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Spring 2019

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European Commission
Directorate-General for Economic and Financial Affairs

European Economic Forecast

Spring 2019

ABBREVIATIONS

Countries and regions

EU	European Union
EA	euro area
BE	Belgium
BG	Bulgaria
CZ	Czechia
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
CN	China
JP	Japan
US	United States of America
CIS	Commonwealth of Independent States
EFTA	European Free Trade Association
EMU	Economic and Monetary Union
MENA	Middle East and North Africa
ROW	Rest of the World
SSA	Sub-Saharan Africa

Economic variables and institutions

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

PMI	Purchasing Managers' Index
VAT	Value-Added Tax
BIS	Bank for International Settlements
ECB	European Central Bank
ESRB	European Systemic Risk Board
IMF	International Monetary Fund
NBER	National Bureau of Economic Research
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries
WTO	World Trade Organisation

Other abbreviations

EAPP	Expanded Asset Purchase Programme
FDI	Foreign Direct Investment
NFC	Non-Financial Corporations
OCA	Optimal Currency Area

Graphs/Tables/Units

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

Currencies

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

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FOREWORD

In six years of economic expansion, 10 million jobs have been created in the euro area, and the employment rate has increased to the historical high of 72%, investment as a share of GDP has recovered to close to pre-crisis levels, and fiscal deficits have decreased substantially in all euro area countries though remaining at different levels. However, the slowdown of economic activity in recent quarters has been sharper than expected and reflects a confluence of factors - external and domestic, temporary and more persistent. Among them the slowdown in world trade, with a disproportional impact on export-oriented manufacturing in the euro area, and the problems related to implementing new emissions tests in the car-manufacturing sector played a particular role. The present forecast of a slight rebound of GDP growth over the course of this year rests on the continued robustness of domestic demand, the fading of temporary negative factors, global demand bottoming out and uncertainty being reduced as clarity emerges about Brexit and trade policies. Furthermore, several Member States envisage the deployment of a modest fiscal stimulus in a context of continued monetary accommodation.

This benign projection is however subject to important downside risks, many of which are related to bad economic policies. Outside the euro area, an escalation of trade conflicts or persistent uncertainty surrounding trade policies, a 'no-deal' Brexit, a sharper than expected slowdown in China, and a sharper or longer slowdown in export demand, constitute major risks. Within the euro area, risks relate to remaining fragilities in financial-sector balance sheets and the possibility of sovereign-bank vicious circles. These risks are interconnected, which could magnify their impact if they were to materialise. This could put significant strain on the capacity of macroeconomic policies to stabilise the economy. The outlook with diminished growth expectations requires a consistent policy package of supportive macroeconomic policies and structural measures that strengthen the growth potential and resilience.

The policy mix continues to be accommodative with continued monetary support and a slightly expansionary fiscal stance in the euro area as a whole this year and next. In order to foster confidence it is important that countries with high debt put their debt-to-GDP ratios on a clear downwards path over the medium term. In those countries where fiscal space exists it should be used by focusing on physical and intangible public investment. In view of the constraints to macroeconomic policies, moving towards a structure of public revenues and expenditure that favours education, employment and investment would offer a deficit-neutral means to increase potential growth. A redesign of tax and expenditure systems could at the same time be used to make them more inclusive. Completing Economic and Monetary Union would increase the effectiveness of macroeconomic policies and structural reforms. The deadline of June 2019 set by the Euro Summit in December is important for the budgetary instrument for the euro area to be implemented with the next Multiannual Financial Framework. The completion of the bank resolution framework, an agreement on the European Deposit Insurance System and a renewed emphasis on the Capital Markets Union would all help to increase the resilience of euro area economies. Finally, reducing uncertainty would help households' and companies' spending and investment decisions and preserve favourable financing conditions for the public and private sector. On the external side, this requires cooperating with partners to tackle trade tensions in a multilateral framework; on the domestic side, a clear orientation of fiscal policies towards reducing high debt and of structural measures towards sustainable growth.

The euro area economy's robust fundamentals justify the projection of a rebound. However, policy needs to be prepared to implement additional support if the risk of a sharper or more protracted slowdown materialises. In that case, fiscal stabilisers should be allowed to play freely. Promoting and protecting investment, in particular in people and skills, and putting greater emphasis on the quality of public finances would simultaneously strengthen growth potential and support aggregate demand.



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OVERVIEW: GROWTH CONTINUES AT A MORE MODERATE PACE

Global crosscurrents combine with domestic growth impediments

The economic upswing is being buffeted by a confluence of global and domestic headwinds...

Economic activity in the EU slowed further in the second half of 2018 as growth in the global economy and trade weakened amid tightened global financing conditions, unresolved trade tensions, high uncertainty, and as a result of exceptional weakness in the manufacturing sector that extended into the start of 2019. The slowdown was even more pronounced in the euro area as the region is not only highly dependent on external demand, but has also been hit by a number of sector- and country-specific factors, mainly in its largest economy, that have weighed on sentiment as well as on trade between euro area partners. These include disruptions in the car manufacturing sector, social tensions, policy uncertainty, as well as uncertainty related to Brexit.

...but still robust domestic fundamentals...

Domestic demand has been less affected. Employment growth, which has so far remained resilient, is expected to continue in the euro area, but at a slower pace. Combined with rising wages, muted inflation and supportive fiscal measures in some Member States, job creation should continue to underpin household spending this year and next. At the same time, low financing costs should help to at least partly offset the negative impact of lower sales expectations on investment.

Table 1:

Overview - the spring 2019 forecast

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Belgium	1.4	1.2	1.2	2.3	1.8	1.6	6.0	5.6	5.3	0.2	0.2	0.0	-0.7	-1.3	-1.5
Germany	1.4	0.5	1.5	1.9	1.5	1.5	3.4	3.1	2.7	7.6	6.8	6.5	1.7	1.0	0.8
Estonia	3.9	2.8	2.4	3.4	2.4	2.2	5.7	5.7	5.7	1.5	1.4	1.4	-0.6	-0.3	-0.5
Ireland	6.7	3.8	3.4	0.7	1.0	1.3	5.8	5.4	5.0	9.1	8.5	7.9	0.0	0.0	0.3
Greece	1.9	2.2	2.2	0.8	0.8	0.8	19.3	18.2	16.8	-1.4	-1.0	-0.8	1.1	0.5	-0.1
Spain	2.6	2.1	1.9	1.7	1.1	1.4	15.3	13.5	12.2	0.9	0.9	0.9	-2.5	-2.3	-2.0
France	1.6	1.3	1.5	2.1	1.3	1.4	9.1	8.8	8.5	-0.6	-0.6	-0.6	-2.5	-3.1	-2.2
Italy	0.9	0.1	0.7	1.2	0.9	1.1	10.6	10.9	11.0	2.4	2.5	2.5	-2.1	-2.5	-3.5
Cyprus	3.9	3.1	2.7	0.8	0.9	1.1	8.4	6.7	5.9	-6.5	-8.0	-9.4	-4.8	3.0	2.8
Latvia	4.8	3.1	2.8	2.6	2.8	2.4	7.4	6.9	6.7	-0.5	-0.2	-0.2	-1.0	-0.6	-0.6
Lithuania	3.4	2.7	2.4	2.5	2.1	2.1	6.2	6.2	6.0	0.0	-0.1	-0.4	0.7	0.3	0.0
Luxembourg	2.6	2.5	2.6	2.0	1.8	1.7	5.4	5.2	5.2	4.8	4.6	4.7	2.4	1.4	1.1
Malta	6.6	5.5	4.8	1.7	1.8	1.9	3.7	3.8	3.9	11.2	9.8	9.5	2.0	1.1	0.9
Netherlands	2.7	1.6	1.6	1.6	2.5	1.5	3.8	3.5	3.6	11.0	10.1	9.5	1.5	1.4	0.8
Austria	2.7	1.5	1.6	2.1	1.8	1.9	4.9	4.7	4.7	2.5	2.4	2.6	0.1	0.3	0.2
Portugal	2.1	1.7	1.7	1.2	1.1	1.6	7.0	6.2	5.7	-0.9	-1.0	-1.1	-0.5	-0.4	-0.1
Slovenia	4.5	3.1	2.8	1.9	1.8	2.1	5.1	4.8	4.6	7.3	6.7	6.1	0.7	0.7	0.9
Slovakia	4.1	3.8	3.4	2.5	2.4	2.3	6.5	5.9	5.6	-1.1	-0.5	-0.1	-0.7	-0.5	-0.6
Finland	2.3	1.6	1.2	1.2	1.4	1.6	7.4	6.7	6.2	-1.9	-1.5	-1.4	-0.7	-0.4	-0.2
Euro area	1.9	1.2	1.5	1.8	1.4	1.4	8.2	7.7	7.3	3.6	3.3	3.2	-0.5	-0.9	-0.9
Bulgaria	3.1	3.3	3.4	2.6	2.0	1.8	5.2	5.0	4.8	2.5	1.6	1.5	2.0	0.8	1.0
Czechia	2.9	2.6	2.4	2.0	2.4	2.0	2.2	2.2	2.3	0.1	-0.5	-0.6	0.9	0.2	-0.2
Denmark	1.4	1.7	1.6	0.7	1.3	1.5	5.0	4.8	4.7	6.1	6.3	6.3	0.5	0.6	-0.1
Croatia	2.6	2.6	2.5	1.6	1.0	1.2	8.5	7.8	6.9	2.9	2.6	1.9	0.2	0.1	0.5
Hungary	4.9	3.7	2.8	2.9	3.2	3.2	3.7	3.5	3.5	0.5	-1.2	-1.4	-2.2	-1.8	-1.6
Poland	5.1	4.2	3.6	1.2	1.8	2.5	3.9	3.8	3.5	-0.5	-1.0	-1.4	-0.4	-1.6	-1.4
Romania	4.1	3.3	3.1	4.1	3.6	3.0	4.2	4.1	4.0	-4.7	-5.2	-5.3	-3.0	-3.5	-4.7
Sweden	2.3	1.4	1.6	2.0	1.5	1.6	6.3	6.4	6.4	3.4	4.1	4.6	0.9	0.4	0.4
EU27	2.1	1.4	1.7	1.8	1.5	1.6	7.3	6.9	6.6	3.3	3.0	2.9	-0.5	-0.9	-0.9
United Kingdom	1.4	1.3	1.3	2.5	2.0	2.1	4.0	4.1	4.2	-3.9	-3.7	-3.4	-1.5	-1.5	-1.2
EU28	2.0	1.4	1.6	1.9	1.6	1.7	6.8	6.5	6.2	2.2	2.0	1.9	-0.6	-1.0	-1.0
China	6.6	6.2	6.0	2.4	2.0	2.0	:	:	:	0.4	0.3	0.3	:	:	:
Japan	0.8	0.8	0.6	1.0	0.7	0.9	2.4	2.3	2.2	3.5	3.6	3.6	-2.9	-2.8	-2.5
United States	2.9	2.4	1.9	2.4	2.0	2.0	3.9	3.8	3.7	-2.4	-2.5	-2.6	-6.4	-6.5	-6.4
World	3.6	3.2	3.5	:	:	:	:	:	:	:	:	:	:	:	:

...give scope for continued GDP growth close to potential...

From 1.9% in 2018, euro area GDP growth is forecast to moderate to 1.2% this year and to pick up to 1.5% in 2019, when the growth rate will be flattered by a higher number of working days. GDP in all Member States is expected to grow over the forecast horizon. However, given the weakness in late 2018, these projections are markedly lower than last autumn and slightly below the winter interim forecast.

... once temporary factors and uncertainty ease.

These forecasts rest on the assumption that trade and policy uncertainty will recede, or at least not escalate, global demand will gradually become more supportive and that the specific factors currently holding back growth will unwind. Any deviation from these assumptions could lead to a more persistent slowdown.

Global growth is expected to bottom out over the course of this year...

Global economic activity slowed sharply towards the end of 2018 and at the start of 2019, amid a deeper than previously forecast downturn in global trade and manufacturing that affected many countries, even though it was particularly concentrated in the euro area, China and parts of Asia. Over the course of 2019, however, the global economy (excluding the EU) is expected to bottom out, as the recent move towards a slower pace of monetary tightening in the US is set to benefit distressed emerging market economies. Activity should also be supported by expansionary fiscal policies in several major emerging economies, primarily China, where significant monetary and fiscal policy stimulus is expected to stabilise economic growth. Furthermore, the forecast no longer assumes that the US will further increase tariff rates on imports from China. However, as the US-China truce has been extended without a new deadline, uncertainty continues to loom large.

... and to tick higher next year driven by a slight recovery in emerging markets...

Overall, global GDP growth outside the EU is expected to decrease from 3.9% in 2018 to 3.6% in 2019, partly as a result of the lower carryover due to the slowdown in late 2018. In 2020, the global economy (excluding the EU) is forecast to return to a somewhat higher growth path, with annual GDP growth of 3.8%, in line with previous forecasts. This uptick should come from a slight rebound in emerging markets, whereas economic growth in major advanced economies, including the US and Japan, is expected to moderate towards potential amid waning policy support.

...that should drive a modest rebound in global trade after this year's dip.

Mirroring the slowdown in global manufacturing and investment and exacerbated by lingering trade tensions and a cyclical downturn in the IT and communication sector in Asia, global trade flows fell abruptly in the last quarter of 2018 when they were dragged down by a plunge in China's imports. This weakness has extended into 2019. Global GDP growth is expected to bottom out during this year and global trade growth should stabilise. Overall, non-EU world import growth is forecast to fall sharply from 4.7% in 2018 to 3.0% this year (about 1 percentage point below what was expected in the autumn) and to recover only partially to 3.6% in 2020, largely driven by strengthening economic activity in emerging markets.

Investors turned more optimistic at the start of the year...

Towards the end of 2018, deteriorated global macroeconomic conditions and mounting risks led to a sharp reassessment of risk premia. This translated mainly into a flight to safety, with falling equity prices, widening corporate bond spreads and declining sovereign bond yields. Earlier this year, the reappraisal of monetary policy by major central banks and their move towards a more accommodative policy stance helped to reverse these trends and spurred a rally in equity markets. The performance of European indices,

however, has been more subdued than their US peers, with banks underperforming as they continued to struggle with low profitability.

... and euro area bond yields and bond spreads continued to decline...

Monetary and financial conditions have eased in recent months. The decline in yields within the euro area continued with the German 10-year sovereign bond yield even turning negative at the end of March. Corporate bond spreads have narrowed since January 2019 in line with receding risk aversion, resulting in somewhat lower financing costs for non-financial corporations compared to the autumn.

...while the euro weakened against most major currencies...

The euro has weakened by about 2% in nominal effective terms since the beginning of this year, reflecting weaker-than-expected growth in the euro area and the ensuing downward adjustment of market expectations about the ECB's monetary policy. After appreciating by almost 5% on average last year, the euro's nominal effective exchange rate is assumed to depreciate by 1½% this year as a whole.

...and net lending flows continued to expand.

Net lending flows to the private sector have remained positive in the euro area in recent months amid a slight downward trend in interest rates on loans. Even though non-price credit standards slightly tightened, demand for housing loans increased in all large Member States, reflecting the continued robustness of housing markets.

Domestic demand has not been immune...

Given the variety of factors behind the economic slowdown, the diminishing expectations for euro area GDP growth this year are broad-based. Investment, for instance, is set to continue to be impacted by lower sales expectations and heightened uncertainty given the euro area's relatively high trade openness and degree of value chain integration. Additionally, the adjustments in inventories are expected to weigh on economic growth. Several Central and Eastern European Member States, within and outside the euro area, however, have withstood the slowdown as domestic demand has held up well. The inflow of EU funds has contributed to that.

...but private consumption should benefit from a rise in household real income...

Private consumption growth also lost momentum in 2018 as the decline in consumer confidence led to an increase in the household saving rate and there was a fall in new passenger car registrations. This fall was particularly pronounced in Germany and can be seen as the demand-side counterpart to the supply-side effects of the fall in car production. Over the forecast horizon, private consumption is expected to get support from continued, albeit slower, job creation and from wage growth, which picked up in 2018 and is set to remain steady. It should also benefit from expansionary fiscal measures in a number of Member States. Furthermore, household purchasing power is expected to be spurred by more subdued inflation as the impact of higher energy prices last year fades. However, since the household saving rate in the euro area is likely to rise again this year before stabilising next year, private consumption growth is projected to remain at 1.3% this year and to pick up to 1.5% in 2020.

...and investment is set to continue expanding...

Investment is forecast to continue growing but at a slower annual pace, as the high degree of uncertainty regarding the global outlook and trade policies is likely to weaken the impetus for equipment investment this year, particularly in export-oriented sectors and EU Member States. Investment should, however, continue to find support from high capacity utilisation rates in manufacturing and low financing costs throughout the forecast period. Meanwhile, the impact of these supportive factors is set to be partly offset by declining profit margins; rising supply hindrances, particularly in the

construction sector; and the end of targeted fiscal incentives in some Member States. Overall, investment growth is forecast to decrease by one percentage point in the euro area this year and to remain steady in 2020.

...while net exports weigh on growth.

The growth of euro area exports almost halved last year, as both extra and intra-euro area trade flows slowed sharply, dragged down by lower demand from China and other trading partners, as well as by disruptions in the manufacturing sector. Leading indicators, such as new export orders, signal that euro area exports are likely to remain sluggish in the near term. They are forecast to weaken in 2019 before picking up in 2020, in line with demand in export markets. The contribution of net exports to euro area GDP growth is forecast to be negative this year and only neutral in 2020. The current account surplus of the euro area is set to decline from its historical high of 3.9% of GDP in 2017 to 3.2% in 2020, largely mirroring the fall in the merchandise trade surplus.

Net job creation should continue at a slower pace...

Despite the slowing of economic growth, labour market conditions in the euro area improved throughout last year. Employment kept growing, suggesting that employers tried to limit adjustment costs, and, on aggregate, slack in the labour market (captured by broader measures of underemployment such as involuntary part-time work) has continued to diminish. Short-term indicators point to some remaining strength in the labour market at the end of the first quarter of 2019, but employment expectations in the manufacturing sector have taken a serious hit. Over the next two years, employment growth should continue at a more moderate pace due to the lagged effect of slowing GDP growth and the fading of temporary fiscal measures in some Member States. At 7.3% in 2020, the unemployment rate in the euro area should fall below its pre-crisis level.

...but the delayed pass through of higher wages is set to keep inflation subdued.

Euro area headline inflation declined from 1.9% in the last quarter of 2018 to 1.4% in the first quarter of this year, pulled down mainly by lower increases in energy prices. Energy prices are expected to moderate further in the coming quarters amid negative base effects and lower oil price assumptions. Core inflation, which excludes energy and unprocessed food prices, has also edged slightly down in the first quarter of the year after remaining broadly stable throughout 2018. The pass-through of higher wage growth to underlying price pressures has so far remained surprisingly muted and, with the recent weakening in economic activity, is set to take longer than previously anticipated. On average, euro area headline inflation is forecast at 1.4% in both 2019 and 2020.

The euro area's headline deficit should increase this year...

After having declined last year to its lowest level since 2000, the euro area's general government deficit is expected to rise from 0.5% of GDP to 0.9% in 2019 and to remain unchanged in 2020, based on a no-policy-change assumption. The increase this year reflects slower, and below potential, economic growth as well as expansionary discretionary fiscal policies in some Member States. Debt-to-GDP ratios are forecast to continue falling in most Member States in 2019 and 2020. In the euro area, deleveraging should find support from the debt-decreasing primary surplus as well as nominal GDP growth remaining higher than the historically low average interest rate due on outstanding debt. Based on a no-policy-change assumption, the euro area debt-to-GDP ratio is set to fall to 84¼ % in 2020.

...partly reflecting a mildly expansionary aggregate fiscal stance.

The fiscal stance for the euro area is expected to turn from slightly contractionary last year to mildly expansionary in 2019. Given diminished growth expectations, a subdued euro area inflation outlook and the ECB's decision to postpone monetary policy normalisation, upward pressure on nominal interest rates is assumed to be very limited over the forecast horizon and real short and long-term rates should remain negative.

Substantial downside risks remain in place

Downside risks to the outlook remain prominent. Despite easing tensions in US-China trade tensions, uncertainty remains high, and the risk of further protectionist moves in US trade policy persists. In particular, the possible imposition of US tariffs on cars and car parts imported from Europe could have knock-on effects well beyond the automobile sector. The current slowdown in world GDP growth and trade could also turn out to be more persistent than forecast, particularly if economic growth in China turns out weaker than expected. Risks remain interrelated, and the materialisation of any risk to GDP growth could dent investor sentiment and lead to asset price declines in a time when valuations appear stretched across many asset classes. Also, concerns about financial vulnerability could re-emerge not only of highly-leveraged emerging market economies but also the US.

Within Europe, any deviation from the technical assumption of unchanged trade relationships between the UK and the EU that underlies these forecasts, and in particular a 'no deal' Brexit, would dampen economic growth, particularly in the UK but also in the EU27, though to a minor extent. Downside risks also relate to a possible return of negative sovereign-bank loops and the possibility that the transitory factors currently weighing on the manufacturing sector could turn out to be more enduring. Additionally, there is the risk that any unsustainable policies or political uncertainty, that could follow in the wake of national or European elections, could result in a pullback in private investment.

On the upside, confidence among business and consumers may be less sensitive to trade and policy uncertainty than assumed. The impact of trade tensions, domestic headwinds and elevated uncertainty could then be much smaller than currently expected. As a result, domestic demand could be even more resilient and economic growth could continue at a stronger pace than forecast, particularly if it were accompanied by stronger-than-assumed fiscal loosening in countries with fiscal space.

PART I

EA and EU outlook

GROWTH CONTINUES AT A MORE MODERATE PACE

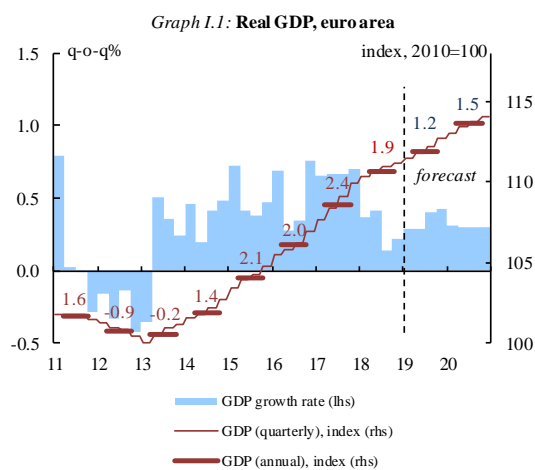
Global crosscurrents combine with domestic growth impediments

The forces that had strengthened economic growth in Europe in recent years, such as world trade, private consumption and investment have all lost momentum last year. This has lowered the pace of growth markedly and diminished expectations about the strength of future growth.

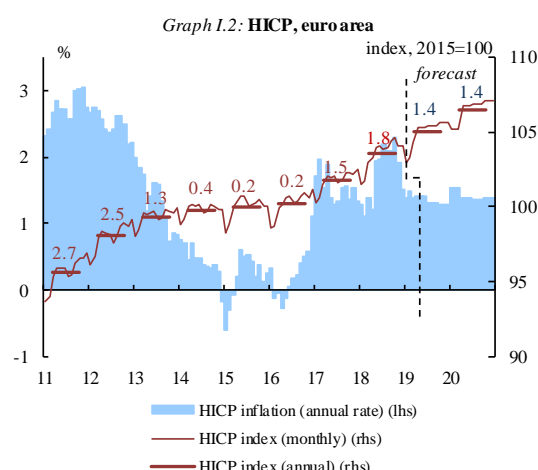
Output growth and trade outside the EU have turned out weaker than expected in the autumn, partly reflecting last year's tightening of global financial conditions, trade tensions, and elevated uncertainty, but also the weakness of the manufacturing industry in several countries. While a gradual slowing of growth in major advanced economies is set to continue, emerging and developing countries should benefit from easing global financial conditions and, in some cases, from policy measures that brighten their outlook. Due to the sizeable negative impact of the external environment on export-oriented sectors and EU Member States, the main impetus to growth is expected to continue to come from domestic demand, driven by further growth in employment and incomes, despite some moderation in employment growth. Additional jobs, coupled with rising wages for employees, are expected to support consumption and economic activity while uncertainty about economic prospects keeps weighing on sentiment. Investment is set to continue expanding, but far less energetically due to the impact on equipment investment of the less favourable external environment and the high prevailing levels of uncertainty.

Looking ahead, the economic expansion in the euro area is forecast to continue at an annual rate of 1.2% this year (1.4% in the EU), slightly less than expected in the winter. The fading of certain adverse domestic factors, the prolongation of favourable financing conditions, and a rebound in activity outside the EU are expected to support growth in the second half of 2019 and in 2020. GDP is forecast to grow by 1.5% in 2020 in the euro area (1.7% in EU27), helped in part by calendar effects. Despite the expected fall in unemployment and stronger wage growth, inflation is expected to remain subdued with the near-term profile shaped mainly by oil price developments. HICP inflation in the euro area is forecast at 1.4% in both 2019 and in 2020, which is lower than expected in the winter and reflects in part lower oil-price assumptions.

As initial deadlines for US-China trade negotiations and Brexit have passed without resolution, various uncertainties continue to loom large. Substantial downside risks to the growth outlook remain in place. An escalation of trade tensions could prove to be a major shock and create roadblocks for Europe's growth trajectory. A 'no deal' Brexit would be particularly harmful for the UK but it would also negatively affect the EU27 though to a minor extent. Domestically, transitory growth impediments could turn out to be more persistent than currently envisaged, especially in manufacturing.



Figures next to horizontal bars are annual growth rates.



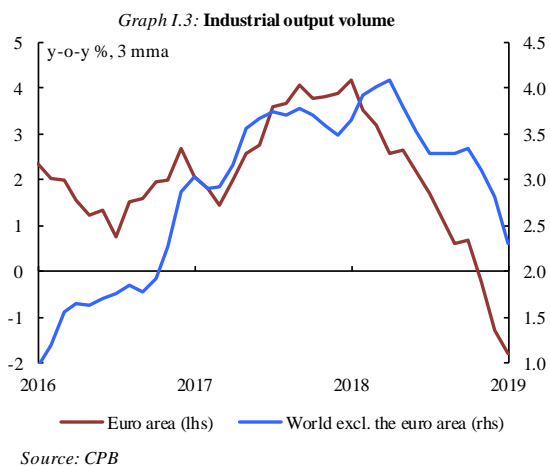
Figures next to horizontal bars are annual inflation rates.

1. PUTTING THE FORECAST INTO PERSPECTIVE: THE WEAKNESS IN MANUFACTURING IN THE EURO AREA

The sharp slowing in euro area growth in 2018 has come as a surprise. While various factors have to be considered to explain the relatively broad-based character, as well as the persistent nature of the weakness, the slump in manufacturing and trade appears to have been the most severe drag on euro area growth throughout 2018. This section aims to situate this slowdown in the global context and shed more light on its origins. It investigates developments in export and manufacturing sectors in the euro area, with a particular focus on the automotive sector in Germany and related spillovers.

Momentum in the world economy weakened visibly...

Industrial activity and exports in the euro area weakened sharply in the beginning of 2018 and have been slowing since then (see Graph I.3). Over the course of the year, economic momentum weakened visibly in other parts of the world, in both advanced and emerging economies, which culminated in a sharp contraction in global manufacturing and trade towards the end of 2018 and in early 2019.



Various possible explanations for this weakness have been identified. Recent analyses by the IMF⁽¹⁾ and the ECB⁽²⁾ confirm a negative impact

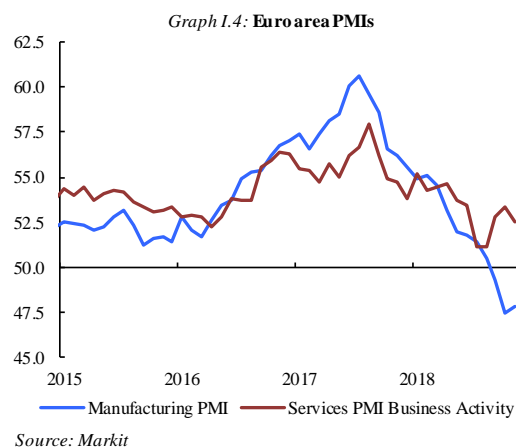
⁽¹⁾ International Monetary Fund (2019). 'World Economic Outlook'. Chapter 4. April.

⁽²⁾ Gunnella, V. and L. Quaglietti (2019). 'The economic implications of rising protectionism: a euro area and global perspective'. ECB *Economic Bulletin* 3, Article 1, pp. 40-62. April.

of rising protectionism on the global economy, with the ECB providing evidence of sharper slowing in sectors affected by extensive discriminatory measures. The tightening of global financing conditions over the course of 2018 and the ensuing turbulence in several emerging markets, weighed on investment, activity and trade. Moreover, the slow-down in the Chinese economy towards the end of the year, interacted with trade disputes with the US, leading to weaker confidence, investment, and demand for capital goods. Additionally, the turn of the 'tech cycle' depressed trade in Asia.⁽³⁾ (see Section I.2) Finally, disruptions related to new car emission standards and rising uncertainty in a number of countries weighed on momentum in Europe.

...with a soft patch in manufacturing output...

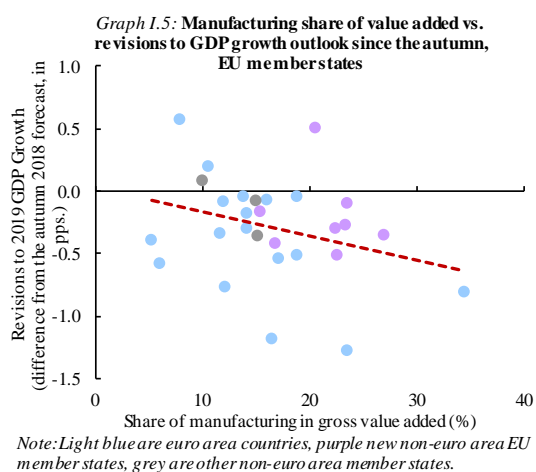
At the same time, a clear dichotomy can be found between developments in industrial production and activity in service sectors. While manufacturing has been at the centre of the recent soft patch, services have held up relatively well overall, with surveys (i.e. PMIs) remaining firmly in the expansionary area. This has been the case both at a global level as well as in the euro area, where manufacturing entered contractionary territory in early 2019, whereas growth in the services sector has remained robust (see Graph I.4).



Given the decoupling of growth momentum, countries with large manufacturing sectors have been affected the most by the ongoing slowdown, which also produced a significant negative carryover for activity in 2019. Indeed, Graph I.5 indicates a negative relationship between the share

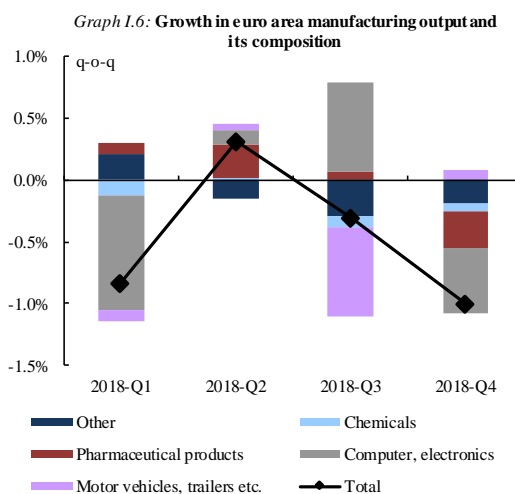
⁽³⁾ Tirpák, M. (2019). 'What the maturing tech cycle signals for the global economy'. ECB *Economic Bulletin* 3, Box 1, pp. 22-5. April.

of manufacturing in total gross value added and the magnitude of revisions to the 2019 growth outlook since the Autumn forecast. This relationship is particularly strong in the euro area (blue dots), where the sharpest downward revisions concern countries with above-average manufacturing sectors (namely DE, IT, NL and IE). On the other hand, it seems to be much weaker for CEE countries (violet dots)⁽⁴⁾, in particular those outside the euro area, where there is tentative evidence that the hit to growth related to their large exposure to manufacturing has so far been offset by the positive effect of the inflow of structural funds (see Box I.3).

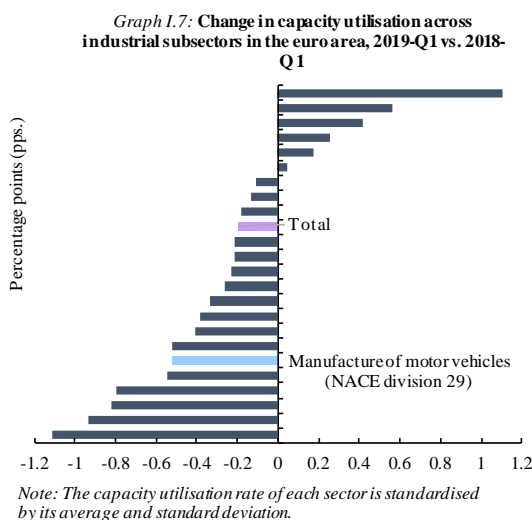


While the slump in the automotive sector in the second half of 2018 caught most of the attention, the weakness in manufacturing started already at the beginning of last year and was more broad-based in nature. The sharp drop in manufacturing output in the first quarter of 2018 can be largely traced back to a fall in the manufacturing of computer, electronic and optical products, and to a smaller extent to the contraction in the output of chemicals and motor vehicles (see Graph I.6). In the second half of the year, however, the decline in the production of motor vehicles played a key role (particularly in the third quarter), together with the renewed weakness in computers and chemicals and a slump in the production of pharmaceuticals (in the last months of the year).

⁽⁴⁾ Removing non-euro-area CEE countries raises R² of the regression to 0.19 (from 0.09 in case of the sample comprising all EU countries)

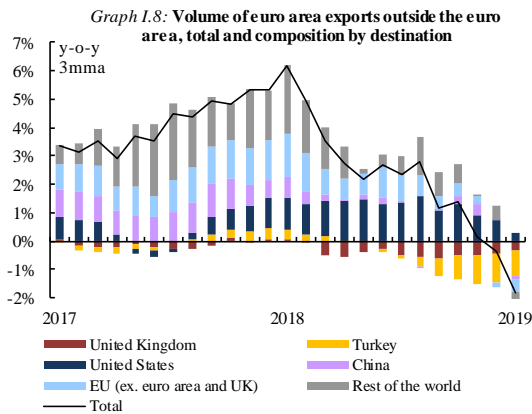


The drop in industrial output coincided with declines in capacity utilisation across most industrial groupings, and which extended into early 2019, confirming the broad-based character of the slowdown in manufacturing. (see Graph I.7).

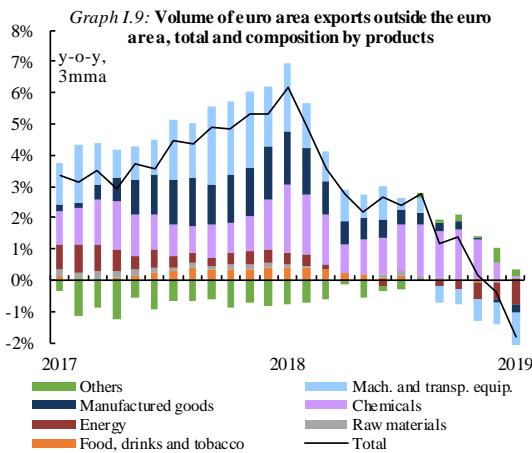


...and euro area exports weakened across the board...

The euro area exports to countries outside the area took a severe hit in the first half of 2018, and have remained broadly flat since, rising by a mere 1.7% for the year as a whole (compared to 4.3% in 2017). The early-2018 weakness reflected a sharp contraction in demand from all major trading partners except the US, but was particularly severe in the case of China, the UK and Turkey. Demand in China contracted again towards the end of the year, reflecting a sharper slowing of the Chinese economy.



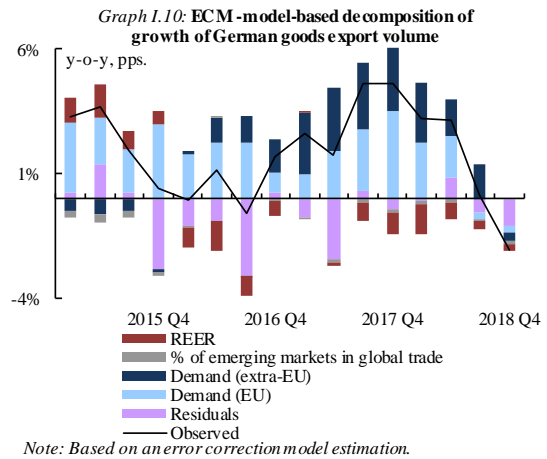
The product breakdown also confirms the broad-based nature of the export slump in early-2018, as all major manufacturing groupings posted sharp declines. While most of them recovered during the remainder of the year and in early 2019, machinery and transport equipment recorded another sharp contraction in the third quarter, reflecting supply-side bottlenecks (discussed below), and have remained very weak since then.



...including in Germany...

As the biggest producer and exporter of manufactured goods in the EU, with high cross-border integration of production chains, Germany has a key role in driving both European production and exports. A look at the decomposition of German exports by means of an error-correction-model (see Graph I.10) indicates that the sharp deceleration in growth over the course of 2018 (for y-o-y growth) reflected the weakening in both domestic and foreign demand. First, demand for German goods from the EU came to a halt in the third quarter. This might reflect not only demand weakness but also the introduction of new

emission test procedures in the automotive sector (discussed later on in more detail). Following the EU demand weakness in the third quarter, demand for German goods from outside of the EU fell sharply in the last quarter of 2018. Finally, it is worth highlighting that a significant part of the contraction in the second half of 2018 cannot be explained by either demand or real effective exchange rate changes. This suggests that supply constraints or product specialisation might also have played a role. This calls for a closer look at the automotive sector, one of the main drivers of the German manufacturing industry, and a sector which went through well-documented supply problems during the second half of the year.



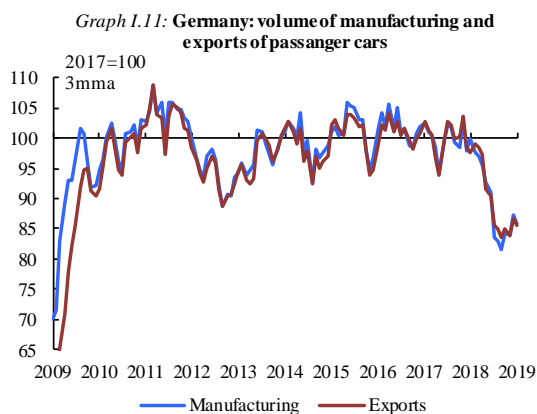
...amid a slump in the automotive sector.

The slump in the automotive sector deserves special attention not only because of its direct role in depressing euro area manufacturing output in 2018, but also due to its potential for spillovers given the highly complex, cross-border and cross-industry supply chains of the car industry.

Following carmakers' difficulties with the introduction of a new emission testing procedure, the production of motor vehicles in the euro area fell sharply (-6.5% q-o-q) in the third quarter. The rebound in the fourth quarter was milder than previously expected, with output increasing only slightly by 0.7% q-o-q. Preliminary data for the first two months of 2019 are not encouraging either, suggesting that production and exports remained weak. This soft patch was particularly pronounced in Germany and Italy, but output also contracted in Spain and France.

In Germany both output and exports of passenger cars contracted by around 17% q-o-q, in volume

terms, in the third quarter, marking the most severe downturn since 2008 (Graph I.11). Both have recovered somewhat since then, but average quarterly volumes in 2019-Q1 remained depressed, and close to 2009 levels.



Note: Seasonally adjusted by the Census X-13/SEATS procedure
Source: German Association of the Automotive Industry (VDA), German Federal Statistical Office (Destatis)

The slump in the automotive sector had a severe impact on the German economy, reflecting the size of the sector and its complex network of supply chain linkages. The direct share of the manufacturing of motor vehicles, trailers and semi-trailers (NACE division 29) in Germany's gross value added (GVA) was about 4.7% in 2017, more than twice the euro area average (of 1.9%); to which intense cross-sector and cross-country linkages have to be added. Furthermore, motor vehicles and vehicle parts are Germany's most important export product, accounting for close to one-fifth of the country's exports.

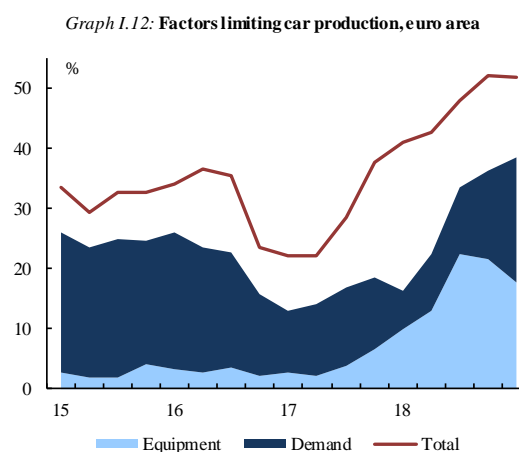
Several factors have coincided to cause this weakness. First, as mentioned above, supply-side factors seem to have played a key role in the third quarter, as the new emission test procedures caused delivery delays and supply disruptions. However, demand for German cars, both domestic and from within and outside the EU has been weakening as well, further depressing sales and exports. In order to interpret recent developments in the sector and make near-term predictions, one first has to disentangle the (supposedly short-lived) supply factors and the (possibly more persistent) drivers of lower demand.

Supply-side problems have dominated since mid-2018...

The most easily identifiable factor that depressed car production in 2018 was the introduction of the

new Worldwide Harmonised Light Vehicles Test Procedure (WLTP) on 1 September. Delays in obtaining certificates of compliance with these new standards led firms to suspend the production of a number of car models causing heavy disruption to both delivery and sales. Moreover, some producers decided not to request WLTP approval for selected models that were at the end of their life cycle, thus effectively ceasing production until the introduction of new models.

While the effect of the WLTP-related disruption seems to be wearing off, more than half a year later, the level of car production and exports remains depressed. (see Graph I.11). Other new factors are likely to have played a role, among them the strike at the Hungarian Audi factory that disrupted production in the home plant in Germany. Moreover, a number of market experts have signalled companies' concerns about the next stages of the WLTP regime, which include changes to the mandatory evaporation test. ⁽⁵⁾



Reflecting this, the German car sector reported a noticeable increase in the percentage of firms indicating supply factors as limiting production, particularly equipment (European Commission Business and Consumer Survey). This, however, peaked in the third quarter of 2018 and has edged somewhat lower since. Simultaneously, demand factors have also been growing in importance as a headwind to further increases in production. (see Graph I.12)

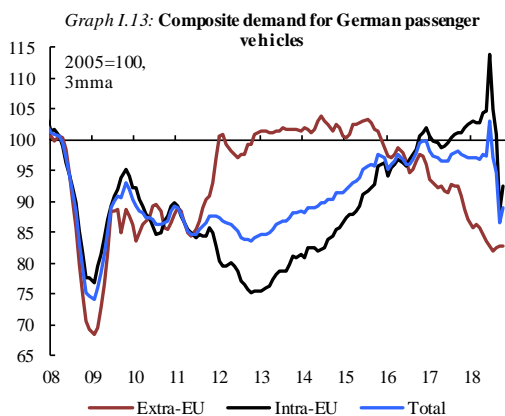
⁽⁵⁾ Nevertheless, firms are expected to show a higher level of preparedness compared to the disruptions seen in 2018, which should moderate the negative effects of the re-certification process to some extent. See IHS Markit (2019). 'West European Sales Preview'. March.

... amid subdued global demand...

Global demand for cars has been subdued in recent years with a host of idiosyncratic, country-specific and often temporary developments interacting with medium-to-long term secular trends likely to shape the car market for years to come.

After several years of buoyant demand growth, ⁽⁶⁾ the German automotive industry faced broadly stagnant demand between late 2016 until mid-2018, followed by a collapse in the second half of 2018 (see Graph I.13). These developments mask important divergences in intra- and extra-EU car registrations. While the former had been steadily rising since 2013, driven by increasing incomes, sentiment and pent up demand from the euro area's sovereign debt crisis; the latter have been declining gradually from an all-time peak in 2015. The mid-2018 collapse in euro-area registrations (preceded by the intense "frontloading" ahead of the WLTP tests) exacerbated the long-standing downward trend in non-EU registrations, resulting in the sharpest contraction in total demand since 2008.

Since then, the continued weakness in automotive industry orders can, to some extent, still be linked to the impact of WLTP, with customers waiting for certifications before acquiring a specific vehicle of choice. ⁽⁷⁾ Cyclical forces could also be at play, with car registrations increasing for five years in a row, including in 2018 and hovering close to pre-crisis levels.



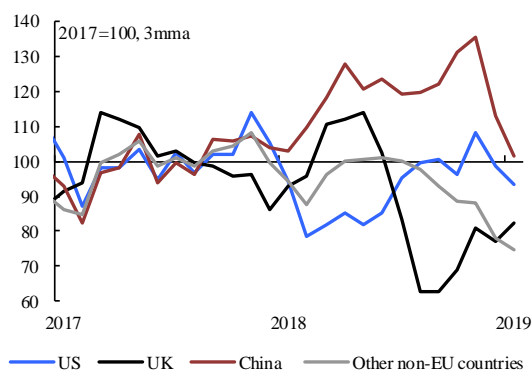
Graph I.13: Composite demand for German passenger vehicles

⁽⁶⁾ Demand has been proxied by the composite indicator of passenger car registrations from 22 EU Member States and 12 non-EU countries, covering about 80% of German export markets of motor cars and other motor vehicles.

⁽⁷⁾ See Heymann, E. (2019). 'German auto industry'. Deutsche Bank Research. March.

On the external side, the decline in non-EU demand for German cars observed in 2018 appears to reflect several idiosyncratic and largely country-specific factors. Outside the euro area, car exports to the UK have been weak throughout 2018, partly reflecting the Brexit-related uncertainty (see Graph I.14). Exports to China held up relatively well in the first three quarters of 2018 ⁽⁸⁾ but fell sharply towards the end of 2018 as the Chinese economy slowed more than expected. Likewise, following relatively stable growth in the first three quarters of the year, car exports to the US contracted towards the end of the year. Finally, a near-collapse in exports to crisis-stricken Turkey and other highly distressed economies further exacerbated the contraction in extra-euro-area demand for German cars.

Graph I.14: Value of German car exports to key non-euro area export markets



Source: German Federal Statistical Office (Destatis)

... with powerful structural forces at play...

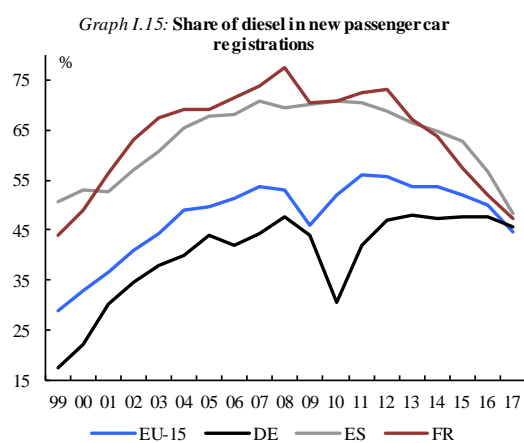
The long-standing downward trend in demand for auto vehicles from non-EU countries (Graph I.13) highlights the role of structural and global forces shaping the outlook for the industry. While these were certainly present in the EU data as well, up until recently they appear to have been outweighed by the robust economic momentum in the EU.

These structural forces reflect changes in regulation, technology and consumer preferences. One of the strongest among them appears to be the ongoing shift in consumer preferences away from cars reliant on certain types of fuel technologies (e.g. diesel); ⁽⁹⁾ but also away from technologies using all fossil fuels - and towards e.g. electric propulsion. Diesel cars, the speciality of the

⁽⁸⁾ Reflecting the unilateral decision by China to reduce tariffs on car and car parts from 1 July 2018.

⁽⁹⁾ See Bloomberg (2019). 'EU Regulator Calls the End of Diesel in Several Years'. 27 May.

European and German car industry have seen demand go down significantly since the ‘Dieselgate’ in 2015 and in view of existing and potential driving bans in an ever increasing number of European city centres (Graph I.15). Furthermore, increasing ecological awareness and rising costs associated with owning a car (largely policy-induced) have contributed to the popularity of alternative transport modes. This includes traditional public transport, car-sharing platforms, but also rapidly new and expanding modes of city mobility, such as city bicycles and electric scooters. All these factors jointly have grown in importance over the course of recent years and now act as systemic drags on car demand.



... and spill-overs to the broader economy.

Changes in production in the automotive industry have an economic impact that extends far beyond this sector's share in value added. Looking at the main economic sectors, the sector of industry including the car industry generated the biggest output multiplier on the EU economy in 2017.⁽¹⁰⁾ Given the extensive value chain integration of the sector, the mechanical impact of falling production on industrial output needs to be complemented with the spill-over effects on other sectors of the economy.

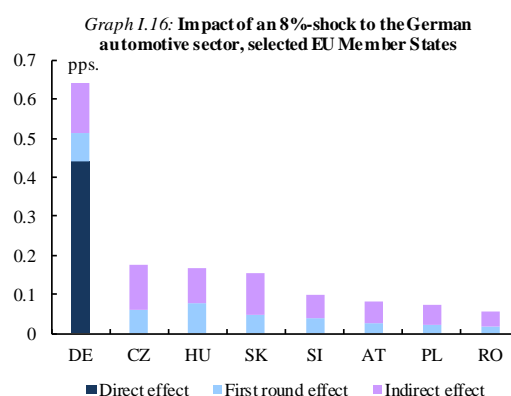
Accordingly, one should distinguish between the (i) direct effect, as an increase (or decrease) in final demand for cars leads to an increase (or decrease) in output in this sector, as producers react to meet additional (or reduced) demand; and the (ii) indirect effect, as an increase (or decrease) in output creates additional (or lower) demand

⁽¹⁰⁾ Eurostat (2018). 'Consolidated supply, use and input-output tables'. *Statistics Explained*.

from suppliers of intermediate inputs across the supply chain.

As an example, the production of cars involves a number of players, handling the sale, maintenance and repair of motor vehicles, parts and accessories, sale of fuel, renting and leasing. The more a production process makes use of intermediate inputs, and the use is both rich in value added and poor in imports, the higher the expected multiplier will be.⁽¹¹⁾ Any shock impacting the industry can thus result in sizeable indirect effects that amplify the initial shock.

In particular, the decline in German car production has direct and indirect impact on many manufacturing sectors, not only in Germany. Under the assumption that the structure of value chains remained similar to what they were in 2015, the inter-country input-output tables (ICIO, released by the OECD) allow us to estimate the direct and indirect GDP impact of the 8% (q-o-q) contraction in output of the German automotive sector⁽¹²⁾ (see Graph I.16).



Note: The impact refers to the GDP loss in each Member State as a result of the shock to the automotive sector output.

Due to the high share of the automotive sector in total value added in Germany, the decline in automotive output observed in 2018-Q3 leads mechanically to a (direct) loss of more than 0.4pps. of GDP in Germany. Taking into account the first round effect, i.e. the decrease in output faced by the direct suppliers of the German automotive sector, the impact amounts to 0.5pps. of GDP in Germany, and between 0.05pps. and 0.1pps. of

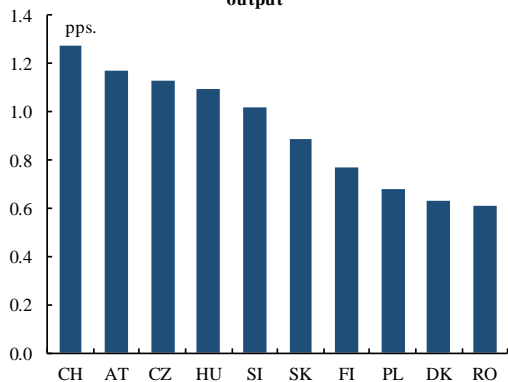
⁽¹¹⁾ INSEE (2012). 'Aeronautic construction and automobile construction, two sectors with a pronounced spill-over effect on the rest of the economy'. *Conjoncture in France*, March.

⁽¹²⁾ The contraction in the entire automotive sector (NACE grouping C29) was milder than for the subgrouping passenger cars (-16.6% q-o-q)

GDP in Hungary, Czechia and Slovakia. Including the spill-overs to the whole value chain, the impact on GDP is significant in several countries. In Germany, GDP would have been 0.6% higher without such a fall in the automotive sector; 0.2% higher in Czechia, Hungary and Slovakia; 0.1% higher in Slovenia; and between 0.05% and 0.1% higher in Austria, Poland and Romania. For all other countries, the impact is estimated to be below 0.05 pps. of GDP.

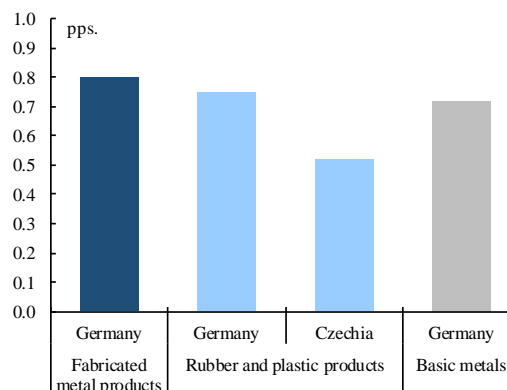
Focussing on output sector by sector, the spillovers- to the other countries affected primarily the automotive sector, and not only in the EU (see Graph I.17). Among the countries where the output of the automotive sector lost more than 0.5% due to the fall in Germany in 2018-Q3, Switzerland was most affected (-1.3%), followed by Austria (-1.2%), Czechia and Hungary (-1.1%) and Slovenia (-1.0%). The automotive sector was also impacted, to a lesser extent, in Finland, Poland, Denmark and Romania.

Graph I.17: Loss in the automotive sector output due to an 8% fall in the German automotive sector output



Naturally, suppliers to the automotive sector were also affected, although to a lesser extent (see Graph I.18). In Germany, three sectors were significantly affected: fabricated metal products, rubber and plastic products, and basic metals. Abroad, the only significantly affected sector (excluding the automotive sector, presented above) is the rubber and plastic products sector in Czechia, which is one of the main suppliers of the German automotive industry.

Graph I.18: Output loss in sectors most affected by an 8% decrease in the German automotive sector output



What is the outlook for the car industry?

The automotive industry is in the midst of a major transformation, led by alternative power sources, autonomous vehicles, car sharing and connected cars. ⁽¹³⁾ On the supply side, tighter post-2020 CO2 emission standards ⁽¹⁴⁾ may put constraints on the production shares of different fuel technologies, which may or may not match well the trends in demand.

In the near term trade tensions ⁽¹⁵⁾ as well as a no-deal Brexit pose significant downside risks to the outlook for the industry. Recent research adds further to the body of evidence on the impact of trade restrictions on exports and overall economic activity, which are not expected to be mitigated by indirect trade diversion effects. On the upside, with the average vehicle age increasing since 2000, particularly for passenger cars and light commercial vehicles, ⁽¹⁶⁾ some pent up demand for new cars in Europe can still be expected.

⁽¹³⁾ Fredriksson, G., Roth, A., Tagliapietra, S., and Veugelers, R. (2018). 'Is the European automotive industry ready for the global electric vehicle revolution?'. *Bruegel Policy Contribution* 26. December.

⁽¹⁴⁾ Regulation (EU) 2019/631 of the European Parliament and of the Council of 17 April 2019 setting CO2 emission performance standards for new passenger cars and for new light commercial vehicles, and repealing Regulations (EC) No 443/2009 and (EU) No 510/2011 (Text with EEA relevance.)

⁽¹⁵⁾ See Felbermayr, G. and Steininger, M. (2019). 'Effects of new US auto tariffs on German exports, and on industry value added around the world'. Ifo Center for International Economics. February.

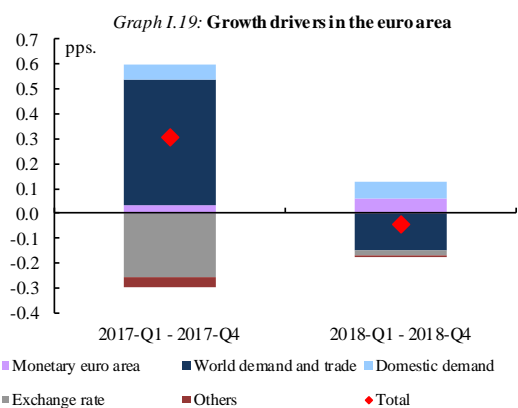
⁽¹⁶⁾ See European Automobile Manufacturers Association (ACEA) and European Environment Agency (EAA) statistics on average vehicle age. According to the later, the share of cars aged 10 years or over is increasing across Europe's fleet, as consumers show a higher tendency to hold on to their vehicles for longer, despite marked differences in age across Member States. Diesel passenger

All these developments suggest significant adjustments ahead, with potential costs in terms of jobs and skill-upgrades as well as the need to overhaul infrastructure. In this context, European manufacturers are facing considerable adaptation challenges over the near-to-medium term. Nevertheless they will continue to benefit from a large and deeply integrated internal market, significant R&D spending and an extensive network of suppliers from which to leverage know-how and experience.

Fading external drivers of euro area growth

All in all, the extent to which external headwinds and the fall in manufacturing output weighed on euro area output has been a recurring question. Disentangling the role of supply and demand factors remains a challenge⁽¹⁷⁾. A model-based decomposition⁽¹⁸⁾ of euro area growth offers some relevant insights about the relative importance of various factors.⁽¹⁹⁾

The results underscore the exceptional conjuncture in 2017, when euro area growth benefited from a particularly supportive external environment, including robust world demand and trade. This external exuberance is estimated to have fuelled above-trend growth by as much as half a percentage point, which more than outweighed the negative impact of the euro's exchange rate appreciation. The turn of the manufacturing and trade cycle in 2018, and the ensuing waning of external support implied a sharp downgrade in growth performance. As a result, global demand and trade shocks had a negative impact on euro area quarterly growth.



Implications for the forecast.

Given the nature of drags on activity in 2018 and early 2019, developments in trade and in the manufacturing sector are key for assessing the euro area economic outlook. First, the global economy is expected to bottom out over the course of this year and global trade growth outside the EU is expected to strengthen in 2020 (see section I.2). Even if the rebound in trade is expected to be much more modest compared to conditions in 2017, the impulse from external demand could provide a much needed boost to euro area manufacturing in the remainder of the forecast horizon.

In addition, given that much of the disruption in the automotive sector in 2018 appears to have been caused by the introduction of the new emission standards, the situation is expected to normalise gradually over the course of 2019. Moreover, there are reasons to expect demand to recover somewhat from depressed 2018 levels among the biggest importers of European cars, e.g. China (thanks to specific stimulus measures aimed at boosting car sales) and Turkey. That said, the more medium term drags on car demand – both policy-induced and related to shifts in consumer preferences – are set to become increasingly more binding. This is bound to limit the scale of the recovery in the auto sector, and – given extended spill-overs to other parts of the economy – will be an important factor moderating the outlook for the euro area economy over the medium term.

All in all, factors weighing on manufacturing last year are expected to reverse (global momentum) or ease somewhat (automotive sector), giving way to a moderate firming of growth in the euro area over the forecast horizon.

cars are also described as having a lower average age compared to petrol.

⁽¹⁷⁾ M. Dossche and J. Martinez-Martin (2018). 'Understanding the slowdown in growth in 2018'. *ECB Economic Bulletin* 8, 51-4.

⁽¹⁸⁾ Results based on the Global Multi-Country (GM) DSGE model developed by DG ECIN and the Joint Research Center of the European Commission. See Albonico, A., L. Calès, R. Cardani, O. Croitorov, F. Ferroni, M. Giovannini, S. Hohberger, B. Pataracchia, F. Pericoli, R. Raciborski, M. Ratto., W. Roeger, and L. Vogel (2017). 'The Global Multi-Country Model (GM): an Estimated DSGE Model for the Euro Area Countries'. *JRC Working Papers* 2017/10.

⁽¹⁹⁾ Graph 19 displays the model-based decomposition of the average quarterly real GDP growth in 2017 and 2018. The red diamond shows actual GDP growth, the coloured bars show the contribution of the different groupings to deviations of quarterly GDP growth from its long-run trend (0.34%), i.e. the horizontal axis. The sum of positive and negative contributions matches the data (red diamond).

2. EXTERNAL ENVIRONMENT

Global economic activity slowed sharply towards the end of 2018 and the beginning of 2019, amidst a downturn in global manufacturing and trade (concentrated in particular in the euro area, China and the EU's neighbouring countries). This was compounded by temporary headwinds in the US linked to the partial government shutdown and a sharp tightening of financing conditions both of which weighted on domestic demand in the beginning of the year. As a result, the slowdown in global economic activity around the turn of the year was deeper than previously forecast, weighing considerably on annual growth rates for 2019.

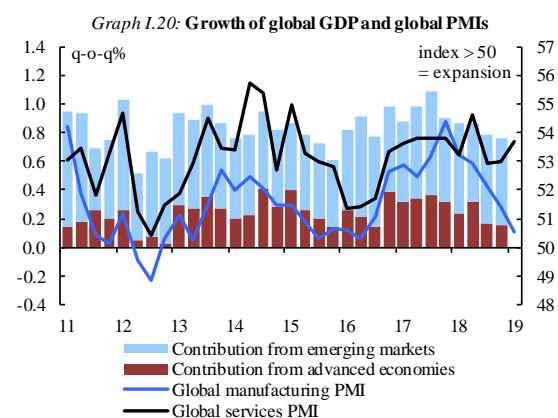
The global economy is currently characterised by increasing divergence and there are idiosyncrasies across countries and regions. Activity in major advanced economies, including the US in particular, is expected to moderate toward potential over the forecast horizon amid waning policy support and following a period of above-potential growth. China's secular trend of gradually slowing growth is set to continue, as the economy transitions towards a more sustainable growth model and the drag from deleveraging in the corporate sector as well as the impact of trade tensions are partially offset by the latest round of new policy stimulus. Growth prospects in other emerging markets vary considerably, depending on their particular domestic vulnerabilities and susceptibility to external shocks (including capital flows and commodity prices). Overall, emerging markets should benefit from more favourable global financing conditions than previously expected. A rebound, especially in recently distressed economies, is expected to contribute to a moderate pick-up in growth across in emerging markets over 2019-2020.

However, the global economy is expected to bottom out over the course of this year as temporary headwinds wane in some countries and new policy support in China contributes to a stabilisation of economic activity.

Global growth is projected to recover from the weakness at the turn of the year...

Global growth eased to 0.8% q-o-q in both the third and fourth quarter of 2018 (from 0.9% in the first and second) mainly due to weaker-than-expected activity in some advanced economies (euro area, Japan and the US) and China. In the

rest of the world, activity held up well, but with notable differences. Growth momentum in emerging Asia (excluding China) continued to be stronger than in any other region despite a less favourable export environment. At the same time, real GDP growth remained weak in Latin America and South Africa, reflecting domestic economic and political headwinds. Economic growth in the oil exporting countries of the Middle East was weaker than expected in the last quarter of 2018, mainly due to the sharp drop in oil prices that quarter.



Sources: OECD, IMF and national statistical institutes for GDP, JPMorgan/IHS Markit for PMI

A key factor behind the global economic slowdown was the particularly sharp decline in manufacturing and foreign trade in the fourth quarter of 2018 that continued in early 2019. Between November 2018 and March 2019 (latest available data), the Global Manufacturing Purchasing Managers' Index (PMI) has been falling to levels last seen in 2016, dragged down by declining output growth and a slump in new orders. The decline in trade and manufacturing affected many countries, but was particularly concentrated in the euro area and China. Outside the euro area, it can be associated with weaker demand for capital goods, slower growth in China, due to a sharper-than-expected impact of deleveraging efforts, and a turn of the tech cycle in Asia.⁽²⁰⁾ The more limited weakening in underlying economic activity in the US appears linked to internal factors, such as the partial government shutdown, sell-off in equity markets and weather effects. So far, the slump in manufacturing activity has had little impact on

⁽²⁰⁾ For an analysis see M. Tirpák (2019). 'What the maturing tech cycle signals for the global economy'. *ECB Economic Bulletin* 3, pp. 22-5.

Table I.1:

International environment

(Annual percentage change)

	(a)	2015-2017			Spring 2019 forecast			Autumn 2018 forecast		
		2015	2016	2017	2018	2019	2020	2018	2019	2020
Real GDP growth										
Japan	4.3	1.2	0.6	1.9	0.8	0.8	0.8	1.1	1.0	0.5
USA	15.3	2.9	1.6	2.2	2.9	2.4	1.9	2.9	2.6	1.9
Emerging and developing Asia	33.2	6.6	6.7	6.5	6.5	6.1	6.1	6.5	6.2	6.1
- China	18.2	6.9	6.7	6.8	6.6	6.2	6.0	6.6	6.2	5.9
- India	7.5	7.5	8.7	6.9	7.4	7.1	7.3	7.4	7.5	7.5
Latin America	7.7	0.2	-0.8	1.1	0.7	1.1	2.3	1.0	1.7	2.3
- Brazil	2.5	-3.5	-3.3	1.1	1.1	1.9	2.4	1.1	1.9	2.3
MENA	6.7	2.4	4.5	2.1	1.7	1.5	2.6	2.2	2.2	2.4
CIS	4.5	-2.3	0.5	2.1	2.8	2.1	2.3	2.3	2.2	2.3
- Russia	3.2	-2.8	-0.1	1.5	2.3	1.5	1.8	1.7	1.6	1.8
Sub-Saharan Africa	3.2	3.3	1.2	2.7	2.7	3.3	3.5	3.1	3.6	3.8
Candidate Countries	1.9	5.8	3.2	7.0	2.7	-1.9	4.0	3.8	-1.1	3.1
World (incl.EU)	100.0	3.3	3.2	3.7	3.6	3.2	3.5	3.7	3.5	3.5
World merchandise trade volumes										
World trade		2.9	2.3	5.2	4.0	2.9	3.3	4.1	3.8	3.5
Extra EU export market growth		1.6	1.9	5.1	4.3	3.1	3.4	4.2	3.7	3.4

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2017.

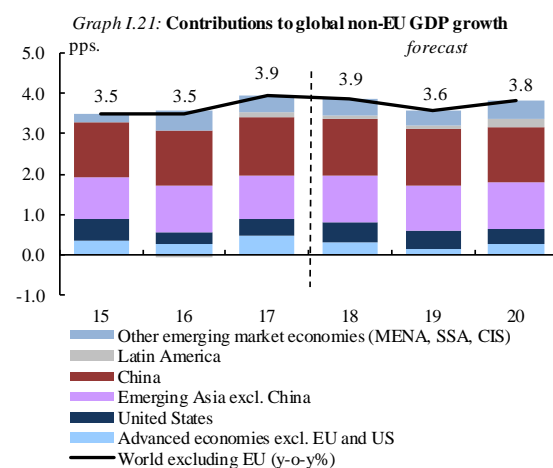
services, as the captured by the Global Services PMI (Graph I.20).

Overall, global GDP growth (excluding the EU) is expected to slow from 3.9% in 2018 to 3.6% in 2019, which is partly due to the lower carry-over from 2018 that resulted from slowing growth in the fourth quarter of last year. Over the course of 2019, a number of factors should help the global economy bottom out. Following the sharp tightening of financing conditions in the second half of 2018, the reappraisal of monetary policy by major central banks and the move towards a more accommodative monetary policy stance is expected to support a rebound in growth rates, especially across emerging market economies. In addition, significant policy stimulus has been deployed in China, which should help to stabilise activity in the country, while also supporting activity in Asia. Furthermore, it is assumed that prospects for at least a temporary solution of US-China trade tensions have improved.

In 2020, the global economy (excluding the EU) is forecast to return to a slightly higher growth path, with annual GDP growth of 3.8%, which is in line with previous forecasts (Graph I.21). The uptick in global growth is projected to come from a slight rebound in activity in emerging markets, whereas economic growth in other parts of the global economy (US, Japan and China) is set to slow gradually.

...despite an expected moderation of growth in advanced economies...

In 2018, economic activity in advanced economies (excluding the EU) was marginally weaker than expected in the autumn. While economic growth in the US remained solid on the back of strong labour market conditions and a large pro-cyclical fiscal stimulus, the pace of economic growth varied a lot from one quarter to the other, including two quarters of contraction (triggered in part by a series of natural disasters). In the short run, the economic outlook for advanced economies has somewhat weakened in view of the temporary headwinds to US demand in the beginning of the year and the slower than expected growth momentum in Japan carrying over into 2019.



In the US, real GDP growth is expected to moderate toward potential in 2019 and 2020. In 2019, economic activity is set to weaken but to grow above potential at 2.4%, underpinned by a number of factors including a strong labour market; some continuing boost from fiscal stimulus; favourable financing conditions reflecting a more accommodative monetary policy stance by the Fed; and receding trade tensions, assuming progress in trade negotiations. Negotiations between the US and China have been extended, as no resolution had been reached by the initial deadline in March and the truce on initially planned additional US measures has been extended without a new deadline. Accordingly, the spring forecast no longer assumes that the US will increase tariff rates from 10% to 25% on USD 200bn worth of imports from China. Nevertheless, the forecast for the US implies a marginal downward revision to GDP growth in 2019 (-0.2 pps.) compared to the autumn forecast, mainly due to the temporary factors weighing on domestic demand at the turn of 2018-2019. In 2020, the pace of US growth is expected to continue moderating to around potential (just below 2%) as macroeconomic policies become broadly neutral.

In Japan, the pace of economic growth should remain stable at around 0.8% in 2019 reflecting a gradual recovery in global economic activity over the year and accommodative monetary policy. Fiscal offsetting measures should smoothen the growth impact of consumption tax hike planned for October 2019. In 2020, the pace of expansion is expected to slow to 0.6% as domestic demand weakens in the wake of fiscal consolidation.

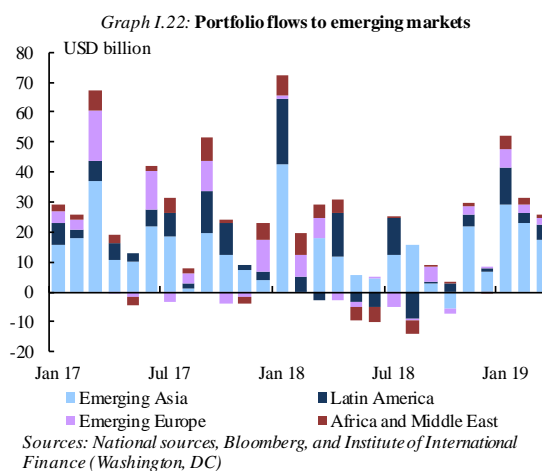
...due to the continued expansion in emerging market economies.

In 2018, emerging markets registered solid real GDP growth of 4.6%, unchanged from 2017. However, the headline figure masks considerable divergence. In the second half of the year many emerging markets came under market pressure as rising interest rates in the US, a strengthening US dollar and increasing trade tensions, combined with country-specific domestic vulnerabilities triggered capital outflows. The highest pressures were observed in Argentina and Turkey, which both faced financial market turmoil and were pushed into recession. China’s economic slowdown also intensified in the second half of 2018, as two years of financial deleveraging, a tight fiscal policy stance in the first half of the

year, and, importantly, trade tensions with the US and softening global demand, all took their toll.

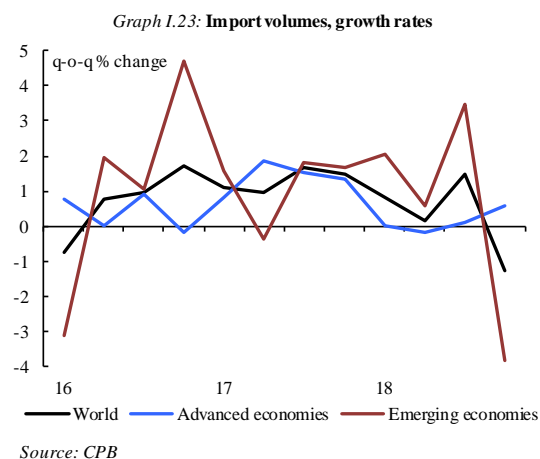
Real GDP growth in emerging markets is expected to edge down to 4.5% in 2019, as weaker growth momentum in some of the recently stressed emerging market economies carries over into the first half of 2019. However, economic activity is expected to find support from expansionary fiscal policies in several major economies (China, Russia, and India) and more favourable financial conditions, thanks to the slower pace of monetary tightening in the US now expected. Furthermore, on the basis of the revised assumptions on trade policy measures (see above), activity in China should benefit from lower trade tensions with the US. In 2020, growth in emerging market economies is projected to pick up slightly to 4.7% against the backdrop of a rebound in a number of particularly distressed countries. Countries like Argentina are expected to benefit from financial stabilisation and policy reforms after experiencing financial turmoil in 2018. In other countries, like Brazil and South Africa, a cyclical rebound together with reduced political uncertainty is set to lift growth.

In recent months, more favourable global financial conditions relieved pressures on most emerging market currencies, while sovereign yields fell. Portfolio capital flows into emerging market economies (Emerging Asia in particular) recovered, driven by the reappraisal of the monetary policy-tightening path in the US (Graph I.22). Financing conditions are expected to remain on average supportive for growth, though differences between regions will rise, as global investors continue to differentiate between markets.



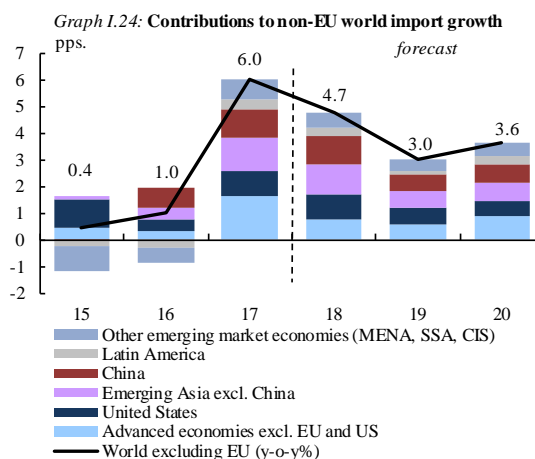
Global trade is set to slow further in the near term...

Global trade growth (excluding EU) slowed from 5.4% in 2017 to 4.6% in 2018, but was still faster than the average rate between 2012 and 2016 and slightly faster than expected in the autumn. However, trade flows fell abruptly in the last quarter in 2018, after emerging markets recorded a slump in imports (Graph I.23). Imports plunged during the last two months of the year in China at a speed not seen since the Great Recession. This weighed on the region’s economic activity, leading to a trade contraction in the rest of emerging Asia. Trade in advanced economies, by contrast, expanded in the fourth quarter, albeit at a subdued pace, mainly due to robust import demand in the US and Japan.

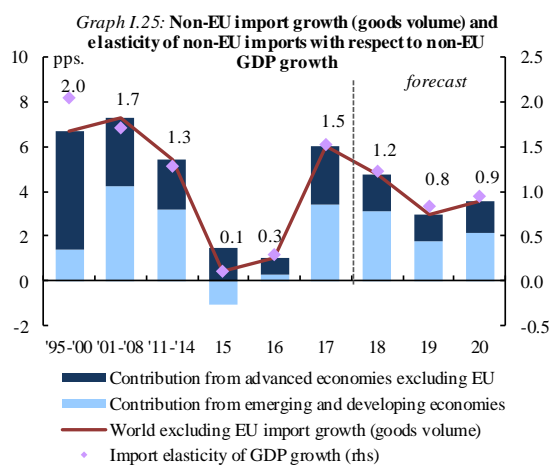


...before rebounding later in 2019 and expanding in 2020.

In 2019, world import growth outside the EU (Graph I.24) is expected to slow down sharply to 3.0% (-0.9 pps. compared to the autumn forecast). The revision reflects a large negative carry-over from the weak fourth quarter in 2018 as well as signals from a number of leading indicators suggesting that the weakness in global trade continued in the first quarter of 2019. However, as global growth momentum is set to bottom out over the course of this year, amid reduced US-China trade tensions and sizeable policy stimulus in China, global trade growth should stabilise. In 2020, import growth outside the EU is expected to strengthen modestly to 3.6% (roughly on par with the autumn forecast), largely driven by strengthening economic activity in emerging markets.

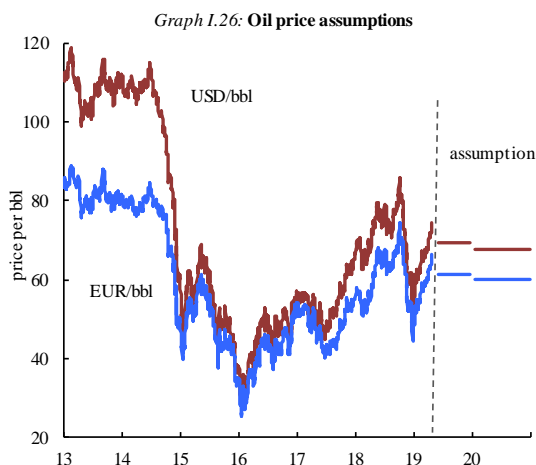


The elasticity of non-EU imports with respect to GDP rose sharply to 1.4 in 2017 from the exceptional compression in 2015-2016, and decreased only slightly in 2018 (see graph I.25). The higher import elasticities observed in the period 2017-2018 are a reflection of the strong rebound in investment, the most trade-intensive component of GDP, after years of weak global capital spending. However, the carryover effect from the weak end of 2018, sluggish global manufacturing and investment as well as lingering trade tensions are set to bring down the trade elasticity to 0.8 in the current year. In 2020, import elasticity is expected to slightly rebound but is unlikely to return to 2017-2018 levels, due to the ongoing rebalancing from investment to consumption in China, the waning effects of policy stimulus in the US (and China) on investment, and due to the structural shift towards services in the global economy.



Supply-side developments becoming more important for oil prices

Oil prices had fallen to just over 50 USD/bbl at the end of 2018 from a peak of around 85 USD/bbl in October 2018 amid surging crude output from the US, Saudi Arabia and Russia, the implementation of US waivers for importers of Iranian crude, and diminishing expectations about the strength of global economic growth. This downward pressure on oil prices eased in early 2019 as OPEC cut production again, the US introduced sanctions on Venezuela, and Canada partially suspended production to drain high stockpiles of oil. Still, less optimistic expectations about the strength of the global economy dampened the impact of supply cuts. In April 2019, the US announced that it would stop granting waivers to importers of Iranian oil, creating additional supply side pressures and pushing Brent prices to about 75 USD/bbl.



Over the forecast horizon, upward price pressures from increasing constraints on the supply of heavy crude (from Venezuela and Iran) are expected to be held down by the recovery of oil production in Canada and, towards the end of 2019, the expansion of US shale exports. Substantial uncertainties around this scenario relate to the medium-term effectiveness of the OPEC cuts, the volatility of Iranian, Libyan and Venezuelan production, as well as the evolution of oil demand from China. Brent prices are assumed to average 69.2 USD/bbl in 2019 and 67.8 USD/bbl in 2020, which implies a downward revision from the autumn forecast of about 14% for 2019 and 12% for 2020 in US dollar terms and by about 12% and 10% in euro terms, respectively (Graph I.26). As these assumptions are based on developments in futures prices during a base period, the impact of

the recent US measures against Iran's oil exports is only partially captured, which increases upside risks to the oil price assumption.

The prices of other commodities are set to stabilise over the forecast horizon. After a strong start to 2018, prices of metals have declined, reaching their lowest levels in sixteen months at the end of 2018 because of rising trade concerns and a softer outlook for growth in China. They have since rebounded, driven by expectations of fiscal stimulus in China and some supply disruptions (e.g. Brazilian iron ore, Chinese zinc). Overall, metal prices increased by 6% in 2018 and are assumed to remain roughly stable in 2019 and 2020.

Downside risks to the global outlook remain elevated

Some of the risks that had in autumn be associated with policy decisions that could endanger growth projections have eased. In the US, the risk of an abrupt tightening of fiscal policy in 2020 (in the absence of a Congressional agreement on spending levels) is likely to have diminished following the negative impact of the recent government shutdown. Furthermore, the near-term risk that the US economy might overheat and trigger a sharp tightening of monetary policy, appears to have diminished. Following this year's reappraisal of US monetary policy by the Federal Reserve and the ensuing easing of financing conditions, risks related to high debt exposures in emerging markets have also eased somewhat, but concerns about financial vulnerabilities related to high debt and leverage in many of these countries remain meaningful.

US-China trade tensions are assumed to be receding, at least temporarily and in the near term, but uncertainty around US trade policy remains prominent and a major source of uncertainty. It continues to weigh on market sentiment and further moves toward trade protectionism remain a relevant risk that threatens to disrupt global value chains, slow global growth and undermine the multilateral trading system.

Downside risks to the global outlook remain interconnected and the potential materialisation of any risk factor could lead to deterioration of financial market sentiment at a time when valuations appear stretched in many asset classes and leverage in the financial and non-financial

system remains elevated. This could result in a rapid tightening of global financial conditions, with knock-on effects for some emerging markets.

Downside risks beyond the near term also remain prominent in China and the US. The current stimulus measures in China could exacerbate financial risks and increase leverage more than currently projected, thereby amplifying the risk of a sharper economic adjustment in the future. In addition, the apparent policy shift towards more reinforced state and party capitalism could ultimately weigh on China's path of economic catching-up. Furthermore, in the medium-term, reduced fiscal policy space and elevated leverage in the corporate sector in the US, could lead to a deeper or more prolonged downturn once the cycle eventually turns.

3. FINANCIAL MARKETS

Deteriorated macroeconomic conditions and mounting risks led to a sharp reassessment of risk premia towards the end of 2018. This translated mainly into a flight to safety with falling equity prices, widening corporate bond spreads and declining sovereign bond yields. A reappraisal of monetary policy by major central banks helped to reverse this trend early this year. Sovereign yields have since continued to fall as investors no longer expected a near-term hike in US interest rates and accommodative monetary policy in the euro area is now expected to continue for longer. These expectations have led to a moderate depreciation of the euro and given a boost to global risk appetite, helping to spur a rally in equity markets.

As major central banks have reassessed their monetary policy ...

The US Federal Reserve has reassessed its monetary policy stance since the beginning of this year. After hiking its target range for the federal funds rate four times in 2018, the Federal Open Market Committee (FOMC) has this year repeatedly signalled its intention to be more patient in considering further adjustments. At its monetary policy meeting in March 2019, the FOMC indicated that no further rate hikes would be required in 2019. In addition, it announced that the unwinding of the Federal Reserve's balance sheet would stop at the end of September 2019 and that the pace of its balance sheet reduction would be slowed in the interim.

The ECB's Governing Council decided at its March 2019 monetary policy meeting that it will provide further monetary easing. In order to ensure that inflation is on a path towards its targeted level of close to, but less than 2% over the medium term, the ECB adjusted its forward guidance on policy rates and announced some additional measures aimed at preserving favourable bank lending conditions. To this end, the calendar-based leg of the ECB's forward guidance on the key ECB interest rates was adjusted to indicate its expectation that rates would 'remain at their present levels at least through the end of 2019'. This adjustment was considered necessary to signal the Governing Council's determination to provide the monetary accommodation needed for a sustained convergence of inflation in light of the sizeable downward revisions of the ECB staff's macroeconomic projections for real GDP growth (see Section I.4) and inflation in the euro area.

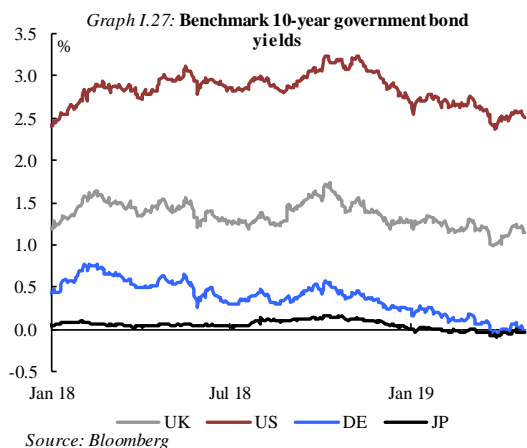
The ECB also announced a new series of quarterly targeted longer-term refinancing operations (TLTRO-III) starting in September 2019 and ending in March 2021, each with a maturity of two years. As these operations will be conducted at a rate indexed to the interest rate on the ECB's main refinancing operations over the life of each TLTRO, they should help to preserve favourable bank lending conditions for borrowers and support the smooth transmission of monetary policy. Finally, it was also decided that all of the ECB's lending operations would continue to be conducted as fixed-rate tender procedures with full allotment for as long as necessary, and at least until the end of the reserve maintenance period starting in March 2021 in order to maintain favourable liquidity conditions.

...the euro has weakened since the beginning of this year...

The euro has weakened by about 2% in nominal effective terms since the beginning of this year. This has happened against a background of weaker-than-expected growth in the euro area and the subsequent downward adjustment of market expectations about the ECB's monetary policy. The euro's depreciation has been rather broad-based: emerging economies' currencies generally appreciated against the euro, supported by vanishing expectations of further US monetary policy tightening, while rising concerns about the growth outlook in the euro area weighed on the euro against other major currencies.

... and financial markets turned from gloom to optimism.

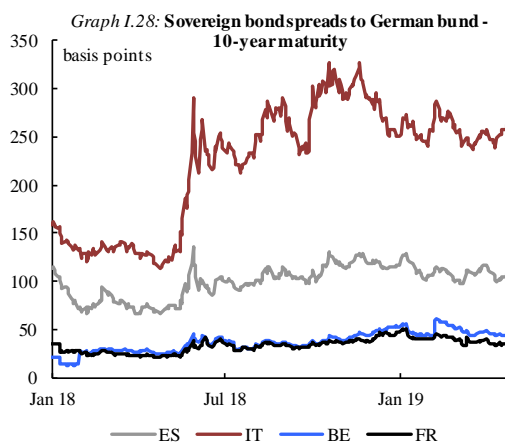
There has been considerable market volatility globally and in the EU over the last couple of months. Share prices, which fell significantly in December 2018, bounced back in the first months of 2019. Sovereign bond yields have been declining across the board since autumn 2018, reflecting deteriorated macroeconomic conditions and the more accommodative monetary policy stance adopted by the main central banks early this year. The decline in yields is evident in the German 10-year sovereign bond yield, which turned negative at the end of March 2019, adding to the total notional amount of global negative yielding debt, which exceed USD 10tn for the first time since September 2017.



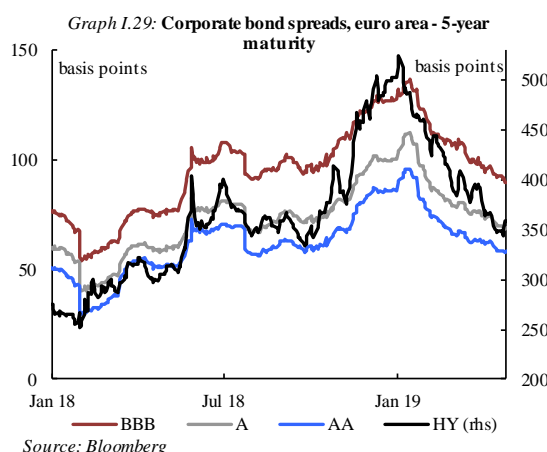
10-year sovereign interest rates in the US stood at 2.4% in April this year, i.e. close to the levels observed in January 2018, after having reached just over 3% in the second half of 2018 (Graph I.27). The development of 10-year sovereign yields in the UK has been similar, and now hover around 1.0%, down from around 1.7% in October.

In March 2019, the spread between Italian and German 10-year sovereign bonds fell below 250 basis points and remained close to that level in April, significantly below the 320 basis points seen on several occasions in autumn 2018 (Graph I.28). This suggests that market participants have become more sanguine about Italy's budget issues. Investor demand for Italian bonds has been strong lately, as suggested by a series of significantly oversubscribed auctions. Contagion to other Member States has been consistently limited and temporary. The spread between Spain's 10-year sovereign bonds and German bunds has remained

around 110 basis points since the start of 2018. Similarly, Ireland and Portugal's sovereign spreads and, to some extent Greece's, have reacted little to conditions specific to the Italian market.

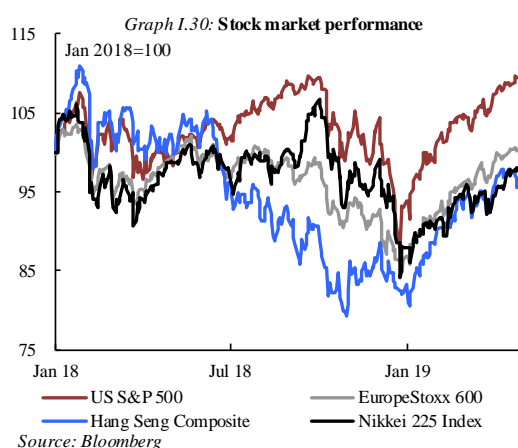


Risk premia for euro area corporate bonds rose slightly in 2018 from very low levels in 2017. 5-year BBB-rated corporate bonds displayed a 130 basis point spread in December 2018, a rise of about 50 basis points over 12 months (Graph I.29).⁽²¹⁾ Since January 2019, credit spreads have narrowed in line with the receding risk aversion observed in all market segments with 5-year BBB corporate bond spreads falling to just under 100 basis points in mid-April. Euro area high-yield corporate bond spreads have behaved similarly, falling from 500 basis points in December to around 390 basis points in April.



⁽²¹⁾ Empirical analyses find a dominant role of the global risk factor for explaining the widening spreads in 2018; see L. Boneva, G. Kidd and I. Van Robys (2019). 'Explaining the factors behind the 2018 widening in euro area corporate bond spreads'. *ECB Economic Bulletin* 3, pp. 31-4.

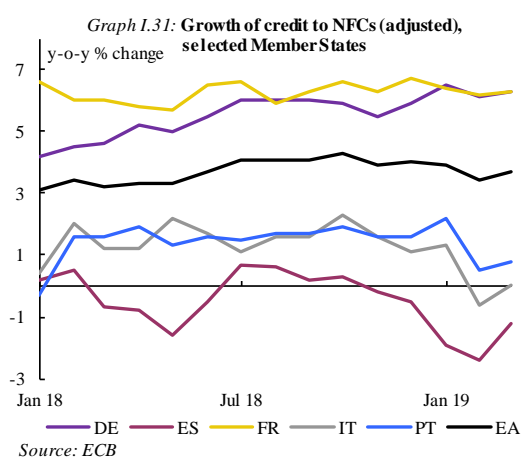
Global stock markets fell significantly and experienced high volatility in December 2018 but have since recovered all their losses (Graph I.30). Over the past months the performance of European stock indices such as the EuropeStoxx 600 (excluding dividends) has been relatively subdued compared US indices such as the S&P 500. The performance of Asian equity indices has been more mixed. While the Nikkei 225 has been roughly flat, the Stoxx Asia Pacific 600 has risen and Hong Kong's Hang Seng has declined. Within the EuropeStoxx 600 index, banks were the worst performing sector. This was mainly due to investor concerns about the banking sector's ability to raise profitability to sustainable levels (see Box I.2).



Bank funding to the real economy remained almost steady in the euro area...

Net lending flows to households and corporates in the euro area have remained positive. The annual growth rate of loans to the private sector (adjusted for loan sales and securitisation) increased to 3.2% in February 2019 from 3.0% the previous month. Among the borrowing sectors, the annual growth rate of loans to households stood at 3.3% in February, compared with 3.2% the month before; while the annual growth rate of loans to corporates rose to 3.7%, from 3.4% in January.

The annual growth rates of loans to corporates have diverged across countries since autumn last year (Graph I.31), staying above 6% in France and Germany, while decreasing in Italy and Portugal and turning negative in Spain, where loan repayments outweighed new loans. This sheds light not only on the demand for loans but also on the situation of banks and their lending activity in these countries.



Interest rates on loans to non-financial corporates in the euro area also have been rather stable, with a slight downward trend in 2018 and early 2019. Interest rates are around 1.5% or lower in Italy, France and Germany; while interest rates in Portugal are close to 2.5%. The low and stable level of interest rates in Italy and Spain combined with falling lending volumes since last autumn suggests declining demand and/or tightening non-price credit standards in these two countries.

Signals from the April 2019 ECB Bank Lending Survey reflected the accommodative monetary policy stance. Credit standards remained broadly unchanged for loans to non-financial corporates, while they tightened for household loans for house purchases, consumer credit and other lending to households. Banks' cost of funds and balance sheet constraints and the perception of higher risks attached to the economic situation and outlook contributed to a tightening of credit standards on loans to enterprises, mainly competitive pressures in the banking sector contributed to an easing of credit standards. Among the largest Member States, credit standards for households tightened mainly in Italy and Spain.

According to the Bank Lending Survey, in the euro area the demand for loans to non-financial corporates remained unchanged in the first quarter in 2019, but banks reported falling loan demand in Spain and Italy. This survey result was in line with the observation of declining loan volumes in these two countries in early 2019 despite low interest rates. Overall though, the low general level of interest rates and continued growth of fixed investment supported the demand for loans by corporates.

Table I.2:

Financing side - euro area and EU

(Annual percentage change)

	Euro area								EU					
	Spring 2019 forecast				Autumn 2018 forecast				Spring 2019 forecast				Autumn 2018 forecast	
	2017	2018	2019	2020	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020
Domestic non-financial private sector	2.7	2.7	3.0	3.4	3.5	3.7	4.0	2.6	2.9	2.5	2.8	3.8	3.8	4.0
(% of GDP)	85.2	84.1	84.2	84.4	85.2	85.2	85.7	84.7	83.5	82.9	82.4	84.8	84.9	85.2
- Credit to households	3.2	3.0	3.5	3.9	3.3	3.5	4.0	2.8	3.0	2.7	3.0	3.7	3.6	3.8
(% of GDP)	50.0	49.6	50.0	50.3	49.9	49.8	50.0	52.5	52.0	51.7	51.5	52.5	52.5	52.6
- Loans to non-financial corporations	2.1	2.3	2.3	2.5	3.8	4.0	4.1	2.3	2.6	2.2	2.4	4.1	4.2	4.2
(% of GDP)	35.2	34.4	34.3	34.0	35.3	35.4	35.6	32.2	31.5	31.2	30.9	32.3	32.4	32.6

Note: Figures unadjusted for sales and securitisation. Counterpart area is domestic (home or reference area).

Meanwhile, banks reported that the demand for housing loans increased in the first quarter in the euro area and in all large Member States. The percentage of rejected loan applications rose across all loan categories, and in particular for housing loans. For the second quarter of this year, banks expected a further tightening of standards for housing loans but some easing for loans to corporates and consumer credit. Demand for loans was expected to increase further.

Overall, euro area banks appear to have played their part in the effective transmission of the ECB's monetary policy. The key reasons for this were the ECB's use of non-standard policy measures, improved capital ratios, more stable funding structures, and a highly competitive environment among banks. However, banks continued to struggle with low profitability levels, which largely explained investors' negative perception of the banking sector (see Box I.2).

Looking forward, bank lending to the private sector is expected to remain positive thanks to an overall healthy banking system and further ECB support in the form of TLTROs. Credit to both households and NFCs is projected to grow this year and next (see Table I.2).⁽²²⁾

...in tandem with still rising market funding.

Market funding continued growing in the euro area. Net issuance of private euro-denominated long-term bonds expanded in early 2019 for all categories of issuers: corporates, banks and other financial intermediaries. However, the annual growth rate of the net issuance by corporates fell to 4.6% in February 2019, while banks and other financial intermediaries have increased their use of bond market funding. Net issuance by banks had

turned positive in mid-2018 and has been increasing since, growing at an annual rate of 2.9% in February.

Over the last few months, the contribution of bank lending to the overall debt funding of corporates has grown at an annual rate of around 3%, while the volume of market funding has grown at a more modest 1%. This is partly attributable to a more favourable evolution of funding conditions offered by banks as compared with markets where corporate bond spreads widened in 2018. As a result, the share of market funding in the total outstanding debt of corporates remained below 20%.

There has been growing concern about leveraged loans and higher indebtedness of low-credit-quality or highly leveraged corporates.⁽²³⁾ Although outstanding debt is significantly smaller for euro area corporates than for those of other geographic jurisdictions, this remains a significant concern, in particular as interest rates and the credit risk premia could increase over time, and as euro area banks and other financial institutions could be exposed to leveraged debt issued in other jurisdictions.

Equity net issuance by euro area enterprises grew at an annual rate of less than 0.5% in 2018. This moderate growth reflects the higher cost of equity compared to debt (the equity premium), and the effect of share buy-back programmes of certain large corporates, but it still represents an increase over the year before.

⁽²³⁾ See e.g. Adrian, T., Natalucci, F. and T. Piontek (2018). 'Sounding the alarm on leveraged lending'. *IMF Blog*, November 15.

⁽²²⁾ The figures in the table are unadjusted for sales and securitisation and therefore differ somewhat from those previously quoted in this section. The revisions from the latest Autumn Forecast are mainly driven by high levels of securitisation in Italy at the end of 2018.

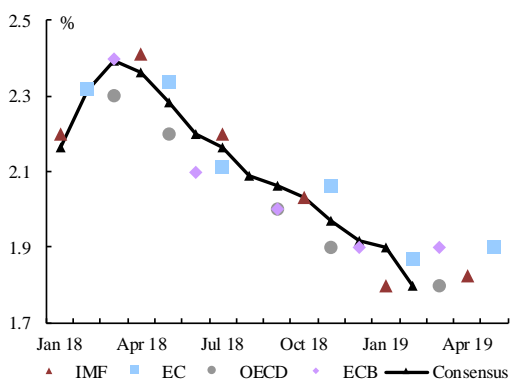
4. GDP AND ITS COMPONENTS

The economic expansion in the euro area and in the EU continued in 2018 at a pace of 1.9% and 2.0% respectively. This was markedly lower than in 2017, when economic growth got a push from external factors with net trade contributing massively. Without the sizeable carry-over from strong growth in 2017, the annual GDP growth rate in 2018 would have been lower.

Economic growth slowed in the context of diminished expectations...

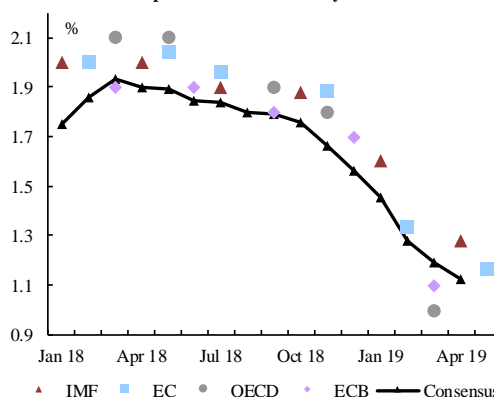
Economic activity in Europe missed expectations in 2018, taking forecasters largely by surprise. Accordingly, forecasters in international institutions (e.g. OECD, IMF), central banks (e.g. ECB) and the private sector (as covered by Consensus Economics) have revised downward their projections for euro area GDP growth successively. Since spring last year, first expectations for 2018 deteriorated markedly (Graph I.32) and, in the second half of the year expectations for 2019 were also revised lower (Graph I.33).

Graph I.32: Euro area GDP growth in 2018, forecasts published since January 2018



Note: The ECB and the OECD forecasts are working-day adjusted the IMF and EC forecasts are not adjusted. In 2018, the effect is estimated to be less than ± 0.1 pps.

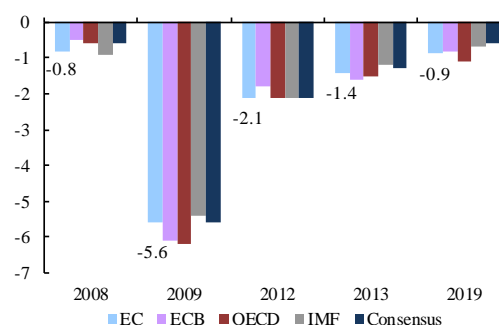
Graph I.33: Euro area GDP growth in 2019, forecasts published since January 2018



Note: The ECB and the OECD forecasts are working-day adjusted, the IMF and EC forecasts are not adjusted. In 2019, the adjustment is estimated to lower the GDP forecast by 0.2 pps.

In the recent economic history, such sharp downward revisions in euro area growth forecasts within 12 months are rare. Since 2007, forecasters have introduced similar sharp or even sharper downward revisions of their current year forecasts in spring only in the four years that were related to recessions. However, both in the 2008-2009 period and in the years 2012-2013 the size of revisions were mostly more substantial (see Graph I.34).

Graph I.34: Largest revisions in current-year GDP growth forecasts, euro area (2007-2019)



Note: Revisions in forecasts in spring as compared to the forecast one year before. EC (Spring), ECB (June projections), IMF (April WEOs), OECD (May Economic Outlook), Consensus Economics (March); for ECB and OECD in 2019: latest forecast used.

Against the background of such diminished expectations the discussion about the strength of the downturn of GDP growth has intensified in recent months. One key question is whether the moderation of economic growth marked a temporary weakness that will be followed by a rebound this year, or hints on an impending recession. To answer this question, it is necessary to identify the position of the EU economy with respect to the main determinants of economic growth such as the business cycle, the external

Table I.3:

Composition of growth - euro area

(Real annual percentage change)

	2017			2013	2014	2015	2016	2017	Spring 2019 forecast			
	bn Euro	Curr. prices	% GDP						2018	2019	2020	
				Real percentage change								
Private consumption	6058.3	54.1		-0.6	0.9	1.8	2.0	1.6	1.3	1.3	1.5	
Public consumption	2283.0	20.4		0.4	0.7	1.3	1.8	1.2	1.1	1.4	1.3	
Gross fixed capital formation	2302.8	20.5		-2.3	1.7	4.9	4.0	2.6	3.3	2.3	2.3	
Change in stocks as % of GDP	39.8	0.4		0.0	0.3	0.3	0.3	0.4	0.6	0.4	0.4	
Exports of goods and services	5295.9	47.3		2.2	4.7	6.6	3.0	5.2	3.2	2.3	3.0	
Final demand	15979.8	142.6		0.3	2.4	3.7	2.6	2.8	2.2	1.7	2.1	
Imports of goods and services	4774.5	42.6		1.5	4.9	7.6	4.2	3.9	3.2	2.8	3.3	
GDP	11208.5	100.0		-0.2	1.4	2.1	2.0	2.4	1.9	1.2	1.5	
GNI	11262.9	100.5		-0.2	1.2	1.7	2.1	2.6	1.9	1.2	1.5	
p.m. GDP EU	15385.8	137.3		0.3	1.8	2.3	2.0	2.5	2.0	1.4	1.6	
				Contribution to change in GDP								
Private consumption				-0.4	0.5	1.0	1.1	0.9	0.7	0.7	0.8	
Public consumption				0.1	0.2	0.3	0.4	0.3	0.2	0.3	0.3	
Investment				-0.5	0.3	1.0	0.8	0.5	0.7	0.5	0.5	
Inventories				0.2	0.3	0.1	0.1	0.0	0.1	-0.2	0.0	
Exports				0.9	2.1	2.9	1.4	2.4	1.5	1.1	1.5	
Final demand				0.4	3.4	5.2	3.7	4.0	3.2	2.4	3.0	
Imports				-0.6	-2.0	-3.1	-1.7	-1.6	-1.3	-1.2	-1.5	
Net exports				0.3	0.1	-0.2	-0.4	0.8	0.2	-0.2	0.0	

environment, and a number of exceptional factors which exert a more transitory or more persistent impact on economic activity. ⁽²⁴⁾

...with the cyclical explanation failing to explain the downshift...

One explanation of slowing growth could relate to a maturing business cycle in Europe. In principle, economies with a positive output gap could be expected to converge gradually towards their potential levels of output, which would imply growth rates temporarily falling below potential rates. However, in contrast to the US economy (see Section I.2), the aggregate output gap in the euro area and in the EU only turned positive in 2017, and only a number of (mostly smaller) Member States has reached sizeable positive output gaps in 2018.

⁽²⁴⁾ Moreover, the financial cycle could have been a trigger for slowing output growth, as suggested by the analysis of the economic and financial crisis. For example, the build-up of high private debt and stretched asset price valuations could have raised default concerns and led to a widening of corporate bond spreads and ultimately slower economic growth. At the current juncture, the analysis of financial market developments does not provide sufficient evidence in favour of such reasons for the slowing observed so far. See for further analysis, e.g. Borio, C., Drehmann, M. and D. Xia (2018). 'The financial cycle and recession risk'. BIS Quarterly Review, December, pp. 59-71; and Rünstler et al (2018). 'Real and financial cycles in EU Countries: stylised facts and modelling implications'. ECB Occasional Paper 205.

In the autumn, the estimated potential growth rate in the euro area implied a positive increasing output gap until 2020, but diminishing expectations about GDP growth have lowered the estimates of potential GDP growth for 2019 and 2020. The output gap estimates for the euro area have not remained unaffected and stand in the spring forecast in 2019 at 0.3% of potential GDP and in 2020 at 0.4%. This implies a rather modest change between the years and less than what a maturing business cycle would be expected to cause.

Other standard indicators that could hint at a maturing cycle, can at best only partly explain the slowdown in growth. A strong expansion that raises inflationary pressures and thereby triggers a monetary policy response that slows the expansion is definitely not in the cards. The over-accumulation of capital after strong investment growth that causes a cyclical weakness is also hard to expect against the background of Europe's long-standing investment weakness. Supply constraints have only started to become binding in a very small number of countries and sectors in the EU and recent business surveys suggested that supply constraints have actually been easing since early 2018.

Table I.4:

Composition of growth - EU

(Real annual percentage change)

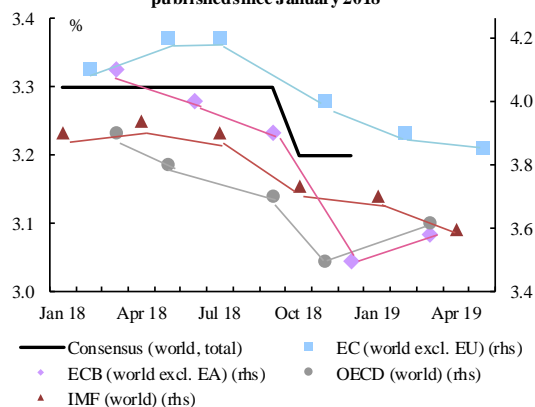
	2017		2013	2014	2015	2016	2017	Spring 2019 forecast			
	bn Euro	Curr. prices						% GDP	2018	2019	2020
								Real percentage change			
Private consumption	8546.0		55.5	-0.1	1.2	2.1	2.4	2.0	1.6	1.6	1.7
Public consumption	3098.7		20.1	0.4	1.1	1.4	1.7	1.0	1.1	1.6	1.3
Gross fixed capital formation	3102.7		20.2	-1.3	2.9	4.9	3.1	3.1	3.2	2.1	2.1
Change in stocks as % of GDP	62.8		0.4	0.1	0.4	0.3	0.4	0.4	0.6	0.5	0.5
Exports of goods and services	7029.9		45.7	2.3	4.7	6.3	3.2	5.4	3.0	2.5	3.1
Final demand	21841.0		142.0	0.7	2.8	3.7	2.7	3.0	2.3	1.9	2.1
Imports of goods and services	6455.2		42.0	1.8	5.2	7.2	4.3	4.3	3.2	3.1	3.3
GDP	15385.8		100.0	0.3	1.8	2.3	2.0	2.5	2.0	1.4	1.6
GNI	15387.8		100.0	0.1	1.6	1.9	2.1	2.8	2.0	1.4	1.6
p.m. GDP euro area	11208.5		72.8	-0.2	1.4	2.1	2.0	2.4	1.9	1.2	1.5
Contribution to change in GDP											
Private consumption				0.0	0.7	1.2	1.3	1.1	0.9	0.9	1.0
Public consumption				0.1	0.2	0.3	0.3	0.2	0.2	0.3	0.3
Investment				-0.3	0.6	0.9	0.6	0.6	0.7	0.4	0.4
Inventories				0.2	0.3	0.0	0.1	-0.1	0.2	-0.1	0.0
Exports				1.0	2.0	2.7	1.4	2.4	1.4	1.2	1.4
Final demand				1.0	3.9	5.2	3.8	4.2	3.3	2.7	3.1
Imports				-0.7	-2.1	-2.9	-1.8	-1.7	-1.4	-1.3	-1.5
Net exports				0.2	-0.1	-0.2	-0.3	0.6	0.0	-0.2	0.0

...whereas disruptive effects from the external environment....

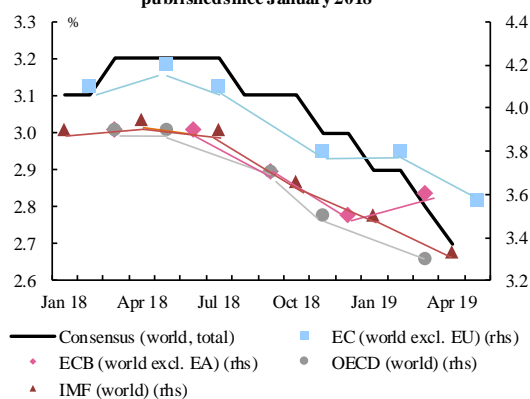
Towards the end of 2018, economic growth in the global economy fell short of what forecasters had expected. Accordingly, international institutions and central banks lowered their projections for both global growth and growth outside the EU throughout the second half of last year. These revisions were more limited for the year 2018 as the first half had built a strong basis (Graph I.35),⁽²⁵⁾ but more pronounced for economic activity in 2019, partly reflecting that the weaker last quarter in 2018, which lowered the carryover to 2019 (see Graph I.36). Given the important influence that the external environment has on the projections for the EU and the euro area, developments in the external environment deserve a closer inspection.

⁽²⁵⁾ See European Commission (DG ECFIN) (2018). European Economic Forecast – Autumn 2018. *Institutional Paper* 89.

Graph I.35: Global GDP growth in 2018, forecasts published since January 2018



Graph I.36: Global GDP growth in 2019, forecasts published since January 2018



Disruptive effects originating in the external environment of the EU economy have, at least partly, caused the slowdown (see Section I.2). This could include a more general trend towards slower globalisation or even a partial reversal thereof. For a long time, globalisation, mainly through trade, had a sizeable positive impact on economic activity, but the distributional implications of such growth have only in recent year attracted more attention.⁽²⁶⁾ Moreover, the occurrence of external imbalances has raised questions about the sustainability of existing trade patterns. These two issues have in some countries contributed to the increasing popularity of inward-looking policies (e.g. tariffs or withdrawal from economic partnerships), which could hamper further globalisation or even lead to some reversals, for example by distorting cross-border value chains and a move towards more regional value chains.⁽²⁷⁾ Together, these factors could lead to less synchronised business cycles, a higher share of domestically produced input and thus a decline in trade volumes.

Many of the processes related to globalisation and its reversal need some time to unfold and have therefore limited explanatory power for an abrupt slowing of economic growth. This does not apply to tariffs on international trade, which not only have direct effects on the goods concerned but also signalling effects. In that regard, the introduction of tariffs by the US and retaliatory measures in the EU and China in the first half of last year certainly affected the world economy. Evidence can be seen in the coincidence of the announcement and implementation of new tariffs in the first half of 2018, mainly affecting goods trade, and the weakening of manufacturing at that time. However, the global weakness of manufacturing also coincides with a period in which financial conditions were tightening due to monetary policy measures in the largest economies outside the euro area (see also Section I.1).

⁽²⁶⁾ See e.g. D. Rodrik (2017). 'Populism and the Economics of Globalization'. *CEPR Discussion Paper* 12119; Guriev, S (2018). 'Economic Drivers of Populism'. *American Economic Review Papers and Proceedings* 108:5, pp. 200-13.

⁽²⁷⁾ Based on detailed trade, a recent empirical study did not find evidence of a downturn in global value chains since 2010, but the study did not include data after 2016; see Gaulier, G., Sztulman, A. and D. Ünal (2019). 'Are global value chains receding? The jury is still out. Key findings from the analysis of deflated world trade in parts and components'. *Banque de France Working Paper* 715.

...and a confluence of sector and country-specific factors were strongly affecting economic activity.

While the impact of cyclical developments and the external environment may help to explain why growth has been slowing, the euro area has also been hit by a number of sector and country-specific factors that have weighed on economic activity throughout last year:

- Weak growth in the first half of the year was partly explained by *temporary domestic factors* such as strikes, extraordinary weather conditions not captured by seasonal adjustment, higher tax burdens for consumers, and unusually high levels of sick leave.
- In the second half of the year, *European carmakers*, particularly in Germany had problems with the introduction of a new Worldwide Harmonised Light Vehicles Test Procedure (WLTP) in September, which caused production disruptions (see Section I.1). These problems added to regulatory discussions on limitations to the use of Diesel cars in cities, the ongoing 'Dieselgate' affair,⁽²⁸⁾ some concerns about falling Chinese and global demand for European cars,⁽²⁹⁾ and trade distortions (e.g. tariffs on steel, new requirements due to the USMCA affecting overseas activities), but also structural challenges (e.g. transition to the production of hybrid and electric cars, automated driving)⁽³⁰⁾ amid the ongoing structural transformation of

⁽²⁸⁾ The notice of violation of the Clean Air Act to Volkswagen Group in September 2015 issued by the US Environmental Protection Agency resulted in what is called 'Dieselgate' and which also involved other manufacturers that manipulated the emissions of diesel engines. For an overview of implications see e.g. G. A. Cordano (2019). 'How do crises influence sales: the impact of the Diesel scandal on Volkswagen's and the automotive industry's sales.' Louvain School of Management and University of Cologne.

⁽²⁹⁾ Empirical analysis points to the particular importance of China for the automotive industry in Germany; see Maiza and R. Bustillo (2018). 'Analysis of the relevance of China's development for main European automotive manufacturing countries'. *Economia e Politica Industriale* 45:3, pp. 403-24.

⁽³⁰⁾ In an investigation of the position of the European car industry, Frederiksson et al (2018) concluded that Europe could still lead the global electric vehicle race, but it that it would have to step up to remain at the frontier of automotive technology; Frederiksson, G., Roth, A., Tagliapietra, S. and R. Veugelers (2018). 'Is the European automotive industry ready for the global electric vehicle revolution?'. *Bruegel Policy Contribution* 26, December.

the economy with a secular decline of manufacturing.⁽³¹⁾

- *Transport problems* caused by the water levels in rivers such as the Rhine. Roughly 80% of cargo transported by ship in Germany each year travels the Rhine, which links important industry locations in the North to Belgium, the Netherlands, the North Sea, and in the South to Switzerland. For most of the second half of 2018, water depths at Kaub, near the river's midway point hit 12-year lows, which impaired production in some sectors in countries where inland water transport is important.⁽³²⁾
- *Country-specific developments* weighed on economic activity in the second half of 2018, such as social unrest in France, political and policy uncertainty in Italy (with temporary increases in financial fragmentation), and political uncertainty in several countries with specific issues.

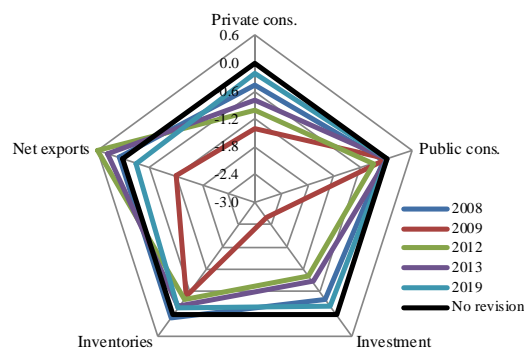
Overall, much of the euro area's decline in growth can be traced to two determinants. First, a less supportive external environment reflecting slowing growth outside the EU and fading global trade momentum (see Section I.2). Second, a number of domestic factors that have lasted longer than expected, including car-related distortions in the manufacturing sector, social tensions and both domestic and external policy uncertainty.

The variety of factors behind the slowing of economic growth in Europe marks a substantial difference from other periods with rapidly diminishing growth expectations. This is visible in an analysis of the revisions in the contributions of GDP components in the years with the largest revisions in GDP growth forecasts (Graph I.37).

⁽³¹⁾ Foreign trade has been shown to have slowed the secular decline of manufacturing in Germany, see e.g. W. Dauth, S. Findeisen and J. Suedekum (2017). 'Trade and manufacturing jobs in Germany'. *American Economic Review: Papers & Proceedings* 107:5, pp. 337-42.

⁽³²⁾ The Kiel Institute estimated that the low water levels in rivers dampened German GDP growth by 0.1 pps. each in the third and fourth quarter in 2018 (p. 2); see Kiel Institute (2018). 'Economic Outlook – German Economy'. Winter, December 11.

Graph I.37: Contributions to euro area GDP growth, revisions in years with major forecast revisions



Note: Revisions in the Commission's spring forecast for the current year from the spring forecast in the preceding year; years with the largest GDP forecast revisions in 2007-2019.

The revisions in other years can be traced to investment (2009, 2012, and 2013) and net exports (2009). Revisions underlying the diminishing expectations for euro area growth in 2019 were much broader-based, without any single GDP components taking special responsibility. As a result, the current economic outlook depends more on details in the development of GDP and all its components than at previous episodes of substantial downward revisions, which had more isolated causes.

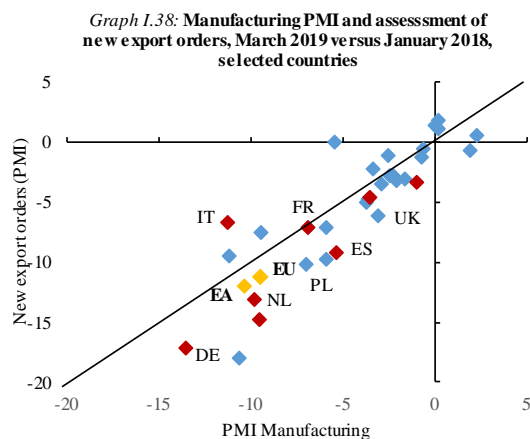
The slowing of economic growth has been apparent for more than a year...

The slowing of economic growth was first observed at the beginning of last year and continued over the following quarters. In the fourth quarter, euro area GDP expanded by 0.2% quarter-on-quarter. This was slightly higher than in the previous quarter when GDP grew by 0.1% (quarter on quarter), which followed a moderation to 0.4% in each of the first two quarters of 2018, down from 0.7% in all quarters in 2017. Half year-on-half year, GDP growth slowed in the first half of 2018 (from 1.4% to 0.9%) and further in the second half (to 0.5%).

A broad-based drop was registered in new export orders across emerging and developed economies alike, which was generally larger than and strongly correlated with the drop in headline manufacturing; and which echoed the significant slowdown in world trade growth in the second half of 2018.⁽³³⁾ (see Graph I.38). This is in line with

⁽³³⁾ The slowdown in exports growth took place against the background of less buoyant world trade, linked to lower global activity momentum and heightened trade tensions. The degree of trade openness plays a significant role in explaining the impact on euro area activity. See Banco de

data from the Centraal Planbureau (CPB) on world (excluding EU) import volumes (goods), which in the fourth quarter of 2018 posted its biggest quarterly contraction since early 2009.



Note: Using a sample of 34 countries and regions. Euro area countries in red.

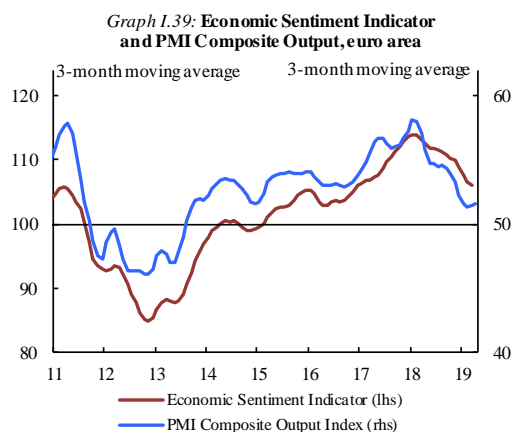
Foreign demand had an important role in the decline of export volumes in the first quarter of last year, and remained muted throughout 2018.⁽³⁴⁾ These demand-side pressures on economic growth are confirmed by the coincident decline in supply constraints (i.e. capacity utilisation) and output growth,⁽³⁵⁾ as well as a worsening in business and consumer sentiment throughout 2018.

...and surveys suggest subdued growth momentum has continued in early 2019...

Recent survey indicators show economic growth remaining subdued in early 2019, with some stabilisation at the beginning of the year although at lower levels than one year ago (see Graph I.39).

- In March, the Commission’s *Economic Sentiment Indicator (ESI)* decreased in both the euro area (by 1.6 points to 112.6) and the EU (by 1.9 points to 112.5), after remaining almost unchanged in February at 106.1 (-0.2 pts.). Following a decline in each of the seven

preceding months, the ESI stood in March at a 29-month low, but remained at a historically elevated level with all its components exceeding long-term averages. Over the quarter, the ESI also declined, consistent with growth stuttering again in the beginning of the year. Economic sentiment in the euro area has been weighed down the most by a decline in confidence in industry, and to a lesser degree by lower confidence among services, consumers and retail, whereas construction remained broadly stable.



Source: EC, IHSMarkit

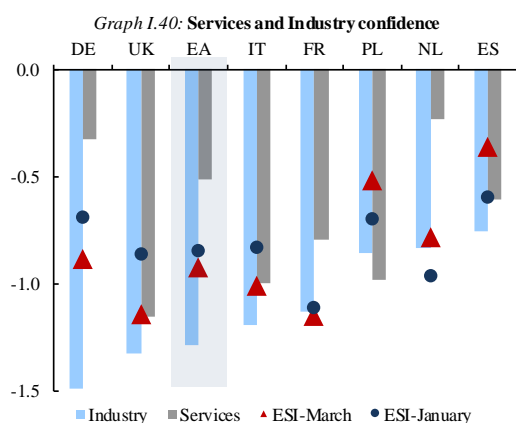
- In April, the *PMI Composite* (flash) fell again in the euro area, mainly driven by service sector weakness outside Germany and France. It continued to see an increased rate of decline of new orders relative to output and signs of excess capacity started to emerge, adding to worries about further weakness in the coming months. At 51.3 the index is lower than on average in the first quarter (51.3) and in the last quarter of 2018 (52.3).

The diverging performance between the manufacturing and the services sector continued in recent months (see Graph I.40), with the gap between both sectors’ readings reaching its largest since 2009. Were the downturn in manufacturing to persist, the resilience of the service sector would be further tested, and would not be expected to remain unaffected.

España (2019). ‘The impact of the slowdown in world trade on euro area exports’. *Quarterly Report on the Spanish Economy, Economic Bulletin* 1, Box 2.

⁽³⁴⁾ It is estimated that extra-euro area demand for euro area goods declined from an average quarterly growth rate of 1.6% in each quarter of 2017 to 0.5% in the first quarter of 2018.

⁽³⁵⁾ Notwithstanding faltering demand, supply conditions in the manufacturing industry remain tight and have become gradually more binding since mid-2017 as evidenced by a model decomposition of manufacturing PMI output. See Dossche, M., Martinez-Martin, J. (2018). ‘Understanding the slowdown in growth in 2018’. *ECB Economic Bulletin* 8, Box 3, pp. 51-4.



...with 'hard' data look more favourable for the first quarter.

Despite its limited availability, 'hard' data came in slightly stronger in recent months:

- In January, *new industrial orders* remained close to their lowest level since July 2017, on the back of a sharp drop in non-domestic orders.
- In February, *industrial production* in the euro area was marginally lower than in the months before, but at the same time the January reading was revised higher. In the first two months of 2019 it expanded compared to the previous quarter (0.8%). These figures were strongly affected by developments in car manufacturing (see Section I.1).

All in all, the euro area economy looks to have started 2019 with its growth momentum broadly unchanged, which suggests that it is still too early to call a turning point and that the temporary effects weighing on growth are still unwinding.

Growth to stay close to potential in 2019 and in 2020...

With a relatively less favourable external environment, the European economy is increasingly dependent on the fundamentals behind domestic demand. Over the forecast horizon, consumer spending and firms' investment decisions should continue to be supported by several factors: (i) a supportive macroeconomic policy mix, with an accommodative monetary policy stance and fiscal policy loosening in a number of Member States; (ii) improving labour market conditions, as reflected in further job

creation and strengthening wage growth, and (iii) continued improvements in corporate and household balance sheets, resulting in lower deleveraging needs, on average. Overall, GDP is now expected to grow by 1.2% this year in the euro area and 1.4% in the EU (-0.2 pps. compared to the winter forecast).

The expected slight pick-up in the quarterly profile forecast for 2019 is based on the assumption that trade and policy uncertainty will not escalate further, that activity outside the EU will bottom out and that the temporary factors that held back growth in the latter half of 2018 will gradually unwind. It also reflects the growth impulse of fiscal measures in some Member States, with domestic demand benefitting from a mildly expansionary fiscal policy stance (see Section I.9).⁽³⁶⁾

In 2020, with the fundamentals behind the euro area economy remaining relatively firm, euro area GDP growth is forecast to rise to 1.5% (1.6% in the EU). This includes an estimated working day effect of 0.2 pps., which reflects the relatively large number of working days in several Member States in 2020. It hides a slight loss of momentum in 2020, which is visible in the working-day adjusted quarterly growth rates that are forecast to remain at 0.3% (quarter-on-quarter) in all four quarters.

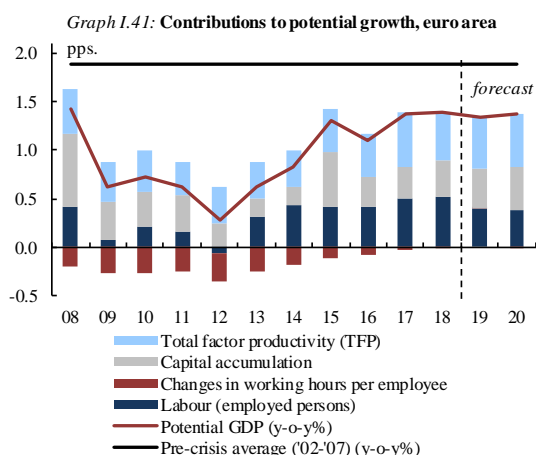
...resulting in a roughly stable output gap.

With economic growth in the euro area and EU expected to dip below potential for the first time in five years, the increase in the output gap foreseen in autumn is now expected to be delayed. By 2020, only a limited number of countries are expected to see sizeably larger output gaps compared to 2018. According to the Commission's estimates, the growth rate of potential GDP in the euro area is expected to remain slightly below 1½%, compared to an average real GDP growth forecast of about 1¼% between 2019 and 2020, on average. Despite improving since 2012, potential output growth is still projected to remain below its pre-crisis

⁽³⁶⁾ In an environment where interest rate are assumed to stay at low levels, the magnitude of fiscal spillovers is expected to be larger and should be taken into account when assessing the aggregate euro area fiscal stance. The transmission channels include trade, domestic prices and the real effective exchange rate. See Alloza, M., Cozmanca, B., Ferdinandusse, M. and Jacquinet, P. (2019). 'Fiscal spillovers in a monetary union'. *ECB Economic Bulletin* 1, pp. 59-69.

level, ⁽³⁷⁾ which is to a larger degree explained by a lower contribution from capital accumulation (Graph I.41).

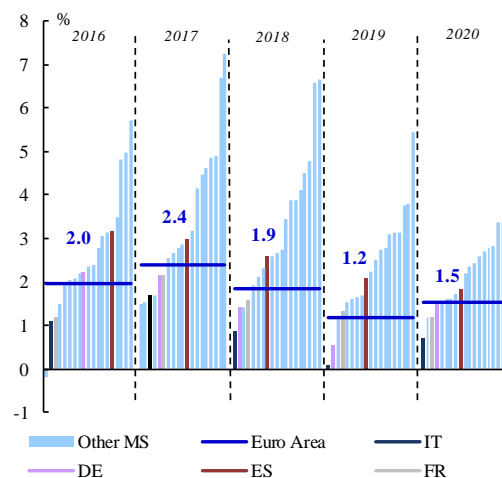
The labour market shortfall is expected to be offset by a slight improvement in the trend growth of total factor productivity, as well as by increasing contributions from capital, leading to a strengthening of potential growth over the forecast horizon. All in all, the euro area output gap is estimated to have become slightly more positive in 2018, and is expected to gradually narrow until 2020, when it is projected to be only marginally positive.



The slowdown in economic growth is expected to be widespread...

While the slowdown in 2018 was mainly driven by Germany and Italy, over the forecast horizon, the difference between the fastest and slowest growing economies is projected to diminish. Among the largest EU economies, Poland and Spain are projected to be economic outperformers, with real GDP growth rates above the EU average in both 2019 and 2020, while the Netherlands is expected to grow somewhat above average in 2019. In contrast, Italy, Germany, the UK and France are set to grow below average in both years (see Graph I.42). GDP growth in both years is set to be slower than in 2018 in all but five Member States. In the euro area, only Greece is forecast to see growth gaining traction, whereas Luxembourg is projected to see almost stable economic growth.

Graph I.42: Real GDP growth, euro area and Member States (2016-2020)



Note: in each period, the bars for all 19 euro area economies are ranked by size.

Differences in per-capita GDP growth are set to remain sizeable in 2019 and 2020, despite narrower ranges than observed for GDP growth. Among the larger Member States, only Spain and Poland to see faster than average per-capita growth in both years. Annual growth rates of more than 3% in both 2019 and 2020 are expected in eight new Member States, which should support economic convergence in the EU as aimed for by the use of EU funds (see also Box I.3).

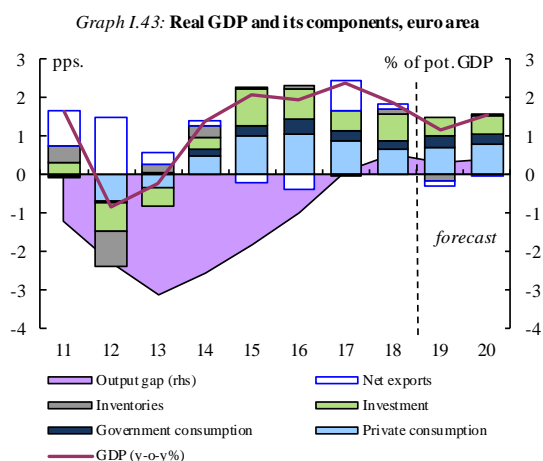
...with growth to be almost entirely driven by domestic demand going forward.

In 2018, the moderation in economic growth in the euro area was driven by a lower contribution from net exports compared to the previous year (from 0.8 pps. to 0.2 pps.), whereas domestic demand's contribution to growth remained robust at around 1.7 pps.. Given its share in GDP of about 55%, private consumption made the largest contribution to growth (0.7 pps.) although this was slightly down from 0.9 pps. in 2017. The fall was entirely compensated by a higher contribution from investment spending (0.7 pps. from 0.5 pps.), whereas the contribution from government consumption remained stable (at 0.2 pps.). All in all, this suggests that the spillover from lower export growth has so far been limited (see Graph I.43).

It should be noted, however, that these figures are highly sensitive to the inclusion of data from Ireland, where special features of the economy sometimes result in relatively large changes from one period to the other that have a substantial impact on aggregates in the euro area and the

⁽³⁷⁾ For a view on the concept of potential output, its measurement, recent drivers and the long-term outlook see Andersson, M., Szörfi, B., Tóth, M. and N. Zorell (2018). 'Potential output in the post-crisis period'. *ECB Economic Bulletin* 7, pp. 49-70.

EU.⁽³⁸⁾ Computing the euro area aggregate excluding Ireland, the decline in the growth contribution of domestic demand between 2017 and 2018 looks more pronounced (-0.4 pps. without Ireland, instead of -0.1 pps.), whereas the decline in the growth contribution of net exports looks less severe (-0.3 pps. without Ireland, instead of -0.6 pps.).



In 2019, the contribution to growth from domestic demand is expected to fall (from 1.7 pps. to 1.3 pps.), driven by lower investment growth and a negative contribution from the change in inventories (-0.2 pps.), while the contribution from net exports is forecast to turn negative for the first time since 2016 (-0.2 pps. from +0.2 pps. in 2018). The increase in euro area annual growth in 2020 is explained by a stronger contribution from private consumption together with a neutral contribution from net exports.

Private consumption lost momentum...

Private consumption has been the main driver of the economic recovery since its beginning in 2013, contributing in 2018 almost half of the GDP growth in the euro area, but less than the share of private consumption in GDP (about 55%) would have suggested. This mainly reflected its loss of growth momentum in the second half of the year when private consumption in the euro area expanded only by 0.3% as compared to the first half of the year, down from 0.7% in the first half of the year, with half of the decline attributable to

⁽³⁸⁾ These features are for example related to activities of multinational firms and include the relocation of intellectual property and contract manufacturing; see e.g. J. FitzGerald (2018). 'National accounts for a global economy: the case of Ireland'. *Trinity Economic Paper* 0418, Trinity College Dublin.

shrinking private consumption in Germany. In the fourth quarter of 2018, in the euro area the growth rate of private consumption rebounded slightly from the multi-year trough in the third quarter. The softening in 2018 lowered the annual growth rate in the euro area to 1.3% from 1.6% in 2017 (1.6% in the EU, 2.0% in 2017). The main support for private consumption came from increased employment and labour incomes. Favourable financing conditions provided mainly support in countries where households have predominantly a negative interest rate expenditure, i.e. where they would gain from a decline in interest rates.⁽³⁹⁾

The breakdown of private consumption expenditure shows that the slowdown in the euro area in 2018 was sharper for durable goods (-1.7 pps. to 2.7%) than for non-durable goods and services (-0.6 pps. to 1.1%). Following some growth moderation already in the first half of the year, households' expenditure on durable goods even declined in the second half, which can be associated with the decline in car sales and passenger car registrations in the same period. This can be interpreted as the demand-side counterpart to the supply-side effects of the fall in car production. More generally, the decline in expenditures on durable goods confirmed how sensitive this expenditure type is to the business cycle and suggested that the pent-up demand for durables might have been exhausted after several years of economic expansion that allowed households to increase spending on durables and offset earlier declines in their stock of durables.⁽⁴⁰⁾

...and signals about the short-term outlook are mixed...

Short-term indicators of private consumption are overall consistent with a continued rebound of consumer spending growth to the levels seen before the exceptionally weak second half of last year. While the survey-based indicators limit the scope for expectations of a quick rebound, available hard data could be interpreted as hinting on a slightly faster rebound. Discrepancies between indicators could also point to at large

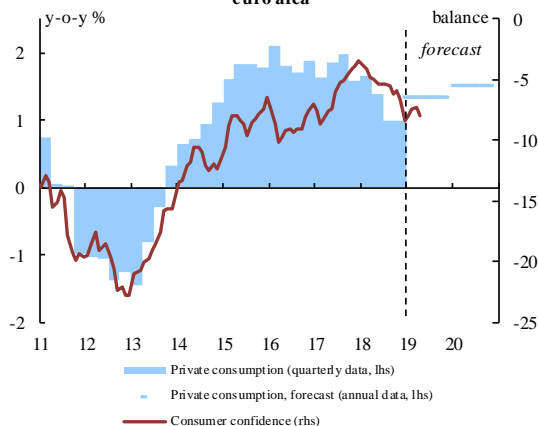
⁽³⁹⁾ This group includes Cyprus, the Netherlands, Portugal and Spain, whereas households have predominantly positive interest rate exposure in Austria, Belgium, Germany, Italy and Malta; see Tzamourani, P. (2019). 'The interest rate exposure of euro area households'. *Deutsche Bundesbank Discussion Paper* 01/2019.

⁽⁴⁰⁾ See Dossche, M., Forsells, M., Rossi, L. and G. Stoevsky (2018). 'Private consumption and its drivers in the current economic expansion'. *ECB Economic Bulletin* 5, pp. 86–110.

uncertainties weighing on consumers' spending decisions.

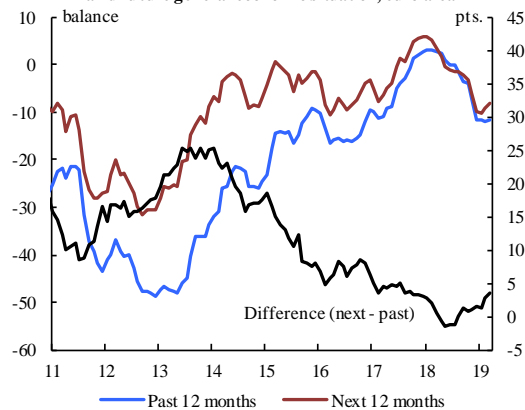
- In April 2019, the Commission's *consumer confidence indicator* (flash estimate) declined in the euro area, after it had rebounded in the first three months of the year (see Graph I.44). Consumers' *intentions for major purchases*, one its components, have deteriorated in the three months in 2019, but had reached in November 2018 the highest reading since 2000 and remained in March well above its long-term average.

Graph I.44: Private consumption and consumer confidence, euro area



- In the first three months in 2018, the *expectations about the economic situation* have improved more than the assessment of the current situation. After reaching a trough in mid-2018, the 'optimism bias', i.e. the difference between the assessment of the future and the past economic situation, has since increased to levels last seen in mid-2017 (see Graph I.45).

Graph I.45: Consumers' assessment of the past and future general economic situation, euro area



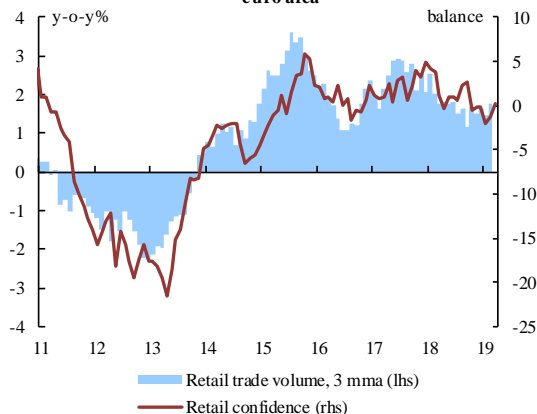
- Consistent with the expected moderation in labour market improvements, *consumers' unemployment fears* over the next 12 months have increased, particularly in the second half of 2018. This is also in line with surveys on firm's employment expectations (see Section I.6), which suggest that employment growth will slow further in the quarters ahead, particularly in manufacturing. Their level nevertheless remains above average, which suggests a continuation of employment growth in the euro area, supporting a positive outlook for private consumption in 2019.

- The Commission's *Retail Trade Confidence Indicator* increased somewhat in the euro area and the EU in the first quarter compared to the previous quarter and remained at historically high levels (Graph I.46).

In early 2019, 'hard' data indicated a continued rebound in private consumption growth:

- *Retail trade volumes* in the euro area (and the EU) increased in the first two months in 2019 and thereby almost fully offset their decline in December. The average of the first two months exceeded in both areas the average of the fourth quarter in 2018 and the reading in February was the second highest in the history of the series.

Graph I.46: Retail trade volumes and retail confidence, euro area



- *New passenger car registrations* growth in the euro area increased in the first quarter (7.4% q-o-q, up from -11.4% in the preceding quarter). Less binding supply constraints in the automobile industry should continue to support car sales growth going forward, while ongoing discussions about restrictions for the use of Diesel cars may continue to be detrimental (see

also Section I.1), compounded by its probable impact on sales of other types of cars via spillovers on prices of second-hand vehicles.

- *Loans to euro area households* for consumption continued to grow more quickly than loans for any other purpose, but have slowed compared to February 2018, when they recorded the highest growth rate since early 2007 (see also Section I.3). In this context, households intending to finance private consumption via consumer credit are set to benefit from favourable lending conditions, as reported in the ECB's April 2019 Bank Lending Survey.

Recent data releases overall bode well for the rebound of private consumption growth, but expectations about the strength of the rebound in 2019 and 2020 are contingent on a broad set of household fundamentals.

...but growth in 2019 and 2020 should remain robust.

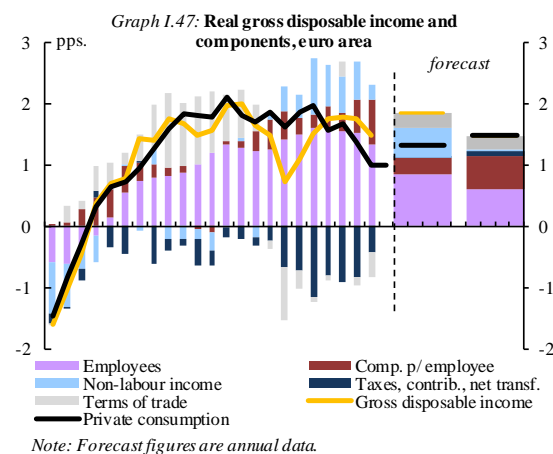
Private consumption is closely aligned with developments in households' income and wealth. Last year, households' disposable income were supported by wages increases (negotiated wages and actual wages)⁽⁴¹⁾ and employment growth. The compensation of employees grew at its fastest pace in ten years, leading to a pick-up in both nominal gross disposable income and real disposable income. The push from higher labour income has only been partly offset by higher negative contributions from direct taxes, social contributions and transfers, consistent with the cyclicity of automatic stabilisers.

In 2019 and 2020, gross wages and salaries in the euro area are expected to remain the main contributor to strong growth in nominal disposable incomes. Some country-specific factors are set to impact growth in employee compensations. In France, the CICE (Tax Credit for Competitiveness and Employment) is due to be replaced by a permanent reduction in social security contributions. While reducing employers' social security contributions

⁽⁴¹⁾ Growth in negotiated wages is more persistent than the wage drift, as it reflects established changes in pay for a certain period ahead. As such, negative changes in the wage drift driven by adverse macroeconomic conditions would have to be unusually large to offset recent dynamics, giving support to the outlook for wages. See Koester, G. and Guillonchon, J. (2018). 'Recent developments in wage drift in the euro area'. *ECB Economic Bulletin* 8, Box 5, pp. 60-3.

in 2019, it will have no impact on wages and salaries and, thus, on household purchasing power. Non-labour incomes are forecast to moderate in 2019, before starting to grow more in 2020.

The contribution from direct taxes, contributions and net transfers is expected to turn positive in 2019, when it is expected to post its first positive contribution in nine years. This reflects fiscal policy measures in a number of Member States, particularly in Germany, Italy and France. All in all, household nominal gross disposable income growth is forecast to peak in 2019 before slowing somewhat in 2020. With consumer price inflation expected to moderate in 2019 (see Section I.7), households' real disposable income growth should increase to 1.9% in 2019 (from 1.5%) before returning to 1.5% in 2020 (Graph I.47).



Favourable financing conditions and increases in households' net wealth are expected to exert positive effects in 2019 and 2020. The aggregate household balance sheet has continued to improve in 2018 and appears to be in a solid shape,⁽⁴²⁾ on average, amid a rise in households' net worth due in part to rising house prices and stock market gains. At the same time, the household debt service burden continues to diminish, in an environment of low interest rates and declining indebtedness. The debt to income ratio reached 94.5% in the fourth quarter of 2018, down from a peak of 99.3% in the fourth quarter of 2010. Also, the financing of private consumption via consumer credit should be less costly in an environment where the

⁽⁴²⁾ Pockets of vulnerability remain, however, particularly at the country level. While not high by international standards, household indebtedness remains above the benchmark level derived from the macroeconomic imbalance procedure (MIP). See ECB (2018). 'Macroeconomic and credit environment'. *Financial Stability Review*. November.

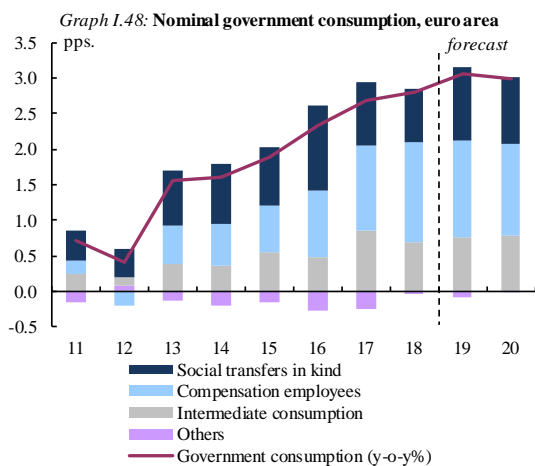
normalisation of monetary policy has been postponed.

The number of households with precautionary savings is expected to increase this year, slightly raising the average household saving rate and dampening the expansion of private consumption on aggregate. While consistent with consumption-smoothing behaviour, it is likely to be partly counteracted by the impact of persistently low interest rates on saving intentions.

Overall, private consumption should remain the main driver of the economic expansion, supported by continued, albeit slower, labour market improvements and higher wage growth. The weakness in the second half of last years implies that the continued rebound is set to start from a lower level with a smaller carryover than expected in the autumn. As a result, the annual growth rate in 2019 should remain roughly unchanged from 2018 at 1.3% in the euro area (unchanged at 1.6% in the EU) and then pick up to 1.5% in 2020 (1.7% in the EU).

Government consumption growth remained almost unchanged in 2018...

In 2018, government consumption remained almost unchanged in the euro area (1.1%, down 0.1 pps.) and in the EU (1.1%, up 0.1 pps.). Accordingly, its contribution to GDP growth varied only marginally. According to the sectoral breakdown, available up to the third quarter of 2018, this appears to be driven by relatively weak growth in the acquisition of goods and services, which was not compensated by a stronger pick-up in compensation of employees (see Graph I.48).



...but it is projected to gain pace compared to other GDP components.

In 2019, in most Member States' government consumption is expected to grow more strongly than in 2018 in the euro area (1.4%, up from 1.1%) and in the EU (1.6%, up from 1.1%). This reflects mainly an increase in intermediate consumption expenditure and continued strong growth of the compensation of employees on the back of wage increases in the public sector.⁽⁴³⁾ The forecast of slower growth of government consumption in the euro area and the EU in 2020 (to 1.3% in both areas) rests on a no-policy-change assumption, according to which measures are only factored into the forecast if they have been adopted and presented to national parliaments, or if they have been sufficiently specified.

The expansion of public consumption is projected to differ across Member States. It is forecast to accelerate strongly in Germany and the Netherlands, while remaining almost unchanged in France and slowing in Spain. In Italy, government consumption is forecast to contract this year before expanding somewhat in 2020.

Investment dynamics remain strong...

Investment in the euro area was the only demand component growing last year at a faster pace compared to the previous year (3.3% in 2018 following 2.6% in 2017). Excluding Irish data, euro area investment growth slowed somewhat from 4.2% to 3.1%, dampened by elevated uncertainty⁽⁴⁴⁾ and a downgraded global demand outlook, despite the persistence of favourable factors. Overall, investment made up 21.0% of GDP in the euro area (20.6% in the EU), the highest since 2009 (2008 in the EU), while persistent differences in the ratios of equipment and construction investment remain. Only the former surpassed its pre-crisis peak.

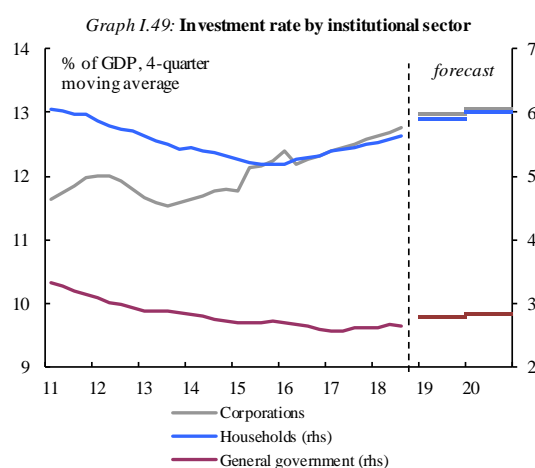
Differences between investment in the public and private sectors have also endured (Graph I.49). Public investment has increased only slightly after remaining at an all-time low reached in 2016 (2.6% of GDP). By contrast, private investment

⁽⁴³⁾ See also Attinasi, M., Berardini, F. and Palazzo A. (2019). 'Do public wages in the euro area explain private wage developments? An empirical investigation'. *ECB Working Paper Series 2231*.

⁽⁴⁴⁾ On the impact of heightened global uncertainty on business investment see e.g. Andersson, M. and B. Mosk (2019). 'Driving factors and risks to domestic demand in the euro area'. *ECB Economic Bulletin* 1, Box 2, pp. 25-30.

has been on an upward trend since 2013 reaching a post-crisis high (18.2% of GDP). Further ahead, public investment in the euro area is projected to grow by about 3.0% in both 2019 and 2020, lifting its share of GDP to 2.8%.

The profile of investment growth seems to suggest that it has already peaked. In the second half of 2018, investment was 1.9% higher than in the first half of the year, although the higher pace can be explained by a sharp pick up of investment in Ireland after a strong contraction over 2017. Investment growth excluding Ireland fell to 1.1% from 1.4% in the first half of 2018, when it had already moderated from the second half of 2017 (at 2.5%).



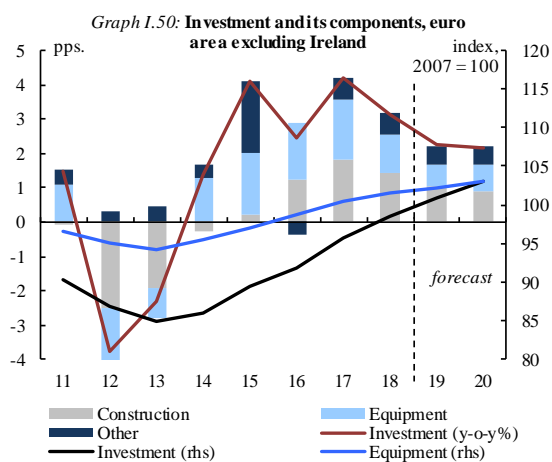
Overall, investment is projected to continue growing, although its pace will slow on the back of lower external demand growth. It should continue to be shored up by solid fundamentals, such as high capacity utilisation rates and low financing costs for investment spending.

The European Fund for Strategic Investments (EFSI) is expected to continue supporting investment in the EU in 2019 and 2020.⁽⁴⁵⁾ As of April 2019, operations approved under the Investment Plan for Europe were expected to trigger €393bn in investments. Around 945,000 small and medium-sized businesses are expected to benefit from improved access to finance.

The impact of these supportive factors is, however, set to be partly offset by declining profit

⁽⁴⁵⁾ Between 2021 and 2027, the InvestEU Programme will continue the work of the EFSI. It will bring together the multitude of EU financial instruments designed to support the funding of investment projects in the EU.

margins,⁽⁴⁶⁾ rising supply hindrances (particularly in the construction sector), and the end of targeted fiscal incentives in some Member States. Still-high uncertainty regarding the global outlook and demand growth are likely to weaken the impetus for investment, particularly in countries and sectors more exposed to external demand developments. In this context, firms may follow a wait-and-see attitude, postponing investment decisions, due to the reduced attractiveness of some investments, notably in capital-intensive sectors. While the forecast is based on the assumption that trade disputes⁽⁴⁷⁾ will not escalate further, persistent trade policy uncertainty is nevertheless expected to weigh on global trade.



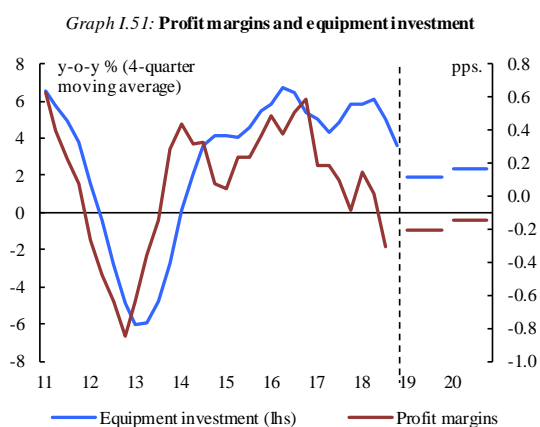
In 2019, investment growth is forecast to slow to 2.3% in the euro area (2.1% in the EU) and to remain steady in 2020 in both areas (Graph I.50). The marked slowdown in 2019 is particularly driven by an expected contraction in Italy, its first since 2014, compounded by the expected moderation in France, Spain and the Netherlands throughout the forecast horizon.

⁽⁴⁶⁾ Recent research suggests that the broad-based trend increase in gross saving and net lending of non-financial corporates across major industrialised countries over the previous two decades have not spurred higher fixed capital investment but led to the build-up of liquid financial assets. See Dao, M. C., and M. C. (2018). 'The rise in corporate saving and cash holding in advanced economies: aggregate and firm level trends'. *IMF Working Paper* 262.

⁽⁴⁷⁾ On the economic impact of tariff increases see Furceri, D., Aannan, S. A., Ostry, D. O., Rose, A. K. (2019). 'Macroeconomic consequences of tariffs'. *IMF Working Paper* 19/9. January. The impact is found to be dependent on the direction of changes in tariffs and on the position in the cycle.

...but further increases in equipment investment are limited...

Equipment investment rose by 4.4% in 2018, down from 50.0% in 2017 (see Graph I.51). In the second half of 2018, equipment investment growth accelerated slightly compared to the first half of the year (to 1.8%, from 1.6%), driven by investment in transport equipment. On a quarterly basis, equipment investment increased at an unchanged pace in the last quarter of the year.



Available high-frequency indicators for the first quarter show mixed signals for investment growth. On the one hand, *industrial production of capital goods* fell in February after rebounding in January. The rate of *capacity utilisation in manufacturing* in the euro area remained unchanged in the first quarter (survey conducted in January) at 83.6%, above its average level since 1990 (81%) for the seventh consecutive quarter. The rate of *capacity utilisation in services* increased by 0.8 pts. to 91.1%, also above the average since the start of the series in the third quarter of 2011 (89%).

At the same time, *profitability measures* are consistent with a less favourable outlook. After peaking at 22.4% in the third quarter of 2017, its highest since 2008, business margins (measured as the ratio of net operating surplus to value added) declined for four consecutive quarters, which is in line with the weakening export performance⁽⁴⁸⁾ and points to a further moderation in equipment investment.

⁽⁴⁸⁾ In the euro area, evidence has been presented on the close link between profitability measures and export performance; see Amici, M., Bobbio, E. and R. Torrini (2018). 'Patterns of convergence (divergence) in the euro area: profitability versus cost and price indicators'. *Italian Economic Journal* 4:3, pp. 367-84.

The Commission's surveys signal moderating confidence in the manufacturing, services and retail sectors in the first quarter of 2019. Despite remaining above long-term averages, this does not bode well for the investment outlook.

All in all, equipment investment is still set to be supported by above-average capacity utilisation rates in manufacturing and a high share of firms reporting equipment as a factor limiting production, despite falling somewhat more recently. Financing conditions are expected to remain favourable by historical standards, with corporate investment further benefiting from the ECB's decision to launch a third round of TLTROs, which has a built-in incentive mechanism to encourage banks to boost lending, as well as from its interest rate guidance. With labour market conditions tightening further in some Member States, and absent a renewed deterioration in sentiment, firms are also expected to be encouraged to invest, smoothing the impact of more binding supply constraints.

Overall, equipment investment in the euro area is expected to grow by 1.8% in 2019 and by 2.4% in 2020 (1.5% and 2.4% in the EU). This is particularly driven by Italy, where equipment investment is forecast to contract in 2019 and to grow only modestly in 2020. The expected slowing in equipment investment growth is broadbased among the largest euro area economies.

...whereas construction investment benefits from buoyant housing markets.

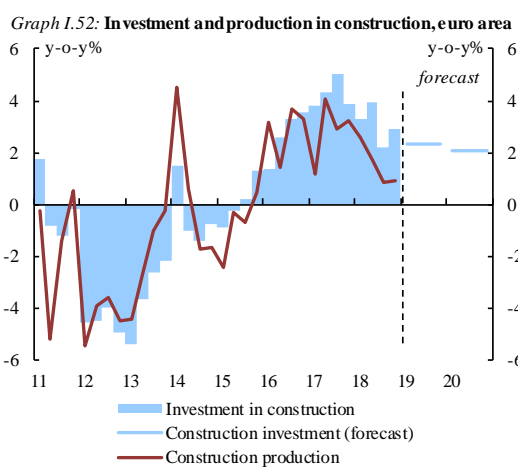
In 2018, construction investment registered its fourth consecutive year of recovery, growing by 3.2% in the euro area (3.3% in the EU), which was slightly lower than in 2017 (3.9%, 4.6% in the EU). After losing momentum in the first half of last year, however, construction investment growth remained steady in the second half (see Graph I.52). Its share of GDP stood in 2018 at 10% thus remaining clearly below its peak of about 12.8% in 2006.

Most signals for the near-term outlook remain positive for residential investment:

- In March, in the euro area the increase in the Commission's *Construction Confidence Indicator* partly offset the decline in February, fuelled by more optimistic views on the level of order books. In the first quarter it stood well

above the long-term average, but also higher than on average in 2018.

- In February, *construction production* increased strongly and data for January were revised up. As compared to February 2018, the output was about 5% higher in both the euro area and the EU.
- In February, the annual rate of growth in *loans for house purchases* remained at 3.5%, the highest rate since September 2011. The ECB's composite cost-of-borrowing indicator for such loans remained close to 1.8%.



- The number of *building permits* fell in the last quarter of the year (-1.5% after +0.7% in the third quarter of 2018) while growing by about 30% since 2015. In September, it stood close to its highest level since early 2011.
- *House prices*, as measured by the House Price Index, remained buoyant. In the fourth quarter, it rose by 4.2% in the euro area (the same in the EU) as compared to the same quarter in 2017, close to the 11-year high recorded in the first quarter of 2018 (4.5%). As household disposable incomes are on average growing quickly, such increases are consistent with a deterioration in the average affordability of housing.⁽⁴⁹⁾

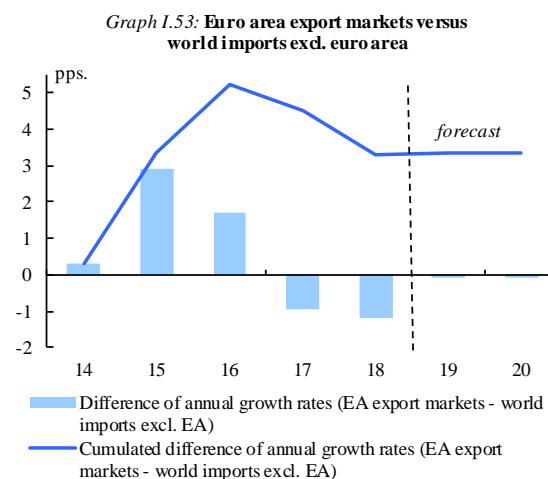
Financing conditions for households are expected to remain favourable, supporting the current

⁽⁴⁹⁾ House prices are only one of the factors determining housing affordability; others are for instance household debt, rental prices and the level of interest rates; see J. Le Roux and M. Roma (2018). 'Recent house price increases and housing affordability'. *ECB Economic Bulletin* 1, pp. 29-34.

momentum, although this should be partly offset by the expected slowing in household income growth in 2020. Also, adverse demographic trends and more stringent labour shortages, with increased evidence of difficulties in recruiting skilled labour, may pose some challenges. Over the forecast horizon, construction investment growth in the euro area is projected to remain strong, at about 2.4% in both 2019 and 2.1% in 2020 (2.2% and 1.9% in the EU). There are, however, differing trends among the largest countries. While growth is expected to slow substantially in the Netherlands and Spain, and to a lesser extent in France, it is forecast to remain broadly steady in both Germany and Italy.

With weaker export performance...

In 2018, the growth of exports of goods and services almost halved in the euro area (from 5.2% to 3.2%) and the EU (from 5.4% to 3.0%) and was more pronounced than the decline in the growth of world imports (excluding the euro area). This partly offset the relatively strong growth of the euro area's export markets in previous years (Graph I.53).



After growing by about a third as strongly as in the second half of 2017, euro area exports of goods and services remained broadly stable in the second half of last year (at 1.3%, from 1.0% in the first half of 2018 and 2.9% in the second half of 2017). This stabilisation at the aggregate level was, however, not widespread among the largest euro area economies. While Italy, France and the Netherlands saw a strong pick-up in the second half of the year, exports in Germany fell and remained almost unchanged in Spain. On a quarterly basis, export growth gained traction in

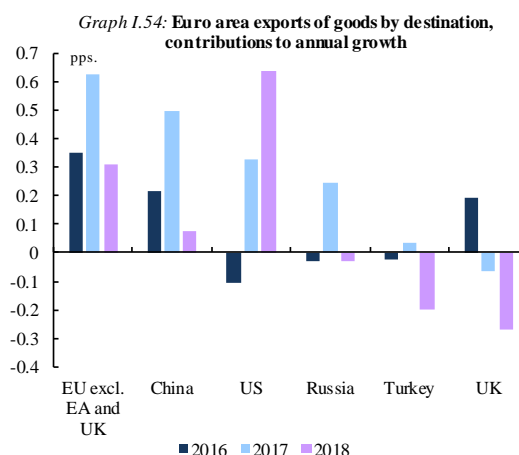
the fourth quarter of 2018 in the euro area while remaining below the rates seen over the previous year (1.2% q-o-q, after 0.2% in the third quarter).

While exports of both goods and services registered a deterioration over 2018, their dynamics differed. Goods exports slowed in both halves of the year (from 3.2% in the second half of 2017 to 1.1% and 0.7% respectively) whereas service exports rebounded strongly in the second half of 2018 (from 0.7% to 3.1%). In both cases, developments in the German economy were preponderant.

Against this background, according to external trade statistics, both extra and intra-euro area trade flows slowed sharply in 2018. Last year, extraeuro- area exports of goods grew by 1.7% (4.3% in 2017), which compares with an overall growth of 1.5% in intra-euro-area export volumes (3.3% in 2017). This also contrasts with the slowdown seen in 2016, where intra-euro area trade remained robust despite faltering demand outside the area. A concurrent contraction in the annual growth of trade flows has not occurred since the global financial crisis. Broken down geographically, extra-euro area goods exports over the year were dragged down mainly by lower demand from China, as well as lower exports to the UK and Turkey (see Graph I.54).

Faltering global demand for euro area goods exports is also confirmed by a significant slowdown in new industrial orders from non-euro area countries, as well as a significantly lower demand growth in export markets compared to 2017.⁽⁵⁰⁾ This is mostly reflected in the significant fall of euro area export growth in the first half of 2018, which was compounded by disruptions in the manufacturing sector over the second half of the year.

⁽⁵⁰⁾ The larger contributor to softer external demand during 2018 was Turkey, with its contribution falling from +0.4 pps. in 2017 to -0.4 pps. in 2018. The country saw major financial market tensions in the summer of 2018 amid an increase in inflation and deteriorating financing conditions.

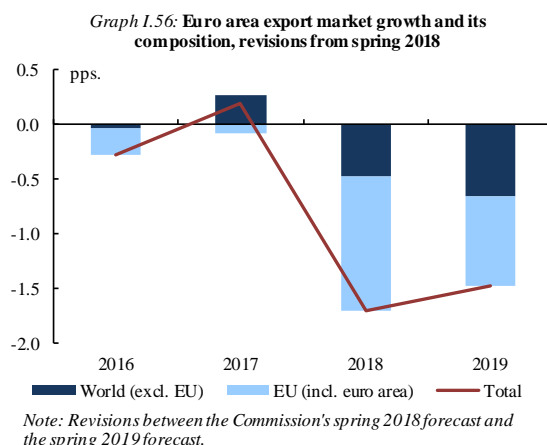
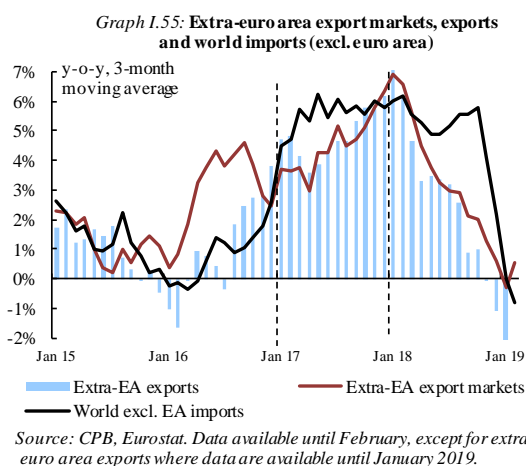


While the geographical orientation of euro area external trade, particularly its relatively large exposure to Turkey, as well as its product specialisation appear to have driven a wedge between the growth in euro area export markets and overall world import demand (excluding euro area) over most of 2018, this had closed by January 2019 (see Graph I.55).

In line with weakening final demand growth in 2018 (from 2.8% to 2.2% in the euro area, its lowest since 2013), import growth slowed to 3.2% over last year (from 3.9% in 2017). According to international trade data, extra-euro area imports rose by 2.2% in 2018 (3.8% in 2017), with intra-euro area imports slowing similarly (from 3.1 to 1.4%).

Still, net exports made a positive contribution to growth, although considerably less than in 2017e (0.2 pps. vs. 0.8 pps.).⁽⁵¹⁾ Euro area imports of goods and services, however, picked up in the second half of 2018, leading net exports to detract from growth for the first time since the second half of 2016.

⁽⁵¹⁾ The magnitude of the downward adjustment is considerably smaller when looking at the euro area aggregate excluding Ireland. Accordingly, net exports contribution declined from 0.3 pps. in 2017 to 0.0 pps., still higher than the negative contribution to growth seen in 2016.



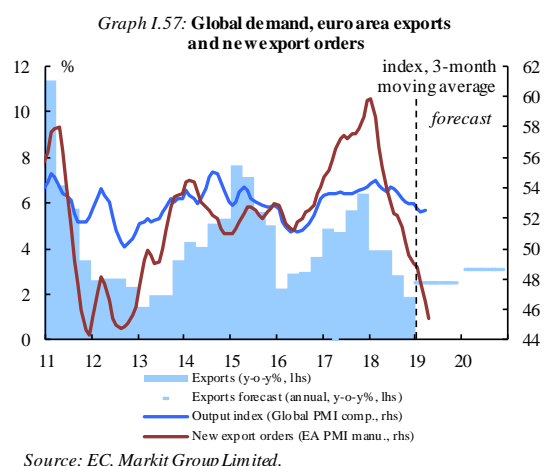
...net exports contribution to growth is expected to turn neutral.

The latest indicators signal that euro area export growth is likely to remain slow in the near term, and do not favour the expectation of a rebound.

- The assessment of *export order books* in the Commission's manufacturing survey deteriorated further in the first quarter of 2019, following its post-crisis peak in January 2018 and fell to levels last seen in early 2017.
- *Export expectations* in manufacturing as measured by the Commission's quarterly survey (survey conducted in January) fell in early 2019 for the fifth consecutive quarter to its lowest since the second quarter of 2013. The cooling in export prospects continued to be widespread across the largest Member States. This is further consistent with IHS Markit's *Manufacturing PMI new export orders* index which remained in contractionary territory in April (below the no-expansion threshold of 50), where it has been for seven months now.

Looking ahead, after expanding by 3.4% in 2018, demand for euro area exports of goods and services, is forecast to remain subdued, growing by 3.0% in 2019 and to pick up to 3.5% in 2020. The slowdown in 2019 is due to weakening momentum in trade growth, particularly in the last quarter of 2018, which carries over to 2019, thus weighing on the annual average (see Section I.2). The forecasts for growth in the euro area's export markets have also been revised down since the autumn for both this year and next. This reflects to a larger extent declines in the projections for export market developments in the EU than outside (Graph I.56).

All in all, euro area export growth is set to remain sluggish in 2019 at 2.3%, compared to 3.2% in 2018, and considerably slower than the 5.2% growth recorded in 2017. It is forecast to remain weaker than in 2018 both this year and next but should pick up somewhat in 2020 to 3.0% (Graph I.57). In the EU, export growth is forecast to slow to 2.5% in 2019 (from 3.0% in 2018) and to expand by 3.1% in 2020. This is in line with the expected profile of growth in the euro area export markets, but also reflects more binding supply constraints in some Member States. Exports are expected to continue to grow below external demand directed at euro area goods and services, leading to continued market share losses.



Euro area imports of goods and services are projected to weaken to 2.8% (3.1% in the EU) in 2019 before rising again to 3.3% in 2020, which partly reflects the expected slowing of investment growth.⁽⁵²⁾ As a result, net trade is projected to act

⁽⁵²⁾ Investment typically has the highest import content of all GDP demand components, see for example M. Bussière, G. Callegari, F. Ghironi, G. Sestieri, and N. Yamano (2013).

as a drag on growth in 2019 (-0.2 pps.) but should turn neutral in 2020.

As in previous forecasts, projections for 2019 and 2020 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK.

5. THE CURRENT ACCOUNT

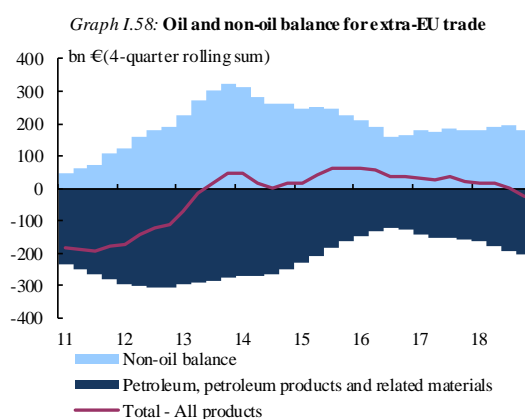
The current account surplus of the euro area narrowed to 3.6% of nominal GDP in 2018, down from the historically high level of 3.9% of GDP in 2017 reflecting primarily the decrease in the goods trade surplus. The adjusted current account surplus also eased to 2.9% of GDP in 2018, down from 3.2% in 2017.⁽⁵³⁾ The current account surplus as a percentage of GDP is expected to decline further over the forecast horizon, largely mirroring the fall in the merchandise trade surplus, to 3.3% in 2020, a quarter of a percentage point below levels projected in the autumn forecast.

The current account surplus moderated in 2018 form a high in 2017...

The year 2018 marks the reversal of the long-standing trend of a steady increase in euro area current account surpluses. This trend had been in place since the global financial crisis and reflected the confluence of several factors at various periods. These included the sharp decline in commodity prices in 2014 and 2015, gains in price competitiveness due to a weak euro, and sluggish investment spending coupled with high private sector savings. The gradual narrowing of the current account balance from 2018 can be viewed as reflecting the reversal of some of the above-mentioned factors. This includes the partial rebound in commodity prices since 2017, with crude oil prices raising import prices and deteriorating the terms of trade, an appreciation of the nominal effective exchange rate of the euro, and a strengthening of domestic demand, and investment in particular.

⁽⁵³⁾ 'Estimating trade elasticities: Demand elasticities and the trade collapse of 2008-09'. *American Economic Journal: Macroeconomics* 5:3, pp. 118-51.

⁽⁵³⁾ The adjusted current account and merchandise trade balance of the euro area and the EU take into account discrepancies between the sum of the trade balances of the Member States and the aggregate, which theoretically should not exist, but are usually observed due to reporting errors.



The adjusted merchandise trade balance peaked in 2016, in parallel with the fall in the oil-trade deficit to an all-time low that was driven by plunging oil prices (Graph I.58). Since then, the merchandise trade surplus has declined, reflecting the rebound in oil prices and the ensuing widening oil trade deficit. This more than offset the steadily rising non-oil trade surplus, which benefitted from factors such as strong export market growth.

...and is expected to decline gradually this year and next...

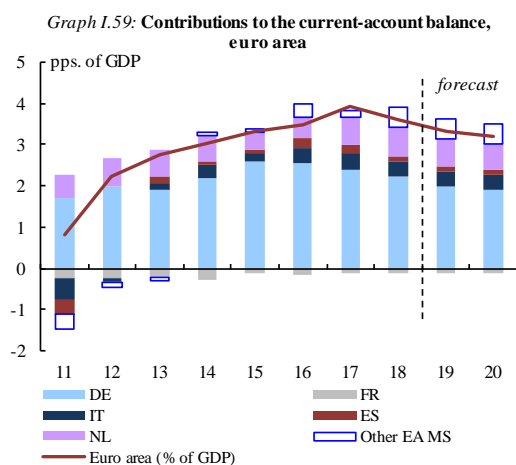
The euro area current account surplus is set to decline gradually this year, which mirrors mainly the expected decline in the trade balance, coupled with the relative stability in the balance of primary incomes and current transfers.

The declining surplus in trade in goods and services appears to be primarily a reflection of the weakness in merchandise exports in 2018. While the nature and durability of this soft patch remain to some extent a puzzle (see Section I.1), the collapse in euro area exports seems to reflect domestic factors (e.g. sectoral supply-side constraints), as well as external demand weakness (e.g. in Turkey, UK, China). Moreover, a strongly negative carryover from the downturn in 2018, and continued weak export performance in early 2019, coupled with broadly stable terms of trade, underpin the outlook for another weak year in exports (2019), followed only by a partial rebound in 2020. While import growth slowed as well in 2018, reflecting the broad-based weakness in domestic demand and is set to weaken further in 2019, it failed to offset the fall in exports, producing a continuous decline in the merchandise trade surplus.

The gradual decline in the current account surplus reflects different developments in the saving/investment relationships in the private sector and in the public sector. Private sector net lending is expected to continue its downward trend as investment remains relatively robust and increases in gross saving are set to be insufficient to keep pace. Net borrowing by the public sector is set to be broadly balanced in 2019 and 2020, with both investment and gross saving expected to remain relatively stable in terms of GDP in the near term.

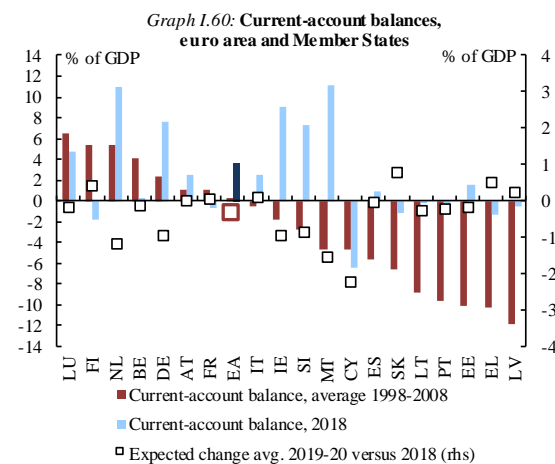
...with Germany and the Netherlands remaining the largest contributors.

In the past few years, a steadily rising number of Member States have contributed to the euro area's current account surplus. In 2018, 11 euro area Member States posted surpluses (down from 14 in 2017). However, the main contributors to the surplus remain Germany and the Netherlands, which jointly account for about 80% of the euro area's overall current account surplus (Graph I.59). Over the forecast horizon, their combined share is expected to remain broadly unchanged, despite a reduction in current account surplus in both countries.



The gradual decline in the euro area current account surplus will depend largely on reductions in these two countries (Graph I.60). Germany's large projected 1.7% of GDP reduction in the current account surplus between 2017 and 2020 largely reflects protracted problems in its export sector in 2018, which are expected to continue in 2019, and the steep rise in the price of commodities. In the Netherlands, similar problems exacerbated by some one-off factors are responsible for an analogous reduction in the

surplus (by 2.0% of GDP) between 2017 and 2020. Other countries contributing to the decline in the surplus in the forecast horizon are Belgium and Portugal.



Offsetting this trend are several euro area countries where current account surpluses grow slightly higher between 2018 and 2020 (Italy and Austria) or deficits shrink (Finland, Greece, Latvia, and Slovakia).

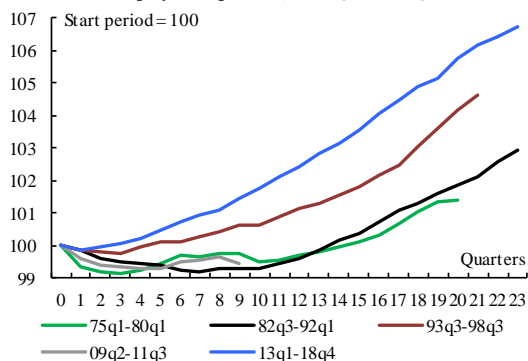
6. THE LABOUR MARKET

The slowing of economic growth in Europe has not yet stopped its labour market situation from improving but labour market indicators are usually lagging. Given the strong role employment creation has on labour incomes, household disposable incomes and private consumption labour-market dynamics have an important impact on the economic outlook.

So far, labour markets continue to improve...

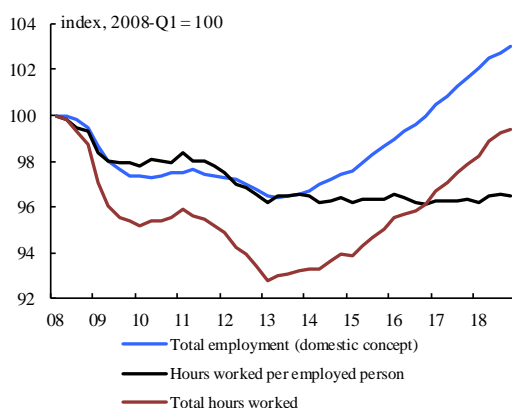
Throughout the economic recovery, the EU economy has recorded strong job growth. This can be clearly seen by comparing the euro area's current recovery with previous ones (see Graph I.61). Against the background of a rather subdued recovery in terms of output growth the 'job-richness' is the counterpart to rather weak labour productivity growth.

Graph I.61: Comparison of recoveries in the euro area, employment (persons), 1970-Q1 - 2018-Q4



Note: Recoveries according to decisions by the CEPR Business Cycle Dating Committee (data sources: AWM database and Eurostat).

Graph I.62: Employment and hours worked per employed person, euro area

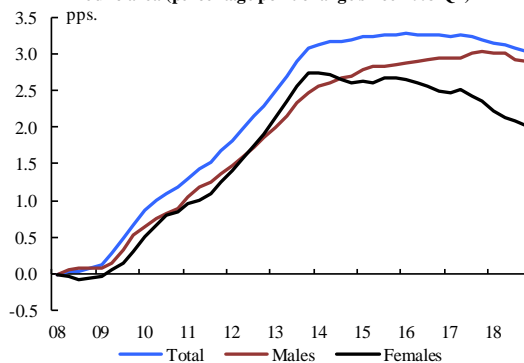


The latest data releases suggest that labour market conditions have improved further.⁽⁵⁴⁾

- The *unemployment rate* in the euro area has been on a downward trend since the start of the recovery in 2013, and in early 2019 fell to its lowest level since autumn 2008. Unemployment in the EU has declined in parallel, and in early 2019 was at its lowest level since the monthly data series was launched in January 2000. This has benefitted various population groups including young people and the long-term unemployed. The rates of youth unemployment (under 25 years of age) and long-term unemployment have fallen further last year in both the euro area and the EU.
- The latest data releases show that employment (number of persons) grew throughout last year (see Graph I.62). In 2018, the euro area economy created about 1½ million jobs (2¼ million in the EU28), slightly less than in each of the two years before. In the fourth quarter of 2018, the total number of people employed in the euro area was 3.0% higher than in the pre-crisis peak in the first quarter of 2008 (3.7% higher in the EU).

- In terms of the *number of hours worked*, the ongoing expansion has been more muted and still remains below the levels recorded before the crisis (Graph I.62). This development can be attributed to changes in the sectoral composition of employment and the increase in the share of part-time workers in total employment that had begun in the years leading up to the crisis. More recently, however, the *share of part-time employment* has been stable (see Graph I.63), as a slight increase in the share of male part-time workers among men in employment roughly offset the more pronounced decline in the share of female part-time workers among women in employment.

Graph I.63: Part-time employment as a share of total employment, euro area (percentage point change since 2008-Q1)



Note: four-quarter moving averages as compared to the base period 2008-Q1.

⁽⁵⁴⁾ For detailed analyses of labour market developments in the euro area and in the EU, see European Commission (DG Employment, Social Affairs and Inclusion) (2019). 'Employment and Social Developments in Europe'. *Quarterly Review*, March.

Table I.5:

Labour market outlook - euro area and EU

(Annual percentage change)	Euro area								EU							
	Spring 2019 forecast				Autumn 2018 forecast				Spring 2019 forecast				Autumn 2018 forecast			
	2017	2018	2019	2020	2018	2019	2020		2017	2018	2019	2020	2018	2019	2020	
Population of working age (15-64)	0.1	0.2	0.2	0.2	0.2	0.2	0.2		0.1	0.2	0.2	0.2	0.2	0.2	0.2	
Labour force	0.5	0.5	0.4	0.3	0.6	0.5	0.4		0.6	0.4	0.5	0.3	0.5	0.4	0.4	
Employment	1.6	1.5	0.9	0.8	1.4	1.0	0.9		1.5	1.3	0.8	0.7	1.2	0.8	0.7	
Employment (change in million)	2.3	2.3	1.4	1.2	2.1	1.6	1.3		3.5	3.1	1.9	1.6	2.8	1.9	1.6	
Unemployment (levels in millions)	14.7	13.4	12.6	12.0	13.5	12.8	12.1		18.8	16.9	16.1	15.4	17.1	16.2	15.6	
Unemployment rate (% of labour force)	9.1	8.2	7.7	7.3	8.4	7.9	7.5		7.6	6.8	6.5	6.2	6.9	6.6	6.3	
Labour productivity, whole economy	0.8	0.3	0.3	0.8	0.6	0.8	0.9		0.9	0.6	0.5	0.9	0.9	1.1	1.1	
Employment rate (a)	61.2	62.0	62.5	62.8	61.8	62.3	62.7		61.4	62.1	62.5	62.8	61.9	62.3	62.6	

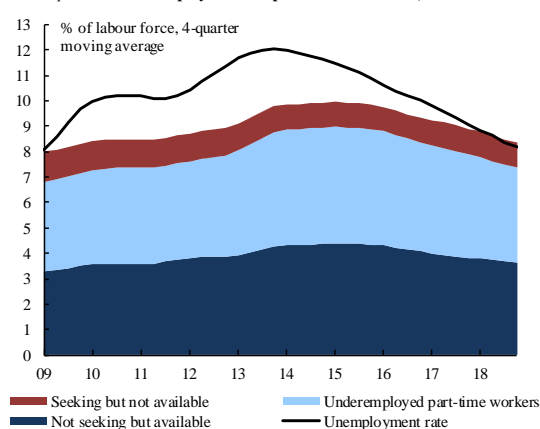
(a) As a percentage of population of working age. Definition according to structural indicators. See also note 6 in the Statistical Annex

- With the unemployment rate already very low, further employment growth requires a readily available supply of labour. Over the past few years there has already been a rapid expansion of the *labour supply*, which can be attributed to increasing participation rates,⁽⁵⁵⁾ migration within the EU towards Member States with low unemployment, and net migration into the EU. In 2018, the labour force expanded by 0.5% in the euro area (0.4% in the EU). The observed rise in labour market participation rates now evident for over a decade, mainly reflects increased activity among older people (55-64) and a parallel decline in the share of younger employees (15-24).

...with indicators of labour market slack receding...

The continued decline in the unemployment rate provides evidence of a tightening labour market. The ongoing improvement in labour market conditions is also visible in broader underemployment measures. Economic slack in the labour market, captured by measures of unemployment such as involuntary part-time work, people who do not search actively, or who are not available to take a job within two weeks, has diminished further in 2018 (see Graph I.64). This suggests that the potential additional labour supply coming from those outside of the labour force has fallen. Labour market slack coexists with structural skill mismatches, as skills shortages have been emerging, especially in some sectors.

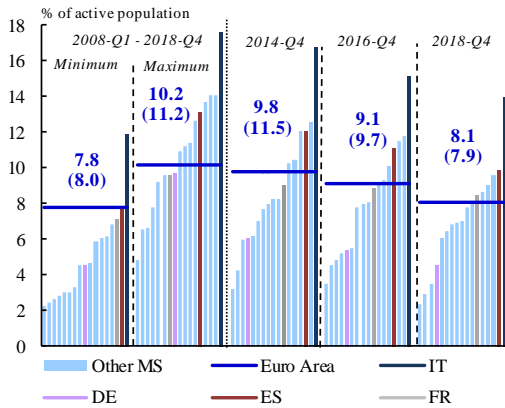
Graph I.64: Underemployment and potential labour force, euro area



The euro area aggregate masks some significant differences among Member States. For example, by mid-2018, in some countries (e.g. in Germany, Belgium and the Netherlands) and sectors (e.g. construction in Germany), the availability of labour had already become a concern for companies and shortages have risen up in the list of factors that constrain further employment growth. At the euro area level, these shortages had always been less pronounced and they even lost relevance in the second half of 2018 as an increasing number of respondents in the Commission surveys attached more weight to demand aspects as constraining their economic activity. Accordingly, measures of labour market slack differed from one country to another (see Graph I.65) with the largest discrepancies among the large euro area countries visible between Germany and Italy.

⁽⁵⁵⁾ See Grigoli, F., Kóczán, Z. and P. Topalova (2019). 'Labor Force Participation in Advanced Economies: Drivers and Prospects'. *IMF World Economic Outlook*, April, pp. 71-128 (chapter 2).

Graph I.65: Slack in the labour market, euro area and Member States (2008-2018)



Note: The slack measure is the sum of persons seeking but not immediately available, not seeking but available, and underemployed part-time workers (% of active population); in addition, figures in brackets show the EA unemployment rate. Bars show data for all euro area Member States, except MT and EE, ranked by size.

Another lens through which one can gauge labour market slack is the non-accelerating wage rate of unemployment (NAWRU). Its estimated recent decline has narrowed the gap with the actual unemployment rate, which implies a labour market closer to equilibrium.

...but slowing economic growth has started impacting on the pace of improvements.

The close link between the progress of the economic recovery and the improvement in labour market conditions could suggest that markedly slower economic growth may have a negative impact on the employment situation. In 2018, the decline in the pace of economic growth in the euro area by 0.5 pps. was accompanied by a decline in the rate of annual employment growth of only 0.1 pps. while labour market indicators continued improving. But labour market indicators usually lag developments in economic activity because employers try to limit adjustment costs related to lay-offs and new recruitment. With moderate economic growth lasting longer, the question arises as to how long and to what extent employment growth can continue.

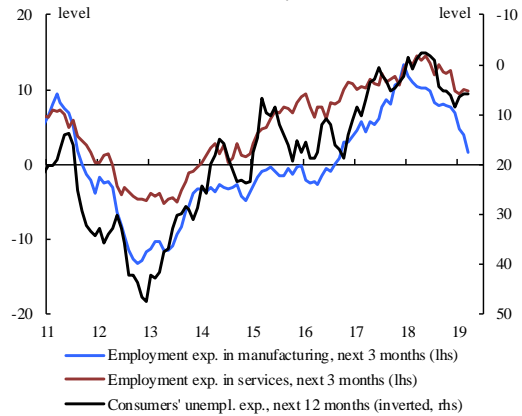
The near-term outlook is only mildly affected by slowing growth....

Short-term indicators at the end of the first quarter of 2019 point to some remaining strength in the labour market. Regarding the near-term outlook, the Commission's survey data on employment expectations suggest that net job creation will continue but at a more moderate pace. Overall, in both the euro area and the EU, the hiring intentions

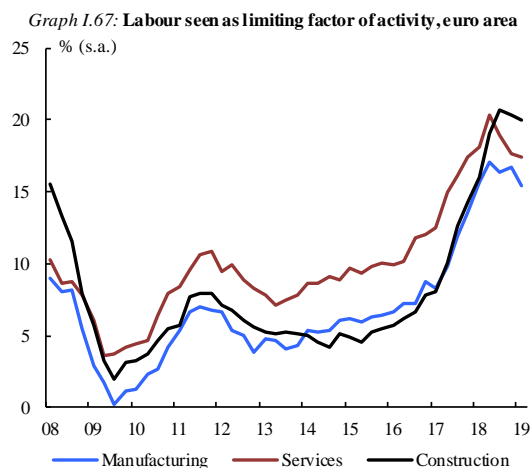
of firms remain above their long-term averages in all sectors.

- *Employment expectations* in the euro area's manufacturing and services sectors declined fairly steadily in 2018 and early 2019 and stood in March 2019 close to levels last seen in autumn 2016 (Graph I.66). The decline was especially pronounced in manufacturing. By contrast, in the construction sector, employment expectations were rather stable and close to the highest levels seen in the last decade. Consumers' unemployment expectations remain low.

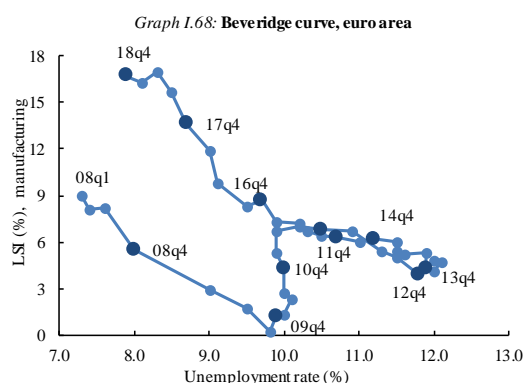
Graph I.66: Employment expectations, Commission surveys, euro area



- Fewer companies are seeing *labour constraints* but employment expectations remain compatible with continued employment momentum. Since mid-2018 surveys indicate that fewer firms are facing challenges from a tightening labour market (see Graph I.67). The percentage of euro area and EU firms mentioning labour as a factor limiting production in the manufacturing sector and in services has fallen from 17.0% and 20.3% respectively in the second quarter of 2018, to 15.5% and 17.5% respectively in the first quarter of 2019 (January 2019 survey).



- The *job vacancy rate* has been broadly rising since late 2014 in the euro area and in the EU. In the fourth quarter of 2018, the seasonally adjusted vacancy rate reached a new all-time high in both areas (2.3%), mainly pushed by a rising share of unfilled job positions in Germany, which lifted its vacancy rate from 3.1% to 3.2%. The high vacancy rate in Europe could be interpreted as both a signal of a tightening labour market (also reflected in the further inward shift of the Beveridge curve (Graph I.68)), and as an indicator of skill mismatches from lower employability. For example, it could be that fewer workers were able to accumulate skills while working ('learning on-the-job') during the period of high unemployment following the economic and financial crisis. This would hint at hysteresis effects that reduce future (potential and actual) employment and output growth.



Note: Labour Shortage Indicator (LSI), derived from quarterly Business and Consumer Surveys, manufacturing (% of manufacturing firms pointing to labour shortage as a factor limiting production).

...but the room for employment to increase further is more limited...

The pace of job creation over the next two years is projected to moderate, due to the lagged effect of slowing GDP growth on the labour market. And in some countries, bottlenecks and labour shortages suggest that slowing employment growth can be expected. In some Member States the fading of temporary fiscal stimuli is expected to exert a dampening impact on employment growth. Looking at factors that could support labour supply growth, participation rates have already moved to high levels and the integration of refugees is progressing particularly in certain countries. Over time, the weakness of the manufacturing sector should raise the relative importance of the more labour-intensive services sector.

Evidence of an expected rebound in labour productivity, which could dampen employment demand, has yet to emerge. In fact, in the last quarter of 2018, labour productivity even declined in the euro because the slowdown of economic growth was more pronounced than the slowdown of employment growth. In countries with relatively tight labour markets, labour hoarding played a role, as companies tried to avoid future recruitment difficulties, which could have lowered aggregate productivity. But at the same time, a tighter labour market should have encouraged job-to-job transitions that could also have led to more efficient and thus more productive job matches.

Overall, the outlook for employment growth looks slightly weaker than in the autumn. In the euro area, the number of employed persons is expected to increase by 0.9% in 2019 and 0.8% in 2020 (0.9% and 0.7% in the EU), lower than the 2018 expansion of 1.3%.

...and the unemployment rate is projected to decline more slowly...

Although employment growth is projected to slow, it should still be sufficient to lower unemployment rates further, because it is set to exceed the growth of the labour force, which is expected to grow in the euro area by 0.4% in 2019 and by 0.3% in 2020 (0.5% and 0.3% in the EU). Despite adverse effects from population ageing, the expansion of the labour force is driven by ongoing increases in labour market participation rates despite faster population ageing, the net immigration of workers and the integration of refugees.

Unemployment in the euro area is forecast to fall from 8.2% of the labour force in 2018 to 7.7% in 2019 and 7.3% in 2020; while in the EU it is set to fall from 6.8% in 2018 to 6.5% in 2019 and 6.2% in 2020. At these levels, unemployment is expected to fall below its pre 2008-2009 crisis levels in both the euro area and in the EU. According to updated estimates, in 2019 in the euro area the actual unemployment rate is expected to fall below the non-accelerating wage rate of unemployment (NAWRU), a proxy of structural unemployment and thus a measure of spare capacity in the labour market.⁽⁵⁶⁾ In the EU the actual rate has fallen below the NAWRU in 2018.

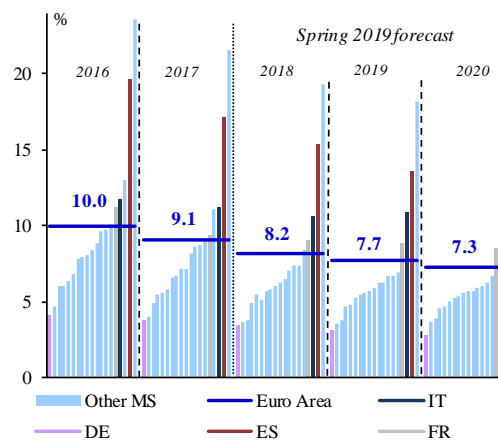
...across most Member States with disparities gradually diminishing further.

While the continued improvement in labour market conditions has been broadly shared across Member States, the levels of labour market indicators such as the unemployment rate still varies significantly. Looking forward, the overall picture in the labour market is projected to improve further as the result of the recent economic expansion, with unemployment rates falling in most Member States and employment growing almost everywhere. Despite moving in the same direction, large differences between unemployment levels are still apparent (see Graph I.69).

Although all Member States have recorded falling rates of unemployment in the past four years, the group of countries with above-average rates has been rather stable in the euro area. In 2018, three large Member States (Spain, Italy, and France) along with Greece and Cyprus formed that group, with only the latter expected to leave the group in 2019. In 2019, unemployment is forecast to stop declining in a few Member States in the euro area (Italy and Malta) and outside the euro area (Czechia and Sweden). While sharing this outlook, the countries concerned exhibit rather different labour market situations. In all except Italy, the end of the decline in the unemployment rate

coincides with levels well below long-term averages.

Graph I.69: Unemployment rate, euro area and Member States (2016-2020)



In each period, the bars for all 19 euro area economies are ranked by size.

There are several explanations at hand for persisting differences in the labour market situation of Member States. Apart from differences in the speed and size of the recovery after the economic and financial crisis in 2008-2009 and the euro area recession in 2011-2013, differences in labour market institutions, structural features and the progress with implementing reforms contribute to explanations. A feature more generally observed is the lack of labour mobility across countries.

Looking ahead, labour market differences are expected to continue narrowing as the expansion continues. However, expectations concerning the narrowing of the range of unemployment rates in the euro area in 2019 (between 3.1% and 18.2%, and thus only 0.1 pps. wider than expected in the autumn) and in 2020 (between 2.8% and 16.8%, also 0.1 pps. wider than in the autumn) have remained almost unchanged.

7. INFLATION

Inflation in the euro area and the EU rose in 2018, with the increase mainly driven by high contributions from energy prices. This means that the improvement in the labour market, including employment growth and rising compensation per employee levels, has yet to exert a noticeable impact on inflationary pressures. Moreover, as economic growth slows, any pick-up in inflation is expected to be delayed.

⁽⁵⁶⁾ The estimation of natural rates of unemployment is subject to uncertainty, for instance related to the possibility that economic expansion has removed more from the crisis legacy than envisaged in the central scenario and entailed a reversal of crisis-related hysteresis. For example, monetary policy could have had persistent effects on the natural unemployment rate and potential output; see also European Commission (DG ECFIN) (2017), 'How persistent are crisis effects in the euro area?'. *European Economic Forecast – Winter 2017*. Institutional Paper 48, pp. 10–14; or for a discussion O. J. Blanchard (2018). 'Should we reject the Natural Rate Hypothesis?' *Journal of Economic Perspectives* 32:1, Winter, pp. 97–120.

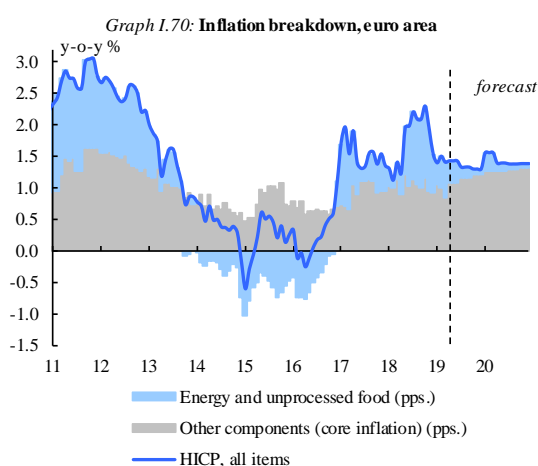
Table I.6:

Inflation outlook - euro area and EU

(Annual percentage change)	Euro area							EU						
	Spring 2019 forecast				Autumn 2018 forecast			Spring 2019 forecast				Autumn 2018 forecast		
	2017	2018	2019	2020	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020
Private consumption deflator	1.4	1.5	1.4	1.4	1.7	1.8	1.6	1.6	1.7	1.5	1.6	1.8	1.8	1.7
GDP deflator	1.1	1.4	1.6	1.6	1.5	1.7	1.7	1.4	1.6	1.8	1.8	1.6	1.8	1.8
HICP	1.5	1.8	1.4	1.4	1.8	1.8	1.6	1.7	1.9	1.6	1.7	2.0	2.0	1.8
Compensation per employee	1.6	2.2	2.0	2.2	2.3	2.0	2.4	2.1	2.8	2.6	2.8	2.7	2.6	2.8
Unit labour costs	0.7	1.9	1.7	1.5	1.6	1.2	1.5	1.2	2.2	2.1	1.8	2.0	1.5	1.8
Import prices of goods	3.5	2.7	1.1	0.9	2.0	1.5	0.8	3.6	2.8	1.2	0.9	2.2	1.7	0.9

Headline inflation fails to pick-up ...

Headline inflation in the euro area, as measured by the Harmonised Index of Consumer prices (HICP), averaged 1.4% in the first quarter of 2019, lower than projected in the winter (see Graph I.70). This rate is also lower than the average of 1.8% registered in 2018, but just above the 1.3% in the same quarter of 2018. Headline inflation in the first three months was supported by still elevated energy price inflation – which increased to 5.3% in March, up from 2.7% in January - reflecting a lower euro exchange rate against the USD, higher administered energy prices and some base effects stemming from last year's energy price levels. Nonetheless, energy inflation is well below the 8.4% average registered in the fourth quarter of 2018 and is expected to moderate further as some negative base effects kick-in in the second and third quarter of this year at the assumed future energy prices.



Food price inflation⁽⁵⁷⁾ moderated somewhat in the first three months of 2019, especially because

⁽⁵⁷⁾ As outlined in Eurostat's News Release of 22 February 2019, there has been a methodological update which affected the composition and weight of both processed food and unprocessed food inflation and resulted in a

of developments in the volatile sub-component of unprocessed food prices. The latter have been dampened by some supply factors, such as weather and harvesting conditions.

...and core inflation remains subdued...

Core inflation, which captures all items except energy and unprocessed food, remained at its 2018 average pace of 1.2% in January and February but declined to 1.0% in March against the background of declines in non-energy industrial goods inflation and services inflation.

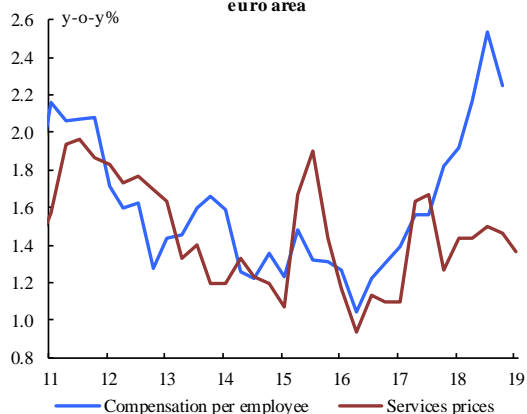
The decline of non-energy goods inflation to 0.2% in March stood broadly within the narrow range the series has moved in over the past two years. The weakness in the manufacturing sector since the second half of 2018 and the moderation in oil prices may limit upward pressures in non-energy industrial goods. Moreover, capacity utilisation and pricing intentions across the euro area, as reported by corporate survey respondents, declined somewhat early this year and may reduce pipeline price pressures in the future. In fact, industrial producer price inflation in the manufacturing sector fell further in the first quarter of 2019 from the highs registered in the first half of 2018. The decline of the euro against the US dollar seems to have had only a limited pass-through effect on domestic pipeline price pressures.

Services inflation - the main component of domestic price pressures with a weight of around 52% in the core consumption basket and usually correlated with wage growth – has remained subdued (see Graph I.71). The decline in services inflation to 1.4% in February and then again to 1.1% in March was stronger than expected, although it also reflects a negative base effect due to an uptick in the monthly change during the same

statistical break in the series between December 2016 and January 2017. For more details, see Box I.4.

period of last year. Specifically, February and March saw steep declines in the categories of transport services, communications and package holidays and accommodation, whereas the other categories were stable. Amid continuing house price increases – which registered a robust annual increase of 4.2% in the fourth quarter of 2018 in both the EU and the euro area - the component of services inflation related to housing (with a weight of around 10% in the consumption basket), has been stable since 2016 with only a marginal uptick in October last year. Increases in house prices tend to shift demand towards renting due to declining affordability and thereby puts upward pressure on rents. So far, the reported growth in house prices is not having the expected impact on this component of inflation, because rising incomes may have mitigated the impact of house prices on affordability.

Graph I.71: Compensation per employee and services inflation, euro area

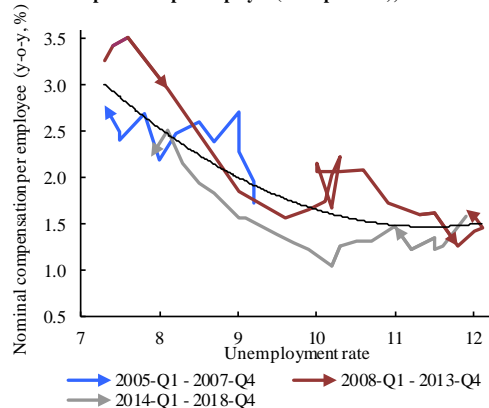


... with a delayed transmission of higher wages into prices.

The pass-through of higher wage growth to underlying price pressures has so far not materialised as expected and with the recent weakening in activity is set to take longer than previously anticipated. Consistent with the insights of a wage Phillips curve, the closing of the output gap and a steady decrease in unemployment throughout the year have provided support to wages in the euro area (Graph I.72). Indeed, growth in euro area compensation per employee continued to increase further on the dynamism of 2017. It reached 2.3% in the fourth quarter (year-on-year) of 2018 and averaged 2.2% for the whole year, up from 1.6% in 2017. This upward dynamic was also visible in negotiated wages, which increased by 2.2% in the fourth quarter. The strengthening of wage growth reflects a

combination of the delayed impact from supportive cyclical conditions and continuous supply constraints, especially in some countries like Germany.

Graph I.72: Unemployment rate and growth of nominal compensation per employee (Phillips curve), euro area



However, the recent pick-up in wage growth has been somewhat faster than the pace of expansion of economic activity. In fact, unit labour cost (ULC) growth has picked up steadily in the euro area throughout 2018 - with growth rates surpassing 2% (year-on-year) in the third and fourth quarter of 2018, the highest rates since 2009. An incomplete pass-through of labour costs into final prices is reflected in subdued profit margins - as proxied by the growth in profits per unit of output - which has been very weak, and for some quarters even negative, since 2017 (Graph I.72). This limited pass-through from higher wages into selling prices suggests that, on aggregate, businesses are holding on, preferring instead to have a temporary squeeze on their profit margins rather than increasing prices in an uncertain and competitive environment.

These developments raise two issues. First, whether the link between labour costs and prices still holds. Second, how long businesses would be willing to contain their profit margins despite higher wage costs and whether they face the right cyclical environment to increase their selling prices and recover their profit margins.

On the first issue, one deterministic explanation is by statistical construction. Wage growth explains a big part of services inflation - itself half of the weight of core inflation - since the part of wages in overall service costs is large. For many service sectors, the share of employee compensation in value added accounts for more than half. In measuring the dynamic relationship, empirical

investigations of the link between labour costs and prices show that the nature of the relationship has changed since the 1980s and that there has been almost no pass-through since then.⁽⁵⁸⁾ Two explanations have been put forward: (i) the progress made in anchoring inflation expectations compared to the past⁽⁵⁹⁾ and (ii) the effect of wage rigidities.⁽⁶⁰⁾

For the euro area, there has been evidence of a link between compensation per employee levels and inflation, but with a pass-through of less than unity.⁽⁶¹⁾ The analysis of the situation in the largest euro area countries shows a link between nominal compensation per employee adjusted for productivity and price inflation with a lag of six months. In contrast to the US, however, there is no evidence of a weakening in the relationship between labour costs and prices.⁽⁶²⁾ Two features appear to determine this link in the euro area: (i) the state of the economy with the strength of the pass-through depending on the actual level of inflation, with lower inflation implying a weaker response; and (ii) the type of shock, with demand shocks implying stronger price responses to wages than supply-side shocks.

These observations have implications for the expected strength of the pass-through of labour costs to inflation over the next few quarters. On the one hand, the relatively low level of inflation still prevailing in the euro area should hinder somewhat the pass-through. On the other hand, the observed pick-up of growth in unit labour costs in countries like Germany and France and in the services sector, where the pass-through tends to be rather high, should contribute to eventually re-assert the link between the two, even if with a delay. The fact

that domestic demand has remained relatively solid in the euro area in recent quarters, especially in certain services sectors, should also support a slight pick-up in profit margins over the forecast horizon.

The forecast for inflation has been revised lower ...

The near-term outlook for inflation is rather flat, with some negative base effects in energy in the second and third quarters in 2019, in line with oil price assumptions. In fact, the impact of oil prices on headline inflation is expected to gradually taper off next year as base effects fade and oil prices are assumed to remain relatively stable. On average, headline inflation in the euro area is forecast at 1.4% in both 2019 and 2020, a downward revision of 0.1 pps. for 2020 compared to the winter interim forecast.

Growth in compensation per employee in the euro area is expected to moderate and is projected at 2.0% in 2019, a decline from the robust 2.2% increase in 2018. The forecast for 2019, however, is strongly affected by the replacement of the CICE (Tax Credit for Competitiveness and Employment) in France - which is recorded as a subsidy to firms until the end of 2018 - by a permanent reduction in social security contributions in 2019. Accordingly, the change reduces the contribution of employers in total compensation but not the wages and salaries component; thus it should not have an impact on the take-home pay of households per se. In 2020, the growth of compensation per employee is projected at 2.2% in the euro area as a whole. The growth of real compensation of employees, after deducting for inflation, should remain positive in 2019 and 2020. As a result of the robust increase in compensation per employee, unit labour cost growth in the euro area is expected to increase to 1.7% in 2019 and to moderate to 1.4% in 2020.

The increase in unit labour costs in the euro area has recently been the main factor in explaining the pick-up in the GDP deflator (Graph I.73). Given the subdued growth of labour productivity, this observation implies that it was mainly the increase in compensation per employee that put upward pressure on domestic prices.

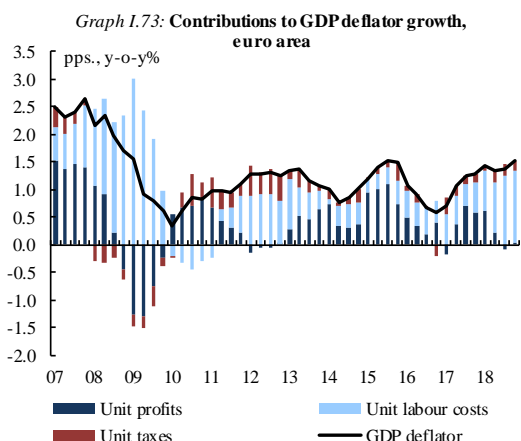
⁽⁵⁸⁾ See for example, Peneva, E. V. and J. B. Rudd (2017). 'The passthrough of labor costs to price inflation'. *Journal of Money, Credit and Banking* 49:8, pp. 1777-1802.

⁽⁵⁹⁾ For example, Bems et al. (2018) found for a sample of 45 economies that inflation reacts by less when inflation expectations are strongly anchored; see R. Bems, F. G. Gaselli, F. Grigoli, B. Guss and W. Lian (2018). 'Expectations' anchoring and inflation persistence'. *IMF Working Paper* 18/280.

⁽⁶⁰⁾ For the US economy, empirical analyses showed the slope and curvature of the Phillips curve to depend not only on the level of inflation but also on the extent of downward nominal wage rigidities; see Daly, M. C. and B. Hobijn (2014). 'Downward nominal wage rigidities bend the Phillips Curve'. *Journal of Money, Credit and Banking*, 46:2, pp. 51-93.

⁽⁶¹⁾ See e.g. Abdih, Y., Lin, L and A.C. Paret (2018). 'Understanding euro area inflation dynamics: why so low for so long?'. *IMF Working Paper* 18/188.

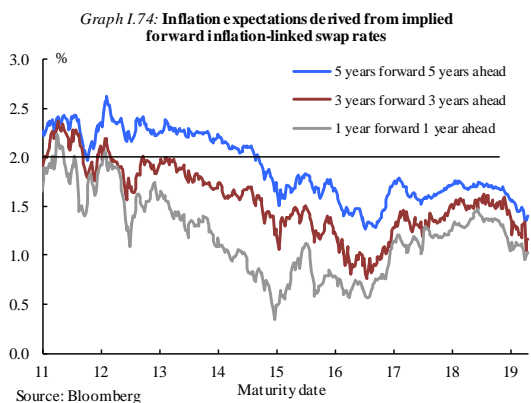
⁽⁶²⁾ See E. Bobeica, M. Ciccarelli and I. Vansteenkiste (2019). 'The link between labor cost and price inflation in the euro area'. *ECB Working Paper Series* 2235.



With solid increases in the compensation of employee in 2019 and 2020, and productivity growth remaining rather subdued on average, wage pressures should remain the key determinant of domestic cost pressures. Overall, the annual growth rate of the GDP deflator in the euro area is projected to rise from 1.4% in 2018 to 1.6% in 2019 and 2020. This suggests that the pass-through from wages to prices is becoming more relevant over the forecast horizon.

... consistent with lower inflation expectations.

Market-based measures of inflation expectations along the maturity spectrum have moved lower since the beginning of the year. At the cut-off date of this forecast, inflation-linked swap rates at the one-year forward one-year-ahead horizon stood at 1.0% (see Graph I.74). Swap rates at the three-year forward three-years-ahead horizon imply an average inflation of 1.2%. On a longer horizon, the widely watched five-year forward five-years-ahead indicator suggests inflation of 1.4%, below the ECB’s definition of medium-term price stability.



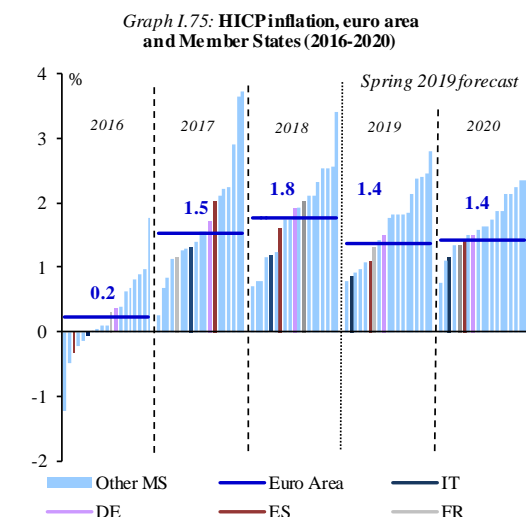
Source: Bloomberg

Survey-based measures of inflation expectations, which had been on an upward trend, have declined slightly since winter. According to the Commission’s surveys, selling price expectations in manufacturing edged lower in the first quarter of 2019, while that for services remained unchanged, with both indicators standing above their long-term averages. Consumers reported higher price trends over the past twelve months. Price expectations in the construction sector started to ease somewhat in the first quarter. Euro area Flash PMI indices for April showed price pressures falling to their lowest readings in 2½ years, but still with positive inflation along manufacturing supply chains. The assessment of average selling prices in services sectors suggested inflation at a more solid clip.

The monthly mean of market forecasts calculated by Consensus Economics stood in April at 1.3% for 2019 and 1.4% for 2020. The results of the ECB Survey of Professional Forecasters for the second quarter of 2019 showed average inflation expectations at 1.4% in 2019 and 1.5% in 2020 (0.1 pps. lower than in the first quarter). Longer-term inflation expectations (for 2023) remained at 1.8%.

Inflation differentials to narrow

Aggregate HICP inflation rates continue to mask substantial differences across euro area Member States (Graph I.75).



Note: In each period, the bars for all 19 euro area economies are ranked by size.

While temporary inflation differentials are usually not seen as a matter of concern, persistent inflation differentials have in the past been among the factors behind the build-up of imbalances (e.g.

price and cost imbalances) in the euro area. By contrast, the narrowing of inflation differentials helps to make financial conditions, as measured by real interest rates, more similar across euro area countries.

By the fourth quarter of 2020, HICP inflation rates at or above the euro area annual average of 1.4% are projected in all euro area economies, except Italy, Ireland, Greece and Cyprus. In 2020, five euro area Member States are expected to experience inflation at or above 2%; mostly those small euro area countries, which are growing strongly and still converging towards average price levels. With most countries projected to record inflation rates within a narrower range, the dispersion of inflation rates, as measured in terms of the unweighted standard deviation, is expected to decline further. The spread between the highest and lowest inflation rate across the euro area is set to fall to a post-crisis low.

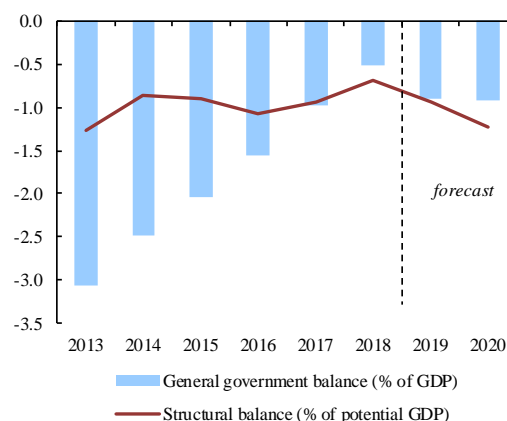
Outside the euro area, inflation differentials are more pronounced; by the fourth quarter of 2020, headline inflation rates are projected to range from 1.2% in Croatia to 3.2% in Hungary.

8. PUBLIC FINANCES

Economic growth above potential and low interest rates continued to support public finances in 2018. The euro area aggregate general government deficit (Graph I.76) declined for the eighth year in a row and reached its lowest level since 2000. The deficit is, however, forecast to rise in 2019 due to slower economic growth and some expansionary fiscal measures, and then to remain roughly unchanged in 2020. The structural deficit⁽⁶³⁾ of the euro area shrank in 2018, but it is set to increase slightly in both 2019 and 2020. Debt-to-GDP ratios are expected to keep falling in most Member States in 2019 and 2020 due to the projected primary surpluses as well as debt-decreasing snowball effects, the latter reflecting nominal GDP growth rates outpacing average interest rates paid on public debt.

⁽⁶³⁾ The structural balance corrects the headline balance for the cyclical component, and one-off and temporary budgetary factors.

Graph I.76: Budgetary developments, euro area



The euro area deficit is set to increase from the historical low of 0.5% of GDP...

In 2018, the budget balance improved by around half a percentage point of GDP in both the euro area and the EU, and the deficit reached 0.5% and 0.6% of GDP respectively. The deficit is, however, set to increase in 2019 to 0.9% of GDP in the euro area and 1.0% in the EU, and to remain roughly unchanged in 2020, based on a no-policy-change assumption. In 2019, budget deficits are expected to be significantly higher in the US and Japan (6.5% and 2.8% of GDP respectively).

As for the annual change in the aggregate budget balance of the euro area (Graph I.77), the cyclical component is set to contribute negatively in 2019, as real GDP growth is forecast to be below potential growth, and to provide a fairly neutral contribution in 2020.⁽⁶⁴⁾ Interest expenditure is expected to decline marginally in 2019 and 2020 while the change in the structural primary balance is projected to contribute negatively to the change in the aggregate budget balance in 2019 and 2020 due to expansionary discretionary fiscal policies in some Member States.⁽⁶⁵⁾ Changes in one-off measures are set to have a negative impact on the euro area budget balance in 2019 but to revert to a positive impact in 2020.⁽⁶⁶⁾

⁽⁶⁴⁾ After a positive contribution of 0.3 pps. of GDP in 2018, the change in the cyclical component is set to give a negative contribution of around 0.1 pps. of GDP in 2019 and to contribute positively of around the same magnitude in 2020.

⁽⁶⁵⁾ The aggregate structural primary balance is projected to deteriorate by about 0.3 pps. in 2019 and in 2020, after having improved by about 0.1 pps. in 2018.

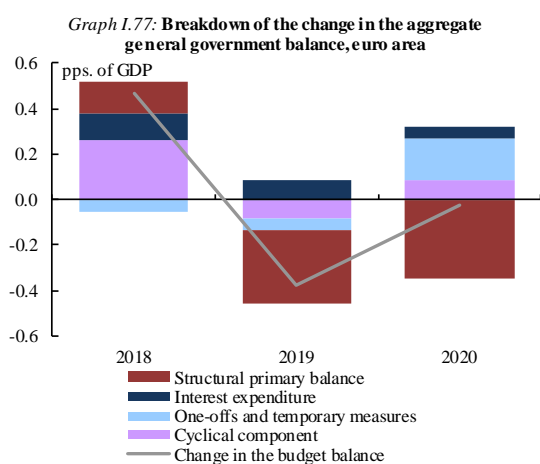
⁽⁶⁶⁾ Examples of typical one-offs include revenues from tax amnesty and from sales of non-financial assets, and expenditure related to short-term emergency costs or to the financial crisis (for more information on one-off measures

Table I.7:

General Government budgetary position - euro area and EU

(% of GDP)	Euro area							EU						
	Spring 2019 forecast				Autumn 2018 forecast			Spring 2019 forecast				Autumn 2018 forecast		
	2017	2018	2019	2020	2018	2019	2020	2017	2018	2019	2020	2018	2019	2020
Total receipts (1)	46.1	46.3	46.1	45.8	46.0	45.7	45.5	44.8	45.0	44.8	44.7	44.8	44.6	44.4
Total expenditure (2)	47.0	46.8	47.0	46.8	46.7	46.5	46.1	45.8	45.6	45.8	45.6	45.5	45.4	45.1
Actual balance (3) = (1)-(2)	-1.0	-0.5	-0.9	-0.9	-0.6	-0.8	-0.7	-1.0	-0.6	-1.0	-1.0	-0.7	-0.8	-0.7
Interest expenditure (4)	2.0	1.8	1.8	1.7	1.9	1.8	1.8	2.0	1.9	1.8	1.7	1.9	1.8	1.8
Primary balance (5) = (3)+(4)	1.0	1.3	0.9	0.8	1.2	1.0	1.1	1.0	1.2	0.8	0.8	1.2	1.0	1.1
Cyclically-adjusted budget balance	-1.0	-0.8	-1.1	-1.2	-0.8	-1.2	-1.1	-1.1	-1.0	-1.2	-1.2	-1.0	-1.2	-1.1
Cyclically-adjusted primary balance	0.9	1.0	0.6	0.5	1.0	0.6	0.7	0.8	0.9	0.6	0.5	0.9	0.7	0.7
Structural budget balance	-0.9	-0.7	-0.9	-1.2	-0.7	-1.0	-1.1	-1.1	-0.9	-1.1	-1.3	-0.9	-1.0	-1.1
Change in structural budget balance	0.1	0.3	-0.2	-0.3	0.1	-0.3	-0.1	0.3	0.2	-0.2	-0.2	0.1	-0.2	0.0
Gross debt	89.1	87.1	85.8	84.3	86.9	84.9	82.8	83.3	81.5	80.2	78.8	81.4	79.5	77.6

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

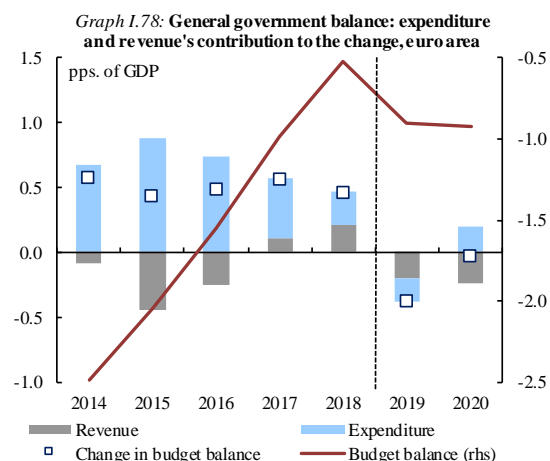


Around half of the Member States of the EU are forecast to record a government budget surplus in the years 2019 and 2020. However, large deficits are projected in some Member States. A deficit slightly above 3% of GDP is projected in France in 2019 partly because of the impact of one-off measures and in Italy in 2020, based on a no-policy-change assumption. After recording a deficit of 3% in 2018, Romania is set to run a deficit of more than 3% in 2019 and more than 4% in 2020. On the other hand, Cyprus recorded a deficit of 4.8% of GDP in 2018 due to the sizeable support for the banking sector, but the country is expected to return to a large surplus position in 2019.

The decline in the deficit in 2018 was due to a higher revenue ratio and a lower expenditure ratio in both the euro area and the EU (Table I.7). In 2019, the projected increase in the deficit is related to a drop in the revenue ratio and a higher

see 'Report on Public Finances in EMU 2015' https://ec.europa.eu/info/sites/info/files/file_import/ip014_en_2.pdf). In 2019, sizeable negative one-offs are expected to affect the budget balance in France (see country fiche for more details).

expenditure ratio (see Graph I.78). A further decline in the revenue ratio is expected in 2020, based on a no policy change assumption, but this should be matched by a reduction in the expenditure ratio keeping the budget balance broadly stable.



Looking at some public spending components of the euro area aggregate, the public investment-to-GDP ratio stood at 2.7% of GDP in 2018 and is projected to increase slightly to 2.8% in 2019 and 2020 (still below its pre-crisis average of 3.2% of GDP between 2000 and 2007).⁽⁶⁷⁾ Public investment is expected to benefit from higher absorption of EU funds and from the Investment Plan for Europe (see also Box I.3). Social transfers are set to increase as a share of total general government expenditure in the euro area aggregate in 2019 and 2020 in particular due to additional discretionary spending in some Member States. The weight of the wage bill in public expenditure is set to decline slightly (Graph I.79)

⁽⁶⁷⁾ By 2020, the fall in public investment relative to the pre-crisis period would remain sizeable in Spain (about -2 pps. of GDP), Ireland and Portugal (about -1.5 pps.), Greece, Italy and Malta (about -1 pps.).

Table I.8:

Euro area debt dynamics

	Average 2014	2007-2014	2014	2015	2016	2017	2018	2019	2020
General government gross debt ratio ¹ (% GDP)	83.2	94.4	92.3	91.4	89.1	87.1	85.8	84.3	
Change in the ratio	3.7	0.3	-2.1	-0.9	-2.2	-2.0	-1.3	-1.5	
Contributions to the change in the ratio:									
1. Primary balance (reversed sign)	0.7	-0.1	-0.3	-0.6	-1.0	-1.3	-0.9	-0.8	
2. Snow-ball effect ²	1.6	0.5	-0.9	-0.4	-1.1	-1.0	-0.6	-1.0	
Of which:									
Interest expenditure	2.9	2.6	2.3	2.1	2.0	1.8	1.8	1.7	
Growth effect	-0.3	-1.3	-2.0	-1.8	-2.2	-1.7	-1.0	-1.3	
Inflation effect	-1.0	-0.9	-1.3	-0.8	-1.0	-1.3	-1.4	-1.4	
3. Stock-flow adjustment	1.1	-0.1	-0.9	0.1	-0.1	0.3	0.1	0.2	

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

Graph I.79: Change in expenditure composition in 2019-20, euro area



The revenue ratio of the euro area is projected to decline by 0.5 pps. of GDP from 46.3% in 2018 to 45.8% in 2020, mainly reflecting the projected fall in income taxes and social contributions. The reduction in the revenue-to-GDP ratio is largely due to the impact of discretionary measures taken by governments, while underlying revenue developments appears to be in line with the projected increase in nominal GDP. ⁽⁶⁸⁾

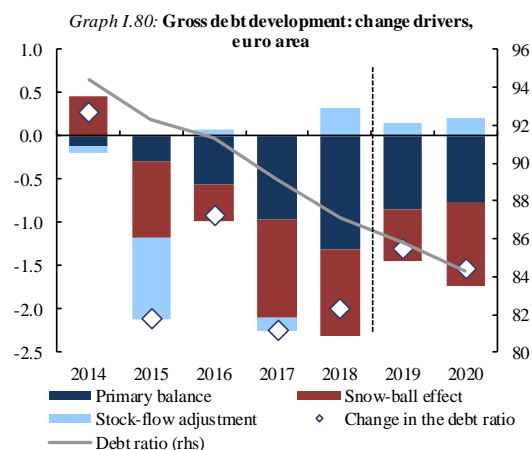
...but the debt ratio continues to decline.

The general government debt-to-GDP ratio of the euro area has been on a declining path since it peaked in 2014 (Table I.8). ⁽⁶⁹⁾ In 2018, the debt ratio fell to 87.1% (81.5% in the EU) and it is projected to fall further over the forecast period, reaching 84.3% in 2020 (78.8% in the EU), under a no-policy-change assumption. The deleveraging of the government sector continues to benefit from historically low interest rates paid on debt, which

⁽⁶⁸⁾ For further details on expenditure and revenues elasticities see Mourre, G., C. Astarita and S. Princen (2014). 'Adjusting the budget balance for the business cycle: the EU methodology'. European Commission, *European Economy Economic Papers* 536.

⁽⁶⁹⁾ Non-consolidated for intergovernmental loans.

implies a debt-decreasing snowball effect. ⁽⁷⁰⁾ Moreover, in the 2019-2020 forecast period, a debt-decreasing primary surplus of close to 1.0% of GDP on average is expected for the euro area aggregate (Graph I.80).



As for developments in individual Member States, in 2018, the debt-to-GDP ratio increased in Cyprus (to 102.5%) and Italy (to 132.2%). In 2019-2020, the debt-to-GDP ratio is projected to increase in Romania, due to a large primary deficit, and in Italy. The latter is the only euro area Member State where the snowball effect is projected to provide a debt-increasing contribution over the forecast period, as the average interest rate paid on Italy's debt exceeds its nominal GDP growth. The debt-to-GDP ratio in 2020 is expected to remain above 100% in four Member States (Belgium, Greece, Italy, and Portugal), and above 90% in three others (Spain, France and Cyprus).

⁽⁷⁰⁾ The snowball effect is the impact on the debt-to-GDP ratio provided by the difference between nominal growth and the implicit interest rates paid on debt. Specifically, in the euro area aggregate, nominal GDP growth is projected to average 3.0% over 2019-2020 and thus outpace the average interest rate paid on debt, which is set at 2.1%. As a result, the snowball effect is expected to help reduce the debt ratio in the euro area aggregate by around 0.8 pps. of GDP per year on average over the forecast period.

9. MACROECONOMIC POLICIES IN THE EURO AREA

Monetary conditions in the euro area remain very accommodative, overall. Based on the customary technical assumptions,⁽⁷¹⁾ short-term money market rates are set to move sideways over the forecast horizon and should remain very growth-supportive, overall. In addition, nominal long-term yields are expected to increase only very gradually, and despite somewhat lower long-term inflation expectations, real long-term financing costs should remain in negative territory. As regards the euro area fiscal policy stance, measured by the change in the structural budget balance, it turned slightly contractionary in 2018 after being broadly neutral in 2015-2017. A mildly expansionary fiscal stance is projected over the forecast horizon under a no-policy-change assumption.

Monetary conditions are expected to remain accommodative

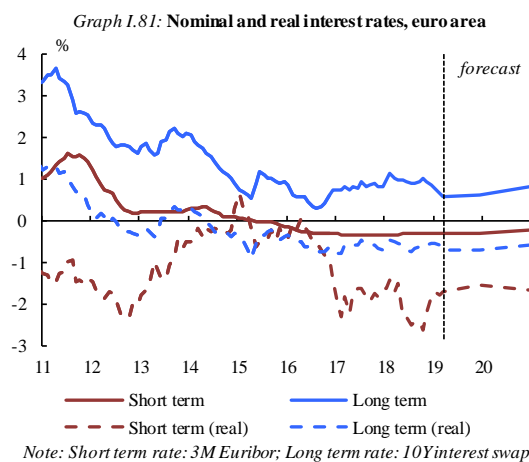
In light of the expected continuation of only moderate economic growth and subdued inflation in the euro area, upward pressures on nominal rates are expected to be very limited over the forecast horizon. Thus, given the present low level of interest rates, financing conditions in the euro area are expected to remain very loose by historical standards. Nominal long-term rates, which since autumn have steadily decreased in tandem with disappointing economic data to their lowest levels since late 2016, are expected to pick up only modestly and remain below levels reached at the end of 2018. The high stock of assets purchased under the Expanded Asset Purchase Programme (EAPP) in the Eurosystem's balance sheet, in combination with the continued reinvestment of maturing securities, should help keep nominal long-term rates low, overall.⁽⁷²⁾ On the short end of the yield curve, high excess liquidity, in combination with the ECB's forward guidance, should keep short-term money market rates at very low levels and support favourable lending conditions further on. Indeed, in the money market, the overnight rate (EONIA) has continued to remain only slightly above the ECB's

⁽⁷¹⁾ The interest rate assumptions underlying the forecast are market-based; nominal exchange rates are assumed to remain constant with respect to a given base period. For details, see Box I.5.

⁽⁷²⁾ Empirical evidence suggests that the portfolio rebalancing effect of asset purchases on bond market yields works predominantly via the size of the stock of purchased assets rather than the size of the monthly flows

deposit facility rate in recent months, reflecting high excess reserves in the banking system. Similarly, the three-month Euribor rate remained near record low levels since the autumn.

In real terms, short-term rates have increased from their all-time lows in October 2018 on account of weakening headline inflation (see Graph I.81), but still remain below the levels of early 2018.⁽⁷³⁾ Real long-term interest rates, which have been negative since mid-2014, have decreased somewhat since the beginning of the year. While lower long-term inflation expectations largely offset the decline in nominal long-term rates at the end of last year, they only decreased slightly in the first three months of 2019, which in combination with the further decrease in nominal rates resulted in lower real long-term rates.

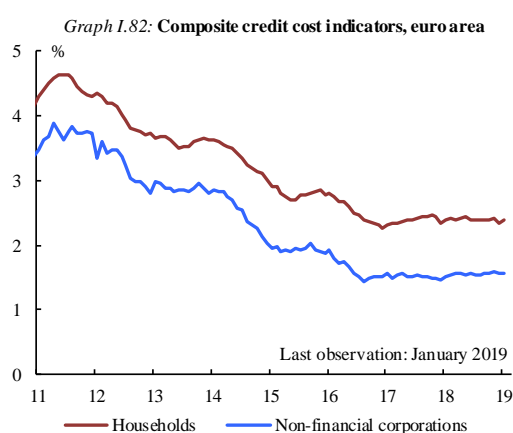


Looking ahead, overnight rates are assumed to remain close to current levels over the whole forecast horizon, as suggested by EONIA forward rates. At the time of writing, markets had fully priced in a 10 bps. rate hike only for the first quarter of 2021. This represents a considerable time premium to the calendar-based leg of the ECB Governing Council's forward guidance, according to which interest rates are expected to remain at present levels until at least the end of 2019, indicating that markets put increasing weight on the state-based leg of forward guidance.⁽⁷⁴⁾ As

⁽⁷³⁾ Real rates are derived from the respective short- or long-term rate minus annual HICP inflation and expected average inflation according to 10-year inflation swaps, respectively. Forecasts are derived from futures and forward rates, deflated by the Commission's inflation forecast and market-based measures of inflation expectations.

⁽⁷⁴⁾ The state-based leg refers to the second part of the ECB's forward guidance, stating that the Governing Council expects policy rates to remain at their present levels "in any case for as long as necessary to ensure the continued

inflation is expected to further decrease slightly over the remainder of the year before picking up again in 2020, this should altogether lead to slightly higher real short-term interest rates in 2019, followed by a reversal in 2020, with real short-term rates remaining clearly in negative territory. At the same time, forward rates suggest a slight but gradual rise in nominal long-term rates over the forecast horizon, which should eventually also translate into slightly higher, but still negative, real long-term rates, as long-term inflation expectations increase at a slower pace, as currently anticipated by markets.

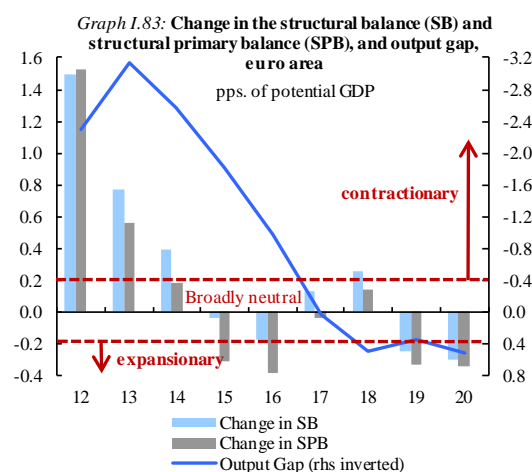


The transmission of these developments to nominal financing conditions in the non-financial private sector is captured by the composite credit cost indicators (CCCI)⁽⁷⁵⁾ for non-financial corporations and households (see Graph I.82). Although developments on the long end of the term structure typically dominate in the CCCIs, the decrease in nominal long-term money market rates since last autumn did not go hand in hand with a similar decrease in borrowing costs for non-financial corporations and households as captured by the CCCIs. While credit costs for households fell only marginally on account of largely unchanged rates on housing loans, which have moved sideways amid small fluctuations since mid-2017, non-financial corporations' credit costs actually increased slightly until January. This reflected offsetting movements by medium- and long-term loans, which decreased in line with long-term money market rates, and increasing corporate bond yields, likely reflecting higher risk

sustained convergence of inflation to levels that are below, but close to, 2% over the medium term".

⁽⁷⁵⁾ The CCCIs are calculated as weighted averages of interest rates on different types of bank loans and corporate bonds (in case of non-financial corporations).

premia. This upward trend was reversed in February, when corporate bond yields declined considerably, resulting in a somewhat lower CCCI for non-financial corporations overall, compared to the autumn.



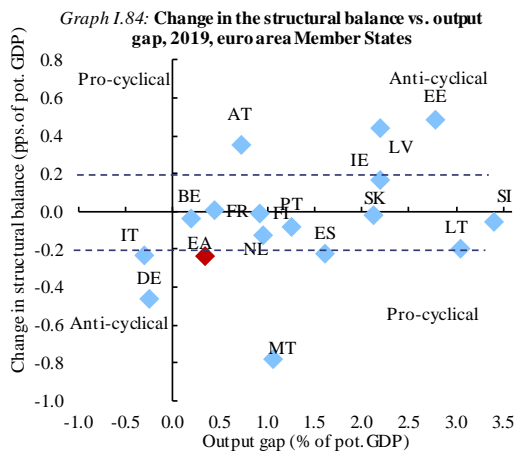
A mildly expansionary fiscal policy stance

Following the sizeable fiscal consolidation observed in 2011-2014, the fiscal policy stance in the euro area, based on a change in the structural balance, was broadly neutral in 2015-2017 and mildly contractionary in 2018 (Graph I.83). The euro area fiscal stance is projected to turn mildly expansionary in 2019 and 2020, based on a no-policy-change assumption. The reversal in the fiscal stance is the result of a lower structural revenue ratio, due to discretionary tax cuts, as well as structural primary expenditure increasing slightly as a share of potential GDP.⁽⁷⁶⁾

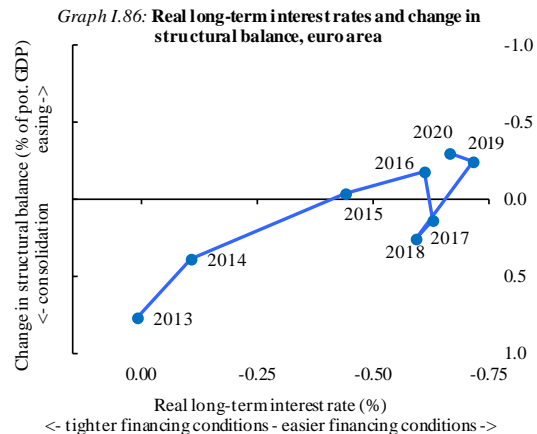
The geographical make-up of the euro area's fiscal stance does not reflect the adjustment needs in the high-debt Member States. In particular, in 2019, an increased deficit in the structural balance is forecast in Italy and Spain, while a broadly neutral fiscal stance is projected in Belgium and France. As for large Member States that run structural surpluses, Germany and the Netherlands are

⁽⁷⁶⁾ The euro area fiscal stance is set to be expansionary in 2019 and 2020 when measured by the discretionary fiscal effort that Member States are expected to implement. In particular, primary expenditure (net of one-offs and cyclical unemployment benefits) is set to increase at a rate above medium-term potential growth, while on the revenue side some discretionary tax cuts are envisaged. For further details on the methodology to compile the discretionary fiscal effort, see Carnot, N. and F. de Castro (2015). 'The Discretionary Fiscal Effort: an Assessment of Fiscal Policy and its Output Effect'. European Commission, *Economic Papers* 543 (February 2015).

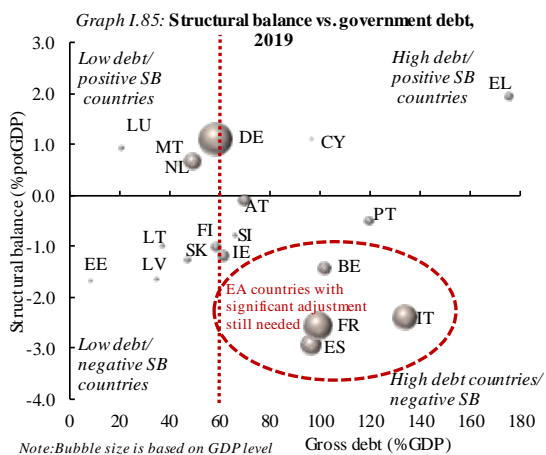
expected to use part of their fiscal space to support growth prospects (Graph I.84).



euro throughout last year has had an additional easing effect.



Belgium, Spain, France and Italy are set to run sizeable structural deficits in 2019 combined with debt levels close to or above 100% of GDP, suggesting that further fiscal adjustment is needed (Graph I.85).



Despite the expected gradual increase in real long-term rates over the remainder of the year, average real long-term rates for 2019 (derived from the 10-year swap rate deflated by inflation expectations) are expected to be markedly lower than in the previous year due to their considerable decrease over in first three months. They are expected to increase in 2020, albeit at a gradual pace and remain below their 2018 average. Thus, overall financing conditions should remain very supportive of growth. At the same time, the fiscal policy stance is expected to support economic growth in the 2019-2020 forecast period as it is projected to be mildly expansionary.

10. RISKS

The policy mix in the euro area mainly reflects the interplay between financing conditions and fiscal policy (see Graph I.86). On the monetary side, the policy measures taken by the ECB since the end of 2014 have in recent years exerted significant downward pressure on nominal long-term rates. However, monetary easing has only been partially transmitted to real rates, as long-term inflation expectations declined over the same period and only started to pick up towards the end of 2016, before declining again since mid-2018. Meanwhile, developments in the euro's exchange rate also impact broader monetary conditions in the euro area and the steady depreciation of the

In the first quarter of 2019, initial deadlines for US-China trade negotiations and Brexit have passed with neither of these issues having been resolved, implying that these uncertainties will continue to loom large. In addition, the central scenario of the forecast is surrounded by other important risks. While some previously identified risks have diminished, substantial risks to economic growth in the euro area still exist and many of them are interrelated with each other. Many of these risks are stemming from the external environment (see Section I.2).

Some previously identified risks have materialised or diminished...

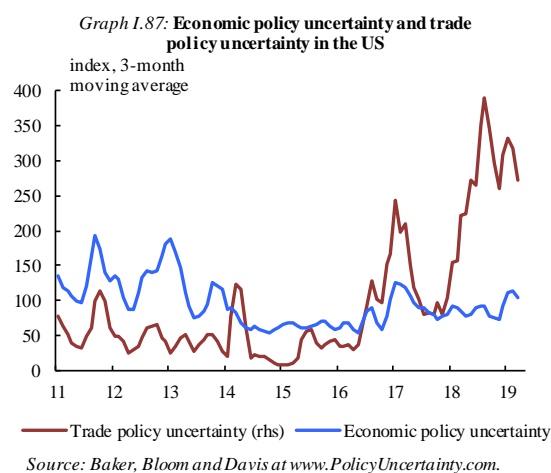
In the autumn, the risks included a continued (and to some extent) stronger-than-projected slowing of global economic growth and foreign trade as well

as a more significant slowing of output and trade growth in China. These risks have partially materialised and entered into the central scenario of the spring forecast. The formerly emphasised risks in the US such as a fiscal cliff and an overheating that could trigger a faster-than-expected tightening of monetary policy with spillovers mainly to emerging markets has also diminished in recent months, particularly since this year's FOMC decisions and statements. As regards trade tensions, the ongoing negotiations between the US and China about their trade relations have brought a truce of indefinite duration for the previously announced additional increase of tariff rates and the widening of trade volumes that are subject to tariffs. Accordingly, these measures are no longer in the central scenario (as they were in the autumn forecast) but have moved into the risks surrounding the central scenario.

...while substantial downside risks to economic growth remain in place...

The spring forecast is subject to a number of risks and uncertainties related to assumptions and the possibility of events occurring that have not been considered. Economic growth could be hurt by renewed financial market turmoil, high corporate and public debt, a sharper-than-projected slowdown of global economic activity and/or foreign trade, or distortions related to populism and political uncertainty.

- *An escalation of trade tensions or higher trade uncertainty.* Given the EU's position as a highly open economy with large export-dependent economies, the evolution of trade disputes will have an important bearing on the growth projection. The tariffs and trade disruptions imposed so far seem to have had relatively modest direct effects on the global economy. But trade uncertainty remains elevated, for example in the US economy (Graph I.87) but also in the EU. The outcome of the ongoing US-China negotiations could provide some relief, but even an agreement would unlikely mark the end of disruption.



- *Also geo-strategic concerns could exert a stronger impact* on cross-border investment and trade than currently envisaged (e.g. related to Iran sanctions). Because of extended or new sanctions, higher import prices could raise inflation to an extent that forces central banks to adopt a less accommodative policy stance. Beyond the short term, the persistence of trade tensions and trade uncertainty could result in the transformation of global value chains into more regional value chains, which would involve a loss of efficiency and growth potential.
- *Increased tariff rates on US imports of cars from the EU.* Empirical analysis suggests that a substantial increase in tariff rates would have a significant and very disruptive impact on economic activity.⁽⁷⁷⁾ As already highlighted in the autumn forecast, the US government has investigated the implementation of increased tariff rates on US imports of cars and car parts from the EU.⁽⁷⁸⁾ As US authorities have in the meantime prepared and submitted a report on

⁽⁷⁷⁾ A CESifo study concluded that permanent US tariffs of 25% on German car exports would lower them by almost 50% and total German car exports by 7.7%; without retaliation US tariffs are estimated to lower real incomes in the EU by 9 bn. EUR (0.06% of GDP) with the largest impact among the large Member States in Germany (0.16% of GDP). See G. Felbermayr and M. Steininger (2019). 'Effects of new US auto tariffs on German exports, and on industry value added around the world'. *Working Paper* (ifo Institute), February. See also V. Gunnella (2019). 'Assessing the impact of the threat of auto tariffs on the global economy and the euro area'. *ECB Economic Bulletin* 3, pp. 59-61.

⁽⁷⁸⁾ On 17 February 2019, the US Department of Commerce submitted a report to the US Administration with results and recommendations from its Section 232 investigation into the imports of motor vehicles and automotive parts; this sets a deadline for a decision whether action will be taken on 22 May 2019.

the subject to the US government, there is a timeline up to the second half of May for responding to the report. Higher import tariffs would have a direct impact by raising car prices in the US (or squeezing margins) and lowering sales to the US but also knock-on effects on other sectors and indirect effects on financial market sentiment and business confidence.

- *A sharper-than projected or more persistent slowdown in the external environment* could negatively affect activity in the EU's trading partners (see also Section I.2). This could result in the slowing of economic growth in several advanced economies that is not offset by a more positive outcome in emerging market countries like China and the countries that had been in deep recessions last year, e.g. Argentina and Turkey (see Section I.2). Weaker-than-expected economic growth in China could impact negatively on commodity exporting developing and emerging economies (via global commodity prices), deteriorate investor sentiment and lead to tighter financial conditions.
- *A 'no deal' Brexit.* The central scenario is based on the technical assumption of unchanged trade relationships between the UK and the EU over the forecast horizon. A 'no deal' Brexit would disrupt the almost frictionless functioning of goods, labour, and financial markets and would dampen economic growth, particularly in the UK, but also in the EU27, though to a minor extent.

In addition, large swings in oil prices, for instance caused by an intensification of geopolitical tensions in the Middle East, could have negative effects on global growth, even if positive terms of trade effects of lower (higher) oil prices in oil-importing countries would push (lower) the purchasing power of households due to offsetting effects in oil-exporting countries.

...but also related to vulnerabilities originating in Europe...

Key sources of risk originating mainly in Europe include renewed financial market turmoil, a rekindling of worries about the sovereign-financial sector nexus in a set-up with high debt, and adverse effects of populism and political uncertainty.

- *Renewed financial market turmoil.* The long period of unconventional monetary policy since the crisis has globally been accompanied by increased indebtedness of corporates with the aggregate corporate debt-to-GDP ratio currently at historically high levels.⁽⁷⁹⁾ Amid high debt and high asset prices, there is a risk of complacency in financial markets. By accommodating downside risks to economic growth in the short term, vulnerabilities could build up that amplify downside risks in the medium term. Sharp changes in market sentiment cannot be excluded. This could create potential for additional periods of financial turmoil, which would be detrimental to economic activity and put financial stability in peril.
- *Debt-related economic and financial vulnerabilities.* Concerns over fiscal sustainability could push up borrowing costs in some vulnerable euro area Member States. This would not only weigh on the economic and financial situation of the country directly affected, but could also spill over to other countries, cause financial fragmentation and rekindle worries about the sovereign-financial sector nexus with stress in the banking sector and in the bond-holding insurance sector possibly passed on to non-financial companies and households.⁽⁸⁰⁾
- *Populism and political uncertainty* could rise and lead to less growth-supportive policies. As a result, there could be a pullback in private investment. Moreover, market participants could start reconsidering the safety of sovereign debt, which could raise risk premia and interest rates.

Apart from these substantial risks, in the short term, some of the temporary impediments that slowed economic growth in 2018 could prove to be more persistent than currently envisaged, which would result in weaker growth.

...which appear in combination to outweigh the upside risks...

Upside risks feature less prominently than downside risks in the external environment.

⁽⁷⁹⁾ See IMF (2019). Global Financial Stability Report, April.

⁽⁸⁰⁾ For a detailed analysis see IMF (2019). 'The Euro Area Sovereign-Financial Sector Nexus'. *Global Financial Stability Report*, April, pp- 21-9.

Several of the aforementioned downside features could also turn into the opposite direction and result in a stronger-than-expected continuation of the economic expansion in Europe.

- *Successful policy measures could strengthen economic growth* more than expected. Macroeconomic stimulus in China could exert a stronger impact than projected. A more accommodative monetary policy in the US could result in a more moderate slowing than currently expected, with a more favourable development of global financing conditions that would benefit emerging market economies than currently expected. A stronger external environment would particularly provide additional support to export-oriented sectors and Member States in the EU.
- *Resolved trade disputes and diminishing uncertainty.* For example, trade uncertainty is likely playing a role in the manufacturing slowdown so that the resolution of trade disputes and the withdrawal of already implemented tariffs could boost confidence and release pent-up investment demand with a positive impact not only on manufacturing but on overall economic growth.
- *Domestic, fiscal stimulus in Europe could prove stronger than expected.* An upside risk to economic growth in the EU relates to a stronger-than-assumed fiscal loosening in countries with fiscal space that could result in stronger domestic demand and push growth, in particular in 2020 if the period of very moderate growth persists.
- *The confidence among business and consumers may be less sensitive to trade tensions and policy uncertainty than assumed.* The impact of trade tensions, domestic headwinds, and elevated uncertainty could then be much smaller than currently expected. As a result, domestic demand could be even more resilient and economic growth could continue at a stronger pace than forecast.

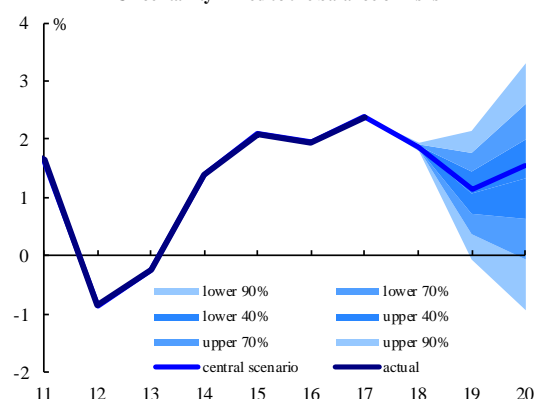
...with the overall growth impact strongly depending on policy responses.

The risks surrounding the central scenario remain interrelated and although central bankers in the US and Europe and policymakers in China have already responded to risks in their constituencies,

the materialisation of important downside risks could still derail the economic expansion. But the size of the potential damage of a realisation of downside risks depends on policy responses.

Under the assumption of the absence of policy reactions that would follow the materialisation of risks to the euro area growth outlook, the balance appears to be on the downside. This is also visualised in the fan chart (Graph I.88), which depicts the probabilities associated with various outcomes for euro area economic growth over the forecast horizon and shows the most likely development in the darkest area. The very high degree of uncertainty of the central projection is reflected by the large width of the fan chart, most notable in 2020, and the depicted skew of the distributions of the forecasts illustrates the balance of risks of the forecasts, which is seen on the downside.

Graph I.88: Euro area GDP forecast - Uncertainty linked to the balance of risks



Risk to the inflation outlook relate to sources of external price pressures...

In recent months, a number of downside risks to the inflation outlook have materialised, while others have diminished. Oil prices fell sharply towards the end of last year and only rebounded partially, and domestic price pressures have been curbed a slowdown in economic activity. But some important risks have remain in place.

Lower commodity prices, which could arise in response to an unexpected deterioration in the global economic outlook could lower external price pressures such as those related to the oil price. On the upside, a faster-than-expected rebound in the external environment could push commodity prices and lift external price pressures. An escalation of trade tensions could also put

upward pressure on prices via higher import prices, e.g. due to tariffs, or via adjustment costs in the most affected sectors.

...and the strength of domestic price pressures...

A sharper-than-expected or more persistent slowing of economic activity in Europe could weaken the upward movement of wages and reduce the pricing power of companies, which would dampen the domestic price pressures. Also on the downside, the protracted period of low inflation could have a more negative impact on the anchoring of medium-term inflation expectations than visible in recent surveys (e.g. in the Survey of Professional Forecasters) and included in the central scenario. This could trigger a further downward movement of inflation. On the upside, the recent rapid increase in house prices in some Member States has increased the possibility of an abrupt price correction,⁽⁸¹⁾ which would lower housing-related components in the inflation basket.

...with the downside risks looking slightly more pronounced.

Overall, in light of the risks surrounding the growth projection, the balance of risks surrounding the inflation outlook also appear to be slightly skewed to the downside.

⁽⁸¹⁾ See also Chapter 2 of the IMF's *Global Financial Stability Report*, April 2019.

Box 1.1: Looking at euro area GDP growth in 2019 through the lens of an estimated model

Euro area real GDP is forecast to grow by 1.2% in 2019, 0.7 pps. lower than expected in the 2018 autumn forecast and below its long-run trend for the first time since 2013. The downward revision of the forecast for real GDP has been accompanied by a weaker outlook for inflation and a slight reduction in the forecast for the euro area's trade balance. The pace of employment growth is also expected to moderate. This box discusses the main drivers of expected growth in 2019 and the revisions compared to the autumn forecast through the lens of a structural model.

The advantage of using a detailed structural model to decompose macroeconomic dynamics is that such models exploit the rich information provided by the data. In particular, models allow for the driving forces to be identified on the basis of restrictions imposed by the model equations, i.e. by economic theory, across variables and over time. The sign and size of the different demand and supply shocks⁽¹⁾ is determined by their ability to fit not only GDP, but also other observed variables (and their co-movement), such as consumption, investment, trade and employment.

The analysis builds on the Global Multi-Country Model, which is a macroeconomic model in the New-Keynesian tradition with micro foundations derived from utility and profit maximisation by households and firms respectively, featuring frictions in goods, labour and financial markets.⁽²⁾ The analysis uses a configuration with two regions, the euro area and the rest of the world (RoW), which has been estimated using quarterly data for the period from 1999-Q1 to 2018-Q4. The estimation of the model identifies the shocks, inspection of which provides an interpretation of the data from the perspective of economic theory.

⁽¹⁾ The exogenous factors that drive the short- and medium-term deviations of endogenous variables (including GDP, inflation, domestic demand, and trade) from their long-run trend paths.

⁽²⁾ The Global Multi-Country (GM) DSGE model has been developed by DG ECFIN and the Joint Research Centre of the European Commission. A detailed description of the GM model can be found in: Albonico, A., L. Calès, R. Cardani, O. Croitorov, F. Ferroni, M. Giovannini, S. Hohberger, B. Pataracchia, F. Pericoli, R. Raciborski, M. Ratto, W. Roeger and L. Vogel (2017). 'The Global Multi-Country Model (GM): an Estimated DSGE Model for the Euro Area Countries'. *Working Papers 2017-10, Joint Research Centre, European Commission*.

Model-based analysis of forecast drivers

The analysis proceeds in three steps. First, the model is estimated on historical data. Second, the time series are extended by the European Commission's forecast for 2019 for the set of available variables. In the third step, the shocks that are necessary for the model to fit the forecast given the estimated model parameters are recovered. A comparison of the model-implied shocks across the different forecast vintages provides information on the drivers behind the forecast revisions.⁽³⁾

The large number of shocks (the model includes 36 types which reflect the rich dataset) are summarised into seven groups of drivers, namely: (1) shocks to euro area productivity; (2) euro area labour and goods market adjustment as captured by wage and price mark-up shocks; (3) oil price shocks; (4) domestic demand shocks, i.e. changes in euro area consumption and investment demand that are not explained by fundamentals such as household income, interest rates and return expectations on capital and financial assets, and discretionary changes to fiscal policy; (5) euro area monetary policy shocks that capture deviations of short-term interest rates from the estimated policy rule; (6) exchange rate shocks, which affect the euro exchange rate independently of the monetary policy stance; and (7) shocks to world demand and international trade, including foreign demand and supply shocks and deviations of trade from the estimated demand and pricing equations. The remaining shocks and effects of initial conditions are summarised in 'others'. The model-based decompositions in the following sections identify the importance of each of these groups of shocks.

The GDP growth slowdown in 2019 is driven by demand factors...

Graph 1 provides the model-based decomposition of annual real GDP growth. The solid black line depicts the historical data, and the dashed line represents the European Commission's forecast for 2019. The coloured bars indicate the contribution of the driving forces to deviations of GDP growth from its long-run trend of 1.3%.⁽⁴⁾ Bars above (below) long-run growth indicate positive

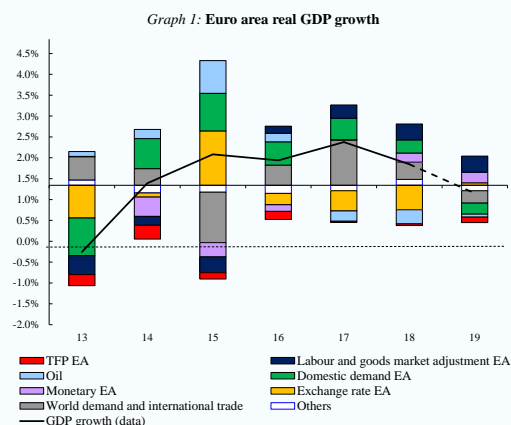
⁽³⁾ It should be noted that differences in identified shocks between two forecast vintages can result from the forecast revision itself, but also from revisions in historical data between two vintages.

⁽⁴⁾ Trend growth of real GDP is determined by trend productivity and trend labour force growth.

(Continued on the next page)

Box (continued)

(negative) contributions to GDP growth in a given year. The sum of positive and negative contributions matches the data (black solid line) for any point in time and the forecast (dashed line) for 2019. The trend line illustrates that expected GDP growth is below trend growth in the forecast for 2019.

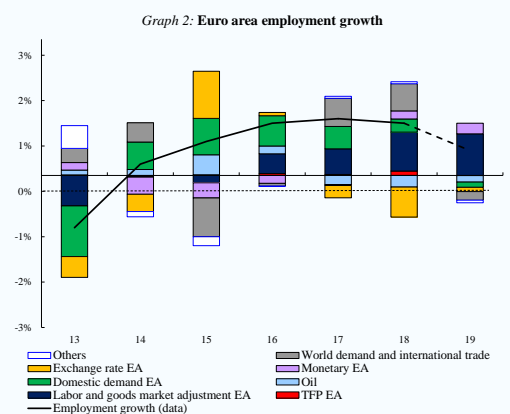


The decomposition of real GDP growth points to world demand and international trade as a key driver of the growth slowdown between 2018 and 2019. Its contribution to annual GDP growth changes markedly (-0.7 pps.) between the two years. Domestic demand shocks become a dragging factor of similar size (-0.6 pps.). The contributions to deviations from trend growth move from positive in 2018 to negative in 2019 for both drivers. The shift in the contribution of foreign factors is dominated by a slowdown in trade associated with slowing growth in euro area export markets and some market share losses. The main component in the slowdown of domestic demand growth is a slowdown in investment growth. According to the model's estimated shocks, however, the decline in export growth and investment is not exceptional by historical standards and points to a rather cyclical, temporary, impact on economic activity in the euro area.

On the upside, the negative growth contribution from the euro's appreciation in 2018 abates in 2019, for which the forecast assumptions display a moderate depreciation against major currencies. The negative contribution from oil prices also diminishes in 2019, as the forecast assumption incorporates little price change after significant oil price increases in 2018. The model identifies a persistently positive and slightly strengthening contribution to growth from monetary policy, which remains expansionary compared to the estimated monetary policy rule in the model. Moderate wage growth in combination with falling

unemployment, which the model explains by favourable labour supply shocks, contributes positively to real GDP growth through positive employment effects, but without further strengthening between 2018 and 2019.

The outlook for the labour market, however, shows employment growth in the euro area slowing less than real GDP growth. Importantly, employment continues to grow faster than the labour force, leading to a decline in the rate of unemployment. Real wage and labour cost growth are, furthermore, expected to remain unchanged or to slow slightly despite the projected decline in unemployment. The combination of falling unemployment and constant wage growth is interpreted by the model as a result of positive adjustment on the supply side of the labour market, leading to wage moderation (Graph 2).



The downward revision of expected real GDP growth in 2019 by 0.7 pps. compared to the 2018 autumn forecast is the result of a few factors. Actual euro area real GDP growth for 2018 was by 0.2 pps. lower than expected in the autumn, primarily due to a weaker contribution from domestic demand and external trade. Contrary to the present forecast, the 2018 autumn forecast included stronger growth in private consumption and did not incorporate the pronounced trade slowdown present in the current assessment. Investment demand and productivity growth have also seen a downward revision in the current forecast. All these elements are temporary factors affecting GDP growth. The long-term trend component of euro area growth in 2019 has remained unchanged.

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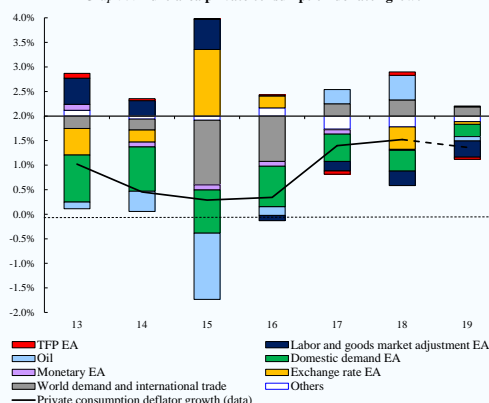
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...which play a secondary role in changes in inflation...

Inflation, as measured by the annual growth of the private consumption deflator, is forecast to slow slightly to 1.4% in 2019 from 1.5% in 2018 (Graph 3). The outlook for changes in private consumption price inflation between 2018 and 2019 is dominated by the outlook for oil prices. Given the important weight of fuel and energy in the consumption basket, transmission of oil price shocks to the private consumption deflator is strong and immediate. After increasing by 31% in 2018, oil prices in USD are assumed to fall moderately in 2019. Hence, the inflationary effect of oil price shocks in 2018 disappears in 2019. The change in the oil price assumption alone reduces inflation by -0.6 pps. in 2019 compared to 2018. The anti-inflationary impact of exchange rate shocks in 2018 diminishes the inflation outlook for 2019 as the effective appreciation of the euro in 2018 gives way to mild depreciation in 2019, although previous appreciation still affects inflation through the persistence in the production cost channel to some extent.

International trade contributes to the slowdown in inflation through a slowing of euro area import price growth. The slowdown of export growth, which is an important factor behind weakening GDP growth, has little immediate impact on consumer price inflation, due to the limited sensitivity of prices to activity in the short term. Instead, the contribution of exports to activity remains above its long-term average, which explains why the overall contribution of trade and world demand to inflation is still positive. Domestic demand continues to weigh negatively on the inflation outlook, but its negative effect does not increase in 2019 because inflation responds sluggishly to economic activity. Wage moderation, inferred from low wage growth despite positive employment dynamics, continues to dampen inflation in 2019.

Graph 3: Euro area private consumption deflator growth

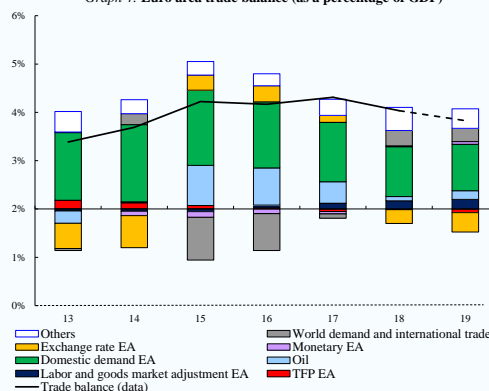


Compared to the AF 2018 forecast, the current expectations for inflation are lower by 0.3 pps. The main factor behind the revision is a change in the oil price assumption, where the AF 2018 was based on a stronger and sustained price increase, complemented by upward pressure from stronger foreign and domestic demand.

...but affect the trade balance.

The euro area's net exports of goods and services remain in surplus, but are forecast to decline from 4.0% of GDP in 2018 to 3.8% of GDP in 2019. The major driver of the decline in the trade surplus is the negative impact of the euro's depreciation on the terms of trade and the slowdown of world and export demand (counteracted in this group by a decline in import prices), whereas oil price developments raise net exports compared to 2018 by reducing the import bill.

Graph 4: Euro area trade balance (as a percentage of GDP)



Box 1.2: Euro area banks 10 years after the crisis

Banks remains vital to the functioning of the EU economy notwithstanding an increased use of market funding by non-financial corporations over the last decade. Large corporations began disintermediating the banking sector during the sovereign debt crisis in 2010-2012, as high interest rates and credit rationing in some Member State economies, encouraged them to turn to financial markets, instead. More recently, progress made on the Capital Markets Union also contributed to an increased role of financial markets in funding the private sector. However, for households and SMEs, – the backbone of the EU economy – banks remain the predominant source of funding. ⁽¹⁾

The banking sector's ability to perform its role of main funding provider to the real economy is subject to its own financial health and stability. A lot has been done over the last ten years to make the banking system safer, notably a new supervisory and resolution architecture (the Banking Union) with a renewed institutional setup and a general overhaul of the regulatory framework.

This box shows that although the resilience of the euro area banking system appears to have improved, a number of challenges remain. ⁽²⁾ In particular, the profitability of euro area banks in general remains weak. Moreover, the quality and the composition of banks' assets continue to pose some risks in certain Member States.

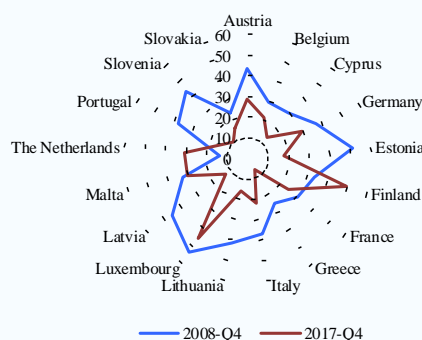
Banks are more resilient

The resilience of the euro area banking sector appears to have improved since the crisis, as banks have adapted their funding structures and strengthened their capacity to absorb losses in response to the Basel III regulatory framework and the EU's Capital Requirements Regulation and Directive (CRR/CRD4). The sector has also benefited from the European Central Bank (ECB)'s accommodative monetary policy while the EU's new common institutional framework has

contributed to improving financial stability in the euro area and beyond. ⁽³⁾

Banks' liability structures suggest that their funding has become more stable, less expensive, and more immune to tensions in financial markets. This has been achieved by banks shifting away from wholesale markets towards deposits and ECB funding. The importance of market funding⁽⁴⁾ has declined in most euro area Member States since 2008. This is also connected to relatively higher market funding costs, particularly during periods of tensions in financial markets. As a result, the reliance of euro area banks on market funding amounted on average to less than a third of their total liabilities at the end of 2017 (the most recent year for which data are available). ⁽⁵⁾ Just before the beginning of the crisis, market funding accounted for around 40% or more in most euro area Member States (see Graph 1). ⁽⁶⁾

Graph 1: Share of market funding in total liabilities



Source: ECB

Meanwhile, deposits have risen quite significantly in all countries, outpacing the rise in loans in most cases and resulting in lower loan-to-deposit ratios in the vast majority of countries with the notable exception of Greece. Deposit interest rates have also declined significantly and converged towards zero in most euro area Member States. Funding

⁽¹⁾ See for instance ECB (2017), Report on financial structures, and ECB (2016), *Economic Bulletin*, Issue 5, Box 5 'Trends in the external financing structure of euro area non-financial corporations'.

⁽²⁾ The analysis conducted in this box focuses on euro area banks to ensure as much as possible cross-country comparability. This is not to say that most of challenges and issues discussed in this box are also true for EU banks outside the euro area.

⁽³⁾ The EU banking union is however not complete with only the first two pillars functional (Single Supervisory Mechanism, Single Resolution Mechanism). In particular, the SSM has been instrumental in ensuring convergence of supervisory standards and practices. The European Deposit Insurance Scheme (EDIS), as the last pillar, would complete the banking union.

⁽⁴⁾ Market funding refers to wholesale funding sources i.e. bond and money markets.

⁽⁵⁾ Total liabilities exclude capital and reserves.

⁽⁶⁾ There are no data available for Spain and Ireland.

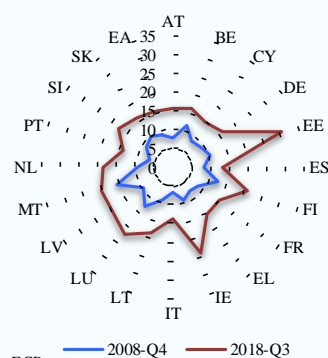
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Box (continued)

from the ECB, particularly in the form of Targeted Longer-term Refinancing Operations (TLTROs), has also come at low cost and has been supportive for banks' funding conditions.

The latest European Banking Authority stress test confirms that EU and euro area banks have been successful at improving their capital ratios and therefore their capacity to absorb losses and withstand severe shocks. Tier 1 ratios increased across the euro area, from below 10% in 2008 to around 15% in 2018 (see Graph 2).⁽⁷⁾ The ratio of capital to risk-weighted assets (RWA) has risen both as a result of capital increases and a reduction in banks' RWA. Improvements in the Tier 1 capital appear to be less generalised and has even decreased in some euro area Member States.⁽⁸⁾ Meanwhile, the decline in RWA has been substantial and broad based across euro area Member States. The RWA have decreased in most Member States but to varying degrees.⁽⁹⁾ Moreover, the increased regulatory and supervisory attention paid to internal models has contributed to the consistency of the RWAs of internal models, and has lifted RWAs in some banks with artificially low RWAs.⁽¹⁰⁾ The sharpest reductions were recorded in Germany and Spain although substantial decreases have also taken place in Ireland, Italy and the Netherlands. However, the relative riskiness of banks' assets (as measured by the share of RWA in total assets) has only marginally declined. This is largely due to an increase in loans, particularly those provided to SMEs, which are considered risky and have therefore relatively high-risk weights.

Graph 2: Tier 1 capital ratios (in %)



Source: ECB

Lending remains the key activity of euro area banks

Loans have increased as a proportion of total assets in the euro area banking sector. Given that large corporations have partly migrated to markets for their external funding, bank lending to SMEs and to households in the form of mortgages has been growing much faster than lending to large corporations since the sovereign debt crisis. Developments in bank lending activity, however, have evolved differently across the euro area, leading to a rebalancing (see Graph 3). The share of loans in total assets has declined the most in Member States where this share was relatively high in 2008 and where lending growth prior to the 2008 crisis was strongest (e.g. Spain, Portugal). At the same time, it has increased in Member States that had low loan-to-asset ratios in 2008.

⁽⁷⁾ The Tier 1 capital ratio is used in this box in order to ensure a greater comparability of banks' capital situation relative to 2008 when less strict capital regulatory requirements prevailed. However, the common equity Tier 1 (CET1) represents the main variable used under the most recent capital regulatory requirements.

⁽⁸⁾ In 2018-Q1, the first time use of International Financial Reporting Standard 9 (IFRS 9) impacted negatively on capital ratios as it requires higher provisioning. The International Financial Reporting Standard 9 introduced an "expected credit loss" framework for the recognition of impairments. It is a more forward-looking approach than its predecessor and will result in more timely recognition of credit losses. More pronounced decreases in capital ratios were observed in euro area Member States more affected by the sovereign debt crisis where capital ratios had been already lower.

⁽⁹⁾ In some Member States, the increase in the share of sovereign debt holdings, which have zero-risk weights, have contributed to a decline in RWA.

⁽¹⁰⁾ In December 2015, the ECB decided that it would carry out a targeted review of internal models (TRIM). On-site investigations started in 2017, following initial preparatory work in 2016 to identify the underlying methodology and tools and the models to be reviewed. Further on-site investigations will continue in 2019.

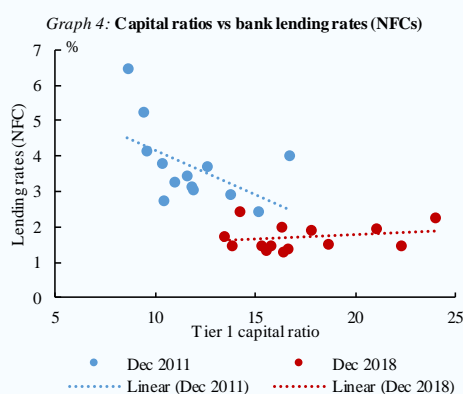
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Bank lending conditions have converged across the euro area

During the euro area banking and sovereign crisis in 2010-2012, a number of dysfunctions within the banking sector such as the sovereign-bank nexus, deteriorated asset quality and lower capital ratios impaired the transmission of the ECB's monetary policy. The progress made since then has been substantial but cross-country dispersion in most indicators for the banking sector remain. Positively though, bank lending rates for households and non-financial corporations have re-converged across the euro area since 2012, and are back to pre-2008 levels.

Resilience, as reflected by capital ratios, increased in all Member States between 2011 and 2018, but the dispersion of capital ratios in 2018 was still comparable to that prevailing in 2011. Meanwhile, interest rates for non-financial corporations declined for all countries and the dispersion narrowed significantly. It appears clear that in 2011 a negative correlation prevailed between capital ratios and bank lending rates with the least capitalised banks charging higher interest rates. This correlation is no longer apparent in the 2018 data (see Graph 4). However, this does not necessarily suggest a single causal link as other factors, such as the sovereign-bank nexus and asset quality, also played a role in the dispersion of interest rates during the 2011-2012 period.



In addition to the convergence in bank lending rates, non-price credit conditions have also improved in all Member States since the peak of the euro area sovereign crisis. ⁽¹¹⁾ However, heterogeneity in bank

⁽¹¹⁾ See the quarterly series of ECB Bank Lending Survey.

loan supply conditions persists across euro area Member States and has been related, *inter alia*, to differences in the composition and quality of assets (see discussion below). At the same time, the cross-country differences in lending volumes come on the back of differences in loan demand linked to Member States' economic and sectoral specificities (see financial market section).

Overall, some of the factors that hindered the uniform transmission of monetary policy appear to have improved in recent years (e.g. capital ratios). Still, banks in some Member States continue to face structural weaknesses that could hamper their intermediation capacity and pose financial stability risks.

Profitability remains weak

Banks' profitability varies significantly across banks and despite some positive examples remains in many cases weak with lower levels in 2018 than in the pre-crisis period. While average profitability for euro area banks, as measured by the return on equity (ROE), was around 10% before the crisis, it has declined during the crisis and has not improved significantly since. It now stands at around 6.5%, which is well below the cost of equity, estimated at around 8% to 10% on average. Behind this decline in profitability lies both sluggish revenues and persistently high costs since the crisis. These are driven by inadequate business models, competition including from non-banks and, in some cases, crowded 'overbanked' domestic markets.

Developments in the Net Interest Income (NII) are a key differentiating factor between over- and underperforming banks in terms of profitability as it is the most important component of euro area bank revenues. ⁽¹²⁾ Since the crisis, the bank NII has declined at the euro area level, although the situation differs among Member States (see Graph 5).

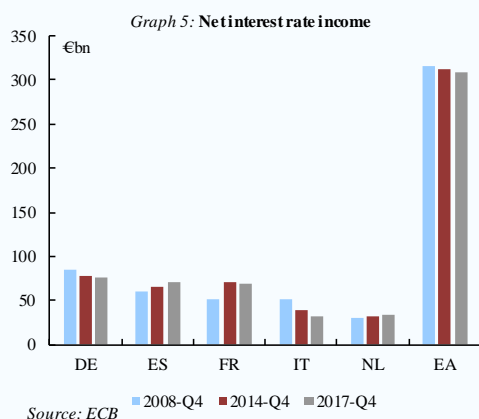
The protracted low interest rate environment and flattened yield curves have contributed to narrowing of net interest margins while the volume effect on interest-earning assets varies across banks. Banks with rising NII have managed to offset the negative impact on net interest margins with robust growth in interest-earning assets, while the banks with lower NII have recorded a decline in

⁽¹²⁾ The NII contributes by nearly 60% to banks' revenues, followed by net fee and commission income (around 30%) and net trading income (5%), (EBA 2018, Risk Assessment Report).

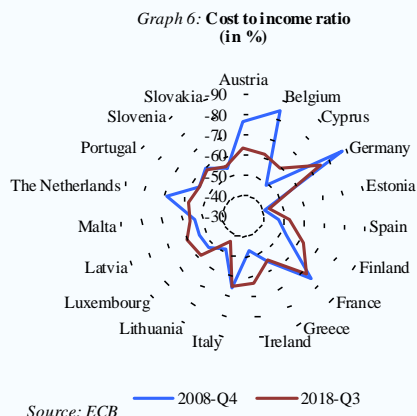
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both margins and volumes.⁽¹³⁾ In some Member States, banks have benefited from their activities in regions with higher yielding assets, which have helped to improve their NII. A competitive environment on the domestic lending market may also explain differences in bank NII across euro area Member States.⁽¹⁴⁾



On the cost side, progress has been modest, with the average cost-to-income ratio at the euro area level unchanged since the end of 2008 (see Graph 6). This measure of banks' efficiency appears to have improved in the euro area Member States where the cost-to-income ratio was generally higher than the average at the start of the crisis.⁽¹⁵⁾ However, the dispersion across Member States is still wide, with the cost-to-income ratio ranging between 40% and 74% in the last quarter of 2017 (the most recent period for which data are available). From this data, it is also clear that the cost-to-income ratios remain very high for banks in several Member States.⁽¹⁶⁾



Overall, the low and poor prospects for NII combined with high operating costs suggest that the euro area is 'overbanked' and that there is a need for structural changes such as cross-border consolidation. According to the ECB's analysis⁽¹⁷⁾, the best performing banks in the euro area in terms of return on equity between 2009 and 2017 were those that were able to significantly reduce their costs, invest heavily in IT and diversify their sources of income. The ECB also indicates that levels of non-performing loans (NPL) and the pace of the reduction of these levels explain to a large degree the observed differences in profitability levels across banks over the last few years. Banks with faster reduction of NPL gradually improved their NII and hence the return on equity while banks with slower reduction of NPL continued to display persistent low return on equity.

The quality and composition of bank assets remain challenging in some Member States

Asset quality, particularly on loan portfolios, has remained very heterogeneous across euro area Member States. While NPL were not an issue in 2008, NPL rose significantly in some Member States until 2014 when they started to decline gradually, including in those Member States where

⁽¹³⁾ ECB (2018), Financial Stability Review, November.

⁽¹⁴⁾ There is a rather mixed evidence about the effect of competition on bank profitability and financial stability. See for instance, Beck, T., O. De Jonghe, G. Schepens (2013). 'Bank competition and stability: Cross-country heterogeneity', *Journal of Financial Intermediation*, 22, pp 218-244 and Leroy, A. and Y. Lucotte (2017). 'Is there a competition-stability trade-off in European banking?', *Journal of International Financial Markets, Institutions & Money*, 46, pp 199-215 for evidence on a negative relationship and Goetz, M.R. (2018). 'Competition and bank stability', *Journal of Financial Intermediation*, 35, pp 57-69 for some evidence about a positive relationship.

⁽¹⁵⁾ The comparison with 2008 may however be somewhat biased for some countries due to the rapid decline in bank revenues (the denominator of cost-to-income) while cost adjustments tend to be slower.

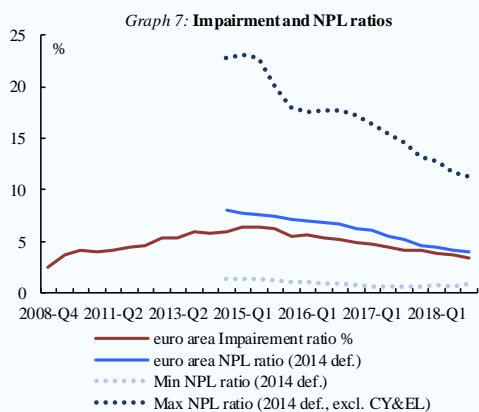
⁽¹⁶⁾ High cost levels in the banking sector are also due to the need to replace old ICT systems and invest in new financial technologies. Legal risks and fixed costs, such as regulatory compliance costs are also significant for small banks.

⁽¹⁷⁾ See ECB (2018), Financial Stability Review, November.

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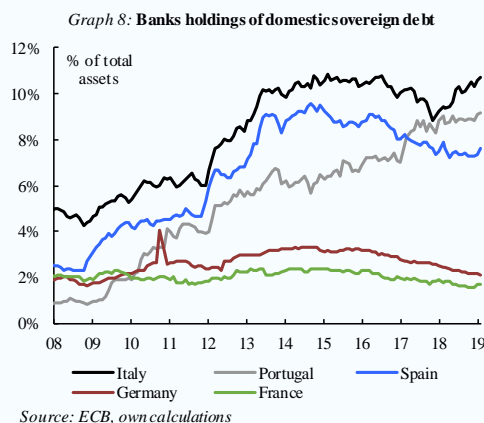
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they had increased the most.⁽¹⁸⁾ In 2014, the asset quality review conducted by the ECB with regard to the significant banking groups was a milestone for a more consistent recognition of NPL. The reduction of the stocks of NPL since 2014 has been helped by cures, liquidations and write-offs while an increasingly active secondary market for NPL has also contributed significantly, notably in Italy⁽¹⁹⁾ (see Graph 7). In its third progress report on the reduction of NPL, the Commission highlighted that NPL in the European banking sector had declined further, now standing at an EU average of 3.4% (Report issued on 28 November 2018). In a number of Member States, coverage ratios of NPL have increased compared with 2014 when levels of NPL peaked, which suggests that euro area banks have made efforts in terms of provisioning since 2014. These will need to continue if provisioning levels are to return to where they were before 2008.⁽²⁰⁾ In March 2018, the Commission presented an Action plan to tackle high NPL ratios, and to speed up progress already made in reducing NPL and prevent their renewed build-up.



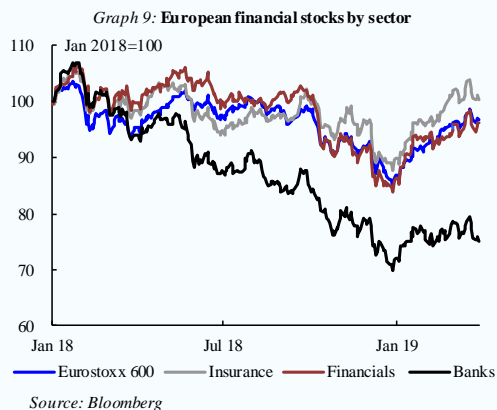
In terms of the composition of bank assets, one important aspect is the high share of domestic sovereign debt in some euro area Member States. Banks holdings of domestic sovereign debt have increased since 2008 in the most vulnerable Member States (see Graph 8). This signals a rising risk due to the kind of harmful feedback loops seen during the crisis as it perpetuates a dangerous degree of interdependence between banks and their sovereigns. This could affect bank funding conditions if tensions were to hit sovereign debt markets. The episode of rising sovereign yields in Italy last year came as a reminder of such adverse

developments and shows that this particular objective of the Banking Union has not yet been achieved.



Market perceptions of banks remain negative

Despite the progress made on making banks safer, many investors retain a negative bias towards the euro area banking sector based on its poor profitability. Over the last year, equity prices of euro area banks fell significantly, underperforming other financial firms and the global market (see Graph 9).



Meanwhile, banks' credit default swap spreads, which reflect their credit risk, widened broadly with sharp spikes for some banks. These developments reflect investors' scepticism about the sustainability of banks' profitability. In some euro area Member States, this has been accentuated by concerns about the sustainability of public finances as the bank-sovereign nexus remains.

⁽¹⁸⁾ In this box, data on the gross non-performing debt instruments have been used to ensure a greater comparability over time,
⁽¹⁹⁾ See EBA (2018), Risk Assessment Report.

⁽²⁰⁾ In 2018, the first time adoption of IFRS 9 led to increased provisioning coverage of NPL (EBA (2018), Risk Assessment Report).

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Box (continued)

Banks may face a number of challenges in the near future

Market expectations for interest rates point to low levels and a flat yield curve over the forecast horizon. This reflects expectations for continued growth but at lower pace than in 2017 and 2018 and a subdued inflation outlook. This context is rather unfavourable for banks as NII may struggle to grow over the coming years if interest margins remain narrow and lending volume growth is modest.⁽²¹⁾ In addition, more subdued economic growth could lead to a reversal in the trend of declining NPL. All these factors could keep NII levels low and add pressure on banks to intensify their cost-cutting efforts at a time when they need to invest in digitalisation and protection against cyber-attacks.

Low profitability and a continued negative market perception could lead to additional pressure on funding costs in a context where banks have to meet forthcoming loss absorbing buffer requirements, i.e. Minimum Requirement of own funds and Eligible Liabilities (MREL) in the EU.⁽²²⁾ This would raise the cost of funding for banks as bail-inable instruments are more expensive than senior debt securities and certainly more expensive than the ECB funding.

If investor sentiment towards the banking sector deteriorates further, returns on equity could decline, as it could lead to higher funding costs while the cost of equity would increase. This risk of a widening gap between the return and the cost of equity appears for some banks and could only be addressed by structural changes in the banking sector.⁽²³⁾ Indeed, a more efficient banking system would not only lead to improved return on equity but also convince investors on banks' safety and the sustainability of profits and hence lead to lower cost of equity.⁽²⁴⁾ A convergence between the return and the cost of equity would allow banks to raise capital when needed and ensure financial stability.

⁽²¹⁾ See Section I.3 for lending volumes forecast and the box "Some technical elements behind the forecast" for interest rate assumptions.

⁽²²⁾ The Bank Recovery and Resolution Directive (BRRD) requires banks to meet the Minimum Requirement of own funds and Eligible Liabilities (MREL) to enhance loss absorbing capacities. Aggregated MREL shortfall was estimated at €17 bn end 2017 but could rise under new BRRD2 rules. Essentially smaller EU banks are concerned by these requirements while most of the largest GSIBs have already reached the minimum TLAC (Total Loss Absorbing Capacity) requirements.

Conclusion

According to a number of indicators, the resilience of the euro area banking sector has clearly improved since the sovereign debt crisis and compared to pre-2008 levels. In particular, banks' capacity to absorb losses as measured by their capital ratios has increased and funding structures have become more stable and less expensive. However, the performance of a number of indicators varies across banks, which also results in a still high dispersion across Member States. Meanwhile, despite differences in banking systems across the euro area, the transmission of monetary policy has become more effective, with interest rates on loans to the private sector converging across the euro area. Despite these clear achievements, banks continue to face certain challenges in the euro area and the EU. The principal challenge is the weak profitability. Banks may need to reduce costs and diversify income sources if bank net interest income (NII) continues to stagnate in a context of persistently low interest rates and increased competition, including from non-banks. While the latest stress tests from the European Banking Authority showed that the resilience of EU banks has improved overall, a number of risks such as worsening macroeconomic conditions or renewed tensions on specific sovereign markets could hurt banks in some Member States disproportionately. Preventing this situation requires monitoring and well-designed policies in order to preserve financial stability and the effective transmission of monetary policy. Completing the Banking Union with a European common deposit insurance scheme (EDIS) and accelerating the integration of EU capital markets to enhance private risk sharing, should remain priorities as this would weaken the threat of the bank-sovereign nexus and enhance the stability of euro area banks.

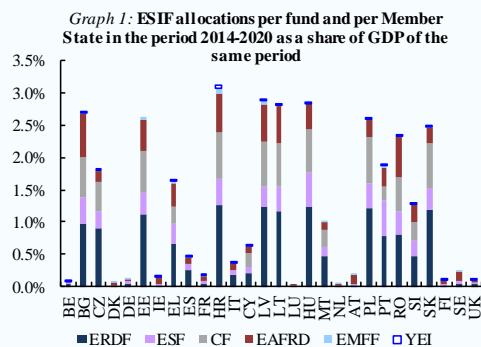
⁽²³⁾ See Dombret, A., Y. Gündüz and J. Rocholl, (2017). 'Will German banks earn their cost of capital?', *Contemporary Economic Policy*, Vol. 37, No. 1, for an empirical analysis of the German banks. However, this issue concerns a number of banks across the euro area and not particularly in Germany.

⁽²⁴⁾ See also ECB (2018), Financial Stability Review.

Box 1.3: The impact of European Structural and Investment Funds on near-term forecasting

This box discusses the implications of the European Structural and Investment Funds (ESIF) ⁽¹⁾ for near-term forecasting and assesses whether they are part of the explanation for higher growth over the forecast horizon in the main beneficiaries of these funds. ESIF are the major investment instruments in the EU budget and provide support to projects in a broad range of policy areas ⁽²⁾ to reduce the disparities between regions and to achieve ‘economic, social and territorial cohesion’ in the EU. ⁽³⁾ ESIF allocations are decided at EU level ahead of every seven-year programming period, the so-called Multiannual Financial Framework (MFF). For the current period (2014-2020), they amount to EUR 461 billion, accounting for 42% of the total MFF.

The ESIF are organised in national envelopes broken down by year and allocated mainly according to the relative regional and national GDP per capita. As a result, less developed Member States and regions receive more than 80% of the funding, giving rise to important differences in aid intensity as presented in Graph 1. On average, ESIF account for a substantial percentage of national GDP in many Member States, and over 2.5% in eight Member States, mainly Central and Eastern European countries. ⁽⁴⁾



Note: The total ESIF allocation for the period 2014-2020 is divided by the total cumulative GDP over the same period (including forecasts for 2019 and 2020) to provide an indicative annual average.

ESIF are an important determinant of economic activity in the main beneficiary states. From a short-term macroeconomic forecasting perspective, it is of special interest to assess the likely impact of ESIF implementation on real GDP growth over the forecast horizon. This is often difficult to forecast due to the profile of disbursements over time, which is determined by various factors, such as the phase of implementation of the funds, administrative capacity issues, etc. Yet, looking at historical data and past developments (including during and after the late 2007-2009 crisis), one can identify broad patterns of disbursements related to the MFF cycle and, in turn, estimate range-estimates of their impact on GDP. While not constituting an actual forecast, these patterns could be used as a central scenario for near-term forecasting.

⁽¹⁾ ESIF operate under a common legal framework across the EU and include the following funds: European Regional Development Funds (ERDF), European Social Fund (ESF), Cohesion (CF), European Agriculture and Rural Development Fund (EAFRD), European Maritime and Fisheries Fund (EMFF) and Youth Employment Initiative.

⁽²⁾ These are *inter alia* Research, technological development and innovation, Information and Communication Technologies, support to Small and Medium Enterprises (SME), low-carbon economy, climate change and environment, transport education, employment and social inclusion, rural development, fisheries and maritime development and the strengthening of institutional capacity, contributing to the delivery of the Europe 2020 targets.

⁽³⁾ This objective is enshrined in Article 174 of the Treaty on the Functioning of the European Union (TFEU). ESIF are also closely linked to the European Semester of economic policy coordination. In particular, operational programmes agreed between the Commission and the Member States had to take into account of relevant country-specific recommendations (CSRs). Likewise, the Commission may request the Member State to review these programmes to take into account new challenges identified in the CSRs. There is also a link with the Excessive Deficit and the Macroeconomic Imbalances Procedures through the possible suspension of funding in case of non-effective action by the Member State concerned. Finally, the ESIF operate under a common legal framework across the EU.

⁽⁴⁾ This comparison and further analysis in this box does not net out Member States’ contributions to the EU budget, and focuses only on the impact of payments for projects, which are finally captured in the expenditure side of national accounts.

(Continued on the next page)

Box (continued)

ex-post ‘interim payments’ that reimburse actual expenditure certified by Member States under the principle of co-financing.⁽⁵⁾ ESIF hence operates mostly through reimbursements that co-finance (ex-post) certified national expenditure.⁽⁶⁾ Commitments and payments do not need to correspond to the same year. In fact, Member States may declare expenditure until the third financial year following that of the budget commitment: payments corresponding to the current programming period 2014-2020 could thus extend until 2023 (so-called “N+3 rule”).⁽⁷⁾

Although the data on ESIF payments collected by Commission Services for accounting purposes are ‘cash basis’, the recording of ESIF payments in National Accounts follows the ‘accrual basis’ of accounting. According to the Eurostat manual on government debt and deficit, Member States compute ESIF revenues when the actual spending on the selected project occurs, rather than the ‘cash basis’ accounting that would register revenue when the actual EU reimbursement happens.⁽⁸⁾ This ensures that the impact of ESIF on GDP is measured when actual ESIF-related investment takes place, whether by the private or public sector, and not when the Commission reimburses the Member States. Given that the most up-to-date statistics on ESIF payment profiles are available only in cash terms, one should allow for a degree of adjustment over a central scenario built with the available data. This central scenario should be considered as a broadly indicative starting point for forecasting and adjusted on the basis of more detailed country-specific information on their intended ESIF implementation per year.

⁽⁵⁾ Interim payments constitute the bulk of these payments, whereas advance payments are usually disbursed to provide some limited up-front liquidity at the beginning of a programme.

⁽⁶⁾ The co-financing rates differ across Member States, funds and, in some cases, policy areas.

⁽⁷⁾ In some cases, final payments could extend after the closure of the programme.

⁽⁸⁾ This delay is due to the time it takes for receipts to be submitted by the national authorities and vetted by the European Commission. Accrual basis accounting therefore ensures that the possible misalignment between the recording of investment (accrual, just-in-time) and the timing of EU payments (cash, largely ex-post) does not have an impact on national accounts, since the investment is recorded when it takes place. For more details, please refer to Eurostat. Manual on Government Deficit and Debt. 2016.

Principle of additionality and the profile of the absorption rate

The proper accounting of ESIF payments allows the identification of the short-term demand effect derived purely from ESIF-financed projects. As already mentioned, patterns of disbursement are based on a medium-term strategy set ex-ante for a seven-year period. Thus, from a macroeconomic forecasting perspective, these funds are not timed according to the cyclical position of the country, and are to be seen over a medium-term growth perspective. At the same time, there could be a risk for some ESIF-related projects to substitute or crowd-out some (national) investment rather than leverage it. This is why according to the agreed principle of ‘additionality’, which is enshrined in the ESIF regulation, Member States shall not use EU funding to replace national expenditure.⁽⁹⁾ In practice, however, the risk of ‘crowding out’ particularly increases during periods of budgetary stress and may in certain cases stall the efficient implementation of projects.

For instance, after the difficulties caused by the late 2007-2009 economic crisis, the EU introduced a top-up clause⁽¹⁰⁾ that allows Member States, upon request, to receive a temporary reduction in national matching funds (e.g. lower national co-financing), meaning temporary budgetary relief for national treasuries, the advancement of EU payments in the financial plan, and a reduction of

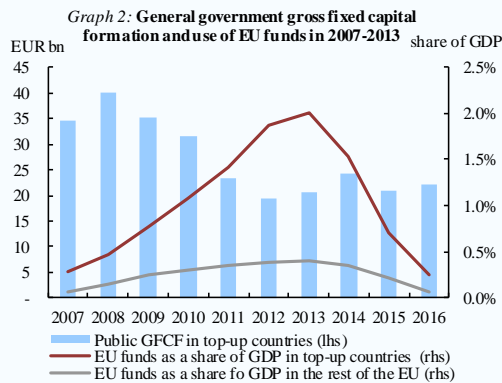
⁽⁹⁾ When using EU funds, Member States shall comply with the principle of additionality. According to this principle, EU funding should not replace the national or equivalent expenditure by a Member State. In the programming period 2007-2013 all Member States except Greece complied with this principle, while six of them (Czechia, Germany, Italy, Hungary, Lithuania and Portugal) observed it because of the downward revision of the baseline at the mid-term verification in 2010. The downward deviations in these Member States resulted in an actual estimated loss of public investment of at least EUR 10.7 billion in 2007-2013. In contrast, countries like Poland, Slovakia or Bulgaria were able to mobilise more national investment than expected. COM (2016) 414 final.

⁽¹⁰⁾ European Commission (2016). Report from the Commission to the European Parliament and the Council containing the assessment required under Articles 24(3) and 120(3) third sub-paragraph of Regulation (EU) N° 1303/2013. COM (2016) 414 final. 2016.

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Box (continued)

the risk of losing ESIF.⁽¹¹⁾ Although the clause was extremely useful as a liquidity buffer, it could not prevent a pro-cyclical drop in public investment (Graph 2). One could in fact observe an increase in ESIF payments and a contraction in total public investment in the countries benefiting from the top-up between 2011 and 2015, partly explained by the reduction in the national matching funds for ESIF-related investment. This is relevant not only for policy reasons, but also for short-term forecasting. In the countries that used the top-up facility, the absorption rate during the previous MFF was very uneven and idiosyncratic and the absorption profile in the current MFF may be smoother and closer to an average profile. Looking forward, taking an EU average absorption rate is thus considered as more appropriate for the likely absorption for 2019 and 2020.⁽¹²⁾



Note: Calculations based on the historic payments presented in the Cohesion Data Portal and AMECO

Estimating the likely short-term impact on growth

In this section, certain assumptions are adopted to try to estimate the likely use of ESIF in 2019 and 2020 and then to arrive at an approximate contribution to GDP levels and growth rates. The results partially explain why growth in large recipients is projected to be higher than in the other EU Member States.

With the knowledge of the overall ESIF allocation and the absorption to-date, the key assumption is the profile of absorption rates for the next two years. So far, the implementation rate of the ESIF in the MFF programming period 2014-2020 has decelerated in comparison to the 2007-2013 period (see Graph 3). This is especially evident when measuring the utilisation of funds during the first five years of both programming periods (2007-2011 versus 2014-2018). Different factors contributed to this initial low uptake of ESIF, mainly the late adoption of programmes, overlaps with the previous MFF and the delay in the approval of the management and control systems of certain Member States.

On the basis of the profile of yearly payments from the previous MFF (see Graph 3), one can see that they tend to increase towards the end of the MFF period and to diminish after the eighth year when the new seven-year MFF would be already in operation. For the purposes of this analysis, it is assumed that in 2019 and 2020, each country will follow a similar EU average absorption profile as in the corresponding years (2013 and 2014) of the previous MFF, adjusted and apportioned proportionally by each country's remaining funds.⁽¹³⁾ It is further assumed that all funds will be used by 2023, that is the end of the MFF period plus the additional three years permitted. National co-financing is not included in our simulations since we are interested in providing a central scenario for the impact of ESIF payments from the EU budget to be adjusted over time with country-specific information, including national co-financing rates. The profiles calculated in these simulations respect the official figures presented in the EU Budget 2019 and the Draft Budget 2020.⁽¹⁴⁾

Given that the overall implementation rate up to 2018 is actually lower compared to the previous MFF for the same period (2007-2011) and that the

⁽¹¹⁾ In concrete terms, eligible countries are those under an economic adjustment programme. They could receive payments up to 10 percentage points above their maximum EU co-financing rate on all their declared expenditure. The Commission frontloaded over EUR 3 billion of 'top-up' for the ERDF, ESF and Cohesion Fund in Cyprus, Greece, Hungary, Ireland, Portugal and Romania from 2011 to 2015. Greece benefited mostly from this top-up facility with a total amount of 1.3 billion. Other countries only requested a partial reduction to certain programmes (i.e. Cyprus, Ireland, Portugal, Hungary and Romania) or even declined this possibility (i.e. Latvia).

⁽¹²⁾ The average absorption profile of the EU is not very different from the average for the Member States that joined the EU in 2004 and later.

⁽¹³⁾ If the forecast is performed in the first three years of a MFF, then payments should take into account receipts from two overlapping MFFs (the current and the previous one). Since we forecast payments for the last two years of the MFF 2014-20, there is no overlapping between MFF cycles.

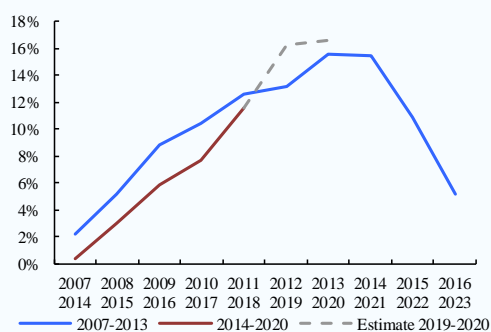
⁽¹⁴⁾ See working documents of the general budget 2019 https://ec.europa.eu/info/publications/working-documents-services-commission-2019_en and the Draft Budget 2020

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sixth and seventh year usually show increasing payments, the assumed payments for 2019 and 2020 are quite strong and in line with the amounts in the EU budget. These assumptions are quite simple but useful to provide a reasonable central scenario for the main beneficiaries of ESIF. It is important to clarify that a full economic assessment per country would need to be adjusted on the basis of country-specific information (e.g. higher or lower multipliers due to the cyclical position, import-intensity of expenditure, overall contributions to the EU budget, etc.).

Graph 3: EU ESIF absorption average profile for the period 2007-2013 and estimate for 2014-2020



Note: Estimations based on the data of the Cohesion Data Portal

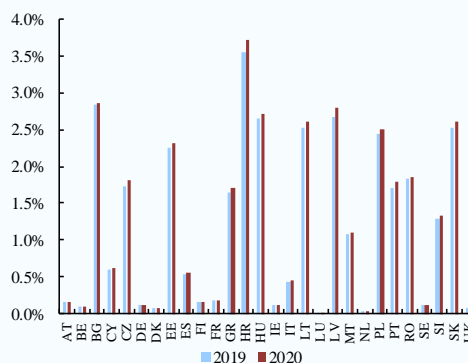
Using this profile of expected ESIF payments, the results show that ESIF-related payments could represent a substantial and increasing proportion of national GDP levels. For example, in a number of countries ESIF payments could represent more than 2.5% of GDP in 2019 and 2020 (see Graph 4). Furthermore, considering that an acceleration in payments can be expected in the last two years of an MFF, the impulse to growth (in nominal terms) over the forecast horizon is set to be quite significant in some Member States.⁽¹⁵⁾ This could reach more than 1 pps. in some countries and more than 0.5 pps. in many Central and Eastern European Member States (Graph 5). This impact is more pronounced for those countries which lag behind in absorption since it is assumed that this is fully compensated by an acceleration in payments towards the end of the MFF. Should this not materialise, or happen more gradually than expected, the impulse to GDP growth would be postponed.

Indeed, while certainly useful and indicative, these estimates have to be used with caution. As

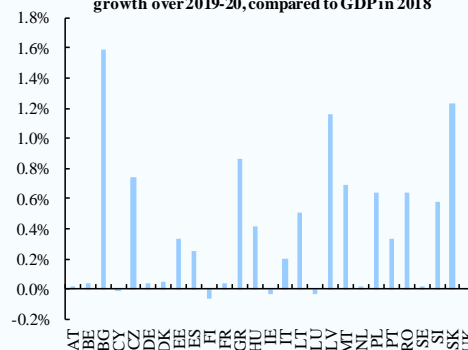
⁽¹⁵⁾ The impulse to growth is calculated as the change in total ESIF payments over 2019 and 2020 as a percentage of the base GDP level in 2018. In the case of Croatia (not shown in Graph 5), this is its first MFF and these assumptions would show a stronger impact.

mentioned earlier, they are based on cash data on payments that may not fully reflect the actual timing of expenditure used to estimate GDP on an accrual basis. They do provide, however, a clear indication of the direction of the impulse coming from ESIF in the coming two years, which is likely to be quite positive due to an expected acceleration of the implementation of ESIF projects.

Graph 4: ESIF payments as a share of GDP in 2019-20



Graph 5: Total estimated impulse of ESIF to GDP growth over 2019-20, compared to GDP in 2018



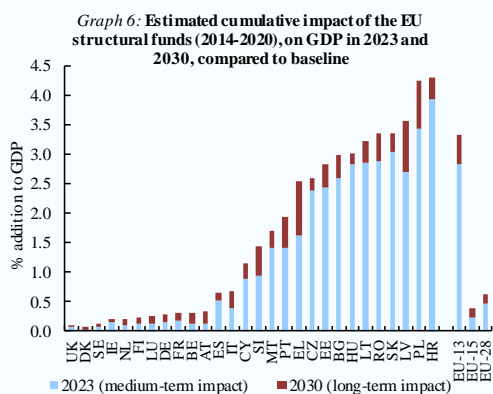
The medium-term impact

The ultimate objective of the ESIF is to achieve significant economic growth in the less developed Member States and regions to reduce their gap with the EU average. As seen in the previous section, the macroeconomic impact of ESIF is first visible over the short-term through the demand channel. Supply-side effects start to materialise over the medium term as potential output is increased due to the productivity-enhancing effects of investment in infrastructure, R&D and human capital. The impact

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through the Cohesion Policy funds, which account for more than 75% of ESIF, should increase GDP by more than 2.5% on average in the major recipient countries, by 2023. For example, GDP in Croatia is estimated to be around 4% higher by 2023 than in the baseline scenario of an absence of this policy. In the long-run (2030), the increase in GDP is largest in Croatia and Poland (more than 4% in each case) and over 3% in the largest beneficiaries. ⁽¹⁶⁾



Source: QUEST macroeconomic model

Conclusion

The European Structural and Investment Funds are not only a major instrument for supporting long-term economic, social and territorial cohesion but also an important determinant of short-term economic activity over this forecast horizon, explaining part of the high growth rates especially in Central and Eastern European Member States. Whereas simulations of their medium-term impact have been extensively analysed, the short-term impact is often difficult to measure due to the variations in the pattern of disbursements over time. Yet, looking at past developments, patterns of

absorption rates and the remaining funds to be utilised in the current MFF that ends in 2020, allows to estimate the likely magnitude of their impact on GDP in 2019 and 2020. These are expected to be positive both in terms of GDP levels and first differences (contribution to GDP growth) for the major beneficiaries of ESIF. The former effect is due to the magnitude of support provided, which has traditionally been substantial and broadly stable for the EU as a whole. The latter effect is due to an expected acceleration in ESIF payments and implementation at the end of the current MFF and, according to assumptions, especially in 2019. While not constituting a fully-fledged forecast (that would require further assumptions on the accrual timing of investment, multipliers by project envelope, import-content of ESIF-related investment, assumptions about national co-financing rates and ‘additionality’ of EU support) the estimates are useful to provide a horizontally consistent central scenario to be adjusted on the basis of country-specific information.

Moreover, in the context of the broader EU outlook in 2019 and 2020, ESIF can explain part of the decoupling in real GDP growth rates of the main beneficiaries from the rest of the EU. However, due to the mean-reversing property of ESIF payments over MFF cycles, other factors are likely to play a role, especially after 2019. Indeed, although yearly changes in ESIF payments do affect GDP growth, their economic impact is mostly relevant in terms of GDP levels. The central scenario estimates show that 2-4 pps. of GDP levels in several of the main beneficiaries in both 2019 and 2020 can be explained by ESIF payments. Followed with the right policies, these countries are likely to benefit from further positive effects in the long-term, as productivity-enhancing supply-side effects also materialise.

⁽¹⁶⁾ European Commission (2017). ‘7th Report on Economic, Social and Territorial Cohesion’.

Box I.4: Changes to HICP methodology

This technical box presents changes to the HICP methodology introduced in February 2019 and explores their impact on the inflation aggregates most commonly used in Commission forecasts.

Advances in HICP special aggregates calculations

From early 2019, Eurostat implemented several modifications in the methodology used for the calculation of the harmonised indices of consumer prices (HICP). Modifications in the methodology of the calculation of HICP are carried out regularly (yearly updates of country and item weights in particular). However, the change in early 2019 is of a different nature since it affects both the way certain underlying prices are measured and introduces new ways of obtaining so-called 'special' aggregates using the HICP classification.⁽¹⁾

In particular, the recent modification to the measurement of underlying prices concerns processed and unprocessed food items where the way price data are collected has been improved with a more extensive use of supermarket scanner data and so-called 'web-scraping'.⁽²⁾ On top of this,

Eurostat has introduced a more precise allocation of goods and services items across the five main HICP sub-indices. This was done mostly for the processed and unprocessed food sub-indices and to a minor extent across the energy, non-energy industrial goods and services sub-indices. This affects the inflation rates for these aggregates and has implications for the analysis of inflation developments.

The more precise allocation of products across categories in use since January 2019 is based on the *European Classification of Individual Consumption according to Purpose* (ECOICOP), which guides the allocation of items across the different categories. The ECOICOP introduced a fifth level of disaggregation, which contains a much larger number of categories compared to the previous version of the product classification.⁽³⁾ Since detailed price series are available now at the five-digit classification, the allocation of individual price items to specific special aggregates has been improved, to be more aligned with the definition of the main aggregates and especially with the definition of underlying inflation measures. Given the level of detail required, the availability of series according to the ECOICOP varies across member states.⁽⁴⁾

⁽¹⁾ Prices of individual products consumed by households are grouped into aggregates. The most known aggregates are at a low level of disaggregation (food, energy, non-energy industrial goods and services). At a more detailed level, there are around 30 special aggregates; for details see Eurostat, *European Classification of Individual Consumption according to Purpose adapted to the needs of the Harmonised Indices of Consumer Prices (Metadata)*, RAMON (Reference And Management Of Nomenclatures), Luxembourg, 2019.

⁽²⁾ Both scanner data and web-scraping represent a response to the growing importance of *e-commerce*, which changes pricing landscape (a larger number of varieties, dynamic nature of pricing, etc.) and requires a response in terms of obtaining information on more products and prices. Web-scraping is a process that obtains prices of a specified product(s) from automatically retrieved webpages of criteria-based-chosen vendors at present time. Such a collection can be repeated often with minimal costs, but requires specialists for data processing and system maintenance. For further information see: *New Techniques and Technologies for Statistics 2019*, Brussels, March 2019 (URL: https://ec.europa.eu/eurostat/cros/NTTS2019_en).

⁽³⁾ There are around 300 categories at the fifth level of disaggregation and around 90 at the fourth level of disaggregation, which is the one used in the HICP calculation. For example, the previously used category (4th level) Shoes and other footwear including repair and hire of footwear has been splitted into Shoes and other footwear (with three sub-categories) and a separate category for related services (Repair and hire of footwear). For further details on the new classification of individual products according to the ECOICOP, see Annex I of the Framework Regulation (EU) No 2016/792. However, the ECOICOP HICP excludes some categories (seven) because of collections data problems or non-existence of a harmonised treatment (such as imputed rentals for housing or FISIM).

⁽⁴⁾ While some member states recalculated all series back to 1990s, some other provide data only after 2017 with possible extensions in future. However, that creates a methodological break in euro area series.

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Table 1:

Weights of selected special aggregates before and from February 2019, Euro area

	Old weights (%)		New weights (%)		Difference (p.p.)	
	2017	2018	2017	2018	2017	2018
HICP (all-items)	1000	1000	1000	1000	0	0
Food, alcohol & Tobacco	195.9	195.7	195.9	195.7	0	0
Processed food, alcohol & tobacco	120.8	121	149.4	149.6	28.6	28.6
Unprocessed food	75.1	74.8	46.5	46.1	-28.6	-28.6
Energy	95.3	97	94.5	96.2	-0.8	-0.8
Non-energy industrial goods	263.1	263.3	264.2	264.4	1.1	1.1
Services	445.7	443.9	445.4	443.6	-0.3	-0.3
EC core (HICP excl. energy and unprocessed food)	829.6	828.2	859.0	857.6	29.4	29.4

Source: Eurostat (2019), table 1, own calculation.

Finally, there is a change in the calculation of the price index for 'package holidays' in Germany, which is an important part of the services inflation sub-index and with changes sizable enough to have a visible impact on euro area HICP (for details see Eiglsperger, 2019a).^{(5) (6)}

The methodological changes introduced represent an improvement in the ability to monitor inflation in a timely manner and with a wider coverage. However, as a result of the changes, the series of prices may become more volatile and larger/additional revisions of price indices (and thus HICP and special aggregates) may be observed. Experts are still discussing how to overcome those difficulties.

The impact of the changes on the series

It is important to notice that there is a structural break in the series, as the aforementioned changes affect published series for the euro area beginning in January 2017.⁽⁷⁾ In addition, the change in the calculation of the price index for package holidays

in Germany, which affects indices back to 2015,⁽⁸⁾ is bundled with the previously described ones.

For illustrative purposes, both series (computed according to the old and new methodologies) for headline and underlying inflation⁽⁹⁾ and both series for unprocessed and processed food are shown in Graphs 1 and 2. In most of the months, the differences between the old and the new series are relatively minor, especially for the overall HICP index (between 0.0 and +0.3 pps. in 2015, and between -0.1 and +0.1 pps. in 2016–2018 for the year-on-year inflation rate). However, this is not always the case, including for underlying inflation, where differences can be up to 0.3 pps. More precisely, the range of changes to the year-on-year rate is between 0.0 and +0.3 in 2015, and between -0.1 and +0.1 pps. over 2016–2018. In particular, there are visible differences in 2015 for both headline and underlying inflation, but not only. Moreover, there are quite visible implications for the profiles of these series. This is true in particular for certain relevant aggregates like underlying (core) inflation as computed by the European Commission (see also Table 1). This bears an impact on the quality of (core) inflation analysis, as the latter requires relatively long series.

⁽⁵⁾ For details see the official press release: Eurostat, 2019, 'Improved calculation of HICP special aggregates and German package holidays methodological change', 22st of February (with updates: 27th of February, 1st of March). Also, two boxes in Eiglsperger, M. (2019): New features in the Harmonised Index of Consumer prices: analytical groups, scanner data and web-scraping, *ECB Economic Bulletin 2*, pp. 53–55 and Eiglsperger, M. (2019): A new method for the package holiday price index in Germany and its impact on HICP inflation rates, *ECB Economic Bulletin 2* (a), pp. 56–59.

⁽⁶⁾ This has a relatively large weight in the consumer price index in Germany, the largest euro area member. In 2019, the yearly weight of this component is around 2.7% in Germany (the ten-year average equals 3.6%), but less than 1.5% (the ten-year average equals 1.6%) for the euro area as a whole

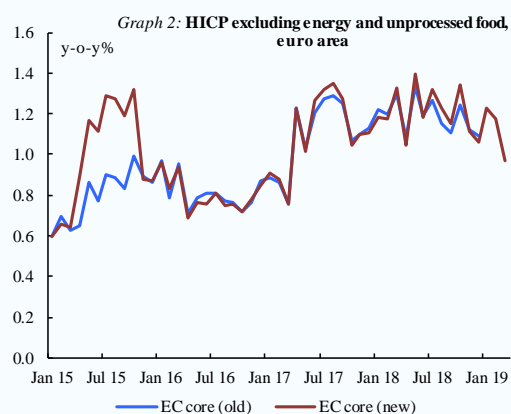
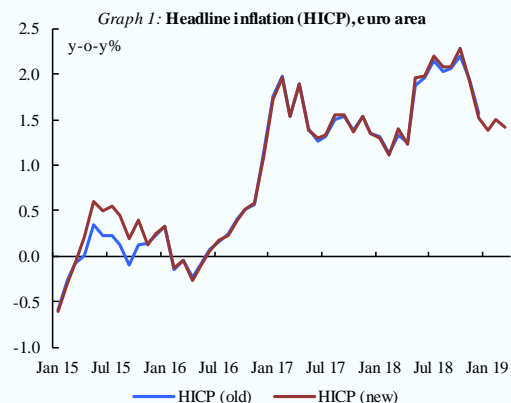
⁽⁷⁾ February 2019 release was the first one with the new series.

⁽⁸⁾ The main difference is in the use of fixed annual weights in a given year instead of changing them through the year as done previously. However, this change requires further estimation and imputations of values.

⁽⁹⁾ Underlying inflation (EC core) is computed as headline inflation (HICP) excluding energy and unprocessed food.

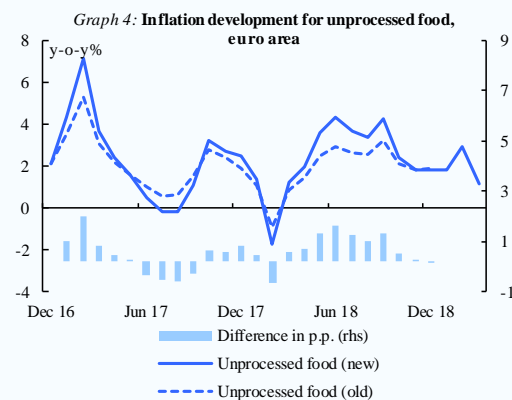
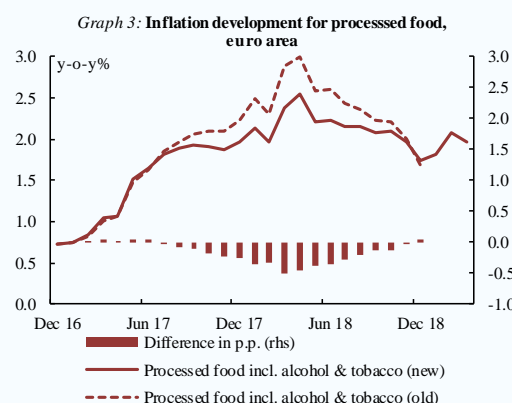
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Box (continued)



As expected, the modifications affect the processed and unprocessed food inflation aggregates. While the effect on the processed food series is between -0.5 and +0.1 pps. (no effect on food, alcohol and tobacco series), that for the unprocessed food series varies between -0.9 and 1.8 pps.

While these fluctuations do not change the overall picture in terms of underlying price pressures, these changes pose some analytical and forecasting challenges. On top of the presence of structural breaks in the series, a different pattern results from an increased seasonal variation, which appears in more pronounced seasonal peaks and troughs linked to the new computation of price indices for summer and winter holidays, or to the already mentioned seasonal effects because of more detailed information. This is compounded by the lack of relatively long time series for the changed categories.⁽¹⁰⁾



⁽¹⁰⁾ For some suggestions see Eiglsperger (2019a).

Box 1.5: Some technical elements behind the forecast

Given the ongoing ratification process of the Withdrawal Agreement in the UK, projections for 2019 and 2020 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. This is for forecasting purposes only and has no bearing on future negotiations between the EU and the UK.

The cut-off date for taking new information into account in this European Economic Forecast was 24 April 2019. The forecast incorporates validated public finance data as published in Eurostat's news release 67/2019 of 23 April 2019.

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 14 and 24 April) were used for exchange and interest rates, and for oil prices.

Exchange and interest rates

The technical assumption regarding exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to an implied average USD/EUR rate of 1.13 both in 2019 and in 2020. The average JPY/EUR is 125.57 in 2019 and 125.73 in 2020.

Interest-rate assumptions are market-based. Short-term interest rates for the euro area are derived from futures contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States are calculated using implicit forward swap rates, corrected for the current spread between the interest rate and swap rate. In cases where no market instrument is available, the fixed spread vis-à-vis the euro area interest rate is taken for both short- and long-term rates. As a result, short-term interest rates are assumed to be -0.3% in 2019 and -0.3% in 2020 in the euro area. Long-term euro area interest rates are assumed to be 0.1% in 2019 and 0.2% in 2020.

Commodity prices

Commodity price assumptions are also based on market conditions. According to futures markets, prices for Brent oil are projected to be on average 69.19 USD/bbl in 2019 and 67.84 USD/bbl in 2020. This would correspond to an oil price of 61.28 EUR/bbl in 2019 and 60.19 EUR/bbl in 2020.

Trade policies

On what trade policy is concerned, this forecast pencils in only the measures that have been implemented until the cut-off date. Compared to the winter interim forecast, there were a number of limited changes to the baseline scenario.

- US 10% tariffs on \$200 billion of imports from China took effect on 24 September 2018 are taken into account. China retaliated by imposing countermeasures on \$60 billion of imports from the US (with tariff rates of 5% and 10%). The US administration announced an increase of the tariffs to 25% on 1 January 2019, which was subsequently postponed first until 1 April 2019 and then without specifying a new date. The initially announced increase to 25% on 1 January and then 1 April was incorporated in the baseline in previous forecasts; it is no longer included in this forecast.
- On 17 February, the US authorities submitted a report to the President concluding an investigation under Section 232 of the Trade Expansion Act of 1962 into whether automotive imports into US threatened national security. The President has now time until 18 May to take a the decision whether to impose tariffs on US imports of autos and car parts from all or some of its trade partners.

Budgetary data and forecasts

Data up to 2018 are based on data notified by Member States to the European Commission before 1 April and validated by Eurostat on 23 April 2019.⁽¹⁾

⁽¹⁾ Eurostat News Release No 67/2019.

(Continued on the next page)

Box (continued)

Table 1:
Technical assumptions

	Spring 2019 forecast				Autumn 2018 forecast		
	2017	2018	2019	2020	2018	2019	2020
3-month EURIBOR (percentage per annum)	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	0.2
10-year government bond yields (percentage per annum) (a)	0.3	0.4	0.1	0.2	0.5	0.7	0.9
USD/EUR exchange rate	1.13	1.18	1.13	1.13	1.18	1.15	1.15
JPY/EUR exchange rate	126.61	130.38	125.57	125.73	130.74	130.10	130.10
GBP/EUR exchange rate	0.88	0.88	0.86	0.86	0.88	0.88	0.88
EUR nominal effective exchange rate (annual percentage change) (b)	2.4	4.8	-1.5	-0.1	5.3	0.6	0.0
Oil price (USD per barrel)	54.8	71.5	69.2	67.8	75.1	80.6	76.7
Oil price (EUR per barrel)	48.5	60.6	61.3	60.2	63.4	70.0	66.5

(a) 10-year government bond yields for the euro area are the German government bond yields.

(b) 42 industrial countries EU-28, TR CH NR US CA JP AU MX NZ KO CN HK RU BR.

Eurostat is **expressing a reservation** on the quality of the data reported by Hungary in relation to the sector classification of the Hungarian Association for the Stockpiling of Hydrocarbons (MSZKSZ). Eurostat considers that this entity should be classified inside general government. This would lead to an increase in government debt in 2015 by 0.3% of GDP, in 2016 and in 2017 by 0.4% of GDP and in 2018 by an estimated 0.3% of GDP. The deficit figures would remain virtually unchanged.

Eurostat is **maintaining the reservation** on the quality of the data reported by Hungary in relation to the sector classification of the foundations created by the Hungarian National Bank. Eurostat considers that these foundations, including their subsidiaries, should be classified inside general government. This would lead to an estimated increase in government deficit in 2015 by 25.3 bn HUF (0.1% of GDP), in 2016 by 54.0 bn HUF (0.2% of GDP) and in 2017 by 33.7 bn HUF (0.1% of GDP). The debt figures would remain unchanged.

Eurostat is **expressing a reservation** on the quality of the data reported by Slovakia in relation to the recording of certain expenditures incurred by government, which could increase the deficit by 0.3% of GDP in 2018. Eurostat will investigate the issue in cooperation with the Slovak statistical authorities.

The public finance forecast is made under the ‘no-policy-change’ assumption, which extrapolates past revenue and expenditure trends and relationships in a way that is consistent with past policy orientations. This may also include the adoption of a limited number of working assumptions, especially to deal with possible structural breaks. The forecast includes all fiscal policy measures that imply a change to these past policy orientations on the condition that they are sufficiently detailed as well as adopted or at least credibly announced. For

2019 in particular, the annual budgets adopted or presented to national parliaments are taken into consideration.

EU and euro area aggregates for general government debt in the forecast years 2019-20 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans, including those made through the European Financial Stability Facility). To ensure consistency in the time series, historical data are also published on the same basis. For 2018, this implies an aggregate debt-to-GDP ratio which is somewhat higher than the consolidated general government debt ratio published by Eurostat in its news release 67/2019 of 23 April 2019 (by 2.0 pps. in the EA19 and by 1.5 pps. in the EU).

ESA 2010

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

Calendar effects on GDP growth and output gaps

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

The working-day effect in the EU and the euro area is estimated to be limited in 2018 and 2019, implying that adjusted and unadjusted annual growth rates differ only marginally (by up to ±0.1 pps.). In 2020, this difference will be close to ¼ pps. in the euro area.

Estimations of potential GDP and output gaps are not adjusted for working days. Furthermore, since the working-day effect is considered temporary, it is not expected to affect cyclically-adjusted balances.

PART II

Prospects by individual economy

Member States

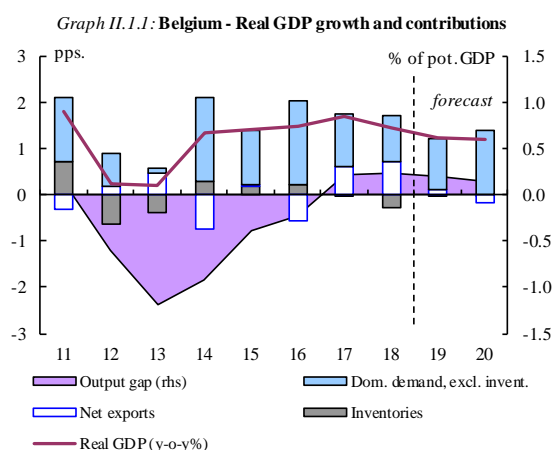
1. BELGIUM

Weaker growth momentum, slower public debt reduction

Economic growth is expected to slow down to 1.2% in 2019 and 2020 as the rise in domestic demand is offset by weakening world trade. Inflation is forecast to decelerate, driven by lower oil prices. With the headline general government deficit forecast to deteriorate, the pace of debt reduction is expected to slow down.

Economic growth slowed to 1.4% in 2018 as positive net exports were not enough to offset the impact of weakening private consumption growth. GDP growth is forecast to slow further in 2019 and 2020, due to the decreasing, and ultimately negative, contribution of net exports, and slower investment growth. By contrast, positive labour market conditions should support household consumption growth, paving the way for domestic demand to become the sole growth engine over the forecast horizon.

Soft and hard indicators deteriorated steadily in 2018 and the first months of 2019, suggesting that Belgium's economic growth is slowing down, in parallel with the euro area in general. Overall, real GDP growth is expected to slow to 1.2% in both 2019 and 2020.



Sound labour market to underpin private consumption growth

The job market should continue developing favourably although employment growth is forecast to decline from 1.2% in 2018 to 0.8% in 2019, as recent labour market measures are expected to partially offset the impact of slower economic growth. Unemployment in Belgium is expected to fall to close to 5% in 2020. This should contribute to stronger household consumption growth, following a marked

slowdown in 2018 due to sustained inflation and lower confidence. Rising disposable income, thanks to both job creation and wage indexation, is expected to underpin stronger private consumption growth in 2019 and 2020. Still, dampened household confidence means that part of the increase in disposable income will likely go towards savings.

Investment to slow down but support demand

Following a rebound in 2018, investment's contribution to growth is forecast to moderate slightly. Business investment is set to slow down amid lower business confidence, despite high capacity utilisation rates. Housing investment is set to increase moderately amid a relatively benign interest rate environment. Public investment growth is expected to decrease, after a rise in 2018 linked to the electoral cycle. All in all, total annual investment growth is forecast to slow from 2.0% in 2018 to 1.7% in 2019 and 2020.

The contribution of net exports to GDP growth is forecast to weaken markedly in 2019 and turn negative in 2020. While the expected slowdown in world trade should weigh on exports, imports should be bolstered by stronger domestic demand.

Downside risks to the outlook are mainly external, Belgium being a small open economy. They include potential impacts on the economy from higher-than-expected slowdown in Belgium's main trading partners. On the upside, private consumption could turn out to be more dynamic than expected, if consumers spend all of their expected increase in disposable income.

Inflation to decline towards euro area average

Headline inflation remained high at 2.3% in 2018, driven by higher energy and food prices. Headline inflation is forecast to ease to 1.8% in 2019 and 1.6% in 2020, reflecting lower oil prices and lower expected increases in food prices. Weak competition in some business and professional services sectors are expected to contribute to

sustained services inflation. This should support core inflation, which is forecast to edge up slightly. The inflation gap with the euro area is forecast to narrow gradually.

Deficit expected to edge up again

In 2018, the headline deficit fell to 0.7% of GDP, slightly lower than the 0.8% of GDP reached in 2017. The improvement was driven by a substantial one-off rise in corporate income tax revenues, and slightly positive cyclical conditions.

In 2019, the headline deficit is forecast to significantly widen to 1.3% of GDP driven mainly by a decrease in revenue of 0.7% of GDP. Expenditures are also projected to decrease by 0.1% of GDP.

A number of tax reforms that are entering into force (or that continue to have an effect) are expected to weigh heavily on revenues. This includes measures to shift the tax burden on labour towards other activities, which are now expected to have a slightly negative, rather than neutral impact on the budget. Additionally, the extraordinary corporate income tax revenue increase observed in 2018 is not expected to be repeated in 2019: its calendar implications (to anticipate payments) are

expected to die out as firms have adapted to them. Additionally, the increased limits to the notional interest deduction are not reining in tax expenditures as much as originally expected. As a result, net of one-offs the structural balance is projected to stabilise.

In 2020, under a no-policy-change assumption, the headline deficit is expected to further widen to 1.5% of GDP with the structural deficit deterioration forecast to reach about 0.3% of potential output. This includes a larger structural impact of the corporate income tax reform in that year, driven by the largest step fall in the stepwise decrease of the nominal corporate income tax rate across several years. Other elements – consolidation of the taxation regime introduced in 2019 for groups, etc. – will also play a role.

Starting from 102.0% in 2018, the debt-to GDP ratio is projected to decrease by 0.7 pps. in 2019 and to fall to 100.7% in 2020. Interest expenditures are expected to continue decreasing. However, they are forecast to have a smaller impact in 2019 and 2020, slowing down the positive snowball effect (growth of nominal GDP outpacing that of market interest rates).

Table II.1.1:

Main features of country forecast - BELGIUM

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	439.1	100.0		1.7	1.7	1.5	1.7	1.4	1.2	1.2
Private Consumption	223.9	51.0		1.2	0.9	1.7	1.1	0.6	1.1	1.3
Public Consumption	102.2	23.3		1.5	0.6	-0.2	0.6	0.8	0.7	1.2
Gross fixed capital formation	103.2	23.5		1.9	2.7	3.8	1.8	2.0	1.7	1.7
of which: equipment	35.7	8.1		1.4	4.4	11.4	0.6	1.9	1.6	1.9
Exports (goods and services)	376.6	85.8		3.7	3.5	7.6	5.0	3.5	3.0	3.1
Imports (goods and services)	371.5	84.6		3.6	3.4	8.5	4.3	2.7	2.9	3.3
GNI (GDP deflator)	444.3	101.2		1.6	0.5	2.1	2.8	1.6	1.3	1.2
Contribution to GDP growth:										
Domestic demand				1.4	1.2	1.7	1.1	1.0	1.1	1.4
Inventories				0.1	0.3	0.3	0.0	-0.3	0.0	0.0
Net exports				0.2	0.1	-0.5	0.6	0.7	0.1	-0.2
Employment				0.9	0.9	1.3	1.4	1.2	0.8	0.7
Unemployment rate (a)				7.8	8.5	7.8	7.1	6.0	5.6	5.3
Compensation of employees / head				2.6	0.0	0.5	1.9	2.0	2.5	2.0
Unit labour costs whole economy				1.8	-0.8	0.3	1.6	1.8	2.2	1.5
Real unit labour cost				0.1	-1.8	-1.5	0.0	0.6	0.6	0.0
Saving rate of households (b)				15.2	11.8	11.3	11.5	12.0	12.6	12.5
GDP deflator				1.7	1.0	1.8	1.7	1.2	1.5	1.6
Harmonised index of consumer prices				2.0	0.6	1.8	2.2	2.3	1.8	1.6
Terms of trade goods				-0.7	1.8	0.5	-1.4	-1.9	-0.1	0.1
Trade balance (goods) (c)				1.3	0.0	0.0	0.1	-0.1	-0.1	-0.2
Current-account balance (c)				3.0	-0.8	-0.4	0.9	0.2	0.2	0.0
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.0	-0.7	-0.3	1.0	0.3	0.2	0.0
General government balance (c)				-1.9	-2.4	-2.4	-0.8	-0.7	-1.3	-1.5
Cyclically-adjusted budget balance (d)				-2.0	-2.2	-2.3	-1.0	-0.8	-1.4	-1.6
Structural budget balance (d)				-	-2.3	-2.3	-1.4	-1.4	-1.4	-1.8
General government gross debt (c)				101.1	106.4	106.1	103.4	102.0	101.3	100.7

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

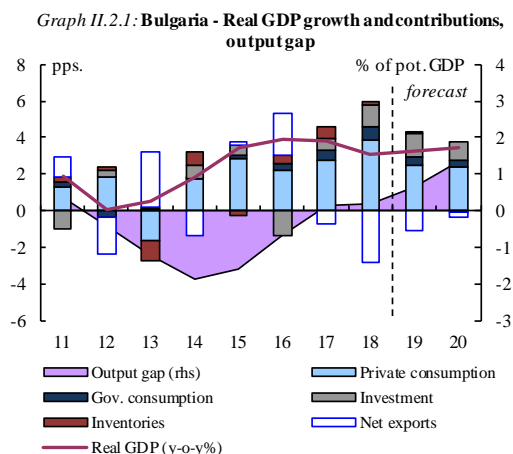
2. BULGARIA

Steady growth ahead

Economic growth in Bulgaria is expected to recover, curbed somewhat by waning foreign demand, labour market tightness and reduced consumer sentiment. Exports are forecast to recover from last year's slump as some temporary effects on exports fade away. In the absence of external price shocks, inflation pressures are expected to abate. The government balance is set to remain in surplus and public debt should continue falling.

More moderate GDP growth

Real GDP growth in Bulgaria moderated to 3.1% in 2018 from 3.8% in 2017. Domestic demand supported GDP growth, while net exports were a drag on economic activity. Positive labour market outcomes, strong lending activity and consumer confidence spurred private consumption in the first three quarters of 2018. However, private consumption lost momentum in the last quarter of the year as consumer confidence deteriorated, albeit from elevated levels. Investment activity, both private and public, contributed to the strong domestic demand in 2018, underpinned by favourable financing conditions, high capacity utilisation and greater use of EU funds.



Exports underperformed in 2018, mainly driven by lower exports to Turkey, a negative base effect in exports to Russia and the temporary shutdown of an oil refinery in the spring.

Real GDP growth is expected to recover slightly to 3.3% in 2019 and 3.4% in 2020. Domestic demand should continue to expand but at a slower pace, due to more moderate private consumption. Consumer confidence remained subdued in the first few months of 2019, suggesting more cautious spending behaviour through the year. However,

favourable labour market trends are expected to support household expenditure through higher real wages. Investment is projected to remain strong. Exports are set to recover, as the one-off effects of 2018 dwindle. This should hold even if the subdued demand from major trading partners continue to weigh on the exports.

Risks to the growth forecast are broadly balanced. On the upside, private consumption may grow faster than expected, provided that the labour market tightens further and consumers' confidence improves. The main downside risk is the possibility of a sharp contraction in major export markets.

Inflation pressures ease

Inflation pressures from high energy prices and one-off statistical effects in services gathered pace throughout most of 2018, but eased by the end of the year. Headline inflation declined to 2.3% in December. Elevated food prices, due to a bad harvest in 2018 and relatively high international prices, are forecast to push up price levels in the first half of 2019. Energy price hikes introduced in 2018 have exerted pressure on prices at the beginning of the year, but are expected to gradually dissipate. Inflation is set to decline to 2.0% in 2019 and 1.8% in 2020.

Favourable labour market trends continue

Employment growth is projected to reach 0.1% for 2019 and 2020 as unemployment has fallen to historically low levels. The unemployment rate was 5.2% in 2018 and is set to further decline to 5.0% in 2019 and 4.8% in 2020. Real wage growth is forecast to remain high, owing to the tight labour market and planned government wage increases.

Sustained budget surpluses

The general government surplus rose to 2% of GDP in 2018. This was mainly due to increases in tax revenues and decreases in some expenditure

categories such as social transfers and other capital expenditure as a percentage of GDP. Public investment strengthened but the impact on public finances was partly offset by higher transfers from the EU.

The budget balance is expected to remain positive over the forecast period, but to narrow to 0.8% of GDP in 2019 and to reach 1.0% of GDP in 2020. Public investment is set to be the main driver of budgetary developments, as a number of projects financed either by EU funds or national resources are starting or gaining pace. Moreover, the compensation of employees is forecast to increase as a result of public sector and minimum wage increases. The social transfers are set to rise slightly due to higher spending on health support schemes for vulnerable groups.

On the revenue side, tax revenues are forecast to increase as the economy improves slightly relative to 2018. Other current revenue are also set to strengthen as a percentage of GDP, benefitting from EU transfers and the impact of the increase in the contribution to the Electricity System Security Fund introduced in 2018.

The budget forecast is subject to some uncertainty. In particular, the implementation schedule of some of the investment plans financed by national resources is not yet clear.

The structural surplus is set to decrease from around 2% of potential GDP in 2018 to around 2/3 % of potential GDP in 2019 and 2020, reflecting the changes in the headline balance and the significantly higher and increasing output gap. Interest spending is decreasing and public debt is forecast to drop to 18.4% of GDP by 2020.

Table II.2.1:

Main features of country forecast - BULGARIA

	2017			Annual percentage change						
	bn BGN	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP		101.0	100.0	2.9	3.5	3.9	3.8	3.1	3.3	3.4
Private Consumption		61.3	60.6	4.8	4.5	3.6	4.5	6.4	4.0	3.8
Public Consumption		15.8	15.6	0.8	1.3	2.2	3.7	4.7	3.0	2.3
Gross fixed capital formation		18.7	18.5	7.3	2.7	-6.6	3.2	6.5	6.8	5.2
of which: equipment		7.5	7.4	7.9	9.8	-14.9	4.3	7.1	9.4	7.5
Exports (goods and services)		68.1	67.4	3.8	5.7	8.1	5.8	-0.8	3.3	2.9
Imports (goods and services)		64.4	63.7	7.3	5.4	4.5	7.5	3.7	5.0	3.3
GNI (GDP deflator)		102.4	101.3	2.9	2.3	5.8	5.4	2.2	3.2	3.3
Contribution to GDP growth:		Domestic demand		4.9	3.6	1.2	3.9	5.8	4.3	3.8
		Inventories		-0.1	-0.3	0.4	0.6	0.1	0.1	-0.1
		Net exports		-1.9	0.1	2.3	-0.8	-2.8	-1.1	-0.3
Employment				-0.1	0.4	0.5	1.8	-0.1	0.1	0.1
Unemployment rate (a)				11.8	9.2	7.6	6.2	5.2	5.0	4.8
Compensation of employees / head				8.6	5.6	5.8	10.5	5.6	6.9	5.9
Unit labour costs whole economy				5.5	2.5	2.3	8.4	2.4	3.6	2.5
Real unit labour cost				0.9	0.2	0.1	4.8	-1.2	0.9	0.3
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				4.5	2.2	2.2	3.4	3.6	2.7	2.2
Harmonised index of consumer prices				4.8	-1.1	-1.3	1.2	2.6	2.0	1.8
Terms of trade goods				-1.0	0.6	3.9	0.3	0.0	0.4	0.4
Trade balance (goods) (c)				-15.3	-5.8	-2.0	-1.5	-4.7	-5.3	-5.3
Current-account balance (c)				-6.8	0.6	5.3	6.2	2.5	1.6	1.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.2	3.9	7.3	7.2	3.6	2.9	2.8
General government balance (c)				-0.6	-1.7	0.1	1.2	2.0	0.8	1.0
Cyclically-adjusted budget balance (d)				-0.3	-1.2	0.3	1.1	1.9	0.7	0.6
Structural budget balance (d)				-	-1.1	0.3	1.1	1.9	0.7	0.6
General government gross debt (c)				32.8	26.2	29.6	25.6	22.6	20.5	18.4

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

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

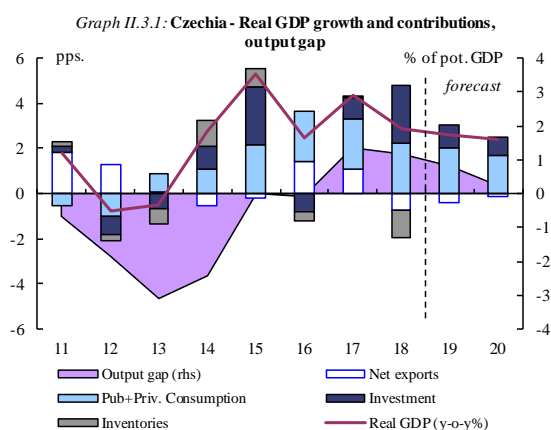
3. CZECHIA

GDP growth to remain solid amid downside risks

Czechia's economic expansion is expected to moderate towards potential growth over the next two years. Domestic demand is likely to remain the only driver of GDP growth, while net exports are expected to have a negative impact on growth for the second consecutive year. Labour shortages and reliance on the external sector remain the main downside risks. HICP inflation is forecast to remain close to the central bank's 2% target rate. The general government surplus is forecast to diminish compared to the previous years.

Domestic demand driving GDP growth

In 2018, strong growth in investment allowed the economy to expand by 2.9%. Household consumption also made a significant contribution, supported by very strong labour market conditions and rising real wages. However, the contribution of net exports to GDP growth turned negative, so the annual rate of growth was less than the 4.4% recorded in 2017. GDP growth is expected to moderate somewhat in 2019 and 2020 to 2.6% and 2.4%, respectively, broadly in line with estimated potential growth rates. Household consumption is likely to remain the main growth driver, boosted by rising wages across the economy. Investment growth is expected to moderate compared to the significant rise seen in 2018.



Investment growth to continue at a lower pace

Investment growth is set to slow after peaking in 2018, although both the private and the public sector are expected to support investment activity. Automation and robotisation remain priorities in the private sector, with corresponding investment activities geared towards improving productivity. Despite longer-term uncertainties, companies are likely to continue to invest in capital amid a tight

labour market where qualified workers are scarce and upward wage pressures remain strong. On the other hand, substantial increases in productivity have yet to materialise. This can partly be explained by the lag between the start of automation projects and the moment when actual productivity improvements become visible.

Trade balance set to deteriorate

As a small open economy, Czechia is highly dependent on the external sector. Slowing demand from major trade partners, especially those in the EU, may stifle the growth rate of exports. Fast real wage growth, which is expected to continue over the forecast horizon, given continued labour market shortages, may have started to affect the competitiveness of Czech exports. The number of vacancies continues to increase in all sectors of the economy and across all skill levels.

Imports are expected to continue increasing faster than exports as rising private consumption takes over as the main driver of imports in the context of an expected slowdown in equipment investment — an expenditure type with a relatively high import content. With export growth likely to settle around a more moderate 3% per year, the trade balance is likely to deteriorate and the contribution of net exports to GDP growth is expected to remain negative in both 2019 and 2020.

Inflation expected to remain above target

HICP inflation stood at 2.0% in 2018, having eased from 2.4% in 2017 in the context of monetary policy tightening. In 2019, inflation is expected to rise again, influenced by steeper services and energy prices. Overall, HICP inflation is forecast to reach 2.4% in 2019, slightly above the Czech National Bank's target of 2%. For 2020, inflation is expected to moderate and reach 2.0%.

General government balance to decrease

In 2018, the general government budget surplus was lower than expected, at 0.9% of GDP, down from 1.6% in 2017. Tax revenues and social contributions rose significantly and in line with expectations, but expenditure growth exceeded that of revenues by around 2 pps. This was driven mainly by the 28% growth in gross fixed capital formation on the back of a large increase in domestic and EU-funded investments. After subdued growth in recent years, investment also picked up at the local government level.

On the back of moderating economic growth, the fiscal surplus is expected to diminish further in 2019 to 0.2% of GDP. While local governments will continue to run a surplus, the central government will most likely post a slight deficit. Tax revenues are expected to grow in line with the economy, as the receipts-boosting effects of the first phases of electronic registration of sales have mostly faded out.

Similarly, personal income tax and social security contributions are expected to continue to rise in line with the growth of the wage bill. On the expenditure side, investment is expected to ease significantly from the fast rate seen in 2018. On the other hand, the balance will be negatively affected by increases in public wages, pensions and various other social benefits. For the first time since 2015, the general government balance is expected to turn negative in 2020. This is the combined effect of economic developments and recently agreed measures on the expenditure side. Along with wage increases for teachers and doctors, the government coalition recently agreed to further raise pensions and parental allowances in 2020, increasing total government expenditure by around ¾% of GDP.

After three years in positive territory, the structural balance is expected to turn slightly negative in both 2019 and 2020. Meanwhile, the general government debt is projected to further decrease to around 31% of GDP in 2020.

Table II.3.1:

Main features of country forecast - CZECHIA

	2017			Annual percentage change						
	bn CZK	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	5047.3	100.0		2.5	5.3	2.5	4.4	2.9	2.6	2.4
Private Consumption	2393.2	47.4		2.2	3.7	3.6	4.3	3.2	3.0	2.8
Public Consumption	968.4	19.2		1.4	1.9	2.7	1.3	3.7	3.0	1.8
Gross fixed capital formation	1250.3	24.8		2.2	10.2	-3.1	3.7	10.5	3.9	3.1
of which: equipment	553.7	11.0		4.1	9.3	-2.5	3.4	9.8	5.1	4.2
Exports (goods and services)	4024.0	79.7		8.7	6.0	4.3	6.7	4.5	3.3	3.1
Imports (goods and services)	3644.3	72.2		8.1	6.8	2.8	5.9	6.0	4.2	3.5
GNI (GDP deflator)	4736.6	93.8		2.2	5.3	2.7	4.7	4.0	2.7	2.5
Contribution to GDP growth:		Domestic demand		2.0	4.7	1.4	3.2	4.8	3.1	2.5
		Inventories		0.1	0.8	-0.4	0.1	-1.2	0.0	0.0
		Net exports		0.5	-0.2	1.4	1.1	-0.7	-0.4	-0.1
Employment				0.1	1.4	1.6	1.6	1.6	0.9	0.7
Unemployment rate (a)				7.2	5.1	4.0	2.9	2.2	2.2	2.3
Compensation of employees / head				4.7	3.0	4.0	6.4	7.6	5.0	4.2
Unit labour costs whole economy				2.2	-0.8	3.1	3.6	6.2	3.2	2.5
Real unit labour cost				0.3	-2.0	1.8	2.1	4.0	1.1	0.5
Saving rate of households (b)				11.5	12.0	11.6	9.5	10.9	10.9	10.6
GDP deflator				1.9	1.2	1.3	1.4	2.1	2.1	2.0
Harmonised index of consumer prices				2.3	0.3	0.6	2.4	2.0	2.4	2.0
Terms of trade goods				-0.3	0.5	1.0	-1.4	-0.4	-0.3	0.0
Trade balance (goods) (c)				-1.2	4.1	5.4	5.0	3.8	3.1	2.8
Current-account balance (c)				-3.6	-1.5	0.1	0.3	0.1	-0.5	-0.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.7	1.3	0.6	0.8	1.0	0.6	0.7
General government balance (c)				-3.5	-0.6	0.7	1.6	0.9	0.2	-0.2
Cyclically-adjusted budget balance (d)				-3.6	-0.6	0.8	1.0	0.4	-0.1	-0.4
Structural budget balance (d)				-	-0.6	0.8	1.0	0.4	-0.1	-0.4
General government gross debt (c)				30.7	40.0	36.8	34.7	32.7	31.7	31.1

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

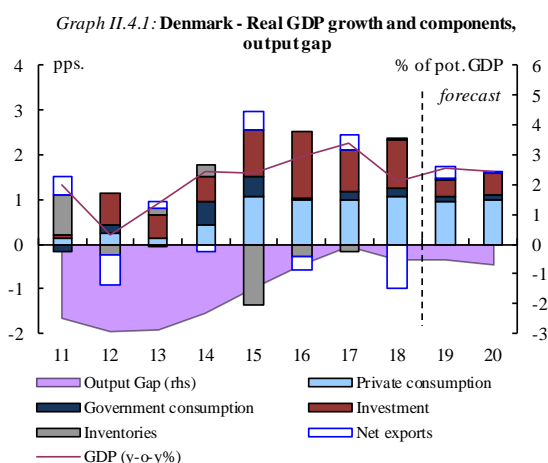
4. DENMARK

Resilient growth

Underlying economic growth is forecast to remain broadly stable over the forecast horizon. The general government budget balance is expected to remain in surplus this year, before falling to a broadly balanced position in 2020.

Stable growth masked by a temporary factor

Denmark's economy grew by 1.4% in 2018, somewhat slower than in the years before. However, this was partly due to the negative base effect from a large one-off service export that lifted real GDP growth by 0.4 pps. in 2017. Discounting this effect, real GDP growth would have been around 1.8% in 2018. Economic growth has shown some resilience to the recent slowdown in the euro area with robust domestic demand and positive net trade contributions supporting growth in the second half of last year.



Domestic demand remains the main driver

Private consumption has been expanding steadily by around 2% annually supported by strong labour market developments and steady disposable income growth. Payments to households from the reform of a voluntary early retirement scheme in 2018 (around 0.2% of GDP) helped raise private consumption growth to 2.3% in 2018. It is forecast to slow down to 2.0% in 2019, but increase again in 2020 to 2.1% on the back of the repayment of excessively collected property taxes (around 0.4% of GDP).

Investment rose by 5.1% in 2018, supported by robust equipment and construction investment. However, this was partly due to a large acquisition in the shipping sector, which lifted equipment

investment as well as goods imports last year. This temporary lift will have a negative base effect, resulting in relatively low fixed investment growth of 1.7% in 2019. Gross fixed capital formation is expected to accelerate again to 2.3% in 2020 on the back of a more favourable global economic outlook. Housing price inflation stalled in the second half of 2018 and even started to decline in certain areas, leading to a sharp deceleration in residential investment, from a growth rate of 12.9% in 2017 to 4.8% in 2018. Over the forecast horizon, moderately growing house prices and stabilising new dwellings construction permits are expected to maintain a residential construction growth of 2.9% in 2019 and 2.1% in 2020.

Employment growth set to slow down gradually

Employment increased by 1.8% last year - its fastest pace in a decade. Despite a dynamically expanding labour force, the unemployment rate fell to 5.0% in 2018. Soft indicators suggest a slow-down in labour demand and labour shortage started to ease in several sectors in the second half of last year. Hence, employment growth is projected to slow down to 1.1% in 2019 and 0.9% in 2020. Although the labour force is set to further expand, partly due to the gradual increase in the statutory retirement age, the unemployment rate is forecast to fall further to 4.8% in 2019 and 4.7% in 2020.

Positive net trade developments again

Denmark's current account surplus shrank from 8.0% of GDP in 2017 to 6.2% of GDP in 2018 mainly due to strong domestic demand, although temporary factors, mentioned above, also played a role. Although the goods trade balance remained relatively large, the trade surplus in services had almost completely disappeared by last year due to the weakness of the shipping sector. Over the forecast horizon, exports and imports are expected to resume their steady trend growth. Despite robust domestic demand, the current account surplus is expected to climb back gradually to 6.3% of GDP in 2020.

Balanced risks

On the upside, household savings remain high by historical standards, suggesting a potential for stronger private consumption growth. On the downside, being a small open economy, a greater-than-expected slowdown in the global economic outlook could negatively affect investment and exports.

Slowly increasing inflation

Danish consumer prices grew by a mere 0.7% in 2018 due to taxation changes and a slow rise in food prices. Consumer price inflation is set to remain modest, only slightly increasing to 1.3% in 2019 and 1.5% in 2020, supported by rising wage growth.

Public finances remain stable

The headline budget balance fell to 0.5% of GDP in 2018, down from 1.4% of GDP in 2017. The decline was mainly due to a fall in revenue from pension yield and corporate taxes from high levels. Private consumption growth supported buoyant value added taxes. The surplus also manifested

itself despite a reform of the voluntary early retirement scheme, leading to the reimbursement of DKK 4bn (0.2% of GDP) to households in 2018.

In 2019, an expected decline in pension yield tax will weigh on the budget balance, offsetting the positive contribution stemming from the pick-up in GDP growth. The budget balance for 2019 is therefore projected to remain broadly stable at a surplus of 0.6% of GDP. In 2020, the headline balance is expected to deteriorate to -0.1% of GDP. This is mainly due to a one-off repayment of DKK 15.5 bn (0.7% of GDP) of excessively collected property taxes both to households and companies.

The structural balance is estimated at 1% in 2019 and is expected to remain around that level over the forecast horizon.

Public gross debt is set to continue its fall from 34.1% of GDP in 2018 to an estimated 32.5% of GDP in 2020 due to positive primary balances, low interest rates and stable growth.

Table II.4.1:

Main features of country forecast - DENMARK

	2017			Annual percentage change						
	bn DKK	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	2178.1	100.0		1.2	2.3	2.4	2.3	1.4	1.7	1.6
Private Consumption	1017.2	46.7		1.0	2.3	2.1	2.1	2.3	2.0	2.1
Public Consumption	535.6	24.6		1.7	1.7	0.2	0.7	0.8	0.5	0.4
Gross fixed capital formation	462.1	21.2		1.0	5.5	7.6	4.6	5.1	1.7	2.3
of which: equipment	131.7	6.0		1.1	1.4	2.5	7.7	6.6	-0.9	2.8
Exports (goods and services)	1188.0	54.5		4.0	3.6	3.9	3.6	0.6	2.5	2.3
Imports (goods and services)	1033.4	47.4		4.3	4.6	4.2	3.6	2.7	2.2	2.5
GNI (GDP deflator)	2226.4	102.2		1.5	1.8	1.9	1.9	1.6	1.5	1.5
Contribution to GDP growth:		Domestic demand		1.1	2.6	2.5	2.1	2.3	1.4	1.6
		Inventories		0.0	0.0	-0.2	-0.1	0.1	0.0	0.0
		Net exports		0.1	-0.2	0.1	0.2	-1.0	0.3	0.0
Employment				0.2	1.4	1.5	1.7	1.8	1.1	0.9
Unemployment rate (a)				5.5	6.2	6.2	5.7	5.0	4.8	4.7
Compensation of employees / head				3.0	1.7	1.5	1.7	2.0	2.6	2.6
Unit labour costs whole economy				2.0	0.8	0.6	1.1	2.4	2.0	1.9
Real unit labour cost				0.0	0.3	-0.1	-0.3	2.0	0.4	0.1
Saving rate of households (b)				6.2	10.0	10.5	11.8	12.6	12.7	12.5
GDP deflator				2.1	0.4	0.7	1.4	0.4	1.6	1.8
Harmonised index of consumer prices				1.9	0.2	0.0	1.1	0.7	1.3	1.5
Terms of trade goods				0.9	1.9	2.1	-1.2	-2.3	0.3	0.1
Trade balance (goods) (c)				4.0	4.7	5.9	5.6	5.1	5.3	5.3
Current-account balance (c)				4.3	8.2	7.9	8.0	6.1	6.3	6.3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				4.3	7.9	7.9	8.0	6.2	6.3	6.5
General government balance (c)				0.8	-1.3	-0.1	1.4	0.5	0.6	-0.1
Cyclically-adjusted budget balance (d)				0.9	-0.5	0.3	1.5	0.8	0.9	0.3
Structural budget balance (d)				-	-1.8	0.3	1.5	0.8	0.9	1.0
General government gross debt (c)				-	39.8	37.2	35.5	34.1	33.0	32.5

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

5. GERMANY

Moderate growth with resilient domestic demand after 2019 dip

After a sharp slowdown in the second half of 2018 and early 2019, economic growth is expected to recover somewhat on the back of resilient domestic demand, the dissipation of temporary production bottlenecks and a gradual improvement in foreign demand. Employment and wage growth are set to remain supportive of private consumption. Construction investment is expected to remain strong. The current account surplus remains high, although declining, and the fiscal stance is expected to be moderately expansionary over the forecast period.

Distress in the manufacturing sector

After solid 0.5% q-o-q in early 2018, GDP growth turned negative in the second half of the year. This downturn was most pronounced in manufacturing and related services. Environmental certification delays and mounting stocks led to a standstill in car production and sales in the third quarter, which resumed only gradually in the fourth. The pharmaceutical industry also had a setback in the fourth quarter due to a shortage of inputs, partly caused by the low level of the Rhine. The situation was compounded by weak exports, stemming from faltering EU and global demand. Import growth remained stronger, in line with sound domestic demand, causing net exports to subtract from growth. The hiccups in the auto sector had a strong impact on quarterly growth, where inventories played a large role. They contributed a total of 1.1 percentage points to GDP growth in the second and third quarter. In the fourth quarter, they subtracted 0.6 pps, tentatively suggesting that delivery bottlenecks were being resolved.

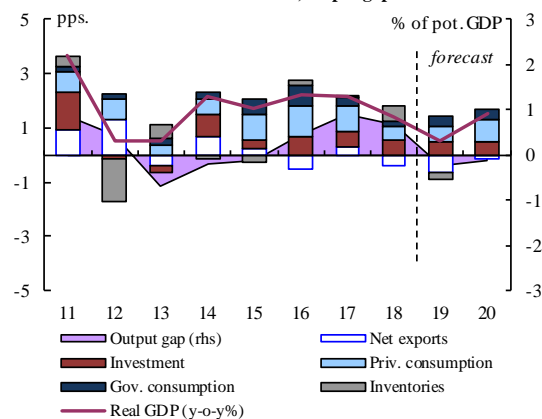
Domestic demand supports growth in the face of headwinds

Domestic demand played an important role in stabilising growth in 2018. Households directed their rising purchasing power to housing investment despite significant price increases. Rising private and public consumption, as well as strengthening investment, all contributed to avoiding a technical recession in the late 2018.

Consumption growth is expected to stay buoyant in the coming quarters, thanks in part to a fiscal boost to household incomes. The outlook for other components is subject to greater uncertainty. Prima facie, one could attribute the weakness in growth to temporary, idiosyncratic factors that are expected to gradually dissipate. However, business sentiment and order inflows have been deteriorating as a global manufacturing slowdown, mounting protectionism in key trading partners

have affected Germany disproportionately given the economy's openness and industrial structure. Vehicle production remains depressed in early 2019. This indicates that the growth recovery may take longer than earlier expected. In addition, negative sentiment is likely to continue weighing on private investment. In light of this, the GDP growth forecast for 2019 has been revised down significantly compared to the Commission's winter interim forecast from 1.1% to just 0.5%. Assuming a gradual recovery in foreign trade later this year and a solid expansion in private consumption, helped by growing incomes and a fiscal expansion, GDP growth is expected to strengthen to 1.5% in 2020, boosted also by a significant calendar effect.

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



A supportive labour market

Employment growth is set to continue somewhat more slowly, leading to further declines in the unemployment rate, which reached a new low of 3.1% in February. Scarcity in the labour market seems to be translating into higher wage settlements and is expected to sustain wage growth over the forecast horizon. With moderate inflation, these developments should further improve disposable incomes and thus support consumption growth while maintaining the high saving rate.

The external surplus remains high but declining

Export growth slowed significantly last year and is likely to recover only gradually in 2020. At the same time, resilient domestic demand is expected to lead to a further increase in the import-to-GDP ratio. Thus, the current account surplus, which declined to 7.6% of GDP in 2018, is expected to come down further to around 6.5% in 2020.

Inflation to remain moderate

Headline inflation picked up to 1.9% in 2018 driven by energy prices, whereas core inflation remained unchanged at 1.5%. Headline inflation is forecast to average around 1.5% in 2019 and 2020, as energy inflation subsides and thus be benign to household purchasing power. Wage growth is set to moderate somewhat due to the slowing growth. This, in turn, should keep core inflation from rising much further.

Budget surpluses to remain

After a peak of 1.7% of GDP in 2018, the budget balance is expected to decline to around 1.0% in 2019 and 0.8% in 2020, reflecting the expected slowdown in growth. At the same time, public

finances remain in a comfortable position.

In 2019, government expenditure as a share of GDP is expected to increase noticeably as measures agreed in the March 2018 coalition agreement start to show their effect. These measures consist mainly of social transfers that should contribute to a rise in household disposable income. Efforts in recent years to strengthen public investment are set to continue, with growth exceeding GDP growth.

As measures to reduce personal income tax become effective in 2019 and 2020, government revenue growth should slow but remain enough to keep the headline balance in surplus. All together, the measures imply a moderate fiscal expansion of around 0.5 pps. of potential GDP in 2019.

The structural surplus peaked in 2018 at about 1½% of GDP and is projected to decline by around ¾ pps. over the forecast period. Government debt came close to the 60% Maastricht threshold in 2018 and is projected to fall below it in 2019 to around 58% of GDP and decline further to 56% in 2020.

Table II.5.1:

Main features of country forecast - GERMANY

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	3277.3	100.0		1.3	1.7	2.2	2.2	1.4	0.5	1.5
Private Consumption	1732.2	52.9		0.9	1.7	2.1	1.8	1.0	1.1	1.6
Public Consumption	638.9	19.5		1.2	2.9	4.0	1.6	1.0	2.0	1.7
Gross fixed capital formation	665.7	20.3		0.9	1.6	3.5	2.9	2.6	2.3	2.4
of which: equipment	215.2	6.6		1.9	4.1	2.2	3.7	4.2	2.1	2.8
Exports (goods and services)	1541.9	47.0		5.4	5.3	2.3	4.6	2.0	1.1	2.6
Imports (goods and services)	1294.1	39.5		4.5	5.6	4.1	4.8	3.3	2.9	3.3
GNI (GDP deflator)	3346.3	102.1		1.5	1.9	2.1	2.3	1.5	0.5	1.5
Contribution to GDP growth:		Domestic demand		0.9	1.8	2.6	1.8	1.2	1.4	1.7
		Inventories		-0.1	-0.3	0.2	0.0	0.5	-0.3	0.0
		Net exports		0.5	0.2	-0.5	0.3	-0.4	-0.6	-0.1
Employment				0.7	0.9	1.3	1.4	1.3	0.8	0.5
Unemployment rate (a)				7.9	4.6	4.1	3.8	3.4	3.1	2.7
Compensation of employees / head				1.5	2.7	2.2	2.6	3.0	3.2	2.9
Unit labour costs whole economy				0.9	1.9	1.3	1.8	2.8	3.4	1.8
Real unit labour cost				-0.2	-0.1	-0.1	0.3	1.0	1.3	-0.2
Saving rate of households (b)				16.3	17.0	17.2	17.3	17.9	18.6	18.5
GDP deflator				1.1	2.0	1.4	1.5	1.9	2.1	2.1
Harmonised index of consumer prices				1.6	0.7	0.4	1.7	1.9	1.5	1.5
Terms of trade goods				-0.1	3.1	2.3	-1.6	-1.0	0.4	0.4
Trade balance (goods) (c)				6.2	8.6	8.5	8.1	7.1	6.6	6.5
Current-account balance (c)				4.2	8.9	8.7	8.2	7.6	6.8	6.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				4.1	8.9	8.6	8.0	7.4	6.6	6.3
General government balance (c)				-1.8	0.8	0.9	1.0	1.7	1.0	0.8
Cyclically-adjusted budget balance (d)				-1.7	0.8	0.7	0.6	1.4	1.1	0.8
Structural budget balance (d)				-	0.9	0.7	0.8	1.6	1.1	0.8
General government gross debt (c)				68.4	71.6	68.5	64.5	60.9	58.4	55.6

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

6. ESTONIA

Flexible labour market supports growth in the short term

Strong broad-based growth is expected to continue in 2019, as domestic demand remains buoyant. With a labour market close to full employment and moderating inflation, increasing real incomes will uphold private consumption. Private investment is set to pick up, especially in machinery and equipment. The headline budget balance and the structural fiscal position are to remain in deficit.

Strong domestic demand driven growth in 2018

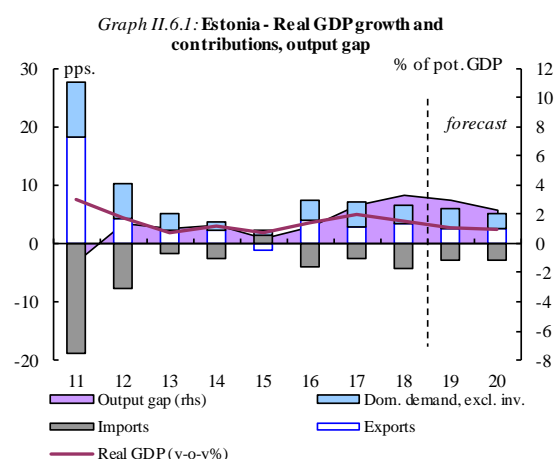
Estonia's economy expanded by 3.9% in 2018. Growth was broad-based, with construction, transport, and the financial sector contributing strongly. Both households and the corporate sector contributed to construction and real estate activity, which expanded strongly in the first half of 2018, moderating towards the end of the year. Nearly full employment and strong wage growth backed private consumption, which expanded by 4.7% in 2018. Increases in social expenditure, public investment and wage rises in the government sector further stimulated domestic demand.

While disposable income is likely to increase also in 2019, household consumption is set to moderate over the forecast horizon, in line with an expected weakening of labour demand, employment and real wage growth. Together with a rising household saving rate, this is expected to lead to a slightly lower private consumption growth in 2020.

Investment growth is set to strengthen on the back of high profit margins and elevated capacity utilisation rates to 4.8% in 2019 and 4.0% 2020. Public investment increased strongly in 2017 and 2018 as both domestic and EU-funded investment programmes peaked, but is set to moderate in 2019 and 2020. As in the past, inventories remain the most volatile GDP component due to statistical discrepancies.

In 2018, Estonia's export volume increased by 4.3%. In particular, the export of services related to information and communication technologies (ICT) grew significantly throughout the year, while manufacturing exports accelerated in the fourth quarter. Sustained competitiveness in niche markets is expected to deliver export growth in 2019 as well, but the weaker external outlook will inevitably weigh on growth. Overall, the combination of moderating external demand and sustained internal demand is forecast to result in GDP growth of 2.8% 2019 and 2.4% in 2020. As

this is slightly below potential growth, it should lead to a slight decline in the output gap.



Inflation is set to slow

In 2018, HICP inflation reached 3.4%, driven significantly by global commodity price hikes. High oil prices had a particularly big impact on inflation in Estonia, as energy has a bigger weighting in the consumer basket than in other Member States. Inflation is forecast to moderate over the coming years to 2.4% in 2019 and 2.2% in 2020, in line with commodity price trends and in the absence of major consumption tax increases.

Labour market surprises on the upside

Supported by immigration, employment grew by 1.2% in 2018, from already historically high employment and activity levels. Short-term labour supply increased further, alleviating labour shortages in construction, manufacturing, and in services related to ICT. This helped companies expand production and export volumes. The labour market is expected to operate at close to full capacity in 2019 and 2020. As this is likely to maintain wage pressures, there is a heightened risk of eroding competitiveness. However, wage growth is forecast to abate in line with slowing inflation and economic output, especially in 2020.

The budget is to remain in deficit

The general government headline deficit turned out weaker than budgeted at 0.6% of GDP in 2018. The negative surprise came from a faster-than-expected growth in spending, particularly on social spending programmes and investment. On the whole, revenues met budgetary projections, with a shortfall in excise taxes compensated by stronger revenues from labour taxes.

The general government balance is projected to remain in deficit, at 0.3% of GDP in 2019, as the cooling economic environment slows down the growth of the tax base and budgetary expenditures continue increasing. In particular, social expenditures are set to grow relatively rapidly due to an indirect link to overall wage growth with a lag of about one year.

Wages in the public sector are projected to grow rapidly. Based on a no-policy-change assumption, expenditure pressures should ease in 2020, as the expenditure programmes of the previous government come to an end (social spending, wage hikes for teachers and healthcare workers, public investment projects). The current forecast does not include any potential fiscal measures of the new government for 2020, given that detailed plans are not yet known. Since the economy is forecast to slow further in 2020, the budget deficit is projected at 0.5% of GDP. The structural balance is estimated to show a more substantial deficit of around 2% of GDP in 2019 and 2020. Public debt is forecast to remain low at 8.5% of GDP in 2020.

Table II.6.1:

Main features of country forecast - ESTONIA

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	23.6	100.0		3.7	1.9	3.5	4.9	3.9	2.8	2.4
Private Consumption	11.8	50.1		3.8	4.4	4.4	2.6	4.7	4.0	2.9
Public Consumption	4.7	19.9		2.2	3.0	2.2	0.6	0.3	1.1	0.7
Gross fixed capital formation	5.8	24.4		4.8	-7.6	2.9	12.5	3.3	4.8	4.0
of which: equipment	2.2	9.5		4.9	-16.1	5.4	27.7	-4.6	6.5	5.8
Exports (goods and services)	18.1	76.5		6.4	-1.4	5.2	3.5	4.3	3.4	3.4
Imports (goods and services)	17.0	72.0		6.6	-1.7	5.5	3.6	6.1	3.9	3.8
GNI (GDP deflator)	23.1	98.0		3.6	2.6	3.4	5.2	3.6	2.8	2.5
Contribution to GDP growth:		Domestic demand		4.2	0.9	3.4	4.3	3.2	3.4	2.6
		Inventories		0.1	0.2	1.1	-0.3	2.1	-0.3	0.0
		Net exports		-0.5	0.2	0.0	0.1	-1.1	-0.3	-0.2
Employment				0.0	2.9	0.3	2.7	1.2	0.6	-0.1
Unemployment rate (a)				10.2	6.2	6.8	5.8	5.7	5.7	5.7
Compensation of employees / head				8.9	3.3	6.3	6.9	8.8	6.1	5.6
Unit labour costs whole economy				5.0	4.3	3.0	4.7	6.1	3.9	3.0
Real unit labour cost				-0.1	3.2	1.5	0.8	1.4	0.6	0.3
Saving rate of households (b)				4.8	10.9	10.5	11.6	11.3	11.0	11.7
GDP deflator				5.1	1.0	1.5	3.9	4.6	3.3	2.7
Harmonised index of consumer prices				3.9	0.1	0.8	3.7	3.4	2.4	2.2
Terms of trade goods				0.7	0.2	1.0	0.9	0.0	0.1	0.2
Trade balance (goods) (c)				-11.8	-4.3	-3.5	-3.5	-3.7	-4.1	-4.3
Current-account balance (c)				-6.0	1.8	1.8	3.2	1.5	1.4	1.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.4	3.9	2.8	4.2	2.7	2.6	2.7
General government balance (c)				0.3	0.1	-0.3	-0.4	-0.6	-0.3	-0.5
Cyclically-adjusted budget balance (d)				-0.4	-0.1	-0.9	-1.7	-2.2	-1.7	-1.5
Structural budget balance (d)				-	0.2	-0.8	-1.7	-2.2	-1.7	-1.5
General government gross debt (c)				6.2	9.9	9.2	9.2	8.4	8.5	8.5

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

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

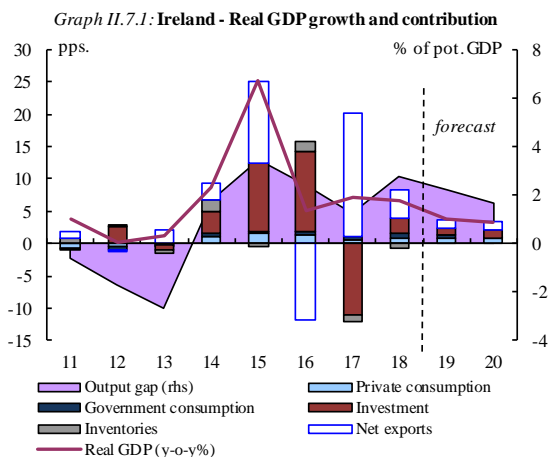
7. IRELAND

Robust growth amidst heightened external uncertainty

GDP growth in Ireland is forecast to moderate as support from the external environment weakens. Nevertheless, underlying economic activity is expected to remain robust, driven by investment in construction and positive labour market developments. The government deficit is projected to turn into a surplus, but risks to the fiscal outlook remain.

GDP grew strongly last year, partly inflated by the activities of multinational companies

In 2018, Ireland's real GDP grew by 6.7%, well above the euro area average. However, the headline figure was distorted by the activities of multinationals operating in Ireland. GDP growth is expected to moderate to 3.8% in 2019 and 3.4% in 2020 on the back of a less benign external environment, including increased uncertainty.



Employment and investment in construction underpin the domestic economy

Modified domestic demand, a measure of domestic activity that strips out some of the effects of multinationals, grew by 4.5% in 2018 – supported by private consumption and construction investment. It is projected to expand at an average rate of almost 4% over the forecast period.

Employment increased strongly in 2018, although its growth moderated somewhat in the fourth quarter. As skill and labour shortages accumulate, non-Irish nationals are increasingly contributing to the labour supply. Employment is expected to increase further over the forecast horizon, although at a moderating pace, in line with the projected slowdown in activity. Compensation per employee increased by 2.9% in 2018 and is forecast to

accelerate further, supporting household disposable income.

In 2018, headline investment increased by 9.7% with an increase in construction activity of 15.8%, though from a low base. Investment in construction is expected to remain strong, supported by various government measures. Ireland's headline investment figures, however, are heavily influenced by the volatility in intellectual property assets and aircraft. These investment components are imported and therefore have an overall neutral effect on GDP. Excluding these two factors, growth in underlying investment is expected to remain strong, at over 7% on average over the forecast period.

Inflation to support consumption

HICP inflation reached 0.9% in the first quarter of 2019 and is forecast to remain moderate in 2019. Rents and restaurant service prices are expected to exert upward pressure on services inflation, while the downward trend in industrialised goods prices is expected to lower the price of goods. In 2020, inflation is expected to rise slightly, sustained by increasing wage pressures.

Trade developments look less favourable

Net exports contributed 4.3 pps. to real GDP growth last year. Total exports increased by 8.9%, driven largely by exports of pharmaceuticals and computer services. Imports increased by 7.0%, driven by imports related to aircraft leasing and R&D services, including intellectual property. Ireland's export growth rates are expected to moderate as support from global trade is waning. Nevertheless, they should remain strong, as pharmaceutical and information and communication technology services, which are a significant share of Irish exports, are less sensitive to changes in overall global trade. Imports are expected to track domestic demand, which is projected to weaken slightly this year and next.

The economic outlook remains clouded by uncertainty

The uncertainty surrounding Ireland's economic outlook comes mainly from external factors, particularly the terms of the UK's withdrawal from the EU, as well as possible changes in the international taxation and trade environment. On the domestic side, signs of overheating could become more apparent. The huge impact of the often unpredictable activities of multinationals could drive headline growth in either direction.

Public finances benefitting from buoyant tax receipts and lower interest payments

The headline government position turned from a deficit of 0.3% in 2017 to a balance in 2018 on the back of a strong economy. Tax revenues, including social security contributions, were up by 7.9% in 2018, driven by strong corporate tax revenues. Government expenditure increased compared to the previous year by 6.0%. A continued fall in the interest burden facilitated the deficit reduction.

The headline government balance is projected to remain unchanged in 2019, based on expected strong expenditure growth, amid infrastructure pressures and a drift in current expenditure in areas such as health. Revenues are expected to remain relatively buoyant, with many tax headings experiencing sizeable increases. Based on a no-policy-change assumption, the balance is forecast to register a surplus of 0.3% of GDP in 2020. Risks to the fiscal outlook remain skewed to the downside, mainly reflecting uncertainty as regards the economic outlook and the sustainability of the current level of some sources of government revenue (notably corporate tax).

After deteriorating in 2018, the structural deficit is expected to improve to about 1¼% and ½% of GDP in 2019 and 2020, respectively. The general government debt ratio further declined to 64.8% of GDP in 2018. It is projected to fall further to 61.3% of GDP in 2019 and 55.9% in 2020. This is contingent on continued stable medium-term economic growth and positive primary balances.

Table II.7.1:

Main features of country forecast - IRELAND

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	294.1	100.0		3.9	25.1	5.0	7.2	6.7	3.8	3.4
Private Consumption	93.8	31.9		3.0	3.6	4.1	1.6	3.0	2.4	2.3
Public Consumption	35.6	12.1		2.7	1.9	3.5	3.7	5.8	5.9	1.8
Gross fixed capital formation	69.0	23.5		3.1	51.1	51.4	-31.0	9.7	4.2	5.2
of which: equipment	17.5	6.0		6.3	-2.9	24.2	-11.2	37.7	-3.0	3.7
Exports (goods and services)	352.6	119.9		6.6	39.3	4.4	7.8	8.9	4.5	4.1
Imports (goods and services)	263.3	89.5		5.8	33.2	18.5	-9.4	7.0	4.6	4.3
GNI (GDP deflator)	234.2	79.6		3.5	13.8	11.6	4.6	6.4	3.1	2.6
Contribution to GDP growth:										
Domestic demand				2.6	12.3	14.3	-10.1	3.9	2.5	2.2
Inventories				0.1	-0.4	1.7	-1.1	-0.6	0.0	0.0
Net exports				1.6	12.7	-11.9	19.1	4.3	1.3	1.1
Employment				1.5	3.5	3.8	2.9	3.5	2.0	1.8
Unemployment rate (a)				8.4	10.0	8.4	6.7	5.8	5.4	5.0
Compensation of employees / head				3.4	2.6	2.1	0.9	2.9	3.2	3.6
Unit labour costs whole economy				1.0	-15.2	0.9	-3.2	-0.2	1.4	2.0
Real unit labour cost				-0.7	-21.0	1.7	-3.6	-1.7	-0.3	0.1
Saving rate of households (b)				8.3	8.5	8.2	10.8	11.8	11.8	11.6
GDP deflator				1.8	7.4	-0.8	0.4	1.5	1.7	1.9
Harmonised index of consumer prices				2.1	0.0	-0.2	0.3	0.7	1.0	1.3
Terms of trade goods				-0.5	8.0	2.3	-5.3	-4.5	-0.9	-0.2
Trade balance (goods) (c)				21.5	43.2	38.8	36.6	34.4	33.2	32.6
Current-account balance (c)				-1.8	4.4	-4.2	8.5	9.1	8.5	7.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-1.8	3.9	-5.7	-1.1	2.1	1.9	1.6
General government balance (c)				-4.3	-1.9	-0.7	-0.3	0.0	0.0	0.3
Cyclically-adjusted budget balance (d)				-4.4	-3.7	-1.9	-0.9	-1.4	-1.2	-0.5
Structural budget balance (d)				-	-2.9	-2.1	-0.9	-1.4	-1.2	-0.5
General government gross debt (c)				57.7	76.8	73.5	68.5	64.8	61.3	55.9

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

8. GREECE

Consolidating growth to support sustained debt reduction

Economic growth in Greece strengthened in 2018, primarily due to a buoyant export performance. GDP growth is forecast to increase over the forecast horizon, despite a deteriorating external environment, helped by ongoing improvements in domestic demand. The general government balance recorded a surplus in 2018 for the third year in a row, and Greece is projected to achieve its agreed fiscal targets in 2019 and 2020. Against this background, public debt should commence a declining path, though fiscal risks need to be monitored.

Economy strengthens but investment remains lacklustre

Greece's economic recovery continues: real GDP grew by 1.9% in 2018, driven mainly by net exports. With real growth of exports at 8.7%, Greece managed to increase its world market shares in both goods and services, while imports remained subdued. Private consumption maintained its momentum and provided a further contribution to annual GDP growth. Investment, however, registered a major setback, partly due to heavy underspending of the public investment budget. Under-execution of the budget also put a drag on public consumption and thereby on GDP. Change of inventories showed a large increase, although this component remains sensitive to regular statistical revisions.

Growth expected to remain resilient despite external slowdown...

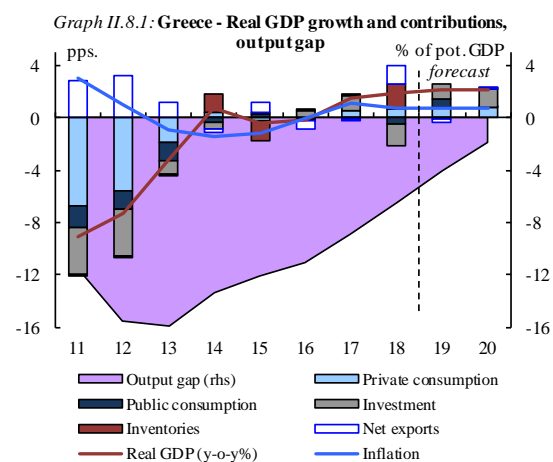
In 2019, real GDP growth is expected to strengthen to 2.2%. The slowdown of the external environment will have a negative but limited impact on Greece's export performance, due to the low income elasticity of demand for Greece's main export commodities. This drag from the external side should be offset by private consumption, which received a short-term boost through the recent hike in the minimum wage. Assuming full execution of the budget, public consumption and investment should support growth, while private investment growth is set to remain subdued. The expected increase in private consumption and total investment can be expected to boost import demand, thereby lowering the contribution of net exports to growth.

2020 is forecast to see a rebound in private investment growth, although increased labour costs will squeeze the profit margin of some firms, thereby limiting their potential to invest without additional external financing. This increase in labour costs is projected to translate into some loss

in competitiveness. Greece is nevertheless expected to continue to increase its world market shares in goods and services exports.

The labour market recovery continued in 2018, but some slowdown is expected due to the recent increase in the statutory minimum wage. Employment is expected to grow by 1.5% in 2019 and 1.3% in 2020, bringing the unemployment rate down to 16.8% by 2020.

Despite lower oil prices, HICP inflation is forecast to remain at 0.8% in 2019 and 2020. The minimum wage increase is expected to have a moderate additional inflationary effect both in 2019 and 2020.



Although some upside risks are present (e.g. improving bank lending to provide more support to private investment), the forecast is dominated by downside risks, related mainly to a repeated under-execution of the public investment budget and the possibility that the slowdown in Greece's trading partners could have a bigger impact on exports.

...and facilitate achievement of fiscal targets

The general government balance reached 1.1% of GDP in 2018, recording a surplus for the third year

in a row. Building on the fiscal adjustment achieved in recent years, the outcome for 2018 benefitted from solid GDP growth, a broad-based recovery in taxable profits and a further reduction in operational and investment expenditure. As in recent years, under-utilisation of budget ceilings improved the outturn over and above what was previously projected.

Greece is set to achieve the agreed primary surplus targets in 2019 and 2020. The main drivers of the projected primary surpluses are the still large output gap, the growing benefits of past pension reforms, and the ceilings on healthcare spending and new hirings, which help to keep expenditure dynamics in check.

While continued improvements in the collection of tax debts and ambitious targets of the authorities for clearance of unprocessed pension applications represent possible upside risks, there are significant downside risks, such as ongoing court cases that could trigger a partial reversal of earlier reforms and give rise to fiscal liabilities.

Additional pressure could arise from policy initiatives affecting the public wage bill.⁽⁸²⁾ As is customary, the forecast is conditioned on the working assumption that budget ceilings will be used fully. The projection takes into account the announcement not to implement the 2020 tax reform, which will be further discussed in the context of enhanced surveillance.

Overall, under a no-policy-change assumption, the general government balance is expected to reach 0.5% of GDP in 2019, factoring in the one-off positive impact of debt measures agreed on 5 April 2019. The 2020 balance is projected to decrease to -0.1% of GDP in 2020, because of rising interest payments and the absence of further conditional debt relief measures in the baseline. In view of the projected narrowing of the output gap, the structural balance is forecast to decline from 5% of GDP in 2018 to around ¾% of GDP in 2020. Greece's public debt is expected to have peaked at 181.1% in 2018 and to decline to 168.9% of GDP by 2020 on account of the growth recovery and the high primary surpluses.

⁽⁸²⁾ The forecast also assumes that the unused part of the reserve, which was created in the 2019 Budget against the risk that the payment of December 2018 wage refunds slips to the first months of the current year, will remain unused.

Table II.8.1:

Main features of country forecast - GREECE

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	180.2	100.0		0.3	-0.4	-0.2	1.5	1.9	2.2	2.2
Private Consumption	123.8	68.7		0.4	-0.2	0.0	0.9	1.1	1.3	1.2
Public Consumption	35.7	19.8		0.7	1.6	-0.7	-0.4	-2.5	3.1	0.4
Gross fixed capital formation	23.2	12.9		-3.4	0.7	4.7	9.1	-12.2	10.1	10.8
of which: equipment	10.5	5.8		-0.9	7.3	-11.4	22.2	-10.2	4.2	8.9
Exports (goods and services)	59.5	33.0		4.3	3.1	-1.8	6.8	8.7	4.7	4.2
Imports (goods and services)	61.3	34.0		1.8	0.4	0.3	7.1	4.2	5.7	4.1
GNI (GDP deflator)	180.6	100.2		0.2	-1.0	-0.3	1.7	0.8	2.5	2.2
Contribution to GDP growth:										
Domestic demand				0.1	0.3	0.4	1.6	-1.3	2.6	2.1
Inventories				0.0	-1.6	0.1	0.1	1.8	0.0	0.0
Net exports				0.3	0.9	-0.7	-0.1	1.5	-0.4	0.0
Employment				-0.4	0.7	0.5	1.5	1.7	1.5	1.3
Unemployment rate (a)				13.7	24.9	23.6	21.5	19.3	18.2	16.8
Compensation of employees / head				2.7	-2.4	-0.9	0.5	1.3	2.4	1.7
Unit labour costs whole economy				2.0	-1.3	-0.3	0.6	1.1	1.6	0.8
Real unit labour cost				0.0	-0.9	0.0	0.0	0.5	0.5	-0.4
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.0	-0.3	-0.2	0.6	0.5	1.1	1.2
Harmonised index of consumer prices				2.6	-1.1	0.0	1.1	0.8	0.8	0.8
Terms of trade goods				-0.1	0.6	-2.3	1.2	-1.0	0.4	0.7
Trade balance (goods) (c)				-14.5	-9.1	-9.3	-10.3	-9.9	-10.5	-10.5
Current-account balance (c)				-9.3	-0.3	-1.2	-1.1	-1.4	-1.0	-0.8
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-7.7	2.1	0.4	0.0	-0.1	0.5	0.9
General government balance (c)				-8.1	-5.6	0.5	0.7	1.1	0.5	-0.1
Cyclically-adjusted budget balance (d)				-6.9	0.7	6.3	5.4	4.4	2.6	0.9
Structural budget balance (d)				-	3.3	5.6	5.1	5.0	1.9	0.8
General government gross debt (c)				125.3	175.9	178.5	176.2	181.1	174.9	168.9

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

9. SPAIN

Growth set on a moderating though still robust path

Growth is expected to ease slightly throughout 2019 and then stabilise as the projected slowdown in private consumption is partly offset by a gradual rise in the contribution of net exports to growth. Unemployment is forecast to continue falling despite slower job creation. Thanks to strong economic growth, the government deficit is projected to continue declining, but at a slower pace.

Growth projected to ease but remain robust

Despite some slow down over the course of the year, real GDP in Spain grew by 2.6% in 2018, above the euro area average for the fourth year in a row. Real GDP is expected to have expanded by 0.6% q-o-q in Q1-2019, the same as in the previous quarter and more than previously anticipated. Activity is projected to moderate mildly in the second quarter of this year and stabilise thereafter at a rate of around 0.5% q-o-q over the forecast horizon, as the projected improvement in external performance compensates for the expected slowdown in domestic demand. Overall, GDP growth is forecast at 2.1% in 2019 and 1.9% in 2020.

Private consumption and investment expected to slow down

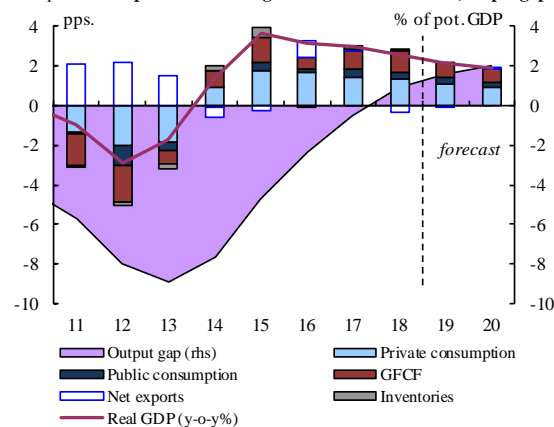
The expected moderation in domestic demand is mainly driven by a slowdown in private consumption, as the absorption of pent-up demand wears off and households start rebuilding their balance sheets in a context of strong disposable income growth over the forecast horizon. The latter is driven by slowing but still robust job creation, together with stronger wage growth, partly due to the increase in the minimum wage. The saving rate, which reached a historic low in 2018, is projected to rebound in 2019 and increase further in 2020.

Investment is also expected to decelerate over the forecast horizon. Equipment investment, which weakened at the end of last year, should recover as exports of goods rebound in the second half of 2019. However, it will still grow less this year than in 2018 and is expected to increase only slightly in 2020, also driven by export growth. Construction investment peaked in 2018 due to the rebound in non-residential construction and continued strong housing investment, although the latter has been on a weakening trend since 2017. As the cycle matures over the forecast horizon, both residential and non-residential construction are expected to slow down.

The contribution of net exports to growth should gradually improve

After a weak end of the year in 2018, especially for goods, exports are expected to strengthen in 2019 and in 2020 as Spain's export markets recover and the transitory factors that impacted export performance last year, in particular in the automotive industry, gradually unwind. Still, due to a weak carryover from last year, export growth is expected to remain stable this year in annual terms before accelerating in 2020. Imports, which were also weaker than expected in 2018, should ease further in 2019, in line with slowing final demand, before picking up again in 2020, driven by the recovery in exports. Overall, the contribution of net exports to growth, which was -0.3 pps. in 2018, is expected to improve but remain negative in 2019 before turning neutral in 2020. The current account balance, which deteriorated in 2018 due to a worsening in the terms of trade and weak export performance, is expected to remain stable at 0.9% over the forecast horizon.

Graph II.9.1: Spain - Real GDP growth and contributions, output gap



Unemployment to continue falling

Employment growth has continued to exceed expectations. Job creation is expected to remain robust but to slow down as final demand moderates and as a result of the increase in the minimum wage. In turn, the unemployment rate is

set to continue falling to 12.2% in 2020, the lowest since 2008. Wage growth is expected to peak in 2019, under the impact of the increase in the minimum wage, and then moderate but still grow above inflation in 2020. As labour productivity is forecast to grow very moderately over the forecast horizon, this should lead to a rise in nominal unit labour costs, especially in 2019. After reaching 1.7% in 2018, HICP inflation is forecast to decline to 1.1% in 2019 and 1.4% in 2020, due to oil price developments and a gradual increase in core inflation.

Pace of budget deficit reduction set to slow

The general government deficit decreased by 0.6 pps., to 2.5% of GDP, in 2018. Continued relatively strong and tax-rich GDP growth resulted in a 6.2% rise in revenues, while expenditure expanded by a robust 4.5%, its strongest pace since 2009. In 2019, the deficit is projected to decline further to 2.3% of GDP. Favourable cyclical developments and decreasing debt servicing costs would be partly offset by deficit-increasing measures, some of which of a temporary nature. As the 2019 draft budget act was rejected by the

parliament in February, the 2019 forecast is based on the extended 2018 budget and a number of new expenditure and revenue measures adopted by royal decree law. The latter include, on the expenditure side, some additional pension increases and a number of social policy measures. On the revenue side, they include measures broadening the base for social contributions. Moreover, some measures adopted in the 2018 budget law, such as a pay hike for public sector workers, the higher revaluation of pensions and the tax cut for low-income earners, are also expected to have a budgetary impact in 2019. Compensation payments to a motorway concession expected for 2019, currently treated as a contingent liability, may further add to the deficit. Assuming no change in policy, the headline deficit is set to decline to 2.0% of GDP in 2020.

Spain's structural deficit stabilised at 2.7% of GDP in 2018 before deteriorating slightly over the forecast period. The general government debt-to-GDP ratio is expected to gradually decrease to 95.7% by 2020, mainly driven by strong nominal GDP growth.

Table II.9.1:

Main features of country forecast - SPAIN

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	1166.3	100.0		1.7	3.6	3.2	3.0	2.6	2.1	1.9
Private Consumption	670.5	57.5		1.3	3.0	2.9	2.5	2.3	1.9	1.6
Public Consumption	215.7	18.5		3.0	2.0	1.0	1.9	2.1	1.7	1.5
Gross fixed capital formation	239.0	20.5		0.9	6.7	2.9	4.8	5.3	3.6	2.9
of which: equipment	82.4	7.1		2.0	11.9	5.2	6.0	5.4	3.0	3.1
Exports (goods and services)	400.2	34.3		3.7	4.2	5.2	5.2	2.3	2.3	2.9
Imports (goods and services)	366.2	31.4		2.9	5.4	2.9	5.6	3.5	2.7	3.0
GNI (GDP deflator)	1165.0	99.9		1.7	3.7	3.5	2.8	2.7	2.1	1.9
Contribution to GDP growth:										
Domestic demand				1.6	3.5	2.4	2.8	2.8	2.2	1.8
Inventories				0.0	0.5	-0.1	0.1	0.1	0.0	0.0
Net exports				0.1	-0.3	0.8	0.1	-0.3	-0.1	0.0
Employment				0.7	3.3	3.0	2.9	2.5	2.0	1.7
Unemployment rate (a)				15.1	22.1	19.6	17.2	15.3	13.5	12.2
Compensation of employees / f.t.e.				2.8	0.8	-0.5	0.3	0.8	2.0	1.8
Unit labour costs whole economy				1.8	0.5	-0.6	0.2	0.8	1.9	1.6
Real unit labour cost				-0.4	0.0	-0.9	-1.0	-0.2	0.4	-0.1
Saving rate of households (b)				9.8	8.7	7.8	5.5	4.9	5.5	5.8
GDP deflator				2.2	0.5	0.3	1.2	1.0	1.6	1.7
Harmonised index of consumer prices				2.5	-0.6	-0.3	2.0	1.7	1.1	1.4
Terms of trade goods				-0.4	2.1	0.1	-0.8	-2.1	0.3	-0.1
Trade balance (goods) (c)				-5.4	-2.0	-1.4	-1.9	-2.6	-2.5	-2.5
Current-account balance (c)				-4.3	1.1	2.2	1.9	0.9	0.9	0.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.7	1.7	2.4	2.2	1.5	1.5	1.6
General government balance (c)				-3.5	-5.3	-4.5	-3.1	-2.5	-2.3	-2.0
Cyclically-adjusted budget balance (d)				-3.0	-2.5	-3.1	-2.8	-3.0	-3.3	-3.2
Structural budget balance (d)				-	-2.2	-3.1	-2.7	-2.7	-2.9	-3.2
General government gross debt (c)				58.6	99.3	99.0	98.1	97.1	96.3	95.7

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

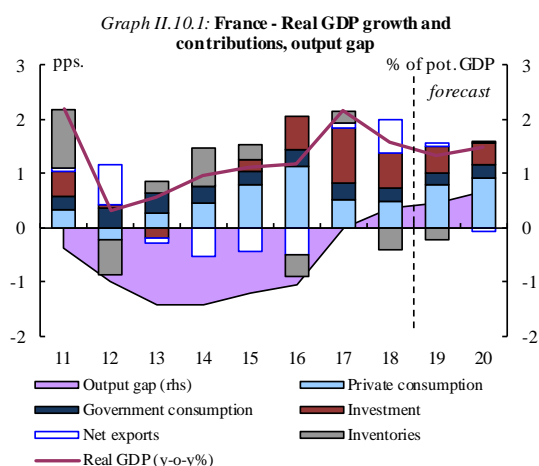
10. FRANCE

GDP growth to continue, supported by domestic demand

Economic activity in France is set to cool down in 2019 and 2020 compared to 2018. Domestic demand is expected to gain momentum supported by increasing purchasing power, while net exports contribution to GDP growth would decrease. The public deficit is forecast to temporarily exceed 3% of GDP in 2019 but to fall to 2.2% of GDP in 2020.

GDP growth in France decreased in 2018 to 1.6% from 2.2% in 2017. Temporary factors such as social protests, relatively warm temperatures and the school holiday calendar negatively affected domestic demand. While private consumption slowed down, investment remained dynamic overall, although less buoyant than in 2017. Net trade made a strong contribution to GDP growth as imports weakened in 2018, especially in services.

Domestic demand is expected to gradually gain momentum and support GDP growth in 2019 and 2020. Economic sentiment indicators have been improving since the beginning of 2019 and remain above their historical mean. In addition, strong fiscal support and decreasing inflation are set to increase purchasing power and support private consumption. On the contrary, the contribution of net exports to GDP growth would decrease in 2019 and 2020. As a result, GDP growth is expected to reach 1.3% in 2019 and 1.5% in 2020⁽⁸³⁾.



Consumption to gain momentum supported by significant gains in purchasing power

Private consumption growth is forecast to pick up gradually over 2019, as rising nominal wages boost disposable income and consumer prices are set to slow down. Fiscal measures should provide

⁽⁸³⁾ The GDP annual growth figures are non-calendar adjusted. In 2020, calendar adjusted GDP growth would reach 1.4%.

further support to purchasing power over 2019, especially for vulnerable households with a high marginal propensity to consume.

Investment is set to soften over the forecast horizon, but should continue to grow faster than economic activity in general. Public investment growth is expected to rise in 2019 and weaken in 2020, in line with local investment. Corporate investment is forecast to slow down but to remain dynamic, as indicated by investment surveys. By contrast, housing investment is set to decline further in 2019 in line with the fall in housing permits and new starts, before slightly improving in 2020.

Imports to bounce back

After a significant weakening in 2018, import growth is set to increase in 2019 and 2020, in line with final demand. Exports are set to slow down somewhat in 2019, as external demand growth would lose momentum. As a result, net exports are expected to make a slightly positive contribution to growth in 2019, after a very good year in 2018, and to slightly weigh on growth in 2020.

Unemployment to continue falling

The unemployment rate should continue to fall by around 0.3 pps. per year over the forecast horizon. Employment growth is set to moderate in line with economic activity. Inflation is forecast to drop to 1.3% in 2019, from 2.1% in 2018, due to lower oil prices and lower increases in taxes. In 2020, price pressures should increase moderately to 1.4%, in line with GDP growth remaining slightly above potential.

Risks are balanced

The expected rebound in private consumption could be faster than expected, as high purchasing power gains were already recorded at the end of 2018. On the other hand, a prolonged decline in external orders could translate into a steeper decline in corporate investment and exports.

Structural deficit to remain stable in 2019 and 2020

After an upward revision of the general government deficit to 2.8% of GDP in 2017, the headline deficit declined to 2.5% of GDP in 2018, 0.1 pps. lower than forecast in the autumn. This better outcome was mainly due to lower-than-expected expenditures, whereas revenues remained resilient despite the slowdown in economic activity during the second half of 2018. Specifically, public expenditure in nominal terms, net of tax credits, rose by less than the expected 1.8%, which implied a contraction in real terms of 0.4%. As a result, the structural balance improved by 0.2 pps. in 2018.

In 2019, the headline deficit is expected to rise to 3.1% of GDP, mainly due to the one-off impact of 0.9% of GDP stemming from the double cost of an accounting nature of the replacement of the CICE (*crédit d'impôt pour la compétitivité et l'emploi*) by a permanent cut in employers' social contributions. The measures, mainly on the revenue side, adopted at the end of 2018 to address the yellow vests movement will enhance the purchasing power of the most vulnerable households. They are estimated to entail an increase in the deficit of some EUR 10 bn. (i.e. 0.4% of GDP). However, once partially offsetting measures are accounted

for, the overall impact on the deficit should amount to about 0.3% of GDP. Apart from the second cut in housing tax and the decrease in social contributions, revenues are also expected to lose momentum in line with the projected slowdown in GDP growth. In turn, public expenditure in nominal terms, net of tax credits, is set to rise by 1.9%, which implies an increase in real terms of 0.5% and an overall reduction in the expenditure-to-GDP ratio of 0.5 pps. The structural balance is now set to remain stable (compared to a positive effort of around ¼% of GDP expected in the autumn forecast).

Assuming no policy change, the deficit is forecast to fall to 2.2% of GDP in 2020, mainly reflecting the fading of the one-off deficit increasing measures in 2019 and a slightly positive cyclical contribution. The revenue-to-GDP and the expenditure-to-GDP ratios are projected to decline, by 0.1 pps. and 1.1 pps., respectively. The fiscal stance is expected to be broadly neutral. In turn, public debt is forecast to rise from 98.4% in 2018 to 99.0% of GDP in 2019, before slightly decreasing to 98.9% in 2020. This forecast does not include the impact of the measures announced by President Macron on 25 April, which took place after the cut-off date.

Table II.10.1:

Main features of country forecast - FRANCE

	2017		Annual percentage change							
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	2291.7	100.0		1.5	1.1	1.2	2.2	1.6	1.3	1.5
Private Consumption	1239.2	54.1		1.7	1.5	2.1	1.0	0.9	1.5	1.7
Public Consumption	540.2	23.6		1.6	1.0	1.4	1.3	1.1	1.0	1.1
Gross fixed capital formation	515.9	22.5		1.7	1.0	2.8	4.5	2.9	2.1	1.7
of which: equipment	116.3	5.1		1.5	4.1	7.4	3.3	2.2	2.0	1.8
Exports (goods and services)	707.7	30.9		3.2	4.6	1.5	4.5	3.3	2.8	2.9
Imports (goods and services)	733.0	32.0		4.0	5.9	3.0	4.0	1.3	2.5	3.0
GNI (GDP deflator)	2348.5	102.5		1.5	1.1	1.1	2.5	1.6	1.3	1.5
Contribution to GDP growth:										
Domestic demand				1.6	1.3	2.1	1.8	1.4	1.5	1.6
Inventories				0.0	0.3	-0.4	0.2	-0.4	-0.2	0.0
Net exports				-0.2	-0.4	-0.5	0.1	0.6	0.1	-0.1
Employment				0.7	0.3	0.8	1.0	0.9	0.8	0.7
Unemployment rate (a)				8.9	10.4	10.1	9.4	9.1	8.8	8.5
Compensation of employees / f.t.e.				2.4	1.0	0.8	1.9	1.7	0.0	1.8
Unit labour costs whole economy				1.7	0.3	0.4	0.6	1.1	-0.5	1.0
Real unit labour cost				0.2	-0.9	0.2	0.0	0.1	-1.8	-0.3
Saving rate of households (b)				14.4	13.8	13.6	13.9	13.7	14.1	13.8
GDP deflator				1.4	1.1	0.2	0.7	0.9	1.3	1.3
Harmonised index of consumer prices				1.7	0.1	0.3	1.2	2.1	1.3	1.4
Terms of trade goods				-0.2	4.4	1.0	-1.4	-1.8	-0.1	0.2
Trade balance (goods) (c)				-1.0	-1.1	-1.3	-1.8	-1.9	-1.8	-1.9
Current-account balance (c)				0.2	-0.4	-0.8	-0.6	-0.6	-0.6	-0.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				0.2	-0.5	-0.8	-0.6	-0.7	-0.6	-0.7
General government balance (c)				-3.7	-3.6	-3.5	-2.8	-2.5	-3.1	-2.2
Cyclically-adjusted budget balance (d)				-4.0	-2.9	-2.9	-2.8	-2.8	-3.4	-2.6
Structural budget balance (d)				-	-2.8	-2.8	-2.7	-2.6	-2.6	-2.5
General government gross debt (c)				73.0	95.6	98.0	98.4	98.4	99.0	98.9

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

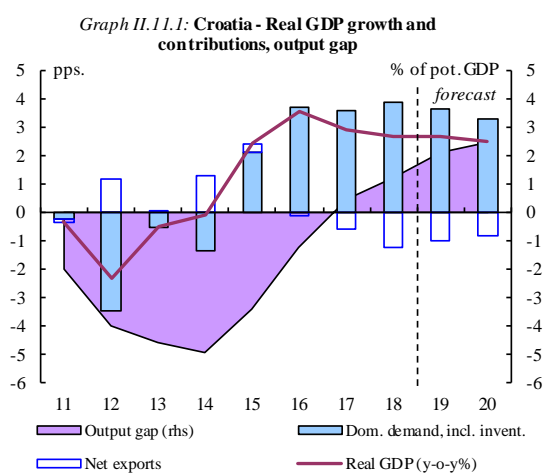
11. CROATIA

Moderate growth under external pressures

Croatia's economy is expected to continue growing at a moderate pace over the forecast horizon. Household consumption remains strong as disposable incomes continue to benefit from steady growth of employment and wages, in an environment of low inflation. Participation rates are projected to keep increasing gradually as more jobs are being created. Continued growth in tax revenue and contained spending growth are expected to maintain the government balance in a mild surplus and the debt ratio on a steady declining path.

Marked slowdown at the end of 2018

Real GDP growth came close to a halt in the fourth quarter of 2018, posting a disappointing 0.1% q-o-q rate and yielding a lower-than-expected real GDP growth of 2.6% for the year as a whole. The slowdown owed to the negative contribution of net exports, as goods exports declined in the last quarter while growth of imports accelerated. By contrast, household consumption remained strong and investment picked up, most notably in the public sector via EU funding. At the start of 2019, goods exports appear to have rebounded, while sales in the retail sector posted some of the highest monthly growth rates in recent years. At the same time, growth of manufacturing output remained volatile and imports kept expanding buoyantly.



Growth driven by domestic demand

In 2019 and 2020, growth is expected to be driven by private consumption supported by the positive labour market outlook. Low inflation and steadily increasing tourist receipts and remittances are also likely to support real disposable incomes. Financing conditions and business expectations remain supportive of private investment, but the main push to capital formation is expected from the public sector, as shown by the pick-up in

capital transfers from EU funding at the end of 2018.

Demand for Croatian exports appears to be weakening in line with the projected economic slowdown in the EU, which is the main destination of Croatian exports. Growth of goods exports is expected to stabilise above the low rate observed in 2018, but significantly below the high rates observed in preceding years. Growth of tourism, which represents the main component of export of services, is expected to remain robust but also at rates below those recorded in past years. It would increasingly rely on stronger per-capita spending while increases in the numbers of overnight stays and arrivals appear to be slowing. Strong domestic demand, in particular higher investment activity, is projected to continue supporting strong import growth. Overall, the trade balance is set to continue declining. The current account balance is projected to remain positive, albeit gradually decreasing to below 2% of GDP in 2020.

Economic output is projected to expand by 2.6% in 2019 and finally exceed its pre-crisis volume. In 2020, GDP growth is forecast at a slightly lower 2.5%, still above potential output growth.

Inflation curbed by VAT cuts

Despite still high unemployment, labour shortages in some sectors are becoming more apparent. As the labour market tightens, employment growth should moderate. Nevertheless, both the number of unemployed and the unemployment rate are expected to reach their historic lows by 2020. Labour market participation is expected to continue increasing gradually, while the working age population continues shrinking, also as a result of still negative migration flows. Real wage growth is expected to strengthen, underpinned by strong labour demand, public sector salary increases and an increase in the minimum wage in 2019.

At the start of 2019, headline inflation was kept subdued by decreasing prices of unprocessed food, mostly due to the significant reduction in the applicable VAT rates. This effect should largely drive the HICP inflation rate in 2019, which is projected to drop to 1%. In 2020, inflation is projected to pick up slightly to 1.2%, despite the reduction in the general VAT rate by one percentage point at the beginning of the year.

A possible further slowdown in external demand poses a downside risk to the forecast scenario, as evidenced by the observed slowdown in GDP growth at the end of 2018. At the same time, stronger than expected transfers from EU funds could further boost domestic demand.

Government balance remains in surplus in spite of materialising contingent liabilities

The general government balance posted another surplus in 2018, at 0.2% of GDP. Revenues grew more strongly than current expenditure in spite of a strong increase in public sector wages, whereas public investment picked up strongly.

In 2019-2020, tax revenue is expected to grow at a slower pace than nominal GDP, due to tax cuts

adopted in 2018 (affecting mainly VAT and social contributions). Expenditure growth should moderate somewhat, largely due to the strong base effect of the rising wage bill, investment and capital transfers in 2018. Additional savings are expected in interest payments, most notably in 2020, as a sizable portion of maturing debt is refinanced at lower rates. Overall, the general government surplus is expected to slightly dip in 2019 and rise again to 0.5% of GDP in 2020.

In structural terms, the balance deteriorated substantially in 2018 – by 1% of GDP. However, this does not mark an equally strong pro-cyclical fiscal policy turn, since much of the deterioration owes to the temporary impact of materialising contingent liabilities (0.7% of GDP in called guarantees, with another 0.5% expected in 2019). In 2019, the structural balance is projected to dip further, mainly due to the tax cuts, and mildly recover in 2020.

Driven by the expected surpluses and GDP growth, the debt ratio is set to continue declining strongly, to 67.6% of GDP in 2020.

Table II.11.1:

Main features of country forecast - CROATIA

	2017			Annual percentage change						
	bn HRK	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	365.6	100.0		1.5	2.4	3.5	2.9	2.6	2.6	2.5
Private Consumption	209.6	57.3		1.2	1.1	3.5	3.6	3.5	3.3	3.2
Public Consumption	71.3	19.5		1.4	-1.0	0.7	2.7	2.9	2.7	1.7
Gross fixed capital formation	73.3	20.1		1.8	3.8	6.5	3.8	4.1	6.0	5.4
of which: equipment	-	-		-	-	-	-	-	-	-
Exports (goods and services)	186.8	51.1		4.1	9.4	5.6	6.4	2.8	3.2	3.3
Imports (goods and services)	178.6	48.8		3.2	9.2	6.2	8.1	5.5	5.3	5.0
GNI (GDP deflator)	359.0	98.2		1.5	3.8	0.9	4.4	2.6	2.8	2.3
Contribution to GDP growth:										
Domestic demand				1.5	1.2	3.4	3.3	3.4	3.6	3.3
Inventories				0.0	0.9	0.3	0.2	0.5	0.0	0.0
Net exports				0.1	0.3	-0.1	-0.6	-1.2	-1.0	-0.8
Employment				0.0	1.2	0.3	2.2	2.4	1.6	1.3
Unemployment rate (a)				-	16.1	13.4	11.0	8.5	7.8	6.9
Compensation of employees / head				3.6	0.4	1.3	-1.1	1.9	3.6	3.4
Unit labour costs whole economy				2.1	-0.8	-1.8	-1.8	1.7	2.6	2.3
Real unit labour cost				-0.9	-0.8	-1.8	-2.8	0.0	1.1	0.7
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.0	0.0	-0.1	1.1	1.7	1.5	1.6
Harmonised index of consumer prices				2.8	-0.3	-0.6	1.3	1.6	1.0	1.2
Terms of trade goods				0.9	-1.2	-0.6	-1.3	-0.5	0.1	0.2
Trade balance (goods) (c)				-18.2	-15.6	-15.7	-16.6	-17.6	-18.5	-19.2
Current-account balance (c)				-	4.6	2.5	4.1	2.9	2.6	1.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	5.3	4.0	4.7	4.4	3.9	3.1
General government balance (c)				-	-3.2	-1.0	0.8	0.2	0.1	0.5
Cyclically-adjusted budget balance (d)				-	-1.7	-0.4	0.6	-0.3	-0.8	-0.5
Structural budget balance (d)				-	-1.7	-0.6	0.6	-0.3	-0.8	-0.5
General government gross debt (c)				-	83.7	80.5	77.8	74.6	70.9	67.6

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

12. ITALY

Economy slowly regaining pace amid high fiscal imbalances

Italy's economy slipped into a mild contraction in the second half of last year, as the slowdown of global trade and weak manufacturing spread to the domestic economy. This weakness is set to give way to a muted recovery, as growth is likely to rebound moderately on the back of firming external demand and higher social transfers. Subdued economic growth and fiscal loosening are expected to affect public finances, with both government deficit and debt projected to increase substantially over the forecast horizon. Consumer price inflation is set to decelerate this year and pick up moderately in 2020.

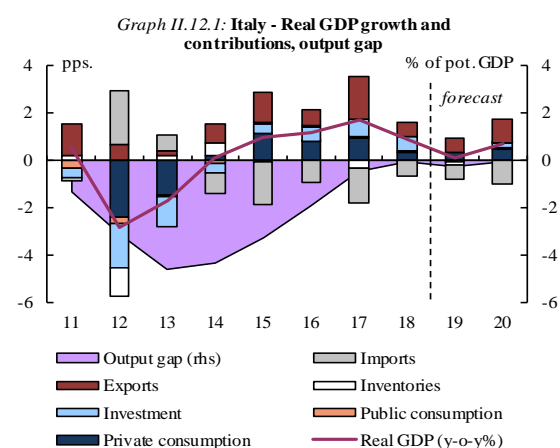
The economy shows signs of bottoming out

Real GDP growth went into reverse in the second half of 2018 and the economy slipped into a mild contraction. For the year as a whole, real output expanded by 0.9%, supported by domestic demand, while net exports weighed on real GDP growth. Given positive signs from short-term indicators, economic activity is set to pick up in early 2019. However, still subdued business and consumer sentiment suggests that output growth will gain more traction only later in the year. For the year as a whole, real GDP growth is expected to remain sluggish at 0.1%. In 2020, which has two additional working days, real GDP is forecast to expand by 0.7%. The forecast scenario is based on a no-policy-change assumption and does not incorporate the effects of hikes in indirect taxes envisaged for 2020 in the government plans.

External demand and private consumption to underpin return to growth

Aggregate domestic demand is unlikely to lend much support to growth in 2019, as a drop in investment demand will largely offset the positive impact from moderate consumer spending. Capital spending is expected to bear the brunt of policy uncertainty both at the domestic and international level. However, the re-introduction of investment-related tax incentives that were cancelled at the end of last year is likely to slow the decline in business investment. Private consumption growth should be helped by the positive impact of lower inflation on real disposable incomes and the introduction of the citizenship income. However, a deteriorating labour market is set to dampen consumer spending, and declining consumer confidence suggests that some of the expected rise in incomes could be diverted to savings. Assuming that global growth picks up in the second half of 2019, exports are set to become a major growth driver over the forecast period and Italian exporters are expected to limit their losses in market shares.

Risks to the growth outlook remain predominantly negative, as trade tensions continue to cloud the global outlook and higher-than-expected oil prices could curb consumers' purchasing power. In addition, financial markets remain very sensitive to policy changes and any possible related increases in sovereign yields could affect sentiment and private-sector funding conditions. By contrast, a better-than-expected external environment could imply a stronger export-led rebound.



Labour market to weaken considerably

The labour market is unlikely to escape the impact of sluggish economic activity, as indicated by firms' subdued employment expectations. Employment growth is expected to grind to a halt in 2019. The unemployment rate is forecast to climb close to 11% this year, as the new citizenship income scheme is likely to induce more people to officially register as unemployed and thus be counted in the labour force.

Consumer price inflation remains muted

After having risen by 1.2% in 2018, consumer prices are set to increase by only 0.9% this year, partly due to lower energy prices, and by 1.1% in 2020. Core inflation, at 0.5% in March 2019, is forecast to rise above 1% by the end of 2020.

Weak growth and fiscal loosening weigh on public finances

Following extraordinary costs to support the banking sector in 2017, the general government headline deficit declined from 2.4% to 2.1% of GDP in 2018, supported by rising revenues. Government spending for the compensation of employees slightly increased due to a moderate increase in public wages, while public investment spending declined markedly.

In 2019, the general government deficit is expected to increase to 2.5% of GDP, mainly due to the slowdown in economic growth. In particular, weak labour market developments are expected to substantially curb revenues from direct taxes. The latter are also lowered by the deferred impact of past tax measures. Those developments will be only partially offset by several changes in the tax regime introduced by the 2019 budget, which should provide temporary support for revenues. Government spending is set to increase significantly following the introduction of the citizenship income and several provisions on pensions, including a new early retirement scheme. Some savings are expected from a new spending review. These projections also assume a cut in

government spending of around 0.1% of GDP legislated as a budgetary safeguard clause in 2019. In 2020, the government deficit is projected to reach 3.5% of GDP, under a no-policy-change assumption. This forecast does not consider the increase in VAT rates legislated as a safeguard clause, given past repeals and government announcements. The delayed impact of the new tax regimes implemented in 2019, higher funds for public investment and additional spending for the citizenship income and the early retirement scheme are expected to be only marginally offset by strengthened provisions against tax evasion and temporary revenues from a new tax amnesty.

The structural balance is expected to deteriorate from around -2¼% of GDP in 2018 to -3½% of GDP in 2020. As the result of a lower primary surplus and a positive interest-rate/growth-rate differential, Italy's debt-to-GDP ratio is forecast to increase from 132.2% in 2018 to 135.2% in 2020.

Renewed tensions on sovereign yields constitute a risk to these fiscal projections. Conversely, the possible activation of the VAT safeguard clause in 2020 and potential underspending for the new measures would lead to a better fiscal outlook.

Table II.12.1:

Main features of country forecast - ITALY

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	1727.4		100.0	0.3	0.9	1.1	1.7	0.9	0.1	0.7
Private Consumption	1049.5		60.8	0.2	1.9	1.3	1.6	0.6	0.6	0.8
Public Consumption	323.2		18.7	0.7	-0.6	0.1	0.3	0.2	-0.1	0.5
Gross fixed capital formation	303.7		17.6	-0.6	2.1	3.5	4.3	3.4	-0.3	0.9
of which: equipment	114.6		6.6	-0.5	4.6	6.7	9.1	5.5	-0.5	0.8
Exports (goods and services)	538.3		31.2	1.9	4.4	2.1	5.9	1.9	1.9	3.1
Imports (goods and services)	488.0		28.3	1.6	6.8	3.6	5.5	2.3	2.2	3.3
GNI (GDP deflator)	1735.6		100.5	0.3	0.2	2.1	1.9	1.3	0.5	0.7
Contribution to GDP growth:										
Domestic demand				0.2	1.4	1.4	1.7	1.0	0.3	0.7
Inventories				0.0	0.1	0.0	-0.4	0.0	-0.1	0.0
Net exports				0.1	-0.5	-0.3	0.3	-0.1	0.0	0.0
Employment				0.1	0.7	1.3	0.9	0.8	-0.1	0.5
Unemployment rate (a)				8.9	11.9	11.7	11.2	10.6	10.9	11.0
Compensation of employees / f.t.e.				2.4	1.0	0.3	0.3	2.0	0.9	1.0
Unit labour costs whole economy				2.2	0.7	0.5	-0.5	1.9	0.7	0.8
Real unit labour cost				0.2	-0.2	-0.7	-1.0	1.1	0.1	-0.2
Saving rate of households (b)				13.1	10.6	10.5	9.7	9.9	10.0	9.9
GDP deflator				2.0	0.9	1.2	0.5	0.8	0.7	1.0
Harmonised index of consumer prices				2.1	0.1	-0.1	1.3	1.2	0.9	1.1
Terms of trade goods				-0.5	4.2	3.6	-2.3	-1.6	-0.5	0.0
Trade balance (goods) (c)				0.6	3.1	3.4	3.2	2.7	2.6	2.6
Current-account balance (c)				-0.8	1.3	2.5	2.5	2.4	2.5	2.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.7	1.7	2.3	2.6	2.4	2.5	2.5
General government balance (c)				-3.2	-2.6	-2.5	-2.4	-2.1	-2.5	-3.5
Cyclically-adjusted budget balance (d)				-3.0	-0.8	-1.5	-2.1	-2.1	-2.3	-3.4
Structural budget balance (d)				-3.6	-0.7	-1.7	-2.1	-2.2	-2.4	-3.6
General government gross debt (c)				109.8	131.6	131.4	131.4	132.2	133.7	135.2

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

13. CYPRUS

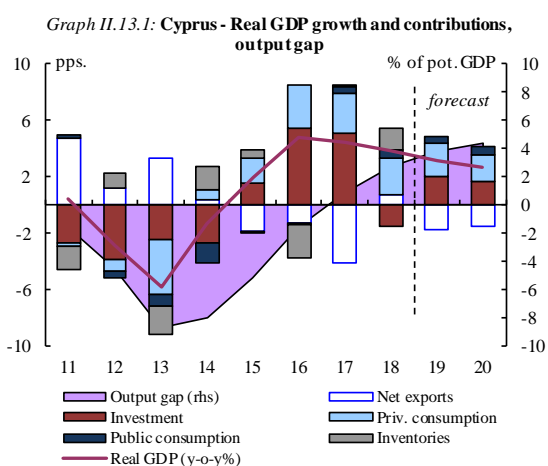
Strong growth momentum continues

Cyprus' economic expansion is set to remain robust, driven by domestic demand, but risks are tilted to the downside. Inflation is forecast to remain subdued. The budget is expected to return to surplus and public debt to steadily decline from 2019 onwards. Risks to the fiscal outlook are also mainly on the downside.

Solid growth but increased downside risks

Cyprus continues to enjoy a remarkable post-crisis rebound with real GDP growth of 3.9% in 2018. Growth is forecast to ease to 3.1% this year and 2.7% in 2020 as the external environment turns less favourable and the private sector continues to deleverage.

Private consumption remains a key growth driver due to rapid employment growth. Employment in 2018 rose by 4% and more recent labour market indicators remain favourable. The unemployment rate fell to 7.1% in February 2019, with a significant reduction in long-term unemployment. Wages increased moderately over the previous year and are set to continue rising, with employers in several sectors scheduled to renegotiate wages with unions amid tightening labour market conditions. Public consumption is also set to provide support to growth, driven by the automatic indexation of public wages, wage increments and the unfreezing of promotions.



Investment is forecast to be robust, growing more strongly than the overall economic activity. An important part of investment comes from ongoing tourism-related projects. Other investment projects relate to residential construction, with half of all transactions in the sector driven by foreign demand, which in turn is supported by the

Citizenship by Investment programme. Finally, a large share of investment in Cyprus is associated with ship registrations. These are inherently volatile but more likely to increase following efforts to strengthen the shipping sector in the country.

Net exports are projected to be a drag on economic growth. Imports are set to increase reflecting the large import content of domestic demand. Meanwhile, exports in Cyprus are dominated by services and the largest share of services is linked to tourism. The outlook of tourism-linked services is clouded by the recent bankruptcies of several airlines servicing Cyprus, slowing global demand, fierce competition, and high Brexit-related uncertainty (UK citizens account for more than a third of all tourists).

Risks to the outlook are tilted to the downside. As a small open economy, Cyprus would be exposed to strong headwinds from slowing global growth. The economy's heavy reliance on foreign funding also leaves it vulnerable to external developments.

Despite high growth, inflation remains low

Headline HICP inflation in 2018 was 0.8%, almost the same as it was in 2017 (0.7%). Inflationary pressures came mainly from energy and unprocessed food categories, while core inflation fluctuated around zero. Two factors seem to provide some explanation for this. First, the increasing competition among wholesalers, retailers and internet platforms, as well as the absence of legislation on when shops can offer sales, is weighing on prices. Second, although the unemployment rate has fallen sharply in recent years, the fastest job creation occurred in low-paid sectors and there is still significant slack in the labour market to be absorbed. Inflationary pressures are thus expected to remain subdued.

Public finances are set to return to budgetary surpluses

The general government headline balance is expected to return to surpluses of around 3% of GDP in 2019 and 2020, after posting a temporary deficit of 4.8% of GDP in 2018. This was entirely due to the one-off support measures related to the Cyprus Cooperative Bank sale. The underlying fiscal performance is projected to remain strong, on the back of the supportive macroeconomic environment and the improving labour market.

The general government surplus is forecast to reach 3.0% of GDP in 2019. Revenue is forecast to continue increasing, mainly as a result of a sizable rise in social security contributions, partly offset by a reduction in the excise duties on fuel and the revision of vehicle taxation. Compared to public expenditure net of one-offs in 2018, expenditure is forecast to rise at a higher rate than revenue. This is mostly due to deficit-increasing measures, such as the gradual increase in public wages to reverse wage cuts implemented after the crisis, the Estia scheme to support non-performing loan repayment and the government's support for low-income pensioners. The forecast takes into account the start of contributions to the national health insurance system as of March 2019 and the

inclusion of the two entities resulting from the sale of the Cyprus Cooperative Bank within the general government sector. Under a no-policy-change assumption, the general government surplus is forecast to narrow slightly to 2.8% of GDP in 2020. The structural budget surplus is set to decline over the forecast period from 2% of GDP in 2018 to around ¾% in 2020, mainly due to the positive output gap.

The main downside risks to the fiscal outlook relate to uncertainties surrounding the macroeconomic outlook, the outcome of court rulings on past measures concerning the public sector wage bill and the potential deficit of public healthcare providers during the first years of the national health insurance system. Positive cash balances from the resulting CCB entities constitute an upside risk.

After increasing considerably to 102.5% of GDP in 2018, due to the government's one-off support for the Cyprus Cooperative Bank sale, public gross debt is forecast to steadily decline to below 90% of GDP by 2020. The decrease is mainly due to projected primary budget surpluses and strong nominal GDP growth.

Table II.13.1:

Main features of country forecast - CYPRUS

	2017			99-14	Annual percentage change					
	mio EUR	Curr. prices	% GDP		2015	2016	2017	2018	2019	2020
GDP	19648.7		100.0	2.1	2.0	4.8	4.5	3.9	3.1	2.7
Private Consumption	13331.3		67.8	2.9	2.4	4.5	4.1	3.7	3.5	2.8
Public Consumption	2968.4		15.1	1.8	-0.5	-0.8	3.1	4.3	3.6	4.0
Gross fixed capital formation	4220.1		21.5	-1.3	13.8	41.8	29.0	-7.1	10.2	8.1
of which: equipment	1865.3		9.5	-2.3	52.1	107.9	26.5	-35.1	3.3	3.1
Exports (goods and services)	12726.3		64.8	1.8	5.2	4.6	6.0	3.3	0.8	0.8
Imports (goods and services)	13415.6		68.3	1.8	8.4	6.6	12.2	2.0	3.5	3.0
GNI (GDP deflator)	19115.0		97.3	1.7	6.9	1.4	3.7	3.9	3.1	2.7
Contribution to GDP growth:		Domestic demand		2.1	3.2	8.4	8.4	1.7	4.9	4.2
		Inventories		0.1	0.6	-2.3	0.2	1.5	0.0	0.0
		Net exports		-0.1	-1.9	-1.3	-4.1	0.8	-1.8	-1.5
Employment				1.1	1.5	4.6	4.3	4.0	2.6	2.0
Unemployment rate (a)				6.7	15.0	13.0	11.1	8.4	6.7	5.9
Compensation of employees / head				2.8	-1.3	-1.1	0.7	0.1	2.5	2.8
Unit labour costs whole economy				1.9	-1.7	-1.4	0.6	0.3	2.0	2.0
Real unit labour cost				-0.2	-0.5	-0.8	-1.1	-1.3	0.9	0.8
Saving rate of households (b)				5.8	-4.5	-3.1	-3.1	-6.4	-8.0	-8.0
GDP deflator				2.1	-1.2	-0.6	1.7	1.6	1.1	1.3
Harmonised index of consumer prices				2.3	-1.5	-1.2	0.7	0.8	0.9	1.1
Terms of trade of goods				0.3	3.2	-0.4	0.4	0.1	-0.1	-0.1
Trade balance (goods) (c)				-23.1	-16.7	-21.0	-24.2	-21.5	-22.4	-23.1
Current-account balance (c)				-6.2	-1.4	-5.1	-8.4	-6.5	-8.0	-9.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.8	-1.1	-4.9	-7.8	-6.9	-7.1	-8.6
General government balance (c)				-3.5	-1.3	0.3	1.8	-4.8	3.0	2.8
Cyclically-adjusted budget balance (d)				-3.8	1.3	1.1	1.3	-6.2	1.1	0.7
Structural budget balance (d)				-	2.1	1.1	1.3	2.0	1.1	0.7
General government gross debt (c)				65.5	108.0	105.5	95.8	102.5	96.4	89.9

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

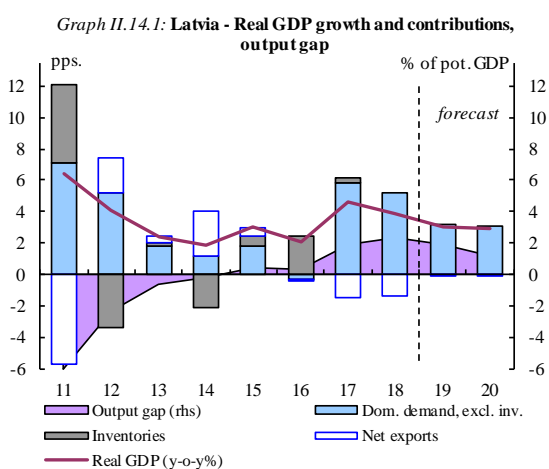
14. LATVIA

Growth to moderate as investment slows down

In 2018, GDP growth reached 4.8%, marking the peak of the current investment cycle. Strong employment and wage growth fuelled private consumption, while investment grew at double-digit rates for the second year. Growth is set to slow this year as investment moderates and employment growth halts. Exports are expected to pick up slightly despite the slower external demand growth. Inflation is forecast to rise to 2.8% in 2019 before declining to 2.4% in 2020. The government deficit is set to fall from 1.0% of GDP in 2018 to 0.6% in 2019 and 2020.

Investment boom continued in 2018

GDP growth reached 4.8% in 2018 – the highest rate since 2011. Economic growth was driven by private consumption and double digit growth in investment. Investment growth was broad-based across asset types and was fast in both the public and private sector. The construction boom helped increase employment significantly for the first time since 2015 and, together with solid wage growth, supported an acceleration of private consumption. Exports, on the other hand, performed modestly, as financial and transport services struggled, and a poor harvest weighed on food exports.



Growth to slow in 2019 and 2020

In 2019, GDP growth is expected to slow to 3.1% as investment growth comes down from the exceptionally high growth of the previous two years. The disbursement of EU funds will increase only slightly in 2019, leaving investment growth largely in the hands of the private sector. At the same time, private consumption is set to remain strong due to solid wage growth and enduring consumer optimism. With most of the decline in financial services exports now in the past, export growth is set to increase slightly in 2019. However, slowing global trade and lower

European growth make it unlikely that external demand will outperform domestic growth, leading to an overall negative contribution of net exports.

In 2020, GDP growth is expected to slow further to 2.8%. Private consumption growth is forecast to slow mildly as employment is expected to stall by 2020 due to supply constraints. Also, EU fund disbursements for investment will be past their peak, providing a much lower impulse to investment. On the other hand, export growth is set to strengthen slightly on the back of recovering growth in Europe.

Employment growth set to stall

Strong economic growth and higher activity among people close to the retirement age temporarily increased employment by a staggering 1.6% in 2018. However, employment growth is set to slow considerably over the forecast horizon as working age population continues falling and untapped labour supply becomes increasingly thin. At 6.9% in 2019 and 6.7% in 2020, the unemployment rate remains close to its record low of 6.1%, achieved in the previous boom in 2007. Wage growth is expected to maintain a steady pace due to the tight labour market, but might relent somewhat as labour intensive construction activity abates. If wages continue to grow faster than productivity Latvia's exports could underperform.

HICP inflation is forecast to increase slightly in 2019 to 2.8% due to higher-than-last-year excise tax increases and a rise in heating tariffs. The rapid wage growth is causing a steady rise in services prices, which continues driving core inflation. Assuming no changes in tax policy, inflation in 2020 should moderate to 2.4% - the lowest level in recent years. Energy inflation is set to recede and the calming investment cycle is expected to relieve the pressure on wages.

Fiscal deficit set to fall to 0.6% of GDP

The government deficit stood at 1.0% of GDP in 2018, exceeding the 0.7% estimate of the 2019 budgetary plan, as the adjustments from cash to accrual estimates turned out deficit-increasing. Overall, 2018 showed strong expenditure growth for investment, public sector wages and for goods and services, while revenues were supported by solid wage and consumption growth, mitigating the effect of tax cutting measures.

In 2019, the government deficit is projected to decrease to 0.6% of GDP, as a result of the budgeted expenditure restraint. Notably, purchases of goods and services are planned to be contained. While public sector wages is set to remain dynamic, in particular for medical personnel, public investment should level out after the rush in 2017 and 2018.

An increase in social transfers is linked to wage growth in the economy and several benefit-increasing measures. Revenue growth will be supported by dynamic domestic growth drivers, while coping with the tax cuts of 2017.

In 2020, the government deficit is projected at 0.6% of GDP under a no policy change assumption. In particular, public sector wage growth should moderate, but purchases of goods and services should pick-up. The net effect of revenue measures is expected to turn positive in 2020, as a period of implementation of the 2017 tax reform ends. The structural deficit peaked at 2% of potential GDP in 2018.

The government debt-to-GDP ratio is expected to fall from 40% in 2017 to 33.5% in 2020. This reflects a drop in liabilities of public companies in 2018 and the government's net borrowing being lower than nominal GDP growth.

Table II.14.1:

Main features of country forecast - LATVIA

	2017			99-14	Annual percentage change					
	mio EUR	Curr. prices	% GDP		2015	2016	2017	2018	2019	2020
GDP	27033.1		100.0	3.8	3.0	2.1	4.6	4.8	3.1	2.8
Private Consumption	16151.6		59.7	3.9	2.5	1.4	4.1	4.5	3.7	3.6
Public Consumption	4853.3		18.0	0.9	1.9	3.9	4.1	4.0	1.5	1.3
Gross fixed capital formation	5650.7		20.9	5.4	-0.5	-8.4	13.1	16.4	2.8	1.7
of which: equipment	2277.1		8.4	3.5	-1.3	11.1	8.2	10.9	3.5	1.5
Exports (goods and services)	16515.7		61.1	6.9	3.1	4.4	6.2	1.8	2.2	2.4
Imports (goods and services)	16491.2		61.0	5.4	2.1	4.4	8.9	5.1	2.0	2.3
GNI (GDP deflator)	26846.0		99.3	3.7	2.8	2.4	4.2	4.6	3.2	2.9
Contribution to GDP growth:		Domestic demand		4.5	1.8	-0.3	5.8	6.8	3.1	2.8
		Inventories		-0.2	0.7	2.4	0.3	-0.1	0.0	0.0
		Net exports		-0.2	0.6	0.0	-1.5	-2.0	0.1	0.1
Employment				-0.7	1.4	-0.3	0.0	1.6	0.3	0.0
Unemployment rate (a)				12.5	9.9	9.6	8.7	7.4	6.9	6.7
Compensation of employees / head				9.5	7.7	7.3	8.0	7.8	6.2	5.0
Unit labour costs whole economy				4.9	6.1	4.8	3.1	4.6	3.3	2.1
Real unit labour cost				-0.1	6.1	3.9	0.0	0.3	0.6	0.1
Saving rate of households (b)				1.3	1.7	5.2	3.3	5.0	6.3	7.3
GDP deflator				5.0	0.0	0.9	3.2	4.2	2.7	2.0
Harmonised index of consumer prices				4.1	0.2	0.1	2.9	2.6	2.8	2.4
Terms of trade of goods				0.1	2.4	3.5	0.9	1.6	-0.1	-0.2
Trade balance (goods) (c)				-16.1	-9.0	-7.5	-8.5	-8.7	-8.6	-8.6
Current-account balance (c)				-7.5	-0.5	1.6	0.7	-0.5	-0.2	-0.2
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.1	2.3	2.6	1.5	1.3	1.7	1.9
General government balance (c)				-2.8	-1.4	0.1	-0.6	-1.0	-0.6	-0.6
Cyclically-adjusted budget balance (d)				-2.6	-1.5	0.0	-1.2	-2.1	-1.4	-1.1
Structural budget balance (d)				-	-1.5	-0.2	-1.2	-2.1	-1.6	-1.1
General government gross debt (c)				23.4	36.8	40.3	40.0	35.9	34.5	33.5

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

15. LITHUANIA

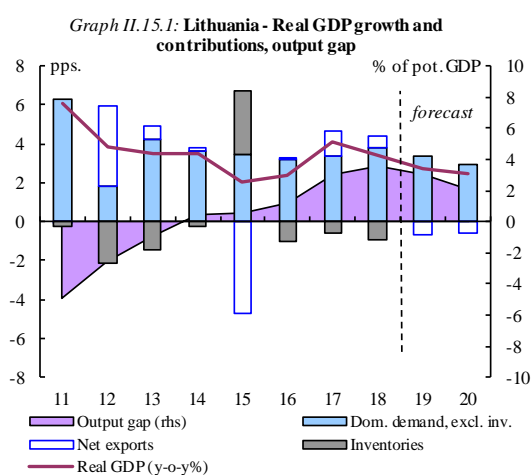
Consumption and investment keep supporting growth

Domestic factors are set to continue supporting growth, but headwinds from the slowdown in Lithuania's major trading partners are projected to dampen export growth. Inflation should ease further in line with falling oil prices. Lower labour taxation and higher government expenditure are set to drain the general government surplus, leading to a balanced budget in 2020.

Solid performance in 2018

After weak macroeconomic data in the third quarter of last year, good end-of-the-year results pushed GDP growth to 3.4% in 2018. Overall, growth was underpinned by robust private consumption, which grew by 3.9% in 2018. Private spending benefited from a strong labour market, which combined rising employment and persistently increasing wages. It was supported further by easing inflation and benign financing conditions.

Contrary to 2017, government consumption also made a positive contribution to growth. Investment continued to grow at a healthy pace of 6.5% annually, driven by an expanding construction sector and a greater uptake of EU funds. Export growth stayed rather resilient at 4.9% despite weaker external demand and a strong base effect. Robust service exports and a positive balance of secondary income helped to achieve a balanced current account in 2018.



Decelerating growth ahead

In 2019 and 2020, economic growth is forecast to moderate to 2.7% and 2.4%, respectively. Private demand – consumption and investment – is expected to stay the main engine of growth though

their growth rates are set to be slightly lower than in 2018.

Strong wage growth of approximately 10%, together with abating inflation and a reduction of labour income taxation, will support disposable income and lead to robust private consumption growth in 2019. Consumer confidence is currently at its highest level since 2013, providing further impetus to household spending.

The persistent shortage of workers and record-high capacity utilisation rates are also expected to spur private investment over the forecast period. Businesses will need to invest in automatization and other efficiency-increasing processes in order to avoid supply-side constraints and maintain their competitiveness. The use of EU funds is projected to increase further in the next two years as well. At the same time, increasing uncertainty at the global level could curb firms' enthusiasm and restrain their investment activities.

External factors will continue taking their toll on export growth. The major negative effect is set to come from an economic slowdown in important trading partners. High investment is projected to maintain a demand for the import of capital goods. Overall, the net export contribution to GDP growth is expected to be slightly negative in the coming years.

Increase in employment

Despite the continuously shrinking working age population, a positive migration balance and more active participation of the elderly in the labour market led to an increase in employment of 1.1% in 2018. In view of the favourable labour market situation in Lithuania and political and economic developments in the rest of the EU, immigration flows are expected to remain high this year. As a result, employment should continue growing in 2019 and 2020, albeit at a slower pace.

In 2018, the unemployment rate declined by 0.9 pps. to 6.2%. Considering the very low labour

reserves in the economic centres within the country, the overall unemployment rate is set to decline only marginally over the forecast horizon. An increase in the minimum wage and strong labour demand will continue to push wages up in 2019 and 2020.

Inflation to ease further

After peaking at 3.7% in 2017, HICP inflation fell to 2.5% in 2018 and is expected to slow further to 2.1% in 2019 and 2020. This is mainly a reflection of the projected fall in oil prices. As in previous years, fast wage growth will translate into increasing service prices and will also support consumption, exerting upward pressures on the general price level. Utility price increases (heat, electricity and gas) from the end of 2018 and the beginning of 2019, will have a more positive contribution to inflation than last year.

Deteriorating general government balance

For the third year in a row, Lithuania kept its general government balance in surplus, which stood at 0.7% of GDP in 2018. To a large extent

this result was achieved thanks to a delayed recording of some expenses following the principles of accrual accounting. This implies that government expenditure might be higher than previously planned in the coming years. In addition, the reform of labour taxation has a negative effect on government revenues. Therefore, the general government surplus is set to decrease from 0.7% of GDP in 2018 to 0.3% of GDP in 2019. In 2020, the general government budget is forecast to be balanced.

The structural budget deficit is expected to stand at around 1% over the forecast horizon, due to a decreasing nominal balance and a still rather large output gap.

In 2018, bond redemptions helped drive a notable reduction in the debt-to-GDP ratio to 34.2%. However, the pre-financing of 2020 bond redemptions will have to be secured in 2019. Consequently, the general government debt is set to increase to 37.0% of GDP in 2019, after which it should decline somewhat to 36.4% of GDP in 2020.

Table II.15.1:

Main features of country forecast - LITHUANIA

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	42.2	100.0		3.9	2.0	2.4	4.1	3.4	2.7	2.4
Private Consumption	26.6	63.0		4.5	4.0	5.0	3.3	3.9	3.8	3.3
Public Consumption	6.9	16.4		0.7	0.2	-0.1	-0.4	0.6	0.6	0.5
Gross fixed capital formation	8.1	19.2		4.1	4.9	0.3	6.8	6.5	5.0	4.4
of which: equipment	2.9	6.9		5.5	13.4	8.9	8.6	4.0	4.4	4.5
Exports (goods and services)	34.1	80.9		8.7	0.9	4.0	13.6	4.9	3.6	3.6
Imports (goods and services)	33.0	78.1		7.8	6.8	3.8	12.0	4.3	4.5	4.3
GNI (GDP deflator)	40.5	96.0		4.0	-0.8	2.4	4.2	2.9	3.1	2.5
Contribution to GDP growth:		Domestic demand		4.2	3.4	3.2	3.4	3.8	3.4	3.0
		Inventories		-0.2	3.3	-1.0	-0.6	-1.0	0.0	0.0
		Net exports		0.1	-4.7	0.1	1.3	0.6	-0.7	-0.5
Employment				-0.8	1.3	2.0	-0.5	1.1	0.4	0.1
Unemployment rate (a)				12.0	9.1	7.9	7.1	6.2	6.2	6.0
Compensation of employees / head				6.6	5.9	6.7	8.7	7.7	7.0	5.9
Unit labour costs whole economy				1.8	5.1	6.4	3.8	5.2	4.5	3.5
Real unit labour cost				-0.8	4.7	4.9	-0.5	1.7	1.4	0.8
Saving rate of households (b)				3.4	0.4	0.2	-1.5	-1.2	-0.5	-0.9
GDP deflator				2.6	0.3	1.4	4.3	3.4	3.0	2.7
Harmonised index of consumer prices				2.6	-0.7	0.7	3.7	2.5	2.1	2.1
Terms of trade goods				1.1	2.5	2.4	0.5	-0.9	0.4	0.3
Trade balance (goods) (c)				-9.0	-5.3	-4.6	-4.6	-5.9	-6.5	-7.0
Current-account balance (c)				-5.2	-2.0	-0.7	0.9	0.0	-0.1	-0.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.5	1.0	0.7	2.1	1.3	1.4	1.2
General government balance (c)				-3.1	-0.3	0.2	0.5	0.7	0.3	0.0
Cyclically-adjusted budget balance (d)				-2.6	-0.5	-0.2	-0.7	-0.8	-0.9	-0.8
Structural budget balance (d)				-	-0.6	-0.4	-0.8	-0.8	-1.0	-0.9
General government gross debt (c)				26.0	42.6	40.0	39.4	34.2	37.0	36.4

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

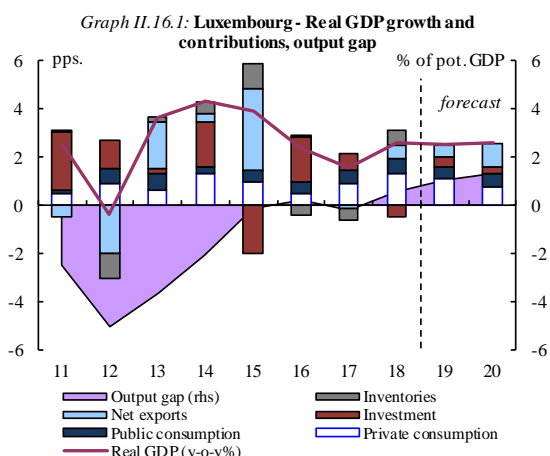
16. LUXEMBOURG

Steady growth to continue

Luxembourg's GDP is forecast to grow at a steady pace over 2019 and 2020. With prospects for external trade set to remain weak throughout the year, growth is expected to remain driven mainly by domestic demand, supported by strong labour market conditions. Inflation is set to remain under 2.0% over the forecast period. The headline budget surplus is forecast to decline from a high level.

A mild recovery in 2018

After having slowed to 1.5% in 2017, GDP growth accelerated less than expected in 2018 at 2.6%, compared to the 3.0% forecast in winter. The difference was partly due to downward revisions to external demand in previous quarters, resulting in a lower contribution than explained by the drop in the last quarter of the year. Compared with previous years, recent developments imply an underperformance, although historical figures need to be taken with caution given the frequent and substantial revisions to Luxembourg's national accounts data⁽⁸⁴⁾.



Steady growth to continue

Incoming data in the first months of 2019, including weaker employment growth, confirm that growth momentum is stabilising, and inflows into the investment fund industry have also weakened.

Private consumption, the main driver of domestic demand growth, is expected to weaken but remain strong, benefitting from strong labour market

⁽⁸⁴⁾ Information provided by the STATEC, refers to a "statistical reprocessing of some exceptional operations of multinational groups present in the territory" or "technical phenomena". However, these assessments do not allow quantifying the impact of such phenomena or whether they are temporary or not.

conditions. In addition to budgetary measures, wages (and pensions) were raised in August from the indexation mechanism, and they should be once again by the end of 2019. However, support from employment is expected to weaken as job creation slows down.

The international financial sector, traditionally Luxembourg's main growth engine, has become less dynamic but remains profitable overall. The deterioration in the external environment and increased uncertainty has moderated growth prospects for financial services, as well as for the economy as a whole. This suggests that growth will continue to be driven by domestic demand.

Overall, GDP is forecast to grow by 2.5% in 2019 and 2.6% in 2020. As a small open economy with strong trade and financial links with international markets, Luxembourg remains highly exposed to external risks. Heightened trade and political tensions, and any financial turmoil that may ensue, could result in a less benign outcome for Luxembourg's economy.

Strong labour market

In 2018, employment growth reached 3.7%, its highest rate since the crisis but job creation is likely to slow. Nevertheless, the rise in resident employment, which helped bring the unemployment rate down to 5.4% in 2018 from 5.6% in 2017, should continue to curb unemployment in 2019, before stabilising in 2020. All in all, the unemployment rate is forecast to fall to 5.2% in 2019 and 2020.

A shift of inflation drivers

HICP inflation fell marginally to 2.0% in 2018 from 2.1% in 2017. Downside factors, such as subsidies for child and healthcare services introduced in November 2017, more than offset the effect of increasing oil prices, which continued feeding into higher inflation in 2018. Moderating oil prices are expected to ease headline inflation in 2019 and 2020. Meanwhile, domestic price pressures, including from past wage increases, are

set to reassert their influence, although those will be offset by new measures to be implemented in 2020, including free public transport on the national network. All in all, headline inflation should fall to 1.8% in 2019 and 1.7% in 2020.

The general government surplus will decline from a high level

The general government surplus rose to 2.4% of GDP in 2018, from 1.4% in 2017. Total revenues were buoyant and increased by 9.1% underpinned by both direct and indirect taxes. Revenues from current income and wealth taxes rose by 15.2%, in particular revenues from direct corporate taxes increased substantially, partially due to an accelerated collection of revenues linked to the introduction of the automatic tax declaration. The sharp increase in corporate income tax revenues was accompanied by a sharp increase in payroll taxes. VAT revenues also showed strong growth in line with the acceleration of private consumption.

In 2019, planned expenditure increases mean that government expenditure growth is expected to outpace revenue growth. Recent measures announced by the government, such as the compensation of employees and current transfers,

are expected to boost expenditure by 0.4 pps. of GDP. Revenue growth is expected to slow down compared to the previous year as the impact of the introduction of the automatic tax declaration will fade away. In 2019, the general government surplus is expected to decline to 1.4% of GDP.

The general government surplus is projected to decline further in 2020 when revenues will be impacted by the recent government measures such as the free public transport, the increase in minimum social wages through tax credits and the reduction in the corporate tax rate from 18% to 17%. The surplus is projected then to fall to 1.1% of GDP. The structural surplus is expected to decline over the forecast horizon, but remain comfortably positive.

Luxembourg's debt-to-GDP ratio declined to 21.4% in 2018 from 23% in 2017. It is expected to decline further over the forecast horizon, as the buffer accumulated by the central government will be used to limit the need for debt issuance to finance its projected deficits.

Table II.16.1:

Main features of country forecast - LUXEMBOURG

	2017			99-14	Annual percentage change					
	mio EUR	Curr. prices	% GDP		2015	2016	2017	2018	2019	2020
GDP	55299.4		100.0	3.3	3.9	2.4	1.5	2.6	2.5	2.6
Private Consumption	16964.7		30.7	2.5	3.2	1.7	3.0	4.2	3.6	2.5
Public Consumption	9421.8		17.0	3.5	2.8	2.5	3.1	4.0	2.7	3.0
Gross fixed capital formation	10459.6		18.9	4.5	-9.9	10.4	4.0	-2.7	2.5	1.6
of which: equipment	4206.4		7.6	6.9	-19.1	15.8	14.8	-15.6	3.8	1.6
Exports (goods and services)	123361.5		223.1	6.6	5.3	3.8	-1.9	4.5	1.8	2.4
Imports (goods and services)	104952.4		189.8	7.1	4.3	4.5	-2.2	5.1	1.8	2.4
GNI (GDP deflator)	39199.4		70.9	1.3	5.7	2.9	6.0	1.6	3.0	3.0
Contribution to GDP growth:		Domestic demand		2.4	-0.5	2.8	2.2	1.5	2.0	1.6
		Inventories		0.0	1.0	-0.4	-0.5	0.6	0.0	0.0
		Net exports		1.0	3.4	0.0	-0.1	0.5	0.5	1.0
Employment				3.2	2.6	3.0	3.4	3.7	3.1	2.8
Unemployment rate (a)				4.2	6.5	6.3	5.6	5.4	5.2	5.2
Compensation of employees / head				3.1	1.6	0.9	3.3	2.1	3.0	2.1
Unit labour costs whole economy				3.0	0.3	1.5	5.2	3.3	3.5	2.3
Real unit labour cost				0.0	0.7	0.6	3.0	-0.5	1.7	0.6
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.1	-0.4	0.9	2.2	3.8	1.8	1.7
Harmonised index of consumer prices				2.5	0.1	0.0	2.1	2.0	1.8	1.7
Terms of trade of goods				0.4	-3.1	5.0	0.4	0.9	0.1	0.0
Trade balance (goods) (c)				-5.5	0.1	1.2	1.2	1.4	1.3	1.6
Current-account balance (c)				4.0	2.0	2.6	4.8	4.8	4.6	4.7
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.3	1.0	2.0	4.0	3.9	3.5	3.6
General government balance (c)				1.7	1.4	1.9	1.4	2.4	1.4	1.1
Cyclically-adjusted budget balance (d)				1.9	1.5	1.8	1.5	2.1	0.9	0.5
Structural budget balance (d)				-	1.3	1.7	1.5	2.1	0.9	0.5
General government gross debt (c)				12.8	22.2	20.7	23.0	21.4	20.7	20.3

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

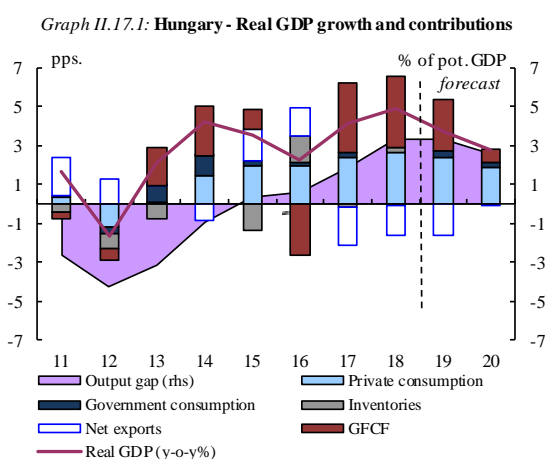
17. HUNGARY

Emerging signs of overheating

After a strong 2018, Hungary's economic expansion appears to be running into capacity limits, while productivity gains remain modest. High unit labour cost growth and rapidly expanding domestic demand are fuelling inflation and contributing to a deterioration of the current account balance. The budget deficit is set to decrease gradually over the forecast horizon and to remain below 2% of GDP.

Construction drives record growth in 2018

Real GDP growth rose to 4.9% in 2018, driven by construction investment, which accounted for a record high of 13.8% of GDP. Employment and wage growth, including an increase in the minimum wage, supported private consumption. While labour costs have risen, productivity growth in industry and services has not yet picked up. Equipment investment fell in 2018 and its share in GDP remains below pre-crisis levels, limiting the potential for further productivity gains. Slowing exports and buoyant imports pushed the current account into a deficit in the second half of 2018.



The expansion is nearing its limits

Growth is set to lose momentum as capacity constraints limit the further expansion of domestic demand, while external demand remains subdued. GDP growth is set to slow to 3.7% in 2019 and 2.8% in 2020.

Investment growth is forecast to moderate in the coming years as construction stabilises at a high level. In particular, the level of public investment is expected to peak in 2019, in line with the electoral cycle and the rising absorption of EU funds. Investment into equipment is set to pick up, mostly thanks to some large FDI-financed projects in manufacturing.

Household income and consumption growth are expected to ease in line with slower employment growth, as labour market slack is diminishing. Low unemployment and continued minimum wage rises are projected to keep wage increases above productivity growth. Households are expected to spend an increasing share of their income on housing due to rising home prices and expanding government support through the new 'demography programme', targeting first-home buyer cohorts.

Exports are set to remain subdued with slow growth in key export markets. New capacities in manufacturing and services will add to Hungary's export market shares, but declining cost competitiveness will partly offset these gains. Buoyant domestic demand is expected to keep import growth high, leading to current account deficits in 2019 and 2020. EU fund absorption should pick up and keep the external financing position positive in both years.

Risks to the forecast are balanced. While external risks are on the downside, domestic risks are on the upside as the tight labour market could sustain even higher wage and consumption growth.

The overheating economy fuels inflation

Inflation continues to rise, driven by the rapid growth of unit labour costs and consumption. HICP inflation is set to rise from 2.9% in 2018 to 3.2% in 2019. HICP excluding unprocessed food and energy prices is forecast to increase even higher, to 3.9%. Temporary effects also add to inflation in 2019, including tobacco excise duty increases and a recent spike in unprocessed food prices. In 2020 these effects will moderate but underlying inflation should continue to rise, leaving headline HICP inflation at 3.2%. Capacity constraints are driving up construction costs, which rose by 10.3% y-o-y in February 2019. House prices also continue to grow rapidly, increasing by 9.2% in the fourth quarter of 2018. Housing investment subsidies and the expiry of a temporary value added tax cut on housing are set to drive house prices even higher.

Slow improvement in headline deficit

The general government deficit remained stable at 2.2% of GDP in 2018, despite the favourable macroeconomic environment. The outturn was just slightly below the government's 2.4% target. In spite of tax cuts, including the further 2.5 pps. reduction in employers' social contribution rate, tax revenues grew relatively fast thanks to the high growth of nominal income and consumption. New measures to improve tax compliance, introduced last July, also bolstered VAT revenues. Higher-than-budgeted revenues were largely spent at the end of the year, mostly on current transfers. Public investment accelerated further, thanks also to the increased absorption of EU funds.

In 2019, the headline deficit is forecast to decrease to 1.8% of GDP. After incorporating the impact of the additional 2 pps. cut in employers' social contribution rate from July 2019, tax revenues are expected to increase just below nominal GDP, as the main tax bases continue to show robust but moderating growth. Public wages, social transfers and subsidies are expected to increase only moderately. On the contrary, capital expenditures are forecast to continue growing dynamically, driven both by high absorption of EU funds and nationally financed projects, notably through

higher expenditure on villages in 2019 (0.3% of GDP). A new fiscal package (known as the 'demography programme') is also being rolled out with the aim of improving the fertility rate through expanded house purchase subsidies and a subsidised pre-natal loan for young women, which is convertible to a capital grant after the birth of a second and third child. The programme is estimated to add 0.1% and 0.5% of GDP to the deficit in 2019 and 2020 respectively. In 2020, under a no-policy-change assumption, the headline deficit is set to improve further, to 1.6% of GDP.

The main budgetary risks stem from a more rapid growth of public investment and a potentially higher take-up of the measures included in the demography programme.

The structural balance is estimated to have deteriorated further in 2018 by about ¼ percentage point. It is projected to improve by ½ percentage point in both 2019 and 2020. The debt-to-GDP ratio decreased significantly in 2018, to 70.8% despite sizeable below-the-line effects due to pre-financing needs of EU-funded projects. It is forecast to decline further, although at a lower pace, reaching 67.7% in 2020.

Table II.17.1:

Main features of country forecast - HUNGARY

	2017			Annual percentage change						
	bn HUF	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	38355.1	100.0		2.1	3.5	2.3	4.1	4.9	3.7	2.8
Private Consumption	18981.4	49.5		1.8	3.9	4.0	4.8	5.4	4.9	3.8
Public Consumption	7765.3	20.2		1.8	1.3	0.7	1.3	-0.5	1.5	1.5
Gross fixed capital formation	8528.1	22.2		2.5	4.7	-11.7	18.2	16.5	10.4	2.4
of which: equipment	3597.0	9.4		4.1	1.5	2.5	13.8	-2.0	5.6	3.9
Exports (goods and services)	33848.2	88.2		9.0	7.2	5.1	4.7	4.7	4.6	4.8
Imports (goods and services)	30946.9	80.7		8.0	5.8	3.9	7.7	7.1	6.8	5.1
GNI (GDP deflator)	36823.6	96.0		2.2	3.3	4.4	2.5	4.9	3.7	2.8
Contribution to GDP growth:										
Domestic demand				2.0	3.3	-0.5	6.2	6.2	5.4	2.8
Inventories				-0.5	-1.3	1.4	-0.2	0.2	0.0	0.0
Net exports				0.6	1.6	1.4	-1.9	-1.5	-1.6	0.0
Employment				0.2	2.4	3.1	2.0	2.2	1.4	0.4
Unemployment rate (a)				8.0	6.8	5.1	4.2	3.7	3.5	3.5
Compensation of employees / head				6.4	-1.5	4.4	6.2	9.6	6.6	6.5
Unit labour costs whole economy				4.4	-2.6	5.2	4.1	6.7	4.2	4.0
Real unit labour cost				-0.6	-4.4	4.3	0.2	2.1	0.2	0.6
Saving rate of households (b)				11.4	11.2	12.8	12.1	14.1	13.1	12.9
GDP deflator				5.1	1.9	0.9	3.8	4.5	4.0	3.4
Harmonised index of consumer prices				5.4	0.1	0.4	2.4	2.9	3.2	3.2
Terms of trade goods				-0.6	0.8	1.5	0.0	-1.0	0.1	0.0
Trade balance (goods) (c)				-1.7	3.7	4.1	1.5	-1.1	-2.9	-3.1
Current-account balance (c)				-4.3	2.7	6.2	3.0	0.5	-1.2	-1.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.1	7.4	6.2	4.3	2.2	1.1	1.0
General government balance (c)				-5.2	-1.9	-1.6	-2.2	-2.2	-1.8	-1.6
Cyclically-adjusted budget balance (d)				-4.9	-2.1	-1.9	-3.0	-3.7	-3.3	-2.7
Structural budget balance (d)				-	-2.0	-1.8	-3.4	-3.7	-3.3	-2.7
General government gross debt (c)				67.0	76.7	76.0	73.4	70.8	69.2	67.7

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

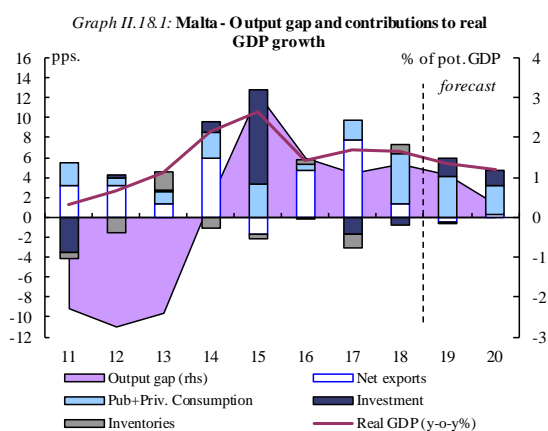
18. MALTA

Domestic demand upholds the strong growth performance

Malta's economic expansion is expected to continue with the support of buoyant domestic demand, but the brisk pace of growth will ease slightly. The external surplus remains at historically high levels, due to the strong performance of the export-oriented services sector. Sustained job creation and low unemployment are creating an increasingly tight labour market. Inflation is set to increase only marginally over the forecast horizon. The fiscal position remains sound although the high surpluses recorded in recent years are set to decline.

Robust growth continues

Malta's economy performed better than expected in 2018, with real GDP growth reaching the high rate of 6.6%. Economic growth accelerated in the second half of the year, driven by record-high levels of private consumption growth, which increased by 7.3% compared to the previous year. In particular, robust employment growth coupled with modest price pressures in the household consumption basket contributed to boost households' real disposable income. Going forward, private consumption growth is expected to slow down but remain well above its historical average.



Investment set to recover and fuel import growth

Despite the drop in investment in real terms in 2018, which was mostly due to base effects, investment in recent years has stabilised at relatively high levels, with an investment-to-GDP ratio above 20%. In 2019, investment is set to rebound and pick up further in 2020. In particular, non-residential construction is expected to benefit from large investment projects planned in the health, transport and tourism sectors.

The import content of Malta's exports has been steadily declining in the recent past, reflecting the

structural shift toward the services sector. As investment rises, import growth is likewise expected to increase, turning the growth contribution of net exports from positive to slightly negative in 2019. Export growth is expected to remain above 2% as a result of the good performance of export-oriented services such as tourism and remote gaming. The current account surplus is set to narrow but to remain among the highest in the EU, underpinned by the large surplus in the services account.

Solid growth ahead, amid rising uncertainties

Real GDP growth is expected to remain solid but to gradually ease over the forecast horizon, to an annual rate of 5.5% in 2019 and 4.8% in 2020. Risks to the macroeconomic outlook appear broadly balanced. In particular, global trade tensions and rising uncertainties in some of Malta's trading partners could negatively affect the short-term growth profile. Important upside risks include the possibility of stronger-than-expected private consumption, driven by employment creation and accumulated savings, and a further decline in the import of services.

Tight labour market and moderate inflation

With the activity rate in Malta quickly approaching the EU average, employment growth is expected to moderate slightly as economic growth slows down, while the unemployment rate is projected to remain below 4% over the forecast horizon. The significant inflow of foreign workers has helped keep wage growth contained; unit labour cost growth is set to rise and reach 1.2% in 2020 as wage pressures gradually materialise.

The inflation profile has been influenced by price increases in the services sector, in particular tourism-related expenditure like accommodation services. Inflation is set to increase only marginally over the forecast horizon, reaching 1.9% in 2020.

Public spending trims down surplus

In 2018, the headline government surplus reached 2.0% of GDP. While lower than in 2017, the outcome was better than budgeted. Economic growth translated in a strong increase in consumption tax revenue but also revenue from income taxes and social contributions, mirroring the favourable labour market conditions. A hike in received capital transfers reflected an improved utilisation of EU funds. Spending outpaced revenue growth, however, and rose compared to the previous year. Intermediate consumption, employee compensation and investment were the main drivers. A capital transfer of some 0.5% of GDP to Air Malta was another important item increasing government outlays.

In 2019, the headline government surplus is projected to shrink further to 1.1% of GDP on the back of increased expenditures. Intermediate consumption, wages as well as social benefits are expected to grow at a swift pace.

Investment is set to continue growing also because of a pick-up in the implementation of projects co-financed by EU funds. The projected slowdown in revenues is driven largely by an expected decline in proceeds from Malta's citizenship scheme for foreigners. Other revenue components are forecast to grow in line with the robust economic environment. Under an assumption of unchanged policies, the surplus is expected to decline to 0.9% of GDP in 2020, reflecting continuing and high public outlays.

The structural balance reached a surplus of some 1½% of GDP in 2018. It is estimated to decrease to above ½% of GDP in 2019 and then to improve in 2020 as the positive output gap closes. The government debt-to-GDP ratio is forecast to decline further from 46% in 2018 to 40.2% in 2020.

Table II.18.1:

Main features of country forecast - MALTA

	2017			Annual percentage change						
	mio EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	11313.3		100.0	3.0	10.7	5.7	6.7	6.6	5.5	4.8
Private Consumption	5004.3		44.2	2.2	5.1	2.4	3.6	7.3	5.0	4.1
Public Consumption	1733.8		15.3	2.5	3.7	-2.8	2.1	11.7	11.5	6.3
Gross fixed capital formation	2306.3		20.4	2.4	55.3	-0.1	-7.4	-3.7	10.1	7.8
of which: equipment	821.7		7.3	-	85.5	13.5	-35.0	-14.4	-	-
Exports (goods and services)	17068.1		150.9	5.2	15.6	4.5	5.6	2.1	2.4	2.8
Imports (goods and services)	14657.9		129.6	4.8	18.3	1.6	0.6	1.3	3.2	3.0
GNI (GDP deflator)	10264.8		90.7	2.9	9.0	2.3	5.6	7.4	4.9	5.3
Contribution to GDP growth:		Domestic demand		2.4	12.8	0.6	0.3	4.3	6.0	4.4
		Inventories		0.0	-0.4	0.4	-1.3	0.9	0.0	0.0
		Net exports		0.7	-1.7	4.6	7.7	1.4	-0.5	0.3
Employment				1.6	4.1	4.3	7.8	5.6	4.0	3.4
Unemployment rate (a)				6.7	5.4	4.7	4.0	3.7	3.8	3.9
Compensation of employees / head				3.5	5.5	2.9	-0.3	1.6	2.4	2.5
Unit labour costs whole economy				2.1	-0.8	1.5	0.8	0.8	1.0	1.2
Real unit labour cost				-0.3	-3.2	0.1	-1.7	-1.4	-1.2	-1.0
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.5	2.6	1.4	2.5	2.2	2.3	2.2
Harmonised index of consumer prices				2.3	1.2	0.9	1.3	1.7	1.8	1.9
Terms of trade of goods				0.7	0.9	-4.5	4.4	2.0	1.5	1.7
Trade balance (goods) (c)				-15.6	-19.5	-18.3	-12.6	-11.3	-11.6	-11.7
Current-account balance (c)				-3.6	2.8	3.8	10.4	11.2	9.8	9.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.3	5.6	4.1	10.9	11.7	10.8	10.5
General government balance (c)				-4.0	-1.0	0.9	3.4	2.0	1.1	0.9
Cyclically-adjusted budget balance (d)				-3.9	-2.5	0.2	2.9	1.4	0.6	0.7
Structural budget balance (d)				-	-2.6	0.3	3.1	1.4	0.6	0.7
General government gross debt (c)				66.0	57.9	55.5	50.2	46.0	42.8	40.2

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

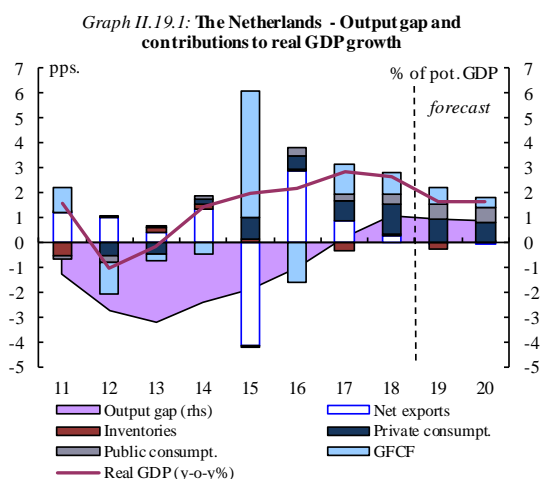
19. THE NETHERLANDS

Growth set to slow amid weaker domestic and external demand

After recording a robust 2.7% in 2018, economic growth is set to decline to a rate around potential. Moderating employment growth and a weaker economic sentiment are expected to lead to lower growth of private consumption. Weaker growth in main trading partners is projected to negatively affect growth momentum in the Netherlands through exports and investment. The structural budget balance eases somewhat over the forecast horizon but should remain in surplus. The current account surplus reached a new peak of 11% of GDP in 2018 and is forecast to remain elevated.

Momentum moderates but output remains around potential

Economic growth in the Netherlands was a solid 0.5% (q-o-q) in the fourth quarter of 2018, up from 0.2% in the previous quarter. This resulted in annual growth of 2.7% for 2018 as a whole, supported by a high positive carry-over from 2017. Growth is projected to decline to 1.6% in 2019 and 2020, reflecting a moderation in both domestic and external demand. On the domestic side, the main sentiment indicators have fallen from the very high readings in early 2018, while the openness of the economy makes it sensitive to the weakness in manufacturing in main trading partners. Fiscal policy is expected to be supportive of growth. While the economic momentum is moderating, the output gap remains positive in the vicinity of 1% over the forecast horizon.



Increasing wages are set to lift disposable household income, which should support private consumption. However, consumption is projected to grow at a slower pace than in previous years as employment growth is moderating and consumer sentiment has declined substantially. The inflationary impact of higher indirect taxes in 2019 is expected to be broadly offset by a lowering of income taxes.

Weaker investment dynamics ahead

A slight easing in capacity utilisation rates, lower business confidence and a more moderate growth momentum overall are expected to lead to lower corporate investment growth. Residential construction has largely recovered from its crisis trough and the number of new permits is no longer increasing. Its growth contribution, which was highly positive in previous years, is therefore projected to fall. Total investment growth is forecast to remain positive but to moderate from 4.3% in 2018 to 2.1% in 2020.

A weaker external environment is projected to lead to lower export growth than in recent years. Export and import figures in 2019 are distorted downwards by the relocation of some activities by a multinational enterprise in the fourth quarter of 2018, with no effect on net trade. Export growth is expected to pick up in 2020, when demand from trading partners is also expected to increase. Import growth is projected to slightly outpace exports due to relatively strong domestic demand. The current account surplus reached a new peak in 2018 at 11% of GDP, driven largely by higher net corporate income from foreign assets and is projected to decline only gradually over the forecast horizon.

Unemployment to remain low

The labour market continues to be tight, with unemployment declining to 3.8% in 2018 and vacancy rates near pre-crisis levels. Employment increased strongly in 2018 and monthly data indicate that growth continued in early 2019, but the increase in employment is set to moderate over the forecast horizon. The unemployment rate is forecast to reach 3.5% this year and 3.6% in 2020. Wages rose by 2.2% in 2018 and are expected to increase further by 2.7% in 2019 and 2.8% in 2020 on the back of the tight labour market. Lower-than-expected wage growth is a downside risk to

the short-term outlook as it would negatively affect household income and consumption.

Higher indirect taxes to boost inflation in 2019

After reaching 1.6% in 2018, inflation is forecast to rise to 2.5% in 2019 driven by an increase of the reduced VAT tariff and higher energy taxation. The recent increase in oil prices is also exerting upward pressure on energy prices. In 2020, when the effect of higher indirect taxation largely disappears, inflation is projected to fall back to 1.5%.

Budgetary surpluses ahead

The general government headline surplus reached 1.5% of GDP in 2018, mainly due to a robust rise in tax revenue. Implementation delays in government expenditure also contributed to the budget surplus in the short run. In 2019, the surplus is likely to remain around this level, as higher government consumption and investment is compensated by higher tax revenues. In 2020, the budgetary surplus is set to decline to 0.8% of GDP, as a substantial tax cut kicks in. Direct taxes are being lowered both for households and corporates. Households are set to receive tax relief via a

reduction in personal income tax rates and an increase in the general income and earned income tax credits. Together these measures have an estimated size of 0.4% of GDP. Corporate income taxes are due to be lowered by 0.2% of GDP. In structural terms, the government deficit is expected to deteriorate from a surplus of ¾% of potential GDP in 2018 to a surplus of ¼% in 2020, indicating an expansionary fiscal policy stance.

Government debt declined to 52.4% of GDP in 2018, and is expected to fall below 50% in 2019. The government debt-to-GDP ratio is declining at a fast pace thanks to budget surpluses and relatively high nominal GDP growth of 5% in 2018. In 2019, the government's acquisition of 14% in the group Air France-KLM has led to an increase in public debt of 0.1% of GDP. The speed of debt reduction could increase if the government continues the reprivatisation of financial institutions.

Risks to the fiscal outlook come mainly from the macroeconomic side, such as a worsening of the economic climate or lower-than-projected wage growth, which would affect the growth of income tax revenue.

Table II.19.1:

Main features of country forecast - NETHERLANDS

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	737.0		100.0	1.5	2.0	2.2	2.9	2.7	1.6	1.6
Private Consumption	326.9	44.4		0.8	2.0	1.1	1.9	2.5	1.4	1.6
Public Consumption	178.7	24.2		2.3	-0.1	1.3	1.1	1.4	2.4	2.3
Gross fixed capital formation	151.2	20.5		0.4	29.0	-7.3	6.1	4.3	3.2	2.1
of which: equipment	45.4	6.2		0.9	14.2	4.8	8.5	2.8	2.8	1.0
Exports (goods and services)	611.4	83.0		4.3	7.4	1.7	5.3	2.7	1.6	2.9
Imports (goods and services)	532.3	72.2		3.9	14.5	-2.0	4.9	2.8	1.9	3.4
GNI (GDP deflator)	740.1	100.4		1.5	2.3	0.6	4.8	3.4	1.2	1.3
Contribution to GDP growth:										
Domestic demand				1.1	6.0	-0.8	2.3	2.3	1.9	1.7
Inventories				0.0	0.1	0.1	-0.3	0.1	-0.2	0.0
Net exports				0.5	-4.1	2.9	0.9	0.3	0.0	-0.1
Employment				0.4	1.0	1.4	2.2	2.5	1.4	0.7
Unemployment rate (a)				4.9	6.9	6.0	4.9	3.8	3.5	3.6
Compensation of employees / f.t.e.				3.0	-0.2	1.2	1.1	2.2	2.7	2.8
Unit labour costs whole economy				1.9	-1.2	0.5	0.5	2.1	2.4	1.9
Real unit labour cost				0.1	-1.9	0.0	-0.7	-0.1	0.1	0.3
Saving rate of households (b)				12.0	15.9	16.3	15.4	15.4	15.0	14.9
GDP deflator				1.8	0.8	0.5	1.2	2.2	2.4	1.6
Harmonised index of consumer prices				2.1	0.2	0.1	1.3	1.6	2.5	1.5
Terms of trade goods				0.0	2.4	1.0	-0.5	-0.1	-0.1	0.0
Trade balance (goods) (c)				8.0	9.5	9.3	9.6	8.8	8.1	7.9
Current-account balance (c)				6.7	6.3	8.1	10.5	11.0	10.1	9.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				6.5	5.8	7.9	10.4	10.9	10.0	9.4
General government balance (c)				-1.9	-2.0	0.0	1.2	1.5	1.4	0.8
Cyclically-adjusted budget balance (d)				-1.4	-0.9	0.6	1.1	0.8	0.9	0.2
Structural budget balance (d)				-	-0.9	0.4	0.6	0.8	0.7	0.2
General government gross debt (c)				55.0	64.6	61.9	57.0	52.4	49.1	46.7

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

20. AUSTRIA

Moderation of growth but robust private consumption

After expanding robustly by 2.7% in 2018, economic growth in Austria is expected to ease in 2019 and 2020. Private consumption is set to become the main driver of growth, fuelled by a strong increase in real wages and employment. Investment and external trade are expected to contribute less to GDP growth as the global economy slows. The government headline balance is set to expand its surplus in 2019 before diminishing in 2020 due to cuts in VAT and social contributions.

Strong and broad-based growth in 2018

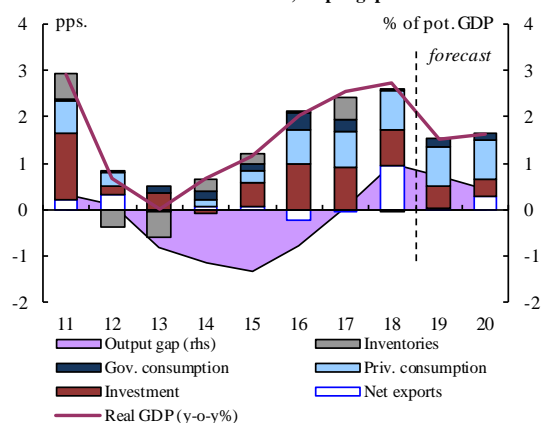
Austria's economy expanded by 2.7% in 2018, well above the euro area average. Growth was broad-based, with the largest support stemming from domestic demand, thanks to a rise in private consumption due to favourable labour market developments and increasing wages, as well as solid investment linked to high capacity utilisation in the business sector. Construction activity remained firm, as population growth helped fuel strong demand for housing. Export growth remained solid and increased markedly in the second half of the year, despite growing uncertainty in international markets. In light of a strong decrease in import growth compared to 2017, the contribution of net exports to GDP turned positive and provided an important additional boost.

Domestic demand to support growth

In 2019, GDP growth is forecast to moderate to 1.5%, mainly due to a less favourable external environment. The weakness in the German automotive sector, as well as lower growth in important trading partners are expected to put a drag on growth in the first half of 2019. These developments are expected to mainly affect industrial production, decreasing export but also investment growth. In the second half of the year, GDP growth is set to pick up again and stabilise at 1.6% in 2020, as some temporary impediments are expected to fade.

Over the forecast horizon, imports are expected to remain robust, driven by solid domestic demand. While equipment investment is set to slow as a result of rising uncertainty, solid order books and positive sentiment indicators suggest robust investment in the construction sector in 2019. Private consumption is expected to become the main driver of growth. It is set to increase mainly in the second half of 2019, due to strong wage increases, employment growth and tax relief from the new 'family bonus plus'.

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



Still positive but slowing labour market dynamics

Employment growth was strong in 2018 and dynamics in the labour market are expected to remain positive, although somewhat less so, as the economy cools. A decrease in job vacancies also suggests that employment growth is likely to decrease gradually over the forecast horizon. After decreasing substantially in 2018 to 4.9%, the unemployment rate is set to decrease only slightly to 4.7% in 2019 before stabilising in 2020.

Inflation expected to moderate

In 2018, increasing service prices and oil price effects kept headline inflation slightly higher than 2%. In 2019 and 2020, increasing wages and strong domestic demand should sustain domestic price pressures, mainly in services and the industrial goods sector. Nevertheless, the assumed moderation in oil prices is expected to lower headline inflation to less than 2%, reaching 1.8% in 2019 and 1.9% in 2020.

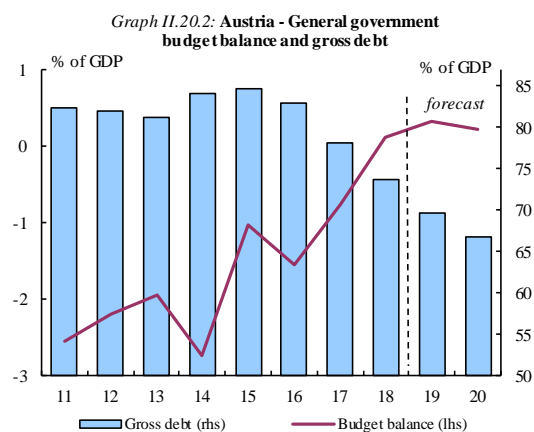
Public finances improved with growth in 2018

From a deficit of 0.8% of GDP in 2017, the government headline balance has improved markedly over the course of 2018, resulting in a

surplus of 0.1% of GDP based on notified outturn data. This favourable development is largely due to the strong economic growth in 2018, which generated higher-than-expected tax revenues and lower expenditure on unemployment benefits. Interest payments also fell thanks to lower financing costs. At the same time, several expansionary policy measures (e.g., the employment bonus and investment premium) came to an end. In 2019, the headline balance is expected to improve further to 0.3% of GDP thanks to the continuously strong development of receipts from personal and corporate income taxes. The expenditure ratio is set to decrease from 48.5% of GDP in 2018 to 48.0% of GDP in 2019, mainly due to another strong decline in interest payments and a further – albeit smaller - drop in unemployment expenditure.

The general government surplus is expected to narrow to 0.2% of GDP in 2020, due to a package of measures reducing social contributions and value-added taxes. At the same time, a ‘digital tax package’ is introduced, which foresees a tax on

revenues from online advertising for large corporations and information requirements for online booking platforms on generated turnover.



Public debt is expected to continue its downward path and to decrease from 73.8% of GDP in 2018 to 69.7% and 66.8% of GDP in 2019 and 2020, respectively. This mainly reflects the favourable development of interest expenditures and the successful divestment of impaired assets.

Table II.20.1:

Main features of country forecast - AUSTRIA

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	369.9	100.0	1.7	1.1	2.0	2.6	2.7	1.5	1.6	
Private Consumption	192.3	52.0	1.4	0.4	1.4	1.4	1.6	1.6	1.6	
Public Consumption	72.3	19.6	1.3	0.8	1.8	1.5	0.2	0.9	0.7	
Gross fixed capital formation	87.4	23.6	0.8	2.3	4.3	3.9	3.3	2.0	1.6	
of which: equipment	29.4	7.9	0.9	3.9	10.6	4.6	3.3	2.1	1.5	
Exports (goods and services)	198.8	53.7	4.4	3.5	2.7	4.7	4.4	2.8	3.2	
Imports (goods and services)	187.3	50.6	3.6	3.6	3.4	5.1	2.8	2.9	2.8	
GNI (GDP deflator)	368.9	99.7	1.7	0.0	2.9	2.4	2.6	1.5	1.6	
Contribution to GDP growth:										
Domestic demand			1.2	0.9	2.1	2.0	1.7	1.5	1.3	
Inventories			0.0	0.2	0.0	0.5	0.0	0.0	0.0	
Net exports			0.4	0.1	-0.2	-0.1	0.9	0.0	0.3	
Employment			-	0.6	1.3	1.7	1.7	1.0	0.5	
Unemployment rate (a)			4.8	5.7	6.0	5.5	4.9	4.7	4.7	
Compensation of employees / f.t.e.			2.2	1.9	2.4	1.5	2.5	2.6	2.5	
Unit labour costs whole economy			1.4	1.4	1.6	0.6	1.5	2.1	1.4	
Real unit labour cost			-0.2	-0.7	0.2	-0.6	-0.1	0.1	-0.5	
Saving rate of households (b)			15.1	12.4	13.2	12.4	12.1	12.1	12.2	
GDP deflator			1.7	2.2	1.4	1.3	1.6	2.0	1.9	
Harmonised index of consumer prices			1.9	0.8	1.0	2.2	2.1	1.8	1.9	
Terms of trade goods			-0.2	1.7	0.7	-1.4	-1.2	0.1	0.0	
Trade balance (goods) (c)			-0.3	0.7	0.5	0.3	0.7	0.7	0.9	
Current-account balance (c)			1.8	1.9	2.6	2.1	2.5	2.4	2.6	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			1.6	1.3	2.5	2.0	2.4	2.4	2.5	
General government balance (c)			-2.5	-1.0	-1.6	-0.8	0.1	0.3	0.2	
Cyclically-adjusted budget balance (d)			-2.5	-0.3	-1.1	-0.8	-0.5	-0.1	0.0	
Structural budget balance (d)			-	0.0	-1.1	-0.8	-0.5	-0.1	0.0	
General government gross debt (c)			72.5	84.7	83.0	78.2	73.8	69.7	66.8	

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

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

21. POLAND

Domestic demand to support growth

Private consumption is set to remain the key growth driver in 2019 and 2020 supported by a robust increase in wages. An increase in social transfers will act as additional stimulus until around mid-2020. Investment growth is projected to gradually moderate, due to slowing expansion of EU-funded projects, only partially offset by the strengthening in private investment. After hitting a multiannual low in 2018, the headline fiscal deficit is forecast to increase sharply in 2019 and to slightly decrease thereafter.

Fast GDP expansion in 2018

Buoyant domestic demand drove economic growth to 5.1% in 2018, the fastest pace in more than a decade. Favourable labour market developments and strong consumer confidence were key factors supporting private consumption. The fast increase in utilisation of the EU funds translated into a rapid expansion of public investment, while private investment also increased.

Fiscal stimulus set to support consumption in 2019 and early 2020

GDP growth is forecast to remain solid in 2019, at 4.2% to then slow to 3.6% in 2020. Private consumption growth will remain strong in the forecast horizon, on the back of further small employment gains and strongly increasing wages. In addition, the new fiscal package will support income of households in 2019 and 2020.

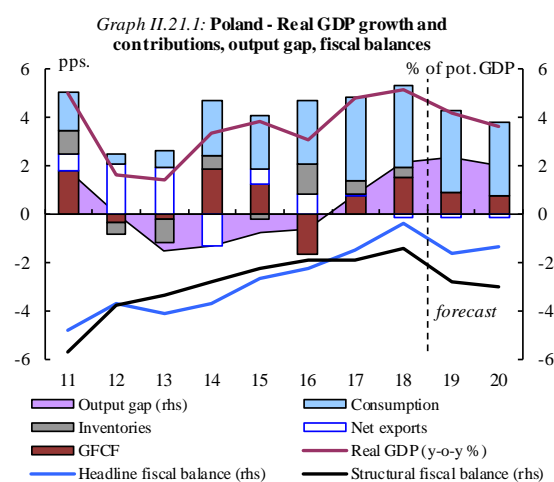
High capacity utilisation levels, low interest rates and a favourable demand outlook are projected to act as incentives for rising private investment, especially given a prolonged period of weak activity in the past. This is set to partly compensate the slowing, though still positive dynamics of public investment being supported by EU funding.

Given its strong international competitiveness, Poland is expected to continue gaining export shares in its key markets. Exports are projected to continue rising, although at a slower pace than in 2017 and 2018 given slower world trade dynamics. Robust domestic demand is projected to keep import growth strong. As a result, the contribution of net exports to GDP growth is set to remain slightly negative in 2019 and 2020.

Rising wages and record low unemployment

The demand for labour is projected to remain solid, resulting in wage growth remaining at around 8% in both 2019 and 2020. Employment gains are set to slow visibly reflecting very low

unemployment and existing barriers to a faster increase in labour force participation. Following several years of rapid reduction, the unemployment rate is set to decrease only marginally during 2019 and 2020, reaching a new record-low of 3.5%.



Inflation to gradually increase

Oil prices staying close to 2018 levels, a cut in taxes rendering electricity prices and falling unprocessed food prices have limited inflation in the first quarter of 2019. Inflation is forecast to gradually increase in 2019 and in early 2020 and then remain broadly stable until the end of 2020. Faster wage growth is expected to be the main factor behind rising prices, especially in service sectors. The annual administrative control on electricity prices is assumed to expire in January 2020. Thus, rising electricity prices are also expected to add to inflation, both directly through electricity bills paid by households and indirectly through the prices of energy-intensive consumer goods. In turn, strong competition in the markets for consumer goods and services, the rising importance of e-commerce, and the assumed path of global oil prices, are forecast to constrain inflation growth.

Balanced risks

The uncertainty surrounding the economic outlook relates primarily to the external environment and the extent to which possible disruptions in international production chains will affect Polish producers. On the domestic demand side, there is a chance that investment could rise more than expected, if projects co-financed by the EU are rolled out more quickly or if business sentiment improves. However, there is also a risk that concerns about the institutional quality of Poland's justice system could negatively affect investment decisions sooner or more severely than assumed.

Fiscal deficit to rise in 2019

After reaching a multiannual low of 0.4% of GDP in 2018, the headline fiscal deficit is set to increase to 1.6% of GDP in 2019. The key drivers are lower dynamics of indirect taxes following measures aimed at administratively controlling electricity prices from the beginning of 2019 and a significant increase of social transfers to pensioners and middle and upper income households with children. Simultaneously, the dynamics of revenue from direct taxes and social contributions is set to remain strong, driven by economic growth and a buoyant labour market. This forecast includes the

13th pension benefit to be paid in 2019 and the extension of the universal child benefit scheme as of mid-2019. In 2020, under a no-policy-change scenario, the headline deficit is projected to fall to 1.4% of GDP. It is set to be driven by still strong macroeconomic environment, the labour market situation and a full year impact of newly legislated social transfers. The forecast for 2020 includes also announced changes to the personal income tax, and revenue from conversion of the second pension pillar assets, under a technical assumption that 50% of these assets would be transferred to the general pension system. It does not include other measures to finance the new fiscal and social package as they were not legislated or sufficiently detailed at the forecast cut-off date. This represents an upside risk for the 2020 fiscal forecast.

The structural deficit is set to have reached some 1½% of potential GDP in 2018, before increasing to 2¾% - 3% of potential GDP in 2019 and 2020.

General government debt is set to continue falling from over 50% of GDP in 2017 to around 47% of GDP in 2020, supported by relatively low nominal fiscal deficits and strong nominal GDP growth.

Table II.21.1:

Main features of country forecast - POLAND

	2017			Annual percentage change						
	bn PLN	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	1989.3	100.0		3.7	3.8	3.1	4.8	5.1	4.2	3.6
Private Consumption	1160.2	58.3		3.2	3.0	3.9	4.9	4.4	4.5	4.2
Public Consumption	351.7	17.7		3.2	2.3	1.9	3.5	4.7	4.3	3.3
Gross fixed capital formation	348.7	17.5		3.8	6.1	-8.2	4.0	8.7	4.9	4.1
of which: equipment	148.9	7.5		3.8	12.1	-7.6	8.3	9.0	6.8	5.8
Exports (goods and services)	1081.0	54.3		7.5	7.7	8.8	9.5	6.3	5.2	4.7
Imports (goods and services)	997.8	50.2		6.0	6.6	7.6	10.0	7.1	5.7	5.3
GNI (GDP deflator)	1907.1	95.9		3.5	3.9	2.7	4.6	5.2	4.3	3.7
Contribution to GDP growth:										
Domestic demand				3.4	3.4	1.0	4.2	4.9	4.3	3.8
Inventories				0.0	-0.2	1.2	0.5	0.4	0.0	0.0
Net exports				0.3	0.6	0.8	0.1	-0.2	-0.1	-0.1
Employment				0.2	1.5	0.8	1.3	0.3	0.2	0.1
Unemployment rate (a)				13.3	7.5	6.2	4.9	3.9	3.8	3.5
Compensation of employees / head				5.2	1.7	4.8	5.8	7.5	8.0	7.9
Unit labour costs whole economy				1.6	-0.6	2.5	2.3	2.6	3.9	4.2
Real unit labour cost				-1.2	-1.3	2.2	0.3	1.5	2.1	1.8
Saving rate of households (b)				6.6	2.3	4.2	1.9	0.7	1.7	2.0
GDP deflator				2.9	0.8	0.3	2.0	1.1	1.8	2.4
Harmonised index of consumer prices				3.4	-0.7	-0.2	1.6	1.2	1.8	2.5
Terms of trade goods				0.1	2.9	0.6	0.3	-1.0	-0.7	-0.5
Trade balance (goods) (c)				-3.5	0.5	0.7	0.3	-1.1	-2.0	-2.8
Current-account balance (c)				-3.9	0.2	0.0	0.1	-0.5	-1.0	-1.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.0	2.6	1.2	1.1	0.5	0.2	-0.1
General government balance (c)				-4.4	-2.7	-2.2	-1.5	-0.4	-1.6	-1.4
Cyclically-adjusted budget balance (d)				-3.9	-2.3	-1.9	-1.9	-1.4	-2.8	-2.4
Structural budget balance (d)				-	-2.3	-1.9	-1.9	-1.4	-2.8	-3.0
General government gross debt (c)				46.7	51.3	54.2	50.6	48.9	48.2	47.4

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

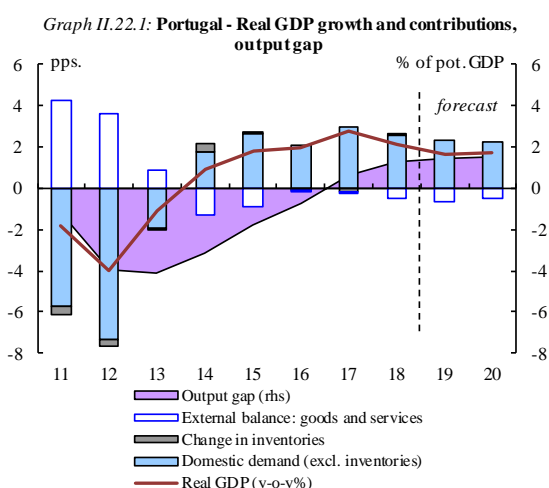
22. PORTUGAL

Robust domestic demand supports growth

The economic expansion is expected to continue at a moderate pace despite a weaker contribution from net exports, thanks to the strength of private consumption and investment. Unemployment should continue to fall but at a slower pace. The general government headline balance and debt-to-GDP ratio are expected to benefit from growth and favourable financing conditions, while the structural balance is forecast to remain broadly unchanged.

Economy continues moderate expansion

Real GDP growth in Portugal eased to 2.1% in 2018 from a peak of 2.8% in 2017. The slowdown was driven by the negative impact of net exports, which came from an abrupt slowdown in exports. Nonetheless, domestic demand remained solid, particularly private consumption, while investment growth slowed after an exceptional performance in 2017. Investment and private consumption are set to continue supporting growth, offsetting most of the negative impact from external trade.



Recent high frequency indicators are somewhat less favourable. While readings remain above their long-term averages, the Commission's Economic Sentiment Indicator (ESI) eased in the first quarter of 2019, reflecting a decrease in confidence among consumers and most business sectors. Private consumption growth is forecast to slow somewhat, in line with the softening in labour market conditions. Meanwhile, investment is set to rise gradually over the forecast horizon, following the expected strengthening in external demand and absorption of EU funds. However, net external trade is set to weigh on economic activity. Overall, GDP growth is projected at 1.7% in both 2019 and 2020. Risks to this scenario appear on the downside due to the persistent uncertainty surrounding the external environment.

Current account moves back to deficit

Portugal's current account deteriorated to a deficit of 0.9% of GDP in 2018 after a surplus of 0.2% in the previous year. This is largely due to the increased deficit in the trade of goods. The primary income balance also worsened due to a substantial increase in dividend outflows outweighing the positive impact from lower interest rates paid to foreign creditors. The balance of services continued to improve, though at a lower pace than in the last two years, as growth in the tourism sector slowed down. The external balance is projected to worsen further in the short run, driven by robust domestic demand and weaker prospects in global trade. However, larger EU fund inflows and a further decline in interest payments are set to offset a large part of the negative trade impact.

Labour market continues to improve

Unemployment dropped from 9.0% in 2017 to 7.0% in 2018, supported by strong employment growth. The unemployment rate stood at its lowest in over 16 years, with the employment rate at its highest over the same period. Slack in the labour market declined accordingly and wage growth picked up somewhat, thanks in part to the unfreezing of career progressions in the public sector. For the second year in a row, employment grew faster than GDP, triggering a slight drop in productivity and higher unit labour costs. However, employment growth slowed towards the end of 2018 and in early 2019. The slowdown is expected to continue over the forecast period. Unemployment is also set to fall at a slower pace to 6.2% in 2019 and 5.7% in 2020 amid a broadly stable labour force.

Inflation remains low despite rising wages

Inflation dropped from 1.2% in 2018 to 0.8% (y-o-y) in the first quarter of 2019. Core inflation picked up only marginally above the headline rate in early 2019 despite rising domestic demand and wages. Core inflation has been reined in by the

continuous decline in prices of industrial goods and a moderation in accommodation prices. At the same time, energy prices declined at the beginning of 2019 due to a downward impact from regulatory components in some items, particularly electricity and petrol. Inflation is expected to remain low at 1.1% in 2019 and to rise to 1.6% in 2020 when demand factors are expected to have a more pronounced impact on core inflation.

Public finances benefit from domestic demand and favourable financing conditions

The general government headline deficit turned out at 0.5% of GDP in 2018, helped by buoyant cyclical revenue, decreasing interest expenditure and lower-than-budgeted public investment. It was however negatively impacted by the activation of the Novo Banco contingent capital mechanism (0.4% of GDP). Excluding this and other one-offs, the headline balance would have reached a surplus of 0.2% of potential GDP. As a result, the structural balance is estimated to have improved by about ¾% of GDP in 2018 and the structural primary balance by ½%.

The headline deficit is set to decline slightly to 0.4% of GDP in 2019 while the headline balance

net of one-offs (mainly a further deficit-increasing impact of 0.6% of GDP from the Novo Banco contingent capital mechanism) is set to remain unchanged at a surplus of 0.2% of GDP. As the combined impact of discretionary fiscal policy measures, decreases in interest expenditure and higher non-tax revenue is expected to be broadly neutral in 2019, the structural balance is projected to remain broadly stable. Under a no-policy-change assumption, the headline balance is set to improve to a deficit of 0.1% of GDP in 2020 while the structural balance is set to remain broadly unchanged. The structural primary balance is forecast to worsen by about ½% of GDP over the forecast horizon. Risks are tilted to the downside, linked to uncertainties surrounding the macroeconomic outlook and the potential further impact of banking support measures.

After falling by 3.3 pps. to 121.5% in 2018, the gross public debt-to-GDP ratio is forecast to further decline to 119.5% in 2019 and 116.6% in 2020, mainly due to primary budget surpluses and the favourable growth - interest rate differential.

Table II.22.1:

Main features of country forecast - PORTUGAL

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	194.6	100.0		0.5	1.8	1.9	2.8	2.1	1.7	1.7
Private Consumption	126.2	64.8		0.7	2.3	2.4	2.3	2.5	2.3	1.9
Public Consumption	34.0	17.5		0.8	1.3	0.8	0.2	0.8	0.8	0.5
Gross fixed capital formation	32.3	16.6		-2.5	5.8	2.3	9.2	4.4	4.6	5.0
of which: equipment	11.1	5.7		-0.9	10.4	7.5	13.5	6.1	6.3	8.5
Exports (goods and services)	83.1	42.7		4.0	6.1	4.4	7.8	3.6	3.2	3.5
Imports (goods and services)	81.5	41.9		2.3	8.5	4.7	8.1	4.9	4.9	4.6
GNI (GDP deflator)	190.4	97.8		0.5	0.7	2.4	2.9	1.8	2.1	2.0
Contribution to GDP growth:		Domestic demand		0.2	2.6	2.1	3.1	2.6	2.4	2.2
		Inventories		0.0	0.1	-0.1	-0.2	0.1	0.0	0.0
		Net exports		0.4	-0.9	-0.1	0.0	-0.5	-0.7	-0.5
Employment				-0.5	1.4	1.6	3.3	2.3	1.1	0.8
Unemployment rate (a)				9.7	12.6	11.2	9.0	7.0	6.2	5.7
Compensation of employees / head				2.4	0.4	1.7	1.6	2.0	2.2	2.3
Unit labour costs whole economy				1.4	0.0	1.4	2.1	2.2	1.6	1.4
Real unit labour cost				-0.8	-2.0	-0.3	0.5	0.8	0.3	-0.2
Saving rate of households (b)				8.9	5.3	5.0	4.7	4.6	4.6	4.8
GDP deflator				2.2	2.0	1.8	1.5	1.4	1.4	1.6
Harmonised index of consumer prices				2.3	0.5	0.6	1.6	1.2	1.1	1.6
Terms of trade goods				0.0	2.7	1.0	-0.9	-0.6	0.2	0.2
Trade balance (goods) (c)				-9.7	-4.5	-4.3	-5.4	-6.2	-7.0	-7.5
Current-account balance (c)				-7.9	-0.9	0.1	0.2	-0.9	-1.0	-1.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-6.3	0.3	1.0	1.1	0.2	0.0	0.1
General government balance (c)				-5.5	-4.4	-2.0	-3.0	-0.5	-0.4	-0.1
Cyclically-adjusted budget balance (d)				-5.2	-3.4	-1.6	-3.3	-1.1	-1.1	-0.8
Structural budget balance (d)				-	-2.2	-2.0	-1.3	-0.4	-0.5	-0.5
General government gross debt (c)				80.3	128.8	129.2	124.8	121.5	119.5	116.6

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

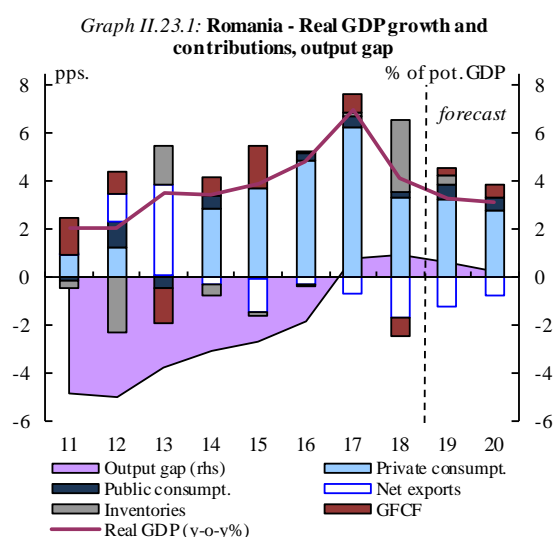
23. ROMANIA

Strong growth set to decelerate

Real GDP growth eased in 2018, after a high peak in 2017. Growth was driven by private consumption with investment and net exports both exerting a negative influence. The current account worsened further. The soft landing is set to continue in 2019 and 2020 with the current account deficit projected to continue to widen. The labour market is expected to remain tight but inflation is set to ease from its 2018 high. The budget deficit is forecast to continue increasing, driven by expenditure on public wages and pensions.

Growth set to slow down but remain robust

Romania's economic boom cooled down in 2018. Real GDP grew 4.1%, almost 3 pps. less than in 2017. Private consumption remained the main driver of growth, still spurred by increases in the minimum and public sector wages, but was somewhat tamed by record high prices hikes. After having recovered in 2017, investment underperformed in 2018, with a negative contribution to growth of 0.7%. This was largely due to private investment, as public investment picked up slightly. The negative impact on growth from net exports increased in 2018, with both imports and exports declining. Imports were mainly influenced by developments in consumption goods while exports slowed as external demand turned more sluggish and the real effective exchange rate appreciated. This led to a wider-than-expected current account deficit of 4.7% of GDP.



Real GDP growth is forecast to ease to 3.3% in 2019 and 3.1% in 2020. Private consumption is set to remain strong in 2019, as nominal wages continue to show strong growth. Investment is projected to recover in 2019 on the back of

sustained improvements in equipment investment and a rebound in construction investment, helped by a pick-up in EU-funded projects. Romania's positive output gap started to narrow in 2018 and is set to close progressively over the forecast horizon.

Import and export growth are both expected to continue weakening. However, their overall negative impact on real GDP growth is set to progressively shrink, as import growth is set to slow by more than export growth. Nevertheless, the trade balance is forecast to continue widening as a percentage of GDP, causing the current account deficit to increase to 5.2% in 2019 and 5.3% in 2020.

Unemployment dropped to 4.2% in 2018, its lowest level in more than 20 years. The tight labour market conditions and continued increases in minimum and public sector wages have sustained double-digit wage growth. Average compensation per employee rose by 18.4% in real terms in 2018. Wage growth is projected to moderate over the forecast horizon as the economy cools down but should remain relatively strong due to the tight labour market conditions and the evolution of public wages.

Inflation projected to continue its deceleration

Inflation peaked at an annual 4.1% in 2018, mainly on account of rising food and energy prices. It is set to fall to 3.6% in 2019 – despite food and energy price rises at the beginning of the year – and to 3% in 2020. Core inflation is projected to increase from 2.7% in 2018 to 3.2% in 2019 and then fall back to 2.5% in 2020. The National Bank of Romania has recently decided to maintain its key monetary policy rate at 2.50%.

Downside risks to the growth forecast

Both internal and external uncertainties could take a toll on economic growth. Externally,

uncertainties surrounding global demand and the EU economy could have a negative impact on Romania's exports. Internally, a sustained increase in unit labour costs due to wage growth outpacing productivity growth could also curtail exports. The uncertainty and unpredictability of public policies may also have a negative effect on consumption and investment, hampering growth. Finally, high increases in inflation in the first quarter of 2019 might be pointing to higher price levels than originally expected throughout the year.

Public deficit set to increase

In 2018, the general government deficit rose to 3.0% of GDP, from 2.7% in 2017, due to continued significant increases in public sector wages (public spending on compensation of employees almost doubled in nominal terms between 2015 and 2018, leading to an increase in terms of share of GDP by 3.2 pp). As a share of GDP, public investment rebounded only slightly from a post-EU accession low in 2017.

The general government deficit is projected to further increase to 3.5% of GDP in 2019. Expenditure on public wages is set to remain the main driver of this increase. Expenditure on old-

age pensions is also set to rise, as the pension point (the main parameter used for pension indexation) is set to increase by 15% in September 2019. Public investment is also projected to pick up. On the revenue side, social contributions are set to increase thanks to robust wage growth.

The general government deficit is forecast to hit 4.7% of GDP in 2020. The main driver of this projected deterioration is expenditure on old-age pensions, driven by the full-year effect of the 15% increase in the pension point of September 2019 and a further increase of 40% in September 2020.

Thanks to the one-off effect from reimbursements of a car pollution tax, the structural deficit remained broadly stable in 2018 at around 3.0% of potential GDP. It is projected to increase to around 4 ¾% in 2020, driven by current expenditure increases. The debt-to-GDP ratio is projected to rise from 35.0% in 2018 to 38.4% in 2020.

Table II.23.1:

Main features of country forecast - ROMANIA

	2017			Annual percentage change						
	bn RON	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	856.7	100.0		3.5	3.9	4.8	7.0	4.1	3.3	3.1
Private Consumption	540.3	63.1		4.7	6.0	7.9	10.0	5.2	5.2	4.5
Public Consumption	134.4	15.7		0.6	-0.3	2.2	2.6	1.8	3.8	3.1
Gross fixed capital formation	192.0	22.4		6.1	7.5	-0.2	3.5	-3.2	1.4	2.3
of which: equipment	69.0	8.0		6.0	-3.9	-8.9	-5.0	1.5	2.4	2.0
Exports (goods and services)	355.8	41.5		8.9	4.6	16.0	10.0	5.4	4.4	3.6
Imports (goods and services)	374.0	43.7		10.3	8.0	16.5	11.3	9.1	6.9	4.9
GNI (GDP deflator)	839.2	98.0		3.5	2.7	4.5	7.3	4.0	3.4	3.3
Contribution to GDP growth:										
Domestic demand				5.0	5.5	5.1	7.5	2.9	4.2	3.8
Inventories				-0.2	-0.1	0.0	0.2	2.9	0.3	0.0
Net exports				-1.3	-1.4	-0.3	-0.7	-1.7	-1.3	-0.7
Employment				-1.5	-1.3	-1.1	2.6	0.2	0.3	0.2
Unemployment rate (a)				7.1	6.8	5.9	4.9	4.2	4.1	4.0
Compensation of employees / head				19.0	1.9	15.0	12.6	18.4	13.5	9.0
Unit labour costs whole economy				13.3	-3.1	8.5	8.0	14.0	10.3	5.9
Real unit labour cost				-2.0	-5.6	5.9	3.2	7.7	4.8	2.1
Saving rate of households (b)				-8.7	-10.8	-9.1	-8.7	-6.0	-3.1	-0.4
GDP deflator				15.8	2.6	2.5	4.7	5.9	5.2	3.7
Harmonised index of consumer prices				13.5	-0.4	-1.1	1.1	4.1	3.6	3.0
Terms of trade goods				2.9	1.0	-1.7	-1.3	1.5	1.0	0.4
Trade balance (goods) (c)				-10.4	-4.9	-5.5	-6.5	-7.3	-8.0	-8.4
Current-account balance (c)				-5.9	-1.1	-2.0	-3.4	-4.7	-5.2	-5.3
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.1	1.3	0.5	-1.8	-3.1	-3.4	-3.4
General government balance (c)				-3.5	-0.7	-2.7	-2.7	-3.0	-3.5	-4.7
Cyclically-adjusted budget balance (d)				-3.5	0.2	-2.1	-2.9	-3.3	-3.7	-4.8
Structural budget balance (d)				-	-0.1	-1.7	-2.9	-3.0	-3.6	-4.8
General government gross debt (c)				24.3	37.8	37.3	35.2	35.0	36.0	38.4

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

24. SLOVENIA

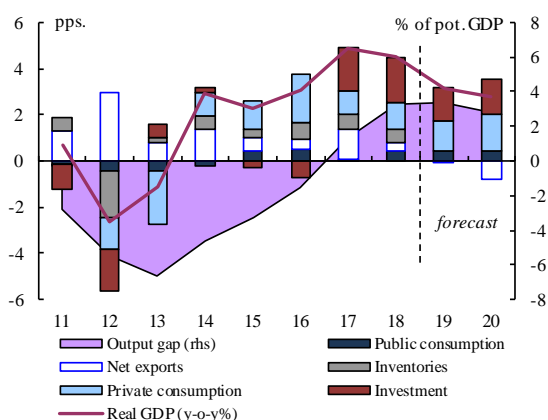
Cooling down after recent period of high growth

Economic growth reached 4.5% in 2018 but is expected to slow somewhat in 2019 and 2020 as the external environment weakens, leaving domestic demand as the main driver of growth. Investment growth is expected to remain strong. The labour market is tightening, pushing wages up. The government budget surplus is forecast to grow due to favourable economic conditions and the structural position should improve in 2020.

Solid growth in 2018

In 2018, Slovenia was among the fastest-growing economies in the euro area with real GDP growth of 4.5%. For the second year in a row, investment increased by more than 10%, with a very strong pick-up in public investment partially linked to the increase in the use of EU funds. Private consumption increased by 2.2%, supported by growing disposable income and higher employment. Exports grew by 7.2%, slower than imports (7.7%), with net exports contributing 0.3% to GDP growth. Economic growth slowed down somewhat in the final quarter of the year, reducing the carry-over to 2019.

Graph II.24.1: Slovenia - Real GDP and contributions to GDP growth



Growth expectations lower for 2019 and 2020

Economic sentiment showed some lowering of growth expectations in the beginning of 2019. Growth in industrial orders is slowing, reflecting lower growth in Slovenia's export markets. GDP growth is forecast to moderate to 3.1% in 2019 and 2.8% in 2020. Growth is expected to come from domestic demand, as net exports turn negative in 2019 and 2020. Private consumption is expected to continue to enjoy the support of rising employment and wages, as well as favourable bank lending conditions. Investment growth is projected to slow down compared to 2017 and 2018, but to remain at

over 7% in both years, as companies respond to emerging capacity constraints and a tightening labour market. Due to the fast increase in housing prices and pending supply constraints, a pick-up in housing construction is expected. In the public sector, the uptake of EU funds is forecast to increase in 2019 and 2020 as the programming period draws to a close.

Unit labour costs increased by more than 2% in 2018 and their growth is projected to exceed 3% in both 2019 and 2020. This is expected to constrain export growth somewhat, but some additional market share gains are still projected. Imports are forecast to continue to grow faster than exports as domestic demand strengthens. Slovenia's current account surplus is projected to decline to 6.1% of GDP in 2020 after reaching 7.3% in 2018.

Negative risks to the growth outlook are mainly external. Slower export demand growth would affect both exports and business investment. On the upside, households could lower their saving rate and increase consumption.

Labour market tightens

In 2018, employment grew by 3.0% and the unemployment rate decreased to 5.1%. Employment is forecast to grow by 2.3% in 2019 before easing to 2.1% in 2020. An inflow of foreign workers and a rising participation rate is expected to help alleviate labour supply constraints to some extent. The unemployment rate is projected to fall to 4.6% in 2020, which would be below its long-term average. As wage pressures grow, compensation per employee is expected to increase by 4.8% in 2019 and 3.7% in 2020.

HICP inflation was 1.9% in 2018 and moderated to 1.3% in the first quarter of 2019. Inflation is projected to be lower in 2019 than it was in 2018, mainly due to lower growth in energy and food prices, but to accelerate to 2.1% in 2020. Core inflation averaged 1.1% in 2018 and is projected to

rise to 1.6% in 2019 and 1.9% in 2020, reflecting the increase in wages.

Structural budget improves in 2020

In 2018, Slovenia's general government surplus increased to 0.7% of GDP, driven by particularly strong revenue growth and a continuing decrease in interest expenditure. However, due to the higher positive output gap, the structural deficit deteriorated to about ¾% of GDP from ½% in 2017.

In 2019, the surplus is expected to remain unchanged, while the structural deficit is projected to continue to deteriorate slightly. The revenue growth from taxes is forecast to continue, although at a slower pace as growth of domestic demand and employment slows down. Due to the public sector pay rise negotiated with labour unions at the end of 2018, compensation of employees is projected to pick up. Along with the higher absorption of EU funds, public investment is forecast to grow strongly, although at a lower pace than in 2018.

In 2020, the surplus is forecast to improve to 0.9% of GDP. In a context of strengthening private

consumption, high labour market participation and rising wages, revenues from taxes and social contributions are projected to continue growing strongly. Compensation of employees and social transfers are forecast to remain the main drivers of expenditure growth. As the projected output gap is decreasing, the structural deficit is expected to fall to about ¼% of GDP.

The main downside risk to public finances over the forecast horizon stems from expenditure pressures, particularly on wages and social benefits. The emergence of unexpected one-offs, for instance due to unfavourable court rulings, pose an additional downside risk. On the upside, proceeds from the privatisations of Abanka and NLB could reduce debt further.

The debt-to-GDP ratio has been on a declining path since its peak at 82.6% in 2015. Supported by economic growth, active public debt management and privatisation proceeds, the debt-to-GDP ratio is expected to decrease significantly from 70.1% of GDP in 2018 to 61.7% of GDP in 2020.

Table II.24.1:

Main features of country forecast - SLOVENIA

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	43.0	100.0		2.2	2.3	3.1	4.9	4.5	3.1	2.8
Private Consumption	22.3	51.9		1.7	2.3	3.9	1.9	2.2	2.5	3.2
Public Consumption	7.8	18.2		1.7	2.4	2.7	0.5	2.6	2.5	2.2
Gross fixed capital formation	8.0	18.5		0.6	-1.6	-3.7	10.7	10.6	7.5	7.4
of which: equipment	3.4	7.8		2.1	3.9	7.3	12.1	8.3	6.5	5.8
Exports (goods and services)	35.6	82.9		5.9	5.0	6.4	10.7	7.2	5.4	5.6
Imports (goods and services)	31.5	73.2		4.7	4.7	6.6	10.3	7.7	6.2	7.2
GNI (GDP deflator)	42.2	98.2		2.2	0.0	3.6	5.8	5.0	3.1	2.8
Contribution to GDP growth:										
Domestic demand				1.6	1.4	1.9	3.0	3.6	3.2	3.5
Inventories				0.0	0.3	0.7	0.6	0.6	0.0	0.0
Net exports				0.7	0.6	0.5	1.3	0.3	-0.1	-0.8
Employment				0.3	1.3	1.8	2.9	3.0	2.3	2.1
Unemployment rate (a)				7.0	9.0	8.0	6.6	5.1	4.8	4.6
Compensation of employees / head				5.4	1.3	3.0	3.2	4.0	4.8	3.7
Unit labour costs whole economy				3.4	0.3	1.8	1.3	2.5	3.9	3.1
Real unit labour cost				-0.1	-0.7	1.0	-0.3	0.2	1.5	0.2
Saving rate of households (b)				13.4	12.4	13.0	13.9	15.1	15.3	14.4
GDP deflator				3.5	1.0	0.8	1.6	2.3	2.4	2.9
Harmonised index of consumer prices				4.0	-0.8	-0.2	1.6	1.9	1.8	2.1
Terms of trade goods				-0.4	1.3	0.8	-0.6	-0.2	-0.3	0.5
Trade balance (goods) (c)				-2.6	3.8	3.8	3.6	2.7	1.8	0.8
Current-account balance (c)				-1.3	4.5	5.4	7.1	7.3	6.7	6.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-1.1	5.6	4.6	6.3	6.8	6.0	5.4
General government balance (c)				-4.0	-2.8	-1.9	0.0	0.7	0.7	0.9
Cyclically-adjusted budget balance (d)				-3.9	-1.3	-1.2	-0.6	-0.8	-0.9	-0.4
Structural budget balance (d)				-	-1.3	-1.1	-0.5	-0.7	-0.8	-0.3
General government gross debt (c)				36.1	82.6	78.7	74.1	70.1	65.9	61.7

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

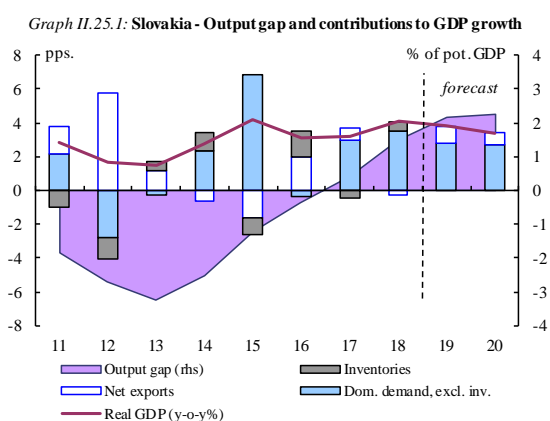
25. SLOVAKIA

Strong growth set to ease slightly

Slovakia's brisk economic expansion is expected to moderate slightly in 2019 and 2020. Private consumption is set to drive growth, backed by solid real wage increases and employment gains. Investment is forecast to slow markedly but trade activity should strengthen, giving a boost to GDP. Consumer price inflation is expected to be fuelled by buoyant wage increases and robust private demand. The general government deficit is forecast to fall slightly.

Growth moderates slightly

Slovakia's economy expanded by 4.1% in 2018, driven solely by domestic demand. Real GDP growth is forecast to moderate to 3.8% in 2019 and to slow further to 3.4% in 2020. Further improvements in the labour market are expected to maintain private consumption as the key source of GDP growth over the forecast horizon, as was already the case in 2017 and 2018. Weaker demand in key EU trading partners is likely to be more than offset by expanded export capacities and orders in Slovakia's large automotive sector. Investment growth is expected to normalise at lower rates following a large temporary boost in 2018. Meanwhile, ongoing labour shortages are fuelling stronger wage growth and pose a risk to further expansion in certain sectors.



Exports to withstand weaker trade outlook

As a highly open economy, Slovakia's exports are expected to feel the impact of slowing foreign demand throughout the first half of 2019, but are likely to gradually pick up thereafter to expand by around 6% in 2019 overall. This reflects the positive effect of recent investment in Slovakia's export-focused manufacturing sector, notably the construction of a new car factory. This should result in substantial market share gains for exports and will allow for a positive contribution to GDP growth in both 2019 and 2020. This generally

favourable trade outlook remains uncertain, however, with risks tilted to the downside including faltering growth in Germany, Slovakia's main trading partner, and developments affecting the car industry, such as the possible imposition of U.S. tariffs.

Wage growth to support spending but could outpace productivity

Employment growth is likely to decrease over the forecast horizon as unemployment falls to new historical lows and the labour market tightens further. While the positive effect from job creation on households' disposable income is expected to fade, accelerating wage growth will continue to prop up earnings and incomes. In view of the low unemployment risk and supportive financial conditions, this should support consumer spending over the forecast horizon. At the same time, the tight labour market is expected to push wage growth above expected productivity growth. If sustained, the resulting rise in unit labour costs risks eroding the economy's external competitiveness.

Demand pressures will drive inflation

HICP inflation is forecast to remain slightly elevated over the forecast horizon, at 2.4% in 2019 and 2.3% in 2020. Service price inflation in particular is expected to pick up as a result of rapid wage growth. Moreover, increases in regulated energy prices in 2019 will contribute to HICP inflation. Food prices are likely to continue growing at recent trend rates of around 2.6% — close to the rate of overall HICP inflation.

Public finances consolidating only moderately

Slovakia's general government deficit in 2018 declined by 0.1 pps. to 0.7% of GDP, its lowest level on record. This minor improvement took place against the background of fast revenue growth and swift economic expansion. High transfers from the EU also boosted revenues. On

the expenditure side, these transfers corresponded to higher current transfers, subsidies, and compensation of public employees. Gross fixed capital formation funded from both national and EU sources increased significantly for the central and local government. On the other hand, intermediate consumption grew moderately and interest spending fell. Overall, the consolidation effort slowed in 2018, with the structural balance deteriorating by 0.4 pps. to around -1¼% of potential GDP.

In 2019, the headline deficit is set to decline to 0.5% of GDP, with total expenditure falling by 0.2% of GDP and revenues unchanged as a share of GDP. Buoyant private consumption and the strong labour market are expected to support VAT receipts, income taxes and social contributions gains.

On the expenditure side, the largest spending increases are expected for employee compensation and investment. These will be partially counterbalanced by developments in social benefits, interest spending and other current expenditure. The structural balance will remain broadly unchanged in 2019, reflecting the limited degree of fiscal consolidation. In 2020, the general government deficit is projected to increase slightly to 0.6% of GDP. The main downside risks to public finances in 2020 are related to upcoming parliamentary elections and proposals under discussion to decrease the tax burden.

The general government debt-to-GDP ratio is forecast to decline to 47.3% this year and to 46.0% in 2020, driven by relatively stable primary surpluses and swift nominal GDP growth.

Table II.25.1:

Main features of country forecast - SLOVAKIA

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	84.9	100.0		3.7	4.2	3.1	3.2	4.1	3.8	3.4
Private Consumption	46.6	54.9		2.8	2.2	2.9	3.5	3.0	3.2	2.9
Public Consumption	16.5	19.5		2.7	5.4	1.6	1.7	1.9	2.5	2.4
Gross fixed capital formation	18.2	21.4		0.8	21.9	-9.4	3.4	6.8	2.6	2.8
of which: equipment	8.7	10.3		2.3	16.9	-1.3	-1.4	5.2	2.4	2.2
Exports (goods and services)	82.2	96.9		9.5	6.0	5.5	5.9	4.8	6.1	5.5
Imports (goods and services)	79.6	93.8		7.3	8.0	3.4	5.3	5.3	5.2	5.0
GNI (GDP deflator)	83.2	98.0		3.6	2.9	3.8	3.1	4.1	3.7	3.4
Contribution to GDP growth:		Domestic demand		2.3	6.8	-0.4	3.0	3.5	2.8	2.7
		Inventories		0.2	-1.0	1.5	-0.5	0.5	0.0	0.0
		Net exports		1.3	-1.6	2.0	0.7	-0.3	1.0	0.7
Employment				0.3	2.0	2.4	2.2	2.0	0.8	0.4
Unemployment rate (a)				15.1	11.5	9.7	8.1	6.5	5.9	5.6
Compensation of employees / head				6.2	3.5	2.1	5.2	5.4	6.8	6.7
Unit labour costs whole economy				2.8	1.3	1.3	4.2	3.3	3.7	3.6
Real unit labour cost				-0.2	1.4	1.8	2.9	1.2	1.1	1.1
Saving rate of households (b)				7.5	8.7	8.7	8.2	8.4	7.6	7.2
GDP deflator				3.0	-0.2	-0.5	1.2	2.1	2.6	2.5
Harmonised index of consumer prices				4.5	-0.3	-0.5	1.4	2.5	2.4	2.3
Terms of trade goods				-0.5	-0.2	-0.4	-0.8	-0.9	-0.2	-0.2
Trade balance (goods) (c)				-3.3	1.3	2.3	2.0	1.4	2.0	2.6
Current-account balance (c)				-4.6	-2.3	-1.2	-0.2	-1.1	-0.5	-0.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-4.2	-0.2	-1.4	-0.8	-1.6	-1.0	-0.6
General government balance (c)				-4.9	-2.6	-2.2	-0.8	-0.7	-0.5	-0.6
Cyclically-adjusted budget balance (d)				-4.6	-2.1	-2.1	-0.9	-1.3	-1.3	-1.4
Structural budget balance (d)				-	-2.1	-2.0	-0.9	-1.3	-1.3	-1.4
General government gross debt (c)				42.2	52.2	51.8	50.9	48.9	47.3	46.0

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

26. FINLAND

Domestic demand to support growth

Economic growth is expected to moderate in 2019 and 2020. Unemployment is forecast to fall close to its structural level while inflation is expected to remain below 2%. Public finances are on course to achieve a balanced budget by 2020 and the government debt ratio is expected to decline further below the 60% benchmark.

Solid growth in 2018...

Preliminary data show that real GDP growth reached 2.3% in 2018, pointing to a clear slowdown of the economy from its cyclical peak of 2.8% in 2016. Growth was mainly driven by private consumption and investment, with consumption contributing about the same as in 2017, despite stronger wage and employment growth. Investment was mainly driven by the rise in construction, with housing construction up 5.4%. Machinery and equipment investment, by contrast, rose 1.6%.

Following record exports growth in 2017, in 2018 they grew by a mere 1.5%, which led net exports to have a negative impact on growth. Results for 2018 may, however, be skewed due to the postponement of one large ship delivery to January 2019.

...followed by domestically-driven growth in 2019 and 2020.

Private consumption is expected to remain the main driver of growth this year and next, thanks to the expected rise in household labour and non-labour income, and still solid levels of consumer confidence.

Private investment is expected to slow, primarily due to the construction sector, where growing capacity constraints and fewer new housing projects indicate a sectoral slowdown. At the same time, investment in machinery and equipment is expected to remain robust on the back of increased corporate profits, high capacity utilisation and still low interest rates.

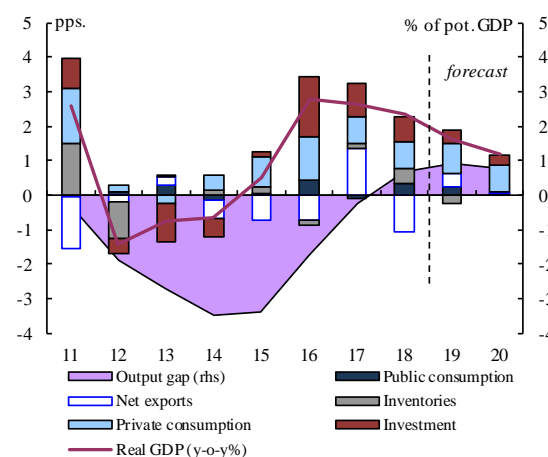
Due to dwindling foreign demand in 2019, exports are set to remain subdued, though may benefit from the aforementioned one-off factor related to shipbuilding. Exports in 2020 are forecast to improve in line with the expected recovery in demand in Finland's main trading partners. Despite robust import growth, the trade balance is expected to remain broadly unchanged.

The labour market is set to tighten while inflation remains modest

Employment growth, at 2.7%, was exceptionally strong in 2018. While the outlook for 2019 and 2020 is positive, it is unlikely to match last year's performance. As the unemployment rate approaches its structural level, supply-side constraints are expected to emerge, fuelling wage growth. The rise in income should help the household saving rate to recover slightly, although it is expected to remain at an historically low level.

Inflation increased in 2018 but with 1.2% remained below the euro area average. Over the forecast horizon, inflation is forecast to increase further as rising labour costs pass-through to consumer prices, particularly for services. However, the pressure will be only gradual, so the inflation rate should remain below 2%.

Graph II.26.1: Finland - Real GDP and contributions to GDP growth



Risks to growth are tilted to the downside, mostly driven by external factors, with the main possible impact expected to materialise through lower demand from Finland's main trading partners. Internally, the upcoming round of wage negotiations this autumn might result in even higher pressures on the wage bill, which could harm country's competitiveness.

Budget close to balance by 2020

The robust growth of production and income is expected to support the continued consolidation of Finland's public finances. Total government revenue is expected to grow in line with GDP over the forecast period. Bar substantial policy changes, the growth of total expenditure should remain more subdued.

Revenue growth from taxes on production and imports is expected to slow down gradually. On the other hand, a tightening labour market, combined with the expiry of some of the measures in the Competitiveness Pact is set to push up wages, boosting revenue from taxes on income. Regarding expenditure, in addition to the wage increases in the public sector, population ageing is projected to put pressure on Finland's spending on health and long-term care. Public investment is expected to grow at higher rates than private investment due to plans to upgrade the country's infrastructure networks.

The general government headline balance is forecast to improve from -0.7 % of GDP in 2018 to

-0.4 % of GDP in 2019. In 2020, assuming no policy change, the general government balance is projected to improve further to -0.2 % of GDP. The projected improvement is also attributable to the expiry of temporary lower rates set for sickness insurance contributions, which should lead to higher revenue from social contributions.

The structural budget balance in 2019 is forecast to remain stable at about -1% of GDP against the backdrop of an increase in the positive output gap and some one-off measures. The structural balance is forecast to improve to about -½ % of GDP in 2020, reflecting the positive change of the headline balance, in particular the discretionary measures increasing revenue from social contributions.

The descending path of Finland's general government debt-to-GDP ratio is set to continue through 2020, driven by relatively high nominal GDP growth and the shrinking government deficit. As such, the debt-to-GDP ratio, which dropped below the 60% benchmark ratio in 2018, is forecast to fall to 58.3 % in 2019 and 57.7 % in 2020.

Table II.26.1:

Main features of country forecast - FINLAND

	2017			Annual percentage change						
	bn EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	223.9	100.0		1.7	0.5	2.8	2.7	2.3	1.6	1.2
Private Consumption	121.5	54.3		2.2	1.5	2.2	1.5	1.4	1.6	1.4
Public Consumption	51.5	23.0		1.2	0.2	1.8	-0.4	1.4	1.2	0.3
Gross fixed capital formation	49.6	22.1		0.8	0.7	8.6	4.3	3.2	1.6	1.3
of which: equipment	11.8	5.3		0.1	3.6	13.7	6.1	1.6	1.8	0.6
Exports (goods and services)	86.2	38.5		3.4	0.8	3.5	7.7	1.5	3.2	3.4
Imports (goods and services)	85.6	38.2		3.9	2.7	5.4	3.8	4.2	2.2	3.2
GNI (GDP deflator)	224.6	100.3		1.8	0.6	3.2	1.6	1.7	1.7	1.2
Contribution to GDP growth:										
Domestic demand				1.5	1.0	3.4	1.7	1.8	1.5	1.1
Inventories				0.0	0.2	-0.2	0.1	0.4	-0.2	0.0
Net exports				0.1	-0.7	-0.7	1.4	-1.0	0.4	0.1
Employment				0.8	-0.1	0.5	1.2	2.7	0.9	0.6
Unemployment rate (a)				8.4	9.4	8.8	8.6	7.4	6.7	6.2
Compensation of employees / head				2.9	1.4	1.1	-1.2	1.2	3.4	2.9
Unit labour costs whole economy				2.0	0.8	-1.2	-2.7	1.6	2.6	2.3
Real unit labour cost				0.3	-0.8	-1.4	-3.6	-0.4	1.1	0.4
Saving rate of households (b)				8.6	6.9	6.1	6.0	7.3	10.7	12.0
GDP deflator				1.7	1.7	0.1	0.9	1.9	1.5	1.9
Harmonised index of consumer prices				1.9	-0.2	0.4	0.8	1.2	1.4	1.6
Terms of trade goods				-1.2	4.8	0.5	-0.4	0.4	-0.8	0.0
Trade balance (goods) (c)				5.7	0.9	0.2	0.8	0.4	0.5	0.7
Current-account balance (c)				3.2	-0.7	-0.8	-0.3	-1.9	-1.5	-1.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				3.3	-0.6	-0.8	-0.2	-1.8	-1.4	-1.3
General government balance (c)				1.5	-2.8	-1.7	-0.8	-0.7	-0.4	-0.2
Cyclically-adjusted budget balance (d)				1.6	-0.8	-0.7	-0.7	-1.1	-0.9	-0.6
Structural budget balance (d)				-	-0.8	-0.7	-0.7	-1.0	-1.0	-0.6
General government gross debt (c)				44.1	63.4	63.0	61.3	58.9	58.3	57.7

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

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

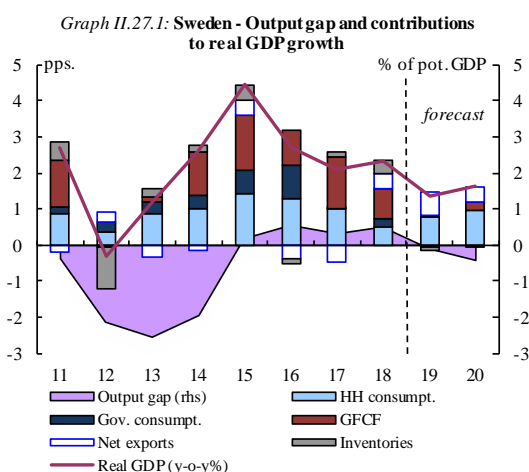
27. SWEDEN

Lower growth on two engines

Economic growth in Sweden is expected to slow markedly this year as domestic demand dips, before picking up slightly in 2020. As domestic demand moderates and leads to lower import growth, net exports will contribute significantly to growth over the forecast horizon. The unemployment rate is set to stabilise above 6% in 2019 and 2020. Inflation is forecast to remain below 2% in both 2019 and 2020. Due to slower growth, the general government surplus is projected to decline, while the debt-to-GDP ratio continues on its downward trend.

Growth slowdown expected

Sweden's economy ended 2018 on a high note with strong growth in the fourth quarter, mainly driven by exports, which helped real GDP to gain 2.3% for the year as a whole. Economic growth is set to slow appreciably in 2019 to 1.4% on the back of weakening domestic demand, before slightly strengthening to 1.6% in 2020 as private consumption and investment pick up.



Weaker domestic demand

Domestic demand growth is set to drop from 2.0% in 2018 to 0.7% in 2019. A pronounced fall in housing investment is the main factor behind the slowdown in domestic demand in 2019. In addition, corporate investment in equipment is expected to weaken as the business cycle turns and trade-related uncertainty weighs on external demand and business sentiment. Overall, gross fixed capital formation is likely to stagnate in 2019 and increase by some 1% in 2020.

Private consumption was volatile in 2018, rising earlier in the year when many consumers brought forward their plans to buy cars ahead of a tax hike introduced in July 2018 and then dropped sharply subsequently. Continued employment growth,

stable unemployment and weak inflation are set to support real disposable income, despite subdued wage increases. Private consumption is thus projected to hold up fairly well. It is set to grow by 1.8% in 2019 and slightly faster in 2020.

In spite of sizeable spending needs for schools, health care and welfare services linked to demographic developments, general government consumption is set to moderate in 2019 and 2020. Costs linked to migration should decrease, whereas new defence and health care expenses, priorities of the 2019 budget, are partially compensated by cut backs in other areas, including the public employment service and environmental measures.

Net exports to contribute to growth

Goods exports rose strongly in 2018. All sectors contributed, but transport equipment and oil products grew particularly vigorously. Export orders and monthly trade data suggest export strength will continue into the first half of 2019. Given Sweden's deep integration into global value chains, this momentum is set to fade on the back of an expected slowdown in the economies of major trading partners. Overall, export growth of goods and services is set to slow to around 3% over the forecast horizon. Imports of goods and services, on the other hand, are set to slow more than exports, in line with weaker domestic demand and a weaker exchange rate. Net trade is thus set to add 0.7 pps. to real GDP growth in 2019 with the trade contribution to decrease somewhat in 2020 on the back of an expected recovery in domestic demand. This strong contribution from net trade marks a shift from previous years, when high growth was driven mainly by domestic demand and net trade was broadly neutral.

Unemployment to stabilise

Employment growth is expected to slow to less than 1%, in line with weaker economic growth. It is likely to grow broadly in line with the expansion

of the labour force, and the unemployment rate is thus forecast to stabilise at 6.4% in 2019 and 2020. Wage growth is set to pick up only moderately in the wake of the cooling economy, despite continued shortages of skilled labour.

Inflation to fall

Headline inflation is set to decrease markedly from 2.0% in 2018 to 1.5% in 2019, before edging up to 1.6% in 2020. The expected decrease in inflation is partly the result of fading temporary factors, such as the sharp rise in unprocessed food prices in the summer of 2018, and partly the result of exceptional factors such as a new method for measuring the price of package holidays. Energy prices should add to inflation over the forecast horizon, as should the lagged impact of the Swedish krona's depreciation. By contrast, domestically generated inflation should remain moderate as wage growth is assumed to remain relatively muted.

Risks tilted to the downside

Sweden remains vulnerable to disruptions in the global economy such as an escalation in trade disputes. On the domestic side, leveraged

households remain sensitive to a decline in house prices with possible repercussions on consumer confidence, private consumption, and ultimately growth.

Resilient public finances

Revenue growth is set to lag behind expenditure growth due to the economic slowdown and tax cuts resulting from the slightly expansionary 2019 budget. Sweden's general government balance is thus expected to record a smaller surplus of 0.4% of GDP in 2019, after 0.9% in 2018. Fiscal prudence is reflected in the budget bill of this spring, which included limited measures of SEK 4.5 bn (<0.1% of GDP). The structural surplus is projected to reach around ½% of GDP, in line with the new medium-term fiscal surplus target of 0.33% of GDP with effect from 2019.

Sweden's gross debt has been on a downward trend in recent years, a pattern that is set to continue. The debt-to-GDP ratio is projected to fall from 38.8% in 2018 to 34.4% in 2019. The marked debt reduction this year is attributable in part to a SEK 70 bn reduction of loan-financed foreign currency reserves by the Riksbank.

Table II.27.1:

Main features of country forecast - SWEDEN

	2017			Annual percentage change						
	bn SEK	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	4578.8	100.0	2.3		4.5	2.7	2.1	2.3	1.4	1.6
Private Consumption	2041.0	44.6	2.4		3.1	2.9	2.2	1.2	1.8	2.2
Public Consumption	1196.2	26.1	1.0		2.4	3.6	0.0	0.9	0.1	0.0
Gross fixed capital formation	1142.6	25.0	2.9		6.7	4.2	6.0	3.3	-0.2	0.9
of which: equipment	343.3	7.5	3.2		5.1	5.3	5.5	1.3	0.8	3.1
Exports (goods and services)	2076.3	45.3	4.0		5.7	3.0	3.2	3.5	3.1	2.9
Imports (goods and services)	1907.6	41.7	3.8		5.2	4.3	4.8	2.9	1.9	2.2
GNI (GDP deflator)	4648.9	101.5	2.5		3.3	2.3	3.0	2.4	1.3	1.6
Contribution to GDP growth:		Domestic demand	2.0		3.6	3.2	2.4	1.6	0.8	1.2
		Inventories	0.0		0.4	-0.1	0.1	0.4	-0.1	0.0
		Net exports	0.3		0.4	-0.4	-0.5	0.4	0.7	0.4
Employment			0.9		1.5	1.9	2.3	1.8	0.8	0.6
Unemployment rate (a)			7.3		7.4	6.9	6.7	6.3	6.4	6.4
Compensation of employees / head			3.5		2.7	2.5	2.0	3.4	3.1	3.0
Unit labour costs whole economy			2.1		-0.2	1.7	2.2	2.9	2.5	1.9
Real unit labour cost			0.5		-2.2	0.0	0.0	0.7	0.3	0.0
Saving rate of households (b)			12.2		17.6	18.5	17.6	19.5	20.5	20.5
GDP deflator			1.6		2.1	1.6	2.3	2.2	2.2	1.9
Harmonised index of consumer prices			1.5		0.7	1.1	1.9	2.0	1.5	1.6
Terms of trade goods			-0.6		1.7	0.7	-0.6	-1.0	0.3	0.3
Trade balance (goods) (c)			5.9		3.0	2.2	2.4	2.1	2.6	3.0
Current-account balance (c)			6.2		4.3	3.8	3.7	3.4	4.1	4.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			6.0		4.1	3.8	3.7	3.4	4.1	4.6
General government balance (c)			0.5		0.0	1.0	1.4	0.9	0.4	0.4
Cyclically-adjusted budget balance (d)			0.7		-0.1	0.7	1.2	0.6	0.5	0.6
Structural budget balance (d)			-		-0.1	0.7	1.2	0.6	0.5	0.6
General government gross debt (c)			45.3		44.2	42.4	40.8	38.8	34.4	32.4

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

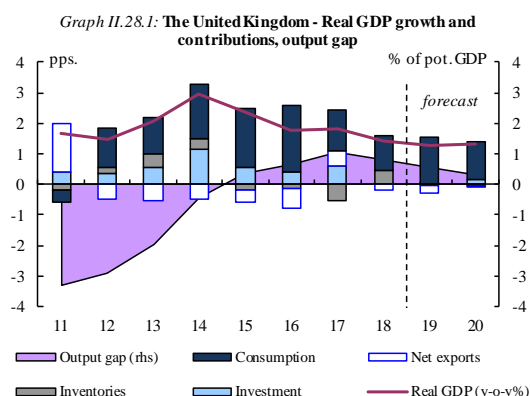
28. THE UNITED KINGDOM

Outlook remains subdued as uncertainty continues

UK GDP growth slowed markedly in 2018 and is forecast to remain subdued over the forecast horizon. Private consumption growth should find support from modest real wage growth but continuing uncertainty about the UK's future relationship with the EU27 means that business investment is likely to remain weak. With external demand moderating, net trade is not expected to contribute positively to GDP growth. Employment growth is expected to slow, leading to a broadly stable unemployment rate. Inflation should ease in 2019 before increasing slightly in 2020.

GDP growth slowed markedly in 2018

Annual UK GDP growth slowed from 1.8% in 2017 to 1.4% in 2018 due to a range of factors including falling business investment and slowing external demand. In 2018, business investment fell for four consecutive quarters – the first such instance since 2009, culminating in a year-on-year fall of 2.5% in 2018-Q4. Survey evidence suggests that this fall was largely due to the impact of uncertainty over the UK's future trading relationship with the EU.



While private consumption continued to make the largest contribution to GDP growth in 2018, it grew at the slowest pace (1.7%) since 2012 as the impact of subdued consumer confidence offset rising real wages. Net exports made a negative contribution (-0.2 pps) to GDP growth in 2018, as the impact of sterling's depreciation in 2016 faded and growth in the UK's export markets moderated, notably in advanced economies, which comprise a high share of UK exports.

Domestic demand to support modest GDP growth in 2019 and 2020.

Official GDP data for the first two months of 2019 indicate that GDP growth remained resilient in the first quarter of 2019. Evidence from a range of business surveys suggests that due to the

uncertainty over the timing and nature of the UK's exit from the EU, stockpiling by UK manufacturers supported growth in 2019-Q1. However, output growth in the second quarter of 2019 is likely to be constrained, as the elevated pace of inventory building is unwound.

Given the ongoing ratification process of the Withdrawal Agreement in the UK, projections for 2019 and 2020 are based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. This is for forecasting purposes only and has no bearing on future negotiations between the EU and the UK.

In 2019, moderate private consumption growth is projected to be supported by modestly increasing real wage growth and an expansionary fiscal policy. Acting against this, recent consumer confidence surveys suggest that savings intentions of consumers are high, reflecting weak overall consumer confidence. Consequently, over the forecast horizon, households are expected to maintain their savings at broadly constant levels. Business investment growth is projected to continue to fall as uncertainty persists over the UK's future trading relationship with the EU. However, the decline in business investment will be partly offset by strong public investment in 2019. The net exports' contribution to growth is expected to remain negative as external demand slows. Reflecting these factors and the technical assumption about UK trade relations with the EU27, GDP growth is forecast to remain weak at 1.3% in 2019.

In 2020, GDP growth is projected to be stable at 1.3% as the expected improvement in the contribution of net trade to growth, from negative to neutral, should be offset by slower government consumption growth. Private consumption growth is expected to moderate slightly as the effect of fiscal policy stimulus eases, while investment growth should recover but remain weak.

Employment growth to slow, inflation to remain stable

In 2019 employment growth is expected to slow in a context of subdued GDP growth and to stabilise in 2020. This is projected to lead to a broadly stable unemployment rate of 4.1% in 2019 and 4.2% in 2020. Consumer price inflation is expected to ease to 2.0% in 2019, from 2.5% in 2018, partly due to easing oil price inflation. Inflation is projected to rebound marginally to 2.1% in 2020 reflecting sustained wage pressures.

General government deficit to rise in 2019-2020

The UK's general government deficit is expected to rise to 1.5% of GDP in the 2019-2020 fiscal year, following several years of improvement in the budget balance. The deficit fell from 2.3% of GDP in 2016-2017 to 2.1% in 2017-2018 and is expected to have fallen to 1.3% in 2018-2019. The improvement in 2018-2019 was linked to both higher tax revenues and lower expenditure. Tax revenues, particularly income tax receipts, increased. Lower payments on inflation-linked bonds led to reduced interest payments on the government's outstanding debt. In line with the headline deficit, the structural deficit in 2018-2019

is expected to have fallen to around 1¼ % of GDP, from 2.7% in 2017-2018.

In 2019-2020, the general government deficit is expected to increase to 1.5% of GDP, before falling to 1.2% in 2020-2021. The rise in 2019-2020 is mainly due to policy decisions included in the 2018 Autumn Budget, which led to a net fiscal easing. This includes additional funding for the National Health Service, welfare spending, and an increase in the income tax personal allowance. Risks to the projected deficit are mainly to the downside, as pressures on public services have led to demands for increased spending. The structural deficit is expected to be broadly stable at 1¼ % of GDP for 2019-2020 and to fall to 1¼ % of GDP in 2020-2021. The general government debt ratio is projected to fall from 85.4% of GDP in 2018-2019 to 83.8% of GDP in 2019-2020 and to 82.7% of GDP in 2020-2021.

Table II.28.1:

General government projections on a financial-year basis

ESA10	Actual		Forecast		
	2016-17	2017-18	2018-19	2019-20	2020-21
General government balance-	-2.3	-2.1	-1.3	-1.5	-1.2
Structural budget balance	-2.8	-2.7	-1.7	-1.7	-1.3
General government gross debt	86.4	85.4	85.4	83.8	82.7

-APF transfers included

Table II.28.2:

Main features of country forecast - UNITED KINGDOM

	2017			Annual percentage change						
	bn GBP	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	2049.6	100.0		1.9	2.3	1.8	1.8	1.4	1.3	1.3
Private Consumption	1347.0	65.7		2.0	2.6	3.1	2.1	1.7	1.8	1.7
Public Consumption	375.2	18.3		2.3	1.4	0.8	-0.2	0.4	2.2	0.8
Gross fixed capital formation	351.3	17.1		1.5	3.4	2.3	3.5	0.2	-0.2	0.8
of which: equipment	87.4	4.3		2.0	5.2	2.0	-2.7	-4.5	-4.0	0.4
Exports (goods and services)	617.5	30.1		3.2	4.4	1.0	5.6	0.1	2.3	2.5
Imports (goods and services)	641.5	31.3		3.7	5.5	3.3	3.5	0.7	2.9	2.5
GNI (GDP deflator)	2026.1	98.8		1.7	2.1	1.5	3.2	1.3	1.3	1.3
Contribution to GDP growth:										
Domestic demand				2.2	2.9	2.6	1.9	1.2	1.5	1.4
Inventories				0.0	-0.2	-0.1	-0.5	0.4	0.0	0.0
Net exports				-0.2	-0.4	-0.7	0.5	-0.2	-0.3	0.0
Employment				0.9	1.7	1.5	1.0	1.2	0.8	0.8
Unemployment rate (a)				6.1	5.3	4.8	4.4	4.0	4.1	4.2
Compensation of employees / head				3.4	1.1	2.8	3.1	2.7	3.1	3.2
Unit labour costs whole economy				2.3	0.5	2.5	2.2	2.5	2.6	2.6
Real unit labour cost				0.3	0.1	0.4	0.0	0.6	0.7	0.6
Saving rate of households (b)				8.7	9.4	6.7	4.2	4.5	4.2	4.1
GDP deflator				2.0	0.4	2.1	2.2	1.9	1.9	2.0
Harmonised index of consumer prices				2.1	0.0	0.7	2.7	2.5	2.0	2.1
Terms of trade goods				0.3	-1.7	2.8	0.6	0.3	0.9	0.9
Trade balance (goods) (c)				-5.1	-6.2	-6.7	-6.7	-6.5	-6.7	-6.6
Current-account balance (c)				-3.1	-4.9	-5.2	-3.3	-3.9	-3.7	-3.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.1	-5.0	-5.3	-3.4	-4.0	-3.8	-3.5
General government balance (c)				-4.1	-4.2	-2.9	-1.9	-1.5	-1.5	-1.2
Cyclically-adjusted budget balance (d)				-3.8	-4.4	-3.3	-2.4	-2.0	-1.8	-1.4
Structural budget balance (d)				-	-4.4	-3.2	-2.4	-2.0	-1.8	-1.4
General government gross debt (c)				54.2	87.9	87.9	87.1	86.8	85.1	84.2

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

Candidate Countries

29. ALBANIA

Growth set to continue at a solid pace

Economic growth is projected to remain solid in 2019 at 3.8%, driven by private consumption and strengthening investment, and to soften somewhat to 3.7% in 2020 due to slowing employment growth and lower growth in the main European economic partners weighing on remittances and commodity exports. The high level of public debt as a share of GDP is forecast to continue its gradual decline.

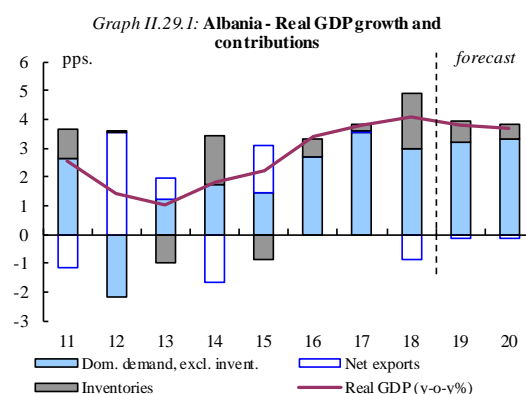
High domestic demand and electricity production pushed growth to 4.1% in 2018

The upturn of the Albanian economy over 2018 slowed to 3.1% in the last quarter when the push factors of the first three quarters - favourable weather boosting agricultural and hydroelectricity production in addition to a good touristic season - lost their momentum. Still, GDP growth is estimated to have reached 4.1% in 2018, the highest rate of the last 10 years. On the demand side, household consumption continued to be the main growth driver (+3% y-o-y), based on growing wages and employment. Public consumption shrank by 1.1 % y-o-y in real terms. Overall export growth dropped to 3%, despite much higher growth of commodity exports, driven by electricity exports, because services exports, which account for the largest component of exports, slightly shrank in real terms, after strong increases in the last four years. Import growth also declined, but overall, net exports subtracted 0.8 pps. from growth, in contrast to a neutral contribution in 2017.

Rising wages continue to support domestic demand but employment growth is slowing

Over 2019, household spending is expected to still benefit from favourable financing conditions, moderate inflation and higher wages. However, employment growth is set to slow down to below 2%, slightly reducing household consumption growth. The overall unemployment rate (15-64 years) fell to 12.8% in 2018, but, for the first time in the last two years, it did not decline during the fourth quarter of 2018, an indication that reduction of unemployment might slow down. Private investment is forecast to pick up, e.g. into transport and touristic infrastructure, as capacity utilisation rates are already high and financing conditions are expected to improve. The recovery in investment is partly subject to resolving the labour mismatches which could constrain domestic investment as well as foreign investors, looking for alternatives to European low labour-cost countries which are facing labour shortages. The downside risk to the

growth outlook is a slow-down in structural reforms related to a delayed regional and European integration.

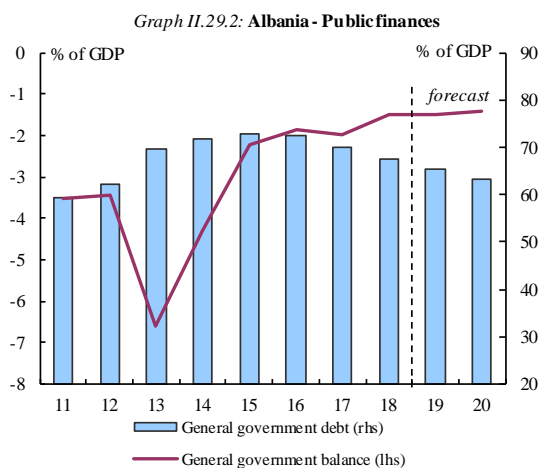


Services exports are set to resume

The growth contribution of net exports is expected to remain slightly negative in 2019 and 2020, but to a lesser extent than in 2018, as export growth is set to accelerate. Merchandise exports are forecast to slow compared to 2018 when they were boosted by exceptional electricity production, and due to slowing demand from the main European partners. In contrast, services exports, led by tourism, are expected to pick up again in 2019 as they are likely to be less affected by a slow-down of European demand due to their diversification both in type and destination. The trade deficit is forecast to slightly widen because of increasing imports of investment goods. Coupled with less support from remittances, this is expected to slightly increase the current account deficit over the forecast horizon, from 6.7% to 6.8% of GDP. Weather-related high electricity imports are a downside risk to this projection. FDI inflows, which are financing most of the current account deficit, are expected to keep their share of about 8% of GDP.

Normalisation of monetary policy set to be postponed as prices pick up only gradually

Subdued inflation only reached 2% over 2018, weighed down by the marked appreciation of the Albanian Lek against the euro. The currency value is expected to return to a more realistic level over 2019, when the transitory appreciation effects will dissipate.



While core inflation, carried by rising food prices and wages, will recover, the exchange rate effect

on the inflation rate might only disappear in 2020. Combined with a continued upward price pressure on domestic goods, inflation is forecast to climb to above 2.5% by 2020. This is subject to downside risks from lower oil prices. Overall, a normalisation of monetary policy is likely to be postponed to late 2019 as the inflation target of 3% is not within reach.

Public debt remains above 60% despite recent strong reductions

Helped by the appreciating currency, the still high public debt-to-GDP ratio turned out lower than expected and stood at 67.3% of GDP at end-2018, down from 70% one year earlier. Public debt is forecast to continue declining to 63.3% by 2020. The fiscal deficit in 2018 turned out 1.5% of GDP, 0.5 pps. lower than the original fiscal target of 2.0%, mainly due to an under-execution of public capital investments. Considering the persisting capacity constraints for public investment management, the fiscal deficits are forecast to turn out lower than planned at 1.5% in 2019 and 1.4% in 2020. Slower-than-expected tax revenue growth and not yet quantified contingent fiscal liabilities constitute a negative risk to this projection.

Table II.29.1:

Main features of country forecast - ALBANIA

	2017			Annual percentage change						
	bn ALL	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	1551.3	100.0	5.1	2.2	3.3	3.8	4.1	3.8	3.7	
Private Consumption	1226.2	79.0	4.9	0.9	2.0	2.3	3.0	2.9	2.8	
Public Consumption	177.8	11.5	1.8	-1.1	4.7	2.9	-1.1	1.8	3.0	
Gross fixed capital formation	380.6	24.5	7.6	3.5	2.4	5.5	2.8	3.2	3.8	
of which: equipment	-	-	9.1	-	-	-	-	-	-	
Exports (goods and services)	489.5	31.6	14.4	1.0	11.3	12.9	3.0	5.9	6.7	
Imports (goods and services)	722.2	46.6	8.9	-2.9	6.9	8.1	3.9	4.4	5.1	
GNI (GDP deflator)	1555.1	100.2	5.0	2.5	3.8	2.4	3.8	3.8	3.7	
Contribution to GDP growth:										
Domestic demand			6.1	1.4	2.7	3.5	3.0	3.2	3.3	
Inventories			0.1	-0.9	0.6	0.2	2.0	0.7	0.5	
Net exports			-1.1	1.6	0.0	0.1	-0.8	-0.1	-0.1	
Employment			-	4.9	6.1	2.7	2.1	1.8	1.6	
Unemployment rate (a)			-	17.5	15.6	14.1	12.8	11.9	11.1	
Compensation of employees / head			-	-	-	-	-	-	-	
Unit labour costs whole economy			-	-	-	-	-	-	-	
Real unit labour cost			-	-	-	-	-	-	-	
Saving rate of households (b)			-	-	-	-	-	-	-	
GDP deflator			3.1	0.6	-0.6	1.5	1.9	2.1	2.0	
Harmonised index of consumer prices			-	1.9	1.3	2.0	2.0	2.5	2.6	
Terms of trade goods			-1.0	0.5	-2.1	4.6	3.6	-0.1	-0.1	
Trade balance (goods) (c)			-24.5	-22.4	-24.3	-24.4	-22.2	-22.4	-22.8	
Current-account balance (c)			-9.4	-8.6	-7.6	-7.4	-6.8	-6.7	-6.8	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-	-	-	-	-	-	-	
General government balance (c)			-	-1.8	-0.9	-1.0	-1.5	-1.5	-1.4	
Cyclically-adjusted budget balance (d)			-	-	-	-	-	-	-	
Structural budget balance (d)			-	-	-	-	-	-	-	
General government gross debt (c)			58.8	73.1	72.4	70.1	67.3	65.2	63.3	

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

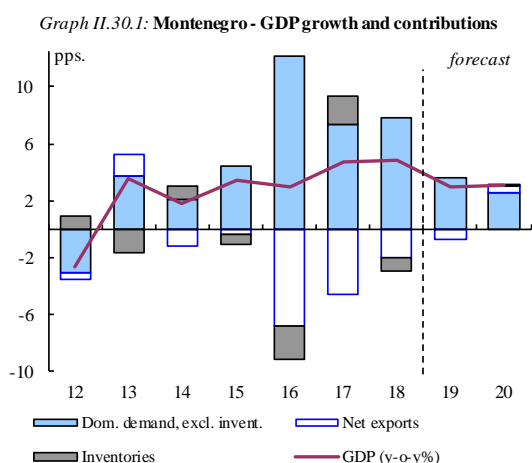
30. MONTENEGRO

Sliding back to potential growth

The forecast baseline is for a significant deceleration of investment growth due to the completion of a major highway section in 2020. However, the expansion of tourism and new industrial capacities should sustain domestic demand and exports. A slowdown in imports would contribute to a narrowing of the large current account deficit. Moreover, the completion of the highway works is also expected to turn the budget into surplus and reduce the public debt ratio. However, as a downside risk, expenditure pressures could threaten fiscal consolidation in the run-up to parliamentary elections in 2020.

Strong growth in 2018

In the last quarter of 2018, GDP growth eased to 4.8% y-o-y, slightly down from 5.0% y-o-y in the previous quarter. Growth was sustained by household consumption due to strong credit growth, declining unemployment and lower fuel prices. On the other hand, investment stagnated in annual terms after recording very strong growth in the previous four quarters (28% y-o-y expansion on average). The strong acceleration of exports, buoyed by the tourism sector in the last quarter of the year, could not offset the impact of import growth, resulting in a negative contribution from net exports. Overall, the economy grew by real 4.9% in 2018.



Moderating consumption and investment

Two major events are set to have a detrimental impact on employment in the second half of 2020: a rationalisation plan for the public administration and the completion of the first section of the Bar-Boljare highway, both implying dismissal of workers. This is expected to bring about a slight increase in unemployment, along with a slowdown in private consumption.

While fiscal consolidation is set to dampen public consumption in 2019, the parliamentary elections might provide a temporary boost in 2020, despite the narrow fiscal space. In contrast to previous years, only a very weak contribution from capital formation is expected in 2019 due to a high base effect, and as of mid-2020 because of the reduction in public capital spending after the completion of the highway works. Overall, GDP growth is expected to moderate to 2.9% in 2019 and to pick up in 2020 to 3.1%.

Trimming down external imbalances

The extension of the tourism season into the last quarter of the year and the good preliminary results in early 2019 signals further growth in exports of services. In addition, recently established new capacities in aluminium, tobacco, and pharmaceutical production, should support future exports, while imports are set to moderate in line with lower investment growth, turning net exports into a growth-contributing factor.

The main downside risks to this scenario are external. A sharper deceleration of external demand from EU countries would affect negatively the local economy through lower demand for merchandise exports, and some deceleration in the number of tourists traveling to Montenegro.

Recent financial sector developments would not hinder economic growth

In early 2019, the Central Bank of Montenegro declared two small local banks bankrupt. Yet, this intervention did not affect negatively the overall performance of the financial sector. The baseline projection assumes an orderly resolution of the banks, without disruption to the rest of the financial system, with lending activity expected to be stable during the forecast period.

A period of moderate inflation

The baseline scenario is for a marked decline in inflation in 2019, as the impact of last year's increase in VAT and excise rates dissipates. Average inflation is forecast to come back to around 2% in 2020, in line with long-term trends. In April 2019, the government authorised its representatives in the Social Council to negotiate a 15% increase in the minimum wage. This would stimulate inflation at the end of the year, via the multiplicative factor used to calculate salaries.

Budget surplus at the end of the road

The budget deficit declined significantly in 2018 compared to one year earlier, but deficit targets were missed by a wide margin. Overall, fiscal plans rely to a large extent on the completion of the first highway section in 2020 to swing the budget into surplus, and reduce public debt from its current peak of more than 70% of GDP.

However, contingent liabilities and spending overruns related to non-discretionary items of the budget (i.e. wages, pensions and social benefits) points to downside risks ahead for fiscal targets, especially in the electoral year of 2020.

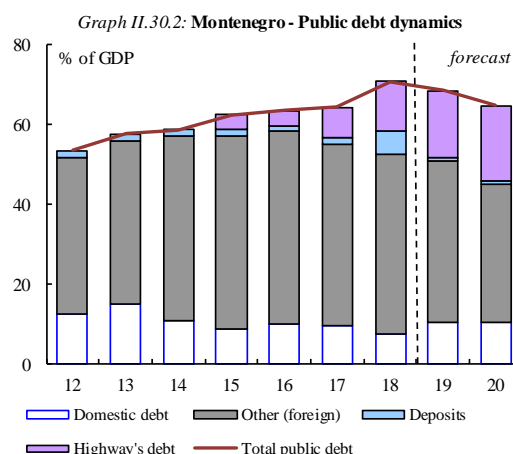


Table II.30.1:

Main features of country forecast - MONTENEGRO

	2017			Annual percentage change						
	mio EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	4299.1		100.0	-	3.4	2.9	4.7	4.9	2.9	3.1
Private Consumption	3215.5		74.8	-	2.2	5.4	3.9	4.5	2.3	2.1
Public Consumption	792.2		18.4	-	1.9	0.8	-1.4	2.5	1.3	2.4
Gross fixed capital formation	1157.4		26.9	-	11.9	38.4	18.7	14.8	5.8	2.0
of which: equipment	-		-	-	-	-	-	-	-	-
Exports (goods and services)	1765.0		41.1	-	5.7	5.9	1.8	9.5	4.1	3.8
Imports (goods and services)	2772.9		64.5	-	4.4	15.3	8.4	9.3	3.7	1.9
GNI (GDP deflator)	-		-	-	-	-	-	-	-	-
Contribution to GDP growth:		Domestic demand		-	4.4	12.1	7.4	7.8	3.7	2.6
		Inventories		-	-0.7	-2.4	1.9	-0.9	0.0	0.1
		Net exports		-	-0.3	-6.8	-4.6	-2.1	-0.7	0.4
Employment				-	2.5	1.1	2.3	2.3	1.4	1.2
Unemployment rate (a)				-	17.5	17.7	16.1	15.5	14.8	15.0
Compensation of employees / head				-	2.7	0.9	0.8	1.9	0.9	2.4
Unit labour costs whole economy				-	-	-	-	-	-	-
Real unit labour cost				-	-	-	-	-	-	-
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	-	-	-	-	-	-
Consumer-price index				-	1.4	0.1	2.8	2.9	1.3	1.9
Terms of trade of goods				-	-	-	-	-	-	-
Trade balance (goods) (c)				-	-40.0	-41.9	-43.3	-44.4	-44.5	-43.2
Current-account balance (c)				-	-11.0	-16.2	-16.1	-17.2	-16.5	-14.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-8.3	-3.6	-5.2	-3.7	-2.6	1.8
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	62.3	63.4	64.2	70.8	68.4	64.5

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

31. NORTH MACEDONIA

Recovery is set to speed up with improved investment outlook

Growth resumed in 2018 propelled by strong exports and in spite of a decline in investment. The recovery is likely to gain pace as political stability has returned and the prospect of EU accession negotiations improved. Domestic demand is projected to become the sole growth driver. Fiscal consolidation is supported by policy reforms, but this will not be sufficient to stabilise the debt ratio.

Export boom carried the economy in 2018

The economy recovered in 2018 on the back of strong exports. After nearly stagnating in 2017, GDP growth is estimated to have risen to 2.7% in 2018, driven mainly by external demand and supported by household spending. Import growth remained relatively subdued, largely reflecting muted private and public investment.

Domestic demand is firming this year and next

Over the forecast horizon, gross fixed capital formation is expected to provide an increasing contribution to economic growth, which is projected to reach 3.2% by 2020. The investment climate has much improved, with political stability returning and the prospects for EU accession becoming more realistic. Loans to non-financial private companies have posted solid increases since autumn 2018, and the government continues its financial support for investments and for SMEs. The production and imports of capital goods have also strengthened. Public capital expenditure is expected to accelerate as the main causes of last year's trough – such as delays in roadworks – have now been solved. Companies' liquidity is projected to benefit from further clearance of government arrears. Private consumption, projected to remain stable at just below 3% over the forecast horizon, will remain a pillar of growth. Households' disposable income is likely to benefit from robust wage growth, supported by successive raises in minimum and in public sector wages, and from continued improvement in the labour market.

The external balance is detracting from growth

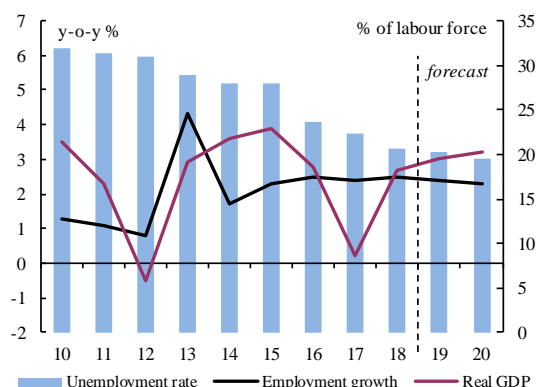
Net exports, on the other hand, are set to become an increasing drag on growth, as import growth is likely to accelerate with firming investment, while export growth is projected to slow down. The latter is due to supply constraints of established foreign companies in the country, which account for over half of the country's exports, and to an expected slowdown in foreign demand. These dynamics are

expected to deteriorate the trade balance, driving a widening of the current account deficit.

Moderate acceleration in inflation projected

Consumer price inflation accelerated to 1.5% y-o-y on average in 2018, and is projected to increase at a faster pace over the forecast horizon. Price pressures are projected to result mainly from higher food prices, and, to some extent, from firming domestic demand. The rise in energy prices is expected to be more benign than anticipated earlier, in line with expectations of a stabilisation in oil prices.

Graph II.31.1: North Macedonia - Real GDP and labour market



Fiscal policy supports employment

The labour market improved further in 2018. These dynamics are expected to continue, supported by the government's employment-related subsidies to private companies, and by new production capacities of foreign companies in the country. The drop in the official unemployment rate will be slightly less steep than in past years, partly due to expectations of a higher share of formalisation of previously informal employment. The dynamics of employment growth is seen to decelerate, reflecting increasing productivity.

Risks to forecast are more balanced

Downside risks to the growth scenario are substantial, yet they are increasingly mitigated by the country's progress on its Euro-Atlantic path. This might result in stronger than expected foreign investment and in increased momentum to implement structural reforms. Domestically, risks stem from the possibility of renewed political uncertainty, impeding investors' confidence. On the external side, lower external demand and renewed escalation of global trade tensions pose risks to the forecast.

Policy reforms underpin fiscal consolidation

The government managed to lower its fiscal deficit even below target in 2018, as it severely curtailed capital spending. This year, the deficit is projected to rise to 3% of GDP, mainly due to a one-off allocation of funds to pay-off unpaid liabilities, and to increase capital spending. The bulk of positive fiscal effects from the recently adopted reforms on pensions, social assistance, and taxation is likely to support fiscal consolidation only as of 2020. This would, however, not be sufficient to stabilise general government debt.

Debt is expected to rise gradually over the forecast horizon, driven mainly by primary budget deficits and heavy fundraising for post-2020 rollover needs. Downside risks to fiscal consolidation include a potential deviation from the agreed pension indexation system, and the materialisation of contingent liabilities. The projected steep increase in capital expenditure might turn out lower, if growth disappoints, spending pressures arise or revenues remain below target.

Graph II.31.2: North Macedonia - Public finances

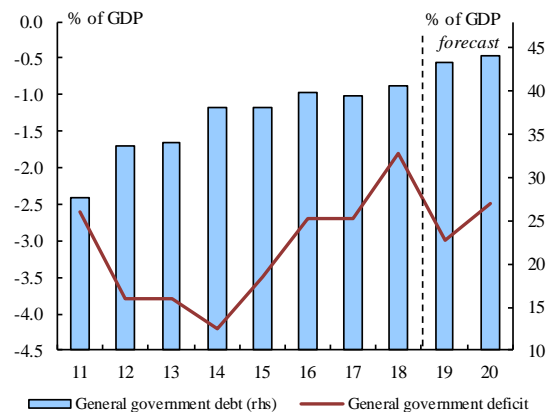


Table II.31.1:

Main features of country forecast - NORTH MACEDONIA

	2017			Annual percentage change						
	bn MKD	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	616.6	100.0		2.9	3.9	2.8	0.2	2.7	3.0	3.2
Private Consumption	406.3	65.9		3.0	4.4	3.9	0.7	2.9	2.9	3.0
Public Consumption	91.9	14.9		1.4	3.9	-4.9	-2.5	6.2	2.6	2.4
Gross fixed capital formation	147.5	23.9		3.9	10.5	9.9	-4.2	-3.6	7.5	9.0
of which: equipment	-	-		-	-	-	-	-	-	-
Exports (goods and services)	341.6	55.4		6.5	8.5	9.1	8.1	15.3	8.0	8.5
Imports (goods and services)	426.5	69.2		6.5	9.9	11.1	6.4	9.0	8.2	9.1
GNI (GDP deflator)	592.1	96.0		2.9	2.5	2.0	0.2	2.4	3.2	3.4
Contribution to GDP growth:										
Domestic demand				3.5	6.2	4.2	-1.0	2.0	4.1	4.7
Inventories				0.5	0.1	1.5	1.3	-1.5	0.0	0.0
Net exports				-1.0	-2.4	-2.8	-0.1	2.2	-1.1	-1.6
Employment				1.6	2.3	2.5	2.4	2.5	2.4	2.3
Unemployment rate (a)				32.9	27.9	23.7	22.4	20.7	20.2	19.6
Compensation of employees / head				2.5	2.2	0.9	0.9	1.7	2.2	2.5
Unit labour costs whole economy				1.2	0.6	0.5	3.1	1.5	1.6	1.7
Real unit labour cost				-1.7	-1.4	-2.8	-0.3	-2.7	-0.8	0.0
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.1	2.0	3.5	3.4	4.3	2.4	1.7
Harmonised index of consumer prices				-	-0.3	-0.2	1.3	1.5	1.7	2.0
Terms of trade goods				0.6	3.9	7.1	-3.5	-8.1	-0.1	-0.1
Trade balance (goods) (c)				-22.0	-20.1	-18.8	-17.8	-16.2	-17.6	-19.3
Current-account balance (c)				-4.4	-2.0	-2.9	-1.0	-0.3	-1.3	-2.0
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-3.5	-2.7	-2.7	-1.8	-3.0	-2.5
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				32.8	38.0	39.8	39.5	40.5	43.2	44.0

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

32. SERBIA

Slowdown in major trading partners clouding the short-term outlook

After strong growth in 2018, the economy is expected to slow down this year. Export growth is set to decelerate, impacted by slower growth in major trading partners. However, domestic consumption is forecast to remain strong, supported by rising wages and increased budget transfers to households. Benign financing conditions is expected to sustain lending growth, while investment activity is set to continue apace. The fiscal stance is expected to turn expansionary, while the current account deficit and the inflation rate are projected to inch up.

Through a soft patch

Strong domestic demand pushed economic growth above expectations in 2018, lifting it to over 4% for the first time in a decade. However, the economy has entered a soft patch in the last quarter of the year. Growth decelerated to 3.4% (y-o-y) because of weaker investment performance. Nonetheless, the annual growth of gross fixed capital formation remained robust. A steady household consumption and positive contribution from government consumption sustained the economic expansion in the fourth quarter. The tradable sector has successfully weathered the initial slowdown in major international trade partners and exports growth remained robust. Still, net exports' contribution to growth worsened because of equally strong imports growth.

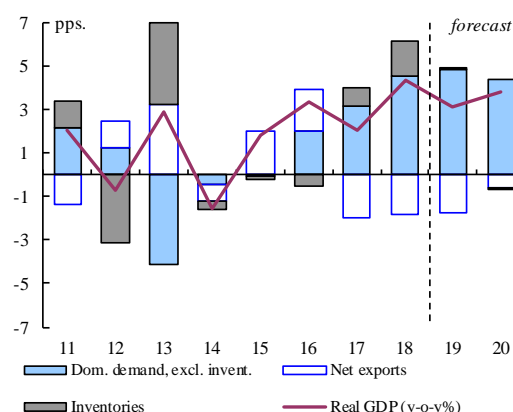
Short-term indicators point to a continuing malaise in the beginning of 2019. However, it appears to be contained to exports – their growth decelerated as foreign demand weakened further – and, likely to investment activity because of a high base effect. Industrial production fell as well in the first two months of the year, mainly due to a protracted weakness in the energy and mining sectors. Nevertheless, the underlying economic trend remained positive. Private consumption in particular has probably accelerated its growth, which is attested by very strong retail sales data and fast real wage growth.

Strong private consumption, but external demand shocks start biting

Over the forecast period, private consumption is expected to remain one of the key growth-sustaining factors. Household spending is likely to be supported by further increases in real wages, pensions and social transfers, and improved labour market conditions in general. However, 2019 economic prospects have worsened since the Autumn 2018 forecast due to a less benign outlook for main trading partners and Kosovo's imposition

of prohibitively high import tariffs. The decelerating economic activity in the biggest EU economies, in particular, will take its toll on export growth. The large inflow of FDI in tradable goods sectors over the previous years, however, should help keep the overall export growth in positive territory and should be instrumental in bringing renewed export vigour in 2020. Government spending is also expected to provide a positive contribution to economic growth through increased public consumption and capital expenditure.

Graph II.32.1: Serbia - Real GDP growth and contributions



Overall, price stability remains well anchored. Although demand-driven pressures are expected to be largely contained over the forecast period, they would be pushing inflation up, closer to the central point of the national bank target band of $3\% \pm 1.5$ pps. Labour market dynamics are forecast to remain positive, with the unemployment rate declining to a single digit due to further employment gains. As the labour force has peaked in 2018, increasing labour demand is also forecast to have a more pronounced impact on real wages.

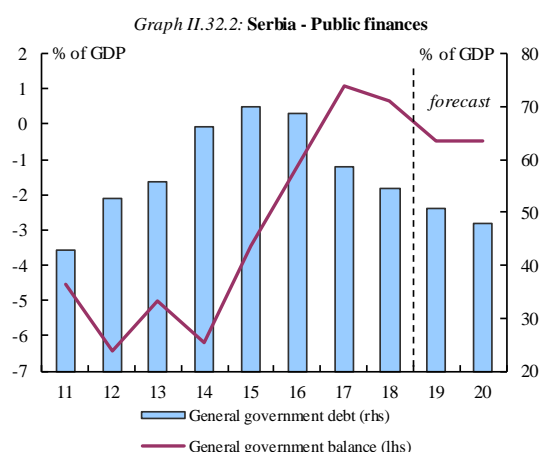
Risks and uncertainties have increased

The balance of risks has worsened since the autumn forecast. The negative tilt is the result of increased geopolitical and regional tensions, which

may have large spill-overs on export and investment – two of the key drivers of growth over the past years. On the other hand, investment could surprise on the upside in case of faster implementation of some big infrastructure and FDI projects, including those financed by the government.

How to spend it?

While the stabilisation of the budget was an overarching priority in previous years, the big question facing public finance over the forecast period will be how to use the available fiscal space. This question has been largely answered in the 2019 budget, with significant increases in expenditure on wages and pensions and some boosting of capital expenditure. As a result, the budget balance is expected to move from a surplus into a small deficit. The deficit is projected to remain unchanged in 2020, although risks are on the upside. The near-balanced budget deficit is forecast to be instrumental in driving government debt further down, below the 50 % of GDP mark in 2020.



In view of the better-than-planned revenue collection in the first quarter, including due to some unplanned one-offs, the short-term risks for the budget are rather on the upside. However, medium-term fiscal risks, in particular, those related to containing spending pressures, remain mostly negative. Fiscal results are not yet sufficiently backed up by good budgetary practices, while important fiscally relevant reforms remain incomplete.

Table II.32.1:

Main features of country forecast - SERBIA

	2017			Annual percentage change						
	bn RSD	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	4754.4		100.0	-	1.8	3.3	2.0	4.3	3.1	3.8
Private Consumption	3367.5		70.8	-	-0.3	1.3	1.9	3.3	3.9	3.4
Public Consumption	768.8		16.2	-	-3.7	1.2	3.3	3.6	3.8	3.2
Gross fixed capital formation	843.7		17.7	-	4.9	5.4	7.3	9.2	7.8	7.5
of which: equipment	-		-	-	-	-	-	-	-	-
Exports (goods and services)	2402.9		50.5	-	9.4	11.9	8.2	8.9	6.1	9.3
Imports (goods and services)	2716.3		57.1	-	4.0	6.7	11.1	11.1	8.1	8.7
GNI (GDP deflator)	4446.0		93.5	-	7.7	2.4	1.0	5.8	3.1	3.8
Contribution to GDP growth:										
Domestic demand				-	-0.1	2.0	3.1	4.5	4.9	4.4
Inventories				-	-0.1	-0.6	0.9	1.6	0.0	0.0
Net exports				-	2.0	1.9	-2.0	-1.9	-1.7	-0.6
Employment				-	0.6	5.6	2.8	1.4	0.8	1.2
Unemployment rate (a)				-	17.7	15.3	13.5	12.7	11.0	9.0
Compensation of employees / head				-	-	-	-	-	-	-
Unit labour costs whole economy				-	-	-	-	-	-	-
Real unit labour cost				-	-	-	-	-	-	-
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	1.8	1.5	3.0	2.0	3.0	3.1
Consumer-price index				-	1.4	1.1	3.2	2.0	2.5	2.7
Terms of trade goods				-	-2.0	0.0	-1.0	-2.2	0.0	0.0
Trade balance (goods) (c)				-	-9.1	-7.3	-9.0	-10.9	-11.9	-12.1
Current-account balance (c)				-	-3.5	-2.9	-5.2	-5.2	-6.3	-6.0
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-3.5	-1.2	1.1	0.6	-0.5	-0.5
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	70.0	68.8	58.7	54.6	50.9	48.0

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

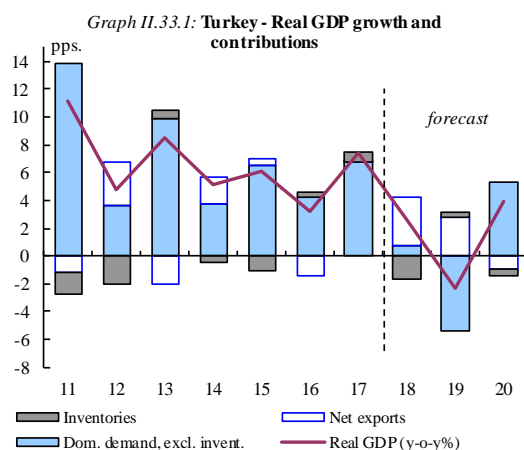
33. TURKEY

Rebalancing under way

The economy is rebalancing following last year's sharp depreciation of the lira. The correction of external imbalances and of past high credit growth leads to a contraction of domestic demand with a return to growth expected for the second half of 2019. A strong contribution of net trade, reflecting mostly a high income elasticity of import demand, dampens the shock to the domestic economy. Recent volatility confirms that the rebalancing trajectory is fraught with new financial market risks and depends on firm and credible policy action.

Large negative carry-over into 2019

The economy's loss in momentum from the second quarter of 2018 was aggravated during last summer's worsening of financial conditions. Large swings were observed in the demand components of GDP over the year with a drop in investment spending spreading from construction to machinery and a contraction in private consumption. Net trade developed largely in counter-motion. In our central scenario, the trough of the contraction in domestic demand was in 2018. Still, the large negative carry-over effect from 2018 and the recovery only gaining traction in the second half of 2019 implies that Turkey will record the worst growth performance among emerging economies in 2019.



A tough period of rebalancing

High-frequency indicators – confidence indicators, core retail trade and manufacturing production – still point to a difficult period for domestic demand at the beginning of 2019 even if they appear to have hit bottom. In addition, after a period of relative low volatility and relaxation of financing conditions, financing conditions again sharply deteriorated towards the end of the first quarter. Financial conditions are expected to remain

volatile in the first half of the year with interest rates and stock markets entering a more tranquil phase later in the year.

Easing loan conditions, in particular for consumers, initiated in part by state banks, and a reduction in the real debt burden will increasingly support private consumption in 2019. Turkish households hold only TL-denominated debt, the real value of which has declined with high inflation. Further support comes from high nominal wages increases that more than compensated for the high inflation in recent years and, as expected, in 2019. In the central scenario, admittedly surrounded with a high uncertainty, unemployment will show only a limited rise with employers hoarding labour in anticipation of the downturn being short-lived. As domestic consumption demand recovers and capacity utilisation rates increase, the recovery will spread to domestic investment in early 2020. This broadening of the recovery will reinforce consumer demand.

As domestic demand recovers, net trade will become a drag on growth. Imports are characterised by a high income elasticity. Exports thrived temporarily on the back of the TL depreciation in the second half of 2018. However, export price increases erode the gains in price competitiveness. The increases in real wages, following large hikes in the minimum wage in 2016 and 2019, reduce Turkish competitiveness further.

Inflation firmly into double digits

The fast opening of a negative output gap together with the lowering of VAT rates and stabilisation of the lira in the final months of 2018 reduced upward pressure on the price levels. The CPI index increased by only 0.4 % between October 2018 and March 2019. The cost of permanently lowering inflation and reducing inflation expectations, however, has increased with the loss

monetary policy credibility, implying a higher cost to the economy of bringing inflation to the central bank's central target of 5 % (range of +/- 2 pps).

A slipping fiscal anchor

In response to the financial turmoil, the government stressed its commitment to fiscal discipline. Some slippage is nonetheless notable at the beginning of 2019 with nearly half of the budget target realised in the first quarter already. The tax base will be under pressure as nominal GDP growth decreases under the 'All-out war on inflation'. Not only will the tax base be under pressure as nominal GDP growth declines but the average tax rate will also be lower because of the reduction in VAT rates. Finally, will the impact of lower nominal GDP growth likely differ between revenues and expenditures. The relatively high dependence on goods with a high income elasticity, luxury and imported goods, immediately affect government revenues while variables more relevant for expenditures, like wage and employment, react with a lag to the economic cycle. The budget also faces risks from contingent liabilities, which have increased over the past years due to large infrastructural works in public-private

banks and worsening asset quality in state banks.

Large risks attached to rebalancing

The main risk to a consumption-led recovery is a sizable increase in unemployment. In early 2019, the non-agricultural unemployment rate jumped to 16.8 % and the impact of the recession was particularly large for the young and those with little or no education. If the credit crunch leads to a bigger effect on the labour market than currently anticipated, it will undermine the recovery of private consumption demand.

Such an extended period of weak consumption growth also puts the investment recovery at risk not just because of its impact on capacity utilisation, but also because it will be associated with more defaults and lower growth in the banks' assets. Positive readings of financial sector soundness have gone hand-in-glove with high loan growth in recent years. However, historically high debt service of non-financial companies and a surge in non-performing loans risk eroding the asset quality in the context of slowing nominal GDP growth.

Table II.33.1:

Main features of country forecast - TURKEY

	2017			Annual percentage change						
	bn TRY	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	3106.5	100.0		4.5	6.1	3.2	7.4	2.6	-2.3	3.9
Private Consumption	1834.2	59.0		4.1	5.4	3.7	6.1	1.1	-3.6	4.0
Public Consumption	450.5	14.5		4.7	3.9	9.5	5.0	3.6	3.5	4.0
Gross fixed capital formation	931.9	30.0		7.0	9.3	2.2	7.8	-1.7	-12.9	9.2
of which: equipment	323.1	10.4		4.6	18.5	1.2	-0.2	-7.8	2.8	2.5
Exports (goods and services)	770.6	24.8		5.9	4.3	-1.9	11.9	7.5	5.1	3.3
Imports (goods and services)	910.8	29.3		6.3	1.7	3.7	10.3	-7.9	-7.8	8.4
GNI (GDP deflator)	3063.8	98.6		4.5	5.7	3.4	7.2	2.4	-2.1	3.9
Contribution to GDP growth:										
Domestic demand				5.1	6.5	4.2	6.7	0.5	-5.7	5.4
Inventories				0.1	-1.1	0.4	0.6	-2.0	-0.3	-0.2
Net exports				-0.3	0.5	-1.3	0.1	3.5	2.8	-0.9
Employment				1.1	2.7	2.2	3.9	2.3	-0.2	3.0
Unemployment rate (a)				9.0	10.3	10.9	10.9	10.7	13.7	13.3
Compensation of employees / head				19.8	12.8	20.2	8.5	15.9	11.0	10.5
Unit labour costs whole economy				15.9	9.1	19.1	4.9	15.7	13.4	9.6
Real unit labour cost				-1.6	1.2	10.2	-5.4	-0.4	-0.6	-1.1
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				17.9	7.8	8.1	10.8	16.2	14.1	10.8
Consumer-price index				19.6	7.7	7.8	11.1	16.3	13.1	9.7
Terms of trade goods				-0.6	2.1	9.4	-6.9	-4.4	-0.8	-0.1
Trade balance (goods) (c)				-6.2	-5.6	-4.8	-6.9	-4.9	-1.8	-2.9
Current-account balance (c)				-3.9	-3.7	-3.8	-5.6	-3.6	1.2	-0.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-3.8	-3.8	-5.6	-3.6	1.2	-0.5
General government balance (c)				-	0.6	-1.1	-2.8	-2.6	-3.0	-2.5
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	27.6	28.3	28.3	31.1	30.9	29.3

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

Other non-EU Countries

34. THE UNITED STATES OF AMERICA

Soft landing with prominent risks to the outlook

The US economic outlook remains solid in the near term, despite a number of temporary factors weighing on domestic demand around the turn of 2018/19. Over the forecast horizon, economic activity is set to moderate toward potential growth as tailwinds from macroeconomic policies are expected to fade.

Gradual moderation of economic growth accentuated by a temporary growth dip

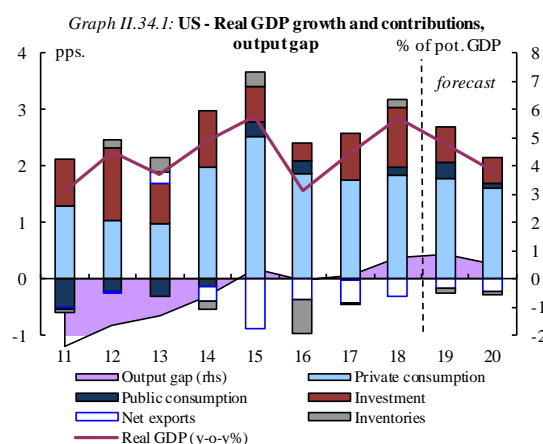
Economic growth in the US was solid in 2018 reflecting a strong labour market and a large pro-cyclical fiscal stimulus which provided a boost to private consumption, investment and government spending. Growth momentum peaked in the second quarter of 2018 and has since then gradually moderated. At the same time, monetary policy normalisation advanced and financial conditions tightened considerably, especially towards the end of 2018 contributing to containing inflationary pressures and the risk of overheating.

In the beginning of 2019, domestic demand seems to have slowed down more than expected in view of some temporary factors at the turn of the year - an episode of sharply tighter financing conditions and a partial government shutdown as well as inclement weather. As these temporary headwinds have dissipated quickly, the near-term outlook for the US economy appears broadly benign. Overall, in 2019 real GDP growth is set to remain above potential at 2.4% on the back of a strong labour market, still supportive fiscal policy and favourable financing conditions. In 2020, growth is forecast to decelerate to below 2% as fiscal policy is assumed to turn broadly growth neutral.

Domestic demand is expected to drive growth in both years, mainly supported by a strong outlook for private consumption underpinned by real disposable income growth, strong household balance sheets and easier financing conditions. Growth in private fixed investment is also set to remain dynamic, but moderate from its fast pace in 2018 as the positive impact of the tax cuts fades. Furthermore, government consumption is forecast to have a positive contribution to growth, especially in 2019, against the backdrop of raised federal government spending ceilings. At the same time, the negative contribution from net exports is projected to be limited as import growth is somewhat offset by increasing exports of petroleum products.

Labour market tightening is set to continue

The labour market added 2.5 million jobs in 2018 pushing down the unemployment rate to below 4% while also lifting labour force participation to 62.9%, against a strong secular declining trend due to the retirement of the baby boom generation. Employment growth in the first quarter of 2019 remained healthy, broadly unaffected by the economic weakness in the beginning of the year. On the back of still robust, above-potential growth for most of 2019 and 2020, labour market conditions are set to tighten further, the unemployment rate is projected to reach 3.7% by 2020 and robust wage growth should continue.



Monetary tightening paused (as long as inflationary pressures remain subdued)

The Federal Reserve continued monetary policy normalisation in 2018 with four rate hikes and a reduction of its balance sheet. Price pressures subsided and in the second half of 2018 inflation surprised to the downside also in view of lower energy prices and the pass-through from a strong US dollar. These developments, together with concerns about the global economic outlook and heightened trade and fiscal policy uncertainties, hurt investors' confidence leading to the financial market volatility and weaker consumer spending.

In response, the Federal Reserve adjusted its path for monetary policy normalisation, which now anticipates that interest rates will remain on hold throughout 2019 and the reduction of its balance sheet will come to an end in the course of the year. The realignment of the Fed's outlook, together with expected progress in the trade negotiations with China, boosted financial market sentiment early on this year. So far, a considerable easing of financing conditions has offset the earlier tightening, providing a tailwind to growth in the short-term.

In the course of 2019, upward price pressures are expected to reappear reflecting solid domestic demand, pass-through from firmer wage growth as well as the fading impact of lower oil prices. Meanwhile, should inflationary pressures substantially surprise to the upside, it is not excluded that the Federal Reserve could return to a tighter policy stance.

Deteriorating fiscal position

The budgetary impact of the fiscal stimulus has been heavily frontloaded in 2018 and will continue to weigh on revenues from corporate profits and personal incomes over the forecast horizon. In

addition, mandatory spending is expected to increase because of the aging population and the rising health care costs per beneficiary. Thus, the general government budget deficit is forecast to remain at a high 6½% of GDP in 2019 and 2020.

Downside risks have eased, but remain prominent

Policy-related risks to the US outlook appear somewhat diminished. Material overheating and faster monetary policy normalisation is no longer anticipated, and a fiscal cliff in 2020 is widely expected to be avoided, while trade tensions with China have eased, at least temporarily. Nevertheless, uncertainty related to a possible resolution of the US-China trade tensions remain elevated while the risk of further protectionist moves in US trade policy persists. In the medium-term, accommodative US monetary policy at times when the economy is at full employment risks exacerbating imbalances and vulnerabilities, especially as some asset valuations appear to be stretched and debt levels continue to rise. Furthermore, the projected increase in the government debt level is set to limit the fiscal policy buffers in an event of economic downturn.

Table II.34.1:

Main features of country forecast - UNITED STATES

	2017			Annual percentage change						
	bn USD	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	19485.4	100.0		2.1	2.9	1.6	2.2	2.9	2.4	1.9
Private Consumption	13321.4	68.4		2.4	3.7	2.7	2.5	2.6	2.6	2.3
Public Consumption	2731.3	14.0		1.1	1.7	1.5	-0.1	1.2	2.1	0.7
Gross fixed capital formation	3985.7	20.5		2.1	3.3	1.7	4.0	4.8	2.8	2.2
of which: equipment	1291.4	6.6		4.4	2.8	-1.1	5.9	7.2	5.0	3.4
Exports (goods and services)	2350.2	12.1		4.3	0.6	-0.1	3.0	4.0	2.8	2.4
Imports (goods and services)	2928.5	15.0		4.1	5.5	1.9	4.6	4.5	3.1	2.9
GNI (GDP deflator)	19729.1	101.3		2.3	2.7	1.5	2.3	2.9	2.3	1.9
Contribution to GDP growth:										
Domestic demand				2.3	3.4	2.4	2.5	3.0	2.6	2.1
Inventories				0.0	0.3	-0.5	0.0	0.1	-0.1	-0.1
Net exports				-0.1	-0.8	-0.3	-0.3	-0.2	-0.1	-0.2
Employment				-	1.7	1.7	1.3	1.6	1.2	0.8
Unemployment rate (a)				6.2	5.3	4.9	4.4	3.9	3.8	3.7
Compensation of employees / f.t.e.				3.1	3.1	0.9	3.1	2.7	3.0	3.3
Unit labour costs whole economy				1.6	1.9	1.0	2.1	1.4	1.8	2.3
Real unit labour cost				-0.4	0.8	-0.1	0.2	-0.8	-0.1	0.4
Saving rate of households (b)				11.2	13.1	12.2	12.3	12.4	12.6	12.6
GDP deflator				2.0	1.1	1.1	1.9	2.3	1.9	1.8
Consumer-price index				-	0.1	1.3	2.1	2.4	2.0	2.0
Terms of trade goods				-0.5	2.7	0.5	0.6	0.6	0.0	0.0
Trade balance (goods) (c)				-4.8	-4.4	-4.2	-4.3	-4.4	-4.4	-4.5
Current-account balance (c)				-3.4	-2.3	-2.4	-2.4	-2.4	-2.5	-2.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.4	-2.3	-2.4	-2.4	-2.4	-2.5	-2.6
General government balance (c)				-6.0	-4.6	-5.3	-4.1	-6.4	-6.5	-6.4
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				75.6	104.8	106.8	105.2	107.4	107.9	109.1

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

(*) Employment data from the BLS household survey.

35. JAPAN

Uncertainty related to the consumption tax hike blurs the outlook

Economic activity is set to stabilise at a weak level as continued monetary accommodation and frontloading of domestic demand ahead of the October 2019 planned consumption tax hike partly counterbalance effects of sluggish external demand from the first half of the year. In 2020 the pace of growth is expected to edge down reflecting lower domestic demand in the wake of planned fiscal consolidation.

Heightened output volatility in 2018

After two years of uninterrupted output expansion, output volatility increased in 2018, with real GDP growth turning significantly negative (-0.6% q-o-q) in Q3-2018, before rebounding to +0.5% q-o-q in Q4-2018. Private consumption and business investments were the main drivers of the slump and subsequent recovery as natural disasters, including the Hokkaido earthquake, disrupted production and exports. Overall, real GDP growth is estimated to have increased by 0.8% in 2018.

Leading indicators pointed to a sizable, externally driven, output deceleration in Q1-2019 that, if continued, might eventually contribute to a re-consideration of the planned consumption tax in the autumn. However, the most recent readings of monthly indicators signal that economic activity might be already bottoming out. Industrial production, exports and business conditions index rebounded in February, after very weak readings at the turn of the year. Business capital expenditure plans and machinery orders, a leading indicator for business investment, recovered in February as well. Still, consumer surveys, consumption activity indicators and wage data signal weaker consumption growth in Q1-2019.

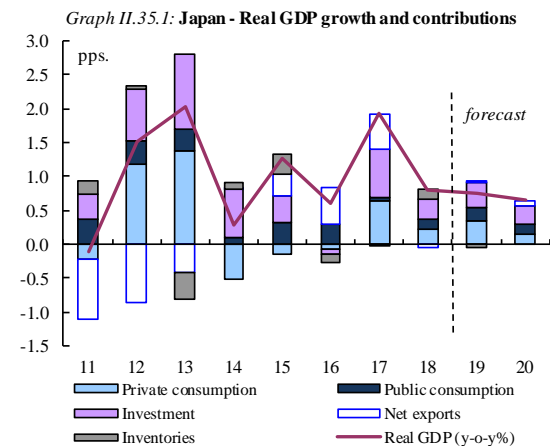
Stable outlook hides persistent volatility

Real GDP growth is forecast to remain stable at 0.8% in 2019, despite weak external demand at the beginning of the year, as frontloading of domestic demand ahead of the October 2019 planned consumption tax hike and accommodative monetary policy support economic activity. The expected decline of domestic demand in the immediate aftermath of the planned tax hike is set to weaken growth to 0.6% in 2020.

After a sluggish Q1-2019, output growth is set to pick up over the next two quarters reflecting front-loaded private consumption ahead of the planned fiscal consolidation. Private consumption spending is likely to contract immediately thereafter, before

recovering once again towards the end of 2020 driven by a robust labour market and loose financial conditions. Labour market conditions should remain very tight, with the unemployment rate at slightly above 2% over the forecast horizon. This reflects severe labour shortages and sustained demand for labour with job-offers-to-applicant ratio reaching the highest level since 1974.

Private investment spending is expected to remain robust in the near term, reflecting high business profits, continued monetary accommodation and rising spending on automation in view of persistent labour shortages. Recent tax breaks and increased spending on public works are projected to boost investments as well. Waning construction spending associated to the 2020 Tokyo Olympics is, however, set to entail some deceleration in investment growth in 2020.



Export growth is projected to decline significantly in the near term reflecting sluggish demand in China, before rebounding later in 2019 amid the expected recovery of global growth and trade. Imports are forecast to turn more volatile over the forecast horizon following the developments in domestic demand. Overall, net exports are expected to remain broadly neutral over the forecast horizon.

Watered down fiscal consolidation advances

The scheduled rise in the consumption tax rate from 8% to 10% is the main measure underpinning the new medium-term fiscal consolidation plan to achieve a primary balance by fiscal year 2025, down from 2.7% of GDP primary deficit in 2017. The recently enacted 2019 budget includes several stimulus measures that are likely to, at least partly and depending on their uptake, offset the positive fiscal impact of the tax hike. Still, fiscal performance is set to continue improving over the forecast horizon with the primary balance deficit expected to gradually narrow to around 2% of GDP.

Monetary accommodation continues but inflation stays stubbornly low

Quantitative and Qualitative Monetary Easing (QQE) of the Bank of Japan has resulted in a sizable increase in the central bank's balance sheet since 2013 (to around 100% of GDP). Despite the unprecedented scale of monetary easing, inflation dynamics have remained subdued, with core inflation at 0.4% y-o-y in February 2019. Annual headline inflation is set to stay below 1% over the

forecast horizon amid entrenched low inflation expectations and subdued wage pressure despite tight labour market conditions. Hence, monetary policy is expected to remain accommodative throughout the forecast horizon in line with the Bank of Japan's forward guidance that permits maintaining interest rates at currently low levels for an extended period of time.

Contrasting external and domestic risks

Risks are broadly balanced. On the external side a weaker than expected rebound in China and a re-intensification of global trade tensions remains important downside risk. Disorderly tightening of global financial conditions could trigger safe haven flows towards yen-denominated assets, resulting in yen appreciation and undermining business sector profitability. Domestic upside risks for growth in the near term relate to the prospect of a possible further postponement of the consumption tax hike. The additional offsetting fiscal measures might also result in stronger domestic demand growth than assumed in this forecast for this year and the next.

Table II.35.1:

Main features of country forecast - JAPAN

	2017			Annual percentage change						
	bn JPY	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	545121.9	100.0		0.8	1.2	0.6	1.9	0.8	0.8	0.6
Private Consumption	302490.5	55.5		0.9	-0.2	-0.1	1.1	0.4	0.6	0.3
Public Consumption	107234.8	19.7		1.7	1.5	1.4	0.3	0.8	1.0	0.8
Gross fixed capital formation	129927.9	23.8		-0.6	1.6	-0.3	3.0	1.1	1.6	1.1
of which: equipment	42913.2	7.9		0.9	2.8	-1.8	4.9	-	-	-
Exports (goods and services)	96891.1	17.8		4.4	2.9	1.7	6.8	3.1	1.7	2.1
Imports (goods and services)	91794.9	16.8		3.5	0.8	-1.6	3.4	3.3	1.7	1.6
GNI (GDP deflator)	564727.2	103.6		0.9	1.5	0.1	2.2	0.8	0.9	0.7
Contribution to GDP growth:										
Domestic demand				0.7	0.6	0.1	1.4	0.6	0.9	0.6
Inventories				0.0	0.3	-0.1	0.0	0.2	-0.1	0.0
Net exports				0.2	0.4	0.6	0.6	0.0	0.0	0.1
Employment				-0.1	0.4	1.0	1.0	1.0	0.5	0.2
Unemployment rate (a)				4.5	3.4	3.1	2.8	2.4	2.3	2.2
Compensation of employees / head				-0.7	0.5	1.1	0.5	1.2	0.9	1.0
Unit labour costs whole economy				-1.6	-0.3	1.5	-0.5	1.4	0.6	0.6
Real unit labour cost				-0.6	-2.4	1.2	-0.2	1.5	0.2	0.2
Saving rate of households (b)				11.0	7.9	9.3	9.0	9.3	9.6	10.2
GDP deflator				-0.9	2.1	0.3	-0.2	-0.1	0.4	0.4
Consumer-price index				-0.1	0.8	-0.1	0.5	1.0	0.7	0.9
Terms of trade goods				-3.2	11.5	7.4	-4.9	-4.9	-0.2	-0.6
Trade balance (goods) (c)				1.3	-0.2	1.0	0.9	0.2	0.2	0.3
Current-account balance (c)				2.7	3.1	4.0	4.2	3.5	3.6	3.6
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				2.6	3.1	3.8	4.2	3.5	3.5	3.6
General government balance (c)				-6.5	-3.6	-3.5	-3.0	-2.9	-2.8	-2.5
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				184.2	231.6	236.7	234.8	236.1	236.1	236.3

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

36. CHINA

Continued slowdown cushioned by a policy stimulus

The Chinese economy grew by 6.6% in 2018, the lowest growth rate in decades, and is projected to continue slowing down amid moderating consumption growth, weaker export growth and a continuing slowdown in the property sector. A sizeable policy stimulus deployed by the authorities is expected to stabilise growth at around 6% in the next two years.

Slowdown in the Chinese economy has been intensifying

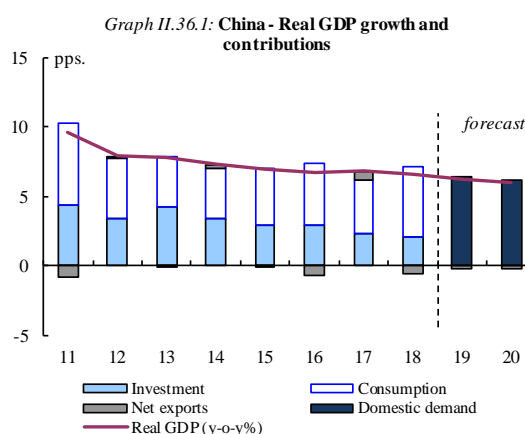
The Chinese economy posted a solid growth of 6.8% y-o-y in 2017 and early 2018 but signs of a deepening slowdown became more apparent in the second half of 2018. Growth decelerated gradually from 6.7% y-o-y in Q2 to 6.5% in Q3 and 6.4% in Q4 2018 and Q1 2019. Trade tensions between the US and China have had some impact on trade flows and business confidence. However, the current slowdown is mainly a result of a considerable policy tightening and the deleveraging campaign that the Chinese authorities have been pursuing since 2017. Financial deleveraging coupled with a tight fiscal policy stance in the first half of 2018 have resulted in the slowdown of the real economy as tighter credit conditions fed through the economy with some lag.

High frequency indicators mostly confirm a loss of momentum. Monthly retail sales softened throughout last year, with the weakness mainly attributable to a sharp drop in car sales. Business surveys around the turn of the year indicated a weakness in the manufacturing sector in particular, with manufacturing PMI dropping below the 50 mark for three months in a row. China's trade remained resilient until October 2018 but recent monthly data (with the exception of January) point to a sharper-than-expected decline in exports and imports. On the positive side, a recent rebound in PMIs, industrial production and credit growth, if sustained in the coming months, signals a possible turnaround.

Gradual deceleration set to continue...

Looking ahead, a sizeable policy stimulus currently deployed by the Chinese authorities is expected to contain the current slowdown and to stabilise growth as of Q2 2019. Overall, growth is projected to reach 6.2% in 2019, in line with the recently announced official growth target range of between 6% and 6.5%. Further deceleration to 6% is projected in 2020, reflecting moderating consumption growth, gradual fading of the policy

stimulus as well as further cooling of the property sector. Trade growth is forecast to rebound in the coming quarters on the back of easing trade tensions with the US on the export side and positive impact of the policy stimulus on the import side. Still, weak trade performance at the end of last year and beginning of this year, as well as the current slowdown in global demand implies a significantly lower trade growth than previously expected, in particular in 2019.



... contained by a sizeable policy stimulus

In view of the current slowdown and less favourable external environment, the authorities have started implementing policy easing measures. On the fiscal side, the government has recently announced a tax cut package totalling around 2% of GDP, including reductions in VAT, social security contributions, personal and corporate income tax and import tariffs. In addition, special local government bond quota has been substantially increased to encourage more infrastructure investment by local authorities. The headline tax cuts appear relatively large but the actual size of the fiscal package is likely to be smaller due to stricter tax collection and spending cuts already signalled by the authorities. Moreover, fiscal multipliers are likely to be rather low as part of the additional income of both households and corporations is likely to end up as precautionary savings. Infrastructure investment is expected to

rebound but to a lesser extent than in previous stimulus periods.

On the monetary policy side, easing measures implemented so far include several cuts in required reserve ratios for banks, measures to increase bank liquidity and replenish capital buffers by issuing perpetual bonds, targeted credit easing measures and incentives for commercial banks to lend more to the private sector. These measures are expected to increase lending and hence the overall credit growth but only moderately, reflecting the continued efforts of the authorities to manage financial risks and deleverage the system, in particular shadow banking. Furthermore, it is not certain how commercial banks will react to government incentives to increase lending to the private sector given the higher credit risk involved.

Risks appear tilted to the downside

On the external side, trade tensions have eased with the probability of a deal between the US and China increasing. As a result, the likelihood of tariff escalation has diminished, at least in the short term.

Still, uncertainty remains about the nature of the possible US-China agreement and about its implementing provisions. Furthermore, weaker external demand in the event of a sharper-than-expected global slowdown represents a downside risk.

On the domestic front, downside risks are related in particular to the property sector. A sharper housing downturn would affect not only households but also the corporate and financial sectors and would thus provide a major challenge to current growth objectives. On the upside, the policy stimulus may prove to be more effective than currently projected in lifting domestic demand in the short term. However, more intrusive policy measures might be implemented if growth surprises significantly on the downside, exacerbating financial risks. This would postpone macroeconomic adjustment and increase the likelihood of a disorderly unwinding of current structural imbalances.

Table II.36.1:

Main features of country forecast - CHINA

	2017			99-14	Annual percentage change					
	bn CNY	Curr. prices	% GDP		2015	2016	2017	2018	2019	2020
GDP	82075.4	100.0	9.6	6.9	6.7	6.8	6.6	6.2	6.0	
Consumption	43715.2	53.3	-	-	-	-	-	-	-	
Gross fixed capital formation	34936.9	42.6	-	-	-	-	-	-	-	
of which: equipment			-	-	-	-	-	-	-	
Change in stocks as % of GDP			-	-	-	-	-	-	-	
Exports (goods and services)	15844.4	19.3	16.0	-2.2	1.1	9.1	5.0	2.8	3.0	
Final demand			-	-	-	-	-	-	-	
Imports (goods and services)	14429.0	17.6	15.6	-0.5	4.7	7.1	6.8	3.7	4.0	
GNI (GDP deflator)			-	-	-	-	-	-	-	
Contribution to GDP growth :			-	-	-	-	-	-	-	
Domestic demand			-	-	-	-	-	-	-	
Inventories			-	-	-	-	-	-	-	
Net exports			-	-	-	-	-	-	-	
Employment			-	-	-	-	-	-	-	
Unemployment (a)			4.0	4.1	4.0	3.9	3.8	-	-	
Compensation of employees/head			-	-	-	-	-	-	-	
Unit labour costs			-	-	-	-	-	-	-	
Real unit labour costs			-	-	-	-	-	-	-	
Saving rate of households			-	-	-	-	-	-	-	
GDP deflator			3.5	0.1	1.1	3.7	2.9	1.9	2.2	
Private consumption deflator			-	-	-	-	-	-	-	
Index of consumer prices (c)			2.1	1.4	2.0	1.6	2.1	-	-	
Merchandise trade balance (b)			3.4	5.2	4.4	3.9	2.9	2.7	2.5	
Current-account balance (b)			4.0	2.8	1.8	1.6	0.4	0.3	0.3	
Net lending(+) or borrowing(-) vis-à-vis ROW (b)			-	-	-	-	-	-	-	
General government balance (b)			-	-	-	-	-	-	-	
General government gross debt (b)			-	-	-	-	-	-	-	

(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

37. EFTA

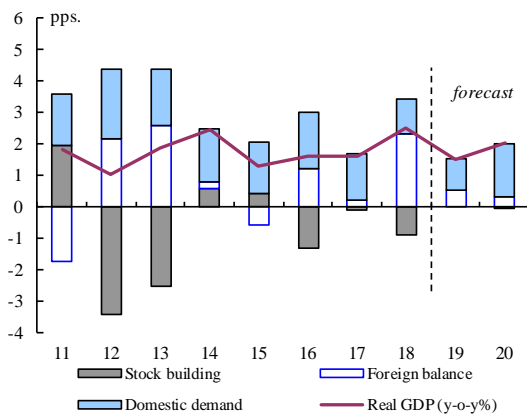
Solid growth despite global uncertainty

EFTA countries are still enjoying strong growth, although the support from external demand has started to weaken. At this late stage in the cycle, labour markets have continued to tighten and capacity constraints are becoming binding. External risks remain elevated, although previous concerns of a rapid deterioration have not yet materialised.

Switzerland

After a weak third quarter, output growth strengthened again in the fourth quarter, bringing overall GDP growth to 2.5% in 2018. The main driver of growth was external demand, in particular for chemical and pharmaceutical products. Key destinations were the US and the Eurozone, while exports to the BRIC countries stagnated. Domestic demand remained subdued, reflecting moderate wage growth during the year, weak investment growth in view of the overall uncertain international environment and the end of a construction boom. Inflation remained moderate, benefitting from a stable nominal effective exchange rate and low import prices, in particular for energy.

Graph II.37.1: Switzerland - Real GDP growth and contributions



The labour market benefitted from strong output growth, with employment increasing by 0.9%, while unemployment dropped further to 4.4%, compared to 4.8% in 2017.

Going forward, real GDP growth is forecast to decelerate to about 1.5% in 2019, which is close to the country's 10-year average annual output growth. The main factors for the deceleration in 2019 are a less benign international environment, but also lower growth of disposable income due to moderate wage growth as well as evolving capacity constraints as the cycle matures. In 2020,

stronger domestic demand, benefitting from low inflation and low interest rates, is likely to bring GDP growth again to around 2%.

Exports are likely to remain an important source of growth, partly as important export markets for machinery, chemistry and precision tools are expected to remain solid. Investment in equipment is forecast to be an important driver of growth in 2020, as due to the currently high capacity utilisation, companies are expected to start expanding their production capacities during 2019. The growth-supportive monetary stance is expected to remain in place during 2019-2020. Private consumption is set to expand slightly on the back of a further improvement in the labour market. As underlying price pressures remain weak, inflation is projected to continue at around 1% over the forecast period. The underlying strong growth will help to keep public sector accounts close to balance.

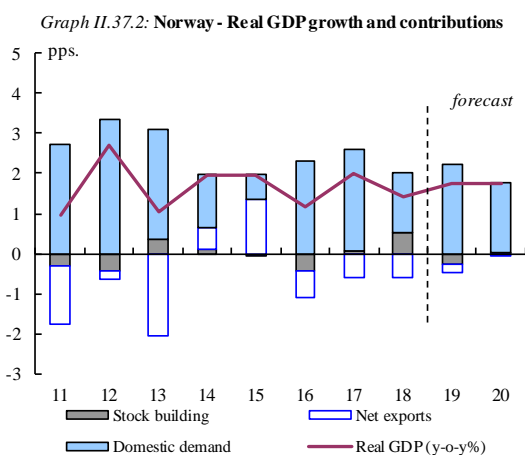
Risks to the outlook are balanced and mainly related to the external environment. Geopolitical turbulences and renewed volatility in financial markets could lead to safe haven capital inflows, which would put an upward pressure on the exchange rate. Further downside risk relates to the uncertain global trade outlook.

Norway

Real GDP growth in Norway came in at 1.4% in 2018, as domestic demand was supported by a robust labour market, rising energy prices and expanding business investment across most sectors. The external sector, meanwhile, provided a notable headwind due to softer demand across main trading partners.

These dynamics appear to remain broadly in place in the near term: employment growth (at 1.4% in 2018) retains solid momentum, wages are rising and consumer confidence is elevated, providing a tailwind to private consumption; while a robust outlook for business fixed investment offsets weakness in the residential sector. The outlook for

trade is somewhat weaker given only moderate growth in external demand, while the 2018-Q4 contraction in exports results in large negative carryovers into 2019 also. As such, the drag from net exports is set to persist in the near term, before turning neutral thereafter. Overall, real GDP growth is forecast to accelerate to around 1.8% in 2019 and 2020.



Norway's economy is already operating broadly at potential: unemployment has fallen below 4%, placing upward pressure on wage growth (reaching 2.7% at the end of 2018), while core inflation has accelerated markedly (2.8% y-o-y in March 2019). These pressures are expected to persist over the forecast horizon due to the benign outlook for domestic demand. Norges Bank raised its key policy rate by 25 basis points (to 1%) at its March 2019 meeting, and has signalled that further gradual tightening is anticipated going forward. This is in contrast to dovish shifts across other advanced economy central banks and has placed upward pressure on the Norwegian krone.

This complements fiscal policy's shift to a neutral stance. The structural non-oil fiscal deficit is expected to remain unchanged at 7½% of mainland GDP, providing space for modest increases in public spending and reductions in marginal tax rates. It is assumed that a similarly growth-neutral fiscal stance will be adopted in 2020 also.

Residential investment contracted in 2018 as the property market cooled. Following initial small declines, house price growth has turned positive once again, although a recovery in investment is expected to be slow due to several concurrent headwinds, including modest population growth, previously-introduced macro-prudential measures, and the ongoing gradual rise in interest rates.

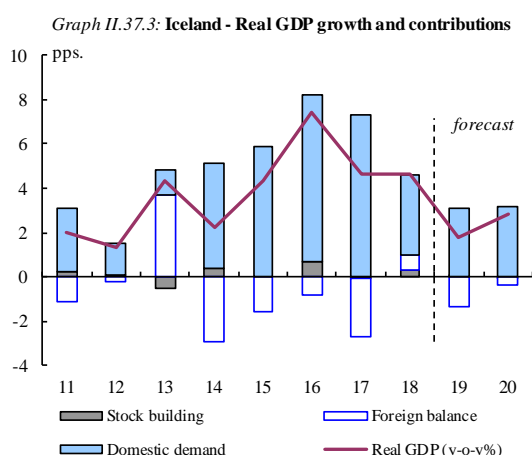
Domestic risks to the outlook stem primarily from residual uncertainties in the property market and high household debt levels (over 100% of GDP). Nonetheless, the moderation in price growth over the past year has constrained a further build-up of imbalances, and financial stability concerns are allayed by high profitability and capital adequacy levels among Norwegian banks. Concerning the external environment, energy prices present upside and downside risks; while a rise in trade policy uncertainties or a marked deterioration in growth prospects among Norway's main trading partners would weigh materially on the outlook.

Iceland

The Icelandic economy grew by an estimated 4.6% in 2018, supported by strong growth of private consumption, housing and public investment, which offset a moderate contraction of business investment. The positive contribution of net exports growth has been driven mainly by tourism services. However, following a robust economic expansion in the first half of 2018, growth dynamics started to lose momentum in autumn. Past ISK appreciation has, with a lag, led to decelerating growth of tourist arrivals while a rising supply of new homes limited the growth of housing investment.

The slowdown is set to deepen in 2019 mainly on the back of a negative contribution of foreign trade and softening domestic demand. The key factor driving the 2019 GDP slowdown is a flattening growth of tourist arrivals, which can be only marginally offset by goods exports, such as aluminium and marine products. Further negative impact on service exports should come from the recent bankruptcy of domestic airline. Growth of private consumption is also set to soften following a hike in 2017, while contributing further positively to GDP growth. In contrast, public investment should become the key engine of growth due to the foreseen infrastructure investment.

In 2018, the unemployment remained low and the foreign labour force recorded a healthy growth of 3.1%, which is likely to turn around over the forecast horizon. Given less favourable growth outlook, the employment growth is set to slowdown and unemployment should increase to over 3% in 2019-2020.



Inflation rate accelerated throughout the year with an annual average reaching 2.7% in 2018, which is above the central bank's inflation target of 2.5%. The key drivers were rising fuel prices and depreciating ISK in the final quarter of the year, due to the uncertainty in the tourism industry and financial troubles of domestic airline. Despite the rise in the central bank's key interest rate from 4.25% to 4.5% in November, inflation is likely to

stay above the 2.5% target in 2019, due to substantial wage increases following the collective wage agreement negotiations. In 2020 the inflationary pressures are set to moderate in line with a projected rise in unemployment.

The 2019 budget targets a surplus of 0.9% of GDP. Windfall revenues of recent years have been allocated to healthcare, social affairs, housing benefits and infrastructure. The government has also signed the Living Standards Agreement, which aims to increase the income of lower-wage groups by reducing the rate of personal income tax and social security contribution. These measures should support the domestic demand over the forecast horizon.

The balance of risks is tilted to the downside. Key external risks stem from high jet fuel prices and intense air transport competition that challenge tourism sector while global trade tensions could hurt aluminium exports. Key domestic risk relates to wage increases, which could outpace productivity gains.

Table II.37.1:

Main features of country forecast - EFTA

(Annual percentage change)	Iceland				Norway				Switzerland			
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
GDP	4.6	4.6	1.8	2.8	2.0	1.4	1.8	1.8	1.6	2.5	1.5	2.0
Private Consumption	8.1	4.8	3.4	2.8	2.2	2.0	1.8	1.7	1.1	1.0	1.3	1.7
Public Consumption	3.6	3.3	2.7	2.5	2.5	1.5	1.7	1.6	0.9	1.0	0.7	0.8
Gross fixed capital formation	11.6	2.1	3.1	4.9	3.6	0.9	4.3	2.7	3.3	1.8	1.0	2.9
of which: equipment	-	-	-	-	8.7	0.3	4.7	2.9	1.0	3.8	1.9	2.2
Exports (good and services)	5.4	1.6	1.0	2.4	-0.2	-0.8	1.6	2.3	-0.4	2.0	3.2	3.5
Imports (goods and services)	12.5	0.1	4.0	3.2	1.6	0.9	2.5	2.8	-0.8	-1.9	3.0	3.8
GNI (GDP deflator)	3.1	4.7	1.8	2.8	1.9	1.1	1.6	1.8	-0.4	4.8	1.5	2.0
Contribution to GDP growth: Domestic demand	7.3	3.6	3.0	3.2	2.5	1.5	2.2	1.8	1.5	1.1	1.0	1.7
Inventories	-0.1	0.3	0.0	0.0	0.1	0.5	-0.3	0.0	-0.1	-0.9	0.0	0.0
Net exports	-2.6	0.7	-1.3	-0.4	-0.6	-0.6	-0.2	0.0	0.2	2.3	0.5	0.3
Employment	4.0	3.4	0.6	1.3	1.1	1.4	0.8	0.4	0.9	0.9	0.5	1.0
Unemployment rate (a)	3.0	2.9	3.2	3.3	4.0	3.7	3.4	3.3	4.8	4.4	4.3	4.1
Compensation of employee/head	6.1	5.7	4.4	4.5	2.2	2.7	3.3	3.4	0.3	0.8	0.8	0.9
Unit labour cost whole economy	5.4	4.5	3.2	2.9	1.3	2.6	2.3	2.1	-0.4	-0.8	-0.3	0.0
Real unit labour cost	5.0	2.1	-1.1	-0.8	-2.5	-2.8	-0.7	-0.5	0.0	-1.4	-0.8	-0.9
Saving rate of households (b)	5.3	5.5	4.1	4.7	13.0	13.4	13.6	14.0	:	:	:	:
GDP deflator	0.4	2.4	4.3	3.8	3.9	5.6	3.1	2.6	-0.4	0.6	0.6	0.8
Harmonised index of consumer prices (c)	1.8	2.7	3.5	3.0	1.9	3.0	2.6	2.3	0.6	0.9	0.7	1.0
Terms of trade goods	-0.3	-3.4	-0.5	-0.1	9.1	11.9	1.7	0.0	-1.0	-1.1	0.0	-0.1
Trade balance (goods) (d)	-6.3	-5.7	-6.8	-7.2	4.7	6.9	7.1	7.0	7.4	8.2	8.4	8.4
Current account balance (d)	3.6	2.5	1.3	0.8	5.7	7.7	7.7	7.6	6.7	10.2	10.5	10.5
Net lending (+) or borrowing (-) vis-a-vis ROW	3.6	2.4	1.3	0.7	5.7	7.7	7.7	7.6	6.4	9.3	9.5	9.5
General government balance (d)	0.5	1.1	0.9	0.8	4.9	7.2	7.4	7.5	1.3	0.2	0.1	0.1
General government gross debt (d)	42.5	40.6	38.3	36.2	35.9	33.6	32.1	30.7	33.5	32.2	31.5	30.5

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) for Iceland national consumer price index. (d) as a % of GDP.

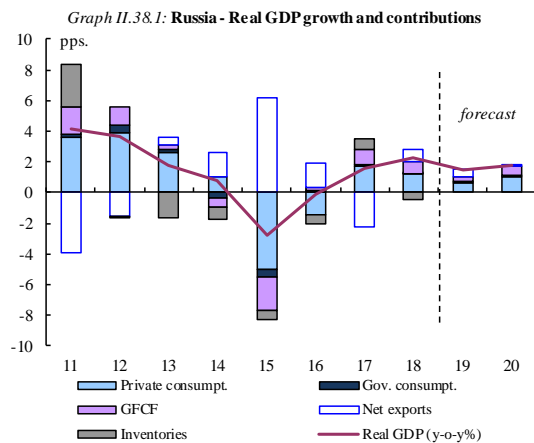
38. RUSSIAN FEDERATION

Output likely to recover from a temporary blip in 2019 as public spending accelerates

Since 2014 Russia's macroeconomic policy mix was relatively tight reflecting authorities conscious choice to rebuild buffers and increase resilience to external shocks at the expense of consumer incomes, productivity and growth. This policy is gradually being modified, as some fiscal and structural reforms are being introduced and the government is more likely to boost public spending leading to a moderate growth rebound towards the end of the forecast horizon.

Unexpectedly strong growth in 2018 was a temporary phenomenon

The economic activity in Russia surprised on the upside towards the end of 2018, with real GDP growth accelerating from 2.2% y-o-y in Q3-2018 to 2.7% y-o-y in Q4-2018. Domestic demand picked up due to a significant revision of construction data as a number of large-scale projects (e.g. Yamal LNG terminal), including state-controlled ones, were completed. Real GDP is estimated to have expanded by 2.3% in 2018 as a whole. The expansion was underpinned by robust oil and gas production and a strong pick-up in hydrocarbon related investment. At the same time depreciating currency and weakening private consumption dented imports.



Robust 2018 growth is unlikely to be repeated in the near term as potential growth remains subdued and economic activity is set to be dampened by a confluence of domestic and external headwinds. On the domestic side, lower oil prices and accelerating inflation are set to impinge on domestic demand while increased uncertainty and higher financing costs are likely to hamper investments. On the external side, export is likely to be hindered by lower hydrocarbon production and weaker external demand. Overall, real GDP

growth is forecast to decelerate to 1.5% in 2019. Growth is expected to edge up to 1.8% in 2020, reflecting higher public investment spending and a marginal improvement in potential growth as retirement age is being gradually increased.

Public and energy sector investments support growth

Private consumption growth is likely to decelerate in the near term, despite rising credit, as lower nominal wage growth, higher inflation and higher consumption tax burden are projected to dent real disposable incomes. Elevated uncertainty related to the deteriorating geopolitical situation and higher financing costs are likely to undermine private investment outlook. At the same time, the authorities have announced a significant investment program, including comprehensive plan for modernisation and expansion of infrastructure, with the total spending envelope (including social and education spending) of ca. 1% of GDP annually for the next 6 years. These plans, which will be implemented from the second half of 2019, are expected to boost public consumption and investment spending.

On the external side, import growth is likely to decelerate further reflecting weaker domestic demand outlook, before recovering somewhat in the outer year of the projection amid a pick-up in public investment. In the near term, export growth is likely to be muted reflecting voluntary cuts in oil production and slowing food exports due to weak 2018 harvest. This is set to be partly counterbalanced by higher gas sales driven by the construction of the major LNG facility. In the medium term, the completion of new gas transmission infrastructure linking Russia with China should further boost non-oil exports. All in all, the contribution of external trade to real GDP growth is forecast to remain marginally positive over the forecast horizon.

Macroeconomic policy to become more accommodative in 2020

Headline inflation increased to 5.2% y-o-y in February 2019, driven by base effects from the exchange rate depreciation and the recent increase in the VAT tax rate. Going forward, annual average inflation is set to climb temporarily above 5% in 2019 on the back of a consumption tax rate hike, weaker currency and elevated inflation expectations. It is forecast to decline to the central bank target of 4% in 2020. The central bank lifted the main interest rate to 7¾% in December 2018, though turned more dovish in its forward guidance in Q1-2019 amid lower pass-through from VAT hike to inflation and a more dovish Fed stance.

On the fiscal side, higher hydrocarbon-related revenues and improved tax collection resulted in an improvement from a deficit of 1.5% of GDP in 2017 to a surplus of 2.7% of GDP in 2018. Despite significant additional spending into infrastructure, human capital and social support, fiscal surplus is projected to decline gradually to around 2% of GDP in 2020. At the same time, off-budget fiscal buffers are set to be rebuilt further as public spending is expected to be funded by additional borrowing and pension-reform-related savings.

Hydrocarbon revenues support current account

After a more-than-decade high of 6.8% of GDP in 2018 the current account surplus is expected to moderate a bit in 2019, amid lower oil exports volumes and prices. It is projected to further shrink in 2020 to around 5% of GDP, as a pick-up in public investments is forecast to fuel a rebound in imports, while annual average oil prices are assumed to remain below 2018 levels.

Risks to the forecast are broadly balanced

Major downside risks to the outlook include high geopolitical uncertainty and the prospect of further intensification of economic sanctions, which would impinge on business spending. In addition, lower than expected oil prices would affect the exchange rate, external funding costs and foreign trade. The major risks on the upside relate to higher oil prices and higher-than-assumed fiscal multipliers from the announced public investment spending surge.

Table II.38.1:

Main features of country forecast - RUSSIA

	2017			Annual percentage change						
	bn RUB	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	92037.2	100.0		4.7	-2.8	-0.1	1.5	2.3	1.5	1.8
Private Consumption	48213.8	52.4		6.8	-9.3	-2.8	3.3	2.3	1.2	2.0
Public Consumption	16548.9	18.0		1.3	-3.1	0.9	0.4	0.3	0.6	0.6
Gross fixed capital formation	19372.4	21.0		7.8	-10.5	0.8	4.7	3.4	1.6	2.8
of which: equipment	-	-		-	-	-	-	-	-	-
Exports (goods and services)	23966.1	26.0		5.5	3.7	3.2	5.1	5.6	2.7	3.5
Imports (goods and services)	19041.1	20.7		10.5	-25.1	-3.6	17.4	3.2	1.9	4.5
GNI (GDP deflator)	89793.9	97.6		4.7	-2.2	-0.1	1.8	2.4	1.5	1.8
Contribution to GDP growth:										
Domestic demand				5.2	-7.7	-1.2	2.8	2.0	1.0	1.7
Inventories				0.3	-0.6	-0.6	0.7	-0.5	0.0	0.0
Net exports				-0.7	6.2	1.6	-2.3	0.8	0.5	0.1
Employment				1.3	1.1	-0.6	0.0	0.0	-0.2	-0.1
Unemployment rate (a)				7.6	3.9	4.3	4.1	4.0	4.0	3.9
Compensation of employees / head				-	-	-	-	-	-	-
Unit labour costs whole economy				-	-	-	-	-	-	-
Real unit labour cost				-	-	-	-	-	-	-
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				17.6	8.4	3.4	5.2	7.5	3.4	3.6
Consumer-price index				-	15.5	7.0	3.7	2.9	5.2	4.0
Terms of trade goods				5.3	-23.0	-17.9	12.9	15.9	-4.9	-0.5
Trade balance (goods) (c)				12.0	10.7	7.0	7.3	11.8	10.7	10.3
Current-account balance (c)				7.3	4.9	2.0	1.8	6.8	5.5	5.0
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				7.2	4.9	2.0	1.8	6.8	5.5	5.0
General government balance (c)				-	-1.8	-3.7	-1.5	2.7	2.6	2.1
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				24.4	15.9	16.2	15.1	13.0	13.1	13.4

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

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Statistical Annex

European Economic Forecast – Spring 2019

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Table 1: Gross domestic product, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
Belgium	2.1	1.3	1.2	1.7	1.5	1.7	1.4	1.2	1.2	1.5	1.5	1.4
Germany	1.0	0.6	2.2	1.7	2.2	2.2	1.4	0.5	1.5	1.7	1.8	1.7
Estonia	7.3	0.9	3.8	1.9	3.5	4.9	3.9	2.8	2.4	3.5	2.8	2.6
Ireland	6.0	1.2	3.1	25.1	5.0	7.2	6.7	3.8	3.4	7.8	4.5	3.8
Greece	4.6	0.9	-4.9	-0.4	-0.2	1.5	1.9	2.2	2.2	2.0	2.0	2.0
Spain	3.7	1.8	-0.9	3.6	3.2	3.0	2.6	2.1	1.9	2.6	2.2	2.0
France	2.1	0.8	1.2	1.1	1.2	2.2	1.6	1.3	1.5	1.7	1.6	1.6
Italy	1.5	-0.5	-0.4	0.9	1.1	1.7	0.9	0.1	0.7	1.1	1.2	1.3
Cyprus	4.3	3.2	-1.7	2.0	4.8	4.5	3.9	3.1	2.7	3.9	3.5	2.9
Latvia	7.1	2.4	2.1	3.0	2.1	4.6	4.8	3.1	2.8	4.1	3.2	2.9
Lithuania	6.8	2.4	3.7	2.0	2.4	4.1	3.4	2.7	2.4	3.4	2.8	2.5
Luxembourg	3.9	2.1	3.0	3.9	2.4	1.5	2.6	2.5	2.6	3.1	3.0	2.7
Malta	2.6	2.1	4.1	10.7	5.7	6.7	6.6	5.5	4.8	5.4	4.9	4.4
Netherlands	1.8	1.5	0.6	2.0	2.2	2.9	2.7	1.6	1.6	2.8	2.4	1.8
Austria	2.0	1.4	1.2	1.1	2.0	2.6	2.7	1.5	1.6	2.7	2.0	1.8
Portugal	1.5	0.4	-0.9	1.8	1.9	2.8	2.1	1.7	1.7	2.2	1.8	1.7
Slovenia	3.6	2.3	0.2	2.3	3.1	4.9	4.5	3.1	2.8	4.3	3.3	3.0
Slovakia	3.9	5.1	2.7	4.2	3.1	3.2	4.1	3.8	3.4	4.0	4.1	3.5
Finland	3.2	0.8	0.5	0.5	2.8	2.7	2.3	1.6	1.2	2.9	2.2	1.9
Euro area	2.0	0.7	0.8	2.1	2.0	2.4	1.9	1.2	1.5	2.1	1.9	1.7
Bulgaria	5.2	4.7	1.1	3.5	3.9	3.8	3.1	3.3	3.4	3.5	3.7	3.6
Czechia	3.5	3.3	1.1	5.3	2.5	4.4	2.9	2.6	2.4	3.0	2.9	2.6
Denmark	1.6	0.3	1.2	2.3	2.4	2.3	1.4	1.7	1.6	1.2	1.8	1.6
Croatia	4.4	1.7	-0.9	2.4	3.5	2.9	2.6	2.6	2.5	2.8	2.8	2.6
Hungary	4.3	0.5	1.4	3.5	2.3	4.1	4.9	3.7	2.8	4.3	3.4	2.6
Poland	3.3	4.7	3.0	3.8	3.1	4.8	5.1	4.2	3.6	4.8	3.7	3.3
Romania	5.2	4.6	1.4	3.9	4.8	7.0	4.1	3.3	3.1	3.6	3.8	3.6
Sweden	3.0	1.0	2.4	4.5	2.7	2.1	2.3	1.4	1.6	2.4	1.8	1.8
EU27	2.1	0.9	0.9	2.3	2.1	2.6	2.1	1.4	1.7	2.2	2.0	1.9
United Kingdom	2.9	0.7	2.0	2.3	1.8	1.8	1.4	1.3	1.3	1.3	1.2	1.2
EU	2.2	0.9	1.1	2.3	2.0	2.5	2.0	1.4	1.6	2.1	1.9	1.8
Japan	1.4	-0.4	1.6	1.2	0.6	1.9	0.8	0.8	0.6	1.1	1.0	0.5
United States	2.7	1.1	2.1	2.9	1.6	2.2	2.9	2.4	1.9	2.9	2.6	1.9

Table 2: Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2018-20)

24.4.2019

	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4	2020/1	2020/2	2020/3	2020/4
Belgium	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.4	0.3	0.2	0.2	0.2
Germany	0.4	0.5	-0.2	0.0	0.2	0.1	0.3	0.4	0.3	0.3	0.3	0.3
Estonia	0.1	1.7	0.3	2.2	0.2	0.3	0.3	0.3	0.7	0.8	0.8	0.8
Ireland	-0.5	2.1	0.9	0.1	0.5	1.2	1.7	1.7	0.3	0.4	0.4	0.4
Greece	0.4	0.3	1.0	-0.1	:	:	:	:	:	:	:	:
Spain	0.6	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
France	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Italy	0.2	0.1	-0.2	-0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Cyprus	1.1	0.8	0.9	1.0	:	:	:	:	:	:	:	:
Latvia	1.5	1.2	1.6	1.2	0.4	0.5	0.5	0.7	0.8	0.8	0.8	0.8
Lithuania	0.9	0.9	0.4	1.3	0.3	0.6	0.8	0.8	0.6	0.5	0.4	0.4
Luxembourg	0.7	0.2	0.5	0.3	:	:	:	:	:	:	:	:
Malta	1.1	2.7	2.9	0.5	:	:	:	:	:	:	:	:
Netherlands	0.6	0.7	0.2	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Austria	0.9	0.5	0.4	0.3	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.3
Portugal	0.5	0.6	0.3	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.5
Slovenia	0.6	0.9	1.3	0.8	0.5	0.3	0.5	0.7	0.7	0.7	0.7	0.7
Slovakia	1.0	1.1	1.0	0.8	0.7	0.8	0.8	0.9	0.9	0.8	0.7	0.9
Finland	0.9	0.4	0.3	0.8	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Euro area	0.4	0.4	0.1	0.2	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Bulgaria	0.9	0.8	0.7	0.8	0.8	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Czechia	0.6	0.5	0.7	0.8	0.5	0.6	0.7	0.6	0.5	0.6	0.6	0.5
Denmark	0.7	0.6	0.4	0.8	0.3	0.3	0.3	0.3	0.4	0.5	0.5	0.5
Croatia	0.7	1.0	0.6	0.1	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.5
Hungary	1.3	1.0	1.4	1.0	1.2	0.3	0.5	0.7	0.8	0.7	0.7	0.7
Poland	1.5	1.0	1.6	0.5	1.2	1.0	1.2	1.2	0.9	0.7	0.6	0.6
Romania	0.3	1.3	1.4	0.9	0.6	0.6	0.6	0.6	0.8	0.8	0.9	0.9
Sweden	0.8	0.4	-0.1	1.2	0.1	0.2	0.2	0.3	0.4	0.5	0.5	0.5
EU27	0.5	0.5	0.2	0.3	0.3	0.3	0.4	0.5	0.4	0.3	0.3	0.3
United Kingdom	0.1	0.4	0.7	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.3
EU	0.4	0.5	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3
Japan	-0.1	0.5	-0.6	0.5	0.1	0.5	0.3	0.0	0.1	0.2	0.3	0.2
United States	0.5	1.0	0.8	0.5	0.5	0.5	0.7	0.5	0.4	0.4	0.4	0.4

Table 3: Profile (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2018-20)

24.4.2019

	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4	2020/1	2020/2	2020/3	2020/4
Belgium	1.5	1.4	1.6	1.2	1.2	1.2	1.2	1.3	1.4	1.3	1.1	0.9
Germany	2.1	2.0	1.2	0.6	0.5	0.2	0.7	1.1	1.1	1.2	1.2	1.0
Estonia	3.4	4.0	3.9	4.3	4.4	2.9	2.9	1.0	1.6	2.1	2.7	3.1
Ireland	10.5	9.4	5.4	2.6	3.5	2.7	3.5	5.2	5.1	4.2	2.8	1.4
Greece	2.5	1.5	2.1	1.6	:	:	:	:	:	:	:	:
Spain	2.9	2.6	2.5	2.3	2.3	2.1	2.0	2.0	1.9	1.9	1.9	1.9
France	2.2	1.7	1.4	1.0	1.1	1.3	1.4	1.5	1.5	1.5	1.4	1.2
Italy	1.4	1.0	0.5	0.0	-0.1	-0.1	0.2	0.5	0.5	0.6	0.7	0.7
Cyprus	4.0	3.8	3.8	3.8	:	:	:	:	:	:	:	:
Latvia	4.8	4.6	5.2	5.6	4.4	3.7	2.6	2.2	2.6	2.8	3.0	3.2
Lithuania	3.5	3.7	3.0	3.6	2.9	2.6	3.1	2.6	2.8	2.7	2.3	1.9
Luxembourg	3.0	3.0	2.8	1.7	:	:	:	:	:	:	:	:
Malta	4.9	6.5	7.5	7.4	:	:	:	:	:	:	:	:
Netherlands	3.2	3.0	2.3	2.0	1.7	1.4	1.7	1.6	1.7	1.7	1.6	1.6
Austria	3.2	3.2	2.8	2.1	1.5	1.5	1.6	1.9	1.9	1.8	1.5	1.3
Portugal	2.2	2.5	2.1	1.7	1.7	1.5	1.7	1.8	1.8	1.8	1.7	1.7
Slovenia	5.2	4.6	5.1	3.6	3.5	3.0	2.2	2.1	2.3	2.8	3.0	3.0
Slovakia	3.9	4.2	4.3	4.0	3.7	3.4	3.2	3.3	3.4	3.4	3.3	3.4
Finland	2.5	2.3	2.2	2.3	1.9	1.9	2.0	1.5	1.3	1.2	1.1	1.1
Euro area	2.4	2.2	1.6	1.2	1.1	0.9	1.2	1.4	1.4	1.4	1.3	1.2
Bulgaria	3.5	3.4	3.1	3.2	3.1	3.1	3.4	3.5	3.5	3.5	3.4	3.4
Czechia	4.2	2.3	2.4	2.6	2.5	2.6	2.6	2.5	2.5	2.5	2.4	2.2
Denmark	-0.6	1.2	2.6	2.6	2.2	1.8	1.7	1.1	1.3	1.5	1.8	2.0
Croatia	2.6	2.8	2.7	2.4	2.6	2.3	2.5	3.1	2.8	2.6	2.4	2.2
Hungary	4.9	4.8	5.3	4.9	4.7	3.9	2.9	2.5	2.2	2.7	3.0	3.1
Poland	5.0	5.1	5.6	4.6	4.3	4.3	3.9	4.6	4.3	4.0	3.4	2.7
Romania	4.5	4.3	3.8	4.0	4.3	3.6	2.7	2.4	2.7	3.0	3.2	3.5
Sweden	3.3	2.5	1.6	2.4	1.6	1.4	1.7	0.8	1.1	1.5	1.8	2.1
EU27	2.6	2.3	1.9	1.5	1.3	1.2	1.4	1.6	1.6	1.6	1.5	1.4
United Kingdom	1.2	1.4	1.6	1.4	1.7	1.4	1.0	1.1	1.1	1.3	1.4	1.4
EU	2.4	2.2	1.8	1.5	1.4	1.2	1.4	1.5	1.5	1.6	1.5	1.4
Japan	1.4	1.4	0.2	0.3	0.5	0.5	1.4	0.9	0.8	0.5	0.5	0.7
United States	2.6	2.9	3.0	3.0	2.9	2.4	2.2	2.2	2.1	2.0	1.8	1.7

Table 4: Gross domestic product per capita (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			2015-2017			Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
Belgium	1.7	0.6	0.5	1.2	1.0	1.2	0.9	0.7	0.7	1.0	1.0	0.9
Germany	1.0	0.8	2.0	0.9	1.4	1.8	1.1	0.4	1.4	1.4	1.6	1.4
Estonia	7.5	1.4	4.1	2.1	3.3	4.9	3.6	2.7	2.3	3.2	2.7	2.5
Ireland	4.3	-1.0	2.6	24.0	3.8	6.0	5.4	2.8	2.5	6.7	3.6	2.9
Greece	4.2	0.6	-4.6	0.2	0.2	1.7	2.2	2.8	2.8	2.6	2.6	2.6
Spain	2.5	0.2	-0.9	3.7	3.1	2.8	2.1	1.6	1.4	2.3	1.7	1.5
France	1.4	0.1	0.7	0.8	0.9	1.9	1.4	0.9	1.1	1.2	1.2	1.2
Italy	1.2	-1.0	-0.8	1.0	1.3	1.8	1.0	0.1	0.8	1.2	1.2	1.3
Cyprus	3.0	1.1	-2.7	2.5	4.3	3.5	2.7	2.4	2.1	3.3	2.8	2.3
Latvia	8.3	3.5	3.6	3.9	3.0	5.6	5.6	4.0	3.6	5.0	4.0	3.7
Lithuania	7.7	3.7	5.3	3.0	3.7	5.8	4.3	3.4	3.1	4.5	3.7	3.5
Luxembourg	2.7	0.4	0.7	1.9	-0.2	-0.6	0.6	0.7	0.9	0.6	0.7	0.4
Malta	1.9	1.5	3.0	8.1	3.3	3.8	3.6	3.8	3.2	2.9	3.2	2.8
Netherlands	1.2	1.2	0.2	1.5	1.7	2.3	2.1	1.1	1.1	2.3	1.9	1.4
Austria	1.5	1.0	0.7	0.1	0.8	1.9	2.2	1.0	1.1	1.7	1.0	0.9
Portugal	0.9	0.2	-0.5	2.2	2.2	3.0	2.4	1.7	1.8	2.3	1.9	1.8
Slovenia	3.5	1.8	0.0	2.2	3.0	4.8	4.2	3.0	2.7	4.3	3.3	2.9
Slovakia	4.0	4.9	2.7	4.1	3.0	3.0	4.0	3.6	3.2	3.9	4.0	3.4
Finland	2.9	0.4	0.1	0.2	2.5	2.4	2.2	1.4	1.0	2.5	1.8	1.6
Euro area	1.5	0.3	0.6	1.8	1.7	2.2	1.7	0.9	1.3	1.8	1.6	1.5
Bulgaria	6.3	5.2	2.1	4.1	4.7	4.6	3.5	4.0	4.2	4.0	4.0	3.9
Czechia	3.6	2.7	1.0	5.1	2.2	4.1	2.4	2.2	2.1	2.7	2.8	2.4
Denmark	1.3	-0.1	0.8	1.6	1.6	1.6	0.9	1.1	1.1	0.6	1.3	1.1
Croatia	4.9	1.7	-0.6	3.1	4.4	4.0	3.2	3.2	3.0	3.4	3.3	3.1
Hungary	4.6	0.7	1.7	3.8	2.6	4.4	5.1	3.9	3.0	4.5	3.6	2.8
Poland	3.3	4.6	3.0	3.9	3.1	4.8	5.2	4.2	3.7	4.8	3.7	3.3
Romania	6.2	5.7	1.8	4.4	5.4	7.6	4.4	3.9	3.7	4.4	4.4	4.2
Sweden	2.7	0.3	1.6	3.4	1.4	0.7	1.2	0.4	0.7	0.7	0.8	0.8
EU27	1.8	0.6	0.8	2.1	1.9	2.4	1.9	1.2	1.5	2.0	1.8	1.7
United Kingdom	2.5	-0.1	1.2	1.5	1.0	1.2	0.7	0.7	0.7	0.7	0.6	0.6
EU	2.0	0.5	0.9	2.0	1.7	2.3	1.7	1.1	1.4	1.8	1.6	1.5
Japan	1.3	-0.4	1.6	1.4	0.8	2.1	1.0	1.0	1.0	1.3	1.3	0.9
United States	1.7	0.2	1.4	2.1	0.8	1.5	2.1	1.7	1.2	2.1	1.9	1.2

Table 5: Domestic demand, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	1.6	1.6	1.2	1.6	2.1	1.1	0.7	1.1	1.4	1.2	1.5
Germany	0.0	0.5	1.5	1.6	3.0	2.0	1.9	1.3	1.8	1.9	2.3	2.0
Estonia	9.0	-0.2	4.4	1.1	4.6	4.2	5.5	3.2	2.6	3.6	3.1	2.7
Ireland	5.7	1.5	0.9	14.6	22.6	-13.3	4.8	3.6	3.3	0.4	4.0	3.2
Greece	4.6	1.1	-6.3	-1.3	0.5	1.6	0.5	2.7	2.2	0.5	2.1	1.9
Spain	4.2	1.5	-2.0	4.0	2.4	3.0	3.0	2.2	1.9	2.8	2.2	1.9
France	2.3	1.1	1.2	1.5	1.7	2.0	1.0	1.3	1.6	1.2	1.6	1.6
Italy	1.6	-0.3	-1.4	1.5	1.5	1.4	0.9	0.1	0.7	1.4	1.2	1.3
Cyprus	5.3	3.9	-3.2	3.9	6.1	8.5	3.0	4.8	4.0	4.7	4.6	3.5
Latvia	8.0	0.4	1.9	2.4	2.1	6.2	6.8	3.1	2.8	5.7	3.3	3.2
Lithuania	7.5	1.2	2.7	6.8	2.2	2.9	2.9	3.5	3.0	4.3	3.7	3.1
Luxembourg	3.0	1.4	4.2	0.8	3.6	2.5	3.1	3.0	2.4	3.5	3.2	2.9
Malta	2.2	2.3	1.7	14.1	1.2	-1.2	6.5	7.6	5.5	6.8	6.1	4.9
Netherlands	1.3	1.6	-0.5	6.9	-0.7	2.2	2.7	1.8	1.9	3.2	2.6	1.9
Austria	1.3	1.3	0.8	1.2	2.2	2.5	1.7	1.6	1.4	2.1	1.7	1.5
Portugal	1.1	0.3	-2.3	2.7	2.0	3.0	2.8	2.4	2.2	2.4	2.2	2.1
Slovenia	3.0	1.6	-1.5	1.9	2.9	3.9	4.6	3.5	3.9	3.9	3.6	3.7
Slovakia	3.8	4.0	1.0	6.0	1.2	2.6	4.2	2.9	2.8	4.2	2.8	2.7
Finland	2.8	1.0	1.0	1.2	3.2	1.8	2.3	1.3	1.1	2.5	1.9	1.6
Euro area	1.7	0.8	0.1	2.4	2.4	1.7	1.8	1.4	1.6	1.8	2.0	1.8
Bulgaria	7.6	5.2	0.0	3.3	1.6	4.8	6.2	4.4	3.7	6.4	4.8	4.1
Czechia	3.7	2.2	0.5	5.9	1.1	3.5	3.9	3.3	2.7	3.4	3.2	2.5
Denmark	1.9	0.7	1.1	2.8	2.5	2.2	2.6	1.5	1.7	3.1	1.5	1.9
Croatia	5.1	1.7	-2.0	2.2	3.8	3.6	3.9	3.7	3.3	3.7	3.6	3.5
Hungary	4.6	-1.5	0.7	2.1	1.0	6.8	7.0	5.6	2.9	5.8	4.3	2.0
Poland	2.4	4.7	2.4	3.3	2.3	4.9	5.5	4.4	3.9	4.9	3.9	3.7
Romania	7.3	6.6	0.5	5.3	5.1	7.6	5.7	4.4	3.7	4.8	4.2	3.9
Sweden	2.1	1.4	2.6	4.2	3.2	2.7	2.0	0.7	1.2	2.5	1.7	1.8
EU27	1.8	1.0	0.3	2.6	2.4	2.1	2.1	1.6	1.8	2.1	2.1	2.0
United Kingdom	3.4	0.4	2.1	2.7	2.4	1.4	1.6	1.5	1.3	1.0	1.1	1.2
EU	2.1	0.9	0.6	2.6	2.4	1.9	2.0	1.6	1.7	2.0	2.0	1.8
Japan	1.0	-0.6	1.6	0.8	0.0	1.4	0.8	0.9	0.6	1.0	1.2	0.4
United States	3.1	0.5	2.2	3.6	1.7	2.5	3.0	2.5	2.1	3.0	2.8	2.1

Table 6: Final demand, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	2.9	1.6	2.7	2.5	4.6	2.9	2.0	2.0	2.2	2.3	2.3
Germany	1.8	1.1	3.0	2.8	2.8	2.9	2.0	1.2	2.0	2.2	2.5	2.4
Estonia	7.7	1.2	7.3	0.0	4.9	3.9	5.0	3.3	3.0	4.0	3.5	3.1
Ireland	7.4	2.8	3.1	28.8	11.1	-0.9	7.4	4.2	3.8	4.0	4.3	3.8
Greece	4.8	1.0	-4.6	-0.2	-0.1	2.8	2.5	3.2	2.8	2.4	3.0	2.5
Spain	4.3	1.3	-0.5	4.1	3.1	3.6	2.8	2.2	2.1	2.8	2.5	2.3
France	2.7	1.0	1.9	2.2	1.6	2.6	1.5	1.6	1.9	1.7	2.0	2.0
Italy	1.9	-0.5	-0.2	2.2	1.6	2.5	1.2	0.6	1.3	1.5	1.7	1.8
Cyprus	3.8	2.9	-1.1	4.4	5.5	7.5	3.1	3.3	2.8	5.3	3.5	2.8
Latvia	8.3	1.9	4.1	2.6	3.0	6.2	4.9	2.7	2.6	4.9	3.3	3.1
Lithuania	9.2	3.1	6.3	4.1	3.0	7.5	3.8	3.5	3.3	4.7	3.9	3.4
Luxembourg	5.8	3.0	6.7	4.2	3.8	-0.9	4.2	2.1	2.4	3.3	2.8	2.4
Malta	1.5	6.6	3.1	15.0	3.3	3.2	3.6	4.2	3.8	3.5	3.5	3.1
Netherlands	2.7	1.8	1.9	7.1	0.4	3.7	2.7	1.7	2.4	3.1	3.1	2.6
Austria	2.9	1.4	2.1	2.0	2.4	3.3	2.7	2.0	2.0	3.0	2.4	2.1
Portugal	1.8	0.6	-0.2	3.7	2.7	4.4	3.0	2.6	2.6	3.3	2.9	2.6
Slovenia	4.8	2.8	1.2	3.3	4.5	7.1	5.9	4.4	4.7	5.9	4.9	3.9
Slovakia	7.0	5.0	4.8	6.0	3.3	4.2	4.5	4.5	4.2	4.8	5.4	4.9
Finland	3.6	1.3	1.1	1.1	3.3	3.3	2.0	1.8	1.8	3.0	2.4	2.2
Euro area	2.7	1.0	1.6	3.7	2.6	2.8	2.2	1.7	2.1	2.3	2.5	2.3
Bulgaria	6.6	5.1	2.5	4.3	4.1	5.2	3.3	4.0	3.4	4.0	4.1	3.8
Czechia	6.5	4.1	3.3	5.9	2.6	5.0	4.2	3.3	2.9	3.9	3.4	2.9
Denmark	2.7	1.5	1.8	3.1	3.0	2.7	1.8	1.9	1.9	2.2	1.9	1.9
Croatia	6.3	1.2	-0.5	4.4	4.4	4.6	3.6	3.5	3.3	3.9	3.8	3.7
Hungary	7.5	2.4	3.0	4.5	3.0	5.7	5.9	5.1	3.8	6.4	5.1	3.7
Poland	3.9	5.3	3.9	4.7	4.5	6.5	5.8	4.7	4.2	5.4	4.6	4.0
Romania	7.1	7.2	3.1	5.1	8.3	8.3	5.6	4.4	3.7	5.2	4.9	4.6
Sweden	3.2	1.3	3.2	4.7	3.2	2.9	2.5	1.5	1.8	2.8	2.2	2.2
EU27	2.9	1.3	1.8	3.8	2.8	3.1	2.5	1.9	2.2	2.6	2.6	2.4
United Kingdom	3.5	0.7	2.4	3.1	2.1	2.3	1.3	1.7	1.6	1.3	1.5	1.4
EU	3.0	1.2	1.9	3.7	2.7	3.0	2.3	1.9	2.1	2.4	2.5	2.3
Japan	1.7	-0.5	2.3	1.1	0.3	2.1	1.1	1.0	0.8	1.4	1.4	0.7
United States	3.1	0.9	2.6	3.2	1.5	2.5	3.1	2.6	2.1	3.1	2.8	2.1

Table 7: Private consumption expenditure, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	1.3	1.3	1.0	0.9	1.7	1.1	0.6	1.1	1.3	0.9	1.4
Germany	0.8	0.5	0.9	1.7	2.1	1.8	1.0	1.1	1.6	1.6	2.1	1.7
Estonia	8.0	1.6	2.6	4.4	4.4	2.6	4.7	4.0	2.9	4.1	3.4	2.7
Ireland	5.0	3.0	-0.1	3.6	4.1	1.6	3.0	2.4	2.3	3.1	2.9	2.7
Greece	3.9	2.4	-5.3	-0.2	0.0	0.9	1.1	1.3	1.2	0.8	0.4	0.7
Spain	3.5	1.3	-1.5	3.0	2.9	2.5	2.3	1.9	1.6	2.3	1.8	1.4
France	2.3	1.6	0.7	1.5	2.1	1.0	0.9	1.5	1.7	1.1	1.6	1.6
Italy	1.0	0.2	-1.0	1.9	1.3	1.6	0.6	0.6	0.8	1.0	1.1	1.1
Cyprus	5.6	3.7	-0.7	2.4	4.5	4.1	3.7	3.5	2.8	4.2	3.8	3.1
Latvia	6.4	2.3	3.1	2.5	1.4	4.1	4.5	3.7	3.6	4.5	4.0	4.0
Lithuania	7.9	3.3	2.5	4.0	5.0	3.3	3.9	3.8	3.3	4.2	3.9	3.3
Luxembourg	3.1	1.5	2.3	3.2	1.7	3.0	4.2	3.6	2.5	3.7	3.5	2.7
Malta	3.0	1.6	1.3	5.1	2.4	3.6	7.3	5.0	4.1	5.2	3.8	3.6
Netherlands	1.5	0.3	-0.3	2.0	1.1	1.9	2.5	1.4	1.6	2.8	2.2	1.9
Austria	1.8	1.4	0.6	0.4	1.4	1.4	1.6	1.6	1.6	1.8	1.6	1.5
Portugal	1.6	0.9	-1.2	2.3	2.4	2.3	2.5	2.3	1.9	2.3	2.0	1.8
Slovenia	2.4	2.6	-0.7	2.3	3.9	1.9	2.2	2.5	3.2	2.2	2.9	3.1
Slovakia	4.1	4.9	0.0	2.2	2.9	3.5	3.0	3.2	2.9	2.9	3.2	3.0
Finland	3.1	2.0	1.3	1.5	2.2	1.5	1.4	1.6	1.4	2.4	2.1	1.4
Euro area	1.7	1.0	0.0	1.8	2.0	1.6	1.3	1.3	1.5	1.6	1.8	1.6
Bulgaria	7.5	5.3	1.3	4.5	3.6	4.5	6.4	4.0	3.8	6.5	4.3	3.8
Czechia	3.1	2.7	0.5	3.7	3.6	4.3	3.2	3.0	2.8	3.7	3.3	2.5
Denmark	1.6	1.1	0.6	2.3	2.1	2.1	2.3	2.0	2.1	2.3	2.2	2.3
Croatia	4.6	1.4	-1.5	1.1	3.5	3.6	3.5	3.3	3.2	3.8	3.6	3.3
Hungary	5.2	-0.5	-0.3	3.9	4.0	4.8	5.4	4.9	3.8	5.2	3.3	3.2
Poland	2.9	4.5	1.9	3.0	3.9	4.9	4.4	4.5	4.2	4.5	3.8	3.4
Romania	8.1	7.3	0.6	6.0	7.9	10.0	5.2	5.2	4.5	4.6	4.6	4.0
Sweden	2.7	2.0	2.1	3.1	2.9	2.2	1.2	1.8	2.2	2.4	2.3	2.1
EU27	1.9	1.2	0.1	2.0	2.2	2.0	1.6	1.6	1.8	1.9	2.0	1.8
United Kingdom	3.8	0.7	1.1	2.6	3.1	2.1	1.7	1.8	1.7	1.4	1.3	1.3
EU	2.3	1.1	0.3	2.1	2.4	2.0	1.6	1.6	1.7	1.8	1.9	1.7
Japan	1.3	0.3	1.1	-0.2	-0.1	1.1	0.4	0.6	0.3	0.8	1.0	-0.3
United States	3.4	1.5	1.9	3.7	2.7	2.5	2.6	2.6	2.3	2.6	2.6	2.1

Table 8: Government consumption expenditure, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	1.9	1.5	0.9	0.6	-0.2	0.6	0.8	0.7	1.2	0.7	1.0
Germany	0.6	1.9	1.2	2.9	4.0	1.6	1.0	2.0	1.7	1.3	2.3	1.7
Estonia	2.0	3.2	1.7	3.0	2.2	0.6	0.3	1.1	0.7	0.3	0.9	0.7
Ireland	5.9	2.9	-1.2	1.9	3.5	3.7	5.8	5.9	1.8	4.3	4.3	1.4
Greece	3.6	3.1	-5.0	1.6	-0.7	-0.4	-2.5	3.1	0.4	1.2	0.2	0.3
Spain	4.7	5.4	-1.2	2.0	1.0	1.9	2.1	1.7	1.5	1.9	1.7	1.5
France	1.7	1.6	1.3	1.0	1.4	1.3	1.1	1.0	1.1	1.2	1.2	1.1
Italy	2.2	0.4	-0.7	-0.6	0.1	0.3	0.2	-0.1	0.5	0.0	0.3	0.4
Cyprus	3.0	5.1	-2.8	-0.5	-0.8	3.1	4.3	3.6	4.0	1.7	4.1	2.4
Latvia	2.7	0.7	-0.3	1.9	3.9	4.1	4.0	1.5	1.3	4.0	1.8	1.8
Lithuania	2.2	1.3	-0.3	0.2	-0.1	-0.4	0.6	0.6	0.5	0.7	0.7	0.6
Luxembourg	4.8	2.7	2.3	2.8	2.5	3.1	4.0	2.7	3.0	3.4	2.7	3.4
Malta	2.4	2.5	3.3	3.7	-2.8	2.1	11.7	11.5	6.3	15.7	9.0	6.9
Netherlands	2.9	4.1	0.0	-0.1	1.3	1.1	1.4	2.4	2.3	2.0	2.8	1.7
Austria	0.6	2.6	0.3	0.8	1.8	1.5	0.2	0.9	0.7	1.2	0.8	0.8
Portugal	3.0	1.2	-2.2	1.3	0.8	0.2	0.8	0.8	0.5	0.9	0.7	0.5
Slovenia	3.0	3.0	-1.4	2.4	2.7	0.5	2.6	2.5	2.2	2.7	1.6	1.4
Slovakia	3.3	5.8	1.0	5.4	1.6	1.7	1.9	2.5	2.4	2.2	1.4	1.6
Finland	1.7	1.5	0.2	0.2	1.8	-0.4	1.4	1.2	0.3	2.2	2.2	2.2
Euro area	1.9	2.1	0.3	1.3	1.8	1.2	1.1	1.4	1.3	1.3	1.6	1.3
Bulgaria	3.3	0.1	0.6	1.3	2.2	3.7	4.7	3.0	2.3	3.9	5.2	4.3
Czechia	2.8	1.2	-0.2	1.9	2.7	1.3	3.7	3.0	1.8	2.7	2.1	1.9
Denmark	1.7	2.2	0.7	1.7	0.2	0.7	0.8	0.5	0.4	0.5	0.5	0.4
Croatia	0.7	3.2	0.1	-1.0	0.7	2.7	2.9	2.7	1.7	2.7	1.8	2.0
Hungary	3.5	0.4	1.5	1.3	0.7	1.3	-0.5	1.5	1.5	1.7	0.4	0.3
Poland	4.2	3.9	1.5	2.3	1.9	3.5	4.7	4.3	3.3	3.6	3.2	3.7
Romania	-4.0	1.7	1.0	-0.3	2.2	2.6	1.8	3.8	3.1	2.0	1.5	1.4
Sweden	0.4	1.2	1.2	2.4	3.6	0.0	0.9	0.1	0.0	1.1	0.9	0.9
EU27	1.9	2.1	0.4	1.4	1.8	1.2	1.2	1.5	1.3	1.4	1.6	1.3
United Kingdom	3.9	2.0	0.7	1.4	0.8	-0.2	0.4	2.2	0.8	0.5	0.9	1.1
EU	2.2	2.1	0.4	1.4	1.7	1.0	1.1	1.6	1.3	1.2	1.5	1.3
Japan	2.6	0.8	1.5	1.5	1.4	0.3	0.8	1.0	0.8	0.4	0.5	1.0
United States	2.4	2.0	-1.4	1.7	1.5	-0.1	1.2	2.1	0.7	1.5	2.3	0.4

Table 9: Total investment, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	1.9	1.9	1.5	2.7	3.8	1.8	2.0	1.7	1.7	2.6	2.3
Germany	-1.5	0.6	2.9	1.6	3.5	2.9	2.6	2.3	2.4	3.1	2.9	3.2
Estonia	14.5	-3.0	7.8	-7.6	2.9	12.5	3.3	4.8	4.0	2.6	4.6	4.2
Ireland	6.8	-1.6	2.4	51.1	51.4	-31.0	9.7	4.2	5.2	-7.3	5.7	5.1
Greece	5.1	-0.5	-15.6	0.7	4.7	9.1	-12.2	10.1	10.8	-2.1	14.6	9.6
Spain	5.8	-0.8	-3.9	6.7	2.9	4.8	5.3	3.6	2.9	5.4	3.9	3.3
France	2.7	0.6	0.7	1.0	2.8	4.5	2.9	2.1	1.7	2.7	2.3	2.1
Italy	3.1	-1.4	-4.2	2.1	3.5	4.3	3.4	-0.3	0.9	3.7	2.0	3.1
Cyprus	3.5	5.3	-14.4	13.8	41.8	29.0	-7.1	10.2	8.1	8.3	7.5	5.3
Latvia	15.0	0.6	1.4	-0.5	-8.4	13.1	16.4	2.8	1.7	11.2	2.8	2.2
Lithuania	9.0	-0.9	6.5	4.9	0.3	6.8	6.5	5.0	4.4	7.3	5.3	4.4
Luxembourg	2.0	2.4	6.7	-9.9	10.4	4.0	-2.7	2.5	1.6	3.4	3.2	2.7
Malta	3.7	0.2	3.0	55.3	-0.1	-7.4	-3.7	10.1	7.8	1.6	8.2	5.7
Netherlands	-0.4	2.4	-2.5	29.0	-7.3	6.1	4.3	3.2	2.1	5.4	3.8	2.3
Austria	1.3	0.0	1.2	2.3	4.3	3.9	3.3	2.0	1.6	3.4	2.5	2.1
Portugal	-1.2	-1.0	-6.8	5.8	2.3	9.2	4.4	4.6	5.0	4.4	4.7	5.1
Slovenia	3.2	1.3	-4.8	-1.6	-3.7	10.7	10.6	7.5	7.4	9.0	7.5	7.4
Slovakia	0.9	2.7	2.3	21.9	-9.4	3.4	6.8	2.6	2.8	12.4	2.2	3.0
Finland	2.4	0.2	-0.9	0.7	8.6	4.3	3.2	1.6	1.3	4.1	2.2	1.8
Euro area	1.7	0.1	-0.6	4.9	4.0	2.6	3.3	2.3	2.3	3.3	3.0	3.0
Bulgaria	14.2	10.2	-3.6	2.7	-6.6	3.2	6.5	6.8	5.2	9.0	6.8	5.2
Czechia	4.3	3.3	0.1	10.2	-3.1	3.7	10.5	3.9	3.1	7.8	3.7	3.2
Denmark	2.0	0.6	0.8	5.5	7.6	4.6	5.1	1.7	2.3	8.2	1.4	2.6
Croatia	8.8	2.8	-4.7	3.8	6.5	3.8	4.1	6.0	5.4	4.1	5.4	5.8
Hungary	4.9	0.1	1.3	4.7	-11.7	18.2	16.5	10.4	2.4	12.5	9.4	1.0
Poland	-1.5	9.5	3.1	6.1	-8.2	4.0	8.7	4.9	4.1	6.2	5.7	4.9
Romania	8.7	10.7	0.7	7.5	-0.2	3.5	-3.2	1.4	2.3	4.6	5.6	5.9
Sweden	2.9	1.6	3.5	6.7	4.2	6.0	3.3	-0.2	0.9	3.5	2.0	2.1
EU27	1.8	0.6	-0.3	5.1	3.3	3.0	3.7	2.4	2.3	3.7	3.2	3.0
United Kingdom	1.8	-1.3	3.9	3.4	2.3	3.5	0.2	-0.2	0.8	-0.1	0.9	0.9
EU	1.8	0.3	0.2	4.9	3.1	3.1	3.2	2.1	2.1	3.2	2.9	2.8
Japan	-1.4	-2.5	2.3	1.6	-0.3	3.0	1.1	1.6	1.1	2.2	2.1	1.3
United States	2.8	-1.9	4.4	3.3	1.7	4.0	4.8	2.8	2.2	5.4	3.7	3.2

Table 10: Investment in construction, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	0.5	2.7	1.4	-1.8	3.4	1.6	1.3	1.7	1.5	2.0	1.9
Germany	-4.0	-0.7	2.5	-1.4	3.8	2.9	2.4	2.7	2.4	2.9	2.8	3.1
Estonia	13.6	-2.0	4.6	-1.1	-0.2	4.2	6.4	3.5	2.4	6.4	2.7	3.0
Ireland	6.6	-6.2	-6.1	7.3	18.2	16.0	15.8	10.3	7.9	12.0	10.8	9.2
Greece	5.0	-3.4	-19.2	-9.9	29.2	0.4	-18.5	20.2	12.5	4.9	10.5	10.9
Spain	6.7	-1.5	-7.9	3.6	1.1	4.6	6.2	4.1	2.9	5.8	4.2	3.4
France	3.0	0.5	-0.6	-1.3	0.5	4.4	1.5	0.5	0.5	1.6	1.4	1.6
Italy	4.2	-2.0	-6.3	-0.7	0.9	1.3	2.6	0.3	1.2	1.4	2.6	4.4
Cyprus	5.7	4.2	-15.7	-2.6	21.7	28.9	19.2	15.1	11.4	13.3	12.3	7.8
Latvia	18.3	3.7	-1.2	-0.2	-21.1	15.6	22.9	2.5	1.8	19.1	2.6	1.6
Lithuania	5.0	0.9	3.5	0.1	-6.4	4.8	8.5	5.3	4.2	5.5	4.1	3.1
Luxembourg	4.7	2.4	1.5	-4.6	8.2	-4.2	7.0	1.4	1.6	3.4	3.2	2.7
Malta	:	-2.9	1.0	52.9	-15.0	24.6	1.5	14.7	12.3	:	:	:
Netherlands	-0.1	2.0	-5.5	11.4	10.9	6.0	6.2	3.5	2.1	5.9	3.7	2.2
Austria	0.3	-1.6	-0.3	0.1	0.4	3.5	2.8	1.9	1.4	2.7	1.8	1.6
Portugal	-1.5	-3.6	-10.2	5.1	-1.5	8.3	3.1	3.6	3.7	3.2	3.6	3.8
Slovenia	1.7	1.6	-8.6	-5.5	-13.6	9.8	15.0	9.3	9.7	11.8	9.8	9.5
Slovakia	-1.7	5.3	-2.8	29.0	-17.5	10.2	7.7	3.5	3.4	20.9	1.7	3.1
Finland	2.9	-0.6	-0.2	2.0	10.1	5.8	4.2	1.4	1.3	3.3	1.5	0.3
Euro area	:	-0.7	-2.6	0.4	2.7	3.9	3.2	2.4	2.1	3.3	2.8	3.0
Bulgaria	12.3	17.4	-8.3	-3.8	-2.7	-3.2	6.1	4.5	2.9	8.9	4.5	2.9
Czechia	2.2	1.9	-2.3	9.7	-6.9	3.6	13.7	3.2	2.3	8.4	2.9	2.6
Denmark	2.4	-2.4	0.2	10.1	6.6	6.1	5.4	3.2	2.0	6.0	4.1	3.2
Croatia	:	:	:	:	:	:	:	:	:	:	:	:
Hungary	6.0	-1.7	-2.1	6.4	-22.1	27.5	31.6	14.8	1.9	18.5	13.6	-2.2
Poland	-1.8	10.1	2.3	2.2	-10.2	-0.2	9.4	3.7	3.0	8.8	6.2	5.4
Romania	7.7	12.2	1.4	20.9	7.4	11.7	-4.5	2.0	3.9	2.9	5.3	6.8
Sweden	5.7	1.3	2.4	8.6	7.7	8.1	3.0	-2.7	-1.8	2.6	-0.7	0.8
EU27	1.6	-0.2	-2.2	1.4	2.2	4.2	3.7	2.4	2.0	3.7	3.0	3.0
United Kingdom	1.3	-2.5	3.2	5.1	2.9	6.6	1.3	1.2	1.2	-0.9	1.0	1.1
EU	1.5	-0.6	-1.5	1.9	2.3	4.6	3.3	2.2	1.9	3.1	2.7	2.7
Japan	-4.5	-5.2	2.3	0.3	1.3	2.9	:	:	:	:	:	:
United States	2.2	-6.2	1.3	3.6	1.0	2.3	2.1	0.1	1.2	3.2	2.1	1.4

Table 11: Investment in equipment, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	2.4	0.1	0.4	4.4	11.4	0.6	1.9	1.6	1.9	3.8	2.8
Germany	0.4	0.7	3.5	4.1	2.2	3.7	4.2	2.1	2.8	4.7	2.9	3.3
Estonia	15.1	-7.2	13.2	-16.1	5.4	27.7	-4.6	6.5	5.8	-2.0	7.0	5.8
Ireland	3.2	4.7	9.0	-2.9	24.2	-11.2	37.7	-3.0	3.7	15.7	3.4	4.1
Greece	5.5	3.7	-13.5	7.3	-11.4	22.2	-10.2	4.2	8.9	-9.4	18.5	9.5
Spain	3.0	-0.9	2.2	11.9	5.2	6.0	5.4	3.0	3.1	6.0	4.1	3.7
France	1.9	-1.0	1.8	4.1	7.4	3.3	2.2	2.0	1.8	3.0	3.2	2.7
Italy	2.2	-1.7	-3.0	4.6	6.7	9.1	5.5	-0.5	0.8	9.7	2.6	2.0
Cyprus	-1.1	7.6	-18.8	52.1	107.9	26.5	-35.1	3.3	3.1	4.5	3.5	3.2
Latvia	12.9	-6.7	6.8	-1.3	11.1	8.2	10.9	3.5	1.5	5.0	3.0	3.0
Lithuania	14.1	-7.7	13.5	13.4	8.9	8.6	4.0	4.4	4.5	9.5	6.7	5.5
Luxembourg	-1.1	2.8	15.3	-19.1	15.8	14.8	-15.6	3.8	1.6	3.4	3.4	2.6
Malta	:	2.1	2.5	85.5	13.5	-35.0	-14.4	:	:	:	:	:
Netherlands	-2.0	2.5	-0.4	14.2	4.8	8.5	2.8	2.8	1.0	6.0	4.2	2.3
Austria	1.1	0.4	1.3	3.9	10.6	4.6	3.3	2.1	1.5	4.6	3.2	2.4
Portugal	-1.9	1.8	-4.1	10.4	7.5	13.5	6.1	6.3	8.5	7.0	7.8	8.5
Slovenia	5.7	-0.8	-1.1	3.9	7.3	12.1	8.3	6.5	5.8	8.2	6.6	6.5
Slovakia	3.0	0.7	7.9	16.9	-1.3	-1.4	5.2	2.4	2.2	3.9	3.2	2.9
Finland	0.9	1.1	-0.7	3.6	13.7	6.1	1.6	1.8	0.6	6.8	4.0	5.0
Euro area	:	0.0	1.1	5.6	5.8	5.0	4.4	1.8	2.4	5.5	3.5	3.1
Bulgaria	16.2	0.8	4.1	9.8	-14.9	4.3	7.1	9.4	7.5	9.9	9.3	7.5
Czechia	6.0	4.1	2.2	9.3	-2.5	3.4	9.8	5.1	4.2	8.0	4.5	4.1
Denmark	1.5	0.8	1.7	1.4	2.5	7.7	6.6	-0.9	2.8	14.5	-3.0	2.0
Croatia	:	:	:	:	:	:	:	:	:	:	:	:
Hungary	4.1	-0.2	5.6	1.5	2.5	13.8	-2.0	5.6	3.9	8.5	5.6	5.0
Poland	-1.3	8.3	4.3	12.1	-7.6	8.3	9.0	6.8	5.8	4.0	5.4	4.6
Romania	10.2	10.0	-1.0	-3.9	-8.9	-5.0	1.5	2.4	2.0	8.5	6.5	5.5
Sweden	1.2	2.0	4.8	5.1	5.3	5.5	1.3	0.8	3.1	4.7	4.3	3.6
EU27	1.6	0.6	1.4	5.6	4.5	5.1	4.5	2.1	2.6	5.8	3.6	3.3
United Kingdom	2.6	-2.1	6.8	5.2	2.0	-2.7	-4.5	-4.0	0.4	-3.2	0.4	1.0
EU	1.7	0.3	1.9	5.6	4.2	4.2	3.5	1.5	2.4	4.9	3.3	3.1
Japan	0.9	-1.0	3.1	2.8	-1.8	4.9	:	:	:	:	:	:
United States	2.8	0.1	9.0	2.8	-1.1	5.9	7.2	5.0	3.4	6.8	3.9	3.4

Table 12: Public investment (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	2.2	2.1	2.4	2.3	2.2	2.2	2.4	2.4	2.5	2.4	2.5
Germany	2.2	2.0	2.2	2.1	2.2	2.2	2.3	2.4	2.5	2.4	2.4	2.5
Estonia	4.9	5.7	5.3	5.2	4.5	5.4	5.5	5.5	5.4	5.6	5.4	5.0
Ireland	3.8	4.2	2.4	1.8	1.9	1.8	2.0	2.3	2.3	2.1	2.4	2.3
Greece	5.5	5.3	3.2	3.8	3.5	4.4	3.0	4.1	4.0	3.5	4.1	4.1
Spain	3.9	4.6	3.1	2.5	1.9	2.0	2.1	2.1	2.1	2.2	2.0	2.0
France	3.9	4.0	4.0	3.4	3.4	3.3	3.4	3.5	3.4	3.4	3.5	3.6
Italy	2.8	3.1	2.6	2.2	2.1	2.2	2.1	2.1	2.3	1.9	1.9	2.0
Cyprus	3.6	3.5	3.1	2.2	2.5	2.7	5.5	2.2	2.2	2.8	2.9	2.9
Latvia	2.4	4.9	4.7	4.8	3.6	4.4	5.4	5.3	5.2	4.8	4.7	4.7
Lithuania	2.9	4.6	4.2	3.7	3.0	3.2	3.2	3.0	3.3	3.3	3.4	3.5
Luxembourg	4.6	4.0	4.0	3.9	4.0	4.2	4.1	4.1	4.1	4.1	4.0	4.0
Malta	3.9	3.4	2.9	4.2	2.5	2.3	3.0	3.5	3.5	2.5	2.8	3.1
Netherlands	4.0	4.0	3.8	3.6	3.5	3.4	3.4	3.5	3.5	3.5	3.6	3.5
Austria	2.5	3.1	3.0	3.0	3.0	3.1	3.0	3.0	3.0	3.1	3.0	3.1
Portugal	4.6	3.7	3.1	2.2	1.5	1.8	2.0	2.1	2.3	2.0	2.3	2.6
Slovenia	3.8	4.5	4.5	4.7	3.1	3.1	3.6	3.9	4.1	3.2	3.6	3.9
Slovakia	3.6	3.5	3.6	6.3	3.2	3.2	3.6	3.6	3.6	3.6	3.6	3.6
Finland	3.7	3.6	4.0	3.9	4.1	4.1	4.2	4.2	4.2	4.0	3.8	3.7
Euro area	3.1	3.3	3.0	2.7	2.6	2.6	2.7	2.8	2.8	2.7	2.7	2.8
Bulgaria	3.6	4.7	4.1	6.6	2.6	2.2	2.9	4.1	4.4	3.3	3.8	3.9
Czechia	5.1	5.3	4.3	5.1	3.3	3.4	4.1	4.2	4.3	3.8	3.9	3.9
Denmark	2.8	3.0	3.6	3.6	3.8	3.4	3.4	3.5	3.4	3.5	3.5	3.4
Croatia	:	5.8	3.6	3.2	3.2	2.7	3.5	3.8	4.0	2.7	2.7	2.9
Hungary	4.0	4.0	4.1	6.6	3.1	4.6	5.8	6.7	6.2	5.8	6.3	6.3
Poland	2.6	4.3	5.0	4.5	3.3	3.8	4.7	4.7	4.6	4.5	4.9	5.1
Romania	3.2	5.3	4.9	5.2	3.6	2.6	2.6	2.9	3.5	2.8	2.8	2.9
Sweden	4.1	4.2	4.5	4.2	4.4	4.6	4.8	4.8	4.9	4.7	4.8	4.8
EU27	:	3.4	3.2	3.0	2.7	2.8	2.9	3.0	3.0	2.9	2.9	3.0
United Kingdom	2.0	2.9	2.8	2.7	2.6	2.7	2.7	2.8	2.8	2.7	2.7	3.0
EU	:	3.3	3.1	2.9	2.7	2.8	2.9	3.0	3.0	2.8	2.9	3.0
Japan	5.0	3.8	3.8	3.7	3.6	3.7	3.6	3.6	3.6	3.6	3.6	3.6
United States	3.7	3.9	3.6	3.2	3.2	3.1	3.3	3.3	3.3	3.3	3.3	3.3

Table 13: Potential GDP, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			2000-2020			Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	2.2	1.7	1.1	1.2	1.3	1.3	1.4	1.3	1.3	1.5	1.3
Germany	1.4	1.2	1.2	1.7	1.7	1.7	1.6	1.5	1.4	1.9	2.1	2.0
Estonia	5.2	3.7	1.5	2.8	2.7	3.2	3.2	3.3	3.0	3.2	3.3	2.9
Ireland	6.7	2.8	1.4	23.1	6.0	8.5	5.1	4.3	3.9	7.6	3.9	3.5
Greece	4.2	1.6	-2.2	-1.9	-1.4	-0.9	-0.8	-0.3	0.0	-0.8	-0.3	0.0
Spain	3.5	2.9	0.1	0.4	0.7	1.1	1.2	1.4	1.4	1.2	1.4	1.5
France	1.9	1.5	1.0	0.9	1.0	1.1	1.2	1.2	1.3	1.2	1.2	1.3
Italy	1.3	0.5	-0.3	-0.2	-0.3	0.2	0.5	0.3	0.5	0.5	0.6	0.8
Cyprus	3.5	3.7	0.1	-1.1	0.8	2.1	1.9	2.1	2.1	2.1	2.2	2.2
Latvia	6.6	5.0	-0.1	2.2	2.2	3.1	3.7	3.8	3.8	3.4	3.6	3.7
Lithuania	6.0	5.0	1.2	2.0	1.7	2.3	2.8	3.3	3.4	3.2	3.6	3.5
Luxembourg	4.6	3.3	2.1	1.9	2.1	2.0	1.8	2.1	2.3	2.6	2.7	2.8
Malta	2.8	2.4	3.5	7.8	7.4	7.1	6.3	5.7	5.5	6.1	5.4	5.2
Netherlands	2.5	1.6	0.6	1.4	1.3	1.6	1.8	1.7	1.7	1.9	1.8	1.8
Austria	2.3	1.8	0.9	1.3	1.5	1.7	1.8	1.8	1.9	2.0	2.0	2.1
Portugal	2.2	0.6	-0.6	0.4	0.8	1.4	1.6	1.6	1.6	1.6	1.7	1.6
Slovenia	3.4	3.3	0.4	0.9	1.3	1.9	2.5	3.0	3.4	2.7	3.1	3.4
Slovakia	4.2	5.3	2.7	2.8	2.2	2.4	3.0	3.1	3.2	3.4	3.6	3.6
Finland	3.6	1.7	0.2	0.4	1.0	1.1	1.4	1.4	1.3	1.8	1.8	1.6
Euro area	2.1	1.5	0.6	1.3	1.1	1.4	1.4	1.3	1.4	1.6	1.6	1.6
Bulgaria	3.5	5.1	1.2	3.2	3.0	3.0	3.0	2.8	2.7	3.4	3.4	3.2
Czechia	2.8	3.9	1.2	2.8	2.6	2.9	3.0	3.0	2.9	2.9	2.8	2.7
Denmark	1.8	1.3	0.8	1.4	1.6	1.6	1.8	1.8	1.8	1.6	1.6	1.6
Croatia	:	2.2	-0.2	0.8	1.3	1.2	1.9	1.8	2.1	1.8	2.1	2.4
Hungary	3.7	1.9	0.5	2.2	2.0	2.8	3.4	3.7	3.6	3.2	3.4	3.1
Poland	4.2	3.7	3.5	3.2	3.0	3.3	3.8	3.9	4.0	3.5	3.7	3.8
Romania	2.8	5.7	2.1	3.5	3.9	4.2	3.9	3.6	3.5	4.6	4.1	4.1
Sweden	3.0	2.2	1.6	2.3	2.3	2.3	2.2	2.0	1.9	2.4	2.1	2.0
EU27	:	1.7	0.8	1.5	1.3	1.6	1.6	1.5	1.6	1.7	1.7	1.8
United Kingdom	3.0	1.8	1.1	1.5	1.5	1.4	1.6	1.6	1.5	1.5	1.4	1.4
EU	:	1.7	0.8	1.5	1.3	1.5	1.6	1.5	1.6	1.7	1.7	1.7
Japan	:	:	:	:	:	:	:	:	:	:	:	:
United States	3.0	2.0	1.4	1.9	1.9	2.1	2.2	2.3	2.3	2.2	2.2	2.2

Table 14: Output gap relative to potential GDP¹ (deviation of actual output from potential output as % of potential GDP, 2000-2020)

24.4.2019

	5-year averages			2000-2020			Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	0.3	0.9	-0.5	-0.3	-0.1	0.3	0.2	0.2	0.1	0.1	0.3
Germany	0.1	-0.6	-0.3	-0.1	0.4	0.9	0.7	-0.2	-0.1	0.6	0.4	0.0
Estonia	1.5	5.3	-0.9	0.3	1.1	2.7	3.3	2.8	2.2	3.0	2.6	2.3
Ireland	2.0	-0.7	-1.5	3.4	2.4	1.2	2.8	2.2	1.7	0.2	0.8	1.1
Greece	1.8	2.8	-12.2	-12.1	-11.0	-8.9	-6.4	-4.0	-1.9	-6.0	-3.8	-1.9
Spain	2.9	1.2	-6.9	-4.7	-2.3	-0.5	0.9	1.6	2.0	1.0	1.8	2.2
France	1.5	1.1	-1.1	-1.2	-1.0	0.0	0.4	0.5	0.7	0.1	0.5	0.8
Italy	1.4	0.7	-3.1	-3.3	-2.0	-0.5	-0.1	-0.3	-0.1	-0.3	0.3	0.8
Cyprus	2.0	4.2	-4.6	-5.2	-1.5	0.8	2.8	3.8	4.3	2.3	3.5	4.3
Latvia	-0.5	3.4	-4.4	0.4	0.2	1.7	2.8	2.2	1.3	2.4	2.1	1.3
Lithuania	-2.2	2.1	-3.5	0.5	1.1	3.0	3.6	3.1	2.1	2.8	2.0	1.1
Luxembourg	2.3	-0.5	-3.2	-0.1	0.2	-0.2	0.6	1.0	1.3	0.0	0.3	0.2
Malta	0.7	0.3	-1.7	3.1	1.5	1.1	1.3	1.1	0.3	0.9	0.4	-0.4
Netherlands	-0.2	-0.1	-2.3	-1.9	-1.0	0.2	1.1	1.0	0.9	1.0	1.6	1.6
Austria	0.0	0.3	-0.6	-1.3	-0.8	0.1	1.0	0.7	0.4	0.8	0.8	0.5
Portugal	0.7	-0.3	-2.5	-1.8	-0.7	0.7	1.2	1.3	1.4	1.2	1.4	1.5
Slovenia	0.6	3.1	-4.5	-3.3	-1.6	1.3	3.3	3.4	2.8	2.7	3.0	2.5
Slovakia	-2.9	2.3	-2.3	-1.2	-0.3	0.4	1.5	2.1	2.3	0.7	1.3	1.2
Finland	0.3	0.7	-2.2	-3.4	-1.7	-0.3	0.7	0.9	0.8	0.3	0.6	0.9
Euro area	1.0	0.5	-2.3	-1.8	-1.0	0.0	0.5	0.3	0.5	0.3	0.6	0.8
Bulgaria	-1.9	1.8	-0.8	-1.6	-0.7	0.1	0.2	0.6	1.3	0.3	0.6	1.0
Czechia	0.1	3.0	-1.8	0.0	-0.1	1.3	1.2	0.8	0.3	1.1	1.2	1.0
Denmark	0.9	1.3	-2.8	-1.5	-0.7	-0.1	-0.5	-0.5	-0.7	-0.6	-0.4	-0.5
Croatia	:	3.5	-3.5	-3.4	-1.2	0.5	1.2	2.1	2.4	1.6	2.3	2.5
Hungary	0.2	1.0	-3.0	0.3	0.6	1.8	3.3	3.3	2.5	2.8	2.9	2.4
Poland	-3.4	0.4	0.0	-0.8	-0.7	0.8	2.1	2.3	2.0	2.1	2.1	1.6
Romania	-0.3	5.9	-4.4	-2.7	-1.9	0.8	0.9	0.6	0.2	0.5	0.2	-0.3
Sweden	-0.1	0.3	-1.7	0.2	0.5	0.3	0.5	-0.1	-0.4	0.3	0.0	-0.2
EU27	:	0.6	-2.2	-1.7	-0.9	0.1	0.6	0.4	0.5	0.4	0.7	0.7
United Kingdom	0.5	0.0	-2.5	0.4	0.7	1.0	0.8	0.5	0.3	0.8	0.5	0.3
EU	:	0.5	-2.3	-1.4	-0.7	0.3	0.6	0.5	0.5	0.5	0.6	0.7
Japan	:	:	:	:	:	:	:	:	:	:	:	:
United States	0.2	-0.1	-1.7	0.3	0.0	0.1	0.7	0.9	0.5	0.7	1.1	0.8

¹When comparing output gaps between the spring and the winter forecast it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

Table 15: Deflator of gross domestic product (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	1.9	1.8	1.5	1.0	1.8	1.7	1.2	1.5	1.6	2.2	1.9
Germany	0.9	1.0	1.4	2.0	1.4	1.5	1.9	2.1	2.1	1.8	2.0	1.9
Estonia	4.9	6.8	3.3	1.0	1.5	3.9	4.6	3.3	2.7	4.2	3.6	2.9
Ireland	4.7	0.5	-0.3	7.4	-0.8	0.4	1.5	1.7	1.9	1.7	1.9	2.1
Greece	3.0	3.2	-0.6	-0.3	-0.2	0.6	0.5	1.1	1.2	0.5	1.1	1.2
Spain	3.9	2.8	0.1	0.5	0.3	1.2	1.0	1.6	1.7	1.4	1.6	1.7
France	1.8	1.8	0.9	1.1	0.2	0.7	0.9	1.3	1.3	0.9	1.4	1.5
Italy	2.8	2.1	1.1	0.9	1.2	0.5	0.8	0.7	1.0	1.3	1.3	1.4
Cyprus	2.9	2.8	0.5	-1.2	-0.6	1.7	1.6	1.1	1.3	2.1	1.3	1.7
Latvia	4.5	8.7	2.5	0.0	0.9	3.2	4.2	2.7	2.0	3.7	2.1	2.7
Lithuania	0.6	5.6	2.5	0.3	1.4	4.3	3.4	3.0	2.7	2.6	3.7	3.6
Luxembourg	2.0	3.6	3.1	-0.4	0.9	2.2	3.8	1.8	1.7	2.0	1.8	1.7
Malta	2.4	2.7	2.5	2.6	1.4	2.5	2.2	2.3	2.2	2.2	2.2	2.1
Netherlands	2.9	1.8	0.8	0.8	0.5	1.2	2.2	2.4	1.6	2.0	2.4	2.0
Austria	1.5	2.1	1.7	2.2	1.4	1.3	1.6	2.0	1.9	1.6	1.9	1.8
Portugal	3.4	2.5	0.6	2.0	1.8	1.5	1.4	1.4	1.6	1.4	1.5	1.5
Slovenia	6.1	3.1	0.6	1.0	0.8	1.6	2.3	2.4	2.9	2.2	2.6	2.5
Slovakia	5.9	1.6	0.7	-0.2	-0.5	1.2	2.1	2.6	2.5	2.6	2.7	2.6
Finland	1.3	1.9	2.0	1.7	0.1	0.9	1.9	1.5	1.9	0.9	1.6	2.0
Euro area	2.1	1.8	1.0	1.4	0.8	1.1	1.4	1.6	1.6	1.5	1.7	1.7
Bulgaria	5.0	7.3	1.7	2.2	2.2	3.4	3.6	2.7	2.2	2.6	2.4	2.2
Czechia	2.9	1.8	0.8	1.2	1.3	1.4	2.1	2.1	2.0	1.6	2.3	2.0
Denmark	2.3	2.4	1.6	0.4	0.7	1.4	0.4	1.6	1.8	1.1	1.6	2.0
Croatia	4.0	4.0	1.0	0.0	-0.1	1.1	1.7	1.5	1.6	2.3	1.7	1.6
Hungary	8.0	4.1	2.9	1.9	0.9	3.8	4.5	4.0	3.4	3.7	3.3	3.0
Poland	3.3	3.1	1.6	0.8	0.3	2.0	1.1	1.8	2.4	1.1	2.4	2.5
Romania	28.1	11.6	3.3	2.6	2.5	4.7	5.9	5.2	3.7	6.5	3.8	3.5
Sweden	1.6	2.2	1.2	2.1	1.6	2.3	2.2	2.2	1.9	2.5	2.0	1.8
EU27	2.3	2.0	1.1	1.4	0.9	1.3	1.5	1.7	1.7	1.6	1.8	1.8
United Kingdom	2.0	2.5	1.7	0.4	2.1	2.2	1.9	1.9	2.0	1.9	1.6	2.0
EU	2.3	2.1	1.2	1.2	1.1	1.4	1.6	1.8	1.8	1.6	1.8	1.8
Japan	-1.3	-0.8	-0.6	2.1	0.3	-0.2	-0.1	0.4	0.4	0.2	0.7	0.9
United States	2.1	2.3	1.8	1.1	1.1	1.9	2.3	1.9	1.8	2.2	2.2	2.0

Table 16: Price deflator of private consumption (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	2.1	2.3	1.6	0.7	1.7	1.8	1.8	1.7	1.6	2.2	2.1
Germany	1.3	1.1	1.5	0.6	0.7	1.6	1.6	1.5	1.5	1.8	1.9	1.6
Estonia	3.9	5.2	3.4	-0.1	0.9	3.7	3.3	2.6	2.3	3.6	3.4	2.5
Ireland	4.0	0.4	0.7	0.4	0.8	1.3	1.8	1.9	1.9	1.3	1.4	1.5
Greece	2.8	3.0	0.4	-1.7	-0.8	0.6	0.3	0.8	0.8	0.3	1.2	0.9
Spain	3.4	2.6	1.6	-0.2	0.0	1.6	1.6	1.2	1.5	1.8	1.7	1.5
France	1.8	1.5	1.0	0.3	-0.1	1.3	1.7	1.2	1.2	1.8	1.7	1.6
Italy	2.8	1.9	1.7	0.2	0.2	1.1	1.1	0.9	1.1	1.3	1.5	1.4
Cyprus	1.6	3.1	1.3	-1.6	-1.4	0.9	1.2	0.9	1.2	0.9	1.3	1.4
Latvia	4.5	8.0	1.7	-1.0	1.1	3.1	2.8	2.8	2.4	2.7	2.7	2.4
Lithuania	-0.3	5.6	1.9	-0.9	0.9	3.3	2.4	2.4	2.3	2.6	2.5	2.5
Luxembourg	2.1	2.1	1.7	-0.1	0.4	1.6	1.8	1.8	1.8	1.6	2.0	1.9
Malta	2.0	2.5	1.7	1.7	0.6	1.0	0.8	1.4	1.9	0.9	1.4	1.6
Netherlands	2.7	1.4	1.6	0.2	0.6	1.6	2.0	2.5	1.8	1.7	2.5	1.9
Austria	1.8	1.9	2.3	1.5	1.4	1.7	2.0	1.8	1.8	2.1	2.1	2.0
Portugal	3.4	2.3	1.3	0.9	1.0	1.2	1.2	1.1	1.6	1.5	1.5	1.6
Slovenia	6.1	3.0	1.4	-0.6	-0.5	1.7	2.4	2.2	2.4	2.5	2.5	2.4
Slovakia	6.1	2.9	1.9	-0.1	-0.3	1.4	2.3	2.5	2.4	2.6	2.6	2.4
Finland	1.7	1.9	2.3	0.5	0.4	0.6	1.3	1.4	1.6	1.1	1.4	1.7
Euro area	2.2	1.7	1.5	0.3	0.4	1.4	1.5	1.4	1.4	1.7	1.8	1.6
Bulgaria	3.6	4.9	1.3	1.2	-0.1	2.3	2.5	2.0	1.8	2.6	2.0	1.8
Czechia	2.3	2.3	1.2	0.1	0.5	2.4	2.6	2.5	2.4	2.4	2.2	1.8
Denmark	1.9	2.0	1.7	0.4	0.5	1.2	0.9	1.3	1.6	1.2	1.7	2.0
Croatia	3.3	3.7	1.7	-0.5	-1.2	1.0	1.2	1.0	1.2	1.6	1.5	1.4
Hungary	7.3	4.6	3.2	-0.2	-0.2	2.6	3.2	3.2	3.2	3.0	3.3	3.0
Poland	4.3	2.5	2.2	-1.1	-0.4	1.7	1.7	2.1	2.6	1.5	2.3	2.4
Romania	23.9	6.6	3.6	1.0	0.7	2.7	3.7	3.3	3.1	3.5	3.4	3.0
Sweden	1.4	1.8	1.1	0.9	1.0	1.7	2.3	1.5	1.6	1.7	1.7	1.8
EU27	2.4	1.9	1.5	0.3	0.4	1.5	1.6	1.5	1.5	1.7	1.9	1.7
United Kingdom	0.9	2.3	2.4	0.5	1.5	2.1	2.3	1.4	1.6	1.9	1.5	2.1
EU	2.1	2.0	1.7	0.3	0.6	1.6	1.7	1.5	1.6	1.8	1.8	1.7
Japan	-1.0	-0.5	-0.2	0.4	-0.5	0.2	0.5	0.2	0.4	0.0	0.6	0.7
United States	2.0	2.2	1.8	0.2	1.1	1.8	2.0	1.8	1.8	2.1	2.2	2.0

Table 17: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2000-2020) 24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	2.0	2.2	2.0	0.6	1.8	2.2	2.3	1.8	1.6	2.3	2.1
Germany	1.5	1.8	1.6	0.7	0.4	1.7	1.9	1.5	1.5	1.8	1.9	1.6
Estonia	3.5	5.2	3.2	0.1	0.8	3.7	3.4	2.4	2.2	3.5	3.3	2.5
Ireland	4.1	1.8	0.5	0.0	-0.2	0.3	0.7	1.0	1.3	0.7	1.2	1.4
Greece	3.4	3.1	1.3	-1.1	0.0	1.1	0.8	0.8	0.8	0.8	1.2	1.0
Spain	3.2	2.7	1.8	-0.6	-0.3	2.0	1.7	1.1	1.4	1.8	1.7	1.5
France	2.0	1.7	1.6	0.1	0.3	1.2	2.1	1.3	1.4	2.1	1.7	1.6
Italy	2.5	2.1	1.9	0.1	-0.1	1.3	1.2	0.9	1.1	1.3	1.5	1.4
Cyprus	3.1	2.2	1.9	-1.5	-1.2	0.7	0.8	0.9	1.1	0.8	1.3	1.4
Latvia	3.2	8.4	1.2	0.2	0.1	2.9	2.6	2.8	2.4	2.7	2.7	2.4
Lithuania	0.6	5.5	2.0	-0.7	0.7	3.7	2.5	2.1	2.1	2.6	2.2	2.1
Luxembourg	2.8	2.7	2.4	0.1	0.0	2.1	2.0	1.8	1.7	2.0	2.0	1.8
Malta	2.6	2.5	1.9	1.2	0.9	1.3	1.7	1.8	1.9	1.8	1.9	2.0
Netherlands	3.0	1.6	1.8	0.2	0.1	1.3	1.6	2.5	1.5	1.6	2.5	1.7
Austria	1.8	1.9	2.3	0.8	1.0	2.2	2.1	1.8	1.9	2.1	2.1	2.0
Portugal	3.3	1.9	1.6	0.5	0.6	1.6	1.2	1.1	1.6	1.5	1.6	1.6
Slovenia	6.9	3.0	1.8	-0.8	-0.2	1.6	1.9	1.8	2.1	2.0	2.3	2.2
Slovakia	7.8	2.8	2.0	-0.3	-0.5	1.4	2.5	2.4	2.3	2.6	2.6	2.4
Finland	1.8	1.8	2.3	-0.2	0.4	0.8	1.2	1.4	1.6	1.2	1.6	1.8
Euro area	2.2	2.0	1.7	0.2	0.2	1.5	1.8	1.4	1.4	1.8	1.8	1.6
Bulgaria	6.4	7.1	1.5	-1.1	-1.3	1.2	2.6	2.0	1.8	2.6	2.0	1.8
Czechia	2.5	2.7	1.7	0.3	0.6	2.4	2.0	2.4	2.0	2.1	2.2	1.8
Denmark	2.1	2.0	1.6	0.2	0.0	1.1	0.7	1.3	1.5	0.8	1.5	1.7
Croatia	3.2	3.4	1.8	-0.3	-0.6	1.3	1.6	1.0	1.2	1.6	1.5	1.4
Hungary	7.1	5.1	3.2	0.1	0.4	2.4	2.9	3.2	3.2	3.0	3.3	3.0
Poland	4.3	2.8	2.2	-0.7	-0.2	1.6	1.2	1.8	2.5	1.2	2.6	2.7
Romania	26.0	6.8	4.0	-0.4	-1.1	1.1	4.1	3.6	3.0	4.3	3.5	3.3
Sweden	1.9	1.9	1.0	0.7	1.1	1.9	2.0	1.5	1.6	2.1	1.9	1.6
EU27	2.6	2.3	1.8	0.1	0.2	1.6	1.8	1.5	1.6	1.8	1.9	1.7
United Kingdom	1.2	2.5	2.9	0.0	0.7	2.7	2.5	2.0	2.1	2.6	2.0	1.9
EU	2.7	2.3	2.0	0.1	0.2	1.7	1.9	1.6	1.7	2.0	2.0	1.8
Japan	-0.5	0.0	0.4	0.8	-0.1	0.5	1.0	0.7	0.9	0.8	1.0	1.3
United States	2.5	2.6	2.0	0.1	1.3	2.1	2.4	2.0	2.0	2.5	2.4	2.2

Table 18: Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 2018-20) 24.4.2019

	2018/1	2018/2	2018/3	2018/4	2019/1	2019/2	2019/3	2019/4	2020/1	2020/2	2020/3	2020/4
Belgium	1.6	2.2	2.7	2.8	2.0	2.0	1.8	1.5	2.0	1.7	1.5	1.4
Germany	1.5	1.9	2.2	2.1	1.6	1.7	1.5	1.2	1.8	1.4	1.4	1.4
Estonia	3.2	3.3	3.5	3.7	2.3	2.6	2.3	2.3	2.3	2.5	2.2	2.0
Ireland	0.5	0.4	1.0	0.9	0.9	0.8	1.0	1.2	1.4	1.2	1.3	1.4
Greece	0.3	0.7	0.9	1.1	0.8	0.8	0.8	0.7	1.1	0.8	0.7	0.6
Spain	1.1	1.8	2.3	1.8	1.1	1.1	1.1	1.1	1.5	1.3	1.4	1.4
France	1.5	2.1	2.6	2.2	1.4	1.3	1.2	1.3	1.5	1.3	1.3	1.3
Italy	0.9	1.0	1.7	1.5	1.0	0.8	0.8	0.8	1.1	1.1	1.2	1.2
Cyprus	-0.8	0.8	1.6	1.5	1.4	0.8	0.6	0.9	1.3	0.9	1.0	1.1
Latvia	2.0	2.4	2.9	2.9	2.8	3.0	2.8	2.6	2.7	2.2	2.2	2.3
Lithuania	3.1	2.5	2.2	2.3	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Luxembourg	1.2	1.9	2.5	2.4	2.1	1.8	1.6	1.8	2.1	1.6	1.6	1.6
Malta	1.3	1.7	2.4	1.6	1.1	2.0	2.2	1.9	1.8	1.7	2.2	1.8
Netherlands	1.3	1.5	1.8	1.8	2.5	2.6	2.3	2.5	1.6	1.5	1.5	1.4
Austria	2.0	2.1	2.2	2.1	1.6	1.9	1.9	2.0	2.0	1.9	1.8	1.8
Portugal	0.9	1.2	1.8	0.8	0.8	1.0	1.1	1.4	1.5	1.6	1.6	1.6
Slovenia	1.5	2.1	2.1	2.0	1.3	1.7	1.9	2.1	2.1	2.2	2.1	2.2
Slovakia	2.4	2.9	2.7	2.1	2.1	2.6	2.5	2.4	2.5	2.4	2.3	2.2
Finland	0.8	1.0	1.4	1.5	1.3	1.4	1.5	1.5	1.5	1.6	1.7	1.7
Euro area	1.3	1.7	2.1	1.9	1.4	1.4	1.3	1.3	1.5	1.4	1.4	1.4
Bulgaria	1.6	2.4	3.6	3.0	2.5	2.2	1.5	1.7	1.8	1.8	1.8	1.8
Czechia	1.7	2.1	2.3	1.8	2.3	2.2	2.2	2.7	1.9	2.2	2.0	2.1
Denmark	0.5	0.9	0.8	0.7	1.2	1.3	1.4	1.5	1.5	1.5	1.5	1.6
Croatia	1.1	1.8	2.0	1.3	0.8	1.0	1.0	1.3	1.2	1.2	1.2	1.3
Hungary	2.0	2.8	3.5	3.3	3.2	3.4	3.2	3.3	3.7	3.2	2.9	2.9
Poland	1.0	1.1	1.4	1.1	1.2	1.8	2.1	2.1	2.5	2.4	2.5	2.6
Romania	3.7	4.5	4.6	3.5	3.8	3.7	3.5	3.3	3.1	3.1	2.8	2.8
Sweden	1.7	2.0	2.2	2.2	1.9	1.5	1.2	1.6	1.7	1.5	1.6	1.6
EU27	1.3	1.8	2.1	1.9	1.5	1.5	1.4	1.4	1.6	1.5	1.5	1.5
United Kingdom	2.7	2.4	2.5	2.3	1.9	2.1	1.9	2.0	2.1	2.1	2.1	2.3
EU	1.6	1.9	2.2	2.0	1.6	1.6	1.5	1.5	1.7	1.6	1.6	1.6
Japan	1.3	0.6	1.1	0.9	0.5	0.8	0.5	1.0	1.1	1.1	1.0	0.4
United States	2.2	2.7	2.6	2.2	1.9	1.9	2.0	2.2	2.1	2.0	2.0	1.9

Table 19: Price deflator of exports of goods in national currency (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	0.8	1.2	1.7	-3.7	-2.6	2.4	1.6	1.4	1.4	1.3	2.0
Germany	0.2	0.1	1.2	0.9	-1.0	1.5	0.9	0.6	0.4	0.9	1.1	0.6
Estonia	2.5	3.3	1.6	-1.7	0.0	4.0	2.4	1.3	1.6	2.4	1.4	1.4
Ireland	-1.2	-0.2	0.4	9.9	-4.0	-2.0	-3.4	-0.3	0.4	-1.4	0.4	0.5
Greece	2.8	1.8	3.1	-11.5	-5.5	7.3	5.5	2.4	1.7	4.2	0.4	1.1
Spain	1.2	1.7	1.5	0.7	-1.5	3.3	1.2	1.1	1.2	1.2	1.7	0.5
France	-0.6	0.8	1.2	0.6	-2.0	1.3	0.6	1.3	1.4	0.3	1.5	1.1
Italy	1.6	1.4	1.6	-0.4	-0.8	1.7	1.8	1.7	1.3	1.9	2.1	1.0
Cyprus	2.6	2.8	1.4	0.8	-0.9	0.4	0.5	0.8	1.2	0.9	1.2	1.8
Latvia	5.1	6.0	4.9	0.2	-2.7	4.2	3.2	1.5	1.2	3.2	1.2	1.5
Lithuania	1.6	3.0	4.6	-6.5	-3.1	4.7	3.8	2.3	1.6	2.5	2.3	2.1
Luxembourg	1.7	3.0	2.0	-2.0	-1.0	4.0	3.7	1.8	1.2	1.4	1.5	0.7
Malta	1.8	0.9	2.0	0.5	-4.9	4.8	4.4	4.5	4.5	5.5	3.0	3.0
Netherlands	0.4	0.9	2.1	-2.6	-3.6	3.7	2.3	0.9	1.3	2.4	1.4	1.2
Austria	0.5	1.1	1.3	-1.0	-1.1	1.8	1.1	0.6	0.8	1.2	0.5	0.5
Portugal	0.8	0.8	1.7	-2.6	-2.9	3.3	1.9	1.6	1.2	1.9	1.6	1.2
Slovenia	5.4	1.3	1.1	-0.6	-2.1	2.6	2.6	1.8	1.5	2.3	1.8	1.2
Slovakia	5.3	-0.3	0.4	-1.3	-1.7	2.2	1.6	2.1	2.0	2.2	2.1	2.0
Finland	-1.1	-0.9	1.5	-1.7	-2.9	3.9	4.8	1.0	1.3	2.6	2.2	2.2
Euro area	0.4	0.7	1.4	0.0	-1.9	1.9	1.2	1.0	1.0	1.2	1.4	0.9
Bulgaria	-2.5	8.9	3.3	-2.3	-2.4	7.7	2.3	1.8	1.8	1.8	1.8	1.8
Czechia	0.0	-1.8	1.6	-1.4	-2.8	-0.6	-0.9	0.7	0.2	-0.8	0.6	1.5
Denmark	1.5	2.2	2.2	-0.7	-0.8	0.3	0.4	2.5	1.4	0.1	1.4	1.3
Croatia	4.4	2.4	2.3	-2.3	-3.1	1.2	0.6	1.4	1.5	1.6	1.5	1.3
Hungary	0.9	0.8	1.8	-0.3	-1.0	1.7	3.0	1.7	1.5	2.7	1.9	1.5
Poland	4.8	2.6	2.5	1.6	0.3	1.6	1.8	1.5	1.2	1.3	1.9	2.0
Romania	26.0	6.7	2.4	-0.3	-8.9	3.3	5.6	4.8	3.9	4.3	3.2	3.1
Sweden	-0.4	2.6	-1.1	1.6	-1.6	4.1	5.7	4.3	1.7	5.5	2.4	1.2
EU27	0.6	0.9	1.4	0.1	-1.8	1.9	1.4	1.2	1.1	1.3	1.5	1.0
United Kingdom	0.2	3.5	1.7	-8.3	5.7	6.2	3.6	1.6	1.4	3.2	2.3	1.1
EU	0.5	1.2	1.4	-0.6	-1.2	2.3	1.5	1.3	1.1	1.5	1.5	1.0
Japan	-1.9	-2.1	1.4	0.8	-8.7	4.5	1.3	0.8	1.0	1.4	1.0	1.0
United States	0.9	1.6	2.0	-7.2	-3.8	3.0	3.6	0.6	1.2	4.2	1.8	1.2

Table 20: Price deflator of imports of goods in national currency (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	1.7	1.3	2.7	-5.4	-3.1	3.9	3.5	1.5	1.3	1.1	2.0
Germany	0.4	-0.1	1.7	-2.2	-3.2	3.1	1.9	0.3	0.0	1.7	1.1	0.6
Estonia	0.4	2.3	2.2	-2.0	-1.1	3.1	2.4	1.2	1.4	2.0	1.4	1.4
Ireland	0.3	-1.6	1.8	1.8	-6.2	3.5	1.1	0.6	0.6	-1.5	0.4	0.5
Greece	3.1	2.7	2.0	-12.0	-3.3	6.1	6.5	2.0	1.0	3.8	1.4	0.9
Spain	1.5	1.0	3.1	-1.4	-1.6	4.1	3.4	0.8	1.3	2.8	2.3	0.6
France	-0.3	0.5	1.7	-3.6	-2.9	2.7	2.5	1.4	1.3	2.2	1.7	0.6
Italy	2.3	1.7	2.3	-4.3	-4.3	4.1	3.5	2.2	1.3	2.6	2.2	0.8
Cyprus	1.9	2.9	1.0	-2.4	-0.5	0.1	0.4	0.9	1.3	0.1	1.4	1.0
Latvia	5.8	5.9	4.2	-2.1	-6.0	3.3	1.6	1.6	1.4	2.0	2.5	1.3
Lithuania	-1.4	3.7	4.5	-8.7	-5.3	4.1	4.7	1.8	1.3	3.0	2.1	1.2
Luxembourg	2.1	1.5	1.3	1.1	-5.7	3.6	2.7	1.6	1.1	0.9	1.8	0.7
Malta	1.5	0.5	0.3	-0.4	-0.5	0.4	2.3	3.0	2.8	2.6	2.0	2.0
Netherlands	-0.2	0.7	2.8	-5.0	-4.5	4.2	2.5	1.0	1.3	2.2	1.3	1.2
Austria	0.1	1.2	2.1	-2.6	-1.8	3.2	2.3	0.5	0.8	2.0	0.6	0.6
Portugal	1.2	0.4	1.5	-5.2	-3.9	4.3	2.5	1.4	1.0	2.2	1.4	1.0
Slovenia	5.5	1.3	2.4	-1.9	-2.9	3.3	2.9	2.1	1.0	2.9	2.0	1.0
Slovakia	4.7	1.0	1.2	-1.1	-1.3	3.0	2.5	2.4	2.2	2.4	2.4	2.1
Finland	-0.3	0.5	2.3	-6.2	-3.4	4.3	4.4	1.8	1.3	3.9	1.6	1.1
Euro area	0.8	0.7	2.1	-3.3	-3.3	3.5	2.7	1.1	0.9	2.0	1.5	0.8
Bulgaria	2.8	5.1	3.0	-2.9	-6.0	7.5	2.3	1.4	1.4	1.7	1.4	1.4
Czechia	-0.6	-1.1	2.0	-1.9	-3.8	0.7	-0.5	1.0	0.2	-0.4	0.2	1.0
Denmark	0.6	0.5	2.1	-2.5	-2.8	1.5	2.7	2.2	1.3	0.7	1.7	1.2
Croatia	2.4	1.9	1.9	-1.2	-2.5	2.6	1.1	1.3	1.3	0.9	1.6	1.0
Hungary	1.7	1.6	2.0	-1.1	-2.5	1.7	4.0	1.6	1.5	3.6	2.6	1.5
Poland	5.2	1.5	2.6	-1.3	-0.3	1.3	2.8	2.2	1.7	2.5	1.8	1.8
Romania	21.6	1.4	2.2	-1.3	-7.3	4.7	4.1	3.8	3.5	3.5	3.8	3.5
Sweden	1.0	2.5	-0.9	-0.1	-2.2	4.7	6.7	4.0	1.4	6.2	2.7	1.3
EU27	1.0	0.9	2.1	-3.0	-3.2	3.3	2.8	1.3	1.0	2.1	1.6	0.9
United Kingdom	-0.7	3.8	1.4	-6.7	2.8	5.6	3.3	0.7	0.5	2.8	1.9	0.2
EU	0.8	1.2	2.0	-3.4	-2.4	3.6	2.8	1.2	0.9	2.2	1.7	0.9
Japan	0.7	1.6	5.7	-9.6	-15.0	9.9	6.6	1.0	1.6	1.0	1.6	1.6
United States	1.4	2.1	2.2	-9.6	-4.2	2.4	3.0	0.5	1.2	3.4	1.4	1.2

Table 21: Terms of trade of goods (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	-0.8	-0.1	-0.9	1.8	0.5	-1.4	-1.9	-0.1	0.1	0.2	0.0
Germany	-0.2	0.2	-0.5	3.1	2.3	-1.6	-1.0	0.4	0.4	-0.8	0.0	0.0
Estonia	2.1	1.0	-0.6	0.2	1.0	0.9	0.0	0.1	0.2	0.4	0.0	0.0
Ireland	-1.5	1.4	-1.4	8.0	2.3	-5.3	-4.5	-0.9	-0.2	0.1	0.0	0.0
Greece	-0.3	-0.9	1.1	0.6	-2.3	1.2	-1.0	0.4	0.7	0.4	-1.0	0.2
Spain	-0.2	0.7	-1.6	2.1	0.1	-0.8	-2.1	0.3	-0.1	-1.6	-0.6	-0.1
France	-0.3	0.3	-0.5	4.4	1.0	-1.4	-1.8	-0.1	0.2	-1.9	-0.2	0.5
Italy	-0.7	-0.3	-0.8	4.2	3.6	-2.3	-1.6	-0.5	0.0	-0.7	-0.1	0.2
Cyprus	0.6	-0.1	0.4	3.2	-0.4	0.4	0.1	-0.1	-0.1	0.8	-0.2	0.8
Latvia	-0.7	0.1	0.7	2.4	3.5	0.9	1.6	-0.1	-0.2	1.2	-1.3	0.2
Lithuania	3.1	-0.6	0.1	2.5	2.4	0.5	-0.9	0.4	0.3	-0.5	0.2	0.9
Luxembourg	-0.4	1.5	0.6	-3.1	5.0	0.4	0.9	0.1	0.0	0.5	-0.3	0.0
Malta	0.3	0.4	1.6	0.9	-4.5	4.4	2.0	1.5	1.7	2.8	1.0	1.0
Netherlands	0.6	0.2	-0.7	2.4	1.0	-0.5	-0.1	-0.1	0.0	0.2	0.1	0.0
Austria	0.4	-0.2	-0.8	1.7	0.7	-1.4	-1.2	0.1	0.0	-0.8	-0.1	-0.1
Portugal	-0.4	0.4	0.1	2.7	1.0	-0.9	-0.6	0.2	0.2	-0.3	0.2	0.2
Slovenia	-0.2	0.0	-1.2	1.3	0.8	-0.6	-0.2	-0.3	0.5	-0.6	-0.2	0.2
Slovakia	0.6	-1.2	-0.8	-0.2	-0.4	-0.8	-0.9	-0.2	-0.2	-0.2	-0.3	-0.1
Finland	-0.8	-1.4	-0.7	4.8	0.5	-0.4	0.4	-0.8	0.0	-1.2	0.6	1.1
Euro area	-0.3	0.0	-0.7	3.4	1.5	-1.5	-1.5	-0.1	0.1	-0.8	-0.2	0.1
Bulgaria	-5.2	3.7	0.3	0.6	3.9	0.3	0.0	0.4	0.4	0.1	0.4	0.4
Czechia	0.6	-0.7	-0.4	0.5	1.0	-1.4	-0.4	-0.3	0.0	-0.4	0.3	0.5
Denmark	0.8	1.6	0.1	1.9	2.1	-1.2	-2.3	0.3	0.1	-0.6	-0.3	0.1
Croatia	1.9	0.5	0.5	-1.2	-0.6	-1.3	-0.5	0.1	0.2	0.7	-0.1	0.3
Hungary	-0.8	-0.7	-0.2	0.8	1.5	0.0	-1.0	0.1	0.0	-0.8	-0.7	0.0
Poland	-0.3	1.0	-0.1	2.9	0.6	0.3	-1.0	-0.7	-0.5	-1.2	0.1	0.2
Romania	3.6	5.3	0.2	1.0	-1.7	-1.3	1.5	1.0	0.4	0.8	-0.6	-0.4
Sweden	-1.4	0.1	-0.2	1.7	0.7	-0.6	-1.0	0.3	0.3	-0.7	-0.3	-0.2
EU27	-0.4	0.0	-0.6	3.1	1.4	-1.4	-1.3	-0.1	0.0	-0.8	-0.1	0.1
United Kingdom	1.0	-0.2	0.2	-1.7	2.8	0.6	0.3	0.9	0.9	0.4	0.4	0.9
EU	-0.2	0.1	-0.6	2.4	1.8	-1.0	-1.2	-0.1	0.1	-0.7	-0.1	0.2
Japan	-2.6	-3.6	-4.1	11.5	7.4	-4.9	-4.9	-0.2	-0.6	0.4	-0.6	-0.6
United States	-0.5	-0.5	-0.2	2.7	0.5	0.6	0.6	0.0	0.0	0.8	0.4	0.0

Table 22: Total population (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	0.4	0.7	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Germany	0.0	-0.2	0.1	0.9	0.8	0.4	0.3	0.2	0.1	0.3	0.2	0.2
Estonia	-0.2	-0.5	-0.3	-0.2	0.2	0.0	0.3	0.1	0.1	0.3	0.1	0.1
Ireland	1.6	2.2	0.5	0.9	1.1	1.1	1.2	0.9	0.9	1.0	0.9	0.9
Greece	0.4	0.3	-0.4	-0.7	-0.4	-0.2	-0.3	-0.5	-0.6	-0.5	-0.5	-0.6
Spain	1.2	1.6	0.0	-0.1	0.1	0.2	0.4	0.5	0.5	0.3	0.4	0.5
France	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.4	0.4	0.4	0.4	0.4
Italy	0.3	0.6	0.4	-0.1	-0.2	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0
Cyprus	1.2	2.1	1.1	-0.6	0.5	0.9	1.1	0.7	0.6	0.6	0.7	0.6
Latvia	-1.1	-1.1	-1.4	-0.8	-0.9	-0.9	-0.8	-0.8	-0.7	-0.9	-0.8	-0.7
Lithuania	-0.8	-1.3	-1.5	-0.9	-1.3	-1.6	-0.8	-0.6	-0.6	-1.1	-0.9	-0.9
Luxembourg	1.2	1.7	2.3	2.0	2.6	2.2	2.0	1.8	1.7	2.5	2.4	2.2
Malta	0.7	0.6	1.1	2.4	2.3	2.8	2.9	1.6	1.5	2.5	1.6	1.5
Netherlands	0.6	0.3	0.4	0.4	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.4
Austria	0.4	0.4	0.5	1.0	1.3	0.6	0.6	0.5	0.5	1.0	0.9	0.8
Portugal	0.5	0.2	-0.3	-0.4	-0.3	-0.2	-0.2	-0.1	0.0	-0.1	0.0	-0.1
Slovenia	0.1	0.4	0.2	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.1
Slovakia	0.0	0.1	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Finland	0.2	0.4	0.5	0.3	0.3	0.2	0.1	0.2	0.2	0.4	0.4	0.4
Euro area	0.4	0.5	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Bulgaria	-1.1	-0.5	-1.0	-0.6	-0.7	-0.7	-0.4	-0.7	-0.7	-0.4	-0.3	-0.3
Czechia	-0.1	0.6	0.1	0.2	0.2	0.2	0.4	0.4	0.3	0.3	0.1	0.1
Denmark	0.3	0.4	0.4	0.7	0.8	0.7	0.5	0.6	0.5	0.6	0.5	0.5
Croatia	-0.5	0.0	-0.3	-0.7	-0.8	-1.0	-0.6	-0.5	-0.5	-0.6	-0.5	-0.5
Hungary	-0.3	-0.2	-0.3	-0.2	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Poland	0.0	0.2	0.0	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1
Romania	-0.9	-1.0	-0.4	-0.5	-0.6	-0.6	-0.3	-0.6	-0.6	-0.8	-0.6	-0.6
Sweden	0.3	0.7	0.8	1.1	1.3	1.4	1.2	0.9	1.0	1.7	0.9	1.0
EU27	0.3	0.3	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
United Kingdom	0.4	0.8	0.7	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6
EU	0.3	0.4	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Japan	0.1	0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.3
United States	1.0	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

Table 23: Total employment (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	0.8	1.2	0.5	0.9	1.3	1.4	1.2	0.8	0.7	1.0	0.7
Germany	0.2	0.8	0.9	0.9	1.3	1.4	1.3	0.8	0.5	1.3	0.8	0.7
Estonia	0.6	-0.6	1.0	2.9	0.3	2.7	1.2	0.6	-0.1	0.8	0.3	-0.1
Ireland	2.9	1.1	-0.2	3.5	3.8	2.9	3.5	2.0	1.8	3.1	2.6	2.0
Greece	1.4	1.0	-3.5	0.7	0.5	1.5	1.7	1.5	1.3	1.8	1.6	1.2
Spain	3.3	0.9	-2.5	3.3	3.0	2.9	2.5	2.0	1.7	2.4	1.7	1.5
France	1.1	0.6	0.2	0.3	0.8	1.0	0.9	0.8	0.7	0.5	0.7	0.8
Italy	1.1	-0.1	-0.9	0.7	1.3	0.9	0.8	-0.1	0.5	1.0	1.0	0.9
Cyprus	2.7	2.7	-2.1	1.5	4.6	4.3	4.0	2.6	2.0	3.9	2.8	2.3
Latvia	0.1	-0.9	-0.6	1.4	-0.3	0.0	1.6	0.3	0.0	1.5	0.3	0.1
Lithuania	-0.7	-1.3	0.1	1.3	2.0	-0.5	1.1	0.4	0.1	-0.4	-0.5	-0.5
Luxembourg	3.6	3.4	2.3	2.6	3.0	3.4	3.7	3.1	2.8	3.6	3.3	2.8
Malta	0.2	1.5	3.3	4.1	4.3	7.8	5.6	4.0	3.4	5.0	3.6	3.4
Netherlands	0.2	1.2	-0.4	1.0	1.4	2.2	2.5	1.4	0.7	2.1	1.4	0.8
Austria	0.6	1.2	0.9	0.6	1.3	1.7	1.7	1.0	0.5	1.8	1.1	0.8
Portugal	0.5	-0.5	-1.8	1.4	1.6	3.3	2.3	1.1	0.8	2.2	1.3	0.8
Slovenia	0.7	1.0	-1.1	1.3	1.8	2.9	3.0	2.3	2.1	3.0	2.5	1.7
Slovakia	-0.1	1.4	0.2	2.0	2.4	2.2	2.0	0.8	0.4	1.7	1.0	0.6
Finland	1.1	1.1	0.1	-0.1	0.5	1.2	2.7	0.9	0.6	2.2	1.1	0.9
Euro area	1.0	0.6	-0.3	1.1	1.5	1.6	1.5	0.9	0.8	1.4	1.0	0.9
Bulgaria	0.5	2.0	-1.7	0.4	0.5	1.8	-0.1	0.1	0.1	0.5	0.3	0.2
Czechia	-0.3	1.1	0.0	1.4	1.6	1.6	1.6	0.9	0.7	1.6	0.3	0.0
Denmark	0.1	0.8	-0.4	1.4	1.5	1.7	1.8	1.1	0.9	1.7	1.1	0.8
Croatia	0.7	1.7	-2.2	1.2	0.3	2.2	2.4	1.6	1.3	2.3	2.0	1.3
Hungary	0.0	-0.8	1.0	2.4	3.1	2.0	2.2	1.4	0.4	0.9	0.5	0.1
Poland	-1.4	2.8	-0.1	1.5	0.8	1.3	0.3	0.2	0.1	0.7	0.3	0.1
Romania	-2.7	-0.5	-1.2	-1.3	-1.1	2.6	0.2	0.3	0.2	0.2	-0.3	0.1
Sweden	0.7	0.5	1.2	1.5	1.9	2.3	1.8	0.8	0.6	1.7	0.9	0.7
EU27	0.5	0.7	-0.3	1.1	1.3	1.6	1.4	0.8	0.7	1.3	0.9	0.7
United Kingdom	1.0	0.4	1.1	1.7	1.5	1.0	1.2	0.8	0.8	0.8	0.4	0.3
EU	0.6	0.7	-0.1	1.2	1.3	1.5	1.3	0.8	0.7	1.2	0.8	0.7
Japan	-0.3	0.2	0.1	0.4	1.0	1.0	1.0	0.5	0.2	1.8	0.5	0.2
United States	0.8	0.1	0.9	1.7	1.7	1.3	1.6	1.2	0.8	1.5	1.2	0.7

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 24: Unemployment rate ¹ (number of unemployed as a percentage of total labour force, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	7.5	7.8	8.0	8.5	7.8	7.1	6.0	5.6	5.3	6.4	6.1
Germany	8.9	9.0	5.7	4.6	4.1	3.8	3.4	3.1	2.7	3.5	3.2	3.0
Estonia	11.8	7.5	11.0	6.2	6.8	5.8	5.7	5.7	5.7	5.7	6.0	6.0
Ireland	4.6	6.8	14.2	10.0	8.4	6.7	5.8	5.4	5.0	5.6	5.1	4.9
Greece	10.5	9.0	21.8	24.9	23.6	21.5	19.3	18.2	16.8	19.6	18.2	16.9
Spain	11.3	11.0	23.3	22.1	19.6	17.2	15.3	13.5	12.2	15.6	14.4	13.3
France	8.3	8.4	9.8	10.4	10.1	9.4	9.1	8.8	8.5	9.0	8.8	8.4
Italy	8.8	7.0	10.5	11.9	11.7	11.2	10.6	10.9	11.0	10.7	10.4	10.0
Cyprus	4.2	4.6	11.6	15.0	13.0	11.1	8.4	6.7	5.9	8.2	6.3	4.8
Latvia	12.7	9.7	14.7	9.9	9.6	8.7	7.4	6.9	6.7	7.3	6.7	6.5
Lithuania	14.2	7.6	13.8	9.1	7.9	7.1	6.2	6.2	6.0	6.5	6.3	6.3
Luxembourg	3.1	4.7	5.3	6.5	6.3	5.6	5.4	5.2	5.2	5.3	5.2	5.2
Malta	7.2	6.6	6.3	5.4	4.7	4.0	3.7	3.8	3.9	3.9	4.0	4.0
Netherlands	4.2	4.6	6.1	6.9	6.0	4.9	3.8	3.5	3.6	3.9	3.6	3.6
Austria	4.5	5.0	5.1	5.7	6.0	5.5	4.9	4.7	4.7	4.8	4.6	4.4
Portugal	6.3	9.3	14.2	12.6	11.2	9.0	7.0	6.2	5.7	7.1	6.3	5.9
Slovenia	6.4	5.5	8.8	9.0	8.0	6.6	5.1	4.8	4.6	5.6	5.3	5.1
Slovakia	18.7	12.6	13.9	11.5	9.7	8.1	6.5	5.9	5.6	6.9	6.3	6.0
Finland	9.2	7.5	8.2	9.4	8.8	8.6	7.4	6.7	6.2	7.8	7.2	6.9
Euro area	8.8	8.4	11.1	10.9	10.0	9.1	8.2	7.7	7.3	8.4	7.9	7.5
Bulgaria	16.0	7.7	11.7	9.2	7.6	6.2	5.2	5.0	4.8	6.0	5.8	5.7
Czechia	8.1	6.3	6.8	5.1	4.0	2.9	2.2	2.2	2.3	2.4	2.5	2.6
Denmark	4.9	4.4	7.2	6.2	6.2	5.7	5.0	4.8	4.7	5.2	4.9	4.7
Croatia	15.0	10.5	15.2	16.1	13.4	11.0	8.5	7.8	6.9	9.1	7.6	6.6
Hungary	5.9	8.0	10.2	6.8	5.1	4.2	3.7	3.5	3.5	3.6	3.3	3.2
Poland	18.7	11.3	9.8	7.5	6.2	4.9	3.9	3.8	3.5	3.3	2.9	2.8
Romania	7.8	6.6	7.0	6.8	5.9	4.9	4.2	4.1	4.0	4.3	4.2	4.1
Sweden	6.5	7.1	8.1	7.4	6.9	6.7	6.3	6.4	6.4	6.3	6.2	6.2
EU27	9.6	8.5	10.6	10.0	9.1	8.1	7.3	6.9	6.6	:	:	:
United Kingdom	5.0	5.7	7.5	5.3	4.8	4.4	4.0	4.1	4.2	4.3	4.5	4.7
EU	9.0	8.1	10.2	9.4	8.6	7.6	6.8	6.5	6.2	6.9	6.6	6.3
Japan	5.0	4.3	4.3	3.4	3.1	2.8	2.4	2.3	2.2	2.7	2.6	2.5
United States	5.2	5.9	8.0	5.3	4.9	4.4	3.9	3.8	3.7	3.9	3.5	3.5

¹ Series following Eurostat definition, based on the Labour Force Survey.

Table 25: Compensation of employees per head (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	2.6	2.7	2.2	0.0	0.5	1.9	2.0	2.5	2.0	2.2	2.0
Germany	1.2	0.9	2.5	2.7	2.2	2.6	3.0	3.2	2.9	2.9	3.0	3.0
Estonia	11.1	11.3	4.5	3.3	6.3	6.9	8.8	6.1	5.6	7.0	6.0	5.6
Ireland	6.5	3.6	-0.1	2.6	2.1	0.9	2.9	3.2	3.6	2.7	3.0	3.4
Greece	6.7	4.6	-3.7	-2.4	-0.9	0.5	1.3	2.4	1.7	0.9	1.3	2.0
Spain	3.4	4.7	0.6	0.8	-0.5	0.3	0.8	2.0	1.8	1.0	2.4	1.7
France	2.8	2.5	2.2	1.0	0.8	1.9	1.7	0.0	1.8	2.3	0.4	2.2
Italy	3.3	2.8	1.1	1.0	0.3	0.3	2.0	0.9	1.0	1.8	0.9	1.0
Cyprus	4.9	4.3	-0.9	-1.3	-1.1	0.7	0.1	2.5	2.8	1.5	2.2	2.2
Latvia	8.9	16.9	3.4	7.7	7.3	8.0	7.8	6.2	5.0	7.1	5.8	5.8
Lithuania	6.4	10.2	4.1	5.9	6.7	8.7	7.7	7.0	5.9	8.2	7.7	6.0
Luxembourg	3.6	3.3	2.3	1.6	0.9	3.3	2.1	3.0	2.1	2.2	2.6	2.3
Malta	4.9	3.3	2.4	5.5	2.9	-0.3	1.6	2.4	2.5	2.3	3.2	3.1
Netherlands	4.2	2.6	1.8	-0.2	1.2	1.1	2.2	2.7	2.8	2.4	3.1	3.5
Austria	1.9	2.6	2.0	1.9	2.4	1.5	2.5	2.6	2.5	2.5	2.6	2.4
Portugal	4.0	3.0	-0.2	0.4	1.7	1.6	2.0	2.2	2.3	1.8	2.1	2.1
Slovenia	9.1	5.3	1.3	1.3	3.0	3.2	4.0	4.8	3.7	3.3	3.3	3.4
Slovakia	8.7	7.0	2.9	3.5	2.1	5.2	5.4	6.8	6.7	5.0	6.4	6.2
Finland	3.0	3.3	2.2	1.4	1.1	-1.2	1.2	3.4	2.9	1.4	2.2	2.4
Euro area	2.6	2.5	1.8	1.3	1.1	1.6	2.2	2.0	2.2	2.3	2.0	2.4
Bulgaria	7.9	10.6	7.8	5.6	5.8	10.5	5.6	6.9	5.9	8.0	7.6	6.3
Czechia	7.8	3.9	2.0	3.0	4.0	6.4	7.6	5.0	4.2	8.0	7.8	5.6
Denmark	3.5	3.5	1.9	1.7	1.5	1.7	2.0	2.6	2.6	2.2	2.5	2.8
Croatia	6.4	3.8	-0.1	0.4	1.3	-1.1	1.9	3.6	3.4	2.0	1.7	1.5
Hungary	12.9	4.8	1.8	-1.5	4.4	6.2	9.6	6.6	6.5	8.1	6.6	6.2
Poland	5.3	4.3	4.3	1.7	4.8	5.8	7.5	8.0	7.9	6.1	7.0	7.4
Romania	34.9	15.4	4.7	1.9	15.0	12.6	18.4	13.5	9.0	13.0	6.7	6.7
Sweden	4.4	3.6	2.5	2.7	2.5	2.0	3.4	3.1	3.0	2.7	2.7	2.5
EU27	3.2	2.6	1.9	1.3	1.4	1.9	2.8	2.5	2.7	2.7	2.5	2.8
United Kingdom	4.6	3.5	1.8	1.1	2.8	3.1	2.7	3.1	3.2	3.0	3.1	3.2
EU	3.5	2.8	1.9	1.3	1.7	2.1	2.8	2.6	2.8	2.7	2.6	2.8
Japan	-1.3	-1.0	0.2	0.5	1.1	0.5	1.2	0.9	1.0	0.3	1.2	1.1
United States	3.4	2.7	2.5	3.1	0.9	3.1	2.7	3.0	3.3	2.9	3.2	3.4

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 26: Real compensation of employees per head ¹ (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	0.5	0.4	0.6	-0.6	-1.2	0.1	0.2	0.8	0.4	0.0	-0.1
Germany	-0.1	-0.2	1.0	2.1	1.5	1.0	1.4	1.7	1.4	1.1	1.1	1.3
Estonia	6.9	5.8	1.0	3.4	5.3	3.1	5.4	3.5	3.2	3.3	2.5	3.1
Ireland	2.4	3.2	-0.8	2.2	1.3	-0.4	1.1	1.2	1.6	1.3	1.6	1.8
Greece	3.8	1.5	-4.0	-0.7	-0.2	0.0	1.0	1.6	0.9	0.6	0.1	1.1
Spain	0.0	2.1	-1.0	1.0	-0.5	-1.3	-0.8	0.8	0.2	-0.8	0.6	0.2
France	1.0	1.0	1.1	0.7	0.9	0.6	0.1	-1.2	0.6	0.6	-1.3	0.6
Italy	0.4	0.8	-0.6	0.8	0.0	-0.8	0.9	0.0	-0.2	0.4	-0.6	-0.4
Cyprus	3.2	1.2	-2.2	0.4	0.3	-0.1	-1.1	1.6	1.6	0.7	0.9	0.8
Latvia	4.2	8.2	1.6	8.9	6.1	4.7	4.9	3.3	2.6	4.3	3.0	3.3
Lithuania	6.8	4.3	2.1	6.8	5.8	5.1	5.2	4.4	3.5	5.4	5.1	3.4
Luxembourg	1.4	1.2	0.6	1.7	0.5	1.7	0.4	1.1	0.3	0.6	0.5	0.4
Malta	2.8	0.8	0.7	3.8	2.2	-1.3	0.9	1.0	0.6	1.4	1.8	1.5
Netherlands	1.5	1.2	0.2	-0.4	0.7	-0.5	0.2	0.2	1.1	0.7	0.6	1.6
Austria	0.2	0.7	-0.3	0.4	1.0	-0.3	0.5	0.8	0.7	0.4	0.5	0.4
Portugal	0.6	0.7	-1.5	-0.5	0.7	0.3	0.8	1.1	0.7	0.3	0.6	0.5
Slovenia	2.9	2.2	-0.1	1.9	3.6	1.4	1.5	2.5	1.3	0.8	0.8	1.0
Slovakia	2.5	3.9	1.0	3.6	2.4	3.7	3.1	4.2	4.3	2.4	3.7	3.8
Finland	1.2	1.4	-0.1	1.0	0.6	-1.8	-0.1	1.9	1.3	0.3	0.8	0.7
Euro area	0.4	0.8	0.4	1.0	0.7	0.2	0.6	0.6	0.8	0.6	0.2	0.8
Bulgaria	4.2	5.4	6.3	4.4	5.9	8.0	3.0	4.8	4.0	5.2	5.4	4.4
Czechia	5.4	1.6	0.9	2.9	3.4	4.0	4.9	2.4	1.7	5.5	5.5	3.8
Denmark	1.6	1.5	0.2	1.3	1.0	0.4	1.1	1.3	1.0	1.0	0.8	0.7
Croatia	3.0	0.1	-1.8	0.9	2.5	-2.0	0.7	2.6	2.2	0.3	0.2	0.1
Hungary	5.2	0.1	-1.4	-1.3	4.6	3.6	6.2	3.3	3.3	5.0	3.2	3.1
Poland	1.0	1.7	2.1	2.9	5.2	4.1	5.8	5.8	5.2	4.5	4.5	4.9
Romania	8.9	8.3	1.1	1.0	14.1	9.7	14.2	9.9	5.7	9.1	3.1	3.6
Sweden	3.0	1.7	1.4	1.8	1.5	0.3	1.1	1.6	1.4	1.0	1.0	0.6
EU27	0.8	0.7	0.4	1.0	1.1	0.5	1.1	1.0	1.1	1.0	0.6	1.1
United Kingdom	3.7	1.1	-0.5	0.6	1.3	1.0	0.4	1.6	1.6	1.1	1.6	1.0
EU	1.3	0.8	0.3	1.0	1.1	0.5	1.0	1.1	1.2	1.0	0.8	1.1
Japan	-0.3	-0.5	0.3	0.1	1.7	0.3	0.7	0.7	0.6	0.3	0.6	0.4
United States	1.4	0.5	0.7	2.9	-0.2	1.3	0.6	1.2	1.5	0.8	0.9	1.3

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, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	1.3	0.1	0.7	0.8	0.2	0.3	0.2	0.4	0.5	0.5	0.8
Germany	0.9	-0.2	1.3	0.8	0.9	0.7	0.1	-0.2	1.0	0.4	1.0	1.0
Estonia	6.7	1.7	2.8	-0.9	3.2	2.1	2.6	2.2	2.5	2.7	2.5	2.7
Ireland	3.1	0.2	3.4	20.9	1.2	4.2	3.0	1.7	1.5	4.6	1.9	1.7
Greece	3.1	0.0	-1.5	-1.2	-0.7	0.0	0.2	0.7	0.9	0.2	0.4	0.8
Spain	0.4	0.9	1.7	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.5
France	1.0	0.2	1.0	0.8	0.4	1.2	0.7	0.5	0.8	1.1	1.0	0.8
Italy	0.4	-0.4	0.4	0.3	-0.2	0.8	0.1	0.2	0.2	0.1	0.2	0.4
Cyprus	1.5	0.5	0.4	0.5	0.2	0.2	-0.2	0.5	0.7	0.0	0.7	0.6
Latvia	7.0	3.6	2.7	1.5	2.4	4.7	3.1	2.8	2.8	2.6	2.9	2.9
Lithuania	7.6	3.8	3.7	0.7	0.4	4.7	2.4	2.4	2.3	3.8	3.3	3.0
Luxembourg	0.3	-1.2	0.7	1.3	-0.6	-1.8	-1.1	-0.5	-0.2	-0.5	-0.2	-0.1
Malta	2.4	0.5	0.8	6.4	1.4	-1.1	0.9	1.4	1.3	0.4	1.3	1.0
Netherlands	1.6	0.3	1.0	0.9	0.8	0.6	0.1	0.2	0.9	0.7	0.9	1.0
Austria	1.4	0.2	0.3	0.5	0.7	0.8	1.0	0.5	1.1	0.9	0.9	1.0
Portugal	0.9	0.9	1.0	0.4	0.3	-0.5	-0.2	0.5	0.9	0.0	0.5	0.9
Slovenia	2.9	1.2	1.3	1.0	1.2	1.9	1.5	0.8	0.6	1.3	0.8	1.2
Slovakia	4.0	3.6	2.6	2.2	0.7	1.0	2.1	3.0	3.0	2.3	3.1	2.9
Finland	2.0	-0.3	0.5	0.6	2.3	1.5	-0.3	0.8	0.6	0.6	1.1	1.1
Euro area	1.0	0.1	1.1	1.0	0.5	0.8	0.3	0.3	0.8	0.6	0.8	0.9
Bulgaria	4.7	2.7	2.9	3.1	3.4	2.0	3.2	3.2	3.3	3.0	3.4	3.4
Czechia	3.8	2.1	1.1	3.8	0.8	2.8	1.3	1.7	1.7	1.4	2.7	2.5
Denmark	1.5	-0.5	1.7	1.0	0.9	0.6	-0.4	0.6	0.7	-0.5	0.7	0.8
Croatia	3.7	0.0	1.4	1.1	3.2	0.7	0.2	1.0	1.1	0.5	0.8	1.2
Hungary	4.3	1.4	0.4	1.1	-0.7	2.1	2.7	2.3	2.4	3.4	3.0	2.5
Poland	4.7	1.9	3.1	2.3	2.2	3.4	4.8	3.9	3.6	4.1	3.4	3.2
Romania	8.2	5.1	2.6	5.2	6.0	4.3	3.9	2.9	2.9	3.3	4.0	3.5
Sweden	2.3	0.4	1.2	2.9	0.8	-0.2	0.5	0.6	1.0	0.7	0.9	1.1
EU27	1.6	0.2	1.3	1.2	0.8	0.9	0.7	0.6	1.0	0.9	1.1	1.1
United Kingdom	1.9	0.3	0.9	0.6	0.3	0.8	0.2	0.5	0.5	0.5	0.7	0.9
EU	1.7	0.2	1.2	1.2	0.7	0.9	0.6	0.5	0.9	0.9	1.1	1.1
Japan	1.7	-0.6	1.5	0.8	-0.3	0.9	-0.2	0.3	0.4	-0.7	0.5	0.3
United States	1.8	1.0	1.2	1.2	-0.1	1.0	1.3	1.2	1.1	1.3	1.4	1.2

Note: See note 6 on concepts and sources where countries using full time equivalents are listed.

Table 28: Unit labour costs, whole economy ¹ (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	1.3	2.6	1.5	-0.8	0.3	1.6	1.8	2.2	1.5	1.7	1.2
Germany	0.4	1.1	1.2	1.9	1.3	1.8	2.8	3.4	1.8	2.5	2.0	2.0
Estonia	4.1	9.5	1.7	4.3	3.0	4.7	6.1	3.9	3.0	4.2	3.4	2.8
Ireland	3.4	3.4	-3.5	-15.2	0.9	-3.2	-0.2	1.4	2.0	-1.8	1.1	1.6
Greece	3.4	4.6	-2.2	-1.3	-0.3	0.6	1.1	1.6	0.8	0.6	0.9	1.2
Spain	3.0	3.7	-1.2	0.5	-0.6	0.2	0.8	1.9	1.6	0.9	1.9	1.2
France	1.8	2.3	1.2	0.3	0.4	0.6	1.1	-0.5	1.0	1.2	-0.6	1.4
Italy	2.9	3.1	0.7	0.7	0.5	-0.5	1.9	0.7	0.8	1.6	0.8	0.6
Cyprus	3.3	3.8	-1.4	-1.7	-1.4	0.6	0.3	2.0	2.0	1.5	1.5	1.6
Latvia	1.8	12.8	0.6	6.1	4.8	3.1	4.6	3.3	2.1	4.4	2.8	2.9
Lithuania	-1.1	6.1	0.4	5.1	6.4	3.8	5.2	4.5	3.5	4.2	4.2	2.9
Luxembourg	3.2	4.6	1.6	0.3	1.5	5.2	3.3	3.5	2.3	2.7	2.8	2.4
Malta	2.4	2.7	1.6	-0.8	1.5	0.8	0.8	1.0	1.2	1.9	1.9	2.1
Netherlands	2.6	2.3	0.8	-1.2	0.5	0.5	2.1	2.4	1.9	1.7	2.2	2.5
Austria	0.5	2.4	1.7	1.4	1.6	0.6	1.5	2.1	1.4	1.6	1.7	1.4
Portugal	3.1	2.1	-1.2	0.0	1.4	2.1	2.2	1.6	1.4	1.8	1.6	1.2
Slovenia	6.1	4.0	0.0	0.3	1.8	1.3	2.5	3.9	3.1	2.0	2.5	2.2
Slovakia	4.5	3.2	0.3	1.3	1.3	4.2	3.3	3.7	3.6	2.7	3.2	3.3
Finland	0.9	3.6	1.7	0.8	-1.2	-2.7	1.6	2.6	2.3	0.8	1.1	1.3
Euro area	1.8	2.5	0.7	0.4	0.6	0.7	1.9	1.7	1.5	1.6	1.2	1.5
Bulgaria	3.0	7.7	4.7	2.5	2.3	8.4	2.4	3.6	2.5	4.8	4.0	2.8
Czechia	3.9	1.7	0.9	-0.8	3.1	3.6	6.2	3.2	2.5	6.5	5.0	3.0
Denmark	1.9	4.0	0.2	0.8	0.6	1.1	2.4	2.0	1.9	2.7	1.8	2.0
Croatia	2.7	3.9	-1.4	-0.8	-1.8	-1.8	1.7	2.6	2.3	1.5	0.9	0.2
Hungary	8.2	3.4	1.4	-2.6	5.2	4.1	6.7	4.2	4.0	4.5	3.5	3.6
Poland	0.5	2.3	1.2	-0.6	2.5	2.3	2.6	3.9	4.2	1.9	3.5	4.1
Romania	24.6	9.8	2.0	-3.1	8.5	8.0	14.0	10.3	5.9	9.3	2.5	3.0
Sweden	2.0	3.1	1.3	-0.2	1.7	2.2	2.9	2.5	1.9	2.0	1.8	1.3
EU27	2.0	2.6	0.7	0.3	0.9	1.0	:	:	:	:	:	:
United Kingdom	2.7	3.2	1.0	0.5	2.5	2.2	2.5	2.6	2.6	2.5	2.3	2.3
EU	2.1	2.7	0.8	0.3	1.2	1.2	2.2	2.1	1.8	2.0	1.5	1.8
Japan	-3.0	-0.4	-1.3	-0.3	1.5	-0.5	1.4	0.6	0.6	1.0	0.7	0.7
United States	1.6	1.7	1.3	1.9	1.0	2.1	1.4	1.8	2.3	1.6	1.7	2.1

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, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	-0.6	0.8	0.0	-1.8	-1.5	0.0	0.6	0.6	0.0	-0.5	-0.7
Germany	-0.5	0.1	-0.2	-0.1	-0.1	0.3	1.0	1.3	-0.2	0.7	0.0	0.1
Estonia	-0.7	2.5	-1.6	3.2	1.5	0.8	1.4	0.6	0.3	0.0	-0.2	-0.1
Ireland	-1.3	2.8	-3.1	-21.0	1.7	-3.6	-1.7	-0.3	0.1	-3.5	-0.7	-0.4
Greece	0.4	1.3	-1.6	-0.9	0.0	0.0	0.5	0.5	-0.4	0.1	-0.2	-0.1
Spain	-0.8	0.9	-1.2	0.0	-0.9	-1.0	-0.2	0.4	-0.1	-0.5	0.3	-0.5
France	-0.1	0.5	0.3	-0.9	0.2	0.0	0.1	-1.8	-0.3	0.2	-1.9	-0.1
Italy	0.1	1.0	-0.4	-0.2	-0.7	-1.0	1.1	0.1	-0.2	0.4	-0.5	-0.8
Cyprus	0.4	0.9	-1.9	-0.5	-0.8	-1.1	-1.3	0.9	0.8	-0.6	0.2	-0.1
Latvia	-2.7	3.8	-1.8	6.1	3.9	0.0	0.3	0.6	0.1	0.7	0.7	0.2
Lithuania	-1.7	0.5	-2.1	4.7	4.9	-0.5	1.7	1.4	0.8	1.6	0.6	-0.7
Luxembourg	1.2	1.0	-1.4	0.7	0.6	3.0	-0.5	1.7	0.6	0.7	0.9	0.7
Malta	0.1	0.0	-0.9	-3.2	0.1	-1.7	-1.4	-1.2	-1.0	-0.3	-0.3	-0.1
Netherlands	-0.4	0.5	0.0	-1.9	0.0	-0.7	-0.1	0.1	0.3	-0.3	-0.2	0.5
Austria	-1.0	0.3	0.0	-0.7	0.2	-0.6	-0.1	0.1	-0.5	0.0	-0.2	-0.5
Portugal	-0.4	-0.4	-1.8	-2.0	-0.3	0.5	0.8	0.3	-0.2	0.4	0.1	-0.4
Slovenia	0.0	0.8	-0.6	-0.7	1.0	-0.3	0.2	1.5	0.2	-0.2	-0.1	-0.3
Slovakia	-1.3	1.6	-0.4	1.4	1.8	2.9	1.2	1.1	1.1	0.1	0.5	0.7
Finland	-0.4	1.6	-0.3	-0.8	-1.4	-3.6	-0.4	1.1	0.4	-0.1	-0.5	-0.7
Euro area	-0.4	0.5	-0.3	-1.0	-0.2	-0.3	0.4	0.1	-0.2	0.1	-0.5	-0.2
Bulgaria	-1.9	0.4	3.0	0.2	0.1	4.8	-1.2	0.9	0.3	2.2	1.6	0.6
Czechia	1.0	-0.1	0.2	-2.0	1.8	2.1	4.0	1.1	0.5	4.8	2.6	0.9
Denmark	-0.3	1.5	-1.4	0.3	-0.1	-0.3	2.0	0.4	0.1	1.6	0.2	0.0
Croatia	-1.3	-0.1	-2.4	-0.8	-1.8	-2.8	0.0	1.1	0.7	-0.8	-0.8	-1.3
Hungary	0.2	-0.7	-1.4	-4.4	4.3	0.2	2.1	0.2	0.6	0.8	0.2	0.6
Poland	-2.7	-0.8	-0.4	-1.3	2.2	0.3	1.5	2.1	1.8	0.8	1.0	1.5
Romania	-2.7	-1.6	-1.2	-5.6	5.9	3.2	7.7	4.8	2.1	2.7	-1.2	-0.5
Sweden	0.5	0.9	0.1	-2.2	0.0	0.0	0.7	0.3	0.0	-0.5	-0.2	-0.4
EU27	-0.7	0.4	-0.4	-1.3	-0.2	-0.3	0.5	0.2	-0.1	0.2	-0.5	-0.2
United Kingdom	0.7	0.7	-0.7	0.1	0.4	0.0	0.6	0.7	0.6	0.6	0.7	0.3
EU	-0.5	0.4	-0.5	-1.1	-0.1	-0.2	0.5	0.3	0.0	0.2	-0.3	-0.1
Japan	-1.7	0.5	-0.7	-2.4	1.2	-0.2	1.5	0.2	0.2	0.8	-0.1	-0.2
United States	-0.5	-0.6	-0.5	0.8	-0.1	0.2	-0.8	-0.1	0.4	-0.6	-0.5	0.1

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 (2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	:	:	:	:	:	:	:	:	:	:	:
Germany	:	:	:	:	:	:	:	:	:	:	:	:
Estonia	15.6466	15.6466	:	:	:	:	:	:	:	:	:	:
Ireland	:	:	:	:	:	:	:	:	:	:	:	:
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	:	:	:	:	:	:	:	:	:	:	:	:
France	:	:	:	:	:	:	:	:	:	:	:	:
Italy	:	:	:	:	:	:	:	:	:	:	:	:
Cyprus	0.5782	:	:	:	:	:	:	:	:	:	:	:
Latvia	0.6012	0.7002	:	:	:	:	:	:	:	:	:	:
Lithuania	3.5285	3.4528	3.4528	:	:	:	:	:	:	:	:	:
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	0.4140	:	:	:	:	:	:	:	:	:	:	:
Netherlands	:	:	:	:	:	:	:	:	:	:	:	:
Austria	:	:	:	:	:	:	:	:	:	:	:	:
Portugal	:	:	:	:	:	:	:	:	:	:	:	:
Slovenia	224.7013	:	:	:	:	:	:	:	:	:	:	:
Slovakia	42.0214	:	:	:	:	:	:	:	:	:	:	:
Finland	:	:	:	:	:	:	:	:	:	:	:	:
Euro area	:	:	:	:	:	:	:	:	:	:	:	:
Bulgaria	1.9495	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558
Czechia	32.8417	27.4541	25.7077	27.2792	27.0343	26.3310	25.6470	25.6522	25.6407	25.6291	25.7958	25.7958
Denmark	7.4414	7.4528	7.4509	7.4587	7.4452	7.4386	7.4533	7.4643	7.4645	7.4526	7.4597	7.4597
Croatia	7.5206	7.3254	7.4926	7.6137	7.5333	7.4634	7.4183	7.4296	7.4322	7.4178	7.4174	7.4174
Hungary	253.0	259.1	289.9	310.0	311.4	309.2	318.8	320.2	320.9	319.1	324.1	324.1
Poland	4.0928	3.9085	4.1364	4.1841	4.3632	4.2568	4.2611	4.2886	4.2842	4.2621	4.3032	4.3032
Romania	3.1051	3.6809	4.3547	4.4454	4.4904	4.5683	4.6540	4.7517	4.7572	4.6558	4.6672	4.6672
Sweden	9.0220	9.6042	9.0042	9.3535	9.4689	9.6347	10.2600	10.4342	10.4401	10.2799	10.4011	10.4011
EU27	:	:	:	:	:	:	:	:	:	:	:	:
United Kingdom	0.6462	0.7474	0.8384	0.7258	0.8195	0.8763	0.8847	0.8635	0.8605	0.8827	0.8786	0.8786
EU	:	:	:	:	:	:	:	:	:	:	:	:
Japan	118.3271	145.3816	119.9316	134.3140	120.1967	126.6090	130.3781	125.5673	125.7310	130.7409	130.1000	130.1000
United States	1.0	1.3	1.3	1.1	1.1	1.1	1.2	1.1	1.1	1.2	1.2	1.2

Table 31: Nominal effective exchange rates to rest of a group¹ of industrialised countries (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			2015-2017			Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
Belgium	1.2	0.9	-0.3	-2.9	2.1	1.2	2.3	-0.8	-0.1	2.4	0.2	0.0
Germany	1.6	1.0	-0.5	-3.9	2.4	1.4	3.0	-1.1	-0.1	3.2	0.3	0.0
Estonia	1.3	1.4	-0.1	2.7	2.3	-0.2	3.4	-0.2	-0.1	3.5	0.6	0.0
Ireland	1.5	1.5	-0.7	-6.5	2.1	2.0	2.7	-1.8	-0.1	2.9	-0.5	0.0
Greece	:	:	:	:	:	:	:	:	:	4.6	1.2	0.0
Spain	1.4	0.9	-0.3	-2.9	2.2	1.3	2.6	-0.7	-0.1	2.7	0.3	0.0
France	1.4	0.9	-0.5	-3.8	2.1	1.4	2.7	-1.0	-0.1	2.9	0.3	0.0
Italy	1.8	0.9	-0.3	-3.3	2.1	1.4	3.1	-0.9	-0.1	3.3	0.4	0.0
Cyprus	1.9	1.1	-0.5	-4.2	2.3	1.4	2.9	-1.2	-0.1	3.0	0.3	0.0
Latvia	-0.2	0.2	0.4	3.7	3.0	-0.6	3.6	-0.3	-0.1	3.7	0.9	0.0
Lithuania	6.4	1.5	0.5	5.4	3.3	-1.2	3.9	-0.5	-0.2	4.0	0.8	0.0
Luxembourg	0.7	0.8	-0.3	-2.0	1.5	0.8	1.6	-0.5	-0.1	1.7	0.2	0.0
Malta	1.4	0.9	-0.6	-5.1	1.5	1.8	2.6	-1.3	-0.1	2.7	0.2	0.0
Netherlands	1.0	0.9	-0.4	-2.7	2.1	1.2	2.1	-0.7	-0.1	2.2	0.2	0.0
Austria	1.1	0.7	-0.2	-2.0	1.6	0.7	2.2	-0.7	-0.1	2.3	0.2	0.0
Portugal	0.9	0.7	-0.3	-2.7	1.8	1.0	1.9	-0.7	-0.1	2.0	0.2	0.0
Slovenia	-3.0	0.6	0.2	0.2	1.7	0.1	2.2	-0.2	-0.1	2.3	0.6	0.0
Slovakia	2.6	6.5	-0.1	-0.8	1.9	0.4	1.7	-0.3	-0.1	1.8	0.4	0.0
Finland	1.8	1.3	-0.4	-1.0	2.3	0.7	3.4	-0.8	-0.1	3.6	0.4	0.0
Euro area	2.9	2.0	-0.9	-6.0	4.0	2.4	4.8	-1.5	-0.1	5.3	0.6	0.0
Bulgaria	3.7	1.0	0.4	-0.8	2.4	1.9	4.2	0.4	0.0	4.6	1.6	0.0
Czechia	3.9	4.5	-0.9	0.0	2.8	3.3	4.6	-0.4	0.0	4.8	-0.3	0.0
Denmark	1.1	1.2	-0.7	-2.5	2.2	1.3	2.6	-1.0	-0.1	2.8	0.1	0.0
Croatia	1.7	1.2	-0.6	0.7	3.0	1.2	3.4	-0.4	-0.1	3.6	0.7	0.0
Hungary	1.1	-1.4	-2.0	-1.2	1.2	1.3	-1.0	-0.7	-0.3	-1.0	-1.1	0.0
Poland	-0.5	1.7	0.7	-0.3	-2.3	3.2	2.2	-1.1	0.0	2.2	-0.5	0.0
Romania	-15.0	0.0	-0.7	-0.7	1.0	-0.7	0.9	-2.2	-0.1	1.1	0.6	0.0
Sweden	0.8	-2.0	2.7	-5.1	1.0	-0.7	-3.7	-2.6	-0.2	-3.9	-1.1	0.0
EU27	3.9	0.7	-0.4	-4.4	1.1	0.8	6.8	-1.4	-0.1	7.2	0.9	0.0
United Kingdom	0.9	-4.7	1.5	6.0	-10.1	-5.6	2.0	1.1	0.3	2.4	0.5	0.0
EU	3.9	0.7	-0.5	-5.6	1.2	1.4	6.2	-1.7	-0.1	6.9	0.8	0.0
Japan	0.3	1.9	-3.2	-5.7	15.0	-3.3	0.5	1.4	-0.3	0.5	0.5	0.0
United States	-0.7	-1.4	-0.1	15.1	4.7	-0.3	-0.5	2.5	0.0	-0.8	2.5	0.0

¹ 42 countries: EU-28, TR, CH, NO, US, CA, JP, AU, MX, NZ, KO, CN, HK, RU and BR.Table 32: Relative unit labour costs, to rest of a group¹ of industrialised countries (nat. curr) (percentage change over preceding year, 2000-2020)

24.4.2019

	5-year averages			2015-2017			Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
Belgium	-0.6	0.2	0.5	-1.6	-1.1	0.3	-0.5	0.0	-0.4	-0.5	-0.6	:
Germany	-1.9	-1.6	0.2	1.3	-0.3	0.5	0.4	1.2	-0.3	0.3	0.1	:
Estonia	2.4	5.8	0.5	3.1	1.3	3.3	3.2	1.1	0.8	1.8	1.2	:
Ireland	1.5	1.0	-4.4	-15.9	-0.4	-4.7	-2.2	-0.7	0.0	-3.7	-0.6	:
Greece	0.2	1.4	-3.7	-2.8	-2.8	-1.2	-2.2	-1.5	-1.7	-3.1	-2.4	:
Spain	0.7	1.2	-2.2	-0.2	-2.2	-1.3	-1.7	-0.3	-0.4	-1.4	0.1	:
France	-0.3	-0.2	0.3	-0.5	-1.1	-0.7	-1.4	-3.0	-1.1	-1.0	-2.6	:
Italy	0.7	0.6	-0.4	-0.1	-1.2	-2.1	-0.6	-1.7	-1.4	-0.7	-1.2	:
Cyprus	0.6	0.7	-1.7	-2.1	-2.8	-0.7	-2.0	-0.3	0.0	-0.5	-0.4	:
Latvia	-0.1	9.3	-0.5	4.9	2.4	1.3	1.3	0.2	-0.4	1.7	0.2	:
Lithuania	-3.1	2.5	-0.7	4.0	4.3	2.0	2.1	1.6	1.1	1.5	1.8	:
Luxembourg	1.4	2.0	0.5	-0.3	0.3	3.9	1.0	1.3	0.4	0.6	1.1	:
Malta	0.9	0.6	0.8	-1.5	0.1	-0.5	-1.5	-1.1	-0.7	-0.1	0.3	:
Netherlands	0.8	-0.1	-0.2	-1.9	-1.0	-1.0	-0.4	0.0	-0.1	-0.5	0.4	:
Austria	-1.5	0.1	0.6	0.6	0.1	-1.0	-1.2	-0.5	-0.7	-0.8	-0.3	:
Portugal	1.0	-0.6	-1.8	-0.7	0.4	0.9	0.2	-0.5	-0.5	-0.1	-0.2	:
Slovenia	3.9	1.4	-1.1	-0.4	0.1	-0.2	-0.4	1.2	0.9	-0.5	0.4	:
Slovakia	2.4	0.8	-0.8	0.6	-0.5	2.5	0.4	0.9	1.4	0.1	1.0	:
Finland	-1.0	0.9	0.6	-0.1	-2.9	-4.2	-1.0	0.1	0.2	-1.5	-0.9	:
Euro area	-1.0	-0.4	-0.6	-0.7	-1.8	-1.1	-1.0	-0.7	-1.1	-1.1	-1.2	:
Bulgaria	-1.1	4.3	3.4	1.4	-0.6	6.4	-1.5	0.1	-0.2	1.2	1.1	:
Czechia	2.1	-0.6	-0.1	-1.7	1.4	1.9	3.4	0.4	0.3	4.0	2.9	:
Denmark	0.3	1.3	-0.9	0.0	-0.8	-0.4	-0.1	-0.4	-0.2	0.6	-0.1	:
Croatia	0.2	1.2	-2.6	-1.6	-3.7	-3.2	-1.1	-0.1	0.1	-1.1	-1.2	:
Hungary	6.2	0.8	0.3	-3.4	3.3	2.2	3.5	1.2	1.7	1.8	1.3	:
Poland	-1.3	-0.2	0.1	-1.5	0.7	0.6	-0.3	1.1	2.0	-0.7	1.3	:
Romania	20.9	6.7	0.7	-4.1	6.4	6.4	10.8	7.4	3.6	6.4	0.1	:
Sweden	0.1	0.3	0.1	-1.0	0.4	1.0	0.4	0.1	-0.2	-0.1	-0.1	:
EU27	-0.4	0.2	-0.7	-1.6	-1.5	-0.3	-0.6	-0.5	-0.7	-0.8	-1.1	:
United Kingdom	0.8	0.8	0.1	0.3	1.2	1.1	0.4	0.5	0.7	0.6	0.6	:
EU	-0.4	0.2	-0.8	-1.7	-1.5	-0.4	-0.5	-0.4	-0.7	-0.8	-1.1	:
Japan	-4.9	-2.7	-2.6	-1.4	0.3	-2.1	-0.6	-1.5	-1.5	-0.6	-0.9	:
United States	-0.2	-0.9	0.2	0.9	-0.1	0.6	-1.2	-0.8	-0.1	-0.3	-0.1	:

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, based on HICP/CPI relative to rest of a group¹ of industrialised countries (USD) (% change on preceding year, 2000-2020) 24.4.2019

	5-year averages			2015-2017			Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
Belgium	0.6	0.7	-0.4	-3.3	2.9	1.6	2.4	-1.1	-0.4	2.4	0.1	:
Germany	0.0	0.0	-1.3	-4.4	1.7	1.1	2.7	-1.8	-0.8	2.7	-0.2	:
Estonia	1.3	3.0	0.3	0.2	1.6	1.4	4.6	-0.2	0.0	4.8	1.4	:
Ireland	3.3	1.0	-2.5	-7.0	1.0	0.3	1.3	-2.8	-0.7	1.3	-1.5	:
Greece	:	:	:	:	:	:	:	:	:	2.4	-0.5	:
Spain	1.7	1.1	-0.8	-4.5	0.8	1.4	2.0	-1.8	-0.7	2.2	-0.3	:
France	0.6	0.1	-1.2	-4.7	1.4	0.6	2.6	-1.9	-0.8	2.7	-0.3	:
Italy	1.2	0.3	-0.9	-4.4	0.9	0.6	1.9	-2.3	-1.1	2.2	-0.6	:
Cyprus	1.2	0.6	-1.2	-6.5	-0.1	0.2	1.5	-2.5	-1.2	1.6	-0.6	:
Latvia	-0.2	4.5	-1.4	0.7	1.3	-0.2	3.7	-0.1	-0.2	4.0	0.8	:
Lithuania	2.6	2.7	-0.7	0.5	2.0	0.1	4.1	-1.0	-0.5	4.3	0.1	:
Luxembourg	1.1	1.1	-0.1	-2.7	0.8	1.1	1.5	-0.7	-0.2	1.6	0.0	:
Malta	1.7	1.1	-1.2	-4.8	1.5	1.3	2.1	-1.6	-0.3	2.4	-0.1	:
Netherlands	1.5	0.0	-0.7	-3.4	1.3	0.6	1.5	-0.3	-0.6	1.6	0.5	:
Austria	0.0	-0.1	-0.2	-2.4	1.7	1.0	2.1	-0.9	-0.2	2.2	0.0	:
Portugal	1.7	0.1	-0.9	-2.9	1.7	0.7	0.9	-1.5	-0.4	1.3	-0.4	:
Slovenia	0.3	0.5	-0.5	-2.1	0.5	-0.4	1.9	-0.7	0.0	2.1	0.4	:
Slovakia	7.3	6.5	-0.4	-2.3	0.6	-0.2	2.1	0.0	0.2	2.3	0.7	:
Finland	0.4	-0.1	-0.7	-3.1	1.3	-0.5	2.3	-1.7	-0.7	2.5	-0.4	:
Euro area	1.5	0.7	-2.1	-7.3	2.7	1.7	3.9	-2.8	-1.3	4.3	-0.3	:
Bulgaria	3.9	4.4	-1.0	-3.6	-0.3	0.7	3.7	-0.4	-0.7	4.0	0.4	:
Czechia	3.3	4.5	-1.5	-0.9	2.6	3.8	4.4	-0.1	0.0	4.7	-0.4	:
Denmark	0.8	0.7	-1.3	-3.4	1.1	0.5	1.1	-1.7	-0.6	1.3	-0.6	:
Croatia	1.1	1.4	-1.4	-1.5	1.2	0.4	2.6	-1.7	-1.1	2.8	-0.4	:
Hungary	5.2	0.7	-1.2	-2.4	0.8	1.7	-0.4	0.3	0.8	-0.4	-0.3	:
Poland	0.7	1.6	0.5	-2.6	-3.5	2.8	1.0	-1.4	0.5	1.1	-0.4	:
Romania	2.4	3.6	0.6	-2.6	-1.2	-1.7	2.4	-1.0	0.6	2.8	1.5	:
Sweden	0.0	-2.8	1.3	-5.5	0.9	-0.7	-3.9	-3.2	-0.7	-4.0	-1.5	:
EU27	1.8	-0.7	-1.7	-6.7	-0.9	0.0	5.6	-3.0	-1.3	6.1	-0.3	:
United Kingdom	-0.6	-4.7	2.2	5.0	-10.5	-4.7	2.3	1.0	0.3	2.8	0.3	:
EU	1.9	-0.7	-1.8	-7.7	-0.6	0.7	5.1	-3.2	-1.3	5.8	-0.3	:
Japan	-2.6	-0.9	-5.4	-6.1	13.2	-4.7	-0.7	-0.5	-1.9	-0.9	-0.8	:
United States	-0.9	-1.2	-0.5	12.2	3.5	-1.0	-0.9	1.9	-0.4	-0.7	2.5	:

¹ 42 countries: EU, TR, CH, NO, US, CA, JP, AU, MX, NZ, CN, HK, KO, RU and BR.

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, 2000-2020) 24.4.2019

	5-year averages			2015-2017			Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
Belgium	49.5	50.6	55.0	53.7	53.1	52.1	52.4	52.3	52.5	52.0	51.8	52.0
Germany	46.6	45.0	45.0	43.7	43.9	43.9	43.9	44.6	44.7	43.8	43.9	44.0
Estonia	35.4	37.5	38.7	39.6	39.5	39.3	39.5	39.9	39.9	39.4	39.4	39.4
Ireland	32.6	38.4	46.3	29.0	27.6	26.3	25.7	25.6	25.0	25.1	24.7	24.0
Greece	46.5	48.5	55.0	53.5	48.9	47.3	46.7	46.7	45.6	47.6	46.2	45.3
Spain	38.6	40.5	46.0	43.7	42.2	41.0	41.3	41.2	41.0	41.1	40.9	40.8
France	52.5	53.8	56.9	56.8	56.6	56.4	56.0	55.5	54.4	56.2	55.4	54.1
Italy	47.0	48.1	50.4	50.3	49.0	48.9	48.6	49.2	49.8	48.1	48.8	48.6
Cyprus	37.1	39.2	43.4	40.6	38.0	37.4	44.7	38.0	39.0	37.2	37.0	36.8
Latvia	35.0	37.3	39.9	38.2	37.0	37.8	38.5	37.8	37.4	37.7	37.3	37.1
Lithuania	35.8	37.3	38.2	34.9	34.1	33.1	34.0	34.4	34.9	34.3	34.9	35.0
Luxembourg	40.9	41.2	43.2	41.9	41.9	43.0	43.1	43.8	44.3	43.5	43.8	44.4
Malta	42.2	42.0	41.6	39.6	36.5	35.7	36.8	37.1	37.1	37.7	37.5	37.9
Netherlands	43.3	43.6	46.7	44.6	43.6	42.5	42.2	42.6	42.8	42.4	42.3	42.3
Austria	51.7	51.0	51.8	51.1	50.3	49.2	48.5	48.0	47.7	48.7	48.0	47.6
Portugal	44.4	46.4	50.4	48.2	44.8	45.7	44.0	44.2	43.9	44.0	43.9	43.7
Slovenia	46.0	44.7	51.4	47.7	45.3	43.2	42.4	42.5	42.1	42.2	41.8	41.1
Slovakia	43.9	39.2	41.4	45.1	41.5	40.2	40.6	40.4	40.2	39.9	39.3	38.7
Finland	48.5	49.5	56.2	57.0	55.9	54.2	53.1	52.8	52.6	52.9	52.1	51.4
Euro area	46.8	47.1	49.7	48.3	47.5	47.0	46.8	47.0	46.8	46.7	46.5	46.1
Bulgaria	39.7	37.0	37.1	40.5	35.1	35.0	34.8	37.0	36.7	36.1	37.7	37.6
Czechia	44.2	41.8	43.2	41.7	39.5	38.9	40.8	41.7	41.9	40.4	40.8	40.7
Denmark	53.1	51.5	56.4	54.5	52.7	51.2	51.4	51.1	51.5	51.9	52.1	51.2
Croatia	:	46.5	48.0	48.3	47.3	45.3	46.4	46.7	46.1	44.9	44.1	43.8
Hungary	48.5	49.9	49.2	50.1	46.8	46.9	46.5	46.4	45.6	47.3	46.6	46.3
Poland	44.4	44.3	43.5	41.7	41.1	41.2	41.5	42.6	42.6	41.6	41.9	42.2
Romania	35.6	36.7	37.5	36.1	34.5	33.6	35.0	36.1	38.0	35.1	35.1	36.3
Sweden	53.2	51.1	51.1	49.8	49.8	49.4	49.9	49.8	49.5	49.1	48.9	48.8
EU27	:	47.1	49.4	48.0	47.2	46.7	46.5	46.7	46.5	46.4	46.3	45.9
United Kingdom	37.7	42.9	45.2	42.2	41.4	41.0	40.8	41.0	40.9	40.5	40.3	40.3
EU	:	46.4	48.8	46.9	46.2	45.8	45.6	45.8	45.6	45.5	45.4	45.1
Japan	:	36.5	40.4	39.3	39.3	38.8	39.1	39.0	39.1	39.0	38.8	38.9
United States	36.2	38.8	40.6	37.9	38.2	38.0	37.6	37.9	38.0	37.6	37.9	38.0

Table 35: Total revenue, general government (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	49.1	48.8	51.2	51.4	50.7	51.3	51.7	51.0	51.0	51.0	50.7
Germany	43.8	43.3	44.0	44.5	44.8	45.0	45.6	45.6	45.5	45.3	45.1	45.0
Estonia	36.4	37.9	39.0	39.7	39.1	38.9	39.0	39.5	39.4	39.9	39.8	39.6
Ireland	33.9	35.2	33.7	27.0	26.9	26.0	25.8	25.6	25.3	25.0	24.6	24.2
Greece	40.0	39.7	45.5	47.9	49.4	48.1	47.8	47.2	45.5	48.3	46.8	46.0
Spain	38.2	38.5	37.5	38.5	37.7	37.9	38.9	38.9	38.9	38.4	38.8	38.8
France	49.8	50.1	51.9	53.2	53.0	53.6	53.5	52.4	52.3	53.6	52.7	52.4
Italy	43.9	44.7	47.0	47.7	46.5	46.5	46.4	46.7	46.3	46.2	45.9	45.5
Cyprus	33.6	38.3	37.4	39.3	38.3	39.1	39.9	41.0	41.8	40.0	40.1	39.7
Latvia	33.2	34.3	36.6	36.9	37.0	37.2	37.5	37.2	36.8	36.8	36.4	36.4
Lithuania	33.6	34.6	33.8	34.6	34.4	33.6	34.7	34.7	34.9	34.9	35.3	35.1
Luxembourg	43.6	42.9	43.7	43.3	43.7	44.4	45.5	45.2	45.4	44.8	45.0	45.2
Malta	36.1	39.1	39.1	38.5	37.4	39.2	38.8	38.2	38.0	39.0	38.6	38.6
Netherlands	42.0	42.6	43.0	42.6	43.6	43.7	43.6	44.0	43.6	43.4	43.4	43.3
Austria	49.5	48.3	49.0	50.1	48.7	48.4	48.6	48.4	47.9	48.3	48.0	47.8
Portugal	40.0	41.0	43.2	43.8	42.8	42.7	43.5	43.8	43.8	43.3	43.3	43.4
Slovenia	43.1	42.7	44.1	44.9	43.4	43.2	43.1	43.2	43.0	42.7	42.2	41.3
Slovakia	37.6	35.4	37.1	42.5	39.2	39.4	39.9	39.9	39.7	39.3	38.9	38.6
Finland	52.6	52.1	53.9	54.3	54.2	53.4	52.5	52.5	52.4	52.2	51.9	51.3
Euro area	44.5	44.5	45.8	46.2	46.0	46.1	46.3	46.1	45.8	46.0	45.7	45.5
Bulgaria	39.8	37.3	34.8	38.8	35.2	36.2	36.8	37.9	37.7	37.0	38.3	38.2
Czechia	39.2	39.1	40.4	41.1	40.2	40.5	41.7	41.9	41.7	41.8	41.5	41.3
Denmark	54.1	54.6	54.7	53.2	52.6	52.6	51.9	51.7	51.4	52.1	52.0	51.8
Croatia	:	42.8	42.0	45.2	46.3	46.1	46.6	46.8	46.7	45.1	44.4	43.9
Hungary	42.6	43.9	45.7	48.2	45.1	44.7	44.2	44.6	44.0	44.9	44.7	44.5
Poland	39.6	40.3	38.8	39.0	38.9	39.7	41.2	41.0	41.2	40.7	41.0	41.2
Romania	33.1	32.7	33.6	35.4	31.8	30.9	32.0	32.5	33.3	31.8	31.8	31.7
Sweden	53.7	52.8	50.2	49.8	50.8	50.9	50.8	50.2	49.9	50.2	49.9	49.6
EU27	:	44.6	45.6	46.0	45.7	45.8	46.0	45.8	45.6	45.8	45.5	45.3
United Kingdom	36.4	38.2	38.1	38.0	38.5	39.1	39.3	39.4	39.7	39.2	39.3	39.3
EU	:	43.6	44.5	44.6	44.6	44.8	45.0	44.8	44.7	44.8	44.6	44.4
Japan	:	31.7	32.5	35.8	35.8	35.9	36.1	36.2	36.6	35.7	35.7	36.1
United States	32.3	32.4	31.8	33.3	32.9	33.8	31.3	31.4	31.6	31.8	32.0	32.0

Table 36: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	-0.4	-1.8	-3.7	-2.4	-2.4	-0.8	-0.7	-1.3	-1.5	-1.0	-1.1
Germany	-2.8	-1.7	-1.0	0.8	0.9	1.0	1.7	1.0	0.8	1.6	1.2	1.1
Estonia	0.9	0.4	0.3	0.1	-0.3	-0.4	-0.6	-0.3	-0.5	0.5	0.5	0.2
Ireland	1.4	-3.2	-12.6	-1.9	-0.7	-0.3	0.0	0.0	0.3	-0.1	-0.1	0.2
Greece	-6.4	-8.8	-9.4	-5.6	0.5	0.7	1.1	0.5	-0.1	0.6	0.6	0.6
Spain	-0.5	-2.0	-8.5	-5.3	-4.5	-3.1	-2.5	-2.3	-2.0	-2.7	-2.1	-1.9
France	-2.7	-3.8	-5.0	-3.6	-3.5	-2.8	-2.5	-3.1	-2.2	-2.6	-2.8	-1.7
Italy	-3.1	-3.4	-3.4	-2.6	-2.5	-2.4	-2.1	-2.5	-3.5	-1.9	-2.9	-3.1
Cyprus	-3.6	-0.9	-6.0	-1.3	0.3	1.8	-4.8	3.0	2.8	2.8	3.0	2.9
Latvia	-1.9	-3.0	-3.4	-1.4	0.1	-0.6	-1.0	-0.6	-0.6	-0.8	-1.0	-0.7
Lithuania	-2.2	-2.7	-4.4	-0.3	0.2	0.5	0.7	0.3	0.0	0.6	0.4	0.1
Luxembourg	2.6	1.8	0.5	1.4	1.9	1.4	2.4	1.4	1.1	1.3	1.2	0.9
Malta	-6.1	-2.9	-2.5	-1.0	0.9	3.4	2.0	1.1	0.9	1.3	1.2	0.7
Netherlands	-1.3	-1.1	-3.7	-2.0	0.0	1.2	1.5	1.4	0.8	1.1	1.1	1.0
Austria	-2.2	-2.6	-2.8	-1.0	-1.6	-0.8	0.1	0.3	0.2	-0.3	0.0	0.1
Portugal	-4.4	-5.4	-7.2	-4.4	-2.0	-3.0	-0.5	-0.4	-0.1	-0.7	-0.6	-0.2
Slovenia	-2.9	-2.0	-7.3	-2.8	-1.9	0.0	0.7	0.7	0.9	0.5	0.4	0.2
Slovakia	-6.3	-3.7	-4.3	-2.6	-2.2	-0.8	-0.7	-0.5	-0.6	-0.6	-0.3	-0.1
Finland	4.1	2.7	-2.3	-2.8	-1.7	-0.8	-0.7	-0.4	-0.2	-0.8	-0.2	-0.1
Euro area	-2.3	-2.6	-3.9	-2.0	-1.6	-1.0	-0.5	-0.9	-0.9	-0.6	-0.8	-0.7
Bulgaria	0.2	0.3	-2.3	-1.7	0.1	1.2	2.0	0.8	1.0	0.8	0.6	0.6
Czechia	-4.9	-2.6	-2.8	-0.6	0.7	1.6	0.9	0.2	-0.2	1.4	0.8	0.7
Denmark	1.0	3.1	-1.7	-1.3	-0.1	1.4	0.5	0.6	-0.1	0.2	-0.1	0.6
Croatia	:	-3.7	-6.0	-3.2	-1.0	0.8	0.2	0.1	0.5	0.2	0.4	0.1
Hungary	-5.9	-6.1	-3.5	-1.9	-1.6	-2.2	-2.2	-1.8	-1.6	-2.4	-1.9	-1.8
Poland	-4.7	-4.0	-4.7	-2.7	-2.2	-1.5	-0.4	-1.6	-1.4	-0.9	-0.9	-1.0
Romania	-2.5	-4.0	-3.9	-0.7	-2.7	-2.7	-3.0	-3.5	-4.7	-3.3	-3.4	-4.7
Sweden	0.5	1.7	-0.8	0.0	1.0	1.4	0.9	0.4	0.4	1.1	0.9	0.8
EU27	:	-2.5	-3.8	-1.9	-1.4	-0.8	-0.5	-0.9	-0.9	-0.6	-0.8	-0.6
United Kingdom	-1.3	-4.8	-7.1	-4.2	-2.9	-1.9	-1.5	-1.5	-1.2	-1.3	-1.0	-1.0
EU	:	-2.8	-4.3	-2.3	-1.7	-1.0	-0.6	-1.0	-1.0	-0.7	-0.8	-0.7
Japan	:	-4.8	-7.9	-3.6	-3.5	-3.0	-2.9	-2.8	-2.5	-3.3	-3.1	-2.8
United States	-3.8	-6.5	-8.7	-4.6	-5.3	-4.1	-6.4	-6.5	-6.4	-5.8	-6.0	-6.0

Table 37: Interest expenditure, general government (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	5.8	4.0	3.5	3.0	2.8	2.5	2.3	2.1	2.0	2.4	2.2
Germany	3.0	2.7	2.2	1.4	1.2	1.0	0.9	0.9	0.8	0.9	0.9	0.8
Estonia	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	1.4	1.3	3.7	2.6	2.3	2.0	1.6	1.5	1.2	1.6	1.4	1.3
Greece	5.7	4.7	5.2	3.5	3.2	3.1	3.3	3.5	3.7	3.2	3.5	3.4
Spain	2.6	1.6	2.9	3.1	2.8	2.6	2.5	2.3	2.1	2.4	2.3	2.2
France	2.9	2.7	2.5	2.0	1.8	1.7	1.7	1.6	1.6	1.9	1.8	1.8
Italy	5.4	4.6	4.7	4.1	3.9	3.8	3.7	3.6	3.7	3.7	3.8	3.9
Cyprus	3.1	2.8	2.8	3.2	2.8	2.6	2.5	2.4	2.1	2.7	2.4	2.2
Latvia	0.8	0.7	1.6	1.3	1.0	0.9	0.7	0.7	0.6	0.8	0.7	0.7
Lithuania	1.3	0.8	1.8	1.5	1.3	1.1	0.9	0.8	0.7	0.9	0.9	0.7
Luxembourg	0.3	0.3	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.3	0.3	0.3
Malta	3.8	3.5	3.0	2.3	2.1	1.8	1.5	1.4	1.3	1.6	1.5	1.3
Netherlands	2.7	2.0	1.7	1.3	1.2	1.0	0.9	0.8	0.7	0.8	0.7	0.7
Austria	3.4	3.1	2.7	2.3	2.1	1.8	1.7	1.5	1.4	1.6	1.5	1.4
Portugal	2.8	2.9	4.4	4.6	4.2	3.8	3.5	3.3	3.1	3.5	3.3	3.2
Slovenia	2.1	1.3	2.3	3.2	3.0	2.5	2.0	1.6	1.5	2.0	1.7	1.6
Slovakia	3.2	1.5	1.7	1.7	1.6	1.4	1.3	1.3	1.2	1.3	1.2	1.1
Finland	2.2	1.5	1.3	1.2	1.1	1.0	0.9	0.9	0.9	0.9	0.8	0.8
Euro area	3.4	2.9	2.8	2.3	2.1	2.0	1.8	1.8	1.7	1.9	1.8	1.8
Bulgaria	2.9	1.1	0.8	0.9	0.9	0.8	0.7	0.6	0.5	0.7	0.7	0.6
Czechia	1.0	1.1	1.3	1.1	0.9	0.7	0.8	0.8	0.8	0.7	0.8	0.8
Denmark	3.1	1.8	1.8	1.6	1.3	1.1	1.1	1.1	1.1	1.0	0.9	0.9
Croatia	:	2.0	3.0	3.5	3.1	2.7	2.3	2.1	1.8	2.4	2.3	2.2
Hungary	4.5	4.1	4.3	3.5	3.2	2.8	2.5	2.4	2.4	2.5	2.4	2.4
Poland	2.9	2.3	2.4	1.8	1.7	1.6	1.4	1.4	1.3	1.5	1.4	1.4
Romania	2.6	1.0	1.7	1.6	1.5	1.3	1.2	1.2	1.3	1.4	1.4	1.5
Sweden	2.5	1.5	0.9	0.6	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3
EU27	:	2.8	2.7	2.2	2.0	1.8	1.7	1.7	1.6	1.8	1.7	1.7
United Kingdom	2.0	2.0	2.9	2.3	2.4	2.7	2.5	2.4	2.3	2.5	2.4	2.3
EU	:	2.6	2.7	2.2	2.1	2.0	1.9	1.8	1.7	1.9	1.8	1.8
Japan	2.4	1.9	2.0	1.8	1.8	1.7	1.8	1.8	1.7	1.9	1.8	1.7
United States	4.1	4.0	4.2	3.8	3.9	3.9	4.0	4.0	4.0	3.7	3.9	4.1

Table 38: Primary balance, general government ¹ (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	5.5	2.3	-0.3	0.6	0.4	1.6	1.6	0.8	0.5	1.4	1.2
Germany	0.1	1.0	1.2	2.2	2.1	2.1	2.6	1.8	1.6	2.5	2.0	1.9
Estonia	1.2	0.6	0.4	0.2	-0.3	-0.3	-0.5	-0.3	-0.4	0.6	0.5	0.2
Ireland	2.8	-2.0	-8.8	0.7	1.6	1.7	1.7	1.4	1.5	1.5	1.3	1.6
Greece	-0.8	-4.1	-4.2	-2.1	3.6	3.9	4.4	4.0	3.6	3.9	4.1	4.0
Spain	2.1	-0.4	-5.6	-2.2	-1.7	-0.5	0.0	0.0	0.1	-0.3	0.1	0.2
France	0.2	-1.1	-2.5	-1.6	-1.7	-1.0	-0.8	-1.5	-0.5	-0.8	-0.9	0.1
Italy	2.3	1.2	1.4	1.5	1.4	1.4	1.6	1.2	0.2	1.7	1.0	0.8
Cyprus	-0.5	1.9	-3.2	1.9	3.1	4.3	-2.3	5.4	4.9	5.5	5.5	5.2
Latvia	-1.1	-2.3	-1.7	0.0	1.1	0.3	-0.3	0.1	0.1	-0.1	-0.2	0.0
Lithuania	-0.9	-1.9	-2.6	1.3	1.6	1.6	1.5	1.1	0.7	1.5	1.2	0.8
Luxembourg	2.9	2.1	1.0	1.8	2.2	1.8	2.7	1.7	1.4	1.7	1.6	1.2
Malta	-2.3	0.6	0.5	1.3	3.0	5.2	3.6	2.5	2.2	2.9	2.6	2.0
Netherlands	1.4	1.0	-2.1	-0.7	1.2	2.2	2.4	2.2	1.5	1.9	1.8	1.6
Austria	1.2	0.5	-0.1	1.3	0.5	1.1	1.8	1.8	1.6	1.3	1.5	1.6
Portugal	-1.6	-2.6	-2.9	0.2	2.2	0.9	3.0	2.9	3.0	2.7	2.7	3.0
Slovenia	-0.8	-0.7	-5.0	0.4	1.1	2.5	2.7	2.3	2.4	2.4	2.1	1.8
Slovakia	-3.1	-2.3	-2.6	-0.8	-0.6	0.6	0.6	0.8	0.6	0.7	0.8	0.9
Finland	6.3	4.1	-1.0	-1.6	-0.6	0.2	0.2	0.5	0.7	0.1	0.6	0.7
Euro area	1.2	0.2	-1.1	0.3	0.6	1.0	1.3	0.9	0.8	1.2	1.0	1.1
Bulgaria	3.1	1.4	-1.5	-0.7	1.0	2.0	2.7	1.4	1.5	1.5	1.3	1.2
Czechia	-4.0	-1.6	-1.5	0.5	1.6	2.3	1.7	1.0	0.6	2.1	1.5	1.4
Denmark	4.1	4.8	0.1	0.2	1.3	2.5	1.6	1.6	1.0	1.2	0.8	1.5
Croatia	:	-1.7	-3.0	0.3	2.1	3.5	2.5	2.3	2.3	2.7	2.6	2.2
Hungary	-1.5	-2.0	0.8	1.6	1.6	0.6	0.3	0.7	0.8	0.1	0.5	0.6
Poland	-1.8	-1.7	-2.3	-0.9	-0.5	0.0	1.1	-0.3	-0.1	0.6	0.6	0.4
Romania	0.1	-3.0	-2.2	0.9	-1.2	-1.4	-1.8	-2.3	-3.4	-1.9	-1.9	-3.2
Sweden	3.0	3.3	0.1	0.6	1.5	1.9	1.4	0.9	0.9	1.3	1.2	1.2
EU27	1.1	0.3	-1.1	0.3	0.6	1.0	1.3	0.8	0.7	1.2	0.9	1.0
United Kingdom	0.7	-2.7	-4.2	-1.9	-0.5	0.8	0.9	0.9	1.1	1.2	1.4	1.4
EU	1.1	-0.2	-1.6	-0.1	0.4	1.0	1.2	0.8	0.8	1.2	1.0	1.1
Japan	2.4	-3.0	-5.9	-1.7	-1.7	-1.3	-1.1	-1.0	-0.8	-1.5	-1.4	-1.0
United States	0.3	-2.4	-4.6	-0.9	-1.4	-0.3	-2.4	-2.5	-2.4	-2.1	-2.1	-1.9

¹ Net lending/borrowing excluding interest expenditure.

Table 39: Cyclically-adjusted net lending (+) or net borrowing (-), general government¹ (as a percentage of potential GDP, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
Belgium	-0.5	-2.3	-3.4	-2.2	-2.3	-1.0	-0.8	-1.4	-1.6	-1.1	-1.2	-1.6
Germany	-2.9	-1.4	-0.8	0.8	0.7	0.6	1.4	1.1	0.8	1.2	1.0	1.1
Estonia	0.2	-2.2	0.8	-0.1	-0.9	-1.7	-2.2	-1.7	-1.5	-0.8	-0.7	-0.9
Ireland	0.3	-2.9	-11.8	-3.7	-1.9	-0.9	-1.4	-1.2	-0.5	-0.2	-0.5	-0.3
Greece	-7.4	-10.3	-3.0	0.7	6.3	5.4	4.4	2.6	0.9	3.6	2.5	1.5
Spain	-2.2	-2.7	-4.4	-2.5	-3.1	-2.8	-3.0	-3.3	-3.2	-3.2	-3.1	-3.1
France	-3.6	-4.5	-4.3	-2.9	-2.9	-2.8	-2.8	-3.4	-2.6	-2.7	-3.1	-2.2
Italy	-3.9	-3.8	-1.7	-0.8	-1.5	-2.1	-2.1	-2.3	-3.4	-1.8	-3.0	-3.5
Cyprus	-4.6	-3.0	-3.7	1.3	1.1	1.3	-6.2	1.1	0.7	1.7	1.2	0.7
Latvia	-1.7	-4.3	-1.7	-1.5	0.0	-1.2	-2.1	-1.4	-1.1	-1.8	-1.7	-1.2
Lithuania	-1.4	-3.6	-3.0	-0.5	-0.2	-0.7	-0.8	-0.9	-0.8	-0.6	-0.5	-0.4
Luxembourg	1.6	2.0	2.0	1.5	1.8	1.5	2.1	0.9	0.5	1.3	1.1	0.8
Malta	-6.4	-3.1	-1.7	-2.5	0.2	2.9	1.4	0.6	0.7	0.9	1.0	0.9
Netherlands	-1.1	-1.0	-2.3	-0.9	0.6	1.1	0.8	0.9	0.2	0.4	0.1	0.0
Austria	-2.2	-2.8	-2.4	-0.3	-1.1	-0.8	-0.5	-0.1	0.0	-0.8	-0.4	-0.2
Portugal	-4.7	-5.3	-5.9	-3.4	-1.6	-3.3	-1.1	-1.1	-0.8	-1.4	-1.3	-1.0
Slovenia	-3.2	-3.4	-5.2	-1.3	-1.2	-0.6	-0.8	-0.9	-0.4	-0.8	-1.0	-1.0
Slovakia	-5.2	-4.6	-3.4	-2.1	-2.1	-0.9	-1.3	-1.3	-1.4	-0.8	-0.8	-0.6
Finland	3.9	2.2	-1.1	-0.8	-0.7	-0.7	-1.1	-0.9	-0.6	-0.9	-0.5	-0.7
Euro area	-2.9	-2.9	-2.7	-1.1	-1.0	-1.0	-0.8	-1.1	-1.2	-0.8	-1.2	-1.1
Bulgaria	0.7	-0.3	-2.0	-1.2	0.3	1.1	1.9	0.7	0.6	0.7	0.4	0.3
Czechia	-5.0	-3.8	-2.1	-0.6	0.8	1.0	0.4	-0.1	-0.4	0.9	0.2	0.2
Denmark	0.5	2.3	0.0	-0.5	0.3	1.5	0.8	0.9	0.3	0.5	0.2	0.8
Croatia	:	-5.3	-4.4	-1.7	-0.4	0.6	-0.3	-0.8	-0.5	-0.5	-0.7	-1.1
Hungary	-6.0	-6.5	-2.1	-2.1	-1.9	-3.0	-3.7	-3.3	-2.7	-3.8	-3.3	-3.0
Poland	-3.1	-4.2	-4.7	-2.3	-1.9	-1.9	-1.4	-2.8	-2.4	-2.0	-2.0	-1.8
Romania	-2.4	-5.9	-2.5	0.2	-2.1	-2.9	-3.3	-3.7	-4.8	-3.5	-3.4	-4.6
Sweden	0.5	1.6	0.1	-0.1	0.7	1.2	0.6	0.5	0.6	0.9	0.9	1.0
EU27	:	-2.8	-2.6	-1.0	-0.9	-0.9	-0.8	-1.1	-1.2	-0.8	-1.1	-1.1
United Kingdom	-1.6	-4.7	-5.7	-4.4	-3.3	-2.4	-2.0	-1.8	-1.4	-1.8	-1.3	-1.1
EU	:	-3.1	-3.1	-1.6	-1.3	-1.1	-1.0	-1.2	-1.2	-1.0	-1.2	-1.1

¹ Cyclically-adjusted variables for Croatia are based on provisional values for fiscal semi-elasticities and subject to further revisionsTable 40: Cyclically-adjusted primary balance, general government¹ (as a percentage of potential GDP, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
Belgium	5.3	1.7	0.1	0.8	0.5	1.5	1.4	0.7	0.4	1.3	1.0	0.5
Germany	0.1	1.3	1.4	2.2	1.9	1.6	2.3	2.0	1.7	2.2	1.8	1.9
Estonia	0.5	-2.0	0.9	0.0	-0.8	-1.6	-2.1	-1.7	-1.5	-0.8	-0.6	-0.8
Ireland	1.7	-1.6	-8.1	-1.1	0.3	1.1	0.2	0.3	0.7	1.4	0.9	1.0
Greece	-1.7	-5.6	2.2	4.2	9.4	8.5	7.8	6.1	4.6	6.8	6.0	4.9
Spain	0.4	-1.1	-1.5	0.6	-0.3	-0.2	-0.5	-1.0	-1.1	-0.8	-0.8	-1.0
France	-0.7	-1.8	-1.8	-0.9	-1.0	-1.0	-1.1	-1.8	-1.0	-0.8	-1.2	-0.4
Italy	1.6	0.8	3.0	3.3	2.5	1.7	1.6	1.3	0.3	1.9	0.8	0.4
Cyprus	-1.5	-0.3	-0.9	4.5	3.8	3.9	-3.7	3.5	2.7	4.3	3.6	2.9
Latvia	-0.9	-3.6	-0.1	-0.2	1.0	-0.3	-1.4	-0.8	-0.4	-1.0	-1.0	-0.5
Lithuania	0.0	-2.8	-1.2	1.0	1.1	0.4	0.1	-0.1	-0.2	0.4	0.4	0.3
Luxembourg	1.9	2.3	2.5	1.8	2.1	1.9	2.5	1.2	0.8	1.7	1.4	1.1
Malta	-2.6	0.4	1.3	-0.2	2.3	4.7	2.9	2.0	2.0	2.5	2.5	2.2
Netherlands	1.5	1.1	-0.7	0.4	1.8	2.1	1.7	1.6	0.9	1.2	0.8	0.6
Austria	1.2	0.3	0.3	2.1	1.0	1.0	1.2	1.4	1.4	0.8	1.0	1.3
Portugal	-1.9	-2.4	-1.5	1.1	2.6	0.5	2.3	2.2	2.3	2.1	2.0	2.3
Slovenia	-1.1	-2.1	-2.9	1.9	1.8	1.9	1.2	0.7	1.1	1.1	0.7	0.6
Slovakia	-2.0	-3.2	-1.8	-0.4	-0.4	0.4	0.0	0.0	-0.2	0.4	0.3	0.5
Finland	6.1	3.7	0.3	0.4	0.4	0.3	-0.2	0.0	0.2	0.0	0.3	0.2
Euro area	0.6	-0.1	0.1	1.3	1.1	0.9	1.0	0.6	0.5	1.0	0.6	0.7
Bulgaria	3.7	0.9	-1.2	-0.3	1.2	1.9	2.6	1.2	1.2	1.4	1.1	0.9
Czechia	-4.0	-2.8	-0.8	0.4	1.7	1.8	1.2	0.6	0.4	1.7	1.0	1.0
Denmark	3.6	4.1	1.7	1.1	1.7	2.6	1.9	2.0	1.4	1.6	1.1	1.7
Croatia	:	-3.3	-1.4	1.8	2.6	3.3	2.0	1.3	1.3	1.9	1.6	1.0
Hungary	-1.6	-2.4	2.1	1.5	1.3	-0.3	-1.2	-0.9	-0.4	-1.3	-0.9	-0.6
Poland	-0.1	-1.9	-2.3	-0.6	-0.2	-0.4	0.0	-1.4	-1.1	-0.5	-0.5	-0.4
Romania	0.2	-5.0	-0.8	1.8	-0.6	-1.7	-2.1	-2.5	-3.5	-2.0	-2.0	-3.1
Sweden	3.0	3.1	1.0	0.5	1.2	1.7	1.1	1.0	1.1	1.2	1.2	1.3
EU27	0.7	0.0	0.1	1.2	1.1	0.9	1.0	0.5	0.4	0.9	0.6	0.6
United Kingdom	0.4	-2.7	-2.8	-2.1	-0.8	0.3	0.5	0.6	0.9	0.7	1.1	1.2
EU	0.6	-0.5	-0.3	0.6	0.8	0.8	0.9	0.5	0.5	0.9	0.7	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 government¹ (as a percentage of potential GDP, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	:	:	-3.5	-2.3	-2.3	-1.4	-1.4	-1.4	-1.8	-1.3	-1.3
Germany	:	:	-0.4	0.9	0.7	0.8	1.6	1.1	0.8	1.4	1.0	1.1
Estonia	:	:	0.1	0.2	-0.8	-1.7	-2.2	-1.7	-1.5	-0.8	-0.7	-0.9
Ireland	:	:	-6.8	-2.9	-2.1	-0.9	-1.4	-1.2	-0.5	-0.2	-0.5	-0.3
Greece	:	:	-1.1	3.3	5.6	5.1	5.0	1.9	0.8	4.0	2.3	1.5
Spain	:	:	-3.5	-2.2	-3.1	-2.7	-2.7	-2.9	-3.2	-3.1	-3.1	-3.1
France	:	:	-4.3	-2.8	-2.8	-2.7	-2.6	-2.6	-2.5	-2.5	-2.3	-2.2
Italy	:	:	-1.9	-0.7	-1.7	-2.1	-2.2	-2.4	-3.6	-1.8	-3.0	-3.5
Cyprus	:	:	-2.0	2.1	1.1	1.3	2.0	1.1	0.7	1.7	1.2	0.7
Latvia	:	:	-1.3	-1.5	-0.2	-1.2	-2.1	-1.6	-1.1	-1.8	-1.7	-1.2
Lithuania	:	:	-2.3	-0.6	-0.4	-0.8	-0.8	-1.0	-0.9	-0.6	-0.5	-0.4
Luxembourg	:	:	2.0	1.3	1.7	1.5	2.1	0.9	0.5	1.3	1.1	0.8
Malta	:	:	-2.2	-2.6	0.3	3.1	1.4	0.6	0.7	0.9	0.9	0.9
Netherlands	:	:	-2.4	-0.9	0.4	0.6	0.8	0.7	0.2	0.3	-0.3	-0.1
Austria	:	:	-1.8	0.0	-1.1	-0.8	-0.5	-0.1	0.0	-0.8	-0.4	-0.2
Portugal	:	:	-4.6	-2.2	-2.0	-1.3	-0.4	-0.5	-0.5	-0.9	-0.9	-1.0
Slovenia	:	:	-2.6	-1.3	-1.1	-0.5	-0.7	-0.8	-0.3	-0.8	-1.0	-1.0
Slovakia	:	:	-3.5	-2.1	-2.0	-0.9	-1.3	-1.3	-1.4	-0.8	-0.8	-0.6
Finland	:	:	-1.0	-0.8	-0.7	-0.7	-1.0	-1.0	-0.6	-0.8	-0.6	-0.7
Euro area	:	:	-2.4	-0.9	-1.1	-0.9	-0.7	-0.9	-1.2	-0.7	-1.0	-1.1
Bulgaria	:	:	-1.3	-1.1	0.3	1.1	1.9	0.7	0.6	0.7	0.4	0.3
Czechia	:	:	-1.7	-0.6	0.8	1.0	0.4	-0.1	-0.4	0.9	0.2	0.2
Denmark	:	:	-0.6	-1.8	0.3	1.5	0.8	0.9	1.0	0.5	0.9	0.8
Croatia	:	:	-4.4	-1.7	-0.6	0.6	-0.3	-0.8	-0.5	-0.5	-0.7	-1.1
Hungary	:	:	-2.4	-2.0	-1.8	-3.4	-3.7	-3.3	-2.7	-3.8	-3.3	-3.0
Poland	:	:	-4.7	-2.3	-1.9	-1.9	-1.4	-2.8	-3.0	-2.0	-2.0	-1.8
Romania	:	:	-2.4	-0.1	-1.7	-2.9	-3.0	-3.6	-4.8	-3.3	-3.4	-4.6
Sweden	:	:	0.1	-0.1	0.7	1.2	0.6	0.5	0.6	0.9	0.9	1.0
EU27	:	:	-2.3	-0.9	-1.0	-0.9	-0.7	-1.0	-1.2	-0.7	-1.0	-1.1
United Kingdom	:	:	-5.7	-4.4	-3.2	-2.4	-2.0	-1.8	-1.4	-1.8	-1.3	-1.1
EU	:	:	-2.8	-1.6	-1.4	-1.1	-0.9	-1.1	-1.3	-0.9	-1.0	-1.1

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, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
Belgium	103.7	93.0	103.9	106.4	106.1	103.4	102.0	101.3	100.7	101.4	99.8	98.7
Germany	60.8	67.0	79.1	71.6	68.5	64.5	60.9	58.4	55.6	60.1	56.7	53.7
Estonia	5.3	4.8	8.6	9.9	9.2	9.2	8.4	8.5	8.5	8.0	7.6	7.5
Ireland	31.6	35.5	108.1	76.8	73.5	68.5	64.8	61.3	55.9	63.9	61.1	56.0
Greece	104.2	110.1	166.8	175.9	178.5	176.2	181.1	174.9	168.9	182.5	174.9	167.4
Spain	51.3	41.8	82.2	99.3	99.0	98.1	97.1	96.3	95.7	96.9	96.2	95.4
France	61.6	69.7	90.4	95.6	98.0	98.4	98.4	99.0	98.9	98.7	98.5	97.2
Italy	102.5	103.8	123.2	131.6	131.4	131.4	132.2	133.7	135.2	131.1	131.0	131.1
Cyprus	60.4	55.3	82.8	108.0	105.5	95.8	102.5	96.4	89.9	105.0	98.4	91.0
Latvia	13.3	16.7	42.5	36.8	40.3	40.0	35.9	34.5	33.5	37.1	35.5	35.7
Lithuania	21.5	18.7	38.5	42.6	40.0	39.4	34.2	37.0	36.4	34.8	37.9	37.6
Luxembourg	7.2	10.7	21.4	22.2	20.7	23.0	21.4	20.7	20.3	21.4	20.8	20.6
Malta	66.1	65.4	67.4	57.9	55.5	50.2	46.0	42.8	40.2	47.9	44.8	42.1
Netherlands	50.1	49.9	64.5	64.6	61.9	57.0	52.4	49.1	46.7	53.2	49.6	46.9
Austria	66.1	69.9	82.5	84.7	83.0	78.2	73.8	69.7	66.8	74.5	71.0	67.8
Portugal	56.1	72.1	118.7	128.8	129.2	124.8	121.5	119.5	116.6	121.5	119.2	116.8
Slovenia	26.5	26.3	57.9	82.6	78.7	74.1	70.1	65.9	61.7	70.2	66.3	62.6
Slovakia	44.6	32.0	49.1	52.2	51.8	50.9	48.9	47.3	46.0	48.8	46.4	44.2
Finland	41.8	37.3	53.2	63.4	63.0	61.3	58.9	58.3	57.7	59.8	58.5	57.5
Euro area	67.8	69.9	90.6	92.3	91.4	89.1	87.1	85.8	84.3	86.9	84.9	82.8
Bulgaria	53.5	18.2	18.3	26.2	29.6	25.6	22.6	20.5	18.4	23.3	21.3	19.5
Czechia	24.5	29.0	41.7	40.0	36.8	34.7	32.7	31.7	31.1	33.2	32.1	31.2
Denmark	48.0	34.0	44.4	39.8	37.2	35.5	34.1	33.0	32.5	33.3	32.2	30.5
Croatia	37.4	40.9	71.0	83.7	80.5	77.8	74.6	70.9	67.6	73.5	70.1	68.2
Hungary	55.8	68.0	78.6	76.7	76.0	73.4	70.8	69.2	67.7	72.9	70.3	68.6
Poland	41.4	46.7	53.4	51.3	54.2	50.6	48.9	48.2	47.4	49.2	48.3	47.4
Romania	22.8	14.9	35.6	37.8	37.3	35.2	35.0	36.0	38.4	35.1	35.9	38.2
Sweden	50.3	42.3	40.1	44.2	42.4	40.8	38.8	34.4	32.4	37.8	35.5	33.5
EU27	65.2	66.1	84.6	86.0	85.1	82.8	80.8	79.3	77.8	80.6	78.6	76.7
United Kingdom	36.0	47.1	82.5	87.9	87.9	87.1	86.8	85.1	84.2	86.0	84.5	82.6
EU	59.9	62.6	84.5	86.2	85.0	83.3	81.5	80.2	78.8	81.4	79.5	77.6

Table 43: Gross national saving (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	26.9	26.5	24.4	22.9	23.7	25.5	25.5	25.5	25.4	25.9	25.9
Germany	22.1	25.4	26.5	28.1	28.3	28.3	28.8	28.3	28.4	28.3	28.2	28.2
Estonia	23.1	23.9	26.4	26.6	26.1	28.6	28.5	28.2	28.4	29.1	29.0	29.1
Ireland	24.2	21.3	18.4	30.2	34.7	34.1	34.9	34.7	34.6	34.8	35.1	35.4
Greece	16.4	10.5	7.7	9.9	10.3	11.4	11.7	13.0	14.3	11.9	13.4	15.1
Spain	23.0	21.4	19.7	21.5	22.6	23.0	22.9	23.2	23.5	23.1	23.3	23.8
France	23.2	22.8	21.5	22.3	21.9	22.8	22.9	23.3	23.4	22.9	23.0	23.3
Italy	20.6	19.6	17.8	18.6	20.0	20.1	20.4	20.3	20.3	20.6	20.8	21.1
Cyprus	16.9	14.5	10.7	12.8	11.6	12.2	12.6	12.4	12.2	12.7	12.5	12.8
Latvia	20.3	22.6	21.8	21.8	22.3	22.9	23.2	23.7	23.2	23.4	23.2	23.1
Lithuania	14.6	16.0	19.6	18.6	17.0	18.7	18.6	18.6	18.5	17.9	18.3	18.8
Luxembourg	27.4	23.7	19.8	21.1	21.8	23.8	23.1	22.7	22.6	23.1	22.6	22.1
Malta	15.7	15.0	19.0	27.6	27.7	29.5	29.6	29.3	29.9	32.0	31.8	31.5
Netherlands	27.1	27.1	28.2	28.8	28.5	31.2	32.2	31.4	30.9	31.2	30.8	30.4
Austria	25.4	26.8	25.8	25.7	26.9	27.4	28.0	28.1	28.2	27.6	27.9	28.2
Portugal	16.9	12.1	13.6	14.9	15.9	17.1	16.7	17.1	17.6	17.3	17.5	18.0
Slovenia	25.0	26.5	22.2	23.8	24.2	27.3	29.1	29.5	29.7	28.6	29.1	29.7
Slovakia	22.5	20.9	21.1	22.3	21.8	22.3	22.9	23.0	23.1	23.4	24.1	24.6
Finland	29.7	27.4	21.0	20.2	21.3	22.1	22.5	22.8	23.0	23.2	23.4	23.7
Euro area	22.7	22.8	22.3	23.7	24.2	24.8	25.2	25.1	25.2	25.1	25.1	25.4
Bulgaria	16.4	15.3	22.2	21.8	24.5	26.3	23.2	22.8	22.9	26.7	25.7	26.4
Czechia	26.1	25.8	23.3	26.4	26.1	26.2	26.2	25.7	25.4	25.0	24.8	25.0
Denmark	24.5	26.0	26.5	28.9	29.4	29.6	28.8	28.9	28.9	28.6	28.6	28.5
Croatia	21.1	22.3	20.1	24.6	23.3	25.0	24.3	24.6	24.4	23.5	23.4	23.6
Hungary	18.8	17.9	22.6	25.3	26.2	25.7	27.5	27.7	27.4	26.0	26.7	26.6
Poland	16.9	17.6	17.9	20.7	19.6	20.0	20.1	19.8	19.4	19.8	19.8	19.7
Romania	17.1	18.5	23.2	24.0	21.3	20.0	19.4	18.8	18.7	21.5	21.3	21.5
Sweden	27.9	30.8	28.5	28.6	28.3	29.3	29.7	29.9	30.0	29.6	29.5	29.3
EU27	22.8	22.9	22.5	23.9	24.3	24.9	25.2	25.1	25.2	25.1	25.1	25.3
United Kingdom	15.7	13.8	12.4	12.3	12.0	13.8	13.3	13.1	13.1	13.6	13.7	13.8
EU	21.5	21.5	20.9	21.9	22.4	23.2	23.4	23.3	23.3	23.3	23.4	23.6
Japan	28.3	27.5	24.4	27.1	27.4	28.2	27.9	28.3	28.5	28.8	29.1	29.7
United States	18.8	16.8	18.0	20.1	18.6	18.9	19.0	18.5	18.4	18.6	18.6	18.5

Table 44: Gross saving, private sector (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	24.6	25.2	24.6	22.6	23.7	24.0	23.7	24.4	24.5	24.4	24.6
Germany	22.1	24.0	24.3	24.7	24.7	24.1	24.0	24.2	24.4	23.6	23.9	24.0
Estonia	17.3	18.1	21.9	21.7	21.8	24.0	24.0	23.6	24.1	23.6	23.9	24.6
Ireland	19.3	20.0	23.1	29.3	33.3	32.3	32.6	32.2	31.8	32.6	32.6	32.7
Greece	17.0	15.4	12.2	10.2	7.8	8.6	8.2	10.5	12.2	9.2	10.6	12.1
Spain	18.8	18.0	23.6	24.1	24.8	23.9	23.0	23.3	23.5	23.4	23.4	23.6
France	21.4	21.7	21.5	21.6	21.2	21.1	21.2	22.2	21.4	21.4	21.7	20.9
Italy	20.0	18.6	17.7	17.6	19.6	19.0	19.4	19.9	20.6	19.5	20.5	21.2
Cyprus	16.7	11.9	11.4	10.6	8.4	7.6	7.4	7.7	7.6	6.9	6.3	6.8
Latvia	18.5	21.0	21.1	19.9	19.3	19.2	19.8	20.3	19.9	20.4	20.6	20.2
Lithuania	12.9	14.7	20.8	16.3	14.0	15.3	15.3	16.0	15.9	14.5	15.1	15.8
Luxembourg	19.6	16.8	14.4	15.2	15.0	17.5	15.7	16.1	16.2	16.9	16.6	16.4
Malta	17.6	15.9	19.6	26.4	24.2	23.8	24.4	24.8	25.7	27.8	27.9	27.8
Netherlands	24.1	24.2	27.7	27.2	24.9	26.6	27.1	26.2	26.4	26.6	26.0	25.8
Austria	23.0	25.2	24.2	22.6	24.9	24.4	24.4	24.3	24.4	24.1	24.2	24.4
Portugal	17.3	14.2	17.3	15.9	16.5	16.1	14.4	14.8	15.1	15.6	15.8	15.9
Slovenia	23.1	23.6	22.7	22.6	22.9	24.0	24.8	24.9	24.9	24.8	25.7	26.0
Slovakia	22.2	20.4	22.4	20.1	20.8	20.0	20.5	20.4	20.7	20.7	21.3	21.7
Finland	21.9	21.2	19.4	19.0	19.0	19.2	19.3	19.3	19.2	20.1	19.9	20.0
Euro area	21.2	21.3	22.2	22.3	22.7	22.4	22.4	22.8	22.9	22.4	22.8	22.8
Bulgaria	12.3	10.5	21.0	20.5	21.1	23.0	19.1	19.0	18.7	23.0	22.1	22.6
Czechia	22.8	22.2	21.6	23.0	22.0	21.2	21.3	21.3	21.6	19.8	20.1	20.5
Denmark	20.9	20.0	23.8	25.4	25.3	24.7	24.5	24.7	24.7	24.8	24.6	24.6
Croatia	:	18.8	20.9	23.6	19.9	20.7	19.4	19.9	19.6	19.6	19.7	19.9
Hungary	18.5	19.2	22.5	21.7	22.9	22.4	23.4	22.8	22.6	21.9	22.0	21.4
Poland	18.4	17.0	18.4	19.5	18.6	17.6	16.6	17.3	17.2	16.4	16.1	15.9
Romania	15.0	16.6	22.3	21.1	20.2	20.7	19.4	19.3	20.0	22.8	22.9	24.2
Sweden	23.4	24.9	24.9	24.3	22.9	23.4	24.0	24.6	24.7	23.9	23.7	23.6
EU27	:	21.2	22.2	22.4	22.6	22.3	22.2	22.6	22.7	22.3	22.5	22.6
United Kingdom	14.5	15.0	16.0	13.4	12.0	12.6	11.7	11.4	11.1	11.9	11.7	11.5
EU	:	20.2	21.2	20.8	20.9	20.8	20.6	20.9	20.9	20.7	20.9	20.9
Japan	28.9	28.1	27.8	27.3	27.7	27.5	27.4	27.7	27.6	28.9	29.0	29.1
United States	19.0	19.1	23.0	21.7	20.8	21.2	22.1	21.7	21.6	21.1	21.3	21.3

Table 45: Saving rate of households (2000-2020)

24.4.2019

	5-year averages			2015-2017			Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	16.2	16.0	13.3	11.8	11.3	11.5	12.0	12.6	12.5	11.7	11.0
Germany	15.8	16.6	16.6	17.0	17.2	17.3	17.9	18.6	18.5	17.2	17.2	17.2
Estonia	1.3	2.9	9.9	10.9	10.5	11.6	11.3	11.0	11.7	10.8	10.8	11.6
Ireland	6.2	9.5	9.8	8.5	8.2	10.8	11.8	11.8	11.6	8.4	8.3	8.2
Greece	:	:	:	:	:	:	:	:	:	:	:	:
Spain	10.8	8.9	9.7	8.7	7.8	5.5	4.9	5.5	5.8	4.5	5.1	5.2
France	14.1	14.5	14.9	13.8	13.6	13.9	13.7	14.1	13.8	14.2	14.0	13.9
Italy	14.3	14.1	10.7	10.6	10.5	9.7	9.9	10.0	9.9	9.7	10.0	9.9
Cyprus	6.4	8.7	1.7	-4.5	-3.1	-3.1	-6.4	-8.0	-8.0	-7.2	-8.3	-8.7
Latvia	0.8	5.5	-1.4	1.7	5.2	3.3	5.0	6.3	7.3	5.4	6.0	6.8
Lithuania	4.9	1.9	3.3	0.4	0.2	-1.5	-1.2	-0.5	-0.9	-2.9	-1.9	-2.3
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	10.8	10.7	14.8	15.9	16.3	15.4	15.4	15.0	14.9	14.9	14.7	14.6
Austria	14.8	16.7	13.5	12.4	13.2	12.4	12.1	12.1	12.2	12.1	12.0	12.0
Portugal	10.5	8.3	7.5	5.3	5.0	4.7	4.6	4.6	4.8	4.6	4.7	4.6
Slovenia	13.4	15.5	12.1	12.4	13.0	13.9	15.1	15.3	14.4	13.7	13.7	13.0
Slovakia	8.4	6.6	6.6	8.7	8.7	8.2	8.4	7.6	7.2	7.3	7.5	7.3
Finland	9.3	7.8	8.3	6.9	6.1	6.0	7.3	10.7	12.0	6.3	6.5	6.5
Euro area	13.4	13.0	12.6	12.4	12.3	11.8	12.1	12.5	12.5	11.9	11.9	11.9
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:
Czechia	11.0	12.1	11.5	12.0	11.6	9.5	10.9	10.9	10.6	9.9	10.7	10.8
Denmark	6.9	5.3	7.2	10.0	10.5	11.8	12.6	12.7	12.5	12.3	12.3	12.3
Croatia	:	:	:	:	:	:	:	:	:	:	:	:
Hungary	10.7	11.0	11.9	11.2	12.8	12.1	14.1	13.1	12.9	10.4	10.2	10.0
Poland	11.0	4.9	2.6	2.3	4.2	1.9	0.7	1.7	2.0	0.9	0.7	0.9
Romania	-4.5	-13.3	-9.0	-10.8	-9.1	-8.7	-6.0	-3.1	-0.4	-0.5	-2.2	-1.4
Sweden	9.6	11.9	16.6	17.6	18.5	17.6	19.5	20.5	20.5	17.9	17.2	16.6
EU27	13.3	12.8	12.5	12.2	12.3	11.9	12.1	12.5	12.5	11.8	11.8	11.7
United Kingdom	8.7	8.4	9.3	9.4	6.7	4.2	4.5	4.2	4.1	4.0	4.5	4.7
EU	12.0	11.3	11.3	10.8	10.6	9.6	9.8	10.1	10.0	9.7	9.8	9.8
Japan	12.6	10.2	8.9	7.9	9.3	9.0	9.3	9.6	10.2	10.9	11.0	11.9
United States	10.6	10.3	12.7	13.1	12.2	12.3	12.4	12.6	12.6	11.5	11.8	11.5

Table 46: Gross saving, general government (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages			2015-2017			Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	2.4	1.3	-0.3	0.3	0.0	1.4	1.8	1.1	0.9	1.4	1.4
Germany	0.1	1.4	2.2	3.4	3.7	4.2	4.8	4.1	4.0	4.8	4.3	4.2
Estonia	5.8	5.8	4.5	4.9	4.2	4.7	4.5	4.6	4.3	5.4	5.1	4.6
Ireland	4.9	1.3	-4.7	0.9	1.4	1.8	2.3	2.5	2.8	2.2	2.4	2.7
Greece	-0.6	-4.9	-4.5	-0.3	2.5	2.9	3.5	2.5	2.1	2.6	2.9	3.0
Spain	4.2	3.4	-3.9	-2.6	-2.2	-0.9	-0.1	-0.1	0.1	-0.3	0.0	0.2
France	1.7	1.1	0.0	0.7	0.7	1.8	1.7	1.0	2.0	1.5	1.2	2.4
Italy	0.6	1.0	0.1	1.0	0.5	1.1	1.0	0.4	-0.3	1.1	0.2	-0.1
Cyprus	0.2	2.7	-0.7	2.1	3.2	4.6	5.2	4.7	4.6	5.8	6.1	6.0
Latvia	1.8	1.6	0.7	1.9	3.0	3.7	3.4	3.5	3.3	3.0	2.7	2.8
Lithuania	1.7	1.2	-1.2	2.3	3.0	3.5	3.3	2.6	2.6	3.3	3.2	3.0
Luxembourg	7.8	6.9	5.4	5.8	6.7	6.3	7.4	6.6	6.4	6.2	6.1	5.7
Malta	-1.9	-0.9	-0.6	1.3	3.5	5.8	5.2	4.6	4.3	4.3	3.9	3.7
Netherlands	3.0	3.0	0.5	1.6	3.6	4.6	5.0	5.2	4.5	4.7	4.8	4.6
Austria	2.4	1.7	1.6	3.1	2.0	3.0	3.7	3.8	3.8	3.5	3.7	3.8
Portugal	-0.4	-2.1	-3.7	-0.9	-0.6	1.0	2.3	2.3	2.5	1.7	1.8	2.1
Slovenia	1.9	2.9	-0.4	1.2	1.3	3.3	4.4	4.6	4.9	3.8	3.5	3.7
Slovakia	0.3	0.5	-1.2	2.1	1.0	2.3	2.4	2.6	2.4	2.6	2.7	2.9
Finland	7.7	6.2	1.6	1.1	2.2	3.0	3.2	3.6	3.8	3.1	3.5	3.8
Euro area	1.5	1.5	0.1	1.3	1.5	2.4	2.8	2.3	2.4	2.6	2.4	2.6
Bulgaria	4.1	4.8	1.1	1.3	3.4	3.2	4.1	3.9	4.2	3.8	3.6	3.7
Czechia	3.3	3.5	1.7	3.4	4.1	5.0	4.9	4.3	3.9	5.2	4.6	4.5
Denmark	3.7	6.0	2.7	3.5	4.0	4.9	4.4	4.2	4.2	3.8	3.9	3.9
Croatia	:	3.6	-0.8	1.0	3.4	4.3	4.9	4.7	4.7	3.9	3.7	3.6
Hungary	0.3	-1.3	0.1	3.6	3.3	3.4	4.1	4.9	4.9	4.1	4.7	5.2
Poland	-1.5	0.6	-0.6	1.1	0.9	2.3	3.5	2.5	2.2	3.4	3.7	3.7
Romania	2.1	1.9	0.9	2.9	1.1	-0.6	0.0	-0.4	-1.3	-1.3	-1.6	-2.7
Sweden	4.5	5.9	3.6	4.3	5.5	5.9	5.8	5.3	5.3	5.8	5.8	5.7
EU27	:	1.7	0.3	1.5	1.8	2.6	3.0	2.5	2.5	2.8	2.6	2.7
United Kingdom	1.2	-1.3	-3.6	-1.1	0.0	1.2	1.6	1.7	2.0	1.7	2.0	2.3
EU	:	1.3	-0.3	1.1	1.5	2.4	2.7	2.4	2.4	2.6	2.5	2.7
Japan	-0.6	-0.6	-3.5	-0.2	-0.3	0.6	0.5	0.6	0.9	-0.1	0.1	0.5
United States	-0.2	-2.3	-4.9	-1.6	-2.2	-2.3	-3.1	-3.2	-3.2	-2.5	-2.7	-2.7

Table 47: Exports of goods and services, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	4.7	1.5	4.6	3.5	7.6	5.0	3.5	3.0	3.1	3.4	3.2
Germany	7.3	2.7	6.3	5.3	2.3	4.6	2.0	1.1	2.6	2.8	2.9	3.0
Estonia	5.6	3.5	11.3	-1.4	5.2	3.5	4.3	3.4	3.4	4.6	3.9	3.7
Ireland	9.0	4.2	5.0	39.3	4.4	7.8	8.9	4.5	4.1	6.1	4.5	4.1
Greece	5.9	0.3	3.0	3.1	-1.8	6.8	8.7	4.7	4.2	8.4	5.7	4.4
Spain	4.6	0.4	5.3	4.2	5.2	5.2	2.3	2.3	2.9	2.6	3.3	3.4
France	4.4	0.3	4.6	4.6	1.5	4.5	3.3	2.8	2.9	3.4	3.4	3.2
Italy	3.2	-1.2	4.5	4.4	2.1	5.9	1.9	1.9	3.1	1.6	3.4	3.2
Cyprus	1.4	1.0	2.7	5.2	4.6	6.0	3.3	0.8	0.8	6.2	1.7	1.7
Latvia	9.2	6.1	8.4	3.1	4.4	6.2	1.8	2.2	2.4	3.6	3.3	3.0
Lithuania	14.1	6.8	11.8	0.9	4.0	13.6	4.9	3.6	3.6	5.2	4.1	3.7
Luxembourg	7.4	3.8	7.6	5.3	3.8	-1.9	4.5	1.8	2.4	3.2	2.7	2.2
Malta	1.0	10.1	4.1	15.6	4.5	5.6	2.1	2.4	2.8	1.5	1.9	1.9
Netherlands	4.8	2.1	5.0	7.4	1.7	5.3	2.7	1.6	2.9	3.0	3.6	3.3
Austria	6.5	1.5	4.7	3.5	2.7	4.7	4.4	2.8	3.2	4.6	3.7	3.0
Portugal	4.3	1.6	6.2	6.1	4.4	7.8	3.6	3.2	3.5	5.5	4.3	3.6
Slovenia	8.7	4.6	5.2	5.0	6.4	10.7	7.2	5.4	5.6	8.1	6.2	4.2
Slovakia	12.7	6.4	9.4	6.0	5.5	5.9	4.8	6.1	5.5	5.4	8.0	7.0
Finland	5.5	1.8	1.5	0.8	3.5	7.7	1.5	3.2	3.4	4.2	3.9	3.6
Euro area	5.6	1.6	5.4	6.6	3.0	5.2	3.2	2.3	3.0	3.3	3.5	3.3
Bulgaria	3.9	4.9	7.6	5.7	8.1	5.8	-0.8	3.3	2.9	0.7	2.9	3.4
Czechia	12.4	7.1	7.3	6.0	4.3	6.7	4.5	3.3	3.1	4.4	3.7	3.4
Denmark	4.3	3.1	3.2	3.6	3.9	3.6	0.6	2.5	2.3	0.6	2.7	1.9
Croatia	9.9	-0.2	3.5	9.4	5.6	6.4	2.8	3.2	3.3	4.3	4.2	4.1
Hungary	12.5	8.2	5.8	7.2	5.1	4.7	4.7	4.6	4.8	7.1	6.0	5.6
Poland	9.8	7.1	7.6	7.7	8.8	9.5	6.3	5.2	4.7	6.1	5.8	4.6
Romania	6.2	9.6	11.2	4.6	16.0	10.0	5.4	4.4	3.6	6.3	6.5	6.1
Sweden	5.6	1.1	4.6	5.7	3.0	3.2	3.5	3.1	2.9	3.4	3.2	3.0
EU27	5.8	2.0	5.5	6.5	3.5	5.3	3.3	2.5	3.1	3.5	3.6	3.4
United Kingdom	4.2	2.0	3.4	4.4	1.0	5.6	0.1	2.3	2.5	2.1	2.9	2.0
EU	5.6	2.0	5.2	6.3	3.2	5.4	3.0	2.5	3.1	3.4	3.6	3.2
Japan	7.2	0.0	6.5	2.9	1.7	6.8	3.1	1.7	2.1	4.1	2.6	2.2
United States	2.4	4.3	6.1	0.6	-0.1	3.0	4.0	2.8	2.4	4.0	2.8	2.1

Table 48: Imports of goods and services, volume (percentage change on preceding year, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	4.1	2.1	4.6	3.4	8.5	4.3	2.7	2.9	3.3	3.1	3.3
Germany	4.5	2.9	5.2	5.6	4.1	4.8	3.3	2.9	3.3	3.3	4.2	4.1
Estonia	9.8	0.7	12.2	-1.7	5.5	3.6	6.1	3.9	3.8	4.7	4.4	3.9
Ireland	7.6	5.2	3.4	33.2	18.5	-9.4	7.0	4.6	4.3	-0.3	4.1	3.8
Greece	5.6	1.3	-3.5	0.4	0.3	7.1	4.2	5.7	4.1	3.6	6.1	3.9
Spain	6.5	-0.6	1.0	5.4	2.9	5.6	3.5	2.7	3.0	3.5	3.5	3.2
France	5.2	1.7	4.4	5.9	3.0	4.0	1.3	2.5	3.0	1.8	3.3	3.1
Italy	3.8	-0.4	0.9	6.8	3.6	5.5	2.3	2.2	3.3	2.6	3.7	3.5
Cyprus	3.0	2.3	-0.2	8.4	6.6	12.2	2.0	3.5	3.0	7.3	3.5	2.7
Latvia	10.5	0.3	8.0	2.1	4.4	8.9	5.1	2.0	2.3	6.3	3.4	3.3
Lithuania	14.2	4.2	10.4	6.8	3.8	12.0	4.3	4.5	4.3	6.5	5.2	4.4
Luxembourg	7.4	3.7	9.2	4.3	4.5	-2.2	5.1	1.8	2.4	3.3	2.6	2.2
Malta	1.0	10.2	2.5	18.3	1.6	0.6	1.3	3.2	3.0	1.9	2.3	1.9
Netherlands	4.4	2.3	4.0	14.5	-2.0	4.9	2.8	1.9	3.4	3.4	4.1	3.7
Austria	5.4	1.0	4.4	3.6	3.4	5.1	2.8	2.9	2.8	3.4	3.3	2.6
Portugal	2.7	1.3	1.4	8.5	4.7	8.1	4.9	4.9	4.6	6.0	5.2	4.4
Slovenia	7.2	3.5	2.8	4.7	6.6	10.3	7.7	6.2	7.2	8.0	6.9	5.2
Slovakia	12.0	4.9	7.4	8.0	3.4	5.3	5.3	5.2	5.0	5.7	6.8	6.3
Finland	6.5	2.7	2.6	2.7	5.4	3.8	4.2	2.2	3.2	3.2	3.1	2.8
Euro area	5.0	1.8	3.8	7.6	4.2	3.9	3.2	2.8	3.3	3.0	3.9	3.6
Bulgaria	9.5	6.0	4.7	5.4	4.5	7.5	3.7	5.0	3.3	4.8	4.6	4.2
Czechia	12.8	5.4	6.7	6.8	2.8	5.9	6.0	4.2	3.5	5.1	4.0	3.4
Denmark	5.6	4.4	3.2	4.6	4.2	3.6	2.7	2.2	2.5	4.2	2.2	2.5
Croatia	10.7	0.0	0.6	9.2	6.2	8.1	5.5	5.3	5.0	6.2	5.9	6.0
Hungary	12.7	5.1	5.2	5.8	3.9	7.7	7.1	6.8	5.1	9.0	7.1	5.1
Poland	5.9	6.9	6.2	6.6	7.6	10.0	7.1	5.7	5.3	6.5	6.4	5.4
Romania	13.2	13.5	7.6	8.0	16.5	11.3	9.1	6.9	4.9	9.1	7.4	6.7
Sweden	3.7	2.1	5.2	5.2	4.3	4.8	2.9	1.9	2.2	3.7	3.2	3.1
EU27	5.3	2.3	4.1	7.4	4.4	4.4	3.5	3.1	3.4	3.4	4.1	3.7
United Kingdom	6.0	0.6	3.7	5.5	3.3	3.5	0.7	2.9	2.5	1.1	2.8	2.2
EU	5.4	2.1	4.0	7.2	4.3	4.3	3.2	3.1	3.3	3.2	3.9	3.6
Japan	4.4	-0.7	6.8	0.8	-1.6	3.4	3.3	1.7	1.6	3.3	2.8	1.6
United States	5.9	-0.2	5.5	5.5	1.9	4.6	4.5	3.1	2.9	4.5	3.9	2.8

Table 49: Merchandise trade balance¹ (fob-fob, as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	3.4	1.1	-1.0	0.0	0.0	0.1	-0.1	-0.1	-0.2	0.4	0.2
Germany	5.3	6.9	6.9	8.6	8.5	8.1	7.1	6.6	6.5	7.5	7.1	6.8
Estonia	-17.1	-13.0	-4.4	-4.3	-3.5	-3.5	-3.7	-4.1	-4.3	-3.6	-3.9	-4.1
Ireland	24.8	17.7	22.0	43.2	38.8	36.6	34.4	33.2	32.6	36.4	35.7	35.0
Greece	-15.7	-16.5	-11.5	-9.1	-9.3	-10.3	-9.9	-10.5	-10.5	-9.4	-10.2	-10.2
Spain	-5.8	-7.3	-3.0	-2.0	-1.4	-1.9	-2.6	-2.5	-2.5	-2.3	-2.4	-2.3
France	0.3	-1.5	-2.3	-1.1	-1.3	-1.8	-1.9	-1.8	-1.9	-2.0	-2.1	-1.9
Italy	0.8	-0.2	0.7	3.1	3.4	3.2	2.7	2.6	2.6	2.8	2.7	2.8
Cyprus	-24.7	-25.7	-18.6	-16.7	-21.0	-24.2	-21.5	-22.4	-23.1	-22.8	-23.8	-24.0
Latvia	-18.5	-18.9	-10.9	-9.0	-7.5	-8.5	-8.7	-8.6	-8.6	-8.7	-9.3	-9.3
Lithuania	-10.5	-11.5	-4.2	-5.3	-4.6	-4.6	-5.9	-6.5	-7.0	-5.9	-6.5	-6.3
Luxembourg	-9.2	-5.5	-0.5	0.1	1.2	1.2	1.4	1.3	1.6	1.2	1.2	1.2
Malta	-13.3	-18.2	-15.2	-19.5	-18.3	-12.6	-11.3	-11.6	-11.7	-11.7	-11.5	-11.3
Netherlands	7.1	8.3	9.0	9.5	9.3	9.6	8.8	8.1	7.9	9.2	9.1	8.9
Austria	-0.3	0.3	-0.4	0.7	0.5	0.3	0.7	0.7	0.9	0.6	0.9	1.1
Portugal	-11.0	-11.3	-6.4	-4.5	-4.3	-5.4	-6.2	-7.0	-7.5	-6.0	-6.5	-6.9
Slovenia	-3.6	-3.5	0.0	3.8	3.8	3.6	2.7	1.8	0.8	3.4	3.2	2.4
Slovakia	-7.5	-3.3	1.8	1.3	2.3	2.0	1.4	2.0	2.6	1.8	2.9	3.5
Finland	8.3	6.5	1.6	0.9	0.2	0.8	0.4	0.5	0.7	0.8	1.1	1.6
Euro area	1.6	0.9	1.8	4.0	3.9	3.6	3.1	2.8	2.8	3.3	3.2	3.1
Euro area, adjusted ²	0.7	0.2	1.2	3.1	3.2	2.8	2.4	2.1	2.1	2.7	2.6	2.6
Bulgaria	-17.2	-21.9	-7.8	-5.8	-2.0	-1.5	-4.7	-5.3	-5.3	-4.6	-4.8	-5.0
Czechia	-6.1	0.7	3.1	4.1	5.4	5.0	3.8	3.1	2.8	4.3	4.2	4.4
Denmark	4.8	2.3	4.6	4.7	5.9	5.6	5.1	5.3	5.3	4.1	4.1	3.9
Croatia	:	-20.6	-14.3	-15.6	-15.7	-16.6	-17.6	-18.5	-19.2	-16.7	-17.3	-18.0
Hungary	-6.0	-0.8	2.7	3.7	4.1	1.5	-1.1	-2.9	-3.1	0.3	-0.7	-0.3
Poland	-4.2	-3.7	-1.9	0.5	0.7	0.3	-1.1	-2.0	-2.8	-0.7	-1.1	-1.5
Romania	-12.3	-13.9	-6.0	-4.9	-5.5	-6.5	-7.3	-8.0	-8.4	-6.7	-7.4	-8.0
Sweden	7.5	6.1	3.5	3.0	2.2	2.4	2.1	2.6	3.0	2.1	2.1	2.0
United Kingdom	-4.0	-5.5	-6.3	-6.2	-6.7	-6.7	-6.5	-6.7	-6.6	-6.4	-6.3	-6.2
EU	0.5	-0.3	0.4	1.9	1.9	1.7	1.3	0.9	0.9	1.5	1.3	1.3
EU, adjusted ²	-0.4	-1.1	-0.3	0.8	1.0	0.8	0.4	0.1	0.1	0.6	0.5	0.5
Japan	2.3	1.8	-0.6	-0.2	1.0	0.9	0.2	0.2	0.3	0.6	0.4	0.4
United States	-4.7	-5.5	-4.6	-4.4	-4.2	-4.3	-4.4	-4.4	-4.5	-4.4	-4.4	-4.5

¹ See note 7 on concepts and sources.² See note 8 on concepts and sources.Table 50: Current-account balance¹ (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages			Spring 2019 forecast						Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	4.9	2.7	1.3	-0.8	-0.4	0.9	0.2	0.2	0.0	1.2	1.1
Germany	1.2	5.7	6.7	8.9	8.7	8.2	7.6	6.8	6.5	7.8	7.3	6.9
Estonia	-9.7	-9.0	0.5	1.8	1.8	3.2	1.5	1.4	1.4	3.5	3.2	3.2
Ireland	0.3	-5.3	-0.7	4.4	-4.2	8.5	9.1	8.5	7.9	11.7	11.6	11.4
Greece	-9.3	-13.1	-6.0	-0.3	-1.2	-1.1	-1.4	-1.0	-0.8	-0.2	-0.2	0.3
Spain	-4.3	-7.9	-1.0	1.1	2.2	1.9	0.9	0.9	0.9	1.2	1.0	1.1
France	1.4	-0.3	-1.1	-0.4	-0.8	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	-0.5
Italy	-0.4	-1.7	-0.8	1.3	2.5	2.5	2.4	2.5	2.5	2.6	2.5	2.5
Cyprus	-3.2	-10.1	-6.1	-1.4	-5.1	-8.4	-6.5	-8.0	-9.4	-8.2	-9.3	-9.5
Latvia	-8.5	-12.0	-1.7	-0.5	1.6	0.7	-0.5	-0.2	-0.2	0.0	-0.4	-0.4
Lithuania	-6.0	-8.6	0.1	-2.0	-0.7	0.9	0.0	-0.1	-0.4	-0.8	-0.8	-0.6
Luxembourg	6.5	4.6	0.7	2.0	2.6	4.8	4.8	4.6	4.7	4.2	3.8	3.3
Malta	-4.1	-6.2	-0.5	2.8	3.8	10.4	11.2	9.8	9.5	12.3	11.2	10.6
Netherlands	5.6	5.6	9.1	6.3	8.1	10.5	11.0	10.1	9.5	10.1	9.5	9.1
Austria	0.8	2.9	2.3	1.9	2.6	2.1	2.5	2.4	2.6	2.0	2.2	2.4
Portugal	-9.2	-10.7	-3.5	-0.9	0.1	0.2	-0.9	-1.0	-1.1	0.0	-0.1	-0.1
Slovenia	-2.0	-3.0	1.9	4.5	5.4	7.1	7.3	6.7	6.1	7.5	7.1	6.7
Slovakia	-6.0	-6.5	-1.5	-2.3	-1.2	-0.2	-1.1	-0.5	-0.1	0.0	1.2	2.1
Finland	6.9	3.2	-1.0	-0.7	-0.8	-0.3	-1.9	-1.5	-1.4	0.7	1.1	1.6
Euro area	0.4	0.2	1.9	3.3	3.5	3.9	3.6	3.3	3.2	3.8	3.6	3.6
Euro area, adjusted ²	-0.1	-0.3	1.2	2.7	3.1	3.2	2.9	2.6	2.5	3.1	2.9	2.9
Bulgaria	-5.0	-16.6	0.4	0.6	5.3	6.2	2.5	1.6	1.5	5.9	4.6	5.1
Czechia	-4.1	-4.0	-2.8	-1.5	0.1	0.3	0.1	-0.5	-0.6	-0.5	-0.5	-0.1
Denmark	2.9	3.1	7.2	8.2	7.9	8.0	6.1	6.3	6.3	6.1	6.2	6.1
Croatia	-3.7	-6.5	0.4	4.6	2.5	4.1	2.9	2.6	1.9	2.5	2.0	1.8
Hungary	-7.6	-6.2	1.6	2.7	6.2	3.0	0.5	-1.2	-1.4	1.2	0.0	0.3
Poland	-3.6	-4.8	-2.9	0.2	0.0	0.1	-0.5	-1.0	-1.4	-0.6	-0.9	-1.3
Romania	-5.0	-9.7	-3.3	-1.1	-2.0	-3.4	-4.7	-5.2	-5.3	-3.7	-4.2	-4.5
Sweden	5.7	7.7	5.4	4.3	3.8	3.7	3.4	4.1	4.6	3.2	3.0	2.9
United Kingdom	-2.2	-3.3	-3.8	-4.9	-5.2	-3.3	-3.9	-3.7	-3.4	-3.3	-3.2	-3.0
EU	-0.1	-0.5	0.9	1.8	2.0	2.6	2.2	2.0	1.9	2.5	2.3	2.3
EU, adjusted ²	-0.8	-1.3	0.3	0.8	1.3	1.3	1.2	1.0	0.9	1.1	1.0	1.0
Japan	2.8	3.6	1.7	3.1	4.0	4.2	3.5	3.6	3.6	4.7	4.7	4.7
United States	-4.3	-4.7	-2.5	-2.3	-2.4	-2.4	-2.4	-2.5	-2.6	-2.4	-2.6	-2.8

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 nation¹ (as a percentage of GDP, 2000-2020)

24.4.2019

	5-year averages						Spring 2019 forecast			Autumn 2018 forecast		
	2000-04	2005-09	2010-14	2015	2016	2017	2018	2019	2020	2018	2019	2020
	Belgium	4.7	2.5	1.3	-0.7	-0.3	1.0	0.3	0.2	0.0	1.2	1.2
Germany	1.2	5.7	6.6	8.9	8.6	8.0	7.4	6.6	6.3	7.6	7.3	6.9
Estonia	-9.3	-7.3	3.4	3.9	2.8	4.2	2.7	2.6	2.7	4.9	4.7	4.6
Ireland	0.8	-5.2	-1.5	3.9	-5.7	-1.1	2.1	1.9	1.6	3.5	3.8	4.1
Greece	-8.0	-11.5	-4.1	2.1	0.4	0.0	-0.1	0.5	0.9	1.0	1.0	1.4
Spain	-3.4	-7.4	-0.5	1.7	2.4	2.2	1.5	1.5	1.6	1.5	1.3	1.4
France	1.3	-0.2	-1.1	-0.5	-0.8	-0.6	-0.7	-0.6	-0.7	-0.5	-0.5	-0.5
Italy	-0.3	-1.6	-0.7	1.7	2.3	2.6	2.4	2.5	2.5	2.5	2.4	2.4
Cyprus	-2.8	-9.7	-5.5	-1.1	-4.9	-7.8	-6.9	-7.1	-8.6	-8.1	-9.3	-9.5
Latvia	-8.0	-10.4	0.8	2.3	2.6	1.5	1.3	1.7	1.9	1.8	1.7	1.9
Lithuania	-5.7	-6.5	3.2	1.0	0.7	2.1	1.3	1.4	1.2	0.6	0.6	0.7
Luxembourg	6.1	3.6	0.0	1.0	2.0	4.0	3.9	3.5	3.6	3.1	2.9	2.6
Malta	-3.7	-4.4	1.2	5.6	4.1	10.9	11.7	10.8	10.5	12.9	12.0	11.5
Netherlands	5.6	5.6	8.6	5.8	7.9	10.4	10.9	10.0	9.4	9.8	9.2	8.8
Austria	0.6	2.9	2.3	1.3	2.5	2.0	2.4	2.4	2.5	1.8	2.0	2.3
Portugal	-7.5	-9.5	-1.9	0.3	1.0	1.1	0.2	0.0	0.1	0.9	0.8	0.8
Slovenia	-2.2	-2.8	2.4	5.6	4.6	6.3	6.8	6.0	5.4	7.0	7.4	6.9
Slovakia	-6.5	-6.0	0.0	-0.2	-1.4	-0.8	-1.6	-1.0	-0.6	0.2	1.6	2.5
Finland	6.9	3.3	-0.9	-0.6	-0.8	-0.2	-1.8	-1.4	-1.3	0.6	1.0	1.1
Euro area	0.6	0.3	2.0	3.5	3.4	3.7	3.4	3.2	3.0	3.6	3.5	3.4
Euro area, adjusted ²	0.1	-0.2	1.3	2.8	3.1	3.0	2.7	2.5	2.4	2.9	2.7	2.7
Bulgaria	-4.9	-16.2	2.0	3.9	7.3	7.2	3.6	2.9	2.8	7.1	5.9	6.5
Czechia	-3.9	-3.3	-1.1	1.3	0.6	0.8	1.0	0.6	0.7	0.0	0.0	0.5
Denmark	2.9	3.1	7.2	7.9	7.9	8.0	6.2	6.3	6.5	6.2	6.3	6.2
Croatia	-3.7	-6.4	0.5	5.3	4.0	4.7	4.4	3.9	3.1	3.4	3.2	3.2
Hungary	-7.4	-5.2	4.4	7.4	6.2	4.3	2.2	1.1	1.0	3.2	2.4	2.3
Poland	-3.6	-4.0	-1.0	2.6	1.2	1.1	0.5	0.2	-0.1	0.5	0.3	0.0
Romania	-4.6	-9.1	-1.7	1.3	0.5	-1.8	-3.1	-3.4	-3.4	-2.1	-2.5	-2.9
Sweden	5.6	7.5	5.2	4.1	3.8	3.7	3.4	4.1	4.6	3.1	2.8	2.6
United Kingdom	-2.2	-3.3	-3.9	-5.0	-5.3	-3.4	-4.0	-3.8	-3.5	-3.4	-3.3	-3.1
EU	0.0	-0.4	1.1	2.0	2.0	2.5	2.1	2.0	1.9	2.4	2.3	2.2
EU, adjusted ²	-0.7	-1.1	0.5	1.1	1.3	1.2	1.1	0.9	0.9	1.0	0.9	0.9
Japan	2.7	3.5	1.7	3.1	3.8	4.2	3.5	3.5	3.6	4.5	4.5	4.5
United States	-4.3	-4.7	-2.5	-2.3	-2.4	-2.4	-2.4	-2.5	-2.6	-2.4	-2.6	-2.8

¹ See note 7 on concepts and sources.² See note 8 on concepts and sources.Table 52: Current-account balance¹ (in billions of euro, 2012-20)

24.4.2019

	2012	2013	2014	2015	2016	2017	Spring 2019 forecast			Autumn 2018 forecast		
							2018	2019	2020	2018	2019	2020
Belgium	5.9	4.6	-1.1	-3.1	-1.6	3.9	1.0	0.9	0.0	5.3	5.3	5.3
Germany	197.0	189.7	224.0	271.6	274.4	268.9	258.1	236.5	235.1	263.9	257.3	251.4
Estonia	-0.3	0.1	0.2	0.4	0.4	0.8	0.4	0.4	0.4	0.9	0.9	0.9
Ireland	-5.9	2.8	2.1	11.6	-11.4	24.9	29.0	28.5	27.8	37.8	39.7	41.5
Greece	-8.1	-4.0	-3.7	-0.5	-2.1	-1.9	-2.6	-1.9	-1.5	-0.4	-0.4	0.6
Spain	-4.6	15.0	10.3	11.4	24.1	22.4	11.3	11.3	11.9	14.6	12.5	14.2
France	-24.2	-20.8	-26.4	-9.8	-17.5	-14.1	-15.2	-13.5	-15.9	-13.8	-15.9	-11.9
Italy	-5.8	15.3	30.4	21.3	41.6	43.5	42.8	45.0	45.0	45.2	44.4	45.8
Cyprus	-1.2	-0.9	-0.8	-0.3	-0.9	-1.6	-1.3	-1.7	-2.1	-1.7	-2.0	-2.2
Latvia	-0.8	-0.6	-0.4	-0.1	0.4	0.2	-0.1	-0.1	-0.1	0.0	-0.1	-0.1
Lithuania	-0.3	0.5	1.5	-0.8	-0.3	0.4	0.0	-0.1	-0.2	-0.4	-0.4	-0.3
Luxembourg	-0.1	-0.6	-0.5	1.0	1.4	2.7	2.8	2.8	3.0	2.4	2.3	2.1
Malta	0.0	0.0	0.5	0.3	0.4	1.2	1.4	1.3	1.4	1.5	1.4	1.4
Netherlands	66.9	66.5	63.9	43.5	57.1	77.2	84.8	81.5	78.6	77.8	77.3	76.3
Austria	6.1	6.1	8.2	6.4	9.3	7.6	9.6	9.8	10.7	7.8	8.9	10.1
Portugal	-3.4	1.3	-0.4	-1.6	0.3	0.4	-1.7	-2.2	-2.3	0.1	-0.1	-0.3
Slovenia	0.6	1.2	2.2	1.7	2.2	3.1	3.3	3.3	3.1	3.4	3.5	3.5
Slovakia	0.3	1.1	0.7	-1.8	-1.0	-0.2	-1.0	-0.5	-0.1	0.0	1.2	2.1
Finland	-3.8	-3.8	-2.7	-1.5	-1.8	-0.7	-4.4	-3.6	-3.5	1.7	2.6	3.9
Euro area	218.1	273.4	308.0	349.6	375.0	438.5	418.2	397.5	391.3	446.1	438.5	444.4
Euro area, adjusted ²	134.9	226.4	256.2	282.1	334.6	362.8	334.7	314.1	307.8	356.8	349.2	355.1
Bulgaria	-0.1	0.9	0.2	0.3	2.6	3.2	1.4	1.0	1.0	3.3	2.7	3.2
Czechia	-3.6	-1.7	-1.9	-2.6	0.2	0.6	0.2	-1.2	-1.4	-0.9	-1.1	-0.2
Denmark	16.0	20.1	23.7	22.5	22.3	23.3	18.2	19.4	20.0	17.9	19.1	19.2
Croatia	0.2	0.4	0.9	2.0	1.2	2.0	1.5	1.4	1.1	1.3	1.1	1.0
Hungary	1.8	3.8	1.6	3.0	7.1	3.7	0.6	-1.7	-2.1	1.6	0.0	0.5
Poland	-12.8	-2.0	-5.6	0.8	-0.1	0.6	-2.7	-5.0	-7.6	-3.0	-4.6	-6.9
Romania	-5.9	-1.4	-0.7	-1.8	-3.5	-6.3	-9.6	-11.3	-12.1	-7.6	-9.1	-10.6
Sweden	23.5	22.2	20.5	19.3	17.7	17.7	15.9	19.6	22.4	15.0	14.6	14.3
United Kingdom	-78.7	-106.8	-112.8	-128.4	-125.4	-78.0	-92.3	-93.8	-89.1	-79.7	-78.5	-76.0
EU	158.4	208.9	233.8	264.8	297.0	405.3	351.3	325.8	323.4	393.9	382.6	388.8
EU, adjusted ²	76.4	125.5	111.0	121.9	189.2	204.0	184.1	157.7	156.3	174.4	163.1	169.4
Japan	46.5	34.4	27.9	123.0	177.6	182.9	147.0	157.9	160.8	199.3	202.0	207.8
United States	-332.2	-262.6	-274.9	-367.5	-391.1	-397.8	-413.6	-475.0	-507.5	-416.0	-476.0	-542.7

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, 2012-20)

24.4.2019

							Spring 2019			Autumn 2018		
	2012	2013	2014	2015	2016	2017	forecast			forecast		
							2018	2019	2020	2018	2019	2020
Belgium	1.0	2.6	4.5	5.2	2.5	4.8	3.2	2.8	3.4	3.5	3.8	3.6
Germany	1.4	3.0	3.7	3.5	3.2	5.4	3.6	3.1	3.5	4.1	3.9	3.6
Estonia	3.4	2.2	1.7	1.7	3.4	5.9	3.8	2.6	3.3	4.2	3.7	3.5
Ireland	2.3	3.3	4.7	4.1	2.5	4.6	3.2	3.0	3.4	3.4	3.8	3.4
Greece	2.9	3.4	3.8	3.6	2.7	5.3	2.8	3.0	3.8	3.6	3.5	3.7
Spain	1.5	3.3	3.9	4.1	2.4	4.7	2.9	2.8	3.5	3.4	3.6	3.5
France	1.5	3.0	4.5	3.7	2.6	4.9	3.6	3.0	3.5	3.8	3.8	3.6
Italy	1.7	3.5	3.4	3.2	3.0	5.2	3.4	3.0	3.5	3.9	3.8	3.6
Cyprus	8.3	8.1	1.2	-5.1	-2.5	7.6	3.8	3.2	4.0	4.2	3.9	3.7
Latvia	5.0	3.7	1.9	-0.1	2.7	6.9	3.7	3.2	3.7	4.6	4.1	3.8
Lithuania	3.8	1.8	1.2	-1.0	2.9	6.6	4.1	3.1	3.5	4.6	4.0	3.8
Luxembourg	2.7	3.4	6.1	7.0	3.9	2.6	2.4	3.2	3.6	2.1	3.7	3.5
Malta	3.7	4.3	5.4	4.8	2.8	3.7	2.8	3.1	3.7	2.9	3.6	3.4
Netherlands	0.5	2.3	4.7	5.0	4.6	4.3	3.3	3.0	3.4	3.4	3.8	3.6
Austria	0.9	3.6	3.5	4.2	3.4	5.4	3.7	3.4	3.7	4.0	4.3	4.0
Portugal	0.4	2.4	5.0	4.5	1.8	4.2	3.0	2.9	3.4	3.3	3.7	3.4
Slovenia	-0.2	2.3	3.6	4.0	4.0	6.2	4.0	3.6	3.9	4.5	4.5	4.2
Slovakia	0.2	2.1	4.8	4.2	4.0	6.3	4.2	3.5	3.6	4.6	4.3	3.9
Finland	3.1	2.9	3.2	1.2	2.7	5.7	3.7	2.9	3.5	4.2	3.9	3.7
Euro area (b)	1.4	3.0	4.1	4.0	3.1	5.0	3.4	3.0	3.5	3.8	3.9	3.6
Bulgaria	0.6	3.3	3.6	2.6	3.8	6.6	3.4	3.1	4.2	4.4	3.8	4.3
Czechia	0.5	2.8	3.8	4.1	3.8	5.8	3.8	3.3	3.6	4.3	4.3	4.1
Denmark	2.3	3.0	4.8	3.8	2.9	4.9	3.5	3.0	3.4	3.9	4.0	3.6
Croatia	1.0	3.2	4.1	4.4	3.5	5.7	3.8	3.8	4.2	4.1	4.5	4.1
Hungary	0.7	2.7	4.0	4.3	4.2	6.0	4.1	3.4	3.7	4.4	4.3	4.1
Poland	1.2	2.4	3.5	3.8	3.4	5.4	3.5	3.1	3.5	4.0	4.0	3.8
Romania	0.4	2.5	3.8	3.9	3.0	5.6	3.3	3.0	3.7	3.9	3.8	3.8
Sweden	2.5	3.1	3.8	3.5	3.3	4.5	3.3	2.9	3.4	3.8	3.9	3.4
United Kingdom	2.2	3.5	4.4	4.8	2.9	4.0	3.8	3.1	3.5	3.7	3.9	3.6
EU (b)	1.5	3.0	4.1	4.0	3.1	4.9	3.5	3.0	3.5	3.8	3.9	3.6
Japan	4.0	4.1	3.8	2.3	3.2	6.8	5.2	3.6	3.8	5.1	4.5	3.9
United States	4.2	3.6	4.1	2.8	1.9	4.7	3.9	2.7	3.6	4.1	3.8	3.6

(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, 2012-20)

24.4.2019

	2012	2013	2014	2015	2016	2017	Spring 2019 forecast			Autumn 2018 forecast		
							2018	2019	2020	2018	2019	2020
Belgium	-0.7	-1.6	0.6	-1.6	5.0	0.2	0.4	0.2	-0.2	-0.1	-0.6	-0.7
Germany	1.4	-1.3	1.0	1.7	-0.9	-0.8	-1.6	-1.9	-0.9	-1.2	-0.9	-0.5
Estonia	1.3	0.6	1.2	-3.0	1.8	-2.3	0.5	0.8	0.1	0.3	0.2	0.2
Ireland	-3.1	-0.4	9.4	33.8	1.8	3.1	5.4	1.4	0.7	2.6	0.7	0.7
Greece	-1.7	-1.8	3.8	-0.5	-4.4	1.4	5.8	1.7	0.4	4.7	2.1	0.6
Spain	-0.5	1.0	0.4	0.1	2.7	0.5	-0.6	-0.5	-0.6	-0.8	-0.4	-0.1
France	1.4	-0.9	-1.2	0.9	-1.1	-0.4	-0.2	-0.2	-0.6	-0.4	-0.5	-0.4
Italy	0.6	-2.7	-0.7	1.1	-0.8	0.7	-1.5	-1.0	-0.5	-2.2	-0.4	-0.4
Cyprus	-10.2	-5.6	3.0	10.9	7.2	-1.5	-0.5	-2.3	-3.1	1.9	-2.1	-1.9
Latvia	4.5	-2.5	4.0	3.2	1.7	-0.6	-1.8	-1.0	-1.2	-1.0	-0.8	-0.8
Lithuania	8.2	7.9	2.1	1.9	1.1	6.6	0.8	0.5	0.1	0.6	0.1	-0.1
Luxembourg	0.1	1.8	9.7	-1.6	0.0	-4.4	2.1	-1.3	-1.1	1.1	-1.0	-1.2
Malta	3.2	-3.3	-1.2	10.3	1.7	1.9	-0.7	-0.7	-0.9	-1.4	-1.6	-1.4
Netherlands	2.7	0.2	-0.1	2.2	-2.8	1.0	-0.5	-1.4	-0.5	-0.4	-0.2	-0.3
Austria	0.5	-2.8	-0.5	-0.7	-0.7	-0.7	0.7	-0.6	-0.5	0.6	-0.5	-1.0
Portugal	3.0	4.4	-0.6	1.5	2.5	3.5	0.6	0.3	0.1	2.1	0.6	0.1
Slovenia	0.8	0.7	2.0	0.9	2.4	4.3	3.1	1.8	1.7	3.4	1.7	0.0
Slovakia	9.1	4.5	-0.8	1.7	1.4	-0.4	0.5	2.5	1.8	0.7	3.5	3.0
Finland	-1.8	-1.8	-5.7	-0.4	0.8	1.9	-2.1	0.3	-0.1	0.0	0.0	-0.1
Euro area (b)	1.0	-0.8	0.6	2.5	-0.1	0.2	-0.2	-0.7	-0.5	-0.4	-0.4	-0.3
Bulgaria	1.4	6.2	-0.5	3.1	4.2	-0.8	-4.0	0.2	-1.3	-3.6	-0.9	-0.8
Czechia	3.8	-2.5	4.7	1.8	0.5	0.9	0.7	0.0	-0.5	0.1	-0.6	-0.7
Denmark	-1.1	-1.3	-1.6	-0.2	0.9	-1.3	-2.8	-0.5	-1.0	-3.1	-1.3	-1.6
Croatia	-1.1	-0.1	1.8	4.8	2.0	0.7	-0.9	-0.5	-0.8	0.2	-0.3	0.0
Hungary	-2.5	1.5	4.9	2.8	0.8	-1.2	0.6	1.1	1.1	2.5	1.6	1.4
Poland	3.4	3.6	3.1	3.8	5.3	3.8	2.7	2.0	1.2	2.0	1.7	0.8
Romania	0.7	17.3	4.0	0.7	12.6	4.2	2.1	1.4	0.0	2.3	2.6	2.2
Sweden	-1.5	-3.7	1.4	2.1	-0.3	-1.3	0.2	0.2	-0.4	-0.4	-0.6	-0.4
United Kingdom	-0.8	-1.9	-2.0	-0.3	-1.8	1.6	-3.5	-0.8	-0.9	-1.6	-1.0	-1.6
EU (b)	0.8	-0.7	0.6	2.2	0.1	0.4	-0.5	-0.5	-0.4	-0.4	-0.3	-0.4
Japan	-4.0	-3.2	5.3	0.6	-1.4	0.0	-2.0	-1.8	-1.6	-0.9	-1.9	-1.7
United States	-0.7	0.0	0.2	-2.2	-1.9	-1.6	0.0	0.2	-1.2	-0.1	-1.0	-1.4

(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, 2014-20)

24.4.2019

	(a)	2014	2015	2016	2017	Spring 2019 forecast			Autumn 2018 forecast		
						2018	2019	2020	2018	2019	2020
EU	16.5	1.8	2.3	2.0	2.5	2.0	1.4	1.6	2.1	1.9	1.8
Euro area	11.5	1.4	2.1	2.0	2.4	1.9	1.2	1.5	2.1	1.9	1.7
Belgium	0.4	1.3	1.7	1.5	1.7	1.4	1.2	1.2	1.5	1.5	1.4
Bulgaria	0.1	1.8	3.5	3.9	3.8	3.1	3.3	3.4	3.5	3.7	3.6
Czechia	0.3	2.7	5.3	2.5	4.4	2.9	2.6	2.4	3.0	2.9	2.6
Denmark	0.2	1.6	2.3	2.4	2.3	1.4	1.7	1.6	1.2	1.8	1.6
Germany	3.3	2.2	1.7	2.2	2.2	1.4	0.5	1.5	1.7	1.8	1.7
Estonia	0.0	2.9	1.9	3.5	4.9	3.9	2.8	2.4	3.5	2.8	2.6
Ireland	0.3	8.8	25.1	5.0	7.2	6.7	3.8	3.4	7.8	4.5	3.8
Greece	0.2	0.7	-0.4	-0.2	1.5	1.9	2.2	2.2	2.0	2.0	2.0
Spain	1.4	1.4	3.6	3.2	3.0	2.6	2.1	1.9	2.6	2.2	2.0
France	2.2	1.0	1.1	1.2	2.2	1.6	1.3	1.5	1.7	1.6	1.6
Croatia	0.1	-0.1	2.4	3.5	2.9	2.6	2.6	2.5	2.8	2.8	2.6
Italy	1.8	0.1	0.9	1.1	1.7	0.9	0.1	0.7	1.1	1.2	1.3
Cyprus	0.0	-1.3	2.0	4.8	4.5	3.9	3.1	2.7	3.9	3.5	2.9
Latvia	0.0	1.9	3.0	2.1	4.6	4.8	3.1	2.8	4.1	3.2	2.9
Lithuania	0.1	3.5	2.0	2.4	4.1	3.4	2.7	2.4	3.4	2.8	2.5
Luxembourg	0.0	4.3	3.9	2.4	1.5	2.6	2.5	2.6	3.1	3.0	2.7
Hungary	0.2	4.2	3.5	2.3	4.1	4.9	3.7	2.8	4.3	3.4	2.6
Malta	0.0	8.5	10.7	5.7	6.7	6.6	5.5	4.8	5.4	4.9	4.4
Netherlands	0.7	1.4	2.0	2.2	2.9	2.7	1.6	1.6	2.8	2.4	1.8
Austria	0.3	0.7	1.1	2.0	2.6	2.7	1.5	1.6	2.7	2.0	1.8
Poland	0.9	3.3	3.8	3.1	4.8	5.1	4.2	3.6	4.8	3.7	3.3
Portugal	0.2	0.9	1.8	1.9	2.8	2.1	1.7	1.7	2.2	1.8	1.7
Romania	0.4	3.4	3.9	4.8	7.0	4.1	3.3	3.1	3.6	3.8	3.6
Slovenia	0.1	3.0	2.3	3.1	4.9	4.5	3.1	2.8	4.3	3.3	3.0
Slovakia	0.1	2.8	4.2	3.1	3.2	4.1	3.8	3.4	4.0	4.1	3.5
Finland	0.2	-0.6	0.5	2.8	2.7	2.3	1.6	1.2	2.9	2.2	1.9
Sweden	0.4	2.6	4.5	2.7	2.1	2.3	1.4	1.6	2.4	1.8	1.8
United Kingdom	2.3	2.9	2.3	1.8	1.8	1.4	1.3	1.3	1.3	1.2	1.2
Candidate Countries	1.9	4.7	5.8	3.2	7.0	2.7	-1.9	3.9	3.8	-1.1	3.1
- Albania	0.0	1.8	2.2	3.3	3.8	4.1	3.8	3.7	4.1	3.9	3.9
- Montenegro	0.0	1.8	3.4	2.9	4.7	4.9	2.9	3.1	3.9	2.8	3.1
- North Macedonia	0.0	3.6	3.9	2.8	0.2	2.7	3.0	3.2	2.1	2.8	3.1
- Serbia	0.1	-1.6	1.8	3.3	2.0	4.3	3.1	3.8	4.1	3.8	3.8
- Turkey	1.7	5.2	6.1	3.2	7.4	2.6	-2.3	3.9	3.8	-1.5	3.0
Potential Candidates	0.1	0.8	4.1	3.6	3.5	3.3	3.4	3.7	3.0	3.2	3.3
Iceland	0.0	2.1	4.7	6.6	4.6	4.6	1.8	2.8	3.4	3.1	3.0
Norway	0.3	2.0	2.0	1.2	2.0	1.4	1.8	1.8	1.7	1.9	1.9
Switzerland	0.4	2.4	1.3	1.6	1.6	2.5	1.5	2.0	3.0	2.3	2.0
Australia	1.0	2.6	2.5	2.8	2.4	2.7	2.4	2.4	2.9	2.7	2.7
Canada	1.4	2.9	0.7	1.1	3.0	1.8	1.4	1.8	2.1	2.0	1.9
Japan	4.3	0.4	1.2	0.6	1.9	0.8	0.8	0.6	1.1	1.0	0.5
Korea	1.6	3.3	2.8	2.9	3.1	2.7	2.5	2.5	2.8	2.7	2.5
United States	15.3	2.5	2.9	1.6	2.2	2.9	2.4	1.9	2.9	2.6	1.9
Advanced economies	44.4	2.2	2.5	1.8	2.6	2.3	1.7	1.8	2.4	2.1	1.9
Emerging and developing Asia	33.2	6.6	6.6	6.7	6.5	6.5	6.1	6.1	6.5	6.2	6.1
- China	18.2	7.3	6.9	6.7	6.8	6.6	6.2	6.0	6.6	6.2	5.9
- India	7.5	7.0	7.5	8.7	6.9	7.4	7.1	7.3	7.4	7.5	7.5
- Indonesia	2.5	5.0	4.9	5.0	5.1	5.2	5.1	5.0	5.2	5.1	5.0
CIS	4.5	1.0	-2.3	0.5	2.2	2.8	2.1	2.3	2.3	2.2	2.3
- Russia	3.2	0.7	-2.8	-0.1	1.5	2.3	1.5	1.8	1.7	1.6	1.8
- Other CIS	1.3	1.7	-1.1	1.9	3.6	3.9	3.4	3.5	3.8	3.5	3.5
Latin America	7.7	1.3	0.2	-0.8	1.1	0.7	1.1	2.3	1.0	1.7	2.3
- Argentina	0.7	-2.5	2.7	-2.1	2.7	-2.5	-1.6	2.3	-2.8	-2.5	1.9
- Brazil	2.5	0.5	-3.5	-3.3	1.1	1.1	1.9	2.4	1.1	1.9	2.3
- Mexico	1.9	2.8	3.3	2.9	2.1	2.0	1.9	2.3	2.1	2.5	2.4
MENA	6.7	3.0	2.4	4.5	2.0	1.7	1.5	2.6	2.2	2.2	2.4
- Saudi Arabia	1.4	3.7	4.1	1.7	-0.8	2.2	1.9	2.0	2.2	2.6	2.4
Sub-Saharan Africa	3.2	5.0	3.3	1.2	2.8	2.7	3.4	3.5	3.1	3.6	3.8
- South Africa	0.6	1.8	1.2	0.4	1.4	0.8	1.3	1.5	0.6	1.5	2.0
Emerging and developing economies	55.6	4.6	4.0	4.4	4.6	4.6	4.4	4.8	4.7	4.7	4.7
World	100.0	3.5	3.3	3.2	3.7	3.6	3.2	3.5	3.7	3.5	3.5
World excluding EU	83.5	3.8	3.5	3.5	3.9	3.9	3.6	3.8	4.0	3.8	3.8
World excluding euro area	88.5	3.8	3.5	3.4	3.9	3.8	3.5	3.7	3.9	3.7	3.7

(a) Relative weights in %, based on GDP (at constant prices and PPS) in 2017.

Table 56: World exports of goods and services, volume (percentage change on preceding year, 2014-20)

24.4.2019

	(a)	2014	2015	2016	2017	Spring 2019 forecast			Autumn 2018 forecast		
						2018	2019	2020	2018	2019	2020
EU (b)	35.3	4.7	6.3	3.2	5.4	3.0	2.5	3.1	3.4	3.6	3.2
Euro area (b)	26.6	4.7	6.6	3.0	5.2	3.2	2.3	3.0	3.3	3.5	3.3
Candidate Countries	1.1	7.8	4.8	-0.3	11.5	7.8	5.3	4.1	5.9	5.4	4.0
- Albania	0.0	1.2	1.0	11.3	12.9	3.0	5.9	6.7	4.5	4.3	5.1
- Montenegro	0.0	-0.7	5.7	5.9	1.8	9.5	4.1	3.8	7.5	2.6	3.4
- North Macedonia	0.0	16.5	8.5	9.1	8.1	15.3	8.0	8.5	11.2	9.7	9.7
- Serbia	0.1	4.3	9.4	11.9	8.2	8.9	6.1	9.3	8.5	7.9	7.2
- Turkey	0.9	8.2	4.3	-1.9	11.9	7.5	5.1	3.3	5.5	5.1	3.4
Iceland	0.1	3.2	9.1	10.9	5.4	1.6	1.0	2.4	3.6	3.2	3.2
Norway	0.6	3.1	4.7	1.1	-0.2	-0.8	1.6	2.3	0.7	3.3	2.6
Switzerland	2.0	-6.2	2.6	6.7	-0.4	2.0	3.2	3.5	4.4	4.2	3.9
Australia	1.3	6.9	6.5	6.8	3.4	5.0	1.6	2.6	4.6	4.9	4.8
Canada	2.3	5.9	3.5	1.0	1.1	3.3	3.7	3.0	3.5	4.1	2.9
Japan	3.8	9.3	2.9	1.7	6.8	3.1	1.7	2.1	4.1	2.6	2.2
Korea	3.0	2.0	-0.1	2.6	1.9	4.2	2.3	3.7	3.5	3.3	3.0
United States	10.4	4.3	0.6	-0.1	3.0	4.0	2.8	2.4	4.0	2.8	2.1
Advanced economies	67.3	4.2	4.1	2.2	4.7	3.3	2.6	2.9	3.7	3.5	3.0
Emerging and developing Asia	17.7	4.2	-1.5	2.7	9.8	6.0	3.8	4.2	4.9	4.5	4.2
- China	10.8	4.3	-2.2	1.1	9.1	5.0	2.8	3.0	4.0	3.4	3.1
- India	2.2	3.9	-5.5	6.7	10.0	10.4	5.8	7.2	6.9	6.8	6.8
- Indonesia	0.9	-1.9	-6.1	1.1	13.4	3.7	5.4	5.9	5.1	5.5	6.0
CIS	2.8	-0.4	1.1	1.0	5.2	6.0	3.0	3.5	6.6	4.1	4.1
- Russia	1.8	0.5	3.7	3.2	5.1	5.6	2.7	3.5	5.2	4.0	4.0
- Other CIS	0.9	-2.2	-3.9	-3.3	5.4	6.9	3.5	3.6	9.5	4.3	4.3
Latin America	5.1	1.8	4.5	3.0	4.8	3.6	3.1	4.1	3.9	4.2	4.1
- Argentina	0.3	-7.8	-1.6	6.8	-0.2	-2.1	8.0	5.1	1.3	5.4	3.3
- Brazil	1.1	-0.3	8.1	3.7	11.4	7.1	3.5	4.3	2.2	4.5	4.8
- Mexico	1.9	7.0	8.4	3.7	3.9	5.7	3.5	4.6	6.9	4.4	4.0
MENA	5.7	2.1	5.4	3.5	1.5	2.4	2.1	2.2	2.5	2.7	3.1
- Saudi Arabia	1.1	1.9	4.1	5.9	-0.4	7.6	0.6	1.2	2.3	2.2	3.0
Sub-Saharan Africa	1.4	1.2	2.6	-1.3	1.9	2.2	4.1	3.8	2.6	4.4	4.3
- South Africa	0.5	3.6	2.8	1.0	-0.1	1.4	2.4	2.8	1.0	3.2	3.6
Emerging and developing economies	32.7	2.7	1.3	2.6	6.9	4.8	3.3	3.7	4.4	4.0	4.0
World	100.0	3.7	3.1	2.3	5.4	3.8	2.9	3.2	3.9	3.7	3.3
World excluding EU	64.7	3.2	1.5	1.8	5.4	4.3	3.1	3.3	4.2	3.7	3.4
World excluding euro area	73.4	3.3	1.9	2.1	5.5	4.1	3.1	3.3	4.1	3.7	3.4

(a) Relative weights in %, based on exports of goods and services (at current prices and current exchange rates) in 2017.

(b) Intra- and extra-EU trade.

Table 57: Export shares in EU trade (goods only - 2017)

24.4.2019

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	63.9	46.3	2.1	7.7	1.2	7.3	3.9	3.3	2.3	4.6	2.4	1.4
Euro area	63.9	45.6	2.0	7.6	1.2	6.8	4.0	3.4	2.2	4.7	2.6	1.4
Belgium	74.1	58.7	1.3	5.6	0.7	3.9	2.0	4.0	1.1	3.7	1.4	2.2
Bulgaria	65.8	46.8	13.0	1.9	0.3	2.0	2.8	3.0	4.4	5.6	0.6	0.7
Czechia	82.9	64.5	1.8	2.5	0.5	3.2	1.5	1.2	3.0	2.1	0.7	0.5
Denmark	62.4	38.9	1.1	8.4	1.9	11.0	4.6	2.9	1.4	3.0	2.4	0.8
Germany	58.3	36.4	2.2	9.3	1.4	8.4	6.6	3.8	2.5	3.9	2.7	1.0
Estonia	74.3	47.3	1.7	3.5	0.6	6.7	1.6	1.8	7.1	1.6	0.6	0.7
Ireland	53.1	36.0	0.6	23.9	3.8	8.2	2.3	2.0	0.8	2.7	1.9	0.7
Greece	55.6	38.2	13.2	4.9	0.3	3.4	1.0	2.0	2.7	14.0	1.7	1.3
Spain	66.2	52.1	2.3	4.8	1.1	4.6	2.0	2.2	1.3	7.8	6.0	1.5
France	58.9	45.7	1.7	7.9	1.5	7.2	4.5	4.7	1.7	6.8	2.7	2.2
Croatia	72.4	60.1	10.5	3.8	0.5	2.6	0.9	0.9	3.1	4.1	0.7	0.4
Italy	54.7	39.8	3.4	9.0	1.4	9.6	3.2	3.5	2.8	7.8	3.3	1.2
Cyprus	52.4	32.7	0.4	1.2	0.0	3.9	1.8	10.9	2.1	25.4	0.3	1.6
Latvia	71.3	48.9	1.5	1.9	0.4	4.1	1.2	1.3	12.5	4.6	0.6	0.6
Lithuania	65.6	43.1	1.0	4.5	0.8	4.9	0.6	1.4	18.1	2.1	0.5	0.5
Luxembourg	84.0	72.3	1.1	2.8	0.4	3.5	1.6	1.6	1.3	2.3	0.8	0.7
Hungary	78.8	56.1	3.1	4.1	0.8	2.8	2.2	1.0	3.9	1.5	1.4	0.4
Malta	39.1	28.6	0.9	5.1	3.3	13.3	6.5	10.1	0.8	17.9	1.0	2.1
Netherlands	78.3	59.9	1.0	3.4	0.6	4.3	1.9	2.8	1.2	3.0	1.8	1.7
Austria	70.3	51.7	1.7	6.5	0.9	7.9	2.8	2.6	2.6	2.5	1.7	0.6
Poland	79.6	56.7	2.1	2.5	0.4	3.7	1.3	1.2	5.3	1.8	1.4	0.7
Portugal	71.9	60.5	1.1	5.6	0.4	3.5	2.4	0.8	0.8	4.4	3.1	6.0
Romania	72.2	52.7	6.0	2.7	0.5	3.0	1.6	1.1	4.8	6.3	1.1	0.7
Slovenia	78.5	53.9	5.7	2.0	0.2	2.9	1.1	1.1	4.8	2.9	0.5	0.3
Slovakia	84.2	46.3	1.8	2.6	0.1	2.8	2.4	0.5	3.4	1.5	0.5	0.2
Finland	59.1	38.4	1.7	6.7	1.9	8.1	5.2	4.2	6.2	3.2	2.7	1.0
Sweden	60.8	41.4	1.3	7.1	1.2	12.6	4.3	3.8	1.8	3.6	2.2	1.2
United Kingdom	46.7	41.0	1.6	13.9	1.4	14.5	5.5	5.1	1.5	6.2	1.9	1.7

Table 58: World imports of goods and services, volume (percentage change on preceding year, 2014-20)

24.4.2019

	(a)	2014	2015	2016	2017	Spring 2019 forecast			Autumn 2018 forecast		
						2018	2019	2020	2018	2019	2020
EU (b)	33.4	5.2	7.2	4.3	4.3	3.2	3.1	3.3	3.2	3.9	3.6
Euro area (b)	24.7	4.9	7.6	4.2	3.9	3.2	2.8	3.3	3.0	3.9	3.6
Candidate Countries	1.3	0.5	2.0	4.3	10.2	-5.4	-5.1	8.3	3.2	-4.7	5.4
- Albania	0.0	4.3	-2.9	6.9	8.1	3.9	4.4	5.1	4.4	3.8	4.5
- Montenegro	0.0	1.6	4.4	15.3	8.4	9.3	3.7	1.9	8.8	4.8	1.5
- North Macedonia	0.0	14.1	9.9	11.1	6.4	9.0	8.2	9.1	7.9	8.6	9.3
- Serbia	0.1	5.1	4.0	6.7	11.1	11.1	8.1	8.7	10.2	8.2	7.6
- Turkey	1.1	-0.4	1.7	3.7	10.3	-7.9	-7.8	8.4	2.2	-6.9	5.1
Iceland	0.0	9.8	13.8	14.5	12.5	0.1	4.0	3.2	6.4	5.0	3.9
Norway	0.6	2.4	1.6	3.3	1.6	0.9	2.5	2.8	4.0	5.0	2.7
Switzerland	1.7	-7.7	4.5	6.0	-0.8	-1.9	3.0	3.8	3.0	3.5	3.7
Australia	1.3	-1.4	2.0	0.1	7.7	4.1	2.0	2.6	4.1	3.8	4.0
Canada	2.5	2.5	0.6	0.0	4.2	2.9	0.7	2.4	4.6	2.7	2.3
Japan	3.8	8.3	0.8	-1.6	3.4	3.3	1.7	1.6	3.3	2.8	1.6
Korea	2.7	1.5	2.1	4.7	7.0	1.7	1.7	2.2	3.2	3.0	2.6
United States	13.4	5.1	5.5	1.9	4.6	4.5	3.1	2.9	4.5	3.9	2.8
Advanced economies	67.8	4.1	5.0	2.8	4.6	3.2	2.7	3.1	3.7	3.6	3.2
Emerging and developing Asia	17.3	6.0	0.2	4.7	9.3	8.4	4.6	4.9	6.6	5.8	5.1
- China	10.1	7.8	-0.5	4.7	7.1	6.8	3.7	4.0	6.6	5.2	4.2
- India	2.6	5.4	-0.2	4.0	13.8	15.6	6.2	7.5	7.3	7.4	7.2
- Indonesia	0.8	-1.4	-9.1	2.1	10.5	13.0	5.5	5.8	5.5	5.9	6.2
CIS	2.4	-8.0	-20.4	-2.4	12.8	5.0	3.2	4.3	6.2	4.3	4.6
- Russia	1.5	-7.3	-25.1	-3.6	17.4	3.2	1.9	4.5	5.4	4.0	4.7
- Other CIS	1.0	-9.1	-12.5	-0.7	6.2	7.9	5.1	4.0	7.5	4.8	4.3
Latin America	5.4	-0.2	-2.2	-3.3	4.5	4.0	1.7	4.1	3.5	3.0	4.0
- Argentina	0.4	-10.8	2.6	3.6	14.2	-6.1	-9.8	4.8	-2.3	-8.0	3.3
- Brazil	1.0	-0.1	-13.5	-8.2	5.1	6.8	3.4	5.0	3.7	3.8	4.3
- Mexico	2.1	5.9	5.9	2.9	6.2	6.2	3.9	4.6	5.9	5.0	4.6
MENA	5.6	7.9	-0.9	-2.5	3.3	3.4	2.4	2.7	3.6	3.0	2.7
- Saudi Arabia	0.9	15.2	1.1	-16.2	0.3	6.1	3.6	4.0	4.3	3.4	2.1
Sub-Saharan Africa	1.6	7.6	2.4	-10.1	0.4	4.1	3.7	4.4	4.9	4.7	4.6
- South Africa	0.5	-0.6	5.4	-3.8	1.6	2.5	2.4	3.0	2.5	3.4	3.9
Emerging and developing economies	32.2	3.9	-2.2	0.6	7.2	6.3	3.6	4.3	5.5	4.7	4.5
World	100.0	4.0	2.6	2.1	5.4	4.2	3.0	3.5	4.3	4.0	3.6
World excluding EU	66.6	3.5	0.4	1.0	6.0	4.7	3.0	3.6	4.8	4.0	3.7
World excluding euro area	75.3	3.8	1.0	1.4	5.9	4.6	3.1	3.6	4.7	4.0	3.6

(a) Relative weights in %, based on imports of goods and services (at current prices and current exchange rates) in 2017.

(b) Intra- and extra-EU trade.

Table 59: Import shares in EU trade (goods only - 2017)

24.4.2019

	EU	Euro Area	Candidate Countries	USA	Japan	Other Advanced Economies	China	Rest of Asia	CIS	MENA	Latin America	Sub-Saharan Africa
EU	64.3	49.6	1.5	5.3	1.3	6.3	7.1	4.1	4.1	2.6	1.9	1.5
Euro area	63.8	48.5	1.4	5.3	1.3	6.0	6.9	4.2	4.2	3.1	2.2	1.6
Belgium	63.9	53.4	1.0	9.1	1.9	5.1	4.4	5.1	2.3	2.8	2.4	2.0
Bulgaria	66.5	46.8	8.2	1.0	0.3	2.3	3.7	1.7	12.5	1.8	1.4	0.6
Czechia	78.7	61.0	0.9	1.5	0.8	3.8	7.3	2.2	4.2	0.3	0.2	0.1
Denmark	70.9	48.3	1.1	2.6	0.5	9.2	7.3	3.4	2.2	0.6	1.6	0.7
Germany	66.6	45.4	1.7	4.8	1.5	7.4	7.0	4.3	3.4	1.0	1.5	0.9
Estonia	76.6	54.7	0.6	1.6	0.4	2.6	5.3	1.4	10.8	0.2	0.4	0.1
Ireland	68.0	30.1	0.6	13.3	1.8	5.3	4.0	3.3	0.5	0.7	1.8	0.8
Greece	53.9	41.1	4.1	1.5	0.5	5.2	6.8	2.9	10.8	12.1	1.3	0.7
Spain	61.5	50.2	1.7	3.5	0.8	3.8	7.1	4.0	2.0	6.9	5.0	3.6
France	69.6	58.6	1.1	5.5	0.9	5.4	5.0	3.3	2.1	4.1	1.3	1.7
Croatia	78.3	61.2	4.0	1.3	0.2	2.5	3.9	1.3	5.7	1.6	0.9	0.3
Italy	58.9	46.6	2.5	3.9	0.9	5.5	7.2	3.9	7.1	5.7	2.4	1.9
Cyprus	70.7	54.4	0.4	1.0	2.3	2.5	6.1	5.2	3.7	6.8	1.0	0.2
Latvia	63.9	46.7	0.7	1.1	0.2	2.0	4.0	1.6	25.8	0.3	0.2	0.1
Lithuania	66.7	45.2	0.9	1.7	0.2	3.2	3.8	0.9	20.5	1.0	0.5	0.5
Luxembourg	74.8	70.9	0.2	7.2	1.5	2.0	10.8	0.8	0.1	0.2	2.2	0.2
Hungary	76.9	58.5	1.6	1.9	1.5	3.4	6.2	2.4	4.9	0.7	0.5	0.1
Malta	40.5	32.4	2.9	3.0	2.0	16.0	11.8	8.4	11.8	3.0	0.2	0.4
Netherlands	47.0	35.9	0.7	8.0	2.3	6.8	13.1	6.5	6.3	3.1	3.8	2.4
Austria	79.2	65.1	1.2	2.6	0.7	6.8	2.7	2.6	2.3	1.3	0.5	0.2
Poland	72.6	59.1	1.3	1.8	0.7	3.7	7.2	2.3	7.8	0.8	1.4	0.4
Portugal	75.9	68.5	0.8	1.5	0.5	2.5	3.7	2.3	2.8	3.1	2.8	4.0
Romania	77.1	55.1	4.9	1.1	0.5	2.2	4.6	1.3	6.4	0.9	0.8	0.4
Slovenia	72.4	54.8	5.7	1.4	0.3	6.4	6.4	2.4	0.9	1.8	1.8	0.4
Slovakia	80.0	44.2	1.1	0.6	0.4	6.1	4.0	1.6	5.9	0.2	0.1	0.0
Finland	71.5	44.1	0.5	2.5	0.5	4.5	4.7	1.6	11.6	0.4	1.6	0.7
Sweden	72.5	52.5	1.0	2.8	1.1	8.8	5.7	2.9	2.7	0.5	1.2	0.8
United Kingdom	54.7	47.7	1.7	9.1	1.6	10.0	9.7	5.8	1.6	2.5	1.7	1.7

Table 60: World merchandise trade balances (fob-fob, in billions of US dollar, 2013-20)

24.4.2019

	2013	2014	2015	2016	2017	Spring 2019 forecast			Autumn 2018 forecast		
						2018	2019	2020	2018	2019	2020
EU	181.7	201.8	308.9	320.7	299.5	235.1	175.6	171.6	280.7	255.6	260.1
EU, adjusted ¹	33.5	45.2	139.5	161.0	137.4	72.1	19.8	16.1	121.3	100.4	104.9
Euro area	341.5	381.0	464.2	470.8	453.9	420.2	378.4	383.6	457.0	440.1	451.2
Euro area, adjusted ¹	277.8	322.0	366.9	383.6	358.8	326.5	288.9	294.3	371.5	356.9	367.9
Candidate Countries	-92.1	-75.5	-58.2	-50.7	-70.1	-50.9	-27.8	-39.7	-72.6	-49.4	-56.2
- Albania	-2.6	-2.9	-2.5	-2.9	-3.2	-3.4	-3.5	-3.8	-3.3	-3.4	-3.6
- Montenegro	-1.8	-1.8	-1.6	-1.8	-2.1	-2.4	-2.4	-2.5	-2.4	-2.5	-2.6
- North Macedonia	-2.5	-2.5	-2.0	-2.0	-2.0	-2.1	-2.2	-2.6	-2.2	-2.3	-2.6
- Serbia	-4.4	-4.4	-3.6	-3.0	-4.0	-5.5	-6.1	-6.6	-5.6	-6.2	-6.8
- Turkey	-80.8	-63.8	-48.4	-41.0	-58.8	-37.5	-13.5	-24.2	-59.0	-35.0	-40.7
Iceland	0.1	-0.1	-0.3	-0.8	-1.5	-1.5	-1.7	-1.9	-1.8	-2.0	-2.1
Norway	60.9	49.8	24.5	10.7	18.9	30.0	30.9	31.9	20.6	21.7	22.7
Switzerland	53.7	55.5	53.7	50.5	49.9	57.9	59.0	60.8	61.2	65.8	69.7
Australia	7.3	2.2	-19.0	-5.8	10.5	19.8	25.1	26.8	22.4	26.6	29.7
Canada	-7.9	4.3	-18.6	-19.6	-19.1	-16.6	-6.8	-4.3	-12.2	-4.2	-2.1
Japan	-89.9	-99.1	-7.3	50.8	44.2	10.8	11.7	12.7	27.8	21.4	19.2
Korea	80.3	86.1	120.3	116.5	113.6	111.9	112.5	119.8	106.7	108.1	118.1
United States	-737.2	-776.6	-793.0	-778.3	-842.7	-901.8	-939.8	-987.9	-892.0	-947.7	-999.9
Advanced economies	-437.0	-436.7	-249.3	-167.4	-249.3	-376.1	-435.2	-477.3	-326.3	-362.3	-389.3
Emerging and developing Asia	216.3	336.3	483.8	427.4	369.7	218.3	194.2	183.3	204.3	142.6	120.5
- China		435.0	576.2	488.9	475.9	395.2	386.8	397.9	374.5	344.0	344.0
- India	-162.6	-144.0	-136.9	-107.5	-148.1	-181.5	-193.4	-208.7	-194.9	-220.8	-234.6
- Indonesia	5.8	7.0	14.0	15.3	18.8	-0.4	-0.8	-2.8	11.3	10.7	10.7
CIS	205.9	227.7	150.9	82.6	115.5	195.7	173.4	176.9	178.6	174.2	175.3
- Russia	182.2	186.8	145.7	90.2	115.0	190.9	174.6	178.6	164.9	160.3	164.0
- Other CIS	23.6	40.9	5.2	-7.6	0.5	4.9	-1.2	-1.8	13.7	13.9	11.2
Latin America	10.4	-9.6	-46.9	9.0	32.3	21.7	31.3	29.8	31.6	38.2	36.6
- Argentina	4.6	5.5	-0.8	4.4	-5.5	-0.9	11.4	14.4	-4.5	3.7	4.2
- Brazil	0.4	-6.6	17.7	45.0	64.0	53.6	50.9	48.5	61.8	62.0	63.6
- Mexico	-0.9	-2.8	-14.6	-13.1	-11.0	-13.9	-13.4	-14.7	-19.1	-23.6	-27.2
MENA	589.9	452.8	123.7	73.9	181.2	310.5	231.2	218.7	336.3	367.3	358.8
- Saudi Arabia	222.6	184.0	44.3	55.8	98.5	170.5	138.3	134.3	156.3	169.5	169.7
Sub-Saharan Africa	63.2	28.6	-32.9	-11.0	15.8	25.4	24.2	20.9	35.9	39.3	35.5
- South Africa	-7.2	-5.1	-3.6	2.2	4.9	1.7	2.1	1.6	3.2	2.5	2.4
Emerging and developing economies	1085.6	1035.7	678.7	581.9	714.5	771.7	654.3	629.5	786.7	761.6	726.7
World	648.6	599.0	429.4	414.4	465.2	395.6	219.1	152.2	460.4	399.3	337.4
World excluding EU	467.0	397.3	120.5	93.7	165.7	160.6	43.5	-19.4	179.7	143.7	77.3
World excluding euro area	307.1	218.0	-34.8	-56.4	11.3	-24.5	-159.3	-231.4	3.4	-40.9	-113.8

¹ See note 8 on concepts and sources.

Table 61: World current-account balances (in billions of US dollar, 2013-20)

24.4.2019

						Spring 2019 forecast			Autumn 2018 forecast		
	2013	2014	2015	2016	2017	2018	2019	2020	2018	2019	2020
EU	277.5	310.7	293.8	328.7	457.6	414.9	367.9	364.5	466.4	441.0	448.2
EU, adjusted¹	166.7	147.5	135.3	209.4	230.3	217.5	179.2	176.2	206.5	188.0	195.2
Euro area	363.2	409.1	387.9	415.1	495.1	493.9	448.9	441.0	528.3	505.5	512.3
Euro area, adjusted¹	300.7	340.3	313.0	370.4	409.6	395.3	354.6	346.9	422.5	402.5	409.4
Candidate Countries	-68.3	-48.3	-35.0	-36.2	-51.5	-32.1	3.5	-9.6	-55.5	-26.0	-34.1
- Albania	-1.4	-1.4	-1.0	-0.9	-1.0	-1.0	-1.1	-1.1	-1.0	-1.1	-1.1
- Montenegro	-0.5	-0.6	-0.4	-0.7	-0.8	-0.9	-0.9	-0.8	-0.9	-1.0	-0.9
- North Macedonia	-0.2	-0.1	-0.2	-0.3	-0.1	0.0	-0.2	-0.3	-0.1	-0.1	-0.2
- Serbia	-2.8	-2.6	-1.4	-1.2	-2.3	-2.6	-3.3	-3.3	-2.8	-3.7	-4.2
- Turkey	-63.5	-43.6	-32.0	-33.1	-47.4	-27.5	8.8	-4.1	-50.7	-20.2	-27.7
Iceland	0.9	0.7	0.9	1.5	0.9	0.6	0.3	0.2	0.5	0.3	0.3
Norway	54.0	53.0	30.8	15.1	22.8	33.5	33.4	34.5	25.5	26.3	27.5
Switzerland	80.0	60.6	76.4	63.3	45.4	72.2	73.7	75.8	73.9	78.9	83.7
Australia	-47.9	-43.4	-57.4	-41.2	-35.8	-30.5	-31.7	-31.9	-37.9	-37.0	-36.9
Canada	-59.4	-43.2	-55.4	-49.1	-46.4	-45.5	-41.3	-39.4	-43.1	-34.9	-33.2
Japan	45.7	37.1	136.5	196.6	206.5	173.7	178.3	181.3	236.0	232.8	239.5
Korea	77.3	83.0	105.1	97.9	75.2	76.4	72.4	79.5	69.8	69.0	77.0
United States	-348.8	-365.2	-407.8	-432.9	-449.1	-488.5	-536.3	-572.0	-492.6	-548.7	-625.6
Advanced economies	107.4	159.4	220.2	280.9	372.4	315.3	264.2	235.8	387.9	351.8	304.4
Emerging and developing Asia	92.9	229.4	311.7	233.8	202.1	-2.6	-11.8	-30.0	-7.5	-91.1	-126.5
- China	:	236.0	304.2	202.2	195.1	49.1	43.7	40.9	32.6	-26.0	-56.0
- India	-49.1	-27.3	-22.5	-12.1	-38.2	-60.5	-68.5	-78.5	-66.6	-87.9	-95.7
- Indonesia	-29.1	-27.5	-17.5	-17.0	-16.2	-31.1	-28.9	-32.1	-27.3	-28.7	-29.3
CIS	14.9	53.7	51.4	2.0	15.5	104.8	81.3	79.3	76.9	69.8	69.9
- Russia	30.7	53.5	66.1	25.8	28.4	109.4	89.8	87.2	88.9	82.9	82.0
- Other CIS	-15.7	0.2	-14.7	-23.9	-12.9	-4.7	-8.4	-7.9	-12.0	-13.1	-12.1
Latin America	-167.2	-180.7	-167.8	-97.7	-78.6	-121.5	-123.5	-134.9	-104.0	-118.8	-137.8
- Argentina	-13.1	-9.2	-17.6	-15.1	-31.6	-28.0	-9.4	-8.2	-19.0	-11.2	-9.1
- Brazil	-79.8	-101.4	-54.5	-24.0	-7.2	-14.5	-29.1	-34.0	-19.5	-37.3	-44.4
- Mexico	-31.8	-24.8	-30.5	-24.3	-19.4	-22.2	-22.9	-25.2	-18.1	-21.5	-25.9
MENA	366.7	227.2	-81.0	-83.0	29.6	132.3	50.1	29.7	92.6	102.1	79.0
- Saudi Arabia	135.4	73.8	-56.7	-23.8	10.5	72.3	33.0	26.0	64.7	70.0	62.2
Sub-Saharan Africa	-23.2	-49.6	-79.1	-40.7	-24.8	-28.1	-38.3	-41.7	-28.8	-32.5	-38.9
- South Africa	-21.3	-17.8	-14.6	-8.4	-8.9	-13.4	-12.4	-13.6	-11.5	-12.8	-13.4
Emerging and developing economies	284.1	280.0	35.2	14.3	143.8	85.0	-42.2	-97.6	29.2	-70.4	-154.4
World	391.6	439.3	255.4	295.1	516.2	400.3	222.0	138.2	417.1	281.4	150.0
World excluding EU	114.1	128.7	-38.5	-33.6	58.5	-14.6	-145.9	-226.3	-49.3	-159.6	-298.2
World excluding euro area	28.4	30.2	-132.6	-120.0	21.0	-93.6	-226.9	-302.8	-111.2	-224.1	-362.3

¹ See note 8 on concepts and sources.

Table 62: Crude oil prices, 2013-2020

24.4.2019

						Spring 2019 forecast			Autumn 2018 forecast		
	2013	2014	2015	2016	2017	2018	2019	2020	2018	2019	2020
Annual percentage change (usd)	-2.7	-8.5	-46.3	-15.5	21.2	30.7	-3.3	-2.0	37.2	7.4	-4.9
Price per barrel											
- Brent (usd)	108.7	99.5	53.4	45.2	54.8	71.5	69.2	67.8	75.1	80.6	76.7
- Brent (euro)	81.9	74.9	48.2	40.8	48.5	60.6	61.3	60.2	63.4	70.0	66.5

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 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 2018, 2019 and 2020 are forecasts. The source for all tables is the European Commission, unless otherwise stated. Historical data for the Member States are based on the European System of Accounts (ESA 2010). US national accounts are based on SNA 2008, whilst the Japanese accounts use SNA 1993.
 3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.
 4. In Tables 17 and 18, the data are based on the national index for USA and Japan.
 5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.
 6. Employment data used in tables 23-29 and 32-33 are based on full-time-equivalents (FTEs), where available. Currently, Spain, France, Italy, and the Netherlands report FTE data. In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.
 7. Source: National Accounts (ESA 2010), except for US current-account in tables 50, 52, and 61 (Balance of Payments). Discrepancies with balance of payments statistics may arise due to methodological differences and revision schedules.
 8. EU and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates.
- Tables 49 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to 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 2018.
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 :**
Albania, Montenegro, North Macedonia, Serbia and Turkey.
 - Potential candidates :**
Bosnia-Herzegovina and Kosovo.
 - Advanced economies :**
EU, candidate countries, Iceland, Norway, Switzerland, Australia, Canada, Hong Kong, Japan, Korea, New Zealand,
 - Emerging and developing Asia:**
All countries in that region except the ones included in the Advanced economies and the Asian MENA countries.
 - Latin America :**
All countries in that region.
 - MENA (Middle East and Northern Africa) :**
Algeria, Tunisia, Morocco, Egypt, Israel, Jordan, Lebanon, Iraq, Iran, Yemen, Saudi Arabia, Bahrain, Oman, United Arab Emirates, Kuwait, and Qatar.
 - Sub-Saharan Africa :**
All countries in that region except the African MENA countries.

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