



European  
Commission

# European Economic Forecast

Autumn 2012

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*Economic and  
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European Commission

Directorate-General for Economic and Financial Affairs

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# European Economic Forecast

Autumn 2012

## ABBREVIATIONS

### Countries and regions

|       |   |
|-------|---|
| EU    | European Union                                |
| EA    | euro area                                     |
| BE    | Belgium                                       |
| BG    | Bulgaria                                      |
| CZ    | Czech Republic                                |
| DK    | Denmark                                       |
| DE    | Germany                                       |
| EE    | Estonia                                       |
| EL    | Greece  |
| ES    | Spain   |
| FR    | France  |
| IE    | Ireland                                       |
| IT    | Italy   |
| CY    | Cyprus  |
| LV    | Latvia  |
| LT    | Lithuania                                     |
| LU    | Luxemburg                                     |
| 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                                |
| HR    | Croatia                                       |
| 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       |

|       |  |
|-------|--|
| MTO   | Medium-Term Objective  |
| NAWRU | Non-Accelerating Wage Rate of Unemployment                               |
| OIS   | Overnight Index Swaps  |
| PMI   | Purchasing Managers' Index   |
| REER  | Real Effective Exchange Rate   |
| RWA   | Risk-Weighted Assets   |
| SGP   | Stability and Growth Pact  |
| VAT   | Value-Added Tax  |
| CBR   | Central Bank of Russia   |
| CPB   | Centraal Planbureau, the Netherlands Bureau for Economic Policy Analysis |
| EBA   | European Banking Authority   |
| ECB   | European Central Bank  |
| EFSF  | European Financial Stabilisation Facility                                |
| ESM   | European Stability Mechanism   |
| Fed   | Federal Reserve, US  |
| IMF   | International Monetary Fund  |
| NBR   | National Bank of Romania   |
| NFI   | Non-financial institutions   |
| OBR   | Office for Budget Responsibility, UK                                     |
| OECD  | Organisation for Economic Cooperation and Development                    |
| PBoC  | People's Bank of China   |
| S&P   | Standard and Poor's  |
| WTO   | World Trade Organisation   |

#### Other abbreviations

|       |   |
|-------|---|
| BCA   | Budget Control Act, US  |
| BLS   | Bank Lending Survey   |
| COLA  | Cost-of-living allowance / Cost-of-living adjustment            |
| CP    | Convergence Programme   |
| DSGE  | Dynamic stochastic general equilibrium [model]                  |
| FDI   | Foreign Direct Investment                                       |
| FLS   | Funding for Lending Scheme, UK                                  |
| FX    | Foreign Exchange  |
| FY    | Financial year  |
| JPA   | Job Protection Act, Hungary                                     |
| LFS   | Labour Force Survey   |
| LTRO  | Longer-Term Refinancing Operation                               |
| MBS   | Mortgage-Backed Securities                                      |
| MRO   | Main Refinancing Operations                                     |
| OMT   | Outright Monetary Transactions                                  |
| PAYG  | Pay As You Go [pension scheme]                                  |
| PPP   | Public-Private Partnership                                      |
| QE    | Quantitative Easing   |
| QUEST | Quarterly Estimation and Simulation Tool, DG ECFIN's DSGE model |
| SOEs  | State-Owned Enterprises   |
| VERP  | Voluntary Early Retirement Pension, Denmark                     |

#### Graphs/Tables/Units

|      |                |
|------|----------------|
| a.a. | Annual average |
| bbl  | Barrel         |

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

## Currencies

|     |                             |
|-----|-----------------------------|
| EUR | Euro                        |
| ECU | European currency unit      |
| EMU | Economic and Monetary Union |
| 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            |
| LVL | Latvian lats                |
| 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                   |

# CONTENTS

|  |     |
|--|-----|
| Overview   | 1   |
| PART I: Economic developments at the aggregated level                | 7   |
| The EU economy: Sailing through rough waters                         | 9   |
| 1. A mild recovery ahead amid continued structural adjustment        | 10  |
| 2. The external environment  | 11  |
| 3. Financial markets in Europe                                       | 14  |
| 4. The EU economy  | 16  |
| 5. Risks   | 28  |
| PART II: Prospects by individual economy                             | 47  |
| Member States  | 49  |
| 1. Belgium: Fiscal consolidation amid a subdued growth outlook       | 50  |
| 2. Bulgaria: Domestic demand sustaining growth                       | 52  |
| 3. The Czech Republic: Low consumption weighs on the economy         | 54  |
| 4. Denmark: Muted growth in a phase of adjustment                    | 56  |
| 5. Germany: Robust consumption despite uncertain environment         | 58  |
| 6. Estonia: Returning to balanced growth                             | 61  |
| 7. Ireland: The road to recovery is still challenging                | 63  |
| 8. Greece: Fiscal consolidation in the midst of internal adjustment  | 65  |
| 9. Spain: Deep adjustment continues                                  | 67  |
| 10. France: One more year of flat growth before recovery             | 70  |
| 11. Italy: Uncertainty and tight financing conditions delay recovery | 73  |
| 12. Cyprus: Deep recession to prevail over the forecast horizon      | 76  |
| 13. Latvia: Growing fast again                                       | 78  |
| 14. Lithuania: Growth continues at a slower pace                     | 80  |
| 15. Luxembourg: Approaching a crossroad                              | 82  |
| 16. Hungary: Fiscal challenges amidst subdued growth prospects       | 84  |
| 17. Malta: Resilient labour market underpins gradual demand recovery | 87  |
| 18. The Netherlands: Slowly emerging from the doldrums               | 89  |
| 19. Austria: A gradual return to normality                           | 92  |
| 20. Poland: Growth slows down as domestic demand falters             | 94  |
| 21. Portugal: Faster-than-expected rebalancing towards net exports   | 97  |
| 22. Romania: Modest recovery ahead                                   | 99  |
| 23. Slovenia: Deleveraging needs delay recovery                      | 101 |
| 24. Slovakia: Economy still resilient but losing pace in 2013        | 103 |
| 25. Finland: Growth losing pace, but labour market remaining strong  | 105 |
| 26. Sweden: Slowdown but no recession                                | 107 |
| 27. The United Kingdom: Subdued growth amid continuing uncertainty   | 109 |
| Acceding Countries   | 113 |
| 28. Croatia: Little growth but some fiscal consolidation             | 114 |

|   |     |
|---|-----|
| Candidate Countries   | 117 |
| 29. The former Yugoslav Republic of Macedonia: From a moderate recession to an investment driven recovery | 118 |
| 30. Iceland: Recovery on track amid risks and uncertainties   | 120 |
| 31. Montenegro: Seeking the restoration of the lending channel  | 122 |
| 32. Serbia: Recession followed by a sluggish recovery   | 124 |
| 33. Turkey: Growth slows down and rebalances away from consumption  | 126 |
| Other non-EU Countries  | 129 |
| 34. The United States of America: Subdued growth amid looming fiscal uncertainties                        | 130 |
| 35. Japan: Recovery stalling after the solid first half of 2012   | 133 |
| 36. China: Mixed signals for the short term, while structural challenges remain                           | 135 |
| 37. EFTA: Resilience put to the test  | 137 |
| 38. Russian Federation: Continuing on a moderate growth path  | 140 |
| Statistical Annex   | 145 |

## LIST OF TABLES

|      |  |    |
|------|--|----|
| 1.   | Overview - the autumn 2012 forecast                      | 1  |
| I.1. | International environment                                | 12 |
| I.2. | Main features of the autumn 2012 forecast - EU           | 17 |
| I.3. | Main features of the autumn 2012 forecast - euro area    | 18 |
| I.4. | Composition of growth - EU                               | 20 |
| I.5. | Composition of growth - euro area                        | 21 |
| I.6. | Labour market outlook - euro area and EU                 | 23 |
| I.7. | General government budgetary position - euro area and EU | 27 |
| I.8. | Euro-area debt dynamics                                  | 28 |

## LIST OF GRAPHS

|       |  |    |
|-------|--|----|
| I.1.  | Real GDP, EU   | 9  |
| I.2.  | HICP, EU   | 9  |
| I.3.  | Current-account imbalances, euro area  | 10 |
| I.4.  | Multi-speed real GDP growth in the EU, annual growth rates (weighted)                                | 11 |
| I.5.  | World trade and Global PMI manufacturing output  | 12 |
| I.6.  | Commodity-price developments   | 13 |
| I.7.  | Real GDP growth in EU, non-EU advanced and emerging economies  | 13 |
| I.8.  | Ten-year government-bond yields, selected euro-area Member States                                    | 14 |
| I.9.  | Stock-market indices, euro area  | 15 |
| I.10. | Bank lending to households and non-financial corporations, euro area                                 | 15 |
| I.11. | Net changes in credit standards and credit demand for loans to non-financial corporations, euro area | 16 |

|       |  |    |
|-------|--|----|
| I.12. | GDP growth and its components, EU                                    | 16 |
| I.13. | Economic Sentiment Indicator and PMI Composite Output Index, EU      | 17 |
| I.14. | Real GDP growth , EU, contributions by Member States                 | 18 |
| I.15. | Equipment investment and capacity utilisation, euro area             | 19 |
| I.16. | Construction investment and building permits, euro area              | 19 |
| I.17. | Private consumption and consumer confidence, euro area               | 20 |
| I.18. | Global demand, euro-area exports and new export orders               | 21 |
| I.19. | Current-account balances, euro area and Member States                | 22 |
| I.20. | Employment growth and unemployment rate, EU                          | 23 |
| I.21. | Employment expectations, DG ECFIN surveys, euro area                 | 24 |
| I.22. | HICP, euro area  | 25 |
| I.23. | Inflation breakdown, EU  | 26 |
| I.24. | Producer Price Inflation and survey inflation expectations, EU       | 26 |
| I.25. | Budgetary developments, euro area                                    | 27 |
| I.26. | General government revenues and expenditure, EU                      | 28 |
| I.27. | Euro area GDP forecasts - Uncertainty linked to the balance of risks | 29 |

## LIST OF BOXES

|      |  |    |
|------|--|----|
| I.1. | Ongoing adjustment in the euro-area periphery                                | 30 |
| I.2. | Assessing the impact of diverging financing conditions within the euro area  | 34 |
| I.3. | The role of expectations and confidence indicators in short-term forecasting | 37 |
| I.4. | Euro-area labour markets: less resilience and more divergence ahead?         | 39 |
| I.5. | Forecast errors and multiplier uncertainty                                   | 41 |
| I.6. | Some technical elements behind the forecast                                  | 45 |



## EDITORIAL

The EU economy continues to deal with a difficult post-financial crisis correction, which bears heavily on its growth and employment performance. This forecast has been prepared against a mixed background of mostly disappointing hard data and survey indicators since our spring forecast, encouraging signs of progressing economic adjustment in Member States and important policy advances. Wide cross-country divergences in economic activity and labour market dynamics have opened, originating primarily in varying needs for public- and private-sector deleveraging and for reallocation of resources across sectors, but also in large disparities in financing conditions. The distress in more vulnerable Member States has progressively started to affect the remainder of the Union.

The aggravation of the sovereign-debt crisis in the first half of the year, with rising market concerns about the long-term viability of the euro area and negative feedbacks between banks' funding pressures and economic activity, and to a lesser extent the unexpected slowdown in non-EU GDP growth and global trade, are the main reasons for the disappointing growth performance in 2012. Due to the weak starting point, the gradual recovery setting in in 2013 will result in a low annual GDP growth rate of ½% for 2013 in the EU, while GDP in the euro area will remain unchanged. GDP growth is forecast to rise in 2014 to around 1½% in the EU and the euro area, with domestic demand returning to provide a positive contribution to growth on the back of an expected normalisation of financing conditions, a stabilisation of sectoral balance sheets and returning confidence. The weak short-term growth outlook raises concerns for the labour markets, where a further rise in the already high unemployment rate next year appears likely. Bold reforms are needed to prevent a prolonged period of high unemployment, which would bring social hardship and a destruction of human capital detrimental to longer-term growth.

Two elements instil a degree of moderate optimism going forward. First, major policy decisions have significantly reduced tail risks and relieved market stress. The June European Council decisions were swiftly followed up with concrete progress towards establishing a Banking Union. The European Council of 18-19 October agreed on a timetable for the establishment of a Single Supervisory Mechanism and advanced further on the deepening of EMU, encompassing the financial, budgetary, economic, and political dimensions. The introduction of Outright Monetary Transactions (OMTs) by the ECB complemented these institutional efforts, contributing decisively to removing doubts about the integrity and viability of the euro area. As a result, funding constraints for the public and private sectors are easing up, although difficulties in parts of the banking sector are likely to continue to weigh on credit supply.

Second, economic adjustment within the euro area is continuing. This is most visible in the reduction of large current-account deficits driven by partly permanent declines in domestic absorption and gains in competitiveness, but is also apparent in gradually rising wages and domestic demand in surplus countries. Internal and external adjustment has farther to go, and it will have to be sustained over time to see an impact on stocks of domestic and external liabilities. The speed and the short-term economic costs of the adjustment depend on the degree of wage and price flexibility within economies and on their capacity to reallocate resources across sectors. Continued structural reforms in deficit countries and a shift towards more domestic demand-based growth in surplus economies are expected to contribute to intra-euro-area rebalancing in the coming years. By boosting confidence and providing investors with a longer-term perspective, swift progress towards completing EMU's architecture would help overcome market fragmentation, increase the incentive to invest in weaker economies and ensure more balanced financing conditions, hence supporting the process of rebalancing.



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## OVERVIEW

Moderate recovery expected to start in 2013

The ongoing post-financial crisis correction continues to weigh heavily on economic activity and employment in the EU. In the first half of 2012, domestic demand has continued to contract while the global economy has also slowed down, and consumers as well as firms have become more pessimistic about the near-term perspectives. The EU economy has dipped back into contraction in the second quarter with further weakness expected in the second half of the year. Unemployment has risen and cross-country divergences have widened. Yet, compared with the situation before the summer, over the last few months financial tensions have somewhat abated.

A return to moderate growth is projected in the first half of 2013. The full implementation of far-reaching policy measures announced over recent months and progress with the correction of imbalances should reduce financial stress in vulnerable Member States further and lead to a gradual restoration of confidence across the EU, which is necessary for investment and private consumption to return. As the current weakness of global demand is expected to be temporary, net exports are projected to provide some

Table 1:

### Overview - the autumn 2012 forecast

|                  | Real GDP             |             |            |            | Inflation            |            |            |            | Unemployment rate    |             |             |             |
|------------------|----------------------|-------------|------------|------------|----------------------|------------|------------|------------|----------------------|-------------|-------------|-------------|
|                  | Autumn 2012 forecast |             |            |            | Autumn 2012 forecast |            |            |            | Autumn 2012 forecast |             |             |             |
|                  | 2011                 | 2012        | 2013       | 2014       | 2011                 | 2012       | 2013       | 2014       | 2011                 | 2012        | 2013        | 2014        |
| Belgium          | 1.8                  | -0.2        | 0.7        | 1.6        | 3.5                  | 2.6        | 1.8        | 1.6        | 7.2                  | 7.5         | 7.7         | 7.8         |
| Germany          | 3.0                  | 0.8         | 0.8        | 2.0        | 2.5                  | 2.1        | 1.9        | 1.8        | 5.9                  | 5.5         | 5.6         | 5.5         |
| Estonia          | 8.3                  | 2.5         | 3.1        | 4.0        | 5.1                  | 4.3        | 4.1        | 3.3        | 12.5                 | 10.5        | 9.8         | 9.0         |
| Ireland          | 1.4                  | 0.4         | 1.1        | 2.2        | 1.2                  | 2.0        | 1.3        | 1.4        | 14.4                 | 14.8        | 14.7        | 14.2        |
| Greece           | -7.1                 | -6.0        | -4.2       | 0.6        | 3.1                  | 1.1        | -0.8       | -0.4       | 17.7                 | 23.6        | 24.0        | 22.2        |
| Spain            | 0.4                  | -1.4        | -1.4       | 0.8        | 3.1                  | 2.5        | 2.1        | 1.3        | 21.7                 | 25.1        | 26.6        | 26.1        |
| France           | 1.7                  | 0.2         | 0.4        | 1.2        | 2.3                  | 2.3        | 1.7        | 1.7        | 9.6                  | 10.2        | 10.7        | 10.7        |
| Italy            | 0.4                  | -2.3        | -0.5       | 0.8        | 2.9                  | 3.3        | 2.0        | 1.7        | 8.4                  | 10.6        | 11.5        | 11.8        |
| Cyprus           | 0.5                  | -2.3        | -1.7       | -0.7       | 3.5                  | 3.2        | 1.5        | 1.3        | 7.9                  | 12.1        | 13.1        | 13.9        |
| Luxembourg       | 1.7                  | 0.4         | 0.7        | 1.5        | 3.7                  | 2.9        | 1.9        | 1.8        | 4.8                  | 5.4         | 6.4         | 6.4         |
| Malta            | 1.9                  | 1.0         | 1.6        | 2.1        | 2.5                  | 2.9        | 2.2        | 2.2        | 6.5                  | 6.3         | 6.3         | 6.2         |
| Netherlands      | 1.0                  | -0.3        | 0.3        | 1.4        | 2.5                  | 2.8        | 2.4        | 1.6        | 4.4                  | 5.4         | 6.1         | 6.2         |
| Austria          | 2.7                  | 0.8         | 0.9        | 2.1        | 3.6                  | 2.4        | 1.8        | 1.9        | 4.2                  | 4.5         | 4.7         | 4.2         |
| Portugal         | -1.7                 | -3.0        | -1.0       | 0.8        | 3.6                  | 2.9        | 0.9        | 1.3        | 12.9                 | 15.5        | 16.4        | 15.9        |
| Slovenia         | 0.6                  | -2.3        | -1.6       | 0.9        | 2.1                  | 2.8        | 2.2        | 1.6        | 8.2                  | 8.5         | 9.3         | 9.6         |
| Slovakia         | 3.2                  | 2.6         | 2.0        | 3.0        | 4.1                  | 3.7        | 1.9        | 2.0        | 13.6                 | 13.5        | 13.5        | 13.1        |
| Finland          | 2.7                  | 0.1         | 0.8        | 1.3        | 3.3                  | 3.0        | 2.5        | 2.2        | 7.8                  | 7.9         | 8.1         | 8.0         |
| <b>Euro area</b> | <b>1.4</b>           | <b>-0.4</b> | <b>0.1</b> | <b>1.4</b> | <b>2.7</b>           | <b>2.5</b> | <b>1.8</b> | <b>1.6</b> | <b>10.1</b>          | <b>11.3</b> | <b>11.8</b> | <b>11.7</b> |
| Bulgaria         | 1.7                  | 0.8         | 1.4        | 2.0        | 3.4                  | 2.5        | 2.6        | 2.7        | 11.3                 | 12.7        | 12.7        | 12.5        |
| Czech Republic   | 1.9                  | -1.3        | 0.8        | 2.0        | 2.1                  | 3.6        | 1.1        | 1.1        | 6.7                  | 7.0         | 7.3         | 7.1         |
| Denmark          | 0.8                  | 0.6         | 1.6        | 1.3        | 2.7                  | 2.4        | 2.0        | 1.7        | 7.6                  | 7.7         | 7.7         | 7.6         |
| Latvia           | 5.5                  | 4.3         | 3.6        | 3.9        | 4.2                  | 2.4        | 2.1        | 2.3        | 16.2                 | 15.2        | 14.3        | 12.7        |
| Lithuania        | 5.9                  | 2.9         | 3.1        | 3.6        | 4.1                  | 3.4        | 3.1        | 3.0        | 15.4                 | 13.5        | 12.4        | 10.9        |
| Hungary          | 1.6                  | -1.2        | 0.3        | 1.3        | 3.9                  | 5.6        | 5.3        | 3.9        | 10.9                 | 10.8        | 10.8        | 10.6        |
| Poland           | 4.3                  | 2.4         | 1.8        | 2.6        | 3.9                  | 3.8        | 2.6        | 2.4        | 9.7                  | 10.1        | 10.5        | 10.3        |
| Romania          | 2.5                  | 0.8         | 2.2        | 2.7        | 5.8                  | 3.5        | 4.9        | 3.3        | 7.4                  | 7.4         | 7.3         | 7.3         |
| Sweden           | 3.9                  | 1.1         | 1.9        | 2.5        | 1.4                  | 1.0        | 1.3        | 1.8        | 7.5                  | 7.5         | 7.4         | 6.9         |
| United Kingdom   | 0.9                  | -0.3        | 0.9        | 2.0        | 4.5                  | 2.7        | 2.1        | 1.9        | 8.0                  | 7.9         | 8.0         | 7.8         |
| <b>EU</b>        | <b>1.5</b>           | <b>-0.3</b> | <b>0.4</b> | <b>1.6</b> | <b>3.1</b>           | <b>2.7</b> | <b>2.0</b> | <b>1.8</b> | <b>9.7</b>           | <b>10.5</b> | <b>10.9</b> | <b>10.7</b> |
| Croatia          | 0.0                  | -1.9        | 0.0        | 1.4        | 2.2                  | 3.4        | 3.2        | 2.1        | 13.5                 | 14.2        | 13.9        | 12.9        |
| USA              | 1.8                  | 2.1         | 2.3        | 2.6        | 3.2                  | 2.1        | 2.0        | 2.1        | 8.9                  | 8.2         | 7.9         | 7.5         |
| Japan            | -0.8                 | 2.0         | 0.8        | 1.9        | -0.3                 | -0.2       | -0.1       | 0.2        | 4.6                  | 4.8         | 4.7         | 4.6         |
| China            | 9.2                  | 7.7         | 7.7        | 7.8        | 5.4                  | :          | :          | :          | :                    | :           | :           | :           |
| <b>World</b>     | <b>3.8</b>           | <b>3.1</b>  | <b>3.3</b> | <b>3.9</b> | <b>:</b>             | <b>:</b>   | <b>:</b>   | <b>:</b>   | <b>:</b>             | <b>:</b>    | <b>:</b>    | <b>:</b>    |

impetus for the recovery of investment, later spilling over to consumption.

Domestic demand continues to be held back by the legacy of the crisis of 2008-09 as households, banks and sovereigns are simultaneously reducing their leverage. At the same time, resources in countries that ran large current-account deficits before the crisis need to be reallocated from the production of goods and services for domestic consumption towards tradables. As this adjustment is progressing, an improvement of deficit countries' economic performance is expected to lead to some growth convergence towards the end of the forecast horizon.

The global economy  
has decelerated ...

Global GDP growth has lost steam in the course of 2012, and leading indicators point to further weakness in the remainder of this year. Among the largest non-EU advanced economies, Japan's post-disaster recovery is pausing, while in the US growth appears to be gradually firming after a protracted period of subdued performance. However, the uncertainty related to the path of US fiscal policy over the coming months remains high. At the same time, many emerging market economies have recently been moving towards a more moderate rate of economic expansion, which in part reflects the slowdown in the EU and other advanced economies, but also domestic weakness. With growth set to strengthen gradually in non-EU advanced economies and expected to become more balanced in emerging markets, world growth outside the EU is projected to go through a soft patch rather than a prolonged period of weakness and to recover somewhat in the course of 2013 reaching an annual rate of 4%. A further moderate acceleration is projected for 2014. In line with global GDP, world trade growth has been decelerating through 2012, but is expected to recover gradually in 2013 and 2014.

... and GDP in the EU  
has been falling

In Europe, economic sentiment resumed its decline, dropping significantly in the summer months. After stagnation in the first quarter of 2012, the EU and euro-area economies contracted in the second quarter reflecting a decrease in domestic demand and lower net export growth. Unemployment increased further, in particular in the countries that were hardest hit by the sovereign-debt crisis. Available hard data and leading indicators point to a weak second half of the year. For 2012 as a whole, GDP is now expected to contract by ¼% in the EU and almost ½% in the euro area.

Policy has helped  
calming financial  
markets...

After a few months of respite brought about mainly by the provision of longer-term liquidity by the Eurosystem in early 2012, the sovereign-debt crisis intensified again in spring. However, financial markets have recovered since July, helped by important policy decisions in the EU and the announcement of further monetary easing on both sides of the Atlantic. Sovereign yields in most vulnerable countries have receded somewhat since summer. Risk appetite appears to have improved as stock markets have recuperated the losses experienced earlier in the year. The ECB measures explicitly aim at repairing the monetary transmission mechanism. However, data available for the euro area so far do not show any easing of credit supply conditions for the private sector.

... preparing the  
ground for modest  
growth to resume in  
the course of 2013 ...

Conditional on the assumption that the policy measures agreed at EU and Member-State levels will be implemented smoothly and that this will lead to a gradual restoration of confidence, GDP in the EU and the euro area is expected to start growing again after the turn of the year and progressively move towards a moderate expansion. Given the weak starting point, GDP in 2013 as a whole is projected to grow by only ½% in the EU and to remain

broadly stable in the euro area. The legacy of the deep financial and sovereign-debt crisis will continue to weigh on the pace of growth over the forecast horizon. However, positive results from the ongoing adjustment of imbalances and recently undertaken structural reforms are expected to start materialising in 2014. Growth in 2014 is therefore expected to be more robust and also better balanced. Nonetheless, at a projected rate of 1½% in both the EU and the euro area, it will remain well below pre-crisis levels.

... with net exports as  
main driver ...

Domestic demand has made negative contributions to GDP growth for more than a year and is likely to do so also in the second half of 2012 and well into the first half of 2013. This leaves net exports, which are set to benefit from a gradual recovery of global demand, as the only positive contributor to GDP growth in the EU for some more quarters to come.

... and domestic  
demand set to  
recover only slowly

Private consumption, by far the largest component of domestic demand, is expected to stagnate in the EU and to decrease in the euro area in 2013, as real disposable incomes remain under pressure from a further contraction of employment, low real wage growth and higher taxes. Households are on average not expected to reduce their savings in the downturn. In fact, the downward pressure on the saving rate stemming from consumption smoothing and a growing proportion of households that find it hard to put money aside is expected to be offset by higher precautionary savings and the continued need in some Member States to reduce a high level of household debt.

In line with the ongoing fiscal consolidation, government consumption is expected to contract moderately in 2013. There are somewhat better prospects for an earlier recovery of investment. Gross fixed capital formation has been held back by overcapacities and the worsening outlook for GDP. However, with low financing costs in the EU as a whole and good self-financing capacities of non-financial corporations, equipment investment is set to pick up supported by the expected recovery of global demand and restoration of confidence in the EU. This being said, tight credit supply conditions in some Member States are likely to limit the projected expansion of domestic demand there.

Unemployment to rise  
further in 2013

The slowdown is set to affect employment with the usual lags. Employment in the EU is projected to contract by another ¼% in 2013 after a fall of ½% this year, also because firms now have less scope to react to the demand shortfall by reducing working hours than during the 2008-09 recession. With the projected turnaround of GDP growth in 2013, employment should stabilise towards the end of next year. However, the moderate growth projected for 2014 will generate only modest employment gains, which are expected to remain below the employment losses incurred in 2012 and 2013. Unemployment is thus expected to peak at 11% in the EU and 12% in the euro area in 2013 before falling back slightly in 2014.

Growth differentials  
across Member States  
remain substantial ...

Member States' performance is set to differ strongly this year and next. Heterogeneity in GDP and employment developments results from varying adjustment needs following the imbalances in the run-up to the crisis. In particular, the health of banking sectors and public finances as well as private debt and external deficits differ considerably across countries. While being low for the EU as a whole, financing costs have continued to diverge across Member States. However, due to the pervasive interconnections within the EU and especially the euro area, no country is expected to power ahead in a permanent decoupling.

The *German* economy is expected to slow down further in the second half of 2012, reflecting weaker economic activity in export markets and uncertainty weighing on investment, before accelerating moderately next year, thanks to relatively robust consumption and benign financial conditions. The projection for *France* is for a very modest growth in 2013 as domestic demand is set to strengthen only very gradually while the contribution of net exports is likely to remain small. In *Italy*, the contraction of economic activity is forecast to last until mid-2013 before domestic demand slowly recovers, helped by the expected improvement in financing conditions and a return of confidence. As the *Spanish* economy is working its way through the rebalancing process, domestic demand is expected to remain depressed before picking up towards the end of the forecast horizon, while external trade continues to provide some relief. Ongoing deleveraging is also set to weigh on domestic demand in *the Netherlands*, where GDP growth is expected to remain subdued in 2013 before accelerating somewhat in the outer forecast year.

Among the largest Member States outside the euro area, *the United Kingdom* is expected to see an improvement in disposable incomes and financing conditions, which should allow a gradual return of domestic demand growth in 2013 and an acceleration in 2014. For *Poland*, a deceleration from previous growth rates is projected as external headwinds and the stagnation in the labour market take their toll.

... as adjustment is  
gradually proceeding  
...

The adjustment of the remaining imbalances is subject to a number of challenging interdependencies such as the feedback loop between banks and sovereigns, the impact on domestic demand of simultaneous debt deleveraging in several sectors and difficult conditions for financing the necessary shift of resources towards the production of tradable goods and services. Nonetheless, adjustment is moving ahead, underpinned by a reduction in domestic demand in deficit countries that is partly cyclical and partly structural as well as gradual changes in relative costs and prices across sectors and countries. Progress with adjustment is expected to contribute to some convergence of growth rates towards the end of the forecast horizon.

... and fiscal  
consolidation  
advances

Despite the deterioration of the economic situation in 2012, fiscal deficits are still expected to fall to 3½% of GDP in the EU and 3¼% in the euro area on the back of consolidation plans implemented in the course of the year. The available information from budgets for 2013 points to continued, though somewhat slower, consolidation with headline deficits projected at 3¼% of GDP in the EU and 2½% in the euro area. A moderate decrease in the pace of fiscal consolidation is also reflected in the structural improvements of the budget balance, which in the EU is expected at 1 pp. of GDP in 2012 and ¾ pp. in 2013, and in the euro area at 1¼ pps. and just below 1 pp., respectively. The growth effect of a given consolidation effort depends on a number of factors (such as the composition of the fiscal effort, the credibility of the adjustment and financing conditions of the private sector), and it may currently be larger than in normal times in countries hit hard by the sovereign-debt crisis. The design of fiscal measures as well as their credible medium-term orientation are crucial to mitigate this impact.

Inflation set to  
decrease slowly

Consumer price inflation has persisted at around 2¾% in the EU and 2½% in the euro area in recent quarters, with energy prices, indirect taxes and administered prices as main drivers. In very volatile commodities markets, crude oil prices (in euro) are again close to record highs, while food commodity prices temporarily surged over the summer as draughts in major production regions caused supply concerns. Commodity prices are however

assumed to decrease gradually over the forecast horizon, and their impact on inflation is projected to decline. Similarly, based on the current information about budget plans, the fiscal impact on prices should fade. Producer price developments suggest indeed that inflationary pressures are decreasing. Looking further ahead, projected GDP growth and wage increases are too modest to create inflationary pressures. Consumer-price inflation is now projected to decrease to 2% in the EU and 1¾% in the euro area in 2013 with a further modest decline in 2014.

#### Tail risks have receded

Overall, risks to GDP growth appear more balanced than at the time of the spring forecast, but are still skewed to the downside. While some of the previously identified risks have materialised, most notably before the summer the worsening of the sovereign-debt crisis, policy decisions taken over the past months have also reduced tail risks.

Nonetheless, a resurgent aggravation of the sovereign-debt crisis with grave consequences for growth and financial stability remains the largest downside risk. This remains intrinsically linked to the risk of slippage or delay with the implementation of policy measures agreed at EU/euro-area and Member-State levels. A downside risk also stems from labour markets, where a deeper drop in employment would weigh on growth prospects going forward. On the external side, the baseline of a soft patch in global GDP growth could be challenged by a sharper-than-expected slowdown in emerging market economies or the materialisation of the "fiscal cliff" in the US with large confidence spillovers. On the upside, the implementation of recent policy decisions could lead to financial market stress in the EU fading faster than projected, and confidence rebounding more strongly, with a positive impact on the dynamism of domestic demand.

Risks to the inflation outlook continue to be broadly balanced. Inflation could turn out lower if the large and persistent output gap had a stronger impact than expected on core inflation. On the upside, further energy-price increases in an uncertain geopolitical environment and fiscal measures that are not included in the no-policy-change baseline could lead to higher inflation.

# PART I

Economic developments at the aggregated level



# THE EU ECONOMY: SAILING THROUGH ROUGH WATERS

After a tentative stabilisation during the first three months of the year, following a contraction in the fourth quarter of 2011, the economic situation in the EU remains fragile. Output declined in the period between April and June and economic activity is expected to be weak in the near future. Alongside home-grown impediments to growth such as the sovereign-debt crisis in the euro area and the repercussions of external and internal imbalances, the slowdown in the world economy has contributed to the deterioration.

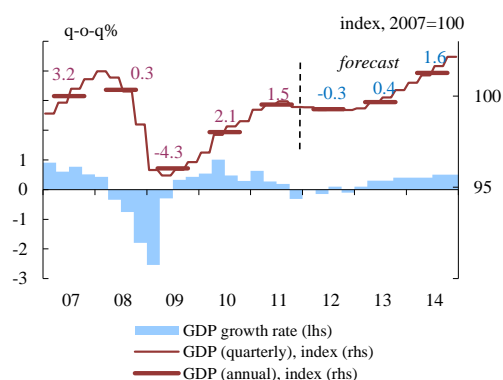
Against this backdrop, and assuming that policy actions at the European and Member-State level will continue to rein in the sovereign-debt crisis, thus allowing an easing of financing conditions and a return of confidence, the EU economy is expected to stabilise at the turn of the year and to embark on a moderate recovery path thereafter. With strong internal headwinds holding back domestic demand, net exports are likely to remain the most important growth driver next year. Although external demand is projected to increase only gradually, coinciding with a gentle reacceleration in global trade, export growth will be supported by competitiveness gains in some Member States. Further ahead, slowly returning confidence and easing financing conditions are expected to gradually prop up investment and private consumption, but weak labour markets and ongoing fiscal consolidation will continue to weigh on domestic demand over the forecast horizon. Overall, the EU economy is expected to contract by ¼% this year, followed by subdued annual growth in 2013 (½%) and an expansion of 1½% in 2014 (see Graph I.1).

Consumer-price inflation in the EU is projected to remain relatively high in 2012 (2.7%), inter alia due to the impact of fiscal measures, but is expected to abate gradually over the forecast horizon, averaging 2.0% and 1.8% in 2013 and 2014 respectively (see Graph I.2).

Pronounced cross-country divergences will remain a defining feature of the outlook. They span across a number of dimensions – including financing conditions, the labour market situation and the need for, and advancement of, private and public-debt deleveraging. Current-account adjustment is forecast to continue, especially in Member States with large pre-crisis deficits. This adjustment is partly the result of the cyclical downturn, but is also increasingly supported by the continuing deleveraging of the public and private sector and structural reforms. The first positive effects of these structural developments on growth are likely to become visible towards the end of the forecast horizon.

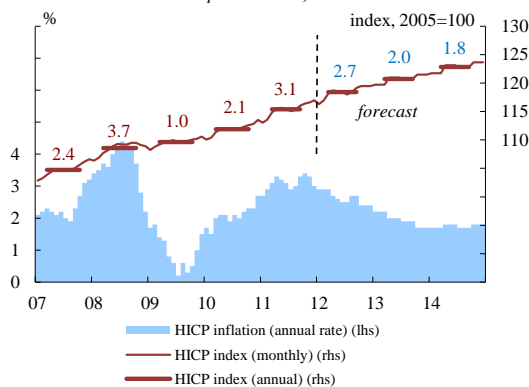
Overall, the central projections foresee a very gradual return to growth, to set in only next year. This outlook is still surrounded by high uncertainty and subject to substantial downside risks. However, due mainly to recent policy progress and improvements in financial markets, overall risks are more balanced than in last spring but are still tilted to the downside. Risks to the inflation outlook appear broadly balanced.

Graph I.1: Real GDP, EU



Figures above horizontal bars are annual growth rates.

Graph I.2: HICP, EU



Figures above horizontal bars are annual inflation rates.



## 1. A MILD RECOVERY AHEAD AMID CONTINUED STRUCTURAL ADJUSTMENT

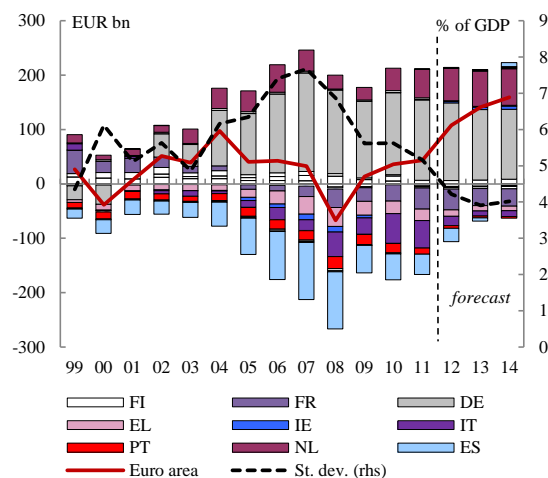
Since the second half of 2011, economic growth has been weakening in both the EU and the euro area. In both areas real GDP is around ½% below its last peak of spring 2011 when a significant number of Member States had not yet fully recovered their pre-crisis output levels. In fact, occasional backslides are not an uncommon phenomenon during post-financial crisis recoveries. But at the current juncture, several Member States, particularly in the euro area, face structural challenges related to internal and external imbalances <sup>(1)</sup> alongside growth impediments linked to the legacy of the global financial crisis and compounded by the current global slowdown.

### Internal and external adjustment is advancing

The large internal and external imbalances that were built up in the years prior to 2007/08 are being reduced but the adjustment will have to progress further and needs to be sustained over time (see also Box I.1). <sup>(2)</sup> In countries with large external net liabilities, current-account deficits are being corrected (see Graph I.3), helped by falls in wages and relative unit labour costs, even though the recorded decline in unit labour costs in some Member States partly results from increasing labour productivity due to the shedding of low-skilled workers. <sup>(3)</sup>

In parallel with the adjustment in deficit countries, the external balances of surplus countries are declining, albeit at a much slower pace. However, the increasing weight of domestic demand and the relatively high wage rises in surplus countries suggest that the adjustment process within the euro area is not fully asymmetric.

Graph I.3: Current-account imbalances, euro area



...but it will continue to weigh on short-term growth.

Balance-sheet adjustments in the household, corporate and government sector are expected to shape the outlook over the forecast horizon. <sup>(4)</sup> Regaining price competitiveness in the context of a monetary union implies changes in relative prices which would induce a shift of resources from the non-tradable to the tradable sector and the switching of expenditure to domestically-produced goods. <sup>(5)</sup> However, these shifts tend to be associated with output contractions and rising unemployment, at least in the short-term, as wages and prices tend to adjust only gradually. But ongoing restructuring on the industry level triggered by structural reforms is expected to lend additional support to adjustment by strengthening non-price competitiveness.

Further fiscal consolidation is set to facilitate the needed reallocation of resources, even though it is likely to continue to weigh on short-term growth prospects in several Member States. <sup>(6)</sup> Fiscal deficits are being reduced and reforms to the institutional fiscal framework at both the European

<sup>(1)</sup> External imbalances are reflected by unsustainable current-account balances, whereas internal imbalances relate to budget deficits and public debt but also to large debt overhangs in the private sector.

<sup>(2)</sup> See Vogel, L., Structural reforms and external rebalancing in the euro area: A model-based analysis, European Economy, *Economic Papers*, No. 443, July 2011.

<sup>(3)</sup> For an analysis of the determinants underlying recent unit labour cost developments see Darvas, Z., Compositional effects on productivity, labour cost and export adjustment, *Bruegel Policy Contribution* 11, June 2012.

<sup>(4)</sup> Until 2011 the corporate sector accounted for the major part of private-sector adjustment in vulnerable Member States. For an analysis of the drivers of balance-sheet adjustment in the corporate sector see for example Ruscher, E. and G. Wolff, Corporate balance sheet adjustment: Stylised facts, causes and consequences, European Economy, *Economic Papers*, No. 449, February 2012.

<sup>(5)</sup> See Dong, W., The role of expenditure switching in the global imbalance adjustment, *Journal of International Economics*, Vol. 86, No. 2, March 2012, pp. 237-251.

<sup>(6)</sup> Given that construction and services account for a large part of public expenditure, cutbacks in government spending tend to lower the relative price of non-tradable goods.

and national level are expected to contribute to lower structural deficits in the future.

### Recent policy measures are easing financial market stress...

On the policy side, recent measures aimed at stabilising financial market conditions and alleviating negative feedback loops between banks and sovereigns are also contributing to the adjustment process in vulnerable countries. Policy measures on the European level, most notably the decision to move towards a banking union reflected by the legislative proposal for a single supervisory mechanism (SSM) for the euro area, the entry into force of the European Stability Mechanism (ESM), and the ECB decision to undertake Outright Monetary Transactions (OMTs) in secondary markets for sovereign bonds of euro-area Member States have helped to relieve market tensions. Conditional on measures implemented at the national level, these policy initiatives will also support fiscal consolidation and private-sector deleveraging. But irrespective of the progress already achieved on the policy side, the experience of the past two years shows that reversals of sentiment can happen very rapidly if the implementation of measures falters.

### ...and pave the way for a moderate and multi-speed recovery

The gradual reacceleration of the global economy, easing financial stress and the progressive return of confidence will allow the euro area and the EU economy to start growing again in 2013.

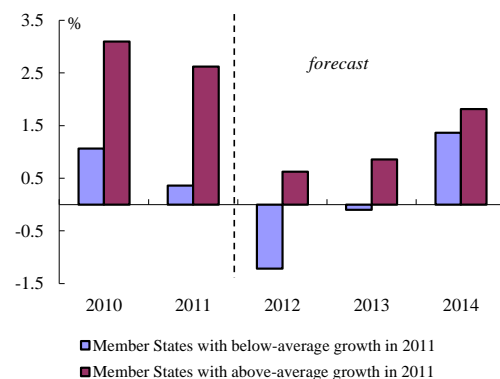
Positive results from structural reforms and internal and external adjustment are expected to materialise only gradually, but are likely to become visible towards the end of the forecast horizon. In particular, sustained gains in competitiveness and productivity in vulnerable Member States should lift the EU economy to a slightly higher growth path.<sup>(7)</sup>

The divergence in GDP growth rates amongst EU countries is expected to decrease, but not to disappear, over the forecast horizon. As a consequence, countries which recovered relatively

quickly after the 2008-09 recession will continue to outpace countries with below-average growth in recent years (see Graph I.4).

The expected narrowing of growth differentials relies on further competitiveness gains in vulnerable countries and reduced disparities in financing conditions to the extent that tail risks in the euro area dissipate.

Graph I.4: Multi-speed real GDP growth in the EU, annual growth rates (weighted)



## 2. THE EXTERNAL ENVIRONMENT

### A weakening global recovery, ...

The global economy has slowed down in the second quarter of 2012 after solid growth in the first three months before. On the one hand, economic activity in advanced economies is still impeded by the repercussions of debt and financial crises. In the US, GDP growth decelerated over the first half of this year, but labour and housing market developments indicate that it is likely to pick up at the turn of the year. However, for growth to be sustained, the brunt of the looming fiscal contraction will have to be reduced. On the other hand, economic activity lost momentum in a number of emerging market economies. Those economies were increasingly affected by weaknesses in export markets and lower domestic demand, partly resulting from policy tightening in response to increasing price pressures and signs of overheating in 2011.

Global trade decelerated in the first half of 2012 and lost further momentum in recent months on the back of weakening economic activity, notably in the euro area and Japan. Non-EU trade is expected

<sup>(7)</sup> There is evidence that private-sector deleveraging during downturns associated with financial crises has a positive impact on the strength of the subsequent recovery see Bech, M. L., L. Gambacorta and E. Kharroubi, Monetary policy in a downturn: Are financial crises special?, *BIS Working Papers*, No. 388, September 2012.

Table I.1:

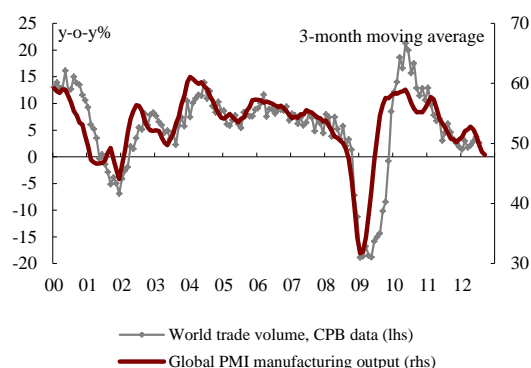
**International environment**

| (Annual percentage change)      |       |       |      |      | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|---------------------------------|-------|-------|------|------|-------------------------|------|------|-------------------------|------|
|                                 | ( a ) | 2009  | 2010 | 2011 | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| Real GDP growth                 |       |       |      |      |                         |      |      |                         |      |
| USA                             | 19.2  | -3.1  | 2.4  | 1.8  | 2.1                     | 2.3  | 2.6  | 2.0                     | 2.1  |
| Japan                           | 5.7   | -5.5  | 4.5  | -0.8 | 2.0                     | 0.8  | 1.9  | 1.9                     | 1.7  |
| Asia (excl. Japan)              | 28.9  | 6.3   | 9.0  | 7.3  | 6.2                     | 6.3  | 6.7  | 6.9                     | 7.0  |
| - China                         | 14.6  | 9.2   | 10.3 | 9.2  | 7.7                     | 7.7  | 7.8  | 8.4                     | 8.2  |
| - India                         | 5.8   | 8.4   | 8.4  | 7.2  | 5.0                     | 5.8  | 6.6  | 6.8                     | 7.5  |
| Latin America                   | 8.8   | -1.8  | 6.1  | 4.5  | 2.9                     | 3.7  | 4.4  | 3.6                     | 4.0  |
| - Brazil                        | 3.0   | -0.3  | 7.5  | 2.7  | 1.5                     | 3.9  | 4.0  | 3.1                     | 4.2  |
| MENA                            | 5.1   | 2.2   | 4.5  | 4.4  | 3.2                     | 3.1  | 3.8  | 3.1                     | 3.4  |
| CIS                             | 4.2   | -6.7  | 4.8  | 4.8  | 3.8                     | 4.0  | 4.3  | 3.7                     | 3.9  |
| - Russia                        | 3.0   | -7.8  | 4.3  | 4.3  | 3.7                     | 3.9  | 4.0  | 3.6                     | 3.8  |
| Sub-Saharan Africa              | 2.5   | 2.6   | 5.2  | 4.6  | 5.0                     | 5.0  | 5.5  | 4.5                     | 5.0  |
| Candidate Countries             | 1.4   | -4.9  | 7.5  | 7.4  | 2.4                     | 2.6  | 3.5  | 2.8                     | 4.2  |
| World (incl. EU)                | 100.0 | -0.3  | 5.1  | 3.8  | 3.1                     | 3.3  | 3.9  | 3.3                     | 3.7  |
| World merchandise trade volumes |       |       |      |      |                         |      |      |                         |      |
| World import growth             |       | -12.5 | 15.5 | 7.7  | 3.5                     | 4.3  | 5.9  | 4.1                     | 5.7  |
| Extra EU export market growth   |       | -11.0 | 13.7 | 7.9  | 1.8                     | 3.4  | 5.5  | 5.7                     | 6.5  |

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2009.

to grow by around 5% in 2012 and 2013, before picking-up at an annual rate of close to 6%.

Graph I.5: World trade and Global PMI manufacturing output



Looking ahead, high-frequency global indicators are pointing to subdued global growth in the near future. In the third quarter, the global composite Purchasing Managers' Index (PMI) remained at its three-year low reached in spring (see Graph I.5). The latest reading suggests a modest acceleration in economic activity, but the index masks the diverging trends of manufacturing and services. While global manufacturing decreased for the fourth consecutive month, global services continued to weaken until June, but have rebounded since then.

Against this backdrop, annual growth of global GDP (excluding the EU) in 2012 is expected to

slow to 4% from 4½% in 2011. Given that non-EU advanced countries continue on their moderate expansion path on average, this deceleration is largely due to the weakening in BRICS countries, notably Brazil, India and China.

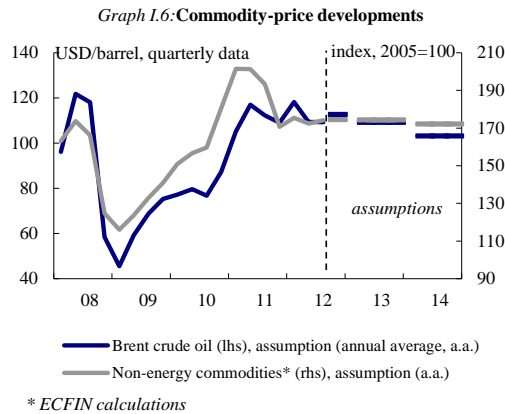
Looking further ahead, non-EU growth is expected to remain subdued in the first months of 2013 and to pick up some momentum in the following quarters. This projection is based on lower growth expectations than in spring across almost all major economic regions. Overall, non-EU world GDP is estimated to expand by 4% in 2013 and by 4½% in 2014.

### ...slightly lower but volatile commodity prices...

After rebounding in early 2012 most *commodity prices* decreased in the second quarter of 2012. Oil prices dropped sharply from their peak in March 2012, as supply concerns eased and global demand declined. Due to lower oil consumption in the EU and to a lesser extent in the US and China, average crude oil (Brent) prices fell below USD 100/bbl. in June, but peaked again in August reflecting the Iranian oil embargo as well as supply risks related to other geopolitical tensions.

On an annual basis, oil prices (Brent) are projected to average 112.5 USD/bbl in 2012, 109.1 USD/bbl

in 2013 and 103.1 USD/bbl in 2014 (see Graph I.6).<sup>(8)</sup>



On average, prices of most *non-oil commodities* are expected to decline moderately over the forecast horizon. Food prices fell strongly until the spring of 2012, but increased temporarily for most cereals and soybeans in summer as adverse weather conditions in the US and Eastern Europe raised supply concerns. Prices of agricultural non-food commodities, metals and minerals remained weak in the first half of 2012, but the latter are expected to recover in 2013.

#### ...and declining global inflation.

Despite recent hikes in energy and food prices *global inflation* has continued to ease. Across advanced economies, inflation pressures are set to be constrained on account of slow growth, weak domestic demand and declining commodity prices. Likewise, inflation in most emerging market economies is falling, reflecting subdued global demand.

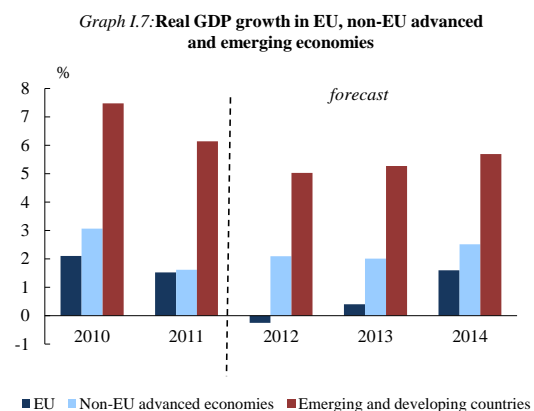
#### Growth in advanced countries will remain subdued...

After a relatively robust economic expansion at the beginning of 2012 growth in advanced economies outside the EU has moderated in the second quarter. Domestic headwinds in terms of structural imbalances related to high public and private sector debt prevail and will continue to weigh on consumption growth in particular. In the US, uncertainty about fiscal policies going forward

remains a drag on confidence and growth and weighs on the outlook in the near future.

Monetary policy in most advanced economies remains accommodative and geared to maintain historically-low interest rates. The US Federal Reserve announced the third round of quantitative easing in September, under which it will buy USD 40 bn in agency mortgage-backed securities (MBS) per month for an unspecified period, continue lengthening maturities of its debt holdings under the "Operation Twist" (until end-2012) and extended the commitment to keep interest rates at historically low levels (0 to ¼%) at least until mid-2015. The Bank of Japan has set an inflation target of 1% and provided further monetary stimulus by expanding the size of its asset purchase programmes in an effort to fight persistent deflationary trends.

On average, growth in non-EU advanced countries is forecast to increase by around 2¼% in 2012, followed by a GDP expansion of 2% in 2013. In 2014, GDP is projected to accelerate slightly to 2½% (see Graph I.7).



#### ... while economic activity in emerging market economies is likely to reaccelerate in 2013.

The short-term outlook for major *emerging market economies* has weakened. Countries have not escaped the slowdown in advanced economies, since domestic demand was not sufficiently strong to compensate for lower export growth. Additionally, a number of emerging markets were affected by domestic headwinds that hampered consumption and investment growth. However, oil producers benefited to some extent from recent oil price hikes.

<sup>(8)</sup> Oil price assumptions in euro terms correspond to 87.3 EUR/bbl, 83.9 EUR/bbl and 79.3 EUR/bbl respectively.

After policy tightening in 2011, monetary and fiscal policy has again shifted to an expansionary stance in order to counteract the current growth slowdown. Economic activity in emerging market economies (and developing countries) is thus expected to reaccelerate in the course of 2013 and to gain further traction in 2014.<sup>(9)</sup> However, their contribution to global growth will be probably lower than previously expected as emerging market economies may have been growing above potential for some time.<sup>(10)</sup> For 2012, GDP is predicted to grow at a rate of 5%, slightly lower than forecast in spring. In 2013 and 2014 economic activity is expected to increase by 5¼% and 5¾% respectively.

As a result of subdued growth in the EU and other important export markets, output expansion in the group of *acceding and candidate countries*<sup>(11)</sup> in 2012 is expected to decelerate. But in line with the mild recovery expected to set in next year, economic activity is to become slightly more dynamic with growth rates of around 2½% and 3½% in 2013 and 2014 respectively. However, the aggregate figure masks heterogeneous growth patterns at the country level.

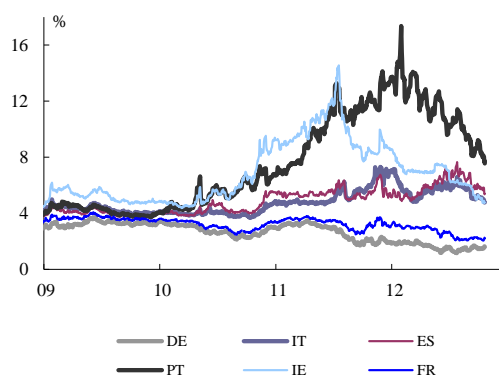
### 3. FINANCIAL MARKETS IN EUROPE

#### Narrowing sovereign-yield spreads within the euro area...

Throughout 2012 varying concerns about the resolution of the sovereign-debt crisis have shaped developments in European financial markets. This was most visible in sovereign-bond yields increasing substantially for some countries, while safe-haven capital flows were pushing benchmark sovereign-bond yields to new historical troughs in Germany and some other Member States. Since mid-2012 however, financial market tensions have started to ease, first following the meeting of the

European Council in June 2012 that outlined conditions for direct bank recapitalisation by the ESM and a roadmap for strengthening EMU governance. Then, the ECB's announcement to purchase government debt in order to ensure the functioning of monetary transmission and the layout of modalities for such actions (OMTs) in early September exerted a longer-lasting impact on yields and yield spreads. Benchmark yields moved up and at both the short and the long end of the yield curve spreads narrowed considerably. But despite the announcement of these extraordinary policy measures, the easing of collateral constraints and OMTs in particular, and its positive impact on sovereign yields in vulnerable countries, conditions in sovereign bond markets remained exceptionally strained with an elevated volatility of spreads (see Graph I.8).

Graph I.8: Ten-year government-bond yields, selected euro-area Member States



#### ... and increasing stock market prices ...

Since late July, stock markets in the euro area have responded favourably to statements by policy-makers regarding their commitment to take the steps necessary to resolve the crisis and strengthen financial stability. But market developments also reflected expectations of monetary stimulus in the United States, China and the euro area (see Graph I.9).

These factors offset downward pressures on prices from the deteriorating growth outlook for both emerging and developed economies. At the same time, stock market uncertainty, as measured by implied volatility, declined. On the forecast cut-off date of 19 October, the Eurostoxx50 stood 10% higher than at the end of last year, while the financial sub-index was up by 11%.

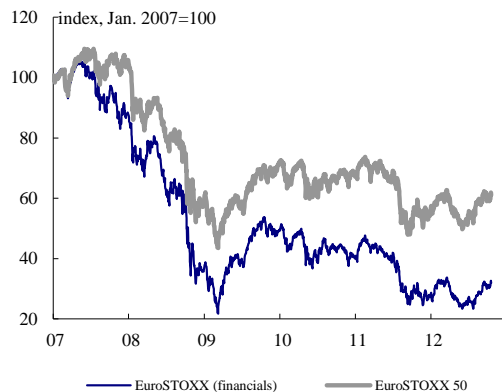
<sup>(9)</sup> However, easy monetary conditions and the resulting historically low level of interest rates in some countries have raised concerns that households' saving incentives might be unduly lowered and financial institutions' credit allocation might prove increasingly inefficient.

<sup>(10)</sup> For example, medium-term output levels for major emerging market economies have recently been revised down, see IMF, *World Economic Outlook*, October 2012, p. 18.

<sup>(11)</sup> For detailed forecasts of Croatia (acceding country) and Former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia and Turkey (candidate countries), refer to pp. 114-27.



Graph I.9: Stock-market indices, euro area



### ... mirror recent policy decisions.

While the sovereign-debt crisis impacted negatively on the funding situation of banks, several policy measures dampened its adverse effect on the cost and volume of lending to households. In July, the ECB cut the rate on its main refinancing operations by 25 bps to a record low of 0.75%. Also the deposit rate (to 0%) and the marginal lending facility rate (to 1.5%) were lowered by the same margin. While the rate cut reduced banks' borrowing costs with the ECB for both new and outstanding long-term refinancing<sup>(12)</sup>, the cut in the marginal lending facility rate is likely to be particularly beneficial for stressed banks.

The aforementioned new ECB bond purchase scheme is conditional upon an ESM programme subject to strict and effective conditionality (either a full adjustment programme or a precautionary programme such as the Enhanced Conditions Credit Line). No ex ante quantitative limits are set on the size of OMTs, transactions will be focused on sovereign bonds with one-to-three year maturity and for all future bond purchases the Eurosystem intends to accept the same (pari passu) creditor status as private investors.<sup>(13)</sup>

These measures add to the 3-year longer-term refinancing operations (LTROs) settled on 22 December 2011 and 1 March 2012 that had already provided euro-area banks with substantial amounts of liquidity. The positive impact of these measures is also reflected by the evolution of the three-

<sup>(12)</sup> The rate in the LTROs is fixed at the average rate of the main refinancing operations over the life of the respective operation.

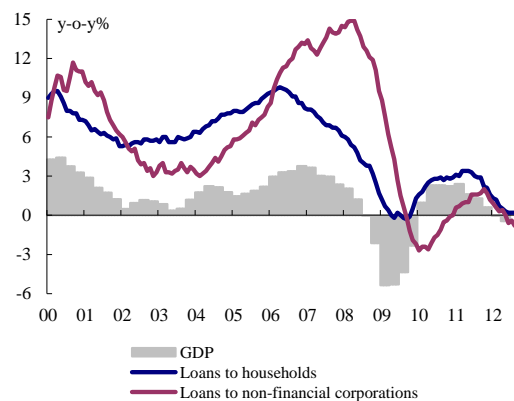
<sup>(13)</sup> See ECB press release of 6 September 2012 ("Technical features of Outright Monetary Transactions").

month Euribor which fell to 0.20% (October 19) from about 1.60% in the autumn of 2011.

### Difficulties in the banking sector still weigh on bank lending ...

In the EU banking sector, structural funding and liquidity problems persist. This is characterised by difficult market access for several banks and limited new issuances, which can only partly be explained by reduced funding needs during the deleveraging process. As long as an active cross-border interbank market within the EU on a non-collateralised basis has not yet re-emerged, many EU banks have to rely on short-term funding on a collateralised basis from national central banks. This has resulted in a significant increase in the amount of encumbered assets in the balance sheets of banks that make extensive use of covered bonds for mortgage refinancing or rely to a large extent on funding by the Eurosystem. At the same time, internal funding has come under pressure due to the reduced earnings-potential of financial institutions implied by deleveraging but also by the need to set up accruals and the reduced level of net interest and other income.

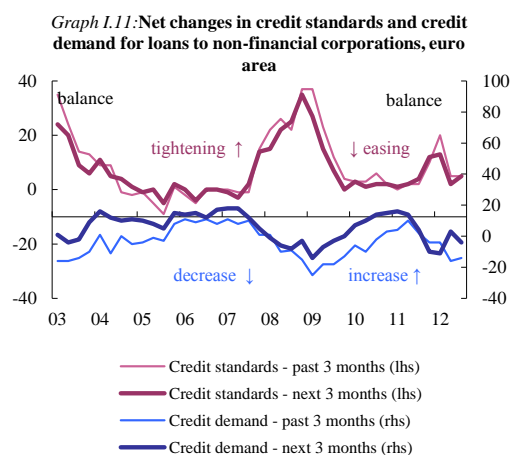
Graph I.10: Bank lending to households and non-financial corporations, euro area



Growth in bank lending to the private sector weakened further up to August in the euro area, with the annual growth rate of credit falling to -1.2%, down from -0.9% in July and -0.6% in June. Among the components, loans to the private sector fell by 0.2% (adjusted for loan sales and securitisation) after recording moderate annual increases in preceding months. Loans to households grew at an annual rate of only 1.0% (adjusted), mainly reflecting the deterioration in economic and housing market prospects and, in a number of euro-area countries, the need to deleverage following past excesses. Loans to non-

financial corporations shrank by 0.5% (by 0.2% in July) reflecting weakening economic activity and the associated higher credit risk (see Graph I.10).

As regards lending conditions, the July Bank Lending Survey (BLS) by the ECB indicated a broadly stable net tightening of banks' credit standards for loans to enterprises at the euro-area level in the second quarter of the year compared with the first quarter and even a deceleration in net tightening for loans to households. However, banks' credit standards remained tight in the euro area. For the period ahead, banks in the euro area expected a similar degree of net tightening in credit standards to enterprises and a considerably smaller decline in net demand for corporate loans (see Graph I.11).



#### ... and differences in financing conditions across Member States remain substantial.

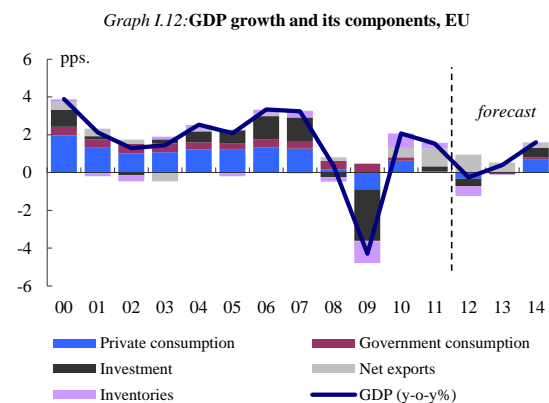
The sovereign-debt crisis has widened the gap in financing conditions across euro-area countries. In particular, non-financial corporations in countries with stressed sovereign-debt markets tend to face significantly higher interest rates on loans. This is particularly relevant for small and medium-sized enterprises that are less likely to issue corporate bonds. As a result, the funding capacity of the private sector, particularly firms in periphery countries, is considerably impaired (see Box I.2).

In some Member States, firms' abundant internal sources of financing and shifts from bank lending to bond issuance in the light of the favourable financing conditions are also contributing to the weakness of lending volumes. Moreover, loan demand remained weak in vulnerable countries, owing to heightened uncertainty, low confidence

and a need to correct the high levels of indebtedness in the private sector. Particularly in these countries, constraints on the balance sheets of banks continued to constrain credit supply. Overall, the widening heterogeneity in credit conditions across euro-area Member States remains a major challenge for monetary policy transmission.

## 4. THE EU ECONOMY

After a temporary stabilisation in the first three months of 2012, GDP contracted by 0.2% q-o-q in the second quarter in both the EU and the euro area. Weaker global growth and the re-escalation of the sovereign-debt crisis in spring contributed to the worsening in the economic situation, while financial markets remained fragile despite the Eurosystem's longer-term liquidity injections (LTROs). But economic activity has already been weakening since the second half of 2011 as the positive contributions from net exports were increasingly less able to offset the negative impact from declining household consumption and shrinking investment (see Graph I.12).

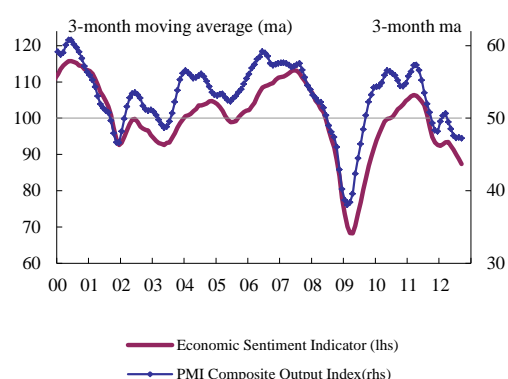


#### Short-term weakness...

The gradual and fragile recovery in business and consumer confidence at the beginning of the year halted in spring and early indicators are now suggesting a weak second half of the year. In September, the euro-area PMI Composite Output Index stood at 46.1, signalling a decline in output for the eighth successive month. The Economic Sentiment Indicator (ESI) decreased further in September in both the EU and the euro area, falling to its lowest level since September 2009 (see Graph I.13). The observed worsening in survey indicators is, however, somewhat at odds

with recent releases of hard data, which seem to indicate a bottoming-out in the second quarter with industrial production up by 1% in both the euro area and the EU in July-August compared to the second quarter.

Graph I.13: Economic Sentiment Indicator and PMI Composite Output Index, EU



On balance, the gradual recovery that was previously expected to materialise in the second half of 2012 is likely to be shifted into the next year. For the year 2012 as a whole, the GDP outcome is expected to be worse than forecast in spring, with predicted output contractions of ¼% and ½% in the EU and the euro area respectively.

#### ...followed by a moderate recovery...

Resting on the assumption that adopted policy measures to combat the sovereign-debt crisis are fully implemented at the European and national level, the EU economy is expected to halt its

downward trend around the turn of the year and to pick up gradually in the course of 2013. A crucial prerequisite of the recovery is the stabilisation of business and consumer sentiment and its expected positive impact on consumption and investment over the forecast horizon (see Box I.3). This notwithstanding, net exports will be the most visible growth driver in 2013. On the back of a global economy gaining momentum, Member States are likely to benefit from the depreciation in the nominal effective exchange rate in 2012 and gains in competitiveness. Strengthening external demand and higher export growth might also induce positive spill-over effects for gross fixed capital formation. Furthermore, investment should benefit from improving business sentiment and gradually easing financing conditions in vulnerable Member States. The recovery is expected to gain further traction over the forecast horizon helped by abating inflation and its favourable effect on real disposable income and consumption growth.

However, substantial deleveraging and an anaemic labour market will continue to weigh on prospects over the forecast horizon. Overall, GDP in the euro area is expected to remain broadly unchanged in 2013, while a tepid expansion (½%) is forecast for the EU.

Further out, moderate GDP growth is forecast for 2014. Slowly improving labour market conditions, rising purchasing power and higher consumer confidence should help to prop up household consumption and shift growth drivers more toward domestic demand. Moreover, some initial effects

Table I.2:

#### Main features of the autumn 2012 forecast - EU

| (Real annual percentage change unless otherwise stated) |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|---|-------|------|------|----------------------|------|------|----------------------|------|
|   | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| GDP   | -4.3  | 2.1  | 1.5  | -0.3                 | 0.4  | 1.6  | 0.0                  | 1.3  |
| Private consumption                                     | -1.5  | 1.1  | 0.1  | -0.6                 | 0.0  | 1.2  | -0.3                 | 0.7  |
| Public consumption                                      | 2.2   | 0.7  | -0.1 | 0.0                  | -0.4 | 0.4  | -0.5                 | -0.1 |
| Total investment  | -13.0 | 0.2  | 1.4  | -2.2                 | 0.1  | 2.8  | -0.9                 | 2.2  |
| Employment  | -1.9  | -0.5 | 0.2  | -0.4                 | -0.2 | 0.6  | -0.2                 | 0.2  |
| Unemployment rate (a)                                   | 9.0   | 9.7  | 9.7  | 10.5                 | 10.9 | 10.7 | 10.3                 | 10.3 |
| Inflation (b)   | 1.0   | 2.1  | 3.1  | 2.7                  | 2.0  | 1.8  | 2.6                  | 1.9  |
| Government balance (% GDP)                              | -6.9  | -6.5 | -4.4 | -3.6                 | -3.2 | -2.9 | -3.6                 | -3.3 |
| Government debt (% GDP)                                 | 74.6  | 80.2 | 83.0 | 86.8                 | 88.5 | 88.6 | 86.2                 | 87.2 |
| Adjusted current-account balance (% GDP)                | -0.7  | -0.6 | -0.5 | -0.2                 | 0.4  | 0.6  | -0.4                 | 0.0  |
| <b>Contribution to change in GDP</b>                    |       |      |      |                      |      |      |                      |      |
| Domestic demand   | -3.1  | 0.8  | 0.3  | -0.7                 | 0.0  | 1.3  | -0.4                 | 0.8  |
| Inventories   | -1.1  | 0.8  | 0.3  | -0.5                 | 0.0  | 0.0  | -0.3                 | 0.0  |
| Net exports   | -0.1  | 0.5  | 1.0  | 0.9                  | 0.5  | 0.3  | 0.7                  | 0.4  |

(a) Percentage of the labour force. (b) Harmonised index of consumer prices, annual percentage change.



of structural reforms are expected to become visible in 2014. Overall, real GDP is projected to grow by around 1½% in 2014. The negative output gap is expected to widen until 2013 and to shrink only in 2014. This has to be seen against the background of low estimates for potential GDP growth in 2012-13 (around ½% for the euro area and slightly higher for the EU).

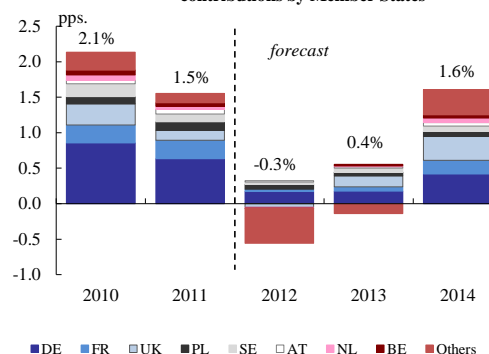
#### ...while cross-country growth differences narrow only gradually.

Despite the ongoing adjustment, substantial structural reforms and some noticeable gains in competitiveness in several countries with current-account deficits, cross-country growth differences are expected to narrow only marginally over the forecast horizon. Different economic prospects of Member States are path-dependent, and country-specific contributions to real GDP growth in the EU are to a large part determined by varying starting points in terms of private and public indebtedness, price- and non-price competitiveness, the stability of the domestic banking sector and the prior existence of housing bubbles (see Graph I.14).

Member States that recovered solidly after the recession of 2008-09 will continue to outpace more vulnerable countries given the profound differences between countries in terms of external and internal adjustment needs, the labour market situation, and in their capability to base export growth on extra-EU demand, while differences in financing conditions will take time to be reduced.

At the same time, achievements and further progress in terms of structural reforms and sustained gains in competitiveness and fiscal consolidation in a number of Member States should lay the basis for reducing macroeconomic disparities towards the end of the forecast horizon.

Graph I.14: Real GDP growth, EU, contributions by Member States



#### Fixed investment growth set to turn positive only in 2014...

In the second quarter of 2012, total investment had moved back to the level of the last trough reached at the turn of the year 2009-10. After a temporary rebound, investment has been declining since summer 2011 and the contraction is expected to continue until the end of this year.

#### ... with equipment investment expected to recover over the forecast horizon ...

The decrease in equipment investment that set in

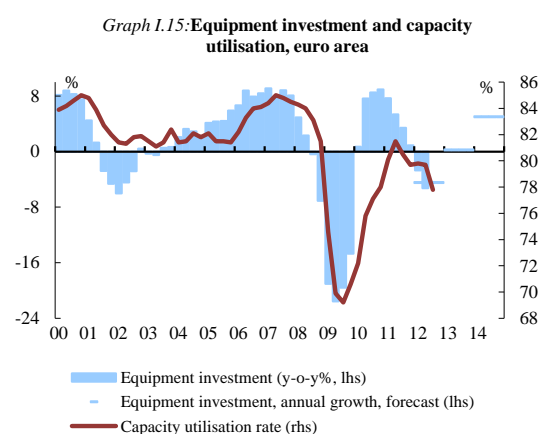
Table I.3:

#### Main features of the autumn 2012 forecast - euro area

| (Real annual percentage change unless otherwise stated) |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|---|-------|------|------|----------------------|------|------|----------------------|------|
|   | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| GDP   | -4.4  | 2.0  | 1.4  | -0.4                 | 0.1  | 1.4  | -0.3                 | 1.0  |
| Private consumption                                     | -1.0  | 0.9  | 0.1  | -1.0                 | -0.4 | 1.0  | -0.6                 | 0.5  |
| Public consumption                                      | 2.6   | 0.7  | -0.1 | -0.2                 | -0.4 | 0.6  | -0.8                 | 0.0  |
| Total investment  | -12.7 | -0.1 | 1.5  | -3.5                 | -0.6 | 2.5  | -1.5                 | 1.9  |
| Employment  | -2.1  | -0.6 | 0.2  | -0.8                 | -0.5 | 0.4  | -0.5                 | 0.0  |
| Unemployment rate (a)                                   | 9.6   | 10.1 | 10.1 | 11.3                 | 11.8 | 11.7 | 11.0                 | 11.0 |
| Inflation (b)   | 0.3   | 1.6  | 2.7  | 2.5                  | 1.8  | 1.6  | 2.4                  | 1.8  |
| Government balance (% GDP)                              | -6.3  | -6.2 | -4.1 | -3.3                 | -2.6 | -2.5 | -3.2                 | -2.9 |
| Government debt (% GDP)                                 | 80.0  | 85.6 | 88.1 | 92.9                 | 94.5 | 94.3 | 91.8                 | 92.6 |
| Adjusted current-account balance (% GDP)                | -0.2  | -0.1 | 0.0  | 0.9                  | 1.2  | 1.3  | 0.1                  | 0.6  |
| Contribution to change in GDP                           |       |      |      |                      |      |      |                      |      |
| Domestic demand   | -2.8  | 0.7  | 0.3  | -1.3                 | -0.4 | 1.2  | -0.8                 | 0.7  |
| Inventories   | -1.0  | 0.6  | 0.2  | -0.5                 | -0.1 | 0.0  | -0.3                 | 0.0  |
| Net exports   | -0.7  | 0.7  | 0.9  | 1.3                  | 0.6  | 0.2  | 0.8                  | 0.4  |

(a) Percentage of the labour force. (b) Harmonised index of consumer prices, annual percentage change.

last year accelerated in the first half of 2012. In the remainder of 2012, non-construction investment is expected to shrink further in line with weak economic activity and high uncertainty. Alongside the uncertainty weighing on investment spending in all Member States, tight financing conditions are an additional burden to investment growth, particularly in vulnerable countries. Moreover, a further decline in capacity utilisation was registered in the third quarter of 2012 (see Graph I.15) signalling weak investment dynamics in the near future. Other downside factors include very low business confidence, meagre profits developments in most Member States as well as companies' deleveraging in vulnerable Member States.

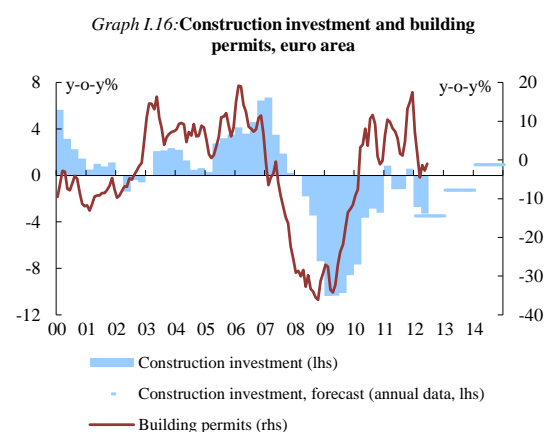


Given the relatively limited restocking after the 2008-09 crisis and the large negative contributions from inventories to EU and euro-area GDP growth since the third quarter of 2011, the scope for further destocking appears to be narrow at the current juncture. According to Commission surveys, companies' stocks are below long-term averages and slowly increasing which suggests that the inventory cycle may have turned around. Therefore, for the second half of the year, the contributions of inventories to EU and euro-area GDP growth are expected to be close to zero.

#### **...while adjustment in the housing market are still weighing on construction investment.**

Unlike machinery and equipment expenditure, investment in construction has witnessed an almost uninterrupted decline in the EU and the euro area since 2008. Following the burst of housing bubbles in several Member States, the ongoing adjustment in housing markets continues to impact on

residential investment<sup>(14)</sup> and timely indicators such as building permits do not suggest any substantial improvement in the near future. Construction investment is expected to further decline in 2013 in the euro area and to stabilise in the EU (see Graph I.16). However, very favourable financing conditions in terms of historically low mortgage rates in some Member States, for example in Germany, are likely to increase the affordability of housing and support housing investment. Further ahead, with the detrimental impact from price corrections in housing markets waning, construction investment is predicted to turn modestly positive. However, contractions will persist in countries facing the strongest housing market corrections, notably Spain and Ireland.



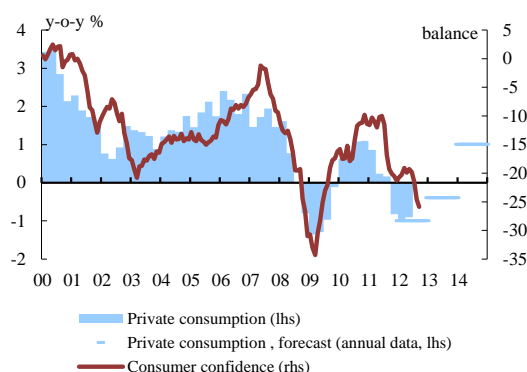
Looking ahead, total investment is expected to pick up as from the beginning of 2013 in the EU and somewhat later in the year in the euro area, led by non-construction investment. It should benefit from higher external demand, but also from improving business sentiment, easing financing conditions and a recovery of profit margins. Moreover, the realisation of investment projects postponed in the times of elevated uncertainty is also expected to benefit gross fixed capital formation. In annual terms, gross fixed capital formation in 2013 is set to further contract by about ½% in the euro area and to remain broadly stable in the EU. In 2014, total investment is expected to accelerate to 2½% in the euro area and to 2¾% in the EU.

<sup>(14)</sup> By the end of 2011, e.g. the Spanish housing market was still burdened by a stock of 676.038 unsold new housing units and in the first quarter of 2012 still about 3000 more units were completed than sold according to statistics of the Spanish ministry of public works (Ministerio de Fomento).

### Private consumption constrained by negative income and employment developments...

Private consumption has remained weak since the beginning of 2011. Muted growth in compensation of employees, in combination with persistently high inflation, has been weighing on households' real gross disposable incomes – the key driver of private consumption growth in the EU. Likewise, the high uncertainty related to the euro-area sovereign-debt crisis has led households to increase their precautionary savings. These headwinds are expected to remain in place in the second half of 2012 and short-term indicators suggest weak near-term prospects. Growth in retail trade has been on a downward trend since the beginning of 2011 and confidence in the retail sector is at its lowest level since 2009.

Graph I.17: Private consumption and consumer confidence, euro area



New passenger car registrations have been steadily

declining for several quarters, and are likely to remain subdued, as suggested by the Commission survey on expected major purchases which are at historically low levels. Finally, consumer confidence in the EU and the euro area has been declining since mid-2011 and is now below its long-term average (see Graph I.17). Overall in 2012, private consumption is forecast to fall by ½% in the EU and by 1% in the euro area.

### ...but will start to rebound when adverse effects fade...

Private consumption growth in 2013 is expected to remain sluggish or negative in most Member States. An anaemic labour market and flat income growth, substantial deleveraging and fiscal consolidation will continue to weigh on household consumption. On aggregate, private consumption in 2013 is expected to contract further in the euro area and to remain stable in the EU, before picking up moderately by around 1% in 2014 in both areas, as real disposable incomes rise and confidence returns. The assumed return of confidence should help to lower households' precautionary savings and the expected moderation in HICP inflation, in combination with the stabilisation in labour market conditions in 2014, should support households' purchasing power.

However, developments in aggregate private consumption over the forecast horizon mask substantial cross-country differences. In vulnerable Member States the contraction in private consumption is forecast to be deeper and longer-

Table I.4:

### Composition of growth - EU

(Real annual percentage change)

|                                      | 2011                 |       |      |      |       |      |      | Autumn 2012 forecast |      |      |
|--------------------------------------|----------------------|-------|------|------|-------|------|------|----------------------|------|------|
|                                      | bn Euro curr. prices | % GDP | 2007 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 |
| <b>Real percentage change</b>        |                      |       |      |      |       |      |      |                      |      |      |
| Private consumption                  | 7341.8               | 58.0  | 2.2  | 0.3  | -1.5  | 1.1  | 0.1  | -0.6                 | 0.0  | 1.2  |
| Public consumption                   | 2745.2               | 21.7  | 1.8  | 2.3  | 2.2   | 0.7  | -0.1 | 0.0                  | -0.4 | 0.4  |
| Gross fixed capital formation        | 2348.6               | 18.6  | 6.3  | -1.2 | -13.0 | 0.2  | 1.4  | -2.2                 | 0.1  | 2.8  |
| Change in stocks as % of GDP         | 77.2                 | 0.6   | 0.9  | 0.6  | -0.4  | 0.4  | 0.7  | 0.1                  | 0.1  | 0.1  |
| Exports of goods and services        | 5525.0               | 43.6  | 5.7  | 1.6  | -11.6 | 10.7 | 6.4  | 2.2                  | 3.4  | 5.3  |
| Final demand                         | 18037.9              | 142.5 | 4.0  | 0.6  | -6.4  | 4.1  | 2.3  | -0.2                 | 1.0  | 2.6  |
| Imports of goods and services        | 5378.3               | 42.5  | 5.9  | 1.1  | -11.6 | 9.6  | 4.1  | 0.1                  | 2.4  | 4.9  |
| GDP                                  | 12659.6              | 100.0 | 3.2  | 0.3  | -4.3  | 2.1  | 1.5  | -0.3                 | 0.4  | 1.6  |
| GNI                                  | 12652.5              | 99.9  | 3.0  | 0.1  | -4.2  | 2.2  | 1.4  | -0.5                 | 0.5  | 1.6  |
| p.m. GDP euro area                   | 9420.9               | 74.4  | 3.0  | 0.4  | -4.4  | 2.0  | 1.4  | -0.4                 | 0.1  | 1.4  |
| <b>Contribution to change in GDP</b> |                      |       |      |      |       |      |      |                      |      |      |
| Private consumption                  |                      |       | 1.3  | 0.2  | -0.9  | 0.6  | 0.1  | -0.3                 | 0.0  | 0.7  |
| Public consumption                   |                      |       | 0.4  | 0.5  | 0.5   | 0.2  | 0.0  | 0.0                  | -0.1 | 0.1  |
| Investment                           |                      |       | 1.3  | -0.2 | -2.7  | 0.0  | 0.3  | -0.4                 | 0.0  | 0.5  |
| Inventories                          |                      |       | 0.4  | -0.2 | -1.1  | 0.8  | 0.3  | -0.5                 | 0.0  | 0.0  |
| Exports                              |                      |       | 2.2  | 0.6  | -4.8  | 4.0  | 2.6  | 1.0                  | 1.5  | 2.4  |
| Final demand                         |                      |       | 5.5  | 0.8  | -9.0  | 5.6  | 3.2  | -0.3                 | 1.4  | 3.8  |
| Imports (minus)                      |                      |       | -2.3 | -0.4 | 4.8   | -3.5 | -1.6 | 0.0                  | -1.0 | -2.2 |
| Net exports                          |                      |       | -0.1 | 0.2  | -0.1  | 0.5  | 1.0  | 0.9                  | 0.5  | 0.3  |

lasting than the EU average, since private households continue to reduce debt and increase savings. This deleveraging process is expected to continue over the forecast horizon and is likely to prevent more buoyant consumption growth at the EU aggregate level. By contrast, countries with lower household debt are expected to register more solid growth in consumer expenditure as precautionary savings are likely to decline in line with receding uncertainty.

#### ...whereas fiscal consolidation continues to weigh on public consumption ...

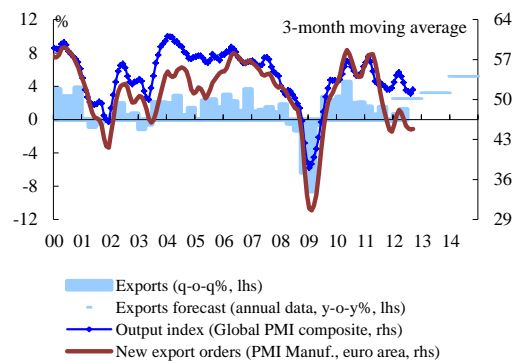
In line with fiscal consolidation efforts in many Member States, public consumption is set to be subdued over the forecast horizon. In 2012, government consumption is forecast to fall slightly in the euro area and to remain broadly stable in the EU. In 2013, fiscal retrenchment is forecast to lower public consumption by a further ½% before government consumption is predicted to increase modestly in both areas in 2014, based on the no-policy-change assumption,

#### Net exports will continue to be the main growth driver in 2013...

With domestic demand depressed, net exports are likely to be the key growth driver in 2012 and 2013. After buoyant growth in 2010 and at the beginning of 2011, export growth has been decelerating since spring 2011 in line with slowing world trade. With export growth still exceeding the increase in imports, net external demand is

expected to contribute positively to GDP growth over the forecast horizon. This positive growth contribution is however predicted to decline gradually as strengthening domestic demand is set to induce higher import growth.

Graph I.18: Global demand, euro-area exports and new export orders



The recent softening of global growth is likely to last until the end of the year on the back of the subdued outlook for both advanced and emerging market economies. As a consequence, export growth is set to slow down in the remainder of the year. Short-term indicators such as Commission survey data on export orders or the PMI component for new export orders in the manufacturing sector continue to decline. For 2012 as a whole, exports are set to grow by 2¼% in the EU and by 2½% the euro area, compared to 6.4% and 6.3% in 2011 respectively (see Graph I.18).

With the global economy gaining momentum over

Table I.5:

#### Composition of growth - euro area

|                               |                      |       |                               |      |       |      |      | Autumn 2012 forecast |      |      |
|-------------------------------|----------------------|-------|-------------------------------|------|-------|------|------|----------------------|------|------|
|                               |                      |       | 2007                          | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 |
|                               |                      |       | Real percentage change        |      |       |      |      |                      |      |      |
|                               | bn Euro curr. prices | % GDP |                               |      |       |      |      |                      |      |      |
| Private consumption           | 5406.8               | 57.4  | 1.7                           | 0.4  | -1.0  | 0.9  | 0.1  | -1.0                 | -0.4 | 1.0  |
| Public consumption            | 2030.9               | 21.6  | 2.2                           | 2.3  | 2.6   | 0.7  | -0.1 | -0.2                 | -0.4 | 0.6  |
| Gross fixed capital formation | 1805.3               | 19.2  | 5.2                           | -1.4 | -12.7 | -0.1 | 1.5  | -3.5                 | -0.6 | 2.5  |
| Change in stocks as % of GDP  | 40.9                 | 0.4   | 0.8                           | 0.7  | -0.3  | 0.3  | 0.6  | -0.1                 | -0.1 | -0.1 |
| Exports of goods and services | 4149.4               | 44.0  | 6.6                           | 1.1  | -12.4 | 11.2 | 6.3  | 2.5                  | 3.2  | 5.2  |
| Final demand                  | 13433.3              | 142.6 | 3.9                           | 0.6  | -6.3  | 4.1  | 2.3  | -0.5                 | 0.7  | 2.5  |
| Imports of goods and services | 4012.4               | 42.6  | 6.3                           | 0.9  | -11.1 | 9.6  | 4.2  | -0.5                 | 2.1  | 5.0  |
| GDP                           | 9420.9               | 100.0 | 3.0                           | 0.4  | -4.4  | 2.0  | 1.4  | -0.4                 | 0.1  | 1.4  |
| GNI                           | 9420.2               | 100.0 | 2.6                           | -0.2 | -4.0  | 2.2  | 1.3  | -0.5                 | 0.0  | 1.3  |
| p.m. GDP EU                   | 12659.6              | 134.4 | 3.2                           | 0.3  | -4.3  | 2.1  | 1.5  | -0.3                 | 0.4  | 1.6  |
|                               |                      |       | Contribution to change in GDP |      |       |      |      |                      |      |      |
| Private consumption           |                      |       | 0.9                           | 0.2  | -0.6  | 0.5  | 0.1  | -0.6                 | -0.2 | 0.6  |
| Public consumption            |                      |       | 0.4                           | 0.5  | 0.5   | 0.2  | 0.0  | -0.1                 | -0.1 | 0.1  |
| Investment                    |                      |       | 1.1                           | -0.3 | -2.7  | 0.0  | 0.3  | -0.7                 | -0.1 | 0.5  |
| Inventories                   |                      |       | 0.3                           | -0.1 | -1.0  | 0.6  | 0.2  | -0.5                 | -0.1 | 0.0  |
| Exports                       |                      |       | 2.7                           | 0.5  | -5.2  | 4.1  | 2.6  | 1.1                  | 1.5  | 2.4  |
| Final demand                  |                      |       | 5.5                           | 0.8  | -8.9  | 5.5  | 3.2  | -0.7                 | 1.0  | 3.6  |
| Imports (minus)               |                      |       | -2.5                          | -0.4 | 4.6   | -3.4 | -1.7 | 0.2                  | -0.9 | -2.2 |
| Net exports                   |                      |       | 0.2                           | 0.1  | -0.7  | 0.7  | 0.9  | 1.3                  | 0.6  | 0.2  |

the course of 2013 and with Member States benefitting from a lower effective exchange rate and gains in competitiveness, a gradual rebound in export growth is expected over the forecast horizon. Export growth in 2013 as a whole is predicted to accelerate modestly to around 3¼%. In 2014, export growth is expected to be more robust (around 5¼% in both areas), in line with global demand developments. However, Member States' individual export performance will to some extent depend on the elasticities of exports to specific markets, notably emerging Asia.<sup>(15)</sup>

The short-term prospects for EU imports are restrained by weak household consumption and depressed investment. Import growth in the second half of the year is forecast to be subdued in the EU and to remain flat in the euro area. For the year 2012 as a whole, this translates into an unchanged import volume in the EU and an annual growth rate of -½% in the euro area. With a strengthening of the domestic economy, import volumes are set to grow gradually over the forecast horizon, averaging 2½% in 2013 in the EU and about 2% in the euro area. In 2014, import growth is expected to accelerate to 5% in both areas. But despite the expected strengthening in domestic demand, growth rates are predicted to fall short of expansion rates witnessed in the pre-crisis boom period. This is particularly true for programme countries and other vulnerable euro-area Member States.

### Current-account surpluses in the EU and the euro area gradually expanding ...

Already close to balance in 2011 despite the negative impact of increasing import prices, the current account of the euro area is set to register an expanding surplus over the forecast horizon. The euro-area balance in merchandise trade (in adjusted terms) is expected to improve gradually to a surplus of 1¼% of GDP in 2014, while the EU is likely to register a mildly negative balance over the forecast horizon. The EU current-account balance (in adjusted terms) is to turn slightly positive in 2013 helped by a larger services surplus of around 2% of GDP on average over the period 2012-14 (at around 1% in the euro area).

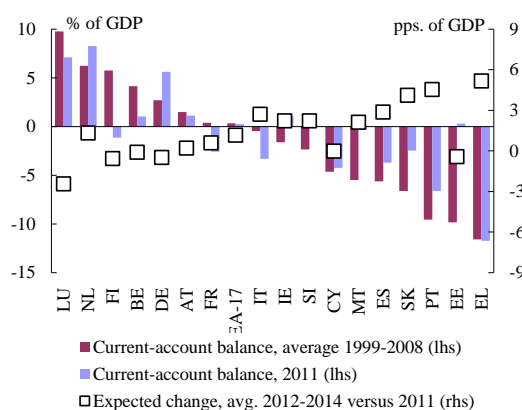
<sup>(15)</sup> See Chen, R., G.-M. Milesi-Ferretti and T. Tresselt, External imbalances in the euro area, *IMF Working Paper* 12/236, September 2012.

### ... reflecting the ongoing adjustment at the Member State level.

The on aggregate positive current-account balance for the euro area and the EU as a whole still masks substantial cross-country differences with some Member States registering substantial surpluses, while others are still recording considerable deficits vis-à-vis the rest of the world. However, external adjustment is ongoing, especially in the euro area where the current-account balances in deficit countries are improving relatively fast (see Graph I.19). At the outset, these improvements were mainly driven by lower import growth due to cyclically weak domestic demand. But external adjustment is increasingly determined by structural shifts within vulnerable deficit countries.

Gains in competitiveness, reflected by lower real effective exchange rates and declines in relative unit labour costs, which are expected to decrease further over the forecast horizon, are an indication that the necessary shift in relative prices in vulnerable countries is underway and that part of the adjustment will be sustained when the overall economic situation improves and domestic demand recovers. In particular, structurally lower growth in consumption in vulnerable countries is likely to prevent import growth from reaching pre-crisis levels irrespective of the next cyclical upturn.

Graph I.19: Current-account balances, euro area and Member States



Part of the ongoing adjustment can also be attributed to shifts in investor sentiment. Private capital inflows to vulnerable countries first dried up and then moved into reverse ("sudden stop") as the sovereign-debt crisis in the euro area intensified. However, the disruption of private capital flows in affected euro-area Member States has been partly compensated for by other flows

Table I.6:

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

|                                       | Euro area |      |      |      | Spring 2012<br>forecast |      | EU   |      |      |      | Spring 2012<br>forecast |      |
|---------------------------------------|-----------|------|------|------|-------------------------|------|------|------|------|------|-------------------------|------|
|                                       |           |      |      |      |                         |      |      |      |      |      |                         |      |
|                                       | 2011      | 2012 | 2013 | 2014 | 2012                    | 2013 | 2011 | 2012 | 2013 | 2014 | 2012                    | 2013 |
| Population of working age (15-74)     | 0.0       | -0.2 | -0.2 | -0.2 | 0.0                     | 0.0  | 0.0  | -0.1 | -0.1 | -0.1 | 0.0                     | 0.0  |
| Labour force                          | 0.3       | 0.6  | 0.2  | 0.2  | 0.4                     | 0.1  | 0.2  | 0.6  | 0.3  | 0.3  | 0.4                     | 0.2  |
| Employment                            | 0.2       | -0.8 | -0.5 | 0.4  | -0.5                    | 0.0  | 0.2  | -0.4 | -0.2 | 0.6  | -0.2                    | 0.2  |
| Employment (change in million)        | 0.4       | -1.0 | -0.7 | 0.6  | -0.7                    | 0.1  | 0.6  | -0.7 | -0.4 | 1.2  | -0.5                    | 0.5  |
| Unemployment (levels in millions)     | 16.0      | 18.0 | 18.9 | 18.7 | 17.3                    | 17.4 | 23.2 | 25.3 | 26.3 | 25.9 | 24.7                    | 24.7 |
| Unemployment rate (% of labour force) | 10.1      | 11.3 | 11.8 | 11.7 | 11.0                    | 11.0 | 9.7  | 10.5 | 10.9 | 10.7 | 10.3                    | 10.3 |
| Labour productivity, whole economy    | 1.1       | 0.3  | 0.6  | 1.0  | 0.1                     | 1.0  | 1.4  | 0.3  | 0.7  | 1.1  | 0.4                     | 1.2  |
| Employment rate (a)                   | 68.5      | 68.2 | 68.0 | 68.3 | 63.9                    | 63.9 | 68.6 | 68.4 | 68.4 | 68.8 | 64.2                    | 64.3 |

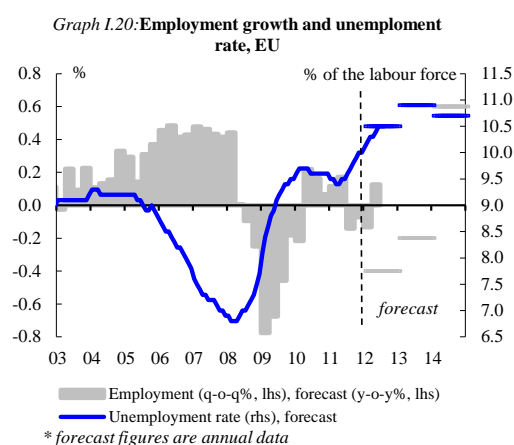
(a) As a percentage of population of working age. Definition according to structural indicators.

See also note 6 in the Statistical Annex.

such as liquidity provisions by the Eurosystem or funds from financial assistance programmes.

### The labour market situation has further deteriorated ...

In 2012, labour market conditions in the euro area and the EU have worsened, reflecting the deterioration in the overall economic situation since the fourth quarter of 2011 and heightened uncertainty.<sup>(16)</sup> In the year up to August 2012, the unemployment rate in the euro-area and the EU increased by 1½ pps. and 1 pp. to 11.4% and 10.5% respectively (see Graph I.20) while the number of unemployed is about 2.1 million higher in both areas. The net increase is largely due to rising unemployment in a few euro-area Member States where the jobless rate increased sharply.



<sup>(16)</sup> When coupled with an output contraction high uncertainty via its adverse impact on hiring may induce higher unemployment than generally suggested by Okun's law, see European Commission (DG ECFIN), Labour market developments in Europe 2012, pp. 11-12.

Since much of the EU labour market adjustment during the recession in 2008-09 took place through a reduction in hours worked per person employed and occurred to a far lesser extent through reducing staff, employment growth during the initial recovery has been rather weak. This slow pickup in employment was interrupted when the economy slowed in the second half of 2011. Even though the development in hours worked has been rather volatile throughout 2011, the initial employment adjustment occurred at least to some extent through the reduction in working hours. Compared to the same period of the previous year, employment in the euro area and the EU declined only slightly in the second quarter of 2012 and remained stable vis-à-vis the first three months of the year. This suggests that the labour market adjustment will increasingly occur in terms of headcount employment.

### ... with employment developments shaped by sectoral adjustments ...

Across sectors, the weakening in employment in the euro area has largely affected manufacturing, but especially sectors which were burdened by overcapacities such as financial services and construction. In the second quarter of 2012, employment in the above-mentioned sectors dropped at annual rates of 1.0%, 1.2% and 5.3% respectively. The September readings of the employment component of the euro-area PMI point to a further weakening in employment prospects in manufacturing and services.

Large parts of lay-offs in crisis-hit EU countries are linked to far-reaching structural adjustments across sectors. As a result of domestic debt and banking crises, highly leveraged sectors tend to experience higher employment volatility due to



liquidity shocks.<sup>(17)</sup> When compared with global economic downturns, the negative employment impact of these domestic crises tends to be substantially larger, especially when relatively closed economies are affected.<sup>(18)</sup>

### ... and high unemployment risking to become entrenched.

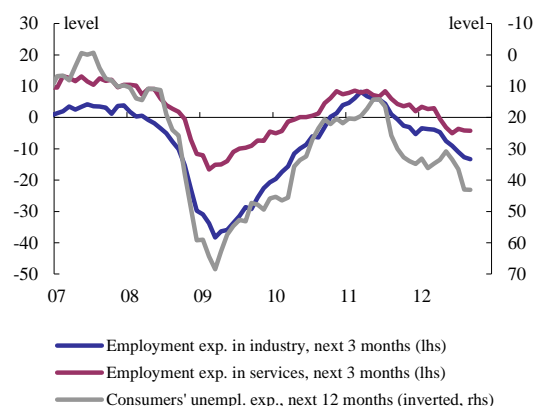
Between 2008 and 2011, gross flows between employment, unemployment and inactivity in Member States with robust labour markets such as Germany and Austria resulted in a net inflow into employment. By contrast, Member States with persistently low job finding rates, particularly those involved in a far-reaching adjustment process, registered intensified job destruction in 2011 which on balance induced a large outflow of employment and increasing jobless rates. Moreover, the implied higher share of long-term unemployment and rapidly rising youth unemployment has raised concerns that cyclical increases in joblessness might eventually reduce employability and turn into structural unemployment. According to Commission estimates, the non-accelerating wage rate of unemployment (NAWRU), a common gauge of structural unemployment, has indeed increased substantially since 2008. Thus, in the absence of successful adjustment and labour market reforms the implied rising labour-market mismatch might induce a structurally higher unemployment rate in the future.<sup>(19)</sup>

### A bleak short-term labour market outlook ...

Looking ahead, the worsening of the economic outlook does not bode well for EU labour market prospects. The latest readings of leading indicators suggest a further weakening of the labour market situation in the near future. According to Commission surveys, employment expectations in the EU and the euro area fell below their long-term averages in September 2012. This steady worsening, already observable since spring 2011,

has been most pronounced in the industrial sector, where expectations have steadily deteriorated in the EU since April and in the euro area since January 2012 (see Graph I.21). Companies' growing reluctance to hire and the need to reduce staff is mirrored by consumers' unemployment fears which have increased almost in parallel during the summer with the sharpest increase registered in August 2012. Although they are still substantially below the peaks of spring 2009, they are also markedly above long-term averages. Accounting for the usually lagged response of employment to changes in economic activity the decline of GDP in the first half of 2012 and the deteriorated outlook are likely to worsen labour market prospects in the near future.

Graph I.21: Employment expectations,  
DG ECFIN surveys, euro area



### ... with employment likely to be less resilient than in the past ...

Given that hours worked have not yet recovered from the contraction in 2008-09, the detrimental impact of the current slowdown on headcount employment in EU is expected to be more pronounced than in the recent past (see Box I.4). The lack of fiscal space and the ongoing structural adjustment in some Member States limit the scope for supportive policy measures, most notably short-time working schemes, that protected the EU labour market partly from the impact of the previous downturn. A modest recovery in economic activity over the forecast horizon may help to stabilise the labour market situation at the end of 2013 and give rise to feeble employment growth in 2014 amongst reduced uncertainty and evidence of a firming recovery, while unemployment rates are likely to remain high over the forecast horizon.

<sup>(17)</sup> See Boeri, T., P. Garibaldi and E. R. Moen, The labor market consequences of adverse financial shocks, *IZA Discussion Paper* No. 6826, August 2012.

<sup>(18)</sup> See Gamberoni, E., E. v. Uexkull and S. Weber, The role of openness and labour market institutions for employment dynamics during economic crisis, *Employment Working Paper* No. 68, International Labour Office, Geneva 2010.

<sup>(19)</sup> See European Commission (DG ECFIN), Labour market developments in Europe 2012, pp. 24-25. According to the OECD, the estimated increases in a number of Member States still tend to be small when compared to the overall increase of the unemployment rate, see, OECD Employment Outlook, 2012, p. 33.

### ... and cross-country disparities are expected to prevail.

The spread between unemployment rates in countries with a robust labour market situation and those in countries facing the highest jobless rates has steadily increased since 2007. This divergence is partly due to different institutional settings in national labour markets which determine the country-specific absorption capacity vis-à-vis symmetric and asymmetric shocks.<sup>(20)</sup> The large growth differential is likely to entail a further widening of the already diverse labour market conditions across EU Member States in 2013 and which are projected to converge only slightly at the end of the forecast horizon.

The varying labour market performance across Member States is also reflected in diverging wage developments. Some Member States register significant wage increases which imply a relatively strong rise in unit labour costs, at least in 2012. By contrast, wage growth in Member States faced with substantial internal and external adjustment is expected to be very moderate or even negative, thus allowing for a gradual improvement in competitiveness and employment over the forecast horizon.

Labour market adjustment in vulnerable Member States is underway and adopted reforms are likely to reduce adjustment costs. But this will be a prolonged process and visible improvements are not to be expected before 2014, as the necessary reallocation of resources from the non-tradable to the tradable sector is also hampered by particularly weak investment growth. The employment situation in less vulnerable economies which proved rather benign during the 2008-09 recession as companies resorted to labour hoarding and adjusted working times accordingly is expected to be comparatively stable. However, with the exception of some Member States<sup>(21)</sup> the overall adjustment at the company level due to the current slowdown may occur rather through reducing headcounts than through hours worked.

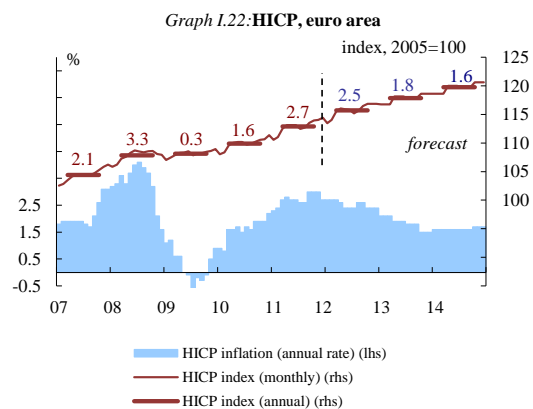
<sup>(20)</sup> On the role of labour market asymmetries in a monetary union see Abbritti, M. and A. I. Mueller, Asymmetric labor market institutions in the EMU and the volatility of inflation and unemployment differentials, *IZA Discussion Paper* No. 6488, April 2012.

<sup>(21)</sup> For example, in Germany working time accounts are almost replenished as a result of solid economic growth in the past two years and further moves toward more flexible working-time arrangements have extended the scope for working-hour adjustments.

Looking further ahead, employment is expected to increase or at least to stabilise by 2014 in all Member States except for Cyprus and Slovenia. Unemployment rates are forecast to fall in the large majority of Member States with the exception of Belgium, France, Italy, Cyprus, Luxembourg, the Netherlands, Slovenia and Romania.

### Inflation has remained persistent

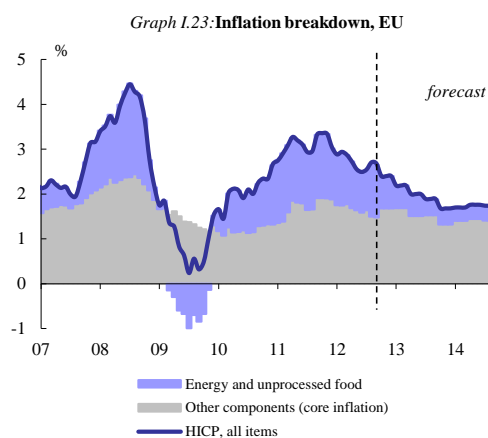
In the course of 2012, consumer-price inflation continued to be driven to a large extent by changes in indirect taxation in several Member States, volatile oil prices (in particular in euro terms) and rising food commodity prices. Although oil prices decreased significantly between spring and the end of June, they have almost returned to their April levels (both spot prices and futures). The net effect of the oil and food price increases combined with higher indirect taxes (adding up to 0.4 pp. to HICP in July-August), as well as lagged effects of past oil-price increases from the first quarter of 2012, have resulted in inflation in the EU and the euro area that has been proved more persistent than expected in the spring forecast. Euro-area headline HICP inflation remained stable at 2.5% in the third quarter of 2012 (see Graph I.22), while EU headline inflation stood at 2.6%.



Core inflation (i.e. all items excluding energy and unprocessed food) in the EU eased from 2.3% at the end of 2011 to 1.9% in the third quarter of 2012 (from 2.0% to 1.8% respectively in the euro area), remaining nevertheless tenaciously high given the amount of slack in the economy. The persistence in core inflation rates can be explained by increases in indirect taxation rates in several Member States affecting both services and non-energy industrial goods and the pass-through from



the past exchange-rate depreciation (see Graph I.23).



#### With weak labour market conditions ...

Labour conditions have worsened in the first half of 2012 and have thus not exerted any noticeable price pressures. Nevertheless, in the first quarter of 2012, the growth in nominal compensation per employee – although decelerating – continued to significantly outpace productivity gains, prompting a further increase in nominal unit labour costs. Hourly labour costs rose by an annual growth rate of 2.0% in the euro area (2.3% in the EU) in the second quarter of 2012, up from 1.6% (1.5% in the EU) in the first quarter of 2012.

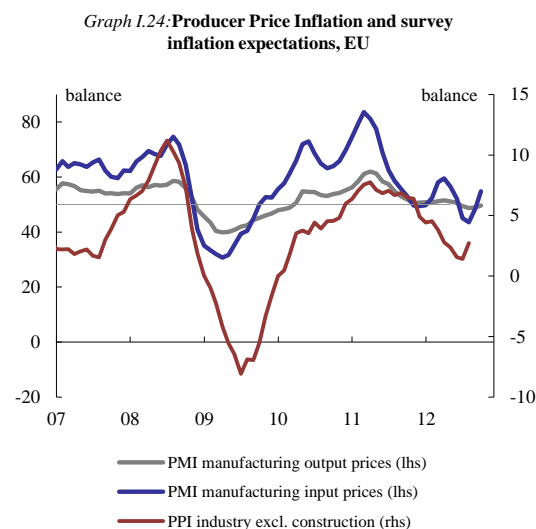
#### ... producer-price inflation affected by volatile energy prices...

Price pressures on the producer side have been easing since the spring of 2011, mainly reflecting lower energy input prices. Industrial producer prices (excluding construction) fell below 2% in the EU and the euro area in mid-2012 and the most substantial decrease in the first half of this year was observed for intermediate goods, i.e. at the earlier stages of the production chain. Similarly, producer price inflation also fell noticeably for consumer goods in the same period. However, annual producer price inflation increased to 2.7% in both areas in August 2012 on the back of higher energy prices, suggesting temporarily somewhat higher inflation pressures from the producer side.

#### ... and well-anchored expectations ...

The survey indicators of price developments (both PMI and ESI components), which signal future producer-price developments, edged up slightly

over the summer but remained still at rather moderate levels implying that the scope for any substantial output price increases is limited in the coming months (see Graph I.24).



Consumers' inflation expectations have been volatile since the beginning of 2012, reflecting inter alia the volatility in commodity markets. They increased again slightly in August and remained at an elevated level as they tend to be highly correlated with the observed (currently relatively high) inflation rates. By contrast, market-based inflation expectations for the medium- to long term point to a substantial easing of inflation going forward, with inflation rates significantly below the ECB's official target. However, in times of continued financial-market turbulences, these indicators should be interpreted with caution.

#### ... the outlook is for a gradual easing of inflation.

In 2012, HICP inflation is expected to average 2.7% in the EU and 2.5% in the euro area on the back of higher energy prices and increases in indirect taxes in some Member States. Given the current assumptions for commodity prices and the lagged effects of the most recent oil price increases, consumer-price inflation in the euro area and the EU is predicted to fall below 2% in the second and third quarters of 2013 respectively.

With rises in labour costs limited by high unemployment and producers' price-setting power constrained by subdued consumption growth, domestic price pressures are likely to recede

further. Annual average HICP inflation in 2013, also supported by declining commodity prices, is forecast to decline to 1.8% in the euro area and to 2.0% in the EU. Looking further ahead, the subdued recovery forecast to set in in the second half of 2013 and to gain further traction in 2014 is not expected to raise inflationary pressures, as output gaps are expected to close only slowly. Inflation rates across Member States are likely to converge as the impact from increases in indirect taxes and administrative prices fades. Overall, HICP inflation in 2014 is predicted to average 1.6% in the euro area and 1.8% in the EU.

It is important to note that the HICP inflation forecast for 2013 and for 2014 in particular, is subject to the no-policy-change assumption that excludes fiscal measures that are not known or sufficiently specified at the cut-off date but which might be adopted afterwards and have a temporary impact on headline figures.

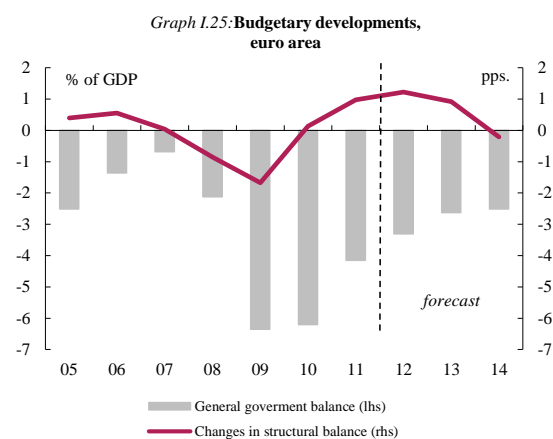
#### Public finances set to improve despite a worsening outlook ...

Fiscal consolidation is expected to continue over the forecast horizon, yet at a somewhat slower pace than in 2011 in the face of weaker-than-expected growth. Compared to the 2012 spring forecast, the budgetary projections for 2012 and 2013 remain largely unchanged at the euro area and EU level. As a result of sizeable consolidation plans implemented by several Member States, the general government deficit in 2012 is expected to decline by 0.8 pp. of GDP in both the euro area and the EU, to 3.3% and 3.6% of GDP respectively.

#### ... but weaker growth likely to slow down pace

#### of reduction of headline deficits...

With economic activity forecast to recover gradually in the course of 2013 and acknowledging the fact that not all Member States have presented a draft budget for 2013 yet, general government deficits are projected to decrease further in 2013. Notably, the deficit is expected to decline to 2.6% of GDP in the euro area, while reaching 3.2% of GDP in the EU.



In line with the projected moderate pick-up in economic activity and respecting the no-policy-change assumption, the deficit is projected for 2014 to edge down by 0.1 pp. to 2.5% of GDP in the euro area and by 0.3 pp. to 2.9% of GDP in the EU (see Graph I.25).

#### ... while the improvement in budget balances is mainly driven by higher revenues ...

The projected decline in the general government deficit in 2012 is due to higher general government revenues as a percentage of GDP. As a result of increases in tax rates and widening tax bases, the

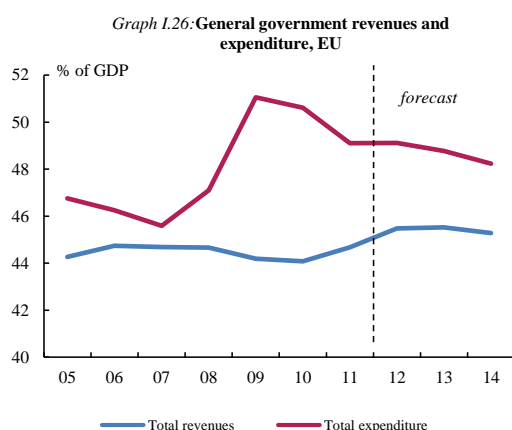
Table I.7:

#### General government budgetary position - euro area and EU

| (% of GDP)                          | Euro area |      |      |      | Spring 2012 forecast |      | EU   |      |      |      | Spring 2012 forecast |      |
|-------------------------------------|-----------|------|------|------|----------------------|------|------|------|------|------|----------------------|------|
|                                     | 2011      | 2012 | 2013 | 2014 | 2012                 | 2013 | 2011 | 2012 | 2013 | 2014 | 2012                 | 2013 |
| Total receipts (1)                  | 45.4      | 46.2 | 46.8 | 46.6 | 46.2                 | 46.1 | 44.7 | 45.5 | 45.5 | 45.3 | 45.2                 | 45.2 |
| Total expenditure (2)               | 49.5      | 49.5 | 49.4 | 49.1 | 49.4                 | 49.0 | 49.1 | 49.1 | 48.8 | 48.2 | 48.9                 | 48.4 |
| Actual balance (3) = (1)-(2)        | -4.1      | -3.3 | -2.6 | -2.5 | -3.2                 | -2.9 | -4.4 | -3.6 | -3.2 | -2.9 | -3.6                 | -3.3 |
| Interest expenditure (4)            | 3.0       | 3.1  | 3.2  | 3.3  | 3.2                  | 3.2  | 2.9  | 3.0  | 3.1  | 3.1  | 3.1                  | 3.1  |
| Primary balance (5) = (3)+(4)       | -1.1      | -0.2 | 0.6  | 0.8  | 0.0                  | 0.3  | -1.5 | -0.6 | -0.2 | 0.2  | -0.5                 | -0.2 |
| Cyclically-adjusted budget balance  | -3.4      | -2.2 | -1.3 | -1.6 | -2.0                 | -1.8 | -3.7 | -2.5 | -1.9 | -2.0 | -2.4                 | -2.2 |
| Cyclically-adjusted primary balance | -0.4      | 0.9  | 1.9  | 1.7  | 1.2                  | 1.4  | -0.8 | 0.5  | 1.1  | 1.1  | 0.7                  | 0.9  |
| Structural budget balance           | -3.5      | -2.2 | -1.3 | -1.5 | -2.1                 | -1.9 | -3.8 | -2.7 | -2.0 | -2.0 | -2.7                 | -2.2 |
| Change in structural budget balance | 1.0       | 1.2  | 0.9  | -0.2 | 1.3                  | 0.2  | 1.1  | 1.0  | 0.8  | 0.0  | 1.0                  | 0.5  |
| Gross debt                          | 88.1      | 92.9 | 94.5 | 94.3 | 91.8                 | 92.6 | 83.0 | 86.8 | 88.5 | 88.6 | 86.2                 | 87.2 |

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

revenue-to-GDP ratio is forecast to average 46.2% in the euro area and 45.5% in the EU, implying an increase of around 0.8 pp. compared to 2011 in both areas. In 2013, the revenue-to-GDP ratio is projected to rise further in the euro area to around 46.8%, while stabilising in the EU as a whole. In 2014, the revenue ratio is forecast to decline marginally in both areas. By contrast, the expenditure-to-GDP ratio is expected to stabilise in both the euro area and the EU in 2012, as slightly higher interest payments and increased social transfers in the downturn offset the impact of discretionary expenditure cuts. Government spending is projected to start to decline in 2013 and this decline is projected to accelerate in both areas in 2014, also on account of the gradual strengthening in the economic recovery (see Graph I.26).



As for EU budgetary surveillance, only six Member States<sup>(22)</sup> are currently not subject to the Excessive Deficit Procedure (EDP). Among the 21 Members States currently under the EDP, the procedure is held in abeyance in most cases with the exception of Spain and the programme countries Greece and Portugal.

### ... and structural balances are strengthened ...

Underlying the projected path of deficit reduction, the structural budget balance (the headline deficit corrected for cyclical factors and one-offs and other temporary measures) is forecast to improve in 2012 by around 1 pp. of GDP in the euro area and the EU respectively. Based on draft national budgets that are currently available, the improvement in structural balances is expected to

<sup>(22)</sup> Bulgaria, Estonia, Finland, Germany, Luxembourg, and Sweden. In the case of Bulgaria and Germany the EDP procedure was abrogated in June 2012.

continue in 2013, albeit at a decreasing pace. The slowing pace of consolidation in structural terms is likely to translate into a somewhat reduced (short-term) drag of fiscal policy on growth. On the other hand there is evidence that in crisis periods fiscal multipliers can be higher than in normal economic conditions (see Box I.5). In view of the no-policy-change assumption, the structural balance is not expected to improve further in the EU in 2014, while in the euro area a slight deterioration in structural terms is predicted.

### ... whereas debt ratios are expected to increase further.

Despite the expected decline in most Member States' headline deficits over the forecast horizon, government debt ratios in the euro area and in the EU for the years 2012 and 2013 are projected to increase. The increase in euro-area government debt from 88.1% of GDP in 2011 to 92.8% in 2012 is due to a large snowball effect and stock-flow adjustment. The snowball effect, which includes the impact of interest expenditure, real GDP growth and inflation on the debt ratio, is mostly responsible for the projected further increase in the debt ratio in 2013 to 94.5% of GDP. In the EU, general government gross debt is expected to increase, albeit at decreasing rate, over the forecast period reaching its peak (88.6% of GDP) in 2014.

Table I.8:  
Euro-area debt dynamics

|   | average<br>2004-08 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|--------------------|------|------|------|------|------|------|
| Gross debt ratio <sup>1</sup> (% of GDP)  | 69.1               | 80.0 | 85.6 | 88.1 | 92.9 | 94.5 | 94.3 |
| Change in the ratio                       | 0.2                | 9.8  | 5.6  | 2.5  | 4.9  | 1.6  | -0.2 |
| Contributions to the change in the ratio: |                    |      |      |      |      |      |      |
| 1. Primary balance                        | -1.1               | 3.5  | 3.4  | 1.1  | 0.2  | -0.6 | -0.8 |
| 2. "Snow-ball" effect <sup>2</sup>        | 0.3                | 5.3  | 0.6  | 0.8  | 2.4  | 1.8  | 0.6  |
| Of which:                                 |                    |      |      |      |      |      |      |
| Interest expenditure                      | 3.0                | 2.9  | 2.8  | 3.0  | 3.1  | 3.2  | 3.3  |
| Growth effect                             | -1.4               | 3.2  | -1.6 | -1.2 | 0.4  | -0.1 | -1.3 |
| Inflation effect                          | -1.3               | -0.7 | -0.6 | -1.0 | -1.2 | -1.4 | -1.4 |
| 3. Stock-flow adjustment                  | 1.0                | 0.9  | 1.6  | 0.6  | 2.3  | 0.4  | 0.0  |

<sup>1</sup> End of period.

<sup>2</sup> 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.

## 5. RISKS

Overall, risks to GDP growth appear more balanced than at the time of the spring forecast, though downside risks continue to dominate. While some of the previously-identified risks have materialised, most notably the worsening of the sovereign-debt crisis before the summer, policy

decisions taken over recent months have also reduced tail risks.

Despite the recent significant easing of tensions, financial markets remain vulnerable and highly dependent on the implementation of agreed policy measures. Spreads in European sovereign markets still remain high, and the inter-linkages between the sovereigns and the banking sector continue to pose a risk to financial stability. European banks are also considerably exposed to a further weakening of the economy as it would reduce their earnings, limit their debt-servicing capacity and translate into higher credit risk.

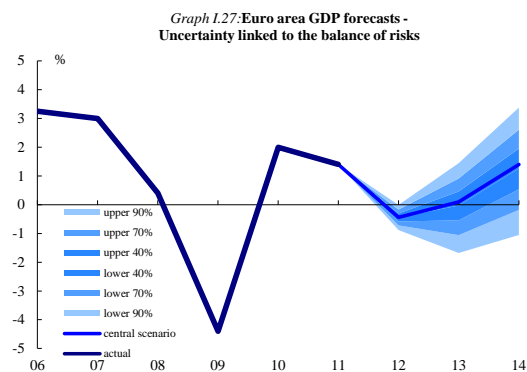
Further downside risks are related to developments in main partner economies. In China and some other emerging market economies, unexpectedly weak data on economic activity indicate that persistently high growth rates cannot be taken for granted. The political impasse in the US over the "fiscal cliff" generates uncertainty globally through its large potential impact on US GDP growth, including the risk of a recession in 2013. Sharp movements in oil prices and weather-related price hikes for staple foods, meanwhile, illustrate that commodity markets remain highly volatile.

On the upside, a faster and stronger-than-expected positive impact of recently announced policy measures at the European and national level aiming at resolving the euro-area sovereign-debt crisis could induce a more broadly-based and enduring easing of sovereign and bank funding stress. As a result, business and consumer confidence should be restored more quickly with favourable effects on economic activity. A similar virtuous chain reaction could be initiated, if structural reforms in vulnerable Member States were to bear fruit earlier and rebalancing within the euro area were to proceed faster and more substantially than expected. Further upside risks relate to policy actions in the US and some emerging market economies, where additional monetary stimulus may support economic activity.

The materialisation of risks to the growth outlook, whether upside or downside, is likely to have a differentiated impact across Member States. Vulnerable Member States, which would suffer most from a deterioration of financing conditions, would immediately be affected by a worsening or easing in the sovereign-debt crisis. A more diversified picture could also result from the materialisation of risks to the external environment

in combination with Member States' different geographical orientation of trade or the sensitivity of their exports to exchange-rate changes. This notwithstanding, no Member State would be left unscathed by the realisation of downside risks given the strong interconnectedness among European economies.

The substantial uncertainty surrounding the GDP growth outlook is reflected by a fan chart which is derived from the probabilities associated with the different upside and downside scenarios over the forecast horizon (see Graph I.27). As visualised by the shaded areas downward risks still dominate, but to a lesser extent than in the previous forecast as downside tail risks have diminished.



Risks to the inflation outlook appear broadly balanced over the forecast horizon. On the downside, stronger output contractions and the resulting increasing economic slack might reduce price pressures more than currently expected. A further weakening in the global economy, associated with a fall in commodity prices, would also decrease inflationary pressures. The risk of an area-wide deflation, however, appears remote despite the possibility that some Member States could experience negative inflation rates for some time. On the upside, unanticipated further increases in indirect taxes and administrative prices linked to intensified consolidation efforts and a faster and stronger-than-expected pick-up in world growth strengthening global demand and pushing up commodity prices, might additionally fuel inflationary pressures. Moreover, re-intensifying geopolitical tensions that cause abrupt supply disruptions and a surge in oil prices could jeopardise price stability in the short-term.

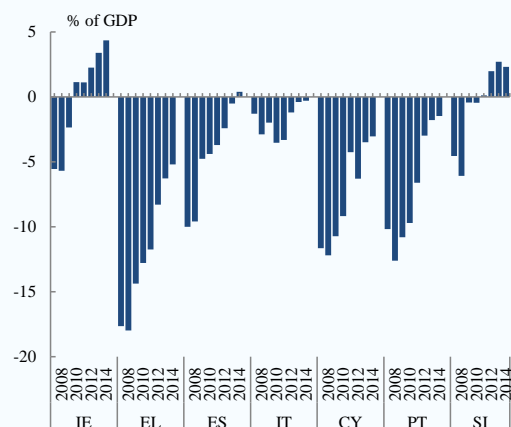
### Box I.1: Ongoing adjustment in the euro-area periphery

The euro-area peripheral economies are undergoing a profound process of macroeconomic adjustment and the medium-term growth prospects of these economies crucially depend on the pace and smoothness of the correction of their external and internal imbalances.

#### Vulnerable economies in the euro-area periphery

Even if they share some common features, the euro-area peripheral countries differ considerably in terms of their respective adjustment needs. On the one hand, Greece, Spain, Cyprus and Portugal used to register very large current-account deficits that raised doubts on their sustainability. On the other hand, Ireland, Italy and Slovenia recorded smaller external deficits, but their governments, banks and firms have also encountered severe funding stress. In the case of Greece, Ireland and Portugal, the adjustment process is supported through official financing by euro area Member States (as bilateral loan commitments and loans from the EFSF) and the IMF, while the EFSF/ESM provides funds to recapitalise the Spanish banking system. Cyprus has also requested official financing, but a specific adjustment programme has not yet been agreed. In addition, the current-account adjustment in these economies has also been cushioned by the ECB's non-standard monetary policy measures.

Graph 1: Reduction in the current-account deficits in the euro-area periphery (2007-14)



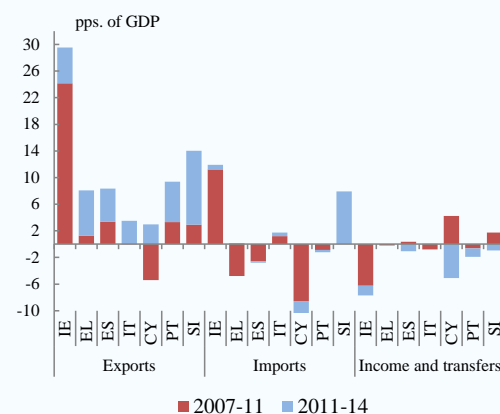
The convergence of interest rates, diverging unit labour costs and globalisation-related external shocks have all contributed to the widening of current-account deficits in the periphery and to that of surpluses in the core economies prior to the

crisis. In 2007, the overall current-account deficits and surpluses in the 17 Member States that currently constitute the euro area (around EUR 490 billion in absolute value or 5½% of the euro-area GDP) were more than three times larger than in 1999. Since then, a substantial adjustment has been ongoing, with euro-area economies with initially high current-account deficits accounting for the lion's share of the current-account correction. In 2012 however, Greece, Spain and Portugal are still registering high deficits (see Graph 1) and the adjustment process is expected to continue well beyond the end of the forecast horizon in 2014.

#### Cyclical versus structural factors

Export growth has proven robust in spite of weak demand in the EU and at the global level. This is particular true for Ireland as an early adjuster, but also for Spain, Portugal and Slovenia. Due to competitiveness gains, export growth is expected to remain relatively strong over the forecast horizon and to be the main driver in the external adjustment. But the reduction in current-account deficits has also resulted from a marked decline in imports related to the compression in domestic demand, in particular in Greece and Cyprus (see Graph 2).

Graph 2: Changes in the composition of current-account adjustment in the euro-area periphery



This cyclical component implies that imports and deficits could widen again when growth resumes. Thus, for the current-account adjustment to be durable it is crucial that reductions in deficits are mainly driven by structural factors. Insofar as pre-crisis growth in the euro-area periphery was partly driven by excessive credit expansion and inflated consumption growth linked with exaggerated

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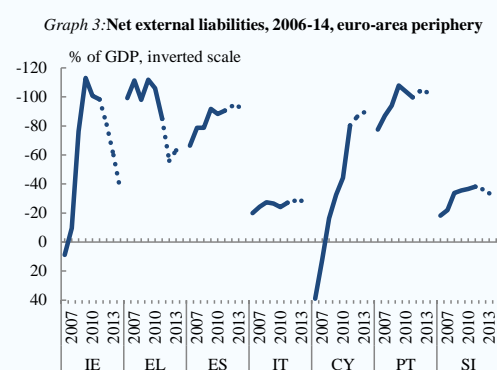


Box (continued)

income expectations, a large part of the current output contractions can be attributed to structural rather than cyclical elements. While this suggests a durable correction of current-account imbalances, it also necessitates far-reaching structural reforms in order to recapture output losses by increasing flexibility and productivity and absorbing unemployed resources in productive uses.

### Pace of adjustment

The reduction in current-account deficits is not per se sufficient to lower net external liabilities, especially when a contracting GDP aggravates external debt ratios. To assess the pace of the adjustment, it is therefore necessary to consider not only the reduction in current-account deficits, but also developments in stock variables, like external debt or international investment positions. Though the threshold varies from country to another and over time, the available data suggest that the level of net external liabilities of a number of vulnerable economies can be considered as unsustainable.<sup>(1)</sup> This is particularly the case for Greece, Ireland, Spain, Cyprus and Portugal, while Italy and Slovenia are in a better position (see Graph 3).



Note: For 2012-14, the net external liabilities were extrapolated on the basis of the projections for current account and capital transfers. For Greece, the government debt restructuring in Q1-2012 was also considered.

The recent decline in net external liabilities as a percentage of GDP in Greece, Cyprus, Spain and Portugal has mainly been caused by valuation effects (and the government debt restructuring in the case of Greece). In particular, domestically-issued securities held by foreigners lost market value, including corporate, bank and sovereign bonds. The observed valuation changes are, for a

large part, related to market scepticism on the sustainability of the external position of these countries and the solvency of the issuing entities. Therefore the decrease in net external liabilities since the onset of the crisis may actually underestimate the aggravation in the external debt. In the absence of further liability-reducing valuation changes – an improvement in confidence may even reverse parts of the latest valuation changes – the current-account deficits and the low economic activity predicted over the forecast horizon suggests that the net liabilities-to-GDP ratio will barely stabilise in Spain and Portugal, while it could again increase in Greece. By contrast, ratios in Ireland and Slovenia are expected to fall quickly thanks to the projected surpluses, while Italy's net external debt ratio will remain stable. However, provided that the fragmentation in financial markets is overcome, the financing of these liabilities will become easier.

The large negative net external positions of these economies together with their unfavourable financing conditions mean that the net outflow of primary income (mainly interest payments and dividends) is set to increase (see Table 1). The resulting widening in the difference between output (GDP) and income (GNI) growth implies that in the euro-area periphery (with the exception of Cyprus) the contraction in income between 2007 and 2014 is deeper than the reduction in real GDP.

Table 1:  
Net outflow (-) of primary income (% of GDP) and cumulated difference between GDP and GNI growth rates

|    | 2007  | 2011  | 2012  | 2013  | 2014  | Difference in cumulated growth rate GDP and GNI (2007-14) |
|----|-------|-------|-------|-------|-------|---|
| IE | -13.4 | -19.3 | -21.6 | -22.2 | -22.3 | 17.3  |
| EL | -2.9  | -2.9  | -2.3  | -2.7  | -3.3  | 4.5   |
| ES | -2.3  | -2.0  | -2.5  | -2.9  | -3.1  | 6.6   |
| IT | -0.1  | -0.8  | -0.7  | -0.7  | -0.7  | 3.3   |
| CY | -5.8  | -0.3  | -8.4  | -8.4  | -8.4  | -2.2  |
| PT | -3.2  | -3.7  | -4.1  | -4.6  | -5.0  | 4.4   |
| SI | -2.1  | -1.4  | -1.8  | -1.9  | -1.9  | 6.1   |

Accordingly, the expected subdued recovery may not be reflected by higher incomes. This will weigh on domestic demand and stresses the critical role of net exports for growth prospects in vulnerable economies.

### Internal adjustment

The external accounts are the mirror of the domestic equilibriums and imbalances. The increase in net exports – necessary to generate a sufficiently large external surplus in goods and services to offset the net outflow of primary income

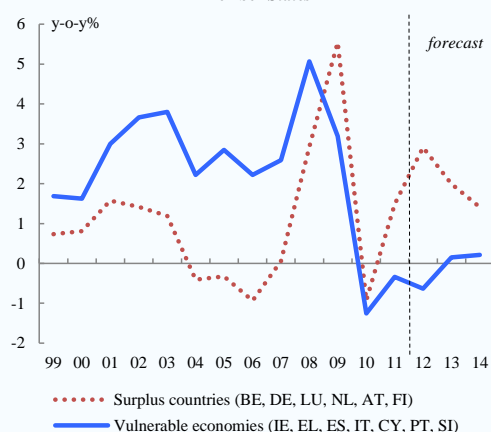
<sup>(1)</sup> See also D'Auria, F., J. in't Veld and R. Künzel, The dynamics of international investment positions, *Quarterly Report on the Euro Area*, 10(3), October 2012, pp. 7-20.

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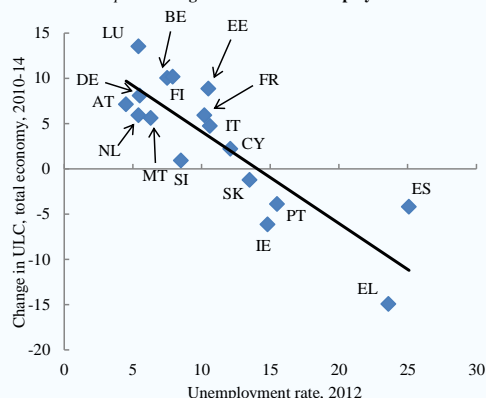
and bring the current account to sustainable levels – requires a reduction in production costs vis-à-vis main competitors through an increase in productivity and reduction in nominal labour costs.

Graph 4: Unit labour costs, selected euro-area Member States



Since 2010, the growth rate of nominal unit labour costs (ULC) in the euro-area periphery has been below the growth rate in the core surplus economies. For 2012, the difference is of more than 3 pps. (see Graph 4). When the years 2010-14 are considered, the adjustment is larger in the economies with higher adjustment needs given their initial external imbalances and unemployment rates (see Graph 5).

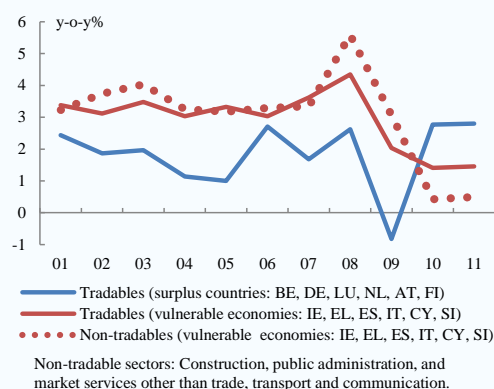
Graph 5: Changes in ULC and unemployment



The reduction in ULC in vulnerable countries relative to the core euro area stems from increases in productivity, labour shedding, which offsets the labour hoarding of recent years, as well as reductions in the nominal remuneration in several sectors. Moreover, while excessive wage growth in the non-tradable sector before the crisis put pressure on the level of remuneration for the

economy as a whole, and moved resources away from the export-oriented industries, the larger reductions in nominal remunerations have taken place in the non-tradable sector including the public sector (see Chart 6).<sup>(2)</sup>

Graph 6: Nominal compensation per employee, selected euro-area Member States



### Shifting resources to export-oriented industries

For the structure of production in the peripheral economies to change and a recovery of their competitiveness to materialise, there is a need not only to change relative prices among countries but also across sectors within countries.

As a general benchmark, the prices of tradables should fall so that exporting companies are able to increase their sales abroad and gain market shares. The extent of the decline in export prices depends on the relative specialisation of each country and its size in each market. In so far as the euro-area peripheral economies are price takers in most markets, the necessary fall in export prices vis-à-vis competitors may be relatively small for a certain gain in market shares. In these cases, the reduction in labour costs leads to an increase in the trade margins of exporters, thus pulling resources from the non-tradable sector. However for this shift to occur the relative prices in non-tradable branches within each country should also fall and the margins in the tradable branches increase.

The available evidence so far is not yet conclusive, also due to the difficult financing conditions that many firms in the peripheral countries are currently facing. However, the pre-crisis trend of strong

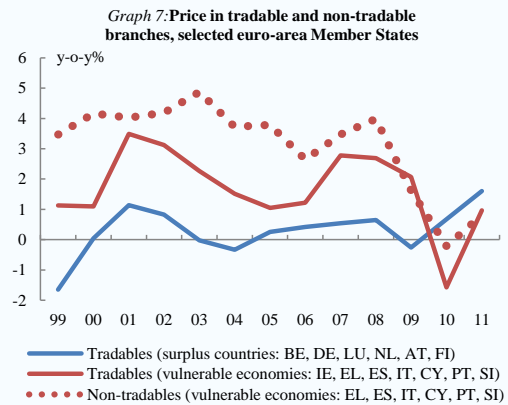
<sup>(2)</sup> For a more detailed discussion of labour cost developments in the euro area periphery and core countries since 2010, see Buti M. and A. Turrini, Slow but steady? Achievements and shortcomings of competitive disinflation within the euro area, *ECFIN Economic Brief*, forthcoming.

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*Box (continued)*

decrease is expected to continue over the forecast horizon. The pace of the correction in relative prices within each economy depends greatly on the degree of competition in each domestic market, and the absence of barriers to the entry and exit of firms in each sector.

In the current context of still elevated funding stress in periphery countries the shift of resources from the non-tradable to the tradable sector may be constrained as the investment necessary for restructuring is impeded by the limited availability of loans and tight credit conditions. (see also Box 1.1).



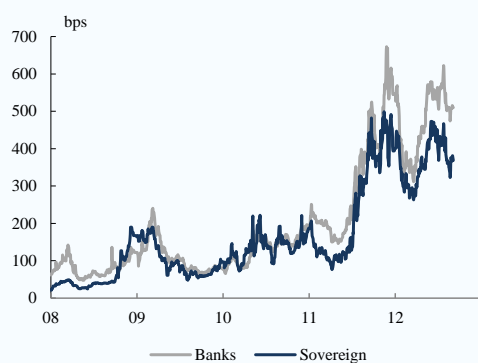


### Box 1.2: Assessing the impact of diverging financing conditions within the euro area

While the economic literature points to an important role of integrated financial markets in the smoothing of income shocks and the sharing of risks in a monetary union, the emergence of sovereign risks in the euro area has undone part of the integration accomplished over the last years. Retrenching cross-border interbank capital flows, rising home bias in sovereign-bond holdings, as well as growing divergence of funding costs for sovereigns and banks provide evidence that financial conditions within the euro area have become more fragmented in 2012. Fragmentation has led to divergent bank-lending rates and lending volumes across euro-area Member States.

The strong interdependence between banks and their domestic sovereigns in euro-area countries is at the heart of the propagation of the sovereign-debt crisis to private-sector financing conditions. There is clear evidence of a parallel evolution of sovereign- and bank-credit default swaps in most euro-area countries.<sup>(1)</sup> Since sovereign ratings and bond yields act as benchmarks for banks' ratings and medium to long-term funding costs on capital markets, the divergence in sovereign-risk premia has translated into differences in banks' financing costs. This bank-sovereign interdependence is particularly visible in the case of Italy and Spain.

Graph 1: Sovereign and bank CDSs - Italy  
5-year CDS premia



Other factors have also contributed to fragmentation. For example, banks in countries with high debt are considered riskier because of

their home bias in bond holdings, i.e., they hold an over-proportional large share of domestic sovereign debt, which has lost in value as the sovereign's yields increased. In case of a bank becoming ailing, a highly-indebted sovereign may not be able to offer financial support, which makes the funding of banks in vulnerable Member States a more risky investment.

Graph 2: Sovereign and bank CDSs - Spain  
5-year CDS premia



Moreover, banks in some euro-area countries are highly exposed to an over-indebted private sector, increasing the risk of further losses, particularly in the real-estate segment. Bank financing via deposits has also been impaired due to significant deposit outflows from some vulnerable Member States. In response to more difficult funding conditions, banks in a number of euro-area countries started to offer relatively high retail rates to attract depositors (see Graph 3). In the meantime, banks in core euro-area countries were able to reduce deposit rates, making use of the historically low-interest-rate environment created by the ECB's accommodative monetary policy stance and safe-haven capital flows.

Dysfunctional wholesale and interbank markets in the euro area and significant deposit outflows have made banks in a number of euro-area countries highly dependent on Eurosystem funding. Although the ECB's non-standard measures, *inter alia* the two three-year LTROs settled by the Eurosystem in December 2011 and March 2012, have contributed to mitigate financial fragmentation and deleveraging pressures within the euro area, lending conditions for private households and

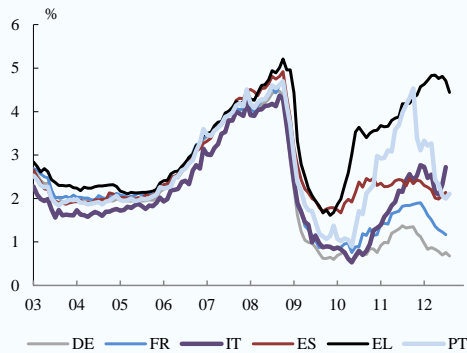
<sup>(1)</sup> See Merler, S. and J. Pisani-Ferry, "Hazardous tango: sovereign-bank interdependence and financial stability in the euro area", *Banque de France, Financial Stability Review*, April 2012, No. 16, pp. 201-210.

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corporations have remained heterogeneous across Member States.<sup>(2)</sup>

Graph 3: Interest rates on deposits  
(outstanding amounts - up to one year maturity)

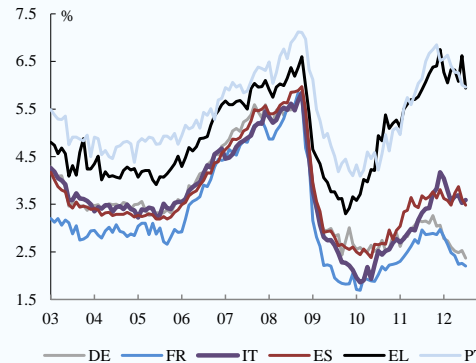


Interest rates on bank loans to enterprises show divergence, with their timing very much corresponding to the outbreak of the sovereign-debt crisis in different countries. Greek and Portuguese rates started to diverge in 2010 while Spanish and Italian rates started to differentiate from German and French rates only in late 2011 and in 2012. Lending volumes have followed similar patterns, declining in the most fragile euro-area countries while remaining slightly positive in the core.

The heterogeneity of lending conditions is expected to have implications for growth divergence because the banking system acts as main intermediary in allocating external funds from and to the non-financial corporate and the household sector. Capital-market-based financing is less developed than for example in the USA, meaning that most corporates have little alternative to using bank loans as external funds. Small and medium-sized enterprises are particularly strongly dependent on banks' ability to provide loans. The strong correlation between yields for private- and sovereign debt observed in many euro-area countries suggests that the sovereign-debt crisis has also impacted on market-based financing of the non-financial sector in the euro-area countries most affected by the sovereign-debt crisis.

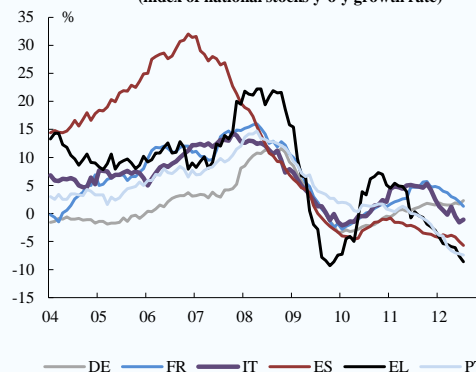
<sup>(2)</sup> For an empirical analysis of the link between the sovereign and the banking sector and lending conditions, see Albertazzi, U., Ropele, T., Sene, G. and F. M. Signoretti, The impact of the sovereign debt crisis on the activity of Italian banks, *Banca d'Italia Occasional Paper* no. 133, September 2012.

Graph 4: Interest rates on loans to enterprises  
(new businesses, maturity up to 1 year)



Whether banks' supply of credit is the main reason of the observed divergence in credit growth is difficult to assess. A recent analysis of demand and supply factors in credit developments points to a rather equal importance of both in the euro area.<sup>(3)</sup> Most recent data from the ECB's Bank Lending Survey indicates that banks predict demand for credit to remain very low, with the country breakdown in line with the observed developments in actual lending volumes. Low demand for credit is usually coincides with a negative assessment of general economic prospects and less so with banks' curtailing the supply of loans.

Graph 5: Loans to enterprises  
(index of national stocks y-o-y growth rate)



Another complication arises from the asymmetry of business and credit cycles. While economic downturns are immediately accompanied by sharp

<sup>(3)</sup> See Del Giovane, P., Eramo, G. and A. Nobili, "Disentangling demand and supply in credit developments: A survey-based analysis for Italy", *Journal of Banking & Finance*, October 2011, Vol. 35, Issue 10, pp. 2719-2732.

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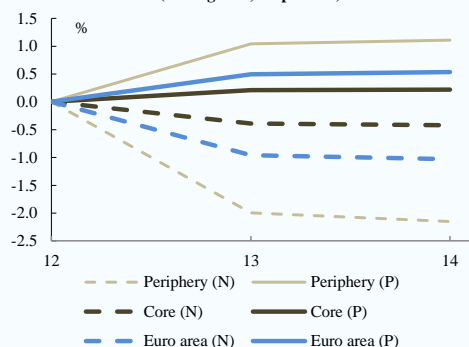
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declines in credit growth, credit recoveries usually lag economic upturns.<sup>(4)</sup>

The main downside and upside risks for the economic forecast relate to developments in the sovereign-debt crisis and are illustrated by scenarios using the Commission QUEST model. The largest downside risk relates to a further escalation in the sovereign-debt crisis which would amplify risk premia and worsen consumer confidence. In this scenario it is assumed that a further increase in sovereign-risk spreads by 300 bps in the most vulnerable countries would lead to a further divergence in lending conditions between the core and the periphery (Greece, Italy, Spain, Portugal, Ireland). Corporate risk premia in the euro-area periphery are assumed to increase by 200 bps while consumer credit is further curtailed. Core euro-area countries would also be affected through lower confidence. In this negative scenario, GDP growth in the periphery would be 2 pps. lower than in the forecast baseline and 0.4 pp. lower in the core. An upside scenario assumes a faster resolution of the sovereign-debt crisis and a gradual elimination of the divergence in lending conditions between core and periphery. In this scenario, the sovereign spreads in the periphery are assumed to fall by 200 bps lower leading to a 125 bps fall in private-sector risk premia. The faster resolution of the sovereign-debt crisis would also have a positive confidence spillover on core countries. The resulting GDP growth would be 1.1 pps. higher in the periphery and 0.2 pp. higher in core countries.

<sup>(4)</sup> See Bijsterbosch, M. and T. Dahlhaus, Determinants of credit-less recoveries, *ECB Working Paper series* no. 1358, June 2011.

Graph 6: EC Quest model scenarios EA GDP  
(N - negative, P - positive)



Note: % difference from central scenario

Overall, the fragmentation in financing conditions is certainly responsible for part of the increased economic disparities within the euro area. In response, the ECB has since the beginning of the sovereign-debt crisis taken non-standard measures to cope with the dysfunctional transmission of its monetary policy to the wider euro-area economy. The recently announced plans for a banking union aim at breaking the link between sovereign debt and the banking system, thereby mitigating the forces behind the fragmentation of the euro-area financial system. Although alleviating funding and liquidity tensions in the banking systems, these measures will not reduce some other important risk factors related to banks' asset side, i.e. the possibility of further losses due to exposures to the private sector, and macro-economic risk will remain in place.

### Box 1.3: The role of expectations and confidence indicators in short-term forecasting

Confidence – or the lack of it – is generally considered as a determining factor of business cycle fluctuations. This is particularly true at the current juncture, where a rebound in sentiment in financial markets and amongst households and enterprises is seen as a pre-requisite for the economic recovery. However, confidence is often considered an elusive concept in the economic debate partly because it is difficult to measure empirically and also because there are very different views on the factors underpinning it. This box reviews briefly the channels of transmission from confidence to the real economy and it evaluates to what extent the future course of the economy is captured by commonly used confidence indicators.

#### How do shifts in confidence impact on the economy?

There are two main alternative views on confidence. The first one, relying on standard economic theory, considers confidence as (rational) expectations about future development of economic variables, for example growth or employment. The literature points to unemployment duration, the return on stock prices and monetary variables such as the short-term interest rate as determinants of consumer confidence and suggests that the parameters affecting consumer confidence are strongly changing over time.<sup>(1)</sup> <sup>(2)</sup> For the euro area, there is some evidence that business and consumer confidence reacts to changes in the euro-dollar exchange rate, with respondents mainly reacting to "bad" news.<sup>(3)</sup> These changes in expectations impact on the real economy via changes in the expected present value of investment projects or in income expectations which will in turn induce revisions to companies' investment and households' consumption plans. The second view associates confidence with a behaviour that is not subject to rational decision-making but closely linked to the

idea of "animal spirits".<sup>(4)</sup> According to that concept, recurring waves of optimism and pessimism move the economy in an accordingly favourable or adverse equilibrium. There is indeed some evidence in favour of this view with respect to the 1990-91 recession in the US.<sup>(5)</sup>

Regardless of the abovementioned schools of thought, sentiment about the future is surrounded by uncertainty in terms of the dispersion of possible outcomes. Given the irreversibility of many investment decisions, sharply heightened uncertainty may lead to an abrupt drop in investment expenditures. In such an environment, the risk of misinvestment and the implied expected losses appear high, while it seems less costly to postpone or forego an investment decision. Similarly, heightened uncertainty about the future path of the economy and, thus, income prospects may cause households to delay consumption and increase their (desired) precautionary savings. Actual saving rates might not reflect this when falls in real income oblige them to draw on their savings to support consumption levels.

In the current context, the changing prospects for a resolution of the sovereign-debt crisis in the euro area are reflected in both volatile risk premia in financial markets and muted confidence amongst households and companies. Further policy progress towards a resolution would thus be expected to stabilise and improve sentiment all-around and underpin domestic demand.

#### Interpreting confidence indicators

Whether a survey indicator is in line with the theoretical concept of expectation depends essentially on its construction, especially in terms of the questions underpinning it. In the survey underlying the Manufacturing Purchasing Managers' Index (PMI) respondents are asked to compare the current level of certain firm-specific variables (e.g. new orders) with their level a month ago. While respondents' expectations regarding the

<sup>(1)</sup> For the US see Benjanuvatra, S., The determinants of consumer confidence and consumer expenditure, University of York, mimeo, available at: <http://www-users.york.ac.uk/~sb652/dcce.pdf>.

<sup>(2)</sup> Beltran Lopez, H. and A. Durré, The determinants of consumer confidence: the case of the United States and Belgium, *CORE Discussion Papers* No. 2003/53, Université catholique de Louvain, Center for Operations Research and Econometrics (CORE), July 2003.

<sup>(3)</sup> European Commission, The joint harmonised EU programme of business and consumer surveys, Special Report No. 5, 2006.

<sup>(4)</sup> This notion was originally coined by J. M. Keynes see Keynes, J. M., *The general theory of employment, interest, and money*, London: Macmillan, 1936, pp. 161-62. For a contemporary interpretation see Akerlof G. A. and R. J. Shiller, *Animal Spirits. How human psychology drives the economy and why it matters for global capitalism*, Princeton: Princeton University Press, 2009.

<sup>(5)</sup> See Blanchard, O., Consumption and the recession of 1990-91, *American Economic Review*, Vol. 83, No. 2, pp. 270-74, May 1993.

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## Box (continued)

future do not feature in this survey, the leading properties of the PMI may partly reflect the fact that increases in the economic variables under investigation translate into economic growth with a time-lag (e.g. new orders). By contrast, the German Ifo Business Climate Index is the outcome of questions concerning firms' current and expected business situation. Insee's Business Climate Indicator as well as DG ECFIN's Economic Sentiment Indicator (ESI) summarise the answers to questions about respondents' expectations for the next three months, the current situation and developments over the past three months.<sup>(6)</sup><sup>(7)</sup> By incorporating assessments about the past, the current and the expected situation in the future, confidence indicators try to strike a balance between reliability and forward-looking properties.

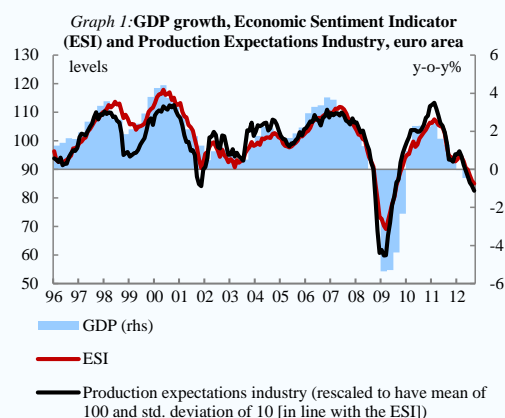
The ESI combines the balance scores (percentage of positive answers minus percentage of negative answers) of 15 questions addressing five economic sectors (industry, services, construction, retail trade and consumers), so as to make the indicator resistant to asymmetric, sector-specific shocks. Forward-looking questions are the largest group, accounting for eight balance series, while the number of questions referring to the present and the past is at four and three respectively. In line with expectations, the forward-looking questions are particularly strong in predicting economic activity: five out of eight display their highest correlation with year-on-year GDP growth, when the latter is shifted one month ahead.<sup>(8)</sup> The same is true for only one question on the status quo and for none of the backward-looking questions. The average correlation of the forward-looking business survey questions with one-month ahead GDP growth is just as high as for the backward-looking questions in a coincident setting.

<sup>(6)</sup> The ESI also includes the assessments of consumers, where the time horizon is 12 months.

<sup>(7)</sup> For the US, the Conference Board's Consumer Confidence Index and the University of Michigan's Consumer Sentiment Index are constructed in a similar fashion, incorporating questions both about past and future developments.

<sup>(8)</sup> To get a granular view of temporal relations between monthly indicators and quarterly GDP the latter was transformed to monthly frequency by linear interpolation.

Its strong correlation with GDP together with its timely availability makes the ESI a very useful early indicator.<sup>(9)</sup> At the same time, the fact that its leading properties are evident only in the very short term suggests that the genuine expectations component is limited.



#### Evidence on the explanatory powers of confidence indicators

Despite their good tracking record, confidence indicators have been criticized based on the argument that they simply summarise information contained in other variables. A recent study using the Commission's consumer survey finds that consumer confidence has an explanatory effect for private consumption growth, even when the typical explanatory variables such as income, wealth or interest rates are controlled for.<sup>(10)</sup> Regarding their forecasting performance, there is evidence that the predictive ability of confidence indicators varies but tends to be higher before turning points of the business cycle and especially when confidence plummets and falls below a certain threshold.<sup>(11)</sup>

<sup>(9)</sup> The coincident correlation of the composite ESI with GDP growth is 0.92 over 1996-2012.

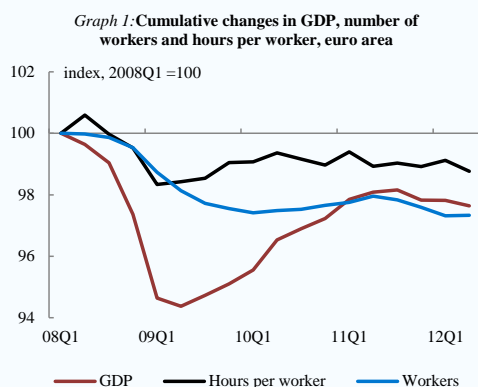
<sup>(10)</sup> Dées, S. and P. Soares Brinca, Consumer confidence as a predictor of consumption spending: Evidence for the United States and the euro area, *ECB Working Paper*, No. 1349, June 2011.

<sup>(11)</sup> Bruno, G., Consumer confidence and consumption forecast: A non-parametric approach, *MRPA Paper*, No. 41312, September 2012.

#### Box 1.4: Euro-area labour markets: less resilience and more divergence ahead?

At the onset of the crisis, labour markets in most euro-area countries remained resilient, and aggregate unemployment was relatively little affected by the fall in output during the 2008-09 recession, notably in comparison with the US. Labour hoarding was partly linked to a prompt adjustment in working hours (see Graph 1).<sup>(1)</sup> The output recovery in 2010 was not job-rich, and employment started falling again in the course of 2011, somewhat earlier than GDP, which declined in the last quarter of that year. Euro-area unemployment has been rising almost continuously since 2009 and is currently at its highest levels since the introduction of the euro, forecast to reach 11.9% in 2013.

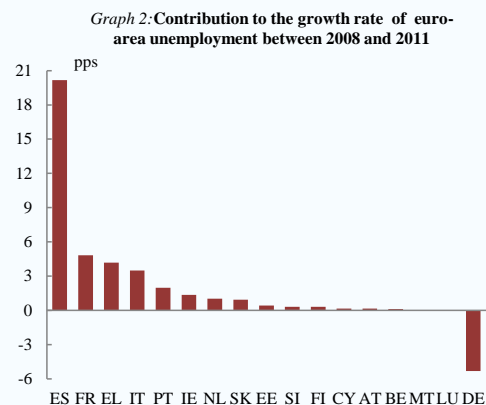
What factors are behind the apparent loss of resilience of the euro-area labour markets during the current slowdown? Is this a problem common to the euro area or is it specific to some countries only? What are the near-term prospects?



A first key reason for the reduced employment resilience is that the room for adjusting the average hours worked by employees rather than headcount employment has become considerably smaller in most Member States: since 2010, hours worked have somehow recovered from the trough reached in 2009, but they have stabilised at a level below the one prevailing before the crisis. A second reason is that the heightened uncertainty on the evolution of the euro area crisis and in particular on the prospects for a sustainable output recovery limits the scope for labour hoarding on the part of employers. Conversely, during the 2008-09 recession there was a widespread concern to avoid excessive job shedding in light of a likely rebound

<sup>(1)</sup> See European Commission, European Economic Forecast – Autumn 2010, *European Economy*, 2010, No. 7.

of economic activity, and this justified both labour hoarding decisions by firms and the decision to finance short-time working schemes by governments. Third, as compared with the onset of the crisis, the financial buffers necessary to hoard labour may have narrowed.



These considerations, which hold on aggregate, need also to take into account that since the start of the crisis differences across euro-area labour markets have widened considerably since the start of the crisis. Since 2008, a major dispersion of unemployment rates is observed, and a substantial fraction of the increase in total euro-area unemployment is being driven by developments in a few countries, notably Spain (see Graph 2).<sup>(2)</sup> Employment has been declining especially in countries where indebtedness grew faster before the crisis, and where consequently the need of deleveraging and adjusting fiscal positions became stronger.<sup>(3)</sup>

Most interestingly, these divergent employment developments are linked not only to different growth developments across countries, but also to different employment responses to output. In particular, the unemployment response to output in 2011 exhibits a large variation across euro-area countries, with much stronger increases in unemployment for a given variation in growth in the countries most concerned by the debt crisis (see

<sup>(2)</sup> In the second quarter of 2007 unemployment rates in euro-area Member States ranged from about 3.6% in the Netherlands to a 11.3 in Slovakia, with a standard deviation of 2.2. In the second quarter of 2012, unemployment rates were between 4.3% in Austria and 24.7% in Spain, with a standard deviation of 6.1.

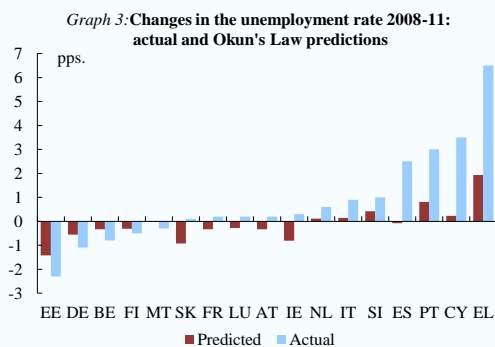
<sup>(3)</sup> See European Commission, Labour market developments in Europe, *European Economy*, 2012, No.5.

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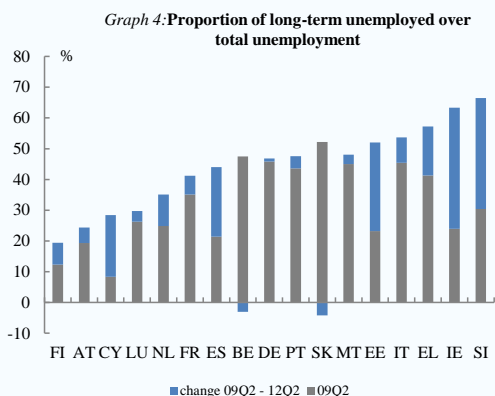
## Box (continued)

Graph 3). This seems to confirm that the loss in resilience of the labour market during the current slowdown is linked to heightened uncertainty on the economic outlook and reduced financial buffers to hoard labour, in particular in sectors facing a structural decline, factors that were present to a very different extent across the countries of the euro area.



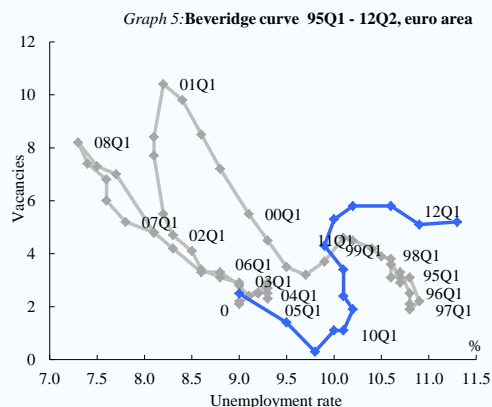
Note: Predicted values are out-of-sample forecasts based on an Okun-law estimation for the period 1997q1-2008q1.

As far as near-term prospects for labour markets are concerned, these will depend not only on the growth outlook, but also on the extent to which the recovery of output translates into job creation.



In this respect, a number of elements do not bode well. The duration of unemployment has been rising in most Member States, with the biggest increases recorded in Ireland, Slovenia, Spain and Estonia (see Graph 4). Increases in unemployment duration are often associated with lower employability of job seekers (skill losses, stigma effects) and to an increased risk of job seekers dropping out of the labour force.

Moreover, evidence suggests that the matching in the labour market is worsening. The Beveridge curve for the euro area has been shifting outward since 2011 (see Graph 5), indicating that more job vacancies coexist with a higher unemployment level. This worsened job matching process is likely to be driven by differences in the skill composition of labour demand and supply stemming from an ongoing restructuring of the economy, which entails a permanent reallocation of labour across different sectors of economic activity. Together with limited geographical mobility, it implies reduced job finding rates and unemployment becoming more entrenched. All in all, this evidence suggests that risks of hysteresis effects could materialise, with unemployment becoming persistent even once the economy starts to recover.



In the light of the large dispersion of unemployment rates, aggregate employment developments at the euro-area level will crucially depend on developments in countries that record the highest unemployment levels, especially with regard to wages. Since 2011 real wages have been growing less than productivity in most, but not all high-unemployment countries, contributing to a downward adjustment in real unit labour costs. Looking forward, wage moderation in the private sector in countries such as Italy, Spain, Portugal and Greece could be linked, inter-alia, to recently adopted reforms in the wage setting system, with expected positive effects in terms of job creation and unemployment reduction.



### Box 1.5: Forecast errors and multiplier uncertainty

The current forecast of a 0.4% fall in euro-area GDP in 2012 is substantially lower than what was expected even 1½ years ago: our spring 2011 forecast projected a rate of growth of 1.8% for 2012. Such over-prediction of euro-area growth in recent years has been common to most forecasters, including other major international institutions. An analysis presented in the latest IMF World Economic Outlook argues that past forecast errors provide evidence that forecasters have significantly underestimated fiscal policy multipliers.<sup>(1)</sup>

Without questioning that fiscal multipliers are probably larger than usual at the current juncture, this box assesses some of the evidence regarding forecast errors, focusing only on the euro area, and argues that much caution is warranted when using past forecast errors as indirect evidence for the true size of the fiscal consolidation multiplier. There are two reasons for that: first, the forecast errors over the 2010-11 period have been predominantly *underestimations* of higher-than-expected growth in 2010, which were in fact associated with stimulus measures in that year; second, when controlling for increases in sovereign-bond yields the correlation between forecast errors and changes in the fiscal stance breaks down.

#### Fiscal multipliers in structural macroeconomic models

The general conclusion from macroeconomic models is that there is no single multiplier. The size of the multiplier, defined as the change in GDP following a 1% of GDP change in fiscal deficits, depends on the composition of the fiscal consolidation (or expansion), its persistence and the accompanying monetary and financial conditions. This finding is common to the models used by international organisations (see the comparison in Coenen *et al.* (2012)).<sup>(2)</sup> The fiscal multiplier differs across countries and over time. It is found to be larger (i) for direct government spending and targeted transfers (as opposed to tax cuts and general transfers); (ii) if the share of liquidity-constrained (or 'rule of thumb') and/or credit-

constrained consumers is larger; (iii) if nominal interest rates are invariant, either because they are at their zero lower bound, or in general for small economies within a monetary union; (iv) if economies are less open (unless the fiscal shocks are synchronised across trading partners); (v) if the shock is temporary rather than permanent.

In the Commission's QUEST model, multipliers for *temporary* fiscal shocks are typically between 0.1-0.4 for tax changes, but in the range of 0.7-1.5 for spending changes when credit constraints are high and interest rates are at the zero-lower bound.<sup>(3)</sup> However, it is generally accepted that the impact multiplier associated with *permanent* fiscal consolidations is substantially smaller than the multiplier of temporary fiscal contractions, because of more positive crowding in (confidence) effects of private consumption and investment associated with an expected increase in net income.<sup>(4)</sup> In QUEST the multiplier for a permanent consolidation for the EU aggregate in normal circumstances lies, depending on the instrument, between 0.2-0.8, and is on average for a balanced-composition consolidation around 0.4. However, when interest rates are constrained by the zero rate floor, and in an environment of global fiscal retrenchment, as in the current environment, the average multiplier can rise to 0.5-0.7.

#### Analysis of forecast errors: distinguishing between stimulus and consolidation multipliers

Do recent forecast errors really suggest that forecasters have underestimated the fiscal multiplier? To answer this question we conduct a similar exercise as the IMF, and regress the forecast errors for GDP growth on the forecast of the change in the fiscal stance. Under rational expectations, this coefficient should be zero.<sup>(5)</sup> We confine our attention to the euro area. This has the advantage of a 'cleaner' sample: by limiting ourselves to countries in a monetary union we

<sup>(1)</sup> IMF, *World Economic Outlook*, October 2012, box 1.1: Are we underestimating short-term fiscal multipliers?, pp. 41-43.

<sup>(2)</sup> Coenen, G., C. Erceg, C. Freedman, D. Furceri, M. Kumhof, R. Lalonde, D. Laxton, J. Linde, A. Mourougane, D. Muir, S. Mursula, C. de Resende, J. Roberts, W. Roeger, S. Snudden, M. Trabandt, J. van 't Veld, Effects of fiscal stimulus in structural models, *American Economic Journal: Macroeconomics*, Vol. 4, No. 1, January 2012, pp. 22-68.

<sup>(3)</sup> In-depth analysis of the specific impact of different revenue and expenditure items on economic activity can be found in the chapter I.2 "The impact of fiscal consolidation on Europe's economic outlook" of European Commission, European Economic Forecast - Autumn 2010, *European Economy* 7/2010.

<sup>(4)</sup> This is a common finding in all structural models in the comparison exercise reported in Coenen *et al.* (2012), pp. 60-65.

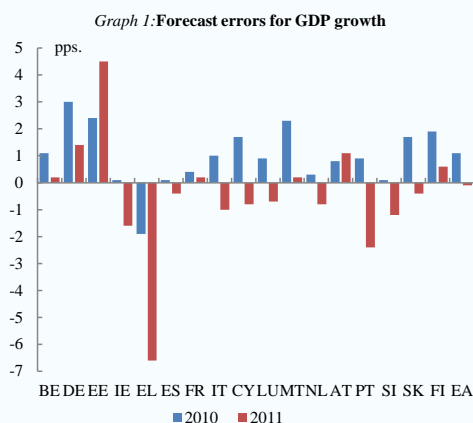
<sup>(5)</sup> The IMF authors find this coefficient to be between -0.4 and -1.2 and, assuming a multiplier of 0.5 was used in the forecast process, conclude from this that the actual multiplier lies between 0.9 and 1.7.

(Continued on the next page)

## Box (continued)

remove one source for cross-country multiplier heterogeneity, i.e. differences in the exchange-rate regime. A second advantage is that we can interpret the results better for individual countries.

It is useful to start with a closer look at the forecast errors. Graph 1 takes the Commission's spring 2010 forecast and shows the GDP forecast errors for the years 2010 and 2011 for the euro-area Member States. As is clear from this graph, there was no systematic overestimation of growth, but in fact forecast errors were predominantly positive, i.e. the Commission underestimated growth, in particular in 2010. For the euro-area aggregate, growth turned out 1.0 pp. higher than was forecast in 2010, and only -0.1 lower in 2011.



Note: GDP growth forecast errors for the spring 2010 forecast.

Graph 2.a shows the spring 2010 forecast of the changes in the fiscal stance (concretely, the change in the structural fiscal balance as a percentage of potential GDP) in both years and Graph 2.b depicts the actual changes in the fiscal stance on the basis of the current autumn 2012 estimates. Differences between the actual changes and what was projected in the spring 2010 forecast are significant. Much of the consolidation efforts, in particular those in 2011, were in fact not included in the forecast in spring 2010.<sup>(6)</sup>

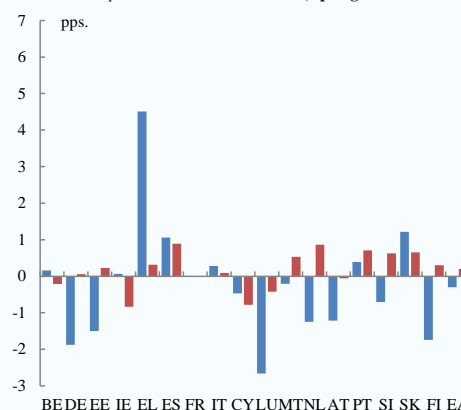
Looking at the actual fiscal stance in Graph 2.b in more detail shows that at least two groups of countries can be distinguished:

<sup>(6)</sup> The Commission's forecast uses a no-policy-change assumption in the forecast process for outer years. Only those policy measures that have been publicly announced, are fully credible and known in sufficient detail are taken into account in the forecast. In times of consolidation when measures have not been fully approved yet at the time of forecast publication, this may lead to a positive bias in the growth forecast for outer years.

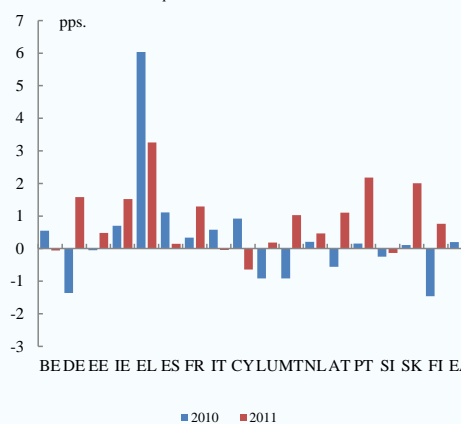
- Countries which have undertaken measures to permanently reduce debt levels (increase in the structural balance in both 2010 and 2011).
- Countries which have undertaken temporary fiscal expansions, especially in 2010, followed by consolidation efforts in 2011 (e.g. Germany, Austria, Finland, Luxembourg and Malta).

As discussed below, however, Greece deserves to be treated apart from other Group 1 countries.

Graph 2a: Forecast fiscal stance, spring 2010



Graph 2b: Actual fiscal stance

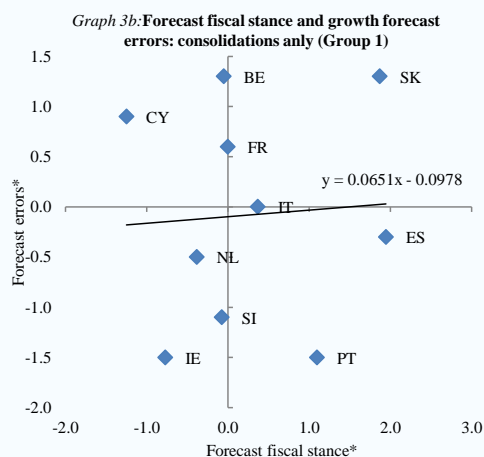
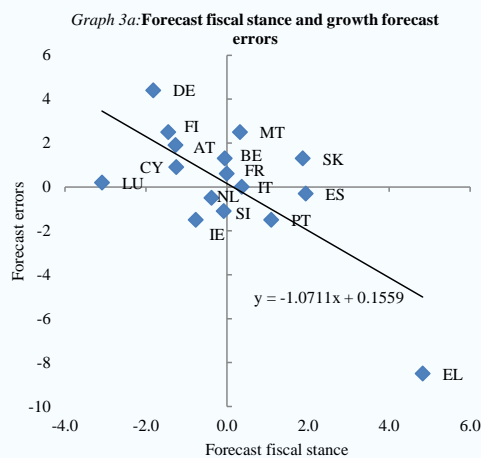


Note: change in the structural fiscal balance as a percentage of potential GDP: spring 2010 forecast vs. autumn 2012 forecast.

Stimulus measures in the second group in 2010 are associated with large positive forecast errors for these countries. As the impact multiplier associated with temporary fiscal contractions/expansions is substantially larger than the multiplier of permanent fiscal consolidations, combining countries in group 1 and 2 biases the estimate of the permanent consolidation multiplier in an upward direction.

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Box (continued)

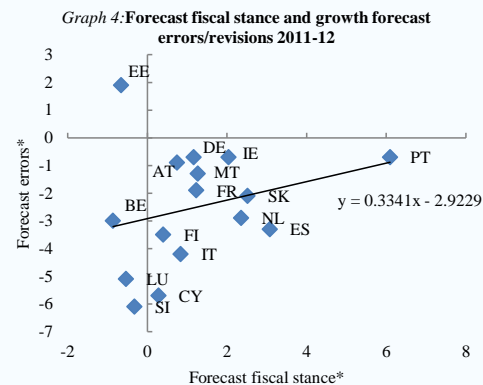


\* Note: Vertical axis displays cumulative forecast errors for GDP growth in 2010-11 (spring 2010 forecast); horizontal axis displays forecast of change in fiscal structural balance as percentage of potential GDP in 2010-11 (spring 2010 forecast).

The largest forecast error is for Greece, which is the country that also has undertaken the largest consolidation efforts. However, one should be careful drawing general conclusions from the case of Greece about the size of the multiplier for permanent consolidations. Just after the finalisation of the spring 2010 forecast, Greece entered an EU/IMF programme while at the same time the euro-area sovereign-debt crisis started to escalate. Later on, serious doubts emerged whether the consolidation measures undertaken would be sufficient to permanently reduce sovereign debt, as manifest in rising government-bond yields (to above 35% at the end of 2011). A sovereign-debt restructuring eventually took place in February 2012, resulting in private investor losses. Thus, the Greek case cannot be considered as a consolidation associated with increasing private sector confidence, a precondition for consolidations being less damaging to growth prospects in the short run

(the role of sovereign-bond yields is further explored in the next section).<sup>(7)</sup>

Graph 3 illustrates the change of the relationship between forecast errors and the fiscal stance when looking at the consolidating countries. Panel (a) displays an analysis based on all countries, while panel (b) only covers the consolidating countries excluding Greece. The estimated coefficient for the whole sample is -1.1 but falls to zero when considering only consolidating countries. The relationship between forecast errors and expected changes in fiscal stance thus breaks down when the 2010 stimulus countries and Greece are excluded from the sample. This suggests that if multipliers were underestimated, the underestimation concerned the multipliers of temporary expansions in 2010, not permanent consolidation in 2011.



\* Note: Vertical axis: cumulative forecast errors for GDP growth in 2011-12; horizontal axis: forecast for a change in fiscal structural balance as percentage of potential GDP in 2011-12; spring 2011 forecast data.

When one shifts the analysis one year forward and considers the forecast errors made in spring 2011 for 2011 and 2012 (current forecast), the sample no longer includes countries undertaking stimulus measures, as all Member States have been tightening their fiscal stance. Graph 4 shows the results for this analysis, where the forecast error (forecast revision in the case of 2012) for real GDP growth during 2011-12 is regressed on forecasts of fiscal consolidation for the same period that were made in early 2011. Although errors in the spring 2011 forecast are much larger than in 2010, we find the coefficient on planned fiscal consolidation to be

<sup>(7)</sup> A more negative growth impact relative to initial conditions would of course not imply that growth would have been higher without consolidations, as the counterfactual would have been worse.

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## Box (continued)

of only consolidating experiences there is no evidence of a systematic underestimation of the effects of fiscal consolidation.

## Forecast-error decomposition

It is important to separate the effects of fiscal consolidations from other factors related to the sovereign-debt crisis. In principle, the forecast error for GDP growth can be written as a function of the forecast error of all variables which have an impact on GDP plus differences between the actual multipliers of the explanatory variables and the values assumed in the forecast. Like the IMF, it is assumed here that major divergences between actual and assumed elasticities could only occur for the multiplier of fiscal consolidation. We limit ourselves to only two observable explanatory variables for GDP growth, namely fiscal consolidation and changes in sovereign-risk perception (expressed by government-bond yields).<sup>(9)</sup>

Table 1 shows estimation results for the unexpected output loss associated with a 1% of GDP expected fiscal consolidation, for the full sample of euro-area countries.<sup>(10)</sup> While in the estimation without any control variable the coefficient on the forecast of the fiscal stance is negative and highly significant, it becomes smaller and statistically not significant when sovereign yields are added as control variable. The fact that the estimate for the forecast of the fiscal stance is smaller when the change in sovereign yields is included suggests that the Commission's forecast of the fiscal stance (in spring 2010) and the subsequent change in the bond yields are correlated. A plausible explanation, which applies especially to highly indebted countries, is that financial markets regarded the expected path of fiscal consolidation as insufficient to guarantee government solvency and reacted with a more adverse risk assessment. In this case, the negative coefficient for the fiscal stance in the first regression should not be interpreted as an underestimation of the fiscal multiplier but rather as capturing a negative response of investors to possibly insufficient fiscal effort in countries with severe debt problems.

<sup>(9)</sup> Sovereign-debt problems have been a dominant factor hampering growth in the euro area, but one can of course not exclude that results are also sensitive to the omission of other explanatory variables.

<sup>(10)</sup> Due to lack of data on long-term government-bond yields Estonia is excluded from our sample.

Table 1:

GDP forecast errors, fiscal stance and government bond yields

|   | (1)       |        | (2)       |        |
|---|-----------|--------|-----------|--------|
| Constant  | 0.16      | (0.52) | 1.00 **   | (0.41) |
| Forecast of fiscal stance   | -1.07 *** | (0.28) | -0.20     | (0.29) |
| Change of sovereign bond yields   | -         |        | -0.58 *** | (0.14) |
| R <sup>2</sup>  | 0.49      |        | 0.78      |        |
| GDP forecast error = $\alpha + \beta$ forecast of fiscal stance + $\gamma$ change sov. yields + $\varepsilon$ |           |        |           |        |

Note: \*, \*\* and \*\*\* denote significance at the 10, 5 and 1% levels, resp. Forecast errors are cumulative forecast errors for real GDP growth in 2010-11 (spring 2010 forecast); forecast of fiscal change is the change in fiscal structural balance as percentage of potential GDP in 2010-11 (spring 2010 forecast). Change in sovereign-bond yields is the change in 10-year government bond yields, between end-2011 and end-2009. Sample: euro-area countries (16 observations), excluding Estonia.

No strong conclusions should be drawn from these regressions based on a small number of observations, except that they underline the importance of separating the effects of fiscal consolidations from other factors related to the sovereign-debt crisis. Changes in sovereign-risk perceptions are equally likely to be important factors explaining past forecast errors as larger-than-expected multipliers from fiscal consolidations.

## Concluding remarks

The evidence in this box shows that the link between past forecast errors and planned fiscal consolidations is not robust and should not be taken as indirect proof for a larger consolidation multiplier. While it is generally accepted that fiscal multipliers for permanent consolidations are higher now than they would be in 'normal' circumstances, due to higher credit constraints and interest rates constrained at the zero-interest-rate floor, separating the effects on economic activity of fiscal consolidations from other factors related to the sovereign-debt crisis is important. Taking into account the temporary nature of the stimulus in countries like Germany and excluding the special case of Greece, the evidence is consistent with an average multiplier smaller than one.

When discussing the negative short-term output costs of consolidation it is important not to lose sight of what the counterfactual would be. For the most vulnerable countries, exposure to financial market pressures means there is no alternative than to pursue consolidation measures. The alternative of rising risk premia and higher borrowing costs would be worse for these countries, and consolidations are needed to restore fiscal positions and put debt projections back on a sustainable path.

In general, a case-by-case approach to consolidation is warranted, whereby the speed of fiscal adjustment should be differentiated according to country-specific fiscal and macro-financial risks.

### Box 1.6: Some technical elements behind the forecast

The cut-off date for taking new information into account in this European Economic Forecast was 19 October. The forecast incorporates validated public finance data as published in Eurostat's News Release 149/2012 of 22 October 2012.

#### External assumptions

This forecast is based on a set of external assumptions, reflecting market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 4 and 17 October) were used for exchange and interest rates, and for oil prices.

#### Exchange and interest rates

The technical assumption as regards exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to implied average USD/EUR rates of 1.29 in 2012 and 1.30 in 2013 and 2014. The average JPY/EUR rates are 101.7 in 2012, and 101.9 in 2013 and 2014.

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 expected to be 0.6% on average in 2012, 0.3% in 2013 and 0.5% in 2014 in the euro area. Long-term euro-area interest rates are assumed to be 1.5% on average in 2012, 1.7% in 2013 and 2.0% in 2014.

#### 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 112.5 USD/bbl in 2012, 109.1 USD/bbl in 2013 and 103.1 USD/bbl in 2014. This would correspond to an oil price of 87.5 EUR/bbl in 2012, 84.3 EUR/bbl in 2013 and 79.6 EUR/bbl in 2014.

#### Budgetary data

Data up to 2011 are based on data notified by Member States to the European Commission on 1 October and validated by Eurostat on 22 October 2012. Eurostat has withdrawn a specific reservation, expressed in April 2012, on the data reported by Ireland, relating to the fact that restructuring plans of Allied Irish Banks and Irish Life & Permanent (in 2012 renamed as Permanent TSB) were not yet finalised. The Central Statistics Office of Ireland and Eurostat have examined updated restructuring plans sent to the EU Competition authorities. These plans form a suitable basis for partitioning the July 2011 injections in Allied Irish Banks and Permanent TSB into deficit-increasing and non-deficit increasing components. This has been implemented in revised data reported by Ireland. Eurostat has withdrawn a specific reservation, expressed in April 2012, on the data reported by Ireland, relating to the statistical classification of National Asset Management Agency Investment Limited (NAMA-IL). On the basis of documents provided by the Central Statistics Office of Ireland, NAMA-IL is majority privately-owned, following the sale by Irish Life of its stake in NAMA-IL to a private investor. This is a necessary condition for a special purpose entity to be classified outside the General Government sector, pursuant to Eurostat's decision of 15 July 2009 on public interventions during the financial crisis.

Eurostat is no longer amending the deficit and debt data reported by the United Kingdom with respect to public financial defeasance structures, as the UK Office for National Statistics has reclassified Bradford & Bingley and Northern Rock Asset Management to the General Government sector, in line with the financial defeasance chapter of the Manual on Government Deficit and Debt.

For the forecast, measures in support of financial stability have been recorded in line with the Eurostat Decision of 15 July 2009.<sup>(1)</sup> 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

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

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*Box (continued)*

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 2013, budgets adopted or presented to national parliaments and all other measures known in sufficient detail are taken into consideration. For 2014, 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.

The general government balances that are relevant for the Excessive Deficit Procedure may be slightly different from those published in the national accounts. The difference concerns settlements under swaps and forward rate agreements (FRA).

According to ESA95 (amended by regulation No. 2558/2001), swap- and FRA-related flows are financial transactions and therefore excluded from the calculation of the government balance. However, for the purposes of the excessive deficit procedure, such flows are recorded as net interest expenditure. European aggregates for general government debt in the forecast years 2012-14 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans). To ensure consistency in the time series, historical data are also published on the same basis. For 2011, this implies a debt-to-GDP ratio in the euro area which is 0.7 pp. (0.5 pp. in the EU) higher than the consolidated general government debt ratio published by Eurostat in its news release 149/2012 of 22 October 2012.

General government debt projections for individual Member States in 2012-14 include the impact of guarantees to the EFSF,<sup>(2)</sup> 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).

#### **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 growth rates differ only marginally (by up to  $\pm 0.1$  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.

<sup>(2)</sup> In line with the Eurostat decision of 27 January 2011 on the statistical recording of operations undertaken by the European Financial Stability Facility, available at: [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/2-27012011-AP/EN/2-27012011-AP-EN.PDF](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

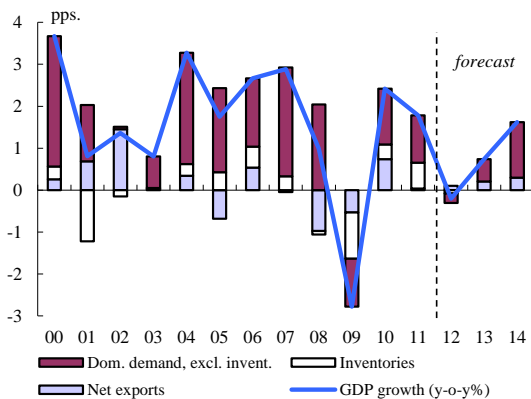
# 1. BELGIUM

## Fiscal consolidation amid a subdued growth outlook

### The economy is at a standstill ...

Belgium's export-led recovery, which started in the second part of 2009, came to a halt in mid-2011. While activity resumed in the first quarter of 2012, it declined sharply again in the second quarter: the slow-down in global activity coupled with uncertainties linked to the sovereign-debt crisis and negative confidence effects resulted in a contraction of 0.5% q-o-q. For the second half of the year, economic activity is projected to remain anaemic, with quarterly growth figures stagnating, implying that for the year as a whole GDP is expected to decrease by 0.2%.

Graph II.1.1: Belgium - GDP growth and contributions



GDP growth is set to turn positive in 2013 and strengthen to 1.6%, slightly above potential, in 2014.<sup>(23)</sup> Indeed, due to the high degree of openness of the Belgian economy, the current slowdown in world trade is likely to delay the recovery until the first half of 2013, when demand for exports is expected to pick up again. Concomitantly, the gradual resolution of the sovereign debt crisis would restore household and business confidence, timidly pushing up domestic demand. Private consumption is expected to increase only modestly in 2013, given rising unemployment, weak disposable income growth, and the stabilisation of the saving rate. Finally, a still fragile financial sector will not foster domestic demand, although it should not represent a drag on growth either. In 2014, confidence is expected to strengthen, while the unemployment rate should broadly stabilise and disposable income is

projected to increase further. Against this background, domestic demand is expected to contribute by more than 1 pp. to growth. In parallel, imports will accelerate, but with exports solidly recovering from mid-2013, the current account should still improve slightly, attaining a surplus of around 1% of GDP. Hence, net exports will contribute positively over the forecast horizon, mainly due to the dynamism of the services balance. However, there will be no gains in market share due to losses in cost competitiveness.

Private investment became negative this year due to increased uncertainty about economic prospects and a capacity utilisation below its long-term average. Besides a decline in the demand for credit, recent data also points to a tightening of credit conditions for companies. In 2013 and 2014, business investment is projected to gradually accelerate, in line with the improvement in confidence. In 2012, the negative developments in household real disposable income have weighed on demand for mortgages and construction investment. From 2013 onwards, housing investment should recover. Against the background of the 2012 local elections, judging from past experience, public investment is projected to have remained upbeat in 2012 but to drop by about 10% in 2013.

There are important downside risks to this growth scenario. Apart from the general risks related to the international economic environment and the sovereign debt crisis, the impact of further budgetary consolidation measures may delay the improvement in domestic demand. On the other hand, the budgetary consolidation could further reduce interest spreads while confidence may improve faster than expected in view of the long-term benefits of healthy public finances.

### ...resulting in a deterioration of the labour market and a slowdown in inflation

In view of the weak economic environment, job creation is projected to have stagnated in 2012 and to accelerate only moderately over the forecast horizon. This will be insufficient to offset the dynamic growth in the labour force, and consequently the unemployment rate is forecast to rise, from 7.2% in 2011 to 7.8% in 2014, even if contained by government measures such as

<sup>(23)</sup> The impact of the planned closure of the biggest Belgian car plant, announced after the cut-off date of the forecast, is not included in this forecast.

subsidised service cheque jobs. Inflation has remained relatively high at 2.6% in 2012 due to a rise in oil prices, which tend to have a larger impact on inflation in Belgium than on average in the euro area. Under the current oil-price assumptions, inflation is expected to slow down to 1.8% in 2013 and 1.6% in 2014, tempering also the impact of the automatic wage indexation mechanism on unit labour costs.

### ...while improvements in public finances are not yet durable

The national authorities made a commitment to reduce the general government deficit from 3.7% of GDP in 2011 to 2.8% of GDP in 2012. The 2012 budget (revised in March) contained substantial consolidation measures in order to address the deterioration in economic conditions and the rising trend in public expenditure, especially on health care and pensions. In the meantime, the economic situation has further deteriorated. So far, (cash-based) fiscal revenues remain rather dynamic, but a slowdown towards the end of the year is expected. All in all, the general government deficit should be 3.0% of GDP in 2012. This figure does not yet take into account the additional measures, of around EUR 800 mn

(0.2% of GDP), that had been announced but not yet specified by the cut-off date of the forecast. Under the no-policy-change assumption, i.e. without the additional measures for 2012 and without a 2013 budget which was also not yet available, the deficit would start to rise again in 2013, despite the projected acceleration in growth. This is in part explained by the many one-off measures in the 2012 budget (about ½% of GDP). A further rise in the deficit is forecast in 2014, although better economic conditions and the impact of recent structural reforms are expected to curb the deterioration. In structural terms, the deficit is projected to have declined in 2012 by about 0.7 pp. of GDP (after having deteriorated by 0.1 in 2011), to remain broadly stable in 2013.

The general government debt reached 97.8% of GDP in 2011. In 2012, the debt ratio is projected to rise just below 100% of GDP. Under the current growth and deficit projections, it continues to rise slightly over the forecast period. Moreover, the large contingent liabilities stemming from the guarantees given to financial institutions and possible recapitalisation needs represent a risk for public finances.

Table II.1.1:

### Main features of country forecast - BELGIUM

|  | 2011   |              |       | Annual percentage change |       |      |      |      |       |       |
|--|--------|--------------|-------|--------------------------|-------|------|------|------|-------|-------|
|  | bn EUR | Curr. prices | % GDP | 92-08                    | 2009  | 2010 | 2011 | 2012 | 2013  | 2014  |
| GDP  | 369.8  |              | 100.0 | 2.1                      | -2.8  | 2.4  | 1.8  | -0.2 | 0.7   | 1.6   |
| Private consumption                              | 194.7  |              | 52.6  | 1.6                      | 0.6   | 2.7  | 0.2  | -0.6 | 0.4   | 1.3   |
| Public consumption                               | 90.1   |              | 24.4  | 1.7                      | 1.9   | 0.7  | 0.8  | 0.4  | 0.9   | 1.4   |
| Gross fixed capital formation                    | 76.4   |              | 20.7  | 2.5                      | -8.4  | -1.4 | 4.1  | -0.1 | 0.5   | 1.6   |
| of which : equipment                             | 32.1   |              | 8.7   | 2.8                      | -11.1 | -3.9 | 9.3  | 0.6  | 0.4   | 2.0   |
| Exports (goods and services)                     | 311.9  |              | 84.3  | 4.5                      | -11.1 | 9.6  | 5.5  | -0.7 | 1.9   | 3.9   |
| Imports (goods and services)                     | 307.4  |              | 83.1  | 4.4                      | -10.6 | 8.9  | 5.6  | -0.9 | 1.6   | 3.6   |
| GNI (GDP deflator)                               | 373.9  |              | 101.1 | 2.1                      | -4.8  | 5.1  | 0.9  | -0.2 | 0.7   | 1.6   |
| Contribution to GDP growth :                     |        |              |       |                          |       |      |      |      |       |       |
| Domestic demand                                  |        |              |       | 1.7                      | -1.1  | 1.3  | 1.1  | -0.2 | 0.5   | 1.3   |
| Inventories                                      |        |              |       | 0.1                      | -1.1  | 0.3  | 0.6  | -0.1 | 0.0   | 0.0   |
| Net exports                                      |        |              |       | 0.3                      | -0.5  | 0.7  | 0.0  | 0.1  | 0.2   | 0.3   |
| Employment                                       |        |              |       | 0.9                      | -0.2  | 0.7  | 1.4  | 0.1  | 0.3   | 0.5   |
| Unemployment rate (a)                            |        |              |       | 8.3                      | 7.9   | 8.3  | 7.2  | 7.5  | 7.7   | 7.8   |
| Compensation of employees/head                   |        |              |       | 3.0                      | 1.2   | 1.4  | 3.1  | 3.1  | 2.5   | 2.6   |
| Unit labour costs whole economy                  |        |              |       | 1.8                      | 3.8   | -0.3 | 2.7  | 3.4  | 2.1   | 1.5   |
| Real unit labour costs                           |        |              |       | -0.2                     | 2.6   | -2.3 | 0.6  | 1.2  | 0.0   | -0.3  |
| Saving rate of households (b)                    |        |              |       | 17.7                     | 18.3  | 15.4 | 14.4 | 14.8 | 14.9  | 14.5  |
| GDP deflator                                     |        |              |       | 2.0                      | 1.2   | 2.0  | 2.0  | 2.2  | 2.1   | 1.8   |
| Harmonised index of consumer prices              |        |              |       | 2.1                      | 0.0   | 2.3  | 3.5  | 2.6  | 1.8   | 1.6   |
| Terms of trade of goods                          |        |              |       | -0.5                     | 3.5   | -2.1 | -2.1 | -0.5 | 0.1   | 0.0   |
| Merchandise trade balance (c)                    |        |              |       | 2.8                      | -0.4  | -0.7 | -0.8 | -1.1 | -1.0  | -1.2  |
| Current-account balance (c)                      |        |              |       | 4.2                      | 0.7   | 3.0  | 1.0  | 0.7  | 0.9   | 1.2   |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | 4.1                      | 0.3   | 2.9  | 0.9  | 0.8  | 1.0   | 1.3   |
| General government balance (c)                   |        |              |       | -2.0                     | -5.5  | -3.8 | -3.7 | -3.0 | -3.4  | -3.5  |
| Cyclically-adjusted budget balance (c)           |        |              |       | -2.2                     | -4.5  | -3.3 | -3.6 | -2.3 | -2.7  | -3.1  |
| Structural budget balance (c)                    |        |              |       | -                        | -3.9  | -3.3 | -3.4 | -2.7 | -2.7  | -3.1  |
| General government gross debt (c)                |        |              |       | 109.9                    | 95.7  | 95.5 | 97.8 | 99.9 | 100.5 | 101.0 |

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

## 2. BULGARIA

### Domestic demand sustaining growth

#### Domestic demand compensating for exports

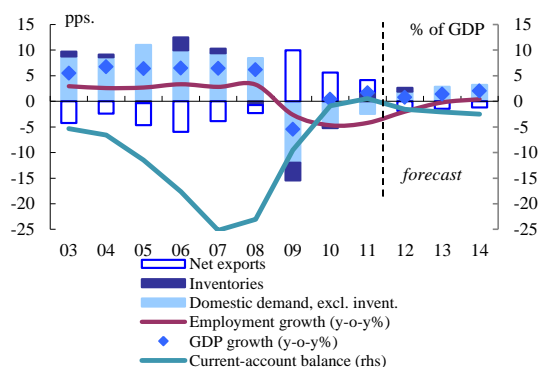
GDP growth has decelerated to below 1% in annual terms in the first two quarters of 2012 from 1.7% in 2011. The initial phase of the economic recovery over 2010-11 was characterised by strong exports, while domestic demand remained weak in the aftermath of the boom-bust cycle. Data for the first half of 2012 indicate a change in this pattern, with domestic demand taking over as the main growth driver, while net exports turned negative. A recovery in private consumption was the main factor behind this, along with growth in inventories. After three years of strong contraction, investment activity also appears to be stabilising over the first half of 2012, supported mainly by public projects and some recovery in FDI, especially in the energy sector.

#### GDP growth to pick up gradually

The recent growth pattern is forecast to continue, with domestic demand leading the recovery. Net exports are expected to contribute negatively to growth in 2012 and 2013 and less so in 2014. In spite of an adverse economic setting in the EU and an overall weak labour market in Bulgaria, GDP is projected to grow by 0.8% in 2012, 1.4% in 2013 and 2% in 2014, supported by a stable overall domestic economic environment and relatively strong public finances upholding consumer confidence. In addition, recent monthly data from the banking sector suggest a downward trend in both deposit and lending interest rates. Lower lending rates are expected to support a modest growth in credit with a possible lagged effect on consumption.

Household consumption is forecast to recover further in 2013-14, assuming a continuous increase in real incomes and a gradual recovery in household confidence. Investment is expected to be initially supported by public sector projects funded by the EU. Going forward, private sector investment is also expected to pick up from the current relatively low post-crisis levels, in line with the economic recovery. Export trends are forecast to follow the expected gradual recovery in EU markets in 2013. Given the high import content of Bulgarian domestic consumption and investments, the current account is forecast to slide into a deficit of 2½% of GDP by 2014.

Graph II.2.1: Bulgaria - Employment growth, current-account balance and contributions to GDP growth



Risks related to this baseline scenario seem broadly balanced. On the downside, a reversal of the current positive momentum in household consumption in the face of continued euro-area turbulence is the major risk. On the upside, exports could develop more favourably if the past trend of gains in global market shares resumes.

#### Weak labour market, but rapid wage growth

The employment level fell by 4.2% in 2011, even with real GDP having turned positive in that year. In 2012, employment is forecast to decline by a further 2%, before stabilising in 2013 and turning to slight growth in 2014. Declining employment also reflects a strong decline in the labour force on account of negative demographic trends. Unemployment is expected to increase from 11.3% of the labour force in 2011 to 12.7% in 2012 and to remain broadly unchanged over the forecast horizon. The protracted weakness in the labour market could lead to rising long-term unemployment and structural skill mismatches.

At the same time, growth in wages and unit labour costs is foreseen to remain relatively strong. Wages are being pushed up by wage convergence pressures from the lowest levels in the EU, impacted by emigration. Also, mounting labour market mismatches would lead to wage pressures in line with the expected pick-up in economic activity, even with a relatively high unemployment rate.

### Inflation to level off after a peak in mid-2012

Inflation accelerated over 2012, especially in the third quarter, reflecting hikes in global energy, food and some administrative prices. Nevertheless, core inflation (excluding energy and unprocessed food prices) remained more moderate, slightly above 1% y-o-y. Assuming a stabilisation of global energy and food prices going forward, headline HICP inflation is expected to level off at 2.6% in 2013 and 2.7% in 2014. At the same time, core inflation is projected to pick up to some extent given the rise in unit labour costs, the steady recovery in household demand and the ongoing convergence of domestic prices towards EU averages.

### Fiscal position to stay relatively strong

The general government deficit is set to narrow from 2% of GDP in 2011 to 1.5% in 2012. The first half of 2012 was marked by exceptionally strong revenue collection, primarily on account of VAT revenues, which were boosted by strong

domestic demand and imports. Moreover, the government took an important step forward in improving tax compliance by linking all retailers' cash registers online to the National Revenue Agency as of April 2012. Similar measures were also taken to increase compliance with excise and import taxes.

The fiscal deficit is set to remain at 1.5% in 2013, and to slightly improve to about 1% of GDP in 2014. Even though the favourable revenue trends are expected to continue in 2013, expenditure is also expected to increase substantially. The forecast takes account of the measures included in the government's 2013 draft budget proposal presented to the parliament in early October. Most notably, it foresees an increase of pensions by 9.3% as of 1 April 2013. Overall, the budget implies a neutral fiscal stance in 2013 and 2014, with the structural deficit estimated to remain broadly stable at slightly below 1% of GDP. General government gross debt is envisaged to increase from around 16½% of GDP in 2011 to 18½% of GDP in 2014.

Table II.2.1:

### Main features of country forecast - BULGARIA

|  | 2011   |              |       | 92-08 | Annual percentage change |       |      |      |       |       |
|--|--------|--------------|-------|-------|--------------------------|-------|------|------|-------|-------|
|  | bn BGN | Curr. prices | % GDP |       | 2009                     | 2010  | 2011 | 2012 | 2013  | 2014  |
| GDP  | 75.3   | 100.0        |       | 2.5   | -5.5                     | 0.4   | 1.7  | 0.8  | 1.4   | 2.0   |
| Private consumption                              | 45.7   | 60.7         |       | 3.1   | -7.6                     | 0.1   | -0.6 | 3.0  | 3.1   | 3.5   |
| Public consumption                               | 11.7   | 15.5         |       | -1.9  | -6.5                     | 1.9   | 0.5  | 0.3  | 1.1   | 0.5   |
| Gross fixed capital formation                    | 15.7   | 20.9         |       | -     | -17.6                    | -18.3 | -9.7 | 0.2  | 3.4   | 4.1   |
| of which : equipment                             | -      | -            |       | -     | -45.0                    | -18.5 | -    | -    | -     | -     |
| Exports (goods and services)                     | 50.1   | 66.5         |       | -     | -11.2                    | 14.7  | 12.8 | 1.7  | 3.4   | 4.4   |
| Imports (goods and services)                     | 49.6   | 65.8         |       | -     | -21.0                    | 2.4   | 8.5  | 4.6  | 5.3   | 5.7   |
| GNI (GDP deflator)                               | 71.9   | 95.5         |       | -     | -3.1                     | 0.6   | 1.0  | 1.8  | 1.7   | 2.1   |
| Contribution to GDP growth :                     |        |              |       | -     | -12.0                    | -4.9  | -2.5 | 1.9  | 2.8   | 3.2   |
| Domestic demand                                  |        |              |       | -     | -                        | -     | -    | -    | -     | -     |
| Inventories                                      |        |              |       | -     | -3.4                     | -0.4  | 1.8  | 0.7  | 0.0   | 0.0   |
| Net exports                                      |        |              |       | -     | 10.0                     | 5.6   | 2.3  | -1.9 | -1.5  | -1.2  |
| Employment                                       |        |              |       | -     | -2.6                     | -4.7  | -4.2 | -2.0 | -0.2  | 0.4   |
| Unemployment rate (a)                            |        |              |       | -     | 6.8                      | 10.3  | 11.3 | 12.7 | 12.7  | 12.5  |
| Compensation of employees/head                   |        |              |       | -     | 9.4                      | 11.2  | 7.3  | 5.2  | 4.8   | 5.5   |
| Unit labour costs whole economy                  |        |              |       | -     | 12.7                     | 5.6   | 1.1  | 2.3  | 3.2   | 3.8   |
| Real unit labour costs                           |        |              |       | -     | 8.1                      | 2.7   | -3.7 | 1.3  | 0.8   | 1.2   |
| Saving rate of households (b)                    |        |              |       | -     | -3.0                     | -3.7  | -    | -    | -     | -     |
| GDP deflator                                     |        |              |       | 40.8  | 4.3                      | 2.8   | 5.0  | 1.0  | 2.3   | 2.5   |
| Harmonised index of consumer prices              |        |              |       | -     | 2.5                      | 3.0   | 3.4  | 2.5  | 2.6   | 2.7   |
| Terms of trade of goods                          |        |              |       | -     | 0.6                      | 2.3   | 1.4  | -3.0 | -0.5  | -0.2  |
| Merchandise trade balance (c)                    |        |              |       | -10.0 | -12.0                    | -7.7  | -5.1 | -9.1 | -10.9 | -12.3 |
| Current-account balance (c)                      |        |              |       | -7.3  | -9.0                     | -0.4  | 1.7  | -1.6 | -2.1  | -2.5  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | -7.3  | -7.6                     | 0.3   | 2.9  | -0.2 | -0.6  | -0.8  |
| General government balance (c)                   |        |              |       | -     | -4.3                     | -3.1  | -2.0 | -1.5 | -1.5  | -1.1  |
| Cyclically-adjusted budget balance (c)           |        |              |       | -     | -3.1                     | -1.8  | -1.3 | -0.8 | -0.9  | -0.6  |
| Structural budget balance (c)                    |        |              |       | -     | -3.1                     | -1.7  | -1.3 | -0.8 | -0.9  | -0.6  |
| General government gross debt (c)                |        |              |       | -     | 14.6                     | 16.2  | 16.3 | 19.5 | 18.1  | 18.3  |

(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

#### Low consumption weighs on the economy

The Czech economy entered recession in the second half of 2011. Based on the contraction in the first two quarters of 2012 and a deteriorating outlook, real GDP is expected to fall by 1.3% for the year as a whole. Against the background of continuing fiscal consolidation and increased economic uncertainty, weak domestic demand is expected to act as the main drag on growth in 2012 despite easier financial conditions. Real GDP growth is projected to bottom out in 2013 but is expected to remain below potential also in 2014.

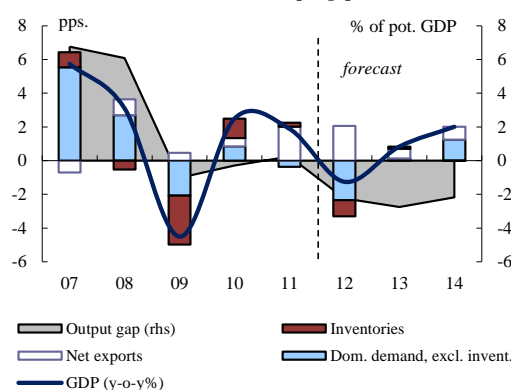
#### From contraction to subdued growth

In the first half of 2012, household consumption posted a record decline of -2.8%, the strongest decrease since 1996. Real disposable income contracted due to sluggish growth in wages and elevated inflation, fuelled by an increase in the lower rate of VAT from 10% to 14%. At the same time, household savings rose in anticipation of further fiscal retrenchment. On the back of the worsening situation in the labour market, household consumption is expected to stall in 2013 and recover somewhat only in 2014. However, the forecast does not include the revenue consolidation measures for 2013, rejected by the Parliament and awaiting new discussion which would further weigh on consumption. Fixed capital formation is expected to provide a negative contribution to growth in 2012. Construction investment fell considerably in the first half of the year and the low number of new building permits and the still subdued volume of public investments do not augur well for a quick recovery in this sector. However, since both domestic demand and foreign demand remain weak and capacity utilisation is below its long-run average, even lower investment activity is considered a negative risk to the forecast.

The slowdown in the key EU trade partners is projected to impede growth in Czech exports in 2012 despite sizeable market share gains in non-European economies. Both export growth and potential output growth are expected to remain below their pre-crisis levels as the inflow of export-oriented foreign direct investment has substantially eased. The rate of growth of imports is also forecast to decelerate, given the high import-intensity of exports and the lacklustre performance of domestic absorption. However, net

exports are likely to remain relatively strong over the forecast years and the improved trade balance is expected to be reflected in a further shrinking of the current-account deficit.

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



Inflation is projected to reach 3.6% in 2012 before falling well below 2% in both 2013 and 2014. High inflation in 2012 is predominantly driven by the hike in the lower VAT rate, higher energy and food prices, and continued deregulation of rents. The forecast includes the unification of VAT rates (currently at 14% and 20%) into a single 17.5% rate planned for 2013. This should have a broadly neutral impact on inflation. While the effects of the bad harvest in 2012 on food prices are expected to persist into 2013, energy inflation is projected to slow down over the forecast horizon. Prices of goods (excl. food and energy) are likely to continue to fall in view of the tight competition on domestic retail markets, thus keeping overall inflation subdued.

The labour market has so far been spared from the full impact of the recession due to the willingness of firms to cut working hours rather than jobs. However, the unemployment rate is expected to peak at 7.3% in 2013, up from 6.7% in 2011, and to ease only gradually as long-term unemployment is likely to increase.

#### Persistent public deficits

After the sizeable reduction achieved in 2011 partly on account of a significant drop in investment, the general government deficit is expected to increase slightly to 3.5% of GDP in 2012. The deterioration in the deficit outlook

reflects the worsening of macroeconomic conditions. Currently available data reveal major revenue shortfalls compared to the budget, in particular from VAT and excise duties (around 0.5% of GDP), mirroring weak private consumption. Savings are expected on the expenditure side, mainly in interest payments and intermediate consumption but these will only partly compensate for the loss in revenue.

Despite the expected improvement in macroeconomic activity, the general government budget is projected to remain broadly unchanged, reaching 3.4% of GDP in 2013. While the draft 2013 budget includes a package of expenditure and revenue-side measures amounting to net savings of around 1.4% of GDP, the forecast only takes into account the expenditure-side measures, notably a freeze in public sector wages, across-the-board cuts in government consumption at the central level and lower indexation of pensions. On the revenue side, the forecast is based on the already adopted unification of both VAT rates. The revenue-side measures (0.7% of GDP), recently rejected by the Parliament and awaiting new discussion are not included in the forecast. The revenue package comprised an increase in both VAT rates as well as in excise duties and personal

income tax. The deficit projection also excludes the revenue-decreasing impact of the planned introduction of the fully-funded pension pillar (0.2% of GDP), as its launch in 2013 is still uncertain. The structural balance is expected to deteriorate slightly in 2013 to 2½% of GDP.

The projected moderate improvement of the general government balance in 2014 is driven predominantly by more favourable macroeconomic conditions. This is based on a no-policy-change assumption and includes only further across-the-board cuts in government consumption at the central level (0.3% of GDP). The debt-to-GDP ratio is expected to increase over the forecast horizon, reaching around 48% of GDP in 2014.

The fiscal forecast is subject to two major risks. The adoption of the law on financial compensation to churches, still under discussion in Parliament, would imply a one-off increase in the deficit by 1.5 pps. of GDP in the year of its entry into force. Furthermore, problems in the administration of EU funds at national level entail that part of the advance financing from domestic sources will not be fully reimbursed, which will mostly affect the deficit in 2012.

Table II.3.1:

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

|  | 2011   |                 |       | Annual percentage change |       |      |      |      |      |      |
|--|--------|-----------------|-------|--------------------------|-------|------|------|------|------|------|
|  | bn CZK | Curr. prices    | % GDP | 92-08                    | 2009  | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 3841.4 |                 | 100.0 | 3.2                      | -4.5  | 2.5  | 1.9  | -1.3 | 0.8  | 2.0  |
| Private consumption                              | 1950.2 |                 | 50.8  | 3.4                      | 0.2   | 1.0  | 0.7  | -3.3 | 0.4  | 1.4  |
| Public consumption                               | 792.9  |                 | 20.6  | 1.2                      | 4.0   | 0.5  | -2.5 | -1.3 | -0.5 | 0.2  |
| Gross fixed capital formation                    | 917.3  |                 | 23.9  | 5.6                      | -11.0 | 1.0  | -0.7 | -1.7 | 0.1  | 2.1  |
| of which : equipment                             | 394.8  |                 | 10.3  | 7.5                      | -18.8 | 6.0  | 0.0  | 2.4  | 2.6  | 3.5  |
| Exports (goods and services)                     | 2786.8 |                 | 72.5  | 10.2                     | -8.9  | 15.5 | 9.4  | 3.9  | 3.9  | 6.2  |
| Imports (goods and services)                     | 2632.3 |                 | 68.5  | 11.8                     | -9.9  | 15.8 | 6.7  | 1.1  | 3.4  | 5.6  |
| GNI (GDP deflator)                               | 3572.2 |                 | 93.0  | -                        | -6.5  | 1.6  | 2.4  | -1.1 | 0.8  | 1.9  |
| Contribution to GDP growth :                     |        | Domestic demand |       | 3.5                      | -2.1  | 0.9  | -0.4 | -2.3 | 0.1  | 1.2  |
|  |        | Inventories     |       | 0.1                      | -2.9  | 1.2  | 0.2  | -1.0 | 0.1  | 0.0  |
|  |        | Net exports     |       | -0.4                     | 0.5   | 0.5  | 2.0  | 2.1  | 0.6  | 0.8  |
| Employment                                       |        |                 |       | -                        | -1.8  | -1.0 | 0.3  | -0.4 | -0.2 | 0.0  |
| Unemployment rate (a)                            |        |                 |       | -                        | 6.7   | 7.3  | 6.7  | 7.0  | 7.3  | 7.1  |
| Compensation of employees/head                   |        |                 |       | -                        | -0.6  | 3.6  | 2.7  | 2.8  | 2.0  | 2.6  |
| Unit labour costs whole economy                  |        |                 |       | -                        | 2.2   | 0.0  | 1.1  | 3.7  | 0.9  | 0.6  |
| Real unit labour costs                           |        |                 |       | -                        | -0.1  | 1.4  | 1.9  | 2.6  | -0.3 | -0.5 |
| Saving rate of households (b)                    |        |                 |       | -                        | 11.2  | 11.3 | 9.6  | 10.7 | 10.3 | 10.1 |
| GDP deflator                                     |        |                 |       | 6.0                      | 2.3   | -1.4 | -0.8 | 1.1  | 1.3  | 1.1  |
| Harmonised index of consumer prices              |        |                 |       | -                        | 0.6   | 1.2  | 2.1  | 3.6  | 1.1  | 1.1  |
| Terms of trade of goods                          |        |                 |       | -                        | 9.8   | -2.3 | -2.2 | -1.7 | 0.3  | -0.2 |
| Merchandise trade balance (c)                    |        |                 |       | -2.6                     | 2.3   | 1.4  | 2.3  | 3.2  | 3.8  | 4.2  |
| Current-account balance (c)                      |        |                 |       | -3.0                     | -3.3  | -5.2 | -3.9 | -2.9 | -2.1 | -1.3 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |                 |       | -3.0                     | -1.2  | -3.1 | -2.0 | -1.2 | -0.2 | 0.5  |
| General government balance (c)                   |        |                 |       | -                        | -5.8  | -4.8 | -3.3 | -3.5 | -3.4 | -3.2 |
| Cyclically-adjusted budget balance (c)           |        |                 |       | -                        | -5.4  | -4.7 | -3.3 | -2.7 | -2.4 | -2.4 |
| Structural budget balance (c)                    |        |                 |       | -                        | -5.8  | -4.8 | -3.2 | -2.5 | -2.6 | -2.4 |
| General government gross debt (c)                |        |                 |       | -                        | 34.2  | 37.8 | 40.8 | 45.1 | 46.9 | 48.1 |

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

## 4. DENMARK

### Muted growth in a phase of adjustment

After a year of export-driven growth of 0.8% in 2011, during which domestic demand contributed negatively to economic activity, the prospects for Danish exports are significantly more subdued this year as a result of the slow and protracted recovery in Europe and the slowdown in emerging markets. At the same time, the associated uncertainty in the international environment has resulted in tightened credit conditions in Denmark, thereby adversely affecting the propensity of businesses and households to invest and consume. In addition, consumption and investment are dampened by the need for deleveraging in the private sector – especially among households – as a result of the rise in debt levels during the housing bubble and the period of excess demand preceding the crisis.

Nevertheless, domestic demand is expected to be the main growth driver this year and next, while exports should gradually gain strength towards 2014 in line with rising demand from Denmark's main export partners. Domestic demand is set to be sustained by a number of government initiatives in 2012 and 2013, including the "kick-start" stimulus package, the pay-out of voluntary early retirement pension (VERP) contributions, the tax reform agreed in spring, and a temporary modification of depreciation allowances for certain investments. Overall, GDP is expected to rise by 0.6%, 1.6% and 1.3% respectively over the forecast horizon.

#### Downside risks to domestic demand

The total amount of the payout of VERP contributions to households by 1 October 2012 was larger than anticipated, and the associated increase in disposable income should provide a boost to private consumption in the remainder of this year and into next year. The projection for private consumption in 2013 is also underpinned by an increase in disposable income as a result of the recent tax reform, and – as the need for deleveraging is gradually reduced and the situation in the labour market improves – private consumption should continue to grow at moderate pace in 2014.

Public investment and initiatives in relation to the "kick-start" stimulus package are assessed as being broadly implemented, albeit somewhat lower than planned and subject to downside risks. In 2014, as the temporary stimulus falls out, public investment

is expected to drop. Continued excess capacity and tight credit conditions are likely to continue to dampen private investment somewhat. At the same time, however, the increased incentives introduced by the government to bring forward investment to this year and next are expected to prop up investment – although there is a high degree of uncertainty about the extent to which the more favourable tax treatment of write-offs will be decisive for the private sector. Overall, total gross fixed capital formation is forecast to accelerate throughout this year and next before slowing down in 2014.

As in 2011, public consumption this year appears to be lower than the amount budgeted, probably reflecting the recent years' initiatives to reinforce expenditure control. Thus, public consumption is expected to be raised accordingly next year and in 2014, bringing it into line with the planned amounts, and to contribute moderately to growth.

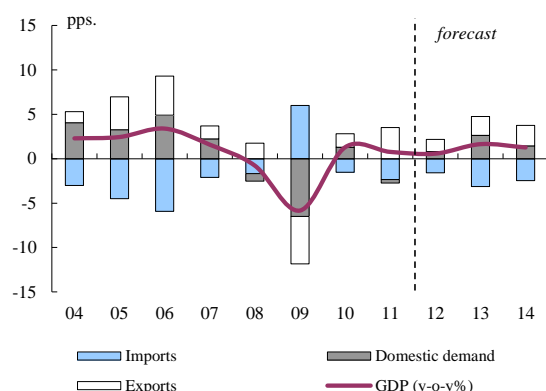
#### Adjustment in employment soon over

Overall, private employment and unemployment have stabilised since the beginning of 2010, and the moderate output growth has been achieved by an increase in labour productivity towards the pre-crisis level. Although the downward adjustment in employment is considered to be largely over, the expected growth rates will be enough to ensure a small rise in private employment only in 2014. Nevertheless, total employment is set to increase already from next year onwards, as public employment should rise in line with public consumption. Unemployment is expected to remain stable in 2012-14.

#### Improvements in cost competitiveness...

Wage growth is expected to be below that of Denmark's trading partners during the forecast horizon, and real unit labour costs are set to decline further as productivity growth continues to catch up to its pre-crisis trend. An expected depreciation of the real effective exchange rate, especially in 2012, will also contribute to an improvement of Denmark's competitive position.

Graph II.4.1: Denmark - GDP growth and contributions



### ... but export growth likely to be subdued

The improvement in cost competitiveness, however, is likely to only partly restore the cumulative loss in competitiveness that has taken place over the last decade. Hence, the relatively favourable development in export goods growth in the second quarter of 2012 and in recent months probably rather reflects the large share of non-cyclical goods in Danish exports which should

sustain export growth – at a moderate level – in 2012 and 2013. In 2014, as the economic cycle gains more momentum, Denmark is again set to lose export market shares. Import growth is set to decrease in 2012 before picking up considerably in 2013 and subsequently to show a moderate development in 2014 in line with final demand.

### Deficit below 3% of GDP in 2013

The government deficit will widen this year, as the negative budgetary impact of lower GDP growth, higher public investment and the one-off payout of VERP contributions are only partly counterbalanced by higher expected revenues from tax on pensions in 2012 than in 2011. In 2013, the deficit is reduced, as the budgetary effect of the one-off payout of VERP contributions falls out. At the same time, the tax reform agreed in spring contributes positively to the budget balance, including a one-off revenue of DKK 5 billion from capital pension taxation according to government estimates. This revenue estimate is very cautious, and the government budget balance for 2013, expected at -2% of GDP, may surprise on the upside.

Table II.4.1:

### Main features of country forecast - DENMARK

|  | 2011   |              |       | Annual percentage change |       |      |      |      |      |      |
|--|--------|--------------|-------|--------------------------|-------|------|------|------|------|------|
|  | bn DKK | Curr. prices | % GDP | 92-08                    | 2009  | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 1782.5 |              | 100.0 | 2.1                      | -5.8  | 1.3  | 0.8  | 0.6  | 1.6  | 1.3  |
| Private consumption                              | 865.3  |              | 48.5  | 2.0                      | -4.2  | 1.9  | -0.8 | 0.9  | 2.2  | 1.6  |
| Public consumption                               | 509.5  |              | 28.6  | 2.1                      | 2.5   | 0.3  | -1.3 | 0.2  | 1.4  | 0.8  |
| Gross fixed capital formation                    | 305.8  |              | 17.2  | 3.7                      | -13.4 | -3.8 | 0.2  | 1.6  | 6.2  | 2.5  |
| of which : equipment                             | 110.9  |              | 6.2   | 4.0                      | -14.6 | 2.2  | -2.0 | 6.0  | 11.0 | 3.0  |
| Exports (goods and services)                     | 959.0  |              | 53.8  | 4.8                      | -9.8  | 3.2  | 7.0  | 2.5  | 3.8  | 4.0  |
| Imports (goods and services)                     | 862.5  |              | 48.4  | 6.0                      | -11.6 | 3.5  | 5.2  | 3.3  | 6.1  | 4.7  |
| GNI (GDP deflator)                               | 1839.5 |              | 103.2 | 2.3                      | -5.8  | 2.0  | 1.6  | 0.5  | 1.6  | 1.0  |
| Contribution to GDP growth :                     |        |              |       |                          |       |      |      |      |      |      |
| Domestic demand                                  |        |              |       | 2.3                      | -4.2  | 0.3  | -0.7 | 0.8  | 2.5  | 1.5  |
| Inventories                                      |        |              |       | 0.1                      | -2.3  | 1.0  | 0.3  | 0.0  | 0.1  | 0.0  |
| Net exports                                      |        |              |       | -0.3                     | 0.7   | 0.0  | 1.2  | -0.2 | -1.0 | -0.2 |
| Employment                                       |        |              |       | 0.7                      | -2.4  | -2.3 | -0.4 | -0.3 | 0.1  | 0.2  |
| Unemployment rate (a)                            |        |              |       | 5.6                      | 6.0   | 7.5  | 7.6  | 7.7  | 7.7  | 7.6  |
| Compensation of employees/head                   |        |              |       | 3.5                      | 1.8   | 2.7  | 1.6  | 1.7  | 1.6  | 1.8  |
| Unit labour costs whole economy                  |        |              |       | 2.1                      | 5.6   | -0.9 | 0.5  | 0.9  | 0.1  | 0.6  |
| Real unit labour costs                           |        |              |       | 0.0                      | 4.5   | -4.6 | -0.4 | -0.4 | -1.4 | -0.9 |
| Saving rate of households (b)                    |        |              |       | 6.4                      | 8.2   | 8.0  | 7.7  | 7.5  | 6.7  | 6.9  |
| GDP deflator                                     |        |              |       | 2.1                      | 1.0   | 3.9  | 0.8  | 1.3  | 1.6  | 1.5  |
| Harmonised index of consumer prices              |        |              |       | 2.0                      | 1.1   | 2.2  | 2.7  | 2.4  | 2.0  | 1.7  |
| Terms of trade of goods                          |        |              |       | 0.9                      | 4.5   | 3.3  | -1.6 | -1.3 | 0.1  | 0.1  |
| Merchandise trade balance (c)                    |        |              |       | 3.3                      | 2.5   | 2.8  | 2.9  | 2.1  | 1.4  | 0.9  |
| Current-account balance (c)                      |        |              |       | 2.1                      | 3.3   | 5.5  | 6.6  | 5.6  | 4.6  | 4.2  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | 2.2                      | 3.3   | 5.6  | 6.9  | 5.4  | 4.4  | 4.3  |
| General government balance (c)                   |        |              |       | 0.8                      | -2.7  | -2.5 | -1.8 | -3.9 | -2.0 | -1.7 |
| Cyclically-adjusted budget balance (c)           |        |              |       | 0.4                      | 0.4   | 0.0  | 0.5  | -1.8 | -0.6 | -0.6 |
| Structural budget balance (c)                    |        |              |       | -                        | 0.4   | 0.0  | 0.5  | -0.3 | -0.8 | -0.6 |
| General government gross debt (c)                |        |              |       | 54.4                     | 40.6  | 42.9 | 46.6 | 45.4 | 44.7 | 45.3 |

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

## 5. GERMANY

### Robust consumption despite uncertain environment

#### Economic activity to regain momentum in the course of 2013

After a slight decline in the fourth quarter of 2011, German GDP rebounded at the beginning of 2012. An expansion of 0.5% q-o-q (seasonally and working-day adjusted) in the first quarter was followed by lower growth of 0.3% q-o-q in the second quarter. Growth in the first half of the year was driven by both consumption and exports, while the contribution of gross fixed capital formation was negative.

The weakening of growth is likely to continue in the second half of the year. Although recent data on industrial production and firms' still-favourable assessment of the current business situation suggest that a moderate expansion of GDP has taken place in the third quarter, expectations of a further flagging of growth in the fourth quarter are underpinned by business expectations below their long-term average, slightly negative export expectations and an apparent fall in industry orders after their slight recovery in the preceding quarter. This reflects the weakening of economic activity in important trading partner countries as well as uncertainty related to the euro-area crisis, which weighs on investment.

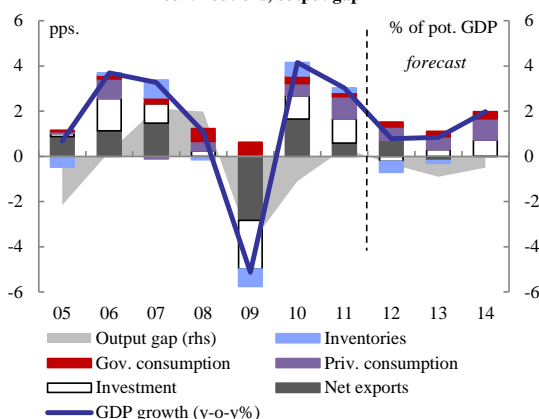
Nevertheless, the fundamentals of the German economy remain intact. Financing conditions are relatively favourable and German firms are benefitting from their strong competitive positions as well as the regional diversification of trading partners. Moreover, domestic demand should continue to be underpinned by both consumption and housing investment, which are in turn supported by robust labour market conditions and low interest rates. Thus, along with dissipating uncertainty, economic growth is expected to regain momentum in the course of next year, returning to its medium-term trend and partly closing the negative output gap in 2014. After a moderate growth rate of 0.8% in both 2012 and 2013, GDP is projected to expand by a healthy 2.0% in 2014.

#### Robust labour market and low interest rates promoting private consumption

Employment growth is projected to continue over the forecast horizon, while the downward trend in unemployment is expected to stall. The still-robust

labour market, combined with significant wage increases, should bolster private consumption. Indeed, income expectations and the propensity to buy have remained resilient, although employment growth has decelerated for some months and economic sentiment has deteriorated. Furthermore, low interest rates stimulate private consumption and housing investment. As of next year, private consumption growth is expected to exceed the rise in disposable income, which is partly slowed down by progressive income taxation, implying a return in 2013 to the downward trend in the savings rate observed in recent years.

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



#### Uncertainty restraining investment

Investment slumped during the first two quarters of 2012. Prevailing uncertainty appears to have increased the reluctance of firms to invest in machinery and equipment, in particular. However, financing conditions are favourable and the realisation of postponed investments in replacing or upgrading production equipment is likely to become more urgent. Although below-average capacity utilisation suggests a limited need for expansion of production capacity in the short term, firms are reported to be planning investments in changing and expanding their product range, which are likely to be implemented once uncertainty dissipates and the external environment improves. In contrast, the prevailing uncertainty seems to be fostering housing investments, which are expected to continue growing vibrantly. Overall, after declining by 1.2% in 2012, investment is set to regain momentum and to grow by 1.9% in 2013 and 4.1% in 2014.



### Consumption supporting imports

The uncertain external environment is increasingly expected to take a toll on exports, as suggested by recent surveys indicating subdued export expectations. Export growth is expected to halve in 2012, while picking up pace again in the subsequent years along with reviving economic activity in trading partner countries both within and outside the euro area. While weak exports and equipment investment will affect imports of related intermediate and capital goods, robust private consumption should underpin imports. The expected reacceleration of exports and investment over the forecast horizon will give an additional boost to imports. Hence, import growth is projected to outperform export growth in 2013 and 2014. Import prices should increase at a slower pace due to declining energy prices. Yet, the worsening of the terms of trade is expected to continue, although at a slower rate, since exporters may have less scope to pass on the projected rise in unit labour costs. This implies that profit margins should decline further and that Germany's current account surplus should continue to diminish over the forecast horizon.

### Employment growth decelerating

After a marked rise in employment since 2010, the pace of the increase has subsided in recent months. Recruitment plans of businesses have become more cautious in light of the subdued growth outlook for the coming months. However, although declining, the number of registered vacancies and employment plans of companies do not appear to be low. Moreover, during the deep recession of 2008-09, firms used flexible working time arrangements to retain qualified staff, which has allowed them to react flexibly to both the sharp slowdown in demand and the subsequent quick recovery. In the coming quarters, firms are expected to make use of this flexibility once again, implying a reduction in working time and leaving scope for a small expansion of employment by 0.2% in 2013, after 1.1% in 2012. In the course of 2013, working time is projected to recover. The rise in employment has been accompanied by increased net immigration and a further improvement in labour force participation in recent quarters. Although the waning labour demand should slow down the net inflow of immigrants from other EU Member States, it is likely that labour supply will slightly outperform labour demand next year, implying an increase of 0.1 pp. in the unemployment rate. In 2014, employment

growth should accelerate once again and the unemployment rate should return to its level of 2012.

### Wages growing, inflation edging lower

Social partners have recently agreed wage increases that will raise pay by about 5% over their duration. Given the gradual implementation of pay settlements, increases in negotiated wages in 2013 are expected to be more pronounced than this year. In addition, employees received large bonuses in 2012. These have been used by firms to establish a better link between wages and the business situation, with a view to increasing flexibility and competitiveness. The robust labour market suggests a continuation of significant wage increases over the forecast horizon, following an extended period of wage moderation during the last decade. Bonuses are also expected to top up wages, in particular once economic activity regains momentum after the current slow-down. However, the increase in compensation per employee will be lowered by a reduction in the pension contribution rate this and next year, leading to a steeper rise in projected growth rates from 2.6% in 2012 to 3.1% in 2014. The increase in employment is forecast to exceed output gains in 2012, which leads to a rise in unit labour costs of 2.8%. For the remainder of the forecast period strengthening productivity growth is expected to narrow the gap to growth of labour compensation to 1.5 pps. in 2014.

The rise in excess capacity is likely to temporarily narrow producers' scope for passing-on higher wages to consumers, which should in turn limit price pressures. Overall, an increase in core inflation from 1½% to 2% over the forecast horizon is projected. The recent impact of rising energy prices on consumer prices is considered to be temporary. The contribution of energy to inflation is expected to fall once again, despite an increase in the surcharge on electricity prices for feeding-in renewable energy. Headline inflation is therefore forecast to remain below 2% as of next year, after 2.1% in 2012.

### Approaching a balanced budget

Despite the moderate growth outlook, the general government deficit is projected to drop to 0.2% of GDP in 2012. This is partly due to the revision of the 2011 deficit from 1% of GDP to 0.8% of GDP. In addition, revenues are likely to increase more strongly and expenditure somewhat more slowly



than earlier forecast. In particular, the robust labour market and significant wage increases have boosted payroll-tax revenues. The phasing-out of the remaining stimulus measures is estimated to contribute around 0.4% of GDP to consolidation in 2012. On the other hand, the projection takes account of lower revenues due to a reduction of the pension contribution rate by 0.3 pp. this year and a further 0.7 pp. to 18.9% in 2013, as well as additional expenditure resulting from the agreed wage increases for the public sector at federal and municipal levels for 2012 and 2013. In contrast, the tax reform proposed by the federal government to reduce fiscal drag has not been taken into account, since no political agreement has been reached so far. In line with the growth outlook and the relatively favourable labour market projections, the general government budget is forecast to remain unchanged at a deficit of 0.2% of GDP in 2013 and to be balanced in 2014. Accordingly, it is estimated that the structural general government budget balance is projected to turn into a small surplus of about ¼% of GDP in 2012 and to broadly stabilise thereafter.

The euro-area stabilisation measures, the increase in the paid-in capital of the European Investment

Bank and a second transfer of impaired assets from WestLB to its "bad bank" ("Erste Abwicklungsanstalt") will impact on gross debt, which is projected to rise by 1.2 pps. to 81.7% of GDP in 2012. Further on, gross debt is projected to drop to 80.8% of GDP in 2013 and to 78.4% of GDP in 2014 due to the denominator effect of GDP growth. The on-going winding-up of "bad banks" could further reduce the debt stock.

Graph II.5.2: Germany - General government gross debt and deficit

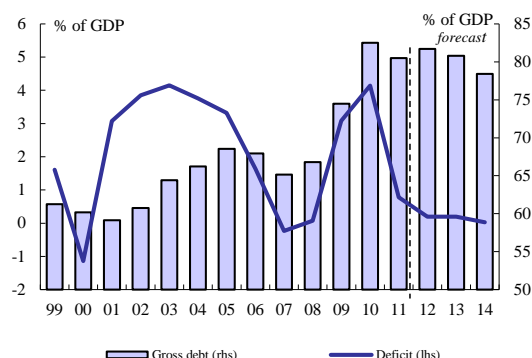


Table II.5.1:

**Main features of country forecast - GERMANY**

|  | 2011   |              |       | Annual percentage change |       |      |      |      |      |      |
|--|--------|--------------|-------|--------------------------|-------|------|------|------|------|------|
|  | bn EUR | Curr. prices | % GDP | 92-08                    | 2009  | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 2592.6 | 100.0        |       | 1.5                      | -5.1  | 4.2  | 3.0  | 0.8  | 0.8  | 2.0  |
| Private consumption                              | 1487.7 | 57.4         |       | 1.1                      | 0.1   | 0.9  | 1.7  | 1.0  | 1.0  | 1.6  |
| Public consumption                               | 499.8  | 19.3         |       | 1.5                      | 3.0   | 1.7  | 1.0  | 1.2  | 1.3  | 1.6  |
| Gross fixed capital formation                    | 469.9  | 18.1         |       | 1.1                      | -11.6 | 5.9  | 6.2  | -1.2 | 1.9  | 4.1  |
| of which : equipment                             | 183.2  | 7.1          |       | 2.4                      | -22.5 | 10.3 | 7.0  | -3.0 | 1.6  | 7.2  |
| Exports (goods and services)                     | 1300.8 | 50.2         |       | 6.2                      | -12.8 | 13.7 | 7.8  | 3.9  | 4.2  | 6.6  |
| Imports (goods and services)                     | 1169.2 | 45.1         |       | 5.4                      | -8.0  | 11.1 | 7.4  | 2.7  | 5.1  | 7.2  |
| GNI (GDP deflator)                               | 2640.9 | 101.9        |       | 1.5                      | -3.9  | 3.7  | 2.9  | 0.7  | 0.7  | 1.9  |
| Contribution to GDP growth :                     |        |              |       |                          |       |      |      |      |      |      |
| Domestic demand                                  |        |              |       | 1.1                      | -1.5  | 1.9  | 2.2  | 0.6  | 1.1  | 2.0  |
| Inventories                                      |        |              |       | -0.1                     | -0.8  | 0.6  | 0.2  | -0.5 | -0.1 | 0.0  |
| Net exports                                      |        |              |       | 0.5                      | -2.8  | 1.7  | 0.6  | 0.7  | -0.2 | 0.0  |
| Employment                                       |        |              |       | 0.2                      | 0.1   | 0.6  | 1.4  | 1.1  | 0.2  | 0.4  |
| Unemployment rate (a)                            |        |              |       | 8.9                      | 7.8   | 7.1  | 5.9  | 5.5  | 5.6  | 5.5  |
| Compensation of employees/f.t.e.                 |        |              |       | 2.0                      | 0.2   | 2.4  | 3.0  | 2.6  | 2.8  | 3.1  |
| Real labour costs whole economy                  |        |              |       | 0.8                      | 5.6   | -1.1 | 1.4  | 2.8  | 2.1  | 1.5  |
| Unit labour costs                                |        |              |       | -0.6                     | 4.4   | -2.0 | 0.6  | 1.6  | 0.8  | -0.1 |
| Saving rate of households (b)                    |        |              |       | 16.3                     | 17.0  | 16.9 | 16.5 | 16.5 | 16.3 | 16.0 |
| GDP deflator                                     |        |              |       | 1.3                      | 1.2   | 0.9  | 0.8  | 1.2  | 1.4  | 1.6  |
| Harmonised index of consumer prices              |        |              |       | -                        | 0.2   | 1.2  | 2.5  | 2.1  | 1.9  | 1.8  |
| Terms of trade of goods                          |        |              |       | 0.2                      | 6.0   | -2.5 | -2.7 | -0.7 | -0.4 | -0.1 |
| Merchandise trade balance (c)                    |        |              |       | 4.6                      | 5.6   | 6.3  | 6.0  | 6.3  | 5.7  | 5.6  |
| Current-account balance (c)                      |        |              |       | 1.4                      | 6.0   | 6.1  | 5.6  | 5.7  | 5.0  | 4.7  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | 1.4                      | 6.0   | 6.1  | 5.6  | 5.5  | 4.9  | 4.6  |
| General government balance (c)                   |        |              |       | -2.7                     | -3.1  | -4.1 | -0.8 | -0.2 | -0.2 | 0.0  |
| Cyclically-adjusted budget balance (c)           |        |              |       | -2.8                     | -0.9  | -3.5 | -0.9 | 0.0  | 0.3  | 0.3  |
| Structural budget balance (c)                    |        |              |       | -                        | -0.9  | -2.3 | -0.7 | 0.2  | 0.3  | 0.3  |
| General government gross debt (c)                |        |              |       | 59.4                     | 74.5  | 82.5 | 80.5 | 81.7 | 80.8 | 78.4 |

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

## 6. ESTONIA

### Returning to balanced growth

#### Export growth expected to regain momentum

Strong domestic demand and favourable labour market developments are the main growth drivers in 2012. Although Estonia's economy relies heavily on the Nordic countries, which seem to be resilient in the sovereign-debt crisis, some growth momentum was lost due to a weakening external demand and exports. Therefore, economic growth is forecast to slow down to 2.5% in 2012 from export-led 8.3% in 2011.

The high volatility and contraction in export and industrial production volumes in this year mainly reflected a sharp fall in electronics exports, as global uncertainty rose and demand for specific high-tech communication devices declined. Re-exports of mineral products added to the export volatility. These two volatile components aside, export growth remained positive and reached 11.5% y-o-y in August. The increasing importance of Russia as a trading partner in recent months has partly stemmed from one-off factors, e.g. re-export of machinery and oil transit. Nevertheless, the relatively good economic performance of Russia, along with the country's recent accession to the WTO, is expected to have a longer-term positive effect on Estonia's foreign trade. Seasonally-adjusted manufacturing output has been improving steadily since April and picked up pace to 2% m-o-m in August. A positive outlook for export growth is also supported by firms' sentiment which is still above its long-term average.

#### Strong consumption and public investment supporting growth ...

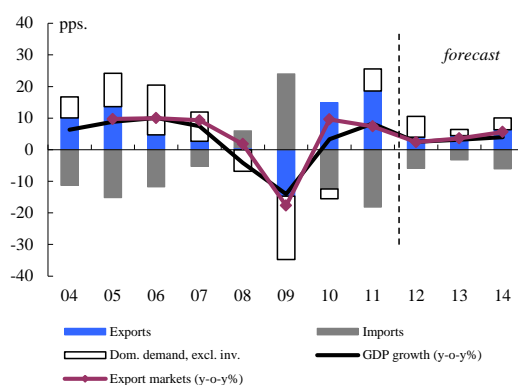
With an improving labour market situation and strengthening consumer sentiment, retail trade registered a steady growth of close to 7% y-o-y in the past few months. In addition, the planned increases in different benefits and pensions in 2013 should support the ability of poorer households' to cope with high inflation and uphold consumption.

Investment activity has been very strong, with high public investments. This is expected to continue to end-2012, when the majority of projects financed through the revenue from the sale of excess greenhouse gas emission certificates will be about to end and EU funding-related projects are completed. Corporate investment is expected to be

reinforced in 2013 as export possibilities improve. Backed by low interest rates and a recovering lending activity, the private-sector deleveraging is coming to a halt, but the high loan stock will likely remain a drag on credit growth.

In 2013, Estonia's 3.1% GDP growth is expected to be balanced and converge to its long-term average trend by 2014 (4%). Based on the recovery in its main trading partners, Estonia's export growth is supporting domestic demand.

Graph II.6.1: Estonia - GDP growth and contributions



#### ... in an improving labour market ...

The unemployment rate (age group 15-74) declined rapidly and significantly to 10.2% in the second quarter of 2012 from 13.3% one year earlier. The labour force participation ratio remained historically high and is assumed to increase further due to changes in the age structure. Employment has been growing rapidly at about 3.7% in recent quarters and is forecast to continue growing, mainly in the sectors servicing the domestic market. However, employment growth appears to be temporarily slowing, feeding into a decelerating nominal wage growth at 5.0% y-o-y on average in the second quarter of 2012. Wage growth is expected to remain at around 5.4% in 2013 and 5.8% in 2014 - levels moderate for Estonia - with real wage growth increasingly positive at 1.4% in 2013 and 2.5% in 2014. Vacancy rates are again high, pointing to growing skills mismatches and, possibly, low labour market mobility. The unemployment rate has already dropped to the NAWRU, supporting a sizeable monthly wage increase in construction in the second quarter of 2012, but below productivity growth. In manufacturing, wage growth outpaced productivity growth, reducing thereby companies'

mark-ups, as output did not expand. This phenomenon is expected to disappear soon, when global demand and exports start growing again.

### ...with slowly declining inflation

The 12 month-average inflation rate stabilised at around 4.4% in early autumn as food prices started to pick up again and higher energy prices kept heating and transport prices up. Inflation in 2013 will be affected by several administrative changes: the full opening of Estonia's electricity market and higher transfer fees, increases by 5-6% in alcohol and tobacco excises and the introduction of free public transport in Tallinn. Overall, declining global commodity prices in 2013 and 2014 is assumed to ensure that inflation continues its slow decline. Finally, as wage growth is moderating in the second half of 2012 and core inflation remains tamed, there is no short-term risk of excessive wage inflation.

### Public finances in order

With strong tax revenue collection and a budget close to balance in July, the fiscal outcome in Estonia has been better than expected in the first half of this year. However, large scale one-off

investment projects related to the sale of excess greenhouse gas emission certificates should alter the balance in the second half of the year and a deficit of 1.1% of GDP is expected for 2012 as a whole. This, however, is considerably better than the targeted deficit of 2.6% of GDP.

After 2012, one-off expenditure factors will scale down and the budget deficit is expected to improve to 0.5% of GDP in 2013. The fiscal position is projected to turn into a surplus of 0.3% of GDP in 2014. The unfreezing of the public wage bill with a planned wage increase of 4.4% for civil servants, along with a pension increase of 5% and a cut in the unemployment insurance premium by 1.2 pps. to 3%, as stated in draft 2013 state budget, will add pressures to the budget balance. Local elections in October 2013 might have an impact on public expenditure.

Net of cyclical factors and one-offs, the general government deficit is expected to reach -0.4% of GDP at the end of 2012 and to revert to a surplus of 0.2% of GDP in 2014. The general government debt will increase over the forecast horizon from 6.1% of GDP in 2011 to 11.2% in 2014, mostly owing to the EFSF and ESM contributions.

Table II.6.1:

### Main features of country forecast - ESTONIA

| 2011   |                 |              |       | Annual percentage change |       |      |       |      |      |      |
|--|-----------------|--------------|-------|--------------------------|-------|------|-------|------|------|------|
|  | bn EUR          | Curr. prices | % GDP | 92-08                    | 2009  | 2010 | 2011  | 2012 | 2013 | 2014 |
| GDP  |                 | 16.0         | 100.0 | -                        | -14.1 | 3.3  | 8.3   | 2.5  | 3.1  | 4.0  |
| Private consumption                              |                 | 8.2          | 51.1  | -                        | -14.8 | -2.4 | 3.5   | 3.2  | 3.3  | 3.5  |
| Public consumption                               |                 | 3.1          | 19.5  | -                        | -1.9  | -0.8 | 1.4   | 3.2  | 1.0  | 0.2  |
| Gross fixed capital formation                    |                 | 3.5          | 21.7  | -                        | -38.3 | -7.4 | 25.7  | 20.2 | 0.0  | 7.8  |
| of which : equipment                             |                 | 1.6          | 10.2  | -                        | -55.0 | 2.2  | 102.7 | 11.4 | 9.0  | 13.2 |
| Exports (goods and services)                     |                 | 14.6         | 91.5  | -                        | -20.6 | 22.9 | 23.4  | 4.3  | 4.8  | 6.8  |
| Imports (goods and services)                     |                 | 14.0         | 87.6  | -                        | -32.0 | 21.0 | 25.0  | 6.7  | 3.6  | 6.8  |
| GNI (GDP deflator)                               |                 | 15.1         | 94.7  | -                        | -12.4 | 0.8  | 8.7   | 3.6  | 3.1  | 4.3  |
| Contribution to GDP growth :                     | Domestic demand |              |       | -                        | -20.1 | -3.0 | 7.0   | 6.6  | 1.9  | 3.7  |
|  | Inventories     |              |       | -                        | -2.1  | 4.1  | 2.1   | -2.1 | 0.0  | 0.0  |
|  | Net exports     |              |       | -                        | 9.4   | 2.5  | 0.4   | -1.9 | 1.2  | 0.2  |
| Employment                                       |                 |              |       | -1.3                     | -10.0 | -4.8 | 7.0   | 1.8  | 0.8  | 1.0  |
| Unemployment rate (a)                            |                 |              |       | -                        | 13.8  | 16.9 | 12.5  | 10.5 | 9.8  | 9.0  |
| Compensation of employees/f.t.e.                 |                 |              |       | -                        | -3.2  | 1.8  | -0.2  | 5.0  | 5.4  | 5.8  |
| Unit labour costs whole economy                  |                 |              |       | -                        | 1.4   | -6.2 | -1.4  | 4.3  | 3.1  | 2.7  |
| Real unit labour costs                           |                 |              |       | -                        | 2.8   | -6.8 | -4.2  | 1.1  | 0.0  | -0.4 |
| Saving rate of households (b)                    |                 |              |       | -                        | 11.4  | 6.7  | 5.6   | 4.4  | 2.8  | 1.6  |
| GDP deflator                                     |                 |              |       | -                        | -1.4  | 0.7  | 2.9   | 3.2  | 3.1  | 3.2  |
| Harmonised index of consumer prices              |                 |              |       | -                        | 0.2   | 2.7  | 5.1   | 4.3  | 4.1  | 3.3  |
| Terms of trade of goods                          |                 |              |       | -                        | 0.9   | -1.6 | -4.0  | -1.2 | -0.2 | 0.1  |
| Merchandise trade balance (c)                    |                 |              |       | -                        | -4.4  | -2.7 | -3.8  | -6.6 | -5.7 | -6.0 |
| Current-account balance (c)                      |                 |              |       | -                        | 4.2   | 3.2  | 0.3   | -0.9 | 0.1  | 0.4  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -                        | 7.7   | 6.8  | 4.5   | 2.5  | 2.8  | 2.6  |
| General government balance (c)                   |                 |              |       | -                        | -2.0  | 0.2  | 1.1   | -1.1 | -0.5 | 0.3  |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -                        | 0.7   | 1.9  | 1.0   | -1.4 | -0.8 | -0.1 |
| Structural budget balance (c)                    |                 |              |       | -                        | -1.1  | -1.2 | -0.7  | -0.4 | -0.4 | 0.2  |
| General government gross debt (c)                |                 |              |       | -                        | 7.2   | 6.7  | 6.1   | 10.5 | 11.9 | 11.2 |

(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.

## 7. IRELAND

### The road to recovery is still challenging

#### **Global slowdown hits nascent export-led recovery**

The expansion of the Irish economy moderated in the first half of 2012 to 0.5% compared to the same period in 2011, following real GDP growth of 1.4% in 2011. Net exports continued to be the sole growth engine, as all subcategories of domestic demand shrunk on the back of sustained household and public sector deleveraging and weak labour markets. More positively, the orderly adjustment of the Irish economy was recently rewarded with improved market sentiment in the form of declining sovereign-bond yields, which enabled the sovereign to resume debt issuances. On balance, 2012 real GDP growth has thus been marked down only marginally to 0.4%. Weakening trading partner demand is expected to weigh more heavily on the external sector during 2013, which together with lack of support from the domestic economy is forecast to result in a more moderate expansion in 2013, with growth at 1.1%.

#### **Domestic demand remains subdued due to deleveraging and fiscal consolidation**

A further contraction across all domestic demand components is envisioned for the rest of 2012. Private consumption and investment are expected to decline at moderating rates in 2013-14, as the debt overhang is being addressed and the outlook for the construction sector remains bleak. While fiscal multipliers are low in the very open Irish economy, the planned continued fiscal consolidation will subtract from GDP growth during the forecast period. Domestic demand is expected to return to positive growth in 2014 after six years, led by the private sector.

#### **External imbalances are falling, though the backdrop has deteriorated**

Export growth moderated in the second quarter of 2012 after a relatively strong expansion in the first quarter. Expected surpluses in both the services and goods trade balances by end-2012 are projected to outweigh a likely increase in net factor income outflows, and push up the current-account surplus further to 2.3% of GDP. Competitiveness indicators are expected to improve in 2012 and throughout the forecast period, albeit at a more gradual pace than during the first years of the

crisis. Export demand is anticipated to be hurt by the worsening euro area and UK outlook in 2013-14 but helped somewhat by the relative resilience of the US economy. The current-account surpluses are therefore forecast to continue growing during the period.

#### **Labour markets remain weak, moderating inflation**

The labour market deteriorated further during the first half of 2012, with employment falling by 1.8%, mainly reflecting public sector layoffs and retirements. Due to migration-driven falls in the labour force, the fall in employment did not fully translate into increased unemployment, which increased somewhat compared to the 2011 average to 14.8%. Only small increases in employment are expected in 2013-14 as growth will be driven by the relatively capital-intensive export sector. Unemployment is expected to decrease very gradually and hence be increasingly long-term in nature. HICP inflation surprised on the upside during the first half of 2012 due to relatively strong increases in energy, administered and services prices, and the end-year inflation forecast has been revised upwards to 2%. These effects are expected to peter out and inflation to decline gradually to 1.4% in 2014.

#### **Broadly balanced macroeconomic risks**

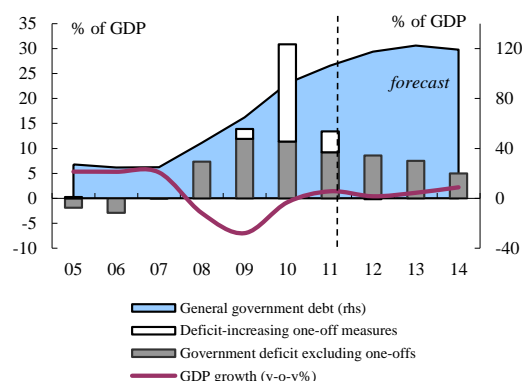
Downside risks stem from the uncertain external outlook, especially trading partner demand, although the Irish export sector decoupled successfully during the first years of the crisis. Expiring patents could however reduce growth in chemical exports. There are downside risks to private consumption from further falls in real estate prices, but also upside ones given substantial pent-up demand if precautionary savings decline and financing conditions ease, facilitating balance sheet repair and credit flows.

#### **Fiscal pressures increase**

The general government deficit-to-GDP ratio stood at 13.4% in 2011 (including 4.3% of GDP of one-off banking support measures). The 2012 fiscal deficit is now estimated at 8.4% of GDP. Central government cash data through September shows strong tax revenue performance offsetting some

expenditure overruns, mainly in social and health services. While renewed effort and additional measures should contain the slippages in the health sector, some overruns in unemployment benefits and social contributions would persist.

Graph II.7.1: Ireland - General government debt and deficit, one-offs and GDP growth



The general government deficit is projected to be 7.5% of GDP in 2013 and 5% in 2014. This

forecast includes the planned fiscal adjustment of 3.9% of GDP over the two years, of which one-third is on revenue side and two-thirds on expenditure. Moreover, the 2012 expenditure overruns in health sector (0.3% of GDP) will be fully corrected by structural measures. The structural balance adjustment is lower than the nominal adjustment, due to low potential growth as the economy undergoes structural changes. Lower real economic growth weakens the fiscal position, though this is somewhat offset by more favourable price developments.

The government debt-to-GDP ratio increased from 25% in 2007 to 106% in 2011, and is seen peaking at around 122% in 2013 before declining. The still high deficit and changes to the level of government cash balances are key inputs to the gross debt trajectory and its eventual peak.<sup>(24)</sup> Under the baseline, the currently high precautionary cash balances of 11% of GDP at end-2012 and end-2013 are projected to decline to 6% at end-2014.

<sup>(24)</sup> In 2012, one-off financial investments in the financial sector contribute to increase in the debt (1% of GDP).

Table II.7.1:

**Main features of country forecast - IRELAND**

|  | 2011   |              |       | Annual percentage change |       |       |       |       |       |       |
|--|--------|--------------|-------|--------------------------|-------|-------|-------|-------|-------|-------|
|  | bn EUR | Curr. prices | % GDP | 92-08                    | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  | 159.0  |              | 100.0 | 6.2                      | -5.5  | -0.8  | 1.4   | 0.4   | 1.1   | 2.2   |
| Private consumption                              | 77.5   |              | 48.7  | 5.4                      | -5.7  | 0.5   | -2.3  | -2.1  | -0.5  | 1.2   |
| Public consumption                               | 29.2   |              | 18.4  | 4.6                      | -3.7  | -4.6  | -4.3  | -4.0  | -1.7  | -3.0  |
| Gross fixed capital formation                    | 16.1   |              | 10.1  | 6.7                      | -27.7 | -22.7 | -12.2 | -4.0  | -1.5  | 3.0   |
| of which : equipment                             | 5.9    |              | 3.7   | 7.6                      | -18.8 | -10.6 | -10.5 | 2.8   | 4.8   | 5.0   |
| Exports (goods and services)                     | 166.8  |              | 104.9 | 10.8                     | -3.8  | 6.2   | 5.1   | 2.8   | 3.2   | 4.2   |
| Imports (goods and services)                     | 131.9  |              | 82.9  | 10.1                     | -9.7  | 3.6   | -0.3  | 0.3   | 2.0   | 3.2   |
| GNI (GDP deflator)                               | 128.3  |              | 80.7  | 5.8                      | -9.1  | 0.0   | -2.4  | -2.4  | 0.3   | 2.1   |
| Contribution to GDP growth :                     |        |              |       |                          |       |       |       |       |       |       |
| Domestic demand                                  |        |              |       | 4.8                      | -9.7  | -4.3  | -3.4  | -2.2  | -0.7  | 0.3   |
| Inventories                                      |        |              |       | 0.0                      | -0.6  | 0.6   | 0.4   | 0.0   | 0.0   | 0.0   |
| Net exports                                      |        |              |       | 1.7                      | 4.1   | 2.9   | 5.4   | 2.6   | 1.8   | 1.9   |
| Employment                                       |        |              |       | 3.5                      | -8.1  | -4.2  | -2.1  | -1.2  | 0.0   | 0.9   |
| Unemployment rate (a)                            |        |              |       | 7.9                      | 11.9  | 13.7  | 14.4  | 14.8  | 14.7  | 14.2  |
| Compensation of employees/head                   |        |              |       | 5.3                      | -0.9  | -3.1  | 0.2   | 0.7   | 0.0   | 0.1   |
| Unit labour costs whole economy                  |        |              |       | 2.6                      | -3.7  | -6.5  | -3.2  | -0.9  | -1.0  | -1.1  |
| Real unit labour costs                           |        |              |       | -0.4                     | 1.0   | -4.3  | -3.4  | -2.5  | -2.3  | -2.5  |
| Saving rate of households (b)                    |        |              |       | -                        | 14.7  | 13.4  | 14.1  | 17.2  | 16.7  | 16.0  |
| GDP deflator                                     |        |              |       | 3.0                      | -4.6  | -2.2  | 0.2   | 1.7   | 1.3   | 1.4   |
| Harmonised index of consumer prices              |        |              |       | -                        | -1.7  | -1.6  | 1.2   | 2.0   | 1.3   | 1.4   |
| Terms of trade of goods                          |        |              |       | -0.2                     | 6.3   | -3.6  | -5.1  | 0.0   | 0.0   | -0.1  |
| Merchandise trade balance (c)                    |        |              |       | 19.3                     | 20.1  | 22.8  | 23.0  | 23.8  | 24.7  | 25.3  |
| Current-account balance (c)                      |        |              |       | -0.1                     | -2.3  | 1.1   | 1.1   | 2.3   | 3.4   | 4.4   |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | 0.5                      | -3.1  | 0.7   | 1.0   | 2.1   | 3.3   | 4.3   |
| General government balance (c)                   |        |              |       | 0.1                      | -13.9 | -30.9 | -13.4 | -8.4  | -7.5  | -5.0  |
| Cyclically-adjusted budget balance (c)           |        |              |       | -0.3                     | -12.1 | -28.9 | -12.1 | -7.7  | -7.3  | -5.3  |
| Structural budget balance (c)                    |        |              |       | -                        | -10.1 | -9.4  | -7.9  | -7.9  | -7.5  | -5.3  |
| General government gross debt (c)                |        |              |       | 51.2                     | 64.9  | 92.2  | 106.4 | 117.6 | 122.5 | 119.2 |

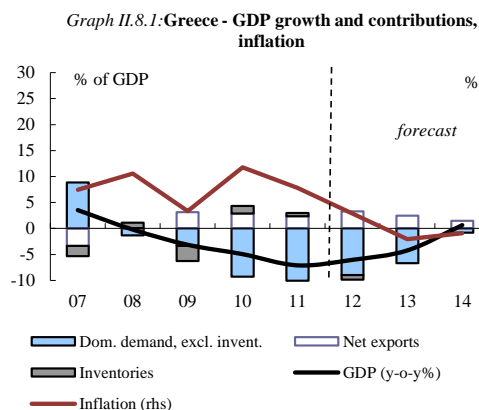
(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 8. GREECE

### Fiscal consolidation in the midst of internal adjustment

#### The grip of recession extends to 2013

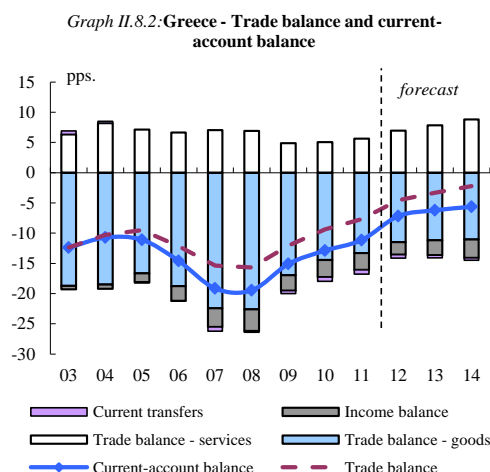
The provisional national accounts data release of September confirms that the Greek economy remains in deep recession. GDP fell year-on-year by 6.3% in the second quarter which, after a fall of 6.5% in the first quarter, suggests a yearly decline of 6.0% in 2012 as a whole. The contraction is expected to extend into 2013, a sixth year of recession, and its main drivers remain broadly unchanged. First, household disposable income keeps shrinking in response to rising unemployment and downward wage adjustment in both the private and public sectors. Second, savings measures introduced to contain the fiscal imbalances reinforce the contraction of domestic demand. Third, investment activity remains heavily subdued due to restrained access to credit and the uncertainties that remain after the political tensions around the double elections in spring 2012. In addition, exports dynamics affected by weakening external demand are insufficient to counter recessionary pressures in Greece.



#### Growth recovery to surface in 2014

The turning point of the recession is expected in the second half of 2013, leading to moderate GDP growth of 0.6% in 2014. This projection relies on the return of confidence and investment, boosted by the implementation of reforms under the economic adjustment programme, as well as progress with major projects co-financed by EU funds. The drag exerted by consumption, heavily affected in 2013 by the fiscal consolidation, is projected to fade. The economic rebound is expected to be reinforced by strengthening net exports driven by subdued imports and a

continuous improvement in the balance of trade in services. The current-account deficit is expected to move closer to sustainable levels, reaching around 5% of GDP in 2014.



The recovery rests on the crucial assumption of timely and rigorous implementation of the adjustment programme. Substantial uncertainty is associated with the forecast with significant risks on both sides related to the impact of the consolidation effort on economic sentiment, the speed and success of structural reforms, the pace of competitiveness and productivity gains, the extent of price adjustment and its impact on disposable income, and the strength of the external environment.

#### Labour market continues to undergo painful adjustment

The labour market continues to suffer from the prolonged contraction in economic activity. According to the Labour Force Survey, in the second quarter of 2012, the unemployment rate rose to over 23% (compared with slightly above 16% in the corresponding quarter of 2011) and employment fell to around 53% of the working age population (a decrease of 8.7% compared to mid-2011). The labour market is expected to bottom out in 2013 and recover only slowly thereafter, with the unemployment rate at around 22% in 2014. In the medium term, the fall in the unemployment rate should gain momentum, reflecting structural labour market reforms aimed at promoting flexible forms of employment and the decentralisation of wage negotiations.



### Continued wage reductions set to eventually be reflected in price declines

Extensive labour market reforms and the severity of the current economic contraction continue to put significant downward pressure on wages. Compensation per employee fell by 3.4% in 2011 and is projected to fall further, by 6.8% in both 2012 and 2013. These developments have already contributed to a moderation in consumer prices in the last two years and this trend has continued in the first three quarters of this year. For 2012 overall, the headline HICP inflation rate is forecast at around 1.1%. In 2013 and 2014, prices are forecast to actually fall, reflecting wage developments with some lag. Overall, the pass-through from wages to prices is, however, expected to remain moderate. Persistent product market imperfections, but also the need to rebuild profits to strengthen the financial position of companies and to support investment, mean that cost-reductions are not fully passed on to consumers. Administered prices and indirect taxes (inter alia, on electricity, water and heating oil consumption) are also set to increase further.

projected to decline to 6.8% of GDP from 9.4% of GDP in 2011, in spite of the stronger-than-expected recession. Interest expenditure as a share of GDP is projected to decline by 2 pps. in 2012, reflecting the debt relief provided in the context of approval of the second programme in March 2012. The government aims to achieve a primary budget balance in 2013. Based on the current projections, this would require additional measures of around 5% of GDP, which are being adopted with the 2013 budget. This would reduce the government deficit to 5.5% of GDP. The consolidation effort will lead to an improvement in the structural balance, from close to -5½% to ½% of GDP from 2011-14. Gross public debt is projected to increase to 176.7% of GDP in 2012. This is 16 pps. higher than foreseen in spring, reflecting revisions to nominal GDP, lower growth and privatisation proceeds and other stock flow adjustments. The debt ratio is projected to rise to 188.4% of GDP in 2013, mainly on account of the sizeable nominal contraction of the economy and to peak in 2014 at 188.9%. Thereafter it is expected to fall at an accelerating pace, supported by stronger nominal GDP growth and an improving budget balance.

### Clear progress in reducing the fiscal deficit

In 2012, the general government deficit is

Table II.8.1:

#### Main features of country forecast - GREECE

|  | 2011   |              |       | Annual percentage change |       |       |       |       |       |       |
|--|--------|--------------|-------|--------------------------|-------|-------|-------|-------|-------|-------|
|  | bn EUR | Curr. prices | % GDP | 92-08                    | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  | 208.5  | 100.0        |       | 2.9                      | -3.1  | -4.9  | -7.1  | -6.0  | -4.2  | 0.6   |
| Private consumption                              | 155.6  | 74.6         |       | 3.1                      | -1.6  | -6.2  | -7.7  | -7.7  | -6.9  | -1.6  |
| Public consumption                               | 36.2   | 17.4         |       | 2.6                      | 4.9   | -8.7  | -5.2  | -6.2  | -7.2  | -3.1  |
| Gross fixed capital formation                    | 31.6   | 15.1         |       | 4.3                      | -13.7 | -15.0 | -19.6 | -14.4 | -3.3  | 5.7   |
| of which : equipment                             | 12.8   | 6.1          |       | 9.8                      | -18.4 | -8.2  | -18.1 | -14.0 | -3.0  | 6.0   |
| Exports (goods and services)                     | 52.2   | 25.1         |       | 6.0                      | -19.4 | 5.2   | 0.3   | 0.8   | 2.7   | 4.8   |
| Imports (goods and services)                     | 69.1   | 33.1         |       | 6.1                      | -20.2 | -6.2  | -7.3  | -10.0 | -6.0  | -0.5  |
| GNI (GDP deflator)                               | 202.5  | 97.1         |       | 2.7                      | -2.3  | -5.3  | -7.2  | -5.4  | -4.7  | 0.0   |
| Contribution to GDP growth :                     |        |              |       |                          |       |       |       |       |       |       |
| Domestic demand                                  |        |              |       | 3.5                      | -3.3  | -9.3  | -10.1 | -9.0  | -6.7  | -0.8  |
| Inventories                                      |        |              |       | -0.1                     | -2.9  | 1.4   | 0.6   | -0.3  | 0.0   | 0.0   |
| Net exports                                      |        |              |       | -0.6                     | 3.1   | 2.9   | 2.4   | 3.3   | 2.5   | 1.5   |
| Employment                                       |        |              |       | 1.3                      | -0.6  | -2.6  | -5.6  | -7.9  | -2.1  | 1.4   |
| Unemployment rate (a)                            |        |              |       | 9.7                      | 9.5   | 12.6  | 17.7  | 23.6  | 24.0  | 22.2  |
| Compensation of employees/head                   |        |              |       | 7.3                      | 3.5   | -2.6  | -3.4  | -6.8  | -6.8  | -1.2  |
| Unit labour costs whole economy                  |        |              |       | 5.6                      | 6.2   | -0.1  | -1.8  | -8.6  | -4.7  | -0.5  |
| Real unit labour costs                           |        |              |       | -0.4                     | 3.8   | -1.3  | -2.9  | -8.2  | -3.6  | -0.1  |
| Saving rate of households (b)                    |        |              |       | -                        | 3.3   | -2.7  | -4.1  | 1.4   | 3.2   | 5.2   |
| GDP deflator                                     |        |              |       | 6.0                      | 2.3   | 1.1   | 1.0   | -0.5  | -1.2  | -0.4  |
| Harmonised index of consumer prices              |        |              |       | -                        | 1.3   | 4.7   | 3.1   | 1.1   | -0.8  | -0.4  |
| Terms of trade of goods                          |        |              |       | 0.0                      | -3.5  | 1.8   | 0.6   | -1.0  | -0.7  | -0.2  |
| Merchandise trade balance (c)                    |        |              |       | -15.8                    | -16.1 | -14.3 | -14.0 | -12.7 | -11.5 | -10.8 |
| Current-account balance (c)                      |        |              |       | -7.8                     | -14.4 | -12.8 | -11.7 | -8.3  | -6.3  | -5.2  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | -                        | -13.3 | -11.0 | -9.8  | -6.1  | -3.9  | -2.7  |
| General government balance (c)                   |        |              |       | -6.8                     | -15.6 | -10.7 | -9.4  | -6.8  | -5.5  | -4.6  |
| Cyclically-adjusted budget balance (c)           |        |              |       | -7.0                     | -15.0 | -8.4  | -5.1  | -1.2  | 0.7   | 0.4   |
| Structural budget balance (c)                    |        |              |       | -                        | -14.7 | -8.7  | -5.4  | -1.5  | 0.7   | 0.4   |
| General government gross debt (c)                |        |              |       | 100.0                    | 129.7 | 148.3 | 170.6 | 176.7 | 188.4 | 188.9 |

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

## 9. SPAIN

### Deep adjustment continues

#### Rebalancing is underway in the midst of recession

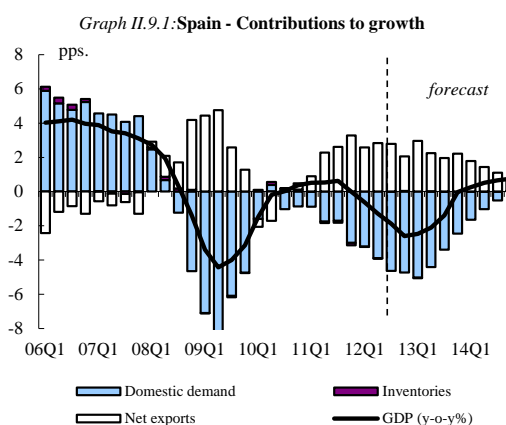
The adjustment of the large external and internal imbalances built up in the years prior to the crisis is holding back economic growth in Spain and has led to very high unemployment. The sizeable stock of private sector debt is prompting deleveraging among households and non-financial corporations. It also implies a profound shift in the composition of GDP growth away from domestic demand. Unemployment remains stuck at very elevated levels and is set to increase further. Public finances, which suffered a significant deterioration in the wake of the crisis, need to be brought back onto a sustainable path. Ambitious fiscal consolidation plans are being put in place but are weighing on the short-term growth outlook. The correction of these imbalances will affect domestic demand adversely over the forecast horizon, although a gradual improvement is expected in 2014, under a no-policy-change assumption. Resilient exports should continue to provide some cushion to otherwise very weak economic growth.

Real GDP is expected to contract by around 1½% both in 2012 and 2013. Spain entered its second recession since 2009-10 in the fourth quarter of 2011. Growth is expected to remain negative well into 2013. The main factors behind the expected contraction in economic activity in 2012-13 include further deterioration in the labour market, deleveraging of the private sector, fiscal consolidation, and tight credit conditions – all set in the context of the ongoing crisis in the euro area and somewhat weaker external demand.

Recurrent problems in some of the Spanish banks, struggling to deal with a large stock of impaired real estate related assets, eventually led the Spanish government to apply for external financial assistance for the recapitalisation of financial institutions from the European Financial Stability Facility (EFSF). The Memorandum of Understanding (MoU) was signed on 23 July and it was agreed that up to EUR 100 billion will be made available by the EFSF for restructuring and recapitalisation of Spanish banks. This programme is expected to have a positive impact on the stability of the financial sector in Spain. However, in the short term, the necessary adjustment in credit growth following the boom and bust of the

construction and real estate sector is expected to keep credit flows to the real economy constrained, contributing to the weakness of private consumption and investment.

Pressures on the sovereign have abated recently due, to a large extent, to the OMT (Outright Monetary Transactions) announced by the ECB. However, uncertainty remains elevated and financing conditions are subject to considerable strain. In parallel to fiscal consolidation, the Spanish authorities are implementing a comprehensive programme of structural reforms, which includes an ambitious labour market reform that was adopted in February and slightly modified in July 2012. An additional structural reform package was announced in September 2012.



#### Domestic demand remains subdued

Private consumption is set to act as a drag on growth over the forecast horizon, with some positive growth expected only in 2014. In 2012, private consumption will be particularly subdued due to record high unemployment, ongoing household deleveraging and the binding credit constraint. Households' disposable income is set to decline significantly due to a fall in the compensation of employees and an increase in income taxes. In addition, households' wealth will be reduced given an expected further fall in house prices. These trends will be further magnified by higher inflation, reducing real disposable income in 2012 and 2013. The saving rate is expected to decrease to less than 9% - a level that is well below the historical average of 11% - as households try to smooth their consumption and their ability to save is constrained by falling income levels.

Investment, particularly investment in equipment, is set to decline given the unfavourable economic outlook, high corporate indebtedness, excess capacity and difficult access to credit. Business confidence in industry is very low and the main component of overall investment continues to be replacement investment. All in all, corporations are expected to increase their net lending position, also on the back of improving profitability, thus increasing the potential for accelerating the reduction in accumulated debt. The adjustment in the housing market is still ongoing, with the fall in house prices accelerating in 2012. The cumulative fall in house prices has reached 28% in nominal terms and 36% in real terms since the peak in 2007. Further adjustment is expected given the remaining large stock of unsold houses. Non-residential construction is expected to decline, driven mostly by fiscal consolidation and, to a lesser extent, by lower corporate investment. Public consumption is also projected to fall, reflecting the impact of fiscal consolidation at all levels of government.

#### **Net exports continue to support growth**

Export growth is expected to remain robust over the forecast horizon and should gather pace after a somewhat weaker 2012. Declining unit labour costs (ULC) and improving product and regional diversification have allowed Spain to increase its export market share – a trend that is expected to continue over the forecast horizon. This is important to achieve a further reduction in the high external deficit. As a result of very weak imports, which are due to subdued domestic demand, and relatively resilient exports, Spain's trade balance has significantly improved and is expected to record a surplus in 2012. These trends have led to an accelerated correction in the current-account deficit, which is expected to be in balance by 2013. However, the high dependence of the Spanish economy on energy imports and the high and increasing interest burden may constrain the necessary improvement of the current account.

#### **Employment getting worse before it gets better**

The labour market situation deteriorated further and the unemployment rate reached 24.6% in the second quarter of 2012. The recent labour market reform allows firms greater flexibility to adjust wages and employment (including working hours) to their specific economic situation. However, given the current weakness of the Spanish

economy and a relatively short time span since its entry into force, it may take some time before the first positive effects become manifest. So far, the adjustment in employment continues to take place through the reduction in the number of workers rather than a reduction in working hours. Unlike before, permanent employment is now being affected as much as temporary employment. The rise in unemployment affects all branches of activity. Moreover, the duration of the crisis has led to an increase in long-term unemployment. In the second quarter of 2012, it reached more than 50% of total unemployment, twice its 2008 level.

#### **Wage growth moderates while inflation picks up**

In spite of the weakness of the Spanish economy, inflation accelerated and reached 3.5% in September. However, this acceleration was predominantly driven by exogenous factors: energy prices pushed up by hikes in oil prices and discretionary measures, such as the increases in co-payments for medicines, higher VAT rates, higher university tuition fees and an increase in electricity and gas prices. The effects of these discretionary measures are expected to be visible in year-on-year growth rates of prices until the last quarter of 2013. Wage growth is expected to be much more moderate than in the past, reflecting a positive impact of the recent labour market reform, paving the way to a faster recovery in employment. The combination of moderate wage growth and sustained improvements in productivity is expected to reduce real ULCs over the forecast horizon, enabling Spain to regain some of its lost competitiveness.

#### **Fiscal consolidation to intensify in second half of 2012**

Fiscal consolidation hardly advanced in the first eight months of 2012. Planned expenditure cuts seem to be on track, but broad-based revenue shortfalls, higher interest payments and rising social transfers almost offset these improvements. Following further fiscal consolidation measures presented in July, including an increase in VAT, the elimination of the 2012 Christmas bonus in the public sector and some measures on the corporate tax side at the central level, there should be significant fiscal tightening in the second half of the year. This is also likely to be the case at regional government level, where expenditure cuts in education are expected to kick in. For the year

as a whole, the general government deficit is therefore expected to narrow to about 8% of GDP, or about 7% of GDP – whereby 1% is entirely due to bank recapitalisation.

In 2013, the general government deficit is expected to narrow further, thanks to further discretionary measures more than offsetting the impact of the continued recession. The July 2012 fiscal package contained some elements that are expected to have their major impact in 2013, such as the VAT hike. The 2013 Budget Bill presented to parliament in September contained further consolidation measures, mainly on the expenditure side. Together with consolidation efforts at regional and local levels announced in the 2013-14 budget plan presented in August, these measures are expected to generate a net fiscal consolidation of about 1% of GDP. Thus, the general government deficit is forecast to reach around 6% of GDP in 2013. In 2014, the expiry of some of the measures introduced in 2012, such as the income tax hike, is roughly offsetting the planned consolidation included in the 2013-14 budget plan. Despite the fact that output and employment is expected to return to positive, albeit weak, growth, the general government deficit is expected to deteriorate to

6.4% of GDP, due to the expiry of some of the measures introduced in 2012.

Over 2011-14, virtually all of the improvement in government net lending stems from lower expenditure, with the effect of discretionary tax hikes just offsetting revenue losses due to the recessionary environment and the ongoing structural shift away from a tax-rich growth pattern based on domestic demand. Overall, risks are tilted to the downside. In addition to yet uncertain exact amount of bank recapitalisation, the less tax-rich growth composition could lead to lower-than-expected revenues.

The structural balance is expected to improve from -6¼% of GDP in 2012 to -4% of GDP in 2013, before deteriorating again in 2014 to -5¼% of GDP. Large public deficits, negative or low nominal GDP growth and high interest rates on government borrowing are likely to result in the government gross debt rising from 69.3% of GDP in 2011 to more than 97% of GDP in 2014. One-off effects of the payment of arrears to suppliers and a contribution to EFSF/ESM funds add to an increase in general government debt in 2012.

Table II.9.1:

**Main features of country forecast - SPAIN**

|  | 2011   |              |       | 92-08 | Annual percentage change |      |      |      |      |      |
|--|--------|--------------|-------|-------|--------------------------|------|------|------|------|------|
|  | bn EUR | Curr. prices | % GDP |       | 2009                     | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 1063.4 | 100.0        | 100.0 | 3.0   | -3.7                     | -0.3 | 0.4  | -1.4 | -1.4 | 0.8  |
| Private consumption                              | 620.0  | 58.3         | 2.8   | 2.8   | -3.8                     | 0.7  | -1.0 | -1.9 | -2.1 | 0.0  |
| Public consumption                               | 222.7  | 20.9         | 3.9   | 3.9   | 3.7                      | 1.5  | -0.5 | -4.9 | -7.2 | -1.4 |
| Gross fixed capital formation                    | 224.0  | 21.1         | 3.7   | 3.7   | -18.0                    | -6.2 | -5.3 | -9.0 | -5.6 | -0.3 |
| of which : equipment                             | 63.0   | 5.9          | 4.2   | 4.2   | -24.5                    | 3.0  | 2.4  | -6.6 | -3.5 | 0.8  |
| Exports (goods and services)                     | 321.8  | 30.3         | 7.1   | 7.1   | -10.0                    | 11.3 | 7.6  | 2.1  | 4.2  | 5.7  |
| Imports (goods and services)                     | 330.3  | 31.1         | 7.5   | 7.5   | -17.2                    | 9.2  | -0.9 | -6.3 | -3.2 | 2.4  |
| GNI (GDP deflator)                               | 1041.9 | 98.0         | 2.8   | 2.8   | -3.0                     | 0.3  | -0.3 | -2.0 | -1.8 | 0.7  |
| Contribution to GDP growth :                     |        |              |       |       |                          |      |      |      |      |      |
| Domestic demand                                  |        |              |       | 3.3   | -6.6                     | -0.8 | -1.8 | -4.0 | -3.8 | -0.3 |
| Inventories                                      |        |              |       | 0.0   | 0.0                      | 0.1  | -0.1 | 0.0  | 0.0  | 0.0  |
| Net exports                                      |        |              |       | -0.3  | 2.9                      | 0.3  | 2.3  | 2.6  | 2.3  | 1.2  |
| Employment                                       |        |              |       | 2.1   | -6.5                     | -2.3 | -1.7 | -4.5 | -2.7 | 0.2  |
| Unemployment rate (a)                            |        |              |       | 13.9  | 18.0                     | 20.1 | 21.7 | 25.1 | 26.6 | 26.1 |
| Compensation of employees/f.t.e.                 |        |              |       | 4.2   | 4.4                      | 0.0  | 0.7  | 0.4  | 1.4  | 0.4  |
| Unit labour costs whole economy                  |        |              |       | 3.4   | 1.5                      | -2.0 | -1.4 | -2.7 | 0.1  | -0.2 |
| Real unit labour costs                           |        |              |       | -0.5  | 1.4                      | -2.4 | -2.4 | -2.9 | -1.7 | -1.6 |
| Saving rate of households (b)                    |        |              |       | -     | 17.8                     | 13.1 | 11.0 | 8.7  | 8.1  | 9.1  |
| GDP deflator                                     |        |              |       | 3.8   | 0.1                      | 0.4  | 1.0  | 0.2  | 1.9  | 1.4  |
| Harmonised index of consumer prices              |        |              |       | -     | -0.2                     | 2.0  | 3.1  | 2.5  | 2.1  | 1.3  |
| Terms of trade of goods                          |        |              |       | 0.2   | 4.5                      | -2.2 | -3.3 | -2.7 | -0.2 | -0.2 |
| Merchandise trade balance (c)                    |        |              |       | -5.2  | -4.0                     | -4.6 | -3.8 | -2.5 | -0.8 | 0.0  |
| Current-account balance (c)                      |        |              |       | -4.0  | -4.8                     | -4.4 | -3.7 | -2.4 | -0.5 | 0.4  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | -3.2  | -4.3                     | -3.8 | -3.2 | -1.9 | 0.0  | 0.9  |
| General government balance (c)                   |        |              |       | -2.3  | -11.2                    | -9.7 | -9.4 | -8.0 | -6.0 | -6.4 |
| Cyclically-adjusted budget balance (c)           |        |              |       | -2.3  | -9.4                     | -7.6 | -7.6 | -6.0 | -4.0 | -5.3 |
| Structural budget balance (c)                    |        |              |       | -     | -8.7                     | -7.6 | -7.5 | -6.3 | -4.0 | -5.3 |
| General government gross debt (c)                |        |              |       | 53.4  | 53.9                     | 61.5 | 69.3 | 86.1 | 92.7 | 97.1 |

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

## 10. FRANCE

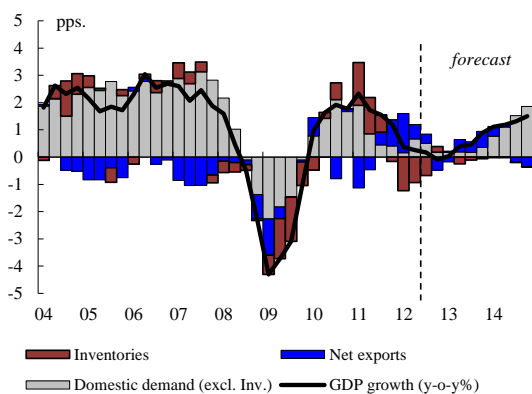
### One more year of flat growth before recovery

#### Deteriorated expectations jeopardize the recovery

The French economy has slowed down amid the economic contraction in the euro area in 2012, but has fared better than many of its European peers thanks to relatively resilient domestic demand and in spite of disappointing exports. However, after three quarters of stagnating GDP and historically low levels of corporate profitability, prospects for an imminent recovery have waned. Entrepreneurs, whose confidence has suffered, are expected to scale down their investment and employment plans in the short term. Deteriorations in the business climate and in the labour market point towards a persistent stagnation or small contraction of activity in the second semester of 2012. Private consumption is not expected again to play its usual role as the main driver of growth, although it remains stable enough to prevent a contraction in GDP for the year as a whole. Overall, with 0.2% annual GDP growth in 2012, the French economy is forecast to remain anaemic.

The recovery is expected to be slow in 2013, with a modest increase in GDP of 0.4%. Firms are forecast to limit employment creation in order to maintain their profitability and productivity. Unemployment and tax rises are likely to weigh on households' purchasing power and will keep confidence low. As a result, private consumption is expected to decrease while the still dynamic public consumption is set to contribute positively to GDP growth.

Graph II.10.1: France - GDP growth and contributions



Activity is set to gradually gain momentum in 2014. Confidence is projected to improve gradually in line with the expected fading of the euro-area sovereign-debt crisis and some improvement in the country's fiscal position. Households are set to reduce their relatively high savings, private companies are forecast to accelerate their investment spending, and external demand is foreseen to strengthen. GDP growth is therefore projected to increase to 1.2% in 2014, slightly above potential growth.

#### Persistent rise in unemployment

Employment decelerated sharply in the first half of 2012. The unemployment rate reached 10.3% in the second quarter, against 9.6% one year before. In the current context of stagnating economic activity and rigid nominal wages, employers are likely to focus on restoring productivity, to the detriment of job creation. As a consequence, unemployment is expected to continue to rise to 10.7% in 2013 and to stabilise at this level in 2014.

#### Unemployment and tax rises to hold back private consumption and recovery in 2013

New taxes introduced by the government in its 2013 budget have been targeted towards high-income households, with a specific focus on the 10<sup>th</sup> decile of the income distribution, which has a lower propensity to consume. The impact on consumption is therefore expected to be lower than would be the case with a broad-based tax increase. However, persistently rising unemployment is likely to weigh on consumption.

To smoothen consumption, households are expected to decrease their saving rate in 2012 and 2013. Some positive developments can also be expected from the foreseen decline in inflation that would mitigate losses in real income. All in all, household consumption is projected to stagnate in 2012 and to decrease by 0.1% in 2013. The stabilisation of the labour market, together with a further reduction in the saving rate, is projected to lead to an acceleration of private consumption in 2014.



### No pick up in investment in the medium term

Although credit conditions appear relatively favourable, the conditions for a rapid pick-up in investment do not yet seem to be met. Three quarters of flat economic growth and the enduring deterioration in the profit margins of non-financial companies, which reached a low point in 2011, are likely to have significantly dented entrepreneurs' confidence and expectations. Weak demand, both from domestic and foreign agents, will continue to prevent firms from significantly restoring investment in 2012 as well as 2013.

Increasing confidence of firms is projected to start to drive a gradual recovery from the second semester 2013 onwards. A modest virtuous cycle would be engaged in 2014, with gradual increases in aggregate demand resulting in a partial catch-up in investment. After the slight restocking observed in the first semester 2012, the level of inventories should stabilise over the forecast horizon.

### External trade driven by a slowdown in imports

The development of French exports is expected to remain somewhat weaker than contained world demand as the persistent deterioration in external competitiveness observed over the last ten years is not likely to be reversed in the medium term. French companies are set to continue to lose export market shares.

In spite of the weakness of external demand, the deceleration of imports in 2012 and 2013 is expected to lead to a significant positive contribution of net exports to GDP growth (0.4 and 0.3 pp. in 2012 and 2013 respectively). In 2014, the external contribution to growth is expected to drop to zero, in line with a gradual economic recovery and the concomitant increase in imports.

### Decreasing inflationary pressures

Past increases in energy prices have contributed to maintaining a relatively high level of inflation in the first semester of 2012 despite the slowdown of economic activity. In the second semester, oil prices are assumed to stabilise and inflation to be unchanged at 2.3%. In 2013 and 2014, the inflation rate is expected to decrease to 1.7% for both years on the back of high unemployment and weak economic growth.

### Downward risks prevail

Beyond the risks associated with the general economic environment, specific downward risks relating to the French economy weigh on the potential recovery.

Although a number of uncertainties related to the financial sector have been lifted, the impact of stronger capital requirements of banks could have a stronger-than-expected adverse impact on new lending. Constrained credit growth could limit investment and the pace of recovery. Finally, less dynamic exports cannot be excluded if competitiveness deteriorates even more than currently expected.

### Fiscal challenges still remain

In 2012, the general government deficit is set to reach 4.5% of GDP, in line with the official target (revised from 4.4% in the stability programme) and down from 5.2% last year. The authorities secured this by adopting additional consolidation measures in July to compensate for worsening growth and lower-than-expected tax elasticities. Together with previously adopted measures, the effort on the revenue side now represents around 1% of GDP, partly offset by weak economic growth. The rise in expenditure is projected to remain below historical levels, with central government spending decreasing in real terms and an only subdued rise in social benefits. Savings come from cuts in the wage bill (freezing base wages, replacing only half of retiring central government civil servants), a freeze on transfers from central government to local authorities, an only partial indexation of some social benefits (e.g. family and housing), and a tighter healthcare spending norm. Furthermore, the 2010 pension reform, which included a gradual increase of the minimum retirement age from 60 to 62 and the full pension age from 65 to 67, is gaining momentum.

In 2013, the deficit is set to further decrease on the back of the measures already adopted and those presented in the draft budget which aims at 3% of GDP. Additional revenues (1.4% of GDP) are planned to be mainly raised by increasing the personal income tax on high incomes, reducing corporate income tax credits, increasing donation and inheritance taxes, abolishing tax and social security exemptions on overtime, increasing social levies on employee savings schemes as well as on capital income and gains, and creating a dividend tax. Current expenditure rules (central government



and healthcare) are renewed and this will contribute to maintaining an only subdued increase in spending. On the other hand, the fact that GDP will again grow significantly below its potential will have a negative impact on the headline deficit. Overall, the deficit is expected to reach 3½% of GDP in 2013. The difference with the official target mainly stems from divergent macroeconomic scenarios, the one underlying this forecast being less benign. A somewhat lower impact of revenue measures compared with the official estimates, notably concerning the fight against tax evasion and the reduction of corporate income tax credits, and slightly more dynamic public expenditure also play a role.

Under the usual no-policy-change assumption, the deficit is forecast to remain unchanged in 2014. The tax burden is expected to stabilise, while public expenditure is set to accelerate somewhat, notably with healthcare spending savings remaining to be specified.

Overall, this implies a cumulated improvement in the structural balance of around 2½% of GDP in 2012-13, followed by a marginal deterioration in 2014.

Positive risks to this scenario mainly relate to this year's budgetary outcome that might turn out better than currently targeted. Indeed, whereas a full execution has been assumed in this forecast, the deficit targets were overachieved both in 2010 and 2011 (whereas there were slippages in the previous years at the level of general government). On the negative side, a comparatively low tax content of economic activity and a higher than currently expected negative impact of some court decisions cannot be fully ruled out at this stage.

The debt ratio, which will reach 90% by the end of 2012, is expected to continue to rise over the forecast horizon on the back of still high expected deficits. The public loan launched in 2010 (the so-called "investissements d'avenir" programme, notably consisting in public investment) is set to have only a marginal impact.

Table 2.10.1:

**Main features of country forecast - FRANCE**

|  | 2011   |              |       | 92-08 | Annual percentage change |      |      |      |      |      |
|--|--------|--------------|-------|-------|--------------------------|------|------|------|------|------|
|  | bn EUR | Curr. prices | % GDP |       | 2009                     | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 1996.6 | 100.0        |       | 1.8   | -3.1                     | 1.7  | 1.7  | 0.2  | 0.4  | 1.2  |
| Private consumption                              | 1151.3 | 57.7         |       | 1.8   | 0.3                      | 1.5  | 0.3  | 0.0  | -0.1 | 1.1  |
| Public consumption                               | 489.3  | 24.5         |       | 1.5   | 2.5                      | 1.8  | 0.2  | 1.3  | 1.1  | 1.3  |
| Gross fixed capital formation                    | 401.2  | 20.1         |       | 2.3   | -10.6                    | 1.2  | 3.5  | 0.3  | 0.1  | 1.7  |
| of which : equipment                             | 99.7   | 5.0          |       | 3.5   | -9.6                     | 4.1  | 3.5  | -2.2 | 0.1  | 4.2  |
| Exports (goods and services)                     | 538.2  | 27.0         |       | 4.7   | -12.1                    | 9.6  | 5.3  | 2.6  | 2.1  | 4.2  |
| Imports (goods and services)                     | 594.3  | 29.8         |       | 4.9   | -9.6                     | 8.9  | 4.9  | 0.8  | 0.9  | 4.0  |
| GNI (GDP deflator)                               | 2034.2 | 101.9        |       | 2.0   | -3.1                     | 1.7  | 1.7  | 0.2  | 0.5  | 1.3  |
| Contribution to GDP growth :                     |        |              |       |       |                          |      |      |      |      |      |
| Domestic demand                                  |        |              |       | 1.8   | -1.5                     | 1.6  | 0.9  | 0.4  | 0.2  | 1.3  |
| Inventories                                      |        |              |       | 0.1   | -1.2                     | 0.1  | 0.8  | -0.6 | -0.2 | 0.0  |
| Net exports                                      |        |              |       | 0.0   | -0.5                     | 0.0  | 0.0  | 0.5  | 0.3  | 0.0  |
| Employment                                       |        |              |       | 0.7   | -1.5                     | -0.3 | 0.5  | -0.1 | 0.0  | 0.6  |
| Unemployment rate (a)                            |        |              |       | 9.6   | 9.5                      | 9.7  | 9.6  | 10.2 | 10.7 | 10.7 |
| Compensation of employees/f.t.e.                 |        |              |       | 2.6   | 2.0                      | 2.6  | 2.8  | 2.0  | 1.8  | 1.7  |
| Unit labour costs whole economy                  |        |              |       | 1.4   | 3.7                      | 0.6  | 1.6  | 1.6  | 1.4  | 1.1  |
| Real unit labour costs                           |        |              |       | -0.2  | 3.0                      | -0.4 | 0.3  | 0.0  | -0.1 | -0.5 |
| Saving rate of households (b)                    |        |              |       | 14.9  | 16.1                     | 15.6 | 15.7 | 15.5 | 15.4 | 15.3 |
| GDP deflator                                     |        |              |       | 1.7   | 0.7                      | 1.1  | 1.3  | 1.7  | 1.5  | 1.7  |
| Harmonised index of consumer prices              |        |              |       | 1.8   | 0.1                      | 1.7  | 2.3  | 2.3  | 1.7  | 1.7  |
| Terms of trade of goods                          |        |              |       | -0.1  | 3.3                      | -2.2 | -2.4 | -0.1 | -0.5 | -0.7 |
| Merchandise trade balance (c)                    |        |              |       | 0.1   | -2.2                     | -2.5 | -3.5 | -3.3 | -3.1 | -3.4 |
| Current-account balance (c)                      |        |              |       | 0.6   | -1.8                     | -2.0 | -2.6 | -2.2 | -1.8 | -1.9 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | 0.5   | -1.7                     | -1.9 | -2.6 | -1.9 | -1.6 | -1.6 |
| General government balance (c)                   |        |              |       | -3.4  | -7.5                     | -7.1 | -5.2 | -4.5 | -3.5 | -3.5 |
| Cyclically-adjusted budget balance (c)           |        |              |       | -3.8  | -6.1                     | -5.9 | -4.3 | -3.3 | -2.0 | -2.2 |
| Structural budget balance (c)                    |        |              |       | -     | -6.1                     | -5.7 | -4.5 | -3.4 | -2.0 | -2.1 |
| General government gross debt (c)                |        |              |       | 58.3  | 79.2                     | 82.3 | 86.0 | 90.0 | 92.7 | 93.8 |

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

## 11. ITALY

### Uncertainty and tight financing conditions delay recovery

#### A deep recession in 2012...

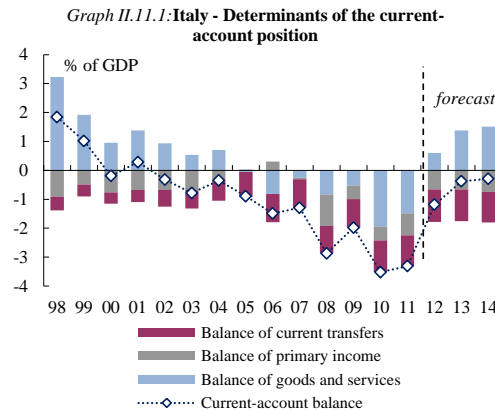
In 2012, the Italian economy is expected to contract by 2.3% on the back of a sharp fall in domestic demand, especially in investment. Uncertainty in financial markets remains elevated, continuing to affect economic agents' confidence and their investment and spending decisions. Furthermore, the protracted euro-area sovereign-debt crisis has exerted significant upward pressure on interest rates. In the context of a fragmented financial sector across national borders, this has fed into funding pressures in the banking sector and tighter financing conditions for the private sector. In turn, credit tightening may amplify the dampening impact of the sizeable fiscal consolidation on domestic demand. Finally, the deteriorated external economic environment has tapered the expansion of exports, even though the trade balance is set to return to positive territory in 2012 as imports decline significantly.

#### ...followed by a tepid recovery

Under the assumption of a gradual normalisation of financial market conditions and reduced uncertainty, the pace of contraction of economic activity is set to decelerate in the second half of 2012, following two consecutive quarters of real GDP growth at -0.8%. Economic activity is expected to start growing again as from the second half of 2013, but at a very subdued pace. For 2013 as a whole, private consumption is set to contract further and return into positive territory only in 2014, in line with real disposable income developments. Investment in equipment is expected to recover faster, as financing conditions and confidence improve, while the correction in the construction sector is forecast to continue into 2014. The expected acceleration in Italy's export markets and the euro depreciation that occurred in 2012 are set to lead to stronger export growth in 2013, in particular towards non-EU trade partners. Depressed domestic demand would continue curbing imports in 2013, while in 2014 their rebound is expected to outpace growth of exports due to the recovery in domestic demand, in particular for investment in equipment.

Overall, the trade balance is set to remain positive, also thanks to the assumed reduction in oil prices over the whole forecast horizon. Therefore, the

current-account deficit is forecast to narrow to less than ½% of GDP over 2013-14.



#### Higher unemployment and wage moderation

On the back of the ongoing recession, the unemployment rate is expected to increase by over 2 pps., entering double-digit territory, in 2012, and by another percentage point over 2013-14. This trend continues to be mainly driven by an expanding labour force. Two major factors can be held to explain the significant increase in labour market participation since mid-2011. On the one hand, more individuals, in particular women and young people, are now impelled to look for jobs as households' disposable income falls. On the other hand, the recently adopted pension reforms are pushing older workers to remain in the labour market. Moreover, after increasing slightly in 2011, headcount employment is expected to decline in 2012 and 2013, even though job losses in 2012 are held back by some labour hoarding by firms.

Hours worked are projected to fall significantly more in 2012-13, and recover relatively faster in 2014, owing to the firms' increased use, during the recession, of the wage supplementation scheme and part-time work. When measured in terms of full-time equivalent employment, labour productivity is projected to fall in 2012, and start increasing again, but only moderately, in 2013-14. Wages in the private sector are expected to grow below inflation over the forecast horizon, while public sector wages continue to be frozen. As a result, nominal unit labour costs are forecast to accelerate in 2012, increasing by more than 2%,

before slowing down below 1% over 2013-14. Taken together with the depreciation of the nominal effective exchange rate in 2012, Italy is expected to recover some cost competitiveness over the forecast horizon, in particular vis-à-vis its non-EU trade partners.

### Indirect taxes and oil prices shape inflation developments

Annual HICP inflation remained above 3% in the first three quarters of 2012 due to higher oil prices and the increases in excise duties on fuel and the standard VAT rate that were enacted in 2011. Annual inflation is expected to ease at the end of 2012, thanks to the favourable base effect. A further 1 pp. increase in the standard and reduced VAT rates scheduled for July 2013 will push prices up again in the third quarter of 2013. Inflation is expected to go well below 2% in the second half of 2014 due to the assumed decline in oil prices and reduced pressure from labour costs.

### Fiscal consolidation continues only until 2013

Despite the sharp economic downturn, the general government deficit is projected to narrow to 2.9% of GDP in 2012, from 3.9% in 2011, and to 2.1% in both 2013 and 2014. The projected increase in interest expenditure over the forecast period reflects the sharp increase in the sovereign-risk premium in the second half of 2011, as well as an increasing debt. It implies that the primary surplus improves more significantly than the overall general government balance, on the back of the sizeable consolidation measures adopted in 2010 and 2011: from 1% of GDP in 2011, the primary surplus is set to reach 3.7% in 2014.

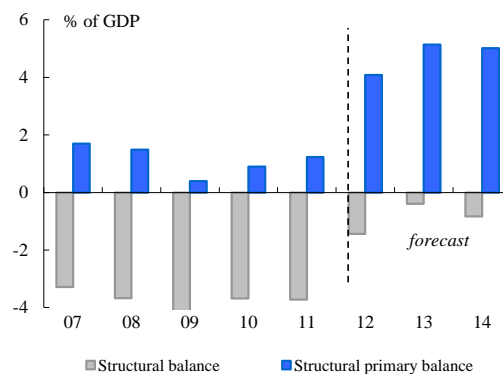
In 2012, total primary expenditure is expected to decline slightly year-on-year (for the third year in a row) thanks to the expenditure saving measures adopted since May 2010, including in the context of the spending review in the summer 2012. The public sector wage bill has been significantly restrained through a 4-year freeze in wages and a quasi-total suspension of new hires. In addition, intermediate consumption has been cut at both central and local government levels. Social transfers are projected to increase only mildly: while the number of pensioners continues to rise, the pace of increase is set to continue declining thanks to the enacted pension reforms. De-indexation of higher pensions in 2012 and 2013 also contributes to the moderation of social

transfer expenditure. On the capital side, direct investment and transfers are both expected to contract significantly, but the reduction in total capital expenditure is tempered by the proceeds of the sale of broadband licences, which are recorded as negative capital asset sales in 2011.

Despite the expected large contraction in domestic demand, revenues are projected to rise substantially as a share of GDP in 2012, by 2 pps. from 2011, thanks to the adopted discretionary measures. The increase in the standard VAT rate (from 20% to 21%), in excise duties on fuel and especially in taxation on property enacted in 2011 are anticipated to more than offset the fall in tax revenues entailed by both the negative income dynamics and the large fall in consumption, notably of tax-rich durable goods. At the same time, the expiry of one-off taxes in 2012 is bound to reduce the capital revenue intake relative to 2011.

The structural adjustment in 2012 is estimated at nearly 2¼ pps. of GDP for the overall balance and around 2¾ pps. for the primary balance.

Graph II.11.2: Italy - General government structural balances



In 2013-14, the forecast incorporates the expenditure savings enacted in the summer 2012 and with the 3-year draft budget law (*Legge di Stabilità 2013-15*) adopted by the government in October. These savings are also intended to finance part of the repeal of the VAT rates' increase legislated in December 2011. Current primary expenditure is projected to rise only marginally in nominal terms in 2013, but to resume growing at a faster pace in 2014 as the de-indexation of higher pensions expires. Capital spending is set to continue falling in 2013 and then recover slightly in 2014. Total primary expenditure in nominal terms is thus expected to decline for the

fourth consecutive year in 2013 and increase slightly in 2014. By contrast, interest expenditure is set to continue increasing, although at a slower pace than in 2012 due to the assumed normalisation in financial markets and the levelling-off of the debt-to-GDP ratio.

The draft budget contains a number of measures on the revenue side. In a second move aimed at lessening the VAT rates' increase that was legislated in December 2011, the standard and reduced rates are now set to increase by 1 pp. as from July 2013. The further temporary increase in excise duties on fuels that was enacted in the summer 2012 is made permanent, while a new tax on financial transactions is introduced. This, together with the full coming into force of the increase in property taxation enacted in 2011, is expected to boost indirect tax revenues in 2013. By contrast, despite the increase in the tax base, revenue from direct taxes is set to remain stable. Tax rates on personal income up to EUR 28,000 per year are reduced by 1 pp., while some tax expenditure is cut. Moreover, the tax incentives on performance-related pay are prolonged. In 2014, the increase in current tax

revenues is projected to decelerate as no further discretionary increase in taxation is planned. As a share of GDP, total revenues are expected to peak in 2013 and decrease somewhat in 2014.

The structural balance is expected to improve further in 2013 – by around 1 pp. of GDP – and achieve a budgetary position close to balance. Under a no-policy-change assumption, the structural balance is anticipated to depart from this position in 2014. The structural primary surplus is estimated to rise to above 5% of GDP in 2013 and broadly stabilise in 2014.

Gross government debt is projected to increase significantly as a share of GDP in 2012 and 2013, mainly due to the fall in real GDP and the impact of the financial support to other euro-area countries. The debt-to-GDP ratio is set to start decreasing in 2014, as macroeconomic conditions improve and the primary surplus increases further. The proceeds expected by the government from the planned privatisation programme over 2013-15 (1 pp. of GDP per year) are not included in the forecast, as at the cut-off date the details needed to estimate its impact had not yet been spelled out.

Table II.11.1:

**Main features of country forecast - ITALY**

|  | 2011   |              |       | 92-08 | Annual percentage change |       |       |       |       |       |
|--|--------|--------------|-------|-------|--------------------------|-------|-------|-------|-------|-------|
|  | bn EUR | Curr. prices | % GDP |       | 2009                     | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  | 1579.7 |              | 100.0 | 1.3   | -5.5                     | 1.8   | 0.4   | -2.3  | -0.5  | 0.8   |
| Private consumption                              | 969.0  | 61.3         |       | 1.2   | -1.6                     | 1.2   | 0.1   | -3.4  | -0.9  | 0.9   |
| Public consumption                               | 323.4  | 20.5         |       | 0.9   | 0.8                      | -0.6  | -0.8  | -0.7  | -0.3  | -0.4  |
| Gross fixed capital formation                    | 308.9  | 19.6         |       | 1.2   | -11.7                    | 2.1   | -1.8  | -8.1  | -2.1  | 2.6   |
| of which : equipment                             | 132.3  | 8.4          |       | 1.8   | -16.8                    | 12.0  | -1.1  | -10.9 | -0.6  | 6.3   |
| Exports (goods and services)                     | 455.6  | 28.8         |       | 4.5   | -17.5                    | 11.4  | 6.0   | 1.1   | 3.0   | 4.1   |
| Imports (goods and services)                     | 479.0  | 30.3         |       | 3.9   | -13.4                    | 12.5  | 0.6   | -7.2  | 1.4   | 5.0   |
| GNI (GDP deflator)                               | 1567.6 | 99.2         |       | -     | -4.9                     | 1.8   | 0.1   | -2.2  | -0.5  | 0.8   |
| Contribution to GDP growth :                     |        |              |       |       |                          |       |       |       |       |       |
| Domestic demand                                  |        |              |       | 1.1   | -3.2                     | 1.0   | -0.4  | -3.8  | -1.0  | 1.0   |
| Inventories                                      |        |              |       | 0.1   | -1.2                     | 1.2   | -0.5  | -1.0  | 0.0   | 0.1   |
| Net exports                                      |        |              |       | 0.2   | -1.1                     | -0.3  | 1.4   | 2.5   | 0.5   | -0.2  |
| Employment                                       |        |              |       | 0.3   | -2.9                     | -0.9  | 0.1   | -1.3  | -1.0  | 0.4   |
| Unemployment rate (a)                            |        |              |       | 9.2   | 7.8                      | 8.4   | 8.4   | 10.6  | 11.5  | 11.8  |
| Compensation of employees/f.t.e.                 |        |              |       | 3.3   | 1.7                      | 2.3   | 1.2   | 1.1   | 1.3   | 1.2   |
| Unit labour costs whole economy                  |        |              |       | 2.3   | 4.6                      | -0.4  | 0.9   | 2.2   | 0.8   | 0.8   |
| Real unit labour costs                           |        |              |       | -0.7  | 2.4                      | -0.8  | -0.4  | 0.7   | -0.8  | -0.8  |
| Saving rate of households (b)                    |        |              |       | 18.3  | 14.2                     | 12.7  | 12.0  | 12.4  | 12.4  | 12.4  |
| GDP deflator                                     |        |              |       | 3.0   | 2.1                      | 0.4   | 1.3   | 1.4   | 1.6   | 1.6   |
| Harmonised index of consumer prices              |        |              |       | 3.0   | 0.8                      | 1.6   | 2.9   | 3.3   | 2.0   | 1.7   |
| Terms of trade of goods                          |        |              |       | -0.6  | 7.4                      | -3.9  | -3.9  | -1.5  | 1.0   | 1.5   |
| Merchandise trade balance (c)                    |        |              |       | 1.5   | 0.1                      | -1.3  | -1.1  | 0.8   | 1.6   | 1.8   |
| Current-account balance (c)                      |        |              |       | 0.2   | -2.0                     | -3.5  | -3.3  | -1.2  | -0.4  | -0.3  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | 0.3   | -2.0                     | -3.6  | -3.3  | -1.2  | -0.4  | -0.3  |
| General government balance (c)                   |        |              |       | -4.4  | -5.4                     | -4.5  | -3.9  | -2.9  | -2.1  | -2.1  |
| Cyclically-adjusted budget balance (c)           |        |              |       | -4.8  | -3.6                     | -3.5  | -3.0  | -1.3  | -0.4  | -0.9  |
| Structural budget balance (c)                    |        |              |       | -     | -4.3                     | -3.7  | -3.7  | -1.4  | -0.4  | -0.8  |
| General government gross debt (c)                |        |              |       | 110.4 | 116.4                    | 119.2 | 120.7 | 126.5 | 127.6 | 126.5 |

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

## 12. CYPRUS

### Deep recession to prevail over the forecast horizon

#### Rapid deterioration in economic activity

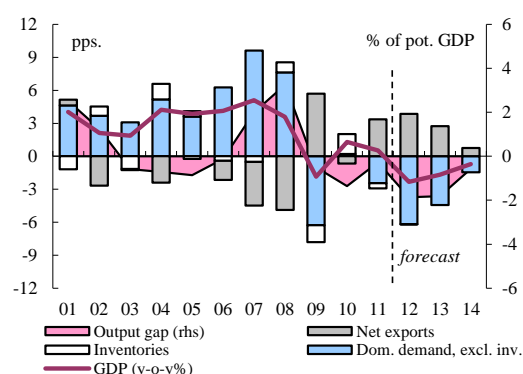
The weakness of economic activity seen in the second half of 2011 is expected to intensify in 2012, when the Cypriot economy is projected to contract by 2.3% against the background of unwinding imbalances and widespread loss of confidence among economic agents. The fiscal consolidation effort that has been pursued, the rapid deterioration in labour market conditions, and the high degree of economic uncertainty have together weighed heavily on private consumption. In addition, the tightening of credit conditions has aggravated the unfavourable economic environment while weak confidence has amplified the drag on investment activity. Adverse developments in the external environment, particularly in Greece, and the sustained volatility in European financial markets have affected Cyprus predominately via developments in the financial sector.

The economy is projected to contract by 1.7% in 2013, due to further declines in domestic consumption, as well as in government and private investments. Economic activity is expected to contract further by 0.7% in 2014 with domestic demand shrinking further and net exports still marginally supporting growth. Traditionally the main driver of growth, domestic demand is set to contract over the forecast horizon driven by markedly weaker consumer confidence and lower household disposable income, which stem in turn from the effects of fiscal consolidation and the worsening labour market outlook. Investment is projected to decline in view of the difficulties in accessing credit and the high level of corporate indebtedness. In spite of the reconstruction work at the electricity power plant and the private investment in a new oil storage facility, construction activity is expected to continue to shrink strongly in 2012 and 2013. Although construction indicators suggest that the correction should persist in 2014, this is expected to be at a milder pace reflecting the general level of economic activity in the economy as a whole.

On the other hand, the external sector is expected to provide a positive contribution to growth for the whole forecast period. In particular, imports of both goods and services are set to decline considerably against a backdrop of weak domestic

demand. Exports are expected to fall moderately in 2012, while the projected economic performance of Cyprus' major trade partners suggests a gradual increase in exports of both goods and services in 2013 and 2014. In services, both tourism and business services continued to perform well in 2012 and this trend is expected to continue in the coming years. In particular, revenues from tourism are expected to continue to rise. This reflects a projected increased flow of arrivals from Russia and new destinations helped by government policies promoting tourism, and from tourists' concern over stability in competing Mediterranean tourist destinations. Exports of transport services are expected to shrink, while financial and other business services will stagnate over the forecast horizon in view of worsened business confidence. Overall, the current-account deficit is expected to narrow gradually over the forecast horizon in spite of a deterioration of the income balance.

Graph II.12.1: Cyprus - GDP growth and contributions



#### Worsening labour market conditions

Employment is expected to worsen in 2012 and subsequent years, reflecting the slowdown in economic activity. Job losses are particularly prominent in labour-intensive sectors such as construction and trade. The unemployment rate would remain on a strong upward trend, rising from 7.9% in 2011 to 12.1% in 2012, and is likely continue to increase further in 2013 and to be close to 14% in 2014. Given the unfavourable labour market conditions and the effects of fiscal consolidation, wage growth is expected to be negative. In particular, the freezing of public sector wages until 2014 should affect wages in the economy as a whole.



### Inflation declining

HICP inflation is projected to decline to 3.2% in 2012 on the back of weaker domestic demand and the fading-out of the base effect of the electricity prices increases in 2011 despite increasing oil and commodity prices and of VAT standard rate by 2 pps. With domestic demand remaining subdued, the effect of the VAT increase and the projected decline of oil and commodity prices, headline inflation is projected to ease further to 1.5% in 2013 and to 1.3% in 2014.

### Significant downside risks exist

Cyprus requested external financial assistance from the EFSF/ESM in view of the challenges facing the economy. Under the no-policy-change assumption (the draft 2013 Budget not yet available), significant downside risks are present for the current account, public finances, and the financial sector, testing the economy's sustainability. Failure to raise the required capital and to put policies back on a sustainable path could dramatically worsen the outlook and reinforce the negative loop of lower liquidity, higher indebtedness, worsening labour market

conditions, and lower productivity. Furthermore, any worsening of the economic situation in Greece remains a significant downside risk for Cyprus as well as any further needs of recapitalisation for the domestic banks.

### Fiscal and financing imbalances prevail

The general government deficit is set to narrow to 5.3% of GDP in 2012. Should no further measures be adopted, the deficit will rise further to 5.7% GDP in 2013 and to 6% in 2014. The downgrading of the government sovereign to non-investment grade raised yield spreads to prohibitive levels, with the government covering its financing needs through short-term borrowing from the domestic market. The government's participation in the recapitalisation of a commercial bank (which was unsuccessful in implementing its capital enhancement plan) is expected to increase the general government debt significantly from 71.1% in 2011 to about 90% of GDP in 2012. In view of shrinking economic activity, the government debt-to-GDP ratio is projected to reach 96.7% in 2013 and 102.7% in 2014. The fiscal imbalances are set to persist despite the significant consolidation effort pursued in 2012.

Table II.12.1:

#### Main features of country forecast - CYPRUS

|  | 2011            |              |       | 92-08 | Annual percentage change |       |       |       |       |       |  |
|--|-----------------|--------------|-------|-------|--------------------------|-------|-------|-------|-------|-------|--|
|  | mio EUR         | Curr. prices | % GDP |       | 2009                     | 2010  | 2011  | 2012  | 2013  | 2014  |  |
| GDP  |                 | 17979.3      | 100.0 | 4.3   | -1.9                     | 1.3   | 0.5   | -2.3  | -1.7  | -0.7  |  |
| Private consumption                              |                 | 11899.2      | 66.2  | -     | -7.5                     | 1.5   | 0.2   | -3.4  | -3.6  | -0.9  |  |
| Public consumption                               |                 | 3584.2       | 19.9  | -     | 6.8                      | 1.0   | -0.2  | -1.7  | -2.4  | -1.5  |  |
| Gross fixed capital formation                    |                 | 2941.8       | 16.4  | -     | -9.7                     | -4.9  | -13.1 | -22.0 | -12.0 | -5.3  |  |
| of which : equipment                             |                 | 828.0        | 4.6   | -     | -0.3                     | -5.9  | -23.1 | -26.0 | -11.0 | -3.7  |  |
| Exports (goods and services)                     |                 | 7699.0       | 42.8  | -     | -10.7                    | 3.8   | 3.3   | -0.9  | 0.8   | 1.3   |  |
| Imports (goods and services)                     |                 | 8251.7       | 45.9  | -     | -18.6                    | 4.8   | -4.1  | -9.3  | -5.5  | -0.4  |  |
| GNI (GDP deflator)                               |                 | 16481.6      | 91.7  | 4.4   | -4.9                     | 2.4   | 3.6   | -2.4  | -1.7  | -0.7  |  |
| Contribution to GDP growth :                     | Domestic demand |              |       | -     | -6.3                     | 0.2   | -2.4  | -6.2  | -4.4  | -1.5  |  |
|  | Inventories     |              |       | -     | -1.6                     | 1.8   | -0.5  | 0.0   | 0.0   | 0.0   |  |
|  | Net exports     |              |       | -     | 5.7                      | -0.7  | 3.4   | 3.9   | 2.8   | 0.7   |  |
| Employment                                       |                 |              |       | -     | -0.5                     | 0.0   | 0.5   | -4.0  | -0.6  | -0.3  |  |
| Unemployment rate (a)                            |                 |              |       | -     | 5.5                      | 6.4   | 7.9   | 12.1  | 13.1  | 13.9  |  |
| Compensation of employees/head                   |                 |              |       | -     | 2.5                      | 2.7   | 3.3   | -0.9  | -0.3  | 0.5   |  |
| Unit labour costs whole economy                  |                 |              |       | -     | 3.9                      | 1.4   | 3.3   | -2.6  | 0.8   | 0.9   |  |
| Real unit labour costs                           |                 |              |       | -     | 3.8                      | -0.5  | 0.5   | -4.2  | -0.7  | -0.4  |  |
| Saving rate of households (b)                    |                 |              |       | -     | 11.4                     | 11.6  | 4.1   | 5.2   | 7.3   | 7.5   |  |
| GDP deflator                                     |                 |              |       | 3.4   | 0.1                      | 1.9   | 2.7   | 1.6   | 1.5   | 1.2   |  |
| Harmonised index of consumer prices              |                 |              |       | -     | 0.2                      | 2.6   | 3.5   | 3.2   | 1.5   | 1.3   |  |
| Terms of trade of goods                          |                 |              |       | -     | 2.7                      | -0.9  | -0.6  | -1.7  | -0.1  | -0.9  |  |
| Merchandise trade balance (c)                    |                 |              |       | -     | -25.5                    | -26.8 | -24.2 | -21.9 | -20.6 | -20.7 |  |
| Current-account balance (c)                      |                 |              |       | -     | -10.7                    | -9.2  | -4.2  | -6.3  | -3.5  | -3.0  |  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -     | -10.6                    | -9.0  | -4.0  | -5.5  | -2.7  | -2.4  |  |
| General government balance (c)                   |                 |              |       | -     | -6.1                     | -5.3  | -6.3  | -5.3  | -5.7  | -6.0  |  |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -     | -6.2                     | -5.3  | -6.1  | -4.4  | -4.8  | -5.3  |  |
| Structural budget balance (c)                    |                 |              |       | -     | -6.2                     | -5.3  | -5.9  | -4.6  | -4.8  | -5.3  |  |
| General government gross debt (c)                |                 |              |       | -     | 58.5                     | 61.3  | 71.1  | 89.7  | 96.7  | 102.7 |  |

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

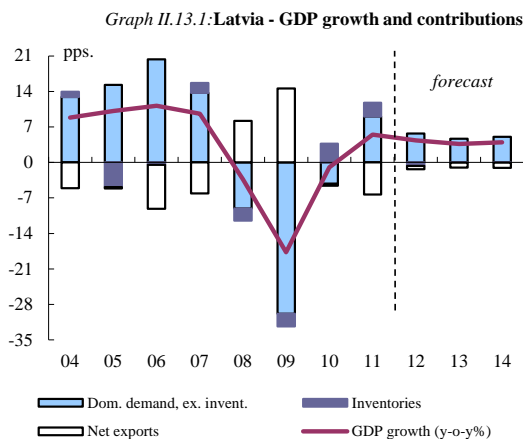


## 13. LATVIA

### Growing fast again

#### Economic performance beats expectations

After acute boom and bust periods, the Latvian economy is again the fastest growing in the EU. In the first two quarters of 2012, real GDP surged by 5.5% y-o-y and 4.6% y-o-y in seasonally-adjusted terms. Recent retail and industrial sales, as well as confidence surveys, suggest continuous strong performance on the domestic market, while export expansion is somewhat weakened by lower external demand. Full-year growth is therefore expected to slow to 4.3% in 2012 and 3.6% in 2013, albeit still outpacing all other EU Member States. Risks are on the upside in 2012, as indicated by the latest monthly indicators, and broadly balanced in 2013. In 2014, growth is projected to accelerate to 3.9% on expectations of better external demand.



On the demand side, investments and private consumption were the major growth drivers in the first two quarters of 2012. Investments in fixed assets rose by annualised 39% and 20.5% respectively, benefiting from high profits in the corporate sector and needs of capacity and technology upgrades after the steep contraction in 2008-09. Private consumption increased by annualised 5.4% and 7.2% in the first two quarters paced by lower debt service costs of households, lower saving propensities, employment and wage growth, and substantial reduction in net emigration. On the supply side, construction and manufacturing were the best performers in the first half of the year with annualised real growth rates of 25.2% and 12.3% respectively. Tourism, information technologies and transportation also rose at above-average rates. In manufacturing, exporters retained high growth despite some slow-

down triggered by external demand but there were also signs of expanding import substitution.

#### Inflation slows as expected

In line with the spring forecast, inflation slowed in the course of the year, due mainly to the moderation in the price of energy and food commodities. As of July 2012, the headline index (HICP) even dropped slightly below initial expectations as authorities decided to cut the standard VAT rate to 21% from 22%. The annual average inflation is now projected at 2.4% in 2012 and 2.1% in 2013. Core inflation is set to move at similar rates as energy and food commodities are not seen as inflation drivers over the forecast horizon. In 2014, HICP is forecast to rebound slightly to 2.3% over improved growth prospects in Europe.

#### Economic recovery boosts labour supply

Unemployment dropped only marginally, to 16.1% in the second quarter of 2012 relative to 17.1% a year earlier, according to Eurostat data for the age group of 15-74. After a continuous contraction in previous years, labour supply stabilised in the first half of 2012 as discouraged persons returned to the labour market and the flow of net emigration declined significantly. Employment is expected to rise by 1.8% in 2012 but its impact on the jobless rate is partly offset by the increase in the overall number of job seekers. Taking into account all these factors, the year-average unemployment is projected to drop further to 15.2% in 2012, 14.3% in 2013, and 12.7% in 2014.

#### Foreign-trade gap widens over strong demand

The foreign-trade deficit continued to expand in 2012 as domestic demand, especially for investment goods, rose at a high rate. However, exports grew slightly faster than imports in real terms in the first half of the year and the speed of deficit widening slowed. After an upward revision in the current-account deficit to 2.4% of GDP in 2011, projections point to a relatively modest expansion in the following years, bringing the deficit to about 3.5% of GDP in 2014. Non-debt transfers in the capital account are expected to fully offset the current-account gap and to keep the country's net lending position broadly stable.

### Public finances reflect the recovery

The sound macroeconomic developments substantially improve the outlook on public finances. However, several decisions taken in mid-2012 have an impact on the short and medium-term outlook. Firstly, the VAT rate was cut by 1 pp. from July 2012 and the personal income tax will be reduced by 1 pp. as of 2013, 2 pps. as of 2014, and 2 pps. as of 2015. Secondly, the Parliament passed a mid-year 2012 supplementary budget in September, increasing revenue and expenditure targets by 1.6% and 1.4% of GDP respectively, including more effective use of EU structural funds. As a result, the projected 2012 deficit drops by less than what the revision in the macroeconomic outlook implies, from 2.1% of GDP in the spring forecast to 1.7%. The structural balance nevertheless continues improving in 2012.

The 2013 draft budget adopted by the government on 25 September aims at a general government deficit of 1.4% of GDP. The partial restoration of contributions to the mandatory fully-funded pension pillar – to 4% of gross wages from the current reduced rate of 2% against the target of 6%

to be reached in 2016 – will reduce government revenue by around 0.5% of GDP. In addition, revenue is negatively affected by the VAT and personal income tax cuts described above. At the same time, decisions that restrict social benefits – notably the continuous suspension of pension indexation – coupled with a limited and targeted increase in public wages would ensure some improvement in the ratio of general government deficit to GDP. The outlook for 2014 is based on the no-policy-change assumption, while it reflects decisions currently in force, notably further reduction in the personal income tax, as well as the expected resumption of pension indexation from late 2014. The risks to the outlook for public finances include on the upside a possibility of better tax revenue due to higher tax elasticities, as the share of undeclared economic activity diminishes, and on the downside a growing pressure to increase spending after years of fiscal consolidation. The structural balance is projected to deteriorate by ¼ pp. of GDP in both 2013 and 2014. The government debt-to-GDP ratio is set to rise over the forecast period, as the authorities accumulate assets for large repayments due in 2014-15.

Table II.13.1:

### Main features of country forecast - LATVIA

|  | 2011            |              |       | 92-08 | Annual percentage change |       |       |       |       |       |
|--|-----------------|--------------|-------|-------|--------------------------|-------|-------|-------|-------|-------|
|  | mio LVL         | Curr. prices | % GDP |       | 2009                     | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  |                 | 14275.3      | 100.0 | 2.0   | -17.7                    | -0.9  | 5.5   | 4.3   | 3.6   | 3.9   |
| Private consumption                              |                 | 8835.7       | 61.9  | -     | -22.6                    | 2.4   | 4.5   | 4.7   | 3.9   | 3.9   |
| Public consumption                               |                 | 2296.1       | 16.1  | -     | -9.4                     | -7.9  | 1.1   | 1.1   | 1.5   | 2.0   |
| Gross fixed capital formation                    |                 | 3044.5       | 21.3  | -     | -37.4                    | -18.1 | 27.9  | 9.2   | 6.7   | 7.6   |
| of which : equipment                             |                 | 1558.3       | 10.9  | -     | -                        | -     | -     | -     | -     | -     |
| Exports (goods and services)                     |                 | 8392.4       | 58.8  | -     | -14.1                    | 11.6  | 12.7  | 5.1   | 4.8   | 6.9   |
| Imports (goods and services)                     |                 | 9080.7       | 63.6  | -     | -33.3                    | 11.4  | 22.7  | 5.3   | 5.5   | 7.3   |
| GNI (GDP deflator)                               |                 | 14351.1      | 100.5 | 1.8   | -10.6                    | -6.1  | 4.0   | 4.2   | 3.5   | 3.9   |
| Contribution to GDP growth :                     | Domestic demand |              |       | -     | -29.8                    | -4.2  | 9.1   | 5.7   | 4.7   | 5.0   |
|  | Inventories     |              |       | -     | -2.5                     | 3.7   | 2.7   | -0.7  | -0.1  | 0.0   |
|  | Net exports     |              |       | -     | 14.6                     | -0.4  | -6.3  | -0.7  | -1.0  | -1.1  |
| Employment                                       |                 |              |       | -1.3  | -13.2                    | -4.8  | -8.1  | 1.8   | 1.3   | 2.1   |
| Unemployment rate (a)                            |                 |              |       | 12.1  | 18.2                     | 19.8  | 16.2  | 15.2  | 14.3  | 12.7  |
| Compensation of employees/head                   |                 |              |       | -     | -12.7                    | -6.7  | 18.2  | 3.1   | 2.6   | 3.4   |
| Unit labour costs whole economy                  |                 |              |       | -     | -7.9                     | -10.4 | 3.0   | 0.6   | 0.3   | 1.6   |
| Real unit labour costs                           |                 |              |       | -     | -6.7                     | -9.2  | -2.8  | -1.8  | -1.7  | -0.5  |
| Saving rate of households (b)                    |                 |              |       | 1.5   | 10.3                     | 4.2   | -1.1  | -0.5  | 0.2   | 0.1   |
| GDP deflator                                     |                 |              |       | 28.6  | -1.2                     | -1.3  | 5.9   | 2.5   | 2.0   | 2.1   |
| Harmonised index of consumer prices              |                 |              |       | -     | 3.3                      | -1.2  | 4.2   | 2.4   | 2.1   | 2.3   |
| Terms of trade of goods                          |                 |              |       | -     | -2.9                     | 1.1   | 5.8   | -0.3  | 0.0   | 0.0   |
| Merchandise trade balance (c)                    |                 |              |       | -14.7 | -7.1                     | -7.0  | -10.8 | -11.5 | -12.1 | -12.6 |
| Current-account balance (c)                      |                 |              |       | -6.1  | 8.6                      | 2.9   | -2.4  | -2.9  | -3.1  | -3.5  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -3.9  | 11.1                     | 4.9   | -0.2  | -0.2  | -0.1  | -0.2  |
| General government balance (c)                   |                 |              |       | -     | -9.8                     | -8.1  | -3.4  | -1.7  | -1.5  | -1.4  |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -     | -6.3                     | -4.9  | -1.9  | -1.2  | -1.5  | -1.7  |
| Structural budget balance (c)                    |                 |              |       | -     | -6.0                     | -3.2  | -1.7  | -1.2  | -1.5  | -1.7  |
| General government gross debt (c)                |                 |              |       | -     | 36.7                     | 44.5  | 42.2  | 41.9  | 44.3  | 44.9  |

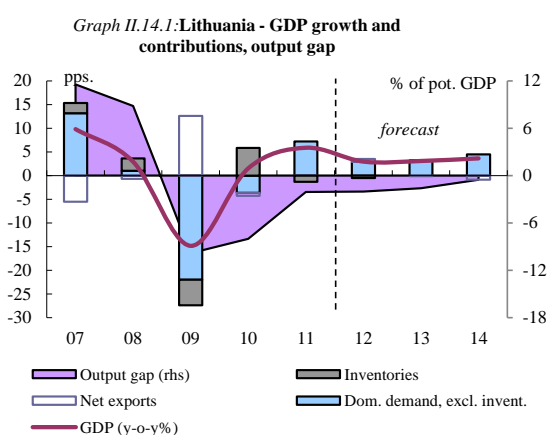
(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 14. LITHUANIA

### Growth continues at a slower pace

#### Low confidence affects domestic demand

Lithuania's economy remained resilient to adverse external developments in the first half of 2012, although persisting uncertainty started to weigh on the sentiment of economic agents. After strong economic growth of 5.9% in 2011, domestic demand has started to lose momentum. Yet it is expected to remain the principal growth driver over the forecast horizon.



In the first half of 2012, private consumption grew by 6% y-o-y, supported by a recovering labour market and reduced debt-servicing costs. At the same time, low business confidence acted as a drag on investment, which slowed to 4.6% y-o-y. Adverse developments in the external environment as well as the temporary closure of an important oil refinery had a negative impact on trade. Real imports grew by mere 1.4% y-o-y while exports grew by 4%. These developments led to a slowdown of real GDP growth to 3% y-o-y.

For the remainder of 2012, high-frequency indicators suggest sustained output growth, with domestic demand as the main driver, although at a slower pace. Even if credit is available in principle, companies are expected to continue delaying investment. This can be explained by a persistently weak external environment and to a lesser extent by political uncertainties in the wake of October's general elections. Lithuania's real GDP is forecast to grow by 2.9% in 2012, with some upside risks as underlined by the latest monthly indicators. An expected stabilisation in the euro area and a slight pick-up during the second half of 2013 will have a

positive impact on trade, improve confidence of businesses, and give impetus to private investment. Real GDP is projected to grow by 3.1% in 2013, with broadly balanced risks. Public investment is assumed to continue growing steadily over the forecast horizon, supported by EU co-financed projects. The economy is forecast to grow closer to its potential in 2014, by 3.6%, reinforced by accelerating consumption.

#### Labour market set to continue a progressive recovery

Employment continued to grow across all sectors in the first half of 2012 and the unemployment rate decreased to 13.3%. However, no significant improvement is expected in the coming months, as companies delay hiring on the back of low business confidence. Employment growth is set to accelerate towards the end of the forecast horizon when business sentiment improves as the Eurozone recovery gains some momentum. However, the unemployment rate is likely to remain at double digit levels, thus limiting prospects for nominal wage growth. Real wages are still declining and are expected to stabilise only at the end of 2013.

#### Inflation keeps moderating

Inflation (HICP) started to fall in 2012, reflecting weaker growth in food and energy prices. Domestic price pressures remained moderate, on account of slower domestic demand growth and limited wage growth. However, several administered prices increased. In September 2012, 12-month average inflation stood at 3.4%, decreasing from the annual average of 4.1% in 2011. 12-month average core inflation remained stable at 2.4%. HICP is expected to inch down only marginally, to 3.1% in 2013 and 3.0% in 2014. The impact from lower commodity prices is projected to be counterbalanced by further planned administered price increases in 2013 and to some extent inflation pressure coming from the recovering labour market in 2014.

#### Current-account deficit after revision

The revised current-account deficit was 3.7% of GDP in 2011 (instead of 1.6%). The deficit narrowed to 2.3% in the first half of 2012 mainly due to an improvement in the trade balance. This is

expected to reverse progressively throughout the forecast horizon as domestic demand regains momentum. Consequently, with relatively stable positive current transfers and negative income balance, the current-account deficit is projected to reach 3.0% of GDP in 2013 and 3.6% in 2014.

### Fiscal consolidation continues

In 2011, Lithuania's general government deficit had narrowed to 5.5% of GDP and is forecast to reach 3.2% in 2012 on the back of a stronger-than-expected economy and continued fiscal restraint. While revenues are close to plan, expenditure is lower than projected. The structural deficit is estimated to decrease from 4.9% of GDP in 2011 to 2.7% in 2012 and further to 2.1% in 2013-14.

The 2012 budget contains substantial cuts in expenditure, with spending on goods and services and social benefits declining. The public sector wage freeze has been maintained for a third year. Some temporary measures limiting the growth of social benefits have been made permanent. Social security pensions, cut at the beginning of the crisis, have been brought back to pre-crisis levels. Non-tax revenues included dividends from state-owned enterprises whereas sales of carbon

rights fell considerably short of expectations.

In the absence of a draft budget for 2013 due to general elections, the general government deficit forecast is based on a no-policy-change assumption and only takes into account measures already adopted by the government. These are in particular the public sector wage freeze, and an increase in excise duties on gasoline and cigarettes that more than compensate the extension of reduced VAT rates for transport and media. Additionally, the deficit of the social insurance provider SoDra is projected to further decrease on the back of an improved performance of the labour market and reduced pension payments due to gradual increase in retirement age. The general government deficit is thus forecast to drop to 2.8% of GDP in 2013.

General government debt is set to increase from 38.5% of GDP in 2011 to 41.6% at the end of 2012 and to stabilise slightly above 40% by the end of the forecast horizon. The debt hike in 2012 can be explained by a loan to the deposit insurance company following the bankruptcy of the Snoras bank and pre-financing for major bond redemption in early 2013.

Table II.14.1:

### Main features of country forecast - LITHUANIA

|  | 2011   |                 |       | 92-08 | Annual percentage change |      |      |      |      |      |
|--|--------|-----------------|-------|-------|--------------------------|------|------|------|------|------|
|  | bn LTL | Curr. prices    | % GDP |       | 2009                     | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 106.4  | 100.0           | 100.0 | 1.9   | -14.8                    | 1.5  | 5.9  | 2.9  | 3.1  | 3.6  |
| Private consumption                              | 67.4   | 63.4            | -     | -     | -17.8                    | -4.7 | 6.4  | 4.2  | 3.3  | 4.1  |
| Public consumption                               | 20.2   | 18.9            | -     | -     | -1.4                     | -3.4 | 0.5  | -1.5 | 0.5  | 2.3  |
| Gross fixed capital formation                    | 18.9   | 17.8            | -     | -     | -39.5                    | 1.9  | 18.3 | 3.1  | 4.8  | 7.7  |
| of which : equipment                             | 6.1    | 5.7             | -     | -     | -50.0                    | 20.6 | 32.6 | 3.5  | 4.0  | 8.0  |
| Exports (goods and services)                     | 82.5   | 77.6            | -     | -     | -12.6                    | 17.4 | 14.1 | 5.0  | 5.3  | 6.9  |
| Imports (goods and services)                     | 85.5   | 80.4            | -     | -     | -28.1                    | 18.0 | 13.7 | 4.1  | 5.3  | 7.6  |
| GNI (GDP deflator)                               | 102.4  | 96.3            | -     | -     | -10.6                    | -2.2 | 4.0  | 3.4  | 3.2  | 3.8  |
| Contribution to GDP growth :                     |        | Domestic demand | -     | -     | -22.0                    | -3.7 | 7.2  | 2.9  | 3.1  | 4.5  |
|  |        | Inventories     | -     | -     | -5.4                     | 5.8  | -1.3 | -0.5 | 0.1  | 0.0  |
|  |        | Net exports     | -     | -     | 12.6                     | -0.6 | 0.0  | 0.6  | -0.1 | -0.8 |
| Employment                                       |        |                 | -0.7  | -     | -6.8                     | -5.1 | 2.0  | 1.7  | 1.0  | 1.4  |
| Unemployment rate (a)                            |        |                 | 9.1   | -     | 13.7                     | 17.8 | 15.4 | 13.5 | 12.4 | 10.9 |
| Compensation of employees/head                   |        |                 | -     | -     | -9.9                     | -0.4 | 3.6  | 3.5  | 2.6  | 3.4  |
| Unit labour costs whole economy                  |        |                 | -     | -     | -1.5                     | -6.9 | -0.1 | 2.3  | 0.5  | 1.1  |
| Real unit labour costs                           |        |                 | -     | -     | 2.0                      | -8.8 | -5.3 | -0.1 | -2.2 | -1.8 |
| Saving rate of households (b)                    |        |                 | -     | -     | 4.3                      | 1.2  | -    | -    | -    | -    |
| GDP deflator                                     |        |                 | 36.0  | -     | -3.4                     | 2.0  | 5.4  | 2.3  | 2.7  | 3.0  |
| Harmonised index of consumer prices              |        |                 | -     | -     | 4.2                      | 1.2  | 4.1  | 3.4  | 3.1  | 3.0  |
| Terms of trade of goods                          |        |                 | -     | -     | -5.9                     | 1.4  | -0.6 | -0.5 | -0.5 | -0.2 |
| Merchandise trade balance (c)                    |        |                 | -     | -     | -3.3                     | -4.9 | -5.9 | -5.8 | -6.3 | -7.1 |
| Current-account balance (c)                      |        |                 | -     | -     | 2.1                      | -0.4 | -3.7 | -2.9 | -3.0 | -3.6 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |                 | -     | -     | 6.4                      | 3.5  | -0.4 | 0.5  | 0.1  | -0.5 |
| General government balance (c)                   |        |                 | -     | -     | -9.4                     | -7.2 | -5.5 | -3.2 | -2.8 | -2.3 |
| Cyclically-adjusted budget balance (c)           |        |                 | -     | -     | -6.6                     | -4.9 | -4.9 | -2.6 | -2.3 | -2.1 |
| Structural budget balance (c)                    |        |                 | -     | -     | -7.0                     | -4.9 | -4.9 | -2.7 | -2.1 | -2.1 |
| General government gross debt (c)                |        |                 | -     | -     | 29.3                     | 37.9 | 38.5 | 41.6 | 40.8 | 40.5 |

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

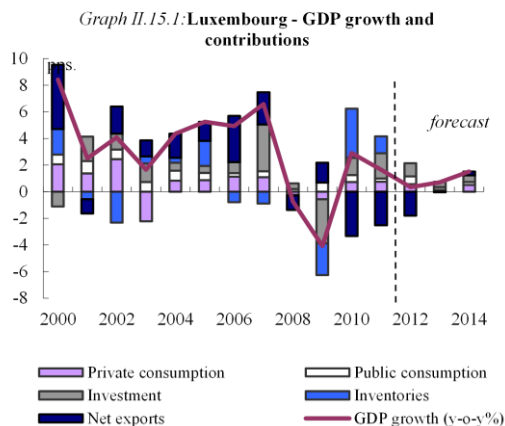
## 15. LUXEMBOURG

### Approaching a crossroad

#### Economy weaknesses at play

After growing by 2.9% y-o-y in 2010, economic output decelerated to 1.7% in 2011 and the slowdown continued in the first half of 2012, with GDP expanding by 0.1% and 0.4% q-o-q in the first and second quarters, respectively. Although growth is still more dynamic than in the euro area, the deceleration could be rather of a structural nature, for an economy until now almost spared from the crisis.

The economy is heavily reliant on the financial service and steel industries at a time when both are sailing across turbulent waters. While the financial services sector continues to show a positive although weakening trend, manufacturing, and in particular steel production is on a clearly declining path since the second quarter of 2011. Since then a number of important iron and steel plants closed partially. In contrast, the retail and other services sectors showed some resilience.



Growth expectations for 2012 have been lowered compared to the spring forecast and output is now expected to slightly increase by 0.4%. During the first part of the year, weak domestic demand was counterbalanced by the external sector, with imports falling at a faster pace than exports. In the second half of the year GDP is estimated to show a broadly flat profile in line with the weak performance of the euro area, Luxembourg's principal export market. The catalyst for a return of activity is expected to be external demand, with net exports progressively diminishing its negative contribution to growth over 2013. Increasing confidence should support a gradual return of

growth from the second quarter of 2013 onwards, resulting in a 0.7% growth in 2013 on average. Again, the expansion will be exclusively supported by domestic demand, while contribution of net exports is expected to become flat, after being a drag on economic output since 2008. Financial services should start to benefit from the progress made to overcome the sovereign-debt crisis, but over the forecast horizon this sector is not projected to return to its pre-crisis dynamism. The limited fiscal consolidation measures contained in the draft budget are also expected to exert some downward pressure on growth.

In 2014, GDP is projected to grow by 1.5%, a faster pace than in 2013 but still far below its pre-crisis rates. The main contribution to growth will again come from domestic demand, while the external balance is also expected to contribute positively, for the first time since the outbreak of the worldwide economic and financial crisis.

The main downside risk for this growth scenario lies in the export performance of financial services, which would be heavily affected should further unrest hit financial markets worldwide.

#### Price pressure set to decline

After peaking at 3.7% in 2011, HICP inflation is expected to slow down to 2.9% in 2012. It has been driven upwards by rising prices for oil and other raw materials. The dampening effect on inflation exerted by less dynamic oil prices in 2013 and 2014 will partially offset in 2013 by the planned rises in administered prices. Inflation is expected to decrease to 1.9% and 1.8% in 2013 and 2014, respectively. The national index (NICP), which has a lower weight for oil products, is expected to fall from 3.4% in 2011 to 2.7% in 2012 and to 2.2% in 2013 and 2014.

#### Job creation to slow down

Job creation in Luxembourg was substantial in 2011 despite a slowdown towards the end of the year. However, this employment increase of 2.9% has not been sufficient to bring down the unemployment rate, which stabilised just above 5% in the first half of 2012. Job creation is expected to decelerate to around 1.9% in 2012, moving the unemployment rate to 5.4% on average. With economic growth only slightly



positive over the forecast horizon and the adjustment of employment still ongoing, slow job growth will continue throughout 2013 and 2014. This, together with a still strong increase in active population, will translate into a higher unemployment rate of 6.4% in 2014. The agreement with the social partners signed on January 2012 to limit the automatic indexation to 2.5% up to 2014 will temper wage growth over the forecast horizon. On the whole, wages per head are now expected to increase by 2.2% on average in 2012 and 2013, then to accelerate to 3.2% in 2014.

### Public finances hardly improve in the coming years

The general government deficit came out at 0.3% of GDP in 2011, which is better than expected. This is the combination of the accumulation of pension reserves in the social security subsector while there is a deficit of 2.8% at the level of the central government. In the first half of 2012 revenues have been affected by the weak performance of financial sector activities, which contribute to around 25% of fiscal revenues. On the other hand, expenditure on government consumption is rising autonomously. These two

factors will lead to a steady increase in the general government deficit to close to 2% in 2012. The implementation of the fiscal measures announced by the government in the 2013 draft budget is expected to curb the evolution of expenditure and boost revenues. For 2013 the general government deficit is therefore projected to decline to 1.7% of GDP. In 2014, as the projected acceleration in revenues supported by higher growth will not completely offset the rising trend of government expenditure, the deficit-to-GDP ratio is forecast to increase marginally. The structural balance estimated to around ¼% of GDP for 2011 is projected to deteriorate to around 1% of GDP in 2012 and broadly stabilise there over the forecast horizon.

Public debt fell from 19.2% of GDP in 2010 to 18.3% in 2011. Given the rising central government deficit the debt-to-GDP ratio of the general government is expected to steadily increase from 21.3% in 2012 to 26.9% of GDP in 2014. The increase in the debt-to-GDP ratio is partly due to the contribution of Luxembourg to the EFSF and ESM disbursements.

Table II.15.1:

### Main features of country forecast - LUXEMBOURG

|  | 2011            |              | 92-08 | Annual percentage change |       |      |       |       |       |       |
|--|-----------------|--------------|-------|--------------------------|-------|------|-------|-------|-------|-------|
|  | mio EUR         | Curr. prices |       | % GDP                    | 2009  | 2010 | 2011  | 2012  | 2013  | 2014  |
| GDP  |                 | 42624.6      | 100.0 | 4.1                      | -4.1  | 2.9  | 1.7   | 0.4   | 0.7   | 1.5   |
| Private consumption                              |                 | 13321.7      | 31.3  | 2.4                      | -1.7  | 2.2  | 2.4   | 1.8   | 0.5   | 1.6   |
| Public consumption                               |                 | 7002.5       | 16.4  | 3.9                      | 4.5   | 3.0  | 1.5   | 3.5   | 1.2   | 1.4   |
| Gross fixed capital formation                    |                 | 8097.2       | 19.0  | 5.1                      | -15.5 | 6.8  | 10.2  | 5.2   | 2.0   | 2.5   |
| of which : equipment                             |                 | 2711.4       | 6.4   | 4.7                      | -34.4 | 28.5 | 24.6  | 13.0  | 2.0   | 2.0   |
| Exports (goods and services)                     |                 | 75228.3      | 176.5 | 7.4                      | -10.9 | 7.7  | 5.5   | -4.2  | 0.9   | 3.1   |
| Imports (goods and services)                     |                 | 61920.4      | 145.3 | 7.3                      | -14.1 | 12.1 | 8.6   | -3.8  | 1.1   | 3.5   |
| GNI (GDP deflator)                               |                 | 30773.1      | 72.2  | 3.0                      | -19.9 | 6.6  | 7.4   | -0.3  | 0.9   | 1.5   |
| Contribution to GDP growth :                     | Domestic demand |              |       | 2.8                      | -3.2  | 2.6  | 2.9   | 2.1   | 0.8   | 1.2   |
|  | Inventories     |              |       | -0.1                     | -2.4  | 3.7  | 1.3   | 0.0   | 0.0   | 0.0   |
|  | Net exports     |              |       | 1.5                      | 1.5   | -3.3 | -2.5  | -1.8  | 0.0   | 0.3   |
| Employment                                       |                 |              |       | 3.5                      | 1.1   | 1.8  | 2.9   | 1.9   | 0.8   | 1.3   |
| Unemployment rate (a)                            |                 |              |       | 3.3                      | 5.1   | 4.6  | 4.8   | 5.4   | 6.4   | 6.4   |
| Compensation of employees/head                   |                 |              |       | 3.4                      | 1.9   | 2.7  | 2.0   | 2.3   | 2.7   | 3.2   |
| Unit labour costs whole economy                  |                 |              |       | 2.7                      | 7.3   | 1.6  | 3.3   | 3.9   | 2.8   | 3.0   |
| Real unit labour costs                           |                 |              |       | -0.1                     | 6.8   | -5.6 | -1.7  | 1.9   | -0.5  | 0.7   |
| Saving rate of households (b)                    |                 |              |       | -                        | 13.5  | -    | -     | -     | -     | -     |
| GDP deflator                                     |                 |              |       | 2.9                      | 0.5   | 7.6  | 5.1   | 1.9   | 3.3   | 2.2   |
| Harmonised index of consumer prices              |                 |              |       | -                        | 0.0   | 2.8  | 3.7   | 2.9   | 1.9   | 1.8   |
| Terms of trade of goods                          |                 |              |       | 0.0                      | 1.0   | 5.9  | 3.7   | -0.2  | 1.0   | 1.0   |
| Merchandise trade balance (c)                    |                 |              |       | -10.8                    | -9.0  | -9.2 | -11.3 | -13.6 | -13.8 | -14.3 |
| Current-account balance (c)                      |                 |              |       | 10.7                     | 7.2   | 8.2  | 7.1   | 4.4   | 4.9   | 4.7   |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -                        | 6.4   | 7.6  | 6.8   | 4.4   | 4.9   | 4.7   |
| General government balance (c)                   |                 |              |       | 2.4                      | -0.8  | -0.8 | -0.3  | -1.9  | -1.7  | -1.8  |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -                        | 0.9   | 0.0  | 0.2   | -1.1  | -0.9  | -1.1  |
| Structural budget balance (c)                    |                 |              |       | -                        | 0.9   | 0.0  | 0.2   | -1.1  | -0.9  | -1.1  |
| General government gross debt (c)                |                 |              |       | 6.9                      | 15.3  | 19.2 | 18.3  | 21.3  | 23.6  | 26.9  |

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



## 16. HUNGARY

### Fiscal challenges amidst subdued growth prospects

#### From recession to a slow recovery...

After a recession in 2012, a weak recovery is expected for 2013 and 2014. The economy is characterised by weak potential growth, partly caused by policy uncertainty and increasingly distortionary taxes, most notably very high extra burdens on the financial sector.

While GDP expanded by 1.6% in 2011, the Hungarian economy entered into recession in the first half of this year. Negative GDP growth rates were caused by a large drop in domestic demand. Investment has declined for the fourth year in a row to a historically low rate if compared to GDP. Partly on account of decreased savings, household consumption remained relatively resilient to tightened fiscal policy. From the production side, GDP has been dragged down by exceptionally weak agricultural output as a result of a drought.

GDP is expected to decline by 1.2% on average in 2012, due to shrinking domestic demand and slowing export markets. A moderate growth in exports cushions the contraction in domestic demand. Exports, which remain the only demand component to grow on an annual basis, are projected to expand at around 2%, well below the 2011 rate. In addition to weakening export markets, this can also be explained by the higher sensitivity of certain manufacturing sectors to the global slowdown. The production in a new car plant with very large capacity is however set to help keeping exports in a positive territory. Although the contraction is expected to ease off in the second half of the year, domestic demand is projected to fall by 2.6% on a yearly basis. As most recent indicators suggest, household consumption is expected to react more to falling disposable income than in the first half of the year, and investment is also expected to decline further as a result of tight lending conditions and economic uncertainty regarding both domestic and export markets.

In 2013, a weak recovery is expected to be primarily driven by improving export markets, but increasing production in the recently installed car production facilities might contribute to stronger export growth. Therefore a rise in market share is projected. While government consumption will broadly stagnate, domestic demand is expected to

slightly decline on account of a moderate fall in investments and a steeper one in household consumption. An improvement in quarterly rates of private investment is expected to result from better performance of export markets, but overall lending conditions are expected to remain relatively tight. As a result of declining real income of households, private consumption is expected to diminish further in the first half of 2013.

Overall GDP growth of around ¼% is projected for 2013, with an acceleration to around 1¼% in 2014. Growth in 2014 is expected to be more broadly based than in the year before. A further improvement in export markets and a strengthened capacity of newly installed car production facilities contribute to a pick-up in exports, and domestic demand is expected to grow to ½%. While looser lending conditions are expected to support investment somewhat, increasing employment and moderating inflation is likely to support consumption growth.

Risks to growth are on both sides. On the one hand, tighter than assumed financial conditions can lead to a weaker-than-projected growth over the forecast horizon, while more resilient employment growth can pose an upside risk to consumption and GDP.

#### ...labour market outcomes are improving slightly

Labour market conditions are expected to timidly improve but to remain weak. As a consequence of government measures targeted at raising participation, the activity rate is projected to grow continuously. Despite this rise, unemployment is set to remain broadly stable as employment is projected to show an unequal, though continuous, increase. While in 2012 the key factor behind employment growth would be increased participation in public work programmes, the importance of private sector employment is expected to increase throughout the whole forecast period. This is likely to occur mainly in the SME sector, partly due to targeted government measures, most notably the Job Protection Act (JPA). The decrease in GDP and concomitant increase in employment would result in a rapid increase in real unit labour costs in 2012.

However, real unit labour costs are expected to fall by more than 3% in 2013, in line with the substantial decrease of social security contributions (JPA).

#### **Inflation remains high on account of government measures and increasing food prices**

In 2012, inflation is forecast to remain stubbornly high. In addition to indirect tax hikes (e.g. excise duty hikes on tobacco in February, July and December), this is explained by a pick-up in food inflation due to unusually dry weather conditions. New sectoral taxes, further indirect tax hikes as well as the prolonged effect of agricultural prices on processed foods are likely to affect also the inflation figures over the next years. Consequently, inflation is expected to remain well above the central bank's target of 3% in 2013, while gradually abating toward this level in 2014.

#### **Government deficit is expected to rise above 3% of GDP by 2014**

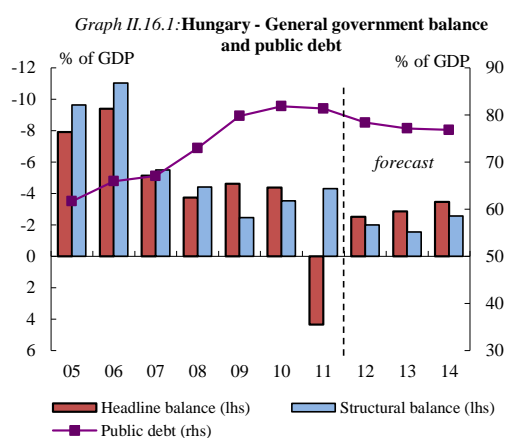
The official deficit target for 2012 was revised from 2.5% of GDP to 2.7% of GDP, but the forecast shows an outcome of 2.5% of GDP. This forecast accounts with one-off revenues of 0.9% of GDP stemming from the extraordinary sector taxes, the take-over of further private pension assets and the sale of telecommunication licences. It also integrates a number of saving measures of 0.4% of GDP announced in October 2012 as well as the activation of the bulk of contingent expenditure cuts.

For 2013, a deficit of 2.9% of GDP is projected. This forecast incorporates, inter alia, higher expenditure of line ministries contained in the draft 2013 budget compared to the 2012 Convergence Programme by more than ½% of GDP (which contribute to putting the expenditure ratio on an increasing path in this forecast), and the tax cutting measures included in the JPA with a net budgetary impact of around ¾% of GDP. It also takes into account the elements of the fiscal corrective packages announced by the government in two steps in October 2012 that are sufficiently detailed. Among others, they include: an increase of the financial transaction duty on the financial sector and the Treasury, as well as the postponement of the decrease of the extraordinary tax on financial institutions in place since 2010 and of the introduction of the new compensation scheme in

the education sector. According to the Commission, the net effect of these corrective packages is estimated to be around 1½% of GDP, also including negative growth effects. These latter are relatively limited in the short run but will increase substantially over time.

The difference between the government's new 2013 deficit target and the Commission's deficit projection reflects several elements. First, the Commission's more conservative growth projection results in a lower revenue forecast of close to ¼% of GDP. Second, additional revenue from enhanced tax administration is highly uncertain and only a small part of it (0.1% vs. the planned ½% of GDP) can be taken into account. Similarly, lower expenditure in light of a potential financial assistance programme with the EU and the IMF (altogether amounting to ½% of GDP according to the government) cannot be integrated in this forecast given the considerable uncertainty in this respect. Third, slippages of ½% of GDP are anticipated in view of implementation risks related to selected saving measures, notably in the pharmaceutical, transport and education sectors. Finally, a number of expenditure items were not incorporated in the government's forecast, such as the compensation of the loss of the central bank incurred in 2012; these also contribute to the different fiscal outlook by ¼% of GDP.

The projected deficit is contained by the assumption that the extraordinary reserve buffer of 1¾% of GDP, which the government has included in the 2013 budget, will be fully used to offset expected slippages.



The deficit is expected to rise to 3½% of GDP in 2014. This mainly reflects the new compensation scheme in the education sector and the increasing interest expenditure. Moreover, the forecast also assumes that an expected loss of close to ½% of GDP of the central bank in 2013 needs to be compensated in 2014. These negative effects are foreseen to be only partly off-set by the positive impact of the economic recovery and the expected additional gains from structural reforms.

The baseline scenario is subject to considerable risks. First, recent legislative changes have constrained the borrowing capacities of municipalities; therefore a potentially more favourable budget balance of the sector can be expected than in the baseline. Second, increased government efforts to whiten the economy can result in higher revenues than assumed. Moreover, the appropriate substantiation and implementation of structural reform measures could result in further savings. On the other hand, the increase of the yields on the public securities cannot be

excluded. In addition, a potential adverse decision of the European Court of Justice on the extraordinary tax of the telecom service providers introduced in 2010, could also result in considerable one-off expenditure. Finally, next year's loss of the central bank is highly uncertain and therefore poses a further risk for the 2014 budget balance.

In 2012, the improvement in the structural balance of around 2¼% of GDP is forecast to over-compensate the sharp deterioration in 2009 and 2010 so that over the period of 2009 to 2012 a structural adjustment of ½% of GDP is expected. Following a further improvement of ½% of GDP in 2013, the structural deficit is expected to increase again by around 1% of GDP in 2014.

The debt-to-GDP ratio is anticipated to improve by 3 pps. in 2012 to below 79%, largely thanks to the revaluation of the foreign exchange denominated part of the public debt by a strengthened forint. In 2013 and 2014, it is forecast to gradually decrease further to around 77%.

Table II.16.1:

**Main features of country forecast - HUNGARY**

|  | 2011    |              |       | 92-08 | Annual percentage change |      |      |      |      |      |
|--|---------|--------------|-------|-------|--------------------------|------|------|------|------|------|
|  | bn HUF  | Curr. prices | % GDP |       | 2009                     | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 27886.4 |              | 100.0 | 2.5   | -6.8                     | 1.3  | 1.6  | -1.2 | 0.3  | 1.3  |
| Private consumption                              | 14780.1 |              | 53.0  | -     | -6.6                     | -3.0 | 0.5  | -0.8 | -0.8 | 0.4  |
| Public consumption                               | 5797.8  |              | 20.8  | 0.4   | 0.7                      | -0.7 | -0.3 | -2.8 | 0.1  | 1.0  |
| Gross fixed capital formation                    | 4987.4  |              | 17.9  | 4.1   | -11.1                    | -9.5 | -3.6 | -5.4 | -0.4 | 0.9  |
| of which : equipment                             | 2126.7  |              | 7.6   | -     | -17.3                    | -3.5 | 8.5  | -2.0 | -1.3 | 0.2  |
| Exports (goods and services)                     | 25470.0 |              | 91.3  | 12.2  | -10.2                    | 14.2 | 6.3  | 2.0  | 4.5  | 6.5  |
| Imports (goods and services)                     | 23601.1 |              | 84.6  | 12.3  | -14.8                    | 12.7 | 5.0  | 0.6  | 3.9  | 6.2  |
| GNI (GDP deflator)                               | 26168.6 |              | 93.8  | -     | -4.7                     | 0.9  | 1.4  | -1.3 | 0.3  | 1.0  |
| Contribution to GDP growth :                     |         |              |       |       |                          |      |      |      |      |      |
| Domestic demand                                  |         |              |       | 2.3   | -5.9                     | -3.8 | -0.5 | -2.0 | -0.5 | 0.6  |
| Inventories                                      |         |              |       | 0.2   | -4.6                     | 3.3  | 0.6  | -0.5 | 0.0  | 0.0  |
| Net exports                                      |         |              |       | 0.0   | 3.6                      | 1.8  | 1.5  | 1.3  | 0.8  | 0.8  |
| Employment                                       |         |              |       | -     | -2.5                     | 0.7  | 0.4  | 1.0  | 0.3  | 0.6  |
| Unemployment rate (a)                            |         |              |       | -     | 10.0                     | 11.2 | 10.9 | 10.8 | 10.8 | 10.6 |
| Compensation of employees/f.t.e.                 |         |              |       | -     | -1.7                     | -0.3 | 3.0  | 4.5  | 1.0  | 5.5  |
| Unit labour costs whole economy                  |         |              |       | -     | 2.8                      | -0.9 | 1.8  | 6.7  | 1.0  | 4.7  |
| Real unit labour costs                           |         |              |       | -     | -0.7                     | -3.3 | -1.3 | 2.2  | -3.2 | 0.8  |
| Saving rate of households (b)                    |         |              |       | -     | 10.2                     | 10.8 | 10.4 | -    | -    | -    |
| GDP deflator                                     |         |              |       | 12.0  | 3.6                      | 2.5  | 3.1  | 4.5  | 4.3  | 3.9  |
| Harmonised index of consumer prices              |         |              |       | -     | 4.0                      | 4.7  | 3.9  | 5.6  | 5.3  | 3.9  |
| Terms of trade of goods                          |         |              |       | -     | 1.1                      | -0.2 | -1.7 | -1.0 | 0.4  | -0.1 |
| Merchandise trade balance (c)                    |         |              |       | -4.1  | 2.5                      | 3.2  | 3.3  | 3.9  | 5.2  | 6.2  |
| Current-account balance (c)                      |         |              |       | -     | -0.1                     | 1.2  | 1.0  | 1.6  | 2.6  | 2.6  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |         |              |       | -     | 1.1                      | 3.0  | 3.4  | 4.1  | 6.2  | 6.6  |
| General government balance (c)                   |         |              |       | -     | -4.6                     | -4.4 | 4.3  | -2.5 | -2.9 | -3.5 |
| Cyclically-adjusted budget balance (c)           |         |              |       | -     | -2.5                     | -2.8 | 5.2  | -1.1 | -1.5 | -2.6 |
| Structural budget balance (c)                    |         |              |       | -     | -2.5                     | -3.5 | -4.3 | -2.0 | -1.5 | -2.6 |
| General government gross debt (c)                |         |              |       | -     | 79.8                     | 81.8 | 81.4 | 78.4 | 77.1 | 76.8 |

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

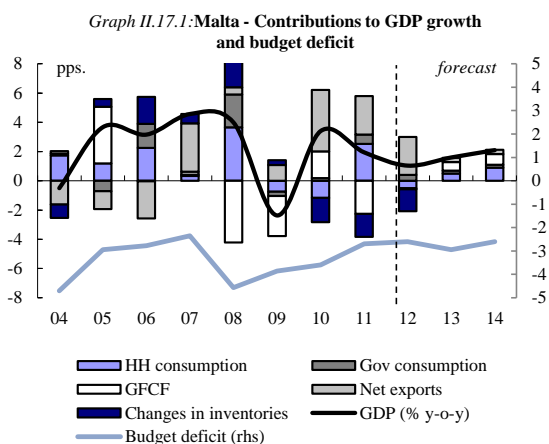
## 17. MALTA

### Resilient labour market underpins gradual demand recovery

#### Economic recovery following the recession lost momentum

The impressive rebound in 2010, from the recession in 2009, lost steam in 2011. The weakening in economic activity was particularly pronounced at the end of 2011 and the beginning of 2012 when the economy was reported to have slipped back into technical recession.

Economic growth rebounded in the second quarter of 2012 and soft indicators suggest it is still picking up in the second half of the year. For 2012 as a whole, real GDP is forecast to expand by 1%, driven entirely by net exports, which benefit from improved external competitiveness and a remarkably resilient tourist sector. These developments are projected to result in a marked improvement in the current-account balance, which is forecast to reach a surplus of around 2% of GDP, after having recorded a deficit for over a decade. On the downside, domestic demand, including inventories, appears to be rather weak and is forecast to be a drag on growth in 2012.



#### Rebalancing of growth and moderate expansion in 2013-14

Real GDP growth is projected to pick up in the outer years of the forecast horizon. While it is projected to remain slower than the pre-crisis period, reaching 1.6% in 2013 and 2.1% in 2014, it will still outpace the euro-area average.

A gradual recovery in domestic demand is projected to underpin the expansion in economic activity in 2013-14. Investment is projected to

continue recovering slowly on the back of EU-funded projects, given the approaching end of the 2007-13 programming period, as well as the construction of the electricity interconnector with Sicily. Furthermore, domestic banks are expected to remain well-capitalised and therefore well-positioned to finance higher credit demand by the corporate sector. The investment-to-GDP ratio, however, is expected to remain relatively low compared to the pre-crisis years.

Household consumption is projected to slowly recover in 2013-14, mostly on the back of a resilient labour market and higher disposable income. Employment is expected to increase over the forecast horizon, albeit at somewhat more subdued rates compared to 2010-11. Average wages are also set to continue growing, partly boosted by the mandatory wage indexation, particularly in 2013, and partly reflecting a composition effect, as new jobs are likely to be created in high-skilled occupations. Risks to the projections are broadly balanced and relate to the ability of the labour market to support a recovery in consumer confidence, as well as to the economic performance in the main trading partners, namely the euro area and South-eastern Asia.

#### HICP inflation climbs back above euro-area average

HICP inflation is projected to average 2.9% in 2012, slightly higher than in 2011. The acceleration is largely due to the tourist sector where price growth was more dynamic than expected.

Thereafter, HICP inflation is forecast to moderate to 2.2% in 2013-14. Deceleration in 2013 is projected to reflect more moderate price dynamics in the services and food sectors. Energy inflation is forecast to strengthen under the assumption of an increase in electricity prices. Moderation in energy and food price dynamics in 2014 is forecast to be offset by recovering services inflation, thereby keeping overall HICP constant. HICP inflation in 2012-14 is projected to slightly outpace the average for the euro area.

### Budget deficit moderates

In 2011 the general government deficit narrowed to 2.7% of GDP, from 3.6% in 2010, mainly driven by higher revenue from the extension of the 2010 scheme for the collection of income tax and social security contributions' arrears.

In 2012 the deficit is projected to narrow slightly, to 2.6% of GDP, while the primary surplus is projected to increase by 0.2 pp. of GDP. The forecast includes the impact of the measures adopted with the 2012 budget and the January review of spending allocations. As economic growth in 2012 is driven by net exports, the current revenue ratio is projected to increase only slightly compared to 2011 despite, among others, measures to increase VAT revenue collection. Primary current expenditure is set to rise by 0.6 pp. of GDP, on the back of higher social transfers and subsidies to the national energy company (Enemalta), while continued hiring restrictions in the public sector will help contain growth in the wage bill. Despite dynamic direct investment and the planned equity injection into Air Malta, the ratio of capital expenditure to GDP is set to decline, on account of the proceeds from the concession fee on the local lottery operator, which

are recorded as negative capital asset sales.

In the absence of consolidation measures, as the budget had not been presented before the cut-off date, the deficit in 2013 is expected to widen. The current revenue ratio is projected to decline slightly, as the increase in tax revenue related to the pick-up in economic activity only partly compensates for the disappearance of the one-off revenue projected for 2012. Primary current expenditure is forecast to drop by 0.3 pp. of GDP, reflecting a continuation of the tight recruitment policy in the public sector as well as lower dynamics of social transfers from the gradual impact of the 2006 pension reform. Net capital expenditure (including the planned additional equity injection into Air Malta of 0.6% of GDP) is expected to grow by 0.5 pp. of GDP. In 2014, the deficit is projected to narrow, also due to a lower equity injection into Air Malta.

After improving by 1 pp. of GDP in 2011, the structural deficit is set to stabilise in 2012 and, on a no-policy-change basis, to improve by ¼ pp. of GDP in 2013 and by ½ pp. of GDP in 2014. The main downside risk to this scenario is related to the possible need for additional subsidies to Enemalta.

Table II.17.1:

#### Main features of country forecast - MALTA

|  | 2011            |              |       | 92-08 | Annual percentage change |       |       |       |       |       |
|--|-----------------|--------------|-------|-------|--------------------------|-------|-------|-------|-------|-------|
|  | mio EUR         | Curr. prices | % GDP |       | 2009                     | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  |                 | 6499.2       | 100.0 | 3.5   | -2.4                     | 3.4   | 1.9   | 1.0   | 1.6   | 2.1   |
| Private consumption                              |                 | 3970.7       | 61.1  | -     | -1.1                     | -1.7  | 4.0   | -0.8  | 0.8   | 1.4   |
| Public consumption                               |                 | 1344.9       | 20.7  | -     | -1.5                     | 0.9   | 3.2   | 2.2   | 1.2   | 1.0   |
| Gross fixed capital formation                    |                 | 958.8        | 14.8  | -     | -16.5                    | 13.0  | -14.6 | -0.5  | 4.5   | 5.5   |
| of which : equipment                             |                 | -            | -     | -     | -21.1                    | 35.2  | -39.3 | -     | -     | -     |
| Exports (goods and services)                     |                 | 6614.0       | 101.8 | -     | -9.3                     | 18.5  | 2.5   | 5.4   | 4.0   | 4.8   |
| Imports (goods and services)                     |                 | 6242.0       | 96.0  | -     | -10.1                    | 13.8  | 0.1   | 3.1   | 4.0   | 4.9   |
| GNI (GDP deflator)                               |                 | 6074.3       | 93.5  | 2.9   | -6.0                     | 2.9   | 2.9   | 1.1   | 0.9   | 1.8   |
| Contribution to GDP growth :                     | Domestic demand |              |       | -     | -3.8                     | 0.9   | 0.9   | -0.1  | 1.3   | 1.8   |
|  | Inventories     |              |       | -     | 0.3                      | -1.7  | -1.6  | -1.5  | 0.0   | 0.0   |
|  | Net exports     |              |       | -     | 1.1                      | 4.2   | 2.6   | 2.6   | 0.3   | 0.3   |
| Employment                                       |                 |              |       | 1.2   | -0.3                     | 2.4   | 2.5   | 0.9   | 1.3   | 1.6   |
| Unemployment rate (a)                            |                 |              |       | 6.4   | 6.9                      | 6.9   | 6.5   | 6.3   | 6.3   | 6.2   |
| Compensation of employees/head                   |                 |              |       | 5.1   | 3.6                      | -0.3  | 0.8   | 1.1   | 2.1   | 2.0   |
| Unit labour costs whole economy                  |                 |              |       | 2.8   | 5.8                      | -1.3  | 1.3   | 1.0   | 1.8   | 1.5   |
| Real unit labour costs                           |                 |              |       | 0.2   | 3.4                      | -4.1  | -0.9  | -1.8  | -0.7  | -0.9  |
| Saving rate of households (b)                    |                 |              |       | -     | -                        | -     | -     | -     | -     | -     |
| GDP deflator                                     |                 |              |       | 2.7   | 2.4                      | 2.9   | 2.3   | 2.8   | 2.5   | 2.4   |
| Harmonised index of consumer prices              |                 |              |       | -     | 1.8                      | 2.0   | 2.5   | 2.9   | 2.2   | 2.2   |
| Terms of trade of goods                          |                 |              |       | -     | -3.8                     | -5.4  | 5.4   | -1.2  | 0.1   | 0.1   |
| Merchandise trade balance (c)                    |                 |              |       | -18.3 | -18.5                    | -18.0 | -15.5 | -15.2 | -15.6 | -15.9 |
| Current-account balance (c)                      |                 |              |       | -     | -7.4                     | -5.0  | -0.3  | 2.1   | 1.8   | 1.6   |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -     | -5.8                     | -3.3  | 0.7   | 3.0   | 2.7   | 2.5   |
| General government balance (c)                   |                 |              |       | -     | -3.9                     | -3.6  | -2.7  | -2.6  | -2.9  | -2.6  |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -     | -3.0                     | -3.5  | -2.8  | -2.5  | -2.9  | -2.6  |
| Structural budget balance (c)                    |                 |              |       | -     | -3.7                     | -4.6  | -3.5  | -3.5  | -3.2  | -2.8  |
| General government gross debt (c)                |                 |              |       | -     | 67.6                     | 68.3  | 70.9  | 72.3  | 73.0  | 72.7  |

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



## 18. THE NETHERLANDS

### Slowly emerging from the doldrums

#### Contraction in GDP in 2012

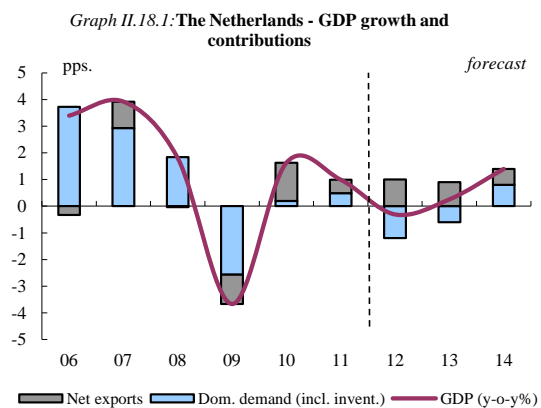
After a short-lived contraction in the second half of 2011, the Dutch economy experienced a recovery in the first half of 2012, with two quarters of positive quarter-on-quarter growth of 0.2%. This recovery was mainly driven by net exports and accumulation of inventories. Exports rebounded strongly, with quarter-on-quarter growth averaging more than 2%. Conversely, internal demand excluding inventories remained weak in the first half of the year. Consumption expenditure of households has been decreasing now for six consecutive quarters in, and has fallen to 2003 levels. Over the year as a whole, it is forecast to fall by 1.2%. Several factors account for this protracted decline. Consumer confidence is at very low levels in the wake of continued uncertainty about global developments, expectations of future house price declines and domestic policy plans, in particular regarding the housing market. Growth in real disposable income has been subdued, partly due to consolidation measures, and lower house price induced capital losses, with a negative feedback to private consumption.

Investment also continued to decrease in the first two quarters of the year, following three consecutive quarters of negative growth in 2011. This is mainly the result of investment in construction, notably housing, which is estimated to post a sharp drop of 8% in 2012. With households holding back on housing investment decisions, the stock of unsold homes is rising and the number of building permits issued is at historically low levels. Investment in equipment has been slowing down considerably, in view of the low capacity utilisation rate (which is below its long-term average) and weakening economic prospects. Investment in transport equipment increased strongly in the second quarter of the year due to the anticipated rise in taxation of new cars.

In the second half of 2012, economic growth is expected to slow down again as a result of the combined effect of continued weakness of internal demand and the adverse impact of the current global trade downturn. Overall, real GDP growth is forecast to turn negative at -0.3% in 2012.

#### Domestic demand set to remain weak, entailing a modest recovery in 2013 and 2014

Growth is forecast to recover gradually in 2013 to 0.3%. This is due in particular to supportive trade developments, since domestic demand is expected to remain depressed into 2013. Domestic demand should begin to pick up gradually in the second half of the year, thus supporting a moderate pick-up in 2014, with real GDP increasing by 1.4%.



With almost all determinants of household consumption proving unsupportive, consumption expenditure is expected to remain negative at -0.8% in 2013, while turning slightly positive only in 2014. Among the main determinants, real disposable income is likely to stay subdued over the forecast horizon. Real disposable income is weighed down by a higher tax burden, including the increase in VAT rates from 19% to 21% as of 1 October 2012, as well as lower employment and strong wage moderation in the public sector (excluding health care). Wage increases in the private sector should continue to be moderate as labour market developments are set to remain subdued over the forecast horizon. In addition, pension premiums will be increased and second-pillar pension payouts will be cut as of 2013 to restore the coverage ratios of pension funds, which are at historically low levels. In addition, a large number of households, which have purchased a home since the middle of the early 2000s, have negative (home) equity and may adjust by increasing their precautionary savings in a period of rising unemployment.



With consolidation measures also affecting expenditure, government consumption is forecast to continue to decrease by -0.5% in 2013, after -0.1% in 2012.

Following the marked decline in 2012, gross fixed capital formation is forecast to fall, although less sharply, by 1% in 2013. Business investment is expected to remain weak in 2013. Both the private and the public sectors are expected to continue to reduce investment in 2013, albeit at a slower pace than in 2012, with investment in housing construction falling by 3% in 2013. Only in 2014 is a moderate recovery expected, supported by better economic conditions and prospects.

Net exports are expected to contribute positively to economic growth throughout the forecast period. This is not driven by gains in competitiveness, as in 2013 and 2014 a loss of exports market share is foreseen. Instead, this is rather the result of very sluggish import growth driven by weak internal demand. The projected rise of the current-account surplus is thus predominantly the result of depressed internal demand.

The risks to this macroeconomic scenario are predominantly on the downside. A steeper fall in house prices would weigh on private consumption and investment and additional consolidation measures in the outer year of the forecast could negatively impact on domestic demand. On the other hand, a bottoming-out of house price developments and clarity on future housing policies could improve consumer confidence and increase transactions in the housing market.

#### **Inflation driven upwards in 2012, but cooling down in 2013 and 2014**

After years of low inflation at around 1%, inflation – as measured by the HICP index – accelerated to 2.5% in 2011, mainly as a result of increases in energy and processed food prices. In the first four months of 2012, inflation stood at around 2.9%, but has since declined to around 2.5% and is expected to stand at 2.8% for the year as a whole.

Looking forward, the disinflationary effects of weak domestic demand and decreasing oil prices are outweighed by the lagged upward pressures from the increase in the standard VAT tax rate. As a result, inflation is likely to fall only marginally to 2.4% in 2013 and to ease further to 1.6% in 2014.

In 2012 and 2013 wages are forecast to increase almost in line with inflation (supported by the prolonged wage freeze in parts of the public sector), but increases in employers' social security contributions, mainly due to policy measures, will put upward pressure on labour costs. As a result, nominal unit labour costs are expected to increase by 1.3% in 2013, after 2.4% in 2012. Wage increases in 2014 are expected to be well above inflation, also due to a catching up of salaries in the public sector with private sector wage growth.

#### **Rising unemployment**

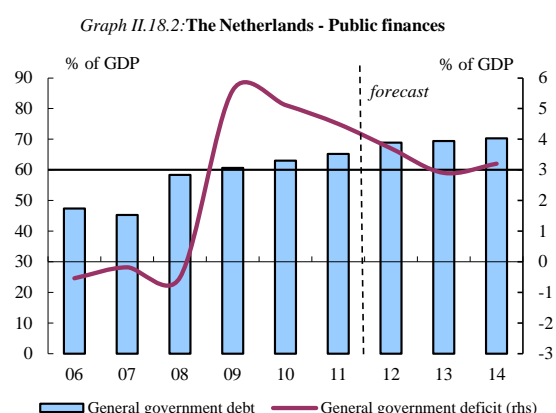
The labour force is expected to increase by 1.3% in 2012, as losses in family disposable income have pushed second-income earners to enter the labour market in the first half of 2012. Over the forecast horizon, these developments are expected to ease, although small increases in the labour force are projected for both 2013 and 2014. Total employment should decrease by a slight 0.2% in 2012, and decrease further by 0.6% in 2013. The unemployment rate is foreseen to continue to edge higher, to 5.4% in 2012 (after 4.4% in 2011), 6.1% in 2013 and 6.2% in 2014. The expected increase in unemployment results from a combination of weak current and expected internal demand with only a gradual pick-up in economic activity, which would lead to a reduced recourse to labour hoarding.

#### **Deficit falling up to 2013**

In 2011, the general government deficit fell to 4.5% of GDP, after 5.1% in 2010. It is expected to improve further to 3.7% of GDP in 2012, in light of consolidation measures that mainly increase revenues. Government revenues are expected to increase mainly because of higher tax rates (2 pps. increase in the standard VAT in the third quarter of the year and an increase in the taxation of banks). Expenditure, in particular that related to long-term care, is also expected to increase, though at a slower pace than revenues. On the other hand, interest expenditure is expected to fall further, due to historically low interest rates.

Despite weak economic activity, the deficit is expected to fall to 2.9% of GDP in 2013 in light of additional consolidation measures, again mainly on the revenue side, and a strong increase in social contributions. These projections take into account the budget for 2013, including the amendments

proposed by the parties currently negotiating the formation of a new government.



Under the assumption of no policy changes, government expenditure is expected to outpace revenue in 2014, implying an increase in the

deficit to 3.2% of GDP. This also reflects the fact that the caretaker government planned to partly offset the rise in indirect taxes by a decrease in direct taxes without defining offsetting consolidation measures. At the cut-off date of the forecast, the new government had not been formed and the plans for 2014 and beyond were therefore not known.

The structural balance is expected to improve strongly in 2012 and 2013 by over 1 pp., and to deteriorate in 2014 by around 0.7 pp.

After recording gross government debt of 65.5% of GDP in 2011, the debt ratio is expected to steadily increase to 68.8% of GDP in 2012, 69.3% in 2013 and 70.3% in 2014. This mainly reflects persistent deficits, bilateral loans to programme countries, EFSF and ESM disbursements and the modest economic outlook.

Table II.18.1:

**Main features of country forecast - THE NETHERLANDS**

|  | 2011   |              |       | Annual percentage change |       |      |      |      |      |      |
|--|--------|--------------|-------|--------------------------|-------|------|------|------|------|------|
|  | bn EUR | Curr. prices | % GDP | 92-08                    | 2009  | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 602.0  | 100.0        | 2.6   | 2.6                      | -3.7  | 1.6  | 1.0  | -0.3 | 0.3  | 1.4  |
| Private consumption                              | 271.1  | 45.0         | 2.1   | 2.1                      | -2.1  | 0.3  | -1.0 | -1.2 | -0.8 | 0.4  |
| Public consumption                               | 168.2  | 27.9         | 2.6   | 2.6                      | 5.0   | 0.7  | 0.1  | -0.1 | -0.5 | 0.5  |
| Gross fixed capital formation                    | 106.7  | 17.7         | 3.1   | 3.1                      | -12.0 | -7.2 | 5.7  | -3.0 | -1.0 | 2.6  |
| of which : equipment                             | 34.3   | 5.7          | 4.5   | 4.5                      | -16.4 | -4.6 | 9.2  | 3.5  | 0.9  | 3.4  |
| Exports (goods and services)                     | 499.6  | 83.0         | 6.0   | 6.0                      | -7.7  | 11.2 | 3.9  | 3.8  | 2.5  | 4.7  |
| Imports (goods and services)                     | 445.8  | 74.1         | 6.0   | 6.0                      | -7.1  | 10.2 | 3.6  | 2.9  | 1.7  | 4.5  |
| GNI (GDP deflator)                               | 607.2  | 100.9        | 2.5   | 2.5                      | -4.0  | 2.5  | 3.5  | -0.2 | 0.5  | 1.4  |
| Contribution to GDP growth :                     |        |              |       |                          |       |      |      |      |      |      |
| Domestic demand                                  |        |              | 2.3   | 2.3                      | -2.1  | -1.0 | 0.6  | -1.1 | -0.7 | 0.8  |
| Inventories                                      |        |              | 0.0   | 0.0                      | -0.4  | 1.2  | -0.1 | -0.2 | 0.1  | 0.0  |
| Net exports                                      |        |              | 0.4   | 0.4                      | -1.1  | 1.4  | 0.5  | 1.0  | 0.9  | 0.6  |
| Employment                                       |        |              | 1.2   | 1.2                      | -1.1  | -0.6 | 0.5  | -0.2 | -0.6 | -0.1 |
| Unemployment rate (a)                            |        |              | 4.6   | 4.6                      | 3.7   | 4.5  | 4.4  | 5.4  | 6.1  | 6.2  |
| Compensation of employees/f.t.e.                 |        |              | 3.5   | 3.5                      | 2.5   | 1.5  | 1.8  | 2.4  | 2.1  | 2.3  |
| Unit labour costs whole economy                  |        |              | 2.0   | 2.0                      | 5.3   | -0.8 | 1.3  | 2.4  | 1.3  | 0.8  |
| Real unit labour costs                           |        |              | -0.4  | -0.4                     | 5.2   | -1.8 | 0.0  | 1.0  | -0.2 | -0.4 |
| Saving rate of households (b)                    |        |              | 15.3  | 15.3                     | 12.3  | 10.5 | 11.6 | 12.5 | 12.8 | 13.4 |
| GDP deflator                                     |        |              | 2.3   | 2.3                      | 0.1   | 1.1  | 1.2  | 1.5  | 1.4  | 1.3  |
| Harmonised index of consumer prices              |        |              | 2.2   | 2.2                      | 1.0   | 0.9  | 2.5  | 2.8  | 2.4  | 1.6  |
| Terms of trade of goods                          |        |              | 0.4   | 0.4                      | 0.1   | -0.6 | 0.2  | -0.2 | -0.7 | -0.5 |
| Merchandise trade balance (c)                    |        |              | 6.0   | 6.0                      | 6.3   | 7.5  | 8.1  | 8.8  | 9.1  | 9.0  |
| Current-account balance (c)                      |        |              | 5.7   | 5.7                      | 3.2   | 5.1  | 8.3  | 9.2  | 9.8  | 9.8  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              | 5.4   | 5.4                      | 2.7   | 4.5  | 7.9  | 8.9  | 9.5  | 9.5  |
| General government balance (c)                   |        |              | -1.3  | -1.3                     | -5.6  | -5.1 | -4.5 | -3.7 | -2.9 | -3.2 |
| Cyclically-adjusted budget balance (c)           |        |              | -1.4  | -1.4                     | -4.1  | -4.0 | -3.5 | -2.2 | -1.1 | -1.8 |
| Structural budget balance (c)                    |        |              | -     | -                        | -4.1  | -3.9 | -3.4 | -2.2 | -1.1 | -1.8 |
| General government gross debt (c)                |        |              | 61.1  | 61.1                     | 60.8  | 63.1 | 65.5 | 68.8 | 69.3 | 70.3 |

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

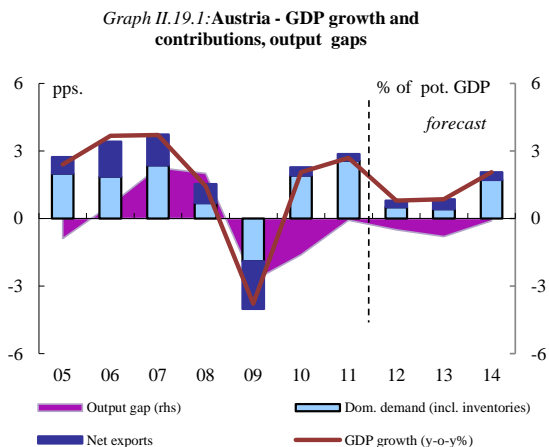
## 19. AUSTRIA

### A gradual return to normality

#### A short-lived upswing in early 2012

In the first quarter, GDP growth reached 0.5%, underpinned by net exports on the demand side and manufacturing on the supply side. Employment growth remained dynamic. Real labour incomes of households posted an increase of 1.2% year on year, after stagnating in 2011 due to higher inflation. Both consumer and business sentiment showed signs of recovering.

In the second quarter manufacturing value added slowed down. While export growth was sustained, it was largely neutralised by an increase in imports. GDP grew by only 0.1%. Hiring in manufacturing ceased, while sentiment indicators embarked on a downward path. Profits and investment growth weakened. Despite increases in real incomes and employment, consumer demand stalled.



#### Gradual recovery in 2013

Economic activity is set to remain weak in late 2012 and well into 2013. Sentiment has fallen below its October 2011 low. This is likely to deter an upswing in investment and consumption. They are expected to start strengthening only later in 2013. GDP growth is projected at just 0.8% in 2012 and below 1% in 2013 before regaining momentum in 2014 as confidence is rebuilt. Net exports are foreseen to be an important driver of growth, although their relative weight is likely to be less in 2014 as an expected pick-up in domestic demand induces stronger import growth.

Private consumption is set to stay sluggish in the upcoming quarters, since a rapid recovery of household confidence is unlikely. Employment growth is slowing and the unemployment rate has reached 4.5% in August 2012 – 0.7 pp. higher than a year earlier. Negotiated wages rose by 3.4% year-on-year in the third quarter of 2012. This limits the scope for employment gains in 2012.

Manufacturers' orders weakened further in 2012 and capacity utilisation stayed flat. Thus investment activity is unlikely to pick up significantly in the near future.

The balance of risks seems neutral to mildly positive. While downside risks stemming from weaker foreign demand cannot be discounted, Austrian exporters could well benefit from improving import demand in neighbouring countries. Consumption may surprise on the upside as the trends in unemployment are associated with rising labour supply and are not a threat to the currently employed. Real wage growth is likely to stay positive. The corporate sector has accumulated significant savings over the recent years and should not have financing difficulties, provided companies keep cost pressures at bay. Private credit growth has weakened but remained positive and financing conditions are relatively favourable.

Headline inflation has declined from 3.9% y-o-y in November 2011, to 2.8% in September. There was major disinflation in energy and food prices in the first half of 2012 as well as a deceleration of core inflation (HICP excluding energy and unprocessed food) until September when both core and headline inflation picked up by 0.5 pp. Inflation is expected to stay just below 2% in 2013-14, assuming further disinflation of energy prices and contained inflationary pressures in line with an only gradual recovery of demand.

#### Fiscal consolidation continues, but at a slower pace

Fiscal consolidation in 2012 will be hampered by past and new measures for the banking system. On top of budgeted capital transfers to ÖVAG and KA Finanz, of 0.6% of GDP in 2012, additional support is required for Hypo Alpe Adria bank and to a lesser extent for KA Finanz. Although its

impact risks to be higher than expected, part of the cost (0.2% of GDP) is projected to arise in 2012, while the remainder (0.7% of GDP) will be borne in 2013. As a result, the general government deficit is projected to edge up to 3.2% of GDP. The combined effect of discretionary measures approved in March and better-than-expected tax revenues has helped contain the rise in the deficit.

For 2013, despite weaker GDP growth, the decline in the deficit below 3% seems secure. Most of the consolidation measures for 2013-14 have been approved already before the 2013 Budget. On the revenue side, consolidation is mainly based on a change in real estate taxation (0.1%) and the closing of loopholes in VAT collection (0.1%). For 2013 the government relies on a tax repatriation agreement with Switzerland, whose effect may turn out lower than government projections. On the expenditure side, the bulk of the consolidation is expected through reductions in pensions and unemployment allowances (0.3%) and savings in federal administration (0.1%), including a salary freeze for civil servants. Additional spending on universities (0.1%) will partly offset some of the expenditure cuts.

Fiscal consolidation is expected to continue in 2014 and the deficit is projected to decline to 1.9% of GDP due to an acceleration of economic activity and the impact of the stability package approved in 2012. Two thirds of the consolidation for 2014 would come from savings on the expenditure side.

After an estimated increase from 74.6% of GDP in 2012 to 75.9% of GDP in 2013, the debt ratio is projected to decrease to 75.1% in 2014.

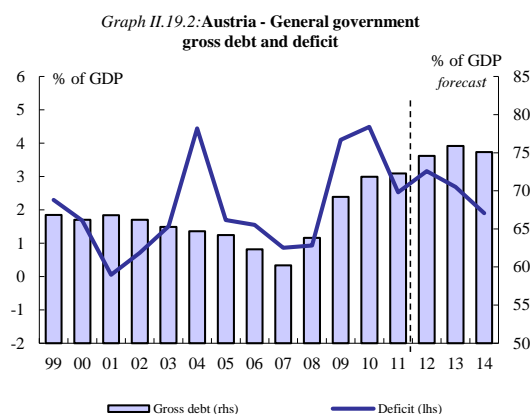


Table II.19.1:

## Main features of country forecast - AUSTRIA

|  | 2011   |              |       | Annual percentage change |       |      |      |      |      |      |
|--|--------|--------------|-------|--------------------------|-------|------|------|------|------|------|
|  | bn EUR | Curr. prices | % GDP | 92-08                    | 2009  | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 300.7  | 100.0        |       | 2.4                      | -3.8  | 2.1  | 2.7  | 0.8  | 0.9  | 2.1  |
| Private consumption                              | 163.6  | 54.4         |       | 1.6                      | 1.1   | 1.7  | 0.7  | 0.2  | 0.5  | 1.1  |
| Public consumption                               | 56.7   | 18.9         |       | 2.2                      | 0.6   | 0.2  | 0.1  | 1.3  | 0.8  | 1.3  |
| Gross fixed capital formation                    | 64.5   | 21.4         |       | 1.4                      | -7.8  | 0.8  | 7.3  | 1.6  | 0.9  | 2.9  |
| of which : equipment                             | 25.0   | 8.3          |       | 1.6                      | -10.6 | 6.0  | 12.1 | 1.5  | 1.2  | 5.2  |
| Exports (goods and services)                     | 172.3  | 57.3         |       | 6.0                      | -15.6 | 8.7  | 7.2  | 1.5  | 3.9  | 5.9  |
| Imports (goods and services)                     | 162.3  | 54.0         |       | 4.8                      | -13.3 | 8.8  | 7.2  | 1.1  | 3.4  | 5.6  |
| GNI (GDP deflator)                               | 297.0  | 98.8         |       | 2.4                      | -4.5  | 3.2  | 1.1  | 0.7  | 0.8  | 2.0  |
| Contribution to GDP growth :                     |        |              |       |                          |       |      |      |      |      |      |
| Domestic demand                                  |        |              |       | 1.7                      | -1.0  | 1.1  | 1.9  | 0.7  | 0.7  | 1.5  |
| Inventories                                      |        |              |       | 0.1                      | -0.9  | 0.6  | 0.6  | -0.2 | -0.2 | 0.2  |
| Net exports                                      |        |              |       | 0.6                      | -2.1  | 0.4  | 0.3  | 0.3  | 0.5  | 0.4  |
| Employment                                       |        |              |       | 0.6                      | -1.5  | 0.5  | 1.4  | 1.1  | 0.7  | 0.9  |
| Unemployment rate (a)                            |        |              |       | 4.2                      | 4.8   | 4.4  | 4.2  | 4.5  | 4.7  | 4.2  |
| Compensation of employees/f.t.e.                 |        |              |       | 2.8                      | 2.5   | 1.3  | 2.3  | 2.9  | 2.1  | 1.9  |
| Unit labour costs whole economy                  |        |              |       | 1.0                      | 4.9   | -0.2 | 1.0  | 3.2  | 1.9  | 0.8  |
| Real unit labour costs                           |        |              |       | -0.6                     | 3.4   | -1.8 | -1.2 | 1.1  | 0.3  | -1.4 |
| Saving rate of households (b)                    |        |              |       | -                        | 16.1  | 14.2 | 12.6 | 12.6 | 12.5 | 12.7 |
| GDP deflator                                     |        |              |       | 1.5                      | 1.5   | 1.6  | 2.2  | 2.0  | 1.6  | 2.2  |
| Harmonised index of consumer prices              |        |              |       | 2.0                      | 0.4   | 1.7  | 3.6  | 2.4  | 1.8  | 1.9  |
| Terms of trade of goods                          |        |              |       | -0.2                     | 2.8   | -1.6 | -2.9 | -0.3 | -0.1 | 0.4  |
| Merchandise trade balance (c)                    |        |              |       | -1.9                     | -1.1  | -1.1 | -2.3 | -2.1 | -2.0 | -1.8 |
| Current-account balance (c)                      |        |              |       | 0.1                      | 2.7   | 3.5  | 1.1  | 1.1  | 1.2  | 1.6  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | 0.0                      | 2.8   | 3.5  | 1.0  | 0.2  | 0.7  | 1.2  |
| General government balance (c)                   |        |              |       | -2.4                     | -4.1  | -4.5 | -2.5 | -3.2 | -2.7 | -1.9 |
| Cyclically-adjusted budget balance (c)           |        |              |       | -2.4                     | -2.8  | -3.7 | -2.5 | -2.9 | -2.3 | -1.8 |
| Structural budget balance (c)                    |        |              |       | -                        | -2.8  | -3.4 | -2.3 | -2.6 | -2.1 | -1.8 |
| General government gross debt (c)                |        |              |       | 64.3                     | 69.2  | 72.0 | 72.4 | 74.6 | 75.9 | 75.1 |

(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.

## 20. POLAND

### Growth slows down as domestic demand falters

#### Economic activity loses steam

After a continued rebound in 2011 driven by a revival of international trade, inflows of EU funds and an improving labour market, economic growth decelerated to 3.1% y-o-y in the first half of 2012. Activity was mainly driven by a positive contribution of external trade and, to a lesser extent, by weakening domestic demand. In particular, worsening financing conditions, stabilising company profits and deteriorating demand prospects limited the expansion of private investments. At the same time, public outlays peaked in the first quarter of 2012 when major transport infrastructure projects were completed, resulting in a slowdown in public investment thereafter. Private consumption remained sluggish, as labour market prospects worsened and consumer moods deteriorated, while fiscal consolidation was a drag on public spending. Exports remained relatively robust, not least as a lagged effect of the depreciation of the currency in 2011, while restricted domestic demand limited growth of imports.

In the second half of 2012, the Polish economy is expected to continue its slowdown. Weaker external demand is set to hamper export growth. In addition, a further deterioration in consumer and producer confidence is projected to limit private investment expenditure, employment growth and private consumption. These developments are expected to result in real GDP growth slowing to 1.8% y-o-y in the second half of the year, leading to an annual growth of 2.4% in 2012.

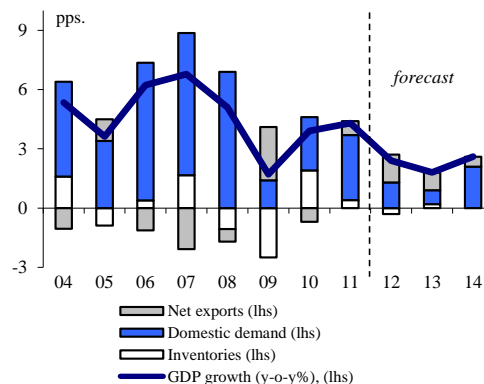
#### Private demand growth falters as sluggish external demand prospects and stagnating labour market take its toll

The fallout from the global slowdown and deteriorating domestic moods are expected to shape the prospects of the Polish economy over the forecast period. The economy is likely to face external headwinds reflected in sluggish domestic demand growth in 2013 and a marginal rebound is anticipated only in 2014. Real GDP is therefore forecast to increase by 1.8% in 2013 and 2.6% in 2014. In 2013, the contribution of domestic demand to growth is likely to be seriously hampered by weaker labour market conditions, worsening consumer and producers' sentiment and

slowing inflows of EU funds. In 2014 private investment and private consumption are expected to inch up against the background of a reviving global environment.

Public investment growth is set to turn negative, as major infrastructure projects were finalised in the beginning of 2012 and further public spending is expected to be curbed due to fiscal consolidation needs and the end of the EU financial perspective for 2007-13. Private gross fixed capital formation is forecast to slow in 2013 after a temporary rebound in 2011-12. In particular, the corporate sector is set to delay investments as a result of uncertain demand prospects and weakened global sentiment. However, the expected improvement in external demand in 2014 is likely to revive private investment as large and medium-sized companies have sufficient cash at their disposal and credit supply is set to accelerate.

Graph II.20.1: Poland - GDP growth and contributions



Sluggish real wage growth and marginally positive employment growth is not likely to strengthen disposable income and fuel strong private consumption growth. Moreover, consumer confidence, which is expected to wane further, might result in increased household savings constraining domestic demand as well. Only towards the end of the forecast horizon improving labour market conditions, recovering confidence and cuts in VAT rates are set to result in an accelerating private consumption.

The impact of external trade on growth is likely to be positive, though declining, over the entire forecast horizon. Decelerating external demand is set to hamper exports, yet the slump in domestic

demand will result in even stronger import compression in 2013. In 2014 the rebounding external demand and improving costs competitiveness are likely to fuel export growth. Accelerating domestic demand, however, is expected to stimulate imports, partly outweighing stronger exports.

The current-account deficit improved in 2011 to 4.5% of GDP, following a stronger increase in exports than imports due to a depreciating currency. This trend is expected to continue, with the current-account deficit reaching 3.7% of GDP in 2014. This is a result of depreciation and sluggish domestic demand growth limiting trade deficits and moderate increases in current transfers, somewhat counterbalanced by the growth of income transfers linked to increased holdings of sovereign debt by foreigners.

This scenario is subject to broadly balanced risks. On the upside, a stronger-than-expected depreciation would further boost exports and enhance import substitution. On the downside, more profound deterioration in business and consumer confidence could adversely affect private investment and consumption.

#### **Credit growth remains sluggish despite strong financial position of banks**

Poland's banking sector has continued to increase its profitability and capital adequacy in the first half of 2012. Aggregate capital adequacy ratio for the financial sector grew to 13.9% at the end of August 2012 (compared to the 8% regulatory threshold set for individual banks) and net profits increased by 2.5% y-o-y over January-August 2012. However, credit growth, especially for households, remained lethargic as banks reacted to the tightened supervisory framework and the relatively high share on non-performing loans in the consumer credit segment (18.3%). Going forward, credit regulations and an uncertain demand outlook might induce banks to remain cautious in their lending activities, which ultimately prevent credit supply to support private consumption and investment.

#### **Labour market revival moderates**

Despite an expected rise in employment of 0.3% in 2012, the unemployment rate is set to moderately increase to 10.1%, as labour supply growth outstrips employment growth. Deteriorating

external demand and falling confidence are forecast to freeze employment growth, especially in construction, in 2013. It is set to rebound moderately in 2014 on the back of an improving global outlook, leading to a marginal fall in the unemployment rate to 10.3% (from 10.5% in 2013) at the end of the forecast horizon.

#### **Inflation bound to decrease**

HICP inflation, driven up to 3.8% in 2012 by the depreciation of the zloty, high commodity prices and the impact of the increases in administered prices, is set to reverse to 2.6% in 2013, mainly on account of base effects, moderate growth of domestic demand and contained wage pressure. It is expected to moderate further to 2.4% in 2014, reflecting lower commodity prices, relatively weak domestic demand and cuts in indirect taxes. After some acceleration over 2010-11, limited labour demand is expected to lead to some moderation in nominal labour unit costs in 2012-13, improving export prospects. Looking ahead, the modest pick-up in the economic activity and gradual improvement of employment prospects are likely to fuel moderate wage growth in 2014, affecting unit labour costs.

#### **Fiscal consolidation continues at a slowing pace**

After the peak at 7.8% of GDP in 2010, the general government deficit started to decrease in 2011, when it fell sharply to 5%; it is projected to continue to fall over the forecast period, albeit at a slowing pace.

In 2012 the deficit is expected to decrease to slightly below 3.4% of GDP due to the 2011 package of structural consolidation measures, as well as measures included in the 2012 Budget Law. On the revenue side, these measures include a change to the pension system consisting of the retention of part of the pension contribution previously earmarked to the private schemes in the first public pillar, a temporary (3 years) increase in the VAT rate (by 1 pp.) and in excise duty on tobacco (by 4 pps.), the abolition of some VAT and excise duty exemptions and a freeze in Personal Income Tax (PIT) thresholds. Those reforms were complemented in 2012 by a 2 pps. increase in disability contribution rate, an introduction of a tax on copper and silver extraction and further minor changes in excise duty regulations. As a result of those measures and



additional windfall revenues from dividends of state-owned companies, revenue-to-GDP ratio is projected to increase from 38.5% in 2011 to 39.4% in 2012. On the expenditure side, structural measures which have remained in force from 2011 include: an expenditure rule limiting growth in all newly enacted and existing discretionary expenditure items to 1 pp. over the inflation rate, a further freeze in the wage fund of public sector employees and some minor cuts in social spending. These measures have been complemented by a decrease in complementary direct payments to farmers in the framework of the Common Agricultural Policy. Moreover, after the peak in first quarter of 2012, the government sharply cut public investment expenditure. Consequently, public investment spending is forecast to fall in nominal terms and the overall expenditure-to-GDP ratio to decrease from 43.5% in 2011 to 42.8% in 2012.

In 2013, the deficit is expected to continue to fall. On the revenue side, the main deficit-reducing measures include revenues from CO2 emission rights auctions, a further increase in excise duty on tobacco by 5 pps., a continued freeze in PIT thresholds and other changes in PIT and Corporate Income Tax (CIT). On the other hand, the share of

pension contributions retained in the public pillar will start to decrease in accordance with the original schedule (from 5.0% to 4.5% of gross wages). The main structural measures decreasing expenditure are a further freeze in the wage fund of public sector employees and the start of a gradual increase in retirement age. The headline deficit is expected to fall to 3.0% due to slowing but positive GDP growth and a further sharp decrease in public investment.

Given the structural character of most implemented reforms and a negative but relatively stable output gap, the structural deficit is set to follow the path of the headline deficit, falling from 5.0% in 2011 to 1.7% in 2014.

Thanks to the appreciation in the zloty's exchange rate, the further reduction in the headline deficit and the government's prudent debt management strategy, the general government debt is projected to fall from 56.4% in 2011 to 55.5% in 2012. Subsequently, it is forecast to slightly increase to 56.1% in 2014. The projected debt figures are, however, subject to considerable uncertainty due to high exchange-rate volatility affecting the debt valuation.

Table II.20.1:

**Main features of country forecast - POLAND**

|  | 2011   |              |       | 92-08 | Annual percentage change |      |      |      |      |      |
|--|--------|--------------|-------|-------|--------------------------|------|------|------|------|------|
|  | bn PLN | Curr. prices | % GDP |       | 2009                     | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 1523.2 |              | 100.0 | 4.6   | 1.6                      | 3.9  | 4.3  | 2.4  | 1.8  | 2.6  |
| Private consumption                              | 932.8  | 61.2         |       | 4.4   | 2.0                      | 3.1  | 2.5  | 1.6  | 1.5  | 2.1  |
| Public consumption                               | 274.8  | 18.0         |       | 3.5   | 2.1                      | 4.1  | -1.7 | -0.2 | 1.7  | 3.1  |
| Gross fixed capital formation                    | 309.7  | 20.3         |       | 7.6   | -1.2                     | -0.4 | 9.0  | 1.7  | -2.8 | 1.4  |
| of which : equipment                             | 106.5  | 7.0          |       | -     | -10.8                    | -3.3 | 9.7  | 5.5  | 2.5  | 6.8  |
| Exports (goods and services)                     | 688.7  | 45.2         |       | 10.6  | -6.8                     | 12.1 | 7.7  | 3.0  | 4.1  | 6.3  |
| Imports (goods and services)                     | 706.3  | 46.4         |       | 11.5  | -12.4                    | 13.9 | 5.5  | -0.2 | 2.1  | 5.2  |
| GNI (GDP deflator)                               | 1455.3 | 95.5         |       | 4.7   | 0.1                      | 4.0  | 3.1  | 2.4  | 1.8  | 2.5  |
| Contribution to GDP growth :                     |        |              |       |       |                          |      |      |      |      |      |
| Domestic demand                                  |        |              |       | 4.9   | 1.4                      | 2.6  | 3.0  | 1.3  | 0.7  | 2.1  |
| Inventories                                      |        |              |       | 0.1   | -2.5                     | 2.0  | 0.4  | -0.3 | 0.2  | 0.0  |
| Net exports                                      |        |              |       | -0.4  | 2.7                      | -0.7 | 0.9  | 1.4  | 0.9  | 0.5  |
| Employment                                       |        |              |       | -     | 0.4                      | 0.5  | 1.0  | 0.3  | 0.1  | 0.4  |
| Unemployment rate (a)                            |        |              |       | 14.3  | 8.2                      | 9.6  | 9.7  | 10.1 | 10.5 | 10.3 |
| Compensation of employees/head                   |        |              |       | 15.7  | 3.5                      | 4.7  | 4.0  | 3.5  | 3.4  | 4.6  |
| Real labour costs whole economy                  |        |              |       | -     | 2.2                      | 1.3  | 0.7  | 1.4  | 1.7  | 2.3  |
| Unit labour costs                                |        |              |       | -     | -1.4                     | -0.1 | -2.3 | -0.8 | -0.5 | 1.0  |
| Saving rate of households (b)                    |        |              |       | -     | 9.0                      | 8.5  | 2.8  | 1.4  | 1.8  | 2.2  |
| GDP deflator                                     |        |              |       | 11.8  | 3.7                      | 1.4  | 3.1  | 2.2  | 2.1  | 1.3  |
| Harmonised index of consumer prices              |        |              |       | -     | 4.0                      | 2.7  | 3.9  | 3.8  | 2.6  | 2.4  |
| Terms of trade of goods                          |        |              |       | 0.2   | 4.4                      | -1.4 | -1.9 | -2.4 | -0.5 | -1.7 |
| Merchandise trade balance (c)                    |        |              |       | -3.1  | -1.0                     | -1.8 | -2.1 | -1.8 | -1.2 | -1.4 |
| Current-account balance (c)                      |        |              |       | -2.3  | -3.1                     | -3.8 | -4.5 | -3.9 | -3.3 | -3.7 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | -1.6  | -1.9                     | -2.3 | -2.4 | -2.0 | -1.8 | -2.4 |
| General government balance (c)                   |        |              |       | -     | -7.4                     | -7.9 | -5.0 | -3.4 | -3.1 | -3.0 |
| Cyclically-adjusted budget balance (c)           |        |              |       | -     | -7.7                     | -8.0 | -5.0 | -2.9 | -2.0 | -1.7 |
| Structural budget balance (c)                    |        |              |       | -     | -8.0                     | -8.0 | -5.0 | -2.9 | -2.2 | -1.7 |
| General government gross debt (c)                |        |              |       | -     | 50.9                     | 54.8 | 56.4 | 55.5 | 55.8 | 56.1 |

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

## 21. PORTUGAL

### Faster-than-expected rebalancing towards net exports

#### Swift rebalancing of the economy

In the first half of 2012, real GDP fell by 2.8% y-o-y, in line with the spring forecast. While domestic demand deducted 7.1 pps. from growth, net trade added 4.3 pps. due to the buoyancy of exports which grew by 6.1% despite a worsening external environment. Following a period of stabilisation in the first half of this year, economic sentiment fell markedly across the board in September, with service-sector confidence hitting a record low.

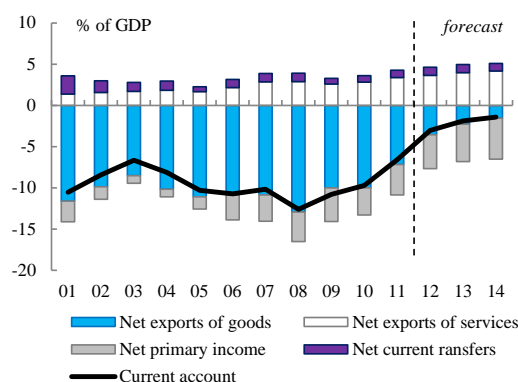
A strong fall in unit labour costs this year is expected to boost external price competitiveness and export market shares, partly compensating for the deteriorating external environment. Exports are therefore forecast to rise by about 4½% in this year, well above what might have been expected from the strength of external demand. Domestic demand is expected to shrink further due to the effects of fiscal consolidation and the continued weakness of the labour market. Overall, a 3.0% fall in real GDP is foreseen for this year, unchanged from the fifth Programme review projections and slightly below the spring forecast. Unemployment is set to rise further in the remainder of the year, reaching an average of 15½% of the labour force in 2012. HICP inflation, which is strongly affected by increases in indirect taxes and administrative prices, is expected to remain on a downward path, and to average 2.9% in 2012.

#### Economy to emerge from recession in 2013

The growth outlook for 2013 has worsened since the spring forecast, with additional budgetary consolidation weighing on domestic demand and a further downward revision of external demand curbing exports. Private consumption is set to suffer from the projected fall in disposable income following the increase in personal income tax in 2013, and is now forecast to decline by 1¾% in 2013 (down from -1% in the spring forecast). The sharp contraction in domestic consumption should have an adverse impact on gross fixed investment, which is projected to decline by 4½% in 2013. The marked downward revision compared to the spring forecast is mainly due to the negative carry-over of the large drop of investment in the second quarter of 2012, although the assumption of positive

investment growth rates as of mid-2013 is maintained. Negative carry-over effects will also affect the annual growth of other domestic demand components. Continued weak domestic demand is likely to weigh on employment in 2013 and the unemployment rate is expected to peak at above 16%. Stronger employment gains are expected only in 2014, when the economy is set to gain traction due to accelerated export activity. As a result of ample slack in the economy, price pressures should remain weak even when the economy is on a recovery path in 2014.

Graph II.21.1: Portugal - Current-account balance



The external balance should move into positive territory already in 2012. However, the adjustment of the current-account balance will be slower due to further expected rises in the primary income deficits linked to the still-very-high level of foreign indebtedness. The current-account deficit is projected to reach 1½% of GDP in 2014, down from 10% in 2010.

Risks to the macroeconomic outlook are tilted to the downside. Continued tensions in the euro area and particularly neighbouring Spain have the potential to spill over to Portugal through the trade, financial market or confidence channels. There is also a heightened risk of adverse macro-fiscal feedback loops, as the composition of the fiscal adjustment has moved strongly towards the revenue side.

#### Adjusting fiscal consolidation to the rebalancing economy

The faster-than-expected rebalancing of GDP away from domestic demand towards net exports and the more intense labour shedding have taken their toll on tax revenues and the social security

budget in 2012. Moreover, the fall in per capita income has led to a shift to lower personal income tax brackets and tilted consumption towards less tax-yielding goods. By contrast, expenditure is developing favourably, particularly on the public wage bill. Moreover, lower net interest payments, the reprogramming of EU structural funds and, possibly, one-off revenues from an airport concession should partly offset revenue losses.

For the remainder of the year, the government is taking additional measures to constrain the 2012 deficit to 5.0% of GDP, including the freezing of some not-yet-initiated investment projects and frontloading some of the 2013 budget measures. There are, however, downside risks to the fiscal projection, namely the classification of the sale of the airport concession as a deficit-reducing measure by the statistical authorities and possible delays in the implementation of the additional measures.

Additional consolidation efforts of about 3% of GDP will be adopted in 2013 to meet the 4.5% of GDP deficit target. The draft budget submitted to parliament includes, inter alia, on the expenditure

side, further decreases in the wage bill and intermediate consumption and a reduction in expenditure on social transfers. On the revenue side, the measures include a structural reform of the personal income tax through a reduction in the number of tax brackets and the introduction of a special surcharge, increases in excise duties and the reduction of tax expenditure. The 2013 consolidation effort is now strongly tilted towards the revenue side, and downside risks to fiscal projections may arise from a stronger-than-expected deterioration of domestic demand that could reduce the expected yield from the measures.

The 2014 fiscal projections include the authorities' commitment to adopt expenditure-reducing measures amounting to 1¾% of GDP. A detailed plan will be presented during the next Programme review and this will be fully specified in the 2013 Stability Programme. The budget deficit is projected to reach 5.0% of GDP in 2012, 4.5% in 2013 and 2.5% in 2014. The adjusted fiscal path would ensure a steady decline of the debt-to-GDP ratio over the medium-term after peaking slightly below 124% of GDP in 2013.

Table II.21.1:

**Main features of country forecast - PORTUGAL**

|  | 2011   |              |       | Annual percentage change |       |       |       |       |       |       |
|--|--------|--------------|-------|--------------------------|-------|-------|-------|-------|-------|-------|
|  | bn EUR | Curr. prices | % GDP | 92-08                    | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  | 170.9  |              | 100.0 | 2.1                      | -2.9  | 1.4   | -1.7  | -3.0  | -1.0  | 0.8   |
| Private consumption                              | 113.3  | 66.3         |       | 2.4                      | -2.2  | 2.1   | -3.8  | -5.9  | -1.7  | 0.2   |
| Public consumption                               | 34.3   | 20.1         |       | 2.3                      | 4.7   | 0.9   | -3.7  | -3.5  | -3.2  | -1.5  |
| Gross fixed capital formation                    | 30.9   | 18.1         |       | 1.9                      | -8.6  | -4.1  | -12.1 | -14.1 | -4.6  | 2.1   |
| of which : equipment                             | 8.8    | 5.2          |       | 3.9                      | -13.2 | -4.3  | -14.1 | -10.3 | 0.0   | 3.7   |
| Exports (goods and services)                     | 60.7   | 35.5         |       | 5.7                      | -10.9 | 8.8   | 7.7   | 4.3   | 2.7   | 4.8   |
| Imports (goods and services)                     | 67.2   | 39.3         |       | 5.8                      | -10.0 | 5.4   | -5.2  | -6.6  | -1.1  | 3.3   |
| GNI (GDP deflator)                               | 164.6  | 96.3         |       | 1.9                      | -3.4  | 2.2   | -2.1  | -3.4  | -1.5  | 0.4   |
| Contribution to GDP growth :                     |        |              |       |                          |       |       |       |       |       |       |
| Domestic demand                                  |        |              |       | 2.5                      | -2.5  | 0.7   | -5.7  | -7.1  | -2.5  | 0.2   |
| Inventories                                      |        |              |       | 0.2                      | -1.1  | 0.1   | -0.3  | 0.1   | 0.0   | 0.0   |
| Net exports                                      |        |              |       | -0.6                     | 0.7   | 0.6   | 4.4   | 4.1   | 1.5   | 0.7   |
| Employment                                       |        |              |       | 0.4                      | -2.6  | -1.5  | -1.5  | -4.0  | -1.6  | 0.3   |
| Unemployment rate (a)                            |        |              |       | 6.6                      | 10.6  | 12.0  | 12.9  | 15.5  | 16.4  | 15.9  |
| Compensation of employees/head                   |        |              |       | 5.6                      | 2.8   | 1.4   | -0.8  | -2.9  | 1.5   | 0.4   |
| Unit labour costs whole economy                  |        |              |       | 3.9                      | 3.1   | -1.6  | -0.7  | -4.0  | 0.9   | -0.1  |
| Real unit labour costs                           |        |              |       | 0.1                      | 2.2   | -2.6  | -1.3  | -4.3  | -0.6  | -1.3  |
| Saving rate of households (b)                    |        |              |       | -                        | 10.9  | 10.2  | 10.0  | 9.9   | 9.7   | 9.9   |
| GDP deflator                                     |        |              |       | 3.9                      | 0.9   | 1.1   | 0.7   | 0.3   | 1.5   | 1.2   |
| Harmonised index of consumer prices              |        |              |       | 3.5                      | -0.9  | 1.4   | 3.6   | 2.9   | 0.9   | 1.3   |
| Terms of trade of goods                          |        |              |       | 0.2                      | 5.1   | 0.1   | -2.1  | -0.3  | 0.6   | 0.4   |
| Merchandise trade balance (c)                    |        |              |       | -10.4                    | -10.0 | -10.0 | -7.2  | -3.5  | -2.3  | -1.6  |
| Current-account balance (c)                      |        |              |       | -8.2                     | -10.8 | -9.7  | -6.6  | -3.0  | -1.8  | -1.5  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | -6.1                     | -9.6  | -8.4  | -5.1  | -1.4  | -0.1  | 0.3   |
| General government balance (c)                   |        |              |       | -4.2                     | -10.2 | -9.8  | -4.4  | -5.0  | -4.5  | -2.5  |
| Cyclically-adjusted budget balance (c)           |        |              |       | -4.4                     | -8.8  | -9.1  | -3.2  | -3.1  | -2.5  | -0.9  |
| Structural budget balance (c)                    |        |              |       | -                        | -8.5  | -8.4  | -6.2  | -4.1  | -2.5  | -0.9  |
| General government gross debt (c)                |        |              |       | 58.7                     | 83.2  | 93.5  | 108.1 | 119.1 | 123.5 | 123.5 |

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

## 22. ROMANIA

### Modest recovery ahead

#### Subdued growth in 2012

GDP growth for 2012 is forecast to be relatively subdued at about 0.8%, with domestic demand as its main driver. Harsh winter conditions dragged down economic activity in the first quarter (0.1% q-o-q) but growth recovered in the second quarter (0.5% q-o-q) due to robust investment and private consumption. However, the severe summer drought, waning consumer confidence and renewed difficulties in absorbing EU funds point to a bleaker outlook. Weak economic activity is expected to depress import demand, keeping the current-account deficit broadly stable. Risks to growth continue to be tilted to the downside in 2012 but become more balanced over the forecast horizon. The main country-specific downside risks in 2012 relate to: (i) continuing domestic political uncertainties that could increase financing costs and hold back investment; and (ii) a higher-than-expected impact of the drought on agriculture.

#### Growth to recover modestly in 2013 and to accelerate in 2014 as structural reforms pay off

In 2013, GDP growth should recover to 2.2%. While investment is the main component behind growth, it is projected to slow down compared to 2012 due to depressed activity in the rest of the EU and domestic uncertainties. Credit activity is forecast to improve only modestly as banks continue to deleverage after a long period of deteriorating asset quality. Private consumption growth is expected to accelerate, although it will be held back by continuing needs for repairing households' balance sheets and by tight consumer credit lending standards. In 2013, unlike in 2010-12, government consumption is expected to deliver a marginal positive contribution to growth on account of public sector wage increases. Finally, in line with the projected modest domestic demand recovery, the current-account deficit is forecast to widen slightly, to 4.2% of GDP. For 2014, growth is expected to accelerate to 2.7% as the effects of the reforms implemented in labour and product markets start kicking in.

#### Inflation boosted by food prices

After temporary downward pressure on headline inflation in the first half of the year, HICP inflation increased to 5.4% in September due to rising food

prices and pass-through effects associated with the leu's exchange-rate depreciation. Inflation is currently projected to increase in the remainder of 2012 and to exceed the NBR's CPI inflation target ( $3\% \pm 1$  pp.) for end-2012. In line with the planned price deregulation of both retail and wholesale sectors, energy prices are expected to exert upward pressure on inflation over the forecast horizon. Food prices will remain elevated in the first part of 2013 in view of a negative base effect. Given the weak economy, wage pressures are likely to remain subdued although public sector wage increases may partially spill over into private sector wages. Conversely, a slower-than-expected recovery in the economy would have disinflationary effects. Going forward, annual inflation is currently projected to average 4.9% in 2013 and 3.3% in 2014.

#### Labour market remains weak

While employment growth turned positive in the second quarter of 2012, job creation is forecast to remain subdued in 2012 due to the difficult economic climate and to recover only modestly over the forecast period. This would not be enough to significantly reduce unemployment, which is projected to remain above 7% throughout the forecasting period. Real wage growth is expected to turn positive in 2012. To recover earlier cuts, public sector nominal wage growth is set to outpace private sector wage growth in both 2012 and 2013. Private sector average compensation growth is assumed to be anchored at around 4% per year, reflecting the modest economic recovery but also recent labour market reforms allowing for a better alignment of wage growth with productivity developments. In 2012, unit labour costs are expected to accelerate due to lower output growth, while slowing down over the forecast horizon on account of stronger economic growth and prudent wage policies.

#### 2012 deficit below 3% of GDP

The budget deficit is projected to decrease to 2.8% of GDP in 2012 from 5.5% in 2011 due to continued fiscal consolidation including through a continued freeze in pensions, the introduction of a new social assistance code, cuts in other social benefits and increases in excises. Since the spring 2012 forecast, the authorities have taken decisions

related to wages and health contributions for pensioners, which increase the deficit. However, they have compensated for this additional increase through a mix of savings from the National Programme for Infrastructure Development (PNDI which consists of a series of infrastructure works mainly related to water and sewage systems) and a reduction in the stock of payables by using revenue from the claw-back tax to pay down bills in the pharmaceutical sector.

### Budget deficit to be reduced further in 2013 and 2014 but risks remain

The deficit is forecast to decrease to 2.4% of GDP in 2013 under a no-policy-change assumption (as no draft budget is yet available), which includes the full impact of the rise in public sector wages. The government is also expected to foresee 0.2% of GDP in funding for the contracts that were signed under the PNDI programme. It will also have to ensure the necessary funding in the healthcare sector that will allow it to comply with the EU late

payments directive starting in March.<sup>(25)</sup> For 2014 the deficit is expected to decrease to 2% of GDP under a no-policy-change assumption. The structural deficit is projected to improve throughout the forecast horizon from close to -2% of GDP in 2012 to -1.0% of GDP in 2014. After increasing further to 34.8% of GDP in 2013 from 34.6% in 2012, Romania's public debt is expected to start to stabilise in 2014 following several years of rapid growth during the crisis.

The main risks to the budget over the forecast horizon relate to: (i) possible financial corrections linked to the absorption of EU funds or the financing from the national budget of priority projects; (ii) a renewed accumulation of arrears, especially at local government level; and (iii) lack of progress with restructuring state-owned enterprises that could result into renewed pressure on the budget in future years.

<sup>(25)</sup> According to the EU late payments directive all new contracts signed after March 2013 will have to be paid by the public administration within 60 days in the healthcare sector and within 30 days in the other sectors. Currently payment delays in the healthcare sector stand at 210 days.

Table II.22.1:

### Main features of country forecast - ROMANIA

| Main features of country forecast - ROMANIA      |                 |              |       |       |                          |       |      |      |      |      |  |
|--|-----------------|--------------|-------|-------|--------------------------|-------|------|------|------|------|--|
|  | 2011            |              |       |       | Annual percentage change |       |      |      |      |      |  |
|  | bn RON          | Curr. prices | % GDP | 92-08 | 2009                     | 2010  | 2011 | 2012 | 2013 | 2014 |  |
| GDP  |                 | 578.6        | 100.0 | 2.9   | -6.6                     | -1.6  | 2.5  | 0.8  | 2.2  | 2.7  |  |
| Private consumption                              |                 | 358.4        | 62.0  | 5.6   | -10.1                    | -0.4  | 1.3  | 0.8  | 1.9  | 2.4  |  |
| Public consumption                               |                 | 83.2         | 14.4  | 0.9   | 3.1                      | -4.4  | -3.5 | -2.3 | 2.1  | 1.9  |  |
| Gross fixed capital formation                    |                 | 142.1        | 24.6  | 9.8   | -28.1                    | -2.1  | 6.3  | 6.7  | 5.1  | 5.5  |  |
| of which : equipment                             |                 | 66.7         | 11.5  | 10.5  | -27.7                    | -32.7 | 7.0  | 6.7  | 5.5  | 6.1  |  |
| Exports (goods and services)                     |                 | 221.8        | 38.3  | 10.9  | -6.4                     | 14.0  | 9.9  | 0.2  | 3.9  | 5.9  |  |
| Imports (goods and services)                     |                 | 251.6        | 43.5  | 13.4  | -20.5                    | 11.9  | 10.5 | 0.5  | 5.2  | 6.6  |  |
| GNI (GDP deflator)                               |                 | 571.0        | 98.7  | 2.8   | -5.1                     | -1.5  | 2.3  | 1.0  | 2.1  | 2.5  |  |
| Contribution to GDP growth :                     | Domestic demand |              |       | 6.8   | -15.0                    | -1.6  | 1.8  | 1.8  | 2.8  | 3.3  |  |
|  | Inventories     |              |       | -1.6  | 1.4                      | 0.0   | 1.4  | -0.9 | 0.1  | 0.1  |  |
|  | Net exports     |              |       | -2.0  | 7.0                      | 0.0   | -0.8 | -0.1 | -0.8 | -0.7 |  |
| Employment                                       |                 |              |       | -2.3  | -2.0                     | -1.4  | 0.4  | 0.4  | 0.8  | 0.9  |  |
| Unemployment rate (a)                            |                 |              |       | -     | 6.9                      | 7.3   | 7.4  | 7.4  | 7.3  | 7.3  |  |
| Compensation of employees/head                   |                 |              |       | 59.7  | -1.9                     | 7.6   | 3.7  | 4.6  | 4.9  | 3.9  |  |
| Unit labour costs whole economy                  |                 |              |       | 51.6  | 2.9                      | 7.9   | 1.7  | 4.1  | 3.5  | 2.2  |  |
| Real unit labour costs                           |                 |              |       | -0.8  | -1.2                     | 1.8   | -5.9 | -0.2 | -0.8 | -1.3 |  |
| Saving rate of households (b)                    |                 |              |       | -     | -1.3                     | -2.5  | -    | -    | -    | -    |  |
| GDP deflator                                     |                 |              |       | 52.8  | 4.2                      | 6.0   | 8.1  | 4.4  | 4.4  | 3.5  |  |
| Harmonised index of consumer prices              |                 |              |       | -     | 5.6                      | 6.1   | 5.8  | 3.5  | 4.9  | 3.3  |  |
| Terms of trade of goods                          |                 |              |       | 1.6   | 1.2                      | 2.6   | 1.7  | 0.7  | 0.4  | 1.0  |  |
| Merchandise trade balance (c)                    |                 |              |       | -7.7  | -5.8                     | -4.8  | -5.5 | -5.4 | -5.8 | -5.9 |  |
| Current-account balance (c)                      |                 |              |       | -     | -4.2                     | -3.9  | -4.1 | -4.1 | -4.2 | -4.4 |  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -5.7  | -3.6                     | -3.7  | -4.0 | -4.0 | -4.1 | -4.3 |  |
| General government balance (c)                   |                 |              |       | -     | -9.0                     | -6.8  | -5.5 | -2.8 | -2.4 | -2.0 |  |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -     | -9.3                     | -6.1  | -5.0 | -1.9 | -1.4 | -1.0 |  |
| Structural budget balance (c)                    |                 |              |       | -     | -9.7                     | -6.1  | -3.9 | -1.9 | -1.4 | -1.0 |  |
| General government gross debt (c)                |                 |              |       | -     | 23.6                     | 30.5  | 33.4 | 34.6 | 34.8 | 34.8 |  |

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



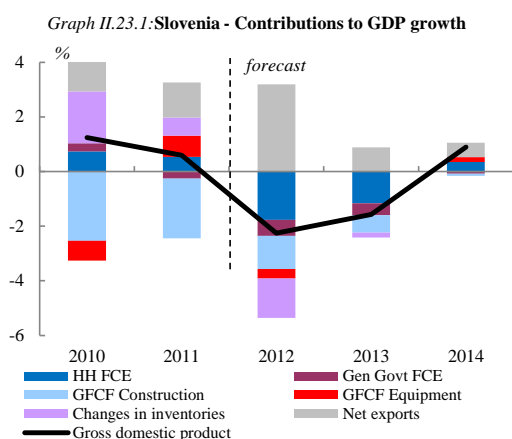
## 23. SLOVENIA

### Deleveraging needs delay recovery

#### Economy back in recession

Slovenia has slid back into recession, with strongly negative growth in mid-2012. This forecast predicts that the downturn will continue well into next year, yielding real GDP declines of 2¼% in 2012 and 1½% in 2013 followed by a return to modest growth of some 1% in 2014. This protracted weakness of the economy subdues inflation, wages and credit growth and pushes the current account further into surplus. However, cost competitiveness largely remains to be re-established and the weak economy also hinders fiscal adjustment and balance sheet repair and pushes the unemployment rate to 9½% by 2014.

The current downturn is affecting all domestic demand components. Gross fixed capital formation has remained strongly negative, particularly in construction. The inventory cycle has again turned negative, weighing on growth, and there has been a significant fall in private consumption, related in part to lower new car purchases and dented consumer confidence. These trends have suppressed imports, more than offsetting the fall in exports caused by the international environment and yielding a positive contribution to growth from net exports.



The stabilisation in the international environment from 2013 is expected to trigger stronger growth in export volumes, but this is not enough to overcome weak domestic demand. Gross fixed capital formation remains particularly weak, despite an assumed acceleration of EU structural funds absorption. A 1¾% drop in employment is

expected to bring the unemployment rate to around 9¼%. Inflation is expected to fall from 2¾% in 2012 to 2¼%. Falling commodity prices, static nominal wages and reduced inflationary pressure from depressed demand will be partially offset by higher taxes.

Going into 2014, domestic demand is projected to stabilise, while the pull from net exports continues to decrease, combining to produce a return to modest growth. With domestic demand stuck at a low level, inflation is projected to fall to 1½%.

The banking system remains fragile despite the second recapitalisation of the largest bank in June. With funding conditions remaining tight, banks are reducing their exposure to the over-indebted corporate sector. This forecast assumes broadly unchanged credit conditions with the real economy feeling little additional impact from the peak in sovereign funding stress in the third quarter of 2012. The forecast stabilisation of gross fixed capital formation in 2013 is clearly subject to downside risk in this respect.

#### Government deficit ratio reduced, but debt still to exceed 60% of GDP in 2014

The deficit is forecast to decline from 6.4% of GDP (including one-offs from capital support operations equal to 1% of GDP) in 2011 to 4.4% of GDP in 2012 as a result of the 2012 supplementary budget, which cut public sector wages for the first time and reinforced restraint in social transfers and intermediate consumption. Net capital expenditure was cut also compared to the realised expenditure for 2011. The tax system has been made more growth friendly with a gradual cut in the corporate income tax rate and more generous investment and R&D allowances.

The deficit for 2012 is forecast to be slightly higher than the 4.3% of GDP projected in the spring forecast mainly because of higher compensation of employees and intermediate consumption.

The 2013 deficit projection at 3.9% of GDP incorporates the full-year impacts of the May 2012 consolidation package and the draft two-year 2013-14 budget adopted by the government on 4 October. The parliamentary approval of the budget



is expected in late November. On the expenditure side the budget introduces additional cuts in the wage bill, prolongs the freeze in the indexation of pensions and incorporates effects of the draft pension and labour market reforms. Improved absorption of EU funds at the end of the current Multiannual Financial Framework underpins a rebound in net capital expenditure. On the revenue side, taken together higher indirect tax revenue from the narrower scope of the reduced VAT rate, higher environmental charges and new financial services tax and higher excise duty rates more than offset the further 1 pp. reduction in the corporate income tax rate and the increased threshold for the personal income tax bracket taxed at 41%.

In 2014, the deficit is projected at 4.1% of GDP. Except for a drop in the corporate income tax rate of 1 pp. to 16%, the draft budget proposes no other discretionary measures on the revenue side. Consequently, tax revenues are forecast to move in line with the tax base. The forecast incorporates rising interest expenditure, due to larger debt and higher interest rates, higher social transfers from growth in the number of pensioners and higher

public investment.

After deteriorating in recent years, the structural balance is projected to markedly improve in 2012 and 2013 as the output gap widens and the nominal deficit is reduced. However, in 2014 the increased headline deficit in combination with forecast real GDP growth running above potential would cause the structural balance to deteriorate again.

Gross government debt stood at 47% of GDP in 2011. The debt ratio is projected to increase over the forecast horizon to some 62% of GDP in 2014, mainly as a result of persisting primary deficits, rising interest rates and subdued GDP growth.

The deficit and debt projections are subject to risks from extensive state guarantees, the recent bank recapitalisations and possible further capital support operations of loss making state-owned enterprises. Finally, as the measures in the draft 2013-14 budget were not yet approved by parliament and subject to negotiations at the cut-off date, they are subject to risk, particularly as regards the overall composition of the package.

Table II.23.1:

**Main features of country forecast - SLOVENIA**

|  | 2011            |              |       |       | Annual percentage change |       |      |      |      |      |  |
|--|-----------------|--------------|-------|-------|--------------------------|-------|------|------|------|------|--|
|  | bn EUR          | Curr. prices | % GDP | 92-08 | 2009                     | 2010  | 2011 | 2012 | 2013 | 2014 |  |
| GDP  |                 | 36.2         | 100.0 | 3.7   | -7.8                     | 1.2   | 0.6  | -2.3 | -1.6 | 0.9  |  |
| Private consumption                              |                 | 20.9         | 57.8  | 3.7   | 0.1                      | 1.3   | 0.9  | -3.0 | -2.0 | 0.6  |  |
| Public consumption                               |                 | 7.5          | 20.8  | 3.1   | 2.5                      | 1.5   | -1.2 | -2.8 | -2.1 | -0.4 |  |
| Gross fixed capital formation                    |                 | 6.7          | 18.5  | 7.1   | -23.2                    | -13.8 | -8.1 | -8.9 | -3.8 | 0.6  |  |
| of which : equipment                             |                 | 2.8          | 7.9   | 9.5   | -28.9                    | -7.9  | 9.5  | -3.8 | 0.2  | 2.0  |  |
| Exports (goods and services)                     |                 | 26.2         | 72.4  | 5.3   | -16.7                    | 10.1  | 7.0  | 1.2  | 3.0  | 5.4  |  |
| Imports (goods and services)                     |                 | 25.8         | 71.2  | 6.9   | -19.5                    | 7.9   | 5.2  | -3.2 | 2.0  | 5.0  |  |
| GNI (GDP deflator)                               |                 | 35.7         | 98.6  | 3.5   | -7.2                     | 1.6   | 0.8  | -2.6 | -1.7 | 0.8  |  |
| Contribution to GDP growth :                     | Domestic demand |              |       | 4.3   | -6.1                     | -2.1  | -1.3 | -4.0 | -2.3 | 0.4  |  |
|  | Inventories     |              |       | 0.4   | -4.1                     | 1.9   | 0.7  | -1.4 | -0.2 | 0.0  |  |
|  | Net exports     |              |       | -1.0  | 2.4                      | 1.5   | 1.3  | 3.2  | 0.9  | 0.5  |  |
| Employment                                       |                 |              |       | -     | -1.8                     | -2.2  | -1.6 | -1.6 | -1.7 | -0.6 |  |
| Unemployment rate (a)                            |                 |              |       | -     | 5.9                      | 7.3   | 8.2  | 8.5  | 9.3  | 9.6  |  |
| Compensation of employees/head                   |                 |              |       | -     | 1.8                      | 3.9   | 1.6  | 0.5  | 0.4  | 1.5  |  |
| Unit labour costs whole economy                  |                 |              |       | -     | 8.5                      | 0.4   | -0.6 | 1.2  | 0.2  | 0.1  |  |
| Real unit labour costs                           |                 |              |       | -     | 4.7                      | 1.5   | -1.6 | 0.1  | -0.8 | -0.9 |  |
| Saving rate of households (b)                    |                 |              |       | -     | 14.9                     | 13.5  | 11.9 | 10.9 | 10.2 | 9.7  |  |
| GDP deflator                                     |                 |              |       | 16.4  | 3.6                      | -1.1  | 1.0  | 1.1  | 1.0  | 0.9  |  |
| Harmonised index of consumer prices              |                 |              |       | -     | 0.9                      | 2.1   | 2.1  | 2.8  | 2.2  | 1.6  |  |
| Terms of trade of goods                          |                 |              |       | 0.6   | 4.1                      | -4.8  | -1.8 | -1.2 | -0.6 | -0.6 |  |
| Merchandise trade balance (c)                    |                 |              |       | -3.1  | -1.5                     | -2.9  | -3.0 | -1.0 | -0.8 | -0.9 |  |
| Current-account balance (c)                      |                 |              |       | -0.8  | -0.4                     | -0.4  | 0.1  | 2.0  | 2.7  | 2.3  |  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -1.0  | -0.4                     | -0.3  | -0.2 | 2.1  | 3.1  | 3.1  |  |
| General government balance (c)                   |                 |              |       | -     | -6.0                     | -5.7  | -6.4 | -4.4 | -3.9 | -4.1 |  |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -     | -4.4                     | -4.6  | -5.7 | -3.0 | -2.0 | -2.7 |  |
| Structural budget balance (c)                    |                 |              |       | -     | -4.3                     | -4.6  | -4.7 | -2.8 | -2.0 | -2.7 |  |
| General government gross debt (c)                |                 |              |       | -     | 35.0                     | 38.6  | 46.9 | 54.0 | 59.0 | 62.3 |  |

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

## 24. SLOVAKIA

### Economy still resilient but losing pace in 2013

#### A supply shock spurs growth in 2012

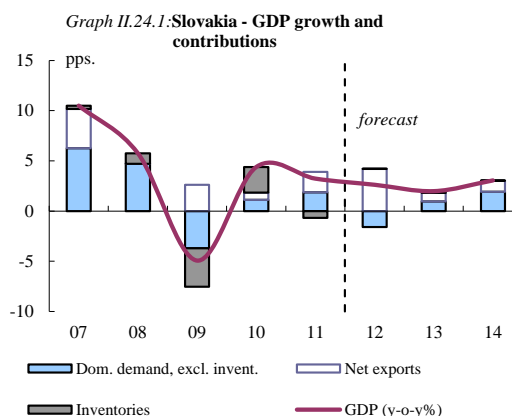
Following one of the fastest recoveries from the financial crisis in the euro area, GDP growth is forecast to decelerate only slightly to 2.6% in 2012. From the supply side, GDP growth will be almost entirely driven by a positive supply shock in the automotive industry. With past investment reaching the production phase, the production of passenger cars increased by more than 50% in the first half of 2012, accounting for more than a third of the increase in total exports. Excluding the automotive sector, the rest of the economy stagnated in the first half of the year. The construction sector, in particular, showed signs of weakness, with value added and investment both dropping by more than 10% during the first half of 2012. A strong base effect, tightening credit standards and persisting uncertainty about the external environment are exerting a drag on private investment. In the absence of a major improvement in the labour market, real household disposable income is set to continue to fall and – together with persistently low consumer confidence – to have a negative effect on private consumption.

#### Gradual switch in the engine of growth from exports to domestic demand

External demand has been the main engine of growth since the economy emerged from the crisis. Exports growth markedly accelerated in the first half of 2012, leading to a sizeable increase in export market shares in spite of weakening global trade. With production capacity in the car industry expected to reach full potential by the third quarter of 2012 and recent high-frequency indicators pointing to decreasing orders, a temporary slowdown in export growth is foreseen in 2013, followed by a subsequent pick-up in 2014 on the back of more robust growth in external demand.

Under the assumption of a tangible yet moderate impact of the recently approved consolidation measures on corporate investment, it is envisaged that fixed capital formation will progressively increase its support to growth. This projection hinges on the implementation of announced investment in equipment in the automotive industry in 2013 and an acceleration of drawing from EU funds to finance large infrastructure projects in 2014. After four years of stagnation,

consumption is expected to increase moderately in 2013 as households partly draw down savings and real disposable income improves slowly. The latter should become the main driver of a more substantial pick-up in consumption in 2014. As the upswing in domestic demand is projected to only partly offset the deceleration in net export growth, GDP growth is forecast to decelerate to 2% in 2013, also on account of the significant consolidation effort taking place in this year. A rebound in GDP growth to 3% is foreseen for 2014 as a result of an upturn in global growth and renewed consumer and investor confidence underpinned by the positive cyclical lift.



#### The labour market remains sluggish

Despite the strength of the post-crisis recovery, the economy did not grow fast enough to significantly reduce the unemployment rate, which currently stands around 14%, some 5 pps. above the pre-crisis level. Given the expected slowdown in economic activity in 2013, the labour market is likely to remain sluggish in that year, with a moderate pick-up in employment emerging only in 2014. As a result, productivity growth is forecast to remain positive. Wage pressures should remain rather muted throughout the forecast horizon keeping unit labour costs in check.

#### Inflationary pressures easing in 2013

After rebounding in 2011, HICP inflation is forecast at 3.7% in 2012 largely driven by a continuing increase in energy and commodity prices and by a pick-up in the prices of non-energy industrial goods after years of stagnation. Barring higher-than-expected rises in energy and commodity prices, inflation is set to decelerate to

close to 2% in 2013, and stabilise thereafter on account of subdued domestic demand pressures and the petering-out of strong base effects from previous shocks.

### Fiscal consolidation set to resume in 2013

The strong expenditure-based budgetary effort observed in 2011, which curbed the headline deficit by almost 3 pps. to 4.9% of GDP, did not continue in 2012. The deficit is estimated to remain close to 5% of GDP. Substantial shortfalls in VAT, excise duties and income tax collection on the revenue side, coupled with higher-than-budgeted growth in expenditure on healthcare and subsidies are partly mitigated by higher collection of social contributions and lower-than-expected spending on pensions. In addition, it is estimated that revenue measures adopted during the summer of 2012 – including a reduction in the contribution rate for the fully funded pillar in favour of the PAYG scheme, a broadening of the base of the bank levy introduced in January, an additional one-off bank levy for the last quarter of 2012 and a special levy for companies operating in a regulated environment – will also help contain the deficit.

Based on the 2013-15 draft budget, a major improvement in public finances is projected for 2013, with the headline deficit reaching 3.2% of GDP. Revenues are the main driving factor of the adjustment. In addition to the measures entering into force in 2012, the government adopted an increase in the corporate income tax from 19% to 23%, introduced a new 25% tax bracket in the personal income tax on higher incomes, adjusted tax regimes for self-employed and atypical work contracts (i.e. workers 'by agreement'), unified and increased maximum assessment bases for social contributions and increased administration fees. The impact of the revenue package in 2013 amounts to some 1.2% of GDP. The forecast also incorporates a part of envisaged savings on the public wage bill and investment. The structural balance should reach 3¼% of GDP in 2013. Under the no-policy-change assumption, a slight improvement is projected for 2014, reflecting mainly the acceleration of economic activity and a more tax-rich GDP growth composition. The public debt ratio is expected to increase by some 5 pps. to 56% of GDP in 2014.

Table II.24.1:

### Main features of country forecast - SLOVAKIA

|  | 2011   |              |       | 92-08 | Annual percentage change |      |      |       |      |      |
|--|--------|--------------|-------|-------|--------------------------|------|------|-------|------|------|
|  | bn EUR | Curr. prices | % GDP |       | 2009                     | 2010 | 2011 | 2012  | 2013 | 2014 |
| GDP  | 69.1   | 100.0        |       | -     | -4.9                     | 4.4  | 3.2  | 2.6   | 2.0  | 3.0  |
| Private consumption                              | 39.7   | 57.5         |       | -     | 0.2                      | -0.7 | -0.5 | -0.1  | 0.7  | 1.3  |
| Public consumption                               | 12.4   | 18.0         |       | -     | 6.1                      | 1.0  | -4.3 | -0.6  | 0.1  | 1.6  |
| Gross fixed capital formation                    | 16.0   | 23.1         |       | -     | -19.7                    | 6.5  | 14.2 | -6.2  | 2.5  | 4.2  |
| of which : equipment                             | 8.1    | 11.8         |       | -     | -26.6                    | 11.1 | 46.7 | -11.0 | 2.0  | 3.6  |
| Exports (goods and services)                     | 62.0   | 89.7         |       | -     | -16.3                    | 16.0 | 12.7 | 7.8   | 4.3  | 6.5  |
| Imports (goods and services)                     | 61.6   | 89.1         |       | -     | -18.9                    | 14.9 | 10.1 | 3.2   | 3.5  | 5.7  |
| GNI (GDP deflator)                               | 67.6   | 97.8         |       | -     | -3.7                     | 3.8  | 2.3  | 2.8   | 1.8  | 3.1  |
| Contribution to GDP growth :                     |        |              |       | -     |                          |      |      |       |      |      |
| Domestic demand                                  |        |              |       | -     | -3.7                     | 1.1  | 1.9  | -1.6  | 1.0  | 1.9  |
| Inventories                                      |        |              |       | -     | -3.8                     | 2.5  | -0.7 | 0.0   | 0.2  | 0.0  |
| Net exports                                      |        |              |       | -     | 2.6                      | 0.7  | 2.0  | 4.2   | 0.8  | 1.1  |
| Employment                                       |        |              |       | -     | -2.0                     | -1.5 | 1.8  | 0.3   | 0.1  | 0.5  |
| Unemployment rate (a)                            |        |              |       | -     | 12.1                     | 14.5 | 13.6 | 13.5  | 13.5 | 13.1 |
| Compensation of employees/head                   |        |              |       | -     | 2.5                      | 5.1  | 1.1  | 1.3   | 2.1  | 2.5  |
| Unit labour costs whole economy                  |        |              |       | -     | 5.7                      | -0.9 | -0.4 | -1.0  | 0.2  | 0.0  |
| Real unit labour costs                           |        |              |       | -     | 7.0                      | -1.4 | -2.0 | -3.7  | -1.5 | -2.1 |
| Saving rate of households (b)                    |        |              |       | -     | 6.9                      | 10.7 | 9.8  | 9.0   | 7.6  | 7.7  |
| GDP deflator                                     |        |              |       | -     | -1.2                     | 0.5  | 1.6  | 2.8   | 1.8  | 2.1  |
| Harmonised index of consumer prices              |        |              |       | -     | 0.9                      | 0.7  | 4.1  | 3.7   | 1.9  | 2.0  |
| Terms of trade of goods                          |        |              |       | -     | -0.7                     | -0.8 | -1.5 | -0.4  | -0.2 | 0.0  |
| Merchandise trade balance (c)                    |        |              |       | -     | 1.1                      | 0.8  | 1.1  | 4.8   | 5.4  | 6.1  |
| Current-account balance (c)                      |        |              |       | -     | -2.5                     | -2.5 | -2.5 | 1.4   | 1.4  | 2.2  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | -     | -1.7                     | -0.9 | -0.8 | 2.7   | 2.6  | 3.3  |
| General government balance (c)                   |        |              |       | -     | -8.0                     | -7.7 | -4.9 | -4.9  | -3.2 | -3.1 |
| Cyclically-adjusted budget balance (c)           |        |              |       | -     | -7.3                     | -7.6 | -4.9 | -4.9  | -2.9 | -2.8 |
| Structural budget balance (c)                    |        |              |       | -     | -7.5                     | -7.4 | -5.4 | -5.1  | -3.2 | -2.8 |
| General government gross debt (c)                |        |              |       | -     | 35.6                     | 41.0 | 43.3 | 51.7  | 54.3 | 55.9 |

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

## 25. FINLAND

### Growth losing pace, but labour market remaining strong

#### Slow recovery in sight after weak 2012

After a strong first quarter mainly driven by private consumption, growth turned negative in all demand components in the second quarter of 2012. Growth perspectives for the second half of the year look grim, with slow world growth weighing on exports and domestic restructuring impacting investments and production. This is expected to result in a near standstill, with the Finnish economy posting growth of just 0.1% for 2012.

During 2013 and 2014 confidence is expected to gradually return, resulting in a slowly picking up recovery. Private consumption will experience a dip in the first quarter of 2013 due to the planned VAT increase, but will return to, albeit slow, growth afterwards on the back of stable disposable income despite slightly rising unemployment figures. Although the restructuring of export-oriented industries will take time, export growth is expected to pick up again as imports recover in the main EU trading partners. For investments and imports, the rebound starts in the second half of 2013. Financing conditions for investments remain adequate, since Finnish banks benefit from good credit ratings and sound liquidity positions.

Risks to the outlook are slightly tilted downwards, with major challenges stemming from the ongoing restructuring in certain industries, notably the electronics sector, which could impact employment and export performance more than projected.

#### Domestic-demand-driven growth to continue

Household consumption in the first quarter of 2012 was supported by temporary factors, such as the payment of one-off bonuses in early 2012. Car sales increased in the first quarter by 34% y-o-y due to increases in the car registration tax that took effect in April. This increase in consumption was offset by a drop of equal size in the second quarter.

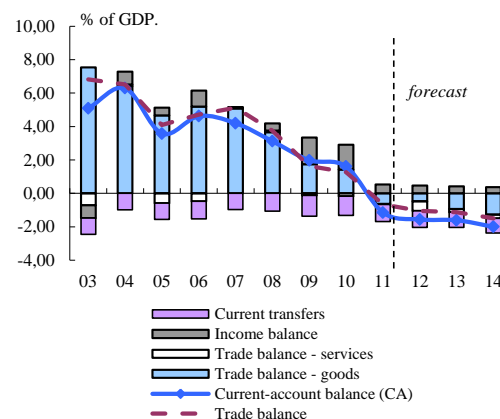
The consumption outlook for 2013 is influenced by the announced 1 pp. VAT increase and by increases in income taxation. While households might advance some purchases from 2013 to 2012 and hereby boost consumption in the last quarter of 2012, consumption growth will be affected in 2013 by slow growth in real disposable income and

reaccelerate again in 2014. Real disposable income growth is affected by the wage agreement for 2012 and 2013, setting moderate wage growth, combined with an effective income tax increases stemming from the non-adjustment of wage brackets. Household savings are expected to stabilise around 8.2% of disposable income, below the levels of 2009-10, thanks to the gradual return of consumer confidence.

#### Trade balance set to decline slightly

With exports declining in 2012 and thereafter only marginally improving over the forecast horizon, a return to a positive trade balance is not in sight. Imports are expected to decline less than exports in 2012, while picking up again in 2013-14 driven by moderate private consumption and investments growth in 2014. As a result, the external balance of goods and services is set to remain negative and to continue on a downwards trend from 2012 to 2014, albeit at a slower pace than in recent years.

Graph II.25.1: Finland - Trade balance and current-account balance



#### Labour market is set to remain relatively strong

The fluctuations in GDP did not substantially affect the labour market in the first half of 2012, where employment and unemployment have remained stable. The effect of sluggish growth on the labour market is felt more clearly in the second half of 2012, resulting in an increase in unemployment. Finnish employers are expected to reduce the use of temporary layoff support in the remainder of 2012 and to resort to permanent payroll cuts. This can be explained by generally low expectations regarding growth perspectives in the near future – the same factor that explains the

drop in investments. Over the forecast period, the total labour force will remain stable, with a small ageing-related decline in working age population offset by an increase in the activity rate. Unemployment is forecast to increase to 8% in 2013 and to remain around the same level in 2014.

The collective wage agreement for 2012 and 2013 provides for moderate wage growth. However, the increase in unit labour costs is not corrected as wages continue to grow faster than productivity.

### Prices stabilising in 2013-14

Inflation is set to reach 3% in 2012, incorporating an upward push from increases in indirect taxes. Despite the VAT increase of 1 pp. in 2013, inflation is set to recede to 2.5% in 2013 and 2.2% in 2014. The collective wage agreement for 2012 and 2013 has only a limited impact on inflation.

### Public finances

Finland has undertaken significant adjustment measures to strengthen the central government

finances. The central government deficit is the main source of the general government's deficit. Government revenues increase in 2013 on account of the 1% VAT increase and the effective increase in income tax, as tax brackets will not be adjusted for inflation. The government is benefiting from exceptionally low interest rates in financing its borrowing needs. In addition to tax increases, central government expenditure does not grow in real terms in 2013 as system of expenditure ceilings is used.

Central and local government finances will remain in deficit over the forecast period and social security funds will continue to be in surplus. The general government deficit is expected to worsen in 2012 compared to 2011 due to slower than expected growth, but to decrease in 2013 and 2014 on account of adjustment measures undertaken by the government and accelerating growth. The structural budget balance follows the same pattern. Gross debt is forecast to continue to grow and reach 55% of GDP in 2014.

Table II.25.1:

### Main features of country forecast - FINLAND

|  | 2011   |              |       | Annual percentage change |       |       |      |      |      |      |
|--|--------|--------------|-------|--------------------------|-------|-------|------|------|------|------|
|  | bn EUR | Curr. prices | % GDP | 92-08                    | 2009  | 2010  | 2011 | 2012 | 2013 | 2014 |
| GDP  | 189.4  | 100.0        | 2.9   |                          | -8.5  | 3.3   | 2.7  | 0.1  | 0.8  | 1.3  |
| Private consumption                              | 105.2  | 55.5         | 2.5   |                          | -2.9  | 3.3   | 2.5  | 1.1  | 0.4  | 1.5  |
| Public consumption                               | 46.0   | 24.3         | 1.1   |                          | 1.1   | -0.3  | 0.4  | -0.2 | 0.5  | 0.8  |
| Gross fixed capital formation                    | 37.1   | 19.6         | 2.5   |                          | -13.2 | 1.9   | 6.8  | -0.8 | -0.1 | 1.8  |
| of which : equipment                             | 9.5    | 5.0          | 2.7   |                          | -11.7 | -11.8 | 19.2 | -4.0 | -1.8 | 2.5  |
| Exports (goods and services)                     | 77.1   | 40.7         | 8.7   |                          | -21.3 | 7.5   | 2.6  | -2.7 | 0.7  | 1.5  |
| Imports (goods and services)                     | 78.3   | 41.4         | 7.0   |                          | -17.2 | 6.9   | 5.7  | -1.7 | 0.3  | 1.8  |
| GNI (GDP deflator)                               | 190.4  | 100.5        | 3.2   |                          | -7.5  | 3.2   | 1.8  | 0.0  | 0.8  | 1.2  |
| Contribution to GDP growth :                     |        |              |       |                          |       |       |      |      |      |      |
| Domestic demand                                  |        |              | 2.0   |                          | -4.1  | 2.1   | 2.7  | 0.4  | 0.3  | 1.4  |
| Inventories                                      |        |              | 0.2   |                          | -1.9  | 0.8   | 1.7  | -1.6 | 0.5  | 0.0  |
| Net exports                                      |        |              | 0.9   |                          | -2.6  | 0.4   | -1.2 | -0.4 | 0.2  | -0.1 |
| Employment                                       |        |              | 0.5   |                          | -2.6  | -0.1  | 1.1  | 0.3  | -0.2 | 0.2  |
| Unemployment rate (a)                            |        |              | 10.8  |                          | 8.2   | 8.4   | 7.8  | 7.9  | 8.1  | 8.0  |
| Compensation of employees/head                   |        |              | 3.1   |                          | 2.3   | 1.8   | 3.4  | 3.3  | 3.3  | 3.4  |
| Unit labour costs whole economy                  |        |              | 0.6   |                          | 9.0   | -1.6  | 1.8  | 3.5  | 2.2  | 2.3  |
| Real unit labour costs                           |        |              | -1.1  |                          | 7.4   | -2.0  | -1.3 | 0.8  | 0.3  | 0.5  |
| Saving rate of households (b)                    |        |              | 9.3   |                          | 11.7  | 10.6  | 8.6  | 8.1  | 8.2  | 8.3  |
| GDP deflator                                     |        |              | 1.7   |                          | 1.5   | 0.4   | 3.1  | 2.7  | 1.9  | 1.8  |
| Harmonised index of consumer prices              |        |              | 1.8   |                          | 1.6   | 1.7   | 3.3  | 3.0  | 2.5  | 2.2  |
| Terms of trade of goods                          |        |              | -0.9  |                          | 1.4   | -2.4  | -2.3 | 0.0  | -0.8 | -0.8 |
| Merchandise trade balance (c)                    |        |              | 7.5   |                          | 1.8   | 1.4   | -0.6 | -0.5 | -0.9 | -1.3 |
| Current-account balance (c)                      |        |              | 4.2   |                          | 2.0   | 1.6   | -1.1 | -1.6 | -1.6 | -2.0 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              | 4.2   |                          | 2.1   | 1.7   | -1.0 | -1.7 | -1.5 | -1.9 |
| General government balance (c)                   |        |              | 0.7   |                          | -2.5  | -2.5  | -0.6 | -1.8 | -1.2 | -1.0 |
| Cyclically-adjusted budget balance (c)           |        |              | 0.8   |                          | 1.0   | -0.5  | 0.3  | -0.6 | -0.1 | -0.3 |
| Structural budget balance (c)                    |        |              | -     |                          | 1.0   | -0.4  | 0.3  | -0.6 | -0.1 | -0.3 |
| General government gross debt (c)                |        |              | 46.0  |                          | 43.5  | 48.6  | 49.0 | 53.1 | 54.7 | 55.0 |

(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.

## 26. SWEDEN

### Slowdown but no recession

#### A stronger-than-expected recovery in early 2012

In 2010 and 2011, the Swedish economy enjoyed very strong growth, with a GDP growth rate of 6.1% in 2010 and 3.9% in 2011. In the last quarter of 2011, the economy contracted by 1.1% in the wake of the euro-area sovereign-debt crisis and global slowdown. However, growth returned in the first half of 2012 at a surprisingly strong level, triggered by resilient household consumption, investment as well as net exports. GDP grew at around 0.7% q-o-q in the first two quarters.

#### Growth to stall in the second semester but good prospects for 2013-14

The second half of 2012 is likely to be characterised by stagnation. Industrial confidence has dropped notably since April, reflecting decreasing new domestic orders and the expected effect of the strong krona on Swedish exports. While capital formation was held up by strong equipment investment in the first half of the year, currently more cautious companies are likely to cut back on their investment plans in the coming months, adding to continuously declining construction investment. Financing conditions remain favourable, supported by low domestic policy rates and wide access to foreign funding for Swedish banks. During 2013, as uncertainty subsides and interest rates stay low, investment is expected to pick up strongly to compensate for relatively low investment levels in previous years.

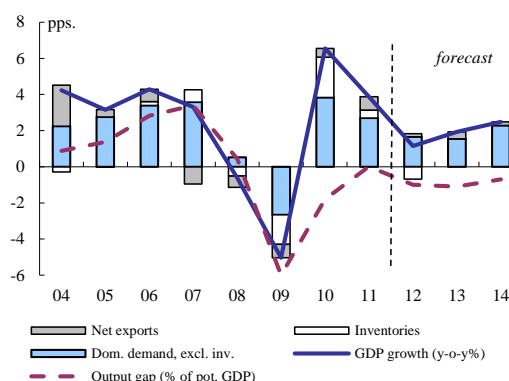
Households still remain relatively optimistic, encouraged by a rise on the stock market during the summer, stable house prices and decreasing mortgage rates. Real income growth is sustained by real wages, which continue to grow at a solid pace of 2-2.5% a year supported by low inflation. In the coming months, household consumption is likely to be hampered by the labour market weakening in reaction to sluggish growth. In 2013 and 2014, households are expected to increase their consumption gradually in response to an improving labour market and expansionary fiscal policy, which is likely to target household income, in particular in the election year 2014.

Swedish exports have so far been rather resilient to the euro-area recession, benefiting from a large

and diversified export market, which extends beyond Europe. Nevertheless, the strengthening of the currency by 10% against the euro and 3% in nominal effective terms over the last year is likely to sap prospects for Swedish exports in the coming period. Increasingly important exports of services will likely be less affected by the currency appreciation than merchandise exports. Overall, exports are expected to expand only mildly in 2012 and regain dynamics in 2013 and 2014 in the wake of higher demand mainly from the euro area. Overall, annual GDP growth is forecast to decelerate to 1.1% in 2012 before picking up to 1.9% in 2013 and 2.5% in 2014.

The labour market has been stable over the last year, with solid employment growth and the unemployment rate hovering around 7.5%. Nevertheless, most recent indicators, such as the companies' hiring plans, point to weaker developments in the labour market in the coming months. Only in the second half of 2013, is employment expected to resume; the unemployment rate will start to decline gradually to fall below 7% at the end of the forecast horizon.

Graph II.26.1: Sweden - GDP growth and contributions



HICP inflation is forecast to increase from 1% in 2012 to 2% at the end of the forecast horizon. Inflation has been very low over the past year (between 0.5 and 1%), reflecting low capacity utilisation and the strong krona. It is likely to pick up once the downward pressure from krona appreciation has eased and the economic activity strengthens. Declining commodity prices will prevent inflation from rising more markedly. Wage pressures are expected to remain low, as the new wage bargaining round in early 2013 is likely to



result in similar wage agreements as the round concluded in 2011-12 (2.4% increase over a year).

### Country-specific risks have subsided

The Swedish economy has shown a certain detachment from economic developments in the euro area, in particular as far as the trading channel is concerned. However, risks related to a possible contagion through the financial channel remain important. While the Swedish banking sector appears rather resilient, its heavy reliance on short-term financing makes it vulnerable to potential funding halts in case of a larger disruption in the financial market.

As regards the housing market, concerns about a more pronounced price correction have also weakened. House prices have been broadly stable over the last year, despite escalating uncertainties related to the sovereign-debt crisis, economic contraction and higher mortgage rates in the second half of 2011. At present, risks related to the housing markets are more balanced. While the sovereign-debt concerns and weak global economic outlook have a clear discouraging effect, expansionary monetary policy since late 2011 is likely to provide an impetus for rising mortgage

lending and house prices. As Swedish households are rather sensitive to mortgage rates, three successive repo rate cuts have already resulted in a slight revival in the housing market. Krona exchange rate developments represent another risk both to the GDP and inflation forecast.

### Government finances to remain close to balance despite fiscal stimulus

The general government balance was in surplus of 0.4% of GDP in 2011. With the slowdown in economic activity, it is likely to end in balance in 2012. In 2013, it is likely to deteriorate further to a deficit of about 0.3% of GDP due to fiscal stimulus as announced in the 2013 draft budget of about 0.5% of GDP, and higher pension payments. The stimulus partly extends into 2014 when the government finances are set to return to a surplus of 0.4% of GDP on account of higher growth. As a result of the stimulus, the structural balance is estimated to deteriorate from 0.6 to 0.3% of GDP between 2012 and in 2013, but it is forecast to improve to 0.7% of GDP in 2014. Higher growth and planned privatisation projects should add to a further decline in the public debt-to-GDP ratio from 37.4 to 34.1% over 2012-14.

Table II.26.1:

#### Main features of country forecast - SWEDEN

| Main features of Swedish forecast - SWEDEN       |                 |              |       |       |                          |      |      |      |      |      |
|--|-----------------|--------------|-------|-------|--------------------------|------|------|------|------|------|
|  | 2011            |              |       | 92-08 | Annual percentage change |      |      |      |      |      |
|  | bn SEK          | Curr. prices | % GDP |       | 2009                     | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  |                 | 3502.5       | 100.0 | 2.5   | -5.0                     | 6.6  | 3.9  | 1.1  | 1.9  | 2.5  |
| Private consumption                              |                 | 1672.9       | 47.8  | 1.9   | -0.3                     | 4.0  | 2.1  | 1.5  | 1.6  | 2.5  |
| Public consumption                               |                 | 926.0        | 26.4  | 0.7   | 2.2                      | 2.1  | 1.7  | 0.9  | 0.9  | 0.9  |
| Gross fixed capital formation                    |                 | 646.0        | 18.4  | 2.9   | -15.5                    | 7.2  | 6.7  | 4.0  | 2.9  | 4.4  |
| of which : equipment                             |                 | 239.8        | 6.8   | 5.9   | -22.7                    | 11.9 | 3.9  | 4.8  | 4.0  | 5.0  |
| Exports (goods and services)                     |                 | 1748.8       | 49.9  | 7.0   | -13.8                    | 11.4 | 7.1  | 0.5  | 3.1  | 5.6  |
| Imports (goods and services)                     |                 | 1531.5       | 43.7  | 5.7   | -14.3                    | 12.0 | 6.3  | 0.2  | 2.7  | 6.0  |
| GNI (GDP deflator)                               |                 | 3564.2       | 101.8 | 3.0   | -6.5                     | 6.8  | 3.5  | 1.2  | 2.0  | 2.5  |
| Contribution to GDP growth :                     | Domestic demand |              |       | 1.6   | -2.7                     | 3.8  | 2.7  | 1.7  | 1.6  | 2.3  |
|  | Inventories     |              |       | 0.1   | -1.6                     | 2.2  | 0.4  | -0.7 | 0.0  | 0.0  |
|  | Net exports     |              |       | 0.8   | -0.7                     | 0.5  | 0.8  | 0.2  | 0.4  | 0.2  |
| Employment                                       |                 |              |       | 0.1   | -2.4                     | 1.2  | 2.2  | 0.4  | 0.5  | 1.0  |
| Unemployment rate (a)                            |                 |              |       | 7.4   | 8.3                      | 8.4  | 7.5  | 7.5  | 7.4  | 6.9  |
| Compensation of employees/head                   |                 |              |       | 3.9   | 1.6                      | 2.8  | 0.8  | 2.9  | 3.0  | 3.4  |
| Unit labour costs whole economy                  |                 |              |       | 1.4   | 4.4                      | -2.4 | -0.8 | 2.2  | 1.5  | 1.9  |
| Real unit labour costs                           |                 |              |       | -0.3  | 2.3                      | -3.2 | -1.8 | 1.2  | 0.1  | 0.0  |
| Saving rate of households (b)                    |                 |              |       | 8.3   | 13.8                     | 11.3 | 12.9 | 14.0 | 14.7 | 14.4 |
| GDP deflator                                     |                 |              |       | 1.8   | 2.1                      | 0.8  | 1.0  | 1.0  | 1.5  | 2.0  |
| Harmonised index of consumer prices              |                 |              |       | 1.9   | 1.9                      | 1.9  | 1.4  | 1.0  | 1.3  | 1.8  |
| Terms of trade of goods                          |                 |              |       | -0.9  | 2.2                      | -1.1 | -1.4 | -0.7 | 0.0  | 0.0  |
| Merchandise trade balance (c)                    |                 |              |       | 6.0   | 3.1                      | 2.6  | 2.6  | 2.4  | 2.6  | 2.6  |
| Current-account balance (c)                      |                 |              |       | 4.7   | 6.9                      | 6.8  | 6.5  | 6.4  | 6.5  | 6.5  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | 4.5   | 6.7                      | 6.6  | 6.4  | 6.3  | 6.4  | 6.4  |
| General government balance (c)                   |                 |              |       | -1.5  | -0.7                     | 0.3  | 0.4  | 0.0  | -0.3 | 0.4  |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -1.0  | 2.9                      | 1.4  | 0.3  | 0.6  | 0.3  | 0.8  |
| Structural budget balance (c)                    |                 |              |       | -     | 2.9                      | 1.4  | 0.3  | 0.6  | 0.3  | 0.7  |
| General government gross debt (c)                |                 |              |       | 58.5  | 42.6                     | 39.5 | 38.4 | 37.4 | 36.2 | 34.1 |

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

## 27. THE UNITED KINGDOM

### Subdued growth amid continuing uncertainty

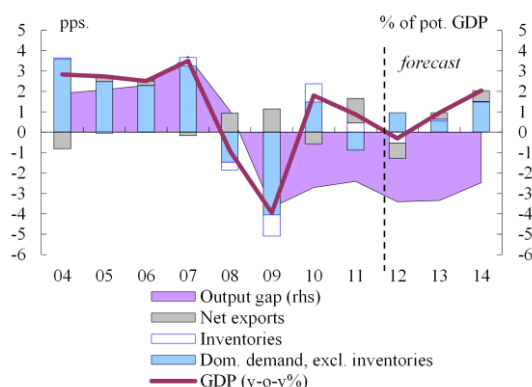
#### Growth outturn unexpectedly weak

The UK re-entered a recession, technically speaking, in the first quarter of 2012 as this was the second consecutive quarter of negative growth (-0.3%). This was exacerbated in the second quarter of this year with a further decline of -0.4% over the previous three months, driven in large part by the impact of an extra bank holiday in June to celebrate the Queen's Diamond Jubilee.

It had been foreseen that net exports would play a stronger role in 2012, given the relatively weak currency. However, this did not come to fruition. Exports fell in the first two quarters of 2012, by -1.6% and -1.1%, respectively. Furthermore, imports actually increased by 1.4% in the second quarter and thus were a key factor in pulling down growth. Investment (GFCF) had picked up in the first quarter of the year but dropped back substantially (-2.7%) in the second. Likewise, consumption had shown signs of recovery in the preceding quarters but fell in the second quarter by 0.2%.

#### Outlook for growth remaining subdued

Graph II.27.1: The United Kingdom - Output gap and contributions to GDP growth



A rebound is expected in the third quarter of 2012 as a result of temporary factors, namely the reversal of the effect of the additional holiday in the previous quarter but also a small boost from the Olympics. However, the outlook for growth remains very weak in the short term with the main risks to the macroeconomic forecast stemming from weaker-than-expected consumption and investment, and increased turmoil in the euro area.

The survey indicators, PMIs for manufacturing, services and construction, had shown signs of improvement in August but both manufacturing and services declined in September to 48.4 and 52.2, respectively, whilst the construction PMI edged slightly upwards to 49.5 but remained below the 50 benchmark which is indicative of growth.

The outlook for the remainder of 2012 remains bleak with negative growth of -0.3% forecast for the year as a whole. The following year should see a marginal improvement to growth of 0.9%, as rising wages and low stable inflation stimulate consumption somewhat, along with increases in investment and net trade towards the latter part of the year. This strengthening trend is forecast to continue in 2014 with growth expected at 2.0%.

#### Consumption improving

Consumption growth has been extremely weak, declining in four of the last six quarters. The main reason had been low wage growth coupled with exceptionally high inflation, which peaked in September 2011. However, owing to recent rises in employment and declining inflation throughout 2012, consumption may finally give the economy a much-needed injection in 2013 and 2014, though initially at a low magnitude.

The household saving rate had been on an upward trend as households were deleveraging but this is likely to reverse somewhat as real wages increase, household balance sheets strengthen and uncertainty falls. The saving rate is forecast to fall from 6.1% in 2012 to 5.8% in 2014.

#### Investment held back by uncertainty and funding constraints

Private investment has so far failed to stimulate growth despite the large corporate surplus. However, much of this may be in the hands of extraction companies who do not necessarily invest specifically in the UK. It appears that the uncertainty in the economic outlook is holding back investment decisions with credit constraints, mainly for SMEs, also curtailing activity.

In fact, the flow of credit has remained tight since spring as lending to non-financial corporations continued to retrench and credit growth to

households remained anaemic. While the latter is partially motivated by the ongoing deleveraging process of households, interest rate spreads for corporate and private sector loans remain elevated and high bank wholesale funding costs continue to constrain the supply of credit. Overall, low credit availability continues to weigh down on growth prospects, even as the demand for credit remains weak in some sectors.

The effect of the recently-introduced credit easing measures is expected to continue to pass through to the real economy in the coming months and should contribute towards improving access to finance. In particular, the Funding for Lending Scheme (FLS), introduced in July 2012, is expected to ease credit conditions to the private sector by incentivising banks to increase their lending and may have contributed to a recent increase in mortgage loans. Additionally, the quantitative easing programme will have increased to GBP 375 billion (approximately 25% of GDP) by November 2012, when it may be expanded further in face of weak internal demand prospects. There is also a non-negligible probability of a cut in the official bank rate from 0.5% to 0.25% that is currently priced into the markets until 2014.

Private investment is thus forecast to gather momentum in 2013 and 2014, by 2.9% and 4.6% respectively, as credit availability improves and uncertainty diminishes.

#### **Net exports negatively affecting growth**

Notwithstanding its recent stronger stance, sterling remains at a relatively low value. However, it is increasingly unlikely that net trade will give a positive contribution to growth this year and it will remain subdued next year. Expectations that net exports would play a major role in the UK's economic recovery were disappointed as the difficulties in the euro area, the UK's largest export market, constrained exporting possibilities. Exports to non-EU countries increased by 9.2% in the 3-months to August compared with the same period in the previous year but this was from an extremely low base. The outlook for net exports is weak in the short term as uncertainty in the UK's main trading partners remains high. Therefore, net exports are forecast to contribute negatively (-0.7%) to growth in 2012, with marginal positive contributions of 0.3% and 0.5% in 2013 and 2014 respectively, as the euro area stabilises.

#### **Employment remaining resilient**

Employment has been surprisingly robust in recent quarters despite the fall in economic growth. After peaking at 8.4% in the final quarter of 2011, the latest quarterly data showed the unemployment rate at 8.0% in the second quarter of 2012, followed by a further slight fall to 7.9% in the three months to August.

The public sector continues to shed workers, with employment falling for the eleventh consecutive quarter by 235,000 to 5.66 million in the second quarter of 2012. Private sector employment increased by 471,000 over the quarter and stood at 23.9 million in June 2012. Even after taking into account the possibility of data revisions, this phenomenon is hard to explain. Productivity has fallen sharply given the weak growth experienced over this period. There is likely to be some degree of labour hoarding, as wage growth has been very low over the past year. Also, there has been an increase in part-time and self-employment, some of which is likely to be involuntary. However, neither of these fully explains the productivity puzzle and, given the subdued growth prospects, it is unlikely that employment can continue to remain so buoyant in the upcoming quarters. Therefore, unemployment is forecast at 7.9% in 2012 and 8.0% in 2013, before falling back in 2014 to 7.8% as growth improves.

#### **Inflation on track to reach 2% target**

After having peaked at 5.2% in September 2011, inflation continued to ease as expected throughout 2012 on the back of weak internal demand, negative real earnings growth and lower contributions from externally generated price pressures on energy, food and other consumer items. In September, HICP inflation stood at 2.2%.

Inflation is expected to continue to fall to stabilise around the Bank of England's 2% target by the end of 2013. Inflation performance has recently benefited from the fact that the energy price rises in 2011 have dropped out of the annual comparison since September. The volatility in agricultural commodity prices is expected to pass through to final consumers with a lag, with the benefits of the recent fall in food prices to reach households in 2013. However, the government decision to increase university tuition fees, from October, and fuel duty in January 2013 will marginally add to inflation, as will the utility price rises announced by a part of the energy industry.

Overall, the picture for the medium term is of subdued domestic price pressures due to a continued weakness in internal demand and earnings growth, as well as significant labour market slack. Easing external pressures, including the effects of a stronger sterling and the limited ability of producers to pass on increases in input prices, should also contribute towards keeping inflation on a downward trend, even as a timid recovery and the effects of further monetary stimulus present themselves.

### Consolidation continuing despite headwinds....

The UK government has continued its fiscal consolidation plan without any major changes to the general thrust of the strategy. Some minor adjustments had been made by substituting current for spending for capital spending, while remaining within the same expenditure envelope. Recent public finance data has been poorer than the Office for Budget Responsibility's projections, mainly due to lower corporation tax receipts rather than large increases in expenditure, and may overshoot the borrowing target for this financial year if it continues on its current trajectory. VAT and work-related receipts have remained on target, thanks to the relative strength in the labour market. Overall,

it appears that the government may miss its national debt target, of having debt fall as a share of GDP by 2015-16, if no new measures are introduced in the Autumn Statement on 5 December. The UK government's fiscal mandate requires that the cyclically-adjusted current budget be on track to be in balance by the end of a rolling five-year forecast period. This period currently ends in 2016-17, outside the forecast horizon.

### ... while debt and deficit figures stay elevated

The deficit is estimated at 5.8% of GDP for the financial year (FY) 2012-13, which is reduced by the inclusion of a one-off Royal Mail pension fund transfer worth 1.8% of GDP. On a no-policy-change basis, the deficit is forecast to increase to 6.9% in 2013-14 before falling back to 5.6% in 2014-15. The structural balance is forecast at -4.6% in 2014-15. The debt ratio for FY 2012-13 is forecast at 89.1% of GDP and is expected to increase to 93.0% in 2013-14 and 94.5% in 2014-15.

Table II.27.1:

| General government projections on a financial-year basis |         |         |          |         |         |
|--|---------|---------|----------|---------|---------|
|  | 2010-11 | 2011-12 | 2012-13  | 2013-14 | 2014-15 |
|  | Actual  |         | Forecast |         |         |
| General government balance                               | -9.6    | -7.7    | -5.8     | -6.9    | -5.6    |
| Structural budget balance                                | -8.3    | -6.5    | -6.1     | -5.4    | -4.6    |
| General government gross debt                            | 79.8    | 86.0    | 89.1     | 93.0    | 94.5    |

Table II.27.2:

### Main features of country forecast - THE UNITED KINGDOM

|  | 2011            |              |       | 92-08 | Annual percentage change |       |      |      |      |      |
|--|-----------------|--------------|-------|-------|--------------------------|-------|------|------|------|------|
|  | bn GBP          | Curr. prices | % GDP |       | 2009                     | 2010  | 2011 | 2012 | 2013 | 2014 |
| GDP  |                 | 1519.1       | 100.0 | 2.8   | -4.0                     | 1.8   | 0.9  | -0.3 | 0.9  | 2.0  |
| Private consumption                              |                 | 976.7        | 64.3  | 2.9   | -3.1                     | 1.3   | -0.9 | 0.5  | 0.9  | 1.7  |
| Public consumption                               |                 | 337.0        | 22.2  | 1.8   | 0.8                      | 0.4   | 0.2  | 1.6  | -2.0 | -1.3 |
| Gross fixed capital formation                    |                 | 215.3        | 14.2  | 3.6   | -13.7                    | 3.5   | -2.4 | 1.9  | 2.9  | 4.6  |
| of which : equipment                             |                 | 65.5         | 4.3   | 3.3   | -21.0                    | 7.3   | -0.3 | -8.2 | 3.1  | 6.5  |
| Exports (goods and services)                     |                 | 492.9        | 32.4  | 5.3   | -8.2                     | 6.4   | 4.5  | 0.2  | 3.9  | 5.7  |
| Imports (goods and services)                     |                 | 516.6        | 34.0  | 5.9   | -11.0                    | 8.0   | 0.5  | 2.6  | 2.8  | 3.8  |
| GNI (GDP deflator)                               |                 | 1534.0       | 101.0 | 3.0   | -4.8                     | 1.4   | 1.0  | -1.6 | 1.8  | 2.3  |
| Contribution to GDP growth :                     | Domestic demand |              |       | 2.9   | -4.0                     | 1.5   | -0.9 | 1.0  | 0.6  | 1.5  |
|  | Inventories     |              |       | 0.1   | -1.1                     | 0.9   | 0.4  | -0.5 | 0.1  | 0.0  |
|  | Net exports     |              |       | -0.2  | 1.1                      | -0.6  | 1.2  | -0.7 | 0.3  | 0.5  |
| Employment                                       |                 |              |       | 0.7   | -1.6                     | 0.2   | 0.4  | 0.5  | 0.5  | 1.0  |
| Unemployment rate (a)                            |                 |              |       | 6.5   | 7.6                      | 7.8   | 8.0  | 7.9  | 8.0  | 7.8  |
| Compensation of employees/head                   |                 |              |       | 4.1   | 2.7                      | 2.7   | 2.0  | 3.0  | 2.4  | 2.9  |
| Unit labour costs whole economy                  |                 |              |       | 2.1   | 5.3                      | 1.2   | 1.6  | 3.8  | 2.0  | 1.8  |
| Real unit labour costs                           |                 |              |       | -0.3  | 3.9                      | -1.6  | -1.1 | 1.1  | -0.2 | -0.5 |
| Saving rate of households (b)                    |                 |              |       | 5.8   | 6.6                      | 6.6   | 6.0  | 6.1  | 6.1  | 5.8  |
| GDP deflator                                     |                 |              |       | 2.4   | 1.3                      | 2.8   | 2.7  | 2.7  | 2.2  | 2.3  |
| Harmonised index of consumer prices              |                 |              |       | 2.1   | 2.2                      | 3.3   | 4.5  | 2.7  | 2.1  | 1.9  |
| Terms of trade of goods                          |                 |              |       | 0.0   | -0.6                     | 0.8   | -2.0 | -0.1 | 0.6  | -0.2 |
| Merchandise trade balance (c)                    |                 |              |       | -3.6  | -5.9                     | -6.7  | -6.6 | -7.0 | -6.9 | -6.5 |
| Current-account balance (c)                      |                 |              |       | -1.7  | -1.3                     | -2.5  | -1.9 | -3.8 | -2.2 | -1.1 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -1.6  | -1.0                     | -2.3  | -1.7 | -3.6 | -2.0 | -0.9 |
| General government balance (c)                   |                 |              |       | -3.0  | -11.5                    | -10.2 | -7.8 | -6.2 | -7.2 | -5.9 |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -3.2  | -9.8                     | -8.9  | -6.7 | -4.6 | -5.6 | -4.8 |
| Structural budget balance (c)                    |                 |              |       | -     | -9.5                     | -8.9  | -6.7 | -6.4 | -5.6 | -4.8 |
| General government gross debt (c)                |                 |              |       | 44.1  | 67.8                     | 79.4  | 85.0 | 88.7 | 93.2 | 95.1 |

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



## Acceding Countries



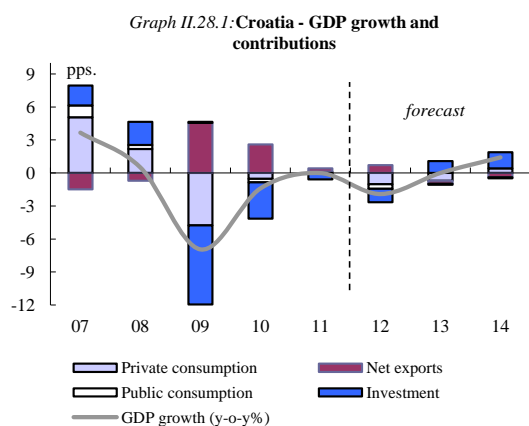
## 28. CROATIA

### Little growth but some fiscal consolidation

#### Still no recovery

Following a temporary stabilisation in 2011, Croatia is currently experiencing its second dip in economic activity since the onset of the crisis in 2008. Real GDP contracted by 1.7% y-o-y in the first half of 2012. The monthly data on retail trade, industrial production, construction activity and registered unemployment suggest, on balance, that economic activity has stagnated or softened a little further in the third quarter in seasonally adjusted terms. Tourism showed gains compared to an already good season in the preceding year. On the other hand, an extreme summer drought is likely to exert some drag on economic output.

Reflecting the ongoing recession, the labour market has seen further declines in employment and a rising jobless rate. Although underlying inflationary pressures have remained relatively low, headline inflation rose to 5.0% in September as a consequence of a higher food prices, a VAT-rate hike in March, and increases of administered prices on the back of higher energy costs. The current-account deficit has remained relatively low at around 1% of GDP.



#### Economic headwinds dampen outlook

The Croatian economy continues to face both cyclical and structural headwinds. Contracting economic activity in many EU Member States in 2012, not least among some of Croatia's most important trading partners, is affecting the domestic economy. International competitiveness has proved insufficient to prevent a decline in export market shares in recent years. Weak labour

market conditions continue to exert downward pressure on incomes and spending. The high level of indebtedness of households and companies and their need to deleverage are weighing on domestic demand. Credit conditions remain relatively unfavourable. Consumer and business confidence is suffering from the uncertainties originating in the international environment. There has also been little progress in lowering deep-seated structural obstacles to growth.

Looking forward to the next two years, it is expected that economic activity will receive support from the investment side. The government is promoting capital spending by state-owned enterprises, particularly in the energy and transport sectors. Even in 2012, such investments are set to increase by a quarter, which is containing the decline in overall capital formation in the economy this year. They are expected to pick up further over the rest of the forecast horizon. At the same time, private investments should be stimulated by Croatia's accession to the EU in mid-2013.

In the second half of 2013 the more cyclical headwinds from the external side should lessen, allowing a modest acceleration in real exports. Export growth is, however, projected to remain below the growth of export markets, implying a continued loss of market share. Rising exports, in combination with growing investments, will result in increasing employment and incomes and, ultimately, consumer spending in 2014. On the other hand, it is expected that general government will detract slightly from GDP growth in the context of continued fiscal consolidation. Imports should accelerate more strongly than exports, not least because investments have a relatively high import content in Croatia. This implies that net exports will subtract from GDP growth already in 2013 after having provided an offset to faltering domestic demand throughout the recession. Overall, the upturn of economic activity will remain very subdued.

#### A sluggish macroeconomic performance

The forecast projects that real GDP will shrink by 1.9% in the current year. In 2013, the investment boost will be offset by the drag from continued declines in consumer and government spending and rising imports. The net result is projected to be

stagnation ( $\pm 0\%$  growth). In 2014, however, the balance of the various contributions to GDP growth turns positive, with an annual growth rate of 1.4%. The risks to this growth forecast are mainly on the downside in line with the overall forecast for the EU economy. The general risk related to international financial markets is exacerbated by the risk of credit restraint as a result of bank deleveraging.

Reflecting the GDP growth path, employment will continue to fall in 2013 before starting to increase in the following year. Since the labour supply is declining structurally, the unemployment rate should already decline marginally next year. Despite some disinflationary effects from the large slack in resource utilisation, the annual average rise in consumer prices is projected to remain above 3% next year. This is partly due to a high carry-over effect from 2012, but also based on the expectation of further increases in administered prices and some VAT adjustments in connection with EU accession. In 2014 the inflation rate is projected to decline to around 2%. The current-account deficit is forecast to increase to around 2% of GDP in 2014 in the wake of rising investment activity and the return to consumption growth.

### Fiscal deficit projected to decline

Fiscal policy has, to some extent, contained the negative budgetary consequences of the continuing recession. Total expenditure of general government is projected to be slightly lower in nominal terms in 2012 while the tax measures in the spring, including the 2-percentage-point increase in the general VAT rate, and an apparent improvement of tax compliance are increasing revenues. Consequently, the fiscal deficit is projected to shrink from 5.1% of GDP in 2011 to 4.4% in 2012. Although the government has not yet proposed the state budget for 2013, the forecast projects the fiscal deficit to narrow gradually by 0.5 pp. over the next two years as the government reins in expenditure in the framework of Croatia's Fiscal Responsibility Law. General government debt is projected to continue its steady increase since the beginning of the recession to just above 60% of GDP in 2014. This incorporates the re-attribution of the debt of the state-owned shipyards to the government accounts in 2012 in the context of their privatisation.

Table II.28.1:

### Main features of country forecast - CROATIA

|  | 2011   |                 |       | 92-08 | Annual percentage change |       |       |       |       |       |
|--|--------|-----------------|-------|-------|--------------------------|-------|-------|-------|-------|-------|
|  | bn HRK | Curr. prices    | % GDP |       | 2009                     | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  | 334.0  | 100.0           |       | -     | -6.9                     | -1.4  | 0.0   | -1.9  | 0.0   | 1.4   |
| Private consumption                              | 197.5  | 59.1            |       | -     | -7.5                     | -0.9  | 0.2   | -1.7  | -1.2  | 0.7   |
| Public consumption                               | 66.4   | 19.9            |       | -     | 0.4                      | -1.6  | -0.3  | -2.0  | -0.5  | -0.5  |
| Gross fixed capital formation                    | 62.7   | 18.8            |       | -     | -11.8                    | -11.3 | -7.2  | -5.7  | 5.3   | 7.0   |
| of which : equipment                             | -      | -               |       | -     | -                        | -     | -     | -     | -     | -     |
| Exports (goods and services)                     | 139.5  | 41.8            |       | -     | -16.2                    | 5.2   | 2.0   | -1.0  | 1.5   | 3.3   |
| Imports (goods and services)                     | 139.8  | 41.9            |       | -     | -21.4                    | -1.4  | 1.2   | -2.5  | 2.0   | 4.0   |
| GNI (GDP deflator)                               | 322.1  | 96.5            |       | -     | -7.4                     | -1.7  | -0.1  | -2.1  | 0.0   | 1.4   |
| Contribution to GDP growth :                     |        | Domestic demand |       | -     | -7.6                     | -3.7  | -1.4  | -2.6  | 0.3   | 1.8   |
|  |        | Inventories     |       | -     | -3.3                     | -0.3  | 1.1   | 0.0   | 0.0   | 0.0   |
|  |        | Net exports     |       | -     | 3.9                      | 2.4   | 0.3   | 0.7   | -0.3  | -0.4  |
| Employment                                       |        |                 |       | -     | -1.8                     | -5.1  | -2.3  | -1.8  | -0.5  | 0.6   |
| Unemployment rate (a)                            |        |                 |       | -     | 9.1                      | 11.8  | 13.5  | 14.2  | 13.9  | 12.9  |
| Compensation of employees/head                   |        |                 |       | -     | 1.0                      | 4.5   | 3.0   | 1.4   | 1.3   | 1.4   |
| Real labour costs whole economy                  |        |                 |       | -     | 6.6                      | 0.6   | 0.6   | 1.5   | 0.8   | 0.6   |
| Real unit labour costs                           |        |                 |       | -     | 3.6                      | -0.3  | -1.5  | -0.5  | -2.0  | -1.4  |
| Saving rate of households (b)                    |        |                 |       | -     | -                        | -     | -     | -     | -     | -     |
| GDP deflator                                     |        |                 |       | -     | 2.9                      | 0.9   | 2.1   | 2.1   | 2.8   | 2.0   |
| Harmonised index of consumer prices              |        |                 |       | -     | 2.2                      | 1.1   | 2.2   | 3.4   | 3.2   | 2.1   |
| Terms of trade of goods                          |        |                 |       | -     | -2.1                     | 1.5   | -0.5  | -1.9  | 0.0   | 0.3   |
| Merchandise trade balance (c)                    |        |                 |       | -     | -16.6                    | -13.3 | -14.2 | -14.6 | -14.8 | -15.2 |
| Current-account balance (c)                      |        |                 |       | -     | -5.2                     | -1.1  | -0.9  | -1.2  | -1.5  | -2.2  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |                 |       | -     | -5.1                     | -1.1  | -0.9  | -1.2  | -1.5  | -2.2  |
| General government balance (c)                   |        |                 |       | -     | -4.2                     | -5.0  | -5.1  | -4.4  | -4.2  | -3.9  |
| Cyclically-adjusted budget balance (c)           |        |                 |       | -     | -                        | -     | -     | -     | -     | -     |
| Structural budget balance (c)                    |        |                 |       | -     | -                        | -     | -     | -     | -     | -     |
| General government gross debt (c)                |        |                 |       | -     | 35.7                     | 42.2  | 46.7  | 53.8  | 56.6  | 60.6  |

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



## Candidate Countries

## 29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

### From a moderate recession to an investment driven recovery

#### Weaker economic activity in first half of 2012

In the first half of the year, economic output was about 1% lower than a year before, reflecting lower exports but also a larger share of imports. Private consumption rose by about 0.7%, while public consumption dropped by 2%. In contrast, gross capital formation was 11% higher than a year before. As a result of high import content of capital formation, imports rose by 2.7% in real terms, which together with declining exports resulted in a negative contribution of net-exports by more than 3 pps. However, this dataset might be subject to substantial revisions, once more complete information is available. High-frequency data for the first eight to nine months of 2012 point to continued weak growth. However, sustained capital inflows in the form of worker remittances, income from cross-border trade, foreign loans but also higher FDI inflows provide important support for economic activity.

The trade deficit rose by  $\frac{3}{4}$  pp. of GDP in the first half of 2012, while worker remittances further increased to about 10% of the estimated full-year GDP, which resulted in a lower current-account deficit at about 2% of GDP, compared to 4% the year before. Inflows of foreign direct investment were very weak at the beginning of the year, but recovered later on, bringing FDI inflows to about  $1\frac{3}{4}\%$  of GDP, compared to  $2\frac{3}{4}\%$  the year before. Foreign-exchange reserves continued to improve towards the end of 2011, benefitting from higher inflows of current transfers and FDI.

Inflation picked up in mid-2012, reaching more than 5% in September and bringing average inflation for the first nine months to 2.8%, clearly above the Central Bank's inflation target. The main factors for the strong increase were agricultural products, but also housing, textiles and energy.

The labour market experienced a weak first quarter and a slightly better second quarter, resulting in largely unchanged unemployment rate in the first half of 2012, at 31.4%, compared to 31.5% the year before. Youth unemployment continued to increase slightly, reaching 54.9% of the age group's labour force.

Public finances registered a significantly weaker-than-expected revenue performance. In response to

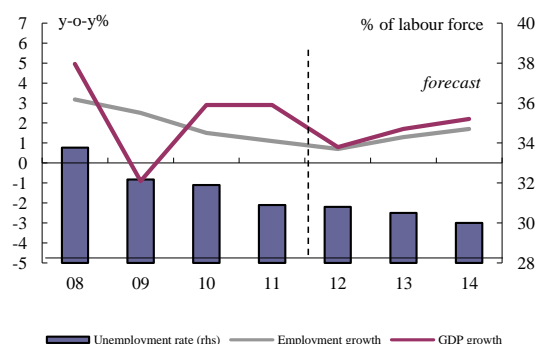
underperforming revenues, the authorities revised the deficit target from 2.5% of GDP for 2012 to 3.5%. The deficit target for 2013 is also 3.5% of GDP.

#### External sources support domestic economy

During the forecast period, sustained current transfers, a largely externally financed fiscal impulse and FDI inflows are likely to prevent a sharp recession in an otherwise difficult international environment. In the second half of 2012, economic activity is expected to return to positive growth rates, partly benefitting from a base effect but also due to the positive effects of recent foreign investments. This could bring annual growth into positive territory, although still below 1%. In 2013 and 2014, stronger investment and private consumption, should help to reach slightly higher growth rates. The completion of some export-oriented FDI projects, should allow market-share gains in 2013 and 2014. This, together with a somewhat more dynamic international environment, should allow reaching GDP growth of slightly below 2% in 2013 and more than 2% in 2014.

Inflation is expected to decelerate in 2013, following high price rises in 2012, but – on the back of stronger growth – to accelerate again in 2014.

Graph II.29.1: The former Yugoslav Republic of Macedonia - Labour market



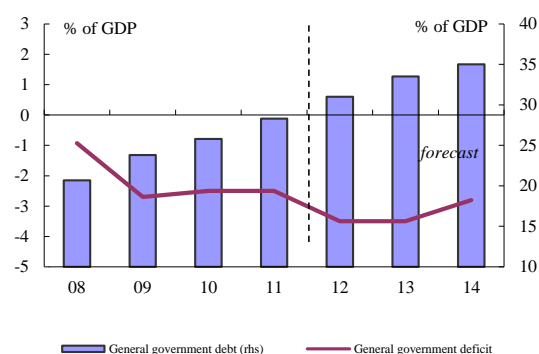
Employment growth in 2012 is set to decelerate in line with the growth slowdown and to be constrained by the probably still difficult international environment. Wage growth is likely to remain subdued, so as to maintain price

competitiveness. Improving the country's labour income thus strongly depends on raising productivity by modernising and deepening the capital stock.

The trade deficit is likely to rise. The high import content of investment will lead to rather strong import growth, which will more than offset higher exports, resulting from market share gain as a result of increased FDI inflows. The surplus in private current transfers is expected to return from its current exceptionally high level of nearly 20% of GDP towards its longer-term average. This will contribute to a widening of the current-account deficit, from around 3½% of GDP in 2012 to 5½% in 2013 and 6½% in 2014.

public consumption, such as public sector wages or current expenditure.

Graph II.29.2: The former Yugoslav Republic of Macedonia - Public finances



### Public finances deteriorate

We do not expect the deficit to go below 3% before 2014, as the authorities remain committed to meet their recently revised deficit target of 3.5% in 2012 and 2013. Given the governments' medium-term strategy of increasing spending for public investment, the authorities will have to maintain their policy of containing spending for

The debt ratio is expected to increase further, reflecting subdued nominal GDP growth, slightly rising debt financing costs and higher primary deficits. Envisaged additional investment projects, such as plans to improve the country's transport infrastructure or to modernise the countries' ageing energy production facilities, could lead to a further increase in the debt ratio.

Table II.29.1:

### Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

|  | 2011   |                 |       | 92-08 | Annual percentage change |       |       |       |       |       |
|--|--------|-----------------|-------|-------|--------------------------|-------|-------|-------|-------|-------|
|  | bn MKD | Curr. prices    | % GDP |       | 2009                     | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  |        | 461.7           | 100.0 | 1.2   | -0.9                     | 2.9   | 2.8   | 0.8   | 1.7   | 2.2   |
| Private consumption                              |        | 341.3           | 73.9  | -     | -4.7                     | 1.3   | 4.0   | 0.8   | 1.1   | 1.5   |
| Public consumption                               |        | 85.3            | 18.5  | -     | 0.5                      | -2.0  | -2.8  | -1.0  | 0.0   | -0.5  |
| Gross fixed capital formation                    |        | 96.8            | 21.0  | -     | -4.3                     | -2.7  | 17.3  | 6.0   | 10.0  | 12.0  |
| of which : equipment                             |        | -               | -     | -     | -                        | -     | -     | -     | -     | -     |
| Exports (goods and services)                     |        | 251.8           | 54.5  | -     | -15.8                    | 23.6  | 11.3  | 1.5   | 5.1   | 8.0   |
| Imports (goods and services)                     |        | 342.1           | 74.1  | -     | -14.3                    | 9.5   | 14.0  | 2.3   | 5.5   | 7.9   |
| GNI (GDP deflator)                               |        | 447.8           | 97.0  | -     | -0.6                     | 1.9   | 2.6   | 0.8   | 1.7   | 2.3   |
| Contribution to GDP growth :                     |        | Domestic demand |       | -     | -4.6                     | 0.4   | 5.7   | 1.6   | 3.0   | 3.8   |
|  |        | Inventories     |       | -     | 0.8                      | -0.6  | 1.0   | 0.0   | 0.0   | 0.0   |
|  |        | Net exports     |       | -     | 2.9                      | 3.4   | -3.9  | -0.9  | -1.4  | -1.6  |
| Employment                                       |        |                 |       | -     | 2.5                      | 1.5   | 1.1   | 0.7   | 1.3   | 1.7   |
| Unemployment rate (a)                            |        |                 |       | -     | 32.2                     | 31.9  | 30.9  | 30.8  | 30.5  | 30.0  |
| Compensation of employees/head                   |        |                 |       | -     | 6.9                      | 6.2   | 4.2   | -0.1  | 1.8   | 2.6   |
| Unit labour costs whole economy                  |        |                 |       | -     | 10.6                     | 4.7   | 2.5   | -0.1  | 1.4   | 2.1   |
| Real unit labour costs                           |        |                 |       | -     | 9.9                      | 2.0   | -0.9  | -2.1  | -0.2  | 0.1   |
| Saving rate of households (b)                    |        |                 |       | -     | -                        | -     | -     | -     | -     | -     |
| GDP deflator                                     |        |                 |       | 41.5  | 0.7                      | 2.7   | 3.4   | 2.0   | 1.6   | 2.0   |
| Harmonised index of consumer prices              |        |                 |       | -     | -0.8                     | 1.6   | 3.9   | 2.9   | 2.0   | 2.3   |
| Terms of trade of goods                          |        |                 |       | -     | -4.6                     | -1.4  | 5.6   | 0.0   | 0.0   | 0.0   |
| Merchandise trade balance (c)                    |        |                 |       | -     | -23.3                    | -20.8 | -22.5 | -23.6 | -24.7 | -26.0 |
| Current-account balance (c)                      |        |                 |       | -     | -6.8                     | -2.1  | -2.7  | -3.6  | -5.5  | -6.5  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |                 |       | -     | -                        | -     | -     | -     | -     | -     |
| General government balance (c)                   |        |                 |       | -     | -2.7                     | -2.5  | -2.5  | -3.5  | -3.5  | -2.8  |
| Cyclically-adjusted budget balance (c)           |        |                 |       | -     | -                        | -     | -     | -     | -     | -     |
| Structural budget balance (c)                    |        |                 |       | -     | -                        | -     | -     | -     | -     | -     |
| General government gross debt (c)                |        |                 |       | -     | 23.8                     | 25.8  | 28.3  | 31.0  | 33.5  | 35.0  |

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



## 30. ICELAND

### Recovery on track amid risks and uncertainties

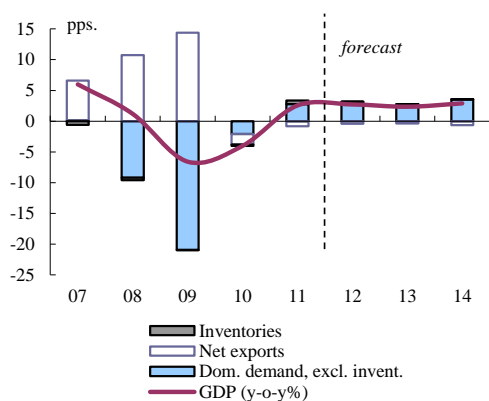
#### Economic recovery settled in early 2012 ...

Economic recovery has taken hold in Iceland with real GDP up by 2.6% in 2011, following a drop of 4% a year before. In the first half of 2012, the economy continued to grow, at 2.4%, based on robust domestic demand. Net exports continued to be a drag on growth as import growth outpaced export growth. High-frequency indicators suggest a mixed picture. Consumer confidence indicators rose for sixth months in a row in September and tourism has performed exceptionally well during the summer. But payment card turnover suggest some mild moderation of private consumption in the third quarter.

#### ... and is likely to continue over the forecast horizon...

The economic outlook has somewhat improved compared to the spring forecast. Private consumption growth is set to accelerate in 2012, benefiting from high wage growth, an increase in employment, improved confidence levels as well as rising asset prices. Household spending continues to be supported by temporary measures, such as one-off debt relief, extraordinary mortgage interest allowances and withdrawals of savings from voluntary pension schemes, but these effects are likely to fade out. Therefore, the forecast projects private consumption growth to moderate in 2013, before it accelerates again in 2014, primarily due to wage settlements.

Graph II.30.1: Iceland - GDP growth and contributions



Investment spending has been stronger than expected in the first half of 2012, but this was largely due to unusually strong investments in ships and aircraft. For the year as a whole, total

investment growth is expected to moderate, since investments for some big projects are being delayed. The forecast assumes, however, that some long-planned investment projects in the energy-intensive and maritime sectors will eventually start to materialise in the second half of 2013. Investment growth is thus foreseen to accelerate in 2014. However, downside risks are clearly related to the possibility of more vocal domestic opposition to FDI and a lower risk appetite by foreign investors should global uncertainties persist or aggravate. Total exports are projected to strengthen due to higher fishing quotas, an improved outlook for the aluminium sector and a flourishing tourism sector. At the same time, the growth in imports remains strong, since production and consumption rely heavily on imports.

#### ...but risks and uncertainties remain elevated

Overall, the forecast projects domestic demand to remain the main driver of growth, while the contribution of net exports is set to remain negative. Average growth over the medium term is expected to remain at around 2.5-3.0%. Downside risks would mainly result from remaining balance sheet vulnerabilities in both the corporate and the household sectors, as well as the challenging global outlook. Moreover, the Icelandic economy is currently shielded by extensive capital controls and their removal remains a huge challenge going forward.

#### Labour market conditions are improving...

Iceland has seen a jobless recovery in 2011, but in early 2012 labour market conditions started to improve, and the level of total employment rose by about 1% y-o-y in the first half of the year. The unemployment rate was recorded at 7.2%, a significant improvement compared to the rate of 8.2% in the same period of 2011. The forecast assumes that labour demand will increase as economic activity remains relatively robust. Average employment is set to rise by a little more than 1% p.a. over 2013-14. This will support a gradual further reduction of the unemployment rate to around 5.5% - still high for Icelandic standards.

### ...but inflationary pressures remain

In reaction to rising inflation in 2011 and early 2012, monetary policy has been gradually tightened between August 2011 and June 2012. Annual inflation has come down from the 2012 peak of 6.5% in April to 4.3% in September. However, inflation pressures remain elevated due to robust domestic demand, higher capacity utilisation and the potential for rising wage pressures, in particular in the export sectors. Also, a weaker-than-expected exchange rate is likely to push import prices up and boost inflation expectations, which are already high. The forecast assumes that annual inflation remains considerably above the Central Bank's inflation target (2.5%) over the forecast period.

### Trade surpluses slowly eroding

The surplus in goods and services trade has recently narrowed, due to stronger merchandise imports. In view of recovery, the forecast projects this trend to continue, albeit at a slower pace, since exports are gaining some strength as well. The current-account deficit is expected to remain in the range of 7-8% of GDP. A large part of the deficit accounts for net income from banks in winding up proceedings. Corrected for these, the "underlying"

current account is likely to remain broadly unchanged, hovering around a zero balance.

### Reducing public debt remains a challenge

The 2012 budget targets a reduction of the general government deficit to 1.4% of GDP, to be supported by new consolidation measures of around 1.7% of GDP with most of the adjustment on the revenue side (1.2% of GDP). However, compared to initial plans, some fiscal loosening materialised on the expenditure side and 2012 spending is projected to exceed budget plans. In our forecast a continuation of gradual deficit reduction over 2012-14 is expected. The general government debt-to-GDP ratio will start to decline in 2012 and fall below 90% of GDP by end-2014. The fiscal scenario remains subject to downside risks. Implementing expenditure restraint has become more challenging following years of fiscal adjustment and new expenditure pressures are mounting, also in view of the general elections in spring 2013. Risks are also related to contingent liabilities. More specifically, the government may need to inject additional capital into the loss-making housing financing fund.

Table II.30.1:

#### Main features of country forecast - ICELAND

|  | 2011            |              |       |       | Annual percentage change |       |       |      |      |      |
|--|-----------------|--------------|-------|-------|--------------------------|-------|-------|------|------|------|
|  | bn ISK          | Curr. prices | % GDP | 92-08 | 2009                     | 2010  | 2011  | 2012 | 2013 | 2014 |
| GDP  |                 | 1626,3       | 100,0 | 3,5   | -6,6                     | -4,0  | 2,6   | 2,7  | 2,3  | 2,9  |
| Private consumption                              |                 | 844,6        | 51,9  | 3,1   | -15,0                    | 0,0   | 2,7   | 3,6  | 2,7  | 3,2  |
| Public consumption                               |                 | 411,2        | 25,3  | 3,1   | -1,7                     | -3,4  | -0,9  | -0,2 | 0,1  | -0,3 |
| Gross fixed capital formation                    |                 | 227,0        | 14,0  | 4,6   | -51,4                    | -8,6  | 12,8  | 9,3  | 8,9  | 12,3 |
| of which : equipment                             |                 | -            | -     | -     | -                        | -     | -     | -    | -    | -    |
| Exports (goods and services)                     |                 | 964,7        | 59,3  | 5,0   | 7,0                      | 0,6   | 4,1   | 4,2  | 3,9  | 3,9  |
| Imports (goods and services)                     |                 | 825,8        | 50,8  | 4,6   | -24,0                    | 4,5   | 6,8   | 5,7  | 5,3  | 5,7  |
| GNI (GDP deflator)                               |                 | 1382,8       | 85,0  | 2,2   | -4,1                     | -1,7  | 5,7   | 3,1  | 2,5  | 3,1  |
| Contribution to GDP growth :                     | Domestic demand |              |       | 3,7   | -20,9                    | -2,1  | 2,8   | 3,1  | 2,7  | 3,5  |
|  | Inventories     |              |       | 0,0   | -0,1                     | -0,7  | 1,6   | 0,0  | 0,0  | 0,0  |
|  | Net exports     |              |       | -0,1  | 14,4                     | -1,7  | -0,8  | -0,4 | -0,4 | -0,6 |
| Employment                                       |                 |              |       | 1,6   | -6,0                     | -0,4  | 0,1   | 0,9  | 1,0  | 1,2  |
| Unemployment rate (a)                            |                 |              |       | 3,4   | 7,2                      | 7,6   | 7,1   | 6,4  | 5,7  | 5,4  |
| Compensation of employees/head                   |                 |              |       | 6,4   | -1,9                     | 6,0   | 4,1   | 7,6  | 6,2  | 6,2  |
| Unit labour costs whole economy                  |                 |              |       | 4,4   | -1,4                     | 10,1  | 1,5   | 5,7  | 4,8  | 4,4  |
| Real unit labour costs                           |                 |              |       | 0,1   | -8,9                     | 3,0   | -1,6  | 0,4  | 0,1  | 0,0  |
| Saving rate of households (b)                    |                 |              |       | -     | -                        | -     | -     | -    | -    | -    |
| GDP deflator                                     |                 |              |       | 4,4   | 8,3                      | 6,9   | 3,2   | 5,3  | 4,7  | 4,4  |
| General index of consumer prices                 |                 |              |       | 4,1   | 12,0                     | 5,4   | 4,0   | 5,6  | 4,4  | 4,4  |
| Terms of trade of goods                          |                 |              |       | -0,6  | -12,1                    | 8,5   | -2,9  | -0,3 | 0,0  | 0,0  |
| Merchandise trade balance (c)                    |                 |              |       | -2,2  | 6,0                      | 7,8   | 6,0   | 5,6  | 4,9  | 4,7  |
| Current-account balance (c)                      |                 |              |       | -7,3  | -11,5                    | -8,0  | -7,0  | -7,3 | -7,5 | -7,8 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -     | -                        | -     | -     | -    | -    | -    |
| General government balance (c)                   |                 |              |       | -     | -10,0                    | -10,1 | -5,4  | -3,4 | -2,4 | -1,2 |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -     | -                        | -     | -     | -    | -    | -    |
| Structural budget balance (c)                    |                 |              |       | -     | -                        | -     | -     | -    | -    | -    |
| General government gross debt (c)                |                 |              |       | -     | 87,9                     | 93,0  | 101,0 | 96,8 | 93,2 | 88,0 |

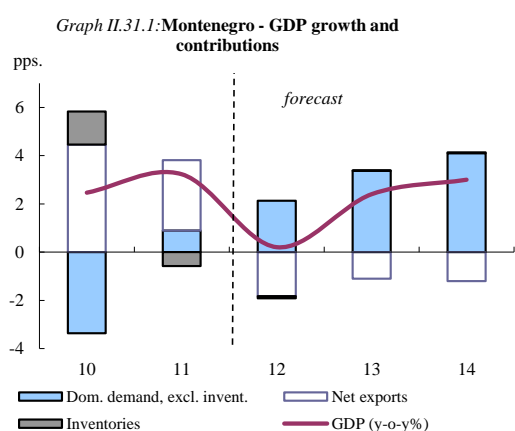
(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

## 31. MONTENEGRO

### Seeking the restoration of the lending channel

#### Recent developments

In 2011 the economy expanded faster than expected, by 3.2% in real terms. Growth was driven by the recovery of exports as well as by the expansion of private consumption, notwithstanding an 11% annual contraction in bank lending. On the production side, value added was driven in 2011 by double digit growth rates in trade, agriculture, manufacturing and construction.



Further deterioration in net exports and industrial output brought GDP down by -0.9% y-o-y in the first half of 2012. The negative impact of harsh winter conditions in the first quarter of 2012 resulted in an annual contraction in GDP in real terms of -2.4%. The economy avoided entering into technical recession after recording positive annual growth of 0.3% in the second quarter, sustained by two-digit growth of retail sales as well as the stagnation of imports.

#### An episode of sluggish growth

Following the weaker-than-expected outlook for the global economy and the protracted euro-area sovereign-debt crisis, there will not be any recovery of credit activity in Montenegro in 2012. The restoration of the lending channel is expected to take place in 2013, with a more noticeable effect on consumption and domestic investment a year after. Notwithstanding, positive albeit sluggish GDP growth could still be expected for 2012 as preliminary results from the tourism industry, which has a substantial impact on private domestic demand, are positive. In addition, some sectors like transport, chemicals or pharmaceutical are also

presenting encouraging results. However, meagre employment rates, combined with negative real growth of wages, are limiting private consumption. Meanwhile, budget consolidation efforts will continue withholding government consumption, further contracting public spending in real terms. The formation of fixed capital will be financed to a large extent by foreign investments in a few mature projects. On the external sector, net exports contribution is expected to remain negative.

The unemployment rate continues to be high, although very slowly declining below its current ratio of 20%. Although investments in construction and tourism will have a positive impact on employment, this impact will be reduced by a still substantial share of seasonal jobs. Overall, the improvement of occupation rates will have a moderate impact on wages, as public sector salaries remain subject to fiscal discipline.

Consumer price inflation accelerated in 2012 and it is expected to average 4% by year's end. Apart from oil and food price dynamics, the increase also reflects several tax rises on alcoholic beverages, electricity, as well as on coffee, tobacco and carbonated drinks. Once the base effect of these one-off tax increases fades out, the gradual recovery of domestic demand should not exert strong inflationary pressures and consumer price inflation may come under 3% in the second half of 2013. The expected moderation in international energy prices in the mid-term should also support price stability.

The current-account deficit recorded some deterioration in the first half of 2012 driven by the widening trade deficit. Exports of goods will stagnate in 2013 and 2014, as the major metal exporter halved production in mid-2012 and its future remains quite uncertain. The contraction of merchandise exports will be partially balanced by the better performance of services, and tourism in particular, as well as some contributions from steel and electricity. Yet, the slow but gradual acceleration of domestic demand, and in particular of investment (FDI), may also result in higher imports flows, leading to an overall negative contribution of net exports.

Two major risks remain. One is related to international financial markets and access to

external financing, not only for domestic banks and the sustainability of the external accounts, but also for financing the general government deficits. The second risk concerns the future of the highly indebted aluminium plant, which could threaten the stability of public finances given the exposure of the government through state guarantees and partial ownership.

Overall, growth will decelerate faster than expected in 2012 before rebounding in 2013 when bank lending may start supporting private consumption and investment.

### The lengthy redressing of public finances

After recording a consolidated cash deficit of 3.7% of GDP in the first half of 2012, the budget execution presented positive balances in July and August bringing the cumulated cash deficit down to 2.5% of GDP in the first eight months of 2012. Several revenue items still continued to underperform, although, these are being offset by the improved collection in corporate as well as personal income taxes and social security contributions. While total revenues are coming in line with the plan, further consolidation is still

taking place on both current and capital spending. Public spending levels are set to remain flat in nominal terms, although some recovery in fiscal revenues could be expected in 2013, notably on the second half, as the real sector regains some access to bank credit. However, after several years of budget restrictions, capital spending could record some positive growth in 2014. Overall, the contribution of public consumption is expected to remain negative in real terms in 2013 and marginally positive in 2014.

In the third quarter of 2012 the public debt reached 50% of GDP. The external debt is predominant, accounting for three quarters of total indebtedness. Public debt should further increase to some 52% of GDP by end of 2012, driven by general government financing needs and one state guarantee disbursement. Public debt is foreseen to rise further in 2013 as persistent budgetary financing needs are covered by loans extended by international financial institutions. The recovery in primary surpluses will partially reduce financing needs in 2014, gradually stabilising public debt, but on condition that further contingent liabilities do not materialise or very large capital investments are not financed through public debt.

Table II.31.1:

### Main features of country forecast - MONTENEGRO

|  | 2011            |              |       | 92-08 | Annual percentage change |       |       |       |       |       |
|--|-----------------|--------------|-------|-------|--------------------------|-------|-------|-------|-------|-------|
|  | mio EUR         | Curr. prices | % GDP |       | 2009                     | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  |                 | 3234.1       | 100.0 | -     | -5.7                     | 2.5   | 3.2   | 0.2   | 2.4   | 3.0   |
| Private consumption                              |                 | 2728.5       | 84.4  | -     | -                        | -     | -     | 3.5   | 3.6   | 3.9   |
| Public consumption                               |                 | 714.7        | 22.1  | -     | -                        | -     | -     | -1.6  | -0.6  | 0.4   |
| Gross fixed capital formation                    |                 | 596.5        | 18.4  | -     | -                        | -     | -     | -2.3  | 2.7   | 3.7   |
| of which : equipment                             |                 | -            | -     | -     | -                        | -     | -     | -     | -     | -     |
| Exports (goods and services)                     |                 | 1299.3       | 40.2  | -     | -                        | -     | -     | -0.4  | 2.9   | 3.1   |
| Imports (goods and services)                     |                 | 2140.1       | 66.2  | -     | -                        | -     | -     | 2.0   | 3.3   | 3.5   |
| GNI (GDP deflator)                               |                 | 3324.9       | 102.8 | -     | -                        | -     | -     | 0.2   | 2.3   | 2.9   |
| Contribution to GDP growth :                     | Domestic demand |              |       | -     | -23.2                    | -3.4  | 0.9   | 2.1   | 3.4   | 4.1   |
|  | Inventories     |              |       | -     | -2.1                     | 1.4   | -0.6  | -0.1  | 0.0   | 0.0   |
|  | Net exports     |              |       | -     | 19.6                     | 4.5   | 2.9   | -1.8  | -1.1  | -1.2  |
| Employment                                       |                 |              |       | -     | -3.8                     | -2.0  | -6.2  | 0.8   | 1.0   | 1.4   |
| Unemployment rate (a)                            |                 |              |       | -     | 19.1                     | 19.7  | 19.7  | 20.0  | 19.7  | 19.4  |
| Compensation of employees/head                   |                 |              |       | -     | -2.9                     | 12.7  | 3.2   | -3.7  | 1.1   | 4.1   |
| Unit labour costs whole economy                  |                 |              |       | -     | -1.0                     | 7.7   | -6.2  | -3.2  | -0.3  | 2.4   |
| Real unit labour costs                           |                 |              |       | -     | -3.3                     | 6.0   | -7.1  | -6.5  | -2.4  | 0.1   |
| Saving rate of households (b)                    |                 |              |       | -     | -                        | -     | -     | -     | -     | -     |
| GDP deflator                                     |                 |              |       | -     | 2.4                      | 1.6   | 0.9   | 3.6   | 2.1   | 2.3   |
| General index of consumer prices                 |                 |              |       | -     | 3.4                      | 0.5   | 3.1   | 3.9   | 2.7   | 2.5   |
| Terms of trade of goods                          |                 |              |       | -     | -                        | -     | -     | -     | -     | -     |
| Merchandise trade balance (c)                    |                 |              |       | -     | -46.2                    | -42.8 | -42.3 | -44.7 | -45.0 | -45.1 |
| Current-account balance (c)                      |                 |              |       | -     | -29.6                    | -24.6 | -19.6 | -20.1 | -20.8 | -20.8 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |                 |              |       | -     | -                        | -     | -     | -     | -     | -     |
| General government balance (c)                   |                 |              |       | -     | -5.7                     | -4.9  | -5.4  | -4.0  | -3.2  | -2.0  |
| Cyclically-adjusted budget balance (c)           |                 |              |       | -     | -                        | -     | -     | -     | -     | -     |
| Structural budget balance (c)                    |                 |              |       | -     | -                        | -     | -     | -     | -     | -     |
| General government gross debt (c)                |                 |              |       | -     | 38.2                     | 40.9  | 45.9  | 52.0  | 53.5  | 53.1  |

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

## 32. SERBIA

### Recession followed by a sluggish recovery

#### Back in recession...

Economic activity deteriorated sharply in early 2012, with negative growth rates of -2.5% y-o-y in the first and -0.8% y-o-y in the second quarter. Both domestic demand and net exports contributed negatively to growth. In line with the steep economic decline, labour market indicators reached ten-year lows, depressing private consumption. The significant increase in government expenditure in the first half of the year, linked to the May elections, temporarily boosted public consumption. It also supported relatively buoyant growth in imports, while exports were strongly hit by severe weather conditions in the winter.

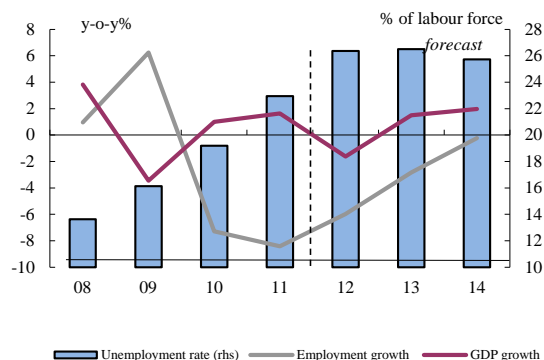
The forecast projects a significant drop in output by 1.6% in 2012, mainly as a continuation of suppressed private consumption and a negative contribution from external trade. Household consumption, in particular, is expected to remain weak this year. Strong increases in real wages in the first half of 2012 are expected to decelerate rapidly by the end of the year, and, coupled with shrinking employment and lower remittances inflows, are projected to result in a real drop in private consumption. Increased indirect taxation (mostly due to a VAT hike from 18 to 20%) in the last quarter is expected to weigh heavily on consumption, with its full impact felt in 2013. Public consumption growth is forecast to stay positive in 2012 as government expenditure growth is set to be tamed only as of next year. In an overall uncertain environment and with falling FDIs, investment is expected to be sluggish and to have minor impact on growth. Net imports are likely to be affected negatively by a severe summer drought, which impacted heavily important crops. However, exports are expected to be boosted in the last quarter of the year by the opening of a large-scale automotive factory, underpinning also a significant export expansion in 2013.

#### ...followed by sluggish growth

Domestic demand is expected to further fall in 2013, mainly as a result of fiscal consolidation measures. However, strong increases in net exports and base effects are set to lead to a limited economic recovery of 1.5%. Higher inflation and

taxation are expected to undermine household income and, together with further reduction in employment, are projected to bring another drop in private consumption. Public consumption is forecasted to turn negative as well, following increased fiscal pressures. Private investments are expected to start recovering but only slowly, as capital inflows remain subdued and companies continue to face liquidity problems. The contribution from domestic demand is projected to become positive only in 2014. However, real GDP growth is likely to be constrained to 2.0%, as public consumption continues to pull it down and net imports' contribution to growth turns negative again as a result of a recovery in imports and the expiration of base effects on the export side.

Graph II.32.1: Serbia - Labour market

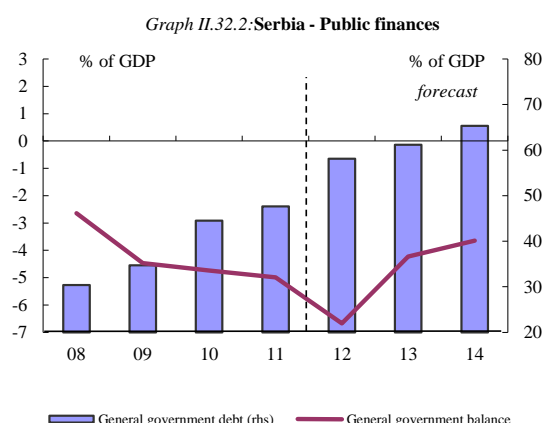


Employment is set to continue falling in 2012 and 2013, albeit more moderately than in previous years, before turning around in the last year of the forecast. Unemployment is expected to peak in 2013 and to remain high in 2014 as well. The lack of vigorous job creation is likely to persist as one of the key policy concerns.

#### Unfinished external adjustment...

The overall uncertainty in the pre-election period, the unchecked fiscal expansion and deteriorating external imbalances led to a depreciation of the dinar, which has lost about 10% of its value against the euro since the beginning of 2012. The external adjustment is far from finished, with current-account deficits forecasted to remain at double-digit levels.

In view of the severe drought, insufficient competition, potential further weakening of the dinar, increased indirect taxation, and the need to adjust upwards administered prices, short-term inflation pressures are likely to be acute, countering disinflationary effects from the weak domestic demand. Over the forecast period, inflation is expected to remain volatile, most of the time outside the Central Bank target band.



to a pre-election surge in expenditure. In September, the Parliament adopted a rebalancing of the 2012 budget, targeting a consolidated deficit of 6.7% of GDP. The measures are mainly on the revenue side, as a number of - mostly indirect - taxes have been increased. On the expenditure side, the major short-term savings are to come from lower indexations of public sector wages and pensions. However, in 2012 these savings are projected to be more than offset by an increase in other discretionary expenditure.

In view of the low economic growth and difficult labour market situation, fiscal adjustment is foreseen to be challenging. As a result of the consolidation measures taken in late September 2012, the budget deficit is expected to come down significantly to 4.2% of GDP in 2013 and to fall again, at a slower pace, in 2014. Still, budget deficits are projected to remain high, above the levels targeted in the draft medium-term fiscal strategy and the draft 2013 budget, and government debt is set to continue increasing above 60% of GDP. Therefore, additional consolidation measures may be needed to further reduce deficits and comply with the fiscal responsibility legislation.

### ...and challenging fiscal consolidation

The public finances deteriorated significantly due

Table II.32.1:

#### Main features of country forecast - SERBIA

|  | 2011    |              |       | 92-08 | Annual percentage change |      |      |       |       |       |  |
|--|---------|--------------|-------|-------|--------------------------|------|------|-------|-------|-------|--|
|  | bio RSD | Curr. prices | % GDP |       | 2009                     | 2010 | 2011 | 2012  | 2013  | 2014  |  |
| GDP  | 3175.0  | 100.0        | 100.0 | -     | -3.5                     | 1.0  | 1.6  | -1.6  | 1.5   | 2.0   |  |
| Private consumption                              | 2539.5  | 80.0         |       | -     | -                        | -    | -    | -1.5  | -1.6  | 1.4   |  |
| Public consumption                               | 621.2   | 19.6         |       | -     | -                        | -    | -    | 3.7   | -3.3  | -1.3  |  |
| Gross fixed capital formation                    | 589.4   | 18.6         |       | -     | -                        | -    | -    | -2.1  | 3.0   | 5.6   |  |
| of which : equipment                             | -       | -            |       | -     | -                        | -    | -    | -     | -     | -     |  |
| Exports (goods and services)                     | 1170.6  | 36.9         |       | -     | -                        | -    | -    | 2.7   | 11.5  | 4.6   |  |
| Imports (goods and services)                     | 1696.6  | 53.4         |       | -     | -                        | -    | -    | 3.1   | 3.8   | 4.2   |  |
| GNI (GDP deflator)                               | 3097.7  | 97.6         |       | -     | -2.3                     | 0.4  | 1.6  | -1.8  | 1.3   | 1.6   |  |
| Contribution to GDP growth :                     |         |              |       |       |                          |      |      |       |       |       |  |
| Domestic demand                                  |         |              |       | -     | -                        | -    | -    | -1.0  | -1.4  | 2.1   |  |
| Inventories                                      |         |              |       | -     | -                        | -    | -    | 0.0   | 0.1   | 0.3   |  |
| Net exports                                      |         |              |       | -     | -                        | -    | -    | -0.6  | 2.8   | -0.4  |  |
| Employment                                       |         |              |       | -     | -7.3                     | -8.4 | -6.0 | -2.8  | -0.2  | 1.2   |  |
| Unemployment rate (a)                            |         |              |       | -     | 16.1                     | 19.2 | 23.0 | 26.4  | 26.5  | 25.7  |  |
| Compensation of employees/head                   |         |              |       | -     | -                        | -    | -    | -     | -     | -     |  |
| Unit labour costs whole economy                  |         |              |       | -     | -                        | -    | -    | -     | -     | -     |  |
| Real unit labour costs                           |         |              |       | -     | -                        | -    | -    | -     | -     | -     |  |
| Saving rate of households (b)                    |         |              |       | -     | -                        | -    | -    | -     | -     | -     |  |
| GDP deflator                                     |         |              |       | -     | 5.9                      | 4.9  | 8.4  | 6.8   | 9.4   | 3.8   |  |
| General index of consumer prices                 |         |              |       | -     | 8.1                      | 6.1  | 11.1 | 7.3   | 10.5  | 5.2   |  |
| Terms of trade of goods                          |         |              |       | -     | -                        | -    | -    | -0.9  | 0.9   | -0.2  |  |
| Merchandise trade balance (c)                    |         |              |       | -     | -                        | -    | -    | -19.9 | -17.5 | -18.3 |  |
| Current-account balance (c)                      |         |              |       | -     | -7.2                     | -7.4 | -8.9 | -12.4 | -10.3 | -11.5 |  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |         |              |       | -     | -                        | -    | -    | -     | -     | -     |  |
| General government balance (c)                   |         |              |       | -     | -4.5                     | -4.7 | -5.0 | -6.7  | -4.2  | -3.6  |  |
| Cyclically-adjusted budget balance (c)           |         |              |       | -     | -                        | -    | -    | -     | -     | -     |  |
| Structural budget balance (c)                    |         |              |       | -     | -                        | -    | -    | -     | -     | -     |  |
| General government gross debt (c)                |         |              |       | -     | 34.7                     | 44.5 | 47.7 | 58.1  | 61.2  | 65.3  |  |

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

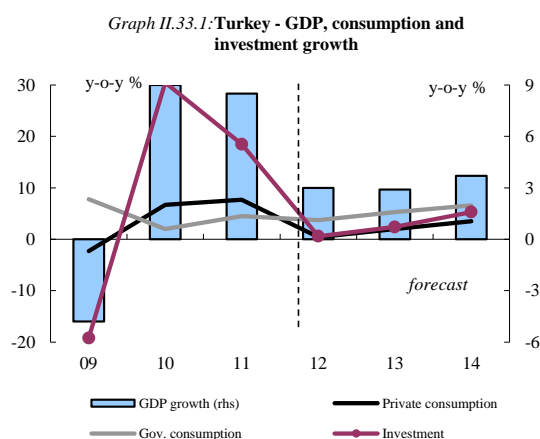


## 33. TURKEY

### Growth slows down and rebalances away from consumption

#### Growth slows down significantly

The annual rate of real GDP growth slowed steadily from 11.9% in the first quarter of 2011 to 3.1% in the first half of 2012. GDP growth is forecast to fall further from about 3.0% in 2012 to 2.9% in 2013, before rising to 3.7% in 2014.



Private consumption growth is expected to slow sharply in 2012, owing to a strong base effect from the 2011 spending surge, slower employment growth, decelerating credit growth and the impact of a weaker lira on demand for imported consumer goods. Under the assumptions that the exchange rate of the lira stabilises, monetary policy is not tightened more rapidly than currently priced in by financial markets and consumer confidence stops falling, private consumption growth should pick up from 0.4% in 2012 to 2.0% to 2013 and 3.5% in 2014.

Public consumption growth is expected to slow down moderately, from 4.5% in 2011 to 3.7% in 2012, before it picks up to 5.3% in 2013 and 6.6% in the election year 2014. The government is expected to hold down the deficit via higher revenue rather than constraining spending.

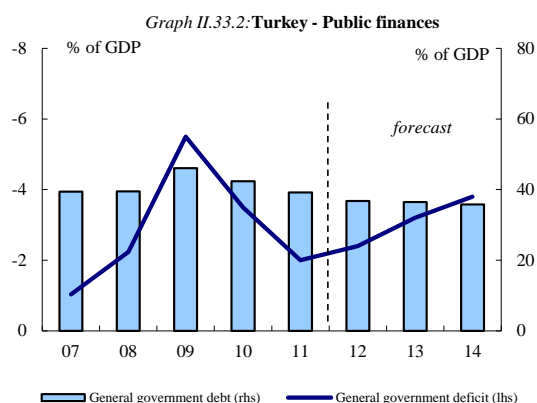
After rebounding in 2010-11, gross fixed investment growth is forecast to slow down in 2012 due to base effects and lower external and domestic demand growth, but it should pick up again in 2013-14 as business sentiment improves and economic conditions stabilise.

The weakness of import demand and the strength of export growth in the first half of 2012 suggest

that the economy may be rebalancing faster than previously projected. Exports growth (goods and services) is foreseen to outpace import growth in 2012 and 2013, resulting in a positive contribution to GDP growth from net exports, compared with negative contributions in 2010-11. In 2014, imports are forecast to increase broadly in line with domestic demand, and as a result, the contribution of net exports to growth would turn negative again.

#### Fiscal policy remains relatively tight

The government is expected to keep fiscal policy relatively tight, out of concern about the growing current-account deficit, a wish to maintain a low level of public debt and a preference for private sector-led growth. Nevertheless, weakening economic activity will increase the government's desire to maintain some flexibility in its management of the public accounts, in particular in 2013 and 2014, in view of the elections, so as to support growth in output and jobs, in so far as it is able to do so without damaging investor confidence.



In view of the weaker economic activity and the diminishing impact of temporary revenue streams arising from a past restructuring of private-sector debt to the state, the deficit of the general government is expected to edge up from 2.4% of GDP in 2012 to 3-4% of GDP in 2013-14, election years. The government debt-to-GDP ratio is forecast to decline from around 40% of GDP at end-2011 to less than 36% by 2014, reflecting moderate primary surpluses, a pick-up in

privatisation once market conditions improve and accelerating economic growth in 2014.

### Inflation trickles down

On the back of positive base effects in the final months of 2012, inflation is forecast to slow from 8.9% at the end of 2011 to 8% by late 2012 and 5.8% in 2014, compared with a Central Bank target of 5%  $\pm$  2 pps. for both years. In the course of 2013 inflation is expected rise temporarily due to recent hikes in administrative prices and taxes, before easing in 2014.

### Job creation slows down

In tandem with the growth slowdown, job creation is likely to be weaker. Total employment growth is

forecast to fall from 6.7% in 2011 to 2.3% in 2012 and between 1% and 2% in 2013-14. The fall in the unemployment rate is expected to continue but its pace is declining. The unemployment rate is projected to fall from 8.8% in 2011 (EU definition) to 7.5% in 2012, and about 6-7% in 2013-2014.

### External imbalances narrowing

The rapid increase in Turkey's current-account deficit in 2010-11 has raised serious concerns about its sustainability. Driven by a credit-fuelled rise in import demand and higher oil prices, it reached 10% of GDP in 2011. It is expected to remain relatively large but should ease for most of 2012-14 to levels around 7% of GDP, primarily owing to slower domestic demand growth. Weak GDP growth in the EU, Turkey's largest export market, is expected to continue to curb growth in external demand for Turkish goods and services.

Table II.33.1:

### Main features of country forecast - TURKEY

|  | 2011   |              |       | Annual percentage change |       |      |       |      |      |      |
|--|--------|--------------|-------|--------------------------|-------|------|-------|------|------|------|
|  | bn TRY | Curr. prices | % GDP | 92-08                    | 2009  | 2010 | 2011  | 2012 | 2013 | 2014 |
| GDP  | 1294.9 |              | 100.0 | 4.2                      | -4.8  | 9.2  | 8.5   | 3.0  | 2.9  | 3.7  |
| Private consumption                              | 920.8  |              | 71.1  | 4.1                      | -2.3  | 6.7  | 7.7   | 0.4  | 2.0  | 3.5  |
| Public consumption                               | 180.7  |              | 14.0  | 4.1                      | 7.8   | 2.0  | 4.5   | 3.7  | 5.3  | 6.6  |
| Gross fixed capital formation                    | 283.2  |              | 21.9  | 5.1                      | -19.0 | 30.5 | 18.3  | 0.6  | 2.4  | 5.3  |
| of which : equipment                             | -      |              | -     | -                        | -     | -    | -     | -    | -    | -    |
| Exports (goods and services)                     | 300.5  |              | 23.2  | 8.8                      | -5.0  | 3.4  | 6.5   | 9.7  | 5.1  | 6.5  |
| Imports (goods and services)                     | 397.6  |              | 30.7  | 9.5                      | -14.3 | 20.7 | 10.6  | 4.8  | 3.5  | 8.1  |
| GNI (GDP deflator)                               | 1282.1 |              | 99.0  | 4.2                      | -5.0  | 9.6  | 8.5   | 3.1  | 3.0  | 3.8  |
| Contribution to GDP growth :                     |        |              |       |                          |       |      |       |      |      |      |
| Domestic demand                                  |        |              |       | 4.5                      | -5.5  | 11.4 | 10.3  | 0.9  | 2.6  | 4.4  |
| Inventories                                      |        |              |       | 0.1                      | -2.1  | 2.3  | -0.3  | -0.1 | 0.0  | 0.0  |
| Net exports                                      |        |              |       | -0.4                     | 2.8   | -4.5 | -1.5  | 0.8  | 0.2  | -0.7 |
| Employment                                       |        |              |       | 0.6                      | 0.4   | 6.2  | 6.7   | 2.3  | 1.2  | 1.8  |
| Unemployment rate (a)                            |        |              |       | 8.0                      | 12.5  | 10.7 | 8.8   | 7.5  | 7.0  | 5.9  |
| Compensation of employees/head                   |        |              |       | 44.5                     | 4.7   | 7.0  | -2.1  | 8.0  | 6.6  | 7.1  |
| Real labour costs whole economy                  |        |              |       | 39.5                     | 10.4  | 4.1  | -3.7  | 7.2  | 4.8  | 5.2  |
| Real unit labour costs                           |        |              |       | -3.9                     | 4.8   | -1.5 | -11.3 | -1.0 | -2.3 | -0.2 |
| Saving rate of households (b)                    |        |              |       | -                        | -     | -    | -     | -    | -    | -    |
| GDP deflator                                     |        |              |       | 45.1                     | 5.3   | 5.7  | 8.6   | 8.3  | 7.3  | 5.4  |
| Harmonised index of consumer prices              |        |              |       | -                        | 6.3   | 8.6  | 6.5   | 8.0  | 7.8  | 5.8  |
| Terms of trade of goods                          |        |              |       | -0.5                     | 2.5   | -3.2 | -3.9  | 1.9  | -2.4 | 0.0  |
| Merchandise trade balance (c)                    |        |              |       | -5.2                     | -3.8  | -7.5 | -10.6 | -9.5 | -9.3 | -9.5 |
| Current-account balance (c)                      |        |              |       | -2.1                     | -2.2  | -6.4 | -10.0 | -8.0 | -6.8 | -7.2 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |        |              |       | -                        | -     | -    | -     | -    | -    | -    |
| General government balance (c)                   |        |              |       | -                        | -6.9  | -2.6 | -2.0  | -2.4 | -3.2 | -3.8 |
| Cyclically-adjusted budget balance (c)           |        |              |       | -                        | -     | -    | -     | -    | -    | -    |
| Structural budget balance (c)                    |        |              |       | -                        | -     | -    | -     | -    | -    | -    |
| General government gross debt (c)                |        |              |       | -                        | 46.1  | 42.4 | 39.2  | 36.8 | 36.5 | 35.8 |

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

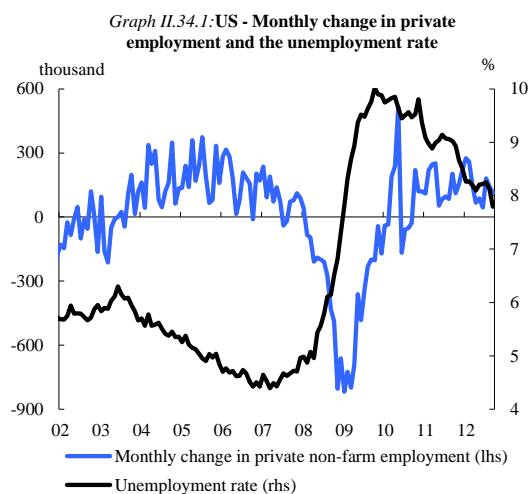
Other non-EU Countries

## 34. THE UNITED STATES OF AMERICA

### Subdued growth amid looming fiscal uncertainties

#### Growth stuck in low gear

Following a robust performance in late 2011 (1.0% q-o-q in the last quarter), the US economy decelerated in the first half of 2012 – as a disappointing first quarter (0.5%, q-o-q) was followed by an even weaker second quarter (0.3%) and activity indicators for the third suggest only a minor up-tick in growth dynamics. While some improvements can be discerned in certain sectors, the economy continues to be held back by a number of external and domestic factors. Uncertainty remains a key issue for businesses and households – especially in light of the upcoming elections – as no political agreement on the pending "fiscal cliff" of scheduled tax increases and spending cuts (short-term) or a fully-fledged fiscal consolidation strategy (medium and long-term) is yet in sight.



#### Tentative job creation, ambiguous sentiment and improving housing market

Looming policy uncertainty seems to weigh heavily on spending and investment. Private consumption slowed to 0.4% q-o-q in the second quarter (from 0.6% in the first) and is likely to remain soft until the end of the year given weak income growth and changeable labour market developments. Non-farm job creation has been rather volatile in 2012. After posting a very strong first quarter (225,700 monthly average) it slowed to 66,700 in the second quarter to pick up again to 145,700 in the next, aided by the strongest quarterly government employment growth since

2010. Following readings of just above 8% in the first eight months of the year, the unemployment rate dropped to 7.8% in September, the lowest since January 2009. Improvements were also registered in the share of the long-term unemployment which dropped to 40.0% in August (40.1% in September), a near-three-year low, and the employment rate which edged up to 58.7% in September, the highest since May 2010. However, the activity rate of the population (the share of the labour force in total population) declined to a three-decade low of 63.5% in August and was little changed in September – signalling a structural dimension to the current labour market weakness.

The housing market appears to be on a path of steady improvement, with home prices (Case-Shiller 20-city Index) rising continuously for the six straight months to July and showing positive year-on-year dynamics in June and July (+1.2) for the first time since September 2010. Both construction activity and home sales continue to rise robustly, albeit from very depressed levels. While recent improvements are unquestionable, activity and sales are still a fraction of their pre-crisis levels and the sector's contribution to GDP (positive for five quarters now) remained well below 0.1 pp. on average in the first and second quarter.

Consumer confidence rebounded in late summer (after bottoming out in July/August), on improving labour and housing market conditions along with a stock market rally that lifted most indices near their pre-crisis highs in October. Reflecting these improvements, the Reuter's/University of Michigan Sentiment Index has been rising since August - driven largely by expectations - to reach the five-year high of 83.1 in October.

On the other hand, sentiment among businesses remains subdued following the deep plunge it took over late spring/early summer on growing domestic fiscal uncertainty and euro-area concerns. The ISM Manufacturing index stayed below 50 from June to August signalling contraction – for the first time since mid-2009 to rebound to 51.5 in September on better new orders and employment outlook. The non-manufacturing ISM Index, on the other hand, rebounded from the 30-month low of 52.1 registered in June and showed gains in the

three months that followed to reach 55.1 in September.

Reflecting the uncertain outlook, business investment has weakened considerably over the past four quarters, as firms, in particular from sectors more dependent on government orders, put their investment plans (and capital goods orders) on hold until the fiscal uncertainty dissipates. Private non-residential capital formation slowed to 0.9% q-o-q in the second quarter, compared to 4.4% in the third quarter of 2011 and the weakest since the first quarter of 2011. Core capital goods orders (non-defence, excl. aircraft) confirm the slowdown going forward with the three-month growth momentum weakening to a three-year low of -5.1% in August.

### Fiscal drag and monetary push

Fiscal policy remains contractionary. The second quarter of 2012 was the eighth consecutive quarter to post contraction in government consumption and investment. At the federal level, tighter fiscal policies are confirmed by the final budget data for the fiscal year 2012 (ending in September), which showed a considerable narrowing of the fiscal deficit (-7.0% of GDP vs. -8.7% in 2011) – a result of both higher revenues and somewhat lower spending. By contrast, faced with the sub-par recovery and weak job creation, the Fed decided to loosen monetary policy further and launched the third round of quantitative easing (QE3) on 13 September. Under this programme, the Fed will buy USD 40 bn in agency mortgage-backed securities (MBS) per month until the labour market outlook improves "substantially"; continue the so-called Operation Twist<sup>(26)</sup>; and extend its forward guidance on monetary policy by six months committing to the "exceptionally low" federal funds rate (0% to ¼%) until at least mid-2015.

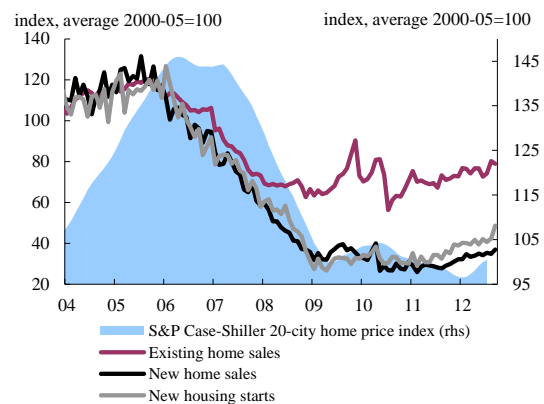
### Fiscal challenges cloud the outlook

Despite the weak first half of the year, an outsize carry-over effect from the robust fourth quarter of 2011 growth means that real GDP for 2012 as a whole is nevertheless expected to expand moderately at 2.1% (up from 2.0% projected in the spring forecast). The estimate for 2013 is also revised up slightly from 2.1% to 2.3% and growth in 2014 is projected to strengthen to 2.6%.

<sup>(26)</sup> Extension of the average maturity of Fed's holdings of securities through purchases of longer-term securities against sales of shorter-term ones.

Fiscal policies remain the primary source of uncertainty over the forecast horizon. In the short run the upcoming "fiscal cliff" of tax increases and spending cuts (worth 4.5-5.0% of GDP) scheduled to kick in on January 1, 2013, interacts with the expiration of the debt ceiling in early 2013 and a looming government shut-down after March 2013. The primary assumption underlying this forecast is that policymakers will manage to avert both the "fiscal cliff" and the government shut-down as well as raise the debt ceiling – regardless of the outcome of November elections. However, due to the time constraint and inherent ideological differences between the two political camps, the related agreement is likely to be a series of temporary fixes and extensions rather than the "grand bargain" paving the way to a fully-fledged medium-term consolidation plan. Based on past efforts and experiences, committing to such a plan is likely to take more time and partisan bargaining to come up with a mutually acceptable mix of reforms to entitlement spending, spending cuts in other areas (e.g. defence) and a major overhaul of the current tax code including, inevitably, revenue increases.

Graph II.34.2: US - Home prices, home sales and new housing starts (s.a.)



At this juncture, it is assumed that last-minute temporary solutions put together by policymakers around the turn of the year will reduce the 2013 fiscal tightening to about one-quarter of the 4.5-5.0% of GDP scheduled to occur in 2013 under current law. This implies a fiscal consolidation of about 1.2% of GDP (slightly down from the SF) that will come predominantly from partial expiration of scheduled tax cuts and lower than-scheduled spending reductions.

### Housing and QE3 to support gradual acceleration

The forecast for 2013 was revised up slightly to 2.3% (from 2.1% in the SF) because of an

assumption of marginally lower fiscal consolidation and a positive effect of QE3. While the impact of the latter is not expected to be either quick or large, additional easing may help boost market and business sentiment as well as firm recent improvements in the housing sector. To this end, the Fed's actions are likely to further lower mortgage rates, spur home buying and thus provide an additional boost to property prices. This may set off a virtuous circle of higher spending – associated with home-buying but also through the wealth effect as households' net worth increases.

For 2014, GDP growth is expected to accelerate to 2.6% – in line with the overall improvement in global activity and trade and the consolidation of positive developments in the domestic market (housing, labour market). Regarding fiscal policies, the baseline scenario is similar to that for 2013 and involves partial agreements on selected policies rather than addressing the fiscal sustainability with a coherent and fully fledged consolidation programme. Therefore, only gradual improvements in the fiscal position of the US are expected within the forecast horizon (by 1.2% and 1.1% of GDP in 2013 and 2014, respectively). This will not be enough to reverse the increasing trend in the debt-to-GDP ratio and hence the principal medium and long-term concern dimming

the US outlook will remain unaddressed.

### Risks still tilted to the downside

Risks to the outlook continue to be tilted to the downside. Domestically they are linked to the risk of excessive consolidation in the short run ("fiscal cliff") which – if not averted in time – could throw the US economy into recession<sup>(27)</sup> and derail the fragile global recovery. Domestic and global confidence may again suffer if a damaging political stand-off over fiscal policies is repeated, for example during the next debt ceiling debate or negotiations on the extension of tax cuts and the automatic spending cuts ("sequester") in early 2013. Any negative signals from the political scene related to these debates may also further weaken financial markets' confidence in the feasibility of the necessary medium-term fiscal consolidation.

<sup>(27)</sup> Forecasts of the GDP contraction depend on the estimate of the associated fiscal restraint and related fiscal multipliers and range from -0.5% (CBO) to roughly -2% (investment banks) in calendar year 2013.

Table II.34.1:

### Main features of country forecast - THE UNITED STATES

|  | 2011    |              |       | Annual percentage change |       |       |       |       |       |       |
|--|---------|--------------|-------|--------------------------|-------|-------|-------|-------|-------|-------|
|  | bn USD  | Curr. prices | % GDP | 92-08                    | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  | 15044.1 | 100.0        |       | 3.0                      | -3.1  | 2.4   | 1.8   | 2.1   | 2.3   | 2.6   |
| Private consumption                              | 10729.0 | 71.3         |       | 3.3                      | -1.9  | 1.8   | 2.5   | 1.9   | 2.0   | 2.2   |
| Public consumption                               | 2688.2  | 17.9         |       | 1.6                      | 4.4   | 0.9   | -2.6  | -1.6  | -0.4  | 0.0   |
| Gross fixed capital formation                    | 2158.3  | 14.3         |       | 4.3                      | -16.1 | -0.5  | 4.0   | 5.7   | 5.8   | 9.4   |
| of which : equipment                             | 1142.3  | 7.6          |       | 6.3                      | -19.6 | 9.9   | 11.0  | 5.0   | 6.4   | 11.4  |
| Exports (goods and services)                     | 2094.2  | 13.9         |       | 5.7                      | -9.1  | 11.1  | 6.7   | 4.4   | 6.2   | 6.3   |
| Imports (goods and services)                     | 2662.2  | 17.7         |       | 7.1                      | -13.5 | 12.5  | 4.8   | 3.8   | 5.3   | 7.6   |
| GNI (GDP deflator)                               | 15296.0 | 101.7        |       | 3.1                      | -4.1  | 3.5   | 2.0   | 2.0   | 2.5   | 3.0   |
| Contribution to GDP growth :                     |         |              |       |                          |       |       |       |       |       |       |
| Domestic demand                                  |         |              |       | 3.3                      | -3.5  | 1.4   | 1.9   | 1.9   | 2.2   | 3.1   |
| Inventories                                      |         |              |       | 0.0                      | -0.8  | 1.5   | -0.2  | 0.1   | 0.0   | 0.0   |
| Net exports                                      |         |              |       | -0.3                     | 1.2   | -0.5  | 0.1   | 0.0   | 0.0   | -0.4  |
| Employment (*)                                   |         |              |       | 1.2                      | -5.0  | -0.8  | 0.6   | 1.7   | 0.7   | 1.1   |
| Unemployment rate (a)                            |         |              |       | 5.4                      | 9.3   | 9.6   | 8.9   | 8.2   | 7.9   | 7.5   |
| Compensation of employees/head                   |         |              |       | 3.8                      | 1.9   | 3.0   | 3.3   | 1.9   | 3.8   | 3.7   |
| Unit labour costs whole economy                  |         |              |       | 2.0                      | 0.0   | -0.3  | 2.0   | 1.6   | 2.2   | 2.1   |
| Real unit labour costs                           |         |              |       | -0.2                     | -0.9  | -1.6  | -0.1  | -0.2  | -0.4  | -0.6  |
| Saving rate of households (b)                    |         |              |       | 8.4                      | 9.4   | 9.6   | 8.6   | 8.2   | 7.8   | 7.4   |
| GDP deflator                                     |         |              |       | 2.2                      | 0.9   | 1.3   | 2.1   | 1.8   | 2.7   | 2.7   |
| General index of consumer prices                 |         |              |       | 2.7                      | -0.4  | 1.6   | 3.2   | 2.1   | 2.0   | 2.1   |
| Terms of trade of goods                          |         |              |       | -0.6                     | 6.4   | -1.6  | -1.1  | -0.5  | 0.1   | -0.7  |
| Merchandise trade balance (c)                    |         |              |       | -4.1                     | -3.8  | -4.6  | -5.0  | -4.9  | -4.7  | -5.1  |
| Current-account balance (c)                      |         |              |       | -3.3                     | -3.6  | -3.3  | -3.3  | -3.1  | -2.9  | -2.9  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |         |              |       | -3.3                     | -3.6  | -3.3  | -3.3  | -3.1  | -2.9  | -2.9  |
| General government balance (c)                   |         |              |       | -2.8                     | -11.9 | -11.3 | -10.1 | -8.5  | -7.3  | -6.2  |
| Cyclically-adjusted budget balance (c)           |         |              |       | -                        | -     | -     | -     | -     | -     | -     |
| Structural budget balance (c)                    |         |              |       | -                        | -     | -     | -     | -     | -     | -     |
| General government gross debt (c)                |         |              |       | 66.4                     | 90.1  | 99.2  | 103.5 | 109.6 | 112.3 | 113.3 |

(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.



## 35. JAPAN

### Recovery stalling after the solid first half of 2012

#### Short-lived growth followed by uncertain outlook

After contracting in the first half of 2011 after the effects of the March 2011 triple disaster, Japanese GDP grew for four consecutive quarters, bringing y-o-y growth in the second quarter of 2012 to 3.2%. However, the recovery is likely to be interrupted in the second half of 2012 due to a deteriorating global outlook.

Until mid-2012, growth had been driven by private consumption, which was up by 3.7% y-o-y in the first quarter of 2012 and by 3.5% y-o-y in the second quarter of 2012. The spurt in consumption was made possible by pent-up demand, the temporary re-introduction of purchase incentives for eco-cars and a number of product innovations in consumer electronics. All these elements have subsequently dissipated. In addition, recent wage developments have been disappointing. For the rest of the year a decline in private consumption is therefore to be expected.

Public investment has been the second pillar of the strong growth in the first half of 2012. Reconstruction efforts intensified at the beginning of 2012 and public investment grew by 3.6% q-o-q in the first and by 1.8% q-o-q in the second quarter of 2012. It is projected to slow down in the second half of 2012 because of delays in approval of the deficit-financing bills in the upper house.

Government consumption grew strongly (1.1% q-o-q) in the first quarter of 2012 and edged up (0.2% q-o-q) in the second quarter. Looking ahead, some payback and the effects of expenditure restraint are likely to cause a slight decline in government consumption in the second half of 2012.

Private non-residential investments have not yet recovered from their steep declines in 2008 and 2009 and are more than 15% below their peak. They increased by 5.5% q-o-q in the final quarter of 2011. After a decline (-1.6% q-o-q) in the first quarter of 2012 non-residential investment increased again (1.4% q-o-q) in the second quarter. For the second half of 2012 private non-residential investment is expected to decline. Several factors are holding back a recovery. First, the strong yen hampers exports and profit prospects of export

oriented companies. Second, the slowdown in China and other Asian markets and the weaker prospects of exports to Europe hold back investments. Third, financing conditions are easy and credit available, while real interest rates are too high in an environment where profit prospects are subdued. Fourth, deflation has not been overcome and domestic growth prospects remain subdued.

Net exports made a strong negative growth contribution (-0.9 pp.) in 2011. They did not contribute to growth in the first half of 2012 and are expected to give a slight negative contribution to growth in the second half of 2012. The main reason for this development is higher energy imports. The strong yen and lately the slowdown in large parts of Asia as well as the escalation of tensions with China and to a lesser extent with Korea are also likely to negatively affect exports.

#### Outlook for 2013 and beyond

Given the expected growth profile in 2012, the carry-over for 2013 will be negative. As a result growth for the calendar year is likely to be weak although the q-o-q growth is expected to be fairly positive in most quarters of 2013. Two major factors should support growth in 2013. First, there will probably be no further autonomous factors driving up imports. Second, in the second half of the year some front-loading of private consumption is anticipated due to the consumption tax hike scheduled for April 2014. For the same reason, private consumption is also expected to be weak in the second and third quarter of 2014. The last consumption tax hike from 3% to 5% in 1997 already led to a front-loading of consumption.

Non-residential investment is expected to grow moderately in 2013 and beyond. Despite headwinds due to deflation and the global economic situation an improvement of export prospects and of sentiment for manufacturing companies are expected to lift non-residential investment in 2013 and 2014. In addition, investment in energy efficiency could drive investment

Public investment and government consumption are expected to grow only slightly due to necessary consolidation efforts. Reconstruction work will continue but the gradual decline of ordinary public investments which started a decade ago is likely to continue as well.

### Downside risks outweigh upside risks

A weakening in the yen and/or lower oil prices would likely result in higher investments and higher net exports. Growth could also be higher due to front-loading expenditure more than anticipated prior to the consumption tax hike in April 2014.

Downside risks outweigh upside risks in the current environment. Exports could be under more pressure due to weak demand in key export markets. Further losses in market share due to more product-related competitiveness by competitors in some markets like consumer

electronics possibly send Japan's exports down. Consumption could be weaker than expected in case the debate about welfare reform and the looming loss of purchasing power due to the consumption tax hike results in a higher saving rate.

Graph II.35.1: Japan - GDP growth and contributions

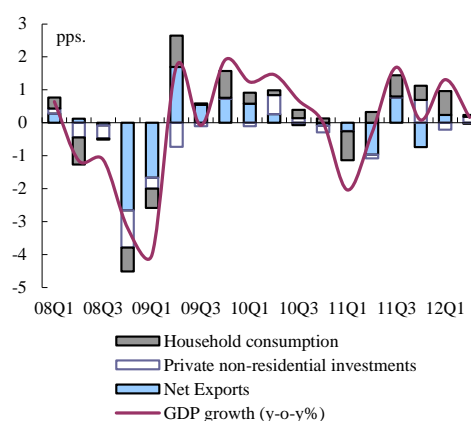


Table II.35.1:

### Main features of country forecast - JAPAN

|  | 2011     |              |       | 92-08 | Annual percentage change |       |       |       |       |       |
|--|----------|--------------|-------|-------|--------------------------|-------|-------|-------|-------|-------|
|  | bn JPY   | Curr. prices | % GDP |       | 2009                     | 2010  | 2011  | 2012  | 2013  | 2014  |
| GDP  | 468191.2 |              | 100.0 | 1.0   | -5.5                     | 4.5   | -0.8  | 2.0   | 0.8   | 1.9   |
| Private consumption                              | 282771.4 |              | 60.4  | 1.1   | -0.7                     | 2.6   | 0.1   | 2.3   | 0.4   | 1.1   |
| Public consumption                               | 96694.4  |              | 20.7  | 2.3   | 2.3                      | 2.2   | 2.0   | 1.6   | 0.1   | 0.5   |
| Gross fixed capital formation                    | 96910.6  |              | 20.7  | -1.0  | -10.6                    | 0.1   | 0.8   | 3.2   | 1.6   | 1.9   |
| of which : equipment                             | -        |              | -     | -     | -                        | -     | -     | -     | -     | -     |
| Exports (goods and services)                     | 71273.0  |              | 15.2  | 5.3   | -24.2                    | 24.3  | -0.1  | 2.5   | 0.7   | 3.9   |
| Imports (goods and services)                     | 75600.0  |              | 16.1  | 3.7   | -15.7                    | 11.2  | 6.3   | 6.3   | -0.4  | 1.0   |
| GNI (GDP deflator)                               | 482890.9 |              | 103.1 | 1.1   | -6.1                     | 4.4   | -0.3  | 2.2   | 0.9   | 1.9   |
| Contribution to GDP growth :                     |          |              |       |       |                          |       |       |       |       |       |
| Domestic demand                                  |          |              |       | 0.7   | -2.4                     | 2.1   | 0.6   | 2.3   | 0.6   | 1.1   |
| Inventories                                      |          |              |       | 0.0   | -1.6                     | 0.8   | -0.5  | 0.2   | 0.0   | 0.3   |
| Net exports                                      |          |              |       | 0.3   | -1.5                     | 1.7   | -0.9  | -0.5  | 0.2   | 0.5   |
| Employment                                       |          |              |       | 0.0   | -1.6                     | -0.5  | 1.7   | -0.2  | 0.1   | 0.1   |
| Unemployment rate (a)                            |          |              |       | 4.0   | 5.1                      | 5.1   | 4.6   | 4.8   | 4.7   | 4.6   |
| Compensation of employees/head                   |          |              |       | -0.1  | -3.7                     | 0.3   | 0.5   | 0.5   | 1.2   | 1.2   |
| Unit labour costs whole economy                  |          |              |       | -1.2  | 0.3                      | -4.5  | 2.9   | -1.6  | 0.4   | -0.6  |
| Real unit labour costs                           |          |              |       | -0.5  | 0.8                      | -2.4  | 5.1   | 0.0   | 1.4   | -1.1  |
| Saving rate of households (b)                    |          |              |       | 13.9  | 9.1                      | 8.9   | 7.4   | 8.2   | 10.2  | 10.7  |
| GDP deflator                                     |          |              |       | -0.7  | -0.5                     | -2.2  | -2.1  | -1.6  | -0.9  | 0.4   |
| General index of consumer prices                 |          |              |       | 0.3   | -1.4                     | -0.7  | -0.3  | -0.2  | -0.1  | 0.2   |
| Terms of trade of goods                          |          |              |       | -2.6  | 16.1                     | -7.1  | -8.0  | -3.9  | 0.0   | -1.4  |
| Merchandise trade balance (c)                    |          |              |       | 2.4   | 0.9                      | 1.7   | -0.4  | -1.5  | -1.4  | -1.2  |
| Current-account balance (c)                      |          |              |       | 2.9   | 2.8                      | 3.6   | 2.0   | 0.9   | 1.1   | 1.3   |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |          |              |       | 2.8   | 2.7                      | 3.5   | 1.9   | 0.8   | 1.0   | 1.2   |
| General government balance (c)                   |          |              |       | -4.7  | -8.8                     | -8.4  | -7.8  | -8.3  | -7.9  | -7.7  |
| Cyclically-adjusted budget balance (c)           |          |              |       | -     | -                        | -     | -     | -     | -     | -     |
| Structural budget balance (c)                    |          |              |       | -     | -                        | -     | -     | -     | -     | -     |
| General government gross debt (c)                |          |              |       | 137.2 | 210.2                    | 215.3 | 233.2 | 240.6 | 249.5 | 250.8 |

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

## 36. CHINA

Mixed signals for the short term, while structural challenges remain

### A faster than expected slowdown

China's growth has slowed more rapidly than was anticipated in the spring forecast, with growth rates of 8.2%, 7.6% and 7.4% (y-o-y) over the first three quarters of 2012. Weakness has been seen in both internal and external demand. Growth in exports and imports has ground to a halt in recent months, with year-on-year growth rates dropping to close to zero. Growth rates for domestic industrial production, retail sales and fixed asset investment all declined fairly steadily through the first half of the year.

The slowdown was partly a response to a deliberate policy of monetary tightening during 2011. China raised policy rates five times between October 2010 and July 2011 to counter a steady increase in inflation, and to dampen credit growth and property prices in an overheating real estate sector. The RMB real effective exchange rate was also allowed to appreciate by around 7% during the course of 2011. These measures largely proved effective. Consumer price inflation fell back sharply, from a peak of 6.5% in July 2011, to just below 2% in September 2012. Real estate investment and property prices fell as the domestic real estate bubble deflated.

It seems likely that the pace of the slowdown was faster than the Chinese authorities had expected. Trade growth has proved surprisingly slow, and there has been a protracted weakness across a range of economic and sentiment indicators, with a sequence of weak PMI readings to go alongside below-consensus data readings through much of the first three quarters. In June, the People's Bank of China introduced the first cut in headline policy rates for three years, followed by a further cut in July, together reducing headline rates by 50 bps. There has also been an acceleration by the National Development and Reform Commission (NDRC) of approvals for infrastructure investment.

### Is a stabilisation of growth in sight?

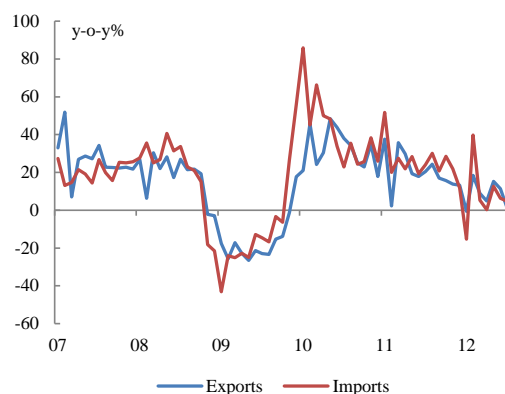
Despite the string of disappointing data, there are some tentative signs of stabilisation of growth. Retail sales and fixed asset investment have seen their year-on-year growth rates stabilise over the last 2 to 3 months. There has also been a slight

pick-up in credit growth. However there are no clear signs as yet of any significant bounce back in activity. PMI readings remain weak, while producer prices have turned deflationary, suggesting significant pressure on profitability in industrial sectors. While a relatively "soft landing" is not out of reach for the Chinese economy, the recent data only provides a limited case for optimism.

### The external outlook

The external sector seems unlikely to contribute greatly to Chinese growth in the near term. The effective exchange rate of the RMB has been relatively stable through 2012, while the outlook for China's main export markets is that growth will remain subdued, and that export growth will therefore remain modest. Falling domestic producer prices may allow for some capture of market share, but structural factors – including the rise of other low cost producers in the region – are working against China in this respect.

Graph II.36.1: China - Trade growth



### The domestic outlook

Given the weakness of external demand, and likely sluggish demand from the domestic private sector, the current outlook for China largely hinges on whether reported measures to accelerate public investment projects, and some targeted fiscal measures directed towards consumers, will prove sufficient to generate a substantial improvement in domestic prospects. In recent weeks the NDRC has approved a number of infrastructure projects, reportedly worth around 2.5% of GDP. These are not entirely new projects, but their accelerated approval is expected to help underpin a

stabilisation of growth through to the end of this year. Consumer spending should also prove fairly resilient. Real interest rates have risen as inflation has dropped back, which raises returns to households, who keep a substantial part of their wealth in the form of bank deposits. Together with the continued steady growth of wages, this should prevent a sharp slowdown in consumption spending. For these reasons growth is expected to be around 7.7% in 2012, with a similar level of growth for 2013 and 2014.

### Risks to the outlook

There remain downside risks from the US fiscal cliff, or a worsening of the euro-area economic outlook. However, the most critical determinants of Chinese growth in the short term are likely to be internal. The relatively low weight of consumption demand in the economy means that domestic developments remain heavily dependent on more idiosyncratic components of demand. At some point a sharp structural break in investment may arise, driven by profitability concerns. The forecast does not incorporate a sharp fall in investment

demand over the forecast horizon, but rates of investment close to 50% of GDP cannot be sustained indefinitely without raising the prospects of a substantial squeeze on profits. An additional structural issue is the sustainability of local government finances which are currently partly dependent on asset sales.

The Chinese government retain room for manoeuvre to counter negative shocks with a budget deficit below 2% of GDP. The imminent leadership change in party leadership in November this year may affect the size and scope of any policy responses.

The forecast for 2013-14 suggests that China may be in the process of making a step shift to a materially lower growth rate than the past decade. Such an adjustment to a lower trend growth rate is likely to prove beneficial, provided it is the product of a significant rebalancing of the economy away from an overreliance on investment, and towards higher levels of consumption and more emphasis on less resource intensive and capital intensive economic growth.

Table II.36.1:

### Main features of country forecast - CHINA

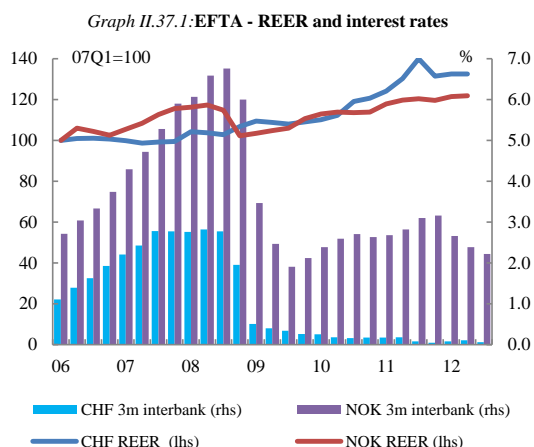
|  | 2011   |                 |       |       | Annual percentage change |      |      |      |      |      |
|--|--------|-----------------|-------|-------|--------------------------|------|------|------|------|------|
|  | bn CNY | Curr. prices    | % GDP | 92-08 | 2009                     | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  |        | 46547.8         | 100.0 | 10.3  | 9.2                      | 10.4 | 9.3  | 7.7  | 7.7  | 7.8  |
| Private consumption                              |        | 16223.8         | 34.8  | 14.9  | 9.4                      | 7.1  | 10.0 | -    | -    | -    |
| Public consumption                               |        | 6192.8          | 13.3  | 16.2  | 8.1                      | 9.8  | 10.4 | -    | -    | -    |
| Gross fixed capital formation                    |        | 21519.7         | 46.2  | 18.6  | 23.5                     | 11.6 | 9.6  | -    | -    | -    |
| of which : equipment                             |        | -               | -     | -     | -                        | -    | -    | -    | -    | -    |
| Change in stocks as % of GDP                     |        | -               | -     | -     | -                        | -    | -    | -    | -    | -    |
| Exports (goods and services)                     |        | 13446.1         | 28.9  | 16.6  | -4.2                     | 20.3 | 8.1  | 5.3  | 3.9  | 5.0  |
| Final demand                                     |        | -               | -     | -     | -                        | -    | -    | -    | -    | -    |
| Imports (goods and services)                     |        | 12226.1         | 26.2  | 17.6  | 4.5                      | 20.7 | 9.4  | 5.2  | 3.9  | 5.0  |
| GNI (GDP deflator)                               |        | -               | -     | -     | -                        | -    | -    | -    | -    | -    |
| Contribution to GDP growth :                     |        | Domestic demand |       | -     | -                        | -    | -    | -    | -    | -    |
|  |        | Stockbuilding   |       | -     | -                        | -    | -    | -    | -    | -    |
|  |        | Foreign balance |       | -     | -                        | -    | -    | -    | -    | -    |
| Employment                                       |        |                 |       | 0.9   | 0.3                      | 0.4  | 0.4  | -    | -    | -    |
| Unemployment (a)                                 |        |                 |       | 3.4   | 4.3                      | 4.1  | 4.1  | -    | -    | -    |
| Compensation of employees/head                   |        |                 |       | -     | -                        | -    | -    | -    | -    | -    |
| Unit labour costs                                |        |                 |       | -     | -                        | -    | -    | -    | -    | -    |
| Real unit labour costs                           |        |                 |       | -     | -                        | -    | -    | -    | -    | -    |
| Saving rate of households                        |        |                 |       | -     | -                        | -    | -    | -    | -    | -    |
| GDP deflator                                     |        |                 |       | 5.6   | -0.6                     | 5.8  | 5.9  | 2.0  | 2.0  | 2.0  |
| Private consumption deflator                     |        |                 |       | -     | -                        | -    | -    | -    | -    | -    |
| Index of consumer prices (c)                     |        |                 |       | 5.3   | -0.7                     | 3.3  | 5.4  | -    | -    | -    |
| Merchandise trade balance (b)                    |        |                 |       | 3.4   | 5.0                      | 4.3  | 3.4  | 2.5  | 2.5  | 2.4  |
| Current-account balance (b)                      |        |                 |       | 2.9   | 5.2                      | 5.2  | 2.8  | 2.8  | 2.7  | 2.6  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (b) |        |                 |       | -     | -                        | -    | -    | -    | -    | -    |
| General government balance (b)                   |        |                 |       | -1.3  | -2.3                     | -1.7 | -1.2 | -    | -    | -    |
| General government gross debt (b)                |        |                 |       | -     | -                        | -    | -    | -    | -    | -    |

(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

## 37. EFTA

### Resilience put to the test

Norway, Switzerland and Liechtenstein<sup>(28)</sup> continue their remarkable resilience to the euro-area sovereign-debt crisis. That is not to say that the crisis has no effect on the economic outlook, on the contrary. There is a fall-out in external demand from the euro area and there has been an impact on economic sentiment, in particular in Switzerland. However, the impact has not been as severe as the strong ties with the European Union would suggest. This resilience was identified in the spring forecast to have a common origin in exceptionally low domestic interest rates linked to the safe havens status of these countries and their ability to tap into demand from new growth poles.



For both Switzerland and Norway, domestic yields continue to be very low in a context of a strong currency. Domestic demand is supported both directly through lower lending rates for corporates and households and indirectly through the wealth effect. The benefit of export diversification towards new markets is waning for Switzerland as the economic growth of the emerging economies is also coming under pressure. Norway's exports are still boosted by oil prices at an elevated level which also have strong impetus on domestic demand through the investment in the oil sector. As a consequence, Norway's business cycle is

<sup>(28)</sup> Although Switzerland and Liechtenstein are two separate countries and there are important differences between them, in terms of economic development they are highly comparable and in this forecast Liechtenstein is taken as part of the forecast for the Swiss economy. The economic outlook for Iceland is discussed separately because of its candidate country status.

decoupling from the euro area whereas Switzerland's business cycle cools down.

#### Swiss business cycle cools down

The Swiss economy continues to outperform the euro-area economy in spite of its high dependency on the economic developments in the euro area. The safe-haven status of Switzerland has led to capital inflows, which resulted in a fall in domestic yields that supported domestic demand both through lower borrowing costs and an increase in asset values (including real estate). Swiss exports are concentrated in a few categories with a low price elasticity which helps to offset part of the pressure from appreciation. For instance, in the export of financial services the competitive edge of Switzerland lies not only with its solid banking history and large global banks but also with bank secrecy and tax advantages. In goods trade, the Swiss also have a competitive edge in some niche markets with a remarkable contribution by commodity traders like Vitol, a global player, to Swiss economic strength.

Irrespective of its competitive edge, Switzerland is neither immune to economic developments in the EU nor to developments in the rest of the world economy. With the strength of the recovery outside the euro area waning, its exports are coming under pressure as is becoming increasingly visible in the declining contribution of net trade to economic growth. For the rest of 2012, the Swiss economic outlook is clouded by the effect of external developments on foreign demand.

Domestic demand will continue to provide the main thrust to the Swiss economy throughout 2012 supported by very low interest rates, which also are a consequence of the financial turmoil outside Switzerland, and an inflow of high wage earners. These factors will continue to drive domestic demand albeit at a diminishing rate as the safe haven effect on domestic demand wanes. By then, however, the fundamentally strong position, like in the labour market, of the Swiss economy will help drive the economy.

The positive growth surprises in the fourth quarter of last year and the first quarter of this year are signs of the volatility that the Swiss economy is confronted with. Also, because of the statistical

effect these positive surprises will support the annual growth figure this year. At the same time, the disappointing GDP figure in the second quarter (-0.2% q-o-q, 0.5% y-o-y) warrants a more sober outlook for the Swiss economy for the rest of the year. It has confirmed our expectations in spring that net exports turn into a drag on GDP growth throughout 2012. Already, labour market reports have become less positive although the 2.8% unemployment rate in September seems to indicate mostly friction unemployment.

As the world's recovery again accelerates in 2013 and pressure will come off the Swiss franc, the Swiss economy will see its external demand rise for both its high value added export products and the more basic industries. This should increasingly provide impetus to economic growth going into 2014 when economic growth is foreseen at slightly above potential.

### **The strong Swiss Franc issue**

The Swiss franc has traded mostly close to the 1.20 ceiling against the euro since its introduction by the Swiss National Bank in September 2011. However, the Swiss franc depreciated significantly in real effective terms since the Swiss National Bank (SNB) given the euro's generalised weakness between March and July against major currencies (JPY, USD, GBP). Nonetheless, the franc will continue to play a significant safe-haven role as proved by the significant capital inflows into Switzerland. The fact that the exchange rate has stayed very close to the lower bound of 1.20 shows that renewed upward pressure remains an important risk.

As a consequence of the high-valued Swiss franc, prices have been under downward pressure regardless of robust domestic demand. For 2012, a small decline in the general price level is expected. This is particularly visible in the core inflation which will support real disposable income. In the coming two years, as monetary conditions are expected to gradually return to normal, inflation should rise again to moderate levels.

There are two major risks to the outlook for the Swiss economy. A first risk is the development of an asset bubble, in particular in housing, as a consequence of yields persistently below the equilibrium level. Such an asset bubble would affect bank balance sheets and could create financial instability. A second risk is a sudden

reversal in external financial conditions, like an evaporation of the safe haven status, which would lead to a sharp depreciation of the Swiss franc and difficulties for the SNB to undo its loose monetary policy in time. In this rather unlikely scenario, inflationary pressures would increase, eroding real disposable income while the associated lower real interest rates would drive an unsustainable increase in households' net wealth. Again, this would entail risks for Swiss financial stability.

### **Norway's business cycle decouples**

Domestic demand is fuelling growth in the Norwegian economy, helped by favourable domestic conditions and a thriving oil sector. Strong wage and employment growth, along with very low inflation and interest rates, are currently boosting consumer purchasing power. Private consumption growth in the first half of 2012 was very high (2% on the second half of the previous year, seasonally, adjusted). Moreover, higher level of disposable income and expectations for continued strong labour market ensure sustained consumption growth in 2012 and into 2013. Higher interest rates and a moderation of employment growth are forecast to slow down consumption growth gradually in 2013 and 2014.

Gross fixed capital formation gained momentum in the second quarter of 2012. An appreciating krone, coupled with higher profitability in the off-shore sector due to high oil prices, is increasingly attracting international capital flows. The resulting exceptionally strong growth in Norwegian oil investment is projected to slow down during the forecast period, but it will remain high, provided that high oil prices and low interest rates are sustained.

Export growth is expected to recover, despite the strong exchange rate, aided by strong growth of hydrocarbons exports and Norway's relatively low reliance on Europe for them (Norway's oil exports are in excess of 40% of total exports, half of which are absorbed by the EU). However, stronger imports, in line with growth of domestic demand, are expected to limit the external sector's contribution to GDP growth.

### **GDP growth above trend and inflation below target: room for monetary policy?**

The krone appreciation and resulting lower import prices have kept inflation low, registering only



0.6% on average during the first seven months of 2012, despite high global energy costs, strong economic growth and rapid wage growth. The strong krone is expected to keep inflation below 1% in 2012. In subsequent years, as global prospects improve and pressures on the krone ease, the central bank is expected to raise interest rates in response to Norway's domestic imbalances: rapid increases of house prices and credit.

Whereas strong production growth is expected in the years ahead, no major labour shortages are foreseen thanks to high immigration flows, except for anecdotal shortages in some skilled areas. Consequently, wage growth should not pick up sharply, but still remain relatively high during the forecast period.

While economic strength and high wage growth continue, inflation is forecast to gradually increase throughout the forecast period, yet it is expected to

stay below the central bank's target of 2.5%. However, too sharp interest hikes might only strengthen the krone to levels that would cause inflation to drop further below target.

### Downside risks to the outlook for Norway

Turmoil in financial markets of other advanced economies could raise capital flows into Norway causing a further appreciation of the krone while pushing the domestic interest rate below equilibrium levels. This would enhance risks of asset bubbles, which are especially worrisome for the property markets where prices are already high, and are mirrored in high indebtedness of households. On the other hand, a possible sharp escalation of the euro crisis and a new financial crisis could result in much tighter credit standards, which is one of the main risks to the Norwegian economy.

Table II.37.1:

### Main features of country forecast - EFTA

| (Annual percentage change)                       | Norway |      |      |      |      | Switzerland |      |      |      |      |
|--|--------|------|------|------|------|-------------|------|------|------|------|
|  | 2010   | 2011 | 2012 | 2013 | 2014 | 2010        | 2011 | 2012 | 2013 | 2014 |
| GDP  | 0.7    | 1.4  | 3.1  | 2.5  | 2.3  | 3.0         | 1.9  | 1.0  | 1.4  | 1.9  |
| Private consumption                              | 3.7    | 2.4  | 2.5  | 2.4  | 2.3  | 1.6         | 1.2  | 2.1  | 1.4  | 1.7  |
| Public consumption                               | 1.7    | 1.5  | 1.9  | 2.2  | 2.2  | 0.7         | 2.0  | 2.3  | 1.5  | 2.5  |
| Gross fixed capital formation                    | -5.2   | 6.4  | 7.2  | 4.5  | 2.9  | 4.8         | 4.0  | 0.9  | 0.4  | 0.7  |
| of which : equipment                             | -4.2   | 0.1  | 5.0  | 4.5  | 2.9  | 6.4         | 5.1  | 1.5  | -0.5 | 0.8  |
| Exports (goods and services)                     | 1.8    | -1.4 | 3.6  | 2.5  | 2.4  | 7.8         | 3.8  | 1.1  | 2.3  | 3.8  |
| Imports (goods and services)                     | 9.9    | 3.5  | 4.9  | 3.2  | 2.6  | 7.4         | 4.2  | 3.2  | 2.0  | 3.6  |
| GNI (GDP deflator)                               | 1.3    | 2.0  | 3.0  | 2.6  | 2.3  | 6.7         | -1.3 | -0.3 | 2.0  | 1.9  |
| Contribution to GDP growth : Domestic demand     | 0.9    | 2.6  | 2.9  | 2.4  | 2.0  | 1.9         | 1.7  | 1.6  | 1.0  | 1.4  |
| Inventories                                      | 1.9    | 0.3  | 0.0  | 0.0  | 0.0  | 0.1         | -0.1 | 0.1  | 0.0  | 0.0  |
| Net exports                                      | -2.1   | -1.6 | 0.1  | 0.1  | 0.3  | 1.0         | 0.3  | -0.8 | 0.4  | 0.6  |
| Employment                                       | -0.1   | 1.4  | 1.8  | 1.2  | 1.2  | 0.7         | 2.5  | 0.9  | 1.0  | 1.8  |
| Unemployment rate (a)                            | 3.6    | 3.3  | 3.0  | 3.1  | 3.2  | 4.2         | 3.8  | 4.3  | 4.3  | 3.4  |
| Compensation of employees/head                   | 3.9    | 4.6  | 4.1  | 4.0  | 4.0  | -0.8        | 1.3  | 1.6  | 2.6  | 2.0  |
| Unit labour costs whole economy                  | 3.1    | 4.5  | 2.7  | 2.7  | 2.9  | -3.1        | 1.9  | 1.6  | 2.1  | 1.8  |
| Real unit labour costs                           | -3.1   | -1.6 | 1.5  | 0.9  | 0.4  | -3.6        | 1.6  | -2.0 | 0.1  | -1.1 |
| Saving rate of households (b)                    | 11.3   | 13.1 | 14.6 | 15.7 | 16.4 | 16.4        | 13.7 | 12.5 | 13.4 | 12.8 |
| GDP deflator                                     | 6.4    | 6.3  | 1.2  | 1.8  | 2.5  | 0.5         | 0.2  | 3.7  | 2.0  | 2.9  |
| Harmonised index of consumer prices              | 2.3    | 1.2  | 1.0  | 1.5  | 2.4  | 0.6         | 0.1  | -0.9 | 0.3  | 1.6  |
| Terms of trade of goods                          | 13.4   | 13.2 | 0.3  | 1.2  | 0.7  | -0.7        | -2.0 | 4.6  | -0.4 | -0.4 |
| Merchandise trade balance (c)                    | 12.2   | 13.7 | 13.4 | 13.3 | 13.3 | 2.4         | 2.5  | 3.4  | 3.4  | 3.3  |
| Current-account balance (c)                      | 12.4   | 14.5 | 14.3 | 14.3 | 14.3 | 15.1        | 11.5 | 10.8 | 10.9 | 10.5 |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | 12.4   | 14.4 | 14.2 | 14.3 | 14.3 | 14.3        | 10.8 | 10.7 | 10.8 | 10.4 |
| General government balance (c)                   | 11.2   | 13.7 | 14.1 | 13.9 | 13.7 | 0.3         | 0.5  | 0.2  | 0.4  | 0.6  |
| Cyclically-adjusted budget balance (c)           | -      | -    | -    | -    | -    | -           | -    | -    | -    | -    |
| Structural budget balance (c)                    | -      | -    | -    | -    | -    | -           | -    | -    | -    | -    |
| General government gross debt (c)                | 43.4   | 28.6 | 28.1 | 27.4 | 26.8 | -           | -    | -    | -    | -    |

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

## 38. RUSSIAN FEDERATION

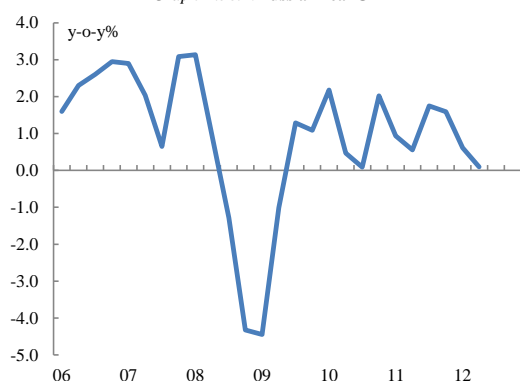
### Continuing on a moderate growth path

Russia recovered well from the global economic crisis, posting real growth rates above 4% since 2010. In 2011, real GDP grew by 4.3% y-o-y. Growth was particularly strong in the third quarter (5.4%, y-o-y) and last quarter (4.9%).

#### Unemployment falls to record low levels in mid-2012

In the first quarter of 2012, annual GDP growth was 4.9% y-o-y and moderated to 4% y-o-y in the second quarter. However, this comparative good performance is mostly due to the carry-over from the last semester of 2011. Quarter-on-quarter, the economy grew only 0.6% (seasonally adjusted) in the first quarter of 2012 and 0.1% in the second. Despite slow recorded growth in the first part of 2012, the unemployment rate continued to decrease and in July reached its lowest level (5.4%) since 2009. Industrial production from January to July 2012 was on average 3.2% above the level of the previous year, but dropped in August to 2.1%, mostly because of slowing growth in manufacturing.

Graph II.38.1: Russia - real GDP

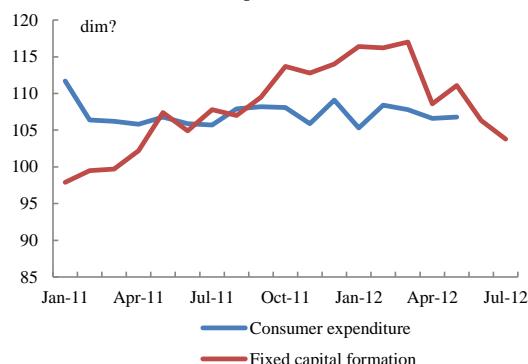


Source: Federal Statistic Service of Russia

Private consumption grew by 1% (seasonally adjusted, q-o-q) in the first quarter of 2012 and by 1.2% in the second quarter. Investment spending grew by respectively 2.8% (seasonally adjusted, q-o-q) in the first quarter of 2012, and by 2.9% in the second.

At the same time, the trade balance decreased by -5.5% q-o-q in the first quarter of 2012 and -5.8% in the second quarter, reflecting the overall drop in exports by 1.4% (seasonally adjusted) in the first half of 2012, and the growth of imports by 2.2% (seasonally adjusted) in the same period.

Graph II.38.2: Russia - Consumer expenditure and Fixed capital formation



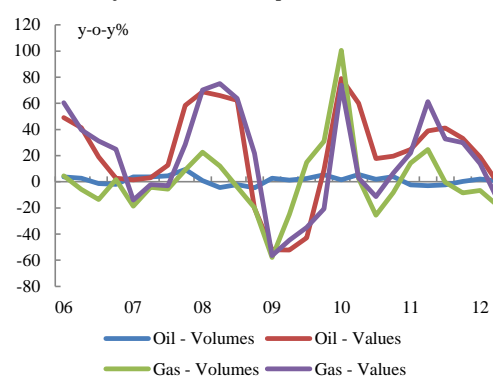
Source: Central Bank of Russia

#### Exports of natural gas are contracting

After contracting in volumes and growing in values during most of 2011, exports of crude oil and oil products increased both in volumes and values in the first quarter of 2012 and remained stable in the second quarter.

Exports of natural gas contracted in the first half of 2012 both in values and volumes, reflecting lower demand from main trading partners and a drop in prices after the peak of the last quarter of 2011.

Graph II.38.3: Russia - Exports of Oil and Gas



Source: Russian customs service

Reflecting also these patterns, export volume growth will be limited to 3.6% annually in 2012.

#### Inflation picks up again in August

In 2012, headline inflation remained subdued until May (3.6% y-o-y), but subsequently picked up (September 6.5% y-o-y) on the back of the hike in food prices caused by droughts in Russia and the USA, and of increases in tariffs. The Central Bank of Russia publicly stated already in August that

respecting the inflation target range of 5-6% for 2012 will be difficult and lent strength to this concern by increased its refinancing rate by 25bps to 8.25% in September.

#### Fiscal consolidation continues and non-oil deficit is set to slowly diminish

The Russian federal budget was in surplus in 2011 (0.8% of GDP), for the first time since 2008. It remained in surplus also in the first half of 2012. Although oil and gas revenues decreased slightly because of the decline in oil prices, an increase in non-fuel revenues more than compensated for this loss. Fiscal policy for 2013-15 will be based on a new fiscal rule, which limits budgetary spending in line with movements in oil prices.

In September, the Finance Ministry released the new draft general budget for the period 2013-15.

This budget incorporates the rule linking expenditure to oil prices, resulting in further fiscal consolidation and a progressive, albeit slow, reduction in non-oil deficits. The non-oil budget deficit is set to remain high in 2012 (around 11% of GDP) and it is expected to decline to around 10% in 2013 and 8.5% in 2014.

#### Looking forward

The Russian economy is forecast to continue on a moderate growth path at a rate of 3.7% in 2012, revised upward from 3.6% in the spring forecast. GDP is expected to grow at a rate of 3.9% in 2012 and 4% in 2014.

Export volumes are expected to increase in 2013 (4.5% y-o-y) and 2014 (5.3% y-o-y), reflecting improvements in the global economic outlook, while domestic demand and imports will grow at a slower pace, partly reflecting a less accommodating fiscal stance.

Table II.38.1:

#### Main features of country forecast - RUSSIA

|  | 2011    |              |       | 92-08 | Annual percentage change |      |      |      |      |      |
|--|---------|--------------|-------|-------|--------------------------|------|------|------|------|------|
|  | bn RUB  | Curr. prices | % GDP |       | 2009                     | 2010 | 2011 | 2012 | 2013 | 2014 |
| GDP  | 54585.6 | 100.0        |       | -     | -7.8                     | 4.3  | 4.3  | 3.7  | 3.9  | 4.0  |
| Private consumption                              | 27473.3 | 50.3         |       | -     | -5.1                     | 5.1  | 6.7  | 5.4  | 4.5  | 4.3  |
| Public consumption                               | 9781.6  | 17.9         |       | -     | -0.6                     | -1.4 | 1.5  | 2.2  | 1.9  | 1.8  |
| Gross fixed capital formation                    | 11159.5 | 20.4         |       | -     | -14.7                    | 6.4  | 8.4  | 9.3  | 7.6  | 7.3  |
| of which : equipment                             | 4178.9  | 7.7          |       | -     | -                        | -    | -    | 6.0  | 6.0  | 5.0  |
| Exports (goods and services)                     | 16949.6 | 31.1         |       | -     | -4.7                     | 7.0  | 0.4  | 3.6  | 4.5  | 5.3  |
| Imports (goods and services)                     | 12165.9 | 22.3         |       | -     | -30.4                    | 25.8 | 20.3 | 10.8 | 9.2  | 9.3  |
| GNI (GDP deflator)                               | 52838.9 | 96.8         |       | -     | -8.1                     | 4.3  | 4.4  | 3.6  | 3.9  | 4.0  |
| Contribution to GDP growth :                     |         |              |       | -     | -5.8                     | 3.8  | 5.5  | 5.0  | 4.3  | 4.1  |
| Domestic demand                                  |         |              |       | -     | -7.3                     | 4.1  | 3.0  | 0.0  | 0.4  | 0.5  |
| Inventories                                      |         |              |       | -     | 5.2                      | -3.3 | -4.3 | -1.3 | -0.8 | -0.6 |
| Net exports                                      |         |              |       | -     | -1.8                     | 0.6  | 1.0  | 0.3  | 0.3  | 0.2  |
| Employment                                       |         |              |       | -     | 8.2                      | 7.5  | 6.6  | 6.4  | 6.2  | 6.1  |
| Unemployment rate (a)                            |         |              |       | 8.5   | -                        | -    | -    | -    | -    | -    |
| Compensation of employees/head                   |         |              |       | -     | -                        | -    | -    | -    | -    | -    |
| Unit labour costs whole economy                  |         |              |       | -     | -                        | -    | -    | -    | -    | -    |
| Real unit labour costs                           |         |              |       | -     | -                        | -    | -    | -    | -    | -    |
| Saving rate of households (b)                    |         |              |       | -     | 13.8                     | 16.5 | -5.1 | -    | -    | -    |
| GDP deflator                                     |         |              |       | -     | 2.0                      | 11.6 | 15.8 | 7.1  | 7.3  | 7.0  |
| General index of consumer prices                 |         |              |       | -     | 11.7                     | 6.9  | 8.4  | 7.7  | 7.4  | 7.4  |
| Terms of trade of goods                          |         |              |       | -     | -32.6                    | 21.2 | 22.0 | 0.2  | 4.0  | 3.0  |
| Merchandise trade balance (c)                    |         |              |       | -     | 9.1                      | 10.2 | 10.7 | 9.3  | 9.0  | 8.6  |
| Current-account balance (c)                      |         |              |       | -     | 4.0                      | 4.8  | 5.4  | 3.6  | 3.2  | 2.9  |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) |         |              |       | 7.8   | 3.0                      | 4.8  | 5.3  | 3.0  | 2.7  | 2.3  |
| General government balance (c)                   |         |              |       | -     | -4.0                     | -1.0 | 1.3  | 0.3  | 0.2  | -0.2 |
| Cyclically-adjusted budget balance (c)           |         |              |       | -     | -                        | -    | -    | -    | -    | -    |
| Structural budget balance (c)                    |         |              |       | -     | -                        | -    | -    | -    | -    | -    |
| General government gross debt (c)                |         |              |       | -     | 11.3                     | 11.8 | 12.1 | 11.5 | 10.9 | 10.4 |

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

## ACKNOWLEDGEMENTS

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# Statistical Annex

European Economic Forecast – Autumn 2012



# Contents

## Output : GDP and its components

|  |     |
|--|-----|
| 1. Gross domestic product                | 148 |
| 2. Profiles (q-o-q) of quarterly GDP     | 148 |
| 3. Profiles (y-o-y) of quarterly GDP     | 149 |
| 4. GDP per capita                        | 149 |
| 5. Final domestic demand                 | 150 |
| 6. Final demand                          | 150 |
| 7. Private consumption expenditure       | 151 |
| 8. Government consumption expenditure    | 151 |
| 9. Total investment                      | 152 |
| 10. Investment in construction           | 152 |
| 11. Investment in equipment              | 153 |
| 12. Public investment                    | 153 |
| 13. Potential GDP                        | 154 |
| 14. Output gap relative to potential GDP | 154 |

## Prices

|  |     |
|--|-----|
| 15. Deflator of GDP                    | 155 |
| 16. Deflator of private consumption    | 155 |
| 17. Consumer prices index              | 156 |
| 18. Consumer prices quarterly profiles | 156 |
| 19. Deflator of exports of goods       | 157 |
| 20. Deflator of imports of goods       | 157 |
| 21. Terms of trade of goods            | 158 |

## Wages, population and labour market

|   |     |
|---|-----|
| 22. Total population                        | 158 |
| 23. Total employment                        | 159 |
| 24. Unemployment rate                       | 159 |
| 25. Compensation of employees per head      | 160 |
| 26. Real compensation of employees per head | 160 |
| 27. Labour productivity                     | 161 |
| 28. Unit labour costs, whole economy        | 161 |
| 29. Real unit labour costs                  | 162 |

## Exchange rates

|                                      |     |
|--------------------------------------|-----|
| 30. Nominal bilateral exchange rates | 162 |
| 31. Nominal effective exchange rates | 163 |
| 32. Relative unit labour costs       | 163 |
| 33. Real effective exchange rates    | 164 |

## General Government

|  |     |
|--|-----|
| 34. Total expenditure  | 164 |
| 35. Total revenue  | 165 |
| 36. Net lending (+) or net borrowing (-)                     | 165 |
| 37. Interest expenditure                                     | 166 |
| 38. Primary balance  | 166 |
| 39. Cyclically-adjusted net lending (+) or net borrowing (-) | 167 |
| 40. Cyclically-adjusted primary balance                      | 167 |
| 41. Structural budget balance                                | 168 |
| 42. Gross debt   | 168 |

## Saving

|  |     |
|--|-----|
| 43. Gross national saving              | 169 |
| 44. Gross saving of the private sector | 169 |
| 45. Saving rate of households          | 170 |
| 46. Gross saving of general government | 170 |

## Trade and international payments

|   |     |
|---|-----|
| 47. Exports of goods and services           | 171 |
| 48. Imports of goods and services           | 171 |
| 49. Merchandise trade balance (% of GDP)    | 172 |
| 50. Current-account balance (% of GDP)      | 172 |
| 51. Net lending (+) or net borrowing (-)    | 173 |
| 52. Current-account balance (bn EUR)        | 173 |
| 53. Export markets (goods and services)     | 174 |
| 54. Export performance (goods and services) | 174 |

## World economy

|   |     |
|---|-----|
| 55. World GDP                                 | 175 |
| 56. World exports of goods and services       | 176 |
| 57. Export shares (goods) in EU trade         | 176 |
| 58. World imports of goods and services       | 177 |
| 59. Import shares (goods) in EU trade         | 177 |
| 60. World merchandise trade balances (bn USD) | 178 |
| 61. World current-account balances (bn USD)   | 178 |
| 62. Primary commodity prices                  | 178 |

TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 1.9             | 2.3     | 2.3     | 1.0  | -2.8  | 2.4  | 1.8  | -0.2                 | 0.7  | 1.6  | 0.0                  | 1.2  |
| Germany        | 1.1             | 1.7     | 1.7     | 1.1  | -5.1  | 4.2  | 3.0  | 0.8                  | 0.8  | 2.0  | 0.7                  | 1.7  |
| Estonia        | :               | 5.8     | 8.1     | -4.2 | -14.1 | 3.3  | 8.3  | 2.5                  | 3.1  | 4.0  | 1.6                  | 3.8  |
| Ireland        | 7.8             | 8.3     | 5.0     | -2.1 | -5.5  | -0.8 | 1.4  | 0.4                  | 1.1  | 2.2  | 0.5                  | 1.9  |
| Greece         | 1.7             | 3.8     | 4.3     | -0.2 | -3.1  | -4.9 | -7.1 | -6.0                 | -4.2 | 0.6  | -4.7                 | 0.0  |
| Spain          | 2.1             | 4.1     | 3.5     | 0.9  | -3.7  | -0.3 | 0.4  | -1.4                 | -1.4 | 0.8  | -1.8                 | -0.3 |
| France         | 1.4             | 2.6     | 2.0     | -0.1 | -3.1  | 1.7  | 1.7  | 0.2                  | 0.4  | 1.2  | 0.5                  | 1.3  |
| Italy          | 1.4             | 1.8     | 1.3     | -1.2 | -5.5  | 1.8  | 0.4  | -2.3                 | -0.5 | 0.8  | -1.4                 | 0.4  |
| Cyprus         | 4.1             | 4.2     | 3.8     | 3.6  | -1.9  | 1.3  | 0.5  | -2.3                 | -1.7 | -0.7 | -0.8                 | 0.3  |
| Luxembourg     | 3.4             | 6.0     | 4.5     | -0.7 | -4.1  | 2.9  | 1.7  | 0.4                  | 0.7  | 1.5  | 1.1                  | 2.1  |
| Malta          | 5.1             | 3.0     | 2.2     | 4.0  | -2.4  | 3.4  | 1.9  | 1.0                  | 1.6  | 2.1  | 1.2                  | 1.9  |
| Netherlands    | 3.0             | 2.9     | 2.4     | 1.8  | -3.7  | 1.6  | 1.0  | -0.3                 | 0.3  | 1.4  | -0.9                 | 0.7  |
| Austria        | 2.1             | 2.7     | 2.6     | 1.4  | -3.8  | 2.1  | 2.7  | 0.8                  | 0.9  | 2.1  | 0.8                  | 1.7  |
| Portugal       | 2.2             | 3.2     | 1.0     | 0.0  | -2.9  | 1.4  | -1.7 | -3.0                 | -1.0 | 0.8  | -3.3                 | 0.3  |
| Slovenia       | 4.2             | 4.0     | 4.8     | 3.4  | -7.8  | 1.2  | 0.6  | -2.3                 | -1.6 | 0.9  | -1.4                 | 0.7  |
| Slovakia       | 6.1             | 2.8     | 7.0     | 5.8  | -4.9  | 4.4  | 3.2  | 2.6                  | 2.0  | 3.0  | 1.8                  | 2.9  |
| Finland        | 3.3             | 3.7     | 3.8     | 0.3  | -8.5  | 3.3  | 2.7  | 0.1                  | 0.8  | 1.3  | 0.8                  | 1.6  |
| Euro area      | 1.7             | 2.5     | 2.2     | 0.4  | -4.4  | 2.0  | 1.4  | -0.4                 | 0.1  | 1.4  | -0.3                 | 1.0  |
| Bulgaria       | -1.6            | 4.3     | 6.3     | 6.2  | -5.5  | 0.4  | 1.7  | 0.8                  | 1.4  | 2.0  | 0.5                  | 1.9  |
| Czech Republic | 2.5             | 2.2     | 5.6     | 3.1  | -4.5  | 2.5  | 1.9  | -1.3                 | 0.8  | 2.0  | 0.0                  | 1.5  |
| Denmark        | 2.9             | 1.9     | 2.0     | -0.8 | -5.8  | 1.3  | 0.8  | 0.6                  | 1.6  | 1.3  | 1.1                  | 1.4  |
| Latvia         | 0.4             | 5.7     | 9.5     | -3.3 | -17.7 | -0.9 | 5.5  | 4.3                  | 3.6  | 3.9  | 2.2                  | 3.6  |
| Lithuania      | -2.3            | 4.7     | 8.6     | 2.9  | -14.8 | 1.5  | 5.9  | 2.9                  | 3.1  | 3.6  | 2.4                  | 3.5  |
| Hungary        | 1.4             | 3.9     | 3.3     | 0.9  | -6.8  | 1.3  | 1.6  | -1.2                 | 0.3  | 1.3  | -0.3                 | 1.0  |
| Poland         | 5.9             | 3.3     | 5.2     | 5.1  | 1.6   | 3.9  | 4.3  | 2.4                  | 1.8  | 2.6  | 2.7                  | 2.6  |
| Romania        | 2.1             | 1.9     | 6.4     | 7.3  | -6.6  | -1.6 | 2.5  | 0.8                  | 2.2  | 2.7  | 1.4                  | 2.9  |
| Sweden         | 2.0             | 3.4     | 3.5     | -0.6 | -5.0  | 6.6  | 3.9  | 1.1                  | 1.9  | 2.5  | 0.3                  | 2.1  |
| United Kingdom | 3.1             | 3.2     | 3.1     | -1.0 | -4.0  | 1.8  | 0.9  | -0.3                 | 0.9  | 2.0  | 0.5                  | 1.7  |
| EU             | 2.0             | 2.6     | 2.5     | 0.3  | -4.3  | 2.1  | 1.5  | -0.3                 | 0.4  | 1.6  | 0.0                  | 1.3  |
| Croatia        | :               | 2.6     | 4.8     | 2.1  | -6.9  | -1.4 | 0.0  | -1.9                 | 0.0  | 1.4  | -1.2                 | 0.8  |
| USA            | 3.6             | 3.3     | 2.7     | -0.4 | -3.1  | 2.4  | 1.8  | 2.1                  | 2.3  | 2.6  | 2.0                  | 2.1  |
| Japan          | 1.4             | 0.1     | 1.8     | -1.0 | -5.5  | 4.5  | -0.8 | 2.0                  | 0.8  | 1.9  | 1.9                  | 1.7  |

TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2012-14)

|                | 2012/1 | 2012/2 | 2012/3 | 2012/4 | 2013/1 | 2013/2 | 2013/3 | 2013/4 | 2014/1 | 2014/2 | 2014/3 | 2014/4 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Belgium        | 0.2    | -0.5   | 0.0    | 0.0    | 0.3    | 0.2    | 0.3    | 0.3    | 0.6    | 0.5    | 0.5    | 0.5    |
| Germany        | 0.5    | 0.3    | 0.3    | -0.1   | 0.2    | 0.3    | 0.4    | 0.5    | 0.5    | 0.5    | 0.5    | 0.5    |
| Estonia        | 0.2    | 0.5    | 0.5    | 0.6    | 0.8    | 1.0    | 1.0    | 1.0    | 1.0    | 1.0    | 1.0    | 1.0    |
| Ireland        | -0.7   | 0.0    | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Greece         | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Spain          | -0.3   | -0.4   | -0.4   | -1.0   | -0.3   | -0.2   | 0.0    | 0.1    | 0.2    | 0.3    | 0.3    | 0.4    |
| France         | 0.0    | 0.0    | 0.2    | -0.2   | 0.1    | 0.3    | 0.2    | 0.2    | 0.4    | 0.4    | 0.4    | 0.4    |
| Italy          | -0.8   | -0.8   | -0.5   | -0.3   | -0.1   | 0.0    | 0.2    | 0.2    | 0.2    | 0.2    | 0.3    | 0.3    |
| Cyprus         | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Luxembourg     | 0.1    | 0.4    | 0.0    | 0.1    | 0.1    | 0.2    | 0.2    | 0.3    | 0.4    | 0.5    | 0.6    | 0.6    |
| Malta          | -0.3   | 1.3    | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Netherlands    | 0.2    | 0.2    | 0.0    | -0.1   | -0.1   | 0.1    | 0.3    | 0.4    | 0.4    | 0.4    | 0.4    | 0.4    |
| Austria        | 0.5    | 0.1    | 0.0    | 0.1    | 0.2    | 0.3    | 0.4    | 0.5    | 0.5    | 0.6    | 0.6    | 0.7    |
| Portugal       | -0.1   | -1.2   | -0.9   | -0.7   | 0.0    | 0.1    | 0.2    | 0.3    | 0.1    | 0.2    | 0.2    | 0.3    |
| Slovenia       | 0.0    | -1.0   | -1.4   | -0.6   | -0.3   | 0.1    | 0.1    | 0.2    | 0.2    | 0.3    | 0.3    | 0.2    |
| Slovakia       | 0.7    | 0.7    | 0.2    | 0.1    | 0.4    | 0.7    | 0.8    | 0.8    | 0.7    | 0.6    | 0.8    | 0.8    |
| Finland        | 0.9    | -1.1   | 0.2    | 0.2    | 0.1    | 0.4    | 0.1    | 0.3    | 0.3    | 0.3    | 0.4    | 0.4    |
| Euro area      | 0.0    | -0.2   | 0.0    | -0.2   | 0.1    | 0.2    | 0.3    | 0.3    | 0.4    | 0.4    | 0.4    | 0.4    |
| Bulgaria       | 0.0    | 0.3    | 0.3    | 0.4    | 0.3    | 0.3    | 0.4    | 0.5    | 0.5    | 0.5    | 0.6    | 0.7    |
| Czech Republic | -0.6   | -0.2   | -0.7   | -0.3   | 0.4    | 0.7    | 0.7    | 0.6    | 0.4    | 0.4    | 0.4    | 0.4    |
| Denmark        | 0.4    | -0.4   | 1.0    | 0.7    | 0.3    | 0.3    | 0.3    | 0.2    | 0.3    | 0.4    | 0.4    | 0.4    |
| Latvia         | 1.1    | 1.2    | 0.8    | 0.7    | 0.7    | 0.9    | 0.9    | 1.0    | 1.0    | 1.0    | 1.1    | 1.1    |
| Lithuania      | 0.1    | 0.5    | 0.9    | 0.7    | 0.7    | 0.7    | 0.8    | 0.9    | 0.9    | 0.9    | 0.9    | 0.9    |
| Hungary        | -1.0   | -0.2   | 0.0    | 0.1    | 0.1    | 0.1    | 0.1    | 0.3    | 0.4    | 0.4    | 0.4    | 0.4    |
| Poland         | 0.6    | 0.4    | 0.2    | 0.2    | 0.4    | 0.6    | 0.6    | 0.7    | 0.6    | 0.6    | 0.7    | 0.7    |
| Romania        | 0.1    | 0.5    | -0.2   | 0.4    | 0.3    | 0.4    | 0.7    | 0.8    | 0.4    | 0.6    | 1.0    | 0.7    |
| Sweden         | 0.7    | 0.7    | 0.1    | 0.0    | 0.7    | 0.6    | 0.7    | 0.5    | 0.6    | 0.6    | 0.7    | 0.7    |
| United Kingdom | -0.3   | -0.4   | 0.5    | 0.1    | 0.1    | 0.3    | 0.4    | 0.4    | 0.6    | 0.5    | 0.5    | 0.7    |
| EU             | 0.0    | -0.2   | 0.1    | -0.1   | 0.1    | 0.3    | 0.3    | 0.4    | 0.4    | 0.4    | 0.5    | 0.5    |
| Croatia        | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| USA            | 0.5    | 0.3    | 0.3    | 0.5    | 0.6    | 0.7    | 0.8    | 0.6    | 0.6    | 0.7    | 0.7    | 0.7    |
| Japan          | 1.3    | 0.2    | -0.4   | -0.3   | 0.1    | 0.6    | 0.5    | 0.7    | 0.9    | -0.1   | 0.1    | 0.3    |

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2012-14)

19.10.2012

|                | 2012/1 | 2012/2 | 2012/3 | 2012/4 | 2013/1 | 2013/2 | 2013/3 | 2013/4 | 2014/1 | 2014/2 | 2014/3 | 2014/4 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Belgium        | 0.4    | -0.3   | -0.4   | -0.3   | -0.1   | 0.6    | 0.9    | 1.1    | 1.4    | 1.7    | 1.9    | 2.1    |
| Germany        | 1.2    | 1.0    | 1.0    | 1.0    | 0.7    | 0.7    | 0.9    | 1.4    | 1.8    | 2.0    | 2.1    | 2.1    |
| Estonia        | 3.7    | 2.7    | 2.0    | 1.8    | 2.4    | 2.9    | 3.3    | 3.8    | 4.0    | 4.0    | 4.0    | 4.1    |
| Ireland        | 1.5    | -0.5   | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Greece         | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Spain          | -0.6   | -1.3   | -1.6   | -2.1   | -2.1   | -1.9   | -1.4   | -0.3   | 0.2    | 0.7    | 1.0    | 1.4    |
| France         | 0.4    | 0.3    | 0.2    | -0.1   | 0.1    | 0.4    | 0.5    | 0.9    | 1.1    | 1.2    | 1.3    | 1.5    |
| Italy          | -1.4   | -2.6   | -2.8   | -2.4   | -1.6   | -0.8   | -0.1   | 0.4    | 0.7    | 0.9    | 1.0    | 1.1    |
| Cyprus         | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Luxembourg     | 0.1    | 0.8    | 0.6    | 0.6    | 0.6    | 0.5    | 0.6    | 0.9    | 1.1    | 1.4    | 1.7    | 2.0    |
| Malta          | -1.0   | 0.9    | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| Netherlands    | -0.8   | -0.5   | -0.2   | 0.3    | 0.0    | 0.0    | 0.3    | 0.7    | 1.2    | 1.4    | 1.5    | 1.5    |
| Austria        | 1.1    | 0.8    | 0.8    | 0.7    | 0.5    | 0.7    | 1.1    | 1.5    | 1.8    | 2.0    | 2.2    | 2.4    |
| Portugal       | -2.3   | -3.3   | -3.5   | -2.8   | -2.8   | -1.5   | -0.4   | 0.7    | 0.8    | 0.9    | 0.8    | 0.8    |
| Slovenia       | -0.7   | -2.2   | -3.4   | -3.0   | -3.3   | -2.2   | -0.7   | 0.1    | 0.7    | 0.9    | 1.1    | 1.0    |
| Slovakia       | 3.1    | 3.0    | 2.4    | 1.7    | 1.5    | 1.5    | 2.2    | 2.9    | 3.1    | 3.0    | 3.0    | 3.0    |
| Finland        | 1.8    | 0.1    | -0.7   | 0.3    | -0.5   | 1.0    | 0.9    | 1.0    | 1.1    | 1.1    | 1.3    | 1.3    |
| Euro area      | 0.0    | -0.4   | -0.5   | -0.5   | -0.4   | 0.0    | 0.3    | 0.9    | 1.2    | 1.4    | 1.5    | 1.6    |
| Bulgaria       | 0.5    | 0.5    | 0.7    | 1.0    | 1.3    | 1.3    | 1.4    | 1.5    | 1.7    | 1.9    | 2.1    | 2.3    |
| Czech Republic | -0.5   | -1.0   | -1.7   | -1.8   | -0.8   | 0.0    | 1.5    | 2.4    | 2.4    | 2.2    | 1.8    | 1.5    |
| Denmark        | 0.3    | -0.6   | 0.7    | 1.7    | 1.6    | 2.3    | 1.6    | 1.1    | 1.1    | 1.2    | 1.3    | 1.5    |
| Latvia         | 5.5    | 4.6    | 3.9    | 3.9    | 3.5    | 3.2    | 3.4    | 3.6    | 3.9    | 3.9    | 4.1    | 4.2    |
| Lithuania      | 4.0    | 2.8    | 2.6    | 2.3    | 3.0    | 3.2    | 3.1    | 3.3    | 3.4    | 3.6    | 3.7    | 3.7    |
| Hungary        | -1.2   | -1.1   | -1.1   | -1.1   | 0.1    | 0.4    | 0.5    | 0.7    | 0.9    | 1.2    | 1.5    | 1.7    |
| Poland         | 3.6    | 2.5    | 2.0    | 1.4    | 1.2    | 1.4    | 1.9    | 2.4    | 2.6    | 2.6    | 2.6    | 2.6    |
| Romania        | 1.1    | 1.6    | 0.3    | 0.8    | 1.0    | 0.9    | 1.8    | 2.2    | 2.3    | 2.5    | 2.8    | 2.7    |
| Sweden         | 1.4    | 1.3    | 0.3    | 1.5    | 1.5    | 1.4    | 2.1    | 2.6    | 2.5    | 2.5    | 2.5    | 2.6    |
| United Kingdom | -0.1   | -0.5   | -0.6   | -0.1   | 0.4    | 1.1    | 1.0    | 1.3    | 1.8    | 2.0    | 2.1    | 2.4    |
| EU             | 0.1    | -0.3   | -0.4   | -0.3   | -0.2   | 0.3    | 0.6    | 1.1    | 1.4    | 1.6    | 1.7    | 1.8    |
| Croatia        | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| USA            | 2.4    | 2.1    | 2.1    | 1.5    | 1.7    | 2.0    | 2.5    | 2.7    | 2.7    | 2.7    | 2.6    | 2.6    |
| Japan          | 2.8    | 3.3    | 1.2    | 0.8    | -0.3   | 0.1    | 0.9    | 1.9    | 2.8    | 2.0    | 1.7    | 1.2    |

TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1993-2014)

|                | 5-year averages |         |         |  |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|--|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 |  | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 1.7             | 2.0     | 1.7     |  | 0.2  | -3.5  | 1.5  | 0.9  | -1.0                 | 0.0  | 0.8  | -0.8                 | 0.4  |
| Germany        | 0.8             | 1.6     | 1.7     |  | 1.3  | -4.8  | 4.3  | 3.0  | 0.7                  | 0.8  | 2.0  | 0.6                  | 1.6  |
| Estonia        | :               | 6.5     | 8.4     |  | -4.0 | -14.0 | 3.4  | 8.3  | 2.6                  | 3.2  | 4.0  | 1.7                  | 3.8  |
| Ireland        | 7.1             | 6.7     | 2.8     |  | -3.8 | -6.0  | -0.9 | 1.1  | 0.1                  | 0.4  | 1.3  | 0.2                  | 1.2  |
| Greece         | 0.9             | 3.4     | 3.9     |  | -0.6 | -3.5  | -5.2 | -7.0 | -6.1                 | -4.3 | 0.5  | -5.1                 | -0.4 |
| Spain          | 1.9             | 3.2     | 1.8     |  | -0.7 | -4.4  | -0.6 | 0.3  | -1.3                 | -1.4 | 0.9  | -1.7                 | -0.3 |
| France         | 1.0             | 2.0     | 1.3     |  | -0.6 | -3.7  | 1.1  | 1.1  | -0.3                 | -0.1 | 0.7  | -0.1                 | 0.8  |
| Italy          | 1.4             | 1.7     | 0.5     |  | -1.9 | -6.1  | 1.3  | 0.0  | -2.7                 | -0.9 | 0.5  | -1.9                 | 0.0  |
| Cyprus         | 2.2             | 2.9     | 2.1     |  | 0.9  | -4.5  | -1.2 | -2.1 | -3.3                 | -2.6 | -1.5 | -1.6                 | -0.5 |
| Luxembourg     | 2.0             | 4.7     | 3.0     |  | -2.5 | -5.8  | 1.0  | -0.7 | -1.4                 | -1.0 | -0.1 | -0.7                 | 0.4  |
| Malta          | 4.2             | 2.3     | 1.5     |  | 3.2  | -2.7  | 2.9  | 1.3  | 0.5                  | 1.4  | 2.1  | 0.7                  | 1.5  |
| Netherlands    | 2.4             | 2.2     | 2.1     |  | 1.4  | -4.2  | 1.1  | 0.5  | -0.8                 | -0.2 | 1.0  | -1.4                 | 0.2  |
| Austria        | 1.7             | 2.4     | 2.1     |  | 1.0  | -4.1  | 1.8  | 2.3  | 0.4                  | 0.5  | 1.7  | 0.5                  | 1.3  |
| Portugal       | 2.0             | 2.6     | 0.6     |  | -0.1 | -3.0  | 1.4  | -1.8 | -3.0                 | -1.0 | 0.8  | -3.3                 | 0.2  |
| Slovenia       | 4.3             | 3.9     | 4.6     |  | 3.2  | -8.7  | 0.9  | 0.4  | -2.4                 | -1.7 | 0.7  | -1.6                 | 0.5  |
| Slovakia       | 5.8             | 2.8     | 7.0     |  | 5.6  | -5.1  | 4.1  | 3.0  | 2.3                  | 1.6  | 2.7  | 1.7                  | 2.8  |
| Finland        | 2.9             | 3.4     | 3.4     |  | -0.2 | -9.0  | 2.9  | 2.3  | -0.4                 | 0.4  | 0.8  | 0.3                  | 1.3  |
| Euro area      | 1.4             | 2.1     | 1.6     |  | -0.2 | -4.7  | 1.7  | 1.1  | -0.7                 | -0.2 | 1.2  | -0.6                 | 0.8  |
| Bulgaria       | -1.1            | 5.4     | 6.9     |  | 6.7  | -5.0  | 1.1  | 3.3  | 1.3                  | 2.0  | 2.6  | 1.5                  | 3.0  |
| Czech Republic | 2.6             | 2.4     | 5.3     |  | 2.0  | -5.1  | 2.2  | 2.1  | -0.9                 | 0.8  | 2.0  | -0.3                 | 1.2  |
| Denmark        | 2.4             | 1.5     | 1.7     |  | -1.4 | -6.3  | 0.9  | 0.4  | 0.3                  | 1.4  | 1.0  | 0.9                  | 1.1  |
| Latvia         | 1.9             | 6.8     | 10.5    |  | -2.2 | -16.3 | 1.1  | 7.5  | 5.4                  | 4.4  | 4.7  | 2.9                  | 4.3  |
| Lithuania      | -1.7            | 5.3     | 9.2     |  | 3.4  | -14.4 | 3.1  | 14.8 | 3.8                  | 3.6  | 4.1  | 3.2                  | 4.0  |
| Hungary        | 1.6             | 4.2     | 3.5     |  | 1.1  | -6.6  | 1.5  | 1.9  | -0.9                 | 0.6  | 1.6  | -0.2                 | 1.1  |
| Poland         | 5.7             | 3.3     | 5.2     |  | 5.1  | 1.5   | 3.8  | 3.8  | 2.4                  | 1.9  | 2.7  | 2.8                  | 2.6  |
| Romania        | 2.3             | 2.6     | 6.7     |  | 7.5  | -6.4  | -1.5 | 2.7  | 1.0                  | 2.4  | 2.9  | 1.6                  | 3.1  |
| Sweden         | 1.6             | 3.2     | 3.0     |  | -1.4 | -5.8  | 5.7  | 3.2  | 0.4                  | 1.2  | 1.9  | -0.4                 | 1.4  |
| United Kingdom | 2.9             | 2.9     | 2.6     |  | -1.6 | -4.6  | 1.0  | 0.1  | -0.8                 | 0.3  | 1.5  | -0.2                 | 1.1  |
| EU             | 1.8             | 2.4     | 2.1     |  | -0.1 | -4.6  | 1.8  | 1.3  | -0.5                 | 0.2  | 1.4  | -0.3                 | 1.0  |
| Croatia        | :               | 3.0     | 4.8     |  | 2.2  | -6.8  | -1.1 | 0.3  | -1.7                 | 0.3  | 1.8  | -1.2                 | 0.8  |
| USA            | 2.3             | 2.2     | 1.8     |  | -1.3 | -4.0  | 1.5  | 1.1  | 1.3                  | 1.3  | 1.7  | 1.2                  | 1.3  |
| Japan          | 1.2             | -0.1    | 1.8     |  | -1.0 | -5.4  | 4.9  | -1.3 | 2.1                  | 0.9  | 2.0  | 2.0                  | 1.8  |

TABLE 5 : Domestic demand, volume (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 1.6             | 1.6     | 2.3     | 2.0  | -2.3  | 1.7  | 1.8  | -0.3                 | 0.5  | 1.3  | 0.2                  | 1.1  |
| Germany        | 0.9             | 1.0     | 1.0     | 1.2  | -2.5  | 2.6  | 2.6  | 0.1                  | 1.1  | 2.1  | 1.0                  | 2.0  |
| Estonia        | :               | 6.7     | 10.4    | -9.4 | -21.4 | 1.1  | 9.8  | 4.7                  | 2.0  | 3.9  | 2.5                  | 4.0  |
| Ireland        | 6.2             | 7.0     | 5.8     | -3.5 | -11.2 | -4.4 | -3.7 | -2.8                 | -0.9 | 0.4  | -2.5                 | -0.3 |
| Greece         | 2.0             | 4.4     | 4.5     | -0.2 | -5.5  | -7.0 | -8.7 | -8.7                 | -6.5 | -0.8 | -6.4                 | -1.6 |
| Spain          | 1.3             | 5.0     | 4.6     | -0.5 | -6.3  | -0.6 | -1.9 | -4.0                 | -3.8 | -0.3 | -4.4                 | -2.1 |
| France         | 0.9             | 2.9     | 2.5     | 0.3  | -2.6  | 1.6  | 1.7  | -0.3                 | 0.1  | 1.2  | 0.2                  | 1.3  |
| Italy          | 0.4             | 2.3     | 1.3     | -1.2 | -4.4  | 2.1  | -1.0 | -4.7                 | -1.0 | 1.1  | -2.9                 | -0.1 |
| Cyprus         | :               | 4.2     | 5.2     | 8.0  | -7.0  | 1.9  | -2.8 | -6.0                 | -4.4 | -1.5 | -2.4                 | 0.3  |
| Luxembourg     | 3.7             | 5.2     | 3.4     | 0.5  | -8.0  | 9.2  | 6.1  | 3.1                  | 1.1  | 1.8  | 2.6                  | 2.3  |
| Malta          | :               | 1.0     | 3.7     | 3.4  | -3.4  | -0.8 | -0.7 | -1.7                 | 1.4  | 1.9  | 0.7                  | 1.3  |
| Netherlands    | 2.7             | 2.9     | 1.9     | 2.0  | -2.8  | 0.2  | 0.5  | -1.4                 | -0.7 | 0.8  | -1.9                 | 0.0  |
| Austria        | 1.8             | 1.4     | 2.1     | 0.7  | -2.0  | 1.8  | 2.6  | 0.5                  | 0.4  | 1.8  | 0.4                  | 1.4  |
| Portugal       | 2.4             | 3.6     | 1.0     | 0.9  | -3.3  | 0.8  | -5.6 | -6.8                 | -2.5 | 0.2  | -6.6                 | -0.8 |
| Slovenia       | 6.8             | 3.7     | 5.2     | 3.2  | -10.0 | -0.2 | -0.7 | -5.5                 | -2.5 | 0.4  | -2.8                 | -0.2 |
| Slovakia       | 6.6             | 2.3     | 5.2     | 5.7  | -7.4  | 3.6  | 1.2  | -1.6                 | 1.2  | 2.0  | 1.4                  | 2.3  |
| Finland        | 2.5             | 2.9     | 3.7     | 0.7  | -6.2  | 2.9  | 4.5  | -1.2                 | 0.9  | 1.4  | 0.9                  | 1.3  |
| Euro area      | 1.2             | 2.4     | 2.2     | 0.3  | -3.8  | 1.3  | 0.5  | -1.8                 | -0.5 | 1.2  | -1.1                 | 0.7  |
| Bulgaria       | :               | 8.9     | 9.3     | 6.5  | -12.8 | -4.8 | -0.6 | 2.6                  | 2.8  | 3.1  | 0.0                  | 2.2  |
| Czech Republic | 4.8             | 2.0     | 4.2     | 2.2  | -5.1  | 2.1  | -0.1 | -3.4                 | 0.3  | 1.3  | -1.0                 | 0.9  |
| Denmark        | 3.5             | 1.6     | 3.1     | -0.9 | -6.7  | 1.3  | -0.4 | 0.9                  | 2.8  | 1.5  | 1.9                  | 1.5  |
| Latvia         | :               | 6.8     | 12.4    | -9.1 | -27.4 | -0.5 | 11.3 | 4.6                  | 4.2  | 4.5  | 2.8                  | 4.6  |
| Lithuania      | :               | 4.6     | 10.9    | 3.2  | -24.5 | 2.1  | 5.8  | 2.3                  | 3.1  | 4.3  | 2.6                  | 3.8  |
| Hungary        | 1.6             | 4.7     | 2.4     | 0.7  | -10.5 | -0.5 | 0.1  | -2.6                 | -0.5 | 0.6  | -2.0                 | -0.3 |
| Poland         | 7.1             | 2.8     | 5.5     | 5.6  | -1.1  | 4.6  | 3.4  | 1.0                  | 0.9  | 2.1  | 1.9                  | 2.2  |
| Romania        | 2.1             | 3.2     | 11.0    | 7.3  | -12.0 | -1.5 | 3.1  | 0.9                  | 2.8  | 3.2  | 1.9                  | 3.8  |
| Sweden         | 0.6             | 2.8     | 3.1     | 0.0  | -4.6  | 6.5  | 3.3  | 1.0                  | 1.7  | 2.4  | 0.6                  | 1.8  |
| United Kingdom | 2.9             | 4.2     | 3.1     | -1.8 | -5.0  | 2.3  | -0.4 | 0.4                  | 0.6  | 1.5  | -0.1                 | 0.8  |
| EU             | 1.9             | 2.8     | 2.6     | 0.2  | -4.3  | 1.6  | 0.6  | -1.3                 | -0.1 | 1.4  | -0.7                 | 0.8  |
| Croatia        | :               | 2.1     | 5.3     | 3.1  | -10.1 | -3.8 | -0.4 | -2.5                 | 0.2  | 1.8  | -1.5                 | 1.6  |
| USA            | 3.8             | 3.9     | 2.8     | -1.5 | -4.1  | 2.8  | 1.7  | 2.0                  | 2.1  | 3.0  | 2.2                  | 2.0  |
| Japan          | 1.5             | 0.0     | 1.1     | -1.3 | -4.0  | 2.8  | 0.1  | 2.6                  | 0.6  | 1.5  | 2.1                  | 1.4  |

TABLE 6 : Final demand, volume (percentage change on preceding year, 1993-2014)

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 3.1             | 3.0     | 3.1     | 2.1  | -6.3  | 5.1  | 3.5  | -0.5                 | 1.1  | 2.5  | 0.5                  | 2.6  |
| Germany        | 1.7             | 2.5     | 3.1     | 1.7  | -6.0  | 6.2  | 4.4  | 1.4                  | 2.2  | 3.7  | 1.6                  | 3.1  |
| Estonia        | :               | 7.2     | 10.3    | -5.4 | -21.1 | 10.0 | 16.0 | 4.5                  | 3.4  | 5.3  | 2.0                  | 4.8  |
| Ireland        | 9.8             | 10.4    | 5.4     | -2.0 | -7.2  | 1.3  | 1.2  | 0.4                  | 1.5  | 2.7  | 0.8                  | 2.3  |
| Greece         | 2.6             | 4.6     | 4.9     | 0.1  | -7.9  | -5.2 | -7.2 | -7.0                 | -4.6 | 0.4  | -4.7                 | -0.2 |
| Spain          | 3.1             | 5.3     | 4.6     | -0.6 | -7.0  | 1.6  | 0.1  | -2.6                 | -1.8 | 1.2  | -2.7                 | -0.5 |
| France         | 1.8             | 3.5     | 2.5     | 0.1  | -4.5  | 3.2  | 2.4  | 0.3                  | 0.5  | 1.9  | 0.7                  | 2.0  |
| Italy          | 1.6             | 2.4     | 2.0     | -1.6 | -7.3  | 3.9  | 0.5  | -3.4                 | -0.1 | 1.8  | -2.0                 | 0.9  |
| Cyprus         | :               | 4.3     | 4.8     | 5.4  | -8.1  | 2.4  | -1.0 | -4.5                 | -2.8 | -0.6 | -1.3                 | 0.9  |
| Luxembourg     | 5.0             | 7.4     | 7.0     | 3.3  | -10.1 | 8.1  | 5.7  | -2.1                 | 1.0  | 2.7  | 0.9                  | 3.6  |
| Malta          | :               | 2.4     | 4.6     | 2.0  | -6.3  | 8.5  | 1.0  | 2.1                  | 2.9  | 3.6  | 1.6                  | 3.0  |
| Netherlands    | 4.3             | 4.2     | 3.5     | 2.0  | -5.0  | 5.0  | 2.1  | 1.1                  | 0.9  | 2.8  | -0.8                 | 1.8  |
| Austria        | 2.7             | 3.3     | 3.9     | 1.0  | -7.2  | 4.2  | 4.3  | 0.9                  | 1.7  | 3.3  | 1.3                  | 2.8  |
| Portugal       | 3.3             | 3.9     | 1.9     | 0.7  | -5.0  | 2.4  | -2.6 | -4.0                 | -1.0 | 1.5  | -4.3                 | 0.7  |
| Slovenia       | 6.7             | 4.8     | 7.2     | 3.5  | -12.7 | 3.6  | 2.4  | -2.7                 | -0.1 | 2.7  | -0.7                 | 2.1  |
| Slovakia       | :               | 5.3     | 8.8     | 4.5  | -11.4 | 8.7  | 6.3  | 2.9                  | 2.7  | 4.3  | 2.2                  | 4.1  |
| Finland        | 4.5             | 4.5     | 4.7     | 2.5  | -11.8 | 4.4  | 4.0  | -1.6                 | 0.8  | 1.4  | 1.2                  | 2.3  |
| Euro area      | 2.4             | 3.4     | 3.2     | 0.6  | -6.3  | 4.1  | 2.3  | -0.5                 | 0.7  | 2.5  | -0.1                 | 1.9  |
| Bulgaria       | :               | 6.7     | 9.6     | 5.3  | -12.3 | 1.1  | 4.2  | 2.3                  | 3.0  | 3.6  | 1.4                  | 3.4  |
| Czech Republic | 6.6             | 4.6     | 7.0     | 2.9  | -6.6  | 7.2  | 3.8  | -0.3                 | 1.9  | 3.5  | 1.0                  | 3.1  |
| Denmark        | 3.7             | 3.2     | 3.5     | 0.6  | -7.8  | 2.0  | 2.2  | 1.5                  | 3.2  | 2.4  | 2.4                  | 2.7  |
| Latvia         | :               | 6.1     | 11.8    | -6.3 | -23.7 | 3.2  | 11.8 | 4.7                  | 4.4  | 5.3  | 3.4                  | 5.2  |
| Lithuania      | :               | 5.3     | 10.3    | 5.9  | -20.4 | 7.4  | 9.1  | 3.4                  | 4.1  | 5.5  | 3.3                  | 4.7  |
| Hungary        | :               | 7.4     | 6.8     | 2.9  | -10.4 | 6.1  | 3.1  | -0.3                 | 2.0  | 3.6  | 1.7                  | 4.0  |
| Poland         | 8.0             | 3.9     | 7.1     | 6.0  | -2.7  | 6.7  | 4.7  | 1.6                  | 1.9  | 3.4  | 2.4                  | 3.3  |
| Romania        | 2.6             | 5.1     | 10.8    | 7.5  | -10.8 | 2.0  | 4.8  | 0.7                  | 3.1  | 3.9  | 2.2                  | 4.3  |
| Sweden         | 3.4             | 3.7     | 4.5     | 0.6  | -8.0  | 8.1  | 4.6  | 0.8                  | 2.2  | 3.5  | 0.9                  | 3.0  |
| United Kingdom | 4.0             | 4.2     | 3.5     | -1.2 | -5.7  | 3.2  | 0.7  | 0.4                  | 1.4  | 2.5  | 0.6                  | 1.8  |
| EU             | 3.0             | 3.6     | 3.6     | 0.6  | -6.4  | 4.1  | 2.3  | -0.2                 | 1.0  | 2.6  | 0.2                  | 2.1  |
| Croatia        | :               | 3.0     | 5.5     | 2.7  | -11.8 | -1.5 | 0.3  | -2.1                 | 0.6  | 2.2  | -1.5                 | 1.9  |
| USA            | 4.2             | 3.7     | 3.2     | -0.7 | -4.6  | 3.7  | 2.2  | 2.3                  | 2.6  | 3.4  | 2.5                  | 2.5  |
| Japan          | 1.8             | 0.2     | 2.1     | -0.8 | -7.0  | 5.3  | 0.1  | 2.6                  | 0.6  | 1.8  | 2.1                  | 1.9  |

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year<br>averages |         |         | 2008 | 2009  | 2010 | 2011 | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|----------------|--------------------|---------|---------|------|-------|------|------|-------------------------|------|------|-------------------------|------|
|                | 1993-97            | 1998-02 | 2003-07 |      |       |      |      | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| Belgium        | 1.5                | 1.8     | 1.4     | 2.0  | 0.6   | 2.7  | 0.2  | -0.6                    | 0.4  | 1.3  | 0.1                     | 1.2  |
| Germany        | 1.2                | 1.3     | 0.4     | 0.8  | 0.1   | 0.9  | 1.7  | 1.0                     | 1.0  | 1.6  | 0.9                     | 1.2  |
| Estonia        | :                  | 6.1     | 9.8     | -5.2 | -14.8 | -2.4 | 3.5  | 3.2                     | 3.3  | 3.5  | 2.8                     | 3.0  |
| Ireland        | 5.1                | 7.2     | 5.4     | -0.4 | -5.7  | 0.5  | -2.3 | -2.1                    | -0.5 | 1.2  | -1.7                    | 0.3  |
| Greece         | 1.9                | 3.5     | 3.9     | 4.3  | -1.6  | -6.2 | -7.7 | -7.7                    | -6.9 | -1.6 | -5.7                    | -1.1 |
| Spain          | 1.3                | 4.3     | 3.7     | -0.6 | -3.8  | 0.7  | -1.0 | -1.9                    | -2.1 | 0.0  | -2.2                    | -1.3 |
| France         | 1.0                | 3.0     | 2.1     | 0.2  | 0.3   | 1.5  | 0.3  | 0.0                     | -0.1 | 1.1  | 0.7                     | 1.5  |
| Italy          | 0.8                | 1.9     | 1.1     | -0.8 | -1.6  | 1.2  | 0.1  | -3.4                    | -0.9 | 0.9  | -2.3                    | -0.4 |
| Cyprus         | :                  | 4.2     | 5.4     | 7.8  | -7.5  | 1.5  | 0.2  | -3.4                    | -3.6 | -0.9 | -2.5                    | 0.3  |
| Luxembourg     | 3.0                | 4.7     | 1.1     | -0.8 | -1.7  | 2.2  | 2.4  | 1.8                     | 0.5  | 1.6  | 0.7                     | 2.0  |
| Malta          | :                  | 3.2     | 2.6     | 5.6  | -1.1  | -1.7 | 4.0  | -0.8                    | 0.8  | 1.4  | 0.3                     | 1.0  |
| Netherlands    | 2.6                | 3.4     | 0.6     | 1.3  | -2.1  | 0.3  | -1.0 | -1.2                    | -0.8 | 0.4  | -1.5                    | 0.0  |
| Austria        | 1.2                | 1.9     | 1.7     | 0.7  | 1.1   | 1.7  | 0.7  | 0.2                     | 0.5  | 1.1  | 0.8                     | 1.0  |
| Portugal       | 2.0                | 3.4     | 1.7     | 1.4  | -2.2  | 2.1  | -3.8 | -5.9                    | -1.7 | 0.2  | -6.1                    | -1.0 |
| Slovenia       | 6.5                | 3.0     | 3.5     | 2.3  | 0.1   | 1.3  | 0.9  | -3.0                    | -2.0 | 0.6  | -1.5                    | -0.4 |
| Slovakia       | :                  | 4.0     | 5.1     | 6.1  | 0.2   | -0.7 | -0.5 | -0.1                    | 0.7  | 1.3  | 0.2                     | 1.6  |
| Finland        | 2.1                | 3.0     | 3.8     | 1.9  | -2.9  | 3.3  | 2.5  | 1.1                     | 0.4  | 1.5  | 1.7                     | 1.0  |
| Euro area      | 1.3                | 2.4     | 1.6     | 0.4  | -1.0  | 0.9  | 0.1  | -1.0                    | -0.4 | 1.0  | -0.6                    | 0.5  |
| Bulgaria       | -3.8               | 5.9     | 7.8     | 3.4  | -7.6  | 0.1  | -0.6 | 3.0                     | 3.1  | 3.5  | 0.6                     | 1.9  |
| Czech Republic | 3.8                | 1.6     | 4.0     | 2.8  | 0.2   | 1.0  | 0.7  | -3.3                    | 0.4  | 1.4  | -0.4                    | 0.5  |
| Denmark        | 2.5                | 0.7     | 3.2     | -0.3 | -4.2  | 1.9  | -0.8 | 0.9                     | 2.2  | 1.6  | 1.4                     | 1.6  |
| Latvia         | :                  | 5.5     | 12.6    | -5.8 | -22.6 | 2.4  | 4.5  | 4.7                     | 3.9  | 3.9  | 2.2                     | 3.3  |
| Lithuania      | :                  | 5.4     | 11.1    | 3.7  | -17.8 | -4.7 | 6.4  | 4.2                     | 3.3  | 4.1  | 3.0                     | 3.4  |
| Hungary        | :                  | 5.5     | 3.0     | -0.7 | -6.6  | -3.0 | 0.5  | -0.8                    | -0.8 | 0.4  | -1.5                    | 0.0  |
| Poland         | 5.8                | 3.9     | 3.7     | 5.7  | 2.0   | 3.1  | 2.5  | 1.6                     | 1.5  | 2.1  | 2.0                     | 2.6  |
| Romania        | 3.9                | 3.6     | 11.7    | 9.0  | -10.1 | -0.4 | 1.3  | 0.8                     | 1.9  | 2.4  | 1.3                     | 2.6  |
| Sweden         | 0.8                | 3.2     | 2.9     | 0.0  | -0.3  | 4.0  | 2.1  | 1.5                     | 1.6  | 2.5  | 1.1                     | 1.8  |
| United Kingdom | 3.1                | 4.4     | 2.7     | -1.6 | -3.1  | 1.3  | -0.9 | 0.5                     | 0.9  | 1.7  | 0.3                     | 1.0  |
| EU             | 2.1                | 2.8     | 2.1     | 0.3  | -1.5  | 1.1  | 0.1  | -0.6                    | 0.0  | 1.2  | -0.3                    | 0.7  |
| Croatia        | :                  | 2.2     | 4.3     | 1.4  | -7.5  | -0.9 | 0.2  | -1.7                    | -1.2 | 0.7  | -0.6                    | 0.4  |
| USA            | 3.5                | 4.2     | 2.9     | -0.6 | -1.9  | 1.8  | 2.5  | 1.9                     | 2.0  | 2.2  | 2.0                     | 1.8  |
| Japan          | 1.6                | 0.7     | 1.0     | -0.9 | -0.7  | 2.6  | 0.1  | 2.3                     | 0.4  | 1.1  | 1.4                     | 0.8  |

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1993-2014)

|                | 5-year<br>averages |         |         | 2008 | 2009 | 2010 | 2011 | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|----------------|--------------------|---------|---------|------|------|------|------|-------------------------|------|------|-------------------------|------|
|                | 1993-97            | 1998-02 | 2003-07 |      |      |      |      | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| Belgium        | 1.1                | 2.4     | 1.3     | 2.7  | 1.9  | 0.7  | 0.8  | 0.4                     | 0.9  | 1.4  | 0.4                     | 0.4  |
| Germany        | 1.6                | 1.2     | 0.5     | 3.2  | 3.0  | 1.7  | 1.0  | 1.2                     | 1.3  | 1.6  | 1.2                     | 1.4  |
| Estonia        | :                  | 1.2     | 4.4     | 4.6  | -1.9 | -0.8 | 1.4  | 3.2                     | 1.0  | 0.2  | 1.0                     | 1.7  |
| Ireland        | 3.3                | 7.2     | 4.3     | 1.3  | -3.7 | -4.6 | -4.3 | -4.0                    | -1.7 | -3.0 | -3.8                    | -2.7 |
| Greece         | 2.2                | 5.2     | 2.8     | -2.6 | 4.9  | -8.7 | -5.2 | -6.2                    | -7.2 | -3.1 | -11.0                   | -9.5 |
| Spain          | 1.9                | 4.3     | 5.3     | 5.9  | 3.7  | 1.5  | -0.5 | -4.9                    | -7.2 | -1.4 | -6.9                    | -3.5 |
| France         | 1.4                | 1.2     | 1.6     | 1.3  | 2.5  | 1.8  | 0.2  | 1.3                     | 1.1  | 1.3  | 0.5                     | 0.5  |
| Italy          | -1.1               | 2.1     | 1.6     | 0.6  | 0.8  | -0.6 | -0.8 | -0.7                    | -0.3 | -0.4 | -0.8                    | -0.4 |
| Cyprus         | :                  | 4.7     | 2.3     | 6.1  | 6.8  | 1.0  | -0.2 | -1.7                    | -2.4 | -1.5 | -3.0                    | 0.3  |
| Luxembourg     | 4.1                | 5.0     | 3.3     | 1.5  | 4.5  | 3.0  | 1.5  | 3.5                     | 1.2  | 1.4  | 2.6                     | 2.4  |
| Malta          | :                  | 0.9     | 1.9     | 12.2 | -1.5 | 0.9  | 3.2  | 2.2                     | 1.2  | 1.0  | 1.8                     | 0.0  |
| Netherlands    | 1.7                | 3.0     | 3.2     | 2.8  | 5.0  | 0.7  | 0.1  | -0.1                    | -0.5 | 0.5  | -0.8                    | 0.1  |
| Austria        | 2.9                | 1.3     | 1.7     | 4.1  | 0.6  | 0.2  | 0.1  | 1.3                     | 0.8  | 1.3  | 0.7                     | 1.2  |
| Portugal       | 2.2                | 4.1     | 1.2     | 0.5  | 4.7  | 0.9  | -3.7 | -3.5                    | -3.2 | -1.5 | -2.9                    | -2.6 |
| Slovenia       | 3.2                | 3.7     | 2.8     | 5.9  | 2.5  | 1.5  | -1.2 | -2.8                    | -2.1 | -0.4 | -3.7                    | -0.9 |
| Slovakia       | 0.4                | 2.2     | 2.7     | 6.1  | 6.1  | 1.0  | -4.3 | -0.6                    | 0.1  | 1.6  | 1.3                     | 1.3  |
| Finland        | 1.0                | 1.5     | 1.4     | 1.9  | 1.1  | -0.3 | 0.4  | -0.2                    | 0.5  | 0.8  | 1.0                     | 0.9  |
| Euro area      | 1.2                | 2.0     | 1.8     | 2.3  | 2.6  | 0.7  | -0.1 | -0.2                    | -0.4 | 0.6  | -0.8                    | 0.0  |
| Bulgaria       | -13.1              | 8.1     | 3.2     | -1.0 | -6.5 | 1.9  | 0.5  | 0.3                     | 1.1  | 0.5  | 0.8                     | 1.6  |
| Czech Republic | 1.7                | 2.6     | 0.8     | 1.2  | 4.0  | 0.5  | -2.5 | -1.3                    | -0.5 | 0.2  | -2.0                    | 0.2  |
| Denmark        | 2.6                | 2.5     | 1.6     | 1.9  | 2.5  | 0.3  | -1.3 | 0.2                     | 1.4  | 0.8  | 1.3                     | 0.3  |
| Latvia         | :                  | 2.8     | 3.2     | 1.6  | -9.4 | -7.9 | 1.1  | 1.1                     | 1.5  | 2.0  | 0.0                     | 0.3  |
| Lithuania      | :                  | 0.9     | 2.8     | 0.4  | -1.4 | -3.4 | 0.5  | -1.5                    | 0.5  | 2.3  | -1.6                    | 1.0  |
| Hungary        | -1.7               | 2.1     | 1.0     | 1.1  | 0.7  | -0.7 | -0.3 | -2.8                    | 0.1  | 1.0  | -3.1                    | -0.8 |
| Poland         | 2.7                | 2.1     | 4.6     | 7.4  | 2.1  | 4.1  | -1.7 | -0.2                    | 1.7  | 3.1  | 0.0                     | 1.2  |
| Romania        | 1.7                | -0.4    | -0.1    | 7.2  | 3.1  | -4.4 | -3.5 | -2.3                    | 2.1  | 1.9  | 0.8                     | 2.5  |
| Sweden         | -0.3               | 1.4     | 0.6     | 1.0  | 2.2  | 2.1  | 1.7  | 0.9                     | 0.9  | 0.9  | 1.0                     | 0.8  |
| United Kingdom | 0.4                | 3.1     | 2.3     | 1.6  | 0.8  | 0.4  | 0.2  | 1.6                     | -2.0 | -1.3 | 0.3                     | -1.1 |
| EU             | 0.6                | 2.1     | 1.9     | 2.3  | 2.2  | 0.7  | -0.1 | 0.0                     | -0.4 | 0.4  | -0.5                    | -0.1 |
| Croatia        | :                  | 1.0     | 3.5     | -0.2 | 0.4  | -1.6 | -0.3 | -2.0                    | -0.5 | -0.5 | -0.5                    | -0.4 |
| USA            | 0.2                | 3.1     | 1.5     | 2.6  | 4.4  | 0.9  | -2.6 | -1.6                    | -0.4 | 0.0  | -2.0                    | -1.5 |
| Japan          | 3.0                | 3.2     | 1.1     | -0.1 | 2.3  | 2.2  | 2.0  | 1.6                     | 0.1  | 0.5  | 0.8                     | 0.4  |



TABLE 9 : Total investment, volume (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |       |       |       |       | Autumn 2012 forecast |       |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|-------|-------|-------|-------|----------------------|-------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008  | 2009  | 2010  | 2011  | 2012                 | 2013  | 2014 | 2012                 | 2013 |
| Belgium        | 1.7             | 1.5     | 4.6     | 2.0   | -8.4  | -1.4  | 4.1   | -0.1                 | 0.5   | 1.6  | 0.7                  | 1.6  |
| Germany        | 0.0             | 0.3     | 2.4     | 1.3   | -11.6 | 5.9   | 6.2   | -1.2                 | 1.9   | 4.1  | 2.1                  | 4.7  |
| Estonia        | :               | 11.0    | 13.9    | -13.3 | -38.3 | -7.4  | 25.7  | 20.2                 | 0.0   | 7.8  | 8.3                  | 8.2  |
| Ireland        | 10.6            | 6.9     | 7.5     | -10.0 | -27.7 | -22.7 | -12.2 | -4.0                 | -1.5  | 3.0  | -4.0                 | 1.0  |
| Greece         | 2.3             | 8.8     | 8.2     | -14.3 | -13.7 | -15.0 | -19.6 | -14.4                | -3.3  | 5.7  | -6.6                 | 6.7  |
| Spain          | 1.5             | 7.3     | 5.9     | -4.7  | -18.0 | -6.2  | -5.3  | -9.0                 | -5.6  | -0.3 | -7.9                 | -3.2 |
| France         | -0.3            | 4.5     | 4.0     | 0.3   | -10.6 | 1.2   | 3.5   | 0.3                  | 0.1   | 1.7  | 0.5                  | 1.8  |
| Italy          | -0.2            | 4.1     | 1.4     | -3.7  | -11.7 | 2.1   | -1.8  | -8.1                 | -2.1  | 2.6  | -3.8                 | 1.3  |
| Cyprus         | :               | 4.0     | 8.2     | 6.0   | -9.7  | -4.9  | -13.1 | -22.0                | -12.0 | -5.3 | -1.1                 | 0.8  |
| Luxembourg     | 6.6             | 7.1     | 6.6     | 2.0   | -15.5 | 6.8   | 10.2  | 5.2                  | 2.0   | 2.5  | 6.2                  | 3.9  |
| Malta          | :               | -3.4    | 8.5     | -19.7 | -16.5 | 13.0  | -14.6 | -0.5                 | 4.5   | 5.5  | 0.0                  | 4.5  |
| Netherlands    | 4.6             | 2.2     | 2.7     | 4.5   | -12.0 | -7.2  | 5.7   | -3.0                 | -1.0  | 2.6  | -3.9                 | 0.2  |
| Austria        | 1.8             | 0.9     | 2.0     | 0.7   | -7.8  | 0.8   | 7.3   | 1.6                  | 0.9   | 2.9  | 1.4                  | 2.3  |
| Portugal       | 2.8             | 3.7     | -1.3    | -0.3  | -8.6  | -4.1  | -12.1 | -14.1                | -4.6  | 2.1  | -11.8                | 0.7  |
| Slovenia       | 12.7            | 5.4     | 7.8     | 7.1   | -23.2 | -13.8 | -8.1  | -8.9                 | -3.8  | 0.6  | -4.6                 | 1.2  |
| Slovakia       | 10.4            | -1.2    | 7.4     | 1.0   | -19.7 | 6.5   | 14.2  | -6.2                 | 2.5   | 4.2  | 3.2                  | 4.8  |
| Finland        | 3.6             | 3.9     | 4.8     | -0.6  | -13.2 | 1.9   | 6.8   | -0.8                 | -0.1  | 1.8  | -1.2                 | 2.8  |
| Euro area      | 0.9             | 3.1     | 3.4     | -1.4  | -12.7 | -0.1  | 1.5   | -3.5                 | -0.6  | 2.5  | -1.5                 | 1.9  |
| Bulgaria       | :               | 20.1    | 16.3    | 21.9  | -17.6 | -18.3 | -9.7  | 0.2                  | 3.4   | 4.1  | -2.2                 | 3.6  |
| Czech Republic | 7.1             | 2.3     | 5.6     | 4.1   | -11.0 | 1.0   | -0.7  | -1.7                 | 0.1   | 2.1  | 0.0                  | 2.1  |
| Denmark        | 6.4             | 2.8     | 4.5     | -4.2  | -13.4 | -3.8  | 0.2   | 1.6                  | 6.2   | 2.5  | 4.6                  | 3.2  |
| Latvia         | :               | 15.8    | 16.6    | -13.8 | -37.4 | -18.1 | 27.9  | 9.2                  | 6.7   | 7.6  | 6.0                  | 10.4 |
| Lithuania      | :               | 5.5     | 16.2    | -5.2  | -39.5 | 1.9   | 18.3  | 3.1                  | 4.8   | 7.7  | 4.8                  | 8.2  |
| Hungary        | 4.2             | 7.0     | 2.8     | 2.9   | -11.1 | -9.5  | -3.6  | -5.4                 | -0.4  | 0.9  | -2.3                 | -0.7 |
| Poland         | 13.8            | 1.1     | 8.9     | 9.6   | -1.2  | -0.4  | 9.0   | 1.7                  | -2.8  | 1.4  | 4.7                  | 1.6  |
| Romania        | 8.2             | 3.6     | 16.8    | 15.6  | -28.1 | -2.1  | 6.3   | 6.7                  | 5.1   | 5.5  | 4.7                  | 6.4  |
| Sweden         | 1.1             | 4.4     | 6.7     | 1.4   | -15.5 | 7.2   | 6.7   | 4.0                  | 2.9   | 4.4  | 1.1                  | 3.3  |
| United Kingdom | 3.9             | 5.0     | 4.6     | -4.6  | -13.7 | 3.5   | -2.4  | 1.9                  | 2.9   | 4.6  | -0.6                 | 3.2  |
| EU             | 2.9             | 3.4     | 4.0     | -1.2  | -13.0 | 0.2   | 1.4   | -2.2                 | 0.1   | 2.8  | -0.9                 | 2.2  |
| Croatia        | :               | 2.9     | 10.4    | 8.2   | -11.8 | -11.3 | -7.2  | -5.7                 | 5.3   | 7.0  | -5.0                 | 6.5  |
| USA            | 7.7             | 4.2     | 3.1     | -5.8  | -16.1 | -0.5  | 4.0   | 5.7                  | 5.8   | 9.4  | 6.4                  | 6.3  |
| Japan          | 0.2             | -2.8    | 0.6     | -4.1  | -10.6 | 0.1   | 0.8   | 3.2                  | 1.6   | 1.9  | 4.3                  | 1.7  |

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1993-2014)

|                | 5-year averages |         |         |       |       |       |       | Autumn 2012 forecast |       |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|-------|-------|-------|-------|----------------------|-------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008  | 2009  | 2010  | 2011  | 2012                 | 2013  | 2014 | 2012                 | 2013 |
| Belgium        | 1.6             | -1.4    | 4.3     | 1.6   | -7.6  | -0.6  | 0.1   | -0.8                 | 0.7   | 0.9  | -0.3                 | 1.3  |
| Germany        | 0.6             | -2.6    | -1.0    | -0.7  | -3.2  | 3.2   | 5.8   | -0.2                 | 2.0   | 1.9  | 1.4                  | 2.7  |
| Estonia        | :               | 8.7     | 14.3    | -10.4 | -30.5 | -9.9  | -6.2  | 29.0                 | -7.7  | 2.4  | 12.6                 | 2.6  |
| Ireland        | 10.5            | 7.0     | 7.1     | -9.2  | -31.6 | -30.1 | -15.8 | -9.8                 | -8.2  | -0.1 | -9.2                 | -3.7 |
| Greece         | 0.0             | 4.8     | 6.8     | -21.2 | -12.8 | -19.2 | -21.0 | -14.8                | -2.9  | 5.4  | -7.4                 | 6.1  |
| Spain          | 0.4             | 7.3     | 5.5     | -5.8  | -16.6 | -9.8  | -9.0  | -11.3                | -7.3  | -0.9 | -9.1                 | -3.5 |
| France         | -2.5            | 3.3     | 4.0     | -1.7  | -6.3  | -5.9  | 3.5   | 1.0                  | 0.1   | 0.7  | 0.6                  | 0.6  |
| Italy          | -1.8            | 3.5     | 1.5     | -2.8  | -8.8  | -4.8  | -2.6  | -6.5                 | -3.7  | -0.5 | -1.3                 | -0.5 |
| Cyprus         | :               | 1.8     | 10.1    | 3.1   | -14.1 | -4.7  | -7.7  | -20.3                | -12.4 | -6.0 | -3.1                 | -0.5 |
| Luxembourg     | 4.1             | 9.3     | 4.7     | 2.9   | -4.5  | -2.0  | 1.0   | 1.4                  | 2.2   | 3.0  | 4.1                  | 4.4  |
| Malta          | :               | :       | 1.5     | -21.9 | -15.5 | 0.0   | -1.3  | :                    | :     | :    | :                    | :    |
| Netherlands    | 1.3             | 2.2     | 1.6     | 2.6   | -9.8  | -10.3 | 4.0   | -8.0                 | -2.7  | 2.0  | -4.9                 | -0.6 |
| Austria        | 1.4             | -1.0    | 1.3     | 0.9   | -7.1  | -2.7  | 4.4   | 1.3                  | 0.5   | 1.3  | 0.6                  | 1.5  |
| Portugal       | 2.8             | 3.2     | -3.6    | -4.5  | -6.7  | -4.2  | -12.3 | -17.1                | -7.7  | 1.1  | -12.0                | 0.8  |
| Slovenia       | 5.8             | 2.9     | 5.6     | 11.3  | -20.8 | -18.7 | -20.1 | -14.2                | -8.4  | -1.1 | -11.2                | -1.7 |
| Slovakia       | :               | -1.7    | 9.1     | 3.9   | -10.3 | -7.7  | 2.7   | -2.4                 | 2.7   | 4.9  | 3.2                  | 4.8  |
| Finland        | 1.1             | 4.6     | 5.0     | -1.4  | -15.0 | 8.1   | 3.4   | -0.6                 | 0.3   | 1.4  | -1.3                 | 2.9  |
| Euro area      | -0.1            | 1.9     | 2.1     | -2.1  | -8.1  | -4.0  | -0.1  | -3.5                 | -1.3  | 0.9  | -1.7                 | 0.6  |
| Bulgaria       | :               | :       | 18.2    | 46.1  | 1.0   | -15.5 | :     | :                    | :     | :    | :                    | :    |
| Czech Republic | -7.1            | -2.0    | 4.4     | -1.9  | -4.1  | -1.5  | -3.5  | -6.3                 | -2.6  | 0.5  | -3.0                 | 0.7  |
| Denmark        | 4.5             | 0.3     | 4.5     | -8.1  | -14.7 | -10.1 | 1.7   | -1.5                 | 3.8   | 2.5  | 4.9                  | 2.4  |
| Latvia         | :               | :       | :       | :     | :     | :     | :     | :                    | :     | :    | :                    | :    |
| Lithuania      | :               | 2.8     | 15.9    | 0.3   | -37.1 | -7.4  | 13.9  | 3.0                  | 5.5   | 8.1  | 5.5                  | 8.9  |
| Hungary        | :               | 5.0     | 0.2     | 2.2   | -5.9  | -13.5 | -12.4 | -5.8                 | 0.2   | -0.4 | 0.1                  | 0.6  |
| Poland         | :               | 1.0     | 7.1     | 8.2   | 4.9   | 2.2   | 9.5   | -0.6                 | -6.1  | -2.3 | 2.3                  | -4.3 |
| Romania        | 8.9             | 2.8     | 16.5    | 20.3  | -28.7 | -18.8 | 4.9   | 6.8                  | 4.8   | 5.0  | 4.7                  | 5.6  |
| Sweden         | -7.0            | 4.3     | 5.0     | -2.6  | -11.7 | 4.4   | 9.2   | 2.6                  | 1.2   | 3.7  | 0.7                  | 1.3  |
| United Kingdom | 2.0             | 3.9     | 7.1     | -4.9  | -12.8 | 2.4   | -3.1  | 7.4                  | 2.6   | 3.8  | -1.4                 | 2.6  |
| EU             | :               | 2.3     | 5.2     | 1.0   | -11.4 | -5.1  | 1.0   | -0.5                 | 0.0   | 1.8  | -0.4                 | 1.4  |
| Croatia        | :               | :       | :       | :     | :     | :     | :     | :                    | :     | :    | :                    | :    |
| USA            | 4.0             | 2.2     | 0.5     | -8.8  | -17.4 | -8.0  | -2.4  | 6.6                  | 4.9   | 6.6  | 4.1                  | 3.5  |
| Japan          | :               | :       | :       | :     | :     | :     | :     | :                    | :     | :    | :                    | :    |

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         | 2008  | 2009  | 2010  | 2011  | Autumn 2012 forecast |       |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|-------|-------|-------|-------|----------------------|-------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 |       |       |       |       | 2012                 | 2013  | 2014 | 2012                 | 2013 |
| Belgium        | 1.6             | 3.9     | 4.3     | 2.0   | -11.1 | -3.9  | 9.3   | 0.6                  | 0.4   | 2.0  | 1.7                  | 2.0  |
| Germany        | -1.5            | 3.8     | 6.4     | 2.9   | -22.5 | 10.3  | 7.0   | -3.0                 | 1.6   | 7.2  | 2.7                  | 7.2  |
| Estonia        | :               | 13.5    | 13.3    | -20.4 | -55.0 | 2.2   | 102.7 | 11.4                 | 9.0   | 13.2 | 4.0                  | 15.0 |
| Ireland        | 12.1            | 7.3     | 9.9     | -12.2 | -18.8 | -10.6 | -10.5 | 2.8                  | 4.8   | 5.0  | 2.4                  | 5.7  |
| Greece         | 7.1             | 15.5    | 10.8    | -4.8  | -18.4 | -8.2  | -18.1 | -14.0                | -3.0  | 6.0  | -5.2                 | 6.7  |
| Spain          | 3.0             | 5.9     | 7.0     | -3.2  | -24.5 | 3.0   | 2.4   | -6.6                 | -3.5  | 0.8  | -6.1                 | -3.0 |
| France         | 2.3             | 6.2     | 3.7     | 3.5   | -9.6  | 4.1   | 3.5   | -2.2                 | 0.1   | 4.2  | 0.5                  | 4.9  |
| Italy          | 1.1             | 4.7     | 1.7     | -5.2  | -16.8 | 12.0  | -1.1  | -10.9                | -0.6  | 6.3  | -6.9                 | 3.5  |
| Cyprus         | :               | 9.2     | 4.2     | 13.6  | -0.3  | -5.9  | -23.1 | -26.0                | -11.0 | -3.7 | 4.0                  | 4.0  |
| Luxembourg     | 9.6             | 3.1     | 10.0    | 10.3  | -34.4 | 28.5  | 24.6  | 13.0                 | 2.0   | 2.0  | 12.0                 | 4.0  |
| Malta          | :               | :       | 23.7    | -23.8 | -21.1 | 35.2  | -39.3 | :                    | :     | :    | :                    | :    |
| Netherlands    | 7.7             | 2.1     | 4.8     | 7.0   | -16.4 | -4.6  | 9.2   | 3.5                  | 0.9   | 3.4  | -2.7                 | 1.0  |
| Austria        | 1.7             | 1.4     | 3.1     | -0.4  | -10.6 | 6.0   | 12.1  | 1.5                  | 1.2   | 5.2  | 2.3                  | 3.4  |
| Portugal       | 3.5             | 4.0     | 3.0     | 6.9   | -13.2 | -4.3  | -14.1 | -10.3                | 0.0   | 3.7  | -14.0                | 0.5  |
| Slovenia       | 17.9            | 8.5     | 10.9    | 3.1   | -28.9 | -7.9  | 9.5   | -3.8                 | 0.2   | 2.0  | 1.2                  | 3.5  |
| Slovakia       | :               | 0.5     | 4.3     | 1.2   | -26.6 | 11.1  | 46.7  | -11.0                | 2.0   | 3.6  | 3.6                  | 5.5  |
| Finland        | 7.3             | 1.6     | 3.9     | 1.5   | -11.7 | -11.8 | 19.2  | -4.0                 | -1.8  | 2.5  | -1.1                 | 2.5  |
| Euro area      | 2.0             | 4.8     | 4.9     | 0.7   | -17.3 | 5.3   | 4.0   | -4.5                 | 0.2   | 5.0  | -1.4                 | 3.9  |
| Bulgaria       | :               | :       | 15.0    | 3.1   | -45.0 | -18.5 | :     | :                    | :     | :    | :                    | :    |
| Czech Republic | 5.3             | 6.5     | 7.0     | 10.5  | -18.8 | 6.0   | 0.0   | 2.4                  | 2.6   | 3.5  | 2.9                  | 3.5  |
| Denmark        | 6.6             | 4.1     | 4.7     | -2.7  | -14.6 | 2.2   | -2.0  | 6.0                  | 11.0  | 3.0  | 6.0                  | 4.6  |
| Latvia         | :               | :       | :       | :     | :     | :     | :     | :                    | :     | :    | :                    | :    |
| Lithuania      | :               | 8.8     | 17.9    | -17.3 | -50.0 | 20.6  | 32.6  | 3.5                  | 4.0   | 8.0  | 4.0                  | 8.0  |
| Hungary        | :               | 8.1     | 6.3     | 1.6   | -17.3 | -3.5  | 8.5   | -2.0                 | -1.3  | 0.2  | 1.0                  | -2.0 |
| Poland         | :               | 0.9     | 11.1    | 13.0  | -10.8 | -3.3  | 9.7   | 5.5                  | 2.5   | 6.8  | 9.0                  | 11.5 |
| Romania        | 9.5             | 4.2     | 19.1    | 10.9  | -27.7 | -32.7 | 7.0   | 6.7                  | 5.5   | 6.1  | 4.7                  | 7.5  |
| Sweden         | 9.3             | 4.3     | 8.6     | 5.5   | -22.7 | 11.9  | 3.9   | 4.8                  | 4.0   | 5.0  | 1.5                  | 5.0  |
| United Kingdom | 6.1             | 6.2     | 0.5     | -5.0  | -21.0 | 7.3   | -0.3  | -8.2                 | 3.1   | 6.5  | 0.0                  | 5.0  |
| EU             | :               | 4.9     | 6.7     | 2.0   | -19.2 | 0.0   | 4.2   | -2.3                 | 1.6   | 5.2  | 0.2                  | 4.7  |
| Croatia        | :               | :       | :       | :     | :     | :     | :     | :                    | :     | :    | :                    | :    |
| USA            | 11.0            | 4.9     | 5.8     | -5.4  | -19.6 | 9.9   | 11.0  | 5.0                  | 6.4   | 11.4 | 8.0                  | 8.2  |
| Japan          | :               | :       | :       | :     | :     | :     | :     | :                    | :     | :    | :                    | :    |

TABLE 12 : Public investment (as a percentage of GDP, 1993-2014)

|                | 5-year averages |         |         | 2008 | 2009 | 2010 | 2011 | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 |      |      |      |      | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 1.7             | 1.8     | 1.6     | 1.6  | 1.7  | 1.6  | 1.7  | 1.9                  | 1.7  | 1.7  | 1.8                  | 1.6  |
| Germany        | 2.2             | 1.9     | 1.5     | 1.6  | 1.7  | 1.7  | 1.6  | 1.5                  | 1.5  | 1.5  | 1.5                  | 1.5  |
| Estonia        | :               | 4.4     | 4.4     | 5.4  | 5.1  | 3.9  | 4.2  | 5.5                  | 4.5  | 3.7  | 5.5                  | 4.7  |
| Ireland        | 2.3             | 3.5     | 3.8     | 5.3  | 3.8  | 3.5  | 2.5  | 2.0                  | 1.6  | 1.5  | 2.7                  | 2.3  |
| Greece         | 2.9             | 3.4     | 3.3     | 3.7  | 3.1  | 2.3  | 1.6  | 1.9                  | 2.0  | 1.8  | 2.5                  | 2.6  |
| Spain          | 3.6             | 3.3     | 3.7     | 4.0  | 4.5  | 4.0  | 2.9  | 1.8                  | 1.5  | 1.5  | 1.9                  | 1.8  |
| France         | 3.1             | 2.9     | 3.2     | 3.2  | 3.4  | 3.1  | 3.1  | 3.1                  | 3.1  | 3.0  | 3.1                  | 3.2  |
| Italy          | 2.2             | 2.2     | 2.4     | 2.2  | 2.5  | 2.1  | 2.0  | 1.8                  | 1.6  | 1.6  | 1.8                  | 1.5  |
| Cyprus         | :               | 2.9     | 3.3     | 3.1  | 4.2  | 3.8  | 3.5  | 2.8                  | 2.6  | 2.6  | 3.1                  | 3.1  |
| Luxembourg     | 4.0             | 4.4     | 4.0     | 3.4  | 3.9  | 4.1  | 3.8  | 4.1                  | 3.8  | 3.9  | 3.9                  | 3.9  |
| Malta          | :               | 4.1     | 4.2     | 2.4  | 2.3  | 2.1  | 2.5  | 2.6                  | 2.6  | 2.7  | 2.6                  | 2.6  |
| Netherlands    | 2.7             | 3.2     | 3.3     | 3.5  | 3.8  | 3.6  | 3.4  | 3.3                  | 3.3  | 3.2  | 3.5                  | 3.4  |
| Austria        | 2.9             | 1.6     | 1.2     | 1.1  | 1.2  | 1.1  | 1.0  | 1.0                  | 1.0  | 1.0  | 1.0                  | 1.0  |
| Portugal       | 4.2             | 4.3     | 3.4     | 2.9  | 3.0  | 3.6  | 2.6  | 2.0                  | 1.7  | 1.5  | 2.0                  | 1.8  |
| Slovenia       | :               | 3.2     | 3.6     | 4.4  | 4.6  | 4.4  | 3.6  | 3.1                  | 3.8  | 4.4  | 3.2                  | 3.2  |
| Slovakia       | :               | 3.2     | 2.2     | 2.0  | 2.3  | 2.6  | 2.3  | 2.4                  | 1.7  | 1.7  | 2.1                  | 2.1  |
| Finland        | 2.8             | 2.6     | 2.6     | 2.5  | 2.8  | 2.5  | 2.5  | 2.5                  | 2.5  | 2.5  | 2.5                  | 2.5  |
| Euro area      | 2.7             | 2.5     | 2.5     | 2.6  | 2.8  | 2.6  | 2.3  | 2.1                  | 2.0  | 2.0  | 2.2                  | 2.1  |
| Bulgaria       | :               | 3.5     | 3.8     | 5.6  | 4.9  | 4.6  | 3.4  | 3.8                  | 4.0  | 4.2  | 3.3                  | 3.6  |
| Czech Republic | :               | 3.4     | 4.8     | 4.6  | 5.1  | 4.3  | 3.6  | 3.5                  | 3.4  | 3.4  | 3.7                  | 3.7  |
| Denmark        | 1.8             | 1.7     | 1.8     | 1.9  | 2.0  | 2.1  | 2.2  | 2.3                  | 2.1  | 1.9  | 2.4                  | 1.9  |
| Latvia         | :               | 1.3     | 3.8     | 4.9  | 4.3  | 3.7  | 4.2  | 4.1                  | 4.0  | 3.8  | 4.2                  | 3.8  |
| Lithuania      | :               | 2.5     | 3.9     | 4.9  | 3.9  | 4.6  | 4.4  | 4.7                  | 4.8  | 5.0  | 4.3                  | 4.6  |
| Hungary        | :               | 3.6     | 3.8     | 2.9  | 3.1  | 3.4  | 3.0  | 3.9                  | 4.5  | 4.3  | 4.4                  | 4.6  |
| Poland         | :               | 3.3     | 3.6     | 4.6  | 5.2  | 5.6  | 5.7  | 5.2                  | 4.3  | 3.5  | 5.6                  | 4.9  |
| Romania        | :               | 2.6     | 4.3     | 6.6  | 5.9  | 5.7  | 5.2  | 5.0                  | 5.0  | 5.1  | 5.5                  | 5.2  |
| Sweden         | 2.8             | 3.0     | 3.0     | 3.3  | 3.5  | 3.5  | 3.4  | 3.5                  | 3.5  | 3.5  | 3.5                  | 3.5  |
| United Kingdom | 1.6             | 1.4     | 1.6     | 2.3  | 2.7  | 2.5  | 2.2  | 1.9                  | 1.5  | 1.3  | 2.2                  | 2.1  |
| EU             | :               | 2.4     | 2.4     | 2.7  | 2.9  | 2.7  | 2.5  | 2.3                  | 2.2  | 2.1  | 2.4                  | 2.3  |
| Croatia        | :               | :       | :       | 2.1  | 1.9  | 1.4  | 1.4  | 1.0                  | 1.0  | 1.0  | 1.5                  | 1.5  |
| USA            | 2.4             | 2.5     | 2.4     | 2.6  | 2.6  | 2.5  | 2.3  | 2.0                  | 1.9  | 1.8  | 2.2                  | 2.1  |
| Japan          | 6.1             | 5.2     | 3.6     | 3.0  | 3.4  | 3.3  | 3.3  | 3.4                  | 3.6  | 3.6  | 3.6                  | 3.6  |

TABLE 13 : Potential GDP, volume (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |      |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 2.1             | 2.3     | 1.8     | 1.6  | 1.1  | 1.2  | 1.1  | 0.9                  | 0.9  | 1.0  | 1.0                  | 1.1  |
| Germany        | 1.9             | 1.5     | 1.2     | 1.2  | 0.7  | 1.2  | 1.6  | 1.4                  | 1.5  | 1.6  | 1.6                  | 1.6  |
| Estonia        | :               | 4.7     | 6.3     | 2.6  | -0.9 | -0.5 | 1.3  | 2.2                  | 3.1  | 3.7  | 2.0                  | 2.7  |
| Ireland        | 7.2             | 8.4     | 4.7     | 1.1  | -1.1 | -0.5 | -0.2 | -0.8                 | 0.0  | 0.8  | -1.0                 | -0.3 |
| Greece         | 2.2             | 4.1     | 3.4     | 1.5  | 0.0  | -1.1 | -2.4 | -2.8                 | -2.7 | -2.7 | -2.3                 | -1.9 |
| Spain          | 2.3             | 3.5     | 3.4     | 2.5  | 0.9  | 0.3  | -0.2 | -1.0                 | -1.3 | -1.3 | -1.1                 | -1.2 |
| France         | 1.8             | 1.9     | 1.8     | 1.5  | 1.0  | 1.1  | 1.1  | 0.9                  | 0.9  | 0.9  | 1.2                  | 1.2  |
| Italy          | 1.4             | 1.6     | 1.0     | 0.3  | -0.3 | 0.0  | 0.2  | -0.9                 | -0.3 | 0.0  | -0.5                 | -0.1 |
| Cyprus         | :               | 3.4     | 3.6     | 2.1  | 1.5  | 1.5  | 0.8  | -0.7                 | -1.5 | -1.2 | 0.4                  | 0.5  |
| Luxembourg     | 3.9             | 5.0     | 4.1     | 2.5  | 1.2  | 0.9  | 1.1  | 0.9                  | 0.8  | 1.1  | 1.3                  | 1.4  |
| Malta          | :               | 2.7     | 2.7     | 2.3  | 1.2  | 1.4  | 1.4  | 1.4                  | 1.6  | 1.9  | 1.1                  | 1.3  |
| Netherlands    | 3.2             | 3.0     | 1.8     | 1.9  | 1.2  | 0.9  | 0.9  | 0.6                  | 0.7  | 0.8  | 0.8                  | 0.9  |
| Austria        | 2.4             | 2.5     | 2.2     | 1.7  | 1.0  | 0.9  | 1.1  | 1.2                  | 1.2  | 1.3  | 1.3                  | 1.4  |
| Portugal       | 2.5             | 3.0     | 1.2     | 1.0  | 0.0  | -0.1 | -0.6 | -1.3                 | -0.9 | -0.2 | -1.4                 | -0.3 |
| Slovenia       | :               | :       | 3.6     | 3.5  | 1.6  | 0.3  | -0.5 | -0.6                 | -0.5 | -0.2 | -0.1                 | 0.3  |
| Slovakia       | :               | :       | 5.6     | 5.3  | 3.2  | 2.4  | 2.9  | 2.7                  | 2.9  | 3.1  | 2.7                  | 2.6  |
| Finland        | 2.0             | 3.9     | 2.7     | 1.8  | 0.6  | 0.7  | 0.7  | 0.6                  | 0.6  | 0.7  | 0.8                  | 0.9  |
| Euro area      | :               | :       | 1.8     | 1.4  | 0.6  | 0.7  | 0.8  | 0.4                  | 0.5  | 0.6  | 0.6                  | 0.7  |
| Bulgaria       | :               | 2.7     | 5.9     | 5.2  | 2.9  | 0.6  | -0.1 | 0.7                  | 1.1  | 1.4  | 0.7                  | 1.2  |
| Czech Republic | :               | :       | 3.7     | 3.8  | 2.3  | 1.7  | 1.3  | 1.3                  | 1.4  | 1.4  | 1.4                  | 1.6  |
| Denmark        | 2.1             | 2.1     | 1.3     | 1.2  | 0.5  | 0.4  | 0.4  | 0.3                  | 0.5  | 0.7  | 0.3                  | 0.5  |
| Latvia         | :               | 6.4     | 6.4     | 2.7  | -0.9 | -1.5 | -0.6 | 0.9                  | 2.0  | 2.8  | 1.0                  | 1.9  |
| Lithuania      | :               | :       | 5.5     | 5.5  | 2.8  | -0.5 | -0.6 | 2.9                  | 2.6  | 2.5  | 1.6                  | 2.4  |
| Hungary        | :               | :       | 2.9     | 1.3  | 0.3  | 0.0  | 0.1  | 0.0                  | 0.2  | 0.3  | 0.1                  | 0.3  |
| Poland         | :               | 4.3     | 4.0     | 5.0  | 3.9  | 4.2  | 4.7  | 3.8                  | 3.3  | 3.0  | 3.4                  | 3.2  |
| Romania        | :               | :       | 4.3     | 5.0  | 2.3  | 1.7  | 1.8  | 2.1                  | 2.3  | 2.6  | 2.2                  | 2.5  |
| Sweden         | 2.0             | 2.9     | 2.7     | 2.3  | 1.5  | 2.0  | 2.0  | 2.2                  | 2.0  | 2.1  | 1.7                  | 1.7  |
| United Kingdom | 2.4             | 3.2     | 2.5     | 1.6  | 0.8  | 0.8  | 0.6  | 0.7                  | 0.9  | 1.1  | 0.9                  | 1.1  |
| EU             | :               | :       | 2.1     | 1.6  | 0.8  | 0.8  | 0.9  | 0.6                  | 0.7  | 0.9  | 0.7                  | 0.9  |
| Croatia        | :               | :       | 3.5     | 3.4  | 2.7  | 2.2  | 0.8  | -0.3                 | -1.1 | -1.3 | :                    | :    |
| USA            | 3.5             | 3.2     | 2.2     | 1.4  | 0.8  | 1.1  | 1.5  | 1.7                  | 2.1  | 2.4  | :                    | :    |
| Japan          | :               | :       | :       | :    | :    | :    | :    | :                    | :    | :    | :                    | :    |

TABLE 14 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1993-2014) <sup>1</sup>

|                | 5-year averages |         |         |      |       |       |       | Autumn 2012 forecast |       |       | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|-------|-------|----------------------|-------|-------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010  | 2011  | 2012                 | 2013  | 2014  | 2012                 | 2013 |
| Belgium        | -0.9            | 0.7     | 0.8     | 1.8  | -2.1  | -0.9  | -0.2  | -1.3                 | -1.5  | -0.9  | -1.4                 | -1.3 |
| Germany        | -0.3            | 0.5     | -0.7    | 2.0  | -3.9  | -1.1  | 0.3   | -0.3                 | -0.9  | -0.5  | -0.9                 | -0.8 |
| Estonia        | :               | 0.4     | 6.6     | 4.6  | -9.3  | -5.9  | 0.7   | 1.0                  | 1.0   | 1.3   | -1.9                 | -0.8 |
| Ireland        | -0.6            | 3.2     | 1.1     | 0.3  | -4.1  | -4.4  | -2.8  | -1.5                 | -0.5  | 0.8   | -1.2                 | 0.9  |
| Greece         | -0.1            | 0.2     | 1.2     | 1.6  | -1.6  | -5.4  | -10.0 | -13.0                | -14.4 | -11.5 | -10.7                | -9.0 |
| Spain          | -2.7            | 1.6     | 1.3     | 0.5  | -4.2  | -4.8  | -4.2  | -4.6                 | -4.8  | -2.7  | -4.4                 | -3.6 |
| France         | -1.5            | 1.7     | 2.0     | 1.4  | -2.8  | -2.2  | -1.6  | -2.3                 | -2.9  | -2.6  | -2.8                 | -2.7 |
| Italy          | -0.3            | 1.3     | 1.4     | 1.6  | -3.8  | -2.0  | -1.8  | -3.2                 | -3.4  | -2.5  | -2.9                 | -2.3 |
| Cyprus         | :               | 0.8     | -0.1    | 3.6  | 0.2   | -0.1  | -0.4  | -2.0                 | -2.2  | -1.7  | -1.9                 | -2.0 |
| Luxembourg     | -1.5            | 2.7     | 1.3     | 1.5  | -3.8  | -1.8  | -1.3  | -1.8                 | -1.9  | -1.5  | -2.4                 | -1.7 |
| Malta          | :               | 2.2     | -1.5    | 1.3  | -2.3  | -0.3  | 0.3   | -0.1                 | -0.1  | 0.1   | -0.2                 | 0.4  |
| Netherlands    | -0.8            | 1.1     | -0.6    | 2.2  | -2.7  | -1.9  | -1.8  | -2.7                 | -3.1  | -2.6  | -3.7                 | -3.9 |
| Austria        | -0.8            | 0.7     | -0.1    | 2.0  | -2.8  | -1.6  | -0.1  | -0.5                 | -0.8  | -0.1  | -0.6                 | -0.3 |
| Portugal       | -0.9            | 2.8     | -0.4    | -0.1 | -3.1  | -1.6  | -2.6  | -4.3                 | -4.4  | -3.4  | -4.6                 | -4.0 |
| Slovenia       | :               | :       | 2.3     | 6.4  | -3.5  | -2.6  | -1.5  | -3.2                 | -4.2  | -3.2  | -4.4                 | -4.1 |
| Slovakia       | :               | :       | 0.9     | 6.2  | -2.2  | -0.4  | 0.0   | -0.1                 | -1.0  | -1.1  | -1.4                 | -1.1 |
| Finland        | -2.8            | 1.6     | 1.3     | 3.5  | -5.9  | -3.4  | -1.5  | -2.0                 | -1.8  | -1.2  | -2.1                 | -1.5 |
| Euro area      | :               | :       | 0.7     | 1.6  | -3.5  | -2.2  | -1.5  | -2.3                 | -2.7  | -1.9  | -2.6                 | -2.2 |
| Bulgaria       | :               | -0.6    | 2.7     | 4.8  | -3.7  | -3.8  | -2.2  | -2.1                 | -1.8  | -1.2  | -3.3                 | -2.5 |
| Czech Republic | :               | :       | 2.1     | 6.1  | -1.0  | -0.3  | 0.2   | -2.2                 | -2.7  | -2.2  | -2.1                 | -2.2 |
| Denmark        | -1.0            | 1.3     | 1.8     | 1.5  | -4.8  | -4.0  | -3.6  | -3.3                 | -2.3  | -1.7  | -2.3                 | -1.4 |
| Latvia         | :               | -1.6    | 5.6     | 7.1  | -11.1 | -10.6 | -5.1  | -1.8                 | -0.2  | 0.9   | -3.1                 | -1.5 |
| Lithuania      | :               | :       | 6.2     | 8.8  | -9.8  | -8.0  | -2.1  | -2.0                 | -1.6  | -0.5  | -2.5                 | -1.4 |
| Hungary        | :               | :       | 2.8     | 2.4  | -4.8  | -3.6  | -2.0  | -3.2                 | -3.0  | -2.1  | -2.7                 | -2.0 |
| Poland         | :               | 0.8     | 0.1     | 3.0  | 0.8   | 0.4   | 0.0   | -1.4                 | -2.7  | -3.1  | -0.9                 | -1.5 |
| Romania        | :               | :       | 4.4     | 10.4 | 0.8   | -2.5  | -1.9  | -3.1                 | -3.3  | -3.2  | -3.7                 | -3.3 |
| Sweden         | -3.5            | 0.1     | 1.6     | 0.4  | -6.0  | -1.8  | 0.0   | -1.0                 | -1.1  | -0.7  | -1.0                 | -0.6 |
| United Kingdom | -0.8            | 0.8     | 2.3     | 1.1  | -3.7  | -2.7  | -2.4  | -3.4                 | -3.4  | -2.5  | -3.7                 | -3.1 |
| EU             | :               | :       | 1.1     | 1.7  | -3.5  | -2.3  | -1.6  | -2.5                 | -2.7  | -2.0  | -2.7                 | -2.3 |
| Croatia        | :               | :       | 9.9     | 10.5 | 0.1   | -3.4  | -4.2  | -5.8                 | -4.8  | -2.1  | :                    | :    |
| USA            | -1.0            | 0.5     | 1.5     | 0.5  | -3.4  | -2.2  | -1.9  | -1.6                 | -1.4  | -1.2  | :                    | :    |
| Japan          | :               | :       | :       | :    | :     | :     | :     | :                    | :     | :     | :                    | :    |

<sup>1</sup> When comparing output gaps between the spring and the autumn forecast it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

TABLE 15 : Deflator of gross domestic product (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year<br>averages |         |         |      |      |      |      | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|----------------|--------------------|---------|---------|------|------|------|------|-------------------------|------|------|-------------------------|------|
|                | 1993-97            | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| Belgium        | 1.7                | 1.6     | 2.2     | 2.1  | 1.2  | 2.0  | 2.0  | 2.2                     | 2.1  | 1.8  | 2.1                     | 2.2  |
| Germany        | 1.9                | 0.5     | 0.9     | 0.8  | 1.2  | 0.9  | 0.8  | 1.2                     | 1.4  | 1.6  | 1.6                     | 1.8  |
| Estonia        | :                  | 5.6     | 7.0     | 5.4  | -1.4 | 0.7  | 2.9  | 3.2                     | 3.1  | 3.2  | 2.9                     | 2.9  |
| Ireland        | 2.7                | 5.2     | 2.5     | -3.2 | -4.6 | -2.2 | 0.2  | 1.7                     | 1.3  | 1.4  | 1.2                     | 1.2  |
| Greece         | 9.9                | 3.6     | 3.1     | 4.7  | 2.3  | 1.1  | 1.0  | -0.5                    | -1.2 | -0.4 | -0.7                    | -0.4 |
| Spain          | 3.8                | 3.4     | 4.0     | 2.4  | 0.1  | 0.4  | 1.0  | 0.2                     | 1.9  | 1.4  | 0.9                     | 0.7  |
| France         | 1.3                | 1.4     | 2.1     | 2.5  | 0.7  | 1.1  | 1.3  | 1.7                     | 1.5  | 1.7  | 1.5                     | 1.8  |
| Italy          | 3.9                | 2.5     | 2.3     | 2.5  | 2.1  | 0.4  | 1.3  | 1.4                     | 1.6  | 1.6  | 2.1                     | 2.2  |
| Cyprus         | 2.9                | 2.8     | 3.8     | 4.6  | 0.1  | 1.9  | 2.7  | 1.6                     | 1.5  | 1.2  | 2.3                     | 2.0  |
| Luxembourg     | 2.6                | 1.8     | 4.6     | 0.4  | 0.5  | 7.6  | 5.1  | 1.9                     | 3.3  | 2.2  | 1.4                     | 3.0  |
| Malta          | 2.5                | 2.8     | 2.5     | 3.0  | 2.4  | 2.9  | 2.3  | 2.8                     | 2.5  | 2.4  | 1.7                     | 2.6  |
| Netherlands    | 1.9                | 3.3     | 1.8     | 2.1  | 0.1  | 1.1  | 1.2  | 1.5                     | 1.4  | 1.3  | 1.6                     | 1.7  |
| Austria        | 1.5                | 0.9     | 1.8     | 1.7  | 1.5  | 1.6  | 2.2  | 2.0                     | 1.6  | 2.2  | 1.9                     | 1.5  |
| Portugal       | 4.8                | 3.5     | 2.7     | 1.6  | 0.9  | 1.1  | 0.7  | 0.3                     | 1.5  | 1.2  | 0.7                     | 1.3  |
| Slovenia       | 20.1               | 7.0     | 3.3     | 4.1  | 3.6  | -1.1 | 1.0  | 1.1                     | 1.0  | 0.9  | 0.3                     | 1.5  |
| Slovakia       | 9.8                | 6.1     | 3.5     | 2.9  | -1.2 | 0.5  | 1.6  | 2.8                     | 1.8  | 2.1  | 2.0                     | 2.1  |
| Finland        | 1.9                | 2.2     | 0.8     | 2.9  | 1.5  | 0.4  | 3.1  | 2.7                     | 1.9  | 1.8  | 2.7                     | 2.1  |
| Euro area      | 2.6                | 1.8     | 2.0     | 1.9  | 0.9  | 0.8  | 1.2  | 1.3                     | 1.5  | 1.6  | 1.6                     | 1.7  |
| Bulgaria       | 146.6              | 9.8     | 6.0     | 8.4  | 4.3  | 2.8  | 5.0  | 1.0                     | 2.3  | 2.5  | 3.3                     | 2.9  |
| Czech Republic | 12.0               | 4.1     | 1.7     | 1.9  | 2.3  | -1.4 | -0.8 | 1.1                     | 1.3  | 1.1  | 1.9                     | 1.1  |
| Denmark        | 1.5                | 2.1     | 2.2     | 4.2  | 1.0  | 3.9  | 0.8  | 1.3                     | 1.6  | 1.5  | 2.0                     | 1.5  |
| Latvia         | 25.9               | 3.4     | 10.4    | 13.0 | -1.2 | -1.3 | 5.9  | 2.5                     | 2.0  | 2.1  | 2.1                     | 1.6  |
| Lithuania      | 66.3               | 0.5     | 4.6     | 9.6  | -3.4 | 2.0  | 5.4  | 2.3                     | 2.7  | 3.0  | 2.1                     | 3.0  |
| Hungary        | 22.0               | 10.2    | 4.4     | 5.3  | 3.6  | 2.5  | 3.1  | 4.5                     | 4.3  | 3.9  | 4.6                     | 3.6  |
| Poland         | 25.2               | 6.0     | 2.5     | 3.1  | 3.7  | 1.4  | 3.1  | 2.2                     | 2.1  | 1.3  | 3.2                     | 2.3  |
| Romania        | 104.7              | 40.2    | 14.9    | 15.3 | 4.2  | 6.0  | 8.1  | 4.4                     | 4.4  | 3.5  | 3.5                     | 3.9  |
| Sweden         | 2.4                | 1.4     | 1.5     | 3.1  | 2.1  | 0.8  | 1.0  | 1.0                     | 1.5  | 2.0  | 1.0                     | 1.3  |
| United Kingdom | 2.7                | 1.7     | 2.5     | 3.0  | 1.3  | 2.8  | 2.7  | 2.7                     | 2.2  | 2.3  | 2.7                     | 2.3  |
| EU             | 17.8               | 2.1     | 2.2     | 2.4  | 1.2  | 1.2  | 1.5  | 1.6                     | 1.7  | 1.7  | 1.8                     | 1.8  |
| Croatia        | :                  | 4.8     | 3.9     | 5.7  | 2.9  | 0.9  | 2.1  | 2.1                     | 2.8  | 2.0  | 1.3                     | 1.7  |
| USA            | 2.0                | 1.7     | 2.9     | 2.2  | 0.9  | 1.3  | 2.1  | 1.8                     | 2.7  | 2.7  | 1.9                     | 2.3  |
| Japan          | 0.0                | -1.1    | -1.3    | -1.3 | -0.5 | -2.2 | -2.1 | -1.6                    | -0.9 | 0.4  | -1.2                    | 1.0  |

TABLE 16 : Price deflator of private consumption (percentage change on preceding year, 1993-2014)

|                | 5-year<br>averages |         |         |      |      |      |      | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|----------------|--------------------|---------|---------|------|------|------|------|-------------------------|------|------|-------------------------|------|
|                | 1993-97            | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| Belgium        | 1.7                | 1.6     | 2.5     | 3.3  | -0.7 | 2.0  | 3.1  | 2.6                     | 1.8  | 1.4  | 2.8                     | 2.0  |
| Germany        | 2.0                | 0.9     | 1.4     | 1.6  | 0.0  | 2.0  | 2.1  | 1.5                     | 1.7  | 1.8  | 2.1                     | 1.7  |
| Estonia        | :                  | 4.9     | 4.4     | 7.8  | -1.3 | 2.6  | 5.0  | 4.1                     | 3.9  | 3.2  | 3.6                     | 3.2  |
| Ireland        | 2.5                | 4.3     | 2.5     | 1.5  | -6.7 | -2.1 | 1.5  | 1.9                     | 1.3  | 1.4  | 1.7                     | 1.2  |
| Greece         | 9.5                | 3.9     | 3.2     | 4.2  | 0.7  | 4.0  | 3.4  | 1.1                     | -0.8 | -0.4 | -0.4                    | -0.3 |
| Spain          | 4.2                | 2.8     | 3.4     | 3.6  | -1.1 | 2.0  | 2.9  | 2.3                     | 2.0  | 1.3  | 1.8                     | 1.1  |
| France         | 1.3                | 1.1     | 2.0     | 2.9  | -0.6 | 1.1  | 2.1  | 1.8                     | 1.6  | 2.0  | 1.6                     | 1.5  |
| Italy          | 4.6                | 2.5     | 2.5     | 3.1  | -0.1 | 1.5  | 2.8  | 2.6                     | 2.0  | 1.7  | 3.2                     | 2.3  |
| Cyprus         | :                  | 2.5     | 3.0     | 4.4  | 0.7  | 2.1  | 3.3  | 2.9                     | 2.0  | 1.9  | 2.9                     | 2.3  |
| Luxembourg     | 2.3                | 2.1     | 2.5     | 3.4  | 0.9  | 1.7  | 2.6  | 2.7                     | 2.1  | 1.9  | 2.7                     | 2.1  |
| Malta          | :                  | 1.3     | 1.8     | 3.2  | 2.6  | 3.1  | 0.9  | 2.5                     | 2.0  | 2.0  | 2.0                     | 2.2  |
| Netherlands    | 2.2                | 3.0     | 1.9     | 1.1  | -0.5 | 1.3  | 2.3  | 2.7                     | 2.6  | 2.0  | 2.2                     | 1.8  |
| Austria        | 2.2                | 1.1     | 2.1     | 2.3  | 0.4  | 1.9  | 3.6  | 2.4                     | 1.8  | 1.9  | 2.4                     | 1.8  |
| Portugal       | 4.6                | 2.9     | 2.9     | 2.5  | -2.3 | 1.6  | 3.4  | 2.3                     | 0.9  | 1.3  | 3.1                     | 1.3  |
| Slovenia       | 18.6               | 7.1     | 3.4     | 5.5  | 1.1  | 1.5  | 1.7  | 2.8                     | 2.2  | 1.6  | 2.2                     | 1.7  |
| Slovakia       | :                  | 6.5     | 4.8     | 4.5  | 0.1  | 1.0  | 3.8  | 3.5                     | 1.9  | 1.9  | 2.5                     | 1.9  |
| Finland        | 1.6                | 2.5     | 0.9     | 3.5  | 1.4  | 2.0  | 3.4  | 3.1                     | 1.9  | 1.8  | 3.0                     | 2.3  |
| Euro area      | 2.9                | 1.8     | 2.1     | 2.6  | -0.4 | 1.7  | 2.5  | 2.1                     | 1.7  | 1.7  | 2.2                     | 1.7  |
| Bulgaria       | 159.2              | 6.3     | 4.4     | 7.2  | 1.5  | 2.4  | 3.8  | 3.0                     | 2.7  | 2.8  | 3.0                     | 3.2  |
| Czech Republic | 10.5               | 3.7     | 1.7     | 4.8  | 0.8  | 0.3  | 0.5  | 3.3                     | 1.1  | 1.1  | 3.2                     | 2.0  |
| Denmark        | 1.8                | 2.0     | 1.4     | 2.7  | 1.3  | 2.5  | 2.5  | 2.2                     | 1.8  | 1.6  | 2.6                     | 1.5  |
| Latvia         | :                  | 2.6     | 7.3     | 16.2 | 3.2  | -1.8 | 4.7  | 2.6                     | 2.2  | 2.3  | 2.6                     | 1.8  |
| Lithuania      | :                  | 0.9     | 2.2     | 10.9 | 4.5  | 1.3  | 4.2  | 3.4                     | 3.1  | 3.0  | 3.2                     | 3.0  |
| Hungary        | :                  | 9.8     | 4.7     | 5.3  | 3.9  | 3.9  | 4.5  | 5.7                     | 5.3  | 3.9  | 5.5                     | 3.9  |
| Poland         | 25.7               | 6.7     | 1.8     | 4.3  | 2.5  | 2.5  | 4.8  | 3.8                     | 2.6  | 2.4  | 3.7                     | 3.0  |
| Romania        | 106.5              | 36.3    | 8.9     | 10.0 | 3.7  | 7.9  | 5.8  | 3.6                     | 4.8  | 3.2  | 3.4                     | 3.3  |
| Sweden         | 3.0                | 1.3     | 1.2     | 3.1  | 2.1  | 1.5  | 1.3  | 1.0                     | 1.3  | 1.8  | 1.1                     | 1.3  |
| United Kingdom | 3.0                | 1.0     | 2.3     | 3.4  | 1.4  | 3.7  | 4.7  | 2.8                     | 1.9  | 1.9  | 2.9                     | 1.9  |
| EU             | 18.8               | 2.0     | 2.2     | 3.0  | 0.2  | 2.1  | 2.9  | 2.3                     | 1.8  | 1.8  | 2.4                     | 1.8  |
| Croatia        | :                  | 4.5     | 2.8     | 5.6  | 3.2  | 1.1  | 2.4  | 3.4                     | 3.2  | 1.9  | 1.8                     | 1.8  |
| USA            | 2.1                | 1.7     | 2.6     | 3.3  | 0.1  | 1.9  | 2.4  | 1.8                     | 2.7  | 2.9  | 2.0                     | 2.6  |
| Japan          | 0.5                | -0.8    | -0.7    | 0.2  | -2.5 | -1.7 | -1.1 | -1.5                    | -1.0 | 0.0  | -0.3                    | 0.0  |

TABLE 17 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |      |      |      |      |      |      | Autumn 2012 forecast |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|------|------|------|----------------------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2012                 | 2013 | 2012                 | 2013 |
| Belgium        | 2.1             | 1.7     | 2.0     | 4.5  | 0.0  | 2.3  | 3.5  | 2.6  | 1.8  | 1.6  | 2.9                  | 1.8  | 2.9                  | 1.8  |
| Germany        | 2.4             | 1.2     | 1.8     | 2.8  | 0.2  | 1.2  | 2.5  | 2.1  | 1.9  | 1.8  | 2.3                  | 1.8  | 2.3                  | 1.8  |
| Estonia        | 37.7            | 5.0     | 3.9     | 10.6 | 0.2  | 2.7  | 5.1  | 4.3  | 4.1  | 3.3  | 3.9                  | 3.4  | 3.9                  | 3.4  |
| Ireland        | 1.9             | 3.7     | 2.8     | 3.1  | -1.7 | -1.6 | 1.2  | 2.0  | 1.3  | 1.4  | 1.7                  | 1.2  | 1.7                  | 1.2  |
| Greece         | 9.6             | 3.4     | 3.3     | 4.2  | 1.3  | 4.7  | 3.1  | 1.1  | -0.8 | -0.4 | -0.5                 | -0.3 | -0.5                 | -0.3 |
| Spain          | 3.9             | 2.8     | 3.2     | 4.1  | -0.2 | 2.0  | 3.1  | 2.5  | 2.1  | 1.3  | 1.9                  | 1.1  | 1.9                  | 1.1  |
| France         | 1.7             | 1.4     | 2.0     | 3.2  | 0.1  | 1.7  | 2.3  | 2.3  | 1.7  | 1.7  | 2.1                  | 1.9  | 2.1                  | 1.9  |
| Italy          | 3.9             | 2.2     | 2.3     | 3.5  | 0.8  | 1.6  | 2.9  | 3.3  | 2.0  | 1.7  | 3.2                  | 2.3  | 3.2                  | 2.3  |
| Cyprus         | 3.7             | 2.6     | 2.5     | 4.4  | 0.2  | 2.6  | 3.5  | 3.2  | 1.5  | 1.3  | 3.4                  | 2.5  | 3.4                  | 2.5  |
| Luxembourg     | 1.4             | 2.0     | 3.0     | 4.1  | 0.0  | 2.8  | 3.7  | 2.9  | 1.9  | 1.8  | 3.0                  | 2.0  | 3.0                  | 2.0  |
| Malta          | 3.6             | 2.8     | 2.1     | 4.7  | 1.8  | 2.0  | 2.5  | 2.9  | 2.2  | 2.2  | 2.0                  | 2.2  | 2.0                  | 2.2  |
| Netherlands    | 2.2             | 3.0     | 1.7     | 2.2  | 1.0  | 0.9  | 2.5  | 2.8  | 2.4  | 1.6  | 2.5                  | 1.8  | 2.5                  | 1.8  |
| Austria        | 2.4             | 1.5     | 1.8     | 3.2  | 0.4  | 1.7  | 3.6  | 2.4  | 1.8  | 1.9  | 2.4                  | 2.0  | 2.4                  | 2.0  |
| Portugal       | 4.1             | 3.1     | 2.7     | 2.7  | -0.9 | 1.4  | 3.6  | 2.9  | 0.9  | 1.3  | 3.0                  | 1.1  | 3.0                  | 1.1  |
| Slovenia       | 16.8            | 7.8     | 3.6     | 5.5  | 0.9  | 2.1  | 2.1  | 2.8  | 2.2  | 1.6  | 2.2                  | 1.7  | 2.2                  | 1.7  |
| Slovakia       | :               | 8.0     | 4.9     | 3.9  | 0.9  | 0.7  | 4.1  | 3.7  | 1.9  | 2.0  | 2.9                  | 1.9  | 2.9                  | 1.9  |
| Finland        | 1.2             | 2.1     | 1.0     | 3.9  | 1.6  | 1.7  | 3.3  | 3.0  | 2.5  | 2.2  | 3.0                  | 2.5  | 3.0                  | 2.5  |
| Euro area      | 2.9             | 1.9     | 2.2     | 3.3  | 0.3  | 1.6  | 2.7  | 2.5  | 1.8  | 1.6  | 2.4                  | 1.8  | 2.4                  | 1.8  |
| Bulgaria       | 169.0           | 8.8     | 5.9     | 12.0 | 2.5  | 3.0  | 3.4  | 2.5  | 2.6  | 2.7  | 2.6                  | 2.7  | 2.6                  | 2.7  |
| Czech Republic | :               | 4.2     | 1.8     | 6.3  | 0.6  | 1.2  | 2.1  | 3.6  | 1.1  | 1.1  | 3.3                  | 2.2  | 3.3                  | 2.2  |
| Denmark        | 1.9             | 2.1     | 1.6     | 3.6  | 1.1  | 2.2  | 2.7  | 2.4  | 2.0  | 1.7  | 2.6                  | 1.5  | 2.6                  | 1.5  |
| Latvia         | 35.2            | 2.7     | 6.5     | 15.3 | 3.3  | -1.2 | 4.2  | 2.4  | 2.1  | 2.3  | 2.6                  | 2.1  | 2.6                  | 2.1  |
| Lithuania      | 75.5            | 1.9     | 2.4     | 11.1 | 4.2  | 1.2  | 4.1  | 3.4  | 3.1  | 3.0  | 3.1                  | 2.9  | 3.1                  | 2.9  |
| Hungary        | 22.2            | 9.7     | 5.4     | 6.0  | 4.0  | 4.7  | 3.9  | 5.6  | 5.3  | 3.9  | 5.5                  | 3.9  | 5.5                  | 3.9  |
| Poland         | 25.8            | 7.2     | 2.1     | 4.2  | 4.0  | 2.7  | 3.9  | 3.8  | 2.6  | 2.4  | 3.7                  | 2.9  | 3.7                  | 2.9  |
| Romania        | 108.4           | 41.0    | 9.5     | 7.9  | 5.6  | 6.1  | 5.8  | 3.5  | 4.9  | 3.3  | 3.1                  | 3.4  | 3.1                  | 3.4  |
| Sweden         | 2.1             | 1.5     | 1.5     | 3.3  | 1.9  | 1.9  | 1.4  | 1.0  | 1.3  | 1.8  | 1.1                  | 1.5  | 1.1                  | 1.5  |
| United Kingdom | 2.3             | 1.2     | 1.9     | 3.6  | 2.2  | 3.3  | 4.5  | 2.7  | 2.1  | 1.9  | 2.9                  | 2.0  | 2.9                  | 2.0  |
| EU             | 20.8            | 3.4     | 2.3     | 3.7  | 1.0  | 2.1  | 3.1  | 2.7  | 2.0  | 1.8  | 2.6                  | 1.9  | 2.6                  | 1.9  |
| Croatia        | 106.4           | 4.0     | 2.7     | 5.8  | 2.2  | 1.1  | 2.2  | 3.4  | 3.2  | 2.1  | 2.4                  | 2.0  | 2.4                  | 2.0  |
| USA            | 2.7             | 2.3     | 2.9     | 3.8  | -0.4 | 1.6  | 3.2  | 2.1  | 2.0  | 2.1  | 2.5                  | 2.0  | 2.5                  | 2.0  |
| Japan          | 0.8             | -0.4    | -0.1    | 1.4  | -1.4 | -0.7 | -0.3 | -0.2 | -0.1 | 0.2  | -0.3                 | 0.8  | -0.3                 | 0.8  |

TABLE 18 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 2012-14)

|                | 2012/1 | 2012/2 | 2012/3 | 2012/4 | 2013/1 | 2013/2 | 2013/3 | 2013/4 | 2014/1 | 2014/2 | 2014/3 | 2014/4 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Belgium        | 3.2    | 2.5    | 2.4    | 2.0    | 1.8    | 1.8    | 2.0    | 1.7    | 1.7    | 1.7    | 1.7    | 1.7    |
| Germany        | 2.4    | 2.1    | 2.1    | 2.0    | 1.9    | 1.9    | 1.9    | 1.9    | 1.9    | 1.8    | 1.7    | 1.7    |
| Estonia        | 4.6    | 4.2    | 4.1    | 4.3    | 5.0    | 4.4    | 3.7    | 3.4    | 2.8    | 3.1    | 3.6    | 3.8    |
| Ireland        | 1.7    | 1.9    | 2.3    | 1.9    | 1.7    | 1.3    | 1.2    | 1.0    | 2.3    | 1.6    | 1.1    | 0.8    |
| Greece         | 1.7    | 1.1    | 0.8    | 0.7    | 0.4    | -0.4   | -1.3   | -1.9   | -1.3   | -0.1   | 0.2    | -0.4   |
| Spain          | 1.9    | 1.9    | 2.8    | 3.5    | 3.2    | 2.7    | 1.8    | 0.6    | 0.5    | 0.9    | 1.5    | 2.4    |
| France         | 2.6    | 2.3    | 2.3    | 2.0    | 1.8    | 1.8    | 1.6    | 1.4    | 1.7    | 1.7    | 1.7    | 1.7    |
| Italy          | 3.6    | 3.6    | 3.4    | 2.8    | 2.2    | 1.8    | 2.1    | 1.8    | 1.8    | 1.9    | 1.5    | 1.6    |
| Cyprus         | 3.2    | 3.4    | 4.0    | 2.4    | 1.4    | 1.5    | 1.8    | 1.3    | 1.6    | 1.3    | 1.1    | 1.4    |
| Luxembourg     | 3.1    | 2.7    | 2.9    | 2.8    | 2.2    | 1.8    | 2.0    | 1.8    | 1.8    | 1.8    | 1.9    | 1.9    |
| Malta          | 2.3    | 4.0    | 3.4    | 1.8    | 2.8    | 2.2    | 2.1    | 1.9    | 1.9    | 2.1    | 2.5    | 2.5    |
| Netherlands    | 2.9    | 2.6    | 2.6    | 3.0    | 2.9    | 2.5    | 2.2    | 2.2    | 1.7    | 1.7    | 1.6    | 1.5    |
| Austria        | 2.7    | 2.3    | 2.4    | 2.3    | 1.9    | 1.9    | 1.8    | 1.8    | 1.9    | 1.9    | 1.9    | 1.9    |
| Portugal       | 3.3    | 2.8    | 3.0    | 2.4    | 1.1    | 1.0    | 0.9    | 0.7    | 1.3    | 1.3    | 1.3    | 1.4    |
| Slovenia       | 2.5    | 2.5    | 3.2    | 2.8    | 2.6    | 2.3    | 2.1    | 1.9    | 1.7    | 1.5    | 1.5    | 1.6    |
| Slovakia       | 4.0    | 3.6    | 3.8    | 3.4    | 1.9    | 1.7    | 2.1    | 2.1    | 1.9    | 2.0    | 1.9    | 2.0    |
| Finland        | 3.0    | 3.0    | 3.3    | 2.9    | 3.3    | 2.3    | 2.0    | 2.3    | 1.5    | 2.5    | 2.5    | 2.5    |
| Euro area      | 2.7    | 2.5    | 2.5    | 2.4    | 2.1    | 1.9    | 1.8    | 1.5    | 1.6    | 1.6    | 1.6    | 1.7    |
| Bulgaria       | 1.9    | 1.8    | 3.0    | 3.2    | 2.6    | 2.4    | 2.5    | 2.7    | 2.6    | 2.7    | 2.6    | 2.9    |
| Czech Republic | 4.0    | 3.8    | 3.4    | 3.2    | 1.8    | 1.1    | 0.9    | 0.5    | 0.9    | 1.0    | 1.1    | 1.3    |
| Denmark        | 2.8    | 2.2    | 2.4    | 2.0    | 2.1    | 1.7    | 1.5    | 2.6    | 1.6    | 1.9    | 1.7    | 1.7    |
| Latvia         | 3.3    | 2.4    | 1.9    | 2.1    | 2.2    | 2.2    | 2.2    | 2.1    | 2.2    | 2.3    | 2.3    | 2.3    |
| Lithuania      | 3.6    | 2.8    | 3.2    | 3.8    | 3.6    | 3.1    | 3.0    | 2.7    | 3.0    | 2.9    | 3.0    | 3.1    |
| Hungary        | 5.6    | 5.5    | 6.0    | 5.2    | 5.5    | 5.1    | 5.4    | 5.3    | 4.6    | 4.0    | 3.6    | 3.3    |
| Poland         | 4.2    | 4.0    | 3.9    | 3.4    | 2.9    | 2.6    | 2.6    | 2.3    | 2.2    | 2.2    | 2.6    | 2.5    |
| Romania        | 2.7    | 2.1    | 4.2    | 5.3    | 5.4    | 5.5    | 4.8    | 3.8    | 3.6    | 3.4    | 3.2    | 3.1    |
| Sweden         | 0.9    | 0.9    | 0.9    | 1.1    | 0.9    | 1.1    | 1.5    | 1.6    | 1.7    | 1.8    | 1.8    | 1.9    |
| United Kingdom | 3.5    | 2.7    | 2.4    | 2.2    | 2.2    | 2.1    | 2.0    | 1.9    | 2.0    | 1.9    | 1.9    | 1.9    |
| EU             | 2.9    | 2.6    | 2.6    | 2.4    | 2.2    | 2.0    | 1.9    | 1.7    | 1.7    | 1.8    | 1.7    | 1.8    |
| Croatia        | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      | :      |
| USA            | 2.8    | 1.9    | 1.7    | 1.9    | 1.8    | 2.1    | 2.1    | 2.1    | 2.1    | 2.1    | 2.1    | 2.1    |
| Japan          | -0.5   | -0.4   | 0.1    | -0.1   | 0.3    | 0.2    | -0.5   | -0.4   | 0.3    | 0.2    | 0.1    | 0.1    |

TABLE 19 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | -0.1            | 0.8     | 1.8     | 3.5  | -6.3  | 4.9  | 4.5  | 2.1                  | 1.9  | 1.7  | 2.4                  | 1.8  |
| Germany        | 0.4             | 0.1     | 0.3     | 0.9  | -2.4  | 2.5  | 3.1  | 1.1                  | 0.8  | 1.1  | 2.9                  | 1.6  |
| Estonia        | :               | 2.4     | 3.6     | 5.4  | -2.7  | 4.9  | 3.9  | 1.3                  | 1.6  | 2.2  | 3.1                  | 2.0  |
| Ireland        | 1.9             | 2.7     | -2.7    | -3.3 | 1.2   | 1.1  | 0.1  | 1.0                  | 1.3  | 1.0  | -1.3                 | -1.3 |
| Greece         | 6.5             | 3.8     | 2.4     | 5.4  | -5.0  | 7.9  | 8.2  | 3.1                  | -0.1 | 1.0  | -0.3                 | -0.2 |
| Spain          | 3.9             | 1.2     | 2.2     | 1.9  | -5.1  | 2.6  | 5.1  | 2.6                  | 1.5  | 0.8  | 2.0                  | 1.0  |
| France         | 0.1             | -0.9    | 0.7     | 3.4  | -4.8  | 2.3  | 3.7  | 3.1                  | 1.2  | 0.8  | 1.3                  | 1.2  |
| Italy          | 4.9             | 2.0     | 1.4     | 2.8  | -3.1  | 2.8  | 4.4  | 2.1                  | 2.0  | 1.9  | 4.1                  | 1.8  |
| Cyprus         | :               | 2.3     | 1.9     | 1.7  | 0.3   | 1.3  | 2.8  | 2.0                  | 2.0  | 1.0  | 1.6                  | 2.1  |
| Luxembourg     | 0.5             | 0.2     | 3.1     | 3.2  | -1.9  | 4.0  | 0.2  | 3.1                  | 2.5  | 2.5  | 1.5                  | 2.5  |
| Malta          | :               | 3.0     | -1.8    | -0.1 | -4.6  | 0.2  | 12.1 | -0.7                 | 1.1  | 1.8  | 5.2                  | 1.9  |
| Netherlands    | 0.2             | -0.3    | 1.5     | 4.6  | -8.4  | 6.7  | 5.1  | 2.2                  | 1.2  | 1.0  | 2.0                  | 1.0  |
| Austria        | 0.6             | 0.4     | 1.3     | 2.0  | -2.3  | 3.3  | 3.2  | 1.5                  | 1.6  | 1.7  | 3.0                  | 1.6  |
| Portugal       | 2.2             | 1.1     | 1.3     | 2.3  | -6.1  | 5.2  | 6.4  | 1.6                  | 1.4  | 1.5  | 2.3                  | 1.6  |
| Slovenia       | 14.3            | 5.1     | 2.5     | 0.7  | -2.1  | 2.2  | 4.5  | 1.9                  | 1.5  | 1.4  | 2.6                  | 1.8  |
| Slovakia       | :               | 3.2     | 1.5     | 0.9  | -5.4  | 3.1  | 3.9  | 3.6                  | 1.5  | 1.6  | 3.6                  | 1.8  |
| Finland        | 2.2             | -2.0    | 0.2     | -1.5 | -8.6  | 5.0  | 5.1  | 1.5                  | 2.1  | 2.1  | 1.5                  | 2.1  |
| Euro area      | 1.8             | 0.4     | 0.9     | 2.1  | -4.2  | 3.3  | 3.9  | 1.9                  | 1.3  | 1.2  | 2.5                  | 1.4  |
| Bulgaria       | :               | :       | 7.1     | 8.1  | -13.2 | 11.0 | 11.1 | 3.2                  | 3.1  | 3.4  | 6.0                  | 1.2  |
| Czech Republic | :               | -0.3    | -0.3    | -4.8 | -0.5  | -1.3 | 0.9  | 2.7                  | 1.0  | 1.0  | 4.0                  | 0.5  |
| Denmark        | 0.2             | 0.9     | 2.3     | 5.4  | -6.2  | 5.4  | 5.1  | 2.3                  | 2.2  | 2.2  | 1.0                  | 2.2  |
| Latvia         | :               | 0.1     | 10.9    | 7.7  | -9.4  | 8.7  | 12.2 | 4.0                  | 2.1  | 2.1  | 2.2                  | 2.0  |
| Lithuania      | :               | -1.1    | 5.2     | 13.2 | -16.7 | 12.4 | 13.5 | 4.0                  | 1.7  | 2.0  | 5.5                  | 2.5  |
| Hungary        | :               | 4.7     | -0.2    | 0.6  | 2.1   | 1.7  | 3.4  | 5.0                  | 0.6  | 0.4  | 7.6                  | 1.9  |
| Poland         | 17.4            | 4.9     | 3.4     | -1.8 | 13.5  | 0.4  | 7.4  | 3.5                  | 1.0  | 1.0  | 4.5                  | 1.0  |
| Romania        | 88.3            | 33.2    | 6.4     | 21.0 | 3.4   | 6.3  | 9.5  | 7.2                  | 3.0  | 2.7  | 6.9                  | 5.0  |
| Sweden         | 2.6             | -0.4    | 1.0     | 3.1  | 1.2   | -0.8 | -1.7 | -1.0                 | 1.0  | 1.5  | 1.0                  | 1.5  |
| United Kingdom | 1.8             | -1.8    | 1.0     | 12.7 | 1.2   | 6.2  | 6.6  | -0.1                 | 1.0  | 0.7  | 3.7                  | 0.9  |
| EU             | :               | 3.7     | 1.0     | 3.1  | -2.9  | 3.4  | 4.1  | 1.8                  | 1.3  | 1.2  | 2.8                  | 1.4  |
| Croatia        | :               | 5.2     | 3.3     | 4.8  | -4.5  | 1.8  | 6.1  | 1.8                  | 1.3  | 1.5  | 2.4                  | 2.0  |
| USA            | -0.5            | -0.9    | 3.1     | 5.0  | -6.8  | 5.1  | 7.6  | 0.2                  | 0.6  | 1.6  | 2.0                  | 0.7  |
| Japan          | -1.6            | -2.6    | 0.3     | -4.1 | -10.9 | -1.6 | -2.6 | -2.0                 | -1.0 | -0.7 | -0.3                 | -0.7 |

TABLE 20 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1993-2014)

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 0.4             | 1.2     | 2.2     | 6.6  | -9.5  | 7.1  | 6.7  | 2.6                  | 1.8  | 1.6  | 2.9                  | 1.8  |
| Germany        | 0.0             | 0.0     | 0.6     | 2.7  | -8.0  | 5.2  | 6.0  | 1.8                  | 1.2  | 1.3  | 3.9                  | 1.2  |
| Estonia        | :               | 1.3     | 1.8     | 5.8  | -3.6  | 6.6  | 8.2  | 2.5                  | 1.8  | 2.1  | 3.5                  | 1.9  |
| Ireland        | 2.3             | 0.6     | -1.7    | 2.3  | -4.7  | 4.9  | 5.5  | 1.0                  | 1.2  | 1.1  | 1.3                  | 1.2  |
| Greece         | 5.4             | 3.9     | 2.7     | 5.9  | -1.5  | 5.9  | 7.6  | 4.1                  | 0.6  | 1.2  | 0.0                  | 0.7  |
| Spain          | 3.8             | 0.8     | 2.1     | 4.3  | -9.2  | 4.9  | 8.8  | 5.5                  | 1.7  | 1.0  | 4.0                  | 3.0  |
| France         | 0.1             | -1.0    | 1.1     | 4.1  | -7.9  | 4.5  | 6.2  | 3.3                  | 1.7  | 1.5  | 2.6                  | 0.9  |
| Italy          | 5.1             | 1.8     | 2.7     | 6.3  | -9.7  | 7.1  | 8.6  | 3.7                  | 1.0  | 0.4  | 5.8                  | 0.0  |
| Cyprus         | :               | 1.9     | 2.4     | 4.2  | -2.3  | 2.2  | 3.4  | 3.8                  | 2.1  | 1.9  | 3.5                  | 2.1  |
| Luxembourg     | 0.5             | 1.4     | 1.5     | 1.3  | -2.9  | -1.8 | -3.4 | 3.3                  | 1.5  | 1.5  | 3.3                  | 1.5  |
| Malta          | :               | 2.5     | 1.2     | 7.7  | -0.8  | 5.9  | 6.4  | 0.5                  | 1.0  | 1.7  | 5.4                  | 1.7  |
| Netherlands    | -0.5            | -1.0    | 1.4     | 4.9  | -8.5  | 7.3  | 4.9  | 2.5                  | 1.9  | 1.5  | 2.8                  | 1.0  |
| Austria        | 1.0             | 0.1     | 1.6     | 4.0  | -5.0  | 5.0  | 6.2  | 1.8                  | 1.7  | 1.3  | 3.6                  | 1.9  |
| Portugal       | 1.7             | 0.8     | 1.5     | 5.5  | -10.6 | 5.1  | 8.6  | 1.9                  | 0.8  | 1.1  | 2.8                  | 1.4  |
| Slovenia       | 11.2            | 4.9     | 3.1     | 2.5  | -5.9  | 7.3  | 6.4  | 3.1                  | 2.1  | 2.0  | 4.2                  | 1.3  |
| Slovakia       | :               | 3.6     | 2.2     | 2.8  | -4.7  | 4.0  | 5.5  | 4.0                  | 1.7  | 1.6  | 4.0                  | 1.8  |
| Finland        | 1.6             | -1.8    | 2.9     | 0.6  | -9.9  | 7.6  | 7.5  | 1.5                  | 2.9  | 2.9  | 1.5                  | 2.9  |
| Euro area      | 1.7             | 0.3     | 1.4     | 4.2  | -8.1  | 5.7  | 6.5  | 2.8                  | 1.5  | 1.3  | 3.6                  | 1.3  |
| Bulgaria       | :               | :       | 6.2     | 10.8 | -13.7 | 8.5  | 9.5  | 6.4                  | 3.6  | 3.6  | 5.8                  | 2.0  |
| Czech Republic | :               | -0.6    | 0.3     | -3.0 | -9.3  | 1.0  | 3.2  | 4.5                  | 0.7  | 1.2  | 4.5                  | 1.0  |
| Denmark        | -0.2            | -0.2    | 1.4     | 5.1  | -10.3 | 2.1  | 6.8  | 3.6                  | 2.1  | 2.1  | 0.9                  | 2.1  |
| Latvia         | :               | 1.3     | 8.5     | 9.7  | -6.7  | 7.6  | 6.1  | 4.3                  | 2.1  | 2.1  | 2.5                  | 1.9  |
| Lithuania      | :               | -2.5    | 3.8     | 9.3  | -11.5 | 10.9 | 14.2 | 4.5                  | 2.2  | 2.2  | 6.0                  | 2.5  |
| Hungary        | :               | 5.3     | 0.8     | 1.7  | 1.1   | 1.9  | 5.1  | 6.0                  | 0.2  | 0.5  | 7.8                  | 1.4  |
| Poland         | 17.9            | 5.7     | 2.6     | 0.3  | 8.7   | 1.8  | 9.5  | 6.0                  | 1.5  | 2.7  | 5.0                  | 2.0  |
| Romania        | 92.7            | 29.4    | 1.6     | 17.2 | 2.2   | 3.6  | 7.6  | 6.5                  | 2.6  | 1.7  | 7.5                  | 2.1  |
| Sweden         | 3.4             | 1.4     | 1.4     | 4.3  | -1.0  | 0.3  | -0.4 | -0.3                 | 1.0  | 1.5  | 1.5                  | 1.5  |
| United Kingdom | 2.0             | -2.0    | 1.1     | 13.6 | 1.8   | 5.3  | 8.7  | -0.1                 | 0.4  | 0.9  | 2.7                  | 0.8  |
| EU             | :               | 3.1     | 1.4     | 5.2  | -6.1  | 5.1  | 6.6  | 2.7                  | 1.4  | 1.3  | 3.6                  | 1.3  |
| Croatia        | :               | 4.0     | 1.6     | 4.1  | -2.4  | 0.4  | 6.6  | 3.8                  | 1.3  | 1.2  | 3.2                  | 1.3  |
| USA            | -0.9            | -1.2    | 4.4     | 11.6 | -12.4 | 6.8  | 8.9  | 0.7                  | 0.5  | 2.2  | 3.7                  | 1.4  |
| Japan          | -0.3            | -2.5    | 6.3     | 7.4  | -23.2 | 5.9  | 5.9  | 2.0                  | -1.0 | 0.7  | 0.2                  | 0.7  |



TABLE 21 : Terms of trade of goods (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |       |      |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|-------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008  | 2009 | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | -0.5            | -0.3    | -0.4    | -2.9  | 3.5  | -2.1 | -2.1 | -0.5                 | 0.1  | 0.0  | -0.5                 | 0.0  |
| Germany        | 0.4             | 0.2     | -0.3    | -1.8  | 6.0  | -2.5 | -2.7 | -0.7                 | -0.4 | -0.1 | -1.0                 | 0.3  |
| Estonia        | :               | 1.1     | 1.8     | -0.4  | 0.9  | -1.6 | -4.0 | -1.2                 | -0.2 | 0.1  | -0.4                 | 0.1  |
| Ireland        | -0.3            | 2.1     | -1.1    | -5.5  | 6.3  | -3.6 | -5.1 | 0.0                  | 0.0  | -0.1 | -2.5                 | -2.5 |
| Greece         | 1.1             | -0.1    | -0.2    | -0.5  | -3.5 | 1.8  | 0.6  | -1.0                 | -0.7 | -0.2 | -0.3                 | -0.8 |
| Spain          | 0.1             | 0.4     | 0.1     | -2.3  | 4.5  | -2.2 | -3.3 | -2.7                 | -0.2 | -0.2 | -1.9                 | -1.9 |
| France         | -0.1            | 0.1     | -0.3    | -0.7  | 3.3  | -2.2 | -2.4 | -0.1                 | -0.5 | -0.7 | -1.2                 | 0.3  |
| Italy          | -0.2            | 0.2     | -1.2    | -3.4  | 7.4  | -3.9 | -3.9 | -1.5                 | 1.0  | 1.5  | -1.6                 | 1.8  |
| Cyprus         | :               | 0.4     | -0.5    | -2.4  | 2.7  | -0.9 | -0.6 | -1.7                 | -0.1 | -0.9 | -1.9                 | 0.0  |
| Luxembourg     | 0.0             | -1.2    | 1.5     | 1.9   | 1.0  | 5.9  | 3.7  | -0.2                 | 1.0  | 1.0  | -1.7                 | 1.0  |
| Malta          | :               | 0.4     | -3.0    | -7.2  | -3.8 | -5.4 | 5.4  | -1.2                 | 0.1  | 0.1  | -0.2                 | 0.2  |
| Netherlands    | 0.6             | 0.8     | 0.1     | -0.3  | 0.1  | -0.6 | 0.2  | -0.2                 | -0.7 | -0.5 | -0.7                 | 0.0  |
| Austria        | -0.4            | 0.3     | -0.3    | -2.0  | 2.8  | -1.6 | -2.9 | -0.3                 | -0.1 | 0.4  | -0.6                 | -0.3 |
| Portugal       | 0.6             | 0.3     | -0.2    | -3.1  | 5.1  | 0.1  | -2.1 | -0.3                 | 0.6  | 0.4  | -0.5                 | 0.2  |
| Slovenia       | 2.8             | 0.2     | -0.6    | -1.8  | 4.1  | -4.8 | -1.8 | -1.2                 | -0.6 | -0.6 | -1.5                 | 0.5  |
| Slovakia       | :               | -0.4    | -0.6    | -1.9  | -0.7 | -0.8 | -1.5 | -0.4                 | -0.2 | 0.0  | -0.4                 | 0.0  |
| Finland        | 0.6             | -0.2    | -2.6    | -2.1  | 1.4  | -2.4 | -2.3 | 0.0                  | -0.8 | -0.8 | 0.0                  | -0.8 |
| Euro area      | 0.1             | 0.2     | -0.6    | -2.0  | 4.2  | -2.2 | -2.5 | -0.8                 | -0.2 | 0.0  | -1.0                 | 0.1  |
| Bulgaria       | :               | :       | 0.9     | -2.5  | 0.6  | 2.3  | 1.4  | -3.0                 | -0.5 | -0.2 | 0.2                  | -0.8 |
| Czech Republic | :               | 0.3     | -0.6    | -1.9  | 9.8  | -2.3 | -2.2 | -1.7                 | 0.3  | -0.2 | -0.5                 | -0.5 |
| Denmark        | 0.3             | 1.1     | 0.8     | 0.3   | 4.5  | 3.3  | -1.6 | -1.3                 | 0.1  | 0.1  | 0.1                  | 0.1  |
| Latvia         | :               | -1.2    | 2.2     | -1.8  | -2.9 | 1.1  | 5.8  | -0.3                 | 0.0  | 0.0  | -0.2                 | 0.1  |
| Lithuania      | :               | 1.5     | 1.3     | 3.6   | -5.9 | 1.4  | -0.6 | -0.5                 | -0.5 | -0.2 | -0.5                 | 0.0  |
| Hungary        | :               | -0.6    | -1.0    | -1.1  | 1.1  | -0.2 | -1.7 | -1.0                 | 0.4  | -0.1 | -0.2                 | 0.5  |
| Poland         | -0.5            | -0.8    | 0.8     | -2.1  | 4.4  | -1.4 | -1.9 | -2.4                 | -0.5 | -1.7 | -0.5                 | -1.0 |
| Romania        | -2.2            | 2.9     | 4.8     | 3.2   | 1.2  | 2.6  | 1.7  | 0.7                  | 0.4  | 1.0  | -0.6                 | 2.8  |
| Sweden         | -0.7            | -1.7    | -0.4    | -1.2  | 2.2  | -1.1 | -1.4 | -0.7                 | 0.0  | 0.0  | -0.5                 | 0.0  |
| United Kingdom | -0.2            | 0.1     | -0.1    | -0.7  | -0.6 | 0.8  | -2.0 | -0.1                 | 0.6  | -0.2 | 1.0                  | 0.1  |
| EU             | :               | 0.6     | -0.4    | -2.1  | 3.4  | -1.7 | -2.4 | -0.8                 | -0.1 | -0.1 | -0.8                 | 0.1  |
| Croatia        | :               | 1.1     | 1.6     | 0.6   | -2.1 | 1.5  | -0.5 | -1.9                 | 0.0  | 0.3  | -0.7                 | 0.6  |
| USA            | 0.4             | 0.3     | -1.3    | -5.9  | 6.4  | -1.6 | -1.1 | -0.5                 | 0.1  | -0.7 | -1.7                 | -0.7 |
| Japan          | -1.3            | 0.0     | -5.6    | -10.7 | 16.1 | -7.1 | -8.0 | -3.9                 | 0.0  | -1.4 | -0.5                 | -1.4 |

TABLE 22 : Total population (percentage change on preceding year, 1993)

|                | 5-year averages |         |         |      |      |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 0.3             | 0.3     | 0.6     | 0.8  | 0.8  | 0.9  | 0.9  | 0.8                  | 0.8  | 0.8  | 0.8                  | 0.8  |
| Germany        | 0.4             | 0.1     | -0.1    | -0.2 | -0.3 | -0.1 | 0.0  | 0.1                  | 0.0  | 0.0  | 0.0                  | 0.0  |
| Estonia        | :               | -0.6    | -0.3    | -0.1 | 0.0  | 0.0  | 0.0  | 0.0                  | 0.0  | 0.0  | 0.0                  | 0.0  |
| Ireland        | 0.6             | 1.4     | 2.1     | 1.8  | 0.6  | 0.2  | 0.3  | 0.4                  | 0.7  | 0.9  | 0.4                  | 0.7  |
| Greece         | 0.8             | 0.4     | 0.4     | 0.4  | 0.4  | 0.2  | -0.1 | 0.1                  | 0.1  | 0.1  | 0.3                  | 0.4  |
| Spain          | 0.2             | 0.9     | 1.7     | 1.6  | 0.7  | 0.3  | 0.1  | -0.1                 | -0.1 | -0.1 | -0.1                 | -0.1 |
| France         | 0.4             | 0.6     | 0.7     | 0.6  | 0.5  | 0.5  | 0.5  | 0.5                  | 0.5  | 0.5  | 0.5                  | 0.6  |
| Italy          | 0.0             | 0.1     | 0.8     | 0.8  | 0.6  | 0.5  | 0.4  | 0.4                  | 0.4  | 0.4  | 0.5                  | 0.4  |
| Cyprus         | 1.9             | 1.2     | 1.7     | 2.7  | 2.8  | 2.5  | 2.7  | 1.0                  | 1.0  | 0.8  | 0.8                  | 0.8  |
| Luxembourg     | 1.4             | 1.2     | 1.5     | 1.8  | 1.8  | 1.9  | 2.3  | 1.8                  | 1.7  | 1.6  | 1.8                  | 1.7  |
| Malta          | 0.8             | 0.7     | 0.7     | 0.8  | 0.4  | 0.5  | 0.7  | 0.5                  | 0.2  | 0.0  | 0.5                  | 0.4  |
| Netherlands    | 0.6             | 0.7     | 0.3     | 0.4  | 0.5  | 0.5  | 0.5  | 0.5                  | 0.5  | 0.4  | 0.5                  | 0.5  |
| Austria        | 0.3             | 0.3     | 0.5     | 0.4  | 0.3  | 0.3  | 0.4  | 0.4                  | 0.4  | 0.4  | 0.3                  | 0.3  |
| Portugal       | 0.3             | 0.5     | 0.5     | 0.1  | 0.1  | 0.0  | 0.1  | 0.0                  | 0.1  | 0.0  | 0.0                  | 0.1  |
| Slovenia       | -0.1            | 0.1     | 0.2     | 0.2  | 1.0  | 0.4  | 0.2  | 0.1                  | 0.2  | 0.1  | 0.2                  | 0.2  |
| Slovakia       | 0.3             | 0.0     | 0.1     | 0.2  | 0.2  | 0.2  | 0.2  | 0.3                  | 0.4  | 0.4  | 0.1                  | 0.1  |
| Finland        | 0.4             | 0.2     | 0.3     | 0.5  | 0.5  | 0.5  | 0.4  | 0.5                  | 0.5  | 0.5  | 0.5                  | 0.2  |
| Euro area      | :               | 0.4     | 0.6     | 0.5  | 0.4  | 0.3  | 0.3  | 0.3                  | 0.3  | 0.2  | 0.3                  | 0.3  |
| Bulgaria       | -0.5            | -1.1    | -0.5    | -0.5 | -0.5 | -0.7 | -1.6 | -0.6                 | -0.6 | -0.6 | -1.0                 | -1.0 |
| Czech Republic | 0.0             | -0.2    | 0.2     | 1.0  | 0.6  | 0.2  | -0.2 | -0.3                 | 0.0  | 0.0  | 0.3                  | 0.3  |
| Denmark        | 0.4             | 0.3     | 0.3     | 0.6  | 0.5  | 0.4  | 0.4  | 0.3                  | 0.3  | 0.3  | 0.3                  | 0.3  |
| Latvia         | -1.4            | -1.0    | -1.0    | -1.1 | -1.7 | -2.1 | -1.9 | -1.0                 | -0.7 | -0.7 | -0.7                 | -0.6 |
| Lithuania      | -0.7            | -0.6    | -0.5    | -0.5 | -0.6 | -1.6 | -7.8 | -0.8                 | -0.5 | -0.5 | -0.8                 | -0.5 |
| Hungary        | -0.2            | -0.3    | -0.2    | -0.2 | -0.2 | -0.2 | -0.3 | -0.2                 | -0.2 | -0.2 | -0.1                 | -0.1 |
| Poland         | 0.1             | 0.0     | -0.1    | 0.0  | 0.1  | 0.1  | 0.5  | 0.0                  | 0.0  | -0.1 | 0.0                  | 0.0  |
| Romania        | -0.2            | -0.7    | -0.2    | -0.2 | -0.2 | -0.2 | -0.2 | -0.2                 | -0.2 | -0.2 | -0.2                 | -0.2 |
| Sweden         | 0.4             | 0.2     | 0.5     | 0.8  | 0.9  | 0.8  | 0.7  | 0.7                  | 0.7  | 0.6  | 0.7                  | 0.7  |
| United Kingdom | 0.3             | 0.3     | 0.6     | 0.7  | 0.6  | 0.8  | 0.8  | 0.5                  | 0.7  | 0.5  | 0.7                  | 0.7  |
| EU             | :               | 0.2     | 0.4     | 0.5  | 0.3  | 0.3  | 0.2  | 0.2                  | 0.2  | 0.2  | 0.3                  | 0.3  |
| Croatia        | -0.2            | -0.4    | 0.0     | -0.1 | -0.1 | -0.3 | -0.3 | -0.2                 | -0.3 | -0.3 | 0.0                  | 0.0  |
| USA            | 1.2             | 1.1     | 0.9     | 0.9  | 0.9  | 0.8  | 0.7  | 0.7                  | 0.9  | 0.9  | 0.8                  | 0.8  |
| Japan          | 0.3             | 0.2     | 0.1     | -0.1 | -0.1 | -0.3 | 0.6  | -0.1                 | -0.1 | -0.1 | -0.1                 | -0.1 |

TABLE 23 : Total employment (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 0.3             | 1.3     | 1.0     | 1.8  | -0.2  | 0.7  | 1.4  | 0.1                  | 0.3  | 0.5  | 0.0                  | 0.4  |
| Germany        | -0.2            | 0.8     | 0.3     | 1.2  | 0.1   | 0.6  | 1.4  | 1.1                  | 0.2  | 0.4  | 1.0                  | 0.4  |
| Estonia        | -4.0            | -1.1    | 1.9     | 0.2  | -10.0 | -4.8 | 7.0  | 1.8                  | 0.8  | 1.0  | 0.6                  | 1.2  |
| Ireland        | 3.6             | 4.8     | 3.6     | -1.1 | -8.1  | -4.2 | -2.1 | -1.2                 | 0.0  | 0.9  | -0.6                 | 0.7  |
| Greece         | 0.5             | 1.2     | 2.0     | 1.2  | -0.6  | -2.6 | -5.6 | -7.9                 | -2.1 | 1.4  | -4.8                 | -0.2 |
| Spain          | 0.6             | 3.9     | 3.1     | -0.2 | -6.5  | -2.3 | -1.7 | -4.5                 | -2.7 | 0.2  | -3.7                 | -1.5 |
| France         | -0.1            | 1.8     | 0.7     | 0.3  | -1.5  | -0.3 | 0.5  | -0.1                 | 0.0  | 0.6  | 0.4                  | 0.4  |
| Italy          | -0.7            | 1.3     | 0.7     | -0.4 | -2.9  | -0.9 | 0.1  | -1.3                 | -1.0 | 0.4  | -1.1                 | -0.1 |
| Cyprus         | :               | 1.9     | 3.2     | 2.1  | -0.5  | 0.0  | 0.5  | -4.0                 | -0.6 | -0.3 | -1.5                 | 0.6  |
| Luxembourg     | 2.5             | 4.8     | 3.0     | 5.0  | 1.1   | 1.8  | 2.9  | 1.9                  | 0.8  | 1.3  | 2.0                  | 1.1  |
| Malta          | 1.2             | 0.9     | 1.3     | 2.6  | -0.3  | 2.4  | 2.5  | 0.9                  | 1.3  | 1.6  | 0.6                  | 1.1  |
| Netherlands    | 1.4             | 1.7     | 0.3     | 1.5  | -1.1  | -0.6 | 0.5  | -0.2                 | -0.6 | -0.1 | -0.2                 | -0.1 |
| Austria        | 0.0             | 0.5     | 0.9     | 1.8  | -1.5  | 0.5  | 1.4  | 1.1                  | 0.7  | 0.9  | 0.4                  | 0.7  |
| Portugal       | 0.1             | 1.7     | -0.1    | 0.5  | -2.6  | -1.5 | -1.5 | -4.0                 | -1.6 | 0.3  | -3.3                 | 0.2  |
| Slovenia       | :               | 1.0     | 0.9     | 2.6  | -1.8  | -2.2 | -1.6 | -1.6                 | -1.7 | -0.6 | -1.7                 | -1.0 |
| Slovakia       | :               | -0.9    | 1.3     | 3.2  | -2.0  | -1.5 | 1.8  | 0.3                  | 0.1  | 0.5  | 0.5                  | 0.7  |
| Finland        | -0.2            | 1.7     | 1.2     | 2.6  | -2.6  | -0.1 | 1.1  | 0.3                  | -0.2 | 0.2  | -0.1                 | -0.1 |
| Euro area      | 0.0             | 1.6     | 1.0     | 0.7  | -2.1  | -0.6 | 0.2  | -0.8                 | -0.5 | 0.4  | -0.5                 | 0.0  |
| Bulgaria       | :               | -1.7    | 3.0     | 2.6  | -2.6  | -4.7 | -4.2 | -2.0                 | -0.2 | 0.4  | -1.9                 | -0.2 |
| Czech Republic | :               | -0.9    | 0.9     | 2.3  | -1.8  | -1.0 | 0.3  | -0.4                 | -0.2 | 0.0  | -0.1                 | 0.2  |
| Denmark        | 0.6             | 0.7     | 0.8     | 1.7  | -2.4  | -2.3 | -0.4 | -0.3                 | 0.1  | 0.2  | 0.1                  | 0.3  |
| Latvia         | -5.2            | -0.3    | 2.6     | 0.9  | -13.2 | -4.8 | -8.1 | 1.8                  | 1.3  | 2.1  | 0.7                  | 1.2  |
| Lithuania      | -2.1            | -1.5    | 1.9     | -0.7 | -6.8  | -5.1 | 2.0  | 1.7                  | 1.0  | 1.4  | 0.6                  | 0.5  |
| Hungary        | :               | 1.0     | 0.0     | -1.8 | -2.5  | 0.7  | 0.4  | 1.0                  | 0.3  | 0.6  | 1.0                  | 1.4  |
| Poland         | 0.0             | -1.9    | 1.9     | 3.9  | 0.4   | 0.5  | 1.0  | 0.3                  | 0.1  | 0.4  | 0.3                  | 0.4  |
| Romania        | -2.9            | -3.8    | -0.4    | 0.0  | -2.0  | -1.4 | 0.4  | 0.4                  | 0.8  | 0.9  | 0.4                  | 1.1  |
| Sweden         | -1.2            | 1.7     | 0.6     | 0.9  | -2.4  | 1.2  | 2.2  | 0.4                  | 0.5  | 1.0  | 0.1                  | 0.4  |
| United Kingdom | 0.8             | 1.0     | 0.9     | 0.7  | -1.6  | 0.2  | 0.4  | 0.5                  | 0.5  | 1.0  | 0.4                  | 0.5  |
| EU             | :               | 0.8     | 1.0     | 0.9  | -1.9  | -0.5 | 0.2  | -0.4                 | -0.2 | 0.6  | -0.2                 | 0.2  |
| Croatia        | :               | 1.8     | 2.7     | 1.1  | -1.8  | -5.1 | -2.3 | -1.8                 | -0.5 | 0.6  | -1.3                 | 0.0  |
| USA            | 2.3             | 1.0     | 1.0     | -0.7 | -5.0  | -0.8 | 0.6  | 1.7                  | 0.7  | 1.1  | 1.8                  | 0.8  |
| Japan          | 0.3             | -1.0    | 0.4     | -0.5 | -1.6  | -0.5 | 1.7  | -0.2                 | 0.1  | 0.1  | 0.1                  | 0.1  |

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 24 : Unemployment rate (number of unemployed as a percentage of total labour force, 1993-2014) <sup>1</sup>

|                | 5-year averages |         |         |      |      |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 9.4             | 7.8     | 8.2     | 7.0  | 7.9  | 8.3  | 7.2  | 7.5                  | 7.7  | 7.8  | 7.6                  | 7.9  |
| Germany        | 8.6             | 8.5     | 10.1    | 7.5  | 7.8  | 7.1  | 5.9  | 5.5                  | 5.6  | 5.5  | 5.5                  | 5.3  |
| Estonia        | 8.7             | 11.4    | 7.6     | 5.5  | 13.8 | 16.9 | 12.5 | 10.5                 | 9.8  | 9.0  | 11.6                 | 10.5 |
| Ireland        | 12.8            | 5.1     | 4.5     | 6.3  | 11.9 | 13.7 | 14.4 | 14.8                 | 14.7 | 14.2 | 14.3                 | 13.6 |
| Greece         | 9.2             | 11.1    | 9.5     | 7.7  | 9.5  | 12.6 | 17.7 | 23.6                 | 24.0 | 22.2 | 19.7                 | 19.6 |
| Spain          | 19.7            | 12.5    | 9.7     | 11.3 | 18.0 | 20.1 | 21.7 | 25.1                 | 26.6 | 26.1 | 24.4                 | 25.1 |
| France         | 10.9            | 9.3     | 9.0     | 7.8  | 9.5  | 9.7  | 9.6  | 10.2                 | 10.7 | 10.7 | 10.2                 | 10.3 |
| Italy          | 10.8            | 9.9     | 7.4     | 6.7  | 7.8  | 8.4  | 8.4  | 10.6                 | 11.5 | 11.8 | 9.5                  | 9.7  |
| Cyprus         | :               | 3.9     | 4.6     | 3.8  | 5.5  | 6.4  | 7.9  | 12.1                 | 13.1 | 13.9 | 9.8                  | 9.9  |
| Luxembourg     | 2.9             | 2.4     | 4.4     | 4.9  | 5.1  | 4.6  | 4.8  | 5.4                  | 6.4  | 6.4  | 5.2                  | 5.9  |
| Malta          | 5.4             | 7.1     | 7.1     | 6.0  | 6.9  | 6.9  | 6.5  | 6.3                  | 6.3  | 6.2  | 6.6                  | 6.3  |
| Netherlands    | 6.1             | 3.3     | 4.5     | 3.1  | 3.7  | 4.5  | 4.4  | 5.4                  | 6.1  | 6.2  | 5.7                  | 6.2  |
| Austria        | 4.1             | 4.0     | 4.7     | 3.8  | 4.8  | 4.4  | 4.2  | 4.5                  | 4.7  | 4.2  | 4.3                  | 4.2  |
| Portugal       | 6.7             | 5.1     | 8.1     | 8.5  | 10.6 | 12.0 | 12.9 | 15.5                 | 16.4 | 15.9 | 15.5                 | 15.1 |
| Slovenia       | :               | 6.8     | 6.1     | 4.4  | 5.9  | 7.3  | 8.2  | 8.5                  | 9.3  | 9.6  | 9.1                  | 9.4  |
| Slovakia       | :               | 17.3    | 15.4    | 9.6  | 12.1 | 14.5 | 13.6 | 13.5                 | 13.5 | 13.1 | 13.2                 | 12.7 |
| Finland        | 15.1            | 9.9     | 8.2     | 6.4  | 8.2  | 8.4  | 7.8  | 7.9                  | 8.1  | 8.0  | 7.9                  | 7.7  |
| Euro area      | 10.6            | 9.0     | 8.7     | 7.6  | 9.6  | 10.1 | 10.1 | 11.3                 | 11.8 | 11.7 | 11.0                 | 11.0 |
| Bulgaria       | :               | 16.5    | 10.4    | 5.6  | 6.8  | 10.3 | 11.3 | 12.7                 | 12.7 | 12.5 | 12.0                 | 11.9 |
| Czech Republic | 4.0             | 7.8     | 7.3     | 4.4  | 6.7  | 7.3  | 6.7  | 7.0                  | 7.3  | 7.1  | 7.2                  | 7.2  |
| Denmark        | 7.1             | 4.7     | 4.7     | 3.4  | 6.0  | 7.5  | 7.6  | 7.7                  | 7.7  | 7.6  | 7.7                  | 7.6  |
| Latvia         | 16.0            | 13.5    | 9.2     | 8.0  | 18.2 | 19.8 | 16.2 | 15.2                 | 14.3 | 12.7 | 14.8                 | 13.2 |
| Lithuania      | 6.0             | 15.1    | 8.4     | 5.8  | 13.7 | 17.8 | 15.4 | 13.5                 | 12.4 | 10.9 | 13.8                 | 12.7 |
| Hungary        | :               | 6.6     | 6.8     | 7.8  | 10.0 | 11.2 | 10.9 | 10.8                 | 10.8 | 10.6 | 10.6                 | 9.6  |
| Poland         | 12.9            | 15.6    | 16.0    | 7.1  | 8.2  | 9.6  | 9.7  | 10.1                 | 10.5 | 10.3 | 9.8                  | 9.6  |
| Romania        | :               | 6.5     | 7.1     | 5.8  | 6.9  | 7.3  | 7.4  | 7.4                  | 7.3  | 7.3  | 7.2                  | 7.1  |
| Sweden         | 9.4             | 6.5     | 7.0     | 6.2  | 8.3  | 8.4  | 7.5  | 7.5                  | 7.4  | 6.9  | 7.7                  | 7.7  |
| United Kingdom | 8.5             | 5.5     | 5.0     | 5.6  | 7.6  | 7.8  | 8.0  | 7.9                  | 8.0  | 7.8  | 8.5                  | 8.4  |
| EU             | :               | 8.7     | 8.6     | 7.1  | 9.0  | 9.7  | 9.7  | 10.5                 | 10.9 | 10.7 | 10.3                 | 10.3 |
| Croatia        | :               | 13.1    | 12.2    | 8.4  | 9.1  | 11.8 | 13.5 | 14.2                 | 13.9 | 12.9 | 13.4                 | 12.7 |
| USA            | 5.8             | 4.7     | 5.2     | 5.8  | 9.3  | 9.6  | 8.9  | 8.2                  | 7.9  | 7.5  | 8.2                  | 8.0  |
| Japan          | 3.1             | 4.8     | 4.5     | 4.0  | 5.1  | 5.1  | 4.6  | 4.8                  | 4.7  | 4.6  | 4.8                  | 4.7  |

<sup>1</sup> Series following Eurostat definition, based on the labour force survey.

TABLE 25 : Compensation of employees per head (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 3.0             | 2.9     | 2.4     | 3.6  | 1.2   | 1.4  | 3.1  | 3.1                  | 2.5  | 2.6  | 3.1                  | 2.3  |
| Germany        | 2.4             | 1.3     | 0.7     | 2.1  | 0.2   | 2.4  | 3.0  | 2.6                  | 2.8  | 3.1  | 2.7                  | 2.8  |
| Estonia        | :               | 11.1    | 14.6    | 9.7  | -3.2  | 1.8  | -0.2 | 5.0                  | 5.4  | 5.8  | 4.0                  | 5.4  |
| Ireland        | 4.0             | 5.9     | 5.5     | 5.3  | -0.9  | -3.1 | 0.2  | 0.7                  | 0.0  | 0.1  | -0.8                 | 0.1  |
| Greece         | 11.2            | 6.6     | 4.0     | 3.6  | 3.5   | -2.6 | -3.4 | -6.8                 | -6.8 | -1.2 | -8.0                 | -1.3 |
| Spain          | 4.2             | 2.7     | 3.7     | 6.9  | 4.4   | 0.0  | 0.7  | 0.4                  | 1.4  | 0.4  | 0.1                  | 0.1  |
| France         | 2.2             | 2.3     | 3.0     | 2.8  | 2.0   | 2.6  | 2.8  | 2.0                  | 1.8  | 1.7  | 2.1                  | 2.0  |
| Italy          | 4.5             | 1.7     | 3.0     | 3.8  | 1.7   | 2.3  | 1.2  | 1.1                  | 1.3  | 1.2  | 1.5                  | 1.4  |
| Cyprus         | :               | 4.4     | 3.6     | 3.2  | 2.5   | 2.7  | 3.3  | -0.9                 | -0.3 | 0.5  | -0.8                 | -0.3 |
| Luxembourg     | 3.1             | 3.3     | 3.1     | 3.4  | 1.9   | 2.7  | 2.0  | 2.3                  | 2.7  | 3.2  | 3.2                  | 3.5  |
| Malta          | 7.3             | 4.7     | 3.3     | 5.0  | 3.6   | -0.3 | 0.8  | 1.1                  | 2.1  | 2.0  | 1.5                  | 2.4  |
| Netherlands    | 2.5             | 4.7     | 3.1     | 3.3  | 2.5   | 1.5  | 1.8  | 2.4                  | 2.1  | 2.3  | 1.9                  | 1.5  |
| Austria        | 3.0             | 2.5     | 2.3     | 3.1  | 2.5   | 1.3  | 2.3  | 2.9                  | 2.1  | 1.9  | 3.6                  | 1.9  |
| Portugal       | 6.9             | 4.9     | 3.3     | 3.0  | 2.8   | 1.4  | -0.8 | -2.9                 | 1.5  | 0.4  | -3.1                 | -0.6 |
| Slovenia       | :               | 9.4     | 6.6     | 7.2  | 1.8   | 3.9  | 1.6  | 0.5                  | 0.4  | 1.5  | 0.5                  | 1.0  |
| Slovakia       | :               | 9.3     | 8.3     | 7.0  | 2.5   | 5.1  | 1.1  | 1.3                  | 2.1  | 2.5  | 2.3                  | 2.6  |
| Finland        | 2.4             | 3.3     | 3.3     | 4.4  | 2.3   | 1.8  | 3.4  | 3.3                  | 3.3  | 3.4  | 3.3                  | 3.3  |
| Euro area      | 3.2             | 2.3     | 2.4     | 3.4  | 1.8   | 1.9  | 2.2  | 1.9                  | 2.0  | 2.0  | 1.9                  | 1.9  |
| Bulgaria       | :               | 17.4    | 7.7     | 16.3 | 9.4   | 11.2 | 7.3  | 5.2                  | 4.8  | 5.5  | 5.2                  | 5.1  |
| Czech Republic | :               | 7.8     | 6.4     | 4.2  | -0.6  | 3.6  | 2.7  | 2.8                  | 2.0  | 2.6  | 2.0                  | 2.1  |
| Denmark        | 2.9             | 3.9     | 3.6     | 3.5  | 1.8   | 2.7  | 1.6  | 1.7                  | 1.6  | 1.8  | 1.7                  | 1.6  |
| Latvia         | 43.6            | 5.6     | 21.5    | 15.7 | -12.7 | -6.7 | 18.2 | 3.1                  | 2.6  | 3.4  | 1.7                  | 2.2  |
| Lithuania      | :               | 5.7     | 12.3    | 14.3 | -9.9  | -0.4 | 3.6  | 3.5                  | 2.6  | 3.4  | 2.1                  | 3.3  |
| Hungary        | :               | 12.9    | 7.7     | 7.2  | -1.7  | -0.3 | 3.0  | 4.5                  | 1.0  | 5.5  | 3.7                  | 2.9  |
| Poland         | 30.7            | 10.1    | 2.4     | 8.9  | 3.5   | 4.7  | 4.0  | 3.5                  | 3.4  | 4.6  | 4.7                  | 5.1  |
| Romania        | 104.5           | 52.3    | 20.7    | 31.9 | -1.9  | 7.6  | 3.7  | 4.6                  | 4.9  | 3.9  | 3.2                  | 4.2  |
| Sweden         | 5.0             | 3.6     | 3.5     | 1.5  | 1.6   | 2.8  | 0.8  | 2.9                  | 3.0  | 3.4  | 2.9                  | 3.1  |
| United Kingdom | 3.3             | 5.0     | 4.4     | 1.5  | 2.7   | 2.7  | 2.0  | 3.0                  | 2.4  | 2.9  | 2.4                  | 2.6  |
| EU             | :               | 3.7     | 2.8     | 3.3  | 1.9   | 2.3  | 2.3  | 2.1                  | 2.1  | 2.3  | 2.1                  | 2.1  |
| Croatia        | :               | 6.2     | 5.1     | 6.9  | 1.0   | 4.5  | 3.0  | 1.4                  | 1.3  | 1.4  | 0.9                  | 1.3  |
| USA            | 2.7             | 4.3     | 4.1     | 3.3  | 1.9   | 3.0  | 3.3  | 1.9                  | 3.8  | 3.7  | 2.5                  | 4.1  |
| Japan          | 1.2             | -0.7    | -1.3    | 0.3  | -3.7  | 0.3  | 0.5  | 0.5                  | 1.2  | 1.2  | 1.2                  | 1.2  |

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 26 : Real compensation of employees per head <sup>1</sup> (percentage change on preceding year, 1993-2014)

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 1.2             | 1.3     | 0.0     | 0.3  | 1.9   | -0.7 | 0.0  | 0.5                  | 0.7  | 1.2  | 0.3                  | 0.3  |
| Germany        | 0.4             | 0.4     | -0.7    | 0.5  | 0.2   | 0.3  | 0.9  | 1.0                  | 1.1  | 1.3  | 0.5                  | 1.1  |
| Estonia        | :               | 5.9     | 9.8     | 1.7  | -1.9  | -0.8 | -5.0 | 0.9                  | 1.4  | 2.5  | 0.4                  | 2.1  |
| Ireland        | 1.5             | 1.5     | 3.0     | 3.7  | 6.3   | -1.0 | -1.3 | -1.2                 | -1.3 | -1.3 | -2.4                 | -1.1 |
| Greece         | 1.6             | 2.6     | 0.8     | -0.6 | 2.8   | -6.3 | -6.5 | -7.8                 | -6.0 | -0.8 | -7.6                 | -1.0 |
| Spain          | 0.0             | -0.1    | 0.3     | 3.2  | 5.6   | -1.9 | -2.2 | -1.8                 | -0.6 | -0.9 | -1.6                 | -1.0 |
| France         | 0.8             | 1.3     | 0.9     | -0.1 | 2.7   | 1.5  | 0.8  | 0.2                  | 0.2  | -0.3 | 0.5                  | 0.5  |
| Italy          | 0.0             | -0.7    | 0.5     | 0.7  | 1.8   | 0.7  | -1.5 | -1.4                 | -0.7 | -0.5 | -1.6                 | -0.8 |
| Cyprus         | :               | 1.8     | 0.6     | -1.2 | 1.8   | 0.6  | 0.0  | -3.7                 | -2.3 | -1.4 | -3.6                 | -2.5 |
| Luxembourg     | 0.8             | 1.2     | 0.6     | 0.0  | 1.0   | 1.0  | -0.6 | -0.4                 | 0.6  | 1.3  | 0.5                  | 1.4  |
| Malta          | :               | 3.3     | 1.5     | 1.7  | 1.0   | -3.3 | -0.1 | -1.3                 | 0.0  | 0.0  | -0.5                 | 0.2  |
| Netherlands    | 0.3             | 1.6     | 1.2     | 2.1  | 3.0   | 0.2  | -0.5 | -0.3                 | -0.5 | 0.3  | -0.4                 | -0.3 |
| Austria        | 0.7             | 1.3     | 0.2     | 0.9  | 2.1   | -0.6 | -1.3 | 0.5                  | 0.3  | 0.0  | 1.1                  | 0.1  |
| Portugal       | 2.2             | 2.0     | 0.4     | 0.5  | 5.2   | -0.2 | -4.1 | -5.1                 | 0.6  | -0.9 | -6.0                 | -1.9 |
| Slovenia       | :               | 2.2     | 3.1     | 1.7  | 0.8   | 2.4  | -0.1 | -2.2                 | -1.8 | -0.1 | -1.7                 | -0.7 |
| Slovakia       | :               | 2.6     | 3.4     | 2.4  | 2.4   | 4.0  | -2.7 | -2.1                 | 0.2  | 0.6  | -0.2                 | 0.7  |
| Finland        | 0.9             | 0.8     | 2.4     | 0.9  | 0.9   | -0.3 | -0.1 | 0.2                  | 1.3  | 1.6  | 0.2                  | 0.9  |
| Euro area      | 0.4             | 0.5     | 0.2     | 0.8  | 2.3   | 0.2  | -0.3 | -0.1                 | 0.3  | 0.3  | -0.2                 | 0.2  |
| Bulgaria       | :               | 10.4    | 3.2     | 8.6  | 7.8   | 8.5  | 3.4  | 2.1                  | 2.1  | 2.6  | 2.1                  | 1.9  |
| Czech Republic | :               | 3.9     | 4.6     | -0.6 | -1.4  | 3.3  | 2.2  | -0.5                 | 0.9  | 1.5  | -1.2                 | 0.1  |
| Denmark        | 1.1             | 1.8     | 2.1     | 0.8  | 0.5   | 0.2  | -0.8 | -0.5                 | -0.2 | 0.2  | -0.9                 | 0.1  |
| Latvia         | :               | 2.9     | 13.2    | -0.4 | -15.5 | -5.1 | 12.9 | 0.5                  | 0.4  | 1.0  | -0.8                 | 0.4  |
| Lithuania      | :               | 4.8     | 9.9     | 3.1  | -13.8 | -1.7 | -0.6 | 0.1                  | -0.5 | 0.4  | -1.0                 | 0.3  |
| Hungary        | :               | 2.8     | 2.8     | 1.9  | -5.4  | -4.0 | -1.5 | -1.2                 | -4.1 | 1.6  | -1.7                 | -1.0 |
| Poland         | 4.0             | 3.2     | 0.6     | 4.4  | 0.9   | 2.2  | -0.8 | -0.3                 | 0.8  | 2.2  | 1.0                  | 2.0  |
| Romania        | -1.0            | 11.7    | 10.9    | 19.9 | -5.4  | -0.2 | -1.9 | 0.9                  | 0.1  | 0.7  | -0.2                 | 1.0  |
| Sweden         | 2.0             | 2.3     | 2.3     | -1.5 | -0.5  | 1.3  | -0.4 | 1.9                  | 1.7  | 1.6  | 1.7                  | 1.8  |
| United Kingdom | 0.3             | 3.9     | 2.1     | -1.9 | 1.3   | -0.9 | -2.6 | 0.2                  | 0.5  | 0.9  | -0.5                 | 0.6  |
| EU             | :               | 1.7     | 0.6     | 0.2  | 1.7   | 0.2  | -0.6 | -0.1                 | 0.2  | 0.5  | -0.3                 | 0.3  |
| Croatia        | :               | 1.6     | 2.2     | 1.2  | -2.2  | 3.4  | 0.6  | -1.9                 | -1.9 | -0.5 | -0.9                 | -0.5 |
| USA            | 0.6             | 2.6     | 1.4     | 0.0  | 1.8   | 1.0  | 0.8  | 0.1                  | 1.1  | 0.8  | 0.4                  | 1.5  |
| Japan          | 0.7             | 0.1     | -0.6    | 0.1  | -1.3  | 2.0  | 1.6  | 2.1                  | 2.2  | 1.2  | 1.5                  | 1.2  |

<sup>1</sup> 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, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |      |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 1.7             | 1.0     | 1.2     | -0.8 | -2.6 | 1.7  | 0.4  | -0.3                 | 0.4  | 1.1  | -0.1                 | 0.9  |
| Germany        | 1.4             | 0.8     | 1.4     | -0.1 | -5.2 | 3.6  | 1.6  | -0.3                 | 0.6  | 1.6  | -0.4                 | 1.3  |
| Estonia        | :               | 7.0     | 6.1     | -4.3 | -4.5 | 8.5  | 1.2  | 0.7                  | 2.3  | 3.0  | 1.0                  | 2.6  |
| Ireland        | 4.1             | 3.3     | 1.3     | -1.1 | 2.9  | 3.6  | 3.6  | 1.7                  | 1.0  | 1.2  | 1.2                  | 1.2  |
| Greece         | 1.1             | 2.5     | 2.3     | -1.4 | -2.5 | -2.4 | -1.6 | 2.0                  | -2.2 | -0.8 | 0.1                  | 0.2  |
| Spain          | 1.4             | 0.2     | 0.4     | 1.1  | 2.9  | 2.0  | 2.2  | 3.2                  | 1.3  | 0.6  | 2.0                  | 1.2  |
| France         | 1.5             | 0.8     | 1.3     | -0.4 | -1.6 | 1.9  | 1.2  | 0.3                  | 0.4  | 0.6  | 0.0                  | 0.9  |
| Italy          | 2.1             | 0.5     | 0.6     | -0.8 | -2.7 | 2.7  | 0.3  | -1.0                 | 0.5  | 0.4  | -0.4                 | 0.5  |
| Cyprus         | :               | 2.3     | 0.6     | 1.4  | -1.3 | 1.3  | 0.0  | 1.7                  | -1.0 | -0.4 | 0.7                  | -0.2 |
| Luxembourg     | 0.8             | 1.2     | 1.5     | -5.5 | -5.1 | 1.1  | -1.2 | -1.5                 | -0.1 | 0.2  | -0.9                 | 1.0  |
| Malta          | 3.8             | 2.0     | 0.9     | 1.3  | -2.1 | 1.0  | -0.5 | 0.1                  | 0.3  | 0.5  | 0.6                  | 0.8  |
| Netherlands    | 1.6             | 1.2     | 2.0     | 0.3  | -2.6 | 2.2  | 0.5  | -0.1                 | 0.9  | 1.5  | -0.7                 | 0.8  |
| Austria        | 2.0             | 2.2     | 1.7     | -0.4 | -2.3 | 1.5  | 1.3  | -0.3                 | 0.2  | 1.2  | 0.3                  | 1.0  |
| Portugal       | 2.1             | 1.4     | 1.1     | -0.5 | -0.3 | 3.0  | -0.1 | 1.1                  | 0.6  | 0.5  | 0.0                  | 0.0  |
| Slovenia       | :               | 2.9     | 3.9     | 0.8  | -6.1 | 3.5  | 2.2  | -0.7                 | 0.1  | 1.5  | 0.3                  | 1.6  |
| Slovakia       | :               | 3.6     | 5.6     | 2.4  | -3.0 | 6.0  | 1.4  | 2.4                  | 1.9  | 2.5  | 1.4                  | 2.2  |
| Finland        | 3.5             | 1.9     | 2.6     | -2.2 | -6.1 | 3.4  | 1.6  | -0.2                 | 1.0  | 1.0  | 0.9                  | 1.7  |
| Euro area      | 1.7             | 1.0     | 1.3     | -0.2 | -2.4 | 2.6  | 1.1  | 0.3                  | 0.6  | 1.0  | 0.1                  | 1.0  |
| Bulgaria       | :               | 6.0     | 3.3     | 3.5  | -2.9 | 5.3  | 6.1  | 2.8                  | 1.6  | 1.6  | 2.4                  | 2.1  |
| Czech Republic | :               | 3.1     | 4.7     | 0.8  | -2.8 | 3.5  | 1.6  | -0.9                 | 1.0  | 2.0  | 0.1                  | 1.3  |
| Denmark        | 2.2             | 1.1     | 1.2     | -2.4 | -3.5 | 3.6  | 1.2  | 0.9                  | 1.5  | 1.1  | 1.0                  | 1.1  |
| Latvia         | 5.9             | 6.0     | 6.6     | -4.2 | -5.3 | 4.0  | 14.8 | 2.5                  | 2.3  | 1.8  | 1.5                  | 2.4  |
| Lithuania      | -0.2            | 6.3     | 6.6     | 3.6  | -8.6 | 7.0  | 3.8  | 1.2                  | 2.1  | 2.2  | 1.8                  | 3.0  |
| Hungary        | :               | 2.9     | 3.3     | 2.7  | -4.4 | 0.6  | 1.2  | -2.1                 | 0.0  | 0.8  | -1.3                 | -0.4 |
| Poland         | 5.9             | 5.3     | 3.2     | 1.2  | 1.2  | 3.4  | 3.3  | 2.1                  | 1.7  | 2.2  | 2.4                  | 2.2  |
| Romania        | 5.2             | 6.0     | 6.9     | 7.3  | -4.7 | -0.2 | 2.0  | 0.4                  | 1.3  | 1.7  | 0.9                  | 1.7  |
| Sweden         | 3.3             | 1.7     | 2.9     | -1.5 | -2.7 | 5.3  | 1.6  | 0.7                  | 1.4  | 1.4  | 0.1                  | 1.7  |
| United Kingdom | 2.4             | 2.2     | 2.2     | -1.7 | -2.4 | 1.6  | 0.4  | -0.8                 | 0.4  | 1.0  | 0.1                  | 1.2  |
| EU             | :               | 2.0     | 2.0     | 0.1  | -2.4 | 2.5  | 1.4  | 0.3                  | 0.7  | 1.1  | 0.4                  | 1.2  |
| Croatia        | :               | 0.8     | 2.0     | 1.0  | -5.2 | 3.9  | 2.4  | -0.1                 | 0.5  | 0.8  | 0.1                  | 0.8  |
| USA            | 1.3             | 2.3     | 1.7     | 0.4  | 1.9  | 3.2  | 1.2  | 0.4                  | 1.5  | 1.5  | 0.1                  | 1.3  |
| Japan          | 1.1             | 1.2     | 1.4     | -0.6 | -4.0 | 5.0  | -2.4 | 2.2                  | 0.7  | 1.8  | 1.8                  | 1.6  |

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 28 : Unit labour costs, whole economy <sup>1</sup> (percentage change on preceding year, 1993-2014)

|                | 5-year averages |         |         |      |      |       |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|-------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010  | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 1.3             | 1.9     | 1.2     | 4.4  | 3.8  | -0.3  | 2.7  | 3.4                  | 2.1  | 1.5  | 3.2                  | 1.4  |
| Germany        | 1.0             | 0.5     | -0.7    | 2.3  | 5.6  | -1.1  | 1.4  | 2.8                  | 2.1  | 1.5  | 3.0                  | 1.5  |
| Estonia        | :               | 3.8     | 8.0     | 14.6 | 1.4  | -6.2  | -1.4 | 4.3                  | 3.1  | 2.7  | 3.0                  | 2.8  |
| Ireland        | -0.1            | 2.5     | 4.2     | 6.4  | -3.7 | -6.5  | -3.2 | -0.9                 | -1.0 | -1.1 | -1.9                 | -1.2 |
| Greece         | 10.0            | 3.9     | 1.7     | 5.1  | 6.2  | -0.1  | -1.8 | -8.6                 | -4.7 | -0.5 | -8.1                 | -1.5 |
| Spain          | 2.8             | 2.6     | 3.2     | 5.7  | 1.5  | -2.0  | -1.4 | -2.7                 | 0.1  | -0.2 | -1.8                 | -1.1 |
| France         | 0.7             | 1.5     | 1.6     | 3.2  | 3.7  | 0.6   | 1.6  | 1.6                  | 1.4  | 1.1  | 2.1                  | 1.1  |
| Italy          | 2.3             | 1.2     | 2.4     | 4.7  | 4.6  | -0.4  | 0.9  | 2.2                  | 0.8  | 0.8  | 1.9                  | 0.9  |
| Cyprus         | :               | 2.1     | 3.0     | 1.8  | 3.9  | 1.4   | 3.3  | -2.6                 | 0.8  | 0.9  | -1.5                 | -0.1 |
| Luxembourg     | 2.3             | 2.2     | 1.5     | 9.4  | 7.3  | 1.6   | 3.3  | 3.9                  | 2.8  | 3.0  | 4.1                  | 2.4  |
| Malta          | 3.3             | 2.6     | 2.3     | 3.6  | 5.8  | -1.3  | 1.3  | 1.0                  | 1.8  | 1.5  | 0.9                  | 1.6  |
| Netherlands    | 0.9             | 3.4     | 1.0     | 3.0  | 5.3  | -0.8  | 1.3  | 2.4                  | 1.3  | 0.8  | 2.6                  | 0.7  |
| Austria        | 0.9             | 0.3     | 0.6     | 3.5  | 4.9  | -0.2  | 1.0  | 3.2                  | 1.9  | 0.8  | 3.2                  | 0.9  |
| Portugal       | 4.7             | 3.4     | 2.1     | 3.5  | 3.1  | -1.6  | -0.7 | -4.0                 | 0.9  | -0.1 | -3.1                 | -0.6 |
| Slovenia       | :               | 6.3     | 2.6     | 6.4  | 8.5  | 0.4   | -0.6 | 1.2                  | 0.2  | 0.1  | 0.2                  | -0.7 |
| Slovakia       | :               | 5.4     | 2.5     | 4.4  | 5.7  | -0.9  | -0.4 | -1.0                 | 0.2  | 0.0  | 1.0                  | 0.4  |
| Finland        | -1.0            | 1.4     | 0.7     | 6.7  | 9.0  | -1.6  | 1.8  | 3.5                  | 2.2  | 2.3  | 2.3                  | 1.6  |
| Euro area      | 1.5             | 1.5     | 1.3     | 3.8  | 4.3  | -0.7  | 0.9  | 1.4                  | 1.2  | 0.9  | 1.6                  | 0.8  |
| Bulgaria       | :               | 10.8    | 4.3     | 12.5 | 12.7 | 5.6   | 1.1  | 2.3                  | 3.2  | 3.8  | 2.7                  | 3.0  |
| Czech Republic | :               | 4.6     | 1.7     | 3.4  | 2.2  | 0.0   | 1.1  | 3.7                  | 0.9  | 0.6  | 1.9                  | 0.8  |
| Denmark        | 0.7             | 2.7     | 2.4     | 6.1  | 5.6  | -0.9  | 0.5  | 0.9                  | 0.1  | 0.6  | 0.6                  | 0.5  |
| Latvia         | 35.6            | -0.4    | 13.9    | 20.7 | -7.9 | -10.4 | 3.0  | 0.6                  | 0.3  | 1.6  | 0.3                  | -0.1 |
| Lithuania      | :               | -0.5    | 5.4     | 10.4 | -1.5 | -6.9  | -0.1 | 2.3                  | 0.5  | 1.1  | 0.4                  | 0.3  |
| Hungary        | :               | 9.7     | 4.2     | 4.4  | 2.8  | -0.9  | 1.8  | 6.7                  | 1.0  | 4.7  | 5.1                  | 3.3  |
| Poland         | 23.5            | 4.6     | -0.7    | 7.5  | 2.2  | 1.3   | 0.7  | 1.4                  | 1.7  | 2.3  | 2.2                  | 2.8  |
| Romania        | 94.5            | 43.8    | 13.0    | 22.9 | 2.9  | 7.9   | 1.7  | 4.1                  | 3.5  | 2.2  | 2.3                  | 2.5  |
| Sweden         | 1.7             | 1.9     | 0.6     | 3.1  | 4.4  | -2.4  | -0.8 | 2.2                  | 1.5  | 1.9  | 2.7                  | 1.4  |
| United Kingdom | 0.9             | 2.7     | 2.2     | 3.2  | 5.3  | 1.2   | 1.6  | 3.8                  | 2.0  | 1.8  | 2.3                  | 1.3  |
| EU             | :               | 2.0     | 1.5     | 4.1  | 4.4  | -0.4  | 0.9  | 1.9                  | 1.4  | 1.2  | 1.8                  | 1.0  |
| Croatia        | :               | 5.4     | 3.0     | 5.8  | 6.6  | 0.6   | 0.6  | 1.5                  | 0.8  | 0.6  | 0.8                  | 0.5  |
| USA            | 1.4             | 2.0     | 2.3     | 2.9  | 0.0  | -0.3  | 2.0  | 1.6                  | 2.2  | 2.1  | 2.3                  | 2.8  |
| Japan          | 0.1             | -1.8    | -2.7    | 0.9  | 0.3  | -4.5  | 2.9  | -1.6                 | 0.4  | -0.6 | -0.6                 | -0.4 |

<sup>1</sup> 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 <sup>1</sup> (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |      |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | -0.4            | 0.2     | -1.0    | 2.2  | 2.6  | -2.3 | 0.6  | 1.2                  | 0.0  | -0.3 | 1.1                  | -0.7 |
| Germany        | -0.8            | -0.1    | -1.6    | 1.5  | 4.4  | -2.0 | 0.6  | 1.6                  | 0.8  | -0.1 | 1.4                  | -0.4 |
| Estonia        | :               | -1.7    | 1.0     | 8.7  | 2.8  | -6.8 | -4.2 | 1.1                  | 0.0  | -0.4 | 0.0                  | -0.2 |
| Ireland        | -2.7            | -2.6    | 1.7     | 9.9  | 1.0  | -4.3 | -3.4 | -2.5                 | -2.3 | -2.5 | -3.1                 | -2.3 |
| Greece         | 0.1             | 0.3     | -1.4    | 0.3  | 3.8  | -1.3 | -2.9 | -8.2                 | -3.6 | -0.1 | -7.4                 | -1.1 |
| Spain          | -1.0            | -0.8    | -0.7    | 3.2  | 1.4  | -2.4 | -2.4 | -2.9                 | -1.7 | -1.6 | -2.7                 | -1.7 |
| France         | -0.6            | 0.1     | -0.4    | 0.7  | 3.0  | -0.4 | 0.3  | 0.0                  | -0.1 | -0.5 | 0.6                  | -0.6 |
| Italy          | -1.6            | -1.2    | 0.2     | 2.1  | 2.4  | -0.8 | -0.4 | 0.7                  | -0.8 | -0.8 | -0.2                 | -1.3 |
| Cyprus         | :               | -0.7    | -0.7    | -2.7 | 3.8  | -0.5 | 0.5  | -4.2                 | -0.7 | -0.4 | -3.7                 | -2.1 |
| Luxembourg     | -0.3            | 0.4     | -2.9    | 8.9  | 6.8  | -5.6 | -1.7 | 1.9                  | -0.5 | 0.7  | 2.7                  | -0.6 |
| Malta          | 0.8             | -0.2    | -0.2    | 0.5  | 3.4  | -4.1 | -0.9 | -1.8                 | -0.7 | -0.9 | -0.8                 | -1.0 |
| Netherlands    | -1.0            | 0.1     | -0.8    | 0.8  | 5.2  | -1.8 | 0.0  | 1.0                  | -0.2 | -0.4 | 1.0                  | -0.9 |
| Austria        | -0.6            | -0.7    | -1.1    | 1.8  | 3.4  | -1.8 | -1.2 | 1.1                  | 0.3  | -1.4 | 1.2                  | -0.5 |
| Portugal       | -0.1            | -0.1    | -0.6    | 1.9  | 2.2  | -2.6 | -1.3 | -4.3                 | -0.6 | -1.3 | -3.8                 | -1.8 |
| Slovenia       | :               | -0.6    | -0.7    | 2.1  | 4.7  | 1.5  | -1.6 | 0.1                  | -0.8 | -0.9 | 0.0                  | -2.2 |
| Slovakia       | :               | -0.7    | -0.9    | 1.5  | 7.0  | -1.4 | -2.0 | -3.7                 | -1.5 | -2.1 | -1.0                 | -1.6 |
| Finland        | -2.9            | -0.8    | -0.1    | 3.7  | 7.4  | -2.0 | -1.3 | 0.8                  | 0.3  | 0.5  | -0.3                 | -0.6 |
| Euro area      | -1.0            | -0.4    | -0.8    | 1.8  | 3.3  | -1.5 | -0.3 | 0.2                  | -0.1 | -0.5 | 0.2                  | -0.8 |
| Bulgaria       | :               | 0.9     | -1.6    | 3.7  | 8.1  | 2.7  | -3.7 | 1.3                  | 0.8  | 1.2  | -0.6                 | 0.1  |
| Czech Republic | :               | 0.4     | 0.0     | 1.5  | -0.1 | 1.4  | 1.9  | 2.6                  | -0.3 | -0.5 | -0.1                 | -0.3 |
| Denmark        | -0.8            | 0.6     | 0.1     | 1.8  | 4.5  | -4.6 | -0.4 | -0.4                 | -1.4 | -0.9 | -1.3                 | -1.0 |
| Latvia         | 7.8             | -3.6    | 3.2     | 6.9  | -6.7 | -9.2 | -2.8 | -1.8                 | -1.7 | -0.5 | -1.8                 | -1.7 |
| Lithuania      | :               | -1.0    | 0.7     | 0.7  | 2.0  | -8.8 | -5.3 | -0.1                 | -2.2 | -1.8 | -1.7                 | -2.7 |
| Hungary        | :               | -0.4    | -0.2    | -0.9 | -0.7 | -3.3 | -1.3 | 2.2                  | -3.2 | 0.8  | 0.5                  | -0.3 |
| Poland         | -1.4            | -1.3    | -3.2    | 4.3  | -1.4 | -0.1 | -2.3 | -0.8                 | -0.5 | 1.0  | -0.9                 | 0.5  |
| Romania        | -5.0            | 2.5     | -1.7    | 6.6  | -1.2 | 1.8  | -5.9 | -0.2                 | -0.8 | -1.3 | -1.2                 | -1.3 |
| Sweden         | -0.7            | 0.5     | -0.9    | -0.1 | 2.3  | -3.2 | -1.8 | 1.2                  | 0.1  | 0.0  | 1.7                  | 0.1  |
| United Kingdom | -1.7            | 1.0     | -0.3    | 0.2  | 3.9  | -1.6 | -1.1 | 1.1                  | -0.2 | -0.5 | -0.4                 | -0.9 |
| EU             | :               | -0.3    | -0.9    | 1.4  | 3.2  | -1.5 | -0.6 | 0.3                  | -0.2 | -0.5 | 0.0                  | -0.8 |
| Croatia        | :               | 0.5     | -0.8    | 0.1  | 3.6  | -0.3 | -1.5 | -0.5                 | -2.0 | -1.4 | -0.5                 | -1.2 |
| USA            | -0.6            | 0.3     | -0.5    | 0.7  | -0.9 | -1.6 | -0.1 | -0.2                 | -0.4 | -0.6 | 0.4                  | 0.5  |
| Japan          | 0.1             | -0.8    | -1.4    | 2.2  | 0.8  | -2.4 | 5.1  | 0.0                  | 1.4  | -1.1 | 0.6                  | -1.4 |

<sup>1</sup> 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 (1993-2014)

|                | 5-year averages |         |         |        |        |        |        | Autumn 2012 forecast |        |        | Spring 2012 forecast |        |
|----------------|-----------------|---------|---------|--------|--------|--------|--------|----------------------|--------|--------|----------------------|--------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008   | 2009   | 2010   | 2011   | 2012                 | 2013   | 2014   | 2012                 | 2013   |
| Belgium        | 39.70           | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Germany        | 1.92            | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Estonia        | 15.37           | 15.67   | 15.65   | 15.65  | 15.65  | 15.65  | :      | :                    | :      | :      | :                    | :      |
| Ireland        | 0.79            | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Greece         | 294.90          | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Spain          | 159.54          | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| France         | 6.57            | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Italy          | 1954.94         | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Cyprus         | 0.59            | 0.58    | 0.58    | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Luxembourg     | 39.70           | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Malta          | 0.45            | 0.42    | 0.43    | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Netherlands    | 2.16            | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Austria        | 13.52           | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Portugal       | 195.14          | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Slovenia       | 158.58          | 206.20  | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Slovakia       | 38.01           | 42.45   | 38.22   | 31.24  | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Finland        | 6.06            | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Euro area      | :               | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Bulgaria       | 0.46            | 1.95    | 1.95    | 1.96   | 1.96   | 1.96   | 1.96   | 1.96                 | 1.96   | 1.96   | 1.96                 | 1.96   |
| Czech Republic | 34.68           | 34.68   | 29.93   | 24.95  | 26.43  | 25.28  | 24.59  | 25.09                | 24.91  | 24.91  | 24.87                | 24.80  |
| Denmark        | 7.46            | 7.45    | 7.45    | 7.46   | 7.45   | 7.45   | 7.45   | 7.44                 | 7.46   | 7.46   | 7.44                 | 7.44   |
| Latvia         | 0.70            | 0.60    | 0.68    | 0.70   | 0.71   | 0.71   | 0.71   | 0.70                 | 0.70   | 0.70   | 0.70                 | 0.70   |
| Lithuania      | 4.93            | 3.90    | 3.45    | 3.45   | 3.45   | 3.45   | 3.45   | 3.45                 | 3.45   | 3.45   | 3.45                 | 3.45   |
| Hungary        | 160.52          | 250.59  | 253.79  | 251.51 | 280.33 | 275.48 | 279.37 | 288.85               | 281.70 | 281.70 | 296.99               | 297.07 |
| Poland         | 3.03            | 3.94    | 4.13    | 3.51   | 4.33   | 3.99   | 4.12   | 4.18                 | 4.09   | 4.09   | 4.20                 | 4.18   |
| Romania        | 0.35            | 2.07    | 3.66    | 3.68   | 4.24   | 4.21   | 4.24   | 4.47                 | 4.57   | 4.57   | 4.37                 | 4.37   |
| Sweden         | 8.96            | 8.92    | 9.21    | 9.62   | 10.62  | 9.54   | 9.03   | 8.70                 | 8.63   | 8.63   | 8.86                 | 8.87   |
| United Kingdom | 0.78            | 0.64    | 0.68    | 0.80   | 0.89   | 0.86   | 0.87   | 0.81                 | 0.81   | 0.81   | 0.83                 | 0.82   |
| EU             | :               | :       | :       | :      | :      | :      | :      | :                    | :      | :      | :                    | :      |
| Croatia        | 6.41            | 7.45    | 7.43    | 7.22   | 7.34   | 7.29   | 7.44   | 7.51                 | 7.50   | 7.50   | 7.50                 | 7.49   |
| USA            | 1.21            | 0.99    | 1.25    | 1.47   | 1.39   | 1.33   | 1.39   | 1.29                 | 1.30   | 1.30   | 1.31                 | 1.31   |
| Japan          | 129.93          | 118.79  | 141.91  | 152.45 | 130.34 | 116.24 | 110.96 | 101.67               | 101.89 | 101.89 | 105.92               | 106.53 |

TABLE 31 : Nominal effective exchange rates to rest of a group <sup>1</sup> of industrialised countries (percentage change on preceding year, 1998-2014)

19.10.2012

|                | 5-year averages |         |       |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|-------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1998-02         | 2003-07 | 2008  | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | -0.1            | 1.4     | 1.9   | 1.0   | -2.4 | 0.3  | -2.0                 | 0.0  | 0.0  | -1.3                 | 0.0  |
| Germany        | 0.0             | 1.8     | 1.8   | 1.3   | -3.6 | 0.1  | -2.4                 | 0.0  | 0.0  | -1.6                 | 0.0  |
| Estonia        | 0.1             | 1.1     | 1.4   | 2.4   | -3.0 | -0.4 | -1.5                 | -0.2 | 0.0  | -1.1                 | 0.0  |
| Ireland        | -1.9            | 2.5     | 4.0   | 0.7   | -3.5 | 0.8  | -3.7                 | 0.2  | 0.0  | -2.5                 | 0.0  |
| Greece         | -0.1            | 1.3     | 2.0   | 1.9   | -2.3 | 1.0  | -1.4                 | 0.1  | 0.0  | -0.8                 | 0.0  |
| Spain          | 0.0             | 1.3     | 2.1   | 1.3   | -2.4 | 0.4  | -1.8                 | 0.0  | 0.0  | -1.2                 | 0.0  |
| France         | -0.1            | 1.7     | 2.1   | 0.9   | -3.1 | 0.2  | -2.4                 | 0.1  | 0.0  | -1.6                 | 0.0  |
| Italy          | 0.2             | 1.8     | 1.9   | 1.0   | -3.2 | 0.4  | -2.2                 | 0.1  | 0.0  | -1.4                 | 0.0  |
| Cyprus         | 0.9             | 1.2     | 2.8   | 1.8   | -2.5 | 0.2  | -2.0                 | 0.0  | 0.0  | -1.3                 | 0.0  |
| Luxembourg     | -0.1            | 0.8     | 1.6   | 1.6   | -2.0 | 0.0  | -1.5                 | 0.0  | 0.0  | -1.3                 | 0.0  |
| Malta          | 0.3             | 1.7     | 2.3   | -0.9  | -3.6 | 0.3  | -2.2                 | 0.0  | 0.0  | -2.4                 | 0.0  |
| Netherlands    | -0.1            | 1.1     | 2.0   | 1.5   | -2.4 | 0.2  | -1.8                 | 0.0  | 0.0  | -1.3                 | 0.0  |
| Austria        | 0.2             | 1.1     | 0.9   | 1.3   | -2.5 | -0.1 | -1.3                 | 0.0  | 0.0  | -0.9                 | 0.0  |
| Portugal       | -0.5            | 1.1     | 1.6   | 0.8   | -1.8 | 0.3  | -1.5                 | 0.0  | 0.0  | -1.1                 | 0.0  |
| Slovenia       | -3.9            | -0.5    | 0.5   | 2.0   | -1.8 | 0.3  | -0.7                 | -0.1 | 0.0  | -0.4                 | 0.0  |
| Slovakia       | -2.1            | 5.3     | 8.5   | 6.8   | -2.2 | 0.2  | -0.5                 | -0.2 | 0.0  | -0.4                 | 0.0  |
| Finland        | -0.3            | 1.7     | 1.9   | 1.6   | -3.9 | -0.1 | -2.7                 | 0.0  | 0.0  | -1.6                 | 0.0  |
| Euro area      | -0.1            | 3.6     | 4.2   | 2.8   | -6.7 | 0.5  | -4.5                 | 0.0  | 0.0  | -3.0                 | 0.0  |
| Bulgaria       | 3.5             | 1.2     | 1.7   | 2.6   | -2.2 | 1.3  | -0.7                 | 0.2  | 0.0  | -0.5                 | 0.0  |
| Czech Republic | 3.5             | 2.7     | 12.2  | -3.6  | 2.6  | 3.1  | -3.0                 | 0.6  | 0.0  | -1.7                 | 0.3  |
| Denmark        | -0.2            | 1.4     | 2.2   | 2.3   | -4.0 | -0.4 | -2.6                 | -0.3 | 0.0  | -1.5                 | 0.0  |
| Latvia         | 2.2             | -2.9    | 0.9   | 2.0   | -2.9 | 0.4  | 0.1                  | 0.0  | 0.0  | 0.2                  | 0.0  |
| Lithuania      | 6.2             | 1.3     | 0.9   | 2.5   | -2.5 | 0.4  | -1.4                 | -0.2 | 0.0  | -0.8                 | 0.0  |
| Hungary        | -2.3            | 0.0     | 0.8   | -8.4  | -0.3 | -1.0 | -4.4                 | 2.6  | 0.0  | -6.7                 | 0.0  |
| Poland         | -0.6            | 1.0     | 9.1   | -17.7 | 6.2  | -2.8 | -2.6                 | 2.2  | 0.0  | -2.7                 | 0.3  |
| Romania        | -22.3           | -0.3    | -8.4  | -11.5 | -1.3 | 0.4  | -6.2                 | -2.2 | 0.0  | -3.5                 | -0.1 |
| Sweden         | -1.4            | 1.6     | -1.7  | -8.4  | 7.4  | 5.9  | 1.1                  | 0.8  | 0.0  | 0.1                  | -0.1 |
| United Kingdom | 1.7             | 0.3     | -12.9 | -11.4 | 0.3  | -0.9 | 4.4                  | 0.6  | 0.0  | 3.2                  | 0.4  |
| EU             | 0.7             | 5.3     | 1.3   | -5.4  | -7.5 | 1.1  | -5.4                 | 0.7  | 0.0  | -3.8                 | 0.2  |
| Croatia        | :               | :       | :     | :     | :    | :    | :                    | :    | :    | :                    | :    |
| USA            | 3.1             | -4.7    | -4.3  | 6.4   | -3.1 | -5.3 | 3.8                  | -1.2 | 0.0  | 3.4                  | 0.1  |
| Japan          | 1.5             | -2.6    | 11.2  | 16.1  | 6.1  | 5.9  | 4.1                  | 0.2  | 0.0  | 1.2                  | -0.6 |

<sup>1</sup> 36 countries : EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.TABLE 32 : Relative unit labour costs, to rest of a group <sup>1</sup> of industrialised countries (nat. curr.) (percentage change on preceding year, 1998-2014)

|                | 5-year averages |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1998-02         | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | -0.3            | -0.1    | 0.8  | -0.2  | 0.0  | 1.4  | 1.4                  | 0.5  | :    | 1.2                  | 0.2  |
| Germany        | -2.3            | -2.4    | -1.9 | 2.1   | -0.8 | 0.1  | 1.0                  | 0.6  | :    | 1.2                  | 0.2  |
| Estonia        | 1.4             | 6.0     | 8.4  | -2.2  | -4.6 | -2.5 | 1.9                  | 1.4  | :    | 1.0                  | 1.5  |
| Ireland        | 0.4             | 2.7     | 2.9  | -6.8  | -6.2 | -4.7 | -2.8                 | -2.7 | :    | -3.9                 | -2.6 |
| Greece         | -0.4            | -0.3    | 0.2  | 1.7   | -0.4 | -2.9 | -10.6                | -6.4 | :    | -9.8                 | -2.8 |
| Spain          | 0.0             | 1.7     | 1.9  | -2.4  | -1.7 | -2.6 | -4.3                 | -1.5 | :    | -3.6                 | -2.3 |
| France         | -0.9            | 0.2     | -0.6 | 0.0   | 1.2  | 0.4  | -0.1                 | -0.2 | :    | 0.4                  | 0.0  |
| Italy          | -1.6            | 0.9     | 0.7  | 0.8   | -0.1 | -0.3 | 0.4                  | -0.8 | :    | 0.1                  | -0.4 |
| Cyprus         | -1.8            | 1.3     | -2.5 | -0.5  | 1.6  | 2.6  | -2.5                 | 0.4  | :    | -1.7                 | -0.9 |
| Luxembourg     | 0.2             | 0.2     | 5.3  | 3.0   | 2.0  | 2.0  | 1.7                  | 1.1  | :    | :                    | :    |
| Malta          | 0.7             | 1.2     | 0.3  | 2.5   | -0.8 | 0.1  | -0.7                 | 0.3  | :    | -1.0                 | 0.2  |
| Netherlands    | 1.4             | -0.2    | -0.7 | 1.2   | -0.3 | 0.0  | 0.4                  | -0.4 | :    | 0.5                  | -0.6 |
| Austria        | -2.1            | -0.6    | -0.4 | 0.8   | 0.2  | -0.2 | 1.0                  | 0.3  | :    | 1.1                  | -0.4 |
| Portugal       | 1.3             | 0.3     | -0.5 | -0.3  | -0.9 | -1.4 | -5.0                 | -0.5 | :    | -4.4                 | -1.4 |
| Slovenia       | 3.8             | 1.3     | 2.0  | 4.0   | 0.7  | -1.7 | -1.1                 | -1.4 | :    | -2.0                 | -2.0 |
| Slovakia       | 2.7             | 1.4     | 0.3  | 1.5   | -0.6 | -1.4 | -3.4                 | -1.4 | :    | -1.2                 | -0.9 |
| Finland        | -1.0            | -0.7    | 2.6  | 5.2   | -1.0 | 0.5  | 1.5                  | 0.5  | :    | 0.3                  | 0.2  |
| Euro area      | -2.4            | -0.8    | -0.6 | 1.6   | -0.9 | -0.5 | -0.3                 | -0.5 | :    | 0.0                  | -0.8 |
| Bulgaria       | 4.3             | 2.1     | 7.0  | 7.8   | 5.3  | 0.5  | 0.5                  | 1.7  | :    | 1.2                  | 1.7  |
| Czech Republic | 2.2             | 0.6     | -0.5 | -2.1  | 0.5  | -0.1 | 1.5                  | -0.7 | :    | -0.4                 | -0.5 |
| Denmark        | 0.7             | 1.1     | 2.1  | 1.6   | -0.4 | -0.9 | -1.2                 | -1.6 | :    | -1.3                 | -0.8 |
| Latvia         | -2.6            | 12.0    | 14.6 | -11.1 | -9.0 | 2.0  | -1.7                 | -1.3 | :    | -1.7                 | -1.4 |
| Lithuania      | -3.3            | 3.1     | 4.3  | -4.5  | -5.7 | -1.3 | 0.1                  | -1.1 | :    | -1.6                 | -1.0 |
| Hungary        | 7.1             | 2.9     | -0.1 | -1.4  | -0.8 | 0.6  | 4.4                  | -0.7 | :    | 2.9                  | 2.0  |
| Poland         | 2.3             | -2.1    | 3.3  | -2.0  | 1.8  | -0.4 | -0.9                 | 0.0  | :    | 0.0                  | 1.6  |
| Romania        | 38.6            | 11.1    | 17.9 | -1.7  | 8.1  | 0.9  | 1.8                  | 1.8  | :    | 0.2                  | 1.1  |
| Sweden         | -0.6            | -1.0    | -1.3 | 0.4   | -2.2 | -2.4 | 0.1                  | -0.2 | :    | 0.8                  | 0.1  |
| United Kingdom | 0.4             | 0.7     | -0.5 | 2.2   | 1.9  | 0.3  | 2.2                  | 0.4  | :    | 0.6                  | 0.1  |
| EU             | -2.4            | -0.3    | 0.4  | 2.2   | -0.4 | -0.8 | 0.5                  | -0.8 | :    | 0.2                  | -0.8 |
| Croatia        | :               | :       | :    | :     | :    | :    | :                    | :    | :    | :                    | :    |
| USA            | -0.6            | 0.9     | -0.5 | -3.8  | 0.2  | 0.0  | -0.1                 | 0.5  | :    | 0.4                  | 1.7  |
| Japan          | -4.1            | -4.6    | -2.4 | -2.3  | -4.7 | 1.0  | -3.8                 | -1.7 | :    | -3.0                 | -2.4 |

<sup>1</sup> 36 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 <sup>1</sup> of industrialised countries (USD) (% change on preceding year, 1998-2014)

19.10.2012

|                | 5-year averages |         |       |       |       |      |  | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|-------|-------|-------|------|--|----------------------|------|------|----------------------|------|
|                | 1998-02         | 2003-07 | 2008  | 2009  | 2010  | 2011 |  | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | -0.4            | 1.3     | 2.6   | 0.9   | -2.4  | 1.7  |  | -0.6                 | 0.5  | :    | -0.1                 | 0.2  |
| Germany        | -2.4            | -0.6    | -0.1  | 3.5   | -4.4  | 0.2  |  | -1.4                 | 0.6  | :    | -0.3                 | 0.2  |
| Estonia        | 1.6             | 7.1     | 10.0  | 0.1   | -7.5  | -3.0 |  | 0.4                  | 1.2  | :    | -0.1                 | 1.5  |
| Ireland        | -1.5            | 5.2     | 7.0   | -6.1  | -9.4  | -4.0 |  | -6.4                 | -2.6 | :    | -6.3                 | -2.6 |
| Greece         | -0.5            | 1.0     | 2.3   | 3.6   | -2.8  | -1.9 |  | -11.8                | -6.3 | :    | -10.6                | -2.8 |
| Spain          | 0.0             | 3.0     | 4.0   | -1.1  | -4.1  | -2.2 |  | -6.1                 | -1.5 | :    | -4.7                 | -2.3 |
| France         | -1.0            | 1.8     | 1.5   | 0.9   | -1.9  | 0.7  |  | -2.5                 | -0.2 | :    | -1.2                 | 0.0  |
| Italy          | -1.5            | 2.7     | 2.5   | 1.8   | -3.3  | 0.1  |  | -1.7                 | -0.8 | :    | -1.3                 | -0.4 |
| Cyprus         | -0.9            | 2.4     | 0.2   | 1.3   | -0.9  | 2.8  |  | -4.4                 | 0.4  | :    | -2.9                 | -0.9 |
| Luxembourg     | 0.1             | 1.0     | 7.0   | 4.6   | 0.0   | 2.0  |  | 0.2                  | 1.1  | :    | :                    | :    |
| Malta          | 0.9             | 2.9     | 2.6   | 1.6   | -4.4  | 0.4  |  | -2.8                 | 0.3  | :    | -3.4                 | 0.3  |
| Netherlands    | 1.3             | 0.9     | 1.2   | 2.8   | -2.7  | 0.2  |  | -1.4                 | -0.4 | :    | -0.8                 | -0.6 |
| Austria        | -1.9            | 0.4     | 0.5   | 2.1   | -2.3  | -0.3 |  | -0.3                 | 0.3  | :    | 0.2                  | -0.4 |
| Portugal       | 0.8             | 1.4     | 1.1   | 0.5   | -2.7  | -1.1 |  | -6.4                 | -0.5 | :    | -5.4                 | -1.4 |
| Slovenia       | -0.3            | 0.8     | 2.5   | 6.1   | -1.1  | -1.4 |  | -1.8                 | -1.5 | :    | -2.3                 | -2.0 |
| Slovakia       | 0.6             | 6.8     | 8.8   | 8.3   | -2.9  | -1.2 |  | -3.8                 | -1.6 | :    | -1.6                 | -0.9 |
| Finland        | -1.3            | 1.0     | 4.5   | 6.8   | -4.9  | 0.4  |  | -1.3                 | 0.5  | :    | -1.3                 | 0.2  |
| Euro area      | -2.6            | 2.7     | 3.5   | 4.5   | -7.6  | 0.0  |  | -4.8                 | -0.5 | :    | -3.0                 | -0.8 |
| Bulgaria       | 8.0             | 3.3     | 8.9   | 10.6  | 3.0   | 1.8  |  | -0.2                 | 1.9  | :    | 0.8                  | 1.7  |
| Czech Republic | 5.8             | 3.4     | 11.6  | -5.6  | 3.1   | 3.0  |  | -1.6                 | -0.2 | :    | -2.1                 | -0.3 |
| Denmark        | 0.5             | 2.5     | 4.3   | 3.9   | -4.4  | -1.3 |  | -3.7                 | -1.9 | :    | -2.8                 | -0.8 |
| Latvia         | -0.5            | 8.8     | 15.6  | -9.3  | -11.6 | 2.5  |  | -1.6                 | -1.4 | :    | -1.5                 | -1.4 |
| Lithuania      | 2.6             | 4.4     | 5.3   | -2.1  | -8.1  | -1.0 |  | -1.3                 | -1.3 | :    | -2.4                 | -1.0 |
| Hungary        | 4.6             | 2.9     | 0.8   | -9.6  | -1.0  | -0.4 |  | -0.2                 | 1.8  | :    | -3.9                 | 1.9  |
| Poland         | 1.6             | -1.0    | 12.7  | -19.3 | 8.1   | -3.2 |  | -3.5                 | 2.2  | :    | -2.6                 | 1.9  |
| Romania        | 7.6             | 10.8    | 8.0   | -13.0 | 6.6   | 1.3  |  | -4.4                 | -0.4 | :    | -3.4                 | 1.0  |
| Sweden         | -2.0            | 0.6     | -3.0  | -8.0  | 5.1   | 3.4  |  | 1.2                  | 0.6  | :    | 1.0                  | 0.1  |
| United Kingdom | 2.1             | 1.0     | -13.3 | -9.4  | 2.2   | -0.6 |  | 6.7                  | 1.0  | :    | 3.8                  | 0.5  |
| EU             | -1.7            | 5.0     | 1.6   | -3.3  | -7.8  | 0.3  |  | -5.0                 | -0.1 | :    | -3.6                 | -0.7 |
| Croatia        | :               | :       | :     | :     | :     | :    |  | :                    | :    | :    | :                    | :    |
| USA            | 2.5             | -3.8    | -4.8  | 2.3   | -2.9  | -5.3 |  | 3.7                  | -0.7 | :    | 3.8                  | 1.8  |
| Japan          | -2.6            | -7.1    | 8.6   | 13.4  | 1.1   | 7.0  |  | 0.2                  | -1.5 | :    | -1.8                 | -3.0 |

<sup>1</sup> 36 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, 1993-2014) <sup>1</sup>

|                | 5-year averages |         |         |      |      |      |      |  | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|--|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 |  | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 52.4            | 49.6    | 49.7    | 49.7 | 53.6 | 52.4 | 53.1 |  | 54.1                 | 54.2 | 54.3 | 53.9                 | 53.7 |
| Germany        | 49.4            | 47.4    | 46.3    | 44.1 | 48.2 | 47.7 | 45.3 |  | 45.2                 | 45.5 | 45.3 | 45.6                 | 45.2 |
| Estonia        | :               | 37.2    | 34.0    | 39.7 | 45.5 | 40.7 | 38.3 |  | 41.2                 | 39.5 | 37.8 | 41.2                 | 39.3 |
| Ireland        | 38.8            | 33.4    | 34.4    | 43.1 | 48.7 | 66.1 | 48.2 |  | 42.6                 | 41.5 | 39.1 | 44.1                 | 43.1 |
| Greece         | 44.4            | 45.6    | 45.5    | 50.5 | 54.0 | 51.3 | 51.7 |  | 50.7                 | 49.6 | 48.1 | 49.7                 | 50.6 |
| Spain          | 44.2            | 39.5    | 38.7    | 41.5 | 46.3 | 46.3 | 45.1 |  | 44.3                 | 42.7 | 42.3 | 42.4                 | 42.0 |
| France         | 53.9            | 52.3    | 53.1    | 53.3 | 56.8 | 56.5 | 56.0 |  | 56.3                 | 56.7 | 56.7 | 56.3                 | 56.2 |
| Italy          | 52.5            | 47.4    | 47.9    | 48.6 | 52.0 | 50.5 | 50.0 |  | 51.0                 | 50.5 | 50.0 | 50.4                 | 49.5 |
| Cyprus         | :               | 37.7    | 42.8    | 42.1 | 46.2 | 46.2 | 46.1 |  | 46.9                 | 47.1 | 47.4 | 46.0                 | 45.3 |
| Luxembourg     | :               | 39.5    | 40.2    | 39.1 | 44.6 | 42.8 | 42.0 |  | 44.3                 | 44.2 | 44.7 | 43.6                 | 44.0 |
| Malta          | :               | 42.3    | 44.6    | 43.8 | 43.3 | 42.5 | 42.3 |  | 42.6                 | 43.2 | 42.8 | 44.4                 | 43.8 |
| Netherlands    | 50.8            | 45.7    | 45.7    | 46.2 | 51.4 | 51.3 | 49.9 |  | 49.9                 | 49.9 | 49.8 | 50.8                 | 50.8 |
| Austria        | 54.3            | 52.1    | 50.4    | 49.3 | 52.6 | 52.6 | 50.6 |  | 51.6                 | 51.3 | 50.4 | 51.4                 | 50.6 |
| Portugal       | 40.8            | 42.1    | 45.2    | 44.7 | 49.7 | 51.2 | 49.4 |  | 46.7                 | 47.5 | 45.3 | 47.7                 | 46.1 |
| Slovenia       | :               | 46.3    | 44.9    | 44.3 | 49.1 | 50.3 | 50.7 |  | 48.8                 | 49.7 | 49.2 | 48.7                 | 47.9 |
| Slovakia       | :               | 47.1    | 37.3    | 34.9 | 41.5 | 40.0 | 38.2 |  | 37.6                 | 36.7 | 36.1 | 37.7                 | 37.3 |
| Finland        | 59.4            | 50.0    | 49.4    | 49.2 | 55.9 | 55.5 | 54.5 |  | 55.3                 | 54.9 | 55.1 | 54.3                 | 54.7 |
| Euro area      | 50.4            | 47.4    | 47.1    | 47.1 | 51.2 | 51.0 | 49.5 |  | 49.5                 | 49.4 | 49.1 | 49.4                 | 49.0 |
| Bulgaria       | :               | 40.0    | 37.7    | 38.4 | 41.4 | 37.4 | 35.6 |  | 36.4                 | 37.0 | 37.0 | 35.2                 | 35.3 |
| Czech Republic | :               | 43.3    | 43.9    | 41.2 | 44.7 | 43.8 | 43.0 |  | 43.6                 | 43.3 | 42.9 | 43.3                 | 43.1 |
| Denmark        | 59.0            | 54.8    | 52.8    | 51.6 | 57.8 | 57.6 | 57.9 |  | 59.6                 | 57.0 | 56.0 | 58.6                 | 56.6 |
| Latvia         | :               | 37.9    | 36.2    | 39.1 | 44.5 | 43.7 | 38.4 |  | 36.8                 | 35.6 | 34.8 | 38.1                 | 37.0 |
| Lithuania      | :               | 38.0    | 33.5    | 37.2 | 43.7 | 40.8 | 37.4 |  | 36.8                 | 36.2 | 35.4 | 36.8                 | 36.1 |
| Hungary        | :               | 49.6    | 50.3    | 49.3 | 51.5 | 49.7 | 49.5 |  | 48.9                 | 49.0 | 49.6 | 48.6                 | 47.6 |
| Poland         | :               | 43.2    | 43.4    | 43.2 | 44.6 | 45.4 | 43.6 |  | 42.8                 | 42.2 | 41.8 | 43.1                 | 42.4 |
| Romania        | :               | 36.9    | 34.9    | 39.3 | 41.1 | 40.1 | 37.9 |  | 36.1                 | 36.0 | 35.7 | 36.2                 | 35.4 |
| Sweden         | 63.8            | 56.4    | 53.3    | 51.7 | 54.7 | 52.0 | 51.0 |  | 51.4                 | 51.4 | 50.8 | 52.1                 | 51.8 |
| United Kingdom | 41.8            | 39.3    | 43.3    | 47.7 | 51.4 | 50.4 | 48.5 |  | 48.4                 | 47.2 | 45.7 | 47.4                 | 47.2 |
| EU             | :               | 46.4    | 46.5    | 47.1 | 51.1 | 50.6 | 49.1 |  | 49.1                 | 48.8 | 48.2 | 48.9                 | 48.4 |
| Croatia        | :               | :       | :       | 40.6 | 41.3 | 40.9 | 40.6 |  | 40.4                 | 40.0 | 39.6 | 39.2                 | 38.6 |
| USA            | 36.2            | 34.7    | 36.3    | 39.1 | 42.8 | 42.7 | 41.7 |  | 40.4                 | 39.9 | 39.6 | 40.4                 | 39.2 |
| Japan          | 34.7            | 38.9    | 36.5    | 36.9 | 41.9 | 40.8 | 41.4 |  | 42.8                 | 43.7 | 43.9 | 43.9                 | 44.0 |

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 35 : Total revenue, general government (as a percentage of GDP, 1993-2014) <sup>1</sup>

19.10.2012

|                | 5-year averages |         |         |      |      |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 47.9            | 49.4    | 49.2    | 48.7 | 48.1 | 48.6 | 49.4 | 51.2                 | 50.8 | 50.8 | 50.9                 | 50.4 |
| Germany        | 45.1            | 45.4    | 43.7    | 44.0 | 45.1 | 43.6 | 44.5 | 45.0                 | 45.3 | 45.3 | 44.7                 | 44.4 |
| Estonia        | :               | 36.4    | 36.0    | 36.7 | 43.5 | 40.8 | 39.4 | 40.1                 | 39.0 | 38.1 | 38.9                 | 38.1 |
| Ireland        | 37.8            | 35.4    | 35.7    | 35.7 | 34.7 | 35.2 | 34.9 | 34.3                 | 34.0 | 34.2 | 35.8                 | 35.5 |
| Greece         | 35.9            | 41.6    | 39.4    | 40.7 | 38.3 | 40.6 | 42.3 | 43.9                 | 44.1 | 43.5 | 42.4                 | 42.2 |
| Spain          | 38.3            | 38.4    | 39.7    | 37.0 | 35.1 | 36.6 | 35.7 | 36.3                 | 36.7 | 35.8 | 36.0                 | 35.7 |
| France         | 49.1            | 50.1    | 50.0    | 49.9 | 49.2 | 49.5 | 50.8 | 51.8                 | 53.2 | 53.2 | 51.8                 | 52.0 |
| Italy          | 45.5            | 45.1    | 44.6    | 45.9 | 46.5 | 46.0 | 46.1 | 48.1                 | 48.4 | 47.9 | 48.4                 | 48.4 |
| Cyprus         | :               | 34.2    | 40.6    | 43.1 | 40.1 | 40.9 | 39.8 | 41.6                 | 41.3 | 41.4 | 42.6                 | 42.8 |
| Luxembourg     | :               | 43.7    | 41.0    | 42.3 | 43.9 | 42.0 | 41.6 | 42.4                 | 42.5 | 42.9 | 41.9                 | 41.8 |
| Malta          | :               | 35.2    | 40.2    | 39.2 | 39.4 | 38.9 | 39.6 | 40.0                 | 40.2 | 40.2 | 41.9                 | 40.8 |
| Netherlands    | 47.9            | 45.5    | 44.9    | 46.7 | 45.8 | 46.1 | 45.4 | 46.2                 | 47.1 | 46.6 | 46.3                 | 46.1 |
| Austria        | 50.2            | 50.6    | 48.4    | 48.3 | 48.5 | 48.1 | 48.0 | 48.5                 | 48.6 | 48.5 | 48.4                 | 48.6 |
| Portugal       | 35.9            | 38.4    | 40.8    | 41.1 | 39.6 | 41.4 | 45.0 | 41.7                 | 43.0 | 42.8 | 43.0                 | 43.1 |
| Slovenia       | :               | 43.2    | 43.3    | 42.4 | 43.1 | 44.5 | 44.3 | 44.4                 | 45.8 | 45.1 | 44.4                 | 44.0 |
| Slovakia       | :               | 39.2    | 34.7    | 32.8 | 33.5 | 32.3 | 33.2 | 32.7                 | 33.4 | 32.9 | 33.0                 | 32.5 |
| Finland        | 54.5            | 53.9    | 52.9    | 53.6 | 53.4 | 53.0 | 53.9 | 53.6                 | 53.7 | 54.2 | 53.6                 | 54.3 |
| Euro area      | 45.4            | 45.7    | 45.0    | 45.0 | 44.9 | 44.8 | 45.4 | 46.2                 | 46.8 | 46.6 | 46.2                 | 46.1 |
| Bulgaria       | :               | 40.1    | 38.8    | 40.1 | 37.1 | 34.3 | 33.6 | 34.9                 | 35.5 | 35.9 | 33.3                 | 33.6 |
| Czech Republic | :               | 38.4    | 40.7    | 38.9 | 38.9 | 39.0 | 39.8 | 40.1                 | 39.8 | 39.7 | 40.4                 | 40.5 |
| Denmark        | 56.8            | 55.8    | 56.3    | 54.8 | 55.2 | 55.1 | 56.1 | 55.7                 | 55.0 | 54.3 | 54.5                 | 54.7 |
| Latvia         | :               | 35.7    | 35.4    | 34.9 | 34.7 | 35.6 | 35.0 | 35.1                 | 34.0 | 33.4 | 36.0                 | 34.9 |
| Lithuania      | :               | 35.1    | 32.6    | 34.0 | 34.3 | 33.6 | 31.9 | 33.7                 | 33.4 | 33.1 | 33.5                 | 33.1 |
| Hungary        | :               | 43.7    | 43.1    | 45.5 | 46.9 | 45.4 | 53.9 | 46.4                 | 46.1 | 46.1 | 46.1                 | 44.6 |
| Poland         | :               | 39.3    | 39.1    | 39.5 | 37.2 | 37.6 | 38.5 | 39.4                 | 39.1 | 38.9 | 40.1                 | 39.8 |
| Romania        | :               | 33.3    | 33.1    | 33.6 | 32.1 | 33.3 | 32.3 | 33.3                 | 33.6 | 33.7 | 33.4                 | 33.2 |
| Sweden         | 57.2            | 57.5    | 54.9    | 53.9 | 54.0 | 52.3 | 51.3 | 51.4                 | 51.1 | 51.2 | 51.8                 | 51.8 |
| United Kingdom | 36.5            | 39.9    | 40.2    | 42.6 | 39.9 | 40.2 | 40.7 | 42.2                 | 40.1 | 39.8 | 40.8                 | 40.8 |
| EU             | :               | 45.0    | 44.3    | 44.7 | 44.2 | 44.1 | 44.7 | 45.5                 | 45.5 | 45.3 | 45.2                 | 45.2 |
| Croatia        | :               | :       | :       | 39.3 | 37.1 | 35.9 | 35.5 | 36.0                 | 35.8 | 35.7 | 34.1                 | 33.6 |
| USA            | 33.1            | 34.4    | 32.8    | 32.7 | 31.0 | 31.4 | 31.6 | 32.0                 | 32.6 | 33.4 | 32.1                 | 32.1 |
| Japan          | 31.3            | 30.9    | 32.1    | 35.1 | 33.1 | 32.4 | 33.6 | 34.5                 | 35.8 | 36.2 | 35.7                 | 36.0 |

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 36 : Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1993-2014) <sup>1</sup>

|                | 5-year averages |         |         |      |       |       |       | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|-------|-------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010  | 2011  | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | -4.5            | -0.3    | -0.5    | -1.0 | -5.5  | -3.8  | -3.7  | -3.0                 | -3.4 | -3.5 | -3.0                 | -3.3 |
| Germany        | -4.3            | -1.9    | -2.5    | -0.1 | -3.1  | -4.1  | -0.8  | -0.2                 | -0.2 | 0.0  | -0.9                 | -0.7 |
| Estonia        | :               | -0.8    | 2.0     | -2.9 | -2.0  | 0.2   | 1.1   | -1.1                 | -0.5 | 0.3  | -2.4                 | -1.3 |
| Ireland        | -1.0            | 2.0     | 1.3     | -7.4 | -13.9 | -30.9 | -13.4 | -8.4                 | -7.5 | -5.0 | -8.3                 | -7.5 |
| Greece         | -8.6            | -4.0    | -6.2    | -9.8 | -15.6 | -10.7 | -9.4  | -6.8                 | -5.5 | -4.6 | -7.3                 | -8.4 |
| Spain          | -5.9            | -1.2    | 1.0     | -4.5 | -11.2 | -9.7  | -9.4  | -8.0                 | -6.0 | -6.4 | -6.4                 | -6.3 |
| France         | -4.8            | -2.2    | -3.1    | -3.3 | -7.5  | -7.1  | -5.2  | -4.5                 | -3.5 | -3.5 | -4.5                 | -4.2 |
| Italy          | -7.0            | -2.3    | -3.3    | -2.7 | -5.4  | -4.5  | -3.9  | -2.9                 | -2.1 | -2.1 | -2.0                 | -1.1 |
| Cyprus         | :               | -3.5    | -2.2    | 0.9  | -6.1  | -5.3  | -6.3  | -5.3                 | -5.7 | -6.0 | -3.4                 | -2.5 |
| Luxembourg     | 2.2             | 4.2     | 0.9     | 3.2  | -0.8  | -0.8  | -0.3  | -1.9                 | -1.7 | -1.8 | -1.8                 | -2.2 |
| Malta          | :               | -7.0    | -4.4    | -4.6 | -3.9  | -3.6  | -2.7  | -2.6                 | -2.9 | -2.6 | -2.6                 | -2.9 |
| Netherlands    | -2.8            | -0.2    | -0.9    | 0.5  | -5.6  | -5.1  | -4.5  | -3.7                 | -2.9 | -3.2 | -4.4                 | -4.6 |
| Austria        | -4.1            | -1.4    | -2.0    | -0.9 | -4.1  | -4.5  | -2.5  | -3.2                 | -2.7 | -1.9 | -3.0                 | -1.9 |
| Portugal       | -5.0            | -3.7    | -4.4    | -3.6 | -10.2 | -9.8  | -4.4  | -5.0                 | -4.5 | -2.5 | -4.7                 | -3.1 |
| Slovenia       | :               | -3.1    | -1.6    | -1.9 | -6.0  | -5.7  | -6.4  | -4.4                 | -3.9 | -4.1 | -4.3                 | -3.8 |
| Slovakia       | :               | -8.0    | -2.6    | -2.1 | -8.0  | -7.7  | -4.9  | -4.9                 | -3.2 | -3.1 | -4.7                 | -4.9 |
| Finland        | -4.9            | 3.9     | 3.5     | 4.4  | -2.5  | -2.5  | -0.6  | -1.8                 | -1.2 | -1.0 | -0.7                 | -0.4 |
| Euro area      | -5.0            | -1.7    | -2.1    | -2.1 | -6.3  | -6.2  | -4.1  | -3.3                 | -2.6 | -2.5 | -3.2                 | -2.9 |
| Bulgaria       | :               | 0.1     | 1.1     | 1.7  | -4.3  | -3.1  | -2.0  | -1.5                 | -1.5 | -1.1 | -1.9                 | -1.7 |
| Czech Republic | :               | -4.8    | -3.2    | -2.2 | -5.8  | -4.8  | -3.3  | -3.5                 | -3.4 | -3.2 | -2.9                 | -2.6 |
| Denmark        | -2.2            | 1.1     | 3.5     | 3.2  | -2.7  | -2.5  | -1.8  | -3.9                 | -2.0 | -1.7 | -4.1                 | -2.0 |
| Latvia         | :               | -2.2    | -0.8    | -4.2 | -9.8  | -8.1  | -3.4  | -1.7                 | -1.5 | -1.4 | -2.1                 | -2.1 |
| Lithuania      | :               | -2.9    | -1.0    | -3.3 | -9.4  | -7.2  | -5.5  | -3.2                 | -2.8 | -2.3 | -3.2                 | -3.0 |
| Hungary        | :               | -5.9    | -7.2    | -3.7 | -4.6  | -4.4  | 4.3   | -2.5                 | -2.9 | -3.5 | -2.5                 | -2.9 |
| Poland         | :               | -4.0    | -4.2    | -3.7 | -7.4  | -7.9  | -5.0  | -3.4                 | -3.1 | -3.0 | -3.0                 | -2.5 |
| Romania        | :               | -3.6    | -1.8    | -5.7 | -9.0  | -6.8  | -5.5  | -2.8                 | -2.4 | -2.0 | -2.8                 | -2.2 |
| Sweden         | -6.6            | 1.1     | 1.5     | 2.2  | -0.7  | 0.3   | 0.4   | 0.0                  | -0.3 | 0.4  | -0.3                 | 0.1  |
| United Kingdom | -5.3            | 0.6     | -3.2    | -5.1 | -11.5 | -10.2 | -7.8  | -6.2                 | -7.2 | -5.9 | -6.7                 | -6.5 |
| EU             | :               | -1.4    | -2.2    | -2.4 | -6.9  | -6.5  | -4.4  | -3.6                 | -3.2 | -2.9 | -3.6                 | -3.3 |
| Croatia        | :               | :       | :       | -1.4 | -4.2  | -5.0  | -5.1  | -4.4                 | -4.2 | -3.9 | -5.1                 | -5.0 |
| USA            | -3.1            | -0.3    | -3.5    | -6.4 | -11.9 | -11.3 | -10.1 | -8.5                 | -7.3 | -6.2 | -8.3                 | -7.1 |
| Japan          | -3.5            | -8.0    | -4.4    | -1.9 | -8.8  | -8.4  | -7.8  | -8.3                 | -7.9 | -7.7 | -8.2                 | -8.0 |

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 37 : Interest expenditure, general government (as a percentage of GDP, 1993-2014) <sup>1</sup>

19.10.2012

|                | 5-year averages |         |         |      |      |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 9.0             | 6.6     | 4.4     | 3.8  | 3.6  | 3.4  | 3.3  | 3.5                  | 3.4  | 3.4  | 3.3                  | 3.3  |
| Germany        | 3.3             | 3.2     | 2.9     | 2.8  | 2.7  | 2.5  | 2.6  | 2.4                  | 2.4  | 2.3  | 2.6                  | 2.4  |
| Estonia        | :               | 0.3     | 0.2     | 0.2  | 0.2  | 0.1  | 0.1  | 0.1                  | 0.2  | 0.2  | 0.1                  | 0.1  |
| Ireland        | 5.1             | 2.1     | 1.1     | 1.3  | 2.0  | 3.2  | 3.3  | 4.0                  | 5.7  | 5.6  | 4.0                  | 5.5  |
| Greece         | 11.0            | 7.0     | 4.7     | 5.0  | 5.2  | 5.8  | 7.1  | 5.4                  | 5.4  | 6.0  | 6.3                  | 6.4  |
| Spain          | 4.9             | 3.3     | 1.9     | 1.6  | 1.8  | 1.9  | 2.5  | 3.0                  | 3.8  | 4.0  | 3.2                  | 3.3  |
| France         | 3.4             | 3.0     | 2.7     | 2.9  | 2.4  | 2.4  | 2.6  | 2.6                  | 2.6  | 2.5  | 2.6                  | 2.6  |
| Italy          | 10.9            | 6.5     | 4.8     | 5.2  | 4.7  | 4.6  | 5.0  | 5.5                  | 5.5  | 5.8  | 5.4                  | 5.6  |
| Cyprus         | :               | 3.2     | 3.3     | 2.8  | 2.6  | 2.2  | 2.4  | 3.5                  | 3.9  | 4.2  | 3.2                  | 3.2  |
| Luxembourg     | 0.4             | 0.3     | 0.2     | 0.3  | 0.4  | 0.4  | 0.5  | 0.5                  | 0.6  | 0.7  | 0.5                  | 0.6  |
| Malta          | :               | 3.4     | 3.5     | 3.2  | 3.1  | 3.0  | 3.1  | 3.2                  | 3.3  | 3.2  | 3.3                  | 3.4  |
| Netherlands    | 5.5             | 3.7     | 2.3     | 2.2  | 2.2  | 2.0  | 2.0  | 2.0                  | 2.0  | 2.0  | 2.1                  | 2.2  |
| Austria        | 3.9             | 3.4     | 2.8     | 2.6  | 2.8  | 2.7  | 2.6  | 2.6                  | 2.7  | 2.7  | 2.7                  | 2.7  |
| Portugal       | 5.1             | 2.9     | 2.7     | 3.0  | 2.8  | 2.9  | 4.0  | 4.5                  | 4.7  | 5.0  | 4.8                  | 4.9  |
| Slovenia       | :               | 2.3     | 1.6     | 1.1  | 1.3  | 1.6  | 1.9  | 2.4                  | 2.6  | 2.8  | 2.5                  | 2.6  |
| Slovakia       | :               | 3.5     | 1.9     | 1.2  | 1.4  | 1.3  | 1.6  | 1.8                  | 2.0  | 2.1  | 1.9                  | 2.0  |
| Finland        | 4.3             | 2.8     | 1.5     | 1.4  | 1.1  | 1.1  | 1.1  | 1.1                  | 1.1  | 1.1  | 1.2                  | 1.2  |
| Euro area      | 5.4             | 3.9     | 3.0     | 3.0  | 2.9  | 2.8  | 3.0  | 3.1                  | 3.2  | 3.3  | 3.2                  | 3.2  |
| Bulgaria       | :               | 3.7     | 1.7     | 0.9  | 0.8  | 0.6  | 0.6  | 0.8                  | 0.9  | 0.9  | 0.8                  | 1.0  |
| Czech Republic | :               | 1.0     | 1.1     | 1.1  | 1.3  | 1.4  | 1.4  | 1.5                  | 1.5  | 1.6  | 1.4                  | 1.5  |
| Denmark        | 6.1             | 3.7     | 2.0     | 1.4  | 1.8  | 1.7  | 1.8  | 1.6                  | 1.1  | 1.1  | 1.5                  | 1.5  |
| Latvia         | :               | 0.8     | 0.6     | 0.6  | 1.5  | 1.4  | 1.5  | 1.6                  | 1.7  | 2.0  | 1.7                  | 1.8  |
| Lithuania      | :               | 1.4     | 0.9     | 0.7  | 1.3  | 1.8  | 1.8  | 2.0                  | 2.1  | 2.0  | 2.1                  | 2.0  |
| Hungary        | :               | 5.7     | 4.2     | 4.2  | 4.7  | 4.1  | 4.1  | 4.1                  | 4.1  | 4.2  | 4.1                  | 4.2  |
| Poland         | :               | 3.2     | 2.7     | 2.2  | 2.6  | 2.7  | 2.7  | 2.7                  | 2.7  | 2.7  | 2.7                  | 2.7  |
| Romania        | :               | 3.8     | 1.2     | 0.7  | 1.5  | 1.5  | 1.6  | 1.9                  | 1.8  | 1.7  | 1.7                  | 1.7  |
| Sweden         | 5.5             | 3.5     | 1.7     | 1.7  | 1.0  | 0.8  | 1.0  | 1.0                  | 1.0  | 1.0  | 1.1                  | 1.1  |
| United Kingdom | 3.3             | 2.7     | 2.0     | 2.3  | 2.0  | 3.0  | 3.2  | 3.2                  | 3.2  | 3.2  | 3.4                  | 3.5  |
| EU             | :               | 3.7     | 2.8     | 2.8  | 2.6  | 2.7  | 2.9  | 3.0                  | 3.1  | 3.1  | 3.1                  | 3.1  |
| Croatia        | :               | :       | :       | 1.5  | 1.7  | 2.0  | 2.3  | 2.7                  | 2.9  | 3.3  | 0.0                  | 0.0  |
| USA            | 4.6             | 3.5     | 2.7     | 2.7  | 2.5  | 2.6  | 2.8  | 2.9                  | 3.1  | 3.3  | 2.8                  | 2.9  |
| Japan          | 3.5             | 3.3     | :       | :    | :    | :    | 2.1  | 2.1                  | 2.1  | 2.1  | 2.1                  | 2.1  |

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 38 : Primary balance, general government (as a percentage of GDP, 1993-2014) <sup>1 2</sup>

|                | 5-year averages |         |         |      |       |       |       | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|-------|-------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010  | 2011  | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 4.5             | 6.3     | 3.9     | 2.8  | -1.9  | -0.4  | -0.4  | 0.5                  | 0.0  | -0.1 | 0.4                  | 0.0  |
| Germany        | -0.9            | 1.2     | 0.3     | 2.7  | -0.4  | -1.6  | 1.8   | 2.3                  | 2.2  | 2.2  | 1.7                  | 1.6  |
| Estonia        | :               | -0.6    | 2.2     | -2.7 | -1.8  | 0.3   | 1.3   | -1.0                 | -0.3 | 0.5  | -2.2                 | -1.1 |
| Ireland        | 4.0             | 4.1     | 2.4     | -6.0 | -11.9 | -27.7 | -10.0 | -4.4                 | -1.9 | 0.7  | -4.3                 | -2.0 |
| Greece         | 2.5             | 3.0     | -1.5    | -4.8 | -10.5 | -4.9  | -2.3  | -1.4                 | 0.0  | 1.5  | -1.0                 | -2.0 |
| Spain          | -1.0            | 2.1     | 2.9     | -2.9 | -9.4  | -7.7  | -7.0  | -5.0                 | -2.2 | -2.5 | -3.3                 | -3.1 |
| France         | -1.3            | 0.8     | -0.4    | -0.4 | -5.1  | -4.7  | -2.6  | -1.9                 | -1.0 | -1.0 | -1.9                 | -1.6 |
| Italy          | 3.9             | 4.2     | 1.5     | 2.5  | -0.8  | 0.1   | 1.0   | 2.6                  | 3.5  | 3.7  | 3.4                  | 4.5  |
| Cyprus         | :               | -0.3    | 1.2     | 3.8  | -3.6  | -3.0  | -3.9  | -1.7                 | -1.8 | -1.8 | -0.2                 | 0.7  |
| Luxembourg     | 2.6             | 4.5     | 1.1     | 3.5  | -0.4  | -0.5  | 0.1   | -1.4                 | -1.1 | -1.0 | -1.2                 | -1.6 |
| Malta          | :               | -3.6    | -0.9    | -1.4 | -0.7  | -0.6  | 0.4   | 0.6                  | 0.3  | 0.6  | 0.8                  | 0.5  |
| Netherlands    | 2.6             | 3.5     | 1.5     | 2.7  | -3.4  | -3.1  | -2.4  | -1.7                 | -0.8 | -1.2 | -2.3                 | -2.5 |
| Austria        | -0.2            | 2.0     | 0.8     | 1.7  | -1.3  | -1.8  | 0.1   | -0.5                 | 0.0  | 0.8  | -0.3                 | 0.8  |
| Portugal       | 0.1             | -0.8    | -1.7    | -0.6 | -7.3  | -7.0  | -0.4  | -0.5                 | 0.2  | 2.5  | 0.1                  | 1.9  |
| Slovenia       | :               | -0.8    | 0.0     | -0.8 | -4.6  | -4.1  | -4.5  | -2.0                 | -1.3 | -1.4 | -1.7                 | -1.2 |
| Slovakia       | :               | -4.4    | -0.7    | -0.8 | -6.6  | -6.3  | -3.4  | -3.1                 | -1.3 | -1.1 | -2.8                 | -2.9 |
| Finland        | -0.6            | 6.8     | 5.0     | 5.8  | -1.3  | -1.4  | 0.5   | -0.7                 | -0.1 | 0.2  | 0.5                  | 0.8  |
| Euro area      | 0.5             | 2.3     | 0.9     | 0.9  | -3.5  | -3.4  | -1.1  | -0.2                 | 0.6  | 0.8  | 0.0                  | 0.3  |
| Bulgaria       | :               | 3.8     | 2.8     | 2.6  | -3.6  | -2.5  | -1.4  | -0.6                 | -0.6 | -0.1 | -1.1                 | -0.7 |
| Czech Republic | :               | -3.8    | -2.1    | -1.2 | -4.5  | -3.4  | -1.9  | -2.1                 | -1.9 | -1.7 | -1.4                 | -1.1 |
| Denmark        | 3.9             | 4.8     | 5.5     | 4.7  | -0.9  | -0.8  | -0.1  | -2.4                 | -0.9 | -0.6 | -2.6                 | -0.5 |
| Latvia         | :               | -1.4    | -0.2    | -3.6 | -8.3  | -6.7  | -2.0  | -0.2                 | 0.2  | 0.7  | -0.4                 | -0.3 |
| Lithuania      | :               | -1.5    | -0.1    | -2.6 | -8.2  | -5.4  | -3.7  | -1.1                 | -0.7 | -0.2 | -1.2                 | -0.9 |
| Hungary        | :               | -0.2    | -3.1    | 0.5  | 0.1   | -0.3  | 8.5   | 1.6                  | 1.2  | 0.7  | 1.5                  | 1.2  |
| Poland         | :               | -0.8    | -1.5    | -1.5 | -4.8  | -5.2  | -2.3  | -0.7                 | -0.4 | -0.2 | -0.3                 | 0.2  |
| Romania        | :               | 0.2     | -0.6    | -5.0 | -7.5  | -5.3  | -4.0  | -1.0                 | -0.6 | -0.3 | -1.1                 | -0.4 |
| Sweden         | -1.0            | 4.6     | 3.3     | 3.8  | 0.2   | 1.1   | 1.4   | 1.0                  | 0.6  | 1.4  | 0.8                  | 1.2  |
| United Kingdom | -2.0            | 3.2     | -1.1    | -2.8 | -9.5  | -7.2  | -4.6  | -3.0                 | -3.9 | -2.7 | -3.3                 | -3.0 |
| EU             | :               | 2.3     | 0.6     | 0.4  | -4.2  | -3.8  | -1.5  | -0.6                 | -0.2 | 0.2  | -0.5                 | -0.2 |
| Croatia        | :               | :       | :       | 0.1  | -2.4  | -3.0  | -2.9  | -1.8                 | -1.3 | -0.6 | -5.1                 | -5.0 |
| USA            | 1.4             | 3.1     | -0.8    | -3.7 | -9.4  | -8.7  | -7.3  | -5.5                 | -4.2 | -2.9 | -5.5                 | -4.2 |
| Japan          | 0.0             | -4.7    | :       | :    | :     | :     | -5.7  | -6.2                 | -5.8 | -5.6 | -6.1                 | -5.9 |

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.<sup>2</sup> Net lending/borrowing excluding interest expenditure.

TABLE 39 : Cyclically-adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |       |       |       |       | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|-------|-------|-------|-------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008  | 2009  | 2010  | 2011  | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | -4.0            | -0.6    | -0.9    | -1.9  | -4.5  | -3.3  | -3.6  | -2.3                 | -2.7 | -3.1 | -2.2                 | -2.6 |
| Germany        | -4.1            | -2.2    | -2.2    | -1.2  | -0.9  | -3.5  | -0.9  | 0.0                  | 0.3  | 0.3  | -0.4                 | -0.3 |
| Estonia        | :               | -0.9    | 0.0     | -4.3  | 0.7   | 1.9   | 1.0   | -1.4                 | -0.8 | -0.1 | -1.8                 | -1.0 |
| Ireland        | -0.8            | 0.7     | 0.8     | -7.5  | -12.1 | -28.9 | -12.1 | -7.7                 | -7.3 | -5.3 | -7.8                 | -7.9 |
| Greece         | -8.6            | -4.0    | -6.7    | -10.5 | -15.0 | -8.4  | -5.1  | -1.2                 | 0.7  | 0.4  | -2.6                 | -4.5 |
| Spain          | -4.6            | -1.9    | 0.4     | -4.7  | -9.4  | -7.6  | -7.6  | -6.0                 | -4.0 | -5.3 | -4.5                 | -4.8 |
| France         | -4.0            | -3.1    | -4.2    | -4.1  | -6.1  | -5.9  | -4.3  | -3.3                 | -2.0 | -2.2 | -3.1                 | -2.9 |
| Italy          | -6.9            | -3.0    | -4.0    | -3.5  | -3.6  | -3.5  | -3.0  | -1.3                 | -0.4 | -0.9 | -0.6                 | 0.1  |
| Cyprus         | :               | -3.9    | -2.1    | -0.6  | -6.2  | -5.3  | -6.1  | -4.4                 | -4.8 | -5.3 | -2.7                 | -1.7 |
| Luxembourg     | :               | 3.0     | 0.3     | 2.5   | 0.9   | 0.0   | 0.2   | -1.1                 | -0.9 | -1.1 | -0.6                 | -1.4 |
| Malta          | :               | -7.8    | -3.9    | -5.1  | -3.0  | -3.5  | -2.8  | -2.5                 | -2.9 | -2.6 | -2.5                 | -3.1 |
| Netherlands    | -2.4            | -0.7    | -0.6    | -0.7  | -4.1  | -4.0  | -3.5  | -2.2                 | -1.1 | -1.8 | -2.4                 | -2.5 |
| Austria        | -3.7            | -1.8    | -2.0    | -1.9  | -2.8  | -3.7  | -2.5  | -2.9                 | -2.3 | -1.8 | -2.7                 | -1.8 |
| Portugal       | -4.6            | -4.8    | -4.2    | -3.6  | -8.8  | -9.1  | -3.2  | -3.1                 | -2.5 | -0.9 | -2.6                 | -1.3 |
| Slovenia       | :               | :       | -2.6    | -4.8  | -4.4  | -4.6  | -5.7  | -3.0                 | -2.0 | -2.7 | -2.2                 | -1.9 |
| Slovakia       | :               | -7.5    | -2.8    | -4.0  | -7.3  | -7.6  | -4.9  | -4.9                 | -2.9 | -2.8 | -4.3                 | -4.6 |
| Finland        | -3.1            | 3.1     | 2.8     | 2.4   | 1.0   | -0.5  | 0.3   | -0.6                 | -0.1 | -0.3 | 0.3                  | 0.3  |
| Euro area      | -4.5            | -2.3    | -2.5    | -3.0  | -4.6  | -5.1  | -3.4  | -2.2                 | -1.3 | -1.6 | -2.0                 | -1.8 |
| Bulgaria       | :               | :       | 0.2     | 0.0   | -3.1  | -1.8  | -1.3  | -0.8                 | -0.9 | -0.6 | -0.7                 | -0.8 |
| Czech Republic | :               | -3.9    | -3.9    | -4.4  | -5.4  | -4.7  | -3.3  | -2.7                 | -2.4 | -2.4 | -2.1                 | -1.8 |
| Denmark        | -1.5            | 0.3     | 2.4     | 2.3   | 0.4   | 0.0   | 0.5   | -1.8                 | -0.6 | -0.6 | -2.6                 | -1.0 |
| Latvia         | :               | -1.7    | -2.5    | -6.4  | -6.3  | -4.9  | -1.9  | -1.2                 | -1.5 | -1.7 | -1.2                 | -1.7 |
| Lithuania      | :               | :       | -2.7    | -5.8  | -6.6  | -4.9  | -4.9  | -2.6                 | -2.3 | -2.1 | -2.6                 | -2.6 |
| Hungary        | :               | :       | -8.4    | -4.8  | -2.5  | -2.8  | 5.2   | -1.1                 | -1.5 | -2.6 | -1.3                 | -2.0 |
| Poland         | :               | -4.3    | -4.3    | -4.8  | -7.7  | -8.0  | -5.0  | -2.9                 | -2.0 | -1.7 | -2.7                 | -1.9 |
| Romania        | :               | -1.8    | -3.2    | -8.8  | -9.3  | -6.1  | -5.0  | -1.9                 | -1.4 | -1.0 | -1.7                 | -1.2 |
| Sweden         | -4.2            | 1.0     | 0.6     | 1.9   | 2.9   | 1.4   | 0.3   | 0.6                  | 0.3  | 0.8  | 0.3                  | 0.4  |
| United Kingdom | -5.0            | 0.2     | -4.2    | -5.6  | -9.8  | -8.9  | -6.7  | -4.6                 | -5.6 | -4.8 | -5.1                 | -5.1 |
| EU             | :               | :       | -2.7    | -3.3  | -5.1  | -5.4  | -3.7  | -2.5                 | -1.9 | -2.0 | -2.4                 | -2.2 |
| Croatia        | :               | :       | :       | :     | :     | :     | :     | :                    | :    | :    | :                    | :    |

TABLE 40 : Cyclically-adjusted primary balance, general government (as a percentage of GDP, 1993-2014)

|                | 5-year averages |         |         |      |       |       |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|-------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010  | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 4.9             | 6.0     | 3.5     | 1.9  | -0.9  | 0.1   | -0.3 | 1.1                  | 0.8  | 0.3  | 1.1                  | 0.7  |
| Germany        | -0.8            | 1.0     | 0.7     | 1.6  | 1.7   | -1.0  | 1.6  | 2.5                  | 2.7  | 2.5  | 2.1                  | 2.0  |
| Estonia        | :               | -0.6    | 0.2     | -4.1 | 0.9   | 2.0   | 1.1  | -1.3                 | -0.6 | 0.1  | -1.7                 | -0.9 |
| Ireland        | 4.3             | 2.8     | 1.9     | -6.1 | -10.1 | -25.7 | -8.8 | -3.7                 | -1.6 | 0.3  | -3.8                 | -2.4 |
| Greece         | 2.5             | 3.0     | -2.0    | -5.5 | -9.8  | -2.6  | 2.0  | 4.2                  | 6.2  | 6.4  | 3.7                  | 1.9  |
| Spain          | 0.3             | 1.5     | 2.3     | -3.1 | -7.6  | -5.7  | -5.2 | -3.0                 | -0.1 | -1.3 | -1.4                 | -1.5 |
| France         | -0.6            | 0.0     | -1.5    | -1.1 | -3.7  | -3.5  | -1.7 | -0.7                 | 0.5  | 0.4  | -0.5                 | -0.2 |
| Italy          | 4.0             | 3.5     | 0.8     | 1.7  | 1.1   | 1.1   | 1.9  | 4.2                  | 5.1  | 5.0  | 4.8                  | 5.6  |
| Cyprus         | :               | -0.6    | 1.2     | 2.2  | -3.6  | -3.0  | -3.8 | -0.9                 | -0.9 | -1.1 | 0.5                  | 1.6  |
| Luxembourg     | :               | 3.4     | 0.5     | 2.9  | 1.2   | 0.3   | 0.7  | -0.6                 | -0.2 | -0.4 | 0.0                  | -0.8 |
| Malta          | :               | -4.4    | -0.4    | -1.9 | 0.1   | -0.5  | 0.3  | 0.7                  | 0.4  | 0.6  | 0.8                  | 0.3  |
| Netherlands    | 3.1             | 3.0     | 1.8     | 1.5  | -1.9  | -2.0  | -1.4 | -0.2                 | 0.9  | 0.2  | -0.3                 | -0.3 |
| Austria        | 0.2             | 1.6     | 0.8     | 0.7  | 0.0   | -1.1  | 0.1  | -0.3                 | 0.4  | 0.8  | 0.0                  | 0.9  |
| Portugal       | 0.4             | -1.9    | -1.5    | -0.6 | -5.9  | -6.2  | 0.8  | 1.4                  | 2.1  | 4.0  | 2.2                  | 3.7  |
| Slovenia       | :               | :       | -1.0    | -3.6 | -3.1  | -2.9  | -3.8 | -0.6                 | 0.6  | 0.1  | 0.3                  | 0.7  |
| Slovakia       | :               | -4.0    | -1.0    | -2.7 | -5.9  | -6.2  | -3.4 | -3.1                 | -1.0 | -0.8 | -2.4                 | -2.5 |
| Finland        | 1.3             | 5.9     | 4.3     | 3.8  | 2.1   | 0.6   | 1.4  | 0.5                  | 0.9  | 0.9  | 1.5                  | 1.6  |
| Euro area      | 0.9             | 1.7     | 0.6     | 0.1  | -1.7  | -2.3  | -0.4 | 0.9                  | 1.9  | 1.7  | 1.2                  | 1.4  |
| Bulgaria       | :               | :       | 1.8     | 0.9  | -2.3  | -1.2  | -0.7 | 0.1                  | 0.0  | 0.3  | 0.1                  | 0.2  |
| Czech Republic | :               | -2.9    | -2.8    | -3.4 | -4.2  | -3.3  | -2.0 | -1.3                 | -0.9 | -0.9 | -0.7                 | -0.3 |
| Denmark        | 4.5             | 4.0     | 4.4     | 3.7  | 2.1   | 1.7   | 2.2  | -0.3                 | 0.6  | 0.5  | -1.1                 | 0.4  |
| Latvia         | :               | -0.9    | -2.0    | -5.8 | -4.8  | -3.5  | -0.4 | 0.4                  | 0.3  | 0.4  | 0.4                  | 0.1  |
| Lithuania      | :               | :       | -1.8    | -5.1 | -5.3  | -3.1  | -3.1 | -0.5                 | -0.2 | -0.1 | -0.5                 | -0.5 |
| Hungary        | :               | :       | -4.3    | -0.6 | 2.2   | 1.3   | 9.3  | 3.0                  | 2.5  | 1.6  | 2.8                  | 2.1  |
| Poland         | :               | -1.1    | -1.6    | -2.6 | -5.1  | -5.3  | -2.4 | -0.2                 | 0.7  | 1.0  | 0.0                  | 0.8  |
| Romania        | :               | 2.0     | -2.0    | -8.1 | -7.7  | -4.5  | -3.4 | 0.0                  | 0.4  | 0.7  | 0.0                  | 0.6  |
| Sweden         | 1.4             | 4.6     | 2.3     | 3.6  | 3.9   | 2.2   | 1.4  | 1.6                  | 1.3  | 1.8  | 1.4                  | 1.5  |
| United Kingdom | -1.7            | 2.9     | -2.2    | -3.2 | -7.8  | -6.0  | -3.5 | -1.4                 | -2.4 | -1.5 | -1.7                 | -1.6 |
| EU             | :               | :       | 0.1     | -0.5 | -2.5  | -2.7  | -0.8 | 0.5                  | 1.1  | 1.1  | 0.7                  | 0.9  |
| Croatia        | :               | :       | :       | :    | :     | :     | :    | :                    | :    | :    | :                    | :    |

TABLE 41 : Structural budget balance, general government (as a percentage of GDP, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | :               | :       | -1.1    | -2.0 | -3.9  | -3.3 | -3.4 | -2.7                 | -2.7 | -3.1 | -2.7                 | -2.6 |
| Germany        | :               | :       | -2.2    | -0.9 | -0.9  | -2.3 | -0.7 | 0.2                  | 0.3  | 0.3  | -0.4                 | -0.3 |
| Estonia        | :               | :       | -0.1    | -4.5 | -1.1  | -1.2 | -0.7 | -0.4                 | -0.4 | 0.2  | -0.8                 | -0.5 |
| Ireland        | :               | :       | 0.9     | -7.5 | -10.1 | -9.4 | -7.9 | -7.9                 | -7.5 | -5.3 | -8.1                 | -7.9 |
| Greece         | :               | :       | -6.7    | -9.6 | -14.7 | -8.7 | -5.4 | -1.5                 | 0.7  | 0.4  | -2.9                 | -4.5 |
| Spain          | :               | :       | 0.6     | -4.4 | -8.7  | -7.6 | -7.5 | -6.3                 | -4.0 | -5.3 | -4.8                 | -4.8 |
| France         | :               | :       | -4.4    | -4.1 | -6.1  | -5.7 | -4.5 | -3.4                 | -2.0 | -2.1 | -3.2                 | -2.9 |
| Italy          | :               | :       | -4.7    | -3.7 | -4.3  | -3.7 | -3.7 | -1.4                 | -0.4 | -0.8 | -0.7                 | -0.1 |
| Cyprus         | :               | :       | -2.9    | -0.6 | -6.2  | -5.3 | -5.9 | -4.6                 | -4.8 | -5.3 | -2.7                 | -1.7 |
| Luxembourg     | :               | :       | 0.3     | 2.5  | 0.9   | 0.0  | 0.2  | -1.1                 | -0.9 | -1.1 | -0.6                 | -1.4 |
| Malta          | :               | :       | -4.3    | -5.4 | -3.7  | -4.6 | -3.5 | -3.5                 | -3.2 | -2.8 | -3.5                 | -3.3 |
| Netherlands    | :               | :       | -0.6    | -0.7 | -4.1  | -3.9 | -3.4 | -2.2                 | -1.1 | -1.8 | -2.4                 | -2.5 |
| Austria        | :               | :       | -1.3    | -1.9 | -2.8  | -3.4 | -2.3 | -2.6                 | -2.1 | -1.8 | -2.1                 | -1.8 |
| Portugal       | :               | :       | -5.1    | -4.4 | -8.5  | -8.4 | -6.2 | -4.1                 | -2.5 | -0.9 | -3.0                 | -1.3 |
| Slovenia       | :               | :       | -2.6    | -4.8 | -4.3  | -4.6 | -4.7 | -2.8                 | -2.0 | -2.7 | -2.2                 | -1.9 |
| Slovakia       | :               | :       | -2.6    | -4.2 | -7.5  | -7.4 | -5.4 | -5.1                 | -3.2 | -2.8 | -4.4                 | -4.6 |
| Finland        | :               | :       | 2.8     | 2.4  | 1.0   | -0.4 | 0.3  | -0.6                 | -0.1 | -0.3 | 0.3                  | 0.3  |
| Euro area      | :               | :       | -2.6    | -2.9 | -4.6  | -4.4 | -3.5 | -2.2                 | -1.3 | -1.5 | -2.1                 | -1.9 |
| Bulgaria       | :               | :       | 0.8     | 0.0  | -3.1  | -1.7 | -1.3 | -0.8                 | -0.9 | -0.6 | -0.7                 | -0.8 |
| Czech Republic | :               | :       | -3.5    | -4.4 | -5.8  | -4.8 | -3.2 | -2.5                 | -2.6 | -2.4 | -1.8                 | -1.8 |
| Denmark        | :               | :       | 2.4     | 2.3  | 0.4   | 0.0  | 0.5  | -0.3                 | -0.8 | -0.6 | -1.7                 | -1.0 |
| Latvia         | :               | :       | -2.5    | -6.4 | -6.0  | -3.2 | -1.7 | -1.2                 | -1.5 | -1.7 | -2.2                 | -1.7 |
| Lithuania      | :               | :       | -2.6    | -5.8 | -7.0  | -4.9 | -4.9 | -2.7                 | -2.1 | -2.1 | -2.9                 | -2.1 |
| Hungary        | :               | :       | -8.3    | -4.4 | -2.5  | -3.5 | -4.3 | -2.0                 | -1.5 | -2.6 | -2.1                 | -2.0 |
| Poland         | :               | :       | -4.3    | -4.8 | -8.0  | -8.0 | -5.0 | -2.9                 | -2.2 | -1.7 | -2.8                 | -1.9 |
| Romania        | :               | :       | -3.0    | -8.4 | -9.7  | -6.1 | -3.9 | -1.9                 | -1.4 | -1.0 | -1.8                 | -1.2 |
| Sweden         | :               | :       | 0.5     | 1.6  | 2.9   | 1.4  | 0.3  | 0.6                  | 0.3  | 0.7  | 0.3                  | 0.4  |
| United Kingdom | :               | :       | -4.3    | -5.0 | -9.5  | -8.9 | -6.7 | -6.4                 | -5.6 | -4.8 | -6.9                 | -5.1 |
| EU             | :               | :       | -2.8    | -3.1 | -5.1  | -4.9 | -3.8 | -2.7                 | -2.0 | -2.0 | -2.7                 | -2.2 |
| Croatia        | :               | :       | :       | :    | :     | :    | :    | :                    | :    | :    | :                    | :    |

TABLE 42 : Gross debt, general government (as a percentage of GDP, 2005-2014)

|                |       |       |       |       |       |       |       | Autumn 2012 forecast |       |       | Spring 2012 forecast |       |
|----------------|-------|-------|-------|-------|-------|-------|-------|----------------------|-------|-------|----------------------|-------|
|                | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012                 | 2013  | 2014  | 2012                 | 2013  |
| Belgium        | 92.0  | 88.0  | 84.0  | 89.2  | 95.7  | 95.5  | 97.8  | 99.9                 | 100.5 | 101.0 | 100.5                | 100.8 |
| Germany        | 68.5  | 68.0  | 65.2  | 66.8  | 74.5  | 82.5  | 80.5  | 81.7                 | 80.8  | 78.4  | 82.2                 | 80.7  |
| Estonia        | 4.6   | 4.4   | 3.7   | 4.5   | 7.2   | 6.7   | 6.1   | 10.5                 | 11.9  | 11.2  | 10.4                 | 11.7  |
| Ireland        | 27.3  | 24.6  | 25.0  | 44.5  | 64.9  | 92.2  | 106.4 | 117.6                | 122.5 | 119.2 | 116.1                | 120.2 |
| Greece         | 101.2 | 107.5 | 107.2 | 112.9 | 129.7 | 148.3 | 170.6 | 176.7                | 188.4 | 188.9 | 160.6                | 168.0 |
| Spain          | 43.2  | 39.7  | 36.3  | 40.2  | 53.9  | 61.5  | 69.3  | 86.1                 | 92.7  | 97.1  | 80.9                 | 87.0  |
| France         | 66.7  | 64.0  | 64.2  | 68.2  | 79.2  | 82.3  | 86.0  | 90.0                 | 92.7  | 93.8  | 90.5                 | 92.5  |
| Italy          | 105.7 | 106.3 | 103.3 | 106.1 | 116.4 | 119.2 | 120.7 | 126.5                | 127.6 | 126.5 | 123.5                | 121.8 |
| Cyprus         | 69.4  | 64.7  | 58.8  | 48.9  | 58.5  | 61.3  | 71.1  | 89.7                 | 96.7  | 102.7 | 76.5                 | 78.1  |
| Luxembourg     | 6.1   | 6.7   | 6.7   | 14.4  | 15.3  | 19.2  | 18.3  | 21.3                 | 23.6  | 26.9  | 20.3                 | 21.6  |
| Malta          | 69.7  | 64.0  | 61.9  | 62.0  | 67.6  | 68.3  | 70.9  | 72.3                 | 73.0  | 72.7  | 74.8                 | 75.2  |
| Netherlands    | 51.8  | 47.4  | 45.3  | 58.5  | 60.8  | 63.1  | 65.5  | 68.8                 | 69.3  | 70.3  | 70.1                 | 73.0  |
| Austria        | 64.2  | 62.3  | 60.2  | 63.8  | 69.2  | 72.0  | 72.4  | 74.6                 | 75.9  | 75.1  | 74.2                 | 74.3  |
| Portugal       | 67.7  | 69.4  | 68.4  | 71.7  | 83.2  | 93.5  | 108.1 | 119.1                | 123.5 | 123.5 | 113.9                | 117.1 |
| Slovenia       | 26.7  | 26.4  | 23.1  | 22.0  | 35.0  | 38.6  | 46.9  | 54.0                 | 59.0  | 62.3  | 54.7                 | 58.1  |
| Slovakia       | 34.2  | 30.5  | 29.6  | 27.9  | 35.6  | 41.0  | 43.3  | 51.7                 | 54.3  | 55.9  | 49.7                 | 53.5  |
| Finland        | 41.7  | 39.6  | 35.2  | 33.9  | 43.5  | 48.6  | 49.0  | 53.1                 | 54.7  | 55.0  | 50.5                 | 51.7  |
| Euro area      | 70.3  | 68.7  | 66.4  | 70.2  | 80.0  | 85.6  | 88.1  | 92.9                 | 94.5  | 94.3  | 91.8                 | 92.6  |
| Bulgaria       | 27.5  | 21.6  | 17.2  | 13.7  | 14.6  | 16.2  | 16.3  | 19.5                 | 18.1  | 18.3  | 17.6                 | 18.5  |
| Czech Republic | 28.4  | 28.3  | 27.9  | 28.7  | 34.2  | 37.8  | 40.8  | 45.1                 | 46.9  | 48.1  | 43.9                 | 44.9  |
| Denmark        | 37.8  | 32.1  | 27.1  | 33.4  | 40.6  | 42.9  | 46.6  | 45.4                 | 44.7  | 45.3  | 40.9                 | 42.1  |
| Latvia         | 12.5  | 10.7  | 9.0   | 19.8  | 36.7  | 44.5  | 42.2  | 41.9                 | 44.3  | 44.9  | 43.5                 | 44.7  |
| Lithuania      | 18.3  | 17.9  | 16.8  | 15.5  | 29.3  | 37.9  | 38.5  | 41.6                 | 40.8  | 40.5  | 40.4                 | 40.9  |
| Hungary        | 61.7  | 65.9  | 67.0  | 73.0  | 79.8  | 81.8  | 81.4  | 78.4                 | 77.1  | 76.8  | 78.5                 | 78.0  |
| Poland         | 47.1  | 47.7  | 45.0  | 47.1  | 50.9  | 54.8  | 56.4  | 55.5                 | 55.8  | 56.1  | 55.0                 | 53.7  |
| Romania        | 15.8  | 12.4  | 12.8  | 13.4  | 23.6  | 30.5  | 33.4  | 34.6                 | 34.8  | 34.8  | 34.6                 | 34.6  |
| Sweden         | 50.4  | 45.3  | 40.2  | 38.8  | 42.6  | 39.5  | 38.4  | 37.4                 | 36.2  | 34.1  | 35.6                 | 34.2  |
| United Kingdom | 42.2  | 43.3  | 44.2  | 52.3  | 67.8  | 79.4  | 85.0  | 88.7                 | 93.2  | 95.1  | 91.2                 | 94.6  |
| EU             | 62.9  | 61.7  | 59.0  | 62.2  | 74.6  | 80.2  | 83.0  | 86.8                 | 88.5  | 88.6  | 86.2                 | 87.2  |
| Croatia        | 37.9  | 34.9  | 32.5  | 28.8  | 35.7  | 42.2  | 46.7  | 53.8                 | 56.6  | 60.6  | 51.3                 | 57.1  |

TABLE 43 : Gross national saving (as a percentage of GDP, 1993-2014)

19.10.2012

|                | 5-year<br>averages |         |         |      |      |      |      | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|----------------|--------------------|---------|---------|------|------|------|------|-------------------------|------|------|-------------------------|------|
|                | 1993-97            | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| Belgium        | 25.2               | 25.9    | 25.6    | 25.1 | 20.5 | 23.6 | 22.8 | 22.4                    | 22.6 | 22.9 | 22.9                    | 23.0 |
| Germany        | 21.0               | 20.5    | 23.2    | 25.4 | 22.5 | 23.6 | 23.9 | 23.2                    | 22.5 | 22.4 | 22.6                    | 22.9 |
| Estonia        | 21.2               | 22.1    | 22.6    | 21.4 | 22.0 | 23.3 | 25.8 | 25.9                    | 25.8 | 26.8 | 24.9                    | 25.6 |
| Ireland        | 19.9               | 22.5    | 22.9    | 15.5 | 11.9 | 13.1 | 12.0 | 12.7                    | 13.8 | 15.1 | 11.6                    | 13.1 |
| Greece         | 17.5               | 12.7    | 11.0    | 6.0  | 4.2  | 4.8  | 4.4  | 5.7                     | 7.9  | 9.8  | 6.5                     | 9.2  |
| Spain          | 21.1               | 22.4    | 22.2    | 19.5 | 19.2 | 18.4 | 17.8 | 17.4                    | 18.2 | 19.0 | 18.8                    | 19.4 |
| France         | 18.3               | 20.7    | 19.7    | 20.1 | 17.2 | 17.3 | 18.1 | 18.0                    | 18.2 | 18.3 | 18.1                    | 18.4 |
| Italy          | 21.4               | 21.1    | 20.4    | 18.8 | 16.9 | 16.7 | 16.4 | 16.4                    | 17.0 | 17.5 | 16.4                    | 17.5 |
| Cyprus         | :                  | 16.5    | 13.2    | 11.1 | 8.6  | 10.6 | 12.3 | 7.3                     | 8.4  | 8.2  | 8.9                     | 9.2  |
| Luxembourg     | 33.8               | 33.4    | 31.9    | 26.9 | 23.7 | 27.6 | 28.2 | 26.1                    | 26.6 | 26.5 | 26.1                    | 26.4 |
| Malta          | :                  | 14.1    | 11.4    | 13.3 | 9.1  | 11.6 | 12.2 | 13.3                    | 13.6 | 14.1 | 9.4                     | 10.5 |
| Netherlands    | 26.6               | 26.6    | 27.5    | 25.2 | 21.6 | 23.1 | 26.4 | 26.3                    | 26.6 | 26.7 | 26.1                    | 26.3 |
| Austria        | 22.4               | 23.7    | 25.5    | 27.6 | 23.6 | 25.1 | 24.6 | 24.5                    | 24.5 | 25.3 | 26.1                    | 26.4 |
| Portugal       | 19.4               | 18.5    | 14.1    | 10.6 | 9.4  | 9.9  | 10.9 | 12.8                    | 13.4 | 13.9 | 12.3                    | 13.5 |
| Slovenia       | 23.3               | 24.5    | 25.7    | 25.7 | 21.7 | 20.6 | 20.3 | 19.4                    | 19.5 | 19.1 | 20.5                    | 21.5 |
| Slovakia       | 24.6               | 23.0    | 20.0    | 21.4 | 17.1 | 20.1 | 21.5 | 23.3                    | 23.8 | 25.0 | 22.5                    | 23.1 |
| Finland        | 19.8               | 27.2    | 25.8    | 25.4 | 20.5 | 20.1 | 19.7 | 19.0                    | 19.1 | 18.9 | 20.5                    | 20.7 |
| Euro area      | 21.0               | 21.5    | 21.8    | 21.5 | 18.9 | 19.5 | 19.9 | 19.7                    | 19.9 | 20.2 | 19.8                    | 20.3 |
| Bulgaria       | :                  | 15.0    | 14.3    | 14.4 | 20.4 | 22.5 | 24.8 | 22.4                    | 22.2 | 22.1 | 23.5                    | 23.1 |
| Czech Republic | 27.2               | 25.3    | 23.8    | 26.0 | 20.6 | 19.7 | 20.7 | 20.7                    | 21.4 | 22.2 | 20.7                    | 20.7 |
| Denmark        | 20.2               | 22.3    | 24.4    | 25.2 | 20.9 | 22.7 | 24.1 | 23.2                    | 22.9 | 22.7 | 23.0                    | 23.0 |
| Latvia         | 22.8               | 17.6    | 19.0    | 18.1 | 29.1 | 22.8 | 24.5 | 24.7                    | 25.0 | 25.2 | 25.0                    | 25.6 |
| Lithuania      | :                  | 13.0    | 15.6    | 14.0 | 13.5 | 17.4 | 16.8 | 17.2                    | 17.7 | 18.0 | 17.6                    | 18.6 |
| Hungary        | 17.5               | 19.3    | 15.9    | 16.6 | 17.9 | 19.9 | 20.5 | 19.7                    | 20.3 | 20.1 | 20.7                    | 21.7 |
| Poland         | 18.5               | 19.1    | 17.7    | 19.1 | 17.3 | 17.2 | 17.4 | 17.4                    | 17.2 | 16.6 | 17.7                    | 17.2 |
| Romania        | 20.0               | 14.9    | 16.5    | 19.8 | 21.2 | 20.9 | 24.7 | 25.4                    | 25.8 | 26.1 | 25.1                    | 25.7 |
| Sweden         | 19.0               | 22.6    | 25.6    | 29.0 | 23.4 | 25.5 | 26.1 | 25.8                    | 26.1 | 26.5 | 25.1                    | 25.3 |
| United Kingdom | 15.8               | 15.7    | 15.1    | 16.1 | 12.9 | 12.6 | 13.2 | 11.2                    | 13.0 | 14.4 | 12.9                    | 13.8 |
| EU             | :                  | 20.7    | 20.7    | 20.9 | 18.2 | 18.7 | 19.2 | 18.8                    | 19.1 | 19.6 | 19.0                    | 19.6 |
| Croatia        | :                  | 16.2    | 21.8    | 21.4 | 19.8 | 20.6 | 20.2 | 19.3                    | 20.1 | 20.5 | 20.5                    | 20.7 |
| USA            | 15.9               | 16.9    | 14.5    | 12.8 | 10.5 | 11.6 | 11.6 | 12.1                    | 12.8 | 13.6 | 12.6                    | 13.2 |
| Japan          | 30.7               | 27.2    | 26.4    | 26.3 | 22.6 | 23.5 | 21.9 | 21.7                    | 22.1 | 23.0 | 21.6                    | 22.9 |

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1993-2014) <sup>1</sup>

|                | 5-year<br>averages |         |         |      |      |      |      | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|----------------|--------------------|---------|---------|------|------|------|------|-------------------------|------|------|-------------------------|------|
|                | 1993-97            | 1998-02 | 2003-07 | 2008 | 2009 | 2010 | 2011 | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| Belgium        | 27.5               | 23.8    | 24.1    | 24.2 | 23.5 | 25.5 | 24.4 | 23.3                    | 24.0 | 24.5 | 23.8                    | 24.5 |
| Germany        | 20.9               | 20.0    | 23.2    | 23.0 | 22.9 | 24.3 | 22.4 | 21.2                    | 20.8 | 20.5 | 21.4                    | 21.6 |
| Estonia        | :                  | 18.2    | 16.5    | 18.2 | 20.0 | 21.2 | 22.4 | 21.9                    | 22.0 | 23.0 | 21.9                    | 22.3 |
| Ireland        | 19.1               | 17.1    | 18.2    | 16.9 | 19.5 | 20.5 | 18.7 | 19.2                    | 20.3 | 19.0 | 17.5                    | 18.6 |
| Greece         | 22.9               | 12.9    | 14.1    | 12.6 | 16.0 | 13.7 | 12.8 | 11.1                    | 11.8 | 12.5 | 12.7                    | 16.4 |
| Spain          | 22.3               | 19.5    | 16.8    | 18.8 | 24.5 | 23.0 | 23.0 | 22.4                    | 22.4 | 23.7 | 22.8                    | 23.5 |
| France         | 19.4               | 19.2    | 19.3    | 19.4 | 20.6 | 20.7 | 19.7 | 19.1                    | 18.4 | 18.6 | 19.1                    | 19.0 |
| Italy          | 25.0               | 20.4    | 20.2    | 17.9 | 18.9 | 18.2 | 17.8 | 16.7                    | 16.6 | 17.2 | 15.8                    | 16.2 |
| Cyprus         | :                  | 16.7    | 11.8    | 6.3  | 9.3  | 10.7 | 14.1 | 9.1                     | 10.9 | 10.9 | 7.7                     | 7.3  |
| Luxembourg     | :                  | 24.2    | 25.7    | 19.4 | 19.3 | 23.2 | 23.7 | 22.7                    | 23.3 | 23.1 | 22.7                    | 23.4 |
| Malta          | :                  | 17.2    | 12.8    | 15.3 | 10.9 | 13.5 | 13.5 | 15.1                    | 15.3 | 15.4 | 10.2                    | 11.9 |
| Netherlands    | 26.5               | 23.6    | 25.1    | 21.1 | 22.3 | 23.6 | 27.0 | 26.3                    | 25.8 | 26.4 | 26.7                    | 27.2 |
| Austria        | 22.1               | 21.9    | 23.9    | 25.3 | 24.2 | 25.5 | 23.7 | 23.7                    | 23.6 | 23.9 | 25.3                    | 25.2 |
| Portugal       | 20.6               | 18.3    | 16.1    | 11.9 | 16.4 | 16.8 | 15.7 | 16.9                    | 16.4 | 15.2 | 15.8                    | 15.6 |
| Slovenia       | :                  | 23.1    | 23.0    | 22.1 | 22.2 | 21.3 | 21.2 | 20.5                    | 19.7 | 19.3 | 21.5                    | 22.2 |
| Slovakia       | :                  | 23.4    | 19.6    | 20.4 | 20.8 | 24.7 | 23.7 | 25.1                    | 24.8 | 25.8 | 24.3                    | 25.3 |
| Finland        | 21.0               | 20.6    | 20.0    | 18.6 | 20.3 | 20.4 | 18.2 | 18.1                    | 17.9 | 17.4 | 19.0                    | 18.7 |
| Euro area      | 22.1               | 20.1    | 20.8    | 20.1 | 21.5 | 21.8 | 21.0 | 20.3                    | 20.0 | 20.3 | 20.3                    | 20.6 |
| Bulgaria       | :                  | 10.9    | 9.1     | 8.1  | 20.8 | 22.2 | 24.4 | 21.1                    | 20.8 | 20.1 | 23.3                    | 22.6 |
| Czech Republic | :                  | 22.5    | 20.5    | 22.8 | 21.4 | 20.3 | 20.3 | 20.5                    | 21.1 | 21.7 | 19.7                    | 19.2 |
| Denmark        | 20.4               | 19.6    | 19.5    | 19.8 | 21.5 | 23.1 | 23.4 | 23.2                    | 22.7 | 22.6 | 23.6                    | 22.9 |
| Latvia         | :                  | 16.7    | 15.3    | 17.6 | 34.1 | 25.0 | 22.7 | 21.9                    | 22.4 | 22.7 | 22.6                    | 23.8 |
| Lithuania      | :                  | 12.0    | 13.0    | 13.0 | 20.1 | 22.2 | 19.7 | 17.5                    | 17.3 | 16.9 | 18.5                    | 18.8 |
| Hungary        | :                  | 18.6    | 18.3    | 16.8 | 19.5 | 22.3 | 22.9 | 19.8                    | 20.5 | 20.4 | 20.8                    | 21.9 |
| Poland         | :                  | 19.1    | 17.7    | 17.8 | 19.0 | 20.0 | 17.9 | 16.8                    | 17.0 | 16.8 | 16.3                    | 15.8 |
| Romania        | :                  | 14.8    | 12.9    | 18.6 | 24.2 | 21.8 | 23.2 | 21.7                    | 21.6 | 21.6 | 21.5                    | 21.5 |
| Sweden         | 21.8               | 18.8    | 21.2    | 23.6 | 20.8 | 22.0 | 22.5 | 22.4                    | 23.1 | 22.7 | 22.0                    | 21.9 |
| United Kingdom | 18.6               | 13.9    | 15.9    | 17.8 | 19.6 | 19.2 | 18.2 | 17.0                    | 18.1 | 18.5 | 18.1                    | 18.0 |
| EU             | :                  | 19.1    | 19.8    | 19.7 | 21.2 | 21.4 | 20.7 | 19.8                    | 19.8 | 20.1 | 20.0                    | 20.2 |
| Croatia        | :                  | :       | :       | :    | :    | 21.6 | 21.7 | 20.6                    | 21.3 | 21.4 | 21.9                    | 22.0 |
| USA            | 16.8               | 15.1    | 15.5    | 16.2 | 18.7 | 19.8 | 18.9 | 18.3                    | 17.9 | 17.7 | 18.0                    | 17.5 |
| Japan          | 26.8               | 27.4    | 27.4    | 26.4 | 28.4 | 28.9 | 27.0 | 27.3                    | 27.3 | 28.1 | 26.8                    | 28.0 |

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.



TABLE 45 : Saving rate of households (1993-2014) <sup>1</sup>

19.10.2012

|                | 5-year averages |         |         |       |      |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|-------|------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008  | 2009 | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 19.7            | 17.4    | 15.8    | 16.6  | 18.3 | 15.4 | 14.4 | 14.8                 | 14.9 | 14.5 | 16.2                 | 16.1 |
| Germany        | 16.6            | 15.5    | 16.3    | 17.4  | 17.0 | 16.9 | 16.5 | 16.5                 | 16.3 | 16.0 | 16.7                 | 16.7 |
| Estonia        | 8.2             | 2.9     | -3.7    | 1.9   | 11.4 | 6.7  | 5.6  | 4.4                  | 2.8  | 1.6  | 4.8                  | 3.8  |
| Ireland        | :               | :       | 8.1     | 11.1  | 14.7 | 13.4 | 14.1 | 17.2                 | 16.7 | 16.0 | 10.5                 | 11.1 |
| Greece         | :               | 6.2     | 3.7     | 0.8   | 3.3  | -2.7 | -4.1 | 1.4                  | 3.2  | 5.2  | -6.3                 | -4.7 |
| Spain          | :               | 11.5    | 10.9    | 13.7  | 17.8 | 13.1 | 11.0 | 8.7                  | 8.1  | 9.1  | 10.7                 | 11.1 |
| France         | 15.1            | 14.8    | 14.9    | 15.3  | 16.1 | 15.6 | 15.7 | 15.5                 | 15.4 | 15.3 | 16.4                 | 16.3 |
| Italy          | 22.3            | 15.8    | 16.1    | 15.2  | 14.2 | 12.7 | 12.0 | 12.4                 | 12.4 | 12.4 | 11.1                 | 11.3 |
| Cyprus         | :               | 10.5    | 9.9     | 4.9   | 11.4 | 11.6 | 4.1  | 5.2                  | 7.3  | 7.5  | 4.5                  | 3.3  |
| Luxembourg     | :               | :       | :       | 12.0  | 13.5 | :    | :    | :                    | :    | :    | :                    | :    |
| Malta          | :               | :       | :       | :     | :    | :    | :    | :                    | :    | :    | :                    | :    |
| Netherlands    | 18.3            | 14.3    | 12.7    | 12.2  | 12.3 | 10.5 | 11.6 | 12.5                 | 12.8 | 13.4 | 13.0                 | 13.1 |
| Austria        | :               | 13.5    | 14.7    | 16.3  | 16.1 | 14.2 | 12.6 | 12.6                 | 12.5 | 12.7 | 12.9                 | 12.5 |
| Portugal       | :               | 10.5    | 9.1     | 7.1   | 10.9 | 10.2 | 10.0 | 9.9                  | 9.7  | 9.9  | 8.2                  | 8.3  |
| Slovenia       | :               | 14.5    | 16.1    | 15.4  | 14.9 | 13.5 | 11.9 | 10.9                 | 10.2 | 9.7  | 13.9                 | 14.1 |
| Slovakia       | :               | 10.4    | 6.4     | 6.1   | 6.9  | 10.7 | 9.8  | 9.0                  | 7.6  | 7.7  | 11.0                 | 11.4 |
| Finland        | 10.3            | 8.3     | 8.2     | 7.8   | 11.7 | 10.6 | 8.6  | 8.1                  | 8.2  | 8.3  | 7.5                  | 7.0  |
| Euro area      | :               | :       | 14.3    | 14.8  | 15.5 | 14.1 | 13.6 | 13.6                 | 13.5 | 13.8 | 13.6                 | 13.7 |
| Bulgaria       | :               | :       | :       | -20.9 | -3.0 | -3.7 | :    | :                    | :    | :    | :                    | :    |
| Czech Republic | 10.2            | 10.3    | 9.5     | 9.4   | 11.2 | 11.3 | 9.6  | 10.7                 | 10.3 | 10.1 | 8.9                  | 8.7  |
| Denmark        | 6.8             | 6.5     | 5.9     | 5.1   | 8.2  | 8.0  | 7.7  | 7.5                  | 6.7  | 6.9  | 7.0                  | 6.4  |
| Latvia         | 1.7             | -1.7    | -0.3    | 4.9   | 10.3 | 4.2  | -1.1 | -0.5                 | 0.2  | 0.1  | 0.7                  | 1.6  |
| Lithuania      | :               | 5.2     | 0.2     | -3.0  | 4.3  | 1.2  | :    | :                    | :    | :    | :                    | :    |
| Hungary        | :               | 12.6    | 9.9     | 8.0   | 10.2 | 10.8 | 10.4 | :                    | :    | :    | :                    | :    |
| Poland         | :               | 12.8    | 8.4     | 2.4   | 9.0  | 8.5  | 2.8  | 1.4                  | 1.8  | 2.2  | 2.0                  | 2.9  |
| Romania        | :               | -2.4    | -10.8   | -1.1  | -1.3 | -2.5 | :    | :                    | :    | :    | :                    | :    |
| Sweden         | 8.5             | 6.8     | 8.2     | 11.8  | 13.8 | 11.3 | 12.9 | 14.0                 | 14.7 | 14.4 | 13.2                 | 13.5 |
| United Kingdom | 8.9             | 5.2     | 3.1     | 2.2   | 6.6  | 6.6  | 6.0  | 6.1                  | 6.1  | 5.8  | 7.4                  | 7.3  |
| EU             | :               | :       | 11.4    | 11.3  | 13.4 | 12.6 | 11.9 | 11.9                 | 11.8 | 11.9 | 12.1                 | 12.2 |
| Croatia        | :               | :       | :       | :     | :    | :    | :    | :                    | :    | :    | :                    | :    |
| USA            | 9.4             | 7.6     | 7.2     | 9.9   | 9.4  | 9.6  | 8.6  | 8.2                  | 7.8  | 7.4  | 8.9                  | 8.7  |
| Japan          | 18.7            | 14.0    | 8.7     | 7.6   | 9.1  | 8.9  | 7.4  | 8.2                  | 10.2 | 10.7 | 11.3                 | 12.1 |

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 46 : Gross saving, general government (as a percentage of GDP, 1993-2014) <sup>1</sup>

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | -2.2            | 2.1     | 1.5     | 0.9  | -3.0  | -1.9 | -1.6 | -0.9                 | -1.5 | -1.6 | -0.9                 | -1.4 |
| Germany        | 0.2             | 0.4     | -0.1    | 2.4  | -0.4  | -0.7 | 1.5  | 2.0                  | 1.7  | 1.9  | 1.3                  | 1.3  |
| Estonia        | :               | 3.8     | 6.1     | 3.2  | 2.0   | 2.1  | 3.4  | 4.0                  | 3.8  | 3.8  | 3.0                  | 3.4  |
| Ireland        | 0.9             | 5.4     | 4.7     | -1.4 | -7.7  | -7.4 | -6.6 | -6.5                 | -6.4 | -3.9 | -6.0                 | -5.5 |
| Greece         | -5.4            | -0.1    | -3.2    | -6.5 | -11.8 | -8.9 | -8.4 | -5.4                 | -3.9 | -2.7 | -6.2                 | -7.2 |
| Spain          | -1.2            | 2.9     | 5.4     | 0.7  | -5.3  | -4.6 | -5.2 | -5.0                 | -4.2 | -4.6 | -4.0                 | -4.0 |
| France         | -1.1            | 1.5     | 0.3     | 0.6  | -3.4  | -3.4 | -1.6 | -1.1                 | -0.2 | -0.3 | -1.0                 | -0.6 |
| Italy          | -3.7            | 0.7     | 0.2     | 0.8  | -2.0  | -1.5 | -1.4 | -0.3                 | 0.4  | 0.3  | 0.7                  | 1.3  |
| Cyprus         | :               | -0.1    | 1.4     | 4.9  | -0.7  | -0.1 | -1.9 | -1.8                 | -2.5 | -2.7 | 1.2                  | 1.9  |
| Luxembourg     | :               | 9.1     | 6.2     | 7.5  | 4.4   | 4.4  | 4.5  | 3.4                  | 3.3  | 3.3  | 3.5                  | 3.0  |
| Malta          | :               | -3.1    | -1.4    | -2.0 | -1.8  | -1.9 | -1.3 | -1.8                 | -1.7 | -1.3 | -0.8                 | -1.4 |
| Netherlands    | 0.1             | 3.0     | 2.3     | 4.1  | -0.7  | -0.6 | -0.7 | 0.0                  | 0.8  | 0.3  | -0.6                 | -0.9 |
| Austria        | 0.3             | 1.8     | 1.6     | 2.3  | -0.6  | -0.4 | 0.9  | 0.8                  | 0.9  | 1.4  | 0.8                  | 1.2  |
| Portugal       | -1.2            | 0.2     | -2.0    | -1.3 | -6.9  | -6.9 | -4.8 | -4.1                 | -3.0 | -1.3 | -3.4                 | -2.1 |
| Slovenia       | :               | 1.4     | 2.8     | 3.6  | -0.4  | -0.7 | -0.9 | -1.0                 | -0.2 | -0.1 | -1.0                 | -0.7 |
| Slovakia       | :               | -0.4    | 0.4     | 1.0  | -3.7  | -4.6 | -2.3 | -1.8                 | -1.0 | -0.9 | -1.8                 | -2.2 |
| Finland        | -1.2            | 6.7     | 5.8     | 6.7  | 0.2   | -0.3 | 1.5  | 0.9                  | 1.2  | 1.5  | 1.5                  | 1.9  |
| Euro area      | -1.2            | 1.4     | 1.1     | 1.4  | -2.6  | -2.3 | -1.2 | -0.6                 | -0.1 | -0.1 | -0.5                 | -0.3 |
| Bulgaria       | :               | 4.1     | 5.2     | 6.3  | -0.4  | 0.3  | 0.4  | 1.3                  | 1.4  | 2.0  | 0.2                  | 0.5  |
| Czech Republic | :               | 2.8     | 3.3     | 3.2  | -0.9  | -0.6 | 0.3  | 0.2                  | 0.2  | 0.5  | 1.0                  | 1.5  |
| Denmark        | -0.2            | 2.7     | 4.9     | 5.5  | -0.7  | -0.4 | 0.6  | 0.0                  | 0.2  | 0.0  | -0.6                 | 0.1  |
| Latvia         | :               | 0.9     | 3.7     | 0.5  | -4.9  | -2.2 | 1.8  | 2.8                  | 2.6  | 2.5  | 2.4                  | 1.8  |
| Lithuania      | :               | 1.0     | 2.6     | 1.0  | -6.6  | -4.9 | -2.9 | -0.4                 | 0.4  | 1.1  | -0.9                 | -0.2 |
| Hungary        | :               | 0.7     | -2.4    | -0.2 | -1.6  | -2.5 | -2.4 | -0.1                 | -0.1 | -0.3 | -0.1                 | -0.2 |
| Poland         | :               | 0.0     | -0.1    | 1.3  | -1.8  | -2.8 | -0.5 | 0.6                  | 0.2  | -0.2 | 1.4                  | 1.4  |
| Romania        | :               | 0.2     | 3.6     | 1.2  | -3.0  | -0.9 | 1.5  | 3.7                  | 4.1  | 4.5  | 3.6                  | 4.2  |
| Sweden         | -2.8            | 3.9     | 4.4     | 5.4  | 2.5   | 3.4  | 3.6  | 3.3                  | 3.1  | 3.8  | 3.1                  | 3.5  |
| United Kingdom | -2.9            | 1.8     | -0.8    | -1.7 | -6.7  | -6.7 | -5.1 | -5.8                 | -5.1 | -4.1 | -5.2                 | -4.3 |
| EU             | :               | 1.6     | 0.9     | 1.1  | -2.9  | -2.7 | -1.5 | -1.1                 | -0.7 | -0.5 | -1.0                 | -0.6 |
| Croatia        | :               | :       | :       | :    | :     | -1.1 | -1.6 | -1.3                 | -1.2 | -0.9 | -1.4                 | -1.3 |
| USA            | -1.0            | 1.9     | -1.0    | -3.4 | -8.2  | -8.2 | -7.4 | -6.2                 | -5.1 | -4.1 | -5.4                 | -4.3 |
| Japan          | 3.9             | -0.2    | -1.0    | -0.1 | -5.8  | -5.4 | -5.1 | -5.6                 | -5.2 | -5.0 | -5.2                 | -5.1 |

<sup>1</sup> ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 47 : Exports of goods and services, volume (percentage change on preceding year, 1993-2014)

19.10.2012

|                | 5-year averages |         |         |      |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008 | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 5.3             | 4.9     | 4.2     | 2.1  | -11.1 | 9.6  | 5.5  | -0.7                 | 1.9  | 3.9  | 0.8                  | 4.2  |
| Germany        | 5.1             | 7.4     | 8.3     | 2.8  | -12.8 | 13.7 | 7.8  | 3.9                  | 4.2  | 6.6  | 2.9                  | 5.0  |
| Estonia        | :               | 8.0     | 10.0    | 1.0  | -20.6 | 22.9 | 23.4 | 4.3                  | 4.8  | 6.8  | 1.4                  | 5.6  |
| Ireland        | 14.9            | 14.4    | 5.2     | -1.1 | -3.8  | 6.2  | 5.1  | 2.8                  | 3.2  | 4.2  | 3.2                  | 4.2  |
| Greece         | 6.0             | 5.4     | 6.7     | 1.7  | -19.4 | 5.2  | 0.3  | 0.8                  | 2.7  | 4.8  | 3.2                  | 5.4  |
| Spain          | 11.8            | 6.3     | 4.7     | -1.0 | -10.0 | 11.3 | 7.6  | 2.1                  | 4.2  | 5.7  | 3.2                  | 4.7  |
| France         | 6.5             | 5.8     | 2.7     | -0.3 | -12.1 | 9.6  | 5.3  | 2.6                  | 2.1  | 4.2  | 2.5                  | 4.8  |
| Italy          | 7.5             | 2.4     | 4.6     | -2.8 | -17.5 | 11.4 | 6.0  | 1.1                  | 3.0  | 4.1  | 1.1                  | 4.0  |
| Cyprus         | :               | 4.4     | 3.9     | -0.5 | -10.7 | 3.8  | 3.3  | -0.9                 | 0.8  | 1.3  | 1.4                  | 2.3  |
| Luxembourg     | 6.1             | 8.8     | 8.8     | 4.4  | -10.9 | 7.7  | 5.5  | -4.2                 | 0.9  | 3.1  | 0.1                  | 4.2  |
| Malta          | :               | 4.6     | 5.4     | 0.6  | -9.3  | 18.5 | 2.5  | 5.4                  | 4.0  | 4.8  | 2.4                  | 4.4  |
| Netherlands    | 7.4             | 6.3     | 5.8     | 2.0  | -7.7  | 11.2 | 3.9  | 3.8                  | 2.5  | 4.7  | 0.4                  | 3.8  |
| Austria        | 5.3             | 7.6     | 7.1     | 1.4  | -15.6 | 8.7  | 7.2  | 1.5                  | 3.9  | 5.9  | 2.8                  | 5.1  |
| Portugal       | 7.8             | 5.1     | 5.4     | -0.1 | -10.9 | 8.8  | 7.7  | 4.3                  | 2.7  | 4.8  | 2.5                  | 4.7  |
| Slovenia       | 5.4             | 7.0     | 10.4    | 4.0  | -16.7 | 10.1 | 7.0  | 1.2                  | 3.0  | 5.4  | 2.2                  | 5.1  |
| Slovakia       | 4.6             | 10.7    | 13.6    | 3.1  | -16.3 | 16.0 | 12.7 | 7.8                  | 4.3  | 6.5  | 3.1                  | 6.1  |
| Finland        | 11.6            | 8.4     | 6.6     | 5.8  | -21.3 | 7.5  | 2.6  | -2.7                 | 0.7  | 1.5  | 1.9                  | 4.8  |
| Euro area      | 7.1             | 6.3     | 5.9     | 1.1  | -12.4 | 11.2 | 6.3  | 2.5                  | 3.2  | 5.2  | 2.1                  | 4.6  |
| Bulgaria       | :               | 2.7     | 10.3    | 3.0  | -11.2 | 14.7 | 12.8 | 1.7                  | 3.4  | 4.4  | 3.3                  | 5.2  |
| Czech Republic | 10.8            | 9.6     | 11.5    | 4.0  | -8.9  | 15.5 | 9.4  | 3.9                  | 3.9  | 6.2  | 3.6                  | 5.7  |
| Denmark        | 4.3             | 7.1     | 4.3     | 3.3  | -9.8  | 3.2  | 7.0  | 2.5                  | 3.8  | 4.0  | 3.2                  | 4.9  |
| Latvia         | :               | 4.3     | 10.2    | 2.0  | -14.1 | 11.6 | 12.7 | 5.1                  | 4.8  | 6.9  | 4.5                  | 6.3  |
| Lithuania      | :               | 6.6     | 8.9     | 11.4 | -12.6 | 17.4 | 14.1 | 5.0                  | 5.3  | 6.9  | 4.3                  | 6.0  |
| Hungary        | 15.2            | 11.7    | 13.2    | 5.7  | -10.2 | 14.2 | 6.3  | 2.0                  | 4.5  | 6.5  | 5.4                  | 8.0  |
| Poland         | 12.5            | 8.2     | 11.9    | 7.1  | -6.8  | 12.1 | 7.7  | 3.0                  | 4.1  | 6.3  | 3.4                  | 5.7  |
| Romania        | 12.7            | 12.3    | 9.8     | 8.3  | -6.4  | 14.0 | 9.9  | 0.2                  | 3.9  | 5.9  | 2.9                  | 5.8  |
| Sweden         | 10.2            | 5.9     | 7.2     | 1.7  | -13.8 | 11.4 | 7.1  | 0.5                  | 3.1  | 5.6  | 1.3                  | 5.4  |
| United Kingdom | 8.0             | 4.0     | 5.1     | 1.2  | -8.2  | 6.4  | 4.5  | 0.2                  | 3.9  | 5.7  | 3.1                  | 4.7  |
| EU             | 8.4             | 6.1     | 6.2     | 1.6  | -11.6 | 10.7 | 6.4  | 2.2                  | 3.4  | 5.3  | 2.4                  | 4.8  |
| Croatia        | :               | 5.6     | 6.0     | 1.7  | -16.2 | 5.2  | 2.0  | -1.0                 | 1.5  | 3.3  | -1.5                 | 2.5  |
| USA            | 8.4             | 1.4     | 7.2     | 6.1  | -9.1  | 11.1 | 6.7  | 4.4                  | 6.2  | 6.3  | 4.9                  | 6.6  |
| Japan          | 5.0             | 2.3     | 9.6     | 1.4  | -24.2 | 24.3 | -0.1 | 2.5                  | 0.7  | 3.9  | 2.4                  | 4.8  |

TABLE 48 : Imports of goods and services, volume (percentage change on preceding year, 1993-2014)

|                | 5-year averages |         |         |       |       |      |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------|-----------------|---------|---------|-------|-------|------|------|----------------------|------|------|----------------------|------|
|                | 1993-97         | 1998-02 | 2003-07 | 2008  | 2009  | 2010 | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium        | 4.9             | 4.2     | 4.4     | 3.5   | -10.6 | 8.9  | 5.6  | -0.9                 | 1.6  | 3.6  | 1.1                  | 4.1  |
| Germany        | 4.3             | 5.6     | 7.4     | 3.4   | -8.0  | 11.1 | 7.4  | 2.7                  | 5.1  | 7.2  | 3.8                  | 6.0  |
| Estonia        | :               | 8.6     | 12.9    | -7.0  | -32.0 | 21.0 | 25.0 | 6.7                  | 3.6  | 6.8  | 2.3                  | 5.9  |
| Ireland        | 13.7            | 13.9    | 6.1     | -3.0  | -9.7  | 3.6  | -0.3 | 0.3                  | 2.0  | 3.2  | 1.2                  | 3.0  |
| Greece         | 6.3             | 7.6     | 6.4     | 0.9   | -20.2 | -6.2 | -7.3 | -10.0                | -6.0 | -0.5 | -5.1                 | 0.0  |
| Spain          | 7.7             | 9.4     | 8.3     | -5.2  | -17.2 | 9.2  | -0.9 | -6.3                 | -3.2 | 2.4  | -5.6                 | -0.9 |
| France         | 4.5             | 7.3     | 4.6     | 0.9   | -9.6  | 8.9  | 4.9  | 0.8                  | 0.9  | 4.0  | 1.3                  | 4.3  |
| Italy          | 2.7             | 5.0     | 4.7     | -3.0  | -13.4 | 12.5 | 0.6  | -7.2                 | 1.4  | 5.0  | -4.1                 | 2.3  |
| Cyprus         | :               | 4.5     | 6.7     | 8.5   | -18.6 | 4.8  | -4.1 | -9.3                 | -5.5 | -0.4 | -2.2                 | 2.3  |
| Luxembourg     | 6.8             | 8.7     | 9.0     | 6.1   | -14.1 | 12.1 | 8.6  | -3.8                 | 1.1  | 3.5  | 0.7                  | 4.8  |
| Malta          | :               | 2.2     | 7.0     | 0.2   | -10.1 | 13.8 | 0.1  | 3.1                  | 4.0  | 4.9  | 2.0                  | 4.0  |
| Netherlands    | 7.3             | 6.5     | 5.5     | 2.3   | -7.1  | 10.2 | 3.6  | 2.9                  | 1.7  | 4.5  | -0.8                 | 3.3  |
| Austria        | 4.4             | 5.1     | 6.6     | 0.0   | -13.3 | 8.8  | 7.2  | 1.1                  | 3.4  | 5.6  | 2.2                  | 4.9  |
| Portugal       | 6.8             | 5.9     | 4.4     | 2.3   | -10.0 | 5.4  | -5.2 | -6.6                 | -1.1 | 3.3  | -6.9                 | 1.9  |
| Slovenia       | 10.9            | 6.5     | 11.0    | 3.7   | -19.5 | 7.9  | 5.2  | -3.2                 | 2.0  | 5.0  | 0.4                  | 4.1  |
| Slovakia       | 6.0             | 8.9     | 11.0    | 3.1   | -18.9 | 14.9 | 10.1 | 3.2                  | 3.5  | 5.7  | 2.7                  | 5.5  |
| Finland        | 8.2             | 6.7     | 7.4     | 7.5   | -17.2 | 6.9  | 5.7  | -1.7                 | 0.3  | 1.8  | 2.3                  | 3.9  |
| Euro area      | 5.0             | 6.5     | 6.2     | 0.9   | -11.1 | 9.6  | 4.2  | -0.5                 | 2.1  | 5.0  | 0.4                  | 3.9  |
| Bulgaria       | :               | 10.7    | 14.7    | 4.2   | -21.0 | 2.4  | 8.5  | 4.6                  | 5.3  | 5.7  | 2.7                  | 5.6  |
| Czech Republic | 15.9            | 8.9     | 9.3     | 2.7   | -9.9  | 15.8 | 6.7  | 1.1                  | 3.4  | 5.6  | 2.5                  | 5.1  |
| Denmark        | 6.2             | 6.8     | 6.9     | 3.3   | -11.6 | 3.5  | 5.2  | 3.3                  | 6.1  | 4.7  | 5.0                  | 5.4  |
| Latvia         | :               | 6.9     | 16.0    | -10.8 | -33.3 | 11.4 | 22.7 | 5.3                  | 5.5  | 7.3  | 5.1                  | 7.5  |
| Lithuania      | :               | 6.4     | 13.0    | 10.3  | -28.1 | 18.0 | 13.7 | 4.1                  | 5.3  | 7.6  | 4.5                  | 6.2  |
| Hungary        | 16.3            | 12.9    | 11.6    | 5.5   | -14.8 | 12.7 | 5.0  | 0.6                  | 3.9  | 6.2  | 4.0                  | 7.4  |
| Poland         | 19.5            | 6.1     | 12.1    | 8.0   | -12.4 | 13.9 | 5.5  | -0.2                 | 2.1  | 5.2  | 1.7                  | 4.9  |
| Romania        | 10.0            | 13.5    | 20.8    | 7.9   | -20.5 | 11.9 | 10.5 | 0.5                  | 5.2  | 6.6  | 4.0                  | 7.4  |
| Sweden         | 6.6             | 4.9     | 7.1     | 3.5   | -14.3 | 12.0 | 6.3  | 0.2                  | 2.7  | 6.0  | 2.2                  | 5.2  |
| United Kingdom | 6.8             | 7.4     | 4.9     | -1.8  | -11.0 | 8.0  | 0.5  | 2.6                  | 2.8  | 3.8  | 1.3                  | 1.8  |
| EU             | 6.7             | 6.7     | 6.5     | 1.1   | -11.6 | 9.6  | 4.1  | 0.1                  | 2.4  | 4.9  | 0.9                  | 3.9  |
| Croatia        | :               | 3.6     | 7.1     | 4.0   | -21.4 | -1.4 | 1.2  | -2.5                 | 2.0  | 4.0  | -2.1                 | 4.1  |
| USA            | 10.1            | 7.2     | 6.0     | -2.7  | -13.5 | 12.5 | 4.8  | 3.8                  | 5.3  | 7.6  | 3.7                  | 5.4  |
| Japan          | 6.6             | 1.6     | 4.6     | 0.3   | -15.7 | 11.2 | 6.3  | 6.3                  | -0.4 | 1.0  | 4.1                  | 3.6  |

TABLE 49 : Merchandise trade balance (fob-fob, as a percentage of GDP, 1993-2014)

19.10.2012

|                                  | 5-year averages |         |         |       |       |       |       | Autumn 2012 forecast |       |       | Spring 2012 forecast |       |
|----------------------------------|-----------------|---------|---------|-------|-------|-------|-------|----------------------|-------|-------|----------------------|-------|
|                                  | 1993-97         | 1998-02 | 2003-07 | 2008  | 2009  | 2010  | 2011  | 2012                 | 2013  | 2014  | 2012                 | 2013  |
| Belgium                          | 3.3             | 3.3     | 2.7     | -1.5  | -0.4  | -0.7  | -0.8  | -1.1                 | -1.0  | -1.2  | -3.9                 | -4.0  |
| Germany                          | 2.6             | 4.1     | 7.0     | 7.3   | 5.6   | 6.3   | 6.0   | 6.3                  | 5.7   | 5.6   | 5.6                  | 5.4   |
| Estonia                          | -16.9           | -15.2   | -15.9   | -12.5 | -4.4  | -2.7  | -3.8  | -6.6                 | -5.7  | -6.0  | -4.1                 | -4.1  |
| Ireland                          | 17.9            | 25.3    | 17.1    | 13.3  | 20.1  | 22.8  | 23.0  | 23.8                 | 24.7  | 25.3  | 24.5                 | 25.4  |
| Greece                           | -11.8           | -16.8   | -18.2   | -20.9 | -16.1 | -14.3 | -14.0 | -12.7                | -11.5 | -10.8 | -12.3                | -12.1 |
| Spain                            | -2.7            | -5.1    | -7.2    | -7.8  | -4.0  | -4.6  | -3.8  | -2.5                 | -0.8  | 0.0   | -2.1                 | -1.1  |
| France                           | 1.1             | 0.6     | -1.0    | -2.7  | -2.2  | -2.5  | -3.5  | -3.3                 | -3.1  | -3.4  | -3.5                 | -3.5  |
| Italy                            | 3.4             | 1.7     | 0.2     | -0.1  | 0.1   | -1.3  | -1.1  | 0.8                  | 1.6   | 1.8   | -0.1                 | 0.9   |
| Cyprus                           | :               | -25.6   | -26.4   | -32.4 | -25.5 | -26.8 | -24.2 | -21.9                | -20.6 | -20.7 | -24.1                | -24.4 |
| Luxembourg                       | -10.0           | -12.2   | -9.8    | -11.5 | -9.0  | -9.2  | -11.3 | -13.6                | -13.8 | -14.3 | -13.9                | -13.6 |
| Malta                            | -22.4           | -15.1   | -16.5   | -21.1 | -18.5 | -18.0 | -15.5 | -15.2                | -15.6 | -15.9 | -15.8                | -15.5 |
| Netherlands                      | 5.4             | 5.5     | 7.4     | 7.3   | 6.3   | 7.5   | 8.1   | 8.8                  | 9.1   | 9.0   | 7.6                  | 8.1   |
| Austria                          | -3.8            | -1.5    | -0.2    | -0.3  | -1.1  | -1.1  | -2.3  | -2.1                 | -2.0  | -1.8  | -2.6                 | -2.8  |
| Portugal                         | -9.0            | -11.0   | -10.3   | -12.9 | -10.0 | -10.0 | -7.2  | -3.5                 | -2.3  | -1.6  | -4.2                 | -3.4  |
| Slovenia                         | -3.2            | -3.9    | -3.7    | -6.5  | -1.5  | -2.9  | -3.0  | -1.0                 | -0.8  | -0.9  | -3.7                 | -2.7  |
| Slovakia                         | -5.9            | -8.4    | -3.7    | -1.6  | 1.1   | 0.8   | 1.1   | 4.8                  | 5.4   | 6.1   | 3.3                  | 3.9   |
| Finland                          | 8.5             | 9.7     | 5.8     | 3.7   | 1.8   | 1.4   | -0.6  | -0.5                 | -0.9  | -1.3  | -0.7                 | -0.9  |
| Euro area                        | 1.6             | 1.5     | 1.2     | 0.2   | 0.6   | 0.6   | 0.5   | 1.3                  | 1.6   | 1.7   | 0.7                  | 1.0   |
| Euro area, adjusted <sup>1</sup> | :               | :       | :       | -0.2  | 0.4   | 0.2   | 0.1   | 0.9                  | 1.2   | 1.3   | 0.4                  | 0.7   |
| Bulgaria                         | -0.5            | -8.2    | -19.3   | -24.3 | -12.0 | -7.7  | -5.1  | -9.1                 | -10.9 | -12.3 | -4.8                 | -5.5  |
| Czech Republic                   | -5.6            | -3.2    | 0.6     | 0.6   | 2.3   | 1.4   | 2.3   | 3.2                  | 3.8   | 4.2   | 2.8                  | 3.1   |
| Denmark                          | 4.0             | 4.0     | 2.5     | 0.2   | 2.5   | 2.8   | 2.9   | 2.1                  | 1.4   | 0.9   | 2.1                  | 2.0   |
| Latvia                           | -9.2            | -15.2   | -21.4   | -17.8 | -7.1  | -7.0  | -10.8 | -11.5                | -12.1 | -12.6 | -10.6                | -11.5 |
| Lithuania                        | -8.6            | -10.9   | -12.0   | -13.0 | -3.3  | -4.9  | -5.9  | -5.8                 | -6.3  | -7.1  | -5.5                 | -5.8  |
| Hungary                          | -5.7            | -4.6    | -2.9    | -1.2  | 2.5   | 3.2   | 3.3   | 3.9                  | 5.2   | 6.2   | 5.9                  | 7.2   |
| Poland                           | -1.4            | -5.9    | -2.4    | -4.9  | -1.0  | -1.8  | -2.1  | -1.8                 | -1.2  | -1.4  | -1.7                 | -1.7  |
| Romania                          | -5.4            | -5.6    | -10.5   | -13.6 | -5.8  | -4.8  | -5.5  | -5.4                 | -5.8  | -5.9  | -6.4                 | -6.2  |
| Sweden                           | 6.2             | 6.9     | 6.0     | 3.7   | 3.1   | 2.6   | 2.6   | 2.4                  | 2.6   | 2.6   | 2.2                  | 2.3   |
| United Kingdom                   | -1.7            | -3.5    | -5.4    | -6.5  | -5.9  | -6.7  | -6.6  | -7.0                 | -6.9  | -6.5  | -5.9                 | -5.0  |
| EU                               | 0.3             | 0.6     | -0.1    | -1.1  | -0.3  | -0.4  | -0.5  | -0.1                 | 0.2   | 0.3   | -0.3                 | 0.1   |
| EU, adjusted <sup>1</sup>        | :               | :       | :       | -1.8  | -0.7  | -1.0  | -1.1  | -0.7                 | -0.4  | -0.3  | -0.8                 | -0.4  |
| Croatia                          | :               | -16.9   | -21.4   | -22.8 | -16.6 | -13.3 | -14.2 | -14.6                | -14.8 | -15.2 | -14.1                | -14.7 |
| USA                              | -2.3            | -4.1    | -5.9    | -6.0  | -3.8  | -4.6  | -5.0  | -4.9                 | -4.7  | -5.1  | -5.2                 | -5.2  |
| Japan                            | 2.5             | 2.4     | 2.3     | 0.8   | 0.9   | 1.7   | -0.4  | -1.5                 | -1.4  | -1.2  | 0.1                  | 0.1   |

<sup>1</sup> See note 7 on concepts and sources.

TABLE 50 : Current-account balance (as a percentage of GDP, 1993-2014)

|                                  | 5-year averages |         |         |       |       |       |       | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------------------------|-----------------|---------|---------|-------|-------|-------|-------|----------------------|------|------|----------------------|------|
|                                  | 1993-97         | 1998-02 | 2003-07 | 2008  | 2009  | 2010  | 2011  | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium                          | 4.7             | 4.8     | 4.1     | 1.1   | 0.7   | 3.0   | 1.0   | 0.7                  | 0.9  | 1.2  | 1.5                  | 1.6  |
| Germany                          | -0.9            | -0.4    | 5.1     | 6.2   | 6.0   | 6.1   | 5.6   | 5.7                  | 5.0  | 4.7  | 4.7                  | 4.5  |
| Estonia                          | -6.6            | -7.1    | -12.9   | -8.5  | 4.2   | 3.2   | 0.3   | -0.9                 | 0.1  | 0.4  | -0.3                 | -0.3 |
| Ireland                          | 3.0             | -0.1    | -2.3    | -5.7  | -2.3  | 1.1   | 1.1   | 2.3                  | 3.4  | 4.4  | 1.6                  | 3.1  |
| Greece                           | -0.9            | -8.9    | -13.0   | -18.0 | -14.4 | -12.8 | -11.7 | -8.3                 | -6.3 | -5.2 | -7.8                 | -6.3 |
| Spain                            | -0.6            | -3.2    | -7.3    | -9.6  | -4.8  | -4.4  | -3.7  | -2.4                 | -0.5 | 0.4  | -2.0                 | -1.0 |
| France                           | 1.1             | 1.7     | -0.4    | -1.9  | -1.8  | -2.0  | -2.6  | -2.2                 | -1.8 | -1.9 | -2.4                 | -2.1 |
| Italy                            | 2.0             | 0.5     | -1.0    | -2.9  | -2.0  | -3.5  | -3.3  | -1.2                 | -0.4 | -0.3 | -2.2                 | -1.3 |
| Cyprus                           | :               | -1.2    | -6.6    | -12.2 | -10.7 | -9.2  | -4.2  | -6.3                 | -3.5 | -3.0 | -7.7                 | -7.2 |
| Luxembourg                       | 11.9            | 10.0    | 10.4    | 5.4   | 7.2   | 8.2   | 7.1   | 4.4                  | 4.9  | 4.7  | 4.5                  | 4.9  |
| Malta                            | :               | -4.6    | -6.4    | -5.0  | -7.4  | -5.0  | -0.3  | 2.1                  | 1.8  | 1.6  | -3.2                 | -2.8 |
| Netherlands                      | 5.3             | 4.9     | 7.9     | 4.7   | 3.2   | 5.1   | 8.3   | 9.2                  | 9.8  | 9.8  | 8.0                  | 8.4  |
| Austria                          | -2.5            | -0.3    | 2.7     | 4.8   | 2.7   | 3.5   | 1.1   | 1.1                  | 1.2  | 1.6  | 1.9                  | 1.9  |
| Portugal                         | -5.4            | -9.3    | -9.2    | -12.6 | -10.8 | -9.7  | -6.6  | -3.0                 | -1.8 | -1.5 | -3.6                 | -2.9 |
| Slovenia                         | 1.0             | -1.5    | -2.4    | -6.1  | -0.4  | -0.4  | 0.1   | 2.0                  | 2.7  | 2.3  | -0.4                 | 0.7  |
| Slovakia                         | -3.0            | -6.2    | -7.1    | -6.3  | -2.5  | -2.5  | -2.5  | 1.4                  | 1.4  | 2.2  | 0.2                  | 0.2  |
| Finland                          | 2.4             | 7.3     | 4.7     | 3.1   | 2.0   | 1.6   | -1.1  | -1.6                 | -1.6 | -2.0 | -0.6                 | -0.7 |
| Euro area                        | 0.7             | 0.3     | 0.6     | -0.7  | 0.1   | 0.3   | 0.3   | 1.1                  | 1.5  | 1.6  | 0.6                  | 1.0  |
| Euro area, adjusted <sup>1</sup> | :               | :       | :       | -1.6  | -0.2  | -0.1  | 0.0   | 0.9                  | 1.2  | 1.3  | 0.1                  | 0.6  |
| Bulgaria                         | -2.1            | -3.5    | -13.3   | -23.2 | -9.0  | -0.4  | 1.7   | -1.6                 | -2.1 | -2.5 | 0.6                  | -0.3 |
| Czech Republic                   | -2.8            | -3.5    | -3.8    | -2.9  | -3.3  | -5.2  | -3.9  | -2.9                 | -2.1 | -1.3 | -3.2                 | -3.2 |
| Denmark                          | 1.5             | 1.6     | 3.0     | 2.9   | 3.3   | 5.5   | 6.6   | 5.6                  | 4.6  | 4.2  | 5.2                  | 4.9  |
| Latvia                           | 2.4             | -7.5    | -15.7   | -13.1 | 8.6   | 2.9   | -2.4  | -2.9                 | -3.1 | -3.5 | -1.8                 | -2.6 |
| Lithuania                        | :               | -7.6    | -9.3    | -13.0 | 2.1   | -0.4  | -3.7  | -2.9                 | -3.0 | -3.6 | -2.0                 | -2.1 |
| Hungary                          | -5.0            | -6.8    | -8.2    | -6.9  | -0.1  | 1.2   | 1.0   | 1.6                  | 2.6  | 2.6  | 2.2                  | 3.7  |
| Poland                           | -0.1            | -3.8    | -3.1    | -4.8  | -3.1  | -3.8  | -4.5  | -3.9                 | -3.3 | -3.7 | -3.9                 | -4.2 |
| Romania                          | :               | -4.4    | -8.8    | -11.4 | -4.2  | -3.9  | -4.1  | -4.1                 | -4.2 | -4.4 | -5.0                 | -5.0 |
| Sweden                           | 2.6             | 4.7     | 7.4     | 8.8   | 6.9   | 6.8   | 6.5   | 6.4                  | 6.5  | 6.5  | 5.8                  | 5.9  |
| United Kingdom                   | -1.0            | -2.1    | -2.2    | -1.0  | -1.3  | -2.5  | -1.9  | -3.8                 | -2.2 | -1.1 | -1.7                 | -1.0 |
| EU                               | 0.3             | -0.2    | 0.0     | -0.9  | -0.1  | -0.1  | 0.0   | 0.4                  | 0.9  | 1.1  | 0.3                  | 0.7  |
| EU, adjusted <sup>1</sup>        | :               | :       | :       | -2.1  | -0.7  | -0.6  | -0.5  | -0.2                 | 0.4  | 0.6  | -0.4                 | 0.0  |
| Croatia                          | :               | -5.0    | -6.0    | -9.0  | -5.2  | -1.1  | -0.9  | -1.2                 | -1.5 | -2.2 | -1.3                 | -2.1 |
| USA                              | -2.4            | -2.7    | -4.9    | -4.8  | -3.6  | -3.3  | -3.3  | -3.1                 | -2.9 | -2.9 | -3.1                 | -3.0 |
| Japan                            | 2.3             | 2.6     | 3.8     | 3.3   | 2.8   | 3.6   | 2.0   | 0.9                  | 1.1  | 1.3  | 1.7                  | 1.6  |

<sup>1</sup> See note 7 on concepts and sources.

TABLE 51 : Net lending (+) or net borrowing (-) of the nation (as a percentage of GDP, 1993-2014)

19.10.2012

|                                  | 5-year averages |         |         |       |       |       |      | Autumn 2012 forecast |      |      | Spring 2012 forecast |      |
|----------------------------------|-----------------|---------|---------|-------|-------|-------|------|----------------------|------|------|----------------------|------|
|                                  | 1993-97         | 1998-02 | 2003-07 | 2008  | 2009  | 2010  | 2011 | 2012                 | 2013 | 2014 | 2012                 | 2013 |
| Belgium                          | 4.6             | 4.7     | 4.0     | 0.6   | 0.3   | 2.9   | 0.9  | 0.8                  | 1.0  | 1.3  | 1.7                  | 1.8  |
| Germany                          | -1.0            | -0.3    | 5.1     | 6.1   | 6.0   | 6.1   | 5.6  | 5.5                  | 4.9  | 4.6  | 4.7                  | 4.5  |
| Estonia                          | -7.1            | -6.7    | -11.8   | -7.3  | 7.7   | 6.8   | 4.5  | 2.5                  | 2.8  | 2.6  | 3.4                  | 2.5  |
| Ireland                          | 4.1             | 0.7     | -2.2    | -5.7  | -3.1  | 0.7   | 1.0  | 2.1                  | 3.3  | 4.3  | 1.4                  | 2.7  |
| Greece                           | :               | -7.3    | -11.3   | -16.3 | -13.3 | -11.0 | -9.8 | -6.1                 | -3.9 | -2.7 | -6.3                 | -4.7 |
| Spain                            | 0.2             | -2.2    | -6.5    | -9.2  | -4.3  | -3.8  | -3.2 | -1.9                 | 0.0  | 0.9  | -1.4                 | -0.4 |
| France                           | 1.1             | 1.7     | -0.5    | -1.9  | -1.7  | -1.9  | -2.6 | -1.9                 | -1.6 | -1.6 | -2.2                 | -2.0 |
| Italy                            | 2.2             | 0.7     | -0.8    | -2.9  | -2.0  | -3.6  | -3.3 | -1.2                 | -0.4 | -0.3 | -2.2                 | -1.3 |
| Cyprus                           | :               | -1.1    | -6.2    | -12.1 | -10.6 | -9.0  | -4.0 | -5.5                 | -2.7 | -2.4 | -7.8                 | -7.2 |
| Luxembourg                       | :               | :       | 10.2    | 4.7   | 6.4   | 7.6   | 6.8  | 4.4                  | 4.9  | 4.7  | 4.5                  | 4.9  |
| Malta                            | :               | -4.2    | -4.5    | -4.6  | -5.8  | -3.3  | 0.7  | 3.0                  | 2.7  | 2.5  | -1.3                 | -1.0 |
| Netherlands                      | 4.9             | 4.7     | 7.6     | 4.4   | 2.7   | 4.5   | 7.9  | 8.9                  | 9.5  | 9.5  | 7.7                  | 8.1  |
| Austria                          | -2.6            | -0.5    | 2.6     | 4.8   | 2.8   | 3.5   | 1.0  | 0.2                  | 0.7  | 1.2  | 1.2                  | 1.7  |
| Portugal                         | -2.7            | -7.3    | -7.6    | -11.4 | -9.6  | -8.4  | -5.1 | -1.4                 | -0.1 | 0.3  | -2.2                 | -1.4 |
| Slovenia                         | 0.9             | -1.6    | -2.8    | -6.0  | -0.4  | -0.3  | -0.2 | 2.1                  | 3.1  | 3.1  | 0.0                  | 1.2  |
| Slovakia                         | -2.4            | -6.6    | -7.0    | -5.4  | -1.7  | -0.9  | -0.8 | 2.7                  | 2.6  | 3.3  | 1.6                  | 1.6  |
| Finland                          | 2.4             | 7.4     | 4.8     | 3.2   | 2.1   | 1.7   | -1.0 | -1.7                 | -1.5 | -1.9 | -0.5                 | -0.6 |
| Euro area                        | 0.8             | 0.5     | 0.9     | -0.4  | 0.3   | 0.4   | 0.4  | 1.4                  | 1.9  | 2.1  | 0.7                  | 1.1  |
| Euro area, adjusted <sup>1</sup> | :               | :       | :       | -1.2  | 0.0   | 0.0   | 0.1  | 1.2                  | 1.7  | 1.8  | 0.3                  | 0.7  |
| Bulgaria                         | -2.3            | -3.4    | -13.1   | -22.4 | -7.6  | 0.3   | 2.9  | -0.2                 | -0.6 | -0.8 | 1.9                  | 1.2  |
| Czech Republic                   | -3.4            | -3.2    | -3.6    | -2.0  | -1.2  | -3.1  | -2.0 | -1.2                 | -0.2 | 0.5  | -1.2                 | -1.3 |
| Denmark                          | 1.5             | 1.8     | 3.1     | 2.9   | 3.3   | 5.6   | 6.9  | 5.4                  | 4.4  | 4.3  | 4.9                  | 4.7  |
| Latvia                           | 6.4             | -7.2    | -14.5   | -11.6 | 11.1  | 4.9   | -0.2 | -0.2                 | -0.1 | -0.2 | 0.8                  | 0.1  |
| Lithuania                        | :               | -7.6    | -8.2    | -11.1 | 6.4   | 3.5   | -0.4 | 0.5                  | 0.1  | -0.5 | 0.5                  | 0.3  |
| Hungary                          | -4.2            | -6.7    | -7.7    | -5.9  | 1.1   | 3.0   | 3.4  | 4.1                  | 6.2  | 6.6  | 5.4                  | 7.0  |
| Poland                           | 1.6             | -3.7    | -2.6    | -4.1  | -1.9  | -2.3  | -2.4 | -2.0                 | -1.8 | -2.4 | -2.2                 | -2.9 |
| Romania                          | -3.7            | -4.1    | -8.1    | -11.0 | -3.6  | -3.7  | -4.0 | -4.0                 | -4.1 | -4.3 | -4.9                 | -4.9 |
| Sweden                           | 2.2             | 4.4     | 7.3     | 8.7   | 6.7   | 6.6   | 6.4  | 6.3                  | 6.4  | 6.4  | 5.7                  | 5.8  |
| United Kingdom                   | -0.9            | -2.0    | -2.1    | -0.8  | -1.0  | -2.3  | -1.7 | -3.6                 | -2.0 | -0.9 | -1.5                 | -0.8 |
| EU                               | -0.1            | -0.7    | -1.5    | -2.9  | -0.7  | 0.2   | 0.3  | 0.7                  | 1.4  | 1.6  | 0.5                  | 0.9  |
| EU, adjusted <sup>1</sup>        | :               | :       | :       | -4.1  | -1.3  | -0.4  | -0.3 | 0.2                  | 0.8  | 1.1  | -0.2                 | 0.2  |
| Croatia                          | :               | -4.5    | -5.9    | -9.0  | -5.1  | -1.1  | -0.9 | -1.2                 | -1.5 | -2.2 | -1.3                 | -2.1 |
| USA                              | -2.4            | -2.7    | -4.8    | -4.7  | -3.6  | -3.3  | -3.3 | -3.1                 | -2.9 | -2.9 | -3.1                 | -3.0 |
| Japan                            | 2.2             | 2.4     | 3.7     | 3.2   | 2.7   | 3.5   | 1.9  | 0.8                  | 1.0  | 1.2  | 1.6                  | 1.5  |

<sup>1</sup> See note 7 on concepts and sources.

TABLE 52 : Current-account balance (in billions of euro, 2005-14)

|                                  |        |        |        |        |        |        |        | Autumn 2012 forecast |        |        | Spring 2012 forecast |        |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|----------------------|--------|--------|----------------------|--------|
|                                  | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   | 2012                 | 2013   | 2014   | 2012                 | 2013   |
| Belgium                          | 9.7    | 10.8   | 13.2   | 3.7    | 2.5    | 10.8   | 3.9    | 2.6                  | 3.7    | 4.8    | 5.8                  | 6.2    |
| Germany                          | 113.4  | 150.0  | 182.5  | 152.1  | 143.1  | 153.4  | 145.9  | 151.6                | 135.2  | 131.6  | 122.4                | 122.2  |
| Estonia                          | -1.1   | -2.1   | -2.5   | -1.4   | 0.6    | 0.5    | 0.1    | -0.1                 | 0.0    | 0.1    | 0.0                  | -0.1   |
| Ireland                          | -4.9   | -6.6   | -10.4  | -10.2  | -3.8   | 1.8    | 2.1    | 3.7                  | 5.7    | 7.5    | 2.5                  | 5.1    |
| Greece                           | -20.9  | -28.7  | -39.3  | -41.9  | -33.2  | -28.4  | -24.5  | -16.2                | -11.6  | -9.6   | -15.9                | -12.8  |
| Spain                            | -67.8  | -88.9  | -105.2 | -104.3 | -49.9  | -46.0  | -39.4  | -25.3                | -5.4   | 4.4    | -21.4                | -10.4  |
| France                           | -10.8  | -14.8  | -25.7  | -36.6  | -33.2  | -37.9  | -51.2  | -43.8                | -37.8  | -41.5  | -49.2                | -44.4  |
| Italy                            | -12.8  | -22.3  | -20.1  | -45.2  | -30.1  | -54.7  | -52.3  | -18.6                | -6.0   | -4.7   | -34.9                | -20.8  |
| Cyprus                           | -0.8   | -1.1   | -1.9   | -2.1   | -1.8   | -1.6   | -1.9   | -1.1                 | -0.6   | -0.5   | -1.4                 | -1.3   |
| Luxembourg                       | 3.5    | 3.5    | 3.8    | 2.0    | 2.6    | 3.3    | 3.0    | 1.9                  | 2.2    | 2.2    | 2.0                  | 2.3    |
| Malta                            | -0.4   | -0.5   | -0.2   | -0.3   | -0.4   | -0.3   | 0.0    | 0.1                  | 0.1    | 0.1    | -0.2                 | -0.2   |
| Netherlands                      | 38.4   | 48.7   | 48.1   | 28.1   | 18.2   | 29.9   | 49.8   | 56.2                 | 60.6   | 62.2   | 48.6                 | 52.2   |
| Austria                          | 5.3    | 8.5    | 10.9   | 13.7   | 7.5    | 9.9    | 3.7    | 3.4                  | 3.9    | 5.4    | 5.7                  | 5.9    |
| Portugal                         | -15.9  | -17.3  | -17.2  | -21.7  | -18.2  | -16.8  | -11.3  | -5.0                 | -3.0   | -2.5   | -6.0                 | -4.8   |
| Slovenia                         | -0.5   | -0.7   | -1.6   | -2.3   | -0.2   | -0.2   | 0.0    | 0.7                  | 1.0    | 0.8    | -0.1                 | 0.2    |
| Slovakia                         | -3.3   | -3.7   | -3.1   | -4.0   | -1.6   | -1.7   | -1.7   | 1.0                  | 1.1    | 1.7    | 0.1                  | 0.2    |
| Finland                          | 5.5    | 7.7    | 7.6    | 5.8    | 3.4    | 2.9    | -2.2   | -3.0                 | -3.2   | -4.1   | -1.2                 | -1.4   |
| Euro area                        | 36.4   | 42.5   | 38.7   | -64.5  | 5.6    | 24.9   | 24.1   | 108.1                | 145.8  | 157.9  | 56.7                 | 98.2   |
| Euro area, adjusted <sup>1</sup> | 10.8   | -12.6  | 7.4    | -143.5 | -21.9  | -6.8   | -2.3   | 81.7                 | 119.4  | 131.5  | 13.2                 | 54.7   |
| Bulgaria                         | -2.7   | -4.7   | -7.8   | -8.2   | -3.1   | -0.1   | 0.2    | -0.6                 | -0.8   | -1.1   | 0.3                  | -0.1   |
| Czech Republic                   | -2.1   | -3.1   | -6.8   | -4.5   | -4.6   | -7.8   | -6.1   | -4.4                 | -3.2   | -2.1   | -5.0                 | -5.2   |
| Denmark                          | 9.0    | 6.5    | 3.1    | 6.8    | 7.3    | 13.0   | 15.9   | 13.8                 | 11.6   | 10.9   | 12.8                 | 12.5   |
| Latvia                           | -1.6   | -3.6   | -4.7   | -3.0   | 1.6    | 0.5    | -0.5   | -0.6                 | -0.7   | -0.8   | -0.4                 | -0.6   |
| Lithuania                        | -1.5   | -2.5   | -4.3   | -4.2   | 0.5    | -0.1   | -1.1   | -0.9                 | -1.0   | -1.3   | -0.6                 | -0.7   |
| Hungary                          | -7.2   | -6.8   | -7.4   | -7.3   | -0.1   | 1.1    | 1.0    | 1.6                  | 2.7    | 3.0    | 2.2                  | 3.8    |
| Poland                           | -3.1   | -8.3   | -15.8  | -17.3  | -9.6   | -13.6  | -16.5  | -15.0                | -13.3  | -15.4  | -15.1                | -16.9  |
| Romania                          | -7.1   | -10.4  | -17.0  | -16.0  | -4.9   | -4.9   | -5.6   | -5.6                 | -6.0   | -6.7   | -6.9                 | -7.4   |
| Sweden                           | 21.1   | 25.2   | 29.0   | 29.4   | 20.1   | 23.7   | 25.2   | 26.3                 | 28.0   | 29.1   | 23.1                 | 24.3   |
| United Kingdom                   | -37.9  | -57.3  | -47.0  | -18.1  | -19.9  | -43.5  | -33.4  | -72.9                | -44.3  | -23.5  | -32.5                | -19.8  |
| EU                               | 3.3    | -22.4  | -40.0  | -107.0 | -7.2   | -6.7   | 3.2    | 49.8                 | 118.6  | 149.9  | 34.5                 | 88.0   |
| EU, adjusted <sup>1</sup>        | -83.5  | -139.6 | -125.9 | -261.5 | -90.3  | -82.2  | -66.6  | -20.1                | 48.8   | 80.1   | -53.8                | -0.2   |
| Croatia                          | -1.9   | -2.7   | -3.2   | -4.3   | -2.3   | -0.5   | -0.5   | -0.5                 | -0.7   | -1.0   | -0.6                 | -1.0   |
| USA                              | -518.9 | -443.1 | -514.0 | -461.3 | -359.7 | -356.5 | -334.8 | -377.8               | -364.5 | -389.5 | -373.1               | -370.8 |
| Japan                            | 133.4  | 136.0  | 153.8  | 108.2  | 102.1  | 147.7  | 84.5   | 41.2                 | 49.5   | 60.3   | 75.9                 | 73.8   |

<sup>1</sup> See note 7 on concepts and sources.

TABLE 53 : Export markets (a) (percentage change on preceding year, 2005-14)

19.10.2012

|                |      |      |      |      |       |      |      | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|----------------|------|------|------|------|-------|------|------|-------------------------|------|------|-------------------------|------|
|                | 2005 | 2006 | 2007 | 2008 | 2009  | 2010 | 2011 | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| Belgium        | 6.1  | 8.8  | 5.3  | 2.1  | -10.6 | 10.3 | 5.0  | 1.8                     | 3.0  | 5.3  | 2.2                     | 4.6  |
| Germany        | 6.2  | 8.7  | 6.8  | 2.2  | -11.7 | 10.5 | 5.2  | 1.9                     | 3.1  | 5.2  | 2.6                     | 4.8  |
| Estonia        | 9.7  | 10.0 | 9.3  | 1.8  | -17.7 | 9.6  | 7.4  | 2.4                     | 3.6  | 5.6  | 3.8                     | 5.5  |
| Ireland        | 5.7  | 8.3  | 4.1  | 1.2  | -11.5 | 10.7 | 4.6  | 1.9                     | 3.3  | 5.3  | 2.4                     | 4.5  |
| Greece         | 6.5  | 8.7  | 5.7  | 1.7  | -12.4 | 10.4 | 4.9  | 1.9                     | 3.7  | 5.6  | 2.5                     | 4.7  |
| Spain          | 5.6  | 8.3  | 5.0  | 1.9  | -10.6 | 9.8  | 4.2  | 1.3                     | 3.1  | 5.3  | 2.0                     | 4.6  |
| France         | 6.0  | 8.6  | 5.9  | 1.8  | -11.1 | 10.3 | 4.9  | 1.6                     | 3.4  | 5.4  | 2.5                     | 4.7  |
| Italy          | 6.7  | 9.2  | 6.6  | 2.7  | -11.0 | 9.9  | 5.4  | 2.4                     | 3.5  | 5.5  | 3.0                     | 5.0  |
| Cyprus         | 8.3  | 10.8 | 6.7  | 2.2  | -13.6 | 8.1  | 7.4  | 2.7                     | 4.0  | 5.7  | 4.0                     | 5.5  |
| Luxembourg     | 5.3  | 7.9  | 4.9  | 1.6  | -11.2 | 10.1 | 4.2  | 1.1                     | 2.9  | 5.0  | 1.9                     | 4.4  |
| Malta          | 6.4  | 8.6  | 5.2  | 1.8  | -11.7 | 10.3 | 4.4  | 1.7                     | 3.4  | 5.2  | 2.4                     | 4.5  |
| Netherlands    | 5.8  | 8.8  | 5.5  | 2.3  | -11.2 | 10.4 | 5.2  | 1.5                     | 3.4  | 5.4  | 2.6                     | 4.8  |
| Austria        | 6.0  | 10.0 | 6.8  | 2.8  | -11.5 | 11.3 | 5.9  | 1.8                     | 3.9  | 6.0  | 2.9                     | 5.3  |
| Portugal       | 6.2  | 8.7  | 5.5  | 0.9  | -12.6 | 9.7  | 3.9  | 0.3                     | 2.2  | 4.9  | 0.9                     | 3.7  |
| Slovenia       | 5.5  | 9.3  | 7.3  | 2.7  | -13.1 | 9.8  | 5.5  | 0.9                     | 3.5  | 5.7  | 1.9                     | 4.9  |
| Slovakia       | 5.9  | 10.8 | 8.3  | 3.2  | -12.3 | 11.7 | 6.2  | 1.3                     | 3.5  | 5.8  | 2.5                     | 5.1  |
| Finland        | 8.4  | 10.6 | 8.7  | 3.6  | -12.2 | 11.9 | 7.7  | 3.4                     | 4.1  | 5.9  | 3.9                     | 5.5  |
| Euro area (b)  | 6.1  | 8.8  | 6.1  | 2.2  | -11.3 | 10.4 | 5.1  | 1.8                     | 3.3  | 5.4  | 2.5                     | 4.8  |
| Bulgaria       | 6.6  | 9.4  | 8.5  | 2.4  | -12.8 | 9.4  | 5.6  | 0.9                     | 3.1  | 5.6  | 2.3                     | 4.9  |
| Czech Republic | 6.5  | 10.8 | 7.0  | 3.2  | -12.3 | 11.2 | 5.9  | 2.0                     | 3.7  | 5.9  | 2.7                     | 5.1  |
| Denmark        | 7.0  | 8.8  | 6.4  | 2.4  | -11.4 | 11.4 | 5.4  | 2.4                     | 3.5  | 5.4  | 3.2                     | 5.0  |
| Latvia         | 9.1  | 11.8 | 8.9  | 3.8  | -17.0 | 12.5 | 10.4 | 3.9                     | 4.3  | 6.2  | 3.9                     | 5.6  |
| Lithuania      | 10.2 | 12.0 | 11.1 | 2.5  | -16.6 | 11.2 | 9.8  | 3.9                     | 4.3  | 6.2  | 3.9                     | 5.7  |
| Hungary        | 6.2  | 10.2 | 7.8  | 3.5  | -12.5 | 11.0 | 6.1  | 2.0                     | 3.8  | 5.8  | 2.7                     | 5.1  |
| Poland         | 7.3  | 10.5 | 8.0  | 3.5  | -12.4 | 11.4 | 6.2  | 2.1                     | 3.8  | 5.9  | 2.7                     | 5.0  |
| Romania        | 5.6  | 8.4  | 7.0  | 1.7  | -12.4 | 10.2 | 5.4  | 1.4                     | 3.5  | 5.7  | 2.1                     | 4.7  |
| Sweden         | 7.5  | 9.0  | 5.9  | 2.3  | -11.9 | 9.7  | 5.0  | 2.6                     | 3.6  | 5.0  | 3.3                     | 4.8  |
| United Kingdom | 6.5  | 7.8  | 6.2  | 1.6  | -11.1 | 10.5 | 5.0  | 2.3                     | 3.5  | 5.5  | 2.8                     | 4.9  |
| EU (b)         | 6.3  | 8.8  | 6.2  | 2.2  | -11.5 | 10.5 | 5.2  | 1.9                     | 3.4  | 5.4  | 2.6                     | 4.8  |
| Croatia        | 4.9  | 8.8  | 6.9  | 1.5  | -12.7 | 10.4 | 5.3  | 0.3                     | 3.3  | 5.6  | 1.7                     | 4.7  |
| USA            | 6.7  | 8.2  | 7.2  | 3.5  | -11.2 | 13.1 | 6.6  | 4.2                     | 4.8  | 6.0  | 5.2                     | 6.0  |
| Japan          | 7.2  | 8.8  | 7.7  | 3.7  | -9.0  | 14.8 | 7.0  | 4.8                     | 5.1  | 6.3  | 5.5                     | 6.4  |

(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, 2005-14)

|                |      |      |      |      |       |      |      | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|----------------|------|------|------|------|-------|------|------|-------------------------|------|------|-------------------------|------|
|                | 2005 | 2006 | 2007 | 2008 | 2009  | 2010 | 2011 | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| Belgium        | -1.4 | -3.4 | -0.1 | 0.0  | -0.6  | -0.6 | 0.5  | -2.5                    | -1.1 | -1.3 | -1.4                    | -0.4 |
| Germany        | 1.4  | 4.0  | 1.1  | 0.6  | -1.3  | 2.9  | 2.5  | 2.0                     | 1.1  | 1.3  | 0.3                     | 0.2  |
| Estonia        | 8.1  | -3.0 | -5.2 | -0.8 | -3.6  | 12.1 | 14.9 | 1.9                     | 1.2  | 1.1  | -2.3                    | 0.1  |
| Ireland        | -0.5 | -3.2 | 4.1  | -2.3 | 8.7   | -4.1 | 0.4  | 0.9                     | -0.1 | -1.0 | 0.8                     | -0.2 |
| Greece         | -3.8 | -3.1 | 1.2  | 0.0  | -8.0  | -4.7 | -4.4 | -1.1                    | -1.0 | -0.8 | 0.7                     | 0.7  |
| Spain          | -2.9 | -1.5 | 1.6  | -2.9 | 0.7   | 1.3  | 3.3  | 0.8                     | 1.1  | 0.4  | 1.2                     | 0.0  |
| France         | -2.7 | -3.5 | -3.4 | -2.1 | -1.1  | -0.6 | 0.3  | 1.0                     | -1.3 | -1.1 | 0.0                     | 0.1  |
| Italy          | -5.3 | -2.7 | -0.3 | -5.4 | -7.3  | 1.4  | 0.6  | -1.3                    | -0.5 | -1.3 | -1.8                    | -1.0 |
| Cyprus         | -3.2 | -6.6 | -0.5 | -2.7 | 3.4   | -4.0 | -3.8 | -3.5                    | -3.1 | -4.2 | -2.5                    | -3.0 |
| Luxembourg     | -0.8 | 4.7  | 4.0  | 2.8  | 0.3   | -2.2 | 1.3  | -5.2                    | -1.9 | -1.8 | -1.8                    | -0.2 |
| Malta          | -5.5 | 0.7  | 4.5  | -1.2 | 2.7   | 7.4  | -1.8 | 3.6                     | 0.6  | -0.4 | 0.0                     | -0.1 |
| Netherlands    | 0.2  | -1.4 | 0.8  | -0.3 | 3.9   | 0.7  | -1.2 | 2.3                     | -0.9 | -0.7 | -2.1                    | -1.0 |
| Austria        | 1.3  | -2.1 | 1.9  | -1.3 | -4.6  | -2.3 | 1.3  | -0.3                    | 0.1  | -0.1 | -0.1                    | -0.2 |
| Portugal       | -4.0 | 2.7  | 1.9  | -1.0 | 2.0   | -0.8 | 3.6  | 4.0                     | 0.5  | -0.1 | 1.6                     | 1.0  |
| Slovenia       | 4.8  | 3.0  | 6.0  | 1.3  | -4.2  | 0.3  | 1.5  | 0.3                     | -0.5 | -0.3 | 0.3                     | 0.2  |
| Slovakia       | 3.8  | 9.2  | 5.5  | -0.1 | -4.5  | 3.9  | 6.1  | 6.4                     | 0.8  | 0.7  | 0.6                     | 1.0  |
| Finland        | -1.3 | 1.4  | -0.5 | 2.1  | -10.4 | -3.9 | -4.7 | -5.9                    | -3.3 | -4.2 | -1.9                    | -0.7 |
| Euro area (b)  | -1.0 | -0.2 | 0.5  | -1.1 | -1.3  | 0.7  | 1.2  | 0.7                     | -0.1 | -0.2 | -0.4                    | -0.2 |
| Bulgaria       | 1.8  | 37.7 | -2.2 | 0.6  | 1.8   | 4.9  | 6.8  | 0.8                     | 0.3  | -1.1 | 1.0                     | 0.2  |
| Czech Republic | 4.8  | 4.5  | 3.9  | 0.7  | 3.9   | 3.9  | 3.3  | 1.9                     | 0.2  | 0.3  | 0.9                     | 0.6  |
| Denmark        | 1.0  | 0.2  | -3.4 | 0.9  | 1.8   | -7.3 | 1.5  | 0.1                     | 0.3  | -1.2 | 0.1                     | -0.1 |
| Latvia         | 10.2 | -4.7 | 1.0  | -1.7 | 3.5   | -0.8 | 2.1  | 1.2                     | 0.5  | 0.7  | 0.6                     | 0.7  |
| Lithuania      | 6.8  | 0.0  | -7.2 | 8.7  | 4.8   | 5.6  | 3.9  | 1.0                     | 1.0  | 0.6  | 0.3                     | 0.2  |
| Hungary        | 4.8  | 7.7  | 6.6  | 2.1  | 2.6   | 2.9  | 0.2  | 0.0                     | 0.7  | 0.7  | 2.6                     | 2.8  |
| Poland         | 0.6  | 3.7  | 1.0  | 3.4  | 6.4   | 0.6  | 1.4  | 0.9                     | 0.3  | 0.4  | 0.7                     | 0.7  |
| Romania        | 1.9  | 1.9  | 0.8  | 6.5  | 6.8   | 3.5  | 4.2  | -1.2                    | 0.4  | 0.2  | 0.8                     | 1.0  |
| Sweden         | -0.8 | 0.0  | -0.2 | -0.5 | -2.2  | 1.5  | 2.0  | -2.0                    | -0.5 | 0.6  | -1.9                    | 0.6  |
| United Kingdom | 1.3  | 3.0  | -7.1 | -0.4 | 3.3   | -3.7 | -0.5 | -2.1                    | 0.4  | 0.2  | 0.3                     | -0.2 |
| EU (b)         | -0.4 | 0.6  | -0.4 | -0.6 | -0.2  | 0.2  | 1.1  | 0.3                     | 0.0  | -0.1 | -0.2                    | 0.0  |
| Croatia        | -1.3 | -2.7 | -3.0 | 0.2  | -4.0  | -4.8 | -3.1 | -1.3                    | -1.7 | -2.2 | -3.1                    | -2.1 |
| USA            | 0.0  | 0.7  | 2.0  | 2.5  | 2.3   | -1.7 | 0.1  | 0.2                     | 1.3  | 0.3  | -0.3                    | 0.6  |
| Japan          | -0.2 | 0.8  | 0.9  | -2.2 | -16.7 | 8.3  | -6.6 | -2.2                    | -4.2 | -2.3 | -2.9                    | -1.5 |

(a) Index for exports of goods and services divided by an index for growth of markets.

(b) Intra- and extra-EU trade.

TABLE 55 : World GDP, volume (percentage change on preceding year, 2007-14)

19.10.2012

|  | (a)   | 2007 | 2008 | 2009  | 2010 | 2011 | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|--|-------|------|------|-------|------|------|-------------------------|------|------|-------------------------|------|
|  |       |      |      |       |      |      | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| EU   | 20.1  | 3.2  | 0.3  | -4.3  | 2.1  | 1.5  | -0.3                    | 0.4  | 1.6  | 0.0                     | 1.3  |
| Euro area                                      | 14.3  | 3.0  | 0.4  | -4.4  | 2.0  | 1.4  | -0.4                    | 0.1  | 1.4  | -0.3                    | 1.0  |
| Belgium  | 0.6   | 2.9  | 1.0  | -2.8  | 2.4  | 1.8  | -0.2                    | 0.7  | 1.6  | 0.0                     | 1.2  |
| Bulgaria                                       | 0.1   | 6.4  | 6.2  | -5.5  | 0.4  | 1.7  | 0.8                     | 1.4  | 2.0  | 0.5                     | 1.9  |
| Czech Republic                                 | 0.2   | 5.7  | 3.1  | -4.5  | 2.5  | 1.9  | -1.3                    | 0.8  | 2.0  | 0.0                     | 1.5  |
| Denmark  | 0.4   | 1.6  | -0.8 | -5.8  | 1.3  | 0.8  | 0.6                     | 1.6  | 1.3  | 1.1                     | 1.4  |
| Germany  | 4.1   | 3.3  | 1.1  | -5.1  | 4.2  | 3.0  | 0.8                     | 0.8  | 2.0  | 0.7                     | 1.7  |
| Estonia  | 0.0   | 7.5  | -4.2 | -14.1 | 3.3  | 8.3  | 2.5                     | 3.1  | 4.0  | 1.6                     | 3.8  |
| Ireland  | 0.3   | 5.4  | -2.1 | -5.5  | -0.8 | 1.4  | 0.4                     | 1.1  | 2.2  | 0.5                     | 1.9  |
| Greece   | 0.3   | 3.5  | -0.2 | -3.1  | -4.9 | -7.1 | -6.0                    | -4.2 | 0.6  | -4.7                    | 0.0  |
| Spain  | 1.7   | 3.5  | 0.9  | -3.7  | -0.3 | 0.4  | -1.4                    | -1.4 | 0.8  | -1.8                    | -0.3 |
| France   | 3.2   | 2.3  | -0.1 | -3.1  | 1.7  | 1.7  | 0.2                     | 0.4  | 1.2  | 0.5                     | 1.3  |
| Italy  | 2.5   | 1.7  | -1.2 | -5.5  | 1.8  | 0.4  | -2.3                    | -0.5 | 0.8  | -1.4                    | 0.4  |
| Cyprus   | 0.0   | 5.1  | 3.6  | -1.9  | 1.3  | 0.5  | -2.3                    | -1.7 | -0.7 | -0.8                    | 0.3  |
| Latvia   | 0.0   | 9.6  | -3.3 | -17.7 | -0.9 | 5.5  | 4.3                     | 3.6  | 3.9  | 2.2                     | 3.6  |
| Lithuania                                      | 0.0   | 9.8  | 2.9  | -14.8 | 1.5  | 5.9  | 2.9                     | 3.1  | 3.6  | 2.4                     | 3.5  |
| Luxembourg                                     | 0.1   | 6.6  | -0.7 | -4.1  | 2.9  | 1.7  | 0.4                     | 0.7  | 1.5  | 1.1                     | 2.1  |
| Hungary  | 0.2   | 0.1  | 0.9  | -6.8  | 1.3  | 1.6  | -1.2                    | 0.3  | 1.3  | -0.3                    | 1.0  |
| Malta  | 0.0   | 4.6  | 4.0  | -2.4  | 3.4  | 1.9  | 1.0                     | 1.6  | 2.1  | 1.2                     | 1.9  |
| Netherlands                                    | 1.0   | 3.9  | 1.8  | -3.7  | 1.6  | 1.0  | -0.3                    | 0.3  | 1.4  | -0.9                    | 0.7  |
| Austria  | 0.5   | 3.7  | 1.4  | -3.8  | 2.1  | 2.7  | 0.8                     | 0.9  | 2.1  | 0.8                     | 1.7  |
| Poland   | 0.6   | 6.8  | 5.1  | 1.6   | 3.9  | 4.3  | 2.4                     | 1.8  | 2.6  | 2.7                     | 2.6  |
| Portugal                                       | 0.3   | 2.4  | 0.0  | -2.9  | 1.4  | -1.7 | -3.0                    | -1.0 | 0.8  | -3.3                    | 0.3  |
| Romania  | 0.2   | 6.3  | 7.3  | -6.6  | -1.6 | 2.5  | 0.8                     | 2.2  | 2.7  | 1.4                     | 2.9  |
| Slovenia                                       | 0.1   | 7.0  | 3.4  | -7.8  | 1.2  | 0.6  | -2.3                    | -1.6 | 0.9  | -1.4                    | 0.7  |
| Slovakia                                       | 0.1   | 10.5 | 5.8  | -4.9  | 4.4  | 3.2  | 2.6                     | 2.0  | 3.0  | 1.8                     | 2.9  |
| Finland  | 0.3   | 5.3  | 0.3  | -8.5  | 3.3  | 2.7  | 0.1                     | 0.8  | 1.3  | 0.8                     | 1.6  |
| Sweden   | 0.6   | 3.3  | -0.6 | -5.0  | 6.6  | 3.9  | 1.1                     | 1.9  | 2.5  | 0.3                     | 2.1  |
| United Kingdom                                 | 2.8   | 3.6  | -1.0 | -4.0  | 1.8  | 0.9  | -0.3                    | 0.9  | 2.0  | 0.5                     | 1.7  |
| Acc/Candidate countries                        | 1.4   | 4.8  | 1.0  | -4.9  | 7.5  | 7.4  | 2.4                     | 2.6  | 3.5  | 2.8                     | 4.2  |
| - Croatia                                      | 0.1   | 5.1  | 2.1  | -6.9  | -1.4 | 0.0  | -1.9                    | 0.0  | 1.4  | -1.2                    | 0.8  |
| - Turkey                                       | 1.2   | 4.7  | 0.7  | -4.8  | 9.2  | 8.5  | 3.0                     | 2.9  | 3.7  | 3.3                     | 4.6  |
| - The former Yugoslav<br>Republic of Macedonia | 0.0   | 6.1  | 5.0  | -0.9  | 2.9  | 2.8  | 0.8                     | 1.7  | 2.2  | 1.7                     | 2.5  |
| - Iceland                                      | 0.0   | 6.0  | 1.2  | -6.6  | -4.0 | 2.6  | 2.7                     | 2.3  | 2.9  | 2.1                     | 2.4  |
| - Montenegro                                   | 0.0   | 10.7 | 6.9  | -5.7  | 2.5  | 3.2  | 0.2                     | 2.4  | 3.0  | 0.4                     | 2.0  |
| - Serbia                                       | 0.1   | 5.4  | 3.8  | -3.5  | 1.0  | 1.6  | -1.6                    | 1.5  | 2.0  | 0.3                     | 1.9  |
| Potential candidates                           | 0.1   | 6.4  | 6.5  | 0.2   | 2.2  | 2.4  | 0.9                     | 1.9  | 2.7  | 1.7                     | 2.3  |
| USA  | 19.2  | 1.9  | -0.4 | -3.1  | 2.4  | 1.8  | 2.1                     | 2.3  | 2.6  | 2.0                     | 2.1  |
| Japan  | 5.7   | 2.2  | -1.0 | -5.5  | 4.5  | -0.8 | 2.0                     | 0.8  | 1.9  | 1.9                     | 1.7  |
| Canada   | 1.8   | 2.2  | 0.7  | -2.8  | 3.2  | 2.4  | 2.0                     | 2.1  | 2.2  | 2.0                     | 2.3  |
| Norway   | 0.3   | 2.7  | 0.0  | -1.7  | 0.7  | 1.4  | 3.1                     | 2.5  | 2.3  | 1.7                     | 2.0  |
| Switzerland                                    | 0.4   | 3.8  | 2.2  | -1.9  | 3.0  | 1.9  | 1.0                     | 1.4  | 1.9  | 0.9                     | 1.7  |
| Australia                                      | 1.2   | 4.9  | 2.3  | 1.5   | 2.4  | 2.1  | 3.2                     | 2.9  | 2.9  | 3.0                     | 2.9  |
| New Zealand                                    | 0.2   | 2.9  | -1.4 | -0.4  | 2.6  | 1.3  | 2.0                     | 3.0  | 3.2  | 2.9                     | 3.2  |
| Advanced economies                             | 50.4  | 2.7  | 0.0  | -3.8  | 2.7  | 1.6  | 1.2                     | 1.4  | 2.2  | 1.2                     | 1.8  |
| CIS  | 4.2   | 8.9  | 5.3  | -6.7  | 4.8  | 4.8  | 3.8                     | 4.0  | 4.3  | 3.7                     | 3.9  |
| - Russia                                       | 3.0   | 8.5  | 5.2  | -7.8  | 4.3  | 4.3  | 3.7                     | 3.9  | 4.0  | 3.6                     | 3.8  |
| - Other  | 1.3   | 9.8  | 5.5  | -4.0  | 6.0  | 6.0  | 3.9                     | 4.3  | 4.8  | 4.0                     | 4.2  |
| MENA   | 5.1   | 5.4  | 4.2  | 2.2   | 4.5  | 4.4  | 3.2                     | 3.1  | 3.8  | 3.1                     | 3.4  |
| Asia   | 28.9  | 10.3 | 6.9  | 6.3   | 9.0  | 7.3  | 6.2                     | 6.3  | 6.7  | 6.9                     | 7.0  |
| - China  | 14.6  | 14.2 | 9.6  | 9.2   | 10.3 | 9.2  | 7.7                     | 7.7  | 7.8  | 8.4                     | 8.2  |
| - India  | 5.8   | 9.3  | 6.7  | 8.4   | 8.4  | 7.2  | 5.0                     | 5.8  | 6.6  | 6.8                     | 7.5  |
| - Hong Kong                                    | 0.5   | 6.4  | 2.3  | -2.6  | 7.0  | 5.0  | 4.8                     | 4.1  | 4.0  | 4.2                     | 4.1  |
| - Korea  | 2.0   | 5.1  | 2.3  | 0.3   | 6.2  | 3.6  | 2.7                     | 2.7  | 3.0  | 3.3                     | 3.6  |
| - Indonesia                                    | 1.5   | 6.3  | 6.0  | 4.6   | 6.1  | 6.5  | 6.0                     | 6.2  | 6.4  | 5.8                     | 6.4  |
| Latin America                                  | 8.8   | 5.7  | 4.3  | -1.8  | 6.1  | 4.5  | 2.9                     | 3.7  | 4.4  | 3.6                     | 4.0  |
| - Brazil                                       | 3.0   | 6.1  | 5.2  | -0.3  | 7.5  | 2.7  | 1.5                     | 3.9  | 4.0  | 3.1                     | 4.2  |
| - Mexico                                       | 2.1   | 3.4  | 1.5  | -6.4  | 5.3  | 4.0  | 3.7                     | 3.5  | 3.8  | 3.3                     | 3.5  |
| Sub-Saharan Africa                             | 2.5   | 7.1  | 5.4  | 2.6   | 5.2  | 4.6  | 5.0                     | 5.0  | 5.5  | 4.5                     | 5.0  |
| Emerging and developing economies              | 49.6  | 8.7  | 5.9  | 3.1   | 7.5  | 6.1  | 5.0                     | 5.3  | 5.7  | 5.5                     | 5.7  |
| World  | 100.0 | 5.7  | 2.9  | -0.3  | 5.1  | 3.8  | 3.1                     | 3.3  | 3.9  | 3.3                     | 3.7  |
| World excluding EU                             | 79.9  | 6.3  | 3.6  | 0.6   | 5.8  | 4.4  | 3.9                     | 4.0  | 4.5  | 4.1                     | 4.3  |
| World excluding euro area                      | 85.7  | 6.1  | 3.4  | 0.4   | 5.6  | 4.3  | 3.7                     | 3.9  | 4.3  | 3.9                     | 4.2  |

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2011.



TABLE 56 : World exports of goods and services, volume (percentage change on preceding year, 2007-14)

19.10.2012

|  | (a)   | 2007 | 2008 | 2009  | 2010 | 2011 | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|--|-------|------|------|-------|------|------|-------------------------|------|------|-------------------------|------|
|  |       |      |      |       |      |      | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| EU (b)   | 35.3  | 5.7  | 1.6  | -11.6 | 10.7 | 6.4  | 2.2                     | 3.4  | 5.3  | 2.4                     | 4.8  |
| Euro area (b)                                  | 26.5  | 6.6  | 1.1  | -12.4 | 11.2 | 6.3  | 2.5                     | 3.2  | 5.2  | 2.1                     | 4.6  |
| Acc/Candidate countries                        | 1.1   | 7.4  | 2.5  | -6.2  | 4.0  | 6.0  | 8.0                     | 4.6  | 6.0  | 3.0                     | 7.4  |
| - Croatia                                      | 0.1   | 3.7  | 1.7  | -16.2 | 5.2  | 2.0  | -1.0                    | 1.5  | 3.3  | -1.5                    | 2.5  |
| - Turkey                                       | 0.8   | 7.3  | 2.7  | -5.0  | 3.4  | 6.5  | 9.7                     | 5.0  | 6.5  | 3.7                     | 8.3  |
| - The former Yugoslav<br>Republic of Macedonia | 0.0   | 11.8 | -6.3 | -15.8 | 23.6 | 11.3 | 1.5                     | 5.1  | 8.0  | 4.0                     | 8.0  |
| - Iceland                                      | 0.0   | 17.7 | 7.0  | 7.0   | 0.6  | 4.1  | 4.2                     | 3.9  | 3.9  | 2.3                     | 2.6  |
| - Montenegro                                   | 0.0   | :    | :    | :     | :    | :    | -0.4                    | 2.9  | 3.1  | 1.9                     | 3.3  |
| - Serbia                                       | 0.1   | :    | :    | :     | :    | :    | 2.7                     | 11.5 | 4.6  | 3.3                     | 7.5  |
| USA  | 9.6   | 9.3  | 6.1  | -9.1  | 11.1 | 6.7  | 4.4                     | 6.2  | 6.3  | 4.9                     | 6.6  |
| Japan  | 4.1   | 8.7  | 1.4  | -24.2 | 24.3 | -0.1 | 2.5                     | 0.7  | 3.9  | 2.4                     | 4.8  |
| Canada   | 2.5   | 1.2  | -4.7 | -13.8 | 6.4  | 6.4  | 3.9                     | 5.4  | 6.0  | 5.4                     | 6.0  |
| Norway   | 0.9   | 1.4  | 0.1  | -4.2  | 1.8  | -1.4 | 3.6                     | 2.5  | 2.4  | 0.4                     | 1.0  |
| Switzerland                                    | 1.6   | 9.9  | 2.9  | -7.7  | 7.8  | 3.8  | 1.1                     | 2.3  | 3.8  | 2.6                     | 3.4  |
| Australia                                      | 1.3   | 3.0  | 6.1  | -5.2  | 12.9 | -5.9 | 4.5                     | 5.0  | 5.1  | 4.9                     | 5.3  |
| New Zealand                                    | 0.2   | 3.2  | -1.3 | 3.9   | -3.3 | 0.5  | 2.9                     | 4.1  | 4.2  | 4.3                     | 5.3  |
| Advanced economies                             | 56.6  | 6.3  | 2.2  | -11.7 | 11.2 | 5.5  | 2.8                     | 3.8  | 5.3  | 3.0                     | 5.1  |
| CIS  | 4.0   | 5.1  | 10.4 | -15.8 | 11.6 | 9.5  | 4.7                     | 5.9  | 5.3  | 3.9                     | 4.7  |
| - Russia                                       | 2.7   | 6.3  | 0.6  | -4.7  | 7.0  | 0.4  | 3.7                     | 4.4  | 5.2  | 3.6                     | 4.7  |
| - Other  | 1.4   | 2.8  | 29.5 | -37.5 | 20.4 | 27.2 | 6.7                     | 8.9  | 5.6  | 4.3                     | 4.8  |
| MENA   | 6.2   | 10.2 | 6.3  | -11.3 | 3.2  | 28.2 | 4.5                     | 4.2  | 4.9  | 4.2                     | 4.4  |
| Asia   | 25.4  | 20.2 | 5.9  | -10.6 | 16.7 | 7.1  | 5.8                     | 5.2  | 5.7  | 6.8                     | 6.6  |
| - China  | 9.6   | 36.7 | 5.5  | -11.7 | 13.3 | 3.2  | 5.3                     | 3.9  | 5.0  | 8.2                     | 7.6  |
| - India  | 2.0   | 7.5  | 18.2 | -8.0  | 22.0 | 19.4 | 4.4                     | 4.7  | 5.1  | 8.0                     | 6.2  |
| - Hong Kong                                    | 2.6   | 7.8  | 2.9  | -12.3 | 18.3 | 4.4  | 7.4                     | 6.8  | 6.8  | 6.8                     | 6.8  |
| - Korea  | 3.1   | 12.1 | 13.5 | 0.7   | 13.0 | 9.4  | 6.0                     | 5.0  | 6.0  | 4.3                     | 5.0  |
| - Indonesia                                    | 1.0   | 6.6  | 12.3 | -17.5 | 22.2 | 20.0 | 6.5                     | 6.7  | 7.0  | 5.4                     | 7.0  |
| Latin America                                  | 5.7   | 6.4  | 1.8  | -10.3 | 11.9 | 8.8  | 4.4                     | 5.5  | 6.5  | 5.3                     | 5.9  |
| - Brazil                                       | 1.4   | 7.9  | 2.9  | -3.5  | 11.4 | 6.5  | 2.9                     | 5.3  | 6.4  | 3.4                     | 6.7  |
| - Mexico                                       | 1.7   | 5.6  | 1.3  | -10.3 | 24.1 | 12.1 | 4.9                     | 5.8  | 6.9  | 5.2                     | 6.1  |
| Sub-Saharan Africa                             | 2.1   | 6.5  | 16.8 | -33.0 | 17.2 | 14.1 | 7.0                     | 5.6  | 6.6  | 2.2                     | 5.2  |
| Emerging and developing economies              | 43.4  | 14.9 | 6.4  | -12.2 | 13.7 | 10.9 | 5.4                     | 5.2  | 5.7  | 5.8                     | 6.0  |
| World  | 100.0 | 10.0 | 4.0  | -11.9 | 12.3 | 7.8  | 4.0                     | 4.4  | 5.5  | 4.2                     | 5.5  |
| World excluding EU                             | 64.7  | 12.4 | 5.3  | -12.1 | 13.2 | 8.6  | 4.9                     | 4.9  | 5.6  | 5.2                     | 5.9  |
| World excluding euro area                      | 73.5  | 11.4 | 5.1  | -11.7 | 12.7 | 8.4  | 4.5                     | 4.8  | 5.6  | 4.9                     | 5.8  |

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2011.

(b) Intra- and extra-EU trade.

TABLE 57 : Export shares in EU trade (goods only - 2011)

|                | EU   | Euro area | Acc/Cand countries | USA  | Other advanced economies | China | Rest of Asia | CIS  | MENA | Latin America | Sub-Saharan Africa |
|----------------|------|-----------|--------------------|------|--------------------------|-------|--------------|------|------|---------------|--------------------|
| EU             | 66.2 | 49.6      | 2.2                | 5.9  | 1.2                      | 5.4   | 3.2          | 4.7  | 3.1  | 4.1           | 2.4                |
| Euro area      | 65.7 | 49.2      | 2.2                | 5.8  | 1.2                      | 5.4   | 3.5          | 4.7  | 2.8  | 4.3           | 1.7                |
| Belgium        | 75.2 | 62.0      | 1.3                | 4.4  | 0.8                      | 2.9   | 2.0          | 4.8  | 1.4  | 3.6           | 2.0                |
| Bulgaria       | 64.7 | 47.8      | 14.9               | 1.5  | 0.2                      | 1.4   | 1.6          | 2.5  | 6.3  | 4.8           | 0.6                |
| Czech Republic | 83.4 | 66.7      | 1.7                | 2.0  | 0.4                      | 2.6   | 1.2          | 1.6  | 4.0  | 1.6           | 0.8                |
| Denmark        | 67.8 | 39.3      | 1.3                | 6.0  | 2.0                      | 8.8   | 2.6          | 4.0  | 2.3  | 2.5           | 0.7                |
| Germany        | 60.9 | 40.8      | 2.2                | 6.3  | 1.4                      | 7.0   | 5.8          | 5.5  | 3.7  | 3.2           | 1.2                |
| Estonia        | 71.0 | 31.9      | 2.1                | 5.1  | 0.6                      | 4.4   | 1.2          | 1.7  | 11.4 | 0.7           | 0.8                |
| Ireland        | 57.2 | 38.4      | 0.6                | 23.9 | 2.3                      | 6.8   | 2.1          | 2.9  | 0.8  | 1.5           | 1.2                |
| Greece         | 57.5 | 40.1      | 13.7               | 4.4  | 0.4                      | 2.1   | 1.3          | 4.9  | 3.2  | 10.2          | 1.1                |
| Spain          | 67.6 | 55.5      | 2.4                | 3.9  | 1.1                      | 4.1   | 2.2          | 2.7  | 1.7  | 7.1           | 1.6                |
| France         | 60.9 | 48.5      | 1.8                | 6.0  | 1.7                      | 5.2   | 3.4          | 6.1  | 2.0  | 7.4           | 2.6                |
| Italy          | 55.9 | 42.7      | 3.6                | 6.5  | 1.5                      | 7.3   | 3.1          | 5.4  | 3.6  | 7.9           | 3.8                |
| Cyprus         | 66.3 | 47.4      | 0.3                | 0.8  | 1.4                      | 1.7   | 0.8          | 14.4 | 2.7  | 10.2          | 0.2                |
| Latvia         | 71.3 | 36.5      | 1.3                | 1.9  | 0.4                      | 3.1   | 0.5          | 3.4  | 15.6 | 2.1           | 0.2                |
| Lithuania      | 65.8 | 36.2      | 0.8                | 3.6  | 0.2                      | 4.5   | 0.3          | 1.2  | 21.5 | 0.9           | 0.3                |
| Luxembourg     | 82.7 | 68.8      | 1.6                | 2.4  | 0.3                      | 4.0   | 1.2          | 1.5  | 2.1  | 2.2           | 0.9                |
| Hungary        | 75.1 | 54.0      | 4.3                | 2.5  | 0.7                      | 1.9   | 1.9          | 2.9  | 5.8  | 3.2           | 0.8                |
| Malta          | 49.8 | 40.2      | 5.6                | 4.2  | 2.2                      | 1.8   | 11.5         | 17.0 | 0.6  | 4.8           | 1.6                |
| Netherlands    | 79.2 | 63.8      | 1.1                | 3.6  | 0.8                      | 2.8   | 1.4          | 3.6  | 1.7  | 2.5           | 1.6                |
| Austria        | 71.7 | 54.4      | 2.3                | 4.8  | 0.9                      | 6.3   | 2.5          | 3.5  | 3.4  | 2.2           | 1.7                |
| Poland         | 79.8 | 55.5      | 2.4                | 2.1  | 0.4                      | 2.8   | 1.1          | 1.3  | 7.8  | 1.2           | 0.7                |
| Portugal       | 73.2 | 63.7      | 1.0                | 4.0  | 0.7                      | 2.1   | 1.5          | 1.2  | 0.7  | 3.4           | 3.7                |
| Romania        | 70.1 | 52.3      | 8.5                | 2.1  | 0.6                      | 1.7   | 1.2          | 2.1  | 6.4  | 5.8           | 0.8                |
| Slovenia       | 72.8 | 56.2      | 11.4               | 1.6  | 0.2                      | 1.9   | 0.6          | 1.5  | 5.8  | 3.1           | 0.7                |
| Slovakia       | 86.8 | 48.5      | 2.3                | 1.3  | 0.2                      | 1.7   | 2.5          | 0.6  | 3.5  | 0.5           | 0.5                |
| Finland        | 56.3 | 31.9      | 1.8                | 5.3  | 1.9                      | 7.3   | 5.2          | 5.8  | 9.4  | 3.0           | 2.7                |
| Sweden         | 59.5 | 40.4      | 1.5                | 6.0  | 1.3                      | 11.5  | 3.5          | 5.3  | 2.4  | 3.9           | 2.8                |
| United Kingdom | 58.1 | 51.3      | 1.6                | 11.2 | 1.5                      | 6.6   | 2.8          | 7.5  | 1.6  | 4.3           | 2.0                |

TABLE 58 : World imports of goods and services, volume (percentage change on preceding year, 2007-14)

19.10.2012

|  | (a)   | 2007 | 2008  | 2009  | 2010 | 2011 | Autumn 2012<br>forecast |      |      | Spring 2012<br>forecast |      |
|--|-------|------|-------|-------|------|------|-------------------------|------|------|-------------------------|------|
|  |       |      |       |       |      |      | 2012                    | 2013 | 2014 | 2012                    | 2013 |
| EU (b)   | 35.1  | 5.9  | 1.1   | -11.6 | 9.6  | 4.1  | 0.1                     | 2.4  | 4.9  | 0.9                     | 3.9  |
| Euro area (b)                                  | 26.2  | 6.3  | 0.9   | -11.1 | 9.6  | 4.2  | -0.5                    | 2.1  | 5.0  | 0.4                     | 3.9  |
| Acc/Candidate countries                        | 1.4   | 10.1 | -3.6  | -15.2 | 17.9 | 9.7  | 4.0                     | 3.4  | 7.7  | 4.8                     | 4.9  |
| - Croatia                                      | 0.1   | 6.1  | 4.0   | -21.4 | -1.4 | 1.2  | -2.5                    | 2.0  | 4.0  | -2.1                    | 4.1  |
| - Turkey                                       | 1.1   | 10.7 | -4.1  | -14.3 | 20.7 | 10.6 | 4.7                     | 3.5  | 8.1  | 5.7                     | 4.9  |
| - The former Yugoslav<br>Republic of Macedonia | 0.0   | 16.1 | 0.8   | -14.3 | 9.5  | 14.0 | 2.3                     | 5.5  | 7.9  | 2.6                     | 7.9  |
| - Iceland                                      | 0.0   | -1.5 | -18.4 | -24.0 | 4.5  | 6.8  | 5.7                     | 5.2  | 5.7  | 3.7                     | 3.5  |
| - Montenegro                                   | 0.0   | :    | :     | :     | :    | :    | 2.0                     | 3.3  | 3.5  | 0.3                     | 1.8  |
| - Serbia                                       | 0.1   | :    | :     | :     | :    | :    | 3.1                     | 3.8  | 4.2  | 2.3                     | 4.7  |
| USA  | 12.5  | 2.4  | -2.7  | -13.5 | 12.5 | 4.8  | 3.8                     | 5.3  | 7.6  | 3.7                     | 5.4  |
| Japan  | 4.5   | 2.3  | 0.3   | -15.7 | 11.2 | 6.3  | 6.3                     | -0.4 | 1.0  | 4.1                     | 3.6  |
| Canada   | 2.6   | 5.9  | 1.5   | -13.4 | 13.1 | 7.6  | 3.7                     | 5.2  | 6.0  | 6.3                     | 6.8  |
| Norway   | 0.6   | 10.0 | 3.9   | -12.5 | 9.9  | 3.5  | 4.9                     | 3.2  | 2.6  | 4.1                     | 3.2  |
| Switzerland                                    | 1.3   | 6.2  | -0.3  | -5.2  | 7.4  | 4.2  | 3.2                     | 2.0  | 3.6  | 3.0                     | 4.8  |
| Australia                                      | 1.3   | 10.3 | 11.9  | -11.3 | 9.6  | 2.0  | 7.9                     | 7.6  | 7.6  | 7.4                     | 7.9  |
| New Zealand                                    | 0.2   | 6.5  | -5.4  | -9.0  | 6.9  | 3.4  | 4.3                     | 5.1  | 4.8  | 5.2                     | 5.6  |
| Advanced economies                             | 59.5  | 5.1  | 0.4   | -12.3 | 10.7 | 4.7  | 1.9                     | 3.1  | 5.3  | 2.3                     | 4.5  |
| CIS  | 3.2   | 20.6 | 13.5  | -28.0 | 19.3 | 18.9 | 9.2                     | 7.6  | 8.0  | 6.8                     | 6.8  |
| - Russia                                       | 1.9   | 26.2 | 14.8  | -30.4 | 25.8 | 20.3 | 10.8                    | 9.2  | 9.3  | 9.0                     | 8.6  |
| - Other  | 1.2   | 11.6 | 11.4  | -24.1 | 9.0  | 16.7 | 6.5                     | 5.1  | 5.9  | 3.3                     | 3.8  |
| MENA   | 4.8   | 13.2 | 13.6  | -1.3  | -0.4 | 15.6 | 5.0                     | 5.5  | 5.8  | 5.4                     | 5.3  |
| Asia   | 24.9  | 7.7  | 8.1   | -6.5  | 22.1 | 8.7  | 5.6                     | 5.2  | 5.9  | 6.8                     | 7.1  |
| - China  | 8.9   | 10.6 | 6.2   | 1.4   | 24.4 | 10.2 | 5.2                     | 3.9  | 5.0  | 7.9                     | 8.4  |
| - India  | 2.5   | 12.1 | 27.7  | -1.9  | 24.6 | 9.6  | 5.0                     | 5.2  | 5.7  | 7.5                     | 6.2  |
| - Hong Kong                                    | 2.6   | 8.2  | 2.1   | -10.5 | 17.2 | 4.1  | 7.6                     | 7.7  | 7.7  | 7.7                     | 7.7  |
| - Korea  | 2.9   | 9.9  | 5.6   | -3.1  | 14.8 | 1.4  | 4.3                     | 4.1  | 5.6  | 4.2                     | 5.4  |
| - Indonesia                                    | 0.9   | 5.5  | 21.3  | -15.7 | 6.4  | 6.3  | 5.9                     | 6.0  | 6.1  | 6.5                     | 7.1  |
| Latin America                                  | 5.6   | 12.9 | 6.3   | -17.5 | 18.9 | 11.0 | 5.4                     | 7.4  | 8.5  | 8.4                     | 7.9  |
| - Brazil                                       | 1.4   | 14.2 | 6.5   | -13.1 | 27.8 | 2.0  | 5.4                     | 8.2  | 9.4  | 12.4                    | 11.2 |
| - Mexico                                       | 1.8   | 7.3  | 3.6   | -17.0 | 23.3 | 10.5 | 5.9                     | 8.1  | 9.2  | 6.3                     | 7.5  |
| Sub-Saharan Africa                             | 2.1   | 11.9 | 13.0  | -20.6 | 4.7  | 9.0  | 4.9                     | 5.0  | 5.0  | 3.2                     | 5.8  |
| Emerging and developing economies              | 40.5  | 10.3 | 9.2   | -9.8  | 17.9 | 10.7 | 5.7                     | 5.7  | 6.4  | 6.7                     | 6.9  |
| World  | 100.0 | 7.2  | 3.9   | -11.3 | 13.6 | 7.1  | 3.4                     | 4.1  | 5.7  | 4.0                     | 5.5  |
| World excluding EU                             | 64.9  | 8.0  | 5.5   | -11.2 | 15.7 | 8.7  | 5.3                     | 5.1  | 6.2  | 5.8                     | 6.3  |
| World excluding euro area                      | 73.8  | 7.7  | 5.0   | -11.4 | 15.0 | 8.1  | 4.8                     | 4.9  | 6.0  | 5.3                     | 6.0  |

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2011.

(b) Intra- and extra-EU trade.

TABLE 59 : Import shares in EU trade (goods only - 2011)

|                | EU   | Euro area | Acc/Cand<br>countries | USA  | Japan | Other<br>advanced<br>economies | China | Rest<br>Asia | CIS  | MENA | Latin<br>America | Sub<br>Saharan<br>Africa |
|----------------|------|-----------|-----------------------|------|-------|--------------------------------|-------|--------------|------|------|------------------|--------------------------|
| EU             | 63.5 | 49.0      | 1.4                   | 4.1  | 1.5   | 8.7                            | 6.3   | 5.2          | 5.3  | 3.4  | 2.4              | 1.7                      |
| Euro area      | 63.3 | 48.7      | 1.4                   | 4.1  | 1.5   | 4.6                            | 6.2   | 5.2          | 5.0  | 4.0  | 2.7              | 1.9                      |
| Belgium        | 69.0 | 57.9      | 0.8                   | 6.1  | 1.7   | 3.3                            | 4.3   | 5.2          | 2.0  | 3.4  | 2.7              | 1.4                      |
| Bulgaria       | 61.4 | 44.0      | 7.0                   | 0.9  | 0.3   | 1.4                            | 3.2   | 2.0          | 20.1 | 2.0  | 1.6              | 0.2                      |
| Czech Republic | 76.9 | 61.6      | 0.9                   | 1.2  | 1.2   | 1.8                            | 6.5   | 4.5          | 6.3  | 0.3  | 0.2              | 0.2                      |
| Denmark        | 72.6 | 47.2      | 1.1                   | 2.5  | 0.5   | 7.4                            | 6.6   | 4.0          | 2.0  | 0.9  | 2.0              | 0.4                      |
| Germany        | 65.7 | 46.2      | 1.5                   | 3.8  | 1.9   | 6.4                            | 6.8   | 5.3          | 4.0  | 1.4  | 1.9              | 1.3                      |
| Estonia        | 75.0 | 33.4      | 0.6                   | 1.3  | 0.5   | 2.4                            | 5.2   | 2.6          | 11.5 | 0.2  | 0.3              | 0.4                      |
| Ireland        | 71.2 | 26.3      | 0.5                   | 12.1 | 1.3   | 4.7                            | 3.5   | 3.6          | 0.2  | 0.5  | 1.3              | 0.9                      |
| Greece         | 55.1 | 43.9      | 3.6                   | 1.7  | 0.6   | 2.3                            | 6.1   | 5.9          | 10.1 | 12.6 | 1.5              | 0.6                      |
| Spain          | 58.5 | 48.7      | 1.3                   | 3.1  | 0.9   | 2.6                            | 5.8   | 4.6          | 3.0  | 9.7  | 6.0              | 4.4                      |
| France         | 69.5 | 58.2      | 1.1                   | 3.6  | 1.1   | 4.3                            | 4.5   | 4.2          | 3.6  | 4.7  | 1.4              | 2.0                      |
| Italy          | 56.9 | 46.1      | 2.2                   | 3.0  | 1.0   | 4.2                            | 7.0   | 5.0          | 7.3  | 7.7  | 3.0              | 2.4                      |
| Cyprus         | 61.8 | 48.3      | 0.4                   | 0.9  | 1.5   | 1.4                            | 6.7   | 8.7          | 7.6  | 10.1 | 0.6              | 0.2                      |
| Latvia         | 59.6 | 30.9      | 0.5                   | 1.7  | 0.2   | 1.9                            | 4.0   | 2.7          | 28.8 | 0.2  | 0.2              | 0.0                      |
| Lithuania      | 57.3 | 31.9      | 1.0                   | 2.4  | 0.2   | 1.2                            | 3.3   | 1.7          | 31.1 | 0.8  | 0.5              | 0.5                      |
| Luxembourg     | 81.9 | 77.7      | 1.1                   | 5.2  | 0.7   | 1.7                            | 6.0   | 1.0          | 0.1  | 0.1  | 2.2              | 0.0                      |
| Hungary        | 70.9 | 54.9      | 1.6                   | 1.7  | 1.7   | 1.2                            | 7.8   | 4.8          | 9.3  | 0.3  | 0.9              | 0.1                      |
| Malta          | 44.4 | 35.3      | 5.2                   | 4.4  | 2.3   | 1.8                            | 11.8  | 20.4         | 7.8  | 1.8  | 0.2              | 0.1                      |
| Netherlands    | 46.3 | 34.5      | 0.9                   | 6.3  | 2.8   | 5.0                            | 10.5  | 7.6          | 8.7  | 4.2  | 5.1              | 2.4                      |
| Austria        | 80.9 | 67.8      | 1.7                   | 1.7  | 0.7   | 5.6                            | 2.1   | 2.1          | 2.8  | 1.4  | 0.4              | 0.8                      |
| Poland         | 72.4 | 57.4      | 1.0                   | 1.3  | 0.9   | 2.0                            | 5.1   | 3.8          | 12.0 | 0.5  | 0.7              | 0.3                      |
| Portugal       | 72.9 | 65.6      | 0.5                   | 1.6  | 0.6   | 2.2                            | 3.0   | 2.9          | 2.8  | 3.7  | 4.3              | 5.5                      |
| Romania        | 73.5 | 51.4      | 4.4                   | 1.2  | 0.6   | 1.3                            | 4.7   | 2.8          | 9.2  | 0.9  | 1.2              | 0.3                      |
| Slovenia       | 70.8 | 59.1      | 9.1                   | 1.9  | 0.3   | 1.2                            | 4.7   | 6.5          | 1.3  | 1.7  | 2.0              | 0.4                      |
| Slovakia       | 76.3 | 40.1      | 1.0                   | 0.5  | 0.7   | 0.8                            | 3.7   | 6.0          | 10.7 | 0.3  | 0.1              | 0.0                      |
| Finland        | 60.7 | 36.8      | 0.5                   | 3.0  | 0.9   | 5.1                            | 6.0   | 4.4          | 16.4 | 0.2  | 2.0              | 0.8                      |
| Sweden         | 71.2 | 50.2      | 0.8                   | 3.1  | 1.2   | 8.7                            | 4.4   | 3.7          | 4.7  | 0.5  | 1.4              | 0.4                      |
| United Kingdom | 53.6 | 45.5      | 1.4                   | 7.5  | 2.2   | 10.9                           | 7.8   | 7.3          | 1.9  | 3.0  | 2.4              | 2.1                      |

TABLE 60 : World merchandise trade balances (fob-fob, in billions of US dollar, 2006-14)

19.10.2012

|                                   |        |        |        |        |        |        | Autumn 2012<br>forecast |        |        | Spring 2012<br>forecast |        |
|-----------------------------------|--------|--------|--------|--------|--------|--------|-------------------------|--------|--------|-------------------------|--------|
|                                   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   | 2012                    | 2013   | 2014   | 2012                    | 2013   |
| EU                                | -89.8  | -121.9 | -205.0 | -47.7  | -71.9  | -89.2  | -8.8                    | 33.1   | 52.7   | -50.0                   | 9.6    |
| EU, adjusted <sup>1</sup>         | -204.9 | -212.1 | -326.3 | -119.2 | -169.4 | -195.7 | -107.6                  | -66.5  | -46.9  | -131.8                  | -72.2  |
| Euro area                         | 63.4   | 99.9   | 29.0   | 76.1   | 76.2   | 67.4   | 163.1                   | 206.2  | 223.7  | 90.5                    | 134.3  |
| Euro area, adjusted <sup>1</sup>  | 10.2   | 57.8   | -32.0  | 43.5   | 20.0   | 6.8    | 106.9                   | 149.6  | 167.1  | 47.7                    | 91.5   |
| Acc/Candidate countries           | -53.9  | -63.3  | -68.5  | -35.2  | -63.8  | -103.2 | -95.5                   | -101.7 | -113.0 | -105.6                  | -108.7 |
| USA                               | -860.5 | -838.7 | -848.8 | -522.8 | -668.5 | -754.7 | -763.7                  | -777.1 | -874.7 | -814.1                  | -848.6 |
| Japan                             | 81.4   | 104.7  | 39.0   | 43.2   | 91.0   | -21.7  | -88.0                   | -84.1  | -75.7  | 8.0                     | 3.0    |
| Norway                            | 56.1   | 53.5   | 78.8   | 41.6   | 51.0   | 66.3   | 65.5                    | 69.3   | 72.8   | 60.9                    | 60.1   |
| Switzerland                       | 1.8    | 5.2    | 10.9   | 12.4   | 13.0   | 16.6   | 22.4                    | 23.3   | 23.3   | 19.4                    | 16.4   |
| Advanced economies                | -832.9 | -835.9 | -957.9 | -515.5 | -637.5 | -867.6 | -865.7                  | -847.4 | -940.7 | -871.3                  | -877.3 |
| CIS                               | 142.8  | 121.8  | 213.9  | 103.6  | 164.5  | 234.8  | 221.5                   | 248.3  | 261.8  | 235.9                   | 247.4  |
| - Russia                          | 139.6  | 130.9  | 177.8  | 110.7  | 151.9  | 198.6  | 182.9                   | 195.8  | 209.4  | 192.0                   | 202.9  |
| MENA                              | 293.6  | 289.9  | 394.7  | 156.6  | 252.5  | 402.1  | 394.2                   | 421.3  | 302.3  | 679.8                   | 557.0  |
| Asia                              | 314.1  | 422.0  | 342.1  | 314.7  | 294.7  | 210.0  | 282.3                   | 241.3  | 427.9  | 82.3                    | 262.2  |
| - China                           | 217.7  | 315.4  | 360.7  | 249.5  | 254.2  | 243.5  | 253.6                   | 283.9  | 319.9  | 267.4                   | 306.3  |
| Latin America                     | 99.5   | 71.3   | 44.6   | 53.7   | 50.6   | 96.8   | 58.0                    | 33.0   | 12.6   | 32.5                    | 9.8    |
| Sub-Saharan Africa                | 46.9   | 50.5   | 67.5   | 22.5   | 40.6   | 75.1   | 88.7                    | 87.8   | 94.4   | 86.9                    | 83.4   |
| Emerging and developing economies | 896.9  | 955.5  | 1062.7 | 651.1  | 802.8  | 1018.7 | 1044.7                  | 1031.8 | 1098.9 | 1117.6                  | 1159.8 |
| World                             | 64.0   | 119.6  | 104.8  | 135.6  | 165.4  | 151.2  | 179.0                   | 184.4  | 158.3  | 246.3                   | 282.6  |

<sup>1</sup> See note 7 on concepts and sources.

TABLE 61 : World current-account balances (in billions of US dollar, 2006-14)

|                                   |        |        |        |        |        |        | Autumn 2012<br>forecast |        |        | Spring 2012<br>forecast |        |
|-----------------------------------|--------|--------|--------|--------|--------|--------|-------------------------|--------|--------|-------------------------|--------|
|                                   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   | 2012                    | 2013   | 2014   | 2012                    | 2013   |
| EU                                | -28.1  | -54.7  | -156.9 | -10.0  | -8.9   | 4.5    | 64.2                    | 154.2  | 194.9  | 45.1                    | 115.3  |
| EU, adjusted <sup>1</sup>         | -175.2 | -172.4 | -383.5 | -125.6 | -108.9 | -92.6  | -25.9                   | 63.4   | 104.1  | -70.4                   | -0.3   |
| Euro area                         | 53.4   | 53.0   | -94.6  | 7.8    | 33.0   | 33.5   | 139.4                   | 189.5  | 205.3  | 74.2                    | 128.6  |
| Euro area, adjusted <sup>1</sup>  | -15.8  | 10.1   | -210.4 | -30.5  | -9.0   | -3.2   | 105.4                   | 155.3  | 171.0  | 17.3                    | 71.7   |
| Acc/Candidate countries           | -43.5  | -55.0  | -65.4  | -22.7  | -52.3  | -70.2  | -72.1                   | -68.1  | -78.9  | -80.2                   | -83.0  |
| USA                               | -556.1 | -704.0 | -676.5 | -500.4 | -472.4 | -465.7 | -487.4                  | -473.9 | -506.4 | -488.8                  | -485.7 |
| Japan                             | 170.6  | 210.7  | 158.7  | 142.1  | 195.8  | 117.6  | 53.2                    | 64.3   | 78.4   | 99.4                    | 96.7   |
| Norway                            | 55.8   | 49.1   | 72.9   | 40.6   | 51.9   | 70.3   | 69.9                    | 74.4   | 78.3   | 45.6                    | 43.3   |
| Switzerland                       | 56.9   | 39.6   | 12.9   | 58.4   | 83.2   | 76.9   | 70.7                    | 74.6   | 75.6   | 59.4                    | 61.6   |
| Advanced economies                | -375.9 | -576.3 | -710.8 | -385.3 | -299.1 | -355.3 | -392.0                  | -281.2 | -283.9 | -405.3                  | -362.7 |
| CIS                               | 94.3   | 66.4   | 99.0   | 33.7   | 63.3   | 102.3  | 109.1                   | 127.7  | 128.7  | 132.2                   | 134.4  |
| - Russia                          | 95.2   | 78.0   | 102.0  | 48.5   | 70.9   | 100.9  | 70.6                    | 70.6   | 70.1   | 88.8                    | 89.4   |
| MENA                              | 265.9  | 253.5  | 337.3  | 81.2   | 178.9  | 317.2  | 309.8                   | 297.5  | 261.4  | 323.7                   | 280.7  |
| Asia                              | 355.4  | 522.8  | 483.9  | 422.8  | 435.3  | 336.2  | 302.4                   | 312.1  | 494.6  | 203.2                   | 374.3  |
| - China                           | 232.7  | 354.0  | 412.4  | 261.1  | 305.3  | 201.0  | 215.3                   | 242.6  | 276.3  | 262.6                   | 293.2  |
| Latin America                     | 51.0   | 14.1   | -29.1  | -21.6  | -50.9  | -63.9  | -56.2                   | -85.7  | -114.7 | -75.7                   | -104.2 |
| Sub-Saharan Africa                | 20.9   | -0.5   | -6.3   | -29.8  | -32.4  | -26.1  | 22.0                    | 17.4   | 20.1   | 20.3                    | 12.2   |
| Emerging and developing economies | 787.5  | 856.4  | 884.8  | 486.4  | 594.3  | 665.7  | 687.1                   | 669.0  | 790.1  | 603.6                   | 697.4  |
| World                             | 411.6  | 280.1  | 174.0  | 101.2  | 295.2  | 310.4  | 295.1                   | 387.8  | 506.2  | 198.3                   | 334.8  |

<sup>1</sup> See note 7 on concepts and sources.

TABLE 62 : Primary commodity prices (in US dollar, percentage change on preceding year, 2006-14)

| SITC<br>Classification             |      |      |      |       |      |       | Autumn 2012<br>forecast |       |       | Spring 2012<br>forecast |       |
|------------------------------------|------|------|------|-------|------|-------|-------------------------|-------|-------|-------------------------|-------|
|                                    | 2006 | 2007 | 2008 | 2009  | 2010 | 2011  | 2012                    | 2013  | 2014  | 2012                    | 2013  |
| Food (0 + 1)                       | 10.3 | 12.6 | 21.6 | -11.1 | 10.9 | 17.4  | -2.5                    | -1.1  | -3.2  | -7.2                    | -2.1  |
| Basic materials (2 + 4)            | 32.5 | 12.3 | 8.8  | -23.6 | 39.9 | 19.2  | -13.9                   | 0.8   | 0.4   | -5.9                    | 1.8   |
| - of which :                       |      |      |      |       |      |       |                         |       |       |                         |       |
| Agricultures non-food              | 9.1  | 11.3 | 7.7  | -20.2 | 29.7 | 25.9  | -12.0                   | -4.5  | -1.1  | -5.6                    | -1.5  |
| - of which :                       |      |      |      |       |      |       |                         |       |       |                         |       |
| Wood and pulp                      | 8.5  | 0.3  | 3.0  | -10.3 | 6.2  | 9.0   | -5.0                    | -0.1  | -0.1  | 0.8                     | 3.8   |
| Minerals and metals                | 53.4 | 12.9 | 9.5  | -25.7 | 46.6 | 15.2  | -15.1                   | 4.3   | 1.3   | -6.1                    | 3.9   |
| Fuel products (3)                  | 19.6 | 8.5  | 38.1 | -36.7 | 26.3 | 38.0  | 2.0                     | -3.0  | -5.0  | 5.9                     | -5.2  |
| - of which :                       |      |      |      |       |      |       |                         |       |       |                         |       |
| Crude petroleum                    | 20.2 | 9.4  | 36.2 | -36.9 | 28.8 | 38.3  | 1.5                     | -3.1  | -5.5  | 5.3                     | -5.6  |
| Primary commodities                |      |      |      |       |      |       |                         |       |       |                         |       |
| - Total excluding fuels            | 22.3 | 12.4 | 14.1 | -18.0 | 25.9 | 18.4  | -9.1                    | 0.0   | -1.2  | -6.5                    | 0.2   |
| - Total including fuels            | 20.0 | 9.2  | 33.9 | -34.0 | 26.3 | 34.5  | 0.3                     | -2.6  | -4.4  | 3.9                     | -4.5  |
| Crude petroleum - price per barrel |      |      |      |       |      |       |                         |       |       |                         |       |
| Brent (usd)                        | 66.2 | 72.4 | 98.6 | 62.3  | 80.2 | 110.9 | 112.6                   | 109.1 | 103.1 | 116.8                   | 110.2 |
| Brent (euro)                       | 52.7 | 52.9 | 67.2 | 44.8  | 60.5 | 79.7  | 87.3                    | 83.9  | 79.3  | 89.2                    | 84.1  |