaker revenue growth linked with lower oil price levels and a slowing pace of rouble depreciation, while overall expenditure growth will remain elevated.

Risks to the outlook

Major downside risks to the outlook are related to persistent geopolitical tensions over Ukraine. Moreover, since the Russian economy remains highly dependent on oil-related income, a stronger decrease in oil or gas prices could further add to the pressures.

Table II.39.1:

Main features of country forecast - RUSSIA

	2013			Annual percentage change						
	bn RUB	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		66755.3	100.0	-	4.3	3.4	1.3	**0.3**	**0.3**	**1.2**
Private Consumption		34675.2	51.9	-	6.7	7.9	4.7	**1.4**	**1.2**	**2.0**
Public Consumption		13047.5	19.5	-	1.4	4.6	0.5	**0.0**	**0.5**	**1.0**
Gross fixed capital formation		13764.2	20.6	-	9.2	6.7	-0.2	**-7.2**	**-3.5**	**0.0**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		18936.7	28.4	-	0.3	1.4	4.2	**0.4**	**1.5**	**2.0**
Imports (goods and services)		15014.1	22.5	-	20.3	8.8	3.7	**-6.0**	**1.0**	**3.0**
GNI (GDP deflator)		64204.1	96.2	-	4.3	3.2	0.9	**0.8**	**0.1**	**1.4**
Contribution to GDP growth: Domestic demand				-	5.6	6.0	2.4	**-0.8**	**0.1**	**1.3**
Inventories				-	2.8	-1.0	-1.4	**-0.4**	**0.0**	**0.0**
Net exports				-	-4.2	-1.5	0.4	**1.5**	**0.2**	**-0.1**
Employment				-	1.3	0.4	0.6	**0.1**	**-0.4**	**-0.4**
Unemployment rate (a)				-	6.6	5.6	5.5	**5.4**	**5.6**	**5.7**
Compensation of employees / head				-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				-	15.9	7.5	5.9	**7.1**	**6.5**	**6.1**
Consumer-price index				-	8.4	5.1	6.8	**7.5**	**7.0**	**6.0**
Terms of trade goods				-	22.0	3.0	-6.7	**-1.8**	**-1.9**	**-1.0**
Trade balance (goods) (c)				12.0	10.4	9.7	8.7	**9.8**	**9.2**	**8.6**
Current-account balance (c)				7.4	4.9	3.5	1.6	**3.2**	**2.5**	**2.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.9	4.9	3.3	1.6	**3.1**	**2.5**	**2.1**
General government balance (c)				-	3.8	2.0	0.2	**0.6**	**0.2**	**0.1**
Cyclically-adjusted budget balance (c)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	11.6	12.7	13.9	**15.9**	**16.8**	**17.0**

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

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Statistical Annex

European Economic Forecast – Autumn 2014

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Table 1: Gross domestic product, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	2.7	2.1	1.2	2.5	1.6	0.1	0.3	0.9	0.9	1.1	1.4	1.6
Germany	1.7	1.0	0.6	4.1	3.6	0.4	0.1	1.3	1.1	1.8	1.8	2.0
Estonia	5.7	7.2	1.0	2.5	8.3	4.7	1.6	1.9	2.0	2.7	1.9	3.0
Ireland	9.7	5.6	1.3	-0.3	2.8	-0.3	0.2	4.6	3.6	3.7	1.7	3.0
Greece	3.3	4.5	1.0	-5.4	-8.9	-6.6	-3.3	0.6	2.9	3.7	0.6	2.9
Spain	3.6	3.7	1.8	0.0	-0.6	-2.1	-1.2	1.2	1.7	2.2	1.1	2.1
France	2.6	2.1	0.7	2.0	2.1	0.3	0.3	0.3	0.7	1.5	1.0	1.5
Italy	1.8	1.5	-0.5	1.7	0.6	-2.3	-1.9	-0.4	0.6	1.1	0.6	1.2
Cyprus	4.7	3.9	2.9	1.4	0.3	-2.4	-5.4	-2.8	0.4	1.6	-4.8	0.9
Latvia	3.7	7.4	2.3	-2.9	5.0	4.8	4.2	2.6	2.9	3.6	3.8	4.1
Lithuania	4.6	6.9	2.4	1.6	6.1	3.8	3.3	2.7	3.1	3.4	3.3	3.7
Luxembourg	4.7	3.9	2.0	5.1	2.6	-0.2	2.0	3.0	2.4	2.9	2.6	2.7
Malta	4.5	2.6	2.1	3.5	2.2	2.0	2.5	3.0	2.9	2.7	2.3	2.3
Netherlands	3.8	1.6	1.8	1.1	1.7	-1.6	-0.7	0.9	1.4	1.7	1.2	1.4
Austria	2.9	2.0	1.3	1.9	3.1	0.9	0.2	0.7	1.2	1.5	1.6	1.8
Portugal	3.8	1.5	0.4	1.9	-1.8	-3.3	-1.4	0.9	1.3	1.7	1.2	1.5
Slovenia	4.3	3.6	2.3	1.2	0.6	-2.6	-1.0	2.4	1.7	2.5	0.8	1.4
Slovakia	4.5	4.0	5.0	4.8	2.7	1.6	1.4	2.4	2.5	3.3	2.2	3.1
Finland	4.8	3.2	0.8	3.0	2.6	-1.5	-1.2	-0.4	0.6	1.1	0.2	1.0
Euro area	2.5	1.9	0.7	2.0	1.6	-0.7	-0.5	0.8	1.1	1.7	1.2	1.7
Bulgaria	-2.0	5.2	3.9	0.7	2.0	0.5	1.1	1.2	0.6	1.0	1.7	2.0
Czech Republic	2.2	3.5	3.2	2.3	2.0	-0.8	-0.7	2.5	2.7	2.7	2.0	2.4
Denmark	2.9	1.6	0.2	1.6	1.3	-0.8	-0.1	0.8	1.7	2.0	1.5	1.9
Croatia	:	4.4	1.6	-1.7	-0.3	-2.2	-0.9	-0.7	0.2	1.1	-0.6	0.7
Hungary	2.5	4.2	0.5	0.8	1.8	-1.5	1.5	3.2	2.5	2.0	2.3	2.1
Poland	6.0	3.1	4.7	3.7	4.8	1.8	1.7	3.0	2.8	3.3	3.2	3.4
Romania	0.7	5.4	3.9	-0.8	1.1	0.6	3.5	2.0	2.4	2.8	2.5	2.6
Sweden	3.4	3.0	1.0	6.0	2.7	-0.3	1.5	2.0	2.4	2.7	2.8	3.0
United Kingdom	3.6	3.1	0.7	1.9	1.6	0.7	1.7	3.1	2.7	2.5	2.7	2.5
EU	:	2.3	0.9	2.1	1.7	-0.4	0.0	1.3	1.5	2.0	1.6	2.0
USA	4.1	2.7	0.9	2.5	1.6	2.3	2.2	2.2	3.1	3.2	2.8	3.2
Japan	0.8	1.4	-0.3	4.7	-0.5	1.5	1.5	1.1	1.0	1.0	1.5	1.3

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2014-16) 22.10.2014

	2014/1	2014/2	2014/3	2014/4	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4
Belgium	0.4	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Germany	0.7	-0.2	0.0	0.1	0.2	0.3	0.4	0.4	0.4	0.5	0.5	0.5
Estonia	0.3	1.1	0.1	0.2	0.5	0.5	1.0	0.6	0.6	0.6	0.7	0.7
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	0.4	0.6	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6
France	0.0	0.0	0.1	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5
Italy	0.0	-0.2	-0.1	-0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.3	0.4
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	0.4	0.9	0.5	0.5	0.7	0.7	0.8	0.8	0.9	1.0	1.1	1.1
Lithuania	0.7	0.8	0.1	0.0	0.2	1.1	1.4	1.3	0.7	0.7	0.7	0.7
Luxembourg	1.7	0.7	0.1	0.3	0.6	0.9	0.7	0.8	0.8	0.8	0.8	0.8
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	-0.3	0.7	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5
Austria	0.1	0.2	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Portugal	-0.4	0.3	0.2	0.7	0.1	0.3	0.3	0.5	0.4	0.4	0.5	0.5
Slovenia	0.0	1.0	0.6	0.4	0.3	0.4	0.4	0.6	0.7	0.7	0.7	0.7
Slovakia	0.7	0.6	0.6	0.7	0.6	0.6	0.6	0.8	0.8	0.9	1.0	0.9
Finland	-0.3	0.2	-0.3	0.1	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Euro area	0.3	0.1	0.0	0.1	0.3	0.3	0.4	0.4	0.4	0.5	0.4	0.5
Bulgaria	0.3	0.5	0.2	0.1	0.1	0.1	0.0	0.1	0.2	0.3	0.3	0.4
Czech Republic	0.6	0.3	0.5	0.8	0.7	0.7	0.6	0.9	0.5	0.6	0.7	0.8
Denmark	0.1	0.2	0.2	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Croatia	0.2	-0.3	-0.1	-0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4
Hungary	1.1	0.8	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Poland	1.1	0.6	0.4	0.4	0.7	0.8	0.9	0.9	0.8	0.7	0.8	0.8
Romania	-0.1	-0.9	1.0	1.6	0.3	0.4	0.4	0.4	0.8	0.9	0.9	0.9
Sweden	0.1	0.7	0.2	0.4	0.6	0.7	0.7	0.6	0.6	0.6	0.7	0.8
United Kingdom	0.7	0.9	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
EU	0.4	0.2	0.2	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
USA	-0.5	1.1	0.8	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9
Japan	1.5	-1.8	1.0	0.8	0.3	0.1	0.3	-0.8	0.7	0.4	0.4	0.5

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2014-16) 22.10.2014

	2014/1	2014/2	2014/3	2014/4	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4
Belgium	1.2	1.0	0.9	0.7	0.5	0.6	0.7	0.8	1.0	1.1	1.2	1.2
Germany	2.2	1.3	0.9	0.6	0.2	0.7	1.1	1.4	1.6	1.7	1.8	1.8
Estonia	0.6	2.9	2.5	1.7	2.0	1.3	2.3	2.6	2.7	2.8	2.5	2.6
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	0.5	1.2	1.5	1.6	1.7	1.6	1.7	1.9	2.1	2.2	2.3	2.4
France	0.8	0.1	0.3	0.2	0.4	0.6	0.8	1.0	1.2	1.4	1.6	1.8
Italy	-0.3	-0.3	-0.3	-0.3	-0.1	0.3	0.7	1.1	1.1	1.2	1.3	1.4
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	2.3	3.3	2.6	2.3	2.7	2.5	2.8	3.1	3.3	3.5	3.8	4.0
Lithuania	3.7	3.5	2.4	1.6	1.1	1.4	2.7	4.0	4.6	4.2	3.5	2.8
Luxembourg	3.9	3.2	2.6	2.7	1.6	1.9	2.6	3.1	3.3	3.2	3.2	3.3
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.1	1.1	1.3	1.0	1.6	1.2	1.3	1.4	1.5	1.7	1.8	1.9
Austria	0.8	0.9	0.7	0.6	0.8	1.0	1.3	1.4	1.5	1.5	1.5	1.6
Portugal	1.0	0.9	1.1	0.8	1.4	1.3	1.4	1.2	1.5	1.6	1.8	1.9
Slovenia	1.9	2.8	2.8	2.0	2.2	1.6	1.5	1.6	2.1	2.4	2.7	2.8
Slovakia	2.2	2.4	2.5	2.6	2.4	2.4	2.4	2.6	2.8	3.1	3.5	3.7
Finland	-0.2	-0.1	-0.8	-0.4	0.2	0.3	0.9	1.1	1.1	1.0	1.0	1.1
Euro area	1.1	0.8	0.7	0.5	0.6	0.8	1.1	1.4	1.5	1.7	1.7	1.8
Bulgaria	1.2	1.6	1.3	1.1	1.0	0.6	0.4	0.4	0.4	0.6	0.8	1.1
Czech Republic	2.6	2.5	2.6	2.3	2.3	2.7	2.9	2.9	2.8	2.7	2.7	2.6
Denmark	0.6	1.1	0.6	1.0	1.3	1.6	1.8	1.9	2.0	2.0	2.0	2.0
Croatia	-0.4	-1.0	-0.8	-0.3	-0.4	0.1	0.4	0.8	1.0	1.1	1.2	1.3
Hungary	3.3	3.7	3.1	3.0	2.5	2.3	2.4	2.4	2.3	2.2	2.1	2.0
Poland	3.5	3.3	2.8	2.5	2.2	2.4	3.0	3.5	3.5	3.4	3.3	3.2
Romania	3.7	1.5	1.1	1.6	2.0	3.4	2.8	1.5	2.1	2.5	3.1	3.5
Sweden	1.7	2.6	2.3	1.4	1.9	1.9	2.5	2.7	2.7	2.6	2.6	2.8
United Kingdom	2.9	3.2	3.1	3.1	3.0	2.7	2.4	2.4	2.4	2.4	2.4	2.4
EU	1.5	1.3	1.2	1.1	1.1	1.3	1.5	1.7	1.8	1.9	2.0	2.0
USA	1.9	2.6	2.2	2.1	3.4	3.0	2.9	3.0	3.1	3.2	3.3	3.4
Japan	2.7	0.0	0.5	1.4	0.3	2.2	1.5	-0.1	0.3	0.7	0.8	2.1

Table 4: Gross domestic product per capita (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	2.5	1.7	0.4	1.6	0.8	-0.6	-0.2	**0.4**	**0.3**	**0.6**	*0.9*	*1.0*
Germany	1.5	0.9	0.7	4.2	3.6	0.2	-0.1	**0.9**	**0.9**	**1.8**	*1.6*	*1.9*
Estonia	6.7	7.6	1.5	2.7	8.6	5.0	2.0	**2.3**	**2.4**	**3.1**	*2.3*	*3.4*
Ireland	8.6	3.9	-0.9	-0.7	2.4	-0.6	-0.1	**4.2**	**2.9**	**2.8**	*0.9*	*1.5*
Greece	2.7	4.2	0.8	-5.2	-8.6	-6.3	-3.1	**0.6**	**2.9**	**3.7**	*0.6*	*2.9*
Spain	3.2	2.3	0.3	-0.3	-0.7	-2.2	-0.7	**1.5**	**2.0**	**2.5**	*1.4*	*2.3*
France	2.2	1.4	0.1	1.5	1.6	-0.1	-0.2	**-0.2**	**0.2**	**1.1**	*0.5*	*1.0*
Italy	1.8	1.2	-1.0	1.3	0.2	-2.7	-2.4	**-1.5**	**0.3**	**0.8**	*0.2*	*0.9*
Cyprus	3.2	2.7	0.8	-1.2	-2.3	-3.9	-5.1	**-3.1**	**0.0**	**1.2**	*-5.8*	*-0.1*
Latvia	4.8	8.6	3.5	-0.8	7.0	6.1	5.3	**3.4**	**3.6**	**4.2**	*4.6*	*4.9*
Lithuania	5.4	7.9	3.7	3.8	8.5	5.2	4.3	**3.5**	**3.6**	**3.8**	*4.1*	*3.9*
Luxembourg	3.4	2.7	0.4	3.2	0.3	-2.4	-0.6	**0.7**	**0.4**	**0.9**	*0.8*	*0.9*
Malta	3.8	1.9	1.5	3.0	1.8	1.2	1.8	**2.2**	**2.2**	**2.0**	*1.8*	*1.7*
Netherlands	3.3	1.0	1.5	0.5	1.2	-1.9	-1.0	**0.6**	**1.1**	**1.3**	*0.9*	*1.1*
Austria	2.7	1.5	0.9	1.6	2.7	0.4	-0.4	**0.0**	**0.9**	**1.2**	*1.3*	*1.5*
Portugal	3.3	0.9	0.2	1.9	-1.7	-2.9	-0.8	**1.6**	**1.8**	**2.2**	*1.2*	*1.5*
Slovenia	4.3	3.5	1.8	0.9	0.4	-2.8	-1.1	**2.2**	**1.5**	**2.3**	*0.6*	*1.2*
Slovakia	4.3	4.0	4.8	4.6	3.3	1.4	1.3	**2.3**	**2.5**	**3.3**	*1.9*	*2.7*
Finland	4.5	2.9	0.4	2.5	2.1	-1.9	-1.7	**-0.9**	**0.1**	**0.7**	*-0.3*	*0.6*
Euro area	2.2	1.5	0.3	1.8	1.4	-1.0	-0.6	**0.4**	**0.9**	**1.6**	*1.0*	*1.5*
Bulgaria	-1.5	6.4	4.4	1.3	4.6	1.1	1.6	**1.9**	**1.3**	**1.7**	*2.4*	*2.7*
Czech Republic	2.3	3.7	2.7	2.0	2.2	-0.9	-0.7	**2.5**	**2.6**	**2.7**	*2.0*	*2.3*
Denmark	2.4	1.3	-0.2	1.2	0.9	-1.2	-0.5	**0.3**	**1.3**	**1.7**	*1.2*	*1.6*
Croatia	:	5.4	1.7	-1.5	0.0	-1.9	-0.6	**-0.5**	**0.4**	**1.3**	*-0.5*	*0.9*
Hungary	2.7	4.5	0.7	1.0	2.1	-1.0	1.8	**3.3**	**2.7**	**2.1**	*2.4*	*2.3*
Poland	5.9	3.2	4.7	2.7	4.7	1.7	1.8	**3.1**	**2.9**	**3.4**	*3.3*	*3.5*
Romania	0.9	6.4	5.0	-0.2	1.6	0.9	3.8	**2.2**	**2.7**	**3.0**	*2.7*	*2.9*
Sweden	3.3	2.7	0.3	5.1	1.9	-1.0	0.6	**1.0**	**1.3**	**1.6**	*1.9*	*2.2*
United Kingdom	3.3	2.7	0.1	1.1	0.9	-0.9	1.1	**2.4**	**1.8**	**1.6**	*2.0*	*1.8*
EU	:	2.0	0.5	1.8	1.5	-0.8	-0.1	**0.9**	**1.3**	**1.7**	*1.3*	*1.7*
USA	2.8	1.7	0.0	1.7	0.9	1.6	1.5	**1.5**	**2.4**	**2.5**	*2.1*	*2.5*
Japan	0.5	1.2	-0.3	4.2	-0.3	1.7	1.7	**1.3**	**1.2**	**1.2**	*1.6*	*1.4*

Table 5: Domestic demand, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	2.3	1.6	1.6	2.1	2.0	0.0	-0.6	**0.8**	**0.7**	**1.1**	*1.3*	*1.9*
Germany	1.7	0.0	0.5	3.0	3.0	-0.9	0.7	**1.4**	**1.1**	**2.1**	*1.8*	*2.2*
Estonia	6.2	9.5	-0.2	0.5	13.0	4.6	1.0	**2.7**	**2.6**	**3.6**	*2.7*	*3.2*
Ireland	8.5	5.5	1.1	-4.4	-0.7	-0.6	-0.3	**3.0**	**3.6**	**3.7**	*1.7*	*1.5*
Greece	4.1	4.5	1.3	-7.2	-10.7	-9.2	-4.3	**-0.6**	**1.9**	**3.2**	*-0.9*	*1.9*
Spain	4.1	4.2	1.5	-0.5	-2.7	-4.2	-2.7	**1.5**	**1.7**	**2.2**	*0.4*	*1.6*
France	2.4	2.3	1.1	2.0	2.0	-0.3	0.2	**0.5**	**0.6**	**1.8**	*1.0*	*1.7*
Italy	2.2	1.6	-0.3	1.9	-0.6	-5.0	-2.9	**-0.5**	**0.4**	**0.8**	*0.3*	*1.3*
Cyprus	4.0	4.8	3.7	2.4	-2.0	-3.8	-9.7	**-3.2**	**-0.8**	**0.9**	*-6.8*	*0.1*
Latvia	:	8.2	0.4	-3.1	10.5	2.4	3.4	**2.5**	**3.0**	**4.0**	*3.9*	*4.9*
Lithuania	:	7.7	1.2	1.8	5.8	-0.2	2.9	**4.0**	**3.9**	**4.3**	*4.0*	*4.3*
Luxembourg	5.1	2.6	1.3	6.5	5.6	0.2	0.7	**1.4**	**2.4**	**2.7**	*1.9*	*2.6*
Malta	:	2.2	2.3	4.7	-1.3	-1.5	2.6	**4.6**	**2.7**	**1.0**	*3.2*	*1.9*
Netherlands	4.5	1.2	1.7	0.1	0.8	-2.4	-2.0	**0.2**	**1.2**	**1.8**	*1.0*	*0.7*
Austria	2.3	1.3	1.2	0.9	2.6	0.3	-1.0	**0.7**	**1.0**	**1.4**	*1.1*	*1.5*
Portugal	4.8	1.1	0.3	1.9	-5.7	-6.6	-2.3	**1.2**	**1.3**	**1.4**	*0.6*	*0.8*
Slovenia	6.1	3.0	1.6	-0.9	-0.8	-5.6	-2.1	**0.7**	**0.8**	**2.1**	*0.5*	*1.0*
Slovakia	6.1	3.8	3.8	4.3	1.0	-4.1	0.0	**3.3**	**2.1**	**3.1**	*1.7*	*2.5*
Finland	4.7	2.8	1.0	3.2	4.0	-1.4	-1.1	**-0.5**	**0.3**	**0.8**	*-0.6*	*0.8*
Euro area	:	1.7	0.8	1.5	0.8	-2.2	-0.9	**0.7**	**1.0**	**1.8**	*1.0*	*1.7*
Bulgaria	1.2	7.6	4.5	-4.4	0.1	3.3	-1.5	**1.4**	**0.0**	**0.4**	*2.2*	*1.9*
Czech Republic	2.9	3.8	2.2	1.8	0.0	-2.2	-0.7	**2.4**	**2.7**	**2.4**	*1.0*	*2.0*
Denmark	2.9	1.9	0.6	1.2	0.7	-0.4	0.3	**1.2**	**1.6**	**1.9**	*1.3*	*1.7*
Croatia	:	5.1	1.7	-4.6	-0.2	-3.3	-0.9	**-1.6**	**-0.3**	**0.9**	*-1.3*	*0.0*
Hungary	1.9	4.5	-1.4	-0.5	-0.2	-3.0	1.2	**3.4**	**2.2**	**1.8**	*2.5*	*2.2*
Poland	7.5	2.3	4.7	4.2	3.8	-0.4	0.2	**3.7**	**3.3**	**3.6**	*3.3*	*3.6*
Romania	2.4	5.8	6.4	-0.8	1.1	0.1	-1.3	**1.2**	**2.6**	**3.0**	*2.2*	*3.1*
Sweden	2.7	2.1	1.4	6.0	3.0	-0.6	1.5	**2.9**	**2.8**	**2.8**	*3.1*	*3.1*
United Kingdom	4.2	3.6	0.3	2.7	0.3	1.4	1.9	**3.1**	**2.8**	**2.5**	*2.5*	*2.4*
EU	:	2.1	0.9	1.7	0.8	-1.5	-0.3	**1.3**	**1.5**	**2.0**	*1.4*	*1.9*
USA	4.5	3.1	0.4	2.9	1.6	2.2	1.9	**2.4**	**3.1**	**3.3**	*2.6*	*3.5*
Japan	0.7	1.0	-0.5	2.9	0.4	2.3	1.8	**0.9**	**0.6**	**0.6**	*1.4*	*0.9*

Table 6: Final demand, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	3.7	2.9	1.5	5.4	4.0	0.9	1.0	**1.8**	**1.7**	**2.5**	*2.1*	*3.2*
Germany	2.8	1.8	1.1	6.3	4.6	0.3	1.0	**2.0**	**2.1**	**3.2**	*2.9*	*3.4*
Estonia	7.5	10.7	1.2	9.7	17.1	6.3	1.7	**2.1**	**3.0**	**4.5**	*2.9*	*4.1*
Ireland	12.7	6.9	1.8	0.9	2.6	2.3	0.5	**5.9**	**4.6**	**4.8**	*2.4*	*2.8*
Greece	5.0	4.7	1.1	-5.5	-8.9	-7.2	-2.9	**0.7**	**2.7**	**3.6**	*0.2*	*2.6*
Spain	5.2	4.3	1.3	1.3	-0.7	-3.0	-1.1	**2.0**	**2.5**	**3.1**	*1.7*	*3.0*
France	3.4	2.7	0.9	3.4	3.0	0.0	0.6	**0.9**	**1.3**	**2.6**	*1.5*	*2.5*
Italy	2.6	1.9	-0.5	3.7	0.6	-3.5	-2.1	**0.0**	**1.1**	**1.6**	*1.0*	*2.0*
Cyprus	4.8	3.5	2.4	2.5	-0.1	-3.1	-8.1	**-2.0**	**0.2**	**1.5**	*-5.5*	*0.7*
Latvia	:	8.5	1.8	1.8	11.0	5.0	2.7	**2.1**	**3.1**	**4.3**	*3.8*	*5.1*
Lithuania	:	9.1	3.0	7.6	9.4	5.0	5.8	**2.1**	**4.6**	**5.3**	*5.1*	*5.4*
Luxembourg	7.2	5.3	2.9	7.7	5.1	2.2	4.4	**2.2**	**3.6**	**4.4**	*2.9*	*4.1*
Malta	:	1.5	6.6	6.0	0.6	3.4	-0.1	**2.3**	**3.8**	**3.6**	*2.9*	*4.0*
Netherlands	5.7	2.5	2.0	3.7	2.4	0.2	-0.1	**1.8**	**2.2**	**3.2**	*2.1*	*2.9*
Austria	3.6	2.9	1.3	4.7	4.0	0.7	-0.2	**1.3**	**1.8**	**2.6**	*2.4*	*3.2*
Portugal	5.3	1.8	0.6	3.4	-2.9	-4.2	0.0	**1.9**	**2.2**	**2.7**	*2.0*	*2.3*
Slovenia	5.9	4.8	2.8	3.1	2.3	-3.2	0.0	**2.6**	**2.5**	**3.6**	*2.1*	*3.0*
Slovakia	5.2	7.0	4.9	8.9	5.8	2.1	2.5	**4.0**	**3.2**	**4.3**	*3.7*	*4.5*
Finland	6.1	3.6	1.3	4.0	3.4	-0.7	-1.3	**-0.4**	**0.8**	**1.5**	*0.4*	*1.9*
Euro area	:	2.7	1.0	4.0	2.4	-0.8	0.0	**1.5**	**1.9**	**2.8**	*2.0*	*2.8*
Bulgaria	:	6.6	4.7	1.8	4.4	2.0	2.6	**1.4**	**1.2**	**1.8**	*3.3*	*3.8*
Czech Republic	4.6	6.5	4.1	6.8	3.8	0.5	-0.3	**5.1**	**3.9**	**4.1**	*2.9*	*4.0*
Denmark	3.6	2.7	1.4	1.4	3.0	-0.3	0.6	**1.2**	**2.3**	**2.8**	*1.9*	*2.5*
Croatia	:	6.3	1.2	-1.9	0.5	-2.4	0.3	**0.5**	**0.9**	**2.2**	*-0.2*	*1.2*
Hungary	:	7.5	2.5	4.7	3.0	-2.3	3.5	**4.9**	**4.1**	**3.8**	*4.1*	*4.2*
Poland	8.2	3.8	5.3	6.6	5.0	1.0	1.7	**3.7**	**3.5**	**4.3**	*3.6*	*4.4*
Romania	2.1	7.9	5.8	2.5	3.6	0.4	4.7	**3.4**	**3.3**	**3.9**	*3.5*	*3.9*
Sweden	4.5	3.2	1.3	7.9	4.0	-0.1	0.8	**2.7**	**3.1**	**3.4**	*3.3*	*3.9*
United Kingdom	4.6	3.7	0.7	3.4	1.5	1.3	1.6	**2.3**	**2.9**	**2.9**	*2.5*	*2.6*
EU	:	3.0	1.2	4.0	2.5	-0.4	0.4	**1.8**	**2.2**	**2.9**	*2.2*	*2.9*
USA	4.8	3.0	0.7	3.8	2.1	2.3	2.1	**2.5**	**3.4**	**3.6**	*2.9*	*3.8*
Japan	1.0	1.7	-0.5	5.4	0.3	2.0	1.8	**1.7**	**1.1**	**1.1**	*1.8*	*1.5*

Table 7: Private consumption expenditure, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	2.0	1.3	1.3	2.8	0.6	0.8	0.3	**1.2**	**1.0**	**0.8**	*1.6*	*1.9*
Germany	1.6	0.8	0.5	0.6	2.3	0.7	0.8	**1.0**	**1.3**	**1.8**	*1.5*	*1.8*
Estonia	7.0	8.1	1.6	-1.6	2.5	5.1	3.8	**3.6**	**3.4**	**3.7**	*4.5*	*3.8*
Ireland	6.9	5.0	2.7	0.4	-1.1	-1.4	-0.4	**1.4**	**2.0**	**2.0**	*0.4*	*0.8*
Greece	3.5	3.9	2.6	-7.1	-10.6	-7.8	-2.0	**-0.6**	**1.6**	**2.2**	*-1.8*	*1.6*
Spain	3.3	3.5	1.3	0.3	-2.0	-2.9	-2.3	**2.0**	**2.0**	**2.2**	*1.3*	*1.6*
France	2.4	2.4	1.6	1.8	0.5	-0.4	0.2	**0.2**	**1.1**	**1.4**	*0.6*	*1.2*
Italy	2.3	1.0	0.2	1.2	0.0	-4.0	-2.8	**0.2**	**0.4**	**0.0**	*0.4*	*0.8*
Cyprus	7.5	5.0	3.8	1.3	1.8	-0.7	-6.0	**-1.2**	**-0.5**	**1.1**	*-6.3*	*0.7*
Latvia	:	6.3	2.6	3.1	2.9	3.0	6.2	**3.6**	**4.0**	**4.5**	*4.8*	*5.1*
Lithuania	:	8.0	3.3	-3.4	4.6	3.6	4.2	**3.9**	**4.0**	**4.3**	*3.9*	*4.3*
Luxembourg	3.6	2.7	2.1	2.0	1.2	1.9	1.5	**1.7**	**1.8**	**2.5**	*2.4*	*2.5*
Malta	:	3.0	1.6	-0.2	2.5	0.5	1.7	**2.0**	**2.4**	**2.6**	*2.2*	*2.3*
Netherlands	4.5	1.5	0.3	-0.1	0.2	-1.4	-1.6	**0.0**	**1.1**	**1.7**	*-0.2*	*0.9*
Austria	1.9	1.8	1.3	1.5	0.7	0.6	-0.1	**0.4**	**0.6**	**0.8**	*0.7*	*1.0*
Portugal	3.7	1.6	0.9	2.4	-3.6	-5.2	-1.4	**1.6**	**1.5**	**1.5**	*0.7*	*0.8*
Slovenia	4.9	2.4	2.6	1.0	-0.1	-3.0	-3.9	**0.4**	**0.9**	**1.1**	*0.2*	*1.1*
Slovakia	5.7	4.2	4.9	0.1	-0.7	-0.4	-0.7	**2.8**	**2.3**	**3.1**	*1.3*	*2.3*
Finland	4.1	3.1	2.0	3.1	2.9	0.1	-0.7	**-0.1**	**0.2**	**0.6**	*-0.1*	*0.3*
Euro area	:	1.7	1.0	0.8	0.2	-1.3	-0.6	**0.7**	**1.1**	**1.4**	*0.8*	*1.3*
Bulgaria	-1.5	6.6	4.4	0.5	1.8	3.9	-2.3	**1.1**	**0.6**	**1.3**	*1.3*	*1.7*
Czech Republic	3.4	3.1	2.7	1.0	0.2	-1.8	0.4	**1.7**	**1.9**	**2.0**	*0.7*	*1.9*
Denmark	1.9	1.6	1.1	0.8	0.3	0.2	0.1	**0.7**	**1.7**	**1.9**	*1.3*	*1.7*
Croatia	:	4.6	1.4	-1.5	0.3	-3.0	-1.2	**-0.4**	**-0.2**	**0.6**	*-1.3*	*0.0*
Hungary	:	5.1	-0.6	-2.8	0.8	-1.9	-0.1	**2.1**	**2.6**	**2.0**	*1.4*	*1.6*
Poland	6.1	2.9	4.6	2.7	2.9	0.9	1.0	**2.5**	**2.7**	**3.0**	*2.3*	*2.8*
Romania	3.1	8.1	6.4	0.9	0.8	1.2	0.9	**3.8**	**2.3**	**2.4**	*2.0*	*3.0*
Sweden	2.6	2.7	2.0	3.9	1.9	0.8	2.1	**2.9**	**2.8**	**2.8**	*2.9*	*2.8*
United Kingdom	4.2	4.1	0.8	0.4	0.1	1.1	1.6	**2.2**	**2.0**	**1.9**	*2.1*	*2.2*
EU	:	2.3	1.1	0.8	0.3	-0.7	-0.1	**1.1**	**1.4**	**1.6**	*1.2*	*1.6*
USA	4.2	3.4	1.4	1.9	2.3	1.8	2.4	**2.3**	**2.7**	**3.0**	*2.6*	*2.9*
Japan	1.0	1.0	0.4	2.8	0.3	2.0	2.0	**-0.3**	**0.5**	**0.4**	*0.6*	*0.7*

Table 8: Government consumption expenditure, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	1.6	2.0	1.6	1.2	0.8	1.4	1.1	**0.9**	**-0.3**	**0.7**	*1.0*	*0.7*
Germany	1.8	0.6	1.9	1.3	0.7	1.2	0.7	**1.0**	**1.0**	**1.1**	*1.6*	*1.2*
Estonia	2.0	2.2	3.2	-0.4	1.7	3.3	2.8	**1.2**	**1.6**	**1.3**	*1.2*	*1.2*
Ireland	5.1	5.9	3.0	-4.8	-2.2	-1.3	0.0	**1.5**	**-0.5**	**1.8**	*-0.7*	*-0.1*
Greece	3.0	4.5	2.8	-4.3	-6.6	-5.0	-6.5	**-3.1**	**-2.9**	**-1.4**	*-1.8*	*-2.0*
Spain	2.7	4.7	5.4	1.5	-0.3	-3.7	-2.9	**0.4**	**-1.4**	**-0.4**	*-0.8*	*-0.7*
France	0.8	1.8	1.6	1.3	1.0	1.7	2.0	**1.4**	**0.9**	**1.3**	*1.3*	*0.7*
Italy	0.1	2.2	0.4	0.6	-1.8	-1.5	-0.7	**-0.9**	**-0.3**	**0.9**	*-0.7*	*0.9*
Cyprus	5.1	3.1	5.0	-1.4	0.7	-2.7	-4.9	**-4.7**	**-0.9**	**-2.5**	*-1.5*	*-2.7*
Latvia	:	2.7	0.7	-8.1	3.1	0.4	-4.2	**1.2**	**1.0**	**1.0**	*2.0*	*2.0*
Lithuania	:	2.2	1.2	-3.5	0.3	1.2	1.8	**2.3**	**1.9**	**2.3**	*1.6*	*1.7*
Luxembourg	4.8	4.7	2.5	3.1	1.2	3.7	5.0	**2.9**	**2.6**	**3.0**	*2.7*	*2.9*
Malta	:	2.4	2.5	1.6	2.9	6.2	0.5	**5.7**	**0.3**	**3.8**	*2.4*	*0.8*
Netherlands	1.7	3.0	4.6	1.1	-0.2	-1.6	-0.3	**-0.5**	**0.1**	**0.1**	*0.6*	*-0.6*
Austria	2.6	0.6	2.6	0.5	0.1	0.4	0.7	**1.6**	**0.9**	**0.8**	*0.9*	*0.8*
Portugal	3.6	3.0	1.2	-1.3	-3.8	-4.3	-1.9	**-0.4**	**-0.3**	**0.2**	*-1.6*	*-1.5*
Slovenia	3.5	3.0	3.0	0.1	-1.3	-1.5	-1.1	**-2.3**	**-1.7**	**4.1**	*0.1*	*0.3*
Slovakia	2.9	3.3	5.2	1.7	-2.1	-2.0	2.4	**4.2**	**1.2**	**1.9**	*2.4*	*1.5*
Finland	2.4	1.7	1.5	-0.1	-0.1	0.7	1.5	**0.2**	**0.1**	**0.1**	*0.4*	*0.5*
Euro area	:	1.9	2.2	0.8	-0.2	-0.2	0.2	**0.6**	**0.3**	**0.8**	*0.7*	*0.5*
Bulgaria	-5.4	5.2	-0.5	2.0	1.8	-1.0	2.8	**2.1**	**0.6**	**1.0**	*1.5*	*2.3*
Czech Republic	0.5	3.0	1.1	0.4	-2.9	-1.0	2.3	**2.1**	**2.4**	**1.7**	*1.5*	*1.3*
Denmark	2.4	1.7	2.2	1.3	-1.6	0.0	0.1	**1.2**	**0.6**	**0.5**	*1.2*	*0.8*
Croatia	:	0.7	3.2	-1.6	-0.3	-1.0	0.5	**-2.5**	**-0.5**	**0.6**	*-2.9*	*-2.7*
Hungary	-1.9	3.5	0.4	-0.6	0.0	-1.3	3.2	**0.7**	**0.2**	**0.1**	*1.1*	*2.0*
Poland	2.9	2.7	4.2	3.3	-2.3	0.2	2.1	**2.1**	**2.6**	**2.8**	*3.1*	*2.6*
Romania	2.4	-1.9	1.8	-5.0	0.6	0.4	-1.6	**4.5**	**1.6**	**2.0**	*1.8*	*1.6*
Sweden	1.0	0.4	1.2	1.3	0.8	1.1	1.6	**1.4**	**1.4**	**1.2**	*1.2*	*1.1*
United Kingdom	1.7	3.7	1.8	0.0	0.0	2.3	0.7	**1.1**	**0.4**	**0.4**	*0.5*	*0.2*
EU	:	2.2	2.1	0.7	-0.2	0.2	0.4	**0.8**	**0.4**	**0.8**	*0.7*	*0.6*
USA	1.4	2.5	1.9	0.1	-2.7	-0.6	-1.3	**0.1**	**1.0**	**1.2**	*-0.2*	*1.1*
Japan	2.6	2.9	0.8	1.9	1.2	1.7	2.0	**0.5**	**0.3**	**0.4**	*1.6*	*0.9*

Table 9: Total investment, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	3.5	2.3	2.2	-0.1	4.0	0.0	-2.2	**3.6**	**0.9**	**2.3**	*1.6*	*3.2*
Germany	1.7	-1.5	0.4	4.9	7.2	-0.7	-0.7	**2.9**	**2.0**	**3.9**	*4.5*	*4.5*
Estonia	9.6	15.1	-3.0	-2.6	33.0	10.4	2.5	**2.0**	**2.1**	**4.7**	*0.9*	*3.7*
Ireland	15.1	6.5	-1.9	-17.6	-2.2	5.2	-2.8	**9.3**	**12.3**	**9.5**	*12.0*	*6.5*
Greece	8.7	4.7	-0.5	-20.9	-16.8	-28.7	-4.6	**4.5**	**11.7**	**15.0**	*5.3*	*11.7*
Spain	7.4	5.2	-1.3	-5.5	-5.4	-7.0	-5.1	**1.1**	**4.2**	**5.0**	*-1.4*	*4.2*
France	3.4	2.7	0.6	2.1	2.1	0.3	-1.0	**-2.1**	**-1.2**	**3.5**	*1.3*	*4.5*
Italy	3.8	3.1	-1.4	-0.5	-1.9	-7.4	-5.4	**-2.5**	**1.4**	**3.1**	*1.6*	*4.0*
Cyprus	-0.8	3.8	5.5	-5.1	-9.4	-20.7	-17.1	**-11.1**	**-1.6**	**4.5**	*-18.1*	*1.3*
Latvia	:	15.0	0.6	-20.0	24.2	14.5	-5.2	**0.5**	**1.9**	**5.0**	*3.2*	*6.8*
Lithuania	14.7	8.6	-0.8	1.4	19.4	-1.6	7.0	**6.2**	**5.8**	**6.1**	*6.5*	*6.9*
Luxembourg	8.1	2.0	0.7	-0.2	14.4	2.4	-4.5	**-0.6**	**3.4**	**2.8**	*0.3*	*2.7*
Malta	:	3.7	0.2	26.4	-17.1	-0.8	2.2	**12.0**	**6.6**	**-6.5**	*10.5*	*3.0*
Netherlands	7.4	-0.9	2.3	-5.6	5.6	-6.0	-4.0	**2.1**	**3.3**	**4.3**	*4.9*	*2.9*
Austria	1.9	1.2	-0.1	-2.4	6.8	0.5	-1.5	**0.5**	**2.0**	**3.2**	*2.2*	*3.4*
Portugal	8.2	-1.2	-1.0	-0.9	-12.5	-15.0	-6.3	**1.9**	**2.4**	**2.8**	*3.3*	*3.8*
Slovenia	11.6	3.2	1.3	-13.7	-4.6	-8.9	1.9	**4.6**	**2.7**	**3.3**	*2.7*	*1.4*
Slovakia	5.9	0.9	2.7	7.2	12.7	-9.3	-2.7	**4.1**	**2.5**	**4.3**	*2.3*	*3.5*
Finland	9.7	2.4	0.2	1.1	4.1	-2.5	-4.8	**-3.0**	**0.9**	**2.3**	*-3.3*	*2.6*
Euro area	:	1.6	0.0	-0.5	1.7	-3.2	-2.5	**0.6**	**1.7**	**3.9**	*2.3*	*4.2*
Bulgaria	19.1	14.1	10.3	-18.3	-6.6	4.2	-0.1	**1.7**	**-2.3**	**-2.8**	*5.5*	*2.5*
Czech Republic	4.3	4.3	3.4	1.3	1.1	-2.9	-4.4	**4.6**	**4.5**	**3.4**	*2.3*	*2.6*
Denmark	6.4	2.2	0.1	-4.0	2.1	0.5	0.6	**1.9**	**3.0**	**3.8**	*2.4*	*3.0*
Croatia	:	8.8	2.8	-15.2	-2.7	-3.3	-1.0	**-4.1**	**-0.1**	**2.5**	*0.0*	*3.0*
Hungary	5.6	4.8	0.2	-9.5	-2.2	-4.2	5.2	**12.7**	**3.1**	**2.5**	*7.0*	*4.3*
Poland	15.6	-1.3	9.3	-0.4	9.3	-1.5	0.9	**7.7**	**5.7**	**6.3**	*4.8*	*7.3*
Romania	0.2	6.0	10.7	-3.0	2.9	1.9	-4.9	**-7.4**	**4.4**	**5.5**	*2.7*	*4.3*
Sweden	5.9	2.9	1.6	6.0	5.7	-0.2	-0.1	**3.9**	**4.3**	**4.9**	*5.5*	*6.5*
United Kingdom	6.0	2.2	-2.1	5.9	2.3	0.7	3.2	**9.1**	**8.4**	**7.3**	*6.6*	*7.1*
EU	:	1.8	0.1	0.1	2.1	-2.5	-1.6	**2.0**	**2.9**	**4.5**	*3.1*	*4.7*
USA	7.5	2.7	-2.5	1.1	3.7	5.3	2.7	**4.2**	**6.2**	**6.0**	*4.9*	*7.5*
Japan	-0.5	-1.2	-2.5	-0.2	1.4	3.4	2.6	**4.9**	**1.1**	**1.5**	*3.8*	*1.6*

Table 10: Investment in construction, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	1.2	0.7	1.4	5.9	6.7	1.2	-0.7	**1.2**	**1.3**	**2.1**	*0.6*	*2.1*
Germany	-1.1	-4.0	-0.7	3.2	8.4	0.6	-0.1	**3.1**	**1.6**	**2.6**	*4.7*	*3.2*
Estonia	:	14.3	-2.0	-8.8	29.5	-2.3	0.2	**0.2**	**1.4**	**2.0**	*-1.6*	*1.9*
Ireland	14.3	6.6	-6.0	-29.5	-15.1	-1.3	14.1	**6.7**	**11.3**	**11.0**	*12.0*	*7.1*
Greece	5.3	3.9	-3.9	-22.4	-13.8	-29.6	-16.1	**1.2**	**10.3**	**12.9**	*2.4*	*10.5*
Spain	4.7	6.2	-1.7	-9.9	-10.8	-9.7	-9.6	**-3.8**	**1.8**	**2.4**	*-6.9*	*1.2*
France	1.3	3.0	0.5	-0.5	1.8	-1.2	-1.7	**-4.5**	**-2.3**	**0.9**	*-0.5*	*1.6*
Italy	1.4	4.2	-2.0	-3.6	-3.7	-6.6	-6.8	**-3.7**	**-0.2**	**1.3**	*-1.7*	*2.5*
Cyprus	:	6.4	4.4	-9.2	-8.9	-18.3	-27.0	**-18.8**	**-4.8**	**1.2**	*-13.8*	*1.5*
Latvia	:	18.3	3.7	-30.2	14.1	20.0	-1.1	**:**	**:**	**:**	*:*	*:*
Lithuania	:	5.0	0.9	-7.2	14.3	-4.1	8.6	**7.7**	**4.9**	**5.0**	*5.0*	*5.0*
Luxembourg	5.6	3.6	2.8	-8.9	10.4	-5.3	-1.8	**1.7**	**7.8**	**2.0**	*2.3*	*2.4*
Malta	:	:	-2.9	9.4	-23.1	8.1	-5.5	**:**	**:**	**:**	*:*	*:*
Netherlands	3.6	-0.5	2.1	-10.8	1.6	-9.0	-6.5	**2.9**	**3.3**	**4.4**	*2.3*	*2.2*
Austria	0.1	0.2	-1.7	-4.1	2.6	1.2	-2.2	**1.7**	**1.4**	**2.3**	*2.1*	*2.3*
Portugal	7.4	-1.5	-3.6	-3.8	-10.3	-18.7	-14.1	**-3.8**	**-0.3**	**0.4**	*0.4*	*1.4*
Slovenia	9.4	1.7	1.6	-21.2	-17.3	-7.0	-10.3	**15.6**	**0.7**	**3.1**	*2.7*	*1.2*
Slovakia	:	-1.1	6.2	-8.0	4.7	-7.8	-0.4	**3.9**	**4.2**	**3.5**	*4.1*	*3.4*
Finland	8.4	2.9	-0.6	7.0	5.1	-6.2	-3.5	**-2.1**	**0.8**	**2.0**	*-2.0*	*2.5*
Euro area	:	:	-0.8	-3.6	0.1	-3.9	-3.5	**-0.9**	**0.7**	**2.3**	*0.6*	*2.4*
Bulgaria	:	12.2	17.7	-21.6	-22.2	-5.8	-1.0	**1.7**	**-2.2**	**-9.0**	*4.2*	*2.1*
Czech Republic	:	2.2	1.9	-0.3	-3.8	-4.1	-4.1	**3.4**	**4.0**	**2.5**	*1.6*	*1.7*
Denmark	5.7	2.4	-2.4	-8.7	8.1	-5.2	-3.8	**1.8**	**0.9**	**1.7**	*5.0*	*0.5*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	:	5.8	-1.7	-13.6	-7.9	-7.7	1.9	**13.8**	**3.7**	**2.5**	*7.9*	*4.2*
Poland	:	-1.6	8.8	2.2	7.8	-1.0	-3.6	**6.8**	**5.2**	**5.2**	*4.2*	*6.1*
Romania	-0.9	8.1	10.6	7.4	-4.3	15.2	-3.1	**-7.2**	**4.3**	**5.1**	*2.9*	*4.2*
Sweden	0.1	5.7	1.3	3.5	1.1	-0.3	-2.0	**9.5**	**6.4**	**5.2**	*7.2*	*4.7*
United Kingdom	5.3	1.7	-2.3	4.1	3.3	-0.4	1.2	**6.9**	**9.2**	**7.7**	*7.3*	*7.4*
EU	1.9	1.5	-0.6	-2.5	0.6	-3.1	-2.8	**0.7**	**2.4**	**3.3**	*1.9*	*3.3*
USA	4.4	2.2	-6.6	-7.4	-1.6	7.7	3.1	**4.5**	**5.9**	**5.3**	*4.1*	*7.6*
Japan	-3.4	-3.5	-4.5	-3.1	-0.1	:	:	**:**	**:**	**:**	*:*	*:*

Table 11: Investment in equipment, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	6.3	2.6	1.7	-8.9	2.6	-3.0	-5.8	**9.2**	**0.5**	**3.3**	*3.1*	*4.9*
Germany	5.7	0.6	0.7	9.4	5.8	-2.9	-2.7	**3.2**	**2.5**	**6.1**	*4.2*	*6.6*
Estonia	:	16.0	-7.2	8.2	42.2	34.1	5.3	**3.8**	**3.2**	**8.0**	*4.0*	*6.0*
Ireland	16.8	1.3	0.6	-11.8	2.1	-2.5	1.8	**11.5**	**13.0**	**8.5**	*12.0*	*5.1*
Greece	20.0	4.8	5.2	-23.6	-22.8	-29.2	-4.4	**9.0**	**13.5**	**17.0**	*8.8*	*13.0*
Spain	12.1	2.0	-1.1	5.0	5.5	-3.9	2.2	**8.8**	**7.1**	**8.3**	*6.5*	*8.2*
France	6.9	1.9	-1.0	7.2	1.4	0.9	-1.4	**-0.5**	**0.0**	**4.8**	*3.8*	*7.1*
Italy	6.0	2.2	-1.7	6.2	0.2	-11.3	-4.8	**-2.1**	**2.7**	**5.4**	*5.9*	*5.7*
Cyprus	-1.3	-1.4	7.2	2.6	-16.4	-26.1	-10.8	**-1.5**	**2.5**	**4.4**	*-14.0*	*3.0*
Latvia	:	12.9	-6.7	1.1	45.5	12.0	-16.9	**:**	**:**	**:**	*:*	*:*
Lithuania	:	13.4	-8.1	22.2	38.1	-4.5	21.8	**4.0**	**7.2**	**8.0**	*9.0*	*9.8*
Luxembourg	12.3	0.0	-1.8	16.6	23.9	19.4	-7.1	**-3.0**	**-2.0**	**4.1**	*-2.5*	*3.5*
Malta	:	:	2.1	54.1	-17.0	-13.6	7.1	**:**	**:**	**:**	*:*	*:*
Netherlands	11.9	-2.6	2.4	-1.3	17.0	-3.4	-3.0	**1.2**	**3.6**	**4.1**	*8.2*	*4.1*
Austria	3.1	1.0	0.3	-2.5	9.8	-0.6	-1.5	**-1.1**	**3.1**	**5.1**	*2.4*	*5.3*
Portugal	11.4	-1.9	1.8	4.4	-23.5	-12.3	6.9	**13.0**	**7.0**	**6.5**	*9.0*	*7.0*
Slovenia	14.4	5.7	-0.8	-8.1	13.3	-11.9	17.9	**-5.0**	**4.0**	**4.5**	*2.6*	*1.6*
Slovakia	6.2	2.4	-0.8	12.3	36.5	-12.3	-2.6	**6.2**	**3.3**	**5.6**	*1.5*	*4.4*
Finland	10.3	0.9	1.1	-12.7	11.5	10.6	-3.2	**-5.2**	**1.5**	**4.0**	*-6.3*	*3.0*
Euro area	:	:	0.0	4.0	3.9	-4.3	-2.2	**2.4**	**3.0**	**5.9**	*4.7*	*6.4*
Bulgaria	:	16.2	1.0	-11.2	24.5	1.0	0.4	**1.8**	**-2.4**	**4.5**	*6.0*	*3.0*
Czech Republic	5.0	6.0	4.1	6.9	4.2	-6.1	-2.1	**5.4**	**4.9**	**4.0**	*2.9*	*3.4*
Denmark	5.5	1.5	0.7	-7.4	-4.0	7.6	7.5	**3.3**	**4.9**	**5.8**	*-0.1*	*5.5*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	:	4.1	-0.2	-4.0	7.1	3.5	4.7	**9.8**	**2.4**	**2.0**	*7.0*	*4.7*
Poland	:	-1.9	9.7	-3.3	11.6	-3.9	5.0	**9.2**	**6.5**	**7.8**	*7.2*	*9.1*
Romania	4.5	6.8	12.9	-21.1	19.6	-2.1	-3.8	**-7.5**	**4.8**	**6.3**	*2.5*	*4.5*
Sweden	10.6	1.2	2.0	10.8	12.4	2.8	2.2	**-0.8**	**2.2**	**4.4**	*3.9*	*8.1*
United Kingdom	7.0	2.1	-4.0	12.0	-1.0	2.8	3.7	**14.2**	**6.9**	**7.0**	*7.9*	*8.2*
EU	7.5	1.5	0.1	3.9	4.2	-3.1	-0.9	**3.7**	**3.6**	**6.0**	*4.9*	*6.5*
USA	10.2	2.3	-1.0	12.8	9.6	6.3	2.3	**3.8**	**6.6**	**6.9**	*6.1*	*7.3*
Japan	2.4	1.0	-0.8	2.6	3.4	:	:	**:**	**:**	**:**	*:*	*:*

Table 12: Public investment (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	2.2	2.1	2.0	2.2	2.3	2.3	2.2	**2.1**	**2.2**	**2.2**	*1.6*	*1.6*
Germany	2.4	2.2	2.0	2.3	2.3	2.3	2.2	**2.3**	**2.4**	**2.4**	*1.6*	*1.6*
Estonia	:	:	:	4.8	5.0	6.3	5.5	**5.1**	**4.9**	**4.8**	*4.0*	*3.9*
Ireland	2.7	3.8	4.2	3.4	2.4	1.9	1.7	**1.5**	**1.3**	**1.3**	*1.6*	*1.5*
Greece	:	:	:	3.2	2.4	2.4	2.7	**3.3**	**3.2**	**3.3**	*2.6*	*2.5*
Spain	3.8	3.9	4.6	4.7	3.7	2.4	2.1	**2.1**	**2.1**	**2.1**	*1.3*	*1.3*
France	3.9	3.9	4.0	4.1	4.0	4.0	4.0	**4.0**	**3.8**	**3.6**	*3.0*	*2.9*
Italy	2.8	2.8	3.1	2.9	2.8	2.5	2.4	**2.2**	**2.0**	**2.1**	*1.6*	*1.5*
Cyprus	4.2	4.1	3.3	4.2	3.7	2.6	2.0	**2.1**	**2.1**	**2.1**	*2.3*	*2.3*
Latvia	2.0	2.4	4.8	4.6	5.0	4.8	4.0	**3.8**	**3.6**	**3.3**	*3.7*	*3.4*
Lithuania	:	:	4.6	5.0	4.7	3.9	3.7	**3.6**	**3.6**	**3.5**	*3.4*	*3.3*
Luxembourg	4.0	4.4	4.0	4.6	4.1	3.9	3.5	**3.5**	**3.9**	**3.8**	*3.1*	*3.2*
Malta	3.9	3.9	3.4	2.2	2.8	3.2	2.8	**3.1**	**3.3**	**3.3**	*2.7*	*2.7*
Netherlands	3.7	4.0	4.0	4.1	4.0	3.7	3.6	**3.8**	**3.7**	**3.5**	*3.3*	*3.2*
Austria	3.2	2.5	3.1	3.2	3.0	2.9	2.9	**3.0**	**3.0**	**3.0**	*1.0*	*1.0*
Portugal	5.0	4.6	3.7	5.3	3.5	2.5	2.2	**2.5**	**2.4**	**2.5**	*1.8*	*1.7*
Slovenia	3.9	3.8	4.5	4.9	4.1	3.9	4.3	**5.1**	**5.5**	**4.9**	*4.2*	*3.9*
Slovakia	4.6	3.5	3.5	3.5	3.7	3.0	3.0	**3.2**	**2.9**	**2.6**	*1.9*	*1.8*
Finland	4.0	3.7	3.6	3.7	3.8	4.0	4.2	**4.2**	**4.2**	**4.2**	*2.9*	*2.8*
Euro area	:	:	:	3.4	3.1	2.9	2.8	**2.8**	**2.7**	**2.7**	*2.0*	*2.0*
Bulgaria	2.1	3.6	4.8	4.8	3.5	3.5	4.1	**5.2**	**5.0**	**4.2**	*4.4*	*4.4*
Czech Republic	4.5	4.7	5.0	4.7	4.1	3.9	3.4	**3.6**	**4.1**	**3.6**	*3.2*	*3.6*
Denmark	2.9	2.8	3.0	3.3	3.3	3.8	3.5	**3.6**	**3.4**	**3.4**	*2.3*	*2.1*
Croatia	:	:	5.7	3.3	3.5	3.5	3.3	**3.4**	**3.5**	**3.5**	*2.5*	*2.8*
Hungary	2.5	4.0	4.0	3.7	3.4	3.7	4.4	**4.5**	**4.0**	**2.9**	*4.4*	*3.8*
Poland	:	:	:	5.6	5.9	4.7	4.1	**3.9**	**4.0**	**3.9**	*3.8*	*3.9*
Romania	2.8	3.1	5.4	5.7	5.5	4.8	4.6	**4.5**	**4.4**	**4.3**	*4.3*	*4.4*
Sweden	4.6	4.1	4.2	4.5	4.4	4.6	4.5	**4.6**	**4.7**	**4.7**	*3.4*	*3.3*
United Kingdom	2.0	2.1	2.6	3.2	3.0	2.9	2.7	**2.7**	**2.7**	**2.7**	*2.0*	*2.0*
EU	:	:	:	3.5	3.3	3.0	2.9	**3.0**	**2.9**	**2.9**	*2.2*	*2.2*
USA	3.7	3.7	3.9	4.1	3.9	3.6	3.3	**3.4**	**3.3**	**3.3**	*3.6*	*3.5*
Japan	5.8	4.6	3.3	3.3	3.1	3.2	3.5	**3.6**	**3.3**	**3.1**	*3.7*	*3.3*

Table 13: Potential GDP, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	2.3	2.1	1.7	1.2	1.3	0.9	0.7	0.7	0.8	0.9	0.8	1.0
Germany	1.6	1.4	1.1	0.8	1.1	1.1	1.2	1.3	1.3	1.3	1.5	1.5
Estonia	:	5.5	3.8	-0.4	1.3	1.6	2.1	2.5	2.7	2.7	2.5	2.8
Ireland	8.5	6.2	2.2	-0.7	-0.2	0.2	0.9	2.2	2.8	3.7	1.3	2.0
Greece	3.1	4.3	1.5	-1.8	-2.7	-3.1	-3.1	-2.7	-2.2	-1.8	-3.0	-2.8
Spain	2.6	3.5	2.9	1.1	0.5	-0.4	-0.7	-0.4	-0.3	0.0	-0.3	-0.1
France	1.9	1.9	1.6	1.1	1.1	1.0	1.0	0.9	0.9	1.0	1.0	1.1
Italy	1.6	1.4	0.5	-0.3	-0.1	-1.1	-0.4	-0.1	-0.5	-0.2	-0.2	0.1
Cyprus	:	3.6	3.0	1.5	0.8	-0.8	-1.7	-1.7	-1.4	-1.0	-2.3	-1.8
Latvia	:	6.6	5.3 :	-2.0	-0.9	0.4	1.6	2.1	2.6	3.2	2.3	2.9
Lithuania	:	6.0	5.0 :	-0.1	0.7	1.1	2.3	2.5	3.0	3.3	3.1	3.7
Luxembourg	4.3	4.6	3.2	1.2	1.8	2.1	1.8	1.9	2.2	2.3	1.3	1.3
Malta	:	2.8	2.2	2.5	1.8	2.2	2.4	2.7	2.7	2.4	1.8	1.8
Netherlands	3.3	2.4	1.7	0.7	0.7	0.3	0.2	0.4	0.4	0.6	0.4	0.5
Austria	2.4	2.3	1.8	0.9	0.9	1.0	0.9	1.1	1.0	1.2	1.3	1.5
Portugal	3.1	2.3	1.0	0.5	-0.1	-0.7	-1.0	-0.6	-0.3	-0.1	-0.5	-0.3
Slovenia	:	3.4	3.2	0.5	0.0	-0.3	-0.2	0.3	0.6	0.8	0.0	0.5
Slovakia	:	3.8	5.2	3.7	3.8	2.9	2.4	2.5	2.6	2.8	2.4	2.5
Finland	3.4	3.5	1.8	0.2	0.2	0.0	-0.1	-0.2	0.2	0.1	0.0	0.4
Euro area	:	2.1	1.5	0.6	0.7	0.3	0.4	0.6	0.6	0.7	0.6	0.8
Bulgaria	:	:	4.6	0.3	0.3	0.4	0.7	1.5	1.6	1.6	2.0	2.3
Czech Republic	:	2.8	3.8	1.6	1.5	0.5	0.5	1.4	1.5	1.8	1.1	1.3
Denmark	2.4	1.8	1.3	0.5	0.5	0.4	0.2	0.6	0.8	1.1	0.9	1.2
Croatia	:	:	2.0	-1.2	-0.5	-0.8	-0.5	-0.3	-0.2	0.0	0.3	0.6
Hungary	:	3.6	2.0	-0.1	0.0	0.0	0.5	1.3	1.6	1.8	0.9	1.1
Poland	:	4.0	3.7	4.1	4.2	3.4	3.0	2.9	2.9	3.0	3.2	3.4
Romania	:	:	4.8	1.1	1.3	1.4	1.9	1.7	1.9	2.1	2.1	2.2
Sweden	2.6	3.1	2.1	1.5	1.4	1.3	1.7	1.8	2.0	2.0	2.2	2.3
United Kingdom	3.4	3.2	1.8	0.8	0.9	0.8	1.0	1.4	1.8	2.0	1.1	1.4
EU	:	:	1.7	0.8	0.8	0.5	0.6	0.8	0.9	1.1	0.9	1.0
USA	3.7	2.8	1.7	1.0	1.2	1.6	1.9	2.3	2.6	2.8	2.3	2.6
Japan	:	:	:	:	:	:	:	:	:	:	:	:

Table 14: Output gap relative to potential GDP [1] (deviation of actual output from potential output as % of potential GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	-0.1	0.6	1.0	-0.5	-0.1	-0.9	-1.3	-1.1	-1.1	-0.9	-1.1	-0.5
Germany	-0.3	0.0	-0.6	-1.3	1.1	0.3	-0.7	-0.8	-1.0	-0.6	-0.7	-0.3
Estonia	-5.5	1.8	5.3	-7.0	-0.6	2.4	1.9	1.4	0.6	0.7	0.7	0.8
Ireland	1.2	1.5	1.0	-4.1	-1.3	-1.8	-2.6	-0.2	0.5	0.5	-1.0	0.0
Greece	0.5	0.3	2.0	-4.2	-10.3	-13.6	-13.8	-10.9	-6.2	-1.0	-9.3	-4.0
Spain	-1.1	2.7	1.2	-4.4	-5.4	-7.0	-7.5	-6.0	-4.1	-2.0	-6.7	-4.7
France	-1.2	2.1	1.4	-1.3	-0.4	-1.0	-1.7	-2.3	-2.5	-1.9	-2.8	-2.4
Italy	0.1	1.1	0.3	-2.2	-1.6	-2.7	-4.2	-4.5	-3.4	-2.1	-3.6	-2.5
Cyprus	:	1.0	3.2	0.9	0.3	-1.3	-5.0	-6.1	-4.3	-1.8	-6.6	-4.1
Latvia	:	0.0	3.9 :	-11.4	-6.2	-2.1	0.4	1.0	1.2	1.6	1.4	2.6
Lithuania	:	-1.7	2.9 :	-8.5	-3.6	-1.0	0.0	0.2	0.3	0.4	-0.5	-0.4
Luxembourg	-0.7	2.1	0.1	-1.9	-1.1	-3.3	-3.1	-2.1	-1.9	-1.3	-1.6	-0.3
Malta	-0.7	0.1	0.6	-0.6	-0.1	-0.4	-0.2	0.1	0.3	0.6	0.2	0.7
Netherlands	-0.2	-0.3	0.2	-1.7	-0.8	-2.7	-3.5	-3.0	-2.1	-1.1	-2.6	-1.8
Austria	-0.2	0.0	0.1	-2.0	0.1	0.0	-0.7	-1.1	-0.9	-0.7	-0.8	-0.4
Portugal	2.1	1.8	-0.7	-1.9	-3.6	-6.1	-6.4	-5.0	-3.4	-1.6	-4.0	-2.3
Slovenia	:	0.6	3.3	-2.3	-1.7	-4.0	-4.8	-2.7	-1.6	0.1	-2.4	-1.5
Slovakia	:	-2.3	4.0	-0.1	-1.1	-2.3	-3.2	-3.3	-3.4	-2.9	-3.6	-3.1
Finland	-0.6	0.6	1.0	-2.6	-0.3	-1.7	-2.8	-3.1	-2.7	-1.7	-2.6	-1.9
Euro area	:	1.0	0.5	-2.0	-1.1	-2.1	-3.0	-2.8	-2.3	-1.3	-2.7	-1.8
Bulgaria	:	:	2.0	-1.9	-0.2	-0.1	0.2	-0.1	-1.1	-1.6	-1.4	-1.7
Czech Republic	:	0.2	3.3	-1.0	-0.5	-1.9	-3.1	-2.0	-0.9	0.1	-2.4	-1.3
Denmark	1.3	1.4	1.5	-3.3	-2.5	-3.6	-4.0	-3.8	-3.0	-2.1	-4.3	-3.6
Croatia	:	:	3.5	-1.4	-1.2	-2.6	-3.0	-3.4	-3.0	-2.0	-3.8	-3.7
Hungary	:	0.9	1.6	-3.9	-2.1	-3.5	-2.5	-0.7	0.2	0.3	-2.1	-1.0
Poland	1.4	-2.7	1.2	1.5	2.1	0.4	-0.9	-0.8	-0.9	-0.7	-1.2	-1.2
Romania	:	:	4.5	-2.0	-2.3	-3.1	-1.5	-1.3	-0.8	-0.1	-1.2	-0.8
Sweden	-1.2	0.0	0.2	-1.3	-0.1	-1.6	-1.8	-1.6	-1.2	-0.5	-1.4	-0.7
United Kingdom	0.7	0.4	0.0	-3.6	-2.9	-3.1	-2.4	-0.8	0.1	0.6	-1.0	0.0
EU	:	:	0.6	-2.2	-1.3	-2.2	-2.8	-2.4	-1.8	-1.0	-2.4	-1.5
USA	-0.1	0.1	0.4	-1.8	-1.4	-0.7	-0.4	-0.5	0.0	0.3	-0.4	0.2
Japan	:	:	:	:	:	:	:	:	:	:	:	:

[1] When comparing output gaps between the successive forecasts it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

Table 15: Deflator of gross domestic product (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	0.9	2.0	2.1	2.0	2.2	2.1	1.5	**0.8**	**0.6**	**1.1**	*1.4*	*1.4*
Germany	0.7	0.9	1.0	0.7	1.1	1.5	2.1	**1.9**	**1.8**	**1.9**	*1.6*	*1.6*
Estonia	15.1	5.0	6.7	1.5	3.0	2.7	4.5	**1.6**	**2.4**	**2.9**	*2.8*	*3.5*
Ireland	3.8	5.1	0.3	-1.6	0.9	1.3	1.0	**0.5**	**0.9**	**1.4**	*1.1*	*0.9*
Greece	6.5	2.9	3.2	0.8	0.8	0.1	-2.8	**-1.5**	**0.5**	**1.1**	*-0.7*	*0.4*
Spain	3.2	3.9	2.8	0.2	0.1	0.2	0.7	**-0.3**	**1.0**	**1.5**	*0.3*	*0.7*
France	0.9	1.8	1.8	1.1	0.9	1.2	0.8	**0.7**	**0.8**	**1.3**	*1.3*	*1.2*
Italy	3.2	2.8	2.1	0.3	1.5	1.6	1.4	**0.4**	**0.5**	**1.5**	*0.9*	*1.3*
Cyprus	1.9	3.2	3.0	2.1	2.0	2.0	-1.4	**-1.7**	**0.8**	**1.3**	*0.6*	*1.5*
Latvia	7.8	4.6	8.7	-1.0	6.4	3.6	1.1	**1.6**	**2.2**	**2.6**	*1.7*	*2.7*
Lithuania	14.5	0.5	5.6	2.3	5.2	2.7	1.6	**0.8**	**1.6**	**2.1**	*1.6*	*2.3*
Luxembourg	1.6	1.7	3.4	3.7	5.0	3.5	1.4	**1.9**	**2.6**	**3.0**	*2.8*	*0.8*
Malta	2.2	2.4	2.7	3.8	2.2	2.1	2.1	**1.3**	**1.6**	**2.0**	*2.0*	*2.5*
Netherlands	2.1	3.1	1.7	1.2	0.1	1.3	1.1	**0.0**	**1.2**	**1.9**	*1.2*	*1.1*
Austria	0.9	1.5	2.1	0.9	1.8	1.9	1.5	**1.5**	**1.6**	**1.6**	*1.9*	*1.7*
Portugal	3.8	3.4	2.5	0.6	-0.3	-0.4	2.3	**1.1**	**1.4**	**1.5**	*0.7*	*0.9*
Slovenia	11.2	6.1	3.1	-1.1	1.2	0.3	1.4	**0.0**	**0.3**	**0.8**	*0.9*	*1.3*
Slovakia	6.3	5.9	1.6	0.5	1.6	1.3	0.5	**-0.1**	**0.5**	**1.3**	*0.5*	*0.9*
Finland	2.0	1.3	1.9	0.4	2.6	2.6	2.4	**1.4**	**1.4**	**1.7**	*1.6*	*1.4*
Euro area	1.8	2.1	1.8	0.7	1.1	1.3	1.3	**0.9**	**1.1**	**1.6**	*1.2*	*1.3*
Bulgaria	116.8	4.7	7.4	1.2	7.0	1.6	-0.8	**-0.4**	**0.4**	**0.6**	*0.9*	*1.6*
Czech Republic	8.1	2.8	1.8	-1.5	-0.2	1.4	1.7	**1.6**	**1.4**	**1.8**	*1.3*	*1.7*
Denmark	1.6	2.3	2.4	3.2	0.6	2.5	1.6	**1.2**	**1.3**	**1.5**	*1.4*	*1.5*
Croatia	:	4.0	4.0	0.8	1.7	1.6	0.9	**0.5**	**0.6**	**0.7**	*0.8*	*1.2*
Hungary	17.9	7.9	4.0	2.1	2.2	3.4	3.0	**1.7**	**2.5**	**3.0**	*2.2*	*2.6*
Poland	15.1	3.6	3.2	1.8	3.2	2.2	1.2	**0.2**	**1.0**	**1.9**	*1.0*	*1.5*
Romania	59.0	28.1	11.1	5.4	4.7	4.9	3.5	**3.2**	**2.7**	**2.6**	*2.8*	*2.8*
Sweden	1.6	1.6	2.2	1.0	1.2	1.1	1.0	**1.3**	**1.8**	**2.0**	*1.2*	*1.8*
United Kingdom	1.6	2.2	2.6	3.2	2.1	1.7	1.7	**1.9**	**1.7**	**1.8**	*1.8*	*2.2*
EU	:	2.3	2.1	1.2	1.3	1.5	1.4	**1.0**	**1.3**	**1.7**	*1.3*	*1.5*
USA	1.6	2.2	2.3	1.2	2.1	1.8	1.5	**1.5**	**2.1**	**2.3**	*1.6*	*1.8*
Japan	-0.4	-1.4	-1.0	-2.2	-1.9	-0.9	-0.6	**1.1**	**0.8**	**0.9**	*1.7*	*1.2*

Table 16: Price deflator of private consumption (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	1.1	2.0	2.3	1.7	3.1	2.2	1.2	**0.5**	**0.8**	**1.2**	*0.7*	*1.2*
Germany	0.9	1.3	1.1	2.0	1.9	1.5	1.2	**1.0**	**1.4**	**1.6**	*1.2*	*1.4*
Estonia	13.7	3.9	5.2	3.5	5.2	3.4	3.1	**1.1**	**1.6**	**2.2**	*1.5*	*3.0*
Ireland	3.1	4.0	0.2	-2.2	1.7	0.5	1.7	**0.9**	**1.2**	**1.3**	*1.4*	*0.9*
Greece	5.9	2.9	2.9	3.7	2.4	0.7	-1.6	**-1.0**	**0.3**	**1.1**	*-0.8*	*0.3*
Spain	2.8	3.4	2.6	2.0	2.7	2.4	0.9	**-0.1**	**0.5**	**1.2**	*0.2*	*0.8*
France	0.6	1.8	1.5	1.1	1.8	1.4	0.7	**0.6**	**0.9**	**1.3**	*1.1*	*1.3*
Italy	3.2	2.8	1.9	1.4	2.9	2.8	1.2	**0.4**	**0.5**	**2.0**	*0.7*	*1.2*
Cyprus	1.2	2.5	3.0	2.4	3.0	3.0	-0.1	**-1.0**	**0.6**	**1.1**	*0.6*	*1.5*
Latvia	:	4.6	8.0	-2.7	6.0	3.4	0.4	**0.8**	**1.8**	**2.5**	*1.2*	*2.5*
Lithuania	:	-0.3	5.6	1.3	4.1	3.1	1.0	**0.3**	**1.3**	**1.9**	*1.0*	*1.8*
Luxembourg	1.8	2.2	2.1	1.0	2.5	1.9	0.3	**1.7**	**1.9**	**1.9**	*1.7*	*1.9*
Malta	:	2.0	2.5	2.1	2.4	2.4	1.2	**0.7**	**1.5**	**2.0**	*1.2*	*1.9*
Netherlands	1.9	2.7	1.4	0.9	2.1	1.4	1.9	**0.8**	**1.3**	**1.5**	*1.3*	*1.5*
Austria	1.1	1.8	1.9	1.7	3.3	2.4	2.2	**1.6**	**1.7**	**1.8**	*1.6*	*1.7*
Portugal	3.2	3.4	2.3	1.8	1.7	1.4	0.7	**0.8**	**0.9**	**0.9**	*0.4*	*1.1*
Slovenia	11.0	6.1	3.0	1.4	1.7	1.4	0.6	**0.7**	**1.1**	**1.1**	*0.3*	*1.2*
Slovakia	6.7	6.1	2.9	1.0	3.9	3.4	1.3	**-0.5**	**0.5**	**1.0**	*0.4*	*1.5*
Finland	1.3	1.7	1.9	1.4	3.2	3.0	2.6	**1.2**	**1.3**	**1.6**	*1.4*	*1.3*
Euro area	:	2.2	1.7	1.6	2.3	1.9	1.1	**0.6**	**1.0**	**1.5**	*0.9*	*1.3*
Bulgaria	115.8	3.5	4.9	2.4	4.5	3.6	-2.1	**-1.5**	**0.2**	**0.9**	*0.0*	*1.5*
Czech Republic	7.4	2.3	2.3	0.5	1.6	2.5	1.0	**0.6**	**1.4**	**1.8**	*1.0*	*1.8*
Denmark	1.8	1.9	2.0	2.5	2.7	2.5	1.1	**1.2**	**1.5**	**1.8**	*1.7*	*1.7*
Croatia	:	3.3	3.7	1.5	2.4	3.2	1.9	**0.2**	**0.6**	**1.1**	*1.0*	*1.4*
Hungary	:	7.3	4.6	3.7	3.7	6.2	2.5	**0.1**	**2.5**	**3.0**	*1.0*	*2.8*
Poland	15.2	4.2	2.6	2.6	4.8	3.2	0.8	**0.2**	**1.1**	**1.9**	*1.1*	*1.9*
Romania	58.6	23.8	6.1	7.2	4.2	4.7	4.6	**1.6**	**2.7**	**2.7**	*2.9*	*3.2*
Sweden	1.4	1.4	1.8	1.5	1.7	0.5	0.8	**0.4**	**1.5**	**1.8**	*0.6*	*1.6*
United Kingdom	2.2	1.2	2.7	4.4	3.4	2.1	1.9	**1.3**	**1.4**	**1.8**	*1.9*	*2.0*
EU	:	2.2	2.0	2.1	2.6	2.0	1.3	**0.7**	**1.1**	**1.6**	*1.1*	*1.5*
USA	1.6	2.0	2.2	1.7	2.5	1.8	1.2	**1.5**	**2.1**	**2.4**	*1.6*	*1.9*
Japan	0.0	-1.0	-0.8	-1.7	-0.8	-0.8	-0.3	**1.6**	**1.3**	**1.0**	*2.5*	*1.5*

Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	1.3	2.0	2.2	2.3	3.4	2.6	1.2	**0.6**	**0.9**	**1.3**	*0.9*	*1.3*
Germany	:	1.5	1.8	1.2	2.5	2.1	1.6	**0.9**	**1.2**	**1.6**	*1.1*	*1.4*
Estonia	:	3.5	5.2	2.7	5.1	4.2	3.2	**0.7**	**1.6**	**2.2**	*1.5*	*3.0*
Ireland	2.2	4.1	1.8	-1.6	1.2	1.9	0.5	**0.4**	**0.9**	**1.4**	*0.6*	*1.1*
Greece	5.8	3.4	3.1	4.7	3.1	1.0	-0.9	**-1.0**	**0.3**	**1.1**	*-0.8*	*0.3*
Spain	2.8	3.2	2.7	2.0	3.1	2.4	1.5	**-0.1**	**0.5**	**1.2**	*0.1*	*0.8*
France	1.3	2.0	1.7	1.7	2.3	2.2	1.0	**0.6**	**0.7**	**1.1**	*1.0*	*1.1*
Italy	3.0	2.5	2.1	1.6	2.9	3.3	1.3	**0.2**	**0.5**	**2.0**	*0.7*	*1.2*
Cyprus	:	3.1	2.2	2.6	3.5	3.1	0.4	**-0.2**	**0.7**	**1.2**	*0.4*	*1.4*
Latvia	:	3.2	8.4	-1.2	4.2	2.3	0.0	**0.8**	**1.8**	**2.5**	*1.2*	*2.5*
Lithuania	:	0.6	5.5	1.2	4.1	3.2	1.2	**0.3**	**1.3**	**1.9**	*1.0*	*1.8*
Luxembourg	:	2.8	2.7	2.8	3.7	2.9	1.7	**1.0**	**2.1**	**1.9**	*1.4*	*2.4*
Malta	:	2.6	2.5	2.0	2.5	3.2	1.0	**0.7**	**1.5**	**2.0**	*1.2*	*1.9*
Netherlands	1.7	3.0	1.6	0.9	2.5	2.8	2.6	**0.4**	**0.8**	**1.1**	*0.7*	*0.9*
Austria	1.2	1.8	1.9	1.7	3.6	2.6	2.1	**1.5**	**1.7**	**1.8**	*1.6*	*1.7*
Portugal	2.6	3.3	1.9	1.4	3.6	2.8	0.4	**0.0**	**0.6**	**0.9**	*0.4*	*1.1*
Slovenia	:	6.9	3.0	2.1	2.1	2.8	1.9	**0.4**	**1.0**	**1.5**	*0.7*	*1.2*
Slovakia	:	7.8	2.8	0.7	4.1	3.7	1.5	**-0.1**	**0.7**	**1.4**	*0.4*	*1.6*
Finland	1.1	1.8	1.8	1.7	3.3	3.2	2.2	**1.2**	**1.3**	**1.6**	*1.4*	*1.4*
Euro area	:	2.3	2.1	1.6	2.7	2.5	1.4	**0.5**	**0.8**	**1.5**	*0.8*	*1.2*
Bulgaria	:	6.4	7.1	3.0	3.4	2.4	0.4	**-1.4**	**0.4**	**1.0**	*-0.8*	*1.2*
Czech Republic	:	2.5	2.7	1.2	2.1	3.5	1.4	**0.5**	**1.4**	**1.8**	*0.8*	*1.8*
Denmark	1.9	2.1	2.0	2.2	2.7	2.4	0.5	**0.4**	**1.1**	**1.7**	*1.0*	*1.6*
Croatia	4.3	3.2	3.4	1.1	2.2	3.4	2.3	**0.2**	**0.6**	**1.1**	*0.8*	*1.2*
Hungary	:	7.1	5.1	4.7	3.9	5.7	1.7	**0.1**	**2.5**	**3.0**	*1.0*	*2.8*
Poland	:	4.3	2.8	2.7	3.9	3.7	0.8	**0.2**	**1.1**	**1.9**	*1.1*	*1.9*
Romania	:	26.0	6.8	6.1	5.8	3.4	3.2	**1.5**	**2.1**	**2.7**	*2.5*	*3.3*
Sweden	1.4	1.9	1.9	1.9	1.4	0.9	0.4	**0.2**	**1.2**	**1.5**	*0.5*	*1.5*
United Kingdom	2.0	1.2	2.5	3.3	4.5	2.8	2.6	**1.5**	**1.6**	**1.9**	*1.9*	*2.0*
EU	:	2.7	2.3	2.1	3.1	2.6	1.5	**0.6**	**1.0**	**1.6**	*1.0*	*1.5*
USA	:	2.5	2.6	1.6	3.1	2.1	1.5	**1.8**	**2.0**	**2.3**	*1.7*	*1.9*
Japan	0.4	-0.5	0.0	-0.7	-0.3	0.0	0.4	**2.8**	**1.6**	**1.4**	*2.5*	*1.6*

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2014-16) 22.10.2014

	2014/1	2014/2	2014/3	2014/4	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4
Belgium	1.0	0.8	0.4	0.3	0.6	0.8	0.9	1.1	1.3	1.3	1.3	1.3
Germany	1.0	0.9	0.8	0.7	1.0	1.1	1.2	1.4	1.5	1.6	1.7	1.7
Estonia	1.1	0.6	0.0	0.9	1.5	1.4	1.6	1.8	2.0	2.2	2.3	2.5
Ireland	0.2	0.4	0.5	0.7	0.8	1.0	0.9	1.0	1.0	1.2	1.5	1.8
Greece	-1.3	-1.7	-0.7	0.0	0.1	0.2	0.3	0.3	0.7	1.0	1.2	1.4
Spain	0.0	0.2	-0.4	-0.2	-0.1	0.4	0.5	1.0	1.1	1.2	1.3	1.3
France	0.9	0.8	0.5	0.5	0.6	0.7	0.7	0.8	1.1	1.1	1.1	1.1
Italy	0.5	0.4	-0.1	-0.1	0.0	0.4	0.8	0.9	2.0	2.1	2.0	1.9
Cyprus	-1.2	-0.1	0.6	0.1	0.4	0.6	0.9	1.0	1.1	1.1	1.3	1.5
Latvia	0.4	0.8	0.9	0.9	1.5	1.6	1.9	2.0	2.2	2.4	2.6	2.7
Lithuania	0.3	0.2	0.2	0.4	0.8	1.1	1.5	1.8	1.9	1.8	1.9	1.9
Luxembourg	1.0	1.2	0.7	1.2	1.8	1.9	2.2	2.4	2.6	2.0	1.8	1.2
Malta	1.3	0.5	0.7	0.5	0.8	1.5	1.8	1.9	2.0	1.9	1.9	2.1
Netherlands	0.4	0.4	0.3	0.5	0.7	0.7	1.2	0.8	0.9	1.0	1.0	1.3
Austria	1.5	1.6	1.5	1.5	1.5	1.6	1.7	1.8	1.8	1.8	1.7	1.7
Portugal	-0.1	-0.2	-0.3	0.5	0.5	0.6	0.7	0.8	0.9	0.9	0.9	0.9
Slovenia	0.6	0.8	0.1	0.2	0.8	0.9	1.2	1.2	1.3	1.4	1.5	1.7
Slovakia	-0.1	-0.1	-0.1	0.1	0.4	0.6	0.9	1.1	1.2	1.4	1.5	1.5
Finland	1.6	1.1	1.2	1.1	1.0	1.4	1.4	1.5	1.5	1.6	1.6	1.6
Euro area	0.6	0.6	0.4	0.4	0.6	0.7	0.9	1.1	1.4	1.5	1.5	1.5
Bulgaria	-1.8	-1.6	-1.2	-0.9	-0.2	0.3	0.5	0.8	0.9	1.0	1.1	1.1
Czech Republic	0.3	0.2	0.7	0.7	1.1	1.3	1.5	1.6	1.7	1.8	1.9	1.9
Denmark	0.4	0.4	0.3	0.3	0.4	1.0	1.4	1.7	1.8	1.7	1.6	1.6
Croatia	0.1	0.3	0.3	0.2	0.4	0.5	0.7	0.6	0.9	1.1	1.1	1.2
Hungary	0.4	-0.1	0.1	0.2	1.5	2.6	2.7	3.2	3.2	3.0	3.0	2.8
Poland	0.6	0.3	-0.1	0.0	0.3	1.0	1.4	1.7	1.7	1.7	2.1	2.2
Romania	1.3	1.3	1.5	2.0	1.3	1.7	2.5	2.6	2.6	2.7	2.8	2.8
Sweden	0.0	0.3	0.2	0.3	0.9	1.1	1.3	1.4	1.4	1.5	1.6	1.6
United Kingdom	1.8	1.7	1.5	1.2	1.4	1.5	1.5	1.8	1.8	1.9	2.0	2.1
EU	0.8	0.7	0.5	0.5	0.7	0.9	1.1	1.3	1.5	1.6	1.6	1.7
USA	1.4	2.1	1.8	2.0	2.0	1.8	2.1	2.3	2.3	2.3	2.3	2.3
Japan	1.5	3.6	3.2	2.7	2.9	0.6	0.6	2.1	2.0	1.8	1.6	0.2

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	-0.1	0.9	1.3	4.9	4.8	1.6	-0.6	**-0.4**	**0.6**	**1.3**	*0.1*	*1.0*
Germany	-0.1	0.2	0.1	2.4	3.1	1.5	-0.6	**-0.5**	**0.9**	**1.6**	*-0.3*	*0.8*
Estonia	7.5	2.6	3.3	4.7	3.9	0.6	-0.1	**-1.3**	**1.2**	**1.4**	*0.4*	*1.4*
Ireland	1.5	-0.7	-0.9	1.1	-0.9	4.7	-1.3	**-1.0**	**0.4**	**0.5**	*0.5*	*1.1*
Greece	3.8	2.8	1.8	7.9	9.0	4.7	-2.0	**-1.5**	**0.4**	**0.3**	*-0.5*	*0.1*
Spain	1.9	1.4	1.6	2.5	5.1	2.0	-1.9	**-1.8**	**1.5**	**1.5**	*-0.8*	*0.8*
France	0.0	-0.6	0.8	2.1	3.7	1.6	-0.6	**-1.4**	**0.9**	**1.4**	*-0.1*	*0.6*
Italy	2.0	1.6	1.4	2.5	4.2	1.9	-0.3	**-0.1**	**1.4**	**1.2**	*-0.2*	*0.9*
Cyprus	:	2.2	3.4	1.6	1.4	0.6	2.1	**-1.4**	**1.0**	**1.5**	*0.4*	*0.8*
Latvia	:	5.1	6.0	8.7	12.1	3.8	1.8	**-1.8**	**1.0**	**1.5**	*0.5*	*1.3*
Lithuania	:	1.6	4.7	14.1	14.9	4.6	-2.1	**-2.5**	**1.7**	**1.8**	*-2.5*	*1.8*
Luxembourg	-0.4	2.0	3.7	6.5	7.1	1.3	0.4	**0.9**	**1.8**	**1.9**	*1.5*	*1.2*
Malta	:	1.8	0.9	9.0	10.0	-3.9	-4.7	**-1.1**	**2.3**	**1.4**	*-0.3*	*1.3*
Netherlands	0.3	0.3	0.9	6.5	6.2	2.9	-0.9	**-2.1**	**1.1**	**1.5**	*-0.9*	*0.5*
Austria	0.3	0.5	1.1	3.3	3.9	0.8	-1.0	**-0.6**	**1.1**	**1.1**	*0.0*	*1.1*
Portugal	0.8	0.8	0.8	4.5	5.8	1.7	-0.8	**-0.6**	**2.0**	**1.0**	*-0.4*	*0.8*
Slovenia	5.9	5.4	1.3	2.2	4.5	1.0	-0.8	**-1.1**	**0.8**	**0.8**	*0.2*	*1.1*
Slovakia	2.6	5.1	0.1	3.0	4.0	1.3	-1.8	**-4.0**	**-2.0**	**0.0**	*-1.4*	*1.0*
Finland	-0.9	-1.1	-1.4	4.8	5.1	0.7	-1.6	**-1.3**	**0.8**	**1.5**	*-2.7*	*1.0*
Euro area	:	0.5	0.7	3.3	4.1	1.9	-0.8	**-1.0**	**1.0**	**1.4**	*-0.4*	*0.8*
Bulgaria	:	-2.5	8.9	11.0	12.1	0.2	-3.6	**-2.1**	**0.1**	**0.3**	*-1.9*	*1.5*
Czech Republic	4.1	0.0	-1.8	-1.2	0.8	3.4	1.4	**3.2**	**0.6**	**0.6**	*3.5*	*1.1*
Denmark	0.4	1.5	2.2	5.4	4.9	3.1	-0.5	**0.3**	**1.3**	**1.3**	*0.2*	*0.9*
Croatia	:	4.4	2.4	2.5	11.0	2.5	-1.8	**-0.8**	**1.0**	**1.0**	*0.5*	*1.0*
Hungary	:	0.9	0.8	1.6	3.3	3.0	0.2	**0.8**	**0.3**	**0.3**	*2.2*	*0.6*
Poland	9.7	4.5	2.6	0.4	7.4	4.3	0.2	**-1.0**	**1.0**	**2.0**	*-1.0*	*1.0*
Romania	61.5	22.3	6.0	7.1	7.9	3.8	-3.2	**-2.0**	**0.5**	**1.6**	*-0.5*	*0.9*
Sweden	-0.5	-0.4	2.6	-1.0	-1.6	-1.7	-3.4	**3.4**	**2.4**	**1.2**	*0.3*	*0.7*
United Kingdom	-1.5	0.2	3.2	5.9	6.9	-0.5	1.0	**0.2**	**1.2**	**1.5**	*1.0*	*1.2*
EU	:	0.6	1.1	3.2	4.3	1.7	-0.7	**-0.6**	**1.0**	**1.4**	*-0.1*	*0.8*
USA	-1.8	1.2	1.6	5.0	7.6	0.4	-0.5	**0.1**	**0.4**	**0.6**	*-0.1*	*0.6*
Japan	-1.1	-1.9	-1.7	-1.8	-2.1	-2.1	9.3	**4.5**	**3.6**	**2.4**	*1.0*	*1.0*

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	0.6	1.6	1.3	7.3	6.7	1.4	-1.0	**-0.8**	**0.7**	**1.4**	*-0.4*	*1.1*
Germany	-0.8	0.4	-0.1	5.4	6.1	2.0	-2.5	**-2.3**	**0.6**	**1.7**	*-1.1*	*0.9*
Estonia	9.5	0.5	2.3	6.3	6.0	2.4	-0.9	**-1.4**	**1.1**	**1.3**	*0.2*	*1.3*
Ireland	-0.1	-0.9	0.1	4.8	5.6	5.5	-1.8	**0.4**	**0.5**	**1.0**	*0.3*	*0.8*
Greece	3.4	3.1	2.7	6.0	7.4	4.9	-3.6	**-0.9**	**0.0**	**-0.1**	*-0.3*	*-0.1*
Spain	1.1	1.4	0.9	4.9	8.9	4.4	-2.3	**-0.9**	**0.8**	**0.7**	*-1.4*	*0.9*
France	-0.1	-0.3	0.5	4.4	6.7	2.0	-2.1	**-2.2**	**1.0**	**1.4**	*-0.2*	*0.5*
Italy	1.2	2.3	1.7	6.9	7.9	3.3	-2.3	**-2.3**	**1.7**	**1.3**	*-1.5*	*1.0*
Cyprus	:	2.0	2.7	2.2	2.9	1.9	1.4	**-0.5**	**1.3**	**1.6**	*0.8*	*1.3*
Latvia	:	5.8	5.9	7.5	6.0	7.8	0.5	**-1.6**	**1.0**	**1.5**	*0.5*	*1.3*
Lithuania	:	-1.5	4.8	12.0	14.8	5.0	-3.9	**-2.3**	**1.8**	**1.8**	*-2.5*	*1.8*
Luxembourg	1.0	2.4	2.0	5.1	4.5	2.6	0.7	**-0.4**	**1.5**	**1.2**	*0.4*	*1.0*
Malta	:	1.5	0.5	3.4	10.5	-1.7	-5.0	**-1.3**	**2.5**	**1.3**	*-0.3*	*1.1*
Netherlands	-0.8	-0.3	0.9	7.9	8.1	3.4	-1.5	**-1.6**	**0.9**	**0.6**	*-1.3*	*0.6*
Austria	0.9	0.1	1.2	5.5	6.4	1.7	-1.2	**-0.7**	**1.2**	**1.2**	*-0.5*	*1.1*
Portugal	0.6	1.2	0.4	5.2	8.2	1.4	-2.3	**-1.6**	**1.4**	**1.1**	*-2.0*	*0.2*
Slovenia	4.7	5.5	1.3	7.4	6.2	2.2	-1.7	**-0.9**	**1.7**	**1.4**	*-0.9*	*1.1*
Slovakia	3.7	4.8	1.2	3.6	5.3	2.5	-1.4	**-4.0**	**-2.0**	**0.0**	*-1.6*	*1.5*
Finland	-1.3	-0.3	0.5	7.5	7.4	2.5	-2.0	**-1.6**	**0.8**	**1.5**	*-2.9*	*1.1*
Euro area	:	0.8	0.8	5.9	7.0	2.6	-2.0	**-1.8**	**0.8**	**1.3**	*-1.0*	*0.8*
Bulgaria	:	2.8	5.1	8.5	9.0	3.8	-2.8	**-1.5**	**0.6**	**1.3**	*-2.2*	*1.6*
Czech Republic	2.7	-0.6	-1.1	1.4	2.9	4.0	0.0	**2.1**	**0.5**	**0.3**	*3.2*	*1.0*
Denmark	-0.4	0.7	0.8	5.5	6.3	2.4	-2.2	**0.0**	**1.4**	**1.8**	*0.2*	*1.5*
Croatia	:	2.4	1.9	1.4	6.3	2.9	-0.3	**-0.5**	**1.3**	**2.0**	*0.5*	*1.5*
Hungary	:	1.7	1.6	1.7	5.0	4.3	-0.6	**0.4**	**0.1**	**0.1**	*1.9*	*0.3*
Poland	12.2	5.2	1.6	1.8	9.5	5.8	-1.6	**-1.0**	**1.2**	**2.0**	*-1.0*	*1.8*
Romania	58.2	20.5	1.0	5.7	6.0	7.5	-2.1	**-1.5**	**0.8**	**1.3**	*0.2*	*0.9*
Sweden	0.1	1.0	2.5	0.3	-0.3	-1.9	-4.0	**3.6**	**2.4**	**1.2**	*0.2*	*0.6*
United Kingdom	-1.8	-0.4	3.9	4.4	8.3	-0.5	0.3	**-1.0**	**0.0**	**1.0**	*0.2*	*0.4*
EU	:	0.8	1.3	5.2	6.9	2.3	-1.7	**-1.3**	**0.8**	**1.2**	*-0.7*	*0.8*
USA	-2.0	1.7	2.4	6.7	8.8	0.6	-1.1	**0.4**	**0.8**	**1.0**	*0.1*	*0.9*
Japan	0.1	0.5	1.9	5.7	7.3	-0.2	11.0	**5.0**	**3.1**	**2.0**	*2.8*	*1.0*

Table 21: Terms of trade of goods (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	-0.7	-0.7	0.1	-2.2	-1.8	0.2	0.4	**0.4**	**-0.1**	**-0.1**	*0.5*	*-0.2*
Germany	0.7	-0.2	0.2	-2.8	-2.9	-0.5	1.9	**1.8**	**0.4**	**-0.1**	*0.8*	*0.0*
Estonia	-1.9	2.1	1.0	-1.5	-2.0	-1.8	0.8	**0.1**	**0.1**	**0.1**	*0.2*	*0.1*
Ireland	1.6	0.2	-1.0	-3.6	-6.2	-0.7	0.5	**-1.4**	**-0.1**	**-0.5**	*0.2*	*0.3*
Greece	0.4	-0.3	-0.9	1.8	1.5	-0.2	1.6	**-0.6**	**0.4**	**0.4**	*-0.2*	*0.2*
Spain	0.8	0.0	0.7	-2.3	-3.5	-2.3	0.5	**-0.9**	**0.7**	**0.8**	*0.6*	*-0.1*
France	0.1	-0.3	0.3	-2.3	-2.8	-0.4	1.5	**0.8**	**-0.1**	**0.1**	*0.1*	*0.1*
Italy	0.8	-0.7	-0.3	-4.1	-3.4	-1.4	2.0	**2.2**	**-0.3**	**-0.1**	*1.3*	*-0.1*
Cyprus	:	0.2	0.7	-0.5	-1.5	-1.3	0.7	**-0.9**	**-0.3**	**0.0**	*-0.4*	*-0.5*
Latvia	:	-0.7	0.1	1.1	5.8	-3.7	1.3	**-0.2**	**0.0**	**0.0**	*0.0*	*0.0*
Lithuania	:	3.1	-0.1	1.9	0.1	-0.4	1.9	**-0.2**	**-0.1**	**0.0**	*0.0*	*0.0*
Luxembourg	-1.4	-0.4	1.7	1.4	2.5	-1.3	-0.2	**1.3**	**0.3**	**0.7**	*1.1*	*0.2*
Malta	:	0.3	0.4	5.5	-0.5	-2.3	0.4	**0.2**	**-0.2**	**0.0**	*0.0*	*0.2*
Netherlands	1.0	0.7	0.0	-1.3	-1.7	-0.5	0.6	**-0.4**	**0.2**	**0.8**	*0.4*	*-0.2*
Austria	-0.6	0.4	-0.1	-2.1	-2.3	-0.8	0.2	**0.1**	**-0.1**	**-0.1**	*0.5*	*0.0*
Portugal	0.2	-0.4	0.4	-0.6	-2.2	0.3	1.6	**1.0**	**0.6**	**-0.1**	*1.6*	*0.5*
Slovenia	1.2	-0.2	0.0	-4.8	-1.6	-1.2	1.0	**-0.2**	**-0.9**	**-0.6**	*1.1*	*0.0*
Slovakia	-1.1	0.3	-1.1	-0.6	-1.3	-1.2	-0.5	**0.0**	**0.0**	**0.0**	*0.2*	*-0.5*
Finland	0.4	-0.8	-1.8	-2.5	-2.1	-1.8	0.4	**0.3**	**0.0**	**0.0**	*0.2*	*-0.1*
Euro area	:	-0.2	-0.1	-2.4	-2.7	-0.7	1.3	**0.8**	**0.1**	**0.1**	*0.7*	*0.0*
Bulgaria	:	-5.2	3.7	2.3	2.9	-3.5	-0.8	**-0.6**	**-0.5**	**-1.0**	*0.3*	*-0.1*
Czech Republic	1.3	0.6	-0.7	-2.6	-2.0	-0.6	1.4	**1.1**	**0.1**	**0.3**	*0.3*	*0.1*
Denmark	0.8	0.7	1.4	-0.1	-1.3	0.7	1.7	**0.3**	**-0.1**	**-0.5**	*0.0*	*-0.6*
Croatia	:	1.9	0.5	1.0	4.3	-0.4	-1.5	**-0.3**	**-0.2**	**-1.0**	*0.0*	*-0.5*
Hungary	:	-0.8	-0.7	-0.1	-1.6	-1.2	0.8	**0.4**	**0.2**	**0.2**	*0.3*	*0.3*
Poland	-2.2	-0.6	1.0	-1.4	-1.9	-1.4	1.8	**0.0**	**-0.2**	**0.0**	*0.0*	*-0.8*
Romania	2.1	1.5	5.0	1.3	1.8	-3.4	-1.1	**-0.5**	**-0.3**	**0.3**	*-0.8*	*0.0*
Sweden	-0.6	-1.4	0.1	-1.3	-1.3	0.2	0.6	**-0.2**	**0.0**	**0.0**	*0.1*	*0.1*
United Kingdom	0.3	0.6	-0.7	1.5	-1.4	0.0	0.7	**1.3**	**1.3**	**0.5**	*0.8*	*0.8*
EU	:	-0.2	0.0	-1.9	-2.4	-0.8	1.2	**0.5**	**0.2**	**0.1**	*0.5*	*0.1*
USA	0.2	-0.4	-0.8	-1.6	-1.1	-0.1	0.6	**-0.3**	**-0.4**	**-0.4**	*-0.2*	*-0.4*
Japan	-1.3	-2.4	-3.6	-7.0	-8.8	-1.9	-1.5	**-0.5**	**0.5**	**0.4**	*-1.8*	*0.0*

Table 22: Total population (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	0.2	0.4	0.7	0.9	0.9	0.7	0.5	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*
Germany	0.2	0.1	-0.2	-0.1	0.0	0.2	0.2	**0.3**	**0.2**	**0.1**	*0.3*	*0.1*
Estonia	-1.0	-0.4	-0.5	-0.2	-0.3	-0.3	-0.4	**-0.4**	**-0.4**	**-0.4**	*-0.4*	*-0.4*
Ireland	1.0	1.6	2.2	0.5	0.4	0.3	0.3	**0.4**	**0.7**	**0.9**	*0.8*	*1.5*
Greece	0.6	0.3	0.2	-0.3	-0.3	-0.3	-0.3	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*
Spain	0.3	1.3	1.5	0.3	0.1	0.1	-0.5	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*
France	0.4	0.7	0.6	0.5	0.5	0.5	0.4	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*
Italy	0.0	0.3	0.6	0.4	0.4	0.5	0.5	**1.1**	**0.3**	**0.3**	*0.4*	*0.3*
Cyprus	1.4	1.2	2.1	2.6	2.6	1.5	-0.2	**0.4**	**0.4**	**0.4**	*1.0*	*1.0*
Latvia	-1.1	-1.1	-1.1 :	-2.1	-1.8	-1.2	-1.0	**-0.8**	**-0.7**	**-0.6**	*-0.8*	*-0.7*
Lithuania	-0.7	-0.8	-1.3 :	-2.1	-2.2	-1.3	-1.0	**-0.7**	**-0.4**	**-0.4**	*-0.7*	*-0.1*
Luxembourg	1.3	1.2	1.7	1.9	2.3	2.3	2.6	**2.3**	**2.0**	**2.0**	*1.8*	*1.8*
Malta	0.7	0.7	0.6	0.5	0.4	0.8	0.7	**0.8**	**0.7**	**0.7**	*0.5*	*0.6*
Netherlands	0.6	0.6	0.3	0.5	0.5	0.4	0.3	**0.3**	**0.3**	**0.3**	*0.3*	*0.3*
Austria	0.1	0.4	0.4	0.2	0.3	0.5	0.6	**0.7**	**0.3**	**0.3**	*0.3*	*0.3*
Portugal	0.4	0.5	0.2	0.0	-0.1	-0.4	-0.5	**-0.6**	**-0.5**	**-0.5**	*0.0*	*0.0*
Slovenia	-0.1	0.1	0.4	0.4	0.2	0.2	0.1	**0.2**	**0.2**	**0.2**	*0.2*	*0.2*
Slovakia	0.2	0.0	0.1	0.2	-0.6	0.2	0.1	**0.1**	**0.0**	**0.0**	*0.3*	*0.3*
Finland	0.3	0.2	0.4	0.5	0.5	0.5	0.5	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*
Euro area	0.2	0.5	0.5	0.2	0.2	0.3	0.2	**0.4**	**0.2**	**0.2**	*0.3*	*0.2*
Bulgaria	-0.6	-1.1	-0.5	-0.7	-2.5	-0.6	-0.5	**-0.7**	**-0.7**	**-0.7**	*-0.7*	*-0.7*
Czech Republic	-0.1	-0.1	0.6	0.2	-0.2	0.1	0.0	**0.1**	**0.1**	**0.0**	*0.1*	*0.2*
Denmark	0.4	0.3	0.4	0.4	0.4	0.4	0.4	**0.4**	**0.4**	**0.3**	*0.4*	*0.3*
Croatia	-0.6	-0.9	0.0	-0.2	-0.3	-0.3	-0.3	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*
Hungary	-0.2	-0.3	-0.2	-0.2	-0.3	-0.5	-0.3	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.1*
Poland	0.0	0.0	0.0	1.0	0.0	0.0	-0.1	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.1*
Romania	-0.2	-0.9	-1.0	-0.6	-0.5	-0.3	-0.2	**-0.2**	**-0.3**	**-0.2**	*-0.2*	*-0.3*
Sweden	0.2	0.3	0.7	0.9	0.8	0.7	0.9	**1.0**	**1.1**	**1.0**	*0.9*	*0.9*
United Kingdom	0.3	0.4	0.6	0.8	0.8	1.5	0.6	**0.7**	**0.8**	**0.8**	*0.7*	*0.7*
EU	0.2	0.3	0.4	0.3	0.2	0.4	0.2	**0.3**	**0.2**	**0.2**	*0.2*	*0.2*
USA	1.2	1.0	0.9	0.8	0.7	0.7	0.7	**0.7**	**0.7**	**0.7**	*0.7*	*0.7*
Japan	0.3	0.2	0.0	0.4	-0.2	-0.2	-0.2	**-0.2**	**-0.2**	**-0.2**	*-0.1*	*-0.1*

Table 23: Total employment (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	1.1	0.8	1.2	0.7	1.4	0.3	-0.3	0.2	0.4	0.6	0.3	0.8
Germany	0.6	0.2	0.8	0.3	1.3	1.1	0.6	0.8	0.4	0.6	0.6	0.3
Estonia	-3.0	0.2	-0.6	-4.9	6.5	1.6	1.2	-0.2	-0.3	-0.2	0.2	0.3
Ireland	5.6	2.9	1.1	-4.1	-1.8	-0.6	2.4	2.0	2.2	2.2	2.4	2.3
Greece	0.9	1.4	1.0	-2.7	-6.9	-7.8	-3.8	0.6	2.6	4.0	0.6	2.6
Spain	3.1	3.3	0.9	-2.6	-2.6	-4.4	-3.3	0.7	1.1	1.5	0.4	1.2
France	1.0	1.1	0.5	-0.2	0.5	-0.1	-0.2	0.1	0.3	0.6	0.3	0.8
Italy	0.4	1.1	-0.1	-0.8	0.1	-0.9	-1.7	-0.4	0.2	0.6	0.1	0.4
Cyprus	:	2.7	2.1	-0.2	0.5	-4.2	-5.2	-1.8	0.2	1.3	-4.4	0.8
Latvia	-2.0	0.8	-2.0 :	-6.7	1.5	1.4	2.3	0.3	0.5	1.1	1.6	1.7
Lithuania	-0.7	-0.7	-1.3 :	-5.3	0.5	1.8	1.3	0.6	1.2	1.3	1.4	1.3
Luxembourg	3.5	3.7	3.4	1.8	2.9	2.4	2.0	2.3	2.1	2.2	2.0	2.1
Malta	1.1	0.2	1.5	1.7	2.8	2.3	3.8	2.3	1.8	1.6	2.1	2.1
Netherlands	2.5	0.2	1.2	-0.6	0.6	-0.6	-1.4	-0.9	0.1	0.6	-0.6	0.6
Austria	0.5	0.4	0.7	0.6	1.4	1.3	0.7	0.9	0.6	1.0	0.8	0.9
Portugal	1.6	0.5	-0.5	-1.4	-1.9	-4.1	-2.9	1.6	0.8	0.8	0.9	0.8
Slovenia	:	0.7	1.0	-2.2	-1.6	-0.8	-1.5	0.4	0.6	0.9	0.0	0.3
Slovakia	:	-0.1	1.4	-1.5	1.8	0.1	-0.8	0.8	0.7	0.6	0.5	0.6
Finland	2.2	1.1	1.1	-0.7	1.3	0.9	-1.5	-0.6	0.2	0.6	-0.2	0.3
Euro area	:	1.0	0.6	-0.8	0.0	-0.7	-0.8	0.4	0.5	0.9	0.4	0.7
Bulgaria	:	0.5	2.0	-3.9	-2.2	-2.5	-0.4	-0.3	-0.2	0.3	0.3	0.4
Czech Republic	-0.7	-0.3	1.1	-1.0	-0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.4
Denmark	1.0	0.0	0.8	-2.3	-0.1	-0.3	0.1	0.7	0.5	0.9	0.5	0.5
Croatia	:	1.2	1.5	-5.1	-2.3	-3.9	-1.0	-1.4	-0.5	0.5	-2.5	-1.0
Hungary	:	0.0	-0.7	0.2	0.0	0.1	0.8	3.3	0.5	0.4	0.7	0.6
Poland	0.2	-1.4	2.8	-2.7	0.6	0.1	-0.1	1.0	0.2	0.4	0.5	0.6
Romania	-2.4	-2.7	-0.5	-0.3	-0.8	2.5	-1.2	-0.1	0.3	0.5	0.4	0.7
Sweden	0.7	0.7	0.5	1.0	2.1	0.7	1.0	1.2	1.3	1.3	1.2	1.1
United Kingdom	1.3	0.9	0.3	0.2	0.5	1.2	1.3	2.1	1.3	1.1	1.6	1.0
EU	:	0.6	0.7	-0.8	0.1	-0.2	-0.4	0.7	0.6	0.8	0.6	0.7
USA	2.1	0.4	-0.2	-1.2	1.0	1.8	1.9	2.4	2.5	2.6	1.8	1.6
Japan	-0.3	-0.4	-0.1	-0.4	-0.2	0.0	0.4	0.5	0.3	0.3	0.5	0.3

Table 24: Unemployment rate [1] (number of unemployed as a percentage of total labour force, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	9.2	7.5	7.8	8.3	7.2	7.6	8.4	8.5	8.4	8.2	8.5	8.2
Germany	9.0	9.0	9.1	7.1	5.9	5.5	5.3	5.1	5.1	4.8	5.1	5.1
Estonia	9.9	11.8	7.5	16.7	12.3	10.0	8.6	7.8	7.1	6.3	8.1	7.5
Ireland	9.4	4.3	6.4	13.9	14.7	14.7	13.1	11.1	9.6	8.5	11.4	10.2
Greece	10.3	10.5	9.0	12.7	17.9	24.5	27.5	26.8	25.0	22.0	26.0	24.0
Spain	17.8	11.3	11.0	19.9	21.4	24.8	26.1	24.8	23.5	22.2	25.5	24.0
France	12.0	8.9	8.4	9.3	9.2	9.8	10.3	10.4	10.4	10.2	10.4	10.2
Italy	11.2	8.8	7.0	8.4	8.4	10.7	12.2	12.6	12.6	12.4	12.8	12.5
Cyprus	3.2	4.2	4.6	6.3	7.9	11.9	15.9	16.2	15.8	14.8	19.2	18.4
Latvia	16.5	12.7	9.7 :	19.5	16.2	15.0	11.9	11.0	10.2	9.2	10.7	9.6
Lithuania	9.8	14.2	7.6 :	17.8	15.4	13.4	11.8	11.2	10.4	9.5	10.6	9.7
Luxembourg	2.7	3.1	4.7	4.6	4.8	5.1	5.9	6.1	6.2	6.1	5.7	5.5
Malta	5.9	7.3	6.6	6.9	6.4	6.3	6.4	6.1	6.1	6.2	6.5	6.5
Netherlands	5.4	3.6	4.0	4.5	4.4	5.3	6.7	6.9	6.8	6.7	7.4	7.3
Austria	4.2	4.1	4.6	4.4	4.2	4.3	4.9	5.3	5.4	5.0	4.8	4.7
Portugal	6.3	5.9	9.0	12.0	12.9	15.8	16.4	14.5	13.6	12.8	15.4	14.8
Slovenia	7.1	6.4	5.5	7.3	8.2	8.9	10.1	9.8	9.2	8.4	10.1	9.8
Slovakia	13.2	18.7	12.6	14.5	13.7	14.0	14.2	13.4	12.8	12.1	13.6	12.9
Finland	12.9	9.2	7.5	8.4	7.8	7.7	8.2	8.6	8.5	8.3	8.5	8.4
Euro area	:	8.8	8.4	10.1	10.1	11.3	11.9	11.6	11.3	10.8	11.8	11.4
Bulgaria	13.3	16.0	7.7	10.3	11.3	12.3	13.0	12.0	11.4	11.0	12.8	12.5
Czech Republic	5.7	8.1	6.3	7.3	6.7	7.0	7.0	6.3	6.2	6.1	6.7	6.6
Denmark	5.7	4.9	4.4	7.5	7.6	7.5	7.0	6.7	6.6	6.4	6.8	6.6
Croatia	:	15.0	10.6	12.3	13.9	16.1	17.3	17.7	17.7	17.3	18.0	18.0
Hungary	8.9	5.9	8.0	11.2	10.9	10.9	10.2	8.0	7.8	7.8	9.0	8.9
Poland	12.0	18.7	11.3	9.7	9.7	10.1	10.3	9.5	9.3	8.8	9.9	9.5
Romania	5.4	7.1	6.7	7.3	7.4	7.0	7.3	7.0	6.9	6.7	7.2	7.1
Sweden	8.6	6.3	7.1	8.6	7.8	8.0	8.0	7.9	7.8	7.6	7.6	7.2
United Kingdom	7.0	5.0	5.7	7.8	8.0	7.9	7.5	6.2	5.7	5.5	6.6	6.3
EU	:	9.0	8.1	9.6	9.6	10.4	10.8	10.3	10.0	9.5	10.5	10.1
USA	4.9	5.2	5.9	9.6	8.9	8.1	7.4	6.3	5.8	5.4	6.4	5.9
Japan	3.7	5.0	4.3	5.1	4.6	4.3	4.0	3.8	3.8	3.8	3.8	3.8

[1] Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	2.1	2.7	2.8	1.3	3.0	3.4	2.6	**0.6**	**0.5**	**0.3**	*0.6*	*2.2*
Germany	1.4	1.2	0.9	2.6	2.9	2.5	1.9	**2.8**	**3.3**	**3.0**	*2.9*	*3.3*
Estonia	22.1	11.8	11.3	2.5	0.8	6.5	7.2	**5.2**	**5.2**	**6.2**	*6.0*	*6.7*
Ireland	4.3	6.5	4.0	-3.8	1.2	0.8	2.0	**-1.3**	**0.8**	**2.1**	*0.4*	*0.5*
Greece	10.0	6.1	4.6	-2.6	-2.3	-2.0	-7.1	**-1.5**	**0.1**	**1.7**	*-2.7*	*0.0*
Spain	2.8	3.4	4.7	1.1	0.9	-0.6	1.7	**0.5**	**0.9**	**1.1**	*0.2*	*0.3*
France	2.0	2.8	2.6	3.1	2.5	2.3	1.6	**1.4**	**0.9**	**1.0**	*1.2*	*1.3*
Italy	3.3	3.3	2.8	2.7	1.1	0.9	1.2	**0.8**	**0.6**	**1.0**	*1.1*	*1.3*
Cyprus	:	4.9	2.8	2.6	2.5	-0.8	-6.0	**-4.6**	**0.2**	**1.2**	*-3.0*	*0.9*
Latvia	12.2	7.9	17.4	-5.5	3.7	6.1	9.4	**6.2**	**4.6**	**5.0**	*4.1*	*4.6*
Lithuania	26.5	6.4	10.2	-0.1	6.3	4.2	5.0	**3.6**	**4.9**	**5.2**	*3.3*	*4.6*
Luxembourg	2.1	3.6	3.2	2.1	2.1	1.5	3.6	**1.9**	**3.0**	**3.0**	*2.0*	*2.7*
Malta	4.6	4.9	3.3	2.0	3.5	4.0	-0.4	**3.4**	**2.5**	**2.5**	*1.9*	*2.1*
Netherlands	2.7	4.2	2.7	0.6	2.4	2.6	2.3	**2.6**	**0.6**	**1.8**	*2.3*	*1.7*
Austria	2.4	2.1	2.9	1.1	2.4	2.6	2.1	**2.0**	**2.1**	**2.0**	*2.0*	*2.0*
Portugal	6.6	4.0	3.0	2.1	-1.8	-2.1	3.5	**-0.4**	**0.9**	**0.9**	*-0.9*	*1.0*
Slovenia	:	9.1	5.3	4.0	1.6	-1.2	1.9	**0.8**	**1.3**	**1.9**	*1.0*	*1.6*
Slovakia	:	8.7	7.0	5.5	2.0	2.6	2.6	**3.5**	**2.2**	**3.0**	*2.4*	*2.7*
Finland	3.3	3.0	3.3	2.2	3.6	2.8	2.0	**1.6**	**1.5**	**1.6**	*1.5*	*1.6*
Euro area	:	2.6	2.6	2.2	2.2	1.9	1.8	**1.5**	**1.6**	**1.7**	*1.6*	*1.9*
Bulgaria	:	7.9	10.6	9.9	6.8	7.7	8.8	**2.0**	**1.6**	**3.2**	*3.6*	*3.3*
Czech Republic	11.1	7.9	3.9	3.3	2.8	1.4	-0.6	**3.0**	**3.3**	**3.4**	*2.1*	*2.4*
Denmark	3.8	3.6	3.5	3.2	1.4	1.4	1.1	**1.6**	**2.0**	**2.2**	*1.8*	*2.0*
Croatia	:	5.7	4.5	1.9	1.8	1.3	1.5	**1.8**	**1.4**	**1.5**	*2.5*	*2.0*
Hungary	:	12.8	4.7	0.3	3.4	1.8	1.5	**3.9**	**3.9**	**3.2**	*3.6*	*3.4*
Poland	21.6	5.3	4.1	8.2	5.1	3.5	2.7	**3.0**	**3.8**	**4.2**	*3.5*	*4.4*
Romania	63.3	34.9	16.8	1.9	-4.1	0.8	9.2	**5.5**	**4.9**	**5.6**	*5.4*	*4.5*
Sweden	3.4	4.4	3.6	2.2	3.2	3.1	1.6	**2.6**	**2.8**	**2.9**	*2.7*	*3.0*
United Kingdom	4.6	4.7	3.6	3.5	0.8	1.8	2.0	**1.6**	**2.3**	**2.7**	*2.1*	*2.8*
EU	:	3.5	2.8	2.7	2.0	1.8	1.9	**1.7**	**1.9**	**2.1**	*1.8*	*2.2*
USA	3.7	4.1	3.1	3.4	2.6	2.2	0.7	**1.6**	**2.7**	**3.3**	*2.3*	*2.9*
Japan	0.3	-1.2	-1.3	0.4	0.6	-0.1	0.0	**0.7**	**0.8**	**0.5**	*1.1*	*0.8*

Table 26: Real compensation of employees per head [1] (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	1.0	0.6	0.5	-0.4	-0.1	1.2	1.4	**0.1**	**-0.4**	**-0.9**	*-0.2*	*1.0*
Germany	0.6	-0.1	-0.2	0.5	1.0	1.0	0.6	**1.7**	**1.9**	**1.4**	*1.7*	*1.8*
Estonia	7.4	7.5	5.8	-1.0	-4.1	3.0	4.0	**4.1**	**3.6**	**3.9**	*4.4*	*3.6*
Ireland	1.2	2.4	3.7	-1.7	-0.5	0.3	0.3	**-2.2**	**-0.4**	**0.8**	*-0.9*	*-0.4*
Greece	3.8	3.2	1.6	-6.1	-4.6	-2.7	-5.6	**-0.5**	**-0.2**	**0.6**	*-1.9*	*-0.3*
Spain	-0.1	0.0	2.1	-0.9	-1.8	-2.9	0.7	**0.6**	**0.4**	**-0.1**	*0.0*	*-0.5*
France	1.4	1.0	1.1	2.0	0.7	0.9	1.0	**0.8**	**-0.1**	**-0.3**	*0.2*	*0.0*
Italy	0.1	0.4	0.8	1.2	-1.7	-1.9	0.0	**0.4**	**0.0**	**-1.0**	*0.4*	*0.1*
Cyprus	:	2.4	-0.2	0.1	-0.5	-3.7	-5.9	**-3.7**	**-0.4**	**0.0**	*-3.6*	*-0.6*
Latvia	:	3.2	8.8	-2.8	-2.2	2.7	9.0	**5.3**	**2.8**	**2.5**	*2.8*	*2.1*
Lithuania	:	6.8	4.3	-1.4	2.1	1.1	4.0	**3.3**	**3.6**	**3.2**	*2.3*	*2.7*
Luxembourg	0.4	1.4	1.1	1.1	-0.4	-0.4	3.3	**0.2**	**1.0**	**1.1**	*0.3*	*0.7*
Malta	:	2.8	0.8	-0.1	1.1	1.5	-1.5	**2.7**	**0.9**	**0.5**	*0.6*	*0.1*
Netherlands	0.7	1.4	1.2	-0.3	0.3	1.2	0.3	**1.7**	**-0.7**	**0.3**	*1.0*	*0.2*
Austria	1.3	0.4	1.0	-0.7	-0.9	0.2	-0.1	**0.4**	**0.4**	**0.3**	*0.4*	*0.3*
Portugal	3.3	0.6	0.7	0.3	-3.5	-3.5	2.8	**-1.2**	**0.0**	**0.1**	*-1.2*	*-0.1*
Slovenia	:	2.9	2.2	2.6	-0.1	-2.6	1.3	**0.1**	**0.2**	**0.8**	*0.7*	*0.4*
Slovakia	:	2.4	3.9	4.4	-1.8	-0.8	1.2	**4.0**	**1.7**	**2.0**	*2.0*	*1.2*
Finland	2.0	1.2	1.4	0.8	0.4	-0.2	-0.5	**0.3**	**0.2**	**0.0**	*0.1*	*0.3*
Euro area	:	0.4	0.8	0.6	-0.2	0.0	0.7	**0.9**	**0.6**	**0.2**	*0.7*	*0.6*
Bulgaria	:	4.2	5.4	7.3	2.2	4.0	11.1	**3.5**	**1.4**	**2.3**	*3.6*	*1.7*
Czech Republic	3.5	5.4	1.5	2.8	1.2	-1.1	-1.6	**2.3**	**1.9**	**1.6**	*1.1*	*0.6*
Denmark	2.0	1.6	1.5	0.7	-1.2	-1.1	0.1	**0.4**	**0.5**	**0.4**	*0.1*	*0.3*
Croatia	:	2.3	0.7	0.4	-0.5	-1.9	-0.4	**1.6**	**0.8**	**0.4**	*1.5*	*0.6*
Hungary	:	5.1	0.1	-3.3	-0.3	-4.2	-1.0	**3.8**	**1.4**	**0.2**	*2.5*	*0.6*
Poland	5.6	1.1	1.5	5.5	0.3	0.2	1.9	**2.8**	**2.7**	**2.2**	*2.4*	*2.5*
Romania	3.0	8.9	10.1	-5.0	-7.9	-3.7	4.4	**3.8**	**2.1**	**2.8**	*2.4*	*1.2*
Sweden	1.9	3.0	1.7	0.7	1.5	2.5	0.9	**2.2**	**1.2**	**1.0**	*2.1*	*1.4*
United Kingdom	2.4	3.5	0.9	-0.9	-2.5	-0.2	0.1	**0.3**	**0.9**	**0.8**	*0.2*	*0.8*
EU	:	1.3	0.8	0.6	-0.6	-0.2	0.6	**0.9**	**0.8**	**0.5**	*0.7*	*0.7*
USA	2.1	2.0	0.9	1.7	0.1	0.3	-0.5	**0.1**	**0.6**	**0.9**	*0.7*	*1.0*
Japan	0.3	-0.3	-0.5	2.1	1.4	0.7	0.3	**-0.9**	**-0.5**	**-0.4**	*-1.4*	*-0.7*

[1] Deflated by the price deflator of private consumption

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 27: Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	1.5	1.2	0.0	1.8	0.2	-0.2	0.6	**0.7**	**0.5**	**0.5**	*1.1*	*0.8*
Germany	1.0	0.9	-0.2	3.8	2.2	-0.7	-0.5	**0.5**	**0.7**	**1.2**	*1.3*	*1.6*
Estonia	8.9	7.0	1.8	7.8	1.6	3.0	0.4	**2.2**	**2.3**	**3.0**	*1.7*	*2.7*
Ireland	3.8	2.7	0.3	3.9	4.6	0.3	-2.1	**2.6**	**1.4**	**1.4**	*-0.6*	*0.7*
Greece	2.4	3.1	0.1	-2.8	-2.1	1.4	0.5	**0.0**	**0.3**	**-0.3**	*0.0*	*0.3*
Spain	0.5	0.4	0.9	2.7	2.0	2.4	2.1	**0.6**	**0.6**	**0.7**	*0.7*	*0.8*
France	1.5	1.0	0.2	2.2	1.6	0.5	0.5	**0.2**	**0.4**	**0.9**	*0.7*	*0.7*
Italy	1.4	0.4	-0.4	2.6	0.5	-1.4	-0.2	**0.0**	**0.4**	**0.5**	*0.4*	*0.8*
Cyprus	:	1.2	0.9	1.6	-0.2	1.8	-0.1	**-0.9**	**0.2**	**0.3**	*-0.4*	*0.1*
Latvia	6.0	6.6	4.7	4.1	3.4	3.3	1.9	**2.3**	**2.3**	**2.5**	*2.1*	*2.4*
Lithuania	5.3	7.7	3.8	7.3	5.6	2.0	1.9	**2.1**	**1.9**	**2.1**	*1.9*	*2.5*
Luxembourg	1.2	0.3	-1.3	3.3	-0.3	-2.5	0.0	**0.7**	**0.3**	**0.7**	*0.6*	*0.6*
Malta	3.4	2.4	0.5	1.8	-0.5	-0.3	-1.3	**0.7**	**1.1**	**1.1**	*0.1*	*0.2*
Netherlands	1.3	1.4	0.6	1.7	1.0	-1.0	0.7	**1.8**	**1.3**	**1.0**	*1.8*	*0.8*
Austria	2.3	1.6	0.6	1.3	1.6	-0.4	-0.5	**-0.2**	**0.6**	**0.5**	*0.9*	*1.0*
Portugal	2.2	0.9	0.9	3.4	0.1	0.8	1.6	**-0.7**	**0.5**	**0.9**	*0.3*	*0.7*
Slovenia	:	2.9	1.2	3.5	2.3	-1.8	0.5	**2.0**	**1.1**	**1.5**	*0.8*	*1.1*
Slovakia	:	4.1	3.5	6.4	0.9	1.6	2.2	**1.6**	**1.8**	**2.7**	*1.7*	*2.5*
Finland	2.5	2.0	-0.3	3.7	1.3	-2.3	0.3	**0.1**	**0.4**	**0.6**	*0.4*	*0.7*
Euro area	:	0.9	0.2	2.8	1.6	0.0	0.3	**0.4**	**0.6**	**0.9**	*0.9*	*1.0*
Bulgaria	:	4.7	1.9	4.7	4.3	3.1	1.5	**1.5**	**0.8**	**0.7**	*1.4*	*1.6*
Czech Republic	2.9	3.8	2.1	3.4	2.2	-1.2	-1.1	**2.1**	**2.4**	**2.4**	*1.8*	*2.0*
Denmark	1.9	1.6	-0.6	4.0	1.4	-0.5	-0.3	**0.1**	**1.2**	**1.1**	*1.1*	*1.3*
Croatia	:	3.2	0.2	3.6	2.1	1.8	0.1	**0.7**	**0.7**	**0.6**	*1.9*	*1.7*
Hungary	:	4.3	1.2	0.6	1.8	-1.6	0.7	**-0.1**	**2.0**	**1.6**	*1.6*	*1.5*
Poland	5.8	4.6	1.8	6.5	4.2	1.6	1.7	**2.0**	**2.6**	**2.9**	*2.7*	*2.8*
Romania	3.1	8.4	4.4	-0.5	1.9	-1.8	4.8	**2.0**	**2.1**	**2.3**	*2.1*	*1.9*
Sweden	2.8	2.3	0.4	5.0	0.5	-1.0	0.5	**0.8**	**1.1**	**1.3**	*1.6*	*1.9*
United Kingdom	2.3	2.2	0.4	1.7	1.1	-0.6	0.4	**0.9**	**1.4**	**1.4**	*1.1*	*1.5*
EU	:	1.7	0.2	2.9	1.6	-0.2	0.4	**0.6**	**0.9**	**1.1**	*1.0*	*1.2*
USA	1.9	2.3	1.2	3.8	0.6	0.5	0.4	**-0.2**	**0.6**	**0.6**	*1.0*	*1.6*
Japan	1.1	1.8	-0.2	5.1	-0.3	1.4	1.1	**0.6**	**0.7**	**0.7**	*1.0*	*1.0*

Table 28: Unit labour costs, whole economy [1] (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	0.6	1.4	2.8	-0.5	2.8	3.6	2.0	**-0.1**	**0.0**	**-0.2**	*-0.6*	*1.4*
Germany	0.4	0.4	1.1	-1.2	0.6	3.3	2.4	**2.3**	**2.5**	**1.8**	*1.6*	*1.6*
Estonia	12.1	4.4	9.3	-4.9	-0.8	3.4	6.8	**3.0**	**2.9**	**3.1**	*4.2*	*3.9*
Ireland	0.4	3.8	3.6	-7.4	-3.2	0.5	4.2	**-3.8**	**-0.6**	**0.7**	*1.1*	*-0.2*
Greece	7.4	3.0	4.5	0.3	-0.2	-3.3	-7.6	**-1.5**	**-0.3**	**2.0**	*-2.7*	*-0.3*
Spain	2.3	3.0	3.7	-1.6	-1.1	-3.0	-0.4	**-0.1**	**0.3**	**0.4**	*-0.5*	*-0.5*
France	0.5	1.8	2.4	0.9	0.9	1.8	1.1	**1.2**	**0.4**	**0.1**	*0.5*	*0.6*
Italy	1.8	2.9	3.1	0.1	0.7	2.3	1.4	**0.8**	**0.2**	**0.5**	*0.7*	*0.6*
Cyprus	:	3.7	1.9	1.0	2.7	-2.6	-5.9	**-3.7**	**0.0**	**0.9**	*-2.6*	*0.8*
Latvia	5.8	1.3	12.2	-9.1	0.2	2.7	7.3	**3.8**	**2.2**	**2.5**	*1.9*	*2.1*
Lithuania	20.2	-1.2	6.1	-6.9	0.7	2.2	3.0	**1.5**	**3.0**	**3.1**	*1.4*	*2.0*
Luxembourg	1.0	3.3	4.6	-1.1	2.4	4.2	3.6	**1.2**	**2.7**	**2.3**	*1.4*	*2.1*
Malta	1.2	2.4	2.7	0.2	4.1	4.3	0.9	**2.7**	**1.4**	**1.3**	*1.7*	*1.9*
Netherlands	1.4	2.7	2.1	-1.1	1.3	3.6	1.6	**0.7**	**-0.7**	**0.8**	*0.5*	*1.0*
Austria	0.0	0.6	2.3	-0.2	0.8	3.1	2.6	**2.2**	**1.5**	**1.5**	*1.1*	*1.1*
Portugal	4.3	3.1	2.1	-1.2	-2.0	-2.9	1.9	**0.3**	**0.4**	**0.0**	*-1.1*	*0.3*
Slovenia	:	6.1	4.0	0.5	-0.7	0.6	1.4	**-1.2**	**0.2**	**0.4**	*0.2*	*0.5*
Slovakia	:	4.4	3.3	-0.9	1.1	1.0	0.3	**1.9**	**0.4**	**0.3**	*0.7*	*0.2*
Finland	0.7	0.9	3.6	-1.4	2.3	5.2	1.7	**1.4**	**1.1**	**1.1**	*1.1*	*0.9*
Euro area	:	1.8	2.5	-0.6	0.5	1.8	1.4	**1.1**	**0.9**	**0.8**	*0.7*	*0.8*
Bulgaria	:	3.0	8.5	5.0	2.4	4.5	7.2	**0.5**	**0.8**	**2.5**	*2.2*	*1.6*
Czech Republic	8.0	3.9	1.7	0.0	0.6	2.6	0.5	**0.8**	**0.9**	**1.0**	*0.3*	*0.4*
Denmark	1.9	2.0	4.1	-0.8	0.0	1.9	1.4	**1.5**	**0.8**	**1.1**	*0.7*	*0.7*
Croatia	:	2.5	4.3	-1.6	-0.3	-0.5	1.5	**1.1**	**0.7**	**0.9**	*0.6*	*0.3*
Hungary	:	8.2	3.5	-0.3	1.6	3.5	0.8	**4.0**	**1.9**	**1.6**	*1.9*	*1.9*
Poland	14.9	0.7	2.2	1.6	0.9	1.8	1.0	**1.0**	**1.2**	**1.3**	*0.8*	*1.6*
Romania	58.3	24.4	11.9	2.4	-5.8	2.7	4.2	**3.4**	**2.7**	**3.2**	*3.3*	*2.5*
Sweden	0.6	2.0	3.1	-2.6	2.6	4.1	1.1	**1.8**	**1.7**	**1.6**	*1.2*	*1.1*
United Kingdom	2.2	2.5	3.2	1.8	-0.3	2.4	1.5	**0.6**	**0.9**	**1.2**	*1.0*	*1.3*
EU	:	2.1	2.7	-0.2	0.4	2.0	1.4	**1.1**	**1.0**	**1.0**	*0.8*	*0.9*
USA	1.8	1.8	1.9	-0.3	1.9	1.6	0.3	**1.7**	**2.1**	**2.6**	*1.3*	*1.2*
Japan	-0.8	-3.0	-1.0	-4.5	0.8	-1.6	-1.1	**0.1**	**0.1**	**-0.1**	*0.1*	*-0.1*

[1] Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 29: Real unit labour costs [1] (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	-0.3	-0.6	0.7	-2.5	0.6	1.5	0.5	**-0.8**	**-0.6**	**-1.3**	*-2.0*	*0.1*
Germany	-0.3	-0.5	0.1	-1.9	-0.5	1.8	0.3	**0.3**	**0.8**	**-0.1**	*0.0*	*0.0*
Estonia	-2.6	-0.6	2.5	-6.4	-3.7	0.7	2.2	**1.3**	**0.5**	**0.3**	*1.4*	*0.4*
Ireland	-3.2	-1.2	3.3	-5.9	-4.1	-0.8	3.2	**-4.3**	**-1.5**	**-0.7**	*-0.1*	*-1.1*
Greece	0.9	0.1	1.3	-0.5	-0.9	-3.4	-4.9	**0.0**	**-0.7**	**0.9**	*-2.0*	*-0.7*
Spain	-0.9	-0.8	0.9	-1.8	-1.2	-3.2	-1.1	**0.2**	**-0.8**	**-1.1**	*-0.8*	*-1.3*
France	-0.4	0.0	0.6	-0.2	-0.1	0.6	0.3	**0.5**	**-0.4**	**-1.2**	*-0.7*	*-0.6*
Italy	-1.4	0.1	1.0	-0.2	-0.8	0.6	0.0	**0.4**	**-0.3**	**-1.0**	*-0.2*	*-0.7*
Cyprus	:	0.5	-1.1	-1.1	0.7	-4.6	-4.6	**-2.0**	**-0.8**	**-0.5**	*-3.1*	*-0.8*
Latvia	-1.8	-3.2	3.2	-8.2	-5.8	-0.9	6.2	**2.2**	**0.1**	**-0.1**	*0.2*	*-0.6*
Lithuania	4.9	-1.7	0.5	-9.0	-4.2	-0.5	1.4	**0.6**	**1.4**	**0.9**	*-0.2*	*-0.2*
Luxembourg	-0.7	1.6	1.1	-4.7	-2.4	0.7	2.2	**-0.6**	**0.1**	**-0.7**	*-1.3*	*1.3*
Malta	-1.1	0.1	0.0	-3.5	1.8	2.1	-1.1	**1.4**	**-0.2**	**-0.7**	*-0.2*	*-0.6*
Netherlands	-0.7	-0.3	0.4	-2.2	1.2	2.3	0.5	**0.7**	**-1.9**	**-1.1**	*-0.6*	*-0.1*
Austria	-0.9	-0.9	0.2	-1.1	-1.0	1.2	1.1	**0.7**	**-0.1**	**-0.1**	*-0.7*	*-0.6*
Portugal	0.5	-0.4	-0.4	-1.9	-1.7	-2.5	-0.4	**-0.8**	**-1.0**	**-1.5**	*-1.8*	*-0.6*
Slovenia	:	0.0	0.8	1.6	-1.8	0.3	0.0	**-1.2**	**-0.1**	**-0.4**	*-0.7*	*-0.8*
Slovakia	:	-1.4	1.7	-1.4	-0.6	-0.2	-0.2	**2.0**	**-0.1**	**-1.0**	*0.2*	*-0.7*
Finland	-1.3	-0.4	1.6	-1.8	-0.3	2.5	-0.6	**0.1**	**-0.3**	**-0.6**	*-0.5*	*-0.5*
Euro area	:	-0.4	0.5	-1.3	-0.5	0.6	0.1	**0.3**	**-0.2**	**-0.7**	*-0.4*	*-0.4*
Bulgaria	:	-1.6	1.1	3.7	-4.3	2.9	8.0	**0.9**	**0.4**	**1.9**	*1.2*	*0.1*
Czech Republic	-0.1	1.0	0.0	1.4	0.8	1.1	-1.2	**-0.7**	**-0.5**	**-0.7**	*-1.1*	*-1.3*
Denmark	0.2	-0.3	1.6	-4.0	-0.6	-0.5	-0.2	**0.3**	**-0.5**	**-0.4**	*-0.7*	*-0.8*
Croatia	:	-1.4	0.3	-2.4	-1.9	-2.0	0.6	**0.5**	**0.0**	**0.2**	*-0.2*	*-0.8*
Hungary	:	0.2	-0.5	-2.4	-0.6	0.1	-2.1	**2.3**	**-0.7**	**-1.4**	*-0.3*	*-0.7*
Poland	-0.2	-2.8	-0.9	-0.2	-2.2	-0.4	-0.2	**0.8**	**0.2**	**-0.6**	*-0.2*	*0.1*
Romania	-0.4	-2.9	0.7	-2.9	-10.1	-2.2	0.6	**0.2**	**0.1**	**0.6**	*0.5*	*-0.3*
Sweden	-1.0	0.5	0.9	-3.6	1.4	3.0	0.2	**0.5**	**-0.1**	**-0.4**	*-0.1*	*-0.6*
United Kingdom	0.6	0.2	0.6	-1.4	-2.4	0.7	-0.2	**-1.2**	**-0.8**	**-0.5**	*-0.8*	*-0.9*
EU	:	-0.6	0.4	-1.3	-1.0	0.5	0.0	**0.1**	**-0.3**	**-0.7**	*-0.5*	*-0.5*
USA	0.2	-0.4	-0.4	-1.5	-0.1	-0.1	-1.2	**0.2**	**0.1**	**0.3**	*-0.3*	*-0.6*
Japan	-0.4	-1.6	0.0	-2.4	2.7	-0.6	-0.5	**-1.0**	**-0.8**	**-1.0**	*-1.6*	*-1.3*

[1] Nominal unit labour costs divided by GDP price deflator.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 30: Nominal bilateral exchange rates against Ecu/euro (1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Germany	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Estonia	15.4730	15.6466	15.6466	15.6466	:	:	:	**:**	**:**	**:**	*:*	*:*
Ireland	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Greece	314.8770	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Spain	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
France	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Italy	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Cyprus	0.5848	0.5782	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Latvia	0.6669	0.6012	0.7002	0.7087	0.7063	0.6973	0.7015	**:**	**:**	**:**	*:*	*:*
Lithuania	4.7191	3.5285	3.4528	3.4528	3.4528	3.4528	3.4528	**3.4528**	**:**	**:**	*3.4528*	*3.4528*
Luxembourg	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Malta	0.4435	0.4140	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Netherlands	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Austria	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Portugal	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Slovenia	177.6130	224.7013	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Slovakia	39.9129	42.0214	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Finland	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Euro area	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Bulgaria	1.2279	1.9504	1.9558	1.9558	1.9558	1.9558	1.9558	**1.9558**	**1.9558**	**1.9558**	*1.9558*	*1.9558*
Czech Republic	35.6033	32.8417	27.4541	25.2840	24.5898	25.1491	25.9797	**27.5048**	**27.5067**	**27.5067**	*27.4402*	*27.4394*
Denmark	7.4212	7.4414	7.4528	7.4473	7.4506	7.4437	7.4579	**7.4553**	**7.4444**	**7.4444**	*7.4651*	*7.4659*
Croatia	7.0843	7.5206	7.3254	7.2891	7.4390	7.5217	7.5786	**7.6312**	**7.6520**	**7.6520**	*7.6354*	*7.6306*
Hungary	212.6594	252.9736	259.1018	275.4805	279.3726	289.2494	296.8730	**308.3969**	**307.2140**	**307.2140**	*306.9278*	*306.5974*
Poland	3.6904	4.0928	3.9085	3.9947	4.1206	4.1847	4.1975	**4.1809**	**4.1983**	**4.1983**	*4.1789*	*4.1772*
Romania	0.8205	3.1051	3.6809	4.2122	4.2391	4.4593	4.4190	**4.4379**	**4.4113**	**4.4113**	*4.4739*	*4.4648*
Sweden	8.8443	9.0220	9.6042	9.5373	9.0298	8.7041	8.6515	**9.0648**	**9.1368**	**9.1368**	*8.9816*	*9.0227*
United Kingdom	0.7340	0.6462	0.7474	0.8578	0.8679	0.8109	0.8493	**0.8062**	**0.7903**	**0.7903**	*0.8268*	*0.8264*
EU	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
USA	1.1797	1.0280	1.3471	1.3257	1.3920	1.2848	1.3281	**1.3324**	**1.2678**	**1.2678**	*1.3773*	*1.3797*
Japan	133.1808	118.3271	145.3816	116.2386	110.9586	102.4919	129.6627	**138.6830**	**136.2900**	**136.2900**	*141.2268*	*141.3486*

Table 31: Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	0.0	0.9	0.9	-2.4	0.3	-2.0	2.3	**0.6**	**-0.8**	**0.0**	*1.3*	*0.0*
Germany	0.8	1.2	0.9	-3.6	0.1	-2.3	3.1	**1.0**	**-1.0**	**0.0**	*1.9*	*0.0*
Estonia	0.9	0.6	1.0	-3.0	-0.4	-1.5	1.4	**1.4**	**-0.3**	**0.0**	*1.6*	*0.0*
Ireland	-0.2	1.3	1.5	-3.5	0.8	-3.6	3.1	**0.2**	**-1.7**	**0.0**	*1.5*	*0.0*
Greece	1.4	1.3	0.9	-2.4	1.0	-1.4	2.1	**1.2**	**-0.7**	**0.0**	*1.8*	*-0.1*
Spain	-0.2	1.1	0.9	-2.4	0.4	-1.8	2.1	**0.6**	**-0.8**	**0.0**	*1.3*	*0.0*
France	0.7	1.1	1.0	-3.1	0.2	-2.4	3.0	**0.9**	**-1.0**	**0.0**	*1.7*	*0.0*
Italy	1.1	1.4	0.9	-3.2	0.4	-2.1	2.8	**1.0**	**-1.0**	**0.0**	*1.8*	*0.0*
Cyprus	7.5	1.4	1.1	-2.5	0.2	-2.0	2.5	**0.5**	**-0.8**	**0.0**	*1.2*	*0.0*
Latvia	2.7	-0.8	-0.5	-2.9	0.4	0.1	1.0	**0.8**	**-0.4**	**0.0**	*1.1*	*0.0*
Lithuania	5.0	5.6	0.7	-2.6	0.4	-1.4	1.7	**0.8**	**-0.5**	**0.0**	*1.3*	*0.0*
Luxembourg	0.1	0.5	0.7	-2.0	0.0	-1.5	1.6	**0.2**	**-0.6**	**0.0**	*0.7*	*0.0*
Malta	0.8	1.1	1.0	-3.6	0.3	-2.1	2.6	**0.4**	**-0.8**	**0.0**	*1.1*	*0.0*
Netherlands	0.1	0.8	0.9	-2.4	0.2	-1.7	2.0	**0.5**	**-0.7**	**0.0**	*1.1*	*0.0*
Austria	1.1	0.8	0.5	-2.5	-0.1	-1.3	2.0	**0.8**	**-0.6**	**0.0**	*1.3*	*0.0*
Portugal	-0.2	0.6	0.7	-1.8	0.3	-1.5	1.5	**0.4**	**-0.7**	**0.0**	*0.9*	*0.0*
Slovenia	-3.4	-3.4	0.3	-1.7	0.4	-0.6	1.3	**0.8**	**-0.4**	**0.0**	*1.1*	*0.0*
Slovakia	-0.8	2.4	6.3	-2.2	0.2	-0.4	1.3	**0.8**	**-0.3**	**0.0**	*1.1*	*0.0*
Finland	1.4	1.2	1.0	-3.9	-0.1	-2.7	3.1	**1.5**	**-1.0**	**0.0**	*2.3*	*0.0*
Euro area	1.6	2.4	2.1	-6.7	0.5	-4.4	6.1	**2.0**	**-1.9**	**0.0**	*:*	*:*
Bulgaria	-46.8	3.3	0.9	-2.2	1.3	-0.7	2.1	**1.6**	**-0.6**	**0.0**	*2.1*	*-0.1*
Czech Republic	0.3	3.6	4.3	2.6	3.1	-3.2	-1.9	**-5.2**	**-0.4**	**0.0**	*-4.6*	*0.0*
Denmark	0.7	0.9	1.1	-4.0	-0.4	-2.5	2.5	**1.3**	**-0.7**	**0.0**	*1.9*	*0.0*
Croatia	0.4	1.2	0.9	-1.2	-1.6	-2.2	0.9	**0.2**	**-0.8**	**0.0**	*0.6*	*0.0*
Hungary	-11.5	0.9	-1.6	-0.2	-1.0	-4.5	-0.9	**-3.0**	**-0.1**	**0.0**	*-2.1*	*0.1*
Poland	-7.6	-0.8	1.5	6.2	-2.8	-2.7	1.3	**1.1**	**-0.9**	**0.0**	*1.6*	*0.0*
Romania	-32.3	-15.2	-0.2	-1.3	0.4	-5.9	2.8	**0.9**	**0.1**	**0.0**	*0.5*	*0.1*
Sweden	1.3	0.5	-2.1	7.4	5.9	1.1	3.6	**-3.6**	**-1.7**	**0.0**	*-1.9*	*-0.5*
United Kingdom	4.1	0.7	-4.8	0.3	-0.9	4.4	-1.8	**6.8**	**0.9**	**0.0**	*5.0*	*0.0*
EU	2.7	3.6	0.8	-7.5	1.0	-5.3	8.4	**4.5**	**-2.6**	**0.0**	*:*	*:*
USA	4.5	-1.4	-1.2	-3.1	-5.3	4.0	3.2	**3.2**	**3.5**	**0.0**	*1.3*	*-0.2*
Japan	-0.4	-0.4	2.2	6.1	5.9	3.2	-18.5	**-5.5**	**-0.6**	**0.0**	*-5.6*	*-0.1*

[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 industrialized countries (nat. curr) (percentage change over preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	:	-0.5	0.4	-0.2	2.0	1.3	0.6	**-1.5**	**-1.2**	**:**	*-1.6*	*0.3*
Germany	:	-1.9	-1.6	-0.9	-0.2	1.3	1.1	**1.0**	**1.5**	**:**	*0.7*	*0.5*
Estonia	:	2.7	5.8	-3.5	-2.0	0.3	4.6	**1.2**	**1.3**	**:**	*2.9*	*2.5*
Ireland	:	1.9	1.2	-7.2	-4.3	-1.5	3.1	**-5.0**	**-1.8**	**:**	*0.1*	*-1.3*
Greece	:	-0.2	1.4	0.1	-0.7	-5.7	-9.2	**-3.1**	**-1.8**	**:**	*-3.9*	*-1.7*
Spain	:	0.7	1.2	-1.5	-1.7	-4.9	-1.9	**-1.5**	**-0.9**	**:**	*-1.4*	*-1.7*
France	:	-0.2	-0.1	1.5	0.2	-0.2	-0.2	**-0.2**	**-0.9**	**:**	*-0.5*	*-0.6*
Italy	:	0.7	0.6	0.4	0.0	0.3	0.1	**-0.7**	**-1.3**	**:**	*-0.4*	*-0.7*
Cyprus	:	1.0	-1.1	1.0	2.2	-3.7	-5.5	**-4.5**	**-1.0**	**:**	*-2.9*	*-0.2*
Latvia	:	-0.5	8.7	-7.8	-0.7	0.0	5.2	**2.1**	**0.6**	**:**	*0.6*	*0.6*
Lithuania	:	-3.2	2.7	-5.8	-0.1	-0.5	0.9	**-0.3**	**1.5**	**:**	*0.1*	*0.6*
Luxembourg	:	1.5	2.0	-0.8	1.6	1.7	2.0	**-0.1**	**1.5**	**:**	*0.4*	*0.9*
Malta	:	0.9	0.6	0.5	3.4	2.4	-0.1	**1.6**	**0.3**	**:**	*0.9*	*0.8*
Netherlands	:	1.0	-0.3	-0.7	0.6	1.3	0.1	**-0.7**	**-2.0**	**:**	*-0.5*	*-0.3*
Austria	:	-1.4	-0.1	0.3	0.1	0.7	1.1	**0.7**	**0.0**	**:**	*0.0*	*-0.2*
Portugal	:	1.0	-0.6	-0.7	-2.4	-4.1	0.8	**-0.9**	**-0.6**	**:**	*-1.9*	*-0.5*
Slovenia	:	4.0	1.3	0.9	-1.3	-1.8	-0.4	**-2.8**	**-1.2**	**:**	*-0.9*	*-0.7*
Slovakia	:	2.4	0.9	-0.7	0.5	-1.5	-1.3	**0.2**	**-1.0**	**:**	*-0.4*	*-1.0*
Finland	:	-1.0	0.9	-0.8	1.2	2.8	0.2	**-0.1**	**-0.4**	**:**	*-0.1*	*-0.4*
Euro area	:	-0.8	-0.5	-0.9	-0.1	0.2	0.5	**-0.7**	**-0.8**	**:**	*:*	*:*
Bulgaria	:	-1.1	5.1	4.9	2.5	1.9	5.6	**-1.5**	**-1.0**	**:**	*0.8*	*0.1*
Czech Republic	:	2.1	-0.6	0.4	-0.2	0.1	-1.2	**-0.8**	**-0.5**	**:**	*-0.9*	*-0.9*
Denmark	:	0.3	1.5	-0.3	-1.2	-0.5	-0.1	**0.0**	**-0.5**	**:**	*-0.5*	*-0.6*
Croatia	:	0.1	1.6	-1.4	-0.9	-2.9	-0.1	**-0.4**	**-0.6**	**:**	*-0.5*	*-0.9*
Hungary	:	6.1	0.8	0.0	1.2	1.0	-1.0	**2.4**	**0.4**	**:**	*0.7*	*0.6*
Poland	:	-1.2	-0.4	2.1	0.3	-0.8	-0.8	**-0.7**	**-0.2**	**:**	*-0.4*	*0.3*
Romania	:	20.7	8.7	2.4	-6.3	-0.2	2.2	**1.4**	**1.1**	**:**	*1.9*	*1.0*
Sweden	:	0.1	0.3	-2.4	1.4	1.7	-0.6	**0.4**	**0.4**	**:**	*-0.1*	*-0.3*
United Kingdom	:	0.6	0.8	2.5	-1.3	0.4	0.2	**-0.6**	**-0.3**	**:**	*-0.1*	*0.2*
EU	:	-0.4	0.3	-0.3	-0.6	0.2	0.5	**-1.2**	**-1.3**	**:**	*:*	*:*
USA	:	-0.2	-0.5	0.2	0.6	-0.2	-1.2	**0.2**	**0.7**	**:**	*-0.2*	*-0.3*
Japan	:	-4.9	-3.4	-4.7	-0.6	-3.6	-2.2	**-1.4**	**-1.6**	**:**	*-1.2*	*-1.5*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 33: Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (USD) (% change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	:	0.4	1.2	-2.6	2.3	-0.7	2.9	**-0.9**	**-2.1**	**:**	*-0.3*	*0.3*
Germany	:	-0.7	-0.7	-4.5	-0.1	-1.1	4.3	**2.0**	**0.5**	**:**	*2.6*	*0.5*
Estonia	:	3.3	6.8	-6.4	-2.5	-1.2	6.1	**2.5**	**1.0**	**:**	*4.5*	*2.5*
Ireland	:	3.3	2.8	-10.5	-3.5	-5.1	6.3	**-4.8**	**-3.5**	**:**	*1.6*	*-1.3*
Greece	:	1.1	2.3	-2.3	0.4	-7.0	-7.2	**-2.0**	**-2.6**	**:**	*-2.2*	*-1.8*
Spain	:	1.8	2.1	-3.9	-1.3	-6.6	0.1	**-0.8**	**-1.7**	**:**	*-0.2*	*-1.7*
France	:	0.8	0.8	-1.6	0.4	-2.5	2.8	**0.7**	**-1.9**	**:**	*1.2*	*-0.6*
Italy	:	2.2	1.4	-2.8	0.4	-1.9	2.9	**0.3**	**-2.2**	**:**	*1.4*	*-0.7*
Cyprus	:	2.4	0.0	-1.5	2.4	-5.6	-3.1	**-4.0**	**-1.8**	**:**	*-1.8*	*-0.2*
Latvia	:	-1.3	8.2	-10.5	-0.2	0.1	6.3	**2.9**	**0.2**	**:**	*1.7*	*0.6*
Lithuania	:	2.2	3.4	-8.3	0.3	-1.9	2.5	**0.5**	**0.9**	**:**	*1.4*	*0.6*
Luxembourg	:	2.0	2.8	-2.8	1.7	0.2	3.6	**0.1**	**0.9**	**:**	*1.2*	*0.9*
Malta	:	2.0	1.6	-3.1	3.7	0.2	2.5	**2.0**	**-0.5**	**:**	*2.0*	*0.8*
Netherlands	:	1.8	0.6	-3.1	0.8	-0.4	2.1	**-0.2**	**-2.7**	**:**	*0.6*	*-0.3*
Austria	:	-0.6	0.4	-2.2	0.0	-0.6	3.1	**1.5**	**-0.6**	**:**	*1.3*	*-0.2*
Portugal	:	1.7	0.1	-2.5	-2.1	-5.5	2.4	**-0.5**	**-1.3**	**:**	*-0.9*	*-0.5*
Slovenia	:	0.5	1.6	-0.8	-0.9	-2.3	1.0	**-2.0**	**-1.5**	**:**	*0.2*	*-0.7*
Slovakia	:	4.8	7.3	-2.9	0.7	-1.9	-0.1	**1.1**	**-1.3**	**:**	*0.7*	*-1.0*
Finland	:	0.2	2.0	-4.7	1.1	0.0	3.4	**1.4**	**-1.3**	**:**	*2.2*	*-0.4*
Euro area	:	1.6	1.6	-7.5	0.4	-4.2	6.6	**1.3**	**-2.7**	**:**	*:*	*:*
Bulgaria	:	2.2	6.0	2.6	3.9	1.2	7.8	**0.1**	**-1.5**	**:**	*3.0*	*0.0*
Czech Republic	:	5.8	3.7	3.0	2.9	-3.1	-3.1	**-5.9**	**-1.0**	**:**	*-5.4*	*-0.9*
Denmark	:	1.2	2.6	-4.3	-1.6	-3.0	2.4	**1.3**	**-1.2**	**:**	*1.4*	*-0.6*
Croatia	:	1.3	2.5	-2.6	-2.5	-5.0	0.8	**-0.3**	**-1.5**	**:**	*0.1*	*-0.8*
Hungary	:	7.1	-0.8	-0.2	0.2	-3.5	-1.9	**-0.8**	**0.2**	**:**	*-1.4*	*0.7*
Poland	:	-2.0	1.1	8.4	-2.6	-3.5	0.5	**0.5**	**-1.1**	**:**	*1.2*	*0.3*
Romania	:	2.4	8.5	1.1	-5.9	-6.0	5.1	**2.3**	**1.2**	**:**	*2.5*	*1.2*
Sweden	:	0.6	-1.8	4.8	7.5	2.8	3.0	**-3.2**	**-1.4**	**:**	*-1.9*	*-0.8*
United Kingdom	:	1.3	-4.0	2.8	-2.2	4.9	-1.6	**6.1**	**0.5**	**:**	*4.9*	*0.2*
EU	:	3.2	1.1	-7.8	0.5	-5.1	8.9	**3.3**	**-3.8**	**:**	*:*	*:*
USA	:	-1.6	-1.7	-2.9	-4.8	3.8	2.0	**3.4**	**4.2**	**:**	*1.2*	*-0.5*
Japan	:	-5.3	-1.2	1.1	5.2	-0.5	-20.2	**-6.8**	**-2.2**	**:**	*-6.8*	*-1.6*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 34: Total expenditure, general government (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	51.0	49.0	49.8	52.3	53.2	54.8	54.4	**53.8**	**53.4**	**53.3**	*53.9*	*54.2*
Germany	49.3	46.6	44.9	47.2	44.6	44.2	44.3	**44.3**	**44.6**	**44.3**	*44.6*	*44.5*
Estonia	:	:	:	40.4	38.0	39.7	38.9	**38.9**	**39.5**	**39.4**	*38.5*	*38.2*
Ireland	37.1	32.7	38.6	66.1	46.1	42.2	40.5	**38.7**	**36.8**	**36.3**	*40.5*	*39.4*
Greece	:	:	:	52.1	53.7	53.8	59.2	**48.5**	**45.9**	**43.5**	*47.4*	*45.5*
Spain	42.0	38.6	40.5	45.6	45.4	47.3	44.3	**43.9**	**43.1**	**42.1**	*43.8*	*43.0*
France	53.4	52.0	53.5	56.4	55.9	56.7	57.1	**57.9**	**58.1**	**57.8**	*56.8*	*56.1*
Italy	49.7	46.8	48.1	49.9	49.1	50.4	50.5	**50.8**	**50.4**	**49.7**	*50.3*	*49.8*
Cyprus	33.1	37.2	39.6	42.5	42.8	42.1	41.4	**42.1**	**41.5**	**39.9**	*47.1*	*46.1*
Latvia	37.2	35.1	36.9 :	44.2	38.9	36.6	35.7	**35.4**	**34.9**	**34.0**	*35.3*	*34.3*
Lithuania	:	:	37.3 :	42.3	42.5	36.1	35.5	**35.8**	**34.8**	**34.2**	*34.2*	*33.3*
Luxembourg	38.9	39.8	40.9	43.9	42.3	43.4	43.8	**44.0**	**44.0**	**43.7**	*43.1*	*44.0*
Malta	41.1	42.1	42.0	41.0	40.9	42.7	42.5	**43.5**	**44.2**	**43.3**	*44.1*	*43.8*
Netherlands	46.9	43.5	44.2	48.2	47.0	47.5	46.8	**47.3**	**46.8**	**46.2**	*49.8*	*49.5*
Austria	53.2	51.3	50.8	52.8	50.9	51.0	50.9	**52.8**	**51.9**	**51.3**	*52.4*	*50.9*
Portugal	42.7	44.4	46.4	51.8	50.0	48.5	50.1	**49.5**	**47.7**	**47.1**	*47.1*	*45.6*
Slovenia	46.2	46.0	44.7	49.2	49.8	48.1	59.7	**49.6**	**47.4**	**46.6**	*49.5*	*47.4*
Slovakia	48.5	43.6	38.8	42.0	40.6	40.2	41.0	**40.9**	**40.5**	**39.2**	*38.0*	*37.5*
Finland	56.0	48.5	49.5	54.8	54.4	56.3	57.8	**58.9**	**58.9**	**58.7**	*58.6*	*58.3*
Euro area	:	:	:	50.4	49.0	49.4	49.4	**49.3**	**49.0**	**48.5**	*49.2*	*48.7*
Bulgaria	37.7	39.2	37.6	37.4	34.7	35.2	38.3	**40.9**	**41.2**	**41.1**	*39.4*	*39.5*
Czech Republic	43.4	43.6	41.3	43.0	42.5	43.8	42.0	**41.7**	**42.4**	**41.7**	*42.5*	*42.6*
Denmark	56.5	53.1	51.6	57.1	56.9	58.8	56.7	**57.0**	**56.1**	**54.8**	*56.8*	*55.8*
Croatia	:	:	45.2	46.8	48.2	46.9	47.0	**48.1**	**48.5**	**48.7**	*46.8*	*46.6*
Hungary	51.1	48.8	50.3	49.7	49.9	48.7	49.7	**50.2**	**49.2**	**46.4**	*50.2*	*49.3*
Poland	:	:	:	45.9	43.9	42.9	42.2	**41.6**	**41.5**	**41.1**	*41.3*	*41.2*
Romania	35.2	35.2	37.3	39.6	39.2	36.4	35.1	**35.2**	**35.1**	**35.1**	*34.8*	*34.7*
Sweden	59.6	53.6	51.4	52.0	51.4	52.6	53.2	**52.9**	**52.5**	**52.1**	*52.2*	*51.3*
United Kingdom	39.5	40.0	44.7	48.3	46.5	46.7	45.3	**43.9**	**42.8**	**41.8**	*45.6*	*44.3*
EU	:	:	:	49.9	48.5	48.9	48.5	**48.2**	**47.8**	**47.1**	*48.4*	*47.7*
USA	35.5	35.5	38.3	42.6	41.5	40.1	38.7	**38.7**	**38.5**	**38.2**	*38.3*	*38.3*
Japan	37.4	37.9	37.4	40.7	41.9	42.0	42.6	**42.5**	**42.0**	**41.6**	*42.3*	*41.7*

Table 35: Total revenue, general government (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	48.6	48.6	48.0	48.4	49.3	50.7	51.5	**50.9**	**50.7**	**50.5**	*51.4*	*51.4*
Germany	45.4	43.8	43.4	43.1	43.7	44.3	44.5	**44.6**	**44.7**	**44.5**	*44.6*	*44.3*
Estonia	:	:	:	40.6	39.1	39.5	38.4	**38.4**	**38.9**	**38.9**	*38.0*	*37.5*
Ireland	37.7	34.1	35.4	33.6	33.5	34.2	34.8	**35.0**	**33.9**	**33.3**	*35.7*	*35.2*
Greece	:	:	:	41.0	43.6	45.2	47.0	**46.9**	**45.9**	**44.8**	*45.8*	*44.5*
Spain	37.9	38.1	38.5	36.2	36.0	37.0	37.5	**38.3**	**38.4**	**38.3**	*38.1*	*36.9*
France	50.0	49.4	49.8	49.6	50.8	51.8	53.0	**53.5**	**53.5**	**53.1**	*52.9*	*52.7*
Italy	45.4	43.8	44.6	45.6	45.6	47.4	47.7	**47.8**	**47.7**	**47.5**	*47.7*	*47.6*
Cyprus	29.9	33.6	38.6	37.7	37.0	36.3	36.5	**39.1**	**38.5**	**38.4**	*41.3*	*40.0*
Latvia	36.4	33.2	34.0	36.0	35.5	35.8	34.8	**34.3**	**33.7**	**33.1**	*34.3*	*33.2*
Lithuania	:	:	34.4	35.4	33.5	33.0	32.8	**34.6**	**33.4**	**33.4**	*32.0*	*31.7*
Luxembourg	41.8	42.5	42.6	43.3	42.6	43.5	44.5	**44.1**	**43.5**	**43.0**	*42.9*	*42.6*
Malta	34.3	36.0	39.0	37.7	38.3	39.0	39.8	**41.0**	**41.6**	**41.3**	*41.6*	*41.3*
Netherlands	44.5	42.5	43.1	43.2	42.7	43.5	44.5	**44.8**	**44.6**	**44.5**	*47.0*	*47.7*
Austria	49.5	49.2	48.2	48.3	48.2	48.7	49.5	**49.9**	**50.0**	**50.2**	*49.6*	*49.4*
Portugal	38.5	40.0	41.0	40.6	42.6	43.0	45.2	**44.6**	**44.4**	**44.3**	*43.1*	*43.2*
Slovenia	42.8	43.1	42.6	43.6	43.6	44.4	45.2	**45.2**	**44.5**	**44.0**	*45.2*	*44.4*
Slovakia	42.2	37.3	35.1	34.5	36.4	36.0	38.4	**38.0**	**37.9**	**36.9**	*35.0*	*34.7*
Finland	54.6	52.6	52.1	52.1	53.3	54.2	55.4	**56.0**	**56.3**	**56.4**	*56.3*	*57.0*
Euro area	:	:	:	44.3	44.8	45.8	46.5	**46.7**	**46.7**	**46.4**	*46.7*	*46.5*
Bulgaria	34.6	39.3	37.9	34.1	32.6	34.7	37.1	**37.3**	**37.5**	**37.3**	*37.5*	*37.7*
Czech Republic	38.0	38.7	38.5	38.6	39.6	39.8	40.7	**40.3**	**40.3**	**40.0**	*40.6*	*40.2*
Denmark	55.1	54.1	54.7	54.3	54.8	54.9	55.9	**55.9**	**53.7**	**52.8**	*55.6*	*53.2*
Croatia	:	:	41.6	40.8	40.6	41.3	41.8	**42.5**	**43.0**	**43.1**	*43.0*	*43.5*
Hungary	44.9	42.9	44.2	45.2	44.4	46.4	47.3	**47.3**	**46.4**	**43.9**	*47.3*	*46.5*
Poland	:	:	:	38.2	39.0	39.1	38.2	**38.2**	**38.6**	**38.3**	*47.0*	*38.3*
Romania	31.7	32.6	33.2	33.0	33.7	33.4	32.8	**33.1**	**32.3**	**32.6**	*32.6*	*32.8*
Sweden	57.6	54.0	53.1	52.0	51.4	51.7	51.9	**50.5**	**50.7**	**50.8**	*50.5*	*50.5*
United Kingdom	37.2	38.5	39.6	38.6	38.9	38.4	39.5	**38.5**	**38.3**	**38.3**	*40.5*	*40.2*
EU	:	:	:	43.5	44.0	44.6	45.3	**45.2**	**45.0**	**44.8**	*45.8*	*45.2*
USA	33.6	32.2	32.2	30.6	30.9	31.2	33.1	**33.8**	**34.3**	**34.3**	*33.0*	*33.6*
Japan	31.3	30.9	33.6	32.4	33.1	33.3	33.8	**35.0**	**35.6**	**36.2**	*34.9*	*35.5*

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	-2.4	-0.4	-1.8	-4.0	-3.9	-4.1	-2.9	**-3.0**	**-2.8**	**-2.8**	*-2.6*	*-2.8*
Germany	-3.9	-2.7	-1.5	-4.1	-0.9	0.1	0.1	**0.2**	**0.0**	**0.2**	*0.0*	*-0.1*
Estonia	:	:	:	0.2	1.0	-0.3	-0.5	**-0.4**	**-0.6**	**-0.5**	*-0.5*	*-0.6*
Ireland	0.7	1.4	-3.3	-32.4	-12.6	-8.0	-5.7	**-3.7**	**-2.9**	**-3.0**	*-4.8*	*-4.2*
Greece	:	:	:	-11.1	-10.1	-8.6	-12.2	**-1.6**	**-0.1**	**1.3**	*-1.6*	*-1.0*
Spain	-4.1	-0.5	-2.0	-9.4	-9.4	-10.3	-6.8	**-5.6**	**-4.6**	**-3.9**	*-5.6*	*-6.1*
France	-3.3	-2.6	-3.7	-6.8	-5.1	-4.9	-4.1	**-4.4**	**-4.5**	**-4.7**	*-3.9*	*-3.4*
Italy	-4.3	-3.0	-3.4	-4.2	-3.5	-3.0	-2.8	**-3.0**	**-2.7**	**-2.2**	*-2.6*	*-2.2*
Cyprus	-3.3	-3.6	-1.0	-4.8	-5.8	-5.8	-4.9	**-3.0**	**-3.0**	**-1.4**	*-5.8*	*-6.1*
Latvia	-0.8	-1.9	-2.9	-8.2	-3.4	-0.8	-0.9	**-1.1**	**-1.2**	**-0.9**	*-1.0*	*-1.1*
Lithuania	:	:	-2.9	-6.9	-9.0	-3.2	-2.6	**-1.2**	**-1.4**	**-0.8**	*-2.1*	*-1.6*
Luxembourg	2.8	2.7	1.7	-0.6	0.3	0.1	0.6	**0.2**	**-0.4**	**-0.6**	*-0.2*	*-1.4*
Malta	-6.8	-6.1	-3.0	-3.3	-2.6	-3.7	-2.7	**-2.5**	**-2.6**	**-2.0**	*-2.5*	*-2.5*
Netherlands	-2.4	-1.1	-1.0	-5.0	-4.3	-4.0	-2.3	**-2.5**	**-2.1**	**-1.8**	*-2.8*	*-1.8*
Austria	-3.6	-2.1	-2.6	-4.5	-2.6	-2.3	-1.5	**-2.9**	**-1.8**	**-1.1**	*-2.8*	*-1.5*
Portugal	-4.2	-4.4	-5.4	-11.2	-7.4	-5.5	-4.9	**-4.9**	**-3.3**	**-2.8**	*-4.0*	*-2.5*
Slovenia	-3.4	-3.0	-2.2	-5.7	-6.2	-3.7	-14.6	**-4.4**	**-2.9**	**-2.7**	*-4.3*	*-3.1*
Slovakia	-6.4	-6.3	-3.7	-7.5	-4.1	-4.2	-2.6	**-3.0**	**-2.6**	**-2.3**	*-2.9*	*-2.8*
Finland	-1.4	4.1	2.7	-2.6	-1.0	-2.1	-2.4	**-2.9**	**-2.6**	**-2.3**	*-2.3*	*-1.3*
Euro area	:	:	:	-6.1	-4.1	-3.6	-2.9	**-2.6**	**-2.4**	**-2.1**	*-2.5*	*-2.3*
Bulgaria	-3.1	0.2	0.3	-3.2	-2.0	-0.5	-1.2	**-3.6**	**-3.7**	**-3.8**	*-1.9*	*-1.8*
Czech Republic	-5.4	-4.8	-2.7	-4.4	-2.9	-4.0	-1.3	**-1.4**	**-2.1**	**-1.7**	*-1.9*	*-2.4*
Denmark	-1.4	1.0	3.1	-2.7	-2.1	-3.9	-0.7	**-1.0**	**-2.3**	**-2.0**	*-1.2*	*-2.7*
Croatia	:	:	-3.6	-6.0	-7.7	-5.6	-5.2	**-5.6**	**-5.5**	**-5.6**	*-3.8*	*-3.1*
Hungary	-6.2	-5.9	-6.1	-4.5	-5.5	-2.3	-2.4	**-2.9**	**-2.8**	**-2.5**	*-2.9*	*-2.8*
Poland	:	:	:	-7.6	-4.9	-3.7	-4.0	**-3.4**	**-2.9**	**-2.8**	*5.7*	*-2.9*
Romania	-3.5	-2.6	-4.1	-6.6	-5.5	-3.0	-2.2	**-2.1**	**-2.8**	**-2.5**	*-2.2*	*-1.9*
Sweden	-2.0	0.4	1.7	0.0	-0.1	-0.9	-1.3	**-2.4**	**-1.8**	**-1.2**	*-1.8*	*-0.8*
United Kingdom	-2.2	-1.5	-5.1	-9.6	-7.6	-8.3	-5.8	**-5.4**	**-4.4**	**-3.4**	*-5.1*	*-4.1*
EU	:	:	:	-6.4	-4.5	-4.2	-3.2	**-3.0**	**-2.7**	**-2.3**	*-2.6*	*-2.5*
USA	-1.8	-3.3	-6.1	-12.0	-10.6	-8.9	-5.6	**-4.9**	**-4.3**	**-3.9**	*-5.4*	*-4.7*
Japan	-6.1	-7.0	-3.8	-8.3	-8.8	-8.7	-8.8	**-7.5**	**-6.4**	**-5.4**	*-7.4*	*-6.2*

Table 37: Interest expenditure, general government (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	7.7	5.7	3.9	3.4	3.4	3.4	3.2	**3.1**	**2.9**	**2.9**	*3.0*	*3.0*
Germany	3.3	3.0	2.7	2.5	2.5	2.3	2.0	**1.9**	**1.8**	**1.7**	*2.0*	*1.8*
Estonia	:	:	:	0.1	0.1	0.2	0.1	**0.1**	**0.1**	**0.2**	*0.1*	*0.1*
Ireland	3.8	1.4	1.3	3.0	3.4	4.1	4.4	**4.1**	**3.8**	**3.8**	*4.7*	*4.9*
Greece	:	:	:	5.9	7.3	5.0	4.0	**4.3**	**4.2**	**4.0**	*4.5*	*5.1*
Spain	4.4	2.6	1.6	1.9	2.4	2.9	3.3	**3.3**	**3.4**	**3.4**	*3.5*	*3.6*
France	3.2	2.8	2.6	2.4	2.6	2.5	2.3	**2.2**	**2.3**	**2.4**	*2.4*	*2.4*
Italy	9.1	5.4	4.6	4.3	4.7	5.2	4.8	**4.7**	**4.5**	**4.6**	*5.2*	*5.2*
Cyprus	2.4	3.1	2.8	2.1	2.2	2.9	3.1	**3.1**	**3.2**	**3.1**	*4.0*	*4.0*
Latvia	0.9	0.8	0.7	1.7	1.8	1.7	1.5	**1.4**	**1.4**	**1.2**	*1.6*	*1.3*
Lithuania	:	:	0.8	1.8	1.8	2.0	1.8	**1.8**	**1.7**	**1.6**	*1.6*	*1.5*
Luxembourg	0.5	0.3	0.3	0.4	0.4	0.4	0.4	**0.4**	**0.4**	**0.4**	*0.5*	*0.6*
Malta	2.6	3.8	3.5	3.1	3.2	3.0	2.9	**2.8**	**2.8**	**2.7**	*3.0*	*2.9*
Netherlands	4.5	2.7	2.0	1.8	1.8	1.7	1.5	**1.5**	**1.4**	**1.4**	*1.7*	*1.7*
Austria	3.7	3.4	3.1	2.9	2.8	2.7	2.6	**2.5**	**2.5**	**2.5**	*2.6*	*2.6*
Portugal	4.1	2.8	2.9	2.9	4.3	4.9	5.0	**5.0**	**5.0**	**4.9**	*4.3*	*4.4*
Slovenia	2.2	2.1	1.3	1.6	1.9	2.0	2.5	**3.3**	**3.2**	**3.0**	*3.0*	*2.9*
Slovakia	2.6	3.2	1.4	1.3	1.5	1.8	1.9	**1.8**	**1.7**	**1.7**	*1.9*	*1.9*
Finland	3.7	2.2	1.5	1.3	1.4	1.4	1.3	**1.3**	**1.3**	**1.3**	*1.0*	*1.0*
Euro area	:	:	:	2.7	3.0	3.0	2.8	**2.7**	**2.7**	**2.6**	*2.9*	*2.9*
Bulgaria	9.1	2.9	1.1	0.7	0.7	0.8	0.8	**0.8**	**0.9**	**1.0**	*0.8*	*0.8*
Czech Republic	1.0	1.0	1.1	1.3	1.3	1.4	1.4	**1.3**	**1.3**	**1.3**	*1.4*	*1.3*
Denmark	5.0	3.1	1.8	1.9	2.0	1.8	1.7	**1.6**	**1.5**	**1.5**	*1.4*	*1.3*
Croatia	:	:	1.7	2.4	2.9	3.3	3.4	**3.8**	**4.0**	**4.1**	*3.4*	*3.6*
Hungary	8.0	4.5	4.1	4.1	4.2	4.6	4.6	**4.1**	**3.9**	**3.9**	*3.8*	*3.8*
Poland	:	:	:	2.5	2.5	2.7	2.5	**2.1**	**2.1**	**2.0**	*2.1*	*2.2*
Romania	3.3	2.6	1.0	1.5	1.6	1.7	1.7	**1.7**	**1.8**	**1.8**	*1.8*	*1.8*
Sweden	4.7	2.5	1.6	1.0	1.1	0.9	0.8	**0.8**	**0.8**	**1.0**	*0.7*	*0.6*
United Kingdom	3.2	2.1	2.1	2.9	3.2	2.9	2.9	**2.7**	**2.6**	**2.6**	*2.9*	*2.9*
EU	:	:	:	2.7	2.9	2.9	2.7	**2.6**	**2.5**	**2.5**	*2.7*	*2.7*
USA	4.9	3.5	3.5	3.7	3.9	3.8	3.6	**3.9**	**4.0**	**4.0**	*3.8*	*4.0*
Japan	3.3	2.4	1.9	2.0	2.1	2.1	2.1	**2.1**	**2.0**	**2.0**	*2.1*	*2.0*

Table 38: Primary balance, general government [1] (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	5.3	5.3	2.1	-0.6	-0.5	-0.7	0.3	**0.1**	**0.1**	**0.1**	*0.5*	*0.2*
Germany	-0.6	0.2	1.2	-1.6	1.6	2.4	2.2	**2.1**	**1.8**	**1.9**	*2.0*	*1.7*
Estonia	:	:	:	0.3	1.2	-0.1	-0.3	**-0.3**	**-0.5**	**-0.3**	*-0.4*	*-0.5*
Ireland	4.5	2.9	-2.0	-29.4	-9.2	-3.9	-1.3	**0.4**	**0.9**	**0.8**	*-0.1*	*0.6*
Greece	:	:	:	-5.2	-2.9	-3.6	-8.2	**2.7**	**4.1**	**5.4**	*2.8*	*4.1*
Spain	0.3	2.1	-0.4	-7.5	-7.0	-7.4	-3.5	**-2.3**	**-1.2**	**-0.5**	*-2.1*	*-2.6*
France	-0.1	0.2	-1.1	-4.4	-2.5	-2.3	-1.9	**-2.3**	**-2.2**	**-2.3**	*-1.5*	*-1.0*
Italy	4.8	2.5	1.2	0.0	1.2	2.2	2.0	**1.7**	**1.8**	**2.4**	*2.6*	*2.9*
Cyprus	-0.9	-0.5	1.8	-2.7	-3.6	-2.9	-1.8	**0.1**	**0.2**	**1.7**	*-1.8*	*-2.1*
Latvia	0.0	-1.1	-2.2	-6.5	-1.6	0.9	0.6	**0.3**	**0.2**	**0.3**	*0.6*	*0.2*
Lithuania	:	:	-2.1	-5.1	-7.1	-1.2	-0.9	**0.7**	**0.3**	**0.8**	*-0.6*	*-0.1*
Luxembourg	3.3	3.0	2.0	-0.2	0.7	0.5	1.1	**0.5**	**-0.1**	**-0.2**	*0.3*	*-0.9*
Malta	-4.3	-2.3	0.5	-0.2	0.5	-0.7	0.2	**0.4**	**0.2**	**0.8**	*0.4*	*0.4*
Netherlands	2.1	1.6	1.0	-3.3	-2.6	-2.3	-0.8	**-1.0**	**-0.7**	**-0.4**	*-1.0*	*-0.2*
Austria	0.1	1.3	0.5	-1.6	0.1	0.4	1.1	**-0.4**	**0.7**	**1.4**	*-0.3*	*1.0*
Portugal	-0.2	-1.6	-2.6	-8.2	-3.0	-0.6	0.1	**0.1**	**1.6**	**2.0**	*0.3*	*1.9*
Slovenia	-1.2	-0.9	-0.9	-4.1	-4.3	-1.7	-12.0	**-1.1**	**0.3**	**0.4**	*-1.3*	*-0.1*
Slovakia	-3.8	-3.1	-2.3	-6.2	-2.6	-2.4	-0.7	**-1.1**	**-0.9**	**-0.6**	*-1.1*	*-0.9*
Finland	2.2	6.3	4.1	-1.3	0.4	-0.7	-1.2	**-1.6**	**-1.4**	**-1.0**	*-1.3*	*-0.4*
Euro area	1.0	1.2	0.3	-3.4	-1.2	-0.6	-0.1	**0.1**	**0.3**	**0.5**	*0.4*	*0.6*
Bulgaria	6.0	3.0	1.4	-2.5	-1.3	0.3	-0.5	**-2.8**	**-2.8**	**-2.8**	*-1.1*	*-1.0*
Czech Republic	-4.4	-3.9	-1.6	-3.1	-1.5	-2.5	0.0	**-0.1**	**-0.8**	**-0.4**	*-0.5*	*-1.1*
Denmark	3.7	4.1	4.8	-0.8	-0.1	-2.1	1.0	**0.5**	**-0.8**	**-0.5**	*0.2*	*-1.3*
Croatia	:	:	-1.9	-3.7	-4.8	-2.4	-1.8	**-1.8**	**-1.5**	**-1.6**	*-0.4*	*0.4*
Hungary	1.8	-1.4	-2.0	-0.4	-1.3	2.3	2.2	**1.2**	**1.1**	**1.4**	*0.9*	*1.0*
Poland	:	:	:	-5.1	-2.4	-1.1	-1.5	**-1.3**	**-0.8**	**-0.8**	*7.8*	*-0.7*
Romania	-0.2	0.0	-3.1	-5.1	-3.9	-1.2	-0.5	**-0.4**	**-1.0**	**-0.7**	*-0.5*	*-0.2*
Sweden	2.7	3.0	3.3	1.0	1.0	0.0	-0.5	**-1.6**	**-1.0**	**-0.3**	*-1.1*	*-0.2*
United Kingdom	1.0	0.6	-3.0	-6.7	-4.4	-5.4	-2.9	**-2.7**	**-1.8**	**-0.9**	*-2.2*	*-1.2*
EU	1.1	1.1	-0.1	-3.7	-1.6	-1.4	-0.5	**-0.5**	**-0.2**	**0.2**	*0.2*	*0.2*
USA	3.0	0.2	-2.6	-8.3	-6.7	-5.1	-2.0	**-1.0**	**-0.3**	**0.1**	*-1.5*	*-0.7*
Japan	-2.8	-4.6	-1.9	-6.3	-6.7	-6.6	-6.7	**-5.4**	**-4.3**	**-3.4**	*-5.4*	*-4.1*

[1] Net lending/borrowing excluding interest expenditure.

Table 39: Cyclically-adjusted net lending (+) or net borrowing (-), general government[1] (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	-2.4	-0.7	-2.4	-3.7	-3.8	-3.6	-2.1	**-2.3**	**-2.1**	**-2.3**	*-2.0*	*-2.5*
Germany	-3.8	-2.7	-1.2	-3.3	-1.5	-0.1	0.6	**0.7**	**0.6**	**0.5**	*0.4*	*0.0*
Estonia	:	:	:	3.3	1.3	-1.3	-1.3	**-1.0**	**-0.9**	**-0.8**	*-0.7*	*-0.9*
Ireland	0.0	0.6	-3.8	-30.2	-12.0	-7.1	-4.4	**-3.5**	**-3.2**	**-3.3**	*-4.3*	*-4.2*
Greece	:	:	:	-9.0	-5.1	-2.0	-5.6	**3.6**	**3.0**	**1.8**	*2.8*	*0.9*
Spain	-3.5	-1.9	-2.7	-7.0	-6.5	-6.6	-2.8	**-2.4**	**-2.4**	**-2.8**	*-2.4*	*-3.9*
France	-2.6	-3.9	-4.5	-6.0	-4.9	-4.2	-3.1	**-3.1**	**-3.0**	**-3.5**	*-2.4*	*-2.1*
Italy	-4.4	-3.5	-3.6	-3.1	-2.6	-1.5	-0.6	**-0.6**	**-0.9**	**-1.1**	*-0.7*	*-0.9*
Cyprus	:	-4.2	-2.6	-5.2	-5.9	-5.1	-2.3	**0.2**	**-0.8**	**-0.5**	*-2.9*	*-4.3*
Latvia	:	-1.9	-4.4	-3.9	-1.1	-0.1	-1.0	**-1.5**	**-1.6**	**-1.5**	*-1.4*	*-1.9*
Lithuania	:	:	-4.1	-3.4	-7.5	-2.7	-2.6	**-1.2**	**-1.5**	**-1.0**	*-2.0*	*-1.5*
Luxembourg	3.2	1.8	1.6	0.2	0.8	1.5	2.0	**1.1**	**0.4**	**-0.1**	*0.6*	*-1.3*
Malta	-6.5	-6.2	-3.3	-3.0	-2.6	-3.5	-2.6	**-2.5**	**-2.7**	**-2.2**	*-2.6*	*-2.7*
Netherlands	-2.3	-0.9	-1.2	-3.9	-3.8	-2.2	0.0	**-0.5**	**-0.8**	**-1.1**	*-1.3*	*-0.8*
Austria	-3.5	-2.1	-2.7	-3.3	-2.7	-2.3	-1.1	**-2.3**	**-1.3**	**-0.7**	*-2.4*	*-1.3*
Portugal	-5.3	-5.3	-5.1	-10.2	-5.5	-2.4	-1.6	**-2.4**	**-1.6**	**-2.0**	*-2.2*	*-1.4*
Slovenia	:	-3.2	-3.7	-4.6	-5.4	-1.8	-12.3	**-3.1**	**-2.2**	**-2.7**	*-3.2*	*-2.4*
Slovakia	:	-5.4	-5.3	-7.5	-3.7	-3.3	-1.4	**-1.7**	**-1.3**	**-1.1**	*-1.7*	*-1.8*
Finland	-1.0	3.7	2.1	-1.1	-0.9	-1.1	-0.8	**-1.1**	**-1.1**	**-1.3**	*-0.9*	*-0.3*
Euro area	:	:	:	-5.0	-3.6	-2.5	-1.3	**-1.1**	**-1.1**	**-1.4**	*-1.1*	*-1.3*
Bulgaria	:	:	-0.3	-2.7	-2.0	-0.5	-1.3	**-3.6**	**-3.4**	**-3.3**	*-1.5*	*-1.2*
Czech Republic	:	-4.9	-4.2	-4.0	-2.6	-3.2	0.0	**-0.5**	**-1.7**	**-1.7**	*-0.9*	*-1.9*
Denmark	-2.2	0.2	2.1	-0.7	-0.6	-1.7	1.7	**1.3**	**-0.5**	**-0.7**	*1.4*	*-0.5*
Croatia	:	:	-5.3	-5.4	-7.1	-4.4	-3.8	**-4.0**	**-4.1**	**-4.7**	*-2.2*	*-1.6*
Hungary	:	-6.4	-6.9	-2.6	-4.4	-0.6	-1.2	**-2.5**	**-2.9**	**-2.6**	*-1.9*	*-2.3*
Poland	:	:	:	-8.4	-6.0	-4.0	-3.5	**-3.0**	**-2.4**	**-2.5**	*6.2*	*-2.4*
Romania	:	:	-5.7	-6.0	-4.7	-1.9	-1.7	**-1.7**	**-2.5**	**-2.4**	*-1.8*	*-1.7*
Sweden	-1.3	0.4	1.6	0.7	0.0	0.0	-0.3	**-1.5**	**-1.1**	**-0.9**	*-0.9*	*-0.4*
United Kingdom	-2.6	-1.7	-5.0	-7.5	-5.8	-6.5	-4.4	**-5.0**	**-4.5**	**-3.7**	*-4.6*	*-4.1*
EU	:	:	:	-5.2	-3.8	-3.1	-1.7	**-1.8**	**-1.8**	**-1.8**	*-1.4*	*-1.8*

[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 GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	5.4	4.9	1.5	-0.3	-0.5	-0.1	1.1	**0.8**	**0.8**	**0.6**	*1.1*	*0.5*
Germany	-0.4	0.2	1.5	-0.9	1.0	2.2	2.6	**2.5**	**2.4**	**2.2**	*2.4*	*1.8*
Estonia	:	:	:	3.4	1.4	-1.2	-1.2	**-0.9**	**-0.7**	**-0.6**	*-0.6*	*-0.7*
Ireland	3.8	2.1	-2.5	-27.2	-8.5	-2.9	0.0	**0.5**	**0.6**	**0.5**	*0.4*	*0.6*
Greece	:	:	:	-3.2	2.1	3.0	-1.6	**8.0**	**7.1**	**5.9**	*7.2*	*6.0*
Spain	0.9	0.7	-1.0	-5.1	-4.1	-3.6	0.5	**0.9**	**1.0**	**0.5**	*1.1*	*-0.3*
France	0.7	-1.1	-1.9	-3.6	-2.3	-1.7	-0.8	**-0.9**	**-0.8**	**-1.2**	*0.0*	*0.3*
Italy	4.8	1.9	1.0	1.2	2.0	3.6	4.3	**4.1**	**3.6**	**3.5**	*4.6*	*4.3*
Cyprus	:	-1.1	0.1	-3.2	-3.7	-2.2	0.8	**3.2**	**2.5**	**2.6**	*1.1*	*-0.3*
Latvia	:	-1.1	-3.7	-2.2	0.8	1.6	0.4	**0.0**	**-0.3**	**-0.3**	*0.2*	*-0.6*
Lithuania	:	:	-3.3	-1.6	-5.6	-0.8	-0.8	**0.6**	**0.2**	**0.6**	*-0.4*	*0.1*
Luxembourg	3.6	2.0	1.9	0.6	1.2	2.0	2.4	**1.5**	**0.8**	**0.3**	*1.1*	*-0.7*
Malta	-4.0	-2.4	0.2	0.1	0.6	-0.5	0.3	**0.3**	**0.0**	**0.5**	*0.4*	*0.2*
Netherlands	2.2	1.8	0.9	-2.2	-2.0	-0.6	1.5	**1.0**	**0.6**	**0.3**	*0.4*	*0.9*
Austria	0.2	1.3	0.5	-0.4	0.1	0.5	1.5	**0.2**	**1.2**	**1.8**	*0.1*	*1.2*
Portugal	-1.2	-2.5	-2.2	-7.3	-1.2	2.5	3.4	**2.6**	**3.3**	**2.9**	*2.2*	*3.0*
Slovenia	:	-1.1	-2.4	-2.9	-3.5	0.2	-9.8	**0.2**	**1.0**	**0.3**	*-0.2*	*0.6*
Slovakia	:	-2.2	-3.9	-6.1	-2.1	-1.5	0.5	**0.2**	**0.4**	**0.5**	*0.1*	*0.1*
Finland	2.6	5.9	3.6	0.2	0.5	0.3	0.5	**0.2**	**0.2**	**0.0**	*0.1*	*0.6*
Euro area	1.3	0.7	0.0	-2.3	-0.6	0.5	1.5	**1.6**	**1.5**	**1.3**	*1.8*	*1.6*
Bulgaria	:	:	0.8	-1.9	-1.2	0.3	-0.5	**-2.7**	**-2.5**	**-2.3**	*-0.7*	*-0.4*
Czech Republic	:	-3.9	-3.1	-2.7	-1.3	-1.7	1.4	**0.8**	**-0.4**	**-0.4**	*0.4*	*-0.6*
Denmark	2.8	3.3	3.9	1.2	1.4	0.2	3.4	**2.9**	**1.1**	**0.8**	*2.8*	*0.9*
Croatia	:	:	-3.5	-3.0	-4.2	-1.2	-0.4	**-0.2**	**-0.1**	**-0.6**	*1.1*	*2.0*
Hungary	:	-1.9	-2.8	1.5	-0.3	4.0	3.4	**1.6**	**1.1**	**1.2**	*1.8*	*1.5*
Poland	:	:	:	-5.9	-3.4	-1.3	-1.1	**-0.9**	**-0.3**	**-0.4**	*8.3*	*-0.2*
Romania	:	:	-4.7	-4.5	-3.1	-0.2	0.0	**0.1**	**-0.7**	**-0.6**	*-0.1*	*0.1*
Sweden	3.4	3.0	3.1	1.8	1.1	0.9	0.6	**-0.7**	**-0.3**	**0.0**	*-0.3*	*0.3*
United Kingdom	0.6	0.4	-2.9	-4.6	-2.7	-3.6	-1.5	**-2.3**	**-1.9**	**-1.2**	*-1.7*	*-1.3*
EU	1.2	0.7	-0.4	-2.5	-0.9	-0.2	1.0	**0.8**	**0.8**	**0.7**	*1.4*	*1.0*

[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 GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	:	:	:	-3.7	-3.6	-3.1	-2.7	**-2.6**	**-2.2**	**-2.3**	*-2.3*	*-2.5*
Germany	:	:	-1.2	-2.1	-1.3	0.0	0.6	**0.7**	**0.6**	**0.5**	*0.5*	*0.0*
Estonia	:	:	:	0.3	-0.2	-0.4	-1.1	**-0.8**	**-0.7**	**-0.7**	*-0.5*	*-0.7*
Ireland	:	:	-3.4	-8.8	-8.0	-7.1	-4.8	**-3.8**	**-3.3**	**-3.3**	*-4.5*	*-4.2*
Greece	:	:	:	-9.5	-5.7	0.1	3.1	**2.0**	**1.6**	**1.0**	*1.0*	*-0.4*
Spain	:	:	-2.7	-7.0	-6.3	-3.6	-2.3	**-2.2**	**-2.3**	**-2.8**	*-2.4*	*-3.4*
France	:	:	:	-5.8	-5.0	-4.3	-3.3	**-3.0**	**-2.9**	**-3.4**	*-2.3*	*-2.0*
Italy	:	:	-3.8	-3.3	-3.3	-1.6	-0.8	**-0.9**	**-0.8**	**-1.0**	*-0.8*	*-0.7*
Cyprus	:	:	-2.6	-5.2	-5.7	-5.5	-2.1	**-0.8**	**-1.3**	**-1.0**	*-4.0*	*-4.3*
Latvia	:	:	-4.2	-2.2	-1.1	-0.1	-1.0	**-1.5**	**-1.6**	**-1.5**	*-1.4*	*-1.9*
Lithuania	:	:	-3.8	-3.4	-3.8	-2.8	-2.2	**-1.8**	**-1.6**	**-1.1**	*-1.9*	*-1.3*
Luxembourg	:	:	:	0.2	0.8	1.5	2.0	**1.1**	**0.4**	**-0.1**	*0.6*	*-1.3*
Malta	:	:	-3.9	-4.3	-3.1	-3.8	-2.7	**-2.7**	**-2.9**	**-2.4**	*-2.8*	*-2.9*
Netherlands	:	:	-1.2	-3.8	-3.8	-2.2	-0.6	**-0.5**	**-0.8**	**-1.1**	*-1.3*	*-0.8*
Austria	:	:	-2.5	-3.1	-2.5	-1.8	-1.3	**-1.1**	**-1.0**	**-0.7**	*-1.2*	*-1.1*
Portugal	:	:	-5.0	-7.5	-5.4	-2.3	-1.9	**-1.3**	**-1.7**	**-2.0**	*-2.2*	*-1.4*
Slovenia	:	:	-3.7	-4.6	-4.5	-1.8	-1.8	**-2.5**	**-2.2**	**-2.8**	*-2.5*	*-2.4*
Slovakia	:	:	-5.2	-7.3	-4.1	-3.4	-1.4	**-2.1**	**-1.3**	**-1.1**	*-2.2*	*-1.8*
Finland	:	:	2.1	-1.1	-0.8	-1.1	-0.7	**-1.1**	**-1.1**	**-1.3**	*-0.9*	*-0.3*
Euro area	:	:	:	-4.3	-3.6	-2.1	-1.2	**-1.1**	**-1.1**	**-1.3**	*-1.1*	*-1.2*
Bulgaria	:	:	-0.3	-2.5	-2.0	-0.5	-1.3	**-3.4**	**-3.4**	**-3.3**	*-1.5*	*-1.2*
Czech Republic	:	:	-3.9	-4.1	-2.6	-1.4	0.2	**-0.7**	**-1.7**	**-1.7**	*-1.1*	*-1.9*
Denmark	:	:	2.1	-0.7	-0.6	-0.1	0.2	**-0.2**	**-1.2**	**-0.7**	*-0.2*	*-0.5*
Croatia	:	:	:	-5.4	-7.1	-4.4	-3.6	**-3.9**	**-4.1**	**-4.7**	*-3.1*	*-2.3*
Hungary	:	:	-6.7	-3.3	-4.2	-1.3	-1.3	**-2.7**	**-2.8**	**-2.6**	*-2.2*	*-2.3*
Poland	:	:	:	-8.4	-6.0	-4.0	-3.5	**-2.9**	**-2.5**	**-2.5**	*-2.8*	*-2.4*
Romania	:	:	-5.5	-6.0	-3.6	-2.5	-1.7	**-1.7**	**-2.5**	**-2.4**	*-1.8*	*-1.7*
Sweden	:	:	1.6	0.7	0.0	0.0	-0.3	**-1.5**	**-1.1**	**-1.0**	*-0.9*	*-0.4*
United Kingdom	:	:	-4.9	-7.4	-5.8	-6.5	-4.4	**-5.0**	**-4.5**	**-3.7**	*-4.6*	*-4.1*
EU	:	:	:	-4.6	-3.8	-2.7	-1.7	**-1.8**	**-1.8**	**-1.8**	*-1.7*	*-1.7*

[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[1] (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	123.4	103.9	92.8	99.6	102.1	104.0	104.5	**105.8**	**107.3**	**107.8**	*101.7*	*101.5*
Germany	58.0	60.6	66.8	80.3	77.6	79.0	76.9	**74.5**	**72.4**	**69.6**	*76.0*	*73.6*
Estonia	:	:	:	6.5	6.0	9.7	10.1	**9.9**	**9.6**	**9.5**	*9.8*	*9.6*
Ireland	61.8	31.8	35.7	87.4	111.1	121.7	123.3	**110.5**	**109.4**	**106.0**	*121.0*	*120.4*
Greece	:	:	:	146.0	171.3	156.9	174.9	**175.5**	**168.8**	**157.8**	*177.2*	*172.4*
Spain	63.0	51.3	41.8	60.1	69.2	84.4	92.1	**98.1**	**101.2**	**102.1**	*100.2*	*103.8*
France	59.3	61.1	68.4	81.5	85.0	89.2	92.2	**95.5**	**98.1**	**99.8**	*95.6*	*96.6*
Italy	113.5	102.4	103.8	115.3	116.4	122.2	127.9	**132.2**	**133.8**	**132.7**	*135.2*	*133.9*
Cyprus	52.1	60.1	55.2	56.5	66.0	79.5	102.2	**107.5**	**115.2**	**111.6**	*122.2*	*126.4*
Latvia	11.8	13.5	17.0	46.8	42.7	40.9	38.2	**40.3**	**36.3**	**35.1**	*39.5*	*33.4*
Lithuania	:	21.8	19.5	36.3	37.3	39.9	39.0	**41.3**	**41.6**	**41.3**	*41.8*	*41.4*
Luxembourg	7.3	6.4	10.1	19.6	18.5	21.4	23.6	**23.0**	**24.3**	**25.4**	*23.4*	*25.5*
Malta	46.6	66.1	65.5	67.6	69.8	67.9	69.8	**71.0**	**71.0**	**69.8**	*72.5*	*71.1*
Netherlands	66.5	49.6	49.7	59.0	61.3	66.5	68.6	**69.7**	**70.3**	**69.9**	*73.8*	*73.4*
Austria	65.8	65.8	69.7	82.4	82.1	81.7	81.2	**87.0**	**86.1**	**84.0**	*80.3*	*79.2*
Portugal	55.2	56.1	72.1	96.2	111.1	124.8	128.0	**127.7**	**125.1**	**123.7**	*126.7*	*124.8*
Slovenia	21.7	26.5	26.2	37.9	46.2	53.4	70.4	**82.2**	**82.9**	**80.6**	*80.4*	*81.3*
Slovakia	33.2	44.5	31.7	41.1	43.5	52.1	54.6	**54.1**	**54.9**	**54.7**	*56.3*	*57.8*
Finland	50.7	41.8	37.3	47.1	48.5	53.0	56.0	**59.8**	**61.7**	**62.4**	*59.9*	*61.2*
Euro area	:	:	:	83.8	86.4	90.8	93.1	**94.5**	**94.8**	**93.8**	*96.0*	*95.4*
Bulgaria	:	53.0	18.5	15.9	15.7	18.0	18.3	**25.3**	**26.8**	**30.2**	*23.1*	*22.7*
Czech Republic	13.3	24.5	29.3	38.2	41.0	45.5	45.7	**44.4**	**44.7**	**45.2**	*44.4*	*45.8*
Denmark	63.8	48.1	34.0	42.9	46.4	45.6	45.0	**44.1**	**45.1**	**45.6**	*43.5*	*44.9*
Croatia	:	:	37.9	52.8	59.9	64.4	75.7	**81.7**	**84.9**	**89.0**	*69.0*	*69.2*
Hungary	67.7	55.8	68.3	80.9	81.0	78.5	77.3	**76.9**	**76.4**	**75.2**	*80.3*	*79.5*
Poland	:	:	:	53.6	54.8	54.4	55.7	**49.1**	**50.2**	**50.1**	*49.2*	*50.0*
Romania	14.1	22.6	15.4	29.9	34.2	37.3	37.9	**39.4**	**40.4**	**41.1**	*39.9*	*40.1*
Sweden	67.3	50.0	41.3	36.7	36.1	36.4	38.6	**40.3**	**40.1**	**39.4**	*41.6*	*40.4*
United Kingdom	45.8	37.7	49.0	76.4	81.9	85.8	87.2	**89.0**	**89.5**	**89.9**	*91.8*	*92.7*
EU	:	:	:	78.4	81.3	85.0	87.1	**88.1**	**88.3**	**87.6**	*89.5*	*89.2*

[1]Data for the EU and the euro area are published on a non-consolidated basis, e.g. without correction for intergovernmental loans. Eurostat in its news release 158/2014 of 21 October 2014 published consolidated figures.

Table 43: Gross national saving (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	26.5	26.9	26.5	25.5	24.5	24.1	21.2	22.1	22.1	22.3	20.0	19.9
Germany	22.3	22.1	25.5	25.4	26.8	26.4	25.9	26.2	26.1	26.3	24.2	24.4
Estonia	20.9	23.1	23.8	23.3	26.2	26.9	27.6	24.8	24.5	24.3	24.7	24.6
Ireland	23.6	23.3	21.0	16.4	16.0	17.6	20.5	23.1	24.6	25.6	19.1	21.2
Greece	19.7	16.1	9.6	4.9	5.3	9.7	9.1	8.9	10.3	11.9	11.6	12.4
Spain	21.9	23.0	21.4	19.7	18.7	19.8	20.4	19.4	20.1	20.7	19.0	19.5
France	22.2	22.8	22.0	20.2	21.0	20.2	20.0	20.0	19.8	19.9	18.1	18.6
Italy	21.5	20.6	19.5	17.1	17.4	18.1	18.8	18.9	19.2	20.0	19.0	19.4
Cyprus	21.3	17.8	14.7	14.1	16.0	10.9	10.8	9.9	10.4	11.5	8.9	9.5
Latvia	13.2	19.9	21.7	21.5	21.2	22.5	22.8	22.2	21.6	21.1	21.3	20.7
Lithuania	12.8	14.4	16.4	17.9	18.2	18.3	20.7	20.8	20.2	19.9	18.6	18.9
Luxembourg	30.5	31.1	27.6	24.8	25.6	23.5	21.7	21.1	21.2	21.6	24.3	23.1
Malta	18.1	15.5	14.3	17.2	18.4	20.1	21.2	21.4	22.2	22.0	16.5	17.2
Netherlands	28.4	27.5	27.8	27.9	27.6	28.2	26.8	26.3	26.7	27.1	25.0	25.7
Austria	24.2	25.4	26.7	25.5	26.2	26.6	25.0	25.0	25.5	26.0	24.8	25.6
Portugal	20.3	16.9	12.1	10.7	13.0	14.0	15.2	15.4	16.1	17.0	16.8	17.7
Slovenia	24.3	25.3	26.8	22.3	22.6	22.0	24.3	26.3	26.7	26.7	23.3	23.5
Slovakia	26.7	22.6	21.1	19.4	21.3	21.3	21.5	21.7	21.5	21.8	20.7	21.1
Finland	25.7	29.7	27.4	23.1	22.0	20.3	18.8	18.4	18.8	19.3	17.1	17.8
Euro area	22.7	22.6	22.7	21.3	21.9	22.1	21.9	22.0	22.2	22.6	20.8	21.2
Bulgaria	18.8	16.1	15.3	21.9	22.9	21.5	23.7	23.4	22.8	21.5	22.8	22.2
Czech Republic	28.6	26.2	25.8	22.0	22.4	24.1	22.8	23.9	24.6	25.1	21.7	21.9
Denmark	23.1	25.1	25.9	24.1	25.0	24.6	25.6	25.3	25.5	25.9	24.2	24.3
Croatia	15.9	21.1	22.5	20.5	20.0	19.4	19.3	18.5	19.8	20.3	20.2	20.7
Hungary	21.1	18.8	17.9	20.9	21.2	20.9	24.0	24.6	24.6	25.4	21.1	21.4
Poland	20.2	17.2	17.4	16.1	17.2	16.8	17.7	18.2	18.3	18.5	17.6	17.8
Romania	14.7	18.1	18.7	22.0	23.1	22.3	22.8	21.6	21.9	22.3	22.0	21.9
Sweden	24.9	27.8	31.0	29.4	29.7	28.9	28.7	28.6	28.5	28.6	25.1	25.5
United Kingdom	17.1	17.0	15.2	13.7	14.7	12.8	12.6	13.8	15.0	16.3	10.6	11.7
EU	21.9	21.7	21.7	20.4	21.1	20.8	20.7	20.9	21.2	21.7	19.4	19.8
USA	20.2	18.6	16.8	15.1	15.7	17.5	18.1	17.2	17.6	18.0	17.6	18.0
Japan	29.4	26.2	25.9	23.5	22.2	21.8	21.7	22.5	22.9	23.4	22.2	22.7

Table 44: Gross saving, private sector (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	26.0	24.7	25.3	26.7	25.1	24.5	21.2	22.5	22.1	22.4	21.2	21.0
Germany	21.7	22.1	24.1	25.4	24.7	23.5	23.1	23.2	23.3	23.3	22.3	22.5
Estonia	:	:	:	20.2	22.2	21.9	23.3	20.8	20.8	20.6	21.9	22.0
Ireland	20.5	18.3	19.7	23.4	21.9	23.0	24.5	25.4	26.2	27.1	22.9	23.9
Greece	:	:	:	13.2	13.6	13.9	9.2	8.5	8.3	8.3	11.8	11.8
Spain	21.2	18.8	18.0	23.4	23.2	23.4	24.5	22.7	22.5	22.5	22.7	23.7
France	20.7	21.0	20.9	21.9	21.2	20.1	19.3	19.6	19.7	20.3	18.4	18.7
Italy	22.2	20.0	18.6	17.5	17.7	17.5	18.6	18.8	19.1	19.4	19.1	19.2
Cyprus	20.0	17.1	11.7	13.4	17.2	12.9	12.3	9.5	10.5	10.1	12.0	12.8
Latvia	11.3	17.3	19.1	21.6	18.6	18.0	18.8	19.0	18.9	18.4	19.9	19.5
Lithuania	:	:	15.3	22.0	20.5	19.4	20.6	21.2	19.7	18.5	18.6	18.3
Luxembourg	22.9	23.3	20.6	19.7	20.2	18.5	16.7	16.5	16.9	17.5	20.4	20.4
Malta	21.5	17.4	15.3	18.8	19.3	21.6	21.8	22.1	22.6	22.4	17.6	17.9
Netherlands	26.3	24.6	25.0	28.3	27.8	28.2	25.7	24.2	24.6	25.2	23.9	24.1
Austria	23.1	23.1	25.1	25.7	25.0	24.9	23.2	23.1	23.2	23.3	23.3	23.7
Portugal	19.9	17.3	14.2	15.9	17.1	18.0	17.9	17.7	17.6	18.0	19.8	19.1
Slovenia	21.1	23.3	23.8	22.7	23.3	21.5	24.4	25.0	24.5	24.9	23.4	23.4
Slovakia	24.2	22.3	20.6	23.4	22.2	22.8	21.7	21.3	20.6	20.9	21.8	21.8
Finland	22.2	21.9	21.2	22.0	19.2	18.5	17.3	17.3	17.4	17.5	17.0	16.8
Euro area	:	:	:	22.7	22.2	21.7	21.3	21.2	21.3	21.5	20.7	21.0
Bulgaria	19.6	12.1	10.4	21.5	22.4	19.6	22.7	24.1	23.8	22.9	22.2	21.5
Czech Republic	24.0	23.2	22.6	21.9	21.2	22.3	20.7	22.1	23.0	23.4	20.7	21.3
Denmark	21.3	21.4	19.9	23.3	23.3	23.0	22.7	22.7	24.3	24.6	23.2	25.1
Croatia	:	:	19.1	20.8	21.6	21.0	20.1	19.6	20.7	21.3	20.9	20.3
Hungary	21.6	18.5	19.3	22.3	22.7	20.1	23.4	24.0	24.0	24.6	21.8	22.0
Poland	:	:	:	18.8	17.6	16.8	18.4	18.5	18.0	18.2	18.2	18.0
Romania	14.6	16.2	16.7	22.7	21.3	20.3	19.9	18.8	19.9	20.2	19.5	19.1
Sweden	22.3	23.2	25.0	24.9	25.3	25.5	25.7	26.2	25.4	25.0	23.2	22.9
United Kingdom	16.8	15.9	16.6	19.3	18.8	17.2	15.3	16.2	16.5	16.6	13.5	13.5
EU	:	:	:	22.1	21.7	21.0	20.5	20.5	20.6	20.8	19.7	19.9
USA	18.6	18.3	18.7	22.6	22.1	22.6	20.4	18.7	18.6	18.7	19.5	19.3
Japan	27.3	27.5	27.0	28.9	27.5	26.7	26.2	25.6	25.2	25.0	25.2	24.8

Table 45: Saving rate of households (1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	18.0	16.7	16.6	16.1	14.7	13.9	13.5	**13.4**	**13.3**	**13.3**	*13.7*	*13.8*
Germany	16.1	15.8	16.6	16.8	16.5	16.5	16.3	**16.5**	**16.4**	**16.3**	*16.2*	*16.1*
Estonia	3.7	0.2	0.1	9.9	10.3	9.1	9.0	**9.0**	**9.8**	**9.6**	*6.0*	*5.8*
Ireland	:	:	10.7	13.2	11.2	10.2	9.4	**8.4**	**8.2**	**8.3**	*10.2*	*9.8*
Greece	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Spain	13.0	10.3	10.0	13.4	11.7	9.0	11.2	**10.4**	**10.5**	**10.7**	*10.4*	*10.5*
France	15.1	15.2	14.8	15.5	15.2	14.9	14.7	**15.3**	**15.2**	**15.2**	*15.0*	*14.9*
Italy	17.9	14.3	13.9	10.9	10.6	10.4	11.7	**11.8**	**12.3**	**12.6**	*13.8*	*13.8*
Cyprus	10.7	11.4	10.7	15.4	11.5	7.2	3.7	**2.9**	**1.8**	**2.3**	*13.3*	*12.8*
Latvia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Lithuania	2.8	3.6	0.4	8.2	4.2	0.9	:	**:**	**:**	**:**	*:*	*:*
Luxembourg	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Malta	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Netherlands	16.6	14.0	13.1	12.9	13.3	13.5	14.7	**15.9**	**15.6**	**15.7**	*13.2*	*14.9*
Austria	16.9	14.6	16.4	14.7	13.3	14.4	12.8	**13.0**	**13.6**	**14.1**	*12.8*	*13.4*
Portugal	11.6	10.5	8.3	9.2	7.5	9.5	9.9	**9.7**	**9.3**	**8.7**	*11.6*	*12.0*
Slovenia	11.6	13.9	15.9	13.4	13.1	11.4	14.4	**14.4**	**13.7**	**14.1**	*14.0*	*13.6*
Slovakia	12.2	8.3	6.6	9.6	8.5	7.2	8.5	**6.9**	**7.0**	**7.0**	*7.3*	*7.3*
Finland	9.2	9.3	7.8	9.8	8.1	7.7	7.9	**8.3**	**8.6**	**8.4**	*9.0*	*8.9*
Euro area	:	14.1	14.2	13.8	13.2	13.0	13.1	**13.2**	**13.3**	**13.3**	*13.3*	*13.4*
Bulgaria	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Czech Republic	11.9	11.0	12.1	12.5	11.1	11.3	9.7	**10.0**	**10.2**	**10.2**	*8.8*	*8.6*
Denmark	4.5	6.6	5.3	9.1	7.4	6.3	6.1	**6.4**	**8.2**	**7.7**	*6.0*	*6.8*
Croatia	:	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*
Hungary	17.2	10.6	10.8	11.6	12.2	10.2	10.6	**10.7**	**10.4**	**10.3**	*7.9*	*7.7*
Poland	14.5	11.0	7.1	8.2	2.1	4.8	3.7	**2.8**	**3.5**	**4.0**	*6.2*	*5.4*
Romania	2.6	-3.1	-8.0	-3.8	-7.0	-11.7	-10.8	**-11.9**	**-10.4**	**-10.1**	*-9.7*	*-11.3*
Sweden	6.2	9.2	12.1	13.6	15.3	17.7	17.8	**18.3**	**17.8**	**17.4**	*15.1*	*14.7*
United Kingdom	9.9	9.5	7.1	11.0	8.6	8.0	6.4	**7.2**	**7.6**	**7.9**	*5.1*	*5.0*
EU	:	11.8	11.4	11.9	11.3	11.2	10.9	**11.1**	**11.2**	**11.2**	*11.2*	*11.1*
USA	10.7	10.0	10.0	11.2	11.5	12.5	10.4	**10.1**	**10.0**	**9.9**	*9.2*	*8.9*
Japan	16.0	10.7	8.3	8.7	9.0	7.8	6.2	**5.5**	**4.3**	**3.5**	*5.3*	*4.5*

Table 46: Gross saving, general government (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	0.5	2.2	1.2	-1.2	-0.6	-0.3	0.0	**-0.5**	**0.0**	**-0.1**	*-1.2*	*-1.2*
Germany	0.6	0.1	1.4	0.0	2.1	2.9	2.8	**3.0**	**2.8**	**3.0**	*1.9*	*1.8*
Estonia	:	:	:	3.1	4.0	4.9	4.3	**4.0**	**3.7**	**3.7**	*2.8*	*2.7*
Ireland	3.1	4.9	1.3	-6.9	-5.9	-5.4	-4.1	**-2.3**	**-1.6**	**-1.5**	*-3.8*	*-2.7*
Greece	:	:	:	-8.3	-8.3	-4.2	-0.1	**0.4**	**1.9**	**3.6**	*-0.2*	*0.7*
Spain	0.7	4.2	3.4	-3.7	-4.6	-3.7	-4.0	**-3.3**	**-2.4**	**-1.7**	*-3.7*	*-4.2*
France	1.5	1.7	1.1	-1.7	-0.3	0.1	0.7	**0.4**	**0.1**	**-0.4**	*-0.3*	*-0.1*
Italy	-0.7	0.6	0.9	-0.5	-0.4	0.6	0.1	**0.1**	**0.1**	**0.5**	*-0.1*	*0.3*
Cyprus	1.4	0.8	2.9	0.7	-1.2	-2.0	-1.5	**0.4**	**0.0**	**1.4**	*-3.0*	*-3.3*
Latvia	1.9	2.7	2.6	-0.1	2.6	4.5	3.9	**3.1**	**2.8**	**2.7**	*1.4*	*1.2*
Lithuania	:	:	1.1	-4.1	-2.3	-1.1	0.1	**-0.4**	**0.6**	**1.4**	*0.0*	*0.6*
Luxembourg	7.7	7.7	7.0	5.1	5.5	5.0	5.0	**4.6**	**4.3**	**4.1**	*3.9*	*2.7*
Malta	-3.4	-1.9	-1.0	-1.6	-0.9	-1.4	-0.6	**-0.7**	**-0.4**	**-0.4**	*-1.1*	*-0.7*
Netherlands	2.0	2.9	2.8	-0.3	-0.2	0.0	1.1	**2.1**	**2.0**	**2.0**	*1.2*	*1.6*
Austria	1.1	2.3	1.6	-0.2	1.3	1.7	1.8	**1.9**	**2.3**	**2.7**	*1.5*	*1.8*
Portugal	0.4	-0.4	-2.1	-5.2	-4.1	-4.0	-2.8	**-2.3**	**-1.6**	**-1.0**	*-3.0*	*-1.4*
Slovenia	3.2	1.9	3.0	-0.4	-0.7	0.5	-0.1	**1.3**	**2.1**	**1.8**	*-0.1*	*0.2*
Slovakia	2.5	0.3	0.4	-4.0	-0.9	-1.5	-0.2	**0.3**	**0.9**	**0.9**	*-1.0*	*-0.7*
Finland	3.5	7.7	6.2	1.0	2.8	1.8	1.6	**1.2**	**1.4**	**1.8**	*0.1*	*1.0*
Euro area	:	:	:	-1.3	-0.3	0.4	0.6	**0.8**	**0.9**	**1.0**	*0.0*	*0.2*
Bulgaria	-0.8	4.1	4.9	0.4	0.5	1.9	1.0	**-0.7**	**-1.0**	**-1.4**	*0.6*	*0.8*
Czech Republic	4.6	3.0	3.2	0.1	1.2	1.9	2.1	**1.9**	**1.6**	**1.7**	*1.0*	*0.7*
Denmark	1.8	3.7	6.0	0.8	1.7	1.6	2.9	**2.7**	**1.1**	**1.3**	*1.1*	*-0.7*
Croatia	:	:	3.4	-0.3	-1.6	-1.6	-0.8	**-1.1**	**-1.0**	**-1.0**	*-0.7*	*0.4*
Hungary	-0.4	0.3	-1.4	-1.4	-1.4	0.9	0.6	**0.6**	**0.6**	**0.8**	*-0.6*	*-0.6*
Poland	:	:	:	-2.6	-0.3	0.0	-0.7	**-0.2**	**0.2**	**0.4**	*-0.6*	*-0.2*
Romania	0.1	1.9	1.9	-0.7	1.8	2.0	2.8	**2.7**	**2.0**	**2.1**	*2.5*	*2.8*
Sweden	2.6	4.5	5.9	4.5	4.4	3.5	3.0	**2.4**	**3.0**	**3.6**	*1.9*	*2.6*
United Kingdom	0.3	1.2	-1.4	-5.5	-4.1	-4.5	-2.8	**-2.4**	**-1.4**	**-0.4**	*-2.9*	*-1.9*
EU	:	:	:	-1.7	-0.6	-0.2	0.2	**0.3**	**0.5**	**0.9**	*-0.3*	*0.0*
USA	1.5	0.3	-1.9	-7.5	-6.4	-5.2	-2.3	**-1.5**	**-0.9**	**-0.6**	*-1.9*	*-1.3*
Japan	2.1	-1.2	-1.2	-5.4	-5.3	-4.9	-4.5	**-3.1**	**-2.4**	**-1.7**	*-3.0*	*-2.1*

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	5.7	4.7	1.4	10.0	6.6	1.9	2.9	**3.0**	**2.9**	**4.2**	*3.0*	*4.7*
Germany	7.5	7.3	2.7	14.5	8.0	2.8	1.6	**3.3**	**4.2**	**5.4**	*5.0*	*5.6*
Estonia	8.8	12.5	3.5	24.0	22.2	8.3	2.6	**1.5**	**3.4**	**5.5**	*3.1*	*5.0*
Ireland	17.7	8.3	2.7	6.2	5.5	4.7	1.1	**8.0**	**5.3**	**5.6**	*2.8*	*3.7*
Greece	11.4	6.0	0.3	4.6	0.0	1.2	2.1	**5.3**	**5.4**	**4.9**	*4.1*	*5.2*
Spain	10.0	4.6	0.4	9.4	7.4	1.2	4.3	**3.8**	**4.9**	**5.8**	*5.5*	*6.7*
France	7.8	4.2	0.0	9.0	6.9	1.1	2.2	**2.3**	**3.9**	**5.3**	*3.1*	*5.3*
Italy	4.1	3.2	-1.2	11.8	5.2	2.0	0.6	**1.5**	**3.4**	**4.2**	*3.3*	*4.3*
Cyprus	5.9	1.5	-0.2	2.6	4.2	-1.7	-5.0	**0.3**	**2.0**	**2.6**	*-2.7*	*1.8*
Latvia	:	9.2	6.1	13.4	12.0	9.8	1.5	**1.5**	**3.3**	**4.8**	*3.6*	*5.6*
Lithuania	:	12.2	6.7	18.9	14.9	12.2	9.4	**-0.2**	**5.4**	**6.6**	*6.3*	*6.6*
Luxembourg	8.6	6.8	3.7	8.2	5.0	2.9	5.6	**2.4**	**4.0**	**4.9**	*3.3*	*4.7*
Malta	:	1.0	10.1	6.9	1.8	6.3	-1.6	**1.0**	**4.6**	**5.3**	*2.7*	*6.0*
Netherlands	7.6	4.4	2.5	8.9	4.4	3.3	2.0	**3.4**	**3.3**	**4.6**	*3.3*	*5.0*
Austria	7.4	6.4	1.3	12.8	6.6	1.3	1.4	**2.2**	**3.2**	**4.7**	*4.4*	*5.9*
Portugal	7.6	4.3	1.6	9.5	7.0	3.1	6.4	**3.6**	**4.6**	**5.6**	*5.7*	*5.7*
Slovenia	5.0	8.7	4.6	10.1	7.0	0.3	2.6	**5.1**	**4.5**	**5.3**	*3.9*	*5.4*
Slovakia	4.0	12.7	6.3	15.7	12.0	9.3	5.2	**4.6**	**4.4**	**5.6**	*5.6*	*6.4*
Finland	9.7	5.5	1.8	6.2	2.0	1.2	-1.7	**0.2**	**1.9**	**3.2**	*2.7*	*4.5*
Euro area	:	5.5	1.5	11.1	6.6	2.5	2.1	**3.1**	**3.9**	**5.0**	*4.0*	*5.3*
Bulgaria	:	3.9	4.9	17.2	12.3	0.1	9.2	**1.4**	**3.0**	**3.7**	*4.9*	*6.5*
Czech Republic	8.6	12.4	7.1	14.8	9.3	4.1	0.3	**8.3**	**5.3**	**6.0**	*5.0*	*6.2*
Denmark	5.4	4.3	2.8	1.9	7.3	-0.1	1.2	**1.1**	**3.7**	**4.4**	*3.1*	*4.0*
Croatia	:	9.9	-0.2	6.2	2.2	-0.1	3.0	**5.4**	**3.6**	**4.8**	*2.6*	*3.7*
Hungary	20.9	12.5	8.2	11.3	6.6	-1.5	5.9	**6.5**	**6.0**	**5.9**	*5.7*	*6.1*
Poland	11.5	9.8	7.0	12.9	7.9	4.3	5.0	**3.9**	**3.9**	**5.7**	*4.4*	*6.0*
Romania	5.0	14.7	3.3	15.2	11.9	1.0	21.5	**8.9**	**5.1**	**6.0**	*6.5*	*5.6*
Sweden	9.0	5.6	1.1	11.9	6.1	1.0	-0.5	**2.2**	**3.9**	**4.7**	*3.7*	*5.4*
United Kingdom	6.0	4.3	2.1	6.2	5.6	0.7	0.5	**-0.6**	**3.3**	**4.3**	*2.6*	*3.2*
EU	:	5.6	1.9	10.5	6.6	2.2	2.1	**2.9**	**3.9**	**5.0**	*4.0*	*5.1*
USA	7.4	2.3	4.1	11.9	6.9	3.3	3.0	**3.4**	**5.5**	**5.6**	*5.0*	*5.6*
Japan	3.9	7.1	-0.5	24.4	-0.4	-0.2	1.6	**6.8**	**4.0**	**4.0**	*4.0*	*4.9*

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	5.3	4.2	2.0	9.6	7.2	1.9	1.8	**2.9**	**2.8**	**4.2**	*2.7*	*5.1*
Germany	7.7	4.5	2.9	12.9	7.2	0.0	3.1	**3.9**	**4.8**	**6.6**	*5.4*	*6.5*
Estonia	9.5	16.5	0.7	21.0	26.8	12.2	3.1	**2.3**	**4.1**	**6.5**	*3.9*	*5.3*
Ireland	17.0	7.5	2.1	3.0	-0.6	6.9	0.6	**7.3**	**5.6**	**6.1**	*3.1*	*2.6*
Greece	12.1	5.7	1.4	-5.5	-9.0	-9.1	-1.6	**0.4**	**2.1**	**3.4**	*-1.2*	*2.2*
Spain	11.8	6.5	-0.6	6.9	-0.8	-6.3	-0.5	**4.8**	**5.1**	**6.0**	*3.4*	*5.8*
France	7.3	5.2	1.7	8.9	6.3	-1.3	1.7	**2.7**	**3.4**	**5.9**	*3.1*	*5.8*
Italy	6.3	3.8	-0.4	12.4	0.5	-8.0	-2.7	**1.3**	**2.7**	**3.5**	*2.7*	*4.8*
Cyprus	5.0	2.8	1.4	4.5	-0.6	-4.6	-13.6	**-0.5**	**-0.1**	**1.3**	*-7.2*	*0.2*
Latvia	:	10.5	0.3	12.4	22.0	5.4	0.3	**1.4**	**3.5**	**5.4**	*3.9*	*6.8*
Lithuania	:	12.9	4.2	18.7	14.2	6.6	9.0	**1.2**	**6.5**	**7.7**	*7.1*	*7.4*
Luxembourg	9.7	6.5	3.6	9.6	6.9	3.8	5.8	**1.7**	**4.4**	**5.2**	*3.2*	*5.1*
Malta	:	1.0	10.2	7.6	-0.5	4.2	-1.7	**2.0**	**4.5**	**4.2**	*3.6*	*5.7*
Netherlands	9.2	4.1	2.5	8.3	3.5	2.8	0.8	**3.0**	**3.4**	**5.2**	*3.4*	*4.8*
Austria	5.4	5.4	0.9	11.3	6.4	0.7	-0.3	**2.4**	**2.9**	**4.8**	*3.7*	*5.7*
Portugal	9.9	2.7	1.3	7.8	-5.8	-6.6	3.6	**4.5**	**4.7**	**5.0**	*4.1*	*4.2*
Slovenia	8.7	7.2	3.5	6.6	5.0	-3.9	1.4	**3.0**	**3.5**	**5.1**	*3.9*	*5.3*
Slovakia	6.6	12.0	4.8	14.7	9.7	2.6	3.8	**5.7**	**4.0**	**5.5**	*5.4*	*6.1*
Finland	8.0	6.5	2.7	6.5	6.0	1.3	-2.5	**-0.1**	**1.1**	**2.3**	*1.6*	*4.0*
Euro area	:	4.9	1.7	9.8	4.4	-1.0	1.2	**3.2**	**3.9**	**5.5**	*3.8*	*5.5*
Bulgaria	:	9.5	6.0	4.1	8.5	4.5	4.9	**1.7**	**2.0**	**2.9**	*5.5*	*6.4*
Czech Republic	10.0	12.8	5.4	14.9	6.7	2.4	0.3	**8.6**	**5.4**	**5.9**	*4.0*	*6.0*
Denmark	5.9	5.6	4.1	0.9	7.0	0.7	2.2	**2.1**	**3.7**	**4.3**	*2.8*	*3.8*
Croatia	:	10.7	0.0	-2.5	2.5	-3.0	3.2	**3.4**	**2.6**	**4.5**	*1.3*	*2.3*
Hungary	17.7	12.7	5.1	10.1	4.5	-3.3	5.9	**7.0**	**6.0**	**6.1**	*6.2*	*6.5*
Poland	18.3	5.9	6.9	14.0	5.5	-0.6	1.8	**5.3**	**4.9**	**6.4**	*4.5*	*6.5*
Romania	8.3	19.1	7.8	12.6	10.2	-1.5	8.2	**6.8**	**5.5**	**6.5**	*5.9*	*6.8*
Sweden	7.8	3.7	2.1	12.8	7.3	0.5	-0.8	**4.5**	**4.9**	**5.3**	*4.7*	*5.9*
United Kingdom	8.2	5.9	0.6	8.7	1.0	3.1	0.5	**-0.3**	**3.7**	**4.3**	*2.0*	*2.8*
EU	:	5.4	1.9	9.7	4.3	-0.4	1.3	**3.1**	**4.0**	**5.3**	*3.7*	*5.2*
USA	10.6	5.8	-0.5	12.7	5.5	2.3	1.1	**4.2**	**5.3**	**5.7**	*3.5*	*6.0*
Japan	4.4	4.7	-1.2	11.1	5.9	5.3	3.4	**6.5**	**3.3**	**2.5**	*4.3*	*2.8*

Table 49: Merchandise trade balance[1] (fob-fob, as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	:	3.5	1.1	-0.6	-1.5	-1.5	-0.7	**-0.5**	**-0.5**	**-0.6**	*-1.0*	*-1.6*
Germany	:	5.3	6.9	6.3	6.0	7.2	7.4	**7.4**	**7.5**	**7.3**	*7.0*	*6.9*
Estonia	:	-17.1	-13.0	-2.3	-4.5	-7.4	-5.7	**-5.5**	**-5.8**	**-6.2**	*-5.3*	*-5.3*
Ireland	:	24.5	17.9	26.0	25.3	24.5	20.7	**21.0**	**19.8**	**18.6**	*18.1*	*17.9*
Greece	:	:	:	-13.4	-12.6	-10.9	-10.6	**-10.8**	**-10.1**	**-9.7**	*-9.5*	*-8.9*
Spain	-3.2	-5.5	-7.1	-4.5	-4.1	-2.4	-1.1	**-0.6**	**-0.4**	**-0.2**	*-0.6*	*-0.6*
France	:	0.3	-1.5	-2.0	-2.9	-2.4	-1.9	**-1.9**	**-1.9**	**-2.1**	*-2.8*	*-3.0*
Italy	:	0.8	-0.2	-1.4	-1.1	1.0	2.3	**2.8**	**3.0**	**3.2**	*3.0*	*3.0*
Cyprus	:	-24.9	-26.7	-25.7	-23.2	-20.8	-17.7	**-18.8**	**-18.6**	**-18.5**	*-16.5*	*-16.3*
Latvia	:	-18.6	-18.9	-8.5	-12.4	-12.0	-10.9	**-10.5**	**-10.6**	**-10.9**	*-9.1*	*-9.7*
Lithuania	:	:	-11.5	-5.9	-6.6	-3.3	-2.6	**-4.0**	**-4.8**	**-5.6**	*-3.5*	*-4.2*
Luxembourg	:	-9.1	-4.9	-0.2	0.4	2.0	5.0	**7.6**	**7.3**	**7.4**	*-11.8*	*-12.1*
Malta	:	-13.3	-18.2	-18.3	-17.0	-14.6	-13.7	**-15.2**	**-15.5**	**-14.3**	*-14.3*	*-14.5*
Netherlands	:	8.0	9.3	9.5	10.1	10.7	11.6	**11.5**	**11.8**	**12.2**	*8.7*	*8.8*
Austria	:	-0.3	0.1	-0.5	-1.2	-1.0	-0.2	**-0.1**	**0.0**	**-0.1**	*-0.4*	*-0.5*
Portugal	:	-11.0	-11.3	-10.6	-7.9	-4.9	-4.0	**-4.1**	**-4.2**	**-4.1**	*-2.7*	*-2.3*
Slovenia	:	-3.6	-3.5	-1.8	-1.8	0.2	1.2	**3.2**	**3.9**	**4.1**	*1.6*	*1.8*
Slovakia	:	-7.5	-3.3	-0.5	-0.6	3.1	4.3	**3.3**	**3.7**	**4.1**	*6.4*	*6.5*
Finland	:	8.3	3.9	1.2	-0.8	-0.4	-0.2	**-0.1**	**0.1**	**0.3**	*0.7*	*0.9*
Euro area	:	2.0	1.0	1.0	0.9	2.0	2.7	**2.9**	**3.0**	**3.0**	*2.4*	*2.3*
Euro area, adjusted[2]	:	2.1	1.1	1.0	0.9	2.1	2.7	**2.9**	**3.1**	**3.0**	*2.4*	*2.3*
Bulgaria	:	-17.0	-22.3	-7.6	-4.8	-9.9	-7.2	**-7.6**	**-7.4**	**-7.7**	*-6.0*	*-6.2*
Czech Republic	:	-6.2	0.7	1.1	1.9	3.1	4.0	**5.0**	**5.2**	**5.6**	*5.9*	*6.3*
Denmark	:	3.8	1.4	3.3	3.1	2.7	2.6	**2.3**	**2.1**	**1.7**	*2.6*	*2.3*
Croatia	:	-20.1	-20.6	-13.2	-14.3	-14.3	-15.1	**-15.0**	**-15.4**	**-16.3**	*-14.4*	*-14.3*
Hungary	:	-6.1	-0.8	2.6	2.8	3.0	3.5	**3.6**	**3.7**	**3.9**	*4.1*	*4.0*
Poland	:	-4.2	-3.8	-3.0	-3.5	-2.1	-0.3	**-0.8**	**-1.2**	**-1.5**	*1.1*	*0.7*
Romania	:	-6.8	-11.6	-7.1	-6.7	-5.8	-2.6	**-2.5**	**-2.8**	**-3.0**	*-2.5*	*-3.0*
Sweden	:	7.5	6.2	4.3	3.4	3.7	3.7	**2.9**	**2.5**	**2.3**	*1.9*	*1.8*
United Kingdom	:	-4.1	-5.8	-6.3	-6.0	-6.6	-6.4	**-6.2**	**-6.1**	**-6.0**	*-6.3*	*-5.9*
EU	:	0.8	-0.3	-0.2	-0.2	0.5	1.2	**1.2**	**1.2**	**1.2**	*0.9*	*0.9*
EU, adjusted[1]	:	-0.5	-1.3	-1.1	-1.1	-0.5	0.2	**0.2**	**0.3**	**0.3**	*0.4*	*0.3*
US[2]	:	-4.7	-5.5	-4.5	-5.0	-4.8	-4.4	**-4.5**	**-4.5**	**-4.6**	*-4.1*	*-4.2*
Japan	2.5	2.3	1.6	1.7	-0.3	-1.2	-1.9	**-2.1**	**-2.0**	**-1.7**	*-2.3*	*-2.1*

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 50: Current-account balance[1] (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			*Spring 2014 forecast*	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
Belgium	4.3	4.7	2.4	2.4	0.3	0.6	-1.5	**-0.3**	**-0.5**	**-0.7**	*0.3*	*-0.3*
Germany	-0.9	1.2	5.9	5.9	6.2	7.2	6.9	**7.1**	**7.1**	**6.7**	*7.3*	*7.0*
Estonia	-8.5	-9.6	-9.1	2.0	-0.8	-3.3	-0.9	**-2.8**	**-3.1**	**-3.7**	*-2.7*	*-2.8*
Ireland	1.8	-0.9	-4.9	-0.1	0.1	0.9	3.8	**5.5**	**5.5**	**5.3**	*7.4*	*8.9*
Greece	-4.4	-9.6	-13.6	-12.0	-10.5	-4.3	-2.7	**-2.8**	**-2.5**	**-2.2**	*-2.3*	*-2.2*
Spain	-1.3	-4.3	-8.0	-3.9	-3.3	-0.4	1.5	**0.5**	**0.7**	**0.9**	*1.4*	*1.5*
France	2.0	1.1	-1.0	-1.7	-2.2	-2.5	-2.0	**-1.9**	**-1.9**	**-2.2**	*-1.8*	*-2.0*
Italy	2.0	-0.4	-1.7	-3.5	-3.1	-0.5	1.0	**1.5**	**1.5**	**1.8**	*1.5*	*1.5*
Cyprus	-2.7	-3.2	-9.3	-9.1	-3.0	-5.5	-1.3	**-1.2**	**-0.6**	**0.0**	*0.0*	*0.4*
Latvia	-7.2	-8.5	-12.0	2.1	-3.1	-3.5	-2.2	**-2.2**	**-2.3**	**-2.8**	*-1.3*	*-2.0*
Lithuania	-10.0	-6.0	-8.4	-0.2	-3.7	-0.9	1.6	**0.8**	**-0.4**	**-1.4**	*-0.8*	*-1.5*
Luxembourg	9.8	10.2	9.1	7.7	6.5	5.7	5.2	**5.2**	**5.2**	**5.8**	*6.4*	*5.0*
Malta	-7.3	-4.3	-6.9	-6.4	-1.8	3.0	3.1	**2.5**	**2.5**	**3.9**	*0.3*	*1.0*
Netherlands	5.5	5.8	6.3	7.5	7.1	8.8	8.5	**7.8**	**7.7**	**7.7**	*8.2*	*8.6*
Austria	-2.3	0.8	2.8	3.1	2.1	2.6	2.3	**2.4**	**2.7**	**2.8**	*3.4*	*3.8*
Portugal	-6.2	-9.2	-10.7	-10.4	-5.6	-2.6	-0.3	**-0.2**	**0.1**	**0.3**	*1.0*	*1.4*
Slovenia	-2.0	-1.8	-2.7	0.2	0.9	3.0	4.8	**6.2**	**6.1**	**5.9**	*6.0*	*6.2*
Slovakia	-5.9	-6.0	-6.4	-4.7	-3.8	0.3	0.8	**0.5**	**0.2**	**0.3**	*2.4*	*2.4*
Finland	4.8	6.9	3.2	1.4	-1.5	-1.9	-2.0	**-1.9**	**-1.7**	**-1.4**	*-0.4*	*-0.2*
Euro area	0.7	0.3	0.1	0.4	0.5	1.9	2.4	**2.5**	**2.6**	**2.5**	*2.9*	*2.9*
Euro area, adjusted[2]	0.7	0.3	0.1	0.4	0.5	1.9	2.4	**2.5**	**2.6**	**2.5**	*2.9*	*2.9*
Bulgaria	7.0	-5.0	-17.0	-1.3	1.5	-0.7	2.2	**2.1**	**2.3**	**1.9**	*1.0*	*0.2*
Czech Republic	-3.7	-4.2	-4.0	-5.2	-4.6	-2.2	-2.2	**-1.3**	**-0.9**	**-0.4**	*-0.4*	*-0.2*
Denmark	1.8	3.4	2.9	5.7	5.7	5.8	6.9	**6.2**	**6.1**	**6.2**	*6.9*	*6.8*
Croatia	-5.1	-3.6	-6.3	-0.8	-0.6	0.1	0.4	**0.3**	**1.6**	**1.8**	*1.5*	*1.6*
Hungary	-5.0	-7.6	-6.1	0.3	0.8	1.7	4.2	**4.3**	**4.3**	**4.3**	*3.0*	*2.7*
Poland	-2.4	-3.4	-4.7	-4.9	-5.0	-3.8	-1.4	**-2.0**	**-2.4**	**-2.8**	*-1.7*	*-2.3*
Romania	-5.9	-4.2	-9.9	-4.8	-4.7	-4.7	-1.4	**-1.2**	**-1.4**	**-1.5**	*-1.2*	*-1.6*
Sweden	4.1	5.7	7.9	6.5	5.9	6.3	6.5	**5.7**	**5.4**	**5.1**	*6.1*	*6.0*
United Kingdom	-0.9	-2.0	-2.6	-2.6	-1.7	-3.7	-4.2	**-4.0**	**-3.7**	**-3.2**	*-3.8*	*-3.3*
EU	0.4	-0.1	-0.4	0.0	0.2	1.0	1.4	**1.4**	**1.5**	**1.5**	*1.8*	*1.8*
EU, adjusted[1]	:	-0.6	-1.2	-0.5	-0.3	0.5	1.1	**1.1**	**1.1**	**1.1**	*1.5*	*1.5*
US[2]	-1.9	-4.3	-4.7	-3.0	-3.1	-3.0	-2.5	**-2.6**	**-2.7**	**-2.8**	*-2.2*	*-2.4*
Japan	2.3	2.9	3.7	3.7	2.0	1.0	0.8	**0.6**	**0.8**	**1.2**	*0.7*	*1.2*

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 51: Net lending (+) or net borrowing (-) of the nation[1] (as a percentage of GDP, 1995-2016) 22.10.2014

	5-year averages							Autumn 2014 forecast			Spring 2014 forecast	
	1995-99	2000-04	2005-09	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	4.2	4.6	2.2	2.3	0.2	1.3	-1.5	-0.1	-0.5	-0.7	0.4	-0.3
Germany	-1.0	1.2	5.9	5.9	6.1	7.3	7.0	7.1	7.1	6.8	7.3	7.0
Estonia	-7.9	-9.1	-7.9	5.5	3.3	0.2	1.8	-0.4	-0.7	-1.3	-0.3	-0.4
Ireland	2.8	-0.4	-4.8	0.0	0.2	0.9	3.8	6.3	6.0	5.7	6.8	7.4
Greece	-3.0	-8.2	-11.9	-10.3	-8.6	-1.9	1.0	-1.1	-0.7	-0.5	-0.5	-0.4
Spain	-0.3	-3.5	-7.5	-3.4	-2.9	0.1	2.1	1.0	1.2	1.5	2.0	2.1
France	2.1	1.0	-1.0	-1.7	-2.2	-2.7	-2.0	-1.9	-1.7	-1.9	-1.9	-1.9
Italy	2.1	-0.3	-1.7	-3.4	-3.0	-0.2	1.0	1.6	1.7	1.9	1.5	1.5
Cyprus	-2.7	-2.9	-9.2	-8.9	-2.8	-5.4	0.0	-2.1	-1.2	-0.6	0.9	1.3
Latvia	-7.1	-8.0	-10.4	4.0	-1.0	-0.5	0.2	0.3	0.1	-0.3	1.2	0.5
Lithuania	-10.1	-5.7	-6.3	3.6	-0.5	2.1	4.5	4.4	2.0	0.7	1.0	0.3
Luxembourg	:	:	9.1	7.3	6.2	5.2	4.7	5.1	5.3	5.9	6.2	5.0
Malta	-6.6	-3.9	-5.2	-4.5	-0.7	4.8	4.9	4.3	4.3	5.8	2.0	2.7
Netherlands	5.2	5.8	5.9	7.3	6.8	7.8	7.9	7.1	7.5	7.8	7.5	8.2
Austria	-2.4	0.6	2.7	2.9	2.0	2.4	2.2	2.3	2.6	2.8	3.4	3.8
Portugal	-3.9	-7.5	-9.5	-9.1	-4.1	-0.6	1.3	1.4	1.7	1.9	2.7	3.1
Slovenia	-2.0	-2.1	-2.8	0.4	0.9	3.1	4.8	6.9	6.8	6.7	6.9	7.0
Slovakia	-6.1	-6.4	-5.9	-3.1	-2.2	1.8	2.3	1.2	0.5	0.5	3.4	3.3
Finland	4.8	6.9	3.3	1.5	-1.4	-1.8	-1.9	-1.9	-1.6	-1.4	-0.3	-0.1
Euro area	:	:	0.2	0.6	0.6	2.0	2.6	2.7	2.8	2.7	3.0	3.0
Euro area, adjusted[2]	:	:	0.2	0.6	0.6	2.0	2.6	2.7	2.8	2.8	3.0	3.0
Bulgaria	6.6	-4.8	-16.6	-0.6	2.7	0.5	3.5	3.6	3.7	3.2	2.4	1.6
Czech Republic	-3.7	-3.9	-3.3	-3.2	-2.9	-1.2	0.0	0.9	1.5	1.8	2.4	3.1
Denmark	2.0	3.4	3.0	5.8	6.1	5.8	6.9	6.5	6.6	7.0	7.0	7.1
Croatia	-5.1	-3.6	-6.3	-0.8	-0.6	0.1	0.4	0.2	1.8	2.4	1.5	1.6
Hungary	-5.0	-7.4	-5.1	2.1	3.2	4.3	7.8	8.3	7.9	7.7	6.1	5.7
Poland	-2.3	-3.3	-3.9	-3.3	-3.3	-2.1	1.1	0.4	0.0	-0.6	0.8	-0.1
Romania	-5.6	-3.8	-9.4	-4.6	-4.2	-3.3	0.9	1.1	1.0	0.9	0.9	0.4
Sweden	3.5	5.6	7.7	6.3	5.7	6.2	6.3	5.4	5.1	4.8	5.7	5.9
United Kingdom	-0.8	-2.0	-2.5	-2.5	-1.6	-3.7	-4.2	-4.0	-3.7	-3.3	-3.5	-3.0
EU	:	:	-0.3	0.2	0.4	1.2	1.7	1.7	1.8	1.8	2.1	2.1
EU, adjusted[1]	:	:	-1.0	-0.3	-0.1	0.7	1.3	1.3	1.4	1.4	1.7	1.7
US[2]	-1.9	-4.2	-4.7	-3.0	-3.1	-2.9	-2.5	-2.6	-2.7	-2.8	-2.2	-2.4
Japan	2.1	2.8	3.6	3.6	2.0	1.0	0.6	0.5	0.8	1.2	0.6	1.1

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 52: Current-account balance[1] (in billions of euro, 2007-16) 22.10.2014

								Autumn 2014 forecast			Spring 2014 forecast	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	13.5	3.3	1.6	8.7	1.2	2.4	-5.8	-1.4	-2.0	-2.9	1.1	-1.1
Germany	176.5	149.1	148.1	151.2	166.7	198.5	194.1	205.6	211.5	208.2	208.0	206.6
Estonia	-2.5	-1.5	0.5	0.3	-0.1	-0.6	-0.2	-0.5	-0.6	-0.8	-0.5	-0.6
Ireland	-12.1	-11.9	-6.5	-0.1	0.1	1.5	6.6	10.1	10.5	10.6	12.4	15.5
Greece	-36.7	-39.5	-31.3	-27.2	-21.9	-8.3	-4.9	-5.1	-4.7	-4.3	-4.1	-4.1
Spain	-104.2	-102.9	-46.5	-42.0	-35.0	-4.5	15.4	5.1	7.7	10.7	14.3	15.7
France	-20.7	-27.6	-31.2	-34.9	-46.0	-52.5	-41.9	-40.8	-40.4	-48.7	-38.4	-42.3
Italy	-22.8	-45.6	-29.9	-55.4	-50.1	-7.8	16.1	23.8	25.3	29.5	24.3	24.1
Cyprus	-1.9	-2.4	-1.9	-1.7	-0.6	-1.1	-0.2	-0.2	-0.1	0.0	0.0	0.1
Latvia	-4.8	-3.1	1.5	0.4	-0.6	-0.8	-0.5	-0.5	-0.6	-0.8	-0.3	-0.5
Lithuania	-4.3	-4.2	0.6	-0.1	-1.1	-0.3	0.5	0.3	-0.2	-0.6	-0.3	-0.6
Luxembourg	3.8	2.0	2.6	3.0	2.8	2.5	2.4	2.5	2.6	3.1	3.1	2.5
Malta	-0.2	-0.3	-0.5	-0.4	-0.1	0.2	0.2	0.2	0.2	0.3	0.0	0.1
Netherlands	44.5	28.7	34.4	47.2	45.4	56.2	54.4	50.3	51.5	53.3	50.5	54.1
Austria	9.2	12.0	5.9	9.1	6.5	8.1	7.4	7.8	9.2	9.9	11.1	12.9
Portugal	-17.6	-22.5	-17.7	-18.7	-9.9	-4.5	-0.4	-0.3	0.2	0.5	1.7	2.4
Slovenia	-1.4	-2.0	-0.1	0.1	0.3	1.1	1.7	2.3	2.3	2.3	2.2	2.3
Slovakia	-3.1	-4.4	-2.1	-3.2	-2.7	0.2	0.6	0.4	0.2	0.2	1.8	1.9
Finland	7.5	5.1	3.6	2.7	-2.9	-3.8	-4.1	-3.9	-3.4	-3.1	-0.9	-0.4
Euro area	22.7	-67.5	31.3	38.8	52.1	186.6	241.3	255.6	269.1	267.7	286.2	289.1
Euro area, adjusted[2]	27.0	-63.3	30.7	38.9	53.3	186.9	240.8	255.3	269.3	268.3	286.2	289.1
Bulgaria	-7.8	-8.3	-3.1	-0.5	0.6	-0.3	0.9	0.9	1.0	0.8	0.4	0.1
Czech Republic	-6.5	-8.0	-5.7	-8.1	-7.6	-3.5	-3.5	-2.0	-1.5	-0.7	-0.6	-0.3
Denmark	3.3	6.4	7.6	13.8	14.1	14.5	17.4	16.0	16.4	17.3	17.6	18.0
Croatia	-3.0	-4.1	-2.1	-0.4	-0.3	0.1	0.2	0.1	0.7	0.8	0.7	0.7
Hungary	-7.3	-7.4	-0.8	0.3	0.8	1.7	4.2	4.4	4.6	4.9	3.0	2.8
Poland	-20.3	-23.8	-12.2	-17.5	-19.0	-14.8	-5.6	-8.0	-10.3	-12.4	-6.9	-9.7
Romania	-17.6	-16.6	-5.5	-6.1	-6.3	-6.3	-2.0	-1.9	-2.3	-2.5	-1.7	-2.4
Sweden	32.1	30.1	20.8	23.9	23.9	26.8	28.3	24.7	23.8	23.9	25.7	26.3
United Kingdom	-59.4	-70.9	-46.5	-47.3	-31.1	-76.4	-85.2	-88.6	-87.7	-80.0	-76.5	-70.0
EU	-63.9	-170.0	-16.2	-3.0	27.3	128.4	196.1	201.2	213.8	219.8	247.5	254.1
EU, adjusted[1]	-134.0	-276.7	-82.5	-66.8	-34.8	72.5	142.6	147.7	160.3	166.2	195.9	202.5
US[2]	-523.6	-466.5	-270.5	-337.9	-345.2	-375.3	-317.9	-338.5	-386.3	-425.4	-279.7	-321.7
Japan	154.6	109.3	105.4	153.9	86.1	47.1	27.7	19.8	29.7	43.3	23.0	41.4

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 53: Export markets (a) (percentage change on preceding year, 2007-16) 22.10.2014

								Autumn 2014 forecast			Spring 2014 forecast	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	5.3	2.1	-10.6	10.3	5.0	1.1	1.3	2.9	4.1	5.5	3.9	5.5
Germany	6.8	2.2	-11.7	10.5	5.2	1.2	1.7	2.8	4.1	5.2	3.4	5.4
Estonia	9.3	1.8	-17.7	9.6	7.4	1.5	1.2	1.4	3.5	4.7	4.4	5.8
Ireland	4.1	1.2	-11.5	10.7	4.6	1.3	1.9	2.7	4.3	5.3	4.1	5.5
Greece	5.7	1.7	-12.4	10.4	4.9	1.1	2.1	1.9	4.1	5.2	3.8	5.4
Spain	5.0	1.9	-10.6	9.8	4.2	0.5	1.9	2.4	4.0	5.3	3.6	5.5
France	5.9	1.8	-11.1	10.3	4.9	1.0	1.9	3.0	4.4	5.4	3.6	5.2
Italy	6.6	2.7	-11.0	9.9	5.4	1.6	2.1	2.9	4.3	5.5	3.4	5.3
Cyprus	6.7	2.2	-13.6	8.1	7.4	1.3	3.5	1.4	4.2	5.3	3.8	5.2
Latvia	8.9	3.8	-17.0	12.5	10.4	3.9	2.7	1.3	4.1	5.5	4.1	5.4
Lithuania	11.1	2.5	-16.6	11.2	9.8	3.5	1.6	0.7	3.6	5.0	3.5	5.3
Luxembourg	4.9	1.6	-11.2	10.1	4.2	0.4	1.6	2.4	4.0	5.3	4.1	5.5
Malta	5.2	1.8	-11.7	10.3	4.4	0.8	2.2	2.4	4.4	5.5	3.7	6.2
Netherlands	5.5	2.3	-11.2	10.4	5.2	0.9	1.5	3.3	4.2	5.4	4.0	5.6
Austria	6.8	2.8	-11.5	11.3	5.9	1.1	1.7	3.0	4.3	5.6	3.3	5.6
Portugal	5.5	0.9	-12.6	9.7	3.9	-0.3	1.8	3.2	4.2	5.3	3.1	4.9
Slovenia	7.3	2.7	-13.1	9.8	5.5	0.4	1.0	2.9	3.8	5.2	4.3	5.7
Slovakia	8.3	3.2	-12.3	11.7	6.2	0.8	1.3	4.1	4.4	5.6	3.8	5.3
Finland	8.7	3.6	-12.2	11.9	7.7	2.7	2.2	2.4	4.2	5.3	4.0	5.5
Euro area (b)	6.1	2.2	-11.3	10.4	5.1	1.1	1.7	2.9	4.2	5.3	4.3	5.8
Bulgaria	8.5	2.4	-12.8	9.4	5.6	0.0	1.6	2.4	4.2	5.4	3.9	5.6
Czech Republic	7.0	3.2	-12.3	11.2	5.9	1.3	1.5	3.4	4.2	5.6	3.9	5.5
Denmark	6.4	2.4	-11.4	11.4	5.4	1.5	1.7	3.3	4.4	5.4	3.8	5.5
Croatia	6.9	1.5	-12.7	10.4	5.3	-0.4	1.4	2.4	4.0	5.2	3.9	5.4
Hungary	7.8	3.5	-12.5	11.0	6.1	1.3	1.4	3.4	4.2	5.6	4.3	5.8
Poland	8.0	3.5	-12.4	11.4	6.2	1.7	1.4	2.8	4.1	5.4	3.6	5.2
Romania	7.0	1.7	-12.4	10.2	5.4	0.7	1.5	2.6	4.0	5.3	4.1	5.7
Sweden	5.9	2.3	-11.9	9.7	5.0	1.7	2.0	2.7	4.0	5.0	4.0	5.4
United Kingdom	6.2	1.6	-11.1	10.5	5.0	1.4	1.9	3.4	4.5	5.5	4.5	5.4
EU (b)	6.2	2.2	-11.5	10.5	5.2	1.2	1.7	2.9	4.2	5.4	5.1	6.3
USA	7.2	3.5	-11.2	13.1	6.6	3.3	3.3	3.0	4.4	5.3	3.9	5.4
Japan	7.7	3.7	-9.0	14.8	7.0	3.4	3.3	3.2	5.2	6.0	3.9	5.4

(a) Imports of goods and services to the various markets (incl. EU-markets) weighted according to their share in country's exports of goods and services.

(b) Intra- and extra-EU trade.

Table 54: Export performance (a) (percentage change on preceding year, 2007-16) 22.10.2014

								Autumn 2014 forecast			Spring 2014 forecast	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2014	2015
Belgium	0.3	-0.5	1.2	-0.3	1.5	0.8	1.6	0.1	-1.2	-1.3	-0.9	-0.8
Germany	2.4	-0.3	-2.9	3.7	2.7	1.6	-0.1	0.5	0.1	0.2	1.1	0.1
Estonia	3.0	-0.9	-3.2	13.2	13.8	6.7	1.3	0.1	-0.1	0.8	-0.5	-0.5
Ireland	4.5	-2.1	8.5	-4.1	0.8	3.3	-0.8	5.2	1.0	0.3	-0.8	-1.4
Greece	4.6	1.8	-6.9	-5.2	-4.7	0.0	0.0	3.4	1.2	-0.3	0.6	-0.1
Spain	3.1	-2.7	-0.5	-0.3	3.1	0.6	2.3	1.3	0.9	0.5	1.7	1.4
France	-2.9	-1.4	-0.2	-1.2	1.9	0.1	0.2	-0.7	-0.5	-0.1	-1.0	0.0
Italy	-0.4	-5.6	-7.9	1.7	-0.2	0.4	-1.5	-1.4	-0.9	-1.2	-0.8	-1.1
Cyprus	-1.3	-3.8	7.3	-5.1	-3.0	-3.0	-8.2	-1.1	-2.1	-2.5	-6.2	-4.1
Latvia	4.5	-1.4	5.0	0.8	1.5	5.6	-1.2	0.3	-0.8	-0.7	-0.4	0.0
Lithuania	-7.1	10.6	4.6	7.0	4.6	8.4	7.7	-0.9	1.8	1.5	2.9	1.0
Luxembourg	2.6	5.6	-1.7	-1.8	0.7	2.5	3.9	0.0	0.0	-0.4	0.2	-0.2
Malta	5.4	17.3	12.8	-3.1	-2.5	5.5	-3.7	-1.4	0.2	-0.2	-1.0	0.7
Netherlands	1.5	-0.8	3.6	-1.4	-0.8	2.4	0.5	0.1	-0.8	-0.7	-0.7	-0.4
Austria	0.5	-0.5	-4.0	1.4	0.6	0.2	-0.3	-0.8	-1.0	-0.8	0.1	0.1
Portugal	1.7	-1.2	2.7	-0.2	3.0	3.3	4.6	0.4	0.4	0.3	1.7	0.2
Slovenia	5.9	1.4	-4.0	0.3	1.4	-0.1	1.6	2.1	0.6	0.1	0.0	0.0
Slovakia	5.8	-0.2	-5.4	3.6	5.5	8.4	3.8	0.5	0.0	0.0	1.3	0.6
Finland	0.3	2.9	-9.0	-5.1	-5.3	-1.5	-3.9	-2.2	-2.2	-2.0	-1.3	-1.1
Euro area (b)	1.1	-1.2	-1.6	0.6	1.4	1.4	0.3	0.2	-0.3	-0.3	0.1	-0.1
Bulgaria	10.3	0.1	1.2	7.1	6.4	0.1	7.5	-1.0	-1.1	-1.6	1.4	1.1
Czech Republic	3.8	1.0	2.8	3.3	3.2	2.7	-1.2	4.8	1.0	0.4	0.6	0.4
Denmark	-2.7	0.8	2.2	-8.5	1.8	-1.6	-0.4	-2.1	-0.7	-1.0	-1.0	-1.4
Croatia	-3.2	-0.7	-1.6	-3.8	-2.9	0.3	1.6	3.0	-0.3	-0.4	-0.9	-1.6
Hungary	7.7	3.3	1.2	0.3	0.4	-2.8	4.4	3.0	1.7	0.3	1.4	0.3
Poland	2.0	3.4	7.0	1.3	1.6	2.6	3.5	1.1	-0.2	0.3	0.5	0.4
Romania	0.8	-4.8	8.1	4.6	6.2	0.3	19.6	6.1	1.0	0.7	2.6	0.2
Sweden	-1.3	-0.3	-2.9	2.0	1.0	-0.7	-2.4	-0.4	-0.1	-0.3	0.1	0.3
United Kingdom	-7.9	0.0	3.2	-3.9	0.6	-0.7	-1.4	-3.9	-1.1	-1.1	-1.4	-2.1
EU (b)	0.0	-0.7	-0.4	0.0	1.4	1.0	0.4	0.0	-0.3	-0.3	0.0	-0.3
USA	1.9	2.2	2.7	-1.1	0.2	0.0	-0.2	0.4	1.0	0.3	0.5	0.2
Japan	0.9	-2.2	-16.7	8.3	-6.9	-3.5	-1.6	3.5	-1.1	-1.8	-1.0	-1.3

(a) Index for exports of goods and services divided by an index for growth of markets.

(b) Intra- and extra-EU trade.

Table 55: World GDP, volume (percentage change on preceding year, 2009-16) 22.10.2014

							Autumn 2014 forecast			*Spring 2014 forecast*	
	(a)	2009	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
EU	17.2	-4.4	2.1	1.7	-0.4	0.0	**1.3**	**1.5**	**2.0**	*1.6*	*2.0*
Euro area	12.3	-4.5	2.0	1.6	-0.7	-0.5	**0.8**	**1.1**	**1.7**	*1.2*	*1.7*
Belgium	0.4	-2.6	2.5	1.6	0.1	0.3	**0.9**	**0.9**	**1.1**	*1.4*	*1.6*
Bulgaria	0.1	-5.0	0.7	2.0	0.5	1.1	**1.2**	**0.6**	**1.0**	*1.7*	*2.0*
Czech Republic	0.3	-4.8	2.3	2.0	-0.8	-0.7	**2.5**	**2.7**	**2.7**	*2.0*	*2.4*
Denmark	0.2	-5.1	1.6	1.3	-0.8	-0.1	**0.8**	**1.7**	**2.0**	*1.5*	*1.9*
Germany	3.4	-5.6	4.1	3.6	0.4	0.1	**1.3**	**1.1**	**1.8**	*1.8*	*2.0*
Estonia	0.0	-14.7	2.5	8.3	4.7	1.6	**1.9**	**2.0**	**2.7**	*1.9*	*3.0*
Ireland	0.2	-6.4	-0.3	2.8	-0.3	0.2	**4.6**	**3.6**	**3.7**	*1.7*	*3.0*
Greece	0.3	-4.4	-5.4	-8.9	-6.6	-3.3	**0.6**	**2.9**	**3.7**	*0.6*	*2.9*
Spain	1.5	-3.6	0.0	-0.6	-2.1	-1.2	**1.2**	**1.7**	**2.2**	*1.1*	*2.1*
France	2.5	-2.9	2.0	2.1	0.3	0.3	**0.3**	**0.7**	**1.5**	*1.0*	*1.5*
Croatia	0.1	-7.4	-1.7	-0.3	-2.2	-0.9	**-0.7**	**0.2**	**1.1**	*-0.6*	*0.7*
Italy	2.0	-5.5	1.7	0.6	-2.3	-1.9	**-0.4**	**0.6**	**1.1**	*0.6*	*1.2*
Cyprus	0.0	-2.0	1.4	0.3	-2.4	-5.4	**-2.8**	**0.4**	**1.6**	*-4.8*	*0.9*
Latvia	0.0	-14.2	-2.9	5.0	4.8	4.2	**2.6**	**2.9**	**3.6**	*3.8*	*4.1*
Lithuania	0.1	-14.8	1.6	6.1	3.8	3.3	**2.7**	**3.1**	**3.4**	*3.3*	*3.7*
Luxembourg	0.0	-5.3	5.1	2.6	-0.2	2.0	**3.0**	**2.4**	**2.9**	*2.6*	*2.7*
Hungary	0.2	-6.6	0.8	1.8	-1.5	1.5	**3.2**	**2.5**	**2.0**	*2.3*	*2.1*
Malta	0.0	-2.5	3.5	2.2	2.0	2.5	**3.0**	**2.9**	**2.7**	*2.3*	*2.3*
Netherlands	0.8	-3.3	1.1	1.7	-1.6	-0.7	**0.9**	**1.4**	**1.7**	*1.2*	*1.4*
Austria	0.4	-3.8	1.9	3.1	0.9	0.2	**0.7**	**1.2**	**1.5**	*1.6*	*1.8*
Poland	0.9	2.6	3.7	4.8	1.8	1.7	**3.0**	**2.8**	**3.3**	*3.2*	*3.4*
Portugal	0.3	-3.0	1.9	-1.8	-3.3	-1.4	**0.9**	**1.3**	**1.7**	*1.2*	*1.5*
Romania	0.4	-7.1	-0.8	1.1	0.6	3.5	**2.0**	**2.4**	**2.8**	*2.5*	*2.6*
Slovenia	0.1	-7.8	1.2	0.6	-2.6	-1.0	**2.4**	**1.7**	**2.5**	*0.8*	*1.4*
Slovakia	0.1	-5.3	4.8	2.7	1.6	1.4	**2.4**	**2.5**	**3.3**	*2.2*	*3.1*
Finland	0.2	-8.3	3.0	2.6	-1.5	-1.2	**-0.4**	**0.6**	**1.1**	*0.2*	*1.0*
Sweden	0.4	-5.2	6.0	2.7	-0.3	1.5	**2.0**	**2.4**	**2.7**	*2.8*	*3.0*
United Kingdom	2.3	-4.3	1.9	1.6	0.7	1.7	**3.1**	**2.7**	**2.5**	*2.7*	*2.5*
Candidate Countries	1.6	-4.5	8.2	8.0	1.9	4.0	**2.6**	**3.1**	**3.5**	*2.5*	*3.2*
- Turkey	1.4	-4.8	9.2	8.8	2.1	4.1	**2.8**	**3.3**	**3.7**	*2.6*	*3.3*
- The former Yugoslav Republic of Macedonia	0.0	-0.9	2.9	2.3	-0.5	2.7	**3.3**	**3.4**	**3.6**	*3.0*	*3.2*
- Iceland	0.0	-5.1	-2.9	2.1	1.1	3.5	**2.3**	**2.8**	**2.5**	*2.8*	*3.2*
- Montenegro	0.0	-5.7	2.5	3.0	-2.5	3.3	**2.0**	**3.0**	**3.5**	*2.9*	*3.6*
- Serbia	0.1	-3.1	0.6	1.4	-1.0	2.6	**-1.0**	**0.0**	**1.1**	*1.1*	*1.9*
- Albania	0.0	3.4	3.7	2.5	1.6	1.4	**1.8**	**2.9**	**3.5**	*:*	*:*
Potential Candidates	0.1	0.3	2.5	2.4	-0.2	1.5	**2.2**	**3.4**	**:**	*2.2*	*3.4*
USA	16.5	-2.8	2.5	1.6	2.3	2.2	**2.2**	**3.1**	**3.2**	*2.8*	*3.2*
Japan	4.6	-5.5	4.7	-0.5	1.5	1.5	**1.1**	**1.0**	**1.0**	*1.5*	*1.3*
Canada	1.5	-2.8	3.2	2.4	1.8	2.0	**2.3**	**2.5**	**2.6**	*2.3*	*2.5*
Norway	0.3	-1.6	0.5	1.3	2.9	0.6	**2.0**	**2.2**	**2.3**	*2.4*	*2.4*
Switzerland	0.4	-1.9	3.0	1.8	1.0	2.0	**1.4**	**2.0**	**1.9**	*2.1*	*1.9*
Australia	1.0	2.0	2.2	3.6	2.6	2.4	**2.8**	**2.8**	**3.0**	*2.8*	*3.0*
New Zealand	0.1	0.8	1.2	1.3	3.6	2.7	**3.5**	**2.8**	**2.8**	*3.1*	*2.8*
Advanced economies	43.2	-3.7	2.7	1.7	1.1	1.3	**1.8**	**2.2**	**2.5**	*2.2*	*2.5*
CIS	4.9	-6.5	5.0	4.8	3.5	0.9	**0.3**	**0.8**	**1.9**	*1.2*	*2.6*
- Russia	3.4	-7.8	4.5	4.3	3.4	1.3	**0.3**	**0.3**	**1.2**	*1.0*	*2.0*
- Other CIS	1.4	-2.9	6.1	6.1	3.5	0.0	**0.3**	**2.0**	**3.5**	*1.6*	*4.1*
MENA	7.0	1.7	5.4	1.0	4.5	1.6	**2.4**	**4.1**	**4.6**	*3.1*	*3.7*
- Asia	32.9	5.5	9.7	7.4	6.2	6.1	**6.1**	**6.3**	**6.4**	*6.0*	*6.1*
- China	15.8	9.5	10.6	9.4	7.8	7.6	**7.3**	**7.1**	**6.9**	*7.2*	*7.0*
- India	6.6	5.0	11.0	7.9	4.9	4.7	**5.8**	**6.4**	**6.9**	*4.7*	*5.4*
- Hong Kong	0.4	-2.5	6.8	4.8	1.5	2.9	**3.0**	**3.3**	**3.5**	*3.3*	*3.4*
- Korea	1.7	0.3	6.3	3.7	2.0	3.0	**3.7**	**3.8**	**3.9**	*3.7*	*3.8*
Indonesia	2.3	4.6	6.2	6.5	6.2	5.8	**5.4**	**5.7**	**6.0**	*5.8*	*6.0*
Latin America	8.7	-1.3	6.0	4.5	3.0	2.7	**1.4**	**2.4**	**3.2**	*2.9*	*3.4*
- Brazil	3.0	-0.3	7.5	2.7	1.0	2.5	**0.2**	**1.4**	**2.6**	*2.6*	*2.9*
- Mexico	2.0	-4.7	5.2	3.9	4.0	1.0	**2.4**	**3.7**	**3.9**	*2.9*	*3.8*
Sub-Saharan Africa	3.1	4.0	6.6	4.3	4.4	4.9	**5.2**	**5.8**	**5.9**	*5.3*	*5.5*
Emerging and developing economies	56.8	2.5	7.9	5.7	5.1	4.5	**4.4**	**5.0**	**5.3**	*4.7*	*5.1*
World	100.0	-0.5	5.5	3.9	3.3	3.1	**3.3**	**3.8**	**4.1**	*3.5*	*3.8*
World excluding EU	82.8	0.5	6.3	4.4	4.2	3.8	**3.7**	**4.3**	**4.5**	*3.9*	*4.2*
World excluding euro area	87.7	0.2	6.0	4.2	3.9	3.6	**3.6**	**4.2**	**4.4**	*3.8*	*4.1*

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2013.

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2009-16) 22.10.2014

	(a)	2009	2010	2011	2012	2013	Autumn 2014 forecast 2014	Autumn 2014 forecast 2015	Autumn 2014 forecast 2016	*Spring 2014 forecast 2014*	*Spring 2014 forecast 2015*
EU (b)	34.1	-11.9	10.5	6.6	2.2	2.1	**2.9**	**3.9**	**5.0**	*4.0*	*5.1*
Euro area (b)	25.7	-12.7	11.1	6.6	2.5	2.1	**3.1**	**3.9**	**5.0**	*4.0*	*5.3*
Candidate Countries	1.1	-5.0	4.9	6.4	15.5	1.5	**5.2**	**4.7**	**5.1**	*7.1*	*8.5*
- Turkey	0.9	-5.1	3.4	6.5	18.3	-0.3	**5.3**	**4.7**	**5.0**	*7.4*	*9.0*
- The former Yugoslav Republic of Macedonia	0.0	-15.8	23.6	10.5	0.0	3.8	**8.2**	**8.5**	**8.9**	*6.8*	*7.6*
- Iceland	0.0	8.3	1.8	3.4	3.9	6.9	**3.5**	**4.0**	**4.7**	*5.0*	*5.5*
- Montenegro	0.0	-22.4	7.5	14.1	-1.2	-1.3	**-1.0**	**1.7**	**3.7**	*3.0*	*5.4*
- Serbia	0.1	-6.9	15.0	5.0	0.8	21.3	**4.0**	**3.9**	**4.9**	*5.3*	*4.9*
- Albania	0.0	3.4	16.8	7.4	-0.6	6.2	**7.0**	**7.2**	**8.5**	*:*	*:*
USA	10.0	-8.8	11.9	6.9	3.3	3.0	**3.4**	**5.5**	**5.6**	*5.0*	*5.6*
Japan	3.5	-24.2	24.4	-0.4	-0.2	1.6	**6.8**	**4.0**	**4.0**	*4.0*	*4.9*
Canada	2.4	-13.6	5.8	5.0	2.5	1.7	**4.6**	**5.2**	**5.6**	*4.0*	*5.4*
Norway	0.9	-4.2	0.4	-0.7	1.1	-3.3	**3.3**	**4.0**	**4.0**	*3.9*	*5.7*
Switzerland	1.5	-7.7	7.7	3.8	2.5	2.0	**2.7**	**3.3**	**3.3**	*4.2*	*3.8*
Australia	1.4	2.2	5.6	-0.2	5.8	6.6	**4.6**	**5.5**	**5.5**	*6.2*	*5.7*
New Zealand	0.2	1.9	3.8	2.2	2.5	0.8	**2.0**	**2.5**	**3.0**	*3.5*	*3.0*
Advanced economies	55.1	-11.7	11.0	5.7	2.5	2.2	**3.4**	**4.3**	**5.0**	*4.3*	*5.2*
CIS	3.9	-16.0	10.1	7.9	1.4	2.5	**-0.6**	**1.1**	**2.6**	*2.5*	*4.2*
- Russia	2.6	-4.7	7.0	0.3	1.4	4.2	**0.4**	**1.5**	**2.0**	*3.2*	*4.3*
- Other CIS	1.3	-36.9	16.4	23.9	1.6	-0.9	**-2.6**	**0.4**	**3.7**	*1.1*	*3.9*
MENA	7.2	-4.9	4.2	3.0	7.7	1.1	**0.3**	**4.7**	**5.6**	*5.0*	*5.3*
- Asia	26.2	-7.8	19.6	8.8	4.4	5.8	**4.0**	**6.1**	**6.7**	*6.1*	*6.7*
- China	10.7	-10.2	27.7	10.3	7.0	8.7	**4.1**	**6.0**	**7.0**	*6.0*	*7.0*
- India	2.0	-6.9	12.6	12.8	7.6	4.2	**5.0**	**7.2**	**8.0**	*5.3*	*6.4*
- Hong Kong	2.5	-10.0	16.8	3.9	1.9	6.5	**6.3**	**7.9**	**8.1**	*7.9*	*8.1*
- Korea	3.2	-0.3	12.7	15.1	5.1	4.3	**4.1**	**5.2**	**5.5**	*5.5*	*5.8*
Indonesia	0.9	8.5	2.8	5.9	3.0	2.6	**1.1**	**5.1**	**5.2**	*7.8*	*9.2*
Latin America	5.6	-9.4	8.5	5.8	1.7	2.0	**2.2**	**4.0**	**5.3**	*5.0*	*5.9*
- Brazil	1.2	-10.8	9.5	2.9	-0.3	3.1	**2.3**	**3.7**	**6.2**	*5.6*	*5.8*
- Mexico	1.8	-13.5	21.6	7.5	3.5	1.2	**5.2**	**5.9**	**6.5**	*6.9*	*7.9*
Sub-Saharan Africa	2.0	-32.5	17.7	13.9	-10.0	-7.2	**3.1**	**4.3**	**3.8**	*5.6*	*5.4*
Emerging and developing economies	44.9	-9.6	14.8	7.7	3.7	3.7	**2.8**	**5.1**	**5.9**	*5.5*	*6.2*
World	100.0	-10.8	12.5	6.5	3.1	2.9	**3.1**	**4.7**	**5.4**	*4.8*	*5.6*
World excluding EU	65.9	-10.2	13.8	6.5	3.5	3.3	**3.2**	**5.0**	**5.6**	*5.2*	*5.9*
World excluding euro area	74.3	-10.1	13.2	6.5	3.3	3.1	**3.1**	**4.9**	**5.6**	*5.1*	*5.8*

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2013.

(b) Intra- and extra-EU trade.

Table 57: Export shares in EU trade (goods only - 2013) 22.10.2014

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	64.3	47.9	2.1	6.2	1.2	5.8	3.3	4.6	3.5	4.6	2.7	1.7
Euro area	64.3	47.4	2.0	6.2	1.3	5.3	3.6	4.5	3.3	4.8	3.0	1.8
Belgium	74.0	60.6	1.2	4.6	0.8	2.8	2.0	5.0	1.6	3.9	1.8	2.3
Bulgaria	61.9	46.7	13.2	1.6	0.3	1.6	3.1	3.3	6.0	7.2	0.5	1.3
Czech Republic	81.5	64.1	1.9	2.3	0.5	2.7	1.4	1.6	5.0	1.8	0.8	0.5
Denmark	65.4	39.3	1.3	6.4	1.9	8.7	3.2	4.5	2.5	2.7	2.6	0.8
Germany	59.1	38.6	2.2	7.4	1.5	6.8	6.1	5.0	4.1	3.6	3.1	1.2
Estonia	73.6	48.4	1.8	2.4	0.7	5.2	1.1	2.0	10.9	1.1	0.8	0.5
Ireland	56.9	37.7	0.7	21.4	2.3	8.4	2.4	2.6	1.0	1.8	1.7	0.8
Greece	50.4	34.6	19.4	3.2	0.4	1.7	1.5	3.0	3.3	14.9	1.3	1.0
Spain	65.2	52.6	2.3	3.8	1.1	3.8	1.9	2.7	2.1	8.0	6.9	2.1
France	59.3	46.9	1.6	6.9	1.8	5.0	3.7	6.4	2.5	6.8	3.2	2.8
Croatia	68.9	58.2	10.2	3.7	0.6	3.0	0.9	1.0	4.8	5.1	0.7	1.2
Italy	53.5	40.1	3.5	7.3	1.7	7.3	3.0	5.4	4.0	8.8	4.0	1.5
Cyprus	51.1	32.4	0.3	1.7	0.5	1.3	1.4	23.2	3.7	14.6	0.9	1.4
Latvia	69.3	49.2	1.5	1.5	0.5	3.3	0.8	1.8	16.6	3.7	0.4	0.5
Lithuania	61.7	41.5	0.7	4.3	0.3	3.5	0.4	1.2	24.4	2.8	0.3	0.4
Luxembourg	82.7	73.0	1.6	2.9	0.4	4.1	1.3	2.0	1.6	2.0	0.9	0.7
Hungary	78.3	56.5	3.0	2.9	0.6	1.9	1.9	1.5	5.7	2.3	1.3	0.7
Malta	44.1	34.8	1.4	3.4	4.2	2.2	9.2	21.6	1.6	9.6	1.4	1.2
Netherlands	79.0	62.3	1.0	3.2	0.7	2.9	1.6	3.3	1.8	2.9	1.9	1.9
Austria	71.4	54.4	1.6	5.1	0.9	6.3	2.5	3.1	4.0	2.5	1.9	0.6
Poland	77.3	55.0	2.2	2.2	0.4	3.0	1.1	1.5	9.0	1.6	1.0	0.6
Portugal	69.3	59.6	1.0	4.5	0.5	2.5	1.9	1.4	1.1	4.5	3.6	9.9
Romania	68.8	51.0	6.8	2.2	0.6	1.7	1.4	2.3	7.2	6.6	1.4	0.9
Slovenia	77.0	55.1	5.1	1.7	0.2	2.3	0.8	1.5	6.9	3.5	0.6	0.4
Slovakia	84.5	46.1	2.2	1.5	0.2	2.4	2.4	0.5	4.7	0.9	0.4	0.2
Finland	55.9	33.5	1.6	6.2	1.8	6.8	5.0	5.5	9.6	3.3	3.2	1.1
Sweden	60.9	42.3	1.5	5.5	1.3	12.1	3.7	4.4	2.6	4.0	2.7	1.3
United Kingdom	50.5	44.7	1.6	10.3	1.3	12.1	3.1	8.4	2.0	6.1	2.2	2.3

Table 58: World imports of goods and services, volume (percentage change on preceding year, 2009-16) 22.10.2014

	(a)	2009	2010	2011	2012	2013	Autumn 2014 forecast 2014	2015	2016	*Spring 2014 forecast 2014*	*2015*
EU (b)	32.8	-11.7	9.7	4.3	-0.4	1.3	**3.1**	**4.0**	**5.3**	*3.7*	*5.2*
Euro area (b)	24.3	-11.5	9.8	4.4	-1.0	1.2	**3.2**	**3.9**	**5.5**	*3.8*	*5.5*
Candidate Countries	1.4	-14.8	17.3	10.3	-0.2	8.2	**-0.2**	**3.7**	**5.4**	*1.2*	*3.5*
- Turkey	1.2	-14.3	20.7	10.9	-0.5	9.0	**-1.0**	**3.7**	**5.5**	*0.7*	*3.3*
- The former Yugoslav Republic of Macedonia	0.0	-14.3	9.5	10.4	4.0	-1.6	**8.1**	**8.0**	**7.5**	*7.4*	*6.8*
- Iceland	0.0	-22.4	4.3	6.8	4.9	0.4	**7.8**	**6.7**	**6.5**	*6.6*	*7.2*
- Montenegro	0.0	-30.2	-3.1	3.1	-0.5	-3.1	**-0.7**	**1.5**	**4.6**	*2.7*	*4.5*
- Serbia	0.1	-19.6	4.4	7.9	1.4	8.5	**2.5**	**0.4**	**2.7**	*2.4*	*3.6*
- Albania	0.0	3.4	0.6	6.1	-6.6	2.1	**6.2**	**6.5**	**7.7**	*:*	*:*
USA	12.5	-13.7	12.7	5.5	2.3	1.1	**4.2**	**5.3**	**5.7**	*3.5*	*6.0*
Japan	4.2	-15.7	11.1	5.9	5.3	3.4	**6.5**	**3.3**	**2.5**	*4.3*	*2.8*
Canada	2.6	-12.7	10.1	5.6	2.1	2.1	**2.8**	**3.3**	**3.7**	*3.6*	*4.2*
Norway	0.7	-12.5	9.0	3.8	2.3	2.9	**4.4**	**3.8**	**4.0**	*2.8*	*5.0*
Switzerland	1.2	-5.2	8.4	4.2	3.1	1.8	**2.3**	**3.3**	**3.1**	*3.7*	*3.4*
Australia	1.4	-8.9	15.2	10.9	6.4	-2.0	**1.4**	**3.1**	**3.7**	*2.4*	*4.0*
New Zealand	0.2	-14.5	10.9	7.0	2.7	6.0	**3.0**	**3.4**	**3.4**	*5.5*	*4.0*
Advanced economies	57.1	-12.3	10.7	5.0	1.0	1.6	**3.4**	**4.1**	**5.0**	*3.6*	*5.1*
CIS	3.4	-27.8	17.9	18.3	6.9	1.9	**-6.0**	**1.4**	**3.4**	*1.5*	*5.4*
- Russia	2.1	-30.4	25.8	20.3	8.8	3.7	**-6.0**	**1.0**	**3.0**	*3.3*	*5.5*
- Other CIS	1.2	-23.9	6.7	15.3	3.7	-1.0	**-5.9**	**2.1**	**3.9**	*-1.5*	*5.2*
MENA	5.3	-5.0	4.3	-0.4	7.0	4.0	**3.0**	**6.5**	**7.1**	*5.4*	*5.6*
- Asia	26.1	-5.4	18.9	6.1	5.9	5.3	**3.2**	**5.8**	**6.6**	*6.0*	*7.0*
- China	10.3	4.9	20.4	12.0	8.2	10.8	**3.6**	**6.3**	**7.3**	*6.3*	*7.3*
- India	2.5	-0.6	15.4	-20.7	11.4	-4.3	**-1.0**	**3.1**	**5.4**	*2.9*	*6.4*
- Hong Kong	2.7	-9.0	17.4	4.6	2.9	6.9	**6.4**	**7.8**	**7.9**	*7.8*	*7.9*
- Korea	2.9	-6.8	17.3	14.3	2.4	1.6	**4.6**	**4.8**	**5.5**	*4.8*	*5.7*
Indonesia	1.0	-10.4	18.5	15.7	15.7	0.1	**-2.2**	**3.3**	**4.0**	*5.7*	*7.4*
Latin America	6.0	-16.1	22.0	11.3	3.3	3.3	**2.0**	**3.5**	**4.8**	*5.8*	*6.7*
- Brazil	1.5	-17.5	38.2	8.9	-2.3	8.6	**-0.4**	**1.6**	**3.3**	*7.0*	*7.4*
- Mexico	1.9	-16.6	20.3	8.2	4.4	1.8	**6.0**	**7.2**	**7.8**	*6.7*	*8.7*
Sub-Saharan Africa	2.2	-18.4	6.6	13.5	-7.7	-2.6	**5.0**	**4.6**	**4.6**	*5.9*	*6.2*
Emerging and developing economies	42.9	-9.6	16.5	7.3	5.1	4.2	**2.4**	**5.2**	**6.1**	*5.5*	*6.6*
World	100.0	-11.4	12.8	5.9	2.7	2.7	**3.0**	**4.6**	**5.5**	*4.4*	*5.7*
World excluding EU	67.2	-11.1	14.8	6.8	4.3	3.4	**2.9**	**4.9**	**5.6**	*4.8*	*6.0*
World excluding euro area	75.7	-11.3	14.1	6.4	3.9	3.1	**2.9**	**4.8**	**5.5**	*4.6*	*5.8*

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2013.

(b) Intra- and extra-EU trade.

Table 59: Import shares in EU trade (goods only - 2013) 22.10.2014

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	63.9	49.6	1.4	4.2	1.2	5.0	6.1	4.7	5.9	3.5	2.2	1.8
Euro area	63.4	48.7	1.4	4.3	1.3	4.6	5.9	4.7	6.1	4.1	2.5	1.9
Belgium	67.8	57.2	0.9	7.3	1.7	3.9	3.8	5.3	2.6	3.2	2.1	1.4
Bulgaria	63.4	45.0	8.1	0.9	0.2	1.6	3.3	1.9	17.1	1.1	1.7	0.6
Czech Republic	78.4	61.8	0.9	1.4	1.0	1.8	5.4	4.0	6.6	0.3	0.2	0.2
Denmark	72.4	48.7	1.3	2.2	0.4	8.2	6.0	4.0	1.7	1.2	1.6	1.1
Germany	66.8	47.0	1.5	3.9	1.6	6.5	6.2	4.6	4.7	1.5	1.6	1.1
Estonia	75.0	53.9	0.7	1.1	0.8	1.6	4.6	2.2	13.2	0.2	0.2	0.3
Ireland	72.5	28.2	0.5	9.6	1.5	4.5	3.8	3.7	0.5	0.9	1.9	0.5
Greece	49.1	38.3	3.4	1.1	0.3	1.9	5.0	4.7	17.4	15.4	1.5	0.4
Spain	57.0	47.5	1.5	3.1	0.7	2.8	5.7	4.2	3.6	9.8	7.2	4.6
France	69.8	58.8	1.1	4.4	0.9	4.3	4.4	3.8	3.0	5.1	1.3	1.9
Croatia	69.2	54.8	3.8	1.7	0.4	1.7	6.7	2.3	10.9	1.1	1.7	0.4
Italy	57.1	46.2	2.3	3.2	0.7	4.1	6.1	4.5	9.6	7.8	2.5	2.1
Cyprus	60.7	49.6	0.4	1.0	1.7	1.5	6.3	5.0	11.7	11.1	0.4	0.1
Latvia	61.0	45.5	0.6	1.3	0.1	1.4	3.9	2.0	28.7	0.3	0.6	0.0
Lithuania	59.4	40.1	1.1	1.8	0.1	1.5	3.7	1.2	30.0	0.4	0.7	0.1
Luxembourg	80.6	76.8	0.2	7.5	0.6	1.3	6.5	1.6	0.1	0.2	1.5	0.0
Hungary	73.6	56.7	1.2	1.5	1.2	0.9	6.4	4.0	9.4	0.5	1.1	0.1
Malta	42.2	33.3	4.5	3.1	1.1	2.7	11.8	11.9	18.3	3.8	0.2	0.5
Netherlands	46.1	34.4	0.9	6.6	2.2	5.1	10.8	7.1	9.6	4.0	4.7	2.8
Austria	80.5	66.6	1.1	2.0	0.5	5.1	2.3	2.9	3.1	1.3	0.3	0.9
Poland	72.4	58.5	1.1	1.6	0.7	2.0	5.8	3.4	11.7	0.3	0.7	0.3
Portugal	72.1	65.5	0.8	1.2	0.4	1.8	2.8	2.4	3.3	4.2	2.5	8.4
Romania	76.4	54.0	4.5	1.1	0.4	1.4	3.8	2.1	8.1	0.9	1.0	0.2
Slovenia	74.5	57.8	5.1	1.4	0.4	1.8	5.1	6.1	1.6	1.8	2.0	0.3
Slovakia	77.0	42.6	1.0	0.4	0.5	0.8	4.0	6.3	9.8	0.2	0.1	0.0
Finland	64.3	38.3	0.4	2.6	0.5	3.3	5.1	2.8	18.2	0.4	1.7	0.8
Sweden	72.0	51.5	0.9	2.7	0.9	8.4	4.8	3.4	3.9	0.5	1.3	1.3
United Kingdom	55.8	48.2	1.5	6.5	1.6	9.4	8.3	6.4	2.5	3.3	2.2	2.6

Table 60: World merchandise trade balances (fob-fob, in billions of US dollar, 2008-16) 22.10.2014

							Autumn 2014 forecast			*Spring 2014 forecast*	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
EU	-165.6	6.6	-28.9	-37.9	91.7	211.2	**223.8**	**226.1**	**225.7**	*168.6*	*166.8*
EU, adjusted[1]	-344.6	-133.8	-178.5	-210.8	-78.4	28.9	**40.8**	**52.0**	**51.7**	*67.9*	*66.0*
Euro area	79.9	140.4	122.5	121.4	259.0	359.6	**390.7**	**397.3**	**406.7**	*319.1*	*319.9*
Euro area, adjusted[1]	86.3	142.1	124.7	124.3	260.4	360.8	**392.6**	**399.6**	**409.6**	*319.1*	*319.9*
Candidate Countries	-73.1	-38.6	-68.8	-101.9	-76.9	-88.6	**-76.6**	**-73.5**	**-79.6**	*-75.8*	*-66.9*
USA	-850.4	-525.2	-670.3	-778.0	-777.7	-737.3	**-778.5**	**-825.6**	**-887.4**	*-719.5*	*-779.6*
Japan	38.9	43.2	91.0	-20.3	-72.9	-92.6	**-98.7**	**-93.2**	**-81.8**	*-111.1*	*-101.6*
Norway	78.9	45.7	50.0	68.1	69.2	59.5	**59.9**	**60.2**	**63.3**	*61.2*	*69.1*
Switzerland	11.0	12.5	12.7	16.3	16.5	16.6	**18.7**	**19.2**	**20.8**	*25.8*	*28.2*
Advanced economies	-919.8	-460.0	-600.2	-817.1	-763.5	-619.2	**-643.6**	**-669.7**	**-705.7**	*-650.4*	*-676.7*
CIS	213.5	103.7	162.6	228.4	220.8	209.7	**218.0**	**189.7**	**180.0**	*175.2*	*175.7*
- Russia	178.2	111.0	151.9	198.6	194.1	183.0	**191.2**	**175.2**	**174.4**	*146.2*	*149.8*
MENA	526.7	293.4	388.5	900.3	616.2	591.4	**512.8**	**435.3**	**458.2**	*151.5*	*133.3*
Asia	224.9	243.6	182.3	76.0	68.5	169.8	**298.1**	**395.8**	**431.0**	*204.8*	*240.6*
- China	297.0	197.6	182.1	156.3	231.2	259.9	**357.2**	**428.7**	**483.7**	*359.7*	*419.8*
Latin America	41.2	50.5	50.2	73.2	44.9	22.5	**13.9**	**4.8**	**-2.3**	*20.1*	*7.3*
Sub-Saharan Africa	66.5	22.2	57.6	73.0	46.6	45.1	**28.8**	**15.1**	**1.9**	*24.7*	*10.8*
Emerging and developing economies	1072.8	713.5	841.3	1350.8	996.9	1038.4	**1071.7**	**1040.8**	**1068.8**	*576.4*	*567.7*
World	152.9	253.5	241.1	533.7	233.5	419.2	**428.0**	**371.0**	**363.1**	*-74.0*	*-109.0*

[1] See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2008-16) 22.10.2014

							Autumn 2014 forecast			*Spring 2014 forecast*	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*
EU	-250.0	-22.6	-4.0	38.0	165.0	260.4	**268.1**	**271.1**	**278.6**	*340.9*	*350.5*
EU, adjusted[1]	-406.9	-115.0	-88.6	-48.4	93.1	189.3	**196.8**	**203.2**	**210.7**	*269.9*	*279.4*
Euro area	-99.3	43.6	51.5	72.5	239.7	320.5	**340.5**	**341.2**	**339.4**	*394.2*	*398.9*
Euro area, adjusted[1]	-93.2	42.8	51.6	74.1	240.1	319.8	**340.1**	**341.4**	**340.1**	*394.2*	*398.9*
Candidate Countries	-57.9	-20.2	-51.9	-82.3	-55.9	-68.7	**-52.7**	**-49.4**	**-52.7**	*-51.4*	*-38.4*
USA	-686.1	-377.3	-447.9	-480.5	-482.2	-422.2	**-451.0**	**-489.7**	**-539.3**	*-385.3*	*-443.8*
Japan	160.7	147.0	204.0	119.8	60.5	36.8	**26.4**	**37.7**	**54.9**	*31.7*	*57.1*
Norway	73.0	44.6	50.2	66.5	71.7	56.8	**56.7**	**57.0**	**59.7**	*60.6*	*68.2*
Switzerland	12.9	58.5	83.9	62.5	72.6	87.9	**79.1**	**78.8**	**83.4**	*111.8*	*121.7*
Advanced economies	-806.2	-262.1	-269.6	-371.2	-301.7	-157.5	**-158.1**	**-172.3**	**-183.2**	*11.5*	*25.2*
CIS	103.6	37.8	68.4	96.1	60.1	24.5	**88.2**	**61.0**	**47.2**	*47.1*	*37.0*
- Russia	102.3	48.7	71.0	93.7	69.4	33.8	**62.0**	**48.0**	**43.3**	*18.5*	*11.1*
MENA	347.5	92.9	195.8	416.1	457.1	422.0	**298.2**	**192.7**	**180.2**	*101.3*	*86.2*
Asia	518.3	419.6	372.1	254.9	274.6	309.4	**460.4**	**541.6**	**566.9**	*386.8*	*411.1*
- China	420.6	243.3	237.8	136.1	215.4	182.8	**267.1**	**322.1**	**357.5**	*290.1*	*334.6*
Latin America	-35.4	-28.3	-60.7	-78.0	-104.5	-146.9	**-99.2**	**-111.8**	**-121.3**	*-131.1*	*-148.0*
Sub-Saharan Africa	-9.2	-33.7	-4.7	-9.3	-34.4	-34.9	**26.8**	**21.0**	**21.7**	*-34.7*	*-42.3*
Emerging and developing economies	924.8	488.3	570.8	679.8	652.9	574.0	**774.4**	**704.4**	**694.7**	*369.3*	*344.1*
World	118.6	226.2	301.2	308.6	351.3	416.5	**616.3**	**532.2**	**511.5**	*380.8*	*369.3*

[1] See note 8 on concepts and sources.

Table 62: Primary commodity prices (in US dollar, percentage change on preceding year, 2008-16)

STIC							Autumn 2014 forecast			*Spring 2014 forecast*	
Classification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2014	2015
Food	21.6	-11.1	11.5	17.5	-2.7	1.9	**-2.2**	**-3.9**	**-0.3**	*-1.1*	*-0.7*
Basic materials	8.8	-23.6	39.8	19.1	-14.3	-4.8	**-4.1**	**1.1**	**1.9**	*-2.9*	*2.3*
- of which:											
Agricultures non-food	7.7	-20.2	29.5	25.9	-11.8	-4.6	**3.1**	**-2.4**	**0.5**	*1.8*	*-0.3*
- of which:											
Wood and pulp	3.0	-10.3	6.2	9.0	-5.8	1.2	**3.5**	**-1.0**	**0.8**	*1.0*	*0.8*
Minerals and metals	9.5	-25.7	46.6	15.2	-15.8	-4.9	**-8.9**	**3.7**	**2.9**	*-6.0*	*4.3*
Fuel products	38.1	-36.7	26.3	38.0	1.3	-2.9	**-5.3**	**-9.5**	**1.9**	*-1.3*	*-3.9*
- of which:											
Crude petroleum	36.2	-36.9	28.8	38.3	0.8	-2.7	**-5.7**	**-11.2**	**1.9**	*-1.1*	*-4.3*
Primary Commodities											
- Total excluding fuels	14.1	-18.0	26.2	18.5	-9.4	-1.8	**-3.2**	**-1.3**	**0.9**	*-2.0*	*0.9*
- Total including fuels	33.9	-34.0	26.3	34.5	-0.4	-2.7	**-5.0**	**-8.3**	**1.7**	*-1.4*	*-3.2*
					Crude petroleum - price per barrel						
Brent (usd)	98.6	62.3	80.2	110.9	111.8	108.8	**102.6**	**91.0**	**92.8**	*107.6*	*102.9*
Brent (euro)	67.1	44.6	60.5	79.7	87.0	81.9	**76.9**	**71.6**	**73.0**	*78.2*	*74.7*

Note on concepts and sources

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts in Winter, Spring and Autumn.These forecasts cover the principal macroeconomic aggregates for the Member States, the candidate countries,the European Union as a whole, the euro area and the international environment.

2. Data for 2014, 2015 and 2016 are forecasts. The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of Accounting (ESA 2010). Most Member States have now introduced chain-linking in their national accounts to measure the development of economic aggregates in volume terms.For the USA and Japan the definitions are as in the SNA.

3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.

4. In Tables 17 and 18, the data are based on the national index for USA and Japan, and for EU Member States and aggregates prior to 1996.

5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.

6. Employment data used in tables 23-29 and 32-33 are based on full-time-equivalents (FTEs), where available. Currently, Spain, France, Italy, the Netherlands and Austria report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.

7. Source: National Accounts (ESA2010). 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, aggregation is carried out on the basis of current exchange rates.Tables 49 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2013.

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, Iceland, Montenegro, Serbia, and Albania.

Potential candidates :

Bosnia-Herzegovina and Kosovo.

Advanced economies :

EU, candidate countries, USA, Japan, Canada, Norway, Switzerland, Australia and New Zealand.

MENA (Middle East and Northern Africa) :

Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, and the United Arab Emirates.

Asia :

All countries in that region except Japan and the Asian MENA countries.

Latin America :

All countries in that region.

Sub-Saharan Africa :

All countries in that region except the African MENA countries.

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