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European Economic Forecast

Winter 2016

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European Commission
Directorate-General for Economic and Financial Affairs

European Economic Forecast
Winter 2016

EUROPEAN ECONOMY Institutional Paper 020

ABBREVIATIONS

Countries and regions

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

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

Economic variables and institutions

CPI	Consumer price index
ESI	Economic Sentiment Indicator
GDP	Gross Domestic Product
GNI	Gross National Income
HICP	Harmonised Index of Consumer Prices
NPL	Non-performing loan
PCE	Personal consumption expenditure
PMI	Purchasing Managers' Index
VAT	Value-Added Tax

CPB	Centraal Planbureau
ECB	European Central Bank

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

Other abbreviations

APP	Asset purchase programme
FDI	Foreign Direct Investment
FY	Fiscal year
NFC	Non-Financial Corporations
SAFE	Survey on the Access to Finance of Enterprises
SME	Small and medium-sized enterprises

Graphs/Tables/Units

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

Currencies

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

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FOREWORD

While growth is continuing at a moderate rate in Europe, significant parts of the world economy are grappling with major challenges. Growth in the euro area in 2016 is expected to continue, but the recovery is slow, both in historical perspective and compared to other advanced economies. While the renewed drop in energy prices should continue to boost households' real incomes and consumption, public consumption has surprised on the upside due to the arrival of unprecedented numbers of migrants fleeing war and insecurity in Syria and elsewhere. Fiscal policy more generally is expected to support the recovery this year, and monetary conditions are set to remain highly accommodative. However, despite the continued confluence of supporting factors, the acceleration of economic activity expected this year is minor: GDP in the euro area is forecast to expand by 1.7% compared to 1.6% last year. Growth should pick-up further to 1.9% in 2017 but this will depend crucially on a rebound in investment, which has so far remained elusive and is sensitive to the materialisation of the risks surrounding the central scenario.

The world economy has been slowing down. Its growth in 2015 is estimated at only 3%, and the expected recovery is rather shallow and surrounded by risks. While the largest advanced economies are experiencing continuing recoveries or maturing cycles, many emerging market economies are facing a very difficult outlook. For China, this forecast projects a gradual slowing of GDP growth and a smooth 'rebalancing' towards a more sustainable and consumption-driven growth model. Even so, the drop in China's external trade has left its mark on world trade growth, affecting mostly other emerging and developing economies. The central scenario of a 'soft landing' in China is subject to substantial risks. Concerns about the Chinese economy have sparked two bouts of global financial market volatility in the past half-year. Other emerging markets are exposed - to varying degrees - to financial vulnerability, heightened by the turn of the interest-rate cycle in the US and the dollar's appreciation; to structural weaknesses; geopolitical tensions; and the sharp drop in a wide range of commodity prices.

The European economy has so far been able to weather the less supportive external environment. Nonetheless, downside risks stemming from the world economy and global financial markets are large and numerous. On the domestic side, the extension of favourable conditions has created upside risks to growth in the near term, but policy-related challenges and downside risks have also increased. They include policy reactions to migration and security threats, which could put further pressure on the Schengen system as well as uncertainty surrounding further implementation of much-needed reforms. Uncertainty about the outlook for external and domestic demand is the biggest impediment to the pick-up in investment that is needed to sustain the recovery and reverse the downward trend in potential growth.

Prudent policy at this stage requires a steady hand reducing uncertainty and stepping up the much needed structural reforms as well as a readiness to respond to any materialisation of the sizeable downside risks. The weak external environment reinforces the need for a more resolute rebalancing towards domestic demand, particularly investment. But the main risks both externally and domestically are 'political'. Leadership at the global and European level showing that common actions are agreed and swiftly implemented would be the most effective answer to the present economic woes.

Marco Buti

Director General

Economic and Financial Affairs

OVERVIEW: WEATHERING NEW CHALLENGES

A mild recovery in the euro area surrounded by risks

Moderate recovery continues amid heightened risks

The European economy remains supported by a number of positive factors such as oil prices, euro's exchange rate and financing costs which have stimulated exports and private consumption. Investment, however, remains hampered by economic and policy uncertainty and in some countries, excessive debt. Now, as it enters its fourth year of recovery, the European economy is facing headwinds and substantial risks from the slowdown in emerging economies. Economic growth strong enough to reduce unemployment substantially has so far failed to materialise and evidence of a reinvigoration of investment, which is crucial for the sustainability of the recovery, remains limited.

Tailwinds should support economic activity for longer...

The euro area's economic recovery remains moderate despite the substantial support from these positive factors that are now likely to be somewhat stronger and longer lasting than previously expected. In particular, driven mainly by abundant supply, the oil price has slipped again and is now assumed to remain markedly lower and to rebound later than in the autumn forecast. While this should support a further increase in the purchasing power of euro area households, it is also likely to delay the rebound of inflation from its current very low level and to put additional financial pressure on commodity-exporting countries. Fiscal policy in the euro area is becoming slightly more supportive to growth, largely due to government expenditures associated with the inflow of asylum seekers in some Member States. The

Table 1:

Overview - the winter 2016 forecast

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2015	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Belgium	1.3	1.3	1.7	0.6	1.4	1.7	8.3	8.0	7.4	1.6	2.1	2.5	-2.9	-2.8	-2.4
Germany	1.7	1.8	1.8	0.1	0.5	1.5	4.8	4.9	5.2	8.8	8.6	8.3	0.5	0.1	0.0
Estonia	0.9	2.1	2.3	0.1	1.0	2.5	6.3	6.3	7.5	1.9	1.6	0.3	0.3	0.2	0.1
Ireland	6.9	4.5	3.5	0.0	0.6	1.4	9.4	8.5	7.8	3.6	3.7	3.1	-1.8	-1.3	-0.8
Greece	0.0	-0.7	2.7	-1.1	0.5	0.8	25.1	24.0	22.8	-1.8	-1.4	-0.9	-7.6	-3.4	-2.1
Spain	3.2	2.8	2.5	-0.6	0.1	1.5	22.3	20.4	18.9	1.5	1.4	1.3	-4.8	-3.6	-2.6
France	1.1	1.3	1.7	0.1	0.6	1.3	10.5	10.5	10.3	-1.4	-1.5	-2.0	-3.7	-3.4	-3.2
Italy	0.8	1.4	1.3	0.1	0.3	1.8	11.9	11.4	11.3	2.2	2.1	2.1	-2.6	-2.5	-1.5
Cyprus	1.4	1.5	2.0	-1.6	0.2	1.3	15.5	14.5	13.2	-4.8	-4.9	-5.3	-1.0	0.1	0.4
Latvia	2.7	3.1	3.2	0.2	0.4	2.0	9.9	9.2	8.6	-1.9	-2.0	-2.2	-1.3	-1.0	-1.0
Lithuania	1.6	2.9	3.4	-0.7	-0.1	2.1	9.0	8.0	7.2	-1.1	0.2	0.0	-0.9	-1.2	-0.4
Luxembourg	4.7	3.8	4.4	0.1	0.4	2.4	6.1	6.0	6.0	4.8	4.9	4.2	0.2	0.5	0.5
Malta	4.9	3.9	3.4	1.2	1.7	2.1	5.4	5.4	5.4	4.3	5.9	6.5	-1.6	-1.1	-1.0
Netherlands	2.0	2.1	2.3	0.2	0.9	1.5	6.9	6.6	6.4	10.4	9.9	9.4	-2.2	-1.8	-1.5
Austria	0.7	1.7	1.6	0.8	0.9	1.8	6.0	6.2	6.4	3.3	3.5	3.6	-1.6	-1.7	-1.7
Portugal	1.5	1.6	1.8	0.5	0.7	1.1	12.6	11.7	10.8	0.7	1.1	1.1	-4.2	-3.4	-3.5
Slovenia	2.5	1.8	2.3	-0.8	-0.3	1.1	9.1	8.8	8.4	6.9	7.2	6.9	-2.9	-2.4	-1.9
Slovakia	3.5	3.2	3.4	-0.3	0.3	1.7	11.5	10.3	9.3	0.3	-2.2	-2.2	-2.7	-2.1	-1.7
Finland	0.0	0.5	0.9	-0.2	0.1	1.5	9.5	9.4	9.3	0.0	0.4	0.7	-3.2	-2.8	-2.5
Euro area	**1.6**	**1.7**	**1.9**	**0.0**	**0.5**	**1.5**	**11.0**	**10.5**	**10.2**	**3.7**	**3.6**	**3.4**	**-2.2**	**-1.9**	**-1.6**
Bulgaria	2.2	1.5	2.0	-1.1	-0.1	0.9	10.1	9.4	8.8	1.9	2.2	2.8	-2.5	-2.3	-2.0
Czech Republic	4.5	2.3	2.7	0.3	0.4	1.4	5.1	4.8	4.7	-2.4	-2.0	-1.9	-1.6	-1.1	-1.0
Denmark	1.2	1.7	1.9	0.2	0.9	1.7	6.0	5.8	5.6	7.1	7.3	7.2	-2.0	-2.7	-1.9
Croatia	1.8	2.1	2.1	-0.3	0.3	1.6	16.2	15.1	13.8	4.2	3.1	3.2	-4.2	-3.9	-3.2
Hungary	2.7	2.1	2.5	0.1	1.7	2.5	6.7	6.0	5.2	5.0	5.6	6.3	-2.1	-2.0	-1.9
Poland	3.5	3.5	3.5	-0.7	0.6	1.7	7.5	7.0	6.5	-0.2	-0.7	-1.4	-3.0	-2.8	-3.4
Romania	3.6	4.2	3.7	-0.4	-0.2	2.5	6.7	6.6	6.5	-1.0	-2.1	-2.9	-1.1	-3.0	-3.8
Sweden	3.6	3.2	2.9	0.7	1.1	1.4	7.4	6.9	6.7	5.4	5.3	5.3	-1.0	-1.1	-1.2
United Kingdom	2.3	2.1	2.1	0.0	0.8	1.6	5.2	5.0	4.9	-5.0	-4.7	-4.3	-4.4	-3.1	-2.1
EU	**1.9**	**1.9**	**2.0**	**0.0**	**0.5**	**1.6**	**9.5**	**9.0**	**8.7**	**2.1**	**2.1**	**2.0**	**-2.5**	**-2.2**	**-1.8**
USA	2.5	2.7	2.6	0.1	1.2	2.2	5.3	4.8	4.7	-3.3	-3.1	-3.2	-4.2	-4.3	-4.4
Japan	0.7	1.1	0.5	0.8	0.8	1.8	3.4	3.3	3.3	2.7	3.4	3.7	-5.1	-4.2	-3.6
China	6.9	6.5	6.2	:	:	:	:	:	:	:	:	:	:	:	:
World	**3.0**	**3.3**	**3.5**	:	:	:	**:**	**:**	**:**	**:**	**:**	**:**	**:**	**:**	**:**

external value of the euro has somewhat fallen over the last months, especially against the US dollar, which should be helpful for euro area exporters. Additionaly, measures taken by the European Central Bank in December mean that financing costs in the euro area should remain low for a longer period of time than earlier expected. Meanwhile, the boost from these factors is increasingly being offset by a worsening global environment, and some legacy issues from the crisis (mainly high levels of policy uncertainty, debt and unemployment) continue to weigh on growth.

…but growth is expected to increase only gradually amid headwinds and legacies of the crisis.

GDP in the euro area is forecast to accelerate slightly from 1.6% in 2015 to 1.7% this year, which is a notch lower than forecast in the autumn. Once global economic activity starts to rebound, positive effects should be felt later in 2016 and 2017. Also, some of the structural reforms implemented in Member States should continue to have a positive impact on growth. As legacies of the crisis recede, consumption and investment should benefit. Although debt levels remain high in some parts of the economy, easy financing conditions should limit acute deleveraging pressures. Overall, euro area GDP growth should pick up further to 1.9% in 2017.

Global GDP growth in 2015 is set to have been at its weakest since 2009…

The outlook for global GDP growth has again deteriorated and risks have increased considerably, mainly due to the intensified downturn in emerging markets. Global economic growth outside the EU is expected to have slowed from 3.7% in 2014 to 3.2% in 2015. It is now forecast to recover gradually to 3.6% in 2016 and 3.8% in 2017; lower than expected in the autumn.

Developments in China have so far been broadly consistent with a ‘rebalancing’ scenario, since policy stimulus, combined with buoyant private consumption and services, have so far counterbalanced the recessionary developments in sectors where unsustainable expansion had led to the build-up of major imbalances. Turmoil in China’s still relatively under-developed financial markets should in principle trigger only limited spillovers to the real economy, but as an accommodative monetary policy stance is expected to remain in place, pressure on capital flows and the renminbi will persist. The relatively smooth structural adjustment assumed over the forecast horizon is consistent with a gradual recovery of trade and a slowing in Chinese GDP growth from 6.9% in 2015 to 6.2% in 2017, as forecast in the autumn, but this is subject to major and increasing risks.

…and prospects for emerging economies have worsened…

Growth prospects for most commodity-exporting regions have worsened as prices of a wide range of commodities remain depressed. In many regions, this negative terms-of-trade shock has interacted with net capital outflows and considerably tighter financial conditions. This is due partly to the US Federal Reserve’s decision to raise interest rates but also to a combination of looming fiscal and political problems, geopolitical instability, and supply-side constraints. Even though a gradual normalisation of US monetary policy without any serious upheavals is assumed, the financial environment in most emerging and developing economies looks likely to become more challenging. Growth prospects have deteriorated sharply for Russia and Brazil as well as for countries in the Middle East, Northern Africa and Sub-Saharan Africa. All in all, the downturn in emerging markets is still expected to have bottomed out in 2015, but the forthcoming recovery is set to be more subdued and drawn-out than forecast in the autumn and surrounded by heightened risks.

…while advanced economies are relatively resilient…

The outlook for advanced economies has only marginally weakened since the autumn. Throughout the forecast horizon, advanced economies appear relatively immune and are likely to benefit from the gradual recovery of trade in China, though many commodity exporters remain vulnerable to the renewed wave of commodity price declines. Economic momentum in the US has remained robust and GDP growth is expected to be around 2.5% over the forecast horizon amid a maturing cycle, with more support from fiscal policy, but continued headwinds from the strong dollar and the gradual normalisation of monetary policy. In Japan, as expected, growth should pick up again this year before slowing in 2017, mainly as a result of a planned consumption tax hike.

…and world trade is expected to gradually recover.

Available data for 2015 suggest that global trade volumes, and in particular non-EU trade, grew at their slowest pace since 2009, as the slowdown in Chinese trade and commodity-exporting regions (e.g. CIS, MENA) quickly spilled over to other emerging markets. Imports globally (excluding the EU) are expected to recover somewhat more slowly than in the autumn from 0.8% in 2015 to 2.9% and 3.7% in 2016 and 2017, as global activity picks up and China's demand for services imports remains strong amid its rebalancing towards consumption. Further support should also come from the continued recovery in advanced economies including the EU. These developments should in turn underpin an acceleration of euro area export markets.

Volatility has increased in financial markets ….

Increasing concerns about growth prospects in emerging economies have triggered bouts of volatility in global financial markets in recent months. In Europe, asset prices declined substantially at the start of the year given the uncertainty about how the growth outlook would be impacted by a further weakening of economic activity in China and other emerging markets.

…as well as monetary policy divergence…

Monetary policy divergence between central banks increased at the end of 2015. On one side, the ECB and the Bank of Japan decided to further ease their monetary policy given subdued inflationary pressures, while on the other side, the US Federal Reserve raised its target range for the federal funds rate for the first time since June 2006. This divergence of monetary policy stances has contributed to a weakening of the euro vis-à-vis the US dollar since the autumn. Signals from the Fed point to a faster tightening pace over 2016 and 2017 than financial markets had expected, while the ECB has signalled its intention to maintain an appropriate degree of monetary accommodation and its readiness to loosen policy further, if needed, over the course of the year.

…while financial conditions are set to remain favourable for longer.

The combination of quantitative easing and credit easing by the ECB has successfully kept financing costs and yields at low levels and thereby helped to reduce financial fragmentation and differences among Member States. The euro area lending cycle to both households and non-financial corporates (NFCs) is now in positive territory, suggesting that transmission of accommodative monetary policies to the real economy has improved. Surveys point to further improvements in the availability of bank lending and a loosening of funding constraints to euro area SMEs. As funding on capital markets has continued to increase, the cycle of external corporate funding is picking up, although it remains weak compared with previous cycles, mirroring low investment demand and the still-intensive use of internal funds by NFCs. This suggests that the corporate deleveraging process is still ongoing. Since bank lending and market funding cycles are expected to accelerate this year, both external and internal funds should be more easily accessible to finance a rise in investment.

The recovery is widespread across Member States...

2015 is expected to go down as the first year since the crisis in which no Member State reported a decrease in output. But substantial growth differences persist, reflecting both structural features and different cyclical positions. For example, differences in terms of openness to trade and the geographical orientation of trading relationships, as well as the pass-through of lower oil prices, could make a significant difference under current conditions. In 2016, Member States should continue moving along a recovery path, including Greece, where growth is set to pick up again in the course of the year. In 2017 economic activity should be on the rise in all Member States.

...mainly driven by steady consumption growth...

As expected, private consumption was supported last year by the rise in real gross disposable incomes attributable to the fall in headline inflation and improved labour market conditions. A further acceleration is foreseen this year, and private consumption should continue to be the main growth driver, supported by the expected acceleration in real disposable income driven by low oil prices. Rising wages and salaries, thanks to higher employment, somewhat stronger increases in profit and property-related incomes, as well as higher transfers to households, should further support this steady growth of consumption, although households are also expected to increase their saving rate slightly this year. In 2017, however, private consumption growth will likely slow down since household real disposable income growth is expected to lose some momentum due to the forecast rise in inflation.

...and some positive surprises from public consumption...

Government consumption in 2015 now looks likely to have been more supportive to growth than expected in the autumn, since security measures and refugee-related expenditures in some countries are set to have led to additional fiscal expenditures. Public consumption growth is projected to slow marginally in 2016 and 2017 but spending projections associated with the arrival of large numbers of migrants fleeing insecurity remain difficult to ascertain.

...although investment has so far failed to rebound...

Investment has so far failed to emerge as a strong driver of the ongoing recovery as it has been held back by the slowdown in growth momentum outside the EU and the high level of economic and policy uncertainty. Investment levels at the moment also appear to be not very sensitive to changes in financing conditions. But, investment is expected to gradually pick up in the near term as demand increases, capacity utilisation rates rise and profit margins improve thanks to lower energy prices and funding costs. Investment in equipment should rise on the back of higher demand and modernisation needs and should also gradually benefit from the expected rebound in global growth and the fading of deleveraging pressures. The Investment Plan for Europe should also start to have a positive impact on public and private investment. Construction investment, meanwhile, is expected to benefit from rising real disposable incomes and very low mortgage rates. High levels of household debt in some Member States, however, will continue to prevent a stronger increase in construction investment in 2016 but this should be a softer constraint in 2017.

...and net exports are not expected to support growth in the short term...

The deterioration in the external environment started to have a visible impact on euro area exports in the second half of 2015, offsetting the positive impact of the euro's depreciation. But thanks to improved price competitiveness, which is largely the result of the euro's past depreciation and the decline in relative unit labour costs, and because foreign demand is expected to strengthen; export growth should accelerate over the course of 2016 in line with growth in export markets. However, the annual rate of growth of euro area exports of goods and services looks set to be less than it was last year, largely as a result of the low carry-over from the second half of 2015. Imports, meanwhile, are expected to mirror developments in exports due to the high import content of many export goods and because of the growth in domestic demand. As a result, net exports are expected to have a negative impact on GDP growth in 2016 that should turn neutral in 2017.

...while the external surplus of the euro area is set to remain elevated...

In 2015, the strong increase in the current account surplus of the euro area reflected a combination of falling import prices, a depreciation of the exchange rate and subdued domestic demand. While remaining at historically high levels, the euro area's current account surplus, measured as a percentage of GDP, is expected to slightly recede in 2016 and 2017, as domestic demand is forecast to continue expanding and external demand is expected to rebound more slowly. Additionally, the assumed increase in oil prices should lead to a small deterioration in the terms of trade in 2017. The rebalancing within the euro area that has been observable over the last few years is likely to slow, mainly due to a weakening export performance in some of the former deficit countries.

...and lower oil prices drive inflation down this year.

With energy prices falling sharply, inflation in the euro area struggled to rise much above zero towards the end of 2015. Core inflation also remained below expectations and is now forecast to take longer to pick-up in tandem with increased domestic demand. This persistent weakness reflects the fact that the euro area continues to operate at below potential and that wage developments remain subdued. Even though the output gap is projected to continue closing over the forecast horizon and wages are expected to grow stronger, the remaining output gap will continue to dampen the responsiveness of inflation to increases in domestic demand. The forecast for inflation in 2016 has therefore been revised lower to 0.5%. With the assumed path of commodity prices, inflation should remain very low in the first half of the year before stepping up in the second half when positive base effects come to dominate. In 2017, inflation is expected to reach 1.5% as a result of the impact of higher real wages and domestic demand, and a moderate assumed increase in oil prices.

The fiscal stance is expected to become more supportive to the recovery in the euro area...

The general government deficit is expected to continue declining over the forecast horizon, albeit at a somewhat slower pace than in recent years due to the fiscal expenditures associated with the arrival of asylum-seekers in a few countries and to fiscal policy measures adopted by some Member States to lower the tax wedge on labour. The operation of automatic stabilisers and, to a lesser extent, the lower interest expenditure, underpin the projected deficit reduction. In 2015, the general government deficit in the euro area is expected to have declined to 2.2% of GDP and is set to decrease further to 1.9% and 1.6% in 2016 and 2017 respectively. The estimated structural balance has remained broadly stable in 2015, while the euro area's fiscal stance is expected to be slightly expansionary in 2016. Next year, under a no-policy-change assumption, the structural balance is projected to remain broadly stable in both the euro area and the EU. The debt-to-GDP ratio of the euro area is forecast to decline from its peak of 94.5% in 2014 to 91.3% in 2017.

...and labour markets continue to recover...

The improvement in labour market conditions continues with the moderate economic recovery underpinning a modest rise in employment growth. Overall, employment is expected to have risen by 1.1% in the euro area in 2015 and is projected to continue at about the same speed this year and next on the back of strengthening economic activity, improved business confidence and higher capital accumulation. Higher labour market flexibility and moderate wage increases are also expected to contribute to employment growth. The labour force is forecast to pick up more strongly than previously expected in the euro area, largely driven by higher participation rates as a result of improved economic and labour market conditions, the fading of discouragement effects, and net migration flows. Unemployment rates are then set to continue their gradual decline over the next two years but at a slower pace than last year. The unemployment rate in the euro area is projected to fall from 11% in 2015 to 10.5% in 2016 and 10.2% in 2017. Unemployment is expected to decrease in almost all euro area countries this year and next, especially in countries that have benefitted from recently-implemented labour market reforms (e.g. Spain, Portugal, Cyprus, Ireland).

…but the outlook is subject to increased external and domestic risks.

The economic outlook for the euro area remains highly uncertain and overall risks are clearly tilted to the downside. Risks to the growth outlook from the global economy and global financial markets have clearly increased, in particular due to the slowing growth in China and other emerging markets, which could trigger stronger spillovers than envisaged or which could become worse than forecast. Combined with the uncertainty regarding the adjustment in China, the continuation of monetary policy normalisation in the US could have a more negative impact on vulnerable emerging market economies, especially those with high levels of foreign currency-denominated debt, and could also affect the stability of financial markets. The materialisation of any of these downside risks would result in negative spillovers to the Member States via various transmission channels.

Uncertainty around the technical projection for the oil price remains high due to geopolitical tensions, the removal of sanctions against Iran and the response of oil producers with break-even costs above current spot prices. While a faster-than-assumed rebound in energy prices would hurt economic activity in Europe, a further sharp fall in commodity prices could also impact negatively on its growth outlook as it could affect the financial stability of oil-exporting countries. This would not only lower European exports but could also trigger turmoil in financial markets. Geopolitical tensions are also keeping uncertainty at high levels and could become a larger impediment to investment spending than currently expected.

In Europe, domestic risks have also increased lately. Any unexpected relapse into crisis in Greece could weigh more heavily on investment decisions and thus on economic growth. Moreover, if major political challenges were not successfully coped with at the EU level (e.g. handling of migration flows), that could trigger developments that become impediments to growth.

Still, the combination of tailwinds from low commodity prices, low financing costs, and the euro's depreciation could be stronger than expected or translate into stronger economic growth momentum than currently envisaged.

PART I

EA and EU outlook

WEATHERING NEW CHALLENGES

A mild recovery in the euro area surrounded by risks

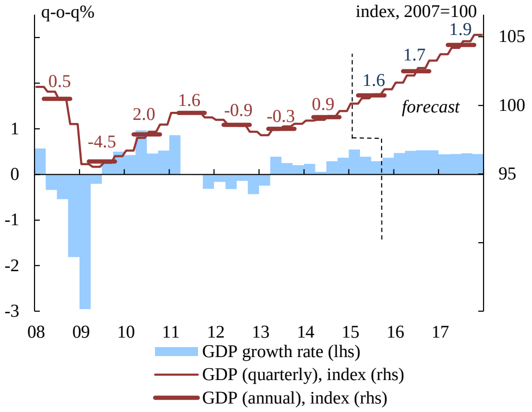
Amid increased concerns about the global outlook, the economic recovery in the euro area has entered its fourth year and prospects for a continuation remain overall favourable. The good news is that the economy appears to have so far weathered the recent deterioration in external conditions. Forces of acceleration and deceleration have evolved fairly evenly since the autumn forecast and the growth outlook looks on balance little different.

Factors which supported the strengthening of growth in 2015, such as oil prices, financing costs and the euro's exchange rate, look likely to remain supportive for longer than previously assumed. At the same time, however, negative factors including slower growth in China and other emerging market economies, the softness of global trade and high geopolitical tensions, are having an increasingly negative effect on growth. Domestically, the fiscal stance has become slightly more growth-supportive, partly as a result of higher fiscal expenditures linked to unprecedented levels of migration. But legacy issues from the crisis, including high levels of public and private debt and deleveraging by households and companies in some Member States, still weigh on growth, although less so and with diminishing strength. Overall, the euro area economy is expected to have grown by 1.6% in 2015 (1.9% in the EU) and is forecast to grow by 1.7% in 2016 (1.9% in the EU) and by 1.9% in 2017 (2.0% in the EU).

Labour market conditions continue to improve and the strengthening recovery in the euro area should provide the basis for further net job creation and a lower unemployment rate, which is expected to decline from 11.0% in 2015 to 10.5% in 2016 and 10.2% in 2017. Inflation, which again turned out lower than expected due to falling oil prices, is expected to pick up very gradually. Domestic price pressures remain limited and base effects from energy prices are now set to occur later than expected in the autumn last year. This suggests a longer period of low inflation (0.0% in 2015, 0.5% in 2016, and 1.5% in 2017).

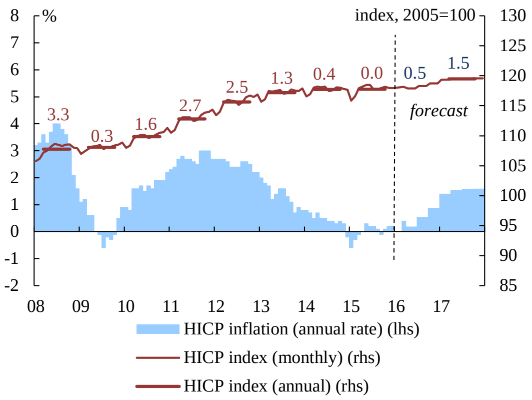
While the central scenario remains one of moderate recovery, risks to the growth outlook have risen and remain predominantly to the downside. Externally, on top of risks to the smooth 'rebalancing' of the Chinese economy, the normalisation of US monetary policy also carries downside risks for emerging markets, especially those with high dollar-denominated debts. The sharp fall in oil prices has intensified risks for some oil-exporting economies. At home, the search for yield amid very low interest rates has increased risks to financial stability. Several recent developments (e.g. public security measures and expenditures linked to asylum seekers) imply upside risks to short-term growth as they may raise public expenditure more than currently envisaged. However, economic and political uncertainty has risen and could more negatively impact on confidence, thereby negatively affecting domestic demand, notably investment. Risks to the inflation outlook are considered broadly balanced.

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



Figures above horizontal bars are annual growth rates.

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



Figures above horizontal bars are annual growth rates.

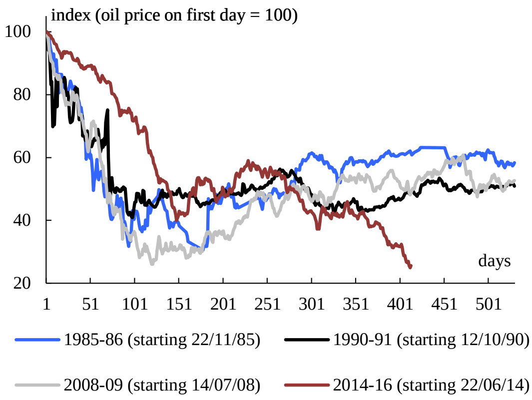
1. PUTTING THE WINTER FORECAST INTO PERSPECTIVE: GLOBAL FACTORS AND THE EURO AREA

Domestic demand remains the main driver of the euro area recovery, but its strength has come increasingly under the influence of global factors. This section complements the regular analysis of the external environment (see Section I.2) by looking at the impact of global factors on the economic outlook in the euro area, including the renewed decline in oil prices; the further slowing of growth in China, the broad-based downturn on other emerging market economies; and the gradual normalisation of monetary policy in the US.

The renewed fall in oil prices...

Since mid-2014, oil prices have been on a downward trajectory, interrupted only by a brief rebound in the first half of last year. In January 2016, oil prices have fallen to their lowest levels in more than ten years. The decline results from an oversupplied market, partly reflecting new extraction methods (e.g. fracking), but also producers' determination to defend their market shares instead of adjusting supply. The long period of decline is exceptional by historical standards (see Graph I.3), but follows a rather long period with upward movements. [1]

Graph I.3: **Duration of oil price declines, selected periods**



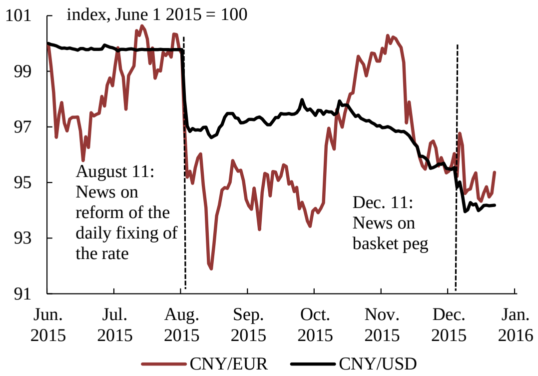
Source: ICE

(1) See the analysis in European Commission (DG ECFIN) (2015). 'Putting the winter forecast into perspective: lower oil prices and the EU economy'. *European Economic Forecast – Winter 2015*, European Economy 1/2015, pp. 10–17.

...slowing growth in China and less dynamic global trade...

Since mid-August 2015, market attention on slowing economic growth in China appears to have increased, as changes in the currency regime were introduced, the Chinese currency depreciated vis-à-vis the US dollar [2] (see Graph I.4), and sharp losses in the Chinese equity market were observed (see Section I.2). However, the latter is expected to have had only limited effects on China's real economy so far because equities make up only a small proportion of household assets and play only a small role in corporate finance.

Graph I.4: **Bilateral exchange rates between Chinese renminbi and euro/USD**



Source: ECB

China's GDP growth had already been slowing down for some time as the economy had started a 'rebalancing' from a credit- and investment-led growth pattern towards consumption and services. In the second half of 2015, it continued slowing slightly further. Meanwhile China has recorded a sharp fall in the growth of merchandise imports and a less marked decline in export growth, which have been among the factors of lower world trade momentum in the first half of last year. [3]

(2) Using NiGEM, a study found that a 30% devaluation of the renminbi vis-à-vis the US dollar would lower GDP growth in the euro area by 0.4 pps. in the first year and by 1.2 pps. in the second year; see Gern, K-J., P. Hauber, and G. Potjagailo (2015).'Economic slowdown in China – Current assessment and global implications'. *Kiel Policy Brief* 94 (Kiel Institute for the World Economy).

(3) This decline added to the downward trend, which had already been observed in 2014 and was attributed to a combination of cyclical and structural factors; see European Commission (DG ECFIN) (2015). 'Understanding the weakness in global trade'. *European Economic Forecast – Winter 2015*, European Economy 1/2015, Box I.1, pp. 46–49.

The scale of accumulated imbalances and the possibility of major disruptions affecting the structural adjustment have raised concerns about the risk of an abrupt and disorderly transition ('hard landing').[4]

...the first Fed rate hike in nine years...

In December 2015, the US Federal Reserve decided to raise the target range for the federal funds rate (see Section I.3). This decision marked the end of a long period during which rates had been left unchanged. While the US central bank emphasised in its communication that the federal funds rate would be only gradually increased, the FOMC members' forecasts of the appropriate federal funds rate over the 2016 and 2017 signalled more tightening than financial markets had expected before the December meeting. This underlines the possibility of more pronounced monetary policy divergence between the US and the euro area, which remains one of the determinants of the external value of the euro.

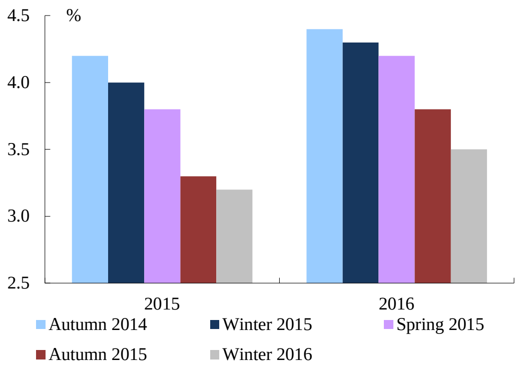
...and increased geopolitical tensions...

Geopolitical tensions have weighed on the euro area outlook for some time, notably as regards the continued conflict over Ukraine. While the trade impact of sanctions against Russia and countersanctions by Russia remained overall very limited, it is felt in Member States with strong economic ties with Russia. Compared to the situation in the autumn, the war in Syria and Iraq has escalated with more countries, including Member States, involved. The impact of recent terrorist attacks and terror alerts on demand, trade and economic sentiment is still hard to quantify. Increased geopolitical tensions have also contributed to an unprecedented inflow of refugees and asylum seekers into the EU. [5]

...and a deteriorating global outlook.

Throughout 2015, a number of factors (including spillovers from China, falling commodity prices, less dynamic global trade, tighter financial conditions, and domestic problems) resulted in a deteriorating outlook for economic growth in several emerging market economies. This is one of the factors behind changes in the global GDP outlook in successive Commission forecasts (Graph I.5).

Graph I.5: **Outlook for global GDP growth (excluding the euro area), 2015-2016**



The euro area recovery is benefitting from lower oil prices...

Overall, lower oil prices are expected to be a boon to global economic growth as they initiate a redistribution of wealth from oil exporting economies to oil importing economies such as the euro area. In the euro area they have benefited the real disposable incomes of consumers via lower energy costs and lower consumer price inflation. Both effects were identified in 2015, but the impact was not as strong as historical experiences would have suggested. One prominent reason is the inability of central banks to respond to lower inflation by lowering policy interest rates, because advanced economies were already close to the nominal zero lower bound when the shock hit. However, the ECB has since cut the deposit rate further and started implementing quantitative easing. The exceptional size of the oil price decline, and the successive downward revision of oil price assumptions (Graph I.6), now also raises the question as to whether the stimulus to be expected from a price decline from already low levels may be smaller than that of the initial decrease.

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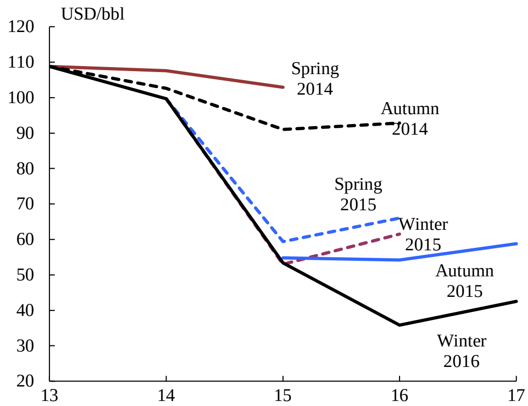
(4) See European Commission (DG ECFIN) (2015). 'Spill-overs from the slowdown in China on the EU economy – channels of contagion'. *European Economic Forecast – Autumn 2015*, Institutional Paper 11, Box I.2, pp. 53–56.

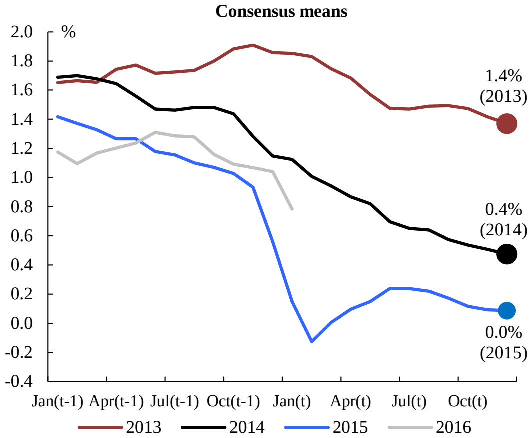
(5) See European Commission (DF ECFIN) (2015). *European Economic Forecast – Autumn 2015*. Institutional Paper 11, Section I.1.1 and Box I.1.

Graph I.6: **Oil price assumptions, 2014-16**



One impact of the oil price decline has been the downward pressure on HICP inflation, which has led to a sequence of downward revisions to the inflation outlook for the euro area, as for instance visible in the evolution of consensus forecast means (see Graph I.7). The latest oil price decline also results in a further downward revision of the forecast for euro area HICP inflation.

Graph I.7: **HICP inflation forecasts 2013-16, euro area, Consensus means**



...but the impact of a continued decline is less clear-cut.

Given the size of the decline, the question arises if there is a threshold level below which the negative effects of a decline in oil prices outweigh the positive effects, i.e. whether there are non-linearities. [6] Very low oil prices also have an impact on the economic health of the energy sector in advanced economies, lowering its investment and activity. They affect market segments that are associated with credit to the energy sector (e.g. high-yield borrowing in the US), and they affect public finances and thus sovereign risk of oil-exporting countries with possible spillovers to yields in other countries. For instance, sovereign wealth funds of some oil-exporting countries may sell assets, which would lower prices and push yields.

The broad-based decline in commodity prices has affected economic growth in commodity-exporting countries, among them the G20 members Australia, Canada, Brazil and Russia. The economic outlook for commodity-exporting countries has been successively revised down since autumn 2014, which weighs on the euro area's export market growth. In addition, indirect effects via financial markets, capital flows, and confidence could hurt the euro area outlook offsetting to some extent the direct positive impact. As seen in early 2016, a decline in commodity prices can trigger a deterioration of sentiment in financial markets, which could be detrimental to growth prospects.

The outlook for the oil price depends on near-term developments in demand (e.g. a more pronounced slowing in emerging market economies) and supply (e.g. the addition of substantial oil exports from Iran after the recent removal of sanctions). A stronger US dollar could also weigh on commodity prices, which are usually settled in dollars and would thereby increase the local currency cost for importers.

While the central scenario of the forecast captures the impact of the changes in oil price assumptions, recent developments also increase risks from other oil price scenarios such as financial stress and defaults among commodity exporters[7] that would also affect commodity importers such as the euro area.

The direct trade effects from slowing growth in China are only limited...

Given the relatively small share of Chinese trade in the total foreign trade of the euro area, the impact of weak import demand from China is expected to be rather limited, [8] with some differences across

(6) See also Raciborski, R., A. Theofilakou and L. Vogel (2015). 'Revisiting the macroeconomic effects of oil price changes'. *Quarterly Report on the Euro Area* 14(2), pp. 19–27.

(7) See Husain, A.M., et al. (2015). 'Global implications of lower oil prices'. *IMF Staff Discussion Note* SDN/15/15.

(8) See e.g. See European Commission (DG ECFIN) (2015). 'Spill-overs from the slowdown in China on the EU economy – channels of contagion' *European Economic Forecast – Autumn 2015*, Institutional Paper 11, Box I.2,

Member States, depending on their exposure. Overall, empirical studies suggest an only small direct trade effect. [9] But assessing the impact that comes via trade channels is complicated. The integration of other countries into production chains implies that (gross) exports to China may have high import content, so such data may give little insight into the response of trade flows to slowing growth in China. Moreover, many foreign companies have affiliates in China with sales that have a volume much higher than direct exports, [10] which suggests that the focus on trade linkages understates the links between China and the euro area.

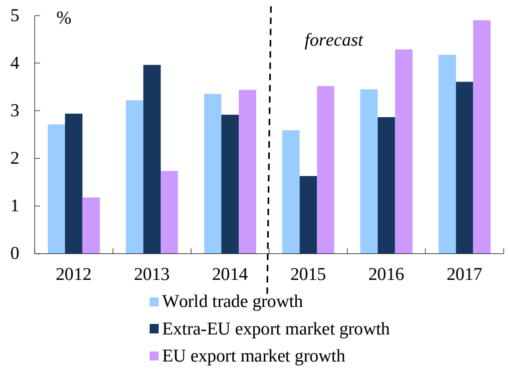
Changes in investor sentiment could lead to a re-pricing of assets in emerging markets, which would widen their risk spreads and raise financing costs. These would weaken the debt-servicing capacity of firms and weigh on investment and economic growth. A more wide-spread reversal of investor sentiment and risk aversion could trigger a flight to quality, which would tend to lower benchmark yields in the US and the euro area.

There are other channels of play which tend to enhance the impact. For instance, the transition to a more service-oriented economy lowers the demand for commodities which impacts on commodity prices and commodity-exporting economies and thereby their trade relations with the euro area.

…and intra-euro area trade shields exporters somewhat against a deteriorating global outlook…

To assess the impact of a deteriorating global outlook, it is important to acknowledge the share of foreign trade of euro area Member States that takes place inside the euro area. This is reflected in growth rates of EU Member States' export markets that have increased whereas extra-EU export growth and world trade growth fell or almost stagnated in 2015. Further out, EU export markets growth is expected to decouple further from non-EU developments (see Graph I.8). This would also lower the exchange rate sensitivity of euro area companies' exports and contribute to the changing role of exchange rates in adjustment. [11]

Graph I.8: **World trade growth, extra-EU market growth and EU export market growth**



However, a broad-based decline in emerging markets would also hurt the euro area via the effects on external demand and a real appreciation of the euro, which would worsen price competitiveness on global markets. [12]

…but the risk implications are substantial.

The growth slowdown in China is expected to remain gradual, but risks associated with the authorities' ability to cope with the challenges originating from the transition are substantial. For instance, attempts to use monetary policy to reach growth targets could push capital outflows and endanger the stability of the financial sector. Should this risk materialise, the spillover to the

pp. 53–56; and ECB (2015).'Trade links between the euro area and China'. *ECB Economic Bulletin* Issue 7, Box 1, pp. 16–19.

(9) Using the NiGEM macro-model, the OECD has estimated that 2 pps. reduction in domestic demand in China in two years lowers output in advanced economies by less than 0.2 pps. via trade linkages. OECD (2015).'The global impact of weaker demand growth in China'. In *OECD Economic Outlook* 98, Box 1.2, pp. 27–28, Paris: OECD.

(10) OECD (2015). *Economic Outlook* 98, Paris: OECD, p. 25.

(11) Authors from several international institution have recently stressed the diminishing role of exchange rates for trade flows. See Ollivaud, P., E. Rusticelli and C. Schwellnus (2015). 'The changing role of the exchange rate for macroeconomic adjustment'. *OECD Economics Department Working Papers* 1190; and Ahmed, S., M. Appendino and M. Ruta (2015). 'Depreciations without Exports? Global Value Chains and the Exchange Rate Elasticity of Exports'. *World Bank Policy Research Working Paper* 7390; and Leigh, D., et al. (2015). 'Exchange rates and trade flows: Disconnected?'. In IMF *World Economic Outlook*, Chapter 3, pp. 105–42, Washington, DC, October.

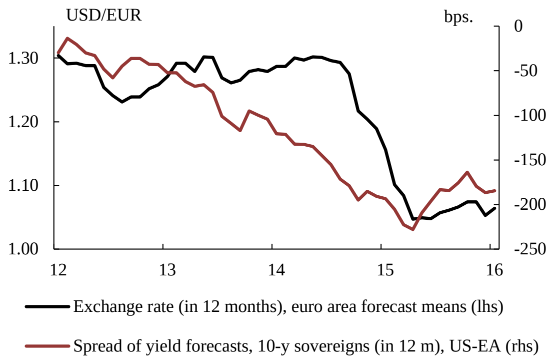
(12) Using its G20 model, the IMF has analysed this scenario. See IMF (2015). 'A structural slowing in emerging market economies'. In IMF *World Economic Outlook*, Scenario Box 1, pp. 25–26, Washington, DC, October. An OECD study found that a slowing of growth in emerging market economies by 2 pps. could cut growth in high-income countries by about ⅔ pps.; see Ollivaud, P., E. Rusticelli and C. Schwellnus (2014). 'Would a growth slowdown in emerging markets spill over to high-income countries?: A Quantitative Assessment'. *OECD Economics Department Working Papers* 1110.

euro area could operate via the aforementioned trade channel, the financial channel due to cross-border exposure, the commodity price channel, and the confidence channel via a negative impact on consumer and business sentiment in the euro area.[13] Outside the euro area, the UK has particularly strong financial links to the Chinese economy.

The Federal Reserve's gradual tightening tends to weaken the euro…

In December, the US Federal Reserve and the ECB took decisions on monetary policy that pointed in opposite directions (see Section I.3). Given full capital mobility and flexible exchange rates between the two constituencies, the question arises to what extent the impossible trinity of flexible exchange rates, capital mobility and independent monetary policy, implies that monetary divergence should be expected to show up in exchange rate changes.[14]

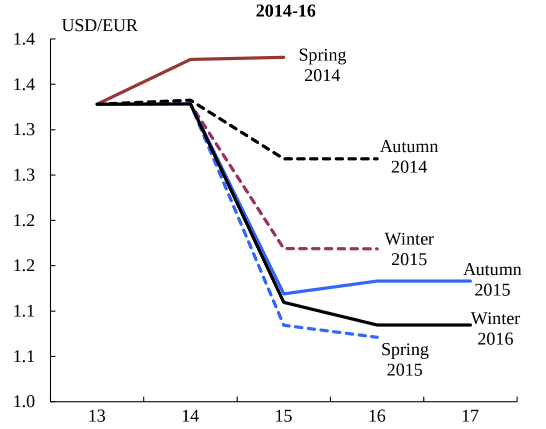
Graph I.9: **Interest rate forecasts and exchange rate expectations, US and euro area (in 12 months)**



Source: Consensus Economics

Changes in monetary policy affect exchange rate movements. Following the announcement of unconventional monetary policy measures in the euro area, the euro had closely followed developments in long-term interest rates (see Graph I.9) and a series of (mostly) downward revisions to the exchange rate assumptions of the euro area outlook started (Graph I.10). Thereby, monetary policy in the US had an impact on the exchange rate channel of quantitative easing in the euro area.[15] In principle, a further tightening in the US should strengthen the dollar[16] and support this channel. Apart from that, the impact on economic activity in the US and the euro area is expected to be only a gradual one.

Graph I.10: **Exchange rate assumptions, forecasts 2014-16**



…and raises capital outflows from emerging market economies…

Unconventional monetary policy in advanced economies has spilled over to emerging market economies.[17] Capital flows to emerging markets raised asset prices there and led to an appreciation of their currencies. These effects made the tradeables and financial sectors of emerging market economies more vulnerable. The associated risks had become visible in 2013 when the Federal Reserve had started to 'taper' its programme of quantitative easing. Later, in anticipation of the Fed's first hike, the rebalancing of global portfolios lowered capital inflows to and raised capital outflows from emerging market economies.[18] According to preliminary data, emerging

(13) The World Bank has found all channels to matter for cross-border growth spillovers; see World Bank (2016). 'Who catches a cold when emerging markets sneeze?'. *Global Economic Prospects*, January 9(1), Chapter 3, pp. 177–215.

(14) See the discussion in Rey. H. (2016). 'International channels of transmission of monetary policy and the Mundellian trilemma'. *NBER Working Paper Series* 21852.

(15) See European Commission (DG ECFIN) (2015). 'Putting the spring forecast into perspective: The ECB's quantitative easing and the euro area economy'. *European Economic Forecast – Spring 2015*, European Economy 2/2015, pp. 10–15.

(16) This effect has found support in empirical studies, e.g. Rogers, J.H., C. Scotti and J.H. Wright (2014). 'Evaluating asset-market effects of unconventional monetary policy: a multi-country review'. *Economic Policy* 29(80), pp. 749–99.

(17) In 2014, the World Bank had estimated these flows to have amounted to about 6% of GDP; see World Bank (2014). *Global Economic Prospects*, January 8(1), p. 97. The IMF has also stressed the importance of the flows, see IMF (2015). *Global Financial Stability Report*. October.

(18) See Ahmed. S. (2015). 'If the Fed acts, how do you react? The liftoff effect on capital flows'. *IMF Working Paper* 15/256. and Mishra, P.K., et al. (2014). 'Impact of Fed tapering announcements on emerging markets'. *IMF Working Paper* 14/109.

market economies registered a large net capital outflow of USD 735 billion in 2015. [19] While Latin America still had a net capital inflow, emerging Asia (including China) saw net capital outflows for a second year running (see Table I.1). In many emerging market economies capital outflows coincided with depreciating currencies.

Table I.1:
Capital flows to and from emerging markets, 2013-15

(USD bn.)	Total			Emerging Asia		
	2013	2014	2015	2013	2014	2015
Non-resident capital inflows						
- private inflow	1282	1045	231	670	615	-24
- official inflow	32	42	63	8	6	6
Resident capital outflows						
- private inflow	-985	-1039	-824	-506	-604	-543
- reserves*	-541	-121	529	-455	-192	390
Net capital flows						
- excl. reserves	329	48	-531	172	10	-561
- plus erros/omiss.	339	-111	-735	270	-98	-777

* A positive sign (+) implies an reduction, a negative sign (-) an increase.
Source : Institute of International Finance (2016). Capital Flows To Emerging Markets. Washington DC.

Such flows are associated with the risk of a disorderly unwinding, especially where a substantial expansion of domestic credit had been observed and where high levels of foreign-currency denominated and short-term debt are held, or exchange rates move abruptly. In recent years, private debt in some emerging market economies has substantially increased, most notably in emerging Asia, where private debt is estimated to have risen to more than 80% of GDP (see Table I.2).[20]

Table I.2:
Private debt in 2015-Q1 (% of GDP), selected countries

	Corporate	Households
Germany	55	54
Spain	111	70
France	126	56
Italy	78	43
Netherlands	129	112
US	74	77
Japan	104	66
Brazil	49	25
Russia	54	18
India	51	9
China	161	37
Korea	106	84

Source: Oxford Economics (2016). 'World Economic Prospects'. Economic Outlook. 38:Supplement 1.

...that increases downside risks to the global and euro area growth outlook.

The extent of disruptions to these countries depends on country-specific vulnerabilities and the policy tools available to the authorities, such as foreign reserves, fiscal room for manoeuvre and prudential policies. Elevated current account deficits, weak growth prospects and relatively low reserves have been found to exacerbate the response to tapering-related news [21] and argue in favour of markedly increased downside risks for the global economy and thus for the euro area. With monetary policies being already very accommodative in many advanced economies, the policy options to cope with such an event would be limited.

Overall, changes in global factors dampen the growth outlook in the euro area...

In this forecast, the further deterioration in the outlook for the external environment (see Section I.2) is one of the reasons for the downward revision of the export outlook and the GDP forecast for this year. The revisions to the commodity assumptions are a main reason for the downward revision in the inflation outlook for 2016, as a prolonged period of negative price pressures on energy and energy-intensive products had to be pencilled in (see Section I.7).

...and increase downside risks...

Moreover, the downside risks to the outlook for the external environment have markedly increased in recent months, almost entirely reflecting developments in emerging market economies and in particular commodity-exporting countries. This has increased downside risks to the growth outlook in 2016 (see Graph I.45 in Section I.9) shifted the balance of risks to the euro area outlook further into negative territory.

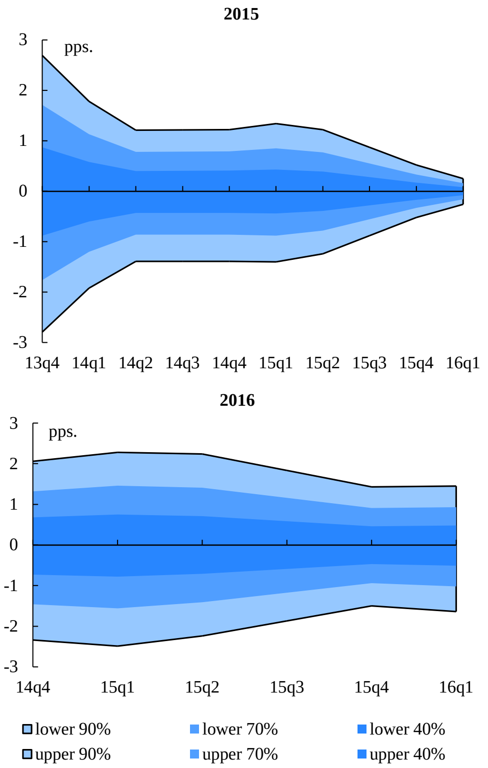
The comparison with the development in the risk assessment for the outlook in 2015 shows that downside risks for 2016 have not followed the normal pattern of falling over time as more information becomes available. More generally, the narrowing of risk intervals is proceeding much slower over time as the comparison between the development of risks assessments for 2015 and 2016 indicates (see Graph I.11).

[19] For these data, see Institute of International Finance (2016). *Capital Flows to Emerging Markets*, Washington DC.

[20] In China, the aggregate corporate debt ratio hides the fact that debt is much higher in a few sectors, which could constitute a high vulnerability for the whole economy; see Chivakul, M. and W. R. Lam (2015). 'Assessing China's Corporate Sector Vulnerabilities'. *IMF Working Paper* 15/72.

[21] See Sahay, R., et al. (2014). 'Emerging market volatility: Lessons from the Taper Tantrum'. *IMF Staff Discussion Note* SDN/14/09.

Graph I.11: **Evolution of risk assessments for euro area growth outlook based on various ECFIN forecasts**



Note: Fan chart data from winter, spring and autumn forecasts for first, second, and fourth quarters; interpolations for third quarters.

...making it essential to weather new external challenges.

This analysis of the role of global factors for the euro area outlook in winter 2016 shows the unusually strong impact also on the domestic growth components, which are the main drivers of the ongoing recovery. Moreover, the increased downside risks to the euro area outlook are to a substantial extent related to possible future developments in global factors that are not captured in the central scenario. This makes the outlook dependent on the euro area economy's ability to successfully weather new challenges.

2. THE EXTERNAL ENVIRONMENT

The outlook for global GDP growth and world trade has deteriorated in recent months. Across advanced economies a gradual recovery remains intact, but the downturn in emerging markets has intensified as a result of renewed commodity price declines, tightening financial conditions and a host of home-grown vulnerabilities.

Developments in China have so far been broadly consistent with a ‘rebalancing’ scenario. However, an exceptionally steep decline in Chinese imports has left its mark on global trade flows, with recent financial market volatility exposing the fragility of sentiment and highlighting risks to the outlook. Growth prospects for most commodity exporting regions have worsened as commodity prices slipped further and are now assumed to remain considerably lower over the forecast horizon. [22] In many regions, this negative terms-of-trade shock has interacted with considerably tighter financial conditions, partly related to the Federal Reserve’s December decision to raise interest rates, but also to a combination of looming fiscal and political problems, geopolitical instability and supply-side constraints (e.g. in Latin America, the Middle East and North Africa (MENA), the Commonwealth of Independent States (CIS), and Sub-Saharan Africa). Aside from tighter financial conditions, adverse spillovers from the Fed’s decision appear limited so far as financial markets across many emerging markets, in anticipation of this decision, had already undergone significant adjustments prior to this point. Nonetheless, risks of a disorderly normalisation process have increased.

Widespread weakness continues in emerging market economies...

Most short-term indicators released since the autumn have come in weak, particularly in emerging markets. Preliminary estimates put global growth at around 0.8% quarter-on-quarter (q-o-q) in the third quarter, [23] a modest pick-up from the second quarter, which largely reflects stronger outcomes in advanced economies (e.g. in Japan, Canada and Australia) and some emerging markets (e.g. in India and Korea), while also

(22) See e.g. IMF (2015). ‘Where are commodity exporters headed? Output growth in the aftermath of the commodity boom’. In IMF *World Economic Outlook*, Chapter 2, pp. 65–104, Washington, DC, October.
(23) Based on 87% of world GDP.

Table I.3:

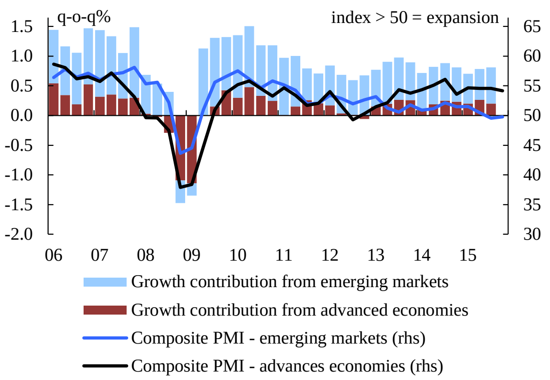
International environment

(Annual percentage change)					Winter 2016 forecast			*Autumn 2015 forecast*		
	(a)	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
					Real GDP growth					
USA	15.9	2.2	1.5	2.4	**2.5**	**2.7**	**2.6**	*2.6*	*2.8*	*2.7*
Japan	4.4	1.7	1.6	-0.1	**0.7**	**1.1**	**0.5**	*0.7*	*1.1*	*0.5*
Asia (excl.Japan)	34.1	7.0	6.5	6.2	**5.9**	**5.8**	**5.8**	*5.9*	*5.9*	*5.8*
- China	16.6	9.6	8.0	7.3	**6.9**	**6.5**	**6.2**	*6.8*	*6.5*	*6.2*
- India	6.8	4.9	6.9	7.1	**7.2**	**7.4**	**7.5**	*7.2*	*7.4*	*7.5*
Latin America	8.6	3.1	2.9	1.3	**-0.6**	**0.1**	**1.6**	*0.4*	*1.2*	*2.0*
- Brazil	3.0	1.8	2.7	0.1	**-3.8**	**-3.0**	**0.3**	*-2.6*	*-0.5*	*1.2*
MENA	6.8	3.5	1.6	2.8	**2.7**	**3.0**	**3.5**	*2.8*	*3.3*	*3.8*
CIS	4.7	3.5	2.1	0.9	**-3.1**	**-0.3**	**1.2**	*-3.0*	*0.4*	*1.8*
- Russia	3.3	3.4	1.3	0.6	**-3.7**	**-1.2**	**0.3**	*-3.7*	*-0.5*	*1.0*
Sub-Saharan Africa	3.2	4.4	4.9	5.0	**4.2**	**4.0**	**4.2**	*4.4*	*4.3*	*4.8*
Candidate Countries	1.5	1.8	4.0	2.6	**3.0**	**3.3**	**3.6**	*2.9*	*3.1*	*3.4*
World (incl.EU)	100.0	3.5	3.2	3.3	**3.0**	**3.3**	**3.5**	*3.1*	*3.5*	*3.7*
					World merchandise trade volumes					
World trade		2.7	3.2	3.4	**2.6**	**3.5**	**4.2**	*2.5*	*3.7*	*4.5*
Extra EU export market growth		2.9	4.0	2.9	**1.6**	**2.9**	**3.6**	*1.8*	*3.5*	*4.1*

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

reflecting deep but moderating recessions in Brazil and Russia (see Graph I.12).

Graph I.12: **Global GDP and global Composite PMI**



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

...with another bout of financial market volatility originating in China.

Renewed concerns about the outlook for the Chinese economy have triggered another decline in Chinese stock markets early this year. Further to the rebalancing of the Chinese economy and its associated risks, recent high frequency indicators confirm recessionary developments in construction and industry, where unsustainable expansion had led to the built-up of major imbalances. This is mirrored by the severe contraction of goods exports and imports. Wider shifts in domestic demand are currently taking place, but GDP growth in the fourth quarter came in at an annual rate of 6.8% and thus in line with expectations.

So far, policy stimulus, combined with buoyant private consumption and services, seems to have prevented a more disruptive adjustment. However, the capacity of Chinese authorities to steer an increasingly complex macro-financial adjustment process and to avoid a disorderly correction of economic imbalances will be crucial. Disruptions in China's still relatively under-developed financial markets should in principle trigger only limited spillovers to the real economy. Nevertheless, financial market volatility could feed into wider uncertainty elsewhere in the real economy, or vice-versa, creating a headwind to economic growth. The task of managing all these processes simultaneously appears challenging.

Recent months have seen a renewed, gradual weakening of the renminbi, reflecting the economy's slowing growth, accelerating (and broadening) capital outflows, and monetary policy divergence with the US. In an effort to support economic growth and the rebalancing, Chinese authorities eased monetary policy considerably throughout 2015 – lowering the benchmark interest rate from 5.6% to 4.35% – despite the acceleration in capital outflows. An accommodative stance is expected to remain in place, maintaining the pressure on capital flows and the renminbi.

Financial volatility rose markedly across emerging markets throughout 2015. Deteriorating sentiment has prompted investors to withdraw from equity and bond markets and also depressed exchange rates. Capital flows, in particular portfolio and short-term debt flows, fell to their lowest levels since the economic and financial crisis, adding to pressures on currency and equity markets while mounting risks to the growth outlook have contributed to a rise in market interest rates, adding new bouts of financial pressure on highly leveraged emerging market economies.

The outlook for world growth has deteriorated again...

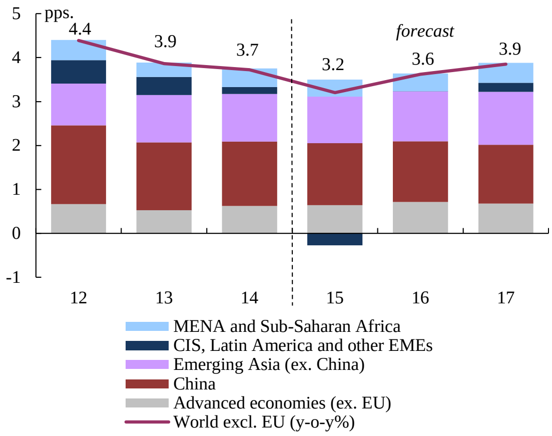
Global economic growth (excluding the EU) is expected to have slowed from 3.7% in 2014 to 3.2% in 2015. A gradually faster expansion is expected with annual rates of 3.6% in 2016 and 3.8% in 2017 (see Graph I.13), although the forecast for both years has been revised downwards by about 0.2 pps. since the autumn forecast, largely because of the weaker outlook for emerging markets.

The forecast's central scenario assumes a gradual normalisation of US monetary policy without any serious upheavals. But the financial environment in most emerging markets is set to become more challenging and surrounded by heightened risks. A further decline in capital inflows is expected to contribute to pressures on exchange and interest rates, and related tensions in corporate and household balance sheets. The rapid build-up of foreign-currency denominated debt in major emerging market economies [24] is a source of concern in this regard.

In China, the relatively smooth structural adjustment assumed in the central scenario over the forecast horizon is consistent with a gradual slowing in the country's officially reported GDP growth from 6.9% in 2015 to 6.2% in 2017, however, it is surrounded by major risks. The outlook for the rest of emerging Asia remains broadly stable as compared to the autumn forecast. India is consolidating its position as the world's fastest growing large economy, with the rest of the region remaining closely tied to China.

[24] Corporate debt of non-financial firms across major emerging market economies increased from USD 4 trillion in 2004 to USD 18 trillion in 2014; the evolution of foreign exchange exposures differs across regions; see IMF (2015). *Global Financial Stability Report*. October, Chapter 3.

Graph I.13: **Global GDP growth outside the EU**



...with recessions in Brazil and Russia and a weaker outlook for commodity exporters...

Growth prospects have deteriorated sharply for Russia and Brazil, where a vicious circle of domestic political instability, falling commodity prices and structural bottlenecks is expected to extend recessions into 2016 before growth resumes in 2017. In Russia, the extension of sanctions (currently assumed to be effective until the end of July 2016) is expected to weigh on the growth outlook. The prospects for countries in the Middle East and North Africa and in Sub-Saharan Africa have deteriorated sharply, reflecting the deepening negative terms of trade shock and headwinds arising from inevitable fiscal tightening, domestic political tensions, looming structural bottlenecks and also, in some cases, regional military conflicts.

All in all, the downturn in emerging markets is still expected to have bottomed out in 2015, but the forthcoming recovery now looks likely to be more subdued, drawn-out and surrounded by downside risks than expected in the autumn.

...and relatively resilient advanced economies.

The outlook for advanced economies has only slightly weakened since the autumn. Economic momentum in the US has remained robust despite slightly weaker-than-expected GDP growth in the third quarter of 2015. The agreement on fiscal policies has removed much of the policy uncertainty, while also providing for slight increases in federal discretionary spending. A robust labour market and clearer signs of wage and price pressures led the Fed to hike rates in December for the first time in nine years. US growth is expected to stabilise at around 2.5% over the forecast horizon amid a maturing cycle, with more support provided by fiscal policy but continued headwinds from the strong dollar and the gradual normalisation of monetary policy.

Japan's growth profile was volatile throughout 2015 and data were subject to large revisions. The growth outlook also includes some volatility, with growth picking up from 0.7% in 2015 to 1.1% in 2016 before slowing again to 0.5% in 2017, mainly as a result of a planned hike in consumption taxes.

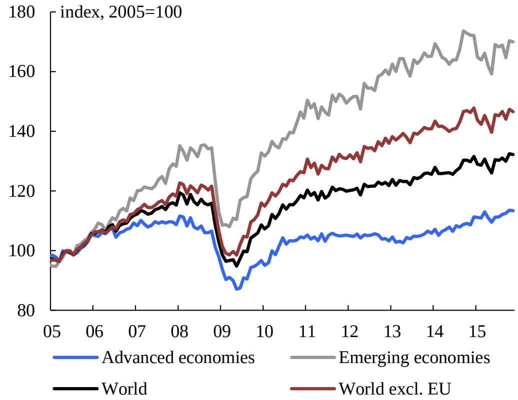
In the third quarter of 2015, a number of advanced economies including Canada, Australia and Norway posted robust data, though more recent indicators suggest a weakening at the end of the year. Throughout the forecast horizon, advanced economies appear relatively immune and are expected to benefit from the gradual recovery of trade in China, though many commodity exporters (e.g. Canada, Australia, New Zealand, and Norway) remain vulnerable to the renewed wave of falling commodity prices.

Global trade flows in 2015 exceptionally weak despite some rebound since June

Following a sharp contraction in the first five months of 2015, global trade (CPB world trade volumes) rebounded strongly in June, and continued to rise modestly until November. Despite the rebound, the level of world import growth remains subdued and far below the level of recent years. For the first eleven months of 2015, global import volumes rose 1.9% (y-o-y), reflecting solid growth in advanced economies (4.0%) and a contraction in emerging markets (-0.8%). The weakness had originated in China and commodity exporting regions (e.g. CIS, MENA) in late 2014, but quickly spilled over to other regions.

Developments in Chinese trade flows during the course of 2015 are consistent with a 'rebalancing' scenario. The move away from investment, which tends to be merchandise trade intensive, is reflected in a contraction in imports of goods and is partly offset by the particularly sharp increase in the import of services.[25] Outside of China, trade weakened most for commodity exporters (both advanced and emerging) and those countries most exposed to China. A sharp terms-of-trade adjustment triggered by the collapse in commodity prices depressed export values in many commodity exporting regions throughout 2015. This weighed heavily on domestic demand and squeezed import volumes more sharply than in other parts of the world (see Graph I.14). In some cases, the collapse in import demand was exacerbated by home-grown vulnerabilities and regional conflicts, capital outflows and currency depreciation, and compounded by the sharp drop in demand from China (Russia, Brazil, MENA, and Sub-Saharan Africa).

Graph I.14: **Volume of goods imports**



Source: CPB

A gradual rebound in trade with low elasticity…

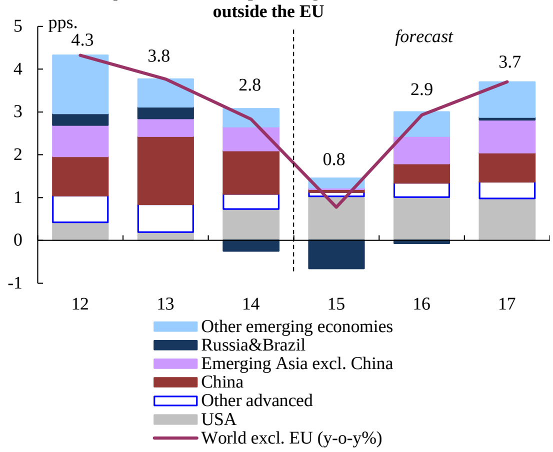
These factors combined are expected to have pulled import growth outside the EU to 0.8% in 2015, its slowest pace since 2009 (see Graph I.15) with Russia and Brazil jointly subtracting as much as 0.7 pps. from growth and China contributing almost nothing. Import growth in the rest of the world (outside the EU) is expected to recover to 2.9% and 3.7% in 2016 and 2017, respectively, as it follows the expected pick-up in global activity and China's imports. Importantly, overall import demand in China has been revised up from the autumn, in view of the strong imports of services throughout 2015 and the expectation of a sustained robust pace throughout the forecast horizon (confirming the ongoing rebalancing towards consumption).

Stronger import demand in China should in turn lead to a pick-up of demand in emerging Asia (Hong Kong, Korea, Indonesia) and other emerging markets tightly connected to China through global supply chains. Moreover, Russia and Brazil – real GDP in both is expected to have

(25) Goods imports increased in 2015 at an annual rate of 14% (values, based on the merchandise trade statistics), while imports of services were up by 19% in the first three quarters (values, based on the balance of payments statistics).

bottomed out in 2015 – will likely cease to be a drag on global trade in 2016 and start contributing positively to growth from 2017 onwards. Further support to world imports in 2016-2017 should come from the continued recovery in advanced economies, including the EU and US, and the assumed bottoming-out of commodity prices following the sharp collapse since mid-2014. The global elasticity of imports is expected to remain very low over the forecast horizon, [26] at 0.8 in 2015 and 1.1 and 1.2 in 2016 and 2017, respectively.

Graph I.15: **World imports of goods and services outside the EU**

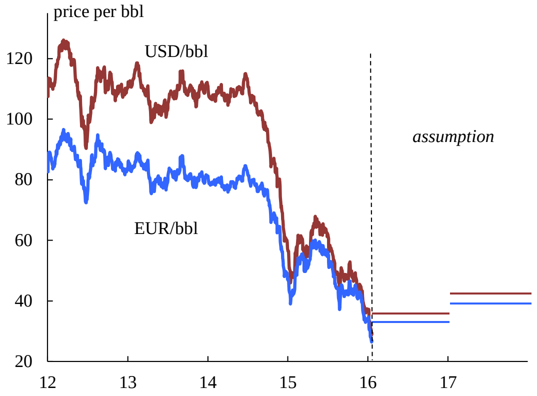


...and even lower commodity prices.

Spot prices for Brent crude slipped below USD 30/bbl. in mid-January (Graph I.16). This development was mainly driven by abundant supply, particularly OPEC's decision in December 2015 to maintain production levels so as to defend its market share, high levels of stocks, and concerns over economic growth in emerging markets. Despite decelerating output growth in non-OPEC producers, global oil supply continued to increase due to record production from OPEC countries in the third quarter of 2015. The International Energy Agency expects the oil market to remain oversupplied throughout 2016. Its estimate for global oil demand growth has been revised upwards to 2% in 2015, its fastest pace since 2011, as consumers in developed and developing economies increased demand in response to lower oil prices. However, with China's economy slowing and its energy intensity decreasing, growth in oil demand is set to be moderate in the coming years.

Given the further decline of oil prices in January 2016, the assumptions for Brent oil prices have been revised down (to USD 35.8/bbl. in 2016 and to USD 42.5/bbl. in 2017). Uncertainty around this technical projection for the oil price remains high in the short and medium run, due to geopolitical tensions, the outlook for an increase in the oil supply that is expected to come from Iran following the removal of sanctions in mid-January, and the response of oil producers with break-even costs above current spot prices.

Graph I.16: **Brent oil spot prices, USD and euro**



Source: ICE

Most other commodity markets registered sharply declining prices throughout 2015. Prices of minerals and metal prices fell substantially in 2015, owing to ample supply and less dynamic industrial activity in China, the world's largest metals consumer. In 2016, metal prices are assumed to fall for a fifth consecutive year, followed by a stabilisation in 2017 due to declining investment and the pass-through from recovering energy prices.

The prices of most agricultural commodities also decreased in 2015. Owing to a good harvest and comfortable stock levels, the index of food prices declined markedly. Food prices are expected to continue falling in 2016 and 2017, but this outlook is subject to upside risks that adverse weather conditions associated with El Niño could damage agricultural production.

Global downside risks have widened

The already negative balance of risks to output growth outside the EU has further moved to the downside in recent months. Developments in China remain at the forefront of concerns. Domestic spillovers emerging from financial market volatility still look contained, but due to the

[26] For a discussion see European Commission (DG ECFIN) (2015). 'Understanding the weakness in global trade'. *European Economic Forecast – Winter 2015*. European Economy 1/2015, Box I.1, pp. 46–49.

role of the Chinese economy, the implications for commodity prices, world trade and potential spillovers to other regions constitute substantial downside risks. Volatility originating in Chinese foreign exchange and equity markets could spread to other emerging markets. Moreover, uncertainty due to wider structural shifts among sectors of the Chinese economy (e.g. manufacturing and construction) could enhance volatility further.

There are also significant risks associated with the pace of normalisation of US monetary policy. Combined with the uncertainty regarding developments in China, monetary policy measures in the US could have a more negative impact on emerging market economies than envisaged in the central scenario, in particular in countries with high foreign-currency denominated corporate debt. Lower economic growth in emerging market economies would not only endanger the expected rebound in global activity and world trade; it could also affect the stability of financial markets.

Additional downside risks are related to commodity price assumptions, where for instance a further slump could aggravate the downturn in emerging markets in general and commodity exporting regions in particular. Moreover, stronger-than-expected second-round effects from already observed commodity price declines could result in a more severe tightening of the fiscal stance and lower domestic demand, which would accentuate the downturn and limit the scope of the rebound in 2016 and 2017. Finally, geopolitical risks remain high particularly with respect to the conflicts in parts of Ukraine and in the MENA region.

3. FINANCIAL MARKETS

Global financial markets have experienced bouts of volatility in recent months. They were triggered by increasing concerns about the growth prospects in emerging economies. At the start of the year, asset prices in the EU declined substantially amid the ongoing correction to Chinese stock markets, the significant weakening of the renminbi and the renewed fall in oil prices. There is also uncertainty about how the EU's growth outlook would be impacted by a further weakening of economic activity in China and other emerging markets.

More divergent monetary policy stances among major central banks...

The monetary policy stance of major central banks diverged further in the last weeks of 2015. At their December meetings, the ECB and the Bank of Japan decided to further ease their monetary policy stances, whereas the US Federal Reserve decided to raise its target range for the federal funds rate for the first time since June 2006.

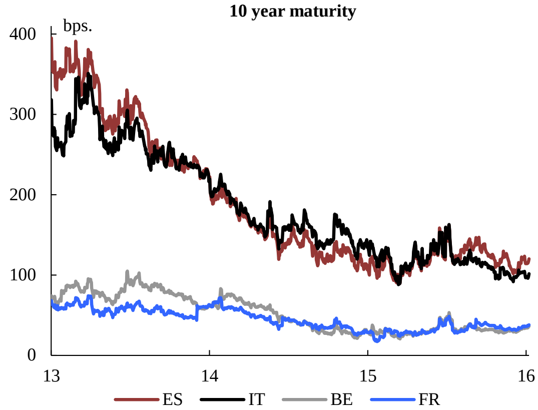
The ECB announced a number of new monetary policy easing measures which aim to secure a return of inflation rates towards the ECB's definition of price stability and at anchoring medium-term inflation expectations. It lowered the deposit facility rate by 10 bps. to a new historically low level of -0.30%. In addition, the ECB announced a number of non-standard monetary policy measures: extension of the on-going asset purchase programme (APP) until at least March 2017; broadening of the range of securities to be purchased under the APP to include euro-denominated regional and local government bonds; reinvestment of the principal payments on the securities purchased under the APP for as long as necessary; and the extension of the fixed rate tender procedures with full allotment for the ECB's refinancing operations until at least the end of 2017.

The US Fed's decision to raise the target range for the federal funds rate by 25 bps. (to 0.25-0.50%) marked the end of a period of seven years during which rates had been left unchanged. While the US central bank emphasised in its communication that the federal funds rate would be only gradually increased, the FOMC members' forecasts of the appropriate federal funds rate over the 2016-17 horizon signalled more tightening than financial markets had expected before the December meeting. This underlines the possibility of an increasing monetary policy divergence between the US and the euro area. This was confirmed after the ECB's meeting in January by signalling the intention to maintain an appropriate degree of monetary accommodation and to enhance actions if needed over the course of the year.

...reflected in monetary and financial conditions in the euro area.

Monetary and financial conditions in the euro area eased significantly in 2015. The very accommodative monetary stance is reflected in increased growth rates of monetary aggregates (e.g. in 2015 the annual growth rates of M1 and M3 were above or in line with their long-term averages), very low euro area government bond yields, and declining lending rates. The diverging monetary policy stance between the US Federal Reserve and the ECB contributed to a weakening of the euro vis-à-vis the US dollar since the autumn. In nominal effective terms, the euro has depreciated more moderately given the persistent weakness of several emerging markets' and/or commodity exporters' currencies. In particular, at the beginning of January 2016, the renminbi hit its weakest level against the US dollar since 2011. Compared to end-November 2015, it has lost almost 6% against the euro.

Graph I.17: **Sovereign bond spreads to German bund, 10 year maturity**



Source: Bloomberg

The monetary policy divergence between the euro area and the US has also been quite visible in money markets and short-term benchmark sovereign bond markets. The US Libor has diverged sharply from the European equivalent, the Euribor, as the 3-month US Libor moved up from 0.32% in early November to 0.62% (January 22) while the Euribor dropped from -0.07% to -0.14%. A similar development occurred between US Treasuries and German Bunds, but more in the short maturities than in the longer maturities. The spreads of most euro area sovereign bond yields have remained broadly stable over the past couple of months (Graph I.17). Greek spreads have narrowed significantly since the signing of the third adjustment programme with its creditors over the summer, the passing of the first sets of policy measures and the subsequent disbursements of programme payments. However, they have widened again recently, in response to weak macroeconomic data and market concerns about political commitment to the programme in Greece. Portuguese spreads have also widened more recently on the back of concerns about the banking sector and the budget.

Most other central banks in the EU maintained their accommodative monetary policy stances or took additional easing measures (e.g. the Swedish Riksbank) amid subdued inflationary pressures and additional monetary easing in the euro area. Only the Danish Nationalbank raised the interest rate on certificates of deposit by 10 bps. to -0.65% at the beginning of January 2016, thus narrowing the monetary policy rate spread to the euro area to -0.35 bps. The interest rate increase followed a sharp fall worth about DKK 50 billion in foreign exchange reserves as a result of net sales in the foreign exchange market.

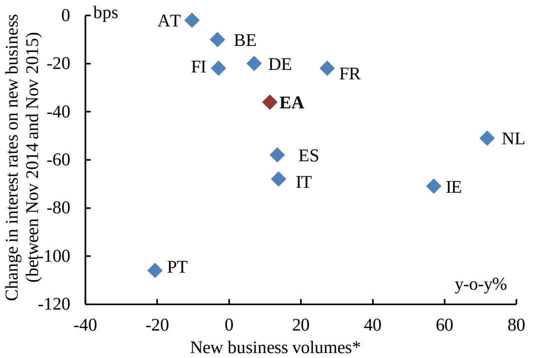
Global stock markets have turned sour since December...

Following the ECB's December decision, stock markets corrected downwards having expected a stronger easing response from the ECB. In January, negative sentiment continued to dominate, with concerns about the global outlook. Markets were battered amid renewed risk aversion stemming from concerns about China's growth prospects, the devaluation of its currency and its broader impact internationally. Meanwhile, EU corporate bond spreads, at least in the investment grades, widened somewhat further after a significant rise earlier in 2015. In the speculative grades, upward pressure on spreads was stronger.

...while bank lending continued to recover...

The cycle of lending to both households and non-financial corporates (NFCs) has picked up further along with the economic cycle and is now entrenched in positive territory. Net lending flows continued to be positive over the last few months, suggesting improved transmission of the accommodative monetary policy of the ECB through the euro area banking system. Banks have lowered interest rates over the last year on new lending transactions to NFCs especially in Portugal, Spain and Italy. Hence, discrepancies in lending rates between vulnerable and other euro area countries have narrowed further. However, the responsiveness of business to these changes in financing costs has varied, with no clear sign that business volumes are increasing more strongly in those countries where lending costs have fallen the most (see Graph I.18). This may be due to several factors: lingering cross-country differences in the level of interest rates, still large and rising levels of non-performing loans in some countries such as Italy or Portugal, other non-price factors on the supply side, and differences in the level of demand.

Graph I.18: **New business volumes and interest rates on new business, NFCs (latest data Nov 2015)**



** Accumulated change in the 12-months up to November 2015, over previous 12 months. Source: ECB*

The recovery in bank lending can also be seen in surveys which point to further improvements in the availability of external sources of finance particularly bank lending. The ECB Bank Lending Survey[27] for the fourth quarter of 2015 shows that changes in credit standards and loan demand continue to support a recovery in loan growth, particularly for enterprises. Meanwhile, the ECB's Survey on the Access to Finance of Enterprises (SAFE) has provided further evidence of loosening funding constraints to SMEs in the euro area. [28]

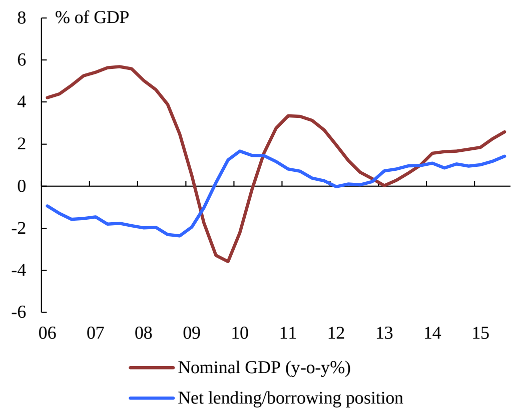
...and market funding expanded further...

Fund raising on markets continued to increase in the euro area with positive net volumes of corporate bonds and equity. While corporate bonds were used intensively between 2012 and 2014, net equity issuance only began to rise in 2014. This upturn is beneficial not only for investment but also because higher equity lowers the debt-to-equity ratio and hence strengthens the corporate financial structure. At present, all funding sources are growing, with capital market issuance still contributing most to overall external funding.

...signalling a pick-up in the credit cycle.

With bank lending recovering and market funding still expanding, the cycle of external corporate funding appears to be picking up. However, it remains weak compared to previous cycles, mirroring low investment demand and the still intensive use of internal funds by NFCs. This suggests that the deleveraging process that has taken place in most of the euro area corporate sector since the crisis is still ongoing. The net funding position of NFCs displays an anti-cyclical behaviour, rising in a downturn and vice versa (see Graph I.19). However, the trend in the corporate funding position lags GDP growth by four to six quarters. Therefore, against the background of the economic cyclical upturn in 2015, the currently high level of corporate surpluses in Europe is expected to decline further in 2016, while bank lending and market funding cycles are expected to accelerate. Overall, both external and internal funds should be easily accessible to finance a rise in investment over the next two years.

Graph I.19: **NFCs net funding position vs GDP, euro area**



Financial conditions in the euro area are expected to remain favourable for longer than expected in the autumn forecast, but financial risks are significant. They relate mainly to external factors and could, if they materialise, trigger abrupt adjustments in international capital flows and potentially cause new tensions in global financial markets.

[27] See ECB (2016). The euro area bank lending survey. Fourth quarter of 2015. January 2016, Frankfurt/Main.

[28] According to the latest SAFE (April to September 2015), SMEs in the euro area considered access to finance to be their least important problem (11% of respondents, unchanged from the previous round), while finding customers remained their main concern (25% of respondents). Results differ across countries.

4. GDP AND ITS COMPONENTS

The economic recovery in the euro area remains moderate despite substantial support from several factors including low oil prices, the relatively weak exchange rate of the euro and the very accommodative stance of monetary policy. This support is now expected to be somewhat stronger and longer lasting than previously thought. However, the overall impact on economic activity will likely be rather limited due to increased headwinds from the external environment and in some cases, because of lingering legacies from the crisis. These include high levels of public and private debt, gaps in the euro area's architecture and a high degree of economic and policy uncertainty. Overall, stronger economic growth has so far failed to materialise [29] and evidence in favour of the sustainability of the recovery remains fragile.

Moderate recovery continued...

In the third quarter of 2015, euro area GDP growth slowed to 0.3% (q-o-q), the slowest quarterly gain in a year. In annual terms, however, GDP grew by 1.6% in the third quarter, as in the second quarter, which was the highest rate since the second quarter of 2011. Domestic demand remained the main contributor to GDP growth, mainly thanks to private consumption. Higher real gross disposable income and some improvements in the labour market continued to support private consumption growth. By contrast, after a solid rise in the first quarter, euro area investment stagnated in the second and third quarters. Meanwhile, net trade became a drag on GDP growth. While the weak euro was supportive for euro area exports, the slowdown in emerging market economies was not. As a result, euro area export growth fell sharply in the third quarter of 2015.

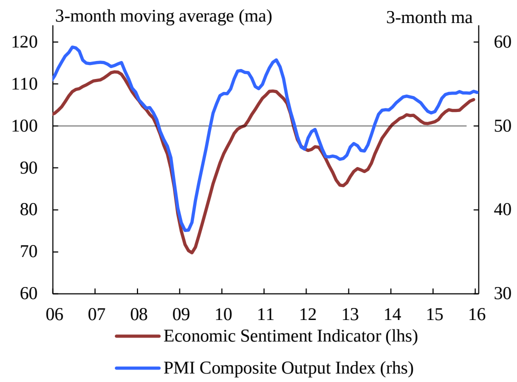
...and is expected to go on in the short term.

GDP growth in the last quarter of 2015 likely benefited from the continued support of tailwinds but was also confronted by the offsetting effect of the slowdown of growth in China and other emerging market economies. Data released since autumn suggest that the modest pace of economic growth continued, but hard data and soft (survey) data send mixed results.

On the one hand, hard data suggest broadly similar or slightly lower growth than in the previous quarter. In October and November, industrial production in the euro area was on average only 0.1% higher than the average in the third quarter (0.2% in the EU). The breakdown by industrial groupings shows that energy production declined substantially. But some weakness can also be attributed to exports. After three months of decline, industrial new orders in the euro area rebounded in October, but remained below the level registered in the third quarter. Retail sales in October and November were on average lower than in the third quarter.

On the other hand, survey data give a somewhat brighter picture. Both the Commission's Economic Sentiment Indicator (ESI) for the euro area and the composite output Purchasing Managers' Index (PMI) improved between the third and fourth quarters of 2015 (Graph I.20). Both indicators reached their highest level in more than four years, which is consistent with a slight acceleration in growth in the fourth quarter.

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



Source: EC, Markit Group Limited

Overall, in 2015, the euro area economy should have remained on track for its strongest economic performance since 2011 with an annual rate of GDP growth of 1.6% (1.9% in the EU). The unchanged GDP growth rate compared to the autumn forecast is based on a slightly different composition with a slightly higher contribution from domestic demand and a somewhat lower contribution from net exports.

[29] The euro area is expected to need eight years (up to 2016-Q1) to recover its pre-crisis level of real GDP in 2008-Q1. This would be much longer than in previous recoveries and is one of the reasons for reduced forecast accuracy in the post-crisis years (see Box I.2).

Tailwinds supporting growth for longer…

Since the autumn, oil prices have fallen further, the euro has depreciated more, funding costs have continued to decline and the overall fiscal stance is becoming slightly more supportive. These factors are now expected to provide the economic recovery in 2016 and 2017 with greater and more long-lasting support than previously assumed.

- The decline in *oil prices* continued in December 2015 and early January 2016 and led to lower oil price assumptions for the whole forecast horizon. Very low energy prices should continue providing a boost to the purchasing power of households and companies.

- The *external value of the euro* has fallen slightly since the autumn. This is mirrored in downward revisions to the assumptions for the exchange rate vis-à-vis the US dollar in 2016 and 2017. It is also, but to a lesser extent reflected this year in the nominal effective exchange rate vis-à-vis a group of industrialised countries. The boost to price competitiveness and the support for foreign non euro-denominated export earnings of companies is indeed partly offset by the depreciation of the currencies of some emerging market economies, most notably Russia and China.

- *Monetary conditions* have eased further compared to the autumn forecast. The ECB measures on 3 December have further extended the period of lower financing costs. The accommodative monetary policy stance is being increasingly transmitted into the real economy via lower costs and better availability of credit. This can also be seen from some further easing of credit supply conditions and the turnaround in the credit cycle (see Section I.3).

- *Fiscal policy* is becoming slightly more supportive than expected in the autumn. In some Member States, increased government expenditure reflects greater-than-expected spending associated with the arrival of large number of migrants.[30] Moreover, several recent developments (e.g. public security measures) are expected to result in higher expenditures than projected in the autumn forecast.

…but headwinds and some legacies from the crisis should limit their impact…

The extended period of support from tailwinds is expected to be somewhat tempered by the impact of the deterioration in the external environment on

(30) See also Box I.1 ('A first assessment of the macroeconomic impact of the refugee influx') in European Commission (DG ECFIN), *Autumn 2015 forecast*, Institutional Paper 11/2015, pp. 48-52.

Table I.4:

Composition of growth - euro area

(Real annual percentage change)

	2014		2010	2011	2012	2013	2014	2015	2016	2017
								Winter 2016 forecast		
	bn Euro Curr. prices	% GDP	Real percentage change							
Private consumption	5627.7	55.7	0.8	0.0	-1.2	-0.7	0.8	**1.7**	**1.8**	**1.5**
Public consumption	2131.3	21.1	0.8	-0.1	-0.2	0.2	0.9	**1.4**	**1.3**	**1.2**
Gross fixed capital formation	1984.6	19.6	-0.3	1.6	-3.3	-2.6	1.3	**2.3**	**2.8**	**4.2**
Change in stocks as % of GDP	-8.9	-0.1	0.3	0.8	-0.2	-0.1	-0.1	**-0.2**	**-0.1**	**-0.1**
Exports of goods and services	4522.5	44.7	11.3	6.5	2.6	2.1	4.1	**5.1**	**4.2**	**5.0**
Final demand	14257.1	141.0	4.0	2.4	-0.9	0.2	1.9	**2.8**	**2.7**	**3.0**
Imports of goods and services	4146.7	41.0	10.0	4.3	-1.0	1.3	4.5	**5.7**	**5.0**	**5.6**
GDP	10108.3	100.0	2.1	1.6	-0.9	-0.3	0.9	**1.6**	**1.7**	**1.9**
GNI	10176.7	100.7	2.3	1.7	-0.8	-0.3	1.0	**1.6**	**1.7**	**1.9**
p.m. GDP EU	13958.7	138.1	2.1	1.8	-0.5	0.2	1.4	**1.9**	**1.9**	**2.0**
			Contribution to change in GDP							
Private consumption			0.4	0.0	-0.7	-0.4	0.4	**0.9**	**1.0**	**0.8**
Public consumption			0.2	0.0	-0.1	0.0	0.2	**0.3**	**0.3**	**0.3**
Investment			-0.1	0.3	-0.7	-0.5	0.3	**0.5**	**0.5**	**0.8**
Inventories			0.9	0.4	-0.9	0.2	0.0	**-0.1**	**0.1**	**0.0**
Exports			4.0	2.5	1.1	0.9	1.8	**2.3**	**1.9**	**2.3**
Final demand			5.4	3.2	-1.3	0.2	2.7	**3.9**	**3.8**	**4.2**
Imports (minus)			-3.3	-1.6	0.4	-0.5	-1.8	**-2.3**	**-2.1**	**-2.4**
Net exports			0.6	0.9	1.5	0.4	0.0	**0.0**	**-0.2**	**0.0**

European exports in the near term, while the expected rebound in global economic activity should exert positive effects later in 2016 and 2017. The economic recovery in 2016 and 2017 should also benefit from improving labour market conditions that support private consumption. In some countries, the integration of refugees into labour markets could start to have a positive impact on economic activity, though the impact on growth is difficult to quantify. [31] Also, some of the structural reforms that have been implemented in euro area Member States should continue to have a positive impact on economic growth.

Heading into 2016, several Member States will continue to face challenges such as relatively high unemployment rates and the continuing deleveraging processes of households and companies. The unemployment rate is expected to have slightly fallen to 11.0% in the euro area in 2015 but remains well above pre-crisis levels (see Section I.6). In some Member States, the high unemployment rate is to some extent the result of the simultaneous deleveraging pressures in all economic sectors that have been weighing on domestic demand, but remaining structural rigidities also play a role. [32] High indebtedness continued to exert a negative effect on private households and the corporate sector in 2015. Over the forecast horizon, further progress in overcoming this legacy of the crisis, should support private and public consumption, as well as investment. Even though deleveraging needs can be identified for a number of countries and sectors, acute deleveraging pressures appear to be low over the forecast horizon due to very low financing costs and easing credit standards.

...leaving overall GDP growth forecasts broadly unchanged.

The outlook for the euro area in 2016 and 2017 has not changed fundamentally since the autumn. The combination of the boost from tailwinds and other growth drivers is expected to lead to a slight strengthening of the recovery over the forecast horizon, rather than a substantial acceleration. The outlook is for a longer period of growth, which, though low by historical standards, still exceeds actual potential growth. Real GDP is expected to grow by 1.7% in 2016 in the euro area (1.9% in the EU (Graph I.21)) and by 1.9% in 2017 (2.0%) while potential growth is estimated at only around 1% in 2016-2017. The negative output gap is therefore expected to narrow over the forecast horizon. Potential growth remains well below its pre-crisis level. [33] This is mainly the result of the

(31) See European Commission (DG ECFIN). *European Economic Forecast – Autumn 2015.* Institutional Paper 11, Box I.1, pp. 48–52.

(32) See Loublier, A. (2016). 'Deleveraging and adjustment'. *Quarterly Report on the Euro Area* 14(4), Special Edition 2015, pp. 49–58.

(33) For a detailed analysis of the ongoing recovery see, Ruscher, E. and B. Vašíček (2015). 'The euro area recovery in perspective'. *Quarterly Report on the Euro Area* 14(3), pp. 6–18.

Table I.5:

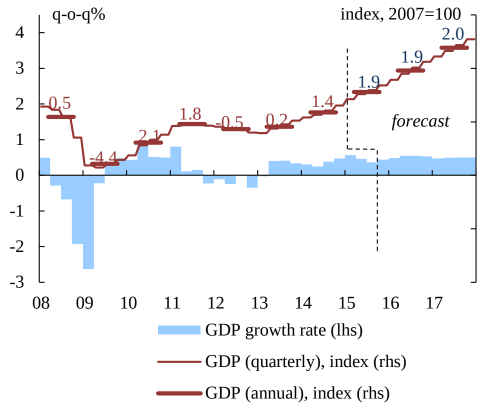
Composition of growth - EU

(Real annual percentage change)

	2014 bn Euro Curr. prices	2014 % GDP	2010	2011	2012	2013	2014	2015 (Winter 2016 forecast)	2016 (Winter 2016 forecast)	2017 (Winter 2016 forecast)
			Real percentage change							
Private consumption	7928.7	56.8	0.7	0.2	-0.6	-0.1	1.2	**2.0**	**2.2**	**1.8**
Public consumption	2919.6	20.9	0.7	-0.1	0.1	0.3	1.2	**1.5**	**1.3**	**1.1**
Gross fixed capital formation	2710.9	19.4	0.1	1.9	-2.5	-1.7	2.7	**3.0**	**3.2**	**4.3**
Change in stocks as % of GDP	13.7	0.1	0.3	0.7	-0.1	0.1	0.1	**0.0**	**0.1**	**0.1**
Exports of goods and services	6019.8	43.1	10.7	6.6	2.3	2.2	4.0	**5.1**	**4.2**	**5.0**
Final demand	19592.8	140.4	4.0	2.4	-0.4	0.6	2.3	**2.9**	**2.8**	**3.0**
Imports of goods and services	5632.0	40.3	9.8	4.2	-0.3	1.6	4.6	**5.6**	**5.1**	**5.5**
GDP	13958.7	100.0	2.1	1.8	-0.5	0.2	1.4	**1.9**	**1.9**	**2.0**
GNI	13972.1	100.1	2.4	1.8	-0.6	0.1	1.3	**1.8**	**1.9**	**2.1**
p.m. GDP euro area	10108.3	72.4	2.1	1.6	-0.9	-0.3	0.9	**1.6**	**1.7**	**1.9**
			Contribution to change in GDP							
Private consumption			0.4	0.1	-0.3	-0.1	0.7	**1.1**	**1.2**	**1.0**
Public consumption			0.2	0.0	0.0	0.1	0.3	**0.3**	**0.3**	**0.2**
Investment			0.0	0.4	-0.5	-0.3	0.5	**0.6**	**0.6**	**0.8**
Inventories			1.1	0.4	-0.7	0.2	0.0	**-0.1**	**0.0**	**0.0**
Exports			3.7	2.5	1.0	0.9	1.7	**2.2**	**1.9**	**2.2**
Final demand			5.4	3.3	-0.6	0.9	3.2	**4.1**	**4.0**	**4.3**
Imports (minus)			-3.3	-1.6	0.1	-0.6	-1.9	**-2.3**	**-2.1**	**-2.3**
Net exports			0.4	1.0	1.1	0.3	-0.1	**-0.1**	**-0.2**	**0.0**

much lower contribution from capital accumulation to potential growth, due to the low investment ratio in recent years.

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



Figures above horizontal bars are annual growth rates.

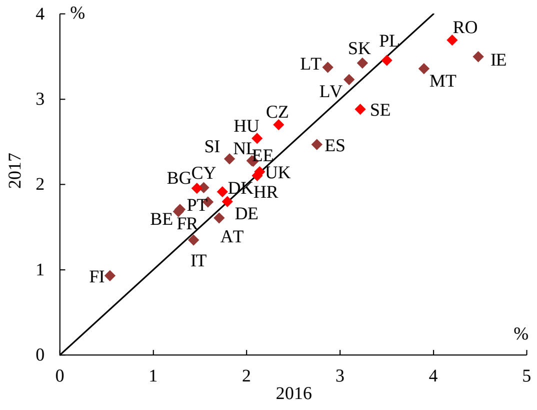
2015 – a unique year in terms of joint expansion across Member States

At the Member State level, GDP growth appears to have been fairly balanced across the euro area in 2015. 2015 looks set to turn out as the first year since the crisis in which no Member State reported shrinking output. Growth rates are expected to have varied from a low of 0.0% in Greece to a high of 6.9% in Ireland. Structural differences (e.g. balance-sheet adjustment, catching-up) and cyclical differences help to explain both the variation in growth rates and the wide range in unemployment rates despite a common trend of increasing employment.[34]

In 2016, all Member States are expected to see an improvement in their growth rates, except for Greece, where the economy is forecast to register negative growth amid the negative carry-over from 2015 before strengthening in 2017. Against the background of a slightly worse global outlook and lower oil price assumptions, differences in the openness of economies to trade and their energy intensities will contribute to growth differences (see Graph I.22).

[34] For the role of cross-country differences in real interest rates see Box I.1.

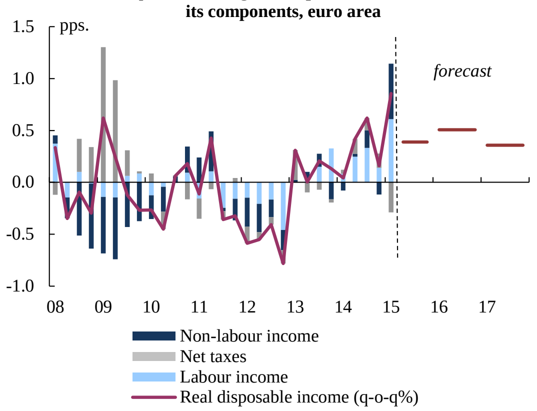
Graph I.22: **Real GDP growth in 2016 and 2017, EU and Member States (excl. EL)**



Private consumption remains the main growth driver...

Consumer spending appears to be holding up well. The ongoing recovery remains driven by domestic demand and in particular, by private consumption. In the third quarter of 2015, household consumption was again the main contributor to euro area GDP growth, increasing by 0.4% q-o-q, after 0.3% in the previous quarter. After two and a half years of expansion, household consumption is expected to have passed its pre-crisis peak in the last quarter of 2015. The positive developments in household consumption have been supported by rising real gross disposable incomes (see Graph I.23) thanks to the fall in headline inflation (driven by falling energy prices) as well as moderate improvements in labour market conditions.

Graph I.23: **Real gross disposable income and its components, euro area**



Forecast numbers are de-annualised annual figures.

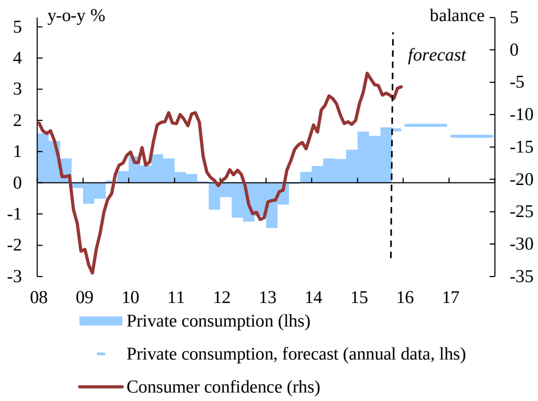
...and is expected to continue benefiting from higher real incomes...

Leading indicators for the fourth quarter suggest that private consumption should continue accelerating, though slightly more moderately than expected in the autumn forecast.

Although retail sales growth in October and November was on average 0.4% below the seven-year record highs they recorded in the third quarter, new passenger car registrations in the euro area rose on average by 0.6% (q-o-q) over those two months compared to the third quarter, indicating that household consumption continued to grow in the fourth quarter. In line with this, the annual growth rate of loans to households continued to increase in October and November.

Survey data also show mixed results. The Commission's Consumer Confidence indicator increased during the fourth quarter compared to the previous quarter in both the EU and the euro area. While consumers were more upbeat on questions relating to their personal finances (expected financial situation, future savings), their views on future unemployment became more pessimistic. Consumers also appeared more confident about making major purchases in early 2016. The Retail Confidence indicator rose in the fourth quarter, but the monthly index fell towards the end of 2015. In France, there was a sharp drop in retail confidence in December after the terrorist attacks of 13 November. Overall, the recovery in the retail sector seems to have faded in the last quarter of 2015.

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

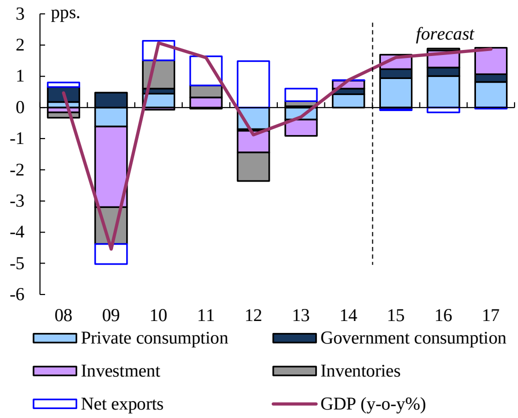


In 2015, private consumption benefitted from the very low prices for energy and from improved labour market conditions. It is expected to have accelerated to 1.7% in the euro area (2.0% in the EU). These forecasts are broadly unchanged from the autumn 2015 forecast, pointing to a limited impact of the lower-than-assumed oil prices in the second half of 2015.

...and should then slow down in 2017.

Over the forecast horizon, private consumption should continue growing strongly in 2016 before decelerating somewhat in 2017 mainly on the back of rising consumer prices. It is expected to grow by 1.8% in the euro area (2.2% in the EU) and slow down to 1.5% in 2017 (1.8%) in 2017 (Graph I.24). As a result, the mild expansion in the euro area should be substantially driven by private consumption (see Graph I.25).

Graph I.25: **GDP growth and its components, euro area**



Support should come from higher wages and salaries but also from an increase in non-labour incomes (profit and property-related incomes) and from higher transfers to households. Real disposable income growth is, however, expected to lose some momentum towards the end of the forecast horizon as consumer price inflation moves gradually up. Higher financial wealth, helped in part by the impact of unconventional monetary policy on asset prices, should also support private consumption. [35]

The household saving rate, which has moved in a narrow range between 12.6% and 12.8% of gross disposable income in the euro area since the beginning of the recovery in 2013, is expected to be gradually higher over the forecast horizon. Opposite forces are seen to be at play here. On the one hand, the expected improvement in the labour market should lead to lower precautionary savings and very low interest rates could discourage savings through the inter-temporal substitution effect. On the other hand, the fact that

(35) Analysing the ECB's unconventional monetary policy measures, Adam and Tzamourani find that "equity price increases significantly increase net wealth inequality in the euro area"; Adam, K. and P. Tzamourani (2015). 'Distributional consequences of asset price inflation in the euro area'. *CEPR Discussion Paper* 10897, p. 2.

unemployment rates and the deleveraging needs of households in some Member States remain high, should maintain some upward pressure on the saving rate.

While deleveraging needs of households remain elevated in some Member States, progress during the economic recovery has been made and acute deleveraging pressures continue to ease. Moreover, very low financing costs and easing credit conditions allow debtors to roll over debt relatively easily, reducing immediate deleveraging pressures. A reduced pace of deleveraging is expected to support private consumption in 2016 and 2017.

Public consumption surprised on the upside

Public consumption increased by 0.6% (q-o-q) in the euro area (0.7% in the EU) in the third quarter of 2015, rising by significantly more than expected in the autumn. The overall picture for the euro area masks some differences among countries, with expansionary fiscal policy measures having been taken in some cases to deal with the influx of asylum seekers (e.g. Germany). Since the last quarter of 2015, several recent developments (e.g. public security measures, asylum-seeker related expenditures) are expected to result in additional fiscal expenditures as compared to those taken into account in the autumn.

As a result, for the year 2015, government consumption growth has been revised up compared to the autumn forecast. It is now projected to have grown by 1.4% in the euro area (1.5% in the EU). Government consumption is expected to have decreased in only two euro area Member States (Cyprus and Greece).

Looking further ahead, public consumption growth is projected to slow marginally in the euro area over the forecast horizon and somewhat more strongly in the EU. Measures to contain and manage the inflow of asylum seekers are in the process of implementation and the pace of arrivals in 2016, and thus of related public consumption, will depend on the effectiveness of these measures. Overall, public consumption is expected to grow by 1.3% and 1.2% in the euro area in 2016 and 2017 respectively (1.3% and 1.1% respectively in the EU). It is expected to contract in two euro area Member States in 2016 (Greece and Cyprus) and in 2017 (Greece and Finland). However, the forecast for 2017 should be seen against the background of a no-policy-change assumption, according to which consolidation measures are only factored in once they have been adopted and presented to national parliaments or are known in sufficient detail to be taken into consideration.

Investment has remained relatively weak...

Still missing from the recovery picture is a clear rebound in investment. After surprising on the upside in the first quarter of 2015, investment has failed to become a substantial driver of the ongoing recovery, which raises questions about the sustainability of the recovery. Despite support from very favourable financing conditions and the improved demand outlook, the expansion of investment has considerably slowed, grinding to a halt in the euro area (0.1% in the second quarter and 0.0% in the third), and falling back to low rates in the EU as well (0.4% and 0.3%, respectively). These developments support the view that total investment is currently not very sensitive to changes in financing conditions. [36] At the current juncture, in addition to remaining deleveraging forces, economic and policy uncertainty can be presumed to have exerted a substantial negative impact on investment decisions.

...but is expected to pick up in the near term...

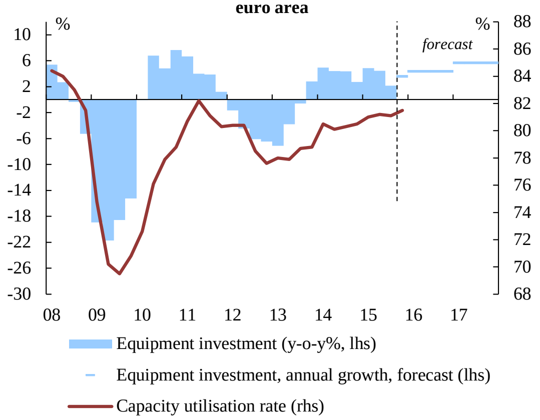
Total investment is expected to resume growth in the near term, on the back of a pick-up in demand, an increase in capacity utilisation, and improved profit margins, the latter being the result of lower energy prices and lower funding costs. However, investment is expected to be held back somewhat by the lower growth momentum outside the EU, which is expected to reduce export growth and hence equipment investment. Also, high uncertainty is expected to remain a drag on investment growth in the near term.

Hard data for equipment investment show that the production of capital goods decreased slightly in the euro area in October and November compared to the third quarter. In the EU, it increased by 0.3%. The rate of capacity utilisation in the fourth quarter of 2015 (data collected in October 2015)

(36) An ECB survey on the investment weakness showed that financial constraints related to costs of, or access to, funding were seldom seen as important constraints by firms. Investment decisions, however, remained sensitive to the economic outlook and the policy uncertainty. See ECB (2015). 'What is behind the low investment in the euro area? Responses from a survey of large euro area firms'. *ECB Economic Bulletin* Issue 8, Box 2, pp. 35-37.

increased to 81.5% (0.4 pps. higher than in July 2015), and has now been slightly above its long-term average for a year. (Graph I.26).

Graph I.26: **Equipment investment and capacity utilisation, euro area**



Hard data on the construction sector points to positive growth in construction investment in the near term. The sector's output in November increased by 0.5% (3m-o-3m) in the euro area and the number of permits increased in the third quarter by 2.8% (q-o-q). Another positive signal comes from the increase in loans for house purchases at an annual rate of about 2% in October and November in the euro area. In the third quarter, house prices in the euro area were 2.3% higher than they were one year before. However, the aggregate hides substantial differences among countries with house prices moving up quickly in Germany (5.6%), Spain (4.5%) and the Netherlands (4.1%), but falling in France (-1.2%) and Italy (-2.3%). The extent to which positive signals can be expected to show up in construction investment depends on the usual time lags, but also on the remaining excess capacity in the construction sector and, in some Member States, the rather weak real estate price dynamics observed in the past (see Box I.4).

According to the Commission's surveys, confidence in the euro area brightened in all business sectors in the last quarter of 2015 compared to the third quarter. In the construction sector, confidence rose above its long-term average for the first time since the onset of the financial crisis. The Commission’s latest investment survey indicates that business sector investments, mainly machinery and R&D investment, are increasing. In line with these developments, both the manufacturing and services PMIs increased in the fourth quarter, before falling slightly in January 2016.

Overall, hard data and survey results point to a pick-up in investment in the last quarter of 2015. In 2015 as a whole, total investment is expected to have grown by 2.3% in the euro area (3.0% in the EU), up from 1.3% in 2014 (2.7%). Further investment growth, however, may be tempered by the slowdown in growth outside the EU.

...and more significantly over the forecast horizon.

Looking further ahead, the outlook for investment is supported by strengthening domestic demand and improved profit margins, on the back of lower energy prices and lower funding costs. Accelerator effects and modernisation needs are also expected to push up equipment investment. Investment should also gradually benefit from the rebound in global growth over the forecast horizon and the expected lightening of the deleveraging pressures which weigh on investment in several Member States. As a result, corporate indebtedness should gradually cease to act as a brake on investment.

The Investment Plan for Europe is expected to exert a positive impact on both public and private investment. It is already financing infrastructure and innovation projects in the real economy as well as providing access to finance for start-ups and SMEs. The Commission's EUR 315 billion Investment Plan is thus on track and by January 2016, financing had been agreed that was expected to mobilise around EUR 50 billion of investment in Europe.

Construction investment should also benefit from rising real disposable incomes and very low mortgage rates. Increased demand for housing should also stem from the inflow of asylum seekers. However, the high levels of household debt in some Member States will continue to prevent a stronger increase in construction investment in 2016 but should be a softer constraint in 2017.

All in all, total investment in the euro area is expected to rise by 2.8% in 2016 (3.2% in the EU), before accelerating to 4.2% in 2017 (4.3%).

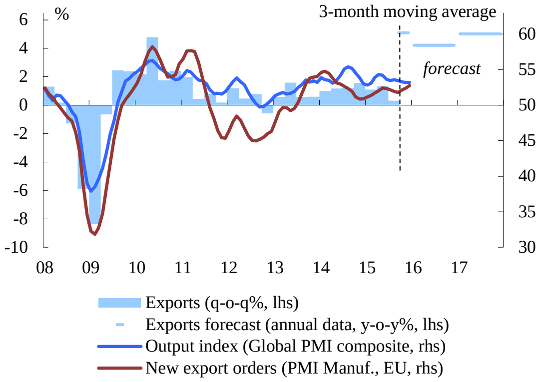
Exports dampened by subdued global growth…

In the first half of last year, export growth had remained more resilient than expected, as demand within the euro area and from other advanced economies had more than offset the weakness in emerging market economies and world trade. In the third quarter, the deterioration in the external environment started to be felt with exports strongly decelerating in the euro area. The positive impact of the euro's depreciation, which had also helped to offset the slowing growth of world trade and economic activity, was no longer strong enough. Volumes of exports of goods and services decelerated to 0.3% (q-o-q) after having grown by a quarterly average of 1.2% since 2014. In nominal terms, exports of goods to non-euro area countries shrank by 1.3% (q-o-q) while intra euro area exports decreased by 0.3% in the third quarter of 2015. For the EU as a whole, exports of goods outside the EU shrank by 2.2% (q-o-q) while intra-EU exports remained stable. In terms of trading partners, exports of EU goods to Russia, Brazil and China contracted strongly in the third quarter. In parallel and in line with the gradual recovery of domestic demand, imports of goods and services to the euro area continued to grow at a steady pace of 0.9% (q-o-q) in the third quarter of 2015. As a result, the contribution of net trade to GDP growth turned negative.

The headwinds stemming from the slowdown in emerging markets are expected to continue blowing in the near term. This can be discerned in survey data. For instance, the assessment of export order books in the Commission's manufacturing survey for the fourth quarter of 2015 remained broadly at the same level as in the previous quarter in the euro area, when they had dropped significantly (in the EU it continued to worsen). Moreover, countries with close links to Russia are expected to continue feeling the trade impact from the current Russian recession as well as from the extended sanctions against Russia (and counter-sanctions against the EU). The technical assumptions presume that these sanctions will, as decided in December 2015, remain effective until the end of July 2016. The depreciation of the euro and the firming of growth in advanced economies should continue to boost the euro area's export growth.

All in all, despite the deceleration in the second half of the year, exports of goods and services are expected to have grown by 5.1% in the euro area and the EU, on the back of the strong first half of the year. Imports are expected to have continued increasing broadly in line with domestic demand and goods exports, some of which have high import content. They should have increased by 5.7% in the euro area and by 5.6% in the EU (see Graph I.27). Net trade is expected to have made a neutral contribution to GDP growth in 2015 in the euro area (and a slight negative one in the EU).

Graph I.27: **Global demand, EU exports and new export orders**



Source: EC, Markit Group Limited

...but should rebound as global activity picks up.

Thanks to improvements in competitiveness and the gradual strengthening of global demand, export growth should accelerate over the course of 2016. Economic activity is expected to rebound in most emerging market economies, but although import growth in these countries is expected to recover, it is expected to remain below that of previous years. Moreover, the global elasticity of imports is expected to remain very low during the forecast horizon. As a result, euro area exports are forecast to grow more slowly in 2016 than in 2015, although this also reflects the low carryover from the second half of 2015. Import volumes are set to mirror the development of exports given the high import content of many export goods. Against this background, exports are projected to grow by 4.2% in the euro area and the EU in 2016 and are expected to accelerate to 5.0% in both areas in 2017. Imports are forecast to grow by 5.0% in the euro area in 2016 (5.1% in the EU). They are then set to accelerate to 5.6% in 2017 (5.5% in the EU). Overall, net trade should have a slight negative impact on GDP growth in 2016 and become neutral in 2017.

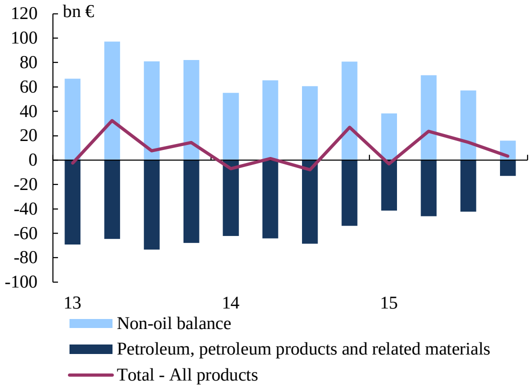
5. THE CURRENT ACCOUNT

In 2015, the increase in the adjusted current-account surplus of the euro area was driven by the decline in commodity prices, which largely offset the volume effect of a greater propensity to import, as well as weak domestic demand and gains in price competitiveness due to the depreciation of the euro. Over the forecast horizon, both trade and current account surpluses as a percentage of GDP are expected to recede as economic activity is set to continue expanding more quickly in Europe than in the external environment.

Lower oil prices and improved price competitiveness pushed surpluses higher…

In 2015, the increase in trade surpluses in the euro area reflected a combination of lower import prices, improved price competitiveness and subdued domestic demand. As regards import prices, the sharp decline in oil prices has narrowed significantly the deficit in the oil balance (see Graph I.28).

Graph I.28: **Oil and non-oil balance for Extra-EU trade**



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

As import prices fell more than export prices (driven by commodities), the terms of trade improved. Improvements in price competitiveness on the back of decreasing relative unit labour costs and the depreciation of the real effective exchange rate also had strong effects. The impact of these effects on the trade balance and current account balance was only partially mitigated by higher import volumes. Overall, the euro area's adjusted merchandise trade surplus is expected to have increased from 2.5% of GDP in 2014 to 3.3% in 2015, whereas the adjusted current account surplus is expected to have increased from 2.4% of GDP to 3.1%.

…with stronger domestic demand and rebounding commodity prices becoming mitigating factors…

In 2016 and 2017, European exporters are expected to continue benefitting from gains in price competitiveness. Imports are set to move in tandem with domestic demand, and to increase more strongly. The renewed fall in oil prices early this year and the depreciation of the euro's exchange rate vis-à-vis the US dollar are expected to remain key determinants of both export and import prices in 2016. European exporters should benefit from gains in price competitiveness as relative unit labour costs and real exchange rates vis-à-vis major trading partners are expected to continue decreasing.

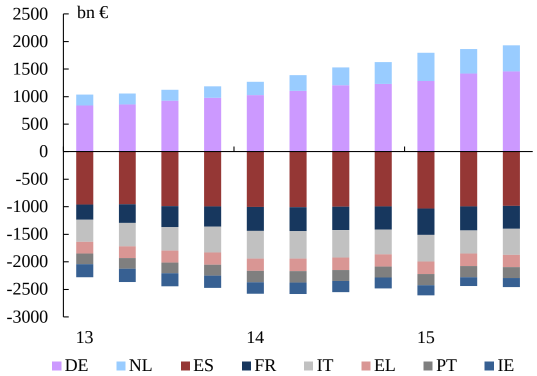
Overall, the euro area's adjusted trade surplus is expected to be stable in 2016 and to slightly narrow to 3.1% of GDP in 2017. The adjusted current account surplus should recede to 3.0% and 2.8% of GDP in the euro area.

…and intra-euro area rebalancing remaining somewhat asymmetric.

Intra-euro area current account rebalancing over the last few years has been driven by vulnerable countries which have turned large deficits into surpluses. While the initial adjustments were supported by the weakness of domestic demand, the improved export performance in these countries has made a substantial contribution, as export growth outpaced import growth. In countries with high current account surpluses, no or very little adjustment had been observed, as domestic demand was relatively weak and price competitiveness remained high. These surpluses recorded in the euro area over the past few years, have stabilised the total Net International Investment Positions (NIIPs, see Graph I.29), but not significantly changed in highly-indebted countries that remain well above the -35% of GDP threshold underlying the alert mechanism of the Macroeconomic Imbalance Procedure (MIP). [37] And the Net International Investment Position of surplus countries (e.g. Germany and the Netherlands) has continued to grow.

[37] For an analysis see Rodriguez Palenzuela, D. and S. Dees (2016). 'Savings and investment behaviour in the euro area'. ECB Occasional Paper Series 167, Chapter 2.

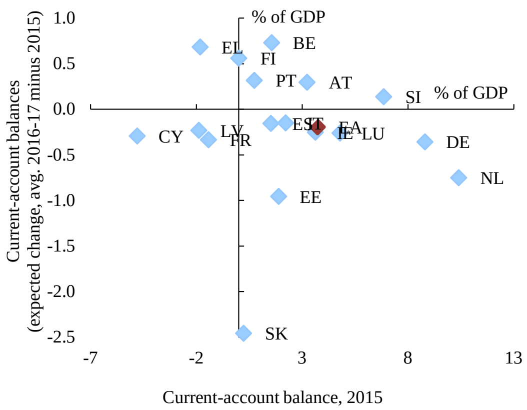
Graph I.29: **Evolution of NIIPs, selected euro area Member States**



Source: ECB

However, current account rebalancing is expected to slow due to the worsening performance of exports in some countries (see Graph I.30). Some of the reasons for the asymmetric adjustment, such as weak domestic demand momentum and sustained price competitiveness are expected to remain in place over the forecast horizon. Particularly in Germany and in the Netherlands, surpluses are expected to remain at high levels in 2016 and 2017.

Graph I.30: **Expected current-account adjustments, euro area and Member States**



Overall, in 2017, the assumed rebound of oil prices is expected to widen the deficit in the oil trade balance again so that other factors will gain importance. Therefore, adjustment will rely more on relative economic performance, particularly domestic demand, and structural factors.

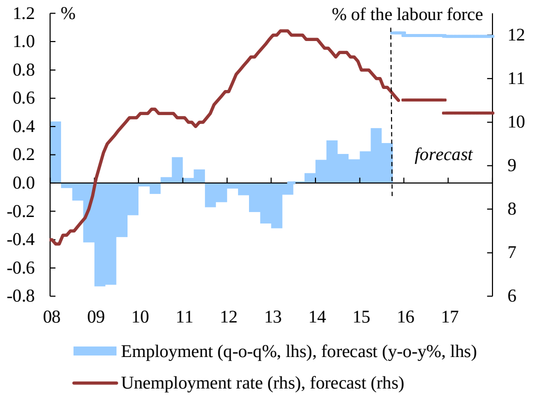
6. LABOUR MARKET

Labour market conditions continue to improve at a moderate pace, with employment growing and unemployment falling slightly. However, key labour market fundamentals have not yet fully recovered from the crisis. Unemployment remains at high levels with substantial differences across Member States. The unprecedented inflow of asylum seekers is set to impact only gradually on the labour force in the EU and on unemployment rates in some Member States.

Labour market conditions continue to recover gradually…

During the current recovery, employment seems to have responded more strongly to output developments than historical employment-to-output elasticities would have suggested. [38] But economic growth has been too weak to quickly recoup the preceding job losses (see Graph I.31). In 2015, headcount employment remained about 2.0% below its pre-crisis level. In the third quarter of 2015, employment rose by 0.3% (q-o-q) in the euro area and by 0.4% in the EU. Employment gains have been broad-based across almost all Member States, especially in those mostly affected by the recent crisis, such as Spain, Italy and Portugal.

Graph I.31: **Employment growth and unemployment rate, euro area**



Forecast figures are annual data.

Both cyclical and structural factors are behind the higher responsiveness of the labour market to economic developments. On the one hand, the recession had resulted in some labour hoarding

(38) See also Box I.3 ('Recent unemployment developments: a swift reaction to economic recovery') in European Commission (DG ECFIN). *European Economic Forecast – Winter 2015*. European Economy 1/2015, pp. 53–55.

Table I.6:

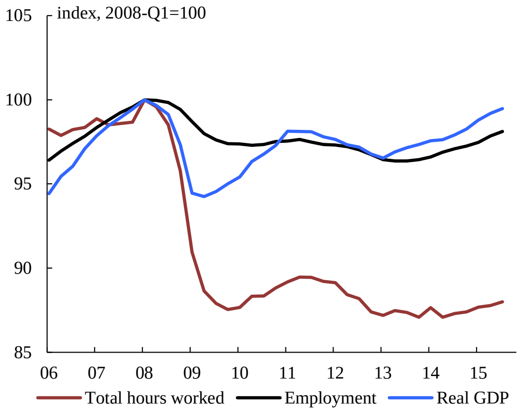
Labour market outlook - euro area and EU

(Annual percentage change)	Euro area							EU						
	Winter 2016 forecast				*Autumn 2015 forecast*			Winter 2016 forecast				*Autumn 2015 forecast*		
	2014	2015	2016	2017	2015	2016	2017	2014	2015	2016	2017	2015	2016	2017
Population of working age (15-64)	0.1	0.2	0.3	0.2	0.2	0.3	0.2	0.1	0.2	0.3	0.2	0.2	0.3	0.2
Labour force	0.1	0.3	0.5	0.6	0.2	0.4	0.6	0.3	0.3	0.5	0.6	0.3	0.5	0.6
Employment	0.6	1.1	1.0	1.0	0.9	0.9	1.0	1.0	1.1	1.0	0.9	1.0	0.9	0.9
Employment (change in million)	0.9	1.5	1.5	1.5	1.3	1.3	1.5	2.2	2.5	2.2	2.1	2.2	1.9	2.1
Unemployment (levels in millions)	18.6	17.6	17.0	16.5	17.7	17.2	16.7	24.8	23.0	22.1	21.5	23.2	22.6	21.9
Unemployment rate (% of labour force)	11.6	11.0	10.5	10.2	11.0	10.6	10.3	10.2	9.5	9.0	8.7	9.5	9.2	8.9
Labour productivity, whole economy	0.3	0.5	0.7	0.8	0.7	0.9	0.9	0.4	0.8	1.0	1.1	0.9	1.1	1.1
Employment rate (a)	58.6	59.1	59.6	60.0	59.2	59.6	60.0	58.9	59.4	59.8	60.2	59.5	59.8	60.2

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

combined with a sharp downward adjustment of hours worked that cushioned headcount employment losses while the economic recovery has continued to support the pace of job creation in the euro area (Graph I.32). [39] On the other hand, recent labour market reforms, such as flexible work arrangements and decentralised wage bargaining, have contributed to higher labour market flexibility, increased part-time employment and moderate wage growth; factors which are underpinning labour demand.

Graph I.32: **Employment , GDP, total hours worked, euro area**



...but unemployment is declining only slowly.

The unemployment rate in the euro area has been declining since mid-2013 as the economic recovery has taken hold and employment growth gradually gained pace. The decline also reflects resilient activity rates amid increases in the participation rate, mainly of women and older workers (added-worker effect). While activity rates of men in the euro area have declined since pre-crisis peaks (by 0.8 pps. between 2008 and 2014), activity rates of women have been on a continuous upward trend (+2.2 pps.).

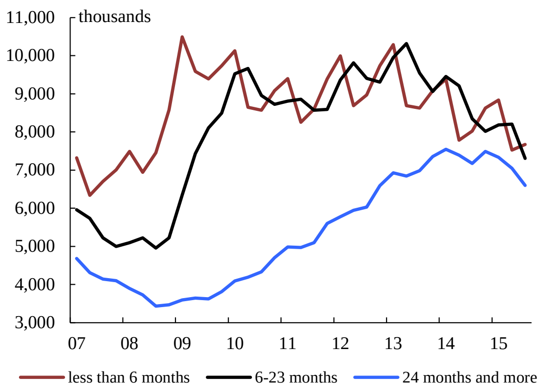
However, the decline in the unemployment rate has been only gradual and unemployment remains persistently high in many Member States and well above the pre-crisis levels for the euro area and the EU on average. In November 2015, the unemployment rate decreased slightly to 10.5% in the euro area and 9.1% in the EU. The impact of persistently high unemployment rates could become more acute as populations age in many European countries, as an older population implies lower participation rates in the medium term.

As regards the composition of unemployment, youth unemployment and long-term unemployment remain very high by historical standards. This implies a greater risk of lower potential output and higher structural unemployment. In the short run, they should also put upward pressure on budgetary costs, hold back a stronger rebound in productivity growth and increase welfare dependency.

The ongoing improvement in labour market conditions is only slowly driving down long-term unemployment (see Graph I.33). Also, the share of unemployed in the cohorts of young people has fallen at a slow pace (see Graph I.34). While in 2014 youth unemployment in the euro area fell at a faster rate than overall unemployment, it remained broadly unchanged throughout 2015. In November 2015, the youth unemployment rate decreased to 22.5% in the euro area (from 22.7% in early 2015) and 20.0% in the EU (from 21.0%). Moreover, the share of youth unemployment to total unemployment in the euro area has been increasing since mid-2015. At the same time, the proportion of people unemployed for 24 months or more remains high, albeit declining more steeply.

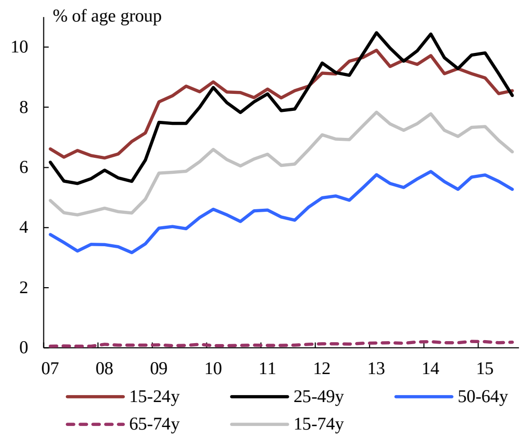
[39] See, also ECB (2015). 'What is behind the recent rebound in euro area employment?'. *Economic Bulletin* Issue 8; and Boeri, T. and H. Brücker (2011). 'Short-time work benefits revisited: some lessons from the Great Recession'. *Economic Policy* 26(68), pp. 697–765.

Graph I.33: **Unemployment by duration, EU**



While high rates of youth and long-term unemployment carry the risk of skill erosion and scarring effects, the ageing of the population in Europe should partly blunt these effects by increasing demand for labour in some countries. Still, the persistence of long-term unemployment can be expected to continue weighing on the efficiency of labour market matching in Europe and increase the risk that high levels of unemployment could become entrenched.

Graph I.34: **Unemployment by age group, euro area**

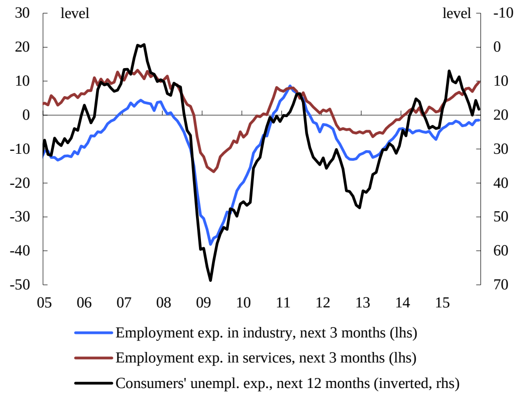


Employment is set to expand further...

Labour market conditions should continue to improve in the near term, although cyclical factors are set to lead to only a slow absorption of excess capacities in the labour market. The relatively slow adjustment of the hours worked to pre-crisis levels should also somewhat hold back stronger improvements in the labour market in the near term.

Survey data point to a further increase in net job creation in the fourth quarter of 2015 and signal higher employment growth for the first quarter of 2016. Employment expectations in industry and services remained strong in December both in the euro area and the EU (see Graph I.35). Following a slight deterioration in the third quarter of 2015, employment expectations in industry in the euro area increased in the final quarter, while employment expectations in services have been broadly increasing throughout 2015. By contrast, employment expectations in retail trade slightly moderated in December in both areas. Still, the hiring intentions of firms remain above their long-term averages in all sectors. The composite PMI employment index for the euro area increased further in December, indicating further net job creation in the manufacturing and services sectors. The sharp increase in consumers' unemployment expectations in the fourth quarter of last year could be related to the inflow of asylum seekers. This was particularly the case in the countries most affected, such as Germany and Austria.

Graph I.35: **Employment expectations, DG ECFIN surveys, euro area**



Overall, in 2015, employment is expected to have gained further momentum reaching 1.1% in both the euro area and the EU. The unemployment rate in the euro area in 2015 is expected to have declined to 11.0% (9.5% in the EU).

...but labour force developments should drive unemployment...

Employment growth is expected to continue at about its current speed in 2016 and 2017. Annual rates of 1.0% in the euro area, slightly less in the EU in 2017, reflect the support of strengthening economic activity, improved business confidence and higher capital accumulation. Higher labour market flexibility and moderate wage increases amid recent labour market reforms are also expected to contribute to employment growth over the forecast period.

The labour force is projected to grow more strongly than previously expected in the euro area, largely driven by higher participation rates as a result of improved economic and labour market conditions, the fading of discouragement effects, and net migration flows. In some countries, the integration of refugees into the labour market could boost the labour force in 2016 and 2017. However, as the processing of asylum applications varies significantly across countries, the absorption of accepted refugees into the labour market will likely remain gradual. [40] Upward pressures on unemployment should therefore be contained. The activity rate is set to increase modestly over the forecast horizon on the back of increases in the labour force but also a decline of the working age population in some countries (e.g. Baltic countries, Poland). Labour productivity growth (output per person employed), is forecast to increase moderately over the forecast period as the recovery continues and in line with the pro-cyclicality of labour productivity. It is set to reach 0.8% in the euro area in 2017 (1.1% in the EU).

Unemployment rates in both the euro area and the EU are set to decline very slowly as the recovery remains moderate and high structural unemployment continues to decline only gradually. According to Commission estimates, the NAWRU (Non-Accelerating Wage Rate of Unemployment) remains high but is set to continue declining from its recent peak in 2014 and 2013 in the euro area and the EU respectively. The NAWRU is expected to broadly stabilise over the forecast period in the euro area (to 9.9% of the labour force in 2014) and to decline in the EU (by 0.4 pps. from 8.9% of the labour force in 2014). Overall, in 2016, the unemployment rate is projected to decline by 0.5 pps. in both the euro area (to 10.5%) and the EU (to 9.0%). Next year, it should decline further to 10.2% and 8.7% in the two areas respectively.

...and labour market heterogeneity is set to decrease only gradually.

Given different adjustment mechanisms in the Member States, such as wage-setting and collective-bargaining structures, cross-country heterogeneity in labour market developments is set to persist and to decline only marginally over the forecast period. [41]

Changes in the minimum wage setting in some countries, such as Germany, are set to have only a moderate impact on the employment outlook. [42] Although the minimum wage can apply to a small proportion of workers, changes in the minimum wage may affect a larger proportion of employees, mainly at the lower pay end and thereby affect the wage distribution. Minimum wage developments in some countries (e.g. Estonia, Latvia) are expected to have an impact on overall wage growth over the forecast horizon and in turn affect labour demand. Apart from labour market institutions, differences in labour market conditions among Member States can also be explained by other factors, such as differences in the pass through of monetary policy and real interest rates, which could affect capital accumulation and in turn, the unemployment gap. [43] Intra-EU labour mobility has somewhat helped regional labour markets to adjust faster, although its contribution to smoothing labour market fluctuations remains low. [44]

Overall, the unemployment rate is expected to decrease in almost all euro area countries this year and next, especially in countries that have benefitted from recent labour market reforms (e.g. Spain, Portugal, Cyprus, and Greece).

(40) See, also OECD (2015). 'How will the refugee surge affect the European economy?'. *Migration Policy Debates* 8, November, and Aiyar, S., et al. (2016). 'The Refugee Surge in Europe: Economic Challenges'. *IMF Staff Discussion Note* SDN/16/02.

(41) The deviation of projected unemployment rates of euro area Member States from the euro area average slightly decreases over the forecast period and is lower than that in the autumn 2015 forecast, pointing to expected slowly decreasing disparities in labour markets.

(42) See also, Deutsche Bundesbank (2015). 'Economic conditions in Germany'. *Monthly Report*, 67(8), August, pp. 55-56. On the negative effects of minimum wages during economic downturns, see also Boeri, T., P. Cahuc and A. Zylberberg (2015). 'The Costs of Flexibility-enhancing Reforms for Individuals: A Literature Review', *OECD Economics Department Working Papers* 1264.

(43) See, also, Blanchard, O. and J. Wolfers (2000). 'The role of shocks and institutions in the rise of European unemployment: the aggregate evidence'. *Economic Journal* 110(462), pp. 1–33. Stockhammer, E. and S. Sturn (2011). 'The impact of monetary policy on unemployment hysteresis'. *Applied Economics* 44(21), pp. 2743–46.

(44) European Commission (2015). 'Labour Market and Wage Developments in Europe 2015'. Part II, Chapter 1: Labour mobility and labour market adjustment in the EU.

7. INFLATION

With energy prices falling sharply, inflation in the euro area struggled to rise substantially above zero towards the end of 2015 (see Graph I.2). Although there was a small increase from September's negative rate, the increase in the fourth quarter was substantially lower than forecast in the autumn, when base effects had been expected to kick-in due to the 'atypical' month-on-month movements in the price index twelve months earlier.[45] But the renewed decline in commodity prices has extended the period during which the energy index detracts strongly from the overall index. Even core inflation (all items excluding energy and unprocessed food) softened gradually and undershot expectations of a further mild pick-up amid strengthening domestic demand. This includes some indirect effects, such as the fall in prices of energy-intensive goods like transport.

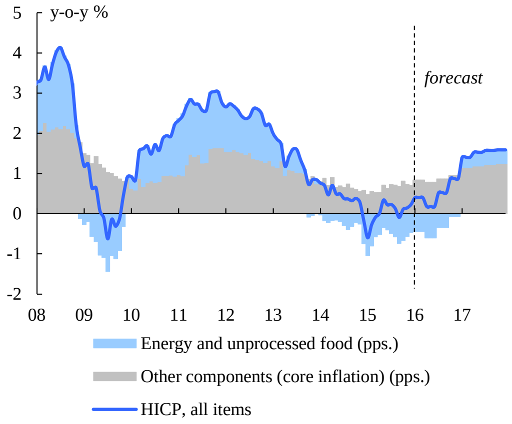
With energy prices sliding further in January, it looks as though inflation will remain at very low levels for longer than previously anticipated. This has led to a downward revision in inflation projections, not only due to the much lower oil price assumption, but also because core inflation is now expected to take longer to pick-up in tandem with increased domestic demand.

Inflation remained stubbornly low...

HICP inflation in the euro area averaged 0.2% in the fourth quarter of 2015, up slightly from 0.1% in the third quarter. For the year as a whole, inflation averaged zero. Headline inflation was subject to strong variations in the energy index, which closely reflects movements in oil prices, and which, as a result, was consistently negative throughout the year. On the other hand, unprocessed food price inflation averaged 2.6% in the final quarter, up from 2.1% in the third. Core inflation (excluding energy and unprocessed food) in the euro area averaged 0.9% in both the third and fourth quarters (Graph I.36). It unexpectedly fell in November and December to 0.9%. The recent decline in core inflation was basically due to the slight drop in services, while non-energy industrial goods inflation increased in the fourth quarter to average 0.5%, up from 0.4% in the third.

[45] For explanations of the expected timing of base effects, see e.g. Vilmi, L. (2015). 'Inflation developments in the euro area – an update'. *Quarterly Report on the Euro Area* 14(3), pp. 29–33.

Graph I.36: **Inflation breakdown, euro area**



The persistent weakness of core inflation in the euro area largely reflects the still negative output gap and subdued developments in wages, especially in those countries needing adjustment to regain competitiveness. The output gap is projected to close further but to remain negative over the forecast horizon. The remaining output gap is expected to dampen the responsiveness of inflation to increases in domestic demand. At the same time, recent empirical estimates of the responsiveness of inflation to measures of spare capacity in the economy vary substantially, whereas other variables like the price of oil and global factors seem to be having more impact.

... with oil prices and global factors weighing on inflation...

The impact of oil price changes on inflation rates is usually rather volatile and the pass-through takes several quarters. Yet the sharp decline since mid-2014 and the assumption that oil prices will now stay low for longer have affected not only the energy index but also other oil-sensitive components such as transport and a number of food and industrial products. Although this effect on other components might be more pronounced than before, the responsiveness of overall inflation to oil should not be over-stated since the oil-intensity of most euro area economies is declining with improvements in the energy efficiency of buildings and industries and the growing importance of services in the economy. If anything, oil prices are currently already close to multi-year lows and the impact of the oil price decline on inflation will be almost completely passed-through in the coming quarters. From there, any pick-up in oil prices will quickly feed into price increases.

Table I.7:

Inflation outlook - euro area and EU

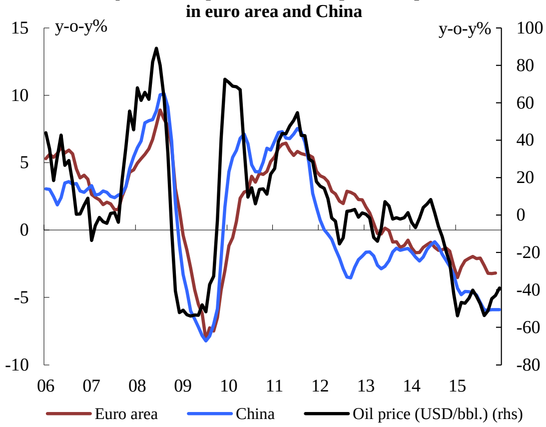
(Annual percentage change)	Euro area							EU						
	Winter 2016 forecast				*Autumn 2015 forecast*			Winter 2016 forecast				*Autumn 2015 forecast*		
	2014	2015	2016	2017	2015	2016	2017	2014	2015	2016	2017	2015	2016	2017
Private consumption deflator	0.5	**0.2**	**0.7**	**1.6**	*0.2*	*1.1*	*1.6*	0.7	**0.2**	**0.7**	**1.6**	*0.2*	*1.2*	*1.7*
GDP deflator	0.9	**1.2**	**1.2**	**1.5**	*1.1*	*1.2*	*1.5*	1.1	**1.1**	**1.2**	**1.6**	*1.1*	*1.3*	*1.6*
HICP	0.4	**0.0**	**0.5**	**1.5**	*0.1*	*1.0*	*1.6*	0.6	**0.0**	**0.5**	**1.6**	*0.0*	*1.1*	*1.6*
Compensation per employee	1.4	**1.2**	**1.5**	**2.1**	*1.4*	*1.6*	*2.0*	1.1	**1.6**	**2.0**	**2.4**	*1.7*	*2.0*	*2.5*
Unit labour costs	1.1	**0.7**	**0.8**	**1.2**	*0.7*	*0.7*	*1.1*	0.9	**0.9**	**1.1**	**1.4**	*0.9*	*0.9*	*1.4*
Import prices of goods	-2.5	**-3.3**	**-0.8**	**1.7**	*-2.6*	*0.6*	*1.7*	-2.4	**-3.2**	**-0.7**	**1.5**	*-2.3*	*0.4*	*1.6*

International price movements and their transmission have gained more importance for national inflation rates as economies have become more integrated in global supply chains. [46] This also applies to inflation in the euro area. At the current juncture, a major factor is the overcapacity in several emerging market economies, particularly China.

There, the fast build-up of debt amid weakening growth could put further pressure on indebted companies to off-load their inventories at cheaper prices, resulting in downward price pressures on traded goods. For example, in December, producer prices fell in China at an annual rate of 6%. In line with this, the latest data (for November) show that industrial import prices fell 4.2% in the euro area (Graph I.37). This decline in industrial import prices is also contributing to subdued developments in producer prices in the euro area, which fell at annual rates of 3.2% in October and November, more than in the second quarter. This continuing fall in imported and domestic industrial prices is expected to exert further downward pressure on retail prices in 2016.

The annual rate of change in the euro area import deflator is expected to have fallen to -3.3% in 2015. For 2016, the rate is expected to be negative again before turning positive in 2017 to 1.7%. Since import prices are deducted when calculating the GDP deflator – a broad indicator of domestically-generated inflationary pressures – the negative growth rate of the import deflator increases mechanically the GDP deflator, whose change in 2015 is expected to have reached 1.2%, substantially above the 0% rate registered for HICP inflation. The GDP deflator is projected at 1.2% again in 2016 and to increase further to 1.5% in 2017.

Graph I.37: **Oil prices, industrial producer prices in euro area and China**

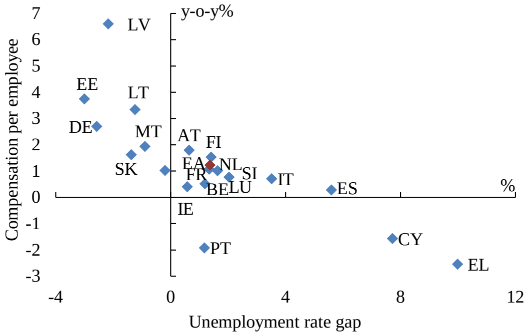


...but also the wage and unemployment gap nexus.

Domestically, inflationary pressures are also low because wage growth remains subdued in the euro area. Wages and salaries grew at an average annual rate of 2% in the first half of 2015, but only at an annual rate of 1.4% in the third quarter. Nonetheless, there are considerable differences across the euro area. Wages in the third quarter grew by 2.3% in Germany and by 2.1% in the Netherlands, whereas in Italy, Spain and Portugal, wage growth was 0.0%, 0.4% and -2.5%, respectively. Analysing these wage developments, there are two factors influencing the weak inflation outlook. First, downward wage rigidities in vulnerable countries seem to have softened, leading to a dampening, if not negative effect on wage growth given the presence of large, well-established unemployment gaps. On the other hand, in those countries where the unemployment gap is almost closed or even positive, like Germany, inflation has failed to increase more strongly despite the recent robust growth in nominal wages (see Graph I.38).

(46) See Borio, C. and A. Filardo (2007). 'Globalisation and inflation: new cross-country evidence on the global determinants of domestic inflation'. *Bank for International Settlements* Working Paper 227.

Graph I.38: **Compensation per employee growth and unemployment rate gap (average 2014-Q4/2015-Q3), euro area and Member States**



Unemployment rate gap is here calculated as the recent average unemployment rate (2014Q4-2015Q3) minus the average of the period 2005-14.
Source: ECB, Eurostat.

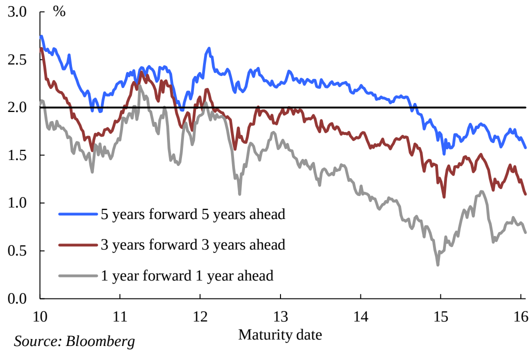
Growth in nominal compensation per employee is projected to have come in only marginally lower in the euro area in 2015 (1.2%, down from 1.4% in 2014), which is markedly above consumer price inflation. It is expected to increase to 1.5% in 2016, still above the projected inflation rate, thus raising the real wage further. Nominal compensation growth per head is then expected to grow stronger at 2.1% in 2017 as the output gap closes further.

Inflation expectations have fallen...

Market-based measures of inflation expectations staged a recovery after the ECB announced its expanded Asset Purchase Programme (APP) in January 2015, but continue to be affected to a great extent by the sharp drop in oil prices. Short and longer-term inflation expectations implied by financial markets dropped again towards the end of the fourth quarter as the slide in energy prices accelerated. In January 2016, they declined again and stood marginally above the lowest-levels seen in January 2015, signalling low but positive inflation in the next few years. For the short term, inflation-linked swap rates at the one year-forward-one-year-ahead horizon stood at 0.7% on 22 January, the cut-off date for this forecast. Swap rates at the three-year-forward-three-year-ahead horizon imply an average inflation rate of 1.1%. On a longer horizon, the widely watched five-year-forward-five-year-ahead indicator suggests inflation of 1.6% (see Graph I.39).

Survey-based measures of inflation expectations, such as Consensus Economics' forecast means of HICP inflation in the euro area in 2016 have been revised down again in January 2016 to 0.8% (from 1.0% in December 2015). For 2017, the forecast mean is for 1.5%. The ECB's Survey of Professional Forecasters for the first quarter of 2016 (published in January 2016), includes inflation forecast means of 0.7% in 2016 (down from 1.0% in the survey for the fourth quarter of 2015), 1.4% in 2017 (1.5%) and 1.6% in 2018. The longer-term inflation expectations (for 2020) stand slightly reduced at 1.8%. According to the Commission’s surveys, consumers' price expectations have increased somewhat since autumn although the level remains substantially below its historical average.

Graph I.39: **Inflation expectations derived from implied forward inflation-linked swap rates**



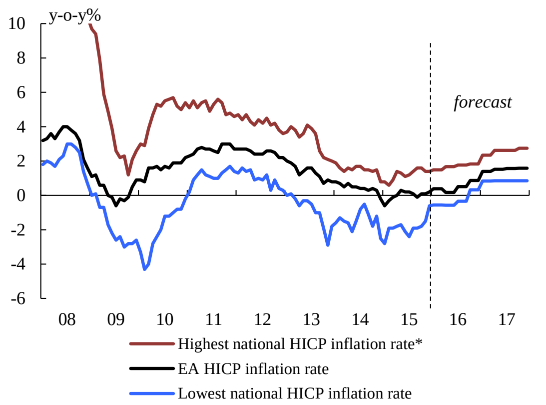
Source: Bloomberg

...and the inflation forecast for 2016 has been revised down...

The forecast for inflation in 2016 has been revised lower since the autumn on account of the renewed decline in oil prices and because core inflation has failed to pick-up. The profile for inflation will again be dominated by base effects related to recent movements in oil prices. With the assumed path of commodity prices, inflation is expected to remain very low in the first half of the year, especially in the second quarter, but then to step up higher in the second half of the year when positive base effects will be dominant. Inflation in the euro area in 2016 is projected to come in at 0.5% as the drag from lower energy prices will have run its course. The upshot is that such low energy prices should support household disposable incomes and corporate profit margins in the euro area further and thus help to lift domestic price pressures.

In 2017, the impact of higher real wages and domestic demand, together with a moderate assumed increase in oil prices, should feed into increasing underlying price pressures. In the fourth quarter of 2017, inflation is then expected to rise to an annual rate of 1.6% in the euro area.

Graph I.40: **Inflation dispersion, current euro area Member States**



** HICP in 2008 >17% in LV*

...with inflation differentials expected to remain narrow

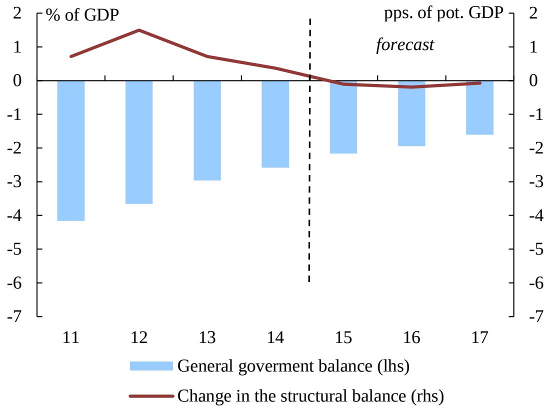
Aggregate HICP inflation rates mask substantial differences between euro area Member States. In 2015, HICP inflation rates in the Member States ranged from -1.6% in Cyprus to 1.2% in Malta. In 2016, inflation rates are expected to range from -0.3% in Slovenia to 1.7% in Malta; and in 2017 from 0.8% in Greece to 2.5% in Estonia. The difference in rates reflect several factors including GDP growth, wage growth pressures, convergence in price levels, and the different impact of exchange rate and commodity price movements, which depend on the composition of consumption and industrial structures. Another factor behind recent inflation differences are relative price adjustments within the euro area, where in several stressed countries, external re-balancing required increases in price competitiveness.

8. PUBLIC FINANCES

The reduction in the general government deficit continues...

The general government deficit is expected to continue declining over the forecast horizon in the euro area and the EU, albeit at a slightly slower pace than in recent years (Graph I.41). The ongoing economic recovery and, to a lower extent, the decline in interest expenditure resulting from the non-standard monetary policy measures carried out by the ECB are set to underpin the projected reduction in the general government deficit. In some Member States, the unwinding of one-off budgetary impacts, notably associated with financial sector support, is also forecast to yield a visible deficit-reducing effect. These effects, however, are expected to be partly offset by increased government expenditure to tackle the inflow of asylum seekers in a few countries.

Graph I.41: **Budgetary developments, euro area**



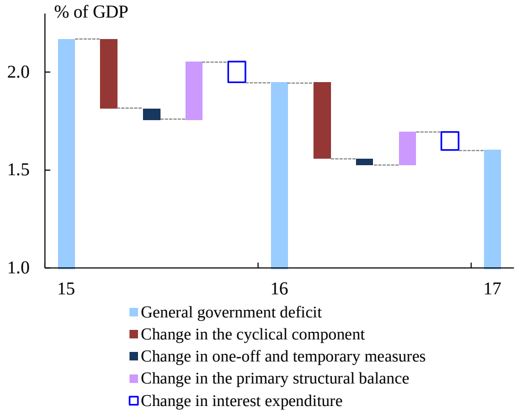
In 2015, the aggregate general government deficit is expected to have declined to 2.2% of GDP in the euro area and 2.5% in the EU. In 2016, the general government deficit is projected to decline further to 1.9% in the euro area and to 2.2% of GDP in the EU. Looking ahead into 2017, under a no-policy-change assumption, the general government deficit is set to narrow further to 1.6% and 1.8% of GDP in the euro area and the EU, respectively.

...while the past improvement in structural balances peters out.

As the envisaged reduction in the general government deficit is set to be mostly driven by the cyclical recovery in both the euro area and the EU, the estimated structural balance is expected to have remained broadly stable in 2015. In effect, the fiscal policy stance, as measured by the change in the structural balance (i.e. the general government budget balance corrected for cyclical factors, one-offs and other temporary measures) is expected to have been broadly neutral in both areas last year. In 2016, a slightly expansionary fiscal stance is expected in the euro area, while the structural balance is set to remain roughly unchanged in the EU. The difference between both areas is due to the improvement in the structural balance forecast in some non-euro area Member States, particularly the United Kingdom, Czech Republic and Denmark. Next year, under a no-policy-change assumption, the structural balance is projected to remain broadly stable in both the euro area and the EU.

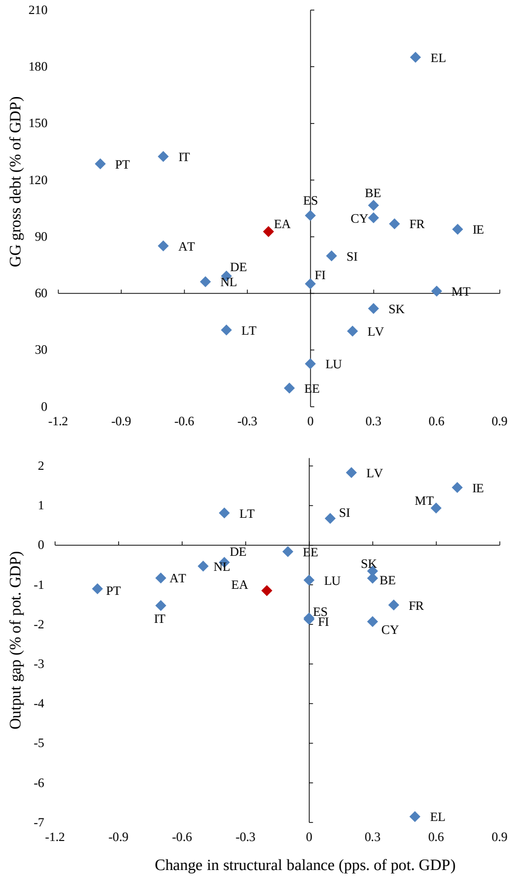
Cyclical developments and lower interest expenditure are set to contribute about 0.4% and 0.1% of GDP respectively to the 0.3% (year-on-year) reduction in the euro area's overall general government deficit in both 2016 and 2017 (Graph I.42). However, notably due to fiscal policy action, these deficit-reducing effects are expected to be partially offset by a deterioration in the primary structural balance of 0.3% of GDP in 2016 and of 0.2% of GDP in 2017, under a no-policy-change assumption.

Graph I.42: **Breakdown of the change in the general government deficit in the euro area, 2015-17**



Overall, the fiscal policy stance in the euro area as a whole is expected to become slightly supportive to the economic recovery in the short term. However, there are considerable differences among countries. Among the euro area Member States where output gaps are projected to remain in negative territory in 2016, a looser fiscal policy stance is expected in seven countries, while additional fiscal tightening is projected in the remaining seven. In turn, among the Member States where real GDP is expected to be above potential in 2016, an accommodative fiscal policy stance is expected in one country, while some fiscal restraint is envisaged in the other four (Graph I.43).

Graph I.43: **Fiscal stance in 2016 – structural balance vs. debt ratio and output gap, euro area and Member States**



Given the need to ensure the long-term sustainability of public finances, Member States with higher debt-to-GDP ratios are in general expected to make greater fiscal efforts, although this is not always the case (Graph I.43).

Table I.8:

General Government budgetary position - euro area and EU

(% of GDP)	Euro area							EU						
	Winter 2016 forecast				*Autumn 2015 forecast*			Winter 2016 forecast				*Autumn 2015 forecast*		
	2014	2015	2016	2017	*2015*	*2016*	*2017*	2014	2015	2016	2017	*2015*	*2016*	*2017*
Total receipts (1)	46.8	**46.6**	**46.3**	**46.2**	*46.6*	*46.2*	*46.2*	45.2	**45.0**	**44.8**	**44.7**	*44.9*	*44.6*	*44.5*
Total expenditure (2)	49.4	**48.7**	**48.2**	**47.8**	*48.6*	*48.0*	*47.6*	48.2	**47.5**	**46.9**	**46.4**	*47.4*	*46.6*	*46.1*
Actual balance (3) = (1)-(2)	-2.6	**-2.2**	**-1.9**	**-1.6**	*-2.0*	*-1.8*	*-1.5*	-3.0	**-2.5**	**-2.2**	**-1.8**	*-2.5*	*-2.0*	*-1.6*
Interest expenditure (4)	2.7	**2.4**	**2.3**	**2.2**	*2.4*	*2.3*	*2.2*	2.5	**2.3**	**2.2**	**2.1**	*2.3*	*2.2*	*2.1*
Primary balance (5) = (3)+(4)	0.1	**0.2**	**0.4**	**0.6**	*0.4*	*0.5*	*0.8*	-0.5	**-0.2**	**0.0**	**0.4**	*-0.1*	*0.2*	*0.5*
Cyclically-adjusted budget balance (a)	-1.2	**-1.2**	**-1.3**	**-1.4**	*-1.0*	*-1.2*	*-1.3*	-1.9	**-1.8**	**-1.7**	**-1.7**	*-1.7*	*-1.6*	*-1.5*
Cyclically-adjusted primary balance (a)	1.4	**1.2**	**1.0**	**0.8**	*1.4*	*1.1*	*1.0*	0.7	**0.5**	**0.5**	**0.5**	*0.6*	*0.6*	*0.6*
Structural budget balance (a)	-1.0	**-1.1**	**-1.3**	**-1.4**	*-1.1*	*-1.2*	*-1.2*	-1.7	**-1.8**	**-1.7**	**-1.7**	*-1.8*	*-1.6*	*-1.5*
Change in structural budget balance (a	0.4	**-0.1**	**-0.2**	**-0.1**	*-0.1*	*-0.1*	*-0.1*	0.1	**0.0**	**0.0**	**0.1**	*-0.1*	*0.2*	*0.1*
Gross debt	94.5	**93.5**	**92.7**	**91.3**	*94.0*	*92.9*	*91.3*	88.6	**87.2**	**86.9**	**85.7**	*87.8*	*87.1*	*85.8*

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

Table I.9:
Euro-area debt dynamics

	Average 2004-11	2012	2013	2014	2015	2016	2017
General government gross debt ratio1 (% of GDP)	**73.3**	**91.3**	**93.4**	**94.5**	**93.5**	**92.7**	**91.3**
Change in the ratio	2.2	4.6	2.1	1.1	-1.0	-0.8	-1.4
Contributions to the change in the ratio:							
1. Primary balance	**0.3**	**0.6**	**0.2**	**-0.1**	**-0.2**	**-0.4**	**-0.6**
2. "Snow-ball" effect[2]	**0.6**	**2.7**	**1.9**	**1.0**	**-0.2**	**-0.3**	**-0.8**
Of which:							
Interest expenditure	2.9	3.0	2.8	2.7	2.4	2.3	2.2
Growth effect	-2.0	0.8	0.3	-0.8	-1.5	-1.6	-1.7
Inflation effect	-0.4	-1.1	-1.2	-0.8	-1.1	-1.1	-1.3
3. Stock-flow adjustment	**1.2**	**1.3**	**0.0**	**0.1**	**-0.5**	**-0.1**	**0.0**

[1] End of period.

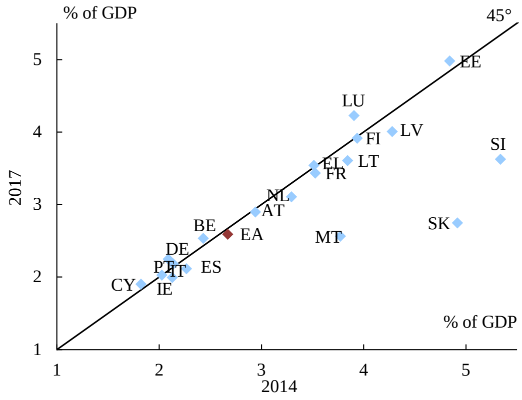
[2] The "snow-ball effect" captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets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

Both expenditure and revenue trend downwards...

The expected reduction in the aggregate general government deficit over the forecast horizon is set to be mostly driven by lower government expenditure in both the euro area and the EU, which should come from the operation of automatic stabilisers as the economic recovery progresses. The decline in government expenditure should, however, be partly offset by the budgetary impact of the inflow of asylum seekers in the most affected countries. Based on the information provided by Member States, the overall impact is expected to amount to between 0.1% and 0.3% of GDP in both 2015 and 2016 in the majority of the Member States concerned.

The expenditure-to-GDP ratio in the euro area is expected to decline over the forecast horizon from 48.7% in 2015 to 47.8% in 2017. The decline reflects decreasing social transfers, lower interest expenditure, cost-containment in public wages and the phasing-out of one-off factors, such as spending related to financial sector support in some Member States. By contrast, public investment is expected to increase slightly in some Member States as disbursements under the new programming period of EU funding resume, providing an additional stimulus to economic growth. However, public investment should decrease markedly in those Member States where disbursements are expected to decrease following the expiration of the previous EU funding period (2007-2013). Overall, the public investment-to-GDP ratio for the euro area as a whole is projected to decline, with decreases foreseen in most Member States (Graph I.44).

Graph I.44: **General government gross capital formation, euro area and Member States**



The reduction in aggregate government expenditure is accompanied by a decline in government revenue, mainly stemming from the fiscal stimulus packages adopted by some Member States to boost growth momentum and net job creation. These fiscal policy measures are targeted at lowering the tax wedge on labour and are expected to bring a positive economic effect in the short term and contribute to a gradual shift towards more growth-friendly public finances.

Overall, the revenue-to-GDP ratio in the euro area is set to gradually decrease to 46.2% in 2017, under a no-policy-change assumption, down from its peak at 46.8% in 2014. The projected decrease reflects a declining weight of social contributions and taxes on labour income, as a result of the above-mentioned fiscal policy measures.

...and public debt is set on a declining path.

The general government debt-to-GDP ratio is projected to decrease steadily in the euro area and the EU over the forecast horizon, thanks to higher primary surpluses and a more favourable growth-interest rate differential (i.e. the combined debt-reducing effects of higher real GDP growth and inflation should offset the still sizeable, yet gradually diminishing, interest burden on the outstanding debt load (Table I.9)). In 2015, specifically, the reduction in the debt ratio is estimated to have been reinforced by a stock-flow adjustment stemming from privatisation receipts and the use of cash reserves in a few Member States.

The aggregate general government debt-to-GDP ratio is forecast to decline from the peaks reached in 2014 of 94.5% in the euro area and 88.6% in the EU. The decrease in the public debt ratio over the forecast horizon is projected to be slightly stronger in the euro area than in the EU, with the general government debt-to-GDP ratio falling to 93.5% in 2015 and, under a no-policy-change assumption, to 91.3% in 2017. In the EU, the general government debt-to-GDP ratio is forecast to decline to 87.2% in 2015 and, under a no-policy-change assumption, to 85.7% in 2017.

9. RISKS

The economic outlook for the euro area remains highly uncertain. Since the autumn forecast, some upside risks (e.g. lower oil prices, the weaker euro) and downside risks (additional slowing of global growth) have materialised, but new risks have emerged and some previous downside risks have increased. In particular, risks to the euro area growth outlook from the global economy have clearly increased in recent months. As a result, the probability distribution surrounding the central scenario of the forecast has changed such that the chances of things turning out worse than forecast are now greater than the chances that they might turn out better.

The most significant downside risks come mainly from the external environment...

On the downside, the risk that slowing growth in China and other emerging markets could trigger stronger spillovers or turn out worse than currently forecast, are particularly significant. A 'hard landing' in China would create substantial risks for the continuation of the global recovery and the dynamics of global trade. Combined with the uncertainty regarding the adjustment in China, the continuation of monetary policy normalisation in the US could have a more negative impact on vulnerable emerging market economies than envisaged in the central scenario and also affect the stability of financial markets. The materialisation of any of these downside risks could negatively spillover to Europe via various transmission channels (including trade, financial markets and confidence).

Risks of fading tailwind support for the recovery have been somewhat reduced by recent developments in oil prices and the probability of further policy support, but downside risks remain in place. A faster-than-assumed rebound of energy prices would hurt spending plans of households and companies in the euro area and weigh on economic activity. But also the opposite, a further sharp fall in commodity prices, could impact negatively on the euro area's growth outlook, as it would endanger the financial stability of oil-exporting countries and could thereby not only lower European exports but also trigger turmoil in financial markets.

Geopolitical tensions are keeping uncertainty at high levels and could become a larger impediment to investment spending than currently expected.

On the domestic side, risks have also increased. Legacies of the crisis may continue to weigh more heavily on investment activity than expected, for example, through persistent deleveraging needs in the corporate sector and non-performing loans on bank balance sheets, which inhibit credit supply in some Member States.

Moreover, if major political challenges were not successfully coped with at the EU level (e.g. handling of migration flows), that could trigger developments that become impediments to economic growth. The public perception of the increased number of refugees could impact negatively on economic confidence and thereby lower the growth momentum of private consumption. A long-term reintroduction of internal border controls and measures that endanger the achievements of the internal market could potentially have a disruptive impact on economic growth. Any unexpected relapse into crisis in Greece could weigh more heavily on investment decisions and thus on economic growth.

...whereas upside risks relate more to assumptions and domestic developments.

But there are also risks to the upside — for example, a faster rebound in global growth and/or world trade, or larger-than-expected benefits from low oil prices or monetary policy.

It is assumed that crude oil prices will rise only slightly over the forecast period and that exchange rates will remain constant. If the euro were to depreciate markedly, this could provide a stronger spur to exports than projected. A further fall in oil prices, due, for example, to a faster or more substantial rebound of supply from Iran following the removal of sanctions, could have a more positive effect on activity in the euro area, although it would most likely result in a further decline of exports to oil producing economies. Economic growth could exceed the forecast if the combination of tailwinds from low oil/commodity prices, low financing costs, and depreciations vis-à-vis the US dollar translates into stronger momentum than currently envisaged.

A more favourable impact from past or future structural reforms, or from the Investment Plan for Europe, could also provide an additional push to economic growth.

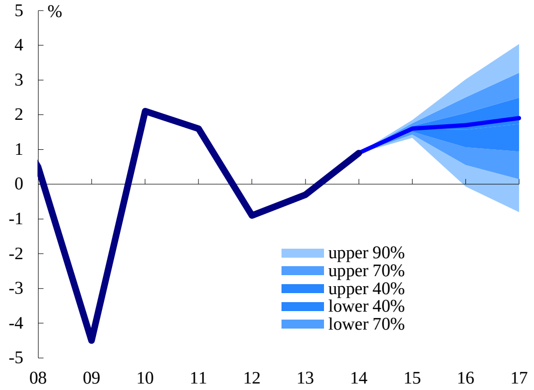
A smoother-than-expected transition of refugees to employment, or higher spending on refugees than currently budgeted, are additional upside risks to the short-term outlook for aggregate GDP.

The balance of risks to growth has moved further to the downside...

In the short term, the persistence of tailwinds has somewhat lowered downside risks since the autumn. However, overall, the risks around the central projection for economic growth appear to have further tilted to the downside.

The balance of risks is visible in the asymmetric confidence intervals in the fan chart (see Graph I.45), which depicts the probabilities associated with various outcomes for euro area economic growth over the forecast horizon and shows the most likely development in the darkest area.

Graph I.45: **Euro area GDP forecast - Uncertainty linked to the balance of risks**



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

The extent and speed at which the assumed rebound in commodity prices will feed through to inflation remains highly uncertain and there are risks in both directions. Moreover, commodity prices could be higher if adverse geopolitical developments or a stronger rebound of global economic activity push up the price of oil, or lower if abundant supply or weaker commodity demand prove persistent and depress prices.

HICP inflation will also continue to be affected by the pass-through from the euro's past depreciation. Any further movements in the exchange rate would imply deviations from the assumed exchange rate path.

Further downside risks relate to lower wage and price setting. Wage growth could remain subdued if slack remains larger than forecast or if inflation expectations fall further. And persistent downside misses to price stability threaten a downward ratcheting of inflation expectations, which could slow the return of inflation to levels compatible with price stability or make is at least more difficult than expected in the central scenario.

Overall, there are significant risks to the inflation outlook in both directions but they appear to be broadly balanced.

Box I.1: The real interest rate mechanism and adjustment in EMU

This box aims to shed new light on the ways in which differences in real interest rates across the euro area affect the ability of its Member States to adjust to shocks. The pro-cyclicality of real interest rates is a well-documented problem in Europe's Economic and Monetary Union: comparatively better cyclical conditions in some Member States drive their inflation rates up compared with the euro area average, and in turn their real interest rate down, which further aggravate the original cyclical differences. Before the global financial crisis, differences in real interest rates were driven mainly by persistent inflation differentials. Since the crisis, real interest rate differentials have been further magnified by the fragmentation of borrowing costs for sovereigns and banks as well as of bank lending rates. This last factor in particular was until recently a major impediment to the recovery given the dominant role of bank loans in financing the euro area economy. Nevertheless, recent convergence of lending rates and conditions combined with the projection of a gradual increase in inflation across Member States implies a further decrease of the pro-cyclical dispersion of real interest rates over the forecast horizon.

This box presents results of an econometric analysis of the drivers of lending rates for non-financial corporations and households (2007-14). The results suggest that, in addition to the effect of temporary fears of redenomination (i.e. the risk that a Member State could leave the euro area and that all its assets and liabilities would be redenominated in a new currency), a significant part of the divergence in bank lending rates since the crisis can be ascribed to country-specific factors including divergences in sovereign spreads, in the quality of bank balance sheets and in business cycles. The effect of some of these factors should be mitigated or even eliminated by governance changes in the EMU but others are likely to persist.

The real interest rate mechanism before and after the crisis

At the launch of the EMU, it was largely assumed that currency unification would lead to convergence in a broad range of macroeconomic variables. It was also assumed that if some Member State was hit by an asymmetric shock, appropriate policies and market-based adjustment would ultimately allow it to be absorbed. However, there was also a concern that, with a common nominal interest rate, inflation differentials could have a destabilising effect that could slow the adjustment process. A Member State experiencing a negative demand shock would also face lower inflation than the rest of the euro area and thereby higher real interest rates. [1] This real interest rate mechanism would further dampen demand, reinforcing divergence vis-a-vis other Member States. Model simulations generally showed that the real interest rate mechanism would slow adjustment to asymmetric shocks but would ultimately not prevent them.

These assumptions held up quite well before the crisis as bond yields and bank lending rates gradually converged across the euro area while inflation differentials persisted. Graph 1 compares the mean nominal and real lending rate (for non-financial corporation and households) for 12 euro-area countries before and after the global financial crisis. In the pre-crisis period (upper panel of Graph 1), it is apparent that while nominal lending rates were broadly similar across Member States, some countries faced substantially lower real interest rates as a result of their positive inflation differentials. [2] For example, whereas nominal rates were similar in Spain and Germany, persistently higher inflation in Spain pushed real interest rates close to zero, to around 2 pps. below German ones. Therefore, the Spanish economy enjoyed an overall much more favourable cyclical position at that time (average output gap in period 2003-2007 was 2.5% for Spain and -1% for Germany) and substantially easier monetary conditions. [3]

(1) This mechanism, which was the core argument of the well-known Walters' critique, see: Walters, A. A. (1990). *'Sterling in danger: The economic consequences of pegged exchange rates'*, Fontana Press, London.

(2) On inflation differentials in the euro area, see for example: Hofmann, B. and H. Remsperger (2005). 'Inflation differentials among the euro area countries: Potential causes and consequences'. *Journal of Asian Economics* 16(3), pp. 403-19, de Haan, J. (2010). 'Inflation differentials in the euro area: a survey', in de Haan, J. and H. Berger (eds.), *The European central bank at ten*, Springer-Verlag Berlin Heidelberg, See also: Altissimo, F., P. Benigno and D. Rodriguez Palenzuela (2011). 'Inflation differentials in a currency area: facts, explanations and policy'. *Open Economies Review* 22(2), pp. 189-233.

(3) For a pre-crisis review of the evidence on the real interest rate mechanism see: European Commission (DG ECFIN) (2008). 'EMU@10 — Successes and challenges after ten years of Economic and Monetary Union'. *European Economy* 2/2008.

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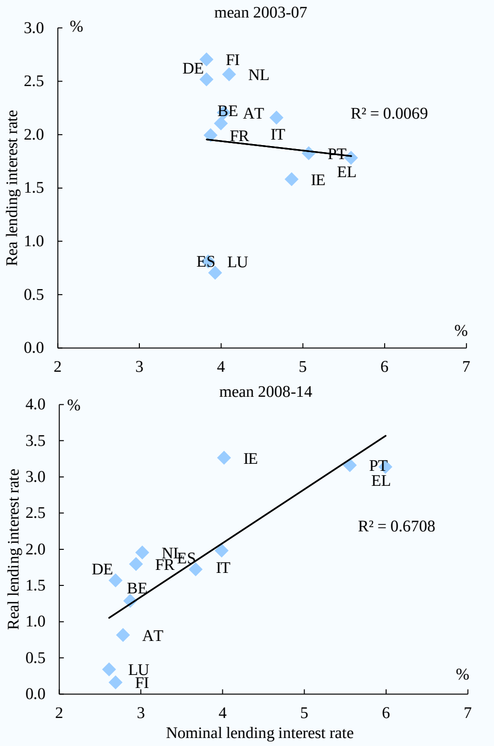
Box (continued)

By contrast, the global financial crisis and, above all, the euro area debt crisis unleashed powerful fragmentation forces on financial markets that partly reversed the pre-crisis convergence trend in nominal borrowing costs. [4] As shown in the lower panel of Graph 1, the real interest rate dispersion between Member States has increased since the global financial crisis, and this increase is mainly a reflection of an increase in nominal interest rate differentials. As the largest rate increases have also taken place in the most cyclically depressed countries (Greece, Portugal), the nominal differentials have tended to amplify the traditional real interest divergences caused by inflation differentials.

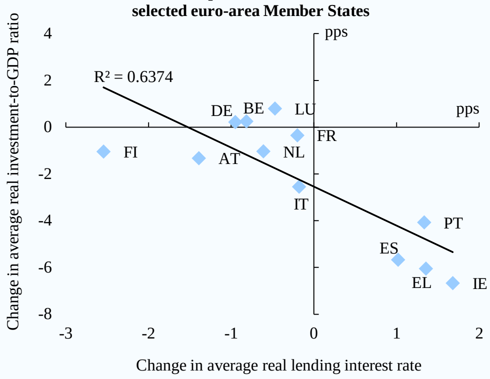
Graph 1: **Nominal and real lending interest rates, selected euro-area Member States**



Note: The nominal lending interest rates are calculated as the mean of the composite indicators of the cost of borrowing for non-financial corporations and households. These indicators are available from 2003 (ECB MFI statistics). The year-on-year HICP inflation rate is used as deflator to obtain the real lending rate. **Source:** AMECO, ECB.

Investment is arguably the main channel through which real interest rate differentials turn into real economic activity differentials. This investment channel can be simply illustrated by comparing the changes in the ratios of real investment to GDP between pre-crisis period (2003-2007) and post-crisis (2008-2014) and the corresponding changes in real interest rates for 12 euro area countries (Graph 2). There is a clear negative correlation across euro area Member States suggesting that the higher the increase in real interest rates relative to the pre-crisis period, the more severe the decline in investment activity. [5]

Graph 2: **Changes in real lending interest rate vs changes in real investment for the period 2008-14 versus 2003-07, selected euro-area Member States**



Note: The real lending interest rates are calculated as the mean of the composite indicators of the cost of borrowing for non-financial corporation and households. These indicators are available from 2003 (ECB MFI statistics). The year-on-year HICP inflation rate is used as deflator. The real investment is the share of real investment on GDP. **Source:** AMECO, ECB.

The real interest rate mechanism seems to have contributed to intra euro area imbalances by providing excessive stimulus to the economies of the periphery that were operating above their potential, and subsequently by delivering tighter monetary conditions when they most needed easing.

Given the magnitude of nominal interest divergence since the global financial crisis, an econometric analysis has been carried out to understand the determinants of nominal and

(4) See for example: Al-Eyd, A. and S.P. Berkmen (2013). ‘Fragmentation and monetary policy in the euro area’. *IMF Working Paper* 13/208.

(5) The correlation shown is only illustrative and cannot be interpreted as a causal relationship. However, the effect of the real interest rate mechanism on economic activity is supported by a range of pre-crisis econometric studies. See for example: Goodhart, C. and B. Hofmann (2005). ‘The Phillips curve, the IS curve and monetary transmission: evidence for the US and the euro area’. *CESifo Economic Studies* 51(4), pp. 757-775. Angeloni, I. and M. Ehrmann (2007). ‘Euro area inflation differentials., *The B.E. Journal of Macroeconomics* 7(1), Article 24.

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Box (continued)

consequently real interest rate dispersions in the euro area since then. Given the dominant role of bank loans in financing the euro area economy, the analysis focuses on bank lending rates for non-financial corporations and households.

An econometric analysis of the determinants of lending rates in the euro area

The econometric analysis uses a set of vector autoregressive (VAR) models that link the lending rates both for non-financial corporations and households to their possible determinants. In line with the recent literature on the interest rate pass-through, [6] these variables include: (i) monetary policy (as proxied by money market rates), (ii) real economic activity, (iii) sovereign credit risk, (iv) banking-sector credit risk, (v) banking-sector funding costs, and (vi) borrower credit risk.

The VAR analysis is carried out for the euro area as a whole and for individual Member States. The analysis uses monthly data from September 2007 to June 2014. [7] It therefore covers almost the entire period since the global financial crisis and includes phases of greater and lesser financial turmoil in the euro area. Data availability allows for the inclusion of nine euro area countries: Austria, Germany, Spain, Finland, France, Ireland, Italy, the Netherlands and Portugal.

The euro area-wide VAR model suggests that only around half of overall developments in bank lending rates since the beginning of the global financial crisis can be linked to monetary policy, the rest is a reflection of redenomination fears and country-specific risks. The perceived redenomination risk, magnified the traditional sovereign credit risk and reinforced the overall nominal interest rate divergences across Member States mainly between 2010 and 2012. [8]

The country VAR models confirm that a major part of the divergences in bank lending rates from the euro area-wide developments (pronounced mainly in the periphery) can be explained by three factors: (i) sovereign credit risk differences (while the divergence of sovereign spreads reached extreme values during the period of perceived redenomination risk, some degree of divergence had been present since the onset of the global financial crisis in 2008 and persists at moderate levels to the present day), (ii) banking-sector credit risk differences and (iii), real economic activity differences. In particular, bank lending rates increase following an increase in sovereign and banking risk and a decline in real economic activity. The increase of sovereign and banking risk make bank funding more costly, which makes the banking sector raise lending rates to the private sector as well. When real activity declines, borrower risk increases, which again implies higher lending rates for the private sector as banks increase their mark ups to reflect this higher borrower risks. Consequently, all three factors affect bank lending rates in a pro-cyclical way, increasing it when financial markets are stressed and the economy is in downturn. It is important to note that the effect of these risk factors that hinder the transmission of common monetary policy, is not only related to the most acute phases of the euro area debt crisis, but the whole period since the global financial crisis.

Conclusions

Since the beginning of the EMU, the convergence of nominal interest rates in a context of persistent inflation differentials led to pro-cyclical real interest rate differentials. Since the global financial crisis, the euro area has seen a significant fragmentation of its financial markets, including renewed divergences of borrowing costs that have added to inflation differentials in driving this real interest rate dispersion. Therefore, the real interest rate mechanism has contributed to the intra-euro area imbalances and consequently hindered the rebalancing.

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(6) For pre-crisis evidence see for example: de Bondt, G. (2005). ‘Interest rate pass-through: Empirical results for the euro area’. *German Economic Review* 6(1), pp. 37-78. For post-crisis evidence, see for example: Darracq Paries, M., D. Moccero, E. Krylova, and C. Marchini (2014). ‘The retails bank interest rate pass-through: the case of the euro area during the financial and sovereign debt crisis’. *ECB Occasional Paper Series* 155, Gambacorta, L., A. Illes and M. Lombardi (2014). ‘Has the transmission of policy rates to lending rates been impaired by the Global Financial Crisis?’. *BIS Working Paper* 477, von Borstel, J., S. Eickemeier and L. Krippner (2015). ‘The interest rate pass-through in the euro area during the sovereign debt crisis’. *CEMA (Australian National University) Working paper* 15/2015.

(7) The sample is adjusted to the availability of the series defined above. While most interest rates from MFI statistics are available from 2003, some risk measures, particularly bank risk and risk of non-financial corporations, are available only from 2007 onwards.

(8) Klose, J. and B. Weigert (2014) found that redenomination risk represented a systemic component in determining sovereign yields between September 2011 and August 2012 on top of common sovereign default risk. Klose, J. and B. Weigert (2014). ‘Sovereign yield spreads during the euro crisis: fundamental factors versus redenomination risk’. *International Finance* 17(1), pp. 25-50.

(Continued on the next page)

Box (continued)

Given the importance of bank loans for the financing of the euro area economy, this box has presented some new econometric evidence on the drivers of nominal bank lending rate for non-financial corporations and households. The results suggest that since the global financial crisis bank lending rates in the euro area countries have been driven to some degree by factors unrelated to the single monetary policy, and that these factors have a significant country-level dimension.

Pro-cyclical real interest rate differentials have reduced over the last few years as most of the country-specific risk factors have dissipated. Following the gradual re-convergence of sovereign yields and bank funding cost across the euro area, bank lending rates continued decreasing in 2015, particularly in the periphery. In line with the current forecast, inflation rates are expected to turn positive in 2016 in most Member States, helping to decrease further the real interest rates, which in some countries were still being driven up by deflationary developments in 2015. The euro area's negative output gap is expected to close gradually over the next few years suggesting that most Member States should start seeing inflationary pressures again that could help to further reduce the pro-cyclical dispersion of real interest rates.

However, the nominal and real interest rate differences across Member States might reappear in the future cycles. High public (and private) indebtedness together with high levels of non-performing loans in some countries cast doubts on the sustainability of current funding costs. Still, the role of sovereign risk and banking risk as drivers of nominal interest rate differences should be permanently mitigated by policy and governance changes such as the completion of the Banking Union. [9] Nevertheless, some dispersion of nominal borrowing costs will remain as long as there are cyclical differences across Member States. Countries experiencing idiosyncratic downturns can expect higher interest rates as a consequence of higher borrower risk. Thus, interest rate differences are unavoidable and might represent a natural part of adjustment to shocks in a currency union. Nevertheless large and persistent real interest rate differentials reinforcing the cyclical divergences among the Member States represent a major drag to the effective functioning of the EMU and need to be avoided in the future.

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(9) See for example: Goyal R., P. Koeva-Brooks, M. Pradhan, T. Tressel, G. Dell'Ariccia and C. Pazarbasioglu (2013). 'A banking union for the euro area'. *IMF Staff Discussion Note* SDN/13/01.

Box I.2: Forecast accuracy revisited

The European Economic Forecasts prepared by the staff of the European Commission are the basis for economic policy analysis and economic surveillance, including fiscal surveillance in the EU. High quality is therefore a must.

Continuing a tradition of regular assessments [(1)], the Commission will publish in February a detailed study [(2)] of the accuracy of its forecasts, extending the dataset (1969-2011) of its last analysis by including additional data points for 2012 to 2014.

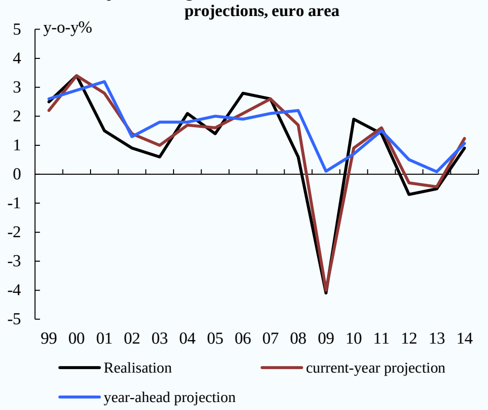
The study, which compares the Commission's track record to that of the IMF, OECD and the consensus of market forecasters, finds that the Commission's GDP growth forecast accuracy over the whole time period and for all forecast horizons tends to be more accurate than the market and very similar to both the IMF and the OECD.

This box summarises some of the main results of the forthcoming study. First, it analyses whether the accuracy of the Commission's real GDP growth forecasts [(3)] has changed in recent years, by looking at the whole sample up to 2014. This is done for all EU Member States as well as for the euro area and EU aggregates. [(4)] It also focuses on a shorter and more recent period (2000-2014) which allows a comparison between the forecasting performance before (2000-2007) and after the Great Recession (2008-2014). Second, it examines to what extent forecast errors can be explained by external or technical assumptions whose realisations turned out to be different. Finally, it updates the comparison of the accuracy of European Commission forecasts to that of other international institutions and of market participants.

Accuracy of Commission forecasts

The forecast accuracy test can be performed using different summary statistics, such as the Mean Error, the Mean Absolute Error (MAE) and the Root Mean Square Error. Only the frequently-used MAE, which measures the average forecast error, is discussed here. [(5)]

Graph 1: **GDP growth realisations and Commission projections, euro area**



The forecast error of current-year GDP growth [(6)], - as measured by the MAE over the whole sample (1969-2014) - is 0.4 pps. for the euro area (Graph 1) and 0.5 pps. for the EU. This means that the Commission's current-year forecast (forecasts in spring for that same year) for euro-area real GDP growth has, on average, proven to be 0.4 pps. off target. The extension of the observation period to include 2012-2014 leaves unchanged the forecast errors of the current year GDP growth for the euro area and EU aggregates compared to the previous study. At the Member State level, similar conclusions are reached for a majority of 'old'

(1) See Keereman, F. (1999). "The track record of the Commission Forecasts". European Commission (DG ECFIN), *European Economy Economic Papers* 137; Melander, A., S. Sismanidis and D. Grenouilleau (2007). "The track record of the Commission's forecasts – an update". European Commission (DG ECFIN), *European Economy Economic Papers* 291, and González Cabanillas, L. and A. Terzi (2012). "The accuracy of the European Commission's forecasts re-examined". European Commission (DG ECFIN), *European Economy Economic Papers* 476.

(2) Fioramanti, M., L. González Cabanillas, B. Roelstraete and S. Ferrandis Vallterra, (2016). "European Commission's forecast accuracy revisited: statistical properties and possible causes of forecast errors". European Commission (DG ECFIN), *Discussion Papers* forthcoming.

(3) The forthcoming paper also analyses the forecast accuracy of inflation and general government balance, and to a lesser extent that of investment, current account and unemployment.

(4) All EU Member States except Croatia due to insufficient number of observations.

(5) The *mean absolute error* (MAE) is the absolute difference between the average forecast and the average outturn. Negative errors are treated as positive ones so that errors cannot cancel each other out. The MAE is thus a more accurate measure of the average forecast error than a simple mean error.

(6) *Current-year* forecasts refer to the spring forecasts carried out for the current year, whereas *year-ahead* forecasts come from the autumn forecasts carried out for the following year. Current-year forecasts are assessed against the so-called 'first available estimates' of the actual outcome presented in the spring forecast of the subsequent year. Year-ahead forecasts are assessed against the so-called 'first settled estimates' of the actual outcome presented in the autumn forecast following the year to be forecast.

(Continued on the next page)

Box (continued)

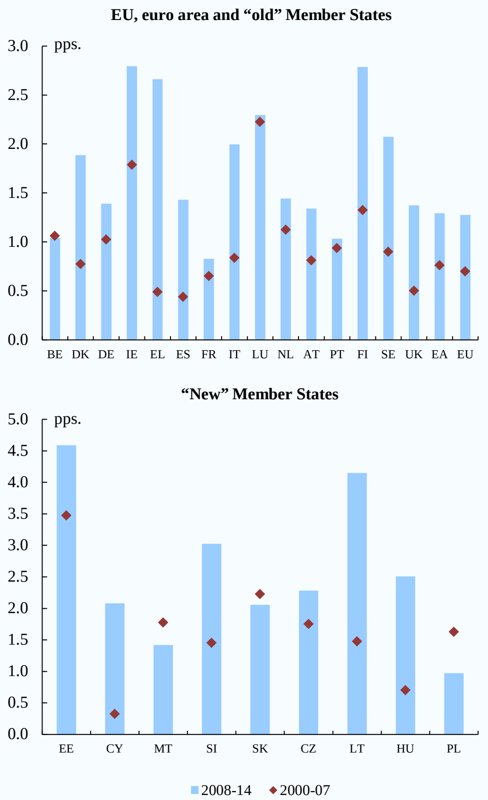
Member States (15 EU members before 2004). For the 'new' Member States that acceded in 2004 and 2007, however, an improvement in the current-year forecast accuracy of GDP growth was found in all but one Member State; Cyprus where the economic downturn was very sharp and the uncertainty very large.

For year-ahead forecasts (forecasts in autumn for the next year), the MAE is significantly larger compared to current-year forecasts, as less information is available at the time of forecasting. It stands at 1.0 pp. for the euro area and 0.9 pps. for the EU. The extension of the dataset to 2014 shows no change in the accuracy of the forecast for both the euro area and EU aggregates compared to the previous study. At the Member State level, an improvement in accuracy is found for a majority of countries (including all 'new' Member States, except Cyprus). However, the MAE for some 'old' Member States (Greece, Spain and Italy) did increase.

Focussing on more recent years, GDP growth forecast errors appear to be larger in the crisis and post-crisis period (2008-2014) than in the pre-crisis period (2000-2007) for a large majority of Member States [7] and for both current and year-ahead forecasts, with a sharper deterioration in the latter (see Graph 2). This mainly results from an anomalously large forecast error in the year 2009, which was on annual terms the dip of the recession. There are, however, some exceptions where forecast accuracy improved in recent years for the current year (euro area, France, the Netherlands, Belgium, Slovakia and Czech Republic) and for the year ahead (Malta and Slovakia). Poland is the only country for which forecast accuracy improved in recent years for both horizons. In the crisis and post-crisis time periods, programme countries generally exhibit among the largest increases in the MAE, compared to the pre-crisis period for both the current and year-ahead forecasts. [8]

Based on standard statistical tests, Commission forecasts are found to be largely unbiased meaning that there is no measurable systematic over- or underestimation of GDP growth. A panel data approach is also used, which pools the data for all EU Member States in order to circumvent the small size of the shorter observation samples. For the whole sample, it also confirms that there is no evidence of bias for current-year GDP forecasts across EU Member States. According to this test, however, year-ahead forecasts appear to have been slightly overestimating GDP growth. For the shorter samples, this analysis shows that GDP growth tended to be underestimated in the pre-crisis years 2000-2007 while GDP growth was overestimated in the crisis and post-crisis years 2008-2014.

Graph 2: **MAE in year-ahead GDP growth forecast**



If forecasters repeat the same mistakes, forecast errors will be auto-correlated. No evidence was found of such persistence of errors in the Commission forecast for the EU and euro area aggregates, either for the current year or for the year-ahead projections, and this for the whole sample and the shorter period (2000-2014). At the Member State level, only a few cases of auto-correlation in forecast errors were found.

Additional statistical tests that shed more light on forecasting performance show that Commission forecasts generally beat a naïve forecast which only

(7) Bulgaria and Romania are not analysed here since the period (2000-2007) only contains one data point.

(8) Programme countries include all Member States that have received financial assistance from the diverse rescue mechanisms, namely Cyprus, Greece, Hungary, Ireland, Latvia, Portugal, Portugal, Romania and Spain (financial-sector programme). The forecast for these countries are agreed among the Troika and with the authorities of the Member States concerned.

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Box (continued)

Table 1: **Influence of external assumptions on forecast errors**

	Current-year forecast			Year-ahead forecast		
Variables	**AR Base**	**AR Progr**	**AR No-Progr**	**AR Base**	**AR Progr**	**AR No-Progr**
SB	0.233**	-1.383**	0.360***	-0.407***	-0.918***	-0.258*
	(0.100)	(0.559)	(0.116)	(0.115)	(0.259)	(0.138)
RoW	0.130	3.484	0.310	0.776**	-0.198	1.131***
	(0.200)	(8.046)	(0.223)	(0.328)	(0.688)	(0.365)
NEER	0.149	-0.242	0.269*	0.021	-0.004	-0.001
	(0.115)	(0.278)	(0.138)	(0.053)	(0.121)	(0.059)
OIL	-0.026***	0.180	-0.031***	0.051***	0.051	0.030*
	(0.009)	(0.310)	(0.009)	(0.014)	(0.028)	(0.017)
LTIR	-0.649***	-0.736	-0.450**	-0.697***	-0.364*	-0.815***
	(0.175)	(0.672)	(0.207)	(0.088)	(0.179)	(0.106)
Constant	0.444***	-1.442	0.393***	0.959***	0.115	0.974***
	(0.129)	(2.829)	(0.134)	(0.164)	(0.320)	(0.199)
Observations	176	22	146	151	21	123
Number of countries	27	7	27	27	7	26
Overall R²	0.133	0.368	0.143	0.686	0.488	0.736
R² within	0.195	0.444	0.264	0.758	0.795	0.78
LogLik	-306.2	-29.80	-246	-286.7	-23.01	-226.2
F test	6.958	1.599	8.186	74.72	6.98	65.41

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Note: AR BASE is the model using all EU countries except Croatia due to the very limited observation sample for this country.
AR Progr and AR No-Progr are the same models as AR BASE, but only for programme and non-programme countries respectively.

reproduces the latest GDP growth realisation. Commission forecasts are directionally accurate meaning that a pick-up or a slowdown in GDP growth has been predicted accurately. However, they are not always 'efficient' in using all available information at the time of the forecast.

Influence of external assumptions on forecast errors

Macroeconomic forecasts are conditioned by *ex-ante* technical or external assumptions about the future development of exogenous factors linked to the global economy, financial markets, commodity prices or fiscal policy. The *ex-post* accuracy of these assumptions is likely to influence forecasting performance. [9] A panel regression is run to analyse the influence of the difference between the assumed value of these exogenous factors at the time of forecasting and their realisation. The forecast error for GDP growth is regressed on the unexpected change in: (i) the structural fiscal balance (SB); (ii) GDP growth outside the EU (RoW); (iii) the nominal effective exchange rate of the euro (NEER); (iv) the oil price (OIL) and; (v) long-term interest rates (LTIR). The sample ranges from 2007 to 2014 and includes all EU Member States except Croatia. Table 1 shows the regression results.

The decomposition of forecast errors shows a limited impact of mistakes in external assumptions on GDP growth forecast errors for the current year. However, more than half of the year-ahead forecast errors seem to be explained by external assumptions that proved to be incorrect *ex post*.

For current-year forecasts, higher-than-anticipated fiscal consolidation improves the structural balance and leads to lower-than-forecast GDP growth in the short-run for programme countries· By contrast, unanticipated higher fiscal consolidation appears to lead to higher-than-forecast GDP growth in non-programme countries as well as across all EU Member States. [10] For year-ahead GDP forecasts, higher-than-expected fiscal consolidation has a large significant impact on the GDP forecast error and has the expected sign for all groups of countries.

Unexpected changes in long-term interest rates play an important role in explaining forecast errors for both current and year-ahead forecasts. As expected, when growth in the rest of the world turns out to be higher than initially projected, GDP growth across EU Member States tends to be underestimated, but the size and significance of the impact varies across different time horizons. Deviations from the technical assumption on the exchange rate are not found to be a systematic driver of forecast errors. Finally, the impact of unexpected changes in the oil price on GDP forecast errors appears to be small.

Comparison with other forecasters

In order to compare the track record of the Commission's forecast accuracy with that of the OECD, IMF and Consensus Economics, the MAEs

(9) The use of these technical assumptions is common practice across international institutions.

(10) Further analysis in the full paper suggests that this counter-intuitive result may be driven by uncertainty surrounding the fiscal outlook.

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Box (continued)

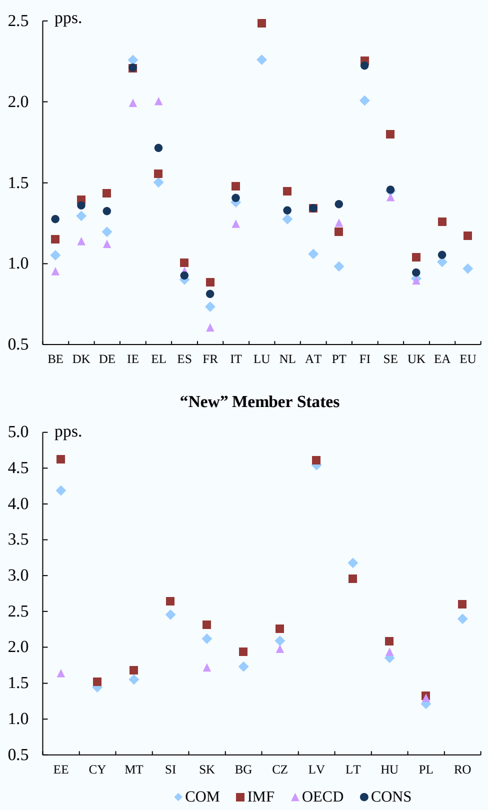
are compared for similar observation periods. As already observed in the previous study, the Commission's forecast accuracy over the whole sample is found to be very similar to that of the OECD and IMF for all forecast horizons. The Commission's projections, however, have continued to score better than the average of private sector forecasts (compiled by Consensus Economics).

In the short and more recent sample period (2000-2014), however, the accuracy of market forecasters for current-year forecasts appears to have improved and become more similar to those of the Commission, OECD and IMF. For the year-ahead, Commission forecasts come out as more accurate than the IMF or Consensus in the shorter sample but less accurate than the OECD's (see Graph 3). Informational advantages linked to the different cut-off dates of the institutions' forecast as well as the assumptions that institutions make [11] clearly play a role in the difference of forecasting performance across institutions.

Overall, the European Commission's forecasts continue to display a reasonable track record, similar to that of the other international institutions. The forecast accuracy, however, seems to have deteriorated somewhat since the Great Recession, mainly due to the anomalously large forecast error in the recession year 2009. Yet, this difficulty applies to all forecasters, both institutional and private.

(11) For instance, the strong no-policy-change assumption that only the European Commission makes.

Graph 3: **Comparison of MAE with other forecasters (year-ahead GDP growth forecast, 2000-2014)**



Box I.3: Intangible investment and the macroeconomic outlook

The importance of intangible investment, such as, for example, R&D or software, for understanding productivity, competitiveness and economic growth has been recognised for a long time by the economic literature and statisticians. [(1)] The consideration of investment in intangibles contributes to a better understanding of differences in (trend) productivity developments across countries. As intangible investment is less prone to boom and bust cycles than 'traditional' capital formation and has held up rather well in the crisis, its inclusion also matters for gauging the depth of the post-2008 investment shortfall. This matters for economic forecasting and the derivation of economic policy advice.

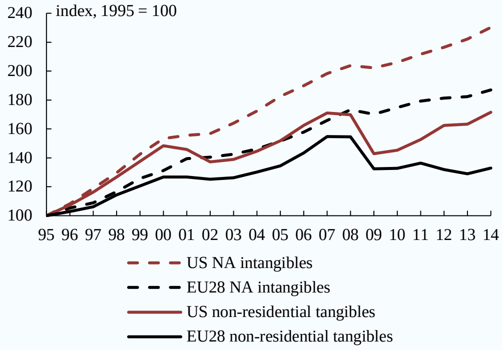
The asset boundary in official national accounts has been continuously expanded in recent decades in order to better account for the role of intangibles. Current national accounts according to the 2008 SNA/ESA 2010 standard record a range of specific intangibles under the asset category 'intellectual property products', namely R&D, mineral exploration, computer software and databases, entertainment, literary and artistic originals. Similar to investments in tangible assets, expenditures by businesses or government on these intangibles are treated as gross fixed capital formation (GFCF) and make for a sizable and rising share in overall investment.

Investments in intellectual property products currently account for close to 4% of GDP and 19% of total annual fixed investment in the EU28. The share of intangibles in non-residential investment currently stands at 25%. Over half of investments in intangibles currently recorded by national accounts consist of R&D. By comparison, the GDP share of intellectual property products in the US currently stands at somewhat over 5% of GDP (and 31% of non-residential investment).

Intangible investment, as a significant and growing component of overall investment, are increasingly relevant for analysing current economic trends and forecasting future growth. As shown in Graph 1, intangibles have been growing more dynamically than investments in (non-residential) tangible assets. In fact, over the past two decades, the volume of annual GFCF in intellectual property products increased by 130% in the US and 87% in the EU-28. By comparison, the annual volume of tangible non-residential investment in the US stands at 70% above the level of 1995 and increased by only 30% in the EU.

Investments in intangibles have been, in general, less cyclical than tangible investment. Their relative resilience to the economic crisis that started in 2008 is remarkable, compared to investments in tangibles.

Graph 1: **Non-residential tangible and intangible GFCF in the EU-28 and the US, total economy**



Source: Eurostat NA for EU-28, BEA for US

The rising importance of intangibles is also reflected in their contribution to GDP growth. As shown in Graph 2, GFCF in intangible assets (acc. to the ESA 2010 definition) accounts on average for more than a third of the overall contribution of investment to real GDP growth. Graph 2 also helps to illustrate the effect of the change of the national accounts asset boundary between the recently implemented 2008 SNA/ESA 2010 and the previous SNA1993/ESA95 [(2)]; mainly due to the capitalisation of R&D (which was previously not treated as investment but as intermediate consumption), the average contribution of intangible GFCF to GDP growth has approximately doubled.

Conceptual considerations and the increased quantitative relevance of intangible investment have led some researchers to call for a further expansion of the asset boundary in national accounts beyond those intangibles which are currently treated as GFCF. Based on the broad notion that any use of resources that reduces current consumption in order to increase it in the future should qualify as an investment, this line of research suggests that a number of additional types

(1) See, for example, Moulton, R. B. (2004). "The System of National Accounts for the New Economy: what should change?". *Review of Income and Wealth* 50(2), pp.261-78.

(2) See System of National Accounts 2008, Annex 3: Changes from the 1993 System of National Accounts.

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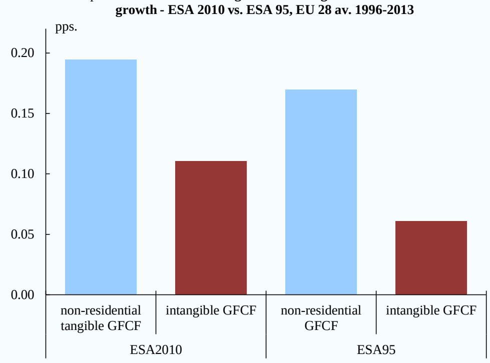
Box (continued)

of intangibles should be capitalised and treated as GFCF [3] Since the notion is broad, the possible coverage of intangibles is extremely diverse, potentially representing a large proportion of current expenditure (see below).

Graph 2: **Contribution of tangible and intangible GFCF to real GDP growth - ESA 2010 vs. ESA 95, EU 28 av. 1996-2013**

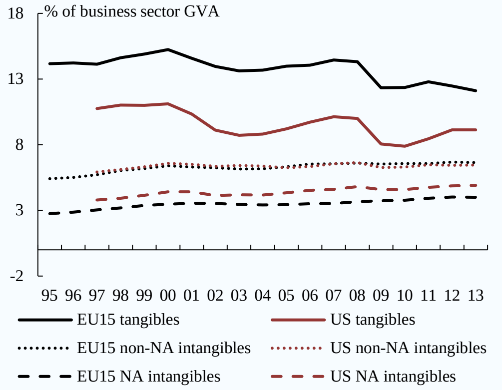


Source: Eurostat national accounts

One widely used conceptualisation of an extended set of intangible assets proposes to add to the existing intangibles in national accounts ("NA intangibles") certain previously unmeasured asset types ("non-NA intangibles"), namely investments in new product developments in financial services, advertising and market research, firm specific human capital, and organizational know-how. [4]

Academic estimates for the non-NA intangibles have been developed, notably, in the context of the INTAN-Invest project. [5] A look at the INTAN-Invest data gives an indication of the potential impact on the composition of overall investment and the level of gross value added (GVA) if the asset boundary was expanded to include these non-NA intangibles. Calculations for the non-residential business sector (i.e. excluding dwellings and public sector GFCF which are not covered by the INTAN-Invest data) suggest that including the non-NA intangibles would, on average, increase the level of non-residential business sector GVA by around 6%, [6] both in the EU and the US (Graph 3). They would on average also exceed the value of those intangibles which are already treated as GFCF in national accounts.

Graph 3: **Business sector non-residential GFCF by asset type, EU-15 vs. US**



Notes: Business sector defined as NACE Rev. 2 activities A to N (excluding L) plus R and S. Source: Own calculations based on a forthcoming update of INTAN-Invest data (intangible GFCF) and Eurostat/BEA national accounts data (business sector GVA).

Note that for some countries, such an extended definition of intangible assets would imply that close to or even more than half of all non-residential business sector investments would consist of intangibles (NL, FI, US, FR, UK, SE) (Graph 4).

As with the NA intangibles, the non-NA intangibles also show a clear positive upward dynamic (although on average not necessarily stronger than the traditional NA intangibles) compared to tangible investment. Therefore, and in addition to further increasing the level of overall investment, GVA and GDP, any inclusion of additional (sub-) categories of intangibles could be expected to further increase the already significant

(3) See e.g. Corrado, C., C. Hulten, and D. Sichel (2009). "Intangible capital and U.S. economic growth". *Review of Income and Wealth* 55(3), pp. 661–85.

(4) See e.g. Corrado, C., J. Haskel, C. Jona-Lasinio and M. Iommi (2012). "Intangible Capital and Growth in Advanced Economies: Measurement Methods and Comparative Results". *IZA - Institute for the study of Labour*, Discussion Paper Series DP 6733.

(5) For data and underlying methods see the INTAN-Invest database: http://www.intan-invest.net/. Note that the present analysis is based on a forthcoming update of the INTAN-Invest data.

(6) The reason why treating additional intangibles as GFCF would increase the level of business sector GVA and consequently overall GDP is essentially the same which led to an upward shift in GDP due to the capitalisation of R&D in the context of the recent implementation of the 2008 SNA/ESA 2010: Business expenditures on these (additional) intangibles are reclassified from intermediate consumption (which are used up in the current production process and do not add to GVA) to gross fixed capital formation (which does add to GVA). For further information on the capitalisation of R&D (including also for public sector R&D), its measurement and its impact on national accounts aggregates, see Eurostat (2014). "Manual on measuring Research and Development in ESA 2010", 2014 edition.

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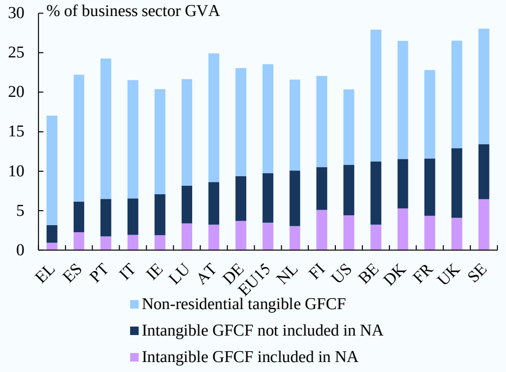
Box (continued)

contribution of intangible investment to GDP growth.

Graph 4: **Business sector non-residential GFCF by asset type, average 1995 to 2013**



Notes: Business sector defined as NACE Rev. 2 activities A to N (excluding L) plus R and S. US: average 1997 to 2013. Source: Own calculations based on a forthcoming update of INTAN-Invest data (intangible GFCF) and Eurostat/BEA national accounts data (business sector GVA).

Moreover, expanding the asset boundary for additional relevant intangible asset types might help to better explain innovation and productivity differentials among countries and across different sectors of the economy. Conceptually, the omission of relevant intangibles in productivity and growth accounting would tend to overstate multifactor productivity (MFP) growth [7] and the contribution of tangible capital and labour (composition) to GDP growth. In fact, adding further intangible assets (e.g. in growth accounting) usually decreases the contribution of MFP growth because the contribution of such intangible assets is no longer hidden in the MFP residual. [8] Accordingly, controlling for intangible capital in growth accounting frameworks affects the observed patterns of economic growth and productivity. For instance, based on a panel data analysis of a sample of EU countries, Roth and Thum (2013) confirmed a positive and significant relationship between intangible capital investment and labour productivity growth [9][10].The empirical analysis thus confirms previous findings of Corrado *et al.* (2009) that the (further) inclusion of business intangible capital investment in the asset boundary of the national accounting framework results in a more rapidly increasing rate of change of output per hour worked.

If all relevant types of intangibles were incorporated into the national accounting framework, tangible and intangible capital deepening would together become the unambiguously dominant source of growth. In fact, evidence suggests that intangible and tangible capital can jointly explain about 90 percent of labour productivity growth [11] and that a significant portion of the unexplained variance in labour productivity growth is due to unobserved intangibles. Hence, adding further types of categories of intangibles into analyses of national income, wealth and growth accounting, both as an input and possibly as well as an output, may help to better understand the dynamics of productivity and economic growth. Corrado *et al*. (2009) outlined in this regard that 'non-traditional' types of intangibles, such as non-scientific R&D, brand equity and firm-specific resources, together account for nearly 60 percent of total intangible capital deepening since 1995 and that therefore growth accountants should not lose sight of these other forms of intangible capital. Furthermore, it is worth noting that the fraction of output growth per hour

(7) Given all relevant inputs were correctly accounted for, multifactor productivity (MFP), measured as a residual which accounts for effects in total output not caused by changes in the measured inputs, represents an economy's long-term technological change or technological dynamism. By omitting a relevant factor (e.g. new intangibles as part of 'capital input'), the residual (i.e. MFP) tends to be overestimated.

(8) See e.g. van Ark, B.(2015). "From Mind the Gap to Closing the Gap: Avenues to Reverse Stagnation in Europe through Investment and Productivity Growth". European Commission (DG ECFIN), *European Economy Discussion Paper* 006/2015; for empirical evidence, see also Corrado *et al*. (2009), p. 680.

(9) The results also proved to be robust to a range of alterations and hold when controlled e.g. for endogeneity.

(10) This is consistent with the possibility of total factor productivity spillovers from intangible investment beyond GDP (as suggested e.g. by van Ark, 2015) and corresponding empirical evidence (Corrado *et al*., 2013).

(11) See Roth, F. and A.-E. Thum (2013). "Intangible Capital and Labor Productivity Growth: Panel Evidence for the EU from 1998–2005". *Review of Income and Wealth* 59(3), pp. 489-508. The authors found that intangible capital could explain around 50 percent of labour productivity growth. Other studies arrived to similar orders of magnitude, e.g. van Ark, B., J.X. Hao, C.A. Corrado, and C.R. Hulten (2009). "Measuring intangible capital and its contribution to economic growth in Europe". *European Investment Bank (EIB) Papers* 14(1), pp. 62-93. Corrado *et al.* (2009), based on analysis of US data, have found that the inclusion of intangible investment in the real output of the non-farm business sector increases the estimated growth rate of output per hour by 10–20 percent relative to the baseline case which completely ignores intangibles. Roth and Thum (2013) suggest that, once including intangible capital, the impact of tangible capital diminishes to 40 percent and MFP changes from 35 to 10 percent.

(Continued on the next page)

Box (continued)

attributable to the old 'bricks and mortar' forms of capital investment is comparably small. [12] While it is arguably inappropriate to automatically attribute the remaining just to 'knowledge capital' or 'the knowledge economy', it appears equally inappropriate to ignore the association between innovation, human capital, and knowledge acquisition on the one hand, and investments in intangibles, IT capital, labour quality change, and multifactor productivity on the other.

In conclusion, taking into account a broader set of intangible capital could therefore help to better capture the ongoing shift from tangible to intangible investment, thereby improving our understanding of the transition of developed economies into knowledge societies and drawing the attention towards policies for strengthening investments in intangible assets.

However, extending the national accounts asset boundary for additional intangible assets and eventually producing official and internationally harmonised data of high quality would depend on solving a range of significant existing conceptual and measurement challenges, e.g. related to the correct definition and valuation of such assets, identifying appropriate price deflators and measuring their depreciation. [13] It is clear that existing academic estimates range in quality and conceptual soundness depending on the type of intangible under consideration. The forthcoming multi-annual revision process of the current national accounts systems 2008 SNA/ESA 2010 is expected to consider the conceptual and practical issues for capitalising further intangibles, whether in the core accounts or in related accounts.

(12) According to Corrado *et al*. (2009) it accounts for less than 8 percent of the total corresponding growth in the US during the period 1995–2003.

(13) For an overview see Moulton, B. and N. Mayerhauser (2015). "The future of the SNA's asset boundary". Paper prepared for the 2015 IARIW-OECD Conference: "W(h)ither the SNA?" April 16-17 2015, Paris. Available at: http://iariw.org/papers/2015/moultonmayerhauser.pdf

Box I.4: Assessment of the housing markets outlook: new insights from house prices in levels

This box provides an assessment of housing markets in EU Member States. It first presents traditional housing valuation indicators, based on house price indexes and used by Commission staff to assess house price developments and risks. This is complemented with findings from new data of house prices in levels, more suited for cross-country comparisons. The current outlook for house prices, lending and construction activity are then discussed, before concluding with the expected macroeconomic implications over the forecast horizon.

Signals from standard valuation indicators

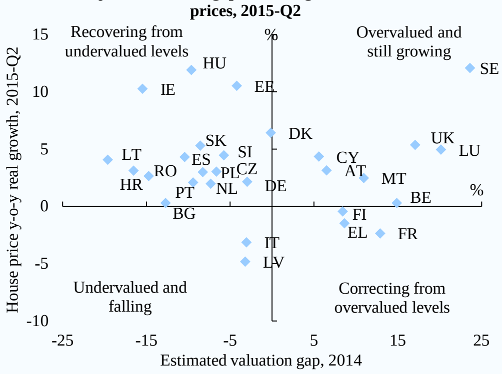
Excessive valuations are an important risk factor for adverse house price adjustments. These, in turn, may affect economic activity through direct channels (construction activity) or indirect ones (household wealth effects, financial accelerator). (1)

House price valuations are usually monitored through various indicators in order to identify possible misalignments. These indicators include the price-to-income and the price-to-rent ratios. Likewise, residuals from a fundamental model of house prices, based on variables such as the population, incomes or interest rates, can be used as estimates of price misalignment. (2) Valuation ratios usually use indexes of house prices. To obtain an assessment of valuation misalignments, for individual country analysis or cross-country comparison, a reference value has to be estimated for the ratio. It is usually done by using the long-term average value of the ratio. (3)

All the above mentioned valuation indicators have some methodological limitations. (4) It is thus useful to aggregate information contained in each of them to see whether signals from alternative indicators concur or diverge. The aggregate price misalignment indicator is obtained as the simple average of (i) the price-to-income gap (deviation from its long-term average), (ii) the price-to-rent gap and (iii) valuation gaps from the housing fundamental model.

The resulting aggregate valuation gap is plotted against the most recent house price developments in Graph 1, which suggests that house prices are increasing from very high valuation levels in several countries (e.g. Sweden, the United Kingdom and Luxembourg). On the other hand, strong price increases in Ireland, Hungary and Estonia occur from below-equilibrium levels. Although prices in these countries are assessed to be undervalued, the recovery pace should be carefully monitored.

Graph 1: **Valuation gap and real growth in house prices, 2015-Q2**



Source: Eurostat, own calculations.
Note: the long-term average value is estimated over the 1995-2015 period.

Insights from a new dataset of house prices in levels

Most valuation analyses are based on price indexes and use estimated long-term reference values for valuation ratios to assess price misalignments, due to the absence of historical house price and rent data in levels (values per m^2). A price index approach is most useful to assess developments over time in a given country. When it comes to judgments about the absolute level of valuations and to cross-country comparisons, the estimate of long-term reference values becomes crucial. Moreover, differences in available data length

(1) See also Box I.3 "Housing market adjustment in the European Union", in European Commission (DG ECFIN), *European Economic Forecast - Spring 2014*, European Economy 3/2014, pp. 34-36. A study of wealth effects is performed by Balta, N. and E. Ruscher (2011). "Household savings and mortgage decisions: the role of the "down-payment channel" in the euro area". European Commission (DG ECFIN), *European Economy Economic Papers* 445.

(2) For more details on the methodology of valuation ratios and of the fundamental model of house prices, see Cuerpo Caballero, C., M. Demertzis, L. Fernández Vilaseca and P. Pontuch (2012). "Focus: Assessing the dynamics of house prices in the euro area". *Quarterly Report on the Euro Area*, 11(4), pp. 7-18.

(3) The valuation gap obtained from a fundamental model also implicitly assumes a long-term equilibrium level, which by construction is on average zero over the whole sample period.

(4) See European Commission (DG ECFIN) (2012) for a detailed discussion for each indicator.

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Box (continued)

reduce the comparability of valuation gaps across countries.

To complement the previous analysis based on standard valuation indicators, this section uses a unique, newly constructed database for residential real estate prices per m^2 for 19 European Union countries selected based on data availability. [5] [6]

House prices in levels can be used to construct valuation ratios similar to those mentioned above. A price-to-income ratio can, for instance, be obtained by multiplying the price per m^2 by an assumed size of a dwelling and dividing it by households' disposable income per capita. It reflects households' house-purchasing capacity, though it disregards other factors, such as interest rates or loan maturities.

Table 1 presents the evolution of price-to-income ratios for an assumed 100 m^2 dwelling. Firstly, it confirms the previous findings that current valuation levels are rather moderate compared to latest peaks. Yet, valuations in Poland, Luxembourg, and Slovakia appear rather elevated in 2014 relative to other countries. Germany and Denmark have the lowest 2014 price-to-income ratios in levels in the sample.

A comparison of these levels-based ratios with the usual index-based valuation gaps presented above reveals a positive relationship between the two indicators, as expected. However, there are many "outliers" from this positive relationship. In particular, many new Member States (Poland, Slovakia, Estonia and Slovenia) appear to have higher level-based valuations than what their index-based counterpart would suggest. Similarly, levels-based valuations in Ireland and Spain seem to be much closer to those in France and the United Kingdom than what the index-based valuation gaps would suggest.

Table 1:

Evolutions of the price-to-income (PTI) ratio (100 m2 dwelling)

Country	PTI in 2000 (or first available) (1)	PTI in 2014	Peak of PTI in the period	Year of the peak of PTI
AT	10.2	11.5	11.5	2014
BE	6.9	10.2	10.3	2013
CZ	8.2	9.5	10.6	2008
DE	8.6	7.2	8.6	2000
DK	7.0	7.6	10.0	2007
EE	12.5	12.2	18.3	2007
ES	8.6	10.1	15.6	2007
FI	7.3	7.7	8.1	2007
FR	7.7	11.8	12.6	2007
HU	11.8	8.4	11.8	2007
IE	13.0	11.0	16.8	2007
IT	9.2	10.8	12.1	2009
LU	12.2	14.0	14.0	2014
NL	9.6	8.8	11.2	2008
PL	16.3	14.6	18.6	2010
PT	11.2	9.0	11.3	2001
SI	10.2	10.8	14.2	2007
SK	14.9	14.2	19.9	2008
UK	7.3	10.8	11.3	2007

(1) First available year is 2000, except for SI (2003), EE (2004), SK (2005), and HU (2007).
Source: national statistical institutes, central banks, censuses, own calculations.

An important caveat applies to this analysis, related to the distributions of dwelling prices and incomes within a country. While average national prices take into account all dwellings in the country, just as income per capita reflects the average income generation of the country, the distribution of the two over the territory may not be matching, leading to possible regional vulnerabilities.

Housing market outlook

The latest house price projection consistent with the Commission economic forecast points to increases in house prices in real terms over the forecast horizon in a majority of EU Member States (see Graph 2). The compound annual growth rate in the 2015-17 period exceeds 4% in seven countries, including Ireland, Hungary or Sweden. This development is related to different combinations of i. improving fundamentals (recovering disposable incomes, reducing real interest rates), ii. an upward push from low valuations, and iii. the positive house price momentum from early 2015 (see above). Still, four countries show a negative average growth rate over this period. Among them, Greece pursues its fundamentals-driven house price correction, while French and Belgian house prices are slowly adjusting their positive valuation gaps.

(5) This work was directly inspired by Dujardin, M., A. Kelber and A. Lalliard, (2015). "Overvaluation in the housing market and returns on residential real estate in the euro area: insights from data in euro per square metre". Banque de France, Quarterly Selection of Articles 37, Spring.

(6) House prices per m^2 were estimated as the ratio of aggregate dwelling assets (including land) held by households, divided by the estimated total surface of dwellings. The findings were cross-checked, when possible, with other sources, namely the aggregated price offers per m^2 by housing dealers (including data provided by Dujardin et al., 2015). Alternative sources were also used, when available, such as surveys performed by the central bank, the national statistical institute or private banks. The estimate of the average price of houses per m^2 was then extended over time using the Eurostat house price index, backward-extended by Commission staff using other data sources (ECB, BIS and OECD).

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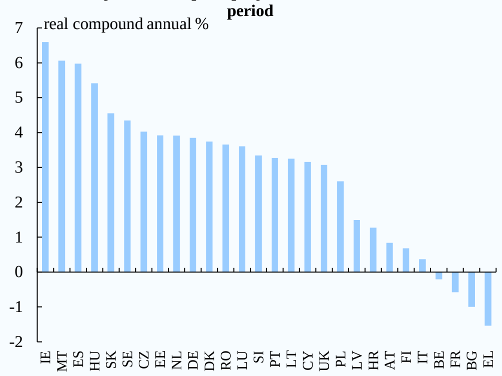
Box (continued)

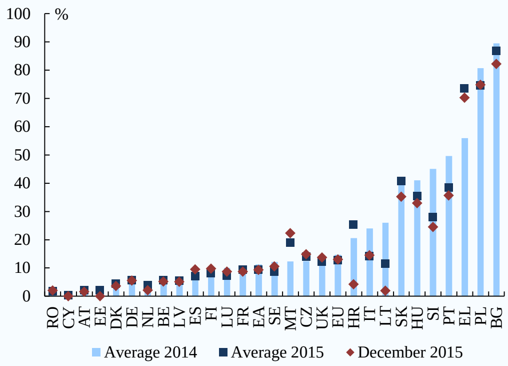
Graph 2: **House price projections for the 2015-17 period**



Source: own calculations

House price developments may further reinforce the recent trends in financing conditions for the housing sector. This may occur through the collateral effect: if asset prices rise, existing loans and related housing assets appear as more secure and banks may be more willing to lend. Throughout 2014 and early 2015, surveys among construction companies suggested financing constraints in a number of countries, including Bulgaria, Poland, Greece, and Portugal (see Graph 3). In most of them, the situation tended to improve over the course of 2015 (except in Greece), and this trend could be supported by a positive house price momentum. Among other countries, Croatian, Lithuanian and Italian financing conditions noticeably improved towards the end of 2015.

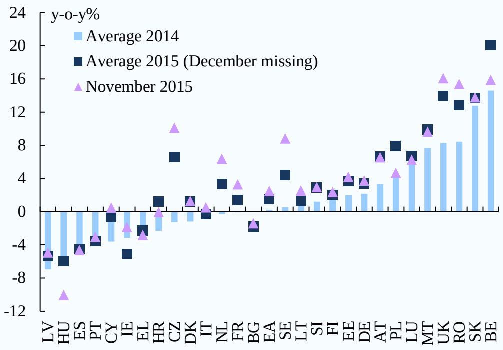
Graph 3: **Share of construction firms signalling financial constraints as limiting factor**



Source: European Commission

Dynamic housing credit usually goes hand in hand with prices evolutions and is thus an important variable to be followed. Although the euro area as a whole registered limited growth of loans for house purchase over 2014 and 2015, several EU countries display quite strong growth rates, including Belgium, Slovakia and Romania (see Graph 4). Some other countries where loan growth for house purchases was flat in 2014 have experienced an acceleration in 2015, such as in the Czech Republic, Sweden and the Netherlands. By contrast, credit has been falling in Latvia, Hungary, Spain, Portugal, Ireland and Greece.

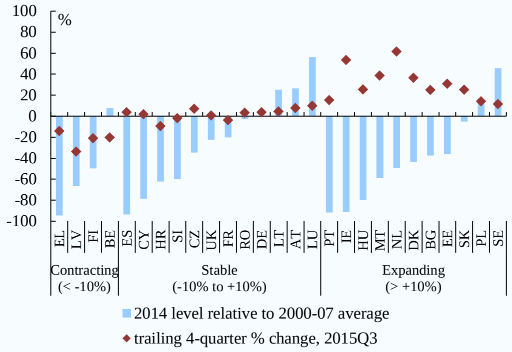
Graph 4: **Growth of credit for house purchase**



Note: The growth rate of the stock of loans for house purchase is presented . Source: ECB, own calculations.

Upward price developments are also generally accompanied by a rise in residential investment. Construction activity, via its effect on the business cycle, affects expectations and may feed back into house price dynamics. Looking at building permits, current developments confirm to some extent this pro-cyclicality of housing supply (see Graph 5, with the bars representing the pace of construction permit issuance in 2014, compared to the pre-crisis average over 2000-2007, whereas the diamonds represent the most recent changes of the pace). Latest growth rates can be used to distinguish three categories. Most correcting countries are already strongly below the average levels of the period 2000-2007, and may be close to bottoming out. By contrast, in Belgium building starts are correcting from above this average level. Among expanding countries, Ireland and the Netherlands are enjoying strong recoveries from depressed levels, while buoyant house prices in Sweden seem to have triggered also some supply response.

Graph 5: **Building permits, level and growth**



Note: Latest available y-o-y% growth is 2015-Q3, except for FI (2015-Q2) and IT (2014 annual). Source: Eurostat.

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Box (continued)

Conclusions and implications for the economic forecast

The analysis based on standard valuation indicators revealed a continuing mixed picture in EU housing markets. On one side, several countries are currently recovering from negative valuation gaps (e.g. Ireland, Estonia, Hungary), and in some cases, the pace of this recovery seems to be rather high. On the other side, some countries (mostly Sweden, the United Kingdom and Luxembourg) show rather strong house price dynamics despite possible overvaluation signalled by several indicators. Preliminary results using valuation indicators based on house price data in levels refine this analysis. They show in particular that some countries with currently signalled negative valuation gaps may be in absolute terms not that undervalued.

The recovery in house prices in most EU countries that previously underwent sharp corrections is consistent with historical experience. [7] Recovering asset prices are *per se* good news for economic activity and for the general economic outlook. They will likely have positive direct and indirect effects (mostly through construction and lending). Nevertheless, these developments deserve close monitoring as regards the sustainability of current trends. In particular, some new Member States' house price levels are unlikely to return to pre-crisis valuations in the coming years, given that house price data in levels suggest already quite high absolute valuations.

(7) An interesting comparison of the current housing market recovery with historical episodes is provided by ECB (2015). "The state of the house price cycle in the euro area", *ECB Economic Bulletin*, Issue 6 / 2015. It actually suggests that the current recovery in house prices and lending has been more muted than in previous episodes.

Box I.5: Some technical elements behind the forecast

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

External assumptions

This forecast is based on a set of external assumptions, reflecting market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 5 and 18 January) were used for exchange and interest rates, and for oil prices.

Exchange and interest rates

The technical assumption regarding exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to an implied average USD/EUR rate of 1.11 in 2015, and 1.08 in 2016 and 2017. The average JPY/EUR is 134.31 in 2015, 127.91 in 2016, and 127.90 in 2017.

Interest-rate assumptions are market-based. Short-term interest rates for the euro area are derived from futures contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States are calculated using implicit forward swap rates, corrected for the current spread between the interest rate and swap rate. In cases where no market instrument is available, the fixed spread vis-à-vis the euro area interest rate is taken for both short- and long-term rates. As a result, short-term interest rates are assumed to be -0.2% in 2016 and 2017 in the euro area. Long-term euro area interest rates are assumed to be 0.6% in 2016, and 0.9% in 2017.

Commodity prices

Commodity price assumptions are also, as far as possible, based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 35.80 USD/bbl in 2016 and 42.50 USD/bbl in 2017. This would correspond to an oil price of 33.01 EUR/bbl in 2016 and 39.19 EUR/bbl in 2017.

Budgetary data and forecasts

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

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

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

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

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

The public finance forecast is made under the 'no-policy-change' assumption, which extrapolates past revenue and expenditure trends and relationships in a way that is consistent with past policy orientations. This may also include the adoption of a limited number of working assumptions, especially to deal with possible structural breaks. The forecast reflects all fiscal policy measures that imply a change to these past policy orientations on

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Box (continued)

the condition that they are sufficiently detailed as well as adopted or at least credibly announced. For 2016 in particular, this implies that the annual budgets adopted or presented to national parliaments are taken into consideration.

EU and euro area aggregates for general government debt in the forecast years 2015-17 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans, including those made through the European Financial Stability Facility). To ensure consistency in the time series, historical data are also published on the same basis. For 2014, this implies an aggregate debt-to-GDP ratio which is somewhat higher than the consolidated general government debt ratio published by Eurostat in its news release 186/2015 of 21 October 2015 (by 2.4 pps. in the euro area EA19 and by 1.8 pps. in the EU).

ESA 2010

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

Calendar effects on GDP growth and output gaps

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

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

PART II

Prospects by individual economy

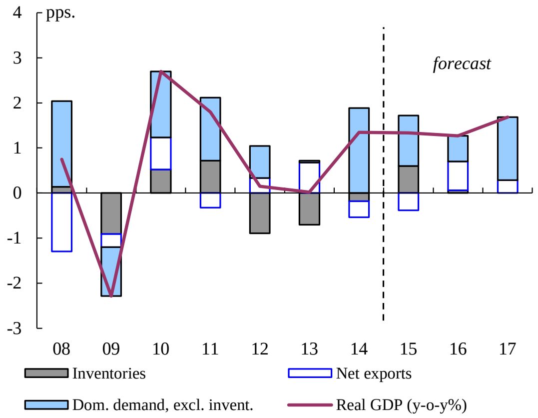
1. BELGIUM

Growing steadily

The Belgian economy is experiencing what is expected to be a temporary setback to its slow recovery. Economic growth is projected to remain stable at 1.3% in 2016 but should rise to 1.7% in 2017 as the outlook for household spending brightens and competitiveness-enhancing reforms bear fruit. The budget deficit is expected to remain close to, but below, 3% of GDP.

Economic growth has decelerated somewhat in the second half of 2015, mainly on the back of weaker private consumption and partly because of temporary factors. In 2016 the economy is forecast to grow by 1.3% while more robust domestic demand is projected to result in an increase by 1.7% next year.

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



Falling oil prices no longer compensate for low wage growth

Household purchasing power is under the influence of opposing forces. Falling oil prices and personal income tax cuts, which underpinned purchasing power last year, are increasingly being outweighed by low wage growth and rises in indirect taxation and electricity prices, which are also pushing up inflation. In addition, security measures and mild weather are assumed to have undercut consumer spending in 2015-Q4, with some catching-up anticipated in 2016-Q1.

Household consumption is forecast to grow by 0.9% in 2016 and to gain strength in 2017 as wages should begin rising again in the second half of 2016 given the reactivation of wage indexation schemes and real wage increases. Steady job creation should also support consumption. Job growth has become more vigorous recently and is expected to strengthen further over the forecast horizon as measures to reduce labour costs and enhance competitiveness gradually lead to more hiring by companies. The unemployment rate is projected to decline from 8.3% in 2015 to 7.4% in 2017.

Investment outlook underpinned by improving competitiveness position

Adopted measures include substantial reductions to social security contributions for employers in 2016 as well as tax incentives for investments. These come on top of earlier reductions and the ongoing wage moderation, which have kept unit labour cost growth flat. Together with favourable commodity prices, this has been improving profit margins. Equipment investment is therefore expected to rise in line with external demand in 2017. Enhanced cost competitiveness is reflected in the positive growth contribution by net exports. [47] In combination with strong terms of trade gains for goods, this is estimated to have pushed the trade balance into surplus in 2015, thereby strengthening the current account position.

Risks to the outlook are broadly balanced

On the one hand, consumption might be more resilient despite low wage growth. On the other hand, the possibility of less supportive external demand could delay the transmission of improving competitiveness into export, investment and job growth.

Inflation on the rise

Inflation is forecast to accelerate from 0.6% in 2015 to 1.4% in 2016, in spite of a further decline of oil prices throughout 2016. As a result, the inflation differential with neighbouring countries and the euro area is projected to widen again. Aforementioned government measures are the main driver behind the increase in inflation.

(47) Note: large but one-off and imported investment transactions distort numbers for business investment and imports. For 2015 numbers are inflated for both series, while the opposite holds for 2016. When correcting for this, net exports account for a smaller, though still positive, growth contribution in 2016.

Limited improvement of public finances

The general government deficit is estimated to have reached 2.9% of GDP in 2015. On the revenue side, wage moderation constrained the growth of personal income taxes and social contributions. A smaller dividend from the National Bank of Belgium contributed to a substantial drop in property income. On the other hand, one-off revenues such as the processing of the 2013 tax regularisation and the anticipative taxation of pension savings had a positive impact of 0.3% of GDP in 2015. At the same time, current expenditure is estimated to have grown only modestly due to the non-indexation of public wages and social benefits, and sizeable consolidation measures. Furthermore, the decline in market interest rates reduced interest expenditure by 0.2% of GDP. As a result, the structural balance is estimated to have improved by around ¼ pps. of GDP in 2015.

In 2016, the headline deficit is projected to reach 2.8% of GDP. The revenue-to-GDP ratio is expected to decline due to the drop in one-off revenues and cuts in personal income taxation and social contributions, which are not fully offset by hikes in other taxes. Also the expenditure-to-GDP ratio is expect to fall, due to the additional impact of consolidation measures and the projected decline in interest expenditure (-0.2% of GDP). Public wages and social benefits are expected to be indexed in the fourth quarter of 2016. The projection includes additional security spending (assumed temporary) and expenditure related to asylum-seekers of 0.1% of GDP each, as well as a one-off contribution to the EU budget with a temporary negative impact of 0.1% of GDP on the government balance. The recovery of 0.2% of GDP of illegally granted corporate income tax advantages under the excess profit scheme has not been included in this forecast. All in all, the structural balance is expected to improve by ¼ pps. of GDP in 2016. Under the usual no-policy-change assumption, the deficit should decline to 2.4% of GDP in 2017 thanks to better cyclical conditions, lower interest expenditure and the disappearance of the above-mentioned temporary expenditure increases. Large regional construction plans and the investment cycle of local governments are set to boost public investment in 2017.

The reimbursement of a loan (0.7% of GDP) by KBC bank prevented a further increase in the public debt ratio in 2015. While rising again in 2016, it should head back down in 2017 when projected nominal GDP growth strengthens.

Table II.1.1:

Main features of country forecast - BELGIUM

	2014		Annual percentage change						
bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	400.6	100.0	2.0	0.2	0.0	1.3	**1.3**	**1.3**	**1.7**
Private Consumption	207.1	51.7	1.5	0.6	0.9	0.4	**1.4**	**0.9**	**1.2**
Public Consumption	97.8	24.4	1.6	1.5	-0.1	0.6	**0.1**	**0.6**	**0.3**
Gross fixed capital formation	93.3	23.3	2.3	0.2	-1.7	7.0	**1.7**	**-0.2**	**3.1**
of which: equipment	31.7	7.9	2.3	-4.7	-0.1	10.4	**1.7**	**2.0**	**3.1**
Exports (goods and services)	336.4	84.0	4.5	1.8	1.6	5.4	**2.8**	**4.3**	**5.3**
Imports (goods and services)	332.8	83.1	4.3	1.4	0.8	5.9	**3.3**	**3.6**	**5.1**
GNI (GDP deflator)	406.7	101.5	1.9	1.6	-0.8	1.4	**1.3**	**1.2**	**1.9**
Contribution to GDP growth: Domestic demand			1.6	0.7	0.0	1.9	**1.1**	**0.6**	**1.4**
Inventories			0.1	-0.9	-0.7	-0.2	**0.6**	**0.1**	**0.0**
Net exports			0.2	0.3	0.7	-0.4	**-0.4**	**0.6**	**0.3**
Employment			1.0	0.4	-0.4	0.3	**0.9**	**0.9**	**1.2**
Unemployment rate (a)			8.1	7.6	8.4	8.5	**8.3**	**8.0**	**7.4**
Compensation of employees / head			2.6	3.2	2.6	0.9	**0.5**	**0.4**	**1.8**
Unit labour costs whole economy			1.5	3.4	2.2	-0.1	**0.0**	**0.0**	**1.3**
Real unit labour cost			-0.1	1.4	0.8	-0.7	**-1.2**	**-1.4**	**-0.3**
Saving rate of households (b)			16.1	13.5	12.3	12.6	**12.3**	**12.3**	**12.2**
GDP deflator			1.7	2.0	1.3	0.7	**1.2**	**1.5**	**1.6**
Harmonised index of consumer prices			2.0	2.6	1.2	0.5	**0.6**	**1.4**	**1.7**
Terms of trade goods			-0.7	0.2	0.4	0.4	**2.5**	**0.1**	**-0.3**
Trade balance (goods) (c)			1.9	-1.3	-0.7	-0.5	**1.2**	**1.3**	**1.0**
Current-account balance (c)			3.7	1.4	1.0	0.8	**1.6**	**2.1**	**2.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.6	2.1	0.9	0.6	**1.5**	**2.0**	**2.4**
General government balance (c)			-1.6	-4.1	-2.9	-3.1	**-2.9**	**-2.8**	**-2.4**
Cyclically-adjusted budget balance (d)			-1.9	-3.8	-2.1	-2.5	**-2.4**	**-2.3**	**-2.1**
Structural budget balance (d)			-	-3.4	-2.8	-2.9	**-2.7**	**-2.4**	**-2.2**
General government gross debt (c)			104.3	104.1	105.1	106.7	**106.1**	**106.6**	**105.6**

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

2. BULGARIA

Gradual rebalancing amid moderate growth

Real GDP is expected to have grown 2.2% in 2015, driven mainly by exports and falling oil prices, before dropping to 1.5% in 2016, as the boost from factors including EU funds absorption weakens. GDP growth, however, is set to recover to 2.0% in 2017 as domestic demand strengthens. Inflation is projected to remain negative well into 2016 but to turn positive towards the end of the year. The general government deficit is expected to gradually decrease from 2.5% in 2015 to 2.0% of GDP in 2017.

Exports supporting growth

Bulgaria's economy is expected to have grown 2.2% in 2015, supported by net exports. Public investment also buoyed the economy while private consumption was relatively subdued. Bulgaria's real GDP growth has been revised upwards for 2015 due to a strong rise in net exports over the first three quarters, despite less dynamic industrial production and retail trade. Growth is forecast to moderate to 1.5% in 2016, before picking up to 2.0% in 2017.

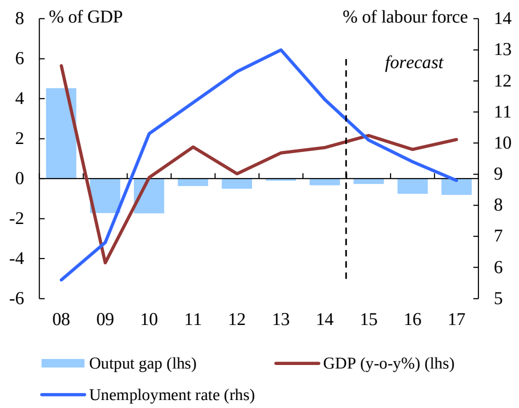
Domestic demand to contribute positively

Stronger growth in 2015 has been primarily the result of higher net exports, but domestic demand is expected to increase and gradually replace net exports as the main growth driver by 2017. While benefitting from low inflation and fuel prices, limited wage growth and a less expansionary fiscal stance suppressed private consumption in 2015. Private consumption growth is expected to strengthen from 0.7% in 2015 to 1.4% in 2016 and 1.7% in 2017. However, risk aversion, an unsupportive business environment and restrained foreign capital inflows are set to curb investment growth in 2016-17, despite favourable financing conditions and the rise of capacity utilisation in the manufacturing sector back to its historic average. Public investment is expected to drop in 2016 with the slowdown of the implementation of projects co-financed by the EU, before resuming growth in 2017.

Net exports to grow over the forecast horizon

Exports are projected to outpace imports over the forecast horizon, supported by higher demand from the EU, resulting in positive contributions of net exports to economic growth. Exporting industries are also expected to continue benefitting from the depreciated euro, to which the national currency is pegged, given that a substantial portion of Bulgarian exports go to non-euro area countries. However, as the recovery in domestic demand gathers pace in 2017, the contribution of net exports to growth is projected to decline. As a result, Bulgaria's current account surplus is forecast to decrease from 2.1% of GDP in 2015 to 1.6% by 2017.

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



Overall, risks to the growth outlook appear balanced. On the positive side, further strengthening of exports and stronger employment growth could fuel investment and private consumption more than expected. Some economic sectors could receive stronger-than-projected support from low interest rates and oil prices. Geopolitical uncertainties and stagnation in main trading partners could, however, pose a downside risk to exports and output growth because of the economy's high degree of openness.

Labour market conditions to improve, inflation to turn positive in the fourth quarter of 2016

Employment further increased in the first three quarters of 2015, mainly in the manufacturing, ICT and construction sectors. Employment growth is projected to marginally increase from 0.3% in 2015 to 0.4% in 2016 and 0.5% in 2017, supported mainly by export-oriented industries. Together with the expected decrease in the labour force due to population aging and emigration, this is likely to further reduce the unemployment rate to 9.4% in 2016 and 8.8% in 2017.

Inflation is expected to rise gradually as the effect from the decline in commodity prices slowly diminishes, however it looks set to remain negative throughout 2016. In the meanwhile, the depreciated euro and tight labour market conditions are expected to exert some upward price pressure. Annual HICP inflation turned out at -1.1% in 2015 and is expected to remain just below zero in 2016 at -0.1%. Inflation, however, looks set to turn positive in 2017 but will remain low given that the output gap is expected to be negative.

Public finances set to improve

The general government deficit is estimated to fall to 2.5% of GDP in 2015, following a temporary jump to 5.8% of GDP in 2014 as a result of one-off support to the financial sector. Compared to the original budget deficit target of 2.8% of GDP in 2015, the better outcome reflects mainly higher tax-revenues, mostly attributable to improved tax administration. Those additional revenues more than offset various expenditure slippages, such as the incomplete implementation of the planned reduction of the public wage bill.

In the future the headline deficit is forecast to recede to 2.3% of GDP in 2016 and to 2.0% of GDP in 2017. The improvement reflects measures on the revenue side, such as an increase in excise duties and in social security contributions in 2017 as well as limited rise in expenditures. No significant further increase of tax compliance is assumed. The impact of the likely temporary fall in the absorption of EU-funds on public investment in 2016-17 is expected to be partly offset by higher investments from domestic resources.

Regarding risks, a positive surprise could come from further improvements in tax compliance. At the same time, any further support for the financial sector could have a deficit increasing effect.

After slightly improving in 2015, Bulgaria's structural deficit is projected to temporarily deteriorate in 2016 to 2¾% of GDP due to elevated public investments backed by one-off licence revenues. In 2017, it is estimated to fall below 2% of GDP in light of consolidation measures. Given the still-sizable budget deficit and the limited growth of the economy, the public-debt-to-GDP ratio is forecast to increase from 27% in 2014 to above 30% by 2017.

Table II.2.1:

Main features of country forecast - BULGARIA

	2014			Annual percentage change						
	bn BGN	**Curr. prices**	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP		83.6	100.0	3.0	0.2	1.3	1.5	**2.2**	**1.5**	**2.0**
Private Consumption		52.6	63.0	3.3	3.3	-1.4	2.7	**0.7**	**1.4**	**1.7**
Public Consumption		13.8	16.5	0.6	-0.5	2.2	0.1	**0.3**	**1.2**	**1.3**
Gross fixed capital formation		17.7	21.1	6.9	1.8	0.3	3.4	**0.4**	**-2.1**	**0.5**
of which: equipment		7.4	8.8	-	-5.5	1.2	13.9	**0.2**	**1.0**	**2.1**
Exports (goods and services)		54.4	65.1	4.1	0.8	9.2	-0.1	**5.7**	**4.4**	**4.8**
Imports (goods and services)		55.2	66.0	6.3	4.5	4.9	1.5	**3.2**	**3.2**	**4.1**
GNI (GDP deflator)		81.9	98.0	2.6	2.3	1.3	3.4	**1.1**	**1.0**	**1.7**
Contribution to GDP growth:	Domestic demand			3.9	2.4	-0.5	2.5	**0.6**	**0.6**	**1.3**
	Inventories			0.4	0.2	-0.8	0.2	**0.0**	**0.0**	**0.0**
	Net exports			-1.2	-2.3	2.6	-1.1	**1.6**	**0.8**	**0.6**
Employment				0.0	-2.5	-0.4	0.4	**0.3**	**0.4**	**0.5**
Unemployment rate (a)				12.1	12.3	13.0	11.4	**10.1**	**9.4**	**8.8**
Compensation of employees / head				31.4	7.7	8.8	5.6	**3.9**	**4.0**	**2.5**
Unit labour costs whole economy				27.6	4.8	7.0	4.4	**2.0**	**2.9**	**1.1**
Real unit labour cost				-0.2	3.2	7.8	3.9	**0.9**	**1.3**	**-0.4**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				28.0	1.6	-0.7	0.4	**1.1**	**1.5**	**1.5**
Harmonised index of consumer prices				-	2.4	0.4	-1.6	**-1.1**	**-0.1**	**0.9**
Terms of trade goods				0.2	-3.5	-0.8	0.7	**1.5**	**1.2**	**0.3**
Trade balance (goods) (c)				-12.0	-9.7	-7.0	-6.5	**-4.1**	**-2.8**	**-2.4**
Current-account balance (c)				-6.8	-3.0	-0.5	0.7	**1.9**	**2.2**	**2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.5	-1.8	0.8	2.1	**3.2**	**3.4**	**3.9**
General government balance (c)				-0.7	-0.6	-0.8	-5.8	**-2.5**	**-2.3**	**-2.0**
Cyclically-adjusted budget balance (d)				-0.9	-0.5	-0.8	-5.7	**-2.4**	**-2.1**	**-1.7**
Structural budget balance (d)				-	-0.5	-0.8	-2.5	**-2.3**	**-2.8**	**-1.7**
General government gross debt (c)				-	17.6	18.0	27.0	**28.2**	**29.7**	**30.7**

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

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

3. THE CZECH REPUBLIC

Strong domestic demand continues to support growth

Economic growth in the Czech Republic is expected to have risen to 4.5% in 2015 on the back of strong domestic demand. As an exceptional boost to growth from EU co-financed investment fades, growth is expected to slow to 2.3% in 2016 before picking up again to 2.7% in 2017. The headline government deficit is expected to fall to 1.1% of GDP in 2016 and then to 1% in 2017.

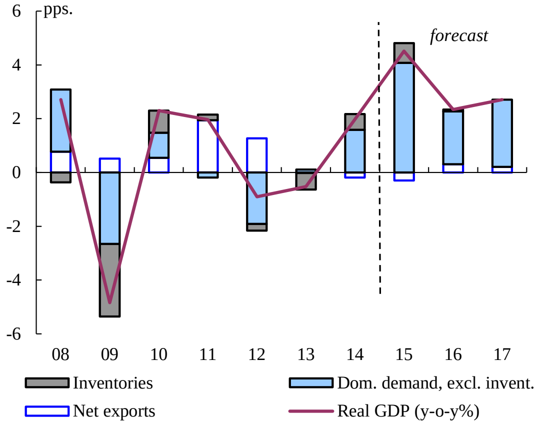
Lower but still strong growth driven by domestic demand

All domestic demand components contributed to a strengthening of economic growth in 2015, with real GDP growth forecast to have reached 4.5%, more than double the rate of the previous year. Household consumption is expected to have risen by 2.9% in real terms, amid rising wages, rising employment and low inflation. Investment contributed strongly to real GDP growth, particularly due to a strong increase in public investment, which was driven by a greater use of EU funding. Public investment is forecast to fall in 2016, however, as the exceptional level of drawing of EU funds declines. As a result, real GDP growth is expected to slow to 2.3%, although domestic demand will otherwise remain strong. With investment recovering and household consumption remaining strong, real GDP growth should pick up again in 2017 to 2.7%. The main risk to the forecast stems from external demand, which could negatively impact on the highly-open Czech economy if it were to be weaker than expected.

Low inflation despite low spare capacity

Inflation remained stable in 2015 (0.3%) compared to 2014 (0.4%), despite strong real GDP growth and increasingly tight labour market conditions. The unemployment rate is expected to average 5.1% in 2015 and is forecast to fall slightly further to 4.7% by 2017. Employment is expected to have grown by 1.1% in 2015 but further growth will be limited by demographic constraints. While labour market conditions are expected to contribute to domestic inflationary pressures, particularly in the services sector, inflation is forecast to average only 0.4% in 2016. This is mainly due to further declines in commodity prices, particularly oil, which are expected to lead to declining import prices. Inflation is forecast to start moving back towards the Czech National Bank's target of 2% in 2017 but is not expected to reach that target over the forecast horizon.

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



Wage growth to accelerate

Compensation per employee is expected to have grown by 2.4% in 2015 and the overall wage bill by 4.1%, due to strong employment growth. The growth rate of compensation per employee is forecast to accelerate to 3.6% in 2016 and 2017, amid increasingly tight labour market conditions. However, the growth rate of the wage bill is projected to fall, due to the expected decline in the working age population in both 2016 and 2017. Lower growth of total wages is expected to contribute to a gradual decline in the growth of household consumption over the forecast horizon.

Positive contribution from net exports in 2016

Net exports are likely to have contributed negatively to real GDP growth in 2015, reflecting the high import intensity of rising consumption, investment and exports. As investment is set to stagnate in 2016, however, import growth should slow, leading to a positive contribution of net exports. Rising investment in 2017 is expected to reduce this contribution, although it is forecast to remain positive. With imports growing less than exports and the price of imports also falling, the Czech Republic’s trade surplus should rise to an estimated 5.5% in 2017 from 5.0% in 2015. While the current account deficit is also expected to recede, this could be affected by volatility in primary income flows.

Structural deficit to decline after 2015

The general government deficit is expected to have improved to 1.6% of GDP in 2015, down from 1.9% in the previous year. Monthly data, which are not available on an accrual basis, point to an overachievement of the state budget due better-than-expected tax collection. Specifically, corporate income tax grew at a faster pace than expected. Indirect taxes were boosted by higher revenues from excise duties on tobacco, although VAT grew sluggishly after the introduction of a lower tax bracket. Interest expenditure on debt service also declined somewhat. The main driver on the expenditure side was higher public investment, which rose significantly towards the end of the programming period for EU funds at the end of 2015.

The projected decline in the headline deficit to 1.1% of GDP in 2016 is largely due to an expected sharp decrease in investment spending co-financed by EU funds, related to the likely slowdown of EU funding at the beginning of the new programming period. This is expected to be partially offset by higher government consumption, driven mainly by the wage bill and intermediate consumption. On the revenue side, the newly implemented VAT control statement aimed at combating tax evasion should lead to improved tax collection. Revenue flows from yet-to-be-adopted measures, such as the proposed introduction of electronic sales records, are not included in the forecast. Assuming no changes in policy, the deficit in 2017 is projected to decline further to 1.0% of GDP, reflecting the acceleration in economic activity.

In 2015 the structural deficit deteriorated substantially (by around ¾ pps.). In 2016, the structural balance should improve as the headline deficit declines and the positive output gap slightly widens. The debt-to-GDP ratio is projected to fall to 40.1% of GDP in 2017, largely due to favourable stock-flow adjustment owing to better liquidity management.

Table II.3.1:

Main features of country forecast - CZECH REPUBLIC

	2014			Annual percentage change						
bn CZK	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017	
GDP	4260.9	100.0	2.7	-0.9	-0.5	2.0	**4.5**	**2.3**	**2.7**	
Private Consumption	2070.5	48.6	2.7	-1.5	0.7	1.5	**2.9**	**2.8**	**2.7**	
Public Consumption	828.2	19.4	1.3	-1.8	2.3	1.8	**3.5**	**3.3**	**1.9**	
Gross fixed capital formation	1065.5	25.0	2.6	-3.2	-2.7	2.0	**7.9**	**0.0**	**3.3**	
of which: equipment	480.5	11.3	4.9	-6.1	-0.2	3.8	**7.8**	**3.3**	**3.5**	
Exports (goods and services)	3571.4	83.8	9.1	4.3	0.0	8.9	**7.2**	**6.0**	**5.8**	
Imports (goods and services)	3285.1	77.1	8.7	2.7	0.1	9.8	**8.2**	**6.1**	**6.0**	
GNI (GDP deflator)	3926.6	92.2	2.2	0.5	-0.3	0.0	**4.5**	**2.3**	**2.9**	
Contribution to GDP growth: Domestic demand			2.4	-1.9	0.1	1.6	**4.1**	**2.0**	**2.5**	
Inventories			0.0	-0.2	-0.6	0.6	**0.7**	**0.1**	**0.0**	
Net exports			0.3	1.3	0.0	-0.2	**-0.3**	**0.3**	**0.2**	
Employment			-0.1	0.4	0.3	0.6	**1.1**	**0.2**	**0.2**	
Unemployment rate (a)			6.9	7.0	7.0	6.1	**5.1**	**4.8**	**4.7**	
Compensation of employees / head			6.6	1.7	-0.3	1.5	**2.4**	**3.6**	**3.6**	
Unit labour costs whole economy			3.8	3.1	0.6	0.1	**-0.9**	**1.4**	**1.0**	
Real unit labour cost			0.5	1.7	-0.8	-2.3	**-1.8**	**0.4**	**-0.3**	
Saving rate of households (b)			11.6	11.3	10.8	10.9	**10.8**	**10.7**	**10.5**	
GDP deflator			3.3	1.4	1.4	2.5	**0.9**	**1.0**	**1.3**	
Harmonised index of consumer prices			3.6	3.5	1.4	0.4	**0.3**	**0.4**	**1.4**	
Terms of trade goods			0.0	-0.6	1.5	2.1	**0.3**	**0.6**	**0.1**	
Trade balance (goods) (c)			-3.4	3.1	4.1	5.4	**5.0**	**5.4**	**5.5**	
Current-account balance (c)			-4.1	-2.2	-1.1	-2.0	**-2.4**	**-2.0**	**-1.9**	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.6	-1.1	1.1	-0.2	**0.1**	**-0.7**	**-0.7**	
General government balance (c)			-3.7	-4.0	-1.3	-1.9	**-1.6**	**-1.1**	**-1.0**	
Cyclically-adjusted budget balance (d)			-	-3.2	0.0	-0.9	**-1.6**	**-1.3**	**-1.3**	
Structural budget balance (d)			-	-1.5	0.1	-0.7	**-1.5**	**-1.2**	**-1.3**	
General government gross debt (c)			25.0	44.7	45.2	42.7	**40.9**	**40.7**	**40.1**	

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

4. DENMARK
The moderate recovery continues

The moderate recovery of the Danish economy continues but at a somewhat slower pace than previously expected. GDP growth has been driven by domestic demand, while both imports and exports have dropped in line with developments in world trade. The improvement on the labour market has continued, with unemployment gradually declining.

The recovery has slowed

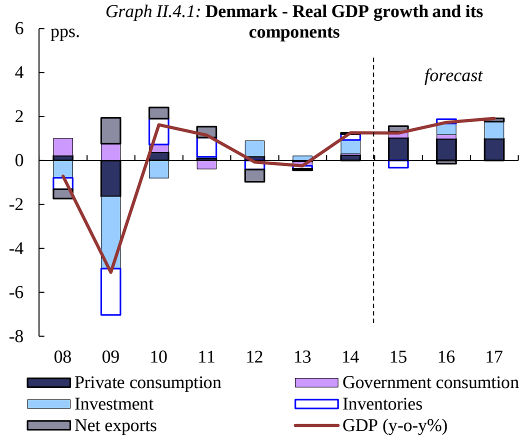
Denmark's real GDP likely grew an estimated 1.2% in 2015. Thus, the recovery of the Danish economy continues, but more slowly than previously expected. After eight consecutive quarters of positive growth, GDP dropped by 0.4% in the third quarter of 2015. In 2015, positive growth contributions came both from domestic demand and net exports, as imports are expected to have declined more than exports.

In 2015, private consumption became an important driver of GDP growth, growing by an estimated 2.2%. Private consumption has been supported by rising real disposable income, due to the increase in employment, wage growth and low inflation, while an improvement on the housing market has had a positive effect on Danish households' asset position. Consumer confidence has declined somewhat, after reaching a historic high level last spring. However, the current level is still high by historical standards and consistent with continued growth in private consumption. Private consumption is expected to continue growing over the forecast period at annual rates of close to 2.0% in both 2016-2017.

After a strong 2014, investment growth was weak in 2015. There is still considerable idle capacity in the economy, which holds back business investments. Over the forecast horizon, business investment is expected to pick up as the overall recovery becomes more firmly established and capacity utilisation improves. The saving rate in the corporate sector is high by historical standards, which suggests the potential for a strong pick-up in business investment over the coming years. Based on the budget for 2016, public investment is expected to decline significantly after reaching a historically high level in 2014.

Denmark's national accounts show that foreign trade developments have been much weaker than expected, due in particular to a sharp decline in service trade on both the export and import side. In the first three quarters of 2015, imports and exports of services were, on average and in real terms, 4.1% and 4.8% below their 2014 levels respectively. Despite more positive developments in goods trade, growth in total exports and imports are both expected to have been in negative territory in 2015. Exports are projected to pick-up over the next two years, supported by increased growth in Danish export markets and improved competitiveness, as measured by relative unit labour costs.

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



Employment growth driven by private sector

The unemployment rate has been gradually declining since spring 2012 and stood at 6% of the labour force in November 2015. As the recovery progresses, unemployment is expected to continue decreasing to 5.6% in 2017. At 0.9% in 2016 and 2017, annual employment growth is expected to remain high, driven by growth in private sector employment.

Inflation pulled down by energy prices

HICP inflation, which stood at 0.3% in December 2015, has been dragged down by a drop in energy prices. Core inflation, on the other hand, has remained stable at close to 1% for most of 2015. As the recovery matures, capacity utilisation increases and the effect from the decline in energy prices tapers off, HICP inflation is expected to pick-up, reaching 0.9% in 2016 and 1.7% in 2017.

Revenue volatility affects public finances

The general government surplus of 1.5% of GDP in 2014 is expected to have turned into a deficit of 2.0% of GDP in 2015. The deterioration comes mainly from lower one-off revenues from the restructuring of capital pension taxation and lower revenues from the pension yield tax. Revenues from oil and gas activities in the North Sea have also decreased, due to the sharp drop in oil prices.

In 2016, the headline balance is expected to deteriorate further, reaching a deficit of 2.7% of GDP. The main drivers of the deterioration are again to be found on the revenue side, as one-off revenues from the restructuring of capital pension taxation will come to a complete halt. The one-off revenues from the restructuring have boosted the headline balance in 2013-15. Moreover, revenues from the pension yield tax are expected to continue declining.

In 2017, the general government budget balance is expected to improve to a deficit of 1.9% of GDP, as the economic situation improves. The estimate is based on a no-policy-change assumption.

The deterioration of the structural balance from ¼% of GDP in 2014, to -1¾% of GDP in 2015 is also to a large extent a reflection of lower revenues from volatile revenue items and in particular from the pension yield tax. The structural balance is expected to improve in 2016-17, by about ¼ and ½ pps. of GDP respectively.

The general government gross debt level is expected to decrease from 44.6% of GDP in 2014 to 38.8% of GDP in 2017. The sharp reduction in gross debt in 2015, of close to 5 pps. of GDP, is due to a stock-flow adjustment, reflecting the temporary suspension of government bond issuance from January to October 2015 resulting in a decrease in the government's financial assets.

Table II.4.1:

Main features of country forecast - DENMARK

	2014			Annual percentage change						
bn DKK	Curr. prices	% GDP		96-11	2012	2013	2014	2015	2016	2017
GDP	1942.6	100.0		1.4	-0.1	-0.2	1.3	**1.2**	**1.7**	**1.9**
Private Consumption	926.5	47.7		1.4	0.4	-0.1	0.5	**2.2**	**2.0**	**2.1**
Public Consumption	511.7	26.3		1.9	0.0	-0.7	0.2	**1.1**	**0.8**	**0.0**
Gross fixed capital formation	370.7	19.1		1.8	3.9	1.1	3.4	**0.0**	**2.7**	**4.1**
of which: equipment	111.9	5.8		0.8	15.5	5.1	5.3	**1.1**	**3.9**	**5.6**
Exports (goods and services)	1037.0	53.4		4.3	0.6	0.9	3.1	**-0.4**	**3.7**	**4.2**
Imports (goods and services)	919.2	47.3		4.9	1.8	1.1	3.3	**-1.0**	**4.5**	**4.4**
GNI (GDP deflator)	2010.5	103.5		1.6	0.1	0.7	1.5	**0.7**	**2.0**	**1.9**
Contribution to GDP growth:	Domestic demand			1.5	0.9	0.0	0.9	**1.3**	**1.7**	**1.8**
	Inventories			0.0	-0.4	-0.1	0.3	**-0.3**	**0.2**	**0.0**
	Net exports			0.0	-0.6	-0.1	0.1	**0.3**	**-0.1**	**0.1**
Employment				0.4	-0.6	0.1	0.8	**1.0**	**0.9**	**0.9**
Unemployment rate (a)				5.2	7.5	7.0	6.6	**6.0**	**5.8**	**5.6**
Compensation of employees / head				3.5	1.7	1.2	1.8	**1.5**	**2.1**	**2.3**
Unit labour costs whole economy				2.4	1.2	1.5	1.3	**1.3**	**1.2**	**1.3**
Real unit labour cost				0.2	-1.5	0.2	0.6	**0.4**	**0.0**	**-0.5**
Saving rate of households (b)				5.7	7.5	7.9	4.4	**9.8**	**11.8**	**10.5**
GDP deflator				2.2	2.8	1.4	0.8	**0.9**	**1.3**	**1.8**
Harmonised index of consumer prices				2.0	2.4	0.5	0.3	**0.2**	**0.9**	**1.7**
Terms of trade goods				0.8	0.4	1.7	0.5	**0.8**	**0.9**	**0.1**
Trade balance (goods) (c)				2.8	2.7	2.7	2.2	**2.8**	**2.6**	**2.5**
Current-account balance (c)				3.2	5.7	7.1	7.7	**7.1**	**7.3**	**7.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.2	5.7	7.1	7.7	**7.2**	**7.3**	**7.2**
General government balance (c)				0.8	-3.5	-1.1	1.5	**-2.0**	**-2.7**	**-1.9**
Cyclically-adjusted budget balance (d)				0.2	-1.6	1.3	3.5	**-0.3**	**-1.3**	**-1.0**
Structural budget balance (d)				-	0.0	-0.2	0.3	**-1.7**	**-1.4**	**-1.0**
General government gross debt (c)				-	45.2	44.6	44.6	**39.9**	**38.3**	**38.8**

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

5. GERMANY

Growth continues to be driven by domestic demand

Economic growth in Germany continues to be driven by domestic demand, supported by favourable labour market and financing conditions. Public spending for asylum seekers provides an additional stimulus, which leads to a decreasing general government budget surplus. The current account surplus is expected to moderate while remaining at historically high levels.

Steady growth with slight acceleration

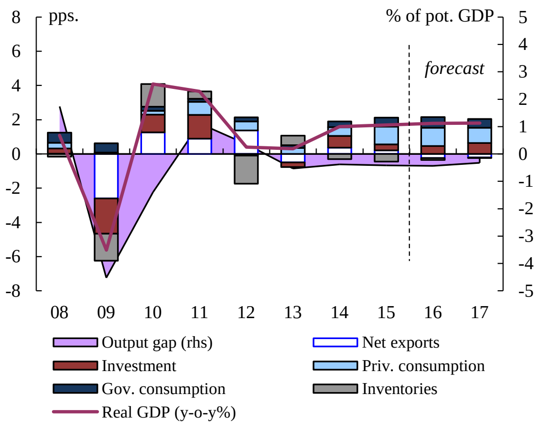
Germany's economy grew steadily in the first three quarters of 2015. In 2015-Q3, real GDP expanded by 0.3% (quarter-on-quarter, seasonally and working-day adjusted), after 0.4% in 2015-Q2. According to provisional official data, GDP rose by 1.7% in 2015. Growth was largely driven by domestic demand, particularly consumption, while investment growth remained sluggish. Net external trade made a small positive contribution to growth.

Available indicators suggest that the expansion of economic activity continued at a similar pace in the fourth quarter and is likely to pick up somewhat thereafter. Survey indicators for the services sector, which had already driven the expansion in 2015-Q3, continued to be very favourable. By contrast, industrial production saw a slight decline in October/November. The continued optimism of firms and the pick-up in industrial orders after a noticeable decline in 2015-Q3 point to a slight acceleration of growth in early 2016. The robust labour market, favourable financing conditions, low oil prices and additional public spending to host and integrate unusually large numbers of asylum seekers will all contribute to growth over the forecast horizon. Overall, real GDP is expected to increase by 1.8% in 2016 and 2017. Changes to the external environment entail risks for this growth forecast, as does the potential fallout from Volkswagen's regulatory problems. Also, uncertainty surrounding the strong inflow of asylum seekers and its economic impact remains high.

Consumption to remain a key growth driver

Robust employment growth is set to continue. The slight rise in unemployment expected reflects the relatively gradual labour market integration prospects of asylum seekers over the forecast horizon. As in 2015, real wages and household purchasing power should get a boost from low inflation in 2016. Nominal wage growth is expected to reaccelerate in 2017 after easing slightly in 2016. Overall, private consumption is projected to grow markedly, also reflecting high employment, high net immigration, and low interest rates.

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



Moderate recovery in business investment

Private investment saw another slight decline in the third quarter of 2015. Investment in machinery and equipment has been weak, which partly reflects only average levels of capacity utilisation in industry and sluggish external demand. A moderate recovery in corporate investment, however, is expected, as domestic capital goods orders are increasing and sales expectations are improving in line with the gradual strengthening of the external environment forecast. Housing investment growth is projected to moderate only slowly, also due to the additional boost from very high net immigration. Public investment that declined in 2015 is set to pick up, but remain at a relatively low level.

Current account surplus to remain at high level

Strong exports in the first half of the year and markedly improved terms of trade likely led to a further widening of the current account surplus in 2015. The boost from the euro's depreciation may be fading but export expectations have nonetheless recently improved. Buoyant domestic demand including the moderate recovery in business investment, however, mean that imports should also rise. As a result, small negative growth contributions from net external trade are expected.

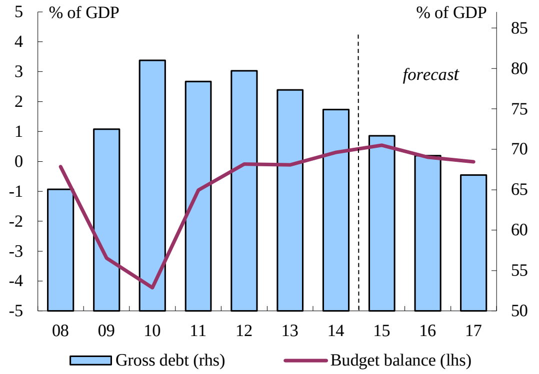
Energy prices dampening inflation

On the back of the sharp decline in oil prices, consumer prices broadly stagnated, with HICP inflation at 0.1% in 2015. By contrast, core inflation (excluding energy and unprocessed food) slowed only slightly to 1.0% and is set to reaccelerate somewhat in 2016-17 despite some spillover effects from low energy prices. With the dampening effect of oil prices on energy prices expected to last until late 2016, headline HICP inflation is projected to pick up only slightly in 2016 (0.5%) before accelerating to 1.5% in 2017.

Lower budget surpluses ahead

Revenue growth is projected to slow down slightly in 2016, due to increases in the minimum personal income tax allowance and in child allowances, and to develop largely in line with economic growth in 2017. Despite lower interest spending, current expenditure growth is forecast to accelerate and to outstrip current revenue growth over the forecast horizon. The influx of asylum seekers is expected to boost government consumption and spending on cash benefits. Additional funds earmarked for infrastructure investment and social housing should increase public sector investment. Strong pension increases announced for 2016 will also contribute to the expenditure growth.

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



Overall, the headline budget surplus is expected to decline over the forecast horizon. The structural surplus is projected to decrease by around ½% of GDP in 2016 and around ¼% of GDP in 2017. The gross debt-to-GDP ratio is set to decrease from 71.6% in 2015 to 66.8% in 2017.

Table II.5.1:

Main features of country forecast - GERMANY

	2014			Annual percentage change						
bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017	
GDP	2915.7	100.0	1.4	0.4	0.3	1.6	**1.7**	**1.8**	**1.8**	
Private Consumption	1592.2	54.6	0.9	1.0	0.6	0.9	**1.9**	**2.0**	**1.7**	
Public Consumption	564.0	19.3	1.3	1.3	0.8	1.7	**2.8**	**3.1**	**2.5**	
Gross fixed capital formation	585.1	20.1	1.0	-0.4	-1.3	3.5	**1.7**	**2.4**	**3.2**	
of which: equipment	189.8	6.5	3.0	-2.6	-2.3	4.5	**3.6**	**2.6**	**4.5**	
Exports (goods and services)	1333.2	45.7	6.5	2.8	1.6	4.0	**5.4**	**3.8**	**4.8**	
Imports (goods and services)	1136.8	39.0	5.5	-0.3	3.1	3.7	**5.7**	**5.2**	**6.3**	
GNI (GDP deflator)	2982.4	102.3	1.6	0.3	0.1	1.7	**1.6**	**1.8**	**1.8**	
Contribution to GDP growth:	Domestic demand		1.0	0.7	0.2	1.5	**1.9**	**2.1**	**2.0**	
	Inventories		0.0	-1.6	0.6	-0.3	**-0.4**	**-0.1**	**0.0**	
	Net exports		0.5	1.4	-0.5	0.4	**0.2**	**-0.2**	**-0.2**	
Employment			0.6	1.2	0.6	0.9	**0.8**	**0.8**	**0.8**	
Unemployment rate (a)			8.7	5.4	5.2	5.0	**4.8**	**4.9**	**5.2**	
Compensation of employees / head			1.2	2.5	1.8	2.6	**2.7**	**2.8**	**3.2**	
Unit labour costs whole economy			0.4	3.3	2.2	1.9	**1.8**	**1.8**	**2.2**	
Real unit labour cost			-0.4	1.8	0.1	0.2	**-0.3**	**0.3**	**0.5**	
Saving rate of households (b)			16.2	16.4	16.4	16.8	**17.0**	**17.1**	**17.1**	
GDP deflator			0.8	1.5	2.1	1.7	**2.1**	**1.5**	**1.8**	
Harmonised index of consumer prices			1.5	2.1	1.6	0.8	**0.1**	**0.5**	**1.5**	
Terms of trade goods			-0.2	-0.4	1.9	1.8	**3.3**	**1.0**	**0.0**	
Trade balance (goods) (c)			5.4	7.3	7.5	7.9	**8.8**	**8.9**	**8.6**	
Current-account balance (c)			2.7	7.2	6.7	7.8	**8.8**	**8.6**	**8.3**	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.7	7.2	6.7	7.8	**8.8**	**8.6**	**8.3**	
General government balance (c)			-2.4	-0.1	-0.1	0.3	**0.5**	**0.1**	**0.0**	
Cyclically-adjusted budget balance (d)			-2.2	-0.3	0.2	0.5	**0.8**	**0.4**	**0.2**	
Structural budget balance (d)			-	-0.2	0.2	0.8	**0.8**	**0.3**	**0.0**	
General government gross debt (c)			64.6	79.7	77.4	74.9	**71.6**	**69.2**	**66.8**	

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

6. ESTONIA

Moderate growth ahead

Following an estimated growth of only 0.9% in 2015, Estonia's income level is expected to converge again to the EU average in 2016 and in 2017 with growth rates above 2.0%, as external demand recovers and domestic investment becomes the main growth driver. Unemployment, however, is set to increase from late-2016, as work ability reform induces pensioners to re-enter the labour market. The fiscal position is projected to remain close to balance in 2016-17.

Slow growth in 2015

After growing by 2.9% in 2014, Estonia's real GDP is expected to have expanded by just 0.9% in 2015, much slower than expected in the autumn forecast. This relatively weak outcome reflects negative base effects in the electronics sector, a sharply reduced demand from neighbouring Russia and falling international oil prices which have made Estonia's shale oil sector less competitive. Private consumption performed strongly, supported by high wage increases, income tax cuts and low consumer price inflation. Investment activity fell substantially, reflecting the completion of major investment projects in the energy sector in 2013 and 2014. After building up in 2014, inventories contracted. Net exports are set to have made a positive contribution to growth in 2015, as low investment levels depressed import demand.

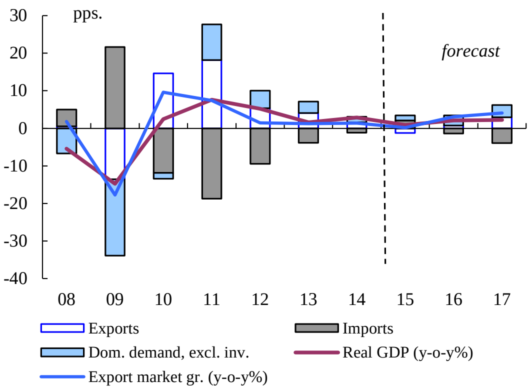
Convergence is set to resume in 2016

Real GDP growth is forecast to rise to 2.1% in 2016 and to accelerate to 2.3% in 2017 as the global outlook gradually improves. Private consumption growth is set to decelerate over the forecast horizon as real income growth slows down. However, investment is expected to become a stronger growth driver.

Financing conditions remain supportive

Financing conditions remain broadly favourable and bank lending to enterprises resumed in the second half of 2015. Investment, especially in equipment, is forecast to rebound in 2016 and 2017 supported by growing demand from the euro area and the substitution of increasingly expensive workers with equipment. In addition, public investment is set to gradually start growing again over the course of 2016 and 2017, after disbursements of EU funding under the new programming period resume. High incomes, combined with favourable financing terms, are expected to support household investment over the forecast horizon.

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



Net trade remains in surplus

Exports declined in 2015, amid volatility in the electronics sector and lower demand from Russia since the rouble's depreciation. However, imports declined even more, widening further the nominal trade surplus in 2015. A reorientation of Estonia's goods exports towards EU trading partners is expected to ensure the country a positive external balance of goods and services throughout the forecast period, despite the growth of imports expected as domestic investment recovers.

Downside risks to the forecast could stem from a delayed recovery in neighbouring Finland and Russia and, in turn, lower external demand. In parallel, persistently low international oil prices could further impair Estonia's shale-oil industry and exports.

Labour market developments mainly reflect legislative changes

As the obligation for entrepreneurs to register their workforce was tightened in mid-2014, official employment growth is estimated at 2.3% in 2015 (up from 0.8% in 2014). At the same time, Estonia's working age population is shrinking as a result of its low birth rate and because of emigration, although this last factor is abating.

Overall, this trend, together with the tight labour market, is expected to keep the unemployment rate relatively low at around 6.3% in 2015 and 2016. Wage growth has exceeded productivity growth over the last two years, resulting in rising unit labour costs, especially in the non-tradable sectors.

Wage growth is expected to slow down, as public sector wage policy foresees wage moderation at central government level. The work ability reform, which will enter into force in mid-2016, is expected to entice incapacity-for-work pensioners back to the labour market, pulling the unemployment rate back to 7.5% in 2017. At that time, participation in the labour force, which is already high, is expected to rise above 70%.

Inflation is expected to rise

Annual inflation stayed slightly above zero in 2015 reflecting a steep fall in energy prices, which outweighed the impact of the euro's depreciation and core inflation of 1.3%. Inflation is expected to increase to 1.0% in 2016 and 2.5% in 2017, pushed up by several factors including excise tax increases, strong wage growth, supported by sizeable annual minimum wage increases, and the slow recovery of commodity prices.

Towards fiscal surpluses in both 2016 and 2017

In 2015, the headline surplus is estimated to have amounted to 0.3% of GDP, down from 0.7% in 2014. General government expenditure growth was rapid, driven by social spending, wages and current expenditure. However, it was matched by exceptionally strong revenue, boosted by consumption-led GDP growth, a strong labour market, measures to improve tax compliance and extraordinary government revenue from corporate income tax. Public investment declined in 2015 due to the lower intake of EU funds at the start of the new programming period. Tax revenues are set to slow in 2016 as private consumption growth decelerates, but so is expenditure growth as a result of efforts to limit government personnel costs. Lower labour taxation and increased excise taxes will enter into force in 2016-2017, with a net positive effect on revenue. Overall, public finances are projected to remain in slight surplus over the forecast horizon. In structural terms, surpluses of ½% of GDP are expected for 2015 and about ¼% of GDP for 2016, which are projected to decrease to close to balance in 2017. Estonia's public debt is expected to fall to about 9% of GDP in 2017.

Table II.6.1:

Main features of country forecast - ESTONIA

	2014			Annual percentage change					
bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	20.0	100.0	4.4	5.2	1.6	2.9	**0.9**	**2.1**	**2.3**
Private Consumption	10.2	50.9	5.0	4.4	3.8	3.5	**4.8**	**3.2**	**3.0**
Public Consumption	3.8	19.2	1.4	3.6	1.5	3.0	**1.8**	**1.7**	**1.9**
Gross fixed capital formation	5.0	25.2	8.0	6.7	3.2	-3.1	**-5.8**	**2.8**	**5.4**
of which: equipment	2.1	10.6	8.4	31.2	8.3	-5.9	**-15.9**	**3.8**	**6.2**
Exports (goods and services)	16.7	83.9	8.2	6.2	4.7	1.8	**-1.5**	**0.9**	**3.8**
Imports (goods and services)	16.1	80.5	8.7	11.7	4.5	1.4	**-2.6**	**1.8**	**5.3**
GNI (GDP deflator)	19.5	97.7	4.1	6.4	3.6	2.6	**0.6**	**2.1**	**1.3**
Contribution to GDP growth: Domestic demand			5.7	4.7	3.0	1.5	**1.3**	**2.7**	**3.2**
Inventories			0.1	2.9	-1.1	2.5	**-1.3**	**0.0**	**0.0**
Net exports			-1.0	-4.1	0.2	0.4	**0.9**	**-0.6**	**-0.9**
Employment			-0.5	1.6	1.2	0.8	**2.3**	**-0.7**	**-0.1**
Unemployment rate (a)			10.4	10.0	8.6	7.4	**6.3**	**6.3**	**7.5**
Compensation of employees / head			11.5	6.9	5.8	5.9	**5.3**	**5.1**	**5.1**
Unit labour costs whole economy			6.2	3.3	5.5	3.7	**6.8**	**2.3**	**2.7**
Real unit labour cost			-0.8	0.6	1.5	1.7	**5.5**	**0.2**	**0.0**
Saving rate of households (b)			4.3	6.5	8.8	8.0	**10.7**	**10.7**	**9.9**
GDP deflator			7.1	2.7	4.0	2.0	**1.2**	**2.1**	**2.7**
Harmonised index of consumer prices			5.7	4.2	3.2	0.5	**0.1**	**1.0**	**2.5**
Terms of trade goods			0.7	-1.7	0.6	0.0	**-0.2**	**0.2**	**0.2**
Trade balance (goods) (c)			-14.9	-6.6	-4.7	-5.0	**-4.2**	**-4.4**	**-5.2**
Current-account balance (c)			-8.2	-2.3	0.4	1.3	**1.9**	**1.6**	**0.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.9	1.1	3.1	2.3	**2.7**	**2.7**	**1.5**
General government balance (c)			0.4	-0.3	-0.1	0.7	**0.3**	**0.2**	**0.1**
Cyclically-adjusted budget balance (d)			-0.1	-1.2	-0.8	-0.1	**0.2**	**0.2**	**0.1**
Structural budget balance (d)			-	-0.2	-0.6	0.1	**0.5**	**0.3**	**0.1**
General government gross debt (c)			5.6	9.5	9.9	10.4	**10.1**	**9.8**	**9.4**

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

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

7. IRELAND

High growth and improving public finances

Ireland's record GDP growth in 2015 was broad-based and coupled with strong job creation. Economic fundamentals are robust and point to more sustainable but still strong GDP growth rates in 2016 and 2017. Government finances are improving as strong revenue growth more than offsets increases in expenditure. The government debt ratio is declining but remains very high.

Sustained GDP and employment growth boosts expectations

The Irish economy grew again strongly in the third quarter of 2015 although more moderately than earlier in the year. National statistics, which are affected by considerable volatility, suggest that real GDP was up by 6.8% compared to the same period in 2014. Estimates for the fourth quarter will be published in March 2016. However, survey indicators point to sustained activity levels in the three months to December, which are expected to bring GDP growth for 2015 as a whole to 6.9%. In 2016 and 2017, the moderation in GDP growth is expected to continue towards more sustainable rates of about 4% and 3% respectively.

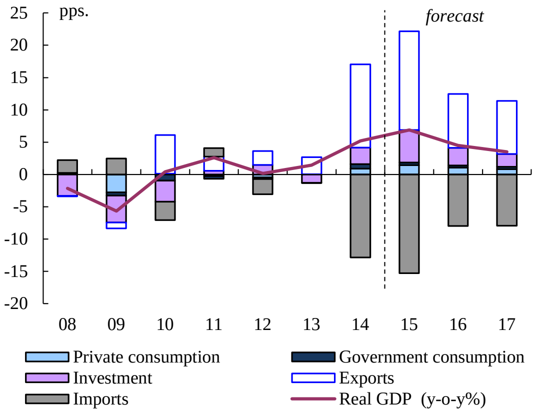
Job creation accelerated from the second quarter of 2015 to 3% (y-o-y), bringing the unemployment rate down to 8.8% in December 2015, compared to 10.2% a year earlier. In line with the projected moderation in GDP growth in 2016-17, the unemployment rate is also expected to decline more slowly to 7.5% at the end of 2017, with job creation remaining broad-based across sectors and regions.

Company and sector-specific developments impact the composition of growth

While the recovery started in the external sector, domestic demand is now driving GDP growth. It expanded by more than 8% (y-o-y) in the first nine months of 2015, with household consumption growing by 3.5% and investment by over 25%. Conversely, net exports contracted by 3.2%. These headline figures need to be read with caution as developments in some companies and sectors are boosting investment and imports in the economy.

Multinationals have been transferring a number of patents to Ireland. In the first nine months of 2015, these transfers generated a growth in investment in intellectual property of over 100% (y-o-y) and an equivalent increase in services imports. In 2016 and 2017, the fees for the use of these patents are expected to benefit the current account balance and lead to more company profits being booked in Ireland. Conversely, the purchase of airplanes by international leasing companies based in Ireland collapsed in the third quarter of 2015, leading to a large fall in equipment investment. Excluding intangibles and aircraft, core investment was strong, growing by over 11% (y-o-y) in the first three quarters of 2015, despite the delayed recovery in construction activity. The growth in core investment is forecast to continue more moderately in 2016 and 2017.

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



Rising wages, inflation and house prices

The very subdued rate of consumer price inflation in 2015 is expected to gradually increase over the forecast horizon, driven primarily by the projected recovery in wages. House prices and rents are forecast to grow at moderate rates, contained by the macro-prudential policies of the central bank and government plans to address supply shortages.

The risks to the growth forecast are balanced. Ireland is particularly exposed to a possible deterioration in the external environment which could dampen exports, whereas domestic demand could surprise on the upside if government policies to boost construction are successful. The economy remains vulnerable to shocks in interest rates and changes in the operations of multinationals.

Public finances benefit from high tax receipts

In 2015, the general government deficit is expected to drop to 1.8% of GDP, down from 3.9% in 2014. The improvement compared to the Commission's 2015 autumn forecast (+0.4 pps.) reflects a higher than expected tax intake in the last quarter of 2015. On the back of the exceptional economic rebound, tax receipts increased by 10.5% in 2015 or 1.6% of GDP above the target set in the 2015 budget. While all taxes exceeded expectations, two-thirds of the better-than-expected tax intake came from corporate tax receipts. These volatile receipts increased by 49% from 2014. Large improvements in terms of trade supported company profits whereas other factors underlying this upsurge remain uncertain.

At the same time, government spending increased sharply in the last quarter of 2015. Given the sizeable revenue windfalls, the government passed a supplementary budget in October with extra spending of about 0.7% of GDP, mainly on health and social protection. Debt servicing costs were lower in 2015 thanks to favourable market conditions and the early repayment of IMF credits.

Deficit and debt-to-GDP appear to trend firmly downwards though risks remain

Despite further tax cuts and expenditure increases of about EUR 1.5 billion (0.7% of GDP) in the 2016 budget, the general government deficit is expected to improve further this year to about 1.3% of GDP, again benefitting from strong and sustained economic growth. Based on a no-policy-change assumption, the deficit expected to narrow to 0.8% of GDP in 2017. The risks surrounding this fiscal forecast are balanced, mainly reflecting the balance of risks from the growth forecast.

The structural deficit is expected to improve over the forecast horizon reaching close to 2% and 1% of GDP in 2016 and 2017 respectively, down from about 3% of GDP in 2014.

Gross general government debt is projected to continue falling. In 2015, it is expected to drop by 9.1 pps. of GDP to 98.4% of GDP, down from 107.5% in 2014 largely due to the surge in nominal GDP growth, coupled with low interest rates and the primary surpluses. By 2017, government debt is projected to fall to 91.5% of GDP, contingent on still robust GDP growth and the realisation of primary budget surpluses of more than 1.7% and 2.1% of GDP in 2016 and 2017 respectively.

Table II.7.1:

Main features of country forecast - IRELAND

	2014		Annual percentage change						
	bn EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	189.0	100.0	5.1	0.2	1.4	5.2	**6.9**	**4.5**	**3.5**
Private Consumption	83.8	44.3	4.4	-1.0	0.1	2.1	**3.3**	**2.5**	**2.0**
Public Consumption	32.4	17.2	3.8	-1.2	0.0	4.0	**2.4**	**2.0**	**2.3**
Gross fixed capital formation	36.5	19.3	4.3	8.6	-6.6	14.3	**26.0**	**12.0**	**8.3**
of which: equipment	14.2	7.5	6.7	10.3	-8.1	27.2	**-17.0**	**14.0**	**11.0**
Exports (goods and services)	215.0	113.7	8.7	2.1	2.5	12.1	**13.4**	**6.9**	**6.7**
Imports (goods and services)	180.3	95.4	8.0	2.9	0.0	14.7	**16.0**	**7.7**	**7.5**
GNI (GDP deflator)	163.9	86.7	4.4	0.6	4.6	6.9	**7.5**	**4.5**	**3.2**
Contribution to GDP growth: Domestic demand			3.7	0.8	-1.2	4.1	**6.9**	**4.1**	**3.2**
Inventories			0.0	-0.2	0.2	0.5	**0.0**	**0.0**	**0.0**
Net exports			1.6	-0.2	2.7	0.1	**0.0**	**0.4**	**0.3**
Employment			2.3	-0.6	2.4	1.7	**2.3**	**1.6**	**1.4**
Unemployment rate (a)			7.3	14.7	13.1	11.3	**9.4**	**8.5**	**7.8**
Compensation of employees / head			4.1	0.0	-0.7	1.8	**3.2**	**2.1**	**2.2**
Unit labour costs whole economy			1.3	-0.8	0.2	-1.6	**-1.2**	**-0.8**	**0.1**
Real unit labour cost			-0.9	-1.1	-1.0	-1.7	**-3.2**	**-2.6**	**-1.2**
Saving rate of households (b)			-	8.3	6.1	5.0	**4.4**	**4.7**	**4.4**
GDP deflator			2.2	0.4	1.2	0.1	**2.1**	**1.9**	**1.3**
Harmonised index of consumer prices			2.3	1.9	0.5	0.3	**0.0**	**0.6**	**1.4**
Terms of trade goods			0.2	-6.4	0.3	-1.3	**0.4**	**0.3**	**-0.1**
Trade balance (goods) (c)			21.5	21.5	19.5	22.4	**28.1**	**28.8**	**29.7**
Current-account balance (c)			-1.1	-1.5	3.1	3.6	**3.6**	**3.7**	**3.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.7	-1.5	3.2	3.7	**3.7**	**3.7**	**3.1**
General government balance (c)			-3.0	-8.0	-5.7	-3.9	**-1.8**	**-1.3**	**-0.8**
Cyclically-adjusted budget balance (d)			-3.4	-6.4	-3.9	-3.2	**-2.6**	**-2.0**	**-0.9**
Structural budget balance (d)			-	-6.4	-4.3	-3.1	**-2.6**	**-1.9**	**-0.9**
General government gross debt (c)			47.6	120.2	120.0	107.5	**98.4**	**93.9**	**91.5**

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

8. GREECE

Economy shows some resilience in face of capital controls

The recession in Greece in 2015 now appears to have been less severe than expected. Resilient consumption, the successful recapitalisation of banks, steady implementation of structural reforms under the new ESM programme and progress with privatisation should support the rebound in confidence and bring positive growth and stronger fiscal results by the second half of 2016.

Surprisingly improved expectations

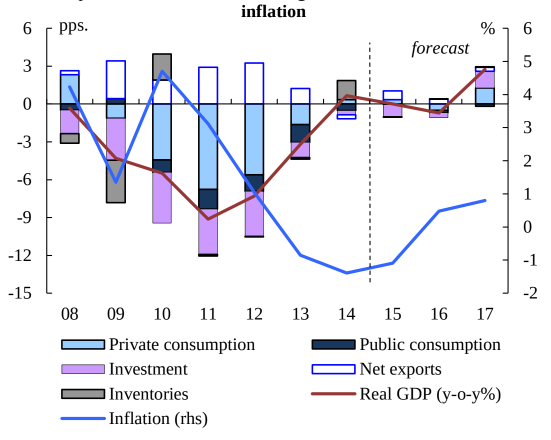
In the first three quarters of 2015, Greece's economy proved resilient despite the introduction of the emergency bank holiday, capital controls, and heightened uncertainty related to prolonged programme negotiations. Private consumption was stronger-than-expected, with households preferring to spend their bank deposits to avoid potential haircuts. However, fiscal drag is expected to weigh on disposable income and private consumption up to the first half of 2016. The tourism sector continued to perform exceptionally well during the autumn. Imports are projected to continue declining faster than exports, resulting to net trade contributing positively to growth. Business confidence, reflected in the Economic Sentiment Indicator and the Purchasing Managers Index, has also recovered relatively quickly from the sharp falls in the summer. Economic sentiment stabilised in October and improved further in December. Overall, our estimate for economic growth in 2015 has been revised upwards to 0.0%.

Real GDP is expected to contract by 0.7% in 2016, amid the negative carryover from 2015 and the faltering domestic demand in the first half of the year. In the second half of 2016, economic activity is set to strengthen supported by a rebound in confidence, the expected easing of capital controls, and compliance with the conditionality of the new ESM assistance programme. Investment should also benefit from the successful recapitalisation of the banks and the re-launch of privatisations. Steady implementation of structural reforms should gradually strengthen economic fundamentals, investment and other components of aggregate demand, leading to a projection of 2.7% for real GDP growth for 2017.

Greece's current account deficit is expected to have declined in 2015 as a whole, partly owing to imports' sharp contraction. The current account is expected to improve further as past and ongoing structural reforms improve external competitiveness. The unemployment rate is estimated to have fallen in 2015 and should continue to do so in 2016 due to the lagged effects of previous improvements in labour market flexibility. Following large decreases in recent years, compensation per employee is expected to start increasing in 2017. The HICP inflation turned out negative in 2015, since the impact of lower oil prices and weak demand have outweighed the increase in the VAT rate for many items. However, consumer prices are expected to increase as of 2016 in line with the projected economic recovery.

Upside risks to the growth outlook are related to stronger confidence following progress with programme reform implementation and a swifter lifting of capital controls. On the downside, failure to fully deliver on the reform programme and policy uncertainty would undermine growth prospects.

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



Public finances stabilise yet need for key reforms remain

The fiscal policy measures agreed with the authorities in the third quarter of 2015 as part of the adjustment programme are expected to deliver savings of up to 2% of GDP through 2017 and result in a primary deficit according to the programme definition [48] close to the target of -0.25% of GDP in 2015.

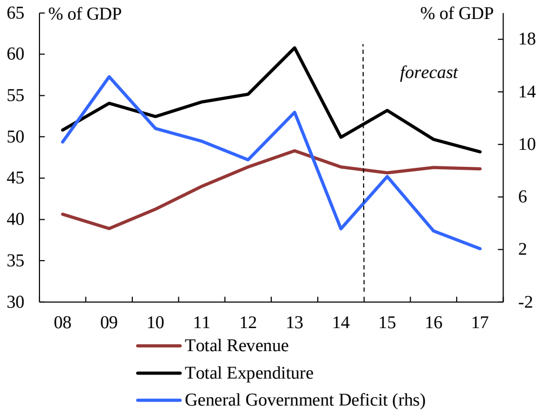
(48) Excludes the one-off cost of bank recapitalisation.

One-off factors related to the recapitalisation of the banking sector completed in late 2015 are assumed to deteriorate the fiscal balance by 3.3 pps. of GDP [49], pushing the headline deficit to 7.6% of GDP in 2015.

The 2016 budget envisages additional savings of 1.1% of GDP from structural reforms in the pension system and income tax, and through a rationalisation of spending that still needs to be specified and implemented. However, further measures will be needed in 2016 and 2017 in order to reach the programme's primary surplus targets of 0.5% of GDP in 2016 and 1.75% of GDP in 2017. As part of the first review of the ESM programme, the Greek government has committed to legislate to ensure that the primary surplus targets throughout the programme are met. Based upon the primary balance targets, the headline deficit is projected to fall to 3.4% of GDP in 2016 and 2.1% of GDP in 2017. Downside risks include higher spending to deal with asylum-seekers inflows and possible delays in the specification and implementation of the additional fiscal consolidation package. The upside risks to the forecast stem mainly from revenue administration reforms (whose impact is not included currently in the forecast), and revenue buoyancy in light of the overall resilience of the macroeconomy and tax collection in the second half of 2015.

[49] The projection assumes the entire amount of bank recapitalisation would have a deficit impact. However, the final assessment of the fiscal recording will be available only in the context of the spring EDP notification in April.

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



Given the lower-than-expected cost recapitalising the banks, the public debt projection has been revised down vis-à-vis the autumn forecast. The general government debt-to-GDP ratio is now expected to peak in 2016 at 185.0% before declining in 2017 to about 182%.

Table II.8.1:

Main features of country forecast - GREECE

	2014		Annual percentage change						
	bn EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	177.6	100.0	1.6	-7.3	-3.2	0.7	**0.0**	**-0.7**	**2.7**
Private Consumption	125.0	70.4	1.8	-8.0	-2.3	0.5	**0.5**	**-0.7**	**1.8**
Public Consumption	35.4	19.9	1.9	-6.0	-6.5	-2.6	**-0.2**	**-1.0**	**-0.9**
Gross fixed capital formation	20.6	11.6	1.1	-23.5	-9.4	-2.8	**-8.4**	**-3.7**	**12.8**
of which: equipment	8.7	4.9	4.9	-36.5	-0.6	18.7	**-5.0**	**-3.0**	**14.0**
Exports (goods and services)	58.0	32.7	5.5	1.2	2.2	7.5	**0.0**	**1.9**	**3.9**
Imports (goods and services)	62.6	35.2	4.3	-9.1	-1.9	7.7	**-1.9**	**0.6**	**2.7**
GNI (GDP deflator)	177.5	100.0	1.3	-4.1	-4.0	0.8	**0.3**	**-0.5**	**3.0**
Contribution to GDP growth: Domestic demand			2.0	-10.5	-4.3	-0.6	**-0.7**	**-1.1**	**2.4**
Inventories			-0.1	0.0	-0.1	1.5	**0.0**	**0.0**	**0.0**
Net exports			-0.2	3.2	1.2	-0.3	**0.7**	**0.4**	**0.3**
Employment			0.3	-6.3	-3.6	0.1	**1.4**	**0.9**	**2.0**
Unemployment rate (a)			10.7	24.5	27.5	26.5	**25.1**	**24.0**	**22.8**
Compensation of employees / head			5.3	-3.0	-7.0	-2.1	**-3.7**	**-2.2**	**0.9**
Unit labour costs whole economy			4.0	-2.0	-7.4	-2.6	**-2.3**	**-0.6**	**0.1**
Real unit labour cost			0.5	-1.6	-5.0	-0.4	**-1.2**	**-0.7**	**-0.6**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.4	-0.4	-2.5	-2.2	**-1.1**	**0.0**	**0.7**
Harmonised index of consumer prices			3.7	1.0	-0.9	-1.4	**-1.1**	**0.5**	**0.8**
Terms of trade goods			-0.2	-0.2	1.7	0.9	**-4.9**	**-1.4**	**-0.5**
Trade balance (goods) (c)			-14.8	-10.9	-10.5	-11.7	**-11.4**	**-12.0**	**-12.0**
Current-account balance (c)			-9.6	-4.2	-2.2	-3.0	**-1.8**	**-1.4**	**-0.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-8.1	-2.4	0.4	-1.2	**0.1**	**0.6**	**1.0**
General government balance (c)			-7.8	-8.8	-12.4	-3.6	**-7.6**	**-3.4**	**-2.1**
Cyclically-adjusted budget balance (d)			-8.1	-2.5	-6.2	1.3	**-3.7**	**-0.1**	**-0.7**
Structural budget balance (d)			-	-0.2	2.3	1.3	**-0.6**	**-0.1**	**-0.7**
General government gross debt (c)			111.5	159.4	177.0	178.6	**179.0**	**185.0**	**181.8**

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

9. SPAIN

Growth easing slightly but remains robust

Economic growth is set to ease but remain robust, underpinned by sustained job creation, better financing conditions, high confidence and low oil prices. Inflation is expected to return to positive though low values, while unemployment continues declining. The general government deficit is expected to narrow further thanks to the economic recovery.

Smooth deceleration to continue

Economic growth in Spain eased slightly in the third quarter of 2015, to 0.8% quarter-on-quarter, and is projected to have maintained the same pace in the last quarter. Although growth is forecast to moderate thereafter, it is projected to remain robust over the forecast horizon, backed by positive labour market developments, improved access to credit for firms and households, high confidence and low oil prices. The drag on domestic demand from private sector deleveraging is expected to fade out. Accordingly, Spain's economy is expected to have expanded by 3.2% in 2015 and is forecast to grow by 2.8% and 2.5% in 2016 and 2017, respectively, driven by domestic demand.

According to hard and soft data on economic activity, private consumption growth remained robust in the last quarter of 2015. Despite moderating in 2016, it is expected to remain the main driver of growth throughout the forecast horizon, supported by low inflation and steadily improving labour market conditions. However, the increase in gross disposable income is also foreseen to allow households to increase their savings slightly in 2017.

Equipment investment is also forecast to decelerate over the forecast horizon, albeit still growing at healthy rates, underpinned by positive demand prospects, supportive financing conditions and the projected rebound in exports. After picking-up in 2015, construction investment is forecast to moderate slightly in 2016 but to regain momentum thereafter, mainly driven by non-residential construction dynamics, especially public investment. Residential investment also looks set to gather strength.

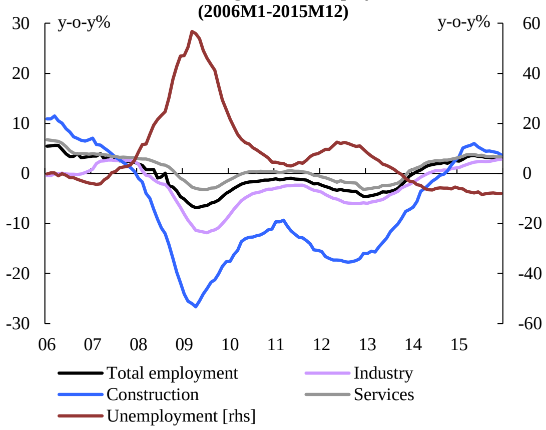
Exports are expected to remain resilient, with exports of goods progressively gathering steam, fuelled by continued improvements in competitiveness and recovering growth in Spain's main export markets. However, while imports are forecast to decelerate in line with final demand, they are expected to continue to outpace exports. As a result, net exports are set to prove negative for growth in 2015 and 2016 and broadly neutral in 2017. The current account surplus is set to widen to 1.5% of GDP in 2015 but to narrow thereafter, due to the decline in terms of trade. Net external lending is expected to narrow from 2.0% of GDP in 2015 to 1.7% in 2017.

In 2015, inflation averaged -0.6%, driven by the fall in oil prices. It is expected to turn slightly positive again in the short term, but to remain low over the forecast horizon, due to low external price pressures and remaining slack in the economy.

Employment growth to moderate

Despite decelerating slightly, job creation remained very robust in the second half of 2015, while the labour force registered a small expansion, limiting the decline in the unemployment rate to 21.2% in the third quarter of 2015, with a further expected decrease in the fourth. Ongoing wage moderation keeps a lid on nominal unit labour cost growth, supporting robust though decelerating job creation. In turn, unemployment is expected to continue falling over the forecast horizon, falling below 19% by 2017.

Graph II.9.1: **Spain - Affiliates to the social security by sector and registered unemployment (2006M1-2015M12)**



Downside risks to the growth forecast stem mainly from the uncertainty surrounding the formation of the new government.

Deficit reduction driven by the recovery

Driven by strong economic growth and the positive effect of improved financing conditions, Spain's public finances continued to improve in 2015. After reaching 5.9% of GDP in 2014, the general government deficit ratio narrowed by a further 0.5 pps. in the first three quarters of 2015 compared to the same period the year before. The pace of deficit reduction is, however, waning, despite rapid GDP growth. In the third quarter, the deficit fell by just 0.1% of GDP, and monthly data for October for all government levels (except local government) indicate no further reduction. Despite cuts in personal income taxes, total tax revenues have held up well, helped by a strong recovery in domestic demand and corporate tax revenues. Government expenditure is however expected to have grown faster in the second half of the year than in the first half, with notable increases in intermediate consumption and public investment.

The reduction of the general government deficit is expected to continue to rely to a large extent on the positive macroeconomic outlook, which will continue supporting tax revenues and keeping social transfers in check. In particular, while pension expenditure is expected to continue rising, falling unemployment limits the growth of social transfers in the near future. Previous improvements in financing conditions and the decelerating public debt ratio imply that interest expenditure will continue to fall. Overall, Spain's general government deficit is expected to have fallen to 4.8% of GDP in 2015 and to narrow to 3.6% in 2016 and, under a no-policy-change assumption, by a further percentage point in 2017. Risks to this deficit forecast stem from uncertainty about the degree of expenditure restraint, primarily at regional government level.

Spain's structural balance is expected to have deteriorated significantly in 2015 and is set to remain broadly stable at 2½% of GDP over the forecast period. Thanks to a narrowing deficit and stronger nominal GDP growth, the public debt ratio is expected to peak in 2016 at 101.2% of GDP before falling back to 100.1% in 2017.

Table II.9.1:

Main features of country forecast - SPAIN

	2014			Annual percentage change						
	bn EUR	**Curr. prices**	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP		1041.2	100.0	2.6	-2.6	-1.7	1.4	**3.2**	**2.8**	**2.5**
Private Consumption		606.8	58.3	2.3	-3.5	-3.1	1.2	**3.1**	**3.4**	**2.3**
Public Consumption		202.4	19.4	3.9	-4.5	-2.8	0.0	**2.2**	**0.6**	**0.6**
Gross fixed capital formation		204.1	19.6	2.5	-7.1	-2.5	3.5	**6.1**	**4.6**	**4.8**
of which: equipment		66.6	6.4	3.9	-8.5	4.0	10.6	**9.7**	**8.0**	**5.9**
Exports (goods and services)		338.8	32.5	5.1	1.1	4.3	5.1	**6.0**	**6.1**	**5.8**
Imports (goods and services)		312.9	30.1	5.1	-6.2	-0.3	6.4	**7.9**	**7.4**	**6.2**
GNI (GDP deflator)		1036.9	99.6	2.5	-1.6	-1.4	1.4	**3.4**	**2.6**	**2.5**
Contribution to GDP growth:		Domestic demand		2.7	-4.5	-2.8	1.3	**3.5**	**3.0**	**2.4**
		Inventories		0.0	-0.3	-0.2	0.2	**0.1**	**0.0**	**0.0**
		Net exports		-0.1	2.1	1.4	-0.2	**-0.4**	**-0.2**	**0.1**
Employment				1.7	-4.9	-3.5	1.1	**3.0**	**2.6**	**2.0**
Unemployment rate (a)				13.8	24.8	26.1	24.5	**22.3**	**20.4**	**18.9**
Compensation of employees / f.t.e.				3.3	-0.6	1.7	-0.6	**0.6**	**0.5**	**1.0**
Unit labour costs whole economy				2.5	-2.9	-0.2	-0.8	**0.4**	**0.4**	**0.6**
Real unit labour cost				-0.3	-3.0	-0.8	-0.4	**-0.3**	**-0.6**	**-0.7**
Saving rate of households (b)				10.6	8.8	10.0	9.6	**9.5**	**9.6**	**9.7**
GDP deflator				2.8	0.0	0.6	-0.4	**0.8**	**1.0**	**1.3**
Harmonised index of consumer prices				2.8	2.4	1.5	-0.2	**-0.6**	**0.1**	**1.5**
Terms of trade goods				-0.1	-1.1	0.9	-1.0	**3.7**	**1.7**	**-0.4**
Trade balance (goods) (c)				-5.5	-2.8	-1.4	-2.2	**-1.9**	**-2.0**	**-2.5**
Current-account balance (c)				-4.6	-0.4	1.5	1.0	**1.5**	**1.4**	**1.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.9	0.1	2.2	1.6	**2.0**	**1.8**	**1.7**
General government balance (c)				-2.8	-10.4	-6.9	-5.9	**-4.8**	**-3.6**	**-2.6**
Cyclically-adjusted budget balance (d)				-3.1	-6.3	-2.3	-2.1	**-2.6**	**-2.6**	**-2.5**
Structural budget balance (d)				-	-3.4	-1.9	-1.7	**-2.5**	**-2.6**	**-2.5**
General government gross debt (c)				53.0	85.4	93.7	99.3	**100.7**	**101.2**	**100.1**

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

10. FRANCE

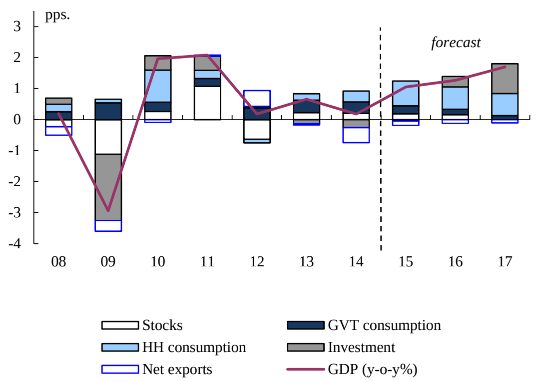
A slow recovery amid still large fiscal imbalances

The recovery of the French economy has begun to take hold, driven by resilient private consumption. But growth is expected to remain moderate, as investment is projected to pick up only gradually and net exports to remain a drag on growth. The government's headline budget deficit is expected to fall slightly while public debt continues to rise.

Moderate growth ahead

After three years of sluggish activity, the rebound in GDP growth in the first three quarters of 2015, driven by private consumption, is expected to bring France's growth rate for the whole year to 1.1%. Based on previous events, the November terrorist attacks are expected to have a short-lived and limited dampening impact on confidence and growth in 2016. Tumbling energy prices are expected to further stimulate private consumption and, with a delay, investment. As external trade is not expected to contribute positively, GDP growth is set to gain traction only slowly, reaching 1.3% in 2016 and 1.7% in 2017.

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



Domestic demand gains momentum

The gradual economic recovery is set to be mainly driven by private consumption, the traditional driver of the French economy. While consumer sentiment remains positive, resilient wage growth combined with subdued inflation and lower energy costs should support household revenues in real terms and boost consumer spending throughout the forecast period.

The recent improvement in corporate balance sheets, which reflects the fall in oil prices and on-going policy measures to reduce labour costs, namely the '*Tax Credit for Competitiveness and Employment*' (CICE) and the '*Responsibility and Solidarity Pact*' (RSP), together with favourable credit conditions supported by the ECB, should foster investment. However, the slow acceleration in aggregate demand indicates that it may take time before businesses feel confident enough to invest. As a result, investment is only expected to start growing significantly from 2017.

External trade to detract from growth

The depreciation of the euro helped to bolster French exports in 2015 and enabled French exporters to achieve short-term gains in market shares. Exports are expected to remain strong, sustained by external demand from France's major trading partners. However, net exports will continue to weigh on GDP growth, as the rise in domestic demand leads to more imports.

High unemployment, low inflation

With the slow recovery, the labour cost reductions associated with the CICE and the RSP are likely to have only a limited impact on employment over the forecast horizon and are unlikely to outweigh the growth of the labour force. Therefore, the unemployment rate is expected to remain stable at 10.5% in 2016, before falling slightly in 2017. Assumptions on labour market developments do not take into account the package of measures to reduce unemployment announced in January.

Falling energy prices reduced inflation close to zero in 2015. Prices are projected to accelerate very moderately and reach an annual rate of increase of 0.7% and 1.3% in 2016 and 2017 respectively, as the output gap of the French economy is forecast to dwindle and inflationary pressures generated by the euro depreciation are felt.

Risks broadly tilted to the downside

The sustainability of the recovery strongly relies on the assumed improvement in business confidence, following the acceleration in aggregate demand. A weaker demand - external or domestic - could jeopardise the recovery.

Deficit set to decline only gradually

The headline deficit in 2015 is expected to stand at 3.7% of GDP, 0.2 pps. below the level of 2014. Current public revenue is estimated to have grown by 1.8% in 2015, compared to 1.9% in 2014 despite the slight increase in GDP growth. Indeed, the revenue-increasing measures have declined from 0.5% of GDP in 2014 when VAT rates rose, to 0.1% of GDP in 2015. Total public expenditure (net of one-offs) is expected to increase by 1.6% compared to 1.7% in 2014. In particular, public investment is expected to contract further by 2.3%, at a slower pace than in 2014 (-7.3%), as a result of the cut in government transfers to local authorities.

In 2016, France's headline deficit is set to decrease to 3.4% of GDP. Revenue growth is projected to accelerate to 1.9% despite the subdued inflation outlook, tax cuts for households and further reductions in social security contributions for employers. Total public expenditure (net of one-offs) is expected to grow at 1.2% in 2016 as the government pursues its spending-based consolidation strategy. The additional spending included in the adopted budget compared to the draft budget, notably on security and defence, increases government spending by over 0.05% of GDP and has only partly been offset. The new employment plan has not been included in the forecast due to a lack of specification of the underlying measures. Overall, the structural balance is expected to improve by ⅓ pps. in 2016.

The headline deficit in 2017 is forecast to decline to 3.2% of GDP. Under a no-policy-change assumption, only measures that are sufficiently specified have been incorporated in the forecast. Revenue growth is expected to only accelerate to 2.3% as the tax cuts for firms planned under the RSP would not be fully offset. Central government and healthcare expenditure norms should evolve in line with recent trends. Further expenditure-reducing measures of 0.2% of GDP related to local authorities and pension reforms have also been taken into account.

The public debt-to-GDP ratio is expected to further increase, albeit at a slower pace, to 97.1% of GDP in 2017.

Table II.10.1:

Main features of country forecast - FRANCE

	2014			Annual percentage change						
	bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		2132.4	100.0	1.8	0.2	0.7	0.2	**1.1**	**1.3**	**1.7**
Private Consumption		1183.3	55.5	2.0	-0.2	0.4	0.6	**1.4**	**1.3**	**1.3**
Public Consumption		515.9	24.2	1.5	1.6	1.7	1.5	**1.1**	**0.7**	**0.6**
Gross fixed capital formation		462.5	21.7	2.3	0.2	-0.6	-1.2	**-0.6**	**1.6**	**4.6**
of which: equipment		100.8	4.7	2.6	2.1	-1.5	1.2	**1.3**	**3.9**	**6.4**
Exports (goods and services)		611.8	28.7	4.2	2.5	1.7	2.4	**5.7**	**4.6**	**5.7**
Imports (goods and services)		651.1	30.5	4.9	0.7	1.7	3.8	**5.7**	**4.9**	**5.8**
GNI (GDP deflator)		2174.5	102.0	1.9	-0.7	0.8	0.6	**1.0**	**1.3**	**1.7**
Contribution to GDP growth:	Domestic demand			1.9	0.3	0.5	0.5	**0.9**	**1.2**	**1.8**
	Inventories			0.0	-0.6	0.2	0.2	**0.2**	**0.2**	**0.0**
	Net exports			-0.1	0.5	0.0	-0.5	**-0.1**	**-0.1**	**-0.1**
Employment				0.7	0.1	0.0	0.3	**0.3**	**0.6**	**0.8**
Unemployment rate (a)				9.0	9.8	10.3	10.3	**10.5**	**10.5**	**10.3**
Compensation of employees / f.t.e.				2.5	2.4	1.6	1.4	**0.8**	**1.3**	**1.7**
Unit labour costs whole economy				1.5	2.3	0.9	1.5	**0.1**	**0.6**	**0.8**
Real unit labour cost				0.0	1.1	0.2	0.9	**-0.9**	**-0.4**	**-0.2**
Saving rate of households (b)				15.0	14.7	14.3	14.8	**14.8**	**14.8**	**14.7**
GDP deflator				1.5	1.2	0.8	0.6	**1.0**	**1.0**	**1.0**
Harmonised index of consumer prices				1.7	2.2	1.0	0.6	**0.1**	**0.6**	**1.3**
Terms of trade goods				-0.3	-0.3	1.3	1.8	**4.2**	**0.5**	**-1.4**
Trade balance (goods) (c)				-0.3	-2.5	-1.8	-1.5	**-0.6**	**-0.6**	**-1.0**
Current-account balance (c)				0.4	-2.9	-2.6	-2.3	**-1.4**	**-1.5**	**-2.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				0.4	-3.1	-2.6	-2.3	**-1.1**	**-1.0**	**-1.5**
General government balance (c)				-3.4	-4.8	-4.1	-3.9	**-3.7**	**-3.4**	**-3.2**
Cyclically-adjusted budget balance (d)				-3.8	-4.2	-3.4	-2.8	**-2.6**	**-2.5**	**-2.6**
Structural budget balance (d)				-	-4.3	-3.6	-2.9	**-2.7**	**-2.3**	**-2.5**
General government gross debt (c)				66.2	89.6	92.3	95.6	**96.2**	**96.8**	**97.1**

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

11. CROATIA

The recovery gains ground, but weaknesses remain

Growth picked up over the course of 2015, marking it the first year of positive growth since 2008. The positive momentum is expected to be maintained throughout the forecast horizon, pushing the unemployment rate down. However, the pace of the recovery remains constrained by the still high stock of debt in both the private and public sectors. The public deficit is expected to have decreased to 4.2% of GDP in 2015 and, on a no-policy-change basis, to continue declining going forward.

A strong third quarter confirms that a sustained recovery is underway

At 1.3% (q-o-q), GDP growth in the third quarter was higher than expected. All components of domestic demand contributed to this strong performance, while exports of goods suffered a temporary setback. Growth likely decelerated in the fourth quarter, but all in all, Croatia's economy is expected to have expanded by 1.8% in 2015.

Benefitting from the strong momentum gathered in the second half of 2015, the recovery is forecast to gain ground in 2016. Domestic demand is projected to remain the main driver of expansion. Improving labour market conditions are set to support household spending, while investment should gain speed in 2016 and 2017 as the absorption of EU funds improves. The contribution of government consumption to growth is projected to remain positive throughout the forecast horizon. Overall, real GDP is expected to grow by 2.1% in 2016 and 2017.

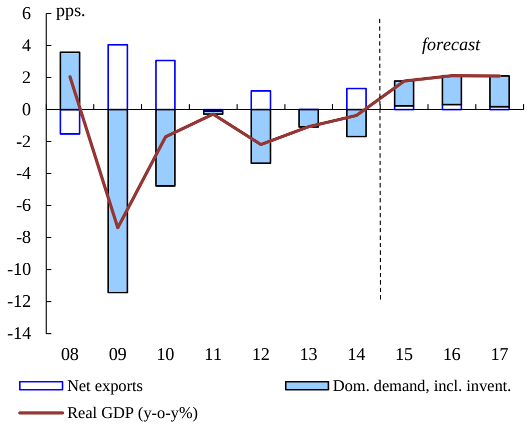
The current account is set to remain in surplus despite a projected slowdown in exports

In 2015, the current account is expected to have registered a record surplus of 4.2% of GDP on the back of strong exports of goods and a generous tourism season. A temporary improvement was registered also in the balance of primary income as a result of losses accrued by foreign owned banks following the new legislation on the conversion of CHF mortgage loans.

After two years of robust expansion, exports of both goods and services are expected to moderate in 2016 and in 2017, on the back of more subdued competitiveness gains and a slow-down in global trade. Growth in import volumes is also expected to slow down, broadly in line with the evolution of external demand. These dynamics, combined with a further delayed recovery in energy prices, are set to bring about the stabilisation of the current account surplus to a comfortable 3% of GDP over the next two years.

Risks to these growth projections are skewed to the downside, and are mainly related to the still high debt burden in both the public and private sectors and the limited capacity of the financial sector to support the recovery.

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



Unemployment is set to contract but wage and price dynamics remain subdued

Unemployment is expected to have decreased to 16.2% in 2015, due to the continued shrinking of the labour force but also increasing employment. By 2017, the unemployment rate is projected to contract further, on the back of sustained employment creation. However, as unemployment remains high, the average compensation of employees is expected to increase only moderately.

With the fall in energy prices expected to continue in the first half of 2016, price dynamics are set to be subdued. The expected turnaround in oil prices thereafter, coupled with resuming core inflation, is set to drive inflation back to 1.6% by the end of the forecast horizon.

Public finances benefit from stronger growth but the deficit remains high

Revenue windfalls due to higher-than-expected growth and some containment of expenditure growth are expected to have improved the general government deficit in 2015 to 4.2% of GDP, down from 5.6% of GDP in 2014. Fiscal policy measures are expected to have had a broadly neutral impact on revenue as the additional revenue – in particular from higher health contributions and indirect taxes – was largely offset by higher deductions in personal income taxation. Growth in primary expenditures in 2015 is expected to have remained below nominal GDP growth, although the increase in investment expenditure and subsidies in the second half of the year suggest an easing of the consolidation effort.

The 2015 deficit outturn remains highly uncertain. While further restructuring of corporations classified in the general government sector may have reduced their net borrowing, the potential accumulation of liabilities in the health care sector may have weighed on the budget balance.

The budget for 2016 has not been adopted before the cut-off date of the forecast. Under the no-policy-change assumption, the general government deficit is projected to decrease to 3.9% of GDP in 2016. Growth in general government revenue is likely to be supported by the dynamics in private consumption and wages, and deficit-improving changes to the taxation of companies' reinvested earnings. The yield from the corporate income tax in 2016 is likely to be affected also by the conversion of CHF loans (by reducing corporate profits in the banking sector), with an estimated impact of around 0.2% of GDP. In the absence of the budget, the forecast is consistent with the easing of expenditure restraint. The general government deficit is projected to decline further to 3.2% of GDP in 2017.

Overall, the structural balance is estimated to have improved by about ¾ pps. of GDP in 2015, to about -2¾% of GDP, and to deteriorate by ½ pps. in 2016 (on a no-policy-change basis).

The debt-to-GDP ratio is expected to have increased only moderately, from 85.1% in 2014 to 86.0% in 2015, reflecting stronger nominal GDP growth and drawing on government deposits. The debt ratio is expected to continue rising in 2016 and 2017, reaching 87.4% of GDP in 2017.

Table II.11.1:

Main features of country forecast - CROATIA

		2014			Annual percentage change					
	bn HRK	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		328.4	100.0	2.6	-2.2	-1.1	-0.4	**1.8**	**2.1**	**2.1**
Private Consumption		196.8	59.9	2.3	-3.0	-1.8	-0.7	**1.0**	**1.8**	**1.9**
Public Consumption		65.1	19.8	1.5	-1.0	0.3	-1.9	**0.6**	**1.1**	**1.7**
Gross fixed capital formation		62.6	19.1	5.6	-3.3	1.4	-3.6	**1.7**	**2.6**	**2.7**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		152.0	46.3	5.0	-0.1	3.1	7.3	**8.1**	**5.0**	**5.3**
Imports (goods and services)		145.3	44.2	4.6	-3.0	3.1	4.3	**7.9**	**4.6**	**5.3**
GNI (GDP deflator)		319.8	97.4	2.4	-2.0	0.2	-1.7	**4.2**	**-0.2**	**2.1**
Contribution to GDP growth:	Domestic demand			3.0	-2.7	-0.7	-1.5	**1.0**	**1.7**	**2.0**
	Inventories			0.0	-0.7	-0.3	-0.2	**0.5**	**0.1**	**-0.1**
	Net exports			-0.3	1.2	0.0	1.3	**0.2**	**0.3**	**0.2**
Employment				-	-3.7	-2.6	2.7(e)	**0.6**	**1.3**	**1.5**
Unemployment rate (a)				-	16.0	17.3	17.3	**16.2**	**15.1**	**13.8**
Compensation of employees / head				-	0.3	-0.6	-5.4	**1.4**	**1.5**	**2.0**
Unit labour costs whole economy				-	-1.3	-2.2	-2.4	**0.1**	**0.7**	**1.4**
Real unit labour cost				-	-2.8	-3.0	-2.5	**-0.2**	**-0.5**	**0.3**
Saving rate of households (b)				-	12.1	10.5	11.8	**13.2**	**11.7**	**11.3**
GDP deflator				4.1	1.6	0.8	0.0	**0.4**	**1.2**	**1.2**
Harmonised index of consumer prices				3.3	3.4	2.3	0.2	**-0.3**	**0.3**	**1.6**
Terms of trade goods				1.4	-0.4	-1.6	-0.7	**-1.1**	**0.7**	**-1.6**
Trade balance (goods) (c)				-19.1	-14.3	-15.1	-14.7	**-15.0**	**-14.2**	**-14.9**
Current-account balance (c)				-4.6	0.5	1.6	1.1	**4.2**	**3.1**	**3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.6	0.6	1.6	1.1	**4.1**	**3.6**	**3.8**
General government balance (c)				-	-5.3	-5.4	-5.6	**-4.2**	**-3.9**	**-3.2**
Cyclically-adjusted budget balance (d)				-	-3.9	-3.5	-3.6	**-2.7**	**-3.2**	**-3.3**
Structural budget balance (d)				-	-3.9	-3.3	-3.5	**-2.7**	**-3.2**	**-3.3**
General government gross debt (c)				-	69.2	80.8	85.1	**86.0**	**87.0**	**87.4**

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

12. ITALY

Consumption supports recovery while the structural deficit worsens

After growing moderately in 2015, Italy's economy is set to gain momentum in 2016 and 2017 as domestic demand strengthens. Inflation is projected to remain low in 2016 also due to falling energy prices, still high unemployment and limited labour cost pressures. In 2016 the debt-to-GDP ratio declines only slightly also because the government structural balance is expected to deteriorate.

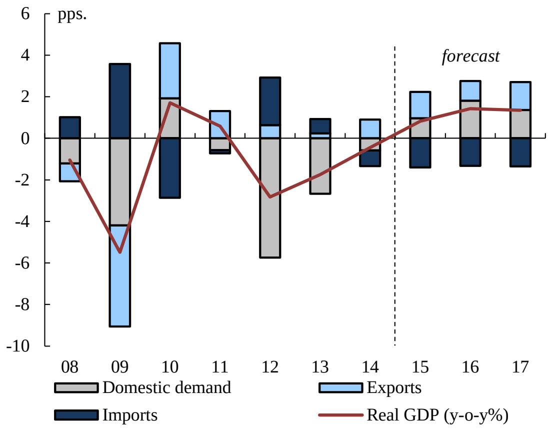
The recovery becomes more self-sustaining

Economic activity expanded by 0.5% (y-o-y) in the first three quarters of 2015, although lower exports dragged down growth in the third quarter. Improving confidence and hard indicators suggest that economic activity expanded further in the final quarter, so annual growth is expected to turn out at 0.8% in 2015. Italy's economy is set to grow at a faster pace in 2016, but still below the euro-area average. The continued fall in oil prices and an expansionary fiscal stance are expected to support domestic demand and to compensate for the slowdown in exports. Although non-performing loans still burden bank balance sheets, credit conditions are set to improve in 2016 as monetary policy remains accommodative. More favourable credit conditions are set to support the long-awaited recovery in investment, especially machinery and equipment and non-residential construction. Overall, real GDP is expected to increase by 1.4% in 2016. Economic expansion is set to continue in 2017 at 1.3% as higher imports neutralise stronger external demand and investment, and private consumption is assumed to be constrained by the legislated increase in VAT rates. The current-account surplus is set to stabilise at 2.1% of GDP in 2016-17 as higher investment offset the expected increase in savings. A further slowdown in external demand, a possible depreciation of emerging market currencies and financial market turmoil pose downside risks.

The unemployment rate is forecast to decline gradually and inflation to remain low in 2016

A three-year social contribution exemption on new permanent hires supported the increase in headcount employment seen over the course of 2015. This, together with a broadly stable labour force, brought down the unemployment rate from 12.7% in 2014 to 11.9% in 2015. The 2016 Stability Law extends the scheme to new permanent hires made in 2016, but only with partial exemption (40%). As the recovery gathers strength, employment is projected to continue increasing in 2016 and 2017. Nevertheless, the unemployment rate is forecast to decline gradually over the forecast horizon, as previously discouraged people are set to join the labour force. Upward pressure on labour costs is projected to remain limited partly due to cuts to the labour tax wedge. In addition, increases in real wages realised over recent years on the back of lower-than-expected inflation are expected to be taken into account in future bargaining rounds. Moderate wage dynamics, reduction in the tax wedge and improving labour productivity are projected to lead to increases in nominal unit labour costs below the euro-area average in 2016 and 2017.

Graph II.12.1: **Italy - Real GDP growth and contributions**



In 2015, HICP inflation was only 0.1%, as falling imported energy prices offset the mildly positive core inflation (0.7%). Falling energy prices and limited wage pressures are set to curb inflation dynamics also in 2016. HICP inflation is expected to average 0.3% (y-o-y) in 2016 and to rise to 1.8% in 2017. A similar pattern is anticipated for core inflation (0.8% in 2016 and 1.2% in 2017). Part of the projected increase in 2017 comes from a rise in VAT rates (standard rate by 2 pps. and reduced rate by 3 pps.) included in the 2016 Stability Law to achieve the budgetary targets in that year, unless alternative compensatory measures are found. In the latter case, the 2017 HICP inflation could be significantly lower than currently forecast.

An expansionary fiscal stance in 2016

In 2015, the deficit is anticipated to have fallen to 2.6% of GDP (from 3.0% in 2014), aided by a further drop in interest expenditure and a slightly higher primary surplus stemming from positive economic growth. Current primary expenditure is set to have increased by around 1% year-on-year in nominal terms, mainly driven by the impact of the tax credit to low-wage employees, the extension of unemployment benefits, and new hiring in the education system. Outlays related to the migrant influx are estimated by the government at around 0.2% of GDP in 2015, only 0.05 pps. higher than in 2014 but more than twice those recorded over 2011-2013. Public investment bottomed out after five years of contraction, while one-off outlays related to a Constitutional Court ruling about the full de-indexation of higher pensions over 2012 and 2013 affected capital transfer dynamics. On the revenue side, the improving economic outlook implied positive developments for personal and corporate income tax revenues, while VAT revenues benefited from discretionary measures to increase tax compliance. The reduction in the labour tax wedge affected intakes from the regional tax on economic activities (IRAP) and social contributions. Overall, the annual increase in revenue is set to have been broadly in line with nominal GDP growth. The structural balance is set to have marginally improved in 2015 relative to 2014. In 2016, despite the positive growth outlook, the headline deficit is projected to decline marginally to 2.5% of GDP. This reflects the expansionary impact of the 2016 Stability Law, including EUR 3.2 bn of additional expenditure on security and culture that increased the deficit target to 2.4% of GDP from the 2.2% planned in the Draft Budgetary Plan. As a result, the structural balance is expected to worsen by around ¾ pps. of GDP in 2016. Primary expenditure is expected to continue increasing at a moderate pace (0.9% y-o-y in nominal terms). On the other hand, tax revenues are forecast to increase less than nominal GDP growth, mainly due to further cuts to the labour tax wedge and the abolition of property taxation on first residences. As a result, the tax burden is set to fall by nearly ¾ pps. of GDP compared to 2015. Based on a no-policy-change assumption, the headline deficit is projected to decline to 1.5% of GDP in 2017, including the legislated increase in VAT rates. After the peak reached in 2015 (just below 133% of GDP) the government debt ratio is set to decrease only slightly in 2016, also due to the worsening structural balance, and more in 2017 thanks to higher nominal growth and primary surplus.

Table II.12.1:

Main features of country forecast - ITALY

	2014		Annual percentage change						
bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	1613.9	100.0	0.9	-2.8	-1.7	-0.4	**0.8**	**1.4**	**1.3**
Private Consumption	986.3	61.1	1.1	-3.9	-2.7	0.4	**0.9**	**1.5**	**0.6**
Public Consumption	315.3	19.5	1.0	-1.4	-0.3	-0.7	**0.2**	**0.1**	**1.0**
Gross fixed capital formation	268.1	16.6	1.1	-9.3	-6.6	-3.5	**1.0**	**3.8**	**4.8**
of which: equipment	87.4	5.4	1.7	-13.6	-7.3	-2.9	**4.0**	**5.8**	**7.1**
Exports (goods and services)	477.2	29.6	2.2	2.3	0.8	3.1	**4.3**	**3.1**	**4.4**
Imports (goods and services)	428.4	26.5	3.2	-8.1	-2.5	2.9	**5.3**	**4.9**	**4.9**
GNI (GDP deflator)	1613.4	100.0	0.9	-2.7	-1.8	-0.2	**0.8**	**1.4**	**1.3**
Contribution to GDP growth: Domestic demand			1.0	-4.5	-2.9	-0.5	**0.8**	**1.6**	**1.4**
Inventories			0.0	-1.2	0.3	-0.1	**0.2**	**0.2**	**0.0**
Net exports			-0.2	2.9	0.9	0.1	**-0.1**	**-0.4**	**0.0**
Employment			0.4	-1.4	-2.5	0.2	**1.1**	**1.1**	**1.0**
Unemployment rate (a)			8.8	10.7	12.1	12.7	**11.9**	**11.4**	**11.3**
Compensation of employees / f.t.e.			2.9	0.4	1.5	0.6	**0.4**	**0.4**	**1.0**
Unit labour costs whole economy			2.4	1.9	0.7	1.3	**0.6**	**0.0**	**0.6**
Real unit labour cost			0.1	0.5	-0.6	0.4	**0.1**	**-0.8**	**-0.9**
Saving rate of households (b)			14.5	9.4	11.3	10.8	**11.0**	**11.6**	**11.9**
GDP deflator			2.4	1.4	1.3	0.9	**0.5**	**0.8**	**1.6**
Harmonised index of consumer prices			2.3	3.3	1.3	0.2	**0.1**	**0.3**	**1.8**
Terms of trade goods			-0.4	-1.4	1.7	3.0	**3.7**	**2.2**	**0.0**
Trade balance (goods) (c)			0.8	1.0	2.2	3.0	**3.3**	**3.3**	**3.3**
Current-account balance (c)			-0.6	-0.4	0.9	2.0	**2.2**	**2.1**	**2.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.5	-0.2	1.0	2.2	**2.4**	**2.3**	**2.2**
General government balance (c)			-3.4	-3.0	-2.9	-3.0	**-2.6**	**-2.5**	**-1.5**
Cyclically-adjusted budget balance (d)			-3.5	-1.2	-0.7	-0.9	**-1.0**	**-1.7**	**-1.4**
Structural budget balance (d)			-	-1.3	-0.9	-1.1	**-1.0**	**-1.7**	**-1.4**
General government gross debt (c)			107.1	123.2	128.8	132.3	**132.8**	**132.4**	**130.6**

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

13. CYPRUS

Growth turns positive as domestic demand rebounds

Cyprus' economy is expected to have grown by 1.4% in 2015, driven by both domestic and external demand with the support of low inflation and the euro's depreciation. Growth is forecast to gather further strength and reach 2.0% in 2017 which should support the labour market and set unemployment on a downward trajectory. Public finances are also expected to continue improving.

Economic activity picked up in 2015

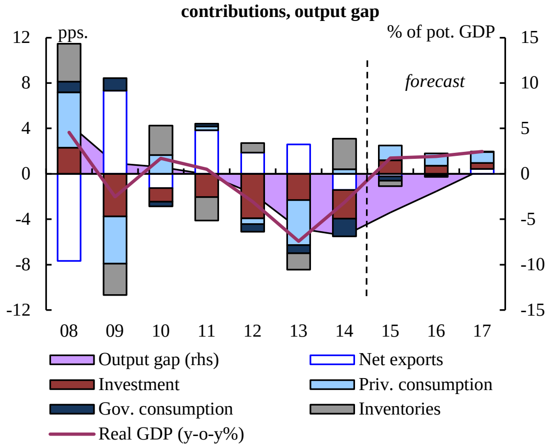
Real GDP growth strengthened in the first three quarters of 2015 after spending three years in negative territory. In light of improving short-term indicators, such as economic sentiment and tourist arrivals, real GDP is expected to have grown by 1.4% in 2015 as a whole, driven by both domestic and external demand, with additional support from low inflation and the depreciation of the euro. However, export growth was not sufficiently strong to counterbalance the growth of imports, which rose on the back of stronger domestic demand and the higher number of ship registrations. Therefore, net exports contributed negatively to GDP growth.

Growth in 2015 was also supported by the slower pace of public spending cuts and the slight increase in investment. However, investment growth was mainly driven by new registrations of ships in Cyprus, which have a corresponding positive impact on imports and, therefore, no net impact on GDP growth. The labour market improved with employment slowly picking up and unemployment starting to decline.

Growth is forecast to gradually gain further strength

In 2016, domestic demand is forecast to shape growth, as the support to private consumption from low inflation is set to continue. Investment growth, however, should slow, due to a negative base effect from the high number of ship registrations observed in 2015. Nevertheless, the underlying momentum of investment is gathering strength, alongside the easing of credit supply conditions. The drag from falling inventories and public spending cuts will ease and thus provide some additional support to growth. Net exports are expected to be broadly neutral to GDP growth, as export growth is forecast to slow reflecting that the positive impact from the depreciation of the euro looks set to weaken.

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



Increasing economic growth over the forecast horizon should lead to further labour market improvements. While GDP growth is forecast to reach 1.5% in 2016 and 2.0% in 2017, unemployment is expected to decline to around 13% by 2017. With unemployment still high and inflation expectations still subdued, wage growth should remain muted, in 2016 and 2017. High profit margins, reflecting weakened pass-through of lower unit labour costs on domestic prices, are set to result in only limited upward pressure on prices.

Risks to the outlook remain broadly balanced

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

Fiscal adjustment continues

The general government primary balance is forecast to reach a surplus of 2.2% of GDP in

2015, with a corresponding headline deficit of 1.0% of GDP. [50] Excluding the one-off effect of banking recapitalisation in 2014, the primary balance is expected to worsen by 0.4 pps. of GDP, largely driven by factors beyond the control of the government, such as new location rules regarding VAT for e-commerce services, the channelling of some revenue to the national banking resolution fund, and a decrease in dividend income from the Central Bank of Cyprus (CBC). The deficit increasing impact of the above mentioned factors are, however, partly compensated by one-off revenues linked to fines imposed by the national competition authority. On the expenditure side, the expected 2015 outcome is affected by higher expenditures related to the closure of Cyprus Airways and the introduction of the new Guaranteed Minimum Income scheme.

The primary surplus is expected to increase to 2.6% of GDP in 2016 and stay constant in 2017, largely driven by the improving economic outlook. This rise is expected despite the kicking-in of items that had been frozen during the programme, such as increases in wages and pensions. The projections also account for dividend income from the CBC. [51]

The worsening of the 2015 structural balance was mainly driven by the deterioration in the headline balance. In 2016, the structural balance is expected to improve slightly, as the headline balance improves and the output gap narrows further. In 2017, however, the structural balance is expected to worsen again despite an improving headline balance, as the output gap turns positive.

The debt-to-GDP ratio is projected to peak in 2015 at about 108% and to decline to 95% in 2017. The peak has been shifted from 2014 to 2015, as the debt-decreasing impact of certain initiatives is now expected to kick-in only in 2016.

(50) These numbers do not account for the banking recapitalisation of December 2015, as the size of the likely impact on fiscal accounts has to be assessed by Eurostat.

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

Table II.13.1:

Main features of country forecast - CYPRUS

		2014			Annual percentage change					
	mio EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		17393.7	100.0	3.1	-2.4	-5.9	-2.5	**1.4**	**1.5**	**2.0**
Private Consumption		12244.2	70.4	3.9	-0.8	-5.9	0.6	**1.8**	**1.6**	**1.4**
Public Consumption		2741.6	15.8	4.8	-3.7	-4.1	-9.0	**-2.4**	**-0.9**	**0.2**
Gross fixed capital formation		2003.7	11.5	1.7	-20.5	-15.2	-18.0	**10.5**	**5.6**	**4.0**
of which: equipment		382.3	2.2	0.5	-26.1	-15.1	-43.5	**8.0**	**6.6**	**5.2**
Exports (goods and services)		10437.5	60.0	2.1	-1.1	1.8	-0.5	**3.6**	**3.2**	**2.6**
Imports (goods and services)		10316.9	59.3	2.4	-4.4	-3.0	2.0	**4.0**	**3.4**	**1.9**
GNI (GDP deflator)		16901.8	97.2	3.2	-5.7	-6.3	-1.8	**1.9**	**1.4**	**1.9**
Contribution to GDP growth:	Domestic demand			3.5	-5.1	-7.0	-3.7	**2.1**	**1.7**	**1.5**
	Inventories			-0.2	0.8	-1.4	2.7	**-0.5**	**0.0**	**0.0**
	Net exports			-0.2	1.9	2.6	-1.4	**-0.2**	**-0.1**	**0.4**
Employment				2.0	-3.2	-6.0	-1.1	**0.8**	**0.9**	**1.2**
Unemployment rate (a)				-	11.9	15.9	16.1	**15.5**	**14.5**	**13.2**
Compensation of employees / head				4.0	0.8	-3.3	-4.7	**-0.8**	**1.1**	**1.4**
Unit labour costs whole economy				2.8	0.0	-3.4	-3.3	**-1.5**	**0.4**	**0.6**
Real unit labour cost				0.0	-2.1	-2.1	-2.0	**-0.4**	**0.0**	**-0.2**
Saving rate of households (b)				7.5	0.6	-4.1	-10.8	**-11.3**	**-11.8**	**-11.6**
GDP deflator				2.8	2.1	-1.4	-1.2	**-1.1**	**0.4**	**0.8**
Harmonised index of consumer prices				-	3.1	0.4	-0.3	**-1.6**	**0.2**	**1.3**
Terms of trade of goods				0.0	-0.9	0.2	7.1	**1.7**	**2.1**	**0.8**
Trade balance (goods) (c)				-24.6	-18.0	-16.3	-16.2	**-18.0**	**-18.1**	**-18.1**
Current-account balance (c)				-8.2	-5.6	-4.5	-4.6	**-4.8**	**-4.9**	**-5.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.9	-5.5	-3.1	-3.7	**-4.1**	**-4.2**	**-4.7**
General government balance (c)				-3.0	-5.8	-4.9	-8.9	**-1.0**	**0.1**	**0.4**
Cyclically-adjusted budget balance (d)				-	-4.7	-1.8	-5.3	**1.2**	**1.1**	**0.2**
Structural budget balance (d)				-	-4.9	-1.5	2.3	**0.4**	**0.7**	**-0.1**
General government gross debt (c)				56.9	79.3	102.5	108.2	**108.4**	**99.9**	**95.0**

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

14. LATVIA

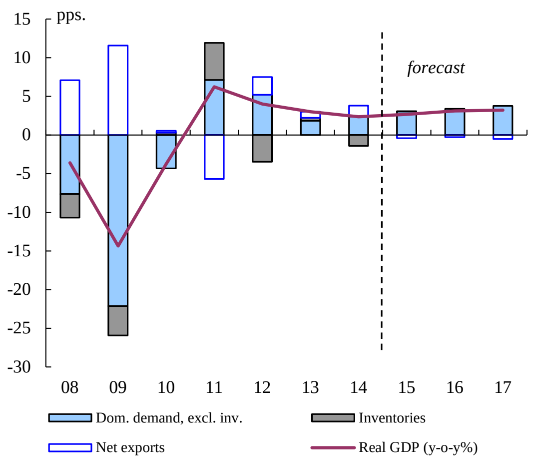
Rebound in new loans supports growth

Economic growth is set to improve amid growing evidence that the low-interest environment is supporting bank lending. The economy also benefits from low energy prices while exporters remain resilient to the challenging external environment. Latvia's fiscal position has improved on the back of the better outturn in 2015 and the favourable economic outlook.

Growth gains momentum

Economic growth is estimated to have picked up to 2.7% in 2015 supported by better-than-expected investment and construction volumes. Growth is forecast to improve further to 3.1% in 2016 and 3.2% in 2017, driven mainly by private consumption and investment. The risks to the forecast are broadly balanced, as the unstable external environment and domestic political tensions are largely offset by the strong upturn in the tourism sector, significant cost savings from low energy prices, and the successful re-orientation of domestic businesses towards new products and markets.

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



Low interest rates support demand

Following a decline in outstanding loans over the past few years, lending activity began to increase over the course of 2015 along with the fall in interest rates. New loans to residents increased by around 10% y-o-y in the third quarter of 2015. Retail lending rose even faster by 23%, with similar rates reported for both consumer and mortgage loans. The positive surprise in both investment and construction output can therefore be at least partly linked to the rebound in new lending. In addition, private consumption has been supported by higher wages and low energy prices. However, as consumer sentiment remains relatively weak, a large part of the income gains are foreseen to be directed to precautionary savings and debt repayment.

External balance remains stable

While imports are expected to grow faster than exports in volume terms, the low price of energy brings some terms-of-trade benefits to the country's external balance in 2016. The current-account deficit is therefore expected to remain broadly stable at around 2% of GDP by the end of 2016 and to increase moderately in 2017. In 2015, exports grew only marginally in volume terms but above demand from trading partners, showing significant resilience to the challenging external environment. Export growth is set to accelerate over the forecast horizon due to higher demand from trading partners, while the continuous rise in unit labour costs is expected to negatively impact export market shares.

Unemployment drops below 10%

For the first time since the 2008-2010 crisis, the unemployment rate dropped below 10% in 2015 and is expected to decline further to 8.6% in 2017. Nevertheless, unfavourable demographics and relatively high structural unemployment are limiting employment growth to modest rates. Steep wage growth is also negatively affecting employment demand, especially in regions with higher unemployment. Wage growth is nevertheless expected to marginally slow down as of 2016 due to a much weaker minimum wage adjustment than in previous years.

Energy prices keep inflation low

The decrease in crude oil prices at the beginning of 2016 is posing substantial downward pressure on consumer price inflation. Along with the immediate impact on fuel prices, lagged effects on natural gas, heating and transport services are set to keep inflation (HICP) low at 0.4% in 2016. Provided oil prices recover as assumed, inflation should reach 2.0% in 2017. Core inflation is meanwhile forecast at a higher rate of 1.4% in 2016 and 2.2% in 2017.

Solid tax collection improves fiscal outlook

Latvia's 2015 budget deficit is estimated at 1.3% of GDP, based on a stronger-than-expected cash revenue outturn and lower expenditure. Personal income tax revenue and dividend payments from state enterprises exceeded expectations in the last few months of the year. Excise duties benefited from an increase in fuel consumption linked to low oil prices. VAT revenue outperformed private consumption growth on the back of better tax collection. Current expenditure turned out to be lower-than-budgeted, in particular for purchases of goods and services, while capital spending exceeded the plans.

In 2016, the government deficit is projected to decline to 1.0% of GDP, mainly as a result of net-deficit-reducing measures equivalent to 0.4% of GDP. The strong tax revenue collection in 2015 has improved fiscal outlook. Personal income tax revenue is expected to benefit from robust wage growth, while the moderation in private consumption implies a lower growth in indirect tax revenue compared to the autumn 2015 forecast. Government expenditure growth is driven by wages and purchases, as well as the continued increase in social spending on the back of the growing number of pensioners and higher contribution-based benefit rates. Capital spending is expected to accelerate in 2017 as the number of projects under the new EU budget framework picks up. The debt buyback operation in December 2015 is estimated to produce interest saving of around 0.1% of GDP in 2016 and 2017 as Latvia benefits from the low interest on new borrowing.

The government deficit is forecast at 1.0% of GDP in 2017 under a no-policy change assumption. The structural deficit is expected to narrow from about 2.0% of GDP in 2015 to about 1½% of GDP in 2017, reflecting the improvement in the nominal deficit.

Government debt is projected to temporarily increase from about 37% of GDP in 2015 to 40% of GDP at the end of 2016, reflecting the pre-financing of a large bond redemption in early 2017.

Table II.14.1:

Main features of country forecast - LATVIA

	2014		Annual percentage change						
mio EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	23580.9	100.0	4.4	4.0	3.0	2.4	**2.7**	**3.1**	**3.2**
Private Consumption	14430.4	61.2	4.0	3.2	5.1	2.3	**3.4**	**3.8**	**3.9**
Public Consumption	4151.8	17.6	1.3	0.3	1.6	4.9	**2.7**	**2.4**	**2.0**
Gross fixed capital formation	5393.6	22.9	9.6	14.4	-6.0	0.5	**2.1**	**2.8**	**4.5**
of which: equipment	2062.6	8.7	10.8	12.0	-5.4	-4.5	**-**	**-**	**-**
Exports (goods and services)	14031.7	59.5	8.1	9.8	1.1	3.1	**1.8**	**2.7**	**3.2**
Imports (goods and services)	14561.7	61.8	7.9	5.4	-0.2	0.8	**2.4**	**3.1**	**4.0**
GNI (GDP deflator)	23541.0	99.8	4.3	3.3	3.5	2.4	**2.6**	**3.0**	**3.2**
Contribution to GDP growth:	Domestic demand		5.4	5.2	1.8	2.4	**3.0**	**3.4**	**3.7**
	Inventories		0.2	-3.5	0.4	-1.4	**0.1**	**0.0**	**0.0**
	Net exports		-1.1	2.3	0.8	1.4	**-0.4**	**-0.3**	**-0.5**
Employment			-0.5	1.4	2.3	-1.4	**0.5**	**0.5**	**0.6**
Unemployment rate (a)			12.9	15.0	11.9	10.8	**9.9**	**9.2**	**8.6**
Compensation of employees / head			10.6	6.1	5.0	8.5	**6.1**	**5.2**	**5.5**
Unit labour costs whole economy			5.4	3.5	4.3	4.6	**3.8**	**2.5**	**2.9**
Real unit labour cost			-0.5	0.0	3.0	3.3	**2.8**	**1.3**	**0.5**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			6.0	3.6	1.3	1.2	**1.0**	**1.2**	**2.3**
Harmonised index of consumer prices			-	2.3	0.0	0.7	**0.2**	**0.4**	**2.0**
Terms of trade of goods			-0.5	-3.7	1.3	-0.8	**1.0**	**0.5**	**-0.1**
Trade balance (goods) (c)			-17.1	-12.1	-11.2	-9.6	**-9.3**	**-9.0**	**-9.4**
Current-account balance (c)			-8.5	-3.5	-2.1	-2.0	**-1.9**	**-2.0**	**-2.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.6	-0.5	0.4	1.2	**1.2**	**0.9**	**0.5**
General government balance (c)			-2.4	-0.8	-0.9	-1.6	**-1.3**	**-1.0**	**-1.0**
Cyclically-adjusted budget balance (d)			-	-0.1	-1.0	-2.0	**-1.9**	**-1.7**	**-1.6**
Structural budget balance (d)			-	-0.1	-1.0	-1.7	**-1.9**	**-1.7**	**-1.6**
General government gross debt (c)			18.0	41.4	39.1	40.8	**36.7**	**39.9**	**37.7**

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

15. LITHUANIA

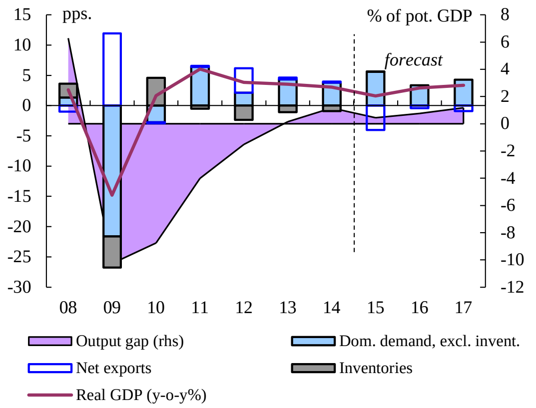
Robust domestic demand and recovering exports lifts growth

Growth is expected to strengthen in 2016 as private consumption remains strong and exports pick up. A temporary decline in EU fund disbursements is expected to slow down investment growth in 2016 before pickup up in 2017. As the labour market continues to tighten, wage growth is set to accelerate lifting inflation in 2016 despite the continuing fall in energy prices. The improvement in public finances is set to pause until 2017.

Mixed developments in 2015 result in lacklustre growth

Lithuania's real GDP is expected to have grown by 1.6% in 2015. While domestic demand growth exceeded initial expectations considerably, plummeting demand from outside the EU led to disappointing export performance. A surge in EU fund disbursements fuelled rapid investment growth in 2015. At the same time, increasing competition for labour ensured robust wage growth while negative inflation, driven by falling energy and food prices, further supported real disposable incomes.

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



Improving external environment to help growth in 2016

Economic growth is expected to rise from 1.6% in 2015 to 2.9% in 2016 as private consumption continues to grow robustly and exports benefit from an improvement in the external environment. A further pick up in exports and recovering investments is expected to lift real GDP growth to 3.4% in 2017. Rising real disposable incomes on the back of wage growth and low inflation is set to ensure that consumption continues to grow solidly in 2016. Investment growth is expected to slow down significantly in 2016, before recovering somewhat in 2017, due to a slowdown in construction activities coupled with the impact of EU structural fund period changeover.

Growing demand from the EU is forecast to drive export growth in 2016 despite a drag from the continuing recession in Russia and other CIS countries. As the EU recovery strengthens Lithuania's export growth is expected to accelerate in 2017 and receive a further boost once demand from non-EU markets resumes growing. Solid domestic demand is expected to keep the import growth not far behind.

While job creation is expected to slow down considerably in 2016, a shrinking labour force due to net emigration and population ageing will ensure a falling unemployment rate. This in turn is about to add further fuel to the fast wage growth.

Risks to the forecast are tilted to the downside and stem from declining global trade and a prolonged recession in Russia which could dampen export growth.

Continued fall in energy prices to keep HICP inflation low

Following a 0.7% drop in consumer prices in 2015, inflation is expected to pick up slightly in 2016. While rising wages are set to push prices of services up at a solid pace, the continued fall in energy prices is expected to keep inflation low in 2016. A trend reversal in energy prices is forecast to increase inflation rapidly in 2017.

Fiscal improvement still on hold

In 2015, the general government deficit is estimated to have risen to 0.9% of GDP from 0.7% a year before. Higher social spending and an increase in defence expenditure were only partially covered by new revenue measures. In addition, one-off factors had no positive impact on the deficit as in 2014. The surplus coming from the deposit insurance (0.4 pps.) was offset by expenditures to compensate public wage cuts considered unlawful by the constitutional court. 2015 tax revenues slightly exceeded the government's plan despite lower-than-expected nominal GDP growth, as tax rich domestic consumption grew strongly.

For 2016, the general government deficit is forecast to increase to 1.2% of GDP in line with the government's target. Strong domestic demand, buoyant wage growth and some small tax increases are set to support revenue growth. However, this is expected to be insufficient to offset an increase in non-taxable incomes, pensions and some public wages.

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

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

Lithuania's structural deficit is expected to decrease to about 1% of GDP in 2015 and to increase to about 1½% of GDP in 2016 due to additional expenditure measures, before decreasing to about 1% of GDP in 2017.

General government debt is set to have increased from 40.7% of GDP in 2014 to 42.7% in 2015, due to the pre-financing of bond redemptions and higher-than-usual pre-financing of EU-funded expenditures. In 2016, debt is forecast to fall back to 40.6% of GDP, while in 2017 it is expected to increase again to 42.3% due to the end of year pre-financing of forthcoming bond redemptions.

Table II.15.1:

Main features of country forecast - LITHUANIA

	2014		Annual percentage change						
	bn EUR Curr. prices	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP	36.4	100.0	4.6	3.8	3.5	3.0	**1.6**	**2.9**	**3.4**
Private Consumption	22.9	62.8	4.9	3.6	4.3	4.1	**5.2**	**4.9**	**3.8**
Public Consumption	6.2	16.9	1.2	1.3	1.0	1.3	**2.3**	**1.4**	**2.0**
Gross fixed capital formation	6.9	18.9	7.4	-1.8	8.3	5.4	**10.3**	**1.0**	**7.0**
of which: equipment	2.3	6.2	10.6	2.1	12.5	3.0	**8.0**	**-5.0**	**11.2**
Exports (goods and services)	29.6	81.2	10.3	12.2	9.6	3.0	**1.2**	**3.1**	**4.3**
Imports (goods and services)	28.9	79.3	10.5	6.6	9.3	2.9	**6.3**	**4.1**	**5.5**
GNI (GDP deflator)	36.0	98.8	4.3	4.5	4.0	4.5	**-0.8**	**4.5**	**4.4**
Contribution to GDP growth: Domestic demand			5.3	2.1	4.3	3.8	**5.6**	**3.6**	**4.3**
Inventories			0.4	-2.3	-1.1	-0.9	**0.0**	**0.0**	**0.0**
Net exports			-0.9	4.0	0.3	0.2	**-4.0**	**-0.7**	**-0.9**
Employment			-1.0	1.8	1.3	2.0	**0.9**	**0.2**	**0.1**
Unemployment rate (a)			11.5	13.4	11.8	10.7	**9.0**	**8.0**	**7.2**
Compensation of employees / head			9.9	4.2	5.4	3.9	**5.1**	**4.7**	**5.0**
Unit labour costs whole economy			4.1	2.2	3.1	2.8	**4.4**	**1.9**	**1.7**
Real unit labour cost			-0.3	-0.5	1.8	1.6	**4.3**	**1.8**	**-1.8**
Saving rate of households (b)			3.9	1.6	1.8	0.1	**-**	**-**	**-**
GDP deflator			4.3	2.7	1.3	1.2	**0.1**	**0.1**	**3.6**
Harmonised index of consumer prices			4.7	3.2	1.2	0.2	**-0.7**	**-0.1**	**2.1**
Terms of trade goods			1.3	-0.9	0.0	0.6	**3.4**	**0.5**	**-0.5**
Trade balance (goods) (c)			-10.9	-3.3	-2.6	-2.6	**-4.3**	**-4.9**	**-6.3**
Current-account balance (c)			-7.3	-0.9	1.4	3.9	**-1.1**	**0.2**	**0.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.2	1.9	4.5	6.6	**1.2**	**2.5**	**2.5**
General government balance (c)			-3.8	-3.1	-2.6	-0.7	**-0.9**	**-1.2**	**-0.4**
Cyclically-adjusted budget balance (d)			-	-2.5	-2.7	-1.2	**-1.1**	**-1.5**	**-1.0**
Structural budget balance (d)			-	-2.6	-2.3	-1.6	**-1.1**	**-1.5**	**-1.0**
General government gross debt (c)			21.5	39.8	38.8	40.7	**42.7**	**40.6**	**42.3**

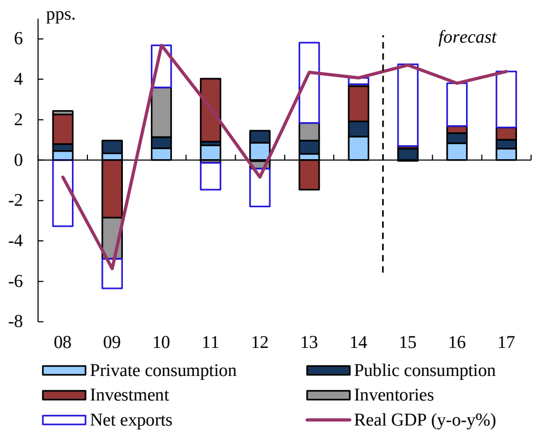
(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

16. LUXEMBOURG
Robust growth ahead

Luxembourg's growth is expected to have accelerated to 4.7% in 2015 from 4.1% in the previous year, mainly due to strong exports of financial and non-financial services. In spite of the VAT rates increase headline inflation remained mute. Employment growth is projected to remain solid, while unemployment is expected to decrease only marginally. Public finances are projected to remain sound.

Real GDP year-on-year growth in the last quarter of 2015 is likely come in weak as a result of base effects, given that the last quarter of 2014 was exceptionally strong due to anticipation effects related to the increase in VAT rates that took place at beginning of 2015. Over 2015 as a whole, however, Luxembourg's economy is expected to have expanded by 4.7%, driven by a sharp improvement in net exports of services and strong growth of 5.7% in the first three quarters of the year.

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



Robust but volatile growth ahead

In 2016, GDP is expected to grow by 3.8% still mostly driven by the large, even if decreasing, contribution from net export. By contrast, the contribution from domestic demand is expected to build up. Low oil prices, favourable financial conditions and positive employment prospects will provide tailwinds to private consumption. Moreover, household purchasing power should also benefit from indexed wage increases, even if these are now only expected to occur in the second half of the year. Favourable lending conditions should boost investment. In particular, construction is projected to remain robust over the forecast period, supported both by household and public sector investment plans, the latter being engaged with the execution of large public infrastructure projects. By contrast, in spite of the accommodative credit stance, equipment investment is expected to remain subdued, as capacity utilisation remains low.

Finally, in 2016 volatile financial markets are forecast to limit the contribution to growth of net exports. While import is expected to remain broadly stable, financial market turbulence is projected to have a dampening effect on the export-focused financial industry.

In 2017, the contribution of net export to growth is expected to become more pronounced, while private consumption will contribute less, given a less favourable labour market and increasing price pressures. Overall Luxembourg's economy is forecast to grow by around 4.4% in 2017.

Risks to this scenario are quite balanced

The financial sector will remain the main growth engine and in the near future, the country's economic prospects will hinge on its ability to address all the challenges that the sector is facing.

Job creation remains robust

In 2015, employment growth is expected to have accelerated to 2.6% from 2.5% in 2014. However, this proved to be insufficient to lower the unemployment rate, which increased to 6.1% from 6.0% the previous year. As non-residents are likely to benefit more from declining, but still robust job creation, the unemployment rate is forecast to decrease only marginally by the end of the forecast horizon.

A rebound in inflation has been delayed

Headline HICP inflation fell to 0.1% in 2015, mainly because of the pronounced drop in oil prices. As oil prices are expected to remain low for a protracted period, the projected rebound in inflation is unlikely to occur before 2017. On the basis of these projections, the automatic indexation of wages will be triggered only in the second half on 2016. Core inflation is projected to remain stable just below 2% in 2016 and 2017, better reflecting the impact of the increase in all VAT rates that occurred at the start of 2015.

Small but stable fiscal surplus ahead

In 2015, the sharp drop in VAT revenues from e-commerce, equivalent to around 1¼% of GDP, was only partially counterbalanced by the additional revenues from the new tax levied on personal income and the revenues linked to the 2 pp. increase in VAT rates. Finally, in line with the favourable evolution of the stock markets, revenues from the subscription tax on the net assets of investment funds were higher than originally expected.

On the expenditure side, savings from the non-indexation of social expenditure have been offset by a surge in public investment and associated intermediate consumption costs. Costs related to Luxembourg's EU Presidency and the implementation of a public sector-wide wage agreement have also driven up overall expenditure.

The general government surplus is thus expected to drop from 1.4% in 2014 to 0.2% of GDP in 2015.

In line with the expected incremental impact of measures adopted with the 2015 budget, government finances are projected to improve and lead to a larger surplus in 2016 and 2017, even if in the latter year's improvements will be limited given that Luxembourg's share of e-VAT revenues will be further reduced from 30% to 15% of VAT proceeds related to e-commerce activities.

This forecast does not include any impact from the announced reform of the taxation system set to be implemented at beginning of 2017 given that it is not sufficiently specified yet.

The surplus of the government's structural balance is expected to narrow by about 1¾% of GDP in 2015, still remaining in positive territory and to decline further towards the end of the forecast period as the output gap closes rapidly.

Luxembourg's debt-to-GDP ratio is set to decrease from 23% in 2014 to 21.3% in 2015, to then increase slightly to 22% at the end of the forecast horizon.

Table II.16.1:

Main features of country forecast - LUXEMBOURG

	2014		Annual percentage change						
mio EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	48897.5	100.0	3.8	-0.8	4.3	4.1	**4.7**	**3.8**	**4.4**
Private Consumption	15263.9	31.2	2.8	2.7	0.9	3.7	**-0.1**	**2.9**	**2.0**
Public Consumption	8345.0	17.1	3.7	3.6	3.9	4.5	**3.3**	**2.9**	**2.6**
Gross fixed capital formation	9092.7	18.6	5.0	-0.3	-7.2	9.9	**0.7**	**1.9**	**3.5**
of which: equipment	3629.9	7.4	6.5	23.6	-14.7	18.3	**-5.0**	**-2.0**	**3.5**
Exports (goods and services)	99393.0	203.3	6.6	0.2	6.9	6.8	**7.5**	**3.5**	**4.9**
Imports (goods and services)	83555.9	170.9	7.1	1.5	5.7	8.0	**6.6**	**3.0**	**4.3**
GNI (GDP deflator)	32726.6	66.9	2.5	-0.9	-1.7	5.9	**3.6**	**4.0**	**5.0**
Contribution to GDP growth:	Domestic demand		2.7	1.4	-0.5	3.7	**0.7**	**1.7**	**1.6**
	Inventories		0.1	-0.4	0.9	0.1	**0.0**	**0.0**	**0.0**
	Net exports		1.0	-1.9	4.0	0.3	**4.1**	**2.1**	**2.8**
Employment			3.4	2.4	1.8	2.5	**2.6**	**2.7**	**2.5**
Unemployment rate (a)			3.7	5.1	5.9	6.0	**6.1**	**6.0**	**6.0**
Compensation of employees / head			3.0	1.6	3.6	2.9	**0.9**	**1.4**	**2.6**
Unit labour costs whole economy			2.7	4.9	1.1	1.4	**-1.1**	**0.3**	**0.7**
Real unit labour cost			0.2	0.8	-1.2	0.4	**-4.6**	**-1.0**	**-1.4**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.4	4.1	2.4	1.0	**3.6**	**1.2**	**2.1**
Harmonised index of consumer prices			2.4	2.9	1.7	0.7	**0.1**	**0.4**	**2.4**
Terms of trade of goods			0.1	0.1	0.1	0.6	**0.8**	**0.3**	**0.3**
Trade balance (goods) (c)			-7.9	-3.6	-0.7	-0.6	**-1.1**	**-1.5**	**-1.4**
Current-account balance (c)			9.2	6.1	5.7	5.5	**4.8**	**4.9**	**4.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	5.2	4.0	3.5	**4.9**	**5.1**	**4.5**
General government balance (c)			2.1	0.2	0.7	1.4	**0.2**	**0.5**	**0.5**
Cyclically-adjusted budget balance (d)			1.9	2.6	2.3	2.7	**0.8**	**0.9**	**0.4**
Structural budget balance (d)			-	2.6	2.3	2.5	**0.8**	**0.9**	**0.4**
General government gross debt (c)			9.4	22.1	23.4	23.0	**21.3**	**22.7**	**22.0**

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

17. HUNGARY

Private consumption becomes the main growth driver

Hungary's economy grew by 3.7% in 2014 but real GDP growth is expected to have slowed down to 2.7% in 2015 and is projected to further decelerate to 2.1% in 2016 before rebounding to 2.5% in 2017. Unemployment decreases further and inflation gradually picks up. Following an expected overachievement of the official target, the government deficit is projected to stabilise at historically low levels, around 2% of GDP.

Households sustain growth

GDP growth in Hungary declined to 2.4% (y-o-y) in 2015-Q3 from 2.7% y-o-y in 2015-Q2. The slowdown was caused mainly by the negative contribution of the agricultural sector due to weather conditions. At the same time, both manufacturing and construction posted weaker-than-expected figures, in line with the deceleration of exports and the slowdown in EU fund absorption compared to the autumn expectations. Overall, GDP is projected to have increased by 2.7% in 2015.

Economic growth is expected to be slightly less dynamic at the beginning of 2016 partly because of the decrease in EU fund absorption as well as the slowdown in external demand. This should be partially compensated by steady growth in private consumption of more than 3%. Real disposable income and household spending will enjoy a boost from a 1 pp. cut in the flat personal income tax rate (from 16% to 15%) and the effect of an earlier policy to convert foreign currency-denominated loans into HUF. While households are also expected to increase their investment in real estate, corporate gross fixed capital formation will be negatively affected by the slowdown in EU fund absorption. Public investment is expected to be the most affected and to fall in 2016, dragging overall investment growth into negative territory.

In 2017, private consumption should remain robust and drive growth. In addition, the reduction of the bank levy and new central bank policies providing subsidised lending to SMEs should create a friendlier lending environment. Furthermore, the reduction of the VAT on new homes to 5% is projected to provide an impulse to the housing market too. All in all, investment growth is expected to turn positive again and the strength of domestic demand as a whole should propel GDP growth to 2.5%. Net exports are forecast to contribute positively to growth, but to a lesser extent than in 2016, driving the current surplus wider. Throughout the forecast horizon, household's precautionary savings attitude is set to decrease.

Unemployment continues to fall while inflation picks up

The unemployment rate is at an all-time low and is expected to further decrease to around 5% at the end of the forecast horizon, as activity continues to expand. Employment is growing, not just because of the government's public works scheme, but also because of job creation in the private sector.

Prices in 2015 were broadly stable. In 2016, inflation is expected to revive to 1.7%, but lower-than-expected oil prices, subdued imported inflation and low food prices imply that the central bank's 3% target is not likely to be reached before the end of 2017.

Risks are rather on the upside

The agricultural sector posted a negative contribution to growth in 2015. This means that a better-than-average agricultural year is a positive risk to 2016. On the other hand, the slow phasing out of the Funding for Growth Scheme and the full implementation of the announced policy commitments towards the financial sector could further improve lending conditions and help growth more than expected.

The headline deficit stabilises at around 2% of GDP

Based on the preliminary outturn data, the 2015 general government deficit is expected to have reached 2.1 % of GDP, down from 2.5% in the previous year and 0.3 pps. below the official target. Tax and social security receipts significantly exceeded the budgeted numbers, while interest outlays turned out to be lower. These favourable developments were partly absorbed by additional expenditure, most notably the higher-than-expected spending from domestic sources on EU- funded projects.

In 2016, the deficit is projected at 2.0% of GDP. The forecast incorporates considerable tax cuts amounting to 0.7% of GDP as well as expenditure-increasing measures, such as a new support scheme for families buying newly-built flats. This is projected to be counterbalanced by positive base effects, decreasing interest outlays, savings in the domestic co-financing of EU-funded projects, as well as by contained expenditure on social payments and operating costs. At the same time, the primary balance is expected to deteriorate somewhat. It is assumed that the special reserve (0.2% of GDP) will not be spent.

Based on a no-policy-change assumption, the deficit is projected to decrease slightly to 1.9% of GDP in 2017. Further expenditure decreases on interest payments, pensions, and the domestic co-financing of EU-funded projects are expected to contribute to the reduction of the deficit. However, this is expected to be largely offset by the effect of the already announced deficit-increasing measures (including the tax cuts) and the phasing out of one-off revenues from agricultural land sales.

Regarding risks, the 2015 deficit outcome still depends on the fiscal performance of local governments which is subject to some uncertainty. Looking ahead, notable negative budgetary risks stem from the open-ended nature of the new housing support scheme and the tight funding targets set for operating costs, in particular in the healthcare sector. However, the receipts from land sales could well exceed the budgeted plans.

Hungary's structural budget balance is expected to remain somewhat below -2% over the forecast horizon with an estimated temporary deterioration in 2016 of 0.4 pps. Hungary's debt-to-GDP ratio is projected to decrease by less than 0.5 pps. to 75.8% this year, mainly due to delays in the receipt of EU funds. As the effect of the low deficit prevails, the pace of debt reduction is expected to accelerate thereafter, leading the debt ratio to decline to 72.4% by the end of 2017.

Table II.17.1:

Main features of country forecast - HUNGARY

	2014			Annual percentage change						
	bn HUF	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		32179.7	100.0	2.3	-1.7	1.9	3.7	**2.7**	**2.1**	**2.5**
Private Consumption		16191.0	50.3	2.0	-2.2	0.3	1.8	**3.0**	**3.2**	**2.5**
Public Consumption		6502.2	20.2	1.0	-1.5	2.4	2.9	**0.3**	**0.2**	**0.5**
Gross fixed capital formation		6971.3	21.7	2.9	-4.4	7.3	11.2	**0.0**	**-2.0**	**3.6**
of which: equipment		2900.0	9.0	5.0	3.5	3.1	17.0	**-4.0**	**-3.0**	**3.6**
Exports (goods and services)		28721.7	89.3	11.3	-1.8	6.4	7.6	**8.5**	**6.2**	**6.4**
Imports (goods and services)		26383.3	82.0	10.5	-3.5	6.3	8.5	**7.3**	**5.8**	**6.6**
GNI (GDP deflator)		30756.8	95.6	2.2	-1.1	3.4	2.0	**3.9**	**2.2**	**3.1**
Contribution to GDP growth:	Domestic demand			2.1	-2.3	2.1	3.8	**1.6**	**1.2**	**2.1**
	Inventories			-0.2	-0.6	-0.7	0.0	**-0.4**	**0.0**	**0.0**
	Net exports			0.4	1.3	0.5	-0.2	**1.6**	**0.9**	**0.5**
Employment				0.0	0.1	0.9	3.1	**2.1**	**1.4**	**1.2**
Unemployment rate (a)				7.9	11.0	10.2	7.7	**6.7**	**6.0**	**5.2**
Compensation of employees / head				9.5	2.1	1.8	0.9	**3.5**	**3.5**	**3.5**
Unit labour costs whole economy				7.0	4.0	0.9	0.3	**2.8**	**2.7**	**2.2**
Real unit labour cost				-0.7	0.5	-2.2	-2.9	**0.5**	**0.3**	**-0.6**
Saving rate of households (b)				10.9	8.2	9.3	10.2	**10.2**	**8.9**	**8.1**
GDP deflator				7.9	3.5	3.1	3.2	**2.3**	**2.4**	**2.8**
Harmonised index of consumer prices				8.4	5.7	1.7	0.0	**0.1**	**1.7**	**2.5**
Terms of trade goods				-0.7	-1.2	0.5	1.0	**1.0**	**0.5**	**0.0**
Trade balance (goods) (c)				-3.4	2.9	3.4	2.5	**4.0**	**4.7**	**4.7**
Current-account balance (c)				-5.6	1.6	3.9	2.2	**5.0**	**5.6**	**6.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.0	4.1	7.5	6.0	**8.2**	**7.9**	**8.2**
General government balance (c)				-5.8	-2.3	-2.5	-2.5	**-2.1**	**-2.0**	**-1.9**
Cyclically-adjusted budget balance (d)				-	-0.7	-1.4	-2.3	**-2.2**	**-2.1**	**-2.2**
Structural budget balance (d)				-	-1.4	-1.5	-2.5	**-2.2**	**-2.5**	**-2.2**
General government gross debt (c)				64.6	78.3	76.8	76.2	**75.8**	**74.3**	**72.4**

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

18. MALTA

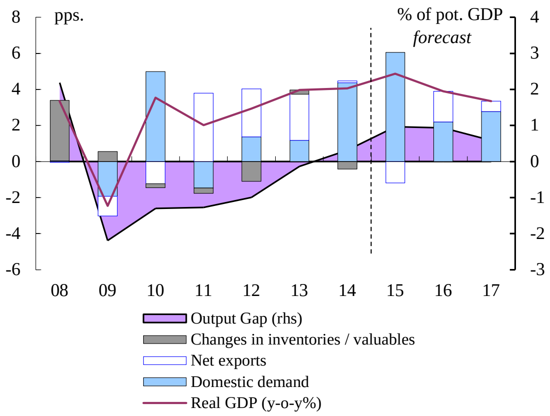
Robust growth outlook

Real GDP growth peaked in 2015 on the back of strong investment and supported by private consumption. Growth is expected to moderate in 2016 and 2017 with the phasing out of the major investment projects. The general government deficit and debt are forecast to decline further also thanks to the favourable macroeconomic conditions.

Growth strengthens further in 2015 and moderates thereafter

Malta's economy grew by 5.4% (y-o-y) in the third quarter of 2015, slightly less than the 5.8% increase reported in the second quarter. The latest national accounts release features notable upward revisions to the growth figures of recent quarters, which will result in an even stronger carryover going forward. The main engine of growth continued to be investment, particularly machinery and equipment investment associated with large ongoing energy investment projects. Private consumption expanded by 5.1% on the back of strong wage growth and record-low unemployment. The high import-dependence of domestic demand resulted in a negative contribution of net exports to growth. Favourable developments in the traditionally volatile primary income account fully offset this. As a result the current account surplus increased further.

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



Real GDP growth is forecast to reach 4.9% in 2015 before moderating to 3.9% in 2016 and further to 3.4% in 2017. The expected slowdown primarily reflects the planned completion of large-scale energy investment projects in 2016 and the expiration of the 2007-13 programming period of EU funding. Private consumption is therefore projected to become the main driver of growth over the forecast horizon, contributing on average over 1.5 pps. per year to growth in 2016 and 2017. Export growth is expected to continue recovering gradually, helping Malta to regain export market shares. As demand for capital goods slows down in line with the decrease in investment and oil prices remain subdued, net exports are expected to make a positive contribution to GDP growth in 2016-17.

The risks to this macroeconomic forecast are balanced. Upside risks are related mainly to the investment outlook due for example to the materialisation of additional infrastructure projects linked to the Investment Plan for Europe and the potential impact of the establishment of a development bank to help SMEs access financing. At the same time, protracted weakness in emerging markets could hamper the recovery of exports, given Malta's large exposure to trading partners outside the EU.

Unemployment continued dropping over the third quarter of 2015 thanks to sustained job creation. The unemployment rate is projected to average 5.4% for the year as a whole and to remain broadly unchanged until the end of the forecast horizon. The very low unemployment rate points to some tightness in the labour market, which, combined with strong productivity gains, are forecast to result in some upward pressure on wage growth.

HICP inflation is forecast to return to above 2% by 2017 on the back of higher energy inflation, reflecting the expiration of the low base effect from cutting electricity tariffs for households in 2016 and a gradual recovery in oil prices in 2017. Services inflation is also projected to accelerate. Inflation is forecast to be among the highest in the euro area over the forecast horizon.

Budget deficit decreases further

In 2015 the general government deficit is projected to have decreased further to 1.6% of GDP, from 2.1% of GDP in 2014, supported by strong nominal GDP growth. Revenue growth is expected to benefit from the positive outlook for the labour market and consumer demand, as well as the proceeds from the citizenship programme (0.9% of GDP). Despite the moderation in the growth rate for social transfers and interest, current expenditure is expected to increase by 5.5% (y-o-y) in nominal terms. Net investment is expected to remain at levels close to 2014, while subsidies to investment are set to increase on the back of a further capital injection into Air Malta (0.5% of GDP).

In 2016 the deficit is forecast to further decrease to 1.1% of GDP. Despite the increase in excise duty on various products, current revenue is expected to grow less than nominal GDP. This reflects the lowering of income tax for low income earners, the phasing out of the eco contribution and the high base effect for the proceeds linked to the citizenship programme. Current expenditure is expected to continue growing due to measures introduced with the 2016 Budget, including an upward adjustment of the minimum contributory pension and the partial funding of the cost of home care for the elderly. Public investment is expected to decrease on the back of the phasing out of the capital injection to the national airline, while the sharp decline in the absorption of EU funds due to the beginning of a new programming period should be partially compensated for by a higher reliance on national funds. In 2017, under a no-policy-change assumption, the deficit is expected to decline further to 1.0% of GDP thanks to favourable nominal GDP growth.

The structural deficit ratio is estimated to have remained stable in 2014. It is projected to improve by ½ pp. of GDP in both 2015 and 2016 and by ¼ pp. of GDP in 2017.

From 66.9% of GDP in 2014, the debt ratio is projected to fall further in 2015 to 64% of GDP, also thanks to the expected repayment of some tax arrears from the public energy utility corporation. It is expected to follow a downward path and to reach 58.7% of GDP by 2017.

Table II.18.1:

Main features of country forecast - MALTA

		2014		Annual percentage change						
mio EUR		Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		8106.1	100.0	2.8	2.9	4.0	4.1	**4.9**	**3.9**	**3.4**
Private Consumption		4366.3	53.9	2.7	-0.2	2.0	2.8	**4.0**	**3.4**	**2.6**
Public Consumption		1614.8	19.9	2.0	6.3	0.2	7.8	**2.5**	**4.9**	**6.3**
Gross fixed capital formation		1445.5	17.8	0.6	1.4	-0.2	7.6	**19.1**	**-2.6**	**1.0**
of which: equipment		518.4	6.4	-	-17.3	9.0	-0.7	**-**	**-**	**-**
Exports (goods and services)		11977.7	147.8	4.8	6.7	0.8	0.0	**2.7**	**4.5**	**4.8**
Imports (goods and services)		11329.3	139.8	4.1	5.2	-0.8	-0.1	**3.7**	**3.5**	**4.7**
GNI (GDP deflator)		7896.9	97.4	2.6	1.7	3.2	6.8	**5.6**	**3.8**	**3.5**
Contribution to GDP growth:	Domestic demand			2.2	1.3	1.2	4.3	**6.1**	**2.2**	**2.8**
	Inventories			0.0	-1.1	0.2	-0.4	**0.0**	**0.0**	**0.0**
	Net exports			0.7	2.6	2.5	0.1	**-1.2**	**1.7**	**0.5**
Employment				1.0	2.5	3.7	5.0	**2.1**	**2.4**	**2.4**
Unemployment rate (a)				6.7	6.3	6.4	5.8	**5.4**	**5.4**	**5.4**
Compensation of employees / head				3.8	3.7	1.3	0.6	**3.1**	**3.4**	**3.4**
Unit labour costs whole economy				1.9	3.2	1.1	1.5	**0.4**	**1.9**	**2.4**
Real unit labour cost				-0.4	1.2	-0.8	-0.2	**-2.0**	**-0.6**	**-0.2**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				2.4	2.0	1.9	1.8	**2.4**	**2.5**	**2.6**
Harmonised index of consumer prices				-	3.2	1.0	0.8	**1.2**	**1.7**	**2.1**
Terms of trade of goods				0.3	-1.9	2.6	1.7	**0.9**	**-0.3**	**0.0**
Trade balance (goods) (c)				-16.7	-14.2	-13.1	-12.8	**-15.5**	**-14.2**	**-13.5**
Current-account balance (c)				-5.2	1.3	3.6	3.9	**4.3**	**5.9**	**6.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.2	3.2	5.3	5.6	**6.1**	**7.6**	**8.1**
General government balance (c)				-5.1	-3.6	-2.6	-2.1	**-1.6**	**-1.1**	**-1.0**
Cyclically-adjusted budget balance (d)				-5.1	-3.1	-2.5	-2.2	**-2.0**	**-1.5**	**-1.3**
Structural budget balance (d)				-	-3.4	-2.7	-2.5	**-2.2**	**-1.6**	**-1.3**
General government gross debt (c)				62.1	67.4	68.5	66.9	**64.0**	**61.2**	**58.7**

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

19. THE NETHERLANDS

Recovery on track despite some easing of momentum

The economy of the Netherlands likely grew by 2% in 2015, twice as fast as the year before. Forward-looking indicators suggest that the recovery will continue, with growth forecast at 2.1% in 2016 and 2.3% in 2017. Tax measures are expected to fuel domestic demand but lower gas production levels should weigh on both industrial output and public finances.

Strong domestic demand growth in 2015

In 2015, economic growth is estimated to have reached 2.0%, thanks in large part to a strong performance of domestic demand (excluding inventories) of 2.4 pps. Domestic demand thrived on the back of an improving housing market, which led to a jump of investment in housing and construction. With other investment categories also showing robust growth, total investment is expected to have provided a GDP growth contribution of 1.8 pps. Private consumption is slowly recovering from a relatively steep fall after the crisis and is expected to have provided a positive growth contribution of 0.6 pps. in 2015. Net exports are likely to have provided only a minimal positive contribution to GDP growth, whereas disinvestment in inventories is expected to have detracted from GDP growth.

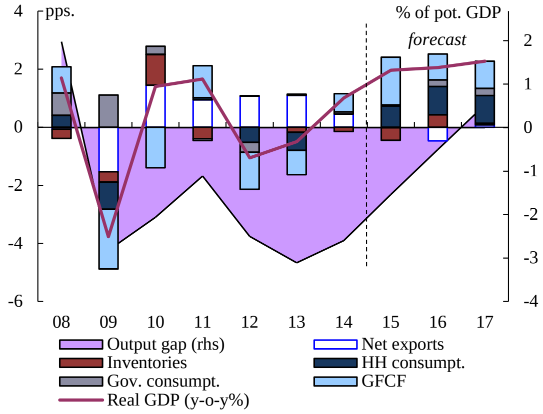
Consumption growth expected to accelerate

Private consumption is set to accelerate in 2016 as the domestic cycle matures. Rising wage growth and steady employment growth are expected to bolster household income. This is further stimulated by large tax cuts and recent pension reforms, leading to higher disposable household income and lower compulsory savings. All in all, consumption growth is expected to increase from 1.7% to 2.2% in 2016 and 2.3% in 2017. The household saving rate is expected to stabilise in 2016 around 15% of gross disposable income, before declining in 2017 to 14%.

The 2016 investment outlook is shaped by international uncertainties

Investment growth is expected to moderate from the brisk rates recorded in 2015 as the housing market recovery is expected to slow, leading to less dynamic investment in construction and housing. Relatively healthy export growth and the better domestic economic environment should continue to fuel investment in equipment, albeit at a slower pace than in 2015. Above all, the external uncertainties surrounding the investment forecast are large; lower growth in export markets, for example, could lead some investment to be postponed.

Graph II.19.1: **The Netherlands - Real GDP growth and contributions**



External surplus to remain high

Import growth is expected to outstrip export growth throughout the forecast horizon, leading to a negative contribution of net exports to GDP growth on average. However, the current account surplus is expected to remain elevated at around 10% of GDP in 2016, and to narrow only moderately thereafter.

Slow labour market recovery

Labour market conditions have improved markedly over the course of 2015 despite economic growth waning in the second half of the year. Over the course of 2015, total employment grew by 0.9%. Rising vacancy numbers continue to signal a recovery in labour demand. Nevertheless, the number of vacancies is growing relatively slowly and stands well below pre-crisis levels, which suggests a lacklustre labour market recovery. Employment is expected to increase only slightly more than the growth of the labour force, so the unemployment rate looks set to remain above 6% throughout the forecast horizon. Recent migration flows are unlikely to impact the labour market significantly in the forecast, as current regulations limit labour participation during the application process for residence and work permits.

Inflation is expected to bottom out

HICP inflation is estimated to have reached 0.2% in 2015, 0.1 pps. lower than in 2014. Although oil prices are expected to remain very low for some time, a gradual increase in the headline rate of inflation is expected for 2016 and 2017. This should come from a pick-up in public and private sector wage growth and a swift closure of the output gap, leading to positive domestic price pressures. Moreover, strong and relatively stable core inflation indicates limited second round effects from low inflation, while base effects linked to energy prices are expected to cause volatility in headline inflation in 2016.

Slow improvement in headline deficit

Although the budgetary situation of the Netherlands is improving on the back of relatively strong growth in the tax base, several distinct factors are expected to worsen the fiscal outlook. First, the Dutch authorities have further reduced the production ceiling for natural gas in the Groningen field, as recurring earthquakes have led to safety concerns. This is expected to reduce government revenues by 0.1% of GDP in 2015 and by 0.3% in both 2016 and 2017. Second, the government has implemented a large tax-stimulus package (EUR 5 billion, 0.7% of GDP) in 2016, which will have an immediate revenue-lowering effect over the entire forecast horizon. Since the 2015 autumn forecast, the government has freed resources for covering the costs of refugees. In total, the relevant budgets have been increased by EUR 350 million in 2015 and by almost EUR 500 million in 2016. As these expenditures fall under strict expenditure ceilings, with mandatory compensating measures having been taken elsewhere, the direct impact on the budget deficit is expected to be minimal.

All in all, the general government deficit is expected to turn out at 2.2% of GDP in 2015, and to decline to 1.8% of GDP in 2016 and 1.5% of GDP in 2017. The structural deficit is expected to deteriorate by ½ pps. in 2016, after which it is expected to stabilise in 2017. The sale of financial assets and expected positive nominal GDP growth has improved the outlook for the debt-to-GDP ratio, which is expected to have reached 66.8% in 2015, and is set to decline to 66.2% in 2016 and 65.1% in 2017.

Table II.19.1:
Main features of country forecast - NETHERLANDS

	2014			Annual percentage change						
bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	662.8	100.0	2.3	-1.1	-0.5	1.0	**2.0**	**2.1**	**2.3**
Private Consumption	296.1	44.7	1.8	-1.2	-1.4	0.0	**1.6**	**2.2**	**2.2**
Public Consumption	171.2	25.8	2.8	-1.3	0.1	0.3	**0.1**	**0.9**	**1.0**
Gross fixed capital formation	120.4	18.2	2.1	-6.3	-4.4	3.5	**9.1**	**4.6**	**4.7**
of which: equipment	34.1	5.1	3.4	-5.0	-4.0	0.9	**9.4**	**5.7**	**5.2**
Exports (goods and services)	549.4	82.9	4.9	3.8	2.1	4.0	**4.6**	**4.3**	**4.7**
Imports (goods and services)	473.8	71.5	5.1	2.7	0.9	4.0	**5.3**	**5.7**	**5.3**
GNI (GDP deflator)	671.1	101.3	2.3	-0.8	-0.6	0.3	**1.9**	**2.0**	**2.2**
Contribution to GDP growth:	Domestic demand		2.0	-2.1	-1.4	0.7	**2.4**	**2.1**	**2.1**
	Inventories		0.0	0.0	-0.2	-0.1	**-0.4**	**0.4**	**0.1**
	Net exports		0.2	1.1	1.1	0.5	**0.0**	**-0.5**	**0.1**
Employment			1.0	-0.6	-0.8	-0.3	**0.9**	**1.0**	**1.0**
Unemployment rate (a)			4.9	5.8	7.3	7.4	**6.9**	**6.6**	**6.4**
Compensation of employees / f.t.e.			3.1	2.5	1.8	2.2	**0.3**	**2.1**	**2.3**
Unit labour costs whole economy			1.9	2.9	1.5	0.8	**-0.8**	**1.0**	**1.0**
Real unit labour cost			-0.1	1.5	0.1	0.0	**-1.4**	**-0.2**	**-0.6**
Saving rate of households (b)			13.2	13.8	14.2	14.8	**14.8**	**15.1**	**14.1**
GDP deflator			2.0	1.4	1.4	0.8	**0.6**	**1.2**	**1.6**
Harmonised index of consumer prices			2.1	2.8	2.6	0.3	**0.2**	**0.9**	**1.5**
Terms of trade goods			0.2	-0.2	0.7	0.9	**1.5**	**0.2**	**-0.3**
Trade balance (goods) (c)			8.4	11.0	11.8	12.0	**11.8**	**11.1**	**10.8**
Current-account balance (c)			6.6	10.2	11.0	10.6	**10.4**	**9.9**	**9.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			6.3	9.2	10.7	10.7	**10.3**	**9.4**	**8.9**
General government balance (c)			-1.4	-3.9	-2.4	-2.4	**-2.2**	**-1.8**	**-1.5**
Cyclically-adjusted budget balance (d)			-1.2	-2.3	-0.4	-0.7	**-1.2**	**-1.5**	**-1.8**
Structural budget balance (d)			-	-2.3	-1.0	-0.6	**-1.2**	**-1.7**	**-1.8**
General government gross debt (c)			54.5	66.4	67.9	68.2	**66.8**	**66.2**	**65.1**

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

20. AUSTRIA

Signs of economic growth picking up

Austria's economic activity is expected to gather momentum in 2016 and 2017. Early signs that private consumption and investment activity are increasing suggest a promising economic outlook supported by foreign trade. Immigration is expected to lead to rising public expenditure, and labour market integration of asylum-seekers remains a challenge. The financing of the income tax reform represents a downside risk for the government budget.

Slow but stable economic development

Austria's economy continues to grow at a slow but steady rate, with real GDP expected to have risen by 0.7% in 2015. Whereas private consumption only increased at a low level, government expenditure contributed largely to economic growth, particularly towards the end of the year. This is also due to exceptional spending resulting from the sudden and large increase in asylum seekers. Investment is expected to have grown by 0.7% in 2015 after two years of decline, which indicates accelerating economic activity. Economic growth was supported by positive foreign trade with markedly increased activity in the third quarter for both exports and imports.

Signs of slightly accelerating economic activity

With improving dynamics in private consumption and investment, Austria's economy is expected to end a four-year period of sluggish growth. GDP growth in 2016 and 2017 is expected to be more than double the rate in 2015 at 1.7% and 1.6% respectively.

The main drivers for this increase in growth lie in higher household incomes and growing investment activities. The income tax reform taking effect from 2016 should leave households with more room for consumption, while inflation remains contained. Stronger investment activity is expected, especially for equipment, where subdued and deferred investments have created needs for renewal. At the same time, exports face a rather promising outlook, triggering investment in equipment. The increased inflow of asylum-seekers should impact on GDP growth through additional government expenditure and some increase in private consumption.

Austria's exporters are expected to find ways to compensate for the weakened demand from emerging market economies. The decline in exports to China and Russia should be counterbalanced by increased exports to the US and main trading partners in Europe. In 2016, the export industry will also benefit from low oil prices and the low interest rate environment.

Growing labour force and unemployment

The increased inflow of asylum-seekers to Austria during 2015 is expected to continue in 2016. Although it will take time for the majority of asylum-seekers to join the labour market, they are expected to contribute to a rising labour force in the coming years. In addition, elderly people will increasingly participate in the labour market, partly due to reduced possibilities for early retirement. These increases in the labour force are expected to contribute to an increase in the unemployment rate to 6.2% and 6.4% respectively in 2016 and 2017.

Low oil price weighs on inflation

Energy prices will continue to have a dampening effect on overall consumer price levels, as the oil price is expected to remain low throughout 2016, rising only in 2017. However, with stable inflation in the services and tourism sectors, overall HICP inflation remains positive. After reaching 0.8% in 2015, overall inflation is forecast to increase to 0.9% in 2016 and 1.8% in 2017. This reflects the brighter prospects for economic activity and domestic demand growth in the coming years.

Higher social spending keeps pressure on government accounts

The general government headline deficit is expected to have decreased to 1.6% of GDP in 2015, mainly due to the fading out of a part of the costs related to the restructuring of the banking sector. Costs connected with the asset management company HETA created for the winding down of the former Hypo Alpe Adria Bank amounted to roughly EUR 5 billion in 2014 (1.6% of GDP) and to about EUR 2 billion in 2015 (0.6% of GDP). In 2015, government revenues picked up along with improving growth dynamics, driven in particular by increased taxes on products and higher taxes on income and wealth paid by households.

In 2016, the government deficit is expected to reach 1.7% of GDP, thanks to a further decrease in expenditure for bank support. Expenditure for the financial sector is estimated at EUR 700 million (0.2% of GDP), corresponding to the provision budgeted by the government for bank support. This improvement is partially offset by higher social transfers connected with increasing unemployment and the inflow of asylum seekers, which is difficult to predict. On the revenue side, uncertainty remains on the effectiveness of measures aimed at financing the income tax relief. This represents a downside risk for the government budget, which could partially offset the effects of the positive macroeconomic outlook on collected taxes. In 2017, the government deficit is expected to remain stable at 1.7% of GDP, mainly as an effect of the 2016 tax reform. This deficit projection is based on the expectation that no further costs for the support of the financial sector will arise, combined with an expected increase in taxes on production due to the projected increase in private consumption.

Austria’s structural deficit is estimated at around ⅓% of GDP in 2015, while it is expected to increase to around 1% of GDP in 2016. The estimated increase reflects the tax reform's impact on revenues and the increase in government expenditure, which occurs in a recovering phase of the economic cycle.

Austria’s public debt is expected to have peaked at 85.9% of GDP in 2015, following the inclusion under government accounts of impaired assets from financial institutions under restructuring. In June 2015, EUR 6.7 billion were transferred from KA Neu, the former Kommunalkredit, to the financial defeasance structure KA Finanz, recorded as part of government accounts. In October 2015, the settlement of several legal disputes concerning the asset management company HETA, implied for the government the assumption of liabilities worth EUR 1.2 billion. In 2016 and 2017, the debt-to-GDP ratio is expected to decrease to 85.1% and 84.0% respectively.

Table II.20.1:

Main features of country forecast - AUSTRIA

		2014			Annual percentage change					
	bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		329.3	100.0	2.1	0.8	0.3	0.4	**0.7**	**1.7**	**1.6**
Private Consumption		177.3	53.9	1.7	0.6	0.1	0.0	**0.2**	**1.5**	**1.4**
Public Consumption		65.6	19.9	1.7	0.2	0.6	0.8	**0.9**	**0.8**	**0.7**
Gross fixed capital formation		73.6	22.4	1.2	1.3	-0.3	-0.2	**0.7**	**2.6**	**2.5**
of which: equipment		24.1	7.3	1.8	0.7	-0.1	1.3	**2.9**	**3.7**	**3.2**
Exports (goods and services)		175.3	53.2	5.5	1.7	0.8	2.1	**2.6**	**3.5**	**3.6**
Imports (goods and services)		163.0	49.5	4.4	1.1	0.0	1.3	**2.1**	**3.5**	**3.5**
GNI (GDP deflator)		327.2	99.4	2.1	0.5	0.5	-0.6	**0.8**	**1.7**	**1.6**
Contribution to GDP growth:	Domestic demand			1.5	0.6	0.1	0.1	**0.5**	**1.5**	**1.4**
	Inventories			0.0	-0.4	-0.5	-0.3	**0.0**	**0.0**	**0.0**
	Net exports			0.5	0.3	0.4	0.5	**0.3**	**0.2**	**0.2**
Employment				0.9	1.1	0.5	0.9	**0.7**	**0.9**	**1.0**
Unemployment rate (a)				4.7	4.9	5.4	5.6	**6.0**	**6.2**	**6.4**
Compensation of employees / f.t.e.				2.0	2.7	2.2	1.7	**1.9**	**1.3**	**1.6**
Unit labour costs whole economy				0.9	3.0	2.3	2.3	**1.8**	**0.5**	**0.9**
Real unit labour cost				-0.5	1.0	0.8	0.6	**-0.1**	**-0.7**	**-0.8**
Saving rate of households (b)				15.5	14.5	12.9	13.3	**14.2**	**15.2**	**14.9**
GDP deflator				1.5	2.0	1.5	1.6	**1.9**	**1.2**	**1.7**
Harmonised index of consumer prices				1.8	2.6	2.1	1.5	**0.8**	**0.9**	**1.8**
Terms of trade goods				-0.4	-0.7	-0.1	0.9	**2.2**	**0.2**	**-0.1**
Trade balance (goods) (c)				-0.8	-1.0	-0.3	0.5	**1.4**	**1.4**	**1.5**
Current-account balance (c)				0.9	1.7	2.1	2.1	**3.3**	**3.5**	**3.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				0.8	1.5	2.0	2.0	**3.1**	**3.4**	**3.6**
General government balance (c)				-2.7	-2.2	-1.3	-2.7	**-1.6**	**-1.7**	**-1.7**
Cyclically-adjusted budget balance (d)				-2.6	-2.3	-1.1	-2.2	**-0.9**	**-1.2**	**-1.4**
Structural budget balance (d)				-	-1.8	-1.3	-0.7	**-0.3**	**-1.0**	**-1.4**
General government gross debt (c)				68.9	81.6	80.8	84.2	**85.9**	**85.1**	**84.0**

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

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

21. POLAND

Underlying fiscal deficit on the rise in times of strong economic growth

Economic growth in Poland is expected to remain robust and stable, driven by domestic demand. Private consumption is expected to benefit from a strong labour market and a fiscal stimulus but price pressures are set to remain subdued. The government deficit is projected to remain just below 3% of GDP in 2016 but may exceed it in 2017, unless additional measures are taken.

GDP and jobs on the rise

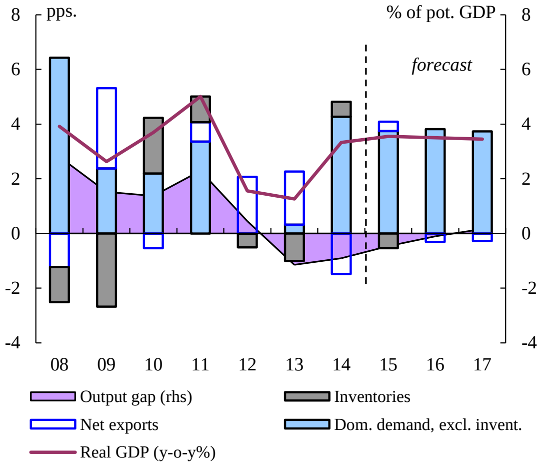
In the second half of 2015, the Polish economy continued to follow a path of strong and remarkably stable growth. For the year as a whole, real GDP is expected to have increased by 3.5%, on the back of robust private consumption, investment, and a small positive contribution from net exports. The outlook remains favourable as real GDP is projected to increase by 3.5% in both 2016 and 2017.

Private consumption is set to remain the dominant growth driver, supported by further improvements in the labour market as well as by an increase in government transfers, notably a new child benefit. Private investment is expected to grow moderately as a result of an already high degree of capacity utilisation, strong corporate profits and low interest rates. On the other hand, a new tax on the assets of financial institutions is likely to weigh on investment if banks respond by adjusting their lending rates. Public investment is set to accelerate in 2017, as projects co-financed with EU-funds from the new programming period enter the implementation phase.

Contained unit labour costs and the projected gradual improvement in external demand in 2016 and 2017 should support export growth. However, net exports are forecast to contribute slightly negatively to overall growth as strong domestic demand fuels imports.

Employment growth is expected to slow to 0.5% annually in 2016 and 2017 due to a shrinking working age population and stagnating labour force participation. Labour migration, especially from Ukraine is set to become an increasingly important element of the Polish labour market. Most new jobs are expected to come with permanent contract types leading to a decline in the share of atypical contracts from the currently very high level. The unemployment rate is forecast to decline to 6.5% in 2017, below the historical low observed in 2008, and should contribute to faster nominal wage growth.

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



Inflation to remain low

Inflation is projected to turn positive in early 2016, but price pressures are set to remain subdued as energy prices are expected remain low for longer than previously assumed. Consumer prices are forecast to rise by 0.6% in 2016 and by 1.7% in 2017.

The risks to the macroeconomic forecast are broadly balanced. On the downside, some of the economic policy decisions taken or announced since the last general elections can affect business confidence. On the upside, public investment may turn out to be stronger than currently projected.

Government deficit at and close to 3% of GDP in 2015 and 2016

The general government deficit is projected to turn out at 3% of GDP in 2015, down from 3.3% in 2014, yet up from 2.8% of GDP expected in the autumn 2015 forecast. The upward revision reflects effects working in opposite directions. Originally planned for 2015, one-off revenues of around 0.5% of GDP from the sale of mobile internet frequencies were moved to 2016, while expenditure has been revised slightly downward.

The general government deficit is expected to decrease somewhat in 2016, to 2.8% of GDP. The new child benefit (with estimated budgetary cost at 0.9% of GDP) is set to enter into force in the second quarter of the year. Offsetting measures include the one-off revenue from the sale of mobile internet frequencies and new taxes on the assets of financial institutions and on the retail sector.

The fiscal outlook for 2017 very much depends on the final outcome of recent government proposals, in particular, a higher tax-free threshold for the personal income tax (PIT) and a lower retirement age. The on-going legislative process is surrounded by a significant degree of uncertainty regarding the key aspects of the proposals, which makes an assessment of the likely budgetary impact very difficult at this stage. As a result, and given that the budget for 2017 will be adopted later in the year, the two proposals are not incorporated in the baseline scenario. This notwithstanding, the no-policy-change forecast for the general government deficit in 2017 exceeds but remains close to 3% of GDP. The deterioration of the headline deficit in comparison to 2016 is mainly due to the full-year effect of the new child benefit, a lower VAT tax rate due to enter into force in 2017, and the lack of additional one-off revenues.

Unless additional measures are taken, plans to increase the tax-free PIT threshold and to lower the retirement age would further worsen the fiscal outlook for 2017.

Poland's structural deficit is projected to have marginally deteriorated in 2015 to about 2¾% of GDP. It is set to widen further, to around 3¼% in 2016 and 3½% in 2017, under a no-policy-change assumption.

The general government debt-to-GDP ratio is set to increase from around 51% in 2015 to close to 54% in 2017. The debt projections for Poland are subject to a considerable degree of uncertainty because of the potential impact of exchange rate fluctuations on the relatively high share of sovereign debt denominated in foreign currencies.

Table II.21.1:

Main features of country forecast - POLAND

	2014			Annual percentage change						
bn PLN	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	1719.1	100.0	4.4	1.6	1.3	3.3	**3.5**	**3.5**	**3.5**
Private Consumption	1033.1	60.1	4.3	0.7	0.2	2.5	**3.0**	**4.0**	**3.9**
Public Consumption	315.6	18.4	3.4	-0.4	2.2	4.9	**3.1**	**3.4**	**2.7**
Gross fixed capital formation	337.5	19.6	6.7	-1.8	-1.1	9.8	**7.1**	**4.1**	**4.5**
of which: equipment	124.4	7.2	7.2	-5.0	5.5	-0.9	**8.2**	**4.8**	**4.3**
Exports (goods and services)	815.6	47.4	8.7	4.6	6.1	6.4	**5.8**	**5.4**	**6.3**
Imports (goods and services)	793.6	46.2	9.3	-0.3	1.7	10.0	**5.2**	**6.4**	**7.2**
GNI (GDP deflator)	1659.1	96.5	4.4	1.4	1.7	3.2	**3.1**	**3.4**	**3.3**
Contribution to GDP growth:	Domestic demand		4.7	0.0	0.3	4.3	**3.7**	**3.8**	**3.7**
	Inventories		0.0	-0.5	-1.0	0.5	**-0.5**	**0.0**	**0.0**
	Net exports		-0.3	2.1	1.9	-1.5	**0.3**	**-0.3**	**-0.3**
Employment			0.3	0.1	-0.1	1.7	**1.0**	**0.5**	**0.5**
Unemployment rate (a)			13.5	10.1	10.3	9.0	**7.5**	**7.0**	**6.5**
Compensation of employees / head			8.4	3.6	1.7	1.6	**3.2**	**3.6**	**4.3**
Unit labour costs whole economy			4.2	2.1	0.3	0.0	**0.6**	**0.7**	**1.3**
Real unit labour cost			-1.0	-0.3	-0.1	-0.4	**0.3**	**-0.2**	**-0.1**
Saving rate of households (b)			8.9	1.5	2.5	1.9	**2.4**	**2.8**	**1.6**
GDP deflator			5.3	2.4	0.4	0.4	**0.3**	**0.9**	**1.4**
Harmonised index of consumer prices			-	3.7	0.8	0.1	**-0.7**	**0.6**	**1.7**
Terms of trade goods			-0.4	-1.3	1.7	2.2	**2.0**	**0.3**	**-0.5**
Trade balance (goods) (c)			-4.4	-2.1	-0.1	-0.8	**0.3**	**0.1**	**-0.4**
Current-account balance (c)			-4.0	-3.3	-0.5	-1.3	**-0.2**	**-0.7**	**-1.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.5	-1.2	1.5	0.3	**1.4**	**0.5**	**0.0**
General government balance (c)			-4.5	-3.7	-4.0	-3.3	**-3.0**	**-2.8**	**-3.4**
Cyclically-adjusted budget balance (d)			-4.5	-3.9	-3.4	-2.8	**-2.8**	**-2.8**	**-3.4**
Structural budget balance (d)			-	-4.0	-3.4	-2.6	**-2.7**	**-3.2**	**-3.4**
General government gross debt (c)			44.5	54.0	55.9	50.4	**51.4**	**52.5**	**53.5**

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

22. PORTUGAL

Gradual economic recovery amid high fiscal imbalances

Domestic demand is driving Portugal's gradual economic recovery, but weaker external demand continues to weigh on the growth outlook. The general government headline deficit is expected to have reached 4.2% of GDP in 2015 and the structural balance is forecast to steadily deteriorate over the forecast horizon.

Economic recovery continues at a gradual pace

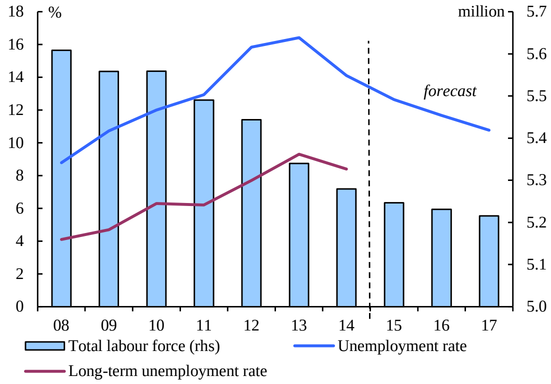
Real GDP growth decelerated in the third quarter of 2015 to 0.0% q-o-q (1.4% y-o-y). The positive contribution of domestic demand decreased significantly compared with the previous quarters, accounting for 1.9 pps. (y-o-y). This was mainly due to the slowdown in equipment investment to 4.1% (y-o-y) and the decline in private consumption growth to 2.3% (y-o-y) in 2015-Q3, which was almost 1 pp. below the value of the previous quarter. The net contribution of external demand remained negative (-0.5 pps.) but less so than in the first half of the year.

Short-term economic indicators suggest that the recovery probably moderated somewhat towards the end of 2015. The Commission's Economic Sentiment Indicator improved slightly in December but remained below its peak reached in the second quarter of the year. Weaker consumer confidence and a slower pace of employment creation in the second half of 2015 contributed to the recent slowdown in private consumption growth. However, due to its strong performance over the first half of the year, private consumption is expected to have grown by 2.6% in 2015. It is expected to continue growing robustly by around 2% in 2016 and 2017 due to expansionary fiscal policy measures and an increase in the minimum wage. Investment is projected to have stabilised by the end of 2015. Corporate deleveraging pressures and a weaker external environment are expected to limit investment growth in the forecast period. As a result, total investment growth is projected to decline to 3.0% in 2016 from 4.3% in the previous year. In 2017, investment growth should gain momentum again, supported by accelerated implementation of EU funds. Exports are forecast to grow broadly in line with foreign demand, but imports are expected to outbalance exports over the forecast horizon on the back of firm domestic demand. As a result, the contribution of net trade to GDP growth is forecast to remain negative although less so than in 2015. Overall, GDP is expected to have expanded by 1.5% in 2015 and is forecast to pick up slightly to 1.6% in 2016 and 1.8% in 2017. Risks to the macroeconomic outlook are tilted to the downside, primarily due to the high indebtedness levels of the Portuguese economy. In addition, policy uncertainty could increase risk premia and lead consumers to delay spending and businesses to postpone investments.

Labour market and inflation outlook improve

The demand-driven economic recovery, several tax-increasing fiscal measures and the weakening of the euro exerted upward pressure on consumer price inflation in 2015 which stood at 0.5% for the whole year. HICP inflation is expected to increase only moderately over the forecast horizon, by 0.7% in 2016 and 1.1% in 2017, due to low external price pressures and persistent slack in the economy.

Graph II.22.1: **Portugal - Labour market developments**



Employment growth is expected to have slowed somewhat towards the end of 2015 and the labour force to have shrunk further mainly due to negative migration flows. As a result, the unemployment rate is estimated to have declined to 12.6% in 2015. The labour force is projected to decline further, albeit moderately, over the forecast horizon, in line with long term population projections, while employment creation is set to slow down in 2016 and 2017. The unemployment rate is projected to gradually fall below 11% in 2017.

Public finances benefitting from the recovery

The general government headline deficit is expected to have reached 4.2% of GDP in 2015. The upward revision relative to the autumn 2015 forecast is due to the direct public support in a bank resolution operation (Banif) worth 1.2% of GDP. Pending the final recording of public guarantees granted in this one-off operation, its impact may increase by a further 0.4% of GDP. The headline deficit without one-off operations is estimated at 3.0% of GDP in 2015, as overall revenue from tax collection has remained in line with budget projections and unplanned increases in expenditure have generally been contained. Since the reduction of the headline deficit is based on cyclical factors rather than additional structural measures, the structural balance is estimated to have deteriorated by about ½ pps. of GDP in 2015.

Taking into account the measures announced in the Draft Budgetary Plan for 2016, submitted on 22 January 2016, the headline deficit is forecast to reach 3.4% of GDP in 2016. Due to the pro-cyclical nature of most fiscal measures, the structural balance is expected to deteriorate further by about 1 pp. of GDP in 2016. Assuming no policy changes, the headline deficit is projected to remain broadly stable in 2017, while in the absence of new consolidation measures the structural balance is expected to further deteriorate. Risks to the fiscal outlook are tilted to the downside, linked to the uncertainties surrounding the macroeconomic outlook, possible spending slippages and the still missing agreement on consolidation measures for 2016 and 2017 at the cut-off date of this forecast.

Having reached 130.2% at the end of 2014, the gross public debt-to-GDP ratio is expected to have only slightly fallen to 129.1% by end-2015, due to the postponement of the Novo Banco sale, the Banif resolution operation and statistical revisions. The ratio should fall only slightly to 128.5% in 2016 due to a projected increase in government cash buffers, but more pronounced in 2017, to 127.2%, due to primary budget surpluses and solid growth of domestic demand.

Table II.22.1:

Main features of country forecast - PORTUGAL

		2014			Annual percentage change					
	bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		173.4	100.0	1.6	-4.0	-1.1	0.9	**1.5**	**1.6**	**1.8**
Private Consumption		114.4	65.9	1.8	-5.5	-1.2	2.2	**2.6**	**1.9**	**1.8**
Public Consumption		32.2	18.5	2.0	-3.3	-2.0	-0.5	**0.3**	**0.4**	**0.4**
Gross fixed capital formation		25.8	14.9	0.6	-16.6	-5.1	2.8	**4.3**	**3.0**	**4.7**
of which: equipment		8.0	4.6	1.8	-17.0	8.1	15.3	**9.3**	**7.6**	**10.3**
Exports (goods and services)		69.5	40.0	4.4	3.4	7.0	3.9	**4.9**	**4.3**	**5.3**
Imports (goods and services)		68.8	39.7	3.8	-6.3	4.7	7.2	**6.5**	**4.9**	**6.0**
GNI (GDP deflator)		171.1	98.7	1.4	-4.5	0.0	0.9	**1.4**	**1.6**	**1.8**
Contribution to GDP growth:		Domestic demand		1.7	-7.3	-2.0	1.8	**2.4**	**1.8**	**2.0**
		Inventories		0.0	-0.3	0.0	0.3	**-0.3**	**0.0**	**0.0**
		Net exports		-0.1	3.6	0.9	-1.2	**-0.6**	**-0.2**	**-0.2**
Employment				0.3	-4.1	-2.9	1.4	**1.1**	**0.8**	**0.7**
Unemployment rate (a)				8.1	15.8	16.4	14.1	**12.6**	**11.7**	**10.8**
Compensation of employees / head				3.6	-3.1	3.6	-1.4	**0.1**	**1.6**	**1.4**
Unit labour costs whole economy				2.3	-3.2	1.8	-0.9	**-0.3**	**0.8**	**0.3**
Real unit labour cost				-0.4	-2.8	-0.5	-1.8	**-1.9**	**-0.7**	**-1.0**
Saving rate of households (b)				9.8	7.7	7.8	5.9	**4.3**	**4.9**	**4.7**
GDP deflator				2.7	-0.4	2.3	1.0	**1.7**	**1.5**	**1.3**
Harmonised index of consumer prices				2.5	2.8	0.4	-0.2	**0.5**	**0.7**	**1.1**
Terms of trade goods				-0.3	0.7	1.7	1.3	**3.6**	**1.7**	**0.8**
Trade balance (goods) (c)				-10.6	-5.0	-4.0	-4.6	**-4.0**	**-3.6**	**-3.8**
Current-account balance (c)				-8.9	-2.0	0.7	0.3	**0.7**	**1.1**	**1.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.3	0.0	2.3	1.7	**2.1**	**2.4**	**2.4**
General government balance (c)				-5.2	-5.7	-4.8	-7.2	**-4.2**	**-3.4**	**-3.5**
Cyclically-adjusted budget balance (d)				-5.3	-3.1	-2.2	-5.2	**-3.1**	**-2.8**	**-3.5**
Structural budget balance (d)				-	-3.0	-2.5	-1.4	**-1.9**	**-2.9**	**-3.5**
General government gross debt (c)				66.6	126.2	129.0	130.2	**129.1**	**128.5**	**127.2**

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

23. ROMANIA

Strong growth ahead amid fiscal loosening and financial risks

Driven by wage increases and fiscal relaxation, economic growth is forecast to peak in 2016 before moderating somewhat in 2017. Inflation is projected to accelerate as of mid-2016, partially driven by wage increases. Due to tax cuts and expenditure increases the fiscal deficit is set to increase substantially. New legal initiatives in the financial sector pose risks to the macroeconomic outlook.

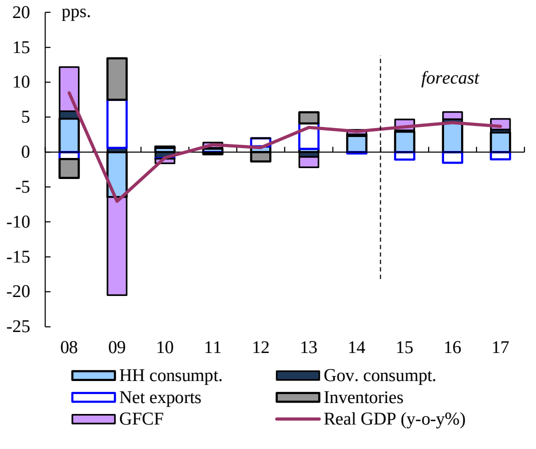
Robust growth in 2015

Real GDP growth in the third quarter of 2015 (3.6% y-o-y) was surprisingly strong given the significant drop in agricultural production. The expansion was driven mainly by services, with retail trade surging after the cut in the VAT for food as of 1 June 2015, and by the ICT sector. Private consumption is thriving, buoyed by higher disposable income and the recovery of local currency lending. Investment has sustained its upward trend. The economic sentiment indicator reached a seven-year peak in the third quarter of 2015, pointing to continued momentum. Real GDP growth in 2015 is thus estimated to turn out at 3.6%, its highest growth rate since 2008.

Growth to peak in 2016

Domestic demand is set to remain the driver of growth in 2016 and 2017. The 4 pps. reduction of the standard VAT rate in January 2016 along with negative inflation and a 19% increase in the minimum wage from May 2016 are projected to boost consumption and push growth up to 4.2% in 2016. As inflation picks up and the fiscal stimulus fades in 2017, consumption growth is likely to slow down. GDP growth, however, is expected to remain above potential at 3.7% in 2017.

Graph II.23.1: **Romania- Real GDP growth and contributions**



Stable investor confidence and continued growth in local currency lending as well as the abolition of the construction tax from 2017 should help to sustain private investment growth over the forecast horizon. Public investment growth is projected to slow down in 2016 as the absorption rate of EU structural funds dips before picking up in 2017.

Net exports' contribution to growth is projected to remain negative over the forecast horizon, as imports growth in line with surging domestic demand outpaces exports growth. The current-account deficit is set to widen from 1.0% of GDP in 2015 to 2.1% of GDP in 2016 and 2.9% of GDP in 2017.

Inflation to turn positive in 2016

After it dropped to a record low in August 2015, annual inflation in 2015 turned out at -0.4%, mainly reflecting the June VAT cut for food and low global energy prices. Brisk domestic demand growth and the May 2016 minimum wage hike are likely to exert upward pressure on prices. This is expected to be partially offset by the 4 pps. across-the-board VAT cut at the start of 2016 and subdued oil prices. Annual average inflation is forecast to reach -0.2% in 2016. As the impact of the VAT cuts fades out and the output gap closes, inflation is set to return to positive territory in the second half of 2016. It is forecast to re-enter the central bank's target band (2.5% ± 1 pp.) in 2016 and to reach an annual average of 2.5% in 2017.

Tighter labour market

The downward trend in unemployment is likely to continue, supported by strong economic growth. The unemployment rate is projected to fall from 6.7% in 2015 to 6.5% in 2017. Conversely, employment is projected to grow over the forecast horizon. The 19% increase in the minimum wage in 2016 is expected to lead to higher unit labour costs overall. The wage hike will partially offset recent gains in productivity, thereby weighing on competitiveness.

Risks tilted mainly to the downside

A major downward risk to the macroeconomic outlook is the potential implementation of the law on debt discharge as initially approved by parliament. The retroactive application of the law on the current stock of loans could have a negative impact on credit growth, consumer and investor confidence, and domestic demand. Upward risks could come from a better-than-expected absorption of EU funds and a higher multiplier effect from the fiscal stimulus in 2016 and 2017.

General government deficit set to increase

Despite robust economic growth, the headline deficit is set to rise significantly within the forecast horizon on the back of enacted tax cuts and expenditure increases.

In 2015, the general government deficit in ESA terms is expected to have declined to 1.1% of GDP from 1.4% in 2014, thanks to a robust growth of tax revenue. Strong economic growth and enhanced tax compliance more than offset tax cuts, such as the decrease in the VAT rate for food products and in the special constructions tax.

In 2016, the headline deficit is expected to increase to 3.0% of GDP. The standard VAT rate has been decreased from 24% to 20%, the tax on dividends has been cut, and new exemptions in Personal Income Tax (PIT) have been introduced. On the expenditure side, public wages are set to increase considerably. In contrast, public investment is projected to drop in 2016 and 2017 due to a slower take-up of big projects in the 2014-20 programming period of EU funding.

The headline deficit is projected to deteriorate to 3.8% of GDP in 2017 on a no-policy-change assumption. An additional cut in the standard VAT rate from 20% to 19%, the abolition of the extra excise duty on fuel and of the special construction tax, and further new PIT exemptions are expected to have a negative impact on revenue.

The structural deficit is forecast to increase from 1% of GDP in 2015 to 4% in 2017 as a consequence of the fiscal easing and the closing of the output gap in 2016-2017. Romania's debt-to-GDP ratio is projected to rise from 39.0% in 2015 to 42.6% in 2017.

The main downward risk to the fiscal outlook in 2017 and beyond stems from an envisaged new public wage grid.

Table II.23.1:

Main features of country forecast - ROMANIA

	2014		Annual percentage change						
bn RON	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	667.6	100.0	2.7	0.6	3.5	3.0	**3.6**	**4.2**	**3.7**
Private Consumption	408.2	61.2	4.9	1.2	0.7	3.8	**4.8**	**6.9**	**4.5**
Public Consumption	92.9	13.9	0.1	0.4	-4.6	0.3	**1.4**	**3.5**	**3.1**
Gross fixed capital formation	161.4	24.2	5.7	0.1	-5.4	2.5	**6.5**	**4.2**	**6.1**
of which: equipment	67.2	10.1	6.8	-2.7	4.8	-2.0	**6.0**	**6.0**	**6.1**
Exports (goods and services)	275.2	41.2	9.0	1.0	19.7	8.6	**5.7**	**5.8**	**6.0**
Imports (goods and services)	277.2	41.5	11.6	-1.8	8.8	8.9	**8.3**	**9.2**	**8.1**
GNI (GDP deflator)	655.6	98.2	3.0	0.2	3.0	3.0	**3.7**	**4.3**	**3.8**
Contribution to GDP growth: Domestic demand			5.0	0.9	-1.7	3.0	**4.7**	**5.7**	**4.7**
Inventories			-0.2	-1.4	1.6	0.2	**0.0**	**0.0**	**0.0**
Net exports			-2.0	1.1	3.6	-0.2	**-1.1**	**-1.5**	**-1.0**
Employment			-1.5	-4.8	-0.9	0.8	**0.2**	**0.1**	**0.1**
Unemployment rate (a)			7.0	6.8	7.1	6.8	**6.7**	**6.6**	**6.5**
Compensation of employees / head			30.6	9.4	3.8	5.3	**3.4**	**10.4**	**7.7**
Unit labour costs whole economy			25.2	3.5	-0.6	3.1	**0.0**	**6.1**	**4.0**
Real unit labour cost			-1.6	-1.2	-3.9	1.4	**-1.8**	**4.1**	**1.5**
Saving rate of households (b)			-3.7	-14.6	13.3	-15.9	**-11.7**	**-9.1**	**-7.2**
GDP deflator			27.4	4.7	3.4	1.7	**1.8**	**1.9**	**2.5**
Harmonised index of consumer prices			25.9	3.4	3.2	1.4	**-0.4**	**-0.2**	**2.5**
Terms of trade goods			3.3	-3.4	0.4	0.9	**1.2**	**1.0**	**0.5**
Trade balance (goods) (c)			-8.0	-5.8	-5.5	-4.2	**-4.8**	**-5.7**	**-6.5**
Current-account balance (c)			-6.6	-4.3	-0.6	-0.4	**-1.0**	**-2.1**	**-2.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.3	-2.9	1.5	2.2	**1.4**	**0.1**	**-0.8**
General government balance (c)			-3.8	-3.2	-2.2	-1.4	**-1.1**	**-3.0**	**-3.8**
Cyclically-adjusted budget balance (d)			-4.0	-1.5	-1.2	-0.7	**-0.7**	**-3.0**	**-4.0**
Structural budget balance (d)			-	-2.1	-1.2	-0.7	**-1.0**	**-3.0**	**-4.0**
General government gross debt (c)			19.9	37.4	38.0	39.8	**39.0**	**40.5**	**42.6**

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

24. SLOVENIA

Domestic demand takes the driver's seat

After a solid performance in 2015 when growth was driven by net exports and private consumption, Slovenia's economy is expected to moderate in 2016 before accelerating in 2017. Private consumption is forecast to overtake net exports as the main growth driver and the general government deficit is projected to gradually decline thanks to the positive cyclical conditions.

Solid growth in 2015

After growing 3.0% in 2014, Slovenia's economy maintained positive momentum in the first three quarters of 2015, with real GDP rising by 2.6% (y-o-y). Strong exports and recovering domestic demand drove the economy in the first half of the year. The slowdown in the third quarter to 2.1% (y-o-y) was due to decreasing construction investment and slower exports growth. For 2015 as a whole, real GDP growth is expected to turn out at 2.5%. Exports remained the key growth driver, but were less strong than in 2014. Rising private consumption, helped by the tailwinds of lower energy prices, as well as rising employment and consumer confidence, has contributed to GDP growth more substantially than in 2014. In addition, public infrastructure investment gave a strong boost in 2015, which was the last year of the drawdown period of EU funding for 2007-2013.

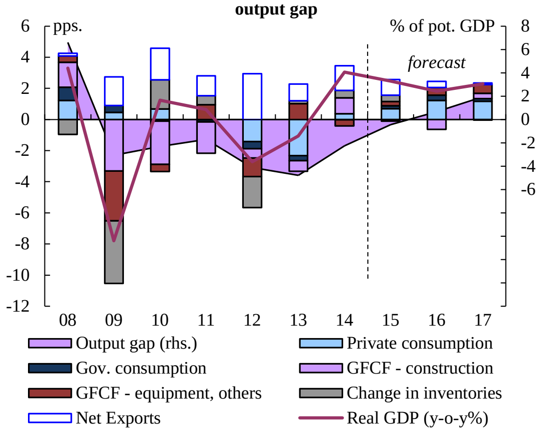
Domestic demand set to drive future growth

GDP growth is forecast to moderate to 1.8% in 2016 mainly due to lower public investment, which is forecast to revert to the historical average after the exceptional 2015. Domestic demand, particularly private consumption and private investment look set to become the main growth drivers in 2016 and 2017 and growth is expected to pick up in 2017 to 2.3%. Private consumption is expected to benefit from increasing wages, employment growth and gradually recovering housing market. Private investment is forecast to rise strongly, as indicated by capacity utilisation levels above their historical averages, rising demand and better financing conditions.

The contribution of net exports to growth is forecast to decrease progressively, as domestic demand fuels imports. Net exports are expected to deliver about one third of total GDP growth in the first half of 2016, and by the middle of 2017 economic growth is expected to be almost fully driven by domestic demand. Public consumption is expected to increase in both 2016 and 2017 under a no-policy-change assumption.

The current account surplus is forecast to remain high, also driven by low import prices. Deleveraging in the corporate sector is still expected to continue while new private investment is expected to be financed domestically. Risks to the outlook are on the downside. The largest risks are external, as adverse global developments could hamper Slovenia's trade with its main trading partners. Private investment growth could be slowed by both the volatile external environment and remaining uncertainties with reforms.

Graph II.24.1: **Slovenia - Real GDP growth and contributions, output gap**



Decreasing but still high unemployment and record-low inflation

Labour market conditions improved significantly in 2015, with the unemployment rate expected to fall to 9.1% and employment to grow by 0.9%. Both indicators are forecast to continue on a positive path but at a slower pace as wage pressure increases. Inflation turned negative in 2015, mainly caused by falling oil prices. Protracted low energy and commodity prices are set to result in prolonged period of low inflation. However, core inflation should rise reflecting rising nominal unit labour costs and increased household spending.

Gradual improvement in the government balance

In 2015, the general government deficit is projected to fall to 2.9% of GDP from 5% in 2014, mainly due to the continued implementation of consolidation measures and the non-recurrence of several one-offs that affected the deficit in 2014. In 2016, a large decline in public investment is anticipated following the ending of the drawdown period of EU funding for 2007-13. This coupled with buoyant tax revenues should result in a further decline of the government deficit to 2.4% of GDP in 2016.

In the final quarter of 2015, Slovenia experienced a large influx of migrants, equating to some 18% of the population, transiting through the country. The migrant related expenditure in 2015 was partially met by exceptional payments from EU funds. The Authorities expect these flows to continue in 2016 and now estimate that the expenditure will be some 0.3% of GDP higher than what was included in the Draft Budgetary Plan. They expect this to be largely offset by payments from EU funds and international organisations, resulting in a net effect of 0.1% of GDP in 2016.

In 2017, under a no-policy-change assumption Slovenia's deficit is expected to decline further to 1.9% of GDP mainly due to significantly above potential economic growth. Overall risks to public finances over the forecast horizon are tilted to the downside as uncertainty remains regarding the expenditure linked to migration, as no net impact has been included for 2017. Furthermore, the ongoing work out of non-performing loans poses risks to the government deficit through the activities of the Bank Asset Management Company (BAMC) and the possibility of an adverse impact from the resolution in the first quarter of 2016 of two financial institutions currently in wind down.

In structural terms, Slovenia's fiscal position is expected to show a marginal improvement in 2015 and 2016 before worsening in 2017. The debt-to-GDP ratio continued to increase in 2015 and is projected at 83.5%. This increase was driven by the continued accumulation of cash buffers due to favourable market conditions. Debt is expected to fall to 79.8% and 79.5% of GDP in 2016 and 2017 respectively, helped by the economic recovery.

Table II.24.1:

Main features of country forecast - SLOVENIA

	2014		Annual percentage change						
	bn EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	37.3	100.0	3.0	-2.7	-1.1	3.0	**2.5**	**1.8**	**2.3**
Private Consumption	19.9	53.3	2.6	-2.5	-4.1	0.7	**1.3**	**2.3**	**2.3**
Public Consumption	7.1	19.1	2.8	-2.3	-1.5	-0.1	**0.9**	**1.8**	**1.0**
Gross fixed capital formation	7.3	19.6	2.7	-8.8	1.7	3.2	**0.9**	**-0.7**	**4.7**
of which: equipment	2.8	7.4	5.0	-12.2	12.6	-4.5	**3.1**	**6.0**	**6.3**
Exports (goods and services)	28.5	76.5	6.7	0.6	3.1	5.8	**4.5**	**4.4**	**5.1**
Imports (goods and services)	25.6	68.7	6.1	-3.7	1.7	4.0	**3.5**	**4.4**	**5.6**
GNI (GDP deflator)	37.2	99.8	2.9	-2.6	-0.9	3.5	**2.3**	**1.8**	**2.3**
Contribution to GDP growth: Domestic demand			2.7	-3.7	-2.3	1.0	**1.1**	**1.4**	**2.3**
Inventories			0.0	-2.0	0.2	0.5	**0.4**	**0.0**	**0.0**
Net exports			0.3	3.0	1.1	1.6	**1.0**	**0.4**	**0.1**
Employment			0.2	-0.9	-1.4	0.6	**0.9**	**0.6**	**0.6**
Unemployment rate (a)			6.5	8.9	10.1	9.7	**9.1**	**8.8**	**8.4**
Compensation of employees / head			7.5	-1.0	0.6	1.1	**0.8**	**2.0**	**2.0**
Unit labour costs whole economy			4.5	0.8	0.2	-1.3	**-0.7**	**0.8**	**0.3**
Real unit labour cost			-0.4	0.6	-0.6	-2.1	**-0.8**	**-0.2**	**-0.9**
Saving rate of households (b)			13.7	10.9	13.4	14.1	**14.7**	**15.3**	**14.5**
GDP deflator			5.0	0.3	0.8	0.8	**0.1**	**1.0**	**1.3**
Harmonised index of consumer prices			5.3	2.8	1.9	0.4	**-0.8**	**-0.3**	**1.1**
Terms of trade goods			-0.3	-1.3	0.8	1.1	**0.5**	**0.3**	**-0.3**
Trade balance (goods) (c)			-3.8	0.1	1.1	3.3	**3.7**	**3.8**	**3.4**
Current-account balance (c)			-2.0	2.1	3.9	6.5	**6.9**	**7.2**	**6.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-2.0	2.6	4.5	7.0	**8.3**	**8.1**	**7.7**
General government balance (c)			-2.8	-4.1	-15.0	-5.0	**-2.9**	**-2.4**	**-1.9**
Cyclically-adjusted budget balance (d)			-	-2.2	-12.7	-4.0	**-2.7**	**-2.7**	**-2.8**
Structural budget balance (d)			-	-2.1	-2.2	-2.8	**-2.6**	**-2.5**	**-2.8**
General government gross debt (c)			27.4	53.7	70.8	80.8	**83.5**	**79.8**	**79.5**

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

25. SLOVAKIA

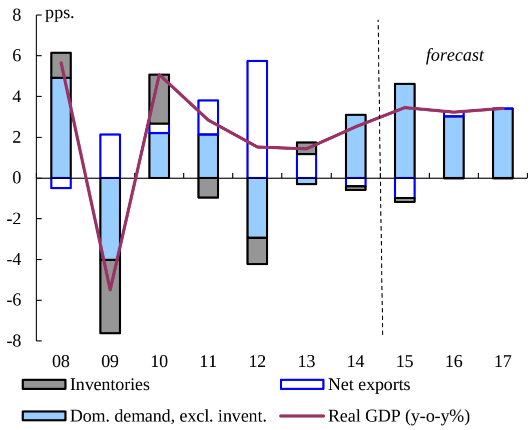
Booming investment and robust consumption drive the recovery

Economic growth strengthened in 2015 on the back of buoyant investment and robust household consumption. Employment gains were strong throughout 2015 and labour market conditions are expected to continue improving, in line with the ongoing economic expansion. Inflation is forecast to turn positive in 2016 and the pace of fiscal consolidation is expected to pick up.

Robust economic growth continues

Real GDP growth is expected to have strengthened to 3.5% in 2015 due to a substantial rise in domestic demand. Investment benefited from intensified drawing of EU funds, as the possibility to make use of funding available under the 2007-2013 programming period came to an end. Household consumption was supported by positive labour market developments, sound wage growth, continued low inflation and favourable credit conditions. Net exports, however, are expected to have contributed negatively to growth, as imports were boosted by elevated investment activity and their growth outpaced the growth of exports. Slovakia's recovery is forecast to continue, with real GDP growth of more than 3% in both 2016 and 2017. As a result, the output gap is estimated to continue closing over the forecast horizon.

Graph II.25.1: **Slovakia - Real GDP growth and contributions**



Domestic demand strengthens

Investment is expected to have expanded by more than 10% in 2015, with public investment receiving a substantial boost from EU funding and private investment benefitting from declining interest rates and improving credit conditions. Public investment is forecast to recede in 2016, as the drawing of EU funds returns to more normal levels. The expected decline in public investment expenditure should be partly offset by stronger private investment activity. With a major investment by Jaguar Land Rover scheduled to take off in 2016, foreign direct investment will once again be the main driver of overall investment growth. At the same time, the recent Volkswagen emissions regulatory problem suggests the risk of a possible reassessment of the company's investment plans, which could potentially affect its investment activity in Slovakia, where it is has large operations.

Accelerating household expenditure looks set to become the strongest driver of growth in 2016 and thereafter. Private consumption is expected to expand by 3.4% in 2016, buttressed by steady gains in employment, solid real wage growth and low credit costs. The continued fall in energy prices also strengthens household budgets, with the windfall gains expected to feed through to consumption. Household spending is forecast to ease marginally in 2017, as increasing prices bite into real disposable income.

External demand lags behind

Imports were fuelled by buoyant public investment activity in 2015 and outpaced exports, implying a negative contribution of net exports to real GDP growth in 2015. Export growth is forecast to ease in 2016, mirroring the expected slowdown in import dynamics of Slovakia's main trading partners, and to pick up thereafter. The trade balance is forecast to be broadly neutral in 2016 and 2017.

Unemployment continues to decline

The unemployment rate fell to 11.5% in 2015 and is expected to further decline to around 9.3% in 2017 on the back of robust economic expansion. The activity rate increased substantially in 2015, but long-term unemployment remained elevated. Nominal wage growth picked up in 2015 and is expected to rise to 3% in 2016, providing a substantial boost to household purchasing power in a low-inflation environment.

Inflation is expected to pick up only in 2017

Deflationary pressures observed in 2015 are expected to slowly dissipate, mirroring the pickup in consumer spending. Consumer prices declined by 0.3% in 2015 because of the sharp fall in energy prices but core inflation remained positive at 0.3%. Headline inflation is set to turn positive but remain close to zero in 2016, with the ongoing decline in energy prices being offset by a recovery in the prices of services. In 2017, inflation should substantially increase relative to the low base of the previous year.

Swifter consolidation ahead

In 2015, the general government deficit is estimated to have declined only marginally to 2.7% of GDP. This is despite strong tax revenues which reflect the continuing impact of measures to fight tax avoidance. Higher-than-budgeted spending on healthcare and additional corrections related to the financing of EU funds prevented a more pronounced improvement in the headline government deficit.

The deficit is projected to decline more swiftly in 2016, when it could come down to 2.1% of GDP. Revenues are expected to be supported by robust tax revenue growth, despite the introduction of a reduced 10% VAT rate on basic foodstuffs. On the expenditure side, healthcare spending is projected to grow at a slower pace compared to previous years due to the implementation of a programme aimed at savings on pharmaceuticals. Government investment financed by national sources is projected to decline and some big-ticket expenditure is not expected to reoccur in 2016. Several socially-oriented measures, such as a reimbursement to households due to lower gas prices, subsidies for home insulation and school trips will hold back an even stronger consolidation. The main risk stems from preparation costs for a planned public-private investment in the Bratislava ring road. The strength of the economy should help drive the deficit down in to 1.7% of GDP in 2017, assuming no changes in policy. However, a risk to the forecast in that year stems from the measures of the 'third social package' which have not yet been factored into the forecast due to incomplete information as to timing and specification.

The structural deficit should remain unchanged in 2015, decreasing progressively in the following years. The public debt-to-GDP ratio is estimated to have declined to 52.3% in 2015 and should continue falling to around 51% in 2017.

Table II.25.1:

Main features of country forecast - SLOVAKIA

		2014		Annual percentage change						
		bn EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		75.6	100.0	4.3	1.5	1.4	2.5	**3.5**	**3.2**	**3.4**
Private Consumption		42.7	56.6	4.2	-0.4	-0.8	2.3	**2.3**	**3.4**	**3.0**
Public Consumption		14.2	18.8	3.4	-2.6	2.2	5.9	**3.7**	**1.4**	**2.3**
Gross fixed capital formation		15.8	20.9	4.1	-9.2	-1.1	3.5	**12.7**	**3.8**	**5.7**
of which: equipment		7.7	10.2	5.6	-10.9	-9.4	17.0	**17.2**	**7.0**	**6.7**
Exports (goods and services)		69.4	91.9	8.6	9.3	6.2	3.6	**6.4**	**4.6**	**5.7**
Imports (goods and services)		66.6	88.2	8.1	2.5	5.1	4.3	**7.8**	**4.5**	**5.8**
GNI (GDP deflator)		73.1	96.8	4.1	3.1	1.8	1.0	**3.5**	**3.3**	**3.4**
Contribution to GDP growth:	Domestic demand			4.2	-2.9	-0.3	3.1	**4.6**	**3.0**	**3.4**
	Inventories			0.1	-1.3	0.6	-0.2	**-0.2**	**0.0**	**0.0**
	Net exports			0.1	5.7	1.2	-0.4	**-1.0**	**0.2**	**0.0**
Employment				0.3	0.1	-0.8	1.4	**1.9**	**1.4**	**1.1**
Unemployment rate (a)				14.8	14.0	14.2	13.2	**11.5**	**10.3**	**9.3**
Compensation of employees / head				8.2	2.6	2.6	1.8	**2.1**	**3.0**	**3.1**
Unit labour costs whole economy				4.0	1.1	0.3	0.7	**0.6**	**1.1**	**0.9**
Real unit labour cost				0.2	-0.2	-0.2	0.9	**0.9**	**0.5**	**-0.7**
Saving rate of households (b)				9.0	7.1	8.3	9.3	**9.2**	**9.2**	**9.1**
GDP deflator				3.8	1.3	0.5	-0.2	**-0.3**	**0.6**	**1.5**
Harmonised index of consumer prices				5.3	3.7	1.5	-0.1	**-0.3**	**0.3**	**1.7**
Terms of trade goods				-0.8	-1.3	-0.5	0.0	**-0.1**	**0.2**	**-0.2**
Trade balance (goods) (c)				-6.0	3.1	3.7	3.4	**2.3**	**2.4**	**1.8**
Current-account balance (c)				-6.5	0.2	0.7	-0.8	**0.3**	**-2.2**	**-2.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.4	1.8	2.2	0.2	**-0.2**	**-2.3**	**-2.3**
General government balance (c)				-5.6	-4.2	-2.6	-2.8	**-2.7**	**-2.1**	**-1.7**
Cyclically-adjusted budget balance (d)				-	-3.5	-1.7	-2.0	**-2.3**	**-1.8**	**-1.6**
Structural budget balance (d)				-	-3.6	-1.7	-2.0	**-2.1**	**-1.8**	**-1.6**
General government gross debt (c)				38.1	51.9	54.6	53.5	**52.3**	**51.9**	**51.2**

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

26. FINLAND

Economic activity and public finances only gradually improving

Finland is likely to have avoided another year in recession in 2015, but the outlook remains subdued. In 2016-17, domestic demand is expected to be the main driver of economic growth, while exports are projected to grow slowly. Public finances are gradually improving, with the headline deficit likely to fall below 3% of GDP this year.

Recovery postponed into 2016

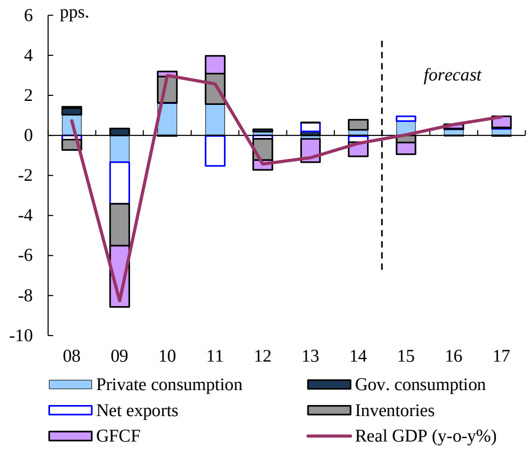
Finland's economy was in recession between 2012 and 2014 but economic activity rose in the first half of 2015. However, against expectations, economic activity declined again in the third quarter and the decline is expected to have continued in the last quarter of 2015. Despite the strong first half of the year, the weakness in the second half means that real GDP in 2015 is estimated to have remained unchanged from the previous year. As economic activity deteriorated towards the end of 2015, the starting point for 2016 is projected to be weak. Real GDP is forecast to grow by 0.5% this year on the back of domestic demand. Private consumption is expected to increase as inflation remains very low and investment growth is set to turn to positive. In 2017, real growth is forecast to accelerate to 0.9%.

Exports continue to struggle

The external environment remains difficult for the Finnish economy, which is particularly exposed to emerging markets such as Russia and China, where growth is slowing. In 2015 alone Finnish exports to Russia fell by one-third, although exports to the euro area increased. In 2016, Finnish exporters are expected to benefit from the revival of investment in Europe and gradually improving competitiveness. Nevertheless, exports are expected to increase in 2016 and 2017 less than global demand, leading to a further loss of export market shares.

Real imports fell on the back of decreasing final demand in 2015, but in 2016 and 2017 real imports are expected to return to growth. In nominal terms the value of imports has plummeted in 2015 due to a sharp fall in oil and other commodity prices. This, in turn, has improved the terms of trade and the trade balance significantly. Consequently, the current account returned into surplus in 2015. The current account is expected to remain in a slight surplus in 2016 and 2017.

Graph II.26.1: **Finland - Real GDP growth and contributions**



Low inflation supports domestic demand

Consumer prices fell marginally in 2015, particularly because of lower prices for fuels and foodstuffs, while core inflation remained slightly positive at 0.3%. As the 2016 oil price assumption has been revised significantly downwards compared with the autumn forecast, the inflation projection has also been lowered and consumer prices are now projected to rise by only 0.1%. In 2017, inflation is expected to accelerate to 1.5%.

The labour market has stabilised towards end 2015 as the temporary loss of employment in the first half of the year could be recovered in the second half. The unemployment rate is expected to gradually fall but to remain above 9% in 2016 and 2017. The number of employees is forecast to increase by 0.3% in 2016 and 0.5% in 2017 as the outlook improves.

Thanks to the slight deflation, real wages and household real disposable incomes increased in 2015 despite the rise in unemployment and low nominal wage increases. Households also benefitted from lower mortgage rates and temporary loan repayment holidays. Consequently, private consumption is expected to have increased by 1.3% (y-o-y). This year the impact of these positive temporary factors should start to fade and consumption growth is projected to decelerate to 0.6% (y-o-y). As wage moderation continues and inflation increases, real disposable income and private consumption are expected to grow only slowly in 2017 despite the projected increase in employment.

Investment has decreased for four years now. Housing construction has been subdued and the recession and spare capacity have held back equipment investment. R&D investment suffered from the downsizing of the electronics sector´s research activities. Although construction investment was sluggish in the past, the construction sector now seems to be one of the bright spots in the economy with increased production expectations. In addition, some large investment projects have been launched. Private investment and more generally domestic demand are expected to drive economic growth in 2016 and 2017.

Headline deficit likely below 3% of GDP in 2016

In 2016, public sector finances have mainly been consolidated through expenditure cuts, bringing the deficit from 3.2% of GDP in 2015 to an expected 2.8% in 2016. The growth of public consumption as well as investment will remain lower than nominal GDP growth in 2016 and 2017. Pension expenditure, on the other hand, is increasing due to population ageing, with the pension reform dampening the increase only gradually from 2017 onwards. On the revenue side, the unemployment insurance contribution rate was increased by one percentage point in 2016 to balance the unemployment insurance funds.

The government introduced some revisions to the 2016 state budget proposal in November 2015. Expenditures associated with immigration were increased by about 0.2% of GDP, but overall the expenditure increase is contained to about 0.1% of GDP. Some 32 500 (0.6% of population) asylum seekers arrived in Finland in 2015 (compared with about 3 500 in 2014) and the number is expected to remain elevated also in 2016.

As the public balance is improving only moderately and nominal GDP growth remains tepid, the debt-to-GDP ratio is set to increase to 65.0% in 2016 and reach 66.2% in 2017.

The structural balance improved slightly in 2015, but is projected to remain broadly unchanged in 2016 and 2017.

Table II.26.1:

Main features of country forecast - FINLAND

		2014		Annual percentage change						
	bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		205.2	100.0	2.8	-1.4	-1.1	-0.4	**0.0**	**0.5**	**0.9**
Private Consumption		113.6	55.4	2.9	0.3	-0.3	0.5	**1.3**	**0.6**	**0.6**
Public Consumption		50.9	24.8	1.6	0.5	0.8	-0.2	**0.0**	**0.1**	**-0.1**
Gross fixed capital formation		41.6	20.3	3.3	-2.2	-5.2	-3.3	**-2.8**	**1.1**	**2.8**
of which: equipment		9.5	4.6	2.1	10.2	-8.6	-0.2	**-2.5**	**1.6**	**2.7**
Exports (goods and services)		77.8	37.9	5.2	1.2	1.1	-0.7	**-0.7**	**1.5**	**2.8**
Imports (goods and services)		79.4	38.7	5.6	1.6	0.0	0.0	**-1.3**	**1.5**	**2.8**
GNI (GDP deflator)		205.0	99.9	3.0	-1.4	-1.3	-0.9	**1.2**	**0.5**	**0.9**
Contribution to GDP growth:	Domestic demand			2.5	-0.2	-1.1	-0.5	**0.1**	**0.5**	**0.9**
	Inventories			0.1	-1.1	0.0	0.5	**-0.4**	**0.0**	**0.0**
	Net exports			0.3	-0.2	0.4	-0.3	**0.2**	**0.0**	**0.0**
Employment				1.3	0.9	-0.7	-0.8	**-0.4**	**0.3**	**0.5**
Unemployment rate (a)				9.3	7.7	8.2	8.7	**9.5**	**9.4**	**9.3**
Compensation of employees / head				3.1	2.8	1.3	1.4	**1.2**	**1.3**	**1.5**
Unit labour costs whole economy				1.6	5.2	1.8	0.9	**0.8**	**1.0**	**1.1**
Real unit labour cost				0.0	2.2	-0.8	-0.7	**-0.4**	**0.1**	**-0.6**
Saving rate of households (b)				8.7	7.8	8.4	7.1	**6.8**	**7.1**	**7.0**
GDP deflator				1.6	3.0	2.6	1.6	**1.2**	**0.9**	**1.7**
Harmonised index of consumer prices				1.8	3.2	2.2	1.2	**-0.2**	**0.1**	**1.5**
Terms of trade goods				-1.3	-1.3	0.4	1.1	**2.7**	**0.7**	**0.3**
Trade balance (goods) (c)				6.1	-0.4	0.1	0.5	**1.2**	**1.3**	**1.5**
Current-account balance (c)				4.4	-1.9	-1.7	-0.9	**0.0**	**0.4**	**0.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				4.5	-1.8	-1.5	-0.9	**0.1**	**0.4**	**0.8**
General government balance (c)				1.8	-2.1	-2.5	-3.3	**-3.2**	**-2.8**	**-2.5**
Cyclically-adjusted budget balance (d)				1.7	-1.3	-1.1	-1.8	**-1.8**	**-1.8**	**-1.8**
Structural budget balance (d)				-	-1.2	-1.1	-1.9	**-1.8**	**-1.8**	**-1.8**
General government gross debt (c)				43.1	52.9	55.6	59.3	**62.7**	**65.0**	**66.2**

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

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

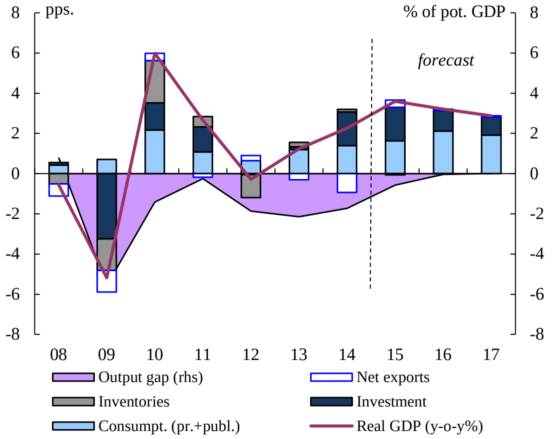
27. SWEDEN
Shifting into a higher gear

Sweden is entering a period of robust economic growth supported by steady private consumption, strong investment and increasing government consumption. The unemployment rate is expected to fall only gradually as it will take time for new migrants to find jobs. The general government deficit is forecast to remain stable as increased spending linked to immigration should be covered by revenues, which are growing along with the economy and as a result of tax increases.

Broadening growth

Sweden's economy shifted into a higher gear in 2015, forecast to have expanded at a rate of 3.6%, making it one of the fastest growing economies in the EU. Strong investment growth, rebounding exports and increasing government consumption provided a significant impetus to growth in 2015. While this momentum looks likely to continue, dissipating base effects are expected to lead to a gradual slowdown of growth to 3.2% in 2016 and 2.9% in 2017. Although Sweden's GDP is projected to grow above its long term average over the forecast period due to the dynamically rising population, per capita GDP growth remains below its long-term average.

Graph II.27.1: **Sweden - Output gap and contributions to real GDP growth**



Surge in government consumption

Steadily growing real disposable income and rising employment are expected to sustain solid household consumption growth, which has been the main engine of economic growth in recent years. Over 160,000 people sought asylum in Sweden in 2015 (equivalent to almost 1.7% of the total population) and this figure is projected to remain at high levels over the forecast horizon. As a result, government consumption is forecast to grow by 3.6% in 2016 and 2.5% in 2017.

Changing composition of investment

Investment kept expanding at a rate of more than 7% in 2015, driven by a strong rise in housing construction. Equipment investment also started to gain momentum in 2015 in light of increasing capacity utilisation and a need for replacement investments. Overall, Sweden's investment level is higher than the EU average and above its pre-crisis levels. Investment growth, however, is forecast to decelerate to 4.2% in 2016 and 3.7% in 2017 as the growth in equipment investment is unlikely to be enough to compensate for the projected slowdown in construction.

Net trade helps sustain high GDP growth

Driven by services, Sweden's exports in 2015 grew at a faster rate than demand for imports among its main trading partners, suggesting rising market shares. As Swedish import growth slowed down at the same time, net trade provided an additional impetus to growth of 0.4% of GDP in 2015. Net exports are expected to continue contributing positively to real GDP growth in 2016 and 2017, albeit to a lesser extent, while the current account surplus is expected to remain stable during this period. In line with rebounding exports, industrial production also started to recover in 2015 and is projected to continue expanding over the forecast horizon.

Buoyant labour market

Employment is forecast to continue expanding at a rather strong pace over the forecast period, reflecting the strength of the economic recovery. The effect of the solid employment growth on unemployment is foreseen to be partly offset by an increase in the labour force, linked to the surge in migration. While migrants enter the labour force relatively quickly, employment is likely to be affected with a lag, as it could take several years for newly arrived migrants to find jobs. Overall, the unemployment rate is projected to fall from 7.4% in 2015 to 6.7% in 2017.

Gradual rise in inflation

Despite loose monetary conditions and robust domestic growth, HICP inflation has remained low and is projected to only gradually pick up from 0.7% in 2015 to 1.1% in 2016 and 1.4% in 2017. As in 2015, inflation is expected to be temporarily boosted by tax hikes this year, while declining oil prices exert downward pressure. An appreciating krona could reverse the current rising inflation trajectory. Therefore, Sweden's central bank has announced its intention to directly intervene on the foreign exchange market if necessary.

Risks remain balanced

Downside risks to the forecast are related to weaker growth in Sweden's main trading partners, which could negatively impact exports and investments. The continued rise in house prices could make the economy vulnerable to shocks, possibly affecting household consumption and housing investment. Upside risks are related to private consumption growth in view of rising disposable income and employment. Despite the surge in housing investment, the number of new dwellings built still falls short of housing demand. Housing investment could thus be stronger than expected. The arrival of a large number of asylum seekers and the related integration policies could lead to higher government consumption and public investment in the short term, while their successful integration into the labour market could provide additional impetus for economic growth in the medium to long term.

Stable public finances

Sweden's general government deficit in 2015 declined by 0.7% of GDP to 1.0% of GDP. This was mainly due to a strong increase in tax revenues, supported by buoyant private consumption and tax increases. For 2016 and 2017, the deficit is expected to remain broadly stable at 1.1% and 1.2% of GDP, respectively. For these years, continued strong revenue increases are expected to be matched by expenditure growth, which are mainly related to migration and integration. As Sweden's output gap gradually closes, the structural deficit is projected to increase from about ¾% in 2015 to just above 1% in 2017. The main negative risks for the budget are related to migration, integration and sickness leave expenditure. The debt-to-GDP ratio is projected to decrease over the forecast horizon, from 44.0% in 2015 to 42.3% in 2017.

Table II.27.1:

Main features of country forecast - SWEDEN

		2014		Annual percentage change						
	bn SEK	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		3918.2	100.0	2.6	-0.3	1.2	2.3	**3.6**	**3.2**	**2.9**
Private Consumption		1811.9	46.2	2.6	0.8	1.9	2.2	**2.4**	**2.6**	**2.8**
Public Consumption		1031.2	26.3	0.9	1.1	1.3	1.3	**2.0**	**3.6**	**2.5**
Gross fixed capital formation		922.0	23.5	3.5	-0.2	0.6	7.5	**7.1**	**4.2**	**3.7**
of which: equipment		280.6	7.2	4.7	2.8	0.1	-0.1	**3.8**	**3.5**	**3.6**
Exports (goods and services)		1743.7	44.5	5.3	1.0	-0.8	3.5	**4.6**	**4.1**	**4.5**
Imports (goods and services)		1600.5	40.8	5.0	0.5	-0.1	6.3	**4.2**	**4.3**	**4.8**
GNI (GDP deflator)		4034.8	103.0	2.9	0.0	0.7	2.5	**3.6**	**3.2**	**2.9**
Contribution to GDP growth:		Domestic demand		2.2	0.6	1.3	3.1	**3.3**	**3.1**	**2.8**
		Inventories		0.0	-1.1	0.2	0.1	**-0.1**	**0.0**	**0.0**
		Net exports		0.4	0.3	-0.3	-0.9	**0.4**	**0.1**	**0.1**
Employment				0.7	0.7	1.0	1.4	**1.4**	**1.7**	**1.7**
Unemployment rate (a)				7.4	8.0	8.0	7.9	**7.4**	**6.9**	**6.7**
Compensation of employees / head				3.8	3.1	1.9	2.2	**2.8**	**2.7**	**2.9**
Unit labour costs whole economy				1.8	4.1	1.7	1.3	**0.6**	**1.2**	**1.7**
Real unit labour cost				0.2	3.0	0.6	-0.3	**-1.3**	**-0.5**	**-0.1**
Saving rate of households (b)				9.9	17.9	17.6	17.7	**18.0**	**17.9**	**17.9**
GDP deflator				1.6	1.1	1.1	1.6	**1.9**	**1.7**	**1.8**
Harmonised index of consumer prices				1.6	0.9	0.4	0.2	**0.7**	**1.1**	**1.4**
Terms of trade goods				-0.8	0.2	0.5	1.0	**0.4**	**0.2**	**0.0**
Trade balance (goods) (c)				6.8	3.7	3.2	2.9	**3.0**	**3.0**	**2.9**
Current-account balance (c)				6.1	6.5	5.5	4.9	**5.4**	**5.3**	**5.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				5.9	6.3	5.2	4.8	**5.3**	**5.2**	**5.1**
General government balance (c)				0.5	-0.9	-1.4	-1.7	**-1.0**	**-1.1**	**-1.2**
Cyclically-adjusted budget balance (d)				0.7	0.2	-0.1	-0.6	**-0.7**	**-1.0**	**-1.2**
Structural budget balance (d)				-	0.2	-0.1	-0.6	**-0.7**	**-1.0**	**-1.2**
General government gross debt (c)				49.8	37.2	39.8	44.9	**44.0**	**43.1**	**42.3**

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

28. THE UNITED KINGDOM

Growth eases but remains solid

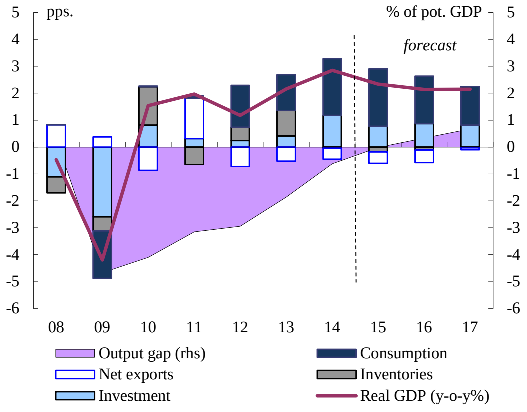
Growth has moderated in 2015 as buoyant growth in business investment and private consumption was partially offset by negative net exports. Growth is projected to ease further in 2016 and 2017 as the output gap closes and turns positive. Inflation is currently negligible, reflecting the impact of declining energy prices, but is forecast to rise in 2016 and 2017. Employment is projected to continue to rise, and the unemployment rate to remain low, while productivity should pick up.

Solid, but unbalanced, growth in 2015

Despite softening from 2.9% in 2014, real GDP growth is expected to have been solid in 2015 at 2.3%. It has been fuelled by domestic demand which is expected to have contributed 2.9 pps. to growth. Growth has been driven by vigorous private consumption, which is expected to have increased by 2.8% in 2015, and investment, which is expected to have risen by 4.6%.

Nevertheless, growth remains unbalanced. The services sector grew relatively rapidly, while manufacturing output declined. Net exports are expected to have detracted from growth for the fourth consecutive year, as muted conditions in some export markets depressed demand and imports remained in line with domestic demand.

Graph II.28.1: **The United Kingdom - Real GDP growth and contributions, output gap**



Growth to ease in 2016 and 2017

The output gap is expected to have closed in 2015 and to become positive in 2016 and 2017. Growth is projected to decrease slightly to 2.1% in each of 2016 and 2017.

Private consumption growth is forecast to continue to exceed GDP growth in 2016, by 0.5 pps., although the gap is projected to narrow thereafter. Household disposable income should remain buoyant, fuelled by a continued, albeit slower, rise in employment, low inflation and a rise in employee compensation. Although remaining healthy, growth in consumption and household income are set to soften in 2017 as employment growth slows and inflation rises towards the Bank of England's target of 2%. A downside risk is that households decide to rebuild savings at a faster rate than forecast.

Business investment is projected to grow on average at 4.9% in 2016 and 2017, consistent with that in 2015, as tailwinds remain supportive of healthy growth. Investment is underpinned by continued strength in corporate balance sheets, buoyant corporate profitability, improved access to credit, low borrowing costs and strong domestic demand. However, businesses might choose to delay planned investment, perhaps reflecting an uncertain external environment, which is a downside risk to the forecast.

Net exports are projected to detract from growth in each year of the forecast period; as a result, the unbalanced nature of growth is expected to continue. Exports have been sluggish in recent years and relative weakness in exports is projected to continue, reflecting conditions in some major trading partners. Imports are projected to rise, at a higher rate than that in exports, because of the strength in domestic demand.

Labour market remains robust

Employment growth is forecast to slightly exceed that in the labour force to increase at 1.1% and 0.9% in 2016 and 2017 respectively. As a result, the unemployment rate should fall slightly over the forecast horizon. Nominal unit labour costs are forecast to rise over the forecast period but real unit labour costs are projected to stay muted as productivity and real wage growth remain aligned. A downside risk to the forecast is that productivity does not pick up as projected.

Inflation is minimal but projected to rise

Despite healthy domestic demand, the price level remained unchanged in 2015. The appreciation of sterling, further falls in energy prices, moderate growth in wages and a compression of margins in the supermarket sector have contributed to this very low rate of inflation. For 2016, inflation is expected to remain subdued at 0.8%, largely reflecting weaker-than-expected energy prices, but is projected to pick-up to 1.6% in 2017. Energy prices may fall even further, thus prolonging very low inflation rates.

Budget deficit continues to decline

In its *Autumn Statement*, delivered in November 2015, the UK Government reiterated its planned fiscal consolidation path. It reduced slightly the size of spending cuts compared to the July 2015 budget. However, the outlook for the deficit is broadly unchanged due to rises in projected tax receipts and lower debt interest. The document was accompanied by the *Spending Review*, which detailed around GBP 12 billion of measures to be taken between 2016-17 and 2019-20.

On the expenditure side, savings from the planned welfare reform were delayed, resulting in a rise in spending of GBP 3.4 billion (0.2% of GDP) in 2016-17. At the same time, cuts of the same order of magnitude have been planned between 2017-18 and 2020-21. The main revenue measure was an apprenticeship levy on employers with pay bills over GBP 3 million, which is expected to yield 0.15% of GDP in additional revenue in 2017-18.

The headline deficit is expected to fall from 5.0% of GDP in 2014-2015 to 4.1% in 2015-2016 and 2.6% in 2016-17. The debt-to-GDP ratio is forecast to peak in 2015-2016 at 87.6% and then to slowly decline to 86.1% in 2017-2018. The government aims to achieve a budget surplus by 2019-20. The structural balance is improving from around -4% in 2015-2016 to close to -2% in 2017-2018. The main risk is that the rise in tax receipts are weaker than forecast in case GDP growth moderates by more than is projected.

Table II.28.1:
General government projections on a financial-year basis

ESA10	Actual		Forecast		
	2013-14	2014-15	2015-16	2016-17	2017-18
General government balance~	-5.9	-5.0	**-4.1**	**-2.6**	**-1.7**
Structural budget balance	-5.1	-4.6	**-4.1**	**-2.9**	**-2.1**
General government gross debt	86.6	87.5	**87.6**	**87.4**	**86.1**

~APF transfers included

Table II.28.2:
Main features of country forecast - UNITED KINGDOM

	2014			Annual percentage change						
	bn GBP	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		1816.4	100.0	2.1	1.2	2.2	2.9	**2.3**	**2.1**	**2.1**
Private Consumption		1175.7	64.7	2.6	1.8	1.9	2.5	**2.8**	**2.6**	**2.3**
Public Consumption		357.3	19.7	2.0	1.8	0.5	2.5	**1.7**	**0.4**	**-0.2**
Gross fixed capital formation		306.1	16.9	1.2	1.5	2.6	7.3	**4.6**	**5.1**	**4.7**
of which: equipment		67.2	3.7	1.7	3.0	-2.8	7.1	**9.8**	**9.3**	**6.5**
Exports (goods and services)		515.2	28.4	4.0	0.7	1.2	1.2	**4.6**	**3.1**	**4.2**
Imports (goods and services)		549.7	30.3	4.7	2.9	2.8	2.4	**5.7**	**4.5**	**4.2**
GNI (GDP deflator)		1783.3	98.2	2.2	0.0	1.1	2.0	**2.0**	**2.4**	**2.4**
Contribution to GDP growth:		Domestic demand		2.3	1.8	1.7	3.3	**2.9**	**2.6**	**2.2**
		Inventories		-0.1	0.5	0.9	0.0	**-0.2**	**-0.1**	**0.0**
		Net exports		-0.2	-0.7	-0.5	-0.4	**-0.4**	**-0.5**	**-0.1**
Employment				0.8	1.1	1.2	2.3	**1.7**	**1.1**	**0.9**
Unemployment rate (a)				6.0	7.9	7.6	6.1	**5.2**	**5.0**	**4.9**
Compensation of employees / head				4.0	1.7	1.4	0.4	**2.6**	**2.8**	**3.2**
Unit labour costs whole economy				2.7	1.6	0.4	-0.2	**2.0**	**1.8**	**1.9**
Real unit labour cost				0.2	0.0	-1.5	-1.9	**1.4**	**0.7**	**0.0**
Saving rate of households (b)				9.0	8.7	6.3	5.4	**6.5**	**6.8**	**6.9**
GDP deflator				2.5	1.6	2.0	1.8	**0.6**	**1.1**	**1.9**
Harmonised index of consumer prices				2.1	2.8	2.6	1.5	**0.0**	**0.8**	**1.6**
Terms of trade goods				0.2	-0.3	1.0	0.3	**1.1**	**0.8**	**0.5**
Trade balance (goods) (c)				-4.4	-6.4	-6.6	-6.8	**-6.4**	**-6.6**	**-6.6**
Current-account balance (c)				-1.9	-3.3	-4.5	-5.1	**-5.0**	**-4.7**	**-4.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-1.9	-3.3	-4.5	-5.2	**-5.1**	**-4.9**	**-4.5**
General government balance (c)				-3.5	-8.3	-5.7	-5.7	**-4.4**	**-3.1**	**-2.1**
Cyclically-adjusted budget balance (d)				-3.4	-6.6	-4.6	-5.3	**-4.4**	**-3.3**	**-2.5**
Structural budget balance (d)				-	-6.6	-4.6	-5.2	**-4.4**	**-3.3**	**-2.5**
General government gross debt (c)				48.2	85.3	86.2	88.2	**88.6**	**89.1**	**88.2**

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

Candidate Countries

29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Growth remains robust driven by domestic demand

The economy posted solid gains in the first nine months of 2015 driven by household consumption, a surge in government spending and net exports. Private investment remained restrained, as uncertainties about the external environment and the domestic political situation prevailed also in the later part of the year. The outlook remains optimistic, with investment likely to pick up again once a new government is installed. The government confirms its commitment to fiscal consolidation in the medium term, but fails to curb current spending.

Private consumption to remain key growth driver

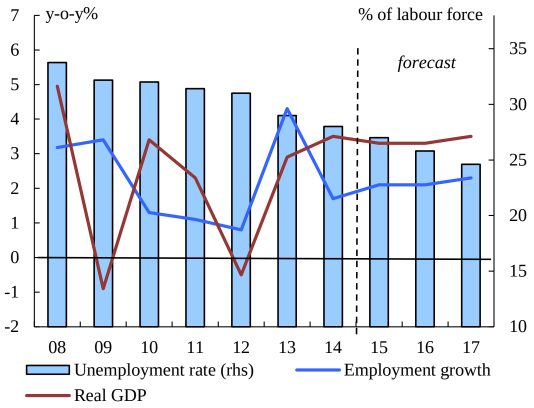
The economy continued to post solid gains also in 2015-Q3. GDP growth accelerated to 3.5% y-o-y, according to preliminary data. Given upward revisions to earlier estimates, the economy expanded by an average of 3.4% y-o-y in the first nine months, with household spending as the key growth driver, supported by net exports and a surge in public consumption.

In 2016 and 2017, growth is projected to remain solid, with a slight acceleration towards the end of the horizon. Domestic demand would remain the key driver. Household spending is expected to benefit further from positive wage trends, a benign price environment, ongoing job creation, and further increases in transfers and pensions. Net real wages have been rising for 18 months in a row, on account of both, gains in nominal wages and deflation. Social transfers and pensions were raised further after the adoption of a supplementary budget in August, and the government foresees further increases in 2016. Investment remained restrained also in the third quarter, with the domestic political crisis taking its toll on confidence. It is expected to return to moderate growth rates once the political climate stabilises.

Contributions from net exports are diminishing

Export growth slowed down in the third quarter, compared to the first half of the year, reflecting an increasingly difficult external environment, and, in particular, unfavourable conditions in global metal markets, one of the country's most important exports. Import growth, which was roughly flat during the first half of the year, picked up marginally in the third quarter, and accelerated further thereafter, possibly pointing to strengthening export demand - the import content of production by foreign companies, accounting for about two thirds of the economy's exports, remains high, as most of the required machinery and raw materials comes from abroad. In 2016, net exports are projected to contribute positively to the economy's growth, yet making a negative contribution later on, in view of an expected renewed push in import demand. With a number of newly established foreign plants starting production this year and next, exports would post solid increases, while the related demand for inputs would still largely be served from abroad rather than domestically. Compared to previous expectations, the merchandise trade balance is projected to improve significantly, driving the current account into slight surplus.

Graph II.29.1: **The former Yugoslav Republic of Macedonia - Labour market**



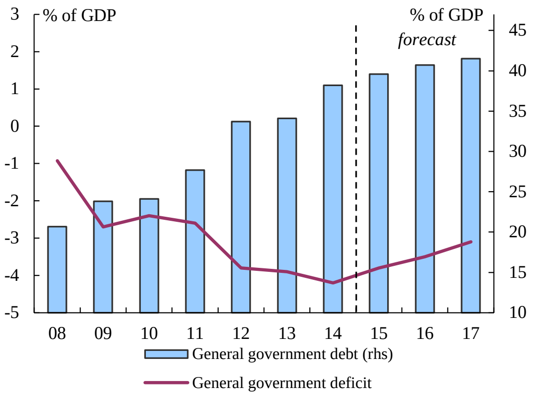
Employment growth to remain robust

Labour market conditions are expected to have improved somewhat further in 2015, yet masking continued serious challenges in some target groups, such as young workers and women. The export industries accounted for the majority of new jobs created in the first three quarters of 2015. Employment growth is likely to continue at solid rates, averaging 2.2% over the forecast horizon, mainly on account of job creation in new foreign production plants, but also in some domestic manufacturing industries. This is expected to translate into further reductions in the overall unemployment rate.

Price pressures to remain moderate

Consumer prices decreased again towards the end of the year, after a temporary rise over the summer. Annual deflation in 2015 amounted to 0.3% mainly on account of a decline in energy-intensive transport services, and a decline in food prices (41% of the index) starting in October. The price environment is expected to stay benign, given only moderate expected increases in external pressures and absence of domestic ones.

Graph II.29.2: **The former Yugoslav Republic of Macedonia - Public finances**



Fiscal consolidation remains a challenge

The supplementary budget for 2015 increased the general government deficit target from 3.4% to 3.6% of GDP, on the back of lower annual growth expectations (3.5% instead of 4%). Revenues in the first half of the year outperformed - profit tax collection more than doubled as exemptions for reinvested profits had been removed. In response, the government increased spending, in particular for social transfers and public wages, rather than using these extra revenues to rebuild fiscal space. It projects the deficit to decline to below 3% by 2017, but the required spending cuts remain little concrete. The country's fourth Eurobond (EUR 270 million) was issued in November, in part to finance the fiscal deficit in the first half of 2016. However, given that proceeds from this issue went to repayment of the 2005 EUR 150 million Eurobond, the government may need to resort to additional financing sources. It is expected that the official deficit targets for 2016 and 2017 will be exceeded, albeit not as severely as in the past. Hence, the stabilisation of government debt is unlikely over the horizon, and overall public debt, which includes government-guaranteed debt of state-owned enterprises is projected to increase further.

Table II.29.1:

Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	2014		Annual percentage change						
bn MKD	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	525.6	100.0	2.9	-0.5	2.9	3.5	**3.3**	**3.3**	**3.5**
Private Consumption	367.7	70.0	3.3	1.2	1.9	2.1	**3.0**	**2.4**	**2.5**
Public Consumption	88.6	16.9	1.1	2.4	0.5	1.0	**4.8**	**3.2**	**3.0**
Gross fixed capital formation	123.1	23.4	-	6.5	3.5	13.1	**0.9**	**4.9**	**6.5**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	251.5	47.8	6.3	2.0	6.1	18.2	**5.3**	**5.5**	**6.5**
Imports (goods and services)	342.3	65.1	6.3	8.2	2.2	16.0	**1.7**	**2.6**	**5.5**
GNI (GDP deflator)	514.4	97.9	-	-0.1	3.3	4.0	**2.9**	**2.4**	**3.5**
Contribution to GDP growth: Domestic demand			-	2.9	2.3	4.8	**3.1**	**3.3**	**3.8**
Inventories			-	1.2	-0.7	0.7	**-1.3**	**-1.0**	**0.0**
Net exports			-0.9	-4.5	1.3	-1.9	**1.4**	**1.0**	**-0.2**
Employment			-	0.8	4.3	1.7	**2.1**	**2.1**	**2.3**
Unemployment rate (a)			33.8	31.0	29.0	28.0	**27.0**	**25.8**	**24.6**
Compensation of employees / head			-	-0.1	-6.1	1.5	**0.8**	**1.3**	**2.2**
Unit labour costs whole economy			-	1.2	-4.8	-0.3	**-0.3**	**0.2**	**0.9**
Real unit labour cost			-	0.2	-8.9	-1.4	**0.2**	**-0.2**	**-0.3**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.1	1.0	4.5	1.1	**-0.5**	**0.4**	**1.2**
Consumer-price index			2.5	3.3	2.8	-0.3	**-0.3**	**0.7**	**1.5**
Terms of trade goods			-	-1.2	-0.2	3.6	**0.0**	**0.0**	**-0.1**
Trade balance (goods) (c)			-19.4	-26.5	-22.8	-21.7	**-20.0**	**-18.8**	**-18.9**
Current-account balance (c)			-5.6	-3.0	-1.6	-0.8	**0.2**	**0.2**	**0.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-3.8	-3.9	-4.2	**-3.8**	**-3.5**	**-3.1**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	33.7	34.0	38.2	**39.6**	**40.8**	**41.6**

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

30. MONTENEGRO

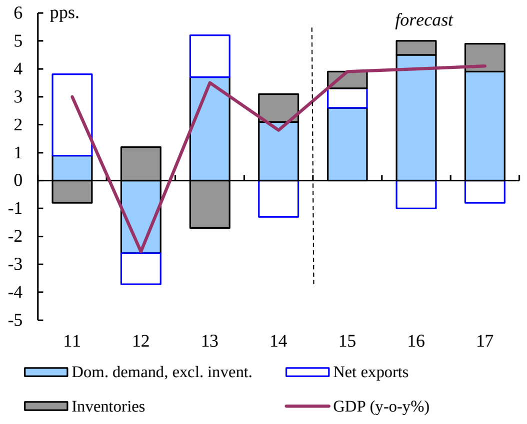
Investment-driven growth

Surging public and private investments are set to drive economic growth in the next years. Private consumption is likely to benefit from the gradual improvement in the labour market. Meanwhile, public finances will remain strained by long-term commitments to finance a highway to Serbia and higher spending on wages, pensions and some social transfers.

Growth was stronger than expected

Strong growth in fixed capital investment and exports of services continued to support the economy in the third quarter of 2015, boosting GDP growth by 4.2% (y-o-y), up from 3.7% growth in the previous quarter. Yet, private consumption still remained subdued, presenting a negative contribution to economic growth due to stagnating wages and pensions in a low inflation context. By contrast, the contribution from government consumption and net exports turned positive in the third quarter, the latter driven by strong growth of services trade as a result of an excellent tourism season, and offsetting the also robust expansion of imports. Overall, considering past years' trends for the last quarter, GDP is expected to have increased by 3.9% in 2015.

Graph II.30.1: **Montenegro - GDP growth and contributions**



Investment and tourism will continue to drive growth

Growth dynamics are expected to continue performing in a broadly similar way in 2016 and 2017. Thus, the substantial list of shovel-ready projects will sustain the strong performance of capital investments. Government fiscal space (and hence, its consumption) will remain constrained during the construction of the highway. Changes in inventories are envisaged to continue its strong seasonal pattern in line with retail traders' stocks and tourism-related consumption, while manufacturing stocks remain flat as the metal industry goes through restructuring. Yet, some recovery of private consumption may result from the government's plans to increase public sector wages, pensions, and some social benefits as foreseen in the 2016 budget. This will have an impact on the broader economy as the government is the major employer in the country, as well as by the example it sets for collective bargaining in the private sector.

The price factor

Falling global oil prices continue to weigh on Montenegrin inflation. Yet, the impact on growth from rising wages and pensions in 2016 could be dampened in case of higher inflationary pressures later on. This forecast considers two specific inflationary risks, affecting commodity prices: one related to the price of oil, projected to remain at low levels unless geopolitical risks in producing countries materialise, and the second one is related to food prices, in case unfavourable meteorological conditions affect future harvests.

Was 2015 tourism season a one-off effect?

The excellent results of the 2015 tourism season were the main factor for the narrowing of the external deficit. In the four quarters to September 2015, the current account deficit dropped to 12.6% of GDP, down from 15.8% a year before, in spite of further and simultaneous deepening of the merchandise trade deficit. As a result, the forecast revises upwards the positive contribution from service exports, expecting that significant investments on hotel capacities would sustain tourism-related income also in 2016 and 2017. Another technical factor recalibrated in this forecast is the lower than expected import elasticity of investments, allocating now more weight to construction equipment rather than to building materials.

Stronger labour supply dampens reduction in unemployment

The unemployment rate continued to decline in 2015, although at a slower pace than foreseen due to the simultaneous increase of the labour force. For 2016, the forecast expects that employment growth would continue at a similar pace as in 2015, to further accelerate in 2017 due to new investments, namely in new power generation plants.

Public spending to boost growth

The 2016 general government budget targets a deficit of 6.1% of GDP. The large deficit reflects the EUR 255 million (or 6.8% of GDP) spending to continue the construction of the priority section of a highway to Serbia. In addition, to stimulate the economy the government reduced as of 2016 the higher tax rate on personal income (paid by the employer) from 13% to 12%, and increased public sector wages, pensions and transfers. However, in the absence of new fiscal measures and structural reforms to counter these expenditure increases, this forecast reviews slightly upwards the deficit for 2016 and 2017.

Net financing needs remain substantial in 2016, but would decline in the following years. In 2016, the country will need to borrow EUR 688 million (or some 18% of GDP). Out of this amount, the main risk appears concentrated on the EUR 390 million to be rolled over in the capital markets in early 2016. Another EUR 205 million to finance the motorway in 2016 is secured by a USD denominated loan. In 2017 (in contrast with 2016 and 2015) there will be no need to refinance maturing Eurobonds, although a similar amount from the highway's loan should be withdrawn each year. Overall, Montenegro's public debt is set to further increase in 2016 and 2017 driven by further borrowing to finance capital spending.

According to Montenegro's fiscal rules, once the public debt reaches the limit of 60% of GDP - which is expected to happen soon - the government should present a plan to bring the debt below this threshold in the next five years. Yet, the new debt management plan could be challenged by cost overruns during the construction of the highway or by loosening fiscal discipline, in particular during the electoral year of 2016.

Table II.30.1:

Main features of country forecast - MONTENEGRO

	2014			Annual percentage change						
	mio EUR Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	3457.9	100.0	-	-2.7	3.5	1.8	**3.9**	**4.0**	**4.1**
Private Consumption	2774.9	80.2	-	-3.9	1.6	2.9	**0.0**	**1.5**	**3.3**
Public Consumption	669.9	19.4	-	3.0	1.3	1.4	**0.4**	**5.4**	**2.4**
Gross fixed capital formation	657.1	19.0	-	-2.4	10.7	-2.5	**13.5**	**11.5**	**4.5**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1388.1	40.1	-	-0.3	-1.3	-0.7	**8.6**	**2.1**	**4.6**
Imports (goods and services)	2074.2	60.0	-	0.6	-3.1	1.6	**4.7**	**3.2**	**4.5**
GNI (GDP deflator)	-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth: Domestic demand			-	-3.0	3.7	2.1	**2.6**	**4.5**	**3.9**
Inventories			-	0.9	-1.7	1.0	**0.6**	**0.5**	**1.0**
Net exports			-	-0.6	1.5	-1.3	**0.7**	**-1.0**	**-0.8**
Employment			-	2.2	1.1	3.1	**1.5**	**1.5**	**1.9**
Unemployment rate (a)			-	19.8	19.5	18.2	**17.6**	**17.2**	**16.8**
Compensation of employees / head			-	0.9	-2.0	-1.5	**0.0**	**3.5**	**2.6**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	5.8	-6.2	-1.3	**-4.2**	**-1.1**	**-1.9**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	-	-	-	**-**	**-**	**-**
Consumer-price index			-	4.3	1.8	-0.5	**1.5**	**1.9**	**2.2**
Terms of trade of goods			-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)			-	-43.7	-39.5	-39.8	**-40.3**	**-39.5**	**-38.8**
Current-account balance (c)			-	-18.5	-14.5	-15.2	**-12.9**	**-13.4**	**-13.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-6.0	-5.2	-2.8	**-7.0**	**-6.6**	**-6.1**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	53.4	57.5	54.8	**61.4**	**65.8**	**68.9**

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

31. SERBIA

Economic growth accelerating amidst multiple challenges

GDP growth is forecast to gradually accelerate on the back of stronger domestic demand. Investment growth, in particular, is expected to be robust throughout the forecast horizon, boosted by confidence effects, rising foreign direct investments, and higher public capital expenditure. However, the forecast faces a number of exogenous risks and preserving policy predictability and a strong commitment to implement planned structural reforms remain important factors for an improved growth outlook.

Investment growth accelerated

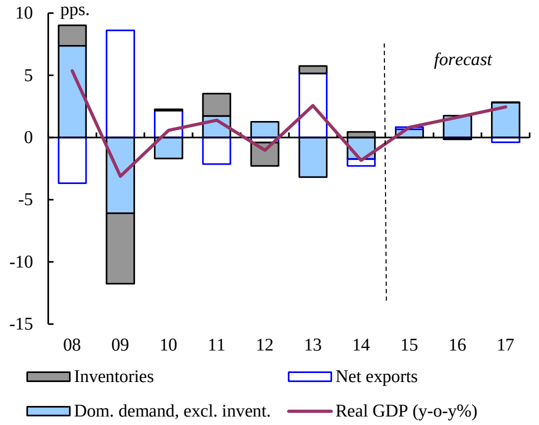
Low international primary commodities prices have continued to support the ongoing recovery. GDP growth has picked-up in the third quarter of 2015 to 2.2% y-o-y, driven mainly by exports and investments. Recent reforms improving the business environment, coupled with base effects and rising FDIs, have underpinned double-digit investment growth in the same quarter. Higher government expenditure on goods and services has nudged public consumption growth slightly above zero, signalling a weakening of the otherwise very strong fiscal consolidation effort. Households' consumption growth remained negative, although less so than previously expected due to higher disposable income as a result of remittances inflows and lower commodity prices.

High-frequency indicators point at a continuation of good economic performance in the last quarter of 2015. Industrial production growth has remained robust in October and November, still largely driven by energy and mining. In addition, manufacturing production increased in most of the sectors and retail trade turnover grew at a steady pace.

Consumption is expected to support acceleration of growth

Private consumption is expected to turn to a marginal growth already this year. In addition to higher budgetary transfers, it should be supported by a pick-up in private sector employment and small wage gains, in particular in the private sector. The decline of public consumption, characterising the previous three years, is foreseen to wind down as fiscal consolidation efforts are being reduced. Thus, GDP growth is forecast to gradually accelerate on the back of stronger domestic demand. Investment growth, in particular, is expected to remain robust throughout the forecast horizon, boosted by confidence effects, rising foreign direct investments, and higher public capital expenditure. However, preserving policy predictability and a strong commitment to implement planned structural reforms continue to be important factors for an improved growth outlook. Apart from that, the forecast is also facing a number of exogenous risks, stemming from a slowdown in some emerging markets, the effects of tighter US monetary policy, and geopolitical tensions.

Graph II.31.1: **Serbia - Real GDP growth and contributions**



The good export performance, which has been crucial in reducing external imbalances in the last few years, is forecast to continue. It is envisaged to be supported by an ongoing recovery in most of Serbia's major trading partners and productivity gains due to domestic reforms and new investment. At the same time, the rebound of domestic demand is expected to underpin a steady increase in imports, keeping the net exports contribution to growth close to zero or slightly negative. As a result, further reductions of external trade imbalances are foreseen to be marginal and the current account deficit to remain broadly unchanged.

Price pressures to remain low

Inflation has been persistently below the central bank target tolerance band for almost two years. The expected increase in domestic demand and adjustments in administered prices are forecast to pull inflation marginally up into the target band. However, low international commodity prices, exchange rate stability, and stable inflationary expectations should anchor inflation dynamics. Recent price stability and strong fiscal consolidation have facilitated monetary policy easing. Lower borrowing costs, along with policy measures to address the very high ratio of non-performing loans are envisaged to eventually spur a revival of lending activity and further support economic growth.

Labour market indicators have been influenced by recent methodological changes. In the next few years, employment gains are projected to be limited as more dynamic job creation in the private sector is largely offset by losses in the public sector. Still, these gains would be sufficient to continue driving unemployment down, although the unemployment rate would remain very high.

Fiscal consolidation – impressive but unfinished

The budget deficit in 2015 is expected to have been better than anticipated, mainly as a result of over-performance on the revenue side. It created space for a limited increase of pensions, one-off payments to some categories of employees, and targeted increases of public sector wages. Significant one-off revenue and expenditure have influenced budgetary outcomes and have the potential to do so again in 2016.

Following a significant consolidation in 2015, medium-term fiscal prospects are much less impressive. The budget deficit is forecast to remain broadly unchanged in 2016, before declining slightly in 2017. However, these levels of deficit would imply further increases in government debt, approaching 80% of GDP. Thus, a more ambitious fiscal consolidation strategy would be required to stabilise and eventually reduce the public debt ratio to more sustainable levels. In addition, the fiscal scenario is subject to uncertainty, stemming from the actual implementation of some of the planned structural adjustment measures, in particular those related to the downsizing of public sector employment.

Table II.31.1:

Main features of country forecast - SERBIA

	2014		Annual percentage change						
	bn RSD Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	3908.5	100.0	-	-1.0	2.6	-1.8	**0.8**	**1.6**	**2.5**
Private Consumption	2955.8	75.6	-	-2.0	-0.6	-1.3	**-0.6**	**0.5**	**1.5**
Public Consumption	692.9	17.7	-	1.9	-1.1	-0.6	**-1.5**	**-0.3**	**0.0**
Gross fixed capital formation	652.0	16.7	-	13.2	-12.0	-3.6	**8.3**	**7.9**	**8.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1695.3	43.4	-	0.8	21.3	5.7	**8.0**	**4.7**	**5.3**
Imports (goods and services)	2119.3	54.2	-	1.4	5.0	5.6	**6.1**	**4.1**	**4.8**
GNI (GDP deflator)	3751.1	96.0	-	-0.4	1.8	-1.7	**0.0**	**1.4**	**2.4**
Contribution to GDP growth: Domestic demand			-	1.2	-3.2	-1.7	**0.6**	**1.8**	**2.7**
Inventories			-	-1.9	0.6	0.5	**0.0**	**0.0**	**0.0**
Net exports			-	-0.4	5.2	-0.6	**0.2**	**-0.1**	**-0.2**
Employment			-	-1.1	3.7	10.1	**0.9**	**0.7**	**1.2**
Unemployment rate (a)			-	23.9	22.1	19.4	**17.4**	**16.8**	**16.1**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	6.3	5.4	2.7	**1.2**	**2.4**	**3.5**
Consumer-price index			-	7.3	7.8	2.1	**1.4**	**2.4**	**3.6**
Terms of trade goods			-	2.3	-2.3	0.4	**1.9**	**1.0**	**0.0**
Trade balance (goods) (c)			-	-17.1	-11.6	-12.3	**-11.7**	**-11.5**	**-11.6**
Current-account balance (c)			-	-11.6	-6.1	-6.0	**-5.1**	**-4.9**	**-4.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-6.8	-5.5	-6.6	**-3.8**	**-3.7**	**-3.5**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	56.1	59.4	70.4	**76.2**	**79.9**	**81.8**

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

32. TURKEY
Moderate growth supported by lower oil price

Moderate output growth is set to continue based on the low oil price, an accommodative monetary policy, and hikes in government-controlled wages. Net exports will subtract from growth, partly due to Russian sanctions and the unstable security situation domestically and in the near abroad. Inflation is set to approach double digits in the context of pass-through from last year's depreciation and domestic inflationary pressures. The current account benefits from the low oil price while the public debt ratio continues to decline.

Domestic demand has strengthened

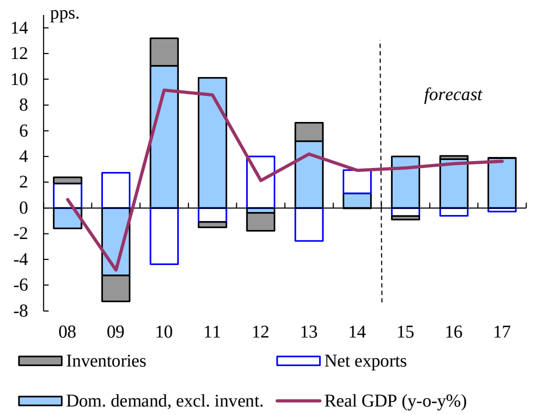
The Turkish economy continued to expand at a moderate rate in the first three quarters of 2015 with real GDP up by 3.4% on a year-on-year basis. There was a pronounced shift towards domestic-demand driven growth with consumer spending increasing by 4.5%, supported by the lower oil price and easy financial conditions. Private investment mustered 4.3% growth after having been close to stagnation for two years. In contrast to 2014, net exports exerted a drag on growth as exports contracted while imports expanded. For the fourth quarter of 2015, the data suggest that final demand continued expanding at a moderate pace. Inventory adjustment, however, is expected to have dampened GDP growth following a positive contribution in the third quarter.

Exports are underperforming

The forecast projects that the external sector will continue to subtract from output growth in 2016 and 2017 in spite of the lira's real effective depreciation in 2015. Import growth is projected to outpace export growth, but both remaining at relatively low rates. In the short term, exports are expected to be held back by (1) Russian sanctions following the downing of a Russian bomber aircraft by the Turkish air force last November, (2) a disproportionally high impact from the oil price decline on export demand, (3) the conflicts in Syria and Iraq, and (4) an unstable domestic security situation reducing foreign tourism. On the positive side, the repeal of international sanctions on Iran is expected to provide some lift to Turkish export growth.

On the domestic demand side, consumer spending is projected to increase at an average annual rate of 3.6 % over the next two years, i.e. roughly the same as the average for the past three years. It will be supported by the purchasing power provided by the lower oil price and by the government's 30% increase of the minimum wage as of January 2016. Some restraint on consumer spending will come from indirect taxes hikes and the unstable security situation. Business investment is projected to continue growing at a moderate rate, supported by a pent-up need for replacement investment. While household borrowing appears to have been curbed by macro-prudential measures, non-financial corporations increasingly seem to take advantage of the easy financial conditions.

Graph II.32.1: **Turkey - Real GDP growth and contributions**



Returning to potential growth

Annual output growth is estimated to have reached 3.1% in 2015 despite negative growth contributions from net exports and inventory adjustment. Although net exports are forecast to continue suppressing activity in 2016, rising inventories are projected to push annual growth up to 3.4%. For 2017, the forecast expects waning headwinds for export growth to support a further rise in GDP growth to 3.6% which is close to the current medium-term potential growth rate.

This growth forecast is associated with significant risks. On the upside, accelerating wages and stronger household borrowing may provide a sharper-than-projected boost to consumer spending. On the downside, there is a risk that the security situation might worsen, domestically and in the near abroad. But the largest risk may be that a sustained reversal of capital inflows requires a sharp policy adjustment and results in domestic demand suppression. Capital outflows have already increased recently, partly because global investor sentiment has shifted away from emerging economies, not least from those with large current account deficits like Turkey.

Inflation is ticking up

Headline inflation rose by 0.6 pps. to 8.8% in the course of 2015 as the Turkish lira depreciated significantly against major international currencies. The exchange-rate pass-through, together with strongly rising food prices, has more than offset the disinflationary effect from the lower oil price. In spite of overshooting the official 5% inflation target by a wide margin, the central bank has kept its main policy rate unchanged at 7.5% since February 2015. The forecast projects consumer price inflation to increase further in the near term and to remain in high-single digits throughout the forecasting period on the basis of the current monetary policy stance, the recent hikes in government-controlled wages, and ingrained inflation expectations.

Rising unemployment, but a lower current account deficit

Employment growth is expected to continue running somewhat below output growth. The unemployment rate is projected to rise gradually to 10.8% in 2017 assuming that the labour force (aged 15-64 years) will increase by its trend growth rate in recent years.

Turkey's long-standing current account deficit has narrowed for the second consecutive year in 2015, falling to an estimated 4.8% of GDP. Due to large energy imports, the current account has benefitted strongly from the oil price decline. This effect should narrow the deficit further in 2016, but not in 2017 when a renewed widening is projected.

Public finances remain relatively stable

Based on the budget realisation for the central government, the general government deficit is estimated to have narrowed slightly to 1.4% of GDP in 2015. Accelerating expenditures are expected to increase the deficit somewhat in 2016 followed by a renewed narrowing in 2017. General government debt as a share of GDP is projected to continue its downward trend towards 30%.

Table II.32.1:

Main features of country forecast - TURKEY

	2014		Annual percentage change						
bn TRY	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	1747.4	100.0	4.2	2.1	4.2	2.9	**3.1**	**3.4**	**3.6**
Private Consumption	1203.9	68.9	4.4	-0.5	5.1	1.4	**4.2**	**3.4**	**3.5**
Public Consumption	268.2	15.3	4.5	6.1	6.5	4.7	**5.2**	**6.0**	**5.0**
Gross fixed capital formation	351.7	20.1	5.5	-2.7	4.4	-1.3	**2.7**	**3.5**	**4.0**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	484.7	27.7	7.1	18.3	-0.3	6.8	**-0.9**	**1.2**	**3.5**
Imports (goods and services)	562.4	32.2	8.1	-0.5	9.0	-0.2	**1.4**	**3.3**	**4.2**
GNI (GDP deflator)	1720.7	98.5	4.3	2.4	3.9	2.8	**3.1**	**3.4**	**3.4**
Contribution to GDP growth: Domestic demand			4.9	-0.4	5.3	1.1	**4.1**	**3.8**	**3.9**
Inventories			0.0	-1.4	1.4	0.2	**-0.4**	**0.2**	**0.0**
Net exports			-0.5	3.9	-2.5	1.6	**-0.6**	**-0.6**	**-0.3**
Employment			1.0	3.1	2.8	1.6	**2.6**	**2.8**	**2.9**
Unemployment rate (a)			8.5	8.3	8.9	10.1	**10.5**	**10.7**	**10.8**
Compensation of employees / head			31.3	12.8	10.9	11.2	**12.7**	**14.5**	**11.5**
Unit labour costs whole economy			27.2	13.8	9.4	9.8	**12.1**	**13.8**	**10.8**
Real unit labour cost			-1.8	6.5	3.1	1.4	**3.2**	**3.9**	**2.9**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			29.7	6.9	6.2	8.3	**8.6**	**9.6**	**7.7**
Consumer-price index			-	8.9	7.5	8.9	**7.7**	**9.0**	**8.5**
Terms of trade goods			-0.9	-3.1	3.8	1.2	**5.5**	**3.0**	**0.2**
Trade balance (goods) (c)			-6.2	-8.1	-9.4	-7.7	**-6.7**	**-6.1**	**-6.0**
Current-account balance (c)			-3.1	-6.1	-7.8	-5.8	**-4.8**	**-4.4**	**-4.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-6.1	-7.8	-5.8	**-4.8**	**-4.4**	**-4.6**
General government balance (c)			-	-1.7	-1.3	-1.5	**-1.4**	**-1.7**	**-1.6**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	36.2	36.1	33.5	**33.2**	**32.1**	**31.4**

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

33. ALBANIA

Growth pick-up supports debt reduction plans

Economic growth is on an upward trajectory because of surging investment and a positive contribution from net exports. Foreign direct investment, focusing on some major projects, is set to remain an important source of growth. However, economic sentiment remains volatile and lending to the economy subdued, while the persistently low oil price triggers adjustment in the extractive sector. Fiscal consolidation remains high on the policy agenda.

Growth set to improve in 2015

Flash data indicate that GDP growth in the first three quarters was 2.7% year-on-year, driven by surging investment and net exports. Private consumption recorded a contraction in the first half of the year mainly as a result of precautionary saving behaviour by households, but it turned to a 1.9% year-on-year growth in the third quarter. However, business and consumer confidence remains volatile, pointing to a heightened level of uncertainty.

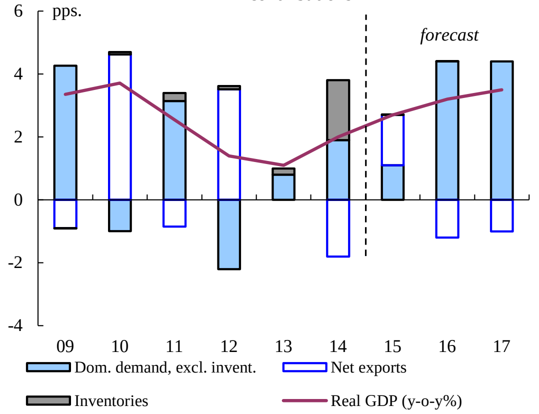
Reflecting still below-potential economic activity, the annual rate of inflation averaged 1.9% in 2015, undershooting the Bank of Albania’s (BoA) target of 3% for the fourth consecutive year. In response to this, BoA stepped up monetary easing by cutting its policy rate to a new historic low of 1.75% in November. However, the pass-through of monetary stimulus continues to be hampered by weak lending from banks that have become risk-averse amid a falling but still very high (around 20%) share of non-performing loans (NPLs).

Big projects boost investment

The investment revival, which follows three years of contraction, is driven by some major projects financed by foreign direct investment in the energy sector. One of them, the Albanian section of the Trans-Adriatic Pipeline, is expected to enter an intensive phase this year and is likely to boost gross fixed capital formation even as investments by petroleum producers are cut back due to enduringly weak crude oil prices. Bank lending for business purposes is expected to experience a gradual recovery as various regulatory and legislative efforts are implemented to tackle the NPL problem.

Household spending should benefit from employment gains and improving financial conditions, but remittances from Albanians living abroad have been volatile lately, reflecting in particular the recent instability of the Greek economy.

Graph II.33.1: **Albania - Real GDP growth and contributions**



On the production side, the extractive industry is adjusting to lower prices for oil and other commodities by cutting production targets. Therefore, this industry, which has been an important contributor to growth over the past five years, will likely be a drag on economic activity in 2016. A downside risk to the outlook stems from weather-induced volatility in hydropower generation, which satisfies most of Albania's electricity needs.

Trade weakness with diverse causes

In the first three quarters, both exports and imports fell in real terms. The oil price fall and the reorientation of some of the oil production to the domestic market weighed on goods exports, even as services exports, boosted by manufacturing services and tourism spending, performed well. Imports, on the other hand, were affected by weak household spending, while the purchase of investment-related goods soared. In the years to come, the expected gradual recovery in Albania’s main export destinations is set to support foreign sales, especially of traditional products such as textiles and food. Imports, for their part, are projected to be boosted by continuing growth in investment and the expected increase in household consumption. Overall, net exports are likely to make a negative contribution to growth in the coming years, while the current account deficit is expected to widen.

Ambitious plans for fiscal consolidation

Preliminary budget figures indicate that in 2015 revenues underperformed even relative to the reduced target set in July. The 5% shortfall was mainly caused by lower-than-expected revenue from VAT and excise duties. However, the extent to which expenditure lagged behind the budgeted figure was even greater, at 5.7%, driven by underspending by local governments and on social security. Capital expenditure also fell short of the reduced target, pointing to persistent problems with respect to the management of public investment. Overall, the budget deficit in 2015 was 10.4% lower than planned and undershot the 4% of GDP target by some margin.

The budget for 2016 is based on the assumption that nominal GDP will grow by 6.2% and targets a headline deficit of 2.2% of GDP as well as a primary surplus of 0.6%. It aims to achieve this by tightly controlling expenditure and increasing revenues through economic growth and better administration, whereas tax adjustments will only play a minor role. Even if the underlying nominal GDP growth assumption might be somewhat optimistic, a more conservative estimation of individual tax receipts and the government's readiness to cut spending if revenues disappoint overall make meeting the targets attainable. Public debt, which has risen steadily since 2011 to over 70% of GDP, is thus expected to start decreasing this year. Medium-term projections assume that a continuing improvement in the primary balance and stronger economic growth will further dent the debt ratio. However, the rising foreign-currency component of debt is subject to exchange rate risks, while spending pressures may mount in the run-up to the parliamentary elections in 2017, just when Albania's IMF-supported programme, which currently acts as a disciplinary anchor, expires.

Table II.33.1:

Main features of country forecast - ALBANIA

	2014		Annual percentage change							
	bn ALL Curr. prices	**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP	1400.5	100.0	-	1.4	1.1	2.0	**2.7**	**3.2**	**3.5**
Private Consumption	1107.6	79.1	-	0.1	1.4	2.7	**-1.2**	**2.4**	**2.9**
Public Consumption	159.8	11.4	-	0.1	2.9	7.9	**-2.3**	**-0.3**	**0.4**
Gross fixed capital formation	342.9	24.5	-	-7.9	-2.1	-3.9	**9.5**	**9.7**	**7.6**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	393.7	28.1	-	-0.6	7.9	-17.5	**-0.4**	**4.3**	**5.0**
Imports (goods and services)	658.5	47.0	-	-6.6	5.0	-8.2	**-3.6**	**5.3**	**5.2**
GNI (GDP deflator)	1383.8	98.8	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth: Domestic demand			-	-2.2	0.8	1.9	**1.1**	**4.4**	**4.4**
Inventories			-	0.1	0.2	1.9	**0.0**	**0.0**	**0.0**
Net exports			-	3.5	0.0	-1.8	**1.6**	**-1.2**	**-1.0**
Employment			0.1	-2.7	-9.7	1.6	**2.0**	**2.2**	**2.5**
Unemployment rate (a)			-	13.8	16.4	17.9	**17.5**	**16.9**	**16.0**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	1.0	0.2	1.6	**0.6**	**2.0**	**2.4**
Harmonised index of consumer prices			-	2.0	1.9	1.6	**1.9**	**2.3**	**2.6**
Terms of trade goods			-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)			-	-20.9	-17.9	-22.1	**-22.4**	**-23.4**	**-23.9**
Current-account balance (c)			-	-10.2	-10.5	-12.9	**-10.9**	**-11.9**	**-12.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-3.4	-5.0	-5.1	**-3.5**	**-2.3**	**-1.8**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	62.1	69.6	71.3	**72.3**	**71.6**	**69.9**

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

34. THE UNITED STATES OF AMERICA

Solid growth as headwinds intensify

While headwinds have emerged over recent months, particularly in the external sector, the outlook for the US economy remains steady and broadly in line with previous expectations, expanding by around 2.5% annually. Recovery in the labour market, which underpinned the recent initiation of monetary policy normalisation, is expected to be sustained, even as downside risks become increasingly evident.

Following the slowdown recorded in the first quarter of 2015, the US economy grew at a quarterly rate of 1.0% in the second quarter and 0.5% in the third. While private consumption and fixed investment showed resilience throughout the year, net exports have weighed on growth and, due to the combined effects of a strong US dollar and deteriorating external environment, will remain a drag throughout the forecast horizon. On the domestic front, the renewed fall in energy prices over recent months should provide a fillip to consumption and non-energy-related investment, even as the energy sector continues to contract. In addition, the budget deal agreed in December removes a considerable degree of fiscal policy uncertainty, while at the same time providing for government consumption to make a positive contribution to growth.

Consumption and investment continue to support growth

Private consumption growth, benefitting from the labour market's recovery and falling energy prices, was particularly strong in 2015 and remains the key driving force behind economic recovery. While both of these factors should remain supportive over the forecast horizon, particularly as tighter labour market conditions provide for a pick-up in wage growth, private consumption is set to moderate slightly in future years.

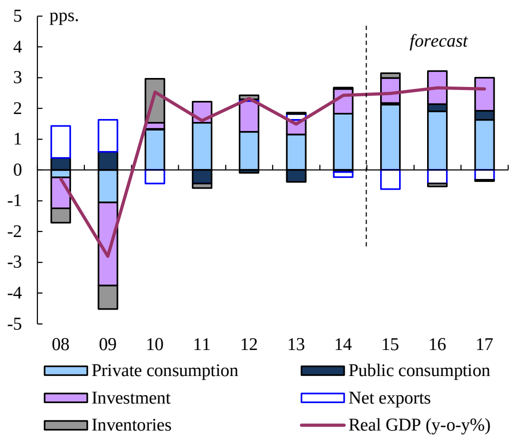
The fall in oil prices over recent months has had a significant impact on the US energy sector, prompting cutbacks in both employment and capital expenditures. Investment in non-energy-related sectors, however, buttressed by solid domestic demand and an environment of still accommodative financial conditions, is expected to perform relatively well throughout the forecast horizon.

Lower policy uncertainty on the fiscal and monetary fronts should also help, although there remains uncertainty regarding the US presidential election and the future pace of monetary policy normalisation. Similarly, though mortgage rates are expected to rise gradually in line with tightening monetary policy, the outlook for residential investment remains solid, driven by pent-up demand for housing and rising household net wealth.

Budget deal provides a boost

December's agreement to pass a USD 1.1 tn expenditure bill, combined with a further USD 600 bn in tax cuts, has ensured that the government is fully funded for the next two fiscal years, avoiding a potential government shutdown; while at the same time providing for modest increases in discretionary expenditure, meaning that fiscal policy will no longer be a drag on growth.

Graph II.34.1: **US - Real GDP growth and contributions**



Renewed vigour in the labour market

Following some moderation earlier in the year, the labour market's recovery regained momentum towards the end of 2015. Monthly job growth accelerated to 284,000 in the final quarter of 2015, considerably higher than the 200,000 average recorded over the first three quarters. The unemployment rate, meanwhile, has continued to fall back to pre-crisis levels and is currently at 5.0% (down from 5.7% in January 2015), with wider measures of labour market slack also falling throughout the year. The stronger labour market has so far failed to attract more discouraged and marginally attached workers, resulting in largely flat labour market participation. The unemployment rate is forecast to fall further, eventually reaching 4.7% in 2017, amid only a minor cyclical uptick in the participation rate.

The final months of 2015 have seen clearer signs of rising price and wage pressures. While headline price indices continue to be dragged down by tumbling energy prices, core CPI rose to 2.1% in December (its highest since mid-2012), even as the Fed-preferred PCE continued to stay at 1.3% throughout the year. Likewise, wage growth accelerated to 2.4% (y-o-y) on average in the fourth quarter, up from 2.1% in the first half. The labour market's continued tightening should also prompt a further acceleration of wage and price growth.

Initiation of monetary tightening

The labour market's robust performance, combined with signs of firming price pressures, underpinned the Federal Reserve's December decision to raise interest rates for the first time since 2006. Overall, the decision further underlines the progress made in sustaining economic recovery in the US and marks a new stage in post-financial crisis monetary policy. With the policy debate now shifting towards future rate increases, it is expected that the tightening cycle will proceed at a gradual pace without significant market disruption.

External environment and market volatility

Developments in the external environment proved challenging throughout 2015 because of the further strengthening of the US dollar and a sharp weakening of global import demand, including among key trading partners of the US. The dollar appreciated strongly in real terms in 2015 and is set to remain strong on account of the December lift-off combined with divergent monetary policy stances across advanced economies. Net exports are therefore now expected to act as an even bigger drag on growth than in the autumn, subtracting as much as 0.7 pps. and 0.4 pps. from growth in 2015 and 2016, respectively, (0.1 pps. more compared to the AF) and 0.3 pps. in 2017.

Aside from the labour market, economic data over recent months, particularly in the manufacturing sector, has been subdued. This loss of momentum, combined with increased financial market volatility seen over recent months, highlights that the growth outlook remains vulnerable, with risks now firmly tilted towards the downside.

Table II.34.1:

Main features of country forecast - USA

	2014			Annual percentage change						
	bn USD Curr. prices		**% GDP**	**96-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
GDP	17348.1		100.0	2.5	2.2	1.5	2.4	**2.5**	**2.7**	**2.6**
Private Consumption	11865.9		68.4	2.9	1.5	1.7	2.7	**3.1**	**3.0**	**2.6**
Public Consumption	2556.3		14.7	1.6	-0.9	-2.5	-0.5	**0.4**	**1.7**	**2.1**
Gross fixed capital formation	3378.7		19.5	2.3	6.3	2.4	4.1	**3.9**	**4.4**	**4.5**
of which: equipment	1180.3		6.8	4.5	8.8	2.2	5.0	**2.7**	**4.3**	**4.6**
Exports (goods and services)	2341.9		13.5	4.7	3.4	2.8	3.4	**1.3**	**2.6**	**3.6**
Imports (goods and services)	2871.9		16.6	5.4	2.2	1.1	3.8	**5.1**	**4.8**	**4.8**
GNI (GDP deflator)	17611.2		101.5	2.6	2.1	1.5	2.4	**2.2**	**2.9**	**2.7**
Contribution to GDP growth:	Domestic demand			2.7	2.0	1.2	2.6	**2.9**	**3.1**	**3.0**
	Inventories			0.0	0.1	0.1	0.0	**0.2**	**-0.1**	**0.0**
	Net exports			-0.2	0.1	0.2	-0.2	**-0.7**	**-0.4**	**-0.3**
Employment				0.7	1.8	1.0	1.6	**1.7**	**1.3**	**1.3**
Unemployment rate (a)				5.8	8.1	7.4	6.2	**5.3**	**4.8**	**4.7**
Compensation of employees / f.t.e.				3.5	2.2	1.5	2.8	**2.8**	**3.7**	**3.7**
Unit labour costs whole economy				1.7	1.7	1.0	1.9	**2.1**	**2.3**	**2.4**
Real unit labour cost				-0.3	-0.1	-0.7	0.3	**1.0**	**0.6**	**0.1**
Saving rate of households (b)				10.3	12.9	10.3	10.4	**10.1**	**10.4**	**10.1**
GDP deflator				2.0	1.8	1.6	1.6	**1.0**	**1.7**	**2.2**
Consumer-price index				2.5	2.1	1.5	1.6	**0.1**	**1.2**	**2.2**
Terms of trade goods				-0.4	-0.2	0.6	-0.2	**2.2**	**1.3**	**-0.5**
Trade balance (goods) (c)				-4.4	-4.8	-4.4	-4.4	**-4.3**	**-4.3**	**-4.6**
Current-account balance (c)				-3.7	-2.9	-2.4	-2.3	**-3.3**	**-3.1**	**-3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.7	-2.9	-2.4	-2.3	**-3.3**	**-3.1**	**-3.2**
General government balance (c)				-4.7	-8.8	-5.3	-4.9	**-4.2**	**-4.3**	**-4.4**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				67.9	102.5	104.8	104.8	**105.6**	**106.3**	**106.4**

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

(*) Employment data from the BLS household survey.

35. JAPAN

Moderate and volatile growth

The economy is expected to continue on a moderate growth trend underpinned by continued accommodative monetary policy and recovery in investment, but heightened volatility from planned fiscal consolidation will weigh on growth towards the end of the forecast horizon.

Real GDP growth is estimated at 0.7% in 2015, reflecting upward revisions for 2015-Q2 and 2015-Q3. The outlook for 2016 and 2017 remains broadly unchanged from the Autumn Forecast. Growth is expected to pick up to 1.1% in 2016, and to slow down again to 0.5% in 2017 in the wake of the planned consumption tax hike in 2015-Q2.

Near-term growth rebounds

In 2015-Q3 real GDP rose 0.3% q-o-q (after an initial estimate of -0.2% q-o-q), whilst the 2015-Q2 contraction was gradually revised up in successive releases from -0.3% (q-o-q) to -0.1% (q-o-q), which supports the estimate of 0.7% growth for the year as a whole. After declining 0.2% (q-o-q) in 2015-Q2, domestic demand rebounded and firmed up in 2015-Q3, with all components adding to growth except public investment. Exports rebounded solidly after having contracted sharply in 2015-Q2, and export volumes rose in October for all the major export destinations, including Asia.

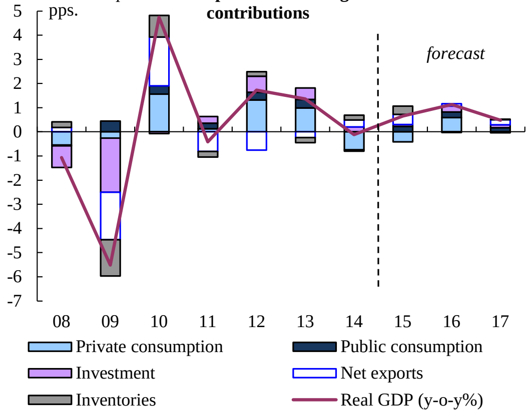
Domestic demand remains volatile

Private consumption appears to have recovered from the slump in 2015-Q2, but leading indicators point to a mixed outlook. Consumer confidence recovered to the highest level in two years, but retail sales and real consumer spending remain volatile. The unemployment rate stands close to historic lows (3.3% in November), whilst the new job openings-to-applicants ratio hovers at a 25-year high. Labour market conditions are set to remain tight as labour supply shrinks on a long-term downward trend, whilst job creation continues on the back of resilient corporate activity.

However, entrenched labour duality between regular and non-regular workers and low labour mobility will continue to hamper sustained real wage growth, which will also fall in the wake of the April 2017 consumption tax hike. Private consumption is therefore likely to remain sluggish, whilst front-loaded demand ahead of the tax hike and a subsequent fall will entail continued volatility in consumption expenditure, and weigh on growth in 2017.

Gross fixed capital formation rose for three consecutive quarters, but private investment has remained rather volatile. Private residential investment appears to be set on a moderate recovery trend following a sharp post-tax-hike contraction, but housing starts point to continued volatility. Residential investment is projected to continue improving moderately supported by resilient employment and accommodative financial conditions.

Graph II.35.1: **Japan - Real GDP growth and contributions**



Private non-residential (business) investment recovered 0.6% (q-o-q) in 2015-Q3 after contracting in Q2, and machinery orders, a leading investment indicator, remain on a long-term moderate growth trend, suggesting that business investment is gradually firming up. Looking ahead, business investment is expected to continue recovering as investment conditions improve on the back of stronger profits, loose financing conditions and improvements in tax and corporate environment.

However, volatility from planned fiscal consolidation is likely to extend also to investment over the forecast horizon, in particular private residential investment, while still weak potential growth from incomplete structural reform and adverse population dynamics is expected to weigh on the long-term investment growth outlook.

External demand recovers moderately

External demand is projected to continue to recover moderately underpinned by resilient growth in advanced economies, and continued external competitiveness from monetary policy divergence with the US.

Fiscal consolidation makes progress

In 2014 the general government deficit was reduced to 6.2% of GDP and the primary deficit to 5.6% on the back of robust tax revenue growth from stronger corporate profits, employment growth, and the April 2014 increase in the consumption tax rate. Further progress with fiscal consolidation is expected with the April 2017 consumption tax hike. At the same time, expenditure pressures persist as evidenced by a JPY 3.5 tn (0.7% of GDP) supplementary budget for FY 2015, whilst lack of additional revenue measures and reliance on robust nominal growth projections may hamper achieving the target of a primary balance by FY 2020.

Monetary policy remains accommodative.

Headline CPI inflation (0.3% y-o-y in November) is projected to pick up only gradually reflecting waning base effects from past currency depreciation and weaker commodity prices, and subdued wage growth. The Bank of Japan has recently expanded its easing stance via a set of supplementary measures, most notably entailing a further extension in the average remaining maturity of its Japanese Government Bond purchases, and is expected to continue its accommodative stance over the forecast horizon.

Risks

Weaker-than-expected income growth would weigh on households and affect private consumption. There is also a risk that the pullback in consumption in the wake of the 2017 tax hike might be more abrupt than expected. Weaker-than-expected economic growth may lead to a slippage in the consolidation path ahead, with possible repercussions on financing conditions. The export sector remains exposed to the risk of weaker-than-expected growth in emerging economies, in particular China and ASEAN countries, which in turn may affect business confidence and investment.

Table II.35.1:

Main features of country forecast - JAPAN

		2014								
				Annual percentage change						
	bn JPY	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		487602.3	100.0	0.7	1.7	1.6	-0.1	**0.7**	**1.1**	**0.5**
Private Consumption		295499.3	60.6	0.8	2.3	2.1	-1.3	**-0.8**	**0.8**	**-0.1**
Public Consumption		100718.5	20.7	1.9	1.7	1.9	0.2	**1.1**	**0.9**	**0.9**
Gross fixed capital formation		108998.6	22.4	-1.3	3.4	3.2	2.6	**0.2**	**0.9**	**0.6**
of which: equipment		46391.4	9.5	0.6	3.5	0.3	3.5	**-**	**-**	**-**
Exports (goods and services)		86400.3	17.7	4.4	-0.2	1.2	8.4	**3.3**	**3.2**	**3.4**
Imports (goods and services)		101542.0	20.8	2.8	5.3	3.1	7.4	**0.6**	**3.0**	**2.6**
GNI (GDP deflator)		507311.2	104.0	0.9	1.8	2.1	0.3	**1.1**	**1.2**	**0.6**
Contribution to GDP growth:	Domestic demand			0.5	2.4	2.3	-0.2	**-0.2**	**0.8**	**0.3**
	Inventories			0.0	0.2	-0.4	0.1	**0.4**	**0.3**	**0.1**
	Net exports			0.3	-0.9	-0.3	0.0	**0.5**	**0.0**	**0.1**
Employment				-0.3	0.0	0.6	0.6	**0.3**	**0.1**	**0.1**
Unemployment rate (a)				4.5	4.3	4.0	3.6	**3.4**	**3.3**	**3.3**
Compensation of employees / head				-0.8	-0.2	0.0	1.1	**0.8**	**1.2**	**0.6**
Unit labour costs whole economy				-1.8	-1.9	-1.0	1.9	**0.4**	**0.2**	**0.2**
Real unit labour cost				-0.6	-0.9	-0.5	0.2	**-1.2**	**-0.7**	**-1.3**
Saving rate of households (b)				10.9	7.7	6.5	6.1	**7.8**	**7.9**	**7.4**
GDP deflator				-1.1	-0.9	-0.6	1.7	**1.6**	**0.9**	**1.6**
Consumer-price index				-0.1	0.0	0.4	2.7	**0.8**	**0.8**	**1.8**
Terms of trade goods				-3.1	-1.9	-2.2	-1.1	**6.4**	**3.5**	**0.4**
Trade balance (goods) (c)				1.9	-1.2	-2.2	-2.5	**-1.1**	**-0.5**	**-0.3**
Current-account balance (c)				3.0	1.1	0.7	0.5	**2.7**	**3.4**	**3.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				2.9	1.0	0.5	0.5	**2.7**	**3.4**	**3.7**
General government balance (c)				-6.1	-8.7	-8.5	-6.2	**-5.1**	**-4.2**	**-3.6**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				167.7	236.6	242.6	245.8	**245.4**	**244.7**	**243.3**

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

36. CHINA

Gradual slowdown expected amid sizeable downside risks

Economic growth is expected to slow further as China continues to rebalance away from excessive investment levels towards higher consumption and service sector growth. Macroeconomic policy is likely to be used actively to support this transition and stabilise growth in the near term, but accumulated imbalances pose genuine downside risks given the complexity of adjustment needed and the high levels of uncertainty.

Real GDP grew by 6.9% in 2015, and is expected to slow gradually to 6.5% in 2016 and 6.2% in 2017. This constitutes a benign scenario which assumes that economic rebalancing continues without a sharp correction or 'hard landing'. At the same time, the complexity of China's current transition process must not be underestimated and downside risks are significant. Heavy industry and real estate, in particular, suffer from a combination of excess capacity and high debt in an environment where nominal GDP growth has slowed markedly. In the short term, risks can probably be mitigated by China's capacity to provide additional policy stimulus. However, while active monetary and fiscal measures may alleviate short term pressures, they risk aggravating existing imbalances and heightening medium term adjustment pressures – unless they are carefully calibrated to work with the grain of reform. Recent bouts of volatility in stock markets, sustained capital outflows and pressures on the exchange rate reflect growing concerns and rising uncertainty about the future trajectory of the Chinese economy and whether the adjustment process can be managed smoothly.

High-frequency indicators point to lower growth and continued rebalancing

Headline growth was remarkably steady in 2015, at 7.0% in the first and second quarters of 2015, before slowing marginally to 6.9% and 6.8% in the third and fourth quarter. High-frequency indicators point to slower growth ahead. Industrial value added continues to decelerate, growing by 6.1% in 2015, its lowest reading in over 25 years. Manufacturing PMIs have fallen below 50 signalling contraction. Growth in fixed asset investment has also declined steadily, with a 12% expansion in 2015, substantially down on previous growth rates. Real estate investment has fallen more sharply, hampered by the overhang of unsold properties following the bursting of a real estate bubble in 2014. By contrast, growth in retail sales was above 10% in real terms in 2015, while robust services imports and elevated service sector PMIs confirm a picture of substantial restructuring in the composition of demand.

Turmoil in China's stock market points to growing uncertainty

Volatility in China's equity market was a key feature in 2015, with the inflation of an equity bubble in H1, which subsequently burst in July/August. January 2016 saw a renewed bout of turbulence. The immediate macroeconomic effects of these moves on the Chinese economy are likely to be limited as equity markets are still developing in China and equities make up only a low share of household assets or corporate financing. Moreover, the overall market level has changed little between January 2015 and January 2016. Nevertheless the increased volatility likely indicates heightened uncertainty about the domestic economy and the risks involved in the correction of imbalances.

Graph II.36.1: **China's stock market in 2015-16 (Shanghai composite index)**

Trade is expected to recover only gradually

China's trade in 2015 saw a brusque adjustment. Goods exports were down by 2.5% in 2015 as a whole in USD value terms. This reflects subdued global demand and a significant (15%) rise in the RMB real exchange rate from mid-2014 to mid-2015. Exports are expected to recover to only modest positive growth rates in 2016 given the tepid outlook for global growth and continued strength of the RMB on a trade-weighted basis. Goods imports fell 14% in USD value terms in 2015. This partly reflects low commodity prices, but also some fall in volumes, adding to concerns about the strength of domestic demand. Explanatory factors include the slowdown in real estate and lower construction material imports, the restructuring of the economy away from import-intensive investment, and reduced imports for reprocessing into exports. In sharp contrast, services imports grew strongly in 2015, up by around 20%. This pattern is expected to continue into 2016 and 2017, with goods imports recovering only slowly and services imports remaining brisk.

Macroeconomic policies are set to remain supportive

In the near term, macroeconomic policies are likely to remain accommodative and geared towards preventing an abrupt slowdown in growth. A monetary easing cycle started late in 2014, with cuts in policy interest rates and reserve ratios and targeted liquidity injections in specific sectors. Low and falling inflation rates have limited the fall in real interest rates, maintaining some downward pressure on credit growth. However, credit growth continues to outpace nominal GDP growth adding to the build-up of already very high debt levels. Fiscal policy is expected to continue to respond flexibly to any unanticipated weakness in demand, including further increases in infrastructure spending and corporate tax cuts.

But downside risks have increased

Risks for the outlook have increased substantially. Accumulated imbalances, notably high levels of corporate debt, raise concerns given the sharp slowdown in nominal GDP growth rates. Volatility in financial markets could potentially interact with weaknesses in the real economy to generate self-feeding cycles, particularly given the high levels of implicit guarantees in the financial system. The optimal policy mix therefore requires a delicate balance between measures to sustain activity and financial stability in the short run, and to pursue structural adjustments to unwind China's imbalances in the medium term. Moreover, policy levers that worked well in the past may be losing some traction. Active monetary and fiscal measures both risk worsening existing imbalances unless carefully designed to support structural reforms rather than impede them. A growing appreciation of the complexity of the task facing the Chinese authorities has, in itself, raised doubts about whether the process can be managed smoothly.

Table II.36.1:

Main features of country forecast - CHINA

	2014			Annual percentage change						
	bn CNY Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	640796.0	100.0	9.8	7.7	7.7	7.3	6.9	6.5	6.2
Consumption	328311.0	51.2	-	-	-	-	-	-	-
Gross fixed capital formation	283018.0	44.2	-	-	-	-	-	-	-
of which: equipment			-	-	-	-	-	-	-
Change in stocks as % of GDP			-	-	-	-	-	-	-
Exports (goods and services)	15222.0	2.4	-	5.9	9.0	5.8	3.0	3.5	5.0
Final demand			-	-	-	-	-	-	-
Imports (goods and services)	13476.0	2.1	-	6.9	11.2	7.0	0.5	3.1	4.6
GNI (GDP deflator)	-	-	-	-	-	-	-	-	-
Contribution to GDP growth : Domestic demand			-	-	-	-	-	-	-
Inventories			-	-	-	-	-	-	-
Net exports			-	-	-	-	-	-	-
Employment			-	-	-	-	-	-	-
Unemployment (a)			4.0	4.1	4.1	4.1	-	-	-
Compensation of employees/head			-	-	-	-	-	-	-
Unit labour costs			-	-	-	-	-	-	-
Real unit labour costs			-	-	-	-	-	-	-
Saving rate of households			-	-	-	-	-	-	-
GDP deflator			3.8	3.2	2.4	1.2	1.6	1.6	1.6
Private consumption deflator			-	-	-	-	-	-	-
Index of consumer prices (c)			3.5	2.6	2.6	2.0	-	-	-
Merchandise trade balance (b)			4.2	3.7	3.7	4.2	6.3	7.0	6.8
Current-account balance (b)			4.1	2.6	1.6	2.1	3.9	4.1	3.7
Net lending(+) or borrowing(-) vis-à-vis ROW (b)			-	-	-	-	-	-	-
General government balance (b)			-	-	-	-	-	-	-
General government gross debt (b)			-	-	-	-	-	-	-

(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

37. EFTA

Domestic adjustments to changes in the external environment

There is a clear adjustment process ongoing in EFTA in response to changes in the external environment. Switzerland is still affected by the loss in competitiveness and adverse developments in the niche markets that supported its economy in the past year. Norway performed better than expected in the third quarter but will continue to be impacted by lower oil and gas prices as the private domestic sector already anticipates more difficult times while Iceland's tourism led-boom is still strong, albeit signs of overheating are appearing.

Switzerland

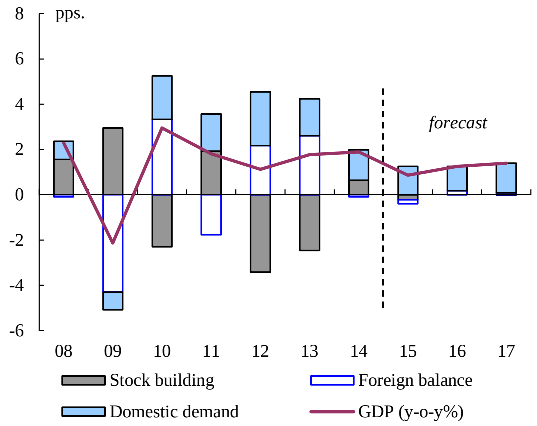
The recent past has seen remarkable changes in Swiss foreign economic relations. The floor of the Swiss franc with the euro was abandoned and the Swiss government advanced on implementing the outcome of the initiative against mass immigration. Both relate to the important drivers of Swiss economic outperformance: the strong trade performance, in particular in niche markets like watch making, and the influx of labour migrants, which have been relatively highly skilled in the case of Switzerland.

Notwithstanding the important external dimension, the change in economic growth momentum also has its roots in lacklustre private domestic demand. Private domestic demand growth is expected to remain subdued and only increase well into the next year. Household consumption is expected to develop weakly this year as both employment and nominal wages are under pressure in the context of the appreciating Swiss franc and consumers become more pessimistic about the economic prospects.

The turn the economy has taken has been cushioned by public finances. The general government budget deficit increased from 0.2% of GDP in 2014 to 0.6% in 2015. The budget deficit is expected to bottom out this year at 0.8% of GDP. This should still be within the debt break rule given that output is foreseen to be well below the government's estimate of potential growth.

The appreciated Swiss franc will not only impact the size and composition of domestic demand, but also, and more importantly, the export performance. The competitive position has been eroded by the appreciation of the Franc and by real wage growth outpacing productivity growth in past years. This has increased the vulnerability of Swiss export performance to global economic developments. The strong income growth in new markets and the large internationalization of some Swiss producers have helped the Swiss economy outperform. However, income growth in these new, emerging, markets is cooling and impacting the demand for the niche products. Exports are expected to show only limited growth as a consequence of the deteriorated competitive position, on which a reduction of foreign labour inflow can be expected to have a negative impact, and of lower external demand growth. In addition, the appreciation will also increase domestic demand for foreign products, raising imports. Therefore, net trade is expected to contribute little to economic growth over the forecast horizon although that is already an improvement compared to 2015.

Graph II.37.1: **Switzerland - Real GDP growth and contributions**



The competitive position is not the only risk to the Swiss economy. Volatility in foreign financial markets could lead to a strengthening of safe haven capital inflows and thus to a further exchange rate appreciation with risks to financial and monetary stability. Recently, however, the value of the Swiss franc seems to be less connected to stock market volatility.

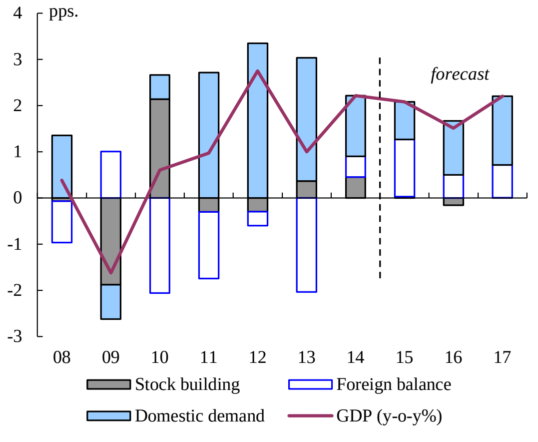
The downward pressure on inflation from the appreciation of the Franc will diminish as the Swiss franc seems to have stabilised around a new equilibrium value. Inflation will return to positive territory over 2016 and show a slight further increase in 2017 to 1.0%.

Norway

The government is increasing its spending, the sovereign wealth fund is expected to see a net outflow of funds, unemployment is increasing in particular among the highly qualified, and consumer confidence continues to fall. The central bank cut its interest rate to record low levels amidst a depreciating exchange rate and the trade surplus is shrinking.

Still, the latest national account data show a GDP growth of 1.8% quarter-on quarter, a positive surprise in this third quarter of the year. Following near stagnation in the first half of the year the exceptionally strong growth in the third quarter was underpinned by increasing natural-gas production, increased government spending as well as increases in mainland exports not directly related to oil and gas. Irrespective of the positive surprise, the outlook for the Norwegian economy is not particularly bright. The economy is expected to show less growth this year and next while the risks are tilted to the downside.

Graph II.37.2: **Norway - Real GDP growth and contributions**



The Norwegian economy is adjusting to lower oil prices and related developments like the depreciation of the NOK which are forecasted to increase only gradually in over the forecast horizon. As a consequence of the low oil prices, off-shore investment, which accounts for more than one quarter of total investment, is declining and will continue to decline this year albeit at a slower rate. Next year conditions are expected to improve for gross fixed capital formation although the construction sector is expected to lag.

Private consumption has been the countervailing force to the contraction in investment last year but started to lose momentum during the year. Private consumption is expected to grow at a relatively modest 1.5% this year before accelerating to 2.0% next year. Risks are on the downside. Consumer confidence has fallen sharply in the past quarters from 18.6 in 2014-Q3 to -4.1 in 2015-Q3. This is related to a rise in the unemployment rate since the summer of 2014 and general uncertainty about the economic outlook. Moreover, significant risks to private consumption stem from the highly-leveraged and highly-priced real estate market. New entrants into the housing market have paid for the real estate revaluation through high indebtedness. Their solvency, hence, depends on the developments in housing while their liquidity depends on the labour market developments. Both are at risk of taking a turn for the worse. In addition, inflation is under upward pressure as a consequence of the depreciating exchange rate. As a consequence, real wages are falling. This process is reinforced by the labour market dynamics.

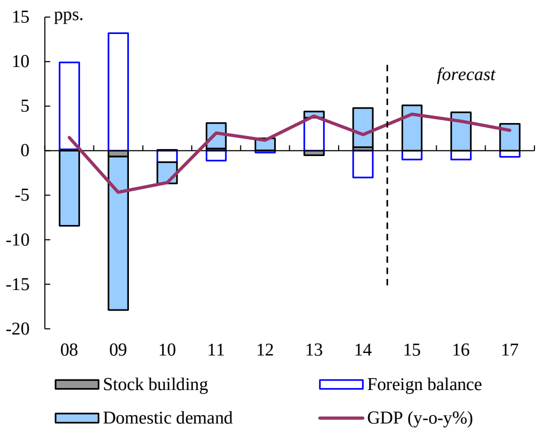
In contrast to the loss in export value of oil shipments, the traditional non-oil/gas export sector is doing relatively well thanks to the weaker NOK but it still has to overcome an erosion of its price competitiveness. The depreciation of the NOK will help regain some of the competitiveness as will the expected wage moderation. As a consequence, net trade is expected to contribute modestly to growth.

Iceland

The economy continues to benefit from booming tourism and low inflation, supporting disposable income. However, the ongoing currency appreciation impedes the country's price competitiveness. Furthermore, the recent wage agreements could push inflation above the Central Bank target of 2.5%. The envisaged lifting of capital controls could lead to sharp swings in Iceland's external balances, but could also result in substantial wind-fall revenues for Iceland's public finances, allowing a rapid reduction in public debt.

Strong investment, consumption and exports resulted in real GDP growth by 4.5% in the first three quarters of 2015. Employment is expected to have risen by about 3.5% in 2015, bringing unemployment further down to 4.2%. A strengthening exchange rate (by nearly 6%) and low import prices have helped to keep average inflation low, at 1.6% in 2015. After an annual fiscal deficit of 0.1% of GDP in 2014, the budget deficit stood at 1% of GDP in the first three quarters of 2015. The high import content of investment and private consumption resulted in a worsening of Iceland's trade balance, increasing the deficit to 1.3% of GDP by September 2015.

Graph II.37.1: **Iceland - Real GDP growth and contributions**



Key factors for output growth in 2016-17 will be tourism, investment and private consumption. Investment is expected to remain strong reflecting tourism-related construction, capital renewal in the fishing and tourism industry and silicon-related investment projects. Private consumption will benefit from strong growth of disposable income, resulting from high employment growth, substantial wage increases and at the same time low inflation. These supporting effects are expected to peter out over the forecasting time horizon. Exports are projected to benefit from a flourishing tourism sector. The recent wage agreements are likely to dampen employment growth in the coming years, but will also increase labour supply, which however will have to increasingly resort to labour from abroad, as domestic employment rates are already high. Thus, the unemployment rate will drop at a slower pace.

Inflation is likely to rise above the Central Bank target of 2.5% in 2016-17, partly resulting from high wage agreements of 2015, but also due to strong demand from tourism. Stronger domestic demand will lead to a widening of the trade deficit, while the services balance will continue to benefit from strong tourism. Overall, the current account balance is forecast to deteriorate in 2016-17.

The government's fiscal target for 2016 of largely balanced accounts is in line with the current growth outlook. Exceptional one-off revenues related to the planned lifting of capital controls could lead to substantial revenues in 2016. If those funds are used primarily for lowering the debt burden, the debt ratio could drop well below 50% of GDP by end 2017.

Table II.37.1:

Main features of country forecast - EFTA

	Iceland				Norway				Switzerland			
(Annual percentage change)	**2014**	**2015**	**2016**	**2017**	**2014**	**2015**	**2016**	**2017**	**2014**	**2015**	**2016**	**2017**
GDP	1.8	**4.1**	**3.3**	**2.3**	2.2	**2.1**	**1.5**	**2.2**	1.9	**0.9**	**1.3**	**1.4**
Private Consumption	3.1	**4.2**	**3.6**	**3.4**	1.7	**2.1**	**1.5**	**2.0**	1.3	**1.2**	**1.1**	**1.4**
Public Consumption	1.8	**1.0**	**1.0**	**0.9**	2.9	**2.6**	**3.3**	**3.0**	1.3	**3.0**	**2.6**	**2.3**
Gross fixed capital formation	15.4	**16.0**	**12.0**	**5.5**	0.0	**-2.7**	**-1.0**	**-0.1**	2.1	**1.1**	**0.7**	**1.1**
of which: equipment	9.9	**23.0**	**18.0**	**9.0**	-3.1	**-1.0**	**0.2**	**-2.0**	0.4	**3.3**	**2.3**	**1.2**
Exports (good and services)	3.1	**7.5**	**5.2**	**4.7**	2.2	**3.8**	**3.5**	**4.9**	-6.9	**1.0**	**2.5**	**2.6**
Imports (goods and services)	9.8	**10.7**	**8.0**	**6.7**	1.5	**0.8**	**2.7**	**4.0**	-8.1	**1.5**	**2.7**	**3.0**
GNI (GDP deflator)	1.2	**4.1**	**3.8**	**2.4**	2.2	**2.1**	**1.5**	**2.2**	1.9	**0.9**	**1.3**	**1.4**
Contribution to GDP growth: Domestic demand	4.4	**5.1**	**4.3**	**3.0**	1.3	**0.8**	**1.2**	**1.5**	1.3	**1.3**	**1.1**	**1.3**
Inventories	0.4	**0.0**	**0.0**	**0.0**	0.5	**0.0**	**-0.2**	**0.0**	0.6	**-0.2**	**0.0**	**0.0**
Net exports	-3.0	**-1.0**	**-1.0**	**-0.7**	0.4	**1.2**	**0.5**	**0.7**	-0.1	**-0.2**	**0.2**	**0.1**
Employment	1.6	**3.5**	**1.5**	**1.0**	1.1	**0.8**	**0.6**	**0.9**	1.7	**0.4**	**0.4**	**0.6**
Unemployment rate (a)	5.0	**4.2**	**3.8**	**3.5**	3.4	**3.6**	**4.1**	**4.3**	4.8	**5.2**	**4.8**	**4.8**
Compensation of employee/head	5.6	**7.3**	**6.1**	**4.4**	4.5	**1.0**	**-1.4**	**0.4**	0.0	**-1.4**	**-0.6**	**1.8**
Unit labour cost whole economy	5.3	**6.6**	**4.3**	**3.0**	3.4	**-0.2**	**-2.4**	**-0.8**	-0.2	**-1.8**	**-1.4**	**1.0**
Real unit labour cost	1.3	**4.3**	**1.5**	**0.4**	2.9	**0.3**	**-4.9**	**-2.8**	0.5	**-0.7**	**-2.0**	**0.0**
Saving rate of households (b)	:	:	:	:	18.2	**15.9**	**14.2**	**12.8**	25.3	**24.8**	**24.4**	**24.4**
GDP deflator	4.0	**2.2**	**2.8**	**2.6**	0.5	**-0.5**	**2.6**	**2.1**	-0.7	**-1.1**	**0.5**	**1.0**
Harmonised index of consumer prices	1.0	**0.3**	**2.5**	**2.7**	1.9	**2.8**	**2.6**	**2.2**	0.0	**-1.0**	**0.5**	**1.0**
Terms of trade goods	4.1	**2.3**	**0.2**	**0.0**	-7.7	**-9.1**	**0.0**	**0.0**	0.2	**1.7**	**-0.1**	**-0.1**
Trade balance (goods) (c)	-0.5	**-2.3**	**-3.7**	**-4.5**	10.0	**8.9**	**9.2**	**9.6**	7.7	**7.5**	**7.4**	**7.2**
Current account balance (c)	3.4	**2.8**	**1.9**	**1.2**	8.8	**7.0**	**7.4**	**7.9**	11.5	**11.1**	**11.2**	**11.2**
Net lending (+) or borrowing (-) vis-a-vis ROW	3.3	**2.7**	**1.9**	**1.2**	8.8	**6.9**	**7.4**	**7.9**	10.9	**10.5**	**10.6**	**10.6**
General government balance (c)	-0.2	**-1.0**	**-0.5**	**-0.5**	9.0	**9.3**	**7.2**	**7.0**	-0.2	**-0.6**	**-0.8**	**-0.6**
General government gross debt (c)	81.4	**69.5**	**58.0**	**55.0**	26.6	**26.8**	**28.6**	**30.4**	36.5	**37.2**	**37.3**	**37.0**

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

38. RUSSIAN FEDERATION

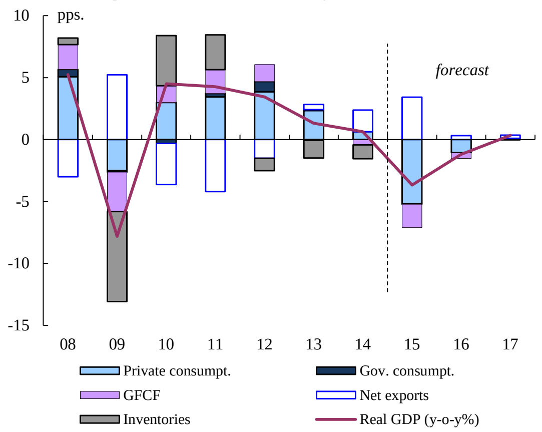
Recession bottoming out but outlook still bleak

The recession which Russia experienced in 2015 due to the fall in oil prices, sanctions and structural bottlenecks, has recently bottomed out. However, the outlook has deteriorated since the autumn due to the continued decline in oil prices and the prolongation of sanctions, so the economy is expected to contract again in 2016 before growth turns slightly positive in 2017.

Recession bottoming out but the outlook remains bleak

Russia's economy slid into recession in 2015 as pre-existing structural bottlenecks (mainly the excessive reliance on the energy sector and low investment) were overwhelmed by the collapse in oil prices and economic sanctions.

Graph II.38.1: **Russia - Real GDP growth and contributions**



Real GDP is forecast to have contracted by 3.7% due to a sharp decline in private consumption and investment on the back of elevated borrowing costs, weak economic confidence and rising inflation.

However, latest data releases point to a bottoming out of the recession, as the fall in GDP eased somewhat in 2015-Q3 (-4.1% y-o-y, following a 4.6% decline y-o-y in 2015-Q2) reflecting a slower contraction in industrial production; although the decline in retail sales and consumption has not yet reached its bottom. The near-term outlook remains rather bleak (with risks of protracted stagnation now prevailing over prospects of a gradual recovery), amid a significant downward revision of the oil price forecast, the extension of sanctions until July 2016, weak business sentiment, persistently high borrowing costs and a likely lack of structural reform momentum ahead of elections. Negative growth of 1.2% is expected for 2016, followed by very weak growth in 2017 (i.e. 0.3%).

Consumption and investment to contract slightly in 2016

Investment fell sharply in 2015 (albeit bottoming out during the summer) reflecting constrained access to Western capital markets amid sanctions, elevated borrowing costs and a deteriorated business environment.

Private consumption, previously the main growth driver, fell roughly as much as investment, reflecting a slump in real wages amid high inflation caused by the rouble's depreciation and the ban on Western food imports. Moreover, fiscal consolidation pressures limit the room for a counter-cyclical stimulus, as suggested by the roughly unchanged size of public expenditure in the 2016 budget. In this context, private consumption growth is expected to remain negative in 2016 and around zero in 2017 given the very weak GDP growth profile.

Export growth is expected to have turned negative in 2015, as structural bottlenecks and falling investment have so far prevented Russian firms from reaping the benefit of the weaker rouble. Constrained access to capital, reduced bank lending and weak confidence weigh on Russia's export potential, although there are signs of resilience/boost in a few sectors (i.e. energy, agriculture, metals and pharmaceuticals). Exports are set to recover somewhat in 2016 and 2017 given the gradual easing of geopolitical tensions and increasing external demand. Imports collapsed in 2015 on the back of the large fall in domestic demand, the sharp depreciation of the rouble and the embargo on Western food imports. Moreover, they are expected to remain slightly negative in 2016 and grow only marginally in 2017, reflecting a bleak growth outlook.

A somewhat deteriorating labour market

Although the labour market is expected to remain relatively resilient, adjusting mainly through wages, employment over the forecast horizon is now expected to fall by slightly more than before, as fewer corporates will be able to afford to cut costs without laying off workers. As a result, unemployment will also increase more significantly, reaching the 6% level in 2017.

Gradual disinflation amid renewed pressure on the rouble

Another wave of rouble depreciation started at the end of 2015 as the oil price resumed its decline, with the currency reaching new record lows. Although inflation moderated at the end of the year (12.9% in December), the disinflation path is likely to be less rapid than currently foreseen by Russian authorities, due to the embargo on food imports from the West (in force until August 2016), the introduction of a similar ban on Turkish products and heightened risks of additional market turbulence and rouble depreciation. Hence inflation is expected to fall to average annual rates of 8.5% and 6.2% in 2016 and 2017, respectively, i.e. still far from the Central Bank of Russia's (CBR) medium-term target of 4%.

Amid lingering concerns over inflation and risks of further market turbulence, the CBR suspended the sequence of monetary easing carried out during the first half of 2015 (bringing the key policy rate from 17% to 11%), although further rate cuts are still considered likely in the course of 2016.

Fiscal position likely to deteriorate faster than planned amid low oil price

After worsening sharply in 2015 due to lower tax revenues and the cost of recapitalising banks and corporates, Russia's fiscal deficit is set to remain roughly stable in 2016 based on the adopted budget. The final outcome, however, is expected to be worse given the budget's rather optimistic assumptions about growth and the oil price and because of the adverse fiscal situation of regional governments. The deficit is to a large extent funded by the Reserve Fund, which is at risk of being almost fully depleted by the end of this year. Some deficit reduction is expected in 2017 amid efforts to adjust to a prolonged period of low oil prices and to contain the depletion of buffers.

Risks to the outlook

Downside risks to the outlook are related to the possible further prolongation of sanctions beyond summer 2016 (amid unresolved geo-political tensions) and the possibility that the oil price falls by more than expected.

Table II.38.1:

Main features of country forecast - RUSSIA

	2014			Annual percentage change						
	bn RUB Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP	72015.6	100.0	3.8	3.4	1.3	0.6	**-3.7**	**-1.2**	**0.3**
Private Consumption	38031.8	52.8	5.6	7.9	4.7	1.2	**-9.8**	**-2.0**	**0.1**
Public Consumption	13961.5	19.4	1.4	4.6	0.5	-0.1	**-0.2**	**0.0**	**-0.1**
Gross fixed capital formation	13998.6	19.4	4.4	6.7	-0.2	-2.0	**-9.7**	**-2.7**	**0.3**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	21427.9	29.8	5.4	1.4	4.2	-0.1	**-3.7**	**0.8**	**2.2**
Imports (goods and services)	16322.1	22.7	8.9	8.8	3.7	-7.9	**-20.0**	**-0.3**	**1.9**
GNI (GDP deflator)	69466.6	96.5	3.6	3.2	0.9	0.9	**-3.3**	**-1.0**	**0.5**
Contribution to GDP growth: Domestic demand			4.0	6.0	2.4	0.2	**-7.1**	**-1.5**	**0.1**
Inventories			0.2	-1.0	-1.4	-1.1	**0.0**	**0.0**	**0.0**
Net exports			-0.5	-1.5	0.4	1.7	**3.4**	**0.3**	**0.3**
Employment			-	0.4	0.6	0.3	**-0.7**	**-0.5**	**-0.4**
Unemployment rate (a)			-	5.6	5.5	5.1	**5.6**	**5.9**	**6.1**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			21.2	7.5	5.9	7.2	**9.3**	**7.2**	**6.1**
Consumer-price index			-	5.1	6.8	7.8	**15.7**	**8.5**	**6.2**
Terms of trade goods			5.1	3.0	-6.7	-4.0	**-14.8**	**-1.0**	**-1.0**
Trade balance (goods) (c)			12.3	9.7	8.7	9.8	**10.8**	**10.4**	**10.0**
Current-account balance (c)			7.5	3.5	1.6	3.1	**5.1**	**5.0**	**4.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			6.7	3.3	1.6	3.1	**5.1**	**5.0**	**4.8**
General government balance (c)			-	2.0	0.2	0.3	**-2.2**	**-3.2**	**-1.8**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	12.7	13.9	17.9	**19.9**	**23.1**	**24.6**

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

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Statistical Annex

European Economic Forecast – Winter 2016

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Table 1: Gross domestic product, volume (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.7	2.2	1.3	0.2	0.0	1.3	1.3	1.3	1.7	1.3	1.3	1.7
Germany	2.1	1.0	1.2	0.4	0.3	1.6	1.7	1.8	1.8	1.7	1.9	1.9
Estonia	6.3	7.9	-0.9	5.2	1.6	2.9	0.9	2.1	2.3	1.9	2.6	2.6
Ireland	9.4	5.4	0.1	0.2	1.4	5.2	6.9	4.5	3.5	6.0	4.5	3.5
Greece	3.9	4.2	-3.3	-7.3	-3.2	0.7	0.0	-0.7	2.7	-1.4	-1.3	2.7
Spain	4.4	3.4	0.0	-2.6	-1.7	1.4	3.2	2.8	2.5	3.1	2.7	2.4
France	3.0	1.7	0.7	0.2	0.7	0.2	1.1	1.3	1.7	1.1	1.4	1.7
Italy	2.1	1.0	-0.6	-2.8	-1.7	-0.4	0.8	1.4	1.3	0.9	1.5	1.4
Cyprus	4.3	3.8	1.6	-2.4	-5.9	-2.5	1.4	1.5	2.0	1.2	1.4	2.0
Latvia	6.0	9.3	-1.5	4.0	3.0	2.4	2.7	3.1	3.2	2.4	3.0	3.3
Lithuania	4.9	7.8	0.9	3.8	3.5	3.0	1.6	2.9	3.4	1.7	2.9	3.4
Luxembourg	6.3	3.5	2.0	-0.8	4.3	4.1	4.7	3.8	4.4	3.1	3.2	3.0
Malta	3.9	2.3	2.1	2.9	4.0	4.1	4.9	3.9	3.4	4.3	3.6	3.1
Netherlands	4.0	1.6	0.9	-1.1	-0.5	1.0	2.0	2.1	2.3	2.0	2.1	2.3
Austria	2.8	2.1	1.2	0.8	0.3	0.4	0.7	1.7	1.6	0.6	1.5	1.4
Portugal	3.8	0.8	-0.1	-4.0	-1.1	0.9	1.5	1.6	1.8	1.7	1.7	1.8
Slovenia	4.2	4.1	0.7	-2.7	-1.1	3.0	2.5	1.8	2.3	2.6	1.9	2.5
Slovakia	2.9	6.0	3.6	1.5	1.4	2.5	3.5	3.2	3.4	3.2	2.9	3.3
Finland	4.9	2.9	0.5	-1.4	-1.1	-0.4	0.0	0.5	0.9	0.3	0.7	1.1
Euro area	2.9	1.8	0.5	-0.9	-0.3	0.9	1.6	1.7	1.9	1.6	1.8	1.9
Bulgaria	0.9	6.3	2.1	0.2	1.3	1.5	2.2	1.5	2.0	1.7	1.5	2.0
Czech Republic	1.5	4.7	1.5	-0.9	-0.5	2.0	4.5	2.3	2.7	4.3	2.2	2.7
Denmark	2.6	1.9	-0.5	-0.1	-0.2	1.3	1.2	1.7	1.9	1.6	2.0	1.8
Croatia	2.9	4.8	-0.5	-2.2	-1.1	-0.4	1.8	2.1	2.1	1.1	1.4	1.7
Hungary	3.8	4.3	-0.6	-1.7	1.9	3.7	2.7	2.1	2.5	2.9	2.2	2.5
Poland	4.3	4.1	4.5	1.6	1.3	3.3	3.5	3.5	3.5	3.5	3.5	3.5
Romania	0.1	6.2	1.5	0.6	3.5	3.0	3.6	4.2	3.7	3.5	4.1	3.6
Sweden	3.6	3.3	1.2	-0.3	1.2	2.3	3.6	3.2	2.9	3.0	2.8	2.7
United Kingdom	3.2	2.8	0.3	1.2	2.2	2.9	2.3	2.1	2.1	2.5	2.4	2.2
EU	3.0	2.1	0.6	-0.5	0.2	1.4	1.9	1.9	2.0	1.9	2.0	2.1
USA	3.7	2.9	0.6	2.2	1.5	2.4	2.5	2.7	2.6	2.6	2.8	2.7
Japan	0.4	1.5	-0.1	1.7	1.6	-0.1	0.7	1.1	0.5	0.7	1.1	0.5

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2015-17) 22.1.2016

	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4
Belgium	0.3	0.5	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Germany	0.3	0.4	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Estonia	-0.8	0.6	-0.4	1.0	0.6	0.2	0.3	0.3	0.6	0.7	0.7	0.7
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	0.9	1.0	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
France	0.7	0.0	0.3	0.2	0.4	0.5	0.4	0.4	0.4	0.4	0.5	0.5
Italy	0.4	0.3	0.2	0.3	0.3	0.4	0.5	0.5	0.2	0.3	0.3	0.3
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	0.6	1.3	1.0	0.3	0.7	0.8	0.9	0.9	0.7	0.8	0.9	0.9
Lithuania	0.7	0.4	0.4	0.5	0.8	1.0	0.9	0.6	0.9	1.1	0.8	0.6
Luxembourg	-0.2	1.4	0.9	-0.2	1.6	0.9	1.1	1.1	1.1	1.1	1.0	1.0
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.6	0.1	0.1	0.4	0.5	0.8	0.7	0.7	0.5	0.5	0.4	0.4
Austria	0.7	0.3	0.1	0.4	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.3
Portugal	0.5	0.5	0.0	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Slovenia	0.7	0.7	0.4	0.4	0.2	0.7	0.6	0.5	0.7	0.5	0.5	0.5
Slovakia	0.9	0.9	0.9	1.2	0.0	1.0	1.1	1.1	0.8	0.6	0.7	0.5
Finland	0.2	0.4	-0.5	-0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Euro area	0.5	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.4
Bulgaria	0.9	0.6	0.7	0.7	0.3	0.3	0.5	0.6	0.5	0.6	0.5	0.6
Czech Republic	2.5	1.0	0.5	0.7	-0.5	1.4	1.1	0.8	0.5	0.5	0.5	0.4
Denmark	0.6	0.2	-0.4	0.8	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Croatia	0.3	1.0	1.3	0.1	0.3	0.5	0.6	0.7	0.4	0.4	0.5	0.5
Hungary	0.5	0.5	0.6	0.8	0.5	0.4	0.4	0.3	0.7	0.7	0.9	0.7
Poland	0.9	0.8	0.9	0.9	0.7	0.8	1.2	0.9	0.7	0.6	0.5	0.5
Romania	1.4	0.0	1.4	0.5	1.6	0.8	1.0	0.9	1.0	0.9	0.8	0.8
Sweden	0.8	1.0	0.8	1.2	0.8	0.7	0.6	0.6	0.7	0.7	0.7	0.7
United Kingdom	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.6	0.6	0.7
EU	0.6	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
USA	0.2	1.0	0.5	0.4	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Japan	1.1	-0.1	0.3	0.1	0.5	0.2	0.5	0.4	1.3	-2.0	0.2	0.4

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2015-17) 22.1.2016

	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4
Belgium	1.3	1.5	1.3	1.2	1.2	1.1	1.3	1.6	1.6	1.6	1.7	1.7
Germany	1.1	1.6	1.7	1.4	1.5	1.6	1.8	2.0	2.0	2.0	2.0	1.9
Estonia	1.4	1.8	0.7	0.5	1.9	1.4	2.2	1.4	1.4	2.0	2.4	2.8
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	2.7	3.2	3.4	3.5	3.2	2.8	2.6	2.4	2.4	2.5	2.5	2.5
France	0.9	1.1	1.1	1.2	0.9	1.4	1.5	1.7	1.7	1.7	1.7	1.7
Italy	0.1	0.6	0.8	1.2	1.2	1.3	1.7	1.8	1.7	1.6	1.3	1.0
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	1.9	2.7	3.3	3.3	3.3	2.9	2.8	3.3	3.3	3.3	3.3	3.3
Lithuania	1.4	1.4	1.7	2.1	2.1	2.7	3.2	3.4	3.5	3.6	3.5	3.4
Luxembourg	5.5	6.2	5.4	1.9	3.7	3.2	3.4	4.8	4.3	4.5	4.4	4.3
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	2.6	2.2	1.8	1.3	1.2	1.8	2.4	2.7	2.8	2.4	2.1	1.8
Austria	0.3	0.9	0.9	1.6	1.4	1.5	1.9	1.9	1.7	1.7	1.6	1.5
Portugal	1.6	1.6	1.4	1.4	1.3	1.3	1.8	2.0	2.0	1.9	1.8	1.6
Slovenia	3.0	2.6	2.1	2.2	1.7	1.7	1.9	1.9	2.4	2.3	2.2	2.3
Slovakia	3.0	3.3	3.6	3.9	3.1	3.2	3.4	3.3	4.1	3.6	3.3	2.7
Finland	0.0	0.5	-0.2	-0.2	-0.1	-0.1	0.7	1.3	1.2	1.0	0.9	0.8
Euro area	1.3	1.6	1.6	1.6	1.6	1.7	1.9	2.1	2.0	2.0	1.9	1.8
Bulgaria	2.6	2.6	2.9	2.9	2.4	2.1	1.8	1.8	1.9	2.2	2.3	2.3
Czech Republic	4.1	4.6	4.5	4.8	1.8	2.1	2.7	2.8	3.8	2.9	2.3	1.8
Denmark	1.5	1.7	0.5	1.1	1.0	1.4	2.4	2.1	2.0	2.0	1.9	1.8
Croatia	0.2	1.5	2.7	2.7	2.7	2.2	1.5	2.1	2.2	2.2	2.1	1.9
Hungary	3.1	2.4	2.3	2.4	2.4	2.3	2.2	1.7	1.9	2.2	2.7	3.1
Poland	3.6	3.5	3.7	3.6	3.4	3.5	3.7	3.7	3.6	3.4	2.7	2.3
Romania	3.8	3.8	3.6	3.4	3.6	4.4	4.1	4.4	3.8	3.9	3.7	3.6
Sweden	3.1	3.4	3.9	4.0	3.9	3.6	3.4	2.7	2.6	2.6	2.7	2.9
United Kingdom	2.5	2.3	2.1	1.9	2.0	1.9	1.9	1.9	1.9	2.0	2.1	2.3
EU	1.7	1.9	1.9	1.9	1.8	1.9	2.0	2.1	2.1	2.1	2.0	2.0
USA	2.9	2.7	2.1	2.1	2.6	2.4	2.6	3.0	2.8	2.7	2.6	2.4
Japan	-1.0	0.7	1.7	1.3	0.7	1.0	1.3	1.5	2.3	0.0	-0.3	-0.2

Table 4: Gross domestic product per capita (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.5	1.6	0.4	-0.5	-0.4	0.9	**0.7**	**0.7**	**1.3**	*0.6*	*0.7*	*1.3*
Germany	2.1	1.0	1.5	0.2	0.0	1.2	**1.0**	**1.1**	**1.5**	*0.8*	*1.3*	*1.6*
Estonia	6.8	8.5	-0.5	5.5	2.0	3.3	**1.2**	**2.4**	**2.7**	*2.3*	*2.9*	*3.0*
Ireland	8.0	3.3	-1.3	-0.1	1.2	4.9	**6.2**	**3.4**	**2.6**	*5.4*	*3.4*	*2.6*
Greece	3.4	3.9	-3.4	-6.8	-2.5	1.0	**0.0**	**-0.7**	**2.7**	*-1.4*	*-1.3*	*2.7*
Spain	3.9	1.7	-1.0	-2.7	-1.3	1.6	**3.3**	**2.9**	**2.6**	*3.3*	*2.8*	*2.6*
France	2.5	1.0	0.2	-0.3	0.2	-0.3	**0.6**	**0.8**	**1.2**	*0.6*	*0.9*	*1.2*
Italy	2.1	0.5	-1.1	-3.3	-2.2	-0.7	**0.6**	**1.1**	**1.1**	*0.7*	*1.1*	*1.2*
Cyprus	3.1	2.4	-0.9	-3.9	-5.7	-1.4	**0.9**	**1.1**	**1.5**	*0.8*	*1.0*	*1.6*
Latvia	7.0	10.4	0.0	5.3	4.1	3.3	**3.5**	**3.8**	**3.7**	*3.3*	*3.7*	*3.8*
Lithuania	5.7	9.1	2.5	5.2	4.6	4.0	**2.6**	**3.8**	**4.1**	*2.7*	*4.0*	*4.1*
Luxembourg	4.9	2.1	0.1	-3.1	1.7	1.6	**2.2**	**1.4**	**2.0**	*1.0*	*1.0*	*0.9*
Malta	3.2	1.7	1.5	2.2	3.0	3.1	**3.9**	**3.2**	**2.8**	*3.3*	*2.9*	*2.6*
Netherlands	3.4	1.2	0.5	-1.4	-0.8	0.6	**1.5**	**1.7**	**1.9**	*1.6*	*1.7*	*1.9*
Austria	2.6	1.6	0.9	0.3	-0.3	-0.4	**-0.2**	**1.0**	**1.1**	*-0.4*	*0.8*	*0.8*
Portugal	3.2	0.5	-0.1	-3.6	-0.6	1.5	**2.0**	**2.1**	**2.3**	*2.3*	*2.2*	*2.3*
Slovenia	4.1	4.0	0.3	-2.9	-1.2	2.9	**2.3**	**1.7**	**2.1**	*2.5*	*1.7*	*2.4*
Slovakia	2.8	6.0	3.6	1.4	1.3	2.4	**3.4**	**3.2**	**3.4**	*3.1*	*2.9*	*3.3*
Finland	4.6	2.6	0.1	-1.9	-1.6	-0.8	**-0.4**	**0.2**	**0.6**	*-0.1*	*0.2*	*0.7*
Euro area	2.6	1.2	0.1	-1.1	-0.5	0.7	**1.3**	**1.4**	**1.6**	*1.2*	*1.4*	*1.6*
Bulgaria	1.9	7.0	3.0	0.8	1.8	2.1	**2.9**	**2.2**	**2.7**	*2.4*	*2.2*	*2.7*
Czech Republic	1.7	4.6	1.0	-1.0	-0.5	1.8	**4.3**	**2.1**	**2.5**	*4.1*	*2.0*	*2.5*
Denmark	2.2	1.6	-1.0	-0.4	-0.6	0.7	**0.7**	**1.3**	**1.5**	*1.0*	*1.5*	*1.4*
Croatia	4.3	4.7	-0.4	-1.9	-0.8	0.2	**2.0**	**2.3**	**2.3**	*1.3*	*1.6*	*1.9*
Hungary	4.0	4.5	-0.4	-1.2	2.2	4.0	**2.9**	**2.3**	**2.7**	*3.1*	*2.4*	*2.7*
Poland	4.3	4.2	4.3	1.5	1.3	3.4	**3.6**	**3.5**	**3.5**	*3.5*	*3.5*	*3.5*
Romania	0.2	7.4	2.6	1.1	3.9	3.4	**3.8**	**4.4**	**3.9**	*3.7*	*4.2*	*3.8*
Sweden	3.5	2.8	0.4	-1.0	0.4	1.3	**2.4**	**1.4**	**0.8**	*0.9*	*1.3*	*1.0*
United Kingdom	2.9	2.2	-0.5	0.5	1.5	2.1	**1.5**	**1.2**	**1.3**	*1.8*	*1.4*	*1.4*
EU	2.8	1.8	0.2	-0.7	0.0	1.1	**1.6**	**1.6**	**1.7**	*1.5*	*1.6*	*1.8*
USA	2.6	1.9	-0.3	1.5	0.7	1.7	**1.7**	**1.9**	**1.8**	*1.8*	*2.1*	*2.0*
Japan	0.2	1.4	-0.1	2.0	1.8	0.1	**0.9**	**1.3**	**0.7**	*0.9*	*1.3*	*0.7*

Table 5: **Domestic demand, volume (percentage change on preceding year, 1997-2017)** **22.1.2016**

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.3	1.7	1.5	-0.2	-0.7	1.7	**1.7**	**0.6**	**1.4**	*1.7*	*0.6*	*1.6*
Germany	1.7	0.1	1.1	-1.0	0.8	1.3	**1.6**	**2.2**	**2.2**	*1.6*	*2.2*	*2.2*
Estonia	6.7	10.8	-3.0	8.0	2.0	4.1	**0.0**	**2.7**	**3.3**	*1.4*	*3.0*	*3.1*
Ireland	8.4	6.2	-2.5	0.6	-1.1	5.7	**8.4**	**5.0**	**3.9**	*6.1*	*4.8*	*3.9*
Greece	4.2	4.4	-4.1	-9.9	-4.2	0.9	**-0.7**	**-1.1**	**2.3**	*-2.7*	*-1.6*	*2.5*
Spain	4.8	4.5	-1.2	-4.7	-3.1	1.6	**3.7**	**3.1**	**2.5**	*3.5*	*2.8*	*2.4*
France	3.0	2.0	1.0	-0.3	0.7	0.6	**1.1**	**1.4**	**1.8**	*0.8*	*1.4*	*1.8*
Italy	2.6	1.2	-0.6	-5.7	-2.7	-0.6	**1.0**	**1.9**	**1.4**	*0.9*	*1.8*	*1.5*
Cyprus	3.5	5.3	1.6	-4.1	-8.4	-1.0	**1.6**	**1.7**	**1.5**	*0.8*	*1.2*	*1.4*
Latvia	6.0	11.3	-3.3	1.6	2.1	0.9	**3.0**	**3.3**	**3.7**	*2.5*	*3.1*	*3.7*
Lithuania	5.3	9.4	-0.6	-0.2	3.2	2.9	**5.7**	**3.6**	**4.3**	*5.2*	*3.4*	*4.3*
Luxembourg	5.4	2.8	2.6	1.5	0.5	5.6	**1.0**	**2.6**	**2.5**	*1.7*	*2.9*	*2.4*
Malta	1.8	3.1	1.1	0.3	1.5	4.3	**6.6**	**2.3**	**3.0**	*5.8*	*2.3*	*2.7*
Netherlands	4.2	1.2	0.7	-2.3	-1.8	0.6	**2.2**	**2.9**	**2.5**	*2.2*	*2.5*	*2.6*
Austria	1.9	1.6	1.1	0.3	-0.4	-0.2	**0.4**	**1.6**	**1.5**	*0.4*	*1.3*	*1.3*
Portugal	4.6	0.6	-0.9	-7.3	-2.0	2.2	**2.1**	**1.8**	**2.0**	*2.3*	*1.8*	*2.1*
Slovenia	4.2	3.7	0.0	-5.8	-2.2	1.6	**1.6**	**1.6**	**2.4**	*1.9*	*1.2*	*2.7*
Slovakia	2.6	4.9	2.1	-4.2	0.3	3.1	**4.6**	**3.1**	**3.5**	*3.5*	*2.4*	*2.8*
Finland	4.0	2.9	1.2	-1.2	-1.1	0.0	**-0.2**	**0.5**	**0.9**	*0.1*	*0.9*	*1.1*
Euro area	2.9	1.7	0.2	-2.4	-0.7	0.9	**1.7**	**2.0**	**2.0**	*1.5*	*1.9*	*2.0*
Bulgaria	5.8	8.7	0.0	2.5	-1.3	2.7	**0.6**	**0.6**	**1.4**	*0.5*	*0.6*	*1.6*
Czech Republic	1.3	3.8	0.9	-2.3	-0.5	2.3	**5.2**	**2.2**	**2.7**	*4.8*	*2.0*	*2.6*
Denmark	2.3	2.9	-0.7	0.5	-0.2	1.3	**1.1**	**2.0**	**1.9**	*1.1*	*1.9*	*2.0*
Croatia	2.7	6.2	-1.4	-3.3	-1.1	-1.7	**1.6**	**1.9**	**2.0**	*0.2*	*1.3*	*1.7*
Hungary	4.2	4.1	-2.3	-3.1	1.5	4.2	**1.2**	**1.3**	**2.3**	*2.2*	*0.9*	*2.5*
Poland	4.4	4.0	4.5	-0.5	-0.7	4.9	**3.2**	**3.9**	**3.8**	*3.5*	*3.8*	*3.7*
Romania	1.5	9.1	1.9	-0.5	-0.1	3.1	**4.7**	**5.7**	**4.7**	*4.3*	*5.5*	*4.5*
Sweden	3.0	2.5	1.8	-0.6	1.6	3.4	**3.4**	**3.3**	**2.9**	*2.8*	*2.8*	*2.8*
United Kingdom	3.9	3.0	-0.3	2.3	2.6	3.2	**2.7**	**2.5**	**2.2**	*2.8*	*2.7*	*2.1*
EU	3.0	2.1	0.3	-1.5	-0.1	1.5	**2.0**	**2.2**	**2.1**	*1.9*	*2.1*	*2.2*
USA	4.3	3.2	0.1	2.1	1.2	2.5	**2.9**	**3.1**	**2.9**	*3.0*	*3.2*	*3.0*
Japan	0.2	0.8	-0.2	2.6	1.9	-0.1	**-0.2**	**0.8**	**0.3**	*-0.1*	*0.8*	*0.3*

Table 6: **Final demand, volume (percentage change on preceding year, 1997-2017)** **22.1.2016**

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	3.8	2.8	2.1	0.7	0.4	3.4	**2.2**	**2.3**	**3.2**	*2.6*	*2.4*	*3.3*
Germany	3.2	2.0	1.8	0.2	1.1	2.2	**2.8**	**2.7**	**3.1**	*3.0*	*2.9*	*3.2*
Estonia	6.9	11.1	1.0	7.2	3.3	3.0	**-0.7**	**1.9**	**3.5**	*0.5*	*3.2*	*3.6*
Ireland	12.5	5.9	0.4	1.5	0.9	9.4	**11.3**	**6.1**	**5.5**	*10.0*	*6.1*	*5.6*
Greece	5.6	4.2	-3.5	-7.7	-2.9	2.4	**-0.5**	**-0.4**	**2.7**	*-2.1*	*-1.0*	*2.9*
Spain	5.7	4.2	-0.5	-3.4	-1.4	2.5	**4.3**	**3.8**	**3.4**	*3.8*	*3.4*	*3.2*
France	4.1	2.2	1.1	0.3	0.9	1.0	**2.1**	**2.1**	**2.7**	*2.0*	*2.1*	*2.7*
Italy	2.9	1.5	-0.5	-4.0	-1.9	0.2	**1.8**	**2.2**	**2.1**	*1.7*	*2.2*	*2.2*
Cyprus	3.6	3.3	1.6	-3.1	-4.9	-0.8	**2.4**	**2.2**	**1.9**	*1.0*	*1.2*	*1.9*
Latvia	6.2	11.1	-0.9	4.5	1.7	1.7	**2.6**	**3.1**	**3.5**	*2.0*	*2.9*	*3.6*
Lithuania	6.2	10.6	2.1	5.0	6.1	3.0	**3.7**	**3.4**	**4.3**	*3.9*	*3.1*	*4.1*
Luxembourg	8.8	5.5	2.9	0.6	5.2	6.5	**5.9**	**3.3**	**4.3**	*4.1*	*4.2*	*4.2*
Malta	2.7	4.1	4.8	4.3	1.0	1.6	**4.2**	**3.6**	**4.1**	*1.6*	*3.2*	*3.8*
Netherlands	5.6	2.6	1.5	0.5	0.1	2.3	**3.4**	**3.6**	**3.5**	*3.4*	*3.2*	*3.5*
Austria	3.9	2.9	1.5	0.8	0.0	0.6	**1.2**	**2.3**	**2.2**	*0.7*	*2.1*	*2.1*
Portugal	4.9	1.4	-0.2	-4.7	0.5	2.7	**2.9**	**2.5**	**3.0**	*3.2*	*2.7*	*3.1*
Slovenia	5.4	5.9	1.2	-3.1	0.1	3.4	**2.9**	**2.9**	**3.7**	*3.1*	*2.8*	*4.0*
Slovakia	4.0	9.3	3.3	2.0	3.2	3.3	**5.5**	**3.8**	**4.6**	*4.3*	*3.5*	*4.3*
Finland	5.8	3.7	0.9	-0.6	-0.5	-0.2	**-0.3**	**0.8**	**1.4**	*0.0*	*1.2*	*1.8*
Euro area	4.1	2.6	0.8	-0.9	0.2	1.9	**2.8**	**2.7**	**3.0**	*2.7*	*2.7*	*3.0*
Bulgaria	1.5	9.3	2.2	1.9	2.7	1.5	**2.6**	**2.2**	**2.8**	*2.6*	*2.1*	*2.8*
Czech Republic	3.6	7.4	2.8	0.5	-0.3	5.3	**6.1**	**4.0**	**4.2**	*5.7*	*3.8*	*4.3*
Denmark	3.7	3.5	-0.1	0.5	0.2	1.9	**0.5**	**2.6**	**2.7**	*1.1*	*2.8*	*2.7*
Croatia	3.8	6.3	-1.1	-2.4	0.2	1.0	**3.7**	**2.9**	**3.1**	*3.0*	*2.2*	*2.6*
Hungary	8.4	7.2	1.2	-2.5	3.9	5.8	**4.8**	**3.8**	**4.4**	*5.0*	*4.3*	*5.3*
Poland	5.4	5.3	5.0	1.0	1.4	5.4	**4.1**	**4.4**	**4.7**	*4.2*	*4.5*	*4.5*
Romania	3.4	9.7	2.6	-0.1	5.1	4.7	**5.0**	**5.7**	**5.0**	*4.9*	*5.3*	*4.8*
Sweden	4.6	3.7	1.7	-0.1	0.8	3.4	**3.8**	**3.5**	**3.4**	*3.0*	*3.2*	*3.3*
United Kingdom	4.1	3.6	-0.2	1.9	2.3	2.7	**3.1**	**2.6**	**2.6**	*2.7*	*2.8*	*2.6*
EU	4.2	3.0	0.8	-0.4	0.6	2.3	**2.9**	**2.8**	**3.0**	*2.8*	*2.8*	*3.0*
USA	4.3	3.3	0.5	2.2	1.4	2.6	**2.7**	**3.0**	**3.0**	*2.8*	*3.2*	*3.1*
Japan	0.5	1.7	-0.1	2.2	1.8	1.1	**0.3**	**1.2**	**0.7**	*0.3*	*1.2*	*0.8*

Table 7: **Private consumption expenditure, volume (percentage change on preceding year, 1997-2017)** **22.1.2016**

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.0	1.0	1.4	0.6	0.9	0.4	**1.4**	**0.9**	**1.2**	*2.0*	*0.7*	*1.0*
Germany	1.7	0.4	0.5	1.0	0.6	0.9	**1.9**	**2.0**	**1.7**	*1.9*	*1.9*	*1.8*
Estonia	6.4	9.6	-2.2	4.4	3.8	3.5	**4.8**	**3.2**	**3.0**	*5.2*	*3.2*	*2.8*
Ireland	7.8	4.8	0.1	-1.0	0.1	2.1	**3.3**	**2.5**	**2.0**	*2.9*	*2.5*	*2.0*
Greece	3.7	3.8	-2.2	-8.0	-2.3	0.5	**0.5**	**-0.7**	**1.8**	*-1.3*	*-1.7*	*1.7*
Spain	4.1	3.4	-0.6	-3.5	-3.1	1.2	**3.1**	**3.4**	**2.3**	*3.4*	*2.7*	*2.1*
France	2.9	2.1	1.1	-0.2	0.4	0.6	**1.4**	**1.3**	**1.3**	*1.7*	*1.7*	*1.4*
Italy	2.4	0.9	-0.1	-3.9	-2.7	0.4	**0.9**	**1.5**	**0.6**	*0.8*	*1.4*	*0.7*
Cyprus	4.6	4.3	2.8	-0.8	-5.9	0.6	**1.8**	**1.6**	**1.4**	*1.3*	*1.3*	*1.2*
Latvia	3.4	10.7	-2.1	3.2	5.1	2.3	**3.4**	**3.8**	**3.9**	*3.1*	*3.7*	*3.9*
Lithuania	5.3	9.8	-0.5	3.6	4.3	4.1	**5.2**	**4.9**	**3.8**	*4.9*	*4.0*	*3.8*
Luxembourg	4.1	2.4	1.7	2.7	0.9	3.7	**-0.1**	**2.9**	**2.0**	*0.7*	*3.3*	*1.8*
Malta	4.0	2.2	1.0	-0.2	2.0	2.8	**4.0**	**3.4**	**2.6**	*3.2*	*2.9*	*2.2*
Netherlands	4.3	0.4	0.2	-1.2	-1.4	0.0	**1.6**	**2.2**	**2.2**	*1.7*	*2.1*	*2.4*
Austria	2.0	1.8	1.0	0.6	0.1	0.0	**0.2**	**1.5**	**1.4**	*0.3*	*1.0*	*1.0*
Portugal	3.6	1.3	0.0	-5.5	-1.2	2.2	**2.6**	**1.9**	**1.8**	*2.6*	*1.7*	*1.8*
Slovenia	3.1	2.5	2.2	-2.5	-4.1	0.7	**1.3**	**2.3**	**2.3**	*1.8*	*2.3*	*2.3*
Slovakia	4.2	5.1	2.5	-0.4	-0.8	2.3	**2.3**	**3.4**	**3.0**	*2.2*	*2.9*	*3.0*
Finland	3.3	3.6	1.8	0.3	-0.3	0.5	**1.3**	**0.6**	**0.6**	*0.7*	*0.5*	*0.6*
Euro area	2.6	1.5	0.3	-1.2	-0.7	0.8	**1.7**	**1.8**	**1.5**	*1.7*	*1.7*	*1.5*
Bulgaria	0.2	7.5	2.4	3.3	-1.4	2.7	**0.7**	**1.4**	**1.7**	*0.7*	*1.4*	*1.7*
Czech Republic	1.9	3.6	1.5	-1.5	0.7	1.5	**2.9**	**2.8**	**2.7**	*3.0*	*2.8*	*2.6*
Denmark	1.2	2.8	-0.1	0.4	-0.1	0.5	**2.2**	**2.0**	**2.1**	*1.9*	*2.0*	*2.1*
Croatia	2.9	4.6	-0.3	-3.0	-1.8	-0.7	**1.0**	**1.8**	**1.9**	*0.8*	*1.1*	*1.4*
Hungary	4.3	4.5	-1.8	-2.2	0.3	1.8	**3.0**	**3.2**	**2.5**	*3.2*	*3.1*	*3.0*
Poland	4.5	3.4	4.3	0.7	0.2	2.5	**3.0**	**4.0**	**3.9**	*3.4*	*3.4*	*3.5*
Romania	1.5	10.6	2.3	1.2	0.7	3.8	**4.8**	**6.9**	**4.5**	*4.3*	*6.7*	*4.4*
Sweden	3.2	2.6	2.0	0.8	1.9	2.2	**2.4**	**2.6**	**2.8**	*2.3*	*2.5*	*2.6*
United Kingdom	4.6	3.2	-0.2	1.8	1.9	2.5	**2.8**	**2.6**	**2.3**	*2.9*	*2.6*	*2.3*
EU	3.0	2.1	0.4	-0.6	-0.1	1.2	**2.0**	**2.2**	**1.8**	*2.1*	*2.0*	*1.8*
USA	4.4	3.2	0.9	1.5	1.7	2.7	**3.1**	**3.0**	**2.6**	*3.2*	*2.9*	*2.5*
Japan	0.7	1.1	0.5	2.3	2.1	-1.3	**-0.8**	**0.8**	**-0.1**	*-0.7*	*0.8*	*-0.1*

Table 8: **Government consumption expenditure, volume (percentage change on preceding year, 1997-2017)** **22.1.2016**

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.8	1.5	1.6	1.5	-0.1	0.6	**0.1**	**0.6**	**0.3**	*0.3*	*0.4*	*0.7*
Germany	1.2	0.5	2.0	1.3	0.8	1.7	**2.8**	**3.1**	**2.5**	*2.1*	*2.0*	*2.0*
Estonia	0.1	3.7	1.7	3.6	1.5	3.0	**1.8**	**1.7**	**1.9**	*1.4*	*1.5*	*2.0*
Ireland	7.6	4.2	-0.3	-1.2	0.0	4.0	**2.4**	**2.0**	**2.3**	*2.6*	*1.9*	*2.2*
Greece	2.2	4.1	-1.3	-6.0	-6.5	-2.6	**-0.2**	**-1.0**	**-0.9**	*-0.2*	*-1.0*	*-0.9*
Spain	3.6	5.1	3.5	-4.5	-2.8	0.0	**2.2**	**0.6**	**0.6**	*0.8*	*0.2*	*0.6*
France	1.0	1.7	1.5	1.6	1.7	1.5	**1.1**	**0.7**	**0.6**	*1.1*	*0.7*	*0.5*
Italy	2.1	0.7	0.1	-1.4	-0.3	-0.7	**0.2**	**0.1**	**1.0**	*0.0*	*0.1*	*1.0*
Cyprus	5.6	5.5	2.8	-3.7	-4.1	-9.0	**-2.4**	**-0.9**	**0.2**	*-2.1*	*-0.9*	*0.2*
Latvia	3.5	4.1	-2.2	0.3	1.6	4.9	**2.7**	**2.4**	**2.0**	*3.0*	*2.0*	*2.0*
Lithuania	1.3	3.0	-0.5	1.3	1.0	1.3	**2.3**	**1.4**	**2.0**	*1.3*	*1.4*	*2.0*
Luxembourg	4.9	3.3	2.4	3.6	3.9	4.5	**3.3**	**2.9**	**2.6**	*4.3*	*2.1*	*2.3*
Malta	0.0	1.8	2.9	6.3	0.2	7.8	**2.5**	**4.9**	**6.3**	*2.1*	*4.0*	*5.5*
Netherlands	3.3	3.5	2.4	-1.3	0.1	0.3	**0.1**	**0.9**	**1.0**	*-0.3*	*0.4*	*1.0*
Austria	1.8	1.8	1.5	0.2	0.6	0.8	**0.9**	**0.8**	**0.7**	*0.8*	*0.5*	*0.6*
Portugal	4.1	1.9	-0.3	-3.3	-2.0	-0.5	**0.3**	**0.4**	**0.4**	*0.5*	*0.3*	*0.4*
Slovenia	3.8	2.9	1.6	-2.3	-1.5	-0.1	**0.9**	**1.8**	**1.0**	*0.7*	*1.3*	*1.5*
Slovakia	2.0	4.1	2.6	-2.6	2.2	5.9	**3.7**	**1.4**	**2.3**	*3.1*	*1.3*	*2.6*
Finland	2.1	1.7	0.8	0.5	0.8	-0.2	**0.0**	**0.1**	**-0.1**	*-0.1*	*-0.1*	*-0.1*
Euro area	1.8	1.8	1.5	-0.2	0.2	0.9	**1.4**	**1.3**	**1.2**	*1.0*	*0.8*	*1.1*
Bulgaria	6.6	4.0	-1.8	-0.5	2.2	0.1	**0.3**	**1.2**	**1.3**	*0.1*	*1.2*	*1.3*
Czech Republic	1.3	2.7	0.4	-1.8	2.3	1.8	**3.5**	**3.3**	**1.9**	*2.8*	*2.2*	*1.9*
Denmark	2.3	1.5	1.5	0.0	-0.7	0.2	**1.1**	**0.8**	**0.0**	*1.2*	*0.3*	*0.3*
Croatia	0.3	3.9	1.2	-1.0	0.3	-1.9	**0.6**	**1.1**	**1.7**	*0.3*	*0.6*	*1.1*
Hungary	1.1	3.4	-0.5	-1.5	2.4	2.9	**0.3**	**0.2**	**0.5**	*0.1*	*-0.3*	*1.0*
Poland	4.0	3.7	2.6	-0.4	2.2	4.9	**3.1**	**3.4**	**2.7**	*4.1*	*3.1*	*2.6*
Romania	0.7	-1.0	1.2	0.4	-4.6	0.3	**1.4**	**3.5**	**3.1**	*1.9*	*2.9*	*2.8*
Sweden	0.9	0.9	1.2	1.1	1.3	1.3	**2.0**	**3.6**	**2.5**	*2.6*	*2.6*	*2.2*
United Kingdom	2.3	3.2	0.9	1.8	0.5	2.5	**1.7**	**0.4**	**-0.2**	*1.8*	*0.0*	*-0.2*
EU	1.9	2.0	1.4	0.1	0.3	1.2	**1.5**	**1.3**	**1.1**	*1.3*	*0.8*	*1.0*
USA	2.3	1.8	1.0	-0.9	-2.5	-0.5	**0.4**	**1.7**	**2.1**	*0.4*	*1.3*	*1.9*
Japan	2.9	1.4	1.3	1.7	1.9	0.2	**1.1**	**0.9**	**0.9**	*1.0*	*0.7*	*0.9*

Table 9: Total investment, volume (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	3.8	2.3	1.0	0.2	-1.7	7.0	**1.7**	**-0.2**	**3.1**	*2.1*	*0.5*	*3.7*
Germany	1.8	0.1	1.4	-0.4	-1.3	3.5	**1.7**	**2.4**	**3.2**	*2.6*	*3.1*	*3.6*
Estonia	10.6	16.9	-4.5	6.7	3.2	-3.1	**-5.8**	**2.8**	**5.4**	*-3.9*	*4.1*	*4.9*
Ireland	10.9	9.4	-8.5	8.6	-6.6	14.3	**26.0**	**12.0**	**8.3**	*16.8*	*11.9*	*8.8*
Greece	8.1	4.4	-9.9	-23.5	-9.4	-2.8	**-8.4**	**-3.7**	**12.8**	*-10.2*	*-2.0*	*14.7*
Spain	7.6	6.3	-5.9	-7.1	-2.5	3.5	**6.1**	**4.6**	**4.8**	*6.3*	*5.4*	*4.8*
France	4.8	2.2	0.2	0.2	-0.6	-1.2	**-0.6**	**1.6**	**4.6**	*-1.3*	*0.7*	*4.5*
Italy	3.9	2.2	-2.9	-9.3	-6.6	-3.5	**1.0**	**3.8**	**4.8**	*1.2*	*4.0*	*4.8*
Cyprus	0.3	9.1	-2.7	-20.5	-15.2	-18.0	**10.5**	**5.6**	**4.0**	*2.2*	*3.6*	*4.0*
Latvia	17.9	13.7	-5.9	14.4	-6.0	0.5	**2.1**	**2.8**	**4.5**	*0.5*	*2.3*	*4.5*
Lithuania	8.5	14.4	-2.6	-1.8	8.3	5.4	**10.3**	**1.0**	**7.0**	*9.8*	*2.4*	*7.0*
Luxembourg	8.1	2.4	4.6	-0.3	-7.2	9.9	**0.7**	**1.9**	**3.5**	*1.1*	*3.0*	*3.5*
Malta	0.6	5.8	-2.7	1.4	-0.2	7.6	**19.1**	**-2.6**	**1.0**	*17.1*	*-1.0*	*1.1*
Netherlands	5.1	0.8	-0.1	-6.3	-4.4	3.5	**9.1**	**4.6**	**4.7**	*8.8*	*4.7*	*4.6*
Austria	1.9	0.6	0.5	1.3	-0.3	-0.2	**0.7**	**2.6**	**2.5**	*-0.1*	*2.6*	*2.7*
Portugal	7.3	-2.3	-3.7	-16.6	-5.1	2.8	**4.3**	**3.0**	**4.7**	*5.6*	*3.9*	*5.5*
Slovenia	7.5	5.0	-5.1	-8.8	1.7	3.2	**0.9**	**-0.7**	**4.7**	*1.9*	*-1.8*	*5.1*
Slovakia	1.4	5.2	1.7	-9.2	-1.1	3.5	**12.7**	**3.8**	**5.7**	*7.5*	*2.2*	*2.3*
Finland	6.8	1.8	0.3	-2.2	-5.2	-3.3	**-2.8**	**1.1**	**2.8**	*-2.0*	*3.1*	*3.6*
Euro area	4.1	2.2	-1.3	-3.3	-2.6	1.3	**2.3**	**2.8**	**4.2**	*2.3*	*3.0*	*4.4*
Bulgaria	29.3	14.7	-2.2	1.8	0.3	3.4	**0.4**	**-2.1**	**0.5**	*0.2*	*-2.4*	*1.7*
Czech Republic	0.9	4.0	1.4	-3.2	-2.7	2.0	**7.9**	**0.0**	**3.3**	*7.6*	*0.0*	*3.3*
Denmark	4.8	4.5	-4.3	3.9	1.1	3.4	**0.0**	**2.7**	**4.1**	*0.7*	*3.7*	*4.1*
Croatia	4.9	11.2	-3.7	-3.3	1.4	-3.6	**1.7**	**2.6**	**2.7**	*0.8*	*2.4*	*3.0*
Hungary	7.3	4.1	-2.9	-4.4	7.3	11.2	**0.0**	**-2.0**	**3.6**	*2.2*	*-3.2*	*2.5*
Poland	6.4	4.5	6.6	-1.8	-1.1	9.8	**7.1**	**4.1**	**4.5**	*6.5*	*5.5*	*5.5*
Romania	1.6	12.9	2.4	0.1	-5.4	2.5	**6.5**	**4.2**	**6.1**	*6.2*	*3.9*	*6.0*
Sweden	5.0	4.0	1.1	-0.2	0.6	7.5	**7.1**	**4.2**	**3.7**	*4.3*	*3.6*	*3.7*
United Kingdom	2.0	2.9	-1.8	1.5	2.6	7.3	**4.6**	**5.1**	**4.7**	*4.9*	*5.9*	*4.8*
EU	3.8	2.6	-1.2	-2.5	-1.7	2.7	**3.0**	**3.2**	**4.3**	*2.9*	*3.5*	*4.4*
USA	6.0	3.1	-3.1	6.3	2.4	4.1	**3.9**	**4.4**	**4.5**	*4.1*	*5.5*	*5.3*
Japan	-1.9	-0.4	-2.8	3.4	3.2	2.6	**0.2**	**0.9**	**0.6**	*0.5*	*0.9*	*0.7*

Table 10: Investment in construction, volume (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	0.2	2.7	1.5	3.4	-4.0	4.1	**1.2**	**1.0**	**3.2**	*1.7*	*1.8*	*3.2*
Germany	-1.7	-2.3	1.3	0.5	-1.1	2.9	**0.2**	**2.1**	**2.7**	*1.3*	*2.4*	*2.6*
Estonia	7.4	17.7	-5.7	-6.6	-2.8	-2.4	**1.7**	**2.3**	**5.2**	*3.6*	*4.1*	*4.7*
Ireland	9.8	8.1	-18.4	-1.3	12.4	9.7	**5.2**	**10.4**	**9.5**	*9.3*	*10.4*	*9.5*
Greece	4.8	3.7	-11.6	-16.3	-16.1	-16.4	**-9.2**	**-2.6**	**12.3**	*-9.2*	*-0.8*	*15.7*
Spain	7.2	6.6	-8.4	-8.3	-7.1	-0.2	**5.4**	**3.4**	**5.1**	*5.3*	*4.2*	*4.5*
France	3.4	3.0	-0.8	-1.7	-0.9	-3.1	**-3.2**	**-0.5**	**3.3**	*-4.0*	*-0.9*	*3.3*
Italy	2.5	2.8	-4.1	-9.3	-7.4	-5.0	**-0.4**	**2.4**	**3.3**	*-0.5*	*2.2*	*3.1*
Cyprus	0.4	10.9	-4.3	-18.3	-21.0	-12.8	**12.0**	**3.6**	**1.9**	*-1.2*	*1.4*	*1.7*
Latvia	13.0	18.0	-8.0	20.0	-10.3	3.8	**:**	**:**	**:**	*:*	*:*	*:*
Lithuania	4.2	13.9	-3.9	-4.4	8.0	7.9	**11.6**	**3.8**	**5.0**	*10.8*	*8.0*	*5.0*
Luxembourg	5.7	3.7	1.7	-9.5	-1.0	5.1	**4.9**	**4.6**	**3.8**	*4.9*	*4.6*	*3.8*
Malta	:	4.2	-7.9	16.2	-7.9	17.8	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	3.7	0.4	-2.2	-10.6	-6.6	4.3	**12.3**	**5.0**	**4.6**	*11.1*	*5.2*	*4.5*
Austria	-0.3	0.2	-1.7	2.2	-2.1	-1.0	**-1.2**	**1.7**	**2.1**	*-0.8*	*1.8*	*2.0*
Portugal	6.5	-3.8	-5.2	-20.0	-12.1	-3.0	**3.6**	**1.4**	**2.3**	*3.4*	*2.4*	*3.3*
Slovenia	5.0	2.7	-7.8	-6.5	-7.8	12.1	**-1.1**	**-7.0**	**4.1**	*1.1*	*-9.3*	*5.2*
Slovakia	1.6	6.7	-3.0	-8.8	4.1	-3.9	**9.5**	**-0.3**	**5.4**	*4.0*	*-0.6*	*1.5*
Finland	6.7	2.9	0.5	-5.6	-4.4	-4.5	**-2.2**	**1.5**	**3.5**	*-0.3*	*3.6*	*4.0*
Euro area	:	2.1	-2.9	-4.2	-3.5	-0.5	**0.6**	**1.8**	**3.5**	*0.7*	*2.0*	*3.4*
Bulgaria	:	18.6	-2.0	9.5	-0.5	-4.1	**0.6**	**-4.4**	**-1.5**	*0.3*	*-6.0*	*0.2*
Czech Republic	-4.0	3.9	-0.5	-3.2	-5.0	2.2	**9.9**	**-3.9**	**3.8**	*10.8*	*-3.3*	*3.7*
Denmark	2.7	5.0	-6.2	-0.9	-0.2	2.4	**-1.0**	**1.7**	**2.6**	*0.0*	*1.7*	*2.3*
Croatia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Hungary	3.7	3.2	-5.8	-8.4	10.9	11.0	**3.7**	**-1.4**	**3.6**	*1.3*	*-3.2*	*3.2*
Poland	6.0	4.1	7.5	-0.8	-5.5	17.3	**6.4**	**3.7**	**4.5**	*6.2*	*5.6*	*5.6*
Romania	-2.1	11.5	4.7	15.2	-15.0	-2.9	**7.7**	**2.9**	**6.3**	*6.4*	*2.7*	*6.3*
Sweden	2.9	6.1	-1.0	-0.3	-1.3	15.1	**10.7**	**4.6**	**3.5**	*7.7*	*4.5*	*3.5*
United Kingdom	4.9	2.8	-3.3	0.1	4.9	9.1	**3.5**	**4.0**	**3.8**	*-0.1*	*3.7*	*4.3*
EU	2.4	2.4	-2.7	-3.1	-2.5	1.9	**1.7**	**2.2**	**3.6**	*1.1*	*2.4*	*3.7*
USA	3.7	1.1	-7.8	6.9	2.6	3.6	**4.8**	**4.5**	**4.5**	*5.8*	*6.2*	*4.8*
Japan	-4.3	-3.5	-3.8	2.9	4.5	-0.3	**:**	**:**	**:**	*:*	*:*	*:*

Table 11: Investment in equipment, volume (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	7.1	1.3	-1.1	-4.7	-0.1	10.4	**1.7**	**2.0**	**3.1**	*1.9*	*2.5*	*4.2*
Germany	6.0	2.7	0.6	-2.6	-2.3	4.5	**3.6**	**2.6**	**4.5**	*4.6*	*3.5*	*4.5*
Estonia	14.4	16.1	-5.0	31.2	8.3	-5.9	**-15.9**	**3.8**	**6.2**	*-14.0*	*4.0*	*4.9*
Ireland	9.1	13.2	-2.3	10.3	-8.1	27.2	**-17.0**	**14.0**	**11.0**	*17.0*	*14.0*	*11.0*
Greece	15.9	5.3	-8.4	-36.5	-0.6	18.7	**-5.0**	**-3.0**	**14.0**	*-9.3*	*-3.0*	*15.0*
Spain	8.7	5.2	-3.0	-8.5	4.0	10.6	**9.7**	**8.0**	**5.9**	*9.6*	*8.2*	*6.2*
France	7.4	0.5	0.1	2.1	-1.5	1.2	**1.3**	**3.9**	**6.4**	*1.1*	*2.2*	*5.7*
Italy	5.3	2.1	-2.1	-13.6	-7.3	-2.9	**4.0**	**5.8**	**7.1**	*4.5*	*6.5*	*7.3*
Cyprus	0.2	5.7	-1.8	-26.1	-15.1	-43.5	**8.0**	**6.6**	**5.2**	*8.0*	*4.4*	*5.0*
Latvia	22.7	10.3	-4.9	12.0	-5.4	-4.5	**:**	**:**	**:**	*:*	*:*	*:*
Lithuania	13.7	15.8	-3.4	2.1	12.5	3.0	**8.0**	**-5.0**	**11.2**	*8.0*	*-8.3*	*11.2*
Luxembourg	9.4	2.2	10.1	23.6	-14.7	18.3	**-5.0**	**-2.0**	**3.5**	*-4.2*	*1.0*	*3.5*
Malta	:	7.9	-1.2	-17.3	9.0	-0.7	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	5.8	0.4	2.7	-5.0	-4.0	0.9	**9.4**	**5.7**	**5.2**	*7.7*	*5.4*	*4.6*
Austria	2.7	-0.2	1.4	0.7	-0.1	1.3	**2.9**	**3.7**	**3.2**	*1.5*	*4.2*	*4.0*
Portugal	9.4	-0.4	-4.4	-17.0	8.1	15.3	**9.3**	**7.6**	**10.3**	*13.5*	*8.5*	*10.8*
Slovenia	11.0	8.6	-4.5	-12.2	12.6	-4.5	**3.1**	**6.0**	**6.3**	*3.6*	*5.9*	*6.2*
Slovakia	3.2	4.3	6.2	-10.9	-9.4	17.0	**17.2**	**7.0**	**6.7**	*11.5*	*4.4*	*3.4*
Finland	4.8	-0.6	0.6	10.2	-8.6	-0.2	**-2.5**	**1.6**	**2.7**	*-0.9*	*4.7*	*4.1*
Euro area	:	2.4	-0.6	-4.9	-2.4	4.1	**3.6**	**4.3**	**5.7**	*4.6*	*4.6*	*5.7*
Bulgaria	:	12.8	-3.7	-5.5	1.2	13.9	**0.2**	**1.0**	**2.1**	*0.1*	*2.0*	*3.0*
Czech Republic	5.3	4.3	3.2	-6.1	-0.2	3.8	**7.8**	**3.3**	**3.5**	*6.0*	*3.0*	*4.0*
Denmark	5.6	4.3	-6.3	15.5	5.1	5.3	**1.1**	**3.9**	**5.6**	*1.8*	*5.5*	*5.7*
Croatia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Hungary	11.0	4.9	-1.2	3.5	3.1	17.0	**-4.0**	**-3.0**	**3.6**	*3.0*	*-3.2*	*2.0*
Poland	7.0	5.3	5.6	-5.0	5.5	-0.9	**8.2**	**4.8**	**4.3**	*7.1*	*5.5*	*5.5*
Romania	5.9	15.5	-0.4	-2.7	4.8	-2.0	**6.0**	**6.0**	**6.1**	*6.0*	*5.0*	*5.8*
Sweden	5.3	4.8	2.6	2.8	0.1	-0.1	**3.8**	**3.5**	**3.6**	*1.7*	*3.1*	*3.7*
United Kingdom	1.4	3.1	-1.7	3.0	-2.8	7.1	**9.8**	**9.3**	**6.5**	*12.8*	*9.4*	*5.9*
EU	5.8	3.0	-0.5	-3.5	-1.7	4.1	**4.4**	**4.8**	**5.6**	*5.4*	*5.1*	*5.6*
USA	7.8	5.0	-0.1	8.8	2.2	5.0	**2.7**	**4.3**	**4.6**	*1.8*	*4.5*	*6.2*
Japan	-0.5	2.7	-2.2	3.5	0.3	3.5	**:**	**:**	**:**	*:*	*:*	*:*

Table 12: Public investment (as a percentage of GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.3	2.1	2.2	2.5	2.4	2.4	**2.4**	**2.4**	**2.5**	*2.4*	*2.4*	*2.5*
Germany	2.3	2.0	2.2	2.3	2.2	2.2	**2.1**	**2.1**	**2.2**	*2.1*	*2.1*	*2.2*
Estonia	4.8	5.1	5.6	6.2	5.5	5.0	**4.8**	**5.0**	**5.0**	*5.6*	*5.5*	*5.5*
Ireland	3.2	3.7	3.8	2.1	1.8	2.0	**2.0**	**2.0**	**2.0**	*2.0*	*2.0*	*1.9*
Greece	5.1	5.3	4.5	2.5	3.4	3.9	**3.5**	**3.4**	**3.5**	*4.0*	*3.8*	*3.6*
Spain	3.7	4.1	4.5	2.5	2.2	2.1	**2.3**	**2.1**	**2.1**	*2.3*	*2.1*	*2.1*
France	3.8	3.9	4.0	4.1	4.0	3.7	**3.5**	**3.5**	**3.4**	*3.5*	*3.5*	*3.4*
Italy	2.8	2.9	3.0	2.6	2.4	2.2	**2.3**	**2.2**	**2.2**	*2.2*	*2.2*	*2.1*
Cyprus	3.5	3.6	3.6	2.6	2.0	1.8	**1.8**	**1.9**	**1.9**	*1.9*	*2.1*	*2.2*
Latvia	1.8	3.3	5.1	4.9	4.4	4.4	**4.4**	**4.1**	**4.5**	*4.3*	*3.7*	*4.0*
Lithuania	2.4	3.5	5.0	4.0	3.7	3.5	**3.8**	**3.6**	**3.6**	*3.9*	*3.6*	*3.6*
Luxembourg	3.9	4.5	4.1	4.1	3.5	3.5	**3.7**	**3.9**	**4.0**	*3.9*	*4.1*	*4.3*
Malta	4.0	4.2	2.7	3.1	2.7	3.7	**3.8**	**2.5**	**2.6**	*3.9*	*2.6*	*2.7*
Netherlands	3.7	4.0	4.1	3.7	3.6	3.5	**3.4**	**3.2**	**3.2**	*3.3*	*3.1*	*3.1*
Austria	2.7	2.6	3.1	2.9	3.0	3.0	**2.9**	**2.9**	**2.9**	*3.0*	*2.9*	*2.9*
Portugal	5.0	4.2	4.0	2.5	2.2	2.0	**2.1**	**2.0**	**2.2**	*2.1*	*2.0*	*2.3*
Slovenia	3.8	3.9	4.7	4.1	4.4	5.2	**5.2**	**3.8**	**3.7**	*5.6*	*3.7*	*3.6*
Slovakia	4.5	3.5	3.5	3.0	3.1	3.6	**5.6**	**2.9**	**2.9**	*4.3*	*2.8*	*2.8*
Finland	3.9	3.7	3.7	4.0	4.1	4.1	**3.9**	**3.9**	**3.9**	*3.9*	*3.9*	*3.9*
Euro area	3.1	3.2	3.3	2.9	2.8	2.7	**2.7**	**2.6**	**2.6**	*2.7*	*2.6*	*2.6*
Bulgaria	3.4	3.6	4.8	3.4	4.1	5.2	**5.8**	**5.3**	**5.0**	*5.4*	*4.7*	*4.7*
Czech Republic	4.1	5.1	4.9	4.2	3.7	4.2	**5.4**	**4.2**	**4.2**	*5.2*	*4.1*	*4.2*
Denmark	2.8	2.8	3.2	3.8	3.7	3.9	**3.9**	**3.5**	**3.5**	*3.7*	*3.5*	*3.4*
Croatia	:	6.0	4.8	3.5	3.7	3.7	**3.7**	**3.9**	**4.0**	*3.6*	*3.7*	*3.6*
Hungary	3.5	4.4	3.6	3.7	4.4	5.5	**5.7**	**4.4**	**4.2**	*5.3*	*4.4*	*4.2*
Poland	2.9	3.2	5.2	4.7	4.1	4.5	**4.4**	**4.4**	**4.6**	*4.4*	*4.4*	*4.6*
Romania	2.4	3.5	6.0	4.8	4.5	4.3	**4.8**	**4.0**	**3.6**	*4.9*	*3.7*	*3.6*
Sweden	4.2	4.2	4.4	4.6	4.5	4.5	**4.4**	**4.4**	**4.4**	*4.4*	*4.4*	*4.4*
United Kingdom	1.9	2.2	3.1	2.8	2.6	2.7	**2.8**	**2.8**	**2.8**	*2.7*	*2.7*	*2.7*
EU	:	3.1	3.4	3.1	3.0	2.9	**2.9**	**2.8**	**2.8**	*2.9*	*2.8*	*2.8*
USA	3.6	3.8	4.0	3.6	3.3	3.2	**3.4**	**3.4**	**3.4**	*3.4*	*3.3*	*3.3*
Japan	5.4	3.9	3.2	3.1	3.5	3.5	**3.4**	**3.2**	**3.3**	*3.6*	*3.4*	*3.5*

Table 13: Potential GDP, volume (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.4	2.0	1.5	1.0	0.8	1.0	**1.2**	**1.3**	**1.2**	*1.2*	*1.2*	*1.2*
Germany	1.6	1.3	1.0	1.2	1.2	1.4	**1.7**	**1.8**	**1.7**	*1.7*	*1.8*	*1.7*
Estonia	4.2	5.8	1.6	1.8	2.3	2.5	**2.5**	**2.5**	**2.1**	*2.7*	*2.7*	*2.3*
Ireland	8.8	5.3	1.1	1.1	1.8	2.9	**3.9**	**4.6**	**4.7**	*3.7*	*4.4*	*4.5*
Greece	3.7	3.5	-0.6	-3.4	-3.3	-2.5	**-2.2**	**-2.0**	**-1.5**	*-2.7*	*-2.4*	*-1.9*
Spain	3.1	3.5	1.8	-0.5	-0.7	-0.3	**0.0**	**0.5**	**0.7**	*0.0*	*0.4*	*0.7*
France	2.0	1.8	1.2	0.9	0.9	0.9	**0.9**	**1.1**	**1.2**	*1.0*	*1.1*	*1.2*
Italy	1.7	1.1	0.1	-1.1	-0.8	-0.8	**-0.2**	**0.0**	**0.1**	*-0.3*	*0.0*	*0.2*
Cyprus	:	3.4	2.4	-0.3	-2.1	-1.7	**-1.3**	**-0.9**	**-0.5**	*-1.6*	*-1.1*	*-0.7*
Latvia	:	7.1	1.3	0.3	0.8	1.5	**2.3**	**2.8**	**3.3**	*2.2*	*2.7*	*3.4*
Lithuania	:	5.9	2.8	1.2	1.8	2.0	**2.4**	**2.5**	**2.8**	*2.4*	*2.6*	*2.9*
Luxembourg	4.8	4.1	2.6	2.6	2.4	3.1	**3.2**	**3.3**	**3.4**	*2.6*	*2.7*	*2.8*
Malta	:	2.3	2.3	2.6	3.1	3.6	**4.2**	**3.9**	**3.7**	*3.6*	*3.4*	*3.3*
Netherlands	3.5	1.9	1.1	0.4	0.1	0.5	**0.9**	**1.0**	**1.2**	*0.9*	*1.1*	*1.3*
Austria	2.6	2.2	1.2	0.9	0.9	0.8	**1.1**	**1.3**	**1.2**	*0.8*	*0.9*	*1.0*
Portugal	3.3	1.4	0.2	-1.2	-1.0	-0.5	**-0.1**	**0.3**	**0.7**	*0.1*	*0.5*	*0.8*
Slovenia	:	3.4	1.8	-0.3	-0.4	0.4	**0.6**	**0.7**	**1.0**	*0.7*	*0.8*	*1.1*
Slovakia	:	4.8	4.3	2.5	2.0	2.0	**2.6**	**2.8**	**3.0**	*2.4*	*2.5*	*2.7*
Finland	4.0	2.9	0.9	-0.1	-0.2	-0.2	**-0.1**	**-0.1**	**0.3**	*-0.1*	*0.1*	*0.5*
Euro area	:	1.9	1.0	0.3	0.3	0.5	**0.9**	**1.0**	**1.1**	*0.8*	*1.0*	*1.1*
Bulgaria	2.1	5.8	2.5	0.4	0.8	1.8	**2.1**	**2.0**	**2.0**	*1.9*	*1.9*	*2.0*
Czech Republic	1.5	3.8	2.5	0.5	0.7	1.4	**2.1**	**2.0**	**2.2**	*2.0*	*2.0*	*2.2*
Denmark	2.4	1.5	1.0	0.5	0.5	0.6	**0.8**	**1.0**	**1.2**	*0.7*	*1.0*	*1.1*
Croatia	:	3.4	0.6	-0.6	-0.2	0.0	**0.5**	**0.4**	**0.5**	*0.3*	*0.2*	*0.5*
Hungary	:	3.3	0.6	0.0	0.9	1.8	**2.0**	**2.0**	**2.2**	*2.1*	*2.1*	*2.3*
Poland	5.1	3.5	4.0	3.4	2.9	3.1	**3.1**	**3.1**	**3.2**	*3.1*	*3.2*	*3.2*
Romania	1.5	4.5	3.6	1.7	1.6	2.0	**2.6**	**3.0**	**3.4**	*2.4*	*2.8*	*3.1*
Sweden	3.0	2.8	1.7	1.4	1.5	1.8	**2.4**	**2.7**	**2.8**	*2.1*	*2.6*	*2.6*
United Kingdom	3.1	2.6	1.2	1.0	1.0	1.6	**1.7**	**1.8**	**1.8**	*1.6*	*1.9*	*2.0*
EU	:	2.1	1.2	0.5	0.6	0.8	**1.2**	**1.3**	**1.4**	*1.1*	*1.3*	*1.4*
USA	3.6	2.4	1.2	1.4	1.6	1.9	**2.1**	**2.3**	**2.5**	*2.1*	*2.4*	*2.6*
Japan	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*

Table 14: Output gap relative to potential GDP [1] (deviation of actual output from potential output as % of potential GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	0.7	0.4	0.6	-0.6	-1.3	-0.9	**-0.8**	**-0.8**	**-0.4**	*-0.9*	*-0.9*	*-0.4*
Germany	0.5	-1.2	-0.3	0.4	-0.5	-0.4	**-0.4**	**-0.4**	**-0.3**	*-0.4*	*-0.4*	*-0.2*
Estonia	-1.7	5.4	0.8	2.1	1.4	1.8	**0.2**	**-0.2**	**0.0**	*0.5*	*0.4*	*0.7*
Ireland	2.6	1.3	-1.0	-3.1	-3.4	-1.2	**1.6**	**1.5**	**0.3**	*1.2*	*1.3*	*0.3*
Greece	1.0	1.8	-0.4	-13.0	-13.0	-10.1	**-8.1**	**-6.9**	**-2.8**	*-7.9*	*-6.9*	*-2.6*
Spain	1.3	2.7	-1.7	-7.6	-8.5	-7.0	**-4.1**	**-1.9**	**-0.2**	*-3.9*	*-1.8*	*-0.1*
France	0.6	1.6	0.1	-1.0	-1.2	-1.8	**-1.7**	**-1.5**	**-1.0**	*-1.8*	*-1.5*	*-1.0*
Italy	1.0	0.8	-0.9	-3.3	-4.2	-3.9	**-2.9**	**-1.5**	**-0.3**	*-2.9*	*-1.5*	*-0.2*
Cyprus	:	1.9	2.5	-2.2	-6.0	-6.8	**-4.3**	**-1.9**	**0.5**	*-3.6*	*-1.2*	*1.4*
Latvia	-0.6	3.0	-2.9	-1.8	0.3	1.2	**1.5**	**1.8**	**1.8**	*1.7*	*1.9*	*1.8*
Lithuania	-0.5	1.6	-1.5	-1.5	0.1	1.2	**0.4**	**0.8**	**1.4**	*0.4*	*0.8*	*1.2*
Luxembourg	2.2	0.6	-0.8	-5.5	-3.7	-2.7	**-1.3**	**-0.9**	**0.1**	*-1.5*	*-1.1*	*-0.9*
Malta	:	0.4	-0.3	-1.0	-0.1	0.3	**1.0**	**1.0**	**0.6**	*0.6*	*0.8*	*0.7*
Netherlands	1.1	-1.4	-0.4	-2.5	-3.1	-2.6	**-1.5**	**-0.5**	**0.5**	*-1.6*	*-0.5*	*0.5*
Austria	0.5	-0.5	0.1	0.2	-0.4	-0.8	**-1.2**	**-0.8**	**-0.4**	*-1.2*	*-0.6*	*-0.3*
Portugal	2.4	-0.7	-0.9	-5.0	-5.2	-3.8	**-2.3**	**-1.1**	**0.0**	*-2.3*	*-1.2*	*-0.2*
Slovenia	:	1.4	1.3	-4.1	-4.8	-2.3	**-0.4**	**0.7**	**1.9**	*-0.5*	*0.5*	*1.9*
Slovakia	-0.1	-0.7	2.2	-1.8	-2.4	-1.9	**-1.1**	**-0.7**	**-0.3**	*-1.2*	*-0.8*	*-0.2*
Finland	1.5	0.0	0.1	-1.5	-2.4	-2.6	**-2.5**	**-1.8**	**-1.2**	*-2.5*	*-2.0*	*-1.4*
Euro area	:	0.4	-0.4	-2.2	-2.9	-2.5	**-1.8**	**-1.1**	**-0.4**	*-1.8*	*-1.1*	*-0.4*
Bulgaria	0.2	0.8	0.9	-0.5	-0.1	-0.3	**-0.2**	**-0.7**	**-0.8**	*-0.4*	*-0.8*	*-0.8*
Czech Republic	-1.2	1.5	1.4	-1.7	-2.9	-2.3	**0.0**	**0.4**	**0.8**	*0.1*	*0.3*	*0.8*
Denmark	2.2	1.8	-1.0	-3.2	-3.8	-3.3	**-2.9**	**-2.2**	**-1.5**	*-2.8*	*-1.9*	*-1.2*
Croatia	:	1.3	2.0	-3.1	-4.0	-4.3	**-3.0**	**-1.4**	**0.2**	*-2.8*	*-1.7*	*-0.5*
Hungary	-0.8	2.2	-0.9	-3.2	-2.3	-0.5	**0.2**	**0.3**	**0.6**	*0.2*	*0.3*	*0.5*
Poland	0.7	-2.8	2.2	0.4	-1.1	-0.9	**-0.5**	**-0.1**	**0.2**	*-0.4*	*-0.1*	*0.1*
Romania	-3.5	3.3	0.7	-4.8	-3.0	-2.0	**-1.1**	**0.0**	**0.4**	*-1.3*	*0.0*	*0.5*
Sweden	0.0	0.1	-0.6	-1.9	-2.1	-1.7	**-0.6**	**0.0**	**0.0**	*-0.7*	*-0.5*	*-0.4*
United Kingdom	0.6	0.9	-1.9	-2.9	-1.9	-0.6	**0.0**	**0.3**	**0.7**	*0.1*	*0.5*	*0.8*
EU	:	0.5	-0.5	-2.3	-2.6	-2.2	**-1.4**	**-0.8**	**-0.2**	*-1.4*	*-0.8*	*-0.2*
USA	0.6	0.4	-1.0	-0.7	-0.8	-0.2	**0.1**	**0.4**	**0.6**	*0.1*	*0.5*	*0.7*
Japan	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*

[1] When comparing output gaps between the winter 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, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.5	2.0	1.8	2.0	1.3	0.7	1.2	1.5	1.6	1.1	1.0	1.2
Germany	0.4	0.9	1.2	1.5	2.1	1.7	2.1	1.5	1.8	1.9	1.6	1.8
Estonia	7.1	5.8	5.2	2.7	4.0	2.0	1.2	2.1	2.7	0.9	2.5	3.2
Ireland	5.3	3.2	-1.3	0.4	1.2	0.1	2.1	1.9	1.3	2.0	1.9	1.3
Greece	4.1	3.1	2.4	-0.4	-2.5	-2.2	-1.1	0.0	0.7	-1.1	0.6	0.7
Spain	3.0	4.0	1.2	0.0	0.6	-0.4	0.8	1.0	1.3	0.5	1.0	1.1
France	1.1	1.9	1.4	1.2	0.8	0.6	1.0	1.0	1.0	0.9	0.9	0.9
Italy	2.3	2.6	1.7	1.4	1.3	0.9	0.5	0.8	1.6	0.4	1.0	1.8
Cyprus	2.9	3.0	2.6	2.1	-1.4	-1.2	-1.1	0.4	0.8	-1.3	0.7	0.9
Latvia	3.6	8.0	5.0	3.6	1.3	1.2	1.0	1.2	2.3	1.1	2.0	2.4
Lithuania	2.8	3.1	4.4	2.7	1.3	1.2	0.1	0.1	3.6	-0.5	0.5	3.5
Luxembourg	0.8	3.6	2.8	4.1	2.4	1.0	3.6	1.2	2.1	-0.2	1.6	2.0
Malta	2.0	2.4	2.9	2.0	1.9	1.8	2.4	2.5	2.6	2.3	2.5	2.5
Netherlands	2.8	2.3	1.2	1.4	1.4	0.8	0.6	1.2	1.6	0.9	1.5	1.4
Austria	1.0	1.7	1.8	2.0	1.5	1.6	1.9	1.2	1.7	1.5	1.5	1.8
Portugal	3.7	3.3	1.2	-0.4	2.3	1.0	1.7	1.5	1.3	1.3	1.4	1.5
Slovenia	7.3	4.0	2.4	0.3	0.8	0.8	0.1	1.0	1.3	0.5	1.4	1.8
Slovakia	6.3	4.1	1.0	1.3	0.5	-0.2	-0.3	0.6	1.5	0.2	1.1	1.4
Finland	2.2	0.7	2.1	3.0	2.6	1.6	1.2	0.9	1.7	1.3	1.2	1.3
Euro area	1.6	2.1	1.4	1.2	1.3	0.9	1.2	1.2	1.5	1.1	1.2	1.5
Bulgaria	75.0	5.0	6.2	1.6	-0.7	0.4	1.1	1.5	1.5	1.0	0.8	0.7
Czech Republic	5.5	1.7	1.3	1.4	1.4	2.5	0.9	1.0	1.3	0.7	1.0	1.4
Denmark	2.1	2.2	2.2	2.8	1.4	0.8	0.9	1.3	1.8	1.4	1.5	1.6
Croatia	5.5	3.7	3.0	1.6	0.8	0.0	0.4	1.2	1.2	0.3	1.1	1.5
Hungary	12.5	4.9	3.7	3.5	3.1	3.2	2.3	2.4	2.8	1.7	2.4	2.9
Poland	8.0	2.3	3.4	2.4	0.4	0.4	0.3	0.9	1.4	-0.1	1.3	1.5
Romania	59.4	16.7	8.6	4.7	3.4	1.7	1.8	1.9	2.5	1.4	1.2	2.6
Sweden	1.5	1.3	2.1	1.1	1.1	1.6	1.9	1.7	1.8	1.9	1.8	1.8
United Kingdom	1.7	2.8	2.6	1.6	2.0	1.8	0.6	1.1	1.9	1.3	1.7	2.0
EU	2.3	2.3	1.8	1.4	1.4	1.1	1.1	1.2	1.6	1.1	1.3	1.6
USA	1.8	2.5	1.7	1.8	1.6	1.6	1.0	1.7	2.2	1.1	2.0	2.1
Japan	-0.6	-1.4	-1.3	-0.9	-0.6	1.7	1.6	0.9	1.6	1.6	1.3	1.6

Table 16: Price deflator of private consumption (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.7	2.2	2.1	2.0	1.1	0.6	0.4	1.4	1.6	0.2	1.2	1.3
Germany	0.9	1.3	1.4	1.6	1.2	0.9	0.6	1.0	1.7	0.5	1.2	1.8
Estonia	6.1	4.1	4.9	3.4	3.0	0.8	0.2	1.3	2.4	0.2	2.1	3.1
Ireland	3.7	2.9	-0.6	0.6	1.6	1.7	1.6	1.5	1.5	1.6	1.5	1.5
Greece	3.7	2.8	3.0	0.4	-2.0	-2.7	-1.0	0.5	0.8	-1.0	1.0	0.9
Spain	2.8	3.3	2.1	2.4	1.0	0.3	-0.6	0.2	1.5	-0.5	0.7	1.2
France	1.0	1.7	1.3	1.4	0.8	0.0	0.1	0.6	1.3	0.1	0.9	1.3
Italy	2.4	2.6	1.9	2.7	1.2	0.3	0.1	0.3	1.8	0.2	1.0	1.9
Cyprus	2.3	2.6	2.8	3.0	-0.1	-1.3	-1.9	0.3	1.3	-1.7	0.3	1.3
Latvia	4.1	7.4	4.8	3.3	0.2	0.8	0.3	0.5	2.1	0.3	1.5	2.1
Lithuania	2.8	1.0	5.3	3.1	1.0	0.1	-0.7	-0.1	2.1	-0.8	0.6	2.2
Luxembourg	2.3	2.2	1.7	1.7	1.3	0.7	0.1	0.4	2.1	0.9	1.9	1.5
Malta	2.4	2.3	2.3	2.5	1.1	0.0	1.0	1.7	2.1	0.8	1.8	2.2
Netherlands	2.5	2.2	1.3	1.5	2.3	1.3	0.3	1.3	1.7	0.4	1.3	1.5
Austria	1.3	1.8	2.0	2.4	2.1	2.0	0.8	0.9	1.8	1.0	1.8	1.9
Portugal	3.1	3.4	1.5	1.8	0.8	0.6	0.5	0.7	1.0	0.5	1.1	1.3
Slovenia	7.3	4.0	2.7	1.4	0.8	0.0	-0.8	-0.3	1.1	-0.6	0.8	1.4
Slovakia	6.8	4.9	2.4	3.4	1.3	-0.1	-0.3	0.3	1.7	-0.2	1.2	1.5
Finland	2.2	1.1	2.3	2.8	2.3	1.6	0.3	0.4	1.4	0.4	0.9	1.3
Euro area	1.7	2.1	1.6	1.9	1.1	0.5	0.2	0.7	1.6	0.2	1.1	1.6
Bulgaria	73.3	3.3	4.5	3.6	-2.5	-0.1	-0.5	0.8	1.0	-0.5	0.8	1.0
Czech Republic	5.3	1.5	2.1	2.2	0.9	0.5	0.2	0.4	1.4	0.3	1.0	1.6
Denmark	2.1	1.6	2.2	2.4	0.8	0.8	0.6	1.1	1.7	0.6	1.6	1.8
Croatia	5.0	2.7	3.1	3.2	1.9	-0.4	0.0	0.4	1.5	0.0	0.8	1.5
Hungary	12.3	4.5	4.7	6.3	2.1	1.0	0.5	2.0	2.5	0.5	2.0	2.5
Poland	8.9	2.1	3.4	3.4	0.4	-0.1	-0.7	0.6	1.7	-0.6	1.4	1.9
Romania	55.6	12.0	6.0	4.5	2.6	1.2	1.6	-0.2	2.1	0.6	-0.1	1.8
Sweden	1.3	1.2	2.0	0.5	0.7	0.7	1.3	1.5	1.7	1.2	1.5	1.7
United Kingdom	1.3	1.9	3.4	1.8	2.3	1.7	0.2	0.8	1.8	0.3	1.5	1.9
EU	2.4	2.1	2.1	2.0	1.3	0.7	0.2	0.7	1.6	0.2	1.2	1.7
USA	1.7	2.3	1.9	1.9	1.4	1.4	0.3	1.2	2.2	0.4	2.1	2.3
Japan	-0.3	-0.8	-1.1	-0.9	-0.3	2.0	0.3	0.6	1.5	0.8	1.2	1.5

Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.7	2.0	2.4	2.6	1.2	0.5	**0.6**	**1.4**	**1.7**	*0.6*	*1.7*	*1.5*
Germany	1.2	1.6	1.8	2.1	1.6	0.8	**0.1**	**0.5**	**1.5**	*0.2*	*1.0*	*1.7*
Estonia	6.1	3.3	5.1	4.2	3.2	0.5	**0.1**	**1.0**	**2.5**	*0.1*	*1.8*	*2.9*
Ireland	3.0	3.2	0.8	1.9	0.5	0.3	**0.0**	**0.6**	**1.4**	*0.3*	*1.4*	*1.6*
Greece	3.7	3.4	3.3	1.0	-0.9	-1.4	**-1.1**	**0.5**	**0.8**	*-1.0*	*1.0*	*0.9*
Spain	2.4	3.3	2.4	2.4	1.5	-0.2	**-0.6**	**0.1**	**1.5**	*-0.5*	*0.7*	*1.2*
France	1.2	2.1	1.8	2.2	1.0	0.6	**0.1**	**0.6**	**1.3**	*0.1*	*0.9*	*1.3*
Italy	2.1	2.4	2.2	3.3	1.3	0.2	**0.1**	**0.3**	**1.8**	*0.2*	*1.0*	*1.9*
Cyprus	2.7	2.6	2.6	3.1	0.4	-0.3	**-1.6**	**0.2**	**1.3**	*-1.6*	*0.6*	*1.3*
Latvia	3.9	4.9	6.3	2.3	0.0	0.7	**0.2**	**0.4**	**2.0**	*0.2*	*1.4*	*2.1*
Lithuania	4.0	1.4	5.3	3.2	1.2	0.2	**-0.7**	**-0.1**	**2.1**	*-0.8*	*0.6*	*2.2*
Luxembourg	1.9	2.9	2.7	2.9	1.7	0.7	**0.1**	**0.4**	**2.4**	*0.3*	*1.7*	*1.7*
Malta	3.1	2.5	2.4	3.2	1.0	0.8	**1.2**	**1.7**	**2.1**	*1.1*	*1.8*	*2.2*
Netherlands	2.6	2.1	1.6	2.8	2.6	0.3	**0.2**	**0.9**	**1.5**	*0.2*	*1.2*	*1.5*
Austria	1.3	1.7	2.2	2.6	2.1	1.5	**0.8**	**0.9**	**1.8**	*0.9*	*1.8*	*2.0*
Portugal	2.7	2.9	1.8	2.8	0.4	-0.2	**0.5**	**0.7**	**1.1**	*0.5*	*1.1*	*1.3*
Slovenia	8.0	4.4	2.9	2.8	1.9	0.4	**-0.8**	**-0.3**	**1.1**	*-0.6*	*0.8*	*1.4*
Slovakia	8.5	5.3	2.3	3.7	1.5	-0.1	**-0.3**	**0.3**	**1.7**	*-0.2*	*1.0*	*1.6*
Finland	1.9	1.1	2.4	3.2	2.2	1.2	**-0.2**	**0.1**	**1.5**	*-0.2*	*0.6*	*1.5*
Euro area	1.7	2.2	2.0	2.5	1.3	0.4	**0.0**	**0.5**	**1.5**	*0.1*	*1.0*	*1.6*
Bulgaria	:	5.6	5.7	2.4	0.4	-1.6	**-1.1**	**-0.1**	**0.9**	*-0.8*	*0.7*	*1.1*
Czech Republic	5.6	1.5	2.6	3.5	1.4	0.4	**0.3**	**0.4**	**1.4**	*0.4*	*1.0*	*1.6*
Denmark	2.1	1.8	2.2	2.4	0.5	0.3	**0.2**	**0.9**	**1.7**	*0.4*	*1.5*	*1.9*
Croatia	4.3	2.7	2.8	3.4	2.3	0.2	**-0.3**	**0.3**	**1.6**	*-0.1*	*0.9*	*1.7*
Hungary	12.3	4.8	5.3	5.7	1.7	0.0	**0.1**	**1.7**	**2.5**	*0.1*	*1.9*	*2.5*
Poland	9.9	1.9	3.5	3.7	0.8	0.1	**-0.7**	**0.6**	**1.7**	*-0.6*	*1.4*	*1.9*
Romania	68.0	13.1	6.1	3.4	3.2	1.4	**-0.4**	**-0.2**	**2.5**	*-0.4*	*-0.3*	*2.3*
Sweden	1.5	1.5	2.0	0.9	0.4	0.2	**0.7**	**1.1**	**1.4**	*0.8*	*1.5*	*1.7*
United Kingdom	1.3	1.7	3.2	2.8	2.6	1.5	**0.0**	**0.8**	**1.6**	*0.1*	*1.5*	*1.7*
EU	4.3	2.3	2.4	2.6	1.5	0.6	**0.0**	**0.5**	**1.6**	*0.0*	*1.1*	*1.6*
USA	:	2.6	2.2	2.1	1.5	1.6	**0.1**	**1.2**	**2.2**	*0.2*	*2.1*	*2.3*
Japan	0.1	-0.2	-0.2	0.0	0.4	2.7	**0.8**	**0.8**	**1.8**	*0.8*	*0.7*	*1.8*

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2015-17) 22.1.2016

	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4	2017/1	2017/2	2017/3	2017/4
Belgium	-0.4	0.7	0.8	1.3	1.4	1.3	1.4	1.6	1.7	1.6	1.7	1.8
Germany	-0.1	0.4	0.0	0.2	0.4	0.1	0.5	0.8	1.4	1.5	1.6	1.6
Estonia	-0.3	0.4	0.0	0.1	1.1	0.3	0.9	1.5	2.3	2.5	2.6	2.7
Ireland	-0.3	0.1	0.1	0.0	0.3	0.2	0.6	1.1	1.0	1.4	1.4	1.8
Greece	-2.2	-1.4	-0.8	0.1	1.0	0.6	0.6	0.8	0.9	0.9	0.9	0.9
Spain	-1.1	-0.3	-0.6	-0.5	-0.1	-0.4	0.0	0.8	1.3	1.6	1.7	1.5
France	-0.2	0.3	0.1	0.2	0.5	0.4	0.7	0.9	1.3	1.3	1.3	1.3
Italy	-0.1	0.1	0.3	0.2	0.1	0.0	0.4	0.7	1.7	1.8	1.8	1.8
Cyprus	-1.0	-1.9	-2.1	-1.3	-0.2	0.2	0.5	0.5	1.2	1.3	1.4	1.4
Latvia	0.1	0.8	-0.1	0.1	-0.1	-0.1	0.6	1.2	1.6	1.9	2.2	2.3
Lithuania	-1.3	-0.3	-0.7	-0.4	-0.3	-0.5	0.1	0.4	1.6	1.9	2.3	2.7
Luxembourg	-0.5	0.3	0.0	0.4	0.2	0.2	0.3	0.9	2.3	2.6	2.5	2.1
Malta	0.6	1.3	1.4	1.4	1.5	1.7	1.8	1.8	2.1	2.2	2.2	2.0
Netherlands	-0.5	0.4	0.5	0.4	0.9	0.6	0.8	1.3	1.4	1.5	1.6	1.7
Austria	0.6	1.0	0.9	0.7	0.7	0.6	1.0	1.2	1.7	1.8	1.9	1.9
Portugal	0.0	0.7	0.8	0.5	0.6	0.6	0.6	0.8	1.0	1.2	1.2	1.1
Slovenia	-0.5	-0.8	-0.8	-0.9	-0.5	-0.6	-0.3	0.3	0.8	1.0	1.3	1.4
Slovakia	-0.5	-0.1	-0.3	-0.5	-0.2	-0.2	0.4	1.0	1.6	1.7	1.7	1.7
Finland	-0.1	0.0	-0.3	-0.3	-0.2	-0.1	0.1	0.6	1.3	1.5	1.6	1.6
Euro area	-0.3	0.2	0.1	0.2	0.4	0.2	0.5	0.9	1.4	1.5	1.6	1.6
Bulgaria	-1.7	-0.6	-0.9	-1.0	0.0	-0.7	-0.4	0.5	0.7	0.7	0.8	1.3
Czech Republic	0.0	0.7	0.3	0.0	0.0	-0.2	0.6	1.1	1.3	1.3	1.5	1.7
Denmark	0.0	0.4	0.4	0.2	0.8	0.9	0.9	1.3	1.6	1.7	1.8	1.8
Croatia	-0.3	0.0	-0.3	-0.4	-0.1	-0.2	0.7	1.0	1.3	1.4	1.7	1.8
Hungary	-0.9	0.4	0.2	0.6	1.2	1.7	1.9	1.7	2.5	2.4	2.7	2.5
Poland	-1.2	-0.7	-0.5	-0.5	0.2	0.3	0.5	1.5	1.7	1.7	1.6	1.8
Romania	0.5	0.4	-1.5	-1.0	-2.5	-1.4	1.3	2.0	2.3	2.6	2.4	2.9
Sweden	0.6	0.6	0.8	0.8	0.9	1.0	1.1	1.2	1.4	1.4	1.5	1.5
United Kingdom	0.1	0.0	0.0	0.0	0.6	0.4	1.0	1.4	1.5	1.6	1.6	1.8
EU	-0.3	0.1	0.0	0.1	0.4	0.2	0.7	1.0	1.4	1.6	1.6	1.7
USA	-0.1	0.0	0.1	0.4	1.3	1.0	1.1	1.6	2.1	2.2	2.2	2.2
Japan	2.3	0.5	0.2	0.3	0.8	0.4	0.7	1.2	1.0	2.2	2.1	1.9

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.2	1.1	1.5	1.6	-0.6	-1.5	**-2.6**	**0.3**	**1.3**	*-1.4*	*0.6*	*1.1*
Germany	0.4	-0.1	0.8	1.5	-0.6	-0.5	**0.7**	**0.0**	**1.4**	*0.7*	*0.1*	*1.4*
Estonia	3.9	2.1	3.6	0.6	-0.1	-1.8	**-2.1**	**-0.4**	**1.9**	*-1.2*	*0.5*	*1.9*
Ireland	3.3	-2.5	-0.9	4.2	-1.4	-1.2	**1.8**	**1.6**	**0.9**	*1.8*	*1.6*	*0.9*
Greece	3.1	2.0	3.6	4.7	-2.0	-3.1	**-12.0**	**2.0**	**1.5**	*-9.8*	*2.7*	*2.0*
Spain	2.0	1.5	1.7	2.5	-1.6	-2.6	**0.7**	**0.8**	**1.3**	*0.9*	*1.2*	*1.3*
France	0.0	-0.1	1.2	1.5	-0.5	-1.4	**0.2**	**0.5**	**1.1**	*0.7*	*0.9*	*1.1*
Italy	1.8	1.1	1.9	1.9	-0.5	-0.4	**-0.2**	**0.4**	**1.7**	*-0.2*	*0.4*	*1.8*
Cyprus	2.5	2.5	2.4	0.6	2.1	1.3	**-1.2**	**0.5**	**2.6**	*-1.0*	*2.2*	*2.6*
Latvia	-0.2	8.9	6.1	3.8	1.8	-1.4	**0.0**	**-0.1**	**1.5**	*-1.0*	*-0.3*	*1.5*
Lithuania	0.8	2.9	5.0	3.6	-1.9	-3.2	**-5.5**	**-0.2**	**2.0**	*-5.0*	*0.1*	*3.0*
Luxembourg	1.0	2.3	3.6	2.7	-0.5	-1.4	**-1.7**	**-0.1**	**1.1**	*-0.3*	*-0.1*	*2.1*
Malta	2.4	1.5	3.1	-4.0	-3.0	-4.1	**2.0**	**-3.3**	**2.0**	*4.8*	*1.0*	*2.0*
Netherlands	0.9	0.7	2.0	3.0	-0.8	-2.2	**-3.1**	**-1.4**	**1.4**	*-2.5*	*0.8*	*1.4*
Austria	0.4	1.0	1.4	0.9	-1.0	-0.8	**0.5**	**-0.3**	**0.9**	*-0.2*	*0.7*	*1.2*
Portugal	1.8	0.9	1.5	1.7	-1.6	-1.4	**-0.5**	**-0.5**	**1.1**	*0.3*	*0.6*	*1.8*
Slovenia	5.3	2.7	1.5	0.7	-1.2	-0.4	**0.1**	**-0.1**	**1.1**	*0.8*	*0.4*	*1.4*
Slovakia	4.1	1.8	0.5	0.8	-2.2	-3.8	**-1.9**	**-0.7**	**0.8**	*-2.0*	*0.0*	*0.0*
Finland	-1.6	-0.6	-0.1	0.7	-1.8	-1.4	**-1.4**	**-0.6**	**1.8**	*-1.5*	*1.3*	*3.1*
Euro area	0.9	0.4	1.3	1.9	-0.8	-1.2	**-0.4**	**0.1**	**1.3**	*-0.1*	*0.6*	*1.4*
Bulgaria	62.5	7.2	6.5	0.2	-3.6	-2.2	**-1.0**	**-0.6**	**2.0**	*-0.2*	*-0.2*	*1.1*
Czech Republic	2.5	-1.6	-1.0	3.2	1.6	4.0	**-1.4**	**-1.5**	**1.2**	*-1.2*	*-0.5*	*1.2*
Denmark	1.2	1.8	2.4	3.0	-0.4	-0.2	**0.2**	**1.5**	**2.0**	*0.4*	*1.7*	*1.8*
Croatia	7.0	2.2	3.8	2.5	-2.0	-1.7	**-2.2**	**-0.1**	**0.0**	*-1.3*	*1.0*	*1.5*
Hungary	8.6	-0.3	0.7	3.0	-0.1	1.0	**-0.9**	**0.0**	**1.0**	*-0.9*	*0.0*	*1.3*
Poland	6.8	3.8	4.3	4.4	0.5	0.0	**1.0**	**1.5**	**1.5**	*0.0*	*1.5*	*1.5*
Romania	50.8	9.8	8.0	3.8	-5.8	-0.9	**0.8**	**0.5**	**1.5**	*1.0*	*1.5*	*1.5*
Sweden	0.0	0.0	0.9	-1.7	-3.2	2.1	**3.9**	**-2.1**	**1.3**	*4.9*	*0.7*	*1.3*
United Kingdom	-2.3	0.8	5.0	-0.4	1.2	-3.6	**-5.0**	**0.0**	**1.5**	*0.0*	*0.5*	*1.5*
EU	1.2	0.5	1.7	1.8	-0.6	-1.1	**-0.6**	**0.0**	**1.4**	*0.0*	*0.6*	*1.4*
USA	-1.2	2.4	2.7	0.4	-0.5	-0.7	**-6.7**	**-1.3**	**0.5**	*-6.4*	*-0.5*	*1.3*
Japan	-1.9	-0.4	-3.5	-2.1	9.6	2.6	**1.6**	**1.9**	**2.4**	*2.2*	*2.4*	*2.6*

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.1	1.5	2.3	1.4	-1.0	-1.9	**-5.0**	**0.2**	**1.6**	*-4.4*	*0.9*	*1.6*
Germany	1.0	-0.1	1.0	1.9	-2.5	-2.3	**-2.5**	**-1.0**	**1.4**	*-2.2*	*-0.2*	*1.4*
Estonia	2.7	0.3	3.6	2.4	-0.7	-1.8	**-1.9**	**-0.6**	**1.7**	*-0.9*	*0.4*	*1.7*
Ireland	1.5	-2.4	0.3	11.4	-1.7	0.1	**1.4**	**1.3**	**1.0**	*1.4*	*1.3*	*1.0*
Greece	3.7	2.2	3.9	4.9	-3.6	-4.0	**-7.5**	**3.5**	**2.0**	*-6.7*	*3.5*	*2.0*
Spain	2.2	0.9	2.6	3.6	-2.6	-1.6	**-2.9**	**-0.9**	**1.7**	*-2.3*	*0.5*	*1.5*
France	0.2	0.2	1.4	1.9	-1.8	-3.2	**-3.8**	**0.1**	**2.5**	*-2.4*	*1.9*	*2.5*
Italy	1.9	2.3	2.3	3.3	-2.2	-3.3	**-3.8**	**-1.7**	**1.7**	*-2.5*	*-0.1*	*1.8*
Cyprus	2.3	2.4	2.2	1.5	1.9	-5.5	**-2.8**	**-1.5**	**1.8**	*-4.2*	*-1.3*	*1.8*
Latvia	2.3	8.5	4.3	7.8	0.5	-0.5	**-1.0**	**-0.6**	**1.6**	*-1.0*	*-0.3*	*1.5*
Lithuania	-1.5	1.7	5.1	4.6	-1.9	-3.8	**-8.6**	**-0.7**	**2.5**	*-7.5*	*-0.5*	*3.5*
Luxembourg	2.5	1.1	2.5	2.7	-0.6	-2.0	**-2.5**	**-0.4**	**0.8**	*-0.1*	*0.1*	*1.6*
Malta	2.6	1.5	1.7	-2.1	-5.5	-5.7	**1.1**	**-3.0**	**2.0**	*3.0*	*-0.5*	*2.0*
Netherlands	0.1	0.2	2.6	3.2	-1.6	-3.1	**-4.6**	**-1.6**	**1.7**	*-3.8*	*1.0*	*2.0*
Austria	0.6	1.1	2.2	1.7	-0.9	-1.7	**-1.7**	**-0.5**	**1.0**	*-1.5*	*1.0*	*1.1*
Portugal	1.7	1.0	1.6	1.0	-3.2	-2.7	**-4.0**	**-2.2**	**0.3**	*-1.8*	*-0.2*	*1.3*
Slovenia	5.4	3.2	2.3	2.0	-2.0	-1.5	**-0.4**	**-0.4**	**1.4**	*-0.1*	*0.2*	*1.5*
Slovakia	4.1	2.1	1.8	2.2	-1.7	-3.8	**-1.8**	**-0.9**	**1.0**	*-2.0*	*0.0*	*0.0*
Finland	-1.0	1.9	1.0	2.0	-2.2	-2.5	**-4.0**	**-1.3**	**1.5**	*-4.2*	*1.0*	*3.5*
Euro area	1.2	0.7	1.8	2.6	-2.0	-2.5	**-3.3**	**-0.8**	**1.7**	*-2.6*	*0.6*	*1.7*
Bulgaria	64.1	4.2	4.3	3.8	-2.8	-2.9	**-2.5**	**-1.8**	**1.7**	*-1.0*	*0.0*	*1.9*
Czech Republic	2.2	-1.3	-0.4	3.8	0.0	1.9	**-1.7**	**-2.1**	**1.1**	*-1.1*	*-0.6*	*1.0*
Denmark	0.6	0.7	2.1	2.7	-2.1	-0.7	**-0.6**	**0.6**	**1.9**	*-0.3*	*2.2*	*2.4*
Croatia	5.1	0.8	2.5	2.9	-0.4	-1.0	**-1.1**	**-0.8**	**1.6**	*-0.6*	*0.7*	*1.8*
Hungary	9.1	0.5	1.1	4.3	-0.6	0.1	**-1.9**	**-0.5**	**1.0**	*-1.9*	*-0.5*	*1.0*
Poland	7.7	3.5	4.1	5.8	-1.2	-2.2	**-1.0**	**1.2**	**2.0**	*-1.0*	*1.5*	*2.0*
Romania	44.9	6.6	4.4	7.5	-6.2	-1.8	**-0.4**	**-0.5**	**1.0**	*0.4*	*0.8*	*1.2*
Sweden	1.5	1.3	0.7	-1.9	-3.7	1.1	**3.5**	**-2.3**	**1.3**	*4.5*	*0.5*	*1.3*
United Kingdom	-2.3	0.4	5.1	-0.1	0.2	-3.8	**-6.0**	**-0.8**	**1.0**	*-3.0*	*-0.5*	*1.0*
EU	1.4	0.8	2.3	2.4	-1.7	-2.4	**-3.2**	**-0.7**	**1.5**	*-2.3*	*0.4*	*1.6*
USA	-1.6	3.4	3.3	0.6	-1.1	-0.5	**-8.7**	**-2.5**	**1.1**	*-8.4*	*-0.1*	*2.6*
Japan	-1.1	4.7	-0.1	-0.2	12.1	3.8	**-4.5**	**-1.5**	**2.0**	*-2.5*	*0.9*	*1.9*

Table 21: Terms of trade of goods (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	-0.8	-0.4	-0.8	0.2	0.4	0.4	**2.5**	**0.1**	**-0.3**	*3.1*	*-0.3*	*-0.5*
Germany	-0.6	0.0	-0.2	-0.4	1.9	1.8	**3.3**	**1.0**	**0.0**	*3.0*	*0.3*	*0.0*
Estonia	1.1	1.9	0.0	-1.7	0.6	0.0	**-0.2**	**0.2**	**0.2**	*-0.3*	*0.1*	*0.2*
Ireland	1.7	-0.1	-1.1	-6.4	0.3	-1.3	**0.4**	**0.3**	**-0.1**	*0.4*	*0.3*	*-0.1*
Greece	-0.6	-0.2	-0.2	-0.2	1.7	0.9	**-4.9**	**-1.4**	**-0.5**	*-3.3*	*-0.8*	*0.0*
Spain	-0.2	0.5	-0.9	-1.1	0.9	-1.0	**3.7**	**1.7**	**-0.4**	*3.3*	*0.7*	*-0.2*
France	-0.3	-0.3	-0.2	-0.3	1.3	1.8	**4.2**	**0.5**	**-1.4**	*3.2*	*-0.9*	*-1.4*
Italy	-0.1	-1.2	-0.4	-1.4	1.7	3.0	**3.7**	**2.2**	**0.0**	*2.4*	*0.5*	*0.0*
Cyprus	0.2	0.1	0.2	-0.9	0.2	7.1	**1.7**	**2.1**	**0.8**	*3.3*	*3.5*	*0.8*
Latvia	-2.4	0.4	1.7	-3.7	1.3	-0.8	**1.0**	**0.5**	**-0.1**	*0.0*	*0.0*	*0.0*
Lithuania	2.3	1.3	-0.1	-0.9	0.0	0.6	**3.4**	**0.5**	**-0.5**	*2.7*	*0.6*	*-0.5*
Luxembourg	-1.5	1.2	1.1	0.1	0.1	0.6	**0.8**	**0.3**	**0.3**	*-0.2*	*-0.2*	*0.5*
Malta	-0.2	0.0	1.3	-1.9	2.6	1.7	**0.9**	**-0.3**	**0.0**	*1.7*	*1.5*	*0.0*
Netherlands	0.7	0.4	-0.6	-0.2	0.7	0.9	**1.5**	**0.2**	**-0.3**	*1.5*	*-0.2*	*-0.6*
Austria	-0.2	0.0	-0.7	-0.7	-0.1	0.9	**2.2**	**0.2**	**-0.1**	*1.3*	*-0.3*	*0.1*
Portugal	0.2	-0.1	-0.1	0.7	1.7	1.3	**3.6**	**1.7**	**0.8**	*2.1*	*0.8*	*0.5*
Slovenia	-0.1	-0.4	-0.7	-1.3	0.8	1.1	**0.5**	**0.3**	**-0.3**	*0.9*	*0.2*	*-0.1*
Slovakia	0.0	-0.3	-1.2	-1.3	-0.5	0.0	**-0.1**	**0.2**	**-0.2**	*0.0*	*0.0*	*0.0*
Finland	-0.6	-2.5	-1.0	-1.3	0.4	1.1	**2.7**	**0.7**	**0.3**	*2.8*	*0.3*	*-0.4*
Euro area	-0.2	-0.3	-0.5	-0.6	1.2	1.3	**3.0**	**0.8**	**-0.3**	*2.5*	*0.0*	*-0.4*
Bulgaria	-1.0	2.9	2.1	-3.5	-0.8	0.7	**1.5**	**1.2**	**0.3**	*0.8*	*-0.2*	*-0.8*
Czech Republic	0.3	-0.3	-0.6	-0.6	1.5	2.1	**0.3**	**0.6**	**0.1**	*-0.1*	*0.1*	*0.2*
Denmark	0.6	1.2	0.3	0.4	1.7	0.5	**0.8**	**0.9**	**0.1**	*0.7*	*-0.5*	*-0.6*
Croatia	1.7	1.3	1.3	-0.4	-1.6	-0.7	**-1.1**	**0.7**	**-1.6**	*-0.7*	*0.3*	*-0.2*
Hungary	-0.4	-0.9	-0.4	-1.2	0.5	1.0	**1.0**	**0.5**	**0.0**	*1.0*	*0.5*	*0.2*
Poland	-0.8	0.3	0.2	-1.3	1.7	2.2	**2.0**	**0.3**	**-0.5**	*1.0*	*0.0*	*-0.5*
Romania	4.0	3.0	3.5	-3.4	0.4	0.9	**1.2**	**1.0**	**0.5**	*0.6*	*0.7*	*0.3*
Sweden	-1.5	-1.3	0.2	0.2	0.5	1.0	**0.4**	**0.2**	**0.0**	*0.4*	*0.2*	*0.0*
United Kingdom	0.0	0.4	-0.1	-0.3	1.0	0.3	**1.1**	**0.8**	**0.5**	*3.1*	*1.0*	*0.5*
EU	-0.3	-0.2	-0.3	-0.8	1.3	1.1	**2.2**	**0.9**	**-0.2**	*1.9*	*0.2*	*-0.2*
USA	0.4	-1.0	-0.6	-0.2	0.6	-0.2	**2.2**	**1.3**	**-0.5**	*2.2*	*-0.5*	*-1.3*
Japan	-0.8	-4.9	-3.4	-1.9	-2.2	-1.1	**6.4**	**3.5**	**0.4**	*4.8*	*1.5*	*0.7*

Table 22: Total population (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	0.2	0.5	0.8	0.7	0.5	0.5	**0.7**	**0.6**	**0.4**	*0.7*	*0.6*	*0.4*
Germany	0.0	-0.1	-0.2	0.2	0.3	0.4	**0.7**	**0.7**	**0.3**	*0.9*	*0.6*	*0.3*
Estonia	-0.5	-0.6	-0.3	-0.3	-0.4	-0.3	**-0.3**	**-0.4**	**-0.4**	*-0.4*	*-0.4*	*-0.4*
Ireland	1.3	2.0	1.4	0.3	0.3	0.3	**0.6**	**1.0**	**0.9**	*0.6*	*1.0*	*0.9*
Greece	0.5	0.3	0.2	-0.5	-0.7	-0.4	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*	*0.0*
Spain	0.4	1.7	1.1	0.1	-0.4	-0.3	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.1*	*-0.1*
France	0.5	0.7	0.5	0.5	0.4	0.4	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*	*0.5*
Italy	0.0	0.5	0.6	0.5	0.5	0.2	**0.2**	**0.3**	**0.3**	*0.2*	*0.3*	*0.3*
Cyprus	1.2	1.4	2.5	1.5	-0.2	-1.1	**0.5**	**0.5**	**0.4**	*0.4*	*0.4*	*0.4*
Latvia	-1.0	-1.0	-1.5	-1.2	-1.0	-0.9	**-0.8**	**-0.7**	**-0.5**	*-0.8*	*-0.7*	*-0.5*
Lithuania	-0.7	-1.2	-1.5	-1.3	-1.0	-1.0	**-0.9**	**-0.8**	**-0.7**	*-1.0*	*-1.0*	*-0.7*
Luxembourg	1.3	1.4	1.9	2.3	2.6	2.4	**2.5**	**2.4**	**2.3**	*2.1*	*2.2*	*2.1*
Malta	0.7	0.6	0.5	0.8	0.9	1.0	**0.9**	**0.7**	**0.5**	*0.9*	*0.7*	*0.5*
Netherlands	0.7	0.4	0.4	0.4	0.3	0.4	**0.5**	**0.4**	**0.4**	*0.4*	*0.4*	*0.4*
Austria	0.2	0.6	0.3	0.5	0.6	0.8	**1.0**	**0.7**	**0.5**	*1.0*	*0.6*	*0.5*
Portugal	0.6	0.3	0.1	-0.4	-0.5	-0.5	**-0.5**	**-0.5**	**-0.5**	*-0.5*	*-0.5*	*-0.5*
Slovenia	0.0	0.2	0.4	0.2	0.1	0.1	**0.2**	**0.2**	**0.2**	*0.2*	*0.2*	*0.2*
Slovakia	0.0	0.0	0.0	0.2	0.1	0.1	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*	*0.0*
Finland	0.2	0.3	0.5	0.5	0.5	0.4	**0.4**	**0.4**	**0.4**	*0.5*	*0.5*	*0.5*
Euro area	0.3	0.5	0.4	0.3	0.2	0.2	**0.3**	**0.4**	**0.3**	*0.4*	*0.3*	*0.2*
Bulgaria	-1.0	-0.6	-0.9	-0.6	-0.5	-0.5	**-0.7**	**-0.7**	**-0.7**	*-0.7*	*-0.7*	*-0.7*
Czech Republic	-0.2	0.1	0.4	0.1	0.0	0.1	**0.2**	**0.2**	**0.2**	*0.2*	*0.2*	*0.2*
Denmark	0.4	0.3	0.5	0.4	0.4	0.5	**0.6**	**0.4**	**0.5**	*0.6*	*0.5*	*0.4*
Croatia	-1.3	0.1	-0.1	-0.3	-0.3	-0.6	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*	*-0.2*
Hungary	-0.2	-0.2	-0.2	-0.5	-0.3	-0.3	**-0.2**	**-0.2**	**-0.1**	*-0.2*	*-0.2*	*-0.1*
Poland	0.0	-0.1	0.2	0.0	-0.1	0.0	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*	*0.0*
Romania	-0.2	-1.1	-1.0	-0.4	-0.4	-0.4	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*	*-0.2*
Sweden	0.1	0.4	0.8	0.7	0.9	1.0	**1.2**	**1.8**	**2.1**	*2.1*	*1.5*	*1.7*
United Kingdom	0.3	0.6	0.8	0.7	0.6	0.8	**0.8**	**0.9**	**0.8**	*0.7*	*0.9*	*0.8*
EU	0.2	0.4	0.3	0.2	0.2	0.2	**0.3**	**0.4**	**0.3**	*0.4*	*0.4*	*0.3*
USA	1.1	0.9	0.9	0.7	0.7	0.7	**0.7**	**0.8**	**0.8**	*0.7*	*0.7*	*0.8*
Japan	0.2	0.1	0.0	-0.2	-0.2	-0.2	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*	*-0.2*

Table 23: Total employment (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.4	0.7	1.1	0.4	-0.4	0.3	**0.9**	**0.9**	**1.2**	*0.6*	*0.7*	*0.9*
Germany	1.0	-0.1	1.0	1.2	0.6	0.9	**0.8**	**0.8**	**0.8**	*0.5*	*0.6*	*0.8*
Estonia	-1.0	1.8	-1.7	1.6	1.2	0.8	**2.3**	**-0.7**	**-0.1**	*1.1*	*-0.6*	*-0.1*
Ireland	5.6	3.3	-2.0	-0.6	2.4	1.7	**2.3**	**1.6**	**1.4**	*2.0*	*1.5*	*1.4*
Greece	0.9	1.8	-1.5	-6.3	-3.6	0.1	**1.4**	**0.9**	**2.0**	*0.4*	*-0.6*	*2.0*
Spain	4.2	3.1	-1.6	-4.9	-3.5	1.1	**3.0**	**2.6**	**2.0**	*2.8*	*2.5*	*2.0*
France	1.8	0.6	0.2	0.1	0.0	0.3	**0.3**	**0.6**	**0.8**	*0.3*	*0.5*	*0.8*
Italy	1.0	0.8	-0.6	-1.4	-2.5	0.2	**1.1**	**1.1**	**1.0**	*1.0*	*1.0*	*1.0*
Cyprus	1.6	3.0	1.6	-3.2	-6.0	-1.1	**0.8**	**0.9**	**1.2**	*0.2*	*1.2*	*1.6*
Latvia	0.1	1.8	-3.3	1.4	2.3	-1.4	**0.5**	**0.5**	**0.6**	*0.2*	*0.4*	*1.0*
Lithuania	-2.1	1.0	-2.4	1.8	1.3	2.0	**0.9**	**0.2**	**0.1**	*1.5*	*0.2*	*0.1*
Luxembourg	4.8	2.7	3.0	2.4	1.8	2.5	**2.6**	**2.7**	**2.5**	*2.6*	*2.5*	*2.3*
Malta	0.3	0.6	1.9	2.5	3.7	5.0	**2.1**	**2.4**	**2.4**	*2.4*	*2.0*	*1.5*
Netherlands	2.3	0.1	0.7	-0.6	-0.8	-0.3	**0.9**	**1.0**	**1.0**	*1.2*	*1.1*	*1.1*
Austria	1.0	0.8	1.1	1.1	0.5	0.9	**0.7**	**0.9**	**1.0**	*0.7*	*0.8*	*0.8*
Portugal	2.2	-0.3	-1.1	-4.1	-2.9	1.4	**1.1**	**0.8**	**0.7**	*1.1*	*0.8*	*0.7*
Slovenia	0.3	0.5	0.1	-0.9	-1.4	0.6	**0.9**	**0.6**	**0.6**	*0.6*	*0.5*	*0.7*
Slovakia	-1.1	0.9	0.7	0.1	-0.8	1.4	**1.9**	**1.4**	**1.1**	*1.8*	*1.2*	*1.0*
Finland	2.3	1.0	0.5	0.9	-0.7	-0.8	**-0.4**	**0.3**	**0.5**	*-0.4*	*0.3*	*0.6*
Euro area	1.6	0.8	0.0	-0.8	-0.8	0.6	**1.1**	**1.0**	**1.0**	*0.9*	*0.9*	*1.0*
Bulgaria	-2.3	2.4	-0.5	-2.5	-0.4	0.4	**0.3**	**0.4**	**0.5**	*0.3*	*0.3*	*0.5*
Czech Republic	-1.1	0.6	0.2	0.4	0.3	0.6	**1.1**	**0.2**	**0.2**	*1.3*	*0.2*	*0.1*
Denmark	1.0	0.4	-0.4	-0.6	0.1	0.8	**1.0**	**0.9**	**0.9**	*0.9*	*1.0*	*1.0*
Croatia	-0.9	2.1	-0.6	-3.7	-2.6	2.7	**0.6**	**1.3**	**1.5**	*0.6*	*0.7*	*1.2*
Hungary	1.1	-0.2	-0.9	0.1	0.9	3.1	**2.1**	**1.4**	**1.2**	*1.8*	*1.1*	*1.2*
Poland	-1.0	0.5	1.3	0.1	-0.1	1.7	**1.0**	**0.5**	**0.5**	*1.0*	*0.6*	*0.6*
Romania	-1.0	-2.5	-0.5	-4.8	-0.9	0.8	**0.2**	**0.1**	**0.1**	*0.3*	*0.4*	*0.5*
Sweden	1.4	0.1	0.8	0.7	1.0	1.4	**1.4**	**1.7**	**1.7**	*1.3*	*1.6*	*1.6*
United Kingdom	1.2	1.0	0.2	1.1	1.2	2.3	**1.7**	**1.1**	**0.9**	*1.7*	*1.0*	*0.7*
EU	1.0	0.6	0.0	-0.6	-0.4	1.0	**1.1**	**1.0**	**0.9**	*1.0*	*0.9*	*0.9*
USA	1.5	1.1	-0.6	1.8	1.0	1.6	**1.7**	**1.3**	**1.3**	*1.7*	*1.2*	*1.3*
Japan	-0.6	0.1	-0.4	0.0	0.6	0.6	**0.3**	**0.1**	**0.1**	*0.3*	*0.1*	*0.1*

Table 24: Unemployment rate [1] (number of unemployed as a percentage of total labour force, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	8.1	8.2	7.6	7.6	8.4	8.5	**8.3**	**8.0**	**7.4**	*8.6*	*8.4*	*7.9*
Germany	8.7	10.0	7.3	5.4	5.2	5.0	**4.8**	**4.9**	**5.2**	*4.7*	*4.9*	*5.2*
Estonia	11.5	9.1	10.5	10.0	8.6	7.4	**6.3**	**6.3**	**7.5**	*6.5*	*6.5*	*7.6*
Ireland	6.3	4.5	10.3	14.7	13.1	11.3	**9.4**	**8.5**	**7.8**	*9.5*	*8.7*	*7.9*
Greece	11.0	9.9	11.3	24.5	27.5	26.5	**25.1**	**24.0**	**22.8**	*25.7*	*25.8*	*24.4*
Spain	14.2	10.3	15.7	24.8	26.1	24.5	**22.3**	**20.4**	**18.9**	*22.3*	*20.5*	*19.0*
France	9.5	8.6	8.6	9.8	10.3	10.3	**10.5**	**10.5**	**10.3**	*10.4*	*10.4*	*10.2*
Italy	10.5	7.9	7.5	10.7	12.1	12.7	**11.9**	**11.4**	**11.3**	*12.2*	*11.8*	*11.6*
Cyprus	4.9	4.4	5.4	11.9	15.9	16.1	**15.5**	**14.5**	**13.2**	*15.6*	*14.6*	*13.3*
Latvia	14.3	10.6	13.4	15.0	11.9	10.8	**9.9**	**9.2**	**8.6**	*10.1*	*9.5*	*8.8*
Lithuania	13.6	10.2	11.4	13.4	11.8	10.7	**9.0**	**8.0**	**7.2**	*9.4*	*8.6*	*8.1*
Luxembourg	2.4	4.1	4.7	5.1	5.9	6.0	**6.1**	**6.0**	**6.0**	*5.9*	*5.8*	*5.8*
Malta	6.7	7.2	6.5	6.3	6.4	5.8	**5.4**	**5.4**	**5.4**	*5.8*	*5.7*	*5.8*
Netherlands	4.5	5.0	4.5	5.8	7.3	7.4	**6.9**	**6.6**	**6.4**	*6.9*	*6.6*	*6.3*
Austria	4.3	5.1	4.7	4.9	5.4	5.6	**6.0**	**6.2**	**6.4**	*6.1*	*6.1*	*6.0*
Portugal	5.9	7.8	10.7	15.8	16.4	14.1	**12.6**	**11.7**	**10.8**	*12.6*	*11.7*	*10.8*
Slovenia	6.9	6.4	6.1	8.9	10.1	9.7	**9.1**	**8.8**	**8.4**	*9.4*	*9.2*	*8.7*
Slovakia	15.9	17.0	12.2	14.0	14.2	13.2	**11.5**	**10.3**	**9.3**	*11.6*	*10.5*	*9.6*
Finland	10.6	8.6	7.5	7.7	8.2	8.7	**9.5**	**9.4**	**9.3**	*9.6*	*9.5*	*9.4*
Euro area	:	8.9	9.0	11.4	12.0	11.6	**11.0**	**10.5**	**10.2**	*11.0*	*10.6*	*10.3*
Bulgaria	15.7	12.6	8.2	12.3	13.0	11.4	**10.1**	**9.4**	**8.8**	*10.1*	*9.4*	*8.8*
Czech Republic	7.4	7.7	6.1	7.0	7.0	6.1	**5.1**	**4.8**	**4.7**	*5.2*	*5.0*	*4.8*
Denmark	4.8	4.8	5.7	7.5	7.0	6.6	**6.0**	**5.8**	**5.6**	*6.1*	*5.8*	*5.5*
Croatia	:	13.6	10.6	16.0	17.3	17.3	**16.2**	**15.1**	**13.8**	*16.2*	*15.6*	*14.7*
Hungary	7.3	6.4	9.5	11.0	10.2	7.7	**6.7**	**6.0**	**5.2**	*7.1*	*6.7*	*6.2*
Poland	13.8	18.1	8.8	10.1	10.3	9.0	**7.5**	**7.0**	**6.5**	*7.6*	*7.2*	*6.8*
Romania	6.9	7.7	6.5	6.8	7.1	6.8	**6.7**	**6.6**	**6.5**	*6.7*	*6.6*	*6.5*
Sweden	7.2	7.0	7.4	8.0	8.0	7.9	**7.4**	**6.9**	**6.7**	*7.7*	*7.7*	*7.4*
United Kingdom	5.8	5.0	6.9	7.9	7.6	6.1	**5.2**	**5.0**	**4.9**	*5.4*	*5.4*	*5.5*
EU	:	8.9	8.5	10.5	10.9	10.2	**9.5**	**9.0**	**8.7**	*9.5*	*9.2*	*8.9*
USA	4.5	5.4	7.6	8.1	7.4	6.2	**5.3**	**4.8**	**4.7**	*5.3*	*4.8*	*4.6*
Japan	4.4	4.8	4.5	4.3	4.0	3.6	**3.4**	**3.3**	**3.3**	*3.4*	*3.3*	*3.3*

[1] Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.7	2.6	2.5	3.2	2.6	0.9	**0.5**	**0.4**	**1.8**	*0.5*	*0.3*	*1.6*
Germany	1.2	0.8	1.7	2.5	1.8	2.6	**2.7**	**2.8**	**3.2**	*2.9*	*2.7*	*3.2*
Estonia	12.7	11.8	6.9	6.9	5.8	5.9	**5.3**	**5.1**	**5.1**	*4.9*	*5.5*	*5.4*
Ireland	6.0	5.3	1.0	0.0	-0.7	1.8	**3.2**	**2.1**	**2.2**	*3.2*	*2.2*	*2.2*
Greece	7.3	6.8	1.1	-3.0	-7.0	-2.1	**-3.7**	**-2.2**	**0.9**	*-2.0*	*0.1*	*0.8*
Spain	2.6	3.6	3.5	-0.6	1.7	-0.6	**0.6**	**0.5**	**1.0**	*0.7*	*0.6*	*1.3*
France	2.0	3.1	2.5	2.4	1.6	1.4	**0.8**	**1.3**	**1.7**	*0.8*	*1.3*	*1.5*
Italy	2.2	3.3	2.4	0.4	1.5	0.6	**0.4**	**0.4**	**1.0**	*0.5*	*0.4*	*1.1*
Cyprus	4.5	4.5	3.0	0.8	-3.3	-4.7	**-0.8**	**1.1**	**1.4**	*-0.7*	*1.1*	*2.3*
Latvia	7.5	15.7	6.2	6.1	5.0	8.5	**6.1**	**5.2**	**5.5**	*5.2*	*5.2*	*5.5*
Lithuania	9.2	12.0	4.6	4.2	5.4	3.9	**5.1**	**4.7**	**5.0**	*4.5*	*5.0*	*5.1*
Luxembourg	3.2	3.5	2.5	1.6	3.6	2.9	**0.9**	**1.4**	**2.6**	*1.0*	*2.6*	*2.2*
Malta	4.7	3.7	3.2	3.7	1.3	0.6	**3.1**	**3.4**	**3.4**	*2.4*	*2.9*	*3.0*
Netherlands	3.9	3.0	2.6	2.5	1.8	2.2	**0.3**	**2.1**	**2.3**	*0.8*	*1.7*	*1.9*
Austria	1.9	2.2	2.2	2.7	2.2	1.7	**1.9**	**1.3**	**1.6**	*1.8*	*1.8*	*1.8*
Portugal	5.4	3.3	1.7	-3.1	3.6	-1.4	**0.1**	**1.6**	**1.4**	*0.4*	*1.2*	*1.3*
Slovenia	10.2	7.0	4.1	-1.0	0.6	1.1	**0.8**	**2.0**	**2.0**	*0.8*	*1.8*	*2.6*
Slovakia	10.4	8.3	5.0	2.6	2.6	1.8	**2.1**	**3.0**	**3.1**	*2.1*	*2.9*	*3.1*
Finland	3.4	2.9	3.1	2.8	1.3	1.4	**1.2**	**1.3**	**1.5**	*1.2*	*1.3*	*1.1*
Euro area	2.2	2.5	2.5	1.8	1.7	1.4	**1.2**	**1.5**	**2.1**	*1.4*	*1.6*	*2.0*
Bulgaria	82.5	6.4	10.8	7.7	8.8	5.6	**3.9**	**4.0**	**2.5**	*2.1*	*2.9*	*2.9*
Czech Republic	8.2	6.6	3.1	1.7	-0.3	1.5	**2.4**	**3.6**	**3.6**	*2.9*	*3.8*	*4.0*
Denmark	3.7	3.5	3.0	1.7	1.2	1.8	**1.5**	**2.1**	**2.3**	*1.5*	*2.1*	*2.3*
Croatia	10.8	5.9	3.6	0.3	-0.6	-5.4	**1.4**	**1.5**	**2.0**	*0.9*	*1.5*	*2.0*
Hungary	14.8	9.1	2.8	2.1	1.8	0.9	**3.5**	**3.5**	**3.5**	*3.4*	*3.2*	*3.1*
Poland	13.7	2.0	6.5	3.6	1.7	1.6	**3.2**	**3.6**	**4.3**	*2.6*	*3.4*	*4.1*
Romania	67.2	19.7	7.9	9.4	3.8	5.3	**3.4**	**10.4**	**7.7**	*4.4*	*5.7*	*6.2*
Sweden	3.8	3.5	3.4	3.1	1.9	2.2	**2.8**	**2.7**	**2.9**	*2.7*	*2.8*	*2.9*
United Kingdom	5.4	4.3	2.5	1.7	1.4	0.4	**2.6**	**2.8**	**3.2**	*2.8*	*3.3*	*3.7*
EU	3.9	2.9	2.6	2.0	1.6	1.1	**1.6**	**2.0**	**2.4**	*1.7*	*2.0*	*2.5*
USA	:	3.3	2.5	2.2	1.5	2.8	**2.8**	**3.7**	**3.7**	*1.9*	*3.3*	*3.7*
Japan	-0.5	-1.4	-0.8	-0.2	0.0	1.1	**0.8**	**1.2**	**0.6**	*0.7*	*1.2*	*0.6*

Table 26: Real compensation of employees per head [1] (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.0	0.4	0.5	1.2	1.5	0.4	**0.0**	**-1.0**	**0.2**	*0.3*	*-0.9*	*0.3*
Germany	0.3	-0.5	0.4	0.9	0.6	1.7	**2.1**	**1.7**	**1.5**	*2.3*	*1.5*	*1.4*
Estonia	6.2	7.5	1.8	3.4	2.7	5.0	**5.1**	**3.8**	**2.7**	*4.7*	*3.3*	*2.2*
Ireland	2.1	2.3	1.6	-0.7	-2.3	0.0	**1.6**	**0.6**	**0.7**	*1.5*	*0.7*	*0.7*
Greece	3.6	3.9	-1.8	-3.5	-5.1	0.6	**-2.7**	**-2.7**	**0.1**	*-1.0*	*-0.9*	*-0.1*
Spain	-0.2	0.3	1.4	-2.9	0.7	-0.8	**1.2**	**0.4**	**-0.5**	*1.2*	*-0.1*	*0.1*
France	1.0	1.3	1.3	0.9	0.8	1.4	**0.8**	**0.7**	**0.4**	*0.7*	*0.4*	*0.2*
Italy	-0.2	0.7	0.6	-2.2	0.3	0.4	**0.3**	**0.0**	**-0.8**	*0.3*	*-0.6*	*-0.8*
Cyprus	2.1	1.8	0.2	-2.2	-3.2	-3.4	**1.1**	**0.8**	**0.1**	*1.1*	*0.8*	*0.9*
Latvia	3.2	7.7	1.3	2.7	4.8	7.6	**5.8**	**4.6**	**3.3**	*5.0*	*3.6*	*3.3*
Lithuania	6.2	10.9	-0.6	1.1	4.3	3.7	**5.8**	**4.7**	**2.8**	*5.4*	*4.4*	*2.8*
Luxembourg	0.9	1.2	0.8	-0.1	2.3	2.3	**0.8**	**1.0**	**0.5**	*0.1*	*0.7*	*0.7*
Malta	2.3	1.3	0.9	1.2	0.2	0.6	**2.1**	**1.7**	**1.3**	*1.6*	*1.1*	*0.7*
Netherlands	1.3	0.8	1.3	1.0	-0.4	0.8	**-0.1**	**0.8**	**0.6**	*0.4*	*0.4*	*0.4*
Austria	0.6	0.4	0.2	0.3	0.1	-0.3	**1.1**	**0.4**	**-0.2**	*0.8*	*0.0*	*-0.1*
Portugal	2.2	-0.1	0.2	-4.9	2.8	-2.0	**-0.4**	**0.8**	**0.3**	*0.0*	*0.1*	*-0.1*
Slovenia	2.7	2.9	1.4	-2.3	-0.2	1.1	**1.6**	**2.3**	**0.9**	*1.4*	*0.9*	*1.2*
Slovakia	3.4	3.3	2.6	-0.8	1.2	1.9	**2.4**	**2.7**	**1.4**	*2.3*	*1.7*	*1.6*
Finland	1.3	1.8	0.7	0.0	-1.0	-0.2	**0.9**	**0.9**	**0.1**	*0.7*	*0.4*	*-0.2*
Euro area	0.5	0.4	0.8	-0.1	0.6	0.9	**1.0**	**0.8**	**0.5**	*1.1*	*0.5*	*0.4*
Bulgaria	5.3	3.0	6.0	4.0	11.6	5.7	**4.4**	**3.2**	**1.5**	*2.6*	*2.0*	*1.9*
Czech Republic	2.8	5.1	1.0	-0.5	-1.1	1.0	**2.2**	**3.2**	**2.1**	*2.6*	*2.7*	*2.3*
Denmark	1.6	1.8	0.9	-0.6	0.4	1.0	**0.9**	**0.9**	**0.6**	*0.9*	*0.4*	*0.5*
Croatia	5.5	3.1	0.4	-2.9	-2.5	-5.0	**1.4**	**1.1**	**0.5**	*0.9*	*0.7*	*0.5*
Hungary	2.2	4.4	-1.8	-3.9	-0.3	-0.2	**3.0**	**1.4**	**1.0**	*2.9*	*1.2*	*0.6*
Poland	4.5	-0.2	3.0	0.2	1.3	1.7	**3.9**	**3.0**	**2.5**	*3.3*	*2.0*	*2.2*
Romania	7.5	6.9	1.8	4.7	1.1	4.1	**1.7**	**10.6**	**5.6**	*3.9*	*5.8*	*4.3*
Sweden	2.5	2.2	1.4	2.5	1.2	1.4	**1.4**	**1.2**	**1.1**	*1.4*	*1.3*	*1.1*
United Kingdom	4.1	2.3	-0.8	-0.1	-0.9	-1.3	**2.4**	**2.0**	**1.4**	*2.5*	*1.7*	*1.8*
EU	1.5	0.8	0.5	0.0	0.3	0.4	**1.3**	**1.2**	**0.8**	*1.5*	*0.9*	*0.8*
USA	:	1.0	0.6	0.3	0.1	1.3	**2.5**	**2.4**	**1.5**	*1.5*	*1.3*	*1.4*
Japan	-0.3	-0.5	0.3	0.7	0.2	-0.8	**0.5**	**0.6**	**-0.9**	*-0.1*	*0.0*	*-0.9*

[1] Deflated by the price deflator of private consumption.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 27: **Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1997-2017)** **22.1.2016**

		5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.3	1.5	0.2	-0.2	0.4	1.0	**0.4**	**0.4**	**0.5**	*0.7*	*0.6*	*0.8*
Germany	1.1	1.1	0.3	-0.7	-0.3	0.7	**0.9**	**1.0**	**1.0**	*1.2*	*1.3*	*1.1*
Estonia	7.4	6.0	1.0	3.5	0.3	2.1	**-1.4**	**2.8**	**2.4**	*0.8*	*3.2*	*2.8*
Ireland	3.6	2.0	2.2	0.7	-0.9	3.4	**4.5**	**2.9**	**2.1**	*4.0*	*2.9*	*2.1*
Greece	2.9	2.3	-1.8	-1.1	0.4	0.5	**-1.4**	**-1.6**	**0.7**	*-1.8*	*-0.7*	*0.7*
Spain	0.2	0.3	1.7	2.4	1.9	0.3	**0.2**	**0.1**	**0.5**	*0.3*	*0.1*	*0.4*
France	1.2	1.2	0.6	0.1	0.7	-0.1	**0.7**	**0.7**	**0.9**	*0.7*	*0.9*	*0.9*
Italy	1.1	0.2	0.0	-1.5	0.7	-0.7	**-0.2**	**0.4**	**0.3**	*-0.2*	*0.4*	*0.4*
Cyprus	2.7	0.8	0.0	0.8	0.1	-1.4	**0.6**	**0.7**	**0.8**	*1.1*	*0.2*	*0.4*
Latvia	5.9	7.4	2.1	2.5	0.7	3.8	**2.2**	**2.6**	**2.6**	*2.3*	*2.6*	*2.3*
Lithuania	7.2	6.7	3.4	2.0	2.2	1.0	**0.6**	**2.7**	**3.3**	*0.2*	*2.7*	*3.2*
Luxembourg	1.4	0.8	-1.0	-3.2	2.5	1.5	**2.0**	**1.1**	**1.9**	*0.5*	*0.7*	*0.7*
Malta	3.6	1.7	0.2	0.4	0.2	-0.9	**2.7**	**1.5**	**1.0**	*1.8*	*1.6*	*1.5*
Netherlands	1.7	1.5	0.2	-0.4	0.3	1.3	**1.1**	**1.0**	**1.2**	*0.9*	*1.0*	*1.2*
Austria	1.8	1.3	0.1	-0.3	-0.1	-0.5	**0.1**	**0.8**	**0.6**	*-0.1*	*0.7*	*0.6*
Portugal	1.5	1.1	1.1	0.1	1.8	-0.5	**0.4**	**0.8**	**1.1**	*0.7*	*0.9*	*1.1*
Slovenia	3.8	3.6	0.7	-1.8	0.3	2.5	**1.5**	**1.3**	**1.7**	*2.0*	*1.3*	*1.8*
Slovakia	4.0	5.0	2.9	1.5	2.2	1.1	**1.5**	**1.8**	**2.3**	*1.3*	*1.6*	*2.3*
Finland	2.5	1.8	0.0	-2.3	-0.4	0.4	**0.4**	**0.2**	**0.4**	*0.7*	*0.4*	*0.5*
Euro area	1.3	1.0	0.5	-0.1	0.5	0.3	**0.5**	**0.7**	**0.8**	*0.7*	*0.9*	*0.9*
Bulgaria	3.3	3.9	2.6	2.8	1.7	1.2	**1.9**	**1.1**	**1.5**	*1.4*	*1.1*	*1.5*
Czech Republic	2.7	4.1	1.3	-1.3	-0.8	1.4	**3.4**	**2.2**	**2.5**	*3.0*	*2.1*	*2.6*
Denmark	1.6	1.5	-0.1	0.5	-0.4	0.5	**0.3**	**0.8**	**1.0**	*0.7*	*1.0*	*0.8*
Croatia	4.2	2.6	0.2	1.5	1.6	-3.0	**1.2**	**0.8**	**0.5**	*0.5*	*0.6*	*0.5*
Hungary	2.7	4.5	0.3	-1.8	0.9	0.6	**0.6**	**0.7**	**1.3**	*1.1*	*1.1*	*1.3*
Poland	5.4	3.6	3.2	1.4	1.3	1.6	**2.6**	**3.0**	**2.9**	*2.6*	*2.9*	*2.9*
Romania	1.1	9.1	2.1	5.7	4.4	2.1	**3.4**	**4.1**	**3.6**	*3.2*	*3.7*	*3.1*
Sweden	2.2	3.1	0.4	-1.0	0.3	0.9	**2.2**	**1.5**	**1.2**	*1.7*	*1.2*	*1.1*
United Kingdom	2.0	1.8	0.1	0.1	1.0	0.6	**0.6**	**1.0**	**1.3**	*0.8*	*1.4*	*1.5*
EU	1.9	1.5	0.5	0.1	0.6	0.4	**0.8**	**1.0**	**1.1**	*0.9*	*1.1*	*1.1*
USA	2.2	1.8	1.2	0.4	0.5	0.8	**0.7**	**1.3**	**1.3**	*0.8*	*1.6*	*1.4*
Japan	1.0	1.3	0.4	1.7	1.0	-0.7	**0.4**	**1.0**	**0.4**	*0.4*	*1.0*	*0.4*

Table 28: **Unit labour costs, whole economy [1] (percentage change on preceding year, 1997-2017)** **22.1.2016**

		5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*	
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.4	1.1	2.4	3.4	2.2	-0.1	**0.0**	**0.0**	**1.3**	*-0.2*	*-0.3*	*0.7*
Germany	0.1	-0.2	1.5	3.3	2.2	1.9	**1.8**	**1.8**	**2.2**	*1.6*	*1.4*	*2.1*
Estonia	5.0	5.5	5.8	3.3	5.5	3.7	**6.8**	**2.3**	**2.7**	*4.1*	*2.3*	*2.6*
Ireland	2.3	3.2	-1.2	-0.8	0.2	-1.6	**-1.2**	**-0.8**	**0.1**	*-0.8*	*-0.7*	*0.1*
Greece	4.3	4.4	2.9	-2.0	-7.4	-2.6	**-2.3**	**-0.6**	**0.1**	*-0.2*	*0.8*	*0.1*
Spain	2.4	3.2	1.8	-2.9	-0.2	-0.8	**0.4**	**0.4**	**0.6**	*0.4*	*0.5*	*0.9*
France	0.8	1.9	2.0	2.3	0.9	1.5	**0.1**	**0.6**	**0.8**	*0.1*	*0.4*	*0.7*
Italy	1.1	3.1	2.4	1.9	0.7	1.3	**0.6**	**0.0**	**0.6**	*0.6*	*0.0*	*0.7*
Cyprus	1.8	3.6	2.9	0.0	-3.4	-3.3	**-1.5**	**0.4**	**0.6**	*-1.7*	*0.9*	*1.9*
Latvia	1.5	7.8	4.0	3.5	4.3	4.6	**3.8**	**2.5**	**2.9**	*2.9*	*2.6*	*3.1*
Lithuania	1.9	4.9	1.2	2.2	3.1	2.8	**4.4**	**1.9**	**1.7**	*4.3*	*2.3*	*1.8*
Luxembourg	1.8	2.6	3.6	4.9	1.1	1.4	**-1.1**	**0.3**	**0.7**	*0.5*	*1.9*	*1.5*
Malta	1.1	2.0	3.0	3.2	1.1	1.5	**0.4**	**1.9**	**2.4**	*0.6*	*1.3*	*1.4*
Netherlands	2.1	1.5	2.4	2.9	1.5	0.8	**-0.8**	**1.0**	**1.0**	*-0.1*	*0.7*	*0.7*
Austria	0.1	0.9	2.1	3.0	2.3	2.3	**1.8**	**0.5**	**0.9**	*1.9*	*1.1*	*1.2*
Portugal	3.8	2.2	0.6	-3.2	1.8	-0.9	**-0.3**	**0.8**	**0.3**	*-0.2*	*0.3*	*0.2*
Slovenia	6.2	3.3	3.4	0.8	0.2	-1.3	**-0.7**	**0.8**	**0.3**	*-1.2*	*0.4*	*0.8*
Slovakia	6.1	3.2	2.1	1.1	0.3	0.7	**0.6**	**1.1**	**0.9**	*0.7*	*1.3*	*0.8*
Finland	0.9	1.0	3.0	5.2	1.8	0.9	**0.8**	**1.0**	**1.1**	*0.4*	*0.9*	*0.6*
Euro area	1.0	1.7	1.9	1.9	1.1	1.1	**0.7**	**0.8**	**1.2**	*0.7*	*0.7*	*1.1*
Bulgaria	76.7	2.4	8.0	4.8	7.0	4.4	**2.0**	**2.9**	**1.1**	*0.7*	*1.7*	*1.4*
Czech Republic	5.3	2.5	1.9	3.1	0.6	0.1	**-0.9**	**1.4**	**1.0**	*-0.1*	*1.7*	*1.4*
Denmark	2.1	1.9	3.1	1.2	1.5	1.3	**1.3**	**1.2**	**1.3**	*0.8*	*1.1*	*1.5*
Croatia	6.3	3.2	3.4	-1.3	-2.2	-2.4	**0.1**	**0.7**	**1.4**	*0.4*	*0.9*	*1.5*
Hungary	11.8	4.4	2.5	4.0	0.9	0.3	**2.8**	**2.7**	**2.2**	*2.2*	*2.1*	*1.8*
Poland	7.9	-1.6	3.2	2.1	0.3	0.0	**0.6**	**0.7**	**1.3**	*0.0*	*0.5*	*1.2*
Romania	65.3	9.7	5.7	3.5	-0.6	3.1	**0.0**	**6.1**	**4.0**	*1.2*	*1.9*	*3.0*
Sweden	1.6	0.3	3.0	4.1	1.7	1.3	**0.6**	**1.2**	**1.7**	*1.0*	*1.6*	*1.8*
United Kingdom	3.4	2.4	2.4	1.6	0.4	-0.2	**2.0**	**1.8**	**1.9**	*2.0*	*1.9*	*2.2*
EU	2.1	1.8	2.2	1.9	1.0	0.9	**0.9**	**1.1**	**1.4**	*0.9*	*0.9*	*1.4*
USA	:	1.5	1.3	1.7	1.0	1.9	**2.1**	**2.3**	**2.4**	*1.1*	*1.7*	*2.3*
Japan	-1.5	-2.6	-1.2	-1.9	-1.0	1.9	**0.4**	**0.2**	**0.2**	*0.4*	*0.2*	*0.3*

[1] Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 29: Real unit labour costs [1] (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	-0.1	-0.9	0.6	1.4	0.8	-0.7	**-1.2**	**-1.4**	**-0.3**	*-1.2*	*-1.3*	*-0.5*
Germany	-0.3	-1.1	0.2	1.8	0.1	0.2	**-0.3**	**0.3**	**0.5**	*-0.3*	*-0.2*	*0.4*
Estonia	-2.0	-0.3	0.6	0.6	1.5	1.7	**5.5**	**0.2**	**0.0**	*3.1*	*-0.2*	*-0.6*
Ireland	-2.8	0.1	0.1	-1.1	-1.0	-1.7	**-3.2**	**-2.6**	**-1.2**	*-2.7*	*-2.5*	*-1.2*
Greece	0.2	1.2	0.5	-1.6	-5.0	-0.4	**-1.2**	**-0.7**	**-0.6**	*0.9*	*0.2*	*-0.6*
Spain	-0.6	-0.7	0.6	-3.0	-0.8	-0.4	**-0.3**	**-0.6**	**-0.7**	*-0.2*	*-0.6*	*-0.2*
France	-0.3	0.0	0.6	1.1	0.2	0.9	**-0.9**	**-0.4**	**-0.2**	*-0.8*	*-0.5*	*-0.3*
Italy	-1.2	0.5	0.7	0.5	-0.6	0.4	**0.1**	**-0.8**	**-0.9**	*0.2*	*-1.0*	*-1.1*
Cyprus	-1.1	0.6	0.4	-2.1	-2.1	-2.0	**-0.4**	**0.0**	**-0.2**	*-0.5*	*0.2*	*1.0*
Latvia	-2.0	-0.2	-1.0	0.0	3.0	3.3	**2.8**	**1.3**	**0.5**	*1.8*	*0.5*	*0.7*
Lithuania	-0.9	1.8	-3.1	-0.5	1.8	1.6	**4.3**	**1.8**	**-1.8**	*4.8*	*1.7*	*-1.7*
Luxembourg	0.9	-0.9	0.8	0.8	-1.2	0.4	**-4.6**	**-1.0**	**-1.4**	*0.8*	*0.3*	*-0.5*
Malta	-0.9	-0.5	0.1	1.2	-0.8	-0.2	**-2.0**	**-0.6**	**-0.2**	*-1.6*	*-1.2*	*-1.1*
Netherlands	-0.6	-0.9	1.2	1.5	0.1	0.0	**-1.4**	**-0.2**	**-0.6**	*-0.9*	*-0.8*	*-0.7*
Austria	-1.0	-0.8	0.3	1.0	0.8	0.6	**-0.1**	**-0.7**	**-0.8**	*0.4*	*-0.4*	*-0.6*
Portugal	0.1	-1.1	-0.6	-2.8	-0.5	-1.8	**-1.9**	**-0.7**	**-1.0**	*-1.5*	*-1.0*	*-1.3*
Slovenia	-1.0	-0.7	1.0	0.6	-0.6	-2.1	**-0.8**	**-0.2**	**-0.9**	*-1.7*	*-1.0*	*-1.0*
Slovakia	-0.2	-0.9	1.1	-0.2	-0.2	0.9	**0.9**	**0.5**	**-0.7**	*0.6*	*0.2*	*-0.6*
Finland	-1.3	0.3	0.9	2.2	-0.8	-0.7	**-0.4**	**0.1**	**-0.6**	*-0.9*	*-0.3*	*-0.6*
Euro area	-0.7	-0.5	0.5	0.7	-0.2	0.2	**-0.5**	**-0.3**	**-0.2**	*-0.4*	*-0.5*	*-0.3*
Bulgaria	0.9	-2.5	1.7	3.2	7.8	3.9	**0.9**	**1.3**	**-0.4**	*-0.3*	*0.9*	*0.7*
Czech Republic	-0.2	0.7	0.6	1.7	-0.8	-2.3	**-1.8**	**0.4**	**-0.3**	*-0.8*	*0.7*	*0.0*
Denmark	0.0	-0.2	0.9	-1.5	0.2	0.6	**0.4**	**0.0**	**-0.5**	*-0.6*	*-0.4*	*-0.2*
Croatia	0.7	-0.5	0.4	-2.8	-3.0	-2.5	**-0.2**	**-0.5**	**0.3**	*0.1*	*-0.3*	*0.0*
Hungary	-0.6	-0.5	-1.2	0.5	-2.2	-2.9	**0.5**	**0.3**	**-0.6**	*0.5*	*-0.3*	*-1.0*
Poland	0.0	-3.8	-0.2	-0.3	-0.1	-0.4	**0.3**	**-0.2**	**-0.1**	*0.2*	*-0.8*	*-0.3*
Romania	3.7	-6.0	-2.6	-1.2	-3.9	1.4	**-1.8**	**4.1**	**1.5**	*-0.2*	*0.7*	*0.5*
Sweden	0.1	-0.9	0.8	3.0	0.6	-0.3	**-1.3**	**-0.5**	**-0.1**	*-0.9*	*-0.2*	*-0.1*
United Kingdom	1.7	-0.3	-0.2	0.0	-1.5	-1.9	**1.4**	**0.7**	**0.0**	*0.7*	*0.2*	*0.2*
EU	-0.3	-0.8	0.3	0.4	-0.5	-0.3	**-0.3**	**-0.2**	**-0.2**	*-0.3*	*-0.4*	*-0.3*
USA	:	-1.0	-0.4	-0.1	-0.7	0.3	**1.0**	**0.6**	**0.1**	*0.0*	*-0.3*	*0.1*
Japan	-0.8	-1.3	0.2	-0.9	-0.5	0.2	**-1.2**	**-0.7**	**-1.3**	*-1.3*	*-1.0*	*-1.3*

[1] Nominal unit labour costs divided by GDP price deflator.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 30: Nominal bilateral exchange rates against Ecu/euro (1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Germany	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Estonia	15.6802	15.6466	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Ireland	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Greece	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Spain	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
France	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Italy	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Cyprus	0.5781	0.5788	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Latvia	0.6129	0.6559	0.7047	0.6973	0.7015	:	**:**	**:**	**:**	*:*	*:*	*:*
Lithuania	4.1124	3.4541	3.4528	3.4528	3.4528	3.4528	**:**	**:**	**:**	*:*	*:*	*:*
Luxembourg	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Malta	0.4211	0.4244	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Austria	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Portugal	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Slovenia	197.1999	235.6156	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Slovakia	41.5357	40.0076	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Finland	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Euro area	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Bulgaria	1.9454	1.9526	1.9558	1.9558	1.9558	1.9558	**1.9558**	**1.9558**	**1.9558**	*1.9558*	*1.9558*	*1.9558*
Czech Republic	35.7063	30.5328	25.8041	25.1491	25.9797	27.5359	**27.2792**	**27.0242**	**27.0242**	*27.2916*	*27.1073*	*27.1073*
Denmark	7.4649	7.4424	7.4502	7.4437	7.4579	7.4548	**7.4587**	**7.4612**	**7.4612**	*7.4588*	*7.4608*	*7.4608*
Croatia	7.3627	7.4408	7.3259	7.5217	7.5786	7.6344	**7.6137**	**7.6536**	**7.6537**	*7.6134*	*7.6211*	*7.6211*
Hungary	244.3260	252.1100	267.6088	289.2494	296.8730	308.7061	**309.9956**	**315.7556**	**315.7570**	*309.6938*	*311.3910*	*311.3910*
Poland	3.9079	4.1405	3.9477	4.1847	4.1975	4.1843	**4.1841**	**4.3660**	**4.3663**	*4.1769*	*4.2342*	*4.2342*
Romania	1.6073	3.6159	3.9418	4.4593	4.4190	4.4437	**4.4454**	**4.5308**	**4.5308**	*4.4349*	*4.4162*	*4.4162*
Sweden	8.8150	9.1892	9.6103	8.7041	8.6515	9.0985	**9.3535**	**9.2734**	**9.2738**	*9.3535*	*9.3015*	*9.3015*
United Kingdom	0.6518	0.6730	0.8195	0.8109	0.8493	0.8061	**0.7258**	**0.7486**	**0.7487**	*0.7304*	*0.7398*	*0.7398*
EU	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
USA	1.0280	1.1641	1.3907	1.2848	1.3281	1.3285	**1.1095**	**1.0846**	**1.0846**	*1.1190*	*1.1330*	*1.1330*
Japan	122.5931	133.2686	134.2481	102.4919	129.6627	140.3061	**134.3140**	**127.9092**	**127.9020**	*135.0*	*135.7*	*135.7*

Table 31: Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	-1.1	1.4	0.4	-1.9	2.4	0.7	**-3.1**	**0.5**	**0.0**	*-2.8*	*0.7*	*0.0*
Germany	-1.0	1.8	0.2	-2.3	3.2	1.1	**-3.8**	**0.6**	**0.0**	*-3.6*	*1.0*	*0.0*
Estonia	-0.4	1.0	0.3	-1.7	1.5	1.5	**-1.1**	**0.6**	**0.0**	*-1.0*	*0.6*	*0.0*
Ireland	-1.8	2.3	0.9	-3.6	3.1	0.1	**-5.9**	**0.4**	**0.0**	*-5.6*	*0.9*	*0.0*
Greece	0.3	1.7	0.7	-1.7	3.1	2.1	**-2.3**	**1.2**	**0.0**	*-1.9*	*1.5*	*0.0*
Spain	-1.1	1.4	0.5	-1.9	2.3	0.8	**-2.9**	**0.6**	**0.0**	*-2.7*	*0.8*	*0.0*
France	-1.0	1.7	0.3	-2.4	3.1	1.0	**-3.6**	**0.4**	**0.0**	*-3.4*	*0.9*	*0.0*
Italy	0.1	1.8	0.3	-2.1	2.9	1.1	**-3.6**	**0.6**	**0.0**	*-3.4*	*1.0*	*0.0*
Cyprus	4.9	1.6	0.4	-2.1	2.8	0.5	**-3.5**	**0.6**	**0.0**	*-3.2*	*0.8*	*0.0*
Latvia	4.4	-3.4	0.1	0.1	1.1	1.0	**-1.3**	**0.9**	**0.0**	*-1.1*	*0.7*	*0.0*
Lithuania	8.4	2.1	0.4	-1.3	1.8	0.8	**-1.7**	**0.9**	**0.0**	*-1.6*	*0.7*	*0.0*
Luxembourg	-1.0	0.8	0.4	-1.5	1.8	0.7	**-2.2**	**0.6**	**0.0**	*-2.1*	*0.7*	*0.0*
Malta	0.4	1.3	0.2	-2.1	2.6	0.8	**-2.7**	**0.7**	**0.0**	*-2.5*	*0.9*	*0.0*
Netherlands	-1.0	1.1	0.5	-1.8	2.0	0.5	**-2.7**	**0.5**	**0.0**	*-2.5*	*0.6*	*0.0*
Austria	-0.2	1.0	0.1	-1.3	2.0	0.9	**-2.5**	**0.5**	**0.0**	*-2.3*	*0.6*	*0.0*
Portugal	-1.1	1.0	0.4	-1.5	1.7	0.4	**-2.6**	**0.4**	**0.0**	*-2.4*	*0.6*	*0.0*
Slovenia	-4.0	-1.2	0.3	-0.6	1.4	0.8	**-1.4**	**0.5**	**0.0**	*-1.3*	*0.5*	*0.0*
Slovakia	-1.3	3.5	4.6	-0.4	1.2	0.8	**-1.3**	**0.7**	**0.0**	*-1.2*	*0.5*	*0.0*
Finland	-1.0	1.7	0.2	-2.6	3.1	1.6	**-3.0**	**0.5**	**0.0**	*-2.7*	*0.9*	*0.0*
Euro area	-1.7	3.5	0.8	-4.4	5.9	2.1	**-6.8**	**1.2**	**0.0**	*-6.3*	*1.8*	*0.0*
Bulgaria	-32.2	1.7	0.8	-0.7	2.2	1.8	**-1.5**	**1.1**	**0.0**	*-1.2*	*1.1*	*0.0*
Czech Republic	0.9	4.5	3.2	-3.2	-1.8	-5.2	**-0.9**	**1.7**	**0.0**	*-0.8*	*1.2*	*0.0*
Denmark	-0.9	1.4	0.3	-2.6	2.6	1.5	**-2.8**	**0.7**	**0.0**	*-2.6*	*0.8*	*0.0*
Croatia	-0.8	1.3	-0.1	-2.2	1.0	0.2	**-1.7**	**0.0**	**0.0**	*-1.5*	*0.5*	*0.0*
Hungary	-4.7	0.2	-0.8	-4.4	-1.1	-3.1	**-2.1**	**-1.2**	**0.0**	*-1.9*	*0.0*	*0.0*
Poland	-1.1	-0.5	-0.9	-2.8	1.4	1.1	**-1.7**	**-3.7**	**0.0**	*-1.5*	*-0.8*	*0.0*
Romania	-30.1	-4.7	-3.1	-5.9	2.8	0.7	**-1.7**	**-1.1**	**0.0**	*-1.2*	*1.3*	*0.0*
Sweden	-2.5	1.8	0.8	1.2	3.6	-3.8	**-5.3**	**2.1**	**0.0**	*-5.1*	*1.6*	*0.0*
United Kingdom	4.8	0.2	-4.8	4.5	-1.7	6.9	**7.1**	**-2.9**	**0.0**	*6.7*	*-0.4*	*0.0*
EU	-0.9	5.2	-0.9	-5.2	8.0	4.6	**-7.4**	**0.4**	**0.0**	*-6.8*	*2.6*	*0.0*
USA	5.0	-3.9	-2.4	4.1	2.8	3.8	**17.1**	**5.5**	**0.0**	*16.6*	*1.0*	*0.0*
Japan	1.5	-2.5	6.4	3.3	-18.4	-6.6	**-3.2**	**5.7**	**0.0**	*-3.2*	*1.1*	*0.0*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Table 32: Relative unit labour costs, to rest of a group[1] of industrialised countries (nat. curr) (percentage change over preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	-0.7	-0.4	0.4	1.2	1.0	-1.4	**-1.0**	**-1.3**	**-0.3**	*-1.1*	*-1.3*	*:*
Germany	-3.0	-2.0	-0.6	1.3	1.1	0.7	**0.9**	**0.6**	**0.8**	*0.8*	*0.5*	*:*
Estonia	2.0	3.7	3.2	0.3	3.7	2.1	**5.4**	**0.9**	**1.0**	*2.9*	*1.0*	*:*
Ireland	0.1	1.8	-3.0	-2.6	-0.9	-2.7	**-2.2**	**-2.1**	**-1.5**	*-1.6*	*-1.7*	*:*
Greece	-1.4	2.2	0.4	-4.6	-9.0	-4.6	**-4.3**	**-3.2**	**-2.3**	*-1.8*	*-1.0*	*:*
Spain	-0.2	1.5	-0.2	-4.9	-1.5	-2.1	**-0.6**	**-1.0**	**-1.0**	*-0.5*	*-0.5*	*:*
France	-1.8	0.4	0.0	0.4	-0.2	0.3	**-1.0**	**-0.8**	**-0.8**	*-0.9*	*-0.6*	*:*
Italy	-2.0	1.5	0.4	-0.1	-0.5	-0.1	**-0.5**	**-1.6**	**-1.1**	*-0.3*	*-1.2*	*:*
Cyprus	-6.5	1.5	0.6	-1.1	-2.8	-3.7	**-2.0**	**-0.8**	**-0.8**	*-2.5*	*-0.2*	*:*
Latvia	-1.7	6.0	1.6	0.8	2.6	3.0	**2.2**	**1.0**	**1.1**	*1.6*	*1.3*	*:*
Lithuania	-2.1	3.0	-1.3	-0.5	1.4	1.2	**2.9**	**0.3**	**-0.1**	*3.1*	*1.0*	*:*
Luxembourg	-0.1	1.1	1.4	2.4	-0.2	0.1	**-2.1**	**-1.1**	**-0.9**	*-0.3*	*0.9*	*:*
Malta	-0.8	0.7	1.4	1.5	-0.1	0.2	**-0.9**	**0.3**	**0.7**	*-0.5*	*0.1*	*:*
Netherlands	0.1	0.1	0.4	0.7	0.2	-0.4	**-1.9**	**-0.3**	**-0.6**	*-1.0*	*-0.3*	*:*
Austria	-2.5	-0.5	0.1	0.7	1.0	0.9	**0.7**	**-0.9**	**-0.8**	*1.0*	*0.1*	*:*
Portugal	1.8	0.4	-1.3	-4.4	0.8	-1.8	**-1.2**	**-0.4**	**-1.1**	*-1.0*	*-0.6*	*:*
Slovenia	3.4	1.7	1.1	-1.5	-1.0	-2.5	**-1.8**	**-0.6**	**-1.3**	*-2.2*	*-0.6*	*:*
Slovakia	2.8	1.8	-0.1	-1.5	-1.0	-0.6	**-0.5**	**-0.3**	**-0.8**	*-0.2*	*0.2*	*:*
Finland	-1.7	-0.4	0.9	2.8	0.4	-0.5	**-0.4**	**-0.3**	**-0.5**	*-0.5*	*-0.2*	*:*
Euro area	-3.8	-0.2	-0.3	0.3	0.4	-0.4	**-0.8**	**-1.1**	**-0.7**	*-0.4*	*-0.7*	*:*
Bulgaria	64.9	-0.3	5.4	2.1	5.9	2.6	**0.4**	**0.6**	**-1.2**	*-0.7*	*0.1*	*:*
Czech Republic	2.6	1.3	-0.2	0.6	-0.8	-1.2	**-2.1**	**0.0**	**-0.6**	*-1.1*	*0.6*	*:*
Denmark	0.0	0.7	0.8	-1.1	0.1	0.0	**0.3**	**0.0**	**-0.2**	*-0.1*	*0.1*	*:*
Croatia	3.2	1.4	1.2	-3.7	-3.5	-3.9	**-1.1**	**-0.7**	**-0.2**	*-0.6*	*-0.2*	*:*
Hungary	8.5	3.0	0.3	1.5	-0.5	-1.2	**1.7**	**1.1**	**0.4**	*1.2*	*0.9*	*:*
Poland	5.4	-3.1	1.1	-0.4	-1.1	-1.4	**-0.6**	**-0.9**	**-0.4**	*-1.1*	*-0.7*	*:*
Romania	58.3	7.4	3.3	0.7	-2.1	1.4	**-1.5**	**4.2**	**2.1**	*-0.1*	*0.6*	*:*
Sweden	-1.0	-1.2	0.6	1.8	0.1	-0.1	**-0.4**	**0.1**	**0.3**	*0.2*	*0.8*	*:*
United Kingdom	1.1	1.0	0.6	-0.3	-0.8	-1.5	**1.1**	**0.6**	**0.4**	*1.2*	*1.0*	*:*
EU	-3.1	0.2	0.4	0.3	-0.1	-1.4	**-1.1**	**-1.4**	**-1.0**	*-0.4*	*-0.6*	*:*
USA	-0.4	-0.1	-0.6	0.1	-0.1	0.8	**1.2**	**1.5**	**1.2**	*0.3*	*1.1*	*:*
Japan	-3.9	-4.3	-3.1	-3.8	-2.2	0.6	**-0.6**	**-1.4**	**-1.5**	*-0.4*	*-0.9*	*:*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 33: Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (USD) (% change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	-1.8	1.0	0.8	-0.7	3.4	-0.7	**-4.0**	**-0.9**	**-0.3**	*-3.9*	*-0.6*	*:*
Germany	-4.0	-0.2	-0.4	-1.0	4.3	1.8	**-3.0**	**1.2**	**0.8**	*-2.7*	*1.4*	*:*
Estonia	1.6	4.7	3.5	-1.4	5.2	3.7	**4.2**	**1.5**	**1.0**	*1.9*	*1.6*	*:*
Ireland	-1.7	4.2	-2.1	-6.2	2.2	-2.6	**-8.0**	**-1.7**	**-1.5**	*-7.2*	*-0.8*	*:*
Greece	-1.1	4.0	1.0	-6.2	-6.3	-2.5	**-6.5**	**-2.1**	**-2.3**	*-3.7*	*0.4*	*:*
Spain	-1.3	2.9	0.3	-6.6	0.8	-1.4	**-3.5**	**-0.4**	**-1.0**	*-3.2*	*0.3*	*:*
France	-2.7	2.0	0.4	-1.9	2.9	1.3	**-4.6**	**-0.4**	**-0.8**	*-4.2*	*0.2*	*:*
Italy	-1.9	3.4	0.7	-2.3	2.4	1.1	**-4.1**	**-1.0**	**-1.1**	*-3.7*	*-0.2*	*:*
Cyprus	-1.9	3.1	1.0	-3.2	-0.1	-3.2	**-5.4**	**-0.2**	**-0.8**	*-5.7*	*0.6*	*:*
Latvia	2.6	2.3	1.7	0.9	3.7	4.0	**0.9**	**1.8**	**1.1**	*0.4*	*2.0*	*:*
Lithuania	6.1	5.2	-0.9	-1.8	3.2	2.1	**1.1**	**1.2**	**-0.1**	*1.5*	*1.7*	*:*
Luxembourg	-1.1	2.0	1.8	0.9	1.6	0.7	**-4.3**	**-0.5**	**-0.9**	*-2.4*	*1.6*	*:*
Malta	-0.4	2.1	1.6	-0.6	2.5	1.0	**-3.6**	**1.1**	**0.7**	*-2.9*	*1.0*	*:*
Netherlands	-0.9	1.2	0.9	-1.1	2.2	0.1	**-4.6**	**0.3**	**-0.6**	*-3.5*	*0.3*	*:*
Austria	-2.7	0.5	0.2	-0.6	3.0	1.8	**-1.7**	**-0.5**	**-0.7**	*-1.4*	*0.7*	*:*
Portugal	0.6	1.4	-0.9	-5.8	2.6	-1.3	**-3.7**	**0.0**	**-1.1**	*-3.4*	*0.0*	*:*
Slovenia	-0.8	0.5	1.4	-2.1	0.4	-1.7	**-3.2**	**0.0**	**-1.3**	*-3.5*	*-0.1*	*:*
Slovakia	1.4	5.4	4.5	-1.8	0.2	0.2	**-1.8**	**0.4**	**-0.8**	*-1.4*	*0.6*	*:*
Finland	-2.8	1.3	1.1	0.1	3.5	1.1	**-3.3**	**0.2**	**-0.5**	*-3.2*	*0.7*	*:*
Euro area	-5.5	3.3	0.5	-4.1	6.3	1.7	**-7.5**	**0.1**	**-0.7**	*-6.7*	*1.1*	*:*
Bulgaria	11.8	1.4	6.3	1.4	8.3	4.4	**-1.1**	**1.7**	**-1.2**	*-2.0*	*1.2*	*:*
Czech Republic	3.5	5.8	2.9	-2.6	-2.6	-6.3	**-3.0**	**1.6**	**-0.6**	*-1.9*	*1.8*	*:*
Denmark	-0.9	2.1	1.1	-3.6	2.8	1.5	**-2.6**	**0.7**	**-0.2**	*-2.7*	*0.9*	*:*
Croatia	2.4	2.7	1.1	-5.8	-2.6	-3.6	**-2.8**	**-0.8**	**-0.2**	*-2.2*	*0.3*	*:*
Hungary	3.4	3.3	-0.5	-3.0	-1.6	-4.2	**-0.4**	**-0.2**	**0.4**	*-0.7*	*0.9*	*:*
Poland	4.2	-3.6	0.2	-3.2	0.2	-0.3	**-2.3**	**-4.5**	**-0.4**	*-2.5*	*-1.5*	*:*
Romania	10.6	2.4	0.1	-5.2	0.6	2.1	**-3.2**	**3.0**	**2.1**	*-1.3*	*1.9*	*:*
Sweden	-3.5	0.6	1.4	3.0	3.7	-3.8	**-5.7**	**2.2**	**0.3**	*-4.9*	*2.4*	*:*
United Kingdom	5.9	1.2	-4.3	4.1	-2.5	5.3	**8.3**	**-2.3**	**0.4**	*8.0*	*0.5*	*:*
EU	-3.9	5.4	-0.6	-4.9	7.9	3.2	**-8.4**	**-1.0**	**-1.0**	*-7.1*	*1.9*	*:*
USA	4.6	-3.9	-3.0	4.2	2.7	4.6	**18.5**	**7.1**	**1.2**	*16.9*	*2.1*	*:*
Japan	-2.5	-6.6	3.1	-0.6	-20.1	-6.1	**-3.8**	**4.2**	**-1.5**	*-3.7*	*0.2*	*:*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 34: Total expenditure, general government (as a percentage of GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	50.0	49.8	52.1	55.8	55.6	55.1	**54.1**	**53.7**	**53.1**	*54.3*	*53.9*	*53.6*
Germany	47.0	46.5	45.2	44.4	44.5	44.3	**43.9**	**44.3**	**44.6**	*43.5*	*43.8*	*44.0*
Estonia	37.7	34.6	39.6	39.1	38.3	38.0	**39.7**	**40.1**	**40.3**	*39.9*	*39.7*	*39.8*
Ireland	33.7	33.3	47.2	41.8	39.7	38.2	**35.9**	**34.1**	**33.2**	*36.2*	*34.3*	*33.7*
Greece	45.5	46.1	51.7	55.2	60.8	49.9	**53.2**	**49.7**	**48.2**	*51.6*	*51.0*	*49.3*
Spain	40.0	38.4	43.4	48.0	45.1	44.5	**43.3**	**42.1**	**41.2**	*43.4*	*42.3*	*41.3*
France	52.1	52.6	54.9	56.8	57.0	57.5	**57.1**	**56.7**	**56.3**	*57.2*	*56.8*	*56.4*
Italy	47.6	47.1	48.9	50.8	51.0	51.2	**50.7**	**49.9**	**49.0**	*50.8*	*49.6*	*48.9*
Cyprus	34.4	38.9	40.7	41.9	41.4	49.3	**40.3**	**38.8**	**38.1**	*40.3*	*39.0*	*38.6*
Latvia	37.2	34.7	39.7	37.0	36.9	37.3	**36.5**	**36.2**	**36.1**	*36.4*	*35.7*	*35.6*
Lithuania	41.8	34.2	40.6	36.1	35.6	34.8	**35.6**	**36.0**	**34.7**	*35.7*	*35.8*	*34.4*
Luxembourg	37.9	41.5	41.7	44.6	43.3	42.4	**41.6**	**41.4**	**40.5**	*43.6*	*43.4*	*43.1*
Malta	41.4	42.7	41.5	42.4	41.9	43.1	**42.8**	**40.4**	**40.0**	*44.0*	*41.6*	*41.3*
Netherlands	43.6	43.5	45.9	47.1	46.4	46.2	**45.0**	**44.3**	**43.4**	*44.7*	*43.3*	*42.7*
Austria	51.4	51.3	51.3	51.1	50.9	52.7	**51.8**	**51.4**	**50.8**	*52.1*	*51.2*	*50.7*
Portugal	42.9	45.4	48.4	48.5	49.9	51.7	**48.2**	**46.6**	**46.2**	*47.9*	*47.1*	*46.6*
Slovenia	45.6	45.2	46.7	48.6	60.3	49.8	**47.8**	**46.4**	**45.4**	*47.7*	*45.8*	*44.4*
Slovakia	47.7	40.2	39.8	40.1	41.0	41.6	**43.7**	**40.0**	**40.0**	*42.7*	*39.8*	*40.2*
Finland	51.0	49.0	51.8	56.1	57.6	58.3	**58.3**	**58.3**	**57.9**	*58.1*	*58.1*	*57.9*
Euro area	47.3	46.7	48.4	49.7	49.6	49.4	**48.7**	**48.2**	**47.8**	*48.6*	*48.0*	*47.6*
Bulgaria	37.3	37.3	36.9	34.7	37.6	42.1	**39.7**	**39.1**	**38.4**	*39.5*	*38.9*	*39.0*
Czech Republic	41.4	43.5	41.9	44.5	42.6	42.6	**42.7**	**41.5**	**41.2**	*42.9*	*41.8*	*41.5*
Denmark	54.3	52.2	54.2	58.3	56.5	56.0	**55.5**	**54.0**	**52.8**	*55.8*	*54.1*	*53.1*
Croatia	:	46.4	46.6	47.1	47.8	48.2	**47.5**	**47.3**	**47.0**	*48.0*	*47.9*	*47.5*
Hungary	48.7	50.0	49.8	48.6	49.5	49.9	**49.9**	**46.5**	**45.9**	*49.4*	*46.3*	*45.6*
Poland	44.4	44.8	44.4	42.6	42.4	42.1	**41.9**	**42.0**	**42.6**	*41.9*	*41.6*	*41.6*
Romania	36.7	34.0	39.3	36.5	35.2	34.9	**35.7**	**35.5**	**34.9**	*36.6*	*34.1*	*33.9*
Sweden	55.9	53.1	51.0	51.7	52.4	51.8	**50.8**	**51.0**	**51.1**	*51.4*	*51.3*	*51.3*
United Kingdom	38.3	41.8	46.9	46.8	45.0	43.9	**43.2**	**42.3**	**41.4**	*42.8*	*41.6*	*40.6*
EU	:	46.0	48.1	49.0	48.6	48.2	**47.5**	**46.9**	**46.5**	*47.4*	*46.6*	*46.2*
USA	34.5	36.3	40.8	40.0	38.7	38.0	**37.8**	**38.4**	**38.7**	*37.6*	*37.5*	*37.3*
Japan	38.4	37.0	39.4	41.8	42.4	42.0	**41.4**	**41.0**	**41.1**	*42.3*	*41.8*	*41.9*

Table 35: Total revenue, general government (as a percentage of GDP, 1997-2017) — 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	49.3	49.0	49.2	51.6	52.7	52.0	**51.2**	**50.9**	**50.8**	*51.6*	*51.3*	*51.3*
Germany	45.1	43.1	43.5	44.4	44.4	44.6	**44.5**	**44.4**	**44.6**	*44.4*	*44.3*	*44.4*
Estonia	37.4	36.4	39.4	38.8	38.1	38.7	**39.9**	**40.3**	**40.4**	*40.1*	*40.0*	*39.9*
Ireland	36.0	34.5	34.1	33.8	34.0	34.4	**34.1**	**32.8**	**32.5**	*34.0*	*32.8*	*32.2*
Greece	40.0	39.2	41.0	46.3	48.3	46.4	**45.6**	**46.3**	**46.1**	*46.9*	*47.4*	*47.0*
Spain	38.1	38.9	37.0	37.5	38.2	38.6	**38.5**	**38.5**	**38.6**	*38.7*	*38.7*	*38.7*
France	50.1	49.4	49.9	52.0	52.9	53.6	**53.5**	**53.3**	**53.1**	*53.4*	*53.3*	*53.1*
Italy	45.1	43.5	45.5	47.8	48.1	48.2	**48.1**	**47.4**	**47.4**	*48.2*	*47.3*	*47.3*
Cyprus	31.1	35.5	38.3	36.1	36.5	40.4	**39.2**	**39.0**	**38.5**	*39.6*	*39.1*	*38.8*
Latvia	35.8	33.5	34.6	36.2	36.0	35.8	**35.2**	**35.1**	**35.2**	*34.9*	*34.6*	*34.5*
Lithuania	36.9	33.2	34.8	33.0	32.9	34.1	**34.7**	**34.8**	**34.3**	*34.6*	*34.5*	*34.0*
Luxembourg	42.3	42.1	43.1	44.7	44.0	43.8	**41.8**	**41.9**	**41.0**	*43.6*	*43.9*	*43.6*
Malta	34.5	37.9	38.4	38.8	39.3	41.0	**41.2**	**39.3**	**39.0**	*42.3*	*40.4*	*40.2*
Netherlands	43.5	42.1	43.0	43.2	44.0	43.9	**42.8**	**42.5**	**41.9**	*42.6*	*41.8*	*41.5*
Austria	49.3	48.7	48.3	48.9	49.6	50.0	**50.2**	**49.7**	**49.2**	*50.2*	*49.7*	*49.4*
Portugal	39.1	40.5	41.3	42.9	45.1	44.5	**44.0**	**43.2**	**42.6**	*44.9*	*44.2*	*44.1*
Slovenia	42.6	43.3	42.8	44.4	45.3	44.8	**44.8**	**44.0**	**43.5**	*44.8*	*43.4*	*42.5*
Slovakia	40.2	36.3	35.1	36.0	38.4	38.9	**41.0**	**37.9**	**38.3**	*39.9*	*37.4*	*38.2*
Finland	53.7	52.0	52.4	54.0	55.0	54.9	**55.1**	**55.5**	**55.4**	*54.9*	*55.4*	*55.6*
Euro area	45.4	44.1	44.5	46.1	46.6	46.8	**46.6**	**46.3**	**46.2**	*46.6*	*46.2*	*46.2*
Bulgaria	37.8	37.9	35.6	34.0	36.9	36.3	**37.3**	**36.8**	**36.4**	*36.7*	*36.2*	*36.4*
Czech Republic	37.3	39.4	38.8	40.5	41.3	40.6	**41.1**	**40.3**	**40.3**	*41.0*	*40.4*	*40.4*
Denmark	54.7	54.6	54.3	54.8	55.5	57.4	**53.4**	**51.4**	**50.9**	*52.5*	*51.7*	*51.4*
Croatia	:	42.4	41.6	41.7	42.5	42.6	**43.4**	**43.4**	**43.9**	*43.1*	*43.2*	*43.4*
Hungary	43.6	42.1	45.1	46.3	47.0	47.4	**47.8**	**44.5**	**44.0**	*47.1*	*44.2*	*43.6*
Poland	40.7	40.0	39.3	38.9	38.4	38.8	**38.9**	**39.1**	**39.2**	*39.1*	*38.8*	*38.7*
Romania	32.7	32.4	33.3	33.3	33.0	33.5	**34.6**	**32.6**	**31.0**	*35.4*	*31.4*	*30.2*
Sweden	56.9	53.4	51.9	50.7	51.0	50.1	**49.8**	**50.0**	**49.9**	*49.9*	*50.1*	*50.1*
United Kingdom	38.3	38.7	39.7	38.4	39.3	38.3	**38.8**	**39.2**	**39.3**	*38.4*	*38.6*	*38.7*
EU	:	43.4	43.9	44.8	45.3	45.2	**45.0**	**44.8**	**44.7**	*44.9*	*44.6*	*44.5*
USA	34.0	31.7	31.7	31.2	33.4	33.1	**33.6**	**34.0**	**34.3**	*33.6*	*33.9*	*34.1*
Japan	31.4	31.5	33.4	33.1	33.9	35.8	**36.3**	**36.8**	**37.5**	*35.7*	*36.1*	*36.8*

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1997-2017) — 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	-0.7	-0.8	-2.9	-4.1	-2.9	-3.1	**-2.9**	**-2.8**	**-2.4**	*-2.7*	*-2.6*	*-2.3*
Germany	-1.9	-3.4	-1.7	-0.1	-0.1	0.3	**0.5**	**0.1**	**0.0**	*0.9*	*0.5*	*0.4*
Estonia	-0.4	1.7	-0.2	-0.3	-0.1	0.7	**0.3**	**0.2**	**0.1**	*0.2*	*0.2*	*0.1*
Ireland	2.3	1.2	-13.1	-8.0	-5.7	-3.9	**-1.8**	**-1.3**	**-0.8**	*-2.2*	*-1.5*	*-1.5*
Greece	-5.5	-7.0	-10.7	-8.8	-12.4	-3.6	**-7.6**	**-3.4**	**-2.1**	*-4.6*	*-3.6*	*-2.2*
Spain	-2.0	0.5	-6.4	-10.4	-6.9	-5.9	**-4.8**	**-3.6**	**-2.6**	*-4.7*	*-3.6*	*-2.6*
France	-2.1	-3.2	-5.0	-4.8	-4.1	-3.9	**-3.7**	**-3.4**	**-3.2**	*-3.8*	*-3.4*	*-3.3*
Italy	-2.5	-3.6	-3.4	-3.0	-2.9	-3.0	**-2.6**	**-2.5**	**-1.5**	*-2.6*	*-2.3*	*-1.6*
Cyprus	-3.4	-3.4	-2.4	-5.8	-4.9	-8.9	**-1.0**	**0.1**	**0.4**	*-0.7*	*0.1*	*0.3*
Latvia	-1.4	-1.2	-5.1	-0.8	-0.9	-1.6	**-1.3**	**-1.0**	**-1.0**	*-1.5*	*-1.2*	*-1.1*
Lithuania	-4.9	-1.0	-5.8	-3.1	-2.6	-0.7	**-0.9**	**-1.2**	**-0.4**	*-1.1*	*-1.3*	*-0.4*
Luxembourg	4.4	0.7	1.4	0.2	0.7	1.4	**0.2**	**0.5**	**0.5**	*0.0*	*0.5*	*0.5*
Malta	-6.9	-4.8	-3.1	-3.6	-2.6	-2.1	**-1.6**	**-1.1**	**-1.0**	*-1.7*	*-1.2*	*-1.1*
Netherlands	-0.1	-1.4	-2.9	-3.9	-2.4	-2.4	**-2.2**	**-1.8**	**-1.5**	*-2.1*	*-1.5*	*-1.2*
Austria	-2.1	-2.6	-3.0	-2.2	-1.3	-2.7	**-1.6**	**-1.7**	**-1.7**	*-1.9*	*-1.6*	*-1.3*
Portugal	-3.8	-4.9	-7.0	-5.7	-4.8	-7.2	**-4.2**	**-3.4**	**-3.5**	*-3.0*	*-2.9*	*-2.5*
Slovenia	-3.0	-1.9	-3.9	-4.1	-15.0	-5.0	**-2.9**	**-2.4**	**-1.9**	*-2.9*	*-2.4*	*-2.0*
Slovakia	-7.4	-3.9	-4.7	-4.2	-2.6	-2.8	**-2.7**	**-2.1**	**-1.7**	*-2.7*	*-2.4*	*-2.0*
Finland	2.8	3.0	0.6	-2.1	-2.5	-3.3	**-3.2**	**-2.8**	**-2.5**	*-3.2*	*-2.7*	*-2.3*
Euro area	-1.9	-2.6	-3.9	-3.7	-3.0	-2.6	**-2.2**	**-1.9**	**-1.6**	*-2.0*	*-1.8*	*-1.5*
Bulgaria	0.5	0.6	-1.3	-0.6	-0.8	-5.8	**-2.5**	**-2.3**	**-2.0**	*-2.8*	*-2.7*	*-2.7*
Czech Republic	-4.1	-4.2	-3.1	-4.0	-1.3	-1.9	**-1.6**	**-1.1**	**-1.0**	*-1.9*	*-1.3*	*-1.1*
Denmark	0.5	2.4	0.1	-3.5	-1.1	1.5	**-2.0**	**-2.7**	**-1.9**	*-3.3*	*-2.5*	*-1.7*
Croatia	:	-4.0	-4.9	-5.3	-5.4	-5.6	**-4.2**	**-3.9**	**-3.2**	*-4.9*	*-4.7*	*-4.1*
Hungary	-5.1	-7.9	-4.7	-2.3	-2.5	-2.5	**-2.1**	**-2.0**	**-1.9**	*-2.3*	*-2.1*	*-2.0*
Poland	-3.7	-4.7	-5.0	-3.7	-4.0	-3.3	**-3.0**	**-2.8**	**-3.4**	*-2.8*	*-2.8*	*-2.8*
Romania	-4.0	-1.6	-6.0	-3.2	-2.2	-1.4	**-1.1**	**-3.0**	**-3.8**	*-1.2*	*-2.8*	*-3.7*
Sweden	1.0	0.3	0.9	-0.9	-1.4	-1.7	**-1.0**	**-1.1**	**-1.2**	*-1.4*	*-1.3*	*-1.2*
United Kingdom	0.0	-3.1	-7.2	-8.3	-5.7	-5.7	**-4.4**	**-3.1**	**-2.1**	*-4.4*	*-3.0*	*-1.9*
EU	:	-2.6	-4.2	-4.3	-3.3	-3.0	**-2.5**	**-2.2**	**-1.8**	*-2.5*	*-2.0*	*-1.6*
USA	-0.5	-4.6	-9.2	-8.8	-5.3	-4.9	**-4.2**	**-4.3**	**-4.4**	*-4.0*	*-3.5*	*-3.2*
Japan	-7.0	-5.5	-6.0	-8.7	-8.5	-6.2	**-5.1**	**-4.2**	**-3.6**	*-6.6*	*-5.7*	*-5.1*

Table 37: Interest expenditure, general government (as a percentage of GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	7.0	4.9	3.8	3.6	3.3	3.1	**2.9**	**2.7**	**2.6**	*2.9*	*2.8*	*2.7*
Germany	3.2	2.8	2.6	2.3	2.0	1.8	**1.5**	**1.4**	**1.4**	*1.5*	*1.4*	*1.4*
Estonia	0.4	0.2	0.2	0.1	0.1	0.1	**0.1**	**0.1**	**0.1**	*0.1*	*0.1*	*0.1*
Ireland	2.6	1.1	2.1	4.1	4.3	4.0	**3.3**	**3.0**	**2.9**	*3.3*	*3.0*	*3.0*
Greece	7.3	4.9	5.5	5.1	4.0	3.9	**4.1**	**3.9**	**3.8**	*4.4*	*4.1*	*4.0*
Spain	3.6	2.1	1.8	3.0	3.4	3.4	**3.1**	**2.9**	**2.7**	*3.1*	*3.0*	*2.8*
France	3.0	2.7	2.6	2.6	2.3	2.2	**2.0**	**2.0**	**2.0**	*2.0*	*2.1*	*2.1*
Italy	7.1	4.8	4.6	5.2	4.8	4.6	**4.2**	**4.1**	**3.9**	*4.3*	*4.1*	*3.9*
Cyprus	2.9	3.1	2.4	2.9	3.1	2.9	**3.3**	**2.5**	**2.2**	*2.8*	*2.5*	*2.3*
Latvia	0.8	0.6	1.2	1.6	1.5	1.4	**1.4**	**1.2**	**1.1**	*1.3*	*1.2*	*1.1*
Lithuania	1.3	1.0	1.2	2.0	1.8	1.6	**1.6**	**1.6**	**1.5**	*1.6*	*1.6*	*1.5*
Luxembourg	0.4	0.2	0.4	0.5	0.4	0.4	**0.4**	**0.4**	**0.4**	*0.4*	*0.4*	*0.4*
Malta	3.4	3.7	3.3	3.0	2.9	2.8	**2.6**	**2.4**	**2.3**	*2.7*	*2.4*	*2.3*
Netherlands	3.8	2.3	1.9	1.6	1.5	1.4	**1.3**	**1.2**	**1.1**	*1.3*	*1.2*	*1.1*
Austria	3.6	3.2	3.0	2.7	2.6	2.5	**2.3**	**2.2**	**2.2**	*2.4*	*2.2*	*2.2*
Portugal	3.2	2.7	3.3	4.9	4.9	4.9	**4.8**	**4.6**	**4.4**	*4.9*	*4.5*	*4.3*
Slovenia	2.3	1.7	1.4	2.0	2.6	3.2	**3.0**	**2.9**	**2.7**	*3.0*	*2.9*	*2.6*
Slovakia	3.2	2.2	1.4	1.8	1.9	1.9	**1.5**	**1.5**	**1.5**	*1.6*	*1.6*	*1.5*
Finland	3.1	1.7	1.4	1.4	1.3	1.2	**1.2**	**1.1**	**1.1**	*1.2*	*1.1*	*1.1*
Euro area	4.1	3.1	2.9	3.0	2.8	2.7	**2.4**	**2.3**	**2.2**	*2.4*	*2.3*	*2.2*
Bulgaria	4.4	1.8	0.8	0.8	0.7	0.9	**0.9**	**1.0**	**1.0**	*1.0*	*1.0*	*1.1*
Czech Republic	0.9	1.1	1.2	1.4	1.3	1.3	**1.1**	**1.0**	**1.0**	*1.2*	*1.2*	*1.1*
Denmark	4.2	2.4	1.8	1.8	1.7	1.5	**1.6**	**1.2**	**1.2**	*1.5*	*1.2*	*1.2*
Croatia	:	1.8	2.3	3.4	3.5	3.5	**3.5**	**3.5**	**3.5**	*3.6*	*3.7*	*3.7*
Hungary	6.4	4.1	4.2	4.6	4.5	4.0	**3.5**	**3.3**	**3.1**	*3.5*	*3.3*	*3.1*
Poland	3.5	2.7	2.4	2.7	2.5	1.9	**1.8**	**1.7**	**1.6**	*1.8*	*1.7*	*1.6*
Romania	4.1	1.5	1.2	1.8	1.7	1.7	**1.6**	**1.6**	**1.6**	*1.6*	*1.5*	*1.5*
Sweden	3.8	2.0	1.3	0.9	0.8	0.7	**0.6**	**0.6**	**0.6**	*0.6*	*0.6*	*0.6*
United Kingdom	2.8	2.0	2.5	2.9	2.9	2.7	**2.4**	**2.4**	**2.3**	*2.4*	*2.4*	*2.3*
EU	:	2.8	2.7	2.9	2.7	2.5	**2.3**	**2.2**	**2.1**	*2.3*	*2.2*	*2.1*
USA	4.2	3.4	3.7	3.8	3.6	3.5	**3.6**	**4.0**	**4.1**	*3.7*	*4.1*	*4.1*
Japan	3.2	1.9	2.0	2.1	2.1	2.0	**2.0**	**1.9**	**1.8**	*1.9*	*1.9*	*1.8*

Table 38: Primary balance, general government [1] (as a percentage of GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	6.3	4.1	0.9	-0.6	0.4	0.0	**0.0**	**-0.1**	**0.2**	*0.2*	*0.2*	*0.4*
Germany	1.3	-0.6	0.9	2.2	1.9	2.1	**2.1**	**1.6**	**1.4**	*2.4*	*1.9*	*1.8*
Estonia	0.0	1.9	0.0	-0.1	0.0	0.8	**0.4**	**0.2**	**0.2**	*0.3*	*0.3*	*0.2*
Ireland	4.9	2.3	-10.9	-4.0	-1.4	0.1	**1.5**	**1.7**	**2.1**	*1.1*	*1.5*	*1.5*
Greece	1.8	-2.1	-5.2	-3.7	-8.4	0.4	**-3.5**	**0.5**	**1.8**	*-0.3*	*0.5*	*1.8*
Spain	1.7	2.6	-4.6	-7.5	-3.5	-2.5	**-1.8**	**-0.7**	**0.1**	*-1.6*	*-0.6*	*0.1*
France	1.0	-0.5	-2.4	-2.2	-1.8	-1.8	**-1.6**	**-1.4**	**-1.2**	*-1.8*	*-1.4*	*-1.2*
Italy	4.6	1.2	1.2	2.2	1.9	1.6	**1.7**	**1.5**	**2.3**	*1.7*	*1.8*	*2.3*
Cyprus	-0.5	-0.3	0.0	-2.9	-1.8	-6.0	**2.2**	**2.6**	**2.6**	*2.1*	*2.6*	*2.6*
Latvia	-0.6	-0.6	-3.9	0.8	0.6	-0.1	**0.1**	**0.1**	**0.2**	*-0.2*	*0.0*	*0.1*
Lithuania	-3.5	0.0	-4.5	-1.2	-0.9	0.9	**0.7**	**0.4**	**1.1**	*0.6*	*0.3*	*1.1*
Luxembourg	4.8	0.9	1.7	0.6	1.1	1.8	**0.6**	**0.9**	**0.8**	*0.4*	*0.9*	*0.9*
Malta	-3.5	-1.1	0.2	-0.6	0.3	0.8	**1.0**	**1.3**	**1.3**	*1.0*	*1.2*	*1.2*
Netherlands	3.7	0.9	-0.9	-2.2	-0.9	-0.9	**-0.9**	**-0.6**	**-0.3**	*-0.8*	*-0.3*	*-0.1*
Austria	1.5	0.6	0.0	0.5	1.3	-0.2	**0.7**	**0.6**	**0.5**	*0.5*	*0.7*	*0.9*
Portugal	-0.6	-2.2	-3.8	-0.8	0.0	-2.3	**0.5**	**1.2**	**0.9**	*2.0*	*1.6*	*1.8*
Slovenia	-0.7	-0.2	-2.5	-2.1	-12.4	-1.9	**0.0**	**0.5**	**0.8**	*0.0*	*0.5*	*0.6*
Slovakia	-4.2	-1.7	-3.4	-2.4	-0.8	-0.9	**-1.2**	**-0.6**	**-0.2**	*-1.1*	*-0.8*	*-0.5*
Finland	5.9	4.8	2.0	-0.7	-1.3	-2.1	**-2.1**	**-1.7**	**-1.4**	*-2.0*	*-1.5*	*-1.2*
Euro area	2.3	0.5	-1.0	-0.6	-0.2	0.1	**0.2**	**0.4**	**0.6**	*0.4*	*0.5*	*0.8*
Bulgaria	4.9	2.4	-0.5	0.2	0.0	-4.9	**-1.6**	**-1.3**	**-1.0**	*-1.8*	*-1.7*	*-1.6*
Czech Republic	-3.1	-3.1	-1.9	-2.5	0.1	-0.6	**-0.5**	**-0.1**	**0.1**	*-0.7*	*-0.2*	*0.1*
Denmark	4.6	4.8	1.9	-1.7	0.6	3.0	**-0.5**	**-1.5**	**-0.7**	*-1.8*	*-1.2*	*-0.5*
Croatia	:	-2.2	-2.6	-2.0	-1.9	-2.1	**-0.6**	**-0.3**	**0.4**	*-1.3*	*-1.0*	*-0.4*
Hungary	1.4	-3.8	-0.5	2.3	2.0	1.5	**1.4**	**1.3**	**1.2**	*1.2*	*1.2*	*1.1*
Poland	-0.2	-2.0	-2.7	-1.0	-1.5	-1.4	**-1.3**	**-1.1**	**-1.7**	*-1.0*	*-1.2*	*-1.3*
Romania	0.1	-0.1	-4.8	-1.4	-0.4	0.3	**0.5**	**-1.4**	**-2.2**	*0.4*	*-1.2*	*-2.2*
Sweden	4.8	2.3	2.2	0.0	-0.6	-0.9	**-0.4**	**-0.4**	**-0.6**	*-0.8*	*-0.6*	*-0.6*
United Kingdom	2.8	-1.1	-4.8	-5.4	-2.8	-3.0	**-2.0**	**-0.8**	**0.2**	*-2.0*	*-0.6*	*0.4*
EU	2.4	0.2	-1.5	-1.4	-0.6	-0.5	**-0.2**	**0.0**	**0.4**	*-0.1*	*0.2*	*0.5*
USA	3.7	-1.2	-5.5	-5.0	-1.7	-1.4	**-0.6**	**-0.3**	**-0.2**	*-0.3*	*0.6*	*0.9*
Japan	-3.8	-3.5	-4.0	-6.6	-6.4	-4.1	**-3.2**	**-2.3**	**-1.8**	*-4.7*	*-3.9*	*-3.3*

[1] Net lending/borrowing excluding interest expenditure.

Table 39: Cyclically-adjusted net lending (+) or net borrowing (-), general government[1] (as a percentage of potential GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2015	2016	2017
Belgium	-1.1	-1.1	-3.3	-3.8	-2.1	-2.5	**-2.4**	**-2.3**	**-2.1**	*-2.2*	*-2.1*	*-2.1*
Germany	-2.2	-2.7	-1.5	-0.3	0.2	0.5	**0.8**	**0.4**	**0.2**	*1.1*	*0.7*	*0.6*
Estonia	0.4	-0.6	-0.5	-1.2	-0.8	-0.1	**0.2**	**0.2**	**0.1**	*0.0*	*0.1*	*-0.2*
Ireland	0.9	0.5	-12.5	-6.4	-3.9	-3.2	**-2.6**	**-2.0**	**-0.9**	*-2.9*	*-2.2*	*-1.6*
Greece	-6.0	-7.8	-10.5	-2.5	-6.2	1.3	**-3.7**	**-0.1**	**-0.7**	*-0.8*	*-0.3*	*-1.0*
Spain	-2.6	-0.9	-5.5	-6.3	-2.3	-2.1	**-2.6**	**-2.6**	**-2.5**	*-2.6*	*-2.7*	*-2.6*
France	-2.5	-4.1	-5.0	-4.2	-3.4	-2.8	**-2.6**	**-2.5**	**-2.6**	*-2.7*	*-2.5*	*-2.6*
Italy	-3.0	-4.0	-2.9	-1.2	-0.7	-0.9	**-1.0**	**-1.7**	**-1.4**	*-1.0*	*-1.5*	*-1.5*
Cyprus	:	-4.4	-3.7	-4.7	-1.8	-5.3	**1.2**	**1.1**	**0.2**	*1.2*	*0.7*	*-0.4*
Latvia	-1.2	-2.3	-4.0	-0.1	-1.0	-2.0	**-1.9**	**-1.7**	**-1.6**	*-2.1*	*-1.9*	*-1.8*
Lithuania	-4.6	-1.7	-5.1	-2.5	-2.7	-1.2	**-1.1**	**-1.5**	**-1.0**	*-1.2*	*-1.6*	*-0.9*
Luxembourg	3.4	0.4	1.7	2.6	2.3	2.7	**0.8**	**0.9**	**0.4**	*0.7*	*0.9*	*0.9*
Malta	:	-5.0	-3.0	-3.1	-2.5	-2.2	**-2.0**	**-1.5**	**-1.3**	*-2.0*	*-1.6*	*-1.4*
Netherlands	-0.8	-0.5	-2.6	-2.3	-0.4	-0.7	**-1.2**	**-1.5**	**-1.8**	*-1.1*	*-1.1*	*-1.5*
Austria	-2.4	-2.3	-3.1	-2.3	-1.1	-2.2	**-0.9**	**-1.2**	**-1.4**	*-1.2*	*-1.2*	*-1.1*
Portugal	-5.0	-4.6	-6.6	-3.1	-2.2	-5.2	**-3.1**	**-2.8**	**-3.5**	*-1.8*	*-2.3*	*-2.4*
Slovenia	:	-2.6	-4.5	-2.2	-12.7	-4.0	**-2.7**	**-2.7**	**-2.8**	*-2.7*	*-2.6*	*-2.9*
Slovakia	-7.4	-3.6	-5.6	-3.5	-1.7	-2.0	**-2.3**	**-1.8**	**-1.6**	*-2.3*	*-2.1*	*-2.0*
Finland	1.9	3.0	0.6	-1.3	-1.1	-1.8	**-1.8**	**-1.8**	**-1.8**	*-1.7*	*-1.5*	*-1.5*
Euro area	-2.3	-2.8	-3.7	-2.5	-1.5	-1.2	**-1.2**	**-1.3**	**-1.4**	*-1.0*	*-1.2*	*-1.3*
Bulgaria	0.4	0.4	-1.6	-0.5	-0.8	-5.7	**-2.4**	**-2.1**	**-1.7**	*-2.6*	*-2.4*	*-2.4*
Czech Republic	-3.6	-4.8	-3.7	-3.2	0.0	-0.9	**-1.6**	**-1.3**	**-1.3**	*-2.0*	*-1.5*	*-1.4*
Denmark	-0.9	1.2	0.8	-1.6	1.3	3.5	**-0.3**	**-1.3**	**-1.0**	*-1.5*	*-1.3*	*-1.0*
Croatia	:	-4.6	-5.9	-3.9	-3.5	-3.6	**-2.7**	**-3.2**	**-3.3**	*-3.6*	*-3.9*	*-3.9*
Hungary	-4.6	-9.0	-4.2	-0.7	-1.4	-2.3	**-2.2**	**-2.1**	**-2.2**	*-2.4*	*-2.3*	*-2.3*
Poland	-4.1	-3.3	-6.2	-3.9	-3.4	-2.8	**-2.8**	**-2.8**	**-3.4**	*-2.6*	*-2.8*	*-2.9*
Romania	-2.9	-2.7	-6.2	-1.5	-1.2	-0.7	**-0.7**	**-3.0**	**-4.0**	*-0.8*	*-2.7*	*-3.8*
Sweden	1.0	0.3	1.3	0.2	-0.1	-0.6	**-0.7**	**-1.0**	**-1.2**	*-1.0*	*-1.0*	*-0.9*
United Kingdom	-0.4	-3.6	-6.1	-6.6	-4.6	-5.3	**-4.4**	**-3.3**	**-2.5**	*-4.5*	*-3.3*	*-2.4*
EU	:	-2.8	-3.9	-3.0	-1.9	-1.9	**-1.8**	**-1.7**	**-1.7**	*-1.7*	*-1.6*	*-1.5*

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 40: Cyclically-adjusted primary balance, general government[1] (as a percentage of potential GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2015	2016	2017
Belgium	5.9	3.8	0.5	-0.2	1.2	0.6	**0.5**	**0.4**	**0.4**	*0.7*	*0.7*	*0.6*
Germany	1.0	0.1	1.1	2.0	2.2	2.3	**2.3**	**1.8**	**1.5**	*2.6*	*2.1*	*1.9*
Estonia	0.8	-0.4	-0.4	-1.0	-0.6	0.1	**0.3**	**0.3**	**0.2**	*0.1*	*0.1*	*-0.1*
Ireland	3.5	1.6	-10.4	-2.3	0.4	0.7	**0.7**	**1.0**	**2.0**	*0.4*	*0.8*	*1.3*
Greece	1.3	-3.0	-5.0	2.6	-2.2	5.2	**0.4**	**3.8**	**3.1**	*3.6*	*3.8*	*3.0*
Spain	1.0	1.1	-3.7	-3.4	1.0	1.3	**0.4**	**0.3**	**0.2**	*0.5*	*0.3*	*0.2*
France	0.6	-1.5	-2.5	-1.7	-1.1	-0.7	**-0.6**	**-0.5**	**-0.6**	*-0.7*	*-0.5*	*-0.6*
Italy	4.1	0.8	1.7	4.0	4.2	3.7	**3.2**	**2.4**	**2.5**	*3.3*	*2.6*	*2.5*
Cyprus	:	-1.3	-1.3	-1.8	1.3	-2.5	**4.5**	**3.6**	**2.4**	*4.0*	*3.2*	*1.9*
Latvia	-0.4	-1.7	-2.9	1.5	0.5	-0.6	**-0.5**	**-0.6**	**-0.5**	*-0.8*	*-0.7*	*-0.6*
Lithuania	-3.3	-0.7	-3.9	-0.5	-0.9	0.4	**0.6**	**0.0**	**0.5**	*0.4*	*0.0*	*0.6*
Luxembourg	3.8	0.6	2.1	3.1	2.8	3.0	**1.2**	**1.3**	**0.8**	*1.1*	*1.3*	*1.3*
Malta	:	-1.3	0.3	-0.1	0.3	0.6	**0.5**	**0.9**	**1.0**	*0.7*	*0.9*	*0.9*
Netherlands	3.0	1.8	-0.7	-0.6	1.1	0.8	**0.1**	**-0.2**	**-0.7**	*0.3*	*0.1*	*-0.4*
Austria	1.2	0.9	-0.1	0.4	1.5	0.2	**1.4**	**1.1**	**0.8**	*1.2*	*1.0*	*1.0*
Portugal	-1.9	-1.9	-3.3	1.8	2.6	-0.3	**1.7**	**1.8**	**0.9**	*3.1*	*2.2*	*1.9*
Slovenia	:	-0.8	-3.1	-0.2	-10.2	-0.8	**0.2**	**0.1**	**-0.1**	*0.3*	*0.3*	*-0.3*
Slovakia	-4.1	-1.4	-4.2	-1.7	0.2	-0.1	**-0.8**	**-0.3**	**-0.1**	*-0.7*	*-0.5*	*-0.4*
Finland	5.0	4.8	2.0	0.2	0.1	-0.6	**-0.6**	**-0.6**	**-0.7**	*-0.6*	*-0.4*	*-0.4*
Euro area	1.8	0.3	-0.8	0.5	1.3	1.4	**1.2**	**1.0**	**0.8**	*1.4*	*1.1*	*1.0*
Bulgaria	4.9	2.2	-0.8	0.3	0.0	-4.8	**-1.5**	**-1.1**	**-0.7**	*-1.6*	*-1.4*	*-1.3*
Czech Republic	-2.6	-3.7	-2.5	-1.8	1.4	0.4	**-0.5**	**-0.2**	**-0.3**	*-0.8*	*-0.3*	*-0.3*
Denmark	3.3	3.7	2.5	0.3	3.0	5.0	**1.3**	**-0.1**	**0.2**	*0.0*	*-0.1*	*0.2*
Croatia	:	-2.8	-3.5	-0.5	0.0	-0.1	**0.8**	**0.3**	**0.3**	*0.0*	*-0.2*	*-0.1*
Hungary	1.8	-4.9	0.0	3.9	3.2	1.8	**1.3**	**1.1**	**0.9**	*1.1*	*1.0*	*0.9*
Poland	-0.6	-0.6	-3.8	-1.3	-0.9	-0.9	**-1.0**	**-1.1**	**-1.8**	*-0.8*	*-1.1*	*-1.3*
Romania	1.3	-1.2	-5.0	0.2	0.6	1.0	**0.9**	**-1.4**	**-2.3**	*0.8*	*-1.2*	*-2.3*
Sweden	4.8	2.3	2.6	1.1	0.7	0.1	**-0.1**	**-0.4**	**-0.6**	*-0.4*	*-0.3*	*-0.3*
United Kingdom	2.5	-1.6	-3.6	-3.7	-1.7	-2.6	**-2.0**	**-0.9**	**-0.2**	*-2.0*	*-0.9*	*-0.1*
EU	2.0	0.0	-1.2	-0.2	0.8	0.7	**0.5**	**0.5**	**0.5**	*0.6*	*0.6*	*0.6*

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 41: Structural budget balance, general government[1] (as a percentage of potential GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2015	2016	2017
Belgium	:	:	:	-3.4	-2.8	-2.9	**-2.7**	**-2.4**	**-2.2**	*-2.5*	*-2.1*	*-2.2*
Germany	:	:	:	-0.2	0.2	0.8	**0.8**	**0.3**	**0.0**	*0.9*	*0.7*	*0.6*
Estonia	:	:	:	-0.2	-0.6	0.1	**0.5**	**0.3**	**0.1**	*0.3*	*0.2*	*-0.2*
Ireland	:	:	:	-6.4	-4.3	-3.1	**-2.6**	**-1.9**	**-0.9**	*-3.0*	*-2.1*	*-1.6*
Greece	:	:	:	-0.2	2.3	1.3	**-0.6**	**-0.1**	**-0.7**	*-1.1*	*-0.3*	*-1.0*
Spain	:	:	:	-3.4	-1.9	-1.7	**-2.5**	**-2.6**	**-2.5**	*-2.5*	*-2.6*	*-2.6*
France	:	:	:	-4.3	-3.6	-2.9	**-2.7**	**-2.3**	**-2.5**	*-2.7*	*-2.4*	*-2.6*
Italy	:	:	-3.3	-1.3	-0.9	-1.1	**-1.0**	**-1.7**	**-1.4**	*-1.0*	*-1.5*	*-1.4*
Cyprus	:	:	:	-4.9	-1.5	2.3	**0.4**	**0.7**	**-0.1**	*0.4*	*0.2*	*-0.7*
Latvia	:	:	:	-0.1	-1.0	-1.7	**-1.9**	**-1.7**	**-1.6**	*-2.1*	*-1.9*	*-1.8*
Lithuania	:	:	:	-2.6	-2.3	-1.6	**-1.1**	**-1.5**	**-1.0**	*-1.2*	*-1.4*	*-0.9*
Luxembourg	:	:	:	2.6	2.3	2.5	**0.8**	**0.9**	**0.4**	*0.7*	*0.9*	*0.9*
Malta	:	:	:	-3.4	-2.7	-2.5	**-2.2**	**-1.6**	**-1.3**	*-2.1*	*-1.7*	*-1.5*
Netherlands	:	:	:	-2.3	-1.0	-0.6	**-1.2**	**-1.7**	**-1.8**	*-1.1*	*-1.4*	*-1.5*
Austria	:	:	:	-1.8	-1.3	-0.7	**-0.3**	**-1.0**	**-1.4**	*-0.6*	*-1.0*	*-1.1*
Portugal	:	:	-6.0	-3.0	-2.5	-1.4	**-1.9**	**-2.9**	**-3.5**	*-1.8*	*-2.3*	*-2.4*
Slovenia	:	:	:	-2.1	-2.2	-2.8	**-2.6**	**-2.5**	**-2.8**	*-2.7*	*-2.5*	*-2.9*
Slovakia	:	:	:	-3.6	-1.7	-2.0	**-2.1**	**-1.8**	**-1.6**	*-2.1*	*-2.0*	*-2.0*
Finland	:	:	:	-1.2	-1.1	-1.9	**-1.8**	**-1.8**	**-1.8**	*-1.7*	*-1.5*	*-1.5*
Euro area	:	:	:	-2.1	-1.4	-1.0	**-1.1**	**-1.3**	**-1.4**	*-1.1*	*-1.2*	*-1.2*
Bulgaria	:	:	:	-0.5	-0.8	-2.5	**-2.3**	**-2.8**	**-1.7**	*-2.6*	*-2.4*	*-2.4*
Czech Republic	:	:	:	-1.5	0.1	-0.7	**-1.5**	**-1.2**	**-1.3**	*-2.0*	*-1.4*	*-1.4*
Denmark	:	:	0.8	0.0	-0.2	0.3	**-1.7**	**-1.4**	**-1.0**	*-2.3*	*-1.4*	*-1.0*
Croatia	:	:	:	-3.9	-3.3	-3.5	**-2.7**	**-3.2**	**-3.3**	*-3.5*	*-3.8*	*-3.9*
Hungary	:	:	:	-1.4	-1.5	-2.5	**-2.2**	**-2.5**	**-2.2**	*-2.3*	*-2.6*	*-2.3*
Poland	:	:	:	-4.0	-3.4	-2.6	**-2.7**	**-3.2**	**-3.4**	*-3.0*	*-2.6*	*-2.9*
Romania	:	:	:	-2.1	-1.2	-0.7	**-1.0**	**-3.0**	**-4.0**	*-0.8*	*-2.7*	*-3.8*
Sweden	:	:	:	0.2	-0.1	-0.6	**-0.7**	**-1.0**	**-1.2**	*-1.0*	*-1.0*	*-0.9*
United Kingdom	:	:	:	-6.6	-4.6	-5.2	**-4.4**	**-3.3**	**-2.5**	*-4.5*	*-3.3*	*-2.4*
EU	:	:	:	-2.7	-1.9	-1.7	**-1.8**	**-1.7**	**-1.7**	*-1.8*	*-1.6*	*-1.5*

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 42: Gross debt, general government (as a percentage of GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2015	2016	2017
Belgium	114.4	97.6	96.1	104.1	105.1	106.7	**106.1**	**106.6**	**105.6**	*106.7*	*107.1*	*106.1*
Germany	58.9	64.0	72.1	79.7	77.4	74.9	**71.6**	**69.2**	**66.8**	*71.4*	*68.5*	*65.6*
Estonia	5.9	5.1	5.5	9.5	9.9	10.4	**10.1**	**9.8**	**9.4**	*10.0*	*9.6*	*9.2*
Ireland	45.8	27.7	64.9	120.2	120.0	107.5	**98.4**	**93.9**	**91.5**	*99.8*	*95.4*	*93.7*
Greece	101.3	103.9	131.4	159.4	177.0	178.6	**179.0**	**185.0**	**181.8**	*194.8*	*199.7*	*195.6*
Spain	60.0	45.1	51.4	85.4	93.7	99.3	**100.7**	**101.2**	**100.1**	*100.8*	*101.3*	*100.4*
France	59.8	64.3	75.7	89.6	92.3	95.6	**96.2**	**96.8**	**97.1**	*96.5*	*97.1*	*97.4*
Italy	108.8	101.4	109.2	123.2	128.8	132.3	**132.8**	**132.4**	**130.6**	*133.0*	*132.2*	*130.0*
Cyprus	55.0	62.1	55.0	79.3	102.5	108.2	**108.4**	**99.9**	**95.0**	*106.7*	*98.7*	*94.6*
Latvia	11.6	12.6	30.8	41.4	39.1	40.8	**36.7**	**39.9**	**37.7**	*38.3*	*41.1*	*37.6*
Lithuania	20.2	19.2	26.6	39.8	38.8	40.7	**42.7**	**40.6**	**42.3**	*42.9*	*40.8*	*42.5*
Luxembourg	7.0	6.5	15.1	22.1	23.4	23.0	**21.3**	**22.7**	**22.0**	*22.3*	*23.9*	*23.5*
Malta	57.2	67.8	66.1	67.4	68.5	66.9	**64.0**	**61.2**	**58.7**	*65.9*	*63.2*	*61.0*
Netherlands	57.2	48.1	54.8	66.4	67.9	68.2	**66.8**	**66.2**	**65.1**	*68.6*	*67.9*	*66.9*
Austria	65.1	66.4	75.5	81.6	80.8	84.2	**85.9**	**85.1**	**84.0**	*86.6*	*85.7*	*84.3*
Portugal	52.4	62.7	86.3	126.2	129.0	130.2	**129.1**	**128.5**	**127.2**	*128.2*	*124.7*	*121.3*
Slovenia	24.1	26.6	32.7	53.7	70.8	80.8	**83.5**	**79.8**	**79.5**	*84.2*	*80.9*	*78.3*
Slovakia	42.4	38.0	35.6	51.9	54.6	53.5	**52.3**	**51.9**	**51.2**	*52.7*	*52.6*	*52.2*
Finland	45.3	40.8	40.8	52.9	55.6	59.3	**62.7**	**65.0**	**66.2**	*62.5*	*64.5*	*65.7*
Euro area	69.9	67.9	76.5	91.3	93.4	94.5	**93.5**	**92.7**	**91.3**	*94.0*	*92.9*	*91.3*
Bulgaria	75.7	35.6	14.7	17.6	18.0	27.0	**28.2**	**29.7**	**30.7**	*31.8*	*32.8*	*33.6*
Czech Republic	16.2	27.7	33.7	44.7	45.2	42.7	**40.9**	**40.7**	**40.1**	*41.0*	*41.0*	*40.5*
Denmark	:	41.7	38.1	45.2	44.6	44.6	**39.9**	**38.3**	**38.8**	*40.2*	*39.3*	*38.3*
Croatia	:	38.5	48.9	69.2	80.8	85.1	**86.0**	**87.0**	**87.4**	*89.2*	*91.7*	*92.9*
Hungary	57.8	59.3	75.3	78.3	76.8	76.2	**75.8**	**74.3**	**72.4**	*75.8*	*74.5*	*72.6*
Poland	38.7	45.5	49.7	54.0	55.9	50.4	**51.4**	**52.5**	**53.5**	*51.4*	*52.4*	*53.5*
Romania	20.3	18.5	22.6	37.4	38.0	39.8	**39.0**	**40.5**	**42.6**	*39.4*	*40.9*	*42.8*
Sweden	59.7	47.6	38.0	37.2	39.8	44.9	**44.0**	**43.1**	**42.3**	*44.7*	*44.0*	*43.3*
United Kingdom	41.5	39.5	63.9	85.3	86.2	88.2	**88.6**	**89.1**	**88.2**	*88.3*	*88.0*	*86.9*
EU	:	60.7	70.4	85.2	87.2	88.6	**87.2**	**86.9**	**85.7**	*87.8*	*87.1*	*85.8*

Table 43: **Gross national saving (as a percentage of GDP, 1997-2017)** 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	27.1	27.0	25.7	24.6	23.1	23.8	24.4	24.6	25.4	24.0	24.1	24.6
Germany	22.2	23.1	26.1	26.4	26.0	27.1	27.6	27.5	27.3	27.6	27.8	27.8
Estonia	22.1	22.9	23.8	27.8	28.2	27.8	25.2	25.1	24.3	25.9	25.8	24.9
Ireland	24.5	25.0	18.0	18.1	21.5	23.8	27.1	28.7	29.3	27.8	29.0	29.3
Greece	18.1	14.9	7.3	8.6	9.2	9.3	9.2	9.5	11.1	9.2	9.8	11.4
Spain	22.4	23.0	20.1	19.8	20.6	20.8	22.1	22.5	23.0	21.8	22.2	22.8
France	23.3	22.2	21.3	19.7	19.7	19.9	20.4	20.7	21.1	20.1	20.1	20.4
Italy	21.0	20.5	18.3	17.4	18.0	18.3	18.7	19.3	19.9	18.8	19.3	19.9
Cyprus	19.5	11.5	10.6	10.3	8.6	8.6	9.9	10.3	10.3	9.6	10.2	10.7
Latvia	16.5	20.7	23.3	22.6	22.0	21.5	21.0	20.7	20.6	21.6	21.2	21.1
Lithuania	13.3	16.1	16.6	18.3	20.6	22.2	16.3	16.3	18.4	16.6	16.6	18.3
Luxembourg	31.6	31.1	27.4	26.1	24.0	24.8	23.1	23.0	22.1	23.5	23.2	22.9
Malta	16.5	14.6	17.5	19.7	21.5	22.1	25.6	26.2	26.4	23.2	23.9	24.1
Netherlands	28.5	28.3	28.7	29.4	29.1	28.8	29.2	29.6	29.6	29.3	30.0	29.7
Austria	24.4	26.0	26.7	25.7	25.5	24.6	25.6	25.9	26.2	25.0	25.2	25.5
Portugal	19.3	15.0	11.7	13.7	15.4	15.4	15.7	16.1	16.4	15.7	15.9	16.2
Slovenia	24.8	26.2	24.4	20.9	23.2	26.3	26.9	26.8	27.1	27.0	26.9	27.0
Slovakia	25.5	21.0	20.3	21.2	21.7	20.2	22.9	20.5	21.0	21.7	20.3	20.8
Finland	28.8	28.5	25.1	20.6	19.4	19.6	19.5	19.9	20.6	19.0	19.6	20.1
Euro area	22.9	22.8	22.3	22.0	22.1	22.5	23.2	23.5	23.8	23.1	23.4	23.7
Bulgaria	18.6	15.8	14.9	19.1	20.9	22.1	23.4	22.8	23.0	22.9	22.0	21.7
Czech Republic	27.6	25.7	24.1	24.1	23.6	23.3	24.4	24.3	24.4	24.2	23.9	24.2
Denmark	24.1	25.9	25.0	25.3	26.6	27.6	26.4	26.8	27.2	25.8	26.2	26.4
Croatia	17.9	22.2	21.2	19.8	20.7	19.3	22.9	21.8	22.1	21.7	20.4	20.9
Hungary	21.1	17.6	19.4	21.1	24.6	24.4	26.0	25.9	26.6	25.5	25.7	26.3
Poland	19.4	16.4	17.5	17.7	18.5	19.0	20.1	19.8	19.2	19.8	19.7	19.5
Romania	13.1	15.5	20.3	22.8	24.9	24.3	24.6	23.2	22.9	23.1	22.7	22.9
Sweden	26.3	28.8	30.7	29.1	28.0	28.7	29.9	30.0	30.0	29.8	30.0	30.0
United Kingdom	18.3	16.9	14.3	13.0	12.4	12.4	12.5	13.2	13.9	13.2	14.2	14.9
EU	22.2	21.8	21.2	20.8	20.8	21.1	21.5	21.9	22.2	21.5	21.9	22.3
USA	20.3	17.4	14.9	17.0	17.4	18.0	17.0	17.3	17.5	17.9	18.0	18.2
Japan	28.2	26.0	24.5	21.9	21.8	22.4	24.6	25.2	25.6	24.3	24.6	25.0

Table 44: **Gross saving, private sector (as a percentage of GDP, 1997-2017)** 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	24.8	24.9	25.6	24.8	23.0	23.9	24.4	24.6	24.8	23.9	23.8	24.0
Germany	21.2	23.3	24.5	23.5	23.2	23.8	24.4	24.6	24.7	24.3	24.7	24.8
Estonia	17.5	16.3	19.2	22.9	23.7	22.2	19.9	19.9	19.3	20.4	20.4	19.7
Ireland	19.1	20.5	21.4	23.5	25.5	25.5	26.6	27.7	27.9	27.9	28.5	28.7
Greece	18.9	16.7	14.3	13.0	9.6	10.4	11.5	10.6	10.6	11.6	11.0	11.1
Spain	19.8	17.7	21.0	23.4	24.6	24.3	24.6	24.1	23.5	24.2	23.8	23.4
France	20.8	21.0	21.3	19.6	18.8	19.2	19.8	20.1	20.3	19.7	19.5	19.7
Italy	20.0	20.0	17.9	16.8	18.0	18.1	18.1	18.8	18.7	18.2	18.8	18.7
Cyprus	18.9	11.2	8.5	12.4	10.2	5.6	7.8	7.1	6.8	6.9	6.9	7.1
Latvia	15.0	18.0	23.7	20.0	19.8	19.7	19.1	18.6	18.1	20.0	19.7	19.2
Lithuania	11.9	13.7	17.9	19.3	20.5	20.9	13.5	13.9	15.4	13.9	14.0	15.3
Luxembourg	22.9	24.7	20.8	20.8	18.7	19.2	18.4	17.8	16.9	18.7	17.8	17.3
Malta	19.8	16.0	18.6	21.1	22.0	21.9	24.8	25.0	25.5	22.4	22.8	23.4
Netherlands	25.0	25.9	27.3	29.3	28.1	27.6	27.7	27.4	27.2	28.1	28.4	27.9
Austria	22.3	24.1	25.4	23.8	23.5	22.2	23.1	23.9	24.3	22.7	23.0	23.2
Portugal	18.5	16.3	14.9	17.8	18.2	17.5	17.0	18.0	18.1	17.0	17.3	17.0
Slovenia	22.7	23.5	23.2	21.0	23.4	25.8	25.9	26.2	25.9	26.2	26.1	25.9
Slovakia	24.3	20.3	21.4	22.7	21.8	20.1	19.5	19.6	19.7	19.8	19.8	19.7
Finland	22.0	21.9	20.9	18.8	18.0	18.9	18.8	18.9	19.2	18.2	18.3	18.4
Euro area	21.1	21.5	21.9	21.5	21.4	21.7	22.1	22.3	22.3	22.0	22.2	22.2
Bulgaria	14.4	11.5	11.9	17.3	19.5	21.7	22.0	20.6	21.1	22.2	21.3	21.0
Czech Republic	24.0	22.3	22.2	21.9	21.3	21.2	21.6	20.9	20.8	21.7	21.0	21.0
Denmark	20.8	20.9	21.5	23.4	23.6	21.8	24.4	25.7	25.5	25.3	25.0	24.6
Croatia	:	18.7	19.5	21.1	21.5	20.2	22.3	21.1	20.5	22.2	20.8	20.8
Hungary	20.1	19.5	20.1	20.2	23.9	22.9	23.1	23.4	23.9	23.5	23.6	23.9
Poland	19.6	17.4	17.5	17.7	19.2	18.8	19.6	19.4	19.0	19.5	18.9	18.8
Romania	13.7	12.2	19.7	21.0	22.2	20.9	21.1	22.0	22.7	18.8	21.1	22.3
Sweden	21.2	24.4	25.5	25.6	25.0	25.8	26.4	26.5	26.6	26.8	26.7	26.7
United Kingdom	16.0	17.0	17.5	17.4	15.1	15.0	13.6	13.0	12.7	14.4	13.9	13.6
EU	:	20.6	21.2	20.9	20.6	20.6	20.7	20.8	20.8	20.8	20.8	20.7
USA	17.5	18.3	19.7	22.1	19.4	19.7	17.9	18.3	18.4	18.9	19.0	18.9
Japan	27.2	27.4	27.7	26.9	25.9	24.7	26.1	26.0	25.7	26.5	26.3	25.9

Table 45: Saving rate of households (1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	16.6	15.6	15.7	13.5	12.3	12.6	**12.3**	**12.3**	**12.2**	*11.9*	*11.7*	*11.6*
Germany	15.7	16.1	16.8	16.4	16.4	16.8	**17.0**	**17.1**	**17.1**	*16.9*	*16.8*	*16.7*
Estonia	6.7	-3.2	7.5	6.5	8.8	8.0	**10.7**	**10.7**	**9.9**	*9.0*	*8.7*	*7.4*
Ireland	:	7.1	9.8	8.3	6.1	5.0	**4.4**	**4.7**	**4.4**	*6.1*	*5.2*	*4.7*
Greece	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Spain	11.2	10.0	9.7	8.8	10.0	9.6	**9.5**	**9.6**	**9.7**	*10.2*	*10.6*	*11.0*
France	15.0	15.1	15.2	14.7	14.3	14.8	**14.8**	**14.8**	**14.7**	*14.5*	*13.9*	*13.6*
Italy	15.0	14.6	12.5	9.4	11.3	10.8	**11.0**	**11.6**	**11.9**	*11.0*	*11.1*	*11.3*
Cyprus	7.9	8.1	6.9	0.6	-4.1	-10.8	**-11.3**	**-11.8**	**-11.6**	*-4.7*	*-2.7*	*-0.1*
Latvia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Lithuania	4.8	5.0	2.9	1.6	1.8	0.1	**:**	**:**	**:**	*:*	*:*	*:*
Luxembourg	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Malta	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	13.8	12.8	12.5	13.8	14.2	14.8	**14.8**	**15.1**	**14.1**	*15.7*	*16.1*	*14.6*
Austria	15.6	15.0	15.6	14.5	12.9	13.3	**14.2**	**15.2**	**14.9**	*14.0*	*14.6*	*14.1*
Portugal	11.1	9.6	8.2	7.7	7.8	5.9	**4.3**	**4.9**	**4.7**	*5.1*	*5.8*	*5.9*
Slovenia	12.7	14.6	14.4	10.9	13.4	14.1	**14.7**	**15.3**	**14.5**	*13.4*	*12.4*	*11.3*
Slovakia	11.5	6.9	7.7	7.1	8.3	9.3	**9.2**	**9.2**	**9.1**	*9.1*	*9.0*	*9.0*
Finland	9.2	8.4	8.5	7.8	8.4	7.1	**6.8**	**7.1**	**7.0**	*7.1*	*7.2*	*6.9*
Euro area	:	13.9	13.4	12.5	12.7	12.7	**13.0**	**13.2**	**13.1**	*12.8*	*12.7*	*12.6*
Bulgaria	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Czech Republic	11.4	11.1	12.1	11.3	10.8	10.9	**10.8**	**10.7**	**10.5**	*10.9*	*10.8*	*10.7*
Denmark	3.8	6.5	6.8	7.5	7.9	4.4	**9.8**	**11.8**	**10.5**	*10.1*	*9.0*	*7.3*
Croatia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Hungary	13.5	9.3	8.6	8.2	9.3	10.2	**10.2**	**8.9**	**8.1**	*10.5*	*10.3*	*10.0*
Poland	13.8	7.8	4.0	1.5	2.5	1.9	**2.4**	**2.8**	**1.6**	*3.7*	*2.6*	*1.2*
Romania	0.4	-9.6	-5.5	-14.6	13.3	-15.9	**-11.7**	**-9.1**	**-7.2**	*-14.7*	*-14.6*	*-14.6*
Sweden	6.3	9.4	14.4	17.9	17.6	17.7	**18.0**	**17.9**	**17.9**	*18.2*	*18.2*	*18.1*
United Kingdom	10.4	8.1	8.7	8.7	6.3	5.4	**6.5**	**6.8**	**6.9**	*5.8*	*5.5*	*5.6*
EU	:	11.9	11.7	11.1	11.1	10.5	**10.8**	**11.1**	**11.0**	*10.7*	*10.5*	*10.4*
USA	10.1	9.8	10.9	12.9	10.3	10.4	**10.1**	**10.4**	**10.1**	*9.2*	*8.2*	*7.7*
Japan	14.2	9.1	8.5	7.7	6.5	6.1	**7.8**	**7.9**	**7.4**	*7.5*	*7.1*	*6.6*

Table 46: Gross saving, general government (as a percentage of GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.3	2.1	0.1	-0.2	0.2	0.0	**0.0**	**0.0**	**0.6**	*0.2*	*0.3*	*0.6*
Germany	1.0	-0.2	1.7	2.9	2.8	3.2	**3.2**	**2.8**	**2.6**	*3.3*	*3.1*	*3.0*
Estonia	4.7	6.6	4.6	4.9	4.5	5.6	**5.4**	**5.2**	**5.0**	*5.5*	*5.5*	*5.2*
Ireland	5.4	4.5	-3.4	-5.4	-4.0	-1.7	**0.5**	**1.0**	**1.4**	*-0.1*	*0.5*	*0.6*
Greece	-0.8	-1.8	-7.0	-4.5	-0.3	-1.1	**-2.2**	**-1.1**	**0.4**	*-2.4*	*-1.1*	*0.3*
Spain	2.6	5.3	-0.8	-3.7	-4.0	-3.5	**-2.5**	**-1.5**	**-0.5**	*-2.5*	*-1.6*	*-0.6*
France	2.5	1.2	0.0	0.1	0.8	0.6	**0.6**	**0.6**	**0.8**	*0.4*	*0.6*	*0.8*
Italy	1.0	0.4	0.5	0.6	0.1	0.1	**0.6**	**0.4**	**1.3**	*0.6*	*0.5*	*1.2*
Cyprus	0.6	0.4	2.2	-2.0	-1.5	3.0	**2.2**	**3.3**	**3.5**	*2.8*	*3.3*	*3.6*
Latvia	1.5	2.7	-0.4	2.6	2.2	1.8	**1.9**	**2.1**	**2.5**	*1.6*	*1.5*	*1.9*
Lithuania	1.4	2.4	-1.3	-1.0	0.0	1.4	**2.7**	**2.4**	**3.0**	*2.7*	*2.6*	*3.1*
Luxembourg	8.7	6.4	6.5	5.2	5.2	5.7	**4.7**	**5.2**	**5.2**	*4.8*	*5.4*	*5.6*
Malta	-3.2	-1.4	-1.0	-1.4	-0.5	0.2	**0.8**	**1.2**	**0.9**	*0.8*	*1.1*	*0.8*
Netherlands	3.5	2.4	1.4	0.1	1.0	1.2	**1.5**	**2.2**	**2.4**	*1.3*	*1.6*	*1.8*
Austria	2.1	1.9	1.2	1.9	2.1	2.4	**2.5**	**2.0**	**1.8**	*2.3*	*2.1*	*2.2*
Portugal	0.9	-1.3	-3.2	-4.2	-2.8	-2.0	**-1.3**	**-1.9**	**-1.6**	*-1.3*	*-1.4*	*-0.7*
Slovenia	2.1	2.7	1.2	-0.2	-0.2	0.4	**1.0**	**0.6**	**1.1**	*0.8*	*0.8*	*1.1*
Slovakia	1.2	0.7	-1.0	-1.5	-0.1	0.1	**3.4**	**0.9**	**1.3**	*1.9*	*0.5*	*1.2*
Finland	6.8	6.6	4.3	1.8	1.4	0.8	**0.7**	**1.1**	**1.4**	*0.7*	*1.2*	*1.7*
Euro area	1.9	1.3	0.4	0.4	0.6	0.9	**1.1**	**1.1**	**1.4**	*1.1*	*1.2*	*1.5*
Bulgaria	4.2	4.4	3.0	1.7	1.4	0.4	**1.4**	**2.1**	**2.0**	*0.8*	*0.7*	*0.7*
Czech Republic	3.7	3.4	1.9	2.2	2.4	2.1	**2.8**	**3.3**	**3.6**	*2.5*	*2.9*	*3.2*
Denmark	3.4	5.0	3.5	1.9	3.0	5.8	**2.0**	**1.1**	**1.7**	*0.5*	*1.2*	*1.8*
Croatia	:	3.5	1.7	-1.3	-0.7	-0.9	**0.6**	**0.8**	**1.6**	*-0.5*	*-0.4*	*0.1*
Hungary	1.0	-1.9	-0.7	0.9	0.7	1.5	**2.9**	**2.5**	**2.7**	*2.0*	*2.1*	*2.4*
Poland	-0.3	-1.0	-0.1	0.0	-0.7	0.2	**0.5**	**0.4**	**0.2**	*0.3*	*0.9*	*0.7*
Romania	-0.5	3.3	0.5	1.7	2.8	3.4	**3.5**	**1.3**	**0.2**	*4.3*	*1.5*	*0.6*
Sweden	5.1	4.5	5.3	3.5	3.0	2.9	**3.5**	**3.4**	**3.3**	*3.1*	*3.3*	*3.3*
United Kingdom	2.3	-0.1	-3.3	-4.5	-2.7	-2.6	**-1.1**	**0.2**	**1.2**	*-1.2*	*0.3*	*1.3*
EU	:	1.2	0.1	-0.2	0.3	0.5	**0.8**	**1.1**	**1.4**	*0.8*	*1.1*	*1.5*
USA	2.8	-0.9	-4.8	-5.1	-2.0	-1.7	**-0.9**	**-0.9**	**-0.9**	*-1.1*	*-1.0*	*-0.8*
Japan	1.0	-1.4	-3.2	-5.0	-4.1	-2.3	**-1.5**	**-0.9**	**-0.1**	*-2.3*	*-1.7*	*-1.0*

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	6.2	4.3	2.8	1.8	1.6	5.4	**2.8**	**4.3**	**5.3**	*3.6*	*4.5*	*5.3*
Germany	8.9	7.2	3.4	2.8	1.6	4.0	**5.4**	**3.8**	**4.8**	*5.8*	*4.3*	*5.1*
Estonia	7.1	11.8	6.9	6.2	4.7	1.8	**-1.5**	**0.9**	**3.8**	*-0.4*	*3.5*	*4.3*
Ireland	16.9	5.5	3.3	2.1	2.5	12.1	**13.4**	**6.9**	**6.7**	*12.7*	*7.0*	*6.7*
Greece	14.4	3.5	-0.4	1.2	2.2	7.5	**0.0**	**1.9**	**3.9**	*0.1*	*1.2*	*4.1*
Spain	8.9	3.1	2.3	1.1	4.3	5.1	**6.0**	**6.1**	**5.8**	*4.9*	*5.3*	*5.4*
France	8.3	3.0	1.3	2.5	1.7	2.4	**5.7**	**4.6**	**5.7**	*6.1*	*4.6*	*5.5*
Italy	4.2	2.6	-0.2	2.3	0.8	3.1	**4.3**	**3.1**	**4.4**	*4.4*	*3.3*	*4.5*
Cyprus	3.8	0.0	1.7	-1.1	1.8	-0.5	**3.6**	**3.2**	**2.6**	*1.2*	*1.3*	*2.9*
Latvia	6.6	10.5	5.2	9.8	1.1	3.1	**1.8**	**2.7**	**3.2**	*1.3*	*2.6*	*3.4*
Lithuania	8.1	13.2	6.9	12.2	9.6	3.0	**1.2**	**3.1**	**4.3**	*2.4*	*2.8*	*3.9*
Luxembourg	10.9	6.8	3.0	0.2	6.9	6.8	**7.5**	**3.5**	**4.9**	*4.9*	*4.6*	*4.8*
Malta	4.3	4.9	7.6	6.7	0.8	0.0	**2.7**	**4.5**	**4.8**	*-1.1*	*3.9*	*4.5*
Netherlands	7.8	4.7	2.5	3.8	2.1	4.0	**4.6**	**4.3**	**4.7**	*4.6*	*4.1*	*4.5*
Austria	8.9	5.4	2.4	1.7	0.8	2.1	**2.6**	**3.5**	**3.6**	*1.2*	*3.7*	*3.6*
Portugal	5.9	4.7	2.4	3.4	7.0	3.9	**4.9**	**4.3**	**5.3**	*5.3*	*4.8*	*5.3*
Slovenia	8.2	9.8	3.1	0.6	3.1	5.8	**4.5**	**4.4**	**5.1**	*4.6*	*4.7*	*5.5*
Slovakia	7.0	16.3	5.0	9.3	6.2	3.6	**6.4**	**4.6**	**5.7**	*5.1*	*4.6*	*5.9*
Finland	10.2	5.6	0.1	1.2	1.1	-0.7	**-0.7**	**1.5**	**2.8**	*-0.1*	*2.3*	*3.8*
Euro area	8.1	5.0	2.3	2.6	2.1	4.1	**5.1**	**4.2**	**5.0**	*5.2*	*4.3*	*5.0*
Bulgaria	-9.4	11.1	7.2	0.8	9.2	-0.1	**5.7**	**4.4**	**4.8**	*5.9*	*4.3*	*4.6*
Czech Republic	9.3	14.0	5.6	4.3	0.0	8.9	**7.2**	**6.0**	**5.8**	*6.7*	*5.8*	*6.0*
Denmark	7.1	4.7	1.1	0.6	0.9	3.1	**-0.4**	**3.7**	**4.2**	*1.1*	*4.4*	*3.9*
Croatia	7.1	6.3	-0.6	-0.1	3.1	7.3	**8.1**	**5.0**	**5.3**	*8.8*	*4.1*	*4.5*
Hungary	16.7	12.3	5.5	-1.8	6.4	7.6	**8.5**	**6.2**	**6.4**	*7.9*	*7.7*	*8.0*
Poland	9.7	9.7	6.1	4.6	6.1	6.4	**5.8**	**5.4**	**6.3**	*5.6*	*5.8*	*6.1*
Romania	11.1	11.6	5.0	1.0	19.7	8.6	**5.7**	**5.8**	**6.0**	*6.2*	*5.0*	*5.6*
Sweden	8.4	6.2	1.6	1.0	-0.8	3.5	**4.6**	**4.1**	**4.5**	*3.6*	*3.9*	*4.4*
United Kingdom	5.1	6.1	0.4	0.7	1.2	1.2	**4.6**	**3.1**	**4.2**	*2.2*	*3.1*	*4.1*
EU	7.8	5.5	2.3	2.3	2.2	4.0	**5.1**	**4.2**	**5.0**	*4.8*	*4.3*	*5.0*
USA	3.7	4.9	4.7	3.4	2.8	3.4	**1.3**	**2.6**	**3.6**	*1.7*	*3.6*	*3.9*
Japan	2.9	9.5	0.8	-0.2	1.2	8.4	**3.3**	**3.2**	**3.4**	*2.6*	*3.8*	*3.5*

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	5.7	3.9	3.2	1.4	0.8	5.9	**3.3**	**3.6**	**5.1**	*4.1*	*3.8*	*5.2*
Germany	7.7	5.5	3.5	-0.3	3.1	3.7	**5.7**	**5.2**	**6.3**	*6.4*	*5.3*	*6.3*
Estonia	7.9	16.1	2.6	11.7	4.5	1.4	**-2.6**	**1.8**	**5.3**	*-1.2*	*4.2*	*5.0*
Ireland	16.6	6.5	0.6	2.9	0.0	14.7	**16.0**	**7.7**	**7.5**	*14.1*	*7.7*	*7.6*
Greece	12.2	4.4	-4.0	-9.1	-1.9	7.7	**-1.9**	**0.6**	**2.7**	*-4.0*	*0.0*	*3.7*
Spain	10.7	6.9	-2.4	-6.2	-0.3	6.4	**7.9**	**7.4**	**6.2**	*6.1*	*5.8*	*5.5*
France	8.8	4.2	2.3	0.7	1.7	3.8	**5.7**	**4.9**	**5.8**	*5.0*	*4.4*	*5.9*
Italy	7.1	3.5	0.0	-8.1	-2.5	2.9	**5.3**	**4.9**	**4.9**	*5.0*	*4.8*	*5.0*
Cyprus	2.6	2.5	1.7	-4.4	-3.0	2.0	**4.0**	**3.4**	**1.9**	*0.6*	*1.1*	*1.8*
Latvia	6.6	14.6	-0.4	5.4	-0.2	0.8	**2.4**	**3.1**	**4.0**	*1.4*	*2.8*	*4.0*
Lithuania	8.4	15.9	3.9	6.6	9.3	2.9	**6.3**	**4.1**	**5.5**	*6.8*	*3.4*	*5.1*
Luxembourg	11.2	7.0	3.5	1.5	5.7	8.0	**6.6**	**3.0**	**4.3**	*4.7*	*4.7*	*4.9*
Malta	2.2	5.6	6.8	5.2	-0.8	-0.1	**3.7**	**3.5**	**4.7**	*-0.3*	*3.0*	*4.3*
Netherlands	8.5	4.4	2.4	2.7	0.9	4.0	**5.3**	**5.7**	**5.3**	*5.2*	*4.8*	*5.2*
Austria	6.5	4.6	2.2	1.1	0.0	1.3	**2.1**	**3.5**	**3.5**	*1.0*	*3.6*	*3.7*
Portugal	8.1	3.3	-0.2	-6.3	4.7	7.2	**6.5**	**4.9**	**6.0**	*6.7*	*5.3*	*6.1*
Slovenia	8.0	9.1	2.0	-3.7	1.7	4.0	**3.5**	**4.4**	**5.6**	*3.8*	*4.2*	*6.1*
Slovakia	5.9	13.9	3.0	2.5	5.1	4.3	**7.8**	**4.5**	**5.8**	*5.5*	*4.2*	*5.4*
Finland	8.1	6.8	1.7	1.6	0.0	0.0	**-1.3**	**1.5**	**2.8**	*-0.7*	*2.8*	*3.7*
Euro area	8.3	5.1	1.8	-1.0	1.3	4.5	**5.7**	**5.0**	**5.6**	*5.4*	*4.8*	*5.7*
Bulgaria	2.9	15.4	2.7	4.5	4.9	1.5	**3.2**	**3.2**	**4.1**	*4.0*	*3.0*	*4.1*
Czech Republic	8.3	12.5	4.9	2.7	0.1	9.8	**8.2**	**6.1**	**6.0**	*7.5*	*5.9*	*6.2*
Denmark	7.0	7.4	0.9	1.8	1.1	3.3	**-1.0**	**4.5**	**4.4**	*0.2*	*4.7*	*4.4*
Croatia	5.9	9.6	-2.6	-3.0	3.1	4.3	**7.9**	**4.6**	**5.3**	*7.2*	*4.1*	*4.6*
Hungary	17.6	11.7	3.4	-3.5	6.3	8.5	**7.3**	**5.8**	**6.6**	*7.5*	*6.8*	*8.6*
Poland	9.7	8.9	6.0	-0.3	1.7	10.0	**5.2**	**6.4**	**7.2**	*5.6*	*6.6*	*6.8*
Romania	13.1	17.8	4.9	-1.8	8.8	8.9	**8.3**	**9.2**	**8.1**	*8.1*	*8.3*	*7.5*
Sweden	7.6	4.8	3.0	0.5	-0.1	6.3	**4.2**	**4.3**	**4.8**	*3.1*	*4.1*	*4.7*
United Kingdom	8.0	6.3	-0.8	2.9	2.8	2.4	**5.7**	**4.5**	**4.2**	*3.0*	*4.0*	*3.8*
EU	8.3	5.7	1.7	-0.3	1.6	4.6	**5.6**	**5.1**	**5.5**	*5.0*	*4.9*	*5.5*
USA	8.9	6.4	0.5	2.2	1.1	3.8	**5.1**	**4.8**	**4.8**	*5.1*	*5.0*	*4.9*
Japan	1.7	4.2	0.4	5.3	3.1	7.4	**0.6**	**3.0**	**2.6**	*0.8*	*3.1*	*2.7*

Table 49: Merchandise trade balance[1] (fob-fob, as a percentage of GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	2.4	3.5	-0.2	-1.3	-0.7	-0.5	**1.2**	**1.3**	**1.0**	*1.3*	*1.3*	*0.9*
Germany	3.6	6.5	6.7	7.3	7.5	7.9	**8.8**	**8.9**	**8.6**	*8.7*	*8.6*	*8.4*
Estonia	-18.6	-17.0	-7.7	-6.6	-4.7	-5.0	**-4.2**	**-4.4**	**-5.2**	*-4.5*	*-4.7*	*-5.0*
Ireland	:	21.1	20.7	21.5	19.5	22.4	**28.1**	**28.8**	**29.7**	*28.0*	*28.7*	*29.5*
Greece	:	:	-15.5	-10.9	-10.5	-11.7	**-11.4**	**-12.0**	**-12.0**	*-10.7*	*-11.2*	*-11.3*
Spain	-4.7	-6.6	-5.8	-2.8	-1.4	-2.2	**-1.9**	**-2.0**	**-2.5**	*-2.0*	*-2.2*	*-2.5*
France	1.2	-0.2	-2.1	-2.5	-1.8	-1.5	**-0.6**	**-0.6**	**-1.0**	*-0.4*	*-0.6*	*-1.0*
Italy	1.9	0.3	-0.5	1.0	2.2	3.0	**3.3**	**3.3**	**3.3**	*3.2*	*2.9*	*2.9*
Cyprus	-24.8	-24.3	-24.7	-18.0	-16.3	-16.2	**-18.0**	**-18.1**	**-18.1**	*-15.0*	*-14.1*	*-14.1*
Latvia	-16.3	-20.9	-14.1	-12.1	-11.2	-9.6	**-9.3**	**-9.0**	**-9.4**	*-9.4*	*-9.2*	*-9.4*
Lithuania	:	:	-9.1	-3.3	-2.6	-2.6	**-4.3**	**-4.9**	**-6.3**	*-4.2*	*-4.3*	*-5.6*
Luxembourg	:	-8.6	-3.0	-3.6	-0.7	-0.6	**-1.1**	**-1.5**	**-1.4**	*-1.6*	*-1.6*	*-1.5*
Malta	-17.0	-14.0	-18.0	-14.2	-13.1	-12.8	**-15.5**	**-14.2**	**-13.5**	*-15.0*	*-13.5*	*-12.7*
Netherlands	7.0	9.1	9.5	11.0	11.8	12.0	**11.8**	**11.1**	**10.8**	*12.1*	*11.7*	*11.3*
Austria	-1.8	0.3	-0.3	-1.0	-0.3	0.5	**1.4**	**1.4**	**1.5**	*1.0*	*1.0*	*1.1*
Portugal	-11.3	-10.5	-10.5	-5.0	-4.0	-4.6	**-4.0**	**-3.6**	**-3.8**	*-4.6*	*-4.6*	*-5.0*
Slovenia	-5.2	-3.0	-2.9	0.1	1.1	3.3	**3.7**	**3.8**	**3.4**	*4.1*	*4.5*	*4.2*
Slovakia	-9.7	-6.2	-1.1	3.1	3.7	3.4	**2.3**	**2.4**	**1.8**	*2.8*	*3.0*	*3.2*
Finland	9.4	6.1	2.1	-0.4	0.1	0.5	**1.2**	**1.3**	**1.5**	*1.3*	*1.3*	*1.2*
Euro area	1.8	1.9	0.9	2.0	2.7	3.1	**3.9**	**3.9**	**3.7**	*3.9*	*3.8*	*3.5*
Euro area, adjusted[2]	:	0.7	0.4	1.3	2.1	2.5	**3.3**	**3.3**	**3.1**	*3.3*	*3.2*	*3.0*
Bulgaria	-5.9	-20.6	-14.4	-9.7	-7.0	-6.5	**-4.1**	**-2.8**	**-2.4**	*-4.8*	*-4.1*	*-4.4*
Czech Republic	-7.7	-2.4	1.0	3.1	4.1	5.4	**5.0**	**5.4**	**5.5**	*5.0*	*5.2*	*5.4*
Denmark	3.3	3.1	1.9	2.7	2.7	2.2	**2.8**	**2.6**	**2.5**	*2.4*	*2.0*	*1.5*
Croatia	:	-21.5	-17.7	-14.3	-15.1	-14.7	**-15.0**	**-14.2**	**-14.9**	*-14.5*	*-14.3*	*-14.6*
Hungary	-7.2	-3.9	1.3	2.9	3.4	2.5	**4.0**	**4.7**	**4.7**	*3.5*	*4.6*	*4.5*
Poland	-6.4	-2.9	-4.1	-2.1	-0.1	-0.8	**0.3**	**0.1**	**-0.4**	*-0.3*	*-0.5*	*-1.0*
Romania	-5.6	-8.7	-10.1	-5.8	-5.5	-4.2	**-4.8**	**-5.7**	**-6.5**	*-4.4*	*-5.5*	*-6.3*
Sweden	7.9	7.3	4.8	3.7	3.2	2.9	**3.0**	**3.0**	**2.9**	*3.1*	*3.1*	*3.0*
United Kingdom	-2.8	-4.9	-6.0	-6.4	-6.6	-6.8	**-6.4**	**-6.6**	**-6.6**	*-5.9*	*-5.8*	*-5.7*
EU	0.9	0.6	-0.3	0.5	1.1	1.2	**1.8**	**1.8**	**1.6**	*1.8*	*1.8*	*1.6*
EU, adjusted[2]	:	-0.9	-1.5	-0.3	0.3	0.3	**0.9**	**0.9**	**0.7**	*1.0*	*0.9*	*0.8*
USA	-3.4	-5.4	-4.9	-4.8	-4.4	-4.4	**-4.3**	**-4.3**	**-4.6**	*-4.2*	*-4.4*	*-4.7*
Japan	2.4	2.3	1.1	-1.2	-2.2	-2.5	**-1.1**	**-0.5**	**-0.3**	*-1.4*	*-1.1*	*-0.9*

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 50: Current-account balance[1] (as a percentage of GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			*Autumn 2015 forecast*		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	4.4	4.6	2.0	1.4	1.0	0.8	**1.6**	**2.1**	**2.5**	*1.8*	*2.0*	*1.9*
Germany	-0.9	3.6	6.0	7.2	6.7	7.8	**8.8**	**8.6**	**8.3**	*8.7*	*8.6*	*8.4*
Estonia	-8.0	-12.5	-3.7	-2.3	0.4	1.3	**1.9**	**1.6**	**0.3**	*1.6*	*1.2*	*-0.1*
Ireland	0.9	-1.5	-3.6	-1.5	3.1	3.6	**3.6**	**3.7**	**3.1**	*5.9*	*5.7*	*4.7*
Greece	-6.6	-10.3	-13.1	-4.2	-2.2	-3.0	**-1.8**	**-1.4**	**-0.9**	*-1.0*	*-0.3*	*0.1*
Spain	-2.6	-6.0	-6.1	-0.4	1.5	1.0	**1.5**	**1.4**	**1.3**	*1.4*	*1.3*	*1.4*
France	2.2	0.3	-1.6	-2.9	-2.6	-2.3	**-1.4**	**-1.5**	**-2.0**	*-1.3*	*-1.6*	*-2.2*
Italy	1.0	-0.9	-2.5	-0.4	0.9	2.0	**2.2**	**2.1**	**2.1**	*2.2*	*1.9*	*1.9*
Cyprus	-1.9	-11.0	-13.2	-5.6	-4.5	-4.6	**-4.8**	**-4.9**	**-5.3**	*-3.5*	*-3.2*	*-3.0*
Latvia	-8.1	-12.5	-5.4	-3.5	-2.1	-2.0	**-1.9**	**-2.0**	**-2.2**	*-1.8*	*-1.9*	*-2.2*
Lithuania	-8.5	-7.3	-6.0	-0.9	1.4	3.9	**-1.1**	**0.2**	**0.0**	*-0.8*	*0.2*	*-0.3*
Luxembourg	9.5	9.8	7.6	6.1	5.7	5.5	**4.8**	**4.9**	**4.2**	*4.3*	*4.0*	*3.7*
Malta	-6.1	-4.7	-3.7	1.3	3.6	3.9	**4.3**	**5.9**	**6.5**	*2.0*	*3.8*	*4.2*
Netherlands	5.3	7.2	7.3	10.2	11.0	10.6	**10.4**	**9.9**	**9.4**	*10.5*	*10.4*	*9.6*
Austria	-1.5	2.0	2.9	1.7	2.1	2.1	**3.3**	**3.5**	**3.6**	*2.6*	*2.6*	*2.8*
Portugal	-8.8	-9.2	-9.7	-2.0	0.7	0.3	**0.7**	**1.1**	**1.1**	*0.5*	*0.5*	*0.3*
Slovenia	-2.5	-1.6	-2.2	2.1	3.9	6.5	**6.9**	**7.2**	**6.9**	*7.0*	*7.5*	*7.2*
Slovakia	-6.4	-7.5	-5.2	0.2	0.7	-0.8	**0.3**	**-2.2**	**-2.2**	*0.0*	*-1.2*	*-0.3*
Finland	6.4	5.2	1.8	-1.9	-1.7	-0.9	**0.0**	**0.4**	**0.7**	*-1.1*	*-1.0*	*-0.9*
Euro area	0.4	0.5	0.2	1.9	2.5	3.0	**3.7**	**3.6**	**3.4**	*3.7*	*3.6*	*3.4*
Euro area, adjusted[2]	:	0.2	-0.1	1.3	2.0	2.4	**3.1**	**3.0**	**2.8**	*3.1*	*3.0*	*2.8*
Bulgaria	1.1	-9.4	-13.8	-3.0	-0.5	0.7	**1.9**	**2.2**	**2.8**	*1.4*	*1.3*	*0.9*
Czech Republic	-3.4	-3.9	-4.6	-2.2	-1.1	-2.0	**-2.4**	**-2.0**	**-1.9**	*-2.5*	*-2.4*	*-2.1*
Denmark	2.2	3.6	3.8	5.7	7.1	7.7	**7.1**	**7.3**	**7.2**	*7.0*	*6.9*	*6.5*
Croatia	-4.3	-5.6	-4.5	0.5	1.6	1.1	**4.2**	**3.1**	**3.2**	*4.4*	*2.9*	*3.2*
Hungary	-6.4	-8.2	-2.8	1.6	3.9	2.2	**5.0**	**5.6**	**6.3**	*4.3*	*5.5*	*6.1*
Poland	-4.0	-3.3	-5.2	-3.3	-0.5	-1.3	**-0.2**	**-0.7**	**-1.4**	*-0.5*	*-0.9*	*-1.5*
Romania	-5.4	-6.8	-7.6	-4.3	-0.6	-0.4	**-1.0**	**-2.1**	**-2.9**	*-0.8*	*-1.9*	*-2.6*
Sweden	4.6	6.8	7.4	6.5	5.5	4.9	**5.4**	**5.3**	**5.3**	*5.9*	*5.9*	*5.8*
United Kingdom	-1.5	-1.8	-2.7	-3.3	-4.5	-5.1	**-5.0**	**-4.7**	**-4.3**	*-4.3*	*-3.9*	*-3.4*
EU	0.0	0.1	-0.3	1.0	1.5	1.6	**2.1**	**2.1**	**2.0**	*2.2*	*2.2*	*2.0*
EU, adjusted[2]	:	-0.9	-1.3	0.6	1.0	0.8	**1.3**	**1.4**	**1.3**	*1.5*	*1.5*	*1.4*
USA	-2.9	-5.0	-3.7	-2.9	-2.4	-2.3	**-3.3**	**-3.1**	**-3.2**	*-2.3*	*-2.4*	*-2.7*
Japan	2.5	3.5	3.4	1.1	0.7	0.5	**2.7**	**3.4**	**3.7**	*2.3*	*2.8*	*3.1*

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 51: Net lending (+) or net borrowing (-) of the nation[1] (as a percentage of GDP, 1997-2017) 22.1.2016

	5-year averages						Winter 2016 forecast			Autumn 2015 forecast		
	1997-01	2002-06	2007-11	2012	2013	2014	2015	2016	2017	2015	2016	2017
Belgium	4.3	4.6	1.8	2.1	0.9	0.6	1.5	2.0	2.4	1.7	1.9	1.8
Germany	-0.9	3.6	6.0	7.2	6.7	7.8	8.8	8.6	8.3	8.8	8.6	8.4
Estonia	-7.6	-11.6	-1.0	1.1	3.1	2.3	2.7	2.7	1.5	2.9	2.5	1.4
Ireland	1.8	-1.3	-3.5	-1.5	3.2	3.7	3.7	3.7	3.1	6.2	6.0	4.9
Greece	-4.9	-8.8	-11.4	-2.4	0.4	-1.2	0.1	0.6	1.0	1.0	1.7	2.0
Spain	-1.7	-5.1	-5.6	0.1	2.2	1.6	2.0	1.8	1.7	1.8	1.7	1.8
France	2.2	0.2	-1.6	-3.1	-2.6	-2.3	-1.1	-1.0	-1.5	-1.1	-1.1	-1.7
Italy	1.2	-0.8	-2.5	-0.2	1.0	2.2	2.4	2.3	2.2	2.5	2.3	2.1
Cyprus	-1.8	-10.3	-12.9	-5.5	-3.1	-3.7	-4.1	-4.2	-4.7	-4.2	-3.6	-3.4
Latvia	-7.8	-11.7	-3.4	-0.5	0.4	1.2	1.2	0.9	0.5	1.2	0.8	0.5
Lithuania	-8.5	-6.5	-3.0	1.9	4.5	6.6	1.2	2.5	2.5	0.9	1.6	1.3
Luxembourg	:	9.8	6.9	5.2	4.0	3.5	4.9	5.1	4.5	4.4	4.2	3.9
Malta	-5.7	-3.2	-2.5	3.2	5.3	5.6	6.1	7.6	8.1	3.6	5.3	5.7
Netherlands	5.1	7.2	6.8	9.2	10.7	10.7	10.3	9.4	8.9	10.6	10.7	9.9
Austria	-1.7	1.9	2.8	1.5	2.0	2.0	3.1	3.4	3.6	2.5	2.6	2.9
Portugal	-6.9	-7.5	-8.5	0.0	2.3	1.7	2.1	2.4	2.4	1.9	1.9	1.7
Slovenia	-2.5	-1.9	-1.7	2.6	4.5	7.0	8.3	8.1	7.7	8.9	8.3	7.9
Slovakia	-6.5	-7.9	-4.1	1.8	2.2	0.2	-0.2	-2.3	-2.3	-0.2	-1.3	-0.7
Finland	6.5	5.3	1.9	-1.8	-1.5	-0.9	0.1	0.4	0.8	-1.0	-1.0	-1.0
Euro area	:	0.7	0.3	2.0	2.7	3.2	3.9	3.9	3.6	4.0	3.9	3.7
Euro area, adjusted[2]	:	0.3	0.0	1.4	2.1	2.6	3.3	3.3	3.0	3.4	3.3	3.1
Bulgaria	1.1	-8.9	-13.4	-1.8	0.8	2.1	3.2	3.4	3.9	2.7	2.5	2.0
Czech Republic	-3.3	-3.7	-3.2	-1.1	1.1	-0.2	0.1	-0.7	-0.7	0.0	-0.7	-0.5
Denmark	2.3	3.7	3.8	5.7	7.1	7.7	7.2	7.3	7.2	6.8	6.8	6.5
Croatia	-4.3	-5.6	-4.4	0.6	1.6	1.1	4.1	3.6	3.8	4.2	3.4	3.7
Hungary	-6.3	-7.9	-1.2	4.1	7.5	6.0	8.2	7.9	8.2	8.1	6.5	7.7
Poland	-3.9	-3.0	-3.9	-1.2	1.5	0.3	1.4	0.5	0.0	1.7	0.8	0.3
Romania	-5.2	-6.4	-7.2	-2.9	1.5	2.2	1.4	0.1	-0.8	1.7	0.4	-0.5
Sweden	4.3	6.7	7.3	6.3	5.2	4.8	5.3	5.2	5.1	5.8	5.7	5.7
United Kingdom	-1.5	-1.9	-2.7	-3.3	-4.5	-5.2	-5.1	-4.9	-4.5	-4.5	-4.0	-3.5
EU	:	0.2	-0.2	1.2	1.7	1.9	2.3	2.3	2.2	2.5	2.4	2.3
EU, adjusted[2]	:	-0.8	-1.2	0.8	1.2	1.1	1.6	1.6	1.5	1.8	1.8	1.7
USA	-2.8	-5.0	-3.7	-2.9	-2.4	-2.3	-3.3	-3.1	-3.2	-2.3	-2.4	-2.7
Japan	2.3	3.4	3.3	1.0	0.5	0.5	2.7	3.4	3.7	2.2	2.7	3.0

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 52: Current-account balance[1] (in billions of euro, 2009-17) 22.1.2016

							Winter 2016 forecast			Autumn 2015 forecast		
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2015	2016	2017
Belgium	3.4	13.0	0.4	5.5	3.9	3.2	6.5	8.9	11.0	7.3	8.3	8.4
Germany	144.6	148.2	167.3	197.8	187.8	226.2	266.8	269.6	268.9	264.4	267.8	271.8
Estonia	0.4	0.3	0.3	-0.4	0.1	0.3	0.4	0.3	0.1	0.3	0.3	0.0
Ireland	-7.0	-1.3	-2.0	-2.7	5.6	6.8	7.5	8.1	7.1	12.1	12.5	10.7
Greece	-29.7	-25.6	-21.3	-8.1	-4.0	-5.2	-3.2	-2.4	-1.6	-1.7	-0.5	0.2
Spain	-46.5	-42.0	-35.3	-4.6	15.2	10.3	16.6	16.2	15.4	15.2	14.7	16.5
France	-31.2	-34.9	-46.0	-61.2	-56.0	-49.0	-30.8	-33.2	-45.9	-28.7	-34.9	-49.5
Italy	-30.4	-55.7	-50.4	-7.0	15.3	31.7	36.5	35.2	35.4	36.4	32.4	32.5
Cyprus	-1.4	-2.0	-0.8	-1.1	-0.8	-0.8	-0.8	-0.9	-1.0	-0.6	-0.6	-0.5
Latvia	1.5	0.4	-0.6	-0.8	-0.5	-0.5	-0.5	-0.5	-0.6	-0.4	-0.5	-0.6
Lithuania	0.6	-0.1	-1.2	-0.3	0.5	1.4	-0.4	0.1	0.0	-0.3	0.1	-0.1
Luxembourg	2.7	2.7	2.6	2.6	2.6	2.7	2.5	2.7	2.5	2.2	2.1	2.0
Malta	-0.4	-0.3	-0.2	0.1	0.3	0.3	0.4	0.5	0.6	0.2	0.3	0.4
Netherlands	38.5	48.3	56.9	65.6	71.8	70.6	70.8	69.6	68.7	71.7	73.9	70.4
Austria	5.9	9.3	5.8	5.3	6.8	7.0	11.0	12.1	13.0	8.8	9.1	9.9
Portugal	-17.7	-18.5	-9.6	-3.4	1.3	0.5	1.3	1.9	2.1	0.9	1.0	0.7
Slovenia	-0.3	-0.2	0.0	0.8	1.4	2.4	2.6	2.8	2.8	2.7	3.0	3.0
Slovakia	-2.2	-3.2	-3.9	0.2	0.5	-0.6	0.2	-1.8	-1.8	0.0	-1.0	-0.3
Finland	3.7	2.7	-2.9	-3.8	-3.4	-1.9	0.0	0.9	1.6	-2.3	-2.1	-2.0
Euro area	34.4	40.9	59.0	184.6	248.4	305.4	387.5	390.3	378.1	388.1	385.9	373.3
Euro area, adjusted[2]	5.7	27.6	23.9	124.3	193.9	240.9	323.0	325.8	313.7	326.2	323.9	311.3
Bulgaria	-4.3	-1.7	-0.7	-1.2	-0.2	0.3	0.9	1.0	1.3	0.6	0.6	0.4
Czech Republic	-5.7	-8.1	-7.4	-3.5	-1.8	-3.1	-4.0	-3.5	-3.5	-4.1	-4.0	-3.8
Denmark	7.6	13.8	14.1	14.4	18.2	20.1	18.8	19.9	20.4	18.5	19.0	18.6
Croatia	-2.2	-0.4	-0.3	0.2	0.7	0.5	1.9	1.4	1.5	1.9	1.3	1.5
Hungary	-0.8	0.3	0.8	1.6	4.0	2.3	5.5	6.3	7.4	4.6	6.2	7.3
Poland	-10.4	-17.5	-18.1	-12.8	-2.0	-5.3	-0.7	-2.9	-6.2	-2.0	-3.8	-6.8
Romania	-4.9	-5.7	-5.8	-5.7	-0.9	-0.6	-1.6	-3.5	-5.0	-1.2	-3.2	-4.6
Sweden	20.8	24.6	24.5	27.4	23.9	21.2	24.0	25.0	25.9	25.9	27.2	28.1
United Kingdom	-50.7	-50.7	-31.6	-67.5	-91.7	-115.2	-128.9	-122.5	-116.5	-112.2	-103.8	-94.4
EU	-16.2	-4.6	34.5	137.5	198.6	225.5	303.3	311.4	303.4	320.1	325.4	319.6
EU, adjusted[2]	-123.8	-109.6	-88.9	78.3	135.5	118.6	196.4	204.5	196.6	225.9	231.2	225.4
USA	-273.8	-336.3	-345.9	-364.4	-298.0	-301.9	-534.0	-538.2	-585.3	-374.1	-400.9	-464.5
Japan	105.4	156.4	88.5	49.2	24.9	18.9	100.5	136.1	152.1	85.0	104.5	117.9

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 53: Export markets (a) (percentage change on preceding year, 2009-17) 22.1.2016

							Winter 2016 forecast			*Autumn 2015 forecast*		
	2009	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	-10.6	10.3	5.0	1.1	1.3	3.8	**4.4**	**4.5**	**5.1**	*4.0*	*4.4*	*5.2*
Germany	-11.7	10.5	5.2	1.2	1.7	3.1	**3.0**	**4.1**	**4.7**	*2.5*	*4.0*	*4.9*
Estonia	-17.7	9.6	7.4	1.5	1.2	1.4	**0.2**	**3.1**	**4.1**	*0.0*	*3.3*	*4.4*
Ireland	-11.5	10.7	4.6	1.3	1.9	3.2	**3.7**	**4.5**	**4.7**	*3.1*	*4.3*	*4.8*
Greece	-12.4	10.4	4.9	1.1	2.1	2.7	**2.6**	**4.2**	**4.6**	*2.3*	*4.2*	*4.9*
Spain	-10.6	9.8	4.2	0.5	1.9	3.3	**3.7**	**4.1**	**4.9**	*3.4*	*4.1*	*5.1*
France	-11.1	10.3	4.9	1.0	1.9	3.8	**3.7**	**4.3**	**4.8**	*3.4*	*4.2*	*5.0*
Italy	-11.0	9.9	5.4	1.6	2.1	3.0	**3.2**	**4.1**	**4.8**	*2.8*	*4.1*	*5.0*
Cyprus	-13.6	8.1	7.4	1.3	3.5	0.1	**-4.2**	**2.9**	**3.8**	*-4.5*	*3.1*	*4.5*
Latvia	-17.0	12.5	10.4	3.9	2.7	1.5	**-0.1**	**3.4**	**4.6**	*-0.1*	*3.6*	*4.8*
Lithuania	-16.6	11.2	9.8	3.5	1.6	0.6	**-1.2**	**3.4**	**4.5**	*-1.5*	*3.7*	*4.8*
Luxembourg	-11.2	10.1	4.2	0.4	1.6	5.2	**5.4**	**4.8**	**5.1**	*4.6*	*4.6*	*5.2*
Malta	-11.7	10.3	4.4	0.8	2.2	6.6	**3.6**	**3.9**	**4.3**	*3.2*	*3.8*	*4.8*
Netherlands	-11.2	10.4	5.2	0.9	1.5	4.1	**4.4**	**4.4**	**5.2**	*4.2*	*4.4*	*5.4*
Austria	-11.5	11.3	5.9	1.1	1.7	3.3	**3.9**	**4.6**	**5.3**	*3.8*	*4.6*	*5.5*
Portugal	-12.6	9.7	3.9	-0.3	1.8	4.0	**4.6**	**4.8**	**5.1**	*4.0*	*4.4*	*5.1*
Slovenia	-13.1	9.8	5.5	0.4	1.0	3.3	**3.7**	**4.4**	**5.2**	*3.4*	*4.5*	*5.4*
Slovakia	-12.3	11.7	6.2	0.8	1.3	4.7	**4.5**	**4.9**	**5.6**	*4.3*	*4.9*	*5.8*
Finland	-12.2	11.9	7.7	2.7	2.2	2.6	**0.8**	**3.7**	**4.5**	*0.6*	*3.7*	*4.7*
Euro area (b)	-11.3	10.4	5.1	1.1	1.7	3.5	**3.5**	**4.3**	**4.9**	*3.2*	*4.2*	*5.1*
Bulgaria	-12.8	9.4	5.6	0.0	1.6	3.4	**2.4**	**4.2**	**4.9**	*2.2*	*4.2*	*5.4*
Czech Republic	-12.3	11.2	5.9	1.3	1.5	3.4	**3.9**	**4.5**	**5.4**	*3.7*	*4.5*	*5.6*
Denmark	-11.4	11.4	5.4	1.5	1.7	4.1	**3.6**	**4.4**	**4.8**	*3.1*	*4.1*	*4.9*
Croatia	-12.7	10.4	5.3	-0.4	1.4	3.2	**3.3**	**4.5**	**4.9**	*3.0*	*4.4*	*5.2*
Hungary	-12.5	11.0	6.1	1.3	1.4	3.7	**4.1**	**4.7**	**5.4**	*3.8*	*4.6*	*5.4*
Poland	-12.4	11.4	6.2	1.7	1.4	3.0	**3.4**	**4.4**	**5.2**	*3.1*	*4.4*	*5.4*
Romania	-12.4	10.2	5.4	0.7	1.5	3.2	**3.6**	**4.3**	**5.0**	*3.3*	*4.4*	*5.4*
Sweden	-11.9	9.7	5.0	1.7	2.0	3.1	**2.5**	**3.9**	**4.6**	*2.4*	*3.8*	*4.7*
United Kingdom	-11.1	10.5	5.0	1.4	1.9	3.4	**3.5**	**4.3**	**4.8**	*3.3*	*4.3*	*5.0*
EU (b)	-11.5	10.5	5.2	1.2	1.7	3.4	**3.5**	**4.3**	**4.9**	*3.2*	*4.2*	*5.1*
USA	-11.2	13.1	6.6	3.3	3.3	3.4	**2.0**	**2.8**	**3.7**	*1.9*	*3.1*	*4.0*
Japan	-9.0	14.8	7.0	3.4	3.3	3.3	**1.5**	**3.1**	**4.0**	*1.6*	*3.1*	*4.2*

(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, 2009-17) 22.1.2016

							Winter 2016 forecast			*Autumn 2015 forecast*		
	2009	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Belgium	1.3	0.0	1.6	0.7	0.3	1.5	**-1.5**	**-0.2**	**0.2**	*-0.4*	*0.1*	*0.0*
Germany	-2.9	3.7	2.9	1.5	-0.1	0.9	**2.3**	**-0.3**	**0.2**	*3.3*	*0.3*	*0.2*
Estonia	-3.2	13.2	15.6	4.7	3.5	0.4	**-1.7**	**-2.1**	**-0.2**	*-0.5*	*0.2*	*-0.1*
Ireland	11.8	-3.9	-2.4	0.8	0.5	8.6	**9.4**	**2.3**	**1.9**	*9.4*	*2.6*	*1.9*
Greece	-7.0	-5.0	-4.6	0.0	0.0	4.6	**-2.5**	**-2.2**	**-0.6**	*-2.2*	*-2.8*	*-0.7*
Spain	-0.5	-0.3	3.1	0.5	2.4	1.7	**2.2**	**1.9**	**0.9**	*1.4*	*1.1*	*0.3*
France	-0.2	-1.2	1.9	1.6	-0.3	-1.3	**1.9**	**0.3**	**0.9**	*2.6*	*0.4*	*0.5*
Italy	-7.9	1.7	-0.2	0.8	-1.2	0.1	**1.0**	**-0.9**	**-0.4**	*1.5*	*-0.7*	*-0.5*
Cyprus	10.8	-3.5	-3.0	-2.4	-1.7	-0.6	**8.2**	**0.3**	**-1.2**	*6.0*	*-1.7*	*-1.5*
Latvia	5.0	0.8	1.5	5.6	-1.6	1.6	**1.9**	**-0.7**	**-1.3**	*1.4*	*-1.0*	*-1.3*
Lithuania	4.6	7.0	4.6	8.4	7.9	2.4	**2.5**	**-0.2**	**-0.2**	*3.9*	*-0.8*	*-0.9*
Luxembourg	-0.9	-1.6	1.2	-0.2	5.2	1.5	**2.0**	**-1.2**	**-0.3**	*0.3*	*0.0*	*-0.4*
Malta	12.8	-3.1	-2.1	5.9	-1.3	-6.2	**-0.8**	**0.5**	**0.5**	*-4.1*	*0.1*	*-0.3*
Netherlands	2.6	0.1	-0.8	2.9	0.6	-0.1	**0.1**	**-0.1**	**-0.5**	*0.4*	*-0.3*	*-0.8*
Austria	-4.0	2.3	0.1	0.6	-0.9	-1.2	**-1.3**	**-1.0**	**-1.7**	*-2.4*	*-0.8*	*-1.9*
Portugal	2.7	-0.2	3.0	3.7	5.1	-0.1	**0.1**	**-0.5**	**0.2**	*1.3*	*0.4*	*0.2*
Slovenia	-4.0	0.3	1.3	0.2	2.0	2.4	**0.7**	**0.0**	**-0.1**	*1.1*	*0.2*	*0.1*
Slovakia	-5.1	3.6	5.5	8.4	4.8	-1.0	**1.8**	**-0.3**	**0.1**	*0.7*	*-0.3*	*0.1*
Finland	-9.0	-5.1	-5.3	-1.4	-1.1	-3.3	**-1.5**	**-2.1**	**-1.6**	*-0.6*	*-1.3*	*-0.8*
Euro area (b)	-1.5	0.8	1.3	1.5	0.4	0.7	**1.5**	**-0.1**	**0.1**	*1.9*	*0.1*	*0.0*
Bulgaria	1.2	7.1	5.6	0.8	7.5	-3.4	**3.2**	**0.2**	**-0.1**	*3.6*	*0.1*	*-0.8*
Czech Republic	2.8	3.3	3.2	2.9	-1.4	5.2	**3.1**	**1.4**	**0.4**	*2.9*	*1.2*	*0.4*
Denmark	2.2	-8.5	1.8	-0.9	-0.8	-1.0	**-3.8**	**-0.6**	**-0.7**	*-1.9*	*0.4*	*-0.9*
Croatia	-1.6	-3.8	-2.9	0.3	1.7	4.0	**4.6**	**0.5**	**0.4**	*5.6*	*-0.3*	*-0.7*
Hungary	1.2	0.3	0.4	-3.1	4.9	3.8	**4.3**	**1.5**	**1.0**	*4.0*	*2.9*	*2.4*
Poland	7.0	1.3	1.6	2.9	4.6	3.3	**2.4**	**1.0**	**1.1**	*2.4*	*1.3*	*0.7*
Romania	8.1	4.6	6.2	0.3	17.9	5.2	**2.0**	**1.4**	**0.9**	*2.8*	*0.6*	*0.2*
Sweden	-2.9	2.0	1.0	-0.7	-2.7	0.3	**2.1**	**0.2**	**-0.1**	*1.2*	*0.1*	*-0.2*
United Kingdom	2.6	-4.3	0.8	-0.6	-0.7	-2.1	**1.0**	**-1.2**	**-0.6**	*-1.0*	*-1.2*	*-0.8*
EU (b)	-0.5	0.2	1.3	1.1	0.5	0.6	**1.5**	**-0.1**	**0.1**	*1.6*	*0.1*	*-0.1*
USA	2.7	-1.1	0.2	0.1	-0.5	0.0	**-0.7**	**-0.2**	**-0.1**	*-0.2*	*0.5*	*-0.1*
Japan	-16.7	8.7	-6.9	-3.5	-2.0	5.0	**1.8**	**0.0**	**-0.5**	*1.0*	*0.7*	*-0.6*

(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, 2011-17) 22.1.2016

						Winter 2016 forecast			Autumn 2015 forecast		
	(a)	2011	2012	2013	2014	2015	2016	2017	2015	2016	2017
EU	17.1	1.8	-0.5	0.2	1.4	1.9	1.9	2.0	1.9	2.0	2.1
Euro area	12.1	1.6	-0.9	-0.3	0.9	1.6	1.7	1.9	1.6	1.8	1.9
Belgium	0.4	1.8	0.2	0.0	1.3	1.3	1.3	1.7	1.3	1.3	1.7
Bulgaria	0.1	1.6	0.2	1.3	1.5	2.2	1.5	2.0	1.7	1.5	2.0
Czech Republic	0.3	2.0	-0.9	-0.5	2.0	4.5	2.3	2.7	4.3	2.2	2.7
Denmark	0.2	1.2	-0.1	-0.2	1.3	1.2	1.7	1.9	1.6	2.0	1.8
Germany	3.4	3.7	0.4	0.3	1.6	1.7	1.8	1.8	1.7	1.9	1.9
Estonia	0.0	7.6	5.2	1.6	2.9	0.9	2.1	2.3	1.9	2.6	2.6
Ireland	0.2	2.6	0.2	1.4	5.2	6.9	4.5	3.5	6.0	4.5	3.5
Greece	0.3	-9.1	-7.3	-3.2	0.7	0.0	-0.7	2.7	-1.4	-1.3	2.7
Spain	1.4	-1.0	-2.6	-1.7	1.4	3.2	2.8	2.5	3.1	2.7	2.4
France	2.4	2.1	0.2	0.7	0.2	1.1	1.3	1.7	1.1	1.4	1.7
Croatia	0.1	-0.3	-2.2	-1.1	-0.4	1.8	2.1	2.1	1.1	1.4	1.7
Italy	2.0	0.6	-2.8	-1.7	-0.4	0.8	1.4	1.3	0.9	1.5	1.4
Cyprus	0.0	0.4	-2.4	-5.9	-2.5	1.4	1.5	2.0	1.2	1.4	2.0
Latvia	0.0	6.2	4.0	3.0	2.4	2.7	3.1	3.2	2.4	3.0	3.3
Lithuania	0.1	6.0	3.8	3.5	3.0	1.6	2.9	3.4	1.7	2.9	3.4
Luxembourg	0.0	2.6	-0.8	4.3	4.1	4.7	3.8	4.4	3.1	3.2	3.0
Hungary	0.2	1.8	-1.7	1.9	3.7	2.7	2.1	2.5	2.9	2.2	2.5
Malta	0.0	2.0	2.9	4.0	4.1	4.9	3.9	3.4	4.3	3.6	3.1
Netherlands	0.7	1.7	-1.1	-0.5	1.0	2.0	2.1	2.3	2.0	2.1	2.3
Austria	0.4	2.8	0.8	0.3	0.4	0.7	1.7	1.6	0.6	1.5	1.4
Poland	0.9	5.0	1.6	1.3	3.3	3.5	3.5	3.5	3.5	3.5	3.5
Portugal	0.3	-1.8	-4.0	-1.1	0.9	1.5	1.6	1.8	1.7	1.7	1.8
Romania	0.4	1.1	0.6	3.5	3.0	3.6	4.2	3.7	3.5	4.1	3.6
Slovenia	0.1	0.6	-2.7	-1.1	3.0	2.5	1.8	2.3	2.6	1.9	2.5
Slovakia	0.1	2.8	1.5	1.4	2.5	3.5	3.2	3.4	3.2	2.9	3.3
Finland	0.2	2.6	-1.4	-1.1	-0.4	0.0	0.5	0.9	0.3	0.7	1.1
Sweden	0.4	2.7	-0.3	1.2	2.3	3.6	3.2	2.9	3.0	2.8	2.7
United Kingdom	2.4	2.0	1.2	2.2	2.9	2.3	2.1	2.1	2.5	2.4	2.2
Candidate Countries	1.5	8.0	1.8	4.0	2.6	3.0	3.3	3.6	2.9	3.1	3.4
- Turkey	1.4	8.8	2.1	4.2	2.9	3.1	3.4	3.6	3.0	3.2	3.4
- The former Yugoslav Republic of Macedonia	0.0	2.3	-0.5	2.9	3.5	3.3	3.3	3.5	3.2	3.5	3.5
- Montenegro	0.0	3.2	-2.7	3.5	1.8	3.9	4.0	4.1	4.0	4.1	4.0
- Serbia	0.1	1.4	-1.0	2.6	-1.8	0.8	1.6	2.5	0.7	1.4	2.5
- Albania	0.0	2.5	1.4	1.1	2.0	2.7	3.2	3.5	2.7	3.3	3.8
Potential Candidates	0.1	2.6	0.6	2.2	0.5	2.9	3.2	3.5	2.7	3.1	3.5
USA	15.9	1.6	2.2	1.5	2.4	2.5	2.7	2.6	2.6	2.8	2.7
Japan	4.4	-0.5	1.7	1.6	-0.1	0.7	1.1	0.5	0.7	1.1	0.5
Canada	1.5	3.0	1.9	2.0	2.4	1.1	1.6	2.0	1.2	2.5	2.7
Norway	0.3	1.0	2.7	1.0	2.2	2.1	1.5	2.2	0.6	1.1	1.9
Switzerland	0.4	1.8	1.1	1.8	1.9	0.9	1.3	1.4	1.0	1.3	1.4
Iceland	0.0	2.0	1.2	3.9	1.8	4.1	3.3	2.3	4.0	3.2	2.5
Australia	1.0	2.7	3.6	2.1	2.7	2.2	2.5	2.8	2.2	2.5	2.8
New Zealand	0.1	1.3	2.9	2.5	3.3	2.2	2.3	2.5	2.5	2.5	2.5
Advanced economies	42.4	1.7	1.1	1.1	1.8	2.0	2.2	2.2	2.0	2.3	2.3
CIS	4.7	4.8	3.5	2.1	0.9	-3.1	-0.3	1.2	-3.0	0.4	1.8
- Russia	3.3	4.3	3.4	1.3	0.6	-3.7	-1.2	0.3	-3.7	-0.5	1.0
- Other CIS	1.4	6.0	3.5	4.1	1.5	-1.9	1.6	3.0	-1.5	2.7	3.7
MENA	6.8	2.9	3.5	1.6	2.8	2.7	3.0	3.5	2.8	3.3	3.8
Asia	34.1	7.7	7.0	6.5	6.2	5.9	5.8	5.8	5.9	5.9	5.8
- China	16.6	10.3	9.6	8.0	7.3	6.9	6.5	6.2	6.8	6.5	6.2
- India	6.8	7.9	4.9	6.9	7.1	7.2	7.4	7.5	7.2	7.4	7.5
- Hong Kong	0.4	4.8	1.7	3.1	2.5	2.3	2.2	2.2	2.3	2.4	2.6
- Korea	1.6	3.7	2.3	2.9	3.3	2.5	2.7	2.8	2.5	2.9	3.1
- Indonesia	2.5	6.2	6.0	5.6	5.0	4.7	4.9	5.0	4.8	5.1	5.4
Latin America	8.6	4.9	3.1	2.9	1.3	-0.6	0.1	1.6	0.4	1.2	2.0
- Brazil	3.0	3.9	1.8	2.7	0.1	-3.8	-3.0	0.3	-2.6	-0.5	1.2
- Mexico	2.0	3.9	4.0	1.4	2.2	2.5	2.4	2.5	2.4	2.8	3.0
Sub-Saharan Africa	3.2	4.4	4.4	4.9	5.0	4.2	4.0	4.2	4.4	4.3	4.8
Emerging and developing economies	57.6	6.2	5.5	4.9	4.5	3.7	4.1	4.5	3.9	4.4	4.7
World	100.0	4.1	3.5	3.2	3.3	3.0	3.3	3.5	3.1	3.5	3.7
World excluding EU	82.9	4.7	4.4	3.9	3.7	3.2	3.6	3.8	3.3	3.8	4.0
World excluding euro area	87.9	4.5	4.2	3.7	3.7	3.2	3.5	3.8	3.3	3.8	3.9

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

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2011-17) 22.1.2016

						Winter 2016 forecast			*Autumn 2015 forecast*		
	(a)	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
EU (b)	33.7	6.6	2.3	2.2	4.0	**5.1**	**4.2**	**5.0**	*4.8*	*4.3*	*5.0*
Euro area (b)	25.1	6.5	2.6	2.1	4.1	**5.1**	**4.2**	**5.0**	*5.2*	*4.3*	*5.0*
Candidate Countries	1.1	6.6	16.0	1.4	6.4	**0.0**	**1.6**	**3.8**	*-0.2*	*5.2*	*6.0*
- Turkey	0.9	6.5	18.3	-0.3	6.8	**-0.9**	**1.2**	**3.5**	*-1.2*	*5.3*	*6.0*
- The former Yugoslav Republic of Macedonia	0.0	16.1	2.0	6.1	18.2	**5.3**	**5.5**	**6.5**	*7.9*	*7.9*	*8.3*
- Montenegro	0.0	14.6	-0.3	-1.3	-0.7	**8.6**	**2.1**	**4.6**	*2.1*	*1.8*	*3.4*
- Serbia	0.1	5.0	0.8	21.3	5.7	**8.0**	**4.7**	**5.3**	*8.1*	*3.9*	*5.3*
- Albania	0.0	7.4	-0.6	7.9	-17.5	**-0.4**	**4.3**	**5.0**	*0.7*	*5.5*	*5.8*
USA	10.8	6.9	3.4	2.8	3.4	**1.3**	**2.6**	**3.6**	*1.7*	*3.6*	*3.9*
Japan	3.6	-0.4	-0.2	1.2	8.4	**3.3**	**3.2**	**3.4**	*2.6*	*3.8*	*3.5*
Canada	2.6	4.6	2.6	2.0	5.4	**3.1**	**4.0**	**3.9**	*2.4*	*4.3*	*4.6*
Norway	0.8	-0.8	1.4	-1.7	2.2	**3.8**	**3.5**	**4.9**	*0.5*	*3.6*	*5.2*
Switzerland	1.9	4.9	1.1	15.2	-6.9	**1.0**	**2.5**	**2.6**	*-1.4*	*2.5*	*2.6*
Iceland	0.0	3.4	3.6	6.7	3.1	**7.5**	**5.2**	**4.7**	*8.2*	*5.2*	*4.5*
Australia	1.2	0.1	6.0	6.2	6.7	**5.5**	**5.5**	**5.7**	*5.5*	*5.1*	*4.9*
New Zealand	0.3	2.6	1.9	0.9	3.3	**3.6**	**2.3**	**2.6**	*4.4*	*2.4*	*2.6*
Advanced economies	56.0	5.7	2.6	2.7	3.9	**3.9**	**3.7**	**4.5**	*3.6*	*4.1*	*4.6*
CIS	2.8	4.3	2.3	1.6	-1.1	**-5.8**	**1.0**	**3.7**	*-6.8*	*1.9*	*3.7*
- Russia	1.9	0.3	1.4	4.2	-0.1	**-3.7**	**0.8**	**2.2**	*-4.7*	*1.0*	*2.5*
- Other CIS	0.9	12.1	3.9	-3.1	-3.2	**-9.9**	**1.5**	**6.2**	*-10.9*	*3.6*	*5.8*
MENA	5.8	-2.8	1.7	1.4	0.9	**2.4**	**2.8**	**3.5**	*2.7*	*3.9*	*4.9*
Asia	28.0	9.1	3.6	5.9	4.1	**1.5**	**3.0**	**3.6**	*2.2*	*3.5*	*4.1*
- China	12.0	11.3	5.9	9.0	5.8	**3.0**	**3.5**	**4.0**	*3.0*	*4.0*	*5.0*
- India	2.1	10.5	1.1	4.4	3.8	**-2.2**	**3.8**	**4.9**	*1.5*	*4.0*	*4.9*
- Hong Kong	2.7	3.9	1.9	6.2	0.8	**0.1**	**2.2**	**3.0**	*1.0*	*2.1*	*2.4*
- Korea	3.3	15.1	5.1	4.3	2.8	**1.1**	**3.1**	**3.5**	*1.7*	*3.9*	*3.7*
- Indonesia	0.8	5.7	2.9	2.5	2.0	**0.3**	**3.0**	**4.4**	*2.0*	*3.1*	*4.4*
Latin America	5.8	6.1	2.6	1.9	1.4	**4.0**	**2.5**	**3.1**	*3.7*	*3.0*	*3.7*
- Brazil	1.2	5.0	0.1	2.3	-1.0	**7.0**	**-0.3**	**1.9**	*7.9*	*0.6*	*3.0*
- Mexico	2.0	8.2	5.8	2.3	7.3	**8.7**	**4.9**	**4.3**	*7.1*	*5.8*	*5.0*
Sub-Saharan Africa	1.5	-2.3	1.0	4.2	-0.8	**3.0**	**2.9**	**3.4**	*2.9*	*3.7*	*5.0*
Emerging and developing economies	44.0	5.9	2.9	4.2	2.5	**1.4**	**2.8**	**3.6**	*1.8*	*3.4*	*4.2*
World	100.0	5.7	2.7	3.4	3.3	**2.8**	**3.3**	**4.1**	*2.8*	*3.8*	*4.4*
World excluding EU	66.3	5.3	2.9	4.0	2.9	**1.6**	**2.9**	**3.6**	*1.8*	*3.5*	*4.1*
World excluding euro area	74.9	5.5	2.8	3.8	3.0	**2.0**	**3.0**	**3.8**	*2.0*	*3.6*	*4.2*

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2014

(b) Intra- and extra-EU trade.

Table 57: Export shares in EU trade (goods only - 2014) 22.1.2016

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	65.1	48.2	2.0	6.2	1.2	5.4	3.4	4.6	3.1	4.7	2.6	1.6
Euro area	65.1	47.8	2.0	6.3	1.3	4.8	3.6	4.5	3.0	4.8	2.9	1.7
Belgium	74.4	60.8	1.2	4.7	0.8	2.6	2.0	5.0	1.4	3.9	1.7	2.2
Bulgaria	62.8	47.2	13.1	1.6	0.3	1.5	3.2	3.3	5.2	7.3	0.5	1.3
Czech Republic	82.3	64.5	1.9	2.3	0.5	2.5	1.4	1.6	4.4	1.9	0.7	0.5
Denmark	66.1	39.5	0.9	6.4	1.9	8.7	3.2	4.5	2.2	2.7	2.5	0.8
Germany	60.0	38.8	2.1	7.5	1.5	6.2	6.2	5.1	3.6	3.7	3.0	1.2
Estonia	74.6	48.7	1.6	2.5	0.7	5.3	1.1	2.0	9.8	1.2	0.8	0.5
Ireland	57.5	38.1	0.6	21.7	2.4	7.5	2.4	2.6	0.9	1.9	1.6	0.8
Greece	50.8	34.8	19.2	3.3	0.4	1.6	1.5	2.9	2.9	15.1	1.2	1.0
Spain	65.9	53.0	2.2	3.8	1.2	3.5	1.9	2.7	1.8	8.2	6.6	2.1
France	60.0	47.5	1.5	6.9	1.8	4.6	3.7	6.3	2.2	7.0	3.1	2.8
Croatia	69.5	58.3	10.3	3.7	0.6	2.8	0.9	0.9	4.2	5.2	0.7	1.2
Italy	54.5	40.6	3.4	7.4	1.8	6.7	3.1	5.4	3.5	9.0	3.9	1.5
Cyprus	51.7	32.7	0.2	1.7	0.5	1.2	1.4	23.1	3.2	14.7	0.8	1.3
Latvia	70.8	49.9	1.3	1.6	0.5	3.4	0.8	1.9	14.9	3.8	0.4	0.5
Lithuania	63.7	42.4	0.6	4.5	0.3	3.6	0.4	1.2	22.0	2.9	0.3	0.4
Luxembourg	83.3	73.3	1.5	2.9	0.4	3.7	1.3	2.0	1.4	2.0	0.9	0.7
Hungary	79.1	56.8	2.9	2.9	0.6	1.7	1.9	1.5	5.0	2.3	1.3	0.7
Malta	44.4	34.9	1.2	3.4	4.3	2.3	9.3	21.5	1.4	9.7	1.4	1.2
Netherlands	79.4	62.5	0.9	3.2	0.7	2.7	1.6	3.2	1.6	2.9	1.8	1.9
Austria	72.6	54.9	1.5	5.1	1.0	5.6	2.5	3.1	3.5	2.5	1.9	0.6
Poland	78.5	55.6	2.1	2.2	0.4	2.8	1.1	1.5	8.0	1.7	1.0	0.6
Portugal	69.9	60.1	1.0	4.5	0.5	2.3	1.9	1.4	0.9	4.6	3.5	9.7
Romania	69.8	51.4	6.6	2.2	0.7	1.6	1.5	2.3	6.3	6.7	1.4	0.9
Slovenia	77.8	55.2	5.2	1.7	0.2	2.1	0.9	1.5	6.1	3.5	0.6	0.4
Slovakia	85.5	45.7	2.1	1.5	0.2	2.1	2.4	0.5	4.1	0.9	0.4	0.2
Finland	56.8	33.9	1.5	6.3	1.9	6.6	5.1	5.6	8.6	3.4	3.1	1.1
Sweden	61.4	42.6	1.3	5.6	1.3	11.9	3.8	4.4	2.3	4.1	2.7	1.2
United Kingdom	51.6	45.7	1.5	10.5	1.3	11.0	3.2	8.4	1.8	6.3	2.2	2.3

Table 58: World imports of goods and services, volume (percentage change on preceding year, 2011-17) 22.1.2016

						Winter 2016 forecast			*Autumn 2015 forecast*		
	(a)	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
EU (b)	32.0	4.2	-0.3	1.6	4.6	**5.6**	**5.1**	**5.5**	*5.0*	*4.9*	*5.5*
Euro area (b)	23.3	4.3	-1.0	1.3	4.5	**5.7**	**5.0**	**5.6**	*5.4*	*4.8*	*5.7*
Candidate Countries	1.3	10.3	-0.3	8.4	0.5	**1.7**	**3.4**	**4.3**	*2.7*	*4.0*	*5.2*
- Turkey	1.1	10.9	-0.5	9.0	-0.2	**1.4**	**3.3**	**4.2**	*2.5*	*4.0*	*5.3*
- The former Yugoslav Republic of Macedonia	0.0	8.0	8.2	2.2	16.0	**1.7**	**2.6**	**5.5**	*6.3*	*6.4*	*6.6*
- Montenegro	0.0	0.3	0.6	-3.1	1.6	**4.7**	**3.2**	**4.5**	*3.6*	*3.8*	*1.7*
- Serbia	0.1	7.9	1.4	5.0	5.6	**6.1**	**4.1**	**4.8**	*5.4*	*3.2*	*4.6*
- Albania	0.0	6.1	-6.6	5.0	-8.2	**-3.6**	**5.3**	**5.2**	*-3.6*	*5.2*	*5.6*
USA	13.6	5.5	2.2	1.1	3.8	**5.1**	**4.8**	**4.8**	*5.1*	*5.0*	*4.9*
Japan	3.9	5.9	5.3	3.1	7.4	**0.6**	**3.0**	**2.6**	*0.8*	*3.1*	*2.7*
Canada	2.9	5.7	3.7	1.3	1.8	**0.4**	**0.7**	**2.0**	*1.2*	*2.0*	*2.4*
Norway	0.6	4.0	3.1	4.9	1.5	**0.8**	**2.7**	**4.0**	*1.0*	*2.0*	*3.3*
Switzerland	1.6	9.2	-2.6	13.4	-8.1	**1.5**	**2.7**	**3.0**	*-0.8*	*2.8*	*3.0*
Iceland	0.0	6.8	4.6	0.2	9.8	**10.7**	**8.0**	**6.7**	*12.5*	*9.4*	*6.9*
Australia	1.4	11.0	6.2	-1.8	-1.7	**-0.8**	**0.6**	**2.1**	*-1.0*	*0.6*	*1.9*
New Zealand	0.3	7.0	2.8	6.1	7.9	**3.9**	**2.3**	**2.4**	*4.1*	*2.2*	*2.4*
Advanced economies	57.7	5.1	0.9	2.0	3.8	**4.4**	**4.4**	**4.7**	*4.1*	*4.4*	*4.8*
CIS	2.5	18.7	9.4	2.5	-8.3	**-16.4**	**0.2**	**2.3**	*-17.0*	*1.1*	*3.7*
- Russia	1.4	20.3	8.8	3.7	-7.9	**-20.0**	**-0.3**	**1.9**	*-20.0*	*0.3*	*4.0*
- Other CIS	1.0	16.2	10.3	0.8	-9.1	**-10.5**	**0.8**	**2.8**	*-12.1*	*2.1*	*3.3*
MENA	6.4	0.0	7.2	3.7	6.6	**4.0**	**3.7**	**3.9**	*3.5*	*3.8*	*5.4*
Asia	25.4	9.2	4.4	5.3	4.2	**0.3**	**2.9**	**3.9**	*0.7*	*2.6*	*3.9*
- China	10.0	13.1	6.9	11.2	7.0	**0.5**	**3.1**	**4.6**	*-0.7*	*1.9*	*4.5*
- India	2.2	8.6	1.6	-3.8	6.1	**-2.0**	**3.2**	**4.8**	*1.5*	*3.2*	*4.8*
- Hong Kong	2.9	4.6	2.9	6.6	1.0	**-0.4**	**2.3**	**2.4**	*1.2*	*2.0*	*2.2*
- Korea	2.7	14.3	2.4	1.7	2.1	**2.3**	**3.0**	**3.3**	*1.7*	*3.2*	*3.6*
- Indonesia	0.9	15.2	15.5	0.1	-1.0	**-2.1**	**2.6**	**3.6**	*1.0*	*3.2*	*4.3*
Latin America	6.2	11.7	4.5	2.9	0.2	**-1.7**	**0.0**	**2.7**	*-1.2*	*0.8*	*3.2*
- Brazil	1.3	10.5	0.2	7.2	-1.0	**-13.1**	**-3.5**	**1.8**	*-9.3*	*-1.8*	*1.6*
- Mexico	2.1	8.1	5.5	2.6	5.7	**5.3**	**3.2**	**3.7**	*4.1*	*4.7*	*5.0*
Sub-Saharan Africa	2.0	8.5	7.8	3.7	2.8	**4.2**	**3.5**	**4.1**	*3.3*	*3.6*	*4.6*
Emerging and developing economies	42.3	9.0	5.3	4.5	2.9	**-0.5**	**2.5**	**3.6**	*-0.4*	*2.5*	*4.1*
World	100.0	6.6	2.7	3.1	3.4	**2.4**	**3.6**	**4.3**	*2.3*	*3.6*	*4.5*
World excluding EU	68.0	7.9	4.3	3.8	2.8	**0.8**	**2.9**	**3.7**	*0.9*	*3.0*	*4.0*
World excluding euro area	76.7	7.4	4.0	3.6	3.1	**1.3**	**3.1**	**3.9**	*1.2*	*3.2*	*4.1*

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2014.

(b) Intra- and extra-EU trade.

Table 59: Import shares in EU trade (goods only - 2014) 22.1.2016

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	64.0	49.6	1.3	4.2	1.2	5.0	6.1	4.7	5.9	3.5	2.2	1.8
Euro area	63.3	48.6	1.3	4.3	1.3	4.7	5.9	4.7	6.1	4.1	2.5	1.9
Belgium	67.8	57.2	0.8	7.3	1.7	3.9	3.8	5.3	2.6	3.2	2.1	1.4
Bulgaria	63.4	45.0	8.1	0.9	0.2	1.6	3.3	1.9	17.1	1.1	1.7	0.6
Czech Republic	78.4	61.8	0.9	1.4	1.0	1.8	5.4	4.0	6.6	0.3	0.2	0.2
Denmark	72.4	48.7	1.1	2.2	0.4	8.4	6.0	4.0	1.7	1.2	1.6	1.1
Germany	66.8	47.0	1.5	3.9	1.6	6.5	6.2	4.6	4.7	1.5	1.6	1.1
Estonia	75.0	53.9	0.7	1.1	0.8	1.6	4.6	2.2	13.2	0.2	0.2	0.3
Ireland	72.5	28.2	0.5	9.6	1.5	4.6	3.8	3.7	0.5	0.9	1.9	0.5
Greece	49.1	38.3	3.3	1.1	0.3	1.9	5.0	4.7	17.4	15.4	1.5	0.4
Spain	57.0	47.5	1.5	3.1	0.7	2.8	5.7	4.2	3.6	9.8	7.2	4.6
France	69.8	58.8	1.0	4.4	0.9	4.3	4.4	3.8	3.0	5.1	1.3	1.9
Croatia	69.2	54.8	3.8	1.7	0.4	1.7	6.7	2.3	10.9	1.1	1.7	0.4
Italy	57.1	46.2	2.3	3.2	0.7	4.2	6.1	4.5	9.6	7.8	2.5	2.1
Cyprus	60.7	49.6	0.4	1.0	1.7	1.5	6.3	5.0	11.7	11.1	0.4	0.1
Latvia	61.0	45.5	0.5	1.3	0.1	1.5	3.9	2.0	28.7	0.3	0.6	0.0
Lithuania	59.4	40.1	0.9	1.8	0.1	1.6	3.7	1.2	30.0	0.4	0.7	0.1
Luxembourg	80.6	76.8	0.2	7.5	0.6	1.3	6.5	1.6	0.1	0.2	1.5	0.0
Hungary	73.6	56.7	1.2	1.5	1.2	1.0	6.4	4.0	9.4	0.5	1.1	0.1
Malta	42.2	33.3	4.5	3.1	1.1	2.7	11.8	11.9	18.3	3.8	0.2	0.5
Netherlands	46.1	34.4	0.6	6.6	2.2	5.4	10.8	7.1	9.6	4.0	4.7	2.8
Austria	80.5	66.6	1.1	2.0	0.5	5.1	2.3	2.9	3.1	1.3	0.3	0.9
Poland	72.4	58.5	1.0	1.6	0.7	2.1	5.8	3.4	11.7	0.3	0.7	0.3
Portugal	72.1	65.5	0.7	1.2	0.4	1.8	2.8	2.4	3.3	4.2	2.5	8.4
Romania	76.4	54.0	4.5	1.1	0.4	1.4	3.8	2.1	8.1	0.9	1.0	0.2
Slovenia	74.5	57.8	5.1	1.4	0.4	1.8	5.1	6.1	1.6	1.8	2.0	0.3
Slovakia	77.0	42.6	1.0	0.4	0.5	0.8	4.0	6.3	9.8	0.2	0.1	0.0
Finland	64.3	38.3	0.4	2.6	0.5	3.3	5.1	2.8	18.2	0.4	1.7	0.8
Sweden	72.0	51.5	0.8	2.7	0.9	8.4	4.8	3.4	3.9	0.5	1.3	1.3
United Kingdom	55.8	48.2	1.4	6.5	1.6	9.5	8.3	6.4	2.5	3.3	2.2	2.6

Table 60: World merchandise trade balances (fob-fob, in billions of US dollar, 2010-17) 22.1.2016

						Winter 2016 forecast			*Autumn 2015 forecast*		
	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
EU	-28.9	-37.1	90.4	196.4	226.7	**285.7**	**287.6**	**264.6**	*296.8*	*300.6*	*276.0*
EU, adjusted¹	-220.8	-248.7	-54.8	47.4	56.8	**143.8**	**148.8**	**125.9**	*156.3*	*158.3*	*133.8*
Euro area	122.5	117.3	253.5	359.3	416.3	**447.9**	**451.8**	**439.7**	*451.3*	*459.3*	*444.4*
Euro area, adjusted¹	55.1	49.0	160.3	280.4	332.5	**378.0**	**383.4**	**371.4**	*382.3*	*389.4*	*374.6*
Candidate Countries	-69.1	-102.5	-77.4	-89.0	-73.9	**-58.5**	**-55.2**	**-60.2**	*-67.0*	*-70.4*	*-77.3*
USA	-670.3	-778.0	-778.7	-739.0	-767.5	**-773.1**	**-810.2**	**-899.2**	*-763.4*	*-821.8*	*-920.7*
Japan	91.0	-20.3	-72.9	-109.3	-117.3	**-43.9**	**-22.2**	**-14.0**	*-59.9*	*-48.0*	*-39.6*
Norway	49.3	66.8	69.0	60.9	50.0	**35.2**	**34.7**	**37.4**	*38.6*	*43.8*	*50.8*
Switzerland	34.2	29.5	40.2	53.7	54.0	**49.6**	**48.0**	**47.9**	*48.7*	*48.8*	*48.7*
Advanced economies	-589.3	-815.8	-750.7	-627.6	-622.2	**-543.2**	**-564.2**	**-666.9**	*-548.2*	*-582.9*	*-687.9*
CIS	175.1	241.8	224.8	200.5	218.0	**119.5**	**79.2**	**85.7**	*120.3*	*117.2*	*120.1*
- Russia	151.9	198.6	194.1	183.0	184.8	**133.3**	**110.0**	**112.3**	*133.0*	*130.5*	*129.7*
MENA	352.1	587.0	599.0	584.3	510.0	**95.6**	**-68.9**	**-14.7**	*118.3*	*115.4*	*151.0*
Asia	244.7	141.9	147.4	274.3	406.6	**802.5**	**943.2**	**954.3**	*798.6*	*873.2*	*900.6*
- China	246.4	228.7	311.6	359.0	435.0	**698.0**	**806.8**	**837.9**	*690.7*	*769.7*	*818.5*
Latin America	52.1	74.8	47.1	15.4	0.2	**26.7**	**33.2**	**-17.6**	*33.7*	*51.4*	*23.8*
Sub-Saharan Africa	80.4	94.9	73.7	69.8	31.7	**-26.2**	**-46.3**	**-44.7**	*43.4*	*45.6*	*54.4*
Emerging and developing economies	904.3	1140.4	1091.9	1144.3	1166.4	**1018.0**	**940.5**	**963.0**	*1114.3*	*1202.7*	*1249.8*
World	315.0	324.7	341.3	516.7	544.2	**474.8**	**376.3**	**296.1**	*566.1*	*619.8*	*562.0*

¹ See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2010-17) 22.1.2016

						Winter 2016 forecast			*Autumn 2015 forecast*		
	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
EU	-6.1	48.1	176.7	263.8	299.5	**336.5**	**337.7**	**329.1**	*358.2*	*368.7*	*362.1*
EU, adjusted¹	-145.3	-123.8	100.6	180.0	157.5	**217.9**	**221.8**	**213.2**	*252.8*	*262.0*	*255.4*
Euro area	54.3	82.2	237.2	329.9	405.7	**429.9**	**423.3**	**410.1**	*434.3*	*437.2*	*422.9*
Euro area, adjusted¹	36.6	33.2	159.7	257.6	320.0	**358.4**	**353.4**	**340.2**	*365.0*	*367.0*	*352.7*
Candidate Countries	-51.2	-84.2	-55.2	-69.2	-51.7	**-38.3**	**-36.4**	**-42.5**	*-45.0*	*-48.3*	*-54.4*
USA	-445.9	-481.5	-468.2	-395.8	-401.1	**-592.5**	**-583.7**	**-634.7**	*-418.6*	*-454.2*	*-526.3*
Japan	207.4	123.2	63.2	33.1	25.0	**111.5**	**147.6**	**164.9**	*95.1*	*118.4*	*133.5*
Norway	46.8	61.6	63.4	53.5	44.3	**27.8**	**27.9**	**30.9**	*35.2*	*41.0*	*48.7*
Switzerland	88.3	56.9	72.9	81.9	81.0	**74.1**	**73.0**	**74.8**	*72.9*	*74.4*	*76.3*
Advanced economies	-266.4	-373.7	-281.1	-143.6	-90.5	**-204.3**	**-150.3**	**-194.0**	*-28.1*	*-4.1*	*-60.6*
CIS	72.7	104.3	65.5	17.8	56.0	**44.2**	**33.0**	**40.7**	*45.7*	*44.4*	*45.0*
- Russia	71.0	93.7	69.4	33.8	58.8	**63.0**	**52.8**	**54.0**	*61.2*	*60.4*	*56.7*
MENA	184.0	422.5	433.3	360.9	214.9	**-111.4**	**-186.8**	**-147.9**	*39.1*	*-67.7*	*-57.2*
Asia	331.0	210.7	222.0	225.5	358.1	**723.2**	**801.3**	**783.9**	*737.2*	*777.4*	*770.4*
- China	237.8	136.1	215.4	148.2	219.7	**426.7**	**474.6**	**460.1**	*446.5*	*490.5*	*502.1*
Latin America	-94.2	-100.8	-136.4	-171.0	-173.2	**-141.0**	**-126.5**	**-153.9**	*-75.3*	*-60.2*	*-89.7*
Sub-Saharan Africa	-3.9	-2.3	-23.4	-34.8	-64.0	**-77.6**	**-75.6**	**-72.4**	*-63.4*	*-59.3*	*-56.8*
Emerging and developing economies	489.6	634.4	561.1	398.3	391.7	**437.4**	**445.5**	**450.4**	*683.2*	*634.6*	*611.8*
World	223.2	260.7	280.0	254.7	301.2	**233.1**	**295.2**	**256.4**	*655.2*	*630.5*	*551.2*

¹ See note 8 on concepts and sources.

Table 62: Primary commodity prices (in US dollar, percentage change on preceding year, 2010-2017) 22.1.2016

STIC Classification						Winter 2016 forecast			*Autumn 2015 forecast*		
	2010	2011	2012	2013	2014	2015	2016	2017	*2015*	*2016*	*2017*
Food	9.8	13.1	0.2	3.2	-3.7	**-15.7**	**-3.7**	**0.0**	*-14.7*	*1.2*	*1.4*
Basic materials	40.1	22.0	-15.9	-4.8	-4.7	**-18.7**	**-6.1**	**0.2**	*-17.0*	*-0.6*	*1.1*
- of which:											
Agricultures non-food	31.1	32.5	-15.9	-4.7	3.8	**-14.2**	**-3.3**	**0.1**	*-13.5*	*-3.0*	*-0.1*
- of which:											
Wood and pulp	6.2	9.0	-5.8	1.2	2.6	**-3.4**	**0.0**	**-0.1**	*-4.1*	*1.1*	*1.6*
Minerals and metals	46.6	15.2	-15.8	-4.9	-11.1	**-22.5**	**-8.7**	**0.3**	*-20.0*	*1.7*	*2.2*
Fuel products	26.3	38.0	1.3	-2.9	-7.9	**-44.8**	**-30.0**	**15.8**	*-43.4*	*-1.0*	*7.6*
- of which:											
Crude petroleum	28.8	38.3	0.8	-2.7	-8.3	**-46.5**	**-33.0**	**18.6**	*-45.0*	*-1.1*	*8.4*
Primary Commodities											
- Total excluding fuels	26.2	18.5	-9.7	-1.4	-4.3	**-17.3**	**-5.0**	**0.1**	*-16.0*	*0.2*	*1.2*
- Total including fuels	26.3	34.5	-0.4	-2.7	-7.4	**-40.7**	**-24.8**	**11.7**	*-39.3*	*-0.8*	*6.3*
Crude petroleum - price per barrel											
Brent (usd)	80.2	110.9	111.8	108.8	99.7	**53.4**	**35.8**	**42.5**	*54.8*	*54.2*	*58.8*
Brent (euro)	60.5	79.7	87.0	81.9	75.0	**48.1**	**33.0**	**39.2**	*49.0*	*47.9*	*51.9*

Note on concepts and sources

1. The Directorate General for Economic and Financial Affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts in winter, spring and autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the candidate countries, the European Union as a whole, the euro area and the international environment.

2. Data for 2015, 2016, and 2017 are forecasts. The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of Accounts (ESA 2010). US national accounts are based on SNA 2008, whilst the Japanese accounts use SNA 1993.

3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.

4. In Tables 17 and 18, the data are based on the national index for USA and Japan, and for EU Member States and aggregates prior to 1996.

5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.

6. Employment data used in tables 23-29 and 32-33 are based on full-time-equivalents (FTEs), where available. Currently, Spain, France, Italy, and the Netherlands report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.

7. Source: National Accounts (ESA 2010). Discrepancies with balance of payments statistics may arise due to methodological differences and revision schedules.

8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 49 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading toerestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2014.

9. Geographical zones are defined as follows :

Euro area :
EA19 (BE, DE, EE, IE, EL, ES, FR, IT, CY, LV, LT, LU, MT, NL, AT, PT, SI, SK, and FI)

European Union :
EU28 (EA19, BG, CZ, DK, HR, HU, PL, RO, SE, and UK).

Candidate countries :
Turkey, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Albania.

Potential candidates :
Bosnia-Herzegovina and Kosovo.

Advanced economies :
EU, candidate countries, USA, Japan, Canada, Iceland, Norway, Switzerland, Australia, and New Zealand.

MENA (Middle East and Northern Africa) :
Algeria, Tunisia, Morocco, Libya, Egypt, Israel, Jordan, Lebanon, Syria, Iraq, Iran, Yemen, Saudi Arabia, Bahrain, Oman, United Arab Emirates, Kuwait, and Qatar.

Asia :
All countries in that region except Japan and the Asian MENA countries.

Latin America :
All countries in that region.

Sub-Saharan Africa :
All countries in that region except the African MENA countries.