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European Economic Forecast

Winter 2015

EUROPEAN ECONOMY 1|2015

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ABBREVIATIONS

Countries and regions

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

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

Economic variables and institutions

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

CPB	Centraal Planbureau
EC	European Commission
ECB	European Central Bank

Fed	Federal Reserve, US
FOMC	Federal Open Market Committee
IEA	International Energy Agency
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries

Other abbreviations

BLS	Bank Lending Survey
DSGE	Dynamic stochastic general equilibrium [model]
FDI	Foreign Direct Investment
ICE	Intercontinental Exchange
NFC	Non-Financial Corporations
SME	Small and medium-sized enterprises
QE	Quantitative Easing

Graphs/Tables/Units

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

Currencies

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

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FOREWORD

GDP growth in the EU remains sluggish. Sputtering investment has so far prevented a broader and more robust acceleration of domestic demand. Amid challenging global conditions, the fall in crude oil prices should provide a welcome boost to growth.

Several important shifts are under way in the global economy. Falling oil and commodity prices are redistributing income from commodity-exporting countries to commodity-importing ones on a massive scale. Strong GDP growth in the US has fuelled expectations of monetary-policy divergence among major advanced economies, which has already provoked large adjustments in bilateral exchange rates. The economic prospects of emerging markets are also diverging; and the factors that led to the extraordinary growth of global trade in the early 2000s appear to have weakened.

The friction that occurs as these shifts take place creates a number of vulnerabilities in the global economy. Financial asset prices continued to rise substantially in 2014 but appear vulnerable to a change in risk appetite. The expected tightening of the US Fed's monetary stance may trigger adjustments in global capital flows. The resilience of commodity-exporting countries will be tested if commodity prices remain low. Geopolitical risks have not abated. All in all, the global outlook is clouded by the risk that economic prospects around the world will diverge further and by the potential for volatile incidents in capital markets.

In the EU, slowly expanding private consumption has been the only constant growth driver since the start of the recovery almost two years ago. Investment faltered in 2014 and remains weak. Longer-term trends such as ageing and declining productivity growth may also have affected short-term investment decisions by reducing expected rates of return. Against this backdrop, monetary accommodation and the shift of the fiscal stance to neutral have so far not been enough to spur growth. Headline inflation has dropped, largely on the back of lower energy prices, which should benefit growth by boosting real incomes. However, inflation expectations for the medium-term have also declined, leading to an increase in real interest rates. In the short run, downside risks have intensified, but new upside risks have also emerged.

In the longer run, are we facing an era of low growth, low investment, low inflation and the occasional storm in global financial markets? Not if the right policies are implemented now with determination. The ECB has just decided a programme of quantitative easing with strong forward guidance that is large enough to stabilise inflation expectations and reduce real interest rates. The easing of the EU's fiscal policy stance from consolidation to neutral is appropriate for the EU as a whole, but the lack of differentiation among countries reduces its benefits. Public finances would also be much more supportive of long-term growth if expenditure were more focused on investment. The EU Investment Plan and the Commission's guidance on the application of the Stability and Growth Pact provide a framework that must now be put into practice. Whether and how we reform our labour and product markets today will determine our chances for resource-efficient growth in the long run. These policy areas are intertwined and must be addressed simultaneously.

The recent sharp fall in oil prices should provide a welcome lift to the EU's GDP growth in the short run. But this blessing would turn into a curse if it diverted policy makers from the formidable challenges that still lie ahead.

Marco Buti

Director General
Economic and Financial Affairs

OVERVIEW

The recovery lacked momentum in 2014...

The pace of the recovery remains slow as Europe continues to struggle to leave the legacies of the crisis behind it. Economic growth remains also weighed down by unfinished macroeconomic adjustment and sluggish implementation of reforms, as well as long-standing weak growth trends. Moreover, uncertainty about the geopolitical situation, commitments to future policy initiatives and energy-price developments have gained importance in 2014. While private consumption has been the main engine of growth in the current recovery, investment has failed to recover and exports have done little to support growth. The economic recovery in the EU and the euro area is therefore expected to have lacked momentum in 2014, with annual GDP expected to have increased by respectively 1.3% and 0.8%.

...but new factors brighten the near-term outlook.

New developments have occurred that are expected to brighten in the near term the EU's economic outlook that would otherwise have deteriorated since the autumn. Oil prices have declined sharply, the euro has depreciated noticeably, the ECB has decided to expand the size and composition of its outright asset purchases by adding sovereign bond purchases, and the European Commission has presented its Investment Plan.

Table 1:

Overview - the winter 2015 forecast

	Real GDP				Inflation				Unemployment rate			
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
Belgium	0.3	1.0	1.1	1.4	1.2	0.5	0.1	1.1	8.4	8.5	8.3	8.1
Germany	0.1	1.5	1.5	2.0	1.6	0.8	0.1	1.6	5.2	5.0	4.9	4.8
Estonia	1.6	1.9	2.3	2.9	3.2	0.5	0.4	1.6	8.6	7.7	6.8	5.9
Ireland	0.2	4.8	3.5	3.6	0.5	0.3	0.3	1.3	13.1	11.1	9.6	8.8
Greece	-3.9	1.0	2.5	3.6	-0.9	-1.4	-0.3	0.7	27.5	26.6	25.0	22.0
Spain	-1.2	1.4	2.3	2.5	1.5	-0.2	-1.0	1.1	26.1	24.3	22.5	20.7
France	0.3	0.4	1.0	1.8	1.0	0.6	0.0	1.0	10.3	10.3	10.4	10.2
Italy	-1.9	-0.5	0.6	1.3	1.3	0.2	-0.3	1.5	12.2	12.8	12.8	12.6
Cyprus	-5.4	-2.8	0.4	1.6	0.4	-0.3	0.7	1.2	15.9	16.2	15.8	14.8
Latvia	4.2	2.6	2.9	3.6	0.0	0.7	0.9	1.9	11.9	11.0	10.2	9.2
Lithuania	3.3	3.0	3.0	3.4	1.2	0.2	0.4	1.6	11.8	9.5	8.7	7.9
Luxembourg	2.0	3.0	2.6	2.9	1.7	0.7	0.6	1.8	5.9	6.3	6.4	6.3
Malta	2.5	3.3	3.3	2.9	1.0	0.8	1.0	1.9	6.4	6.0	5.9	5.9
Netherlands	-0.7	0.7	1.4	1.7	2.6	0.3	0.4	0.7	6.7	6.9	6.6	6.4
Austria	0.2	0.2	0.8	1.5	2.1	1.5	1.1	2.2	4.9	5.0	5.2	5.0
Portugal	-1.4	1.0	1.6	1.7	0.4	-0.2	0.1	1.1	16.4	14.2	13.4	12.6
Slovenia	-1.0	2.6	1.8	2.3	1.9	0.4	-0.3	0.9	10.1	9.8	9.5	8.9
Slovakia	1.4	2.4	2.5	3.2	1.5	-0.1	0.4	1.3	14.2	13.4	12.8	12.1
Finland	-1.2	0.0	0.8	1.4	2.2	1.2	0.5	1.3	8.2	8.7	9.0	8.8
Euro area	**-0.5**	**0.8**	**1.3**	**1.9**	**1.4**	**0.4**	**-0.1**	**1.3**	**12.0**	**11.6**	**11.2**	**10.6**
Bulgaria	1.1	1.4	0.8	1.0	0.4	-1.6	-0.5	1.0	13.0	11.7	10.9	10.4
Czech Republic	-0.7	2.3	2.5	2.6	1.4	0.4	0.8	1.4	7.0	6.1	6.0	5.9
Denmark	-0.5	0.8	1.7	2.1	0.5	0.3	0.4	1.6	7.0	6.6	6.5	6.4
Croatia	-0.9	-0.5	0.2	1.0	2.3	0.2	-0.3	1.0	17.3	17.0	16.8	16.4
Hungary	1.5	3.3	2.4	1.9	1.7	0.0	0.8	2.8	10.2	7.7	7.4	6.6
Poland	1.7	3.3	3.2	3.4	0.8	0.1	-0.2	1.4	10.3	9.1	8.8	8.3
Romania	3.4	3.0	2.7	2.9	3.2	1.4	1.2	2.5	7.1	7.0	6.9	6.8
Sweden	1.3	1.8	2.3	2.6	0.4	0.2	0.5	1.0	8.0	7.8	7.7	7.5
United Kingdom	1.7	2.6	2.6	2.4	2.6	1.5	1.0	1.6	7.6	6.3	5.6	5.4
EU	**0.0**	**1.3**	**1.7**	**2.1**	**1.5**	**0.6**	**0.2**	**1.4**	**10.8**	**10.2**	**9.8**	**9.3**
USA	**2.2**	**2.4**	**3.5**	**3.2**	1.5	1.6	-0.1	2.0	7.4	6.2	5.4	4.9
Japan	**1.6**	**0.4**	**1.3**	**1.3**	0.4	2.7	0.6	0.9	4.0	3.7	3.7	3.6
China	**7.6**	**7.4**	**7.1**	**6.9**	2.6	2.3	2.5	3.0	:	:	:	:
World	**3.3**	**3.3**	**3.6**	**4.0**	:	:	:	:	:	:	:	:

The oil price fall should stimulate activity...

The recent steep fall in oil prices should provide a boost to EU GDP growth over the forecast horizon but will further depress headline inflation this year. The decline in oil prices is substantial and market expectations suggest an only gradual rebound. Lower oil prices over the forecast horizon are expected to benefit EU real GDP growth by raising the real disposable income of households and by widening corporates' profit margins. Higher real incomes and profits should also help households and firms to service their debt and continue deleveraging, provided that, as it is assumed in this forecast, the fall in oil prices does not lead to second-round effects on income and wages and a subsequent increase in the real debt burden. However, with nominal interest rates close to zero, central banks have limited options to prevent an unwarranted increase in real interest rates. This should mitigate the positive impact of the oil price fall to some extent.

... additional measures from the ECB should accelerate the normalisation of inflation...

Meanwhile, the ECB's quantitative easing appears large enough to have an impact on macroeconomic developments. The strong signalling effect of its announcement should support a re-anchoring of medium to long-term inflation expectations which would dampen the rise of real interest rates induced by lower inflation. This would facilitate further the deleveraging process throughout the euro area, while also supporting credit demand. The positive impact on confidence and credit growth should support domestic investment activity and consumption and therefore contribute to the normalisation of price developments.

... the euro depreciation should strengthen firms' competitiveness...

Expectations that the direction of US monetary-policy will diverge from that of the euro area, have had a strong impact on the euro exchange rate in recent months. The depreciation of the euro's trade-weighted exchange rate should strengthen price competitiveness of euro-area companies on foreign and domestic markets this year and next and will also contribute to push inflation higher in 2016.

...and some impetus should come from the EU Investment Plan, in particular in 2016.

Finally, the EU Investment Plan should positively affect the growth outlook by supporting investment, though its impact will mainly be felt in 2016 and beyond.

The positive impact of each of these developments on EU growth has to be seen against the backdrop of lingering adverse factors such as the remaining need of balance-sheet adjustment, high unemployment rates, persistent structural weaknesses and increased geopolitical concerns. Nevertheless, they limit the risk of entering a long period of very low growth or stagnation. On balance, as the legacy of the crisis gradually abates, the labour market continues to improve and structural reforms implemented so far start bearing fruit, an acceleration of GDP growth is expected this year and next.

Annual GDP growth in the EU is then forecast to accelerate to 1.7% this year and 2.1% next year, while growth in the euro area is expected to pick up to 1.3% in 2015 and 1.9% in 2016. The sharp fall in energy prices is expected to lower headline inflation massively over the coming quarters, dragging inflation in the EU and the euro area to just 0.2% and -0.1% respectively this year. Price levels are then expected to bounce back somewhat next year by 1.4% in the EU and 1.3% in the euro area.

The fall in oil prices will accentuate regional growth differences in the global economy...

After a slow start, global growth and world trade picked up over the course of last year and are expected to accelerate moderately in 2015 and 2016, pushed by a gradual recovery in advanced economies and some recovery from the recent weakness in emerging markets.

The sharp drop in global oil prices should help underpin global growth but it will also further accentuate regional differences as it implies a substantial redistribution of income from oil exporters to oil importers with an overall positive impact on global output growth. As an oil importer, the EU will directly benefit from this redistribution. However, Member States whose exports are more oriented towards commodity-exporting countries may feel a slowdown of foreign demand growth.

In the US, real GDP growth, driven mainly by private consumption, gathered considerable momentum over the course of 2014 and lower energy prices are set to provide a further boost to the economy in 2015. At the same time, while growth in Japan proved disappointing in 2014, it should benefit from lower oil prices and renewed monetary easing this year and next. Among emerging market economies**,** China also stands to gain from lower oil prices and is expected to continue growing by about 7% this year while slowing down to a more sustainable growth path as the economy rebalances. While the outlook has improved for India, falling oil revenues and the plunging rouble have pushed Russia to the brink of an economic and financial crisis. The growth outlook for many other commodity-exporting countries in Latin America and the Middle East and North Africa (MENA) has also deteriorated. Global growth is expected to be 3.3% in 2014 and to accelerate to 3.6% in 2015 and 4.0% in 2016.

World import growth is expected to rebound from 2.6% in 2014, to 4.3% in 2015 and 5.3% in 2016. The slight downward revision since the autumn, mainly reflects a reassessment of the trade outlook in certain economies and in the global trade elasticity, given that a combination of cyclical and structural factors continue to act as drags on global trade flows. Trade forecasts were revised down particularly for emerging markets, especially for Russia, where the deepening recession and depreciating currency weighs down on imports, and for China where the ongoing property market correction and slower growth in investment have led to more sluggish domestic demand and a more subdued trade outlook.

...while in the EU, countries will continue to grow at different rates...

As of this year, and for the first time since the start of the crisis, GDP is expected to grow in every country in the EU. However, diversity in economic performance is likely to persist since the pace of reform implementation, balance sheet adjustment and deleveraging among banks, the non-bank corporate sector, households and the public sector continue to differ across Member States. Some countries will benefit more than others from the fall in oil prices, depending on the energy intensity of their economies and their energy taxation systems.

Among the larger Member States, activity is forecast to be dynamic in Poland, the UK and Spain with growth rates well above the EU average. While *Poland* had been the only country exhibiting positive growth rates during the financial crisis and thereafter, growth in the *UK* had been rather strong already since the end of the financial crisis. Economic activity in *Spain* is expected to pick up thanks to improved labour-market and easier financing conditions. Economic growth in *Germany* is expected to be close to the EU average in 2015 and 2016, supported by domestic demand. The economy of *France* is expected to slowly gain momentum in 2015 and 2016, as household consumption picks up but investment remains subdued. In *Italy*, GDP growth is projected to turn positive early this year, as growing external demand leads a fragile recovery. Despite some improvement in its housing market, deleveraging pressures in *the Netherlands* will limit the potential for a faster recovery. Among the euro-area Member States that had or have adjustment programmes, growth is expected to remain robust in *Ireland,* while the economy in *Cyprus* is showing signs of stabilisation. In *Greece*, uncertainty about the direction of policies is affecting confidence and may dent the speed of the recovery. The modest recovery of *Portugal* is set to continue as financing conditions and external demand gradually improve.

...and domestic demand is expected to expand ...

GDP growth in the EU and the euro area is expected to be led primarily by domestic demand which should benefit this year and next from lower oil prices and more supportive monetary and fiscal policies. The implementation of structural reforms and reforms of the financial architecture (e.g. banking union) should also support the conditions for a pick-up in domestic demand. In 2016, domestic demand should also start to feel some support from the EU Investment Plan.

Lower energy prices are expected to be a key factor driving the expansion of private consumption. With slightly improved employment prospects and nominal compensation of employees rising, nominal disposable income is expected to increase further, while the very low consumer price inflation will boost real income this year. Households are however expected to slightly increase their savings this year, reflecting some willingness to restore levels eroded during the crisis, ongoing deleveraging and uncertainty.

While investment has been held back in most EU Member States by deleveraging pressures in the corporate sector, fiscal constraints as well as heightened economic and policy uncertainty, it should gradually benefit from strengthening demand prospects, the diminishing need for balance sheet adjustment, as well as improved credit conditions and profit margins. Equipment investment is expected to pick up more strongly as of the second half of 2015, whereas the recovery in construction investment will only become significant in 2016 when the negative impact of the on-going adjustment in housing markets is less felt.

...but net exports will contribute little to growth.

The depreciation of the euro's nominal effective exchange rate should strengthen the competitiveness of EU and euro area exporters. This impact, however, is forecast to remain moderate since only about half of the change in exchange rates is usually passed on to export prices. EU exports should also benefit from the expected acceleration in global trade. But, net exports are expected to contribute little to GDP growth over the forecast horizon, as domestic demand growth should lead to an offsetting rise in imports.

Financial conditions have further improved ...

Financial market conditions in the EU continued to improve since the autumn. The ECB's Comprehensive Assessment results came in line with expectations, contributing to an overall positive impact on confidence in the banking sector. Benchmark sovereign bond yields have fallen further while euro area Member States' sovereign bond spreads have seen a further narrowing. Although economic and geopolitical worries have led to increased volatility in financial markets over the last few months, the overall trend in European equity markets has remained positive. The sizeable purchases of public and private securities to be conducted by the ECB should help further ease broad financial conditions in the euro area, thereby reducing financial fragmentation further and supporting the economic activity.

Bank lending to the private sector remains weak in the euro area, but it is gradually improving. Although a high level of non-performing loans in vulnerable Member States is contributing to maintain banks' balance sheets under pressure, banks nevertheless appear in a better position to support lending in the near future. The continued easing of credit standards and the increase in loan demand suggest that credit growth for non-financial corporations (NFCs) may eventually turn positive in 2015 when the recovery strengthens. Moreover, the ECB's quantitative easing should contribute to the recovery in bank lending, particularly in those economies where credit supply constraints are still binding.

...and the aggregated fiscal stance remains neutral...

The significant fiscal efforts undertaken since 2010 in the EU and the euro area are bearing fruits since the deficit–to-GDP ratio in both areas is expected to have decreased to 3.0% and 2.6% respectively in 2014. Helped by strengthening economic activity, cost-containment in public wages and lower interest expenditure, government deficits are forecast to continue falling over this year and next to reach 2.2% of GDP in the EU and 1.9% in the euro area in 2016. In 2014 and 2015, after years of strong fiscal tightening, the aggregated fiscal policy stance is expected to be neutral. The debt-to-GDP ratio is expected to peak at 88.4% in the EU in 2014 and at 94.4% in the euro area in 2015, before declining as inflation and the recovery pick up.

...while labour market improvements seem to have become more entrenched...

Employment growth in the EU should remain only moderately positive in the near term, as the strength of economic growth is expected to be insufficient for a marked improvement. Yet, the expected strengthening of the economic recovery should trigger stronger job creation in the second half of 2015 and even more so in 2016. Moreover, major reforms in the labour market, such as decentralised wage bargaining and more flexible wage arrangements, notably in some vulnerable Member States, reforms to reduce the tax wedge in a number of countries as well as past wage moderation will also support job creation. Employment in 2016 is forecast to rise by 0.9% in the EU and 1.0% in the euro area. The unemployment rate in the EU and the euro area is expected to decline further to 9.3% and 10.6% respectively in 2016. This is still well above pre-crisis levels and reflects not only cyclical factors but also the persistence of high structural unemployment.

...and inflation is temporally dipping below zero.

Disinflation accelerated at the end of last year as the steep fall in energy prices dominated headline inflation and prices for other commodities also declined. The pass-through of commodity prices will continue to dampen the inflation outlook in 2015, only partly compensated for by the gradual narrowing of the output gap and the depreciation of the euro. Annual HICP inflation is expected to be negative for the first half of this year in the euro area, and for the first quarter in the EU. Next year, the impact of lower energy prices is expected to fade and eventually reverse when energy prices gradually turn around. At the same time, stronger domestic demand, the impact of the recently decided ECB measures and the pass-through of the lower euro exchange rate should push inflation noticeably higher.

Projections subject to large uncertainty.

Overall, the uncertainty surrounding the economic outlook has increased. Downside risks have intensified, while new upside risks have emerged linked to the impact of the oil price fall, the ECB's quantitative easing and the EU investment plan, all of which are difficult to fully apprehend at this stage.

Geo-political risks are still high, as tensions related to the Russia-Ukraine conflict could increase, and the economic impact of sanctions and countersanctions could prove larger than expected in particular if they last longer than assumed. An intensification of conflicts in the MENA region could also hurt EU growth. Renewed bouts of financial market volatility remain a possibility, as the expected normalisation of monetary policy in the US could increase investors' risk aversion.

In the EU, despite the factors that lift economic activity in the near term, sluggish growth may still turn into a long period of very low growth or stagnation if the rise in structural unemployment is permanent and the trend of falling productivity growth is not reversed leading to a further fall in potential growth. In this context, lack of swift implementation of reforms in the EU could be damaging for the growth outlook.

A protracted period of very low or negative inflation would increase the risk of a further decline in inflation expectations and of higher real financing costs, which would hamper investment and deleveraging efforts. It would also increase the risk of negative second-round effects on income and raise the risk of outright deflation, in the sense of a broad-based and self-perpetuating fall in prices, with negative consequences for growth and employment.

This forecast assumes that a determined policy response, at the EU and Member States level, will avoid the materialisation of such risks. On the upside, the full impact of recent measures may not yet be reflected in these projections. The ECB's unconventional monetary policy measures could reverse medium-term inflation expectations faster than expected so that an earlier adjustment in the path of inflation is achieved. The divergence in monetary policy cycles between the US and the euro area could also be reflected in further weakening of the euro's effective exchange rate, which would strengthen the euro area exports performance. Moreover, the EU Investment Plan could induce a faster-than-expected revival of investment. Successful structural reforms could lead to a quicker-than-expected recovery in labour markets which would in turn support domestic demand. Upside risks to the growth outlook also include a stronger-than expected boost to global and EU growth stemming from low oil prices. Should the recovery be faster than expected and the depreciation of the euro's effective exchange rate stronger than assumed, inflation in the EU could also turn out higher than forecast.

PART I

EA and EU outlook

THE RECOVERY JOURNEY CONTINUES

The EU economy is entering its third year of recovery, but economic growth remains stuck in low gear and output has yet to reach pre-crisis levels. Momentum is weak partly because recoveries from deep economic and financial crises normally are, but also because of factors specific to the EU, some of which were already evident before the crisis, including structural weaknesses that have not yet been fully addressed by structural reforms. Work on them is progressing but remains far from finished.

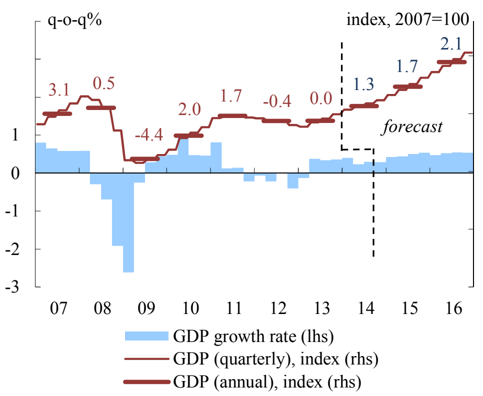
The sharp fall in oil price should provide a lift to economic growth in the EU. It works like a tax cut on EU consumers and companies but without raising deficits or debt, and it also supports global growth. In 2015, lower oil prices are expected to support domestic demand, while the euro's depreciation supports exports. However, with interest rates close to zero, lower inflation increases real interest rates and this is expected to lower the positive oil-price effects. In 2016, additional support should come from the further diminishing crisis legacy, further improving labour market conditions, and fruits of the already implemented structural reforms. With the help of important policy measures such as quantitative easing in the euro area and the EU Investment Plan, GDP is forecast to grow this year by 1.3 % in the euro area and 1.7 % in the EU (both 0.2 pp. higher than forecast last autumn), before picking up further to 1.9 % and 2.1 % in 2016 (up 0.2 pp. and 0.1 pp. respectively) (Graph I.1).

The flipside of falling oil prices, however, is a disinflationary effect, which should pull headline inflation lower during most of 2015. Core inflation should be less affected given the gradually diminishing slack in the labour market and the euro's depreciation, which will push up prices of imported goods and services. The lower price of oil is expected to have a considerable effect on inflation in 2015, when HICP inflation is expected to fall to -0.1% (-0.9 pp.) in the euro area and 0.2% (-0.8 pp.) in the EU, before rebounding to 1.3% (-0.2 pp.) and 1.4% (-0.1 pp.) in 2016, supported by base effects and an assumed gradual rebound in oil prices (Graph I.2).

The slightly more positive outlook for economic activity is good news for job creation, which should continue and help to lower unemployment in the euro area and the EU in 2015 and 2016. However, the momentum of employment growth is expected to remain too low for a substantial improvement in the labour market situation.

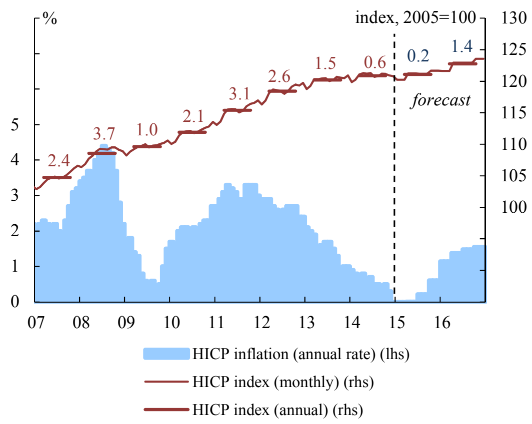
The uncertainty surrounding these projections is substantial. Downside risks to the growth outlook from economic, political and financial developments have intensified since the autumn, but some new upside risks have also emerged recently. Also new upside and downside risks to the inflation outlook have appeared since autumn.

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



Figures above horizontal bars are annual growth rates.

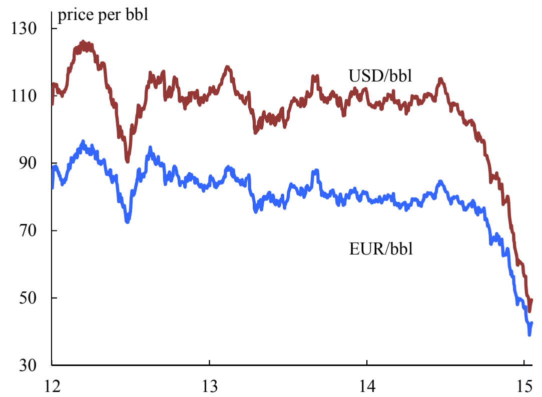
Graph I.2: **HICP, EU**



1. PUTTING THE WINTER FORECAST INTO PERSPECTIVE: LOWER OIL PRICES AND THE EU ECONOMY

The sharp decline in oil price since mid-2014 is an important ingredient in the winter forecast. The decline is substantial in comparison to oil market developments in recent years. A closer look at the driving forces points to a dominant role of supply factors, which were enhanced by demand factors and financial market developments. Accordingly, market expectations are for an only gradual rebound in price. As empirical studies suggest, the propagation of the positive oil-price shock is expected to happen mainly via higher household real disposable incomes and wider company profit margins of companies. These effects also tend to raise the capacity of households and firms to serve debt and continue deleveraging.

Graph I.3: **Brent oil spot prices, USD and euro**



Source: ICE

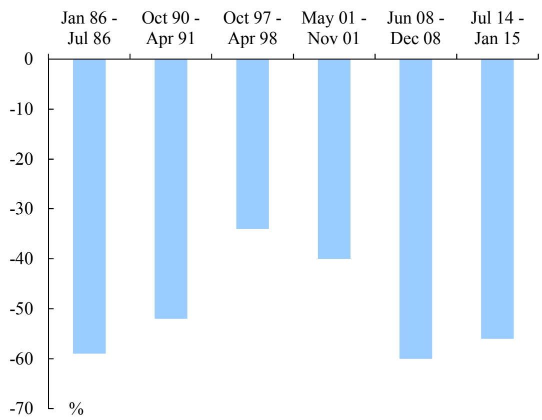
The sharp fall in energy prices is expected to lower headline inflation massively. At the current juncture, with nominal interest rates close to zero and already very low inflation, the impact on inflation tends to raise real interest rates via inflation expectations, which then weigh on interest-rate sensitive components of GDP and slightly lower the positive impact on growth. But in the euro area quantitative easing should put a lid on the impact on real interest rates. The negative impact of oil-price driven lower inflation on nominal income growth may partly offset the positive impact of higher disposable incomes on debt sustainability for households and firms.

Crude oil prices have declined substantially in recent months…

From peak of USD 115 per barrel in June 2014, the Brent oil price had fallen to below 50 USD in January 2015. This decline followed a period of relative stability since 2012 (see Graph I.3). Due to the appreciation of the US dollar, the oil price decline has been less pronounced in euro terms.

Compared to previous episodes, the recent decline in oil prices has been substantial. Since the mid-1980s there had been five periods during which oil prices declined by at least 30% within six months (see Graph I.4). All these periods were characterised by economic downturns or crises, e.g. the Asian crisis in 1997-98, the recessions in the US economy in 1990-91 and 2001, and the global economic and financial crisis in 2007-09. Another sharp decline in 1985-86 mainly reflected a change in the policy by OPEC, which wanted to regain market share from non-OPEC producers such as the UK and Norway which had expanded capacity and gained market share after a period of steadily rising prices.

Graph I.4: **Magnitude of oil price drops over a 6-month period**



…driven by both supply and demand factors.

Pressure on oil prices has come from developments in actual and expected supply and demand, but also financial variables. Since many factors had been in place for some time, such as the increase in supply from unconventional sources, the question about the triggers of the recent decline arises. The search for the answers is complicated by the different and time-varying lags with which factors affect the oil price.[1] For

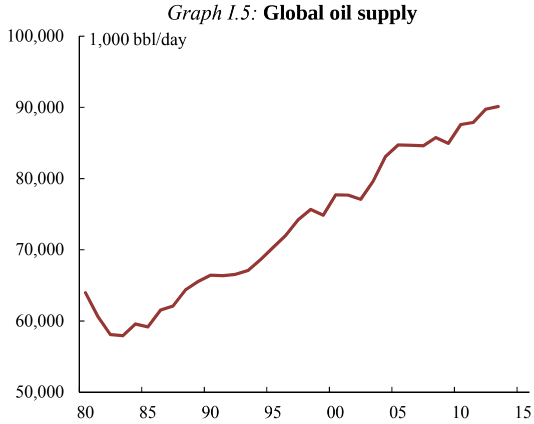
[1] In the empirical literature Kilian pioneered a way to decompose oil price movements into three components driven by shocks to oil supply, global activity, and oil

example, a higher drilling level is usually expected to raise oil production with a lag of about two quarters. But, as for any storable commodity, the impact of factors also depends on stocks and storage facilities, which can advance and postpone price movements. This makes it difficult to assess price elasticities.

Oil supplies have been steadily rising…

Global crude oil output has expanded markedly in recent years (see Graph I.5), supported by structural changes in oil production. The most prominent example of an extension of oil production in response to a period of relatively high oil prices is the expansion of production in North America, where technologies of extracting oil from tight rock formations and tar sands by hydraulic fracturing ('fracking') and horizontal drilling had become profitable. The new technology allowed a faster set-up of drilling equipment than conventional methods and reached. [2]

Graph I.5: **Global oil supply**



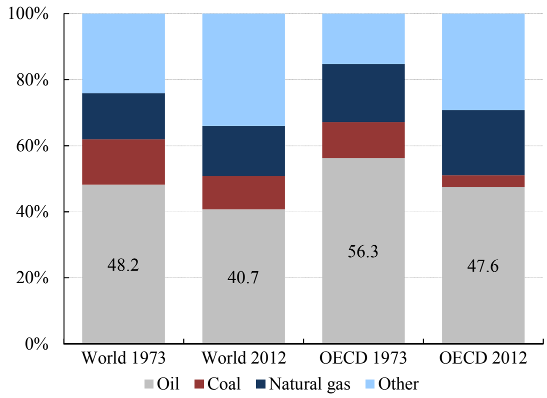
Source: IEA

Global oil supply has also been affected by country-specific factors, such the legacy of war (e.g. Iraq), the Arab Spring (e.g. in Libya), civil wars (e.g. in Syria), sanctions against oil-exporting countries (e.g. in Iran), but also strikes (e.g. in Libya from March to July 2014). On November 27, another positive effect on supply emerged from OPEC's decision to maintain its target production without responding to declining prices. Especially Saudi Arabia's intention to maintain its market share contrasts with the past as the country has traditionally acted as the cartel's swing producer, using its spare capacity to either increase or decrease oil supply in order to stabilise prices within a margin set by OPEC.

…whereas oil demand growth has recently weakened…

Global demand for oil has grown only moderately in recent years for structural reasons that are augmented by short-term factors such as cyclical conditions, weather-related developments and policy decisions. The structural factors include a long-term reduction in the energy and oil intensity of production (see Graph I.6). This is apparent in oil demand in the US where the recovery strengthened in 2014, but oil demand remained well below its pre-crisis level in 2007. This reflects advances in technology, conservation efforts and energy and fuel efficiency. Policies that favour less carbon-intensive energy can also be expected to have lowered the share of oil in energy consumption. As regards cyclical conditions, the slowdown in global economic activity in early 2014 lowered oil demand below expected levels. In particular, the temporary weakness in some advanced economies and slow growth in the EU economy exerted downward pressure on oil demand.

Graph I.6: **Share of oil in energy consumption, world and OECD, 1973 and 2012 (%)**



Source: IEA, Key World Energy Statistics 2014

…and financial factors may have accentuated the sharp decline…

Explanations that rely on the imbalance of oil demand and supply only implicitly take account of the role of oil inventories. They depend on expectations concerning the future balance of supply and demand, but also financial factors that

demand, see L. Kilian, Not all oil price shocks are alike: disentangling demand and supply shocks in the crude oil market, *American Economic Review*, June 2009, Vol. 99, No. 3, pp. 1053–1069.

(2) For an overview see L. Kilian, The impact of the shale oil revolution on U.S. oil and gasoline prices, *CEPR Discussion Paper* no. 10304, December 2014.

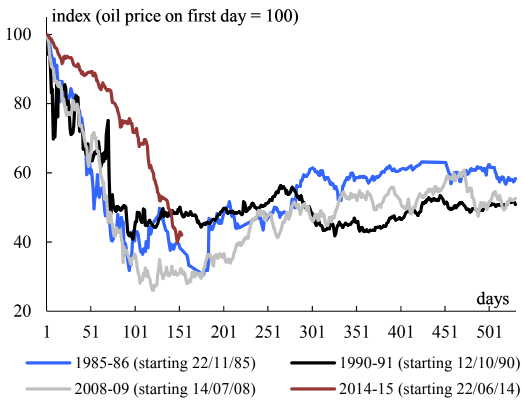
are crucial for the profitability of storage and the assessment of futures. [3] For instance, the expected increase in US interest rates has raised the opportunity costs of holding stocks of oil and contributed to the nominal appreciation of the US dollar, most notably since mid-2014. As empirical evidence suggests, an appreciating US dollar is associated with lower oil prices, [4] which could suggest that increasing monetary divergence acted as a trigger for the steep slide in prices in the second half of 2014. [5]

...that has overall been dominated by supply factors.

In real time it is difficult to disentangle demand and supply factors behind changes in crude oil prices. In the first half of last year, prices of some cyclical commodities (e.g. minerals and metals), mostly originating from less troubled regions, fell reflecting weaker demand. But oil prices remained relatively stable, which could support the view that (upside) supply concerns related to rising geopolitical tensions in oil-exporting regions were stronger than (downside) demand factors. The observation that the oil price decline in the second half of last year was not mimicked across commodity markets again supports the argument that (then downside) supply factors were dominant. Moreover, the relatively small size of revisions to global growth forecasts suggests that demand weakness is unlikely to have been a key driver of the decline.

A quantification of the relative impact of demand and supply factors on oil prices depends on estimates of the price elasticity. But the price elasticity of oil demand varies by crude brand, geographical region, time and statistical technique, whereas the price elasticity of supply also depends on confounding effects of resource depletion and technical innovations. [6] In a supply-led oil price decline the market rebalancing can be expected to work primarily by supply adjusting downward toward demand. According to oil market analyses, the current price level is below production costs across North America and is unsustainable at these levels. Moreover, oil-targeted drilling activity in Canada and the US is already reported to have dropped, which could support this adjustment. Therefore a supply-side adjustment can be expected, which should take time given a rather inelastic oil supply in the short run.

Graph I.7: **Duration of oil price declines, selected periods**



Source: ICE

The outlook for the oil market is for a slow price rebound...

The expected future oil price path is a key factor for household and company decisions. Indications about future oil prices can be derived from earlier experiences, survey-based information and from futures markets. [7] Historically, periods of substantially falling oil prices have tended to last long, which could suggest that prices would gradually rebound but remain rather low over the forecast horizon (see Graph I.7). However, each oil price decline has had its own specific circumstances, which limits the comparability. The most recent survey indicators, the January 2015 Consensus Economics forecast means, point to a moderate rebound in the coming months.

(3) L. Kilian and T. K. Lee, Quantifying the speculative component in the real price of oil: the role of global oil inventories, *Journal of International Money and Finance*, April 2014, Vol. 42, pp. 71–87.

(4) For estimates see e.g. Zhang, Y.-J. et al., Spillover effect of US dollar exchange rate on oil prices, *Journal of Policy Modelling*, November-December 2008, Vol. 30, No. 6, pp. 973–91, and Q. F. Akram, Commodity prices, interest rates and the dollar, *Energy Economics*, 2009, 31, pp. 838–851.

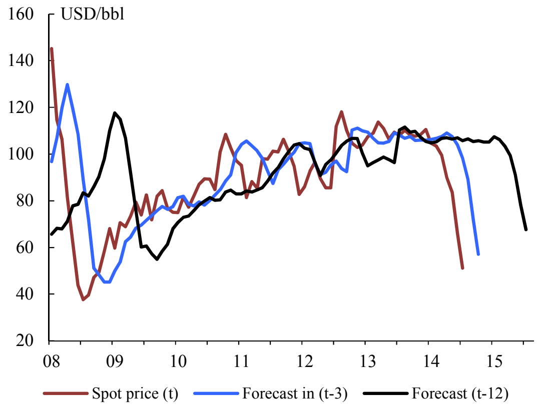
(5) This opinion has for instance been expressed by Frankel. See J. Frankel, Why are commodity prices falling?, *Project Syndicate*, 15 December 2014.

(6) In his overview on this subject Smith describes estimates between -0.05 (short-run) and -0.30 (long-run) as typical for the demand elasticity, and refers to estimates of between 0.02 (short-run) and 0.35 (long-run) for the supply elasticity; see J.L. Smith, World oil: market or mayhem?, *Journal of Economic Perspectives*, Summer 2009, Vol. 23, No. 3, pp. 145–164.

(7) Empirical studies have concluded that at medium and long horizons of one year and above, no-change forecasts systematically beat all models studied. See J. Benes et al., The future of oil: geology versus technology, *International Journal of Forecasting*, January-March 2015, 31(1), pp. 207-221, and Alquist, R., Kilian, L. and R. Vigfusson, Forecasting the price of oil, in G. Elliott and A. Timmermann, eds., *Handbook of economic forecasting*, Vol. 2, Amsterdam: North-Holland, 2013, 427–507.

However, survey-based price forecasts tend to be closely correlated with recent changes in the spot price (see Graph I.8).

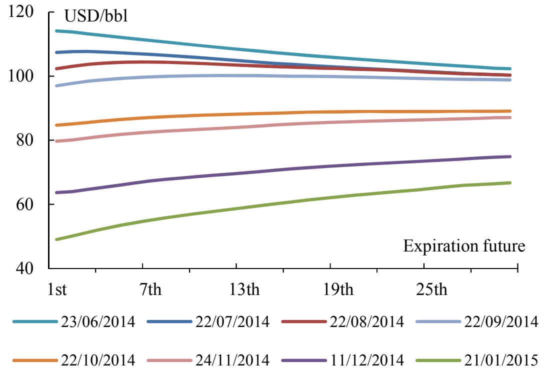
Graph I.8: **Oil price and forecasts, WTI and Consensus forecast means**



...that is captured in the forecast assumptions.

A market-based indication of future spot prices is provided by futures contracts, which are usually seen as unbiased predictors of future spot prices. In early 2015, the settlement prices of futures contracts form an upward sloping curve for successive expiration dates (see Graph I.9), i.e. a rebound is priced in.

Graph I.9: **Oil price, contracts by expiration future, settlement price, USD per barrel**



Source: ICE

These market expectations enter the assumptions of the winter forecast, which are based on futures markets (for details see Box I.4). Following an average oil price of 99.7 USD/bbl in 2014, a decline to an average of 53.0 in 2015 and a rebound to 61.5 in 2016 is assumed. This implies a substantial downward revision by 42% (2015) and by 34% (2016) with respect to the autumn forecast. However, due to the recent depreciation of the euro exchange rate, the downward revisions are slightly smaller in euro terms (37% in 2015, 28% in 2016).

The economic impact: A fall in oil prices causes a global redistribution of income...

The oil price decline should have significant effects on global economic activity and inflation with the transmission and impact varying across and within regions. In the global economy, oil price declines create winners and losers by inducing a substantial redistribution of income from those who sell oil to those who purchase it.

In oil exporting countries the lower oil price means a substantial decline in oil revenues. The impact on private and public spending decisions often depends largely on the funds accumulated during period of relatively high oil prices that could now be used to smooth spending. Overall, oil exporters can be expected to lower their imports from oil-importing countries ('oil-bill recycling channel') [8]. At the current juncture, this effect is compounded by the widespread appreciation of the US dollar and the role of dollar-denominated debt and wealth.

...and is expected to push global economic growth.

The large redistribution (transfer) from oil producers to oil consumers is expected to boost global growth because oil-importing countries are expected to spend more of the additionally available funds than oil-producing countries are expected to cut spending. Thus, the impact on global GDP is expected to be positive. [9] An indication of the redistributive effect in the EU can be derived from its oil trade balance. According to Commission statistics, the EU imported about EUR 388.6 bn of crude oil from non-EU countries in 2013 (almost 3% of nominal GDP) paying an average price of 108.8 USD/bbl., which is more than twice of what is assumed for 2015.

The pass-through from lower oil prices to producer and consumer prices...

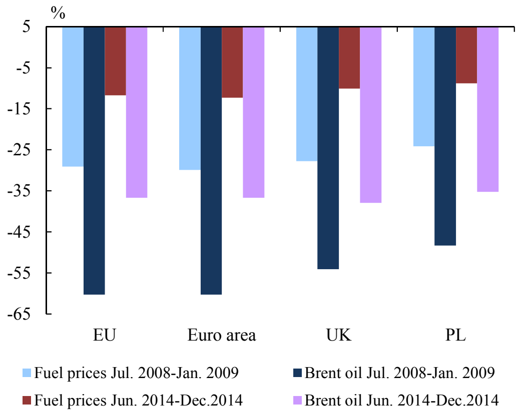
To assess the impact on the EU economy it is necessary to look at the main transmission

[8] See e.g. ECB, Oil-bill recycling and its impact, *Monthly Bulletin*, July 2005, pp. 11-13 (Box 1).

[9] See e.g. IMF, *World Economic Outlook Update*, January 2015. In the two IMF scenarios, the 2014-15 oil-price decline pushes global GDP by 0.3-0.7% in 2015 and by 0.4-0.8% in 2016.

channels through which lower oil prices are passed through and the specific situation in the year 2015 is helpful. The pass-through depends on the tax and tariff system and the type of energy products that households and companies are consuming, which contributes to the explanation of differences between countries. Evidence from the fall in oil prices in 2008 suggests that about half of the decline in the crude oil price shows up in fuel prices (see Graph I.10). The comparison with the current price decline also suggests that in December 2014 a smaller part of the oil price decline had been passed through than in the corresponding time period in 2008-09.

Graph I.10: **Crude oil and fuel prices in Europe**



...directly benefits consumers and companies...

The most important *impact on consumers* stems from a lower energy bill (discretionary income effect). Since less needs to be spent on gas and heating, other goods can be purchased, as the real disposable income of households increases. How the additional income is used depends on the marginal propensity of consumption and the persistence of low oil prices, which is crucial for decisions about the purchases of energy-intensives durables such as larger cars. Quick and rapid changes in oil prices may raise uncertainty about oil prices, inducing households to postpone some spending decisions (uncertainty effect). [10] Since consumers may expect the economy to benefit from lower oil prices, optimism about the future economic situation could increase and sentiment improve, which could lower the amount of precautionary savings (precautionary (dis)savings effect), which partly offsets the increase of savings that results from consumption smoothening following the increase in incomes. The recent substantial increase in the Commission's Consumer Confidence Indicator (in December-January up by 2.3 pts. in the EU and by 3.0 pts. in the euro area) supports this expectation.

The most important direct *effect on companies* is related to lower energy costs, which reduce the marginal costs of production (cost channel). As lower prices gradually filter through the production and supply chain, most businesses should see lower input costs. Even companies that do not use fuel directly in their production processes, benefit from lower transportation costs. An indirect effect relates to higher demand for a company's product, either from households or from other companies (demand channel). However, like households, abrupt changes in oil prices tend to create uncertainty about the future path of oil prices, which could delay investment decisions and exert a negative impact on the business activity (uncertainty effect). Following the initial impact on oil-related goods and services prices, cheaper oil means that demand for other (substitutable) energy sources like coal and gas is likely to fall, putting pressure on their prices.

Whether wage developments follow inflation is of crucial importance for the assessment of second-round effects. In both the euro area and the EU the most recent increases in wage costs (1.4% in 2014-Q3) clearly exceeded consumer price inflation.

...improves the terms of trade and tends to widen the current account surplus...

Lower oil prices tend to lower the index of import prices and thereby improve the terms of trade. The lower oil import bill affects directly the trade balance, as for instance observed in response to the oil price decline in 2009 (see Graph I.11). A lower price elasticity of oil imports, as observed in recent years in advanced economies, implies a larger impact in the oil part of the trade balance. But the overall impact on the external balance is more difficult to uncover because the oil price shock also affects the non-oil part of the balance. [11] The positive impact on consumption and investment can be expected to expand non-oil imports.

(10) For an overview see S. Jo, The effects of oil price uncertainty on global real economic activity, *Journal of Money, Credit and Banking*, September 2014, Vol. 46, No. 6, pp. 1113–1135.

(11) L. Kilian, A. Rebucci and N. Spatafora, Oil shocks and external balances, *Journal of International Economics*, April 2009, Vol. 77, No. 2, pp. 181–194.

Table I.1:

Impact of oil price shocks on GDP growth and inflation - euro area

Study	Real GDP growth t	t+1	t+2	Inflation t	t+1	t+2
	(deviation from baseline)			(deviation from baseline)		
20 USD/bbl increase in oil prices						
DG ECFIN (2012)(a) *	-0.35	-0.65	.	0.61	0.34	.
10% increase in oil prices						
ECB (2010) (b)	-0.1	-0.2	-0.2	.	.	.
Carabenciov et al. (2008) (c)	-0.03 pp. on average in the first two years			0.08 pp. on average in the first two years		
Peersman and van Robays (2009) (d)	-0.31 over 5 years			0.44 over 5 years		
Alvarez et al. (2011) (e)	[-0.02; -0.16]	[-0.06; 0.04]	.	[0.06; 0.32]	[0.02; 0.22]	.

* Impact on the EU economy

(a) DG ECFIN, Oil-price increases and their macroeconomic impact on the EU economy, in European Economic Forecast - Spring 2012, Box I.1, pp. 16-17.

(b) ECB, Oil prices - their determinants and impact on euro area inflation and the macroeconomy, Monthly Bulletin, August 2010, pp- 75-92.

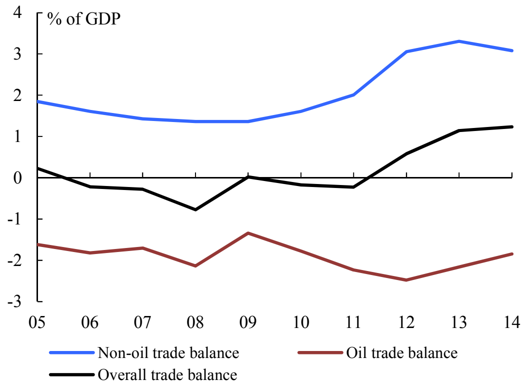
(c) Carabenciov, I., et al. (2008), "A Small Quarterly Multi-Country Projection Model with financial-real linkages and oil prices, IMF Working Papers no. 08/280, 2008 (figures as reported in OECD Economic Outlook, May 2011, No. 89 (Table I.3), p. 32).

(d) Peersman, G. and I. van Robays, Oil and the euro area economy, *Economic Policy*, October 2009, Vol. 24, No. 60, pp. 603-651.

(e) Álvarez, L.J. et al., The impact of oil price changes on Spanish and euro area consumer price inflation, *Economic Modelling*, January-March 2011, Vol. 28, No. 1-2, pp. 422-431.

Moreover, at the current juncture, the impact of lower oil prices is compounded by the impact of the euro's depreciation, which partly offsets the oil-price impact on the terms of trade.

Graph I.11: **Oil and non-oil merchandise trade balances, EU**



Note: Trade balances not adjusted for intra-EU trade

...and affects financial markets.

The 'financialisation' of oil implies that oil has some of the attributes of a collateral asset that backs up dollar liabilities, which decline in value when the price of oil declines. Thereby, lower oil prices create concerns for investors regarding their energy-related investments.

Negative returns for energy stocks are weighing on some financial markets, but the overall impact on stock indices should be positive as profit expectations of many companies such as airlines or others with significant fuel costs improve. Bonds issues by oil and gas producers have already fallen in value along with energy stocks, in particular in high-yield bond markets. Currencies of oil export-dependent countries have weakened in recent months, most notably in Russia where the oil price impact is compounded by the effects of sanctions.

Empirical studies show that oil has a substantial impact on growth and inflation...

The overall impact of oil price changes has mostly been looked at for oil price increases (Table I.1). Empirical studies have found for supply-driven oil price shocks a substantial negative impact on GDP growth and a positive impact on inflation. Results for demand-driven oil price declines are more difficult to interpret since weaker global demand not only lowers the oil price, but also pulls down foreign demand, which more than offsets the expansionary impact of increased domestic real incomes and higher profit margins. [12]

Structural changes (e.g. the declining share of oil in GDP and in energy consumption, the diminishing role of manufacturing in some EU Member States) have lowered the importance of oil. Therefore studies focussing on oil price shocks in the 1980s and 1990s may not sufficiently reflect current circumstances. The repercussions for real GDP may have declined as compared to earlier rapid oil price changes. [13] Changes in monetary

(12) See e.g. J. in 't Veld and J. Varga, The impact of an increase in oil prices on economic activity, *Quarterly Report on the Euro Area*, July 2011, Vol. 10, No. 2, p. 32–36,

(13) See e.g. M. Katayama, Declining effects of oil price shocks, *Journal of Money Credit and Banking*, September

policy and more flexible labour markets may have reduced the impact of shocks. Expectations concerning the expected duration of the negative oil price shock may differ from past episodes, for instance reflecting shorter adjustment periods for oil supply as a result of technological advances. These arguments could suggest expecting a more moderate effect from the current price decline than results than those described in some empirical studies.

...but the impact of oil price increases and decreases is asymmetric.

Since the uncertainty effect, associated with substantial changes in oil prices, is on the negative side for both price increases and decreases, it is rather obvious that the overall impact of price increases and decreases can hardly be symmetric. (14) Therefore, in interpreting the results of studies of oil price hikes, caution is needed due to the asymmetry between the impact of higher and lower prices, which limits the validity of results obtained for price increases. (15)

Close to the zero lower bound the impact of an oil price shock on output is cushioned...

Currently, specific circumstances in the EU and the euro area, such as nominal interest rates close to zero and very low inflation prevailing already before the oil price decline, need to be taken into account. (16) This implies that central banks have little room to lower (nominal) interest rates should they not look through the impact of oil prices on headline inflation and consider a response to the disinflationary impact of falling oil prices. Empirical studies emphasise episodes where monetary policy responses to oil price shocks have augmented the impact on economic activity. (17)

With nominal interest rates at the zero bound, disinflation hits short-term real interest rates without being cushioned. This could weigh on interest-rate sensitive components of GDP such as investment and so partly offset the expansionary effect of lower oil prices on economic activity. Higher medium- to long-term real interest rates could also reduce the number of profitable investment projects and therefore depress gross fixed capital formation. The size of these offsetting effects depends on the factors that drive inflation expectations. They include expectations about the expected duration of low oil prices, which in turn depend on the sources of the shock, the indirect effects of energy prices on other prices, and second-round effects.

Recent analyses have shown that the zero lower bound constraint on interest rates tends to cushion the impact of an oil price shock on GDP as compared to situations where nominal interest rates were not close to the zero bound. (18) The strength of the cushioning is related to the source of the oil price shock and the resulting profile of the price response. If the oil price decline occurs gradually enough to induce a persistent decline in inflation, GDP could even contract temporarily. However, the zero lower bound has been found to play a much smaller role in the case of oil supply

2013, Vol. 45, No 6, pp. 977–1016. For similar results see O.J. Blanchard and J. Gali, The macroeconomic effects of oil shocks: why are the 2000s so different from the 1970s?, in J. Gali and M. Gertler, eds., International dimensions of monetary policy, Chicago: University of Chicago Press, 2009, pp. 373-421, and O.J. Blanchard and M. Riggi, Why are the 2000s so different from the 1970s? A structural interpretation of changes in the macroeconomic effects of oil prices, *Journal of the European Economic Association*, October 2013, Vol. 11, No. 5, pp. 1032–1052.

(14) See e.g. A.M. Herrera, L.G. Lagalo and T. Wada, Asymmetries in the response of economic activity to oil price increases and decreases?, *Journal of International Money and Finance*, February 2015, Vol. 50, pp. 108–133; L. Kilian and R. J. Vigfusson, Nonlinearities in the oil price–output relationship, *Macroeconomic Dynamics*, 2011, Vol. 15 (Supplement 3), pp. 337–363; and L. Kilian and R.J. Vigfusson, Are the responses of the U.S. economy asymmetric in energy price increases and decreases?, *Quantitative Economics*, November 2011, Vol. 2, No. 3, pp. 419–453.

(15) See e.g. ECB, Indirect effects of oil price developments on euro area inflation, *Monthly Bulletin*, December 2014, pp. 54–56 (Box 3), and OECD, *Economic Outlook*, No. 96, November 2014 (here pp. 23–24).

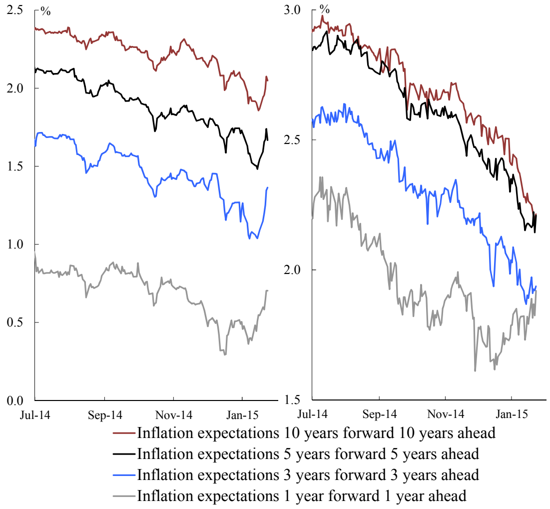
(16) For instance, in a study of G7 countries Serletis finds for European countries symmetry for France and the UK, but asymmetry for Germany and Italy; see A. Serletis and K. Istiak, Is the oil price–output relation asymmetric?, *Journal of Economic Asymmetries*, June 2013, Vol. 10, No. 1, 10–20. Evidence of asymmetric effects in the US has been presented by J.D. Hamilton, What is an oil shock?, *Journal of Econometrics*, April 2003, Vol. 113, No. 2, pp. 363–398.

(17) Accordingly the systematic response of monetary policy to oil shocks has attracted a lot of attention in empirical analyses. For instance, Bernanke et al. argued that a large part of the effect of increases in oil prices in the 1970s can be attributed to tighter monetary policy in response to these shocks. See B.S. Bernanke, M. Gertler and M. Watson, Systematic monetary policy and the effects of oil price shocks, *Brookings Papers on Economic Activity*, 1997, No. 1, pp. 91–142.

(18) See for instance Bodenstein, Guerrieri and Gust, who analyse an oil price increase with nominal rates at the zero bound within a two-country DSGE model. See M. Bodenstein, L. Guerrieri and C.J. Gust, Oil shocks and the zero bound on nominal interest rates, *Journal of International Money and Finance*, February 2013, Vol. 32, pp. 941–967.

shocks emanating from abroad. Such shocks, which include the one currently unfolding lead only to a one-time decline in the oil price with no protracted effect on inflation. In such cases, the impact on the real interest rate should be rather limited and the impact of the shock similar to those that take place under more normal conditions.

Graph I.12: **Inflation expectations since mid-2014 euro area (left) and US (right), different maturities**



Overall, these considerations suggest that the impact from lower oil prices on output that can be expected this time round is likely to be more moderate than it would be if inflation and nominal interest rates were at higher, more normal levels. But the projected rebound in inflation rates in the euro area and in the EU towards the end of the forecast horizon implies that the impact on real interest rates will mainly be observable in the short term. [19] Inflation expectations have markedly fallen since mid-2014 not only in the euro area but also in the US (see Graph I.12). Should they not rebound as projected in the euro area, for instance due to the impact of lagged inflation rates,[20] negative effects from higher real interest rate effects could shave off a larger part of the expansionary impact of the oil price decline.

An increase in real interest rates resulting from lower inflation also affects existing nominal debt. Negative inflation rates make servicing existing debt more difficult for leveraged companies and financial institutions (Irving Fisher's debt-deflation argument), [21] because they cannot rewrite debt contracts to lower the impact of falling prices on their balance sheets. This could increase banks' efforts to raise reserves-to-deposit ratios and result in higher risk premia on corporate debt with increased financial fragmentation. However, at the current juncture the temporary fall in inflation is caused by a foreign oil supply shock that lowers input prices and boost real disposable incomes, which facilitates deleveraging and thereby mitigates negative effects of higher real interest rates on debt sustainability. Moreover, at the current juncture, the euro's depreciation should mitigate the negative impact of lower oil prices on inflation. Since the euro depreciation is especially pronounced vis-à-vis the US dollar and crude oil is usually priced in US dollars independent of its origin, the mitigating effect should be relatively strong. This makes it unlikely to see the aforementioned process really becoming a matter of concern.

…but the overall the effect is positive for economic activity in the EU economy.

Overall, low oil prices are good news for the EU economy. In the short term, the economic effect of falling oil prices will be equivalent to a substantial union-wide tax cut without budgetary implications. It should boost demand and lower headline inflation. Given the current environment, however, the impact on economic activity will likely be muffled by the fact that inflation is so low, nominal interest rates are close to zero, and the fact that households and companies are still deleveraging in many Member States. The depreciation of the euro and all measures that could intensify it, such as quantitative easing in the euro area, are also partly offsetting the impact of the decline because oil is prices in dollars. However, at the same time, the positive impact of quantitative easing on inflation expectations in the euro area limits the impact of lower inflation on real interest rates and supports through this channel the positive impact of lower oil prices on economic activity.

(19) According to the ECB's *Survey of Professional Forecasters* for the first quarter of 2015, average inflation expectations stood at 0.3%, 1.1% and 1.5% for 2015, 2016 and 2017 respectively.

(20) Empirical studies have found that in a low-inflation environment, some dis-anchoring can occur as expectations are more dependent on lagged inflation; see e.g. M. Ehrmann, Targeting inflation from below – How do inflation expectations behave?, *Bank of Canada Working Papers* no 2014-52, December 2014.

(21) I. Fisher, The debt-deflation theory of Great Depressions, *Econometrica*, October 1933, Vol. 1, No. 4, 337–357. See also Box I.3 (The impact of unanticipated disinflation on debt) in European Commission (DG ECFIN), European Economic Forecast – Autumn 2014, *European Economy*, No. 7, November 2014, pp. 49-50.

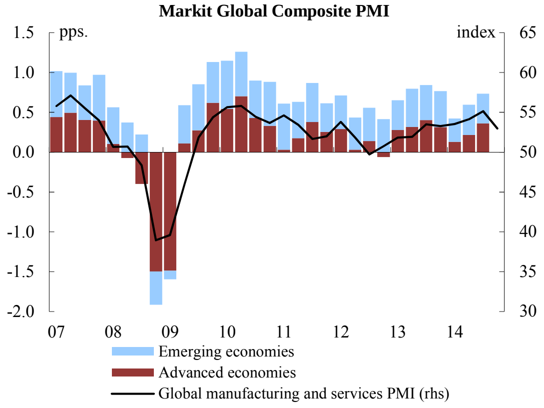
2. THE EXTERNAL ENVIRONMENT

The outlook for global GDP growth and world trade remains rather uneven. Global growth and world trade are expected to accelerate moderately in 2015 and 2016, pushed by a gradual recovery in advanced economies (particularly the US) and some improvement from recent weakness in emerging markets. The sharp drop in global oil prices will help underpin global growth, but the overall impact has been partly masked by country-specific factors which seem to push in the opposite direction. Changes relative to the autumn forecast are therefore limited in aggregate terms, but there are substantial adjustments for individual countries. These reflect a combination of country-specific factors with the differentiated impact of commodity price movements and the divergent prospects for some large commodity importers and commodity exporters.

Economic growth picked up after the loss of momentum at the start of 2014…

The global economy lost momentum in the first quarter of 2014, due mainly to temporary signs of weakness in some advanced economies, particularly the weather-related slowdown in the US economy. However, global growth picked up in the second quarter (to 0.6% quarter-on-quarter from 0.4%) and in the third quarter (0.7%) with a rebound in the contribution to growth of the advanced economies, despite lower-than-expected outcomes in Japan in both the second and the third quarter.

Graph I.13: **Growth in global GDP and Markit Global Composite PMI**



Source: Global Insight, Markit Group Limited

Growth in emerging economies as a whole also edged up slightly during the first three quarters of 2014, but this masked a continued divergence in performance. While the situation for Russia, MENA countries and some Latin American economies worsened following further commodity price declines, the global impact was offset by improvements in the economic situation of India, Indonesia and Turkey. Developments in China have also been mixed, with weakness in the domestic economy countered by a recovery in export growth.

…and lower oil prices should support a further increase in global growth in 2015-16…

Leading indicators continue to point to firm global growth going forward. While business confidence indicators (global PMIs) fell slightly over the course of the second half of last year from their summer highs, they remain clearly in expansionary territory, which bodes well for the short-term outlook. Global growth (including the EU) is expected to be 3.3% in 2014 and to accelerate to 3.6% in 2015 and to 4.0% in 2016 (see Table I.2).

Among the advanced economies, the US economy has rebounded particularly well. Following a contraction of economic activity in the first quarter (-0.5% quarter on quarter), the second and third quarters recorded GDP growth of 1.1% and 1.0% (q-o-q), driven mainly by consumption but supported by a strengthening labour market. The outlook for the US economy should get a boost from lower oil prices, particularly in 2015, as the effect in 2016 will be somewhat dampened by the gradual turnaround in oil prices and the moderating effect of a stronger US dollar.

The outlook for Japan in 2015 and 2016 has also improved since the autumn forecast. Japan is expected to benefit from lower oil prices, as well as from some rebound in activity following a weaker-than-forecast performance in 2014, together with the effects of renewed monetary easing. The upward revision also takes into account the postponement of the consumption tax increase originally scheduled for October 2015.

Growth in emerging markets is expected to accelerate modestly to 5.0% in 2015 (from 4.4% in 2014 and 4.6% in 2013) and 5.3% in 2016. As with the advanced economies, the aggregate hides considerable divergence among countries. On the one hand, the economic prospects for oil-exporting countries have worsened (particularly in Latin America, Russia and the Middle East and North Africa). On the other hand the economic outlook has improved in parts of emerging Asia, such as

Table I.2:

International environment

(Annual percentage change)					Winter 2015 forecast			*Autumn 2014 forecast*		
	(a)	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
					Real GDP growth					
USA	16.5	1.6	2.3	2.2	**2.4**	**3.5**	**3.2**	*2.2*	*3.1*	*3.2*
Japan	4.6	-0.5	1.8	1.6	**0.4**	**1.3**	**1.3**	*1.1*	*1.0*	*1.0*
Asia (excl.Japan)	32.9	7.5	6.3	6.2	**6.2**	**6.4**	**6.5**	*6.1*	*6.3*	*6.4*
- China	15.8	9.4	7.8	7.6	**7.4**	**7.1**	**6.9**	*7.3*	*7.1*	*6.9*
- India	6.6	7.9	4.9	4.7	**6.0**	**6.6**	**7.1**	*5.8*	*6.4*	*6.9*
Latin America	8.7	4.5	2.9	2.8	**1.0**	**1.5**	**2.5**	*1.4*	*2.4*	*3.2*
- Brazil	3.0	2.7	1.0	2.5	**0.2**	**0.7**	**1.8**	*0.2*	*1.4*	*2.6*
MENA	7.0	2.7	3.5	1.8	**2.7**	**3.3**	**3.8**	*2.4*	*4.1*	*4.6*
CIS	4.9	4.8	3.4	2.1	**0.5**	**-2.3**	**1.0**	*0.3*	*0.8*	*1.9*
- Russia	3.4	4.3	3.4	1.3	**0.5**	**-3.5**	**0.2**	*0.3*	*0.3*	*1.2*
Sub-Saharan Africa	3.1	4.4	4.4	5.9	**4.1**	**5.2**	**5.2**	*5.2*	*5.8*	*5.9*
Candidate Countries	1.6	8.0	1.9	3.9	**2.5**	**3.4**	**3.8**	*2.6*	*3.1*	*3.5*
World (incl.EU)	100.0	4.1	3.3	3.3	**3.3**	**3.6**	**4.0**	*3.3*	*3.8*	*4.1*
					World merchandise trade volumes					
World import growth		5.9	2.8	3.0	**2.6**	**4.3**	**5.3**	*3.0*	*4.6*	*5.5*
Extra EU export market growth		5.4	2.7	4.1	**3.2**	**4.5**	**5.2**	*3.2*	*5.0*	*5.6*

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

India and Indonesia. China will also benefit from lower oil prices, but domestic demand remains faltering under the weight of rapid debt accumulation in recent years and the ongoing correction in the property sector. Growth in China is still expected to continue slowing into 2015 and 2016 as the economy rebalances, but lower commodity prices have made the balance of risks more neutral.

...supported by accelerating world trade volumes.

Momentum in world trade improved visibly from June, with trade volumes rebounding both in advanced economies and emerging markets after some weakness in early 2014, according to data released by the Centraal Planbureau's (CPB) World Trade Monitor. While trade flows remained strong in the beginning of the fourth quarter, the forecast for trade has been revised down slightly for 2014 and 2015 and left unchanged for 2016. The downward revision reflects the statistical effect of the weak start to the year, but also a reassessment of the trade outlook in certain economies and in the global trade elasticity given that a combination of cyclical and structural factors continue to act as drags on global trade flows (see Box I.1).

Trade forecasts have been revised down particularly for emerging markets, especially Russia, where the deepening recession and the depreciating currency are weighing on imports, and China, where the ongoing property market correction and slower growth in investment have led to more sluggish domestic demand, and a more subdued trade outlook. World imports are now expected to have grown 2.6% in 2014 and to strengthen gradually to 4.3% in 2015 and 5.3% in 2016.

Falling commodity prices create disinflationary pressure...

As regards commodity prices, the key development over the last months has been the decline in crude oil prices, which has caused substantial revisions in the oil price assumptions that are underlying this forecast (see Section I.1). Revisions to assumptions for other commodity prices have been comparatively small.

Prices of minerals and metals are projected to have fallen on average by about 11% in 2014, owing to soft industrial performance in China, the world's largest metals market, and ample stockpiles of most metals. A modest recovery in some metal prices is expected this year and next, supported by improving supply-side rationalisation outside China and increasing demand in advanced and emerging countries.

Prices of food commodities have declined in 2014 and should continue to fall in 2015 before rebounding slightly in 2016. With the exception of beverages, beef and some edible oils, the prices of most agricultural commodities were on a downward trend in 2014. Owing to a comfortable production outlook, food prices, particularly for soya beans and main cereals, are projected to decline further in 2015. For agricultural non-food commodities, large stockpiles of cotton and rubber are likely to keep their prices down in 2014-16.

…and contribute to global risk factors.

There will be positive effects from lower oil prices for the global outlook, and they are likely to continue over the forecast horizon. The regional impacts and spillovers will be differentiated, with associated upside and downside risks. More generally, the oil price constitutes both upside and downside risks to the global growth outlook. Geopolitical tensions in various regions remain associated with risks to the global outlook and may turn out to be more protracted than previously assumed. These two factors, oil and geopolitical tensions, may interact as in recent turbulences affecting Russian financial markets. Risks of a further deterioration in Russia and the region also remain elevated.

Doubts over the robustness of the US outlook have clearly diminished, but this raises the likelihood of divergent trends in monetary policy and greater financial market volatility, especially if relatively weak growth persists in the EU and Japan while monetary policy in the US is gradually normalised. The credit overhang in China continues to raise concerns about financial stability and the sustainability of the current growth pattern. More generally, there are vulnerabilities among many emerging markets as growth becomes more reliant on progress with structural reforms and there are rising risks of capital flow reversals as global interest rates rise.

3. FINANCIAL MARKETS

In recent months, financial markets have mainly been driven by increasing divergences between the monetary policies of the major economies.

In the US, at its December meeting, the Federal Open Market Committee (FOMC) maintained its view that inflation will gradually rise towards the two-percent target as the labour market improves and the effects of lower energy prices dissipate. Although the Federal Reserve altered its forward guidance, announcing to be 'patient' in its plan to start normalising interest rates, it remained on track for tightening monetary policy in mid-2015. Meanwhile in the UK, the Bank of England's Monetary Policy Committee (MPC) has been divided on rate decisions since August last year. With inflation falling substantially, market expectations about the timing of the first interest hike have been revised. By contrast, the ECB has continued its unconventional monetary policies and announced substantial quantitative easing in January 2015. These decisions taken by the central banks in the largest constituencies have immediately affected other central banks. This includes the Swiss National Bank's decision of discontinuing the minimum exchange rate peg vis-à-vis the euro, and also cuts in policy interest rates in several EU Member States outside the euro area (e.g. in Denmark and Romania) and market expectations of such cuts (e.g. in Sweden and Poland).

Apart from the impact on foreign exchange rates, increasing monetary policy divergence have caused higher volatility in financial markets. In stock markets, expectations that monetary policies will continue or become even more accommodative have pushed leading indices to new historical highs, whereas long-term interest rates continued their downward movement, bringing the sovereign bond spreads for most EU Member States down with them. All these developments triggered responses with wider macroeconomic relevance and are therefore crucial ingredients in the winter forecast.

The ECB launched an expanded asset purchase programme…

Against a backdrop of weak economic conditions and the outlook for low inflation rates, the ECB Governing Council decided at its first monetary policy meeting of 2015 to launch an Expanded Asset Purchase Programme for euro-denominated investment-grade securities issued by euro area governments and agencies and EU institutions. The combined monthly asset purchases of public and private securities will amount to EUR 60 billion. This quantitative easing is intended to be carried out from March 2015 until the end of September 2016 and will continue until the Governing Council sees a sustained adjustment in the path of inflation that is consistent with its aim of achieving an inflation rate that is close to, but below 2% over the medium term. The ECB

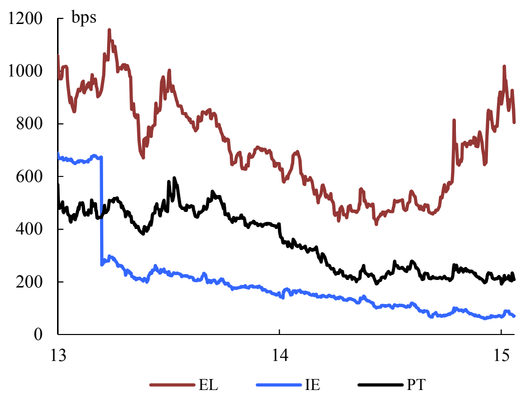
Governing Council also decided to remove the 10 bps. spread over the main refinancing interest rate (MRO) for the six remaining Targeted Longer-Term Refinancing Operations (TLTROs). Accordingly, the interest rate applicable to future TLTROs will be equal to the rate on the Eurosystem's main refinancing operations prevailing at the time when each TLTRO is conducted.

The sizeable purchases of public and private securities to be conducted under the ECB's quantitative easing should further ease broad financial conditions in the euro area and support the firm anchoring of medium to long-term inflation expectations. By contributing to lower real interest rates, the latest ECB package of monetary easing measures should facilitate the deleveraging process throughout the euro area while also supporting credit demand.

…and financial market conditions improved further…

Sovereign bond yields in the euro area continued to decline in anticipation of the ECB's expansion of its asset purchases programme and also due to very low inflation outcomes (see Graph I.14). For instance, the yield on 10-year German Bunds has continued to decline over the past couple of months, and stood at a historical low of below 0.40% at the end of January. Short-term sovereign bond yields of a growing number of euro area Member States dropped into negative territory, affecting about 1.4 trillion euro of sovereign debt. Meanwhile, sovereign bond spreads with respect to the German bund, including those of vulnerable euro area Member States, have narrowed further. However, Greek bond prices dropped on renewed policy uncertainty.

Graph I.14: **10-year maturity sovereign bond spreads to German bund, selected Member States**



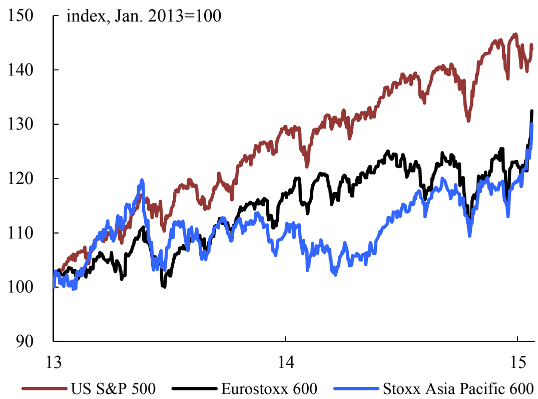
Source: Bloomberg

The euro depreciated by some 4% in nominal effective terms since the beginning of November 2014, amid an increasingly diverging monetary policy stance and growth dynamics among major advanced economies. Over the same period, the euro depreciated by almost 10% against the US dollar and by about 4% against the British pound. This partly reflected expectations of interest rate hikes in the US and the UK in the short term and further monetary stimulus in the euro area. The euro also depreciated by some 15% against the Swiss franc after the Swiss National Bank ended its exchange rate cap against the euro on 15 January. Monetary accommodation in Japan limited the euro's depreciation against the yen, while the economic and political situation in Russia caused the euro to appreciate by more than 40% against the Russian rouble.

…but volatility in stock markets increased.

Concerns about the economic outlook and geopolitical tensions have been key drivers of financial market developments over the last few months. They led to higher volatility, particularly on equity markets and the most risky segments of the bond market. After being subdued towards the end of 2014, European equity markets have turned positive in January, supported by the ECB measures (see Graph I.15). The positive sentiment further improved as the ECB's announcement of size and design of an expanded asset purchase programme exceeded market expectations.

Graph I.15: **Stock market performance**



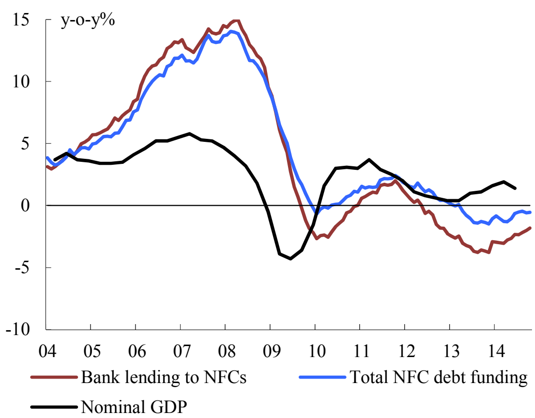
Source: Bloomberg

Structural impediments remain. In the EU, corporate bond spreads continued to tighten over the recent months in the highest investment grades, but to a lesser extent in the higher-yield segments. While corporate bond issuance has reached all-time highs, there are concerns that secondary market liquidity has declined significantly. Furthermore, lower-rated banks' access to funding of remains challenging or limited to small amounts at overnight maturities, suggesting that unsecured money markets are still in the early stages of recovery.

Nascent signs of a turnaround in bank lending…

Bank lending to the private sector continued to contract during 2014, but the pace of contraction has fallen and there are signs of a turnaround as net lending flows to some segments have turned positive. The annual growth rate of loans to households increased further, moving into positive territory. However loans to the non-financial corporate (NFC) sector remained weak although the rate increased steadily without leaving negative territory. While net issuance of debt securities by non-financial corporates, which have emerged for many firms as a substitute for bank loans, continues to hover at record levels, its annual growth rate has somewhat declined (5.1% in November from 8.0% in August). The transition towards market financing seemed to slow down as bank lending recovered. As the more modest rise in debt securities issuance did not fully offset the contraction in bank lending volumes, the total debt funding by non-financial corporates continued to be slightly negative (see Graph I.16).

Graph I.16: **Economic and credit cycles for NFCs, euro area**

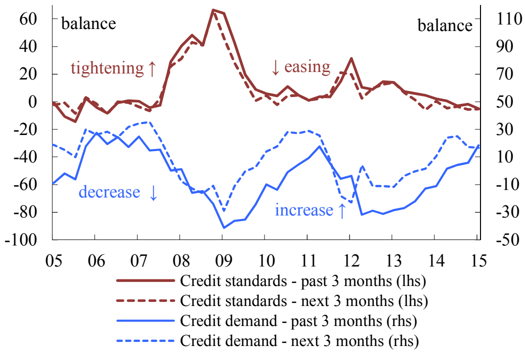


Source: ECB, own calculations

Cross-country differences in lending volumes did not decline in 2014. Those in lending rates did, but discrepancies remain high by historical standards. Overall, price and non-price lending conditions are still dispersed across countries. The view that weak credit growth to corporates is driven to a large extent by low demand for loans in a number of Member States is supported by overall high corporate savings relative to investments, suggesting unused internal funds in many cases. This might be due to deleveraging pressures in the corporate sector and uncertain economic prospects.

The January 2015 ECB Bank Lending Survey signals further improvements in bank lending for both firms and households with easing credit standards and positive demand for all types of loans (see Graph I.17). The factors that contributed to the net easing of credit standards continued to be banks' improved cost of funds and easing balance-sheet constraints. On the demand side, financing needs related to fixed investment contributed positively to the strong increase in net loan demand, recording the first significantly positive contribution since mid-2011.

Graph I.17: **Net changes in credit standards and credit demand for loans to non-financial corporations, euro area**



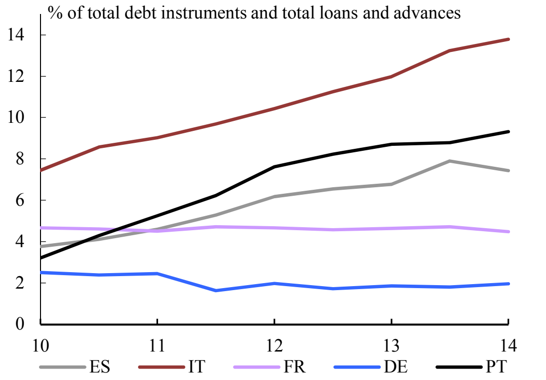
Source: ECB

Historical relationships between economic and credit cycles also suggest that the bank credit cycle for non-financial corporates may further improve and finally turn positive over the course of 2015. Securities issuance is expected to contribute positively to the overall external funding of non-financial corporates, although the transition to market funding may further ease as bank lending improves. Finally, corporations currently resort extensively to internal funds for their investments, a trend that may continue. Self-funding ratios are expected to decline, but to remain higher than during past cycles, especially in countries where corporate indebtedness is highest and most distressed.

…supported by a healthier position of banks.

The ECB's Comprehensive Assessment results came in line with expectations and showed that the banking system in the euro area was overall well capitalised and resilient to external shocks. The recent efforts by EU banks to increase their capital levels suggest less acute deleveraging pressures. However, in the medium to long term euro-area banks still need to enhance their capital base to ensure full compliance with higher capital requirements under the Capital Requirement Regulation and Directive (CRR/CRD IV) which will become binding in 2018. Moreover, profit generation remains a challenge for many banks, which may call for further balance-sheet adjustments. While the low-yield environment on marketable instruments is partly to blame for banks' low profitability, the high level of non-performing loans in several Member States is also contributing to it and keeping banks' balance sheets under pressure in these countries (see Graph I.18). Finally, banks' asset rebalancing along with the ECB's quantitative easing should result in higher lending although this process may not be the same in every country or generalised across all types of loans.

Graph I.18: **Share of gross total doubtful and non-performing loans**



Source: ECB

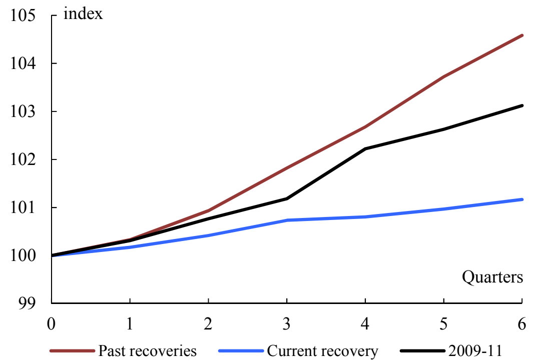
Risks for the European banking sector remain high via exposures to compressed risk premia on a range of financial assets and because of their reduced profitability. Banks are particularly at risk in the event of a re-emergence of the sovereign debt crisis in the euro area because of their still high and home-biased exposure. At the same time, banks may no longer benefit from the same implicit guarantee provided by their sovereigns in a context of increased preference for 'bail-in' among governments. Potential stress in financial markets would therefore further undermine banks' already weak profitability and require additional capital buffers.

4. GDP AND ITS COMPONENTS

The recovery journey continues…

The EU economy enters its third year of recovery in 2015, but so far the recovery has remained subdued, reflecting the post-crisis legacy and EU-specific factors. The latter include factors that already hampered growth dynamics before the outbreak of the crisis and those that are for instance associated with the sovereign debt crisis such as high levels of public and private debt. [22] So far structural weaknesses have not been overcome everywhere in the EU and even years after the start of the economic and financial crisis, the implementation of structural reforms remains unfinished. Other growth impediments have recently gained importance such as uncertainty about future policies and energy prices.

Graph I.19: **Comparison of past and current recoveries - GDP, euro area**



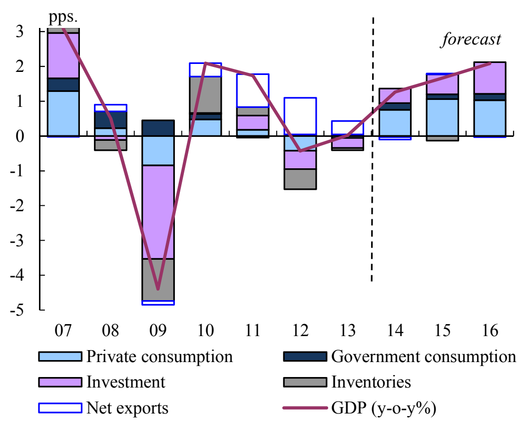
Note: Past recoveries included are those from the mid-1970s, early-1980s and early-1990s.

The sluggishness of the recovery in the years since the recession of 2008-09 (see Graph I.19), can still be seen in recent quarters. Since the beginning of the recovery in the second quarter of 2013, growth momentum has been rather low, with quarter-on-quarter GDP growth rates hovering in a narrow range of between 0.2% and 0.4% in the EU and 0.1% and 0.3% in the euro area. Six quarters into the economic recovery, GDP still remained 0.6% and 2.2% below the pre-crisis level of the first quarter of 2008, in the EU and the euro area respectively. As compared to previous recoveries in Europe this is quite exceptional and it is also different from recovery patterns elsewhere.

[22] The reasons have been looked at in greater detail in the autumn 2014 forecast; see European Commission (DG ECFIN), European Economic Forecast – Autumn 2014, *European Economy*, No. 7, November 2014, pp. 8–12.

In the third quarter of 2014, EU and euro-area GDP grew by 0.3% and 0.2% respectively (quarter-on-quarter). As throughout the year (see Graph I.20), domestic demand has been the main growth driver, mainly thanks to private consumption. In line with increasing real gross disposable income as well as improvements in the labour market, private consumption continued to accelerate. By contrast, gross fixed capital formation (total investment) remained weak and even contracted again in the euro area, while it remained broadly stable in the EU in the third quarter, held back by low demand, still low levels of capacity utilisation, and rising geopolitical tensions. Net exports detracted slightly from EU growth in the third quarter and were neutral to growth in the euro area. This was in line with the role of domestic demand as the main growth driver in 2014 (see Graph I.20).

Graph I.20: **Real GDP growth and its components, EU**



...but new factors brighten the outlook for the EU economy...

While the economic recovery in the EU still lacked growth momentum in 2014, new factors have occurred in the last months that are expected to brighten the outlook for 2015-16 as compared to the counterfactual of a continuation of weak economic momentum with weak investment, headwinds from geopolitical tensions, and only slowly diminishing growth impediments. The four most promising new factors are the sharp fall in oil prices, the depreciation of the euro, the newly announced monetary policy measures in the euro area, and the EU Investment Plan ('Juncker Plan'). While all of them have the potential to stimulate economic activity, their impact on inflation differs (see Section I.7). These four factors come on top of those already identified before, [23] such as the positive impact of last year's Asset Quality Review and the stress test on the financial sector and lending, advances with the architecture of economic and monetary union (e.g. Banking Union), and some progress with structural reforms.

The first factor is the *sharp fall in oil prices* (see Section I.1), which directly lowers the energy costs for households and companies and should more generally lift GDP growth in the EU. However, as it occurs in an environment of only moderately growing domestic demand, already very low inflation rates, and nominal interest rates close to zero, the overall effect may be smaller than under more regular circumstances when the disinflationary impact provides space for lower nominal interest rates. Given the expected pass-through of lower oil prices to the economy, the impact on economic activity should already have set in last year and should continue over the forecast horizon.

The second factor is the recent *depreciation of the euro*, which has to a substantial extent occurred vis-à-vis the US dollar but also been observed for exchange rates vis-à-vis other currencies, lowering the nominal effective exchange rate of the euro particularly since late 2014. The depreciation is expected to strengthen the price competitiveness of euro area companies, thereby supporting their exports and their relative position vis-à-vis foreign competitors in euro area markets (see Box I.2). The impact on exports to Member States outside the monetary union and to non-EU countries is expected to become visible in the coming quarters. In assessing the overall impact, some limiting factors have to be taken into account. Apart from changing patterns in world trade (see also Box I.1), the specific situation of exporters in countries with close trade links to Russia might dampen the impact. Moreover, empirical analyses suggest that only around half of the change in exchange rates is usually passed on to export prices and that the growth of export markets is more important for export growth than price competitiveness. [24]

[23] See European Commission (DG ECFIN), European Economic Forecast – Autumn 2014, *European Economy*, No. 7, November 2014.

[24] For large Member States see R. Baldwin and T. Ito, Quality competition versus price competition goods: an empirical classification, *Journal of Economic Integration*, March 2011. Vol. 26, No. 1, pp. 110–135; for the euro-area aggregate see N. Balta et al., The export performance of the euro area, *Quarterly Report on the Euro Area*, 2010, Vol. 9, No. 2, pp. 7-18.

Table I.3:

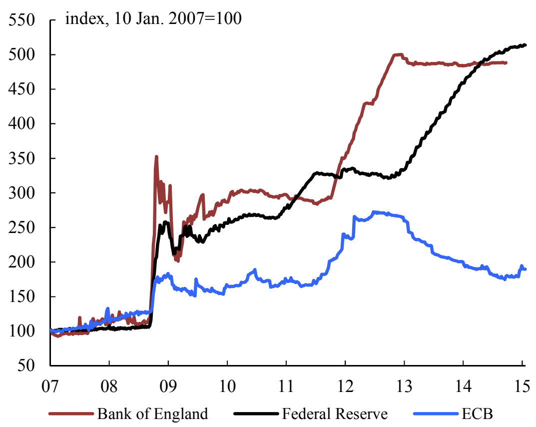
Composition of growth - EU

(Real annual percentage change)

	2013 bn Euro Curr. prices	2013 % GDP	2009	2010	2011	2012	2013	2014	2015	2016
			Real percentage change					Winter 2015 forecast		
Private consumption	7709.2	57.0	-1.5	0.8	0.3	-0.7	-0.1	**1.3**	**1.9**	**1.8**
Public consumption	2835.9	21.0	2.2	0.7	-0.2	0.2	0.2	**0.9**	**0.6**	**0.9**
Gross fixed capital formation	2606.1	19.3	-11.9	0.2	2.0	-2.6	-1.5	**2.2**	**3.0**	**4.6**
Change in stocks as % of GDP	1.4	0.0	-0.8	0.3	0.7	0.1	0.0	**0.0**	**-0.1**	**-0.1**
Exports of goods and services	5787.0	42.8	-11.9	10.5	6.6	2.2	2.2	**3.2**	**4.1**	**5.0**
Final demand	18939.9	140.1	-6.4	4.0	2.5	-0.4	0.4	**2.0**	**2.4**	**3.0**
Imports of goods and services	5427.9	40.1	-11.7	9.7	4.3	-0.4	1.3	**3.6**	**4.3**	**5.4**
GDP	13528.6	100.0	-4.4	2.1	1.7	-0.4	0.0	**1.3**	**1.7**	**2.1**
GNI	13545.0	100.1	-4.1	2.4	1.8	-0.5	-0.2	**1.2**	**1.7**	**2.1**
p.m. GDP euro area	9939.4	73.5	-4.5	2.0	1.6	-0.7	-0.5	**0.8**	**1.3**	**1.9**
			Contribution to change in GDP							
Private consumption			-0.8	0.5	0.2	-0.4	-0.1	**0.8**	**1.1**	**1.0**
Public consumption			0.4	0.2	0.0	0.0	0.0	**0.2**	**0.1**	**0.2**
Investment			-2.7	0.0	0.4	-0.5	-0.3	**0.4**	**0.6**	**0.9**
Inventories			-1.2	1.0	0.2	-0.6	-0.1	**0.0**	**-0.1**	**0.0**
Exports			-4.7	3.7	2.6	0.9	0.9	**1.4**	**1.8**	**2.2**
Final demand			-8.9	5.4	3.4	-0.6	0.6	**2.7**	**3.4**	**4.3**
Imports (minus)			4.5	-3.3	-1.6	0.2	-0.5	**-1.5**	**-1.7**	**-2.2**
Net exports			-0.1	0.4	0.9	1.1	0.4	**-0.1**	**0.0**	**0.0**

The third factor is the *Extended Asset Purchase Programme* (quantitative easing), which the ECB announced on 22 January 2015 (see Section I.3). The quantitative easing appears large enough to expand the ECB balance sheet substantially (see Graph I.21) and to have a tangible impact on wider macroeconomic developments. The strong signalling effect of the announcement should support a re-anchoring of medium to long-term inflation expectations in line with the ECB's aim of achieving over the medium term inflation rates of below, but close to 2%. The measures should help to avoid an increase in real long-term interest rates, facilitate the deleveraging process and improve the funding conditions of companies. Stronger credit growth and positive effects on business and consumer confidence should support economic activity and move inflation expectations and inflation closer to the targeted levels. [25] The positive impact on economic activity could spillover to Member States outside the euro area as the monetary union is one of their key export markets.

Graph I.21: **Central bank balance sheets, euro area, UK and US**



The fourth factor is the *EU Investment Plan*, which was presented by the European Commission in November. The plan aims to mobilise investments of about EUR 315 bn. (about 2.5% of EU GDP) between 2015 and 2017, in areas such as long-term infrastructure projects but also projects of small and medium-sized enterprises. As the plan will take time to roll out and the benefits from such investments may only be felt with a time lag, the investment plan is expected to have a greater effect in 2016 and 2017 than this year.

The positive impact of these four factors on economic activity is in the near term expected to be partly offset by remaining adverse factors such

(25) To the extent that the portfolio effect of quantitative easing makes investors buying assets denominated in foreign currency, a further depreciation of the euro could result and strengthen the aforementioned second factor for a brightening economic outlook. However, the forecast is based on technical assumptions for exchange rates, which exclude such developments from being captured in the central scenario. Thus, these effects constitute upside risks to the projections (see Section I.9).

Table I.4:

Composition of growth - euro area

(Real annual percentage change)

	2013			2009	2010	2011	2012	2013	2014	2015	2016
	bn Euro	Curr. prices	% GDP	Real percentage change					Winter 2015 forecast		
Private consumption		5566.6	56.0	-1.1	0.8	0.2	-1.3	-0.6	**0.9**	**1.6**	**1.6**
Public consumption		2096.2	21.1	2.3	0.8	-0.2	-0.2	0.2	**0.7**	**0.4**	**0.9**
Gross fixed capital formation		1948.6	19.6	-11.2	-0.4	1.7	-3.4	-2.4	**0.9**	**2.0**	**4.4**
Change in stocks as % of GDP		-13.7	-0.1	-0.7	0.3	0.7	0.0	-0.1	**-0.2**	**-0.4**	**-0.3**
Exports of goods and services		4355.2	43.8	-12.7	11.1	6.6	2.5	2.1	**3.6**	**4.3**	**5.1**
Final demand		13952.9	140.4	-6.5	4.0	2.4	-0.8	0.0	**1.6**	**2.2**	**3.0**
Imports of goods and services		4014.3	40.4	-11.5	9.8	4.4	-1.0	1.2	**3.6**	**4.5**	**5.7**
GDP		9939.4	100.0	-4.5	2.0	1.6	-0.7	-0.5	**0.8**	**1.3**	**1.9**
GNI		9985.6	100.5	-4.1	2.2	1.7	-0.5	-0.6	**0.8**	**1.4**	**1.9**
p.m. GDP EU		13528.6	136.1	-4.4	2.1	1.7	-0.4	0.0	**1.3**	**1.7**	**2.1**
				Contribution to change in GDP							
Private consumption				-0.6	0.5	0.1	-0.7	-0.4	**0.5**	**0.9**	**0.9**
Public consumption				0.5	0.2	0.0	0.0	0.0	**0.1**	**0.1**	**0.2**
Investment				-2.6	-0.1	0.3	-0.7	-0.5	**0.2**	**0.4**	**0.9**
Inventories				-1.2	0.9	0.3	-0.7	-0.1	**-0.1**	**-0.1**	**0.0**
Exports				-5.1	3.9	2.6	1.0	0.9	**1.6**	**1.9**	**2.3**
Final demand				-9.0	5.3	3.3	-1.1	0.0	**2.3**	**3.1**	**4.3**
Imports (minus)				4.5	-3.3	-1.6	0.4	-0.5	**-1.5**	**-1.8**	**-2.4**
Net exports				-0.6	0.6	0.9	1.4	0.4	**0.1**	**0.1**	**0.0**

as balance-sheet adjustment, high unemployment rates in some countries and geopolitical concerns.

...and limit the risk of entering a long period of very low economic growth.

With economic growth still subdued, there are concerns about the outlook for the EU economy, in particular about the growth path that could be reached during the forecast years and beyond. Inspired by the experience of low growth following the economic and financial crisis and the longer-than-expected persistence of some growth-dampening factors, the question arose as to whether a period with very low growth or stagnation was looming, or a period with a higher GDP growth path could be reached. Secular deficiency of aggregate demand in conjunction with a very low or negative equilibrium real interest rate [26], slowing technological progress, ageing, debt overhang and other factors have been referred to in the discussion of the economic outlook.

An evaluation of the reasons of the weakness of the economic recovery can shed light on the EU economy' prospects.[27] Model-based analyses suggest that the double-dip nature of the recession, i.e. the first dip during the 2008-09 recession caused by the global economic and financial crisis and the second dip associated with the sovereign debt crisis, are crucial for the explanation of the protracted slowdown. [28] The exceptional character of these events and the measures taken in the meantime to be better positioned for future events, may provide reasons to be optimistic that such a path can be avoided.

Moderate economic growth towards the end of last year...

Leading indicators suggest that growth in the fourth quarter of 2014 remained subdued. The Commission's Economic Sentiment Indicator (ESI) declined for the second consecutive quarter in both the euro area and the EU, but remained above its long-term average. Across the sectors covered by the ESI, confidence only continued to improve in services and construction in both

(26) L. H. Summers, Secular stagnation, speech at the 14th Annual IMF Research Conference, Washington DC, November 2013; and L. H. Summers, U.S. economic prospects: secular stagnation, hysteresis, and the zero lower bound, *Business Economics*, April 2014, Vol. 49, No. 2, p. 65–73.

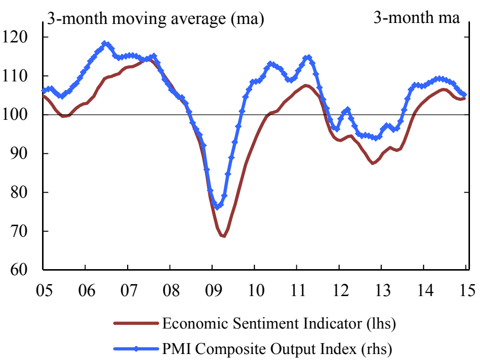
(27) See e.g. S. Lo and K. Rogoff, Secular stagnation, debt overhang and other rationales for sluggish growth, six years on, *BIS Working Papers* no. 482, January 2015. Reasons for protracted growth in the EU were also analysed in the first chapter of European Commission (DG ECFIN), European Economic Forecast – Autumn 2014, *European Economy*, No. 7, November 2014.

(28) See e.g. W. Roeger, ECFIN's medium term projections: the risk of 'secular stagnation', *Quarterly Report on the Euro Area*, December 2014, Vol. 13, No. 4, pp. 23–29.

regions. According to the latest available reading (December 2014), confidence in these two sectors stood above the long-term average in the EU, with confidence in the construction sector back to its pre-crisis level for the first time. In the euro area, however, both indicators stood below the long-term average, whereas confidence in the manufacturing sector remained broadly stable in both regions in the fourth quarter.

In line with the Commission surveys, the PMI Composite for both the EU and the euro area also declined in the fourth quarter of 2014 (see Graph I.22), for the second consecutive quarter, but remained slightly above the no-change threshold. This was a result of a decline in confidence in both the manufacturing and services sector and points to a fall in economic momentum.

Graph I.22: **Economic Sentiment Indicator and PMI Composite Output Index, EU**

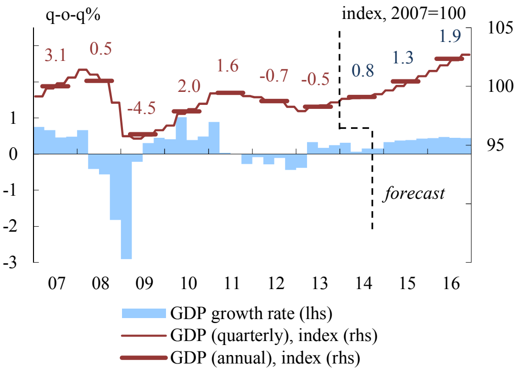


Source: EC, Markit Group Limited

Hard data for the fourth quarter corroborates the picture of positive, but moderate economic growth. In October and November, industrial production in both the euro area and the EU stood on average 0.4% above the level recorded in the third quarter, which had been the first quarter to show shrinking industrial production in both the EU and the euro area (-0.3% quarter on quarter) since the fourth quarter of 2012. The expansion in industry is in line with messages stemming from the survey indicators.

With economic growth in 2014-Q4 continuing at the rates already observed in the preceding quarter, in 2014 annual GDP growth is expected to have moved up to rates of 1.3% in the EU and 0.8% in the euro area (see Graph I.23).

Graph I.23: **Real GDP, euro area**



Figures above horizontal bars are annual growth rates.

...to be followed by stronger growth momentum in 2015 and 2016.

Against the background of new positive factors (e.g. lower oil prices, a weaker euro, a more accommodative monetary policy, the EU Investment Plan), the outlook for economic activity is brightening, in particular as some of the adverse factors currently weighing on GDP growth should diminish and the implementation of structural reforms should increasingly support the conditions for domestic demand. In addition, private consumption should benefit from improving labour market conditions, whereas private investment should see some increase as a result of pent-up demand, after years of subdued investment, and diminishing needs for balance-sheet adjustment. Finally, exports should get support from the strengthening of external demand and from the depreciation of the euro.

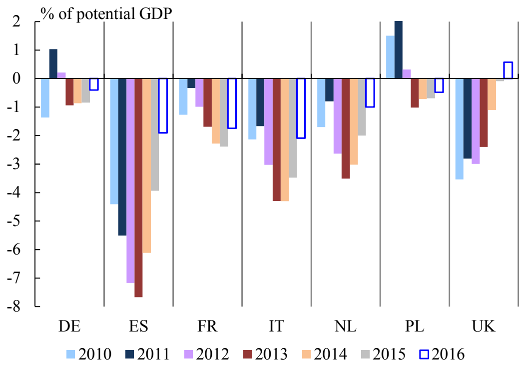
Still some factors continue to weigh on the short-term outlook. This includes the high unemployment rates in some countries (see Section I.6). Ongoing balance-sheet adjustment in some countries continues keeping a lid on economic growth, while improving the conditions of economic growth in the longer term. While deleveraging of firms and households is progressing in many Member States, the adjustment process still has a long way to go given the magnitude of the debt increase before the crisis.

Overall, real GDP is projected to grow by 1.7% in the EU and by 1.3% in the euro area in 2015 and to accelerate to 2.1% and 1.9% respectively in 2016. These projections should be seen against the background of the no-policy-change assumption.

Recovery is broadening across countries...

Rates of growth have always differed among Member States of the EU and among those that use the euro, but also in other constituencies.[29] The different rates reflect country-specific structural features, but also different growth trajectories (e.g. catching-up in some Member States), and different cyclical positions (e.g. between countries inside and outside the euro area). The most recent data for GDP growth suggest that the recovery in the EU has continued to broaden, but output gaps remain diverse (see Graph I.24).

Graph I.24: **Cross-country differences in the output gap, largest Member States, 2010-16**



In the third quarter, three countries still reported negative growth rates (compared to six in the previous quarter): Italy (-0.1% q-o-q), Austria (-0.3%) and Cyprus (-0.3%). Among the largest Member States, economic growth resumed in France and Germany (from -0.1% q-o-q in both countries in 2014-Q2 to 0.3% in France and 0.1% in Germany) and increased in Poland (from 0.7% to 0.9%). In Spain, growth remained stable at 0.5%. Growth slowed in the UK (from 0.8% to 0.7%) and in the Netherlands (from 0.6% to 0.1%). The highest real GDP growth rates were reported in Romania (1.8% q-o-q), Poland (0.9%), Malta (0.8%), the UK (0.7%), Greece (0.7%) and Slovenia (0.7%).

...but growth differences persist over the forecast horizon.

Further out, as of this year, and for the first time since the economic and financial crisis, all EU Member States should record positive GDP growth rates. However, diversity in economic performance is likely to persist since idiosyncratic features shape the growth performance. They are also related to different progress in tackling structural weakness and implementing reforms. Most recently, differences in the pass-through of lower oil prices have become a differentiating factor. It adds to other factors such as differences in balance-sheet adjustment and deleveraging in the private sector[30] and consolidation efforts in the public sector.

Among the largest Member States, activity is forecast to be dynamic in Poland, Spain and the UK with growth rates well above the EU average. While Poland had been the only country exhibiting positive growth rates during the economic and financial crisis and thereafter, growth in the UK has been rather strong already since the end of 2008-09 recession with a moderate slowing in 2012. In Spain, the recovery had started last year, supported by improved labour-market and financing conditions.

Economic growth in Germany is expected to be close to the EU average in 2015 and 2016, strongly supported by domestic demand, which is expected to grow faster than in the rest of the euro area but with less assistance from net exports, which are expected to decline and even turn negative in 2016. Economic activity in France is expected to slowly gain momentum in 2015 and 2016, primarily driven by household consumption while investment is set to remain subdued this year. In Italy, GDP growth is projected to turn positive this year, driven by domestic demand and, to a lower extent, net exports. Despite some improvement in its housing market, deleveraging pressures in the Netherlands will limit the potential for a faster recovery.

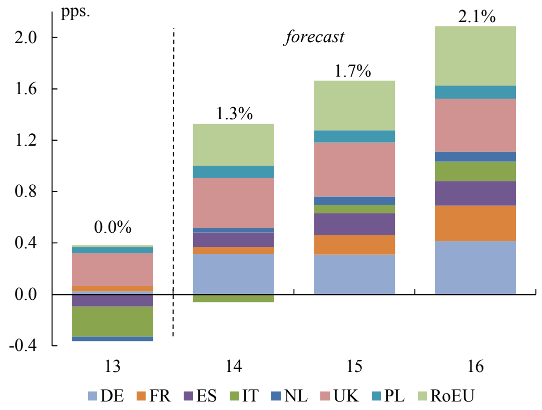
Growth is expected to remain robust in Ireland while the Cypriot economy is showing signs of stabilisation. In Greece, policy uncertainty is affecting confidence and the speed of the recovery.

The differences between countries are also visible in changes in their contributions to economic growth in the EU (see Graph I.25). Over the forecast horizon, the largest contributions are expected from Germany and the UK, whereas the contributions of some other large economies remain smaller than what their country weights would suggest.

(29) For detailed analysis see European Commission (DG ECFIN), Growth differences between EA Member States since the crisis, *Quarterly Report on the Euro Area*, 2014, Vol. 13, No. 2, pp. 7–20.

(30) For a detailed analysis see C. Cuerpo et al., Private sector deleveraging in Europe, *Economic Modelling*, January 2015, Vol. 44, pp. 372–383.

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



The weakness of gross fixed capital formation has hampered the recovery...

Investment is a key factor for any economic recovery as it builds up the productive capacity of the economy and is crucial for the growth potential. Therefore the lasting relative weakness of gross fixed capital formation (total investment) remains a key reason for subdued economic growth. Historically, the current recovery in investment is being considerably weaker even than following previous financial crises.[31] Only moderate growth of demand, low levels of capacity utilisation, periods of heightened economic and policy uncertainty, and, in some countries, corporate deleveraging and financing constraints are the main factors behind the weakness that has continued last year. They are compounded by regulatory bottlenecks in some sectors and persisting overcapacity in the construction sector of some Member States.[32]

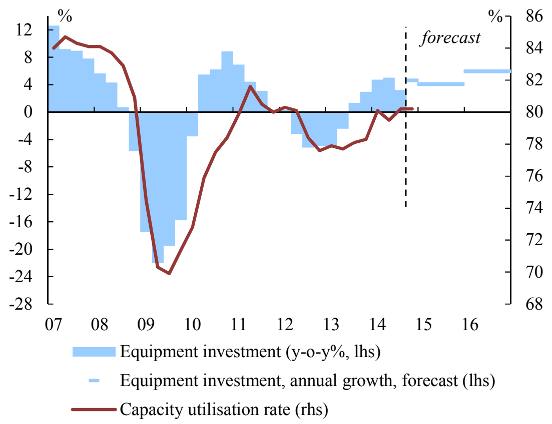
In the third quarter of 2014, total investment continued to contract in the euro area and remained broadly stable in the EU after contracting in the previous quarter. The breakdown shows that investment in equipment fell in the euro area but continued to grow in the EU, though at a slower pace. Investment in construction continued to decline in the euro area and remained broadly stable in the EU after having contracted in the previous quarter. The most obvious result of the investment weakness is that not even the investment levels of 2010 and 2011 have been reached, which also implies that investment remains below the long-term average in pre-crisis years. This observation also applies to the total investment-to-GDP ratio, which stood in the third quarter at 19.5% in the EU and 19.6% in the euro area. These levels were about 3 pps. (EU) and 3½ pps. (euro area) lower than before the economic and financial crisis, but also 2.0 pps. (EU) and 2.5 pps. (euro area) lower than the average in the period between 1998 and 2007.

The weakness in investment remains broad based across most EU countries, stemming from both construction and equipment investment and from the public as well as the private sector.

...but in 2015 equipment investment is expected to recover...

Near-term equipment investment dynamics are likely to remain subdued. Compared to the third quarter of 2014, the industrial production of capital goods in October and November, remained, on average, unchanged in the EU and grew by only 0.2% in the euro area. Moreover, business confidence has declined lately and the investment survey in the manufacturing industry carried out by the European Commission shows that firms substantially cut their investment plans in 2014 in both the EU and the euro area. For 2015, companies in the EU expect a similar rate of investment growth as in 2014. In the euro area, investment growth is expected to be slightly higher than in 2014.

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



Looking ahead, equipment investment is expected to pick up more strongly from the second half of 2015 (see Graph I.26). Supportive factors should include a gradual strengthening in domestic and external demand, the lower production costs due to the fall in energy prices, the need to renovate the

(31) See ECB, The current weakness in euro area investment compared with past crisis episodes, *Monthly Bulletin*, December 2014, pp. 65-68 (Box 4).

(32) See e.g. M. Buti and P. Mohl, Lacklustre investment in the eurozone: is there a puzzle?, VoxEU, 4 June 2014.

stock of capital combined with low interest rates, and improved profit margins, particularly for exporting firms due to the euro depreciation and abating uncertainty. Moreover, the EU Investment Plan should have a positive impact going forward. Despite these supportive factors, some adverse factors will continue weighing on equipment investment, such as continued difficulties in accessing funding for some companies in certain Member States.

...while the recovery in construction investment will take longer...

The ongoing adjustment in housing markets continues to have a negative impact on residential investment but is expected to gradually fade over the forecast horizon. Over the short term, growth in construction investment should remain subdued. Indeed, leading indicators such as building permits in the euro area do not suggest any substantial improvement in the coming quarters. Moreover, the number of permits, which remains very low in historical perspective, posted quarter-on-quarter declines in both the second and third quarters of 2014. Also, the average construction output in October-November was slightly below the average of the first half of the year in both the EU and the euro area. As regards confidence in the construction sector, it continued to increase in the last quarter of 2014 in both areas, but remained below its long-term average in the euro area. In the EU, however, the indicator rose above the long-term average in December 2014 for the first time since the beginning of the economic and financial crisis.

With the underlying correction gradually vanishing, activity recovering, real disposable income picking up and low mortgage rates, construction investment is expected to grow again in both areas in 2015 and to accelerate in 2016. However, housing market corrections are set to continue in several Member States (Cyprus, France and Italy) in 2015, leading to shrinking construction investment. In 2016, construction investment is expected to rise again in all Member States, except Hungary, due to the expected negative impact of the decrease in EU fund inflows on public construction investment.

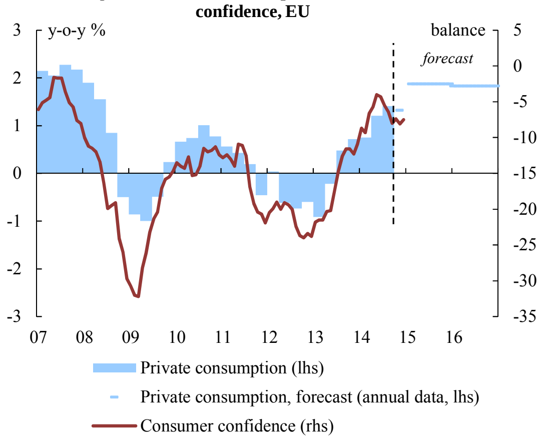
...and total investment is expected to contribute stronger to economic growth mainly in 2016.

After two years of contraction, total investment is expected to have grown by 2.2% in the EU and 0.9% in the euro area in 2014. Investment growth is expected to gain momentum as from the second half of this year in both the EU and the euro area, lifting the annual growth rate to 3.0% in the EU and 2.0% in the euro area. In 2016, total investment is expected to accelerate to 4.6% in the EU and 4.4% in the euro area. The strong acceleration should help bring total investment to GDP closer to its average long-term average.

Private consumption remains the main growth driver…

Private consumption has been the main engine of growth in the current recovery both in terms of its absolute contribution to GDP growth in the EU and the euro area and in terms of the dynamics by being the only large GDP component that has permanently expanded since the beginning of the recovery (Graph I.27). The upward movement has been supported by relatively early improvements in the labour market situation, by wage growth and low inflation that have boosted real disposable incomes. Among the factors that held back consumption in some countries were the fallout of previous house price declines and deleveraging processes.

Graph I.27: **Private consumption and consumer confidence, EU**



Over the last few past months, additional support has come from the decline in oil prices, which pulled down energy prices, helped households to reduce their energy bills and thereby increased the amount of disposable income available for other spending decisions. This strengthened the financial position of households, which also benefitted from a more accommodative monetary policy stance. Lower interest rates and higher asset prices have reduced the incentives for deleveraging and provided additional flexibility for spending decisions.

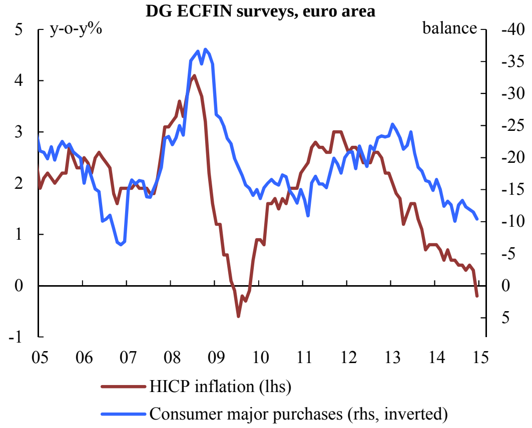
In the third quarter of 2014, private consumption growth increased to 0.5% (q-o-q) in both the EU (from 0.4% in the second quarter) and the euro area (from 0.3%). During the six recovery quarters, private consumption has increased by 1.8% in the EU (as compared to GDP growth of 2.0%) and by 1.3% (1.3%) in the euro area. In comparison to previous recoveries this is a relatively moderate increase in private consumption.

...starting from moderate growth in 2014...

Survey indicators suggest that private consumption expanded moderately in the fourth quarter of 2014. In both the EU and the euro area, the Commission's Consumer Confidence indicator declined in the fourth quarter, continuing the decline observed in the third quarter. This mainly reflects a more pessimistic assessment of the past and expected general economic situation as well as increased unemployment fears. But confidence remained clearly above the long-term average and the level observed in the first quarter. Moreover, the monthly readings might suggest that within the fourth quarter confidence rebounded and started moving up in December. The sharp increase in retail confidence in both areas in December is the counterpart to this observation. These developments appear to be closely associated with the decline in energy prices, which are also reflected in the low level of consumer' price expectations and the retail sector's selling price expectations. There are no indications that lower consumer price inflation in 2014, or the fall into negative territory in December 2014 is perceived as an incentive to delay major purchases for further price declines (see Graph I.28).

Hard data for the fourth quarter of 2014 support the forecast for a continuation of moderate private consumption growth. Retail sales stood in October and November, on average, at 0.9% in the EU and at 0.5% in the euro area, above the average level recorded in the third quarter. Moreover, new passenger car registrations in the euro area rose on average by 0.7% q-o-q in October-November compared to the third quarter. The forecast of moderate private consumption growth in the fourth quarter of 2014, lifts the estimated annual growth rate to 0.9% in the euro area (up from -0.6% in 2013) and to 1.3% in the EU (up from -0.1%).

Graph I.28: **Inflation and households' major purchases, DG ECFIN surveys, euro area**



...windfall income gains from lower oil prices support consumption growth in 2015-16...

Lower energy prices are expected to remain a key factor driving the expansion of private consumption growth in 2015, given that only a moderate rebound in oil prices is assumed. Moreover, headwinds from deleveraging, low real wage growth and limited access to consumer credit are receding. With slightly improved employment prospects and rising nominal compensation of employees, including those at the lower end (minimum wage introduction and/or increase), nominal disposable income is expected to increase further. It should also benefit from positive developments in non-labour income (profit and property related income). Very low consumer price inflation should support real income, that, after a few years of subdued developments, is expected to grow faster than in recent years. This should provide the basis for solid growth in consumer spending.

The impact of higher real disposable incomes on private consumption depends on households' propensity to spend, which can be expected to be emboldened by rising consumer confidence. However, there are also reasons to expect a moderate increase in household savings ratios (0.3 pp. in 2015 in both the EU and the euro area). These include uncertainty about the persistence of lower oil prices causing consumers to postpone irreversible purchases of consumer durables, the response to lower interest rates requiring larger savings to reach previously targeted amounts (e.g. related to ageing), but also ongoing deleveraging as households in several Member States continue lowering their debt burden. These factors more than offset the precautionary dissaving effect that could be associated with higher incomes and the improved economic outlook. Overall, the moderate increase in the savings ratio in the wake of an increase in incomes is consistent with consumption smoothing as suggested by empirical analyses of households' consumption decisions.

All in all, private consumption is expected to grow at rates of 1.9% and 1.8% in the EU in 2015 and 2016, and by 1.6% in both years in the euro area. These rates are close to the average growth rates observed in the years before the economic and financial crisis (e.g. 2.1% in the EU and 1.5% in the euro area in the years 2001-05).

...with differences among countries reflecting pass-through rates and idiosyncratic features.

Developments in private consumption at the aggregate level continue to mask substantial differences between countries. The different share of energy consumption in total private consumption and differences in the taxation of fuels result in a differentiated impact from the fall in oil prices. The taxation differences relate to national excise duties and value-added tax effects in cases where the tax is levied as a percentage of the pre-tax price plus the excise duty. Moreover, high levels of household debt in some economies, such as Spain, Portugal and the Netherlands, continue to induce deleveraging in the household sector, further limiting the pace of spending growth.

Among the largest Member States, household consumption is expected to grow by 2.0% or more this year and next in Poland, Spain, the UK, and Germany. Among the smaller Member States, Estonia, Latvia, Lithuania, Slovakia, Malta, Hungary, Romania and Sweden surpass the two percent mark in both years.

Public consumption set to make a limited, though positive contribution to growth

Government consumption continued to expand in the third quarter of 2014. It grew by 0.4% in the EU and by 0.3% in the euro area, contributing about 0.1 pp. to GDP growth. Aggregate public consumption growth is set to remain moderate in the short term in both the EU and the euro area. In 2014, government consumption is projected to have grown by 0.9% in the EU and by 0.7% in the euro area. In 2015, public consumption is expected to decelerate, with a few Member States even seeing a decline. Further out, public consumption is expected to accelerate in 2016 (see also Section I.8). Declining volumes are still expected in Cyprus, Greece, and Hungary in both 2015 and 2016. The forecast for 2016 should be seen against the background of the no-policy change assumption, according to which consolidation measures are only factored in the forecast if they have been adopted and presented to national parliaments or are known in sufficient detail to be taken into consideration.

Exports benefitting slightly from euro depreciation

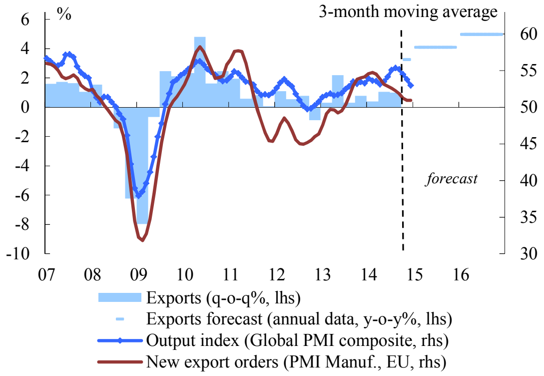
After a soft patch in the first half of the year, exports of goods and services grew by 1.0% and 1.3% respectively in the EU and the euro area, in the third quarter of 2014. In parallel, imports grew by 1.3% and 1.4% respectively in the EU and the euro area. All in all, net trade made a slightly negative contribution to GDP growth in the EU and was neutral in the case of the euro area.

For the near term, recent indicators are sending mixed signals. Hard data show that in October and November 2014, euro-area merchandise exports were on average 1.1% above the monthly average of the third quarter and the 3-month-on-3 month growth rate increased in November from 0.8% to 1.7%. In line with this, the assessment of export order books in the Commission’s manufacturing survey improved in the fourth quarter of 2014, compared to the previous quarter in both the EU and the euro area.

The PMI component for new export orders in the manufacturing sector, while remaining above the expansionary threshold, has been declining for the third consecutive quarter (see Graph I.29). While diverging, both survey indicators stand at levels consistent with positive, though moderate export growth in the fourth quarter.

Against this background, in 2014, exports are expected to have grown by 3.2% in the EU and by 3.6% in the euro area. The lower growth for the EU reflects lower exports in the UK, which are the result of adverse conditions in major export markets. Because of strengthening domestic demand and due to the high import content of many export goods, imports are expected to have grown by 3.6% in both the EU and the euro area in 2014. Overall, net trade should have made a slight positive (0.1 pp.) contribution to GDP growth in the euro area and a slight negative (-0.1 pp.) in the EU as a whole in 2014.

Graph I.29: **Global demand, EU exports and new export orders**



Source: EC, Markit Group Limited

Looking ahead, exports are expected to accelerate in 2015 and even more so in 2016. The acceleration in global output coupled with the euro deprecation should boost export growth. The positive impact of the euro's depreciation is, however, expected to be moderate (see Box I.2) and heterogeneous across countries. In countries with a relatively high share of inputs imported from non-euro area countries (e.g. the Netherlands and Ireland) the exchange-rate impact on export volumes should be relatively small.[33] Another differentiating factor are sanctions against Russia and countermeasures, which are expected to have a direct negative, though moderate, impact on EU trade going forward with countries more affected that have relatively strong trade links with Russia.

Overall, exports are forecast to grow by 4.1% and 4.3% in 2015 in the EU and euro area respectively and to accelerate to 5.0% and 5.1% in 2016. Imports are set to grow by 4.3% and 4.5% in the EU and the euro area respectively in 2015 and to accelerate to 5.4% and 5.7% respectively in 2016. These rates of expansion imply that the contribution of net exports of goods and services remains slightly positive in the euro area in 2015, before becoming flat, and to be flat in the EU in both years.

5. THE CURRENT ACCOUNT

The current account balances of both the EU and the euro area have moved from a broadly balanced position to a sizeable surplus in recent years. The sharp decline in oil prices since June is set to further strengthen the current account surplus in both regions over the forecast horizon. Still, current account developments are masking considerable asymmetries in the external sector rebalancing across deficit and surplus economies.

The unwinding of external factors drive current account imbalances...

Current account developments in 2014 have reflected the gradual pass-through in the domestic economy of the sharp fall in oil prices. Although the overall impact is partially offset by the depreciation of the euro and, to some extent, by lower exports to oil-exporting countries[34], effects from declining prices, mostly on the import side, are set to increase the merchandise trade balance further in the euro area (to 3.1% of GDP) and in the EU (to 0.4% of GDP). The adjusted current account balance is also expected to exhibit a further widening surplus in 2014 in the euro area (to 2.8% of GDP) and in the EU (to 1.3% of GDP).

At the Member-State level, the current account surplus is expected to have widened in 2014 by more than 0.5% of GDP only in euro-area economies (Malta, Ireland, Slovenia, Italy and Germany). The outlook for a widening surplus in the EU is mainly due to shrinking deficits in the UK and Poland, and the persistence of high surpluses in Denmark and Sweden.

In 2015, the main driver of trade flows and external balances should remain in place. In particular the lower energy bill is expected to feed into production costs but to have only a limited effect on export prices. Export performance is projected to improve in many Member States amid cost competitiveness gains and favourable terms of trade developments. Against this backdrop, merchandise trade both in the EU and the euro area will be boosted, although positive effects will be partly mitigated by the rise in disposable incomes that should boost private consumption and

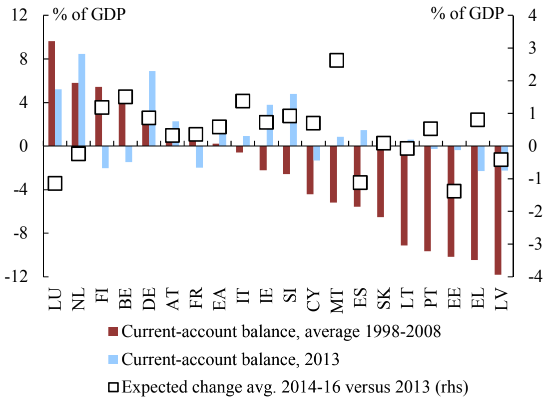
(33) See the estimated elasticites in N. Balta et al., Member State vulnerability to changes in the euro exchange rate, *Quarterly Report on the Euro Area*, 2014, Vol. 13, No. 3, pp. 27-33.

(34) In its analyses of the current-account impact of lower oil prices, the ECB concluded that the direct impact on the oil import bill can be expected to dominate other effects; see ECB, Effects of the oil price decline on the current account of selected countries, *Monthly Bulletin*, May 2009, pp. 10-13 (Box 1).

strengthen imports. Overall, the current account balance is expected to improve further in about two thirds of the Member States with improvements of at least 0.7% of GDP in six economies (Croatia, Lithuania, Italy, Spain, Finland, and the Czech Republic). At the aggregate level, these developments result in the outlook of a further widening surplus in the adjusted current account in the EU (1.6%) and the euro area (3.2%).

The widening of the surplus in the current account is expected to come to a halt in 2016 on the back of the assumed rebound in oil prices and the expected pick-up in import growth, driven by the expansion of private consumption and investment in the EU and the euro area.

Graph I.30: **Current-account balances, euro area and Member States**



...and the rebalancing of the external sector is still asymmetric.

Looking at the implications of the expected current account developments for the ongoing rebalancing process, a striking feature is that most net debtor economies are expected to further improve their current account position over the forecast horizon amid positive windfall gains from lower oil prices (see Graph I.30). This will amount to a sizeable adjustment of their current account-to-GDP ratios compared to pre-crisis levels. Country-specific factors, however, such as the pace of price adjustment, will differentiate the impact of lower oil prices on the external sector.[35] In Portugal, the current account is expected to move further into surplus by 2016, while, in Cyprus, it will be broadly balanced. In Spain, the current account surplus is set to stabilise in 2016, albeit remaining rather muted amid improved business cycle effects.

Table I.5:
Current account and cyclically adjusted current account

(% of GDP)	Current account balance (bold) *Cyclically djusted balances (italics)*				
	Δ 07-13	2013	2014	2015	2016
Belgium	**-5.4**	**-1.5**	**-0.1**	**0.0**	**0.2**
	-5.0	*-1.3*	*0.3*	*0.5*	*0.5*
Germany	**-0.1**	**6.9**	**7.7**	**8.0**	**7.7**
	1.4	*7.4*	*8.2*	*8.5*	*8.1*
Estonia	**15.2**	**-0.4**	**-1.5**	**-1.7**	**-2.1**
	7.9	*3.3*	*1.6*	*1.4*	*1.0*
Ireland	**9.9**	**3.8**	**5.0**	**4.6**	**3.9**
	7.4	*3.2*	*7.3*	*7.3*	*5.8*
Greece	**13.6**	**-2.3**	**-2.0**	**-1.5**	**-0.9**
	6.3	*-8.2*	*-6.5*	*-3.9*	*-0.8*
Spain	**11.1**	**1.5**	**-0.1**	**0.6**	**0.5**
	8.2	*-0.9*	*-2.0*	*-0.4*	*0.1*
France	**-0.9**	**-2.0**	**-1.8**	**-1.3**	**-1.7**
	-1.0	*-2.0*	*-2.2*	*-1.8*	*-2.1*
Italy	**2.4**	**0.9**	**1.8**	**2.6**	**2.6**
	1.5	*-0.1*	*0.7*	*1.9*	*2.1*
Cyprus	**9.6**	**-1.3**	**-1.2**	**-0.6**	**0.0**
	7.3	*-2.1*	*-3.3*	*-2.1*	*-0.6*
Latvia	**18.9**	**-2.2**	**-2.5**	**-2.6**	**-2.9**
	13.1	*-1.0*	*-0.7*	*0.2*	*0.1*
Lithuania	**16.0**	**0.6**	**0.1**	**1.0**	**0.4**
	11.6	*1.4*	*1.6*	*3.8*	*3.3*
Luxembourg	**-5.3**	**5.2**	**4.8**	**3.8**	**3.6**
	-10.3	*2.1*	*4.2*	*4.3*	*4.6*
Malta	**4.7**	**0.9**	**3.3**	**3.5**	**3.6**
	10.3	*4.6*	*7.7*	*8.0*	*6.9*
Netherlands	**1.1**	**8.5**	**8.5**	**8.0**	**8.1**
	0.2	*6.7*	*7.1*	*7.5*	*8.0*
Austria	**-1.0**	**2.3**	**2.5**	**2.6**	**2.7**
	0.8	*3.2*	*2.8*	*2.9*	*2.9*
Portugal	**9.8**	**-0.3**	**-0.2**	**0.4**	**0.6**
	8.4	*-2.4*	*-1.7*	*-0.3*	*0.5*
Slovenia	**8.8**	**4.8**	**5.9**	**5.7**	**5.4**
	2.0	*1.8*	*5.2*	*6.3*	*6.9*
Slovakia	**6.3**	**0.8**	**1.1**	**0.8**	**0.7**
	-0.8	*-0.6*	*-0.3*	*-0.5*	*-0.5*
Finland	**-6.1**	**-2.0**	**-1.4**	**-0.7**	**-0.4**
	-7.8	*-3.2*	*-2.6*	*-1.4*	*-0.6*
Euro area	**2.2**	**2.4**	**2.8**	**3.2**	**3.0**
Bulgaria	***26.7***	***2.2***	***1.7***	***2.1***	***1.8***
	28.6	4.8	3.9	3.3	1.7
Czech Republic	***2.5***	***-2.2***	***-1.0***	***-0.3***	***0.1***
	-1.6	-3.6	-1.4	0.6	1.4
Denmark	***5.8***	***7.2***	***6.5***	***6.6***	***6.5***
	3.7	5.4	4.7	5.4	5.6
Croatia	***7.3***	***0.4***	***0.9***	***2.4***	***3.2***
	4.1	-0.4	-0.1	1.9	3.0
Hungary	***11.4***	***4.2***	***4.1***	***4.4***	***4.9***
	11.0	3.4	5.3	6.3	6.0
Poland	***5.0***	***-1.5***	***-1.3***	***-1.5***	***-2.0***
	5.2	-1.1	-0.8	-0.9	-1.5
Romania	***12.9***	***-1.2***	***-0.9***	***-1.1***	***-1.1***
	9.3	-1.6	-0.6	-0.5	-0.7
Sweden	***-2.2***	***6.8***	***5.9***	***5.6***	***5.4***
	-2.1	6.7	6.0	5.8	5.7
United Kingdom	***-1.7***	***-4.5***	***-4.1***	***-3.8***	***-3.3***
	-2.1	-5.0	-4.0	-3.3	-2.7
EU28	***1.9***	***1.4***	***1.6***	***1.9***	***1.9***

Source : European Commission estimates

At the same time, the fall in oil prices is expected to widen the current account surpluses of net creditor countries. Both increased savings and low investment growth are set to enhance substantially the current account surplus in Germany. Sizeable

(35) See also T. Tressel and S. Wang, Rebalancing in the euro area and the cyclicality of current account adjustments, *IMF Working Paper* No. 14/130, 2014.

current account surpluses are also projected for the Netherlands, Sweden and Denmark.

In cyclically-adjusted terms, the current account-to-GDP ratio is expected to mark an even higher surplus in most net creditor countries over the forecast horizon (see Table I.5). Structural factors are therefore expected to unveil their dominant role behind persistent current account surpluses. By contrast, cyclical effects are at play when disentangling the sizeable current account deficit adjustments in net debtor economies. All in all, labour cost developments, mostly in net debtor countries, and the lack of reforms to address deficient domestic demand and excess savings in surplus economies are supporting the current pattern of external sector rebalancing in the EU.

6. THE LABOUR MARKET

Since the beginning of the recovery, the EU economy has made progress in recovering from the loss of employment during the crises. Since mid-2013, the improvement in labour market conditions has been evident in falling unemployment rates and increasing employment growth in both the EU and the euro area. Given the expected strengthening of economic growth over the forecast horizon, the outlook for the labour market remains positive with more employment growth and a further decline in unemployment. However, with growth momentum expected to remain weak, unemployment is unlikely to fall substantially. Thus, the recovery in the labour market is progressing but still has some way to go.

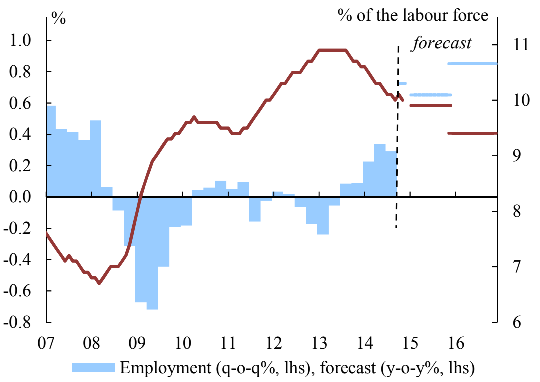
The labour market responded relatively quickly to the economic rebound...

Since the start of the recovery in the second quarter of 2013, employment picked up comparatively fast and strong in response to output developments – first in terms of hours worked and then in terms of persons (with a lag of one quarter in both the EU and the euro area). Overall, the number of employed grew by 2.2% in the euro area and by 2.8% in the EU during the first six recovery quarters. [36] This relatively fast response to the rebound in economic activity marks a difference from the usually lagged response of the labour market to cyclical patterns. It can be associated with cyclical and structural factors. The double-dip recession could have created a rather unique labour-market situation due to the only moderate downward adjustment of hours worked. The structural explanation could be seen in a greater responsiveness of the labour market in the wake of labour market reforms, such as decentralised wage bargaining and more flexible work arrangements (see also Box I.3). The pace of the rebound could also reflect the positive impact of past wage moderation.

...with further improvements in the third quarter of 2014...

In the third quarter of 2014, employment grew by 0.2% (quarter-on-quarter) in the euro area and by 0.3% in the EU. [37] The annual growth rate of employment stood at 0.6% in the euro area and 0.9% in the EU. In the EU, this was the highest growth rate recorded since the beginning of the economic and financial crisis (see Graph I.31).

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



Forecast figures are annual data.

A rise in employment has been seen in a large majority of Member States, including those with the highest unemployment rates such as Greece (1.7% q-o-q), Spain (0.3%), and Portugal (1.4%). Employment gains have not been confined to specific sectors, but have been broad based with

(36) Many empirical studies suggest that the labour market response to economic activity has changed since the economic and financial crisis, as for instance visible in shifts of the Beveridge curve that has been discussed in the autumn 2014 forecast (European Commission (DG ECFIN), European Economic Forecast – Autumn 2014, *European Economy*, No. 7, November 2014); see also ECB, The impact of the economic crisis on euro area labour markets, *Monthly Bulletin*, October 2014, pp. 49-68).

(37) Employment based on ESA 2010 methodology released for the first time on 12 December 2014. The impact of ESA 2010 on overall employment figures is limited but there are some shifts in employment by industries. For more details, see: http://ec.europa.eu/eurostat/web/esa-2010/overview

Table I.6:
Labour market outlook - euro area and EU

(Annual percentage change)	Euro area				Autumn 2014 forecast			EU				Autumn 2014 forecast		
	2013	2014	2015	2016	2014	2015	2016	2013	2014	2015	2016	2014	2015	2016
Population of working age (15-64)	0.0	0.1	0.1	0.1	*0.2*	*0.0*	*0.0*	0.0	0.0	0.0	0.1	*0.1*	*0.0*	*0.0*
Labour force	-0.1	0.1	0.3	0.4	*0.0*	*0.2*	*0.3*	0.2	0.2	0.3	0.4	*0.1*	*0.3*	*0.4*
Employment	-0.8	0.5	0.7	1.0	*0.4*	*0.5*	*0.9*	-0.4	0.9	0.7	0.9	*0.7*	*0.6*	*0.8*
Employment (change in million)	-0.8	0.6	0.7	1.0	*0.4*	*0.5*	*0.9*	-0.3	0.9	0.8	0.9	*0.7*	*0.6*	*0.8*
Unemployment (levels in millions)	19.2	18.6	18.0	17.1	*18.8*	*18.3*	*17.5*	26.3	24.8	23.9	22.8	*25.1*	*24.4*	*23.4*
Unemployment rate (% of labour force)	12.0	11.6	11.2	10.6	*11.6*	*11.3*	*10.8*	10.8	10.2	9.8	9.3	*10.3*	*10.0*	*9.5*
Labour productivity, whole economy	0.3	0.3	0.7	0.9	*0.4*	*0.6*	*0.9*	0.4	0.4	0.9	1.2	*0.6*	*0.9*	*1.1*
Employment rate (a)	58.3	58.6	58.9	59.4	*58.4*	*58.7*	*59.2*	58.3	58.8	59.2	59.7	*58.8*	*59.1*	*59.6*

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

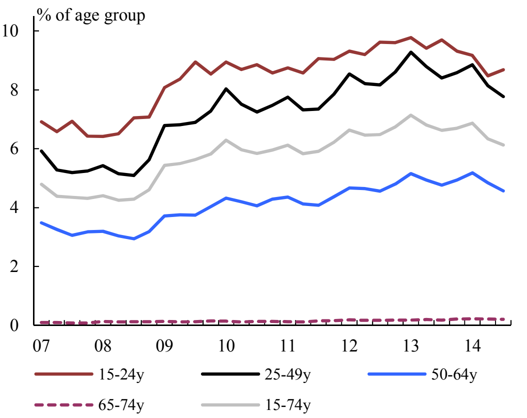
net job creation recorded in the vast majority of economic sectors. While the expansion was rather strong in the services sector, it was more moderate in EU industry (0.2%), with industrial employment in the euro area industry still declining at a rate of 0.1%. For the first time since the economic and financial crisis, also the construction sectors in the EU and the euro area recorded net job creation (0.2% and 0.1% q-o-q), which could be interpreted as a signal of adjustment in the non-tradable sector coming to an end. However, stronger employment growth in tradable sectors continues, suggesting that the reallocation of resources is still underway.

Unemployment rates had continued following a moderate downward trend in the first half of 2014, but then up to November, for a couple of months, remained at about 10.0% of the labour force in the EU and at about 11.5% in the euro area. Given positive employment growth in recent quarters, the persistence of unemployment rates can be associated with developments in labour market participation. As the recovery progressed, participation rates have moved up (added-worker effect) and kept unemployment rates almost unchanged. Yet, compared to the peaks reached in the first half of 2013, unemployment in the EU and euro area fell by 0.9 pp and by 0.5 pp respectively up to November 2014.

Unemployment rates differ markedly with respect to the age of persons and the duration of unemployment. The situation is particularly difficult for young people and for those, which have been unemployed for at least a year.

The *unemployment rate of young people* had increased massively during the economic and financial crisis and reached historical peaks in several Member States. This reflected a greater sensitivity of youth unemployment to developments in economic activity than observed for other age groups, the result of several factors including labour market institutions. [38] As the recovery progressed, the rate started to decline in the second half of 2013, but this decline came to a halt in recent months. Unemployment among young people and even slightly increased in the last months of 2014, being on average in October and November 2014 higher than in the third quarter of 2013 (at respectively 21.9% in the EU and 23.7% in the euro area). Also in relation to the age group, youth unemployment remains high (see Graph I.32).

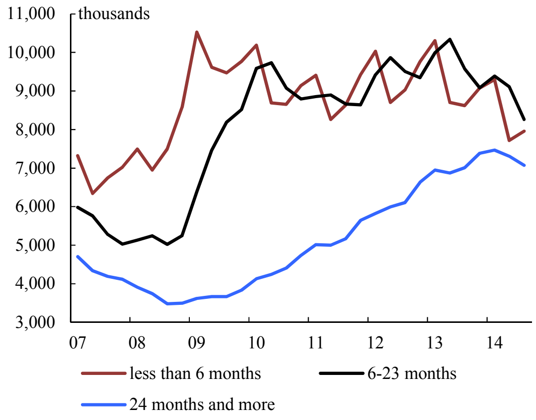
Graph I.32: **Unemployment by age group, EU**



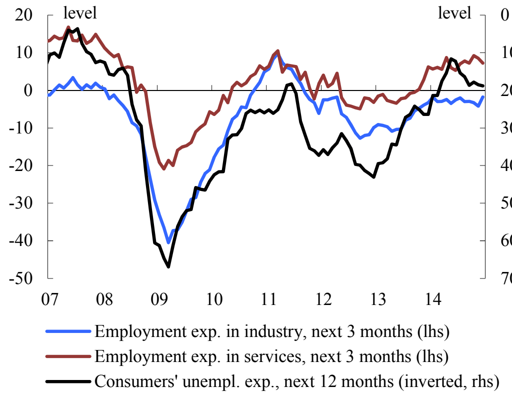
Long-term unemployment has fallen in the third quarter of 2014, but the number of persons with unemployment duration of more than 24 months has almost steadily increased since the beginning of the crisis in 2008 and seems to only start slowly benefitting from the slight improvements that are visible for other unemployment durations (see Graph I.33). This increase in long-term unemployment risks lowering matching efficiency in the period ahead.

(38) See e.g. A. Banerji, H. Lin and S. Saksonovs, Youth unemployment in advanced Europe: Okun's law and beyond, *IMF Working Paper* no. 15/5, January 2015.

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



Graph I.34: **Employment expectations, DG ECFIN surveys, EU**



…and near-term prospects remaining moderately positive.

In the near term, labour markets are expected to strengthen only modestly, mainly reflecting the sluggishness of economic activity. Survey data suggest a stabilisation in labour market conditions in the fourth quarter with some positive signals for the first quarter of 2015.

After having grown since the second quarter of 2013, employment expectations in industry and services moderately fell in spring 2014 (see Graph I.34) rebounding, albeit timidly, in December. In the construction sector, employment expectations continued to grow modestly in recent quarters, but remain at very low levels. By contrast, in the fourth quarter of 2014, hiring intentions in services and industry in the euro area stood slightly below the level of the previous quarter. According to the latest survey readings (December 2014), hiring intentions in the EU were above their long-term averages in all sectors covered by the surveys. In the euro area they remained below the long-term average in the services and construction sectors. Consumers' unemployment fears had been steadily increasing between May and September 2014 and have moved in a narrow range since. So far, the more optimistic view of households about the general economic situation in the next twelve months has not lowered their fears about unemployment.

Overall, in 2014, employment gains are expected to have partly offset the declines of the two preceding years, reaching 0.9% in the EU and 0.5% in the euro area. The unemployment rate is expected to have decreased to an average of 10.2% in the EU and to 11.6% in the euro area.

With growth expected to be too weak for a rapid and massive absorption of excess capacities, further improvements in the labour market are forecast to be limited. In 2015, this is expected to result in employment growth of 0.7% in both the EU and the euro area, and a decline of unemployment rates to below the 10%-level in the EU (9.8%) and to 11.2% in the euro area.

More progress is foreseen from mid-2015 as the recovery strengthens…

The recovery of economic activity is expected to trigger stronger job creation in the second half of 2015 and even more so in 2016. Moreover, major recent reforms in the labour market, particularly in the stressed countries and the moderate degree of recent wage increases should both support job creation over the forecast horizon. [39] On the negative side, the relatively low levels of hours worked compared to the pre-crisis period, could continue to act as a drag on the employment outlook. In 2016, employment is expected to grow by 0.9 % in the EU and by 1.0 % in the euro area. This uptick in employment growth follows the narrowing of the (negative) output gap in both areas and is thus broadly compatible with Okun's law, which quantifies the relationship between changes in output and the change in the unemployment rate.

The labour force is expected to grow moderately over the forecast horizon, mirroring the entrance of certain segments of the population as a result of the improved economic situation and labour

[39] Labour market reforms have been shown to increase activity rates and lower unemployment after some time, see A. Turrini et al., A decade of labour market reforms in the EU: Insights from the LABREF database, *European Economy, Economic Papers* no. 522, July 2014.

Table I.7:
Inflation outlook - euro area and EU

(Annual percentage change)	Euro area				Autumn 2014 forecast			EU				Autumn 2014 forecast		
	2013	2014	2015	2016	2014	2015	2016	2013	2014	2015	2016	2014	2015	2016
Private consumption deflator	1.1	0.5	0.1	1.3	0.6	1.0	1.5	1.2	0.6	0.3	1.4	0.7	1.1	1.6
GDP deflator	1.3	0.8	0.8	1.4	0.9	1.1	1.6	1.4	1.1	1.0	1.4	1.0	1.3	1.7
HICP	1.4	0.4	-0.1	1.3	0.5	0.8	1.5	1.5	0.6	0.2	1.4	0.6	1.0	1.6
Compensation per employee	1.8	1.4	1.3	1.5	1.5	1.6	1.7	1.7	1.6	1.6	1.9	1.7	1.9	2.1
Unit labour costs	1.4	1.1	0.6	0.6	1.1	0.9	0.8	1.4	1.2	0.7	0.7	1.1	1.0	1.0
Import prices of goods	-2.0	-2.1	-1.2	1.1	-1.8	0.8	1.3	-1.7	-1.9	-1.0	1.1	-1.3	0.8	1.2

market conditions, as well as the impact of positive migration flows. The activity rate is expected to increase slightly over the forecast horizon. Labour productivity (output per person employed) is expected to increase gradually over the forecast horizon, reflecting the economic recovery and some lagged response of employment to developments in activity. In 2016, it is set to reach 1.2% and 0.9% in the EU and the euro area respectively.

The unemployment rate in the EU and the euro area is projected to decline somewhat over the forecast horizon, to 9.3% and 10.6% respectively in 2016, which is well above the average levels observed between 2004 and 2008. The overall slow decline in unemployment rates reflects cyclical factors such as a not strong enough recovery, but also the persistence of high structural unemployment. The latter is reflected in the historically high level of the NAWRU (Non Accelerating Wage Rate of Unemployment), which according to the Commission estimates has been increasing since 2009 in both the EU (to 9.0% of the labour force in 2014) and the euro area (to 9.9%). But meanwhile labour market reforms enacted in various Member States after the economic and financial crisis begin to bear fruit. The NAWRU is expected to almost stabilise over the forecast horizon, with a marginal changes in the euro area (+0.1 pp.) and the EU (-0.1 pp.). [40]

...with improvements in all Member States, including the ones suffering most from the crisis.

In 2014, for the first time since the beginning of the economic and financial crisis, a timid convergence in labour market conditions across EU Member States started, with unemployment decreasing also in those Member States that had recorded the highest increases following the sovereign debt crisis (Greece, Spain, Portugal and Cyprus). In November, unemployment rates in those countries were considerably below their summer 2013 peaks. By contrast, the unemployment rate remained broadly stable in low-unemployment countries (such as Germany, Austria or Luxembourg). Looking ahead, labour market differences are expected to continue narrowing over the forecast horizon as the recovery strengthens in most EU Member States. Unemployment rates are expected to decrease in 2016 compared to 2014 in all EU countries except Finland, Luxembourg, and Austria, but differences in levels and in the pace of decline will remain large. Unemployment rates are expected to range from less than 5% in Germany to more than 20% in Greece and Spain in 2016, reflecting the persistence of large unemployment gaps. Recent analysis suggest that the persistence of the large unemployment differentials in the EU after the crisis could spark cross-country labour mobility within the single market, [41] affecting the labour participation rates in the 'sending' and 'receiving' countries in opposite ways.

7. INFLATION

The downward trend of inflation continued in recent months, with the sharp fall in energy prices pushing inflation rates in December 2014 below zero in the EU and the euro area. The outlook of almost zero HICP inflation in 2015 reflects substantially lower energy price levels compared to 2014. The gradual narrowing of the output gap and a substantially lower external value of the euro are expected to have only a partial counter-effect,

[40] According to the Commission's medium-term projections the NAWRU should decline over the next decade; see W. Roeger, ibid, p. 24.

[41] See A. Arpaia et al., Labour mobility and labour market adjustment in the EU, *European Economy Economic Paper* no. 539, December 2014.

with the other components of inflation remaining generally weak throughout 2015.

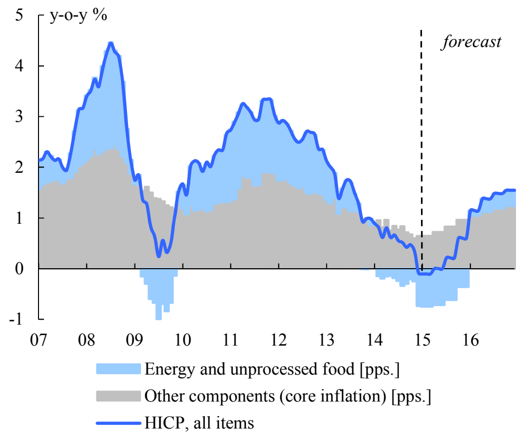
The negative impact of lower energy prices is expected to fade out, and even reverse, in 2016 when the impact of stronger domestic demand, the depreciation of the euro and an assumed gradual recovery in energy prices should push inflation noticeably higher. One upshot of lower energy prices is higher disposable income, which is projected to have a positive impact on private consumption helping to keep some pressure on prices of consumer goods and services which are reflected in core inflation rates, which have remained relatively stable. Of particular concern is the recent marked decline in medium-term and longer-term inflation expectations derived from financial markets although they remain firmly in positive territory and have moved noticeably upwards since the ECB's announcement of quantitative easing on 22 January.

Inflation rates moved into negative territory…

Inflation was very low throughout 2014, with the sharp decline of energy prices pushing headline HICP inflation into negative territory in December. Besides the impact of lower energy prices, the persistence of low inflation can also be associated with a confluence of other factors. First, the decline in global commodity prices other than energy, especially food prices, has played a considerable role in lowering inflation, as seen in sharp falls in unprocessed food prices. Second, in the euro area the impact of the appreciation of the euro against the US dollar earlier in 2014 kept increases in import prices low until the euro depreciation became more pronounced in the second half of the year. Nonetheless, the depreciation of the euro did not offset the impact of the stronger fall in commodity prices since the summer. Third, the remaining slack in the economy and weak domestic demand have kept underlying price pressures low, a fact also reflected in the prices of services and non-energy industrial goods.

Core inflation (all items excluding energy and unprocessed food) resumed its decline in the fourth quarter after it appeared to have stabilised around 1% in the first three quarters of 2014. It has been on a gradual decline since 2012 in both the EU (see Graph I.35) and the euro area. Low core inflation reflects historically low services inflation due to weak demand and contained wage pressures but also steadily declining non-energy industrial goods inflation, which can be attributed to low input prices and declining import prices. In the fourth quarter of 2014, core inflation stood at 0.8% in the EU and 0.7% in the euro area, with services inflation at 1.4% and 1.2% and inflation of non-energy industrial goods at -0.2% and at -0.1%, respectively.

Graph I.35: **Inflation breakdown, EU**



…with the fall in energy prices also affecting external and producer prices…

External price pressures remained remarkably weak in 2014 and have not recovered from the already very low levels in 2013 thanks to the decline in global commodity prices. Import prices (measured by the deflator of goods imports) fell again in 2014, by around 2% in both regions. In the EU and the euro area, the assumed path for global commodity prices is expected to drag down import prices further in 2015, by around 1% in both regions, with the euro depreciation partially dampening the extent of decline. Import prices are then expected to increase by around 1% in 2016 in both regions, consistent with the assumption of a lower external value of the euro.

At the industry level, output price pressures were even more subdued as producer price inflation was consistently and strongly negative throughout 2014. This was evident in producer prices for both the domestic and non-domestic markets. These developments essentially reflected the cheaper inputs due to lower commodity prices but also weak demand. In November, the annual rate of producer price inflation stood at -1.8% in the EU and -1.6% in the euro area, which was in particular strongly driven down by the energy and non-durable consumer goods components. On the other hand, the steep declines in intermediate goods prices moderated, while capital goods prices continued to recover in the second half of the year. Likewise, durable consumer goods recovered and were increasing by around 1% in the fourth quarter, hinting at recovering prices in the final stages of the production chain.

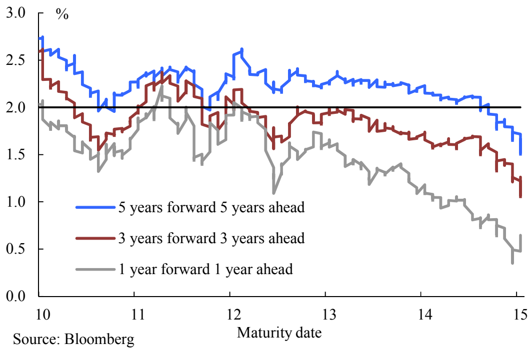
...but the recovery in the labour market will support moderate wage growth.

While high unemployment rates in some Member States are expected to keep a lid on wage pressures, the recuperating employment growth across the EU is projected to sustain positive but moderate wage growth. Data until the third quarter of 2014 do not indicate a slowing in the annual growth rate of wages and salaries throughout the year, but the growth in compensation per employee is projected to have slowed to 1.6% in the EU and 1.4% in the euro area in 2014. Labour productivity growth in 2014 is projected to be 0.4% in the EU and 0.3% in the euro area. In 2015, compensation per head is expected to increase 1.6% in the EU and 1.3% in the euro area while labour productivity is projected to grow by 0.9% and 0.7%, respectively. In 2016, wage growth is expected to slightly increase. With wage growth moderate but an increase in productivity growth expected, the profile of unit labour cost is one of diminishing growth rates. Unit labour costs are projected to decline from 1.2% in 2014 to 0.7% in 2016 in the EU, and from 1.1% to 0.6% in the euro area.

Inflation to fall further before increasing in 2016...

Expectations of future price developments play a major role in the price-setting and wage-bargaining behaviour of economic agents and thus are crucial in explaining overall HICP inflation. Both short- and longer-term inflation expectations implied by financial markets have continued to decline in 2014, especially since October when oil prices declined steeply, but they have rebounded noticeably since the ECB's announcement of its expanded asset purchase programme on 22 January. Nonetheless, inflation expectations still signal low but positive inflation in the years ahead. Inflation-linked swap rates at the one-year-forward-one-year-ahead horizon have fallen steadily since October, dropping below 0.5% in December but recovered to 0.7% in mid-January. Also in mid-January, swap rates at the three-year-forward-three-year-ahead horizon would imply an average inflation rate of 1.4% (taken at face value). The widely watched five-year-forward-five-year-ahead indicator recovered strongly from its low point in January to reach a level at the time of writing that suggests inflation of 1.8 %, a level which minimises concerns about a possible de-anchoring of inflation expectations (see Graph I.36).

Graph I.36: **Inflation expectations derived from implied forward inflation-linked swap rates**



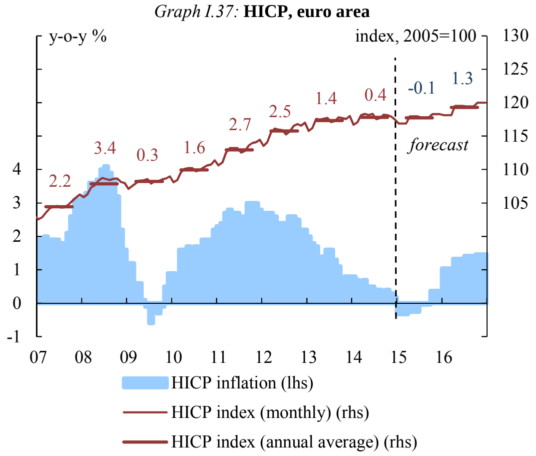
Source: Bloomberg

As regards the near term, the European Commission's survey indicators have been mixed. Until December, consumers' inflation expectations in both the EU and the euro area continued to fall, reaching their lowest levels in almost four years. Industry selling price expectations fell strongly, especially in November and December but the negative reading is still far from the lowest levels reached in 2009. While the readings of the construction and retail sectors' selling price expectations remained in negative territory, the trend has been improving somewhat, meaning that fewer operators expect to reduce their prices. On the other hand, since the second half of 2014 the services sector has been increasingly expecting to raise prices, suggesting that underlying price pressures in the economy are not weakening across the board.

The assumed path of commodity prices and, to a less extent, the remaining slack in the economy is expected to continue dampening the inflation outlook for the rest of 2015. The steep decline in energy prices in the second half of 2014 and the assumed path of oil prices will entail negative effects in the HICP energy component for most of 2015. This effect is expected to outweigh the upward pressure on imported prices because of the euro's depreciation. Nonetheless the impact of the lower euro and the narrowing of the output gap are expected to limit declines in the other HICP components. Overall, inflation rates are projected to be negative in the first half of 2015 but to rebound towards 0.6% in the EU and 0.4% in the euro area in the fourth quarter of 2015 (see Graph I.37).

In 2016, a gradual increase in the assumed path for both energy and non-energy commodity prices should have the opposite effects, thus driving inflation higher. This upward effect on the inflation rate should work in tandem with underlying price pressures building up due to stronger domestic demand and the lower euro filtering through to higher consumer prices. However, due to the subdued pace of the recovery in most Member States, some economic slack is expected to remain which should keep headline inflation at 1.5% in both regions in the fourth quarter of 2016.

Graph I.37: **HICP, euro area**

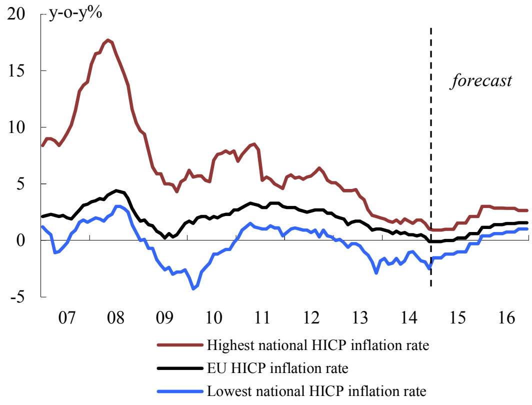


...with low inflation even in countries that register relatively high economic growth.

The HICP aggregate hides inflation differentials across EU Member States (see Graph I.38). In 2014, HICP inflation rates in the Member States are expected to range from -1.6% in Bulgaria to 1.5% in Austria and the UK. In some Member States, quarterly inflation rates were below zero for most of 2014, especially in Portugal, Greece, Slovakia and Bulgaria. In the first half of 2015, more EU Member States are expected to see negative inflation rates due to the sheer decline in energy prices, before inflation rates should move up again in 2016.

Such price adjustments should help restore international price competitiveness, especially for those countries undergoing a deep economic restructuring, although such adjustment could hinders relative price adjustment within the euro area.

Graph I.38: **Inflation dispersion of EU Member States - HICP inflation rates**



8. PUBLIC FINANCES IN THE EU

Headline deficits continue falling...

The significant fiscal effort undertaken since 2010 in the EU and the euro area is starting to bear fruits. In 2014, the general government deficit is projected to have reached 3.0% and 2.6% of GDP respectively. This reflects both consolidation measures implemented by Member States and the improvements in the general economic situation. For the first time since 2008, the EU headline deficit is expected to have reached the Treaty reference value, although the annual reduction of about 0.3% of GDP in both the EU and the euro area would be smaller than in the preceding year.

In 2015 and 2016, headline deficits are expected to continue declining, supported by the further progressing economic recovery. In 2015, the headline deficit is projected to fall to 2.6% of GDP in the EU and 2.2% of GDP in the euro area. Under a no-policy-change assumption, general government deficits are projected to decline to 2.2% and 1.9% of GDP in the EU and the euro area in 2016 (Graph I.39).

...reflecting a broadly neutral fiscal stance in 2014 and 2015.

After a substantial adjustment over the past few years, the fiscal policy stance is expected to have been broadly neutral in 2014. Following the sizeable decrease observed in the period 2011-2013, the structural deficit (i.e. the general government deficit corrected for cyclical factors, one-offs and other temporary measures) is expected to have remained broadly stable in 2014 in the EU and slightly declined in the euro area.

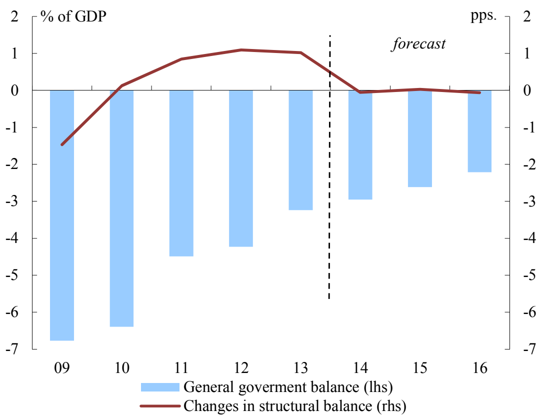
Table I.8:
General Government budgetary position - euro area and EU

(% of GDP)	Euro area				Autumn 2014 forecast			EU				Autumn 2014 forecast		
	2013	2014	2015	2016	*2014*	*2015*	*2016*	2013	2014	2015	2016	*2014*	*2015*	*2016*
Total receipts (1)	46.5	46.6	46.6	46.4	*46.7*	*46.7*	*46.4*	45.4	45.2	45.0	44.8	*45.2*	*45.0*	*44.8*
Total expenditure (2)	49.4	49.2	48.8	48.3	*49.3*	*49.0*	*48.5*	48.6	48.1	47.6	47.0	*48.2*	*47.8*	*47.1*
Actual balance (3) = (1)-(2)	-2.9	-2.6	-2.2	-1.9	*-2.6*	*-2.4*	*-2.1*	-3.2	-3.0	-2.6	-2.2	*-3.0*	*-2.7*	*-2.3*
Interest expenditure (4)	2.8	2.7	2.5	2.5	*2.7*	*2.7*	*2.6*	2.7	2.6	2.5	2.4	*2.6*	*2.5*	*2.5*
Primary balance (5) = (3)+(4)	-0.1	0.1	0.4	0.6	*0.1*	*0.3*	*0.5*	-0.5	-0.4	-0.1	0.2	*-0.5*	*-0.2*	*0.2*
Cyclically-adjusted budget balance	-1.2	-1.1	-1.0	-1.2	*-1.1*	*-1.1*	*-1.4*	-1.7	-1.6	-1.7	-1.8	*-1.8*	*-1.8*	*-1.8*
Cyclically-adjusted primary balance	1.5	1.6	1.6	1.3	*1.6*	*1.5*	*1.3*	1.0	0.9	0.8	0.7	*0.8*	*0.8*	*0.7*
Structural budget balance	-1.2	-1.0	-1.0	-1.2	*-1.1*	*-1.1*	*-1.3*	-1.7	-1.7	-1.7	-1.7	*-1.8*	*-1.8*	*-1.8*
Change in structural budget balance	0.9	0.1	0.1	-0.3	*0.1*	*0.0*	*-0.2*	1.0	-0.1	0.0	-0.1	*-0.1*	*0.0*	*0.0*
Gross debt	93.1	94.3	94.4	93.2	*94.5*	*94.8*	*93.8*	87.1	88.4	88.3	87.6	*88.1*	*88.3*	*87.6*

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

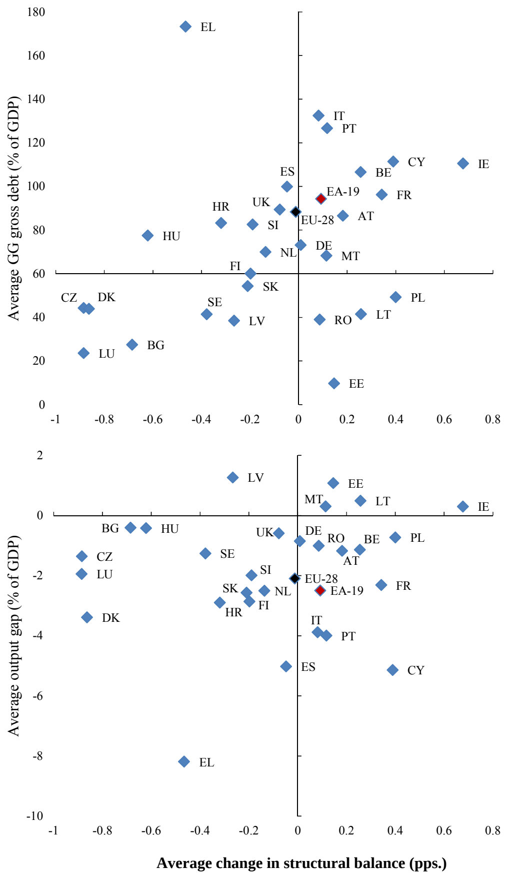
The difference between both areas is due to a sizeable deterioration in the structural balance in some Member States outside the euro area, in particular Bulgaria, Hungary, Sweden, the Czech Republic and the United Kingdom. In 2015, the structural deficit is projected to remain roughly stable in both the EU and the euro area.

Graph I.39: **Budgetary developments, EU**



Notwithstanding the envisaged broadly neutral fiscal stance expected in 2014 and 2015, there are important differences among countries. On average, thirteen EU Member States are set to improve their structural balances in these two years (Graph I.40). For the vast majority of these countries, this fiscal effort is expected to be lower than 0.5% of GDP, with Ireland delivering the highest average change in the structural balance (0.7% of GDP) over 2014-15. In turn, the remaining fifteen EU Member States are on average expected to loosen their fiscal policies over 2014-15 with a considerable loosening of more than an average of 0.5% of GDP in five Member States (Luxembourg, the Czech Republic, Denmark, Bulgaria and Hungary).

Graph I.40: **Fiscal stance in the EU in 2014-2015 – structural balance vs. debt ratio and output gap**



Decrease in both government expenditure and tax revenue to GDP ratios…

As regards the composition of public finances, while fiscal consolidation was largely revenue-based in 2013, lower government expenditure is

Table I.9:
Euro-area debt dynamics

	average 2004-10	2011	2012	2013	2014	2015	2016
Gross debt ratio[1] (% of GDP)	**71.3**	**86.4**	**90.8**	**93.1**	**94.3**	**94.4**	**93.2**
Change in the ratio	2.1	2.6	4.5	2.3	1.2	0.1	-1.2
Contributions to the change in the ratio:							
1. Primary balance	**0.2**	**1.2**	**0.6**	**0.1**	**-0.1**	**-0.4**	**-0.6**
2. "Snow-ball" effect[2]	**0.6**	**0.8**	**2.5**	**2.0**	**1.2**	**0.5**	**-0.5**
Of which:							
Interest expenditure	2.9	3.0	3.0	2.8	2.7	2.6	2.5
Growth effect	-2.1	-1.3	0.6	0.4	-0.8	-1.2	-1.8
Inflation effect	-0.3	-0.9	-1.1	-1.2	-0.8	-0.8	-1.3
3. Stock-flow adjustment	**1.2**	**0.7**	**1.3**	**0.1**	**0.2**	**-0.1**	**0.0**

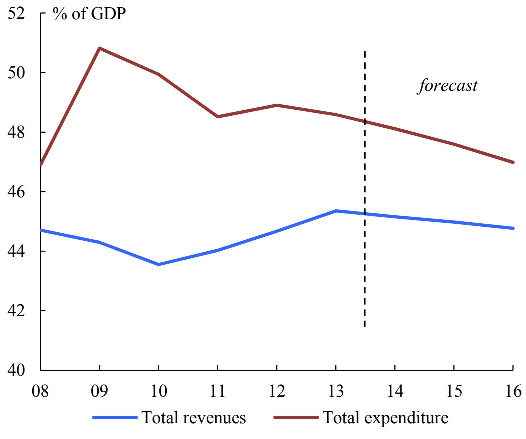
1 End of period.

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.

set to have become its main driving factor as of 2014 in both the EU and the euro area.

The revenue-to-GDP ratio in the EU peaked at 45.4% in 2013 and is expected to gradually decrease over the forecast horizon (see Graph I.41). In the euro area, however, revenues are projected to have still slightly increased to 46.6% of GDP in 2014, largely due to by broad-based higher revenues from indirect taxes stemming from the acceleration of private consumption. The revenue ratio in the euro area is set to stabilise in 2015 and to decrease in 2016 on the back of lower net social contributions. In a number of countries, reforms to reduce the tax wedge on labour are expected to contribute to this effect and to play a role in raising employment and supporting economic activity.

Graph I.41: **General government revenues and expenditure, EU**



The expenditure-to-GDP ratio is projected to remain on a downward path in the EU over the forecast horizon, from 48.1% in 2014, to 47.0% in 2016, mainly benefiting from cost-containment in public wages and lower interest expenditure, as well as the operation of automatic stabilisers with lower spending, owing to the expected strengthening of economic activity. Similarly, the expenditure ratio is also set to decrease in the euro area, from 49.2% in 2014, to 48.3% in 2016, mainly as a result of lower interest payments, as well as cost-containment in public wages and, to a lesser extent, public investment. Low and decreasing public investment ratios are set to weigh on GDP growth in the short run and to reduce the medium-term growth potential.

...and public debt ratio peaking in 2015 in the euro area.

The debt-to-GDP ratio is expected to have continued increasing in 2014, albeit at a slower pace than in previous years, reaching 88.4% and 94.3% in the EU and the euro area respectively (see Table I.8). In the euro area, the combined debt-reducing effects of nominal growth and the primary surplus are projected to be stronger than in previous years. This is because the smaller debt-reducing effect stemming from lower inflation has been more than compensated by higher real GDP growth, while also the primary balance improved somewhat compared to 2013. On the other hand, the interest burden on the high debt level keeps the debt ratio on an upward path, even if interest rates are at historically low levels and interest expenditure has come down somewhat compared to previous years.

In 2015, gross debt is forecast to slightly decrease to 88.3% of GDP in the EU, while peaking at 94.4% of GDP in the euro area. The expected continued increase in the primary surplus, combined with a further strengthening of nominal GDP growth – whereby the further decline in inflation related, amongst others, to the low oil prices is more than compensated by the further gradual recovery of real GDP growth –, is set to further contribute to the decline of the debt ratio. However, all factors considered, the debt ratio is still expected to rise in the euro area in 2015, reflecting the impact of interest rate expenditure despite their ongoing decline as a percentage of GDP in the wake of a further decline in interest rates. In 2016, the debt ratio is projected to fall, mainly on the back of the projected pick-up in inflation and accelerating economic activity.

9. RISKS

The uncertainty surrounding these projections is substantial, as risks to growth and inflation have recently changed composition and size. Downside risks to the growth outlook from economic, political and financial developments have intensified since the autumn, but some new upside risks have also emerged recently. Also new upside and downside risks to the inflation outlook have appeared since autumn.

The growth outlook is subject to considerable uncertainty…

Downside risks to the outlook for the EU economy include geo-political risks, which are still high as tensions related to the Russia-Ukraine conflict could increase. The economic impact of sanctions against Russia and its counter-sanctions could be larger than expected, in particular as sanctions could remain effective for longer than currently assumed. Stronger negative effects on EU growth could also emerge from further intensified conflicts in the MENA region (including Iraq and Syria).

In financial markets, the risk of renewed episodes of financial volatility remains present and could weigh on economic growth in the EU. Triggers could be increased political uncertainty, for instance associated with developments in Greece, renewed doubts about sovereign debt sustainability, in particular if nominal growth rates stay low and policy reforms slow. Also, the expected normalisation of monetary policy in the US could increase global risk aversion that would reduce the outlook for global growth and delay the healing of financial frictions in the EU.

Delayed or only partial implementation of structural, fiscal and institutional reforms by Member States or at the EU level would be detrimental for EU growth. Also, lower-than-expected inflation could have a negative impact on economic activity by making deleveraging more difficult as the fall in inflation expectations raises the real interest rate. This would lead to a decline in private consumption and investment demand. Risk of second-round effects are also non negligible; they could materialise, in particular, into slower wage growth.

Sluggish growth in the EU could turn into a long period of very low growth. Medium-term projections foreseeing a recovery of potential growth are largely based on three assumptions. [42] First, the high unemployment rate will not lead to long-lasting hysteresis effects. Second, more than half of the TFP growth decline since the crisis will be recovered in the medium term. And third, households and firms will make use of investment opportunities as they arise, but will not benefit from further reductions in capital cost. Under these conditions protracted low growth would be avoided.

However, looking at the supply-side factors, there are two downside risks. First, hysteresis effects could last longer than assumed. Second, the projected recovery of trend TFP growth could not occur or be postponed. On the demand side, the risk is related to the debt overhang and deleveraging needs in some euro-area countries, which could remain high, particularly in an environment of falling inflation. As a result, any materialisation of these downside risks could push the EU economy into a protracted period of low growth and low inflation.

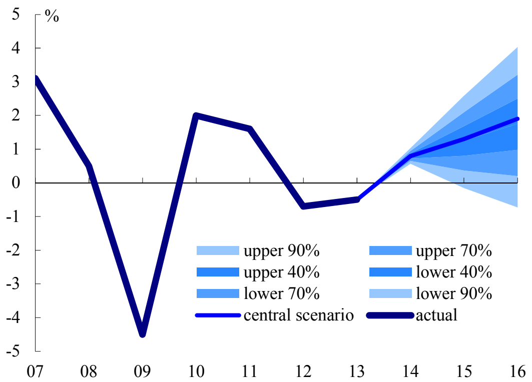
Upside risks to the growth outlook include a stronger-than expected boost to EU growth and to global growth from lower oil prices. Also, a stronger-than-assumed depreciation of the euro, possibly related to quantitative easing, would further strengthen EU firms' price competitiveness and have a more favourable impact on EU exports. Another positive shock to EU exports could originate from a stronger-than-expected acceleration of global output and/or global trade (e.g. due to a higher-than-assumed trade intensity of global growth). A faster-than-expected revival of investment expansion could be induced by the EU Investment Plan. Successful structural reforms

[42] For a detailed analysis, see W. Roeger, ibid.

could lead to a quicker-than-expected recovery in labour markets, which would support disposable incomes and thereby domestic demand. Confidence and growth could also rebound if the conflict in Ukraine eases.

Overall, the uncertainty around the growth projections is larger than at the time of the autumn forecast. This is visualised in the fan chart (see Graph I.42) that depicts the probabilities associated with various outcomes for euro-area economic growth over the forecast horizon. While the darkest area indicates the most likely development, the shaded areas represent the different probabilities of future economic growth within the growth ranges given on the y-axis. As downside risks have intensified, and new upside risks have emerged, the fan chart remains skewed towards the bottom.

Graph I.42: **Euro area GDP forecast - Uncertainty linked to the balance of risks**



…while new upside and downside risks to the inflation outlook have appeared.

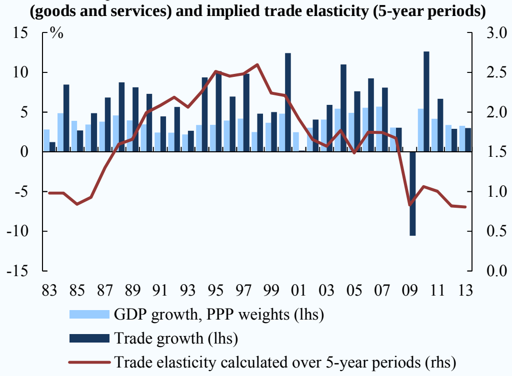
On the downside, risks to the inflation outlook stem from a further fall in oil prices. With lower oil and other commodity prices, inflation rates could remain negative longer than expected. It could also lead to negative indirect price effects, which could add downside pressure on inflation rates in the short-term. Moreover, long-term market-based inflation expectations appear to have recently become more responsive to economic news and are currently at very low levels. A protracted period of very low or negative inflation would increase the risk of a further decline of longer-term inflation expectations and of negative second-round effects on income. If these risks materialised, the probability of outright deflation (i.e. a fall in prices in a self-sustaining and broad-based sense) would increase. However, the risk of a deflationary spiral where lower inflation leads to second round effects remains limited especially in the context of improving domestic demand, a lower euro making import prices higher and further monetary policy easing.

On the upside, risks to the inflation outlook stem from a further depreciation of the euro or from a faster-than-expected recovery, which could add positive price pressures. Also, upward pressures on oil prices, for instance originating from reduced exploration or continued unrest or military actions in oil-exporting countries, could push inflation higher than expected.

Box I.1: Understanding the weakness in global trade

World trade has been remarkably sluggish in recent years. Annual trade growth slowed from an average of some 6% per year in the period 1970-2007 to only about 3% in 2008-2013. In contrast to the two decades preceding the 2008 crisis, which saw trade expand nearly twice as fast as GDP [(1)], elasticity of trade with respect to economic growth has been depressed since 2009, with trade expanding broadly in line, or even less than global GDP (see Graph 1).

Graph 1: **Growth of world GDP and trade volumes (goods and services) and implied trade elasticity (5-year periods)**



Source: IMF WEO, October 2014

Lower global trade growth rates and trade elasticities compared to past trends resulted in recurrent downward revisions of trade forecasts, including those of the European Commission Downward revisions to trade have been partly linked to disappointments in GDP growth, but revisions to the trade outlook have been much sharper than for GDP, reflecting the pronounced drop in the observed elasticity of trade to GDP.

This box discusses some of the factors behind the current weakness in trade, distinguishing between those factors related to the weakness in global demand since the crisis that will likely prove temporary, and those factors which may be more structural (and therefore permanent) in nature. [(2)]

Weak demand and geographical patterns of trade weakness

While global trade has become significantly less responsive to global output over the last 15 years, the crisis intensified the decline, bringing the elasticity from its peak of 2.6 in 1998 down to 0.8 in 2012/2013 (see Graph 1). This trend highlights the potential role of both longer-term, structural factors in addition to the cyclical downturn, in explaining the changing patterns of global trade flows.

However, the overall decline hides sizable regional differences that may shed light on the role of the various factors at play. A preliminary look at regional elasticities calculated over 5-year periods (see Graph 2) suggests that the responsiveness of trade to GDP growth has varied widely across countries and regions, with some showing a sharp fall in elasticity and others a robust increase. Elasticities have declined most in emerging Asia (China, ASEAN), Latin America and the US, with the downward trend evident even before the crisis. Elasticity fell particularly sharply in the US — from 3 (1999-2003) to 0.6 (2009-2013), and China — from 2.0 to 1.0 over the same period. On the other hand, the EU is the only major region where elasticity, very high historically, actually grew in the most recent period, reaching 3.5 on average in 2009-2013.

Developments in the US and China are particularly significant for the global outlook, given the importance of both countries for world trade coupled with the discernible change in their trend responsiveness of imports to output. Falling trade elasticity in the US may be a longer-term phenomenon, as the country makes progress towards energy self-sufficiency. Moreover, anecdotal evidence suggests that the pace of international fragmentation of production fuelled by American companies in the decade prior to the crisis, slowed considerably [(3)], thereby contributing to the trend decline in imports. The trade elasticity

(1) Throughout the box, GDP aggregates are weighted using PPP weights, while trade aggregates are weighted using market exchange rates — to ensure consistency with the forecast. While the consistent use of market exchange rates for both aggregates leads to a less pronounced decline in trade elasticity in the recent period (due to lower exchange-rate-weighted GDP growth), it does not change the arguments developed in the box or conclusions, as these refer predominantly to individual countries, where weighting is not relevant.

(2) Inevitably, given the relatively recent drop in the elasticity of trade to GDP, empirical evidence is still rather mixed and only very tentative conclusions can be drawn on the implications for forecasts of trade and the relationship between trade and GDP growth.

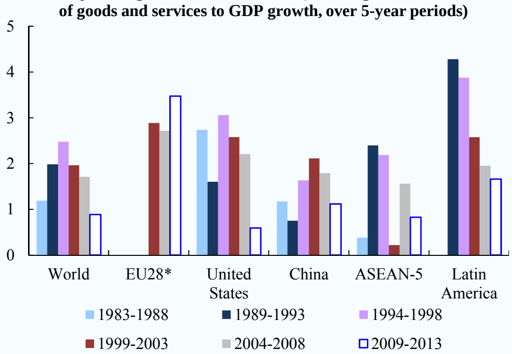
(3) Constantinescu, C., A. Matteoo, amd M. Ruta, (2014) 'Slow Trade' *Finance & Development*, Dec, IMF.

(Continued on the next page)

Box (continued)

of Chinese GDP began to moderate in the mid-2000s, and declined to roughly 1.0 in the most recent period. As evidence is emerging that China's role in international supply chains matured in the mid-2000s and China's growth outlook moderates [4], advances in the country's trade elasticity could be expected to slow permanently (see Graph 2).

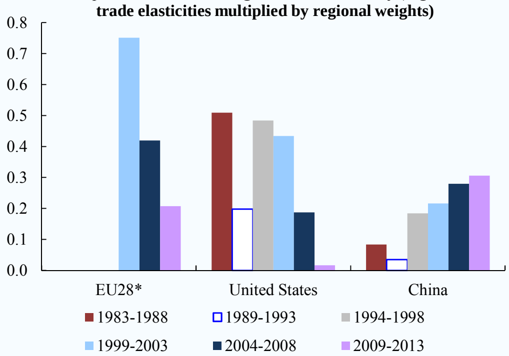
Graph 2: **Regional trade elasticities (ratio of growth in trade of goods and services to GDP growth, over 5-year periods)**



*incl. intra-EU trade
Source: IMF WEO Oct 2014, *European Commission

However, developments in **global** trade elasticity reflect not only changes in regional elasticities but also the changing geographical patterns of global activity. The recent crisis hit advanced economies with the highest shares in world trade disproportionately hard, implying a sharp decrease in their contribution to global trade flows. This is particularly the case for the EU, whose contribution to world trade elasticity has fallen sharply as weak economic growth since the crisis has compounded a three-decades' long decline in global trade shares. [5] Graph 3 presents the evolution of contributions to world trade elasticity from three major global players: the EU, US and China with very different underlying dynamics. While the EU's contribution has gone down significantly over the last two decades, this has been a result of a sharp decline in the region's weight in global activity rather than its elasticity per se (see Graph 2). On the other hand, the fall in the contribution from the US is a result of both falling weights, and a decline in the elasticity itself. By contrast, the steady increase in the contribution from China comes from a sharp increase in the country's weight, coupled with a lower elasticity.

Graph 3: **Contribution to global trade elasticity (regional trade elasticities multiplied by regional weights)**



*incl. intra-EU trade
Source: IMF WEO Oct 2014, OECD, *European Commission

While the cyclical upturn will lead to a gradual rebound in contributions from the highly-trade-intensive EU economies, it may not, however, be enough to lift the US' contribution, where a structural change in responsiveness of growth to trade seems to be underway.

Weak demand and shifts in composition

Another potential factor behind sluggish trade is related to cyclical changes in the composition of demand. Investment, the most trade-intensive component of domestic demand, collapsed during the crisis and has been persistently weak throughout the recovery — particularly in advanced economies. The investment shortfall has translated directly into lower import demand, and given the importance of the countries affected most, has continued to act as a severe drag on global trade flows.

Although cyclical factors weighing on global trade, such as weak demand and a cyclical shortfall in investment in advanced economies explain a sizable portion of the current weakness in trade, mounting evidence suggests that they cannot fully explain the extent of the slowdown, especially since 2012. A study by Constantinescu *et al* (2014) finds that short-term factors (including weak demand) were dominant during the crisis and the first year of recovery, but their influence weakened later between 2012-2013, when long-term, structural components became relatively more important. Similarly, a study by Boz *et al* (2014) [6]

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(4) IMF (2015),'What lies Behind the Global Trade Slowdown?' *Global Economic Prospects*, Jan 2015.

(5) Global trade elasticity σ_W can be decomposed as a weighted average of *n* regional trade elasticites:

$$\frac{\Delta m_W}{m_W} = \frac{\Delta y_W}{y_W}\sigma_W = \frac{\Delta y_W}{y_W}\left(\sigma_1 \frac{m_1}{m_W}\frac{\frac{\Delta y_1}{y_1}}{\frac{\Delta y_W}{y_W}} + \sigma_2 \frac{m_2}{m_W}\frac{\frac{\Delta y_2}{y_2}}{\frac{\Delta y_W}{y_W}} + \cdots + \sigma_n \frac{m_n}{m_W}\frac{\frac{\Delta y_n}{y_n}}{\frac{\Delta y_W}{y_W}}\right)$$

with weights equal to the product of regional trade shares in total world trade and the ratio of regional output growth to world output growth.

(6) Boz E., M. Bussiere and C. Marsili, 2014, 'Recent slowdown in global trade: Cyclical or structural', http://www.voxeu.org.

(Continued on the next page)

Box (continued)

finds that around half of the slowdown in trade can be explained by cyclical factors with the remaining half due to structural factors.

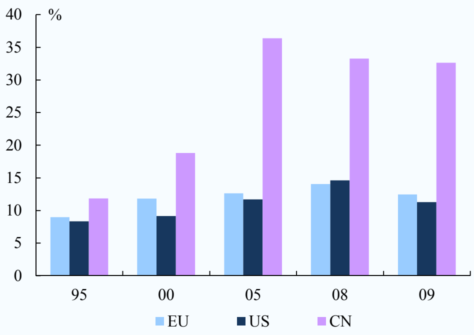
The potential role of global value chains

Trade patterns in the world economy have been changing over the last few decades, reflecting new production structures influenced by new technologies, increased demand for product diversification, and gradual integration of economies into global production chains. This trend supported by trade liberalisation and decreasing transportation and telecommunication costs, contributed to the rising importance of trade to GDP in most economies, including the EU. Such an economic environment has created increased opportunities to reallocate parts of the domestic production process abroad.

The increasing spread of global value chains (GVCs) has been one of the most prominent features of the global economy for the last three decades. Production of goods and services is sliced into stages so that inputs can be sourced from the most efficient producers, who may be located anywhere in the world. The dynamic development of global supply chains before the crisis and potentially some consolidation afterwards is one of the structural factors that could partly explain the current sluggishness in world trade.

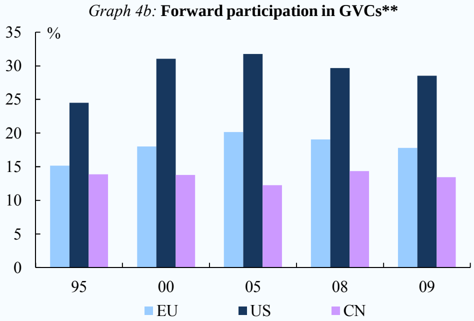
China seems to have driven the structural shifts in international trade since the 1990s. Foreign value added [7] content of Chinese exports tripled from 11% in 1995 to 33% in 2009 (see Graph 4a), reflecting China's raising integration into GVCs. The WTO accession of China in 2001 accelerated this process, with the foreign content of its exports increasing from 19% in 2000 to 36% in 2005. However, the process reversed with the domestic value added content of exports increasing slightly between 2005 and 2009, suggesting that China has been moving up the value chain. The participation of the US in GVCs mirrors to some extent the structural changes driven by China. The so called 'forward participation in GVCs' of the US (see Graph 4b) increased up to 2005 but diminished somewhat thereafter. The same is true for the EU. These findings confirm that some structural shifts within such value chains were already taking place before the crisis.

Graph 4a: **Backward participation in GVCs***



* The indicator measures the value of imported inputs in the overall exports of a country (the remainder being the domestic content of

Graph 4b: **Forward participation in GVCs****



**Forward participation provides the share of exported goods and services used as imported inputs to produce other countries' exports. This indicator gives an indication of the contribution of domestically produced intermediates to exports in third countries.
Source: TiVA data base

Despite data limitations in global value terms for the post-crisis period [8], it can be argued that given the ongoing rebalancing of the Chinese economy, the process has continued, lowering the responsiveness of trade to GDP in the recent period. Finally, the overall participation of the EU in GVCs masks large differences between MS, but it should be noted that the EU managed to develop both global and regional value chains. Outsourcing has been supported by the gradual economic integration of countries in Central and Eastern Europe since the mid-1990s. The more intense trade flows of parts and components between Member States should have contributed to stronger trade responsiveness to growth. This is mirrored in the increased trade elasticity in the EU in this period as presented in the previous section.

To conclude, the proliferation of global value chains, in particular in the 1990s, were likely responsible for the strong global elasticity of trade at that time. These dynamics, however, have diminished since the mid-2000s and were interrupted by the global crisis. Moreover, other factors including volatile capital flows in the post-

(7) TiVA data base developed by the OECD and WTO provides a wide range of indicators expressed in VA terms: http://www.oecd.org/industry/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm.

(8) Data in VA terms is available only until 2009. http://stats.oecd.org/Index.aspx?DataSetCode=TIVA_OECD_WTO.

(Continued on the next page)

Box (continued)

crisis period point to the fact that the framework conditions were not supportive to boost further integration into global value chains.

Trade policy arguments

Trade policy arguments, including the slowdown in multilateral trade liberalisation and new protectionism after the crisis, are sometimes raised in the context of the recent slowdown in international trade dynamics. Indeed, relatively little progress has been made in multilateral trade negotiations over the last decade. This contrasts in particular with the nineties, when significant cut in tariff barriers was achieved.

Rising protectionism since the global crisis is another argument put forward to explain the underperformance of global trade. Several initiatives focused on monitoring this phenomenon have been put in place since the outbreak of the financial crisis. [9] These regularly updated reports point to an increase in the absolute number of protectionist measures. [10]

Table 1:

Trade restrictive measures- an overview

New measures: mid-Nov 2013 to mid-May 2014	112
New measures in the prevoius period: mid-May 2013 to mid-Nov 2013	116
TOTAL since October 2008	**1185**
Removed measures	251
Remaining mesures	934

Source: WTO

Important caveats should be taken into account: non-tariff barriers to trade, which are often the biggest obstacles, are more difficult to quantify and information provided to the WTO is often not sufficient to assess their significance. Still, the measures introduced after 2008 concern a limited share of global trade. According to the 2014 WTO report on G20 trade and investment measures, import restrictive measures introduced since October 2008, excluding those measures that have been reported as terminated, are estimated to cover around 4.1% of world merchandise imports and 5.2% of G-20 imports. Therefore, while the stock of new trade-restrictive measures has continued to rise, the overall trade policy response to the 2008 crisis has been contained and the multilateral trading system seems to have acted as an effective backstop against protectionism. [11]

All in all, lower dynamics in multilateral trade liberalisation and subtle protectionism in the aftermath of the global crisis could have added to the sluggishness in global trade growth but their exact impact is difficult to establish, given the relatively short time period of the observed flatness in global trade between 2012 and 2014.

Conclusions

Evidence presented in this box suggests that the sharp downturn and drawn-out recovery in advanced economies, has weighed heavily on world trade (and trade elasiticities). However, as the recovery progresses, demand for imports should rebound. A good part of the weakness in investment — the most trade-intensive GDP component — also appears to be cyclical. As growth firms in advanced economies, rebounding investment is set to support trade flows.

However, weak post-crisis demand explains only part of the observed weakness in trade and evidence grows of structural changes in the trade-to-GDP relationship, which may have begun to set in before the crisis. The high responsiveness of trade to output recorded in the 1990s and the first half of the 2000s reflected, to a large extent, the proliferation of global value chains and the integration of China into the world economy. Trade elasticity began to moderate in China from 2005 and failed to regain its impetus from the prior period. As evidence is emerging that China's role in international supply chains matured in the mid-2000s and its growth outlook moderates, the country's contribution to world trade is likely to be less spectacular than in the past. Similarly, the current weakness in trade elasticity in the US may be a longer-term phenomenon.

These trends suggest a cautious approach to forecasting a strong rebound in trade elasticities in the near term. While the projected global recovery, including in the EU, should gradually boost trade growth, trade elasticities may not return to their heights of the late 1990s and early 2000s.

(9) The WTO produces two set of reports that give an overview of protectionist measures introduced after the crisis: the first set of reports published twice a year covers all 160 WTO Members and the second initiative (joint project with the OECD and UNCTAD) covers G20 economies. The Global Trade Alert developed by CEPR is another initiative that complements the WTO effort in this respect, drawing upon expertise from independent research institutes in seven regions.

(10) WTO, OECD and UNCTAD (2014) Report on G-20 trade and investment measures.

(11) WTO (2014) Overview of Developments in the International Trading Environment, Annual Report by the DG .

Box I.2: Impact of euro exchange rate movements

Fluctuations in nominal exchange rates affect the economy through a number of channels. To the extent that they impact on real exchange rates, they may generate expenditure switching effects between foreign and domestic goods both at home and in trade partners, thus affecting net exports. To the degree that nominal exchange rate changes are absorbed by importers/exporters rather than passed on to relative prices, they may affect firms' profit margins, with possible second-round effects on investment.

In order to assess the impact of the euro's exchange rate movements, this box first summarises recent developments in the euro's exchange rate. It then assesses individual Member States' exposure to the euro's movements and discusses how global value chains affect the link between exchange rates and trade. Finally, the box analyses the impact of the recent depreciation of the euro on prices in the euro area and what it may imply for developments in exports and GDP.

Recent exchange rate developments

Between spring 2014 and late January 2015, the euro depreciated by almost 20% against the US dollar and by about 10% against the British pound, driven by increasingly diverging monetary policy stances [(1)] and growth dynamics. Since 15 January, the euro also depreciated by about 15% against the Swiss franc, after the Swiss National Bank decided to discontinue its exchange rate cap against the euro. By contrast, monetary accommodation in Japan limited the euro's depreciation against the yen, while the economic and political situation in Russia caused the euro to appreciate by more than 50% against the Russian rouble.

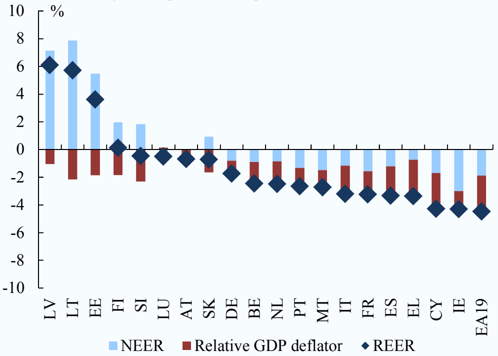
In nominal-effective terms [(2)], the euro depreciated by about 5% between its peak in March 2014 and late January 2015 and is trading close to its long-term average (1999-2013). In real-effective terms, the euro fell by some 4% from March to December 2014 (latest data available) to slightly below its long-term average, as weak cost and price pressures in the euro area added to nominal exchange rate-induced gains in price competitiveness against non-euro area trading partners.

The exposure to exchange rate fluctuations differs across Member States

The exposure of individual Member States to movements in the euro's exchange rate depends on how much they trade with non-euro area countries, the geographical orientation of such trade, and the euro's movements against the respective trade partners' currencies. While openness to non-euro area countries identifies the share of the economy that is exposed to currency fluctuations, the changes in country-specific nominal-effective exchange rates (NEERs) point to the direction and size of the shock.

Exports to non-euro area countries (goods and services) scaled to GDP are highest in Malta, Luxembourg and Ireland, and lowest in Spain, Portugal and France. Between March and December 2014, strong trade ties to Russia resulted in a significant appreciation of the NEER in Lithuania, Latvia and Estonia (6–8%), and to a lower extent in Finland and Slovenia (see Graph 1). By contrast, more intensive trade with the US and the UK explains the marked depreciation of the NEER in Ireland (3%). Larger Member States such as Germany, France, Italy and Spain with more diversified trade exposures have experienced a more modest depreciation of their NEERs over the same period. Low inflation relative to trading partners has increased the competitiveness of all euro area Member States.

Graph 1: **Real and nominal effective exchange rates, monthly averages (% change March - December 2014)**



The role of global value chains

The analysis of countries' relative openness to non-euro area trade comes with an important qualification: the indicator is based on gross exports, which may contain significant shares of

(1) For example, the euro weakened significantly in the run-up to and after the announcement of the ECB's asset purchase programme on 22 January.

(2) The nominal effective exchange rate (NEER) used by the Commission is a weighted average of bilateral exchange rates (monthly averages) against 42 trading partners, using double export weights. The European Commission's NEER may differ from other institutions' measures depending on the reference group and weighting methodology.

(Continued on the next page)

Box (continued)

imported intermediate inputs, i.e. value added sourced from abroad. Re-exportation of imported inputs inflates the measure of openness, so that the exposure to exchange rate fluctuations looks higher than it is. On average, about one third of euro area Member States' gross exports consist of imported inputs. The share of imported intermediate inputs on gross exports of larger Member States is typically lower than in smaller ones.

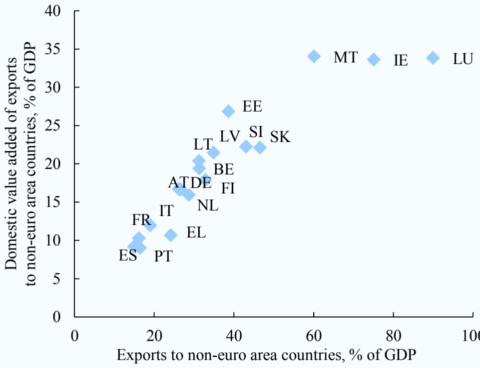
The use of foreign inputs may partly offset the impact of exchange rate fluctuations on exports. While a depreciation of the euro lowers the relative cost of local inputs, it raises the cost of foreign intermediate inputs.

Global value-added data from 2009 show that in value-added terms, i.e. discounting for imported inputs, exports to non-euro area countries contribute less than 15% to GDP in France, Greece, Italy, Portugal, and Spain (see Graph 2). Domestic demand and intra-euro area trade are more dominant drivers of GDP in these countries. However, in small economies such as Malta, Luxembourg and Ireland, non-euro area trade accounts for about 35% of GDP. Exports to non-euro area countries also account for a significant share of GDP in several small Member States which trade more intensively with Russia, emerging market economies and EU Member States that do not use the euro. These Member States, which include Estonia, Latvia and Lithuania, may be particularly vulnerable to the recent exchange changes, given the strong appreciation of the euro against the Russian rouble.

Exchange rate pass-through into prices

Economic studies show that the pass-through of exchange rate changes to prices is incomplete and has declined in recent decades. [3] This is explained by intensified pricing-to-market behaviour of exporting firms, local-currency pricing strategies, easier access to financial hedging instruments, and changes in the sectoral composition of trade. More recently, and partly due to better data availability, the role of imported intermediate inputs in domestic production has gained attention. Amiti et al (2014) show that large exporting firms also tend to be the largest importers, which reduces the share of the exchange rate change that is passed on to export prices. [4] For advanced economies, import prices have been found to react more to exchange rate changes than export prices.

Graph 2: **Trade exposure to non-euro area countries**



Source: OECD-WTO

Commission staff estimates for the euro area largely confirm these results. [5] Econometric results show that in all euro area Member States, import prices react relatively quickly and strongly to a persistent change in the NEER. On average, a 5% depreciation of the euro's NEER increases import prices by some 4% after one year, with most of the impact occurring in just one quarter.[6] By contrast, it takes around three quarters until changes in import prices are passed on to consumer prices and the response is generally small, as final goods prices incorporate substantial shares of domestically produced inputs (retail, transport, marketing costs). Yet the extent of the response of consumer prices differs slightly across Member States, partly because of different consumption patterns (a high proportion of services in some countries, a high proportion of energy in others). On average, a 5% depreciation of the euro's NEER leads to an increase in euro area consumer prices of about 0.3% after one year. [7] However, as commodities are largely priced in US dollars and the dollar has appreciated strongly, the impact of

(3) See for example, Dong, W., 'The role of expenditure switching in the global imbalance adjustment', *Journal of International Economics*, March 2012, Vol. 86, No 2, pp. 237-251, and Di Mauro, F., Rueffer, R. and Bunda, I., 'The Changing Role of the Exchange Rate in a Globalised Economy', *ECB Occasional Paper Series,* No 94, September 2008.

(4) See Amiti, M., Itskhoki, O. and Konings, J., 'Importers, Exporters, and Exchange Rate Disconnect', *American Economic Review*, Vol. 104, No.7, pp. 1942–1978.

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

(6) The results are based on the vector autoregression estimations with quarterly data on the euro area aggregate.

(7) Most of the effect of exchange rate fluctuations on HICP inflation seems to stem from the reaction of energy prices and unprocessed food, whereas in the majority of Member States, core inflation does not seem to respond significantly to exchange rate shocks.

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Box (continued)

recent exchange rate changes on prices may be larger than suggested by these estimates.

Export prices in the euro area appear to be less responsive to permanent changes in the NEER than import prices. A 5% depreciation of the euro’s NEER lowers export prices in foreign currencies by about 2% after one year. The limited pass-through of exchange rate changes to (foreign currency) export prices may be partly explained by offsetting effects from higher imported intermediate input costs and partly by mark-up adjustments.

Impact on the real economy

To the extent that the depreciation of the euro leads to higher import prices and lower export prices in foreign currency, the expenditure switching effect increases net exports and demand for domestic goods. This has in turn a positive impact on domestic investment and growth. In addition, higher profits of exporting firms due to higher demand or higher profit margins may stimulate investment and support a reallocation of resources from non-tradable to tradable sectors. Simulations with the Commission's QUEST model suggest that a 5% depreciation of the euro's NEER, which roughly corresponds to the size of the depreciation since March 2014, may increase real GDP in the euro area by around 0.3% in the first year and another 0.2% in the second year. [8]

As import prices typically react faster than trade volumes to exchange rate changes, the immediate impact of the depreciation of the euro on the current account is expected to be negative in the short term but should turn positive in the longer term (J-curve effect on trade balance).

In assessing the impact of the recent depreciation on the euro area real economy, a number of additional considerations are warranted:

First, the effects of current changes in the euro's exchange rate can differ widely across Member States, as some countries experienced a depreciation of their NEERs, while others experienced a notable appreciation (see Graph 1). The potential impact on the broader economy also depends on the degree of openness to trade.

Second, the impact on Member States' real economies also depends on how strongly export demand responds to changes in relative prices. Empirical evidence suggests that price elasticities differ widely across countries and industries. For example, the price elasticity of Germany's exports is estimated to be smaller than that of other large Member States (notably Italy and Spain). [9] Through this channel, the depreciation of the euro may support intra-euro area rebalancing. [10]

Third, external demand tends to be more decisive for export performance than price competitiveness, limiting the role of exchange rate as a driver of exports. [11] In the current situation, the impact from the euro’s appreciation against the Russian rouble and the euro’s depreciation against the US dollar is compounded by weak demand from emerging markets and strong growth in the US, making it difficult to disentangle the impact of the exchange rate-induced change in price competitiveness from the impact of external demand.

The recent exchange rate movements benefit countries that export more to the US and the UK and are relatively open such as Ireland. The exports of Italy and Spain are estimated to respond relatively strongly to currency depreciations, though these countries are relatively closed economies. At the other end of the spectrum, countries that trade more with Russia, such as the Baltic countries, are facing a negative shock due to the weakening of the rouble.

(8) The size of the impact depends also on the underlying drivers and the persistence of the exchange rate shock. Therefore, quantitative estimates should be interpreted with appropriate caution. The estimates quoted above are based inter alia on monetary policy divergences between major currency areas.

(9) See European Commission, ‘Differences in Member States’ export performance’, *Quarterly Report of the Euro Area*, March 2010, Vol. 9, No. 1, pp. 23-27 and European Commission, ‘Member State vulnerability to changes in the euro exchange rate’, *Quarterly Report on the Euro Area*, October 2014, Vol. 13, No. 3, pp. 27–33.

(10) See European Commission, ‘Macroeconomic Imbalances Germany 2014’, *Occasional Papers* 174, 2014.

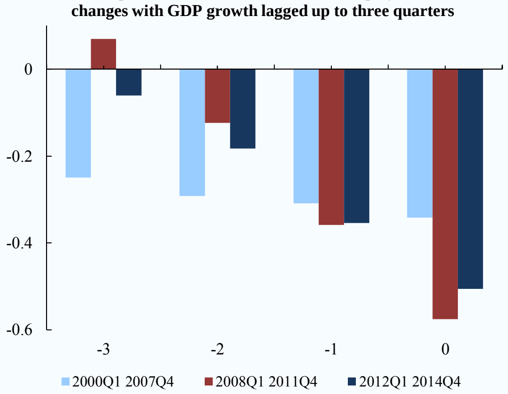
(11) See for example, European Commission, ‘Differences in Member States’ export performance’, *Quarterly Report of the Euro Area*, March 2010, Vol. 9, No. 1, pp. 23-27, and Di Mauro, F., Rueffer, R. and Bunda, I., ‘The Changing Role of the Exchange Rate in a Globalised Economy’, *ECB Occasional Paper Series,* No 94, September 2008 and Comunale, M. and Hessel, J., ‘Current account imbalances in the Euro area: Competitiveness or financial cycle?’, *DNB Working Paper* No 443, October 2014.

Box I.3: **Recent unemployment developments: a swift reaction to economic recovery**

Labour market conditions started to improve gradually in the second-half of 2013 and a moderate but swift reduction in unemployment continued up to the first half of 2014. Since peaking in 2013, the unemployment rate has fallen by about 1 pp. and 0.5 pp., respectively for the EU and the euro area. In the EU, the share of unemployed for less than 12-months (the short-term unemployed) dropped from 67% of total unemployed in 2009 to 53% of 2013, which is below the average over the period 2000-07. Conversely, the share of unemployed for 24-months or longer increased substantially to reach about 30% in 2014Q3. The timing of the decline in unemployment broadly corresponds with that of the economic recovery, which started in the second quarter of 2013. Although growth did not pick up in 2014, unemployment continued to decline. The unemployment rate in the EU appears unusually reactive to the weak economic recovery.

A synthetic indication of a swifter co-movement between output and unemployment is provided by the panel correlation between current changes in the unemployment rate and GDP growth lagged by up to three quarters (see Graph 1). The link between current unemployment changes and current and lagged by one quarter GDP growth has become stronger in recent years. By contrast, the correlation with GDP growth lagged by two and three quarters has fallen.

Graph 1: **Correlation of current unemployment changes with GDP growth lagged up to three quarters**



Number of lagged quarters on the horizontal axis

Correlations provide an indication of the strength of the relationship, but do not capture the magnitude of the impact of economic growth on changes in unemployment. This analysis can be done with the help of Okun's Law, a simple rule that relates GDP growth to changes in unemployment. For 2013 and 2014 the unemployment rates are predicted for each country based on a (fixed-effect panel) Okun's Law relationship over the period 1980-2012. For a large number of countries the actual unemployment rate appears to react earlier and stronger than expected on the basis of the historical relationship between changes in the unemployment rate and real growth (see Graph 2). These results are robust to a different specification of the Okun's law, allowing the unemployment response to GDP growth to vary across countries. Only for Italy and the Netherlands in 2013, does the current unemployment rate exceed the predicted values.

While the reasons for this unusual reaction of unemployment cannot be assessed at length in this box, a series of potential explanations can be put forward. First, improved business confidence could explain a drop in the job destruction rate, after a period of protracted downsizing. A turnaround in the economic sentiment indicator (ESI) was recorded at the beginning of 2012 in some Member States (most notably, Greece, Spain, Hungary and the UK) and the improvement became more widespread throughout the EU over the course of the year. By the end of 2013, the ESI was back to its pre-crisis average for about 13 countries, while for a large number of the remaining countries the indicator reached values above the 2008-14 average. Better economic sentiment was accompanied by a drop in the job destruction rate in all countries. A regression of the job destruction rate [(1)] against the ESI reveals that an increase in the sentiment indicator by 1% would have been accompanied by a reduction in the job destruction rate by 0.9% (adjusted R^2 0.7) over the period 2000-07 and by 1.0% over the period 2008-14 (adjusted R^2 0.8). Second, firms' operating margins have been increasing as a consequence of the substantial wage moderation observed in several countries and sectors. Real wage moderation continued in high unemployment countries during the pick-up of the economic recovery. In

(1) The job destruction rate is computed on the basis of retrospective unemployment duration data and the flow unemployment rate equation as in M. Elsby, The labor market in the Great Recession: an update, *Brookings Papers on Economic Activity*, 2011, pp. 353-384; and Arpaia, A. A. Kiss and A. Turrini, Is unemployment structural or cyclical? Main features of job matching in the EU after the crisis, *European Economy Economic Papers* 527, September 2014.

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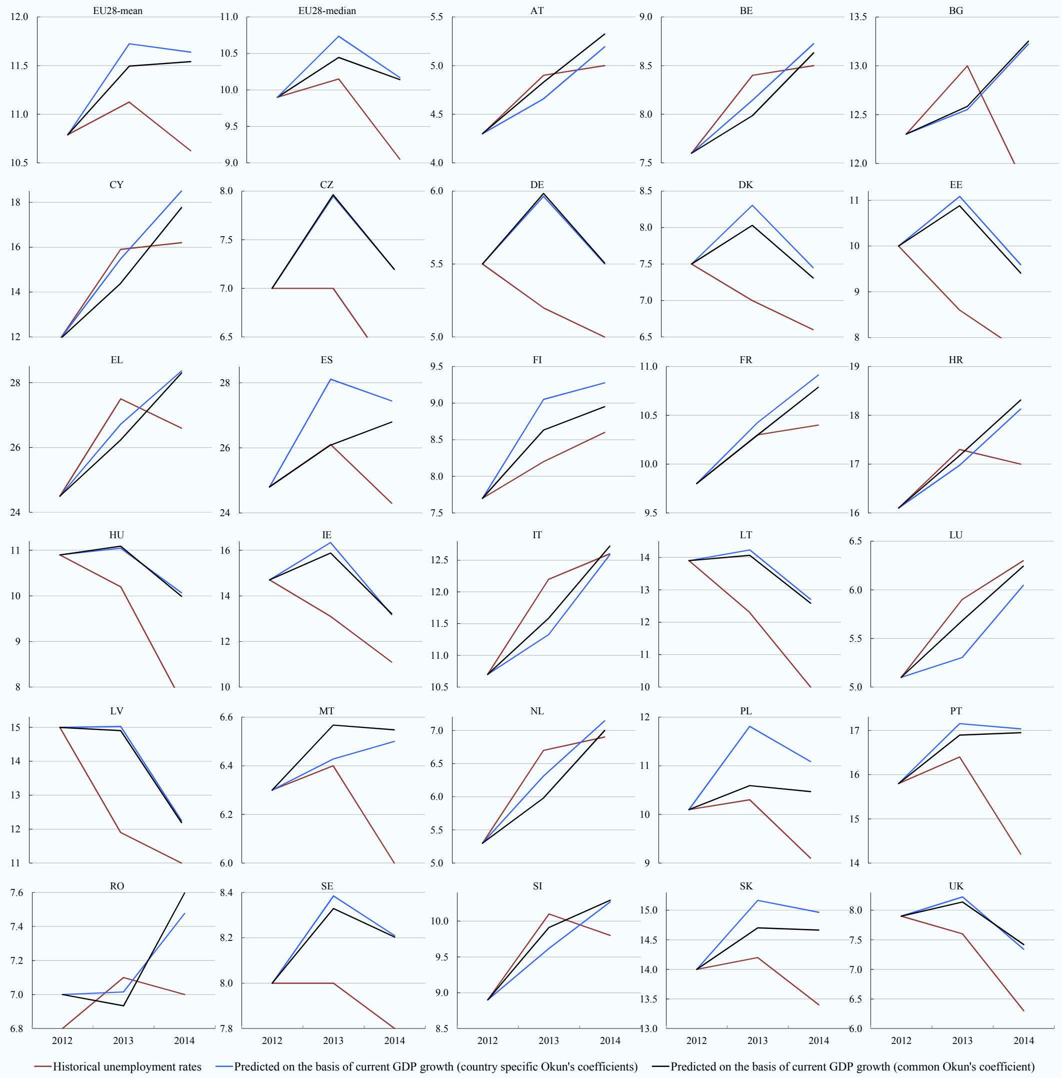
Box (continued)

Graph 2: **Unemployment rates predicted on the basis of Okun's law**



2012 and 2013, real wage growth lagged productivity growth (*i.e.* falling real unit labour costs) in a number of high unemployment countries, including Spain, Cyprus and Greece. This wage moderation during the recovery could be seen as the result of pent-up wage adjustment linked to downward wage rigidities at the onset of the crisis. For some countries, it reflected also a stronger response to labour market conditions as a result of reforms of wage setting systems. However, real unit labour costs are becoming less responsive to the unemployment rate, as many countries are recording negative growth rates in real unit labour costs and the adjustment of nominal wages becomes more difficult in a low inflation environment, because of workers' resistance to accept wage cuts. Looking forward, the moderate dynamics in real unit labour cost needed in many countries to absorb the high unemployment rate would be difficult to achieve without a pick in productivity growth. Third, the reduction in the number of hours worked has been a key adjustment mechanism in Europe, whereby firms achieved labour cost savings while avoiding excessive labour shedding during the recession. After having rebounded throughout most of 2009 and 2010, hours continued to fall until 2013 and have broadly stabilised since then. However, a trend towards lower hours worked per employee was present even before the crisis. Between 2000-Q1 and 2008-Q1, hours worked per employee in the EU declined at an average annual rate of

(Continued on the next page)

Box (continued)

0.3%. [2] This fall has been driven not only by an increase in the share of part-time employment (linked in particular to increased activity rates among women), but also by a gradual reduction in the number of *usual weekly hours worked* by full-time workers. Factors explaining this reduction include legislated reductions in standard working hours, increased diversification of work schedules, including non-standard and variable working hours income effects at the household level related to the increase in women's activity rates and/or to a higher emphasis on education partly related to increasing returns to higher education. Thus, the drop in hours worked observed since the 2008 recession can therefore be seen as an acceleration of a long-term trends, and there is no reason to expect *a priori* a substantial change of these underlying trends. Fourth, low skilled workers were disproportionately affected by job losses during the recession. The ensuing capital deepening and a shift in the employment structure favouring high-skilled workers may have pushed productivity up, stimulating labour demand. However, this effect might have played a role only in high unemployment countries such as Spain, Greece and, to a lesser extent, Ireland. In these countries, labour productivity has been expanding faster than Total Factor Productivity (TFP), since 2008, reflecting a surge in capital deepening which has been at its sharpest since than 2 decades. By contrast, the capital-labour ration has declined in countries where labour hoarding prevailed.

Although these factors might have played a role in determining a swift response of unemployment to the cyclical recovery, in the long-term, employment growth depends on medium-term growth prospects, most notably on a pick-up of TFP growth and on reducing the protracted capital gap related to low investment rates in some Member States.

(2) This is calculated as the coefficient of a trend in a regression, over the period 2000Q1-2008Q4, of the hours worked per employee in logarithms on a constant and a linear trend.

Box I.4: Some technical elements behind the forecast

The cut-off date for taking new information into account in this European Economic Forecast was 23 January. The forecast incorporates validated public finance data as published in Eurostat's News Release 158/2014 of 21 October 2014.

External assumptions

This forecast is based on a set of external assumptions, reflecting market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 9 and 22 January) were used for exchange and interest rates, and for oil prices.

Exchange and interest rates

The technical assumption as regards exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to an implied average USD/EUR rate of 1.17 in 2015 and 2016. The average JPY/EUR is 137.73 in 2015 and 137.64 in 2016.

Interest-rate assumptions are market-based. Short-term interest rates for the euro area are derived from futures contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States are calculated using implicit forward swap rates, corrected for the current spread between the interest rate and swap rate. In cases where no market instrument is available, the fixed spread vis-à-vis the euro area interest rate is taken for both short- and long-term rates. As a result, short-term interest rates are assumed to be 0.0% on average in 2015 and 0.1% in 2016 in the euro area. Long-term euro area interest rates are assumed to be 0.5% on average in 2015 and 0.7% in 2016.

Commodity prices

Commodity price assumptions are also mostly based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 53.0 USD/bbl in 2015 and 61.5 USD/bbl in 2016. This corresponds to an oil price of 45.3 EUR/bbl in 2015 and 52.6 EUR/bbl in 2016.

Budgetary data

Data up to 2013 are based on data notified by Member States to the European Commission on 1 October and validated by Eurostat on 21 October 2014. Eurostat has made no amendments to the data reported by Member States.

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

For 2015, the budgets adopted by the national parliaments and all other measures credibly announced and specified in sufficient detail are taken into consideration. For 2016, the 'no-policy-change' assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

European aggregates for general government debt in the forecast years 2014-16 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans). To ensure consistency in the time series, historical data are also published on the same basis. For 2013, this implies a debt-to-GDP ratio in the euro area (EA18) which is 2.4 pps. (1.7 pps. in the EU) higher than the consolidated general government debt ratio published by Eurostat in its news release 158/2014 of 21 October 2014. General government debt projections for individual Member States in 2014-16 include the impact of guarantees to the EFSF, [2] bilateral loans to other Member States, and the participation in the capital of the ESM as planned on the cut-off date of the forecast (subject to approval).

(1) Eurostat News Release N° 103/2009.
(2) In line with the Eurostat decision of 27 January 2011 on the statistical recording of operations undertaken by the European Financial Stability Facility, see http://ec.europa.eu/eurostat/documents/2995521/5034386/2-27012011-AP-EN.PDF/25064294-4eae-4b50-a447-60165ca9718d?version=1.0

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Box (continued)

ESA2010

The current forecast is based on the ESA2010 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 pp.). The calculation of potential growth and the output gap does not adjust for working days. Since the working-day effect is considered as temporary, it should not affect the cyclically-adjusted balances.

PART II

Prospects by individual economy

Member States

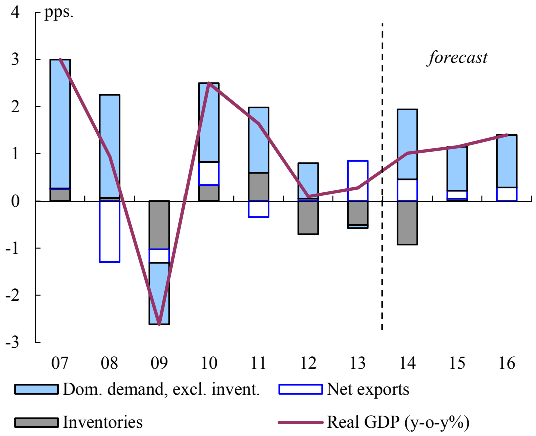
1. BELGIUM

Favourable external factors mitigate domestic weakness

Belgium's economy is set to grow moderately by 1.1 % in 2015 and 1.4% in 2016. In the short term, domestic activity should enjoy some support from falling oil prices, while competitiveness-enhancing measures are expected to allow companies to take full benefit from rising external demand in 2016. The fiscal deficit is expected to fall to 2.6% of GDP in 2015 and to 2.4% next year.

Economic activity grew by 0.3% in Q3-2014 and overall growth is projected to have reached 1% last year. While domestic factors constrain the outlook for demand, external ones are expected to be more supportive. These relate in particular to enfolding energy price dynamics and stronger external demand next year. At 1.1% this year and 1.4% in 2016, economic growth in Belgium is expected to remain below pre-crisis levels.

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



Consumption buoyed by low inflation but tempered in the long run by low wage growth

Household spending is forecast to broadly follow disposable income. Yet, several parameters affect the prospects for income growth in opposite ways. In the short term, low oil prices and low inflation in general should support real disposable income growth. Therefore, consumption is expected to grow by 1.0% in 2015, comparable to last year. However, low inflation also translates into a protracted period of low wage growth, all the more as the government decided to temporarily suspend wage indexation in order to improve the country's external competitiveness. Wage growth has already been decelerating for some time as a result of the decision to freeze wages in real terms in recent years. Also several small tax measures are expected to negatively affect disposable income. As a consequence of these changing dynamics, consumption growth is estimated to fall back to 0.7% in 2016.

With respect to the labour market, a slow-paced improvement is projected, in line with subdued economic activity. An acceleration of job creation in the private sector is expected to be partially offset by reductions in public employment. Also increases in the labour force, partly driven by a series of activation measures, absorb part of the net employment creation. Overall, the unemployment rate is estimated to fall from a ten-year peak of 8.5% in 2014 to 8.3% in 2015 and 8.1% next year.

Mending competitiveness expected to assist investment and export growth

Last year's pick-up in total investment growth was driven by temporary factors related to housing and corporate investments. As a consequence, capital formation is forecast to decelerate at the start of 2015. Rising capacity utilisation, a further easing of already soft financing conditions, the Investment Plan for Europe and improving margins as a result of competitiveness measures, are expected to gradually improve the outlook for investment. As a result, capital formation would become a key contributor to GDP growth in 2016.

Slow wage growth, reductions in social charges and lower oil prices are expected to improve cost competitiveness. This is reflected in terms of trade gains and the decline of unit labour costs. This should underpin export performance, especially as external demand strengthens towards 2016. The trade balance heads towards a modest surplus for the first time since 2009.

Inflation to rebound gradually as of mid-2015

Headline inflation fell back to zero at the end of 2014 on the back of retreating energy prices with core inflation still well above 1%. This downward trend is set to continue with inflation turning negative in coming quarters, followed by a slow uptick in the second half of 2015 as the substantial downward pressure by energy items gradually fades and recent monetary easing measures start to have result. Overall, the general price level would rise by just 0.1% in 2015. Inflation is expected to rise above 1% again next year, with prices for most components expected to display a stretched slowdown given shy economic activity, stagnant wage growth and international price developments.

Improving government balance

Belgium's general government deficit is estimated to have been 3.2% of GDP in 2014. Revenue growth proved disappointing compared to standard elasticities, among others due to a 0.2% of GDP loss in dividend revenue from financial corporations, while one-off factors such as a tax regularisation had a positive impact of 0.3% of GDP.

In 2015, the headline deficit is expected to improve to 2.6% of GDP, thanks to recently taken consolidation measures at all levels of government. The main ones include cuts in the wage bill and administrative expenditure of the federal and sub-federal governments, a lower growth norm for health care expenditure, tighter criteria for social benefits and a postponement of the previously announced reduction in social contributions, which is offset by an increase in income tax deductions for workers. Furthermore, the decline in interest rates, as well as a lower reference rate for notional interest deduction in corporate income taxation, contribute 0.5 pp. of GDP to the improvement. However, a decrease in one-off revenues (-0.3 pp. of GDP), a decline in dividend income and financial sector guarantee fees (-0.1 pp. of GDP), and dynamic upward trends in social spending, in particular pension expenditure, all have a negative impact on the evolution of the government balance. The structural balance is forecast to improve by around ¾% of GDP in 2015.

In 2016, under the usual no-policy-change assumption, the headline deficit is expected to improve to 2.4% of GDP, mainly thanks to better cyclical conditions. The additional impact of consolidation measures and lower interest expenditure are broadly offset by rising primary expenditure trends. As a result, the structural balance is projected to improve only slightly further in 2016.

The debt ratio is estimated to have reached 106% of GDP at the end of 2014. With still weak nominal growth in 2015 unlikely to offset the impact of further deficit accumulation and stock-flow adjustments, Belgium's debt is projected to hit almost 107% of GDP, before stabilising in 2016.

Table II.1.1:
Main features of country forecast - BELGIUM

	2013			Annual percentage change						
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	395.3	100.0	2.0	1.6	0.1	0.3	**1.0**	**1.1**	**1.4**
Private Consumption	204.0	51.6	1.6	0.6	0.8	0.3	**0.9**	**1.0**	**0.7**
Public Consumption	96.5	24.4	1.7	0.8	1.4	1.1	**1.0**	**0.1**	**0.5**
Gross fixed capital formation	88.0	22.3	2.5	4.0	0.0	-2.2	**3.6**	**1.7**	**2.8**
of which: equipment	27.4	6.9	2.7	2.6	-3.0	-5.8	**8.0**	**1.9**	**3.8**
Exports (goods and services)	327.1	82.8	4.3	6.6	1.9	2.9	**3.4**	**3.5**	**4.8**
Imports (goods and services)	321.8	81.4	4.2	7.2	1.9	1.8	**2.8**	**3.4**	**4.5**
GNI (GDP deflator)	391.3	99.0	2.0	0.9	0.8	-2.5	**1.9**	**1.0**	**1.4**
Contribution to GDP growth:	Domestic demand		1.8	1.4	0.8	-0.1	**1.5**	**0.9**	**1.1**
	Inventories		0.0	0.6	-0.7	-0.5	**-0.9**	**0.0**	**0.0**
	Net exports		0.2	-0.3	0.1	0.8	**0.5**	**0.2**	**0.3**
Employment			1.0	1.4	0.3	-0.3	**0.3**	**0.5**	**0.6**
Unemployment rate (a)			8.2	7.2	7.6	8.4	**8.5**	**8.3**	**8.1**
Compensation of employees / head			2.4	3.0	3.4	2.6	**0.7**	**0.4**	**0.1**
Unit labour costs whole economy			1.5	2.8	3.6	2.0	**-0.1**	**-0.3**	**-0.7**
Real unit labour cost			-0.2	0.6	1.5	0.5	**-0.7**	**-1.1**	**-1.8**
Saving rate of households (b)			17.0	14.7	13.9	13.5	**13.5**	**13.6**	**13.3**
GDP deflator			1.7	2.2	2.1	1.5	**0.7**	**0.8**	**1.2**
Harmonised index of consumer prices			1.9	3.4	2.6	1.2	**0.5**	**0.1**	**1.1**
Terms of trade goods			-0.6	-1.8	0.2	0.4	**0.3**	**0.4**	**0.1**
Trade balance (goods) (c)			2.2	-1.5	-1.5	-0.7	**-0.2**	**0.0**	**0.2**
Current-account balance (c)			3.7	0.3	0.6	-1.5	**-0.1**	**0.0**	**0.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			3.6	0.2	1.3	-1.5	**-0.1**	**0.3**	**0.5**
General government balance (c)			-1.7	-3.9	-4.1	-2.9	**-3.2**	**-2.6**	**-2.4**
Cyclically-adjusted budget balance (c)			-1.9	-3.8	-3.5	-2.0	**-2.4**	**-2.0**	**-2.0**
Structural budget balance (c)			-	-3.6	-3.0	-2.6	**-2.8**	**-2.1**	**-2.0**
General government gross debt (c)			106.2	102.1	104.0	104.5	**106.4**	**106.8**	**106.6**

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

2. BULGARIA
Continued headwinds to growth

Real GDP growth is forecast to decline from 1.4% in 2014 to 0.8% in 2015 and 1% in 2016. The main constraints to the outlook relate to domestic demand, in particular investment and private consumption. Inflation is expected to turn positive again at the end of 2015. After a sizeable weakening of the fiscal position in 2014, the general government deficit is projected to improve to 3% of GDP in 2015.

Growth outlook remains subdued

In Q3-2014, economic output expanded at the modest pace of 0.4%, partly driven by temporary factors such as the stocking of inventories and a stronger-than-expected outcome in agriculture. In line with a slowdown in the country's main trading partners and persisting geopolitical tensions, net external trade contributed negatively to growth in 2014. The weak economic performance registered until the third quarter of 2014 is projected to have continued in the fourth quarter, with leading indicators such as industrial production providing little evidence of more dynamic output growth in the short-term. Disruptions to credit intermediation, following the confidence deterioration in the domestic segment of the banking sector, are expected to continue weighing on domestic demand in 2015. Real GDP is estimated to have increased by 1.4% in 2014 as a whole, before moderating to 0.8% in 2015. Economic growth is projected to slightly increase to 1.0% at the end of the forecast horizon.

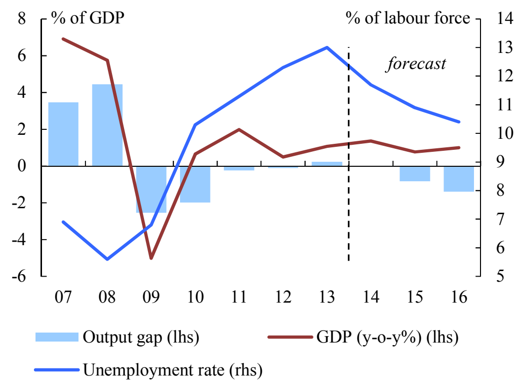
Domestic demand is projected to slowdown

After recovering in 2014, private consumption is expected to lose vigour in 2015-16 due to the expected weak growth in real disposable income. In 2015, household consumption is supported by lower fuel costs. Stabilisation of labour market conditions in 2014 will also be a supportive factor going forward, but the decline in the working-age population has already become a drag on household disposable income and consumption. In addition, fiscal tightening is likely to dampen the outlook for consumer spending in 2015.

Following weak readings since the onset of the financial crisis, investment has been recovering since mid-2013. The rebound of gross fixed capital formation in 2014 has been driven exclusively by public investment, with the government increasing its use of available EU funds. The public investment outlook is set to turn negative in 2015, as the programming period is coming to an end. With financial conditions remaining tight, firms are expected to freeze or postpone investment plans. As a result, private investment is projected to remain weak in 2015-16.

The exporting sectors are forecast to benefit from progressively improving external demand over the two coming years. After being negative in 2014, the contribution of net exports to overall growth is expected to return positive in 2015 sustained by modest gains in competitiveness. The current account surplus is forecast to hover around 2% of GDP by 2016.

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



Limited improvement for labour market

Having peaked at 13% in 2013, the unemployment rate is expected to have retreated to 11.7% last year, mainly due to the decline in the labour force, whereas employment stabilised. While the number of employment contracts fell in 2014, the number of self-employed marginally increased, leaving overall employment broadly unchanged. In a context of subdued growth, employers are likely to favour increasing productivity over job creation throughout 2015. Unemployment is forecast to fall to 10.4% by 2016, its lowest level since 2010.

Deflation to prevail until late 2015

In line with the deflationary trend since mid-2013, Bulgaria recorded the strongest consumer price decline in the EU in 2014, with the HICP at -1.6%.

The strength of deflation is also explained by some country-specific factors, most notably regarding healthcare, telecommunication, transport and some specific food price categories. Some of these factors are of a temporary nature and their contribution to deflation will fade in 2015. Going forward, some country-specific factors are likely to contribute to price increases such as the increase in electricity prices by 10% as of October 2014 and a scheduled hike in the tobacco excise in 2015. Nevertheless, lower fuel costs are set to keep HICP inflation largely negative until late 2015, with HICP forecast at -0.4% in 2015. Inflation is projected to pick up to 1% in 2016 once the effect from oil prices fades.

Fiscal stimulus in 2014, reversed in 2015

The general government deficit is projected to have deteriorated from 1.2% in 2013 to 3.4% of GDP in 2014, driven by expenditure overruns and weaker-than-expected revenues in VAT, excises and some non-tax categories. The consolidation measures adopted with the 2015 budget are set to improve the deficit to 3% of GDP in 2015. Downside risks stem from the effectiveness of budget execution, most notably the 10% cut in personnel spending and the savings in healthcare costs. However, the deficit could also turn out smaller because of the government plans to make changes to the pension system which would result in redirecting some of the private "second" pillar pension funds into the state system. This would improve the general government deficit by the volume of redirected pension contributions. In 2016, the deficit is set to remain broadly stable at 2.9% of GDP, based on a no-policy-change assumption. In structural terms, the deficit is estimated to improve by about ½ pp. of GDP in 2015 and slightly less in 2016.

The general government gross debt is forecast to have increased rapidly from 18.3% in 2013 to about 27% in 2014, reflecting financing needs for the annual deficit, the measures to stabilise the financial sector and also the roll-over of a large bond maturing in January 2015. The forecast does not include any potential further debt issuances to support the financial sector. The debt ratio is forecast to exceed 30% of GDP in 2016.

Table II.2.1:

Main features of country forecast - BULGARIA

	2013		Annual percentage change						
bn BGN	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	80.3	100.0	2.9	2.0	0.5	1.1	**1.4**	**0.8**	**1.0**
Private Consumption	50.2	62.6	3.0	1.8	3.9	-2.3	**1.4**	**0.8**	**1.4**
Public Consumption	13.3	16.5	-0.3	1.8	-1.0	2.8	**2.1**	**0.2**	**1.0**
Gross fixed capital formation	17.1	21.3	8.1	-4.6	2.0	-0.1	**2.3**	**-2.3**	**-2.8**
of which: equipment	7.3	9.1	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	54.9	68.4	-	11.5	0.8	9.2	**0.3**	**3.0**	**3.7**
Imports (goods and services)	55.4	69.0	-	8.5	4.5	4.9	**1.2**	**2.0**	**2.9**
GNI (GDP deflator)	78.7	98.1	-	0.6	2.1	0.8	**1.1**	**0.6**	**0.8**
Contribution to GDP growth: Domestic demand			3.8	0.4	2.7	-1.1	**1.7**	**0.1**	**0.4**
Inventories			0.7	0.2	0.1	-0.5	**0.3**	**0.0**	**0.0**
Net exports			-	1.4	-2.3	2.6	**-0.6**	**0.7**	**0.6**
Employment			-	-2.2	-2.5	-0.4	**0.0**	**0.0**	**0.3**
Unemployment rate (a)			12.2	11.3	12.3	13.0	**11.7**	**10.9**	**10.4**
Compensation of employees / head			-	6.8	7.7	8.8	**2.3**	**2.0**	**2.4**
Unit labour costs whole economy			-	2.4	4.5	7.2	**1.0**	**1.2**	**1.7**
Real unit labour cost			-	-4.3	2.9	8.0	**0.3**	**1.0**	**1.1**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			31.3	7.0	1.6	-0.8	**0.6**	**0.3**	**0.6**
Harmonised index of consumer prices			-	3.4	2.4	0.4	**-1.6**	**-0.5**	**1.0**
Terms of trade goods			-	2.9	-3.5	-0.8	**0.3**	**-0.4**	**-0.9**
Trade balance (goods) (c)			-11.2	-4.8	-9.9	-7.2	**-7.5**	**-7.1**	**-7.3**
Current-account balance (c)			-4.8	1.1	-0.7	2.2	**1.7**	**2.1**	**1.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.7	2.3	0.5	3.5	**3.1**	**3.4**	**3.1**
General government balance (c)			-1.0	-2.0	-0.5	-1.2	**-3.4**	**-3.0**	**-2.9**
Cyclically-adjusted budget balance (c)			-1.3	-1.9	-0.5	-1.3	**-3.4**	**-2.7**	**-2.5**
Structural budget balance (c)			-	-1.9	-0.5	-1.3	**-3.2**	**-2.7**	**-2.5**
General government gross debt (c)			-	15.7	18.0	18.3	**27.0**	**27.8**	**30.3**

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

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

3. THE CZECH REPUBLIC

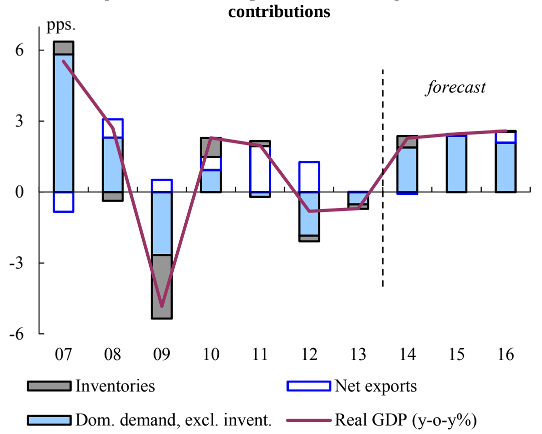
Rebound driven by domestic demand

Recent data from the Czech Republic confirm an ongoing economic recovery driven largely by domestic demand. While consumption and investment are expected to have been the main sources of growth in 2014 and this trend forecast to continue, export growth, which was strong last year, is expected to ease. The general government deficit is expected to deteriorate in 2015, largely due to discretionary measures and increased public investment.

An ongoing recovery

The Czech economy returned to growth in 2014, after two years of contraction. The rebound has been driven by domestic demand factors, including fixed capital investment, household consumption, and a build-up of inventories. Recent soft data suggest ongoing strength in domestic demand, with confidence indicators continuing to rise across sectors. Real GDP is expected to have grown by 2.3% in 2014 and growth is forecast to rise to 2.5% in 2015 and 2.6% in 2016.

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



A weak contribution from net exports

Czech export volumes grew strongly in the first half of 2014, thanks to a surge in new orders from abroad, but growth has since softened due to the ongoing weakness in the EU economy. Overall, export volumes are estimated to have grown by 7.5% in 2014, somewhat less than import volumes, which are estimated to have grown 8.2%, reflecting the import-intensity of the Czech export sector and strong investment activity. The trade surplus has continued to grow strongly, however, largely due to favourable price effects. Recent falls in oil prices are expected to contribute to further growth in the trade balance over the forecast horizon. The contribution of net exports is forecast to remain fairly neutral in 2015, amid ongoing sluggishness in the EU economy, but to become positive in 2016. Further economic weakness in main trading partners poses a downside risk.

Investment activity remains strong

Investment activity grew strongly in 2014, as the domestic environment improved, foreign industrial orders picked up and the government increased its efforts to make use of expiring EU funds. This latter factor is expected to lead to a further acceleration in the growth of public investment in 2015. Residential construction activity is also expected to pick up, as the oversupply in the housing market starts getting absorbed. Corporate investment, meanwhile, is expected to remain robust over the forecast horizon. Gross fixed capital formation is estimated to have grown by 3.4% in 2014 and expected to grow by 4.1% in 2015 but to fall back to 3.0% in 2016.

Improving labour market conditions

The strengthening of the Czech economy is reflected in improving labour market conditions. Unemployment fell to 5.9% in the third quarter of 2014 and employment is expected to have grown by 0.4% in 2014. Wage growth has also been strong, with compensation per employee increasing by around 3% in 2014, a rate that is expected to continue more or less at the same level over the forecast horizon. The unemployment rate is close to its long-term average and is unlikely to fall much further. Improving labour market conditions are feeding stronger household consumption, which is forecast to grow by 1.4% in 2014, 1.9% in 2015 and 2.1% in 2016.

Renewed softness in inflation

The HICP rate was low in 2014, averaging 0.4%, partly due to reductions in regulated prices at the beginning of the year. The substantial decline in oil prices in recent months is forecast to put downward pressure on inflation over the forecast horizon, although tighter labour market conditions and an expansionary domestic monetary policy should exert some upward pressure. The impact of regulated prices and taxes is expected to be broadly neutral over the forecast horizon. HICP inflation is forecast to average 0.8% in 2015 and to rise to 1.4% in 2016.

Government deficit to increase in 2015

The general government deficit is expected to have reached -1.3% of GDP in 2014. Available cash data for the central government budget indicate a significantly better-than-budgeted outcome. Revenues were boosted by strong VAT and corporate tax receipts, the one-off sale of licences to mobile operators and significantly higher capital transfers from the EU. Expenditure growth remained moderate due to lower-than-expected social transfers and savings in intermediate consumption. Public investment is forecast to have risen significantly towards the end of 2014, mainly due to higher absorption of EU funds.

The general government deficit is projected to deteriorate to -2.0% of GDP in 2015 and the structural balance to reach -1.6% of GDP. The forecast for 2015 incorporates the budget law adopted in December 2014. Expenditure growth is expected to outpace revenue growth by almost 2 pps., implying a significant fiscal loosening. Strong investment activity, while still significantly lower than its pre-crisis peak, is mostly linked to the absorption of EU funds from the 2007-13 programming period and to exceptional military expenditure related to the lease of fighter jets. Higher healthcare expenditure and a budgeted increase in the public sector wage bill of 3.5 % is projected to contribute to stronger government consumption, while higher indexation of pensions is forecast to increase social benefits. Government revenue will likely be negatively affected by the introduction of tax credits for pensioners and families with two or more children as well as the third (lower) VAT rate of 10%.

The forecasted improvement in the general government balance to -1.5% of GDP in 2016 is expected to come mainly from the better macroeconomic environment and an expected drop in public investment. The structural balance is expected to remain broadly unchanged. The debt-to-GDP ratio is forecast to drop by 1.6 pps. between 2013 and 2014, due to higher involvement of government financial assets in debt management and higher nominal GDP growth. The ratio is projected at around 45% in 2016.

Table II.3.1:
Main features of country forecast - CZECH REPUBLIC

	2013		Annual percentage change						
bn CZK	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	4086.3	100.0	2.9	2.0	-0.8	-0.7	**2.3**	**2.5**	**2.6**
Private Consumption	2026.5	49.6	2.9	0.2	-1.8	0.4	**1.4**	**1.9**	**2.1**
Public Consumption	802.0	19.6	1.5	-2.9	-1.0	2.3	**1.7**	**2.2**	**1.7**
Gross fixed capital formation	1019.1	24.9	3.8	1.1	-2.9	-4.4	**3.4**	**4.1**	**3.0**
of which: equipment	444.8	10.9	5.2	4.2	-6.1	-2.1	**4.3**	**4.6**	**3.5**
Exports (goods and services)	3154.7	77.2	9.7	9.3	4.1	0.3	**7.5**	**4.3**	**6.8**
Imports (goods and services)	2919.3	71.4	9.7	6.7	2.4	0.3	**8.2**	**4.6**	**6.8**
GNI (GDP deflator)	3797.9	92.9	2.4	1.8	0.7	-1.5	**2.1**	**2.4**	**2.5**
Contribution to GDP growth: Domestic demand			2.9	-0.2	-1.8	-0.5	**1.9**	**2.4**	**2.1**
Inventories			0.0	0.2	-0.2	-0.2	**0.5**	**0.0**	**0.0**
Net exports			0.0	1.9	1.3	0.0	**-0.1**	**0.0**	**0.5**
Employment			0.0	-0.3	0.4	0.4	**0.4**	**0.2**	**0.3**
Unemployment rate (a)			6.7	6.7	7.0	7.0	**6.1**	**6.0**	**5.9**
Compensation of employees / head			7.3	2.8	1.4	-0.6	**3.0**	**3.0**	**3.0**
Unit labour costs whole economy			4.2	0.6	2.6	0.5	**1.1**	**0.7**	**0.7**
Real unit labour cost			0.4	0.8	1.1	-1.2	**-1.2**	**-0.8**	**-0.7**
Saving rate of households (b)			11.7	11.1	11.3	9.7	**10.4**	**10.3**	**9.9**
GDP deflator			3.8	-0.2	1.4	1.7	**2.3**	**1.5**	**1.3**
Harmonised index of consumer prices			-	2.1	3.5	1.4	**0.4**	**0.8**	**1.4**
Terms of trade goods			0.2	-2.0	-0.6	1.4	**2.1**	**0.5**	**0.1**
Trade balance (goods) (c)			-4.0	1.9	3.1	4.0	**5.4**	**5.6**	**5.8**
Current-account balance (c)			-4.0	-4.6	-2.2	-2.2	**-1.0**	**-0.3**	**0.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.6	-2.9	-1.2	0.0	**1.4**	**2.2**	**2.4**
General government balance (c)			-4.3	-2.9	-4.0	-1.3	**-1.3**	**-2.0**	**-1.5**
Cyclically-adjusted budget balance (c)			-	-2.6	-3.2	0.0	**-0.5**	**-1.7**	**-1.5**
Structural budget balance (c)			-	-2.6	-1.4	0.1	**-0.7**	**-1.7**	**-1.5**
General government gross debt (c)			23.3	41.0	45.5	45.7	**44.1**	**44.4**	**45.0**

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

4. DENMARK

Conditions in place for recovery to strengthen

After 5 years of very slow growth, the conditions now appear ripe for Denmark's economy to start picking up steam. A high savings surplus in the private sector, low interest rates and low inflation, growth in real disposable incomes and improved conditions in the labour market are expected to translate into stronger growth in domestic demand.

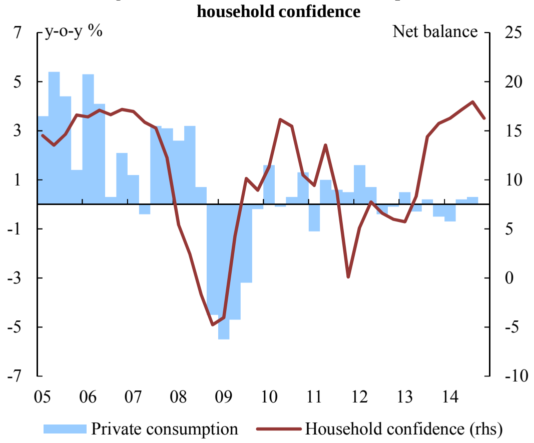
Recovery expected to strengthen

Real GDP in Denmark is estimated to have grown by 0.8% in 2014. The relatively weak annual GDP growth rate reflects subdued growth in the first two quarters of the year, while economic activity picked up in the third quarter. Growth is estimated to have been primarily driven by domestic demand, while strong increase of imports has led to a negative growth contribution from net exports.

GDP growth is forecast to increase from 0.8% in 2014 to 1.7% in 2015 and 2.1% in 2016. Compared to the 2014 autumn forecast, expected GDP growth has been kept unchanged in both 2014 and 2015, while 2016 remains broadly in line with the previous forecast.

For the forecasting period, indicators point to a strengthening of domestic demand. In particular, there is a high savings surplus, especially in the corporate sector. Household disposable income is currently supported by growing real wages, low interest rates, low inflation and improving labour market conditions. After a steep increase in late 2013, consumer confidence has stayed high, in line with levels before the financial crisis (see Graph II.4.1).

Graph II.4.1: **Denmark - Private consumption and household confidence**



The conditions in the housing market have generally improved since mid-2012, but the recovery still appears to be fragile, with large regional differences, a low level of sales and a high average time on the market. Prices on apartments in the largest cities have picked-up clearly over the last two years, strengthening households' balance sheets and confidence.

Exports are projected to pick up gradually over the forecast period, reflecting a slow recovery of the European economy. Imports are expected to move broadly in line with exports, so the effect of net exports on growth should be more or less neutral. After depreciating for most of the year, the effective exchange rate of the krone has increased over the last couple of months, reflecting the depreciation of other Scandinavian currencies.

Since 2005, GDP growth has been negatively influenced by a trend decline in North Sea oil and gas production. As this is a very capital intensive sector, it helps to explain why the labour market has performed relatively well despite the weak recovery of GDP. Over 2015 and 2016, the oil and gas production in the North Sea is expected to decrease at a significantly slower pace than in recent years, so the drag on GDP growth is likely to be weaker.

A gradually improving labour market

The unemployment rate, which generally has been edging downwards since spring 2012, has remained broadly stable at 6.5% over the last three quarters. The gradual improvement of the labour market is expected to continue over the forecast horizon with the average annual unemployment rate projected to reach 6.4% in 2016. The pick-up in employment since spring 2013 is expected to continue reflecting the strengthening of economic activity. Following a projected increase of 0.7% in 2014, employment is expected to grow by 0.6% in 2015 and 0.9% in 2016.

Inflation is forecast to rise gradually over the forecast horizon, as the effect from the decline in commodity prices tapers off and the economic recovery strengthens. HICP inflation is expected to increase slowly from 0.3% in 2014 to 0.4% in 2015 and then to increase further to 1.6% in 2016.

Risks are broadly balanced

Macroeconomic risks to the forecast appear broadly balanced and mainly related to developments abroad. As a small and open economy, domestic demand in Denmark cannot be insulated from significant adverse developments abroad. On a more positive note, there are risks related to a possible release of pent-up demand in private consumption and in business investments.

Fiscal outlook remains stable

The general government deficit of 1.1% of GDP in 2013 is projected to turn into a surplus of 1.8% in 2014. This is significantly better than forecast in the autumn and primarily related to markedly higher than expected revenues from a one-off pension taxation measure and higher-than-expected revenues from a pension yield tax.

In 2015, however, the fiscal balance is expected to swing to a deficit of 2.8% of GDP and to remain broadly at that level in 2016. The worsening of the fiscal balance in 2015 is mainly due to lower one-off revenues from the pension taxation measures (expected to drop from 3% of GDP in 2014 to 0.8% of GDP in 2015) and from markedly lower pension yield tax revenues. Public revenues are also negatively influenced by the drop in oil prices, reducing revenues from oil and gas production in the North Sea. The current forecast points to a very narrow margin to the 3% reference value of the Treaty in both 2015 and 2016 (based on a no policy-change assumption in 2016). A further decrease in oil prices represents a negative risk in this regard.

The structural balance is expected to deteriorate from a surplus of about 1¼% of GDP in 2014 to a deficit of around 1¾% and 1.5% of GDP in 2015 and 2016 respectively. For the case of Denmark, the structural balance is to a large degree influenced by very large and volatile revenue items, such as revenues from oil and gas production and from pension yield taxes, which are not corrected for in the calculation of the structural balance.

The general government gross debt level is expected to decrease gradually from 45.1% of GDP in 2013 to 43.6% in 2016.

Table II.4.1:

Main features of country forecast - DENMARK

		2013			Annual percentage change					
bn DKK		Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		1886.4	100.0	1.6	1.2	-0.7	-0.5	**0.8**	**1.7**	**2.1**
Private Consumption		920.3	48.8	1.5	0.2	0.4	0.0	**0.3**	**1.7**	**2.1**
Public Consumption		504.0	26.7	2.1	-1.4	-0.2	-0.5	**0.9**	**1.6**	**0.1**
Gross fixed capital formation		345.7	18.3	2.4	0.3	0.6	0.9	**2.1**	**2.3**	**3.8**
of which: equipment		104.5	5.5	1.9	-6.3	11.2	7.2	**3.5**	**3.9**	**5.8**
Exports (goods and services)		1023.8	54.3	4.0	7.3	0.1	0.8	**2.8**	**3.0**	**4.5**
Imports (goods and services)		915.5	48.5	4.9	7.1	0.9	1.5	**3.7**	**3.0**	**4.4**
GNI (GDP deflator)		1953.9	103.6	1.8	1.6	-0.5	0.8	**0.6**	**1.8**	**2.1**
Contribution to GDP growth:	Domestic demand			1.7	-0.2	0.3	0.0	**0.8**	**1.7**	**1.8**
	Inventories			0.0	0.9	-0.6	-0.2	**0.2**	**-0.1**	**0.0**
	Net exports			-0.1	0.5	-0.4	-0.3	**-0.2**	**0.1**	**0.3**
Employment				0.4	-0.1	-0.3	0.0	**0.7**	**0.6**	**0.9**
Unemployment rate (a)				5.1	7.6	7.5	7.0	**6.6**	**6.5**	**6.4**
Compensation of employees / head				3.6	1.4	1.5	1.3	**2.0**	**2.1**	**2.3**
Unit labour costs whole economy				2.4	0.2	1.9	1.9	**1.9**	**1.0**	**1.1**
Real unit labour cost				0.2	-0.6	-0.6	0.3	**1.1**	**-0.1**	**-0.7**
Saving rate of households (b)				5.7	7.8	7.1	6.7	**1.1**	**11.3**	**11.2**
GDP deflator				2.2	0.8	2.5	1.5	**0.7**	**1.1**	**1.8**
Harmonised index of consumer prices				2.0	2.7	2.4	0.5	**0.3**	**0.4**	**1.6**
Terms of trade goods				0.9	-1.8	0.6	1.7	**0.4**	**0.0**	**-0.5**
Trade balance (goods) (c)				2.9	3.1	2.8	2.8	**2.3**	**2.1**	**1.8**
Current-account balance (c)				2.9	5.7	5.6	7.2	**6.5**	**6.6**	**6.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.0	6.1	5.6	7.2	**6.5**	**6.7**	**6.7**
General government balance (c)				0.7	-2.1	-3.7	-1.1	**1.8**	**-2.8**	**-2.7**
Cyclically-adjusted budget balance (c)				0.1	-0.6	-1.6	1.4	**4.2**	**-1.0**	**-1.5**
Structural budget balance (c)				-	-0.6	-0.1	-0.1	**1.2**	**-1.8**	**-1.5**
General government gross debt (c)				48.3	46.4	45.6	45.1	**45.0**	**42.7**	**43.6**

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

5. GERMANY

Sluggish growth but improvement under way

Germany's economic growth is expected to strengthen gradually with the support of a robust labour market and favourable financing conditions underpinning domestic demand, and improving external demand. The continued decline in oil prices should have a positive effect on growth but will also temporarily significantly lower inflation. Corporate investment is forecast to resume hesitantly, while public investment is expected to pick up further. The general government budget should remain in surplus over the forecast horizon.

Gradual acceleration of growth

Real GDP increased by 0.1 % (q-o-q, seasonally and working-day adjusted) in the third quarter of 2014, after falling by 0.1 % in the previous quarter. According to provisional official data, real GDP rose by 1.5 % in 2014. Annual growth was mostly driven by domestic demand, notably consumption, while the turnaround in private investment was interrupted in the second half of the year. Net external trade contributed moderately to growth.

Indicators point towards an acceleration of economic growth in the fourth quarter of 2014 and beyond. For Q4-2014, a subdued expansion is expected with small contributions from the industrial production and service sectors. A moderate increase in industry orders following stagnation in the first three quarters of 2014, together with the nascent brightening of firm's business expectations after a lengthy and strong deterioration last year suggest that economic activity may further strengthen in early 2015. Helped by the robust labour market, favourable financing conditions and an improving external environment, including a significant boost from falling oil prices, growth is forecast to gradually regain momentum over the course of 2015. GDP is expected to increase by a moderate 1.5 % in 2015, helped also by more working days, and to accelerate to a rate of 2.0 % in 2016.

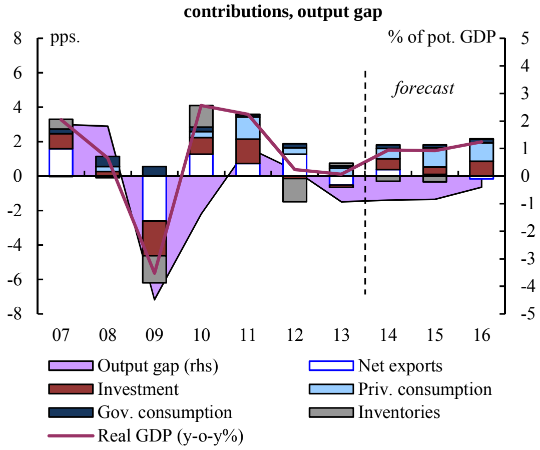
Noticeable consumption growth underpinned by a robust labour market and low inflation

Employment growth remained quite robust despite relatively weak economic activity. Going forward, the new general minimum wage may have some negative employment effects. Private consumption is forecast to grow noticeably thanks to low interest rates, high net immigration and continued real wage growth. The stronger-than-previously-expected decline in energy prices and corresponding low inflation widen the scope for increased consumption expenditures.

Investment upswing temporarily interrupted

Private investment continued to decline in the third quarter of 2014. While the preceding quarter's decrease can be largely attributed to some corrections after a weather-related boost in construction, the latest decline indicates an interruption of the recovery which started in 2013. Geopolitical tensions and concerns about economic developments in important trading partners have triggered a wait-and-see attitude among firms and the negative output gap suggests no need to expand production capacities in the near term. However, as domestic and external demand pick up and uncertainty eventually fades, corporate investment should resume its recovery in 2015, notably because of pent-up replacement investment and investment in new product lines. It bodes well, in this context, that domestic capital goods orders have resumed their upward trend. Housing investment is expected to moderate its rapid pace of expansion. Public sector investment is projected to gain momentum.

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



Neutral net exports but rising trade surplus

Exports are expected to grow robustly. Firm's export expectations have partly recovered and industrial orders from abroad continued to rise.

Export growth should further rise along with increasing demand growth in trading partners. Import growth is underpinned by consumption growth and the pick-up of investment. Despite the broadly neutral contribution to growth of net exports, the current account surplus should further increase in 2015 as the fall in oil prices amplifies improvements to the terms of trade.

Very low inflation due to declining oil prices

Declining oil prices are temporarily set to further considerably reduce inflation. The marked negative output gap might also limit price pressures, while rising labour costs are expected to uphold core inflation. Consumer prices are forecast to rise only slightly by 0.1 % in 2015 and more strongly by 1.6% in 2016.

Balanced headline budget and sizeable structural surplus

Revenues are expected to develop largely in line with economic growth over the forecast horizon. In 2015, a rise in the long-term care contribution rate is offset by lower pension and health insurance contribution rates. Slightly higher expenditure growth is projected, due in part to higher pensions and new benefits for certain pensioners, extended long-term care services, public sector wage increases, and a new childcare allowance.

Overall, taking into account the budget law for 2015 and the no-policy-change assumption, the general government balance is expected to show a small surplus in 2015 and 2016, and the structural surplus remains steadily above 0.5 % of GDP. As a result, the gross debt-to-GDP ratio is set to decrease rapidly. The on-going winding up of 'bad banks' could further reduce the debt stock.

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

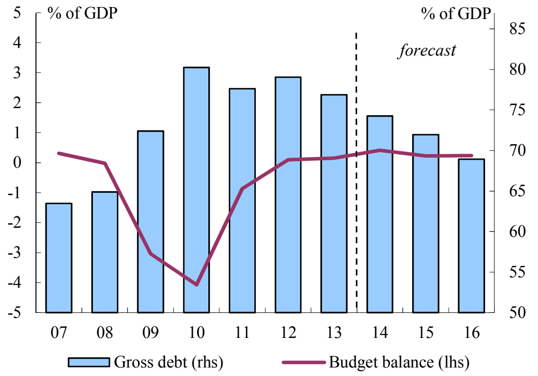


Table II.5.1:

Main features of country forecast - GERMANY

	2013		95-10	2011	2012	2013	2014	2015	2016
	bn EUR Curr. prices	% GDP							
GDP	2809.5	100.0	1.3	3.6	0.4	0.1	**1.5**	**1.5**	**2.0**
Private Consumption	1571.5	55.9	0.9	2.3	0.7	0.8	**1.1**	**2.0**	**2.0**
Public Consumption	541.2	19.3	1.4	0.7	1.2	0.7	**1.0**	**1.0**	**1.1**
Gross fixed capital formation	555.8	19.8	0.5	7.3	-0.7	-0.6	**3.1**	**2.1**	**4.3**
of which: equipment	177.9	6.3	2.8	6.1	-3.0	-2.4	**3.7**	**2.9**	**6.0**
Exports (goods and services)	1280.1	45.6	6.4	8.0	2.8	1.6	**3.7**	**4.8**	**5.3**
Imports (goods and services)	1116.9	39.8	5.5	7.2	0.0	3.1	**3.3**	**5.4**	**6.6**
GNI (GDP deflator)	2881.9	102.6	1.4	4.1	0.4	0.1	**1.4**	**1.4**	**1.9**
Contribution to GDP growth: Domestic demand			0.9	2.8	0.5	0.5	**1.4**	**1.7**	**2.1**
Inventories			0.0	0.0	-1.4	0.2	**-0.3**	**-0.3**	**0.0**
Net exports			0.4	0.7	1.3	-0.5	**0.4**	**0.1**	**-0.2**
Employment			0.5	1.3	1.1	0.6	**0.9**	**0.5**	**0.6**
Unemployment rate (a)			8.8	5.8	5.4	5.2	**5.0**	**4.9**	**4.8**
Compensation of employees / head			1.3	2.9	2.5	1.9	**2.6**	**2.9**	**2.9**
Unit labour costs whole economy			0.5	0.6	3.3	2.4	**1.9**	**1.8**	**1.5**
Real unit labour cost			-0.3	-0.5	1.8	0.3	**0.1**	**0.4**	**-0.5**
Saving rate of households (b)			16.2	16.5	16.4	16.3	**16.4**	**16.6**	**16.3**
GDP deflator			0.9	1.1	1.5	2.1	**1.8**	**1.4**	**2.0**
Harmonised index of consumer prices			-	2.5	2.1	1.6	**0.8**	**0.1**	**1.6**
Terms of trade goods			0.0	-2.9	-0.5	1.9	**1.8**	**1.6**	**0.4**
Trade balance (goods) (c)			5.2	6.0	7.2	7.4	**7.9**	**8.5**	**8.4**
Current-account balance (c)			2.3	6.2	7.2	6.9	**7.7**	**8.0**	**7.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.3	6.1	7.3	7.0	**7.8**	**8.0**	**7.8**
General government balance (c)			-2.8	-0.9	0.1	0.1	**0.4**	**0.2**	**0.2**
Cyclically-adjusted budget balance (c)			-2.6	-1.4	0.0	0.7	**0.9**	**0.7**	**0.5**
Structural budget balance (c)			-	-1.2	0.1	0.7	**0.9**	**0.7**	**0.5**
General government gross debt (c)			62.9	77.6	79.0	76.9	**74.2**	**71.9**	**68.9**

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

6. ESTONIA

Withstanding the impact of the downturn in Russia

Estonia's economy is expected to defy regional tensions and reach growth of 2.3% in 2015 and 2.9% in 2016 as euro area demand gradually recovers. Unemployment continues to decline. With the budget deficit expected to remain limited, Estonia's public debt should stay below 10% of GDP.

Slow recovery amid adverse external factors…

Despite economic weakness in its main trading partners, Finland and Russia, Estonia's real GDP grew 1.9% in 2014. Consumption remained the main growth driver, while exports grew stronger than expected (2%). Private consumption was led by strong wage growth, higher pensions and lower consumer price inflation. Investment activity fell sharply in mid-2014, most likely due to negative confidence effects from heightened geopolitical tensions. Housing investment remained moderate, supported by favourable financing conditions and raising income.

…as investment activity remains weak…

GDP growth is forecast to remain at around 2% in 2015, but to reach 2.9% in 2016 as the global outlook improves. Corporate investment, however, is expected to suffer from lingering excess capacity and continued uncertainties surrounding the export outlook in 2015. In 2016, equipment investment growth should rise to 6% in order to meet growing external demand. A rise in the number of buildings permits issued in mid-2014 suggests that housing investment should also pick up over the coming quarters. Public investment is expected to gradually start growing again in the course of 2015, after disbursements under the EU's development fund programmes resume.

…while wage growth supports vigorous consumption.

Consumption growth is forecast to remain vigorous, supported by strong growth in real incomes and helped by income tax cuts and higher family benefits in 2015. After moderating in 2014 along with output growth, nominal wage growth is expected to regain pace at around 5.1% in 2016. Real incomes should enjoy support from the recovery in euro area demand expected in mid-2015, a 10% increase in the minimum wage and lower unemployment.

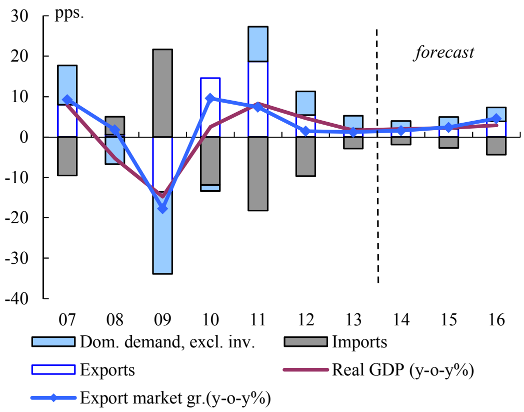
Despite very low interest rates, household borrowing is projected to increase only moderately, as banks remain cautious about the private sector's relatively high level of indebtedness and macro-prudential restrictions for housing loans enter into force in March 2015.

Trade surplus surprises on the upside

Net exports performed better than expected in 2014. Exports of electronics rose in the second half of the year as exporters managed to mitigate the negative impact of the crisis in Ukraine. The growth of service imports meanwhile came almost to a halt. Despite the downturn in Russia, this trend is expected to continue, and the overall trade balance should remain positive throughout the forecast period, supported by a recovery in the euro area demand from mid-2015.

Downside risks to the forecast could stem from a further escalation of the crisis in Ukraine, which would affect both trade flows with neighbouring Russia and inflows of foreign direct investment.

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



Unemployment in swift decline…

Labour supply constraints are increasing, as very low birth rates and high emigration shrink Estonia's working age population, particularly in its 19-35 age category and total employment. This trend is expected to reduce the unemployment rate to around 6% in 2016 down from 8.6% in 2013 and to exert upward pressure on wages. Labour force participation remains high at close to 70%, and is set to remain stable over the forecast horizon.

...while inflation surprises on the downside.

HICP inflation fell to 0.5% in 2014 largely because of steep declines in international prices of minerals and oil. At the same time, warm weather and easier access to cheaper regional energy networks resulted in lower electricity prices. The recent decline in global oil prices, although partly offset by the euro's depreciation against the US dollar should bring inflation in 2015 to 0.4%, much lower than projected in the autumn forecast. In 2016, further excise tax and administrative price increases, as well as continued high wage growth, are expected to push inflation back to around 1.6%.

Budget deficits low and relatively stable

The general government deficit is projected to decline marginally to 0.4% of GDP in 2014, helped by solid growth in the consumption and labour tax bases. Moreover, tax revenue collection has benefited from the closure of tax fraud schemes and the introduction of tax enhancing measures in the second half of 2014.

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

In structural terms, the fiscal deficit is forecast to improve to around ¾% of GDP in 2014 and 2015. In 2016, under a no-policy-change assumption, the structural budgetary position is projected to worsen by approximately ¼ pp. of GDP. Estonia's debt-to-GDP ratio is expected to fall to 9.8% in 2014 and about 9.5% thereafter, as nominal deficits of the central government should be financed from accumulated financial assets.

Table II.6.1:

Main features of country forecast - ESTONIA

	2013		Annual percentage change						
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	18.7	100.0	4.5	8.3	4.7	1.6	**1.9**	**2.3**	**2.9**
Private Consumption	9.6	51.5	5.1	2.5	5.1	3.8	**4.4**	**4.3**	**4.2**
Public Consumption	3.6	19.1	2.3	1.7	3.3	2.8	**1.3**	**1.6**	**1.3**
Gross fixed capital formation	5.1	27.3	6.3	33.0	10.4	2.5	**-1.0**	**1.5**	**3.7**
of which: equipment	2.2	12.0	-	42.2	34.1	5.3	**-2.1**	**2.0**	**6.0**
Exports (goods and services)	16.1	86.1	9.1	24.9	6.2	2.4	**2.0**	**2.4**	**4.8**
Imports (goods and services)	15.9	84.6	9.4	26.5	11.8	3.3	**2.2**	**3.3**	**5.5**
GNI (GDP deflator)	18.3	97.5	4.2	8.3	5.9	3.2	**0.6**	**2.4**	**3.1**
Contribution to GDP growth: Domestic demand			5.4	8.6	5.9	3.2	**2.3**	**2.9**	**3.4**
Inventories			0.2	3.5	-1.3	-2.2	**2.2**	**0.0**	**0.0**
Net exports			-1.0	0.5	-4.2	-0.7	**-0.1**	**-0.7**	**-0.5**
Employment			-1.4	6.5	1.6	1.2	**0.0**	**-0.2**	**-0.2**
Unemployment rate (a)			10.2	12.3	10.0	8.6	**7.7**	**6.8**	**5.9**
Compensation of employees / head			14.1	0.8	6.5	7.2	**5.6**	**4.9**	**5.1**
Unit labour costs whole economy			7.7	-0.8	3.4	6.8	**3.6**	**2.4**	**1.9**
Real unit labour cost			-0.6	-3.7	0.7	2.2	**1.2**	**0.3**	**-0.6**
Saving rate of households (b)			1.9	10.3	9.1	9.0	**8.7**	**9.6**	**8.8**
GDP deflator			8.4	3.0	2.7	4.5	**2.3**	**2.1**	**2.5**
Harmonised index of consumer prices			-	5.1	4.2	3.2	**0.5**	**0.4**	**1.6**
Terms of trade goods			0.3	-1.8	-1.7	0.8	**0.4**	**0.3**	**0.1**
Trade balance (goods) (c)			-15.6	-2.1	-6.7	-5.1	**-5.1**	**-5.1**	**-5.4**
Current-account balance (c)			-8.4	1.4	-2.4	-0.4	**-1.5**	**-1.7**	**-2.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.4	5.5	1.1	2.4	**1.0**	**0.7**	**0.3**
General government balance (c)			-	1.0	-0.3	-0.5	**-0.4**	**-0.6**	**-0.6**
Cyclically-adjusted budget balance (c)			-	1.3	-1.3	-1.2	**-0.9**	**-1.0**	**-1.1**
Structural budget balance (c)			-	-0.2	-0.3	-1.1	**-0.7**	**-0.8**	**-1.0**
General government gross debt (c)			-	6.0	9.7	10.1	**9.8**	**9.6**	**9.5**

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

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

7. IRELAND

Resilient growth and fiscal progress

Ireland's economy is expected to remain resilient and to keep growing faster than the EU average. Thanks to buoyant tax revenues, the deficit remains on a downward path despite considerable overspending.

Growth slowed in the third quarter but is still set to exceed expectations

Confirming the volatility of Ireland's national accounts, real GDP growth fell close to zero in the third quarter of 2014, after registering record growth in the first half of the year. Nevertheless, real GDP grew by 4.9% y-o-y in the first nine months, setting the ground for a very solid rate of annual growth, even if GDP growth in the fourth quarter would turn out to be flat.

Economic growth has been driven primarily by net exports, including from pharmaceutical companies, which recovered from the expiration of patents last year. To a significant extent, however, reported exports are explained by a surge in *contracted production* [43], the evolution of which is subject to uncertainty. Investment has been volatile, due to the influence of aircraft purchases and intellectual property deals by multinationals. Yet, excluding these components, investment is strong — up by 19.6% y-o-y in the first nine months of 2014.

Continued strength in net exports and investment should bring real GDP growth to 4.8% in 2014, up from 4.6% in the 2014 autumn forecast.

Household consumption to recover and growth to continue

Consumption is forecast to gradually play a bigger role in propelling growth in 2015. Contrary to expectations, household spending did not pick up significantly in real terms in 2014. However, this sluggishness is to some extent due to statistical effects. [44] Employment figures, retail sales and tax receipts all point to a recovery in consumption.

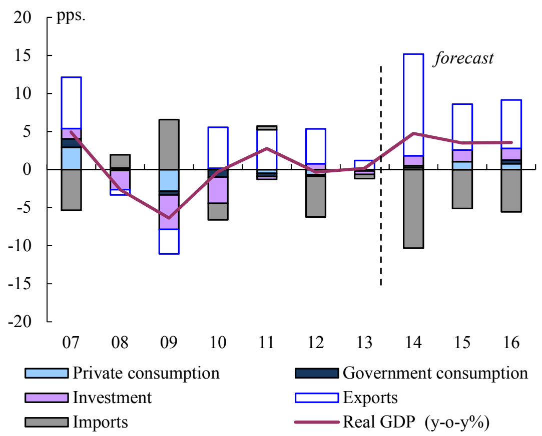
The combined effect of rising wages and large falls in energy prices should provide further stimulus to consumption in 2015. Unemployment is expected to decline, albeit more moderately than in 2014. Rising demand should dispel deflationary worries and inflation is forecast to be higher than the euro-area average, although uncertainty remains.

Overall, businesses and households remain focused on debt reduction, which keeps demand for credit subdued and weighs on domestic demand. Domestic banks improved profitability in 2014 but continue to deleverage and repair non-performing loans, which reduces their capacity to make new loans. Yet, in the near term, low credit growth might not be a constraint for SMEs, which at this stage mostly use retained earnings for financing.

The Irish economy will continue to benefit from its base of multinational companies and its trade links with the fast growing US economy. Net exports should therefore continue to grow in 2015 and 2016, in spite of slowing growth in the UK and the low growth in the euro-area.

Real GDP growth looks resilient in 2015 and 2016 but nearly 1.2 pps. lower than the exceptional growth experienced in 2014. The main risks relate to the strength of the euro-area and UK outlooks.

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



Despite overspending, the deficit continues to fall thanks to buoyant tax revenue

The general government deficit is forecast to drop to 4.0% of GDP in 2014, down from 5.7% in 2013.

(43) *Contracted production* refers to goods produced abroad on behalf of an entity resident in Ireland. The sale of goods is recorded as an Irish export and inputs to production as Irish imports. This production does not have the same impact in jobs and tax revenues in Ireland as local production.

(44) The deflator for private consumption rose significantly in the first three quarters of 2014 due to rising estimates of imputed rents.

This reduction reflects the effects of buoyant economic growth in 2014, additional windfall revenues, lower interest expenditure and the effect of the new ESA 2010 methodology. While our estimate for the deficit is now 0.3 pp. higher than in the autumn forecast, it still remains well below the 5.1% target for 2014 recommended under the Excessive Deficit Procedure.

Tax revenues increased by 9.2% y-o-y through December. Income tax and VAT receipts similarly increased, mirroring improvements in the labour market and consumer confidence. However, spending rose further at the end of 2014, mainly in the healthcare sector. Unlike in previous years, this overspending was not offset by savings elsewhere.

On top of the extra spending, the deferral of water charges to the first quarter of 2015 and the front-loading of capital injections in Irish Water also negatively affected the 2014 budget balance. Finally, the settlement of a pension scheme, after a ruling of the European Court of Justice, increases the 2014 deficit by around 0.1% of GDP.

For 2015, the deficit is projected at 2.9% of GDP. The forecast includes tax cuts and expenditure increases of around 0.5% of GDP planned in the 2015 budget and a supplementary budget passed in December. Under a no-policy-change assumption the deficit is expected at 3.1% of GDP in 2016. Risks around fiscal projections mainly relate to the durability of the favourable economic outlook and to persisting spending pressures.

The structural deficit is forecast to decrease to around 3.4% of GDP in 2015 and 2016, from 4.8% of GDP in 2013.

Public debt is projected to fall to 107.9% of GDP in 2016, down from 123.3% in 2013. This marked improvement largely reflects the liquidation of the Irish Banking Resolution Corporation (IBRC) [45], along with the pick-up in growth.

[45] With the transition from ESA95 to ESA2010, IBRC became part of general government and retroactively raised the level of general government debt in per cent of GDP. However, the planned liquidation of IBRC (with IBRC liabilities being repaid through the sale of the assets and through the use of cash and other financial assets) initiated in early 2013 will reverse this effect.

Table II.7.1:

Main features of country forecast - IRELAND

	2013			Annual percentage change					
	bn EUR Curr. prices	**% GDP**	**95-10**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
GDP	174.8	100.0	5.1	2.8	-0.3	0.2	**4.8**	**3.5**	**3.6**
Private Consumption	78.7	45.0	4.6	-1.1	-1.4	-0.4	**0.5**	**2.4**	**1.8**
Public Consumption	30.6	17.5	4.0	-2.2	-1.3	0.0	**1.6**	**-0.1**	**2.9**
Gross fixed capital formation	26.5	15.2	4.7	-2.2	5.2	-2.8	**8.6**	**9.7**	**8.9**
of which: equipment	6.8	3.9	4.8	2.1	-2.5	1.8	**17.0**	**10.0**	**8.5**
Exports (goods and services)	184.1	105.3	9.2	5.5	4.7	1.1	**12.7**	**5.3**	**5.5**
Imports (goods and services)	147.7	84.5	8.3	-0.6	6.9	0.6	**12.2**	**5.6**	**6.0**
GNI (GDP deflator)	148.7	85.1	4.4	-0.6	1.2	3.2	**4.4**	**3.3**	**3.2**
Contribution to GDP growth: Domestic demand			4.0	-1.3	-0.1	-0.6	**1.8**	**2.6**	**2.8**
Inventories			0.0	0.7	-0.3	0.4	**-0.1**	**0.0**	**0.0**
Net exports			1.7	5.7	-0.8	0.6	**3.0**	**0.9**	**0.8**
Employment			2.7	-1.8	-0.6	2.4	**2.0**	**2.2**	**1.9**
Unemployment rate (a)			7.2	14.7	14.7	13.1	**11.1**	**9.6**	**8.8**
Compensation of employees / head			4.4	1.2	0.8	2.0	**-1.3**	**1.7**	**1.9**
Unit labour costs whole economy			1.9	-3.2	0.5	4.2	**-3.9**	**0.4**	**0.3**
Real unit labour cost			-0.7	-4.1	-0.8	3.2	**-4.3**	**0.0**	**-0.4**
Saving rate of households (b)			-	11.2	10.2	9.4	**7.5**	**7.0**	**6.7**
GDP deflator			2.7	0.9	1.3	1.0	**0.4**	**0.4**	**0.6**
Harmonised index of consumer prices			2.4	1.2	1.9	0.5	**0.3**	**0.3**	**1.3**
Terms of trade goods			0.0	-6.2	-0.7	0.5	**-1.0**	**-0.7**	**-0.5**
Trade balance (goods) (c)			21.2	25.3	24.5	20.7	**22.6**	**21.6**	**20.4**
Current-account balance (c)			-1.3	0.1	0.9	3.8	**5.0**	**4.6**	**3.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.8	0.2	0.9	3.8	**5.7**	**5.1**	**4.3**
General government balance (c)			-2.4	-12.6	-8.0	-5.7	**-4.0**	**-2.9**	**-3.1**
Cyclically-adjusted budget balance (c)			-2.7	-11.9	-7.1	-4.4	**-3.9**	**-3.3**	**-3.4**
Structural budget balance (c)			-	-8.0	-7.1	-4.8	**-3.9**	**-3.4**	**-3.4**
General government gross debt (c)			45.9	111.1	121.7	123.3	**110.8**	**110.3**	**107.9**

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

8. GREECE

Uncertainty clouds the recovery

Greece's economy began to grow again in the second quarter of 2014, as private consumption strengthened and net exports grew. But uncertainty on the direction of policies is affecting confidence and may dent the speed of the recovery.

Growth at risk

After six years of recession, Greece's economy returned to growth in 2014. Real GDP increased by 0.4% y-o-y in the second quarter of 2014 and by 1.6% y-o-y in the third quarter, supported mainly by rising private consumption and the strong performance of exports, especially tourism and shipping. Investment increased in the third quarter of 2014 for the first time since 2008. The growth momentum was fairly firm in the second half of 2014, although the early election has affected confidence and investment. After strengthening in October and November, the Economic Sentiment Indicator fell to 98.9 in December, its lowest reading since April. Growth in 2014 is estimated to turn out at 1.0% y-o-y in real terms, but uncertainty is expected to weigh on growth in the first quarter of 2015.

The forecast has been prepared on the basis of the full implementation of programme commitments. On this basis, private consumption should benefit from the steep drop in oil prices and improvements in household disposable income. Export growth is expected to continue in 2015, on the back of the euro's depreciation, gains in competitiveness, and continued improvements in the business environment. Investment should grow markedly on the assumption that the political environment stabilises. Overall, real GDP is forecast to grow by 2.5% in 2015.

In 2016, real GDP growth is projected to strengthen to 3.6%, as investment is expected to gather momentum on the basis that agreed structural reforms are implemented.

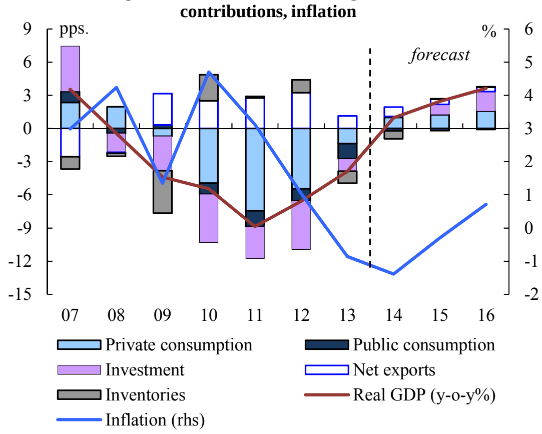
Greece's current account deficit is projected to drop to 2.0% of GDP in 2014 and 1.5% in 2015 before decreasing to 0.9% in 2016. The underlying assumption is that external trade develops sustainably, supported by continued structural and institutional reforms.

After peaking in 2013, unemployment started to fall in 2014 and is expected to have dropped to 26.6%, as a result of the creation of about 100,000 new jobs in the private sector. We project the unemployment rate will fall to 25.0% in 2015 and 22.0% in 2016 as a result of sustained growth and the success of employment programmes.

Consumer prices fell by 1.4% in 2014, reflecting the fall in oil prices, lower labour costs, and the healthier competition environment in the retail, health and energy sectors. Inflation is expected to remain in negative territory in 2015 due to the continuing internal adjustment and low international oil prices, and to become positive in 2016 as the recovery gains pace.

The balance of risks points to the downside due to the uncertainty on the direction of policies, which could produce a deeper and more lasting effect on confidence, consumption and investment.

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



Public finances continue to improve

Greece's overall fiscal outlook continues to strengthen. The fiscal adjustment achieved in recent years has significantly improved the fiscal balance. In 2014, a primary balance surplus of 1.7% of GDP is forecast, based on the monthly data up to November 2014.

The headline deficit - no longer impacted by the large one-off effects of bank recapitalisations recorded in 2012 and especially 2013 - is now projected to fall to 2.5% of GDP in 2014.

Compared to the autumn forecast, the government's fiscal balance is expected to be somewhat weaker in 2014 but stronger in 2015, as profits from the national central bank's holdings of Greek government bonds in 2014 (about 1.0% of GDP) are now expected to be recorded in 2015.

The projections for 2015 and 2016 assume that Greece will meet its programme's primary surplus targets, while the economic environment is improving and fiscal adjustment continues. To achieve the fiscal targets and complete the fifth review, further measures need to be taken on top of those foreseen in the budget adopted for 2015. If the programme targets are met, Greece should record a headline general government surplus of 1.1% and 1.6% of GDP in 2015 and 2016. The structural balance has also turned into a substantial surplus from a deep deficit in 2011. The government's debt-to-GDP ratio is expected to stabilise in 2014, before declining markedly in 2015 and 2016, as the primary surplus continues to improve and the economy grows at a sustained rhythm. Favourable interest rates together with the back-loaded payment schedule for loans from the European Financial Stability Facility (EFSF) will help to keep interest expenditure low for a long period, despite the high stock of debt.

Risks to the fiscal outcomes are related to a temporary deterioration of tax receipts around the turn of the year reflecting uncertainty on the implementation of the budget measures or from a stronger deceleration of the economy.

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

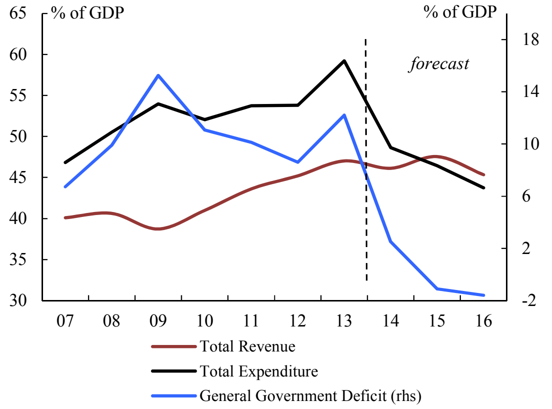


Table II.8.1:

Main features of country forecast - GREECE

	2013		95-10	Annual percentage change					
	bn EUR Curr. prices	**% GDP**	**95-10**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
GDP	182.4	100.0	2.4	-8.9	-6.6	-3.9	**1.0**	**2.5**	**3.6**
Private Consumption	129.9	71.2	2.6	-10.6	-7.8	-2.0	**1.4**	**1.7**	**2.2**
Public Consumption	36.5	20.0	2.9	-6.6	-5.0	-6.5	**-1.1**	**-0.9**	**-0.5**
Gross fixed capital formation	20.5	11.2	2.4	-16.8	-28.7	-9.5	**0.8**	**8.4**	**15.0**
of which: equipment	7.9	4.4	7.3	-22.8	-29.2	-4.4	**10.8**	**12.5**	**16.5**
Exports (goods and services)	55.1	30.2	5.7	0.0	1.2	2.1	**8.0**	**5.6**	**4.8**
Imports (goods and services)	60.6	33.2	5.5	-9.0	-9.1	-1.6	**4.7**	**4.0**	**3.5**
GNI (GDP deflator)	182.4	100.0	2.1	-9.5	-3.4	-4.5	**1.3**	**2.5**	**3.8**
Contribution to GDP growth:	Domestic demand		2.9	-11.8	-11.0	-3.9	**0.8**	**2.0**	**3.2**
	Inventories		0.0	0.1	1.2	-1.1	**-0.7**	**0.0**	**0.1**
	Net exports		-0.5	2.8	3.2	1.1	**0.9**	**0.5**	**0.4**
Employment			0.8	-6.9	-7.8	-3.8	**0.6**	**2.6**	**4.0**
Unemployment rate (a)			10.1	17.9	24.5	27.5	**26.6**	**25.0**	**22.0**
Compensation of employees / head			6.3	-2.3	-2.0	-7.1	**-1.5**	**0.0**	**1.7**
Unit labour costs whole economy			4.6	-0.2	-3.3	-7.0	**-1.9**	**0.2**	**2.1**
Real unit labour cost			0.6	-0.9	-3.4	-4.9	**0.3**	**0.4**	**1.2**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			4.0	0.8	0.1	-2.3	**-2.2**	**-0.2**	**0.9**
Harmonised index of consumer prices			4.1	3.1	1.0	-0.9	**-1.4**	**-0.3**	**0.7**
Terms of trade goods			-0.1	1.5	-0.2	1.6	**1.0**	**0.4**	**0.4**
Trade balance (goods) (c)			-14.8	-12.6	-10.9	-10.6	**-11.3**	**-11.5**	**-11.2**
Current-account balance (c)			-9.3	-10.4	-4.4	-2.3	**-2.0**	**-1.5**	**-0.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.8	-8.5	-2.6	0.3	**-0.3**	**0.3**	**0.8**
General government balance (c)			-	-10.1	-8.6	-12.2	**-2.5**	**1.1**	**1.6**
Cyclically-adjusted budget balance (c)			-	-5.6	-2.5	-5.8	**2.5**	**4.1**	**2.1**
Structural budget balance (c)			-	-6.1	-0.3	2.7	**1.9**	**1.7**	**1.2**
General government gross debt (c)			-	171.3	156.9	174.9	**176.3**	**170.2**	**159.2**

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

9. SPAIN
Rising growth on the back of domestic demand

Spain's economic growth is set to pick up as domestic demand benefits from an improving labour market, easier financing conditions, greater confidence and lower oil prices. Net exports, by contrast, are expected to dampen growth, although this effect will gradually diminish this year and next, as Spain's competitiveness improves. At the same time, the government deficit should continue to narrow.

After three years of recession, Spain's economy began to grow again in 2014 and seems to be gathering momentum as labour market prospects improve, financial conditions loosen, confidence strengthens, economic uncertainty fades and energy prices fall. These factors are expected to sustain growth over the forecast horizon, despite the continued drag from high levels of private and public indebtedness and deleveraging. The speed of the ongoing external adjustment, however, is likely to slow.

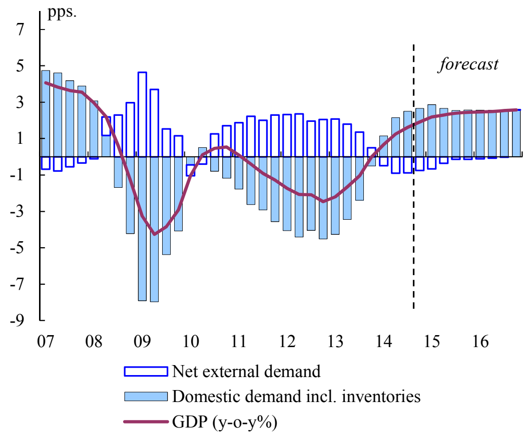
Domestic demand keeps driving growth

After having expanded by 0.5% q-o-q in both the second and the third quarters of 2014, economic activity is expected to have gained further momentum in the last quarter, leading to an overall GDP growth of 1.4% for 2014 as a whole. GDP growth is projected to reach 2.3% in 2015 and 2.5% in 2016, mainly driven by domestic demand. The sizeable drag from the external sector observed over the first half of 2014 should narrow, and net exports are expected to prove slightly negative for growth in 2015 and turn neutral in 2016.

Recent hard data on activity and soft data from confidence indicators both suggest that private consumption remained quite resilient in the last quarter of 2014. Such resilience is expected to persist as a result of robust employment growth and rising real gross disposable income, which should also benefit from falling price levels throughout most of 2015 and low inflation thereafter. Lower precautionary savings are forecast to reduce the households' saving rate further in the short term. Households' leverage ratios are set to keep falling as GDP and disposable income expand.

Positive demand prospects, easing financing conditions and the projected rebound in exports are expected to underpin investment in equipment, despite the ongoing balance-sheet correction of non-financial corporations. After seven years of adjustment, a modest pick-up in construction, including residential investment, is expected in 2015.

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



Exports are expected to accelerate during 2015, backed by continued improvements in price and non-price competitiveness and the projected recovery in Spain's main export markets. At the same time, after the sharp expansion in 2014, imports are forecast to moderate slightly to align with long-term final demand elasticities. The current account is set to register a small deficit of 0.1% of GDP in 2014, but this should turn into surpluses of some 0.5% thereafter, also due to the impact of the decline in oil prices. In turn, net external lending is expected to narrow sharply in 2014, to 0.3% of GDP, before rising again to around 1.0% of GDP as of 2015.

Inflation is expected to have averaged -0.2% in 2014 and will remain negative in the short term, also as a result of falling oil prices. Hence, inflation is foreseen to fall to -1.0% in 2015. In 2016, however, inflation is forecast to turn positive, but remain low, as the economy's output gap remains very negative.

Sustained employment growth

Having peaked at 26.9% of the workforce in the first quarter of 2013, the unemployment rate declined to 23.7% in the fourth quarter of 2014.

Job creation gathered steam in the second half of 2014, while the size of the labour force continued to contract. These positive trends are expected to intensify over the forecast horizon, helped by continued wage moderation and only modest increases in nominal unit labour costs. With the labour force contraction expected to fade slowly, unemployment is forecast to fall to 20.7% in 2016.

The fall in oil prices and the monetary policy interventions by the ECB could translate into higher growth and less negative inflation than assumed in this forecast, as they could push private consumption and investment further.

Continued consolidation helped by recovery

Recent data indicates that public finances continued improving in 2014, with the general government deficit in the first three quarters of the year reaching 3.6% of GDP, 0.6 pp. lower than last year (net of bank recapitalisations). All in all, the deficit for the year as a whole is expected to narrow to around 5.6% of GDP, down from 6.3% of GDP in 2013, net of bank recapitalisations in both years.

Going forward, the reduction of the deficit is relying mostly on the improving economic outlook. The government deficit is expected to fall to around 4.5% and 3.7% of GDP in 2015 and 2016, respectively, despite the impact from recently implemented tax cuts. The reduction in the deficit is held back by subdued nominal GDP growth, which is acting as a drag on revenue developments. Risks stem from uncertainty regarding the impact of the tax reform on revenues, contingent liabilities in the motorway sector and implementation risks in an election year.

While pension expenditures are forecast to continue rising, falling unemployment should limit the growth of social transfers in the near future. Thanks to lower interest rates, interest expenditure growth should moderate over the forecast horizon.

Spain's structural deficit is expected to widen by about ¼ pp. per year in 2015 and 2016, reaching 2¾% in 2016. Still sizable budget deficits and low nominal GDP growth are expected to push the public debt ratio above 100% in 2015 and to 102.5% in 2016.

Table II.9.1:

Main features of country forecast - SPAIN

	2013		Annual percentage change						
	bn EUR Curr. prices	**% GDP**	**95-10**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
GDP	1049.2	100.0	2.8	-0.6	-2.1	-1.2	**1.4**	**2.3**	**2.5**
Private Consumption	610.3	58.2	2.5	-2.0	-2.9	-2.3	**2.3**	**2.7**	**2.6**
Public Consumption	204.2	19.5	4.1	-0.3	-3.7	-2.9	**0.5**	**0.3**	**0.1**
Gross fixed capital formation	194.3	18.5	3.4	-6.3	-8.1	-3.8	**3.2**	**4.7**	**5.2**
of which: equipment	60.6	5.8	4.5	0.9	-9.1	5.3	**13.4**	**7.9**	**8.7**
Exports (goods and services)	331.1	31.6	5.2	7.4	1.2	4.3	**4.5**	**5.4**	**6.0**
Imports (goods and services)	295.3	28.1	5.8	-0.8	-6.3	-0.5	**7.7**	**6.9**	**6.7**
GNI (GDP deflator)	1041.9	99.3	2.8	-0.9	-1.2	-1.1	**0.7**	**2.9**	**2.7**
Contribution to GDP growth: Domestic demand			3.1	-2.7	-4.2	-2.7	**2.0**	**2.6**	**2.6**
Inventories			0.0	0.0	-0.1	0.0	**0.2**	**0.0**	**0.0**
Net exports			-0.3	2.1	2.2	1.4	**-0.8**	**-0.3**	**0.0**
Employment			2.0	-2.6	-4.4	-3.3	**0.8**	**1.8**	**2.0**
Unemployment rate (a)			13.8	21.4	24.8	26.1	**24.3**	**22.5**	**20.7**
Compensation of employees / f.t.e.			3.5	0.9	-0.6	1.7	**0.5**	**0.7**	**0.8**
Unit labour costs whole economy			2.7	-1.1	-3.0	-0.4	**-0.2**	**0.2**	**0.3**
Real unit labour cost			-0.3	-1.2	-3.2	-1.1	**0.5**	**0.0**	**-0.7**
Saving rate of households (b)			11.4	11.9	9.5	10.4	**9.0**	**9.3**	**9.4**
GDP deflator			3.1	0.1	0.2	0.7	**-0.7**	**0.2**	**1.0**
Harmonised index of consumer prices			2.9	3.1	2.4	1.5	**-0.2**	**-1.0**	**1.1**
Terms of trade goods			0.3	-4.3	-0.9	1.4	**-0.7**	**2.4**	**-0.4**
Trade balance (goods) (c)			-5.5	-4.1	-2.7	-1.2	**-2.0**	**-1.7**	**-1.9**
Current-account balance (c)			-4.5	-3.3	-0.4	1.5	**-0.1**	**0.6**	**0.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.8	-2.9	0.1	2.1	**0.3**	**1.0**	**0.9**
General government balance (c)			-2.6	-9.4	-10.3	-6.8	**-5.6**	**-4.5**	**-3.7**
Cyclically-adjusted budget balance (c)			-3.0	-6.4	-6.5	-2.7	**-2.3**	**-2.4**	**-2.7**
Structural budget balance (c)			-	-6.2	-3.5	-2.2	**-2.1**	**-2.3**	**-2.7**
General government gross debt (c)			52.5	69.2	84.4	92.1	**98.3**	**101.5**	**102.5**

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

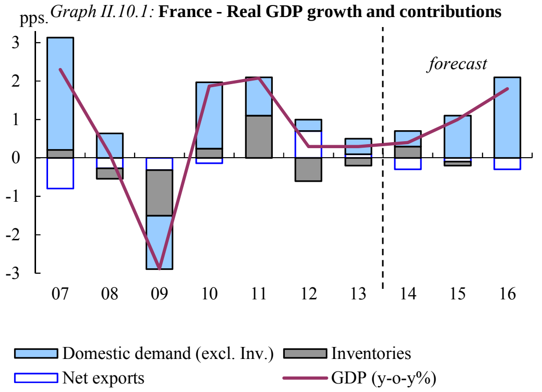
10. FRANCE
Signs of a moderate recovery ahead

France's economic growth is forecast to slowly gain momentum in 2015 and 2016, primarily driven by household consumption. Despite rising external demand and favourable terms of trade, the trade deficit is unlikely to be significantly reduced over the forecast horizon. The government's headline deficit is expected to peak in 2014 at 4.3% before receding modestly in 2015, mainly as a result of additional revenue measures.

Slowly coming out of stagnation

After three years of sluggish activity, the modest rebound in GDP growth, driven by inventories and public spending, in the third quarter of 2014 is expected to bring France's growth rate for the whole year to a still disappointing 0.4%. The slight improvement in business confidence suggests that a timid recovery could take hold in 2015. Falling energy prices should improve the financial position of households and businesses, hence stimulating activity. GDP growth is thus expected to progressively gain traction and reach 1.0% in 2015 and 1.8% in 2016, under the usual no policy change assumption.

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



Increasing domestic demand

The gradual economic recovery is set to be mainly driven by private consumption, the traditional driver of the French economy. Dynamic wages, low inflation, a reduced energy bill and recently-decided tax cuts for low-income households should support consumer spending. In addition, households are expected to dip somewhat into their savings in order to sustain their spending habits.

The acceleration in investment expected from 2015 will mainly be supported by the gradual recovery of aggregate demand, against a background of favourable credit conditions, reinforced by the ECB's recently announced measures. The policy measures to reduce labour costs, namely the 'Tax Credit for Competitiveness and Employment' (CICE) and the 'Responsibility and Solidarity Pact' (RSP), as well as the *Juncker investment plan* are also expected to further boost investment from 2016 onwards.

No support from external trade

The expected rebound in world demand is projected to give some impulse to exports from 2015, while the continued depreciation of the euro, together with the CICE and the RSP, is expected to reduce the pace of losses in export market shares in the medium term, although without reversing them. As a result, net exports will continue to weigh on GDP growth over the forecast horizon, as the rise in domestic demand leads to more imports. Nevertheless, the external deficits are expected to improve in 2014 and 2015 on the back of favourable terms of trade, mostly reflecting the fall in energy prices, before deteriorating again in 2016.

Weak labour market conditions, low inflation

With the slow recovery, the labour cost reductions associated with the CICE and the RSP are likely to have only a limited positive impact on employment in the short term. Therefore, over the forecast horizon, these employment gains will be insufficient to absorb the growth of the labour force, and unemployment is therefore expected to remain high.

Falling energy prices are projected to further reduce inflation to zero in 2015. Prices are then set to accelerate moderately and reach 1.0% in 2016, as the output gap starts to dwindle and inflationary pressures generated by the euro depreciation and the ECB's new monetary policy are felt.

Balanced risks to the growth outlook

The impact of reduced labour costs on exporting firms could be lower than expected, implying a more negative effect on growth from the external sector. On the other hand, the oil price fall could have a stronger-than-anticipated impact on growth and a forceful implementation of planned reforms to improve competition in services (i.e. the draft Law on Growth and Economic Activity) could boost the economy further. Both factors would also benefit the general government balance.

Measures have been taken to curb the increase in the headline deficit in 2015

The general government deficit in 2014 is expected to stand at 4.3% of GDP, 0.2 pp. above the 2013 level. Current public revenues are estimated to grow by 2.0% in 2014, compared to 3.3 % in 2013. Meanwhile, public expenditures are projected to increase by 2.2% as savings have been outweighed by the gradual ramp-up of the CICE. Net of tax credits, expenditures are actually estimated to have slowed down. Recent information suggests that public investment by local authorities may be lower than initially expected, resulting in an overall contraction of public investment. The – temporary – reduction in France's contribution to the EU budget recorded in 2014 also contributes to the moderate expenditure growth.

In 2015, the additional measures adopted after the publication of the autumn forecast, together with the improving macroeconomic outlook are set to result in a decrease in the general government deficit to 4.1% of GDP. Details of the package presented by the government on 27 October have been made public as part of the discussions on the supplementary budget for 2014 and on the budget for 2015. Furthermore, taking into account additional information on expenditure cuts planned for 2015 and recent developments in interest rates, total public expenditures are expected to increase by only 1.5%, a significant slowdown compared to previous years.

Overall, the structural balance is expected to improve by about ½ pp. of GDP in 2014 and ⅓ pp. in 2015. Under a no-policy-change assumption, the headline deficit in 2016 is set to remain at 4.1% of GDP despite higher GDP growth as expenditure cuts for that year remain largely unspecified.

Despite low interest rates on government bonds, the still high government's headline deficit and the relatively modest nominal GDP growth are expected to result in an increasing public debt-to-GDP ratio. From 92.2% of GDP in 2013, it is expected to reach 98.2% of GDP by 2016.

Table II.10.1:

Main features of country forecast - FRANCE

		2013			Annual percentage change					
	bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		2113.7	100.0	1.8	2.1	0.3	0.3	**0.4**	**1.0**	**1.8**
Private Consumption		1169.9	55.3	2.1	0.5	-0.4	0.2	**0.6**	**1.5**	**1.6**
Public Consumption		509.9	24.1	1.4	1.0	1.7	2.0	**1.6**	**0.8**	**1.4**
Gross fixed capital formation		466.9	22.1	2.2	2.1	0.3	-1.0	**-1.6**	**0.6**	**4.3**
of which: equipment		100.4	4.7	2.8	1.4	0.9	-1.4	**0.6**	**1.8**	**5.9**
Exports (goods and services)		597.8	28.3	4.3	6.9	1.1	2.2	**2.2**	**4.2**	**5.5**
Imports (goods and services)		629.1	29.8	5.0	6.3	-1.3	1.7	**3.3**	**4.3**	**6.3**
GNI (GDP deflator)		2150.4	101.7	1.9	2.3	-0.4	0.5	**0.3**	**1.0**	**1.8**
Contribution to GDP growth:	Domestic demand			1.9	1.0	0.3	0.4	**0.4**	**1.1**	**2.1**
	Inventories			0.0	1.1	-0.6	-0.2	**0.3**	**-0.1**	**0.0**
	Net exports			-0.1	0.0	0.7	0.1	**-0.3**	**-0.1**	**-0.3**
Employment				0.7	0.5	-0.1	-0.2	**0.2**	**0.2**	**0.8**
Unemployment rate (a)				9.1	9.2	9.8	10.3	**10.3**	**10.4**	**10.2**
Compensation of employees / f.t.e.				2.5	2.5	2.3	1.6	**1.4**	**0.4**	**0.7**
Unit labour costs whole economy				1.5	0.9	1.8	1.1	**1.3**	**-0.3**	**-0.4**
Real unit labour cost				0.0	-0.1	0.6	0.3	**0.5**	**-1.2**	**-1.3**
Saving rate of households (b)				15.1	15.2	14.9	14.7	**15.3**	**15.1**	**14.9**
GDP deflator				1.5	0.9	1.2	0.8	**0.8**	**0.8**	**1.0**
Harmonised index of consumer prices				1.7	2.3	2.2	1.0	**0.6**	**0.0**	**1.0**
Terms of trade goods				-0.1	-2.8	-0.4	1.5	**1.4**	**2.3**	**-0.2**
Trade balance (goods) (c)				0.0	-2.9	-2.4	-1.9	**-1.7**	**-1.2**	**-1.6**
Current-account balance (c)				0.5	-2.2	-2.5	-2.0	**-1.8**	**-1.3**	**-1.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				0.5	-2.2	-2.7	-2.0	**-1.8**	**-1.2**	**-1.5**
General government balance (c)				-3.4	-5.1	-4.9	-4.1	**-4.3**	**-4.1**	**-4.1**
Cyclically-adjusted budget balance (c)				-3.8	-4.9	-4.2	-3.1	**-2.9**	**-2.7**	**-3.1**
Structural budget balance (c)				-	-5.0	-4.3	-3.3	**-2.9**	**-2.6**	**-3.0**
General government gross debt (c)				64.1	85.0	89.2	92.2	**95.3**	**97.1**	**98.2**

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

11. CROATIA

End of recession in sight, but recovery set to be muted

Croatia has spent six years in recession but the pace of contraction in 2014 was slower than it was in the previous year. A mild recovery is now forecast for 2015, with growth set to reach 1% in 2016, spurred by EU-funded investments. With the fall in energy and commodity prices, price dynamics are expected to be negative in 2015, though inflation is set to regain positive ground in 2016. Labour market conditions are set to improve marginally in 2015 and 2016. Fiscal consolidation needs and limited structural reforms, however, continue to hold back potential growth.

Six years of recession

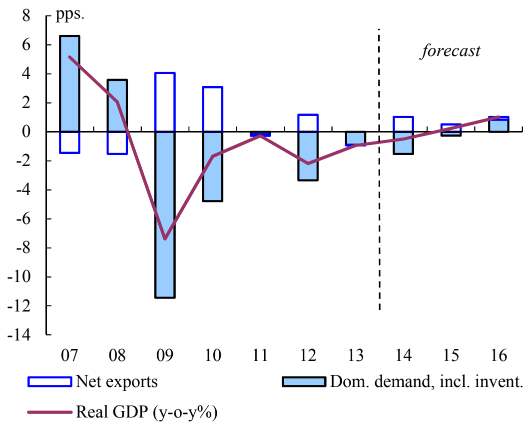
In the third quarter of 2014, real GDP contracted by 0.6% y-o-y, a rate which is set to have abated in the fourth quarter. Croatia's economy contracted for its sixth year in a row in 2014, but the pace of the recession weakened over the course of the year, bringing real GDP growth for the year to an estimated -0.5%. According to the forecast, positive demand from abroad was not enough to offset the effect of weak domestic demand, which fell as a result of a 3.6% fall in investment and decreases in private and public consumption of 0.6% and 2.1% respectively.

A muted recovery expected to start in 2015...

Croatia's recession is forecast to come to an end in 2015, but real GDP is forecast to grow only moderately by 0.2%. Domestic demand growth is set to remain negative, as a result of a further contraction of investment and government consumption. Private consumption is now forecast to stagnate as the negative impact of the weak labour market and uncertainties related to the final settlement of Swiss-franc indexed loans is broadly offset by the positive impact of the income tax reform and of lower oil prices. Although indicators suggest that the labour market may have bottomed out in 2014, employment is still expected to stagnate in 2015, due to adverse demographic trends, while the unemployment rate is set to decrease to 16.8%, on the back of the contracting labour force. Wages are expected to grow moderately, due to the strong deceleration of inflation in 2014 and the negative price dynamics expected for 2015.

The feeble growth set to be achieved in 2015 is set to come exclusively from net exports. After the strong performance in 2014, partly reflecting large one-off effects related to Croatia's accession to the EU, the restoration of trade links with former partners from the CEFTA and the recovery of the neighbouring Slovenian economy, exports of goods and services are set to increase at a more moderate rate of 2.8%. At the same time, imports are forecast to increase by 1.8%. Overall, the current account surplus is set to expand to 2.4% of GDP.

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



...and gain ground in 2016.

In 2016, the recovery is expected to attain a tepid 1.0% thanks to an increase in domestic demand, driven largely by EU-linked investments. Private consumption should also add to growth as the labour market stabilises. In particular, employment is expected to increase on the back of a rise in the activity rate and a decrease in the unemployment rate to 16.4%. As a result of acceleration in core inflation and attenuating private sector deleveraging pressures, inflation is forecast to pick-up to 1.0%.

Relatively stronger growth in the EU should further stimulate exports, which are expected to grow by 4.7%. Imports, meanwhile, are set to rise by 4.5%, leading to a mild deterioration of the trade balance, although the current account will further improve on the back of current transfers from the EU budget.

Risks to growth projections are mainly negative and related to uncertainties about fiscal policy and structural reforms.

Consolidation efforts hindered by personal income tax rebate

The general government deficit in 2014 is expected to stand at 5.0% of GDP. Expenditure appears to have evolved mostly in line with the authorities' plans, but some additional outlays from flood-related reconstruction costs materialised in the second half of 2014. The downward revision from the previous forecast is mainly the result of a better revenue outturn (in particular VAT).

In 2015, changes to the personal income taxes are expected to push the budget deficit up to 5.5% of GDP, as potential offsetting measures are still largely unknown. In 2016, the deficit is forecast to remain at around the same level, in spite of the moderate pick-up in growth expected. The structural deficit is expected to have reached 3½% of GDP in 2014, and to deteriorate in 2015 and 2016, by about 1 and ½ pp. of GDP respectively.

The ratio of general government debt to GDP is expected to have reached 81.4% in 2014, mainly as result of the achieved budget deficit, continued subdued nominal GDP growth and a pre-financing operation planned before the end of the year. In 2015 and 2016 public debt is forecast to increase further to 84.9% and 88.7% of GDP as a result of the underlying deficit trends.

Negative fiscal risks are still present, including from the accumulation of arrears in the hospital sector and possible additional expenditure slippages in 2015 in some other sectors, such as education and transport. On the other hand, the general government deficit forecast could be revised downward if the government substantiates its fiscal deficit targets by credibly announced and sufficiently detailed measures.

Table II.11.1:
Main features of country forecast - CROATIA

	2013		Annual percentage change						
bn HRK	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	330.1	100.0	-	-0.3	-2.2	-0.9	**-0.5**	**0.2**	**1.0**
Private Consumption	200.2	60.6	-	0.3	-3.0	-1.2	**-0.6**	**0.0**	**0.6**
Public Consumption	66.1	20.0	-	-0.3	-1.0	0.5	**-2.1**	**-0.1**	**0.6**
Gross fixed capital formation	63.7	19.3	-	-2.7	-3.3	-1.0	**-3.6**	**-1.0**	**2.1**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	141.8	42.9	-	2.2	-0.1	3.0	**6.1**	**2.8**	**4.7**
Imports (goods and services)	140.2	42.5	-	2.5	-3.0	3.2	**3.8**	**1.8**	**4.5**
GNI (GDP deflator)	321.8	97.5	-	-0.2	-2.4	-0.5	**-0.5**	**0.6**	**1.1**
Contribution to GDP growth: Domestic demand			-	-0.4	-2.7	-0.8	**-1.5**	**-0.2**	**0.9**
Inventories			-	0.3	-0.7	-0.1	**0.0**	**0.0**	**0.0**
Net exports			-	-0.1	1.2	0.0	**1.0**	**0.5**	**0.2**
Employment			-	-2.3	-3.9	-1.0	**0.0**	**0.0**	**0.5**
Unemployment rate (a)			-	13.9	16.1	17.3	**17.0**	**16.8**	**16.4**
Compensation of employees / head			-	1.8	1.3	1.5	**1.8**	**1.2**	**1.5**
Unit labour costs whole economy			-	-0.3	-0.5	1.5	**2.3**	**0.9**	**1.0**
Real unit labour cost			-	-1.9	-2.0	0.6	**2.5**	**0.8**	**-0.3**
Saving rate of households (b)			-	9.3	10.6	10.1	**11.9**	**13.4**	**13.3**
GDP deflator			-	1.7	1.6	0.9	**-0.2**	**0.2**	**1.2**
Harmonised index of consumer prices			3.4	2.2	3.4	2.3	**0.2**	**-0.3**	**1.0**
Terms of trade goods			-	4.3	-0.4	-1.5	**-0.9**	**0.2**	**0.0**
Trade balance (goods) (c)			-19.2	-14.3	-14.3	-15.1	**-15.6**	**-15.6**	**-16.0**
Current-account balance (c)			-4.7	-0.6	0.1	0.4	**0.9**	**2.4**	**3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.7	-0.6	0.1	0.4	**0.7**	**2.2**	**3.3**
General government balance (c)			-	-7.7	-5.6	-5.2	**-5.0**	**-5.5**	**-5.6**
Cyclically-adjusted budget balance (c)			-	-7.1	-4.4	-3.9	**-3.5**	**-4.3**	**-4.8**
Structural budget balance (c)			-	-7.1	-4.4	-3.6	**-3.4**	**-4.3**	**-4.8**
General government gross debt (c)			-	59.9	64.4	75.7	**81.4**	**84.9**	**88.7**

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

12. ITALY
Waiting for recovery amid the low inflation environment

After contracting again in 2014, Italy's economy is expected to gradually recover this year, supported by strengthening external demand. Inflation is projected to turn negative in 2015 due to the fall in oil prices, high unemployment and weak domestic demand. The government deficit is expected at 3% of GDP in 2014 and to decrease in 2015 and 2016.

External demand to drive economic growth

Over the first three quarters of 2014, real GDP contracted by 0.4% year-on-year. Available indicators for the last quarter point to a further slight downturn in the manufacturing sector and no contribution to growth from the service sector. Hence, a further slight economic contraction is anticipated for the fourth quarter, with real GDP dropping by around 0.5% in 2014 as a whole.

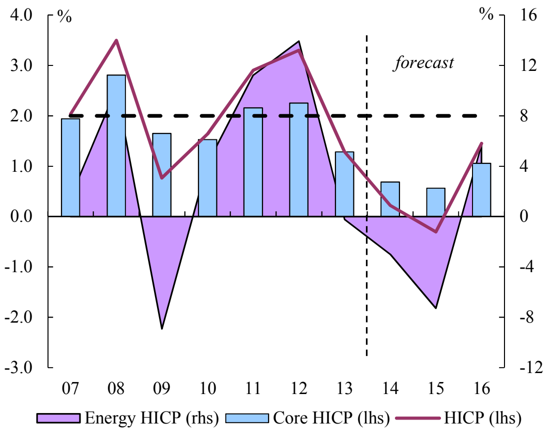
In 2015, real GDP is expected to expand by 0.6% supported by exports and only a mild improvement in domestic demand. The expected increase in households' real disposable income stemming from the decline in energy prices is forecast to translate only partially into higher consumption. In fact, labour market conditions remain poor and many households need to restore savings that were eroded during the crisis. The gradual decline in nominal interest rates, albeit not fully translated in real terms, is expected to support investment in 2015 and more significantly in 2016, when equipment investment and construction are set to pick up. External demand is projected to benefit further from the lower euro, improved competitiveness from lower unit labour cost growth and improving global demand. Altogether, real GDP growth is forecast at 1.3% in 2016. Imports are expected to rise more slowly than exports. This combined with lower oil prices entails a further increase in the current account surplus to 2.6% of GDP in 2015-16.

A possible delay in the revival of external demand is the main downside risk to the growth forecast, while the successful implementation of structural reforms and of the EU Investment Plan represent upside risks towards the end of the forecast horizon.

Labour market prospects remain weak

After a significant fall in 2013, employment is estimated to have declined only slightly in 2014. Given the ample room for a recovery in hours worked first, headcount employment is set to increase mildly in 2015 and to strengthen only as the recovery gathers strength later in 2016. With more people joining the labour force, the unemployment rate is forecast to remain at historically high levels, with the risk of hysteresis effect. Upward pressure on labour costs is forecast to abate also thanks to the labour tax cuts included in the 2015 budget, while labour productivity is expected to improve somewhat. As a result, nominal unit labour costs are expected to be broadly stable over 2015 and 2016.

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



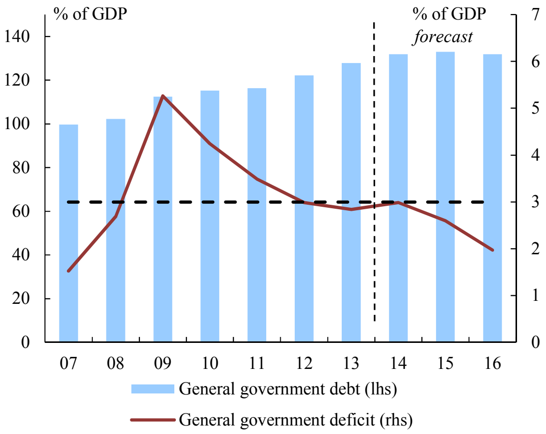
The sharp fall in oil prices entails negative inflation in 2015

HICP inflation has been gradually decreasing since the second half of 2012, driven by lower energy prices but also weak domestic demand. In 2014, the HICP increased by a slim 0.2% on a yearly basis. The recent slump in oil prices is set to feed quickly into lower energy prices, pushing headline HICP inflation into negative territory in 2015. Core inflation is set to stabilise at low but positive levels. The no-policy change forecast for 2016 takes into account the hike in VAT rates that is enshrined in the 2015 budget law to safeguard the achievement of the fiscal targets. This measure may be replaced by others of an equivalent budgetary impact.

The government deficit at 3% in 2014 gradually falling in the next two years

The government deficit is anticipated to have risen to 3% of GDP in 2014, from 2.8% in 2013. A fall in interest expenditure of 0.1 pp. of GDP, resulting from lower yields, is set to have only partially offset the expected erosion of the primary surplus. Primary expenditure is projected to have increased in nominal terms by less than 1% year-on-year, also driven by tax credits to low-wage employees recorded as social transfers. Revenues are set to have increased marginally, thanks to higher intakes from VAT and property taxation compensating for a fall in corporate income taxes. In 2015, the deficit is projected to decline to 2.6% of GDP, supported by falling interest expenditure. In nominal terms, primary expenditure is set to rise only slightly. The government's planned expenditure savings affect both capital and current expenditure trends, but the latter is projected to slightly increase mainly because of income support measures and the extended coverage of unemployment benefits. Public wages remain frozen. Despite the cut to the labour tax wedge, tax revenues are expected to increase mainly due to a recovery in corporate income taxes and higher withholding taxes on financial income. In 2016, under a no-policy change assumption, the deficit is projected to narrow further. The structural balance is set to improve by ¼ pp. of GDP in 2015.

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



In 2014, the debt-to-GDP ratio is anticipated to have risen to around 132% as the primary surplus was still insufficient to curb its growth, also due to flat nominal growth and the settlement of trade debt arrears. The debt ratio is set to peak in 2015 and decline in 2016 thanks to higher nominal growth and primary surplus.

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

	2013		Annual percentage change						
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	1618.9	100.0	1.0	0.6	-2.3	-1.9	**-0.5**	**0.6**	**1.3**
Private Consumption	979.4	60.5	1.2	0.0	-4.0	-2.8	**0.3**	**0.5**	**0.5**
Public Consumption	314.8	19.4	0.9	-1.8	-1.5	-0.7	**-0.7**	**-0.5**	**0.7**
Gross fixed capital formation	288.6	17.8	1.6	-1.9	-7.4	-5.4	**-2.6**	**1.0**	**4.1**
of which: equipment	93.8	5.8	2.4	0.2	-11.3	-4.8	**-2.2**	**2.6**	**5.2**
Exports (goods and services)	462.3	28.6	2.6	5.2	2.0	0.6	**1.3**	**3.4**	**4.2**
Imports (goods and services)	425.4	26.3	3.8	0.5	-8.0	-2.7	**0.3**	**2.6**	**4.6**
GNI (GDP deflator)	1616.1	99.8	1.1	0.5	-2.1	-1.9	**-0.4**	**0.6**	**1.3**
Contribution to GDP growth: Domestic demand			1.2	-0.8	-4.2	-2.9	**-0.4**	**0.4**	**1.1**
Inventories			0.0	0.2	-0.9	0.0	**-0.4**	**-0.1**	**0.1**
Net exports			-0.2	1.2	2.8	0.9	**0.3**	**0.3**	**0.1**
Employment			0.4	0.1	-0.9	-1.7	**0.0**	**0.4**	**0.7**
Unemployment rate (a)			9.0	8.4	10.7	12.2	**12.8**	**12.8**	**12.6**
Compensation of employees / f.t.e.			3.1	1.1	0.9	1.2	**0.8**	**0.5**	**0.6**
Unit labour costs whole economy			2.5	0.7	2.3	1.4	**1.4**	**0.3**	**-0.1**
Real unit labour cost			-0.1	-0.8	0.6	0.0	**0.9**	**-0.1**	**-1.2**
Saving rate of households (b)			15.1	10.6	10.4	11.7	**12.2**	**13.1**	**13.1**
GDP deflator			2.6	1.5	1.6	1.4	**0.5**	**0.4**	**1.1**
Harmonised index of consumer prices			2.5	2.9	3.3	1.3	**0.2**	**-0.3**	**1.5**
Terms of trade goods			-0.3	-3.4	-1.4	2.0	**3.3**	**2.9**	**-0.7**
Trade balance (goods) (c)			1.1	-1.1	1.0	2.3	**3.0**	**3.8**	**3.7**
Current-account balance (c)			-0.3	-3.1	-0.5	0.9	**1.8**	**2.6**	**2.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.2	-3.0	-0.3	0.9	**1.9**	**2.7**	**2.7**
General government balance (c)			-3.6	-3.5	-3.0	-2.8	**-3.0**	**-2.6**	**-2.0**
Cyclically-adjusted budget balance (c)			-3.8	-2.6	-1.4	-0.5	**-0.7**	**-0.7**	**-0.9**
Structural budget balance (c)			-	-3.2	-1.5	-0.8	**-0.9**	**-0.6**	**-0.8**
General government gross debt (c)			107.1	116.4	122.2	127.9	**131.9**	**133.0**	**131.9**

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

13. CYPRUS

Signs of stabilisation amidst an unfavourable external environment

The economy is showing signs of stabilisation but the improvement in economic sentiment indicators has come to a halt. While lower oil prices are expected to support growth, external demand will suffer from headwinds from the Russian economy. Fiscal consolidation is expected to continue.

Note: The forecast figures for Cyprus will be updated after the sixth review of Cyprus' Economic Adjustment Programme has taken place. While the text discusses recent developments, data in the table are that of the previous forecast.

The decline in GDP is close to bottoming out towards the end of 2014...

Economic activity declined by 1.7% y-o-y in the third quarter of 2014, a slight improvement relative to the second quarter, driven by developments in private consumption and investment. The annual increase in private consumption is a noteworthy development, but largely constitutes a base effect, while investment was supported by a one-off large purchase of transport equipment, which also boosted imports. Excluding this transaction, the growth momentum in both real imports and real investment remained subdued. Real exports weakened significantly in the third quarter, down 4.5% y-o-y, which associated with the temporary pick-up in imports has worsened the current account.

Unemployment has been flat hovering around 16%, with continued, albeit slower, contraction in employment offset by a further fall in labour force. Against the background of low capacity utilisation and continued wage adjustment, inflationary pressures remain weak. HICP inflation in 2014 has been supported by prices of goods consumed by tourists. Prices of goods consumed mostly by residents have continued to fall and energy prices fell strongly as well in end-2014.

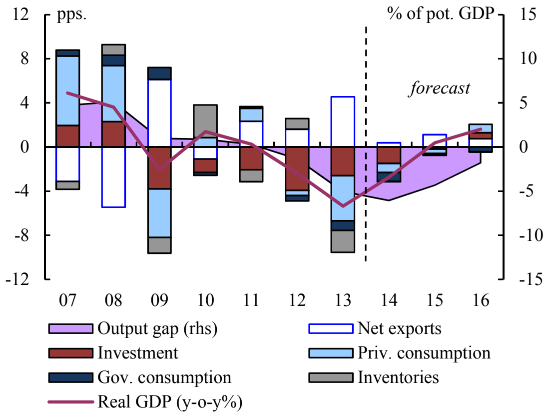
...but economic sentiment and other short-term indicators remain flat...

Economic sentiment remained broadly unchanged in the second half of 2014, putting on hold the improvement observed since April 2013. While consumer confidence continued to improve, business sentiment in most sectors weakened with the exception of service sector confidence which improved somewhat. Although retail trade indicators suggest an improving growth momentum in the short term, this is offset by weakness in short-term indicators for credit and tourist arrivals, in particular Russian tourists, reflecting the negative economic developments in Russia.

...pointing to a timid recovery in 2015 and 2016...

In 2015 and 2016, growth is forecast to resume only gradually as private domestic demand slowly picks up supported by lower energy prices. This should be accompanied by gradual deleveraging of both households and corporates and a reduction of the non-performing loans (NPL) ratio (now at close to 50%) down to more sustainable levels. The moderate pick-up in domestic demand is expected to be reflected into improved labour market conditions, with unemployment starting to ease gradually. HICP inflation is also expected to remain low, weighed down by recent declines in oil prices.

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



...with some of the downside risks already starting to materialise.

Risks to the recovery are tilted to the downside. On the domestic front, a failure to reduce the high NPL ratios could lead to a more prolonged period of tight credit supply conditions, stalling the recovery of investment. On the external side, negative economic developments in Russia are likely to weigh on export growth in 2015, given the sizeable trade links between Russia and Cyprus. This negative effect is likely to dominate the positive impact from lower oil price, leading to downside risk to the GDP growth projection for 2015. Risks to the HICP inflation also remain on the downside, largely due to lower energy prices.

Strong fiscal adjustment continues

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

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

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

Table II.13.1:

Main features of country forecast - CYPRUS

	2013			Annual percentage change						
mio EUR	Curr. prices	% GDP		95-10	2011	2012	2013	2014	2015	2016
GDP	18118.9	100.0		3.7	0.3	-2.4	-5.4	**-2.8**	**0.4**	**1.6**
Private Consumption	12312.5	68.0		5.2	1.8	-0.7	-6.0	**-1.2**	**-0.5**	**1.1**
Public Consumption	3160.2	17.4		4.0	0.7	-2.7	-4.9	**-4.7**	**-0.9**	**-2.5**
Gross fixed capital formation	2432.0	13.4		2.3	-9.4	-20.7	-17.1	**-11.1**	**-1.6**	**4.5**
of which: equipment	784.9	4.3		1.5	-16.4	-26.1	-10.8	**-1.5**	**2.5**	**4.4**
Exports (goods and services)	9209.9	50.8		2.4	4.2	-1.7	-5.0	**0.3**	**2.0**	**2.6**
Imports (goods and services)	8759.7	48.3		3.1	-0.6	-4.6	-13.6	**-0.5**	**-0.1**	**1.3**
GNI (GDP deflator)	17563.4	96.9		3.8	5.5	-6.3	-5.7	**-2.4**	**0.0**	**1.5**
Contribution to GDP growth:	Domestic demand			4.3	-0.7	-4.9	-7.6	**-3.1**	**-0.7**	**0.9**
	Inventories			-0.2	-1.4	1.0	-2.3	**0.0**	**0.0**	**0.0**
	Net exports			-0.4	2.3	1.6	4.5	**0.4**	**1.1**	**0.8**
Employment				-	0.5	-4.2	-5.2	**-1.8**	**0.2**	**1.3**
Unemployment rate (a)				4.1	7.9	11.9	15.9	**16.2**	**15.8**	**14.8**
Compensation of employees / head				-	2.5	-0.8	-6.0	**-4.6**	**0.2**	**1.2**
Unit labour costs whole economy				-	2.7	-2.6	-5.9	-3.7	0.0	0.9
Real unit labour cost				-	0.7	-4.6	-4.6	**-2.0**	**-0.8**	**-0.5**
Saving rate of households (b)				11.2	11.5	7.2	3.7	**2.9**	**1.8**	**2.3**
GDP deflator				2.7	2.0	2.0	-1.4	**-1.7**	**0.8**	**1.3**
Harmonised index of consumer prices				-	3.5	3.1	0.4	**-0.3**	**0.7**	**1.2**
Terms of trade of goods				-	-1.5	-1.3	0.7	**-0.9**	**-0.3**	**0.0**
Trade balance (goods) (c)				-25.3	-23.2	-20.8	-17.7	**-18.8**	**-18.6**	**-18.5**
Current-account balance (c)				-5.3	-3.0	-5.5	-1.3	**-1.2**	**-0.6**	**0.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.2	-2.8	-5.4	0.0	**-2.1**	**-1.2**	**-0.6**
General government balance (c)				-2.8	-5.8	-5.8	-4.9	**-3.0**	**-3.0**	**-1.4**
Cyclically-adjusted budget balance (c)				-	-5.9	-5.1	-2.3	**0.2**	**-0.8**	**-0.5**
Structural budget balance (c)				-	-5.7	-5.5	-2.1	**-0.9**	**-1.4**	**-1.1**
General government gross debt (c)				55.8	66.0	79.5	102.2	**107.5**	**115.2**	**111.6**

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

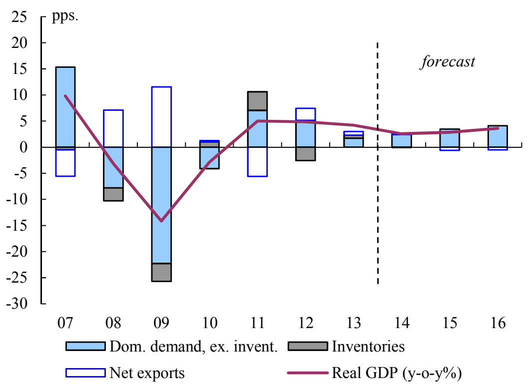
14. LATVIA
Solid outlook despite external shocks

Following a slowdown in 2014, Latvia's economic growth is expected to pick up again in 2015 and 2016 despite a multitude of external shocks, which are rebalancing the country's growth towards domestic demand. Unemployment is set to drop further but steep wage rises are already posing risks to labour demand and competitiveness. Both the budget deficit and public debt are expected to decline.

Growth outlook remains positive

Latvia's economy is facing both positive and negative external shocks. While domestic consumption is set to benefit from the recent drop in oil prices, exporters are being hit by the depreciation of the Russian rouble. Overall, economic growth expectations remain unchanged from the previous forecast at 2.6% in 2014, 2.9% in 2015, and 3.6% in 2016. Risks remain tilted to the downside, due to the high uncertainty of the external environment.

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



Domestic demand regains speed

Domestic demand is projected to be the key growth driver. After slowing down somewhat in 2014, the latest data show that private consumption is accelerating again, supported by wage growth and cheaper oil. Fuel accounts for about 6% of household spending, which means that the recent fall in oil prices should provide a significant boost to consumers' disposable incomes and demand. This is corroborated by both retail trade and consumer sentiment indicators for the last quarter of 2014. Investment growth is expected to improve in 2015 and further on in 2016 when geopolitical risks are expected to subside.

Imports to grow faster than exports

Latvia's terms of trade will benefit substantially from the decline in crude oil prices. On the other hand, the sharp depreciation of the Russian rouble is adversely affecting exporters. About 11% of the country's exports are directed to Russia and there is also some indirect exposure through other trading partners affected by the depreciation of the rouble. All in all, imports are set to rise faster than exports in volume terms but the current account deficit is likely to remain relatively small due to the price benefits in the nominal trade values.

Wage growth weakens job creation

Employment remained flat in 2014 as wage growth, economic slowdown and external demand risks weakened the demand for labour. Real wages increased by nearly 15% on a cumulative basis over 2013 and 2014, while government commitments for further minimum wage hikes are set to further increase labour costs. Nevertheless, unemployment is expected to keep falling from around 11% in 2014 to 9.2% in 2016 amid further contraction in the labour force and some rebound in labour demand. However, the projected increase in unit labour costs is posing some risks to the country's competitiveness in the medium run and the minimum wage hike may also weaken demand for low-skill labour in poor regions of the country.

Oil prices keep inflation low

Reflecting oil price effects, the inflation forecast (HICP) is revised downwards to 0.9% in 2015 and 1.9% in 2016, down by nearly 1 pp. from the previous forecast. The disinflation impact will be channelled mostly through fuel and transport services in 2015, while lagged effects to natural gas and heating prices will affect the figures for 2016 as well. Nevertheless, inflation is set to exceed the reported rate of 0.7% in 2014, as service prices are pushed up by strong wage growth. Furthermore, the deregulation of household electricity prices, which commenced in January 2015, has triggered a one-off hike after a long price freeze on the market.

Fiscal performance withstands challenges

The 2014 government deficit is estimated at 1.5% of GDP, based on preliminary data. Despite headwinds, overall tax revenues were only slightly behind the target set in the 2014 stability programme. A shortfall in corporate income tax was compensated by an over-performance in personal income tax and VAT revenue, as wage growth surprised on the upside. However, non-tax revenue was lower than targeted, in particular the EU payments. Expenditure includes a one-off payment under the guarantee contract with the European Bank for Reconstruction and Development [46]. Some expenditure reallocations from intermediate consumption and interest expenditure to capital and social spending did not affect the government balance.

In 2015, the government deficit is estimated at 1.1% of GDP, including the new measures adopted in the 2015 budget. Revenue-increasing effort of some 0.5% of GDP counts on improvements in tax administration and closing of tax loopholes, tax gains from the increase in the national minimum wage, as well as higher royalty payments from state-own enterprises and some other charges on businesses. The expenditure-increasing measures of 0.6% of GDP include a public sector wage increase to the new national minimum and additional resources for health services, education, defence and farmers. Main risks to the fiscal forecast are related to uncertainty of the economic growth outlook, while so far the effects of different external shocks on tax revenue has been broadly balanced.

The government deficit is projected to decline to 1.0% of GDP in 2016 based on a no-policy change assumption. Latvia's structural deficit is forecast to deteriorate from around 1% of GDP in 2013 to around 1½% in 2014 and 2015 and 1¾% in 2016, mostly due to the widening of the positive output gap.

The government debt stood at around 40% of GDP in 2014 and is projected to decline to 36.5% of GDP in 2015, as a large repayment of the EU financial support was disbursed in January. An increase in the primary surplus and positive GDP growth should help the public debt-to-GDP ratio fall further to about 35% of GDP in 2016.

[46] The guarantee was activated by the government contract in late 2014 to sell out shares in Citadele bank. The deal will be finalised in 2015.

Table II.14.1:

Main features of country forecast - LATVIA

	2013			Annual percentage change						
	mio EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		23221.9	100.0	4.0	5.0	4.8	4.2	**2.6**	**2.9**	**3.6**
Private Consumption		14375.8	61.9	-	2.9	3.0	6.2	**3.2**	**4.3**	**4.5**
Public Consumption		4078.5	17.6	-	3.1	0.4	2.9	**0.9**	**1.2**	**1.3**
Gross fixed capital formation		5401.1	23.3	-	24.2	14.5	-5.2	**1.2**	**2.6**	**4.8**
of which: equipment		1873.7	8.1	-	45.5	12.0	-16.9	**-**	**-**	**-**
Exports (goods and services)		13799.9	59.4	-	12.0	9.8	1.5	**1.4**	**2.9**	**4.8**
Imports (goods and services)		14536.4	62.6	-	22.0	5.4	0.3	**1.1**	**3.8**	**5.4**
GNI (GDP deflator)		23138.6	99.6	4.1	3.7	4.2	4.5	**2.6**	**2.7**	**3.5**
Contribution to GDP growth:	Domestic demand			-	7.1	5.2	1.7	**2.4**	**3.5**	**4.1**
	Inventories			-	3.5	-2.6	0.5	**0.0**	**0.0**	**0.0**
	Net exports			-	-5.6	2.3	0.7	**0.2**	**-0.6**	**-0.5**
Employment				-1.5	1.5	1.4	2.3	**0.1**	**0.5**	**0.9**
Unemployment rate (a)				13.4	16.2	15.0	11.9	**11.0**	**10.2**	**9.2**
Compensation of employees / head				11.2	3.7	6.1	9.4	**6.2**	**4.6**	**5.0**
Unit labour costs whole economy				5.3	0.2	2.7	7.3	3.6	2.2	2.2
Real unit labour cost				-1.1	-5.8	-0.9	6.2	**2.4**	**0.5**	**-0.1**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				6.5	6.4	3.6	1.1	**1.2**	**1.7**	**2.3**
Harmonised index of consumer prices				-	4.2	2.3	0.0	**0.7**	**0.9**	**1.9**
Terms of trade of goods				-	5.8	-3.7	1.3	**-0.1**	**0.2**	**0.0**
Trade balance (goods) (c)				-17.2	-12.4	-12.0	-10.9	**-10.4**	**-10.4**	**-10.8**
Current-account balance (c)				-8.6	-3.1	-3.5	-2.2	**-2.5**	**-2.6**	**-2.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.7	-1.0	-0.5	0.2	**0.4**	**-0.2**	**-0.6**
General government balance (c)				-2.3	-3.4	-0.8	-0.9	**-1.5**	**-1.1**	**-1.0**
Cyclically-adjusted budget balance (c)				-	-1.1	-0.1	-1.1	**-1.9**	**-1.6**	**-1.7**
Structural budget balance (c)				-	-1.1	-0.1	-1.1	**-1.6**	**-1.6**	**-1.7**
General government gross debt (c)				16.2	42.7	40.9	38.2	**40.4**	**36.5**	**35.5**

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

15. LITHUANIA

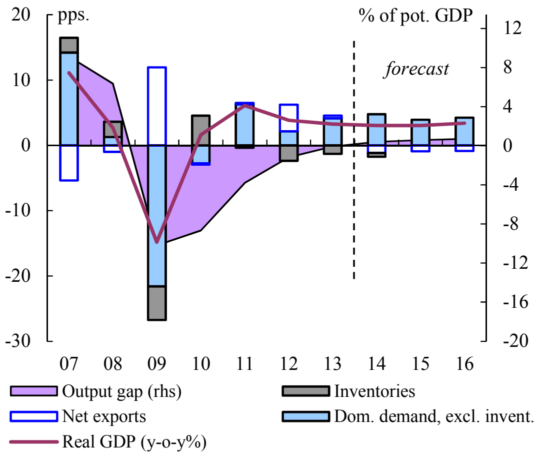
Shrugging off the downturn in Russia

Lithuania's economy is expected to maintain growth of 3.0% in 2015, despite a fall in exports to Russia. Domestic demand is set to remain the main growth engine, as employment and real disposable incomes rise. Inflation stays low and public finances improve slightly.

In 2014, domestic demand continued to be the main driver of growth…

Real GDP growth remained robust in 2014 and is expected to have reached 3.0%, despite the sanctions imposed by Russia in mid-2014. Domestic demand, in particular private consumption, picked up in 2014 on the back of growing employment and real wages. Private investment grew strongly in the first half of 2014, but seems to have petered out in the second half of the year amid weaker economic sentiment.

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



…and is set to remain so in 2015 and 2016, albeit with increased downside risks.

Lithuania's real GDP is forecast to grow by 3.0% in 2015 and 3.4% in 2016, despite continued geopolitical uncertainty and the expected downturn in Russia. Private consumption is set to remain resilient over the forecast horizon. Wage growth and subdued inflation are expected to continue to support household disposable income. Private investment is forecast to increase over the course of 2015 as companies' capacity utilisation rates are at historically high levels. Moreover, EU co-financed projects and the Investment Plan for Europe are foreseen to provide further support to public and private investment over the forecast horizon.

Net exports are set to continue to exert a dampening effect on real GDP growth. In 2014, exports were already weak due to a fall in the fertiliser and refined petroleum product industries, as well as the sanctions imposed by Russia. In 2015, recession in Russia and the depreciation of the rouble are likely to further constrain exports. However, Lithuanian exporters are expected to re-direct some of their goods and services, which should allow exports to recover in 2016. The current account is estimated to be broadly balanced in 2014 and turn into surplus in 2015 due to the fall in prices of imported oil.

The unemployment rate is forecast to continue falling from 9.5% in 2014 to 8.7% in 2015 and 7.9% in 2016. This is expected to support disposable income growth, while unit labour costs are set to increase over the forecast horizon.

Inflation to remain low in 2015 and 2016

Average annual HICP inflation decreased in 2014 to 0.2% due to the decline in energy and food prices. In 2015, inflation is expected to remain low, with falling energy prices partially offsetting price increases in the service sector. Overall, HICP inflation is expected to amount to 0.4% in 2015 and 1.6% in 2016.

Credit growth remains sluggish

Private sector deposits continued to rise in 2014 but overall credit remained flat despite an increase in mortgage lending and consumer credit. Most enterprises relied on own resources to finance investments, while banks still remain focused on less risky projects. Credit is expected to start growing towards the end of the forecast horizon, as corporate investment rebounds.

Risks to the forecast are tilted to the downside. A deepening of the Russian economic downturn, lingering geopolitical tensions and slow economic growth in the EU could have an adverse effect on economic growth by hurting exports, business sentiment and investor confidence.

Fiscal consolidation continues

In 2014, the general government deficit is forecast to fall to 1.2% of GDP, from 2.6% in 2013. Tax revenues as well as expenditures were broadly in line with the government's budget plan. Sizeable one-off items influenced the deficit: the deposit insurance fund contributed with a surplus of 1.3% of GDP on account of liquidation proceeds. On the other hand, a law on pension compensation was enacted following a Constitutional Court ruling in 2012, adding 0.7% of GDP on the expenditure side.

In 2015, the general government deficit is forecast at 1.4% of GDP. Tax revenues are set to improve on the back of continued economic growth. On the expenditure side, and in line with the 2015 budget, defence and social spending are expected to increase by 0.3 pp. and 0.2 pp. of GDP respectively.

Under a no-policy-change assumption, the general government deficit is expected to reach 0.9% of GDP in 2016.

In 2014, Lithuania's structural deficit is estimated to decreased by ¼ pp. of GDP (from 2.2% of GDP in 2013). It is set to fall further by ¼ pp. of GDP in 2015 and by ½ pp. of GDP in 2016.

General government debt is expected to increase from 39.0% of GDP in 2013 to 41.8% in 2015, due to the pre-financing of bond redemptions, and to fall to 37.3% of GDP in 2016 as the pre-financing ends.

Table II.15.1:

Main features of country forecast - LITHUANIA

	2013		Annual percentage change						
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	35.0	100.0	4.4	6.1	3.8	3.3	**3.0**	**3.0**	**3.4**
Private Consumption	22.0	62.8	-	4.6	3.6	4.2	**5.0**	**4.0**	**4.3**
Public Consumption	5.9	16.8	-	0.3	1.2	1.8	**2.2**	**2.2**	**2.4**
Gross fixed capital formation	6.4	18.2	6.9	19.4	-1.6	7.0	**7.0**	**5.6**	**6.1**
of which: equipment	2.1	6.1	-	36.4	2.1	10.1	**4.9**	**6.2**	**8.0**
Exports (goods and services)	29.4	84.1	-	14.9	12.2	9.4	**3.1**	**3.4**	**6.4**
Imports (goods and services)	29.0	82.8	-	14.2	6.6	9.0	**4.6**	**4.6**	**7.7**
GNI (GDP deflator)	34.0	97.3	-	4.2	4.5	3.6	**3.4**	**3.1**	**3.2**
Contribution to GDP growth: Domestic demand			-	6.3	2.2	4.2	**4.8**	**3.9**	**4.3**
Inventories			-	-0.4	-2.4	-1.3	**-0.6**	**0.0**	**0.0**
Net exports			-	0.2	4.0	0.4	**-1.2**	**-0.9**	**-0.9**
Employment			-1.2	0.5	1.8	1.3	**2.5**	**1.2**	**1.2**
Unemployment rate (a)			11.0	15.4	13.4	11.8	**9.5**	**8.7**	**7.9**
Compensation of employees / head			13.1	6.3	4.2	5.0	**3.7**	**5.0**	**5.5**
Unit labour costs whole economy			7.0	0.7	2.2	3.0	**3.1**	**3.1**	**3.2**
Real unit labour cost			0.5	-4.2	-0.5	1.4	**1.7**	**0.3**	**0.8**
Saving rate of households (b)			3.2	3.7	1.4	2.2	**-**	**-**	**-**
GDP deflator			6.4	5.2	2.7	1.6	**1.4**	**2.9**	**2.4**
Harmonised index of consumer prices			-	4.1	3.2	1.2	**0.2**	**0.4**	**1.6**
Terms of trade goods			-	-0.6	-0.9	0.0	**0.4**	**2.6**	**0.7**
Trade balance (goods) (c)			-10.7	-6.6	-3.3	-2.6	**-3.6**	**-2.7**	**-3.1**
Current-account balance (c)			-8.0	-4.5	-1.7	0.6	**0.1**	**1.0**	**0.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.0	-1.3	1.1	3.6	**4.5**	**4.0**	**3.2**
General government balance (c)			-	-9.0	-3.2	-2.6	**-1.2**	**-1.4**	**-0.9**
Cyclically-adjusted budget balance (c)			-	-7.4	-2.7	-2.6	**-1.3**	**-1.6**	**-1.2**
Structural budget balance (c)			-	-3.7	-2.7	-2.2	**-1.9**	**-1.7**	**-1.2**
General government gross debt (c)			-	37.3	39.9	39.0	**41.1**	**41.8**	**37.3**

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

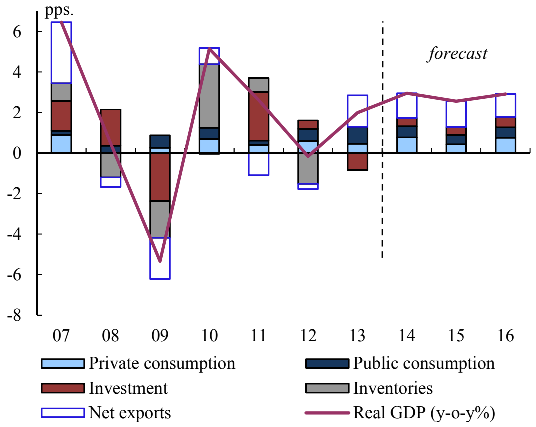
16. LUXEMBOURG
A small budget deficit in 2015

Luxembourg's economy is forecast to grow by 2.6% this year and its public finances are expected to remain sound as the government takes action to counter rising challenges. Although job creation remains robust, the relatively low unemployment rate is unlikely to fall further. Inflation remains subdued in spite of the VAT rates increase.

Growth continues to remain robust

Real GDP grew at a quarterly rate of 2.3% in the third quarter of 2014 after rising 1.0% and 0.5% in the first two quarters of last year. Growth was driven by strong domestic demand, which was also boosted by investment. However, soft and hard indicators signal that the pace of the recovery may have slowed towards the end of the year. Overall, real GDP in 2014 is estimated to have grown by 3.0%.

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



Looking forward, the sluggish external economic environment and the strains on the financial sector's profitability imposed by the need to adjust to the new regulatory financial standards are likely to put some downward pressure to the exceptionally high growth rates exhibited by the country. Against this background, output growth is expected to slow down to 2.6% in 2015, before picking up again to 2.9% in 2016 when the external economic environment gradually improves.

On the supply side, activity in the business-related services sector is set to remain robust. The financial sector's contribution to growth, by contrast, is expected to be less pronounced over the next two years. The construction sector should resume its recovery, albeit at a slow pace.

On the demand side, lower oil prices and positive employment prospects should continue to support household purchasing power. However, the impact on private consumption of consolidation measures in the 2015 budget, including a 2 pps. increase in VAT rates, should act in the opposite direction, lowering the growth rate of household spending. As the economy picks up, private consumption is projected to accelerate in 2016.

While capacity utilisation remains low, the gradually improving external environment and the *Investment Plan for Europe*, combined with easing credit conditions, should support investment growth in 2015 and even more so in 2016. Specifically, public investment is expected to surge by more than 10% this year, mainly due to the implementation of sizeable projects, while investment by households and the corporate sector is set to stabilize.

The contribution of net exports to growth is expected to remain positive in 2015, backed by the sustained performance of services, and despite the acceleration of imports that accompany the sharp rise in investment. As global economic conditions gradually improve, external trade is projected to gain further ground in 2016.

Challenges lie ahead

The main risk relates to the financial sector's capacity to protect its comparative advantage amid significant shifts in the regulatory environment. Moreover, international pressure for greater tax harmonisation could potentially affect the country's economic prospects, at least in the short term.

Inflation to remain low in spite of the VAT hike

Falling energy prices and the absence of price pressures drove inflation down to 0.7% in 2014 from 1.7% in 2013. In 2015, the rise in VAT rates will be absorbed by the sustained fall in oil prices. Overall, HICP inflation is expected to set at 0.6% in 2015 before bouncing back to 1.8% in 2016, also pushed up by the Quantitative Easing programme of the ECB.

As for labour market developments, in 2014, Luxembourg's domestic workforce increased at an annual rate of 2.2%. After a strong first half, the pace of job creation slowed slightly in the second half of the year. Employment growth was subdued in manufacturing, while it remained particularly buoyant in the business-related services sector. Overall, labour market prospects are projected to remain positive with employment growth set to average around 2% per year over the forecast horizon, on the back of the solid economic outlook. The unemployment rate is expected to peak in 2015, and start decreasing in 2016.

Public finances weaken in 2015

In 2014, the general government surplus is set to decline marginally to 0.5% of GDP from 0.6% in 2013, despite a one-off reimbursement of contributions from EU own resources, worth 0.2% of GDP, which helped improve the budget balance.

In 2015, the general government balance is expected to deteriorate, mostly as a result of the drop in VAT revenues (estimated at around 1.5% of GDP) associated to the change in e-commerce legislation. The size of the consolidation package finally adopted in the budget has been reduced by 0.1% of GDP to around 1.0% of GDP compared to the initial proposal. In particular, the new education contribution has been replaced by the '*impôt d'équilibrage budgetaire temporaire*' levied on a narrower base, while the implementation of some saving measures has been postponed. Finally, the afore-mentioned hike of all VAT rates by 2 pps. is expected to produce additional revenues of 0.5% of GDP. All in all, the headline balance is projected to turn into a deficit of 0.4% of GDP that also factors in a sharp increase in public investment. In 2016, the incremental effect and the implementation of measures adopted with the '*Zukunftpact*', worth around 0.6% of GDP, should help rebalance the government's accounts.

The structural fiscal surplus is expected to narrow by around 1 pp. in 2015 and marginally improve in 2016. The debt-to-GDP ratio is set to remain below 30 % of GDP over the forecast horizon.

Table II.16.1:

Main features of country forecast - LUXEMBOURG

	2013		Annual percentage change						
mio EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	45288.1	100.0	3.7	2.6	-0.2	2.0	**3.0**	**2.6**	**2.9**
Private Consumption	14067.3	31.1	2.7	1.2	1.9	1.5	**2.5**	**1.4**	**2.5**
Public Consumption	7826.4	17.3	3.9	1.2	3.7	5.0	**3.2**	**2.7**	**3.0**
Gross fixed capital formation	7725.5	17.1	3.3	14.4	2.4	-4.5	**2.4**	**2.4**	**3.0**
of which: equipment	3123.6	6.9	4.1	23.9	19.4	-7.1	**2.3**	**-0.5**	**3.1**
Exports (goods and services)	92080.4	203.3	6.5	5.0	2.9	5.6	**2.4**	**4.1**	**5.1**
Imports (goods and services)	76137.6	168.1	6.7	6.9	3.8	5.8	**2.1**	**4.2**	**5.6**
GNI (GDP deflator)	28763.1	63.5	2.6	3.0	-1.5	0.1	**1.8**	**1.7**	**3.1**
Contribution to GDP growth: Domestic demand			2.4	3.0	1.6	0.5	**1.7**	**1.3**	**1.8**
Inventories			0.1	0.7	-1.5	0.0	**0.0**	**0.0**	**0.0**
Net exports			1.2	-1.1	-0.3	1.5	**1.2**	**1.3**	**1.1**
Employment			3.4	2.9	2.4	2.0	**2.2**	**2.1**	**2.2**
Unemployment rate (a)			3.6	4.8	5.1	5.9	**6.3**	**6.4**	**6.3**
Compensation of employees / head			2.9	2.1	1.5	3.6	**2.3**	**1.6**	**2.3**
Unit labour costs whole economy			2.7	2.4	4.2	3.6	1.6	1.2	1.6
Real unit labour cost			0.3	-2.4	0.7	2.2	**0.0**	**0.6**	**-0.6**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.3	5.0	3.5	1.4	**1.5**	**0.5**	**2.1**
Harmonised index of consumer prices			-	3.7	2.9	1.7	**0.7**	**0.6**	**1.8**
Terms of trade of goods			0.0	2.5	-1.3	-0.2	**1.4**	**0.6**	**0.6**
Trade balance (goods) (c)			-7.9	0.4	2.0	5.0	**5.7**	**6.2**	**6.3**
Current-account balance (c)			9.7	6.5	5.7	5.2	**4.8**	**3.8**	**3.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	6.2	5.2	4.7	**4.7**	**3.9**	**3.8**
General government balance (c)			2.2	0.3	0.1	0.6	**0.5**	**-0.4**	**0.1**
Cyclically-adjusted budget balance (c)			2.1	0.9	1.7	2.1	**1.5**	**0.4**	**0.5**
Structural budget balance (c)			-	0.9	1.7	2.1	**1.3**	**0.4**	**0.5**
General government gross debt (c)			8.7	18.5	21.4	23.6	**22.7**	**24.4**	**25.1**

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

17. HUNGARY
Slower growth ahead

After growing by an estimated 3.3 % in 2014 Hungary's economic growth is forecast to slow down in 2015 and further still in 2016. While the 2014 target for the headline deficit was likely overachieved, the government deficit is projected to increase slightly in 2015.

The dynamic growth seen in 2014 is set to decelerate

In the first three quarters of 2014, Hungary's GDP grew by 3.6% (y-o-y) bringing the annual rate to an estimated 3.3%. This is attributed to growing domestic demand, within which the contribution of gross fixed capital formation was significant. The surge in growth, however, was largely supported by one-off factors, such as higher absorption of EU funds and the central bank's Funding for Growth Scheme of subsidised loans to SMEs.

Signs that economic growth was beginning to slow were already apparent in the second half of 2014. The slowdown in growth is expected to continue throughout the forecast horizon. Economic growth is projected at 2.4% and 1.9% in 2015 and 2016, respectively. This is partly due to the reverse impact on investment of the above-mentioned one-offs. Domestic demand will remain the main driver of economic growth, but with a shift from investment to private consumption as new mortgage rules[47] are expected to boost household real disposable income. With the start of the new multi-annual financial period, the absorption of EU funds might not decline in 2015, being an overlap year between the two periods. Nevertheless, a decrease in EU fund inflows seems unavoidable in 2016. This will be reflected in investment activity. Export growth, which is forecast to decrease in 2015 due to lower demand from major trade partners, is expected to pick up again in 2016, while imports remain stable, fuelled by private consumption. Hungary's current account surplus is set to remain stable at just over 4% of GDP in 2015, but it will rise slightly in 2016.

Unemployment falls further while inflation is lower than expected

The number of unsubsidised job vacancies increased in 2014, as did the activity rate and the employment rate. With economic growth, job creation in the private sector continued, but employment growth was also supported by extensive public works. In 2014-Q3, unemployment decreased to a low of 7.4% and it is forecast to be slightly above 7.5% for the year as a whole. At the end of the forecast horizon, unemployment is set to fall below 7% because of further increases in public works. At the same time, wage dynamics in the private sector will remain moderate because of lower inflation in 2015. In the public sector, nominal wage freezes and the increase of public works, which create mainly low-paid jobs, should keep wages subdued.

HICP inflation in 2014 was 0.0%. Consumer prices in 2015 are projected to grow by 0.8%. The downward revision (from 2.5% in the autumn forecast) is mainly due to the fall in oil prices but also due to historically low inflationary pressures in the euro area. These effects are expected to diminish from the second half of 2015. With the output gap closing and the weaker exchange rate passing through to prices, inflation is expected to reach 2.8% in 2016.

Risks to the growth forecast are balanced

If private consumption dynamics is more in line with the projected path of real disposable income growth (i.e. lower precautionary savings), growth could be higher. The possibility of normal lending being restored faster than assumed represents another positive risk, especially with the Investment Plan for Europe. An escalation of geopolitical tensions would result in higher risk premia, which would weaken the private sector's balance sheet, causing higher inflation and lower growth.

Moderate improvement in public finances

Preliminary data suggest that the government's deficit in 2014 could reach 2.6% of GDP, i.e. 0.3 pp. below the official target and the autumn forecast. The improvement partly stems from the cancellation of the extraordinary reserve (i.e. a conditional expenditure item serving as a

(47) That is, payback from banks to clients and lower mortgages, decided in 2014, taking effect in 2015. That is why the household sector is protected from the recent CHF depreciation: the exchange rate for mortgage repayments is already fixed.

budgetary buffer). In addition, spending increases linked mainly to the amendment of the budget in November were more than offset by extra revenues, including corporate income tax windfalls.

Based on the adopted budget, the 2015 deficit is projected at 2.7% of GDP. While expected interest outlays decreased, the primary balance has deteriorated slightly since the autumn forecast. This reflects additional expenditure of more than 1% of GDP, which is largely compensated by revenue-increasing measures, additional EU funding, and the positive base effect of higher-than-expected tax receipts. The forecast does not include the planned one-off revenues from asset sales which are still unspecified, while it is assumed that investments linked to these receipts will be scaled down, but only partly.

Based on a no-policy-change assumption, the government deficit is projected to decrease to 2.5% of GDP in 2016. This is due to the phasing-out of one-off transactions and the forecast moderate expenditure growth. EU funds absorbed by the government sector are expected to decline by 2% of GDP, which results both in lower revenues and expenditures (including the VAT content of EU funded projects as well as the assumed savings due to lower co-financing needs).

Regarding budgetary risks, the 2014 deficit outcome remains subject to uncertainties relating to the performance of local governments. In 2015 and beyond, positive risks are related to the additional effects of recent measures to combat VAT avoidance as well as to the realisation of some asset sales. On the negative side, the financial correction of EU funds may turn out higher than planned and there is also a notable risk of spending overruns in the education sector.

The structural balance is forecast to deteriorate significantly in 2014 to -2.6% of GDP, and then to stabilise before improving by less than ¼ pp. in 2016. The debt-to-GDP ratio is forecast to increase by 0.4 pp. in 2014 to 77.7% mainly on account of the weakening of the exchange rate. In 2015, the debt reduction is expected to be hampered by the need to provide domestic advance payments for the closing of EU co-financed projects. The debt-to-GDP ratio is projected to decline faster in 2016.

Table II.17.1:

Main features of country forecast - HUNGARY

	2013			Annual percentage change					
	bn HUF Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	29846.3	100.0	2.3	1.8	-1.5	1.5	**3.3**	**2.4**	**1.9**
Private Consumption	15725.2	52.7	-	0.8	-1.9	-0.1	**1.8**	**2.8**	**2.2**
Public Consumption	5937.8	19.9	0.6	0.0	-1.3	3.2	**1.4**	**0.0**	**-0.2**
Gross fixed capital formation	5949.2	19.9	2.7	-2.2	-4.2	5.2	**13.7**	**3.1**	**-1.0**
of which: equipment	2563.6	8.6	-	7.1	3.5	4.7	**10.0**	**2.4**	**1.0**
Exports (goods and services)	26491.9	88.8	13.6	6.6	-1.5	5.9	**8.0**	**6.0**	**6.7**
Imports (goods and services)	24225.5	81.2	11.6	4.5	-3.3	5.9	**9.8**	**6.1**	**6.1**
GNI (GDP deflator)	28980.6	97.1	2.0	1.7	-0.9	3.0	**3.5**	**2.2**	**2.0**
Contribution to GDP growth: Domestic demand			1.6	0.0	-2.1	1.6	**4.0**	**2.1**	**0.9**
Inventories			0.0	-0.2	-0.7	-0.5	**0.2**	**0.0**	**0.0**
Net exports			0.7	2.0	1.4	0.4	**-0.8**	**0.3**	**1.1**
Employment			-	0.0	0.1	0.8	**3.7**	**1.1**	**1.3**
Unemployment rate (a)			7.8	11.0	11.0	10.2	**7.7**	**7.4**	**6.6**
Compensation of employees / head			-	3.4	1.8	1.5	**3.8**	**3.9**	**3.0**
Unit labour costs whole economy			-	1.6	3.5	0.8	**4.2**	**2.5**	**2.3**
Real unit labour cost			-	-0.6	0.1	-2.1	**1.9**	**0.2**	**-0.5**
Saving rate of households (b)			12.8	12.2	10.2	10.7	**10.6**	**10.8**	**10.0**
GDP deflator			9.3	2.2	3.4	3.0	**2.2**	**2.4**	**2.8**
Harmonised index of consumer prices			-	3.9	5.7	1.7	**0.0**	**0.8**	**2.8**
Terms of trade goods			-	-1.6	-1.2	0.8	**0.7**	**1.0**	**0.1**
Trade balance (goods) (c)			-4.0	2.8	3.0	3.5	**2.9**	**3.6**	**4.2**
Current-account balance (c)			-5.9	0.8	1.7	4.2	**4.1**	**4.4**	**4.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.4	3.2	4.3	7.8	**7.8**	**8.4**	**7.7**
General government balance (c)			-6.0	-5.5	-2.3	-2.4	**-2.6**	**-2.7**	**-2.5**
Cyclically-adjusted budget balance (c)			-	-4.5	-0.7	-1.2	**-2.2**	**-2.7**	**-2.4**
Structural budget balance (c)			-	-4.3	-1.3	-1.3	**-2.6**	**-2.6**	**-2.4**
General government gross debt (c)			65.0	81.0	78.5	77.3	**77.7**	**77.2**	**76.1**

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

18. MALTA

Dynamic growth and low unemployment ahead

The economy has maintained a healthy momentum. GDP growth is estimated to have reached 3.3% in 2014, a rate which should moderate somewhat by 2016 but remain strong relative to the rest of the euro area. HICP inflation is estimated to have bottomed out in 2014 and should gradually recover in 2016 while the favourable macroeconomic climate should help the budget deficit fall below 2% of GDP.

Real GDP growth rose in the third quarter of 2014 to reach 3.8% in annual terms, up from 3.4% in the second quarter. This reflected strong domestic demand, underpinned by dynamic investment in the energy sector and favourable labour market developments, and to a lesser extent exports, which, albeit weak, continue to outpace imports. Real GDP growth is estimated to have reached 3.3% in 2014 as a whole. Thereafter, it is expected to remain stable in 2015 and moderate somewhat by the end of the forecast horizon, reaching 2.9% in 2016.

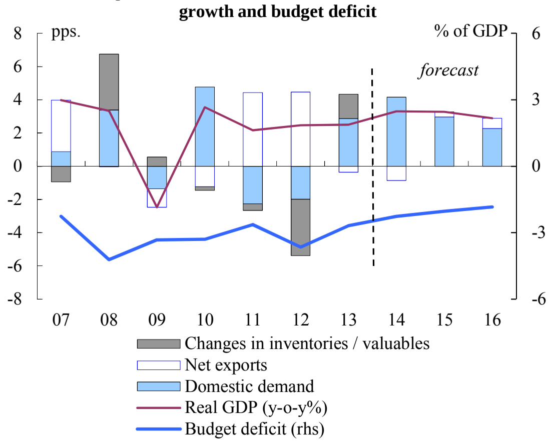
Robust growth outlook

Private consumption is expected to continue showing strong growth in 2015-16, as disposable incomes rise due to falling energy prices and unemployment. Wage growth is seen to accelerate towards the end of the forecast horizon, thereby lending further support to aggregate household spending. Private investment is set to receive another large, albeit temporary, boost from the construction of a new power plant over the course of 2015. Energy-sector investment is also planned for 2016 although on a smaller scale – the existing power plant is planned to be converted to run on gas. The high base from 2015, however, is expected to result in noticeably weaker growth the following year. Despite the projected pick-up in import-intensive domestic demand, Malta's current account balance is projected to remain in surplus, benefitting from a depreciation of the euro against other major currencies, which is seen to boost exports of the services sector and a moderate recovery in the electronics sector.

Malta's labour market is projected to continue to perform well as the employment dynamics are projected to continue to be driven by the improvement in the labour market activity of women. Job creation is forecast to moderate somewhat compared to 2013-14 but to remain robust at around 2% per annum, while unemployment is seen to remain below 6%.

Stronger recovery in the demand for credit, resulting from lower interest rates, could further boost the investment outlook thus representing an upside risk to the macroeconomic scenario. The ongoing energy reforms could improve the competitiveness of the corporate sector and lower costs for companies, which could result in higher-than-expected investment and exports.

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



Consumer inflation to pick up gradually

HICP inflation averaged 0.8% in 2014, down from 1% in 2013, largely due to the lowering of electricity tariffs in March. However, at 1.7%, core inflation, remained close to its long-term average. Both overall HICP and core inflation are projected to rise in 2015-16, on the back of rising services inflation as well as moderate increases in food and energy prices in 2016.

Budget deficit moderates

In 2014, the budget deficit is expected to have decreased to 2.3% of GDP, from 2.7% in 2013. The share of current primary expenditure relative to GDP is projected to have increased on the back of higher intermediate consumption as well as higher spending due to the temporary nationalisation of the public transport system, which led to a higher public sector wage bill and subsidies (the service was privatised again in

2015). Employment in the public sector has also increased due to new recruitments in the health and education sectors. Net capital expenditure is set to have dropped due to a lower capital injection into Air Malta than the one in 2013. The favourable macroeconomic outlook as well as the revenue increasing measures included in the 2014 budget are expected to have supported current revenue, to an increase of 0.7 pp.

The government's 2015 budget includes mostly revenue-increasing measures, such as increases in indirect taxation, fees and measures to fight tax evasion. On the expenditure side, the budget envisages several social measures (among which, child and in-work benefits for low income households and a compensation for those who do not qualify for income tax cuts) which are only partly compensated by some restraint on public wages. As a whole, the current revenue ratio is projected to increase by 0.9 pp. of GDP, also on the back of higher-than-expected revenue from the International Investor Programme. Capital expenditure is set to increase due to a further capital injection into Air Malta of almost 0.5% of GDP. Overall, in 2015 the deficit is expected to narrow to 2.0% of GDP and to further decrease to 1.8% of GDP in 2016, on a no-policy-change assumption, also thanks to favourable nominal GDP growth.

After having worsened by more than 1 pp. of GDP in 2013, the structural deficit is estimated to have remained stable in 2014. It is projected to improve by ¼ pp. of GDP both in 2015 and 2016.

The general government debt-to-GDP ratio increased to 69.5% in 2013, also on account of a debt-increasing stock-flow adjustment related to tax arrears from Enemalta (the public energy utility corporation). Also thanks to the expected repayment of these arrears, the debt ratio is projected to decrease to 68.6% of GDP in 2014 and to reach 66.8% of GDP by 2016.

Downside risks are linked to higher-than-expected subsidies to Malta's new public transport service provider.

Table II.18.1:

Main features of country forecast - MALTA

	2013		Annual percentage change						
	mio EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	7543.9	100.0	3.1	2.2	2.5	2.5	**3.3**	**3.3**	**2.9**
Private Consumption	4232.5	56.1	-	2.5	0.4	1.6	**2.3**	**2.3**	**2.4**
Public Consumption	1487.6	19.7	-	2.8	6.3	0.5	**5.8**	**1.2**	**4.9**
Gross fixed capital formation	1305.4	17.3	-	-18.0	-0.5	2.3	**10.0**	**8.0**	**0.0**
of which: equipment	501.2	6.6	-	-17.2	-12.9	7.2	**-**	**-**	**-**
Exports (goods and services)	11884.3	157.5	-	2.5	7.9	-1.2	**1.0**	**4.7**	**5.2**
Imports (goods and services)	11346.7	150.4	-	-0.4	5.2	-1.0	**1.7**	**4.7**	**5.0**
GNI (GDP deflator)	7170.1	95.0	2.7	2.9	0.8	2.7	**4.6**	**3.1**	**2.4**
Contribution to GDP growth: Domestic demand			-	-1.9	1.4	1.4	**4.1**	**2.9**	**2.3**
Inventories			-	-0.4	-3.3	1.5	**0.1**	**0.1**	**-0.1**
Net exports			-	4.4	4.3	-0.4	**-0.9**	**0.3**	**0.6**
Employment			1.0	2.8	2.3	4.0	**2.7**	**2.0**	**1.9**
Unemployment rate (a)			6.6	6.4	6.3	6.4	**6.0**	**5.9**	**5.9**
Compensation of employees / head			4.1	3.6	4.3	-0.3	**2.4**	**1.8**	**2.2**
Unit labour costs whole economy			2.0	4.3	4.1	1.2	1.8	0.5	1.2
Real unit labour cost			-0.5	2.0	1.9	-0.8	**0.3**	**-1.0**	**-0.5**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			2.5	2.2	2.1	2.0	**1.6**	**1.5**	**1.7**
Harmonised index of consumer prices			-	2.5	3.2	1.0	**0.8**	**1.0**	**1.9**
Terms of trade of goods			-	-0.6	-2.2	0.4	**0.5**	**0.4**	**0.1**
Trade balance (goods) (c)			-17.0	-16.6	-14.2	-13.3	**-13.8**	**-13.7**	**-13.4**
Current-account balance (c)			-6.2	-1.8	0.8	0.9	**3.3**	**3.5**	**3.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-5.2	-0.7	2.7	2.6	**5.4**	**5.5**	**5.5**
General government balance (c)			-5.2	-2.6	-3.6	-2.7	**-2.3**	**-2.0**	**-1.8**
Cyclically-adjusted budget balance (c)			-5.2	-2.5	-3.5	-2.5	**-2.3**	**-2.2**	**-2.1**
Structural budget balance (c)			-	-3.0	-3.9	-2.7	**-2.7**	**-2.4**	**-2.2**
General government gross debt (c)			59.9	69.8	67.5	69.5	**68.6**	**68.0**	**66.8**

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

19. THE NETHERLANDS

Domestic demand takes the lead

The Netherlands has so far a somewhat hesitant economic recovery, with GDP in the third quarter of 2014 growing just 0.1%. Growth in 2015 and 2016 is expected to strengthen gradually, with a growing contribution of domestic demand. Dragged down by the recent fall in oil prices, annual HICP inflation pressures will be muted over the forecast horizon. The general government deficit is estimated to have reached 2.8% of GDP in 2014 and is expected to further decline to 2.2% in 2015 and 1.8% in 2016.

A hesitant recovery in 2014

After a negative first quarter, the Dutch economy started to grow again thanks to positive net exports and a recovery of domestic demand. Annual growth of GDP is expected to reach 0.7% in 2014. Soft indicators as well as the most recent monthly data suggest that the economic recovery of the Netherlands will continue. Nevertheless, the extremely mild weather conditions this winter might have lowered the consumption of natural gas by Dutch households, negatively affecting consumption growth in the fourth quarter.

Domestic demand set to support the recovery in 2015 and 2016

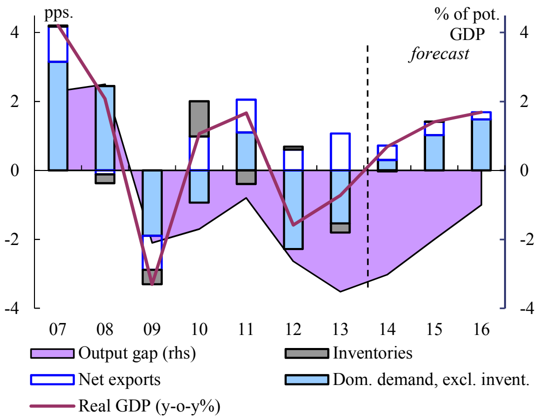
Domestic demand is expected to become the main driver of growth over the forecast horizon, as wage growth accelerates and inflation remains low. A gradual recovery in house prices should also provide a boost to economic sentiment. At the same time, deleveraging pressures in the Dutch economy will limit the potential for a faster recovery of domestic consumption and are likely to offset the impetus coming from lower oil prices. Industrial production and investment are expected to increase steadily, in line with the gradual recovery of economic growth.

In 2015, net exports are expected to deliver about one third of the total growth of real GDP, while two thirds is forecast to come from domestic demand. In 2016, economic growth is expected to come almost solely from domestic demand, with a limited contribution of the external sector.

Labour market improves

Over the course of 2014, labour market conditions improved on both sides of the market. More workers entered into the labour market while employment grew simultaneously. The unemployment rate declined substantially in 2014. After it peaked at 7.3% in February, the unemployment rate declined substantially during the year and stood at 6.7% in December 2014. These dynamics are expected to continue but at a slower pace. Employment is expected to grow gradually; while the unemployment rate is foreseen to decline to 6.6% in 2015 and 6.4% in 2016.

Graph II.19.1: **The Netherlands - Real GDP growth and contributions**



Low but positive inflation

Inflation pressures are expected to remain muted because of the recent fall in oil prices, markedly lower import prices, and the slow pace of domestic demand growth. HICP inflation is forecast at 0.4% in 2015, while prices are set to rise 0.7% in 2016. In particular, energy price inflation is expected to deliver a negative contribution to HICP inflation. Positive pressure on HICP inflation is expected to come from price developments in the services sector due to a healthy wage growth.

Downside risks remain but lower oil prices may fuel consumption

Risks to the outlook are large and mostly negative. The largest risks are external, principally the possibility that adverse global developments could spill over to the very open economy of the Netherlands. Domestically, the household debt overhang may continue to weigh on growth more heavily than assumed. Low energy prices do imply an upside risk as well, as they may fuel world trade and disposable income more than the forecast assumes.

Nominal deficit set to improve further

For 2014, the general government budget deficit is estimated to have reached 2.8% of GDP. This includes incidental factors such as the adjustment of EU contributions following the GDP revision in the context of ESA 2010. For 2015 and 2016, the general government budget deficit is set to improve to 2.2% and 1.8% of GDP, respectively, on the back of government measures (most importantly the reduction of the maximum accrual rate of pensions and decentralisations in the long term-care sector). For 2016, the forecast takes into account the measures detailed in the multi-annual budget agreement (*'Regeerakkoord'*). An additional positive influence on the budget comes from the recovery of domestic demand, which will lead to more tax-rich economic growth.

The structural deficit is expected to hover around ¾% of GDP in both 2014 and 2015, but as the output gap closes, it is foreseen to move further away from the MTO above 1% of GDP in 2016. The gross government debt ratio is forecast to stabilise at 70.5% of GDP in 2015 and 2016.

Risks to the fiscal forecast largely mirror macroeconomic uncertainties. In addition there are uncertainties surrounding certain policy measures. For example, the pension reforms which are intended to broaden the tax base via lower tax deductible pension premiums. The budgetary impact (estimated at circa 1.5 billion euro or 0.2% of GDP in 2015) will depend on actual developments in pension premiums.

Table II.19.1:

Main features of country forecast - NETHERLANDS

		2013		Annual percentage change						
	bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		642.9	100.0	2.3	1.7	-1.6	-0.7	**0.7**	**1.4**	**1.7**
Private Consumption		289.6	45.0	1.9	0.2	-1.4	-1.6	**-0.1**	**1.2**	**1.6**
Public Consumption		169.3	26.3	3.0	-0.2	-1.6	-0.3	**0.0**	**-0.2**	**0.0**
Gross fixed capital formation		117.3	18.2	2.3	5.6	-6.0	-4.0	**1.7**	**3.0**	**4.0**
of which: equipment		34.4	5.4	3.4	17.0	-3.4	-3.0	**1.8**	**4.3**	**4.5**
Exports (goods and services)		533.2	82.9	5.1	4.4	3.3	2.0	**4.1**	**4.4**	**4.8**
Imports (goods and services)		466.8	72.6	5.4	3.5	2.8	0.8	**4.1**	**4.5**	**5.1**
GNI (GDP deflator)		644.2	100.2	2.3	1.1	-0.4	-1.7	**0.7**	**1.4**	**1.6**
Contribution to GDP growth:	Domestic demand			2.2	1.1	-2.3	-1.5	**0.3**	**1.0**	**1.5**
	Inventories			0.0	-0.4	0.1	-0.3	**0.0**	**0.0**	**0.0**
	Net exports			0.1	0.9	0.6	1.1	**0.4**	**0.4**	**0.2**
Employment				1.1	0.6	-0.6	-1.4	**-0.5**	**0.6**	**0.7**
Unemployment rate (a)				4.3	4.4	5.3	6.7	**6.9**	**6.6**	**6.4**
Compensation of employees / f.t.e.				3.0	2.4	2.6	2.3	**1.6**	**0.8**	**2.1**
Unit labour costs whole economy				1.9	1.3	3.6	1.6	**0.4**	**0.0**	**1.1**
Real unit labour cost				-0.3	1.2	2.3	0.5	**-0.1**	**-0.6**	**-0.1**
Saving rate of households (b)				14.5	13.3	13.5	14.7	**15.0**	**15.1**	**16.4**
GDP deflator				2.2	0.1	1.3	1.1	**0.5**	**0.5**	**1.3**
Harmonised index of consumer prices				2.0	2.5	2.8	2.6	**0.3**	**0.4**	**0.7**
Terms of trade goods				0.5	-1.7	-0.5	0.6	**0.1**	**-0.1**	**0.5**
Trade balance (goods) (c)				7.9	10.1	10.7	11.6	**11.5**	**11.6**	**11.9**
Current-account balance (c)				6.0	7.1	8.8	8.5	**8.5**	**8.0**	**8.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				5.7	6.8	7.8	7.9	**7.9**	**7.8**	**8.2**
General government balance (c)				-1.7	-4.3	-4.0	-2.3	**-2.8**	**-2.2**	**-1.8**
Cyclically-adjusted budget balance (c)				-1.6	-3.8	-2.3	0.0	**-0.9**	**-0.9**	**-1.1**
Structural budget balance (c)				-	-3.8	-2.3	-0.6	**-0.7**	**-0.9**	**-1.1**
General government gross debt (c)				55.5	61.3	66.5	68.6	**69.5**	**70.5**	**70.5**

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

20. AUSTRIA

Lingering weakness and uncertainty hamper a stronger rebound

The likelihood of an imminent upswing seems to be fading as Austria's growth in 2014 was likely flat and business and consumer confidence have continued to deteriorate at the start of 2015. Continued lukewarm investment may start posing a risk to the economy's readiness to benefit from a recovery in international trade. The economy's anaemic growth is expected to weigh on public finances, although this should be offset in part by planned consolidation measures.

Entering stagnation

The Austrian economy is expected to have stagnated in 2014. The dynamics of economic activity were weak or negative across all sectors, particularly in the third quarter, when GDP growth turned negative (-0.3%). Export growth weakened further compared to the year before amid slumping demand for imports from the euro area. The growth contribution of foreign trade is likely to have been negative. Domestic demand was supported by a short-lived, tax-related investment rally early in 2014, by public consumption and, to a lesser extent, by consumer demand which was slightly livelier thanks to the continuing growth of employment.

Fragile outlook subject to uncertainty

No tangible acceleration of growth is expected in the early quarters of 2015 and thus GDP growth for the year as a whole is expected to be around 0.8%. Business and consumer sentiment indicators for the turn of the year indicate another soft patch extending over the next few months.

GDP growth in 2016 is forecast to strengthen to 1.5%, although this will depend on a pick-up in international trade and a more vigorous response from investment and consumption to supportive factors such as the low interest rate environment. The latest monetary policy measures are expected to favour both these channels. Domestic demand is expected to contribute to most of the increase in GDP.

The low interest rate environment is supportive of investment, but capacity utilisation rates and order-book levels indicate some degree of slack. Low interest rates should also benefit housing demand, which, together with rising house prices in recent years, are expected to revive construction activity over the coming years.

The evolution of foreign demand over the forecast horizon should present opportunities to Austrian exporters, which have broadly maintained productivity growth, and enable them to benefit from their strong integration in international production chains. However, the fact that investment has been lukewarm over the last two-three may have left Austrian companies less well placed to profit from such a recovery. The improving outlook for exports is nevertheless expected to help restart investment growth. With both exports and imports picking up, net exports are projected to contribute positively to growth in 2015-16, unlike in 2014.

Consumption supported by a stable labour market

Employment growth is expected to have picked up mildly to around 1% in 2014, despite sluggish economic activity, driven by job creation in service sectors. Although employers' expectations suggest job creation could slow, stronger GDP growth should mean that job creation remains positive in 2015 and picks up in 2016. Unemployment may, however, be slow to decline, as labour supply is likely to keep increasing on account of immigration. Positive employment growth, rather than real wages, is seen as the main driver of real household income growth and should support a moderate increase in consumption growth over the forecast horizon.

Core inflation positive and stable

Consumer price inflation turned out at 1.5% in 2014, reflecting a disinflationary impact from energy prices. The momentum in the remaining components, in particular hospitality and recreation services, has continued due to unabated demand in these sectors, keeping core inflation at 1.9%. These trends are expected to remain in place over the forecast horizon, especially as demand strengthens. Energy prices are expected to decline further in 2015 but consequently regain some ground in 2016. All in all, headline inflation is projected at 1.1% for 2015 and 2.2% in 2016.

Public finances suffer from the weak economic outlook

The general government deficit is expected to have widened to 2.8% of GDP in 2014, mainly due to the winding-down of Hypo Alpe Adria which the government estimated to have cost around 1.2% of GDP, although the required assessment of this operation by an independent body has not yet been carried out.

The one-off nature of the cost borne by the government for Hypo's winding-down is the main factor underlying the decline in the deficit to 1.9% of GDP in 2015. Besides this positive effect, the 2015 deficit figure is negatively affected by anaemic growth, which is expected to have non-negligible impact on government tax revenue. However, the consolidation measures announced by the government after the submission of the Draft Budgetary Plan to the Commission in October, accounting for 0.2% of GDP, are expected to limit the downward revision in the 2015 deficit estimate to 0.2% of GDP compared to the Commission 2014 autumn Forecast. Shortfalls in the full implementation of these additional measures, in particular with regard to further savings required from subnational governments, represent a source of risk in this forecast. Other downside risks arise from the persistent weak cyclical conjuncture and which could lead to larger-than-expected reduction in government tax revenue. On the contrary, additional government intervention in those banks under the process of restructuring could either not occur in 2015 or their cost could be lower than the current budget allocation of roughly 0.3% of GDP, which would lead to a lower deficit in 2015. The government deficit is projected to fall to 1.4% of GDP in 2016 due to better economic conditions.

The structural balance is estimated at about -1% of GDP in 2014 and is expected to remain stable over the forecast horizon.

Austria's public debt, after rising by roughly 6 pps. to 86.8% of GDP in 2014, due to the transfer of Hypo Alpe Adria assets under public account, is expected to decline to 86.4% of GDP in 2015 and to 84.5% of GDP in 2016.

Table II.20.1:

Main features of country forecast - AUSTRIA

	2013		Annual percentage change						
bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	322.6	100.0	2.0	3.1	0.9	0.2	**0.2**	**0.8**	**1.5**
Private Consumption	173.8	53.9	1.7	0.7	0.6	-0.1	**0.4**	**0.6**	**0.9**
Public Consumption	64.0	19.8	1.8	0.1	0.4	0.7	**0.9**	**0.9**	**0.8**
Gross fixed capital formation	71.6	22.2	0.8	6.8	0.5	-1.5	**1.0**	**1.0**	**3.2**
of which: equipment	23.1	7.2	1.2	9.8	-0.6	-1.5	**3.2**	**2.0**	**5.1**
Exports (goods and services)	172.5	53.5	5.5	6.6	1.3	1.4	**0.1**	**2.0**	**4.7**
Imports (goods and services)	161.0	49.9	4.3	6.4	0.7	-0.3	**1.0**	**2.0**	**4.7**
GNI (GDP deflator)	322.3	99.9	2.1	2.6	1.4	-0.8	**0.3**	**0.8**	**1.5**
Contribution to GDP growth: Domestic demand			1.5	1.9	0.5	-0.3	**0.7**	**0.7**	**1.3**
Inventories			0.1	0.6	-0.2	-0.7	**0.0**	**0.0**	**0.0**
Net exports			0.5	0.3	0.3	0.9	**-0.5**	**0.1**	**0.2**
Employment			0.5	1.4	1.3	0.7	**0.9**	**0.6**	**1.0**
Unemployment rate (a)			4.3	4.2	4.3	4.9	**5.0**	**5.2**	**5.0**
Compensation of employees / f.t.e.			2.4	2.4	2.6	2.1	**2.0**	**2.1**	**2.0**
Unit labour costs whole economy			0.9	0.8	3.1	2.6	**2.7**	**1.9**	**1.5**
Real unit labour cost			-0.5	-1.0	1.2	1.1	**0.7**	**0.6**	**-0.3**
Saving rate of households (b)			15.9	13.3	14.4	12.8	**13.3**	**14.0**	**13.7**
GDP deflator			1.5	1.8	1.9	1.5	**2.0**	**1.3**	**1.8**
Harmonised index of consumer prices			1.6	3.6	2.6	2.1	**1.5**	**1.1**	**2.2**
Terms of trade goods			-0.2	-2.3	-0.8	0.2	**1.6**	**0.0**	**-0.1**
Trade balance (goods) (c)			-0.9	-1.2	-1.0	-0.2	**0.9**	**0.9**	**0.8**
Current-account balance (c)			0.6	2.1	2.6	2.3	**2.5**	**2.6**	**2.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			0.5	2.0	2.4	2.2	**2.4**	**2.7**	**2.7**
General government balance (c)			-2.9	-2.6	-2.3	-1.5	**-2.9**	**-2.0**	**-1.4**
Cyclically-adjusted budget balance (c)			-2.8	-2.7	-2.3	-1.2	**-2.2**	**-1.3**	**-1.0**
Structural budget balance (c)			-	-2.5	-1.9	-1.4	**-1.1**	**-1.0**	**-1.0**
General government gross debt (c)			68.1	82.1	81.7	81.2	**86.8**	**86.4**	**84.5**

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

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

21. POLAND

Growth is proving resilient

Despite external headwinds, Poland's real GDP growth was strong in 2014. Economic activity is set to remain robust on the back of solid domestic demand, bolstered by improving labour market conditions and rising real disposable incomes. The Russia-Ukraine crisis and weak demand in the euro area are now forecast to weigh less than previously expected. Public finances are projected to improve.

Robust economic activity in 2014...

Poland's real GDP is expected to have grown by 3.3% in 2014, mainly due to strong domestic demand. Private consumption accelerated, as the initial confidence impact of the Russia-Ukraine crisis on households turned out to be less important than expected. Private consumption also benefited from rising employment and higher real wages. Lower financing costs and the long-delayed renewal and expansion of production capacities, amid high capacity utilisation levels, has fuelled a rebound in corporate investment.

...is projected to continue.

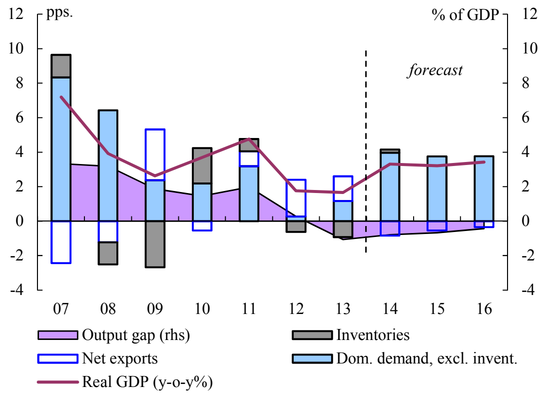
Exports and private investment are set to moderate in the beginning of 2015 as the repercussions of the Russia-Ukraine crisis become more tangible and growth in the euro area remains modest. However, the slowdown in exports and investment is expected to be short-lived. The negative impact from weak euro area growth and the Russia-Ukraine crisis is expected to be counterbalanced by the redirection of Polish exports towards more dynamic markets and by gains in price competitiveness. Private consumption is set to grow as real wages and employment climb.

The ongoing recovery of credit growth supported by declining financing costs is expected to further encourage private investment. Profit margins in the corporate sector are set to increase as prices of imported intermediate goods fall faster than prices of final goods. This increase should support corporate investment spending and wage growth. Public investment is set to gather steam in 2015 with the implementation of new projects co-financed by the EU. Economic activity is expected to accelerate somewhat in 2016, as external demand picks up. Real GDP growth is projected to ease to 3.2% in 2015 and then rebound to 3.4% in 2016.

The contribution of net exports to real GDP growth is expected to remain negative over the forecast horizon as domestic demand gains momentum. As a result, the current-account deficit is forecast to rise to 2% of GDP in 2016, up from 1.3% in 2014, in spite of falling commodity prices and higher terms-of-trade.

Poland's labour market should benefit from the solid pace of economic activity and growing production capacities. The unemployment rate is set to decline from 9.1% in 2014 to 8.3% in 2016. A tighter labour market is expected to translate into nominal wage growth and, in turn, higher disposable incomes.

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



The risks to the forecast are balanced. On the upside, a depreciation of the Polish złoty against the currencies of main trading partners in the wake of the Russia-Ukraine crisis would boost exports and support import substitution. On the downside, a new escalation of the Russia-Ukraine crisis could weigh on economic activity through lower exports and higher gas prices. By contrast, a possible appreciation of the Polish currency in the wake of the ECB QE might hamper exports.

Prices to fall

Very low external inflationary pressures coupled with falling food and oil prices are forecast to keep prices falling until the third quarter of 2015. Consumer prices should start rising again moderately thereafter, on the back of base effects in food prices and robust domestic demand.

Inflation is expected to average -0.2% in 2015 and to increase to 1.4% in 2016.

Public finances are set to gradually improve

The general government deficit is estimated to have fallen to 3.6% of GDP in 2014, from 4% in 2013. The deficit in 2014 is projected to have improved thanks to restraint on the expenditure side, in particular due to a partial freeze of public wages. These expenditure savings, however, are expected to have been partially offset by increases of some categories of social spending (including a legislated extension of maternity leave) and one-off costs linked to the resolution of some credit unions.

The forecast for the deficit is projected to fall to 2.9% in 2015. Government revenues are set to benefit from the pace of economic growth. Moreover, social security contributions retained by the general government are set to increase due to the partial reversal of previous systemic pension reform (limiting the role of the private pension funds). On the expenditure side, the cost of the planned restructuring of the mining sector and some social spending measures (including higher indexation of low-income pensions) will partially offset expenditure savings in other areas, like the continued partial freeze of public wages.

In 2016, the general government deficit is projected to improve to 2.7%, on the back of the projected acceleration of GDP. Moreover, the projected deflation of consumer prices in 2015 will have a constraining effect on social expenditure (some of which is indexed to inflation from the previous year). The restructuring of the mining sector poses a downside risk to the public finances forecast in 2015 and 2016.

The structural deficit is set to improve over the forecast horizon, from 3.5% of GDP in 2013 to 2.4% in 2016. The general government debt-to-GDP ratio is set to fall from 55.7% in 2013 to 48.6% in 2014 due to a large transfer of assets accumulated in private pension funds. It is expected to amount to 49.8% in 2016. The projected debt figures are, however, subject to considerable uncertainty because of the potential impact of exchange rate fluctuations on the relatively high share of Poland's sovereign debt denominated in foreign currencies.

Table II.21.1:
Main features of country forecast - POLAND

	2013		Annual percentage change						
bn PLN	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	1662.1	100.0	4.5	4.8	1.8	1.7	**3.3**	**3.2**	**3.4**
Private Consumption	1012.0	60.9	4.4	2.9	0.9	1.0	**3.0**	**3.1**	**3.2**
Public Consumption	301.6	18.1	3.2	-2.3	0.2	2.1	**2.2**	**4.0**	**3.3**
Gross fixed capital formation	312.8	18.8	7.1	9.3	-1.5	0.9	**9.3**	**5.9**	**6.3**
of which: equipment	109.2	6.6	-	11.6	-3.9	5.0	**9.8**	**6.5**	**8.0**
Exports (goods and services)	766.3	46.1	9.6	7.9	4.3	5.0	**4.8**	**4.1**	**5.4**
Imports (goods and services)	735.0	44.2	10.4	5.5	-0.6	1.8	**6.9**	**5.5**	**6.4**
GNI (GDP deflator)	1592.9	95.8	4.3	4.4	1.6	1.7	**3.3**	**3.1**	**3.4**
Contribution to GDP growth: Domestic demand			4.8	3.2	0.3	1.2	**4.0**	**3.7**	**3.8**
Inventories			0.1	0.7	-0.6	-0.9	**0.2**	**0.0**	**0.0**
Net exports			-0.4	0.9	2.1	1.4	**-0.8**	**-0.5**	**-0.3**
Employment			0.3	0.6	0.1	-0.1	**1.7**	**0.4**	**0.5**
Unemployment rate (a)			13.7	9.7	10.1	10.3	**9.1**	**8.8**	**8.3**
Compensation of employees / head			10.0	5.3	3.5	2.6	**2.3**	**3.7**	**3.9**
Unit labour costs whole economy			5.6	1.1	1.8	0.8	**0.7**	**0.9**	**1.0**
Real unit labour cost			-1.1	-2.0	-0.4	-0.4	**-0.4**	**0.3**	**-0.5**
Saving rate of households (b)			10.7	2.1	4.8	3.6	**1.9**	**3.4**	**3.7**
GDP deflator			6.8	3.2	2.2	1.2	**1.1**	**0.6**	**1.4**
Harmonised index of consumer prices			-	3.9	3.7	0.8	**0.1**	**-0.2**	**1.4**
Terms of trade goods			-0.7	-1.9	-1.4	1.8	**2.7**	**1.6**	**0.0**
Trade balance (goods) (c)			-4.1	-3.5	-2.1	-0.3	**0.0**	**0.1**	**-0.3**
Current-account balance (c)			-3.6	-5.0	-3.8	-1.5	**-1.3**	**-1.5**	**-2.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.2	-3.3	-2.1	0.8	**0.6**	**0.7**	**0.0**
General government balance (c)			-	-4.9	-3.7	-4.0	**-3.6**	**-2.9**	**-2.7**
Cyclically-adjusted budget balance (c)			-	-5.9	-3.9	-3.5	**-3.1**	**-2.6**	**-2.4**
Structural budget balance (c)			-	-5.9	-4.0	-3.5	**-3.0**	**-2.7**	**-2.4**
General government gross debt (c)			-	54.8	54.4	55.7	**48.6**	**49.9**	**49.8**

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

22. PORTUGAL

Modest recovery to continue as external demand grows

The modest recovery of Portugal's economy and public finances is set to continue, as financing conditions and external demand gradually improve. Investment growth, however, is expected to remain subdued.

Recovery gradually progresses

Portugal's real GDP rose 0.3% q-o-q in the third quarter of 2014, driven by an acceleration of private consumption and investment, while imports increased more strongly than exports. The latest economic sentiment and confidence indicators have stabilised suggesting that the recovery in domestic demand should continue, with the help of lower commodity prices while the weak external environment continues to exert a drag on export growth.

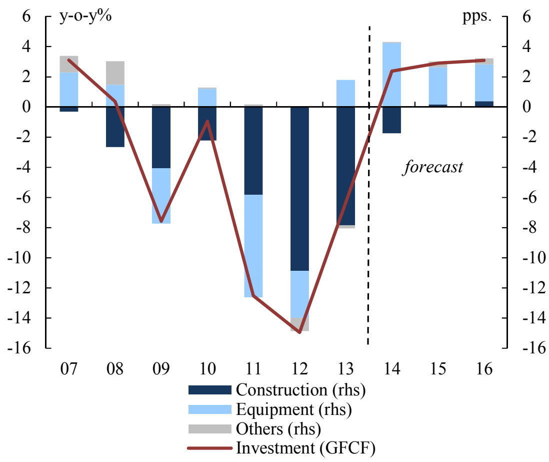
Private consumption has benefitted from a cyclical rebound of household spending but is projected to lose momentum over the forecast period due to the still high deleveraging pressures of the household sector. However, the expected improvement of the labour market, growing disposable income and low inflationary pressure should keep private consumption at a robust pace with growth rates of about 1.8% in 2015 and 1.5% 2016.

Private investment increased significantly in the second and third quarter of 2014 (3.5% y-o-y on average), mainly in machinery and equipment. In 2014, a comprehensive reform of the corporate income taxation entered into force, which positively affected the investment climate. Nonetheless, credit to non-financial corporations remains subdued and corporate debt is being reduced confirming the ongoing deleveraging process in the sector. Overall, investment growth is projected to strengthen only marginally from 2.4% in 2014 to 3.1% in 2016. Exports are expected to accelerate over the forecast period, in line with external demand, while stronger domestic demand is set to lift imports. As a result, net exports will likely detract from growth in 2014 but make a small positive contribution in 2015 and 2016. GDP growth is expected to rise from 1.0% in 2014 to 1.6% in 2015 and 1.7 % in 2016.

Higher uncertainty surrounding the labour market

In 2014, the labour market situation improved faster than GDP. Employment in the first three quarters of 2014 was up by 2% compared to the same period in 2013. Consequently, unemployment in Portugal fell below 14% in 2014-Q3. With specific factors, such as the reinforcement of active labour market policies, becoming less important, employment growth is expected to become more aligned with economic growth. The unemployment rate is expected to decline from 14.2% in 2014 to 12.6% in 2016.

Graph II.22.1: **Portugal - Investment growth and its components**



Low inflationary pressure

HICP inflation fell to -0.2% in 2014, mainly due to the sharp decrease in energy prices, but it is expected to reach positive territory in the second half of 2015 mainly on the back of accelerating wages. However, inflation is projected to remain low because unemployment is still high, the negative output gap is sizeable and oil prices are falling. HICP is forecast to accelerate to 0.1% in 2015 and to 1.1% in 2016.

More balanced risks to the economic outlook

Risks to the macroeconomic outlook have become more balanced since the autumn 2014 forecast. Nevertheless, there remains some downside risk to the growth forecast related to external demand and still high private sector indebtedness level which might impede solid growth performance.

Public finances benefitting from the modest recovery

The general government deficit is expected to have reached 4.6% of GDP in 2014, with cash budget execution characterised by solid tax collection and effective expenditure restraints, which more than offset underperformance of other revenue. Risks to the headline deficit projection relate to the cash-accrual final adjustments as well as to the one-off operation related to Novo Banco, which could end up being deficit-increasing, depending on the time and value of the potential sale of the bank.

The headline deficit is expected to decline further to 3.2% of GDP in 2015. The slight improvement of the fiscal outlook for 2015, compared to the autumn forecast, is the net result of the carry-over from the better-than-expected 2014 performance and the negative impact from lower yields of some policy measures as well as the revised macroeconomic outlook. In particular, the lower nominal GDP somewhat deteriorates the deficit-to-GDP ratio. This forecast is underpinned by the consolidation package included in the budget for 2015 (assessed to be worth 0.5% of GDP and thus too small to compensate pressures for increased expenditure) and other measures, such as the personal income tax and green taxation reforms. As before, the projections take on board some improvement in the efficiency of revenue collection from the fight against tax fraud and evasion, while factoring in uncertainty about the additional yields from these measures. Under the no-policy-change assumption, the deficit is forecast to fall to 2.8% of GDP in 2016. Risks to the projections are slightly negative and mainly relate to macroeconomic developments, the continuation of efficiency gains in revenue collection, the implementation of the envisaged tax reforms in a budget-neutral fashion, and possible spending slippages.

The structural deficit is forecast to rise in 2015, as the headline deficit reduction is based on cyclical factors rather than on structural measures. The structural balance is estimated to deteriorate by ½% of GDP in 2015.

The gross public debt-to-GDP ratio is estimated to have reached almost 129% by end-2014, driven by higher deposits and the euro depreciation, and is expected to fall to 124.5% by end-2015, supported by the projected economic recovery, the primary budget surplus and debt-reducing operations.

Table II.22.1:

Main features of country forecast - PORTUGAL

	2013		Annual percentage change						
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	171.2	100.0	1.9	-1.8	-3.3	-1.4	**1.0**	**1.6**	**1.7**
Private Consumption	110.7	64.7	2.1	-3.6	-5.2	-1.4	**2.1**	**1.8**	**1.5**
Public Consumption	32.4	19.0	2.3	-3.8	-4.3	-1.9	**-0.4**	**-0.3**	**0.2**
Gross fixed capital formation	25.9	15.1	1.7	-12.5	-15.0	-6.3	**2.4**	**2.9**	**3.1**
of which: equipment	7.5	4.4	3.7	-23.5	-12.3	6.9	**14.3**	**7.4**	**7.0**
Exports (goods and services)	67.2	39.3	4.8	7.0	3.1	6.4	**3.8**	**5.0**	**5.4**
Imports (goods and services)	65.5	38.3	4.8	-5.8	-6.6	3.6	**5.9**	**4.9**	**4.8**
GNI (GDP deflator)	167.5	97.8	1.6	-0.4	-4.2	-0.6	**1.0**	**1.6**	**1.7**
Contribution to GDP growth: Domestic demand			2.3	-5.7	-7.0	-2.3	**1.6**	**1.6**	**1.4**
Inventories			0.0	-0.4	0.1	-0.1	**0.2**	**0.0**	**0.0**
Net exports			-0.4	4.3	3.6	1.0	**-0.8**	**0.1**	**0.3**
Employment			0.4	-1.9	-4.1	-2.9	**1.8**	**0.7**	**0.7**
Unemployment rate (a)			7.8	12.9	15.8	16.4	**14.2**	**13.4**	**12.6**
Compensation of employees / head			4.4	-1.8	-2.1	3.5	**-0.5**	**0.7**	**0.8**
Unit labour costs whole economy			2.9	-2.0	-2.9	1.9	**0.2**	**-0.2**	**-0.2**
Real unit labour cost			-0.2	-1.7	-2.5	-0.4	**-0.8**	**-1.2**	**-1.5**
Saving rate of households (b)			10.1	7.5	9.5	10.1	**9.5**	**9.6**	**9.2**
GDP deflator			3.1	-0.3	-0.4	2.3	**1.0**	**1.0**	**1.4**
Harmonised index of consumer prices			2.5	3.6	2.8	0.4	**-0.2**	**0.1**	**1.1**
Terms of trade goods			0.0	-2.2	0.3	1.6	**1.3**	**1.4**	**0.5**
Trade balance (goods) (c)			-10.6	-7.9	-4.9	-4.0	**-4.1**	**-3.7**	**-3.5**
Current-account balance (c)			-8.8	-5.6	-2.6	-0.3	**-0.2**	**0.4**	**0.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-7.1	-4.1	-0.6	1.3	**1.3**	**2.0**	**2.2**
General government balance (c)			-5.1	-7.4	-5.5	-4.9	**-4.6**	**-3.2**	**-2.8**
Cyclically-adjusted budget balance (c)			-5.4	-5.6	-2.4	-1.6	**-2.1**	**-1.7**	**-2.1**
Structural budget balance (c)			-	-5.4	-2.3	-2.0	**-1.2**	**-1.7**	**-2.1**
General government gross debt (c)			63.3	111.1	124.8	128.0	**128.9**	**124.5**	**123.5**

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

23. ROMANIA

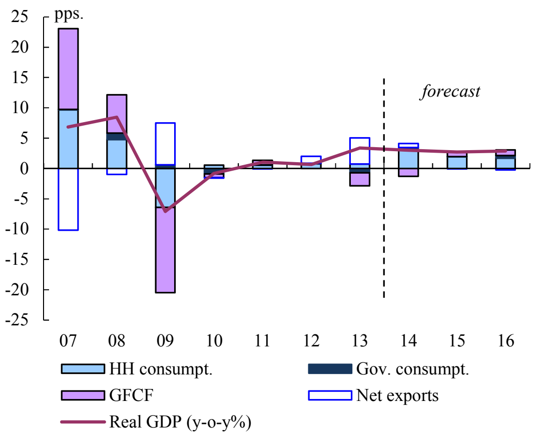
Sustained growth ahead

Romania's economic growth is forecast to remain robust in 2015 and 2016, mainly driven by domestic demand and accompanied by a stable labour market. After a sharp decline in 2014, inflation is expected to remain moderate over the forecast horizon. Fiscal consolidation is due to continue in 2015.

Continued economic growth powered by domestic demand

Romania's economy registered surprisingly strong growth in 2014-Q3 (1.8 % q-o-q) thanks to better-than-expected private consumption and exports, and a significant contribution from inventories. Investment continued to contribute negatively although its contraction eased significantly. Confidence indicators are back to pre-crisis levels, pointing to continued momentum for the economy. As a result, annual growth is estimated to have reached 3.0% in 2014.

Graph II.23.1: **Romania - Real GDP growth and contributions**



Economic growth in Romania is forecast to stay above potential, at 2.7% in 2015 and 2.9% in 2016, powered by domestic demand and also supported by the gradual recovery expected in the global economy. Private consumption is expected to remain robust, as growing wages, low inflation, falling interest rates and improving labour market conditions are all supportive for the purchasing power of households. As already observed in 2014, local currency lending is projected to continue growing given easing credit conditions and an expected slowdown in the deleveraging process.

After two years of contraction, both private and public investments are forecast to start recovering. The improvement in investor confidence, together with recent changes in tax policies favourable to businesses (a tax credit for reinvested profits, lower social security contributions and a lower special construction tax) and improving financing conditions are likely to boost private investment. Moreover, public investment is expected to accelerate driven by a pick-up of projects co-financed with EU funds. Given the strength of exports, the growth contribution of net exports continued to be positive in 2014. Exports are forecast to continue increasing in 2015 and 2016 thanks to the expected recovery of Romania's main trading partners, but the pace of growth will be somewhat slower. Imports, however, are expected to rise at a faster rate, propelled by the strengthening of domestic demand. The growth contribution of net exports is expected to turn slightly negative in 2016.

Risks to the macroeconomic and inflation outlook appear broadly balanced. Downside risks include faster-than-expected deleveraging and the impact of a further deterioration in geo-political tensions from the Ukraine-Russia conflict hurting market confidence and the economic outlook in major trading partners. Upside risks are related to stronger-than-expected effects from the EU Investment Plan and actual implementation of more structural reforms.

Lower unemployment and moderate inflation

Romania's labour market has been remarkably stable over the last few years, with employment and unemployment rates hovering around constant levels. Domestic employment in the private sector is expected to improve slightly against a slowly declining working-age population, accompanied by a drop in the unemployment rate over the forecast horizon, to 6.8% in 2016. Further stepwise increases in the gross minimum wage in 2015 and the 5% cut of the employers' social security contribution will have opposing effects on labour costs. Compensation per head is projected to grow by more than 3% in 2015 and by some 4% in 2016, entailing further real wage increases in an environment of moderate inflation.

After reaching an historical low of 0.9% in June 2014, HICP inflation slightly picked up in recent months. Annual average inflation declined from 3.2% in 2013 to 1.4% in 2014 mainly reflecting a VAT cut for bread, a good harvest and lower global energy prices. It is forecast to remain at moderate levels and to reach an annual average of 1.2% in 2015, mainly due to the significant decline in energy prices, subdued inflation in the EU and lower inflation expectations. In 2016, inflation is forecast to accelerate to 2.5% as the recovery in domestic demand continues.

Fiscal consolidation to continue in 2015

In 2014, the budget deficit is estimated to have decreased to 1.8% of GDP, from 2.2% in 2013. An increase in excise duties on fuels and the introduction of a special construction tax outbalanced the impact of lower social security contributions following a rate cut of 5 pps., which took effect on 1 October 2014, and the tax exemption on reinvested profits. Tax collection improved in late 2014 following subdued performance earlier in the year. Capital expenditure decreased significantly from 2013.

The government budget deficit is forecast to decrease further to 1.5% of GDP in 2015, as a reduction in tax revenues is outweighed by reductions in expenditure, expressed as a fraction of GDP. The revenue side includes the full-year impact of the cut in social security contribution and the reduction in the special construction tax rate. Expenditure in goods and services is forecast to fall significantly. The public wage bill remains contained, since only some categories benefit from either pay rises or the increases in the minimum wage and social security contributions will be lower. Additional savings stem from the discontinuation of non-recurrent spending in 2014, such as the organisation of elections, and a reduction in subsidies. This forecast assumes full use of the budget allocation for national EU funds co-financing. The past volatility of tax collection and tight budget allocations for social assistance and interest expenditure could emerge as pressure point for the deficit. EU funds absorption might surprise on the downside.

In 2016, the headline deficit is expected to remain at 1.5% of GDP under the customary no-policy-change assumption with revenues developing in line with better growth prospects. In structural terms, the deficit is forecast to improve from 1½% of GDP in 2013 to around 1¼% of GDP in 2014-16. Government debt is forecast at 38.7% in 2014 and should plateau in 2015-16 below 40%.

Table II.23.1:
Main features of country forecast - ROMANIA

		2013		Annual percentage change						
	bn RON	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		637.6	100.0	3.0	1.1	0.6	3.4	**3.0**	**2.7**	**2.9**
Private Consumption		395.0	62.0	5.6	0.8	1.2	1.2	**5.0**	**3.0**	**2.7**
Public Consumption		90.5	14.2	0.2	0.6	0.4	-4.8	**2.5**	**0.3**	**3.2**
Gross fixed capital formation		151.6	23.8	5.9	2.9	0.1	-7.9	**-5.4**	**3.5**	**4.1**
of which: equipment		52.1	8.2	5.1	19.6	-2.7	-7.2	**-5.9**	**4.0**	**4.5**
Exports (goods and services)		253.4	39.7	9.3	11.9	1.0	16.2	**8.4**	**5.7**	**5.8**
Imports (goods and services)		257.6	40.4	12.8	10.2	-1.8	4.2	**6.6**	**5.8**	**6.3**
GNI (GDP deflator)		621.9	97.5	3.0	1.0	0.2	2.7	**3.0**	**2.6**	**2.9**
Contribution to GDP growth:	Domestic demand			5.8	1.4	0.9	-2.1	**2.2**	**2.7**	**3.1**
	Inventories			-0.4	-0.2	-1.4	1.2	**0.2**	**0.0**	**0.0**
	Net exports			-2.2	-0.1	1.1	4.3	**0.6**	**0.0**	**-0.2**
Employment				-1.8	-0.8	-4.8	-0.6	**0.2**	**0.3**	**0.4**
Unemployment rate (a)				6.9	7.2	6.8	7.1	**7.0**	**6.9**	**6.8**
Compensation of employees / head				34.5	-4.1	9.4	2.7	**4.7**	**3.4**	**4.1**
Unit labour costs whole economy				28.2	-5.8	3.5	-1.3	**1.8**	**0.9**	**1.5**
Real unit labour cost				-1.0	-10.1	-1.4	-4.5	**-0.6**	**-1.4**	**-0.9**
Saving rate of households (b)				-2.9	-7.0	-8.0	-10.4	**-13.3**	**-13.4**	**-14.2**
GDP deflator				29.5	4.7	4.9	3.4	**2.4**	**2.3**	**2.5**
Harmonised index of consumer prices				-	5.8	3.4	3.2	**1.4**	**1.2**	**2.5**
Terms of trade goods				2.4	1.8	-3.4	-1.1	**-0.1**	**0.0**	**0.7**
Trade balance (goods) (c)				-7.9	-6.7	-5.8	-3.9	**-3.6**	**-3.6**	**-3.6**
Current-account balance (c)				-6.6	-4.7	-4.7	-1.2	**-0.9**	**-1.1**	**-1.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.1	-4.2	-3.3	1.1	**1.4**	**1.3**	**1.2**
General government balance (c)				-3.6	-5.5	-3.0	-2.2	**-1.8**	**-1.5**	**-1.5**
Cyclically-adjusted budget balance (c)				-4.0	-4.4	-1.6	-1.4	**-1.4**	**-1.2**	**-1.3**
Structural budget balance (c)				-	-3.3	-2.1	-1.4	**-1.3**	**-1.2**	**-1.3**
General government gross debt (c)				18.1	34.2	37.3	38.0	**38.7**	**39.1**	**39.3**

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

24. SLOVENIA

Growth continues, driven by exports and EU funded investment

Slovenia's economy grew by an estimated 2.6% in 2014, driven by net exports and exceptional levels of infrastructure investment. Growth is forecast to moderate in 2015 to 1.8% before rebounding in 2016 to 2.3%. Bank recapitalisations continued to weigh on the general government budget in 2014 but as the restructuring of the banking sector progresses, these costs are expected to cease. Public debt is expected to peak in 2015 before commencing on a downward path.

Rebound in 2014 dominated by exports and EU-funded investment

Having exited recession in 2013, Slovenia's economy grew by 2.6% y-o-y in the first three quarters of 2014. Growth has become more broad-based, although net exports remain the main engine. Slovenia continued to increase its exports despite lower growth in some key trading partners, demonstrating growing market shares. Investment was another important contributor to growth in 2014, mainly driven by infrastructure projects co-funded by the EU. However, equipment investment contracted partly due to a high base effect. Household consumption grew for the first time since 2010 and is projected to grow gradually over the forecast horizon.

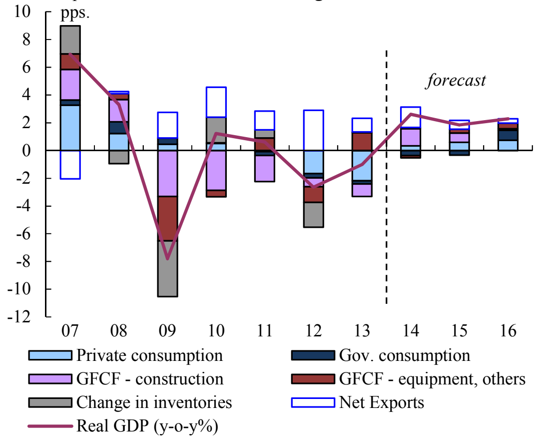
Temporary deceleration of growth expected due to a change in growth drivers

Real GDP is estimated to have grown by a robust 2.6% in 2014. Growth is expected to slow down to 1.8% in 2015, partly due to a deceleration in investments co-funded by EU, which was exceptionally high in 2014. This is expected to be partially compensated by the recovery of private sector investment, as portended by high capacity utilisation level and rising profitability. In 2016, exports and private consumption, together with the first increase in government consumption since 2010 (under a no-policy-change assumption) are expected to lift GDP growth to 2.3%.

Corporates are expected to continue deleveraging, although at a much slower pace than in previous years. Net exports growth is expected to fall over the forecast period, as the recovery in domestic demand gathers pace. As a result, after having increased further in 2014, Slovenia's current-account surplus is projected to decrease marginally, although it is expected to remain high.

The main downside risk to the economic growth in 2015 is lower growth in public investment expenditure than currently planned.

Graph II.24.1: **Slovenia - Real GDP growth and contributions**



Decreasing unemployment and low inflation

Unemployment peaked at 10.3% in February 2014 but decreased to 9.6% in November 2014. It is expected to decline further over the forecast horizon. Private sector wages are expected to continue rising moderately and the continued containment of public sector wages in 2015 should restrain overall wage dynamics. As a consequence, unit labour costs would rise only marginally.

Inflation is expected to remain at historically low levels over the forecast horizon. Core inflation was 0.9% in 2014 and is expected to decrease marginally to 0.7% in 2015. In 2016, the recovery in domestic demand should feed price growth. Driven by the recent sharp fall in oil prices and similar trends on food and commodity markets, HICP inflation is forecast to be negative in 2015 (-0.3%) although it should increase to 0.9% in 2016, mainly on the back of the expected recovery of domestic demand and the assumption of slowly rising oil prices.

Fiscal deficit expected to decline

In 2014, the general government deficit is forecast to stand at 5.4% of GDP (down from 14.6% of GDP in 2013), one percentage point higher than the forecast last autumn. This is due to the government's approval in December 2014 of a scheme to repay deposit holders of Ljubljanska Banka. Excluding one-offs, the deficit is estimated to have fallen by 0.4 pp. of GDP between 2013 and 2014. An increase in gross fixed capital formation, mainly via EU funded projects and higher interest expenditure was offset by a reduction in government consumption expenditure and an increase in tax revenues.

For 2015, the general government deficit is forecast to stand at 2.9% of GDP. The adjustment in 2015 is targeted mainly through expenditure savings, namely subsidy reforms and the prolongation of measures to reduce the public sector pay bill. The pay bill savings negotiated with trade unions are lower than what was anticipated in the Draft Budgetary Plan but this slippage is expected to be offset by reductions in intermediate consumption.

The potential risk of additional bank related one-off costs affecting the 2015 deficit appear to have been mitigated; in December 2014, the parliament passed legislation establishing a bank resolution fund. The fund will be financed by the banks and will cover the costs of future bank resolutions.

In 2016, under a no-policy-change assumption the general government deficit is expected to decline further to 2.8% of GDP. A significant increase in consumption expenditure is expected to be more than offset by a reduction in gross fixed capital formation due to the end of the drawdown period from 2007-2013 EU programmes.

In structural terms, the fiscal position is forecast to deteriorate by about ½ pp. in 2014 before improving by ⅓ pp. in 2015. In 2016, the structural balance is expected to deteriorate by some ½ pp. due to a reduction in the output gap. General government debt is projected to peak in 2015 at 83% of GDP before declining to around 82% in 2016 due to an expected reduction in precautionary cash balances and a modest primary surplus.

Table II.24.1:

Main features of country forecast - SLOVENIA

	2013		Annual percentage change						
bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	36.1	100.0	3.2	0.6	-2.6	-1.0	**2.6**	**1.8**	**2.3**
Private Consumption	19.6	54.1	3.2	-0.1	-3.0	-3.9	**0.6**	**1.1**	**1.4**
Public Consumption	7.4	20.4	3.0	-1.3	-1.5	-1.1	**-1.8**	**-1.7**	**3.9**
Gross fixed capital formation	7.1	19.7	4.0	-4.6	-8.9	1.9	**5.5**	**4.7**	**2.5**
of which: equipment	3.0	8.4	5.3	13.3	-11.9	17.9	**-1.4**	**3.0**	**4.5**
Exports (goods and services)	27.0	74.7	6.4	7.0	0.3	2.6	**5.8**	**4.2**	**5.3**
Imports (goods and services)	24.8	68.7	6.5	5.0	-3.9	1.4	**4.2**	**3.8**	**5.4**
GNI (GDP deflator)	35.9	99.3	3.1	0.7	-2.5	-1.0	**2.4**	**1.7**	**2.3**
Contribution to GDP growth: Domestic demand			3.3	-1.3	-3.7	-2.0	**1.1**	**1.2**	**2.0**
Inventories			0.1	0.6	-1.8	0.1	**0.1**	**0.0**	**0.0**
Net exports			-0.1	1.4	2.9	1.0	**1.5**	**0.6**	**0.3**
Employment			-	-1.6	-0.8	-1.5	**0.4**	**0.6**	**0.9**
Unemployment rate (a)			6.4	8.2	8.9	10.1	**9.8**	**9.5**	**8.9**
Compensation of employees / head			-	1.6	-1.2	1.9	**0.8**	**1.5**	**2.1**
Unit labour costs whole economy			-	-0.7	0.6	1.4	**-1.3**	**0.3**	**0.7**
Real unit labour cost			-	-1.8	0.3	0.0	**-1.7**	**0.1**	**-0.3**
Saving rate of households (b)			13.8	13.1	11.4	14.4	**14.2**	**14.7**	**15.2**
GDP deflator			6.3	1.2	0.3	1.4	**0.4**	**0.2**	**1.0**
Harmonised index of consumer prices			-	2.1	2.8	1.9	**0.4**	**-0.3**	**0.9**
Terms of trade goods			0.0	-1.6	-1.2	1.0	**0.8**	**0.1**	**-0.3**
Trade balance (goods) (c)			-4.0	-1.8	0.2	1.2	**3.4**	**4.4**	**4.5**
Current-account balance (c)			-2.0	0.9	3.0	4.8	**5.9**	**5.7**	**5.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-2.1	0.9	3.1	4.8	**5.4**	**6.5**	**6.2**
General government balance (c)			-3.0	-6.2	-3.7	-14.6	**-5.4**	**-2.9**	**-2.8**
Cyclically-adjusted budget balance (c)			-	-5.4	-1.9	-12.3	**-4.1**	**-2.2**	**-2.8**
Structural budget balance (c)			-	-4.5	-1.8	-1.9	**-2.5**	**-2.2**	**-2.9**
General government gross debt (c)			25.6	46.2	53.4	70.4	**82.2**	**83.0**	**81.8**

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

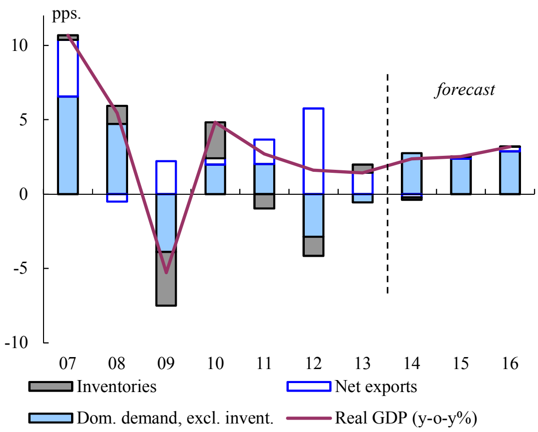
25. SLOVAKIA
Domestic demand continues to power the recovery

Despite a slowdown in exports, Slovakia's economy grew faster in 2014 because of a recovery in domestic demand, which is expected to remain the motor of growth in 2015 and 2016. Unemployment should gradually decrease in line with the improvement in economic activity. Inflation dropped sharply in 2014 and is projected to recover only slowly. The government's fiscal position is also expected to improve.

Growth continues...

After having slowed down in 2013, growth in Slovakia picked-up in 2014 with real GDP expected to have increased by 2.4%. Growth is expected to be at 2.5% in 2015 and to increase to 3.2% in 2016, driven by the continuing recovery of domestic demand. The labour market also showed signs of improvement in 2014 and is projected to further strengthen. Inflation, which declined sharply in 2014, is expected to rise only gradually.

Graph II.25.1: **Slovakia - Real GDP growth and contributions**



...driven by domestic demand.

Following three consecutive years of decline, private consumption is projected to have increased by 2.1% in 2014, supported by growing disposable income, low inflation, improving labour market conditions, and an increase in consumer confidence. Going forward, private consumption will also be bolstered by a series of labour market reforms that take effect in 2015, including a rise in the minimum wage and a reduction in the social contributions paid by low-income workers. Private consumption is therefore expected to accelerate to 2.2% in 2015 and 2.7% in 2016.

After continuing to decline in 2013, gross fixed capital formation rebounded in 2014, driven by a strong increase in equipment investment. A planned expansion of production facilities in the automotive industry is expected to support investment in 2015 and 2016. Overall, gross fixed capital formation is estimated to have risen by 3.9% in 2014 and is expected to increase by 4.0% in 2015 and 4.5% in 2016.

Exports dropped sharply in the second and third quarters of 2014, mainly due to weak demand from Slovakia's main trading partners. Export growth is projected to have slowed down to 4.4% in 2014 and is expected to decline further in 2015, before rebounding the year after.

Imports are likely to have grown faster than exports in 2014 due to the recovery in domestic consumption and investment, which would mean that net exports were a drag on GDP growth in 2014. From 2015, however, imports are forecast to evolve more in line with exports and Slovakia is expected to continue running a current account surplus over the forecast horizon.

Labour market conditions improve

Employment grew throughout 2014 in line with the recovery in economic activity. In 2015, a series of measures supporting the labour market will take effect, including a reduction in the healthcare contributions of low-income workers and an expansion of in-work benefits. These should further support the labour market recovery. Consequently, Slovakia's unemployment rate is projected to have reached 13.4% in 2014 and is forecast to fall to 12.8% in 2015 and 12.1% in 2016.

Inflation set to increase slowly

Declining energy and unprocessed food prices led to a sharp drop in inflation in 2014. HICP inflation was -0.1 % in 2014 and is projected to slowly increase to 0.4 % in 2015 and 1.3 % in 2016, driven by a pick-up in the prices of services mirroring the recovery in domestic demand.

Deficit expected to stay under control

The general government deficit in 2014 is estimated to have deteriorated to 3% of GDP compared to 2.6% in the previous year, despite positive developments in the state budget. The cash deficit of the state budget was lower than planned as tax revenues exceeded expectations, expenditure freezes were activated by the national debt brake, and because of lower co-financing requirements for EU Structural and Cohesion Funds. On the other hand, dividend shortfalls, higher spending by local governments and on healthcare together with the postponed loan repayment by the freight train company Cargo, pushed up the general government deficit. There is also uncertainty about the statistical treatment of dividends paid by the national gas company SPP, which could have a negative impact on the final fiscal figures for 2014.

For 2015, the deficit is projected to decrease to 2.8% of GDP. Consolidation measures on the revenue side aim to broaden the tax base for corporate income tax and further improving VAT tax compliance. Support of R&D investment, lowering the tax wedge for low-income workers, additional spending on active labour market policies and education will, however, limit the speed of the fiscal adjustment. Given recurrent under-budgeting of the public wage bill in the past, it is projected to be higher than budgeted. The budget adopted by the Parliament does not reflect the fact that local governments will not be obliged to freeze their spending due to the second stage of the debt brake as originally expected. The Commission therefore assumes that spending of local governments will be higher compared to the budget. The envisaged savings in the healthcare sector are also not taken to the full extent given the absence of detailed measures to ensure their achievement. General elections in 2016 represent a risk to the forecast as they may create incentives for additional spending. Assuming no change in policy, the deficit should decline to 2.6% in 2016 on the back of favourable economic developments.

The structural balance is projected to improve by around ½ pp. to -2.0% of GDP in 2015 and decline moderately in 2016. Slovakia's public debt-to-GDP ratio is expected to have reached 53.6% of GDP in 2014 given large reductions in cash reserves. In 2015, the debt is projected to reach 54.9% of GDP and increase slightly further by the end of the forecast horizon.

Table II.25.1:

Main features of country forecast - SLOVAKIA

	2013		Annual percentage change						
	bn EUR Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	73.6	100.0	4.5	2.7	1.6	1.4	**2.4**	**2.5**	**3.2**
Private Consumption	41.7	56.7	4.6	-0.7	-0.4	-0.7	**2.1**	**2.2**	**2.7**
Public Consumption	13.3	18.1	3.6	-2.1	-2.0	2.4	**4.3**	**1.6**	**2.3**
Gross fixed capital formation	15.0	20.4	3.4	12.7	-9.3	-2.7	**3.9**	**4.0**	**4.5**
of which: equipment	7.3	9.9	3.8	34.5	-10.9	-1.3	**7.1**	**5.5**	**6.0**
Exports (goods and services)	68.4	93.0	8.1	12.0	9.3	5.2	**4.4**	**4.1**	**5.6**
Imports (goods and services)	65.1	88.4	8.2	9.7	2.6	3.8	**4.8**	**4.1**	**5.5**
GNI (GDP deflator)	72.1	98.0	4.4	3.1	1.5	1.5	**2.4**	**2.5**	**3.2**
Contribution to GDP growth: Domestic demand			4.3	2.0	-2.9	-0.6	**2.8**	**2.4**	**2.9**
Inventories			0.5	-1.0	-1.3	0.5	**-0.2**	**0.0**	**0.0**
Net exports			-0.2	1.7	5.8	1.4	**-0.2**	**0.1**	**0.3**
Employment			-	1.8	0.1	-0.8	**0.8**	**0.7**	**0.6**
Unemployment rate (a)			14.8	13.7	14.0	14.2	**13.4**	**12.8**	**12.1**
Compensation of employees / head			-	2.0	2.6	2.6	**3.3**	**2.3**	**3.0**
Unit labour costs whole economy			-	1.1	1.0	0.3	**1.8**	**0.4**	**0.4**
Real unit labour cost			-	-0.6	-0.2	-0.2	**1.8**	**-0.3**	**-0.9**
Saving rate of households (b)			9.1	8.5	7.2	8.5	**6.9**	**7.2**	**7.4**
GDP deflator			4.3	1.6	1.3	0.5	**0.0**	**0.8**	**1.3**
Harmonised index of consumer prices			-	4.1	3.7	1.5	**-0.1**	**0.4**	**1.3**
Terms of trade goods			-0.6	-1.3	-1.2	-0.5	**0.3**	**0.3**	**0.0**
Trade balance (goods) (c)			-6.1	-0.6	3.1	4.3	**4.3**	**4.6**	**4.9**
Current-account balance (c)			-6.0	-3.8	0.3	0.8	**1.1**	**0.8**	**0.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.0	-2.2	1.8	2.3	**1.8**	**1.2**	**1.1**
General government balance (c)			-5.6	-4.1	-4.2	-2.6	**-3.0**	**-2.8**	**-2.6**
Cyclically-adjusted budget balance (c)			-	-3.7	-3.4	-1.5	**-2.0**	**-1.9**	**-1.9**
Structural budget balance (c)			-	-4.0	-3.5	-1.5	**-2.4**	**-2.0**	**-1.9**
General government gross debt (c)			36.8	43.5	52.1	54.6	**53.6**	**54.9**	**55.2**

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

26. FINLAND

Very gradual recovery after prolonged contraction

Although Finland's economy is likely to show no growth in 2014, the year ended on a somewhat more positive note than it began. Lower oil prices and the weaker euro are expected to improve Finland's growth prospects. Public finances remain in deficit, but should gradually improve.

Slow recovery continues in 2015

Overall, economic activity in Finland is expected to turnout flat in 2014. But while the country was still in recession in early 2014, economic growth gained momentum as the months went by, driven by net exports. The recovery is set to continue in 2015 and 2016. Although exports are forecast to increase further, domestic demand is expected to become the main driver of economic growth, as increasing private consumption and investment trigger additional imports.

On the supply side, the fall in manufacturing production is bottoming out and manufacturing companies saw their order books increase throughout 2014. This is expected to support an increase in manufacturing output in 2015 that, in turn, should encourage a rise in volume of services. Little is to be expected from construction, however, as housing market activity has fallen below historical average and applications for new building permits were at historically low levels at the end of 2014.

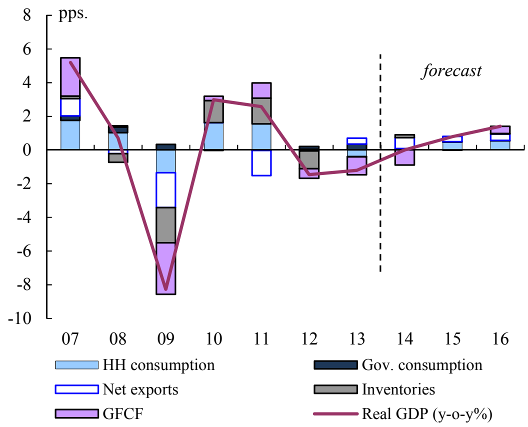
Consumer confidence is low, but rising

The economic situation of households looks somewhat better than previously thought. The labour market is set to improve gradually, starting with a recovery in hours worked and followed by an increase in headcount employment. However, also the unemployment rate is expected to increase slightly in 2015 to 9.0% as a growing number of people (re)enter the labour market and start to actively look for a job as prospects to find one improve. Only in 2016 would the unemployment rate decrease to 8.8%.

Very slow growth of households' real disposable income and increased uncertainty about the economic outlook weighed on private consumption in 2014. The recent fall in oil prices has started to feed into consumer prices, which is expected to support real disposable incomes and, in turn, accelerate the growth of private consumption. In 2016, growth of private consumption should mainly be driven by higher employment.

Due to consolidation efforts, public consumption and investment are not expected to contribute significantly to growth in 2015-16. In real terms, public consumption is expected to stay at last year's level and public investment growth would be very low in 2015 and recover somewhat in 2016.

Graph II.26.1: **Finland - Real GDP growth and contributions**



Total domestic demand is expected to have fallen by 0.8% in 2014 as investments declined further. Capacity utilisation still at low levels is expected to constrain investments in new machinery and equipment in 2015. Investment in construction is not expected to increase significantly before 2016.

Net exports to increase in 2015

In 2015, net exports are expected to support economic growth, but not as much as in 2014. Exports are set to increase in line with foreign demand, while especially sluggish investment keeps a lid on the growth of imports. The positive impact of the depreciation of the euro against the dollar on exports is, however, dampened by the appreciation of the euro against the rouble and the Swedish krona. Over the forecast period, Finland's cost-competitiveness is forecast to improve thanks to wage moderation and positive productivity growth.

The recent fall in oil price is set to improve the terms of trade significantly in 2015. As a result, the trade balance of goods and services is expected to turn positive in 2015 and increase further in 2016 despite the deficit in the trade balance of services. The current account deficit is expected to shrink over the forecast period.

Overall, risks to the forecast are assessed to be balanced. The main risks stem from the external outlook. Lower commodity prices and the depreciation of the euro, also as the result of a launch of ECB's expanded asset purchase programme, could increase growth in Finland by more than expected. Yet, a re-emergence of uncertainty, especially in the euro area, would entail downside risks.

Slow improvement in public finances

The general government deficit in 2014 is expected to be 2.7% of GDP. In 2015, growth of central government expenditure is projected to remain contained while revenues are set to increase as a result of tax measures. The central government wage income tax brackets will again be adjusted for wage inflation after a temporary freeze, but only for the three lower income categories. Low-income households will also benefit from an increase in the deductible amounts while mortgage-interest tax deductibility will be further reduced, the progressivity of income taxation will increase, some tax subsidies will be eliminated, and excise duties and real-estate taxes will increase.

The consolidation effort is expected to lead to a 0.2 percentage point reduction in the government deficit in 2015. In 2016, assuming no policy change, the deficit will further decline to -2.2% of GDP.

The structural balance is expected to stay at close to -1.0% of GDP in 2015 and to worsen by ¼ pp. of GDP in 2016. Gross government debt is set to reach 61.2% in 2015 and 62.6% in 2016.

Table II.26.1:
Main features of country forecast - FINLAND

		2013				Annual percentage change				
	bn EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		201.3	100.0	2.9	2.6	-1.5	-1.2	**0.0**	**0.8**	**1.4**
Private Consumption		111.0	55.2	3.0	2.9	0.1	-0.7	**0.1**	**0.9**	**1.0**
Public Consumption		50.2	24.9	1.8	-0.1	0.7	1.5	**0.1**	**0.1**	**0.1**
Gross fixed capital formation		42.6	21.2	3.8	4.1	-2.5	-4.8	**-4.2**	**0.0**	**2.2**
of which: equipment		9.9	4.9	2.9	11.5	10.6	-3.2	**-8.0**	**-0.2**	**4.0**
Exports (goods and services)		76.9	38.2	5.7	2.0	1.2	-1.7	**1.3**	**2.1**	**3.9**
Imports (goods and services)		78.8	39.1	5.7	6.0	1.3	-2.5	**-0.4**	**1.3**	**3.0**
GNI (GDP deflator)		201.9	100.3	3.3	1.7	-1.4	-1.4	**0.0**	**0.8**	**1.4**
Contribution to GDP growth:	Domestic demand			2.7	2.4	-0.3	-1.1	**-0.8**	**0.5**	**1.0**
	Inventories			0.0	1.5	-1.1	0.0	**0.2**	**0.0**	**0.0**
	Net exports			0.4	-1.5	-0.1	0.3	**0.7**	**0.3**	**0.4**
Employment				1.3	1.3	0.9	-1.5	**-0.4**	**0.3**	**0.7**
Unemployment rate (a)				9.8	7.8	7.7	8.2	**8.7**	**9.0**	**8.8**
Compensation of employees / head				3.1	3.6	2.8	2.0	**1.5**	**1.4**	**1.5**
Unit labour costs whole economy				1.5	2.3	5.2	1.7	**1.2**	**1.0**	**0.8**
Real unit labour cost				-0.1	-0.3	2.5	-0.6	**0.0**	**-0.3**	**-0.6**
Saving rate of households (b)				8.8	8.1	7.7	7.9	**7.5**	**8.0**	**7.8**
GDP deflator				1.7	2.6	2.6	2.4	**1.1**	**1.2**	**1.4**
Harmonised index of consumer prices				1.6	3.3	3.2	2.2	**1.2**	**0.5**	**1.3**
Terms of trade goods				-0.8	-2.1	-1.8	0.4	**-0.1**	**1.6**	**0.0**
Trade balance (goods) (c)				6.7	-0.8	-0.4	-0.2	**0.2**	**0.8**	**1.0**
Current-account balance (c)				4.7	-1.5	-1.9	-2.0	**-1.4**	**-0.7**	**-0.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				4.8	-1.4	-1.8	-1.9	**-1.3**	**-0.7**	**-0.3**
General government balance (c)				1.5	-1.0	-2.1	-2.4	**-2.7**	**-2.5**	**-2.2**
Cyclically-adjusted budget balance (c)				1.5	-0.8	-1.1	-0.6	**-0.9**	**-1.0**	**-1.3**
Structural budget balance (c)				-	-0.8	-1.0	-0.6	**-1.0**	**-1.0**	**-1.3**
General government gross debt (c)				43.5	48.5	53.0	56.0	**58.9**	**61.2**	**62.6**

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

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

27. SWEDEN

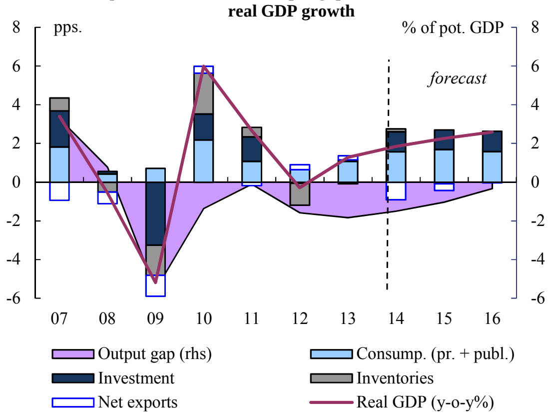
Improving growth carried by domestic demand

Economic growth is expected to improve in the coming years on the back of healthy domestic demand and a slowly improving global outlook. Employment growth remains strong, but unemployment is unlikely to fall much because the labour force is growing. Inflation has remained subdued for several years now, raising the prospect of a prolonged period of very low inflation.

Lopsided growth

While domestic demand is growing at a healthy pace thanks to consumption and construction, Sweden's export sector is struggling. Consequently, export-oriented industrial sectors remain weak while service sectors are growing at a strong pace. As external demand gradually improves, investment and stronger exports will help Sweden's GDP growth to rise from an estimated 1.8% in 2014 to 2.3% in 2015 and 2.6% in 2016.

Graph II.27.1: **Sweden - Output gap and contributions to real GDP growth**



Consumption remains robust and employment strong

Expansionary fiscal policy and low interest rates have stoked strong domestic demand in recent years. Although fiscal policy is expected to become neutral or slightly contractionary, household consumption growth will still find support from low interest rates, growing disposable incomes and steady employment growth over the forecast horizon. Nevertheless, weaker sentiment indicators and policies aimed at dampening household indebtedness will affect households' consumption growth dynamics. Household saving is projected to have reached a new peak in 2014, and will only gradually decline in the coming years as economic uncertainties are waning and unemployment is starting to decrease. Government consumption is projected to expand at a strong pace due to higher spending on integration of migrants, education and elderly care.

Despite a relatively modest economic activity, employment growth was particularly strong in 2014, paving the way for a gradual decline of unemployment in spite of a growing labour force. Unemployment is forecast to fall from 7.8% in 2014 to 7.7% in 2015 and then to 7.5% in 2016. The ongoing challenge for the Swedish labour market is to integrate the growing number of economically vulnerable groups (low-skilled, young people and workers with a migrant background).

Strong construction investment

Following a contraction of 0.4% in 2013, investment is likely to rise by 4.7% in 2014. The acceleration is driven by investment in housing, while equipment investment remains subdued. After historically low levels in 2013, housing investment has rebounded sharply in 2014 by nearly 20%. While housing investment will continue growing at a slower pace, other investments will catch up when external demand increase.

Exports to remain subdued

Investment goods make up a significant proportion of Sweden's exports. As investment growth has been weak in several of Sweden's main trading partners, Swedish exports have grown little, despite the weakening of the Swedish krona against the euro. While exports grew merely by 2.4% in 2014, imports rose by 5.1% in 2014. Exports are likely to pick up somewhat over the forecast horizon, but less than in previous recoveries and not enough to provide an additional boost to Sweden's economic growth.

Risks are now more balanced

On the external side, lower oil prices could provide a stronger boost, while increased geopolitical uncertainties, such as further escalation of the

Russia-Ukraine crisis, could have a more negative impact on growth than currently foreseen. Domestically, an abrupt correction of house prices, which reached new historical heights in 2014, could dampen household consumption.

Very low inflation persisting

Inflation in Sweden has been around 0% since the end of 2012 because of low price increases for energy and services and because import prices have been weak as a result of subdued international economic activity. In October 2014, the Riksbank cut its repo rate from 0.25% to 0.00%, following a half percentage point cut in July 2014. In spite of growing consumption and employment, a negative output gap and a high unemployment rate suggest ample spare capacity in the economy, which would suppress price increases. Falling oil prices are also pushing inflation down. Rising wages and improved economic performance are projected to moderately lift HICP inflation from 0.2% in 2014 to 0.5% in 2015 and then to 1.0% in 2016. Policy discussions are taking place in Sweden on the possible use and impact of non-conventional monetary measures to fight deflationary pressures.

Improving public finances

In December 2014, the opposition parties' budget was approved by the Parliament, causing a political crisis in the country. The budget can be amended in spring 2015, but any changes to taxation would be unlikely to take effect before 2016. However, since both the opposition and the government budgets contain only fully-funded measures in line with the 'krona for krona' principle, this will not have a significant impact on the government deficit. Net borrowing in 2014 will be slightly lower mainly due to stronger VAT revenues on the back of strong domestic demand. After the nadir in 2014, public finances are expected to improve, and the deficit to reduce to 1.6% in 2015 and 1.0% in 2016 on a no-policy change basis. Negative risks to the budget could come from a potentially worse macroeconomic outlook and higher costs for integrating the large inflow of migrants. The structural deficit, after reaching 1.3% in 2014, is projected to improve to 1.0% in 2015 and 0.9% in 2016. The debt to GDP ratio will remain around 41%.

Table II.27.1:

Main features of country forecast - SWEDEN

	2013		Annual percentage change						
bn SEK	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	3775.0	100.0	2.7	2.7	-0.3	1.3	**1.8**	**2.3**	**2.6**
Private Consumption	1761.5	46.7	2.5	1.9	0.8	1.9	**2.5**	**2.6**	**2.6**
Public Consumption	988.5	26.2	0.9	0.8	1.1	0.7	**1.6**	**1.7**	**1.5**
Gross fixed capital formation	834.2	22.1	3.6	5.7	-0.2	-0.4	**4.7**	**4.4**	**4.5**
of which: equipment	279.0	7.4	4.9	12.4	2.8	1.5	**1.0**	**3.2**	**4.4**
Exports (goods and services)	1660.1	44.0	5.6	6.1	1.0	-0.2	**2.4**	**3.7**	**4.8**
Imports (goods and services)	1470.0	38.9	5.0	7.3	0.5	-0.7	**5.1**	**4.9**	**5.3**
GNI (GDP deflator)	3911.3	103.6	3.0	2.8	0.0	1.8	**1.7**	**2.2**	**2.5**
Contribution to GDP growth: Domestic demand			2.2	2.3	0.6	1.0	**2.6**	**2.7**	**2.6**
Inventories			0.0	0.5	-1.1	0.1	**0.1**	**-0.1**	**0.0**
Net exports			0.5	-0.2	0.3	0.2	**-0.9**	**-0.3**	**0.0**
Employment			0.6	2.1	0.7	1.0	**1.5**	**1.3**	**1.3**
Unemployment rate (a)			7.4	7.8	8.0	8.0	**7.8**	**7.7**	**7.5**
Compensation of employees / head			3.7	3.2	3.1	1.6	**2.6**	**2.7**	**2.8**
Unit labour costs whole economy			1.6	2.6	4.1	1.3	**2.2**	**1.7**	**1.5**
Real unit labour cost			-0.1	1.4	3.0	0.2	**0.7**	**0.0**	**-0.2**
Saving rate of households (b)			9.5	15.3	17.8	17.9	**18.0**	**17.9**	**17.8**
GDP deflator			1.8	1.2	1.1	1.2	**1.6**	**1.7**	**1.7**
Harmonised index of consumer prices			1.7	1.4	0.9	0.4	**0.2**	**0.5**	**1.0**
Terms of trade goods			-0.7	-1.3	0.2	0.5	**0.0**	**0.4**	**0.3**
Trade balance (goods) (c)			7.0	3.4	3.7	3.8	**3.1**	**2.9**	**2.8**
Current-account balance (c)			5.9	5.9	6.3	6.8	**5.9**	**5.6**	**5.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			5.7	5.7	6.2	6.5	**5.6**	**5.3**	**5.1**
General government balance (c)			0.0	-0.1	-0.9	-1.4	**-2.2**	**-1.6**	**-1.0**
Cyclically-adjusted budget balance (c)			0.3	0.0	0.0	-0.3	**-1.3**	**-1.0**	**-0.8**
Structural budget balance (c)			-	0.0	0.0	-0.3	**-1.3**	**-1.0**	**-0.9**
General government gross debt (c)			51.9	36.1	36.4	38.6	**41.4**	**41.3**	**40.6**

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

28. THE UNITED KINGDOM

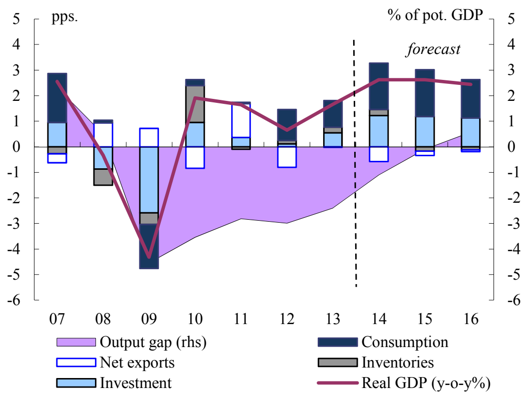
Healthy growth expected whilst inflation set to fall further

The economy is expected to continue to grow at a solid pace driven by strong domestic demand. However, net exports are projected to detract from growth. Unemployment should continue to fall as labour market conditions are forecast to remain robust. Inflation is expected to decline in 2015 but should pick up gently in 2016.

Revisions lower growth in 2014

Significant downward revisions to GDP for the first three quarters of 2014 since the autumn Forecast have affected GDP growth rates. In particular, growth rates were revised downward by 0.1-0.2 pp. in each of the first three quarters of 2014. Growth is expected to have been less brisk than forecast in autumn 2014 and is now projected at 2.6% – a pick-up from 1.7% in 2013. Activity in 2014 is likely to have been driven solely by domestic demand – reflecting healthy growth in private consumption and gross fixed capital formation – with the external sector expected to have detracted from activity.

Graph II.28.1: **The United Kindom - Output gap and contributions to real GDP growth**



Momentum expected to continue

Although recent indicators, such as industrial production and forward indicators from the major business surveys, suggest a softening in activity in the near-term, growth is projected to remain at 2.6% in 2015, buoyed by the impact of reductions in world oil prices, before tempering slightly to 2.4% in 2016.

Buoyant private consumption

Growth in private consumption in 2015 and 2016, of around 2.7% and 2.3% respectively, is expected to provide substantial support to growth. Growth in compensation of employees is forecast to outstrip consumer price inflation, boosting household disposable income. The decline in oil prices reinforces the positive outlook. Consumer sentiment remains supportive. The household saving ratio is expected to continue to rise.

Solid growth in investment to continue

Gross fixed capital formation is projected to have risen by 7.4% in 2014, more than double the rate in 2013. Although it is expected to moderate in 2015 and 2016, investment growth is expected to be over twice the growth rate of GDP. The rise in GDP growth in 2014, and the projected pattern of solid growth there-after, should provide business with the confidence to continue to invest. A low cost of borrowing and strong corporate balance sheets should also underpin investment. In particular, a more resilient banking sector, as confirmed by the results of the Bank of England's 'stress tests' of the eight largest domestic banks, published in December 2014, should be in a stronger position to provide more credit to firms.

Net exports continue to detract from growth

Net exports are expected to have reduced growth by 0.6 pp. in 2014. Both exports and imports have been unexpectedly subdued in 2014, as import growth has not risen in line with increased domestic demand and export growth has been weak, possibly reflecting adverse conditions in major export markets. Export and import growth are expected to accelerate modestly in 2015 and 2016, while the detraction from growth from net exports is expected to fade somewhat.

Robust labour market performance

The strong performance of the labour market in recent years is expected to continue in 2015 and 2016. Employment growth is forecast at 1.4% in 2015 but to moderate in 2016, while the unemployment rate is expected to fall further from 6.3% in 2014 to 5.4% in 2016. Compensation of employees and productivity are projected to rise and growth in unit labour costs is projected to remain subdued. A downside risk to the forecast is that productivity does not rise as expected.

Inflation to fall further

Inflation in 2014 was 1.5% and is expected to fall in 2015 to 1.0% before rising to 1.6% in 2016. The slackening in inflation in 2015 reflects the direct and indirect effects of the fall in energy prices. The appreciation of sterling, pressure on retailers' margins, as a result of competitive pressures in the supermarket sector, and modest wage inflation underpin the outlook for low inflation.

Fiscal policy unchanged

The government's Autumn Statement, delivered at the end of 2014, did not alter the general trend of the fiscal consolidation plans over the forecast horizon. The main new taxation measures announced include a further increase in the personal income tax allowance, an extension of the business rates relief for small businesses and a restructuring of the stamp duty land tax system.

The main expenditure measures foreseen are extra funding for the health system, financial support for first-time exporters, additional funding for the British Business Bank and investment in the national roads network over the next six years. On aggregate, the announced measures imply little change to the fiscal balance.

Despite the Statement being fiscally neutral overall, revisions to past GDP growth and the growth outlook imply that the deficit forecast has deteriorated. The deficit is now expected to fall to 4.4% of GDP in 2015-16 and to 3.4% of GDP in 2016-17. The consolidation foreseen over the latter period was envisaged in the existing consolidation plans. The structural balance is set to improve by 1.0 pp. over the two years to 2016-17 with the debt ratio forecast to increase to reach 90.5% in the final year of the forecast horizon.

Table II.28.2:
General government projections on a financial-year basis

	Actual		Forecast		
	2012-13	2013-14	2014-15	2015-16	2016-17
General government balance~	-7.6	-5.8	**-5.3**	**-4.4**	**-3.4**
Structural budget balance	-5.9	-4.7	**-4.7**	**-4.4**	**-3.7**
General government gross debt	85.4	87.8	**89.0**	**90.1**	**90.5**

~APF transfers included

Table II.28.2:
Main features of country forecast - UNITED KINGDOM

	2013			Annual percentage change						
	bn GBP	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		1713.1	100.0	2.2	1.6	0.7	1.7	**2.6**	**2.6**	**2.4**
Private Consumption		1111.5	64.9	2.8	0.1	1.1	1.7	**2.3**	**2.7**	**2.3**
Public Consumption		345.2	20.1	2.1	0.0	2.3	-0.3	**1.5**	**0.6**	**0.4**
Gross fixed capital formation		282.1	16.5	1.1	2.3	0.7	3.4	**7.4**	**6.9**	**6.3**
of which: equipment		68.9	4.0	2.2	-1.0	2.8	4.7	**13.8**	**7.2**	**5.7**
Exports (goods and services)		515.9	30.1	4.3	5.6	0.7	1.5	**-1.1**	**2.4**	**3.3**
Imports (goods and services)		549.6	32.1	5.0	1.0	3.1	1.4	**0.8**	**2.9**	**3.4**
GNI (GDP deflator)		1697.4	99.1	2.4	1.7	-0.8	1.1	**2.6**	**2.7**	**2.7**
Contribution to GDP growth:	Domestic demand			2.4	0.4	1.3	1.6	**3.0**	**3.0**	**2.6**
	Inventories			0.0	-0.1	0.1	0.2	**0.2**	**-0.2**	**-0.1**
	Net exports			-0.3	1.3	-0.8	0.0	**-0.6**	**-0.2**	**-0.1**
Employment				0.9	0.5	1.1	1.2	**1.9**	**1.4**	**0.8**
Unemployment rate (a)				6.1	8.1	7.9	7.6	**6.3**	**5.6**	**5.4**
Compensation of employees / head				4.2	1.0	2.0	1.9	**1.9**	**2.0**	**2.4**
Unit labour costs whole economy				2.8	-0.1	2.4	1.4	**1.2**	**0.8**	**0.8**
Real unit labour cost				0.3	-2.2	0.7	-0.4	**-1.0**	**-0.6**	**-0.7**
Saving rate of households (b)				9.0	8.6	8.0	6.4	**7.4**	**7.7**	**7.8**
GDP deflator				2.5	2.1	1.7	1.8	**2.2**	**1.4**	**1.5**
Harmonised index of consumer prices				2.0	4.5	2.8	2.6	**1.5**	**1.0**	**1.6**
Terms of trade goods				0.0	-1.4	0.0	0.4	**3.7**	**1.7**	**0.5**
Trade balance (goods) (c)				-4.1	-6.0	-6.6	-6.6	**-6.3**	**-6.2**	**-6.1**
Current-account balance (c)				-1.9	-1.7	-3.7	-4.5	**-4.1**	**-3.8**	**-3.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-1.8	-1.6	-3.7	-4.4	**-4.0**	**-3.8**	**-3.3**
General government balance (c)				-3.3	-7.6	-8.3	-5.8	**-5.4**	**-4.6**	**-3.6**
Cyclically-adjusted budget balance (c)				-3.4	-5.9	-6.5	-4.4	**-4.8**	**-4.6**	**-4.0**
Structural budget balance (c)				-	-5.9	-6.5	-4.4	**-5.0**	**-4.6**	**-4.0**
General government gross debt (c)				46.2	81.9	85.8	87.2	**88.7**	**90.1**	**91.0**

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

Candidate Countries

29. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Rebalancing of growth towards domestic demand

Strong investment growth, fuelled by public infrastructure projects and FDI boosted domestic demand in 2014, which is expected to remain the only growth driver in 2015 and 2016. In spite of solid increases in merchandise exports, the foreign balance likely proves a drag on GDP growth, as investment-related import growth decelerates only slightly. The government relaxed its fiscal consolidation path, with targeted budget deficits declining less rapidly than originally planned. While the rise in government debt is moderate, financing needs of state-owned enterprises weigh heavily on the public debt level.

Domestic demand backs acceleration of output growth in 2014 and beyond

With strengthening domestic demand, growth became more balanced in 2014, as a significant surge in gross fixed capital formation supplemented a strong increase in merchandise exports. In the third quarter, output increased by 4.1% y-o-y in real terms, only slightly below the speed of the preceding three months. The surge in investment was carried by public infrastructure spending and by an expansion of FDI-related production capacities. A sizeable increase in imports, however, spurred by the investment boom, is likely to have led to a negative contribution of net exports to growth in 2014 - a marked difference from the preceding year, when net exports were the sole growth driver. While construction activity remained subdued, the manufacturing sector benefited from the strong export demand. Its output increased by some 10% y-o-y in the first eleven months of 2014.

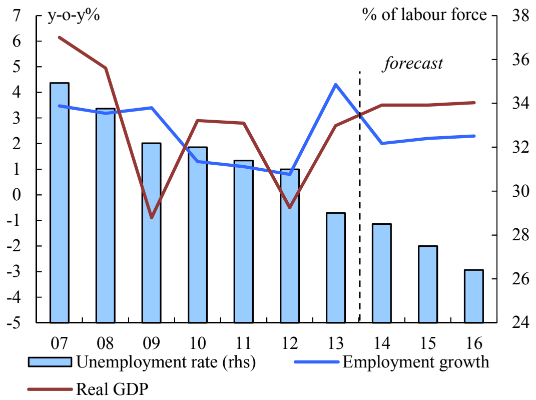
The sizeable commitments for road and rail projects foreseen in the government's mid-term fiscal strategy are likely to further bolster investment growth, even though increases in overall gross fixed capital formation are expected to decline somewhat, mainly on account of the completion of ongoing FDI capacity extensions, and uncertain prospects of new projects in the pipeline. Household spending may well increase its contribution to domestic demand growth gradually over the forecast horizon, supported by steady rises in net wages - which returned to positive growth in spring 2014 - a benign price environment, further strengthening credit extension, and stable private transfers.

External balance remains a drag on growth

Export activity was surprisingly impressive in the first ten months of 2014, though heavily overcompensated by investment-related import growth in both, goods and services. Merchandise exports are expected to post significant growth rates also in 2015 and 2016, with new FDI production lines being exploited, and will continue to provide the biggest contribution to GDP growth, with the main downside risk stemming from fledgling external demand. Strong investment-related, and, gradually, also consumption-related import growth is likely to lead to a slight deterioration in the current account, even though private transfers are expected to remain stable.

External debt rose significantly during the third quarter, mainly on account of the government's 500mn Eurobond launch in July, and, to a lesser extent, disbursement of a World Bank loan in August. Their level diminished since, as the government started repaying IMF loans. Even with sizeable repayments scheduled in 2015, reserves are likely to remain adequate, bolstered by an expected revitalisation of FDI inflows, and stable private transfer income.

Graph II.29.1: **The former Yugoslav Republic of Macedonia - Labour market**



Manufacturing carries employment gains

Labour Force Survey figures for the third quarter bolstered expectations, that there was further improvement in the labour market in 2014, in annual terms, with additional employment gains, and a decline in the headline unemployment rate. Job creation was particularly strong in manufacturing, reflecting demand from public infrastructure projects and from export industries. In the same period, there was virtually no improvement in the high unemployment rate for young workers, as structural problems of the labour market persist. Further overall improvement is expected over the next two years, as domestic demand is strengthening, and export production in the FDI sector would remain robust.

Fiscal consolidation based on revenue growth

Government revenue picked up strongly in the second half of 2014, reflecting a sizeable increase in both, direct taxes and VAT. However, given an unexpectedly strong surge in transfer payments in the fourth quarter, this is unlikely to have prevented an overshooting of the target for the general government deficit, which had been revised upwards by 0.2 pp, to 3.7% of GDP in the summer. The new medium-term fiscal strategy, adopted in autumn 2014, relaxed the deficit targets for 2015 and 2016 compared to the previous strategy, with consolidation based on faster growth of revenues than of expenditure. Given that the government has not yet laid out concrete consolidation measures on the expenditure side, keeping the deficit targets may prove a challenge.

Debt levels will remain elevated

While the rise in central government debt is likely to remain contained, state enterprises, in particular the Public Enterprise for State Roads, through which the government manages most of its road infrastructure spending, will require significant financing in 2015 and 2016. Hence, overall public sector debt is expected to increase to well over 50% of GDP over the forecast horizon.

Graph II.29.2: **The former Yugoslav Republic of Macedonia - Public finances**

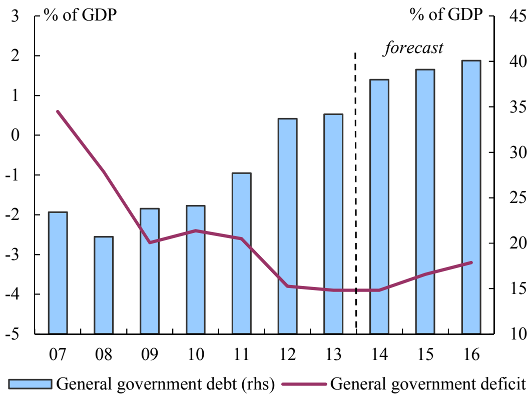


Table II.29.1:

Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	2013		Annual percentage change						
	bn MKD Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	499.6	100.0	2.7	2.3	-0.5	2.7	**3.5**	**3.5**	**3.6**
Private Consumption	359.2	71.9	-	-5.4	1.2	2.1	**1.8**	**2.3**	**2.4**
Public Consumption	88.5	17.7	-	1.2	2.4	2.5	**2.4**	**2.5**	**2.7**
Gross fixed capital formation	89.4	17.9	-	13.3	6.5	-16.6	**19.0**	**14.0**	**11.5**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	218.7	43.8	-	10.5	0.0	-2.7	**14.0**	**12.5**	**10.4**
Imports (goods and services)	309.3	61.9	-	11.0	-2.9	-10.2	**12.6**	**11.0**	**9.0**
GNI (GDP deflator)	486.9	97.5	-	1.8	0.0	3.0	**3.5**	**3.5**	**4.2**
Contribution to GDP growth: Domestic demand			-	-0.8	2.8	-1.9	**5.1**	**4.8**	**4.7**
Inventories			-	1.3	1.2	-0.9	**0.0**	**0.0**	**0.0**
Net exports			-	-2.2	1.9	5.6	**-1.7**	**-1.4**	**-1.0**
Employment			-	1.1	0.8	4.3	**2.0**	**2.2**	**2.3**
Unemployment rate (a)			-	31.4	31.0	29.0	**28.5**	**27.5**	**26.4**
Compensation of employees / head			-	0.0	2.0	1.2	**2.2**	**2.5**	**3.0**
Unit labour costs whole economy			-	-1.2	3.3	2.8	**0.8**	**1.3**	**1.7**
Real unit labour cost			-	-4.8	2.3	-1.4	**0.6**	**0.5**	**0.4**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			3.9	3.7	1.0	4.3	**0.2**	**0.8**	**1.3**
Consumer-price index			3.2	3.9	3.3	2.8	**0.8**	**1.3**	**1.7**
Terms of trade goods			-	4.8	-2.6	-2.4	**0.0**	**-0.1**	**0.0**
Trade balance (goods) (c)			-16.2	-21.8	-22.4	-18.4	**-19.3**	**-20.2**	**-20.5**
Current-account balance (c)			-5.8	-2.5	-2.9	-1.8	**-2.0**	**-2.4**	**-2.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-2.6	-3.8	-3.9	**-3.9**	**-3.5**	**-3.2**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	27.7	33.7	34.2	**38.0**	**39.1**	**40.1**

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

30. ICELAND

Less buoyant than expected

Third quarter data points to weaker private consumption, while imports remain strong. As a result, domestic production in 2014 is likely to be markedly lower than expected in autumn. Low import prices and moderate wage agreements will keep inflation close to the Central Bank target. The labour market situation will continue to benefit from tourism. The overall favourable economic environment and a modernisation of Iceland's tax system will support public finances and a continued debt reduction.

Third quarter data points to weaker growth dynamics and lower inflation

Lower than expected private consumption in the third quarter indicates a weaker economic dynamic in the second half of 2014. As a result of a weak first and third quarter, year-on-year GDP growth was only 0.5% in the first three quarters of the year. High imports, but also weak private consumption, have been the main reasons for this performance. The rather weak growth of commodity exports was more than offset by strong service exports, in particular tourism, registering record high inflows in 2014.

The labour market situation continued to improve, with employment increasing by some 2% in 2014. However, job creation took mainly place in low-skilled and low wage sectors, partly reflecting the expansion of tourism. By December, the seasonally-adjusted unemployment rate had declined to 4.3%, compared to 4.7% a year before.

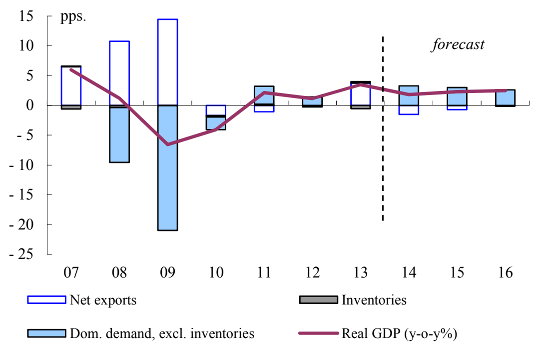
Inflation dropped markedly in 2014, reaching 2% on annual average, compared to 3.9% in 2013. The main reasons for this deceleration were lower oil prices, a strong currency and moderate wage agreements. As a result, real wages increases were significant. Together with strong employment growth, low inflation contributed to a marked increase in real disposable income.

After a general government deficit of -1.7% of GDP in 2013, public sector accounts registered a slight surplus of some 1% of GDP in the first three quarters of 2014. The main underlying factors were a one-off dividend payment of a largely state-owned bank, but also strong growth of direct taxes.

Solid real disposable income is likely to support growth in 2015-16

Key determinants for Iceland's growth performance in 2015-16 will be tourism, private investment as well as private consumption, benefitting from lower inflation and government measures to boost disposable income, such as the announced household debt relief programme.

Graph II.30.1: **Iceland - Real GDP growth and contributions**



However, the existence of capital controls is likely to impede Iceland's attractiveness for incoming FDI. Total exports are projected to benefit from a flourishing tourism sector. However, higher imports due to stronger domestic demand will largely offset the positive effects of higher tourism revenues.

The labour market situation is likely to continue improving

Thanks to solid growth and new employment opportunities in tourism and construction, labour market conditions are likely to continue improving. Annual average unemployment thus could drop to around 4% by 2016. However, most new jobs are likely to be in lower wage segments. Addressing long-term unemployment will remain an important challenge.

Inflation is expected to remain below the Central Bank target of 2.5% in 2015, reflecting reduced inflation expectations, below-potential growth, but also benefitting from government plans to reduce tax rates on VAT and to abolish commodity taxes. However, in 2016, those inflation containing factors are expected to fade out, which could push inflation again above the Central Bank target.

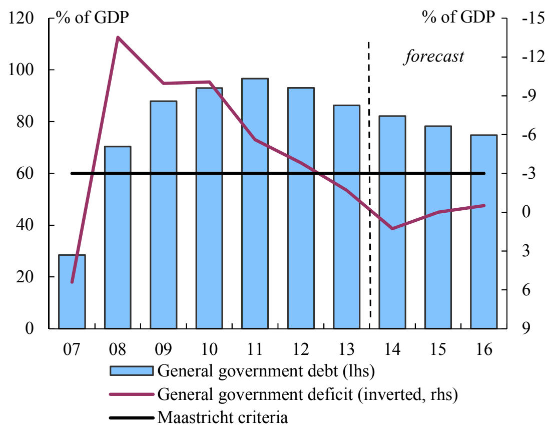
Strong domestic demand will lead to a widening of external imbalances

As a result of stronger domestic demand, the surplus in trade in goods will turn into a deficit during the forecast period, while the services balance is expected to continue benefitting from expanding tourism. Overall, the current account is likely to deteriorate over the forecast period.

Reducing public debt remains a challenge

In view of the favourable fiscal performance in the first three quarters of 2014, the forecast expects a fiscal surplus of about 1.3% of GDP in 2014. The government fiscal target for 2015 of a largely balanced budget is well in line with the underlying economic growth projection. However, plans to lower the tax burden might result in a slight deficit in 2016, of about –0.5% of GDP. Substantial primary surpluses (of some 3% of GDP) will help to reduce the general government debt-to-GDP ratio close to 75% by 2016. Government plans to sell state assets in order to lower the public debt burden could lead to an even faster reduction in the debt ratio.

Graph II.30.2: **Iceland - Public finances**



Uncertainties and risks stemming from the 2008 crisis are not overcome yet

Settling still existing claims towards banks in insolvency could lead to substantial current-account outflows. Lifting capital controls thus still remains a major challenge. Furthermore, higher imports as a result of strong domestic demand could create additional pressure on external accounts, the exchange rate and domestic price stability.

Table II.30.1:

Main features of country forecast - ICELAND

		2013			Annual percentage change					
		bn ISK Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		1873.0	100.0	3.3	2.1	1.1	3.5	**1.8**	**2.3**	**2.5**
Private Consumption		986.5	52.7	3.0	2.5	2.0	0.8	**3.0**	**2.6**	**2.5**
Public Consumption		455.7	24.3	2.7	0.2	-1.2	0.8	**1.0**	**0.7**	**0.5**
Gross fixed capital formation		282.7	15.1	1.3	11.6	4.3	-2.2	**10.0**	**8.7**	**6.9**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		1043.7	55.7	4.8	3.4	3.9	6.9	**4.7**	**5.0**	**5.5**
Imports (goods and services)		887.7	47.4	3.5	6.8	4.9	0.4	**8.7**	**7.1**	**6.4**
GNI (GDP deflator)		1838.4	98.2	2.4	6.4	4.6	12.4	**1.9**	**1.8**	**2.0**
Contribution to GDP growth:	Domestic demand			3.1	3.0	1.4	0.3	**3.3**	**3.0**	**2.6**
	Inventories			0.0	0.2	-0.1	-0.5	**0.0**	**0.0**	**0.0**
	Net exports			0.3	-1.1	-0.2	3.7	**-1.5**	**-0.7**	**-0.1**
Employment				1.2	0.0	1.1	3.3	**1.6**	**1.6**	**1.0**
Unemployment rate (a)				3.6	7.1	6.1	5.4	**4.9**	**4.3**	**4.0**
Compensation of employees / head				-	8.2	5.6	5.2	**3.6**	**3.4**	**4.6**
Unit labour costs whole economy				-	6.0	5.6	5.0	**3.4**	**2.7**	**3.2**
Real unit labour cost				-	3.2	2.4	2.9	**1.8**	**0.1**	**0.4**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				4.9	2.7	3.1	2.1	**1.5**	**2.6**	**2.7**
Consumer-price index				-	4.0	5.2	3.9	**2.0**	**2.3**	**2.8**
Terms of trade goods				-0.7	-3.0	-5.6	-4.5	**0.4**	**0.3**	**0.4**
Trade balance (goods) (c)				-3.6	2.2	0.7	0.4	**-1.7**	**-2.8**	**-4.1**
Current-account balance (c)				-8.6	-5.2	-4.2	5.6	**4.0**	**3.1**	**2.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-5.6	-3.7	-1.7	**1.3**	**0.0**	**-0.5**
Cyclically-adjusted budget balance (c)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	96.6	93.1	86.3	**82.2**	**78.3**	**74.8**

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

31. MONTENEGRO

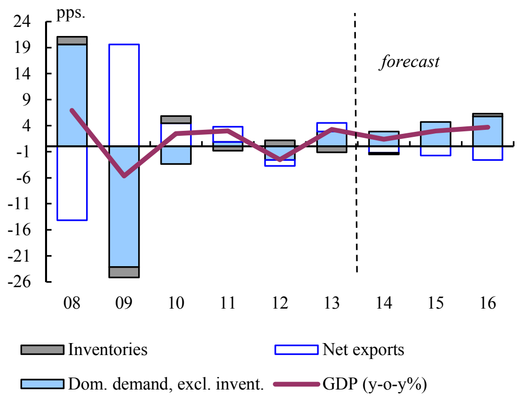
The long road to growth

The country recorded a mild recovery in 2014, reflecting failing industrial production and exports. Domestic demand remains constrained by limited and expensive bank lending. After several years of cuts into capital investment, the government will launch in 2015 the construction of a major highway. The project is set to have an important impact on growth, although fiscal risks require close attention.

Weak performance in 2014

The economy recorded a modest 1.1% growth in the first three quarters of 2014 and, although some improvements were recorded in the last couple of months, we do not expect a major improvement in the last quarter. In the first eleven months of last year, industrial production declined by 11% y-o-y, pulling down merchandise exports. Tourism, one of the main engines of growth, recorded a meagre increase in the number of visitors, resulting in a weak expansion of retail sales, and therefore in private consumption. On a more positive note, although bank lending contracted, credit to households remained on positive territory, the total number of workers augmented and construction, together with an increase in public capital spending, feed the expansion in investments.

Graph II.31.1: **Montenegro - GDP growth and contributions**



Stimulus for domestic demand

The entry of three new banks in the financial system has been announced for early 2015, which –together with some IFIs credit lines for SMEs– could improve credit supply gradually, in particular to businesses. Still, banks' lending capacity will remain constrained so far as they do not reduce the high level of non-performing loans (NPLs) in their portfolios.

Set for investment-driven growth

In our autumn forecast we reviewed our growth projections downwards due to the delay of some large infrastructure investments. As of 2015, we expect works to intensify in two large tourism resorts (Porto Novi and Lustica), and above all, the start of the first section of the highway Bar-Boljare. The latter will have substantial fallouts for this relatively small economy. At this early stage (detailed design has just commenced) it is difficult to evaluate to which extent local workers, construction companies as well as building materials will effectively participate in the works, or be instead substituted by imports. By and large, this project could become the key driver of growth in the next years or constitute a substantial fiscal risk if not carefully managed.

Commodities and monetary fluctuations

Fluctuations of key currencies for Montenegro's economy (the US dollar, the Russian rouble and the Serbian dinar) may have both positive and negative impacts for growth.

On the one hand, the main import items in Montenegro are oil products and food (the latter mostly from Serbia). The sharp fall in oil prices and the devaluation of the dinar could help to reduce the trade deficit while improving disposable income. These cheaper imports will also exert downwards pressure on headline inflation, although a lower price might also incite additional consumption of the same products marginally.

On the other hand, the main exports goods of Montenegro are aluminium and electricity. These two commodities have some correlation with oil prices, but the sharp decline of oil prices –if sustained– could lead to weakening export prices for these commodities too. Another very important export is tourism and one of its key markets is Russia. Although the economic sanctions did not have a negative impact on the number of Russian tourists in 2014, the strong devaluation of their currency could have adverse consequences in

2015, making travel to other currency areas less affordable. However, should Russian tourists shy from more expensive Western destinations, cheaper Montenegro may benefit from a favourable substitution effect. Many Russians already own property in Montenegro, but owners could decide to cash-in instead of keeping property as reserve value and for leisure.

Fiscal risks are substantial

In the first eleven months of 2014, the budget deficit improved markedly to 0.7% of GDP, compared to 3.7% a year earlier. The reduction of the fiscal gap was underpinned by strong revenue growth that offset a mild spending increase. Thus, until November, budget revenue expanded by 9% y-o-y, while total expenditures increased by 0.6% y-o-y despite a surge in capital expenditures (by 33% y-o-y). In October 2014, the public debt declined marginally to 57.9% of GDP, down from 58.1% at the end of 2013, with external debt accounting for 80% of the total.

The greatest immediate risk for fiscal sustainability is the rollover of the 5-year Eurobond issue of EUR 398 million (or 10% of GDP) maturing in 2015. The main hazard being the exacerbation of markets turmoil (following the elections in Greece) raising the yield of the Montenegrin bonds.

The second largest risk is the financing of the highway. The total cost is estimated at around 20% of GDP (or 5% of GDP per year, during the 4 years construction). Moreover, 80% of the funds are already secured by a loan from the Chinese Exim bank with very favourable financing conditions, with a grace period of six years (i.e. to start reimbursing two years after finalising the construction) and 2% interest rate. There is also an exchange rate risk, the loan being extended in US dollars. At present, with the depreciation of the euro against the dollar, it will increase the purchasing power of the borrower, but this situation could reverse in the future. Another important risk is the over-costs, covered to some extent by a performance bond issued by the Chinese construction companies. The project will require a strict management and the preparation of contingent fiscal plans in case of slippage, but also, in case of faltering economic growth and/or inflation, two important factors to help reducing public debt in nominal terms.

Table II.31.1:

Main features of country forecast - MONTENEGRO

		2013			Annual percentage change					
	mio EUR	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		3327.1	100.0	-	3.0	-2.5	3.3	**1.4**	**3.0**	**3.7**
Private Consumption		2712.0	81.5	-	4.2	-3.2	1.1	**1.6**	**2.1**	**2.5**
Public Consumption		660.2	19.8	-	-1.6	3.1	1.4	**1.4**	**1.9**	**2.6**
Gross fixed capital formation		638.7	19.2	-	-10.3	-3.3	8.8	**6.8**	**12.8**	**15.0**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		1390.1	41.8	-	14.1	-1.2	-1.3	**-2.8**	**1.8**	**2.9**
Imports (goods and services)		2065.5	62.1	-	3.1	0.9	-3.1	**0.0**	**3.9**	**6.0**
GNI (GDP deflator)		-	-	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth:	Domestic demand			-	0.9	-2.6	2.9	**2.9**	**4.7**	**5.8**
	Inventories			-	-0.8	1.2	-1.1	**-0.3**	**0.0**	**0.5**
	Net exports			-	2.9	-1.1	1.6	**-1.2**	**-1.7**	**-2.6**
Employment				-	-6.4	2.8	0.1	**1.4**	**1.8**	**2.0**
Unemployment rate (a)				-	19.7	19.6	19.4	**19.2**	**18.4**	**16.8**
Compensation of employees / head				-	-6.6	2.2	-0.5	**-2.1**	**0.2**	**3.4**
Unit labour costs whole economy				-	-	-	-	-	-	-
Real unit labour cost				-	-16.1	7.9	-5.6	**0.6**	**-0.3**	**2.4**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				-	-	-	-	**-**	**-**	**-**
Consumer-price index				-	3.1	4.1	1.3	**-0.7**	**0.4**	**2.0**
Terms of trade of goods				-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)				-	-40.4	-44.1	-39.9	**-41.9**	**-43.0**	**-45.9**
Current-account balance (c)				-	-17.7	-18.7	-14.6	**-15.6**	**-15.6**	**-16.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-5.4	-6.1	-4.6	**-3.0**	**-5.7**	**-4.8**
Cyclically-adjusted budget balance (c)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	45.9	54.0	58.1	**58.2**	**62.3**	**65.6**

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

32. SERBIA

A protracted recovery

The recession in 2014 turned out deeper than expected. Impacted by heavy floods in the spring and a weaker external environment, growth decelerated strongly in the third quarter. The projected slow economic recovery, in particular of investments, is seen to depend on the confidence in the undertaken structural and fiscal reforms.

The recession in 2014 was deeper than expected

Impacted by the heavy floods in the spring and weaker external environment, the economy is estimated to have contracted by 2% in 2014. Following a drop of 1.3% y-o-y in the second quarter, the recession deepened in the third quarter when real GDP fell by 3.6%. Domestic demand, which had already been a drag on growth, weakened further with all components registering negative growth rates in the third quarter.

Despite some signs of revival of credit activity, encouraged by a programme of government subsidised lending, investments entered their eighth consecutive quarter of decline. In a marked reversal of trend, exports performance worsened significantly, turning from a 9.5% y-o-y growth in the second to a decline of 5.7% in the third quarter. Subdued external demand from major trading partners added to the effects caused by the floods, and exports deteriorated across most of the commodity groups. High-frequency indicators, like industrial production, suggest that the recession has continued in the last quarter of the year.

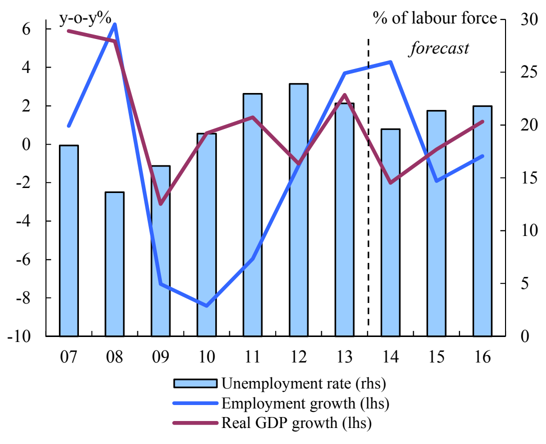
Has investment reached its low?

The forecast foresees a mild recession in 2015, softened by falling international oil prices. Fiscal consolidation efforts are expected to take a toll on growth, in particular, on public and private consumption. Both are seen to contribute negatively to growth throughout the forecast horizon. The effects of the 2014 floods will be felt next year as well, especially in the mining and energy sector, where repair is still ongoing and reconstruction activities will have some positive effect on domestic demand. Coupled with a slow rebound in Serbia's export markets, they would contribute to a rather subdued exports performance. However, risks to exports are mostly balanced, as recent gains in price competitiveness and announced investments in export-oriented sectors, not included in the baseline scenario, may soften effects from geopolitical uncertainty.

Having reached their lowest level in years, investment is expected to reach its trough in 2015. Although a very high share of non-performing loans and limited credit demand are likely to continue acting as a brake on investment activity, a set of recently adopted structural reforms is expected to facilitate a better business and investment environment. In addition, several big infrastructure projects in the transport and energy sectors remain a possible upside risk to investment.

Labour market indicators improved strongly in 2014. However, employment gains were driven predominantly by informal employment, while formal private sector employment declined. As the announced restructuring of state-owned enterprises gathers pace in 2015 and the government revisits public employment, unemployment is foreseen to increase from a still very high level.

Graph II.32.1: **Serbia - Labour market**

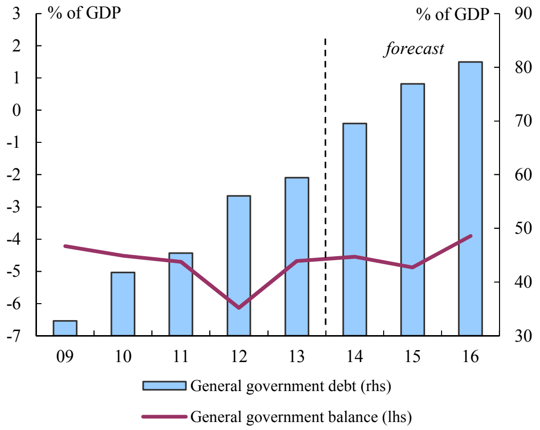


Price stability

Price stability has been a remarkable achievement, as inflation remained on average at close to 2% in 2014. A number of factors, ranging from the weak domestic demand, the fall in international oil prices, delayed adjustments in administered prices, and diminished price pressures in the major trading partners have contributed to restrain inflation. As weak domestic demand is projected to remain a major disinflationary factor, inflation is expected to remain subdued and relatively stable throughout most of the forecasting period.

Budget consolidation – is it turning a corner?

Graph II.32.2: **Serbia - Public finances**



Fiscal consolidation efforts intensified in the autumn, and the 2014 budgetary performance turned out better than expected. However, expenditures related to servicing called government guarantees, taking over obligations of other publicly-owned entities, and net acquisition of financial assets, are estimated to have added additional about 2 percentage points of GDP to the headline deficit in 2014.

While there is still no clarity on the medium-term fiscal strategy, the recently adopted set of consolidation measures, including a cut in pensions and government wages and the announced steps to restructure state-owned enterprises and reduce state exposure to them, have send a strong signal about government intentions to rein in fiscal imbalances. As a result of these measures, the budget deficit is expected to fall to a bit less than 4% of GDP in 2016, although reform costs, higher interest payments, and recovering government investments are seen as still keeping the deficit very high in 2015. By the end of the forecast horizon, government debt is expected to go over 80% of GDP, indicating that further measures may be needed to reverse its growth.

Uncertainties regarding budgetary execution are likely to remain elevated. The restructuring of state-owned enterprises and the timely implementation of the announced structural reforms would be key tests for the government's commitment to reform the inefficient public sector and reduce expenditure in a sustainable way.

Table II.32.1:
Main features of country forecast - SERBIA

	2013			Annual percentage change						
bn RSD	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	3876.4	100.0	-	1.4	-1.0	2.6	**-2.0**	**-0.3**	**1.2**
Private Consumption	2918.8	75.3	-	0.9	-2.0	-0.6	**-1.3**	**-1.8**	**-0.5**
Public Consumption	688.6	17.8	-	0.9	1.9	-1.1	**-1.0**	**-4.3**	**-0.7**
Gross fixed capital formation	668.4	17.2	-	4.6	13.2	-12.0	**-3.9**	**4.9**	**5.5**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	1597.1	41.2	-	5.0	0.8	21.3	**3.5**	**3.3**	**4.9**
Imports (goods and services)	2012.2	51.9	-	7.9	1.4	5.0	**2.7**	**0.8**	**2.9**
GNI (GDP deflator)	3716.6	95.9	-	1.4	-2.4	1.8	**-2.3**	**-1.0**	**0.6**
Contribution to GDP growth:	Domestic demand		-	1.8	1.2	-3.2	**-1.8**	**-1.4**	**0.5**
	Inventories		-	1.8	-1.9	0.6	**-0.2**	**0.1**	**0.0**
	Net exports		-	-2.1	-0.4	5.2	**0.0**	**1.0**	**0.7**
Employment			-	-6.0	-1.1	3.7	**4.3**	**-1.9**	**-0.6**
Unemployment rate (a)			-	23.0	23.9	22.1	**19.6**	**21.4**	**21.8**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	9.6	6.3	5.4	**1.9**	**2.5**	**3.3**
Consumer-price index			-	11.1	7.3	7.8	**2.1**	**3.2**	**4.3**
Terms of trade goods			-	1.6	2.3	-2.3	**1.5**	**0.3**	**0.0**
Trade balance (goods) (c)			-	-15.8	-17.1	-11.6	**-11.8**	**-11.1**	**-10.8**
Current-account balance (c)			-	-8.3	-11.1	-5.6	**-5.8**	**-5.3**	**-5.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	**-**	**-**	**-**
General government balance (c)			-	-4.7	-6.1	-4.7	**-4.5**	**-4.9**	**-3.9**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	45.4	56.1	59.4	**69.5**	**76.9**	**81.0**

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

33. TURKEY

Oil price drop a boon to growth, inflation and the current account

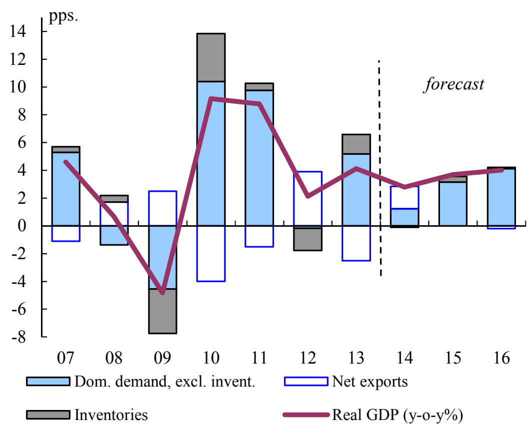
Output growth has declined in recent quarters, partly as a result of falling exports to Russia, Ukraine and the Middle East. The Turkish lira's real appreciation in 2014 will hamper export growth, but at the same time the economy will benefit from lower energy prices. Inflation is expected to decline significantly, growth will be boosted by the rise in consumers' purchasing power, and the reduced outlay for imported energy will narrow the current account deficit.

A rebalancing of growth in 2014

The Turkish economy slowed sharply in the spring of 2014 and GDP growth had declined to 1.7% y-o-y by the third quarter. Private domestic demand, in particular, softened in the course of the year and contributed little to annual growth. Weak consumer spending reflected decelerating household borrowing which was induced by macro-prudential measures and interest rate hikes in January. Business investment was pushed into negative growth territory in the first half of the year by tighter financial conditions and was still flat year-on-year in the third quarter.

Sluggish domestic demand was to a large extent offset by improving net exports. Apart from monetary tightening, net exports benefitted from a more competitive exchange rate in the early part of the year and from sharply lower imports of non-monetary gold. The overall export performance would have been even better – and annual GDP growth higher – if exports to Russia, Ukraine and Iraq had not shrunk.

Graph II.33.1: **Turkey- Real GDP growth and contributions**



The central bank has resumed easing

When Turkey's financial markets and the lira came under strong downward pressure in the winter of 2013-14, the central bank tightened monetary policy significantly. Subsequently, the currency recovered and the risk premium on Turkish assets declined, allowing the central bank to lower the one-week repo rate gradually to 8.25% by July. With headline inflation hovering around 9%, the central bank refrained from additional cuts in its key policy rate in the remainder of the year. In January 2015, however, the central bank loosened monetary conditions by cutting the one-week repo rate to 7.75% following improving inflation data and pressure from government and president. The central bank has made further interest rate cuts conditional on improvements in the inflation outlook. This should materialise in the context of lower oil prices, the current slack in the economy, and the lira's recent appreciation.

Private domestic demand will again become the main driver of growth

The lira appreciated by 6.1% in real effective terms in 2014 which has once more reduced Turkey's international price competitiveness. Exports will also be hurt by lower energy prices which tend to suppress growth in many of Turkey's traditional markets (Russia, Middle East). At the same time, imports will be stimulated by improving terms of trade. Consequently, the contribution from net exports to GDP growth is projected to decline to zero in 2015.

On the domestic side, private consumption expenditure is likely to recover from its recent sluggishness. Purchasing power is boosted by lower energy prices and stabilising food prices while wages are still rising at an annual rate of close to 10%. Although last year's macro-prudential measures will continue to restrain household borrowing, the on-going easing of monetary policy should provide some stimulus to consumption. Business fixed investment has been weak for some time, but in view of the improving prospects for consumer demand and lower interest rates and production costs, gross fixed capital formation is projected to increase moderately over the forecast period.

Firmer growth and receding inflation

With a strong first quarter but sluggish growth in the rest of the year, annual GDP growth is estimated to register 2.8% in 2014. Based primarily on the oil price stimulus and easier monetary policy, output growth is expected to increase to 3.7% in 2015 and 4.0% in 2016. One downside risk to this forecast is the possibility of a renewed sell-off in Turkish financial assets as US monetary policy normalises. This could require a tightening of Turkish monetary policy with negative repercussions for private domestic demand. Another risk is a worsening geo-political situation in the Middle East and in Russia/Ukraine.

Employment growth is expected to run somewhat below output growth, reflecting a reduced trend growth rate for labour productivity. Annual average unemployment in both 2015 and 2016 is projected at 10.5% of the labour force aged 15-64 years. This projection is based on the assumption that the labour force will increase slightly below the 4% trend growth rate of recent years. Annual average consumer price inflation is expected to fall by about 3 pps. to around 6%.

Turkey's large current account deficit narrowed to an estimated 6.0% of GDP in 2014 much helped by lower imports of non-monetary gold. In 2015, the recent oil price drop will reduce the deficit to below 4% of GDP. In 2016, the assumed firming of the oil price and continued strengthening of domestic demand should result in a modest widening of the current account deficit.

Public finances remain stable and sustainable

The central government recorded a budget deficit of 1.3% of GDP in 2014, up by 0.1 pp. from the preceding year, but lower than the initial and revised official targets of 1.9% and 1.4%, respectively. The better-than-planned performance was helped by privatisation revenues. The forecast estimates the general government deficit to correspond to 1.5% of GDP in 2014 and projects it to decline slightly in the following two years in tune with firmer GDP growth and accelerating tax revenues.

After pausing in 2013 due to exchange rate effects, the public debt-to-GDP ratio resumed its downward trend in 2014 to an estimated 34.3%. On the basis of the current projections for fiscal deficit and nominal GDP, the debt ratio will continue declining in the following two years.

Table II.33.1:

Main features of country forecast - TURKEY

	2013			Annual percentage change					
	bn TRY Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	1565.2	100.0	4.2	8.8	2.1	4.1	**2.8**	**3.7**	**4.0**
Private Consumption	1109.4	70.9	4.2	7.7	-0.5	5.1	**1.4**	**3.0**	**4.0**
Public Consumption	235.6	15.1	4.6	4.7	6.1	6.2	**4.9**	**5.0**	**5.0**
Gross fixed capital formation	318.1	20.3	4.9	18.0	-2.7	4.2	**-1.8**	**2.5**	**3.8**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	401.4	25.6	7.1	6.5	18.3	-0.3	**5.3**	**3.8**	**5.1**
Imports (goods and services)	504.1	32.2	9.2	10.9	-0.5	9.0	**-1.5**	**3.4**	**5.5**
GNI (GDP deflator)	1547.4	98.9	4.2	8.7	2.2	3.9	**2.8**	**3.5**	**3.9**
Contribution to GDP growth: Domestic demand			4.7	9.8	-0.2	5.2	**1.2**	**3.2**	**4.2**
Inventories			0.2	0.5	-1.6	1.4	**-0.1**	**0.4**	**0.1**
Net exports			-0.5	-1.5	3.9	-2.5	**1.6**	**0.0**	**-0.3**
Employment			0.8	6.6	3.1	2.8	**5.1**	**3.2**	**3.6**
Unemployment rate (a)			8.3	9.0	8.3	8.9	**9.8**	**10.5**	**10.5**
Compensation of employees / head			35.7	-2.1	11.8	10.4	**9.8**	**8.2**	**7.5**
Unit labour costs whole economy			31.3	-4.1	12.8	9.0	**12.3**	**7.7**	**7.1**
Real unit labour cost			-2.0	-11.6	5.5	2.7	**4.5**	**-1.1**	**1.6**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			34.2	8.6	6.9	6.1	**7.5**	**9.0**	**5.4**
Consumer-price index			-	6.5	8.9	7.5	**8.9**	**6.3**	**5.8**
Terms of trade goods			-1.0	-2.9	-3.1	3.6	**-0.4**	**7.8**	**-1.2**
Trade balance (goods) (c)			-5.7	-11.3	-8.1	-9.4	**-8.2**	**-5.7**	**-6.2**
Current-account balance (c)			-2.6	-9.7	-6.2	-7.9	**-6.0**	**-3.6**	**-4.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-9.7	-6.2	-7.9	**-6.0**	**-3.6**	**-4.2**
General government balance (c)			-	-0.8	-0.3	-1.6	**-1.5**	**-1.4**	**-1.3**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	39.1	36.2	36.2	**34.3**	**32.2**	**31.2**

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

34. ALBANIA

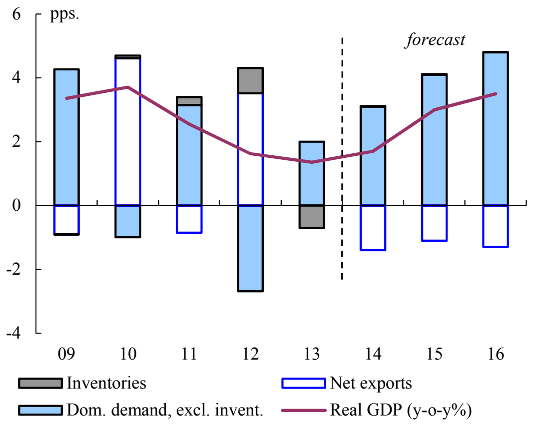
Domestic demand drives growth recovery

The latest data indirectly confirm the firming of private consumption, boosted also by a lower-than-expected inflation. One of the factors behind this is the fall in international oil prices, which however seems a mixed blessing for Albania, as it might also affect energy sector investments and the price tag of Albanian crude exports. Overall, the outlook is for a strengthening growth momentum and improving fiscal balances. The current account deficit is set to widen further.

Third quarter sees growth revival

In the third quarter of 2014, the economy rebounded vigorously from the (partly base effect-related) slump experienced in the previous quarter and expanded by 3.3% y-o-y. All main sectors of the economy provided positive contribution, with the biggest one coming, similarly to the previous quarter, from services (1.9 pps.) driven mainly by a booming trade, hotels and restaurants sector (up 10.4% y-o-y). Construction expanded by 7.5% in annual terms, reversing the steep fall seen in the first half of the year and contributing 0.8 pp. to growth. The industrial sector also managed to overturn its second-quarter contraction, although its growth rate, at 2.5% y-o-y, was much below the average of the past years due to weaker electricity production. The growth of agriculture was also subdued at 1.2% y-o-y. These data, supported also by retail trade indicators, confirm that the strengthening of private consumption continues and drives much of the reacceleration of growth.

Graph II.34.1: **Albania - Real GDP growth and contributions**



Domestic demand on the rise

The recently published first estimate of GDP growth in 2013, at 1.4%, also indicates that domestic demand turned the corner already that year and, similarly to the autumn forecast, we expect this trend to continue.

Moreover, subdued food prices and the fall in the oil price contribute to lower inflation than previously expected (consumer price inflation decelerated to 0.7% y-o-y in December from 1.9% a year earlier), and their effect is likely to extend into 2015, boosting consumers' purchasing power. The third quarter growth rebound was also accompanied by a healthy increase in non-agricultural private-sector jobs, but consumer confidence indicators failed to improve at year end. Financial conditions continued to ease in the second half of the year (credit growth accelerated to 3.3% y-o-y in October and 3.8% in November) reflecting monetary stimulus and increased credit demand, although the high level of non-performing loans and the continued need to clean up bank balance sheets constitute a risk to the outlook. In the context of below-target inflation and still underused production capacities, Bank of Albania cut its policy rate further to an historic low of 2.25% in November. It is expected to stay on its accommodative policy course as inflation is projected to move only slowly towards the target of 3% ±1 pp.

This leads us to slightly improve forecasts for private consumption growth in the years to come. On the other hand, the lower oil price is expected to dampen somewhat the increase in gross fixed capital formation, as it might put a break on some projects in oil exploration and extraction which in recent years attracted sizeable foreign investments.

External imbalances set to worsen

The increase in domestic absorption causes the current account deficit to widen further. Moreover, the positive terms-of-trade effect of a lower price for oil imports is partly offset by the fact that crude oil is also a relatively important export commodity for Albania.

In July to September, the current account deficit grew for the fourth consecutive quarter, by 66.3% y-o-y, driven by a higher merchandise trade deficit (up 14.1% y-o-y). In the four quarters to

September, the current account deficit rose to 12.4% of GDP from 9.3% in the corresponding period a year earlier. However, vulnerabilities linked to growing external imbalances will be mitigated in the years to come by an expected strong inflow of foreign direct investment, related in particular to the Albanian section of the Trans-Adriatic Pipeline and a major hydropower project.

2014 budget outperforms as expenditure lags behind

The 2014 budget outcome, at 5.1% of estimated full-year GDP, undershot the target of 6.3% that had already been revised downwards in September from the initial estimate of 6.6%. Reflecting rate hikes as well as efforts to improve tax collection, revenues increased by 12.1% y-o-y, broadly in line with the revised plan. The biggest contribution came from a 10.6% y-o-y surge in net VAT receipts. However, it was the shortfall of expenditure that kept the deficit below target. Both operating expenses and investment spending undershot the budgeted amount by a substantial margin, causing total expenditure to remain 3.9% below plan.

Overall, last year's deficit was only slightly higher than a year earlier, which is remarkable given that the budget also had to accommodate the repayment of a large portion of government arrears to businesses, amounting to 2.4% of GDP.

The 2015 budget, discussed with the IMF under Albania's on-going loan arrangement and adopted by the Parliament in November, raises excise and fuel taxes as well as the tax levied on capital income. This, coupled with an expected continuation of efficiency gains in tax collection and a growing economy, is expected to underpin a revenue increase of around 10% in nominal terms. This should create space for the continuation of arrears clearance, modest increases in government consumption, as well as a better execution of public investment plans. However, the main fiscal objective remains the lowering of the very high level of public debt to below 60% in the medium term; the decrease is projected to begin this year. Downside risks emanate however from the possible fiscal impact of electricity sector woes and the scheme that pays compensation for property expropriated during communism.

Table II.34.1:

Main features of country forecast - ALBANIA

		2013			Annual percentage change					
		bn ALL Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP		1365.4	100.0	-	2.5	1.6	1.4	**1.7**	**3.0**	**3.5**
Private Consumption		1071.8	78.5	-	1.8	0.7	1.8	**2.5**	**2.9**	**3.3**
Public Consumption		148.2	10.9	-	0.7	0.5	2.9	**1.6**	**1.9**	**0.8**
Gross fixed capital formation		354.0	25.9	-	5.9	-11.3	1.2	**3.8**	**6.0**	**7.9**
of which: equipment		-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)		478.9	35.1	-	7.4	-0.6	7.8	**8.7**	**8.2**	**8.7**
Imports (goods and services)		722.6	52.9	-	6.1	-6.6	5.0	**8.4**	**7.4**	**8.1**
GNI (GDP deflator)		1366.8	100.1	-	-	-	-	**-**	**-**	**-**
Contribution to GDP growth:	Domestic demand			-	3.1	-2.7	2.0	**3.1**	**4.1**	**4.8**
	Inventories			-	0.3	0.8	-0.7	**0.0**	**0.0**	**0.0**
	Net exports			-	-0.8	3.5	0.0	**-1.4**	**-1.1**	**-1.3**
Employment				-	-0.7	-10.6	-0.8	**0.8**	**1.7**	**1.9**
Unemployment rate (a)				-	10.9	14.3	15.2	**17.5**	**16.6**	**15.6**
Compensation of employees / head				-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy				-	-	-	-	**-**	**-**	**-**
Real unit labour cost				-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)				-	-	-	-	**-**	**-**	**-**
GDP deflator				-	2.3	1.0	0.8	**1.5**	**1.9**	**2.5**
Harmonised index of consumer prices				-	3.4	2.0	1.9	**1.6**	**2.0**	**2.5**
Terms of trade goods				-	-	-	-	**-**	**-**	**-**
Trade balance (goods) (c)				-	-24.2	-20.8	-17.7	**-18.9**	**-19.3**	**-20.0**
Current-account balance (c)				-	-13.2	-10.2	-10.5	**-12.8**	**-12.9**	**-13.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	**-**	**-**	**-**
General government balance (c)				-	-3.5	-3.3	-4.8	**-5.1**	**-3.9**	**-3.0**
Cyclically-adjusted budget balance (c)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				-	59.4	62.0	70.1	**71.3**	**71.2**	**69.7**

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

Other non-EU Countries

35. THE UNITED STATES OF AMERICA
Sliding oil prices boost the outlook

The outlook for the US economy improved further since the autumn as the boost to activity from sharply lower energy prices is set to outweigh the negative impact of the stronger dollar, while strong GDP growth and solid labour markets strengthen the momentum into 2015. Real GDP growth is thus revised up to 2.4% and 3.5% in 2014 and 2015 from the Autumn Forecast, and left unchanged at 3.2% in 2016.

Cheaper oil to boost short-term outlook

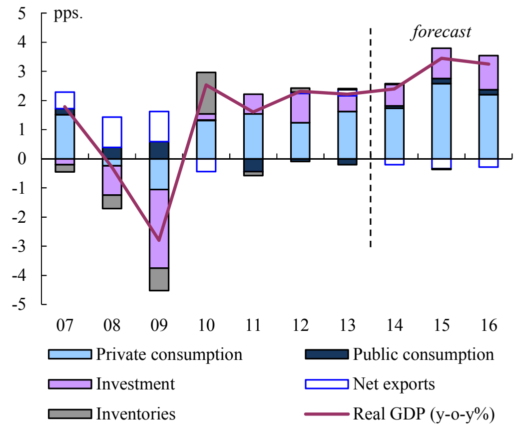
The outlook for the US economy improved further since the autumn, largely thanks to sharply lower energy prices and a stronger-than-expected growth momentum in the second half of 2014. Real GDP growth accelerated to 1.2% q-o-q in the third quarter, the strongest in 9 years, from 1.1% in the second. Growth was driven primarily by private consumption, as well as business investment, which continues to firm following a prolonged weakness in 2012-13.

Moreover, lower oil prices provide a major boost to private consumption, which accounts for roughly 70% of US GDP. The progressively strengthening dollar, potentially lower capital investment in the energy sector and more moderate expansion of energy output may temper the effect of lower oil prices. However, on balance, the net impact on real GDP growth is expected to be positive, leading to an upward revision of growth to 2.4% and 3.5% in 2014 and 2015, up by 0.2 pp. and 0.4 pp. from the Autumn Forecast. The forecast for 2016 is left unchanged at 3.2%, given the assumed gradual rebound in energy prices and the moderating effect of the stronger dollar.

Solid investment despite weakness in the energy sector

Business investment is expected to continue expanding robustly, despite some deceleration in the energy sector. Sharply lower oil prices have led to a moderation in energy output growth and triggered a decisive cut in the related investment plans. However, weaker capital spending in some energy-related industries is set to be outweighed by a stronger rebound in other sectors where a positive supply shock related to cheaper oil is expected to boost investment amid firming domestic and foreign demand, still conducive financing conditions and record-high corporate profits.

Graph II.35.1: **US - Real GDP growth and contributions**



Booming consumption

Private consumption is expected to strengthen considerably in 2015, as lower inflation will interact with a buoyant labour market to boost spending. Lower energy prices will not only have a direct real income effect, but may, via indirect effects, also boost spending on the core part of the consumer basket. The ensuing surge in real income is expected to push real consumer spending growth to nearly 4% y-o-y, the highest in 10 years. The expected gradual rebound in government spending will further support domestic demand in the forecast horizon.

However, the US is set to lose competitiveness due to a progressively strengthening dollar (15% appreciation in trade-weighted exchange rate since July) and a narrowing of the energy price gap vis-à-vis its competitors. This implies a downward revision of export growth, and an upward revision to imports, where a stronger dollar interacts with the energy related surge in domestic demand.

No price and wage pressures despite buoyant labour market

Buoyant job creation, combined with the gradual decline in the participation rate, brought the unemployment rate down to 5.6% by the end of

2014. Non-farm employment grew by 290,000 on average in the fourth quarter, the strongest quarterly result since 1999. These improvements, however, have occurred amid a steady decline in the participation rate, which fell to 62.7% in September, a 37-year low. As the economy strengthens, job creation is expected to remain solid, bringing the unemployment rate down to 5% in 2016, around the natural rate. A cyclical expansion of the labour force will prevent more decisive declines in the unemployment rate in the forecast horizon.

Despite the recovery in the labour market, prices and wage inflation are likely to remain subdued. Sharp movements in energy prices are expected to push headline CPI inflation temporarily down to -0.1% y-o-y in 2015, to subsequently fuel its recovery back to 2.0% in 2016, with core inflation showing considerably more stability. Lower inflation will boost the real value of wages, which otherwise have been rather weak (nominal average hourly earnings decelerated to 1.7% y-o-y in December, the slowest in 2 years). However, both price and wage pressures are expected to pick up gradually as the effect of the energy price deflation wanes in the second half of 2015 and the output gap closes progressively.

Activity will be supported by accommodative monetary policy and easing fiscal drag

Other factors shaping the US outlook remain largely unchanged. Considerably lower fiscal drag and continued highly accommodative monetary policies will boost activity in the forecast horizon. The general government deficit is expected to have fallen below 5% in 2014, for the first time since 2007, amid a consolidation progressing at a milder pace compared to previous years. Smaller deficits will lead to a gradual decline in debt levels over the forecast horizon, from 105% of GDP in 2014 to 104% in 2016. In order to assure the markets that interest rate hikes will not be immediate, the Fed indicated in December that it will be "patient" with normalizing policy. While its projections continue to point to mid-2015 as the start of the cycle of cautious interest rates increases, the current oil-price-driven drop in inflation adds to the complexity surrounding the decision.

Table II.35.1:
Main features of country forecast - USA

	2013			Annual percentage change						
	bn USD Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	16768.1	100.0	2.5	1.6	2.3	2.2	**2.4**	**3.5**	**3.2**
Private Consumption	11484.3	68.5	2.9	2.3	1.8	2.4	**2.5**	**3.8**	**3.3**
Public Consumption	2547.6	15.2	1.8	-2.7	-0.6	-1.3	**0.5**	**1.1**	**1.2**
Gross fixed capital formation	3170.2	18.9	2.4	3.7	5.3	2.7	**3.8**	**5.4**	**5.8**
of which: equipment	1093.5	6.5	4.5	10.3	5.4	3.3	**4.1**	**6.9**	**7.0**
Exports (goods and services)	2262.2	13.5	4.9	6.9	3.3	3.0	**3.1**	**4.2**	**4.7**
Imports (goods and services)	2770.4	16.5	5.6	5.5	2.3	1.1	**3.9**	**5.9**	**5.8**
GNI (GDP deflator)	16992.4	101.3	2.7	1.8	2.1	2.2	**2.4**	**3.5**	**3.2**
Contribution to GDP growth: Domestic demand			2.8	1.8	2.1	1.9	**2.6**	**3.8**	**3.6**
Inventories			0.0	-0.1	0.1	0.1	**0.1**	**0.0**	**0.0**
Net exports			-0.2	0.0	0.0	0.2	**-0.2**	**-0.4**	**-0.3**
Employment			0.6	1.0	1.8	1.9	**2.5**	**2.9**	**2.5**
Unemployment rate (a)			5.6	8.9	8.1	7.4	**6.2**	**5.4**	**4.9**
Compensation of employees / f.t.e.			3.6	2.6	2.2	0.7	**1.3**	**1.9**	**2.8**
Unit labour costs whole economy			1.7	1.9	1.6	0.3	**1.4**	**1.3**	**2.1**
Real unit labour cost			-0.3	-0.1	-0.1	-1.2	**-0.2**	**0.4**	**0.2**
Saving rate of households (b)			10.3	11.5	12.5	10.4	**9.7**	**9.7**	**9.5**
GDP deflator			2.0	2.1	1.8	1.5	**1.5**	**0.9**	**1.9**
Consumer-price index			2.4	3.1	2.1	1.5	**1.6**	**-0.1**	**2.0**
Terms of trade goods			-0.3	-1.1	-0.1	0.6	**0.4**	**2.6**	**-0.4**
Trade balance (goods) (c)			-4.2	-5.0	-4.8	-4.4	**-4.3**	**-4.1**	**-4.2**
Current-account balance (c)			-3.6	-3.1	-3.0	-2.5	**-2.5**	**-2.3**	**-2.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.6	-3.1	-2.9	-2.5	**-2.5**	**-2.3**	**-2.6**
General government balance (c)			-4.3	-10.6	-8.9	-5.6	**-4.9**	**-4.2**	**-3.8**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			66.0	99.1	102.9	104.7	**104.9**	**104.3**	**103.9**

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

(*) Employment data from the BLS household survey.

36. JAPAN

Moderate growth rebound expected, but fiscal challenges remain

Real GDP growth for 2014 was revised substantially down following two consecutive quarters of negative growth in Q2 and Q3. In 2015, the low carry-over from 2014 will be offset by postponed fiscal consolidation, stronger monetary stimulus and a positive oil price shock. Real GDP growth is therefore expected to pick up again to 1.3%, and to remain at the same level in 2016 thanks to supportive fiscal and monetary policy and favourable energy prices.

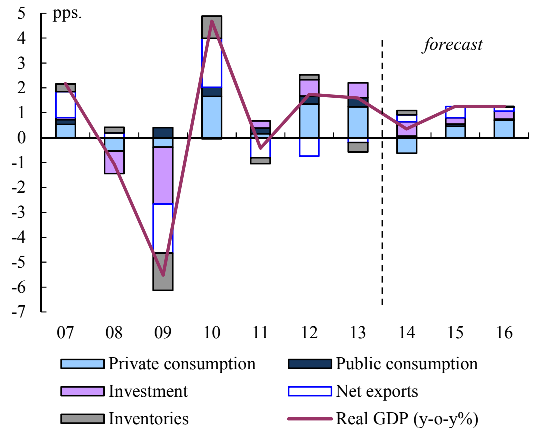
Unexpected slump in 2014

The Japanese economy unexpectedly entered technical recession in 2014-Q3 with a -0.5% q-o-q contraction. The contraction in Q3 followed a largely anticipated -1.7% decline in Q2 in the wake of April's consumption tax hike. After a strong increase in Q2, inventory levels declined sharply in Q3. Private residential and non-residential investment failed to rebound, whilst private consumption recovered only marginally. Overall the underlying pace of growth triggered by expansionary monetary policy proved insufficient to withstand tightening fiscal policy against a background of timid structural reform and negative real wage growth. Economic activity is expected to have rebounded in Q4, but the drag from two quarters of negative growth entails a substantial downward revision of annual real GDP growth to 0.3%. The lower carry-over from 2014 weighs on 2015 growth. However, several factors should contribute to lifting the growth trajectory. The postponement from October 2015 to April 2017 of the second consumption tax hike (from 8% to 10%) and a new ¥3.1 trillion (0.6% of GDP) stimulus package will underpin domestic demand in the near term. Monetary policy turned even more accommodative as the Bank of Japan stepped up the pace of asset purchases at the end of October 2014. Finally, lower energy prices will not be fully offset by the depreciation of the yen, and will materialise into a positive oil price shock given Japan's increased energy dependence on imported fossil fuels in the aftermath of the Great East Japan Earthquake. In 2015 growth is therefore set to accelerate to 1.3%, and to remain around the same level in 2016.

Outlook for private consumption improves…

Private consumption has been recovering only slowly from the slump following the consumption tax hike over the second half of 2014, and is estimated to have remained below its 2013 level. However the household sector is set to gradually strengthen on the back of the postponed consumption tax hike, lower energy prices and an – albeit moderate – pick-up in wage growth. With the unemployment rate at an 18-year-low (3.5% in November), labour market conditions are expected to remain tight over the forecast horizon underpinned by strengthening domestic and external demand and a shrinking working age population.

Graph II.36.1: **JP - Real GDP growth and contributions**



…and investment conditions continue to be supportive.

Gross fixed capital formation contributed negatively to growth in Q2 and Q3 as private investment contracted. Corporate profits remain however strong and will be supported by Yen depreciation and improving domestic and external demand. Loose financing conditions will persist over the medium term underpinned by accommodative monetary policy. Against this backdrop, private non-residential investment is expected to progressively expand in 2015 and 2016. Private residential investment should have bottomed out in 2014-Q4, and will slowly recover supported by favourable lending conditions. Public investment is set to decline more gradually than expected in the Autumn Forecast on the back of a new ¥3.1 trillion (0.6% of GDP) stimulus package, around half of which is earmarked for infrastructure and public works.

Stronger external demand

Net exports are expected to contribute more strongly to near-term growth than in the Autumn Forecast. Lower commodity prices will help enhancing the competitiveness of the export sector, and underpin more robust export growth together with firming external demand, in particular from the US. Demand for imports should strengthen gradually as domestic demand recovers.

Wage growth picks up mildly, but inflation slows

Cost-push inflationary pressures from currency depreciation have been largely offset by softer energy prices. As a result headline Consumer Price Index (CPI) inflation declined from a peak 3.7% year-on-year (including the tax hike effect) in June 2014 to 2.4% in November. Whilst the waning effect from the past consumption tax hike and continued moderation in global commodity prices will entail downward pressures on prices, CPI inflation should stabilise as domestic demand firms up. Continued tightness in the labour market is set to moderately lift wage growth, with nominal compensation per head expected to average 0.6% over the forecast period. Against this backdrop, headline CPI inflation is projected to slow in 2015 and gradually rise to around 0.9% by 2016.

Fiscal consolidation is postponed

Revenue growth was boosted by the April 2014 consumption tax hike. However the postponement of the second tax hike, a new fiscal package aimed at boosting near-term growth, and a steady increase in social security expenditure will entail larger fiscal deficits, and a possible slippage of the target to halve the primary deficit by FY2015 relative to its 2010 level. Uncertainty surrounding the direction of fiscal policy and the fiscal outlook has increased following the postponement of the October 2015 consumption tax hike. It is not clear yet either how the planned cut in the corporate tax rate will be offset on the revenue side. On the expenditure side, preparations for the 2020 Olympics may entail additional spending pressures over the forecast period.

Table II.36.1:

Main features of country forecast - JAPAN

	2013		Annual percentage change						
bn JPY	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	480128.0	100.0	0.9	-0.5	1.8	1.6	**0.4**	**1.3**	**1.3**
Private Consumption	293549.6	61.1	0.9	0.3	2.3	2.1	**-1.0**	**0.6**	**1.0**
Public Consumption	98773.7	20.6	2.1	1.2	1.7	1.9	**0.3**	**0.4**	**0.3**
Gross fixed capital formation	104318.5	21.7	-1.3	1.4	3.4	3.2	**2.9**	**1.2**	**2.1**
of which: equipment	-	-	1.0	4.4	4.7	-	**-**	**-**	**-**
Exports (goods and services)	77547.4	16.2	4.7	-0.4	-0.2	1.5	**7.8**	**5.0**	**4.5**
Imports (goods and services)	91181.4	19.0	3.1	5.9	5.3	3.1	**6.5**	**3.0**	**3.8**
GNI (GDP deflator)	497774.3	103.7	1.0	0.0	1.8	2.1	**0.5**	**1.4**	**1.4**
Contribution to GDP growth: Domestic demand			0.6	0.6	2.3	2.2	**-0.1**	**0.8**	**1.1**
Inventories			0.0	-0.2	0.2	-0.4	**0.2**	**0.0**	**0.0**
Net exports			0.3	-0.8	-0.7	-0.2	**0.3**	**0.5**	**0.2**
Employment			-0.3	-0.2	0.0	0.6	**0.5**	**0.3**	**0.3**
Unemployment rate (a)			4.4	4.6	4.3	4.0	**3.7**	**3.7**	**3.6**
Compensation of employees / head			-0.7	0.6	-0.2	0.1	**0.5**	**0.7**	**0.9**
Unit labour costs whole economy			-1.8	0.8	-1.9	-0.9	**0.7**	**-0.3**	**-0.1**
Real unit labour cost			-0.7	2.7	-0.9	-0.3	**-0.9**	**-0.7**	**-1.0**
Saving rate of households (b)			11.5	9.0	7.7	6.4	**6.0**	**5.5**	**4.7**
GDP deflator			-1.0	-1.9	-0.9	-0.5	**1.6**	**0.4**	**0.8**
Consumer-price index			-0.1	-0.3	0.0	0.4	**2.7**	**0.6**	**0.9**
Terms of trade goods			-2.7	-8.8	-1.9	-2.2	**-0.3**	**1.0**	**0.3**
Trade balance (goods) (c)			2.1	-0.3	-1.2	-2.2	**-2.3**	**-2.0**	**-1.8**
Current-account balance (c)			3.0	2.0	1.0	0.7	**0.5**	**1.0**	**1.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			2.9	2.0	1.0	0.5	**0.4**	**1.0**	**1.1**
General government balance (c)			-5.8	-8.8	-8.7	-8.5	**-7.7**	**-7.2**	**-6.8**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			159.3	229.8	236.7	243.2	**246.3**	**249.5**	**250.9**

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

37. CHINA

Property slowdown fails to dent headline growth in 2014

China's growth held up remarkably well in 2014, despite a weak start to the year and a property market downturn. Consumption held up well, and a recovery in exports in late 2014 helped offset weaker investment. This pattern is expected to continue, with lower oil prices helping to boost consumption and underpin faster growth in the Asia region, thereby supporting exports. Risks have become more balanced, with upside risks from lower oil prices now weighing against downside risks from the property sector and associated risks to financial stability.

A solid outcome despite signs of domestic weakness

China's economy grew by 7.4% in 2014, following growth of 7.8% in 2013. The 2014 outcome proved remarkably solid given the abrupt slowdown in the property market that started in late 2013, and a weak start to 2014 that saw a worsening of high frequency indicators across the board. A series of small-scale stimulus measures subsequently helped to prop up growth in mid-year, before a rebound in exports in the second half of the year pushed growth back towards the official target for the year of 7.5%. The slowdown in property and real estate was accompanied by a broader slowdown in investment, with (nominal) growth in fixed asset investment dropping to 15% annually by year-end, from around 20% or higher in recent years.

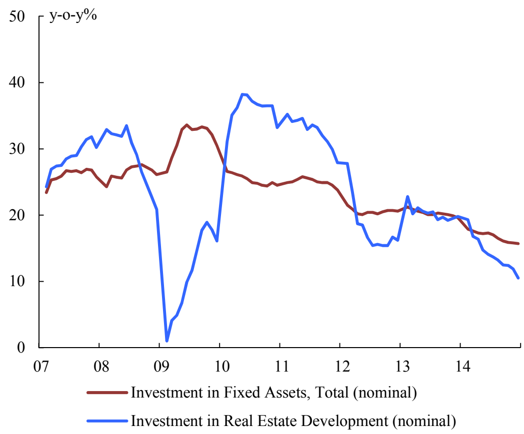
High frequency indicators provided a mixed picture towards the end of 2014. Retail sales held up well, continuing to grow at close to 12% in nominal terms, similar to rates observed throughout 2014. Industrial production edged down however, with growth in real output heading towards 7% at year-end compared to around 9% in January. PMI measures also deteriorated marginally in November, though both official and private measures remain close to 50. Late 2014 also saw poor housing market data, with new starts substantially down year on year, and with the fall in house prices picking up speed.

The forecast is for growth to moderate further in 2015 to 7.1%, and 6.9% in 2016. This assumes a relatively benign correction in the property market, stabilization of growth in fixed asset investment, continued steady growth of consumption, and gradual rebalancing of the Chinese economy. The official growth target for 2015, set at the March National Peoples' Conference, is expected to be around 7%, compared to 7.5% in 2014.

Policy to remain accommodative and flexible

Monetary policy was eased in early 2014 in response to the weak first quarter, with the interbank rate moving well below 4%. This was followed by selective cuts in required reserve ratios for rural lenders, and a cut in headline policy rates in November, the first for over two years. Despite these changes, total credit growth (Total Social Financing) was slack throughout the year, with a fall of 5.2% compared to 2013. By contrast, RMB bank loans increased by 5% y-o-y to end November, suggesting that regulatory measures to curb growth in "non-standard" lending have had some traction. It is likely that monetary policy will remain accommodative for some time, given the continued weakness in the property sector and the concerns that a "hard landing" would spill over into the financial sector, with some property developers exhibiting excessive leverage. Fiscal policy is set to remain flexible, with any further signs of weakness in domestic demand likely to be met with fine-tuning of the flow of infrastructure approvals in order to keep growth near its target.

Graph II.37.1: **China's investment slowdown**



Falling oil prices will ease policy dilemmas

China's growth in 2015 and 2016 will be buttressed by the recent fall in the oil price, which will provide a significant boost due to China's relatively high energy intensity.

Household consumption is expected to continue to grow steadily in 2015, with lower energy prices reinforcing the downward pressure on CPI inflation, which had fallen to around 1.5% at the end of 2014. Lower oil prices should also ease pressure on the industrial sector which continues to face a difficult environment, with persistent excess capacity in some key sectors. Growth in investment is expected to stabilise at rates close to those seen in late 2014, though the weakness in the property market may have further to run. The support provided by lower oil prices may allow Chinese policy makers to limit further stimulus measures and press for a faster restructuring of the Chinese economy, while running lower risks of a "hard landing".

China's imports were extremely sluggish during 2014, and growth over the year was almost zero in value terms. This may partly reflect a structural shift in import demand linked to lower rates of investment. Exports grew by 6% over the same period, picking up sharply from June onwards. The RMB exchange rate versus the US dollar rose by 2% during 2014, while against the euro it rose by around 10%, and the real effective exchange rate rose by 6.4%. Most of this strengthening of the RMB in real terms came in the last quarter of the year.

Although domestic consumption growth should lead to a gradual revival of growth in imports, the outperformance by exports may continue into 2015. The prospects of a strong export performance have improved in recent months due to the accelerating recovery in the US, and the prospect of faster growth in the Asian region, where a number of other economies will also benefit substantially from lower oil prices.

Risks have become more balanced

The major risk factors remain those linked to accumulated imbalances, notably the legacy of debt from high levels of investment spending, the risk of a sharper correction in the property sector, and risks to the financial sector from exposure to overleveraged borrowers. However risks are more balanced than at the time of the autumn forecast, with possible outperformance due to the positive impacts of lower oil prices now set against the downside risks from the property sector and associated risks to financial stability.

Table II.37.1:

Main features of country forecast - CHINA

	2013		Annual percentage change						
bn CNY	Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	58667,3	100,0	9,9	9,3	7,7	7,8	**7,4**	**7,1**	**6,9**
Consumption	21218,8	36,2	-	-	-	-	-	-	-
Gross fixed capital formation	26907,5	45,9	-	-	-	-	-	-	-
of which : equipment	-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP	-	-	-	-	-	-	-	-	-
Exports (goods and services)	14579,4	24,9	17,0	10,3	7,0	8,7	**4,1**	**5,5**	**5,5**
Final demand	-	-	-	-	-	-	-	-	-
Imports (goods and services)	13164,2	22,4	14,8	12,0	8,0	10,8	**1,0**	**4,5**	**5,3**
GNI (GDP deflator)	-	-	-	-	-	-	-	-	-
Contribution to GDP growth : Domestic demand			-	-	-	-	-	-	-
Inventories			-	-	-	-	-	-	-
Net exports			-	-	-	-	-	-	-
Employment			-	-	-	-	-	-	-
Unemployment (a)			3,6	4,1	4,1	4,1	-	-	-
Compensation of employees/head			-	-	-	-	-	-	-
Unit labour costs			-	-	-	-	-	-	-
Real unit labour costs			-	-	-	-	-	-	-
Saving rate of households			-	-	-	-	-	-	-
GDP deflator			3,9	7,8	2,0	1,7	**2,0**	**2,0**	**2,0**
Private consumption deflator			-	-	-	-	-	-	-
Index of consumer prices (c)			3,0	5,4	2,6	2,6	-	-	-
Merchandise trade balance (b)			4,4	2,1	2,8	2,7	**4,0**	**5,2**	**5,3**
Current-account balance (b)			4,0	1,9	2,6	1,9	**3,3**	**4,4**	**4,4**
Net lending(+) or borrowing(-) vis-à-vis ROW (b)			-	-	-	-	-	-	-
General government balance (b)			-	-	-	-	-	-	-
General government gross debt (b)			-	-	-	-	-	-	-

(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

38. EFTA

Not all that steady anymore

Economic data in Switzerland and Norway continue to be volatile. After positive figures for the third quarter and a significant upward revision of the second quarter growth rate in Switzerland, economic growth is expected to have turned out somewhat better over the full year than previously foreseen. This year, growth is expected to register 1.9% in Switzerland and 1.8% in Norway which is driven mostly by domestic demand.

Economic data in Switzerland and Norway continue to be volatile. This is particularly evident for the headline trade figures of Switzerland after the transition to the new national accounting standards (ESA2010) but also for other indicators like those for private consumption in Norway and those for producer sentiment for both countries. Moreover, in the case of Switzerland second quarter growth figures were revised upwards from no growth to +0.3% quarter-on-quarter and are now more in line with expectations at the beginning of the year.

Economic outlook for Switzerland

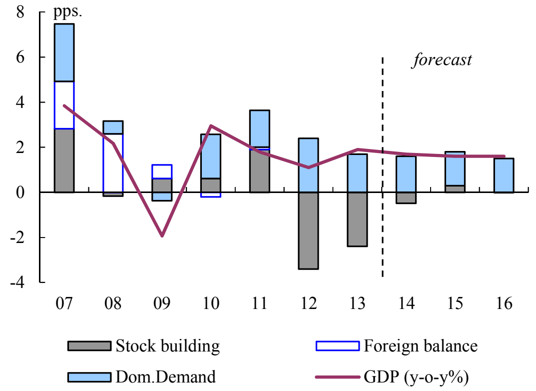
Economic growth accelerated in the third quarter to 0.6% quarter-on-quarter from 0.3% in the second quarter. The domestic demand components that posed a drag on economic growth in the second quarter contributed positively in the third quarter: government consumption expanded by 0.9% quarter-on-quarter against -0.1% in the second quarter and gross fixed investment expanded by 0.5% against -0.6%. The exception among domestic demand components was inventory depletion which led to a significant drag on domestic demand in the third quarter.

Domestic and foreign demand are both expected to continue contributing to economic growth this year and the next. Private consumption has been growing above the historical average since 2011, driven by easy financial conditions, healthy labour market conditions, and wealth gains.

In 2015 and 2016, labour markets will continue to support private demand. The unemployment rate has been relatively stable over the past years. As immigration becomes more difficult, the demand for domestic labour is expected to meet with upward pressure in the short term. The effect on the labour market of tighter labour migration will, however, be negative in the longer term. Recent analyses have shown that labour migration has had a positive impact on demand for domestic labour.

As a consequence of the Swiss National Bank abandoning the floor of the EUR-CHF exchange rate, downward pressures on prices will again increase. The impact on real disposable income will first be positive but there seems little scope for nominal wage increases, also because of the impact on total demand for Swiss goods and services, and the resurgence of falling prices will add to downward pressures on house prices.

Graph II.38.1: **Switzerland - Real GDP growth and contributions**



Economic outlook for Norway

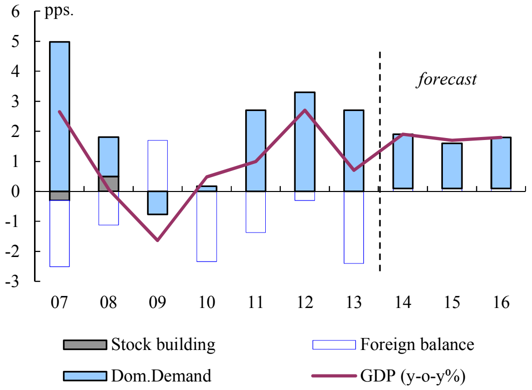
GDP growth in the mainland economy decreased from 1.2% in the second quarter to 0.4% quarter-on-quarter in the third quarter. Due to increased activity in the off-shore sector, petroleum activities and sea transport, the total economy grew by 0.5% quarter-on-quarter in the third quarter after 1.1% in the second quarter.

Final consumption expenditure by households turned out to be a drag on the economy in the third quarter even if consumer confidence had shown an improvement compared to the earlier part of the year. The decline in household consumption was broad based, stretching from energy consumption to purchases of food and beverages and to vehicles. By contrast, in the fourth quarter, consumer confidence declined but household consumption went up in October and November with only purchases of food, beverages and tobacco registering a decline. This is not an omen of renewed dynamics in household consumption for this year and the next. Rather, household consumption growth will stay volatile as a consequence of uncertainty over house prices, high indebtedness of - in particular - young households, repercussions of the falling oil price, and a cooling of the labour market.

The recent fall in oil prices has started to impact wages and labour demand in the oil and oil-related sectors. The impact of the change in momentum in this relatively small part of the labour market (around 2% of all jobs) on the whole economy will be felt mostly through confidence channels. In the total economy, as a matter of fact, jobs were still created although the momentum is waning.

The impact will not only be felt by households. Investment by the off-shore sector is expected to drop this year as confirmed by a survey in December. This drop in investment will impact domestic demand in the mainland economy as well as labour demand. Because the reduced demand for imported goods will be more than offset by a decline in exports, the trade balance surplus will decline.

Graph II.38.2: **Norway - Real GDP growth and contributions**



Norway's inflation rate has been slightly above 2% in the past two years. This year and the next, inflation is expected to turn out slightly lower as energy prices come down and there is loss in the momentum of economic growth. Driving inflation upwards is the depreciation of the Norwegian krone that lost a tenth of its value against the euro and a quarter against the US dollar since the summer.

Table II.38.1:
Main features of country forecast - EFTA

		Norway					Switzerland				
(Annual percentage change)		**2012**	**2013**	**2014**	**2015**	**2016**	**2012**	**2013**	**2014**	**2015**	**2016**
GDP		2.7	0.7	1.9	1.7	1.8	1.1	1.9	1.7	1.6	1.6
Private Consumption		3.5	2.1	2.2	2.0	1.7	2.8	2.2	1.9	1.6	1.5
Public Consumption		1.6	1.7	1.9	2.2	2.8	2.9	1.4	1.7	1.9	2.0
Gross fixed capital formation		7.6	6.8	2.2	1.0	1.7	2.4	1.7	1.3	1.8	2.0
of which: equipment		-0.3	3.4	3.8	1.6	4.0	-0.4	2.6	1.3	1.9	2.6
Exports (good and services)		1.4	-3.0	3.3	2.5	2.5	0.8	15.3	-4.6	-0.5	2.4
Imports (goods and services)		3.1	4.3	4.3	2.9	3.1	-2.8	13.5	-6.5	-0.2	2.9
GNI (GDP deflator)		3.8	0.3	1.9	1.7	1.8	2.1	4.6	1.7	1.6	1.6
Contribution to GDP growth:	Domestic demand	3.3	2.7	1.8	1.5	1.7	2.4	1.7	1.6	1.5	1.5
	Inventories	-0.3	0.5	0.0	0.0	0.0	-3.4	-2.4	-0.5	0.3	0.0
	Net exports	-0.3	-2.4	0.1	0.1	0.1	2.1	2.6	0.6	-0.2	0.1
Employment		2.1	1.2	1.7	0.6	0.7	1.5	1.3	1.4	1.1	0.3
Unemployment rate (a)		3.1	3.4	2.9	3.2	3.6	4.2	4.4	3.9	3.7	3.8
Compensation of employee/head		4.5	5.4	3.7	3.3	3.4	1.0	0.4	1.6	-1.2	-1.3
Unit labour cost whole economy		3.8	5.9	3.5	2.2	2.3	1.4	-0.2	1.4	-1.7	-2.6
Real unit labour cost		0.5	3.1	1.1	0.4	0.4	1.5	0.0	1.8	-1.0	-1.8
Saving rate of households (b)		15.2	16.9	17.9	18.2	18.9	22.2	22.3	22.0	21.9	21.4
GDP deflator		3.4	2.7	2.4	1.9	1.9	-0.1	-0.2	-0.4	-0.6	-0.8
Harmonized index of consumer prices		0.4	2.0	2.1	1.9	1.9	-0.7	0.1	-0.1	-1.0	-0.7
Terms of trade goods		3.2	-0.5	0.5	0.0	0.0	-0.9	0.7	0.0	1.1	0.0
Trade balance (goods) (c)		13.5	11.1	11.3	11.1	10.8	6.0	7.8	8.1	8.2	8.1
Current account balance (c)		13.9	10.5	10.7	10.5	10.3	10.2	14.7	15.2	15.1	15.1
Net lending (+) or borrowing (-) vis-a-vis ROW		13.9	10.5	10.6	10.5	10.3	11.2	16.1	15.0	15.0	15.0
General government balance (c)		13.6	10.7	10.3	9.4	8.4	0.3	0.1	0.5	0.2	-0.2
Cyclically adjusted budget balance (c)		-	-	-	-	-	-	-	-	-	-
Structural budget balance (c)		-	-	-	-	-	-	-	-	-	-
General government gross debt (c)		28.8	29.2	27.7	27.3	27.9	35.1	35.2	35.7	35.2	35.0

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

39. RUSSIAN FEDERATION

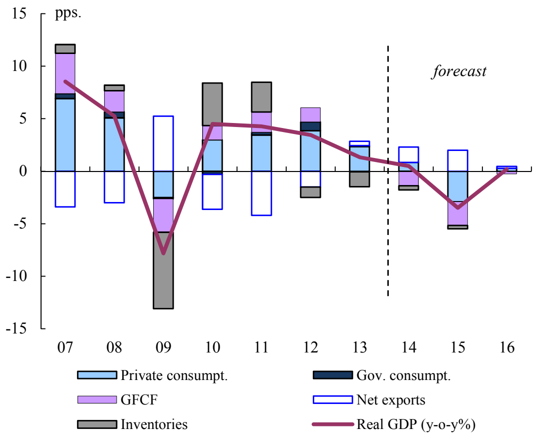
Moving into recession amidst falling oil prices and sanctions

The Russian economy is under severe pressure due to the combined effect of the collapse in oil prices, economic sanctions and structural weaknesses of the Russian growth model. After experiencing some growth resilience in 2014, Russia is expected to move into a deep recession in 2015, followed by some stabilisation in 2016, as geo-political tensions are assumed to gradually subside and the oil price to slightly pick up.

Moving to recession amidst falling oil prices and sanctions

Economic growth in Russia has been on a declining trend for some time as the energy export-led growth model ran out of steam, diversification of the economy made little progress and investment stalled. These trends are exacerbated by the combined effect of a collapse in oil price and economic sanctions, which have led to record Rouble depreciation, severe financial pressures on the banking and corporate sector and a major deterioration of economic confidence.

Graph II.39.1: **Russia - Real GDP growth and contributions**



Real GDP growth is expected to have slowed down further in 2014 in the wake of geopolitical tensions and economic sanctions, even though economic activity showed some resilience up to Q3 (resulting in average 0.8% growth in Q1-Q3 2014 y-o-y), supported by net exports and better than expected outcomes in agriculture and manufacturing. The growth slowdown was mainly driven by a sharp contraction of investment and a deceleration of private consumption, on the back of rising capital outflows, soaring borrowing costs and rising inflation.

The combination of the sharp fall in the oil price and the economic sanctions are set to push the Russian economy into a deep recession in 2015, followed by some stabilisation in 2016, based on the technical assumptions of an expiry of economic sanctions in July 2015 and a slight rebound in oil prices.

Investment collapsing and consumption falling

The collapse in investment is expected to continue in 2015, reflecting a severe tightening of financing conditions as access to Western capital markets is becoming increasingly constrained for major Russian banks and corporations amid sanctions, increased borrowing costs, shortage of foreign exchange liquidity, capital outflows, political and economic uncertainty and a deteriorated business environment.

A sharp fall in private consumption, which has been a major growth driver in recent years, is expected in 2015, followed by a moderate recovery in 2016. This is due to a major squeeze of real disposable incomes resulting from rising inflation, caused by sharp Rouble depreciation and the ban on Western food imports, and from limited fiscal space for social spending and further wage hikes in the public sector.

Exports are expected to fall in negative territory in 2015, as structural bottlenecks and collapsing investments prevent Russian firms from reaping the benefit of a falling Rouble. Exports are set to recover somewhat in 2016 amid easing geopolitical tensions, a gradual pick up of oil prices and global economic recovery. Imports are expected to contract substantially in 2015, on the back of falling domestic demand and sharp Rouble depreciation.

Negative effects on a so far tight labour market

The sharp worsening of the economic outlook is set to also affect the Russian labour market. A contraction of employment is expected in both 2015 and 2016 as a result of the upcoming recession and the decline in working age population. Similarly, unemployment is set to increase quite markedly in 2015 and, to a lesser extent, in 2016. Overall, employment losses will remain relatively contained compared to the extent of the GDP contraction, given a very tight labour market.

Sharp rouble depreciation fuelling a surge in inflation

Rouble depreciation, which already started in the summer of 2014 amid growing geo-political tensions, largely accelerated towards the end of 2014 as a result of a sharp fall in oil prices, with the Russian currency reaching record lows in December. The depreciation (and restrictions in food imports) resulted in a sharp pick-up of inflation which averaged 7.8% in 2014 and is expected to accelerate further to 9.5% in 2015, before slowing down to 7% in 2016 on the back of base effects and a weakening economic environment.

Monetary policy tightening (including a 650 bps. rate hike) and additional measures by the Central Bank of Russia and the Ministry of Finance, including provision of foreign exchange liquidity and support to the banking sector, helped stabilise the situation at the end of 2014.

A worsening fiscal outlook

The general government balance is set to sharply deteriorate in 2015 (after a slight improvement in 2014) as a result of the sharp fall in oil prices, which squeezes government revenues (being only partly compensated by a depreciating rouble), and the economic recession. The fiscal balance is expected to remain negative in 2016 amid a limited oil price recovery and very gradual return to positive growth. Capital injections to ailing banks and corporates may also weigh on public finances, although they should be largely accommodated by tapping existing fiscal buffers.

Risks to the outlook

Downside risks to the outlook are related to uncertainty about oil price developments and financial stability risks associated with balance sheet weaknesses of the banking and corporate sector amid depreciating rouble and limited access to financial markets.

Table II.39.1:
Main features of country forecast - RUSSIA

	2013		Annual percentage change						
	bn RUB Curr. prices	% GDP	95-10	2011	2012	2013	2014	2015	2016
GDP	66755.3	100.0	-	4.3	3.4	1.3	**0.5**	**-3.5**	**0.2**
Private Consumption	34675.2	51.9	-	6.7	7.9	4.7	**1.6**	**-5.5**	**0.5**
Public Consumption	13047.5	19.5	-	1.4	4.6	0.5	**-0.2**	**0.0**	**0.0**
Gross fixed capital formation	13764.2	20.6	-	9.2	6.7	-0.2	**-6.6**	**-12.0**	**-1.5**
of which: equipment	-	-	-	-	-	-	**-**	**-**	**-**
Exports (goods and services)	18936.7	28.4	-	0.3	1.4	4.2	**0.4**	**-1.0**	**1.0**
Imports (goods and services)	15014.1	22.5	-	20.3	8.8	3.7	**-6.0**	**-10.0**	**0.5**
GNI (GDP deflator)	64204.1	96.2	-	4.3	3.2	0.9	**1.0**	**-3.5**	**0.4**
Contribution to GDP growth: Domestic demand			-	5.6	6.0	2.4	**-0.6**	**-5.2**	**0.0**
Inventories			-	2.8	-1.0	-1.4	**-0.4**	**-0.3**	**0.0**
Net exports			-	-4.2	-1.5	0.4	**1.5**	**2.0**	**0.2**
Employment			-	1.3	0.4	0.6	**0.3**	**-1.3**	**-0.4**
Unemployment rate (a)			-	6.6	5.6	5.5	**5.2**	**6.2**	**6.4**
Compensation of employees / head			-	-	-	-	**-**	**-**	**-**
Unit labour costs whole economy			-	-	-	-	**-**	**-**	**-**
Real unit labour cost			-	-	-	-	**-**	**-**	**-**
Saving rate of households (b)			-	-	-	-	**-**	**-**	**-**
GDP deflator			-	15.9	7.5	5.9	**7.0**	**4.2**	**6.7**
Consumer-price index			-	8.4	5.1	6.8	**7.8**	**9.5**	**7.0**
Terms of trade goods			-	22.0	3.0	-6.7	**-4.3**	**-19.2**	**-1.0**
Trade balance (goods) (c)			12.0	10.4	9.7	8.7	**9.4**	**7.6**	**7.1**
Current-account balance (c)			7.4	4.9	3.5	1.6	**2.9**	**1.3**	**1.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			6.9	4.9	3.3	1.6	**2.9**	**1.3**	**1.2**
General government balance (c)			-	3.8	2.0	0.2	**0.6**	**-1.5**	**-1.1**
Cyclically-adjusted budget balance (c)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (c)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			-	11.6	12.7	13.9	**15.9**	**19.4**	**20.5**

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

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	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	2.9	1.7	1.3	1.6	0.1	0.3	1.0	1.1	1.4	0.9	0.9	1.1
Germany	1.9	0.6	1.2	3.6	0.4	0.1	1.5	1.5	2.0	1.3	1.1	1.8
Estonia	6.7	7.1	-0.3	8.3	4.7	1.6	1.9	2.3	2.9	1.9	2.0	2.7
Ireland	9.6	4.9	0.1	2.8	-0.3	0.2	4.8	3.5	3.6	4.6	3.6	3.7
Greece	3.7	3.9	-0.3	-8.9	-6.6	-3.9	1.0	2.5	3.6	0.6	2.9	3.7
Spain	4.1	3.4	1.1	-0.6	-2.1	-1.2	1.4	2.3	2.5	1.2	1.7	2.2
France	2.9	1.7	0.8	2.1	0.3	0.3	0.4	1.0	1.8	0.3	0.7	1.5
Italy	2.0	0.9	-0.3	0.6	-2.3	-1.9	-0.5	0.6	1.3	-0.4	0.6	1.1
Cyprus	3.9	3.6	2.4	0.3	-2.4	-5.4	-2.8	0.4	1.6	-2.8	0.4	1.6
Latvia	5.0	8.4	-0.2	5.0	4.8	4.2	2.6	2.9	3.6	2.6	2.9	3.6
Lithuania	4.7	7.8	1.2	6.1	3.8	3.3	3.0	3.0	3.4	2.7	3.1	3.4
Luxembourg	6.1	3.1	2.2	2.6	-0.2	2.0	3.0	2.6	2.9	3.0	2.4	2.9
Malta	4.5	2.1	2.0	2.2	2.5	2.5	3.3	3.3	2.9	3.0	2.9	2.7
Netherlands	4.1	1.2	1.5	1.7	-1.6	-0.7	0.7	1.4	1.7	0.9	1.4	1.7
Austria	3.0	1.7	1.3	3.1	0.9	0.2	0.2	0.8	1.5	0.7	1.2	1.5
Portugal	4.1	0.9	0.6	-1.8	-3.3	-1.4	1.0	1.6	1.7	0.9	1.3	1.7
Slovenia	4.3	3.6	1.7	0.6	-2.6	-1.0	2.6	1.8	2.3	2.4	1.7	2.5
Slovakia	3.5	5.0	4.6	2.7	1.6	1.4	2.4	2.5	3.2	2.4	2.5	3.3
Finland	5.1	2.6	0.8	2.6	-1.5	-1.2	0.0	0.8	1.4	-0.4	0.6	1.1
Euro area	2.8	1.5	0.8	1.6	-0.7	-0.5	0.8	1.3	1.9	0.8	1.1	1.7
Bulgaria	0.8	5.2	2.9	2.0	0.5	1.1	1.4	0.8	1.0	1.2	0.6	1.0
Czech Republic	1.8	3.9	2.4	2.0	-0.8	-0.7	2.3	2.5	2.6	2.5	2.7	2.7
Denmark	3.0	1.3	0.0	1.2	-0.7	-0.5	0.8	1.7	2.1	0.8	1.7	2.0
Croatia	3.4	4.5	0.5	-0.3	-2.2	-0.9	-0.5	0.2	1.0	-0.7	0.2	1.1
Hungary	3.0	4.2	-0.1	1.8	-1.5	1.5	3.3	2.4	1.9	3.2	2.5	2.0
Poland	5.4	3.0	4.7	4.8	1.8	1.7	3.3	3.2	3.4	3.0	2.8	3.3
Romania	-0.3	5.8	2.9	1.1	0.6	3.4	3.0	2.7	2.9	2.0	2.4	2.8
Sweden	3.6	2.6	1.6	2.7	-0.3	1.3	1.8	2.3	2.6	2.0	2.4	2.7
United Kingdom	3.1	2.9	0.5	1.6	0.7	1.7	2.6	2.6	2.4	3.1	2.7	2.5
EU	2.9	1.9	0.9	1.7	-0.4	0.0	1.3	1.7	2.1	1.3	1.5	2.0
USA	4.3	2.5	0.8	1.6	2.3	2.2	2.4	3.5	3.2	2.2	3.1	3.2
Japan	0.8	1.2	0.3	-0.5	1.8	1.6	0.4	1.3	1.3	1.1	1.0	1.0

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2014-16) 23.1.2015

	2014/1	2014/2	2014/3	2014/4	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4
Belgium	0.4	0.1	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Germany	0.8	-0.1	0.1	0.3	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Estonia	0.1	0.9	0.4	0.7	0.4	0.4	0.9	0.7	0.7	0.7	0.7	0.7
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
France	0.0	-0.1	0.3	0.1	0.3	0.3	0.3	0.4	0.5	0.5	0.5	0.5
Italy	0.0	-0.2	-0.1	-0.1	0.1	0.2	0.4	0.5	0.1	0.4	0.5	0.5
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	0.3	0.8	0.5	0.5	0.7	0.8	0.9	0.9	0.8	0.9	1.0	1.1
Lithuania	0.4	0.9	0.5	0.0	0.4	0.7	0.8	0.8	0.8	0.8	0.9	0.5
Luxembourg	1.0	0.5	2.3	0.3	0.3	0.5	0.6	0.6	0.7	0.8	0.8	1.0
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	-0.4	0.6	0.1	0.4	0.3	0.4	0.4	0.4	0.5	0.4	0.5	0.4
Austria	0.1	0.0	-0.3	-0.2	0.3	0.3	0.4	0.3	0.4	0.4	0.4	0.4
Portugal	-0.4	0.3	0.3	1.0	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.6
Slovenia	0.1	1.1	0.7	0.8	0.3	0.2	0.1	0.2	0.5	0.8	1.2	1.2
Slovakia	0.6	0.6	0.6	0.5	0.7	0.8	0.7	0.7	0.9	0.9	0.8	0.8
Finland	-0.4	0.4	0.2	0.1	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.4
Euro area	0.3	0.1	0.2	0.2	0.3	0.4	0.4	0.5	0.4	0.5	0.5	0.5
Bulgaria	0.1	0.3	0.4	0.2	0.1	0.1	0.1	0.1	0.2	0.4	0.3	0.4
Czech Republic	0.6	0.2	0.4	0.6	0.6	0.6	0.8	1.0	0.4	0.5	0.6	0.7
Denmark	0.2	0.1	0.4	0.0	0.7	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Croatia	0.1	-0.2	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.4	0.5	0.6
Hungary	0.9	0.8	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Poland	1.1	0.7	0.9	0.6	0.9	0.9	1.0	1.0	0.9	1.0	1.0	1.0
Romania	0.8	-0.4	1.8	0.2	0.9	0.5	0.6	0.5	0.7	0.8	0.9	0.9
Sweden	0.2	0.5	0.3	0.4	0.5	0.6	0.7	0.8	0.7	0.6	0.5	0.5
United Kingdom	0.6	0.8	0.7	0.6	0.6	0.5	0.7	0.7	0.5	0.6	0.6	0.6
EU	0.4	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
USA	-0.5	1.1	1.2	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Japan	1.4	-1.7	-0.5	1.5	0.5	0.3	0.2	0.3	0.4	0.3	0.4	0.4

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2014-16) 23.1.2015

	2014/1	2014/2	2014/3	2014/4	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4
Belgium	1.2	1.0	0.9	0.9	0.8	1.1	1.1	1.3	1.4	1.4	1.5	1.5
Germany	2.4	1.4	1.2	1.0	0.6	1.1	1.5	1.7	1.8	1.9	1.9	1.9
Estonia	0.4	2.4	2.3	2.1	2.3	1.9	2.4	2.5	2.8	3.1	2.8	2.8
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	0.8	1.3	1.7	2.0	2.3	2.4	2.4	2.4	2.5	2.5	2.5	2.6
France	0.8	0.0	0.4	0.3	0.6	1.0	1.0	1.3	1.5	1.7	1.9	2.0
Italy	-0.3	-0.4	-0.5	-0.5	-0.3	0.1	0.7	1.2	1.2	1.4	1.5	1.6
Cyprus	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	2.3	3.3	2.4	2.2	2.5	2.6	2.9	3.3	3.4	3.5	3.7	3.9
Lithuania	3.4	3.3	2.6	1.9	1.9	1.6	2.0	2.8	3.2	3.4	3.5	3.1
Luxembourg	2.5	1.3	3.8	4.1	3.3	3.3	1.6	2.0	2.4	2.7	2.9	3.3
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.1	1.1	1.0	0.8	1.4	1.2	1.5	1.5	1.7	1.7	1.8	1.7
Austria	0.9	0.5	0.0	-0.4	-0.2	0.2	0.8	1.3	1.4	1.5	1.5	1.6
Portugal	1.0	0.9	1.1	1.1	1.8	1.8	1.9	1.2	1.4	1.6	1.8	2.1
Slovenia	1.9	2.8	3.1	2.7	2.9	2.0	1.5	0.9	1.0	1.7	2.7	3.6
Slovakia	2.3	2.5	2.5	2.3	2.4	2.6	2.7	2.9	3.2	3.2	3.3	3.5
Finland	-0.2	0.1	0.0	0.3	0.9	0.7	0.7	0.8	1.0	1.2	1.4	1.7
Euro area	1.1	0.8	0.8	0.7	0.8	1.1	1.4	1.6	1.7	1.8	1.9	2.0
Bulgaria	1.5	1.8	1.5	1.1	1.0	0.8	0.4	0.4	0.4	0.7	0.9	1.2
Czech Republic	2.6	2.3	2.4	1.9	1.9	2.3	2.7	3.0	2.8	2.8	2.5	2.3
Denmark	0.4	1.2	0.9	0.7	1.2	1.6	1.7	2.2	2.0	2.0	2.1	2.2
Croatia	-0.4	-1.0	-0.6	0.0	-0.1	0.2	0.4	0.5	0.7	0.9	1.2	1.7
Hungary	3.5	3.6	3.1	2.8	2.5	2.3	2.5	2.4	2.2	2.1	1.9	1.9
Poland	3.5	3.4	3.4	3.4	3.2	3.4	3.5	3.9	3.9	3.9	3.9	3.9
Romania	4.2	2.2	3.1	2.4	2.6	3.5	2.3	2.6	2.4	2.7	3.0	3.3
Sweden	1.6	2.4	2.1	1.4	1.8	1.9	2.3	2.7	2.9	2.9	2.7	2.3
United Kingdom	2.4	2.6	2.6	2.8	2.8	2.5	2.5	2.5	2.4	2.5	2.4	2.3
EU	1.5	1.3	1.3	1.2	1.3	1.5	1.7	1.9	2.0	2.1	2.1	2.1
USA	1.9	2.6	2.7	2.6	3.9	3.6	3.2	3.3	3.3	3.2	3.2	3.2
Japan	2.2	-0.3	-1.2	0.7	-0.3	1.8	2.4	1.3	1.1	1.2	1.4	1.5

Table 4: Gross domestic product per capita (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	2.7	1.3	0.5	0.8	-0.6	-0.2	**0.5**	**0.6**	**0.9**	*0.4*	*0.3*	*0.6*
Germany	1.8	0.5	1.4	3.6	0.2	-0.1	**1.1**	**1.2**	**1.7**	*0.9*	*0.9*	*1.8*
Estonia	7.3	7.8	0.1	8.6	5.0	2.0	**2.3**	**2.6**	**3.3**	*2.3*	*2.4*	*3.1*
Ireland	8.4	3.0	-1.7	2.4	-0.6	-0.1	**4.4**	**2.7**	**2.7**	*4.2*	*2.9*	*2.8*
Greece	3.2	3.5	-0.4	-8.6	-6.3	-3.6	**1.0**	**2.5**	**3.6**	*0.6*	*2.9*	*3.7*
Spain	3.6	1.9	-0.1	-0.7	-2.2	-0.7	**1.7**	**2.4**	**2.7**	*1.5*	*2.0*	*2.5*
France	2.4	0.9	0.2	1.6	-0.1	-0.2	**-0.1**	**0.5**	**1.3**	*-0.2*	*0.2*	*1.1*
Italy	2.0	0.5	-0.9	0.2	-2.7	-2.4	**-0.9**	**0.2**	**1.0**	*-1.5*	*0.3*	*0.8*
Cyprus	2.6	2.3	0.1	-2.3	-3.9	-5.1	**-3.1**	**0.0**	**1.2**	*-3.1*	*0.0*	*1.2*
Latvia	6.0	9.6	1.1	7.0	6.1	5.3	**3.5**	**3.6**	**4.2**	*3.4*	*3.6*	*4.2*
Lithuania	5.4	8.9	2.6	8.5	5.2	4.3	**4.2**	**3.5**	**3.8**	*3.5*	*3.6*	*3.8*
Luxembourg	4.8	1.8	0.5	0.3	-2.4	-0.6	**0.6**	**0.5**	**0.9**	*0.7*	*0.4*	*0.9*
Malta	3.9	1.4	1.5	1.7	1.7	1.8	**3.0**	**3.1**	**2.7**	*2.2*	*2.2*	*2.0*
Netherlands	3.5	0.7	1.2	1.2	-1.9	-1.0	**0.3**	**1.0**	**1.3**	*0.6*	*1.1*	*1.3*
Austria	2.9	1.2	1.0	2.7	0.4	-0.4	**-0.5**	**0.5**	**1.2**	*0.0*	*0.9*	*1.2*
Portugal	3.5	0.5	0.5	-1.7	-2.9	-0.8	**1.6**	**2.2**	**2.3**	*1.6*	*1.8*	*2.2*
Slovenia	4.3	3.5	1.2	0.4	-2.8	-1.1	**2.5**	**1.7**	**2.2**	*2.2*	*1.5*	*2.3*
Slovakia	3.4	5.1	4.5	3.3	1.4	1.3	**2.3**	**2.5**	**3.2**	*2.3*	*2.5*	*3.3*
Finland	4.8	2.3	0.4	2.1	-1.9	-1.7	**-0.5**	**0.3**	**0.9**	*-0.9*	*0.1*	*0.7*
Euro area	2.5	1.0	0.4	1.4	-1.0	-0.7	**0.6**	**1.1**	**1.7**	*0.4*	*0.9*	*1.6*
Bulgaria	1.4	6.4	3.3	4.6	1.1	1.6	**2.1**	**1.5**	**1.7**	*1.9*	*1.3*	*1.7*
Czech Republic	1.9	4.0	1.9	2.2	-0.9	-0.7	**2.2**	**2.4**	**2.6**	*2.5*	*2.6*	*2.7*
Denmark	2.6	1.0	-0.4	0.7	-1.0	-0.9	**0.3**	**1.4**	**1.7**	*0.3*	*1.3*	*1.7*
Croatia	4.4	4.9	0.5	0.0	-1.9	-0.6	**-0.2**	**0.4**	**1.2**	*-0.5*	*0.4*	*1.3*
Hungary	3.2	4.5	0.0	2.1	-1.0	1.8	**3.4**	**2.5**	**2.1**	*3.3*	*2.7*	*2.1*
Poland	5.4	3.0	4.5	4.7	1.7	1.8	**3.4**	**3.3**	**3.5**	*3.1*	*2.9*	*3.4*
Romania	0.0	6.8	4.0	1.6	0.9	3.6	**3.2**	**2.9**	**3.1**	*2.2*	*2.7*	*3.0*
Sweden	3.5	2.3	0.8	1.9	-1.0	0.4	**0.8**	**1.1**	**1.6**	*1.0*	*1.3*	*1.6*
United Kingdom	2.8	2.5	-0.1	0.9	-0.9	1.1	**2.1**	**2.0**	**1.8**	*2.4*	*1.8*	*1.6*
EU	2.7	1.6	0.6	1.5	-0.8	-0.2	**1.0**	**1.4**	**1.9**	*0.9*	*1.3*	*1.7*
USA	3.1	1.6	-0.2	0.9	1.6	1.5	**1.7**	**2.7**	**2.4**	*1.5*	*2.4*	*2.5*
Japan	0.6	1.1	0.3	-0.3	2.0	1.8	**0.6**	**1.5**	**1.5**	*1.3*	*1.2*	*1.2*

Table 5: Domestic demand, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	2.6	1.4	1.4	2.0	0.0	-0.6	**0.6**	**1.0**	**1.1**	*0.8*	*0.7*	*1.1*
Germany	1.7	-0.4	1.1	3.0	-0.9	0.7	**1.2**	**1.5**	**2.3**	*1.4*	*1.1*	*2.1*
Estonia	7.2	9.0	-1.5	13.0	4.6	1.0	**4.6**	**3.0**	**3.4**	*2.7*	*2.6*	*3.6*
Ireland	8.9	5.5	-1.5	-0.7	-0.6	-0.3	**2.2**	**3.3**	**3.6**	*3.0*	*3.6*	*3.7*
Greece	4.3	3.6	-0.2	-10.7	-9.2	-4.8	**0.7**	**1.9**	**3.1**	*-0.6*	*1.9*	*3.2*
Spain	4.5	4.2	0.4	-2.7	-4.2	-2.7	**2.3**	**2.6**	**2.6**	*1.5*	*1.7*	*2.2*
France	2.9	1.9	1.1	2.0	-0.3	0.2	**0.7**	**1.0**	**2.1**	*0.5*	*0.6*	*1.8*
Italy	2.5	1.1	-0.1	-0.6	-5.0	-2.9	**-0.8**	**0.3**	**1.3**	*-0.5*	*0.4*	*0.8*
Cyprus	3.2	4.3	3.5	-2.0	-3.8	-9.7	**-3.2**	**-0.8**	**0.9**	*-3.2*	*-0.8*	*0.9*
Latvia	5.2	9.8	-1.9	10.5	2.4	2.2	**2.3**	**3.4**	**4.0**	*2.5*	*3.0*	*4.0*
Lithuania	6.1	9.0	-0.1	5.8	-0.2	2.9	**4.3**	**4.0**	**4.3**	*4.0*	*3.9*	*4.3*
Luxembourg	5.9	2.4	1.8	5.6	0.2	0.7	**2.7**	**2.0**	**2.8**	*1.4*	*2.4*	*2.7*
Malta	3.6	1.3	2.1	-2.2	-2.1	3.1	**4.4**	**3.1**	**2.5**	*4.6*	*2.7*	*1.0*
Netherlands	4.4	0.9	1.4	0.8	-2.4	-2.0	**0.3**	**1.1**	**1.6**	*0.2*	*1.2*	*1.8*
Austria	2.3	1.3	1.0	2.6	0.3	-1.0	**0.7**	**0.7**	**1.4**	*0.7*	*1.0*	*1.4*
Portugal	5.0	0.7	0.5	-5.7	-6.6	-2.3	**1.8**	**1.6**	**1.5**	*1.2*	*1.3*	*1.4*
Slovenia	4.6	3.0	1.1	-0.8	-5.6	-2.1	**1.2**	**1.3**	**2.2**	*0.7*	*0.8*	*2.1*
Slovakia	4.3	5.3	3.0	1.0	-4.1	0.0	**2.7**	**2.5**	**3.0**	*3.3*	*2.1*	*3.1*
Finland	4.2	2.8	0.9	4.0	-1.4	-1.1	**-0.6**	**0.5**	**1.0**	*-0.5*	*0.3*	*0.8*
Euro area	2.8	1.4	0.7	0.8	-2.2	-0.9	**0.8**	**1.3**	**2.0**	*0.7*	*1.0*	*1.8*
Bulgaria	1.6	7.7	1.9	0.6	2.8	-1.5	**2.0**	**0.1**	**0.4**	*1.4*	*0.0*	*0.4*
Czech Republic	2.1	3.6	1.9	0.0	-2.2	-0.7	**2.5**	**2.6**	**2.3**	*2.4*	*2.7*	*2.4*
Denmark	2.7	1.9	0.2	0.7	-0.3	-0.2	**1.1**	**1.7**	**1.9**	*1.2*	*1.6*	*1.9*
Croatia	2.8	5.9	-0.2	-0.2	-3.3	-0.9	**-1.5**	**-0.3**	**0.9**	*-1.6*	*-0.3*	*0.9*
Hungary	3.6	4.1	-1.8	-0.2	-3.0	1.2	**4.5**	**2.2**	**0.9**	*3.4*	*2.2*	*1.8*
Poland	6.7	2.1	5.1	3.8	-0.4	0.2	**4.2**	**3.8**	**3.9**	*3.7*	*3.3*	*3.6*
Romania	0.8	8.1	4.2	1.1	-0.5	-0.9	**2.4**	**2.7**	**3.1**	*1.2*	*2.6*	*3.0*
Sweden	3.1	1.8	2.0	3.0	-0.6	1.1	**2.9**	**2.7**	**2.7**	*2.9*	*2.8*	*2.8*
United Kingdom	3.8	3.3	0.3	0.3	1.4	1.8	**3.2**	**2.8**	**2.5**	*3.1*	*2.8*	*2.5*
EU	3.0	1.9	0.8	0.8	-1.5	-0.4	**1.4**	**1.7**	**2.2**	*1.3*	*1.5*	*2.0*
USA	4.9	2.9	0.3	1.6	2.2	1.9	**2.5**	**3.7**	**3.5**	*2.4*	*3.1*	*3.3*
Japan	0.6	0.8	-0.1	0.4	2.6	1.9	**0.0**	**0.7**	**1.1**	*0.9*	*0.6*	*0.6*

Table 6: Final demand, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	4.4	2.2	1.8	4.0	0.9	1.0	**1.8**	**2.2**	**2.8**	*1.8*	*1.7*	*2.5*
Germany	3.2	1.2	2.0	4.6	0.3	1.0	**2.0**	**2.6**	**3.3**	*2.0*	*2.1*	*3.2*
Estonia	9.5	9.8	0.8	18.3	5.3	1.7	**3.4**	**2.7**	**4.1**	*2.1*	*3.0*	*4.5*
Ireland	13.1	5.5	0.7	2.6	2.3	0.5	**8.2**	**4.5**	**4.8**	*5.9*	*4.6*	*4.8*
Greece	5.8	3.4	-0.1	-8.9	-7.2	-3.3	**2.2**	**2.8**	**3.5**	*0.7*	*2.7*	*3.6*
Spain	5.6	4.0	0.7	-0.7	-3.0	-1.1	**2.8**	**3.3**	**3.5**	*2.0*	*2.5*	*3.1*
France	4.0	2.0	1.1	3.0	0.0	0.6	**1.0**	**1.7**	**2.9**	*0.9*	*1.3*	*2.6*
Italy	2.8	1.2	0.0	0.6	-3.5	-2.1	**-0.3**	**1.0**	**2.0**	*0.0*	*1.1*	*1.6*
Cyprus	3.8	2.7	2.3	-0.1	-3.1	-8.1	**-2.0**	**0.2**	**1.5**	*-2.0*	*0.2*	*1.5*
Latvia	6.1	10.1	-0.2	11.0	5.0	1.9	**2.0**	**3.2**	**4.3**	*2.1*	*3.1*	*4.3*
Lithuania	6.2	10.7	2.2	9.4	5.0	5.8	**3.7**	**3.7**	**5.3**	*2.1*	*4.6*	*5.3*
Luxembourg	8.6	4.4	3.5	5.1	2.2	4.4	**2.4**	**3.6**	**4.6**	*2.2*	*3.6*	*4.4*
Malta	3.5	1.0	6.8	0.6	4.1	0.3	**2.3**	**4.1**	**4.2**	*2.3*	*3.8*	*3.6*
Netherlands	5.9	1.8	2.1	2.4	0.2	-0.1	**2.1**	**2.7**	**3.2**	*1.8*	*2.2*	*3.2*
Austria	4.0	2.5	1.5	4.0	0.7	-0.2	**0.5**	**1.2**	**2.6**	*1.3*	*1.8*	*2.6*
Portugal	5.4	1.1	1.1	-2.9	-4.2	0.0	**2.4**	**2.6**	**2.6**	*1.9*	*2.2*	*2.7*
Slovenia	5.4	4.9	2.3	2.3	-3.2	0.0	**3.3**	**2.6**	**3.6**	*2.6*	*2.5*	*3.6*
Slovakia	4.3	8.4	4.6	5.8	2.1	2.5	**3.5**	**3.3**	**4.3**	*4.0*	*3.2*	*4.3*
Finland	6.2	3.1	1.1	3.4	-0.7	-1.3	**-0.1**	**0.9**	**1.8**	*-0.4*	*0.8*	*1.5*
Euro area	4.1	2.1	1.2	2.4	-0.8	0.0	**1.6**	**2.2**	**3.0**	*1.5*	*1.9*	*2.8*
Bulgaria	0.6	8.2	3.3	4.4	2.0	2.6	**1.3**	**1.3**	**1.8**	*1.4*	*1.2*	*1.8*
Czech Republic	3.8	6.8	3.7	3.8	0.5	-0.3	**4.7**	**3.4**	**4.4**	*5.1*	*3.9*	*4.1*
Denmark	4.0	2.4	0.7	3.0	-0.1	0.2	**1.7**	**2.2**	**2.8**	*1.2*	*2.3*	*2.8*
Croatia	4.0	6.2	-0.1	0.5	-2.4	0.3	**0.8**	**0.7**	**2.1**	*0.5*	*0.9*	*2.2*
Hungary	7.9	6.4	2.3	3.0	-2.3	3.5	**6.2**	**4.1**	**3.8**	*4.9*	*4.1*	*3.8*
Poland	7.6	3.3	5.8	5.0	1.0	1.7	**4.4**	**3.9**	**4.4**	*3.7*	*3.5*	*4.3*
Romania	2.7	9.1	4.3	3.6	-0.1	3.6	**4.0**	**3.6**	**3.9**	*3.4*	*3.3*	*3.9*
Sweden	4.9	2.7	2.0	4.0	-0.1	0.7	**2.8**	**3.0**	**3.4**	*2.7*	*3.1*	*3.4*
United Kingdom	4.2	3.4	0.6	1.5	1.3	1.7	**2.2**	**2.7**	**2.7**	*2.3*	*2.9*	*2.9*
EU	4.2	2.5	1.3	2.5	-0.4	0.4	**2.0**	**2.4**	**3.0**	*1.8*	*2.2*	*2.9*
USA	5.0	2.8	0.7	2.1	2.3	2.1	**2.6**	**3.8**	**3.6**	*2.5*	*3.4*	*3.6*
Japan	1.1	1.4	0.2	0.3	2.2	1.8	**1.1**	**1.3**	**1.6**	*1.7*	*1.1*	*1.1*

Table 7: Private consumption expenditure, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	2.2	1.0	1.6	0.6	0.8	0.3	**0.9**	**1.0**	**0.7**	*1.2*	*1.0*	*0.8*
Germany	1.6	0.4	0.5	2.3	0.7	0.8	**1.1**	**2.0**	**2.0**	*1.0*	*1.3*	*1.8*
Estonia	7.6	8.4	-0.5	2.5	5.1	3.8	**4.4**	**4.3**	**4.2**	*3.6*	*3.4*	*3.7*
Ireland	8.3	4.3	1.4	-1.1	-1.4	-0.4	**0.5**	**2.4**	**1.8**	*1.4*	*2.0*	*2.0*
Greece	3.4	4.4	0.2	-10.6	-7.8	-2.0	**1.4**	**1.7**	**2.2**	*-0.6*	*1.6*	*2.2*
Spain	3.8	3.4	0.6	-2.0	-2.9	-2.3	**2.3**	**2.7**	**2.6**	*2.0*	*2.0*	*2.2*
France	2.7	2.1	1.4	0.5	-0.4	0.2	**0.6**	**1.5**	**1.6**	*0.2*	*1.1*	*1.4*
Italy	2.5	0.8	0.2	0.0	-4.0	-2.8	**0.3**	**0.5**	**0.5**	*0.2*	*0.4*	*0.0*
Cyprus	4.4	4.1	3.4	1.8	-0.7	-6.0	**-1.2**	**-0.5**	**1.1**	*-1.2*	*-0.5*	*1.1*
Latvia	3.5	8.0	1.2	2.9	3.0	6.2	**3.2**	**4.3**	**4.5**	*3.6*	*4.0*	*4.5*
Lithuania	5.8	8.9	0.3	4.6	3.6	4.2	**5.0**	**4.0**	**4.3**	*3.9*	*4.0*	*4.3*
Luxembourg	4.2	2.3	1.8	1.2	1.9	1.5	**2.5**	**1.4**	**2.5**	*1.7*	*1.8*	*2.5*
Malta	4.9	2.1	1.0	2.5	0.4	1.6	**2.3**	**2.3**	**2.4**	*2.0*	*2.4*	*2.6*
Netherlands	4.8	0.8	0.1	0.2	-1.4	-1.6	**-0.1**	**1.2**	**1.6**	*0.0*	*1.1*	*1.7*
Austria	2.3	1.7	1.2	0.7	0.6	-0.1	**0.4**	**0.6**	**0.9**	*0.4*	*0.6*	*0.8*
Portugal	4.1	1.2	1.1	-3.6	-5.2	-1.4	**2.1**	**1.8**	**1.5**	*1.6*	*1.5*	*1.5*
Slovenia	3.3	2.7	2.3	-0.1	-3.0	-3.9	**0.6**	**1.1**	**1.4**	*0.4*	*0.9*	*1.1*
Slovakia	4.9	5.0	3.8	-0.7	-0.4	-0.7	**2.1**	**2.2**	**2.7**	*2.8*	*2.3*	*3.1*
Finland	3.5	3.3	2.0	2.9	0.1	-0.7	**0.1**	**0.9**	**1.0**	*-0.1*	*0.2*	*0.6*
Euro area	2.6	1.5	0.8	0.2	-1.3	-0.6	**0.9**	**1.6**	**1.6**	*0.7*	*1.1*	*1.4*
Bulgaria	0.3	6.2	3.4	1.8	3.9	-2.3	**1.4**	**0.8**	**1.4**	*1.1*	*0.6*	*1.3*
Czech Republic	2.8	3.4	2.2	0.2	-1.8	0.4	**1.4**	**1.9**	**2.1**	*1.7*	*1.9*	*2.0*
Denmark	1.6	2.3	0.5	0.2	0.4	0.0	**0.3**	**1.7**	**2.1**	*0.7*	*1.7*	*1.9*
Croatia	2.4	4.8	0.3	0.3	-3.0	-1.2	**-0.6**	**0.0**	**0.6**	*-0.4*	*-0.2*	*0.6*
Hungary	2.8	5.1	-1.7	0.8	-1.9	-0.1	**1.8**	**2.8**	**2.2**	*2.1*	*2.6*	*2.0*
Poland	5.9	2.8	4.6	2.9	0.9	1.0	**3.0**	**3.1**	**3.2**	*2.5*	*2.7*	*3.0*
Romania	1.2	9.9	4.6	0.8	1.2	1.2	**5.0**	**3.0**	**2.7**	*3.8*	*2.3*	*2.4*
Sweden	3.4	2.2	2.2	1.9	0.8	1.9	**2.5**	**2.6**	**2.6**	*2.9*	*2.8*	*2.8*
United Kingdom	4.7	3.7	0.3	0.1	1.1	1.7	**2.3**	**2.7**	**2.3**	*2.2*	*2.0*	*1.9*
EU	3.0	2.1	0.8	0.3	-0.7	-0.1	**1.3**	**1.9**	**1.8**	*1.1*	*1.4*	*1.6*
USA	4.6	3.1	1.0	2.3	1.8	2.4	**2.5**	**3.8**	**3.3**	*2.3*	*2.7*	*3.0*
Japan	0.8	1.2	0.6	0.3	2.3	2.1	**-1.0**	**0.6**	**1.0**	*-0.3*	*0.5*	*0.4*

Table 8: Government consumption expenditure, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	1.9	1.6	1.7	0.8	1.4	1.1	**1.0**	**0.1**	**0.5**	*0.9*	*-0.3*	*0.7*
Germany	1.6	0.4	2.0	0.7	1.2	0.7	**1.0**	**1.0**	**1.1**	*1.0*	*1.0*	*1.1*
Estonia	-1.0	3.3	2.5	1.7	3.3	2.8	**1.3**	**1.6**	**1.3**	*1.2*	*1.6*	*1.3*
Ireland	6.0	5.1	1.1	-2.2	-1.3	0.0	**1.6**	**-0.1**	**2.9**	*1.5*	*-0.5*	*1.8*
Greece	3.1	4.2	1.1	-6.6	-5.0	-6.5	**-1.1**	**-0.9**	**-0.5**	*-3.1*	*-2.9*	*-1.4*
Spain	3.1	4.9	4.5	-0.3	-3.7	-2.9	**0.5**	**0.3**	**0.1**	*0.4*	*-1.4*	*-0.4*
France	1.2	1.7	1.6	1.0	1.7	2.0	**1.6**	**0.8**	**1.4**	*1.4*	*0.9*	*1.3*
Italy	1.4	1.7	0.4	-1.8	-1.5	-0.7	**-0.7**	**-0.5**	**0.7**	*-0.9*	*-0.3*	*0.9*
Cyprus	6.8	4.4	4.1	0.7	-2.7	-4.9	**-4.7**	**-0.9**	**-2.5**	*-4.7*	*-0.9*	*-2.5*
Latvia	1.3	4.0	-1.6	3.1	0.4	2.9	**0.9**	**1.2**	**1.3**	*1.2*	*1.0*	*1.0*
Lithuania	0.7	2.9	-0.2	0.3	1.2	1.8	**2.2**	**2.2**	**2.4**	*2.3*	*1.9*	*2.3*
Luxembourg	4.8	4.6	2.3	1.2	3.7	5.0	**3.2**	**2.7**	**3.0**	*2.9*	*2.6*	*3.0*
Malta	1.5	1.0	3.1	2.8	6.3	0.5	**5.8**	**1.2**	**4.9**	*5.7*	*0.3*	*3.8*
Netherlands	1.8	2.7	4.5	-0.2	-1.6	-0.3	**0.0**	**-0.2**	**0.0**	*-0.5*	*0.1*	*0.1*
Austria	2.1	1.1	2.2	0.1	0.4	0.7	**0.9**	**0.9**	**0.8**	*1.6*	*0.9*	*0.8*
Portugal	4.0	2.7	0.4	-3.8	-4.3	-1.9	**-0.4**	**-0.3**	**0.2**	*-0.4*	*-0.3*	*0.2*
Slovenia	3.8	2.8	2.5	-1.3	-1.5	-1.1	**-1.8**	**-1.7**	**3.9**	*-2.3*	*-1.7*	*4.1*
Slovakia	3.1	3.5	4.3	-2.1	-2.0	2.4	**4.3**	**1.6**	**2.3**	*4.2*	*1.2*	*1.9*
Finland	2.1	1.9	1.1	-0.1	0.7	1.5	**0.1**	**0.1**	**0.1**	*0.2*	*0.1*	*0.1*
Euro area	1.8	1.8	2.0	-0.2	-0.2	0.2	**0.7**	**0.4**	**0.9**	*0.6*	*0.3*	*0.8*
Bulgaria	-2.6	3.8	-0.4	1.8	-1.0	2.8	**2.1**	**0.2**	**1.0**	*2.1*	*0.6*	*1.0*
Czech Republic	0.6	3.3	1.1	-2.9	-1.0	2.3	**1.7**	**2.2**	**1.7**	*2.1*	*2.4*	*1.7*
Denmark	2.6	1.4	2.3	-1.4	-0.2	-0.5	**0.9**	**1.6**	**0.1**	*1.2*	*0.6*	*0.5*
Croatia	0.6	2.0	2.3	-0.3	-1.0	0.5	**-2.1**	**-0.1**	**0.6**	*-2.5*	*-0.5*	*0.6*
Hungary	-0.2	3.8	-0.3	0.0	-1.3	3.2	**1.4**	**0.0**	**-0.2**	*0.7*	*0.2*	*0.1*
Poland	2.4	3.0	4.1	-2.3	0.2	2.1	**2.2**	**4.0**	**3.3**	*2.1*	*2.6*	*2.8*
Romania	1.1	-0.9	0.1	0.6	0.4	-4.8	**2.5**	**0.3**	**3.2**	*4.5*	*1.6*	*2.0*
Sweden	0.8	0.6	1.4	0.8	1.1	0.7	**1.6**	**1.7**	**1.5**	*1.4*	*1.4*	*1.2*
United Kingdom	1.7	3.6	1.3	0.0	2.3	-0.3	**1.5**	**0.6**	**0.4**	*1.1*	*0.4*	*0.4*
EU	1.7	2.1	1.9	-0.2	0.2	0.2	**0.9**	**0.6**	**0.9**	*0.8*	*0.4*	*0.8*
USA	1.7	2.3	1.8	-2.7	-0.6	-1.3	**0.5**	**1.1**	**1.2**	*0.1*	*1.0*	*1.2*
Japan	2.6	2.2	1.0	1.2	1.7	1.9	**0.3**	**0.4**	**0.3**	*0.5*	*0.3*	*0.4*

Table 9: Total investment, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	3.8	2.5	0.9	4.0	0.0	-2.2	**3.6**	**1.7**	**2.8**	*3.6*	*0.9*	*2.3*
Germany	2.3	-1.9	1.4	7.3	-0.7	-0.6	**3.1**	**2.1**	**4.3**	*2.9*	*2.0*	*3.9*
Estonia	11.8	14.8	-6.2	33.0	10.4	2.5	**-1.0**	**1.5**	**3.7**	*2.0*	*2.1*	*4.7*
Ireland	12.9	8.5	-8.1	-2.2	5.2	-2.8	**8.6**	**9.7**	**8.9**	*9.3*	*12.3*	*9.5*
Greece	8.6	1.3	-2.4	-16.8	-28.7	-9.5	**0.8**	**8.4**	**15.0**	*4.5*	*11.7*	*15.0*
Spain	7.1	5.8	-3.2	-6.3	-8.1	-3.8	**3.2**	**4.7**	**5.2**	*1.1*	*4.2*	*5.0*
France	4.4	1.9	0.5	2.1	0.3	-1.0	**-1.6**	**0.6**	**4.3**	*-2.1*	*-1.2*	*3.5*
Italy	3.7	2.1	-1.9	-1.9	-7.4	-5.4	**-2.6**	**1.0**	**4.1**	*-2.5*	*1.4*	*3.1*
Cyprus	-0.6	5.1	3.0	-9.4	-20.7	-17.1	**-11.1**	**-1.6**	**4.5**	*-11.1*	*-1.6*	*4.5*
Latvia	20.7	14.7	-7.3	24.2	14.5	-5.2	**1.2**	**2.6**	**4.8**	*0.5*	*1.9*	*5.0*
Lithuania	9.7	12.9	-2.7	19.4	-1.6	7.0	**7.0**	**5.6**	**6.1**	*6.2*	*5.8*	*6.1*
Luxembourg	7.4	2.4	1.3	14.4	2.4	-4.5	**2.4**	**2.4**	**3.0**	*-0.6*	*3.4*	*2.8*
Malta	0.6	3.4	1.9	-18.0	-0.5	2.3	**10.0**	**8.0**	**0.0**	*12.0*	*6.6*	*-6.5*
Netherlands	6.5	-0.7	0.5	5.6	-6.0	-4.0	**1.7**	**3.0**	**4.0**	*2.1*	*3.3*	*4.3*
Austria	3.1	0.1	-0.6	6.8	0.5	-1.5	**1.0**	**1.0**	**3.2**	*0.5*	*2.0*	*3.2*
Portugal	8.2	-1.9	-1.2	-12.5	-15.0	-6.3	**2.4**	**2.9**	**3.1**	*1.9*	*2.4*	*2.8*
Slovenia	8.7	3.4	-2.3	-4.6	-8.9	1.9	**5.5**	**4.7**	**2.5**	*4.6*	*2.7*	*3.3*
Slovakia	3.8	5.9	1.0	12.7	-9.3	-2.7	**3.9**	**4.0**	**4.5**	*4.1*	*2.5*	*4.3*
Finland	8.4	1.9	-0.2	4.1	-2.5	-4.8	**-4.2**	**0.0**	**2.2**	*-3.0*	*0.9*	*2.3*
Euro area	4.2	1.3	-0.6	1.7	-3.4	-2.4	**0.9**	**2.0**	**4.4**	*0.6*	*1.7*	*3.9*
Bulgaria	6.2	16.1	1.0	-4.6	2.0	-0.1	**2.3**	**-2.3**	**-2.8**	*1.7*	*-2.3*	*-2.8*
Czech Republic	1.7	4.0	2.3	1.1	-2.9	-4.4	**3.4**	**4.1**	**3.0**	*4.6*	*4.5*	*3.4*
Denmark	6.0	1.5	-1.6	0.3	0.6	0.9	**2.1**	**2.3**	**3.8**	*1.9*	*3.0*	*3.8*
Croatia	10.0	10.3	-1.3	-2.7	-3.3	-1.0	**-3.6**	**-1.0**	**2.1**	*-4.1*	*-0.1*	*2.5*
Hungary	7.7	4.5	-2.5	-2.2	-4.2	5.2	**13.7**	**3.1**	**-1.0**	*12.7*	*3.1*	*2.5*
Poland	12.8	-0.1	7.4	9.3	-1.5	0.9	**9.3**	**5.9**	**6.3**	*7.7*	*5.7*	*6.3*
Romania	1.4	10.7	5.7	2.9	0.1	-7.9	**-5.4**	**3.5**	**4.1**	*-7.4*	*4.4*	*5.5*
Sweden	5.6	2.7	1.8	5.7	-0.2	-0.4	**4.7**	**4.4**	**4.5**	*3.9*	*4.3*	*4.9*
United Kingdom	3.1	1.8	-1.2	2.3	0.7	3.4	**7.4**	**6.9**	**6.3**	*9.1*	*8.4*	*7.3*
EU	4.2	1.5	-0.4	2.0	-2.6	-1.5	**2.2**	**3.0**	**4.6**	*2.0*	*2.9*	*4.5*
USA	7.7	2.6	-3.3	3.7	5.3	2.7	**3.8**	**5.4**	**5.8**	*4.2*	*6.2*	*6.0*
Japan	-0.6	-1.1	-2.7	1.4	3.4	3.2	**2.9**	**1.2**	**2.1**	*4.9*	*1.1*	*1.5*

Table 10: Investment in construction, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	0.6	1.7	1.5	6.7	1.2	-0.7	**1.9**	**1.7**	**2.3**	*1.2*	*1.3*	*2.1*
Germany	-1.4	-4.1	0.7	8.4	0.6	-0.1	**3.4**	**1.7**	**2.9**	*3.1*	*1.6*	*2.6*
Estonia	10.6	16.4	-8.2	29.5	-2.3	0.2	**-2.4**	**1.4**	**2.0**	*0.2*	*1.4*	*2.0*
Ireland	12.7	7.8	-14.5	-15.1	-1.3	14.1	**10.2**	**9.4**	**9.4**	*6.7*	*11.3*	*11.0*
Greece	5.1	0.2	-5.5	-13.8	-29.6	-16.1	**-7.3**	**5.8**	**13.0**	*1.2*	*10.3*	*12.9*
Spain	5.2	6.1	-5.3	-10.6	-9.3	-9.2	**-2.8**	**2.6**	**2.6**	*-3.8*	*1.8*	*2.4*
France	2.8	2.4	-0.3	1.8	-1.2	-1.7	**-4.0**	**-1.9**	**1.5**	*-4.5*	*-2.3*	*0.9*
Italy	1.9	3.2	-2.9	-3.7	-6.6	-6.8	**-3.4**	**-0.6**	**3.0**	*-3.7*	*-0.2*	*1.3*
Cyprus	0.0	8.3	0.4	-8.9	-18.3	-27.0	**-18.8**	**-4.8**	**1.2**	*-18.8*	*-4.8*	*1.2*
Latvia	15.0	16.7	-6.4	14.1	20.0	-1.1	**:**	**:**	**:**	*:*	*:*	*:*
Lithuania	2.8	11.3	-2.7	14.1	-4.3	8.4	**8.5**	**5.2**	**5.0**	*7.7*	*4.9*	*5.0*
Luxembourg	5.5	1.9	1.3	10.4	-5.3	-1.8	**2.9**	**4.8**	**3.2**	*1.7*	*7.8*	*2.0*
Malta	:	8.0	-2.8	-24.7	8.3	-5.5	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	4.5	-0.6	-1.2	1.6	-9.0	-6.5	**2.1**	**2.7**	**4.4**	*2.9*	*3.3*	*4.4*
Austria	0.8	-0.4	-2.3	2.6	1.2	-2.2	**0.4**	**0.2**	**2.3**	*1.7*	*1.4*	*2.3*
Portugal	6.9	-2.5	-4.1	-10.3	-18.7	-14.1	**-3.4**	**0.4**	**0.8**	*-3.8*	*-0.3*	*0.4*
Slovenia	8.1	1.5	-3.7	-17.3	-7.0	-10.3	**15.1**	**7.5**	**1.1**	*15.6*	*0.7*	*3.1*
Slovakia	4.3	1.7	1.2	5.5	-8.8	-1.6	**-0.1**	**2.3**	**3.5**	*3.9*	*4.2*	*3.5*
Finland	9.2	2.0	0.0	5.1	-6.2	-3.5	**-3.5**	**-0.1**	**1.9**	*-2.1*	*0.8*	*2.0*
Euro area	:	1.1	-2.0	0.2	-3.9	-3.5	**-0.7**	**0.7**	**2.7**	*-0.9*	*0.7*	*2.3*
Bulgaria	:	:	:	:	:	:	**:**	**:**	**:**	*1.7*	*-2.2*	*-9.0*
Czech Republic	-3.6	3.7	0.9	-3.8	-4.1	-4.1	**2.9**	**3.5**	**2.3**	*3.4*	*4.0*	*2.5*
Denmark	5.5	1.9	-5.4	8.0	-6.8	-1.8	**2.1**	**0.8**	**1.7**	*1.8*	*0.9*	*1.7*
Croatia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Hungary	3.1	5.5	-5.2	-7.9	-7.7	1.9	**13.8**	**3.7**	**-1.5**	*13.8*	*3.7*	*2.5*
Poland	10.5	-0.9	8.2	7.8	-1.0	-3.6	**8.9**	**5.6**	**5.2**	*6.8*	*5.2*	*5.2*
Romania	-3.4	10.8	8.7	-4.3	15.2	-8.1	**-5.3**	**3.3**	**4.3**	*-7.2*	*4.3*	*5.1*
Sweden	1.6	4.7	1.5	1.1	-0.3	-2.6	**9.4**	**5.5**	**4.0**	*9.5*	*6.4*	*5.2*
United Kingdom	5.6	2.1	-2.4	3.3	-0.4	1.5	**5.4**	**7.7**	**6.9**	*6.9*	*9.2*	*7.7*
EU	2.3	1.4	-1.7	0.7	-3.1	-2.8	**0.8**	**2.1**	**3.5**	*0.7*	*2.4*	*3.3*
USA	4.9	2.2	-8.6	-1.1	7.5	3.7	**3.6**	**4.2**	**5.0**	*4.5*	*5.9*	*5.3*
Japan	-3.0	-4.6	-3.9	-0.4	1.8	:	**:**	**:**	**:**	*:*	*:*	*:*

Table 11: Investment in equipment, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	7.1	1.9	-1.6	2.6	-3.0	-5.8	**8.0**	**1.9**	**3.8**	*9.2*	*0.5*	*3.3*
Germany	7.4	-0.3	1.6	6.1	-3.0	-2.4	**3.7**	**2.9**	**6.0**	*3.2*	*2.5*	*6.1*
Estonia	13.3	12.8	-6.2	42.2	34.1	5.3	**-2.1**	**2.0**	**6.0**	*3.8*	*3.2*	*8.0*
Ireland	13.4	4.6	-5.9	2.1	-2.5	1.8	**17.0**	**10.0**	**8.5**	*11.5*	*13.0*	*8.5*
Greece	18.6	1.8	2.2	-22.8	-29.2	-4.4	**10.8**	**12.5**	**16.5**	*9.0*	*13.5*	*17.0*
Spain	10.7	3.3	-1.5	0.9	-9.1	5.3	**13.4**	**7.9**	**8.7**	*8.8*	*7.1*	*8.3*
France	7.8	0.3	0.2	1.4	0.9	-1.4	**0.6**	**1.8**	**5.9**	*-0.5*	*0.0*	*4.8*
Italy	5.4	1.1	-1.0	0.2	-11.3	-4.8	**-2.2**	**2.6**	**5.2**	*-2.1*	*2.7*	*5.4*
Cyprus	-1.1	-1.7	8.4	-16.4	-26.1	-10.8	**-1.5**	**2.5**	**4.4**	*-1.5*	*2.5*	*4.4*
Latvia	27.2	13.4	-10.6	45.5	12.0	-16.9	**:**	**:**	**:**	*:*	*:*	*:*
Lithuania	18.3	16.5	-6.4	36.4	2.1	10.1	**4.9**	**6.2**	**8.0**	*4.0*	*7.2*	*8.0*
Luxembourg	7.2	4.3	1.3	23.9	19.4	-7.1	**2.3**	**-0.5**	**3.1**	*-3.0*	*-2.0*	*4.1*
Malta	:	-3.1	4.5	-17.2	-12.9	7.2	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	8.6	-2.1	2.4	17.0	-3.4	-3.0	**1.8**	**4.3**	**4.5**	*1.2*	*3.6*	*4.1*
Austria	4.7	-0.6	-0.5	9.8	-0.6	-1.5	**3.2**	**2.0**	**5.1**	*-1.1*	*3.1*	*5.1*
Portugal	12.0	-1.9	1.7	-23.5	-12.3	6.9	**14.3**	**7.4**	**7.0**	*13.0*	*7.0*	*6.5*
Slovenia	10.9	6.0	-3.2	13.3	-11.9	17.9	**-1.4**	**3.0**	**4.5**	*-5.0*	*4.0*	*4.5*
Slovakia	3.0	9.9	-0.8	34.5	-10.9	-1.3	**7.1**	**5.5**	**6.0**	*6.2*	*3.3*	*5.6*
Finland	5.6	1.1	-2.0	11.5	10.6	-3.2	**-8.0**	**-0.2**	**4.0**	*-5.2*	*1.5*	*4.0*
Euro area	:	0.7	0.1	3.5	-4.8	-1.8	**3.5**	**3.5**	**6.1**	*2.4*	*3.0*	*5.9*
Bulgaria	:	:	:	:	:	:	**:**	**:**	**:**	*1.8*	*-2.4*	*4.5*
Czech Republic	6.8	4.2	4.1	4.2	-6.1	-2.1	**4.3**	**4.6**	**3.5**	*5.4*	*4.9*	*4.0*
Denmark	5.1	-0.1	-1.0	-6.3	11.2	7.2	**3.5**	**3.9**	**5.8**	*3.3*	*4.9*	*5.8*
Croatia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Hungary	13.2	2.9	-0.8	7.1	3.5	4.7	**10.0**	**2.4**	**1.0**	*9.8*	*2.4*	*2.0*
Poland	14.4	-0.7	6.9	11.6	-3.9	5.0	**9.8**	**6.5**	**8.0**	*9.2*	*6.5*	*7.8*
Romania	6.0	11.8	0.4	19.6	-2.7	-7.2	**-5.9**	**4.0**	**4.5**	*-7.5*	*4.8*	*6.3*
Sweden	8.0	2.9	1.9	12.4	2.8	1.5	**1.0**	**3.2**	**4.4**	*-0.8*	*2.2*	*4.4*
United Kingdom	6.1	0.3	-1.0	-1.0	2.8	4.7	**13.8**	**7.2**	**5.7**	*14.2*	*6.9*	*7.0*
EU	7.5	0.9	0.2	3.7	-3.5	-0.6	**4.6**	**4.1**	**5.9**	*3.7*	*3.6*	*6.0*
USA	10.3	2.5	-0.3	10.3	5.4	3.3	**4.1**	**6.9**	**7.0**	*3.8*	*6.6*	*6.9*
Japan	1.5	2.0	-2.2	4.4	4.7	:	**:**	**:**	**:**	*:*	*:*	*:*

Table 12: Public investment (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	2.2	2.1	2.1	2.3	2.3	2.2	**2.1**	**2.2**	**2.1**	*2.1*	*2.2*	*2.2*
Germany	2.4	2.1	2.1	2.3	2.3	2.2	**2.2**	**2.3**	**2.3**	*2.3*	*2.4*	*2.4*
Estonia	:	:	:	5.0	6.3	5.5	**5.3**	**5.1**	**5.0**	*5.1*	*4.9*	*4.8*
Ireland	2.9	3.8	4.1	2.4	1.9	1.7	**1.6**	**1.5**	**1.5**	*1.5*	*1.3*	*1.3*
Greece	:	:	4.2	2.4	2.4	2.7	**3.5**	**3.2**	**3.0**	*3.3*	*3.2*	*3.3*
Spain	3.7	4.0	4.7	3.7	2.4	2.1	**2.2**	**2.1**	**2.1**	*2.1*	*2.1*	*2.1*
France	3.9	3.9	4.0	4.0	4.0	4.0	**3.9**	**3.7**	**3.5**	*4.0*	*3.8*	*3.6*
Italy	2.8	2.9	3.0	2.8	2.5	2.4	**2.2**	**2.2**	**2.1**	*2.2*	*2.0*	*2.1*
Cyprus	3.9	4.2	3.5	3.7	2.6	2.0	**2.1**	**2.1**	**2.1**	*2.1*	*2.1*	*2.1*
Latvia	2.0	2.6	5.1	5.0	4.8	4.0	**3.9**	**3.4**	**3.2**	*3.8*	*3.6*	*3.3*
Lithuania	:	:	4.9	4.7	3.9	3.7	**3.6**	**3.6**	**3.5**	*3.6*	*3.6*	*3.5*
Luxembourg	4.0	4.6	4.0	4.1	3.9	3.5	**3.6**	**3.9**	**3.9**	*3.5*	*3.9*	*3.8*
Malta	4.0	4.1	3.0	2.8	3.2	2.8	**3.0**	**3.0**	**3.0**	*3.1*	*3.3*	*3.3*
Netherlands	3.7	4.0	4.1	4.0	3.7	3.6	**3.7**	**3.6**	**3.4**	*3.8*	*3.7*	*3.5*
Austria	3.0	2.5	3.1	3.0	2.9	2.9	**3.0**	**3.0**	**3.0**	*3.0*	*3.0*	*3.0*
Portugal	5.0	4.5	3.9	3.5	2.5	2.2	**2.0**	**2.0**	**2.5**	*2.5*	*2.4*	*2.5*
Slovenia	3.8	3.8	4.7	4.1	3.9	4.3	**5.1**	**5.5**	**4.8**	*5.1*	*5.5*	*4.9*
Slovakia	4.6	3.5	3.5	3.7	3.0	3.0	**3.6**	**3.0**	**3.0**	*3.2*	*2.9*	*2.6*
Finland	4.0	3.7	3.6	3.8	4.0	4.2	**4.1**	**4.1**	**4.1**	*4.2*	*4.2*	*4.2*
Euro area	:	:	:	3.1	2.9	2.8	**2.8**	**2.7**	**2.7**	*2.8*	*2.7*	*2.7*
Bulgaria	2.7	3.5	5.0	3.5	3.5	4.1	**5.1**	**4.8**	**4.0**	*5.2*	*5.0*	*4.2*
Czech Republic	4.3	4.9	4.9	4.1	3.9	3.4	**3.7**	**4.2**	**3.7**	*3.6*	*4.1*	*3.6*
Denmark	2.8	2.8	3.1	3.3	3.9	3.7	**3.8**	**3.8**	**3.6**	*3.6*	*3.4*	*3.4*
Croatia	:	6.0	5.2	3.5	3.5	3.3	**3.4**	**3.4**	**3.4**	*3.4*	*3.5*	*3.5*
Hungary	3.1	4.2	3.9	3.4	3.7	4.4	**4.5**	**4.6**	**3.2**	*4.5*	*4.0*	*2.9*
Poland	:	:	:	5.9	4.7	4.1	**3.9**	**4.0**	**3.9**	*3.9*	*4.0*	*3.9*
Romania	2.7	3.0	6.0	5.5	4.8	4.6	**4.3**	**4.3**	**4.0**	*4.5*	*4.4*	*4.3*
Sweden	4.4	4.2	4.3	4.4	4.6	4.5	**4.7**	**4.7**	**4.8**	*4.6*	*4.7*	*4.7*
United Kingdom	1.8	2.1	3.0	3.0	2.9	2.7	**2.7**	**2.8**	**2.8**	*2.7*	*2.7*	*2.7*
EU	:	:	:	3.3	3.0	3.0	**2.9**	**2.9**	**2.8**	*3.0*	*2.9*	*2.9*
USA	3.6	3.8	4.0	3.9	3.6	3.3	**3.4**	**3.3**	**3.3**	*3.4*	*3.3*	*3.3*
Japan	5.6	4.3	3.2	3.1	3.2	3.5	**3.6**	**3.6**	**3.4**	*3.6*	*3.3*	*3.1*

Table 13: Potential GDP, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	2.4	2.0	1.5	1.3	0.9	0.7	**0.8**	**0.9**	**1.0**	*0.7*	*0.8*	*0.9*
Germany	1.6	1.3	1.0	1.1	1.2	1.3	**1.4**	**1.5**	**1.5**	*1.3*	*1.3*	*1.3*
Estonia	4.3	5.8	2.5	1.3	1.7	2.2	**2.4**	**2.7**	**2.7**	*2.5*	*2.7*	*2.7*
Ireland	8.6	5.5	1.2	-0.2	0.2	0.9	**2.2**	**2.7**	**3.5**	*2.2*	*2.8*	*3.7*
Greece	3.5	4.0	0.4	-3.0	-3.2	-3.0	**-2.5**	**-2.1**	**-1.6**	*-2.7*	*-2.2*	*-1.8*
Spain	2.8	3.5	2.5	0.5	-0.3	-0.7	**-0.2**	**-0.1**	**0.4**	*-0.4*	*-0.3*	*0.0*
France	2.0	1.9	1.4	1.1	1.0	1.0	**1.0**	**1.0**	**1.1**	*0.9*	*0.9*	*1.0*
Italy	1.6	1.2	0.2	0.1	-0.9	-0.6	**-0.5**	**-0.3**	**-0.1**	*-0.1*	*-0.5*	*-0.2*
Cyprus	:	3.5	2.7	0.8	-0.8	-1.7	**-1.7**	**-1.5**	**-1.0**	*-1.7*	*-1.4*	*-1.0*
Latvia	:	7.0	3.4	-1.0	0.4	1.5	**2.0**	**2.6**	**3.2**	*2.1*	*2.6*	*3.2*
Lithuania	:	6.0	3.8	0.7	1.1	2.1	**2.5**	**2.8**	**3.3**	*2.5*	*3.0*	*3.3*
Luxembourg	4.6	4.3	2.7	2.0	2.2	1.7	**1.8**	**1.9**	**2.1**	*1.9*	*2.2*	*2.3*
Malta	3.9	2.4	2.2	1.9	2.3	2.5	**2.8**	**3.0**	**2.8**	*2.7*	*2.7*	*2.4*
Netherlands	3.3	2.1	1.5	0.7	0.3	0.2	**0.2**	**0.4**	**0.7**	*0.4*	*0.4*	*0.6*
Austria	2.5	2.2	1.5	0.9	0.9	0.8	**0.9**	**0.8**	**1.0**	*1.1*	*1.0*	*1.2*
Portugal	3.2	1.9	0.8	-0.1	-0.7	-1.0	**-0.6**	**-0.3**	**0.0**	*-0.6*	*-0.3*	*-0.1*
Slovenia	:	3.3	2.6	-0.1	-0.3	-0.3	**0.4**	**0.7**	**0.9**	*0.3*	*0.6*	*0.8*
Slovakia	:	4.3	4.9	3.5	2.6	2.1	**2.2**	**2.4**	**2.6**	*2.5*	*2.6*	*2.8*
Finland	3.7	3.2	1.3	0.2	0.1	0.1	**0.0**	**0.3**	**0.3**	*-0.2*	*0.2*	*0.1*
Euro area	:	2.0	1.2	0.7	0.4	0.4	**0.6**	**0.7**	**0.9**	*0.6*	*0.6*	*0.7*
Bulgaria	1.6	5.0	3.4	0.2	0.3	0.7	**1.6**	**1.7**	**1.6**	*1.5*	*1.6*	*1.6*
Czech Republic	:	3.3	3.2	1.5	0.5	0.4	**1.3**	**1.3**	**1.6**	*1.4*	*1.5*	*1.8*
Denmark	2.5	1.5	1.1	0.4	0.2	0.3	**0.6**	**0.8**	**1.1**	*0.6*	*0.8*	*1.1*
Croatia	:	:	1.1	-0.5	-0.9	-0.6	**-0.2**	**-0.3**	**0.0**	*-0.3*	*-0.2*	*0.0*
Hungary	:	3.5	1.3	-0.1	0.0	0.5	**1.5**	**1.8**	**2.0**	*1.3*	*1.6*	*1.8*
Poland	5.2	3.7	3.9	4.2	3.5	3.0	**3.0**	**3.1**	**3.2**	*2.9*	*2.9*	*3.0*
Romania	1.6	3.5	4.4	1.5	1.7	1.6	**1.7**	**2.3**	**2.6**	*1.7*	*1.9*	*2.1*
Sweden	2.8	3.0	1.9	1.4	1.2	1.5	**1.5**	**1.8**	**1.9**	*1.8*	*2.0*	*2.0*
United Kingdom	3.0	2.9	1.5	0.9	0.8	1.0	**1.3**	**1.6**	**1.8**	*1.4*	*1.8*	*2.0*
EU	:	:	1.4	0.8	0.6	0.6	**0.8**	**1.0**	**1.2**	*0.8*	*0.9*	*1.1*
USA	3.7	2.6	1.4	1.3	1.7	2.0	**2.3**	**2.7**	**3.0**	*2.3*	*2.6*	*2.8*
Japan	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*

Table 14: Output gap relative to potential GDP [1] (deviation of actual output from potential output as % of potential GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	0.4	0.4	0.8	-0.2	-1.0	-1.5	**-1.3**	**-1.0**	**-0.6**	*-1.1*	*-1.1*	*-0.9*
Germany	0.0	-0.8	-0.4	1.0	0.2	-0.9	**-0.9**	**-0.8**	**-0.4**	*-0.8*	*-1.0*	*-0.6*
Estonia	-3.4	3.1	2.7	-0.7	2.3	1.7	**1.3**	**0.9**	**1.1**	*1.4*	*0.6*	*0.7*
Ireland	2.1	0.9	0.0	-1.3	-1.8	-2.5	**-0.1**	**0.7**	**0.7**	*-0.2*	*0.5*	*0.5*
Greece	0.5	0.1	1.5	-9.4	-12.6	-13.3	**-10.3**	**-6.1**	**-1.1**	*-10.9*	*-6.2*	*-1.0*
Spain	0.1	2.7	0.0	-5.5	-7.2	-7.7	**-6.1**	**-3.9**	**-1.9**	*-6.0*	*-4.1*	*-2.0*
France	-0.2	1.7	0.6	-0.4	-1.0	-1.7	**-2.3**	**-2.3**	**-1.6**	*-2.3*	*-2.5*	*-1.9*
Italy	0.4	0.8	-0.1	-1.7	-3.0	-4.3	**-4.3**	**-3.5**	**-2.1**	*-4.5*	*-3.4*	*-2.1*
Cyprus	:	1.1	2.9	0.3	-1.3	-5.0	**-6.0**	**-4.3**	**-1.7**	*-6.1*	*-4.3*	*-1.8*
Latvia	:	1.6	0.3	-6.2	-2.0	0.5	**1.1**	**1.4**	**1.8**	*1.0*	*1.2*	*1.6*
Lithuania	:	-0.1	0.3	-3.8	-1.2	-0.1	**0.4**	**0.6**	**0.7**	*0.2*	*0.3*	*0.4*
Luxembourg	0.7	1.0	0.0	-1.4	-3.6	-3.4	**-2.3**	**-1.6**	**-0.8**	*-2.1*	*-1.9*	*-1.3*
Malta	-0.1	-0.2	0.4	-0.4	-0.3	-0.3	**0.2**	**0.4**	**0.5**	*0.1*	*0.3*	*0.6*
Netherlands	0.6	-1.2	0.2	-0.8	-2.6	-3.5	**-3.0**	**-2.0**	**-1.0**	*-3.0*	*-2.1*	*-1.1*
Austria	0.3	-0.5	-0.1	0.1	0.1	-0.5	**-1.2**	**-1.2**	**-0.7**	*-1.1*	*-0.9*	*-0.7*
Portugal	2.8	0.7	-0.9	-3.5	-6.1	-6.4	**-4.9**	**-3.1**	**-1.4**	*-5.0*	*-3.4*	*-1.6*
Slovenia	:	0.8	2.4	-1.7	-3.9	-4.6	**-2.6**	**-1.4**	**-0.1**	*-2.7*	*-1.6*	*0.1*
Slovakia	:	-1.4	3.2	-1.2	-2.1	-2.8	**-2.6**	**-2.5**	**-1.9**	*-3.3*	*-3.4*	*-2.9*
Finland	0.6	0.1	0.5	-0.3	-1.8	-3.1	**-3.1**	**-2.6**	**-1.5**	*-3.1*	*-2.7*	*-1.7*
Euro area	:	0.5	0.1	-1.1	-2.2	-3.1	**-2.8**	**-2.2**	**-1.2**	*-2.8*	*-2.3*	*-1.3*
Bulgaria	1.6	0.5	1.0	-0.3	-0.1	0.3	**0.0**	**-0.9**	**-1.5**	*-0.1*	*-1.1*	*-1.6*
Czech Republic	-1.2	0.7	2.6	-0.5	-1.8	-2.9	**-1.9**	**-0.8**	**0.1**	*-2.0*	*-0.9*	*0.1*
Denmark	1.9	1.1	0.3	-2.4	-3.3	-4.1	**-3.9**	**-2.9**	**-2.0**	*-3.8*	*-3.0*	*-2.1*
Croatia	:	-0.3	2.8	-1.3	-2.6	-2.9	**-3.1**	**-2.7**	**-1.6**	*-3.4*	*-3.0*	*-2.0*
Hungary	:	1.6	0.3	-2.0	-3.4	-2.4	**-0.7**	**-0.1**	**-0.3**	*-0.7*	*0.2*	*0.3*
Poland	1.6	-3.4	2.0	2.0	0.3	-1.1	**-0.8**	**-0.7**	**-0.4**	*-0.8*	*-0.9*	*-0.7*
Romania	-2.4	1.3	4.0	-3.1	-4.1	-2.4	**-1.2**	**-0.8**	**-0.5**	*-1.3*	*-0.8*	*-0.1*
Sweden	-0.5	-0.4	-0.1	-0.1	-1.6	-1.8	**-1.5**	**-1.0**	**-0.3**	*-1.6*	*-1.2*	*-0.5*
United Kingdom	0.4	0.6	-0.7	-2.8	-3.0	-2.4	**-1.1**	**-0.1**	**0.6**	*-0.8*	*0.1*	*0.6*
EU	:	0.5	0.1	-1.3	-2.3	-2.9	**-2.4**	**-1.8**	**-0.9**	*-2.4*	*-1.8*	*-1.0*
USA	0.4	0.0	-0.2	-1.5	-0.9	-0.7	**-0.6**	**0.1**	**0.4**	*-0.5*	*0.0*	*0.3*
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, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			Autumn 2014 forecast		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2014	2015	2016
Belgium	1.1	2.1	2.0	2.2	2.1	1.5	0.7	0.8	1.2	0.8	0.6	1.1
Germany	0.3	1.1	1.1	1.1	1.5	2.1	1.8	1.4	2.0	1.9	1.8	1.9
Estonia	10.0	5.3	5.8	3.0	2.7	4.5	2.3	2.1	2.5	1.6	2.4	2.9
Ireland	4.5	4.4	-0.6	0.9	1.3	1.0	0.4	0.4	0.6	0.5	0.9	1.4
Greece	4.8	3.1	2.9	0.8	0.1	-2.3	-2.2	-0.2	0.9	-1.5	0.5	1.1
Spain	2.9	4.0	2.0	0.1	0.2	0.7	-0.7	0.2	1.0	-0.3	1.0	1.5
France	1.0	1.9	1.7	0.9	1.2	0.8	0.8	0.8	1.0	0.7	0.8	1.3
Italy	2.6	2.8	1.8	1.5	1.6	1.4	0.5	0.4	1.1	0.4	0.5	1.5
Cyprus	2.6	3.2	2.8	2.0	2.0	-1.4	-1.7	0.8	1.3	-1.7	0.8	1.3
Latvia	5.6	6.0	6.2	6.4	3.6	1.1	1.2	1.7	2.3	1.6	2.2	2.6
Lithuania	6.3	1.6	4.7	5.2	2.7	1.6	1.4	2.9	2.4	0.8	1.6	2.1
Luxembourg	1.6	2.0	3.4	5.0	3.5	1.4	1.5	0.5	2.1	1.9	2.6	3.0
Malta	1.7	2.4	3.0	2.2	2.1	2.0	1.6	1.5	1.7	1.3	1.6	2.0
Netherlands	2.5	2.6	1.6	0.1	1.3	1.1	0.5	0.5	1.3	0.0	1.2	1.9
Austria	0.8	1.7	1.8	1.8	1.9	1.5	2.0	1.3	1.8	1.5	1.6	1.6
Portugal	3.4	3.4	1.9	-0.3	-0.4	2.3	1.0	1.0	1.4	1.1	1.4	1.5
Slovenia	7.8	5.3	2.6	1.2	0.3	1.4	0.4	0.2	1.0	0.0	0.3	0.8
Slovakia	6.2	4.5	1.2	1.6	1.3	0.5	0.0	0.8	1.3	-0.1	0.5	1.3
Finland	1.5	1.2	1.8	2.6	2.6	2.4	1.1	1.2	1.4	1.4	1.4	1.7
Euro area	1.5	2.2	1.6	1.1	1.3	1.3	0.8	0.8	1.4	0.9	1.1	1.6
Bulgaria	94.9	4.7	6.3	7.0	1.6	-0.8	0.6	0.3	0.6	-0.4	0.4	0.6
Czech Republic	6.6	2.5	1.5	-0.2	1.4	1.7	2.3	1.5	1.3	1.6	1.4	1.8
Denmark	2.0	2.3	2.5	0.8	2.5	1.5	0.7	1.1	1.8	1.2	1.3	1.5
Croatia	5.4	3.8	3.5	1.7	1.6	0.9	-0.2	0.2	1.2	0.5	0.6	0.7
Hungary	14.6	6.4	4.0	2.2	3.4	3.0	2.2	2.4	2.8	1.7	2.5	3.0
Poland	11.1	2.7	3.0	3.2	2.2	1.2	1.1	0.6	1.4	0.2	1.0	1.9
Romania	60.8	22.0	9.7	4.7	4.9	3.4	2.4	2.3	2.5	3.2	2.7	2.6
Sweden	1.2	1.4	2.3	1.2	1.1	1.2	1.6	1.7	1.7	1.3	1.8	2.0
United Kingdom	2.3	2.3	2.7	2.1	1.7	1.8	2.2	1.4	1.5	1.9	1.7	1.8
EU	2.4	2.3	2.0	1.3	1.5	1.4	1.1	1.0	1.4	1.0	1.3	1.7
USA	1.7	2.4	1.9	2.1	1.8	1.5	1.5	0.9	1.9	1.5	2.1	2.3
Japan	-0.5	-1.4	-1.2	-1.9	-0.9	-0.5	1.6	0.4	0.8	1.1	0.8	0.9

Table 16: Price deflator of private consumption (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			Autumn 2014 forecast		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2014	2015	2016
Belgium	1.4	1.9	2.1	3.1	2.2	1.2	0.4	0.4	1.0	0.5	0.8	1.2
Germany	0.8	1.5	1.2	1.9	1.5	1.2	1.0	0.3	1.6	1.0	1.4	1.6
Estonia	9.5	4.1	5.0	5.2	3.4	3.1	0.8	0.4	1.6	1.1	1.6	2.2
Ireland	3.5	3.4	-0.5	1.7	0.5	1.7	1.2	1.0	1.3	0.9	1.2	1.3
Greece	4.8	2.8	3.1	2.4	0.7	-1.6	-1.4	-0.3	0.7	-1.0	0.3	1.1
Spain	2.7	3.3	2.3	2.7	2.4	0.9	-0.2	-0.9	1.1	-0.1	0.5	1.2
France	0.9	1.7	1.3	1.8	1.4	0.7	0.5	0.0	1.0	0.6	0.9	1.3
Italy	2.7	2.6	1.8	2.9	2.8	1.2	0.2	-0.3	1.5	0.4	0.5	2.0
Cyprus	2.3	2.6	2.8	3.0	3.0	-0.1	-1.0	0.6	1.1	-1.0	0.6	1.1
Latvia	6.4	5.9	5.4	6.0	3.4	0.4	0.6	1.1	2.1	0.8	1.8	2.5
Lithuania	5.8	0.5	5.4	4.1	3.1	1.0	0.2	0.4	1.6	0.3	1.3	1.9
Luxembourg	2.2	2.0	1.7	2.5	1.9	0.3	0.5	0.9	1.9	1.7	1.9	1.9
Malta	2.2	2.4	2.3	2.4	2.4	1.2	1.4	1.2	1.9	0.7	1.5	2.0
Netherlands	2.2	2.3	1.3	2.1	1.4	1.9	0.9	1.0	0.9	0.8	1.3	1.5
Austria	1.1	1.8	1.8	3.3	2.4	2.2	1.4	1.1	2.1	1.6	1.7	1.8
Portugal	2.9	3.4	1.9	1.7	1.4	0.7	0.6	0.1	1.1	0.8	0.9	0.9
Slovenia	7.9	5.1	2.9	1.7	1.4	0.6	0.4	-0.3	0.9	0.7	1.1	1.1
Slovakia	6.5	5.0	2.6	3.9	3.4	1.3	-0.3	0.4	1.0	-0.5	0.5	1.0
Finland	1.8	1.3	2.0	3.2	3.0	2.6	1.1	0.5	1.3	1.2	1.3	1.6
Euro area	1.7	2.1	1.6	2.3	1.9	1.1	0.5	0.1	1.3	0.6	1.0	1.5
Bulgaria	100.7	3.9	4.1	4.5	3.6	-2.1	-0.9	0.1	0.8	-1.5	0.2	0.9
Czech Republic	6.1	1.8	2.2	1.6	2.5	1.0	0.3	0.8	1.4	0.6	1.4	1.8
Denmark	1.9	1.7	2.1	2.4	2.6	1.0	0.6	0.7	1.8	1.2	1.5	1.8
Croatia	4.8	2.9	3.3	2.4	3.2	1.9	-0.3	-0.3	1.1	0.2	0.6	1.1
Hungary	14.9	5.7	4.7	3.7	6.2	2.5	-0.2	0.8	2.8	0.1	2.5	3.0
Poland	11.9	2.7	2.6	4.8	3.2	0.8	0.1	-0.3	1.4	0.2	1.1	1.9
Romania	58.3	17.7	6.1	4.2	4.6	3.7	1.7	1.9	2.6	1.6	2.7	2.7
Sweden	1.1	1.4	1.9	1.7	0.5	0.8	0.7	0.8	1.3	0.4	1.5	1.8
United Kingdom	1.8	1.5	3.1	3.4	2.1	1.9	1.0	0.9	1.5	1.3	1.4	1.8
EU	2.5	2.1	2.0	2.6	2.0	1.2	0.6	0.3	1.4	0.7	1.1	1.6
USA	1.7	2.1	2.0	2.5	1.8	1.2	1.3	-0.1	1.8	1.5	2.1	2.4
Japan	-0.1	-1.0	-1.0	-0.8	-0.9	-0.2	1.9	0.5	0.9	1.6	1.3	1.0

Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	1.6	2.0	2.2	3.4	2.6	1.2	**0.5**	**0.1**	**1.1**	*0.6*	*0.9*	*1.3*
Germany	1.1	1.6	1.6	2.5	2.1	1.6	**0.8**	**0.1**	**1.6**	*0.9*	*1.2*	*1.6*
Estonia	9.0	3.5	4.9	5.1	4.2	3.2	**0.5**	**0.4**	**1.6**	*0.7*	*1.6*	*2.2*
Ireland	2.7	3.4	1.1	1.2	1.9	0.5	**0.3**	**0.3**	**1.3**	*0.4*	*0.9*	*1.4*
Greece	4.6	3.5	3.3	3.1	1.0	-0.9	**-1.4**	**-0.3**	**0.7**	*-1.0*	*0.3*	*1.1*
Spain	2.6	3.2	2.5	3.1	2.4	1.5	**-0.2**	**-1.0**	**1.1**	*-0.1*	*0.5*	*1.2*
France	1.3	2.0	1.7	2.3	2.2	1.0	**0.6**	**0.0**	**1.0**	*0.6*	*0.7*	*1.1*
Italy	2.4	2.4	2.0	2.9	3.3	1.3	**0.2**	**-0.3**	**1.5**	*0.2*	*0.5*	*2.0*
Cyprus	:	2.5	2.3	3.5	3.1	0.4	**-0.3**	**0.7**	**1.2**	*-0.2*	*0.7*	*1.2*
Latvia	:	4.1	6.8	4.2	2.3	0.0	**0.7**	**0.9**	**1.9**	*0.8*	*1.8*	*2.5*
Lithuania	8.6	0.9	5.2	4.1	3.2	1.2	**0.2**	**0.4**	**1.6**	*0.3*	*1.3*	*1.9*
Luxembourg	1.7	2.8	2.5	3.7	2.9	1.7	**0.7**	**0.6**	**1.8**	*1.0*	*2.1*	*1.9*
Malta	:	2.5	2.4	2.5	3.2	1.0	**0.8**	**1.0**	**1.9**	*0.7*	*1.5*	*2.0*
Netherlands	1.9	2.8	1.5	2.5	2.8	2.6	**0.3**	**0.4**	**0.7**	*0.4*	*0.8*	*1.1*
Austria	1.2	1.9	1.8	3.6	2.6	2.1	**1.5**	**1.1**	**2.2**	*1.5*	*1.7*	*1.8*
Portugal	2.4	3.2	1.7	3.6	2.8	0.4	**-0.2**	**0.1**	**1.1**	*0.0*	*0.6*	*0.9*
Slovenia	8.2	5.6	3.0	2.1	2.8	1.9	**0.4**	**-0.3**	**0.9**	*0.4*	*1.0*	*1.5*
Slovakia	8.2	5.9	2.3	4.1	3.7	1.5	**-0.1**	**0.4**	**1.3**	*-0.1*	*0.7*	*1.4*
Finland	1.6	1.4	2.0	3.3	3.2	2.2	**1.2**	**0.5**	**1.3**	*1.2*	*1.3*	*1.6*
Euro area	1.8	2.2	1.9	2.7	2.5	1.4	**0.4**	**-0.1**	**1.3**	*0.5*	*0.8*	*1.5*
Bulgaria	:	5.5	6.5	3.4	2.4	0.4	**-1.6**	**-0.5**	**1.0**	*-1.4*	*0.4*	*1.0*
Czech Republic	6.5	2.0	2.6	2.1	3.5	1.4	**0.4**	**0.8**	**1.4**	*0.5*	*1.4*	*1.8*
Denmark	2.0	1.9	2.1	2.7	2.4	0.5	**0.3**	**0.4**	**1.6**	*0.4*	*1.1*	*1.7*
Croatia	4.3	2.9	3.0	2.2	3.4	2.3	**0.2**	**-0.3**	**1.0**	*0.2*	*0.6*	*1.1*
Hungary	15.2	5.9	5.3	3.9	5.7	1.7	**0.0**	**0.8**	**2.8**	*0.1*	*2.5*	*3.0*
Poland	:	2.7	2.9	3.9	3.7	0.8	**0.1**	**-0.2**	**1.4**	*0.2*	*1.1*	*1.9*
Romania	68.8	18.6	6.2	5.8	3.4	3.2	**1.4**	**1.2**	**2.5**	*1.5*	*2.1*	*2.7*
Sweden	1.1	1.8	2.1	1.4	0.9	0.4	**0.2**	**0.5**	**1.0**	*0.2*	*1.2*	*1.5*
United Kingdom	1.6	1.5	2.7	4.5	2.8	2.6	**1.5**	**1.0**	**1.6**	*1.5*	*1.6*	*1.9*
EU	:	2.5	2.3	3.1	2.6	1.5	**0.6**	**0.2**	**1.4**	*0.6*	*1.0*	*1.6*
USA	:	2.5	2.2	3.1	2.1	1.5	**1.6**	**-0.1**	**2.0**	*1.8*	*2.0*	*2.3*
Japan	0.3	-0.4	-0.1	-0.3	0.0	0.4	**2.7**	**0.6**	**0.9**	*2.8*	*1.6*	*1.4*

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2014-16) 23.1.2015

	2014/1	2014/2	2014/3	2014/4	2015/1	2015/2	2015/3	2015/4	2016/1	2016/2	2016/3	2016/4
Belgium	1.0	0.8	0.4	0.0	-0.3	-0.1	0.2	0.7	0.9	1.0	1.1	1.2
Germany	1.0	0.9	0.8	0.4	-0.1	-0.1	0.1	0.4	1.1	1.6	1.8	1.9
Estonia	1.1	0.6	0.0	0.2	0.3	0.1	0.2	0.9	1.4	1.6	1.7	1.8
Ireland	0.2	0.4	0.5	0.1	-0.2	0.1	0.1	1.0	1.4	1.4	1.3	1.2
Greece	-1.3	-1.7	-0.7	-1.9	-0.4	-0.4	-0.1	-0.3	0.4	0.6	0.8	1.0
Spain	0.0	0.2	-0.4	-0.6	-1.6	-1.2	-1.0	-0.3	0.9	1.2	1.2	1.2
France	0.9	0.8	0.5	0.3	-0.3	-0.2	0.0	0.5	0.8	1.0	1.1	1.1
Italy	0.5	0.4	-0.1	0.1	-0.5	-0.6	-0.2	0.1	1.2	1.6	1.6	1.5
Cyprus	-1.2	-0.1	0.6	-0.2	0.4	0.6	0.9	1.0	1.1	1.1	1.3	1.5
Latvia	0.4	0.8	0.9	0.7	0.8	0.8	0.9	1.1	1.4	1.7	2.2	2.4
Lithuania	0.3	0.2	0.2	0.2	-0.1	-0.1	0.6	1.0	1.7	1.8	1.4	1.4
Luxembourg	1.0	1.2	0.7	-0.1	-0.4	-0.1	0.7	2.1	2.2	2.1	1.7	1.2
Malta	1.3	0.5	0.7	0.6	0.2	1.0	1.3	1.6	1.9	1.8	1.8	2.0
Netherlands	0.4	0.4	0.3	0.2	0.3	0.0	0.3	0.8	0.6	0.6	0.7	1.0
Austria	1.5	1.6	1.5	1.3	0.9	0.9	1.1	1.6	2.3	2.2	2.2	2.1
Portugal	-0.1	-0.2	-0.3	0.0	-0.2	-0.1	0.2	0.4	1.0	1.1	1.1	1.1
Slovenia	0.6	0.8	0.1	0.0	-0.4	-0.5	-0.3	-0.1	0.6	0.9	1.1	1.2
Slovakia	-0.1	-0.1	-0.1	-0.1	0.0	0.1	0.5	0.9	1.0	1.2	1.4	1.5
Finland	1.6	1.1	1.2	0.9	0.4	0.7	0.5	0.7	1.2	1.2	1.3	1.3
Euro area	0.6	0.6	0.4	0.2	-0.3	-0.3	0.0	0.4	1.0	1.3	1.4	1.5
Bulgaria	-1.8	-1.6	-1.2	-1.8	-1.4	-0.7	-0.5	0.5	0.9	0.9	1.1	1.3
Czech Republic	0.3	0.2	0.7	0.5	0.5	0.6	0.9	1.2	1.3	1.4	1.4	1.5
Denmark	0.4	0.4	0.3	0.2	-0.2	0.3	0.6	0.9	1.5	1.6	1.6	1.7
Croatia	0.1	0.3	0.3	0.2	-0.5	-0.5	-0.4	0.2	0.8	1.1	1.1	1.1
Hungary	0.4	-0.1	0.1	-0.4	-0.2	0.4	1.1	1.8	3.0	2.9	2.8	2.6
Poland	0.6	0.3	-0.1	-0.4	-0.9	-0.5	-0.2	0.4	1.0	1.2	1.6	1.9
Romania	1.3	1.3	1.5	1.4	0.4	0.8	1.5	2.1	2.5	2.4	2.6	2.6
Sweden	0.0	0.3	0.2	0.3	0.3	0.4	0.6	0.7	0.8	1.0	1.0	1.0
United Kingdom	1.8	1.7	1.5	0.9	0.8	1.0	1.1	1.3	1.4	1.5	1.7	1.8
EU	0.8	0.7	0.5	0.2	-0.1	0.0	0.2	0.6	1.1	1.4	1.5	1.5
USA	1.4	2.1	1.8	1.2	-0.1	-0.6	-0.3	0.5	1.8	2.1	2.0	1.9
Japan	1.5	3.6	3.3	2.5	2.3	-0.1	-0.2	0.2	0.6	0.8	1.0	1.2

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 1996-2016) — 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	0.6	0.9	1.3	4.8	1.6	-0.6	**-0.4**	**0.7**	**1.4**	*-0.4*	*0.6*	*1.3*
Germany	0.2	-0.2	0.5	3.1	1.5	-0.6	**-0.5**	**0.4**	**1.3**	*-0.5*	*0.9*	*1.6*
Estonia	6.1	1.8	3.6	3.9	0.6	-0.1	**-1.2**	**-2.2**	**1.2**	*-1.3*	*1.2*	*1.4*
Ireland	2.4	-1.7	-0.8	-0.9	4.7	-1.3	**-0.5**	**0.5**	**0.6**	*-1.0*	*0.4*	*0.5*
Greece	3.7	1.6	2.8	9.0	4.7	-2.0	**-1.5**	**0.4**	**0.3**	*-1.5*	*0.4*	*0.3*
Spain	2.2	0.7	1.6	4.8	2.6	-1.4	**-2.2**	**0.6**	**0.9**	*-1.8*	*1.5*	*1.5*
France	0.4	-0.7	0.9	3.7	1.6	-0.6	**-1.1**	**0.9**	**1.2**	*-1.4*	*0.9*	*1.4*
Italy	1.2	1.1	1.5	4.2	1.9	-0.3	**0.4**	**1.1**	**1.3**	*-0.1*	*1.4*	*1.2*
Cyprus	2.2	2.0	3.2	1.4	0.6	2.1	**-1.4**	**1.0**	**1.5**	*-1.4*	*1.0*	*1.5*
Latvia	0.5	7.4	5.7	12.1	3.8	1.8	**-1.5**	**-1.8**	**1.3**	*-1.8*	*1.0*	*1.5*
Lithuania	3.0	1.3	3.3	13.5	3.6	-1.9	**-2.6**	**-1.2**	**1.6**	*-2.5*	*1.7*	*1.8*
Luxembourg	0.3	2.0	3.9	7.1	1.3	0.4	**-1.3**	**0.1**	**0.8**	*0.9*	*1.8*	*1.9*
Malta	5.4	-1.9	2.4	9.8	-3.8	-4.7	**-1.5**	**-1.8**	**1.7**	*-1.1*	*2.3*	*1.4*
Netherlands	1.3	-0.2	1.4	6.2	2.9	-0.9	**-2.4**	**-1.3**	**1.3**	*-2.1*	*1.1*	*1.5*
Austria	0.6	0.5	1.3	3.9	0.8	-1.0	**0.0**	**0.0**	**1.1**	*-0.6*	*1.1*	*1.1*
Portugal	1.1	0.1	1.3	5.8	1.7	-0.8	**-1.9**	**-0.9**	**1.5**	*-0.6*	*2.0*	*1.0*
Slovenia	6.3	3.7	1.2	4.5	1.0	-0.8	**-0.5**	**0.3**	**1.1**	*-1.1*	*0.8*	*0.8*
Slovakia	4.2	2.1	0.4	4.0	1.3	-1.8	**-4.0**	**-2.0**	**0.0**	*-4.0*	*-2.0*	*0.0*
Finland	-1.4	-1.4	-0.6	5.1	0.7	-1.6	**-0.9**	**-0.9**	**1.5**	*-1.3*	*0.8*	*1.5*
Euro area	0.8	0.0	1.0	4.1	1.9	-0.8	**-0.9**	**0.2**	**1.2**	*-1.0*	*1.0*	*1.4*
Bulgaria	94.2	2.2	9.1	12.1	0.2	-3.6	**-1.7**	**-2.0**	**0.3**	*-2.1*	*0.1*	*0.3*
Czech Republic	3.7	-1.4	-1.5	0.8	3.4	1.4	**4.3**	**-0.7**	**0.6**	*3.2*	*0.6*	*0.6*
Denmark	1.3	1.2	2.3	5.0	3.1	-0.5	**-0.8**	**-0.3**	**1.7**	*0.3*	*1.3*	*1.3*
Croatia	6.8	1.3	2.7	11.0	2.5	-1.8	**-1.6**	**-0.2**	**1.0**	*-0.8*	*1.0*	*1.0*
Hungary	11.8	-1.1	1.3	3.3	3.0	0.2	**0.7**	**0.0**	**-0.5**	*0.8*	*0.3*	*0.3*
Poland	7.4	3.6	3.4	7.4	4.3	0.2	**0.6**	**0.1**	**1.5**	*-1.0*	*1.0*	*2.0*
Romania	54.2	14.6	7.6	7.9	3.8	-3.8	**-2.1**	**-0.5**	**1.5**	*-2.0*	*0.5*	*1.6*
Sweden	-1.6	-0.2	1.9	-1.6	-1.7	-3.4	**3.9**	**3.2**	**1.7**	*3.4*	*2.4*	*1.2*
United Kingdom	-1.9	0.3	3.9	6.9	-0.5	1.0	**0.1**	**0.7**	**1.5**	*0.2*	*1.2*	*1.5*
EU	1.2	0.2	1.4	4.3	1.8	-0.6	**-0.5**	**0.3**	**1.2**	*-0.6*	*1.0*	*1.4*
USA	-1.6	1.6	1.9	7.6	0.4	-0.5	**-0.5**	**-1.5**	**0.5**	*0.1*	*0.4*	*0.6*
Japan	-1.6	-0.6	-2.5	-2.1	-2.1	9.6	**4.5**	**3.4**	**2.2**	*4.5*	*3.6*	*2.4*

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 1996-2016) — 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	1.6	1.1	1.7	6.7	1.4	-1.0	**-0.8**	**0.2**	**1.2**	*-0.8*	*0.7*	*1.4*
Germany	0.9	-0.7	0.4	6.1	2.0	-2.5	**-2.3**	**-1.2**	**0.9**	*-2.3*	*0.6*	*1.7*
Estonia	6.0	-0.3	3.1	5.7	2.4	-0.9	**-1.6**	**-2.5**	**1.1**	*-1.4*	*1.1*	*1.3*
Ireland	0.7	-2.3	0.9	5.6	5.5	-1.8	**0.5**	**1.2**	**1.1**	*0.4*	*0.5*	*1.0*
Greece	3.9	2.0	3.1	7.4	4.9	-3.6	**-2.5**	**0.0**	**-0.1**	*-0.9*	*0.0*	*-0.1*
Spain	2.5	-0.1	1.6	9.5	3.6	-2.7	**-1.5**	**-1.8**	**1.3**	*-0.9*	*0.8*	*0.7*
France	1.0	-0.8	0.8	6.7	2.0	-2.1	**-2.4**	**-1.4**	**1.4**	*-2.2*	*1.0*	*1.4*
Italy	1.3	1.2	2.0	7.9	3.3	-2.3	**-2.8**	**-1.8**	**2.0**	*-2.3*	*1.7*	*1.3*
Cyprus	2.7	2.1	2.0	2.9	1.9	1.4	**-0.5**	**1.3**	**1.6**	*-0.5*	*1.3*	*1.6*
Latvia	4.5	6.8	5.0	6.0	7.8	0.5	**-1.4**	**-2.0**	**1.3**	*-1.6*	*1.0*	*1.5*
Lithuania	-0.1	-0.7	4.1	14.2	4.6	-1.9	**-3.0**	**-3.7**	**0.9**	*-2.3*	*1.8*	*1.8*
Luxembourg	2.2	2.0	1.8	4.5	2.6	0.7	**-2.7**	**-0.5**	**0.2**	*-0.4*	*1.5*	*1.2*
Malta	4.6	-0.7	1.0	10.5	-1.7	-5.0	**-2.0**	**-2.2**	**1.6**	*-1.3*	*2.5*	*1.3*
Netherlands	0.4	-0.8	1.7	8.1	3.4	-1.5	**-2.5**	**-1.2**	**0.8**	*-1.6*	*0.9*	*0.6*
Austria	1.2	0.2	1.7	6.4	1.7	-1.2	**-1.6**	**0.0**	**1.2**	*-0.7*	*1.2*	*1.2*
Portugal	1.9	0.2	0.8	8.2	1.4	-2.3	**-3.1**	**-2.3**	**1.0**	*-1.6*	*1.4*	*1.1*
Slovenia	6.5	3.6	1.7	6.2	2.2	-1.7	**-1.3**	**0.2**	**1.4**	*-0.9*	*1.7*	*1.4*
Slovakia	4.8	2.5	1.5	5.3	2.5	-1.4	**-4.3**	**-2.3**	**0.0**	*-4.0*	*-2.0*	*0.0*
Finland	-0.1	-0.4	0.8	7.4	2.5	-2.0	**-0.8**	**-2.5**	**1.5**	*-1.6*	*0.8*	*1.5*
Euro area	1.3	-0.1	1.3	7.1	2.5	-2.0	**-2.1**	**-1.2**	**1.1**	*-1.8*	*0.8*	*1.3*
Bulgaria	101.7	2.5	4.8	9.0	3.8	-2.8	**-2.0**	**-1.6**	**1.2**	*-1.5*	*0.6*	*1.3*
Czech Republic	3.0	-2.0	-0.8	2.9	4.0	0.0	**2.2**	**-1.2**	**0.5**	*2.1*	*0.5*	*0.3*
Denmark	0.3	0.3	1.3	7.0	2.5	-2.1	**-1.2**	**-0.3**	**2.2**	*0.0*	*1.4*	*1.8*
Croatia	4.5	0.8	1.8	6.3	2.9	-0.3	**-0.7**	**-0.4**	**1.0**	*-0.5*	*1.3*	*2.0*
Hungary	12.7	-0.5	1.6	5.0	4.3	-0.6	**0.0**	**-1.0**	**-0.6**	*0.4*	*0.1*	*0.1*
Poland	9.7	3.2	2.8	9.5	5.8	-1.6	**-2.0**	**-1.5**	**1.5**	*-1.0*	*1.2*	*2.0*
Romania	48.6	12.6	2.9	6.0	7.5	-2.8	**-2.0**	**-0.5**	**0.8**	*-1.5*	*0.8*	*1.3*
Sweden	-0.1	1.1	1.6	-0.3	-1.9	-3.9	**3.9**	**2.8**	**1.4**	*3.6*	*2.4*	*1.2*
United Kingdom	-2.1	-0.3	4.0	8.3	-0.5	0.6	**-3.5**	**-1.0**	**1.0**	*-1.0*	*0.0*	*1.0*
EU	1.6	0.0	1.7	6.9	2.3	-1.7	**-1.9**	**-1.0**	**1.1**	*-1.3*	*0.8*	*1.2*
USA	-1.5	1.9	2.4	8.8	0.6	-1.1	**-0.9**	**-3.9**	**0.9**	*0.4*	*0.8*	*1.0*
Japan	0.3	2.6	0.8	7.3	-0.2	12.1	**4.8**	**2.4**	**1.9**	*5.0*	*3.1*	*2.0*

Table 21: Terms of trade of goods (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	-1.0	-0.2	-0.4	-1.8	0.2	0.4	**0.3**	**0.4**	**0.1**	*0.4*	*-0.1*	*-0.1*
Germany	-0.7	0.5	0.0	-2.9	-0.5	1.9	**1.8**	**1.6**	**0.4**	*1.8*	*0.4*	*-0.1*
Estonia	0.1	2.1	0.4	-1.8	-1.7	0.8	**0.4**	**0.3**	**0.1**	*0.1*	*0.1*	*0.1*
Ireland	1.7	0.6	-1.7	-6.2	-0.7	0.5	**-1.0**	**-0.7**	**-0.5**	*-1.4*	*-0.1*	*-0.5*
Greece	-0.1	-0.4	-0.3	1.5	-0.2	1.6	**1.0**	**0.4**	**0.4**	*-0.6*	*0.4*	*0.4*
Spain	-0.2	0.8	0.0	-4.3	-0.9	1.4	**-0.7**	**2.4**	**-0.4**	*-0.9*	*0.7*	*0.8*
France	-0.5	0.1	0.1	-2.8	-0.4	1.5	**1.4**	**2.3**	**-0.2**	*0.8*	*-0.1*	*0.1*
Italy	-0.1	-0.2	-0.4	-3.4	-1.4	2.0	**3.3**	**2.9**	**-0.7**	*2.2*	*-0.3*	*-0.1*
Cyprus	-0.5	-0.1	1.1	-1.5	-1.3	0.7	**-0.9**	**-0.3**	**0.0**	*-0.9*	*-0.3*	*0.0*
Latvia	-3.8	0.5	0.6	5.8	-3.7	1.3	**-0.1**	**0.2**	**0.0**	*-0.2*	*0.0*	*0.0*
Lithuania	3.1	2.0	-0.7	-0.6	-0.9	0.0	**0.4**	**2.6**	**0.7**	*-0.2*	*-0.1*	*0.0*
Luxembourg	-1.8	-0.1	2.1	2.5	-1.3	-0.2	**1.4**	**0.6**	**0.6**	*1.3*	*0.3*	*0.7*
Malta	0.8	-1.2	1.3	-0.6	-2.2	0.4	**0.5**	**0.4**	**0.1**	*0.2*	*-0.2*	*0.0*
Netherlands	0.9	0.6	-0.3	-1.7	-0.5	0.6	**0.1**	**-0.1**	**0.5**	*-0.4*	*0.2*	*0.8*
Austria	-0.6	0.3	-0.4	-2.3	-0.8	0.2	**1.6**	**0.0**	**-0.1**	*0.1*	*-0.1*	*-0.1*
Portugal	-0.8	-0.1	0.5	-2.2	0.3	1.6	**1.3**	**1.4**	**0.5**	*1.0*	*0.6*	*-0.1*
Slovenia	-0.2	0.1	-0.5	-1.6	-1.2	1.0	**0.8**	**0.1**	**-0.3**	*-0.2*	*-0.9*	*-0.6*
Slovakia	-0.6	-0.4	-1.2	-1.3	-1.2	-0.5	**0.3**	**0.3**	**0.0**	*0.0*	*0.0*	*0.0*
Finland	-1.3	-1.0	-1.4	-2.1	-1.8	0.4	**-0.1**	**1.6**	**0.0**	*0.3*	*0.0*	*0.0*
Euro area	-0.3	0.2	-0.3	-2.8	-0.6	1.3	**1.2**	**1.4**	**0.1**	*0.8*	*0.1*	*0.1*
Bulgaria	-3.8	-0.3	4.1	2.9	-3.5	-0.8	**0.3**	**-0.4**	**-0.9**	*-0.6*	*-0.5*	*-1.0*
Czech Republic	0.6	0.6	-0.7	-2.0	-0.6	1.4	**2.1**	**0.5**	**0.1**	*1.1*	*0.1*	*0.3*
Denmark	0.9	0.9	1.0	-1.8	0.6	1.7	**0.4**	**0.0**	**-0.5**	*0.3*	*-0.1*	*-0.5*
Croatia	2.2	0.5	0.9	4.3	-0.4	-1.5	**-0.9**	**0.2**	**0.0**	*-0.3*	*-0.2*	*-1.0*
Hungary	-0.8	-0.7	-0.3	-1.6	-1.2	0.8	**0.7**	**1.0**	**0.1**	*0.4*	*0.2*	*0.2*
Poland	-2.1	0.4	0.5	-1.9	-1.4	1.8	**2.7**	**1.6**	**0.0**	*0.0*	*-0.2*	*0.0*
Romania	3.8	1.8	4.5	1.8	-3.4	-1.1	**-0.1**	**0.0**	**0.7**	*-0.5*	*-0.3*	*0.3*
Sweden	-1.5	-1.3	0.3	-1.3	0.2	0.5	**0.0**	**0.4**	**0.3**	*-0.2*	*0.0*	*0.0*
United Kingdom	0.2	0.6	-0.1	-1.4	0.0	0.4	**3.7**	**1.7**	**0.5**	*1.3*	*1.3*	*0.5*
EU	-0.3	0.2	-0.1	-2.4	-0.7	1.3	**1.2**	**1.2**	**0.1**	*0.5*	*0.2*	*0.1*
USA	-0.1	-0.4	-0.5	-1.1	-0.1	0.6	**0.4**	**2.6**	**-0.4**	*-0.3*	*-0.4*	*-0.4*
Japan	-1.9	-3.1	-3.2	-8.8	-1.9	-2.2	**-0.3**	**1.0**	**0.3**	*-0.5*	*0.5*	*0.4*

Table 22: Total population (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	0.2	0.4	0.8	0.9	0.7	0.5	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*	*0.5*
Germany	0.1	0.1	-0.2	0.0	0.2	0.2	**0.4**	**0.3**	**0.2**	*0.3*	*0.2*	*0.1*
Estonia	-0.6	-0.6	-0.4	-0.3	-0.3	-0.4	**-0.4**	**-0.4**	**-0.4**	*-0.4*	*-0.4*	*-0.4*
Ireland	1.1	1.8	1.9	0.4	0.3	0.3	**0.4**	**0.7**	**0.9**	*0.4*	*0.7*	*0.9*
Greece	0.5	0.3	0.1	-0.3	-0.3	-0.3	**0.0**	**0.0**	**0.0**	*0.0*	*0.0*	*0.0*
Spain	0.4	1.5	1.2	0.1	0.1	-0.5	**-0.3**	**-0.1**	**-0.1**	*-0.2*	*-0.2*	*-0.2*
France	0.5	0.7	0.6	0.5	0.5	0.4	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*	*0.5*
Italy	0.0	0.4	0.6	0.4	0.5	0.5	**0.4**	**0.3**	**0.3**	*1.1*	*0.3*	*0.3*
Cyprus	1.3	1.3	2.3	2.6	1.5	-0.2	**0.4**	**0.4**	**0.4**	*0.4*	*0.4*	*0.4*
Latvia	-1.0	-1.1	-1.3	-1.8	-1.2	-1.0	**-0.9**	**-0.7**	**-0.6**	*-0.8*	*-0.7*	*-0.6*
Lithuania	-0.7	-1.0	-1.4	-2.2	-1.3	-1.0	**-1.2**	**-0.4**	**-0.4**	*-0.7*	*-0.4*	*-0.4*
Luxembourg	1.3	1.3	1.7	2.3	2.3	2.6	**2.3**	**2.0**	**2.0**	*2.3*	*2.0*	*2.0*
Malta	0.6	0.7	0.5	0.4	0.8	0.7	**0.3**	**0.2**	**0.2**	*0.8*	*0.7*	*0.7*
Netherlands	0.6	0.5	0.4	0.5	0.4	0.3	**0.4**	**0.4**	**0.4**	*0.3*	*0.3*	*0.3*
Austria	0.2	0.5	0.3	0.3	0.5	0.6	**0.7**	**0.3**	**0.3**	*0.7*	*0.3*	*0.3*
Portugal	0.5	0.4	0.1	-0.1	-0.4	-0.5	**-0.6**	**-0.5**	**-0.5**	*-0.6*	*-0.5*	*-0.5*
Slovenia	0.0	0.1	0.5	0.2	0.2	0.1	**0.1**	**0.1**	**0.1**	*0.2*	*0.2*	*0.2*
Slovakia	0.1	-0.1	0.2	-0.6	0.2	0.1	**0.1**	**0.0**	**0.0**	*0.1*	*0.0*	*0.0*
Finland	0.3	0.3	0.4	0.5	0.5	0.5	**0.5**	**0.5**	**0.5**	*0.5*	*0.5*	*0.5*
Euro area	0.3	0.5	0.4	0.2	0.3	0.2	**0.3**	**0.2**	**0.2**	*0.4*	*0.2*	*0.2*
Bulgaria	-0.6	-1.1	-0.5	-2.5	-0.6	-0.5	**-0.7**	**-0.7**	**-0.7**	*-0.7*	*-0.7*	*-0.7*
Czech Republic	-0.1	-0.1	0.5	-0.2	0.1	0.0	**0.0**	**0.1**	**0.0**	*0.1*	*0.1*	*0.0*
Denmark	0.4	0.3	0.5	0.4	0.4	0.4	**0.5**	**0.4**	**0.3**	*0.4*	*0.4*	*0.3*
Croatia	-1.0	-0.4	-0.1	-0.3	-0.3	-0.4	**-0.3**	**-0.2**	**-0.2**	*-0.2*	*-0.2*	*-0.2*
Hungary	-0.2	-0.2	-0.2	-0.3	-0.5	-0.3	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.1*	*-0.1*
Poland	0.0	0.0	0.2	0.0	0.0	-0.1	**-0.1**	**-0.1**	**-0.1**	*-0.1*	*-0.1*	*-0.1*
Romania	-0.2	-1.0	-1.0	-0.5	-0.3	-0.2	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.3*	*-0.2*
Sweden	0.1	0.4	0.8	0.8	0.7	0.9	**1.0**	**1.1**	**1.0**	*1.0*	*1.1*	*1.0*
United Kingdom	0.3	0.5	0.7	0.8	1.5	0.6	**0.5**	**0.6**	**0.6**	*0.7*	*0.8*	*0.8*
EU	0.2	0.3	0.3	0.2	0.4	0.2	**0.2**	**0.2**	**0.2**	*0.3*	*0.2*	*0.2*
USA	1.2	0.9	0.9	0.7	0.7	0.7	**0.7**	**0.8**	**0.8**	*0.7*	*0.7*	*0.7*
Japan	0.2	0.1	0.0	-0.2	-0.2	-0.2	**-0.2**	**-0.2**	**-0.2**	*-0.2*	*-0.2*	*-0.2*

Table 23: Total employment (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	1.2	0.7	1.0	1.4	0.3	-0.3	**0.3**	**0.5**	**0.6**	*0.2*	*0.4*	*0.6*
Germany	1.0	-0.3	0.8	1.3	1.1	0.6	**0.9**	**0.5**	**0.6**	*0.8*	*0.4*	*0.6*
Estonia	-2.0	0.9	-2.1	6.5	1.6	1.2	**0.0**	**-0.2**	**-0.2**	*-0.2*	*-0.3*	*-0.2*
Ireland	5.7	3.0	-0.7	-1.8	-0.6	2.4	**2.0**	**2.2**	**1.9**	*2.0*	*2.2*	*2.2*
Greece	0.8	1.5	0.2	-6.9	-7.8	-3.8	**0.6**	**2.6**	**4.0**	*0.6*	*2.6*	*4.0*
Spain	3.7	3.1	-0.3	-2.6	-4.4	-3.3	**0.8**	**1.8**	**2.0**	*0.7*	*1.1*	*1.5*
France	1.4	0.7	0.3	0.5	-0.1	-0.2	**0.2**	**0.2**	**0.8**	*0.1*	*0.3*	*0.6*
Italy	0.8	0.8	-0.3	0.1	-0.9	-1.7	**0.0**	**0.4**	**0.7**	*-0.4*	*0.2*	*0.6*
Cyprus	1.2	3.1	1.3	0.5	-4.2	-5.2	**-1.8**	**0.2**	**1.3**	*-1.8*	*0.2*	*1.3*
Latvia	-0.6	1.8	-3.7	1.5	1.4	2.3	**0.1**	**0.5**	**0.9**	*0.3*	*0.5*	*1.1*
Lithuania	-1.1	0.3	-2.5	0.5	1.8	1.3	**2.5**	**1.2**	**1.2**	*0.6*	*1.2*	*1.3*
Luxembourg	4.1	3.1	3.2	2.9	2.4	2.0	**2.2**	**2.1**	**2.2**	*2.3*	*2.1*	*2.2*
Malta	0.2	0.7	1.6	2.8	2.3	4.0	**2.7**	**2.0**	**1.9**	*2.3*	*1.8*	*1.6*
Netherlands	2.5	-0.1	1.0	0.6	-0.6	-1.4	**-0.5**	**0.6**	**0.7**	*-0.9*	*0.1*	*0.6*
Austria	0.8	0.3	0.7	1.4	1.3	0.7	**0.9**	**0.6**	**1.0**	*0.9*	*0.6*	*1.0*
Portugal	2.2	0.0	-0.7	-1.9	-4.1	-2.9	**1.8**	**0.7**	**0.7**	*1.6*	*0.8*	*0.8*
Slovenia	-0.2	0.3	0.7	-1.6	-0.8	-1.5	**0.4**	**0.6**	**0.9**	*0.4*	*0.6*	*0.9*
Slovakia	-0.8	0.6	0.8	1.8	0.1	-0.8	**0.8**	**0.7**	**0.6**	*0.8*	*0.7*	*0.6*
Finland	2.3	1.0	0.6	1.3	0.9	-1.5	**-0.4**	**0.3**	**0.7**	*-0.6*	*0.2*	*0.6*
Euro area	1.4	0.7	0.2	0.0	-0.7	-0.8	**0.5**	**0.7**	**1.0**	*0.4*	*0.5*	*0.9*
Bulgaria	-1.6	1.5	0.7	-2.2	-2.5	-0.4	**0.0**	**0.0**	**0.3**	*-0.3*	*-0.2*	*0.3*
Czech Republic	-1.0	0.3	0.6	-0.3	0.4	0.4	**0.4**	**0.2**	**0.3**	*0.4*	*0.3*	*0.3*
Denmark	1.0	0.2	0.1	-0.1	-0.3	0.0	**0.7**	**0.6**	**0.9**	*0.7*	*0.5*	*0.9*
Croatia	:	1.5	0.3	-2.3	-3.9	-1.0	**0.0**	**0.0**	**0.5**	*-1.4*	*-0.5*	*0.5*
Hungary	1.1	-0.3	-0.6	0.0	0.1	0.8	**3.7**	**1.1**	**1.3**	*3.3*	*0.5*	*0.4*
Poland	-0.3	-0.6	1.8	0.6	0.1	-0.1	**1.7**	**0.4**	**0.5**	*1.0*	*0.2*	*0.4*
Romania	-1.5	-2.9	-0.2	-0.8	-4.8	-0.6	**0.2**	**0.3**	**0.4**	*-0.1*	*0.3*	*0.5*
Sweden	0.8	0.2	0.7	2.1	0.7	1.0	**1.5**	**1.3**	**1.3**	*1.2*	*1.3*	*1.3*
United Kingdom	1.3	1.0	0.3	0.5	1.1	1.2	**1.9**	**1.4**	**0.8**	*2.1*	*1.3*	*1.1*
EU	:	0.5	0.3	0.1	-0.6	-0.4	**0.9**	**0.7**	**0.9**	*0.7*	*0.6*	*0.8*
USA	2.0	0.4	-0.8	1.0	1.8	1.9	**2.5**	**2.9**	**2.5**	*2.4*	*2.5*	*2.6*
Japan	-0.5	-0.1	-0.3	-0.2	0.0	0.6	**0.5**	**0.3**	**0.3**	*0.5*	*0.3*	*0.3*

Table 24: Unemployment rate [1] (number of unemployed as a percentage of total labour force, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	8.7	7.8	7.8	7.2	7.6	8.4	**8.5**	**8.3**	**8.1**	*8.5*	*8.4*	*8.2*
Germany	8.9	9.5	8.1	5.8	5.4	5.2	**5.0**	**4.9**	**4.8**	*5.1*	*5.1*	*4.8*
Estonia	10.9	10.5	9.2	12.3	10.0	8.6	**7.7**	**6.8**	**5.9**	*7.8*	*7.1*	*6.3*
Ireland	7.8	4.4	8.3	14.7	14.7	13.1	**11.1**	**9.6**	**8.8**	*11.1*	*9.6*	*8.5*
Greece	10.7	10.3	9.5	17.9	24.5	27.5	**26.6**	**25.0**	**22.0**	*26.8*	*25.0*	*22.0*
Spain	16.0	10.8	13.2	21.4	24.8	26.1	**24.3**	**22.5**	**20.7**	*24.8*	*23.5*	*22.2*
France	10.0	8.4	8.5	9.2	9.8	10.3	**10.3**	**10.4**	**10.2**	*10.4*	*10.4*	*10.2*
Italy	10.9	8.3	7.2	8.4	10.7	12.2	**12.8**	**12.8**	**12.6**	*12.6*	*12.6*	*12.4*
Cyprus	3.6	4.3	4.8	7.9	11.9	15.9	**16.2**	**15.8**	**14.8**	*16.2*	*15.8*	*14.8*
Latvia	15.6	11.9	11.6	16.2	15.0	11.9	**11.0**	**10.2**	**9.2**	*11.0*	*10.2*	*9.2*
Lithuania	11.7	12.6	9.5	15.4	13.4	11.8	**9.5**	**8.7**	**7.9**	*11.2*	*10.4*	*9.5*
Luxembourg	2.6	3.6	4.7	4.8	5.1	5.9	**6.3**	**6.4**	**6.3**	*6.1*	*6.2*	*6.1*
Malta	6.3	7.4	6.6	6.4	6.3	6.4	**6.0**	**5.9**	**5.9**	*6.1*	*6.1*	*6.2*
Netherlands	4.6	4.0	3.9	4.4	5.3	6.7	**6.9**	**6.6**	**6.4**	*6.9*	*6.8*	*6.7*
Austria	4.1	4.4	4.4	4.2	4.3	4.9	**5.0**	**5.2**	**5.0**	*5.3*	*5.4*	*5.0*
Portugal	6.5	7.0	9.9	12.9	15.8	16.4	**14.2**	**13.4**	**12.6**	*14.5*	*13.6*	*12.8*
Slovenia	7.0	6.4	5.7	8.2	8.9	10.1	**9.8**	**9.5**	**8.9**	*9.8*	*9.2*	*8.4*
Slovakia	14.4	18.2	12.2	13.7	14.0	14.2	**13.4**	**12.8**	**12.1**	*13.4*	*12.8*	*12.1*
Finland	11.7	8.9	7.5	7.8	7.7	8.2	**8.7**	**9.0**	**8.8**	*8.6*	*8.5*	*8.3*
Euro area	:	8.8	8.6	10.1	11.3	12.0	**11.6**	**11.2**	**10.6**	*11.6*	*11.3*	*10.8*
Bulgaria	14.2	14.7	7.7	11.3	12.3	13.0	**11.7**	**10.9**	**10.4**	*12.0*	*11.4*	*11.0*
Czech Republic	6.6	7.9	6.2	6.7	7.0	7.0	**6.1**	**6.0**	**5.9**	*6.3*	*6.2*	*6.1*
Denmark	5.2	5.0	4.9	7.6	7.5	7.0	**6.6**	**6.5**	**6.4**	*6.7*	*6.6*	*6.4*
Croatia	13.3	14.4	10.5	13.9	16.1	17.3	**17.0**	**16.8**	**16.4**	*17.7*	*17.7*	*17.3*
Hungary	8.2	6.1	8.8	11.0	11.0	10.2	**7.7**	**7.4**	**6.6**	*8.0*	*7.8*	*7.8*
Poland	12.5	19.0	9.7	9.7	10.1	10.3	**9.1**	**8.8**	**8.3**	*9.5*	*9.3*	*8.8*
Romania	6.3	7.7	6.5	7.2	6.8	7.1	**7.0**	**6.9**	**6.8**	*7.0*	*6.9*	*6.7*
Sweden	8.0	6.7	7.3	7.8	8.0	8.0	**7.8**	**7.7**	**7.5**	*7.9*	*7.8*	*7.6*
United Kingdom	6.4	4.9	6.3	8.1	7.9	7.6	**6.3**	**5.6**	**5.4**	*6.2*	*5.7*	*5.5*
EU	:	9.0	8.2	9.6	10.5	10.8	**10.2**	**9.8**	**9.3**	*10.3*	*10.0*	*9.5*
USA	4.6	5.4	6.8	8.9	8.1	7.4	**6.2**	**5.4**	**4.9**	*6.3*	*5.8*	*5.4*
Japan	4.1	5.0	4.4	4.6	4.3	4.0	**3.7**	**3.7**	**3.6**	*3.8*	*3.8*	*3.8*

[1] Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	2.4	2.6	2.7	3.0	3.4	2.6	**0.7**	**0.4**	**0.1**	*0.6*	*0.5*	*0.3*
Germany	1.0	1.0	1.3	2.9	2.5	1.9	**2.6**	**2.9**	**2.9**	*2.8*	*3.3*	*3.0*
Estonia	16.9	10.9	9.6	0.8	6.5	7.2	**5.6**	**4.9**	**5.1**	*5.2*	*5.2*	*6.2*
Ireland	5.2	6.1	2.1	1.2	0.8	2.0	**-1.3**	**1.7**	**1.9**	*-1.3*	*0.8*	*2.1*
Greece	8.2	7.1	2.2	-2.3	-2.0	-7.1	**-1.5**	**0.0**	**1.7**	*-1.5*	*0.1*	*1.7*
Spain	2.6	3.5	4.2	0.9	-0.6	1.7	**0.5**	**0.7**	**0.8**	*0.5*	*0.9*	*1.1*
France	2.0	2.9	2.7	2.5	2.3	1.6	**1.4**	**0.4**	**0.7**	*1.4*	*0.9*	*1.0*
Italy	2.9	3.4	2.7	1.1	0.9	1.2	**0.8**	**0.5**	**0.6**	*0.8*	*0.6*	*1.0*
Cyprus	4.7	4.1	2.9	2.5	-0.8	-6.0	**-4.6**	**0.2**	**1.2**	*-4.6*	*0.2*	*1.2*
Latvia	11.9	11.2	11.1	3.7	6.1	9.4	**6.2**	**4.6**	**5.0**	*6.2*	*4.6*	*5.0*
Lithuania	14.1	9.3	7.3	6.3	4.2	5.0	**3.7**	**5.0**	**5.5**	*3.6*	*4.9*	*5.2*
Luxembourg	2.9	3.2	3.0	2.1	1.5	3.6	**2.3**	**1.6**	**2.3**	*1.9*	*3.0*	*3.0*
Malta	4.1	3.8	3.4	3.6	4.3	-0.3	**2.4**	**1.8**	**2.2**	*3.4*	*2.5*	*2.5*
Netherlands	3.5	3.4	2.5	2.4	2.6	2.3	**1.6**	**0.8**	**2.1**	*2.6*	*0.6*	*1.8*
Austria	2.2	2.1	2.7	2.4	2.6	2.1	**2.0**	**2.1**	**2.0**	*2.0*	*2.1*	*2.0*
Portugal	5.8	3.8	2.5	-1.8	-2.1	3.5	**-0.5**	**0.7**	**0.8**	*-0.4*	*0.9*	*0.9*
Slovenia	10.6	8.3	4.9	1.6	-1.2	1.9	**0.8**	**1.5**	**2.1**	*0.8*	*1.3*	*1.9*
Slovakia	11.9	7.9	6.2	2.0	2.6	2.6	**3.3**	**2.3**	**3.0**	*3.5*	*2.2*	*3.0*
Finland	3.2	2.9	3.0	3.6	2.8	2.0	**1.5**	**1.4**	**1.5**	*1.6*	*1.5*	*1.6*
Euro area	2.2	2.5	2.6	2.2	1.9	1.8	**1.4**	**1.3**	**1.5**	*1.5*	*1.6*	*1.7*
Bulgaria	98.2	7.8	10.7	6.8	7.7	8.8	**2.3**	**2.0**	**2.4**	*2.0*	*1.6*	*3.2*
Czech Republic	9.9	7.1	3.8	2.8	1.4	-0.6	**3.0**	**3.0**	**3.0**	*3.0*	*3.3*	*3.4*
Denmark	3.7	3.6	3.5	1.4	1.5	1.3	**2.0**	**2.1**	**2.3**	*1.6*	*2.0*	*2.2*
Croatia	:	5.4	3.7	1.8	1.3	1.5	**1.8**	**1.2**	**1.5**	*1.8*	*1.4*	*1.5*
Hungary	15.7	11.2	3.4	3.4	1.8	1.5	**3.8**	**3.9**	**3.0**	*3.9*	*3.9*	*3.2*
Poland	17.1	3.5	5.6	5.3	3.5	2.6	**2.3**	**3.7**	**3.9**	*3.0*	*3.8*	*4.2*
Romania	66.5	27.6	11.4	-4.1	9.4	2.7	**4.7**	**3.4**	**4.1**	*5.5*	*4.9*	*5.6*
Sweden	4.3	3.7	3.4	3.2	3.1	1.6	**2.6**	**2.7**	**2.8**	*2.6*	*2.8*	*2.9*
United Kingdom	5.0	4.3	3.5	1.0	2.0	1.9	**1.9**	**2.0**	**2.4**	*1.6*	*2.3*	*2.7*
EU	3.7	3.2	2.8	2.0	2.1	1.7	**1.6**	**1.6**	**1.9**	*1.7*	*1.9*	*2.1*
USA	4.5	3.5	3.2	2.6	2.2	0.7	**1.3**	**1.9**	**2.8**	*1.6*	*2.7*	*3.3*
Japan	0.1	-1.4	-1.1	0.6	-0.2	0.1	**0.5**	**0.7**	**0.9**	*0.7*	*0.8*	*0.5*

Table 26: Real compensation of employees per head [1] (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	0.9	0.7	0.6	-0.1	1.2	1.4	**0.2**	**0.0**	**-1.0**	*0.1*	*-0.4*	*-0.9*
Germany	0.2	-0.5	0.2	1.0	1.0	0.6	**1.6**	**2.6**	**1.3**	*1.7*	*1.9*	*1.4*
Estonia	6.8	6.6	4.4	-4.1	3.0	4.0	**4.7**	**4.5**	**3.4**	*4.1*	*3.6*	*3.9*
Ireland	1.7	2.6	2.6	-0.5	0.3	0.3	**-2.5**	**0.7**	**0.6**	*-2.2*	*-0.4*	*0.8*
Greece	3.3	4.2	-0.8	-4.6	-2.7	-5.6	**-0.1**	**0.4**	**1.0**	*-0.5*	*-0.2*	*0.6*
Spain	-0.1	0.2	1.8	-1.8	-2.9	0.7	**0.7**	**1.6**	**-0.3**	*0.6*	*0.4*	*-0.1*
France	1.1	1.2	1.3	0.7	0.9	1.0	**0.9**	**0.4**	**-0.3**	*0.8*	*-0.1*	*-0.3*
Italy	0.2	0.8	0.9	-1.7	-1.9	0.0	**0.6**	**0.8**	**-0.8**	*0.4*	*0.0*	*-1.0*
Cyprus	2.4	1.4	0.1	-0.5	-3.7	-5.9	**-3.7**	**-0.4**	**0.0**	*-3.7*	*-0.4*	*0.0*
Latvia	5.2	5.0	5.4	-2.2	2.7	9.0	**5.6**	**3.5**	**2.9**	*5.3*	*2.8*	*2.5*
Lithuania	7.8	8.8	1.8	2.1	1.1	4.0	**3.4**	**4.6**	**3.8**	*3.3*	*3.6*	*3.2*
Luxembourg	0.7	1.2	1.2	-0.4	-0.4	3.3	**1.8**	**0.7**	**0.4**	*0.2*	*1.0*	*1.1*
Malta	1.9	1.4	1.1	1.2	1.8	-1.4	**1.0**	**0.5**	**0.3**	*2.7*	*0.9*	*0.5*
Netherlands	1.3	1.0	1.1	0.3	1.2	0.3	**0.7**	**-0.2**	**1.2**	*1.7*	*-0.7*	*0.3*
Austria	1.1	0.2	0.8	-0.9	0.2	-0.1	**0.6**	**0.9**	**-0.1**	*0.4*	*0.4*	*0.3*
Portugal	2.8	0.3	0.6	-3.5	-3.5	2.8	**-1.2**	**0.6**	**-0.3**	*-1.2*	*0.0*	*0.1*
Slovenia	2.5	3.1	2.0	-0.1	-2.6	1.3	**0.4**	**1.8**	**1.2**	*0.1*	*0.2*	*0.8*
Slovakia	5.0	2.7	3.6	-1.8	-0.8	1.2	**3.6**	**1.9**	**2.0**	*4.0*	*1.7*	*2.0*
Finland	1.4	1.6	1.1	0.4	-0.2	-0.5	**0.4**	**0.9**	**0.2**	*0.3*	*0.2*	*0.0*
Euro area	0.6	0.4	0.9	-0.2	0.0	0.7	**0.9**	**1.2**	**0.2**	*0.9*	*0.6*	*0.2*
Bulgaria	-1.2	3.7	6.4	2.2	4.0	11.1	**3.3**	**1.9**	**1.6**	*3.5*	*1.4*	*2.3*
Czech Republic	3.5	5.2	1.5	1.2	-1.1	-1.6	**2.7**	**2.2**	**1.5**	*2.3*	*1.9*	*1.6*
Denmark	1.7	1.9	1.3	-0.9	-1.1	0.3	**1.3**	**1.4**	**0.5**	*0.4*	*0.5*	*0.4*
Croatia	:	2.4	0.4	-0.5	-1.9	-0.4	**2.1**	**1.5**	**0.4**	*1.6*	*0.8*	*0.4*
Hungary	0.7	5.2	-1.2	-0.3	-4.2	-1.0	**4.1**	**3.0**	**0.2**	*3.8*	*1.4*	*0.2*
Poland	4.6	0.8	2.9	0.5	0.3	1.7	**2.2**	**4.1**	**2.5**	*2.8*	*2.7*	*2.2*
Romania	5.2	8.4	5.0	-7.9	4.6	-1.0	**2.9**	**1.5**	**1.4**	*3.8*	*2.1*	*2.8*
Sweden	3.2	2.2	1.5	1.5	2.5	0.9	**1.8**	**1.8**	**1.4**	*2.2*	*1.2*	*1.0*
United Kingdom	3.1	2.7	0.4	-2.3	-0.1	0.0	**0.9**	**1.1**	**0.8**	*0.3*	*0.9*	*0.8*
EU	1.1	1.0	0.8	-0.5	0.1	0.5	**1.0**	**1.4**	**0.5**	*0.9*	*0.8*	*0.5*
USA	2.8	1.4	1.2	0.1	0.3	-0.5	**0.0**	**2.0**	**1.0**	*0.1*	*0.6*	*0.9*
Japan	0.1	-0.4	-0.1	1.4	0.7	0.4	**-1.3**	**0.2**	**0.0**	*-0.9*	*-0.5*	*-0.4*

[1] Deflated by the price deflator of private consumption

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 27: Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	1.7	1.0	0.3	0.2	-0.2	0.6	**0.8**	**0.7**	**0.8**	*0.7*	*0.5*	*0.5*
Germany	0.9	0.9	0.4	2.2	-0.7	-0.5	**0.6**	**1.0**	**1.3**	*0.5*	*0.7*	*1.2*
Estonia	8.9	6.2	1.9	1.6	3.0	0.4	**1.9**	**2.4**	**3.1**	*2.2*	*2.3*	*3.0*
Ireland	3.7	1.8	1.0	4.6	0.3	-2.1	**2.7**	**1.3**	**1.7**	*2.6*	*1.4*	*1.4*
Greece	2.9	2.3	-0.5	-2.1	1.4	-0.1	**0.4**	**-0.1**	**-0.4**	*0.0*	*0.3*	*-0.3*
Spain	0.4	0.3	1.5	2.0	2.4	2.1	**0.7**	**0.4**	**0.5**	*0.6*	*0.6*	*0.7*
France	1.5	0.9	0.5	1.6	0.5	0.5	**0.1**	**0.7**	**1.0**	*0.2*	*0.4*	*0.9*
Italy	1.2	0.2	0.0	0.5	-1.4	-0.2	**-0.5**	**0.2**	**0.7**	*0.0*	*0.4*	*0.5*
Cyprus	2.6	0.5	1.1	-0.2	1.8	-0.1	**-0.9**	**0.2**	**0.3**	*-0.9*	*0.2*	*0.3*
Latvia	5.6	6.5	3.8	3.4	3.3	1.9	**2.5**	**2.4**	**2.7**	*2.3*	*2.3*	*2.5*
Lithuania	5.9	7.4	3.8	5.6	2.0	1.9	**0.5**	**1.8**	**2.2**	*2.1*	*1.9*	*2.1*
Luxembourg	1.9	0.0	-0.9	-0.3	-2.5	0.0	**0.7**	**0.5**	**0.7**	*0.7*	*0.3*	*0.7*
Malta	4.3	1.4	0.4	-0.6	0.2	-1.5	**0.6**	**1.3**	**1.0**	*0.7*	*1.1*	*1.1*
Netherlands	1.6	1.2	0.5	1.0	-1.0	0.7	**1.2**	**0.8**	**1.0**	*1.8*	*1.3*	*1.0*
Austria	2.2	1.4	0.6	1.6	-0.4	-0.5	**-0.7**	**0.2**	**0.5**	*-0.2*	*0.6*	*0.5*
Portugal	1.9	0.9	1.3	0.1	0.8	1.6	**-0.7**	**0.9**	**1.0**	*-0.7*	*0.5*	*0.9*
Slovenia	4.4	3.3	1.0	2.3	-1.8	0.5	**2.2**	**1.2**	**1.4**	*2.0*	*1.1*	*1.5*
Slovakia	4.4	4.4	3.8	0.9	1.6	2.2	**1.5**	**1.8**	**2.6**	*1.6*	*1.8*	*2.7*
Finland	2.7	1.6	0.2	1.3	-2.3	0.3	**0.4**	**0.5**	**0.7**	*0.1*	*0.4*	*0.6*
Euro area	1.3	0.8	0.6	1.6	0.0	0.3	**0.3**	**0.7**	**0.9**	*0.4*	*0.6*	*0.9*
Bulgaria	2.5	3.6	2.2	4.3	3.1	1.5	**1.4**	**0.8**	**0.7**	*1.5*	*0.8*	*0.7*
Czech Republic	2.8	3.7	1.9	2.2	-1.2	-1.1	**1.9**	**2.2**	**2.3**	*2.1*	*2.4*	*2.4*
Denmark	2.0	1.2	0.0	1.2	-0.4	-0.5	**0.1**	**1.1**	**1.2**	*0.1*	*1.2*	*1.1*
Croatia	:	3.0	0.2	2.1	1.8	0.1	**-0.5**	**0.2**	**0.5**	*0.7*	*0.7*	*0.6*
Hungary	1.9	4.5	0.4	1.8	-1.6	0.7	**-0.4**	**1.3**	**0.7**	*-0.1*	*2.0*	*1.6*
Poland	5.8	3.6	2.9	4.2	1.6	1.7	**1.6**	**2.8**	**2.9**	*2.0*	*2.6*	*2.9*
Romania	1.3	9.0	3.2	1.9	5.7	4.0	**2.8**	**2.4**	**2.5**	*2.0*	*2.1*	*2.3*
Sweden	2.7	2.4	0.9	0.5	-1.0	0.3	**0.3**	**1.0**	**1.3**	*0.8*	*1.1*	*1.3*
United Kingdom	1.8	1.9	0.3	1.1	-0.4	0.5	**0.7**	**1.2**	**1.6**	*0.9*	*1.4*	*1.4*
EU	:	1.4	0.6	1.6	0.1	0.4	**0.4**	**0.9**	**1.2**	*0.6*	*0.9*	*1.1*
USA	2.2	2.2	1.6	0.6	0.5	0.4	**0.0**	**0.6**	**0.7**	*-0.2*	*0.6*	*0.6*
Japan	1.3	1.3	0.6	-0.3	1.7	1.0	**-0.1**	**1.0**	**1.0**	*0.6*	*0.7*	*0.7*

Table 28: Unit labour costs, whole economy [1] (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	0.7	1.6	2.4	2.8	3.6	2.0	**-0.1**	**-0.3**	**-0.7**	*-0.1*	*0.0*	*-0.2*
Germany	0.1	0.1	1.0	0.6	3.3	2.4	**1.9**	**1.8**	**1.5**	*2.3*	*2.5*	*1.8*
Estonia	7.4	4.5	7.6	-0.8	3.4	6.8	**3.6**	**2.4**	**1.9**	*3.0*	*2.9*	*3.1*
Ireland	1.5	4.2	1.1	-3.2	0.5	4.2	**-3.9**	**0.4**	**0.3**	*-3.8*	*-0.6*	*0.7*
Greece	5.1	4.7	2.8	-0.2	-3.3	-7.0	**-1.9**	**0.2**	**2.1**	*-1.5*	*-0.3*	*2.0*
Spain	2.2	3.2	2.7	-1.1	-3.0	-0.4	**-0.2**	**0.2**	**0.3**	*-0.1*	*0.3*	*0.4*
France	0.5	2.0	2.2	0.9	1.8	1.1	**1.3**	**-0.3**	**-0.4**	*1.2*	*0.4*	*0.1*
Italy	1.6	3.2	2.7	0.7	2.3	1.4	**1.4**	**0.3**	**-0.1**	*0.8*	*0.2*	*0.5*
Cyprus	2.0	3.6	1.8	2.7	-2.6	-5.9	**-3.7**	**0.0**	**0.9**	*-3.7*	*0.0*	*0.9*
Latvia	6.0	4.4	7.0	0.2	2.7	7.3	**3.6**	**2.2**	**2.2**	*3.8*	*2.2*	*2.5*
Lithuania	7.7	1.7	3.3	0.7	2.2	3.0	**3.1**	**3.1**	**3.2**	*1.5*	*3.0*	*3.1*
Luxembourg	1.0	3.2	3.9	2.4	4.2	3.6	**1.6**	**1.2**	**1.6**	*1.2*	*2.7*	*2.3*
Malta	-0.2	2.4	3.0	4.3	4.1	1.2	**1.8**	**0.5**	**1.2**	*2.7*	*1.4*	*1.3*
Netherlands	1.9	2.1	1.9	1.3	3.6	1.6	**0.4**	**0.0**	**1.1**	*0.7*	*-0.7*	*0.8*
Austria	0.1	0.7	2.0	0.8	3.1	2.6	**2.7**	**1.9**	**1.5**	*2.2*	*1.5*	*1.5*
Portugal	3.8	2.9	1.2	-2.0	-2.9	1.9	**0.2**	**-0.2**	**-0.2**	*0.3*	*0.4*	*0.0*
Slovenia	5.9	4.9	3.8	-0.7	0.6	1.4	**-1.3**	**0.3**	**0.7**	*-1.2*	*0.2*	*0.4*
Slovakia	7.2	3.4	2.3	1.1	1.0	0.3	**1.8**	**0.4**	**0.4**	*1.9*	*0.4*	*0.3*
Finland	0.5	1.3	2.8	2.3	5.2	1.7	**1.2**	**1.0**	**0.8**	*1.4*	*1.1*	*1.1*
Euro area	1.0	1.9	2.0	0.5	1.8	1.4	**1.1**	**0.6**	**0.6**	*1.1*	*0.9*	*0.8*
Bulgaria	93.4	4.0	8.3	2.4	4.5	7.2	**1.0**	**1.2**	**1.7**	*0.5*	*0.8*	*2.5*
Czech Republic	6.9	3.3	1.8	0.6	2.6	0.5	**1.1**	**0.7**	**0.7**	*0.8*	*0.9*	*1.0*
Denmark	1.7	2.4	3.4	0.2	1.9	1.9	**1.9**	**1.0**	**1.1**	*1.5*	*0.8*	*1.1*
Croatia	:	2.3	3.5	-0.3	-0.5	1.5	**2.3**	**0.9**	**1.0**	*1.1*	*0.7*	*0.9*
Hungary	13.6	6.4	2.9	1.6	3.5	0.8	**4.2**	**2.5**	**2.3**	*4.0*	*1.9*	*1.6*
Poland	10.7	-0.1	2.6	1.1	1.8	0.8	**0.7**	**0.9**	**1.0**	*1.0*	*1.2*	*1.3*
Romania	64.4	17.1	8.0	-5.8	3.5	-1.3	**1.8**	**0.9**	**1.5**	*3.4*	*2.7*	*3.2*
Sweden	1.5	1.2	2.5	2.6	4.1	1.3	**2.2**	**1.7**	**1.5**	*1.8*	*1.7*	*1.6*
United Kingdom	3.1	2.3	3.2	-0.1	2.4	1.4	**1.2**	**0.8**	**0.8**	*0.6*	*0.9*	*1.2*
EU	:	2.0	2.3	0.5	2.0	1.4	**1.2**	**0.7**	**0.7**	*1.1*	*1.0*	*1.0*
USA	2.2	1.3	1.5	1.9	1.6	0.3	**1.4**	**1.3**	**2.1**	*1.7*	*2.1*	*2.6*
Japan	-1.3	-2.6	-1.7	0.8	-1.9	-0.9	**0.7**	**-0.3**	**-0.1**	*0.1*	*0.1*	*-0.1*

[1] Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 29: Real unit labour costs [1] (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			Autumn 2014 forecast		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	-0.4	-0.5	0.4	0.6	1.5	0.5	**-0.7**	**-1.1**	**-1.8**	*-0.8*	*-0.6*	*-1.3*
Germany	-0.1	-1.0	-0.1	-0.5	1.8	0.3	**0.1**	**0.4**	**-0.5**	*0.3*	*0.8*	*-0.1*
Estonia	-2.4	-0.7	1.7	-3.7	0.7	2.2	**1.2**	**0.3**	**-0.6**	*1.3*	*0.5*	*0.3*
Ireland	-2.9	-0.2	1.7	-4.1	-0.8	3.2	**-4.3**	**0.0**	**-0.4**	*-4.3*	*-1.5*	*-0.7*
Greece	0.3	1.6	-0.1	-0.9	-3.4	-4.9	**0.3**	**0.4**	**1.2**	*0.0*	*-0.7*	*0.9*
Spain	-0.6	-0.8	0.7	-1.2	-3.2	-1.1	**0.5**	**0.0**	**-0.7**	*0.2*	*-0.8*	*-1.1*
France	-0.5	0.1	0.5	-0.1	0.6	0.3	**0.5**	**-1.2**	**-1.3**	*0.5*	*-0.4*	*-1.2*
Italy	-1.0	0.4	0.9	-0.8	0.6	0.0	**0.9**	**-0.1**	**-1.2**	*0.4*	*-0.3*	*-1.0*
Cyprus	-0.5	0.4	-1.0	0.7	-4.6	-4.6	**-2.0**	**-0.8**	**-0.5**	*-2.0*	*-0.8*	*-0.5*
Latvia	0.3	-1.5	0.8	-5.8	-0.9	6.2	**2.4**	**0.5**	**-0.1**	*2.2*	*0.1*	*-0.1*
Lithuania	1.3	0.1	-1.3	-4.2	-0.5	1.4	**1.7**	**0.3**	**0.8**	*0.6*	*1.4*	*0.9*
Luxembourg	-0.6	1.2	0.4	-2.4	0.7	2.2	**0.0**	**0.6**	**-0.6**	*-0.6*	*0.1*	*-0.7*
Malta	-1.9	0.0	0.0	2.0	1.9	-0.8	**0.3**	**-1.0**	**-0.5**	*1.4*	*-0.2*	*-0.7*
Netherlands	-0.6	-0.5	0.3	1.2	2.3	0.5	**-0.1**	**-0.6**	**-0.1**	*0.7*	*-1.9*	*-1.1*
Austria	-0.8	-1.0	0.3	-1.0	1.2	1.1	**0.7**	**0.6**	**-0.3**	*0.7*	*-0.1*	*-0.1*
Portugal	0.4	-0.5	-0.7	-1.7	-2.5	-0.4	**-0.8**	**-1.2**	**-1.5**	*-0.8*	*-1.0*	*-1.5*
Slovenia	-1.8	-0.4	1.2	-1.8	0.3	0.0	**-1.7**	**0.1**	**-0.3**	*-1.2*	*-0.1*	*-0.4*
Slovakia	1.0	-1.1	1.1	-0.6	-0.2	-0.2	**1.8**	**-0.3**	**-0.9**	*2.0*	*-0.1*	*-1.0*
Finland	-1.0	0.1	1.0	-0.3	2.5	-0.6	**0.0**	**-0.3**	**-0.6**	*0.1*	*-0.3*	*-0.6*
Euro area	-0.6	-0.5	0.4	-0.5	0.6	0.1	**0.3**	**-0.2**	**-0.8**	*0.3*	*-0.2*	*-0.7*
Bulgaria	-0.7	-0.7	1.9	-4.3	2.9	8.0	**0.3**	**1.0**	**1.1**	*0.9*	*0.4*	*1.9*
Czech Republic	0.3	0.8	0.4	0.8	1.1	-1.2	**-1.2**	**-0.8**	**-0.7**	*-0.7*	*-0.5*	*-0.7*
Denmark	-0.3	0.1	0.9	-0.6	-0.6	0.3	**1.1**	**-0.1**	**-0.7**	*0.3*	*-0.5*	*-0.4*
Croatia	:	-1.4	0.0	-1.9	-2.0	0.6	**2.5**	**0.8**	**-0.3**	*0.5*	*0.0*	*0.2*
Hungary	-0.9	-0.1	-1.0	-0.6	0.1	-2.1	**1.9**	**0.2**	**-0.5**	*2.3*	*-0.7*	*-1.4*
Poland	-0.4	-2.7	-0.3	-2.0	-0.4	-0.4	**-0.4**	**0.3**	**-0.5**	*0.8*	*0.2*	*-0.6*
Romania	2.3	-4.0	-1.6	-10.1	-1.4	-4.5	**-0.6**	**-1.4**	**-0.9**	*0.2*	*0.1*	*0.6*
Sweden	0.4	-0.2	0.2	1.4	3.0	0.2	**0.7**	**0.0**	**-0.2**	*0.5*	*-0.1*	*-0.4*
United Kingdom	0.8	0.0	0.5	-2.2	0.7	-0.4	**-1.0**	**-0.6**	**-0.7**	*-1.2*	*-0.8*	*-0.5*
EU	:	-0.6	0.3	-0.9	0.5	-0.1	**0.1**	**-0.3**	**-0.8**	*0.1*	*-0.3*	*-0.7*
USA	0.5	-1.0	-0.4	-0.1	-0.1	-1.2	**-0.2**	**0.4**	**0.2**	*0.2*	*0.1*	*0.3*
Japan	-0.8	-1.3	-0.5	2.7	-0.9	-0.3	**-0.9**	**-0.7**	**-1.0**	*-1.0*	*-0.8*	*-1.0*

[1] Nominal unit labour costs divided by GDP price deflator.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 30: Nominal bilateral exchange rates against Ecu/euro (1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			Autumn 2014 forecast		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Germany	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Estonia	15.6055	15.6466	15.6466	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Ireland	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Greece	321.6052	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Spain	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
France	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Italy	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Cyprus	0.5813	0.5788	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Latvia	0.6408	0.6286	0.7027	0.7063	0.6973	0.7015	**:**	**:**	**:**	*:*	*:*	*:*
Lithuania	4.4118	3.4800	3.4528	3.4528	3.4528	3.4528	**3.4528**	**:**	**:**	*3.4528*	*:*	*:*
Luxembourg	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Malta	0.4320	0.4192	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Austria	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Portugal	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Slovenia	187.9596	231.2923	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Slovakia	40.6603	41.2208	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Finland	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Euro area	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Bulgaria	1.6008	1.9511	1.9558	1.9558	1.9558	1.9558	**1.9558**	**1.9558**	**1.9558**	*1.9558*	*1.9558*	*1.9558*
Czech Republic	35.7840	31.6782	26.5545	24.5898	25.1491	25.9797	**27.5359**	**28.0135**	**28.0188**	*27.5048*	*27.5067*	*27.5067*
Denmark	7.4463	7.4410	7.4519	7.4506	7.4437	7.4579	**7.4548**	**7.4377**	**7.4377**	*7.4553*	*7.4444*	*7.4444*
Croatia	7.2456	7.4722	7.3030	7.4390	7.5217	7.5786	**7.6344**	**7.6900**	**7.6903**	*7.6312*	*7.6520*	*7.6520*
Hungary	231.7594	250.5756	264.5870	279.3726	289.2494	296.8730	**308.7061**	**318.3625**	**318.3580**	*308.3969*	*307.2140*	*307.2140*
Poland	3.8580	4.0958	3.9028	4.1206	4.1847	4.1975	**4.1843**	**4.2984**	**4.2983**	*4.1809*	*4.1983*	*4.1983*
Romania	1.1657	3.4309	3.7992	4.2391	4.4593	4.4190	**4.4437**	**4.4981**	**4.4981**	*4.4379*	*4.4113*	*4.4113*
Sweden	8.6669	9.1894	9.6552	9.0298	8.7041	8.6515	**9.0985**	**9.4555**	**9.4558**	*9.0648*	*9.1368*	*9.1368*
United Kingdom	0.6901	0.6610	0.7822	0.8679	0.8109	0.8493	**0.8061**	**0.7706**	**0.7704**	*0.8062*	*0.7903*	*0.7903*
EU	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
USA	1.1029	1.0921	1.3635	1.3920	1.2848	1.3281	**1.3285**	**1.1690**	**1.1686**	*1.3324*	*1.2678*	*1.2678*
Japan	128.4734	125.8020	141.2594	110.9586	102.4919	129.6627	**140.3061**	**137.7279**	**137.6360**	*138.7*	*136.3*	*136.3*

Table 31: Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	-1.7	1.5	0.4	0.3	-2.0	2.3	**0.6**	**-1.9**	**0.0**	*0.6*	*-0.8*	*0.0*
Germany	-1.5	2.0	0.3	0.1	-2.3	3.1	**1.1**	**-2.4**	**0.0**	*1.0*	*-1.0*	*0.0*
Estonia	-0.8	1.3	0.4	-0.4	-1.5	1.4	**1.4**	**-0.2**	**0.0**	*1.4*	*-0.3*	*0.0*
Ireland	-1.5	2.5	0.8	0.8	-3.6	3.1	**0.1**	**-4.2**	**0.0**	*0.2*	*-1.7*	*0.0*
Greece	0.3	2.2	0.6	1.0	-1.4	2.1	**1.2**	**-1.8**	**0.0**	*1.2*	*-0.7*	*0.0*
Spain	-1.1	1.6	0.5	0.4	-1.8	2.1	**0.7**	**-1.8**	**0.0**	*0.6*	*-0.8*	*0.0*
France	-1.1	1.8	0.4	0.2	-2.4	3.0	**0.9**	**-2.4**	**0.0**	*0.9*	*-1.0*	*0.0*
Italy	1.9	2.1	0.3	0.4	-2.1	2.8	**1.1**	**-2.5**	**0.0**	*1.0*	*-1.0*	*0.0*
Cyprus	6.0	2.0	0.5	0.2	-2.0	2.5	**0.5**	**-1.7**	**0.0**	*0.5*	*-0.8*	*0.0*
Latvia	4.3	-3.2	0.0	0.4	0.1	1.0	**0.8**	**-0.5**	**0.0**	*0.8*	*-0.4*	*0.0*
Lithuania	8.8	3.1	0.3	0.4	-1.4	1.7	**0.9**	**-0.9**	**0.0**	*0.8*	*-0.5*	*0.0*
Luxembourg	-1.4	0.9	0.4	0.0	-1.5	1.6	**0.2**	**-1.5**	**0.0**	*0.2*	*-0.6*	*0.0*
Malta	0.0	1.3	0.3	0.3	-2.1	2.6	**0.4**	**-1.8**	**0.0**	*0.4*	*-0.8*	*0.0*
Netherlands	-1.5	1.3	0.5	0.2	-1.7	2.0	**0.5**	**-1.6**	**0.0**	*0.5*	*-0.7*	*0.0*
Austria	-0.4	1.1	0.2	-0.1	-1.3	2.0	**0.8**	**-1.5**	**0.0**	*0.8*	*-0.6*	*0.0*
Portugal	-1.1	1.2	0.4	0.3	-1.5	1.5	**0.4**	**-1.5**	**0.0**	*0.4*	*-0.7*	*0.0*
Slovenia	-5.0	-2.2	0.2	0.4	-0.6	1.3	**0.8**	**-0.7**	**0.0**	*0.8*	*-0.4*	*0.0*
Slovakia	-0.7	2.5	5.3	0.2	-0.4	1.3	**0.9**	**-0.4**	**0.0**	*0.8*	*-0.3*	*0.0*
Finland	-1.8	2.0	0.3	-0.1	-2.7	3.1	**1.6**	**-1.9**	**0.0**	*1.5*	*-1.0*	*0.0*
Euro area	-1.7	4.0	0.9	0.5	-4.4	6.1	**2.1**	**-4.6**	**0.0**	*2.0*	*-1.9*	*0.0*
Bulgaria	-44.1	3.0	0.7	1.3	-0.7	2.1	**1.6**	**-1.4**	**0.0**	*1.6*	*-0.6*	*0.0*
Czech Republic	0.4	4.5	3.6	3.1	-3.2	-1.9	**-5.3**	**-2.6**	**0.0**	*-5.2*	*-0.4*	*0.0*
Denmark	-1.3	1.7	0.4	-0.4	-2.5	2.5	**1.4**	**-1.1**	**0.0**	*1.3*	*-0.7*	*0.0*
Croatia	-1.5	1.8	0.5	-1.6	-2.2	0.9	**0.1**	**-2.1**	**0.0**	*0.2*	*-0.8*	*0.0*
Hungary	-7.9	2.0	-1.8	-1.0	-4.5	-0.9	**-3.1**	**-4.1**	**0.0**	*-3.0*	*-0.1*	*0.0*
Poland	-4.2	0.8	0.4	-2.8	-2.7	1.3	**1.1**	**-3.6**	**0.0**	*1.1*	*-0.9*	*0.0*
Romania	-31.9	-9.6	-2.5	0.4	-5.9	2.8	**0.8**	**-2.5**	**0.0**	*0.9*	*0.1*	*0.0*
Sweden	1.1	0.0	-0.2	5.9	1.1	3.6	**-3.8**	**-5.4**	**0.0**	*-3.6*	*-1.7*	*0.0*
United Kingdom	5.5	-0.2	-4.5	-0.9	4.4	-1.8	**6.8**	**1.8**	**0.0**	*6.8*	*0.9*	*0.0*
EU	-0.7	5.4	-0.6	1.0	-5.3	8.4	**4.6**	**-7.0**	**-0.1**	*4.5*	*-2.6*	*0.0*
USA	5.2	-2.7	-1.4	-5.3	4.0	3.2	**3.8**	**10.9**	**0.0**	*3.2*	*3.5*	*0.0*
Japan	0.7	-3.1	4.0	5.9	3.2	-18.5	**-6.7**	**-3.9**	**0.0**	*-5.5*	*-0.6*	*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 industrialized countries (nat. curr) (percentage change over preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	:	-0.2	0.3	2.0	1.3	0.6	**-1.5**	**-1.1**	**-1.6**	*-1.5*	*-1.2*	*:*
Germany	:	-1.9	-1.3	-0.2	1.3	1.2	**0.6**	**1.2**	**0.8**	*1.0*	*1.5*	*:*
Estonia	:	2.7	4.8	-2.0	0.3	4.6	**1.7**	**1.1**	**0.6**	*1.2*	*1.3*	*:*
Ireland	:	2.5	-0.9	-4.3	-1.5	3.2	**-5.1**	**-0.3**	**-0.6**	*-5.0*	*-1.8*	*:*
Greece	:	1.7	0.0	-0.7	-5.7	-8.5	**-3.5**	**-0.9**	**0.9**	*-3.1*	*-1.8*	*:*
Spain	:	1.1	0.5	-1.7	-4.9	-1.9	**-1.6**	**-0.4**	**-0.4**	*-1.5*	*-0.9*	*:*
France	:	0.1	0.0	0.1	-0.2	-0.1	**-0.1**	**-1.2**	**-1.3**	*-0.2*	*-0.9*	*:*
Italy	:	1.3	0.6	0.0	0.2	0.2	**-0.1**	**-0.6**	**-1.0**	*-0.7*	*-1.3*	*:*
Cyprus	:	1.0	-0.7	2.2	-3.7	-5.5	**-4.4**	**-0.8**	**-0.3**	*-4.5*	*-1.0*	*:*
Latvia	:	2.6	4.3	-0.7	0.0	5.3	**1.7**	**0.8**	**0.9**	*2.1*	*0.6*	*:*
Lithuania	:	-0.3	0.6	-0.2	-0.5	0.9	**1.3**	**1.9**	**2.0**	*-0.3*	*1.5*	*:*
Luxembourg	:	1.5	1.7	1.6	1.7	2.0	**0.2**	**0.4**	**0.8**	*-0.1*	*1.5*	*:*
Malta	:	1.0	1.2	3.6	2.2	0.2	**0.7**	**-0.2**	**0.4**	*1.6*	*0.3*	*:*
Netherlands	:	0.4	-0.1	0.5	1.3	0.1	**-1.0**	**-0.9**	**0.3**	*-0.7*	*-2.0*	*:*
Austria	:	-1.1	0.0	0.0	0.7	1.2	**1.2**	**1.0**	**0.6**	*0.7*	*0.0*	*:*
Portugal	:	0.9	-1.0	-2.4	-4.1	0.9	**-0.9**	**-0.8**	**-0.9**	*-0.9*	*-0.6*	*:*
Slovenia	:	2.9	1.5	-1.3	-1.8	-0.3	**-3.0**	**-0.7**	**-0.3**	*-2.8*	*-1.2*	*:*
Slovakia	:	1.6	0.1	0.5	-1.5	-1.2	**0.1**	**-0.6**	**-0.6**	*0.2*	*-1.0*	*:*
Finland	:	-0.4	0.6	1.2	2.8	0.3	**-0.4**	**-0.1**	**-0.3**	*-0.1*	*-0.4*	*:*
Euro area	:	-0.4	-0.5	-0.2	0.2	0.7	**-0.8**	**-0.3**	**-0.5**	*-0.7*	*-0.8*	*:*
Bulgaria	:	0.2	5.4	2.5	1.9	6.0	**-1.0**	**-0.1**	**0.3**	*-1.5*	*-1.0*	*:*
Czech Republic	:	1.8	-0.2	-0.2	0.1	-1.1	**-0.5**	**-0.3**	**-0.3**	*-0.8*	*-0.5*	*:*
Denmark	:	0.9	1.2	-1.0	-0.5	0.4	**0.3**	**0.0**	**0.0**	*0.0*	*-0.5*	*:*
Croatia	:	0.1	1.2	-1.0	-2.9	-0.1	**0.8**	**-0.1**	**0.0**	*-0.4*	*-0.6*	*:*
Hungary	:	4.6	0.6	1.1	1.0	-0.7	**2.6**	**1.5**	**1.3**	*2.4*	*0.4*	*:*
Poland	:	-1.9	0.4	0.4	-0.8	-0.8	**-0.9**	**-0.1**	**-0.1**	*-0.7*	*-0.2*	*:*
Romania	:	14.0	5.3	-6.3	0.6	-3.2	**-0.2**	**-0.3**	**0.4**	*1.4*	*1.1*	*:*
Sweden	:	-0.5	0.0	1.4	1.7	-0.3	**0.6**	**0.7**	**0.5**	*0.4*	*0.4*	*:*
United Kingdom	:	0.6	1.2	-1.1	0.4	0.1	**0.0**	**0.0**	**-0.1**	*-0.6*	*-0.3*	*:*
EU	:	0.1	0.3	-0.6	0.3	0.5	**-1.1**	**-0.4**	**-0.7**	*-1.2*	*-1.3*	*:*
USA	:	-0.4	-0.5	0.5	-0.2	-0.9	**0.3**	**0.9**	**1.6**	*0.2*	*0.7*	*:*
Japan	:	-4.3	-3.8	-0.7	-3.9	-1.7	**-0.5**	**-1.1**	**-1.3**	*-1.4*	*-1.6*	*:*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 33: Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (USD) (% change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	:	1.4	0.7	2.3	-0.7	3.0	**-0.9**	**-3.0**	**-1.6**	*-0.9*	*-2.1*	*:*
Germany	:	0.0	-1.0	-0.2	-1.1	4.4	**1.7**	**-1.2**	**0.8**	*2.0*	*0.5*	*:*
Estonia	:	4.0	5.2	-2.5	-1.2	6.1	**3.1**	**0.9**	**0.6**	*2.5*	*1.0*	*:*
Ireland	:	5.1	-0.1	-3.6	-5.1	6.4	**-5.0**	**-4.5**	**-0.6**	*-4.8*	*-3.5*	*:*
Greece	:	4.0	0.6	0.4	-7.1	-6.5	**-2.4**	**-2.8**	**0.9**	*-2.0*	*-2.6*	*:*
Spain	:	2.7	1.0	-1.3	-6.6	0.2	**-0.9**	**-2.3**	**-0.4**	*-0.8*	*-1.7*	*:*
France	:	2.0	0.5	0.4	-2.5	2.9	**0.9**	**-3.6**	**-1.3**	*0.7*	*-1.9*	*:*
Italy	:	3.4	0.9	0.4	-1.9	3.0	**0.9**	**-3.0**	**-1.0**	*0.3*	*-2.2*	*:*
Cyprus	:	3.1	-0.3	2.4	-5.6	-3.1	**-4.0**	**-2.5**	**-0.3**	*-4.0*	*-1.8*	*:*
Latvia	:	-0.7	4.3	-0.2	0.1	6.3	**2.6**	**0.3**	**0.9**	*2.9*	*0.2*	*:*
Lithuania	:	2.7	0.9	0.2	-1.9	2.6	**2.2**	**1.0**	**2.0**	*0.5*	*0.9*	*:*
Luxembourg	:	2.4	2.1	1.7	0.2	3.6	**0.4**	**-1.1**	**0.8**	*0.1*	*0.9*	*:*
Malta	:	2.3	1.6	3.9	0.0	2.8	**1.1**	**-2.0**	**0.4**	*2.0*	*-0.5*	*:*
Netherlands	:	1.7	0.3	0.7	-0.4	2.1	**-0.5**	**-2.6**	**0.3**	*-0.2*	*-2.7*	*:*
Austria	:	0.0	0.2	0.0	-0.6	3.2	**2.0**	**-0.6**	**0.6**	*1.5*	*-0.6*	*:*
Portugal	:	2.0	-0.7	-2.1	-5.5	2.4	**-0.5**	**-2.3**	**-0.9**	*-0.5*	*-1.3*	*:*
Slovenia	:	0.7	1.7	-0.9	-2.4	1.1	**-2.3**	**-1.5**	**-0.3**	*-2.0*	*-1.5*	*:*
Slovakia	:	4.1	5.5	0.6	-1.9	0.1	**1.0**	**-1.0**	**-0.6**	*1.1*	*-1.3*	*:*
Finland	:	1.6	0.9	1.1	0.0	3.4	**1.2**	**-1.9**	**-0.4**	*1.4*	*-1.3*	*:*
Euro area	:	3.6	0.3	0.3	-4.2	6.8	**1.3**	**-4.9**	**-0.5**	*1.3*	*-2.7*	*:*
Bulgaria	:	3.2	6.1	3.8	1.2	8.2	**0.6**	**-1.5**	**0.3**	*0.1*	*-1.5*	*:*
Czech Republic	:	6.4	3.4	2.9	-3.1	-3.0	**-5.7**	**-2.9**	**-0.4**	*-5.9*	*-1.0*	*:*
Denmark	:	2.6	1.6	-1.5	-3.1	2.9	**1.8**	**-1.1**	**0.0**	*1.3*	*-1.2*	*:*
Croatia	:	1.9	1.7	-2.5	-5.0	0.9	**0.9**	**-2.1**	**0.0**	*-0.3*	*-1.5*	*:*
Hungary	:	6.7	-1.2	0.1	-3.6	-1.6	**-0.6**	**-2.7**	**1.3**	*-0.8*	*0.2*	*:*
Poland	:	-1.1	0.8	-2.4	-3.5	0.4	**0.1**	**-3.7**	**-0.1**	*0.5*	*-1.1*	*:*
Romania	:	3.0	2.6	-5.9	-5.3	-0.4	**0.6**	**-2.8**	**0.3**	*2.3*	*1.2*	*:*
Sweden	:	-0.5	-0.2	7.4	2.8	3.3	**-3.2**	**-4.7**	**0.4**	*-3.2*	*-1.4*	*:*
United Kingdom	:	0.4	-3.3	-2.0	4.9	-1.7	**6.8**	**1.8**	**-0.1**	*6.1*	*0.5*	*:*
EU	:	5.5	-0.4	0.5	-5.0	8.9	**3.5**	**-7.4**	**-0.7**	*3.3*	*-3.8*	*:*
USA	:	-3.1	-1.9	-4.8	3.8	2.2	**4.1**	**11.9**	**1.6**	*3.4*	*4.2*	*:*
Japan	:	-7.3	0.0	5.2	-0.8	-19.8	**-7.2**	**-5.0**	**-1.2**	*-6.8*	*-2.2*	*:*

[1] 37 countries: EU, TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 34: Total expenditure, general government (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	50.4	49.4	50.0	53.2	54.8	54.4	**54.4**	**53.5**	**53.0**	*53.8*	*53.4*	*53.3*
Germany	47.4	46.9	45.1	44.6	44.2	44.3	**44.1**	**44.3**	**43.9**	*44.3*	*44.6*	*44.3*
Estonia	:	:	:	38.0	39.7	38.9	**38.9**	**39.5**	**39.4**	*38.9*	*39.5*	*39.4*
Ireland	35.1	33.2	45.1	46.1	42.2	40.5	**39.1**	**37.4**	**36.9**	*38.7*	*36.8*	*36.3*
Greece	:	:	49.6	53.7	53.8	59.2	**48.6**	**46.4**	**43.8**	*48.5*	*45.9*	*43.5*
Spain	40.9	38.5	41.9	45.4	47.3	44.3	**43.8**	**42.9**	**42.0**	*43.9*	*43.1*	*42.1*
France	52.7	52.3	54.2	55.9	56.7	57.1	**57.7**	**57.5**	**57.3**	*57.9*	*58.1*	*57.8*
Italy	48.5	47.1	48.6	49.1	50.4	50.5	**50.7**	**50.1**	**49.6**	*50.8*	*50.4*	*49.7*
Cyprus	33.8	38.3	40.1	42.8	42.1	41.4	**42.1**	**41.5**	**39.9**	*42.1*	*41.5*	*39.9*
Latvia	37.6	34.4	38.9	38.9	36.6	35.7	**35.7**	**34.6**	**33.8**	*35.4*	*34.9*	*34.0*
Lithuania	:	:	39.0	42.5	36.1	35.5	**35.5**	**34.2**	**33.6**	*35.8*	*34.8*	*34.2*
Luxembourg	38.5	41.1	41.2	42.3	43.4	43.8	**44.1**	**44.6**	**44.3**	*44.0*	*44.0*	*43.7*
Malta	41.4	42.5	41.8	40.9	42.5	42.3	**43.0**	**43.6**	**42.8**	*43.5*	*44.2*	*43.3*
Netherlands	44.5	43.7	45.3	47.0	47.5	46.8	**47.5**	**46.9**	**46.4**	*47.3*	*46.8*	*46.2*
Austria	52.3	51.4	51.2	50.9	51.0	50.9	**52.7**	**52.1**	**51.5**	*52.8*	*51.9*	*51.3*
Portugal	42.7	45.2	47.4	50.0	48.5	50.1	**48.6**	**47.1**	**47.0**	*49.5*	*47.7*	*47.1*
Slovenia	45.0	45.8	45.6	49.8	48.1	59.7	**50.3**	**47.2**	**46.4**	*49.6*	*47.4*	*46.6*
Slovakia	49.3	41.1	39.3	40.6	40.2	41.0	**40.8**	**40.7**	**39.5**	*40.9*	*40.5*	*39.2*
Finland	53.4	48.8	50.6	54.4	56.3	57.8	**58.6**	**58.5**	**58.1**	*58.9*	*58.9*	*58.7*
Euro area	:	:	:	49.0	49.4	49.4	**49.2**	**48.8**	**48.3**	*49.3*	*49.0*	*48.5*
Bulgaria	37.5	38.6	37.6	34.7	35.2	38.3	**40.5**	**40.4**	**40.1**	*40.9*	*41.2*	*41.1*
Czech Republic	41.1	43.9	41.5	42.5	43.8	42.0	**41.5**	**42.1**	**41.2**	*41.7*	*42.4*	*41.7*
Denmark	55.3	52.8	52.8	56.8	58.8	56.8	**56.5**	**56.1**	**54.6**	*57.0*	*56.1*	*54.8*
Croatia	:	46.3	45.6	48.2	46.9	47.0	**48.3**	**48.9**	**48.9**	*48.1*	*48.5*	*48.7*
Hungary	49.5	49.3	50.3	49.9	48.7	49.7	**50.0**	**49.8**	**46.9**	*50.2*	*49.2*	*46.4*
Poland	:	:	:	43.9	42.9	42.2	**41.2**	**41.0**	**40.5**	*41.6*	*41.5*	*41.1*
Romania	36.1	34.2	38.6	39.2	36.4	35.2	**34.8**	**34.2**	**33.9**	*35.2*	*35.1*	*35.1*
Sweden	59.0	54.8	52.7	52.8	54.0	54.7	**54.2**	**53.8**	**53.4**	*52.9*	*52.5*	*52.1*
United Kingdom	38.7	40.9	45.8	46.5	46.7	45.3	**43.7**	**42.8**	**42.0**	*43.9*	*42.8*	*41.8*
EU	:	:	:	48.5	48.9	48.6	**48.1**	**47.6**	**47.0**	*48.2*	*47.8*	*47.1*
USA	34.8	36.0	39.5	41.5	40.1	38.7	**38.2**	**37.9**	**37.7**	*38.7*	*38.5*	*38.2*
Japan	38.0	37.4	38.3	41.9	41.8	42.3	**42.4**	**42.3**	**41.9**	*42.5*	*42.0*	*41.6*

Table 35: Total revenue, general government (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	48.8	48.6	48.0	49.3	50.7	51.5	**51.2**	**50.9**	**50.7**	*50.9*	*50.7*	*50.5*
Germany	45.5	43.3	43.4	43.7	44.3	44.5	**44.5**	**44.5**	**44.2**	*44.6*	*44.7*	*44.5*
Estonia	:	:	:	39.1	39.5	38.4	**38.5**	**39.0**	**38.8**	*38.4*	*38.9*	*38.9*
Ireland	37.2	34.0	35.1	33.5	34.2	34.8	**35.1**	**34.5**	**33.9**	*35.0*	*33.9*	*33.3*
Greece	:	:	39.8	43.6	45.2	47.0	**46.1**	**47.6**	**45.3**	*46.9*	*45.9*	*44.8*
Spain	38.0	38.4	37.8	36.0	37.0	37.5	**38.2**	**38.4**	**38.3**	*38.3*	*38.4*	*38.3*
France	50.2	49.3	49.8	50.8	51.8	53.0	**53.4**	**53.5**	**53.2**	*53.5*	*53.5*	*53.1*
Italy	45.3	43.6	45.2	45.6	47.4	47.7	**47.7**	**47.6**	**47.7**	*47.8*	*47.7*	*47.5*
Cyprus	30.3	34.6	38.7	37.0	36.3	36.5	**39.1**	**38.5**	**38.4**	*39.1*	*38.5*	*38.4*
Latvia	36.5	33.0	34.5	35.5	35.8	34.8	**34.2**	**33.5**	**32.8**	*34.3*	*33.7*	*33.1*
Lithuania	:	:	34.8	33.5	33.0	32.8	**34.3**	**32.8**	**32.7**	*34.6*	*33.4*	*33.4*
Luxembourg	42.0	42.7	42.7	42.6	43.5	44.5	**44.6**	**44.2**	**44.4**	*44.1*	*43.5*	*43.0*
Malta	34.1	37.0	38.6	38.3	38.8	39.7	**40.7**	**41.6**	**40.9**	*41.0*	*41.6*	*41.3*
Netherlands	44.2	42.2	43.3	42.7	43.5	44.5	**44.7**	**44.7**	**44.7**	*44.8*	*44.6*	*44.5*
Austria	49.4	49.2	48.2	48.2	48.7	49.5	**49.9**	**50.1**	**50.1**	*49.9*	*50.0*	*50.2*
Portugal	38.9	40.2	41.0	42.6	43.0	45.2	**44.0**	**43.9**	**44.2**	*44.6*	*44.4*	*44.3*
Slovenia	42.6	43.2	42.6	43.6	44.4	45.2	**44.9**	**44.3**	**43.7**	*45.2*	*44.5*	*44.0*
Slovakia	41.1	36.6	34.7	36.4	36.0	38.4	**37.8**	**37.8**	**36.9**	*38.0*	*37.9*	*36.9*
Finland	54.5	52.0	52.2	53.3	54.2	55.4	**56.0**	**56.0**	**56.0**	*56.0*	*56.3*	*56.4*
Euro area	:	:	:	44.8	45.8	46.5	**46.6**	**46.6**	**46.4**	*46.7*	*46.7*	*46.4*
Bulgaria	35.8	39.0	37.1	32.6	34.7	37.1	**37.1**	**37.4**	**37.2**	*37.3*	*37.5*	*37.3*
Czech Republic	37.5	39.1	38.5	39.6	39.8	40.7	**40.2**	**40.1**	**39.7**	*40.3*	*40.3*	*40.0*
Denmark	55.0	54.4	54.3	54.8	55.1	55.8	**58.4**	**53.3**	**51.8**	*55.9*	*53.7*	*52.8*
Croatia	:	42.3	41.5	40.6	41.3	41.8	**43.3**	**43.4**	**43.3**	*42.5*	*43.0*	*43.1*
Hungary	44.4	42.4	44.9	44.4	46.4	47.3	**47.5**	**47.0**	**44.4**	*47.3*	*46.4*	*43.9*
Poland	:	:	:	39.0	39.1	38.2	**37.7**	**38.1**	**37.8**	*38.2*	*38.6*	*38.3*
Romania	32.0	32.3	33.3	33.7	33.4	32.9	**33.0**	**32.7**	**32.4**	*33.1*	*32.3*	*32.6*
Sweden	59.1	55.0	54.0	52.7	53.0	53.3	**52.0**	**52.2**	**52.4**	*50.5*	*50.7*	*50.8*
United Kingdom	37.8	38.5	39.5	38.9	38.4	39.5	**38.3**	**38.2**	**38.3**	*38.5*	*38.3*	*38.3*
EU	:	:	:	44.0	44.7	45.4	**45.2**	**45.0**	**44.8**	*45.2*	*45.0*	*44.8*
USA	33.9	31.7	31.9	30.9	31.2	33.1	**33.3**	**33.7**	**33.9**	*33.8*	*34.3*	*34.3*
Japan	31.3	31.0	33.8	33.1	33.1	33.8	**34.7**	**35.1**	**35.1**	*35.0*	*35.6*	*36.2*

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	-1.6	-0.9	-2.0	-3.9	-4.1	-2.9	**-3.2**	**-2.6**	**-2.4**	*-3.0*	*-2.8*	*-2.8*
Germany	-1.8	-3.6	-1.7	-0.9	0.1	0.1	**0.4**	**0.2**	**0.2**	*0.2*	*0.0*	*0.2*
Estonia	:	:	:	1.0	-0.3	-0.5	**-0.4**	**-0.6**	**-0.6**	*-0.4*	*-0.6*	*-0.5*
Ireland	2.1	0.8	-10.1	-12.6	-8.0	-5.7	**-4.0**	**-2.9**	**-3.1**	*-3.7*	*-2.9*	*-3.0*
Greece	:	:	-9.8	-10.1	-8.6	-12.2	**-2.5**	**1.1**	**1.6**	*-1.6*	*-0.1*	*1.3*
Spain	-2.9	0.0	-4.1	-9.4	-10.3	-6.8	**-5.6**	**-4.5**	**-3.7**	*-5.6*	*-4.6*	*-3.9*
France	-2.6	-3.0	-4.4	-5.1	-4.9	-4.1	**-4.3**	**-4.1**	**-4.1**	*-4.4*	*-4.5*	*-4.7*
Italy	-3.2	-3.5	-3.5	-3.5	-3.0	-2.8	**-3.0**	**-2.6**	**-2.0**	*-3.0*	*-2.7*	*-2.2*
Cyprus	-3.6	-3.6	-1.5	-5.8	-5.8	-4.9	**-3.0**	**-3.0**	**-1.4**	*-3.0*	*-3.0*	*-1.4*
Latvia	-1.1	-1.4	-4.5	-3.4	-0.8	-0.9	**-1.5**	**-1.1**	**-1.0**	*-1.1*	*-1.2*	*-0.9*
Lithuania	:	:	-4.2	-9.0	-3.2	-2.6	**-1.2**	**-1.4**	**-0.9**	*-1.2*	*-1.4*	*-0.8*
Luxembourg	3.5	1.6	1.5	0.3	0.1	0.6	**0.5**	**-0.4**	**0.1**	*0.2*	*-0.4*	*-0.6*
Malta	-7.2	-5.5	-3.1	-2.6	-3.6	-2.7	**-2.3**	**-2.0**	**-1.8**	*-2.5*	*-2.6*	*-2.0*
Netherlands	-0.4	-1.5	-2.0	-4.3	-4.0	-2.3	**-2.8**	**-2.2**	**-1.8**	*-2.5*	*-2.1*	*-1.8*
Austria	-2.8	-2.2	-3.0	-2.6	-2.3	-1.5	**-2.9**	**-2.0**	**-1.4**	*-2.9*	*-1.8*	*-1.1*
Portugal	-3.8	-5.0	-6.4	-7.4	-5.5	-4.9	**-4.6**	**-3.2**	**-2.8**	*-4.9*	*-3.3*	*-2.8*
Slovenia	-2.5	-2.5	-3.0	-6.2	-3.7	-14.6	**-5.4**	**-2.9**	**-2.8**	*-4.4*	*-2.9*	*-2.7*
Slovakia	-8.1	-4.5	-4.7	-4.1	-4.2	-2.6	**-3.0**	**-2.8**	**-2.6**	*-3.0*	*-2.6*	*-2.3*
Finland	1.1	3.3	1.6	-1.0	-2.1	-2.4	**-2.7**	**-2.5**	**-2.2**	*-2.9*	*-2.6*	*-2.3*
Euro area	:	:	:	-4.1	-3.6	-2.9	**-2.6**	**-2.2**	**-1.9**	*-2.6*	*-2.4*	*-2.1*
Bulgaria	-1.8	0.5	-0.6	-2.0	-0.5	-1.2	**-3.4**	**-3.0**	**-2.9**	*-3.6*	*-3.7*	*-3.8*
Czech Republic	-3.6	-4.8	-3.0	-2.9	-4.0	-1.3	**-1.3**	**-2.0**	**-1.5**	*-1.4*	*-2.1*	*-1.7*
Denmark	-0.3	1.6	1.5	-2.1	-3.7	-1.1	**1.8**	**-2.8**	**-2.7**	*-1.0*	*-2.3*	*-2.0*
Croatia	:	-4.0	-4.1	-7.7	-5.6	-5.2	**-5.0**	**-5.5**	**-5.6**	*-5.6*	*-5.5*	*-5.6*
Hungary	-5.1	-6.9	-5.5	-5.5	-2.3	-2.4	**-2.6**	**-2.7**	**-2.5**	*-2.9*	*-2.8*	*-2.5*
Poland	:	:	:	-4.9	-3.7	-4.0	**-3.6**	**-2.9**	**-2.7**	*-3.4*	*-2.9*	*-2.8*
Romania	-4.0	-1.9	-5.2	-5.5	-3.0	-2.2	**-1.8**	**-1.5**	**-1.5**	*-2.1*	*-2.8*	*-2.5*
Sweden	0.0	0.2	1.3	-0.1	-0.9	-1.4	**-2.2**	**-1.6**	**-1.0**	*-2.4*	*-1.8*	*-1.2*
United Kingdom	-0.9	-2.4	-6.3	-7.6	-8.3	-5.8	**-5.4**	**-4.6**	**-3.6**	*-5.4*	*-4.4*	*-3.4*
EU	:	:	:	-4.5	-4.2	-3.2	**-3.0**	**-2.6**	**-2.2**	*-3.0*	*-2.7*	*-2.3*
USA	-0.8	-4.3	-7.6	-10.6	-8.9	-5.6	**-4.9**	**-4.2**	**-3.8**	*-4.9*	*-4.3*	*-3.9*
Japan	-6.7	-6.4	-4.5	-8.8	-8.7	-8.5	**-7.7**	**-7.2**	**-6.8**	*-7.5*	*-6.4*	*-5.4*

Table 37: Interest expenditure, general government (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	7.3	5.2	3.7	3.4	3.4	3.2	**3.0**	**2.8**	**2.7**	*3.1*	*2.9*	*2.9*
Germany	3.2	2.9	2.6	2.5	2.3	2.0	**1.8**	**1.7**	**1.6**	*1.9*	*1.8*	*1.7*
Estonia	:	:	:	0.1	0.2	0.1	**0.1**	**0.1**	**0.2**	*0.1*	*0.1*	*0.2*
Ireland	3.2	1.2	1.7	3.4	4.1	4.4	**4.1**	**3.9**	**3.8**	*4.1*	*3.8*	*3.8*
Greece	:	:	5.0	7.3	5.0	4.0	**4.2**	**3.7**	**3.6**	*4.3*	*4.2*	*4.0*
Spain	4.0	2.3	1.7	2.4	2.9	3.3	**3.3**	**3.2**	**3.2**	*3.3*	*3.4*	*3.4*
France	3.1	2.8	2.5	2.6	2.5	2.3	**2.2**	**2.2**	**2.2**	*2.2*	*2.3*	*2.4*
Italy	8.1	5.1	4.6	4.7	5.2	4.8	**4.7**	**4.3**	**4.3**	*4.7*	*4.5*	*4.6*
Cyprus	2.7	3.1	2.6	2.2	2.9	3.1	**3.1**	**3.2**	**3.1**	*3.1*	*3.2*	*3.1*
Latvia	0.9	0.7	0.9	1.8	1.7	1.5	**1.4**	**1.3**	**1.2**	*1.4*	*1.4*	*1.2*
Lithuania	:	:	1.0	1.8	2.0	1.8	**1.8**	**1.6**	**1.5**	*1.8*	*1.7*	*1.6*
Luxembourg	0.4	0.2	0.3	0.4	0.4	0.4	**0.4**	**0.4**	**0.4**	*0.4*	*0.4*	*0.4*
Malta	3.0	3.7	3.4	3.2	3.0	2.9	**2.8**	**2.8**	**2.7**	*2.8*	*2.8*	*2.7*
Netherlands	4.1	2.5	2.0	1.8	1.7	1.5	**1.5**	**1.4**	**1.3**	*1.5*	*1.4*	*1.4*
Austria	3.6	3.3	3.1	2.8	2.7	2.6	**2.5**	**2.5**	**2.5**	*2.5*	*2.5*	*2.5*
Portugal	3.6	2.7	2.9	4.3	4.9	5.0	**5.0**	**4.9**	**4.8**	*5.0*	*5.0*	*4.9*
Slovenia	2.2	1.9	1.3	1.9	2.0	2.5	**3.3**	**3.2**	**3.0**	*3.3*	*3.2*	*3.0*
Slovakia	2.9	2.7	1.4	1.5	1.8	1.9	**1.8**	**1.7**	**1.6**	*1.8*	*1.7*	*1.7*
Finland	3.4	1.9	1.4	1.4	1.4	1.3	**1.3**	**1.2**	**1.2**	*1.3*	*1.3*	*1.3*
Euro area	:	:	:	3.0	3.0	2.8	**2.7**	**2.5**	**2.5**	*2.7*	*2.7*	*2.6*
Bulgaria	7.4	2.4	1.0	0.7	0.8	0.8	**0.8**	**0.8**	**0.9**	*0.8*	*0.9*	*1.0*
Czech Republic	1.0	1.0	1.1	1.3	1.4	1.4	**1.3**	**1.3**	**1.2**	*1.3*	*1.3*	*1.3*
Denmark	4.6	2.8	1.7	2.0	1.8	1.7	**1.5**	**1.5**	**1.4**	*1.6*	*1.5*	*1.5*
Croatia	:	1.7	1.9	2.9	3.3	3.4	**3.9**	**4.1**	**4.1**	*3.8*	*4.0*	*4.1*
Hungary	7.3	4.2	4.1	4.2	4.6	4.6	**4.1**	**3.8**	**3.6**	*4.1*	*3.9*	*3.9*
Poland	:	:	:	2.5	2.7	2.5	**2.0**	**2.0**	**1.9**	*2.1*	*2.1*	*2.0*
Romania	3.8	2.0	1.0	1.6	1.7	1.7	**1.6**	**1.6**	**1.6**	*1.7*	*1.8*	*1.8*
Sweden	4.3	2.2	1.4	1.1	0.9	0.8	**0.8**	**0.8**	**0.9**	*0.8*	*0.8*	*1.0*
United Kingdom	3.1	2.0	2.3	3.2	2.9	2.9	**2.8**	**2.7**	**2.7**	*2.7*	*2.6*	*2.6*
EU	:	:	:	2.9	2.9	2.7	**2.6**	**2.5**	**2.4**	*2.6*	*2.5*	*2.5*
USA	4.5	3.4	3.6	3.9	3.8	3.6	**3.7**	**3.7**	**3.8**	*3.9*	*4.0*	*4.0*
Japan	3.3	2.1	1.9	2.1	2.1	2.1	**2.0**	**2.0**	**1.9**	*2.1*	*2.0*	*2.0*

Table 38: Primary balance, general government [1] (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	5.7	4.3	1.7	-0.5	-0.7	0.3	**-0.1**	**0.2**	**0.4**	*0.1*	*0.1*	*0.1*
Germany	1.4	-0.7	1.0	1.6	2.4	2.2	**2.2**	**2.0**	**1.9**	*2.1*	*1.8*	*1.9*
Estonia	:	:	:	1.2	-0.1	-0.3	**-0.2**	**-0.4**	**-0.4**	*-0.3*	*-0.5*	*-0.3*
Ireland	5.2	2.0	-8.4	-9.2	-3.9	-1.3	**0.1**	**0.9**	**0.8**	*0.4*	*0.9*	*0.8*
Greece	:	:	-4.8	-2.9	-3.6	-8.2	**1.7**	**4.8**	**5.2**	*2.7*	*4.1*	*5.4*
Spain	1.1	2.3	-2.5	-7.0	-7.4	-3.5	**-2.3**	**-1.3**	**-0.5**	*-2.3*	*-1.2*	*-0.5*
France	0.6	-0.3	-1.9	-2.5	-2.3	-1.9	**-2.1**	**-1.9**	**-1.8**	*-2.3*	*-2.2*	*-2.3*
Italy	5.0	1.6	1.1	1.2	2.2	2.0	**1.6**	**1.7**	**2.4**	*1.7*	*1.8*	*2.4*
Cyprus	-0.9	-0.5	1.1	-3.6	-2.9	-1.8	**0.1**	**0.2**	**1.7**	*0.1*	*0.2*	*1.7*
Latvia	-0.2	-0.7	-3.6	-1.6	0.9	0.6	**-0.1**	**0.2**	**0.2**	*0.3*	*0.2*	*0.3*
Lithuania	:	:	-3.2	-7.1	-1.2	-0.9	**0.6**	**0.2**	**0.6**	*0.7*	*0.3*	*0.8*
Luxembourg	3.9	1.8	1.9	0.7	0.5	1.1	**0.9**	**0.0**	**0.5**	*0.5*	*-0.1*	*-0.2*
Malta	-4.2	-1.8	0.2	0.5	-0.6	0.2	**0.5**	**0.7**	**0.9**	*0.4*	*0.2*	*0.8*
Netherlands	3.8	1.0	0.0	-2.6	-2.3	-0.8	**-1.3**	**-0.8**	**-0.4**	*-1.0*	*-0.7*	*-0.4*
Austria	0.8	1.1	0.1	0.1	0.4	1.1	**-0.3**	**0.5**	**1.1**	*-0.4*	*0.7*	*1.4*
Portugal	-0.3	-2.3	-3.5	-3.0	-0.6	0.1	**0.4**	**1.6**	**2.0**	*0.1*	*1.6*	*2.0*
Slovenia	-0.2	-0.6	-1.7	-4.3	-1.7	-12.0	**-2.0**	**0.3**	**0.2**	*-1.1*	*0.3*	*0.4*
Slovakia	-5.2	-1.7	-3.3	-2.6	-2.4	-0.7	**-1.2**	**-1.2**	**-1.0**	*-1.1*	*-0.9*	*-0.6*
Finland	4.6	5.2	3.0	0.4	-0.7	-1.2	**-1.4**	**-1.2**	**-1.0**	*-1.6*	*-1.4*	*-1.0*
Euro area	2.1	0.6	-0.5	-1.2	-0.6	-0.1	**0.1**	**0.4**	**0.6**	*0.1*	*0.3*	*0.5*
Bulgaria	5.6	2.9	0.4	-1.3	0.3	-0.5	**-2.6**	**-2.2**	**-2.0**	*-2.8*	*-2.8*	*-2.8*
Czech Republic	-2.6	-3.7	-1.9	-1.5	-2.5	0.0	**0.0**	**-0.7**	**-0.2**	*-0.1*	*-0.8*	*-0.4*
Denmark	4.3	4.4	3.3	-0.1	-1.8	0.7	**3.3**	**-1.3**	**-1.4**	*0.5*	*-0.8*	*-0.5*
Croatia	:	-2.3	-2.2	-4.8	-2.4	-1.8	**-1.1**	**-1.5**	**-1.5**	*-1.8*	*-1.5*	*-1.6*
Hungary	2.2	-2.6	-1.3	-1.3	2.3	2.2	**1.6**	**1.0**	**1.2**	*1.2*	*1.1*	*1.4*
Poland	:	:	:	-2.4	-1.1	-1.5	**-1.5**	**-0.9**	**-0.7**	*-1.3*	*-0.8*	*-0.8*
Romania	-0.2	0.2	-4.2	-3.9	-1.2	-0.5	**-0.2**	**0.2**	**0.2**	*-0.4*	*-1.0*	*-0.7*
Sweden	4.4	2.4	2.8	1.0	0.0	-0.5	**-1.4**	**-0.9**	**-0.1**	*-1.6*	*-1.0*	*-0.3*
United Kingdom	2.2	-0.4	-4.0	-4.4	-5.4	-2.9	**-2.7**	**-1.9**	**-1.0**	*-2.7*	*-1.8*	*-0.9*
EU	2.2	0.5	-0.9	-1.6	-1.4	-0.5	**-0.4**	**-0.1**	**0.2**	*-0.5*	*-0.2*	*0.2*
USA	3.7	-0.9	-4.1	-6.7	-5.1	-2.0	**-1.2**	**-0.5**	**-0.1**	*-1.0*	*-0.3*	*0.1*
Japan	-3.5	-4.3	-2.5	-6.7	-6.6	-6.4	**-5.7**	**-5.2**	**-4.9**	*-5.4*	*-4.3*	*-3.4*

[1] Net lending/borrowing excluding interest expenditure.

Table 39: Cyclically-adjusted net lending (+) or net borrowing (-), general government[1] (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			Autumn 2014 forecast		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2014	2015	2016
Belgium	-1.8	-1.1	-2.5	-3.8	-3.5	-2.0	**-2.4**	**-2.0**	**-2.0**	*-2.3*	*-2.1*	*-2.3*
Germany	-1.9	-3.2	-1.4	-1.4	0.0	0.7	**0.9**	**0.7**	**0.5**	*0.7*	*0.6*	*0.5*
Estonia	:	:	:	1.3	-1.3	-1.2	**-0.9**	**-1.0**	**-1.1**	*-1.0*	*-0.9*	*-0.8*
Ireland	1.0	0.3	-10.0	-11.9	-7.1	-4.4	**-3.9**	**-3.3**	**-3.4**	*-3.5*	*-3.2*	*-3.3*
Greece	:	:	-10.5	-5.6	-2.5	-5.8	**2.5**	**4.1**	**2.1**	*3.6*	*3.0*	*1.8*
Spain	-3.0	-1.5	-4.1	-6.4	-6.5	-2.7	**-2.3**	**-2.4**	**-2.7**	*-2.4*	*-2.4*	*-2.8*
France	-2.4	-4.1	-4.8	-4.9	-4.2	-3.1	**-2.9**	**-2.7**	**-3.1**	*-3.1*	*-3.0*	*-3.5*
Italy	-3.4	-4.0	-3.4	-2.6	-1.4	-0.5	**-0.7**	**-0.7**	**-0.9**	*-0.6*	*-0.9*	*-1.1*
Cyprus	:	-4.2	-3.0	-5.9	-5.1	-2.3	**0.2**	**-0.8**	**-0.5**	*0.2*	*-0.8*	*-0.5*
Latvia	:	-2.0	-4.6	-1.1	-0.1	-1.1	**-1.9**	**-1.6**	**-1.7**	*-1.5*	*-1.6*	*-1.5*
Lithuania	:	:	-4.3	-7.4	-2.7	-2.6	**-1.3**	**-1.6**	**-1.2**	*-1.2*	*-1.5*	*-1.0*
Luxembourg	3.2	1.2	1.6	0.9	1.7	2.1	**1.5**	**0.4**	**0.5**	*1.1*	*0.4*	*-0.1*
Malta	-7.2	-5.5	-3.3	-2.5	-3.5	-2.5	**-2.3**	**-2.2**	**-2.1**	*-2.5*	*-2.7*	*-2.2*
Netherlands	-0.7	-0.7	-2.1	-3.8	-2.3	0.0	**-0.9**	**-0.9**	**-1.1**	*-0.5*	*-0.8*	*-1.1*
Austria	-3.0	-1.9	-2.9	-2.7	-2.3	-1.2	**-2.2**	**-1.3**	**-1.0**	*-2.3*	*-1.3*	*-0.7*
Portugal	-5.2	-5.4	-6.0	-5.6	-2.4	-1.6	:	:	:	*-2.4*	*-1.6*	*-2.0*
Slovenia	:	-2.9	-4.2	-5.4	-1.9	-12.3	**-4.1**	**-2.2**	**-2.8**	*-3.1*	*-2.2*	*-2.7*
Slovakia	:	-3.9	-5.9	-3.7	-3.4	-1.5	**-2.0**	**-1.9**	**-1.9**	*-1.7*	*-1.3*	*-1.1*
Finland	0.8	3.2	1.3	-0.8	-1.1	-0.6	**-0.9**	**-1.0**	**-1.3**	*-1.1*	*-1.1*	*-1.3*
Euro area	:	:	:	-3.6	-2.5	-1.2	**-1.1**	**-1.0**	**-1.2**	*-1.1*	*-1.1*	*-1.4*
Bulgaria	-2.3	0.3	-0.9	-1.9	-0.5	-1.3	**-3.4**	**-2.7**	**-2.5**	*-3.6*	*-3.4*	*-3.3*
Czech Republic	-3.1	-5.1	-4.1	-2.6	-3.2	0.0	**-0.5**	**-1.7**	**-1.5**	*-0.5*	*-1.7*	*-1.7*
Denmark	-1.4	0.9	1.3	-0.6	-1.6	1.4	**4.2**	**-1.0**	**-1.5**	*1.3*	*-0.5*	*-0.7*
Croatia	:	-3.9	-5.4	-7.1	-4.4	-3.9	**-3.5**	**-4.3**	**-4.8**	*-4.0*	*-4.1*	*-4.7*
Hungary	:	-7.6	-5.6	-4.5	-0.7	-1.2	**-2.2**	**-2.7**	**-2.4**	*-2.5*	*-2.9*	*-2.6*
Poland	:	:	:	-5.9	-3.9	-3.5	**-3.1**	**-2.6**	**-2.4**	*-3.0*	*-2.4*	*-2.5*
Romania	-3.2	-2.3	-6.6	-4.4	-1.6	-1.4	**-1.4**	**-1.2**	**-1.3**	*-1.7*	*-2.5*	*-2.4*
Sweden	0.3	0.4	1.4	0.0	0.0	-0.3	**-1.3**	**-1.0**	**-0.8**	*-1.5*	*-1.1*	*-0.9*
United Kingdom	-1.1	-2.8	-5.9	-5.9	-6.5	-4.4	**-4.8**	**-4.6**	**-4.0**	*-5.0*	*-4.5*	*-3.7*
EU	:	:	:	-3.8	-3.0	-1.7	**-1.6**	**-1.7**	**-1.8**	*-1.8*	*-1.8*	*-1.8*

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 40: Cyclically-adjusted primary balance, general government[1] (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			Autumn 2014 forecast		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2014	2015	2016
Belgium	5.4	4.1	1.2	-0.4	-0.1	1.2	**0.6**	**0.8**	**0.7**	*0.8*	*0.8*	*0.6*
Germany	1.4	-0.3	1.2	1.1	2.3	2.7	**2.7**	**2.4**	**2.1**	*2.5*	*2.4*	*2.2*
Estonia	:	:	:	1.5	-1.1	-1.1	**-0.8**	**-0.8**	**-0.9**	*-0.9*	*-0.7*	*-0.6*
Ireland	4.1	1.6	-8.4	-8.5	-2.9	0.0	**0.2**	**0.6**	**0.4**	*0.5*	*0.6*	*0.5*
Greece	:	:	-5.6	1.7	2.5	-1.8	**6.6**	**7.8**	**5.7**	*8.0*	*7.1*	*5.9*
Spain	1.1	0.8	-2.5	-4.0	-3.5	0.6	**1.0**	**0.8**	**0.5**	*0.9*	*1.0*	*0.5*
France	0.7	-1.3	-2.2	-2.3	-1.7	-0.8	**-0.7**	**-0.5**	**-0.9**	*-0.9*	*-0.8*	*-1.2*
Italy	4.8	1.2	1.2	2.1	3.8	4.3	**4.0**	**3.6**	**3.5**	*4.1*	*3.6*	*3.5*
Cyprus	:	-1.1	-0.5	-3.7	-2.2	0.8	**3.2**	**2.4**	**2.6**	*3.2*	*2.5*	*2.6*
Latvia	:	-1.3	-3.7	0.8	1.6	0.4	**-0.5**	**-0.3**	**-0.5**	*0.0*	*-0.3*	*-0.3*
Lithuania	:	:	-3.3	-5.5	-0.7	-0.8	**0.5**	**0.0**	**0.4**	*0.6*	*0.2*	*0.6*
Luxembourg	3.6	1.4	1.9	1.4	2.1	2.6	**1.9**	**0.8**	**0.9**	*1.5*	*0.8*	*0.3*
Malta	-4.2	-1.7	0.0	0.7	-0.5	0.4	**0.5**	**0.5**	**0.7**	*0.3*	*0.0*	*0.5*
Netherlands	3.4	1.8	-0.1	-2.1	-0.6	1.5	**0.6**	**0.5**	**0.2**	*1.0*	*0.6*	*0.3*
Austria	0.6	1.4	0.1	0.1	0.4	1.4	**0.3**	**1.2**	**1.5**	*0.2*	*1.2*	*1.8*
Portugal	-1.7	-2.6	-3.0	-1.3	2.5	3.4	:	:	:	*2.6*	*3.3*	*2.9*
Slovenia	:	-1.0	-2.8	-3.6	0.1	-9.8	**-0.8**	**0.9**	**0.3**	*0.2*	*1.0*	*0.3*
Slovakia	:	-1.2	-4.6	-2.1	-1.6	0.4	**-0.2**	**-0.2**	**-0.2**	*0.2*	*0.4*	*0.5*
Finland	4.2	5.2	2.7	0.5	0.4	0.6	**0.4**	**0.3**	**-0.1**	*0.2*	*0.2*	*0.0*
Euro area	2.0	0.3	-0.5	-0.6	0.5	1.5	**1.6**	**1.6**	**1.3**	*1.6*	*1.5*	*1.3*
Bulgaria	5.1	2.7	0.1	-1.2	0.3	-0.5	**-2.6**	**-1.9**	**-1.6**	*-2.7*	*-2.5*	*-2.3*
Czech Republic	-2.1	-4.0	-3.0	-1.3	-1.8	1.3	**0.8**	**-0.4**	**-0.3**	*0.8*	*-0.4*	*-0.4*
Denmark	3.2	3.7	3.1	1.4	0.2	3.2	**5.7**	**0.5**	**-0.2**	*2.9*	*1.1*	*0.8*
Croatia	:	-2.2	-3.5	-4.1	-1.2	-0.5	**0.4**	**-0.2**	**-0.7**	*-0.2*	*-0.1*	*-0.6*
Hungary	:	-3.4	-1.5	-0.3	4.0	3.4	**1.9**	**1.1**	**1.3**	*1.6*	*1.1*	*1.2*
Poland	:	:	:	-3.4	-1.2	-1.0	**-1.1**	**-0.5**	**-0.5**	*-0.9*	*-0.3*	*-0.4*
Romania	0.6	-0.3	-5.5	-2.8	0.2	0.3	**0.3**	**0.4**	**0.4**	*0.1*	*-0.7*	*-0.6*
Sweden	4.7	2.6	2.8	1.1	0.9	0.5	**-0.6**	**-0.3**	**0.1**	*-0.7*	*-0.3*	*0.0*
United Kingdom	2.0	-0.8	-3.6	-2.7	-3.6	-1.5	**-2.0**	**-1.9**	**-1.3**	*-2.3*	*-1.9*	*-1.2*
EU	2.0	0.2	-1.0	-0.9	-0.1	1.0	**0.9**	**0.8**	**0.7**	*0.8*	*0.8*	*0.7*

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 41: Structural budget balance, general government[1] (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			Autumn 2014 forecast		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2014	2015	2016
Belgium	:	:	:	-3.6	-3.0	-2.6	**-2.8**	**-2.1**	**-2.0**	*-2.6*	*-2.2*	*-2.3*
Germany	:	:	-1.2	-1.2	0.1	0.7	**0.9**	**0.7**	**0.5**	*0.7*	*0.6*	*0.5*
Estonia	:	:	:	-0.2	-0.3	-1.1	**-0.7**	**-0.8**	**-1.0**	*-0.8*	*-0.7*	*-0.7*
Ireland	:	:	-5.3	-8.0	-7.1	-4.8	**-3.9**	**-3.4**	**-3.4**	*-3.8*	*-3.3*	*-3.3*
Greece	:	:	-10.6	-6.1	-0.3	2.7	**1.9**	**1.7**	**1.2**	*2.0*	*1.6*	*1.0*
Spain	:	:	:	-6.2	-3.5	-2.2	**-2.1**	**-2.3**	**-2.7**	*-2.2*	*-2.3*	*-2.8*
France	:	:	:	-5.0	-4.3	-3.3	**-2.9**	**-2.6**	**-3.0**	*-3.0*	*-2.9*	*-3.4*
Italy	:	:	-3.6	-3.2	-1.5	-0.8	**-0.9**	**-0.6**	**-0.8**	*-0.9*	*-0.8*	*-1.0*
Cyprus	:	:	-3.0	-5.7	-5.5	-2.1	**-0.9**	**-1.4**	**-1.1**	*-0.8*	*-1.3*	*-1.0*
Latvia	:	:	-4.1	-1.1	-0.1	-1.1	**-1.6**	**-1.6**	**-1.7**	*-1.5*	*-1.6*	*-1.5*
Lithuania	:	:	-4.0	-3.7	-2.7	-2.2	**-1.9**	**-1.7**	**-1.2**	*-1.8*	*-1.6*	*-1.1*
Luxembourg	:	:	:	0.9	1.7	2.1	**1.3**	**0.4**	**0.5**	*1.1*	*0.4*	*-0.1*
Malta	:	:	-3.9	-3.0	-3.9	-2.7	**-2.7**	**-2.4**	**-2.2**	*-2.7*	*-2.9*	*-2.4*
Netherlands	:	:	-2.1	-3.8	-2.3	-0.6	**-0.7**	**-0.9**	**-1.1**	*-0.5*	*-0.8*	*-1.1*
Austria	:	:	:	-2.5	-1.9	-1.4	**-1.1**	**-1.0**	**-1.0**	*-1.1*	*-1.0*	*-0.7*
Portugal	:	:	-5.4	-5.4	-2.3	-2.0	**:**	**:**	**:**	*-1.3*	*-1.7*	*-2.0*
Slovenia	:	:	-4.2	-4.5	-1.8	-1.9	**-2.5**	**-2.2**	**-2.9**	*-2.5*	*-2.2*	*-2.8*
Slovakia	:	:	-5.8	-4.0	-3.5	-1.5	**-2.4**	**-2.0**	**-1.9**	*-2.1*	*-1.3*	*-1.1*
Finland	:	:	:	-0.8	-1.0	-0.6	**-1.0**	**-1.0**	**-1.3**	*-1.1*	*-1.1*	*-1.3*
Euro area	:	:	:	-3.5	-2.1	-1.2	**-1.0**	**-1.0**	**-1.2**	*-1.1*	*-1.1*	*-1.3*
Bulgaria	:	:	:	-1.9	-0.5	-1.3	**-3.2**	**-2.7**	**-2.5**	*-3.4*	*-3.4*	*-3.3*
Czech Republic	:	:	-4.1	-2.6	-1.4	0.1	**-0.7**	**-1.7**	**-1.5**	*-0.7*	*-1.7*	*-1.7*
Denmark	:	:	1.3	-0.6	-0.1	-0.1	**1.2**	**-1.8**	**-1.5**	*-0.2*	*-1.2*	*-0.7*
Croatia	:	:	:	-7.1	-4.4	-3.6	**-3.4**	**-4.3**	**-4.8**	*-3.9*	*-4.1*	*-4.7*
Hungary	:	:	-5.4	-4.3	-1.3	-1.3	**-2.6**	**-2.6**	**-2.4**	*-2.7*	*-2.8*	*-2.6*
Poland	:	:	:	-5.9	-4.0	-3.5	**-3.0**	**-2.7**	**-2.4**	*-2.9*	*-2.5*	*-2.5*
Romania	:	:	-6.5	-3.3	-2.1	-1.4	**-1.3**	**-1.2**	**-1.3**	*-1.7*	*-2.5*	*-2.4*
Sweden	:	:	1.4	0.0	0.0	-0.3	**-1.3**	**-1.0**	**-0.9**	*-1.5*	*-1.1*	*-1.0*
United Kingdom	:	:	-5.7	-5.9	-6.5	-4.4	**-5.0**	**-4.6**	**-4.0**	*-5.0*	*-4.5*	*-3.7*
EU	:	:	:	-3.8	-2.7	-1.7	**-1.7**	**-1.7**	**-1.7**	*-1.8*	*-1.8*	*-1.8*

[1] Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisions

Table 42: Gross debt, general government (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			Autumn 2014 forecast		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	2014	2015	2016
Belgium	119.0	101.1	93.8	102.1	104.0	104.5	**106.4**	**106.8**	**106.6**	*105.8*	*107.3*	*107.8*
Germany	58.8	62.2	69.5	77.6	79.0	76.9	**74.2**	**71.9**	**68.9**	*74.5*	*72.4*	*69.6*
Estonia	:	:	:	6.0	9.7	10.1	**9.8**	**9.6**	**9.5**	*9.9*	*9.6*	*9.5*
Ireland	53.3	29.8	48.0	111.1	121.7	123.3	**110.8**	**110.3**	**107.9**	*110.5*	*109.4*	*106.0*
Greece	:	:	117.7	171.3	156.9	174.9	**176.3**	**170.2**	**159.2**	*175.5*	*168.8*	*157.8*
Spain	62.3	48.1	45.3	69.2	84.4	92.1	**98.3**	**101.5**	**102.5**	*98.1*	*101.2*	*102.1*
France	59.9	62.9	71.3	85.0	89.2	92.2	**95.3**	**97.1**	**98.2**	*95.5*	*98.1*	*99.8*
Italy	111.1	101.8	106.5	116.4	122.2	127.9	**131.9**	**133.0**	**131.9**	*132.2*	*133.8*	*132.7*
Cyprus	53.5	61.7	53.8	66.0	79.5	102.2	**107.5**	**115.2**	**111.6**	*107.5*	*115.2*	*111.6*
Latvia	11.5	13.4	24.0	42.7	40.9	38.2	**40.4**	**36.5**	**35.5**	*40.3*	*36.3*	*35.1*
Lithuania	:	20.8	23.1	37.3	39.9	39.0	**41.1**	**41.8**	**37.3**	*41.3*	*41.6*	*41.3*
Luxembourg	7.0	6.5	12.7	18.5	21.4	23.6	**22.7**	**24.4**	**25.1**	*23.0*	*24.3*	*25.4*
Malta	51.9	68.0	65.0	69.8	67.5	69.5	**68.6**	**68.0**	**66.8**	*71.0*	*71.0*	*69.8*
Netherlands	62.1	49.2	51.6	61.3	66.5	68.6	**69.5**	**70.5**	**70.5**	*69.7*	*70.3*	*69.9*
Austria	65.4	66.3	72.5	82.1	81.7	81.2	**86.8**	**86.4**	**84.5**	*87.0*	*86.1*	*84.0*
Portugal	53.6	59.5	77.8	111.1	124.8	128.0	**128.9**	**124.5**	**123.5**	*127.7*	*125.1*	*123.7*
Slovenia	23.2	26.6	28.5	46.2	53.4	70.4	**82.2**	**83.0**	**81.8**	*82.2*	*82.9*	*80.6*
Slovakia	38.8	41.4	33.2	43.5	52.1	54.6	**53.6**	**54.9**	**55.2**	*54.1*	*54.9*	*54.7*
Finland	48.2	41.3	38.7	48.5	53.0	56.0	**58.9**	**61.2**	**62.6**	*59.8*	*61.7*	*62.4*
Euro area	:	:	:	86.4	90.8	93.1	**94.3**	**94.4**	**93.2**	*94.5*	*94.8*	*93.8*
Bulgaria	:	44.4	16.3	15.7	18.0	18.3	**27.0**	**27.8**	**30.3**	*25.3*	*26.8*	*30.2*
Czech Republic	14.0	26.7	31.3	41.0	45.5	45.7	**44.1**	**44.4**	**45.0**	*44.4*	*44.7*	*45.2*
Denmark	60.0	45.1	35.1	46.4	45.6	45.1	**45.0**	**42.7**	**43.6**	*44.1*	*45.1*	*45.6*
Croatia	:	36.7	40.7	59.9	64.4	75.7	**81.4**	**84.9**	**88.7**	*81.7*	*84.9*	*89.0*
Hungary	61.8	56.9	72.4	81.0	78.5	77.3	**77.7**	**77.2**	**76.1**	*76.9*	*76.4*	*75.2*
Poland	:	:	:	54.8	54.4	55.7	**48.6**	**49.9**	**49.8**	*49.1*	*50.2*	*50.1*
Romania	17.2	21.2	18.3	34.2	37.3	38.0	**38.7**	**39.1**	**39.3**	*39.4*	*40.4*	*41.1*
Sweden	63.6	49.4	39.0	36.1	36.4	38.6	**41.4**	**41.3**	**40.6**	*40.3*	*40.1*	*39.4*
United Kingdom	44.0	38.2	56.0	81.9	85.8	87.2	**88.7**	**90.1**	**91.0**	*89.0*	*89.5*	*89.9*
EU	:	:	:	81.3	84.9	87.1	**88.4**	**88.3**	**87.6**	*88.1*	*88.3*	*87.6*

Table 43: Gross national saving (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	26.9	26.7	26.2	24.5	24.1	21.2	**22.2**	**22.6**	**23.3**	*22.1*	*22.1*	*22.3*
Germany	22.2	22.4	25.9	26.8	26.4	25.9	**26.6**	**26.6**	**26.9**	*26.2*	*26.1*	*26.3*
Estonia	21.4	23.3	23.5	26.2	26.9	27.6	**25.1**	**24.9**	**24.7**	*24.8*	*24.5*	*24.3*
Ireland	24.1	23.3	19.4	16.0	17.6	20.5	**22.4**	**23.2**	**23.6**	*23.1*	*24.6*	*25.6*
Greece	19.0	14.9	8.4	5.4	9.6	9.5	**8.3**	**9.6**	**11.5**	*8.9*	*10.3*	*11.9*
Spain	22.1	23.0	20.9	18.7	19.8	20.4	**19.2**	**20.5**	**20.8**	*19.4*	*20.1*	*20.7*
France	22.8	22.4	21.6	21.0	20.2	20.0	**20.0**	**20.3**	**20.4**	*20.0*	*19.8*	*19.9*
Italy	21.2	20.5	18.9	17.4	18.1	18.7	**18.7**	**19.6**	**20.3**	*18.9*	*19.2*	*20.0*
Cyprus	20.2	17.9	14.1	16.0	10.9	10.8	**9.9**	**10.4**	**11.5**	*9.9*	*10.4*	*11.5*
Latvia	14.3	20.8	21.5	21.2	22.5	21.5	**20.6**	**20.3**	**20.0**	*22.2*	*21.6*	*21.1*
Lithuania	12.6	15.1	15.7	17.4	17.4	19.7	**19.5**	**20.8**	**20.7**	*20.8*	*20.2*	*19.9*
Luxembourg	31.3	30.7	26.1	25.6	23.5	21.7	**21.0**	**20.1**	**20.0**	*21.1*	*21.2*	*21.6*
Malta	16.9	15.2	15.1	17.5	16.5	17.9	**21.4**	**22.2**	**21.6**	*21.4*	*22.2*	*22.0*
Netherlands	28.5	27.1	28.0	27.6	28.2	26.8	**27.0**	**26.9**	**27.5**	*26.3*	*26.7*	*27.1*
Austria	24.3	25.5	26.7	26.2	26.6	25.0	**25.3**	**25.5**	**25.8**	*25.0*	*25.5*	*26.0*
Portugal	19.7	16.0	11.6	13.0	14.0	15.2	**15.2**	**16.1**	**16.7**	*15.4*	*16.1*	*17.0*
Slovenia	24.5	25.6	26.0	22.6	22.0	24.3	**26.2**	**26.8**	**26.5**	*26.3*	*26.7*	*26.7*
Slovakia	25.9	21.8	20.7	21.3	21.3	21.5	**21.9**	**21.9**	**22.2**	*21.7*	*21.5*	*21.8*
Finland	27.1	29.1	26.4	22.0	20.3	18.8	**18.7**	**19.2**	**19.7**	*18.4*	*18.8*	*19.3*
Euro area	22.8	22.6	22.5	21.9	22.1	21.9	**22.1**	**22.5**	**22.9**	*22.0*	*22.2*	*22.6*
Bulgaria	17.1	16.8	16.4	22.9	21.5	23.7	**23.3**	**22.9**	**21.7**	*23.4*	*22.8*	*21.5*
Czech Republic	28.1	25.9	24.9	22.4	24.1	22.8	**24.6**	**25.6**	**26.0**	*23.9*	*24.6*	*25.1*
Denmark	23.5	25.5	25.5	25.2	24.6	26.0	**25.7**	**26.0**	**26.3**	*25.3*	*25.5*	*25.9*
Croatia	17.3	21.9	22.0	20.0	19.4	19.3	**19.1**	**20.3**	**21.2**	*18.5*	*19.8*	*20.3*
Hungary	21.2	18.1	18.7	21.2	20.9	24.0	**25.6**	**25.8**	**26.3**	*24.6*	*24.6*	*25.4*
Poland	20.1	16.8	17.2	17.2	16.8	17.6	**18.8**	**19.2**	**19.2**	*18.2*	*18.3*	*18.5*
Romania	14.1	18.0	20.1	23.1	22.3	23.4	**22.2**	**22.6**	**22.7**	*21.6*	*21.9*	*22.3*
Sweden	25.6	28.1	31.0	29.7	28.9	28.9	**28.8**	**28.9**	**29.0**	*28.6*	*28.5*	*28.6*
United Kingdom	17.7	16.9	14.6	14.7	12.8	12.5	**13.6**	**14.4**	**15.4**	*13.8*	*15.0*	*16.3*
EU	22.0	21.7	21.4	21.1	20.8	20.7	**20.9**	**21.4**	**21.8**	*20.9*	*21.2*	*21.7*
USA	20.6	18.0	16.3	15.7	17.5	18.1	**17.2**	**17.9**	**18.1**	*17.2*	*17.6*	*18.0*
Japan	28.9	25.9	25.4	22.2	21.9	21.8	**22.3**	**22.8**	**23.2**	*22.5*	*22.9*	*23.4*

Table 44: Gross saving, private sector (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	25.4	24.7	25.6	25.1	24.5	21.2	**22.7**	**22.6**	**23.1**	*22.5*	*22.1*	*22.4*
Germany	21.3	22.8	24.4	24.7	23.5	23.1	**23.4**	**23.7**	**24.0**	*23.2*	*23.3*	*23.3*
Estonia	:	:	:	22.2	21.9	23.3	**20.9**	**21.0**	**21.0**	*20.8*	*20.8*	*20.6*
Ireland	19.5	19.0	20.4	21.9	23.0	24.5	**24.8**	**24.5**	**25.0**	*25.4*	*26.2*	*27.1*
Greece	:	:	14.4	13.7	13.8	9.6	**8.6**	**6.5**	**7.8**	*8.5*	*8.3*	*8.3*
Spain	20.5	18.3	19.4	23.2	23.4	24.5	**22.5**	**22.8**	**22.3**	*22.7*	*22.5*	*22.5*
France	20.7	21.1	21.1	21.2	20.1	19.3	**19.5**	**19.9**	**20.2**	*19.6*	*19.7*	*20.3*
Italy	21.0	20.2	18.1	17.7	17.4	18.6	**18.6**	**19.1**	**19.2**	*18.8*	*19.1*	*19.4*
Cyprus	19.3	17.3	11.1	17.2	12.9	12.3	**9.5**	**10.5**	**10.1**	*9.5*	*10.5*	*10.1*
Latvia	12.3	17.7	19.7	18.6	18.0	17.5	**17.1**	**16.9**	**16.7**	*19.0*	*18.9*	*18.4*
Lithuania	:	:	16.0	19.7	18.5	19.7	**19.9**	**20.2**	**19.4**	*21.2*	*19.7*	*18.5*
Luxembourg	23.0	23.8	19.3	20.2	18.5	16.7	**16.0**	**15.6**	**15.0**	*16.5*	*16.9*	*17.5*
Malta	20.6	16.8	16.1	18.4	18.0	18.5	**22.0**	**22.2**	**21.9**	*22.1*	*22.6*	*22.4*
Netherlands	25.5	24.6	25.8	27.8	28.2	25.7	**25.2**	**25.0**	**25.6**	*24.2*	*24.6*	*25.2*
Austria	22.6	23.2	25.5	25.0	24.9	23.2	**23.2**	**23.5**	**23.5**	*23.1*	*23.2*	*23.3*
Portugal	18.9	17.2	14.2	17.1	18.0	17.9	**17.4**	**17.7**	**17.7**	*17.7*	*17.6*	*18.0*
Slovenia	21.9	23.3	23.7	23.3	21.5	24.4	**24.9**	**24.6**	**24.9**	*25.0*	*24.5*	*24.9*
Slovakia	24.4	21.3	21.4	22.2	22.8	21.7	**21.2**	**21.3**	**21.4**	*21.3*	*20.6*	*20.9*
Finland	21.6	22.2	21.2	19.2	18.5	17.3	**17.4**	**17.7**	**17.9**	*17.3*	*17.4*	*17.5*
Euro area	:	:	:	22.2	21.7	21.3	**21.2**	**21.5**	**21.7**	*21.2*	*21.3*	*21.5*
Bulgaria	15.9	12.4	12.4	22.4	19.6	22.7	**23.8**	**23.3**	**22.4**	*24.1*	*23.8*	*22.9*
Czech Republic	24.1	22.7	22.5	21.2	22.3	20.7	**22.7**	**23.9**	**24.1**	*22.1*	*23.0*	*23.4*
Denmark	20.7	21.3	20.8	23.5	22.7	23.2	**19.9**	**25.0**	**25.4**	*22.7*	*24.3*	*24.6*
Croatia	:	18.5	19.5	21.6	21.0	20.1	**19.5**	**21.3**	**22.2**	*19.6*	*20.7*	*21.3*
Hungary	20.6	19.0	19.8	22.7	20.1	23.4	**24.7**	**24.8**	**25.4**	*24.0*	*24.0*	*24.6*
Poland	:	:	:	17.6	16.8	18.4	**19.0**	**19.0**	**18.8**	*18.5*	*18.0*	*18.2*
Romania	14.6	15.4	18.8	21.3	20.3	20.5	**19.2**	**19.4**	**19.7**	*18.8*	*19.9*	*20.2*
Sweden	21.2	23.8	25.4	25.3	25.5	25.9	**26.2**	**25.6**	**25.1**	*26.2*	*25.4*	*25.0*
United Kingdom	16.2	16.5	16.9	18.8	17.2	15.2	**16.1**	**16.0**	**15.9**	*16.2*	*16.5*	*16.6*
EU	:	:	:	21.7	21.0	20.5	**20.5**	**20.7**	**20.8**	*20.5*	*20.6*	*20.8*
USA	18.1	18.7	19.6	22.1	22.6	20.4	**18.8**	**18.8**	**18.7**	*18.7*	*18.6*	*18.7*
Japan	27.4	27.4	27.4	27.5	26.9	26.0	**25.6**	**25.7**	**25.8**	*25.6*	*25.2*	*25.0*

Table 45: Saving rate of households (1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	17.3	16.5	16.8	14.7	13.9	13.5	**13.5**	**13.6**	**13.3**	*13.4*	*13.3*	*13.3*
Germany	15.8	16.0	16.7	16.5	16.4	16.3	**16.4**	**16.6**	**16.3**	*16.5*	*16.4*	*16.3*
Estonia	2.9	-1.4	2.9	10.3	9.1	9.0	**8.7**	**9.6**	**8.8**	*9.0*	*9.8*	*9.6*
Ireland	:	:	11.3	11.2	10.2	9.4	**7.5**	**7.0**	**6.7**	*8.4*	*8.2*	*8.3*
Greece	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Spain	12.3	11.2	10.2	11.9	9.5	10.4	**9.0**	**9.3**	**9.4**	*10.4*	*10.5*	*10.7*
France	14.9	15.2	15.0	15.2	14.9	14.7	**15.3**	**15.1**	**14.9**	*15.3*	*15.2*	*15.2*
Italy	16.3	14.6	13.2	10.6	10.4	11.7	**12.2**	**13.1**	**13.1**	*11.8*	*12.3*	*12.6*
Cyprus	10.2	12.3	11.7	11.5	7.2	3.7	**2.9**	**1.8**	**2.3**	*2.9*	*1.8*	*2.3*
Latvia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Lithuania	3.6	4.4	2.1	3.7	1.4	2.2	**:**	**:**	**:**	*:*	*:*	*:*
Luxembourg	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Malta	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Netherlands	15.4	14.2	13.1	13.3	13.5	14.7	**15.0**	**15.1**	**16.4**	*15.9*	*15.6*	*15.7*
Austria	16.1	14.6	16.2	13.3	14.4	12.8	**13.3**	**14.0**	**13.7**	*13.0*	*13.6*	*14.1*
Portugal	11.2	10.2	8.3	7.5	9.5	10.1	**9.5**	**9.6**	**9.2**	*9.7*	*9.3*	*8.7*
Slovenia	12.0	14.4	15.4	13.1	11.4	14.4	**14.2**	**14.7**	**15.2**	*14.4*	*13.7*	*14.1*
Slovakia	12.4	7.5	7.2	8.5	7.2	8.5	**6.9**	**7.2**	**7.4**	*6.9*	*7.0*	*7.0*
Finland	8.9	9.0	8.2	8.1	7.7	7.9	**7.5**	**8.0**	**7.8**	*8.3*	*8.6*	*8.4*
Euro area	:	14.4	13.9	13.1	12.9	13.3	**13.5**	**13.8**	**13.7**	*13.2*	*13.3*	*13.3*
Bulgaria	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Czech Republic	11.6	10.9	12.4	11.1	11.3	9.7	**10.4**	**10.3**	**9.9**	*10.0*	*10.2*	*10.2*
Denmark	3.4	6.8	6.4	7.8	7.1	6.7	**1.1**	**11.3**	**11.2**	*6.4*	*8.2*	*7.7*
Croatia	:	:	:	:	:	:	**:**	**:**	**:**	*:*	*:*	*:*
Hungary	15.6	10.7	10.7	12.2	10.2	10.7	**10.6**	**10.8**	**10.0**	*10.7*	*10.4*	*10.3*
Poland	13.6	10.2	7.1	2.1	4.8	3.6	**1.9**	**3.4**	**3.7**	*2.8*	*3.5*	*4.0*
Romania	2.6	-5.7	-6.4	-7.0	-8.0	-10.4	**-13.3**	**-13.4**	**-14.2**	*-11.9*	*-10.4*	*-10.1*
Sweden	5.7	9.5	13.3	15.3	17.8	17.9	**18.0**	**17.9**	**17.8**	*18.3*	*17.8*	*17.4*
United Kingdom	10.0	8.9	7.9	8.6	8.0	6.4	**7.4**	**7.7**	**7.8**	*7.2*	*7.6*	*7.9*
EU	:	12.3	11.5	11.1	10.8	10.9	**11.0**	**11.3**	**11.3**	*11.1*	*11.2*	*11.2*
USA	10.3	9.8	10.5	11.5	12.5	10.4	**9.7**	**9.7**	**9.5**	*10.1*	*10.0*	*9.9*
Japan	15.2	9.6	8.3	9.0	7.7	6.4	**6.0**	**5.5**	**4.7**	*5.5*	*4.3*	*3.5*

Table 46: Gross saving, general government (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	1.4	2.0	0.6	-0.6	-0.3	0.0	**-0.4**	**0.0**	**0.2**	*-0.5*	*0.0*	*-0.1*
Germany	0.9	-0.4	1.5	2.1	2.9	2.8	**3.1**	**2.9**	**2.9**	*3.0*	*2.8*	*3.0*
Estonia	:	:	:	4.0	4.9	4.3	**4.2**	**3.9**	**3.8**	*4.0*	*3.7*	*3.7*
Ireland	4.7	4.3	-1.0	-5.9	-5.4	-4.1	**-2.4**	**-1.4**	**-1.4**	*-2.3*	*-1.6*	*-1.5*
Greece	:	:	-6.0	-8.3	-4.2	-0.1	**-0.3**	**3.1**	**3.8**	*0.4*	*1.9*	*3.6*
Spain	1.7	4.7	1.5	-4.6	-3.7	-4.0	**-3.3**	**-2.3**	**-1.5**	*-3.3*	*-2.4*	*-1.7*
France	2.1	1.4	0.5	-0.3	0.1	0.7	**0.5**	**0.4**	**0.2**	*0.4*	*0.1*	*-0.4*
Italy	0.2	0.3	0.8	-0.4	0.6	0.1	**0.1**	**0.5**	**1.0**	*0.1*	*0.1*	*0.5*
Cyprus	0.8	0.6	2.9	-1.2	-2.0	-1.5	**0.4**	**0.0**	**1.4**	*0.4*	*0.0*	*1.4*
Latvia	1.9	3.1	1.9	2.6	4.5	3.9	**3.6**	**3.4**	**3.3**	*3.1*	*2.8*	*2.7*
Lithuania	:	:	-0.3	-2.3	-1.1	0.1	**-0.4**	**0.6**	**1.3**	*-0.4*	*0.6*	*1.4*
Luxembourg	8.3	6.9	6.8	5.5	5.0	5.0	**4.9**	**4.5**	**4.9**	*4.6*	*4.3*	*4.1*
Malta	-3.8	-1.7	-1.0	-0.9	-1.4	-0.6	**-0.5**	**0.0**	**-0.3**	*-0.7*	*-0.4*	*-0.4*
Netherlands	3.0	2.5	2.1	-0.2	0.0	1.1	**1.7**	**1.9**	**1.9**	*2.1*	*2.0*	*2.0*
Austria	1.7	2.3	1.3	1.3	1.7	1.8	**2.0**	**2.0**	**2.3**	*1.9*	*2.3*	*2.7*
Portugal	0.8	-1.1	-2.6	-4.1	-4.0	-2.8	**-2.2**	**-1.7**	**-1.0**	*-2.3*	*-1.6*	*-1.0*
Slovenia	2.6	2.3	2.3	-0.7	0.5	-0.1	**1.3**	**2.1**	**1.7**	*1.3*	*2.1*	*1.8*
Slovakia	1.5	0.5	-0.8	-0.9	-1.5	-0.2	**0.6**	**0.6**	**0.8**	*0.3*	*0.9*	*0.9*
Finland	5.5	6.9	5.2	2.8	1.8	1.6	**1.3**	**1.5**	**1.8**	*1.2*	*1.4*	*1.8*
Euro area	:	:	:	-0.3	0.4	0.6	**0.8**	**1.0**	**1.2**	*0.8*	*0.9*	*1.0*
Bulgaria	1.2	4.3	4.0	0.5	1.9	1.0	**-0.5**	**-0.4**	**-0.7**	*-0.7*	*-1.0*	*-1.4*
Czech Republic	4.0	3.3	2.4	1.2	1.9	2.1	**1.9**	**1.7**	**2.0**	*1.9*	*1.6*	*1.7*
Denmark	2.8	4.2	4.7	1.7	1.9	2.8	**5.8**	**0.9**	**0.9**	*2.7*	*1.1*	*1.3*
Croatia	:	3.3	2.6	-1.6	-1.6	-0.8	**-0.4**	**-1.0**	**-1.1**	*-1.1*	*-1.0*	*-1.0*
Hungary	0.6	-0.9	-1.1	-1.4	0.9	0.6	**0.9**	**1.0**	**0.9**	*0.6*	*0.6*	*0.8*
Poland	:	:	:	-0.3	0.0	-0.7	**-0.2**	**0.2**	**0.5**	*-0.2*	*0.2*	*0.4*
Romania	-0.5	2.6	1.2	1.8	2.0	2.8	**3.0**	**3.3**	**3.0**	*2.7*	*2.0*	*2.1*
Sweden	4.3	4.3	5.6	4.4	3.5	3.0	**2.6**	**3.2**	**3.9**	*2.4*	*3.0*	*3.6*
United Kingdom	1.4	0.4	-2.4	-4.1	-4.5	-2.8	**-2.5**	**-1.6**	**-0.5**	*-2.4*	*-1.4*	*-0.4*
EU	:	:	:	-0.6	-0.2	0.2	**0.4**	**0.7**	**1.0**	*0.3*	*0.5*	*0.9*
USA	2.5	-0.6	-3.4	-6.4	-5.2	-2.3	**-1.6**	**-0.9**	**-0.6**	*-1.5*	*-0.9*	*-0.6*
Japan	1.5	-1.4	-2.0	-5.3	-5.0	-4.2	**-3.3**	**-2.9**	**-2.7**	*-3.1*	*-2.4*	*-1.7*

Table 47: Exports of goods and services, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	7.2	3.2	2.3	6.6	1.9	2.9	**3.4**	**3.5**	**4.8**	*3.0*	*2.9*	*4.2*
Germany	8.9	5.9	4.2	8.0	2.8	1.6	**3.7**	**4.8**	**5.3**	*3.3*	*4.2*	*5.4*
Estonia	13.0	11.1	4.2	24.9	6.2	2.4	**2.0**	**2.4**	**4.8**	*1.5*	*3.4*	*5.5*
Ireland	17.7	5.3	3.0	5.5	4.7	1.1	**12.7**	**5.3**	**5.5**	*8.0*	*5.3*	*5.6*
Greece	15.3	2.5	0.5	0.0	1.2	2.1	**8.0**	**5.6**	**4.8**	*5.3*	*5.4*	*4.9*
Spain	10.2	2.9	1.9	7.4	1.2	4.3	**4.5**	**5.4**	**6.0**	*3.8*	*4.9*	*5.8*
France	8.6	2.5	1.1	6.9	1.1	2.2	**2.2**	**4.2**	**5.5**	*2.3*	*3.9*	*5.3*
Italy	4.0	1.6	0.4	5.2	2.0	0.6	**1.3**	**3.4**	**4.2**	*1.5*	*3.4*	*4.2*
Cyprus	4.6	0.2	-0.1	4.2	-1.7	-5.0	**0.3**	**2.0**	**2.6**	*0.3*	*2.0*	*2.6*
Latvia	8.5	10.8	4.3	12.0	9.8	1.5	**1.4**	**2.9**	**4.8**	*1.5*	*3.3*	*4.8*
Lithuania	6.3	14.4	6.4	14.9	12.2	9.4	**3.1**	**3.4**	**6.4**	*-0.2*	*5.4*	*6.6*
Luxembourg	10.3	5.4	4.2	5.0	2.9	5.6	**2.4**	**4.1**	**5.1**	*2.4*	*4.0*	*4.9*
Malta	3.9	0.8	10.6	2.5	7.9	-1.2	**1.0**	**4.7**	**5.2**	*1.0*	*4.6*	*5.3*
Netherlands	8.2	3.2	3.2	4.4	3.3	2.0	**4.1**	**4.4**	**4.8**	*3.4*	*3.3*	*4.6*
Austria	8.6	5.1	2.5	6.6	1.3	1.4	**0.1**	**2.0**	**4.7**	*2.2*	*3.2*	*4.7*
Portugal	6.7	2.7	3.4	7.0	3.1	6.4	**3.8**	**5.0**	**5.4**	*3.6*	*4.6*	*5.6*
Slovenia	7.3	8.5	4.4	7.0	0.3	2.6	**5.8**	**4.2**	**5.3**	*5.1*	*4.5*	*5.3*
Slovakia	4.6	13.8	6.9	12.0	9.3	5.2	**4.4**	**4.1**	**5.6**	*4.6*	*4.4*	*5.6*
Finland	11.2	3.8	1.7	2.0	1.2	-1.7	**1.3**	**2.1**	**3.9**	*0.2*	*1.9*	*3.2*
Euro area	8.4	3.9	2.7	6.6	2.5	2.1	**3.6**	**4.3**	**5.1**	*3.1*	*3.9*	*5.0*
Bulgaria	-4.8	9.8	6.4	11.5	0.8	9.2	**0.3**	**3.0**	**3.7**	*1.4*	*3.0*	*3.7*
Czech Republic	7.9	13.0	6.5	9.3	4.1	0.3	**7.5**	**4.3**	**6.8**	*8.3*	*5.3*	*6.0*
Denmark	7.4	3.4	1.6	7.3	0.1	0.8	**2.8**	**3.0**	**4.5**	*1.1*	*3.7*	*4.4*
Croatia	8.4	7.2	0.1	2.2	-0.1	3.0	**6.1**	**2.8**	**4.7**	*5.4*	*3.6*	*4.8*
Hungary	16.8	10.3	7.9	6.6	-1.5	5.9	**8.0**	**6.0**	**6.7**	*6.5*	*6.0*	*5.9*
Poland	11.5	7.3	7.6	7.9	4.3	5.0	**4.8**	**4.1**	**5.4**	*3.9*	*3.9*	*5.7*
Romania	10.0	11.9	4.7	11.9	1.0	16.2	**8.4**	**5.7**	**5.8**	*8.9*	*5.1*	*6.0*
Sweden	9.1	4.6	2.1	6.1	1.0	-0.2	**2.4**	**3.7**	**4.8**	*2.2*	*3.9*	*4.7*
United Kingdom	6.0	4.1	1.7	5.6	0.7	1.5	**-1.1**	**2.4**	**3.3**	*-0.6*	*3.3*	*4.3*
EU	8.1	4.3	2.8	6.6	2.2	2.2	**3.2**	**4.1**	**5.0**	*2.9*	*3.9*	*5.0*
USA	6.7	1.9	5.2	6.9	3.3	3.0	**3.1**	**4.2**	**4.7**	*3.4*	*5.5*	*5.6*
Japan	5.6	5.9	2.7	-0.4	-0.2	1.5	**7.8**	**5.0**	**4.5**	*6.8*	*4.0*	*4.0*

Table 48: Imports of goods and services, volume (percentage change on preceding year, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	7.0	2.8	2.7	7.2	1.9	1.8	**2.8**	**3.4**	**4.5**	*2.9*	*2.8*	*4.2*
Germany	8.4	3.5	4.3	7.2	0.0	3.1	**3.3**	**5.4**	**6.6**	*3.9*	*4.8*	*6.6*
Estonia	13.4	14.5	1.5	26.5	11.8	3.3	**2.2**	**3.3**	**5.5**	*2.3*	*4.1*	*6.5*
Ireland	18.0	5.1	1.1	-0.6	6.9	0.6	**12.2**	**5.6**	**6.0**	*7.3*	*5.6*	*6.1*
Greece	14.1	1.9	0.4	-9.0	-9.1	-1.6	**4.7**	**4.0**	**3.5**	*0.4*	*2.1*	*3.4*
Spain	11.5	6.0	-0.6	-0.8	-6.3	-0.5	**7.7**	**6.9**	**6.7**	*4.8*	*5.1*	*6.0*
France	8.8	3.5	2.2	6.3	-1.3	1.7	**3.3**	**4.3**	**6.3**	*2.7*	*3.4*	*5.9*
Italy	6.4	2.4	1.4	0.5	-8.0	-2.7	**0.3**	**2.6**	**4.6**	*1.3*	*2.7*	*3.5*
Cyprus	3.6	1.4	2.0	-0.6	-4.6	-13.6	**-0.5**	**-0.1**	**1.3**	*-0.5*	*-0.1*	*1.3*
Latvia	8.5	13.4	-0.5	22.0	5.4	0.3	**1.1**	**3.8**	**5.4**	*1.4*	*3.5*	*5.4*
Lithuania	8.5	16.0	3.9	14.2	6.6	9.0	**4.6**	**4.6**	**7.7**	*1.2*	*6.5*	*7.7*
Luxembourg	11.0	5.5	4.4	6.9	3.8	5.8	**2.1**	**4.2**	**5.6**	*1.7*	*4.4*	*5.2*
Malta	2.9	0.1	10.6	-0.4	5.2	-1.0	**1.7**	**4.7**	**5.0**	*2.0*	*4.5*	*4.2*
Netherlands	9.3	3.0	3.2	3.5	2.8	0.8	**4.1**	**4.5**	**5.1**	*3.0*	*3.4*	*5.2*
Austria	6.3	4.5	2.0	6.4	0.7	-0.3	**1.0**	**2.0**	**4.7**	*2.4*	*2.9*	*4.8*
Portugal	9.1	2.0	2.4	-5.8	-6.6	3.6	**5.9**	**4.9**	**4.8**	*4.5*	*4.7*	*5.0*
Slovenia	7.8	7.3	3.3	5.0	-3.9	1.4	**4.2**	**3.8**	**5.4**	*3.0*	*3.5*	*5.1*
Slovakia	5.7	13.8	4.7	9.7	2.6	3.8	**4.8**	**4.1**	**5.5**	*5.7*	*4.0*	*5.5*
Finland	9.3	5.8	1.8	6.0	1.3	-2.5	**-0.4**	**1.3**	**3.0**	*-0.1*	*1.1*	*2.3*
Euro area	8.8	3.7	2.5	4.4	-1.0	1.2	**3.6**	**4.5**	**5.7**	*3.2*	*3.9*	*5.5*
Bulgaria	0.2	14.7	4.0	8.5	4.5	4.9	**1.2**	**2.0**	**2.9**	*1.7*	*2.0*	*2.9*
Czech Republic	8.4	12.5	5.8	6.7	2.4	0.3	**8.2**	**4.6**	**6.8**	*8.6*	*5.4*	*5.9*
Denmark	7.1	5.1	2.2	7.1	0.9	1.5	**3.7**	**3.0**	**4.4**	*2.1*	*3.7*	*4.3*
Croatia	5.6	10.3	-1.5	2.5	-3.0	3.2	**3.8**	**1.8**	**4.5**	*3.4*	*2.6*	*4.5*
Hungary	17.9	9.8	5.6	4.5	-3.3	5.9	**9.8**	**6.1**	**6.1**	*7.0*	*6.0*	*6.1*
Poland	16.6	4.1	8.4	5.5	-0.6	1.8	**6.9**	**5.5**	**6.4**	*5.3*	*4.9*	*6.4*
Romania	11.2	17.1	7.1	10.2	-1.8	4.2	**6.6**	**5.8**	**6.3**	*6.8*	*5.5*	*6.5*
Sweden	8.7	2.8	3.2	7.3	0.5	-0.7	**5.1**	**4.9**	**5.3**	*4.5*	*4.9*	*5.3*
United Kingdom	8.9	5.3	1.0	1.0	3.1	1.4	**0.8**	**2.9**	**3.4**	*-0.3*	*3.7*	*4.3*
EU	8.9	4.3	2.6	4.3	-0.4	1.3	**3.6**	**4.3**	**5.4**	*3.1*	*4.0*	*5.3*
USA	11.4	4.5	0.6	5.5	2.3	1.1	**3.9**	**5.9**	**5.8**	*4.2*	*5.3*	*5.7*
Japan	4.3	3.4	0.1	5.9	5.3	3.1	**6.5**	**3.0**	**3.8**	*6.5*	*3.3*	*2.5*

Table 49: Merchandise trade balance[1] (fob-fob, as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	2.3	3.6	0.6	-1.5	-1.5	-0.7	**-0.2**	**0.0**	**0.2**	*-0.5*	*-0.5*	*-0.6*
Germany	3.3	6.1	6.8	6.0	7.2	7.4	**7.9**	**8.5**	**8.4**	*7.4*	*7.5*	*7.3*
Estonia	-18.8	-16.7	-10.8	-2.1	-6.7	-5.1	**-5.1**	**-5.1**	**-5.4**	*-5.5*	*-5.8*	*-6.2*
Ireland	21.1	23.2	19.3	25.3	24.5	20.7	**22.6**	**21.6**	**20.4**	*21.0*	*19.8*	*18.6*
Greece	:	-15.6	-16.4	-12.6	-10.9	-10.6	**-11.3**	**-11.5**	**-11.2**	*-10.8*	*-10.1*	*-9.7*
Spain	-4.2	-6.1	-6.7	-4.1	-2.7	-1.2	**-2.0**	**-1.7**	**-1.9**	*-0.6*	*-0.4*	*-0.2*
France	1.3	0.1	-1.7	-2.9	-2.4	-1.9	**-1.7**	**-1.2**	**-1.6**	*-1.9*	*-1.9*	*-2.1*
Italy	2.5	0.7	-0.4	-1.1	1.0	2.3	**3.0**	**3.8**	**3.7**	*2.8*	*3.0*	*3.2*
Cyprus	-24.5	-24.2	-27.2	-23.2	-20.8	-17.7	**-18.8**	**-18.6**	**-18.5**	*-18.8*	*-18.6*	*-18.5*
Latvia	-16.1	-19.5	-16.6	-12.4	-12.0	-10.9	**-10.4**	**-10.4**	**-10.8**	*-10.5*	*-10.6*	*-10.9*
Lithuania	:	:	-10.5	-6.6	-3.3	-2.6	**-3.6**	**-2.7**	**-3.1**	*-4.0*	*-4.8*	*-5.6*
Luxembourg	:	-9.3	-2.6	0.4	2.0	5.0	**5.7**	**6.2**	**6.3**	*7.6*	*7.3*	*7.4*
Malta	-18.7	-13.1	-18.3	-16.6	-14.2	-13.3	**-13.8**	**-13.7**	**-13.4**	*-15.2*	*-15.5*	*-14.3*
Netherlands	6.3	8.4	9.4	10.1	10.7	11.6	**11.5**	**11.6**	**11.9**	*11.5*	*11.8*	*12.2*
Austria	-2.3	0.0	-0.1	-1.2	-1.0	-0.2	**0.9**	**0.9**	**0.8**	*-0.1*	*0.0*	*-0.1*
Portugal	-10.5	-10.8	-11.1	-7.9	-4.9	-4.0	**-4.1**	**-3.7**	**-3.5**	*-4.1*	*-4.2*	*-4.1*
Slovenia	-5.5	-3.1	-3.1	-1.8	0.2	1.2	**3.4**	**4.4**	**4.5**	*3.2*	*3.9*	*4.1*
Slovakia	-9.6	-7.4	-2.2	-0.6	3.1	4.3	**4.3**	**4.6**	**4.9**	*3.3*	*3.7*	*4.1*
Finland	9.3	7.1	3.2	-0.8	-0.4	-0.2	**0.2**	**0.8**	**1.0**	*-0.1*	*0.1*	*0.3*
Euro area	1.7	1.8	0.9	0.9	2.0	2.7	**3.1**	**3.5**	**3.4**	*2.9*	*3.0*	*3.0*
Euro area, adjusted[2]	1.7	1.8	0.9	0.9	2.0	2.7	**3.1**	**3.6**	**3.5**	*2.9*	*3.1*	*3.0*
Bulgaria	0.0	-18.8	-19.1	-4.8	-9.9	-7.2	**-7.5**	**-7.1**	**-7.3**	*-7.6*	*-7.4*	*-7.7*
Czech Republic	-7.9	-4.2	0.8	1.9	3.1	4.0	**5.4**	**5.6**	**5.8**	*5.0*	*5.2*	*5.6*
Denmark	3.3	3.7	1.5	3.1	2.8	2.8	**2.3**	**2.1**	**1.8**	*2.3*	*2.1*	*1.7*
Croatia	-18.2	-21.1	-19.0	-14.3	-14.3	-15.1	**-15.6**	**-15.6**	**-16.0**	*-15.0*	*-15.4*	*-16.3*
Hungary	-7.1	-4.7	0.3	2.8	3.0	3.5	**2.9**	**3.6**	**4.2**	*3.6*	*3.7*	*3.9*
Poland	-6.3	-3.1	-4.0	-3.5	-2.1	-0.3	**0.0**	**0.1**	**-0.3**	*-0.8*	*-1.2*	*-1.5*
Romania	-5.5	-7.8	-11.1	-6.7	-5.8	-3.9	**-3.6**	**-3.6**	**-3.6**	*-2.5*	*-2.8*	*-3.0*
Sweden	7.9	7.5	5.6	3.4	3.7	3.8	**3.1**	**2.9**	**2.8**	*2.9*	*2.5*	*2.3*
United Kingdom	:	-4.5	-6.0	-6.0	-6.6	-6.6	**-6.3**	**-6.2**	**-6.1**	*-6.2*	*-6.1*	*-6.0*
EU	0.9	0.5	-0.4	-0.2	0.5	1.1	**1.3**	**1.6**	**1.5**	*1.2*	*1.2*	*1.2*
EU, adjusted[2]	:	-0.5	-1.3	-1.1	-0.5	0.2	**0.4**	**0.7**	**0.6**	*0.2*	*0.3*	*0.3*
USA	-3.0	-5.0	-5.2	-5.0	-4.8	-4.4	**-4.3**	**-4.1**	**-4.2**	*-4.5*	*-4.5*	*-4.6*
Japan	2.5	2.2	1.5	-0.3	-1.2	-2.2	**-2.3**	**-2.0**	**-1.8**	*-2.1*	*-2.0*	*-1.7*

[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, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	4.1	4.6	2.2	0.3	0.6	-1.5	**-0.1**	**0.0**	**0.2**	*-0.3*	*-0.5*	*-0.7*
Germany	-1.0	2.5	6.1	6.2	7.2	6.9	**7.7**	**8.0**	**7.7**	*7.1*	*7.1*	*6.7*
Estonia	-8.3	-10.3	-7.0	1.4	-2.4	-0.4	**-1.5**	**-1.7**	**-2.1**	*-2.8*	*-3.1*	*-3.7*
Ireland	1.2	-1.6	-4.2	0.1	0.9	3.8	**5.0**	**4.6**	**3.9**	*5.5*	*5.5*	*5.3*
Greece	-5.7	-9.7	-14.0	-10.4	-4.4	-2.3	**-2.0**	**-1.5**	**-0.9**	*-2.8*	*-2.5*	*-2.2*
Spain	-1.9	-5.0	-7.2	-3.3	-0.4	1.5	**-0.1**	**0.6**	**0.5**	*0.5*	*0.7*	*0.9*
France	2.2	0.7	-1.3	-2.2	-2.5	-2.0	**-1.8**	**-1.3**	**-1.7**	*-1.9*	*-1.9*	*-2.2*
Italy	1.5	-0.5	-2.2	-3.1	-0.5	0.9	**1.8**	**2.6**	**2.6**	*1.5*	*1.5*	*1.8*
Cyprus	-2.5	-3.4	-10.1	-3.0	-5.5	-1.3	**-1.2**	**-0.6**	**0.0**	*-1.2*	*-0.6*	*0.0*
Latvia	-7.8	-9.9	-9.1	-3.1	-3.5	-2.2	**-2.5**	**-2.6**	**-2.9**	*-2.2*	*-2.3*	*-2.8*
Lithuania	-9.3	-6.5	-7.9	-4.5	-1.7	0.6	**0.1**	**1.0**	**0.4**	*0.8*	*-0.4*	*-1.4*
Luxembourg	10.0	10.1	8.3	6.5	5.7	5.2	**4.8**	**3.8**	**3.6**	*5.2*	*5.2*	*5.8*
Malta	-7.6	-3.6	-6.6	-1.8	0.8	0.9	**3.3**	**3.5**	**3.6**	*2.5*	*2.5*	*3.9*
Netherlands	5.4	5.8	6.5	7.1	8.8	8.5	**8.5**	**8.0**	**8.1**	*7.8*	*7.7*	*7.7*
Austria	-1.9	1.3	3.1	2.1	2.6	2.3	**2.5**	**2.6**	**2.7**	*2.4*	*2.7*	*2.8*
Portugal	-7.7	-9.1	-10.8	-5.6	-2.6	-0.3	**-0.2**	**0.4**	**0.6**	*-0.2*	*0.1*	*0.3*
Slovenia	-2.5	-1.4	-2.2	0.9	3.0	4.8	**5.9**	**5.7**	**5.4**	*6.2*	*6.1*	*5.9*
Slovakia	-6.8	-7.1	-5.7	-3.8	0.3	0.8	**1.1**	**0.8**	**0.7**	*0.5*	*0.2*	*0.3*
Finland	5.5	6.0	2.8	-1.5	-1.9	-2.0	**-1.4**	**-0.7**	**-0.4**	*-1.9*	*-1.7*	*-1.4*
Euro area	0.5	0.5	0.1	0.5	1.9	2.4	**2.8**	**3.2**	**3.0**	*2.5*	*2.6*	*2.5*
Euro area, adjusted[2]	0.5	0.5	0.1	0.5	1.9	2.4	**2.8**	**3.2**	**3.1**	*2.5*	*2.6*	*2.5*
Bulgaria	4.0	-6.2	-14.9	1.1	-0.7	2.2	**1.7**	**2.1**	**1.8**	*2.1*	*2.3*	*1.9*
Czech Republic	-3.7	-4.0	-4.5	-4.6	-2.2	-2.2	**-1.0**	**-0.3**	**0.1**	*-1.3*	*-0.9*	*-0.4*
Denmark	1.9	3.8	3.3	5.7	5.6	7.2	**6.5**	**6.6**	**6.5**	*6.2*	*6.1*	*6.2*
Croatia	-4.5	-4.4	-5.4	-0.6	0.1	0.4	**0.9**	**2.4**	**3.2**	*0.3*	*1.6*	*1.8*
Hungary	-5.9	-7.7	-4.4	0.8	1.7	4.2	**4.1**	**4.4**	**4.9**	*4.3*	*4.3*	*4.3*
Poland	-3.7	-2.8	-5.2	-5.0	-3.8	-1.5	**-1.3**	**-1.5**	**-2.0**	*-2.0*	*-2.4*	*-2.8*
Romania	-5.7	-5.2	-9.1	-4.7	-4.7	-1.2	**-0.9**	**-1.1**	**-1.1**	*-1.2*	*-1.4*	*-1.5*
Sweden	4.3	6.2	7.8	5.9	6.3	6.8	**5.9**	**5.6**	**5.4**	*5.7*	*5.4*	*5.1*
United Kingdom	-1.2	-1.8	-2.8	-1.7	-3.7	-4.5	**-4.1**	**-3.8**	**-3.3**	*-4.0*	*-3.7*	*-3.2*
EU	0.2	0.1	-0.4	0.2	0.9	1.4	**1.6**	**1.9**	**1.9**	*1.4*	*1.5*	*1.5*
EU, adjusted[2]	:	-0.5	-1.1	-0.3	0.5	1.1	**1.3**	**1.6**	**1.5**	*1.1*	*1.1*	*1.1*
USA	-2.4	-4.6	-4.2	-3.1	-3.0	-2.5	**-2.5**	**-2.3**	**-2.6**	*-2.6*	*-2.7*	*-2.8*
Japan	2.4	3.1	3.7	2.0	1.0	0.7	**0.5**	**1.0**	**1.2**	*0.6*	*0.8*	*1.2*

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 51: Net lending (+) or net borrowing (-) of the nation[1] (as a percentage of GDP, 1996-2016) 23.1.2015

	5-year averages						Winter 2015 forecast			*Autumn 2014 forecast*		
	1996-00	2001-05	2006-10	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	4.1	4.5	2.0	0.2	1.3	-1.5	**-0.1**	**0.3**	**0.5**	*-0.1*	*-0.5*	*-0.7*
Germany	-1.0	2.4	6.1	6.1	7.3	7.0	**7.8**	**8.0**	**7.8**	*7.1*	*7.1*	*6.8*
Estonia	-7.8	-9.8	-5.1	5.5	1.1	2.4	**1.0**	**0.7**	**0.3**	*-0.4*	*-0.7*	*-1.3*
Ireland	2.2	-1.3	-4.1	0.2	0.9	3.8	**5.7**	**5.1**	**4.3**	*6.3*	*6.0*	*5.7*
Greece	-4.1	-8.4	-12.2	-8.5	-2.6	0.3	**-0.3**	**0.3**	**0.8**	*-1.1*	*-0.7*	*-0.5*
Spain	-1.0	-4.2	-6.8	-2.9	0.1	2.1	**0.3**	**1.0**	**0.9**	*1.0*	*1.2*	*1.5*
France	2.2	0.6	-1.3	-2.2	-2.7	-2.0	**-1.8**	**-1.2**	**-1.5**	*-1.9*	*-1.7*	*-1.9*
Italy	1.7	-0.5	-2.2	-3.0	-0.3	0.9	**1.9**	**2.7**	**2.7**	*1.6*	*1.7*	*1.9*
Cyprus	-2.5	-3.0	-10.0	-2.8	-5.4	0.0	**-2.1**	**-1.2**	**-0.6**	*-2.1*	*-1.2*	*-0.6*
Latvia	-7.6	-9.2	-7.3	-1.0	-0.5	0.2	**0.4**	**-0.2**	**-0.6**	*0.3*	*0.1*	*-0.3*
Lithuania	-9.3	-6.0	-5.2	-1.3	1.1	3.6	**4.5**	**4.0**	**3.2**	*4.4*	*2.0*	*0.7*
Luxembourg	:	:	7.6	6.2	5.2	4.7	**4.7**	**3.9**	**3.8**	*5.1*	*5.3*	*5.9*
Malta	-6.9	-2.6	-5.1	-0.7	2.7	2.6	**5.4**	**5.5**	**5.5**	*4.3*	*4.3*	*5.8*
Netherlands	5.2	5.8	6.0	6.8	7.8	7.9	**7.9**	**7.8**	**8.2**	*7.1*	*7.5*	*7.8*
Austria	-2.0	1.2	2.9	2.0	2.4	2.2	**2.4**	**2.7**	**2.7**	*2.3*	*2.6*	*2.8*
Portugal	-5.7	-7.3	-9.6	-4.1	-0.6	1.3	**1.3**	**2.0**	**2.2**	*1.4*	*1.7*	*1.9*
Slovenia	-2.5	-1.8	-2.2	0.9	3.1	4.8	**5.4**	**6.5**	**6.2**	*6.9*	*6.8*	*6.7*
Slovakia	-7.1	-7.6	-4.8	-2.2	1.8	2.3	**1.8**	**1.2**	**1.1**	*1.2*	*0.5*	*0.5*
Finland	5.6	6.1	2.9	-1.4	-1.8	-1.9	**-1.3**	**-0.7**	**-0.3**	*-1.9*	*-1.6*	*-1.4*
Euro area	:	:	0.2	0.6	2.0	2.6	**2.9**	**3.4**	**3.3**	*2.7*	*2.8*	*2.7*
Euro area, adjusted[2]	:	:	0.2	0.6	2.0	2.6	**2.9**	**3.4**	**3.3**	*2.7*	*2.8*	*2.8*
Bulgaria	4.2	-5.9	-14.6	2.3	0.5	3.5	**3.1**	**3.4**	**3.1**	*3.6*	*3.7*	*3.2*
Czech Republic	-3.7	-3.8	-3.3	-2.9	-1.2	0.0	**1.4**	**2.2**	**2.4**	*0.9*	*1.5*	*1.8*
Denmark	2.1	3.8	3.3	6.1	5.6	7.2	**6.5**	**6.7**	**6.7**	*6.5*	*6.6*	*7.0*
Croatia	-4.5	-4.4	-5.4	-0.6	0.1	0.4	**0.7**	**2.2**	**3.3**	*0.2*	*1.8*	*2.4*
Hungary	-5.9	-7.5	-3.2	3.2	4.3	7.8	**7.8**	**8.4**	**7.7**	*8.3*	*7.9*	*7.7*
Poland	-3.7	-2.7	-4.1	-3.3	-2.1	0.8	**0.6**	**0.7**	**0.0**	*0.4*	*0.0*	*-0.6*
Romania	-5.5	-4.6	-8.7	-4.2	-3.3	1.1	**1.4**	**1.3**	**1.2**	*1.1*	*1.0*	*0.9*
Sweden	3.8	6.1	7.6	5.7	6.2	6.5	**5.6**	**5.3**	**5.1**	*5.4*	*5.1*	*4.8*
United Kingdom	-1.1	-1.8	-2.8	-1.6	-3.7	-4.4	**-4.0**	**-3.8**	**-3.3**	*-4.0*	*-3.7*	*-3.3*
EU	:	:	-0.3	0.4	1.1	1.7	**1.9**	**2.2**	**2.2**	*1.7*	*1.8*	*1.8*
EU, adjusted[2]	:	:	-1.0	-0.1	0.7	1.3	**1.5**	**1.9**	**1.9**	*1.3*	*1.4*	*1.4*
USA	-2.4	-4.6	-4.2	-3.1	-2.9	-2.5	**-2.5**	**-2.3**	**-2.6**	*-2.6*	*-2.7*	*-2.8*
Japan	2.1	3.0	3.6	2.0	1.0	0.5	**0.4**	**1.0**	**1.1**	*0.5*	*0.8*	*1.2*

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 52: Current-account balance[1] (in billions of euro, 2008-16) 23.1.2015

							Winter 2015 forecast			*Autumn 2014 forecast*		
	2008	2009	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	3.3	1.6	8.7	1.2	2.4	-5.8	**-0.3**	**-0.1**	**0.8**	*-1.4*	*-2.0*	*-2.9*
Germany	149.1	148.1	151.2	166.7	198.5	194.1	**222.4**	**237.8**	**239.1**	*205.6*	*211.5*	*208.2*
Estonia	-1.5	0.5	0.3	0.2	-0.4	-0.1	**-0.3**	**-0.3**	**-0.4**	*-0.5*	*-0.6*	*-0.8*
Ireland	-11.9	-6.5	-0.1	0.1	1.5	6.6	**9.2**	**8.8**	**7.7**	*10.1*	*10.5*	*10.6*
Greece	-39.9	-31.5	-25.9	-21.7	-8.5	-4.2	**-3.7**	**-2.8**	**-1.8**	*-5.1*	*-4.7*	*-4.3*
Spain	-102.9	-46.5	-42.0	-35.0	-4.5	15.4	**-1.0**	**7.0**	**5.6**	*5.1*	*7.7*	*10.7*
France	-27.6	-31.2	-34.9	-46.0	-52.5	-41.9	**-39.2**	**-29.3**	**-38.1**	*-40.8*	*-40.4*	*-48.7*
Italy	-46.3	-30.4	-55.7	-50.4	-8.2	15.2	**28.6**	**42.6**	**42.9**	*23.8*	*25.3*	*29.5*
Cyprus	-2.4	-1.9	-1.7	-0.6	-1.1	-0.2	**-0.2**	**-0.1**	**0.0**	*-0.2*	*-0.1*	*0.0*
Latvia	-3.1	1.5	0.4	-0.6	-0.8	-0.5	**-0.6**	**-0.7**	**-0.8**	*-0.5*	*-0.6*	*-0.8*
Lithuania	-4.4	0.3	-0.3	-1.4	-0.6	0.2	**0.0**	**0.4**	**0.2**	*0.3*	*-0.2*	*-0.6*
Luxembourg	2.0	2.6	3.0	2.8	2.5	2.4	**2.3**	**1.8**	**1.9**	*2.5*	*2.6*	*3.1*
Malta	-0.3	-0.5	-0.4	-0.1	0.1	0.1	**0.3**	**0.3**	**0.3**	*0.2*	*0.2*	*0.3*
Netherlands	28.7	34.4	47.2	45.4	56.2	54.4	**55.4**	**53.3**	**55.5**	*50.3*	*51.5*	*53.3*
Austria	12.0	5.9	9.1	6.5	8.1	7.4	**8.3**	**8.8**	**9.3**	*7.8*	*9.2*	*9.9*
Portugal	-22.5	-17.7	-18.7	-9.9	-4.5	-0.4	**-0.4**	**0.7**	**1.2**	*-0.3*	*0.2*	*0.5*
Slovenia	-2.0	-0.1	0.1	0.3	1.1	1.7	**2.2**	**2.2**	**2.1**	*2.3*	*2.3*	*2.3*
Slovakia	-4.4	-2.1	-3.2	-2.7	0.2	0.6	**0.8**	**0.6**	**0.6**	*0.4*	*0.2*	*0.2*
Finland	5.1	3.6	2.7	-2.9	-3.8	-4.1	**-2.9**	**-1.5**	**-0.8**	*-3.9*	*-3.4*	*-3.1*
Euro area	-68.8	30.3	39.7	52.1	185.7	240.7	**281.0**	**329.4**	**325.4**	*255.6*	*269.1*	*267.7*
Euro area, adjusted[2]	-64.4	30.0	39.9	53.5	186.3	240.5	**281.0**	**329.1**	**325.2**	*255.3*	*269.3*	*268.3*
Bulgaria	-8.3	-3.1	-0.5	0.4	-0.3	0.9	**0.7**	**0.9**	**0.8**	*0.9*	*1.0*	*0.8*
Czech Republic	-8.0	-5.7	-8.1	-7.6	-3.5	-3.5	**-1.5**	**-0.5**	**0.1**	*-2.0*	*-1.5*	*-0.7*
Denmark	6.4	7.6	13.8	14.1	14.1	18.2	**16.6**	**17.5**	**18.0**	*16.0*	*16.4*	*17.3*
Croatia	-4.1	-2.1	-0.4	-0.3	0.1	0.2	**0.4**	**1.0**	**1.4**	*0.1*	*0.7*	*0.8*
Hungary	-7.4	-0.8	0.3	0.8	1.7	4.2	**4.2**	**4.6**	**5.4**	*4.4*	*4.6*	*4.9*
Poland	-23.8	-12.2	-17.5	-19.0	-14.8	-5.8	**-5.6**	**-6.4**	**-8.8**	*-8.0*	*-10.3*	*-12.4*
Romania	-16.6	-5.5	-6.1	-6.3	-6.3	-1.7	**-1.4**	**-1.8**	**-1.9**	*-1.9*	*-2.3*	*-2.5*
Sweden	30.1	20.8	23.9	23.9	26.8	29.6	**25.4**	**23.9**	**24.1**	*24.7*	*23.8*	*23.9*
United Kingdom	-70.9	-46.5	-47.3	-31.1	-76.4	-90.3	**-91.6**	**-92.2**	**-84.0**	*-88.6*	*-87.7*	*-80.0*
EU	-171.2	-17.1	-2.2	27.0	127.2	192.6	**228.2**	**276.5**	**280.5**	*201.2*	*213.8*	*219.8*
EU, adjusted[2]	-276.7	-82.5	-66.8	-34.8	72.5	142.6	**178.1**	**226.4**	**230.4**	*147.7*	*160.3*	*166.2*
USA	-466.5	-270.5	-337.9	-345.2	-375.3	-317.9	**-329.9**	**-363.7**	**-429.5**	*-338.5*	*-386.3*	*-425.4*
Japan	109.3	105.4	153.9	86.1	47.1	24.9	**17.0**	**36.9**	**42.5**	*19.8*	*29.7*	*43.3*

[1] See note 7 on concepts and sources.

[2] See note 8 on concepts and sources.

Table 53: Export markets (a) (percentage change on preceding year, 2008-16) 23.1.2015

							Winter 2015 forecast			Autumn 2014 forecast		
	2008	2009	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	2.1	-10.6	10.3	5.0	1.1	1.3	**3.0**	**4.3**	**5.6**	*2.9*	*4.1*	*5.5*
Germany	2.2	-11.7	10.5	5.2	1.2	1.7	**2.4**	**3.7**	**5.1**	*2.8*	*4.1*	*5.2*
Estonia	1.8	-17.7	9.6	7.4	1.5	1.2	**1.6**	**2.4**	**4.6**	*1.4*	*3.5*	*4.7*
Ireland	1.2	-11.5	10.7	4.6	1.3	1.9	**2.4**	**4.0**	**5.2**	*2.7*	*4.3*	*5.3*
Greece	1.7	-12.4	10.4	4.9	1.1	2.1	**2.0**	**3.7**	**5.1**	*1.9*	*4.1*	*5.2*
Spain	1.9	-10.6	9.8	4.2	0.5	1.9	**2.4**	**3.9**	**5.2**	*2.4*	*4.0*	*5.3*
France	1.8	-11.1	10.3	4.9	1.0	1.9	**2.9**	**4.3**	**5.4**	*3.0*	*4.4*	*5.4*
Italy	2.7	-11.0	9.9	5.4	1.6	2.1	**2.6**	**4.1**	**5.4**	*2.9*	*4.3*	*5.5*
Cyprus	2.2	-13.6	8.1	7.4	1.3	3.5	**1.5**	**2.6**	**4.8**	*1.4*	*4.2*	*5.3*
Latvia	3.8	-17.0	12.5	10.4	3.9	2.7	**1.9**	**2.5**	**5.2**	*1.3*	*4.1*	*5.5*
Lithuania	2.5	-16.6	11.2	9.8	3.5	1.6	**0.9**	**1.9**	**4.8**	*0.7*	*3.6*	*5.0*
Luxembourg	1.6	-11.2	10.1	4.2	0.4	1.6	**2.8**	**3.8**	**5.3**	*2.4*	*4.0*	*5.3*
Malta	1.8	-11.7	10.3	4.4	0.8	2.2	**2.5**	**4.0**	**5.3**	*2.4*	*4.4*	*5.5*
Netherlands	2.3	-11.2	10.4	5.2	0.9	1.5	**3.3**	**4.3**	**5.5**	*3.3*	*4.2*	*5.4*
Austria	2.8	-11.5	11.3	5.9	1.1	1.7	**2.7**	**4.1**	**5.6**	*3.0*	*4.3*	*5.6*
Portugal	0.9	-12.6	9.7	3.9	-0.3	1.8	**3.7**	**4.7**	**5.6**	*3.2*	*4.2*	*5.3*
Slovenia	2.7	-13.1	9.8	5.5	0.4	1.0	**2.7**	**3.3**	**5.3**	*2.9*	*3.8*	*5.2*
Slovakia	3.2	-12.3	11.7	6.2	0.8	1.3	**4.0**	**4.0**	**5.7**	*4.1*	*4.4*	*5.6*
Finland	3.6	-12.2	11.9	7.7	2.7	2.2	**2.4**	**3.2**	**5.0**	*2.4*	*4.2*	*5.3*
Euro area (b)	2.2	-11.3	10.4	5.1	1.1	1.7	**2.7**	**4.0**	**5.3**	*2.9*	*4.2*	*5.3*
Bulgaria	2.4	-12.8	9.4	5.6	0.0	1.6	**2.5**	**3.8**	**5.3**	*2.4*	*4.2*	*5.4*
Czech Republic	3.2	-12.3	11.2	5.9	1.3	1.5	**3.1**	**4.0**	**5.6**	*3.4*	*4.2*	*5.6*
Denmark	2.4	-11.4	11.4	5.4	1.5	1.7	**3.4**	**4.3**	**5.3**	*3.3*	*4.4*	*5.4*
Croatia	1.5	-12.7	10.4	5.3	-0.4	1.4	**2.5**	**3.6**	**5.2**	*2.4*	*4.0*	*5.2*
Hungary	3.5	-12.5	11.0	6.1	1.3	1.4	**3.1**	**4.0**	**5.6**	*3.4*	*4.2*	*5.6*
Poland	3.5	-12.4	11.4	6.2	1.7	1.4	**2.8**	**3.6**	**5.4**	*2.8*	*4.1*	*5.4*
Romania	1.7	-12.4	10.2	5.4	0.7	1.5	**2.6**	**3.8**	**5.4**	*2.6*	*4.0*	*5.3*
Sweden	2.3	-11.9	9.7	5.0	1.7	2.0	**2.8**	**3.7**	**4.9**	*2.7*	*4.0*	*5.0*
United Kingdom	1.6	-11.1	10.5	5.0	1.4	1.9	**3.2**	**4.4**	**5.5**	*3.4*	*4.5*	*5.5*
EU (b)	2.2	-11.5	10.5	5.2	1.2	1.7	**2.8**	**4.0**	**5.3**	*2.9*	*4.2*	*5.4*
USA	3.5	-11.2	13.1	6.6	3.3	3.3	**2.8**	**4.1**	**4.9**	*3.0*	*4.4*	*5.3*
Japan	3.7	-9.0	14.8	7.0	3.4	3.3	**2.5**	**4.8**	**5.6**	*3.2*	*5.2*	*6.0*

(a) Imports of goods and services to the various markets (incl. EU-markets) weighted according to their share in country's exports of goods and services.

(b) Intra- and extra-EU trade.

Table 54: Export performance (a) (percentage change on preceding year, 2008-16) 23.1.2015

							Winter 2015 forecast			Autumn 2014 forecast		
	2008	2009	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
Belgium	-0.5	1.2	-0.3	1.5	0.8	1.6	**0.3**	**-0.8**	**-0.8**	*0.1*	*-1.2*	*-1.3*
Germany	-0.3	-2.9	3.7	2.7	1.6	-0.1	**1.3**	**1.1**	**0.1**	*0.5*	*0.1*	*0.2*
Estonia	-0.9	-3.2	13.2	16.3	4.6	1.2	**0.4**	**0.0**	**0.2**	*0.1*	*-0.1*	*0.8*
Ireland	-2.1	8.5	-4.1	0.8	3.3	-0.8	**10.0**	**1.3**	**0.3**	*5.2*	*1.0*	*0.3*
Greece	1.8	-6.9	-5.2	-4.7	0.0	0.0	**5.9**	**1.9**	**-0.3**	*3.4*	*1.2*	*-0.3*
Spain	-2.7	-0.5	-0.3	3.1	0.6	2.3	**2.0**	**1.4**	**0.8**	*1.3*	*0.9*	*0.5*
France	-1.4	-0.2	-1.2	1.9	0.1	0.2	**-0.6**	**-0.1**	**0.1**	*-0.7*	*-0.5*	*-0.1*
Italy	-5.6	-7.9	1.7	-0.2	0.4	-1.5	**-1.3**	**-0.7**	**-1.1**	*-1.4*	*-0.9*	*-1.2*
Cyprus	-3.8	7.3	-5.1	-3.0	-3.0	-8.2	**-1.2**	**-0.6**	**-2.1**	*-1.1*	*-2.1*	*-2.5*
Latvia	-1.4	5.0	0.8	1.5	5.6	-1.2	**-0.4**	**0.4**	**-0.4**	*0.3*	*-0.8*	*-0.7*
Lithuania	10.6	4.6	7.0	4.6	8.4	7.7	**2.2**	**1.5**	**1.6**	*-0.9*	*1.8*	*1.5*
Luxembourg	5.6	-1.7	-1.8	0.7	2.5	3.9	**-0.4**	**0.2**	**-0.2**	*0.0*	*0.0*	*-0.4*
Malta	17.3	12.8	-3.1	-1.8	7.1	-3.3	**-1.4**	**0.6**	**-0.1**	*-1.4*	*0.2*	*-0.2*
Netherlands	-0.8	3.6	-1.4	-0.8	2.4	0.5	**0.8**	**0.1**	**-0.7**	*0.1*	*-0.8*	*-0.7*
Austria	-0.5	-4.0	1.4	0.6	0.2	-0.3	**-2.5**	**-2.0**	**-0.8**	*-0.8*	*-1.0*	*-0.8*
Portugal	-1.2	2.7	-0.2	3.0	3.3	4.6	**0.1**	**0.3**	**-0.2**	*0.4*	*0.4*	*0.3*
Slovenia	1.4	-4.0	0.3	1.4	-0.1	1.6	**3.1**	**0.8**	**0.0**	*2.1*	*0.6*	*0.1*
Slovakia	-0.2	-5.4	3.6	5.5	8.4	3.8	**0.4**	**0.1**	**-0.1**	*0.5*	*0.0*	*0.0*
Finland	2.9	-9.0	-5.1	-5.3	-1.5	-3.9	**-1.1**	**-1.1**	**-1.1**	*-2.2*	*-2.2*	*-2.0*
Euro area (b)	-1.2	-1.6	0.6	1.4	1.4	0.3	**0.8**	**0.3**	**-0.2**	*0.2*	*-0.3*	*-0.3*
Bulgaria	0.1	1.2	7.1	5.6	0.8	7.5	**-2.1**	**-0.7**	**-1.6**	*-1.0*	*-1.1*	*-1.6*
Czech Republic	1.0	2.8	3.3	3.2	2.7	-1.2	**4.2**	**0.3**	**1.2**	*4.8*	*1.0*	*0.4*
Denmark	0.8	2.2	-8.5	1.8	-1.3	-0.9	**-0.5**	**-1.2**	**-0.7**	*-2.1*	*-0.7*	*-1.0*
Croatia	-0.7	-1.6	-3.8	-2.9	0.3	1.6	**3.5**	**-0.8**	**-0.5**	*3.0*	*-0.3*	*-0.4*
Hungary	3.3	1.2	0.3	0.4	-2.8	4.4	**4.7**	**2.0**	**1.1**	*3.0*	*1.7*	*0.3*
Poland	3.4	7.0	1.3	1.6	2.6	3.5	**2.0**	**0.4**	**0.0**	*1.1*	*-0.2*	*0.3*
Romania	-4.8	8.1	4.6	6.2	0.3	14.5	**5.6**	**1.9**	**0.4**	*6.1*	*1.0*	*0.7*
Sweden	-0.3	-2.9	2.0	1.0	-0.7	-2.1	**-0.4**	**0.0**	**-0.1**	*-0.4*	*-0.1*	*-0.3*
United Kingdom	0.0	3.2	-3.9	0.6	-0.7	-0.4	**-4.1**	**-1.9**	**-2.1**	*-3.9*	*-1.1*	*-1.1*
EU (b)	-0.7	-0.4	0.0	1.4	1.0	0.4	**0.4**	**0.1**	**-0.4**	*0.0*	*-0.3*	*-0.3*
USA	2.2	2.7	-1.1	0.2	0.0	-0.2	**0.3**	**0.2**	**-0.2**	*0.4*	*1.0*	*0.3*
Japan	-2.2	-16.7	8.3	-6.9	-3.5	-1.7	**5.2**	**0.2**	**-1.0**	*3.5*	*-1.1*	*-1.8*

(a) Index for exports of goods and services divided by an index for growth of markets.

(b) Intra- and extra-EU trade.

Table 55: World GDP, volume (percentage change on preceding year, 2010-16) 23.1.2015

						Winter 2015 forecast			*Autumn 2014 forecast*		
	(a)	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
EU	17.2	2.1	1.7	-0.4	0.0	**1.3**	**1.7**	**2.1**	*1.3*	*1.5*	*2.0*
Euro area	12.3	2.0	1.6	-0.7	-0.5	**0.8**	**1.3**	**1.9**	*0.8*	*1.1*	*1.7*
Belgium	0.4	2.5	1.6	0.1	0.3	**1.0**	**1.1**	**1.4**	*0.9*	*0.9*	*1.1*
Bulgaria	0.1	0.7	2.0	0.5	1.1	**1.4**	**0.8**	**1.0**	*1.2*	*0.6*	*1.0*
Czech Republic	0.3	2.3	2.0	-0.8	-0.7	**2.3**	**2.5**	**2.6**	*2.5*	*2.7*	*2.7*
Denmark	0.2	1.6	1.2	-0.7	-0.5	**0.8**	**1.7**	**2.1**	*0.8*	*1.7*	*2.0*
Germany	3.4	4.1	3.6	0.4	0.1	**1.5**	**1.5**	**2.0**	*1.3*	*1.1*	*1.8*
Estonia	0.0	2.5	8.3	4.7	1.6	**1.9**	**2.3**	**2.9**	*1.9*	*2.0*	*2.7*
Ireland	0.2	-0.3	2.8	-0.3	0.2	**4.8**	**3.5**	**3.6**	*4.6*	*3.6*	*3.7*
Greece	0.3	-5.4	-8.9	-6.6	-3.9	**1.0**	**2.5**	**3.6**	*0.6*	*2.9*	*3.7*
Spain	1.5	0.0	-0.6	-2.1	-1.2	**1.4**	**2.3**	**2.5**	*1.2*	*1.7*	*2.2*
France	2.5	2.0	2.1	0.3	0.3	**0.4**	**1.0**	**1.8**	*0.3*	*0.7*	*1.5*
Croatia	0.1	-1.7	-0.3	-2.2	-0.9	**-0.5**	**0.2**	**1.0**	*-0.7*	*0.2*	*1.1*
Italy	2.0	1.7	0.6	-2.3	-1.9	**-0.5**	**0.6**	**1.3**	*-0.4*	*0.6*	*1.1*
Cyprus	0.0	1.4	0.3	-2.4	-5.4	**-2.8**	**0.4**	**1.6**	*-2.8*	*0.4*	*1.6*
Latvia	0.0	-2.9	5.0	4.8	4.2	**2.6**	**2.9**	**3.6**	*2.6*	*2.9*	*3.6*
Lithuania	0.1	1.6	6.1	3.8	3.3	**3.0**	**3.0**	**3.4**	*2.7*	*3.1*	*3.4*
Luxembourg	0.0	5.1	2.6	-0.2	2.0	**3.0**	**2.6**	**2.9**	*3.0*	*2.4*	*2.9*
Hungary	0.2	0.8	1.8	-1.5	1.5	**3.3**	**2.4**	**1.9**	*3.2*	*2.5*	*2.0*
Malta	0.0	3.5	2.2	2.5	2.5	**3.3**	**3.3**	**2.9**	*3.0*	*2.9*	*2.7*
Netherlands	0.8	1.1	1.7	-1.6	-0.7	**0.7**	**1.4**	**1.7**	*0.9*	*1.4*	*1.7*
Austria	0.4	1.9	3.1	0.9	0.2	**0.2**	**0.8**	**1.5**	*0.7*	*1.2*	*1.5*
Poland	0.9	3.7	4.8	1.8	1.7	**3.3**	**3.2**	**3.4**	*3.0*	*2.8*	*3.3*
Portugal	0.3	1.9	-1.8	-3.3	-1.4	**1.0**	**1.6**	**1.7**	*0.9*	*1.3*	*1.7*
Romania	0.4	-0.8	1.1	0.6	3.4	**3.0**	**2.7**	**2.9**	*2.0*	*2.4*	*2.8*
Slovenia	0.1	1.2	0.6	-2.6	-1.0	**2.6**	**1.8**	**2.3**	*2.4*	*1.7*	*2.5*
Slovakia	0.1	4.8	2.7	1.6	1.4	**2.4**	**2.5**	**3.2**	*2.4*	*2.5*	*3.3*
Finland	0.2	3.0	2.6	-1.5	-1.2	**0.0**	**0.8**	**1.4**	*-0.4*	*0.6*	*1.1*
Sweden	0.4	6.0	2.7	-0.3	1.3	**1.8**	**2.3**	**2.6**	*2.0*	*2.4*	*2.7*
United Kingdom	2.3	1.9	1.6	0.7	1.7	**2.6**	**2.6**	**2.4**	*3.1*	*2.7*	*2.5*
Candidate Countries	1.6	8.2	8.0	1.9	3.9	**2.5**	**3.4**	**3.8**	*2.6*	*3.1*	*3.5*
- Turkey	1.4	9.2	8.8	2.1	4.1	**2.8**	**3.7**	**4.0**	*2.8*	*3.3*	*3.7*
- The former Yugoslav Republic of Macedonia	0.0	3.4	2.3	-0.5	2.7	**3.5**	**3.5**	**3.6**	*3.3*	*3.4*	*3.6*
- Iceland	0.0	-2.9	2.1	1.1	3.5	**1.8**	**2.3**	**2.5**	*2.3*	*2.8*	*2.5*
- Montenegro	0.0	2.5	3.0	-2.5	3.3	**1.4**	**3.0**	**3.7**	*2.0*	*3.0*	*3.5*
- Serbia	0.1	0.6	1.4	-1.0	2.6	**-2.0**	**-0.3**	**1.2**	*-1.0*	*0.0*	*1.1*
- Albania	0.0	3.7	2.5	1.6	1.4	**1.7**	**3.0**	**3.5**	*1.8*	*2.9*	*3.5*
Potential Candidates	0.1	2.5	2.4	-0.2	1.5	**1.0**	**2.4**	**2.9**	*1.0*	*2.4*	*2.9*
USA	16.5	2.5	1.6	2.3	2.2	**2.4**	**3.5**	**3.2**	*2.2*	*3.1*	*3.2*
Japan	4.6	4.7	-0.5	1.8	1.6	**0.4**	**1.3**	**1.3**	*1.1*	*1.0*	*1.0*
Canada	1.5	6.1	5.8	3.4	3.4	**2.4**	**2.3**	**2.5**	*2.3*	*2.5*	*2.6*
Norway	0.3	0.6	1.0	2.7	0.7	**1.9**	**1.7**	**1.8**	*2.0*	*2.2*	*2.3*
Switzerland	0.4	3.0	1.8	1.1	1.9	**1.7**	**1.6**	**1.6**	*1.4*	*2.0*	*1.9*
Australia	1.0	8.5	5.6	2.4	3.3	**2.9**	**2.7**	**2.9**	*2.8*	*2.8*	*3.0*
New Zealand	0.1	4.6	4.2	2.0	7.0	**3.3**	**2.8**	**2.8**	*3.5*	*2.8*	*2.8*
Advanced economies	43.2	3.0	1.9	1.2	1.4	**1.8**	**2.4**	**2.6**	*1.8*	*2.2*	*2.5*
CIS	4.9	5.0	4.8	3.4	2.1	**0.5**	**-2.3**	**1.0**	*0.3*	*0.8*	*1.9*
- Russia	3.4	4.5	4.3	3.4	1.3	**0.5**	**-3.5**	**0.2**	*0.3*	*0.3*	*1.2*
- Other CIS	1.4	6.1	6.0	3.5	4.1	**0.5**	**0.6**	**2.8**	*0.3*	*2.0*	*3.5*
MENA	7.0	5.4	2.7	3.5	1.8	**2.7**	**3.3**	**3.8**	*2.4*	*4.1*	*4.6*
Asia	32.9	9.9	7.5	6.3	6.2	**6.2**	**6.4**	**6.5**	*6.1*	*6.3*	*6.4*
- China	15.8	10.6	9.4	7.8	7.6	**7.4**	**7.1**	**6.9**	*7.3*	*7.1*	*6.9*
- India	6.6	11.0	7.9	4.9	4.7	**6.0**	**6.6**	**7.1**	*5.8*	*6.4*	*6.9*
- Hong Kong	0.4	6.8	4.8	1.5	2.9	**3.0**	**3.3**	**3.5**	*3.0*	*3.3*	*3.5*
- Korea	1.7	10.2	5.3	3.0	4.7	**3.5**	**3.9**	**4.0**	*3.7*	*3.8*	*3.9*
- Indonesia	2.3	6.2	6.5	6.2	5.8	**5.2**	**5.8**	**6.1**	*5.4*	*5.7*	*6.0*
Latin America	8.7	6.0	4.5	2.9	2.8	**1.0**	**1.5**	**2.5**	*1.4*	*2.4*	*3.2*
- Brazil	3.0	7.5	2.7	1.0	2.5	**0.2**	**0.7**	**1.8**	*0.2*	*1.4*	*2.6*
- Mexico	2.0	5.2	3.9	4.0	1.4	**2.2**	**3.4**	**3.5**	*2.4*	*3.7*	*3.9*
Sub-Saharan Africa	3.1	5.8	4.4	4.4	5.9	**4.1**	**5.2**	**5.2**	*5.2*	*5.8*	*5.9*
Emerging and developing economies	56.8	8.0	6.0	5.0	4.8	**4.4**	**4.5**	**5.1**	*4.4*	*5.0*	*5.3*
World	100.0	5.6	4.1	3.3	3.3	**3.3**	**3.6**	**4.0**	*3.3*	*3.8*	*4.1*
World excluding EU	82.8	6.5	4.6	4.1	4.0	**3.7**	**4.0**	**4.4**	*3.7*	*4.3*	*4.5*
World excluding euro area	87.7	6.2	4.5	3.9	3.8	**3.6**	**4.0**	**4.3**	*3.6*	*4.2*	*4.4*

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

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2010-16) 23.1.2015

						Winter 2015 forecast			*Autumn 2014 forecast*		
	(a)	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
EU (b)	34.0	10.5	6.6	2.2	2.2	3.2	4.1	5.0	2.9	3.9	5.0
Euro area (b)	25.5	11.1	6.6	2.5	2.1	3.6	4.3	5.1	3.1	3.9	5.0
Candidate Countries	1.1	4.8	6.4	15.5	1.4	5.3	4.0	5.3	5.2	4.7	5.1
- Turkey	0.9	3.4	6.5	18.3	-0.3	5.3	3.8	5.1	5.3	4.7	5.0
- The former Yugoslav Republic of Macedonia	0.0	23.7	10.5	0.0	-2.7	14.0	12.5	10.4	8.2	8.5	8.9
- Iceland	0.0	1.8	3.4	3.9	6.9	4.7	5.0	5.5	3.5	4.0	4.7
- Montenegro	0.0	7.5	14.1	-1.2	-1.3	-2.8	1.8	2.9	-1.0	1.7	3.7
- Serbia	0.1	15.0	5.0	0.8	21.3	3.5	3.3	4.9	4.0	3.9	4.9
- Albania	0.0	16.8	7.4	-0.6	7.8	8.7	8.2	8.7	7.0	7.2	8.5
USA	10.0	11.9	6.9	3.3	3.0	3.1	4.2	4.7	3.4	5.5	5.6
Japan	3.5	24.4	-0.4	-0.2	1.5	7.8	5.0	4.5	6.8	4.0	4.0
Canada	2.5	5.8	5.0	2.5	1.7	5.3	5.8	5.9	4.6	5.2	5.6
Norway	0.9	0.7	-0.8	1.4	-3.0	3.3	2.5	2.5	3.3	4.0	4.0
Switzerland	2.0	12.8	4.9	0.8	15.3	-4.6	-0.5	2.4	2.7	3.3	3.3
Australia	1.3	5.6	-0.2	5.8	6.6	4.0	5.5	6.0	4.6	5.5	5.5
New Zealand	0.2	3.8	2.2	2.5	0.8	2.5	4.0	4.4	2.0	2.5	3.0
Advanced economies	55.7	11.2	5.7	2.5	2.7	3.3	4.1	4.8	3.4	4.3	5.0
CIS	3.5	10.1	7.9	1.4	-0.1	-0.9	-0.6	2.1	-0.6	1.1	2.6
- Russia	2.4	7.0	0.3	1.4	4.2	0.4	-1.0	1.0	0.4	1.5	2.0
- Other CIS	1.1	16.5	24.0	1.6	-8.8	-3.7	0.1	3.7	-2.6	0.4	3.7
MENA	6.9	3.7	-3.0	-1.7	3.1	1.9	4.2	4.8	0.3	4.7	5.6
Asia	26.5	19.6	8.8	4.4	5.8	4.1	5.9	6.1	4.0	6.1	6.7
- China	11.0	27.7	10.3	7.0	8.7	4.1	5.5	5.5	4.1	6.0	7.0
- India	2.1	12.6	12.8	7.6	4.6	6.2	7.2	8.2	5.0	7.2	8.0
- Hong Kong	2.6	16.8	3.9	1.9	6.5	6.3	7.9	8.1	6.3	7.9	8.1
- Korea	3.2	12.7	15.1	5.1	4.3	4.1	5.3	5.6	4.1	5.2	5.5
- Indonesia	0.9	2.8	5.9	3.0	2.6	-0.7	5.1	5.2	1.1	5.1	5.2
Latin America	5.5	8.5	5.8	1.7	2.0	2.3	3.9	4.3	2.2	4.0	5.3
- Brazil	1.2	9.5	2.9	-0.3	3.1	3.0	3.4	4.0	2.3	3.7	6.2
- Mexico	1.8	21.6	7.5	3.5	1.2	5.9	6.8	6.8	5.2	5.9	6.5
Sub-Saharan Africa	1.8	4.3	-1.7	0.0	3.6	3.1	4.3	5.5	3.1	4.3	3.8
Emerging and developing economies	44.3	14.2	6.1	2.6	4.3	3.0	4.8	5.5	2.8	5.1	5.9
World	100.0	12.4	5.9	2.5	3.4	3.2	4.4	5.1	3.1	4.7	5.4
World excluding EU	66.0	13.5	5.4	2.7	4.1	3.2	4.5	5.2	3.2	5.0	5.6
World excluding euro area	74.5	12.9	5.6	2.5	3.9	3.1	4.4	5.1	3.1	4.9	5.6

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2013

(b) Intra- and extra-EU trade.

Table 57: Export shares in EU trade (goods only - 2013) 23.1.2015

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	64.3	47.9	2.1	6.2	1.2	5.8	3.3	4.6	3.5	4.6	2.7	1.7
Euro area	64.3	47.4	2.0	6.2	1.3	5.3	3.6	4.5	3.3	4.8	3.0	1.8
Belgium	74.0	60.6	1.2	4.6	0.8	2.8	2.0	5.0	1.6	3.9	1.8	2.3
Bulgaria	61.9	46.7	13.2	1.6	0.3	1.6	3.1	3.3	6.0	7.2	0.5	1.3
Czech Republic	81.5	64.1	1.9	2.3	0.5	2.7	1.4	1.6	5.0	1.8	0.8	0.5
Denmark	65.4	39.3	1.3	6.4	1.9	8.7	3.2	4.5	2.5	2.7	2.6	0.8
Germany	59.1	38.6	2.2	7.4	1.5	6.8	6.1	5.0	4.1	3.6	3.1	1.2
Estonia	73.6	48.4	1.8	2.4	0.7	5.2	1.1	2.0	10.9	1.1	0.8	0.5
Ireland	56.9	37.7	0.7	21.4	2.3	8.4	2.4	2.6	1.0	1.8	1.7	0.8
Greece	50.4	34.6	19.4	3.2	0.4	1.7	1.5	3.0	3.3	14.9	1.3	1.0
Spain	65.2	52.6	2.3	3.8	1.1	3.8	1.9	2.7	2.1	8.0	6.9	2.1
France	59.3	46.9	1.6	6.9	1.8	5.0	3.7	6.4	2.5	6.8	3.2	2.8
Croatia	68.9	58.2	10.2	3.7	0.6	3.0	0.9	1.0	4.8	5.1	0.7	1.2
Italy	53.5	40.1	3.5	7.3	1.7	7.3	3.0	5.4	4.0	8.8	4.0	1.5
Cyprus	51.1	32.4	0.3	1.7	0.5	1.3	1.4	23.2	3.7	14.6	0.9	1.4
Latvia	69.3	49.2	1.5	1.5	0.5	3.3	0.8	1.8	16.6	3.7	0.4	0.5
Lithuania	61.7	41.5	0.7	4.3	0.3	3.5	0.4	1.2	24.4	2.8	0.3	0.4
Luxembourg	82.7	73.0	1.6	2.9	0.4	4.1	1.3	2.0	1.6	2.0	0.9	0.7
Hungary	78.3	56.5	3.0	2.9	0.6	1.9	1.9	1.5	5.7	2.3	1.3	0.7
Malta	44.1	34.8	1.4	3.4	4.2	2.2	9.2	21.6	1.6	9.6	1.4	1.2
Netherlands	79.0	62.3	1.0	3.2	0.7	2.9	1.6	3.3	1.8	2.9	1.9	1.9
Austria	71.4	54.4	1.6	5.1	0.9	6.3	2.5	3.1	4.0	2.5	1.9	0.6
Poland	77.3	55.0	2.2	2.2	0.4	3.0	1.1	1.5	9.0	1.6	1.0	0.6
Portugal	69.3	59.6	1.0	4.5	0.5	2.5	1.9	1.4	1.1	4.5	3.6	9.9
Romania	68.8	51.0	6.8	2.2	0.6	1.7	1.4	2.3	7.2	6.6	1.4	0.9
Slovenia	77.0	55.1	5.1	1.7	0.2	2.3	0.8	1.5	6.9	3.5	0.6	0.4
Slovakia	84.5	46.1	2.2	1.5	0.2	2.4	2.4	0.5	4.7	0.9	0.4	0.2
Finland	55.9	33.5	1.6	6.2	1.8	6.8	5.0	5.5	9.6	3.3	3.2	1.1
Sweden	60.9	42.3	1.5	5.5	1.3	12.1	3.7	4.4	2.6	4.0	2.7	1.3
United Kingdom	50.5	44.7	1.6	10.3	1.3	12.1	3.1	8.4	2.0	6.1	2.2	2.3

Table 58: World imports of goods and services, volume (percentage change on preceding year, 2010-16) 23.1.2015

						Winter 2015 forecast			*Autumn 2014 forecast*		
	(a)	2010	2011	2012	2013	2014	2015	2016	*2014*	*2015*	*2016*
EU (b)	32.8	9.7	4.3	-0.4	1.3	**3.6**	**4.3**	**5.4**	*3.1*	*4.0*	*5.3*
Euro area (b)	24.2	9.8	4.4	-1.0	1.2	**3.6**	**4.5**	**5.7**	*3.2*	*3.9*	*5.5*
Candidate Countries	1.4	17.3	10.3	-0.4	7.9	**-0.4**	**3.6**	**5.5**	*-0.2*	*3.7*	*5.4*
- Turkey	1.1	20.7	10.9	-0.5	9.0	**-1.5**	**3.4**	**5.5**	*-1.0*	*3.7*	*5.5*
- The former Yugoslav Republic of Macedonia	0.0	10.4	11.0	-2.9	-10.2	**12.6**	**11.0**	**9.0**	*8.1*	*8.0*	*7.5*
- Iceland	0.0	4.3	6.8	4.9	0.4	**8.7**	**7.1**	**6.4**	*7.8*	*6.7*	*6.5*
- Montenegro	0.0	-3.1	3.1	0.9	-3.1	**0.0**	**3.9**	**6.0**	*-0.7*	*1.5*	*4.6*
- Serbia	0.1	4.4	7.9	1.4	5.0	**2.7**	**0.8**	**2.9**	*2.5*	*0.4*	*2.7*
- Albania	0.0	0.6	6.1	-6.6	5.0	**8.4**	**7.4**	**8.1**	*6.2*	*6.5*	*7.7*
USA	12.7	12.7	5.5	2.3	1.1	**3.9**	**5.9**	**5.8**	*4.2*	*5.3*	*5.7*
Japan	4.3	11.1	5.9	5.3	3.1	**6.5**	**3.0**	**3.8**	*6.5*	*3.3*	*2.5*
Canada	2.7	10.1	5.6	2.1	2.1	**2.9**	**3.2**	**3.4**	*2.8*	*3.3*	*3.7*
Norway	0.7	8.3	4.0	3.1	4.3	**4.3**	**2.9**	**3.1**	*4.4*	*3.8*	*4.0*
Switzerland	1.7	8.1	9.2	-2.8	13.5	**-6.5**	**-0.2**	**2.9**	*2.3*	*3.3*	*3.1*
Australia	1.4	15.2	10.9	6.4	-2.0	**1.0**	**3.1**	**4.1**	*1.4*	*3.1*	*3.7*
New Zealand	0.2	10.9	7.0	2.7	6.0	**3.8**	**3.4**	**3.4**	*3.0*	*3.4*	*3.4*
Advanced economies	57.8	10.6	5.1	0.9	1.9	**3.4**	**4.3**	**5.1**	*3.4*	*4.1*	*5.0*
CIS	3.1	17.9	18.4	6.8	1.2	**-6.0**	**-6.6**	**2.3**	*-6.0*	*1.4*	*3.4*
- Russia	1.9	25.8	20.3	8.8	3.7	**-6.0**	**-10.0**	**0.5**	*-6.0*	*1.0*	*3.0*
- Other CIS	1.2	6.7	15.4	3.6	-3.0	**-5.9**	**-1.1**	**4.5**	*-5.9*	*2.1*	*3.9*
MENA	5.4	2.7	-0.7	6.0	4.5	**2.9**	**6.2**	**6.7**	*3.0*	*6.5*	*7.1*
Asia	25.9	18.9	6.1	5.9	5.0	**2.0**	**5.2**	**6.0**	*3.2*	*5.8*	*6.6*
- China	10.0	20.4	12.0	8.2	10.8	**0.7**	**4.5**	**5.3**	*3.6*	*6.3*	*7.3*
- India	2.4	15.4	-20.8	11.4	-6.9	**-0.6**	**4.6**	**6.7**	*-1.0*	*3.1*	*5.4*
- Hong Kong	2.9	17.4	4.6	2.9	6.9	**6.4**	**7.8**	**7.9**	*6.4*	*7.8*	*7.9*
- Korea	2.9	17.3	14.3	2.4	1.6	**4.6**	**5.1**	**5.6**	*4.6*	*4.8*	*5.5*
- Indonesia	0.9	18.5	15.7	15.7	0.1	**-3.3**	**3.7**	**4.4**	*-2.2*	*3.3*	*4.0*
Latin America	6.0	21.9	11.3	3.3	3.3	**1.7**	**3.0**	**3.7**	*2.0*	*3.5*	*4.8*
- Brazil	1.4	38.2	8.9	-2.3	8.6	**0.2**	**0.5**	**1.2**	*-0.4*	*1.6*	*3.3*
- Mexico	1.9	20.3	8.2	4.4	1.8	**5.5**	**6.6**	**6.8**	*6.0*	*7.2*	*7.8*
Sub-Saharan Africa	1.9	6.0	8.8	6.9	3.3	**4.5**	**5.9**	**6.2**	*5.0*	*4.6*	*4.6*
Emerging and developing economies	42.2	16.2	6.9	5.7	4.3	**1.6**	**4.2**	**5.5**	*2.4*	*5.2*	*6.1*
World	100.0	12.7	5.9	2.8	3.0	**2.6**	**4.3**	**5.3**	*3.0*	*4.6*	*5.5*
World excluding EU	67.2	14.5	6.7	4.5	3.7	**2.1**	**4.2**	**5.3**	*2.9*	*4.9*	*5.6*
World excluding euro area	75.8	13.9	6.4	4.1	3.5	**2.3**	**4.2**	**5.2**	*2.9*	*4.8*	*5.5*

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2013.

(b) Intra- and extra-EU trade.

Table 59: Import shares in EU trade (goods only - 2013) 23.1.2015

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	63.9	49.6	1.4	4.2	1.2	5.0	6.1	4.7	5.9	3.5	2.2	1.8
Euro area	63.4	48.7	1.4	4.3	1.3	4.6	5.9	4.7	6.1	4.1	2.5	1.9
Belgium	67.8	57.2	0.9	7.3	1.7	3.9	3.8	5.3	2.6	3.2	2.1	1.4
Bulgaria	63.4	45.0	8.1	0.9	0.2	1.6	3.3	1.9	17.1	1.1	1.7	0.6
Czech Republic	78.4	61.8	0.9	1.4	1.0	1.8	5.4	4.0	6.6	0.3	0.2	0.2
Denmark	72.4	48.7	1.3	2.2	0.4	8.2	6.0	4.0	1.7	1.2	1.6	1.1
Germany	66.8	47.0	1.5	3.9	1.6	6.5	6.2	4.6	4.7	1.5	1.6	1.1
Estonia	75.0	53.9	0.7	1.1	0.8	1.6	4.6	2.2	13.2	0.2	0.2	0.3
Ireland	72.5	28.2	0.5	9.6	1.5	4.5	3.8	3.7	0.5	0.9	1.9	0.5
Greece	49.1	38.3	3.4	1.1	0.3	1.9	5.0	4.7	17.4	15.4	1.5	0.4
Spain	57.0	47.5	1.5	3.1	0.7	2.8	5.7	4.2	3.6	9.8	7.2	4.6
France	69.8	58.8	1.1	4.4	0.9	4.3	4.4	3.8	3.0	5.1	1.3	1.9
Croatia	69.2	54.8	3.8	1.7	0.4	1.7	6.7	2.3	10.9	1.1	1.7	0.4
Italy	57.1	46.2	2.3	3.2	0.7	4.1	6.1	4.5	9.6	7.8	2.5	2.1
Cyprus	60.7	49.6	0.4	1.0	1.7	1.5	6.3	5.0	11.7	11.1	0.4	0.1
Latvia	61.0	45.5	0.6	1.3	0.1	1.4	3.9	2.0	28.7	0.3	0.6	0.0
Lithuania	59.4	40.1	1.1	1.8	0.1	1.5	3.7	1.2	30.0	0.4	0.7	0.1
Luxembourg	80.6	76.8	0.2	7.5	0.6	1.3	6.5	1.6	0.1	0.2	1.5	0.0
Hungary	73.6	56.7	1.2	1.5	1.2	0.9	6.4	4.0	9.4	0.5	1.1	0.1
Malta	42.2	33.3	4.5	3.1	1.1	2.7	11.8	11.9	18.3	3.8	0.2	0.5
Netherlands	46.1	34.4	0.9	6.6	2.2	5.1	10.8	7.1	9.6	4.0	4.7	2.8
Austria	80.5	66.6	1.1	2.0	0.5	5.1	2.3	2.9	3.1	1.3	0.3	0.9
Poland	72.4	58.5	1.1	1.6	0.7	2.0	5.8	3.4	11.7	0.3	0.7	0.3
Portugal	72.1	65.5	0.8	1.2	0.4	1.8	2.8	2.4	3.3	4.2	2.5	8.4
Romania	76.4	54.0	4.5	1.1	0.4	1.4	3.8	2.1	8.1	0.9	1.0	0.2
Slovenia	74.5	57.8	5.1	1.4	0.4	1.8	5.1	6.1	1.6	1.8	2.0	0.3
Slovakia	77.0	42.6	1.0	0.4	0.5	0.8	4.0	6.3	9.8	0.2	0.1	0.0
Finland	64.3	38.3	0.4	2.6	0.5	3.3	5.1	2.8	18.2	0.4	1.7	0.8
Sweden	72.0	51.5	0.9	2.7	0.9	8.4	4.8	3.4	3.9	0.5	1.3	1.3
United Kingdom	55.8	48.2	1.5	6.5	1.6	9.4	8.3	6.4	2.5	3.3	2.2	2.6

Table 60: World merchandise trade balances (fob-fob, in billions of US dollar, 2009-16) 23.1.2015

							Winter 2015 forecast			Autumn 2014 forecast	
	2009	2010	2011	2012	2013	2014	2015	2016	2014	2015	2016
EU	6.8	-28.5	-38.4	89.2	205.3	**245.8**	**272.1**	**265.4**	*223.8*	*226.1*	*225.7*
EU, adjusted[1]	-133.8	-178.5	-210.8	-78.4	28.9	**69.3**	**116.8**	**110.1**	*40.8*	*52.0*	*51.7*
Euro area	140.6	123.0	120.8	256.1	358.8	**410.7**	**428.2**	**428.9**	*390.7*	*397.3*	*406.7*
Euro area, adjusted[1]	142.3	125.2	123.7	257.5	360.1	**412.4**	**429.4**	**430.4**	*392.6*	*399.6*	*409.6*
Candidate Countries	-38.6	-68.7	-101.8	-76.8	-88.5	**-77.0**	**-59.1**	**-68.9**	*-76.6*	*-73.5*	*-79.6*
USA	-525.2	-670.3	-778.0	-777.7	-737.3	**-751.6**	**-738.2**	**-811.2**	*-778.5*	*-825.6*	*-887.4*
Japan	43.2	91.0	-20.3	-72.9	-109.3	**-108.3**	**-82.8**	**-79.8**	*-98.7*	*-93.2*	*-81.8*
Norway	45.1	49.3	66.8	69.0	57.7	**57.5**	**48.0**	**48.6**	*59.9*	*60.2*	*63.3*
Switzerland	11.8	34.2	29.5	39.9	53.7	**57.0**	**57.3**	**56.8**	*18.7*	*19.2*	*20.8*
Advanced economies	-469.6	-589.0	-816.8	-753.4	-620.0	**-571.1**	**-526.7**	**-588.4**	*-643.6*	*-669.7*	*-705.7*
CIS	103.7	162.6	228.4	220.7	187.7	**177.8**	**62.5**	**39.3**	*218.0*	*189.7*	*180.0*
- Russia	111.0	151.9	198.6	194.1	183.0	**176.4**	**84.8**	**85.3**	*191.2*	*175.2*	*174.4*
MENA	206.2	352.1	586.3	596.3	605.4	**534.3**	**137.5**	**201.7**	*512.8*	*435.3*	*458.2*
Asia	243.6	180.3	69.5	67.0	172.8	**368.1**	**655.3**	**665.0**	*298.1*	*395.8*	*431.0*
- China	197.6	182.1	156.3	231.2	259.9	**422.0**	**596.0**	**649.4**	*357.2*	*428.7*	*483.7*
Latin America	50.6	50.3	73.3	45.6	23.1	**18.7**	**3.3**	**-7.7**	*13.9*	*4.8*	*-2.3*
Sub-Saharan Africa	41.4	80.5	95.0	74.1	79.5	**63.4**	**-12.7**	**-1.6**	*28.8*	*15.1*	*1.9*
Emerging and developing economies	645.5	825.8	1052.5	1003.7	1068.5	**1162.3**	**846.0**	**896.7**	*1071.7*	*1040.8*	*1068.8*
World	175.9	236.8	235.7	250.3	448.6	**591.2**	**319.3**	**308.4**	*428.0*	*371.0*	*363.1*

[1] See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2009-16) 23.1.2015

							Winter 2015 forecast			Autumn 2014 forecast	
	2009	2010	2011	2012	2013	2014	2015	2016	2014	2015	2016
EU	-23.9	-3.0	37.6	163.4	255.8	**303.2**	**323.2**	**327.8**	*268.1*	*271.1*	*278.6*
EU, adjusted[1]	-115.0	-88.6	-48.4	93.1	189.3	**236.7**	**264.7**	**269.3**	*196.8*	*203.2*	*210.7*
Euro area	42.3	52.6	72.5	238.6	319.7	**373.4**	**385.1**	**380.2**	*340.5*	*341.2*	*339.4*
Euro area, adjusted[1]	41.8	52.9	74.4	239.4	319.4	**373.3**	**384.7**	**380.0**	*340.1*	*341.4*	*340.1*
Candidate Countries	-20.2	-51.9	-82.3	-55.9	-68.7	**-52.0**	**-34.2**	**-43.0**	*-52.7*	*-49.4*	*-52.7*
USA	-377.3	-447.9	-480.5	-482.2	-422.2	**-438.3**	**-425.2**	**-502.0**	*-451.0*	*-489.7*	*-539.3*
Japan	147.0	204.0	119.8	60.5	33.1	**22.6**	**43.1**	**49.7**	*26.4*	*37.7*	*54.9*
Norway	41.6	48.1	63.5	71.0	55.0	**54.3**	**45.7**	**46.5**	*56.7*	*57.0*	*59.7*
Switzerland	42.6	86.3	54.1	67.7	101.0	**107.1**	**105.7**	**106.6**	*79.1*	*78.8*	*83.4*
Advanced economies	-282.5	-269.2	-386.1	-312.7	-160.1	**-100.8**	**-57.6**	**-119.2**	*-158.1*	*-172.3*	*-183.2*
CIS	41.1	72.6	104.3	65.3	18.1	**56.1**	**-7.2**	**-31.8**	*88.2*	*61.0*	*47.2*
- Russia	48.7	71.0	93.7	69.4	33.8	**55.0**	**14.8**	**14.4**	*62.0*	*48.0*	*43.3*
MENA	61.7	188.2	423.8	431.9	354.6	**308.4**	**102.1**	**87.9**	*298.2*	*192.7*	*180.2*
Asia	407.3	381.0	239.4	276.7	327.1	**537.4**	**810.7**	**816.9**	*460.4*	*541.6*	*566.9*
- China	243.3	237.8	136.1	215.4	182.8	**338.6**	**500.3**	**540.2**	*267.1*	*322.1*	*357.5*
Latin America	-28.5	-62.9	-80.0	-105.7	-150.4	**-94.4**	**-112.3**	**-124.8**	*-99.2*	*-111.8*	*-121.3*
Sub-Saharan Africa	-24.3	-3.0	-2.5	-24.5	-34.1	**-35.1**	**-44.9**	**-50.7**	*26.8*	*21.0*	*21.7*
Emerging and developing economies	457.2	576.0	685.0	643.6	515.2	**772.3**	**748.5**	**697.6**	*774.4*	*704.4*	*694.7*
World	174.8	306.8	298.8	330.9	355.2	**671.5**	**690.9**	**578.4**	*616.3*	*532.2*	*511.5*

[1] See note 8 on concepts and sources.

Table 62: Primary commodity prices (in US dollar, percentage change on preceding year, 2009-2016) 23.1.2015

STIC							Winter 2015 forecast			Autumn 2014 forecast	
Classification	2009	2010	2011	2012	2013	2014	2015	2016	2014	2015	2016
Food	-12.5	9.8	13.1	0.2	3.2	**-3.7**	**-5.7**	**0.7**	*-2.2*	*-3.9*	*-0.3*
Basic materials	-22.2	40.1	22.0	-15.9	-4.8	**-4.7**	**0.7**	**2.0**	*-4.1*	*1.1*	*1.9*
- of which:											
Agricultures non-food	-17.0	31.1	32.5	-15.9	-4.7	**3.8**	**-1.4**	**0.2**	*3.1*	*-2.4*	*0.5*
- of which:											
Wood and pulp	-10.3	6.2	9.0	-5.8	1.2	**2.8**	**0.2**	**1.0**	*3.5*	*-1.0*	*0.8*
Minerals and metals	-25.7	46.6	15.2	-15.8	-4.9	**-11.1**	**2.5**	**3.6**	*-8.9*	*3.7*	*2.9*
Fuel products	-36.7	26.3	38.0	1.3	-2.9	**-7.8**	**-43.2**	**14.5**	*-5.3*	*-9.5*	*1.9*
- of which:											
Crude petroleum	-36.9	28.8	38.3	0.8	-2.7	**-8.3**	**-46.9**	**16.2**	*-5.7*	*-11.2*	*1.9*
Primary Commodities											
- Total excluding fuels	-18.0	26.2	18.5	-9.7	-1.4	**-4.3**	**-2.2**	**1.4**	*-3.2*	*-1.3*	*0.9*
- Total including fuels	-34.0	26.3	34.5	-0.4	-2.7	**-7.3**	**-37.1**	**11.5**	*-5.0*	*-8.3*	*1.7*
						Crude petroleum - price per barrel					
Brent (usd)	62.3	80.2	110.9	111.8	108.8	**99.7**	**53.0**	**61.5**	*102.6*	*91.0*	*92.8*
Brent (euro)	:	:	:	:	:	**75.0**	**45.3**	**52.6**	*76.9*	*71.6*	*73.0*

Note on concepts and sources

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts in Winter, Spring and Autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the candidate countries, the European Union as a whole, the euro area and the international environment.

2. Data for 2014, 2015 and 2016 are forecasts. The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of 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, the Netherlands and Austria report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.

7. Source: National Accounts (ESA 2010). Discrepancies with balance of payments statistics may arise due to methodological differences and revision schedules.

8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 49 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2013.

9. Geographical zones are defined as follows :

Euro area :
EA19 (BE, DE, EE, IE, EL, ES, FR, IT, CY, LV, LT, LU, MT, NL, AT, PT, SI, SK, and FI)

European Union :
EU28 (EA19, BG, CZ, DK, HR, HU, PL, RO, SE, and UK).

Candidate countries :
Turkey, the former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia, and Albania.

Potential candidates :
Bosnia-Herzegovina and Kosovo.

Advanced economies :
EU, candidate countries, USA, Japan, Canada, Norway, Switzerland, Australia, and New Zealand.

MENA (Middle East and Northern Africa) :
Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates, and Yemen.

Asia :
All countries in that region except Japan and the Asian MENA countries.

Latin America :
All countries in that region.

Sub-Saharan Africa :
All countries in that region except the African MENA countries.

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